FirstRand

basel pillar 3 disclosure

FOR THE YEAR ENDED 30 JUNE 2022

contents

FirstRand Basel Pillar 3 disclosure

FirstRand

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

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

OVERVIEW OF THE FIRSTRAND GROUP

FirstRand's portfolio of integrated financial services businesses comprises FNB, RMB, WesBank and Aldermore. The group operates in South Africa, certain markets in sub-Saharan Africa and in the UK, and offers a universal set of transactional, lending, investment and insurance products and services.

FNB RMB WesBank Aldermore

Risk management overview

Introduction

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

> the Basel Committee on Banking Supervision's (BCBS's) revised Pillar 3 disclosure requirements (Pillar 3 standard); BCBS 309 (January 2015); the consolidated and enhanced framework BCBS 400 (March 2017); and the BCBS technical amendment on the regulatory treatment of accounting provisions (August 2018); and

> Regulation 43 of the Regulations relating to Banks (Regulations), issued in terms of the Banks Act 94 of 1990; *Directive 1 of 2019, Matters related to Pillar 3 disclosure requirement framework;* and all other Pillar 3 disclosure-related directives issued by the Prudential Authority (PA).

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

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

> the minimum disclosure requirements of the Regulations, standards and directives are met;

> disclosed information is consistent with the manner in which the board assesses the group's risk portfolio;

> the disclosure provides a true reflection of the group's financial condition and risk profile; and

> quantitative and qualitative disclosures are appropriately reviewed.

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

Group strategy

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

The group's long track record of delivering growth and superior returns is reflective of consistent execution on its core strategies. It also reflects the disciplined allocation of financial resources.

FirstRand's earnings remain tilted towards South Africa and are mainly generated by its large lending and transactional franchises, which have resulted in deep and loyal customer bases. These domestic banking operations are mature and systemically important. Against the prevailing backdrop of weak macroeconomic growth, given the group's size, any aspiration to outperform requires strategic distinction combined with sound execution. The key growth imperative in the domestic franchises is to grow customer numbers, do more business with customers, and do this more efficiently. The group is also investing in building capital-light revenues in adjacent activities such as insurance, and investment and asset management.

In the broader Africa portfolio, FirstRand remains focused on growing its presence and offerings in certain key markets where it believes it can build competitive advantage and scale over time. The group's expansion strategy has been largely organic, complemented where possible by bolt-on acquisitions. There is a strong focus on building in-country customer and deposit franchises.

The UK operations continue to offer significant optionality in a large market with attractive risk-adjusted returns. The combined businesses of Aldermore and MotoNovo have healthy margins, a diversified asset portfolio, a scalable savings franchise and small shares of deep profit pools. The group remains confident it can build a more valuable business in the UK over time.

Simplified group structure

FirstRand

LISTED HOLDING COMPANY (FIRSTRAND LIMITED, JSE: FSR)

100%	100%	100%	100%	100%	100%
FirstRand Bank Limited (FRB)	FirstRand EMA Holdings (Pty) Ltd (FREMA)	FirstRand International Limited (Guernsey) (FRI)	FirstRand Insurance Holdings (Pty) Ltd	FirstRand Investment Management Holdings Limited	FirstRand Investment Holdings (Pty) Ltd (FRIHL)
SA banking	*Broader Africa*	*UK banking and hard currency platform*	*Insurance*	*Investment management*	*Other activities*

SA banking – FirstRand Bank Limited (FRB)

- First National Bank*
- Rand Merchant Bank*
- WesBank*
- FirstRand Bank India**
- FirstRand Bank London**
- FirstRand Bank Guernsey**,†
- FirstRand Bank Kenya#
- FirstRand Bank Angola#
- FirstRand Bank Shanghai#

Broader Africa – FirstRand EMA Holdings (Pty) Ltd (FREMA)

58%	FirstRand Namibia
70%	FNB Botswana
100%	FNB Eswatini
100%	FNB Mozambique
100%	FNB Zambia
100%	FNB Lesotho
100%	First National Bank Ghana
100%	RMB Nigeria

UK banking and hard currency platform – FirstRand International Limited (Guernsey) (FRI)

100%	Aldermore Group
100%	Aldermore Bank‡
100%	MotoNovo Finance‡
100%	RMB International Mauritius
100%	FirstRand Securities
100%	RMB Securities (USA)^

Insurance – FirstRand Insurance Holdings (Pty) Ltd

100%	FirstRand Life Assurance
100%	FirstRand Short Term Insurance (STI)
100%	FirstRand Insurance Services Company (FRISCOL)

Investment management – FirstRand Investment Management Holdings Limited

100%	Ashburton Fund Managers
100%	Ashburton Management Company (RF)
100%	Ashburton Jersey
100%	FNB International Trustees
100%	FNB Investor Services
100%	FNB CIS Management Company (RF)
100%	Various general partners◊

Other activities – FirstRand Investment Holdings (Pty) Ltd (FRIHL)

100%	RMB Private Equity Holdings
100%	RMB Private Equity
100%	RMB Securities
50%	RMB Morgan Stanley
100%	RMB Investments and Advisory
100%	FNB Stockbroking and Portfolio Management
81%	MotoVantage
100%	Hyphen Technology
100%	FNB Fiduciary

** Division*
*** Branch*
 # Representative office
DirectAxis is a business unit of FirstRand Bank Limited.

† Trading as FNB Channel Islands.
‡ Wholly owned subsidiary of Aldermore Group.
^ Wholly owned subsidiary of FirstRand Securities.
◊ Ashburton Investments has a number of general partners for fund seeding purposes. All of these entities fall under FirstRand Investment Management Holdings Limited.

Note:
The operations of FNB Tanzania were taken over by Exim Bank on 7 July 2022.

Structure shows effective consolidated shareholding

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

Business activities and resultant risks

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

<table>
<tr><th></th><th>FNB</th><th>RMB</th><th>WesBank</th><th>Aldermore</th><th>FirstRand CORPORATE CENTRE</th></tr>
<tr><td>Key activities</td><td>Retail and commercial banking, insurance, and wealth and investment management</td><td>Corporate and investment banking</td><td>Instalment finance and short-term insurance (VAPS*)</td><td>Asset and invoice finance, commercial and residential mortgages, vehicle asset finance and deposit taking</td><td>Group-wide functions</td></tr>
<tr><td>Market segments</td><td>> Retail (entry to middle)
> Private (mass affluent to wealthy)
> Small business
> Agricultural
> Medium corporate
> Public sector</td><td>> Financial institutions
> Large corporates
> SOEs#</td><td>> Retail and commercial</td><td>> Retail and commercial</td><td>> Institutional (and internal/ intragroup)</td></tr>
<tr><td>Products and services</td><td>> Transactional
> Deposit services
> Mortgage and personal loans
> Credit and debit cards
> Investment products
> Insurance products (funeral, risk, credit life and short-term insurance products)
> Card acquiring
> Credit facilities
> Connect (MVNO**)
> Wealth and investment management</td><td>> Advisory
> Structured finance
> Markets and structuring
> Transactional banking
> Deposits
> Principal investing solutions and private equity</td><td>> Vehicle asset finance
> Full maintenance leasing
> VAPS (short-term insurance)
> Credit life</td><td>> Asset finance
> Invoice finance
> Commercial, buy-to-let and residential mortgages
> Vehicle asset finance (MotoNovo)
> Deposits</td><td>> Group asset/liability management
> Funding and liquidity management
> Funding instruments
> Capital management
> Capital instruments
> Foreign exchange management
> Tax risk management</td></tr>
<tr><td rowspan="8">Pillar 1 and Pillar 2 risks</td><td colspan="5">Credit risk</td></tr>
<tr><td colspan="5">Interest rate risk in the banking book</td></tr>
<tr><td colspan="5">Liquidity risk and funding</td></tr>
<tr><td colspan="5">Structural foreign exchange risk</td></tr>
<tr><td>Insurance risk</td><td>Traded market risk</td><td>Insurance risk</td><td></td><td></td></tr>
<tr><td></td><td>Counterparty credit risk</td><td></td><td></td><td></td></tr>
<tr><td colspan="5">Equity investment risk</td></tr>
<tr><td colspan="5">Operational risk (including IT and cyber risk)</td></tr>
<tr><td>Other risks</td><td colspan="5">Strategic, business, reputational, model, environmental and social, tax, compliance and conduct risks</td></tr>
</table>

* *Value-added products and services.*
** *Mobile virtual network operator.*
\# *SOEs = state-owned enterprises.*

Group risk profile

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

	YEAR ENDED 30 JUNE 2022	RISK MEASURES	YEAR UNDER REVIEW
GROWTH AND RETURNS	**Normalised ROE** 20.6% 2021: 18.4%	**Normalised ROE** Long-term target range **18% – 22%**	The 23% increase in the group's normalised earnings was driven by the materially lower cost of credit, which reflects origination strategies and the continued post-pandemic recovery across the jurisdictions in which the group operates. Topline growth was healthy, driven in particular by the rebound in non-interest revenue (NIR) and costs were well managed. Pleasingly, at 20.6%, the normalised return on equity (ROE) remains well situated in the target range of 18% to 22%. The group produced R10.1 billion of economic profit (2021: R4.9 billion), or net income after cost of capital (NIACC), which is its key performance measure. For further detail on financial performance refer to the FirstRand analysis of financial results for the year ended 30 June 2022 at https://www.firstrand.co.za/investors/financial-results/.
	Normalised earnings growth 23% 2021: 54%	**Normalised earnings growth** Long-term target **Real GDP growth plus CPI plus (>0% – 3%)**	
SOLVENCY*	**CET1** 13.9% 2021: 13.5%	**CET1** Target **11.0% – 12.0%**	The group's Common Equity Tier 1 (CET1) ratio strengthened further to 13.9% (2021: 13.5%), well above its internal target range. The group accreted both net asset value (NAV) and CET1 over the year as it continued its focus on the efficient use of financial resources and the optimisation of risk-weighted assets (RWA). The group continues to actively manage its capital composition and align its Additional Tier 1 (AT1) and Tier 2 levels with its internal targets. During the year under review, the bank issued R2.5 billion Tier 2 instruments in the domestic market to optimise its capital stack and manage the rollover of existing Tier 2 instruments. It remains the group's intention to continue optimising its regulatory capital composition by issuing AT1 and Tier 2 capital instruments in the domestic and/or international markets. This will ensure sustainable support for ongoing growth initiatives and redemption of existing capital instruments. The group's leverage ratio remained above its internal target.
	Tier 1 14.5% 2021: 14.1%	**Tier 1** Target **>12.0%**	
	Capital adequacy 16.7% 2021: 16.3%	**Capital adequacy** Target **>14.25%**	
	Leverage 8.0% 2021: 7.7%	**Leverage** Target **>5.5%**	
LIQUIDITY**	**LCR** 121% 2021: 113%	**LCR** Minimum regulatory requirement: **100%** 2021: 80%	The group exceeded the minimum liquidity coverage ratio (LCR) with an average LCR of 121% over the quarter ended 30 June 2022. At 30 June 2022, the group's average available high-quality liquid asset (HQLA) holdings amounted to R341 billion.
	NSFR 123% 2021: 123%	**NSFR** Minimum regulatory requirement: **100%**	The group exceeded the 100% minimum requirement with a net stable funding ratio (NSFR) of 123% at 30 June 2022.

