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RISK AND CAPITAL MANAGEMENT REPORT

OVERVIEW

Regulation 43 of the Regulations relating to Banks (Regulations), issued in terms of the Banks Act, 1990 (Act No. 94 of 1990), requires that a bank discloses in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enables users to make an accurate assessment of the group's financial condition, including its capital adequacy, financial performance, business activities, risk profile and risk management practices. This disclosure requirement is commonly known as Pillar 3 of the Basel Accord.

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

The CEO's and CFO's reports on pages 12 to 41 provide an overview of the group's financial position, performance and risk profile for the year ended 30 June 2015. FirstRand is the listed holding company an regulated bank-controlling company. The wholly-owned subsidiaries of FirstRand are:

- FirstRand Bank Limited (the bank or FRB);
- FirstRand EMA Holdings Proprietary Limited (FREMA);
- FirstRand Investment Holdings Proprietary Limited (FRIHL);
- Ashburton Investments Holdings Limited (Ashburton Investments); and
- FirstRand Insurance Holdings Proprietary Limited (FirstRand Insurance).

FRB and FREMA include the group's regulated banking operations. Ashburton Investments is the group's investment management business, FirstRand Insurance is the group's newly established insurance subsidiary and all other activities are included under FRIHL. A simplified group structure can be found on page 521 of this report.

Some differences exist between the practices, approaches, processes and policies of the bank and its fellow wholly-owned subsidiaries and these are highlighted by reference to the appropriate entity, where necessary. This report has been internally verified by the group's governance process in line with the group's public disclosure policy. All information in this report is unaudited unless otherwise indicated. For all sections denoted as audited, refer to the unmodified audit opinion on page 131.

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

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

Risk taking is an essential part of the group's business and the group explicitly recognises risk identification, assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates. Through its portfolio of leading operating franchises namely, FNB, RMB, WesBank and Ashburton Investments, FirstRand aims to be appropriately represented in significant financial services in its chosen markets.

MANAGING THE RISK PROFILE

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

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

EARNINGS RESILIENCE, GROWTH AND BALANCE SHEET STRENGTH

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

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

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

Risk management framework	Performance management framework	Balance sheet framework
assess the impact of the cycle on the group's portfolio; understand and price appropriately for risk; and originate within cycle-appropriate risk appetite and volatility parameters.	allocate capital appropriately to capital-light or capital-intensive activities; ensure an efficient capital structure with appropriate/conservative gearing; and ensure earnings exceed cost of capital, i.e. positive net income after capital charge (NIACC).	execute sustainable funding and liquidity strategies; protect the credit rating; and preserve a "fortress" balance sheet that can sustain shocks through the cycle.

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

Refer to the CEO's report for a detailed discussion on the group's strategies to ensure resilience in earnings, growth and returns, and maintain balance sheet strength.

TOP AND EMERGING RISKS

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

TOP AND EMERGING RISKS

Risk	Description	Mitigant
Global macroeconomic environment and political risk		
Global economic outlook	Slow economic growth in developed and emerging markets, normalisation of US monetary policy and dollar strength could result in a slowdown of foreign capital flows into South Africa.	Continue to monitor economic developments in key markets with appropriate planning, action, strategy alignment and provisions as required.
Global debt	Positive growth in the West continues to be constrained by excessive debt burdens.	
Economic outlook in China	Slower economic growth in China impacts demand for a number of commodities.	
Low commodity prices	Severe price declines in a number of commodities including oil, iron ore and copper may impact the economies of particularly Nigeria, Zambia, Angola and South Africa and affect corporate credit counterparties.	
Political risk in the rest of Africa	Political instability and terrorism in a number of countries may have an impact on expansion strategies and regional economies.	Political risk in countries where the group has a presence is closely monitored.

Risk	Description	Mitigant
Local macroeconomic environment		
Local economic outlook	While economic growth in South Africa may be slightly higher than 2014's strike affected 1.5%, growth may be limited as the benefit of lower oil prices fade, and higher inflation and gradual monetary policy tightening weigh on domestic demand.	Credit origination and funding strategies are assessed in the light of economic conditions and market liquidity.
Current account deficit	South Africa's large current account deficit reflects the economy's dependence on foreign capital inflows to fund growth. The economy is vulnerable to any global or domestic economic developments that could affect foreign capital inflows.	
Sovereign rating	The risk of a sovereign rating downgrade in the medium to long term may impact foreign investment in South Africa and the cost of funding.	The impact of a sovereign downgrade on business continues to be assessed.
Regulatory and legal risks		
Regulatory developments	The regulatory landscape requires the group to deal with a number of changes and additional legal and regulatory requirements. These include market conduct, countering terrorist financing, twin peaks, anti-money laundering, treating customers fairly, and the protection of personal information, IFRS 9, National Credit Amendment Act (NCA), foreign account tax compliance and foreign asset control sanctions.	Significant investment in people, systems and processes are made to manage the risks emanating from the large number of new regulatory requirements.
Legal risk	Legal proceedings arising from business operations could give rise to potential financial loss and reputational damage.	
Risks related to business operations and internal control systems		
Electricity shortages	Constraints on national electricity supply leading to planned power outages by Eskom and the possibility of prolonged outages increase business resilience risk, despite contingency plans in place.	Contingency plans for current outages and future possible unplanned, more regular electricity interruptions.
Structural constraints	Operations are reliant on many elements of the national infrastructure, including water supply and telecommunication. Structural constraints, such as skills shortages, labour market unrest and parastatal financial issues, may have potential direct or indirect impacts on business.	The impact of structural constraints on operations is assessed with contingency plans in place where appropriate.
Funding costs	Market availability of high quality liquid assets (HQLA) could impact the group's funding position and costs.	A number of actions are in place to ensure a resilient funding profile.
Cybercrime and fraud	Cybercrime and potential money laundering threats continue to increase globally.	Threats are continuously assessed and controls adapted to address possible control weaknesses and improve system security.
Data management	New regulatory requirements for more frequent, consistent, accurate and timely data submissions.	Projects for improved data management, aggregation and reporting are underway.

THE YEAR UNDER REVIEW AND FOCUS AREAS

Year under review	Risk management focus areas
Capital management	
The Basel Committee on Banking Supervision (BCBS) issued a number of consultative documents that may impact capital levels: - a revised set of standardised approaches for credit and operational risk; - a capital floor based on the revised standardised approach for internal ratings-based accredited banks; and - various papers impacting remaining Pillar 1 and 2 risk types. These consultative documents are still under discussion and the impact, proposed calibration and implementation timelines remain outstanding.	- Maintain strong capital levels, with particular focus on the quality of capital and optimise the group's risk-weighted assets (RWA) and capital mix during the transitional period of Basel III implementation. - Continue to participate in the SARB quantitative impact studies to assess the impact of Basel III developments on capital adequacy and leverage. The National Treasury, SARB and Financial Services Board (FSB) published a discussion document, *Strengthening South Africa's Resolution Framework for Financial Institutions*. Comments on this paper are due by 30 September 2015.
Credit risk	
- Aligned credit origination strategies to the group's macroeconomic outlook with particular reference to consumer indebtedness, the rising interest rate cycle, low economic growth and a depressed commodity price cycle. - Assessed credit portfolio performance considering stressed scenarios to the group's outlook to confirm resilience of credit portfolios within risk appetite under stressed conditions. - Assessed adequacy of impairments given current economic conditions. - Conducted an impact analysis on initial expectations of migrating from IAS 39 to IFRS 9. - Established a group IFRS 9 steering committee and supporting work streams to discuss expected loss principles and associated modelling approaches. - Initiated implementation of amendments for revised affordability assessment criteria of the NCA. - Initiated implementation of directive 7/2015 requirements on restructured credit exposures.	- Continue to monitor the effect of economic conditions on consumer indebtedness, interest rates, growth and commodity prices. - Ongoing reviews to ensure alignment of bottom-up and top-down credit risk appetite assessments. - Continue to refine credit risk appetite approaches to inform the assessment of credit loss volatility. - Assess implications and reactions to potential revisions of regulatory prescribed maximum credit-related pricing (National Credit Regulatory (NCR) caps). - Focus on debt counselling trends as the South African consumer continues to experience strain on the back of low economic growth. - Refine the impact analysis, establish key principles and modelling approaches, and develop prototype models for the IFRS 9 project to inform appropriate validation requirements. - Continue to invest in people, systems and processes related to credit model risk management to ensure appropriate governance with increasing model complexity.

Year under review	Risk management focus areas
Counterparty credit risk	
• Focused on integrated assessment of credit, legal, liquidity and market risks of complex counterparty derivative portfolios. • Performed impact assessment of upcoming liquidity, margin and capital regulations on derivative portfolios. • Refined the counterparty credit risk stress testing methodology.	• Improve the group's internal counterparty credit risk exposure assessment methodology. • Refine the counterparty credit risk economic capital model.
Market risk	
Market risk in the trading book	
• Overall diversified levels of market risk have remained fairly low over the last few years with this trend continuing during the current year, and no significant concentrations in the portfolio. • Across the group, the only activities where an increase in market risk has been noted are in the subsidiaries in the rest of Africa, but these remain low in the context of the size of the group.	• Given the impending regulatory changes, and in particular the BCBS's consultative document, *Fundamental review of the trading book*, RMB is reviewing the current target operating platform for market risk, taking into account platform capabilities across both front office and risk areas and aligning market risk processes, analysis and reporting in line with these impending regulatory changes.
Interest rate risk in the banking book	
• The Monetary Policy Committee increased rates by 25 bps in July 2014. This has positively impacted the group's earnings given the endowment impact.	• The extent and timing of rate normalisation in South Africa is impacted by various global macroeconomic factors. The group continues to actively manage interest rate risk in the banking book (IRRBB). • The BCBS, through the task force for interest rate risk in the banking book, continues to investigate the possibility of a Pillar 1 charge. Ongoing developments are monitored.
Structural foreign exchange risk	
• Continued to strengthen principles regarding the management of foreign exchange positions and funding of the group's foreign entities. • Monitored net open forward positions in foreign exchange (NOFP) limits in each of the group's foreign entities.	• Continually assess and review the group's foreign exchange exposures and enhance the quality and frequency of reporting.
Equity investment risk	
• Limited equity investments were added to the portfolio during the year and volatility in the commodity markets resulted in some losses. • The RMB private equity unrealised reserves increased to R4.9 billion (2014: R3.9 billion) on the back of earnings growth, degearing in the underlying portfolio companies and an increase in valuation multiples where appropriate. • Ashburton Investments developed and launched two new funds and one local feeder fund during the year under review.	• The group will continue to focus on non-performing loans in the investment portfolio and realising value from the existing portfolio. • Ashburton Investments will continue to develop and launch new products and focus on improving its distribution capability.

Year under review	Risk management focus areas
Funding and liquidity risk	
• During the year under review, the deposit franchise grew 13% and the liquidity weighted average remaining term profile of institutional funding was extended to 31 months (2014: 27 months). • Innovative customer deposit products showed strong growth, supporting the group's strategy to grow its deposit franchise. • Available excess funding was allocated to liquidity resources, resulting in a significant increase in marketable instruments, in alignment with the group's strategy for LCR compliance.	• Continue to focus on the Basel III liquidity regime with emphasis on both funding and market liquidity risk management. • Further optimise and diversify the funding profile on a risk-adjusted basis in line with Basel III requirements for the LCR. • Continue to focus on growing the deposit franchise through innovative products and improve the risk profile of institutional funding. • Continue to optimise the market liquidity risk profile by developing execution platforms for additional funding sources. The bank's application for a committed liquidity facility (CLF) has been approved.
Operational risk	
• Increased use of the operational risk management system to obtain an integrated view of the group's operational risk profile. • Improved efficiency in the validation of the integrity and quality of operational risk management information. • Improved quality and value of key risk indicators and risk scenarios. • Improved understanding of risks and controls in key business processes through embedding process-based risk and control identification and assessments. • Streamlined operational risk governance reporting.	• Practical contingency plans to manage risks associated with the national electricity supply shortages. • Enhance the quality and coverage of process-based risk and control identification and assessments. • Refine scenario analysis and operational risk appetite setting process by appropriate linkages to risk mitigation plans. • Embed and automate key risk drivers in the application of risk assessment and management tools. • Continue to enhance risk measurement, capital calculation and allocation methods. • Deliver on actions for compliance with Basel principles for risk data aggregation and reporting.
Regulatory risk	
• The second draft of the Financial Sector Regulation Bill was published in March 2015. • The draft Financial Intelligence Centre Amendment Bill 2015 was published in April 2015. • Significant investments in systems, processes and resources were made to ensure compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) legislation. • Substantial progress was made with remediation actions required in respect of matters identified by the SARB during its previous AML/CFT inspection.	• Continue to cooperate with regulatory authorities and other stakeholders. • Continue to make significant investment in people, systems and processes to manage risks emanating from the large number of new local and international regulatory requirements.

RISK APPETITE

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

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

RISK APPETITE STATEMENT

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

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

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

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

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

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

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

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

PROCESS FOR DETERMINING RISK APPETITE

Risk capacity

EARNINGS

CAPITAL

Filters

Strategic objectives and growth, return and volatility targets

Constraints based on stakeholder commitments

Risk appetite

QUANTITATIVE MEASURES

Normal business cycles

EARNINGS GROWTH, RETURN AND VOLATILITY TARGETS	MINIMUM CAPITAL AND LEVERAGE RATIO TARGETS	MINIMUM LIQUIDITY TARGETS AND TARGETED CREDIT RATING
ROE 18% to 22%	**Capital**: CET1: 10% – 11%	**Liquidity** To exceed minimum regulatory requirements with appropriate buffers
Earnings growth Nominal GDP +3% to 5%	**Basel III leverage:** > 5%	**Credit rating*** Equal to highest in SA banking industry

** Refers to a rating agency's measure of a bank's intrinsic creditworthiness before considering external factors and denotes the bank.*

QUALITATIVE PRINCIPLES

Always act with a fiduciary mindset.	Limit concentrations in risky asset classes or sectors.
Comply with prudential regulatory requirements.	Avoid reputational damage.
Comply with the spirit and intention of accounting and regulatory requirements.	Manage the business on a through-the-cycle basis to ensure sustainability.
Build and maintain a strong balance sheet which reflects conservatism and prudence across all disciplines.	Identify, measure, understand and manage the impact of downturn and stress conditions.
No risk taking without a deep understanding thereof.	Strive for operational excellence and responsible business conduct.
Comply with internal targets in various defined states to the required confidence interval.	Ensure the group's sources of income remain appropriately diversified across business lines, products, markets and regions.
No implementation of business models with excessive gearing through either on- or off-balance sheet leverage.	

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APPLICATION OF THE RISK/REWARD FRAMEWORK

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

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

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

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

STRESS TESTING AND SCENARIO PLANNING

INTRODUCTION AND OBJECTIVES

Stress testing and scenario planning are used to assess whether the desired risk appetite profile can be delivered within set constraints. The group employs a group-wide comprehensive, consistent and integrated approach to stress testing and scenario planning. This programme is a vital part of the annual planning, budgeting and forecasting process and directly informs capital buffers and dividend policy. It also informs the board of the impact of potential risks and management of the group's likely position, level of earnings, material risks and capital adequacy in the future.

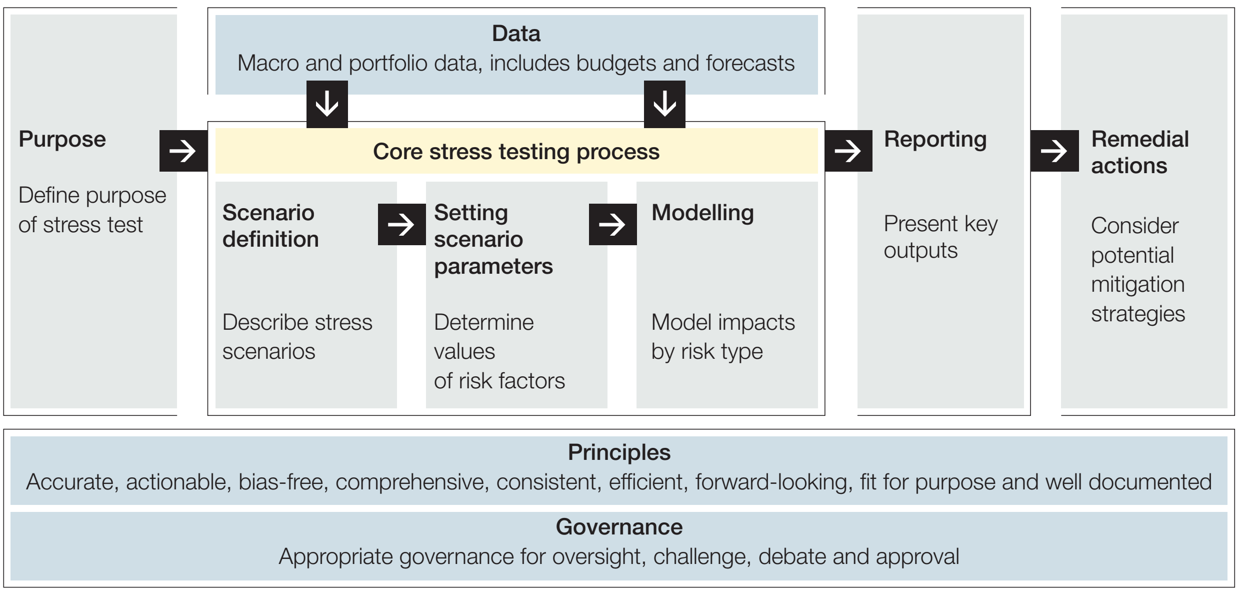
Stress testing and scenario analysis results are used to challenge and review certain of the group's risk appetite measures which will over time inform the basis of allocation of financial resources across franchises and business units. The programme includes all group and bank portfolios.

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

STRESS TESTING FRAMEWORK

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

STRESS TESTING FRAMEWORK



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

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

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

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

SCENARIOS AND DIMENSIONS

Scenario characteristics	Dimensions
Macroeconomic scenarios	
• macroeconomic scenarios are defined in order to capture the effects of the real economy on the group's financial position, risk, liquidity and capital profile; • management's strategic and tactical decisions are based on their interpretation of the macroeconomic environment; and • scenarios range from the most likely scenario to an extreme, but plausible, scenario.	• long-term (three years); • hypothetical but informed by historic data; • systemic; • multifactor; and • range from non-severe to severe.
Event scenarios	
• risk-specific scenarios, not directly related to the economic environment; • complement macroeconomic scenarios and highlight linkages and contagion between risk types; • event scenarios aim to identify events that may: – have a reputational impact; – have secondary impacts, e.g. funding and liquidity; – highlight key aspects of the risk profile, e.g. concentrations; and – have a material impact.	• hypothetical; • single or multifactor; • idiosyncratic; and • range from non-severe to severe.
Reverse stress testing	
• can be a macroeconomic event or an event scenario or a combination of the two; • aimed at identifying the level of risk factors required to result in a loss of confidence in the group; and • the reverse stress testing methodology is also explored in the recovery plan process and used to indicate effectiveness of the group's recovery options.	• short or long term; • hypothetical; • idiosyncratic or systemic; • single- or multifactor; and • very severe.

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

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

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

ADDITIONAL STRESS TESTS

Franchises and business units regularly run additional *ad hoc* stress tests to assess changes impacting certain factors, including macroeconomic and risk parameter changes for risk, capital and financial planning purposes. The SARB has and will call for supervisory stress tests from time-to-time. FirstRand recently participated in the following supervisory stress tests:

- International Monetary Fund's financial stability assessment programme in May 2014; and
- SARB's assessment of a potential sovereign downgrade on the South African banking industry in June 2015.

RECOVERY AND RESOLUTION REGIME

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

Recovery planning

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

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

The recovery plan forces the group to perform an extensive self-assessment exercise to determine if there are any potential idiosyncratic vulnerabilities that it may be exposed to, and then reconcile these exposures to its own risk appetite and strategy. Strategies to optimise the balance sheet structure and preserve the group's critical functions to support the recovery from a severe stress event with the least negative impact are considered. This process enables banks to better understand what functions are critical for its customers and for 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 stream-lined, adaptable and resilient to stress.

To date, SARB has focused on bedding down the recovery plans for South African banks and FirstRand has submitted two annual recovery plans, the most recent in December 2014.

Resolution planning

The South African regulatory architecture is currently undergoing significant transformation in order to create a regulatory framework that will support an effective resolution regime. South Africa is in the process of adopting a twin peaks supervisory framework model that will reduce the number of agencies involved in supervision with the establishment of two new regulatory agencies: the Prudential Regulation Authority (PRA), in the SARB, and a market conduct authority that will replace the FSB.

The PRA/SARB will be responsible for bank resolution but the exact details of the legislative framework that will support the resolution regime and the resolution authorities' respective powers, are still being finalised. Initial outlines of the resulting resolution planning requirements for the South African systemically important banks were issued in a draft proposal in August 2015. These resolution plans will allow the SARB to plan for an event from which the group will be unable to recover. It is assumed, based on global best practice, that the resolution plan will be owned and maintained by SARB, but will require a significant amount of resolution data to be submitted by the individual banks.

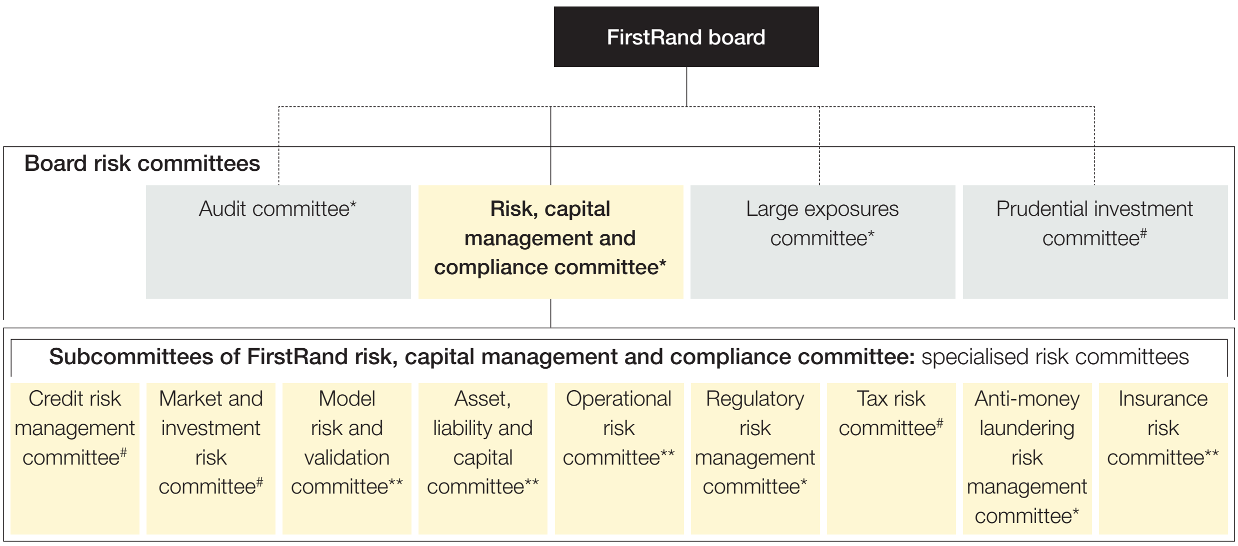
RISK GOVERNANCE

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

RISK GOVERNANCE STRUCTURE

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

RISK GOVERNANCE STRUCTURE



* *Chairman is an independent non-executive director.*

** *Chairman is a specialist consultant.*

\# *Chairman is a member of senior executive management. The credit risk management committee has non-executive board representation.*

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

The responsibilities of the board risk committees and RCC subcommittees are included in the following tables. Further detail on the roles and responsibilities of the RCC committee and its subcommittees relating to each particular risk type is provided in the major risk sections of this report.

RESPONSIBILITIES OF BOARD RISK COMMITTEES

Committee	Responsibility
Audit committee	• assists the board with its duties relating to the safeguarding of assets, operation of adequate systems and controls, assessment of going concern status and ensuring that relevant compliance and risk management processes are in place; • ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities (by management, internal and external assurance providers); • oversees and reviews work performed by external auditors and the internal audit function; and • oversees financial risks and internal financial controls including the integrity, accuracy and completeness of the annual integrated report, which is provided to shareholders and other stakeholders.
Risk, capital management and compliance committee	• approves risk management policies, frameworks, strategies and processes; • monitors containment of risk exposures within the risk appetite framework; • reports assessment of the adequacy and effectiveness of the risk appetite, risk management, ICAAP and compliance processes to the board; • monitors implementation of the risk management strategy and risk appetite limits, and the effectiveness of risk management; • initiates and monitors corrective action, where appropriate; • monitors that the group takes appropriate action to manage its regulatory and supervisory risks and complies with applicable laws, rules, codes and standards; • approves regulatory capital models, risk and capital targets, limits and thresholds; and • monitors capital adequacy and ensures that a sound capital management process exists.
Large exposures committee (LEC)	• approves credit applications or renewals in excess of 10% of the group's qualifying capital and reserves; and • delegates the mandate for the approval of group and individual facilities to the FirstRand wholesale credit approval committee, commercial credit approval committee and the FirstRand retail credit policy, risk appetite committee and mandate approval (subcommittees of LEC), as appropriate.
Prudential investment committee (PIC)	• provides oversight to ensure that investment risk and transactions are carefully assessed prior to approval; and • ensures investment exposures comply with group's prudential investment guidelines.

