

for the six months ended 31 December 2015

**BASEL PILLAR 3
DISCLOSURE**



FIRSTRAND

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FIRSTRAND

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Sharecode: FSR
ISIN: ZAE000066304

Certain entities within
the FirstRand group are
Authorised Financial Services
and Credit Providers

This document is available on the
group's website:

www.firstrand.co.za

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

OVERVIEW

FirstRand Limited (FirstRand or the group) consists of a portfolio of leading financial services franchises: First National Bank (FNB), the retail and commercial bank, Rand Merchant Bank (RMB), the corporate and investment bank, WesBank, the instalment finance business and Ashburton Investments, the group's investment management business. The FCC franchise represents group-wide functions.

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

The group defines risk widely – as any factor that, if not adequately assessed, monitored and managed, may prevent the achievement of 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 risk identification, assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates. Through its portfolio of leading franchises, FirstRand aims to be appropriately represented in all significant financial services profit pools in its chosen markets.

BASEL PILLAR 3 DISCLOSURE

Regulation 43 of the Regulations relating to Banks (Regulations), issued in terms of the Banks Act, 1990 (Act No. 94 of 1990), requires that a bank discloses in its annual financial statements

and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enables users to make an accurate assessment of its financial condition, including its capital adequacy, financial performance, business activities, risk profile and risk management practices. This disclosure requirement is commonly known as Pillar 3 of the Basel Accord.

This risk and capital management report (Basel Pillar 3 disclosure) covers the operations of FirstRand and complies with the risk and capital disclosure requirements of the Regulations. The Basel III additional capital, leverage and liquidity coverage ratio (LCR) disclosure templates (as required per the South African Reserve Bank (SARB) directives 3/2015, 4/2014, 6/2014 and 11/2014) can be found on the group's website, www.firstrand.co.za/investorcentre/pages/commondisclosures.aspx.

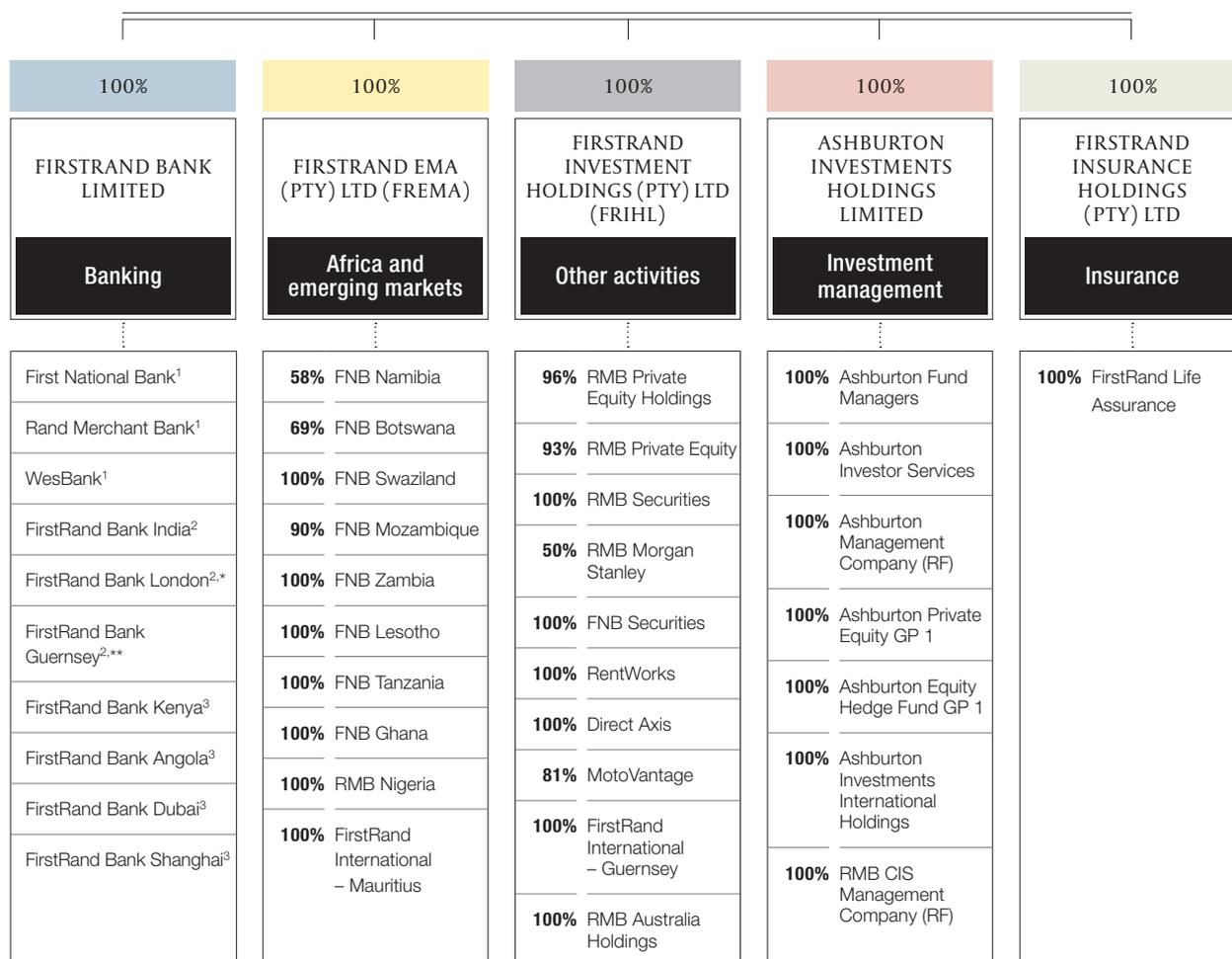
Some differences exist between the practices, approaches, processes and policies of FirstRand Bank Limited (the bank) and its fellow wholly-owned subsidiaries and these are highlighted by reference to the appropriate entity, where necessary. This report has been internally verified by the group's governance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

SIMPLIFIED GROUP STRUCTURE



FIRSTRAND

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)



1. Division
2. Branch
3. Representative office

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

** Trading as FNB Channel Islands.

Structure shows effective consolidated shareholding

For segmental analysis purposes, entities included in FRIHL, FREMA, Ashburton Investments Holdings Limited and FirstRand Insurance Holdings (Pty) Ltd are reported as part of results of the managing franchise. The group's securitisations and conduits are in FRIHL.

MANAGING THE RISK PROFILE

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

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

EARNINGS RESILIENCE, GROWTH AND BALANCE SHEET STRENGTH

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

FirstRand’s franchises have consistently operated within a group strategic framework 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. Ultimately the group seeks to create long-term sustainable franchise value and believes this is represented by the operating franchises, all of which have strong market positioning, unique customer value propositions, efficient platforms, a relentless focus on innovation and a proven entrepreneurial culture.

These deliverables are underpinned by the application of critical financial discipline through frameworks set at the centre. These frameworks include:

Risk management framework	Performance management framework	Financial resource management framework
<ul style="list-style-type: none"> ▶ assess the 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. 	<ul style="list-style-type: none"> ▶ allocate capital appropriately to capital-light or capital-intensive activities; ▶ ensure an efficient capital structure with appropriate/conservative gearing; and ▶ ensure earnings exceed cost of capital, i.e. positive net income after capital charge (NIACC). 	<ul style="list-style-type: none"> ▶ execute sustainable funding and liquidity strategies; ▶ protect the credit rating; and ▶ preserve a “fortress” balance sheet that can sustain shocks through the cycle.

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

The group’s financial performance for the six months ended 31 December 2015 is covered in the *Analysis of financial results for the six months ended 31 December 2015* booklet, which is available on the group’s website, www.firststrand.co.za.

UPPERMOST AND EMERGING RISKS

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

UPPERMOST AND EMERGING RISKS

Risk	Description	Mitigant
Global macroeconomic environment		
Global economic outlook	The US rate increase in December with further expected rate hikes, steady improvement in the US economy and asset sell-offs in emerging markets and China are expected to slow foreign capital inflows into South Africa.	Continue to monitor economic developments in key markets with appropriate planning, responses, strategy alignment and provisions as required.
Global debt	Expected increases in funding costs pose a challenge to indebted governments, corporates and consumers.	
Economic outlook in China	Uncertainty surrounding growth prospects as Chinese policymakers remain focused on rebalancing the economy towards a more consumption-based (rather than resource intensive), service-oriented model continues to impact demand for commodities.	
Low commodity prices	Falling commodity prices, including oil, iron ore and copper, will impact the economies of Nigeria, Zambia, Angola and South Africa, and could also affect corporate credit counterparties.	
Local macroeconomic environment		
Local economic outlook	The growth outlook has deteriorated given the events in the local financial markets in December 2015, expected local interest rate increases and a slowdown in capital inflows. The severe drought, wage negotiations, municipal elections and political uncertainty pose a risk to the economic growth outlook.	Credit origination and funding strategies are assessed in light of economic conditions and market liquidity.
Structural constraints	Ongoing structural constraints will further restrict South Africa's ability to grow employment, increase private sector investment and reap the benefits of a weak exchange rate and some global growth. This continues to limit growth in household, corporate and government income.	
Sovereign rating	The risk of a sovereign rating downgrade in the medium to long term may impact foreign investment in South Africa and the availability and cost of funding.	The impact of a sovereign downgrade on business continues to be assessed.
Regulatory and legal risks		
Regulatory developments	The regulatory landscape requires the group to deal with a number of changes and additional legal and regulatory requirements. These include market conduct, financial crime, the implementation of a twin peaks model of financial regulation, the Protection of Personal Information Act, IFRS 9, amendments to the National Credit Act (NCA), foreign account tax compliance and foreign asset control sanctions.	Significant investment in people, systems and processes are made to manage the risks emanating from the large number of new regulatory requirements.
Legal risk	Legal proceedings arising from business operations could give rise to potential financial loss and reputational damage.	

UPPERMOST AND EMERGING RISKS (continued)

Risk	Description	Mitigant
Risks related to business operations and internal control systems		
Electricity shortages	Constraints on national electricity supply leading to planned power outages by Eskom and the possibility of prolonged outages increase business resilience risk, despite contingency plans.	Contingency plans for outages and future possible unplanned, more regular electricity interruptions.
Structural constraints	Operations are reliant on many elements of the national infrastructure, including water supply and telecommunications. Structural constraints, such as skills shortages, labour market unrest and parastatal financial issues, could potentially have direct or indirect impacts on business.	The impact of structural constraints on operations is assessed with contingency plans in place where appropriate.
Funding costs	Market availability of high quality liquid assets (HQLA) could impact the group's funding position and costs.	A number of actions are in place to ensure a resilient funding model.
Cybercrime and fraud	Cybercrime and potential money laundering threats continue to increase globally and remain a key area of focus.	Threats are continuously assessed and controls adapted to address possible control weaknesses and improve system security.
Data management	New regulatory requirements for more frequent, consistent, accurate and timely data submissions.	Projects for improved data management, aggregation and reporting are underway.

PERIOD UNDER REVIEW AND FOCUS AREAS

Period under review	Risk management focus areas
Capital management	
<ul style="list-style-type: none"> ▶ The BCBS issued various consultative documents, including revisions to the RWA framework and capital floors. These papers are at different stages of testing, finalisation and implementation, and the actual impact on banks remains unclear. ▶ National Treasury, the SARB and FSB published for public comment in September 2015, a discussion document, <i>Strengthening South Africa's Resolution Framework for Financial institutions</i>. The paper sets out the motivation, principles and policy proposals for a strengthened framework for the resolution of financial institutions in South Africa. Although various comments were received and a number of workshops held to discuss the framework, the timing for finalisation remains unclear. 	<ul style="list-style-type: none"> ▶ Maintaining strong capital levels, with particular focus on the quality of capital and optimisation of the group's risk-weighted assets (RWA) and capital mix during the transitional period of Basel III implementation. ▶ The group continues to participate in the BCBS quantitative impact studies to assess and incorporate, where relevant, the impact of these standards on capital adequacy and leverage. ▶ Effective 1 January 2016, the SARB minimum capital requirement has been adjusted for the capital conservation buffer, add-on for domestic systemically important banks (D-SIB) and the countercyclical buffer. These buffers will be phased in over the next four years. The SARB has not implemented any countercyclical buffer requirement for South African exposures. The group's internal targets have been aligned to the end-state minimum requirements and are subject to ongoing review. No changes have been made to current targets during the period under review. ▶ The group continues to monitor developments to assess the impact of a resolution framework.
Credit risk	
<ul style="list-style-type: none"> ▶ Aligned credit origination strategies to the group's macroeconomic outlook with particular reference to consumer indebtedness, the rising interest rate cycle, low economic growth and a depressed commodity price cycle. ▶ Assessed credit portfolio performance considering stressed scenarios to the group's outlook to confirm resilience of credit portfolios within risk appetite under stressed conditions. ▶ Assessed adequacy of impairments given current economic conditions. ▶ Conducted an impact analysis on initial expectations of migrating from IAS 39 to IFRS 9. ▶ Established a group IFRS 9 steering committee and supporting work streams to discuss expected loss principles and associated modelling approaches. ▶ Implemented amendments for revised affordability assessment criteria of the NCA. ▶ Initiated implementation of directive 7/2015 requirements on restructured credit exposures. 	<ul style="list-style-type: none"> ▶ Continue to monitor the effect of economic conditions on consumer indebtedness, interest rates, growth and commodity prices and adjust credit origination strategies as well as credit portfolio management activities accordingly. ▶ Ongoing reviews to ensure alignment of bottom-up and top-down credit risk appetite assessments. ▶ Continue to refine credit risk appetite approaches to inform assessment of credit loss volatility. ▶ Assess implication and reaction to potential revisions of regulatory prescribed maximum credit related pricing caps proposed by the National Credit Regulator (NCR). ▶ Focus on debt counselling trends as the South African consumer continues to experience strain due to low economic growth. ▶ Complete prototype IFRS 9 model developments on select pilot products. Use to inform refined impact analysis and structure required validation processes. ▶ Continue to invest in people, systems and processes related to credit model risk management to ensure appropriate governance with increasing model complexity.

PERIOD UNDER REVIEW AND FOCUS AREAS (continued)

Period under review	Risk management focus areas
Counterparty credit risk	
<ul style="list-style-type: none"> ▶ Focused on integrated assessment of credit, legal, liquidity and market risks of complex counterparty derivative portfolios. ▶ Performed impact assessment of upcoming liquidity, margin and capital regulations on derivative portfolios. ▶ Refined the counterparty credit risk stress testing methodology. 	<ul style="list-style-type: none"> ▶ Improve the group's internal counterparty credit risk exposure assessment methodology. ▶ Implement the standardised approach counterparty credit risk exposure at default measure by 1 January 2017. ▶ Prepare for the implementation of mandatory clearing for the group's international counterparties under the European Market Infrastructure regulation. ▶ Prepare for the go-live of Basel margin requirements for non-essential cleared derivatives. ▶ Refine internal derivative credit portfolio reporting.
Market risk	
Market risk in the trading book	
<ul style="list-style-type: none"> ▶ Overall diversified levels of market risk have remained fairly low over the last few years with this trend continuing during the current period, and no significant concentrations in the portfolio. ▶ Across the group, the only areas where market risk increased were the subsidiaries in the rest of Africa, but these remain small in the context of the group. 	<ul style="list-style-type: none"> ▶ Given the impending regulatory changes and, in particular, the BCBS's consultative document, <i>Fundamental review of the trading book</i>, RMB is reviewing the current target operating platform for market risk, taking into account platform capabilities across both front office and risk areas and aligning market risk processes, analysis and reporting in line with these requirements.
Interest rate risk in the banking book	
<ul style="list-style-type: none"> ▶ The Monetary Policy Committee increased rates by 25 bps in July and again in November 2015. This positively impacted the group's earnings as a result of the endowment impact. 	<ul style="list-style-type: none"> ▶ The extent and timing of rate normalisation in South Africa is impacted by various global macroeconomic factors. The group continues to actively manage interest rate risk in the banking book (IRRBB). ▶ The BCBS, through the task force for interest rate risk in the banking book, continues to investigate the possibility of more robust regulation of interest rate risk in the banking book. Ongoing developments are monitored.
Structural foreign exchange risk	
<ul style="list-style-type: none"> ▶ Continued to strengthen principles regarding the management of foreign exchange positions and funding of the group's foreign entities. ▶ Monitored net open forward position in foreign exchange (NOFP) limits in each of the group's foreign entities. 	<ul style="list-style-type: none"> ▶ Continually assess and review the group's foreign exchange exposures and enhance the quality and frequency of reporting.

PERIOD UNDER REVIEW AND FOCUS AREAS (continued)

Period under review	Risk management focus areas
Equity investment risk	
<ul style="list-style-type: none"> ▶ Private Equity concluded the disposal of two investments and acquisitions remained muted across the investing portfolios with difficult trading conditions experienced in the resources sector. ▶ The RMB Private Equity unrealised value decreased to R4.5 billion (December 2014: R4.3 billion, June 2015: R4.9 billion) driven by investment disposals and a reduction in market prices due to pressure on investee companies' earnings. ▶ Ashburton Investments implemented fund reporting capabilities across the business and initiated the implementation of a risk system to produce forward-looking metrics. ▶ No new funds were launched by Ashburton Investments during the period under review. 	<ul style="list-style-type: none"> ▶ The group will continue to focus on non-performing loans in the investment portfolio and realising value from the existing portfolio. ▶ Ashburton Investments will focus on: <ul style="list-style-type: none"> – strengthening its distribution capability with its recently established customer value management function; and – increasing its offshore distribution capabilities.
Funding and liquidity risk	
<ul style="list-style-type: none"> ▶ During the period under review, the deposit franchise grew 15% and the weighted average remaining term profile of institutional funding was further extended to 33 months (2014: 28 months). ▶ Innovative customer deposit products showed strong growth, supporting the group's strategy to grow its deposit franchise. ▶ Available excess funding was allocated to liquidity resources, resulting in an increase in marketable instruments, in alignment with the group's strategy for LCR compliance. ▶ The SARB released a proposed guidance note on net stable funding ratio (NSFR) in November 2015, proposing a 35% available sources of funding factor for institutional funding less than 6 months. It is anticipated that this charge will significantly assist the South African banking sector and FirstRand in meeting NSFR requirements. 	<ul style="list-style-type: none"> ▶ Continue to focus on the Basel III liquidity regime with emphasis on both funding and market liquidity risk management and reporting. ▶ Further optimise and diversify the funding profile on a risk-adjusted basis in line with Basel III and LCR requirements. ▶ Continue to focus on growing the deposit franchise through innovative products and improve the risk profile of institutional funding. ▶ Continue to optimise the group's market liquidity risk profile by developing execution platforms for additional funding sources.

PERIOD UNDER REVIEW AND FOCUS AREAS (continued)

Period under review	Risk management focus areas
Operational risk	
<ul style="list-style-type: none"> ▶ Introduction of key risk drivers to refine scenario analysis. ▶ Introduction of minimum operational risk data quality control standards to promote the quality of operational risk management information used for decision making and risk governance reporting processes. ▶ Increased use of the operational risk management system to obtain an integrated view of the group's operational risk profile. ▶ Refined linkages between scenarios and risk mitigation plans. ▶ Refined actions for purposes of compliance with the Basel principles for risk data aggregation and reporting in respect of operational risk. ▶ Linked key risk indicators to qualitative operational risk appetite statements to facilitate enhanced tracking of the group's operational risk profile against set risk appetite levels. ▶ Review of key outsourcing arrangements to manage associated operational risks. 	<ul style="list-style-type: none"> ▶ Practical contingency plans to manage risks associated with potential national water and electricity supply shortages. ▶ Enhance the quality and coverage of process-based risk and control identification and assessments. ▶ Refine the linkages between scenario analysis and the operational risk appetite-setting processes. ▶ Embed and automate key risk drivers in the application of risk assessment and management tools. ▶ Continue to enhance risk measurement, capital calculation and allocation methods. ▶ Assess the risk management and measurement impact of anticipated changes by the BCBS to operational risk capital approaches.
Regulatory risk	
<ul style="list-style-type: none"> ▶ The latest draft of the Financial Sector Regulation Bill and the Financial Intelligence Centre Amendment Bill 2015 were published in October 2015. ▶ Ongoing investment in systems, processes and resources to ensure compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) legislation. ▶ Ongoing focus on remediation actions required in respect of identified regulatory risk management matters, e.g. in relation to matters identified by the SARB during its previous AML/CFT inspection. 	<ul style="list-style-type: none"> ▶ Continue to cooperate with regulatory authorities and other stakeholders. ▶ Continue to make significant investments in people, systems and processes to manage risks emanating from the large number of new local and international regulatory requirements.

RISK APPETITE

The management of financial resources is critical to the achievement of FirstRand's stated growth and return targets and is driven by the group's overall risk appetite. As such, the group sets financial and prudential targets through different business cycles and scenarios. The group is expected, at a defined confidence level, to deliver on its commitments to the providers of financial resources. The management of the group's financial resources is executed through Group Treasury in FCC and is independent of the operating franchises. This ensures the required level of discipline is applied in the allocation and pricing of financial resources.

The group's risk appetite informs organisational decision making and is aligned with FirstRand's strategic objectives. Business and strategic decisions are aligned to the risk appetite measures to ensure these are met during a normal cyclical downturn. At a business unit level, therefore, strategy and execution are managed through the availability and price of financial resources, earnings volatility limits and required hurdle rates.

RISK APPETITE STATEMENT

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

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

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

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

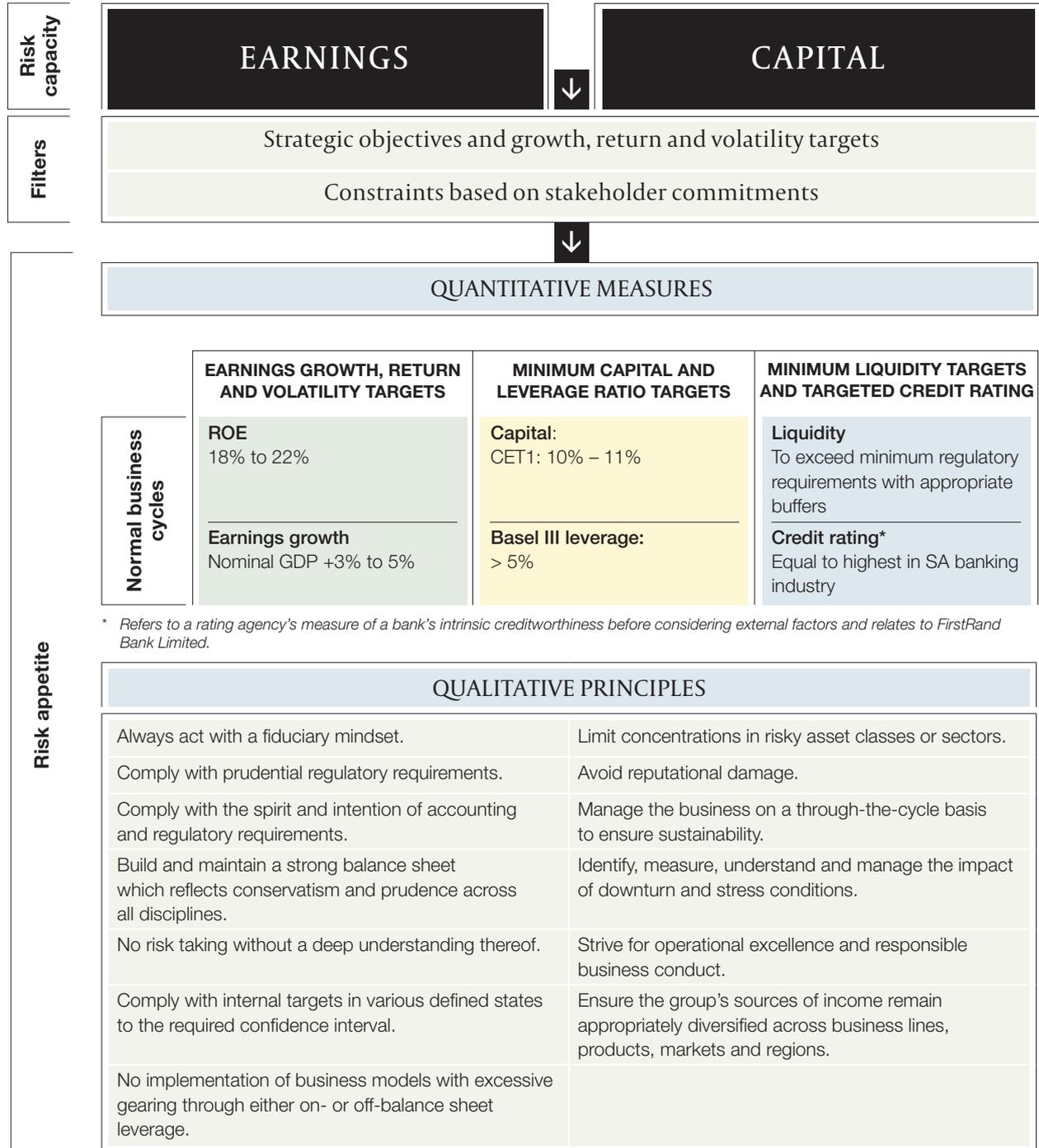
Risk capacity is the absolute maximum level of risk the group can technically assume given its current available financial resources, i.e. earnings and capital. The group views earnings as the primary defence against adverse outcomes. Risk capacity provides a reference for risk appetite and is not intended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

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

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

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

PROCESS FOR DETERMINING RISK APPETITE



APPLICATION OF THE RISK/REWARD FRAMEWORK

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

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

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

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

STRESS TESTING AND SCENARIO PLANNING

INTRODUCTION AND OBJECTIVES

Stress testing and scenario planning are used to assess whether outcomes fall within risk appetite. The group employs a group-wide comprehensive, consistent and integrated approach to stress testing and scenario planning. This programme is a vital part of the annual planning, budgeting and forecasting process and the outcome is an input in determining capital buffers and dividend policy. It also provides the board and management with useful insight on the group's level of earnings, material risks and future capital adequacy requirements.

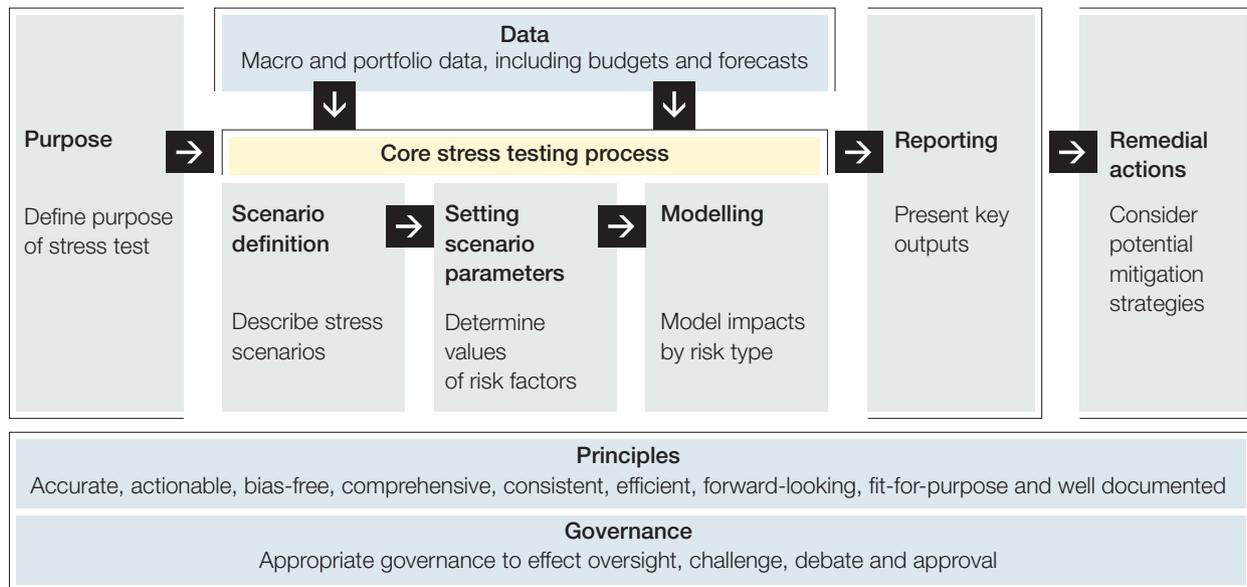
Stress testing and scenario analysis results are used to challenge and review certain of the group's risk appetite measures which will over time inform the basis of allocation of financial resources across franchises and business units. The programme includes all group and bank portfolios.

The group has also run a recovery plan process for a number of years and views this as an extension of the group's existing risk, capital management and business planning initiatives. Stress tests used in the recovery plan process are an extension of the existing stress testing programme and include both systemic and idiosyncratic dimensions and consider both slow and fast moving events. The results of group-wide stress tests are submitted to the SARB as part of the annual internal capital adequacy assessment process (ICAAP) and recovery plan process.

STRESS TESTING FRAMEWORK

The stress testing programme is supported by a comprehensive stress testing framework.

STRESS TESTING FRAMEWORK



The first step is to determine the purpose of the stress test. Stress testing serves a variety of objectives, such as to inform business and strategic decisions or to meet a regulatory objective. The purpose influences decisions regarding the severity and likelihood of scenarios, granularity of modelling and the type of reporting associated with the stress test. Inputs to the process are macroeconomic and internal bank-specific data as well as bottom-up financial budgets and forecasts.

Key risk factors not fully defined or captured during scenario definition are refined when scenario parameters are set. The impact of scenarios is modelled at individual material risk, balance sheet and income type level. Reporting of stress test results to various management and governance structures provides the basis by which management:

- ▶ interprets and debates scenarios and results; and
- ▶ considers and recommends remedial actions.

Scenario definition is primarily guided by the purpose of the stress test and is informed by a number of different dimensions, such as long or short term, single factor or multifactor, systemic or idiosyncratic, severe or less severe and historical or hypothetical. The group defines three types of scenarios in its stress testing process to ensure that all dimensions and aspects of stress testing are addressed. The following table describes the three types of scenarios and different dimensions considered.

SCENARIOS AND DIMENSIONS

Scenario characteristics	Dimensions
Macroeconomic scenarios	
<ul style="list-style-type: none"> ▶ macroeconomic scenarios are defined in order to capture the effects of the real economy on the group's financial position, risk, liquidity and capital profile; ▶ management's strategic and tactical decisions are based on their interpretation of the macroeconomic environment; and ▶ scenarios range from the most likely scenario to an extreme, but plausible, scenario. 	<ul style="list-style-type: none"> ▶ long term (three years); ▶ hypothetical, but informed by historic data; ▶ systemic; ▶ multifactor; and ▶ range from non-severe to severe.
Event scenarios	
<ul style="list-style-type: none"> ▶ risk-specific scenarios, not directly related to the economic environment; ▶ complement macroeconomic scenarios and highlight linkages and contagion between risk types; and ▶ event scenarios aim to identify events that may: <ul style="list-style-type: none"> – have a reputational impact; – have secondary impacts, e.g. funding and liquidity; – highlight key aspects of the risk profile, e.g. concentrations; and – have a material impact. 	<ul style="list-style-type: none"> ▶ hypothetical; ▶ single factor or multifactor; ▶ idiosyncratic; and ▶ range from non-severe to severe.
Reverse stress testing	
<ul style="list-style-type: none"> ▶ can be a macroeconomic event or an event scenario or a combination of the two; ▶ aimed at identifying the level of risk factors required to result in a loss of confidence in the group; and ▶ the reverse stress testing methodology is also explored in the recovery plan process and used to indicate the effectiveness of the group's recovery options. 	<ul style="list-style-type: none"> ▶ short or long term; ▶ hypothetical; ▶ idiosyncratic or systemic; ▶ single factor or multifactor; and ▶ very severe.

A key characteristic of the stress testing programme is that the impact of scenarios is modelled at an individual material risk, balance sheet and income stream level. Methodologies range from:

- ▶ scenario analysis, e.g. credit risk regression analysis; to
- ▶ sensitivity analysis, e.g. market risk stresses based on specific shocks.

Balance sheet, income streams and risk types are analysed at individual franchise level, with credit risk models built and maintained at a more granular level to include segment and asset class levels. Results of all stress tests are aggregated at bank and group level.

ADDITIONAL STRESS TESTS

Franchises and business units regularly run additional *ad hoc* stress tests to assess changes impacting certain factors, including macroeconomic and risk parameter changes for risk, capital and financial planning purposes. The SARB has, and will, call for supervisory stress tests from time-to-time. FirstRand is currently participating in the SARB's common stress test. Banks are required to conduct a bottom-up stress test which will be benchmarked and validated against the SARB's top-down stress tests. The outcome of the SARB stress test will be aggregated and shared with the participating banks and SARB's financial stability committee.

RECOVERY AND RESOLUTION REGIME

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

Recovery planning

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

- ▶ analyses the potential for severe stress in the group that could cause material disruption to the South African financial system;
- ▶ identifies the type of stress event/s that would be necessary to trigger its activation;
- ▶ analyses how the group might potentially be affected by the event/s;

- ▶ lists a menu of potential recovery actions available to the board and management to counteract the event/s; and
- ▶ assesses how the group might recover from the event/s as a result of those actions.

The recovery plan 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 what functions are critical for its customers and the financial system, as well as which assets are most marketable to facilitate recovery. Where inefficiencies are identified, these can be amended to make the group more streamlined, adaptable and resilient to stress.