* *Ratios including unappropriated profits.*

** *Ratios including all registered banks and foreign branches in the group.*

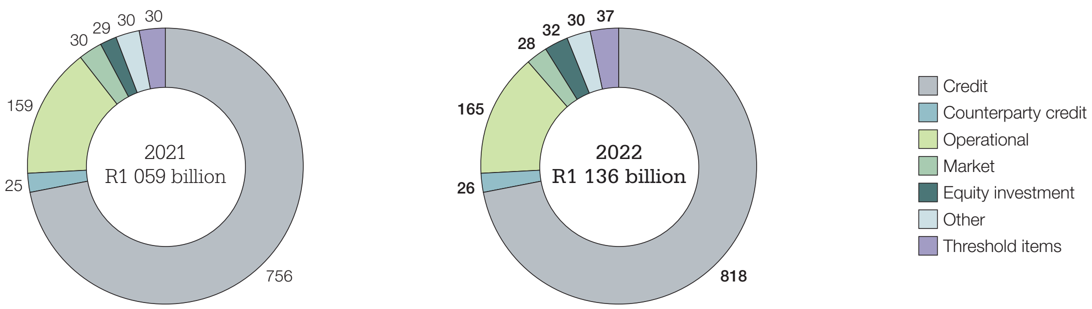
	YEAR ENDED 30 JUNE 2022	RISK MEASURES	YEAR UNDER REVIEW
EXPOSURES PER RISK TYPE	Credit risk	**NPLs as a % of core lending advances*** **3.88%** 2021: 5.02% **Credit loss ratio – core lending advances*** **56 bps** (including UK operations) 2021: 110 bps **61 bps** (excluding UK operations) 2021: 133 bps	The group's credit performance continues to improve, with a reduced credit loss ratio of 56 bps (2021: 110 bps) and all portfolios now at or below through-the-cycle levels. This underlying performance is in line with the group's origination strategies and was achieved despite ongoing uncertainties in the operating environment, most notably the impact of inflation and interest rate pressures that unfolded over the last quarter of the financial year. Given these uncertainties, balance sheet provision levels remained conservative against the in-force book as new origination adapts to macros dynamically. As such, management retained the stress scenario, albeit at a lower weighting of 8% (2021: 11%). Overall performing coverage on core lending advances decreased to 1.78% (2021: 2.02%), reflecting the year-on-year improvement in the macro environment, better staging of advances and measured origination. Non-performing loans (NPLs) decreased 16% year-on-year with NPLs as a percentage of core lending advances down to 3.88%, driven by write-offs, the curing of paying NPLs, slower inflows given conservative origination strategies, strong collections and advances growth.
	Market risk	**10-day ETL** **R670 million** 2021: R316 million	The interest rate and foreign exchange asset classes represented a significant portion of traded market risk exposure as at 30 June 2022. The increase in VaR/ETL for the year stems from volatile markets created by macroeconomic factors including supply chain disruptions from the Ukranian conflict and global monetary policy tightening to curb accelerating inflation.
	Equity investment risk	**Equity investment carrying value as % of Tier 1**** **8.9%** 2021: 9.1%	The 2022 year was characterised by acquisitions as the RMB Private Equity team focused on the deployment of capital. The portfolio continued to perform well as evidenced by an increase in the market value which has been driven predominantly by growth in earnings. Strong cash generation by portfolio companies has also resulted in capital being returned to shareholders. The unrealised value of RMB Private Equity's portfolio as at 30 June 2022 was R5.9 billion (2021: R4.4 billion). The June 2021 value was restated to include equity investments in funds. The movement in the carrying value as a % of Tier 1 capital was due to an increase of capital relative to exposure value.
	Interest rate risk in the banking book	**Net interest income sensitivity** **Down 200 bps** **-R1.03 billion** 2021: -R2.4 billion **Up 200 bps** **R663 million** 2021: R1.5 billion	The group's average endowment book (excluding UK operations) was R335 billion. The banking book regulatory assumptions have been applied on a contractual basis and assumes that demand deposits behave contractually, there is no management action in response to interest rate movements, and an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month net interest income (NII) of R1.03 billion. A similar increase in interest rates would result in an increase in projected 12-month NII of R663 million. The NII sensitivity is represented on a regulatory basis, however, FirstRand employs a behavioral and stress analysis to guide its asset-liability management (ALM) strategies. The reduction in NII sensitivity calculated using the regulatory basis was a direct result of implementing these strategies.

* *Restated. Core lending advances exclude assets under agreements to resell.*

** *Excluding unappropriated profits.*

The group's RWA distribution shows that credit risk and operational risk remain the most significant contributors to the group's overall risk profile.

FirstRand RWA analysis



Bank risk profile

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

The 30% increase in the bank's normalised earnings was driven by the materially lower cost of credit, which reflects origination strategies and the continued post-pandemic recovery across the jurisdictions in which the bank operates. Topline growth was healthy, driven in particular by the rebound in NIR and costs were well managed. The bank delivered an ROE of 23.4%.

	YEAR ENDED 30 JUNE 2022	RISK MEASURES	YEAR UNDER REVIEW
SOLVENCY*	**CET1** 14.2% 2021: 14.5%	**CET1** Target **11.0% – 12.0%**	The bank's CET1 ratio remained strong at 14.2% (2021: 14.5%) and is well above its internal target range. The bank continues to actively manage its capital composition and align its AT1 and Tier 2 levels with its internal targets. During the year under review, the bank issued R2.5 billion Tier 2 instruments in the domestic market to optimise its capital stack and manage the rollover of existing Tier 2 instruments. The bank's leverage ratio remained above its internal target.
	Tier 1 14.9% 2021: 15.2%	**Tier 1** Target **>12.0%**	
	Capital adequacy 17.7% 2021: 17.8%	**Capital adequacy** Target **>14.25%**	
	Leverage 7.2% 2021: 7.4%	**Leverage** Target **>5.5%**	
LIQUIDITY**	**LCR** 124% 2021: 117%	**LCR** Minimum regulatory requirement: **100%** 2021: 80%	The bank exceeded the minimum LCR with an average LCR of 124% over the quarter ended 30 June 2022. At 30 June 2022, the bank's average available HQLA holdings amounted to R304 billion.
	NSFR 120% 2021: 122%	**NSFR** Minimum regulatory requirement: **100%**	The bank exceeded the 100% minimum requirement with an NSFR of 120% at 30 June 2022.

* *Relates to FRB including foreign branches and unappropriated profits.*

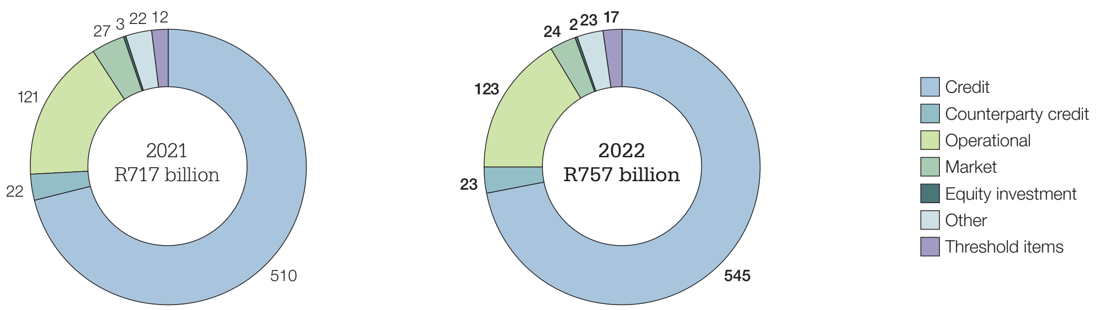
** *Ratios relate to FRBSA.*

	YEAR ENDED 30 JUNE 2022	RISK MEASURES	YEAR UNDER REVIEW
EXPOSURES PER RISK TYPE	Credit risk	**NPLS as a % of core lending advances*** **4.26%** 2021: 5.63%	The bank's credit performance continues to improve, with a reduced credit loss ratio of 68 bps (2021: 130 bps) and all portfolios now at or below through-the-cycle levels. This underlying performance is in line with the bank's origination strategies and was achieved despite ongoing uncertainties in the operating environment, most notably the impact of inflation and interest rate pressures that unfolded over the last quarter of the financial year. Given these uncertainties, balance sheet provision levels remained conservative against the in-force book as new origination adapts to macros dynamically. As such, management retained the stress scenario, albeit at a lower weighting of 8% (2021: 11%). Overall performing coverage on core lending advances decreased to 1.80% (2021: 2.14%), reflecting the year-on-year improvement in the macro environment, better staging of advances and measured origination. NPLs decreased 17% year-on-year with NPLs as a percentage of core lending advances down to 4.26%, driven by write-offs, the curing of paying NPLs, slower inflows given conservative origination strategies, strong collections and advances growth.
		Credit loss ratio – core lending advances* **68 bps** 2021: 130 bps	
	Market risk	**10-day ETL** **R666 million** 2021: R296 million	The interest rate and foreign exchange asset classes represented a significant portion of traded market risk exposure as at 30 June 2022. The increase in VaR/ETL for the year stems from volatile markets created by macroeconomic factors including supply chain disruptions from the Ukrainian conflict and global monetary policy tightening to curb accelerating inflation.
	Interest rate risk in the banking book	**Net interest income sensitivity** **Down 200 bps** **-R277 million** 2021: -R1.6 billion **Up 200 bps** **R102 million** 2021: R1.1 billion	The bank's average endowment book was R330 billion. The banking book regulatory assumptions have been applied on a contractual basis and assumes that demand deposits behave contractually, there is no management action in response to interest rate movements, and an instantaneous, sustained parallel 200 bps decrease in interest rates would result in a reduction in projected 12-month NII of R277 million. A similar increase in interest rates would result in an increase in projected 12-month NII of R102 million. The NII sensitivity is represented on a regulatory basis, however, FirstRand employs a behavioral and stress analysis to guide its ALM strategies. The reduction in NII sensitivity calculated using the regulatory basis was a direct result of implementing these strategies.

* *Restated. Core lending advances excludes assets under agreements to resell.*

The bank's RWA distribution shows that credit risk and operational risk remain the most significant contributors to the bank's overall risk profile.

FRB RWA analysis



Current and emerging risks and opportunities

The impact of Covid-19 on the global risk landscape subsided during the year under review. In South Africa, the fourth and fifth waves of the pandemic were significantly less severe than prior waves, with lower levels of hospitalisation and fatalities, limited disruption to businesses, and no material intervention by the government to curb social and economic activity. The improved economic conditions supported a recovery in household and corporate incomes and lower levels of bad debts.

As economies began to recover, inflationary concerns came to the fore, driven by higher levels of demand, supply chain constraints and accommodative monetary policies that were put in place to buffer the effects of Covid-19. These inflationary effects were further exacerbated by the Ukrainian conflict, which resulted in higher energy and commodity prices.

In addition to geopolitical and macroeconomic recessionary risks, FirstRand's active tracking of emerging risks (summarised below) highlights some consistent trends, including the heightened level of cyber threats, and the continued emergence of climate transition and physical risks over the next three years. The risks identified below align with those included by the South African Reserve Bank (SARB) in their 2022 risk and vulnerability matrix.

Additional context is provided below on risks that are likely to have a material impact on the group, or that are recurring over the contemplated time horizon.

EMERGING RISKS

	PROBABLE RISKS	POSSIBLE RISKS
CURRENT	Inflation and global recession	Cyber risk
	Increase in internal fraud	Social unrest
	Heightened operational strain	Political instability
	Increase in regulatory action	State capture findings
	Financial Action Task Force (FATF) grey listing	
FUTURE 1-3 YEARS	Climate transition risk	Sovereign debt quality deterioration
	Greenwashing risk	Nature and biodiversity risk
		Bank sovereign nexus
		Cyber risk
		Slow growth and increased inequality
		Talent and skills gap

Material impact · Moderate impact · Low impact

Macro economic · Socio-political · Environmental · Technological · Regulatory

Socio-political risks

Continued geopolitical conflict – Ukrainian conflict

The ongoing Ukrainian conflict, and actions surrounding it, have had knock-on effects on global commodity markets. The increase in commodity prices represents a reallocation of income from commodity consumers to commodity producers. So far, this has been a net positive for South Africa, with the rise in energy costs being offset by higher palladium, platinum and gold prices. The impact of the conflict on inflation has, however, accelerated the global interest rate and monetary policy considerations discussed in the macroeconomic risk section below.