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RESPONSIBILITIES OF THE SUBCOMMITTEES OF THE RCC COMMITTEE

Committee	Responsibility
Credit risk management committee	• approves credit risk management and risk appetite policies as well as forward-looking credit risk indicators developed by the retail, commercial and corporate portfolio management; • provides independent analysis, evaluation and ongoing oversight of credit portfolio quality and performance relative to credit risk appetite thresholds; • monitors quality of the in-force business, business origination and underlying assets in the securitisation process; • monitors scenario and sensitivity analysis, stress tests, credit economic capital utilisation, credit pricing and credit concentrations; • ensures uniform interpretation of credit regulatory requirements and acceptable standards of credit reporting; • monitors corrective actions in terms of non-adherence to the credit risk management framework based on reports by Group Internal Audit (GIA) and reports to the RCC committee; and • reviews credit economic conditions outlook as described in the group's house view and ensures that business units align credit origination strategies accordingly.
Market and investment risk committee	• approves market and investment risk management policies, standards and processes; • monitors the effectiveness of market and investment risk management processes; • monitors the market and investment risk profile; and • approves market and investment risk-related limits.
Model risk and validation committee	• approves or recommends for approval by the RCC committee, all material aspects of model validation work including credit ratings and estimations, internal models for market risk and advanced measurement operational risk models for the regulatory capital calculations.
Asset, liability and capital committee (ALCCO)	• approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity and funding risk, capital and market risk in the banking book (interest rate risk, and foreign exchange and translation risk); • monitors the group's funding management; • provides governance and oversight of the level and composition of capital, and considers the supply and demand of capital across the group; • approves buffers over regulatory capital and monitors capital adequacy ratios; and • approves frameworks and policies relating to internal funds transfer pricing for the group.

audited

Committee	Responsibility
Operational risk committee (ORC)	• provides governance, oversight and coordination of relevant operational risk management practices and initiates corrective action, where required; • monitors the group and franchise operational risk profiles against operational risk appetite; • mandates FirstRand ORC to approve operational risk-related methodologies, processes, guidelines and relevant documentation; • reviews and recommends the group's operational risk appetite for approval by RCC committee; • approves the operational risk management framework and all its subpolicies/frameworks used in the management of the different operational risk classes, including fraud risk, legal risk, business resilience, information governance, information technology and physical security; • monitors the formal reports of the ORC subcommittees on the effectiveness of specific operational risk classes; • ensures the maintenance of an independent and appropriately skilled operational risk management function; • monitors the adequate and effective implementation of the operational risk management framework across the group and key corrective actions; and • reports on material operational risk items to the RCC committee.
Regulatory risk management committee	• approves regulatory risk management principles, frameworks, plans, policies and standards; and • monitors the effectiveness of regulatory risk management across the group and initiates corrective action where required.
Tax risk committee	• sets tax strategy and tax risk appetite; • approves the tax management frameworks and policies; and • monitors tax risk assessments and profiles, compliance tax risks, corrective actions and escalation to the RCC committee, where required.
Anti-money laundering risk management committee	• approves the AML risk management framework, policies and procedures; • monitors AML risk assessments, risk profile and compliance with relevant laws and regulations, and the adequacy of remedial actions; and • reports and makes recommendations to the RCC committee on AML/CTF matters.

FRANCHISE RISK GOVERNANCE STRUCTURE

FNB audit committee	FNB risk and compliance committee	RMB audit committee	RMB proprietary board*	WesBank audit committee	WesBank risk and compliance committee	FCC audit, risk and compliance committee	Ashburton Investments audit, risk and compliance committee	FirstRand Life Assurance audit and risk committee**

* *The RMB proprietary board is the risk and regulatory committee for RMB.*

** *FirstRand Life Assurance is not a franchise of the group.*

Additional risk, audit and compliance committees exist in each franchise, the governance structures of which align closely with that of the group, as illustrated in the risk governance structure on page 151. The group board committees comprise members of franchise advisory boards, audit and risk committees to ensure a common understanding of the challenges businesses face and how these are addressed across the group. The franchise audit, risk and compliance committees support the board risk committees and RCC subcommittees in the third line of control across the group.

audited

RISK GOVERNANCE FRAMEWORK

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

LINES OF RISK CONTROL

FIRST LINE OF CONTROL

RISK OWNERSHIP

Risk inherent in business activities

Head of business
Reports to franchise CEOs

Group Treasury in FCC
Supports business owners, the board and executive committee

Franchise executive committees

BOARD

Strategic executive committee

- Group CEO
- Group deputy CEO
- Group CFO
- Franchise CEOs

Executive committee

- Franchise CEOs
- Group CRO
- RRM head
- Chief audit executive
- Group treasurer

SECOND LINE OF CONTROL

RISK CONTROL

Risk identification, measurement, control and independent oversight and monitoring

Enterprise Risk Management (ERM)
Head: Group CRO

Regulatory Risk Management (RRM)
RRM head represented on executive committee

Insurance control functions
Heads report to FirstRand Life Assurance CEO, ERM and RRM

Deployed franchise and segment risk managers

- Involved in all business decisions
- Represented at franchise executive committees

RCC committee

Specialised risk committees

Franchise risk committees

Franchise CROs
Report to franchise CEO and group CRO

THIRD LINE OF CONTROL

INDEPENDENT ASSURANCE

Adequacy and effectiveness of internal control, governance and risk management

Group Internal Audit
Headed by chief audit executive with direct, unrestricted access to audit committee chairman, group CEO, franchises, records, property and personnel

External advisors

Audit committee

Franchise audit committees

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

RESPONSIBILITIES IN THE LINES OF RISK CONTROL

FIRST LINE

Heads of business

- act in accordance with mandates approved by the board or its delegated authority;
- identify, quantify and monitor key risks to business under normal and stress conditions;
- implement strategy within approved risk appetite parameters;
- design business processes to appropriately manage risk;
- ensure that board-approved risk policies, frameworks, standards, processes, methodologies and risk tools are implemented;
- specify and implement early warning measures, associated reporting, management and escalation processes through governance structures;
- implement risk mitigation and response strategies;
- implement timeous corrective actions and loss control measures as required; and
- ensure staff understand and implement responsibilities for risk management.

Group Treasury

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

SECOND LINE

Deployed risk management

- supports management in identifying and quantifying key risks;
- ensures that board-approved risk policies, frameworks, standards, methodologies and tools are adhered to;
- approves design of business risk processes to ensure appropriate risk management;
- identifies process flaws and risk management issues and initiates and monitors corrective action;
- ensures timeous risk management and loss containment activities; and
- compiles, analyses and escalates risk reports on performance, risk exposures and corrective actions, through governance structures in appropriate format and frequency.

Enterprise Risk Management

- maintains the BPRMF and its ancillary risk frameworks, policies, standards and risk governance structures;
- develops and communicates risk management strategy and challenges risk profiles;
- monitors adequate and effective implementation of risk management processes;
- reports risk exposures and performance to management and governance structures;
- supports management with risk aspects of business decisions;
- ensures appropriate risk management skills and culture;
- performs risk measurement validation; and
- manages regulatory relationships for risk.

Regulatory Risk Management

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

Insurance control functions

- actuarial function provides assurance to the board regarding the appropriateness of the insurance liability assumptions and capital adequacy; and
- risk management and compliance conduct risk and compliance assessments and implement improvements.

THIRD LINE

Group Internal Audit

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

COMBINED ASSURANCE

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

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

REGULAR RISK REPORTING AND CHALLENGE OF CURRENT PRACTICES

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

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

RISK CULTURE

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

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

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

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

RISK CULTURE ASSESSMENT FRAMEWORK

THEMES

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

PARAMETERS

Tone from the top	Setting risk goals	Providing resources and sound platforms	Aligning measurement and rewards

ACTIVITIES

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

BASIS OF PILLAR 3 DISCLOSURE

SARB APPROACHES TO CALCULATION OF RWA

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

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

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

BASIS OF CONSOLIDATION

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

REGULATORY CONSOLIDATION TREATMENT

<table>
<tr><th rowspan="2">Shareholding</th><th colspan="3">Regulatory</th><th rowspan="2">IFRS</th></tr>
<tr><th>Banking, security firm, financial</th><th>Insurance†</th><th>Commercial</th></tr>
<tr><td>Less than 10%</td><td colspan="2">Aggregate of investments (CET1, AT1 and Tier 2):
• amount exceeding 10% CET1 capital – deduction against corresponding component of capital; and
• up to 10% – risk weight*.</td><td rowspan="2">Standardised approach:
• minimum risk weight of 100%.
Internal rating-based approach:
• maximum risk weight of 1250%.</td><td rowspan="2">Financial asset at fair value (held for trading, designated at fair value through profit or loss or available-for-sale). Where the substance of the transaction indicates that the group is able to exercise significant influence or joint control over the entity, equity accounting is applied.</td></tr>
<tr><td>Between 10% and 20%</td><td colspan="2">CET1 capital:
• individual investments in excess of 10% CET1 – deduction against CET1 capital; and
• individual investments up to 10% apply threshold rules**.
AT1 and Tier 2:
• deduct against corresponding component of capital.</td></tr>
<tr><td>Between 20% and 50%</td><td>Legal or de facto support (other significant shareholder):
• proportionately consolidate.
No other significant shareholder:
• apply threshold rules**.</td><td rowspan="2">• Apply deduction methodology, with 100% derecognition of IFRS NAV.
• Cost of investment subject to threshold rules**.</td><td rowspan="2">Standardised and internal rating based approach:
• individual investment greater than 15% of CET1, AT1 and Tier 2: risk weight at 1250%;
• individual investment up to 15% of CET1, AT1 and Tier 2: risk weight at no less than 100%; and
• aggregate of investments exceeding 60% of CET1, AT1 and Tier 2: excess risk weighted at 1250% (standardised only).</td><td>Equity accounted where the substance of the transaction indicates that the group has the ability to exercise significant influence or joint control, but does not control the entity.</td></tr>
<tr><td>Greater than 50%</td><td>Entity conducting trading activities/other bank, security firm or financial entity#:
• consolidate.</td><td>Consolidate, unless the substance of the transaction indicates that the group does not control the entity, in which case equity accounting would typically be applied.</td></tr>
</table>

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

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

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

† *Material wholly-owned insurance subsidiaries incorporated in South Africa include FirstRand Life Assurance Limited (2015: R65 million NAV) and FirstRand Insurance Services Company Limited (2015: R443 million NAV).*

NEW PILLAR 3 DISCLOSURE REQUIREMENTS

The BCBS issued revised Pillar 3 disclosure requirements in January 2015 to address shortcomings in Pillar 3 of the Basel framework. The revised disclosure requirements will enable market participants to better compare banks' RWA disclosures. These form part of the BCBS's broader agenda to reform regulatory standards for banks in response to the global financial crisis. The revisions focus on improving the transparency of the internal model-based approaches used by banks to calculate minimum regulatory capital requirements.

The revised requirements will take effect from the end of 2016 and supersede the existing Pillar 3 disclosure requirements. The most significant revisions are templates for quantitative disclosure and definitions, some with a fixed format. This aims to enhance comparability of banks' disclosures. FirstRand is in the process of ensuring compliance with these new disclosure requirements.

Basel III capital and leverage components

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

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

Basel III LCR disclosure

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

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

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

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

QUALIFYING CAPITAL AND LEVERAGE COMPONENTS

TOTAL QUALIFYING CAPITAL AND RESERVES

=

TIER 1 CAPITAL

CET1 CAPITAL

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

Deductions

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

AT1 CAPITAL

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

Deductions

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

+

TIER 2 CAPITAL

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

Deductions

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

LEVERAGE

=

CAPITAL MEASURE

TIER 1 CAPITAL

÷

TOTAL EXPOSURE

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

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

STRATEGIC AND BUSINESS RISK

INTRODUCTION AND OBJECTIVES

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

ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

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

ASSESSMENT AND MANAGEMENT

STRATEGIC AND BUSINESS RISK COMPONENTS

1 Strategic risk

Risk to current or prospective earnings arising from inappropriate business decisions or the improper implementation of such decisions.

- Not a readily quantifiable risk.
- Not a risk that an organisation can or should hold a protective capital buffer against.

2 Business risk

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

- Considered in the strategic planning process and as part of stress testing and scenario analyses.
- Group's objective is to develop and maintain a portfolio that delivers sustainable earnings and minimises the chance of adverse outcomes.

3 Volume and margin risk

Business risk is often associated with volume and margin risk, which relates to the group's ability to generate sufficient levels of revenue to offset its costs.

- Considered part of strategic planning.
- Assessed through the group's management and governance processes, and ICAAP.

4 Reputational risk

Risk of reputational damage due to compliance failures, pending litigations, underperformance or negative media coverage.

The group's business is one inherently built on trust and close relationships with its clients. Its reputation is, therefore, built on the way in which it conducts business and the group protects its reputation by managing and controlling risks across its operations.

- Reputational risk can arise from environmental and social issues or as a consequence of financial or operational risk events.
- The group seeks to avoid large risk concentrations by establishing a risk profile that is balanced within and across risk types.
- Potential reputational risks are also taken into account as part of stress-testing exercises.
- The group aims to establish a risk and earnings profile within the constraints of its risk appetite and seeks to limit potential stress losses from credit, market, liquidity or operational risks that may otherwise introduce an undesirable degree of volatility in its financial results and adversely affect its reputation.

5 Environmental and social risk

Relates to the environmental and social issues which impact the group's ability to successfully and sustainably implement business strategy.

- Formal governance processes for managing environmental and social risk that may affect the group's ability to successfully implement business strategy exist.
- Includes detailed environmental and social risk analysis (ESRA).

EQUATOR PRINCIPLES AND ENVIRONMENTAL AND SOCIAL RISK ANALYSIS

FirstRand has formally integrated environmental and social risk management processes into its credit risk governance process, which is supported by enterprise-wide social and ethics committee structures. These processes include the following key measures:

- defining requirements for environmental and social risk assessment and monitoring approved transactions;
- developing and communicating environmental and social performance standards that clients will be expected to meet within an acceptable timeframe; and
- defining environmental and social roles and responsibilities for both FirstRand and its clients.

FirstRand became an Equator Principles (EP) finance institution in July 2009. The application of EP forms part of ESRA, and is a specific framework for determining, assessing, and managing environmental and social risk in affected transactions.

During 2014/2015, areas of focus included the expansion of the ESRA process into the group's subsidiaries in the rest of Africa. The rollout of this process is expected to take place over a three-year period, with priority of roll-out determined by the size and maturity of the subsidiary. The National Environmental Management Waste Act 59 of 2008 (the Act): Part 8 was promulgated on 1 May 2014 and relates to the management of contaminated land. This portion of the Act has increased the group's focus on the valuation and securitisation of contaminated property and credit approval in lending transactions. FirstRand included, as an initial step in identifying contaminated land in all property-related transactions, a review of contaminated land risk indicators as part of the property valuation process.

ESRA TRANSACTION TYPE

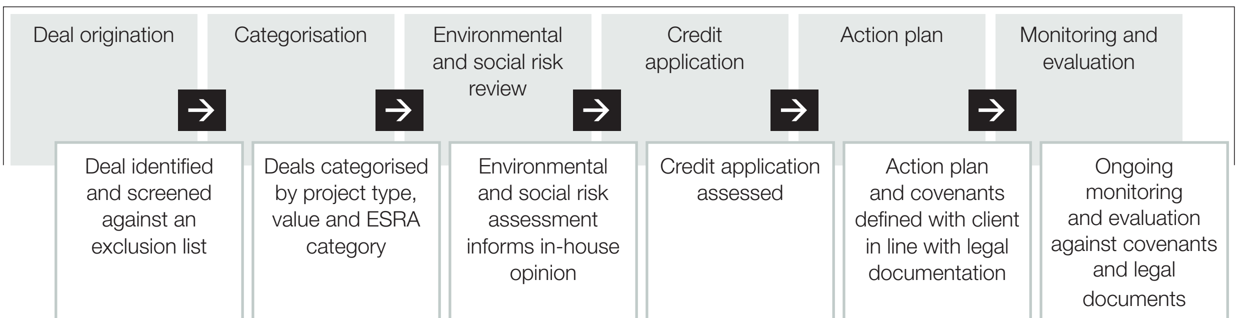
Transaction type	Threshold amount after which an ESRA review is triggered
Project finance transactions	Total project capital costs at or above USD10 million: EP review. All category A (high risk) and B (medium risk) transactions with a total project capital cost of less than USD10 million: in-house ESRA review.
Project finance advisory	Total project capital costs at or above USD10 million: EP review.
Corporate loans	No threshold applied, all corporate loans: in-house ESRA review.
Corporate loans – project related	Total aggregate loan amount is at least USD100 million of which member banks' individual commitment (before syndication or sell down) is at least USD50 million and loan tenor is at least two years: EP review.
Bridge loans (subject to EP)	Bridge loans with a tenor of less than two years that are intended to be refinanced by project finance (at or above USD10 million): EP review.
Equity investment deals	No threshold applied, all equity investment deals: in-house ESRA review.
Affected commercial loans (including property finance)	No threshold applied, all property finance or property securitised loans: in-house ESRA review. Commercial loans (non-property related) – total facility amount above R7.5 million: in-house ESRA review.

ESRA review process

Specialist resources in the franchises serve as technical advisors to franchise senior management and employees involved with credit transactions and provide assessment, review, consultation and specialist advice on lending transactions.

Each of the group's operating franchises have formalised credit and compliance processes for ESRA implementation, with oversight provided by franchise social and ethics committees, risk and compliance officers, and credit committees throughout the group. The ESRA process is incorporated in the group credit risk management framework as an aspect of transaction risk management, and, in the FirstRand environmental sustainability risk framework (a subframework of the regulatory risk management framework), as an aspect of environmental and social risk management. Oversight is provided by RRM and franchise social and ethics committees. The ESRA review process is illustrated in the following chart.

ESRA REVIEW PROCESS



In the event that a transaction is identified as being a high environmental or social risk, or an exception to the defined process, the transactor, franchise chief risk officer and franchise head of credit are informed through a formalised escalation process. Transaction approval is provided by the relevant franchise chief risk officer and head of credit and reported to the relevant quarterly franchise social and ethics committee for discussion and noting.

FirstRand has formal governance processes for managing environmental and social risks affecting the group's ability to successfully implement business strategy. These processes involve the integration of environmental and social information into the relevant sections of risk reports at group and franchise level. Tolerances and mitigating actions are defined at group and franchise level, and progress in respect of these is tracked through existing risk reporting structures. Provision is made for the escalation of significant environmental and social issues to the board via the executive, RCC and audit committees.

2015 EP performance

The group measures EP performance in line with the International Finance Corporation (IFC) performance standards as either category A (high risk), category B (medium risk) or category C (low to no risk), which are defined in the following table.

DEFINITION OF EP PERFORMANCE CATEGORIES

IFC/equator category	Risks/impacts
Category A (high risk)	Projects with potentially significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. Issues relating to these risks may lead to work stoppages, legal authorisations being withdrawn and reputational damage. Examples could include projects involving the physical displacement of the natural environment or communities.
Category B (medium risk)	Projects with potentially limited adverse social or environmental impacts that are few in number, generally site specific, largely reversible and readily addressed through mitigation measures. Issues relating to these risks may lead to fines, penalties or legal non-compliance and reputational damage. Examples could include increased use of energy or increased atmospheric emissions.
Category C (low or no risk)	Projects with minimal or no social or environmental impacts.

EP transactions

The projects reported are the structured EP-defined deals, which were reviewed by in-house environmental and social risk specialists. All category A and B transactions were subjected to independent EP review to establish environmental and social risks of projects and have reached financial close during the year. Financial close is assumed when all conditions precedent to initial drawing of the debt have been satisfied or waived. EP reporting is externally assured for public disclosure by an independent third party as per the requirements set out by the EP association.

The number of EP transactions screened per industry categories and regions is provided in the following tables.

EP PROJECT FINANCE LOANS

Transactions per category	2015 Total	2015 A high risk	2015 B medium risk	2015 C low risk	2014 Total	2014 A high risk	2014 B medium risk	2014 C low risk
By sector*								
Mining	**1**	**1**	**–**	**–**	2	2	–	–
Infrastructure	**1**	**–**	**1**	**–**	1	–	–	1
Power	**1**	**–**	**1**	**–**	1	–	1	–
Renewable energy	**1**	**–**	**1**	**–**	2	–	2	–
Retail	**8**	**–**	**–**	**8**	8	–	–	8
By region*								
Asia Pacific	**2**	**1**	**1**	**–**	–	–	–	–
Europe, Middle East and Africa	**10**	**–**	**2**	**8**	14	2	3	9
By country designation**								
Designated	**1**	**1**	**–**	**–**	–	–	–	–
Non-designated	**11**	**–**	**3**	**8**	14	2	3	9
Independent review#								
Yes	**4**	**1**	**3**	**–**	5	2	3	–
No	**8**	**–**	**–**	**8**	9	–	–	9
By EP category								
Total number of EP transactions	**12**	**1**	**3**	**8**	14	2	3	9

* *No transactions in the oil and gas category or within the Americas reached financial close during 2014 and 2015.*

** *A designated country is a high income country as per the Organisation for Economic Cooperation and Development (OECD) country list.*

\# *An independent review is not required for category C projects.*

Project-related corporate loans

The following table includes the detail breakdown of project-related corporate loans per category split by sector, region, country designation, independent review and total transactions. Only one project-related corporate loan reached financial close during the year under review. Whilst there are more project-related corporate loans that were initiated during the 2014/2015 financial year, none of those reached financial close.

EP PROJECT-RELATED CORPORATE LOANS

	2015	
Transactions per category*	**Total**	**B medium risk**
By sector**		
Infrastructure	**1**	**1**
By region**		
Europe, Middle East and Africa	**1**	**1**
By country designation		
Designated#	**–**	**–**
Non-designated	**1**	**1**
Independent review		
Yes	**1**	**1**
Total by EP category	**1**	**1**

* *No transactions in category A (high risk) or category C (low risk) reached financial close during 2015.*

** *No transactions in the mining, oil and gas, power, renewable energy and retail sectors, or in the Americas or Asia Pacific regions reached financial close during 2015.*

A designated country is a high income country as per the OECD country list. No transactions in a designated country reached financial close during 2015.

EP PROJECT FINANCE ADVISORY TRANSACTIONS

	2015			2014		
Transactions per category	**Total**	**A high risk**	**B medium risk**	**Total**	**A high risk**	**B medium risk**
By sector*						
Mining	**1**	**1**	**–**	1	1	–
Infrastructure	**1**	**–**	**1**	1	–	1
Renewable energy	**1**	**–**	**1**	1	–	1
By region*						
Europe, Middle East and Africa	**3**	**1**	**2**	3	1	2
Total by EP category	**3**	**1**	**2**	3	1	2

* *No transactions in the power, oil and gas and retail sectors, or in the Americas or Asia Pacific regions, or in category C (low risk) reached financial close during 2014 and 2015.*

ESRA process going forward

The group is currently in the seventh year of implementation of ESRA processes. Continued focus will be given to awareness training, effective application and continued improvement of the ESRA process.

CAPITAL MANAGEMENT

INTRODUCTION AND OBJECTIVES

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

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

KEY FOCUS AREAS AND CONSIDERATIONS

Optimal level and composition of capital

Determined after taking into account:

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

Effective allocation of resources (including capital and risk capacity)

- aligned to risk appetite to maximise value for shareholders.

Limited excesses above targets

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

Dividend policy included in overall capital plan

- sustainable dividend cover based on sustainable normalised earnings; and
- dividend policy caters for the following factors:
  - volatile earnings brought on by fair value accounting;
  - anticipated earnings yield on capital employed;
  - organic growth requirements;
  - safety margin for unexpected fluctuations in business plans; and
  - current target range (1.8 x to 2.2 x) to protect shareholders from any unnecessary volatility in dividends.
- annual assessment of appropriate level considers the following inputs:
  - actual performance;
  - forward-looking macroeconomic scenarios;
  - demand for capital; and
  - potential regulatory and accounting changes.

CAPITAL ADEQUACY AND PLANNING

Year under review

The capital planning process ensures that the total capital adequacy and CET1 ratios remain within or above targets across economic and business cycles. Capital is managed on a forward-looking basis, and the group remains appropriately capitalised under a range of normal and severe scenarios (including stress events), which includes ongoing regulatory developments, expansion initiatives and corporate transactions. The final Basel III leverage framework was implemented in 2014 and greater emphasis has been placed on monitoring leverage for the group.

FirstRand comfortably operated above its capital and leverage targets during the year under review. The following table summarises the group's capital and leverage ratios at 30 June 2015.

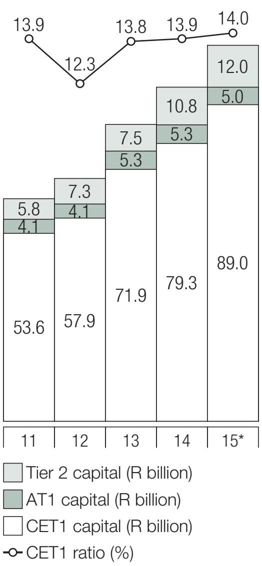
CAPITAL ADEQUACY AND LEVERAGE POSITION

	Capital			Leverage
%	**CET1**	**Tier 1**	**Total**	**Total**
Regulatory minimum*	**6.5**	**8.0**	**10.0**	**4.0**
Target	**10.0 – 11.0**	**>12.0**	**>14.0**	**>5.0**
Actual				
Excluding unappropriated profits	**13.0**	**13.8**	**15.7**	**7.8**
Including unappropriated profits	**14.0**	**14.8**	**16.7**	**8.4**

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

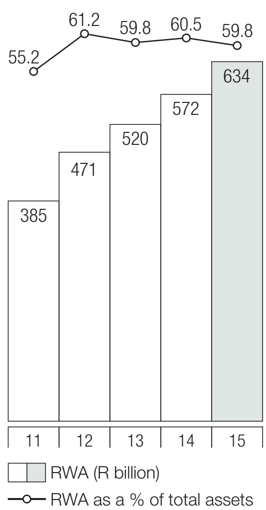
The following graphs show the historical overview of capital adequacy and RWA for FirstRand.

CAPITAL ADEQUACY



* *Includes unappropriated profits.*

RWA HISTORY



REGULATORY UPDATE

The BCBS issued a number of consultative documents during the year under review. These papers are at different stages of testing, finalisation and implementation, and will be incorporated in the BCBS quantitative impact studies. The group continues to participate in the quantitative impact studies to assess and incorporate, where relevant, the effect of these standards. The following table summarises the proposals that may impact the group's capital levels.

