FirstRand Bank

FirstRand Bank Limited issuer disclosure for JSE listed debt programmes

12 March 2019

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RISK FACTORS

Words used in this section entitled "Risk Factors" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

The Issuer believes that the factors described below, which are not set out in any particular order, represent key risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it, or which it may not currently be able to anticipate. Some risks are not yet known and some that are not currently deemed material could later turn out to be material. Accordingly, the Issuer does not represent or warrant that the statements below regarding the risks of holding of any Notes are exhaustive.

All of these risks could materially affect the Issuer, its reputation, business, results of its operations and overall financial condition.

The information set out below is therefore not intended as advice and does not purport to describe all of the considerations that may be relevant to a prospective investor.

Investors contemplating making an investment in the Notes should determine their own investment objectives and experience, and any other factors which may be relevant to them in connection with such investment.

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

1. RISKS RELATING TO THE ISSUER

1.1 The investments, business, profitability and results of operations of the Issuer may be adversely affected as a result of political, social and economic risks in South Africa and global economic conditions

The Issuer's operations are predominantly concentrated in South Africa, with the majority of its revenues derived from operations in South Africa. The Issuer is, therefore, highly exposed to South African macroeconomic conditions and, as a result of their impact on the South African economy, global economic conditions. Any material deterioration in global or South African macroeconomic conditions could lead to a reduction in business activity, higher impairment charges, increased funding costs and reduced profitability and revenues.

1.1.1. Global economic conditions

The South African economy is exposed to the global economy through the current and capital accounts of the balance of payments. South Africa's exports are impacted by economic activity of some of the world's largest economies including China, the United States (the "**US**"), UK and Europe. Commodity prices and the Rand exchange rate also have a material impact on South African exports. The South African economy is also reliant on foreign capital inflows and has been a net recipient of foreign capital through the domestic bond and equity markets over the last few years.

If global economic growth or global financial conditions deteriorate materially, it is likely to have a negative impact on macroeconomic conditions in South Africa.

Global economic growth is currently slowing which may jeopardise economic growth of, and capital flows to, some emerging markets. This may include foreign capital

inflows into South Africa's bond and equity markets. Any other developments which may have a negative impact on global risk appetite could also negatively impact foreign capital flows to South Africa. A sharp slowdown of foreign flows to South Africa can result in currency weakness, higher interest rates, an increase in bond yields and weaker economic growth.

The risk of increased global trade impediments (including tariffs) is another factor that could derail global demand for South African goods and global risk appetite. Although some of the immediate concerns around US/China trade tariffs have abated, any renewed escalation poses risk towards investor appetite for South African bonds and equity.

In addition, a sharp fall in precious metal and/or base metal prices could also result in a deterioration in the value of the Rand, higher interest rates and bond yields.

1.1.2. South African economic conditions

The South African macro environment is characterised by low private sector investment growth, weak employment growth, high levels of public sector debt and pressure on domestic demand. In addition, domestic consumer and business confidence remains low.

Structural changes need to be implemented to support a sustainable lift in economic growth. Structural changes, including financial and business reforms at state-owned enterprises, an improvement in the quality of education, much higher fixed capital investment and labour market reforms are necessary to change the long-term trajectory of the country. The solvency and liquidity challenges at some state-owned enterprises remain a concern.

1.1.3. South African political conditions

The Issuer currently anticipates there will be strong political debates in respect of various sensitive issues such as land expropriation which has become a hallmark of the South African political landscape. Ongoing political developments may impact private sector investment.

The Issuer is mindful that political risk may increase as the country approaches its next general election, which is scheduled to take place on 8 May 2019. The high unemployment rate and unequal wealth and income distribution may fuel socio-economic pressure and encourage government to change its current macroeconomic policies.

1.1.4. South African conditions specific to the banking sector

The South African banking sector remains well capitalised, funded, regulated and managed. The South African financial sector is widely regarded as one of the country's key pillars of economic strength. The banking sector is, however, highly exposed to South African macroeconomic conditions and will be impacted by negative macroeconomic developments.

Although household and corporate affordability conditions are currently benefiting from low inflation and low interest rates, a marked slowdown in foreign capital flows may reduce the value of the Rand and lead to higher interest rates which, in turn, is likely to have a significant impact on household and corporate affordability conditions. A deterioration in the country's institutions, especially the independence of the SARB and

policy conduct at the National Treasury, can also have a negative impact on the banking sector.

The Issuer's financial performance has been and is likely to remain linked to the performance of the South African economy.

1.2. Risk management

The Issuer, in common with other issuers in South Africa and elsewhere, is exposed to commercial and market risks in its ordinary course of business, the most significant of which are credit risk, market risk in the trading book, and operational risk. Credit risk is the risk of loss due to non-performance of a counterparty in respect of any financial or other obligation. Market risk in the trading book relates to the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Any failure to control these risks adequately or unexpected developments in the future economic environment could have an adverse effect on the financial condition and reputation of the Issuer (see the subparagraph titled "*Risk Management*" in the section titled "*Description of FirstRand Bank Limited*").

1.3. Credit risk

Credit risk arises primarily from advances and certain investment securities. Other sources of credit risk include reinsurance assets, cash and cash equivalents, accounts receivable and derivative balances.

The Issuer's lending and trading businesses are subject to inherent risks relating to the credit quality of its counterparties and the recoverability of loans and advances due from these counterparties. Changes in the credit quality of the Issuer's lending and trading counterparties or arising from systemic risk in the financial sector could reduce the value of the Issuer's assets, resulting in increased credit impairments.

Many factors affect the ability of the Issuer's clients to repay their loans, including adverse changes in consumer confidence levels due to local, national and global factors, levels of consumer spending, bankruptcy rates, and increased market volatility. These factors might be difficult to predict and are completely outside of the Issuer's control. The Issuer performs regular stress tests on its credit portfolios to identify the key factors impacting the credit risk profile, to anticipate possible future outcomes, and to implement necessary actions to constrain risk.

The Issuer continues to apply origination strategies which are aligned to its broader financial resource management processes and macroeconomic outlook. The Issuer manages credit risk 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 principles include holding the appropriate level of capital and pricing for risk on an individual and portfolio basis. Credit risk is taken within the constraints of the Issuer's risk appetite framework. The Issuer's credit portfolio is managed at an aggregate level to optimise the exposure to this risk. Persistent political and policy uncertainty, ongoing governance issues at state-owned enterprises and continued erosion of confidence in institutional strength and independence all continue to have a negative impact on confidence, which in turn constrains private sector investment, places pressure on employment and ultimately undermines gross domestic product ("**GDP**") growth. Such a macroeconomic environment will be characterised by low domestic demand growth (consumption, investment and government spending), downward pressure on personal income and further rating agency downgrades. This could

result in increased levels of impairment in the Issuer’s credit portfolio and have an adverse impact on the Issuer's ability to grow its revenues and, therefore, on its financial condition.

1.4. Concentration risk

Credit concentration risk is the risk of loss 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.

The Issuer's business is significantly focused on the South African market and, the Issuer, therefore, faces a geographic concentration risk. Operations in South Africa are subject to various risks which include political, social and economic risks, such as general economic volatility, low growth, relatively high inflation, exchange rate risks, exchange controls, crime and diseases (including, for example, HIV/AIDS), which could affect an investment in the Notes. The existence of such factors may have a negative impact on South African economic conditions generally, and more specifically on the business and results of the Issuer in ways that cannot be predicted.

Any adverse changes affecting the South African economy are likely to have an adverse impact on the Issuer's ability to grow revenues as well as credit impairments and, therefore, on its financial condition.

1.5. Liquidity risk

Structural characteristics impacting the funding profile of South African banks

South Africa is an emerging market with significant socio-economic challenges. These include high levels of poverty and social security needs. Addressing these challenges require a high level of funding which constrains domestic savings and results in low household savings rates.

In addition to a low domestic savings rate, South Africa’s financial system is characterised by structural features which pose additional liquidity challenges for the domestic banking system. A key characteristic is the fact that the available savings in the economy are mostly contractual savings and funded pension liabilities. These savings are captured by institutions such as pension funds, provident funds and providers of asset management services. In addition, they tend to have a higher allocation to the equities market relative to fixed income assets (relative to developed market norms) and are invested at banks in the form of institutional funding, comprising wholesale funding from financial institutions across a range of deposits, loans and other financial instruments.

In addition, the operational liquidity management needs of institutions are largely met by their investments into the banking sector via the money market. These institutional deposits have a higher liquidity risk than retail deposits.

Given the relative reliance on institutional deposits, liquidity risk in the South African banking system is structurally higher than in most other markets.

However, this risk is to some extent mitigated by the following factors:

- the “closed Rand” system, whereby all Rand transactions (whether physical or derivative) have to be cleared and settled in South Africa through registered banks and clearing institutions domiciled in South Africa. The Issuer is one of the major clearing/settlement banks;
- the institutional funding base is fairly stable as it is, in effect, recycled contractual retail savings;
- the country has a prudential exchange control framework in place; and

- relative to emerging market peers, South African banks have a low dependence on foreign currency funding (i.e. low foreign currency roll-over risk).

These factors contributed to South Africa's resilience during the 2007 - 2008 global financial crisis.

Foreign currency funding risks

The low level of discretionary savings in South Africa, and its high investment and social welfare requirements increase the economy's reliance and vulnerability to foreign capital inflows, driven by the country's fiscal and current accounts.

Given South Africa's poor macroeconomic outlook, vulnerable funding position, risks of further sovereign credit rating downgrades, and resulting low investor confidence, no assurance can be given that the Issuer will be able to refinance its foreign currency obligations when they fall due on acceptable terms.

The Issuer seeks to mitigate its exposure to its foreign currency funding through operating a prudent foreign currency management framework, and operating within limits on its foreign currency borrowing that are more conservative than the macro-prudential limits applied by the SARB. The Issuer 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 Issuer believes that its level of access to domestic and international inter-bank and capital markets will allow the Issuer to meet its short-term and long-term liquidity needs due to its strategy, flexibility and diversification of its liquidity risk management policy in both foreign and domestic currencies. However, any maturity mismatches may have a material adverse effect on its financial condition. Furthermore, there can be no assurance that the Issuer will be successful in obtaining additional sources of funds on acceptable terms or at all.

Funding and other risks relating to securitisations

The Issuer makes use of securitisations to complement its overall funding strategy. This can, however, constitute a significant proportion of a particular asset class within the broader bank balance sheet. The Issuer's most significant deployment of securitisation has been focused on the United Kingdom-domiciled vehicle finance entity, MotoNovo Finance ("**MotoNovo**"), which has engaged in both public transactions (known as the "**Turbo Finance**" securitisation platform), as well as private transactions (asset warehousing facilities with international banks).

While an important component of its overall funding strategy, the Issuer limits the use of securitisation to ensure appropriate strategy diversification and agility. Further, the Issuer does not aim to execute securitisations for credit or capital relief purposes, and typically retains subordinated notes within the wider FirstRand Group structure. Consequently, the FirstRand Group retains all risks and rewards associated with the underlying assets. This practice may, however, have an adverse impact on the volatility of the Bank's reported earnings where large portions of a particular asset book are securitised to enable further asset growth and funding, as is the case for MotoNovo. In addition, the use of securitisation transactions as part of the Issuer's funding strategy generates risks such as:

- funding and liquidity risk in respect of any potential repurchase of the transferred assets (for example, in circumstances where there is a breach of contractual representations and warranties relating to the underlying assets);
- operational risks related to the servicing of the transferred assets; and
- interest rate and other risks through derivatives held with the securitisation entities.

The Issuer engages in securitisation transactions in order to mitigate and not add to the funding and liquidity risk profile. However, there is the risk that if the securitisation markets, especially in the United Kingdom and European jurisdictions, were to close and remain closed for an extended or prolonged period or if there was a significant reduction in investor demand, or a significant increase in cost of funding obtained from securitisations, this may increase the Bank's refinancing risks, particularly in respect of foreign currency, and adversely impact the Bank's liquidity and financial condition.