FirstRand has submitted three annual recovery plans to the SARB to date with the most recent in December 2015.

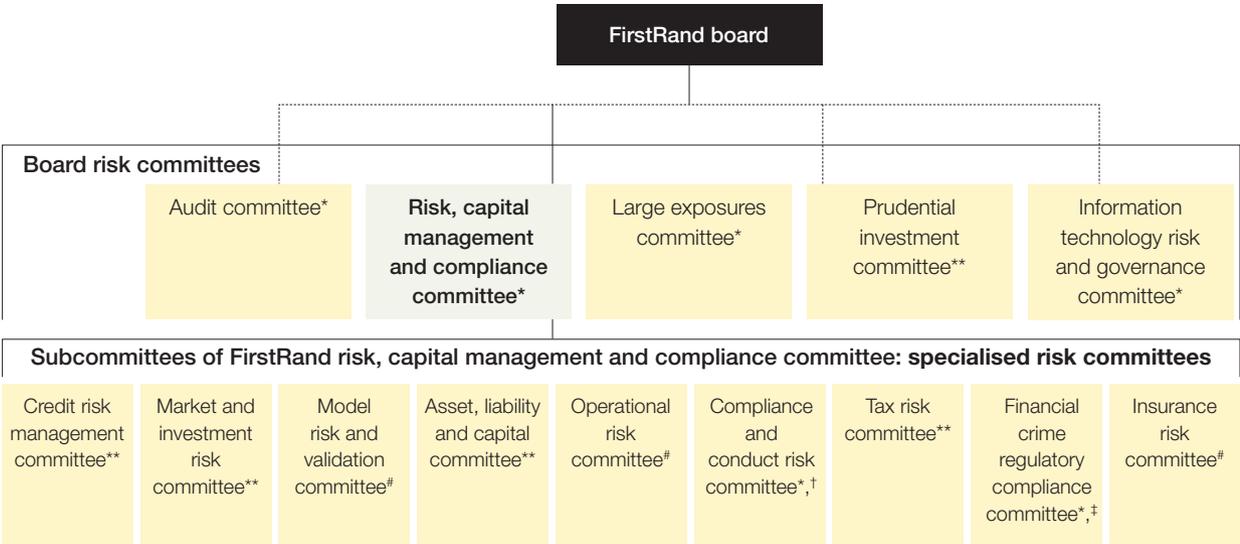
RISK GOVERNANCE

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

RISK GOVERNANCE STRUCTURE

The risk management structure is set out in the group’s business performance and risk management framework (BPRMF). As a policy of both the board and executive committee, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the group. The following diagram illustrates how the risk committees fit into the board committee structure. Other board committees also exist, with clearly defined responsibilities. One of these is the strategic executive committee, which ensures alignment of franchise strategies, sets risk appetite and is responsible for optimal deployment of the group’s financial and non-financial resources.

RISK GOVERNANCE STRUCTURE



* Chairman is an independent non-executive director.
 ** Chairman is a member of senior management. The credit risk management committee has non-executive board representation.
 # Chairman is a specialist consultant.
 † Formerly regulatory risk management committee.
 ‡ Formerly anti-money laundering risk management committee.

The primary board committee overseeing risk matters across the group is the FirstRand risk, capital management and compliance (RCC) committee. It has delegated responsibility for a number of specialist topics to various subcommittees. The RCC committee submits its reports and findings to the board and highlights control issues to the audit committee.

The responsibilities of the board risk committees and RCC subcommittees are outlined in the following tables. Further detail on the roles and responsibilities of the RCC committee and its subcommittees relating to each particular risk type is provided in the major risk sections of this report. The information technology risk and governance committee is a newly-formed board committee, effective 1 January 2016.

RESPONSIBILITIES OF BOARD RISK COMMITTEES

Committee	Responsibility
Audit committee	<ul style="list-style-type: none"> ▶ assists the board with its duties relating to the safeguarding of assets, operation of adequate systems and controls, assessment of going concern status and ensures that relevant compliance and risk management processes are in place; ▶ ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities (by management, internal and external assurance providers); ▶ oversees and reviews work performed by the external auditors and internal audit function; and ▶ oversees financial risks and internal financial controls including the integrity, accuracy and completeness of the annual integrated report, which is available to shareholders and other stakeholders.
Risk, capital management and compliance committee	<ul style="list-style-type: none"> ▶ approves risk management policies, frameworks, strategies and processes; ▶ monitors containment of risk exposures within the risk appetite framework; ▶ reports assessment of the adequacy and effectiveness of the risk appetite, risk management, ICAAP and compliance processes to the board; ▶ monitors the implementation of the risk management strategy, risk appetite limits and the effectiveness of risk management; ▶ initiates and monitors corrective action, where appropriate; ▶ monitors that the group takes appropriate action to manage its regulatory and supervisory risks, and complies with applicable laws, rules, codes and standards; ▶ approves regulatory capital models, risk and capital targets, limits and thresholds; and ▶ monitors capital adequacy and ensures that a sound capital management process exists.
Large exposures committee	<ul style="list-style-type: none"> ▶ approves credit applications or renewals in excess of 10% of FirstRand Limited's capital and reserves; ▶ approves credit applications or renewals in excess of 25% of FirstRand Limited's capital and reserves prior to submission to the Registrar of Banks for approval; and ▶ delegates the mandate for approval of group and individual facilities to the FirstRand wholesale credit approval committee, commercial credit approval committee and the FirstRand retail credit policy, risk appetite committee, as appropriate.
Prudential investment committee (PIC)	<ul style="list-style-type: none"> ▶ provides oversight to ensure that investment risk and transactions are carefully assessed prior to approval; and ▶ ensures investment exposures comply with group's prudential investment guidelines.
Information technology risk and governance committee	<ul style="list-style-type: none"> ▶ approves and monitors the implementation of IT risk and governance principles, policies, standards, frameworks and plans; ▶ monitors the availability, security and continuity of IT services, as well as the remediation of identified key IT risks, and initiates corrective action where required; and ▶ ensures that IT has appropriately skilled risk and management resources to deliver on the business mandate.

RESPONSIBILITIES OF THE SUBCOMMITTEES OF THE RCC COMMITTEE

Committee	Responsibility
Credit risk management committee	<ul style="list-style-type: none"> ▶ approves credit risk management and risk appetite policies as well as forward-looking credit risk indicators developed by retail, commercial and corporate portfolio management teams; ▶ provides independent analysis, evaluation and ongoing oversight of credit portfolio quality and performance relative to credit risk appetite thresholds; ▶ monitors quality of in-force business, business origination and underlying assets in the securitisation process; ▶ monitors scenario and sensitivity analyses, stress tests, credit economic capital utilisation, credit pricing and credit concentrations; ▶ ensures uniform interpretation of credit regulatory requirements and acceptable standards of credit reporting; ▶ monitors corrective actions in terms of non-adherence to the credit risk management framework based on reports by Group Internal Audit (GIA) and reports to the RCC committee; and ▶ reviews credit economic conditions outlook as described in the group's house view and ensures that business units align credit origination strategies accordingly.
Market and investment risk committee	<ul style="list-style-type: none"> ▶ approves market and investment risk management policies, standards and processes; ▶ monitors the effectiveness of market and investment risk management processes; ▶ monitors the market and investment risk profile; and ▶ approves market and investment risk-related limits.
Model risk and validation committee	<ul style="list-style-type: none"> ▶ approves or recommends for approval by the RCC committee, all material aspects of model validation work including credit ratings and estimations, internal models for market risk and advanced measurement operational risk models for the regulatory capital calculations.
Asset, liability and capital committee (ALCCO)	<ul style="list-style-type: none"> ▶ approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity and funding risk, capital and market risk in the banking book (interest rate risk and structural foreign exchange risk); ▶ monitors the group's funding and liquidity management; ▶ provides governance and oversight of the level and composition of capital, and considers the supply and demand of capital across the group; ▶ approves buffers over regulatory capital and monitors capital adequacy ratios; and ▶ approves frameworks and policies relating to internal funds transfer pricing for the group.

RESPONSIBILITIES OF THE SUBCOMMITTEES OF THE RCC COMMITTEE (continued)

Committee	Responsibility
<p>Operational risk committee</p>	<ul style="list-style-type: none"> ▶ provides governance, oversight and coordination of relevant operational risk management practices and initiates corrective action, where required; ▶ monitors the group and franchise operational risk profiles against operational risk appetite; ▶ approves operational risk-related methodologies, processes, guidelines and relevant documentation; ▶ reviews and recommends the group’s operational risk appetite for approval by RCC committee; ▶ approves the operational risk management framework and all its subpolicies/frameworks used in the management of the different operational risk classes, including fraud risk, legal risk, business resilience, information governance, information technology and physical security; ▶ monitors the formal reports of the operational risk committee subcommittees on the effectiveness of specific operational risk classes; ▶ ensures the maintenance of an independent and appropriately skilled operational risk management function; ▶ monitors the adequate and effective implementation of the operational risk management framework across the group and key corrective actions; and ▶ reports on material operational risk items to the RCC committee.
<p>Compliance and conduct risk committee</p>	<ul style="list-style-type: none"> ▶ approves regulatory risk management principles, frameworks, plans, policies and standards; and ▶ monitors the effectiveness of regulatory risk management across the group and initiates corrective action where required.
<p>Tax risk committee</p>	<ul style="list-style-type: none"> ▶ sets tax strategy and tax risk appetite; ▶ approves the tax risk management frameworks and policies; ▶ manages portfolio and concentration tax risk; ▶ monitors information governance matters, including data quality, relating to tax; and ▶ monitors tax risk assessments and profiles, compliance tax risks, corrective actions and escalation to the RCC committee, where required.
<p>Financial crime regulatory compliance committee</p>	<ul style="list-style-type: none"> ▶ approves the AML risk management framework, policies and procedures; ▶ monitors AML risk assessments, risk profile and compliance with relevant laws and regulations, and the adequacy of remedial actions; and ▶ reports and makes recommendations to the RCC committee on AML/CFT matters.
<p>Insurance risk committee</p>	<ul style="list-style-type: none"> ▶ identifies, manages, monitors, reports and reviews the performance and risk exposures of the FirstRand Life; ▶ ensures the design and implementation of the compliance function and assess reports; and ▶ approves compliance and risk management plans.

FRANCHISE RISK GOVERNANCE STRUCTURE



* Formerly RMB proprietary board.

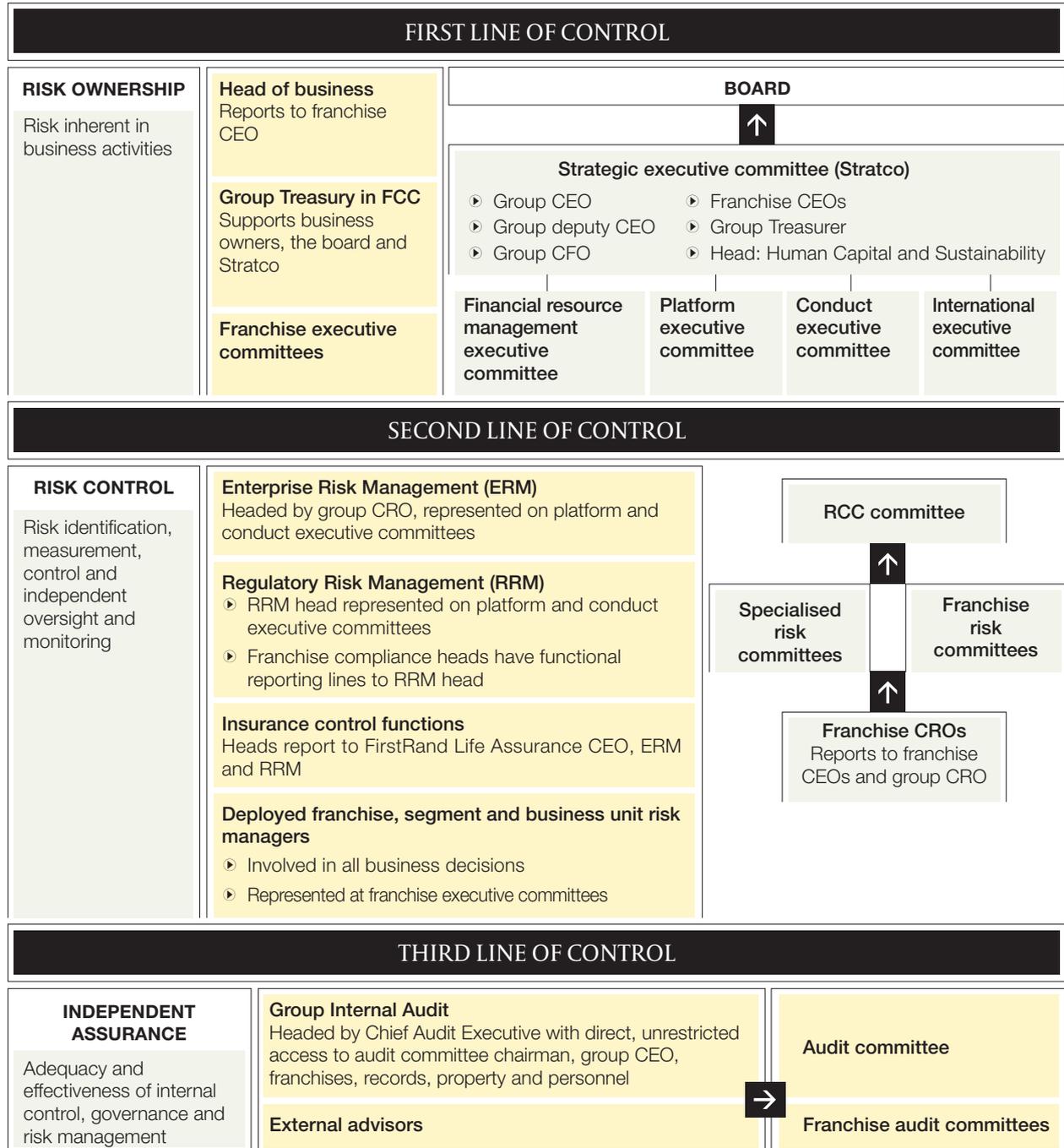
** FirstRand Life Assurance is not a franchise but a subsidiary of FirstRand Insurance Holdings (Pty) Ltd. Refer to simplified legal structure on page 2.

Additional risk, audit and compliance committees exist in each franchise, the governance structures of which align closely with that of the group, as illustrated in the risk governance structure on page 16. The group board committees comprise members of franchise advisory boards, audit and risk committees to ensure a common understanding of the challenges businesses face and how these are addressed across the group. The franchise audit, risk and compliance committees support the board risk committees and RCC subcommittees in the third line of control across the group.

RISK GOVERNANCE FRAMEWORK

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

LINES OF RISK CONTROL



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

RESPONSIBILITIES IN THE LINES OF RISK CONTROL

FIRST LINE	SECOND LINE	THIRD LINE
<p style="text-align: center;">Heads of business</p> <ul style="list-style-type: none"> ▶ act in accordance with mandates approved by the board or its delegated authority; ▶ identify, quantify and monitor key risks to business under normal and stress conditions; ▶ implement strategy within approved risk appetite parameters; ▶ design business processes to appropriately manage risk; ▶ ensure that board-approved risk policies, frameworks, standards, processes, methodologies and risk tools are implemented; ▶ specify and implement early warning measures, associated reporting, management and escalation processes through governance structures; ▶ implement risk mitigation and response strategies; ▶ implement timeous corrective actions and loss control measures as required; and ▶ ensure staff understand and implement responsibilities for risk management. 	<p style="text-align: center;">Deployed risk management</p> <ul style="list-style-type: none"> ▶ supports management in identifying and quantifying key risks; ▶ ensures that board-approved risk policies, frameworks, standards, methodologies and tools are adhered to; ▶ approves design of business risk processes to ensure appropriate risk management; ▶ identifies process flaws and risk management issues and initiates and monitors corrective action; ▶ ensures timeous risk management and loss containment activities; and ▶ compiles, analyses and escalates risk reports on performance, risk exposures and corrective actions, through governance structures in appropriate format and frequency. 	<p style="text-align: center;">Group Internal Audit</p> <ul style="list-style-type: none"> ▶ monitors risk management infrastructure and practices; ▶ reviews reliability and integrity of financial and operational information; ▶ reviews significant systems established by management to ensure compliance with laws and regulations; ▶ reviews safeguarding and existence of assets; ▶ assesses whether resources are acquired economically and used efficiently and effectively; ▶ reviews operations or programmes for consistency with established goals and objectives; ▶ evaluates and assesses significant changes in functions, systems, services, processes, operations and controls; ▶ provides an assessment of the adequacy and effectiveness of the internal controls system (including financial controls) and risk management to audit committee; and ▶ conducts work in accordance with international internal audit practices and its activities are considered annually by external auditors.
<p style="text-align: center;">Group Treasury</p> <ul style="list-style-type: none"> ▶ provides an integrated approach to financial resource management; ▶ optimises the group's portfolio to deliver sustainable returns within an acceptable level of risk; ▶ performs scenario analysis and stress testing; ▶ manages the group's liquidity, funding, interest rate and market risk in the banking book and foreign exchange mismatch; ▶ performs capital management and planning; and ▶ advises senior management on potential capital actions, dividend strategy and other capital management developments. 	<p style="text-align: center;">Enterprise Risk Management</p> <ul style="list-style-type: none"> ▶ maintains the BPRMF and its ancillary risk frameworks, policies, standards and risk governance structures; ▶ develops and communicates risk management strategy and challenges risk profiles; ▶ monitors adequate and effective implementation of risk management processes; ▶ reports risk exposures and performance to management and governance structures; ▶ supports management with risk aspects of business decisions; ▶ ensures appropriate risk management skills and culture; ▶ performs risk measurement validation; and ▶ manages risk regulatory relationships. <p style="text-align: center;">Regulatory Risk Management</p> <ul style="list-style-type: none"> ▶ monitors that business practices, policies, frameworks and approaches are consistent with applicable laws and regulations. <p style="text-align: center;">Insurance control functions</p> <ul style="list-style-type: none"> ▶ actuarial function provides assurance to the board regarding the appropriateness of the insurance liability assumptions and capital adequacy; and ▶ risk management and compliance conduct risk and compliance assessments and implement improvements. 	

COMBINED ASSURANCE

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

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

REGULAR RISK REPORTING AND CHALLENGE OF CURRENT PRACTICES

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

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

RISK CULTURE

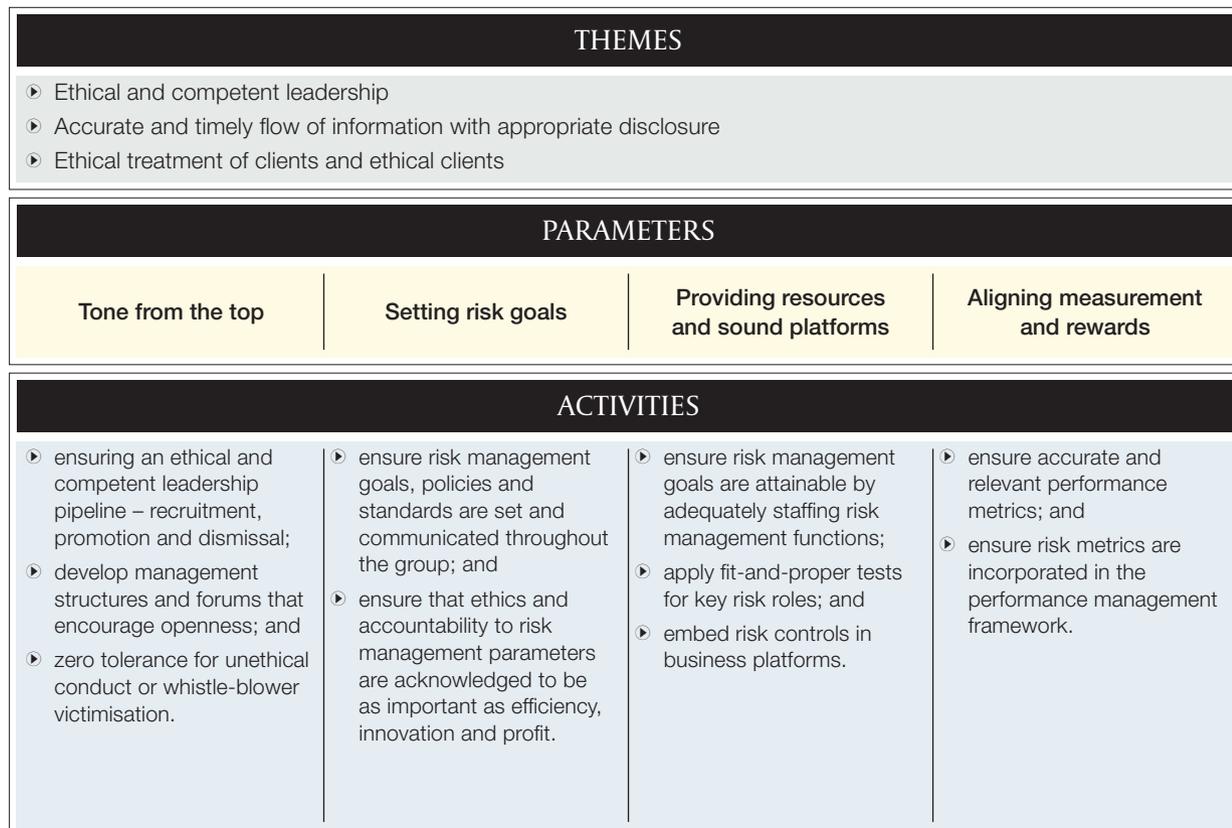
The group recognises that effective risk management requires the maintenance of an appropriate risk culture. ERM and the group's ethics office collaborate closely to identify and manage risk culture and the assessment methodologies conform to the *FSB framework for assessing risk culture* published in April 2014.

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 memberships and structures exist;
- ▶ best practice risk identification, measurement, monitoring, management and reporting; and
- ▶ a broader organisational culture which drives appropriate business ethics practices and supports risk goals and which provides a balance between skills and ethical values and ensures accountability for performance.

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

RISK CULTURE ASSESSMENT FRAMEWORK



BASIS OF PILLAR 3 DISCLOSURE

SARB APPROACHES TO CALCULATION OF RWA

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

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

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

BASIS OF CONSOLIDATION

Consolidation of all group entities for accounting purposes is in accordance with IFRS and for regulatory purposes in accordance with the requirements of the Regulations. There are some differences in the manner in which entities are consolidated for accounting and regulatory purposes. The following table provides the basis on which the different types of entities are treated for regulatory purposes.

REGULATORY CONSOLIDATION TREATMENT

Shareholding	Regulatory			IFRS
	Banking, security firm, financial	Insurance [†]	Commercial	
Less than 10%	Aggregate of investments (Common Equity Tier 1 (CET1), AT1 and Tier 2): <ul style="list-style-type: none"> ▶ amount exceeding 10% CET1 capital – deduction against corresponding component of capital; and ▶ up to 10% - risk weight*. 		Standardised approach: <ul style="list-style-type: none"> ▶ minimum risk weight of 100%. Internal rating-based approach: <ul style="list-style-type: none"> ▶ maximum risk weight of 1250%. 	Financial asset at fair value (held for trading, designated at fair value through profit or loss or available-for-sale). 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.
Between 10% and 20%	CET1 capital: <ul style="list-style-type: none"> ▶ individual investments in excess of 10% CET1 – deduction against CET1 capital; and ▶ individual investments up to 10% apply threshold rules**. AT1 and Tier 2: <ul style="list-style-type: none"> ▶ deduct against corresponding component of capital. 			
Between 20% and 50%	Legal or <i>de facto</i> support (other significant shareholder): <ul style="list-style-type: none"> ▶ proportionately consolidate. No other significant shareholder: <ul style="list-style-type: none"> ▶ apply threshold rules**. 	<ul style="list-style-type: none"> ▶ Apply deduction methodology, with 100% derecognition of IFRS NAV. ▶ Cost of investment subject to threshold rules**. 	Standardised and internal rating based approach: <ul style="list-style-type: none"> ▶ individual investment greater than 15% of CET1, AT1 and Tier 2: risk weight at 1250%. 	Equity accounting 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.
Greater than 50%	Entity conducting trading activities/other bank, security firm or financial entity [#] : <ul style="list-style-type: none"> ▶ consolidate. 		<ul style="list-style-type: none"> ▶ 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 1250% (standardised only). 	Consolidate, unless the substance of the transaction indicates that the group does not control the entity, in which case equity accounting would be applied.

* Risk weighting based on nature of instrument and measurement approach.

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

Threshold rules apply to financial entities acquired through realisation of security in respect of previously contracted debt (held temporarily), subject to materially different rules and regulations and non-consolidation required by law.

† Material wholly-owned insurance subsidiaries incorporated in South Africa include FirstRand Life Assurance Limited (December 2015: R137 million NAV) and FirstRand Insurance Services Company Limited (December 2015: R369 million NAV).

NEW PILLAR 3 DISCLOSURE REQUIREMENTS

The BCBS' revised Pillar 3 disclosure requirements, effective end of 2016, will supersede the existing Pillar 3 disclosure requirements. The revised disclosure requirements will enable market participants to better compare banks' RWA disclosures. These form part of the BCBS's broader agenda to reform regulatory standards for banks in response to the global financial crisis. The revisions focus on improving the transparency of the internal model-based approaches used by banks to calculate minimum regulatory capital requirements.

The most significant revisions are templates for quantitative disclosure and definitions, some with a fixed format. This aims to enhance comparability of banks' disclosures. FirstRand is in the process of ensuring compliance with these new disclosure requirements.

Basel III capital and leverage components

Directive 3/2015 (replaces directive 8/2013) and directive 4/2014 requires the following additional common disclosure in line with the Regulations:

- ▶ composition of capital;
- ▶ reconciliation of IFRS financial statements to regulatory capital and reserves;
- ▶ main features of capital instruments; and
- ▶ leverage common disclosure templates.

Basel III LCR disclosure

The BCBS' *Liquidity coverage ratio disclosure standards* propose consistent and transparent disclosure of banks' liquidity positions as measured by the Basel III regulations. Directives 6/2014 and 11/2014 require the bank to provide its LCR disclosure in a standardised template.

Common disclosures

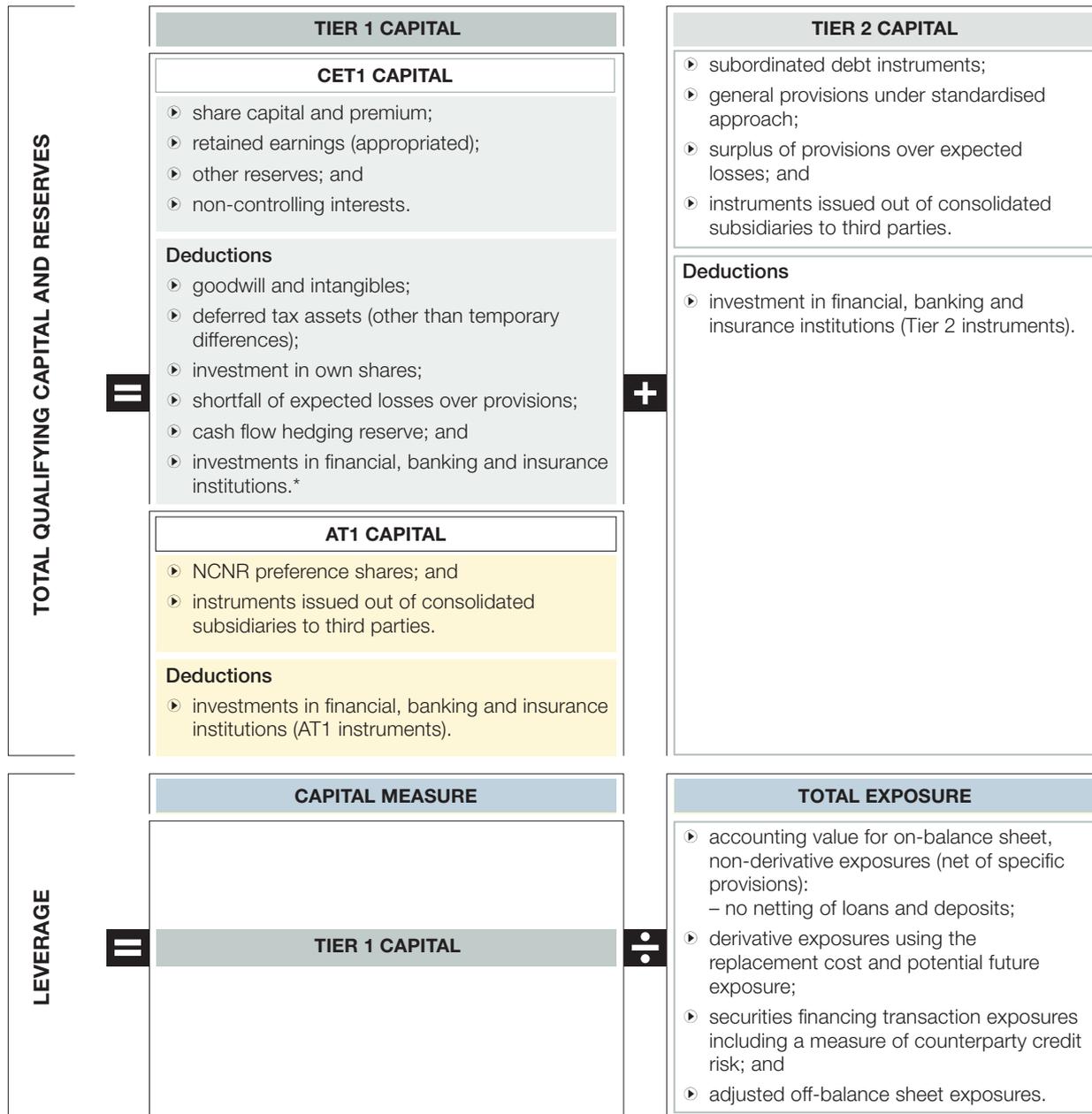
Refer to www.firstrand.co.za/investorcentre/pages/commondisclosures.aspx for further detail on the capital, leverage and LCR common disclosures.



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

The main components of capital and leverage under Basel III are summarised below.

QUALIFYING CAPITAL AND LEVERAGE COMPONENTS



* The full deduction method is applied to insurance entities, i.e. NAV for insurance entities are derecognised from consolidated IFRS NAV.

STRATEGIC AND BUSINESS RISK

INTRODUCTION AND OBJECTIVES

Any business runs the risk of choosing an inappropriate strategy or failing to execute its strategy appropriately. The group aims to minimise this risk in the normal course of business.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

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

ASSESSMENT AND MANAGEMENT

Strategic risk

STRATEGIC RISK COMPONENTS

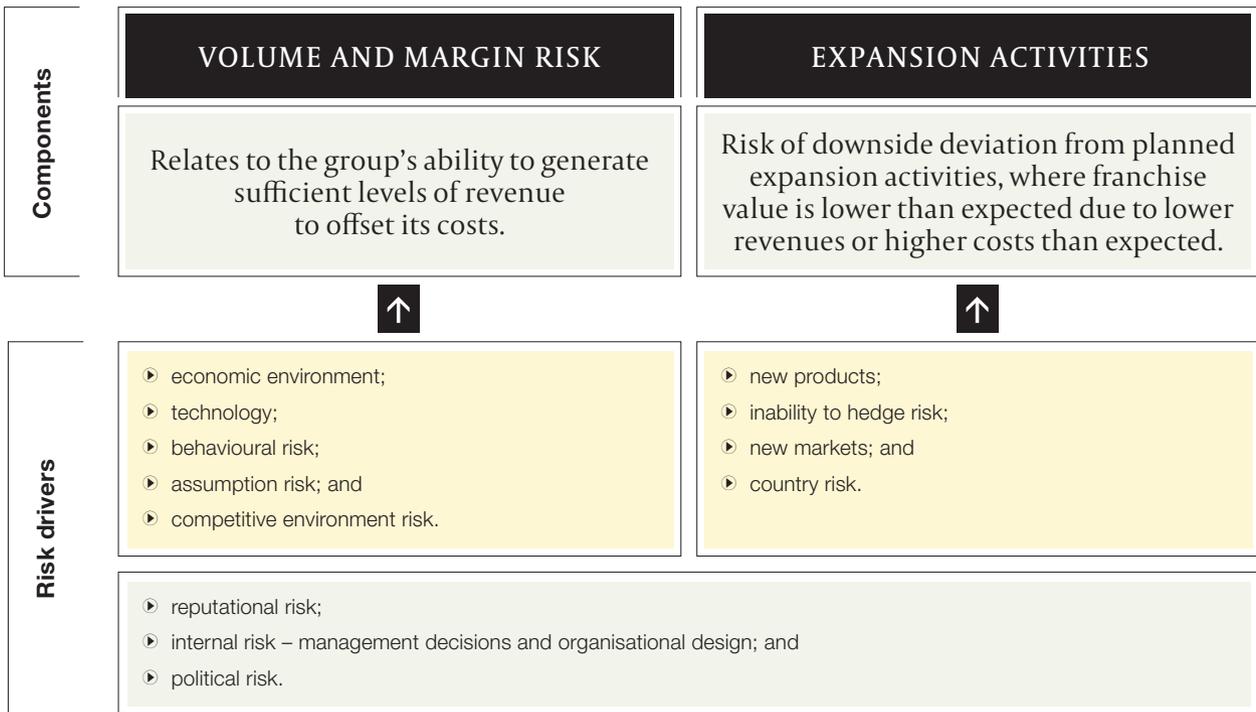
<p>1 Strategic risk</p> <p>Risk to current or prospective earnings arising from inappropriate business decisions or the improper implementation of such decisions.</p> <ul style="list-style-type: none"> ▶ Not a readily quantifiable risk. ▶ Not a risk that an organisation can or should hold a protective capital buffer against. 	<p>2 Environmental and social risk</p> <p>Relates to the environmental and social issues which impact the group's ability to successfully and sustainably implement business strategy.</p> <ul style="list-style-type: none"> ▶ Formal governance processes for managing environmental and social risk that may affect the group's ability to successfully implement business strategy exist. ▶ Includes detailed environmental and social risk analysis (ESRA).
<p>3 Reputational risk</p> <p>Risk of reputational damage due to compliance failures, pending litigations, underperformance or negative media coverage.</p> <p>The group's business is one inherently built on trust and close relationships with its clients. Its reputation is, therefore, built on the way in which it conducts business and the group protects its reputation by managing and controlling risks across its operations.</p> <ul style="list-style-type: none"> ▶ 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. 	