SUMMARY OF CONSULTATIVE DOCUMENTS

	Objectives	Impact assessment
Revised standardised approaches for credit and operational risk	• Reduced variability in RWA and increased risk sensitivity.	• Impact not yet quantified. • Incorporated in the December 2014 BCBS quantitative impact study.
Capital floor based on standardised approaches for internal ratings based accredited banks	• Address variability in capital ratios for banks using internal ratings based approaches. • Enhanced comparability across jurisdictions.	• Impact not yet quantified. • Proposed calibration and implementation timeline not clarified.
Interest rate risk in the banking book	• Appropriate capital to cover potential losses from exposure to changes in interest rates. • Limit capital arbitrage between trading and banking book.	• Impact not yet quantified. • Incorporated in the June 2015 BCBS quantitative impact study. • Two possible options: – Pillar 1 approach (minimum capital requirement); or – enhanced Pillar 2 approach.
Principles on loss absorbing and recapitalisation capacity of G-SIBs	• Developed in consultation with BCBS. • Forms a new minimum standard for total loss absorbing capacity and composition of a bank's capital structure.	• Discussion document issued for comment.

The National Treasury, SARB and FSB published for public comment a discussion document, *Strengthening South Africa's Resolution Framework for Financial Institutions*. Comments on the paper are due by 30 September 2015.

Internal capital adequacy assessment process

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

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

The board-approved capital plan is annually reviewed as part of the group's ICAAP, with the stress-testing framework an extension of the process. ICAAP assists in the allocation of capital in proportion to risks inherent in the various businesses with reference to normal economic circumstances and times of potential stress, which may lead to the emergence of risks not previously considered. These processes are under continuous review and refinement, and continue to inform the targeted buffer over the minimum capital requirement.

The group aims to back all economic risk with loss absorbing capital and remains well capitalised in the current environment. The group continues to refine its approach to economic capital used across the group which includes strategic capital planning, risk measurement and portfolio management.

COMPOSITION OF CAPITAL

Supply of capital

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

COMPOSITION OF CAPITAL ANALYSIS

R million	CET1 capital	Tier 1 capital	Total qualifying capital
2015 – excluding unappropriated profits	**82 516**	**87 563**	**99 563**
2015 – including unappropriated profits	**88 961**	**94 008**	**106 008**
2014*	79 344	84 647	95 368

* *All profits were appropriated at 30 June 2014.*

Movement		
CET1	**AT1**	**Tier 2**
↑	↓	↑
• Share capital issuance relating to BEE deal. • Internal capital generation through earnings.	• Additional haircut on non-compliant Basel III NCNR preference shares partly offset by movement in third party capital.	• Issuance of Basel III compliant subordinated debt instrument (FRB15 – R2.0 billion) in March 2015. • Redemption of FRB03 old-style Tier 2 instrument (R1.7 billion) in September 2014. • Additional haircut on non-compliant Basel III Tier 2 instruments.

Demand for capital

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

RWA AND CAPITAL REQUIREMENTS

	FirstRand				
	2015				2014
	RWA				
R million	Advanced approach	Other approaches*	Total	Capital requirement**	RWA#
Credit risk	339 551	104 933	444 484	44 448	398 160
– Corporate, banks and sovereigns	147 683	26 474	174 157	17 416	156 265
– Small and medium enterprises (SMEs)	46 313	25 933	72 246	7 224	61 846
– Residential mortgages	51 745	6 973	58 718	5 872	53 737
– Qualifying revolving retail	22 082	4 548	26 630	2 663	20 250
– Other retail	66 627	21 221	87 848	8 785	81 920
– Securitisation exposure	5 101	14 988	20 089	2 009	16 386
– Other	–	4 796	4 796	479	7 756
Counterparty credit risk (excluding default risk)	–	7 547	7 547	755	1 317
Total credit risk	339 551	112 480	452 031	45 203	399 477
Operational risk	75 049	25 280	100 329	10 033	93 613
Market risk	9 320	3 051	12 371	1 237	13 118
Equity investment risk	31 951	–	31 951	3 195	34 128
Other assets†	–	37 148	37 148	3 715	32 110
Total RWA	455 871	177 959	633 830	63 383	572 446

* *Includes the standardised and current exposure method for counterparty credit risk and BIA for operational risk.*

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

Comparatives restated to reclassify securitisation and intragroup exposures from other assets category.

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

The following table analyses year-on-year movements.

RWA ANALYSIS

Risk type	Key drivers
Credit risk	organic growth, model recalibrations and regulatory refinement.
Counterparty credit risk	primarily a result of the withdrawal of the credit valuation adjustment (CVA) exemption for ZAR and local counterparty over-the-counter (OTC) derivatives.
Operational risk	recalibration of risk scenarios; increase in gross income for entities on standardised approach; and capital floor add-on for difference between AMA and standardised approaches.
Market risk	volume and mark-to-market movements; and refinement to internal and regulatory methodologies.
Equity investment risk	disposals of investments and fair value adjustments.
Other risks*	increase in assets subject to 250% risk weighting; and increase in property and equipment.

* *Includes investment in financial, banking and insurance entities, and deferred tax assets risk weighted at 250%.*

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

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

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

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

	For the year ended 30 June			
	2015			2014
	RWA R million	Tier 1 %	Total capital adequacy %	Total capital adequacy %
Basel III				
FirstRand*	**633 830**	**14.8**	**16.7**	16.7
FirstRand Bank South Africa*	**473 412**	**14.8**	**16.7**	16.1
FirstRand Bank London	**29 588**	**8.8**	**16.1**	19.0
FirstRand Bank India	**1 797**	**39.0**	**39.5**	31.8
Basel II (local regulations)				
FNB Namibia	**21 895**	**14.1**	**17.0**	17.1
FNB Mozambique	**3 000**	**9.9**	**10.3**	8.2
Basel I (local regulations)				
FNB Botswana	**15 423**	**16.5**	**19.0**	18.3
FNB Swaziland	**2 446**	**21.4**	**22.6**	22.3
FNB Lesotho	**724**	**15.2**	**18.7**	17.7
FNB Zambia	**4 229**	**19.7**	**24.1**	31.9
FNB Tanzania	**725**	**29.8**	**31.3**	>100
RMB Nigeria	**1 375**	**86.1**	**86.1**	>100

* *Includes unappropriated profits.*

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

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

Refer to page 161 for a link to the disclosure on the group's website.

CREDIT RISK

INTRODUCTION AND OBJECTIVES

Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk.

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

Credit risk management across the group is split into three distinct portfolios: retail, commercial and corporate. These portfolios are aligned to customer profiles. Retail credit is offered by FNB and WesBank to individuals and SMEs with a turnover of up to R7.5 million. Commercial credit focuses on relationship banking offered by FNB and WesBank to companies that are mainly single-banked and corporate credit is offered by RMB to large corporate multi-banked customers. As advances are split across the operating franchises, default risk is allocated to the income-receiving portfolio.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

CREDIT RISK GOVERNANCE STRUCTURE

FirstRand board

LARGE EXPOSURES COMMITTEE

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

RCC COMMITTEE

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

MODEL RISK AND VALIDATION COMMITTEE

Reviews credit risk capital models, credit ratings and estimations.

CREDIT RISK MANAGEMENT COMMITTEE

- oversight of credit risk exposures, profile and management across the group; and
- monitor implementation of the credit management framework (CRMF).

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

- Retail and SME retail credit technical committee
- Wholesale and SME corporate credit technical committee
- Credit policy, risk appetite and mandates approval subcommittee
- Credit impairments subcommittee
- Retail credit portfolio committee
- Commercial credit portfolio committee
- Wholesale credit committee

ERM GROUP CREDIT RISK MANAGEMENT

→ Independent oversight of credit risk management practices and monitor implementation of credit risk-related frameworks across the group.

- independent view of the credit risk profile;
- credit risk governance;
- oversees credit measurement process;
- independent validations of credit measurement processes and models;
- implements methodologies and capabilities; and
- facilitates the credit risk appetite processes.

CREDIT RISK FUNCTIONS IN FRANCHISES

Portfolio heads (retail, commercial, corporate)

- accountable to the group's governance forums;
- align to credit origination strategy and appetite;
- implement and assess frameworks/policy compliance; and
- calculate volatility profile for aggregate portfolios.

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ASSESSMENT AND MANAGEMENT

Calculation of internal ratings and rating process

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

Credit risk models are widely employed in the assessment of capital requirements, origination, pricing, impairment calculations and stress testing of the credit portfolio. All of these models are built on a number of client and facility rating models, in line with the SARB AIRB approach requirements and the group's model building frameworks. The credit risk approaches across the group are shown in the following table.

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

Even though the remaining entities do not have regulatory approval to use the AIRB approach, the same or similar models are applied for the internal assessment of credit risk on the standardised approach. The models are used for the internal assessment of the three primary credit risk components:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and group-level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the portfolio.

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

The group employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the following table. These mappings are reviewed and updated on a regular basis.

MAPPING OF FIRSTRAND (FR) GRADES TO RATING AGENCY SCALES

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

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

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

Exposure at default	
Definition	The expected exposure to a counterparty through a facility should the counterparty default over the next 12 months. It reflects commitments made and facilities granted that have not been paid out and that may be drawn over the period under consideration (i.e. off-balance sheet exposures). It's also a measure of potential future exposure on derivative positions.
Application	A number of EAD models, which are tailored to the respective portfolios and products employed, are in use across the group. These have been developed internally and are calibrated to historical default experience.

Loss given default	
Definition	The economic loss on a particular facility upon default of the counterparty is expressed as a percentage of exposure outstanding at the time of default.
Dependent on	• Type, quality and level of subordination. • Value of collateral held compared to the size of overall exposure. • Effectiveness of the recovery process and timing of cash flows received during the workout or restructuring process.
Application	• All credit portfolios. • Recognition of NPLs for accounting.
Distinctions	Long-run expected LGDs (long-run LGDs).
	LGDs reflective of downturn conditions include: • more conservative assessment of risk, which incorporates a degree of interdependence between PD and LGD that can be found in a number of portfolios, e.g. instances where deteriorating collateral values are also indicative of higher default risk; and • used in the calculation of regulatory capital estimates.

Expected loss (EL)

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

Rating process

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

CREDIT PORTFOLIO RATING PROCESS

Portfolio and type of exposures	Description of rating system
Large corporate portfolios (Corporate: RMB, WesBank corporate and FCC) Exposures to private sector counterparties including corporates and securities firms, and public sector counterparties. A wide range of products give rise to credit exposure, including loan facilities, structured finance facilities, contingent products and derivative instruments.	Default definitions applied in rating systems are aligned to the Regulations. **Rating process:** • rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness; • this assessment is performed through a quantitative and qualitative analysis of the counterparty's business and financial risks and is supplemented by internally-developed statistical rating models; • rating models were developed using internal and external data covering more than ten years. Qualitative analysis is based on the methodology followed by international rating agencies; • the rating assessment is reviewed by the wholesale credit committee or delegated subcommittee and the rating (and associated PD) is approved by these committees; • no overrides of ratings or PDs are possible after approval by these committees; and • LGD and EAD estimates are based on modelling a combination of internal and suitably adjusted international data with the same committee process responsible for reviewing and approving these measures.
Low default portfolios: sovereign and bank exposures (Corporate: RMB and FCC) Exposures to sovereign and bank counterparties.	Default definitions applied in rating systems are aligned to the Regulations. **Rating process:** • expert judgement models are used in combination with external rating agency ratings as well as structured peer group analyses which form a key input in the ratings process. The analysis is supplemented by internally-developed statistical models; • the calibration of PD and LGD ratings is based on a mapping to external default data as well as credit spread market data; • the rating assessment is reviewed by the wholesale credit committee or delegated subcommittee and the rating (as well as the associated PD) is approved by these committees; and • no overrides of ratings or PDs are possible after approval by these committees.

Portfolio and type of exposures	Description of rating system
Specialised lending portfolios (Corporate: RMB, FNB commercial and wealth (RMB Private Bank and FNB Private Wealth)) Exposures to private-sector counterparties for the financing of income-producing real estate.	Default definitions applied in rating systems are aligned to the Regulations. **Rating process:** • rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks; • the rating assessment is reviewed by the wholesale credit committee, commercial credit committee or delegated subcommittee and the rating (as well as the associated PD) is approved by these committees; and • no overrides of the ratings or the PDs are possible after approval by these committees.
Commercial portfolio (SME corporate and SME retail counterparties in FNB commercial and WesBank) Exposures to SME clients. A wide range of products give rise to credit exposure, including loan facilities, contingent products and term lending products.	Default definitions applied in rating systems are aligned to the Regulations. **SME retail rating process:** • SME retail portfolio is segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status; • PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; and • LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience. **SME corporate rating process:** • PD: Counterparties are scored using Moody's RiskCalc™ in addition to other internal risk drivers, the output of which is calibrated to internal historical default data; • LGD: Recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data (Fitch Ratings) and Basel guidelines; and • EAD: Portfolio level credit conversion factors are estimated on the basis of the group's internal historical experience and benchmarked against international studies.

<table>
<tr><th>Portfolio and type of exposures</th><th>Description of rating system</th></tr>
<tr><td>Residential mortgages
(FNB HomeLoans, FNB housing finance and wealth (RMB Private Bank and FNB Private Wealth))
Exposures to individuals for the financing of residential properties.</td><td rowspan="3">Default definition applied in rating systems is aligned to the Regulations.
Rating process and approach:
• retail portfolios are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status;
• PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools;
• no overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of the credit manager’s judgement in a structured process supported by valid business reasons; and
• LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling of historical internal loss data.
Additional notes on qualifying revolving retail exposures:
• as these exposures are unsecured, only the efficiency of recovery processes impacts on the level of LGD; and
• EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately e.g. straight versus budget in the case of credit cards.</td></tr>
<tr><td>Qualifying revolving retail exposures
(FNB card, FNB value banking solutions and wealth)
Exposures to individuals providing a revolving limit through a credit card or overdraft facility.</td></tr>
<tr><td>Other exposures
(FNB personal loans, WesBank vehicle and asset finance (VAF) and WesBank personal loans)</td></tr>
</table>

Model validation

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

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

- developmental evidence, detailing processes followed and data used to set parameters for the model. These documents are updated at least annually by the model development teams;
- independent validation reports, documenting the process followed during the annual validation exercise and results obtained from these analyses; and
- model build and development frameworks, which are reviewed and, where required, updated annually. These frameworks provide guidance, principles and minimum standards which model development teams are required to adhere to.

Credit risk mitigation

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

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

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

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

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

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

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Monitoring of weak exposures

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

Use of credit risk measures

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

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

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

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

	Corporate	Retail
Determination of portfolio and client acquisition strategy	• assessment of overall portfolio credit risk determined by PD, EAD and LGD; and • acquisition and overall strategy set in terms of appropriate limits and group risk appetite.	• same measures as for corporate; and • credit models determine loss thresholds used in setting of credit risk appetite.
Determination of individual and portfolio limits	• industry and geographical concentrations; • ratings; • risk-related limits on the composition of portfolio; and • group credit risk appetite.	• same measures as for corporate; and • modelled *versus* actual experience is evaluated in setting of risk appetite.
Profitability analysis and pricing decisions	• PD, EAD and LGD used to determine pricing; and • economic profit used for profitability.	• same measures as for corporate.
Credit approval	• consideration of application's ratings; • credit risk appetite limits; and • projected risk-adjusted return on economic capital (PD, EAD and LGD are key inputs in these measures).	• automated based on application scorecards (scorecards are reflective of PD, EAD and LGD); and • assessment of client's affordability.
Credit monitoring and risk management	• risk assessment based on PD, EAD and LGD; • counterparty FR grades updated based on risk assessment; and • additional capital for large transactions that will increase concentration risk.	• same measures as for corporate; and • monthly analysis of portfolio and risk movements used in portfolio management and credit strategy decisions.
Impairments	• PD and LGD used in assessment of impairments and provisioning; and • judgemental assessment to determine adequacy of provisions.	• loss identification period PD, LGD and roll rates used for specific, portfolio and incurred but not reported provisions.
Regulatory and economic capital calculation	• primary credit risk measures, PD, EAD and LGD are the most important inputs.	• primary credit risk measures, PD, EAD and LGD are the most important inputs.
Reporting to senior management and board	• portfolio reports discussed at franchise and business unit risk committee meetings; and • quarterly portfolio reports submitted to credit risk management and RCC committees.	• portfolio reports discussed at franchise and business unit risk committee meetings; and • quarterly portfolio reports submitted to credit risk management and RCC committees.

CREDIT RISK PORTFOLIO

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

Credit portfolios

Credit impairments decreased 2%. The credit impairment ratio, however, reduced from 80 bps to 71 bps on the back of strong book growth.

Overall NPLs increased 7%, driven by strong book growth in card, other retail, FNB Africa and WesBank personal loans. The downturn in the commodity cycle negatively impacted NPL formation in the corporate portfolio, resulting in a 23% increase.

The total coverage ratio increased to 64.2 bps (2014: 63.8 bps), reflecting a change in NPL mix, although both specific and portfolio impairments increased during the year. Increased portfolio impairments were driven by strong book growth in WesBank personal loans, VAF, card and FNB Africa, and, in RMB, by the adverse commodity cycle (oil and gas, and mining and metals sectors). The performing book coverage ratio of 72 bps increased from the prior year (2014: 71 bps). This was largely as a result of the central overlay release given the previously identified risk manifesting with NPL formation increasing in some of the underlying franchises and products during the year resulting in higher specific impairments.

Key drivers

- Retail NPLs improved to 3.09% of advances (2014: 3.38%), impacted by:
  - 18% reduction in residential mortgage NPLs to 2.54% (2014: 3.29%), reflecting continued strong cure rates of defaulted accounts and constrained levels of new inflows, reflecting disciplined origination strategies and effective workout strategies.
  - Reduction of 7% in FNB personal loans NPLs, underpinned by a 22% reduction in NPLs in mass loans, reflecting more conservative origination strategies and tightening credit criteria.
  - Higher NPLs in card (+17%), retail VAF (+24%) and WesBank personal loans (+38% which includes an increase in debt review clients), impacted by strong book growth and the worsening credit cycle.
- NPLs in FNB Africa increased, driven by strong book growth and, in the case of certain subsidiaries, cyclical macro pressures.
- NPLs in RMB's Investment Banking division increased 37%, primarily driven by the impact of the adverse commodity cycle on certain counters in the mining and metals sector.
- Post write-off recoveries remained robust at R1.87 billion, driven by card, the unsecured retail lending portfolios (personal loans) and VAF.

Credit assets

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

CREDIT ASSETS BY TYPE, SEGMENT AND SARB APPROACH

		AIRB approach	Standardised approach subsidiaries		
R million	**2015**	**FirstRand Bank (SA)**	**FNB Africa***	**Other subsidiaries**	**2014**
On-balance sheet exposures					
Cash and short-term funds	**56 831**	**45 873**	**8 831**	**2 127**	54 647
– Money at call and short notice	**34 279**	**27 738**	**4 465**	**2 076**	35 385
– Balances with central banks	**22 552**	**18 135**	**4 366**	**51**	19 262
Gross advances	**762 596**	**650 568**	**49 912**	**62 116**	696 311
FNB**	**329 857**	**284 098**	**45 297**	**462**	299 266
– FNB retail	**225 866**	**225 866**	**–**	**–**	208 920
– FNB commercial#	**58 251**	**58 232**	**–**	**19**	49 903
– FNB Africa	**45 740**	**–**	**45 297**	**443**	40 443
WesBank	**183 016**	**145 974**	**–**	**37 042**	167 037
RMB investment banking	**232 970**	**211 836**	**3 525**	**17 609**	218 279
RMB corporate banking	**6 147**	**5 997**	**–**	**150**	6 442
FCC	**10 606**	**2 663**	**1 090**	**6 853**	5 287
Derivatives	**34 500**	**34 003**	**139**	**358**	39 038
Debt investment securities (excluding non-recourse investments)	**124 956**	**114 262**	**9 971**	**723**	83 014
Accounts receivable	**8 009**	**3 945**	**1 724**	**2 340**	8 159
Reinsurance assets	**388**	**–**	**191**	**197**	408
Off-balance sheet exposures	**133 825**	**120 430**	**10 639**	**2 756**	129 421
Total contingencies	**41 005**	**36 792**	**3 549**	**664**	40 702
– Guarantees	**34 995**	**31 369**	**3 016**	**610**	33 114
– Letters of credit†	**6 010**	**5 423**	**533**	**54**	7 588
Irrevocable commitments	**87 464**	**78 001**	**7 090**	**2 373**	82 932
Credit derivatives	**5 356**	**5 637**	**–**	**(281)**	5 787
Total	**1 121 105**	**969 081**	**81 407**	**70 617**	1 010 998

* *Includes FNB's activities in India.*

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

Includes public sector.

† *Includes acceptances.*

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Credit quality

Advances are considered past due in the following circumstances:

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

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

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

AGE ANALYSIS OF ADVANCES

	2015					
	Neither past due nor impaired		Past due but not specifically impaired			
R million/%	**Current**	**Renegotiated but current**	**One full instalment past due**	**Two full instalments past due**	**Impaired (NPLs)**	**Total**
FNB	313 821	537	4 556	2 269	8 674	329 857
– FNB retail	214 991	482	2 601	1 615	6 177	225 866
– FNB commercial*	56 769	40	63	78	1 301	58 251
– FNB Africa**	42 061	15	1 892	576	1 196	45 740
WesBank	170 406	–	4 865	1 896	5 849	183 016
RMB investment banking#	231 114	–	126	3	1 727	232 970
RMB corporate banking	6 062	–	–	–	85	6 147
FCC	10 606	–	–	–	–	10 606
Total	732 009	537	9 547	4 168	16 335	762 596
Percentage of total book	96.0%	0.1%	1.3%	0.5%	2.1%	100.0%

* *Includes public sector.*

** *Includes FNB's activities in India.*

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

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AGE ANALYSIS OF ADVANCES continued

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

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

** *Includes public sector.*

\# *Includes FNB's activities in India.*

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

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Renegotiated but current advances

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

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

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

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

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

Past due but not specifically impaired

Advances past due but not specifically impaired in the previous tables include accounts in arrears by one or two full repayments. For the year ended 30 June 2015 exposures to technical and partial arrears of R7.4 billion (2014: R6.4 billion) were classified as neither past due nor impaired in accordance with FirstRand's impairment methodology, primarily driven by retail exposures.

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

CREDIT QUALITY OF PERFORMING ADVANCES

	2015							
		FNB						
R million	**Total neither past due nor impaired***	**Retail**	**Commercial****	**FNB Africa#**	**WesBank**	**RMB investment banking**	**RMB corporate banking**	**FCC**
FR 1 – 25	**209 609**	**48 679**	**2 978**	**13 058**	**11 838**	**121 801**	**2 064**	**9 191**
FR 26 – 90	**511 084**	**160 548**	**52 776**	**27 592**	**156 782**	**107 984**	**3 998**	**1 404**
Above FR 90	**11 853**	**6 246**	**1 055**	**1 426**	**1 786**	**1 329**	**–**	**11**
Total	**732 546**	**215 473**	**56 809**	**42 076**	**170 406**	**231 114**	**6 062**	**10 606**

* *Includes renegotiated but current advances.*

** *Includes public sector.*

\# *Includes FNB's activities in India.*

	2014							
		FNB*						
R million	**Total neither past due nor impaired****	**Retail**	**Commercial#**	**FNB Africa†**	**WesBank**	**RMB investment banking**	**RMB corporate banking**	**FCC**
FR 1 – 25	177 066	43 260	2 817	5 562	2 983	118 613	1 698	2 133
FR 26 – 90‡	481 675	147 285	45 239	31 949	151 958	97 374	4 737	3 133
Above FR 90‡	9 635	7 204	503	282	1 042	582	1	21
Total	668 376	197 749	48 559	37 793	155 983	216 569	6 436	5 287

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

** *Includes renegotiated but current advances.*

\# *Includes public sector.*

† *Includes FNB's activities in India.*

‡ *The mapping of the FR rating scale to the international rating scale was realigned in 2014. The impact is a misalignment affecting advances which fall into the FR 90 and 91 bands. The impact is considered to be insignificant.*

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

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

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

* *Excludes non-recourse investments.*

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

* *Excludes non-recourse investments.*

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Impairment of financial assets and NPLs

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

Refer to the accounting policy for impairment of financial assets, and the advances note in the consolidated annual financial statements for the analysis of the movement in the impairment of advances and NPLs.

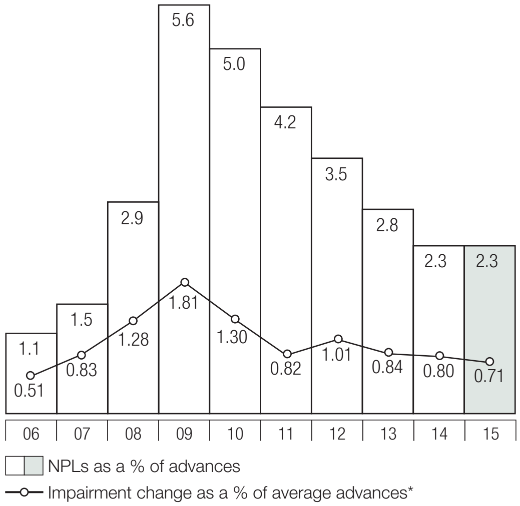
For amortised cost advances, impairments are recognised through the creation of an impairment reserve and an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through trading income and recognised as a change to the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

Specific impairments are created for non-performing loans where there is objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the asset. Potential recoveries from guarantees and collateral are incorporated into the calculation of impairment figures.

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

The following chart shows a history of NPLs and impairments.