1.6. Downgrade in the Issuer's credit ratings or credit rating of South Africa could have an adverse effect on the Issuer's liquidity sources and funding costs

The Issuer's credit ratings affect the cost and other terms upon which the Issuer is able to obtain funding. Rating agencies regularly evaluate the Issuer and the ratings of its long-term debt are based on a number of factors, including capital adequacy levels, quality of earnings, business position, credit exposure, funding and liquidity risks, the risk management framework as well as the sovereign ratings and the macro risk profiles for its country of incorporation and that of its operating jurisdictions. These parameters and their possible impact on the Issuer's credit ratings are closely monitored and incorporated into its liquidity risk management and contingency planning considerations. In particular, as rating agencies impose a cap on the Issuer's rating at the level of the sovereign rating, a change to the sovereign rating will, therefore, impact the Issuer's rating.

In addition, a downgrade or potential downgrade of the South African sovereign rating or a change in rating agency methodologies relating to systemic support provided by the South African sovereign could also negatively affect the perception by rating agencies of the Issuer's rating. Any downgrade in the Issuer's credit rating would likely increase its borrowing costs and require the Issuer to post additional collateral or take other actions under some of its derivatives contracts, and could limit the Issuer's access to capital markets.

There can also be no assurance that the rating agencies will maintain the Issuer's current ratings or outlooks or those of South Africa. Failure to maintain favourable ratings and outlooks could increase the Issuer's cost of funding and adversely affect interest margins, which could have a material adverse effect on the Issuer. Ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently of any other rating.

1.7. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes, for example, fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk.

The Issuer may suffer a failure or interruption in or breach of its information technology systems

Information technology ("**IT**") risk encompasses both IT risk and IT change risk. The Issuer's IT risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Bank. It consists of IT-related conditions that could potentially impact the business. IT change risk refers to the risk arising from changes, updates or alterations made to the IT infrastructure, systems or applications that could affect service reliability and availability.

The Issuer's main IT risks include the failure or interruption of critical systems, cybercrime, unauthorised access to systems and the inability to serve its customers' needs in a timely manner.

The Issuer has a high dependency on its IT systems and operations infrastructure to conduct its business. The Issuer regards these systems as critical to improving productivity and maintaining the Issuer’s competitive edge. Any failure, interruption or breach in security of these systems could result in failures or interruptions in its risk management, general ledger, deposit servicing, loan servicing, debt recovery, payment custody and/or other important systems. If the Issuer's information systems fail, even for a short period of time, it could be unable to serve some or all customers' needs on a timely basis which could result in a loss of business. In addition, a temporary shutdown of the Issuer's information systems could result in costs that are required for information retrieval and verification. The occurrence of any failures or interruptions in the Issuer's IT systems and operations infrastructure could have a materially adverse effect on the Issuer's business, financial condition and/or results of operations.

Cyber-crime could have a negative impact on the Issuer's operations

The Issuer's operations are dependent on its own IT systems and those of its third-party service providers. The Issuer could be negatively impacted by cyber-attacks on any of these. As the Issuer moves banking to digital and mobile platforms, the risk of cyber-crime increases, especially as infiltrating technology is becoming increasingly sophisticated, and there can be no assurance that the Issuer will be able to prevent all threats.

The Issuer may not be able to detect money laundering and other illegal or improper activities fully or on a timely basis, which could expose it to additional liability and have a material adverse effect on it

The Issuer is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in South Africa insofar as reasonably practicable. These laws and regulations require the Issuer, among other things, to adopt and enforce “customer due diligence” policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. While the Issuer has adopted policies and procedures aimed at detecting and preventing the use of its banking platforms for money laundering and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances in which the Issuer may be used by other parties to engage in money laundering or other illegal or improper activities. To the extent the Issuer may fail to fully comply with applicable laws and regulations, the relevant government agencies to which it reports have the power and authority to impose fines and other penalties on the Issuer. In addition, the Issuer's business and reputation could suffer if customers use it for money laundering or illegal or improper purposes.

1.8. The Issuer’s business is subject to its ability to quickly adapt to disruptions while maintaining continuous business operations

The Issuer has established a business resilience policy and standards to govern business continuity (including disaster recovery) and to improve the capability of the business to effectively respond to disruptive events from internal failures or external events. This is achieved through the business continuity strategies including regular review of business continuity plans (including disaster recovery) and testing. Any failure in the continuity of the Issuer's operations and services could have a material adverse effect on its business, financial condition and/or results of operations.

1.9. The Issuer's risk management policies and procedures may not have identified or anticipated all potential risk exposures

The Issuer has devoted significant resources to developing its risk management policies and procedures, particularly in connection with credit, concentration and liquidity risks, and expects to continue to do so in the future. Nonetheless, its risk management techniques may not be fully

effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of the Issuer's methods of managing risk are based upon its use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which could be greater than historical measures indicate. Other risk management methods depend upon evaluation of information regarding the markets in which the Issuer operates, its clients or other matters that are publicly available or otherwise accessible by the Issuer. This information may not be accurate in all cases, complete, up-to-date or properly evaluated. Any failure arising out of the Issuer's risk management techniques may have an adverse effect on the results of its operations and financial condition.

1.10. Competitive landscape

The Issuer is subject to significant competition from other major banks operating in South Africa, including competitors such as international banks that may have greater financial and other resources, particularly in the corporate and investment banking market. Many of these banks operating in the Issuer's markets compete for substantially the same customers as the Issuer. The Issuer also faces competition from other non-bank entities that increasingly provide similar services to those offered by banks, e.g. fintech companies, insurers, retailers, mobile phone operators and shadow banking players. Increased competition from non-bank entities in the money and capital markets could impact the Issuer's ability to attract funding.

On 7 March 2019, parliament's finance committee approved an amendment to the Banks Act, which will allow state-owned entities to establish a bank but only at national level. The amendment to the Banks Act to allow for state-owned banks is contained in the Financial Matters Amendment Bill proposed by the Treasury. This may increase competition in the South African banking landscape.

Increasing competition could also require that the Issuer increases its rates offered on deposits or lower the rates it charges on loans, which could also have a material adverse effect on the Issuer, including its profitability. Although the Issuer's financial resource management approach requires it to price appropriately for financial resources, should competitive forces prevent the Issuer from pricing for these resources appropriately it may withdraw from offering certain products which may also negatively affect the Issuer's business results and prospects, by, among other things, limiting its ability to generate revenue, increase its customer base and/or expand its operations.

If the Issuer's customer service levels were perceived by the market to be materially below those of its competitor financial institutions, the Issuer could lose existing and potential new business. If the Issuer is not successful in retaining and strengthening customer relationships, the Issuer may lose market share, incur losses on its activities, fail to attract new deposits or retain existing deposits which could have a material adverse effect on its operating results, financial condition and prospects.

1.11. The Issuer is subject to capital and liquidity requirements that could affect its operations

The Issuer is subject to capital adequacy guidelines adopted by the Prudential Authority (“**PA**”), which provide for minimum capital requirements for Common Equity Tier 1 ("**CET1**"), Tier 1 and Total Capital. Any failure by the Issuer to maintain its minimum capital requirements may result in restrictions placed on distributions, as well actions against the Issuer, which may in turn impact on its ability to fulfil its obligations under the Notes.

The Regulations Relating to Banks (as amended from time to time) are based on the Basel III framework and provide the minimum risk-based capital ratios. The PA minimum ratios have been phased in since 2013 and have been fully implemented from 1 January 2019 in line with Basel III. The minimum CET1 ratio for 2019 is 8.5 per cent. The minimum Tier 1 ratio for 2019

is 10.75 per cent. The minimum total capital adequacy ratio for 2019 is 14 per cent. These minimum ratios exclude the countercyclical buffer and confidential bank-specific individual capital requirement ("**ICR**") but includes the maximum potential domestic systemically-important bank ("**D-SIB**") requirement, which is also bank-specific and therefore confidential.

The Basel III capital buffers continue to make it more challenging for banks to comply with minimum capital ratios. Failure by the Issuer to meet certain of these buffers, for example the capital conservation and countercyclical buffers, could result in restrictions being placed on distributions, including dividends and discretionary payments, and any failure by the Issuer to maintain its capital ratios may result in action taken in respect of the Issuer, which may in turn impact on its ability to fulfil its obligations under the Notes.

In addition, Basel III prescribes two minimum liquidity standards for funding and liquidity. The first is the liquidity coverage ratio ("**LCR**") which became effective on 1 January 2015 and aims to ensure that banks maintain an adequate level of high-quality liquid assets to meet liquidity needs for a 30-calendar day period under a severe liquidity stress scenario. The second is the net stable funding ratio ("**NSFR**"), which is effective from 1 January 2018, and which aims to promote medium and long-term funding of banks' assets and activities.

South Africa, as a G20 country and a Basel Committee on Banking Supervision ("**Basel Committee**") member country, commenced with the phasing-in of the Basel III LCR framework on 1 January 2015, with the minimum requirement of 60% stepping up to 100% on 1 January 2019, in line with timelines determined by the Basel Committee.

The SARB has approved the 2019 committed liquidity facility ("**CLF**") which will be available to assist banks meet the LCR. The PA's approach to the CLF and other related conditions for the period from 1 December 2018 to 30 November 2019 is detailed in, *inter alia*, Guidance Note 4 of 2018 (*Continued provision of a committed liquidity facility by the South African Reserve Bank to banks*).

The NSFR is a structural balance sheet ratio focusing on promoting a more resilient banking sector. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. The ratio came into full effect as of 1 January 2018. The Issuer supports the amended framework issued by the PA in August 2016, whereby funding received from financial corporates, excluding banks, maturing within six months receives an available stable funding factor of 35 per cent. The Issuer also supports the clarity provided by the PA in relation to the CLF and NSFR, applying a 5 per cent. required stable funding factor to the assets (post haircut) eligible for CLF purposes. These changes have been anchored in the assessment of the true liquidity risk and assist the South African banking sector in meeting the NSFR requirements.

1.12 In accordance with its Basel III and G20 commitments, the SARB is developing a resolution framework.

The South African regulatory architecture has undergone significant transformation to create a regulatory framework that will support an effective resolution regime. The country has adopted a twin peaks supervisory framework model that reduces the number of agencies involved in supervision. The PA, established within the SARB, and the Financial Sector Conduct Authority ("**FSCA**"), which replaces the Financial Services Board, were established on 1 April 2018. Whilst the PA/SARB is responsible for monitoring and enhancing financial stability as part of its explicit financial stability mandate, the SARB will also be responsible for assisting with the prevention of systemic events by means of its designation as the Resolution Authority (**"RA"**).

The FSCA will supervise how financial institutions conduct their business and treat customers. It is also responsible for the efficiency and integrity of financial markets.

In January 2018, a draft resolution framework was released to the banking industry for initial review, following which it will be released to the public for general comment. This draft framework sets out the broad principles for the resolution of banks, systemically-important non-bank financial institutions and holding companies of banks, and highlights the various legislative amendments required to ensure the framework is enforceable. Detailed definitions of key elements of the resolution framework are subject to finalisation, and directives or addendums to this framework will be published once finalised. The resolution plans will allow the PA to prepare for an event from which the group's recovery actions have failed or are deemed likely to fail. Bank resolution plans will be owned and maintained by the RA but will require a significant amount of bilateral engagement and input from the individual banks to enable the RA to develop a customised plan that is most appropriate to each bank.

The Draft Financial Sector Laws Amendment Bill was published for comment by National Treasury in October 2018. In order to support the pending Resolution Framework, the bill proposes the necessary amendments to various acts including the Insolvency Act, the South African Reserve Bank Act, the Banks Act, the Mutual Banks Act, the Competition Act, the Financial Markets Act and the Insurance Act with a view to strengthening the ability of the South African Reserve Bank to manage the orderly resolution or winding down of a failing financial institution with minimum disruption to the broader economy. One of the key amendments included in the bill is the establishment of the Corporation of Deposit Insurance (**"CoDI"**) designed to protect depositors' funds and enhance financial stability. The bill is awaiting promulgation by parliament before it is enacted, but in the interim the relevant regulators are continuously engaging with industry to continue working on the design and finalisation of the outstanding elements of the resolution framework.

1.13 Changing regulatory environment

The Issuer is subject to the laws, regulations, administrative actions and policies of South Africa and each other jurisdiction in which it operates, and the Issuer's activities may be constrained by such legal and regulatory requirements. Changes in regulation and supervision, particularly in South Africa, could materially affect the Issuer's business, the products or services offered, the value of its assets and its financial condition. Although the Issuer works closely with its regulators and continuously monitors the regulatory feedback and proposals, future changes in regulation, fiscal or other policies cannot be predicted and are beyond the control of the Issuer.