The direct impact on FirstRand has largely been limited to client desirability, sanctions and reputational considerations as the group historically has not done, and does not do business directly with Russian entities due to past sanctions and other elevated risk profile considerations. Following the Ukrainian conflict, the group developed and agreed on principles for dealing with Russia and Russian counterparts. These principles further reduced FirstRand's risk appetite in this area. An assessment of potential cyber risk exposure as a result of the conflict revealed no significant concern, but continues to be monitored.

Macroeconomic risks

Inflation and global recession risks

The Ukrainian conflict is an important risk factor that continues to pose upside risk to inflation and downside risk to growth. Accordingly, developed market central banks remain on track to increase interest rates to manage longer-term inflation expectations lower. Similarly, South African inflation remains elevated, driven by food and energy prices. Although the rate of increase in prices is expected to peak in the second half of the current calendar year, upside risk to the repo rate forecast could materialise if inflation expectations lift by more than expected and/or inflation remains sticky.

Global economic growth continues to slow while the sectoral composition of activity continues to shift from goods towards services sectors. Certain recession indicators have started to suggest that the probability of recession in several large developed markets is increasing. Fiscal policy in developed markets, however, remains supportive and plans to reduce fiscal stimulus are being challenged by the need to shield consumers from the impacts of slowing growth and higher inflation. The complexity of these policy signals, combined with a significant increase in geopolitical risk, is likely to continue to drive market volatility.

FirstRand has updated its credit risk appetite in light of the changing macroeconomic environment. The enhanced framework provides a monitoring and forward-looking measurement mechanism that facilitates origination strategies by enabling proactive adjustments based on changing macroeconomic factors and utilisation of capacity.

Anti-money laundering

The FATF grey list comprises jurisdictions under increased monitoring that are actively working with the FATF to address strategic deficiencies in their regimes to counter money laundering, terrorist financing and proliferation financing. Grey listing often results in a short-term disruption to capital inflows for affected countries, as well as higher transactional, administrative and funding costs. As a result of gaps identified in the FATF's mutual evaluation report, South Africa has been asked to improve its capacity to track and prosecute money laundering and terrorist financing or face grey listing.

FirstRand is an active participant in the government-led coordinated response to address the deficiencies identified, improve anti-money laundering controls, and counter the financing of terrorism.

Bank-sovereign nexus

Globally, the rapid increases in the financial sector-sovereign nexus has been a matter of concern since the late 2000s. Banks have been holding higher levels of domestic sovereign debt amidst a decline in the credit quality of many sovereigns.

Although holdings of government securities by the South African banking sector have also increased over time, especially during the Covid-19 pandemic, the country is not an outlier compared to international norms. The exposure levels will continue to be monitored to ensure that the group does not become an outlier from a market or credit risk perspective.

Technological risks

Cyber risk

Cyber risk remains a high-priority focus area. The global cyber threat landscape increased during the Covid-19 pandemic due to factors such as remote working and other changes. In addition, there has been a rise in nation state cyber-warfare risks in recent years as well as increased exposure through third-party service providers, innovation and new business models for ransomware and cybercrimes, elevated threats to cloud environments, and fewer barriers to entry for cybercrimes. As a result, several successful cyberattacks have manifested, targeting South African private and public sector entities.

Discussions with cyber risk reinsurers confirmed that they continue to see increasing claims globally emanating from ransomware incidents. This is likely to impact the level of cover obtainable and/or premiums going forward.

Cyber risk is actively monitored by FirstRand's threat intelligence capabilities and toolsets to identify any elevated threat activity to the local industry or to FirstRand. To date, notwithstanding the heightened global threat landscape, there has been no indication of an increased cyber threat directed specifically at the group.

The group has further bolstered its cyber risk capabilities by investing in additional resources, strengthening the second-line cyber risk functions (including oversight, assurance and framework), and implementing a standalone cyber risk appetite framework in the year under review.

Environmental risks

Climate risk

Climate change risks do not represent a standalone new risk category, but can rather be an amplifying factor for other risk types. Climate change presents a complex set of interconnected outcomes, with financial and operational risks emanating from two primary channels:

> **Physical risks:** Over the long term, climate change will result in both acute events (e.g. increased severity and frequency of extreme weather phenomena) and chronic environmental changes (e.g. sustained higher temperatures), which may lead to operational and credit risks.

> **Transitional risks:** In the short term, changes in client behaviour, regulatory interventions and investor preferences for less carbon-intensive assets and products may result in elevated market, reputational or legal risks for the group. In the long term, transitioning to a less carbon-intensive economy will likely entail significant legal, technological and policy changes, which may be disruptive to established business models.

FirstRand's approach to climate risk assessment continues to evolve, aligned to global advances in data availability and transition pathways. This approach is comprehensively explained in the group's Task Force on Climate-related Financial Disclosure (TCFD) report which is available on the group's website at https://www.firstrand.co.za/investors/annual-reporting/.

Over the 2022 financial year significant progress has been made on the following:

> engaging with clients on their approach to, preparedness for and financial needs relative to climate change mitigation and/or adaptation requirements;

> the rollout of sustainable finance and energy and water financing solutions; and

> further building capacity to address both climate risks and opportunities across the group.

Nature and biodiversity risk

The global economy depends on natural capital. The world of nature is in crisis and these resources are declining at a rapid pace with the human race having already crossed four of the nine planetary boundaries, processes that are critical for the maintenance of the earth's stability. Nature-related risk and climate risk are at the top of the agenda of the World Economic Forum.

There are five main drivers of nature change, namely climate change, resource exploitation, land and sea use change, pollution and invasive alien species. There is a direct relation between climate change and natural capital loss, resulting in nature-related financial risks. Other causes of nature-related financial risks include man-made interventions like pollution, deforestation, and unsustainable agricultural practices, amongst others. As natural capital declines, the capacity of nature to provide ecosystem services may be reduced temporarily or permanently.

Financial risks to the group are the result of impacts and/or dependencies on nature, including but not limited to a potential financial loss resulting from negative impacts on nature, through regulation, market access or otherwise, and the costs stemming from the loss of certain key ecosystem services on which the group's clients depend. A full analysis of impacts and dependencies can also present opportunities, such as the potential financial benefits resulting from positive impacts on nature or the strengthening of nature on which an organisation depends.

Risk management approach

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

The group believes a strong balance sheet and resilient earnings streams are key to sustainability. FirstRand's businesses have consistently executed on a set of strategies which are aligned to group financial resource management (FRM) principles and frameworks designed to ensure earnings resilience and growth, superior returns, balance sheet strength, an appropriate risk/return profile and an acceptable level of earnings volatility under adverse conditions. These deliverables are underpinned by core frameworks set at the Centre to ensure financial discipline, and incorporate risk appetite and FRM into long-term strategic planning and tactical decision-making. These frameworks are outlined in the table below.

RETURN AND RISK APPETITE FRAMEWORK	RISK MANAGEMENT FRAMEWORKS	FRM FRAMEWORKS	PERFORMANCE MEASUREMENT FRAMEWORK
> Outlines quantitative return and risk appetite measures to balance the trade-off between returns, growth and risk in decision-making. > Ensures appropriate behaviour and conduct through strong qualitative risk appetite principles supporting the group's risk culture. > Links group strategy to the allocation of risk capacity.	> Ensure material risks are identified, measured, monitored, mitigated and reported. > Assess impact of the cycle on the group's portfolio. > Ensure risk is understood and appropriately priced for. > Originate within cycle-appropriate risk appetite and volatility parameters.	> Execute sustainable funding and liquidity strategies. > Protect credit ratings. > Ensure the group remains appropriately capitalised with an efficient capital structure with appropriate/conservative gearing. > Ensure discipline in the allocation and pricing of financial resources. > Preserve balance sheet strength to be able to absorb shocks through the cycle. > Ensure that group delivers on commitments to stakeholders at a defined confidence level.	> Allocates capital appropriately. > Measures business delivery on a risk-adjusted basis. > Cascades group targets to business activities. > Sets appropriate pricing principles to drive return profile. > Drives economic value creation, which is defined as NIACC, the group's key performance measure.

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

Risk taking is an essential part of the group's business and the group explicitly recognises core risk competencies as a key differentiator and competitive advantage. These core risk competencies include identifying, assessing, measuring, monitoring and managing risk, and are integrated in all management functions and business areas across the group.

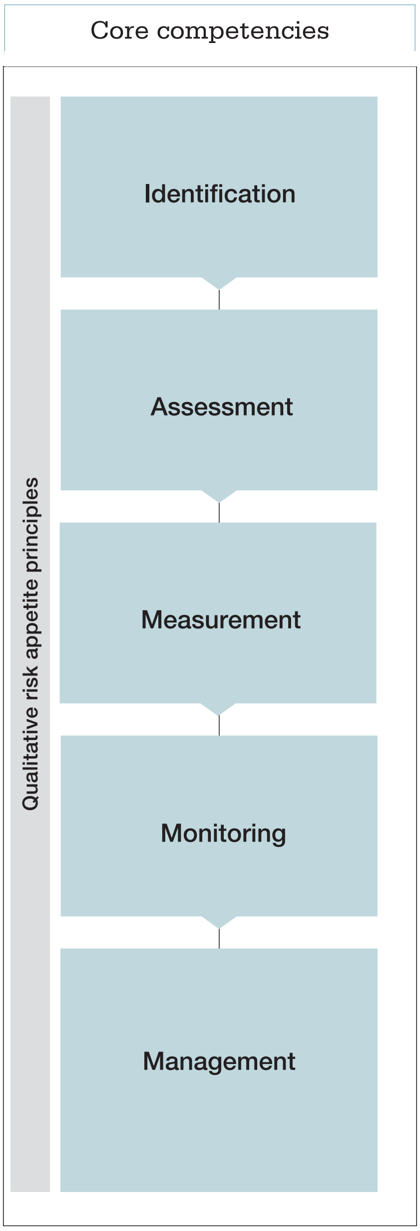
The risk management process provides the checks and balances necessary to ensure sustainability and performance, create opportunities, achieve desired objectives, and avoid adverse outcomes and reputational damage.

A business can profit from taking risks, but will only generate an acceptable profit commensurate with the associated risk if these risks are properly managed and controlled. The group's aim is not to eliminate risk, but to achieve an appropriate balance between risk and reward. This balance is achieved by controlling risk at the level of individual exposures, at portfolio level, and across all risk types and businesses through the application of the return and risk appetite framework. The group's return and risk appetite framework enables organisational decision-making and is aligned with FirstRand's strategic objectives. Refer to page 24 for more detail on the group's return and risk appetite framework.

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

CORE RISK COMPETENCIES AND KEY RISKS

Risk limits for all risk types are integral to risk management and are instrumental in constraining risk taking within appetite. Qualitative risk appetite principles are designed to support a good risk culture in the group and provide a strong foundation to ensure appropriate behaviour and conduct. The risks, and the roles and responsibilities of the various stakeholders across business, support and control functions are described in the group's risk management framework.