TOTAL NPLs AND IMPAIRMENTS



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

Fair value sensitivity of corporate advances due to credit risk

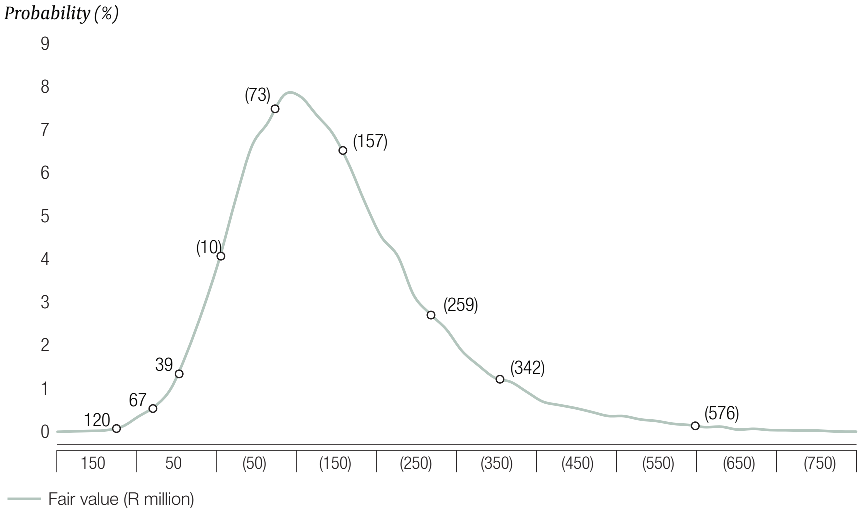
The Investment Banking division in RMB recognises a significant portion of its corporate advances at fair value through profit or loss. The fair value adjustments directly impact the income statement and the value of advances. For risk management purposes a migration matrix is used to estimate the fair value impact of changes in credit risk. The matrix contains probabilities of downgrading or upgrading to another rating bucket.

The main benefits of using the migration matrix to estimate the fair value impact of credit risk are:

- more realistic downgrades as better rating grades are less likely to be downgraded compared to riskier rating grades;
- migration matrices which take into account higher volatility of riskier rating grades;
- rating migration can be positive or negative;
- rating migration is not restricted by one notch only and, in extreme cases, includes default risk; and
- migration matrices can be based on different economic conditions, e.g. long term or downturn.

The following graph sets out the fair value impact based on actual observed rating migrations from Standard & Poor's over the long term. Based on this scenario, the average fair value impact is a loss of approximately R100 million, while the median (50% probability of exceeding this value) is a loss of approximately R73 million. The fair value at the 75th percentile (i.e. there is a probability of 25% to exceed this value) of the distribution is a loss of approximately R157 million.

DISTRIBUTON: FAIR VALUE IMPACT – LONG-TERM SCENARIO*
(INCLUDING FOREIGN ENTITIES)



* *Fair value sensitivity is shown net of portfolio specific impairments.*

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Management of concentration risk

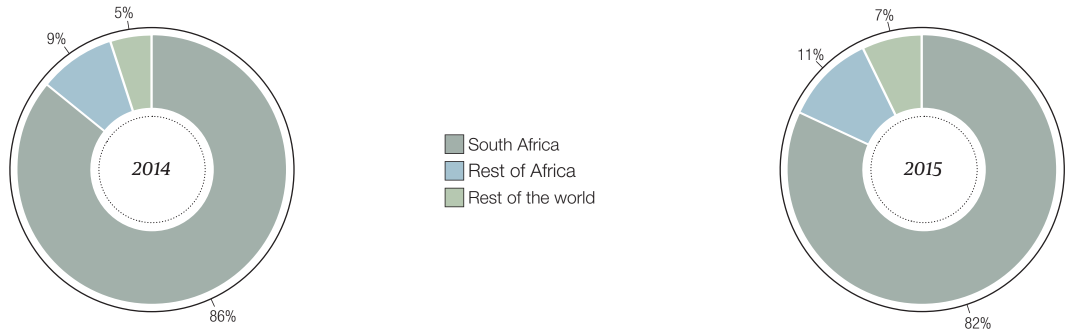
Credit concentration risk is the risk of loss to the group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, or maturity. This concentration typically exists when a number of counterparties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

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

Geographic and industry concentration risk

Geographically, most of the group's exposures are in South Africa. The following charts provide the geographical and industry split of gross advances after deduction of interest in suspense.

GEOGRAPHICAL SPLIT BY EXPOSURE



INDUSTRY SPLIT BY EXPOSURE

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

CONCENTRATION OF SIGNIFICANT EXPOSURE

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

* *Excludes non-recourse investments.*

** *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments in the notes to the annual financial statements.*

	2014								
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Austra-lasia**	**Asia**	**Total**
Advances	597 147	62 273	28 314	4 316	1 223	161	1 165	1 712	696 311
Derivatives	21 721	287	14 263	1 961	707	–	1	98	39 038
Debt investment securities*	67 372	7 591	656	68	2 126	–	–	5 201	83 014
Guarantees, acceptances and letters of credit**	31 307	7 017	77	337	630	–	40	1 294	40 702
Irrevocable commitments**	71 636	9 252	805	584	61	–	–	594	82 932

* *Excludes non-recourse investments.*

** *Significant off-balance sheet exposures. Refer to the note on contingencies and commitments in the notes to the annual financial statements.*

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Average advances

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

AVERAGE ADVANCES PER MAJOR RISK PORTFOLIOS

R million	2015	2014
Retail	**394 048**	357 973
FNB Africa	**43 492**	36 605
Corporate	**229 347**	206 821
Commercial	**54 178**	46 168

Segmental analysis of advances

The following table provides a breakdown of credit exposures by the group segments.

	2015				
R million/%	**Advances**	**NPLs**	**NPLs as a % of advances**	**Total impairment charge**	**Impairment as % of average advances**
FNB*	329 857	8 674	2.63	2 485	0.79
– FNB retail	225 866	6 177	2.73	1 759	0.81
– Residential mortgages	180 208	4 585	2.54	111	0.06
– Card	19 488	407	2.09	191	1.08
– Personal loans	13 856	680	4.91	715	5.42
– Other retail	12 314	505	4.10	742	6.81
– FNB commercial**	58 251	1 301	2.23	311	0.58
– FNB Africa#	45 740	1 196	2.61	415	0.96
WesBank	183 016	5 850	3.20	2 539	1.45
– WesBank asset-backed finance	172 539	4 941	2.86	1 706	1.03
– WesBank retail	98 131	4 162	4.24	1 219	1.25
– WesBank corporate	39 796	628	1.58	209	0.53
– WesBank international	34 612	151	0.44	278	0.97
– WesBank loans	10 477	909	8.68	833	8.49
RMB investment banking	232 970	2 893	1.24	312	0.14
RMB corporate banking	6 147	84	1.37	112	1.78
FCC	10 606	–	–	(298)	(0.04)
Total	**762 596**	**17 501**	**2.29**	**5 150**	**0.71**

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

** *Includes public sector.*

\# *Includes FNB's activities in India.*

2014				
Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairment as % of average advances
299 266	9 386	3.14	2 413	0.85
208 920	7 256	3.47	1 820	0.90
171 173	5 625	3.29	158	0.09
15 761	348	2.21	101	0.70
12 516	729	5.82	980	7.72
9 470	554	5.85	581	7.09
49 903	1 259	2.52	262	0.57
40 443	871	2.15	331	0.90
167 037	4 784	2.86	2 081	1.35
157 883	4 125	2.61	1 479	1.01
96 445	3 409	3.53	1 209	1.32
38 763	633	1.63	135	0.37
22 675	83	0.37	135	0.75
9 154	659	7.20	602	7.32
218 279	2 105	0.96	177	0.09
6 442	6	0.09	32	0.55
5 287	–	–	549	0.08
696 311	16 281	2.34	5 252	0.80

REGULATORY DISCLOSURE

Credit rating systems and processes used for SARB approaches

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

For portfolios using the standardised approach, only Standard & Poor's ratings are used. As external ratings are not available for all jurisdictions and for certain parts of the portfolio, the group uses its internally developed mapping between FR grade and Standard & Poor's grades (refer to the table mapping of FirstRand (FR) grades to rating agency scales on page 180).

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

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

	Exposure R million	
Risk bucket	**2015**	**2014**
0%	**3 814**	3 597
10%	**–**	21
20%	**11 856**	8 508
35%	**15 214**	13 893
50%	**10 262**	5 397
75%	**45 166**	24 656
100%	**77 553**	45 384
Specific impairments	**1 338**	940
Total	**165 203**	102 396

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

Protected exposures

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

STANDARDISED APPROACH PROTECTED EXPOSURES PER PORTFOLIO

	2015		
R million	**Exposure before credit risk mitigation**	**Eligible collateral***	**Exposure after credit risk mitigation**
Retail	**26 196**	**22**	**26 173**
Commercial and corporate	**46 185**	**267**	**45 922**
Total	**72 381**	**289**	**72 095**

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

	2014		
R million	**Exposure before credit risk mitigation**	**Eligible collateral***	**Exposure after credit risk mitigation**
Retail	27 170	362	26 808
Commercial and corporate	29 750	265	29 485
Total	56 920	627	56 293

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

Slotting exposures

The slotting approach is applied to exposures where:

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

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

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

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

	2015				
	Specific risk weight				
R million	**70%**	**90%**	**115%**	**250%**	**Total**
Exposure	**10 360**	**4 235**	**76**	**186**	**14 857**

* *Disclosure included from June 2015, comparative information will be provided from June 2016.*

PD, EAD and LGD profiles

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

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

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

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

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

	Risk weight									
	Total FRB		Corporate		Sovereign		Specialised lending		Banks and securities firms	
%	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
1 – 5	**3.1**	3.0	**7.5**	0.1	**3.7**	3.8	**5.2**	5.2	**1.1**	0.7
6 – 10	**23.8**	22.7	**28.1**	27.2	**30.7**	26.5	**18.1**	16.8	**17.8**	16.1
11 – 15	**36.0**	37.5	**53.6**	60.0	**54.3**	53.1	**35.2**	41.0	**52.1**	51.5
16 – 20	**52.9**	52.3	**98.8**	101.7	**62.6**	74.6	**101.4**	94.6	**94.7**	100.7
21 – 25	**107.3**	110.1	**147.8**	157.1	**365.4**	354.3	**153.2**	235.9	**63.1**	142.1
NPLs	**58.6**	69.0	**9.1**	0.9	**–**	5.8	**–**	–	**–**	–

	Risk weight									
	SME corporate		SME retail		Retail mortgages		Retail revolving		Other retail	
%	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
1 – 5	**1.3**	4.1	**2.9**	5.8	**1.1**	1.2	**1.7**	1.7	**2.0**	1.5
6 – 10	**17.6**	1.9	**13.8**	13.1	**5.3**	5.1	**5.7**	5.7	**26.6**	22.1
11 – 15	**45.9**	48.0	**39.3**	34.5	**15.2**	15.3	**22.9**	23.1	**28.1**	29.7
16 – 20	**64.8**	63.9	**49.3**	40.3	**36.0**	36.6	**61.9**	61.7	**49.8**	47.0
21 – 25	**105.1**	116.9	**83.0**	73.7	**78.8**	77.6	**160.6**	157.4	**104.3**	107.1
NPLs	**26.5**	13.6	**208.2**	245.5	**1.3**	14.8	**7.3**	12.1	**104.2**	133.4

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

	EAD									
	Total FRB		Corporate		Sovereign		Specialised lending		Banks and securities firms	
%	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
1 – 5	**10.4**	9.3	**–**	–	**86.8**	80.3	**0.1**	0.3	**26.8**	28.8
6 – 10	**16.6**	16.3	**38.5**	38.2	**10.4**	16.5	**18.3**	17.1	**48.8**	51.1
11 – 15	**38.8**	38.4	**50.0**	49.8	**2.2**	2.2	**66.3**	64.1	**17.9**	15.3
16 – 20	**28.6**	30.0	**10.2**	11.0	**0.4**	0.8	**10.9**	13.5	**5.9**	3.7
21 – 25	**3.9**	4.1	**0.7**	0.9	**0.2**	0.2	**0.8**	1.0	**0.4**	1.0
NPLs	**1.7**	1.8	**0.5**	0.2	**0.0**	–	**3.7**	4.0	**0.1**	–

	EAD									
	SME corporate		SME retail		Retail mortgages		Retail revolving		Other retail	
%	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
1 – 5	**0.1**	0.2	**0.1**	2.5	**0.6**	0.6	**2.2**	2.1	**–**	–
6 – 10	**0.1**	–	**12.7**	6.3	**0.8**	0.6	**9.6**	8.8	**–**	–
11 – 15	**65.0**	55.7	**34.0**	34.6	**50.0**	53.8	**35.4**	36.0	**18.7**	13.9
16 – 20	**30.4**	39.3	**45.8**	48.7	**42.8**	38.6	**42.4**	43.6	**63.0**	69.0
21 – 25	**3.2**	3.3	**4.7**	5.4	**3.8**	3.8	**8.8**	7.8	**13.5**	13.0
NPLs	**1.3**	1.4	**2.8**	2.6	**2.0**	2.6	**1.6**	1.7	**4.7**	4.1

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

	Nominal EAD									
	Total FRB		Corporate		Sovereign		Specialised lending		Banks and securities firms	
R million	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
1 – 5	**88 366**	74 409	**46**	14	**67 605**	52 907	**37**	142	**18 381**	18 165
6 – 10	**141 752**	130 132	**81 572**	71 707	**8 114**	10 836	**7 483**	8 108	**33 482**	32 205
11 – 15	**331 589**	305 533	**105 939**	93 524	**1 698**	1 427	**27 150**	30 305	**12 248**	9 640
16 – 20	**243 755**	239 110	**21 562**	20 656	**332**	538	**4 441**	6 362	**4 060**	2 343
21 – 25	**33 449**	32 487	**1 549**	1 620	**142**	153	**320**	494	**293**	630
NPLs	**14 664**	14 275	**1 013**	405	**1**	–	**1 499**	1 873	**84**	–
Total	**853 575**	795 946	**211 681**	187 926	**77 892**	65 861	**40 930**	47 284	**68 548**	62 983

	Nominal EAD									
	SME corporate		SME retail		Retail mortgages		Retail revolving		Other retail	
R million	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
1 – 5	**38**	111	**55**	980	**1 169**	1 211	**1 009**	853	**26**	26
6 –10	**55**	1	**5 059**	2 463	**1 664**	1 174	**4 321**	3 637	**2**	1
11 –15	**33 446**	24 936	**13 566**	13 523	**99 235**	100 707	**15 926**	14 933	**22 381**	16 538
16 –20	**15 634**	17 622	**18 283**	19 055	**84 924**	72 206	**19 061**	18 091	**75 458**	82 237
21 – 25	**1 629**	1 496	**1 876**	2 106	**7 540**	7 210	**3 937**	3 246	**16 163**	15 532
NPLs	**685**	624	**1 114**	1 013	**3 892**	4 784	**716**	720	**5 660**	4 856
Total	**51 487**	44 790	**39 953**	39 140	**198 424**	187 292	**44 970**	41 480	**119 690**	119 190

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

	Total FRB		Corporate		Sovereign		Specialised lending		Banks and securities firms	
%	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Performing										
Average PD	**2.3**	2.4	**1.0**	0.9	**0.2**	0.2	**1.2**	1.2	**0.6**	0.4
Average LGD	**29.3**	28.9	**33.0**	34.6	**29.7**	29.4	**20.0**	22.9	**31.2**	28.2
EL/EAD	**0.8**	0.8	**0.3**	0.3	**0.1**	0.1	**0.3**	0.4	**0.1**	0.1
RWA/EAD	**38.2**	39.3	**49.1**	52.9	**8.5**	10.0	**40.4**	46.2	**24.2**	21.5
Total book										
Average PD	**4.0**	4.1	**1.4**	1.1	**0.2**	0.2	**4.8**	5.1	**0.7**	0.4
Average LGD	**29.5**	29.1	**33.0**	34.6	**29.7**	29.4	**21.0**	23.7	**31.8**	28.2
EL/EAD	**1.4**	1.5	**0.4**	0.4	**0.1**	0.1	**2.0**	2.3	**0.1**	0.1
RWA/EAD	**38.6**	39.8	**48.9**	52.8	**8.5**	10.0	**38.9**	44.4	**24.2**	21.5

	SME corporate		SME retail		Retail mortgages		Retail revolving		Other retail	
%	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Performing										
Average PD	**2.3**	2.3	**2.7**	3.0	**2.8**	2.8	**3.9**	3.8	**6.4**	6.1
Average LGD	**26.0**	27.0	**36.2**	32.0	**13.8**	13.8	**65.4**	65.5	**34.1**	33.3
EL/EAD	**0.6**	0.6	**1.0**	1.0	**0.4**	0.4	**2.6**	2.5	**2.7**	2.5
RWA/EAD	**53.5**	56.6	**42.8**	37.5	**26.6**	26.0	**49.8**	48.9	**53.3**	52.6
Total book										
Average PD	**3.5**	3.6	**5.4**	5.5	**4.7**	5.3	**5.4**	5.5	**10.9**	9.9
Average LGD	**26.1**	27.2	**37.1**	32.6	**13.9**	13.9	**65.4**	65.5	**34.7**	33.9
EL/EAD	**1.4**	1.6	**2.2**	1.9	**0.9**	1.0	**3.7**	3.7	**4.5**	4.1
RWA/EAD	**53.2**	56.0	**47.4**	42.8	**26.1**	25.7	**49.1**	48.3	**55.7**	55.9

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

Total book	Total FRB		Corporate		Sovereign		Specialised lending		Banks and securities firms	
R million	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Credit extended	**1 064 010**	1 009 673	**264 395**	236 559	**90 967**	72 449	**48 529**	47 704	**157 199**	180 870
Drawn exposure	**724 007**	690 972	**166 111**	151 431	**74 998**	62 698	**40 347**	46 397	**48 471**	55 274
Nominal EAD	**853 575**	795 946	**211 681**	187 926	**77 892**	65 861	**40 930**	47 284	**68 548**	62 983

Total book	SME corporate		SME retail		Retail mortgages		Retail revolving		Other retail	
R million	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Credit extended	**61 167**	52 456	**42 353**	42 594	**218 380**	200 502	**61 075**	56 850	**119 945**	119 689
Drawn exposure	**43 558**	37 333	**31 478**	32 611	**173 208**	162 651	**27 285**	24 491	**118 551**	118 086
Nominal EAD	**51 487**	44 790	**39 953**	39 140	**198 424**	187 292	**44 970**	41 480	**119 690**	119 190

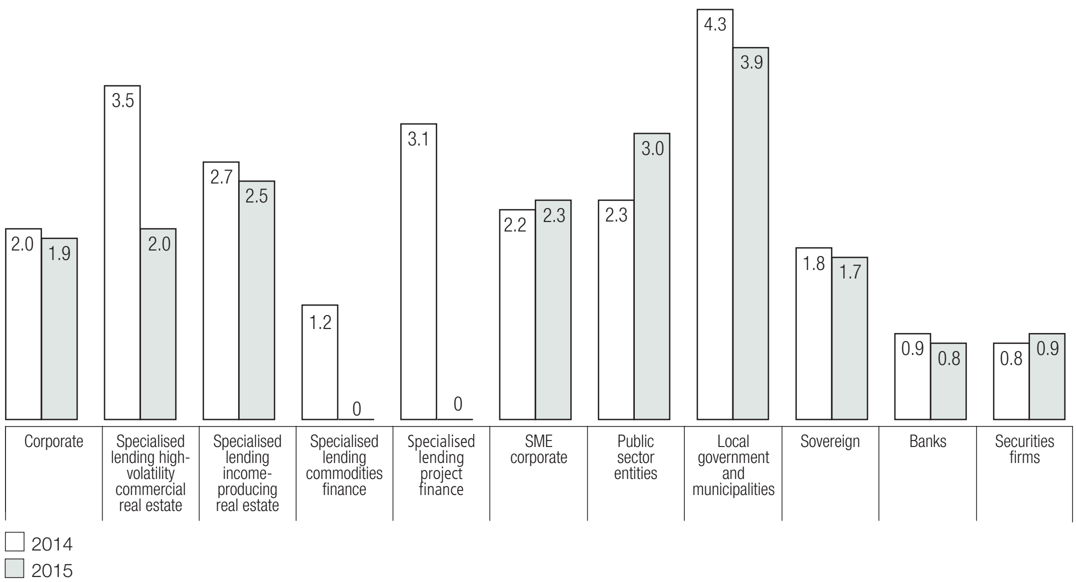
Maturity breakdown

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

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

MATURITY BREAKDOWN PER CORPORATE AIRB ASSET CLASS

Maturity in years



Actual versus expected loss analysis

To provide a meaningful assessment of the effectiveness of internal ratings-based models, expected loss is compared to actual losses during the calendar year. This analysis is performed for all significant AIRB asset classes. Expected loss here refers to regulatory expected loss. This provides a one-year forward-looking view, based on information available at the beginning of the financial year, i.e. 1 July 2014. Risk parameters include:

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

Actual losses during the year consist of the level of specific impairments at the start of the year (1 July 2014) and the net specific impairment charge recorded through the income statement for the year as determined by IFRS. It excludes the effect of post-write off recoveries, which would reduce the actual loss number. The calculation is based on the assumption that the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific impairments raised for exposures which defaulted during the year, but which did not exist at 1 July 2014. These exposures are not reflected in the expected loss value described. As a result, significant volumes of new business can distort the analysis by inflating the actual loss figure.

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

The regulatory expected loss shown is based on the expected loss derived from regulatory capital models that were applied as at 30 June 2014. This comparison is supplemented with more detailed analyses on the following page, comparing actual and expected outcomes for each risk parameter (PD, LGD and EAD) during the year under review.

ACTUAL VERSUS EXPECTED LOSS PER PORTFOLIO SEGMENT

	2015		2014		2013	
R million*	**Expected loss**	**Actual loss**	**Expected loss**	**Actual loss**	**Expected loss**	**Actual loss**
Corporate (corporate, banks and sovereign)**	**1 660**	**123**	1 977	59	1 621	70
SME (SME corporate and SME retail)#	**1 186**	**1 021**	1 125	998	1 146	989
Residential mortgages#	**1 928**	**1 953**	2 422	1 913	2 674	2 470
Qualifying revolving retail#	**1 599**	**1 427**	1 434	1 512	1 126	973
Other retail	**1 693**	**1 785**	1 981	2 336	1 718	2 413
WesBank†	**3 717**	**4 527**	3 076	3 825	2 780	3 236
Total	**11 783**	**10 836**	12 015	10 643	11 065	10 151

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

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

Actual losses are at similar levels to expected losses which is expected given the turning point in the economic cycle.

† *WesBank experienced high levels of new business written during the year, although it is not reflected in the expected losses which are based on accounts that are in-force at the start of the year. These new accounts, however, will contribute to the actual losses as a result of additional provisions raised. As a result, actual losses are inflated.*

For the following analysis, estimated values are based on regulatory capital models applied as at 30 June 2014. For PDs, this is applied to the total performing book as at 30 June 2014. For LGDs and EADs, it is applied to all facilities that defaulted over the subsequent 12 months.

Actual values are based on actual outcomes over the 12-month period, 1 July 2014 to 30 June 2015. Due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities defaulting during the year would only have between one and twelve months to recover, depending on when the default event occurred.

The estimated EAD to actual EAD ratio is derived as the ratio of expected nominal exposure at default (for all accounts defaulting during the year) to the actual nominal exposure at default for the same accounts.

RISK PARAMETERS USED TO DETERMINE REGULATORY EXPECTED LOSS

	2015				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate, banks and sovereign*	0.6	0.9	25.7	16.8	91.4
Specialised lending – property finance	1.2	0.3	25.6	30.0	170.3
SME corporate	2.0	1.8	25.5	26.3	145.1
SME retail	3.1	2.9	37.1	41.6	108.3
Residential mortgages	2.8	1.8	15.3	10.4	102.5
Qualifying revolving retail	4.1	3.1	70.5	63.7	146.3
Other retail	6.1	5.8	39.0	36.9	105.3
Total	2.4	2.1	28.3	23.4	106.5

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

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

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

RISK PARAMETERS USED TO DETERMINE REGULATORY EXPECTED LOSS continued

	2013				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	**Estimated %**	**Actual %**	**Estimated %**	**Actual %**	**%**
Corporate, banks and sovereign*	0.9	0.3	15.8	34.6	107.9
Specialised lending – property finance	2.1	1.2	31.0	3.3	102.7
SME corporate	2.3	1.3	29.3	28.4	109.9
SME retail	2.9	2.8	32.1	26.3	111.6
Residential mortgages	3.5	2.6	15.6	12.6	104.7
Qualifying revolving retail	3.6	2.6	67.6	63.3	91.9
Other retail	6.3	5.6	33.4	33.3	104.1
Total	2.7	2.0	22.2	28.5	106.0

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

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

The qualifying revolving retail asset class EAD models applied for regulatory capital at June 2014 significantly overestimated EADs and reflect the model in use at the time. An updated model is in the process of development and will predict EADs for this asset class at a more appropriate level.

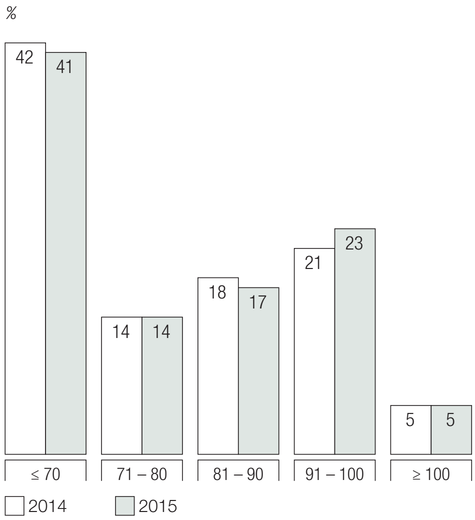
The other retail asset class typically has stable risk parameters due to diverse underlying exposures which do not follow the conventional retail cycle.

SELECTED RISK ANALYSES

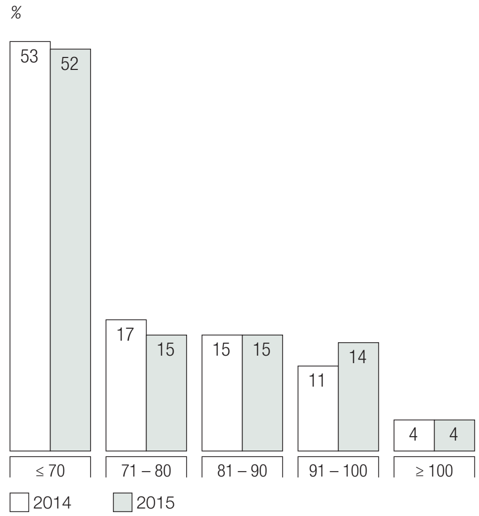
The following graphs provide loan balance-to-value ratios and age distributions of residential mortgages.