Business risk

Risk to earnings, capital and sustainability from potential changes in the business environment, client behaviours and technological progress.

The group’s objective is to develop and maintain a portfolio that delivers sustainable earnings and minimises the chance of adverse outcomes.

BUSINESS RISK COMPONENTS AND RISK DRIVERS



Business risk stems from:

- ▶ the potential inability to generate volumes and maintain a positive net operating margin in a volatile business environment (resulting in severe earnings volatility) that is unrelated to other known, material and already capitalised risk types; and
- ▶ the potential inability to execute on strategy according to the business plan in order to remain sustainable and well capitalised on a forward-looking basis and relates to large investments, mergers and acquisitions.

For economic capital purposes, business risk is the internal risk measure to capture unexpected losses over a one-year time horizon from the remaining material risks not captured by Pillar 1 and 2. Volume and margin risk, and expansion risk are considered part of strategic planning and assessed through the group’s management and governance processes, and ICAAP.

CAPITAL MANAGEMENT

INTRODUCTION AND OBJECTIVES

The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the group's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The group, therefore, maintains capitalisation ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests.

The group focuses on the following areas to safeguard operations and stakeholder interests.

KEY FOCUS AREAS AND CONSIDERATIONS

Optimal level and composition of capital

Determined after taking into account:

- ▶ business units' organic growth plans;
- ▶ rating agencies' considerations;
- ▶ investor expectations (including debt holders);
- ▶ targeted capital and leverage levels;
- ▶ future business plans;
- ▶ stress testing scenarios;

- ▶ economic capital requirements;
- ▶ appropriate buffers in excess of minimum requirements;
- ▶ issuance of additional capital instruments;
- ▶ regulatory and accounting changes; and
- ▶ the board's risk appetite.

Effective allocation of resources (including capital and risk capacity)

- ▶ aligned to risk appetite to maximise value for shareholders.

Limited excesses above targets

- ▶ medium-term growth plans and future regulatory changes considered.

Dividend policy included in overall capital plan

- ▶ sustainable dividend cover based on sustainable normalised earnings; and
- ▶ dividend policy caters for the following factors:
 - volatile earnings brought on by fair value accounting;
 - anticipated earnings yield on capital employed;
 - organic growth requirements;
 - safety margin for unexpected fluctuations in business plans; and
 - current target range (1.8 x to 2.2 x) to protect shareholders from any unnecessary volatility in dividends.

- ▶ annual assessment of appropriate level of payout considers the following inputs:
 - actual performance;
 - forward-looking macroeconomic scenarios;
 - demand for capital; and
 - potential regulatory and accounting changes.

CAPITAL ADEQUACY AND PLANNING

Period under review

The capital planning process ensures that the total capital adequacy and CET1 ratios remain within or above targets across economic and business cycles. Capital is managed on a forward-looking basis and the group remains appropriately capitalised under a range of normal and severe scenarios (including stress events), which includes ongoing regulatory developments, expansion initiatives and corporate transactions. The leverage ratio is a supplementary measure to the risk-based capital ratio and greater emphasis has been placed on monitoring leverage for the group.

FirstRand comfortably operated above its capital and leverage targets during the period under review. The following table summarises the group's capital and leverage ratios at 31 December 2015.

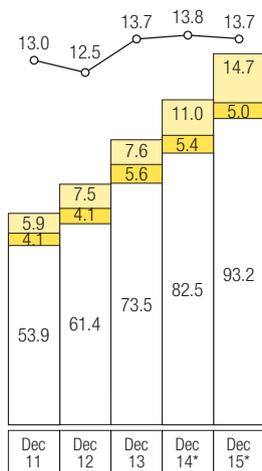
CAPITAL ADEQUACY AND LEVERAGE POSITION

%	Capital			Leverage
	CET1	Tier 1	Total	Total
Regulatory minimum*	6.5	8.0	10.0	4.0
Target	10.0 – 11.0	>12.0	>14.0	>5.0
Actual				
Excluding unappropriated profits	12.3	13.1	15.2	7.5
Including unappropriated profits	13.7	14.4	16.6	8.3

* Excluding the bank-specific individual capital requirement.

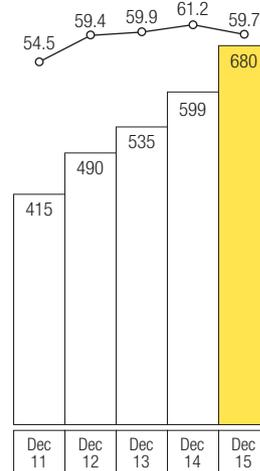
The following graphs show the historical overview of capital adequacy and RWA for FirstRand.

CAPITAL ADEQUACY



- Tier 2 capital (R billion)
- AT1 capital (R billion)
- CET1 capital (R billion)
- CET1 ratio (%)

RWA HISTORY



- RWA (R billion)
- RWA as a % of total assets

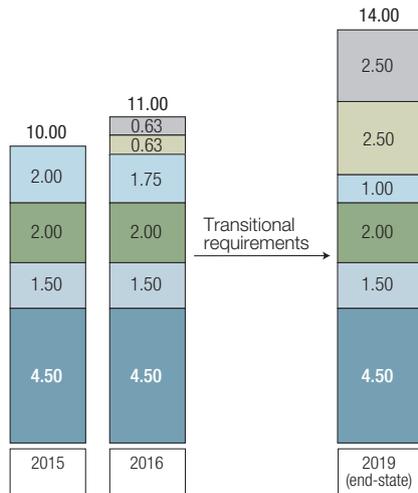
* Includes unappropriated profits.

REGULATORY UPDATE

South Africa

Effective 1 January 2016, the SARB minimum capital requirement was adjusted for the capital conservation buffer, add-on for domestic systemically important banks (D-SIB) and the countercyclical buffer. Currently the SARB has not implemented any countercyclical buffer requirement for South African exposures. The capital conservation buffer and add-on for D-SIB will be phased in over the next four years, as illustrated in the graph below.

TRANSITIONAL MINIMUM REQUIREMENTS*
%



- Capital conservation**
- D-SIB**
- Pillar 2A
- Tier 2 minimum
- AT1 minimum
- CET1 minimum

* Assuming a maximum add-on for D-SIBs.

** Pillar 2A and D-SIB met with CET1, Tier 1 and total capital. Capital conservation buffer met solely with CET1 capital.

The group's internal targets have been aligned to the end-state minimum requirements and are subject to ongoing review. No changes have been made to the current targets during the period under review.

BCBS

The BCBS issued various consultative documents, including revisions to the RWA framework and capital floors. These papers are at different stages of testing, finalisation and implementation, and the actual impact on banks remains unclear. The group continues to participate in the BCBS quantitative impact studies to assess and incorporate, where relevant, the effect of these standards.

The current consultative documents issued by the BCBS are summarised in the following table.

SUMMARY OF CONSULTATIVE DOCUMENTS

	Objectives	Impact assessment
Revised standardised approaches for credit and operational risk	<ul style="list-style-type: none"> ▶ Reduce variability in RWA and increase risk sensitivity. 	<ul style="list-style-type: none"> ▶ Impact not yet quantified. ▶ Consultation ends June 2016 and finalisation expected at the end of 2016.
Capital floor based on standardised approaches for internal ratings based accredited banks	<ul style="list-style-type: none"> ▶ Address variability in capital ratios for banks using internal ratings-based approaches. ▶ Enhance comparability across jurisdictions. 	<ul style="list-style-type: none"> ▶ Impact not yet quantified. ▶ Proposed calibration and implementation timeline expected to be finalised at the end of 2016.
Interest rate risk in the banking book	<ul style="list-style-type: none"> ▶ Ensure appropriate capital to cover potential losses from exposures to changes in interest rates. ▶ Limit capital arbitrage between trading and banking book. 	<ul style="list-style-type: none"> ▶ Impact not yet quantified. ▶ Finalisation expected in the first quarter of 2016.
Principles on loss absorbing and recapitalisation capacity of G-SIBs	<ul style="list-style-type: none"> ▶ Developed in consultation with BCBS. ▶ Form a new minimum standard for total loss absorbing capacity and composition of a bank's capital structure. 	<ul style="list-style-type: none"> ▶ Implementation for South African banks remains uncertain. ▶ Current consultative document available for comment until February 2016.

ICAAP

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

- ▶ the link between business strategy, risk introduced and capital required to support the strategy;
- ▶ embedding a responsible risk culture at all levels in the organisation;
- ▶ development of recognised stress tests to provide useful information, which serve as early warnings/triggers, so that contingency plans can be implemented;
- ▶ determination of the capital management strategy and how the group will manage its capital during business-as-usual and periods of stress from both a regulatory and economic perspective;
- ▶ effective allocation and management of capital in the organisation in proportion to risks inherent in the various businesses; and
- ▶ board-approved capital plan.

These processes are under continuous review and refinement, and continue to inform the targeted buffer over the minimum capital requirement. The group aims to back all economic risk with loss absorbing capital and remains well capitalised in the current environment. The group continues to refine its approach to economic capital, which includes strategic capital planning, risk measurement and portfolio management.

COMPOSITION OF CAPITAL

Supply of capital

The following tables summarise FirstRand's qualifying capital components, RWA and an analysis of period-on-period movements.

COMPOSITION OF CAPITAL ANALYSIS

R million	December 2015	December 2014	June 2015
Excluding unappropriated profits			
CET1	83 883	77 492	82 516
Tier 1	88 904	82 908	87 563
Total qualifying capital	103 564	93 912	99 563
Including unappropriated profits			
CET1	93 168	82 500	88 961
Tier 1	98 189	87 916	94 008
Total qualifying capital	112 849	98 920	106 008
Risk weighted assets	680 400	598 698	633 830

December 2015 vs December 2014 movement		
CET1	AT1	Tier 2
↑	↓	↑
<ul style="list-style-type: none"> Internal capital generation through earnings. Share capital issuance relating to BEE deal. 	<ul style="list-style-type: none"> Additional 10% haircut on non-compliant Basel III NCNR preference shares, partly offset by movement in third party capital. 	<ul style="list-style-type: none"> Issuance of Basel III compliant Tier 2 instruments totalling R4.3 billion (March 2015: R2 billion; July 2015: R2.3 billion) partly offset by the additional 10% haircut on non-compliant Basel III Tier 2 instruments.

Demand for capital

The following table provides the breakdown of FirstRand's RWA per risk type as per current SARB regulations.

RWA ANALYSIS

R million	FirstRand					
	December 2015				December 2014	June 2015
	RWA			Capital requirement**	RWA	RWA
	Advanced approach	Other approaches*	Total			
Credit risk	357 359	125 037	482 396	48 240	414 992	444 484
– Corporate, banks and sovereigns	160 711	32 304	193 015	19 302	172 392	174 157
– Small and medium enterprises (SMEs)	49 041	27 302	76 343	7 634	64 796	72 246
– Residential mortgages	52 604	7 475	60 079	6 008	55 175	58 718
– Qualifying revolving retail	23 232	5 403	28 635	2 864	24 703	26 630
– Other retail	69 121	27 814	96 935	9 694	83 295	87 848
– Securitisation exposure	2 650	14 302	16 952	1 695	13 170	20 089
– Other	–	10 437	10 437	1 043	1 461	4 796
Counterparty credit risk#	–	7 494	7 494	749	2 134	7 547
Total credit risk	357 359	132 531	489 890	48 989	417 126	452 031
Operational risk	77 781	26 130	103 911	10 391	101 120	100 329
Market risk	9 774	6 841	16 615	1 662	14 616	12 371
Equity investment risk	31 459	–	31 459	3 146	32 974	31 951
Other assets†	–	38 525	38 525	3 852	32 862	37 148
Total RWA	476 373	204 027	680 400	68 040	598 698	633 830

* Includes:

- credit risk: standardised approach;
- counterparty credit risk: current exposure method;
- operational risk: standardised and BIA; and
- market risk: standardised approach.

** Capital requirement calculated at 10% of RWA (excluding the bank-specific individual capital requirement).

Excludes default risk.

† Includes the investment in financial, banking and insurance entities, and deferred tax assets subject to the threshold rules and risk weighted at 250%.

The following table analyses period-on-period movements.

RWA ANALYSIS

Risk type	Period-on-period movement	Key drivers
Credit risk		<ul style="list-style-type: none"> organic growth, model recalibrations and regulatory refinement.
Counterparty credit risk		<ul style="list-style-type: none"> withdrawal of the credit value adjustment (CVA) exemption for rand and local counterparty over-the-counter (OTC) derivatives.
Operational risk		<ul style="list-style-type: none"> recalibrations of risk scenarios, increased gross income for entities on the standardised approach and refinement of capital floor methodology.
Market risk		<ul style="list-style-type: none"> volume and mark-to-market movements.
Equity investment risk		<ul style="list-style-type: none"> disposals of investments and fair value adjustments.
Other assets		<ul style="list-style-type: none"> increase in assets subject to 250% risk weighting; and increase in property and equipment and other assets.

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

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

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

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

	December 2015		December 2014	June 2015
	RWA R million	Tier 1 %	Total capital adequacy %	Total capital adequacy %
Basel III				
FirstRand*	680 400	14.4	16.6	16.7
FirstRand Bank South Africa*	495 460	14.2	16.6	16.7
FirstRand Bank London	39 888	9.2	16.1	16.1
FirstRand Bank India	2 753	29.5	29.9	39.5
FirstRand Bank Guernsey**	59	43.5	43.5	-
Basel II (local regulations)				
FNB Namibia	23 543	13.1	15.8	17.0
FNB Mozambique	3 614	10.8	11.3	10.3
Basel I (local regulations)				
FNB Botswana	18 422	15.5	20.2	19.0
FNB Swaziland	2 882	20.7	21.9	22.6
FNB Lesotho	879	12.4	15.4	18.7
FNB Zambia	5 031	15.5	20.4	24.1
FNB Tanzania	1 126	76.8	78.4	31.3
RMB Nigeria	2 113	75.2	75.2	86.1
FNB Ghana	348	>100	>100	-

* Includes unappropriated profits.

** Trading as FNB Channel Islands.

Refer to page 27 for the link to the common disclosure templates on the group's website.

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.

The goal of credit risk management is to maximise the group's measure of economic profit, net income after capital charge (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 both regulatory and economic capital requirements. Credit risk management objectives are two-fold:

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

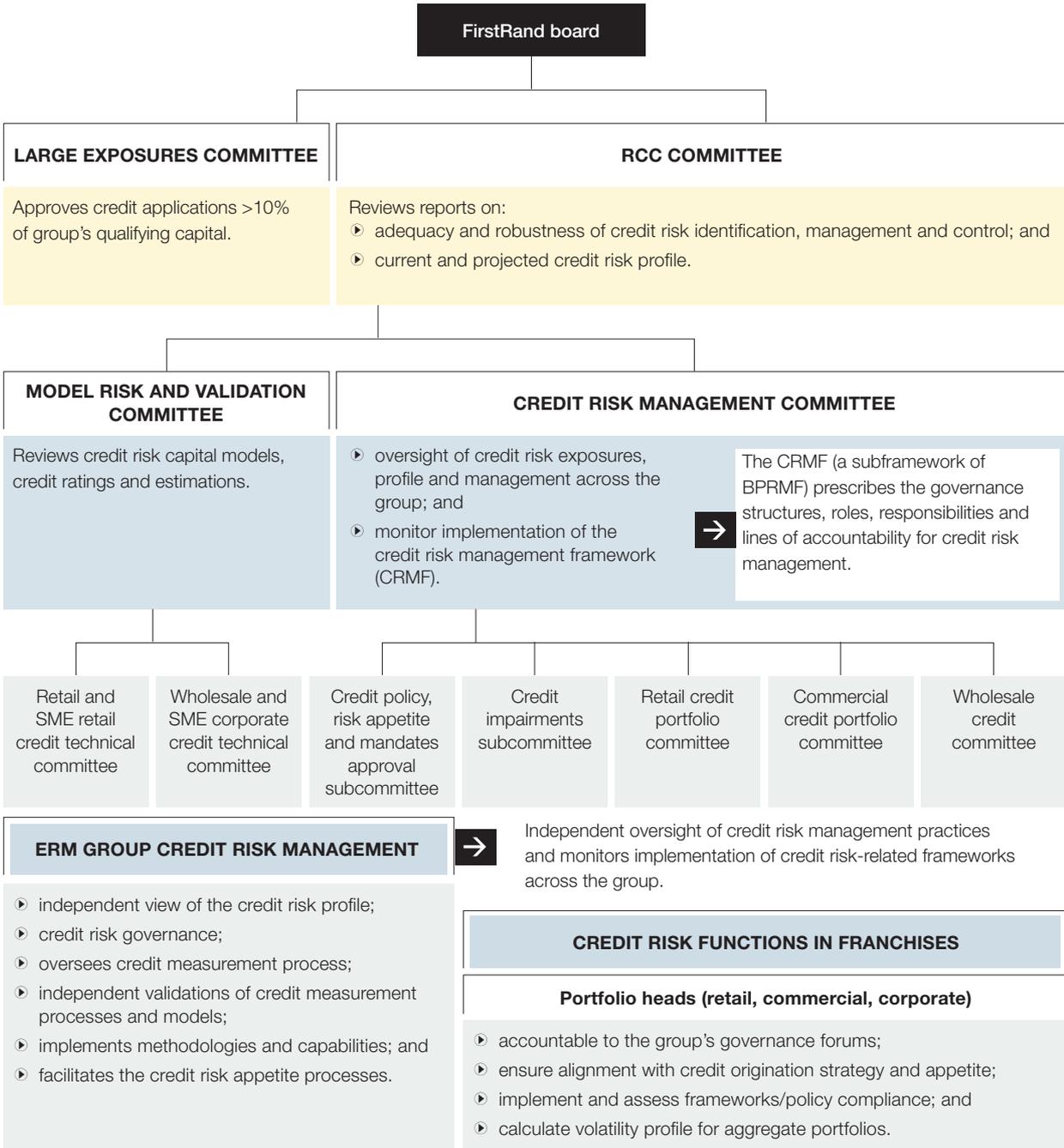
Based on the group's credit risk appetite, as measured on an ROE, NIACC and volatility-of-earnings basis, credit risk management principles include holding the appropriate level of capital and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management 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 management across the group is split into three distinct portfolios: retail, commercial and corporate. These portfolios are aligned to customer profiles. Retail credit is offered by FNB and WesBank to individuals and SMEs with a turnover of up to R7.5 million. Commercial credit focuses on relationship banking offered by FNB and WesBank to companies that are mainly single-banked and corporate credit is offered by RMB to large corporate, multi-banked customers. As advances are split across the operating franchises, default risk is allocated to the income-receiving portfolio.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

CREDIT RISK GOVERNANCE STRUCTURE



ASSESSMENT AND MANAGEMENT

Calculation of internal ratings and rating process

The assessment of credit risk across the group relies on internally-developed quantitative models for addressing regulatory and business needs.

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 SARB AIRB approach requirements and the group's model building frameworks. The credit risk approaches across the group are shown in the following table.

Basel approach	FirstRand Bank SA	Remaining FirstRand entities
AIRB	✓	
Standardised approach		✓

Even though the remaining entities 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 (PD);
- ▶ exposure at default (EAD); and
- ▶ loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and group-level credit risk assessments 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 and is 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	<ul style="list-style-type: none"> ▶ All credit portfolios. ▶ Recognition of NPLs for accounting.
PD measures	<ul style="list-style-type: none"> ▶ Through-the-cycle (TTC) PD measures reflect long-term, average default expectations over the course of the economic cycle. TTC PDs are inputs in economic and regulatory capital calculations. ▶ Point-in-time (PIT) PD measures reflect default expectations in the current economic environment and thus tend to be more volatile than TTC PDs. PIT PDs are used in credit portfolio management, including risk appetite and portfolio monitoring.
Measure application	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.

MAPPING OF FIRSTRAND (FR) GRADES TO RATING AGENCY SCALES

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

- ▶ FR 1 is the lowest PD and FR 100 the highest.
- ▶ External ratings have also been mapped to the master rating scale for reporting purposes.

* Indicative mapping to the international rating scales of Standard & Poor's. The group currently uses only mapping to Standard & Poor's rating scales.

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 that may be drawn over the period under consideration (i.e. off-balance sheet exposures). Its 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	<ul style="list-style-type: none"> ▶ 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 workout or restructuring process.
Application	<ul style="list-style-type: none"> ▶ All credit portfolios. ▶ Recognition of NPLs for accounting.
Distinctions	<p>Long-run expected LGDs (long-run LGDs).</p> <p>LGDs reflective of downturn conditions include:</p> <ul style="list-style-type: none"> ▶ more conservative assessment of risk, which incorporates a degree of interdependence between PD and LGD that can be found in a number of portfolios, i.e. instances where deteriorating collateral values are also indicative of higher default risk; and ▶ used in the calculation of regulatory capital estimates.

Expected loss (EL)

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

Rating process

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

CREDIT PORTFOLIO RATING PROCESS

Portfolio and type of exposures	Description of rating system
<p>Large corporate portfolios (Corporate: RMB, WesBank corporate and FCC) Exposures to private sector counterparties including corporates and securities firms, and public sector counterparties. A wide range of products give rise to credit exposure, including loan facilities, structured finance facilities, contingent products and derivative instruments.</p>	<p>Default definitions applied in rating systems are aligned to the Regulations.</p> <p>Rating process:</p> <ul style="list-style-type: none"> ▶ rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty’s creditworthiness; ▶ this assessment is performed through a quantitative and qualitative analysis of the counterparty’s business and financial risks and is supplemented by internally-developed statistical rating models; ▶ rating models were developed using internal and external data covering more than ten years. Qualitative analysis is based on the methodology followed by international rating agencies; ▶ the rating assessment is reviewed by the wholesale credit committee or delegated subcommittee and the rating (and associated PD) is approved by these committees; ▶ no overrides of ratings or PDs are possible after approval by these committees; and ▶ LGD and EAD estimates are based on modelling a combination of internal and suitably adjusted international data with the same committee process responsible for reviewing and approving these measures.
<p>Low default portfolios: sovereign and bank exposures (Corporate: RMB and FCC) Exposures to sovereign and bank counterparties.</p>	<p>Default definitions applied in rating systems are aligned to the Regulations.</p> <p>Rating process:</p> <ul style="list-style-type: none"> ▶ expert judgement models are used in combination with external rating agency ratings as well as structured peer group analyses which form a key input in the ratings process. The analysis is supplemented by internally-developed statistical models; ▶ the calibration of PD and LGD ratings is based on a mapping to external default data as well as credit spread market data; ▶ the rating assessment is reviewed by the wholesale credit committee or delegated subcommittee and the rating (as well as the associated PD) is approved by these committees; and ▶ no overrides of ratings or PDs are possible after approval by these committees.

CREDIT PORTFOLIO RATING PROCESS (continued)

Portfolio and type of exposures	Description of rating system
<p>Specialised lending portfolios (Corporate: RMB, FNB commercial and wealth (RMB Private Bank and FNB Private Wealth))</p> <p>Exposures to private-sector counterparties for the financing of income-producing real estate.</p>	<p>Default definitions applied in rating systems are aligned to the Regulations.</p> <p>Rating process:</p> <ul style="list-style-type: none"> ▶ rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks; ▶ the rating assessment is reviewed by the wholesale credit committee, commercial credit committee or delegated subcommittee and the rating (as well as the associated PD) is approved by these committees; and ▶ no overrides of the ratings or the PDs are possible after approval by these committees.
<p>Commercial portfolio (SME corporate and SME retail counterparties in FNB commercial and WesBank)</p> <p>Exposures to SME clients.</p> <p>A wide range of products give rise to credit exposure, including loan facilities, contingent products and term lending products.</p>	<p>Default definitions applied in rating systems are aligned to the Regulations.</p> <p>SME retail rating process:</p> <ul style="list-style-type: none"> ▶ SME retail portfolio is segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status; ▶ PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; and ▶ LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience. <p>SME corporate rating process:</p> <ul style="list-style-type: none"> ▶ PD: 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; ▶ LGD: Recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data (Fitch Ratings) and Basel guidelines; and ▶ EAD: Portfolio level credit conversion factors are estimated on the basis of the group's internal historical experience and benchmarked against international studies.

CREDIT PORTFOLIO RATING PROCESS (continued)

Portfolio and type of exposures	Description of rating system
<p>Residential mortgages (FNB HomeLoans, FNB housing finance and wealth (RMB Private Bank and FNB Private Wealth)) Exposures to individuals for the financing of residential properties.</p>	<p>Default definition applied in rating systems is aligned to the Regulations.</p> <p>Rating process and approach:</p> <ul style="list-style-type: none"> ▶ retail portfolios are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status; ▶ PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; ▶ no overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of the credit manager's judgement in a structured process supported by valid business reasons; and ▶ LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling of historical internal loss data. <p>Additional notes on qualifying revolving retail exposures:</p> <ul style="list-style-type: none"> ▶ as these exposures are unsecured, only the efficiency of recovery processes impacts on the level of LGD; and ▶ EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately e.g. straight versus budget in the case of credit cards.
<p>Qualifying revolving retail exposures (FNB card, FNB value banking solutions and wealth) Exposures to individuals providing a revolving limit through a credit card or overdraft facility.</p>	
<p>Other exposures (FNB personal loans, WesBank vehicle and asset finance (VAF) and WesBank personal loans)</p>	

Model validation

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

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

- ▶ developmental evidence, detailing processes followed and data used to set parameters for the model. These documents are updated at least annually by the model development teams;

- ▶ independent validation reports, documenting the process followed during the annual validation exercise and results obtained from these analyses; and
- ▶ model build and development frameworks, which are reviewed and, where required, updated annually. These frameworks provide guidance, principles and minimum standards which model development teams are required to adhere to.

Credit risk mitigation

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

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

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

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

Concentrations within credit risk mitigation types, such as property, are monitored and managed in the three credit portfolios. FNB HomeLoans, housing finance and wealth monitor exposure to a number of geographical areas, as well as within loan-to-value bands.

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

Monitoring of weak exposures

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

Use of credit risk measures

Credit risk measures are used extensively in the group's credit risk processes, including:

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

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

USE OF CREDIT RISK MANAGEMENT ACTIONS AND MEASURES IN THE CREDIT LIFECYCLE

	Corporate	Retail
Determination of portfolio and client acquisition strategy	<ul style="list-style-type: none"> ▶ assessment of overall portfolio credit risk determined by PD, EAD and LGD; and ▶ acquisition and overall strategy set in terms of appropriate limits and group risk appetite. 	<ul style="list-style-type: none"> ▶ same measures as for corporate; and ▶ credit models determine loss thresholds used in setting of credit risk appetite.
Determination of individual and portfolio limits	<ul style="list-style-type: none"> ▶ industry and geographical concentrations; ▶ ratings; ▶ risk-related limits on the composition of portfolio; and ▶ group credit risk appetite. 	<ul style="list-style-type: none"> ▶ same measures as for corporate; and ▶ modeled versus actual experience is evaluated in setting of risk appetite.
Profitability analysis and pricing decisions	<ul style="list-style-type: none"> ▶ PD, EAD and LGD used to determine pricing; and ▶ economic profit used for profitability. 	<ul style="list-style-type: none"> ▶ same measures as for corporate.
Credit approval	<ul style="list-style-type: none"> ▶ consideration of application's ratings; ▶ credit risk appetite limits; and ▶ projected risk-adjusted return on economic capital (PD, EAD and LGD are key inputs in these measures). 	<ul style="list-style-type: none"> ▶ automated based on application scorecards (scorecards are reflective of PD, EAD and LGD); and ▶ assessment of client's affordability.
Credit monitoring and risk management	<ul style="list-style-type: none"> ▶ risk assessment based on PD, EAD and LGD; ▶ counterparty FR grades updated based on risk assessment; and ▶ additional capital for large transactions that will increase concentration risk. 	<ul style="list-style-type: none"> ▶ same measures as for corporate; and ▶ monthly analysis of portfolio and risk movements used in portfolio management and credit strategy decisions.
Impairments	<ul style="list-style-type: none"> ▶ PD and LGD used in assessment of impairments and provisioning; and ▶ judgemental assessment to determine adequacy of provisions. 	<ul style="list-style-type: none"> ▶ loss identification period PD, LGD and roll rates used for specific, portfolio and incurred but not reported provisions.
Regulatory and economic capital calculation	<ul style="list-style-type: none"> ▶ primary credit risk measures, PD, EAD and LGD are the most important inputs. 	<ul style="list-style-type: none"> ▶ primary credit risk measures, PD, EAD and LGD are the most important inputs.
Reporting to senior management and board	<ul style="list-style-type: none"> ▶ portfolio reports discussed at franchise and business unit risk committee meetings; and ▶ quarterly portfolio reports submitted to credit risk management and RCC committees. 	<ul style="list-style-type: none"> ▶ portfolio reports discussed at franchise and business unit risk committee meetings; and ▶ quarterly portfolio reports submitted to credit risk management and RCC committees.

CREDIT RISK PORTFOLIO

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

Credit portfolios

Credit impairments increased 6%. The credit impairment ratio, however, reduced from 76 bps (June 2015: 71 bps) to 73 bps, positively impacted by the continued robust book growth, as well as lower impairments raised year-on-year against the RMB advances book.

Overall NPLs increased 8% year-on-year, but 11% since June 2015, reflecting a combination of strong book growth in card, FNB loans, other retail, FNB Africa and WesBank loans, as well as the deteriorating macro environment. The ongoing downturn in the commodity cycle negatively impacted on NPLs in the corporate and commercial portfolio, resulting in a year-on-year increase, largely due to a business rescue counter migrating to NPL status in the period.

The total coverage ratio reduced, given the higher advances growth and the change in NPL mix, although both specific and portfolio impairments increased. Increased portfolio impairments were driven by strong book growth in WesBank personal loans, card and FNB Africa, and in RMB, by the adverse commodity cycle (oil and gas, and mining and metals sectors). The performing book coverage ratio reduced from the prior year. This was largely as a result of the partial central overlay release given the previously identified risk manifesting with the NPL formation increasing in some of the underlying franchises and products over the last 12 months resulting in higher specific impairments.

Key drivers

- ▶ Retail NPLs improved to 2.96% of advances (December 2014: 3.17%; June 2015: 3.09%), impacted by:
 - A 16% reduction in residential mortgage NPLs to 2.30% of advances (December 2014: 2.88%; June 2015: 2.54%), reflecting continued resilient cure rates of defaulted accounts and constrained levels of new inflows, disciplined origination strategies and effective workout strategies.
 - A marginal increase of 3% in FNB loans NPLs, benefiting from a further unwind in NPLs in mass loans and an increase of 12% in consumer NPLs, reflecting more conservative origination strategies and tightening credit criteria.
 - Higher NPLs in card (+64%), SA retail VAF (+19%) and WesBank loans (+30%) driven primarily by the increase in debt review restructured accounts, a large majority of which are performing, strong book growth and the worsening credit cycle.
- ▶ NPLs in FNB Africa increased 79%, driven by strong book growth in current and previous periods. Botswana, Mozambique and Zambia experienced cyclical macro pressures.
- ▶ NPLs in RMB's Investment Banking division increased, primarily driven by the impact of the adverse commodity cycle on the mining and metal sector.
- ▶ Post write-off recoveries remained robust at R956 million (December 2014: R940 million; June 2015: R1.87 billion), driven by card, the unsecured retail lending portfolios (personal loans) and VAF.

Credit assets

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

CREDIT ASSETS BY TYPE, SEGMENT AND SARB APPROACH

R million	December 2015	AIRB approach	Standardised approach entities		December 2014	June 2015
		FirstRand Bank (SA)	Entities in Africa*	Other subsidiaries		
On-balance sheet exposures						
Cash and short term funds	51 005	37 208	10 039	3 758	44 604	56 831
– Money at call and short notice	27 716	18 529	5 577	3 610	22 786	34 279
– Balances with central banks	23 289	18 679	4 462	148	21 818	22 552
Gross advances**	806 587	680 674	55 238	70 675	732 770	762 596
FNB	338 453	296 540	41 261	652	303 732	320 480
– Retail	234 391	234 391	–	–	216 427	225 866
– Commercial#	62 168	62 149	–	19	52 825	58 251
– Africa	41 894	–	41 261	633	34 480	36 363
WesBank	207 969	149 378	8 332	50 259	184 591	190 381
RMB investment banking	209 527	187 498	3 454	18 575	201 190	205 721
RMB corporate banking	46 088	43 677	2 191	220	37 569	35 408
FCC (incl. Group Treasury)	4 550	3 581	–	969	5 688	10 606
Derivatives	69 001	68 078	472	451	39 325	34 500
Debt investment securities (excluding non-recourse investments)	127 525	109 325	14 967	3 233	89 143	124 956
Accounts receivable	9 509	5 220	1 858	2 431	7 389	8 009
Reinsurance assets	587	–	191	396	436	388
Off-balance sheet exposures	163 652	146 213	12 318	5 121	130 054	133 825
– Guarantees	34 304	30 011	3 497	796	32 314	34 995
– Letters of credit†	8 637	6 896	1 652	89	9 046	6 010
Irrevocable commitments	114 413	103 008	7 169	4 236	82 749	87 464
Credit derivatives	6 298	6 298	–	–	5 945	5 356
Total	1 227 866	1 046 718	95 083	86 065	1 043 721	1 121 105

* Includes FNB's activities in India.