Applicable laws and other requirements, as amended from time to time, include:

- Financial Sector Regulation Act, 2017;
- Banks Act, 1990 and related Regulations;
- Companies Act, 2008;
- Competition Act, 1998;
- Collective Investment Schemes Control Act, 2002;
- Financial Intelligence Centre (FIC) Act, 2001;
- Long-term Insurance Act, 1998;
- Short-term Insurance Act, 1998;
- Insurance Act, 2017;

- Financial Advisory and Intermediary Services (FAIS) Act, 2002;
- National Credit Act (NCA), 2005;
- Consumer Protection Act, 2008;
- Financial Markets Act, 2012;
- Foreign Account Tax Compliance Act, 2010;
- Protection of Personal Information Act (PoPIA), 2013;
- Prevention and Combatting of Corrupt Activities Act, 2004;
- King Code of Governance Principles for South Africa 2016(King IV); and
- JSE rules and directives.

The Issuer is also subject to any applicable regulatory instruments issued pursuant to any of the abovementioned legislation.

1.14 The Issuer may be unable to recruit, retain and motivate key personnel

An engaged workforce is critical to the successful delivery of the Issuer's objectives. The Issuer's performance is dependent on key personnel. The Issuer's continued ability to compete effectively and further grow its businesses also depends on its ability to attract new staff. In relation to the development and training of new and existing employees, the Issuer is reliant on the continued development of South Africa's educational sector, including access to facilities and educational programmes.

1.15 Terrorist acts, hostility arising from competing political groups, acts of war, and other types of event risk could have a negative impact on the business

Acts of terrorism, hostility from competing political parties, acts of war, government expropriation or confiscatory acts, currency inconvertibility, financial market closure, health pandemics and other types of event risk and responses to those acts and events, may have both direct and indirect negative impacts on the economic conditions of South Africa, the rest of Africa and internationally, and more specifically on the business and results of the Issuer in ways that cannot be predicted.

2 RISKS RELATING TO SOUTH AFRICA

2.1 Risks relating to emerging markets

South Africa is an emerging market with significant socio-economic challenges. Investors in emerging markets such as South Africa should be aware that these markets carry risks which are different from those which apply to investment in more developed markets. These risks include economic and financial market volatility which may be exacerbated by global economic volatility, as well as, in some cases, significant legal and political risks.

Economic and financial market instability in South Africa has been caused by many different factors, including:

- high interest rates;
- exchange rate volatility;
- high levels of inflation;
- exchange controls;

- industrial action;
- commodity price fluctuations;
- the slowdown in the economic activity of its trading partners;
- wage and price controls;
- changes in economic and tax policies;
- the imposition of trade barriers;
- wide current account deficit;
- capital outflows;
- perceived or actual internal security issues; and
- general social, economic and business conditions.

Any of these factors, amongst others, as well as volatility in the markets for securities similar to the Notes, may adversely affect the value or liquidity of the Notes.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and prospective investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

Investors should also note that developing markets, such as South Africa, are subject to rapid change and that the information set out in this Programme Memorandum may become outdated relatively quickly.

2.2 Regulatory environment

The Issuer is subject to formal regulation in South Africa. Regulatory agencies have broad jurisdiction over many aspects of the Issuer's business, which may include capital adequacy, premium rates, marketing and selling practices, advertising, licensing agents, policy forms, terms of business and permitted investments.

Changes in government policy, legislation or regulatory interpretation applying to the financial services industry in the markets in which the Issuer operates may adversely affect the Issuer's product range, distribution channels, capital requirements, environmental and social obligations and, consequently, reported results and financing requirements. In particular, any change in regulation to increase the requirements for capital adequacy or liquidity, or a change in accounting standards, could have a material adverse impact on the Issuer's business, results, financial condition or prospects.

During 2011, the Government issued a policy paper, *"A Safer Financial Sector to Serve South Africa Better"*, which articulated its strategic regulatory objectives. The document identified policy priorities to reform the financial sector, most notably: financial stability; consumer protection and market conduct; expanding access of financial services through inclusion; and combating financial crime. Achieving these objectives evidently necessitated a change in the South African regulatory landscape from both a structural and a policy perspective including the introduction of a "twin-peaks" approach to financial sector regulation. In terms of the twin peaks approach, equal focus is placed on prudential and market conduct regulation with separate but equally important focus on financial stability. A phased-in approach is being followed for the implementation of the Twin Peaks system of financial regulation in South Africa. This new framework and related requirements give rise to additional complexities for financial

services and product providers in managing regulatory risks and the Issuer will continue to work closely with its regulators on matters pertaining to the above.

The Twin Peaks system of financial regulation in South Africa was effectively implemented on 1 April 2018. The SARB is now formally responsible for financial stability whilst the PA and the FSCA took effect. Although most provisions of the Financial Sector Regulation Act ("**FSR**"), 2017 are now effective, provisions pertaining to licencing requirements and fees and levies will become effective on 1 April 2019. Although most existing sub-sectoral/financial sector laws such as the Banks Act, 1990 for banking (as amended to align to the FSR Act), will remain in place, there are a small number of financial sector laws which will eventually be repealed and replaced by the new financial sector laws. It is also important to note that a key objective of the new framework is to ensure that there is effective co-operation and collaboration among the SARB, the PA, the FSCA, the National Credit Regulator ("**NCR**"), the Financial Intelligence Centre ("**FIC**") and the Competition Commission, which is anticipated to result in additional complexities for financial services and product providers in managing regulatory and conduct risks. The Issuer will continue to work closely with its regulators on matters pertaining to the above. It is anticipated that, once stage 1 of the new framework is fully phased in, focus will shift to the creation of a more harmonised system of licencing, supervision, enforcement, dealing with customer complaints (including Ombudsmen), appeals, and consumer advice and education across the financial sector.

2.3 Exchange controls

Foreign-derived loan capital or equity capital may be introduced into South Africa through a formal system of exchange control as summarised in the section entitled "*South African Exchange Control"* of this Programme Memorandum. However, the proceeds from the sale of assets in South Africa owned by a non-resident are not remittable to the non-resident unless prior approval is received from an authorised foreign exchange dealer or, if such authorised foreign exchange dealer is unable to approve the request as per the requirements laid down in the Currency and Exchanges Manual, then prior approval is required from the SARB.

Since 1995, certain exchange controls in South Africa have been relaxed. The extent to which the South African Government (the "**Government**") may further relax such exchange controls cannot be predicted with certainty, although the Government has committed itself to a gradual approach of relaxation. Further relaxation, or abolition of exchange controls may precipitate a change in the capital flows to and from South Africa. If the net result of this were to cause large capital outflows, this could adversely affect the Issuer's business and it could have an adverse effect on the financial condition of the Issuer as a whole. In the event of the immediate abolition of exchange control there may be a sudden withdrawal of Rand from the South African market by investors. Because South Africa has a fully-floating exchange rate and a flexible interest rate policy, this would result in a rapid depreciation of the Rand exchange rate which would serve to stem the flight and would also result in an increase in interest rates due to the depreciation of the Rand. The SARB would sell reserves to protect the value of the Rand. Such reserve activity by the SARB is likely to be sterilised and as such should not have a significant impact on inflation.

DESCRIPTION OF FIRSTRAND BANK LIMITED

OVERVIEW

FirstRand Bank Limited (the "**Bank**" or the "**Issuer**") is a wholly-owned subsidiary of FirstRand Limited ("**FirstRand**"), which is a bank controlling company for the purposes of the South African Banks Act 1990. FirstRand is listed on the Johannesburg Stock Exchange (the "**JSE**") and the Namibian Stock Exchange (the "**NSX**") and is one of the largest financial institutions in Africa by market capitalisation. In this Programme, references to the "**Group**" are to FirstRand Limited and its subsidiaries (including the Bank and its operating businesses). The Bank provides a comprehensive range of retail, commercial, corporate and investment banking products and services in South Africa and offers niche products in certain international markets.

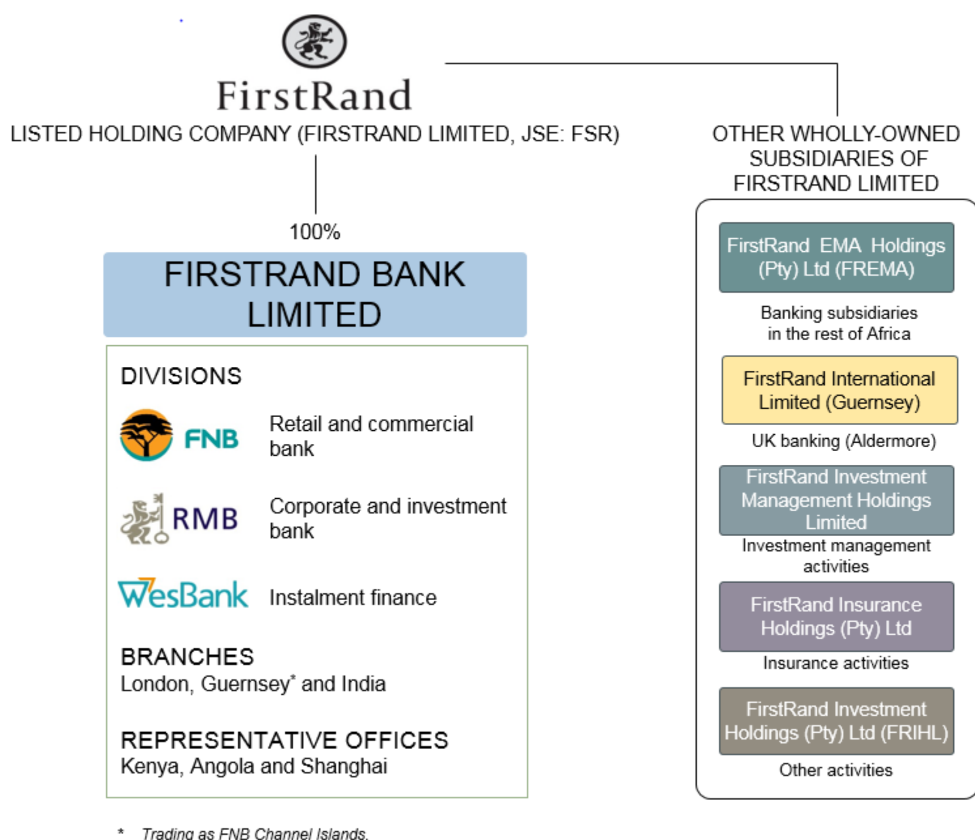
The Bank is the second largest bank in South Africa measured by total assets (according to statistics published by the SARB (Source: BA900, SARB). The Bank holds a full banking licence granted by the SARB and its relevant businesses are authorised to provide financial services in South Africa. The Bank is also an authorised dealer in foreign exchange in terms of the Exchange Control Regulations. It is a Central Securities Depositary Participant in STRATE Limited and is a member of the JSE. Through FirstRand Securities (a wholly-owned subsidiary of FRIHL (as defined below)), the Group is a member of the interest-rate derivatives clearing service, SwapClear, one of the clearing platforms provided by multi-national clearing house LCH.

The Bank was incorporated and registered in South Africa on 11 January 1929 under registration number 1929/001225/06 and is a public company with limited liability duly registered under the company laws of South Africa. The Bank's headquarters and registered address are located at 4 Merchant Place, Corner of Fredman Drive and Rivonia Road, Sandton, 2196, South Africa (telephone number: +27 11 282 1808; fax number: +27 11 282 8088).

The Bank operates through three major divisions (referred to as "operating businesses" across the Group) which are separately branded, comprising First National Bank ("**FNB**"), the retail and commercial bank, Rand Merchant Bank ("**RMB**"), the corporate and investment bank and **WesBank**, the instalment finance business. The operating businesses also undertake activities outside of the Bank in other wholly-owned subsidiaries of the Group, namely, FirstRand EMA Holdings (Pty) Ltd ("**FREMA**"), FirstRand Investment Holdings (Pty) Ltd ("**FRIHL**"), FirstRand Investment Management Holdings Limited and FirstRand Insurance Holdings (Pty) Ltd. FirstRand International Limited (Guernsey) (“**FRI**”) is also a wholly-owned subsidiary of the Group and is the holding company for Aldermore Group plc (“**Aldermore**”), the UK specialist bank recently acquired by the Group.