Principal risks	Supporting risks
Liquidity risk	> Funding liquidity risk > Market liquidity risk
Credit risk	> Pre-settlement risk > Country risk > Credit default risk > Concentration risk > Securitisation risk > Large exposure risk
Counterparty credit risk	> Counterparty credit risk
Traded market risk	> Interest rate risk in the trading book > Traded equity and credit risk > Foreign exchange risk > Commodity risk
Non-traded market risk	> Interest rate risk in the banking book > Structural foreign exchange risk
Equity investment risk	> Price risk > Equity investment liquidity risk
Operational risk	> Internal and external fraud risk > People risk > Information technology risk > Information risk > Legal risk > Business resilience risk > Process risk > Cyber risk > Third-party risk
Other risks	> Insurance risk
	> Model risk
	> Tax risk
	> Compliance and conduct risk
	> Strategic risk
	> Business risk: – Volume and margin changes – Expansion activities
	> Reputational risk
	> Environmental, social and climate risk
	> Step-in risk

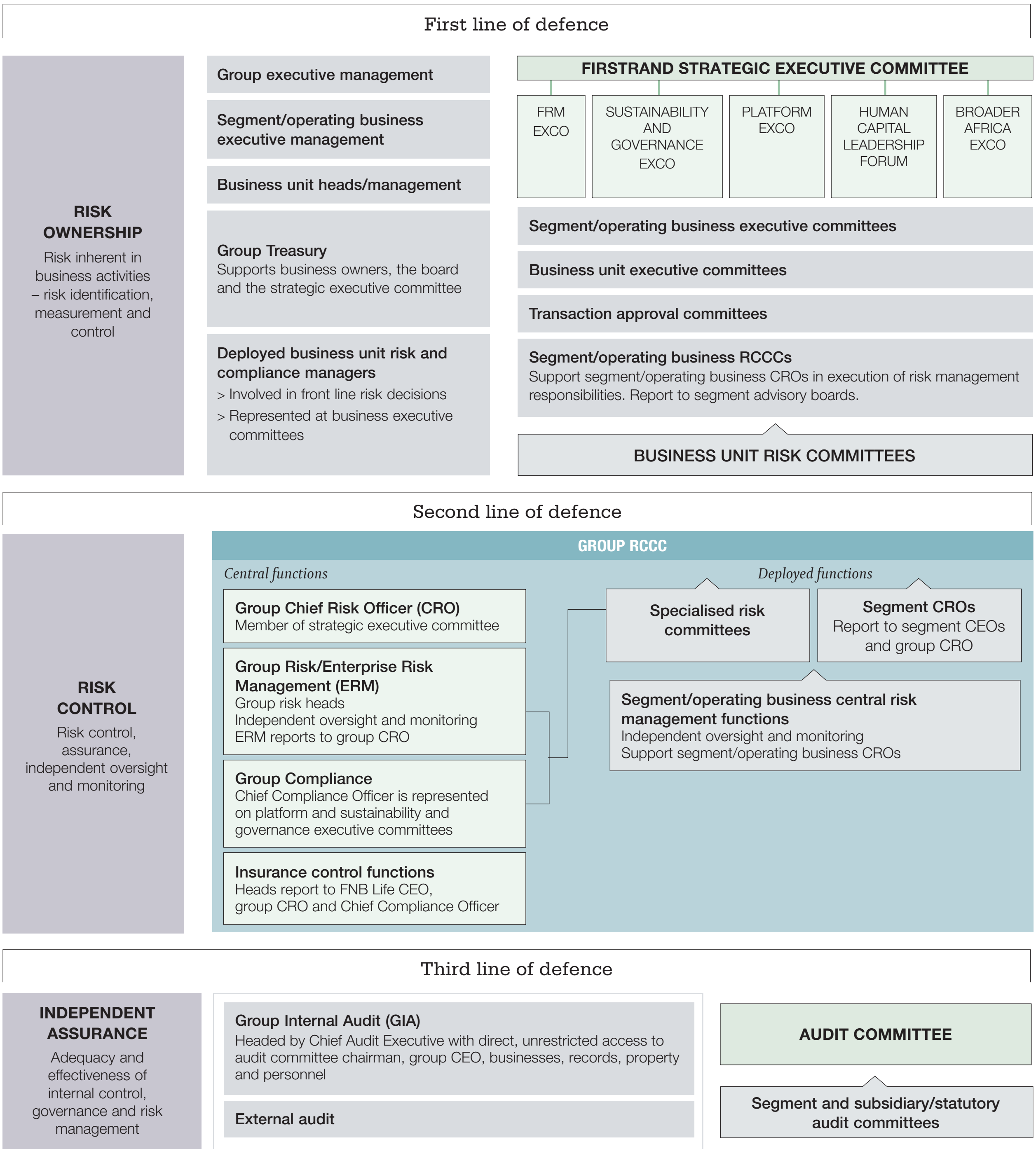
Risk governance

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

Risk governance framework

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

LINES OF RISK DEFENCE



Risk governance structure

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

The primary board committee overseeing risk matters across the group is the RCCC. It has delegated responsibility for a number of specialist topics and key risk types to various risk subcommittees.

The RCCC and its delegated subcommittees represent the group's risk governance structure with appropriate decision-making mandates. Segment/operating business risk and governance committees support the RCCC by:

> providing executive risk oversight for segment CEOs and CROs from a risk and governance perspective; and

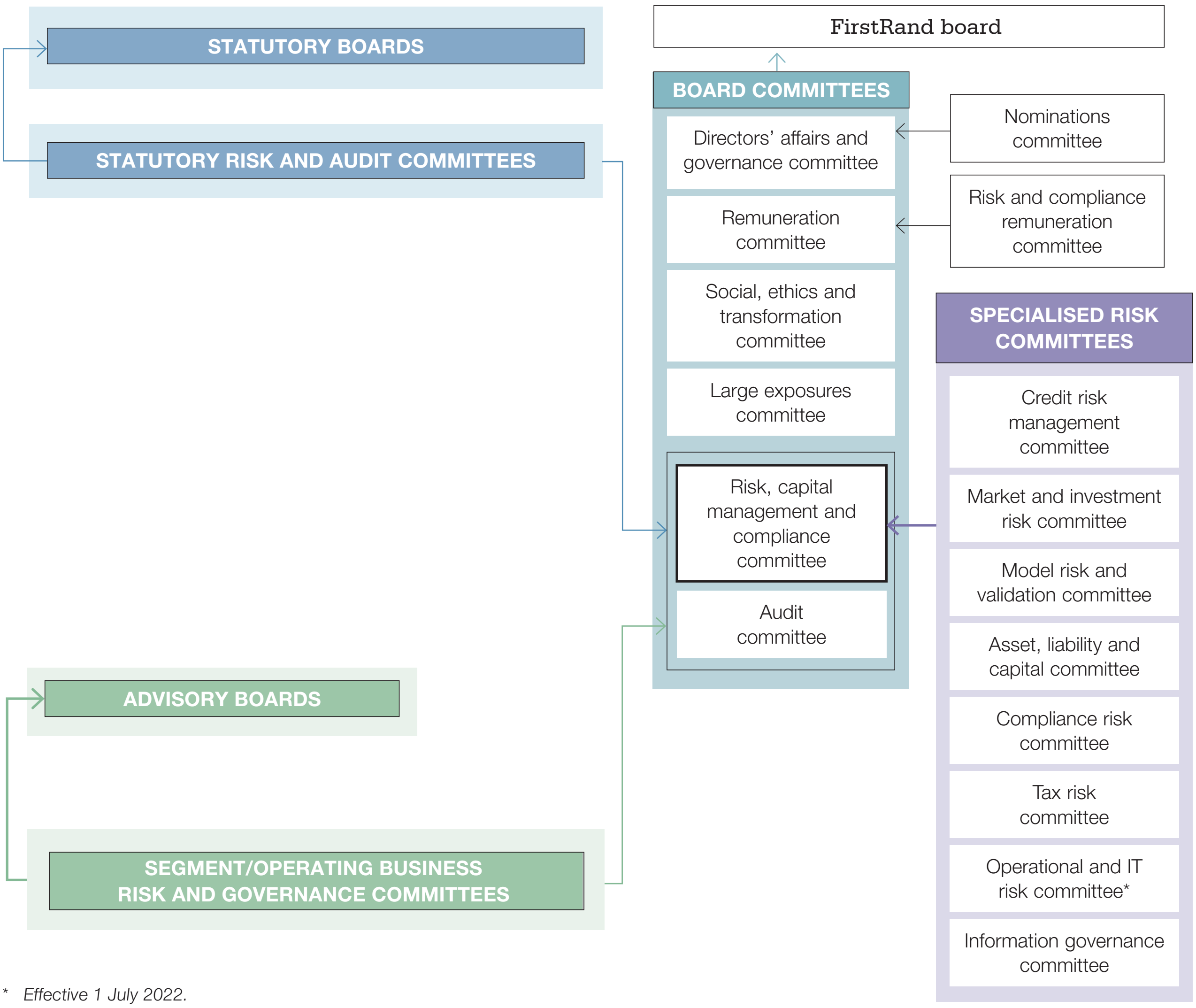
> providing a systematic screening mechanism to filter and escalate material risk concerns into the RCCC and its delegated subcommittees.

Non-executive directors are members of the group and segment/operating business risk and governance committees as independent contributors of specialist oversight and specialised knowledge where required, e.g. model validation, cyber risk and climate risk. Additional support is provided by more specialist risk committees, including the investment management, insurance, and broader Africa risk committees. Statutory risk and audit committees exist where there are separate legal entity or jurisdiction requirements, e.g. Aldermore and FirstRand Investment Management Holdings. These committees report to the statutory boards.

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

Further details on the roles and responsibilities of the RCCC and its subcommittees relating to each risk type are provided in the major risk sections of this report. The following diagram illustrates how the risk committees fit into the board risk committee structure and the risk coverage of each committee.

RISK GOVERNANCE STRUCTURE



* *Effective 1 July 2022.*

BOARD RISK COMMITTEES' RESPONSIBILITIES

COMMITTEE	RESPONSIBILITIES
Audit committee	> Assists the board with its duties relating to the safeguarding of assets, the operation of adequate systems and controls, and the assessment of going-concern status, and ensures that relevant compliance and risk management processes are in place. > Oversees and reviews work performed by the external auditors and internal audit function. > Oversees financial risks and internal financial controls, including the integrity, accuracy and completeness of financial information, annual financial statements and the annual integrated report, which are provided to shareholders and other stakeholders.
Risk, capital management and compliance committee	> Approves group risk management policies, frameworks, strategies and processes, including its subcommittees' charters and membership. > Delegates the approval of risk-type frameworks and policies to the RCCC subcommittees. > Monitors management and containment of risk exposures within the return and risk appetite framework and the group risk management framework. > Monitors the implementation of risk and compliance management approaches and processes, risk appetite limits and the effectiveness of risk management of existing and emerging risks. > Approves, ratifies and monitors corrective risk management initiatives by management. > Monitors that the group takes appropriate action to manage its compliance, conduct and prudential risks, and complies with applicable laws, rules, codes and standards. > Approves regulatory capital models, risk and capital targets, limits and thresholds. > Monitors capital adequacy and ensures that a sound capital management process exists. > Reports on assessment of the adequacy and effectiveness of risk appetite, risk management, BCBS 239, the group's internal capital adequacy assessment process (ICAAP) and compliance processes. > Oversees the group's climate change risk management programme and approves the TCFD report (jointly with the group social, ethics and transformation committee (SETCOM)).
Large exposures committee	> Reviews and approves applications and/or renewals for investments, advances or other credit instruments in excess of 10% of the group's qualifying Tier 1 capital and reserves. > Reviews and approves transactions with a related party and the write-off of any related party exposure exceeding 1% of the group's qualifying CET1 capital and reserve funds. > Reviews and approves applications and renewals outside the mandate of the wholesale credit approval committee. > Delegates the mandate for approval of group and individual facilities to the wholesale credit approval committee, the commercial credit approval committee and the retail credit policy and risk appetite approval committee, as appropriate.