** Certain portfolios have been restated to reflect the current segmentation of the business.

Includes public sector.

† Includes acceptances.

Credit quality

Advances are considered past due in the following circumstances:

- loans with a specific expiry date and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date; or
- loans payable on demand (e.g. credit cards) are treated as overdue where a demand for repayment was served on the borrower, but repayment has not been made in accordance with the stipulated requirements; or
- revolving facilities are treated as past due when the actual exposure is in excess of approved limits.

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

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

AGE ANALYSIS OF ADVANCES

R million/%	December 2015					
	Neither past due nor impaired		Past due but not specifically impaired		Impaired (NPLs)	Total
	Current	Renegotiated but current	One full instalment past due	Two full instalments past due		
FNB	322 621	1 080	3 563	2 101	9 088	338 453
– Retail	223 942	506	2 377	1 525	6 041	234 391
– Commercial*	60 043	541	29	83	1 472	62 168
– Africa**	38 636	33	1 157	493	1 575	41 894
WesBank	194 150	–	5 184	2 332	6 303	207 969
RMB investment banking [#]	207 005	–	38	99	2 385	209 527
RMB corporate banking	45 920	–	31	–	137	46 088
FCC (incl. Group Treasury)	4 550	–	–	–	–	4 550
Total	774 246	1 080	8 816	4 532	17 913	806 587
Percentage of total book	96.0%	0.1%	1.1%	0.6%	2.2%	100.0%

* Includes public sector.

** Includes FNB's activities in India.

[#] Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.

AGE ANALYSIS OF ADVANCES

R million/%	December 2014*					
	Neither past due nor impaired		Past due but not specifically impaired		Impaired (NPLs)	Total
	Current	Renegotiated but current	One full instalment past due	Two full instalments past due		
FNB	288 914	595	3 560	1 930	8 733	303 732
– Retail	205 717	535	2 247	1 351	6 577	216 427
– Commercial**	51 406	40	60	41	1 278	52 825
– Africa#	31 791	20	1 253	538	878	34 480
WesBank	172 380	–	4 820	1 949	5 442	184 591
RMB investment banking†	198 200	–	499	508	1 983	201 190
RMB corporate banking	37 234	–	1	–	334	37 569
FCC (incl. Group Treasury)	5 688	–	–	–	–	5 688
Total	702 416	595	8 880	4 387	16 492	732 770
Percentage of total book	95.9%	0.1%	1.2%	0.6%	2.3%	100.0%

* Certain portfolios have been restated to reflect the current segmentation of the business.

** Includes public sector.

Includes FNB's activities in India.

† Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.

R million/%	June 2015*					
	Neither past due nor impaired		Past due but not specifically impaired		Impaired (NPLs)	Total
	Current	Renegotiated but current	One full instalment past due	Two full instalments past due		
FNB	304 804	537	4 401	2 211	8 527	320 480
– Retail	214 991	482	2 601	1 615	6 177	225 866
– Commercial**	56 769	40	63	78	1 301	58 251
– Africa#	33 044	15	1 737	518	1 049	36 363
WesBank	177 434	–	4 997	1 954	5 996	190 381
RMB investment banking†	204 132	–	126	3	1 460	205 721
RMB corporate banking	35 033	–	23	–	352	35 408
FCC (incl. Group Treasury)	10 606	–	–	–	–	10 606
Total	732 009	537	9 547	4 168	16 335	762 596
Percentage of total book	96.0%	0.1%	1.3%	0.5%	2.1%	100.0%

* Certain portfolios have been restated to reflect the current segmentation of the business.

** Includes public sector.

Includes FNB's activities in India.

† Impaired advances for RMB investment banking are net of cumulative credit fair value adjustments on the non-performing book.

Renegotiated but current advances

Renegotiated but current financial assets would be past due or impaired were it not for the renegotiation, but are separately classified as neither past due nor impaired assets. Renegotiated but current advances include advances where, due to deterioration in the counterparty's financial condition, the group grants a concession whereby the original terms and conditions of the facility are amended and the counterparty is within the new terms of the advance. Renegotiated but current advances are advances which have not been classified as defaulted.

Advances are only classified as renegotiated but current if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Adherence to the new terms and conditions for each product segment is closely monitored. Renegotiated but current advances exclude advances which are extended or renewed as part of the ordinary course of business on similar terms and conditions as the original advances.

Retail NPLs cannot be reclassified as renegotiated but current unless the arrears balance has been repaid as per the group's policy. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

As part of the risk management and recoveries approach, the group enters into arrangements with clients where concessions are made on payment terms (e.g. a reduction in payments for a specified period, changes in the payment profile or debt counselling payment plans). There are formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements.

The group is in the process of implementing directive 7/2015 requirements on restructured credit exposures.

Past due but not specifically impaired

Advances past due but not specifically impaired in the previous tables include accounts in arrears by one or two full repayments. For the period ended 31 December 2015 exposures to technical and partial arrears of R8.4 billion (December 2014: R7.7 billion; June 2015: R7.4 billion) were classified as neither past due nor impaired in accordance with FirstRand's impairment methodology, primarily driven by retail exposures.

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

CREDIT QUALITY OF PERFORMING ADVANCES

		December 2015						
R million	Total neither past due nor impaired*	FNB			WesBank	RMB investment banking	RMB corporate banking	FCC (incl. Group Treasury)
		Retail	Commercial**	Africa#				
FR 1 – 25	194 916	46 678	3 033	8 451	10 851	102 996	20 093	2 814
FR 26 – 91	564 040	171 542	55 683	28 269	180 416	102 818	24 396	916
Above FR 92	16 370	6 228	1 868	1 949	2 883	1 191	1 431	820
Total	775 326	224 448	60 584	38 669	194 150	207 005	45 920	4 550

* Total neither past due nor impaired includes renegotiated but current advances.

** Includes public sector.

Includes FNB's activities in India.

		December 2014*						
R million	Total neither past due nor impaired**	FNB			WesBank	RMB investment banking	RMB corporate banking	FCC (incl. Group Treasury)
		Retail	Commercial#	Africa†				
FR 1 – 25	195 177	49 726	2 715	3 361	11 210	106 397	18 185	3 583
FR 26 – 91	495 297	150 641	47 757	28 266	159 574	88 019	18 949	2 091
Above FR 92	12 537	5 885	974	184	1 596	3 784	100	14
Total	703 011	206 252	51 446	31 811	172 380	198 200	37 234	5 688

* Certain portfolios have been restated to reflect the current segmentation of the business.

** Total neither past due nor impaired includes renegotiated but current advances.

Includes public sector.

† Includes FNB's activities in India.

		June 2015*						
R million	Total neither past due nor impaired**	FNB			WesBank	RMB investment banking	RMB corporate banking	FCC (incl. Group Treasury)
		Retail	Commercial#	Africa†				
FR 1 – 25	209 590	48 679	2 978	9 870	14 511	106 068	18 293	9 191
FR 26 – 91	511 102	160 548	52 776	22 108	160 802	96 735	16 729	1 404
Above FR 92	11 854	6 246	1 055	1 081	2 121	1 329	11	11
Total	732 546	215 473	56 809	33 059	177 434	204 132	35 033	10 606

* Certain portfolios have been restated to reflect the current segmentation of the business.

** Total neither past due nor impaired includes renegotiated but current advances.

Includes public sector.

† Includes FNB's activities in India.

The following tables provide an overview of the credit quality of other financial assets that are neither past due nor impaired.

CREDIT QUALITY OF OTHER FINANCIAL ASSETS (EXCLUDING ADVANCES) NEITHER PAST DUE NOR IMPAIRED

R million	December 2015				
	Debt investment securities*	Derivatives	Cash and short term funds	Reinsurance assets	Total
AAA to BBB	113 460	56 675	46 085	587	216 807
BB+ to B-	13 045	12 271	4 341	–	29 657
CCC	1 020	43	574	–	1 637
Unrated	–	12	5	–	17
Total	127 525	69 001	51 005	587	248 118

* Excludes non-recourse investments.

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

* Excludes non-recourse investments.

R million	June 2015				
	Debt investment securities*	Derivatives	Cash and short term funds	Reinsurance assets	Total
AAA to BBB	116 928	28 077	53 755	388	199 148
BB+ to B-	7 431	6 383	2 785	–	16 599
CCC	439	38	248	–	725
Unrated	158	2	43	–	203
Total	124 956	34 500	56 831	388	216 675

* Excludes non-recourse investments.

Policy for impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses

that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

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

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

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

ANALYSIS OF MOVEMENTS IN IMPAIRMENTS

R million	December		% change	June
	2015	2014		2015
Opening balance – specific impairment	5 867	5 575	5	5 575
Reclassifications and transfers	27	27	–	35
Acquisitions	–	–	–	(71)
Exchange rate difference	92	8	>100	11
Unwinding and discounted present value on NPLs	(56)	(49)	14	(94)
Bad debts written off	(3 025)	(2 756)	10	(6 000)
Net new impairments created	3 769	3 046	24	6 411
Closing balance – specific impairment	6 674	5 851	14	5 867
Closing balance – portfolio impairment	5 485	5 390	2	5 363
Total impairment	12 159	11 241	8	11 230

Impairment of financial assets and NPLs

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

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

Specific impairments are created for non-performing loans where there is objective evidence that an incurred loss event will have an

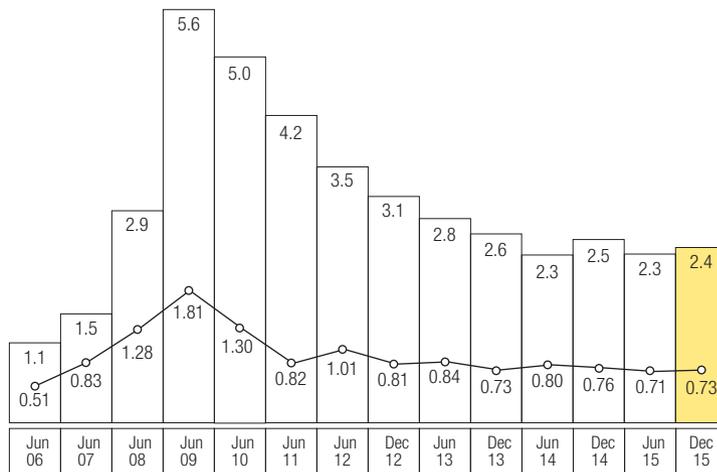
adverse impact on the estimated future cash flows from the asset. Potential recoveries from guarantees and collateral are incorporated into the calculation of impairment figures.

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

The following chart shows a history of NPLs and impairments.

NPLs AND IMPAIRMENT HISTORY

%



■ NPLs as a % of advances

—○ Impairment charge as a % of average advances*

* Impairment charges are reflected before insurance proceeds where applicable. The impairment charge is calculated on an IFRS basis and excludes fair value adjustments on advances.

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

NPLs BY CLASS

	As a % of advances NPLs			NPLs R million		
	December 2015	December 2014	June 2015	December 2015	December 2014	June 2015
FNB	2.69	2.88	2.66	9 088	8 733	8 527
– Retail	2.58	3.04	2.73	6 041	6 577	6 177
– Commercial	2.37	2.42	2.23	1 472	1 278	1 301
– Africa*	3.76	2.55	2.88	1 575	878	1 049
WesBank	3.03	2.95	3.15	6 303	5 442	5 997
RMB investment banking	1.83	1.63	1.28	3 831	3 461	2 625
RMB corporate banking	0.30	0.70	0.99	137	334	352
FCC (incl. Group Treasury)	–	–	–	–	–	–
Total NPLs	2.40	2.45	2.29	19 359	17 970	17 501

* Includes FNB's activities in India.

NPLs BY SECTOR

	NPLS As a % of advances			NPLs R million		
	December 2015	December 2014	June 2015	December 2015	December 2014	June 2015
Agriculture	1.51	0.72	0.96	445	189	276
Financial services	0.12	0.29	0.10	115	269	99
Building and property development	5.15	7.27	5.29	1 624	1 961	1 588
Government, Land Bank and public authorities	0.04	0.17	0.05	8	28	9
Individuals	2.90	3.06	3.01	11 728	11 320	11 403
Manufacturing and commerce	1.25	1.56	1.39	1 304	1 518	1 384
Mining	9.99	5.25	5.17	2 516	1 294	1 319
Transport and communication	1.66	1.20	1.04	339	230	185
Other	1.70	1.98	1.86	1 280	1 161	1 238
Total NPLs	2.40	2.45	2.29	19 359	17 970	17 501

NPLs BY GEOGRAPHICAL AREA

	NPLS As a % of advances			NPLs R million		
	December 2015	December 2014	June 2015	December 2015	December 2014	June 2015
South Africa	2.44	2.51	2.38	16 108	15 546	14 942
Other Africa	2.92	2.13	2.27	2 474	1 517	1 790
UK	0.41	0.39	0.35	215	116	151
Other Europe	2.07	1.68	1.73	118	88	90
North America*	20.18	12.37	41.46	113	369	427
South America*	19.98	82.72	2.71	231	157	20
Australasia	0.08	7.19	0.10	1	83	1
Asia	5.81	3.81	2.41	99	94	80
Total NPLs	2.40	2.45	2.29	19 359	17 970	17 501

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

Management of concentration risk

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

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

GEOGRAPHICAL SPLIT BY EXPOSURE



INDUSTRY SPLIT BY EXPOSURE



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

CONCENTRATION OF SIGNIFICANT EXPOSURE

R million	December 2015								
	South Africa	Other Africa	United Kingdom	Other Europe	North America	South America	Australia	Asia	Total
Advances	659 083	84 684	52 435	5 693	560	1 156	1 271	1 705	806 587
Derivatives	37 155	928	25 864	4 343	414	2	27	268	69 001
Debt investment securities*	100 661	13 231	1 265	1 157	4 191	-	8	7 012	127 525
Guarantees, acceptances and letters of credit**	31 781	6 820	261	434	429	-	2 360	856	42 941
Irrevocable commitments**	95 884	13 970	359	3 413	1	24	103	659	114 413

* Excludes non-recourse investments.

** Significant off-balance sheet exposures.

R million	December 2014								
	South Africa	Other Africa	United Kingdom	Other Europe	North America	South America	Australia	Asia	Total
Advances	619 746	71 289	29 704	5 235	2 983	191	1 154	2 468	732 770
Derivatives	21 599	495	13 979	2 296	811	-	8	137	39 325
Debt investment securities*	71 493	9 734	87	137	1 158	-	-	6 534	89 143
Guarantees, acceptances and letters of credit**	32 161	6 626	275	487	93	-	1 074	644	41 360
Irrevocable commitments**	69 858	9 217	1 271	1 743	360	-	102	198	82 749

* Excludes non-recourse investments.

** Significant off-balance sheet exposures.

R million	June 2015								
	South Africa	Other Africa	United Kingdom	Other Europe	North America	South America	Australia	Asia	Total
Advances	629 062	78 979	43 279	5 194	1 030	739	998	3 315	762 596
Derivatives	18 405	534	12 849	1 888	628	34	26	136	34 500
Debt investment securities*	103 943	10 697	472	107	2 427	-	-	7 310	124 956
Guarantees, acceptances and letters of credit**	33 307	5 184	288	384	97	-	67	1 678	41 005
Irrevocable commitments**	75 803	9 463	339	1 416	1	26	71	345	87 464

* Excludes non-recourse investments.

** Significant off-balance sheet exposures.

Average advances

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

AVERAGE ADVANCES PER MAJOR RISK PORTFOLIOS

R million	Year ended		
	December 2015	December 2014*	June 2015*
Retail**	457 959	417 645	437 540
Corporate	239 621	220 597	229 347
Commercial	58 636	49 878	54 178

* Comparatives have not been restated to reflect Africa resegmentation.

** Includes FNB and WesBank.

REGULATORY DISCLOSURE

Credit rating systems and processes used for SARB approaches

The group uses the AIRB approach for exposures in FirstRand Bank SA (bank SA) and the standardised approach for all of the group's remaining entities and the bank's offshore branches for regulatory capital purposes. Due to the relatively smaller size of the subsidiaries and the scarcity of relevant data, the group plans to continue using the standardised approach for the foreseeable future for the majority of these portfolios.

For portfolios using the standardised approach, only Standard & Poor's 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 grade and Standard & Poor's grades (refer to the table mapping of FirstRand (FR) grades to rating agency scales on page 42).

The following table provides the breakdown of exposures rated through the standardised approach by risk bucket. The risk weights used are those prescribed in the Regulations and will differ primarily by asset class and credit rating.

CREDIT RISK EXPOSURE RATED THROUGH THE STANDARDISED APPROACH BY RISK BUCKET*

Risk bucket	Exposure R million		
	December 2015	December 2014	June 2015
0%	5 499	3 865	3 814
10%	8	–	–
20%	12 774	10 146	11 856
35%	20 214	14 795	15 214
50%	16 077	6 067	10 262
75%	46 347	30 352	45 166
100%	77 130	68 487	77 553
Specific impairments	1 653	535	1 338
Total	179 702	134 247	165 203

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

Protected exposures

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

STANDARDISED APPROACH PROTECTED EXPOSURES PER PORTFOLIO

R million	December 2015		
	Exposure before credit risk mitigation	Eligible collateral*	Exposure after credit risk mitigation
Retail	32 244	51	32 193
Commercial and corporate	63 163	353	62 810
Total	95 407	404	95 003

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

R million	December 2014		
	Exposure before credit risk mitigation	Eligible collateral*	Exposure after credit risk mitigation
Retail	29 393	119	29 274
Commercial and corporate	33 897	159	33 738
Total	63 290	278	63 012

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

R million	June 2015		
	Exposure before credit risk mitigation	Eligible collateral*	Exposure after credit risk mitigation
Retail	26 196	22	26 174
Commercial and corporate	46 185	267	45 918
Total	72 381	289	72 092

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

Slotting exposures

The slotting approach is applied to exposures where:

- ▶ the bank finances an entity created to finance and/or operate physical assets;
- ▶ the primary source of repayment of the obligation is the income generated by the assets; and
- ▶ deals originated under the specialised lending asset classes of project finance, commodity finance and income-producing real estate.

In the bank these exposures include, but are not limited to, deals originated in FNB commercial and RMB, and are only applicable to entities in bank SA with SARB AIRB approval. In the slotting approach, the exposures are assessed based on the risks and mitigations applied to reduce the credit risk and then classified in one of four SARB categories: strong, good, satisfactory or weak, with predetermined risk weights. The output of this assessment is used to determine the specified risk weight applicable for each exposure.

The following table provides a breakdown of these exposures by risk weight.

CREDIT EXPOSURE RATED THROUGH THE SLOTTING APPROACH FOR BANK EXCLUDING FOREIGN BRANCHES*

R million	December 2015					June 2015				
	Specific risk weight				Total	Specific risk weight				Total
	70%	90%	115%	250%		70%	90%	115%	250%	
Exposure	10 399	6 080	331	213	17 023	10 360	4 235	76	186	14 857

* Credit exposure rated through the slotting approach for bank excluding foreign branches disclosure included from June 2015.

PD, EAD and LGD profiles

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

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

Period-on-period trends are impacted by the risk migration in the existing book (reflecting changes in the economic environment), quality of new business originated and any model recalibrations implemented during the course of the period. The risk profile reflects the group's credit origination strategy, which focuses on targeting segments that provide an appropriate risk/return profile.

The risk weight per SARB risk bucket table must be read together with the EAD% distribution per SARB risk bucket table as the significant overall movements period-on-period are explained by the movement of exposures in low-volume rating buckets. The movements from December 2014 to December 2015 in SME retail and sovereign are due to low volumes and the interaction of EAD and RWA for the affected buckets. The sovereign asset class includes public sector entities, local government and municipalities, and sovereign exposures (including central government and central bank exposures) while the specialised lending asset class includes high-volatility commercial real estate, income-producing real estate, object finance, commodity finance and project finance.

BANK'S RISK PROFILE PER ASSET CLASS: RISK-WEIGHT PER SARB RISK BUCKETS

%	Risk weight						
	Total FRB			Corporate			
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	
1 – 5	3.3	3.1	3.1	21.6	10.0	7.5	
6 – 10	23.0	23.0	23.8	26.5	26.2	28.1	
11 – 15	36.8	35.7	36.0	55.0	57.5	53.6	
16 – 20	54.1	53.3	52.9	98.8	103.3	98.8	
21 – 25	109.8	109.6	107.3	136.4	169.5	147.8	
NPLs	47.6	70.0	58.6	3.0	14.1	9.1	

%	Risk weight						
	SME corporate			SME retail			
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	
1 – 5	0.6	0.9	1.3	3.5	5.8	2.9	
6 – 10	15.0	13.8	17.6	14.5	13.0	13.8	
11 – 15	44.8	47.8	45.9	43.9	35.5	39.3	
16 – 20	66.2	63.8	64.8	35.9	42.9	49.3	
21 – 25	106.6	119.1	105.1	64.2	82.3	83.0	
NPLs	13.4	17.5	26.5	90.7	178.4	208.2	

BANK'S RISK PROFILE PER ASSET CLASS: EAD% DISTRIBUTION PER SARB RISK BUCKETS

%	EAD						
	Total FRB			Corporate			
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	
1 – 5	9.8	9.5	10.4	0.1	–	–	
6 – 10	17.5	16.4	16.6	39.8	42.0	38.5	
11 – 15	38.5	38.0	38.8	47.7	45.9	50.0	
16 – 20	28.7	30.2	28.6	10.8	11.3	10.2	
21 – 25	3.7	4.2	3.9	0.6	0.5	0.7	
NPLs	1.8	1.8	1.7	0.9	0.4	0.5	

%	EAD						
	SME corporate			SME retail			
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	
1 – 5	–	0.1	0.1	0.1	3.0	0.1	
6 – 10	0.3	0.1	0.1	9.0	6.7	12.7	
11 – 15	62.3	56.7	65.0	27.9	36.7	34.0	
16 – 20	33.5	38.4	30.4	54.9	46.1	45.8	
21 – 25	2.5	3.4	3.2	5.3	5.0	4.7	
NPLs	1.4	1.4	1.3	2.7	2.6	2.8	

Risk weight									
Sovereign			Specialised lending			Banks and securities firms			
Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	
3.9	4.0	3.7	-	5.0	5.2	2.1	0.3	1.1	
12.8	30.5	30.7	18.4	18.3	18.1	17.3	17.2	17.8	
24.9	51.2	54.3	35.5	36.9	35.2	59.3	53.8	52.1	
114.9	95.1	62.6	102.1	100.7	101.4	113.2	153.2	94.7	
0.1	111.1	365.4	151.8	155.6	153.2	156.4	151.1	63.1	
-	292.0	-	-	-	-	-	-	-	

Risk weight									
Retail mortgages			Retail revolving			Other retail			
Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	
1.1	1.2	1.1	1.7	1.7	1.7	2.5	10.5	2.0	
5.3	5.2	5.3	5.8	5.7	5.7	0.6	21.3	26.6	
15.0	15.0	15.2	22.8	23.3	22.9	26.2	28.4	28.1	
35.7	36.2	36.0	62.3	62.1	61.9	56.2	48.5	49.8	
76.0	77.6	78.8	161.8	160.3	160.6	113.9	107.8	104.3	
1.6	4.5	1.3	2.6	178.0	7.3	107.0	121.3	104.2	

EAD									
Sovereign			Specialised lending			Banks and securities firms			
Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	
81.3	84.0	86.8	-	0.2	0.1	34.1	30.0	26.8	
15.0	13.4	10.4	17.1	18.8	18.3	45.0	48.1	48.8	
3.0	1.7	2.2	68.5	62.4	66.3	15.9	17.5	17.9	
0.5	0.8	0.4	10.8	13.2	10.9	4.7	3.0	5.9	
0.2	-	0.2	0.5	1.0	0.8	0.1	1.3	0.4	
-	-	-	3.1	4.3	3.7	0.1	-	0.1	

EAD									
Retail mortgages			Retail revolving			Other retail			
Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	
0.6	0.7	0.6	1.8	2.0	2.2	-	-	-	
0.9	0.7	0.8	9.1	8.7	9.6	0.1	-	-	
48.6	51.9	50.0	38.1	35.3	35.4	20.8	19.3	18.7	
44.3	40.8	42.8	40.4	43.8	42.4	60.2	63.0	63.0	
3.7	3.8	3.8	8.8	8.4	8.8	13.9	13.5	13.5	
1.8	2.2	2.0	1.8	1.7	1.6	5.0	4.3	4.7	

BANK'S RISK PROFILE PER ASSET CLASS: NOMINAL EAD PER SARB RISK BUCKETS

R million	Nominal EAD					
	Total FRB			Corporate		
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015
1 – 5	87 842	75 916	88 366	200	–	46
6 – 10	156 417	131 101	141 752	90 472	78 457	81 572
11 – 15	344 507	303 446	331 589	108 392	85 814	105 939
16 – 20	257 335	240 884	243 755	24 529	21 181	21 562
21 – 25	33 410	33 228	33 449	1 476	926	1 549
NPLs	16 014	14 342	14 664	2 075	647	1 013
Total	895 525	798 917	853 575	227 144	187 025	211 681

R million	Nominal EAD					
	SME corporate			SME retail		
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015
1 – 5	10	22	38	49	1 238	55
6 – 10	168	41	55	4 422	2 730	5 059
11 – 15	35 127	26 751	33 446	13 659	15 047	13 566
16 – 20	18 881	18 131	15 634	26 853	18 896	18 283
21 – 25	1 429	1 616	1 629	2 579	2 051	1 876
NPLs	783	664	685	1 344	1 053	1 114
Total	56 398	47 225	51 487	48 906	41 015	39 953

Nominal EAD									
	Sovereign			Specialised lending			Banks and securities firms		
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015
	57 827	54 878	67 605	–	89	37	27 625	17 507	18 381
	10 704	8 744	8 114	8 022	7 656	7 483	36 421	28 039	33 482
	2 112	1 137	1 698	32 067	25 367	27 150	12 842	10 221	12 248
	369	523	332	5 069	5 382	4 441	3 837	1 764	4 060
	138	12	142	214	395	320	85	728	293
	1	20	1	1 438	1 765	1 499	85	–	84
	71 151	65 314	77 892	46 810	40 654	40 930	80 895	58 259	68 548

Nominal EAD									
	Retail mortgages			Retail revolving			Other retail		
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015
	1 252	1 237	1 169	855	944	1 009	24	1	26
	1 830	1 382	1 664	4 318	4 050	4 321	60	2	2
	98 450	99 290	99 235	18 152	16 396	15 926	23 706	23 423	22 381
	89 738	78 111	84 924	19 242	20 333	19 061	68 817	76 563	75 458
	7 401	7 247	7 540	4 213	3 905	3 937	15 875	16 348	16 163
	3 694	4 219	3 892	840	809	716	5 754	5 165	5 660
	202 365	191 486	198 424	47 620	46 437	44 970	114 236	121 502	119 690

BANK'S PD%, LGD%, EL/EAD AND RWA/EAD RATIO PER ASSET CLASS

%	EAD					
	Total FRB			Corporate		
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015
Performing						
Average PD	2.3	2.4	2.3	0.9	0.9	1.0
Average LGD	29.3	29.0	29.3	33.3	34.2	33.0
EL/EAD	0.8	0.8	0.8	0.3	0.3	0.3
RWA/EAD	38.8	38.9	38.2	48.9	50.1	49.1
Total						
Average PD	4.0	4.2	4.0	1.8	1.2	1.4
Average LGD	29.5	29.4	29.5	33.3	34.2	33.0
EL/EAD	1.5	1.5	1.4	0.4	0.5	0.4
RWA/EAD	39.0	39.5	38.6	48.4	50.0	48.9

%	EAD					
	SME corporate			SME retail		
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015
Performing						
Average PD	2.2	2.3	2.3	3.2	2.9	2.7
Average LGD	25.5	26.7	26.0	35.4	33.5	36.2
EL/EAD	0.6	0.6	0.6	1.1	1.0	1.0
RWA/EAD	53.6	56.4	53.5	37.7	39.0	42.8
Total						
Average PD	3.4	3.7	3.5	5.9	5.4	5.4
Average LGD	25.6	26.9	26.1	35.9	33.9	37.1
EL/EAD	1.4	1.6	1.4	2.5	1.8	2.2
RWA/EAD	53.0	55.9	53.2	39.2	42.6	47.4

BANK'S NOMINAL CREDIT EXTENDED, DRAWN EXPOSURE AND EAD PER ASSET CLASS

Total book R million	Total FRB			Corporate		
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015
Credit extended	1 177 241	1 028 266	1 064 010	292 323	241 109	264 395
Drawn exposure	769 329	684 026	724 007	170 701	158 136	166 111
Nominal EAD	895 525	798 917	853 575	227 144	187 025	211 681

Total book R million	SME corporate			SME retail		
	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015
Credit extended	66 837	56 314	61 167	44 370	44 952	42 353
Drawn exposure	47 421	38 794	43 558	32 047	32 896	31 478
Nominal EAD	56 398	47 225	51 487	48 906	41 015	39 953

EAD									
Sovereign			Specialised lending			Banks and securities firms			
Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	
0.3	0.2	0.2	1.0	1.3	1.2	0.3	0.6	0.6	
29.8	29.5	29.7	21.1	21.2	20.0	30.3	29.7	31.2	
0.1	0.0	0.1	0.3	0.3	0.3	0.1	0.3	0.1	
6.4	9.1	8.5	40.5	43.2	40.4	23.5	24.3	24.2	
0.3	0.2	0.2	4.0	5.6	4.8	0.4	0.6	0.7	
29.8	29.5	29.7	21.9	22.1	21.0	30.2	29.7	31.8	
0.1	0.0	0.1	1.7	2.5	2.0	0.1	0.3	0.1	
6.4	9.2	8.5	39.3	41.3	38.9	23.5	24.3	24.2	

EAD									
Retail mortgages			Retail revolving			Other retail			
Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	
2.7	2.8	2.8	3.8	3.9	3.9	6.4	6.2	6.4	
13.6	13.7	13.8	66.2	65.5	65.4	35.2	33.8	34.1	
0.4	0.4	0.4	2.5	2.5	2.6	2.9	2.6	2.7	
26.4	26.1	26.6	49.6	50.3	49.8	58.0	52.8	53.3	
4.5	4.9	4.7	5.5	5.6	5.4	11.1	10.2	10.9	
13.7	13.8	13.9	66.2	65.6	65.4	35.9	34.4	34.7	
0.9	0.9	0.9	3.8	3.5	3.7	4.8	4.3	4.5	
26.0	25.6	26.1	48.8	52.5	49.1	60.5	55.7	55.7	

Sovereign			Specialised lending			Banks and securities firms		
Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015
85 558	73 315	90 967	51 874	53 864	48 529	197 642	167 955	157 199
64 597	56 019	74 998	44 037	39 874	40 347	59 565	44 052	48 471
71 151	65 314	77 892	46 810	40 654	40 930	80 895	58 259	68 548

Retail mortgages			Retail revolving			Other retail		
Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015	Dec 2015	Dec 2014	June 2015
224 058	205 507	218 380	64 004	63 273	61 075	121 278	121 977	119 945
177 666	167 392	173 208	28 205	26 501	27 285	114 124	120 362	118 551
202 365	191 486	198 424	47 620	46 437	44 970	114 236	121 502	119 690

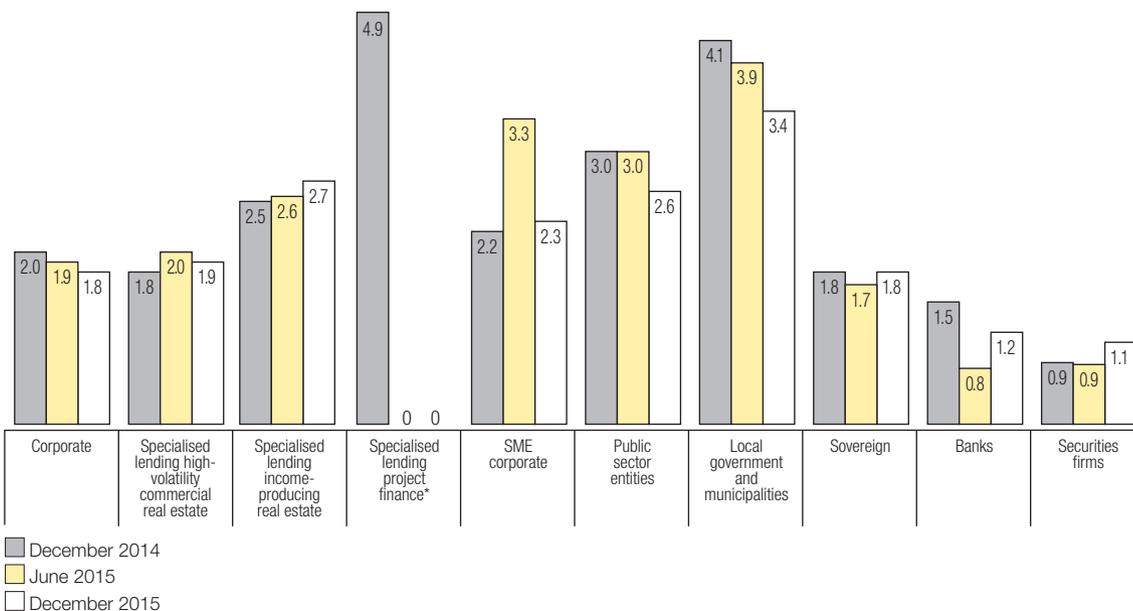
Maturity breakdown

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

Maturity is used as an input in the AIRB regulatory capital calculation for corporate portfolios. These are aggregated on an asset class basis for review and reporting purposes. The longer the maturity of a deal, the greater the uncertainty and all else being equal, the larger the regulatory capital requirement. The following chart provides a maturity breakdown of AIRB asset classes within the corporate credit portfolio.