In addition to its operations in South Africa, the Bank operates through branches in London, Guernsey (trading as FNB Channel Islands) and India. The Bank has representative offices in Kenya, Angola and Shanghai.

The chart below sets out the position of the Bank and its operating businesses relative to FirstRand Limited.



STRATEGY

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

FirstRand can provide its customers with differentiated and competitive value propositions due to its unique and highly flexible model of leveraging the most appropriate brand, distribution channel, licence and operating platform available within the portfolio. FirstRand Bank represents the majority of these resources. This approach, which is underpinned by the disciplined allocation of financial resources and enabled by disruptive digital and data platforms, allows the Group to fully optimise the franchise value of its portfolio. This has resulted in a long track record of consistent growth in high quality earnings, and superior and sustainable returns for shareholders.

The Group's Strategic Executive Committee determines strategy and is accountable for overall performance. The committee membership comprises the FirstRand Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Group Treasurer, the CEOs of FNB, RMB, WesBank, Aldermore and Ashburton Investments, the Head of Group Organisational Development and Human Capital, Head of Investor Relations and Head of Social Investing.

Group strategic framework

FirstRand's strategy accommodates a broad set of growth opportunities across the entire financial services universe from a product, market, segment and geographic perspective.

South Africa

Currently Group earnings are tilted towards South Africa and are generated by FirstRand's large lending and transactional franchises, which have resulted in deep and loyal customer and client bases, and the Group remains focused on protecting and growing these valuable banking businesses. FirstRand also believes that through the utilisation of the origination capabilities, operating platforms and distribution networks of these businesses, it can diversify through capturing a larger share of profits from providing savings, insurance and investment products.

The growth opportunity is significant given the annual flows to other providers from FNB's customer base alone. Through the manufacture and sale of its own insurance, savings and investment products, the Group will, over time, offer differentiated value propositions for customers and generate new and potentially meaningful revenue streams.

The Group's strategy to broaden its financial services offering also benefits the Bank as it enables a comprehensive customer offering (which may include products and services offered off the Group's insurance or asset management licences/platforms). This further entrenches the Bank's relationship with its core transactional customers.

In South Africa, the Bank continues to focus on protecting and growing its lending and transactional franchises:

- growing profitable market share;
- cross-sell and up-sell;
- disciplined allocation of financial resources; and
- leveraging the Group's building blocks (i.e. customer bases, distribution channels and systems).

Rest of Africa

The Group's strategy outside of its domestic market includes growing its presence and offerings in nine markets in the rest of Africa where it believes it can organically build competitive advantage and scale over time. In the rest of Africa, the Bank's balance sheet is utilised in RMB's cross-border lending and trade finance activities. The Group's subsidiaries in the rest of Africa form part of FREMA and thus fall outside the Bank.

UK

In the UK, the Group has, over the past nine years, focused on organically transforming its existing business, MotoNovo, into the UK's third-largest independent used vehicle financier. The Group recently acquired Aldermore, and is in the process of integrating the two businesses. FirstRand believes this will result in an appropriately diversified UK business, with an established and scalable local funding platform, that represents a more sustainable and less volatile business model.

Once MotoNovo has been fully integrated into Aldermore, which is not part of the Bank, all new business written by MotoNovo will be funded through further scaling Aldermore's deposit franchise and funding platform, as well as leveraging capital market securitisations and warehouse transactions with international banks. MotoNovo's current loans, housed in FirstRand Bank London branch, will continue to be funded through existing funding mechanisms, but will be run down over time. As a result, MotoNovo will ultimately cease to form part of the Bank.

OVERVIEW OF THE BANK'S OPERATING BUSINESSES

The Group's multi-branded model has enabled each business to calibrate its brand, strategies and client propositions to specific segments and sub-segments. This has, over time, resulted in FNB, RMB and WesBank being recognised as market leaders in South Africa in the specific markets in which they operate.

Aligned to the overall strategic framework described above, the Bank's operating businesses execute growth strategies appropriate to their segments and customer bases.

Certain strategic actions taken to expedite the execution of Group strategy in the last six to twelve months have resulted in some changes to the composition of earnings at an operating business level:

- DirectAxis, previously reported as part of WesBank's earnings, has been moved into a personal loans cluster within FNB, alongside the FNB loans business. This will allow faster execution of collaboration between FNB and DirectAxis across products and channels, including core transactional accounts where penetration is currently low.
- MotoNovo, was also previously reported under WesBank's results, however, until the integration with Aldermore is completed, the total operational performance of MotoNovo will reside in FirstRand Bank London Branch. MotoNovo's performance will, therefore, be reflected in the results of FCC/Group Treasury ("**GTSY**") and is completely stripped out of WesBank's performance.
- Following the finalisation of the transaction with Discovery, the Discovery card business has been moved out of FNB into GTSY/FCC.

FNB

FNB represents the Bank's activities in the retail and commercial segments in South Africa. FNB is growing its franchise on the back of a customer offering that provides a broad range of financial services products and is the currently biggest contributor to the Bank's net profits.

Retail segment

FNB's Retail segment focuses on providing financial services solutions to individual customers across all income ranges. The primary business areas for the Retail segment include:

- residential mortgages (including Wealth mortgages and Housing Finance)
- credit cards (issuing);
- personal loans (including micro and student loans); and
- retail other, which includes the following business lines:
  - cheque and transmission products, including cheque and debit cards, overdrafts and revolving loans;
  - investments and equity products;
  - certain trust and fiduciary services;
  - insurance brokers;
  - rewards (including eBucks rewards programmes);
  - electronic banking (including online, cellphone banking, FNB Connect (a mobile virtual network operator or "**MVNO**"), and the FNB banking app); and
  - manual banking (including ATMs/ADTs and physical representation points).

Commercial segment

FNB's Commercial segment provides financial solutions, including working capital, structured finance, investment products, transactional banking and term loans to two sub-segments. These segments are Growth (comprising small businesses with turnover up to ZAR10m per annum) and Commercial (medium-sized corporates). FNB's Commercial segment offers the following products and business lines:

- cheque and transmission products, including overdrafts and revolving loans;
- cash management solutions;
- merchant services (card acquiring);
- eWallet Pro (allows payment to a cellphone number or card to eliminate cash/cheques);
- investment products;
- commercial property finance;
- credit cards;
- debtor and leveraged finance;
- securities-based lending;
- selective invoice discounting;
- insurance broking;
- retail and business foreign exchange services;
- rewards (eBucks rewards for Business); and
- other value-add products (e.g. CIPC registration, DocTrail, instant accounting solutions, instant payroll, instant invoicing, instant cashflow, employee value banking solutions).

FNB's strategy

FNB’s strategy is to:

- grow and retain core transactional accounts;
- provide market-leading digital platforms to deliver cost effective and innovative transactional propositions to its customers;
- use its deep customer relationships and sophisticated data analytics to effectively cross-sell and up-sell a broad range of financial services products;
- use rewards programme to further entrench customer relationships;
- apply disciplined origination strategies;
- provide innovative savings products to grow its retail deposit franchise; and
- right-size its physical infrastructure to achieve efficiencies.

RMB

RMB represents the Bank’s activities in the corporate and investment banking segments in South Africa, the broader African continent and India. RMB's portfolio spans investment banking, markets and structuring and corporate transactional banking activities. RMB services corporate, institutional and public-sector clients across all industries. RMB's private equity and principal investing businesses are

activities of FRIHL and do not, therefore, form part of the operations of the Bank. Certain of RMB's activities in the rest of Africa are booked on the in-country subsidiary's balance sheet and, as these are subsidiaries of FREMA, these activities do not form part of the operations of the Bank. Certain cross-border lending and trade finance activities do, however, utilise the Bank's balance sheet.

RMB's activities that are represented within the Bank are described in more detail below.

Investment Banking and Advisory

Investment Banking and Advisory activities comprise the majority of RMB's debt and advisory businesses. It offers clients advisory and funding solutions across multiple industries and jurisdictions. The teams utilise various asset classes and currencies to underwrite, arrange and provide funding across the whole capital structure.

- *Corporate finance*: offers advice on a variety of financial transactions, including mergers and acquisitions, capital raising solutions, equity capital market solutions, and equity and debt restructuring.
- *Leveraged finance*: develops and structures multi-disciplinary, integrated financial solutions across the entire debt financing spectrum for clients that want to implement acquisitions, balance sheet optimisation, recapitalisations, and management and leveraged buy-outs.
- *Resource finance*: offers solutions to clients in the mining, and oil and gas industries across all commodities.
- *Infrastructure finance*: provides funding solutions across all key sectors, including: public-private-partnerships, conventional power, renewable energy, road, rail, ports, water, telecommunications, industrial facilities and manufacturing facilities across sub-Saharan Africa.
- *Real estate finance*: supports transaction origination and structures, and participates in long-term debt, underwriting and distribution solutions for the listed property sector and owners of large, unlisted portfolios in South Africa and sub-Saharan Africa.
- *Structured asset finance:* offers structured term-funding and off-balance sheet finance solutions to RMB's clients who acquire or use moveable assets.
- *Debt capital markets*: offers corporate clients, government and parastatals in South Africa and sub-Saharan Africa on- and off-balance sheet financing solutions in both the local and global debt capital markets to meet their capital raising requirements.

Markets and Structuring

Markets and Structuring activities include financial risk management and hedging solutions across the interest rate, currency, liquidity, commodity, equity and credit asset classes, covering execution, asset servicing, prime broking and clearing solutions.

- *Sales*: services institutional and selected corporate clients in respect of derivative and capital markets-based financial solutions across fixed income, currency and commodities.
- *Structuring:* provides structuring services in respect of client needs across asset classes.
- *Trading*: provides trading services in fixed income, currencies and commodities securities and derivatives across fixed income, currency, commodity, credit and equity asset classes. The equities structuring and derivative trading activities fall within the scope of the Bank as well as some agency services (such as prime broking, futures clearing and securities lending). Other equities activities (such as stockbroking) are carried out by FRIHL and not the Bank.

- *Prime Services:* execution, financing, asset servicing, custody and clearing facilities to RMB's largely institutional client base.

Corporate and Transactional Banking

Corporate and Transactional Banking activities include servicing corporate, institutional and public-sector clients to assist with their day-to-day banking and working capital needs, including:

- *Transactional banking*: provides money market instruments, transactional accounts, electronic banking, cash and liquidity management.
- *Trade and working capital*: provides a range of short term facilities and trade finance and risk management solutions.
- *Global forex*: provides foreign exchange dealing, cross border payments and collection services, custody, clearing and settlement.
- *Hyphen:* provides transactional solutions to corporates around integration, switching and reconciliation.

RMB's strategy

RMB's strategy leverages an entrenched origination franchise, a growing market-making and distribution product offering and a competitive transactional banking platform to ensure delivery of an integrated corporate and investment banking (CIB) value proposition to corporate and institutional clients. This diversified business portfolio, coupled with a disciplined approach to balancing risk, return and growth, is designed to deliver sustainable earnings, balance sheet resilience and market-leading returns.

WESBANK

WesBank represents the Bank's activities in instalment credit, fleet management and related services in the retail, commercial and corporate segments of South Africa. WesBank continues to focus on protecting and growing its unique and long-standing model of partnering with leading motor manufacturers, suppliers and dealer groups. This gives WesBank a market-leading point-of-sale presence.

WesBank's major business units are described below.

WesBank Motor: WesBank Motor provides vehicle finance to the retail sector and sources its business primarily though motor dealers. It makes use of a joint alliance strategy with a number of vehicle manufacturers and large dealer groups to ensure critical mass and through this model, WesBank has developed a strong presence at the dealer point of sale.

WesBank Corporate: WesBank Corporate specialises in financing assets such as plant, machinery, aircraft, computers, office equipment and vehicle fleets and offers a full range of financing products including instalment sales, financial and operating leases, rentals, term loans, full maintenance leases and fleet management solutions. Lines of credit are established, allowing customers flexibility to draw down on these facilities as the need for additional finance arises. WesBank Corporate has also created a number of profit sharing alliances, similar to those in the Motor division, with industry suppliers, manufacturers and distributors.