RESPONSIBILITIES OF RCCC SUBCOMMITTEES

COMMITTEE	RESPONSIBILITIES
Credit risk management committee	> Approves the group’s credit risk management framework and related credit risk frameworks. > Monitors the quality of in-force business and business origination in terms of the group’s view of the macroeconomic outlook. > Ensures the uniform interpretation of credit regulatory requirements and an acceptable standard of credit reporting. > Initiates and monitors corrective actions, where required. > Reviews and debates results of credit loss forecasting, scenario analysis, stress testing and economic capital utilisation. > Performs a formal six-monthly review and oversight jointly with Group Finance on the group and segments' credit impairments results, coverage levels and disclosures. > Reviews and sets the group’s credit risk appetite statement and monitors compliance, approves prudential limits and monitors performance relative to prudential limits and segment risk limits. > Ensures that the direct and indirect implications of climate risk are considered in the portfolio, specifically pertaining to credit risk management. > Monitors the group’s ongoing compliance with the principles and requirements stipulated in the group’s risk data aggregation and reporting requirements framework, in line with BCBS 239 requirements.
Market and investment risk committee > Traded market risk > Equity investment risk > Counterparty credit risk	> Approves market, investment and counterparty credit risk management frameworks, policies, standards and processes. > Monitors the market, investment and counterparty credit risk profile and the effectiveness of related risk management processes. > Monitors the implementation of corrective action, where required. > Approves market, investment and counterparty credit risk-related limits.
Model risk and validation committee	> Approves model risk management frameworks, policies and standards as well as model risk tolerance. > Considers and approves all material aspects of model governance and validation processes, including but not limited to those processes related to credit risk rating and estimation, internal models for market risk and advanced measurement operational risk models. > Monitors the group’s model risk profile, including ensuring that models are within risk tolerance. > Monitors material model risk issues and associated corrective actions.
Asset, liability and capital committee (ALCCO) > Liquidity risk and funding > Capital management > Interest rate risk in the banking book > Structural foreign exchange risk	> Approves and monitors effectiveness of management policies, assumptions, limits and processes for liquidity risk and funding, capital and non-traded market risk. > Monitors the group’s funding management. > Monitors capital management including level, composition, supply and demand of capital, and capital adequacy ratios. > Approves frameworks and policies relating to internal funds transfer pricing for the group. > Provides oversight of balance sheet management.
Compliance risk committee	> Approves compliance risk management frameworks, including anti-money laundering and combating the financing of terrorism (AML/CFT) frameworks; coverage plans; related risk management policies; standards and governance arrangements. > Monitors the effectiveness of compliance risk management across the group and recommends corrective action, where required. > Assists the board of directors in relation to compliance related matters.
Tax risk committee	> Sets tax strategy and tax risk appetite. > Approves tax risk management frameworks and policies. > Monitors tax risk assessments and risk profiles. > Escalates relevant risk items to the RCCC.

COMMITTEE	RESPONSIBILITIES
Operational and IT risk committee*	> Monitors the effectiveness of the implementation and oversight of operational and IT risk (including cyber risk) management. > Initiates such actions and issues instructions as may be appropriate to improve the overall status of operational and IT (including cyber) risk. > Implements a delegation framework to enable management forums to ensure that all the key suboperational risk types are properly managed and monitored within risk management and monitoring structures. > Approves the group's operational risk appetite. > Monitors the group, segment and operating business risk profiles against operational risk appetite and escalates relevant risks to RCCC timeously. > Approves operational and IT risk management frameworks, policies and meeting charters (e.g. integrated crime, protective security, legal risk, business resilience risk and vendor risk).
Information governance committee	> Monitors the development and implementation of an appropriate information governance framework (including policies, standards and guidelines). > Initiates appropriate actions to improve group information governance. > Monitors the development and implementation of the group's data strategy and provides feedback to RCCC on implementation status.

* *Effective 1 July 2022.*

Combined assurance

The audit committee oversees formal group-wide governance structures for enhancing the practice of combined assurance at both group and segment/operating business levels. The primary objective is for assurance providers to work with management to deliver appropriate, cost-effective assurance on top-of-mind risks. Assurance providers in this model include GIA, senior management, ERM, Group Compliance and the external auditors. Appropriate consistency across methodologies which govern independent oversight, review, validation and audits performed by the respective assurance providers ensures a high standard in the operational and process components of the group's risk and assurance functions.

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

Enhancements of the combined assurance process are ongoing to ensure greater efficiency through reducing duplication, as well as more focused and appropriate risk-based assurance coverage of key risk themes and control areas, and heightened awareness of emerging risks. These result in the implementation of appropriate action plans.

Risk information reporting

Process of risk reporting

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

Reporting of risk information follows the governance structure illustrated on page 15. Specialist risk committees and segment/operating business risk and compliance committees report to the RCCC and its subcommittees. Relevant executive committees receive reports on the risk profile, material risk exposures, risk-adjusted business performance and key risk issues. The RCCC submits reports to the board and highlights control issues to the audit committee.

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

The RCCC submits reports to the board on:

- the macroeconomic house view, emerging external risks likely to affect the group and top-of-mind internal risks;
- the group's risk profile, significant issues, key risk exposures, risk rating trends, risk appetite principles and board risk limits;
- the effectiveness of corporate governance, risk management, capital management and capital adequacy;
- the level of compliance or non-compliance with laws, regulations and supervisory requirements;
- material internal control or regulatory malfunction;
- contravention of codes of conduct, personal trading, or unethical behaviour; and
- limits, authorities and delegations granted to the RCCC.

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

Scope and content of risk reporting

Risk reports to the board, board risk committees, segment/operating business risk committees and senior management include the following:

- risk exposure and risk-adjusted business performance;
- feedback on implementation and monitoring of risk management processes;
- comparison of risk management performance against risk appetite, limits and indicators;
- periodical reviews of progress against and deviations from the risk management plan;
- changes in the external or internal environment and their potential impact on the group's risk profile;
- the impact of climate changes on the risk profile of the group;
- an assessment of whether risk responses are effective and efficient in design and operation;
- tracking of the implementation of risk responses;
- analysis and lessons learnt from significant audit findings, changes, trends, successes, failures and events; and
- the identification of emerging risks.

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

ERM ensures (and GIA provides periodic assurance) that all policies, processes and systems are adequately designed and effectively implemented for pertinent risk information to be accurately captured, evaluated and escalated appropriately and timeously. This forms part of risk maturity assessments which outcomes are shared with relevant RCCC subcommittees. This enables the board and its designated committees to retain effective control over the group's risk position.

Risk data aggregation and risk reporting

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

The principle-based nature of BCBS 239 presents challenges to banks across the world to demonstrate compliance efforts to comply with the principles without clear regulatory or industry compliance standards. FirstRand embarked on a multi-year implementation programme and developed a risk data aggregation and risk reporting (RDARR) framework to define the scope of compliance and ensure that the implementation remains comprehensive and aligned with the group's business activities. BCBS 239 introduces key information management principles into regulation and these have been incorporated into the group's information governance and risk management frameworks as required.

FirstRand regards data as a strategic asset and, as such, the implementation of RDARR requirements is considered foundational to the group's data journey. The data strategy is designed through the lens of risk and data capabilities and in support of the group's integrated data architecture. Risk data governance has been incorporated into the overall risk management framework, supported by a culture of accountability for data set by executive management.

GIA, FirstRand's independent BCBS 239 compliance assessor, submitted a comprehensive audit report to the PA, clearly indicating the in-scope risk types across the 11 principles, augmented by the Banking Association of South Africa's (BASA's) attestation procedures and audit guidelines to determine the group's compliance with the RDARR principles. Although GIA plays an integral part in FirstRand's response to BCBS 239, the independence of GIA was not impaired since GIA was not involved in related decision-making processes and did not provide input to the construction or implementation of day-to-day processes.

GIA validated the status of all material risk types and the group is fully compliant with the requirements of BCBS 239, with the only outstanding requirement being compliance with the standardised approach for measuring counterparty credit risk (SA-CCR), where an extension was granted by the PA to achieve full compliance by 31 December 2022.

A single programme is in place in Aldermore to implement RDARR requirements within the agreed compliance timelines, and regular updates provided to the PA.

FirstRand's implementation of BCBS 239 resulted in enhanced risk management and decision-making processes, and risk data maturity. Focus has shifted from remediation of compliance gaps to maintaining compliance.

Risk culture

The group recognises that effective risk management requires an appropriate risk culture. The group distinguishes between corporate culture (the group's philosophy/promises guiding behaviour) and risk culture (attitudes towards risk management). Significant determinants are ethical leadership, flow of information, reporting integrity and treating customers fairly.

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

The group's risk culture is underpinned by the following:

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

In support of a sound risk culture, the group manages ethics and risk culture programmes with appropriate levels of advocacy, employee training and communication to ensure responsible conduct and positive risk management outcomes. Programmes include the assessment of risk culture, oversight of client desirability and related reviews, the management of whistle-blowing and conflicts of interest, and other risk culture monitoring mechanisms. The outcomes of various other culture and behaviour assessments are also reviewed.

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

RISK CULTURE ASSESSMENT FRAMEWORK

Themes

Ethical and competent leadership	Accurate and timely flow of information with appropriate disclosure	Ethical customers and the ethical treatment of customers

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

Risk measurement approaches

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

RISK TYPE	FRBSA	PA IMPLEMENTATION DATE FOR FIRSTRAND	REMAINING GROUP SUBSIDIARIES AND FRB BRANCHES
Credit risk	Advanced internal ratings-based (AIRB) approach and the standardised approach for certain portfolios	January 2008	Standardised approach
Securitisations	AIRB approach	January 2008	Standardised approach
Counterparty credit risk	SA-CCR	January 2021	SA-CCR
Traded market risk	Internal model approach Standardised approach for specific risk	July 2007	Standardised approach
Equity investment risk	Market-based approach: > Simple risk-weighted method Equity investments in funds: > Look-through approach (LTA) > Mandate-based approach (MBA) > Fall-back approach (FBA)	June 2011 January 2021	Market-based approach: > Simple risk-weighted method Equity investments in funds: > LTA > MBA > FBA
Operational risk	Advanced measurement approach (AMA)	January 2009	AMA, basic indicator approach (BIA) and the standardised approach for operational risk (TSA)
Other assets*	Standardised approach	January 2008	Standardised approach

* *Including RWA related to investments in financial, banking and insurance entities, as well as deferred tax assets relating to temporary differences, as per the threshold rules under Regulation 38(5).*

Credit risk

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

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

Securitisations

Where a public rating is available by a recognised external credit assessment institution (ECAI) for the notes in issue, the ratings-based approach (RBA) is used, otherwise the supervisory formula approach (SFA) or a look-through to the underlying assets is applied. Capital calculated under these approaches for the originating entity is limited to the capital that would have been held had the assets remained on balance sheet without being securitised.

RBA uses an external rating assigned to the securitisation tranches by an ECAI. Risk weightings are based on the rating assigned to the specific tranche which is based on its seniority relative to other notes.

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

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

Counterparty credit risk

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

The current regulatory capital approach used to calculate EAD of derivative transactions is based on SA-CCR. This methodology is applied by allocating trades to margin/netting sets, which determine key features such as how exposure netting is applied, as well as specific unmargined or margined treatment. EAD is determined by measuring the replacement cost, i.e. current exposure net of collateral, combined with the potential future exposure. Potential future exposure is a simplified method to determine the variability in the future valuation of the applicable trades based on net notional position and supervisory factors per asset class. Additionally, exposure reduction is considered for over-collateralised or far-out-of-the-money positions *via* an exposure multiplier. Final EAD is quantified at a counterparty level by summing the replacement cost and the net potential future exposure, before finally scaling by an alpha factor of 1.4.

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

SA-CCR	SA-CCR is applied for the group. This approach is more sophisticated than the previous current exposure or standardised methods, through improved recognition of collateral in the exposure calculations and differentiating between margined and unmargined transactions within netting and hedging sets.
Internal model method	The internal model method is the most complex regulatory capital method and is not applied by the group.