MATURITY BREAKDOWN PER CORPORATE AIRB ASSET CLASS

Maturity in years



* Exposures have been moved to slotting for regulatory capital purposes therefore maturity information does not apply henceforth.

Actual versus expected loss analysis

To provide a meaningful assessment of the effectiveness of internal ratings-based models, expected loss is compared against actual losses during the calendar year. This is performed for all significant AIRB asset classes. Expected loss here refers to regulatory expected loss. This provides a one-year forward-looking view, based on information available at the beginning of the one-year period, i.e. 1 January 2015. Risk parameters include:

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

Actual losses during the period consist of the level of specific impairments at the start of the year (1 January 2015) and the net specific impairment charge recorded through the income statement for the period as determined by IFRS. It excludes the effect of post-write off recoveries, which would reduce the actual loss number. The calculation is based on the assumption that the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific impairments raised for exposures which defaulted during the year, but which did not exist at 1 January 2015. These exposures are not reflected in the expected loss value described. As a result, significant volumes of new business can distort the analysis by inflating the actual loss figure.

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

The regulatory expected loss shown is based on the expected loss derived from regulatory capital models that were applied as at 31 December 2014. This comparison is supplemented with more detailed analyses on the following page, comparing actual and expected outcomes for each risk parameter (PD, LGD and EAD) during the year.

ACTUAL VERSUS EXPECTED LOSS PER PORTFOLIO SEGMENT*

R million	For the year ended			
	December 2015		December 2014	
	Expected loss	Actual loss	Expected loss	Actual loss
Corporate (corporate, banks and sovereign)**	1 805	301	1 619	95
SMEs (SME corporate and SME retail)	1 285	1 147	1 227	996
Residential mortgages [#]	1 814	2 365	2 062	1 841
Qualifying revolving retail	1 745	1 231	1 470	1 509
Other retail [#]	1 679	1 812	2 286	2 021
WesBank [#]	3 965	4 918	3 392	4 122
Total	12 293	11 774	12 056	10 584

R million	For the year ended			
	June 2015		June 2014	
	Expected loss	Actual loss	Expected loss	Actual loss
Corporate (corporate, banks and sovereign)**	1 660	123	1 977	59
SMEs (SME corporate and SME retail)	1 186	1 021	1 125	998
Residential mortgages	1 928	1 953	2 422	1 913
Qualifying revolving retail	1 599	1 427	1 434	1 512
Other retail	1 693	1 785	1 981	2 336
WesBank	3 717	4 527	3 076	3 825
Total	11 783	10 836	12 015	10 643

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

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

[#] Actual losses have started to exceed expected losses which is expected given the point in the economic cycle.

For the following analysis, estimated values are based on regulatory capital models applied as at 31 December 2014. For PDs, this is applied to the total performing book as at 31 December 2014. For LGDs and EADs, it is applied to all facilities that defaulted over the subsequent 12 months.

Actual values are based on actual outcomes over the 12-month period 1 January 2015 to 31 December 2015. Due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities that default during the year would only have had between one and twelve months to recover to date – depending on when the default event occurred.

The estimated EAD to actual EAD ratio is derived as the ratio of expected nominal exposure at default (for all accounts defaulting during the 12-month period 1 January 2015 to 31 December 2015) to the actual nominal exposure at default for the same accounts.

RISK PARAMETERS USED TO DETERMINE REGULATORY EXPECTED LOSS

December 2015					
Asset class	PD		LGD		Estimated EAD to actual EAD ratio
	Estimated %	Actual %	Estimated %	Actual %	%
	Corporate, banks and sovereign*	0.6	0.9	18.6	17.6
Specialised lending - property finance	1.2	0.3	28.4	9.5	96.8
SME corporate	2.1	1.9	21.6	16.6	142.1
SME retail	2.9	2.8	41.4	43.6	105.0
Residential mortgages	2.8	1.8	15.5	10.1	101.8
Qualifying revolving retail	4.4	3.0	64.8	63.2	103.6
Other retail	6.2	6.1	39.3	37.5	103.6
Total	2.5	2.2	25.0	21.7	104.1

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

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

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

June 2015					
Asset class	PD		LGD		Estimated EAD to actual EAD ratio
	Estimated %	Actual %	Estimated %	Actual %	%
	Corporate, banks and sovereign*	0.6	0.9	25.7	16.8
Specialised lending - property finance	1.2	0.3	25.6	30.0	170.3
SME corporate	2.0	1.8	25.5	26.3	145.1
SME retail	3.1	2.9	37.1	41.6	108.3
Residential mortgages	2.8	1.8	15.3	10.4	102.5
Qualifying revolving retail	4.1	3.1	70.5	63.7	146.3
Other retail	6.1	5.8	39.0	36.9	105.3
Total	2.4	2.1	28.3	23.4	106.5

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

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

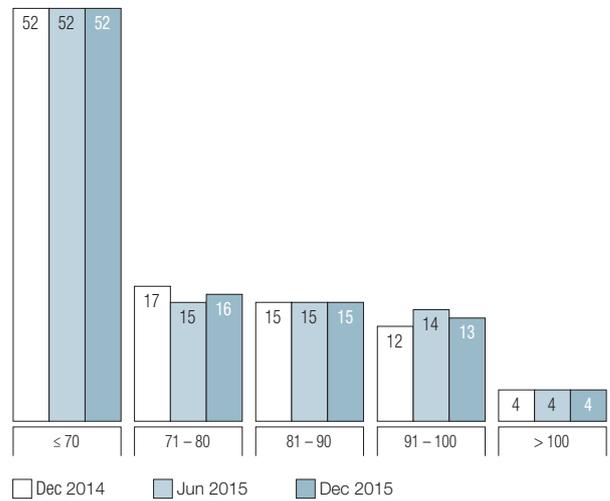
The other retail asset class typically has stable risk parameters due to diverse underlying exposures which do not follow the conventional retail cycle.

RISK ANALYSES

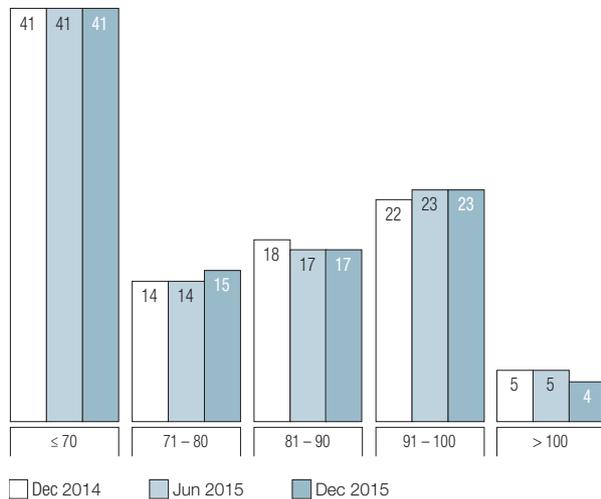
The graphs below provide loan balance-to-value ratios and age distributions of residential mortgages.

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

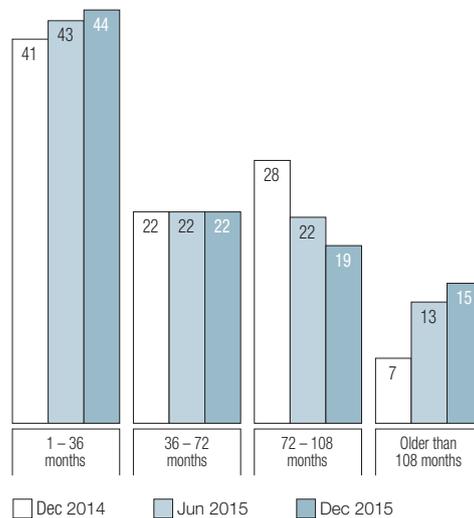
RESIDENTIAL MORTGAGES BALANCE-TO-MARKET VALUE %



RESIDENTIAL MORTGAGES BALANCE-TO-ORIGINAL VALUE %

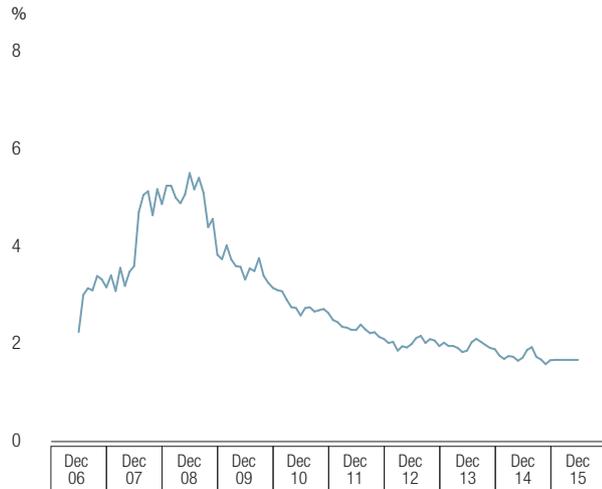


RESIDENTIAL MORTGAGES AGE DISTRIBUTION %



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

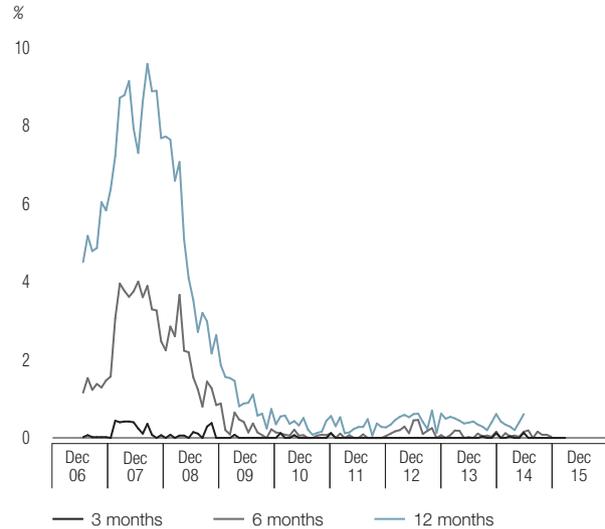
FNB HOMELOANS ARREARS



The following graphs provide the vintage analyses for FNB HomeLoans, WesBank retail VAF, FNB card, FNB personal loans and WesBank personal loans. Vintage graphs reflect the default experience three, six and twelve months after each origination date as well as the impact of origination strategies and the macroeconomic environment on portfolio performance. It does not take into account the impact of cures or subsequent recoveries. As such, vintage graphs are not indicative of the actual credit impairment charge of a product.

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

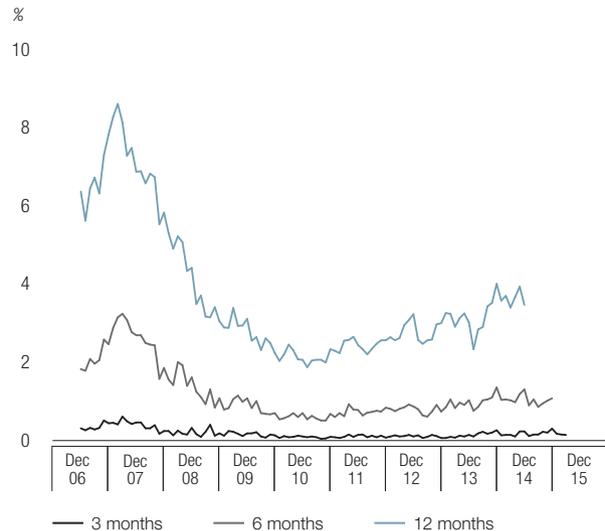
FNB HOMELOANS VINTAGE ANALYSIS



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

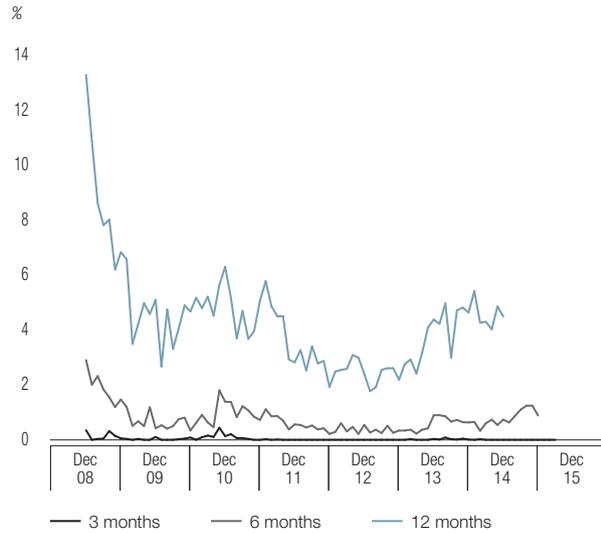
As expected, default rates in the domestic retail VAF portfolio are gradually increasing. The uptick in VAF vintages is due, in part, to strong new business volumes in recent years as well as increased debt review applications. The group actively adjusts risk appetite and credit parameters to ensure that vintages continue to perform in line with expectations considering the credit cycle.

WESBANK RETAIL VAF VINTAGE ANALYSIS



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

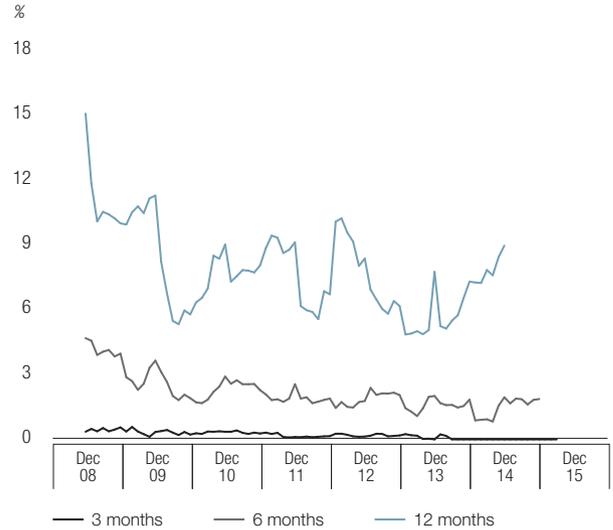
FNB CARD VINTAGE ANALYSIS



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

There is continued action to ensure that these portfolios remain within risk appetite. FNB personal loans vintages reflect improvement since December 2008 levels. This positive outcome is the result of active management of risk appetite and parameters even as risk levels within the unsecured lending market remain high.

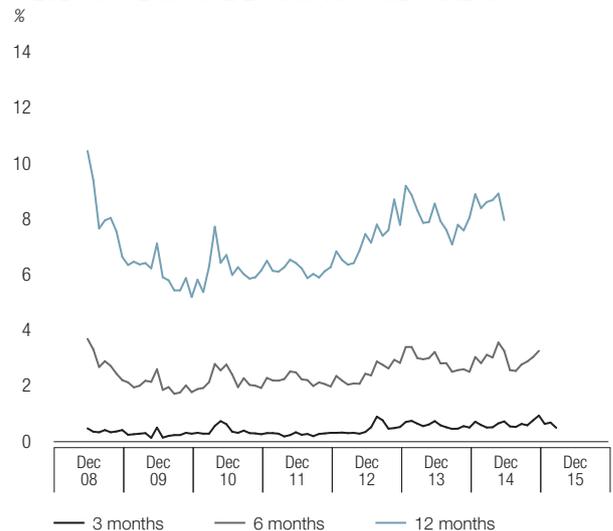
FNB PERSONAL LOANS VINTAGE ANALYSIS



As expected, WesBank personal loans vintages have shown a marginal deterioration from 2010 levels. This is expected given the challenging macroeconomic conditions and increased debt review applications.

To counter this, credit parameters are continuously adjusted to ensure performance remains in line with expectations. Recent adjustments to credit appetite are proving effective and enhancing portfolio performance, particularly for business written less than six months ago.

WESBANK PERSONAL LOANS VINTAGE ANALYSIS



SECURITISATIONS AND CONDUITS

INTRODUCTION AND OBJECTIVES

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

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

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

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

ORGANISATIONAL STRUCTURE AND GOVERNANCE

GROUP'S ROLE IN SECURITISATION AND CONDUIT STRUCTURES

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

* Conduits incorporated under regulations relating to securitisation scheme.

** Conduits incorporated under regulations relating to commercial paper.

Ultimate responsibility for determining risk limits and appetite for the group vests with the board. Independent oversight for monitoring is done through the RCC committee, who, in turn, has delegated the responsibility for securitisations to group ALCCO. ALCCO also maintains responsibility on behalf of the board for the allocation of sublimits and remedial action to be taken in the event of limit breaches. The FirstRand wholesale credit committee approves individual retained securitisation exposures per special purpose vehicle (SPV).

ASSESSMENT AND MANAGEMENT

Oversight and risk mitigation

The group's role in both group-originated and group-sponsored securitisation 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 units 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 of the governance and management processes in place to monitor securitisation-related risks are outlined below:

- ▶ there are rigorous internal approval processes 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 result of ratings changes, reviews, note redemptions and credit losses) are reflected in the monthly BA 500 regulatory return; and
- ▶ transaction investor reports, alignment with SPV financial reporting and the impact of underlying asset performance are reflected on the quarterly BA 501 regulatory return.

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

Securitisation accounting policies

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to a 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 for financial reporting purposes. Any retained notes are accounted for as available-for-sale investment securities within the banking book. Liabilities as a result of securitisation vehicles are accounted for in line with group accounting policies for liabilities, provisions and contingent liabilities.

Period under review

Turbo Finance 3	Turbo Finance 4	Turbo Finance 5
<p>With the remaining underlying assets representing less than 10% of the assets sold at inception, the clean-up call option was exercised. The legal process to repurchase the outstanding assets was completed in August 2015, with all notes fully redeemed on 21 September 2015.</p> <p>MotoNovo repurchased approximately GBP30 million of assets from Turbo Finance 3 to bring the transaction to a close. All noteholders were fully redeemed with no losses materialising on any of the issued tranches.</p>	<p>In September 2015, Fitch upgraded the class B and C notes of Turbo Finance 4 to AA- and BBB+ respectively. The rating action reflects the transaction's solid performance to date. Fitch expects the performance of UK consumer ABS transactions to remain stable based on the agency's expectations on future performance and a steady economic outlook.</p>	<p>Fitch affirmed the ratings of Turbo Finance 5 rated notes in September 2015. Ongoing performance continues to track Fitch's expectations with cumulative defaults and losses remaining low.</p>

MotoNovo Finance warehouse structure (MotoHouse)

The MotoHouse warehouse was concluded with Wells Fargo in July 2015. The warehouse (incorporating a 36-month revolving period) has allowed FirstRand Bank (London branch) to raise funding against the MotoNovo assets at attractive levels through the issuance of senior and subordinated notes. Wells Fargo has provided a GBP280 million senior loan facility, with FirstRand International (Guernsey) subscribing for GBP14 million and GBP5 million under the class B and C notes respectively (listed notes on the Channel Island stock exchange).

Nitro 5

Nitro 5 is performing as expected.

Exposures intended to be securitised or resecuritized in the future

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

Resecuritisation results from portfolio management actions and the size of the exposure is dependent on future market factors. This exposure is reported as part of the investor reporting process as well as SARB regulatory reporting on the BA 500.

SECURITISATIONS AND CONDUITS PROFILE

Traditional securitisations

The following tables show the traditional and synthetic securitisations currently in issue and the rating distribution of any exposures retained. Global scale equivalent ratings are used for internal risk management purposes and regulatory capital reporting.

SECURITISATION TRANSACTIONS

R million	Asset type	Year initiated	Expected close	Rating agency	Assets securitised
Traditional securitisations**					
Nitro 4	Retail: Auto loans	2007	2015	Moody's	3 982
Nitro 5	Retail: Auto loans	2015	2018	Standard & Poor's	2 399
Turbo Finance 3	Retail: Auto loans	2013	2015	Moody's and Fitch	4 570
Turbo Finance 4	Retail: Auto loans	2013	2017	Moody's and Fitch	6 095
Turbo Finance 5	Retail: Auto loans	2014	2018	Moody's and Fitch	7 790
Motohouse	Retail: Auto loans	2015	2018	n/a	5 667
Total					

* Does not include cash reserves.

** Includes transactions structured by the group and excludes third-party transactions.

RATING DISTRIBUTION OF RETAINED AND PURCHASED SECURITISATION EXPOSURES*

R million	AAA	AA	A+	BBB+	BBB	CCC	Not rated	Total
Traditional								
At 31 Dec 2015	2 411	-	387	262	248	84	864	4 256
At 31 Dec 2014	2 748	-	366	-	412	-	936	4 462
At 30 Jun 2015	2 535	-	331	-	421	84	943	4 314
Third-party								
At 31 Dec 2015	-	252	101	-	-	-	9 879	10 232
At 31 Dec 2014	354	-	-	-	-	-	-	354
At 30 Jun 2015	-	252	101	-	-	-	7 379	7 732

* Ratings by external credit assessment institutions.

	Assets outstanding*			Notes outstanding			Retained exposure		
	Dec 2015	Dec 2014	Jun 2015	Dec 2015	Dec 2014	Jun 2015	Dec 2015	Dec 2014	Jun 2015
	-	330	-	-	432	-	-	195	-
	1 766	-	2 349	1 920	-	2 469	226	-	226
	-	1 209	732	-	1 337	833	-	569	603
	3 962	6 184	4 749	4 251	6 540	5 083	1 129	1 608	1 326
	8 443	7 302	7 688	8 950	7 674	8 137	2 420	2 090	2 159
	6 600	-	-	6 974	-	-	481	-	-
	20 771	15 025	15 518	22 095	15 983	16 522	4 256	4 462	4 314

Resecuritisations

A resecuritisation exposure is a structure where the risk associated with an underlying pool of exposures is tranching and at least one of the underlying exposures is a securitisation. The group's asset-backed commercial paper conduit occasionally acquires securitisation paper, which is managed as part of the underlying portfolio. This represents a minimal portion of the total portfolio and is accounted for as a resecuritisation exposure for regulatory capital purposes.

RESECURITISATION EXPOSURE

Programme**	December 2015*		December 2014		June 2015	
	Resecuritisation exposure (R million)	% of total programme	Resecuritisation exposure (R million)	% of total programme	Resecuritisation exposure (R million)	% of total programme
iVuzi	-	-	9.8	0.4	8.8	11.0

* No new securitisation paper was acquired by the conduits since the last remaining deal matured in November 2015.

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

Capital market programmes

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

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

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

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

The following tables show the conduit programmes currently in place, rating distribution of the underlying assets and the role played by the group in each of these programmes.

CONDUIT PROGRAMMES*

R million	Underlying assets	Year initiated	Rating agency	Programme size	Non-recourse investments			Credit enhancement provided		
					Dec 2015	Dec 2014	Jun 2015	Dec 2015	Dec 2014	Jun 2015
Securitisations**										
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	1 865	2 638	2 322	-	-	-
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	2 111	3 285	3 395	959	1 100	1 022
Total				30 000	3 976	5 923	5 717	959	1 100	1 022
Fixed income fund#										
iNkotha	Overnight corporate loans	2006	GCR†	10 000	1 052	1 194	2 160	-	-	-
Total				10 000	1 052	1 194	2 160	-	-	-
Commercial paper programme#										
iNguza	Corporate and structured finance term loans	2008	GCR†	15 000	9 111	10 262	10 071	-	-	-
Total				15 000	9 111	10 262	10 071	-	-	-

* Conduit programmes are consolidated into FRIHL for financial reporting purposes.

** Conduits incorporated under regulations relating to securitisation scheme.

Conduits incorporated under regulations relating to commercial paper.

† Global Credit Ratings.

RATING DISTRIBUTION OF CONDUITS*

R million	AAA(zaf)	AA+(zaf)	AA(zaf)	AA-(zaf)	A+(zaf)	A(zaf)	A-(zaf)	Credit opinion	Total
Securitisations									
At 31 December 2015	-	991	849	-	-	-	-	2 136	3 976
At 31 December 2014	448	1 496	1 154	-	887	821	1 117	-	5 923
At 30 June 2015	-	1 652	1 229	-	204	-	-	2 632	5 717
Fixed income funds									
At 31 December 2015	-	-	213	56	454	229	100	-	1 052
At 31 December 2014	222	-	304	-	201	251	216	-	1 194
At 30 June 2015	-	-	207	439	544	495	475	-	2 160

* Excludes distributions relating to iNguza underlying exposure as this is driven by noteholders and does not impact third parties. Includes both public ratings as well as credit opinions. Where the rating is public it is shown in its rating bucket. Credit opinions are for the benefit of the issuer and not intended for distribution.

Liquidity facilities

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

LIQUIDITY FACILITIES

R million	Transaction type	December		June
		2015	2014	2015
Own transactions		2 013	2 498	4 599
iNdwa	Conduit	1 804	1 165	2 274
iVuzi	Conduit	209	1 333	2 325
Third party transactions	Securitisations	31	197	175
Total		2 044	2 695	4 774

All liquidity facilities granted to the transactions in the table above rank senior in terms of payment priority in the event of a drawdown. Economic capital is allocated to the liquidity facility extended to iNdwa and iVuzi as if the underlying assets were held by the group.

Securitisation risk and regulatory capital

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

RETAINED OR PURCHASED SECURITISATION EXPOSURE AND THE ASSOCIATED REGULATORY CAPITAL CHARGES

R million	Exposure			RWA			Capital*		
	Dec 2015	Dec 2014	Jun 2015	Dec 2015	Dec 2014	Jun 2015	Dec 2015	Dec 2014	Jun 2015
Risk weighted (RW) bands									
RW ≤ 10%	101	–	101	11	–	11	1	–	1
10% < RW ≤ 20%	14 377	3 309	2 973	2 469	650	586	247	65	59
20% < RW ≤ 50%	–	1 165	2 275	–	1 036	1 064	–	104	106
50% < RW ≤ 100%	387	371	319	194	190	160	19	19	16
100% < RW ≤ 650%	511	397	421	1 787	1 390	1 473	179	139	147
RW = 1250%/deduction	947	936	1 028	11 839	9 357	12 849	1 184	936	1 285
Look through	1 168	2 433	10 726	652	776	3 947	65	78	395
Total	17 491	8 611	17 843	16 952	13 399	20 090	1 695	1 341	2 009

* Capital is calculated at the SARB transitional minimum requirement of 10% for 2015 (excluding the bank-specific individual capital requirement) and includes a 6% capital scalar.

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

COUNTERPARTY CREDIT RISK

INTRODUCTION AND OBJECTIVES

Counterparty credit risk 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 risk appetite framework as mandated by the board.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

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

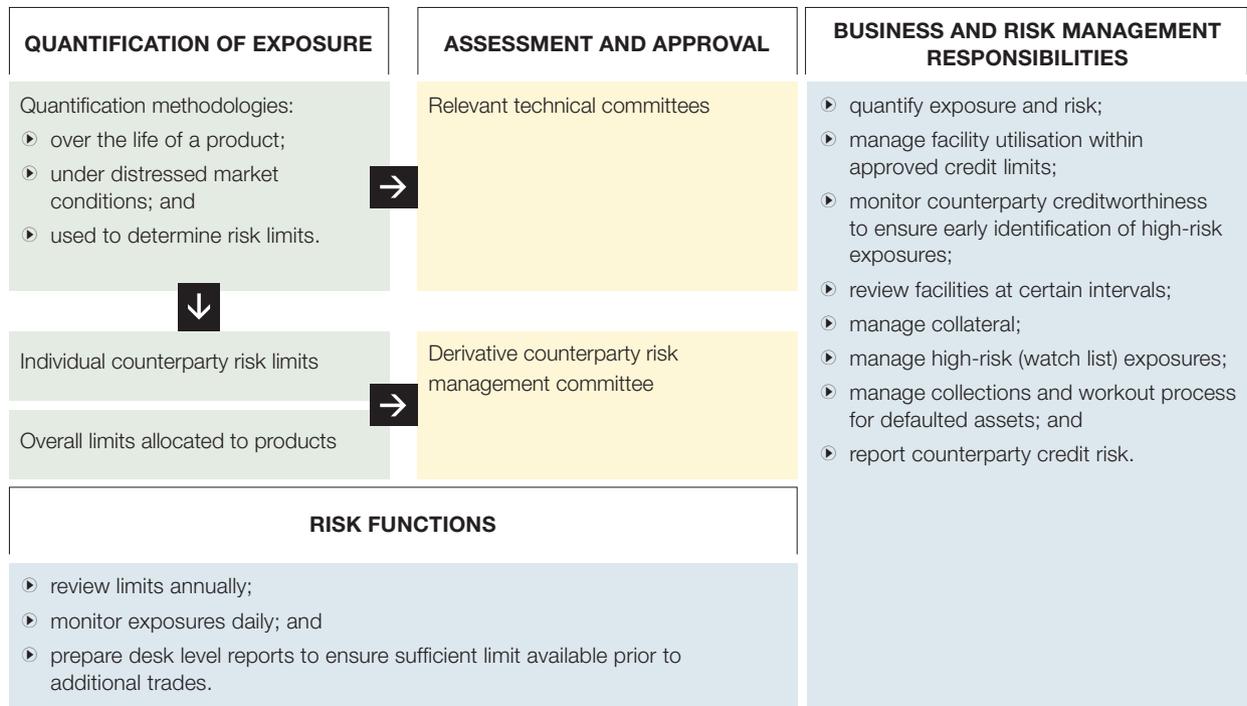
In this respect, counterparty credit risk governance aligns closely with the group's credit risk governance framework, with mandates and responsibilities cascading from the board through the RCC committee to the respective credit committees and subcommittees as well as deployed and central risk management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

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

ASSESSMENT AND MANAGEMENT

The measurement of counterparty credit risk aligns closely with credit risk measurement practices and is focused on establishing appropriate limits at a counterparty level and ongoing portfolio risk management. The quantification of risk exposure is described in the following diagram.

QUANTIFICATION OF COUNTERPARTY CREDIT RISK EXPOSURE



Counterparty credit risk mitigation

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives. In addition, the group has implemented the functionality to clear OTC derivatives centrally as part of this risk mitigation.

The group uses international swaps and derivatives association (ISDA) and international securities market association agreements for the purpose of netting derivative transactions and repurchase transactions, respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds.

CVA

CVA refers to the fair value adjustment to reflect counterparty credit risk in the valuation of derivative contracts. In essence, it is the mark-to-market adjustment required to account for credit quality deterioration experienced by a derivative counterparty. Under the Basel III regulations, banks are required to hold capital for CVA risk.

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

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

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 movements in the underlying traded instruments and netting of existing positions.

COUNTERPARTY CREDIT RISK PROFILE

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

COMPOSITION OF COUNTERPARTY CREDIT EXPOSURE

R million	December 2015	December 2014	June 2015
Gross positive fair value*	150 860	109 232	81 997
Netting benefits	(68 617)	(16 527)	(15 619)
Netted current credit exposures before mitigation	82 243	92 705	66 378
Collateral value	(75 295)	(84 403)	(57 108)
Netted potential future exposure	20 948	9 269	13 864
Exposure at default**	36 863	22 136	31 073

* The increase in gross positive fair value is consistent with the increase of derivative financial instruments on the balance sheet.