WesBank's strategy

WesBank provides a range of lending solutions across direct and indirect channels which are both innovative and efficient. WesBank continues to build on its market-leading position by protecting and growing its long-standing alliances with leading motor manufacturers, suppliers and dealer groups.

FIRSTRAND CORPORATE CENTRE ("FCC")

FCC provides key Group-wide functions, including but not limited to Group Treasury (capital, funding, liquidity and financial resource management), Group Finance, Group Tax, Enterprise Risk Management ("**ERM**"), Regulatory and Conduct Risk Management ("**RCRM**") and Group Internal Audit.

The Group's financial resource management process is executed through Group Treasury and is independent of the operating businesses. This ensures the required level of discipline is applied in the allocation and pricing of financial resources. This also ensures that Group Treasury's mandate is aligned with the portfolio's growth, return and volatility targets to deliver shareholder value. Group Treasury retains responsibility for capital planning and advises the Board, as well as the Strategic executive committee, on potential capital actions, dividend strategy and other capital management related topics.

The ERM function provides central independent oversight and risk control as part of the risk governance structure.

The RCRM function ensures that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws.

Group Internal Audit provides independent assurance of the adequacy and effectiveness of risk management practices.

MOTONOVO

MotoNovo primarily finances used cars, light commercial vehicles and motorbikes through traditional hire purchase products, as well as more recently on private contract purchase, via independent motor dealers and a strong online presence. It also provides dealer funding facilities. As mentioned previously, once MotoNovo has been fully integrated into Aldermore, which is not part of the Bank, all new business written by MotoNovo will be funded through further scaling Aldermore's deposit franchise and funding platform, as well as leveraging capital market securitisations and warehousing transactions with international banks. MotoNovo's current loan book, housed within FirstRand Bank London Branch, will continue to be funded through existing funding mechanisms, but will be run down over time. As a result, MotoNovo will ultimately cease to form part of WesBank and the Bank. The financial performance of MotoNovo's existing business (i.e. loans written prior to integration with Aldermore) is reported in FCC from 1 July 2018 onwards.

MANAGEMENT

The board of directors of the Bank (the "**Board**") is responsible for reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, monitoring corporate performance and overseeing major capital expenditures, acquisitions and disposals, information technology and stakeholder relations while still retaining full and effective control over the Bank. The Bank has a unitary Board. Its chairman is an independent non-executive, in terms of the King IV definition. "**King IV**" is a report on corporate governance in South Africa, which came into effect in November 2016. It classifies a director as independent for these purposes if, among other things, the director has not served in an executive capacity within a company for three years prior to appointment. The Board comprises seventeen directors (eighteen if the alternate non-executive is included) of whom three serve in an executive capacity. This ensures that their views carry significant weight in the board's deliberations and decisions. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. The Bank complies with King IV. The Board meets quarterly. One further

meeting is scheduled to review and approve strategic plans and the resulting budgets. Additional meetings are convened as and when necessary.

To fulfil their responsibilities, Board members have access to accurate, relevant and timely information. Any director may call on the advice and services of the company secretary, who gives guidance on legislative or procedural matters.

There is a formal transparent Board nomination process. Non-executive directors are appointed, subject to re-election and to the applicable provisions of the South African Companies Act 71 of 2008 (as amended) (the "**South African Companies Act**") relating to removal, and retire by rotation, every three years. Re-appointment of non-executive directors is not automatic. The Board members are elected by the shareholders'.

The Bank endorses and endeavours to adhere to the guidelines and principles of King IV. FirstRand Bank has applied the King IV principles as disclosed in the FirstRand Limited annual integrated report https://www.firstrand.co.za/InvestorCentre/Pages/annual-reports.aspx. In accordance with Section 94(2)(b) of the Companies Act, the audit committee of FirstRand Limited performs the functions under the section on behalf of FirstRand Bank Limited. The roles of the chairman, lead independent director and chief executive officer are clearly defined in the board charter, demonstrating a clear balance of power and authority at Board level to ensure that no one director has unfettered powers of decision-making.

The current members of the Board and their position in respect of the Board and its Committees are set out below as at the date of Programme.

Name	**Position and memberships**
William Rodger (Roger) Jardine	Independent non-executive chairman
Alan Patrick Pullinger	Chief executive officer
Hetash Surendrakumar (Harry) Kellan	Financial director
Mary Vilakazi	Chief operating officer (with effect from 1 July 2018)
Johan Petrus Burger	Non-executive director (with effect from 1 September 2018)
Mary Sina Bomela	Non-executive director
Hermanus Lambertus (Herman) Bosman	Non-executive director

Name	Position and memberships
Jan Jonathan (Jannie) Durand	Alternate non-executive director (with effect from 3 September 2018)
Grant Glenn Gelink	Independent non-executive director
Nolulamo Nobambiswano (Lulu) Gwagwa	Independent non-executive director
Francois (Faffa) Knoetze	Non-executive director
Russell Mark Loubser	Independent non-executive director
Paballo Joel Makosholo	Non-executive director
Thandie Sylvia Mashego	Non-executive director
Ethel Gothatamodimo Matenge-Sebesho	Independent non-executive director
Amanda Tandiwe (Tandi) Nzimande	Independent non-executive director
Louis Leon von Zeuner	Independent non-executive director (effective 1 February 2019)
Thomas Winterboer	Independent non-executive director

The business address of the members of the Board is the Bank's registered office. Additionally, the Bank has a company secretary, C Low, who is suitably qualified and was appointed by the Board on 6 January 2014. She is, *inter alia*, responsible for the duties stipulated in section 88 of the Companies Act 71 of 2008, as amended.

Conflicts of Interest

All directors of the Bank serve as directors of one or more of the Bank's affiliates (including FirstRand and other companies within the Group). The Bank engages in transactions with some of these affiliates, including transactions in the ordinary course of business.

All directors of the Bank are also directors of the Bank's parent company, FirstRand, and they therefore also owe duties in that capacity to FirstRand as well as to the Bank. It is possible that the duties which these directors owe to FirstRand may potentially conflict with their duties to the Bank.

In respect of potential conflicts of interest that may arise in the future, the Bank has processes for the management of such conflicts such that it does not expect that any actual conflict of interest would arise.

Other than as described above, there is no potential conflict of interests between any duties which the members of the Board owe to the Bank and their private interests or other duties.

As described below in "*Risk Management*", the Board discharges its duties through several FirstRand committees and subcommittees. Although the Group and the Bank each has its own board of directors, there is a single set of governance committees for the Group and each of its major subsidiaries, including the Bank.

FirstRand committees responsible for the Bank include the following:

FirstRand audit committee

The current members of the audit committee are as follows:

Name	Position
Grant Glenn Gelink	Independent non-executive director (Chairman)
Russell Mark Loubser	Independent non-executive director
Ethel Gothatamodimo Matenge-Sebesho	Independent non-executive director
Paballo Joel Makosholo	Non-executive director
Johan Petrus Burger	Non-executive director
Thomas Winterboer	Independent non-executive director

The audit committee assists the board in fulfilling its oversight responsibilities in areas such as financial reporting, internal control systems, and the internal and external audit functions. The committee works closely with the other committees to identify common risk and control themes, and achieve synergy between combined assurance processes, thereby ensuring that, where appropriate, these functions can leverage off one another. The committee meets quarterly.

FirstRand risk capital management and compliance committee ("RCCC")

The current members of the RCCC are as follows:

Name	Position
Russell Mark Loubser	Independent non-executive director (chairman)
Grant Glenn Gelink	Independent non-executive director
Mary Sina Bomela	Non-executive director
Francois (Faffa) Knoetze	Non-executive director

Name	Position
Johan Petrus Burger	Non-executive director
Thomas Winterboer	Independent non-executive director

The RCCC provides independent oversight of risk, capital management and compliance activities undertaken in the Group. This includes ensuring that an effective policy and plan for risk management has been implemented to improve FirstRand's ability to achieve its desired outcomes and that risk disclosures are timely, sufficiently detailed and relevant to the group's stakeholders. The RCCC has delegated responsibility for a number of specialist topics to various subcommittees as described further in "*Risk Management*" below. The committee meets quarterly.

FirstRand large exposures committee

The current members of the large exposures committee are:

Name	Position
Russell Mark Loubser	Independent non-executive director (chairman)
Thandie Sylvia Mashego	Non-executive director
Jurie Bester	Specialist consultant
Johan Petrus Burger	Non-executive director
Alan Patrick Pullinger	Chief executive officer
Hetash Surendrakumar (Harry) Kellan	Financial director
Mary Vilakazi	Chief operating officer
Jaco Grobler	Chief risk officer
Annerie Cornelissen	Head: Wholesale credit
Jacques Mouton	ERM Credit executive

The prime objective of the committee is to assist the board in discharging its responsibilities in terms of the management of credit-granting and credit risk management across the group. This role includes considering and opining on the making of investments or granting of loans or advances or other credit which exceeds 10% of the Bank's qualifying capital and reserves, in terms of Sec 73 of the Banks Act. The committee meets quarterly.

FirstRand director's affairs and governance committee

The current members of the director's affairs and governance committee are:

Name	Position
Amanda Tandiwe (Tandi) Nzimande	Independent non-executive director (chairman)
Mary Sina Bomela	Non-executive director
Jan Jonathan (Jannie) Durand	Alternate non-executive director
Grant Glenn Gelink	Independent non-executive director
Nolulamo Nobambiswano (Lulu) Gwagwa	Independent non-executive director
William Rodger (Roger) Jardine	Independent non-executive director
Francois (Faffa) Knoetze	Non-executive director
Russell Mark Loubser	Independent non-executive director
Paballo Joel Makosholo	Non-executive director
Ethel Gothatamodimo Matenge-Sebesho	Independent non-executive director
Thandie Sylvia Mashego	Non-executive director
Thomas Winterboer	Independent non-executive director
Hermanus (Herman) Lambertus Bosman	Non-executive director
Louis Leon von Zeuner	Independent non-executive director

The objective of the committee is to evaluate the adequacy, efficiency and appropriateness of the corporate governance practices of the Group and assist the board in discharging its duties in respect of governance and board effectiveness, board continuity and executive succession planning. The committee meets quarterly.

Information technology risk and governance committee

The current members of the information technology risk and governance committee are:

Name	Position
Leon Crouse	Specialist consultant (chairman)
Alan Patrick Pullinger	Chief executive officer
Grant Glenn Gelink	Independent non-executive director
Alfonso Carl Meyer	Specialist consultant
Mark Chirnside	Specialist consultant

Name	Position
Raj Makanjee	Chief digital officer

The information technology risk and governance committee is responsible for information technology governance in accordance with King IV and ensures the effectiveness and efficiency of the Group's information systems as required by the Banks Act, 94 (1990). The committee meets quarterly.

Social, ethics and transformation committee

The current members of the social, ethics and transformation committee are:

Name	Position
Nolulamo Nobambiswano (Lulu) Gwagwa	Independent non-executive (chairman)
Amanda Tandiwe (Tandie) Nzimande	Independent non-executive director
Paballo Joel Makosholo	Non-executive director
Francois (Faffa) Knoetze	Non-executive director
Hermanus (Herman) Lambertus Bosman	Non-executive director

The role of the committee is to assist the Board with ensuring responsible business practices within the FirstRand Group, and monitoring group activities having regard to the Companies Act, the committee terms of reference and other legal requirements or prevailing codes of best practice in respect of social, transformation and economic development matters. The committee provides oversight of all the culture and conduct risk programmes in the Group and the Group's social value proposition.

Remuneration committee

The current members of the remuneration committee are:

Name	Position
Grant Glenn Gelink	Independent non-executive director (chairman)
William Rodger (Roger) Jardine	Independent non-executive
Jan Jonathan (Jannie) Durand	Non-executive director (Alternate)
Johan Petrus Burger	Non-executive director
Russell Mark Loubser	Independent non-executive director
Amanda Tandiwe (Tandi) Nzimande	Independent non-executive director

The committee oversees Group remuneration and ensures that practices are appropriate and conform with the general philosophy of rewarding performance. The committee assists the board in ensuring that the Group remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

COMPETITION

As at 31 December 2018, there were 19 registered banks, 15 local branches of foreign banks, 4 registered mutual banks, 4 co-operative banks and 31 representative offices of foreign banks (Source: SARB website) in South Africa. As at 31 December 2018, the South African banking sector has total assets of R5.5 trillion. according to statistics published by the SARB (Source: SARB website, Selected South African banking sector trends, December 2018).