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

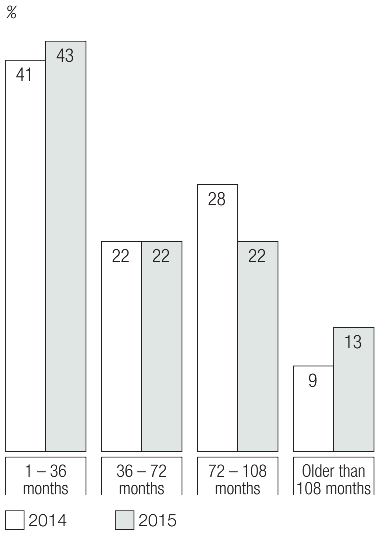
RESIDENTIAL MORTGAGES BALANCE-TO-ORIGINAL VALUE



RESIDENTIAL MORTGAGES BALANCE-TO-MARKET VALUE

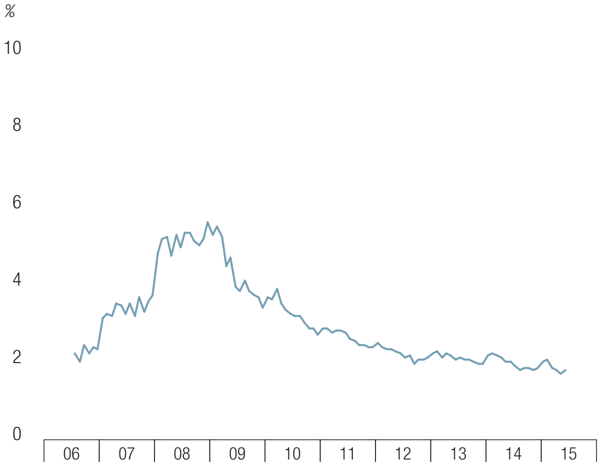


RESIDENTIAL MORTGAGES AGE DISTRIBUTION



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

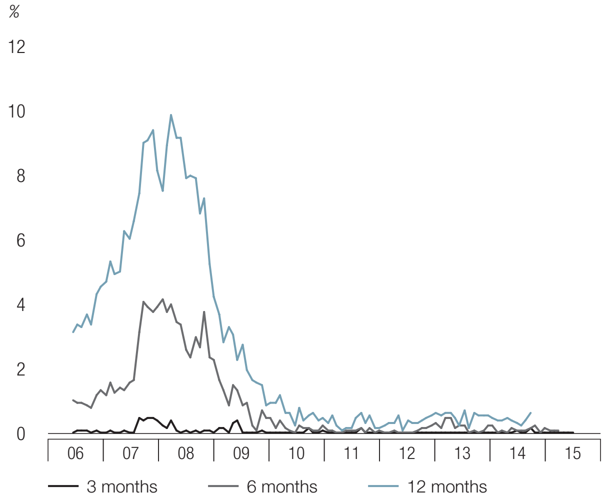
FNB HOMELOANS ARREARS



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

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

FNB HOMELOANS VINTAGE ANALYSIS

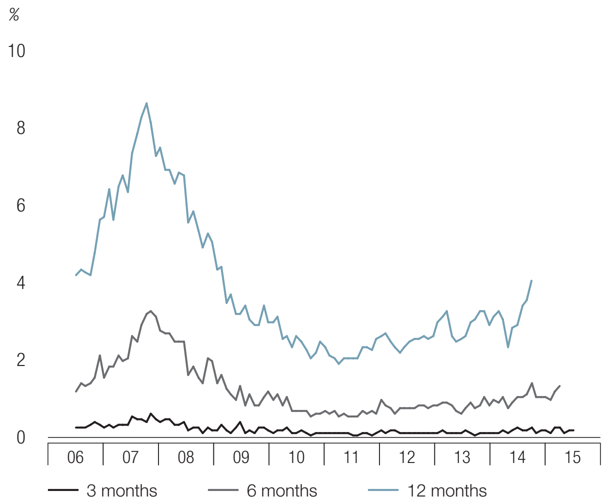


The WesBank retail cumulative vintage analysis continues to show a noticeable improvement in the quality of business written since mid-2007. This is due to improved customer profiles and enhanced collection strategies.

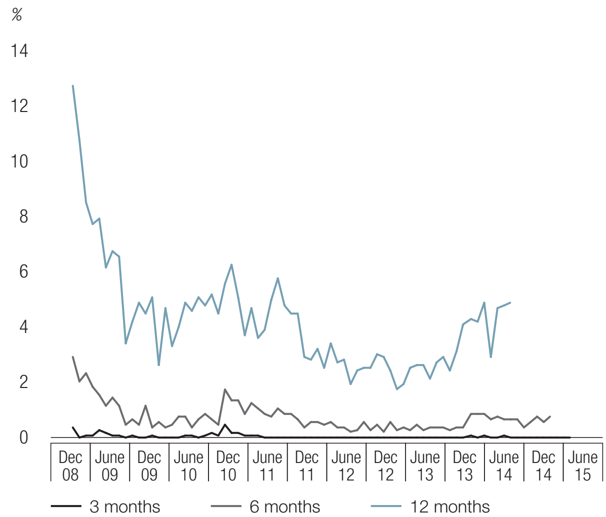
As expected, default rates in the retail VAF portfolio are gradually increasing. The uptick in VAF vintages is due, in part, to strong new business volumes in recent years as well as increased debt review applications. The group actively adjusts risk appetite and credit parameters to ensure that vintages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

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

WESBANK RETAIL VAF VINTAGE ANALYSIS



FNB CARD VINTAGE ANALYSIS



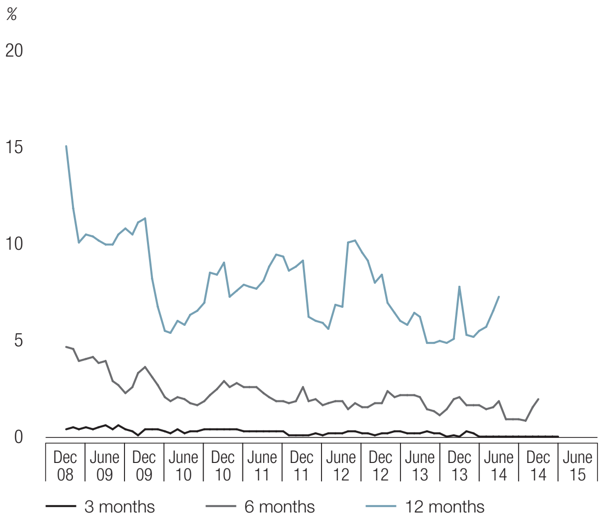
The default experience of the FNB and WesBank personal loans portfolios is within risk appetite.

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

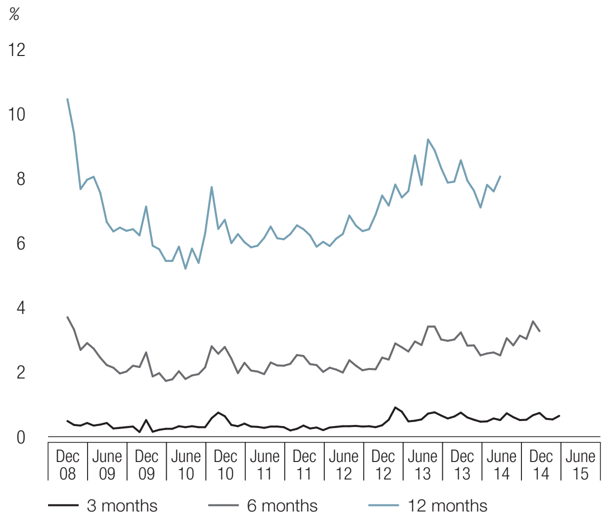
As expected, WesBank personal loans vintages have shown a marginal deterioration from 2010 levels. This is expected given the challenging macroeconomic conditions and increased debt review applications.

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

FNB PERSONAL LOANS VINTAGE ANALYSIS



WESBANK PERSONAL LOANS VINTAGE ANALYSIS



SECURITISATIONS AND CONDUITS

INTRODUCTION AND OBJECTIVES

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

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

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

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

ORGANISATIONAL STRUCTURE AND GOVERNANCE

GROUP'S ROLE IN SECURITISATION AND CONDUIT STRUCTURES

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

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

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

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

ASSESSMENT AND MANAGEMENT

Oversight and risk mitigation

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

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

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

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

- there are rigorous internal approval processes in place for proposed securitisations and transactions are reviewed by ALCCO, the RCC committee and the board against approved board limits;
- changes to retained exposures (as result of ratings changes, reviews, note redemptions and credit losses) are reflected in the monthly BA 500 regulatory return; and
- transaction investor reports, alignment with special purpose vehicle financial reporting and the impact of underlying asset performance are reflected on the quarterly BA 501 regulatory return.

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

Securitisation accounting policies

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to a SPV at carrying value and no gains or losses are recognised. For synthetic securitisations, credit derivatives used in the transaction are recognised at fair value, with any fair value adjustments reported in profit or loss.

Securitisation entities are consolidated into FRIHL for financial reporting purposes. Any retained notes are accounted for as available-for-sale investment securities within the banking book. Liabilities as a result of securitisation vehicles are accounted for in line with group accounting policies for liabilities, provisions and contingent liabilities.

The group does not currently employ any form of warehousing prior to structuring a new securitisation transaction.

YEAR UNDER REVIEW

Turbo Finance 2	Turbo Finance 3	Turbo Finance 4
Following the redemption of the class A notes and subsequent purchase of the outstanding class B notes from the market, FirstRand was left as the sole investor in Turbo 2 via FirstRand Bank (London branch) and FirstRand International (Guernsey). Consequently, the transaction was early redeemed in full at the end of August 2014, with the underlying assets repurchased by MotoNovo (UK).	Turbo Finance 3 is performing as expected.	The 12-month revolving period ended in November 2014, with the notes amortising sequentially in order of seniority after that date.

Turbo Finance 5

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

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

FirstRand Bank (London branch) retained a portion of the class A tranche together with GBP24.7 million of the class B tranche. GBP8 million of the class B tranche was subsequently sold to investors.

Nitro 4

Launched in August 2011, Nitro 4 represented the group's fourth domestic traditional auto loan securitisation of assets originated by its vehicle finance business, WesBank. Strong asset performance together with good prepayment levels resulted in the full redemption of the investor-held tranches. With the remaining underlying assets representing less than 10% of the assets sold at inception, the clean-up call option was exercised. The legal process to repurchase the outstanding assets was completed in April 2015, with all notes fully redeemed on 14 May 2015.

Nitro 5

In June 2015, the group closed its fifth domestic traditional auto loan securitisation, Nitro 5. Nitro 5 is a cash securitisation of auto loans extended to obligors by WesBank. Nitro 5 was set up as an insolvency remote trust and issued R2 232 million of notes, rated by Standard & Poor's, to acquire the asset pool. The group used this opportunity to introduce some additional transaction features, such as a short-dated money market eligible tranche and full capital pass-through. The group (acting through RMB), was the arranger, manager and sponsor for the transaction. The interest rate swap is provided by the group with deal administration by RMB. The assets will continue to be serviced by WesBank.

The following table provides further detail regarding the notes issued.

Tranche	Final rating (Standard & Poor's)	Credit enhancement	Amount (R million)	Spread
Class A	zaA-1 (sf)/A-2 (sf)	77.0%	600	3m JIBAR + 0.90%
Class B	zaAAA (sf)/BBB (sf)	39.5%	900	3m JIBAR + 1.40%
Class C	zaAAA (sf)/BBB (sf)	19.5%	480	3m JIBAR + 1.50%
Class D	zaB (sf)/B (sf)	9.0%	252	3m JIBAR + 2.59%
Class E	zaCCC (sf)/CCC (sf)	5.5%	84	3m JIBAR + 3.50%
Class F	Unrated	2.0%	84	3m JIBAR + 4.25%
Class G	Unrated	0.0%	57	3m JIBAR + 5.00%
Total			2 457	

The class A to D notes have all been placed with investors, whereas classes E and F have been retained by the group.

Exposures intended to be securitised or resecuritised in the future

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

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

SECURITISATIONS AND CONDUITS PROFILE

Traditional securitisations

The following tables show the traditional securitisations currently in issue and the rating distribution of retained exposures. Whilst national scale ratings have been used in this table, global scale equivalent ratings are used for internal risk management purposes and regulatory capital reporting.

SECURITISATION TRANSACTIONS

R million	Asset type	Year initiated	Expected close	Rating agency	
Traditional securitisations**					
Nitro 4	Retail: Auto loans	2007	2015	Moody's	
Nitro 5	Retail: Auto loans	2015	2018	Standard & Poor's	
Turbo Finance 2	Retail: Auto loans	2012	2015	Moody's and Fitch	
Turbo Finance 3	Retail: Auto loans	2013	2015	Moody's and Fitch	
Turbo Finance 4	Retail: Auto loans	2013	2017	Moody's and Fitch	
Turbo Finance 5	Retail: Auto loans	2014	2018	Moody's and Fitch	
Total					

* *Does not include cash reserves.*

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

RATING DISTRIBUTION OF RETAINED AND PURCHASED SECURITISATION EXPOSURES*

R million	AAA	AA	AA-	A+	A	BBB+	BBB	BB	B+	CCC	Not Rated	Total
Traditional												
2015	**2 535**	**–**	**–**	**331**	**–**	**–**	**421**	**–**	**–**	**84**	**943**	**4 314**
2014	1 463	–	–	247	–	–	235	–	–	–	1 380	3 325
Third party												
2015	**–**	**252**	**–**	**101**	**–**	**–**	**–**	**–**	**–**	**–**	**7 379**	**7 732**
2014	504	–	–	–	–	–	–	–	–	–	–	504

* *Ratings by external credit assessment institutions.*

Resecuritisations

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

RESECURITISATION EXPOSURE

	2015		2014	
Programme*	**Resecuritisation exposure (R million)**	**% of total programme**	**Resecuritisation exposure (R million)**	**% of total programme**
iVuzi	**8.8**	**11.0**	0.3	0.3

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

	Assets outstanding*		Notes outstanding		Retained exposure	
Assets securitised	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
3 982	**–**	576	**-**	717	**–**	268
2 399	**2 349**	–	**2 469**	–	**226**	–
4 037	**–**	1 067	**-**	1 189	**–**	488
4 570	**732**	1 907	**833**	2 108	**603**	574
6 095	**4 749**	6 516	**5 083**	6 881	**1 326**	1 995
7 790	**7 688**	-	**8 137**	-	**2 159**	–
28 873	**15 518**	10 066	**16 522**	10 895	**4 314**	3 325

Capital market programmes

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

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

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

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

The conduit programmes have seen lower issuance volumes and assets under management in the past six months after the failure of ABIL. Issuance volumes are expected to remain low whilst the money market industry reassesses credit product appetite.

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

CONDUIT PROGRAMMES*

					Non-recourse investments		Credit enhancement provided	
R million	**Underlying assets**	**Year initiated**	**Rating agency**	**Programme size**	**2015**	**2014**	**2015**	**2014**
Securitisations**								
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**2 322**	4 420	**–**	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**3 395**	3 871	**1 022**	1 044
Total				30 000	**5 717**	8 291	**1 022**	1 044
Fixed income fund#								
iNkotha	Overnight corporate loans	2006	GCR†	10 000	**2 160**	2 937	**–**	–
Total				10 000	**2 160**	2 937	**–**	–
Commercial paper programme#								
iNguza	Corporate and structured finance term loans	2008	GCR†	15 000	**10 071**	9 482	**–**	–
Total				15 000	**10 071**	9 482	**–**	–

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

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

Conduits incorporated under regulations relating to commercial paper.

† *Global credit rating.*

RATING DISTRIBUTION OF CONDUITS*

R million	**AAA(zaf)**	**AA+(zaf)**	**AA(zaf)**	**AA-(zaf)**	**A+(zaf)**	**A(zaf)**	**A-(zaf)**	**Credit opinion**	**Total**
Securitisations									
2015	**–**	**1 652**	**1 229**	**–**	**204**	**–**	**–**	**2 632**	**5 717**
2014	674	1 054	2 744	250	1 247	1 533	789	–	8 291
Fixed income funds									
2015	**–**	**–**	**207**	**439**	**544**	**495**	**475**	**–**	**2 160**
2014	–	270	367	422	798	610	470	–	2 937

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

Liquidity facilities

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

LIQUIDITY FACILITIES

R million	Transaction type	2015	2014
Own transactions		**4 599**	4 363
iNdwa	Conduit	**2 274**	3 204
iVuzi	Conduit	**2 325**	1 159
Third party transactions	Securitisations	**175**	214
Total		**4 774**	4 577

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

Securitisation risk and regulatory capital

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

RETAINED OR PURCHASED SECURITISATION EXPOSURE AND ASSOCIATED REGULATORY CAPITAL CHARGES

	Exposure		RWA		Capital*	
R million	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Risk weighted bands						
≤10%	**101**	3 464	**11**	671	**1**	67
>10% ≤20%	**2 973**	2 167	**586**	423	**59**	42
>20% ≤50%	**2 275**	–	**1 064**	–	**106**	–
>50% ≤100%	**319**	30	**160**	23	**16**	2
>100% ≤650%	**421**	206	**1 473**	720	**147**	72
1250%/deduction	**1 028**	1 380	**12 849**	13 798	**1 285**	1 380
Look through	**10 726**	2 303	**3 947**	1 087	**395**	109
Total	**17 843**	9 550	**20 090**	16 722	**2 009**	1 672

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

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

COUNTERPARTY CREDIT RISK

INTRODUCTION AND OBJECTIVES

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

Counterparty credit risk measures a counterparty's ability to satisfy its obligations under a contract that has positive economic value to the group at any point during the life of the contract. It differs from normal credit risk in that the economic value of the transaction is uncertain and dependent on market factors that are typically not under the control of the group or the client.

Counterparty credit risk is a risk taken mainly in the group's trading and securities financing businesses. The objective of counterparty credit risk management is to ensure that this risk is appropriately measured, analysed and reported on, and is only taken within specified limits in line with the group's risk appetite framework as mandated by the board.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

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

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

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

ASSESSMENT AND MANAGEMENT

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

QUANTIFICATION OF COUNTERPARTY CREDIT RISK EXPOSURE

QUANTIFICATION OF EXPOSURE

Quantification methodologies:

- over the life of a product;
- under distressed market conditions; and
- used to determine risk limits.

Individual counterparty risk limits

Overall limits allocated to products

ASSESSMENT AND APPROVAL

Relevant technical committees

Derivative counterparty risk management committee

ASSESSMENT AND APPROVAL

- quantify exposure and risk;
- manage facility utilisation within approved credit limits;
- monitor counterparty creditworthiness to ensure early identification of high-risk exposures;
- review facilities at certain intervals;
- manage collateral;
- manage high-risk (watch list) exposures;
- manage collections and workout process for defaulted assets; and
- report counterparty credit risk.

RISK FUNCTIONS

- review limits annually;
- monitor exposures daily; and
- prepare desk level reports to ensure sufficient limit available prior to additional trades.

Counterparty credit risk mitigation

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

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

Credit valuation adjustment

CVA refers to the fair value adjustment to reflect counterparty credit risk in the valuation of derivative contracts. In essence, it is the mark-to-market adjustment required to account for credit quality deterioration experienced by a derivative counterparty. Under Basel III regulations, banks are required to hold capital for CVA risk. South African banks have in the past been exempt from holding capital for CVA risk as there was no suitably scaled rand derivative OTC clearing house. This CVA capital exemption has, however, lapsed effective 1 April 2015, which has increased counterparty credit risk RWA.

audited

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

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

When assessing the portfolio in aggregate, the collateral that the group would need to provide in the event of a rating downgrade is subject to many factors, including market moves in the underlying traded instruments and netting of existing positions.

While these variables are not quantifiable, the following table, in addition to showing the effect of counterparty credit risk mitigation, provides a guide to the order of magnitude of the netted portfolio size and collateral placed with the group. In aggregate, all positive mark-to-market values shown would need to reverse before the group would be a net provider of collateral.

COUNTERPARTY CREDIT RISK PROFILE

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

COMPOSITION OF COUNTERPARTY CREDIT EXPOSURE

R million	2015	2014
Gross positive fair value*	**81 997**	97 882
Netting benefits	**(15 619)**	(11 650)
Netted current credit exposures before mitigation	**66 378**	86 232
Collateral value	**(57 108)**	(76 413)
Netted potential future exposure	**13 864**	11 702
Exposure at default**	**31 073**	24 488

* *The decrease in gross positive fair value is due to new interpretation of gross repurchase agreement exposure.*

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

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

CREDIT DERIVATIVES EXPOSURE

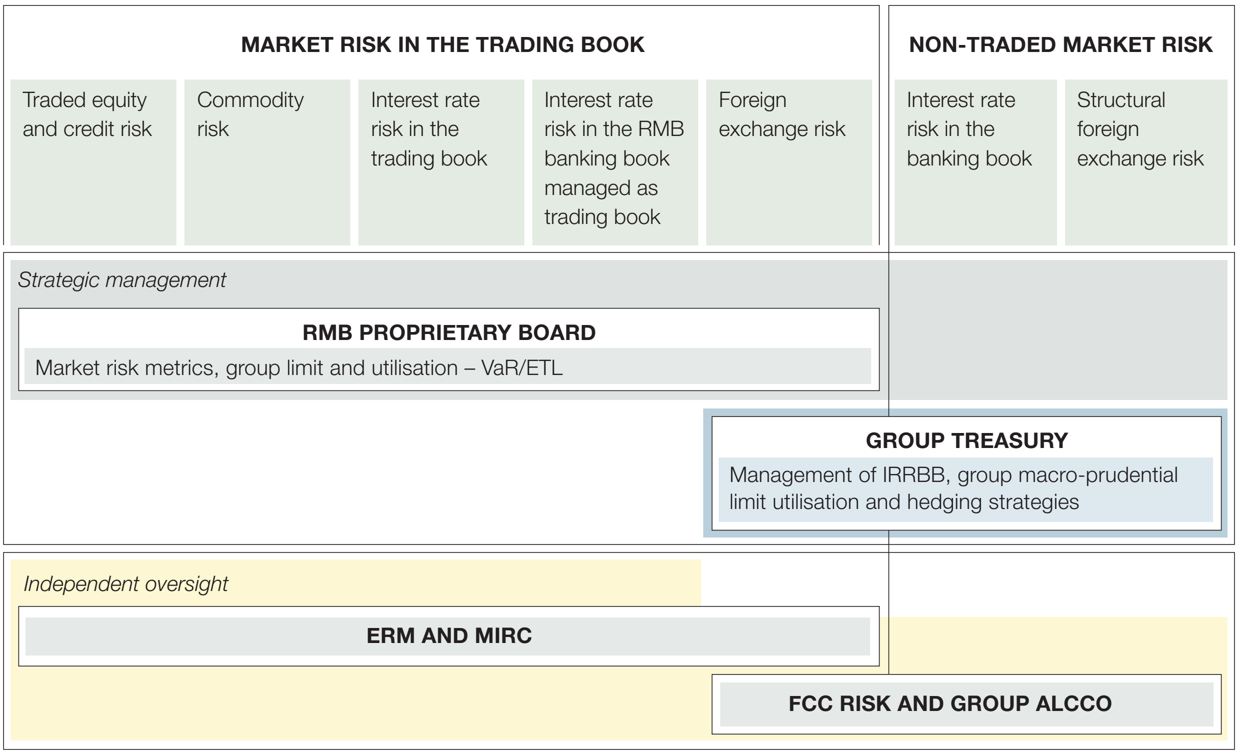
	2015			
R million	**Credit default swaps**	**Total return swaps**	**Other**	**Total**
Own credit portfolio				
– protection bought	**–**	**–**	**–**	**–**
– protection sold	**105**	**–**	**–**	**105**
Intermediation activities				
– protection bought	**13 624**	**–**	**–**	**13 624**
– protection sold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

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

MARKET RISK IN THE TRADING BOOK

The group distinguishes between market risk in the trading book and non-traded market risk. The following diagram describes the traded and non-traded market risks and the governance bodies responsible for managing them.

TRADED AND NON-TRADED MARKET RISK ELEMENTS



INTRODUCTION AND OBJECTIVES

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

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

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

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the majority of its banking book under the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the market and investment risk committee. The RMB banking book interest rate risk exposure was R49.6 million on a 10-day ETL basis at 30 June 2015 (2014: R35.2 million). Interest rate risk in the remaining domestic banking book is discussed in the *interest rate risk in the banking book* section.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

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MARKET RISK IN THE TRADING BOOK GOVERNANCE STRUCTURE

FirstRand board

RCC COMMITTEE

Reviews reports on:

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

MODEL RISK AND VALIDATION COMMITTEE

- validation and approval of changes to internal VaR models for regulatory and economic capital.

MARKET AND INVESTMENT RISK COMMITTEE

- oversight of market risk exposures, profile and management across the group; and
- monitors implementation of the market and investment risk framework.

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

ERM

- independent view of the market risk profile;
- oversight of market risk management practices;
- monitors implementation of the market and investment risk framework.

RMB PROPRIETARY BOARD

- RMB's risk and regulatory committee and a subcommittee of the RMB divisional board;
- defines RMB's portfolio and risk/reward appetite;
- ensures that business remains within the approved appetite levels;
- approves strategies and allocates limits for business unit market risk position taking across the group; and
- monitors implementation of the RMB market investment risk framework.

RMB RISK AND OVERSIGHT COMMITTEE (ROC)

- the independent oversight of all risk types within RMB's South African and foreign operations; and
- receives input from the business unit and in-country risk committees as appropriate.