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

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

CREDIT DERIVATIVES EXPOSURE

R million	December 2015		
	Credit default swaps	Total return swaps	Total
Own credit portfolio			
– protection bought	–	–	–
– protection sold	100	–	100
Intermediation activities			
– protection bought	17 740	–	17 740
– protection sold	6 284	–	6 284

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

R million	June 2015		
	Credit default swaps	Total return swaps	Total
Own credit portfolio			
– protection bought	–	–	–
– protection sold	105	–	105
Intermediation activities			
– protection bought	13 624	–	13 624
– protection sold	5 356	–	5 356

MARKET RISK IN THE TRADING BOOK

The group distinguishes between market risk in the trading book 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



INTRODUCTION AND OBJECTIVES

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

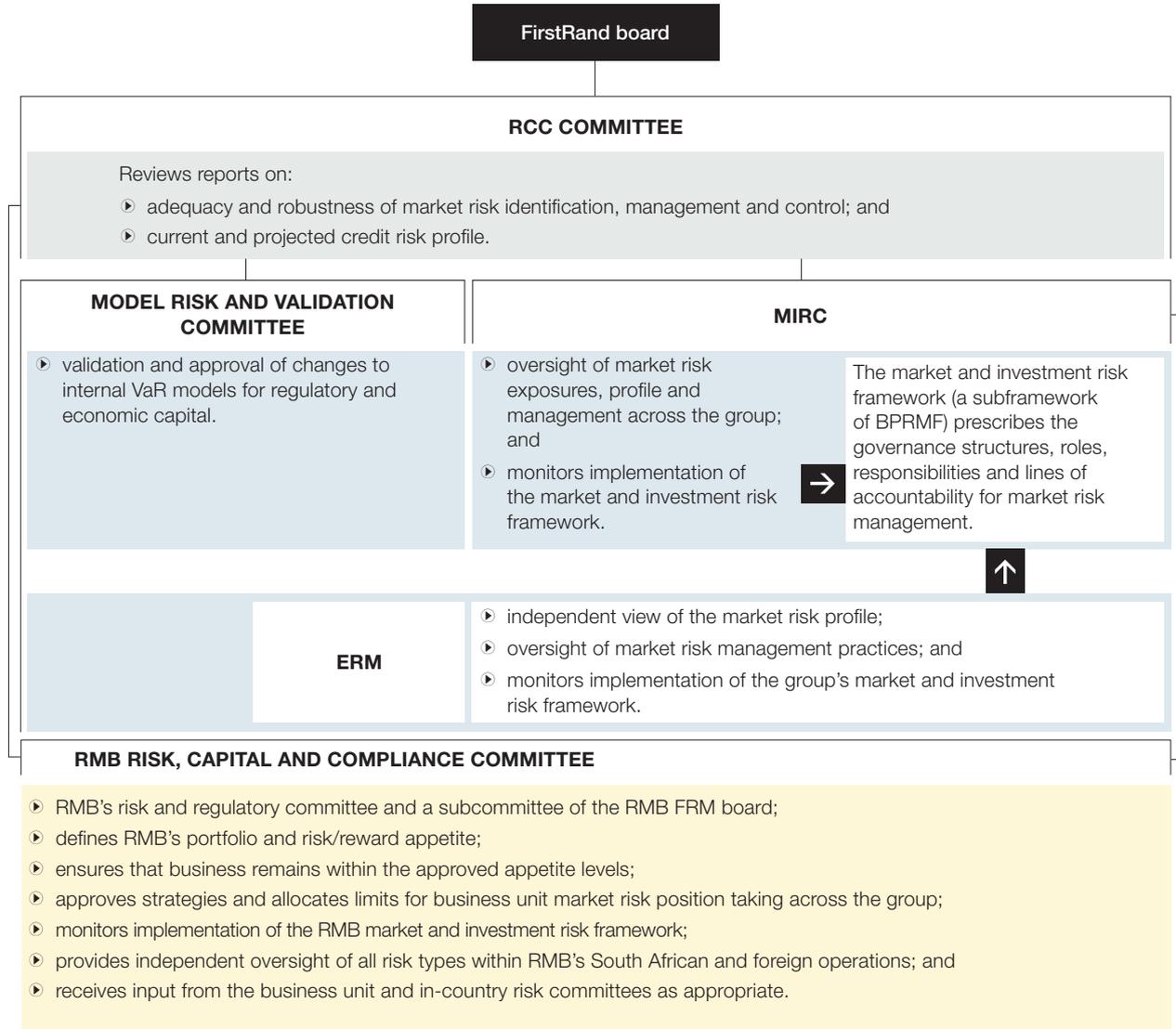
The group’s market risk in the trading book emanates mainly from the provision of hedging solutions for clients, market-making activities and term-lending products, and is taken and managed by RMB. The relevant businesses in RMB function as the centres of expertise with respect to all market risk-related activities. Market risk is managed and contained within the group’s appetite. Overall diversified levels of market risk have remained fairly low during the last few years, with this trend continuing over the period under review. There are no significant concentrations in the portfolio, which also reflects overall lower levels of risk.

Market risk in the trading book includes interest rate risk in the trading book, traded equity and credit risk, commodity risk, foreign exchange risk and interest rate risk in the RMB banking book which is managed as part of the trading book.

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the majority of its banking book under the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the market and investment risk committee. The RMB banking book interest rate risk exposure was R59.7 million on a 10-day ETL basis at 31 December 2015 (December 2014: R87.8 million, June 2015: R49.6 million). Interest rate risk in the remaining domestic banking book is discussed in the *interest rate risk in the banking book* section.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

MARKET RISK IN THE TRADING BOOK GOVERNANCE STRUCTURE



ASSESSMENT AND MANAGEMENT

Quantification of risk exposures

The risk related to market risk-taking activities is measured as the higher of the group's internal expected tail loss (ETL) measure (as a proxy for economic capital) and regulatory capital based on Value-at-Risk (VaR) plus stressed VaR (sVaR).

ETL	<p>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.</p> <p>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.</p>
VaR	<p>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 a sVaR, 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.</p> <p>The group's VaR number should be interpreted in light of the limitations of this methodology, namely:</p> <ul style="list-style-type: none"> ▶ historical simulation VaR may not provide an accurate estimate of future market moves; ▶ the use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile – the ETL is a better measure to quantify losses beyond that percentile (but still subject to similar limitations as stated for VaR); ▶ the use of a 1-day time horizon is not a fair reflection of profit or loss for positions with low trading liquidity, which cannot be closed out or hedged within one day; ▶ as exposures and risk factors can change during daily trading, exposures and risk factors are not necessarily captured in the VaR calibration which uses end-of-day trading data; and ▶ where historical data is not available, time series data is approximated or backfilled using appropriate quantitative methodologies. Use of proxies is, however, limited. <p>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.</p>

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

Stress testing

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

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

Earnings volatility

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

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

Back testing

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

Regulatory and economic capital for market risk

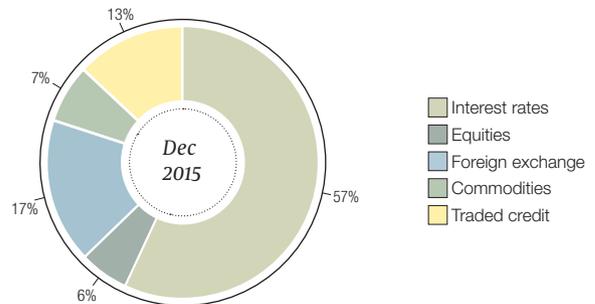
The internal VaR model for general market risk was approved by the SARB for local trading units and is consistent with the methodologies stipulated in the Basel III framework. For all international entities, the standardised approach is used for regulatory market risk capital purposes. Economic capital for market risk is calculated using liquidity-adjusted ETL plus an assessment of specific risk.

MARKET RISK IN THE TRADING BOOK PROFILE

The following chart shows the distribution of exposures per asset class across the group's trading activities at 31 December 2015 based on the VaR methodology. VaR equity exposure shown relates mainly to listed equity exposures in RMB Australia which relate to the RMB resources portfolio. These exposures are predominantly in the junior resources sector and are reflected on the RMB Australia balance sheet. This risk is measured on a 90-day liquidity adjusted basis.

The overall asset class mix has remained consistent with the prior period. The interest rate asset class represented the most significant exposure at 31 December 2015.

VaR EXPOSURE PER ASSET CLASS



VaR analysis by risk type

The following table reflects VaR over a 1-day holding period at a 99% confidence level. Results indicate that overall levels of market risk increased between December 2014 and December 2015. The most notable changes when compared to the prior year relate to the interest rate and foreign exchange components. This is attributed to a combination of increased volatility in the rand interest rate market and an increase in mark-to-market valuations.

Over the previous financial year, improvements have been made to the commodities business by growing the investment product and hedge products offerings along the commodity value chain.

1-DAY 99% VaR ANALYSIS BY INSTRUMENT

R million	December 2015			Period end	December 2014	June 2015
	Min*	Max*	Average		Period end	Period end
Risk type						
Equities	6.8	26.9	17.5	10.5	10.6	19.1
Interest rates**	27.6	56.0	36.7	41.9	24.5	32.5
Foreign exchange	7.0	27.4	14.2	16.1	5.6	9.1
Commodities	3.6	13.6	5.7	5.0	8.5	6.0
Traded credit	2.3	11.2	4.5	9.1	3.8	3.6
Diversification effect	-	-	-	(34.0)	(16.8)	(22.9)
Diversified total	36.1	65.6	46.0	48.6	36.2	47.4

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

** Interest rate risk in the trading book.

The following table reflects 10-day VaR and sVaR at the 99% confidence level at 31 December 2015. The 10-day VaR calculation is performed using 10-day scenarios created from the past 260 trading days, whereas the 10-day sVaR is calculated using scenario data from the static stress period. The results reflected in the following table are consistent with those mentioned above.

10-DAY 99% VaR AND SVaR ANALYSIS BY INSTRUMENT

R million	December 2015								December 2014		June 2015	
	VaR				sVaR				Period end		Period end	
	Min*	Max*	Average	Period end	Min	Max	Average	Period end	VaR	sVaR	VaR	sVaR
Risk type												
Equities	8.6	68.2	37.8	20.7	3.9	110.4	58.7	17.4	32.2	58.1	49.1	86.5
Interest rates**	50.0	160.0	83.9	160.0	64.4	146.2	102.5	106.4	62.9	101.7	76.7	78.9
Foreign exchange	11.0	47.9	23.4	44.5	5.2	94.4	27.5	52.2	38.1	47.0	14.7	15.6
Commodities	6.5	43.6	18.0	12.2	17.3	74.6	33.5	31.7	29.2	69.1	13.8	42.2
Traded credit	8.3	32.0	17.6	22.0	9.4	39.1	26.4	29.7	10.0	6.6	13.0	13.4
Diversification effect	-	-	-	(90.5)	-	-	-	(121.3)	(55.7)	(172.4)	(79.3)	(170.4)
Diversified total	58.3	168.8	96.1	168.9	69.0	148.6	104.2	116.1	116.7	110.1	88.0	66.2

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

** Interest rate risk in the trading book.

Other risk measures

Other risk factors are considered in the assessment and management of market risk. These include interest rate and equity specific risk. Specific risk accurately measures idiosyncratic risk not captured by general market risk measures for interest rate and equity risk, such as default, credit migration and event risks, and identifies concentrations in a portfolio. The following table represents the group’s specific risk. The increase in interest rate specific risk emanates from an increased volatility in the rand interest rate market. The equity specific risk decreased year-on-year due to a decrease in listed equity exposures in RMB Australia (which relate to the RMB resources portfolio).

SPECIFIC RISK CAPITAL*

R million	December 2015	December 2014	June 2015
Interest rate specific risk	195	145	140
Equity specific risk	48	55	37
Total	243	200	177

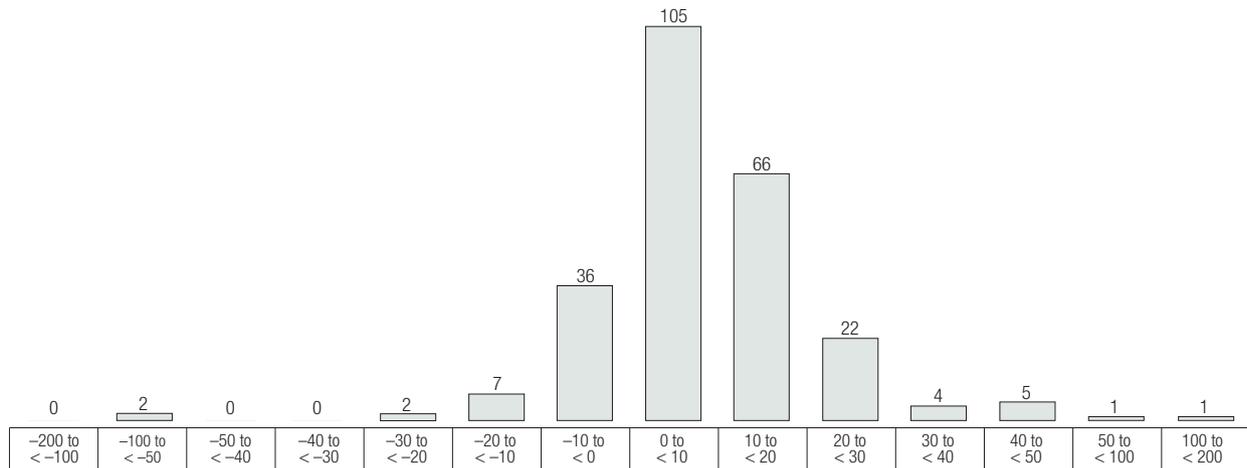
* Capital calculated at the SARB transitional minimum requirement of 10% (excluding the bank-specific individual capital requirement).

Distribution of daily trading earnings from trading units

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

DISTRIBUTION OF DAILY EARNINGS – FREQUENCY

Days in a period

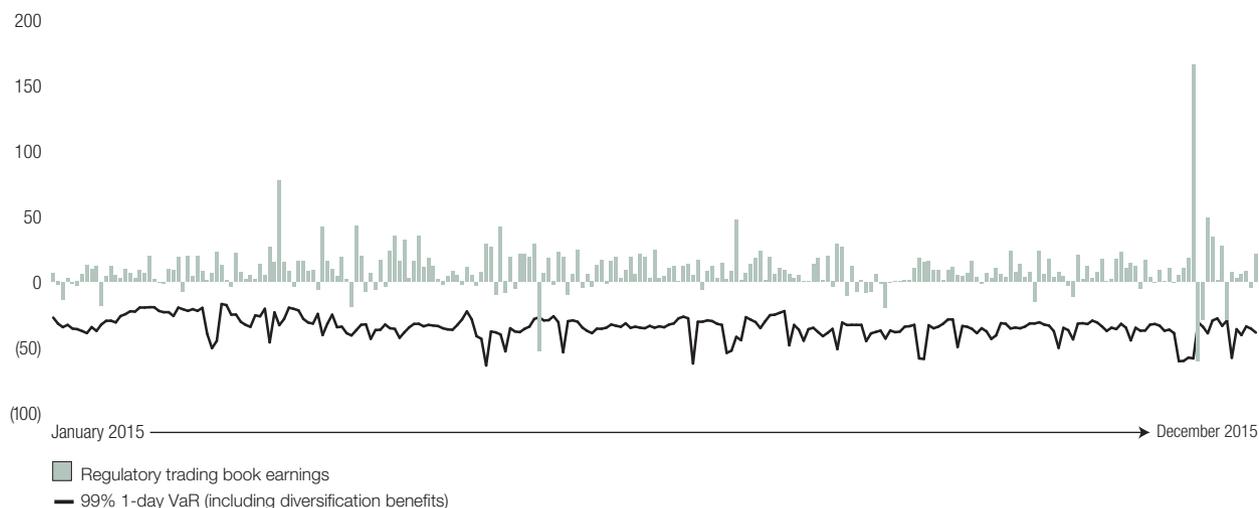


Back testing: daily regulatory trading book earnings versus 1-day 99% VaR

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

BACK TESTING: DAILY REGULATORY TRADING BOOK EARNINGS VERSUS 1-DAY 99% VaR

R million



Trading book earnings exceeded 1-day VaR on two occasions during the year under review. This indicates a good quantification of market risk provided by the group's internal model.

International entities

RMB Australia, FirstRand Bank (India and London branches), and the group's subsidiaries in the rest of Africa hold exposures to market risk. RMB Australia, and the India and London branches are measured and managed on the same basis as the local portfolios, with regulatory capital based on the regulatory standardised approach. The subsidiaries in the rest of Africa are measured using the regulatory standardised approach for regulatory capital and an internal stress loss methodology for internal measurement of risk. At 31 December 2015, the subsidiaries in the rest of Africa collectively held the majority of market risk exposures when compared to the other international entities listed above.

Rest of Africa

Activities across the rest of Africa, in particular Nigeria, continued to grow during the year. There was a notable increase in interest rate risk, driven mainly by the Nigerian operations. Market risk was contained within acceptable stress loss limits and effectively managed across the subsidiaries during the year under review.

MARKET RISK STANDARDISED APPROACH REGULATORY CAPITAL FOR THE AFRICAN SUBSIDIARIES

R million	December 2015				December 2014	June 2015
	Min	Max	Average	Period end	Period end	Period end
Risk type						
Interest rates	157.5	210.7	184.2	164.1	130.0	30.1
Foreign exchange	9.9	19.0	14.5	16.0	17.3	13.5
Total	167.4	229.7	198.7	180.1	147.3	43.6

FRIHL

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

1-DAY VaR ANALYSIS FOR FRIHL

R million	December 2015				December 2014	June 2015
	Min*	Max*	Average	Period end	Period end	Period end
Diversified total	7.6	40.5	9.8	9.0	6.3	10.7

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

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

MARKET RISK STANDARDISED APPROACH REGULATORY CAPITAL FOR FRIHL *

R million	December 2015	December 2014	June 2015
Specific risk	18	19	9
General risk	25	31	31

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

NON-TRADED MARKET RISK

INTRODUCTION AND OBJECTIVES

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 balance sheet	<ul style="list-style-type: none"> ▶ 12-month earnings sensitivity; and ▶ economic sensitivity of open risk position. 	Group Treasury	FCC risk management and group ALCCO
Subsidiaries in rest of Africa and international branches	<ul style="list-style-type: none"> ▶ 12-month earnings sensitivity; and ▶ economic sensitivity of open risk position. 	In-country management	Group Treasury FCC Risk Management International ALCCO
Structural foreign exchange			
Group	<ul style="list-style-type: none"> ▶ total capital in a functional currency other than rand; ▶ impact of translation back to rand reflected in group; and ▶ foreign currency translation reserve value. 	Group Treasury	ALCCO

INTEREST RATE RISK IN THE BANKING BOOK

Overview

IRRBB relates to the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.

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 a hiking cycle.

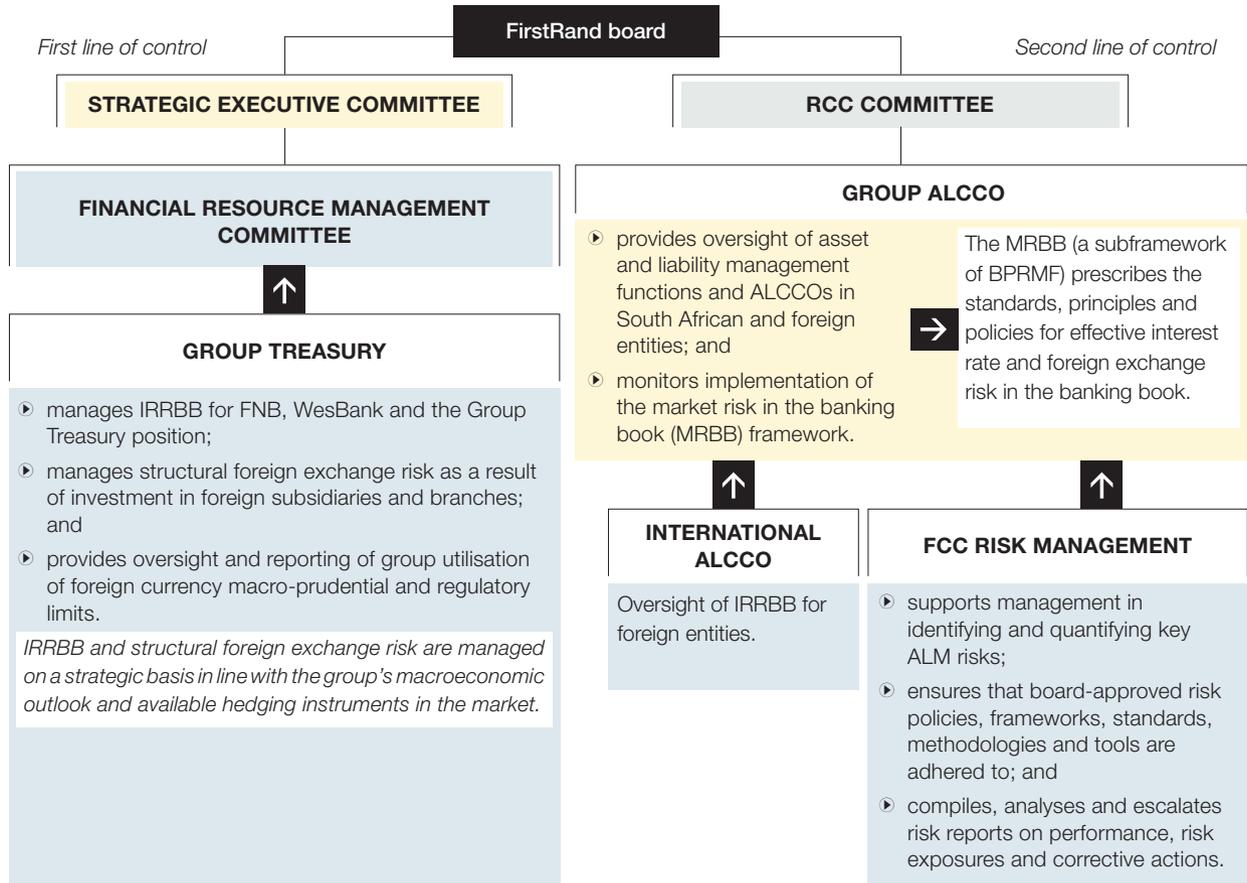
IRRBB is an inevitable risk associated with banking and can be an important source of profitability and shareholder value. FirstRand continues to manage IRRBB on an earnings approach, with the aim to protect and enhance the group's earnings and economic value through the cycle within approved risk limit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

SARB increased interest rates in by 25 bps in July 2015 and again by 25 bps in November 2015. These increases positively impacted margins as a result of the endowment effect.

Strategic hedge positions are in place to protect the group's net interest margin against macroeconomic uncertainty which can impact the timing and extent of the hiking cycle, and protects group earnings should rates remain lower for longer. These hedges are actively monitored along with macroeconomic factors impacting rates in the domestic economy, as well as in other countries where the group operates.

Organisational structure and governance

IRRBB GOVERNANCE STRUCTURE



Assessment and management

FirstRand Bank (South Africa)

The measurement techniques used to monitor IRRBB include Nil sensitivity/earnings risk and NAV/economic value of equity (EVE). A repricing gap is also generated to better understand the repricing characteristics of the balance sheet. In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on repricing characteristics.

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

Foreign entities

Management of subsidiaries in the rest of Africa and the bank’s international 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, PV01 and ETL risk limits are also used for endowment hedges.

INTEREST RATE RISK MANAGEMENT AND ASSESSMENT



Sensitivity analysis

A change in interest rates impacts both the earnings potential of the banking book (as underlying assets and liabilities reprice to new rates), as well as in the economic 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 as a result of a change in earnings and to protect the long-term economic value. To achieve this, both earnings sensitivity and economic sensitivity measures are monitored and managed within appropriate risk limits and appetite levels, considering the macroeconomic environment and factors which would cause a change in rates.

Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book balance sheet to shocks in interest rates. Underlying transactions are modelled on a contractual basis, assuming a constant balance sheet size and mix. No adjustments are made for prepayments in the underlying book, however, prepayment assumptions are factored into the calculation of hedges for fixed-rate lending. Rollover assumptions are not applied to off-balance sheet positions. A pass-through assumption is applied in relation to non-maturing deposits, which reprice at 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 increased sensitivity is attributable to strategic hedges put in place to manage the margin impact of the capital and deposit endowment books through the cycle. At December 2015, the book was positioned to benefit from a hiking cycle whilst protecting against rate uncertainty. Given current uncertainty on the length and extent of the hiking cycle, the endowment book is actively managed.

The group's average endowment book was R168 billion for the period under review. Total sensitivity in the bank is measured to rand rate moves and to local currency moves in the subsidiaries in the rest of Africa.

PROJECTED NII SENSITIVITY TO INTEREST RATE MOVEMENTS*

R million	December 2015		
	Change in projected 12-month NII		
	FirstRand Bank	Subsidiaries in the rest of Africa	FirstRand
Downward 200 bps	(2 741)	(442)	(3 183)
Upward 200 bps	2 363	333	2 697

* The earnings modelling process and roll-over assumptions applied are not subject to the scope of reasonable assurance.

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

* The earnings modelling process and roll-over assumptions applied are not subject to the scope of reasonable assurance.

R million	June 2015		
	Change in projected 12-month NII		
	FirstRand Bank	Subsidiaries in the rest of Africa	FirstRand
Downward 200 bps	(2 517)	(404)	(2 921)
Upward 200 bps	2 343	318	2 661

* The earnings modelling process and roll-over assumptions applied are not subject to the scope of reasonable assurance.

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 183 million. A similar increase in interest rates would result in an increase in projected 12-month NII of R2 697 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 of the entity to varying degrees and is reflected in the NII margin more as an opportunity cost/benefit over the life of the underlying instruments/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 limit, appetite levels and current economic conditions.

The EVE shock applied is based on regulatory guidelines and is a sustained, instantaneous parallel 200 bps downward and upward shock to interest rates. This is applied to risk portfolios managed by Group Treasury, which, as a result of the risk transfer through the internal funds transfer pricing process, captures 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;
- ▶ reflects a point-in-time view which is dynamically managed and can change significantly in a short space of time; and
- ▶ excludes the banking book managed by RMB and the foreign operations' banking books, which are separately managed.

BANKING BOOK NAV SENSITIVITY TO INTEREST RATE MOVEMENTS AS A PERCENTAGE OF TOTAL GROUP CAPITAL

%	December 2015	December 2014	June 2015
Downward 200 bps	0.69	0.90	0.52
Upward 200 bps	(0.82)	(0.87)	(0.59)

STRUCTURAL FOREIGN EXCHANGE RISK

Overview

Foreign exchange risk is the risk of an adverse impact on the group's financial position and earnings as a result of movements in foreign exchange rates impacting balance sheet exposures.

Structural foreign exchange risk arises as a result of the group's offshore operations with a functional currency other than South African rand, and is the risk of a negative impact on the group's financial position, earnings, or other key ratios as a result of negative translation effects.

The group is exposed to foreign exchange risk both as a result of on-balance sheet transactions in a currency other than the functional currency rand, as well as through structural foreign exchange risk from the translation of foreign entities' 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 and can be a source both of investor value through diversified earnings, as well as unwanted volatility as a result of rand 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.

Organisational structure and governance

Reporting and management for the group's foreign exchange exposure and macro prudential limit utilisation is centrally owned by Group Treasury as the clearer of all currency positions in the group. 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 in relation to this exposure. The impact of any residual on-balance positions is managed as part of market risk reporting (see *market risk in the trading book* 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, which are managed to low levels. To minimise funding risk across the group, foreign currency transactions are matched where possible, with residual liquidity risk managed centrally by Group Treasury (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 done where viable, given market constraints and within risk appetite levels. Where possible, hedge accounting is applied. Any open hedges are included as part of *market risk in the trading book*.

Foreign exchange and translation risk profile

The following table provides an overview of the group's exposure to entities with functional currencies other than rand. There were no significant structural hedging strategies in the current financial year.

NET STRUCTURAL FOREIGN EXPOSURES*

Functional currency R million	December 2015	June 2015
Botswana pula	2 700	3 273
United States dollar	3 377	2 774
Sterling	2 761	1 975
Nigerian naira	1 675	1 135
Australian dollar	1 216	987
Zambian kwacha	804	890
Mozambican metical	107	702
Indian rupee	849	720
Ghanaian cedi	547	0
Tanzanian shilling	901	236
Common Monetary Area (CMA) countries**	4 766	4 505
Total	19 703	17 197

* Net structural foreign exposures disclosure included from June 2015.

** Currently Namibia, Swaziland and Lesotho are part of the CMA. Unless these countries decide to exit, rand volatility will not impact these entities' 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 any other financial instrument, whether listed, unlisted or bespoke.

Equity investment risk arises primarily from equity exposures from investment banking and private equity activities in RMB, e.g. exposures to equity risk arising from principal investments or structured lending.

Other sources of equity investment risk include strategic investments held by WesBank, FNB and FCC. These investments are, by their nature, core to the individual business' daily operations and are managed as such.

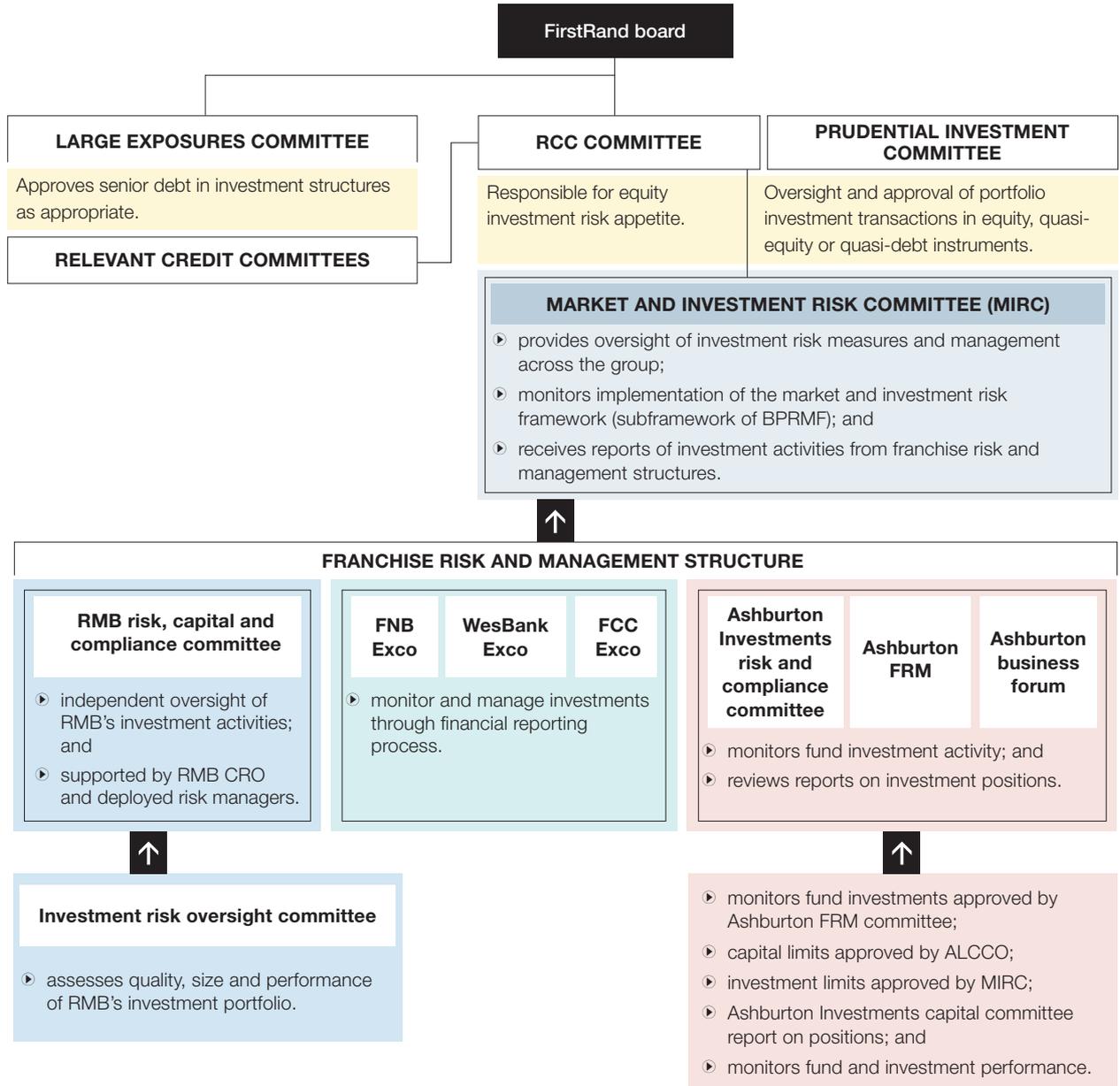
Ashburton Investments, which has responsibility for the delivery of the group's investment management strategy, also contributes to equity investment risk. This risk emanates from the seeding of new traditional and alternative funds, both locally and offshore. The purpose of fund seeding is to:

- ▶ facilitate the launch of new and alternative asset class funds, which will achieve the group's required return hurdles in a reasonable period;
- ▶ create a three-year fund track record for a new fund; and
- ▶ provide sufficient scale to attract institutional investors and improve fund distribution.

The group monitors regulatory developments and assesses the potential impact on its equity investment risk profile and processes. The overall quality of the investment portfolio remains acceptable and within risk appetite.

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 inception to exit of a transaction. All investments are subject to a comprehensive due diligence, during which a thorough understanding of the target company's business, risks, challenges, competitors, management team and unique advantage or value proposition is developed.

For each transaction, an appropriate structure is put in place which aligns the interests of all parties involved through the use of incentives and constraints for management and the selling party. Where appropriate, the group seeks to take a number of seats on the company's board and maintains close oversight through monitoring of operations 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, normal biannual reviews are carried out for each investment and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

Recording of exposures – accounting policies

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

Consistent with the group's accounting policies, the consolidated financial statements include the assets, liabilities and results of operations of all equity investments over which 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%, or over which it has the ability to exercise significant influence, but does not control. Joint ventures are entities in which the group has joint control over the relevant activities of the joint venture through a contractual agreement.

Measurement of risk exposures 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. 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 (i.e. annual replacements of realisations).

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, 250% (Basel III investments in financial entities), 300% (listed) or 400% (unlisted) is applied with the scalar for the quantification of regulatory capital. Under the Regulations, the risk weight applied to investments in financial, banking and insurance institutions 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. The shareholdings in investments are bucketed according to the percentage shareholding.