In addition to the Bank, the largest banks in South Africa (and the Bank's principal competitors) are Absa Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited. The Bank's competitors also include Investec Bank Limited and Capitec Bank Limited, as well as the local operations of international banks.

CAPITAL ADEQUACY

The Bank is subject to regulatory capital requirements as prescribed in the South African Banks Act and Regulations relating to Banks.

The Bank's capital planning process ensures that its 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 Bank remains appropriately capitalised under a range of normal and severe stress scenarios, which include ongoing regulatory, accounting and tax developments. The Bank's targets have been aligned to the PA end-state minimum capital requirements and are subject to ongoing review and consideration of various stakeholder expectations.

The Board-approved capital plan is reviewed as part of the Group's Internal Capital Adequacy Assessment Process ("**ICAAP**"), with the stress testing framework being an extension to the process. These processes are under continuous review and refinement and continue to inform the targeted buffer above the minimum capital requirement.

Regular reviews of economic capital are carried out and the Bank remains well capitalised in the current environment, with levels of total capital exceeding the level of economic capital required. The Bank aims to back all economic risk with loss absorbing capital, which offers the greatest capacity to absorb losses.

Basel III

Basel III was successfully implemented in South Africa on 1 January 2013. Effective 1 January 2019, the Group is subject to the PA's end-state minimum capital requirements, which include a 100% of the requirements for the capital conservation, countercyclical ("**CCyB**") and D-SIB buffer add-ons. The PA has not implemented any CCyB requirement for South African exposures, however, the Group is required to calculate the CCyB requirement on private sector exposures in foreign jurisdictions where these buffers are applicable. Effective 27 June 2018, the Prudential Regulation Authority implemented a 0.5% countercyclical buffer requirement for UK exposures. This requirement stepped up to 1.0% in November 2018.

Additional Tier 1 ("**AT1**") and Tier 2 instruments not compliant with Basel III are grandfathered over a ten-year period from 2013, i.e. subject to the 70 per cent. phase out in 2019. The Bank remains focused on optimising it capital mix and maintaining efficient capital levels. The Bank continues to participate in the PA's bi-annual quantitative impact studies to assess and incorporate the impact of Basel III on capital adequacy and leverage ratios.

The PA adopted the Basel III leverage framework which is a supplementary measure to the risk-based capital ratios.

FUNDING AND LIQUIDITY

See the "*Risk Factors – Liquidity Risk – Structural characteristics impacting the funding profile of South African banks*" section above for a discussion of certain structural characteristics of the South Africa banking sector which are relevant to the Bank's funding sources and strategy. In this section, "institutional funding" refers to wholesale funding from financial institutions across a range of deposits, loans and financial instruments.

Given the liquidity risk introduced by its business activities across various currencies and geographies, the Bank'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. Liquidity buffers are actively managed via the Bank's pool of high quality liquid assets ("**HQLA**") as prescribed in the PA regulations pertaining to the LCR, associated directives and guidance notes, and which are available as protection against unexpected events or market disruptions. The composition and quantum of the available sources of liquidity are defined by the behavioural funding liquidity at risk and the market liquidity depth of these 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 activity.

Basel III liquidity ratios

The Basel Committee on Banking Supervision ("**BCBS**") framework for sound liquidity risk management seeks to address the Bank's short-term and structural liquidity risk with the following two ratios:

- LCR – addresses short-term liquidity risk; and
- NSFR – addresses the structural liquidity risk of the balance sheet.

Compliance with the Basel III liquidity ratios influences the group's funding strategy, particularly as it seeks to price appropriately for liquidity on a risk-adjusted basis. The Bank is actively building its deposit franchise through innovative and competitive products whilst also optimising its institutional funding profile.

The LCR has been fully adopted by the PA with the inclusion of a CLF. Phasing in of the LCR commenced in 2015 and banks are required to be fully compliant by 2019. The minimum LCR requirement from 1 January 2019 is 100 per cent. The Group remains focused on building a diversified pool of available HQLA, which is constrained by the limited availability of these assets in the South African market.

The NSFR is a structural balance sheet ratio focusing on promoting a more resilient banking sector. The ratio calculates the amount of available stable funding ("**ASF**") relative to the amount of required stable funding ("**RSF**"). The ratio came into full effect as of 1 January 2018. Banks received confirmation of the NSFR implementation from the PA in December 2017 through Directive 8/2017. In this directive, the PA also re-confirmed various areas for national discretion most notably, the treatment of the CLF (RSF of 5%) and the treatment of deposits from financial institutions with a residual maturity less than six months (ASF of 35%). These changes are anchored in the assessment of the true liquidity risk and assist the South African banking sector in meeting the NSFR requirements.

Funding strategy

The Bank aims to fund its activities in a diversified, efficient, flexible and sustainable manner whilst operating within prudential limits. Its funding strategy is underpinned by strong counterparty relationships. The objective is to maintain and enhance its deposit market share by appropriately pricing and rewarding depositors, thus creating a natural liquidity buffer. The four building blocks of the Bank's funding strategy are discussed in more detail below.

Diversification

The Bank views funding diversification from a number of different perspectives:

- Customer segments – the Bank has a strong and stable deposit franchise, which spans the retail, commercial and corporate client segments. Reliance on institutional funding represents a risk concentration that is actively managed through the holding of appropriate liquidity buffers and continued focus on increasing the term profile.
- Country and currency of issue – the Bank has access to a variety of funding and capital markets offshore and locally, including South Africa, Europe, Asia, and the rest of Africa.
- Instrument types and maturity profile – the Bank funds itself with a variety of different funding instruments, including negotiable certificates of deposit ("**NCDs**"), fixed, inflation-linked and floating rate notes, syndicated loans, development finance facilities, vanilla and structured capital market issuances, securitisation structures and various retail and corporate products.

The Bank seeks to broaden and diversify its debt investor base as far as possible.

Efficiency

The Bank'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 have been established. The Bank's strategy for vanilla public issuances is to create actively-traded benchmarks bonds to facilitate secondary market liquidity for both domestic and offshore markets. The inherent value of this strategy is the ability to identify cost-effective funding opportunities whilst maintaining an understanding of available market liquidity.

Flexibility

The Bank has a track record of differentiating itself through new and innovative funding mechanisms. It constantly reviews new proposals relating to funding strategies based on forecast balance sheet structures, to anticipate and plan for future funding and structural liquidity requirements.

Strong counterparty relationships

The Bank places great value on its established strong relationships with both domestic and foreign investors and is committed to keeping investors fully informed. Therefore, an active marketing approach is embedded in the funding strategy. Through forums such as conference calls, domestic and international roadshows and investor presentations, the Bank aims to extend its investor base, and keep stakeholders up to date on its financial performance and counterparty status.

Foreign currency balance sheet

The bank's foreign currency activities, specifically lending and trade finance, have steadily increased over the past six 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. The management of the Bank's foreign currency balance sheet considers all components, including the asset quality and sustainability of the assets being funded, appropriate capitalisation and pricing, appropriate debt level and repayment capacity, and the liquidity risk. The Bank manages its translation risk so as to limit the impact on its earnings, net asset value, capital position and ROE, thereby taking a comprehensive view on foreign currency asset and liability management.

The funding and liquidity risk is of specific importance and the Bank 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 Asset, liability and capital committee ("**ALCCO**") and RCCC. The SARB via *Exchange Control Circular 6/2010* introduced macro-prudential limits applicable to authorised dealers, which includes the Bank as an authorised dealer.

FirstRand Bank's philosophy on foreign currency external debt

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

The Bank monitors its foreign currency exposure and liquidity risk profile according to a survival period methodology. The survival period assumes that the Bank maintains sufficient liquidity buffers to ensure that its liquidity needs are met during a period of prolonged market liquidity stress. The Bank targets a survival period for its foreign currency exposure in excess of six months.

LEGAL PROCEEDINGS

The Bank has been, and continues to be, the subject of legal proceedings and adjudications from time to time.

There are a number of legal or potential claims against the Bank, the outcome of which cannot at present be foreseen. These claims are not regarded by management as material either on an individual or collective basis.

However, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), in the twelve months prior to the date of this Programme Memorandum, which may have or have had in the recent past, a significant effect on the financial position or profitability of the Bank and its subsidiaries.

INSURANCE

The Bank has a comprehensive insurance programme with cover for bankers bond, computer crime, professional indemnity, directors and officers liability, cybercrime, assets and liabilities. Regular benchmarking reviews of policy provisions, covers and limits ensure that the level of risk mitigation is adequate in relation to the Bank's risk profile.

All major insurance covers are placed at Group level to maximise economies of scale and to ensure all entities are included. However, where appropriate, non-South African Group companies place their local requirements in their countries of operation.

IT/TECHNOLOGY

Information technology is an integral part of the Bank's operations and a key enabler to offer innovative products and services to customers. The Bank continues to make significant investment in IT and related resources, with an aim to enhance the customer experience as part of digital strategies and product offerings. The Bank continues to see a positive migration from traditional bricks and mortar channels to digital channels, enhancing the customer experience and improving cost efficiency. The Bank also continually seeks to improve the operating features and security of its IT systems, in particular for new technologies to support and enhance its business strategies in the digital age. Significant effort

and investment is undertaken for cyber security and data strategies, two themes that are and will remain strategically important for the foreseeable future.

Information risk management not only involves securing Bank information and systems, but also entails the application of risk management principles to ensure efficient, reliable and timely delivery of services. Key areas of focus include:

- Protection of information systems against unauthorised access, destruction, modification and use.
- Ensuring confidentiality, availability and integrity of systems that maintain, process and disseminate this information.
- Continuously assessing systems for vulnerabilities and reporting to relevant risk and business stakeholders.
- Alignment of IT and related frameworks with changing business models and technology landscape.
- Conducting regular IT risk assessments to ensure improvement of identified gaps.

THE BANK'S CREDIT RATINGS

The credit ratings of banks domiciled in South Africa are constrained by the South African sovereign rating. This is due to the direct and indirect impact of sovereign distress on domestic banks' operations. The Bank's standalone credit ratings continue to reflect its strong market position in South Africa, focused strategy, good core profitability, financial flexibility, robust risk management and sound capitalisation.

RISK MANAGEMENT

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

Risk is managed on a Group basis and therefore, this section also covers the Group's risk philosophy and management practices (which also apply to the Bank). Although the Group and the Bank each has its own board of directors, there is a single set of governance committees for the Group and all five of its major subsidiaries (i.e. the Bank, FREMA, FRIHL, FRI and FirstRand Insurance Holdings (Pty) Ltd).

The Group believes a strong balance sheet and resilient earnings streams are key to growth, particularly during periods of uncertainty. FirstRand's businesses have consistently executed on a set of strategies which are aligned to certain Group financial strategies and frameworks designed to ensure earnings resilience and growth, balance sheet strength, an appropriate risk/return profile and an acceptable level of earnings volatility under adverse conditions. These deliverables are underpinned by frameworks set at the centre to ensure financial discipline.

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

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

They provide the checks and balances necessary to ensure sustainability and performance, create opportunity, achieve desired objectives, and avoid adverse outcomes and reputational damage.

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

Risk limits established across all risk types are an integral part of managing risk and are instrumental in constraining risk appetite. The risks, roles and responsibilities of each stakeholder in business, support, and various control functions, in the management of these risks are described in the Group's business performance and risk management framework ("**BPRMF**").

Risk governance framework

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

The Group believes that effective risk management requires multiple points of control or safeguards that should consistently be applied at various levels throughout the organisation. The Board has established a number of committees, which are responsible for implementing and monitoring the Group's risk management strategies, across three lines of control (namely risk ownership, risk control and independent assurance). There are three lines of control across the Group's operations, which are recognised in the BPRMF.

Risk governance structure

The primary Board committee overseeing risk matters across the Group is the RCCC. It has delegated responsibility for a number of specialist topics to various subcommittees.

Additional risk, audit and compliance committees exist in each operating business, the governance structures of which align closely with that of the Group. The business risk, audit and compliance committees support the Board risk committees and RCCC subcommittees.