Traded market risk

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

The group's subsidiaries in broader Africa and the bank's foreign branches are measured using the standardised approach for regulatory capital. Internal stress loss methodology applies to broader Africa for internal measurement of risk. Capital is calculated for general market risk using the duration methodology.

In addition to general market risk, specific risk capital is held based on the Basel III standardised approach duration method for domestic trading units, the group's subsidiaries in broader Africa and the bank's foreign branches.

Equity investment risk

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

Equity investments in funds are risk weighted using LTA, MBA or FBA, depending on the criteria met by the fund. For LTA, the underlying exposures in the funds are risk weighted as if those exposures were directly held by the group. For MBA, funds are risk weighted according to the fund's mandate or information obtained from other relevant fund disclosures. Where the fund mandate further permits the use of leverage and/or derivatives, RWA is adjusted to take these into account. FBA applies a 1 250% risk weighting, which is the maximum risk weighting permissible under either of the approaches.

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

Operational risk

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

Other assets

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

Risk mitigation

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

Interest rate risk in the banking book

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

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

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

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

Credit risk

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

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

Credit risk mitigation instruments

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

The group employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently, where necessary, through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on an ongoing basis using an index model, and physical inspection is performed at the beginning of the recovery process. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

Concentrations in credit risk mitigation types, such as property, are monitored and managed at a product and segment level, in line with the requirements of the group credit risk appetite framework. Collateral is taken into account for capital calculation purposes through the determination of LGD. Collateral reduces LGD, and LGD levels are determined through statistical modelling techniques based on historical experience of the recovery processes.

Counterparty credit risk

The group uses various methods to mitigate potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives. In addition, the group has set up a function to clear over-the-counter (OTC) derivatives centrally as part of risk mitigation.

The group uses International Swaps and Derivatives Association (ISDA) and Global Master Repurchase agreements for netting derivative transactions and repurchase transactions, respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds.

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

Collateral, in the form of cash and/or cash equivalents, is the primary credit risk mitigant for counterparty credit risk. Collateral arises from margin arrangements, which are stipulated within netting agreements, and is also a function of providing market access to clients across certain business lines. The nature of the collateral determines its effectiveness in mitigation, where tradable and highly liquid collateral is preferable and will typically attract lower economic and regulatory haircuts.

Risk insurance

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

Risk appetite

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

RETURN AND RISK APPETITE STATEMENT

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

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

> deliver long-term franchise value;

> deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility; and

> maintain balance sheet strength.

The group's long-term financial targets capture its risk appetite in the context of risk, reward and growth. The targets contextualise the level of return the group expects to deliver to shareholders under normal and stressed conditions for the direct and consequential risks it assumes in the normal course of business.

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

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

The return and risk appetite framework drives the discipline of balancing risk, return and sustainable growth across all portfolios and helps the group achieve an optimal trade-off between its ability to take on risk, and the sustainability of the returns delivered to shareholders.

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

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

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

FIRSTRAND RISK AND RETURN METRICS

After June 2020, the group embarked on a comprehensive assessment of risk appetite for the transition period through the pandemic to guide the group back to its long-term growth and return targets. This translated into portfolio mix and tilt objectives and risk actions, and directly affected planning and risk taking. With the improvement in FirstRand's return profile and earnings growth, the group has reverted to its long-term return and risk appetite framework. The group is currently reviewing its risk appetite statement and limits per risk type and how this could impact the stated thresholds, including its earnings volatility threshold.

The following diagram outlines the long-term quantitative measures and the qualitative principles of the return and risk appetite framework.

RETURN AND RISK APPETITE FRAMEWORK

Quantitative measures

Normal cycle

Long-term performance targets		Resource objectives and constraints		
Returns	ROE 18% – 22%	Solvency	Capital – CET1 11% – 12%	Basel III leverage >5.5%
Earnings growth	Real GDP plus CPI plus (>0% – 3%)	Liquidity	To exceed minimum regulatory requirements with appropriate buffers	

FRB credit rating*
Equal to highest in SA banking industry

Normal and stressed downturns

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

Risk limits

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

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

Qualitative risk appetite principles

The group implemented strong qualitative risk appetite principles that support the group's risk culture and drive appropriate behaviour and conduct. The quantitative measures (above) as well as the qualitative principles listed below are integral to the group's risk appetite.

1	Inculcate a sound risk culture across the group through aligned risk management beliefs and values. Act consistently with the group's promises at all times. Do not take risk without a deep understanding thereof. Adhere to escalation mandates for risk concerns. Openly debate to reach consensus.
2	Always act with a fiduciary mindset. Ensure honourable and ethical market, business and employee conduct in dealings with stakeholders. Treat customers and stakeholders fairly. Always deliver excellent customer service.
3	Drive effective compliance with all accounting and regulatory requirements, legislation and corporate governance in its widest sense including, amongst others, anti-money laundering, anti-bribery and corruption, and data privacy and protection.
4	Always consider and actively mitigate risks to the group's reputation and franchise.
5	Commit to creating shared value and upholding sound environmental, social and governance principles in all business activities to build long-term sustainable business. Balance the need of all stakeholders (investors, customers, society and employees).
6	Ensure that climate change risks (physical and transition risks) are prudently considered, understood and managed in the group's own operations, and its financing and investment activities, and that disclosure of these risks improves in alignment with the TCFD principles.
7	Drive operational excellence and efficiency within a robust control environment.
8	Manage the group's financial resources responsibly and efficiently. Ensure appropriate allocation of all financial resources including capital, funding, liquidity, risk appetite and capacity in support of portfolio optimisation. Explicitly manage trade-offs between risk, return, NIACC and growth.
9	Manage the business on a sustainable basis. This requires a through-the-cycle view but with an understanding of the cyclicality and behaviour of the business under stressed conditions, taking the lifetime risk profile of each transaction/customer into account. Manage risk appetite to ensure acceptable earnings volatility for the overall portfolio, as well as for each risk type and business segment.
10	Build and maintain a strong balance sheet which reflects prudence in funding, liquidity, capital, credit origination and provisioning strategies. Avoid excessive gearing through on- or off-balance sheet leverage. Avoid excessive concentrations in risky asset classes, sectors, instruments, segments and customer sets. Ensure the group's earnings mix remains appropriately diversified across segments, business lines, products, markets and regions.

Application of the return and risk appetite framework and risk limits

Risk appetite, targets and limits are used to monitor the group's risk/return profile on an ongoing basis and are measured point-in-time and on a forward-looking basis. Risk appetite influences business plans, risk-taking activities and strategies. The return and risk appetite framework provides for a structured approach to define risk appetite, targets and limits that apply to each key resource as well as the level of risk that can be assumed in this context. The group cascades overall appetite into targets and limits at risk type, business and activity level, and these represent the constraints the group imposes to ensure it will deliver on its commitments at a defined confidence level. Risk management roles and responsibilities are outlined in the group risk management framework. Risk appetite measures and risk limits per risk type are discussed below.

Liquidity risk and funding

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

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

The funds transfer pricing framework incorporates the relevant base interest rates, and the cost or benefit of liquidity into product pricing by currency for all significant on- and off-balance sheet activities. The funds transfer pricing process is a key management tool for funding appetite allowing for pricing of products within the group's desired risk appetite levels.

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

Credit risk

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

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

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

- counterparty limits based on borrower risk segments, for example FirstRand (internal) rating grades;
- collateral limits for secured lending based on collateral profiles, e.g. loan-to-value bands;
- concentration limits for single counterparty, counterparties grouped by internal ratings, collateral loan-to-value bands, gearing, industry, market, maturity, geography and portfolios with elevated climate risk e.g. fossil fuels; and
- capacity limits based on measures of customer affordability e.g. repayments-to-income bands.

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

Counterparty credit risk

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

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

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

Traded market risk

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

> VaR and ETL limits per asset class, business line and business unit;

> stress-loss limits at the risk factor level for less sophisticated trading businesses;

> regulatory and economic capital limits;

> nominal limits for specific risk items;

> absolute loss thresholds; and

> risk concentration limits.

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

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

Interest rate risk in the banking book

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

Equity investment risk

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

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

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

Operational risk

Operational risk appetite is set at group and business level, with a specific sub-appetite set for cyber risk. Appetite statements include qualitative and quantitative statements. Risk appetites are set as the total annual loss amount the group is willing to accept at various confidence/probability levels. This process includes setting:

> a risk appetite profile and monitoring the actual risk profile against appetite;

> loss thresholds and measuring actual loss experience against these thresholds; and

> other quantitative and qualitative measures including key risk indicators and zero tolerance statements.

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

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

Financial resource management

The management of the group's financial resources, which it defines as capital, funding and liquidity, and risk appetite, is a critical enabler to ensure FirstRand achieves its stated growth and return targets, and is driven by the group's overall risk appetite. Group Treasury is mandated to execute on FRM strategic initiatives.

Group Treasury also manages the interest rate and FX risk inherent in the balance sheet activities within regulatory and management limits, and the group's risk appetite. The aim is to protect and enhance earnings without adding to the overall risk profile.

FirstRand's performance reflects the quality of its operating businesses. Importantly, both the underlying composition of earnings growth and the superior return profile directly correlate to the consistent and disciplined execution on certain key strategies:

> carefully price for financial resources;

> appropriately provide against lending portfolios;

> strengthen and appropriately tilt the balance sheet to the macro environment; and

> accrete capital and net asset value.

These strategies, tightly managed through the group's FRM process, were designed to contain the negative impact of the Covid-19 pandemic, strengthen the balance sheet, build available financial resources and position the group appropriately to grow into a post-pandemic recovery. The group continued to be discerning in pursuing growth emanating from the rebound that immediately followed the pandemic. In the year under review, the group has been particularly focused on allocating its financial resources to growth opportunities tilted to its macro view, whilst continuing to serve the needs of its customers. This approach, combined with disciplined pricing and conservative provisioning, has resulted in an even stronger balance sheet.

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

The group adopts a disciplined and measured approach to the management of its foreign currency investments in subsidiaries and their balance sheets. Approved risk frameworks guide the allocation of resources and management of local and foreign currency risks. The framework for the management of external debt considers sources of sovereign risk and foreign currency funding capacity, as well as the macroeconomic vulnerabilities of South Africa. The group continues to employ self-imposed structural borrowing and liquidity risk limits which are more onerous than those required in terms of regulations.

The group's philosophy is that, in the longer term, foreign currency assets should be supported by foreign currency liabilities, primarily in the same jurisdiction. It aligns with one of the group's strategic priorities to increase geographic diversification, which is evidenced by the integration of the MotoNovo business into the Aldermore group in the UK, as well as the utilisation of the RMB International (Mauritius) platform for the group's broader Africa foreign exchange exposures.

Stress testing and scenario planning

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

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

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

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

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

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

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

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

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

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

The group continues to evolve its approach to incorporate climate change and related risks in stress testing and scenario analysis. FirstRand has formulated a climate stress test framework which considers a number of scenarios (e.g. long- and short-term macroeconomic scenarios and carbon tax shocks) and sensitivities (e.g. chronic physical events like flood or drought). This allows management to explore the impact of both transition and physical risks, and provides a qualitative assessment of potential second-order impacts. The impact of the climate stress and scenario analysis has been incorporated in the group's 2022 ICAAP and will be subject to continuous refinement as more information, approaches and methodologies emerge.

Recovery and resolution regime

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

Recovery planning

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

The recovery plan:

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

The recovery plan forces the group to perform an extensive self-assessment exercise to determine if there are any potential idiosyncratic vulnerabilities that it may be exposed to, and then reconcile these exposures to its own risk mitigation, 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 critical functions for customers and the financial system, as well as which assets are most marketable to facilitate recovery.