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 PROFILE

During the period under review, the private equity portfolio had significant realisations with robust realisation profits. The unrealised value of the private equity investment portfolio at 31 December 2015 was R4.5 billion (December 2014: R4.3 billion, June 2015: R4.9 billion). The following table includes the investment risk exposure and sensitivity. The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to the ETL process and the carrying value of investments in associates and joint ventures. In Ashburton Investments, the Africa equity opportunity fund seeding of USD20 million has contributed to a loss of USD3 million for the period under review, given the impact of the negative commodity cycle on many African countries and the resultant impact on fund performance. The fund predominantly holds stock on listed African exchanges.

The decrease in listed investment exposure included in the ETL process from December 2014 to December 2015 is due to reduced listed equity exposure.

INVESTMENT RISK EXPOSURE AND SENSITIVITY OF INVESTMENT RISK EXPOSURE

R million	December 2015	December 2014	June 2015
Listed investment risk exposure included in the equity investment risk ETL process	45	106	63
ETL on above equity investment risk exposures	10	69	5
Estimated sensitivity of remaining investment balances			
Sensitivity to 10% movement in market value on investment fair value	312	409	378
Cumulative gains realised from sale of positions in the banking book during the period	906	871	1 693

INVESTMENT VALUATIONS AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS

R million	December 2015		
	Publicly quoted investments	Privately held	Total
Carrying value of investments	575	10 253	10 828
Per risk bucket			
250% – Basel III investments in financial entities	–	3 264	3 264
300% – listed investments	575	–	575
400% – unlisted investments	–	6 989	6 989
Latent revaluation gains not recognised in the balance sheet*	–	4 729	4 729
Fair value	575	14 982	15 557
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement*	–	168	168
Capital requirement**	183	3 779	3 962

* These unrealised gains or losses are not included in Tier 1 or Tier 2 capital and the decrease from June 2014 to December 2015 relates mainly to Private Equity and the revaluation of WesBank investments.

** Capital requirement calculated at 10% of RWA (excluding the bank-specific individual capital requirement) and includes capital on investments in financial entities. The investments in financial entities are included as other assets in the RWA table in the capital section.

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

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

** Capital requirement calculated at 10% of RWA (excluding the bank-specific individual capital requirement) and includes capital on investments in financial entities. The investments in financial entities are included as other assets in the RWA table in the capital section. There was a correction of a prior year error arising from an incorrect formula used in the calculation of the capital requirement for financial entities. The disclosure effect was an understatement of the actual capital held by R849 million. The error affected the disclosure of the theoretical capital requirement and had no impact on the actual capital held against equity investment risk exposures.

R million	June 2015		
	Publicly quoted investments	Privately held	Total
Carrying value of investments	1 100	9 802	10 902
Per risk bucket			
250% – Basel III investments in financial entities	–	3 091	3 091
300% – listed investments	1 100	–	1 100
400% – unlisted investments	–	6 711	6 711
Latent revaluation gains not recognised in the balance sheet*	138	11 876	12 014
Fair value	1 238	21 678	22 916
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement*	–	183	183
Capital requirement**	350	2 907	3 257

* These unrealised gains or losses are not included in Tier 1 or Tier 2 capital and the increase from December 2014 to June 2015 relates mainly to Private Equity and WesBank investments.

** Capital requirement calculated at 10% of RWA (excluding the bank-specific individual capital requirement) and includes capital on investments in financial entities. The investments in financial entities are included as other assets in the RWA table in the capital section. There was a correction of a prior year error arising from an incorrect formula used in the calculation of the capital requirement for financial entities. The disclosure effect was an understatement of the actual capital held by R711 million. The error affected the disclosure of the theoretical capital requirement and had no impact on the actual capital held against equity investment risk exposures.

FUNDING AND LIQUIDITY RISK

INTRODUCTION AND OBJECTIVES

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

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

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

Given market conditions and the regulatory environment, the group increased its holdings of available liquidity in line with risk appetite for the period under review. The group utilised new market structures, platforms and the SARB committed liquidity facility to efficiently increase the available liquidity holdings.

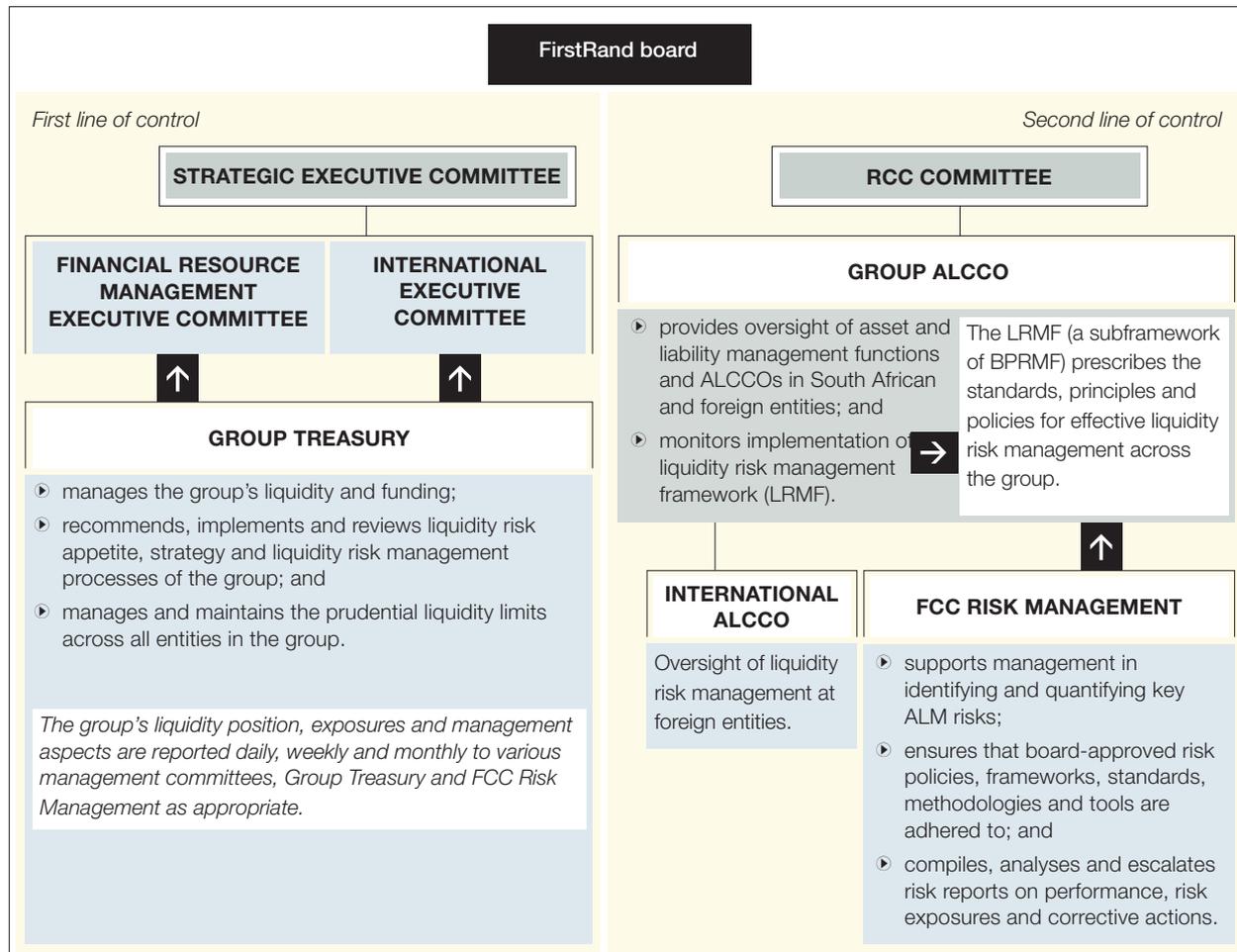
At 31 December 2015, the group exceeded the 60% minimum LCR requirement with a LCR measurement of 71%. The bank's LCR was 74%. The BCBS' *Liquidity coverage ratio disclosure standards* propose consistent and transparent disclosure of banks' liquidity positions as measured by the Basel III regulations. Directives 6/2014 and 11/2014 require the group to provide its LCR disclosure in a standardised template.

Refer to www.firstrand.co.za/investorcentre/pages/commondisclosures.aspx for further detail.

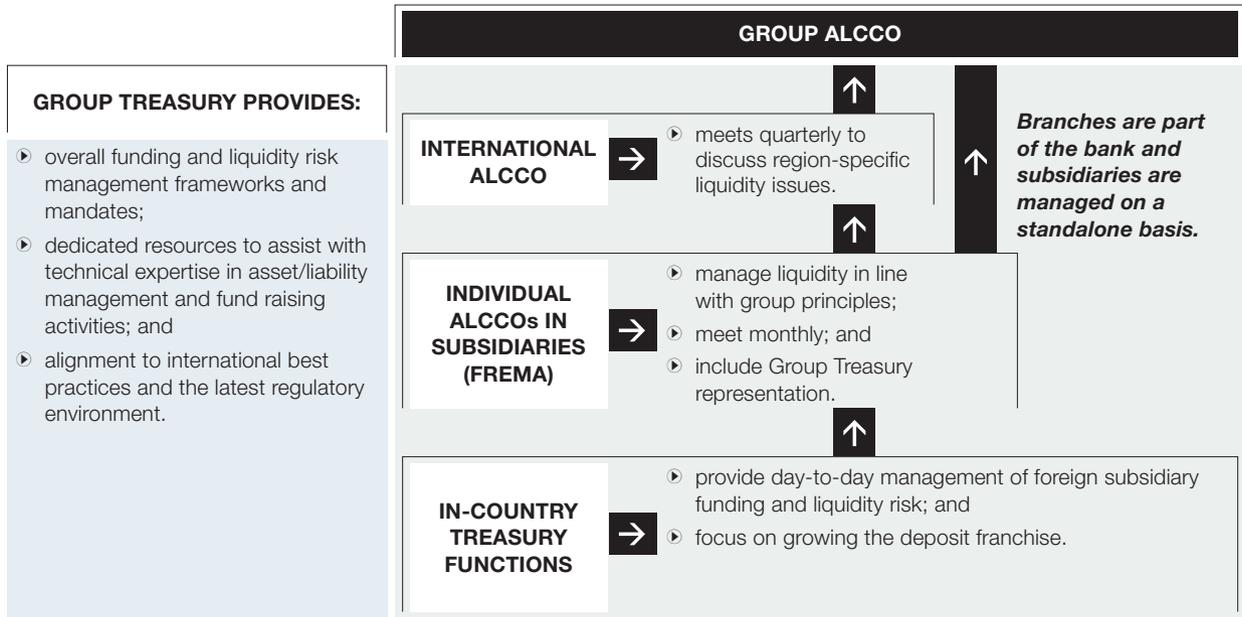
At 31 December 2015, the group's available sources of liquidity per the BCBS LCR were R138 billion, with an additional R12 billion of management liquidity available.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

GROUP AND BANK



FOREIGN OPERATIONS

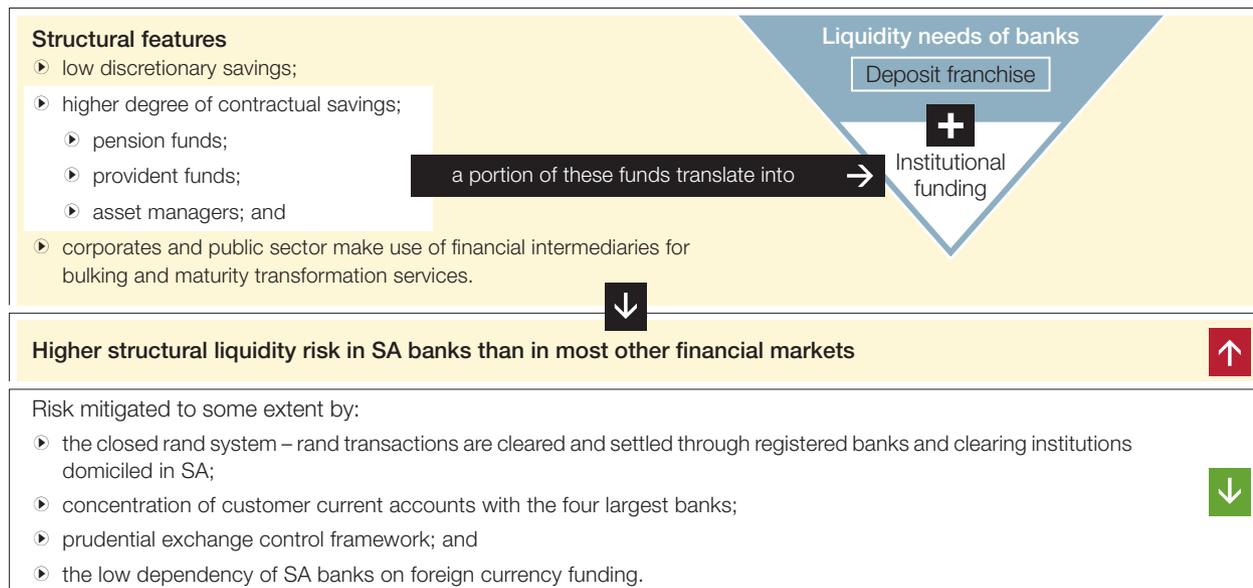


FirstRand has dispensation from the Prudential Regulatory Authority (PRA) for a waiver on a whole-firm liquidity modification application basis where the PRA considers local risk reporting and compliance of the parent bank sufficient to waive PRA requirements for the London branch. The PRA has instituted a new regulatory regime under *Capital Requirements Directive IV policy statement PS11/15*, which came into effect on 1 October 2015. The policy statement outlines the phasing out of the prudential sourcebook for banks, building societies and investment firms (BIPRU 12), and the introduction of the European Banking Authority liquidity standards. As a UK branch of a developing country firm, FirstRand will be required to submit a specified branch return and provide liquidity information in line with the home regulator's liquidity return requirements from 1 April 2016.

FUNDING MANAGEMENT

The following diagram illustrates the structural features of the banking sector in South Africa and its impact on liquidity risk.

STRUCTURAL FEATURES OF THE BANKING SECTOR IN SOUTH AFRICA



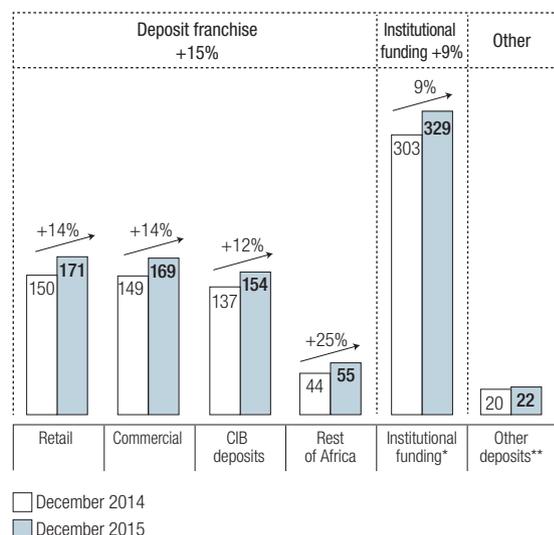
During the period under review, there has been increased liquidity demand by banks as a consequence of the money supply constraints introduced by the LCR and the central bank's open market operations. These factors combined significantly impacted liquidity conditions. In the light of the structural features discussed above, focus remains on achieving a risk-adjusted diversified funding profile which also supports the Basel III requirements.

The group manages its funding structure by source, counterparty type, product, currency and market. The deposit franchise represents the most efficient source of funding and comprised 61% of total group funding liabilities as at 31 December 2015. The group continued to focus on growing its deposit franchise across all segments with increasing emphasis on savings and investment products. Progress has been made in developing suitable products to attract a greater proportion of clients' available liquidity with improved risk-adjusted pricing by source and behaviour. To fund operations, the group accesses the domestic money markets daily and from time to time, capital markets. The group has frequently issued various capital and funding instruments in the capital markets on an auction and reverse-enquiry basis with strong support from investors, both domestically and internationally.

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

GROUP FUNDING BY SEGMENT

R billion



* Excludes operational deposits from financial institutions, but includes London branch and Turbo securitisations.

** Includes deposits in FRIHL and group adjustments.

Funds transfer pricing

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

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

FUNDING MEASUREMENT AND ACTIVITY

FirstRand Bank, FirstRand's wholly-owned subsidiary and debt issuer, generates a larger proportion of its funding from deposits compared to the South African aggregate, however, its funding profile also reflects the structural features described in the diagram on page 112.

The following table provides an analysis of the bank's funding sources.

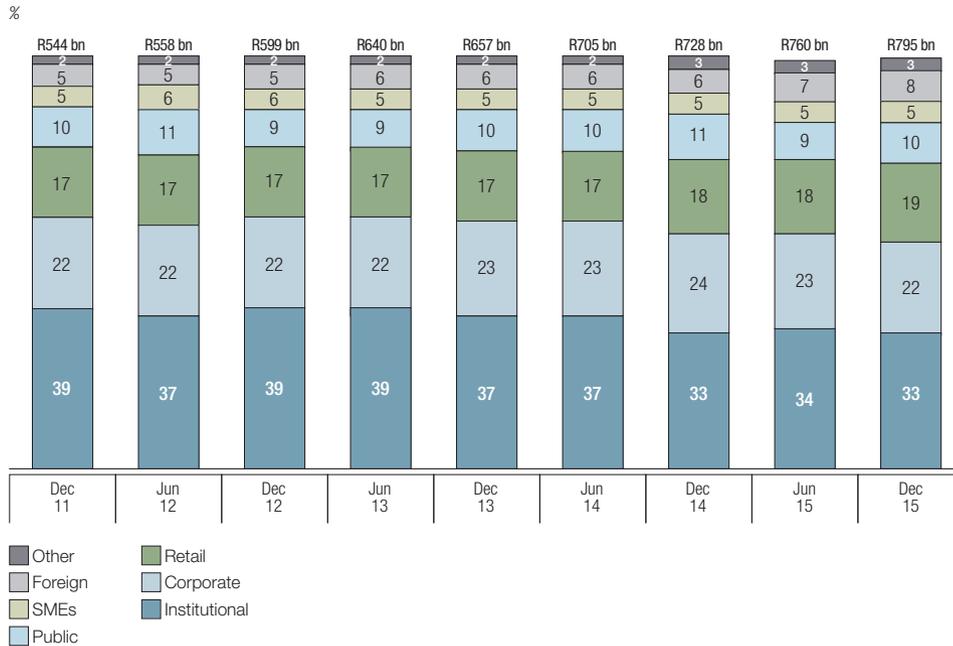
FUNDING SOURCES OF THE BANK EXCLUDING FOREIGN BRANCHES

% of funding liabilities	December				June	
	2015			2014	2015	
	Total	Short term	Medium term	Long term	Total	Total
Institutional funding	33.2	13.2	5.3	14.7	33.4	34.1
Deposit franchise	66.8	49.6	8.6	8.6	66.6	65.9
Corporate	22.2	19.5	2.1	0.6	23.9	23.4
Retail	19.1	14.5	3.1	1.5	17.7	17.7
SME	5.4	4.5	0.6	0.3	5.2	5.4
Governments and parastatals	9.5	7.6	1.4	0.5	10.5	9.2
Foreign	7.8	3.1	1.0	3.7	6.4	7.5
Other	2.8	0.4	0.4	2.0	2.9	2.7
Total	100.0	62.8	13.9	23.3	100.0	100.0

Source: SARB BA 900 return

The following graph provides an analysis of the bank's funding by source.

FIRSTSTRAND BANK'S FUNDING SOURCES



Source: SARB BA900 returns

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

GROUP'S FUNDING ANALYSIS BY INSTRUMENT TYPE

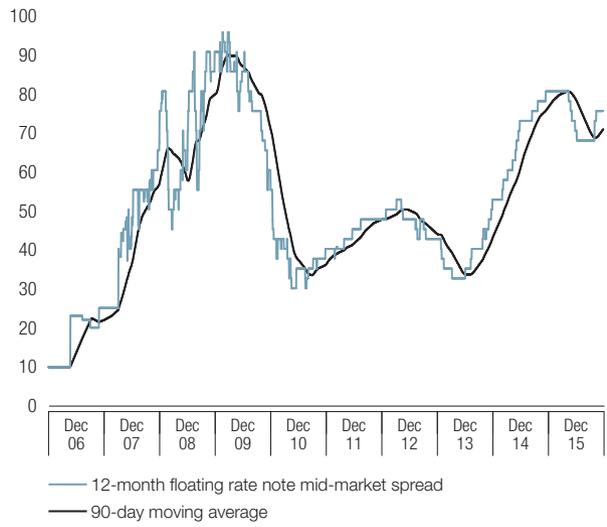


The group's aim is to fund the balance sheet in the most efficient manner, taking into account the liquidity risk management framework, as well as regulatory and rating agency requirements.

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

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

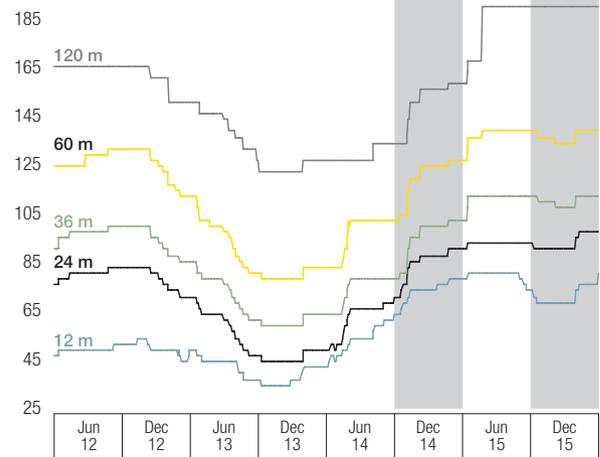
12-MONTH LIQUIDITY SPREAD
bps



Source: Bloomberg (RMBP screen) and Reuters

The following graph shows that long-term funding spreads remain elevated from a historical perspective and still appear to be reflecting a high liquidity premium. The liquidity spreads in the money market observed in instruments with maturity less than 12 months in particular are extremely high, at levels last seen during the financial crises in 2008. The group is consistently able to raise funds in capital markets in line with its funding curve, which it views as an important test as the group’s asset origination is linked to its funding curve.

LONG-TERM FUNDING SPREADS
bps

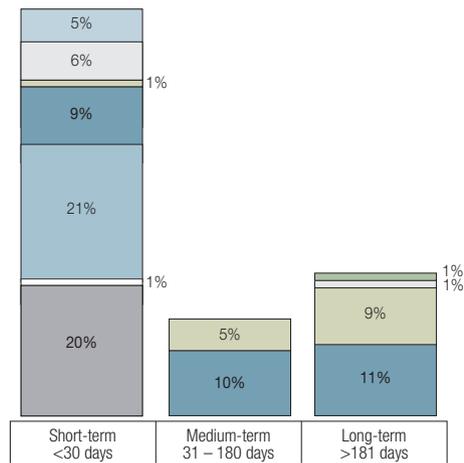


As a result of the group’s focus on growing its deposit and transactional banking franchise, a significant proportion of funds are contractually short-dated. As these deposits are anchored to clients’ service requirements and given the balance granularity created by individual clients’ independent activity,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

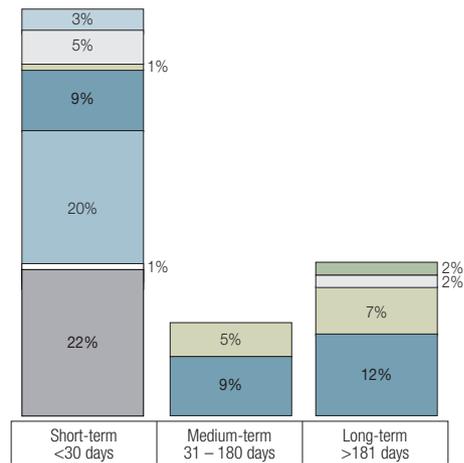
The following chart illustrates a breakdown of the group's funding liabilities by instrument and term.

GROUP'S FUNDING LIABILITIES BY INSTRUMENT TYPE AND TERM

at 31 December 2015



at 31 December 2014

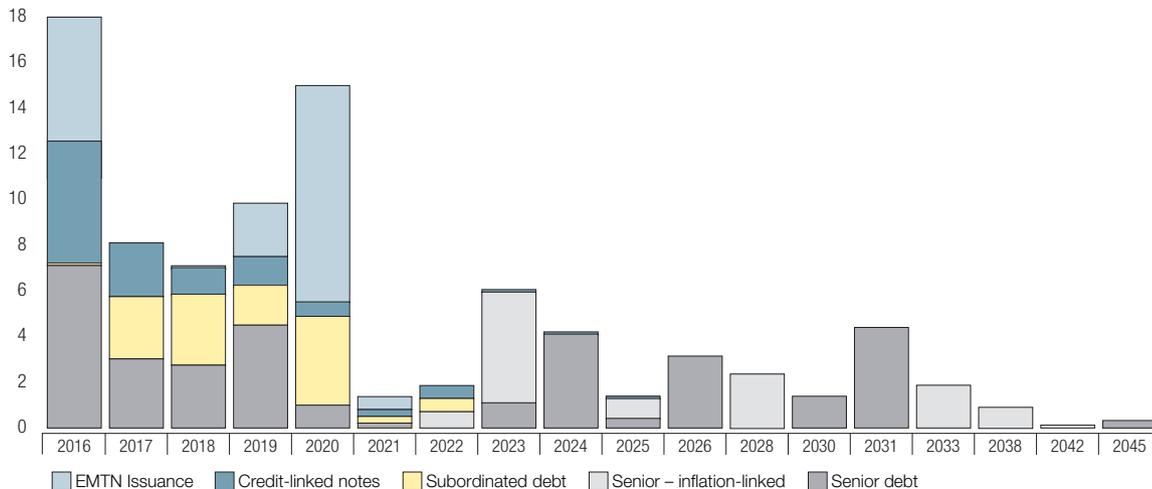


- Subordinated debt
- Deposits received under repurchase agreements
- Other deposits and loans accounts
- Negotiable certificates of deposit
- Fixed and notice deposits
- Call deposits
- Savings deposits
- Current accounts

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

MATURITY PROFILE OF FIRSTRAND BANK'S CAPITAL MARKET INSTRUMENTS

R billion



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 attendant funds transfer pricing rates. Any excess over and above in-country capacity would be funded by the group's USD funding platforms. This is a temporary arrangement, which allows these entities to develop adequate in-country deposit bases.
- ▶ No deposit franchises – all activities would be funded by FirstRand's USD funding platforms.

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

Group 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, has to ensure that any resources availed to the foreign entities are priced appropriately.

FOREIGN CURRENCY BALANCE SHEET

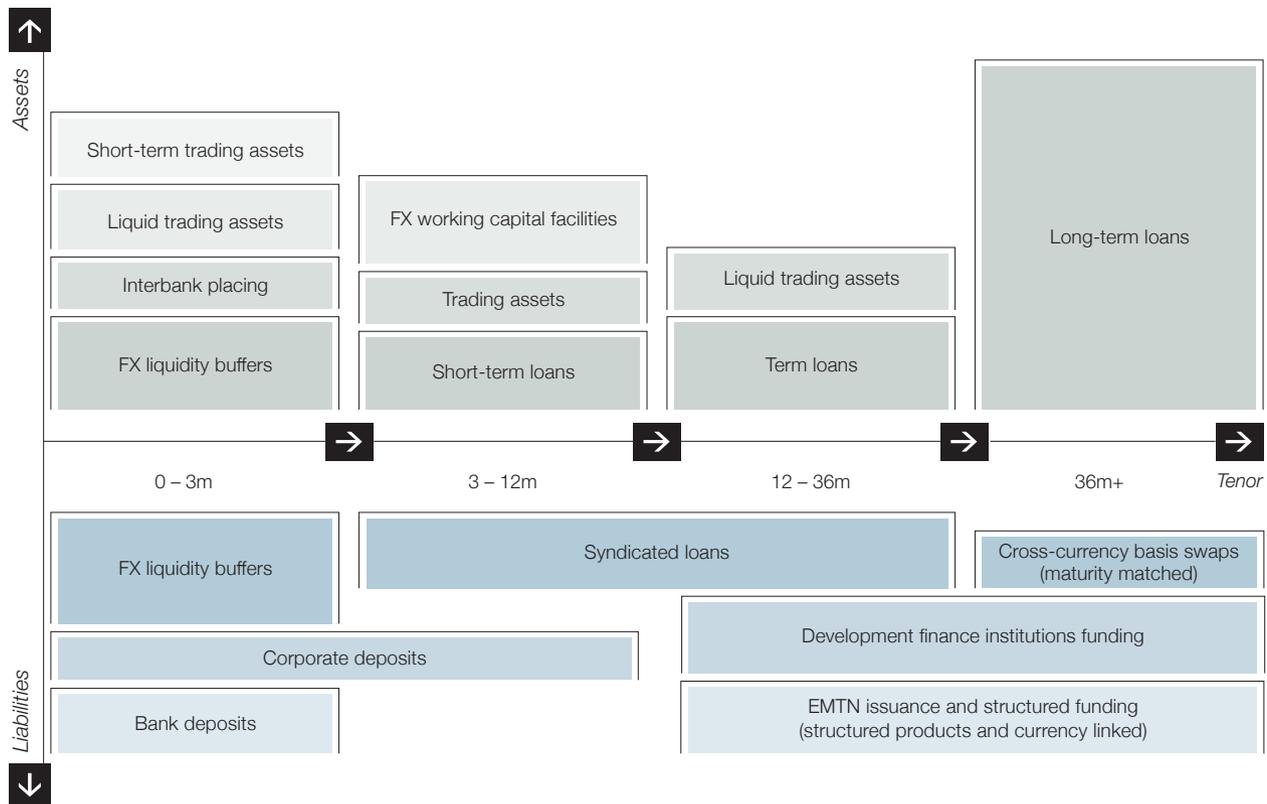
Given that the group continues to grow its businesses in the rest of Africa and India, and given the size of MotoNovo in the UK, the active management of foreign currency liquidity risk continues to be a strategic focus. The group seeks to avoid exposing itself to undue liquidity risk and to maintain liquidity risk within the risk appetite approved by the board and risk committee. The SARB via *Exchange Control Circular 6 of 2010* introduced macro-prudential limits applicable to authorised dealers. The group utilises its own foreign currency measurement balance sheet measures based on economic risk and has set internal limits below those allowed by the macro-prudential limits framework.

FirstRand's foreign currency activities, specifically lending and trade finance, have steadily increased over the past five 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. This limit includes the bank's exposure to branches, foreign currency assets and guarantees.

Philosophy on foreign currency external debt

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

GRAPHICAL REPRESENTATION OF THE FOREIGN CURRENCY BALANCE SHEET



LIQUIDITY RISK MANAGEMENT

Overview

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

The group recognises two types of liquidity risk:

Funding liquidity risk – the risk that a bank will not be able to effectively meet current and future cash flow and collateral requirements without negatively affecting the normal course of business, financial position or reputation.

Market liquidity risk – the risk that market disruptions or lack of market liquidity will cause a bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.

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

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

LIQUIDITY RISK MANAGEMENT APPROACHES

Structural liquidity risk	Daily liquidity risk	Contingency liquidity risk
<p>Managing the risk that structural, long-term on- and off-balance sheet exposures cannot be funded timeously or at reasonable cost.</p>	<p>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.</p>	<p>Maintaining a number of contingency funding sources to draw upon in times of economic stress.</p>
<ul style="list-style-type: none"> ▶ setting liquidity risk tolerance; ▶ setting liquidity strategy; ▶ ensuring substantial diversification over different funding sources; ▶ assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses; ▶ setting the approach to managing liquidity in different currencies and from country to country; ▶ ensuring adequate liquidity ratios; ▶ ensuring an appropriate structural liquidity gap; and ▶ maintaining a funds transfer pricing methodology and process. 	<ul style="list-style-type: none"> ▶ 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; and ▶ managing and maintaining collateral. 	<ul style="list-style-type: none"> ▶ managing early warning and key risk indicators; ▶ performing stress testing including sensitivity analysis and scenario testing; ▶ maintaining product behaviour and optionality assumptions; ▶ ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place; and ▶ maintaining the contingency funding plan.

Stress testing and scenario analysis

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

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

Liquidity contingency planning

Frequent volatility in funding markets and the fact that financial institutions can, and have, experienced liquidity problems even during benign economic conditions highlight the importance of quality liquidity risk and contingency management processes.

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

The objective of liquidity contingency planning is to achieve and maintain funding levels in a manner that allows the group to emerge from a potential funding crisis with its reputation intact and to maintain its financial condition for continuing operations.