Risk, capital management and compliance committee

The RCCC is the principal Board committee responsible for overall oversight of risk management across the Group. Its key functions are to:

- approve risk management policies, frameworks, strategies and processes;
- monitor containment of risk exposures within the risk appetite framework;
- report on the assessment of adequacy and effectiveness of risk appetite, risk management, the Group's internal capital adequacy assessment process and compliance processes to the Board;
- monitor the implementation of the Group's risk management strategy, risk appetite limits and effectiveness of risk management;
- initiate and monitor corrective action, where appropriate;
- monitor that the Group takes appropriate action to manage its regulatory and supervisory risks, and complies with applicable laws, rules, codes and standards;
- approve regulatory capital models, risk and capital targets, limits and thresholds; and
- monitor capital adequacy and ensure that a sound capital management process exists.

The RCCC has established a number of specialised subcommittees which deal with specific risk types or oversight activities (as detailed below).

Audit committee

The role of the audit committee is to assist the Board with its duties relating to the safeguarding of assets, operation of adequate systems and controls, assessment of going concern status and to ensure that relevant compliance and risk management processes are in place. Additionally, the audit committee oversees and reviews work performed by the Group's external auditors and internal audit function. It also oversees financial risks and internal financial controls (including the integrity, accuracy and completeness of the financial information and annual integrated report), which is provided to shareholders and other stakeholders.

Large exposures committee

The role of the large exposures committee is to review and approve applications or renewals for investments, advances or other credit instruments in excess of 10 per cent. of the Bank's qualifying capital and reserves. It also reviews and approves transactions with a related party and the write-off of any related-party exposure exceeding 1 per cent. of the Bank's qualifying CET 1 capital and reserve funds. The large exposures committee delegates the mandate for approval of Group and individual facilities to the FirstRand wholesale credit approval committee, FirstRand commercial credit approval committee and the FirstRand retail credit policy, risk appetite and mandate approval committee, as appropriate.

Information technology, risk and governance committee

The information technology, risk and governance committee operates to approve and monitor the implementation of IT risk and governance principles, policies, standards, frameworks and plans. It 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. It is also responsible to ensure that IT has appropriately skilled risk and management resources to deliver on the business mandate. The committee also escalates key IT risks and governance matters to the Board.

RCCC subcommittees

The RCCC has established the below subcommittees to address specific risk types or oversight activities:

Credit risk management committee

The credit risk management committee is responsible for approving credit risk management and risk appetite policies as well as forward-looking credit risk indicators developed by retail, commercial and corporate portfolio management. It monitors the credit risk profile including performance relative to credit risk appetite thresholds, quality of the in-force business and business origination in terms of the Group's view of credit economic outlook. It also monitors scenario and sensitivity analysis, stress tests, credit economic capital utilisation, credit pricing and credit concentrations. It works to ensure uniform interpretation of credit regulatory requirements and credit reporting, and it monitors corrective actions, where appropriate.

Market and investment risk committee

The market and investment risk committee approves market and investment risk management policies, standards and processes. It monitors the market and investment risk profile and the effectiveness of market and investment risk management processes, and monitors implementation of corrective action, where required. It approves market and investment risk-related limits.

Model risk and validation committee

The model risk and validation committee approves or recommends for approval by the RCCC, all material aspects of model validation work including credit ratings and estimations, internal models for market risk and advanced measurement operational risk models for regulatory capital calculations.

ALCCO

The ALCCO approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity and funding risk, capital and non-traded market risk. It monitors the Group's funding management and capital management including level, composition, supply and demand of capital, and capital adequacy ratios. It approves frameworks and policies relating to internal funds transfer pricing for the Group.

Compliance and conduct risk committee

The compliance and conduct committee approves regulatory and conduct risk management frameworks, including anti-money laundering and combating the financing of terrorism ("**AML/CFT**") minimum policies, standards and monitoring plans. It monitors, evaluates and assesses effectiveness of regulatory and conduct risk management across the Group. It also monitors compliance with the regulations and supervisory requirements relating to banks, and reviews regulatory compliance matters relating to financial crime, market conduct, prudential regulations, anti-bribery and corruption.

Tax risk committee

The tax risk committee sets tax strategy and tax risk appetite. It approves tax management frameworks and policies and monitors tax risk assessments and profiles. It escalates relevant tax risk items to RCCC.

Operational risk committee

The operational risk committee provides governance, oversight and coordination of relevant operational risk management practices, and initiates corrective action, where required. It recommends the Group's operational risk appetite for approval by the RCCC. It monitors Group, subcommittee and business risk profiles against operational risk appetite. It approves operational risk management framework and all its sub-policies/frameworks, including fraud risk, legal risk, business resilience physical security.

Risk appetite

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

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. It is captured by a number of qualitative principles and quantitative measures.

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

This ensures the Group maintains an appropriate balance between risk and reward. Risk/return targets and appetite limits are set to enable the Group achieve its overall strategic objectives, namely:

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

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

The group's risk/return profile is monitored regularly, using risk appetite limits, which are measured on a point-in-time and forward-looking basis.

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

Application of the risk/reward framework

Risk appetite, targets and limits are used to monitor the Group's risk/return profile on an ongoing basis and are measured point-in-time and on a forward-looking basis. Risk appetite influences business plans and informs risk-taking activities and strategies.

The 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 Group cascades overall appetite into targets and limits at risk type, business and activity level, and these represent the constraints the Group imposes to ensure its commitments are attainable. Risk management roles and responsibilities are outlined in the BPRMF.

Stress testing and scenario planning

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

Stress tests are also conducted for other legal entities in the Group. The various stress test processes are supported by a robust and holistic framework, and underpinned by principles and sound governance, which are aligned to regulatory requirements and best practice.

During December 2018, the BCBS issued a document, *Stress testing principles*, to enhance and streamline the principles agreed in its earlier May 2009 document. This document allows for more robust development in stress testing practices over time for both banks and regulators. The Group not only supports these but has, for some time, incorporated such principles in its stress testing framework

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

From a regulatory perspective, stress testing and scenario analysis feed into the Group's annual ICAAP and recovery plan. The ICAAP stress test is an enterprise-wide, macroeconomic stress test covering material risks that the Group is exposed to. It typically covers a three-year horizon, with separate ICAAP

submissions completed for the Group's regulated banking entities which are subject to Basel II requirements. The severity of the macroeconomic scenarios ranges from a mild downturn to severe stress scenarios. In addition to macroeconomic scenarios, the Group incorporates event risk and reverse stress test scenarios that highlight contagion between risk types. Techniques and methodologies range from multi-factor and regression analyses for macroeconomic stress tests to single-factor sensitivities and qualitative impact analysis for event risk and reverse stress tests.

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

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

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

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

The Group regularly runs additional *ad hoc* stress tests for both internal and regulatory purposes. Internal risk-specific stress tests may utilise various techniques depending on the purpose (e.g. limit setting or risk identification). From a regulatory perspective, the Group expects to be subject to more frequent supervisory stress tests covering a range of objectives. During 2017-2018, FirstRand participated in a supervisory stress test to allow the regulator to assess financial stability of the South African banking sector. In line with a request to the bank industry, the Group assisted the regulator with the collection of common stress test data that will be modelled top down, and the banks have modelled a similar scenario bottom up in 2018.

Recovery and resolution regime

Financial Stability Board ("**FSB**") member countries are required to have recovery and resolution plans in place for all systemically significant financial institutions as per *Key Attributes of Effective Resolution Regimes*. The SARB adopted this requirement and has, as part of the first phase, required domestic systemically-important banks 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 FirstRand's board and management, including its operating businesses and key subsidiaries, FirstRand Bank, Aldermore, FNB Namibia and FNB Botswana, 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;

- considers 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 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.

As at the date of this Programme Memorandum FirstRand has submitted six annually-revised versions of its recovery plan to the SARB, the most recent in December 2018.

Resolution framework

The South African regulatory architecture is undergoing significant transformation to create a regulatory framework that will support an effective resolution regime. The country has adopted a twin peaks supervisory framework model that has reduced the number of agencies involved in supervision. On 21 August 2017, the Financial Sector Regulation Act was signed into law with the establishment of two new regulatory agencies: the PA contained in the SARB, and the FSCA. Whilst the PA/SARB is responsible for monitoring and enhancing financial stability as part of its explicit financial stability mandate, the SARB will also be responsible for assisting with the prevention of systemic events by means of its designation as the RA following the approval of the pending Resolution Framework.

In October 2018 the National Treasury published the Draft Financial Sector Laws Amendment Bill for public comment. The Financial Sector Laws Amendment Bill proposes to establish a framework for the orderly resolution of banks, systemically important non-bank financial institutions and holding companies of banks, and also highlights the various legislative amendments that are required to be made to ensure the framework is enforceable.

The Resolution Framework outlines the broad resolution principles proposed to govern future bank resolutions whilst much of the detail of all the key elements of this Resolution Framework are still in the process of being defined and will be released in time via resolution directives or addendums to this framework. These details include the resolution planning requirements that will be placed on banks. The resolution plans will allow the RA to prepare for an event from which the Group's recovery actions have failed or are deemed likely to fail. Bank resolution plans will be owned and maintained by the RA, but will require a significant amount of bilateral engagement and input from the individual banks to enable the RA to develop a customised plan that is most appropriate to each bank.

RISK PROFILE

The Group is exposed to a number of risks that are inherent in its operations. Identifying, assessing, pricing and managing these risks appropriately are core competencies of the individual business areas.

Credit risk

Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of

losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk.

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

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 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 Enterprise Risk Management ("**ERM**") and relevant Board committees fulfil this role.

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

Funding and liquidity risk

Funding and liquidity risk is the risk that the Bank will not be able to effectively meet current and future cashflow and collateral requirements without negatively affecting the normal course of business, financial position or reputation.

Liquidity risk is 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 2008/2009 global financial crisis. The Group, therefore, continuously monitors and analyses the potential impact of other risks and events on its funding and liquidity position to ensure business activities preserve and improve funding stability. This ensures that the Group is able to operate through periods of stress when access to funding could be constrained.

The Group recognises two types of liquidity risk:

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

Mitigation of market and funding liquidity risks is achieved via contingent liquidity risk management. Liquidity buffers in the form of high quality, 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.

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 cashflows, liquidity, profitability and solvency position; and
- Proactively evaluating the potential secondary and tertiary effects of other risks on the Group.

Consequently, the Group aims to fund its activities in a diversified, efficient, flexible and sustainable manner whilst operating within prudential limits. Its funding strategy is underpinned by strong counterparty relationships. The objective is to maintain and enhance its deposit market share by appropriately pricing and rewarding depositors, thus creating a natural liquidity buffer. Given the liquidity risk introduced by its business activities across various currencies and geographies, 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.

Liquidity buffers are actively managed via the Bank's pool of HQLA as prescribed in the PA regulations pertaining to the LCR, associated directives and guidance notes, and which are available as protection against unexpected events or market disruptions. The composition and quantum of the available sources of liquidity are defined by the behavioural funding liquidity at risk and the market liquidity depth of these 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 activity.

Compliance with the Basel III liquidity ratios influences the Group's funding strategy, particularly as it seeks to price appropriately for liquidity on a risk-adjusted basis. The Bank is actively building its deposit franchise through innovative and competitive products whilst also optimising its institutional funding profile. This continues to improve the funding and liquidity profile of the Group.

Volatility in the 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 the plan 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 thereby maintaining its financial position for continuing operations. The liquidity contingency plan provides a pre-planned response mechanism to facilitate swift and effective responses to contingent funding events. These events may be triggered by financial distress in the market (systemic) or bank-specific events (idiosyncratic) which may result in impaired availability of funding sources. 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 plan is reviewed annually and tested regularly via a group-wide liquidity stress simulation exercise to ensure it remains up to date, relevant and familiar to all key personnel within the Group that have a role to play should it ever experience an extreme liquidity stress event.

Market risk

The Group distinguishes between traded market risk and non-traded market risk. Traded market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.

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

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

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

The nature of hedging and risk mitigation strategies performed across the Group corresponds to the market risk management instruments available in each operating jurisdiction. These strategies range from the use of traditional market instruments, such as interest rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at portfolio level.