ASSESSMENT AND MANAGEMENT

Quantification of risk exposures

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

ETL	The internal measure of risk is an ETL metric at the 99% confidence level under the full revaluation methodology using historical risk factor scenarios (historical simulation method). In order to accommodate the regulatory stress loss imperative, the set of scenarios used for revaluation of the current portfolio comprises historical scenarios which incorporate both the past 260 trading days and at least one static period of market distress. The ETL is liquidity adjusted for illiquid exposures. Holding periods, ranging between 10 and 90 days or more, are used in the calculation and are based on an assessment of distressed liquidity of portfolios.
VaR	VaR is calculated at the 99% 10-day actual holding period level using data from the past 260 trading days. For regulatory capital purposes this is supplemented with a sVaR, calculated using a pre-defined static stress period (2008/2009). VaR calculations over a holding period of one day are used as an additional tool in the assessment of market risk. The group's VaR number should be interpreted in light of the limitations of this methodology, namely: • historical simulation VaR may not provide an accurate estimate of future market moves; • the use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile – the ETL is a better measure to quantify losses beyond that percentile (but still subject to similar limitations as stated for VaR); • the use of a 1-day time horizon is not a fair reflection of profit or loss for positions with low trading liquidity, which cannot be closed out or hedged within one day; • as exposures and risk factors can change during daily trading, exposures and risk factors are not necessarily captured in the VaR calibration which uses end-of-day trading data; and • where historical data is not available, time series data is approximated or backfilled using appropriate quantitative methodologies. Use of proxies is, however, limited. These limitations mean that the group cannot guarantee that losses will not exceed VaR. Recognising its limitations, VaR is supplemented with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables.

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

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Stress testing

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

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

Earnings volatility

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

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

Back testing

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

Regulatory and economic capital for market risk

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

MARKET RISK IN THE TRADING BOOK PROFILE

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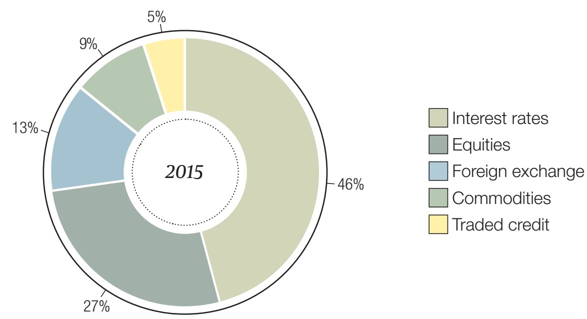
The following chart shows the distribution of exposures per asset class across the group's trading activities at 30 June 2015 based on the VaR methodology. VaR equity exposure shown relates mainly to listed equity exposures in RMB Australia which relate to the RMB resources portfolio. These exposures are predominantly in the junior resources sector and are reflected on the RMB Australia balance sheet. This risk is measured on a 90-day liquidity adjusted basis.

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

VaR EXPOSURE PER ASSET CLASS



VaR analysis by risk type

The following table reflects VaR over a 1-day holding period at a 99% confidence level. Results indicate that overall levels of market risk reduced between June 2014 and June 2015. The most notable change when compared to the prior year relates to the interest rate component. This is attributed to a combination of disciplined risk and inventory management by the portfolio managers.

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

1-DAY 99% VAR ANALYSIS BY INSTRUMENT

	2015				2014
R million	**Min***	**Max***	**Average**	**Period end**	**Period end**
Risk type					
Equities	**10.6**	**34.0**	**19.3**	**19.1**	18.2
Interest rates**	**21.2**	**60.4**	**36.7**	**32.5**	49.6
Foreign exchange	**5.4**	**31.5**	**13.4**	**9.1**	11.2
Commodities	**2.0**	**10.4**	**5.2**	**6.0**	3.3
Traded credit	**1.6**	**6.6**	**3.3**	**3.6**	2.6
Diversification effect	**–**	**–**	**–**	**(22.9)**	(26.2)
Diversified total	**27.5**	**86.5**	**49.8**	**47.3**	58.7

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

** *Interest rate risk in the trading book.*

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The following table reflects 10-day VaR and sVaR at the 99% confidence level at 30 June 2015. The 10-day VaR calculation is performed using 10-day scenarios created from the past 260 trading days, whereas the 10-day sVaR is calculated using scenario data from the static stress period. The results reflected in the following table are consistent with those mentioned above.

10-DAY 99% VAR AND SVAR ANALYSIS BY INSTRUMENT

	2015								2014	
	VaR				sVaR				Period end	
R million	**Min***	**Max***	**Average**	**Period end**	**Min**	**Max**	**Average**	**Period end**	**VaR**	**sVaR**
Risk type										
Equities	**23.9**	**66.2**	**43.6**	**49.1**	**9.9**	**146.3**	**71.8**	**86.5**	41.5	29.3
Interest rates**	**45.8**	**134.1**	**81.4**	**76.7**	**66.0**	**194.6**	**114.8**	**78.9**	78.6	137.0
Foreign exchange	**10.5**	**67.6**	**29.4**	**14.7**	**5.3**	**127.7**	**40.9**	**15.6**	32.2	24.3
Commodities	**5.2**	**32.1**	**15.1**	**13.8**	**8.1**	**72.0**	**29.9**	**42.2**	6.9	12.9
Traded credit	**3.5**	**19.1**	**7.3**	**13.0**	**3.7**	**14.9**	**8.0**	**13.4**	4.6	5.5
Diversification effect	**–**	**–**	**–**	**(79.3)**	**–**	**–**	**–**	**(170.4)**	(39.0)	(57.5)
Diversified total	**50.5**	**182.1**	**112.0**	**88.0**	**48.6**	**218.1**	**116.6**	**66.3**	124.9	151.5

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

** *Interest rate risk in the trading book.*

Other risk measures

Other risk factors are considered in the assessment and management of market risk. These include interest rate and equity specific risk. Specific risk accurately measures idiosyncratic risk not captured by general market risk measures for interest rate and equity risk, such as default, credit migration and event risks, and identifies concentrations in a portfolio. The following table represents the group's specific risk. The increase in interest rate specific risk emanates from the local balance sheet and is mainly a result of an increase in bond exposures to Indian financial institutions. The equity specific risk decreased year-on-year owing to a decrease in listed equity exposures in RMB Australia which relate to the RMB resources portfolio.

SPECIFIC RISK CAPITAL*

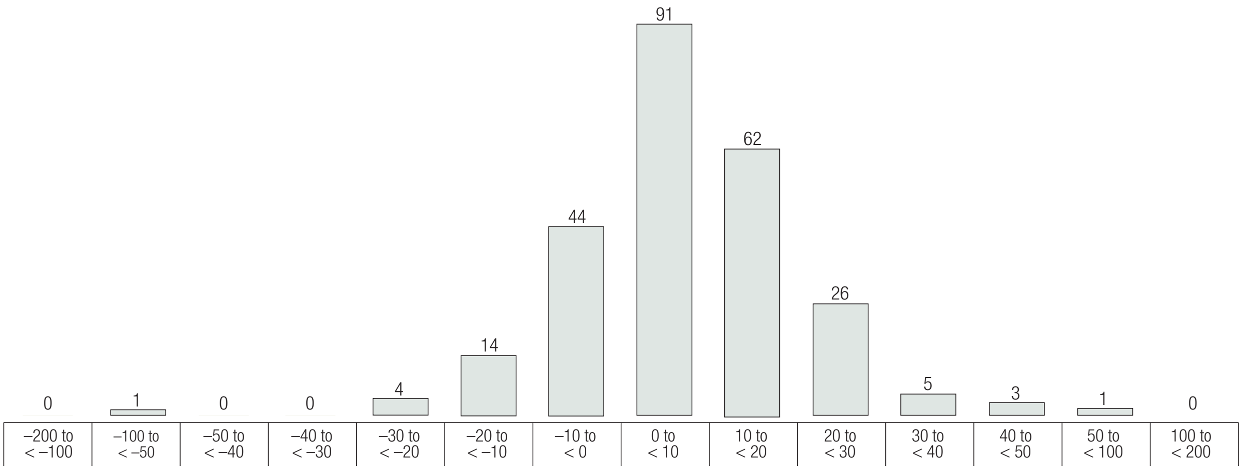
R million	**2015**	**2014**
Interest rate specific risk	**140**	99
Equity specific risk	**37**	85
Total	**177**	184

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

Distribution of daily trading earnings from trading units

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

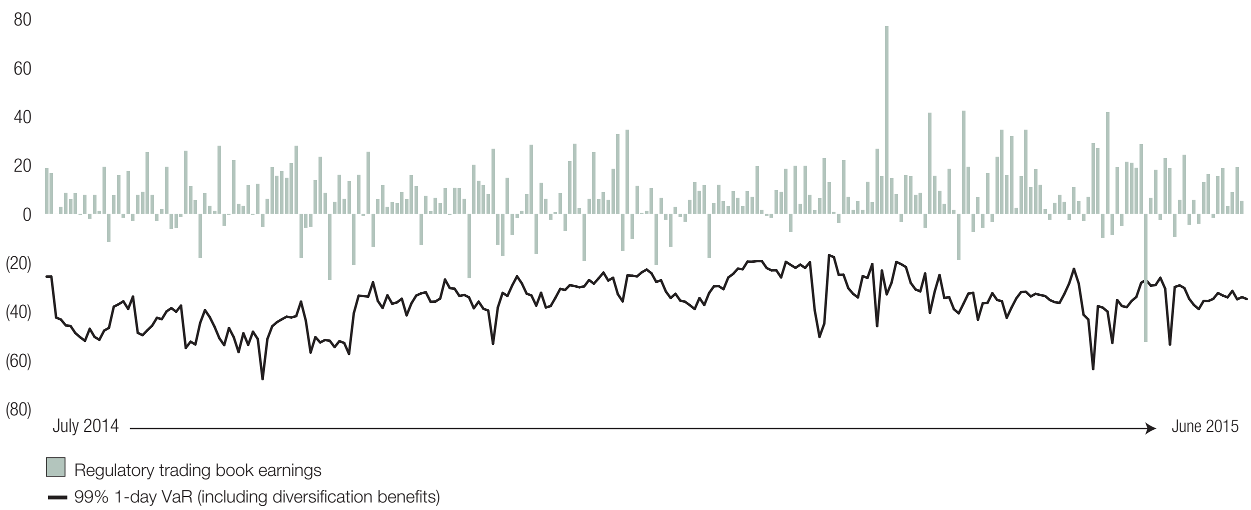
DISTRIBUTION OF DAILY EARNINGS – FREQUENCY
Days in a period



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

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

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



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

International entities

RMB Australia, FirstRand Bank (India and London branches) and the group's subsidiaries in the rest of Africa hold exposures to market risk. RMB Australia, and the India and London branches are measured and managed on the same basis as the local portfolios, with regulatory capital based on the regulatory standardised approach. The subsidiaries in the rest of Africa are measured using the regulatory standardised approach for regulatory capital and an internal stress loss methodology for internal measurement of risk. At 30 June 2015, the subsidiaries in the rest of Africa collectively held the majority of market risk exposures when compared to the other international entities listed above.

Rest of Africa

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

MARKET RISK STANDARDISED APPROACH REGULATORY CAPITAL FOR THE AFRICAN SUBSIDIARIES

	2015				2014
R million	**Min**	**Max**	**Average**	**Period end**	**Period end**
Risk type					
Interest rates	**0.9**	**46.0**	**22.3**	**30.1**	7.4
Foreign exchange	**1.2**	**17.0**	**10.2**	**13.5**	16.0
Total	**2.1**	**63.0**	**32.5**	**43.6**	23.4

FRIHL

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

1-DAY VAR ANALYSIS FOR FRIHL

	2015				2014
R million	**Min***	**Max***	**Average**	**Period end**	**Period end**
Diversified total	**2.8**	**35.1**	**12.7**	**10.7**	13.3

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

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Regulatory market risk for FRIHL is measured using the standardised approach. Commensurate with the decrease in VaR observed above, market risk capital calculated using the regulatory standardised approach decreased since the previous year.

R million	**2015**	**2014**
Specific risk	**9**	42
General risk	**31**	51

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

NON-TRADED MARKET RISK

INTRODUCTION AND OBJECTIVES

For non-traded market risk, the group distinguishes between interest rate risk in the banking book and structural foreign exchange risk. The following table describes how these risks are measured, managed and governed.

Risk and jurisdiction	Risk measure	Managed by	Oversight
Interest rate risk in the banking book			
Domestic – FNB, WesBank and FCC balance sheet	▸ 12-month earnings sensitivity; and ▸ economic sensitivity of open risk position.	Group Treasury	FCC risk management and group ALCCO.
Subsidiaries in rest of Africa and international branches	▸ 12-month earnings sensitivity; and ▸ economic sensitivity of open risk position.	In-country management	Group Treasury FCC Risk Management International ALCCO
Structural foreign exchange			
Group	▸ total capital in a functional currency other than rand; ▸ impact of translation back to rand reflected in group; and ▸ foreign currency translation reserve value.	Group Treasury	ALCCO

INTEREST RATE RISK IN THE BANKING BOOK

Overview

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

Interest rate risk in the banking book originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.

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

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

At the beginning of 2014, the SARB communicated that South Africa was entering a hiking cycle. The subsequent increase in the repo rate positively impacted margins as a result of the endowment effect.

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

Organisational structure and governance

IRRBB GOVERNANCE STRUCTURE

First line of control

Second line of control

FirstRand board

STRATEGIC EXECUTIVE COMMITTEE

RCC COMMITTEE

FINANCIAL RESOURCE MANAGEMENT COMMITTEE

GROUP TREASURY

- manages IRRBB for FNB, WesBank and the Group Treasury position;
- manages structural foreign exchange risk as a result of investment in foreign subsidiaries and branches; and
- oversight and reporting of group utilisation of foreign currency macro prudential and regulatory limits.

IRRBB and structural foreign exchange risk is managed on a strategic basis in line with macroeconomic outlook and available hedging instruments in the market.

GROUP ALCCO

- oversight of asset and liability management functions and ALCCOs in South African and foreign entities; and
- monitors implementation of market risk in the banking book framework (MRBBF).

The MRBBF (subframework of BPRMF) prescribes the standards, principles and policies for effective interest rate and foreign exchange risk in the banking book.

INTERNATIONAL ALCCO

Oversight of IRRBB for foreign entities.

FCC RISK MANAGEMENT

- supports management in identifying and quantifying key ALM risks;
- ensures that board-approved risk policies, frameworks, standards, methodologies and tools are adhered to; and
- compiles, analyses and escalates risk reports on performance, risk exposures and corrective actions.

Assessment and management

FirstRand Bank (South Africa)

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

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

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Foreign entities

Management of subsidiaries in the rest of Africa and international branches is performed by in-country management teams with oversight provided by Group Treasury and FCC Risk Management. For subsidiaries, earnings sensitivity measures are used to monitor and manage interest rate risk in line with the group's appetite. Where applicable, PV01 and ETL risk limits are also used for endowment hedges.

INTEREST RATE RISK MANAGEMENT AND ASSESSMENT

Sensitivity analysis

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

Earnings sensitivity

Earnings models are run on a monthly basis to provide a measure of the NII sensitivity of the existing banking book balance sheet to shocks in interest rates. Underlying transactions are modelled on a contractual basis, assuming a constant balance sheet size and mix. No adjustments are made for prepayments in the underlying book, however, prepayment assumptions are factored into the calculation of hedges for fixed rate lending. Rollover assumptions are not applied to off-balance sheet positions. A pass-through assumption is applied in relation to non-maturing deposits, which reprice at the group's discretion. This assumption is based on historical product behaviour.

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The following tables show the 12-month NII sensitivity for sustained, instantaneous parallel 200 bps downward and upward shocks to interest rates. The increased sensitivity is attributable to strategic hedges put in place to manage the margin impact of the capital and deposit endowment books through the cycle. At June 2015, the book was positioned to benefit from a hiking cycle whilst protecting against rate uncertainty. Given current uncertainty on the length and extent of the hiking cycle, the endowment book is actively managed.

The bulk of the NII sensitivity relates to the endowment book mismatch. The group's average endowment book was R137 billion for the year. Total sensitivity in the bank is measured to rand rate moves and to local currency moves in the subsidiaries in the rest of Africa.

PROJECTED NII SENSITIVITY TO INTEREST RATE MOVEMENTS*

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

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

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

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of R2 921 million. A similar increase in interest rates would result in an increase in projected 12-month NII of R2 661 million.

Economic value of equity

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

The EVE shock applied is based on regulatory guidelines and incorporates sustained, instantaneous parallel 200 bps downward and upward shocks to interest rates. This is applied to risk portfolios managed by Group Treasury which, as a result of the risk transfer through the internal funds transfer pricing process, captures relevant open risk positions in the banking book. This measure does not take into account the unrealised economic benefit embedded as a result of the banking book products which are not recognised at fair value.

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The following table:

- highlights the sensitivity of banking book NAV as a percentage of total capital;
- reflects a point-in-time view, which is dynamically managed and can change significantly in a short space of time; and
- excludes the banking book managed by RMB and the foreign operations' banking books, which are separately managed.

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

%	2015	2014
Downward 200 bps	**0.52**	0.25
Upward 200 bps	**(0.59)**	(0.28)

The increase in NAV sensitivity in the year under review is attributable to active management of strategic hedges. In June 2015, hedges were being allowed to roll off in anticipation of a hiking cycle. This disclosure differs from previous EVE sensitivity disclosures as it looks at the economic sensitivity of the banking book as a whole as opposed to only the sensitivity of products impacting the cash flow and available-for-sale reserves.

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STRUCTURAL FOREIGN EXCHANGE RISK

Overview

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

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

The group is exposed to foreign exchange risk both as a result of on-balance sheet transactions in a currency other than the functional currency rand, as well as through structural foreign exchange risk from the translation of foreign entities' results into rand. The impact on equity as a result of structural foreign exchange risk is recognised in the foreign currency translation reserve balance, which is included in qualifying capital for regulatory purposes.

Structural foreign exchange risk as a result of net investments in entities with a functional currency other than rand is an unavoidable consequence of having offshore operations and can be a source both of investor value through diversified earnings, as well as unwanted volatility as a result of rand fluctuations. Group Treasury is responsible for actively monitoring the net capital invested in foreign entities, as well as the rand value of any capital investments and dividend distributions.

Organisational structure and governance

Reporting and management for the group's foreign exchange exposure and macro prudential limit utilisation is centrally owned by Group Treasury as the clearer of all currency positions in the group. Group Treasury is also responsible for oversight of structural foreign exchange risk, reporting through to group ALCCO, a subcommittee of the RCC committee. Refer to the governance structure in the *interest rate risk in the banking book* section.

Assessment and management

The ability to transact on-balance sheet in a currency other than the home currency (rand) is governed by in country macro- prudential and regulatory limits. In the group, additional board limits and management appetite levels are set in relation to this exposure. The impact of any residual on-balance positions is managed as part of market risk reporting (see *market risk in the trading book* section). Group Treasury is responsible for consolidated group reporting and utilisation of these limits against approved limits and appetite levels.

Foreign exchange risk in the banking book comprises funding and liquidity management and risk mitigating activities which are managed to low levels. To minimise funding risk across the group, foreign currency transactions are matched where possible, with residual liquidity risk managed centrally by Group Treasury (see *funding and liquidity* section).

Structural foreign exchange risk impacts both the current NAV of the group as well as future profitability and earnings potential. Economic hedging is done where viable, given market constraints and within risk appetite levels. Where possible, hedge accounting is applied. Any open hedges are included as part of *market risk in the trading book*.

Foreign exchange and translation risk profile

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

NET STRUCTURAL FOREIGN EXPOSURES

Functional currency R million	2015	2014
Botswana pula	**3 273**	2 996
United States dollar	**2 774**	2 712
Sterling	**1 975**	889
Nigerian naira	**1 135**	1 068
Australian dollar	**987**	1 298
Zambian kwacha	**890**	835
Mozambican metical	**702**	693
Indian rupees	**720**	570
Tanzanian shilling	**236**	375
Common monetary area (CMA) countries*	**4 505**	3 801
Total	**17 197**	15 237

* *Currently Namibia, Swaziland and Lesotho are part of the CMA. Unless these entities decide to exit, rand volatility will not impact these entities' rand reporting values.*

audited

EQUITY INVESTMENT RISK

INTRODUCTION AND OBJECTIVES

Equity investment risk is the risk of an adverse change in the fair value of an investment in a company, fund or any other financial instrument, whether listed, unlisted or bespoke.

Equity investment risk arises primarily from equity exposures from investment banking and private equity activities in RMB, e.g. exposures to equity risk arising from principal investments or structured lending. During the current financial year, RMB made a strategic decision to exit the RMB resources business which will be wound down over the next two years.

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

Ashburton Investments, the group's investment management business, also contributes to equity investment risk. This risk emanates from the seeding of new traditional and alternative funds, both locally and offshore, which exposes the group to equity investment risk until these investments are taken up by external parties.

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

ORGANISATIONAL STRUCTURE AND GOVERNANCE

EQUITY INVESTMENT RISK GOVERNANCE STRUCTURE

FirstRand board

LARGE EXPOSURES COMMITTEE

Approves senior debt in investment structures as appropriate.

RELEVANT CREDIT COMMITTEES

RCC COMMITTEE

Responsible for equity investment risk appetite.

PRUDENTIAL INVESTMENT COMMITTEE

Oversight and approval of portfolio investment transactions in equity, quasi-equity or quasi-debt instruments.

MARKET AND INVESTMENT RISK COMMITTEE (MIRC)

- oversight of investment risk measures and management across the group;
- monitors implementation of the market and investment risk framework (subframework of BPRMF); and
- receives reports of investment activities from franchise risk and management structures.

FRANCHISE RISK AND MANAGEMENT STRUCTURE

RMB proprietary board

- independent oversight of RMB's investment activities; and
- supported by RMB CRO and deployed risk managers.

FNB Exco | **WesBank Exco** | **FCC Exco**

Monitor and manage investments through financial reporting process.

Ashburton Investments risk and compliance committee

- monitors fund investment activity; and
- reviews reports on investment positions.

Investment risk oversight committee

- assesses quality, size and performance of RMB's investment portfolio.

- fund investments approved by Ashburton Investments committee;
- capital limits approved by ALCCO;
- investment limits approved by MIRC; and
- Ashburton Investments capital committee report on positions.

audited

ASSESSMENT AND MANAGEMENT

Management of exposures

The equity investment risk portfolio is managed through a rigorous evaluation and review process from inception to exit of a transaction. All investments are subject to a comprehensive due diligence, during which a thorough understanding of the target company's business, risks, challenges, competitors, management team and unique advantage or value proposition is developed.

For each transaction, an appropriate structure is put in place which aligns the interests of all parties involved through the use of incentives and constraints for management and the selling party. Where appropriate, the group seeks to take a number of seats on the company's board and maintains close oversight through monitoring operations and financial discipline.

The investment thesis, results of the due diligence process and investment structure are discussed at the investment committee before final approval is granted. In addition, normal biannual reviews are carried out for each investment and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

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Recording of exposures – accounting policies

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

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

Equity investments in associates and joint ventures are included in the consolidated financial statements using the equity accounting method. Associates are entities where the group holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control. Joint ventures are entities in which the group has joint control over the relevant activities of the joint venture through a contractual agreement.

Measurement of risk exposures and stress testing

Risk exposures are measured in terms of potential loss under stress conditions. A series of standardised stress tests are used to assess potential losses under current market conditions, adverse market conditions, as well as severe stress/event risk. These stress tests are conducted at individual investment and portfolio level.

In the private equity portfolio, the group targets an investment profile that is diversified along a number of pertinent dimensions, such as geography, industry, investment stage and vintage (i.e. annual replacements of realisations).

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

Regulatory and economic capital

The simple risk weighted method under the market-based approach, 250% (Basel III investments in financial entities), 300% (listed) or 400% (unlisted) is applied with the scalar for the quantification of regulatory capital. Under the Regulations, the risk weight applied to investments in financial, banking and insurance institutions is subject to the aggregate and individual value of the group's shareholding in these investments and also in relation to the group's qualifying CET1 capital. Shareholdings in investments are bucketed depending on the percentage held.

For economic capital purposes, an approach using market value shocks to the underlying investments is used to assess economic capital requirements for unlisted investments after taking any unrealised profits into account.

Where price discovery is reliable, the risk of listed equity investments is measured based on a 90-day ETL calculated using RMB's internal market risk model. The ETL risk measure is supplemented by a measure of the specific (idiosyncratic) risk of the individual securities per the specific risk measurement methodology.

EQUITY INVESTMENT RISK PROFILE

During the year under review, the private equity portfolio had significant realisations with robust realisation profits. The unrealised value of the private equity investment portfolio at 30 June 2015 was R4.9 billion (2014: R3.9 billion). Results were impacted by a weaker performance with increased losses from the RMB resources portfolio, negatively affected by current market conditions in the junior mining sector given the decrease in commodity prices over the last year. Other investment income benefited from realisations held in portfolios outside the private equity portfolio. The following table includes the investment risk exposure and sensitivity. The 10% sensitivity movement is calculated on the carrying value of investments excluding investments subject to the ETL process and the carrying value of investments in associates and joint ventures. The decrease in listed investment risk exposure included in the ETL process from 2014 to 2015 is due to the reduced listed equity exposure, mainly in the RMB resources portfolio.

INVESTMENT RISK EXPOSURE AND SENSITIVITY OF INVESTMENT RISK EXPOSURE

R million	**2015**	**2014**
Listed investment risk exposure included in the equity investment risk ETL process	**63**	516
ETL on above equity investment risk exposures	**5**	161
Estimated sensitivity of remaining investment balances		
Sensitivity to 10% movement in market value on investment fair value*	**378**	397
Cumulative gains realised from sale of positions in the banking book during the year	**1 693**	1 786

* *Audited.*

The following tables include the investment valuations and regulatory capital requirements.