Where inefficiencies are identified, these can be addressed to ensure the group is more streamlined, adaptable and resilient to stress.

FirstRand has submitted multiple annually revised versions of its recovery plan to the PA, most recently in December 2021 which was followed by a prudential onsite.

Resolution framework

The SARB released a discussion paper on South Africa's intended approach to bank resolution on 23 July 2019. The paper outlined the objectives of the proposed resolution framework with an emphasis on open-bank resolution. Open-bank resolution is applicable to systemically important institutions where the bank continues to function in its existing form under its own licence post resolution. The proposed resolution framework provides more clarity on the regulator's approach to further enhance financial stability in the country.

On 27 January 2022 the President assented the Financial Sector Laws Amendment Bill and it is now an Act, i.e. the Financial Sector Laws Amendment Act 23 of 2022 (FSLAA). One of the key provisions of the FSLAA is that the SARB will become the designated resolution authority with the necessary powers to operationalise an effective resolution regime. The provisions of FSLAA (including the granting of powers to the SARB to issue resolution standards) will, however, only become operational as outlined in a commencement schedule. This is due to be gazetted by the Minister of Finance in the near future.

The FSLAA introduces a new tranche of loss-absorbing instruments, i.e. first loss after capital (flac) instruments, which are subordinated to other unsecured creditors and intended for bail-in in resolution. Flac requirements will be applicable to banks with open-bank resolution plans.

Another key amendment contained in the FSLAA is the establishment of the Corporation for Deposit Insurance (CoDI). CoDI will be a separate entity within the SARB, mandated to manage a deposit insurance scheme (DIS) in South Africa which is designed to protect depositors' funds and enhance financial stability. The SARB has commenced the project to begin operationalising the DIS in South Africa.

The SARB continues to publish discussion papers focusing on the key aspects that will affect and facilitate the implementation of the resolution framework in South Africa, as well as form the basis of secondary legislation and standards.

Link between financial statements and regulatory exposures

Basis of consolidation

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

REGULATORY AND IFRS 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, Tier 2 and total loss-absorbing capacity (TLAC)):
> Amount exceeding 10% CET1 – deduction against corresponding component of capital except TLAC deducted against Tier 2 capital.
> Up to 10% – risk weight based on nature of instrument and measurement approach.</td><td rowspan="2">Standardised approach:
> Minimum risk weight of 100%.
Internal ratings-based approach:
> Maximum risk weight of 1 250%.</td><td>Financial asset equity instruments at mandatory fair value through profit or loss, or fair value through other comprehensive income.</td></tr>
<tr><td>Between 10% and 20%</td><td colspan="2">CET1:
> Individual investments in excess of 10% CET1 – deduction against CET1.
> Individual investments up to 10% apply threshold rules.
AT1 and Tier 2:
> Deduct against corresponding component of capital.
TLAC:
> Deduct full amount of TLAC holdings from Tier 2 capital.</td><td>As noted above, except 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 20% and 50%</td><td>> Legal or de facto support (other significant shareholder) – proportionately consolidate.
> No other significant shareholder – apply threshold rules as set out above for shareholding between 10% and 20%.</td><td rowspan="2">> Apply deduction methodology, with 100% derecognition of IFRS consolidated NAV.
> Cost of investment subject to threshold rules.</td><td rowspan="2">Standardised and internal ratings-based approach:
> Individual investment greater than 15% of CET1, AT1 and Tier 2: risk weight at 1 250%.
> Individual investment up to 15% of CET1, AT1 and Tier 2: risk weight at no less than 100%.
> Aggregate of investments exceeding 60% of CET1, AT1 and Tier 2: excess risk weighted at 1 250% (standardised only).</td><td>Equity accounting as the group is deemed to have 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 transaction indicates that the group has joint control, in which case equity accounting will apply.</td></tr>
</table>

* *As per the Regulations.*

Threshold rules

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

Insurance entities

Material wholly owned insurance subsidiaries incorporated in South Africa include FirstRand Life Assurance Limited with a NAV of R2 030 million (2021: R1 282 million), FRISCOL with a NAV of R422 million (2021: R272 million) and FirstRand Short Term Insurance with a NAV of R126 million (2021: R215 million).

Mapping of financial statement categories to regulatory risk categories

The Pillar 3 disclosure is prepared in accordance with the regulatory frameworks applicable to the group whilst the annual financial statements are prepared in accordance with IFRS. The amount included under regulatory scope excludes balances related to insurance entities. The risk measurement approaches to calculate regulatory capital, applicable to each of the risk frameworks, are described on page 21. The following table provides the differences between the amounts included in the balance sheet and the amounts included in the regulatory frameworks.

LI1: DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

	As at 30 June 2022							
	Carrying values							
			Items under regulatory frameworks					
R million	Statement of financial position	Regulatory scope	Credit risk	Counter-party credit risk	Securi-tisation	Market risk	Equity investment risk	No capital/ deducted from capital
Assets								
Cash and cash equivalents	143 636	143 396	129 431	11 095	2 870	–	–	–
Derivative financial instruments*	65 667	65 667	–	64 857	810	53 463	–	–
Commodities	17 580	17 580	1 771	–	–	17 580	–	–
Investment securities**	382 149	373 369	276 657	–	–	87 295	12 480	–
Advances#	1 334 324	1 334 324	1 250 574	50 437	33 313	–	–	–
Other assets	9 597	9 295	9 295	–	–	–	–	–
Current tax asset	624	619	619	–	–	–	–	–
Non-current assets and disposal groups held for sale	1 501	1 501	–	–	–	–	1 501	–
Reinsurance assets	583	–	–	–	–	–	–	–
Investments in associates	8 178	8 178	–	–	–	–	8 178	–
Investments in joint ventures	2 618	2 625	–	–	–	–	2 625	–
Property and equipment	19 725	19 710	19 710	–	–	–	–	–
Intangible assets	9 459	9 249	–	–	–	–	–	9 249
Investment properties	698	698	698	–	–	–	–	–
Defined benefit post-employment asset	35	35	–	–	–	–	–	35
Deferred income tax asset	8 028	8 021	7 696	–	–	–	–	325
Investment in subsidiaries	–	1 505	–	–	–	–	1 505	–
Total assets	**2 004 402**	**1 995 772**	**1 696 451**	**126 389**	**36 993**	**158 338**	**26 289**	**9 609**
Liabilities								
Short trading positions	14 623	14 623	–	–	–	14 623	–	–
Derivative financial instruments*	64 547	64 547	–	63 934	613	55 505	–	–
Creditors, accruals and provisions	35 761	35 558	–	–	–	–	–	35 558
Current tax liability	803	775	–	–	–	–	–	775
Liabilities directly associated with disposal groups classified as held for sale	824	824	824	–	–	–	–	–
Deposits	1 655 972	1 655 919	–	28 164	24 359	–	–	1 603 396
Employee liabilities	13 862	13 725	–	–	–	–	–	13 725
Other liabilities	8 248	8 248	–	–	–	–	–	8 248
Policyholder liabilities	7 424	–	–	–	–	–	–	–
Tier 2 liabilities	20 937	20 375	–	–	–	–	–	20 375
Deferred income tax liability	692	651	–	–	–	–	–	651
Amounts due to subsidiary companies	–	481	–	–	–	–	–	481
Total liabilities	**1 823 693**	**1 815 726**	**824**	**92 098**	**24 972**	**70 128**	**–**	**1 683 209**

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

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

Advances net of impairments.

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

Balance sheet line items included in different risk frameworks

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

LI2: MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

	As at 30 June 2022				
	Items subject to regulatory frameworks				
R million	Credit risk	Counter-party credit risk	Securi-tisation	Market risk	Equity investment risk
Assets carrying value per regulatory scope of consolidation	1 696 451	126 389	36 993	158 338	26 289
Liabilities carrying value per regulatory scope of consolidation	824	92 098	24 972	70 128	–
Total net amount under regulatory scope of consolidation	1 695 627	34 291	12 021	88 210	26 289
Off-balance sheet amounts	252 973	–	3 648	–	–
Differences in valuations	190 845	85 965	–	–	–
Differences due to netting rules and credit risk mitigation (CRM)	(274 376)	(73 619)	–	–	–
Differences due to provisions	42 665	–	–	–	–
Differences due to potential future exposure for counterparty credit risk (CCR)	–	13 259	–	–	–
Differences due to prudential filters	(103 880)	–	15 530	–	(13 392)
Exposure amounts considered for regulatory purposes	1 803 854	59 896	31 199	88 210	12 897
Reconciliation to regulatory amounts in Pillar 3 tables					
CR6: AIRB – FRBSA EAD post-credit conversion factors (CCF) and CRM	1 235 269	–	–	–	–
CR4: Standardised approach on- and off-balance sheet amount of exposure post CCF and CRM	568 205	–	–	–	–
CR10: Specialised lending exposures under slotting on- and off-balance sheet amount	380	–	–	–	–
CCR1: EAD post CRM	–	56 673	–	–	–
CCR3: Standardised approach for derivatives for subsidiaries in broader Africa and foreign branches – total credit exposure	–	3 223	–	–	–
SEC1: Total securitisation exposures in the banking book	–	–	31 199	–	–
Carrying value of investments*	–	–	–	–	12 897
Total	1 803 854	59 896	31 199	88 210	12 897

* *For the carrying value of investments refer to page 151 of this report.*

Prudent valuations

Valuation methodology and validation process

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

FINANCIAL INSTRUMENTS	
FAIR VALUE HIERARCHY	**VALUATION METHODOLOGY**
Instruments where fair value is determined using unadjusted quoted prices in an active market The fair value of these instruments is determined using unadjusted quoted prices in an active market for identical assets. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.	This category includes listed bonds and equity, exchange-traded derivatives, listed non-recourse investments, exchange traded notes (deposits) and short trading positions.
Instruments where fair value is determined using inputs from observable market data or an inactive market Valuation uses quoted prices in an active market of similar instruments or valuation models using observable inputs from observable market data.	This category includes loans and advances to customers, equities listed in an inactive market, unlisted equities, certain debt instruments, OTC derivatives or exchange-traded derivatives where a market price is not available, non-recourse investments, non-recourse deposits, deposits, other liabilities and Tier 2 liabilities. Valuation techniques include: > discounted cash flows; > option pricing models; > industry standard models; > price/earnings models; > the JSE debt market bond pricing model; and > third-party valuations.
Instruments where fair value is determined using inputs from unobservable data The group applies its own assumptions about what market participants assume in pricing assets and liabilities.	This category includes certain loans and advances to customers, certain OTC derivatives such as equity options, investments in debt and equity instruments, certain deposits such as credit-linked instruments, and certain other liabilities. Valuation techniques include: > discounted cash flows; > option pricing models; > industry standard models; > price/earnings models; and > third-party valuations.
NON-FINANCIAL ASSETS	
Non-financial assets that are measured at fair value include commodities and investment properties. > Commodities are classified as level 1 in the fair value hierarchy and fair value is measured using quoted prices in active markets. > Investment properties are classified as level 3 and fair value is determined using a discounted cash flow valuation technique.	

Prudent valuation adjustments

Capital regulatory frameworks require financial institutions to apply prudent valuations to all fair value assets and liabilities. The difference between prudent value and fair value in terms of IFRS is called a prudent valuation adjustment (PVA), and is deducted from CET1 capital. The following table provides descriptions and methodologies adopted for different PVAs.

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

The group has opted to apply the simplified approach for the calculation of PVAs for the subsidiaries in broader Africa, as this is permitted for subsidiaries that make up less than 5% of the group's gross assets and liabilities. The simplified approach requires banks to set the PVA at 0.1% of the sum of the absolute value of fair-valued assets and liabilities which are included in the materiality threshold calculation.