The plan is expected to:

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

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

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

REGULATORY UPDATE

<h2>1 Basel III</h2>	<h2>2 Liquidity coverage ratio</h2>	<h2>3 Disclosure requirements</h2>
<p>The BCBS framework for sound and prudent liquidity risk management seeks to address two aspects:</p> <ul style="list-style-type: none"> ▶ LCR addresses short-term liquidity risk; and ▶ NSFR addresses the structural liquidity risk of the balance sheet. <p>On 18 November 2015, the SARB released a proposed directive related to the NSFR. The SARB believes that the BCBS calibration does not reflect the actual stability of institutional funding in the SA context, given the significant barriers preventing liquidity from leaving the domestic financial system. It has, therefore, proposed a 35% available stable funding factor for institutional funding less than six months in tenor, compared to 0% under the BCBS framework. It is expected that this change will significantly assist the SA banking sector in meeting the NSFR requirements without severely impacting the economy.</p>	<p>The LCR has been fully adopted by the SARB with the inclusion of a committed liquidity facility, and will be phased in from 2015 to 2019. The minimum LCR requirement was 60% at 1 January 2015, with 10% incremental step-ups each year to 100% on 1 January 2019.</p> <p>In addition to level 1 assets, eligible collateral will include levels 2A and 2B with qualifying criteria and ratings requirements referenced to national scale ratings for liquidity risk in that local currency.</p>	<p>The BCBS published the <i>Liquidity coverage ratio disclosure standards</i> in March 2014. The objective of the document is to reduce market uncertainty around liquidity positions.</p> <ul style="list-style-type: none"> ▶ Effective 1 January 2015. ▶ Will follow the capital quarterly disclosures. ▶ Standardised template for available sources of liquidity by level of liquidity, cash outflows attributable by customer, category type and relationship and cash inflows attributable by source.
<h2>4 Net stable funding ratio</h2>		
<p>The latest consultative paper of the BCBS now reflects the NSFR as a more structural balance sheet ratio and no longer a one-year stressed balance sheet ratio. The BCBS maintains the principle that a stable funding profile in relation to the composition of a bank's assets and off-balance sheet items promotes a more resilient banking sector. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. The ratio has to at least equal 100%. It is anticipated that the ratio will become a requirement on 1 January 2018, once the calibration is finalised.</p>		
<h2>5 Resolution framework</h2>		
<p>The SARB and FSB published for public comment a discussion document, <i>Strengthening South Africa's Resolution Framework for Financial Institutions</i>. The paper sets out the motivation, principles and policy proposals for such a strengthened framework, and is intended to solicit public comment and serve as a basis for further industry discussions in preparation for the drafting of a special resolution bill.</p> <p>The paper introduces the concept of total loss-absorbing capital (TLAC) to explicitly subordinate specified instruments in order to make these loss absorbing at resolution phase. TLAC in the context of the paper does not necessarily have the same characteristics as the proposed TLAC requirements applicable to G-SIBs and have been identified as:</p> <ul style="list-style-type: none"> ▶ ordinary shares; ▶ preference shares; and ▶ pre-identified loss-bearing instruments. 		

LIQUIDITY RISK POSITION

The following table provides details on the available sources of liquidity by Basel LCR definition and management's assessment of the required buffer.

GROUP'S COMPOSITION OF LIQUID ASSETS

R billion	Marketable assets	Basel III view after haircut*				Management view after haircuts	
	December 2015	Level 1	Level 2	December 2015**	June 2015	December 2015	June 2015
Cash and deposits with central banks	33	32	–	32	31	32	31
Government bonds and bills	88	73	–	73	88	80	88
Other liquid assets	49		33	33	13	38	24
Total	170	105	33	138	132	150	143

* The surplus HQLA holdings by subsidiaries and foreign branches in excess of the minimum required LCR of 60% have been excluded in the calculation of the consolidated group LCR, these have been capped at 60% level under Basel III view, in line with directive II of 2014 from the SARB, and 100% for management view from December 2015.

** New disclosure of group's composition of liquid assets from June 2015, December comparative information will be provided in December 2016.

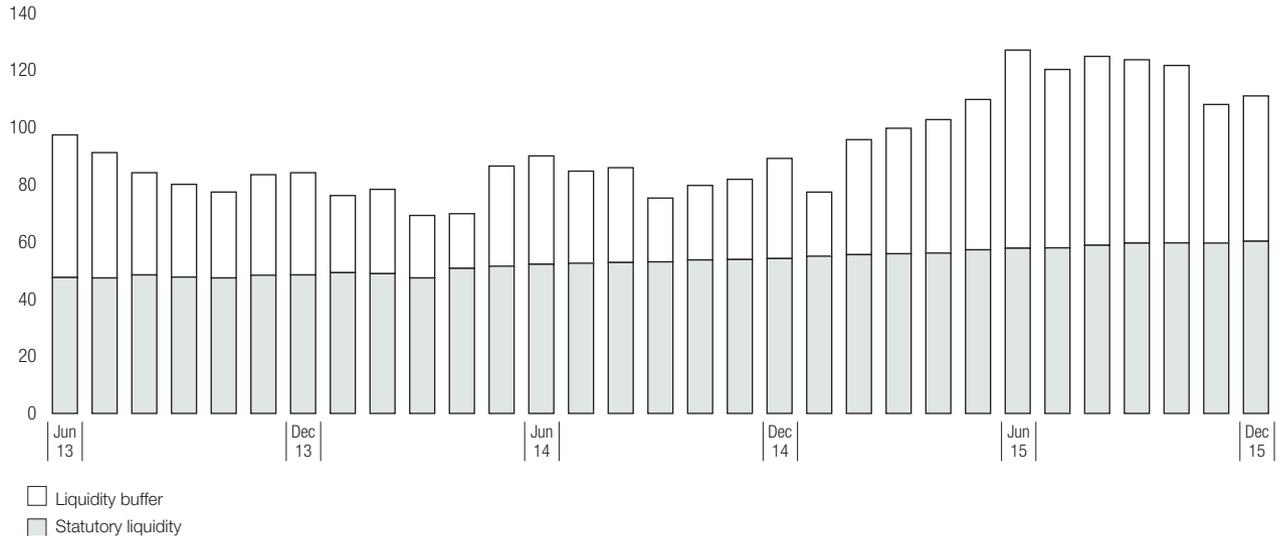
Liquidity buffers are actively managed via high quality, highly-liquid assets that are available as protection against unexpected events or market disruptions. The quantum and composition of the available sources of liquidity are defined by the behavioural funding liquidity-at-risk and the market liquidity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

Funding from institutional clients is a significant contributor to the group's net cash outflows as measured under the LCR at nearly 30% of the South African market structure. Other significant contributors to the cash outflows are corporate funding and off-balance sheet facilities granted to clients, specifically those related to corporate clients. The group has strategies in place to increase funding sourced through its deposit franchise and to reduce reliance on institutional funding, as well as to offer utilised facilities more efficiently.

The group's LCR has reduced in the six months to December 2015, mainly due to an increase in net cash outflows arising from institutional deposits. Institutions cyclically reduce their duration in December, thereby increasing balances in the 30-day LCR window. The volatility in local financial markets in December 2015 and the increased uncertainty on short-term interest rates resulted in institutions keeping funds even shorter than usual.

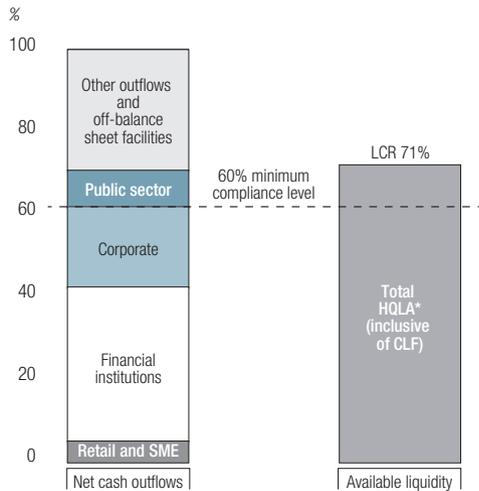
The following graph presents a historical view of qualifying liquid assets per SARB requirements. The bank has sought to hold buffers in excess of regulatory minimums based on its own risk assessment and operational liquidity requirements.

LIQUIDITY BUFFER AND STATUTORY LIQUIDITY REQUIREMENTS OF THE BANK EXCLUDING FOREIGN BRANCHES
R million



The graph below gives an indication of the group's LCR position of 71% at 31 December 2015 and demonstrates the group's compliance with the 60% minimum requirement. The bank's LCR was 74% at 31 December 2015.

GROUP LCR



* HQLA held by subsidiaries and foreign branches in excess of the required LCR minimum of 60% have been excluded on consolidation as per directive 11 of 2014.

OPERATIONAL RISK

INTRODUCTION AND OBJECTIVES

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. The group continues to evaluate and enhance existing frameworks, policies, methodologies, processes, standards, systems and infrastructure to ensure that the operational risk management practices are practical, adequate, effective and in line with regulatory developments and emerging best practice.

OPERATIONAL RISK OBJECTIVES AND PROGRAMME

KEY OBJECTIVES	OPERATIONAL RISK MANAGEMENT PROGRAMME COMPONENTS
<p>▶ The group's objective is to focus on building an effective and forward-looking operational risk management programme.</p> <p>Embed the use of automated risk tool outputs for an integrated operational risk profile view.</p> <p>Refine operational risk appetite limits at various levels in the group.</p> <p>Make greater use of risk information and analysis outcomes in:</p> <ul style="list-style-type: none"> ▶ day-to-day risk management; and ▶ strategic decision making. <p>Improve control environment to support business strategy achievements.</p> <p>Assess operational risk-related regulatory developments and ensure compliance.</p> <p>Enhance risk measurement, capital calculation and allocation methods.</p> <p>Contingency planning in light of possible national electricity and water supply shortages.</p>	<ul style="list-style-type: none"> ▶ technology and information risks; ▶ internal fraud; ▶ external fraud; ▶ legal risks; ▶ people risks; ▶ business resilience risk; and ▶ process risks.

The period under review

The focus remained on a number of control improvement initiatives, aimed at addressing key operational risk themes and improving operational risk maturity in the period under review. The progress on these initiatives is tracked and reported on regularly at group level through the management and risk governance process and is also considered as part of the operational risk appetite setting and risk scenario processes.

The principal operational risks currently facing the group are:

- ▶ **commercial and violent crime** (including internal fraud) as economic growth slows;
- ▶ **information security risk** (risk of loss or theft of information), given the growing sophistication of cyber-attacks globally;
- ▶ **business disruption** due to possible national water and electricity supply shortages and the related impact on operations; and
- ▶ **execution, delivery and process management risk** (the risk of process weaknesses and control deficiencies) as the business continues to grow and evolve.

Process automation projects continue to reduce manual processes and improve controls thereby mitigating associated risks and increasing efficiencies.

Minimum operational risk data quality control standards were introduced to promote better quality of operational risk information used for decision making and risk governance reporting.

There has been increased use of the group's operational risk management system which facilitates easy access to risk information and an integrated view of the business's operational risk profile based on the risk tool outputs.

The introduction of the use of common key risk drivers in the risk scenario analysis process saw greater refinement in scenario assessment across the group. Key risk drivers are in the process of being automated onto the operational risk management system to leverage benefits in the application of operational risk assessment and management tools.

Contingency planning to mitigate business disruption arising from a number of different external factors continued to receive attention.

Closer analysis of the Basel principles for risk data aggregation and reporting resulted in refinement of actions to address gaps from an operational risk perspective, with progress on these actions being tracked on a regular basis across the group.

Cybercrime remains an area of focus and is perceived to be the dominant threat in financial services globally. Risk mitigation strategies to combat cybercrime are continuously reviewed to ensure that controls are adequate and effective.

Power supply, management equipment and infrastructure were upgraded for key facilities. A third redundant data centre is being implemented to improve the group's business resilience capability.

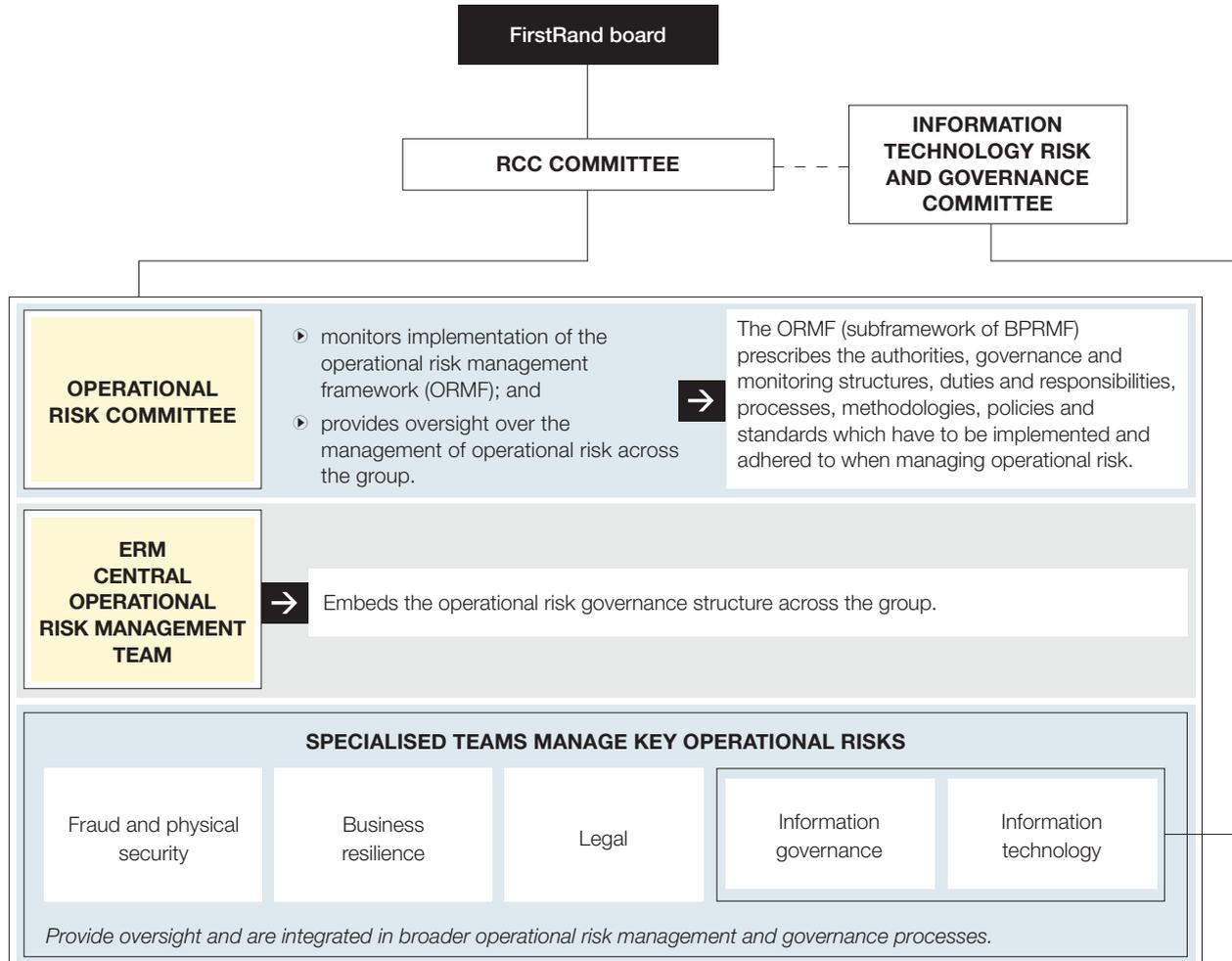
IT risk and governance functions have been integrated in ERM, with relevant governance forums in place to ensure continued monitoring and mitigation of IT risk across the group. IT and related frameworks are in place and continue to be reviewed to ensure alignment with changing business models and the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

During the period under review the group:

- ▶ refined processes and improved data quality and records management practices; and
- ▶ established information governance committees in all franchises and information governance now forms an integral part of the group's overall risk management framework.

Looking ahead, the group will continue to focus on improving its information management capabilities by embedding governance structures, improving the information control environment and roll out awareness programmes on records management, data quality and data privacy management.

ORGANISATIONAL STRUCTURE AND GOVERNANCE



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 use **BIA**.

Under **AMA**, FirstRand uses a sophisticated statistical model for the calculation of capital requirements, which enables more accurate risk-based measures of capital for business units on **AMA**. Operational risk scenarios (covering key risks that, although low in probability, may result in severe losses) and internal loss data are 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 calculation 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 franchise) as the operational VaR at the 99.9th percentile of the aggregate loss distribution, excluding the effects of insurance, expected losses and correlation/diversification.

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

TSA and **BIA** capital calculations are based on a multiplication factor applied to gross income, as specified by Basel and SARB regulations. No risk-based information is used in these capital calculations and allocations.

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

- ▶ changes in the operational risk profile, as measured by the various operational risk tools;
- ▶ material effects of expansion into new markets, new or substantially changed products or activities as well as the closure of existing operations;
- ▶ changes in the control environment - a continuous improvement in the control environment is targeted, but deterioration in effectiveness is also possible due to, e.g. unforeseen increases in transaction volumes;
- ▶ changes in organisational structure resulting in the move of businesses and/or products from one business unit to another; and
- ▶ changes in the external environment, which drive certain types of operational risk.

ASSESSMENT AND MANAGEMENT

Operational risk assessment and management tools

The group obtains assurance that the principles and standards in the ORMF are being adhered to by the three lines of control model integrated in operational risk management. In this model, business units own the operational risk profile as the first line of control. In the second line of control, ERM is responsible for consolidated operational risk reporting, policy ownership and facilitation and coordination of operational risk management 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 most relevant of these are outlined in the following chart.

OPERATIONAL RISK ASSESSMENT AND MANAGEMENT TOOLS

Process-based risk and control identification and assessment	Key risk indicators
<ul style="list-style-type: none"> ▶ the risk and control assessment per product/service based on key business processes; ▶ integrated in the day-to-day business and risk management processes; and ▶ used by business and risk managers to identify and monitor key risks and assess the effectiveness of existing controls. 	<ul style="list-style-type: none"> ▶ used across the group in all businesses as an early warning risk measure; ▶ highlight changing trends in exposures to specific key operational risks; and ▶ inform operational risk profiles which are reported periodically to the appropriate management and risk committees and are monitored on a continuous basis.
Internal/external loss data	Risk scenarios
<ul style="list-style-type: none"> ▶ capturing of 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 and process analysis and corrective action; and ▶ external loss databases are used to learn from the loss experience of other organisations and are also an input into the risk scenario process. 	<ul style="list-style-type: none"> ▶ risk scenarios are widely used to identify and quantify low-frequency, extreme loss events; ▶ senior management actively participates in the biannual reviews; and ▶ results are tabled at the appropriate risk committees and are used as input into the capital modelling process.

FirstRand uses an integrated and reputable operational risk system onto which all the operational risk assessment and management tools are automated to provide a holistic view of the business's operational risk profile.

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 through continuously monitoring and improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur much less frequently and the group strives to minimise these and contain frequency and severity of these within its risk appetite levels through appropriate controls. For the period under review, operational losses were within the group's operational risk appetite levels.

Operational risk management processes

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

OPERATIONAL RISK MANAGEMENT PROCESSES

1 Business resilience		2 Legal risk		3 IT risks	
Management	<ul style="list-style-type: none"> Operations should be resilient to severe disruptions from internal failures or external events. Business continuity strategies include regular review of business continuity plans and testing. Disruptions or incidents are assessed and reported to the relevant risk stakeholders. 	Management	<ul style="list-style-type: none"> Creation and ongoing management of contractual relationships. Management of disputes. Protection and enforcement of property rights (including intellectual property). Failure to account for the impact of change in legislation or decisions by the courts. Compliance with legislation managed by RRM. 	Management	<ul style="list-style-type: none"> Protection of information systems against unauthorised access, destruction, modification and use. Ensure confidentiality, availability and integrity of systems that maintain, process and disseminate this information.
Committees and frameworks	<ul style="list-style-type: none"> Business resilience steering committee (a subcommittee of the operational risk committee). Practices are documented in the business resilience policy and standards. 	Committees and frameworks	<ul style="list-style-type: none"> Legal risk committee (subcommittee of operational risk committee). Legal risk management framework. 	Committees and frameworks	<ul style="list-style-type: none"> Information technology risk and governance committee (board committee). IT risk management framework and information security policy.
4 Information governance		5 Fraud and security risks		6 Risk insurance	
Management	<ul style="list-style-type: none"> View information as a valuable asset. Focus on quality and protection of information against unauthorised access, destruction, modification, use and disclosure. Ensure confidentiality, availability, integrity, sensitivity and accountability of all information. 	Management	<ul style="list-style-type: none"> Covers internal (staff) and external fraud. Contain external fraud losses with enhanced controls and introduction of improved real time detection models. Address the growing cybercrime threat with measures to improve resilience against weaknesses. 	Management	<ul style="list-style-type: none"> Structured insurance risk financing programme in place for material losses from first party risks. Annual review and renewal. 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, etc. Insurance not a mitigant in calculation of capital for operational risk.
Committees and frameworks	<ul style="list-style-type: none"> Information governance committee (a subcommittee of the operational risk committee). Information governance framework and acceptable use of information resources policy. 	Committees and frameworks	<ul style="list-style-type: none"> Fraud risk management function reporting to FNB CRO with a group mandate. Fraud risk management framework. 	Committees and frameworks	<ul style="list-style-type: none"> Cover through FirstRand Insurance Services Company (FRISCOL) (wholly-owned first-party insurance company).

REGULATORY RISK

INTRODUCTION AND OBJECTIVES

Regulatory risk refers to the risk of statutory or regulatory sanction or material financial loss or reputational damage as a result of failure to comply with any applicable laws, regulations or supervisory requirements.

The group fosters an ethical culture in its operations that contributes to the overall objective of prudent regulatory compliance and risk management by striving to observe both the spirit and the letter of the law. The compliance culture also embraces broader standards of integrity and ethical conduct which affects all employees.

RRM OBJECTIVE AND APPROACH

OBJECTIVE	APPROACH
<p>Ensure business practices, policies, frameworks and approaches across the group are consistent with applicable laws and that regulatory risks are identified and proactively managed.</p>	<ul style="list-style-type: none"> ▶ Maintain an effective and efficient regulatory risk management framework with sufficient operational capacity to promote and oversee compliance with legislative and best practice requirements. ▶ Training of staff ensures a high level of understanding and awareness of applicable legal and regulatory frameworks pertaining to the group's business activities.

Compliance with laws and regulations applicable to its operations is significant to the group as non-compliance may potentially have serious consequences and lead to both civil and criminal liability, including penalties, claims for loss and damages or restrictions imposed by regulatory authorities. Applicable laws and regulations, amongst others, include:

- ▶ Banks Act, 1990 and related Regulations;
- ▶ Competition Act, 1998;
- ▶ Financial Intelligence Centre Act, 2001;
- ▶ Long-term Insurance Act, 1998;
- ▶ Financial Advisory and Intermediary Services (FAIS) Act, 2002;
- ▶ National Credit Act, 2005;
- ▶ Consumer Protection Act, 2008;
- ▶ JSE rules and directives;
- ▶ Foreign Account Tax Compliance Act; and
- ▶ Protection of Personal Information Act, 2013.

Effective regulatory risk management ensures that compliance with applicable laws, regulations and related requirements is a business outcome and integrated into business processes. RRM assists senior management in effectively and expeditiously resolving all compliance issues identified in this context. RRM interacts and cooperates closely with other group and franchise functions, as well as with the group's various regulatory authorities.

The period under review

Banking legislation

As a member of the BCBS, the SARB is committed to ensuring that the South African regulatory and legislative framework relating to the regulation and supervision of banks and banking groups remains fully compliant with international standards and market best practice. Accordingly, and in order to further strengthen and enhance South Africa’s regulatory framework, a large volume of regulatory changes are being implemented and/or phased in, which results in amendments to the Regulations, such as the amendments to the Regulations which were published in the Government Gazette of March 2015 and April 2015.

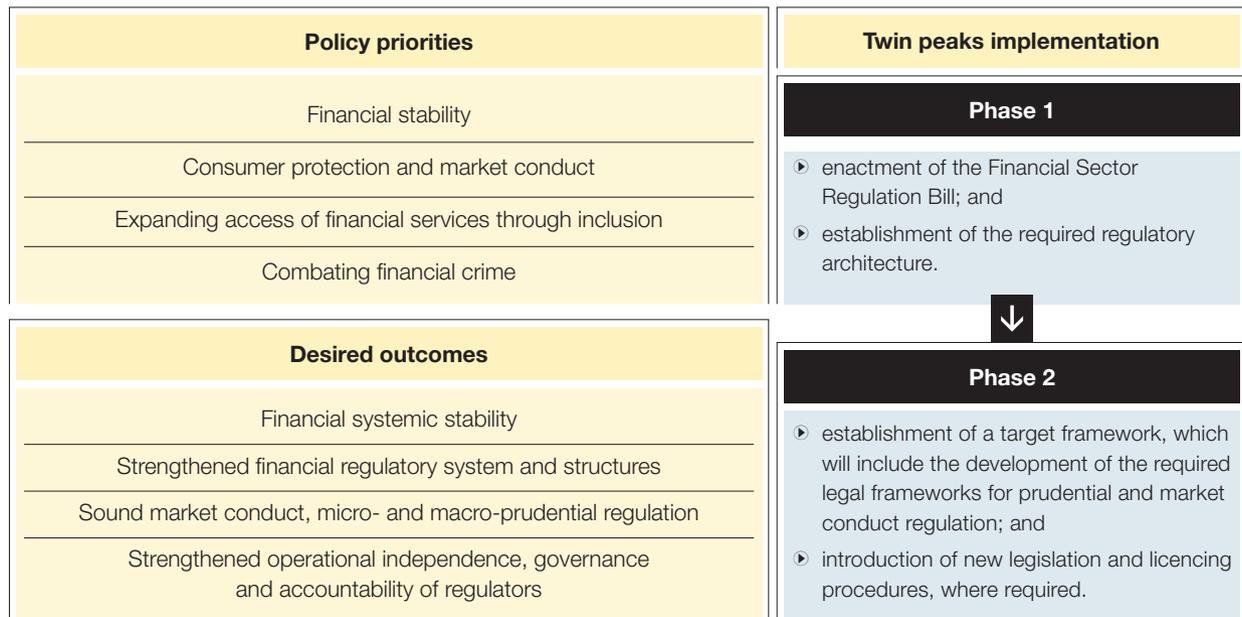
In addition to the above, various other documents, frameworks and requirements that impact materially on the regulation and supervision of banks and banking groups, are being issued by the international standard-setting bodies on an ongoing basis, resulting in revised, additional and/or new regulatory requirements. These, together with the Basel III phase in arrangements, largely resulted in the recent and anticipated large volume of prudential regulatory changes and new and/or amended requirements and standards in this regard.

Financial Sector Regulation Bill (the Bill), giving effect to the twin peaks reforms

Twin peaks refers to the government policy paper which was published in February 2011, entitled *A safer financial sector to serve South Africa better*. The paper, commonly referred to as the *Red Book*, sets out initial proposals to reform South Africa’s financial sector regulatory system and provides information on a wide-ranging set of reforms and proposals relating to, amongst others, the implementation of a twin peaks model of financial regulation in South Africa. A revised draft of the Bill and a discussion document *Treating Customers Fairly in the Financial Sector: A Market Conduct Policy Framework for South Africa* were published in December 2014, with the latest draft of the Bill published for comment in October 2015. The Bill gives effect to the shift to a twin peaks model of financial sector regulation for South Africa, which represents a shift away from the current fragmented regulatory approach to financial regulation in South Africa.

Twin peaks approach will place equal focus on prudential and market conduct regulation with a separate focus on financial stability. In order to minimise the risks associated with these changes, a phased in approach will be followed for the implementation of the twin peaks system of financial regulation in South Africa. The group continues to actively participate in the public commentary processes and works closely with various stakeholders in this regard. The policy priorities identified in order to reform the financial sector, desired outcomes of the approach and phased in implementation are broadly illustrated in the following diagram.

TWIN PEAKS POLICY PRIORITIES AND IMPLEMENTATION



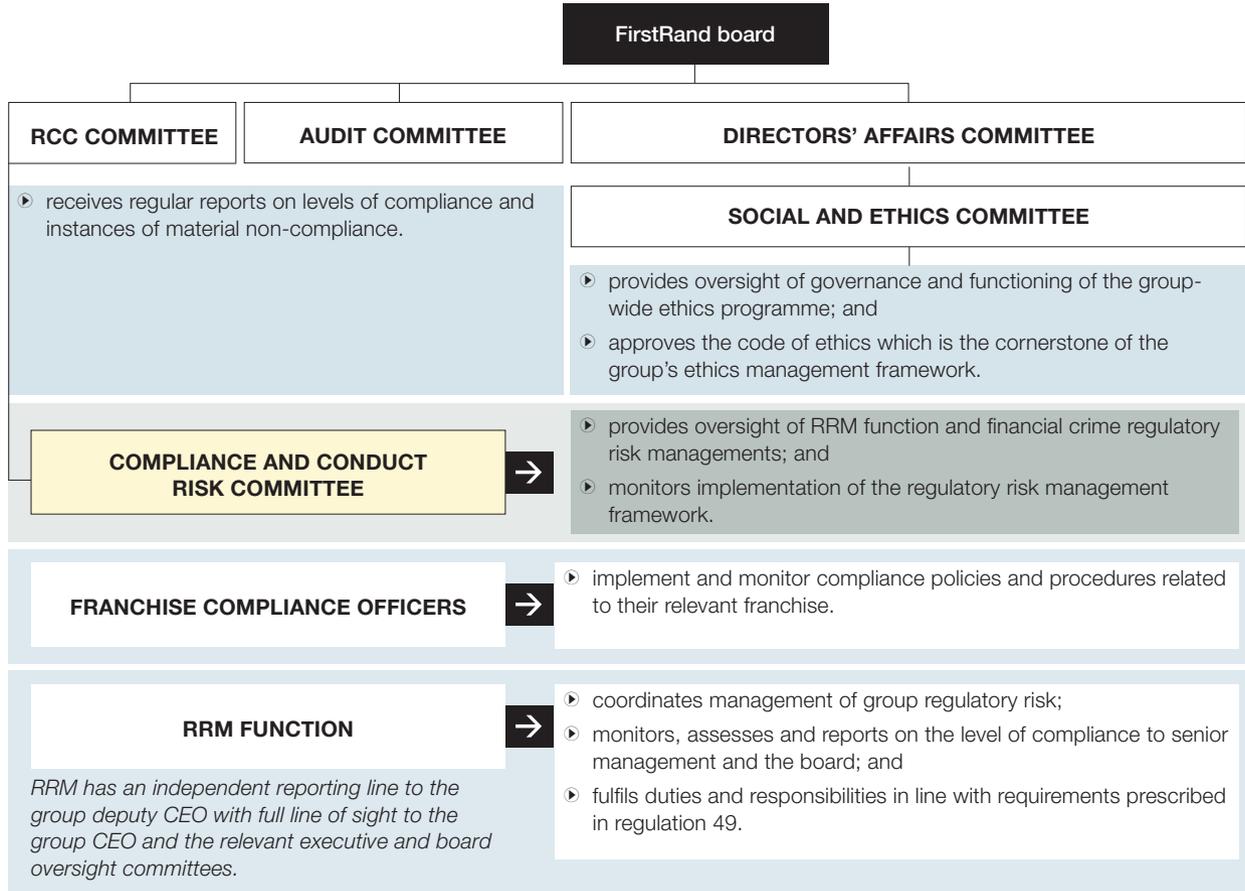
Other regulatory developments and focus areas during the period under review are set out below.

REGULATORY DEVELOPMENTS AND RRM FOCUS AREAS

<p>Protection of Personal Information Act (PoPI)</p> <ul style="list-style-type: none"> ▶ PoPI provides for privacy and protection of personal information held by the group in respect of employees, customers, suppliers and third parties. ▶ The effective date is yet to be announced. ▶ In the interim, 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 processors of personal information and complaints handling. 	<p>AML and CFT measures</p> <ul style="list-style-type: none"> ▶ The group's objective is to ensure compliance with the provisions of AML/CFT legislation and other requirements pertaining thereto. ▶ The Financial Intelligence Centre Act (FICA) will be amended to align more closely with revised Financial Action Task Force recommendations. ▶ The latest draft of the Financial Intelligence Centre Amendment Bill, 2015 was published in October 2015. ▶ Ongoing focus on remediation action as required in respect of identified AML/CFT matters. 	<p>Market conduct</p> <ul style="list-style-type: none"> ▶ Participation in the public commentary process of proposed market conduct legislation which includes the retail distribution review proposals and the Bill. ▶ Other matters which will ultimately inform the future market conduct regulatory landscape are, among others, proposed amendments to the fit and proper rules prescribed in terms of the FAIS Act, 2002 and new product definitions tabled in the Insurance Laws Amendment Bill, 2015.
<p>National Environmental Management: Waste Act</p> <ul style="list-style-type: none"> ▶ The group is participating in relevant industry forums focusing on problematic areas relating to certain provisions of Part 8 of the Waste Act, 2008. 	<p>Group ethics office</p> <ul style="list-style-type: none"> ▶ Continuously reinforces a culture of integrity and ethical business practices. ▶ Maintains focus on the promotion of responsible business and market conduct including treating customers fairly principles. ▶ Provides training on whistle-blowing, conflict of interests avoidance, antibribery and corruption. ▶ Conveys market conduct regulations and related industry best practice to franchises and business units. 	<p>The National Credit Amendment Act (the Amendment Act)</p> <ul style="list-style-type: none"> ▶ The Amendment Act came into effect on 13 March 2015. ▶ Governance arrangements aligned to the revised requirements have been implemented. ▶ Current focus includes embedding affordability assessments and preparation for implementation of published pricing changes.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

REGULATORY RISK GOVERNANCE STRUCTURE



Assessment and management

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

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

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

Public policy and regulatory affairs office

In line with the responsibilities of FirstRand as the group's holding company, 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 and branches. 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 group and franchise executives are aware of key developments relating to public policy, legislation and regulation, which are pertinent to the group's business activities. It also supports executives in developing the group's position on issues pertaining to government policy, proposed and existing legislation and regulation.

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

REMUNERATION AND COMPENSATION

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



FIRSTRAND