INVESTMENT VALUATIONS AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS

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

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

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

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

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

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

FUNDING AND LIQUIDITY RISK

INTRODUCTION AND OBJECTIVES

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

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

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

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

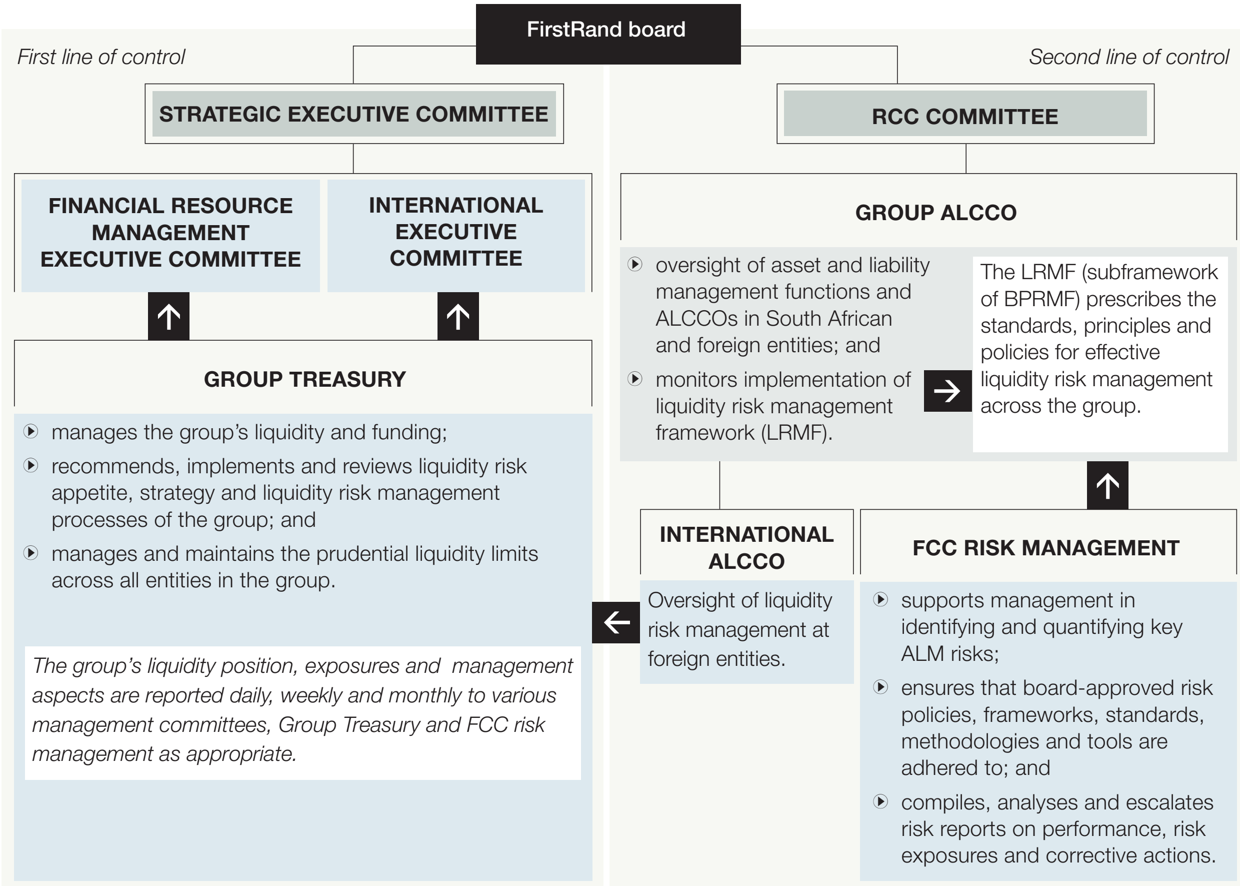
At 30 June 2015, the group exceeded the 60% minimum LCR requirement with a LCR measurement of 76% and the bank's LCR was 84%. The BCBS' *Liquidity coverage ratio disclosure standards* propose consistent and transparent disclosure of banks' liquidity positions as measured by the Basel III regulations. Directives 6/2014 and 11/2014 require the group to provide its LCR disclosure in a standardised template.

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

At 30 June 2015, the group's available sources of liquidity per the BCBS LCR were R137 billion, with an additional R12 billion of management liquidity available.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

GROUP AND BANK



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FOREIGN OPERATIONS

audited

GROUP ALCCO

GROUP TREASURY PROVIDES:

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

INTERNATIONAL ALCCO

- meets quarterly to discuss region specific liquidity issues.

INDIVIDUAL ALCCOs IN SUBSIDIARIES

- manages liquidity in line with group principles;
- meets monthly; and
- includes Group Treasury representation.

IN-COUNTRY TREASURY FUNCTIONS

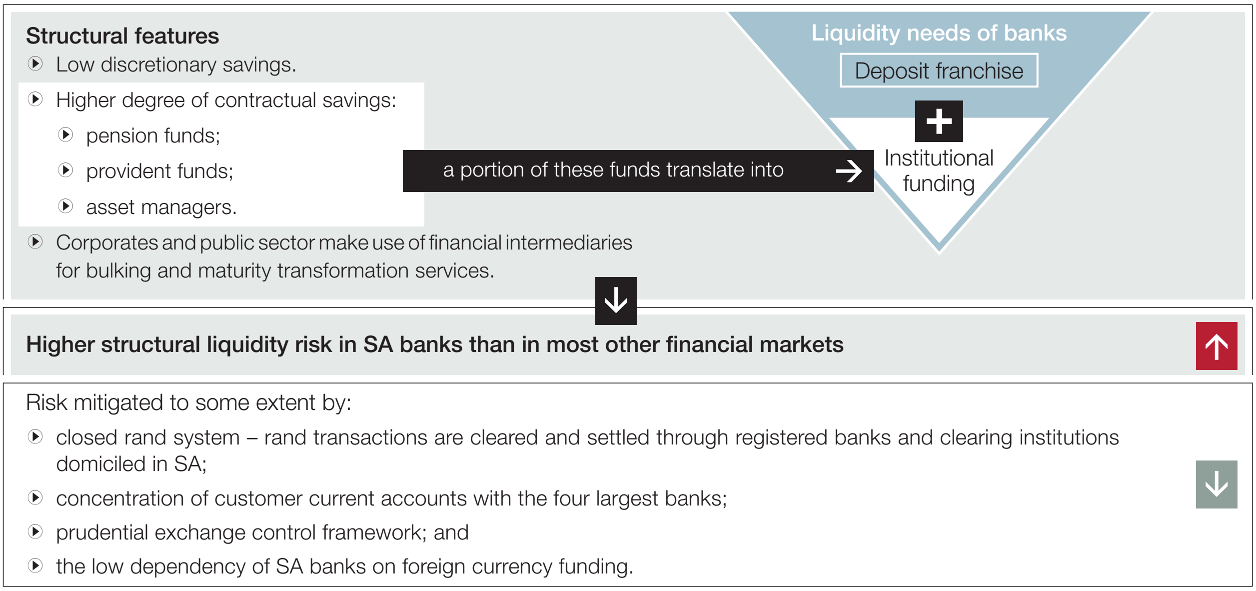
- day-to-day management of foreign subsidiary funding and liquidity risk;
- managed within country capital base; and
- focus on developing deposit franchise.

Branches are part of the bank and subsidiaries are managed on a standalone basis.

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

FUNDING MANAGEMENT

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



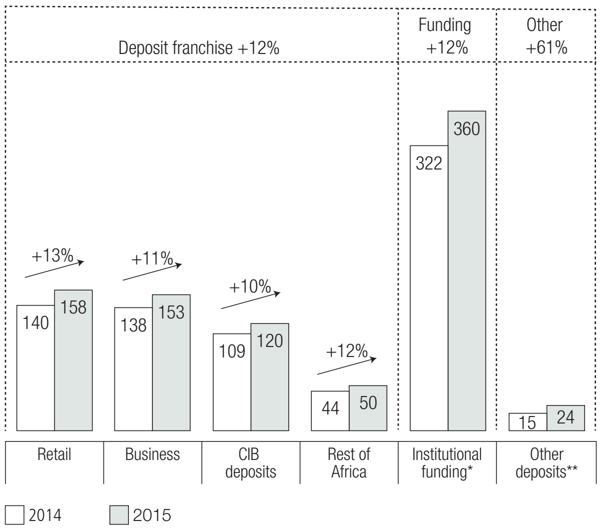
During the year under review, there has been increased liquidity demand by banks as a consequence of the money supply constraints introduced by the LCR and the central bank's open market operations. In light of the structural features discussed above, focus is currently placed on achieving a risk-adjusted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

The group manages its funding structure by source, counterparty type, product, currency and market. The deposit franchise represents the most efficient source of funding and, for the bank, comprised 66% of domestic funding liabilities at 30 June 2015. During the year under review, the group continued to focus on growing its deposit franchise across all segments with increasing emphasis on savings and investment products. Progress has been made in developing suitable products to attract a greater proportion of clients' available liquidity with improved risk-adjusted pricing by source and behaviour. To fund operations, the group accesses the domestic money markets daily and has, over the course of the year, accessed capital markets. The group has frequently issued various capital and funding instruments in the capital markets on an auction and reverse enquiry basis with strong support from investors, both domestically and internationally.

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

GROUP FUNDING BY SEGMENT

R billion



* *Includes CIB institutional funding and international entity platforms.*

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

Funding measurement and activity

FirstRand Bank, FirstRand's wholly-owned subsidiary and debt issuer, generates a larger proportion of its funding from deposits compared to the South African aggregate, however, its funding profile also reflects the structural features described in the diagram on page 248. The following table provides an analysis of the bank's funding sources.

FUNDING SOURCES OF THE BANK EXCLUDING FOREIGN BRANCHES

	2015				2014
% of funding liabilities	**Total**	**Short term**	**Medium term**	**Long term**	**Total**
Institutional funding	**34.1**	**9.9**	**7.4**	**16.8**	37.0
Deposit franchise	**65.9**	**48.5**	**7.8**	**9.6**	63.0
Corporate	**23.4**	**19.9**	**1.8**	**1.7**	22.7
Retail	**17.7**	**13.6**	**2.8**	**1.3**	17.0
SMEs	**5.4**	**4.7**	**0.4**	**0.3**	5.2
Governments and parastatals	**9.2**	**6.9**	**1.7**	**0.6**	9.6
Foreign	**7.5**	**3.2**	**1.0**	**3.3**	6.1
Other	**2.7**	**0.2**	**0.1**	**2.4**	2.4
Total	**100.0**	**58.4**	**15.2**	**26.4**	100.0

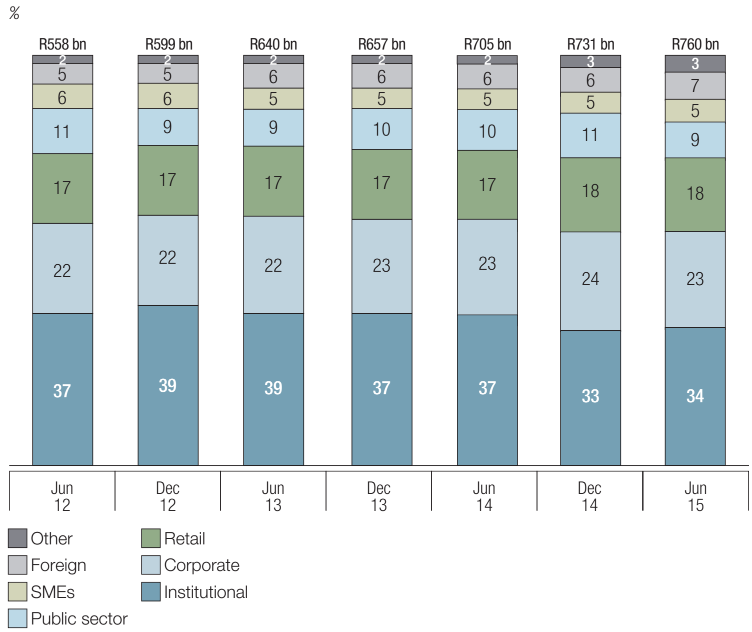
Funds transfer pricing

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

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

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

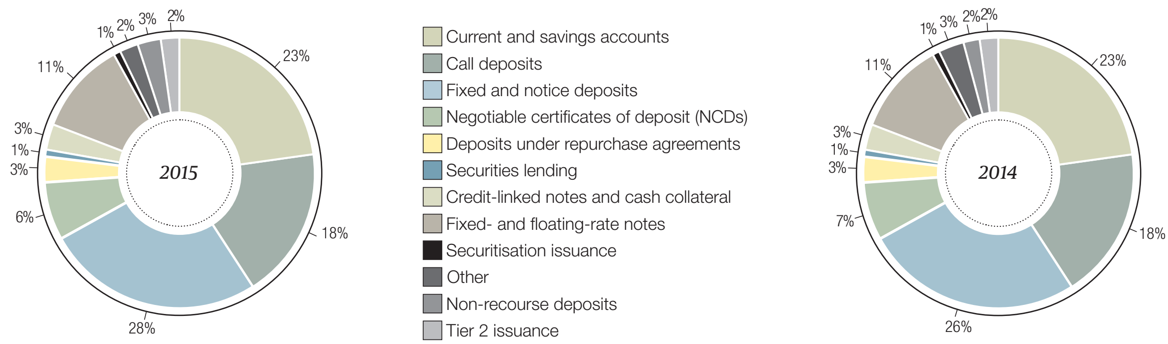
FUNDING ANALYSIS BY SOURCE OF THE BANK EXCLUDING FOREIGN BRANCHES



Source: SARB BA900 returns, June 2015.

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

GROUP'S FUNDING ANALYSIS BY INSTRUMENT TYPE

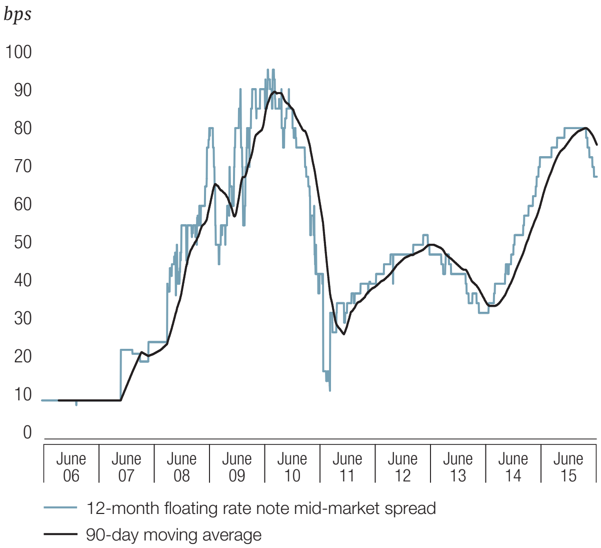


The group's aim is to fund the balance sheet in the most efficient manner, taking into account the liquidity risk management framework, as well as regulatory and rating agency requirements.

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

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

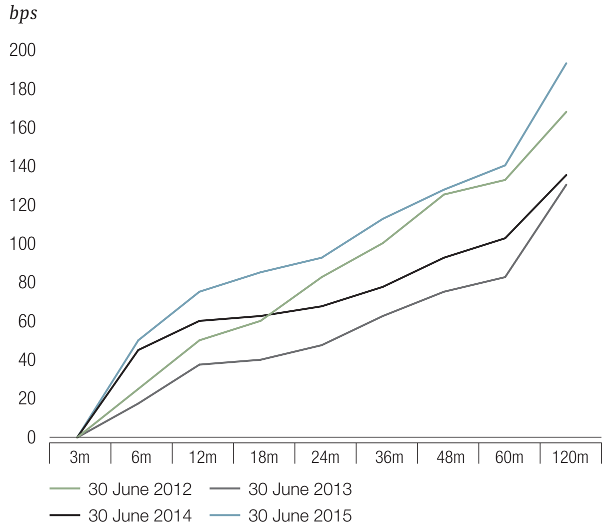
12-MONTH LIQUIDITY SPREAD



Source: Bloomberg (RMBP screen) and Reuters.

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

LONG-TERM FUNDING SPREADS



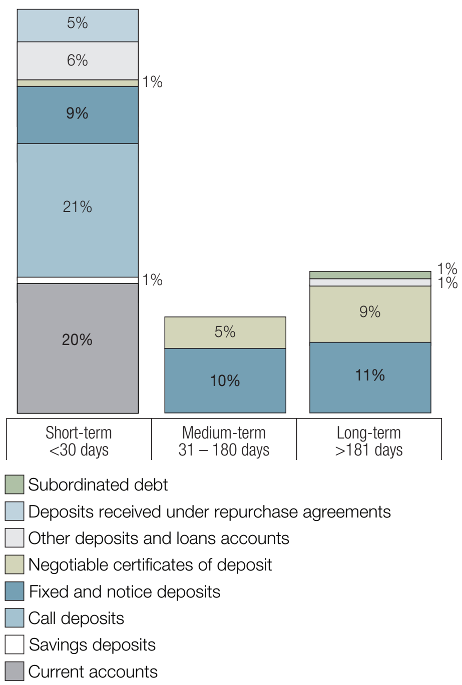
Source: Bloomberg (RMBP screen) and Reuters.

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

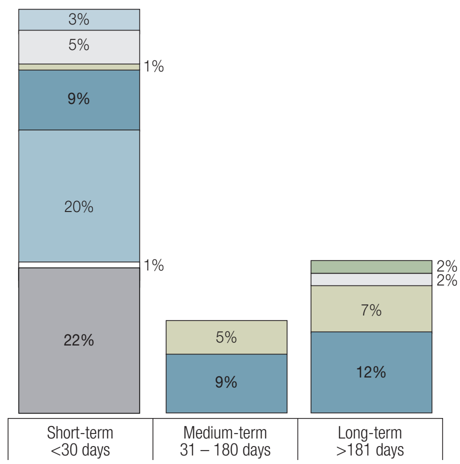
The following chart illustrates a breakdown of the group's funding liabilities by instrument and term.

GROUP'S FUNDING LIABILITIES BY INSTRUMENT TYPE AND TERM

at 30 June 2015



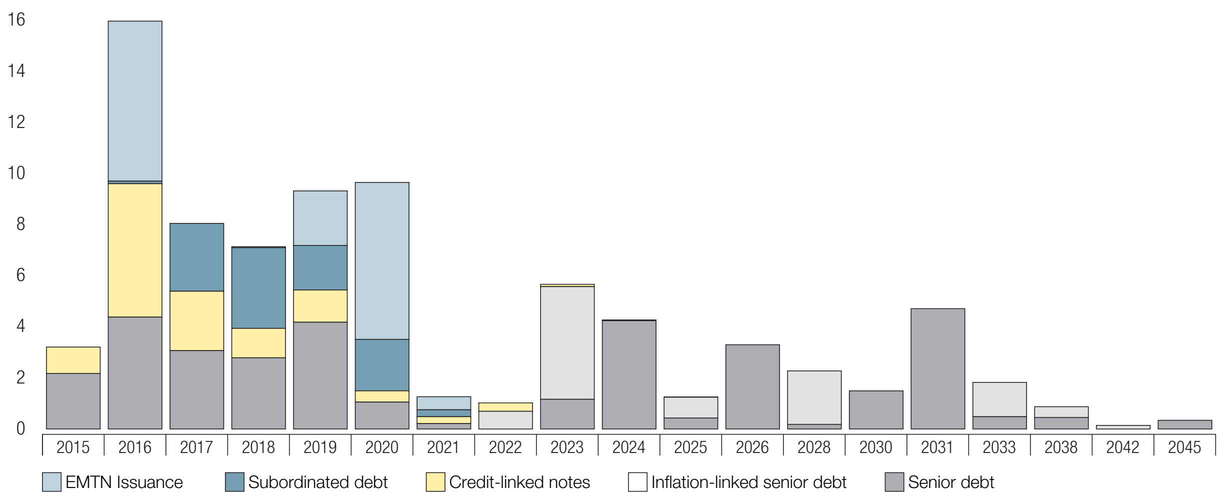
at 30 June 2014



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

MATURITY PROFILE OF CAPITAL MARKET INSTRUMENTS OF THE BANK EXCLUDING FOREIGN BRANCHES

R billion



Funding structure of foreign operations

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

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

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

Group funding support

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

FOREIGN CURRENCY BALANCE SHEET

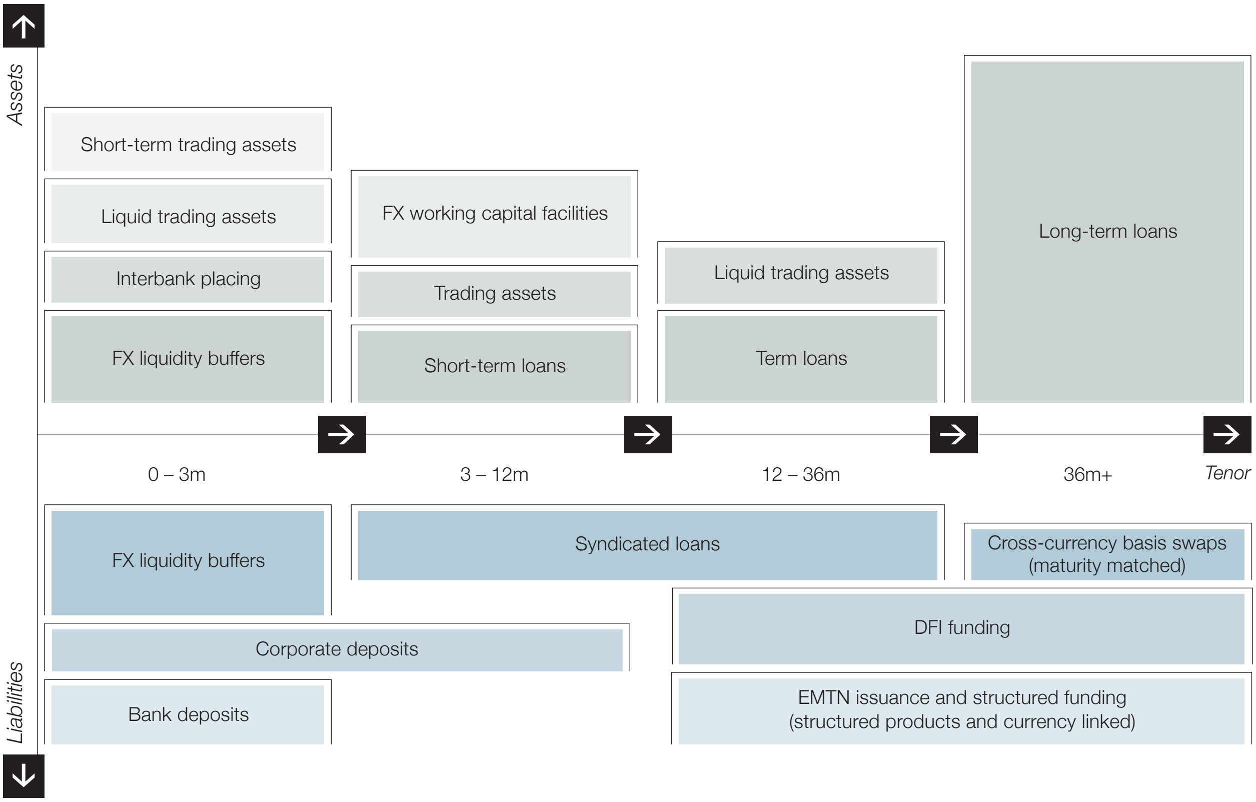
Given the group's objective to grow its franchise in the rest of Africa, India and the corridors, and given the size of MotoNovo in the UK, the active management of foreign currency liquidity risk continues to be a strategic focus. The group seeks to avoid exposing itself to undue liquidity risk and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

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

Philosophy on foreign currency external debt

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

GRAPHICAL REPRESENTATION OF THE FOREIGN CURRENCY BALANCE SHEET



LIQUIDITY RISK MANAGEMENT

Overview

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

The group recognises two types of liquidity risk:

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

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

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

LIQUIDITY RISK MANAGEMENT APPROACHES

Structural liquidity risk	Daily liquidity risk	Contingency liquidity risk
Managing the risk that structural, long-term on- and off-balance sheet exposures cannot be funded timeously or at reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.
• liquidity risk tolerance; • liquidity strategy; • ensuring substantial diversification over different funding sources; • assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses; • setting the approach to managing liquidity in different currencies and from country to country; • ensuring adequate liquidity ratios; • ensuring an appropriate structural liquidity gap; and • maintaining a funds transfer pricing methodology and process.	• managing intraday liquidity positions; • managing daily payment queue; • monitoring net funding requirements; • forecasting cash flows; • performing short-term cash flow analysis for all currencies (individually and in aggregate); • management of intragroup liquidity; • managing central bank clearing; • managing net daily cash positions; • managing and maintaining market access; and • managing and maintaining collateral.	• managing early warning and key risk indicators; • performing stress testing including sensitivity analysis and scenario testing; • maintaining product behaviour and optionality assumptions; • ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place; and • maintaining the contingency funding plan.

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Stress testing and scenario analysis

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

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

Liquidity contingency planning

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

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

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

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

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

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

REGULATORY UPDATE

1 Basel III

The BCBS framework for sound and prudent liquidity risk management seeks to address the aspects below:

- LCR addresses short-term liquidity risk cash management; and
- Net Stable Funding Ratio (NSFR) addresses the structural liquidity risk of the balance sheet.

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

2 Liquidity coverage ratio

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

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

3 Disclosure requirements

The BCBS published the *Liquidity coverage ratio disclosure standards* in March 2014. The objective of the document is to reduce market uncertainty around liquidity positions.

- Effective from 1 January 2015.
- Will follow the capital quarterly disclosures.
- Standardised template for available sources of liquidity by level of liquidity, cash outflows attributable by customer, category type and relationship and cash inflows attributable by source.

4 Net stable funding ratio

The latest consultative paper of the BCBS now reflects the NSFR as a more structural balance sheet ratio and no longer a one-year stressed balance sheet ratio. The BCBS maintains the principle that a stable funding profile in relation to the composition of a bank's assets and off-balance sheet items promotes a more resilient banking sector. The ratio calculates the amount of available stable funding relative to the amount of required stable funding. The ratio has to at least equal 100%. It is anticipated that the ratio will become a requirement on 1 January 2018, once the calibration is finalised.