The Group uses global and industry-accepted models and operating platforms to measure market risk. These operating platforms support regulatory reporting, external disclosures and internal management reporting for market risk. The risk infrastructure incorporates the relevant legal entities and business units, and provides the basis for reporting on risk positions, capital adequacy and limit utilisation to the relevant governance and management functions on a regular and *ad hoc* basis. Established units in risk management functions assume responsibility for measurement, analysis and reporting of risk while promoting sufficient quality and integrity of risk-related data.

Management and monitoring of the FirstRand domestic banking book is split between the RMB banking book and the remaining domestic banking book. RMB manages the majority of its banking book under the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the market and investment risk committee.

For non-traded market risk, the group distinguishes between interest rate risk in the banking book ("**IRRBB**") and structural foreign exchange risk. IRRBB relates to the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates. Foreign exchange risk is the risk of an adverse impact on the Group's financial position or earnings or other key ratios as a result of movements in foreign exchange rates impacting balance sheet exposures.

The following table describes how these risks are measured, managed and governed.

RISK AND JURISDICTION	RISK MEASURE	MANAGED BY	OVERSIGHT
Interest rate risk in the banking book			
Domestic – FNB, WesBank and FCC	• 12-month earnings sensitivity; and • economic sensitivity of open risk position.	Group Treasury	FCC Risk management Group ALCCO
Subsidiaries in the rest of Africa, and the bank's foreign branches	• 12-month earnings sensitivity; and • economic sensitivity of open risk position.	In-country management	Group Treasury FCC Risk Management In-country ALCCOs International ALCCOs
Structural foreign exchange risk			
Group	• total capital in a functional currency other than rand; • impact of translation back to rand reflected in group's income statement; and • foreign currency translation reserve value.	Group Treasury	Group ALCCO

BANKING SECTOR IN SOUTH AFRICA

The South African banking system is well-developed and effectively regulated, comprising several large, financially-strong banking groups and a number of smaller banks, mutual banks and co-operative banks. Many foreign banks and investment institutions have also established operations in South Africa. The South African Government (the "**Government**") generally endorses the IMF and World Bank standards. South African banks are regulated by the PA, which is a juristic person operating within the administration of the SARB. 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 compliant with international standards and best practice. Changes in international standards and requirements normally result in amendments to the South African prudential standards which usually result in amendments to, among other, the Regulations relating to Banks. For example, the Basel III phase-in arrangements largely resulted in prudential regulatory changes, and new and/or amended requirements and standards. In line with the above, various other documents, frameworks and requirements that impact materially on the regulation and supervision of banks and banking groups in South Africa, are issued by the international standard-setting bodies on an ongoing basis, which will, going forward, continue to result in revised and additional and/or new regulatory requirements. The PA, which represents South Africa on the BCBS, actively participates in international regulatory and supervisory standard-setting forums at which it is represented and provides input into the continued refinement of the regulatory and related supervisory frameworks.

The National Payment System Act, 1998 (as amended) was introduced to bring the South African financial settlement system in line with international practice and systematic risk management procedures. In this regard, the National Payment System ("**NPS**") is regarded as one of the pillars of financial stability of the South African economic system. The SARB, through its National Payment System Department ("**NPSD**"), is the primary regulator and overseer of the NPS, also insofar as it relates to the safety and soundness of the NPS. This includes implementation of risk-reduction measures in the payment system to reduce systemic risk. The Payment Association of South Africa ("**PASA**") was established during 1996 by the South African banking industry in conjunction with the SARB and is, as a recognised payment system management body, under the supervision of the NPSD. PASA's main objective is to regulate, manage and organise the participation of its members in the NPS and facilitated, among other, the introduction of payment clearing house agreements and introduced agreements pertaining to settlement, clearing and netting agreements, rules to create certainty and reduce systemic and other risks in inter-bank settlement. These developments brought South Africa in line with international inter-bank settlement practices. Electronic banking facilities are extensive, with a nationwide network of automatic teller machines, internet and mobile phone banking being available. Since payments systems and related international standards and best practice requirements pertaining thereto are evolving, various initiatives and developments are currently being undertaken by the SARB and its NPSD pertaining to, among other, the re-alignment of mandates, strategies and reforms of the regulatory model for the South African national payment system.

Regulation

Financial sector regulatory legislation in South Africa is increasing following the implementation of the twin peaks system of financial sector regulation in South Africa and, as indicated above, alignment to new and additional international best practice requirements through the accords of, among others, international bodies such as the Bank of International Settlements ("**BIS**"), the International Organisation of Securities Commissions; and the International Association of Insurance Supervisors. Banks in South Africa are governed by a comprehensive legislative framework, most significantly the Financial Sector Regulation Act 2017, read with the Banks Act (Act no. 94 of 1990 – the Banks Act), which is comparable to similar legislation in the United Kingdom, Australia and Canada.

Anti-money laundering regulations

The Government has identified the combating of financial crime as policy priority. South Africa has a well-established anti-money laundering ("**AML**") and counter terror financing ("**CTF**") legislative framework (which includes but is not limited to the Financial Intelligence Centre Act (“**FIC**”), 2001, as amended). The mutual evaluation report issued by the Financial Action Task Force, the purpose of which is the development and promotion of national and international AML and CTF policies, confirmed that South Africa has demonstrated a strong commitment to implementing AML/CTF systems facilitated by close cooperation and coordination among a variety of government departments and agencies. The authorities sought to construct a system which uses, as its reference, the relevant United Nations Conventions and the international standards as set out by the Financial Action Task Force. In this regard, to the extent that the FATF had *inter alia* made recommendations on improvements to the legislative environment, these were affected by the authorities. In terms of the FIC Act, the SARB, through the PA, is mandated to supervise and enforce banks’ compliance with the FIC Act. In line with this mandate, the PA will continue to conduct inspections on banks with the aim to assess whether appropriate measures and controls are in place to ensure compliance with the provisions of the FIC Act, related regulations and regulatory requirements. The PA, as a financial sector regulator, is by law required to co-operate and collaborate with the Financial Intelligence Centre when performing its functions in terms of the FIC Act. The Issuer has implemented an AML framework which includes CTF policies and takes measures to effect continuous improvement in its processes to address its AML and CTF risks.

As a bank, the Issuer is subject to formal regulation in South Africa. Regulatory agencies have broad jurisdiction over many aspects of the Issuer's business, which may include capital adequacy, premium rates, marketing and selling practices, advertising, licensing agents, policy forms, terms of business and permitted investments. Changes in government policy, legislation or regulatory interpretation applying to the financial services industry in the markets in which the Issuer operates may adversely affect the Issuer's product range, distribution channels, capital requirements, environmental and social obligations and, consequently, reported results and financing requirements. In particular, any change in regulation to increase the requirements for capital adequacy or liquidity, or a change in accounting standards, could have a material adverse impact on the Issuer’s business, results, financial condition or prospects.

South African Reserve Bank (“SARB”)

The SARB is, as South Africa’s central bank and macro-prudential regulator, responsible for, among other things, contributing towards the achievement and maintenance of a stable financial system and for protecting and enhancing financial stability and restoring and maintaining financial stability in terms of systemic events. The SARB holds various international memberships including the G-20, the IMF, the BIS and the Committee of Central Bank Governors in the Southern African Development Community. The SARB serves on various BIS committees including the Basel Committee and the Committee on Payments and Settlement Systems.

Prudential Authority

The SARB has, prior to the implementation of the new regulatory framework, performed its function as banking regulator through its Bank Supervision Department, which issued banking licences to institutions and supervised their activities under the applicable legislation. The PA, which is a juristic person operating within the administration of the SARB, took effect on 1 April 2018. The PA is responsible for, among other, prudential regulation and supervision of banks, banking groups and financial conglomerates in South Africa with the purpose of promoting and enhancing the safety and soundness of financial institutions and assist in maintaining financial stability. The PA has extensive regulatory and supervisory powers which, among other, oblige banks to furnish certain prescribed returns to the PA in order to enable the PA to monitor compliance with the various prudential and other

regulatory requirements imposed on banks in terms of the Banks Act, 1990, the Regulations Relating to Banks, and any other applicable regulatory instruments. The Chief Executive Officer of the PA is a Deputy Governor of the SARB and a member of the SARB's Financial Stability Oversight Committee.

The Financial Sector Conduct Authority

As a bank, the Issuer's market conduct is now being regulated by the FSCA, which also took effect on 1 April 2018. The FSCA will supervise how financial institutions conduct their business and treat customers. It is also responsible for the efficiency and integrity of financial markets. The FSCA is, similar to the PA, the other pillar of the new financial sector regulatory architecture.

General

The Issuer's relationships with its regulatory authorities are largely managed by a dedicated regulatory and conduct risk management function and the FirstRand Limited Group's Public Policy and Regulatory Affairs Office. The Issuer views its relationship with its regulators as being of the utmost importance. The Issuer is a member of the Banking Association of South Africa, which is effectively the mandated representative of the banking sector in South Africa, as it facilitates the enablement of a conducive banking environment through robust engagement with government and relevant stakeholders. The Issuer is supportive of the twin peaks regulatory objectives and endorses, as an active participant in the new regulatory landscape, improvements in risk management, governance and market conduct practices. The same approach is also applied in respect of the Issuer's cooperation with other regulatory authorities and much effort and resources are dedicated in a cost-efficient manner in order to reap maximum benefits emanating from the implementation of best practice and the resultant enablement of its global business activities.

SOUTH AFRICAN EXCHANGE CONTROL

Words used in this section headed "South African Exchange Control" shall bear the same meanings as used in the Terms and Conditions, except to the extent that they are separately defined in this section or this is clearly inappropriate from the context.

The information below is intended as a general guide to the current position under the Exchange Control Regulations as at the date of the Programme Memorandum. The contents of this section headed "South African Exchange Control" do not constitute exchange control advice and do not purport to describe all of the considerations that may be relevant to a prospective subscriber for or purchaser of any Notes. Prospective subscribers for or purchasers of any Notes should consult their professional advisers in this regard.

Non-South African resident Noteholders and emigrants from the Common Monetary Area

Dealings in the Notes and the performance by the Issuer of its obligations under the Notes and the applicable Terms and Conditions may be subject to the Exchange Control Regulations.

Emigrant Capital Accounts

Funds in an Emigrant's Capital Account may be used for the subscription for or purchase of Notes. Any amounts payable by the Issuer in respect of the Notes subscribed for or purchased with funds from an Emigrant's Capital Account may not, in terms of the Exchange Control Regulations, be remitted out of South Africa or paid into any non-South African bank account.

Emigrants from the Common Monetary Area

Any Individual Certificates issued to Noteholders who are emigrants from the Common Monetary Area will be endorsed "non-resident". Such restrictively endorsed Individual Certificates shall be deposited with an authorised foreign exchange dealer controlling such emigrant's remaining South African assets to which the SARB restrictions have been applied.

In the event that a Beneficial Interest in Notes is held by an emigrant from the Common Monetary Area through the CSD, the securities account maintained for such emigrant by the relevant Participant will be designated as an "Emigrant Capital Account".

Any payments of principal due to a Noteholder who is an emigrant from the Common Monetary Area will be deposited into such emigrant Noteholder's Capital Account, as maintained by the authorised foreign exchange dealer. The amounts are not freely transferable from the Common Monetary Area and may only be dealt with in terms of the Exchange Control Regulations.

Any payments of interest due to a Noteholder who is an emigrant from the Common Monetary Area will be deposited into such emigrant Noteholder's "non-resident" Rand account, as maintained by an authorised foreign exchange dealer. The amount represents income which is freely transferable from the Common Monetary Area.

Non-residents of the Common Monetary Area

Any Individual Certificates issued to Noteholders who are not resident in the Common Monetary Area will be endorsed "non-resident". In the event that a Beneficial Interest in Notes is held by a non-resident of the Common Monetary Area through the CSD, the securities account maintained for such Noteholder by the relevant Participant will be designated as a "non-resident" account.

It will be incumbent on any such non-resident Noteholder to instruct the non-resident's nominated or authorised dealer in foreign exchange as to how any funds due to such non-resident in respect of Notes are to be dealt with. Such funds may, in terms of the Exchange Control Regulations, be remitted abroad only if the relevant Notes are acquired with foreign currency introduced into South Africa and provided

that the relevant Individual Certificate has been endorsed "non-resident" or the relevant securities account has been designated as a "non-resident" account, as the case may be.

Exchange control – Issuer

As at the date of this Programme Memorandum, the Issuer does not require exchange control approval for this Programme.