5 Resolution recovery framework

The SARB and FSB published for public comment a discussion document, *Strengthening South Africa's Resolution Framework for Financial Institutions*. The paper sets out the motivation, principles and policy proposals for such a strengthened framework, and is intended to solicit public comment and serve as a basis for further industry discussions in preparation for the drafting of a special resolution bill.

The paper introduces the concept of TLAC to explicitly subordinate specified instruments in order to make these loss absorbing at resolution phase. TLAC in the context of the paper does not necessarily have the same characteristics as the proposed TLAC requirements applicable to G-SIBs and have been identified as:

- ordinary shares;
- preference shares; and
- pre-identified loss-bearing instruments.

LIQUIDITY RISK POSITION

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

THE GROUP'S COMPOSITION OF LIQUID ASSETS

	2015*			
	Basel III			Management view
		After haircut		
R billion	High quality liquid assets**	Level 1	Level 2	After SARB haircut
Cash and deposits with central banks	31	–	–	31
Government bonds and bills	93	88	–	88
Corporate bonds	11	–	6	6
Other liquid assets	2	–	1	12
Total	**137**	**88**	**7**	**137**

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

** *The surplus high quality liquid assets holdings by subsidiaries and foreign branches in excess of the minimum required LCR of 60% have been excluded in the calculation of the consolidated group LCR.*

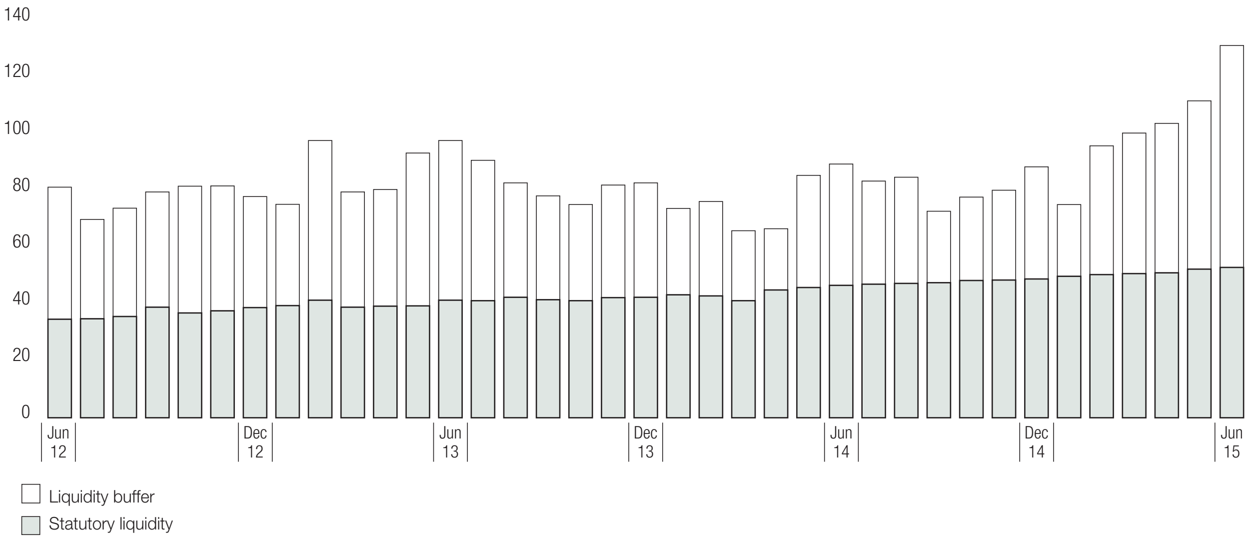
Liquidity buffers are actively managed via high quality, highly-liquid assets that are available as protection against unexpected events or market disruptions. The quantum and composition of the available sources of liquidity are defined by the behavioural funding liquidity at risk and the market liquidity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

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

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

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

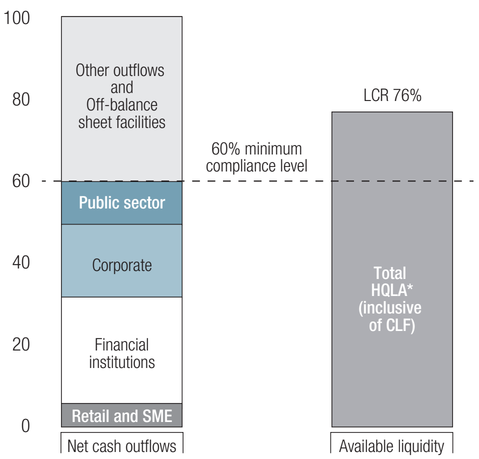
R million



The following graph gives an indication of the group's LCR position of 76% at 30 June 2015 and demonstrates the group's compliance with the 60% minimum requirement. The LCR for the bank was 84% at 30 June 2015.

GROUP LCR

%



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

CASH FLOW ANALYSIS

Undiscounted cash flows

The following table presents the group's undiscounted cash flows of liabilities and includes all cash outflows related to principal amounts as well as future payments. These balances will not reconcile to the balance sheet for the following reasons:

- balances are undiscounted amounts whereas the balance sheet is prepared using discounted amounts;
- the table includes cash flows not recognised on the balance sheet;
- all instruments held for trading purposes are included in the call to three-month bucket and not by maturity as trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

LIQUIDITY CASH FLOWS (UNDISCOUNTED CASH FLOWS) – MATURITY ANALYSIS OF LIABILITIES BASED ON THE UNDISCOUNTED AMOUNT OF EXPECTED PAYMENTS

	2015			
		Term to maturity		
R million	Carrying amount	Call – 3 months	4 – 12 months	> 12 months
Deposits and current accounts	**949 608**	**597 553**	**130 630**	**221 425**
Short trading positions	**5 685**	**5 685**	**–**	**–**
Derivative financial instruments	**42 165**	**36 366**	**567**	**5 232**
Creditors and accruals	**17 247**	**12 069**	**543**	**4 635**
Tier 2 liabilities	**17 411**	**13**	**137**	**17 261**
Other liabilities	**7 530**	**1 072**	**483**	**5 975**
Policyholder liabilities under insurance contracts	**542**	**31**	**24**	**487**
Financial and other guarantees	**41 005**	**37 162**	**2 209**	**1 634**
Operating lease commitments	**2 810**	**240**	**678**	**1 892**
Other contingencies and commitments	**1 358**	**848**	**446**	**64**
Facilities not drawn	**87 464**	**87 412**	**41**	**11**

	2014*			
		Term to maturity		
R million	Carrying amount	Call – 3 months	4 – 12 months	> 12 months
Deposits and current accounts	828 299	544 419	119 722	164 158
Short trading positions	5 442	5 442	–	–
Derivative financial instruments	41 844	39 066	796	1 982
Creditors and accruals	13 553	11 390	868	1 295
Tier 2 liabilities	16 969	1 829	21	15 119
Other liabilities	7 190	733	729	5 728
Policyholder liabilities under insurance contracts	540	22	21	497
Financial and other guarantees	40 702	37 443	1 483	1 776
Operating lease commitments	2 581	240	676	1 665
Other contingencies and commitments	1 754	248	1 041	465
Facilities not drawn	78 785	78 254	508	23

* *Additional line items were included in 2014 table to ensure comparability with 2015 disclosure.*

audited

Discounted cash flow analysis

The following table represents the group's expected discounted cash flows of assets, liabilities and equity for the group. Relying solely on the liquidity mismatch when assessing a bank's maturity analysis would overstate risk, since this represents an absolute worst case assessment of cash flows at maturity.

Due to South Africa's structural liquidity position, banks tend to have a particularly pronounced negative gap in the shorter term due to short-term institutional funds (which represent a significant proportion of banks' liabilities) which are used to fund long-term assets, e.g. mortgages.

Therefore, in addition to the analysis in the previous table, the group carries out an adjusted liquidity mismatch analysis, which estimates the size of the asset and liability mismatch under normal business conditions. This analysis is also used to manage the mismatch on an ongoing basis.

DISCOUNTED CASH FLOW ANALYSIS – MATURITY ANALYSIS OF ASSETS AND LIABILITIES BASED ON THE PRESENT VALUE OF THE EXPECTED PAYMENT

	2015			
		Term to maturity		
R million	**Carrying amount**	**Call – 3 months**	**4 – 12 months**	**> 12 months**
Total assets	**1 059 266**	**350 685**	**99 530**	**609 051**
Total equity and liabilities	**1 059 266**	**656 148**	**126 423**	**276 695**
Net liquidity gap	**–**	**(305 463)**	**(26 893)**	**332 356**
Cumulative liquidity gap	**–**	**(305 463)**	**(332 356)**	**–**

	2014			
		Term to maturity		
R million	**Carrying amount**	**Call – 3 months**	**4 – 12 months**	**> 12 months**
Total assets	945 535	326 101	84 541	534 893
Total equity and liabilities	945 535	605 756	118 734	221 045
Net liquidity gap	–	(279 655)	(34 193)	313 848
Cumulative liquidity gap	–	(279 655)	(313 848)	–

As illustrated in this table, the negative liquidity short-term gap increased slightly in the short end on a cumulative basis. This is aligned to the funding strategy to grow the deposit franchise via transactional deposit accounts. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

audited

OPERATIONAL RISK

INTRODUCTION AND OBJECTIVES

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

OPERATIONAL RISK OBJECTIVES AND PROGRAMME

KEY OBJECTIVES	OPERATIONAL RISK MANAGEMENT PROGRAMME COMPONENTS
The group's objective is to focus on building an effective and forward-looking operational risk management programme.	
Embed the use of automated risk tool outputs for an integrated operational risk profile view.	technology and information risks;
Refine operational risk appetite limits at various levels in the group.	internal fraud;
Enhance AMA component and methodology maturity.	external fraud;
Make greater use of risk information and analysis outcomes in: • day-to-day risk management; and • strategic decision making.	legal risks;
Improve control environment to support business strategy achievements.	people risks;
Assess operational risk-related regulatory developments and ensure compliance.	business resilience risk; and
Enhance risk measurement, capital calculation and allocation methods.	process risks.
Scenario analysis and contingency planning in light of national electricity supply shortages.	

The year under review

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

The principal operational risks currently facing the group are:

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

Process automation projects continue to reduce manual processes and improve controls thereby mitigating associated risks and increasing efficiencies. Critical data and system links between franchises have been identified for heightened attention by risk management.

There has been increased use of the group's operational risk management system which facilitates easy access to risk information and an integrated view of the business's operational risk profile based on the risk tool outputs. There are ongoing system and process changes to proactively manage risk data quality.

Operational risk appetite setting enables the group and its franchises to measure and monitor operational risk profiles against approved operational risk appetite levels, and to set boundaries for operational risk within which business decisions should be made. Operational risk appetite at group, franchise and segment levels was reviewed during the year and further refinements are ongoing.

The introduction of the use of common key risk drivers in the risk scenario analysis process saw greater refinement in scenario assessment across the group.

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

Power supply, management equipment and infrastructure were upgraded for key facilities. A third redundant data centre is being implemented to improve the group's business resilience capability. IT risk and governance functions have been integrated in ERM, with relevant governance forums in place to ensure continued monitoring and mitigation of IT risk across the group. IT and related frameworks are in place and continue to be reviewed to ensure alignment with changing business models and the technology landscape.

During the year under review the group:

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

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

ORGANISATIONAL STRUCTURE AND GOVERNANCE

FirstRand board

RCC COMMITTEE

OPERATIONAL RISK COMMITTEE (ORC)

- monitors implementation of the operational risk management framework (ORMF); and
- oversight over the management of operational risk across the group.

→ The ORMF (subframework of BPRMF) prescribes the authorities, governance and monitoring structures, duties and responsibilities, processes, methodologies, policies and standards which have to be implemented and adhered to when managing operational risk.

ERM CENTRAL OPERATIONAL RISK MANAGEMENT TEAM

→ Embeds the operational risk governance structure across the group.

SPECIALISED TEAMS MANAGE KEY OPERATIONAL RISKS

Fraud and physical security	Business resilience	Legal	Information governance	Information technology

Provide oversight and are integrated in broader operational risk management and governance processes.

MEASUREMENT OF OPERATIONAL RISK

Basel approaches

FirstRand applies **AMA** for its domestic operations. Offshore subsidiaries and operations continue to use **TSA** for operational risk and all previously unregulated entities that now form part of FRIHL use **BIA**. FirstRand continuously assesses the feasibility of migrating TSA and BIA entities to AMA (subject to internal and regulatory constraints).

Under **AMA**, FirstRand uses a sophisticated statistical model for the calculation of capital requirements, which enables more accurate risk-based measures of capital for business units on AMA. Operational risk scenarios (covering key risks that, although low in probability, may result in severe losses) and internal loss data are direct inputs into this model.

Scenarios are derived through an extensive analysis of the group's operational risks in consultation with business and risk experts from across the group. Scenarios are cross-referenced to external loss data, internal losses, key risk indicators, process-based risk and control identification and assessments and other pertinent information about relevant risk exposures. To ensure ongoing accuracy of risk and capital assessments, all scenarios are reviewed, supplemented and/or updated semi-annually, as appropriate.

The loss data used for risk measurement, management and capital calculation are collected for all seven Basel event types across various internal business lines. Data collection is the responsibility of business units and is overseen by the operational risk management team in ERM.

The modelled operational risk scenarios are combined with modelled loss data in a simulation model to derive the annual, aggregate distribution of operational risk losses. Basel Pillar 1 minimum capital requirements are then calculated (for the group and each franchise) as the operational VaR at the 99.9th percentile of the aggregate loss distribution, excluding the effects of insurance, expected losses and correlation/diversification.

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

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

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

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

ASSESSMENT AND MANAGEMENT

Operational risk assessment and management tools

The group obtains assurance that the principles and standards in the ORMF are being adhered to by the three lines of control model integrated in operational risk management. In this model, business units own the operational risk profile as the first line of control. In the second line of control, ERM is responsible for consolidated operational risk reporting, policy ownership and facilitation, and coordination of operational risk management and governance processes. GIA, as the third line of control, provides independent assurance on the adequacy and effectiveness of operational risk management processes and practices.

In line with international best practice, a variety of tools are employed and embedded in the assessment and management of operational risk. The most relevant of these are outlined in the following chart.

OPERATIONAL RISK ASSESSMENT AND MANAGEMENT TOOLS

Process-based risk and control identification and assessment	Key risk indicators
• the risk and control assessment per product/service based on key business processes; • integrated in the day-to-day business and risk management processes; and • used by business and risk managers to identify and monitor key risks and assess the effectiveness of existing controls.	• used across the group in all businesses as an early warning risk measure; • highlight changing trends in exposures to specific key operational risks; and • inform operational risk profiles which are reported periodically to the appropriate management and risk committees and are monitored on a continuous basis.
Internal/external loss data	**Risk scenarios**
• capturing of internal loss data is a well entrenched discipline within the group; • internal loss data reporting and analyses occur at all levels with specific focus on root causes and process analysis and corrective action; and • external loss databases are used to learn from the loss experience of other organisations and are also an input into the risk scenario process.	• risk scenarios are widely used to identify and quantify low-frequency, extreme loss events; • senior management actively participates in the biannual reviews; and • results are tabled at the appropriate risk committees and are used as input into the capital modelling process.

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

Operational risk events

As operational risk cannot be avoided or mitigated entirely, frequent events resulting in small losses are expected as part of business operations (e.g. external card fraud) and are budgeted for appropriately. Business units minimise these losses through continuously monitoring and improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur much less frequently and the group strives to minimise these and contain the frequency and severity of these within its risk appetite levels through appropriate controls. For the year under review, operational losses were within the group's operational risk appetite levels.

Operational risk management programme

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

OPERATIONAL RISK MANAGEMENT PROCESSES

	1 Business resilience	2 Legal risk	3 IT risks
Management	• Operations should be resilient to severe disruptions from internal failures or external events. • Business continuity strategies include regular review of business continuity plans and testing. • Disruptions or incidents are assessed and reported to the relevant risk stakeholders.	• Creation and ongoing management of contractual relationships. • Management of disputes. • Protection and enforcement of property rights (including intellectual property). • Failure to account for the impact of change in legislation or decisions by the courts. • Compliance with legislation managed by RRM.	• Protection of information systems against unauthorised access, destruction, modification and use. • Ensure confidentiality, availability and integrity of systems that maintain, process and disseminate this information.
Committees and frameworks	• Business resilience steering committee (a subcommittee of the ORC). • Practices are documented in the business resilience policy and standards.	• Legal risk committee (subcommittee of ORC). • Legal risk management framework.	• IT risk committee (subcommittee of ORC). • IT risk management framework and information security policy.

	4 Information governance	5 Fraud and security risks	6 Risk insurance
Management	• View information as a valuable asset. • Focus on quality and protection of information against unauthorised access, destruction, modification, use and disclosure. • Ensure confidentiality, availability, integrity, sensitivity and accountability of all information.	• Covers internal (staff) and external fraud. • Contain external fraud losses with enhanced controls and introduction of improved real time detection models. • Address the growing cybercrime threat with measures to improve resilience against weaknesses.	• Structured insurance risk financing programme in place for material losses from first party risks. • Annual review and renewal. • Insurance refined through risk profile assessment, change in group strategy or markets. • Cover for professional indemnity, directors' and officers' liability, crime, public and general liability, assets, etc. • Insurance not a mitigant in calculation of capital for operational risk.
Committees and frameworks	• Information governance committee (a subcommittee of the ORC). • Information governance framework and acceptable use of information resources policy.	• Fraud risk management function reporting to FNB CRO with a group mandate. • Fraud risk management framework.	• Cover through FirstRand Insurance Services Company (FRISCOL) (wholly-owned first-party insurance company).

REGULATORY RISK

INTRODUCTION AND OBJECTIVES

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

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

RRM OBJECTIVE AND APPROACH

OBJECTIVE	APPROACH
Ensure business practices, policies, frameworks and approaches across the group are consistent with applicable laws and that regulatory risks are identified and proactively managed.	• maintain an effective and efficient regulatory risk management framework with sufficient operational capacity to promote and oversee compliance with legislative and best practice requirements. • training of staff ensures a high level of understanding and awareness of applicable legal and regulatory frameworks pertaining to the group's business activities.

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

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

RRM assists senior management in effectively and expeditiously resolving all compliance issues identified in this context. This requires close cooperation with and interaction between RRM, other group and franchise functions, and various regulatory authorities.

The year under review

Banking legislation

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

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

Twin peaks

Twin peaks refers to the government policy paper which was published in February 2011, entitled *A safer financial sector to serve South Africa better*. The paper, commonly referred to as the *Red Book*, sets out initial proposals to reform South Africa's financial sector regulatory system and provides information on a wide-ranging set of reforms and proposals relating to, amongst others, the implementation of a twin peaks model of financial regulation in South Africa. National Treasury published a revised draft of the Financial Sector Regulation Bill and a discussion document *Treating Customers Fairly in the Financial Sector: A Market Conduct Policy Framework for South Africa*. The second draft of the Financial Sector Regulation Bill was published in March 2015.

The twin peaks approach will place equal focus on prudential and market conduct supervision with a separate focus on financial stability. In order to minimise the risks associated with the change, a phased in approach will be followed in respect of the implementation of the twin peaks system of financial regulation in South Africa. The group continues to work closely with regulators in this regard. The policy priorities identified in order to reform the financial sector, desired outcomes of the approach and phased in implementation are shown in the following diagram.

TWIN PEAKS POLICY PRIORITIES AND IMPLEMENTATION

Policy priorities

- Financial stability
- Consumer protection and market conduct
- Expanding access of financial services through inclusion
- Combating financial crime

Desired outcomes

- Financial systemic stability
- Strengthened financial regulatory system and structures
- Sound market conduct, micro- and macro-prudential regulation
- Strengthened operational independence, governance and accountability of regulators

Twin peaks implementation

Phase 1

- enactment of the Financial Sector Regulation Bill; and
- establishment of the required regulatory architecture.

Phase 2

- establishment of a target framework, which will include the development of the required legal frameworks for prudential and market conduct regulation; and
- introduction of new legislation and licencing procedures, where required.

Other regulatory developments and focus areas during the year under review are described in the following diagram.

REGULATORY DEVELOPMENTS AND RRM FOCUS AREAS

Protection of Personal Information Act (PoPI)

- PoPI provides for privacy and protection of personal information held by the group in respect of employees, customers and suppliers.
- Funding for the establishment of an information regulator was announced in May 2015 by the Department of Justice.
- The group continues to devote attention and resources to security safeguards, processing and purpose specification of personal information, quality of personal information held, customer notification and consent, third party processors of personal information and complaints handling.

Anti-money laundering and combating terrorist financing (AML/CFT) measures

- The group's objective is to ensure compliance with the provisions of AML/CFT legislation and other requirements pertaining thereto.
- The Financial Intelligence Centre Act (FICA) will be amended to align more closely with revised Financial Action Task Force recommendations.
- The draft Financial Intelligence Centre Amendment Bill, 2015 was published in April 2015.

National Environmental Management: Waste Act

- The group is participating in relevant industry forums focusing on problematic areas relating to certain provisions of Part 8 of the Waste Act.

Group ethics office

- Responsible for the group's ethics framework.
- Maintained focus on the promotion of responsible business and market conduct.
- Provides training on whistle-blowing, conflict of interests avoidance, antibribery and corruption.
- Conveys market conduct regulations and related industry best practice to franchises and business units.

The National Credit Amendment Act (the Amendment Act)

- The Amendment Act came into effect on 13 March 2015.
- Focus is on implementation of the governance arrangements aligned to the revised requirements.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

REGULATORY RISK GOVERNANCE STRUCTURE

FirstRand board

RCC COMMITTEE

AUDIT COMMITTEE

- receives regular reports on levels of compliance and instances of material non-compliance.

DIRECTORS' AFFAIRS COMMITTEE

SOCIAL AND ETHICS COMMITTEE

- oversight of governance and functioning of the group-wide ethics programme; and
- the code of ethics is the cornerstone of the group's ethics management framework.

RRM COMMITTEE →

- oversight of RRM function; and
- monitors implementation of the regulatory risk management framework.

AML COMMITTEE →

- oversight of AML function.

FRANCHISE COMPLIANCE OFFICERS →

- implement and monitor compliance policies and procedures related to the relevant franchise.

RRM FUNCTION →

- coordinates management of group regulatory risk;
- monitors, assesses and reports on the level of compliance to senior management and the board; and
- fulfils duties and responsibilities in line with requirements prescribed in regulation 49.

RRM has an independent reporting line to the group CEO as well as to the board through its designated committees.

ASSESSMENT AND MANAGEMENT

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

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

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

Public policy and regulatory affairs office

In line with the responsibilities of FirstRand as the group's holding company, the public policy and regulatory affairs office facilitates the process through which the board maintains an effective relationship with both local and international regulatory authorities for the group's regulated subsidiaries and branches. The office also provides the group with a central point of engagement, representation and coordination in respect of relevant regulatory and public policy related matters at a strategic level. This function is differentiated from the existing and continuing engagement with regulators at an operational level, i.e. regulatory reporting, compliance and audit. Its main objective is to ensure that group and franchise executives are aware of key developments relating to public policy, legislation and regulation, which are pertinent to the group's business activities. It also supports executives in developing the group's position on issues pertaining to government policy, proposed and existing legislation, and regulation.

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

REMUNERATION AND COMPENSATION

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

DEFINITIONS

Additional Tier 1 capital (AT1)	NCNR preference share capital plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions.
CAGR	Compound annual growth rate.
Capital adequacy ratio (CAR)	Capital divided by RWA.
Common Equity Tier 1 capital (CETI)	Tier 1 less Additional Tier 1 capital.
Common Equity Tier 1 capital	Share capital and premium plus accumulated comprehensive income and reserves plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specific regulatory deductions.
Cost-to-income ratio	Operating expenses excluding indirect taxes expressed as a percentage of total income including share of profits from associates and joint ventures.
Credit loss ratio	Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year).
Diversity ratio	Non-interest revenue expressed as a percentage of total income including share of profits from associates and joint ventures.
Dividend cover	Normalised earnings per share divided by dividend per share.
Effective tax rate	Tax per the income statement divided by the profit before tax per the income statement.
Exposure at default (EAD)	Gross exposure of a facility upon default of a counterparty.
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits.
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default.
Net income after capital charge (NIACC)	Normalised earnings less the cost of equity multiplied by the average ordinary shareholders' equity and reserves.
Normalised earnings	The group believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies.
Normalised earnings per share	Normalised earnings attributable to ordinary equityholders divided by the weighted average number of shares including treasury shares.
Normalised net asset value	Normalised equity attributable to ordinary equityholders.
Normalised net asset value per share	Normalised equity attributable to ordinary equityholders divided by the number of issued ordinary shares.
Price earnings ratio (times)	Closing price on 30 June divided by basic normalised earnings per share.
Price-to-book (times)	Closing share price on 30 June divided by normalised net asset value per share.
Probability of default (PD)	Probability that a counterparty will default within the next year (considering the ability and willingness of the counterparty to repay).

Return on assets (ROA)	Normalised earnings divided by average assets.
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders equity.
Risk weighted assets (RWA)	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets.
Shares in issue	Number of ordinary shares listed on the JSE.
Tier 1 ratio	Tier 1 capital divided by RWA.
Tier 1 capital	Common Equity Tier 1 capital plus AT 1 capital.
Tier 2 capital	Qualifying subordinated debt instruments plus qualifying capital instruments issued out of fully consolidated subsidiaries to third parties plus general provisions for entities on the standardised approach less regulatory deductions.
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital.
Weighted average number of ordinary shares	Weighted average number of ordinary shares in issue during the year as listed on the JSE.

ABBREVIATIONS

AIRB	Advanced internal ratings based approach
AMA	Advanced measurement approach
AVC	Asset value correlation
BIA	Basic indicator approach
BPRMF	Business performance and risk management framework
CVA	Credit value adjustment
ICR	Individual capital requirement
LCR	Liquidity coverage ratio
NOFP	Net open forward position in foreign exchange
NSFR	Net stable funding ratio
TSA	The standardised approach
VaR	Value-at-Risk