PV1: PRUDENT VALUATION ADJUSTMENTS

		As at 30 June 2022							
R million		Equity	Interest rates	Foreign exchange	Credit	Commo-dities	Total	Of which: In the trading book	Of which: In the banking book
1.	Close-out uncertainty, of which:	42	436	0.47	–	1.77	480	342	138
2.	*Mid-market value*	42	147	–	–	–	189	162	27
3.	*Close-out cost*	–	289	0.47	–	1.77	291	180	111
9.	Unearned credit spreads	–	–	–	8	–	8	8	–
11.	Other	–	2	–	–	–	2	2	–
12.	**Total adjustment**	42	438	0.47	8	1.77	490	352	138

		As at 30 June 2021							
R million		Equity	Interest rates	Foreign exchange	Credit	Commo-dities	Total	Of which: In the trading book	Of which: In the banking book
1.	Close-out uncertainty, of which:	27	337	2	–	0.63	367	251	116
2.	*Mid-market value*	27	170	–	–	0.12	197	165	32
3.	*Close-out cost*	–	167	2	–	0.51	170	86	84
9.	Unearned credit spreads	–	–	–	12	–	12	12	–
11.	Other	–	1	–	–	–	1	1	–
12.	**Total adjustment**	27	338	2	12	0.63	380	264	116

Mid-market value and close-out cost are the most significant PVAs for the group. Increase in close-out spreads and reduced fair value adjustments contributed to increased interest rate close-out cost PVA. Other refers to the simplified approach PVA result that was estimated for broader Africa. The group estimates operational risk, model risk, early termination, investing and funding costs future administration costs PVAs to be zero. Lines 4–8 and 10 of the *PV1: Prudent valuation adjustments* template have, therefore, been omitted.

Capital management

Introduction and objectives

The group actively manages capital aligned to strategy and risk appetite/profile. The capital planning process ensures that the CET1, Tier 1 and total capital adequacy ratios remain within or above target ranges and regulatory minima across economic and business cycles.

Capital is managed on a forward-looking basis and the group remains appropriately capitalised under a range of normal and severe stress scenarios. The group aims to back all economic risk with loss-absorbing capital and remains well capitalised in the current environment. FirstRand actively manages its capital stack to ensure an efficient capital structure, closely aligned to group internal targets and strategic growth plans. The optimal level and composition of capital are determined after taking the following into account:

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

ICAAP is integral to the group's risk, capital management and decision-making processes and is deeply embedded across the group. Best-practice standards and methodologies are adopted to assess the overall risk profile of the group and inculcate a responsible risk culture across the group. A key input into ICAAP is an assessment of economic risk, with the outcome used to evaluate the group's capital position and targeted level of capitalisation, i.e. the group is capitalised at the higher of economic and regulatory capital requirements.

ICAAP is considered in:

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

The group's ICAAP includes the assessment of all new and emerging risks. Climate risk continues to feature prominently in strategic and business conversations and is currently captured in the group's ICAAP via stress and scenario analysis that will continue to evolve as more information, approaches and methodologies emerge. The group has formulated a climate risk stress test framework that will be updated annually.

Capital adequacy and leverage

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

CAPITAL AND LEVERAGE

TOTAL QUALIFYING CAPITAL AND RESERVES =

Tier 1 capital

CET1 capital

- Share capital and premium
- Retained earnings (appropriated)
- Other reserves
- Non-controlling interests

Deductions

- Goodwill and intangibles
- Deferred tax assets (other than temporary differences)
- Investment in own shares
- Expected losses in excess of provisions under the AIRB approach
- Cash flow hedging reserve
- Investments in financial, banking and insurance institutions*
- Other

AT1 capital

- AT1 capital instruments
- Instruments issued out of consolidated subsidiaries to third parties

Deductions

- Investments in financial, banking and insurance institutions* (AT1 instruments)
- Surplus third-party capital

+

Tier 2 capital

- Subordinated debt instruments
- General provisions under standardised approach
- Provisions in excess of expected losses under the AIRB approach
- Instruments issued out of consolidated subsidiaries to third parties

Deductions

- Investment in financial, banking and insurance institutions* (Tier 2 instruments) and other TLAC instruments or liabilities
- Surplus third-party capital

CAPITAL RATIOS

Qualifying capital	÷	RWA	=	
CET1 capital		TOTAL OF:		CET1 %
Tier 1 capital		+ Credit + Counterparty credit + Operational + Market + Equity investment + Other and threshold		TIER 1 %
Total capital				TOTAL %

LEVERAGE RATIO =

Capital measure

Tier 1 capital

÷

Total exposure

- Accounting value for on-balance sheet, non-derivative exposures (net of provisions) – no netting of loans and deposits
- Derivative exposures using the replacement cost and potential future exposure
- Securities financing transaction exposures including a measure of counterparty credit risk
- Adjusted off-balance sheet exposures
- Regulatory adjustments

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

Year under review

During the year under review the group maintained strong capital and leverage ratios in excess of the regulatory minima and internal targets.

CAPITAL ADEQUACY AND LEVERAGE POSITIONS

	As at 30 June 2022			
	Capital			Leverage
%	CET1	Tier 1	Total	Total
Regulatory minimum*	8.5	10.8	13.0	4.0
Internal target	11.0 – 12.0	>12.0	>14.25	>5.5
FirstRand actual				
– Including unappropriated profits	**13.9**	**14.5**	**16.7**	**8.0**
– Excluding unappropriated profits	12.1	12.7	14.9	7.0
FRB actual**				
– Including unappropriated profits	**14.2**	**14.9**	**17.7**	**7.2**
– Excluding unappropriated profits	12.2	12.8	15.6	6.2
FRBSA actual**				
– Including unappropriated profits	**13.9**	**14.6**	**17.4**	**7.0**
– Excluding unappropriated profits	11.6	12.2	15.1	5.9

* *Excluding the individual capital requirement (Pillar 2B). The domestic systemically important bank (D-SIB) requirement for both the group and bank is 1.5%. The group's countercyclical buffer (CCyB) requirement remained at 0%.*

** *FRB including foreign branches and FRBSA excluding foreign branches.*

The PA published *Directive 5 of 2021, Capital framework for South Africa based on the Basel III framework,* which reinstated the Pillar 2A requirement of 1% on 1 January 2022. The group's internal targets remain appropriate as they are aligned to end-state capital requirements and consider other stakeholder requirements.

A detailed analysis of key drivers of the year-on-year movement in the supply of capital and RWA is included in the FirstRand analysis of financial results for the year ended 30 June 2022 at https://www.firstrand.co.za/investors/financial-results/, and the FRB annual report for the year ended 30 June 2022 at https://www.firstrand.co.za/investors/annual-reporting/.

Supply of capital

COMPOSITION OF CAPITAL

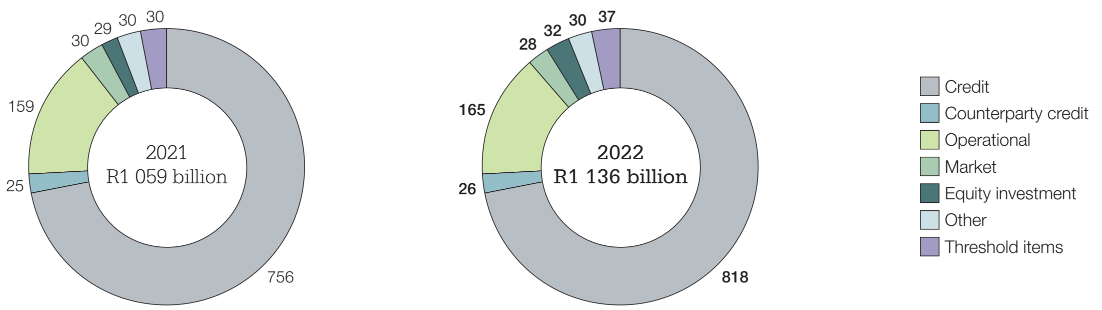
	As at 30 June			
	FirstRand		FRB*	
R million	**2022**	2021	**2022**	2021
CET1 capital excluding unappropriated profits	**137 189**	124 445	**92 145**	92 439
Unappropriated profits	**20 799**	17 991	**15 566**	11 323
CET1 capital including unappropriated profits	**157 988**	142 436	**107 711**	103 762
AT 1 capital	**7 040**	7 091	**4 971**	4 996
Tier 1 capital	**165 028**	149 527	**112 682**	108 758
Tier 2 capital	**24 834**	23 440	**20 997**	18 830
Total qualifying capital	**189 862**	172 967	**133 679**	127 588

* *FRB including foreign branches.*

Demand for capital

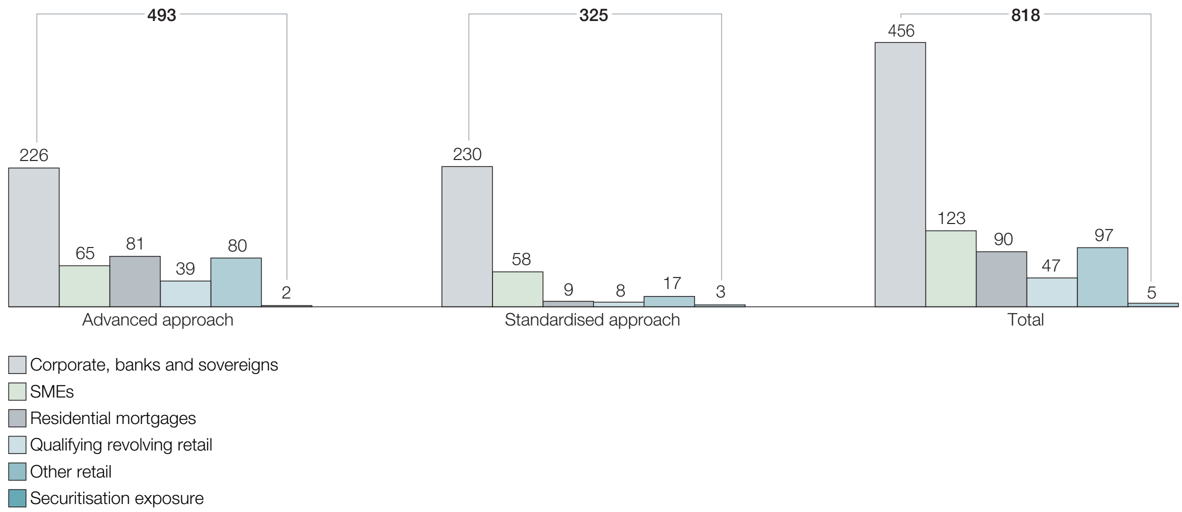
The following sections provide an analysis of RWA per risk type, as well as a breakdown of credit RWA for FirstRand and FRB (including foreign branches).

FirstRand RWA analysis

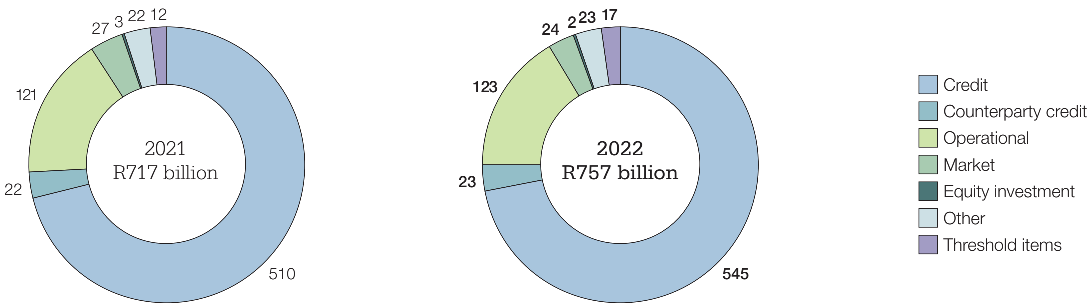


FirstRand overview of credit RWA – June 2022

R billion

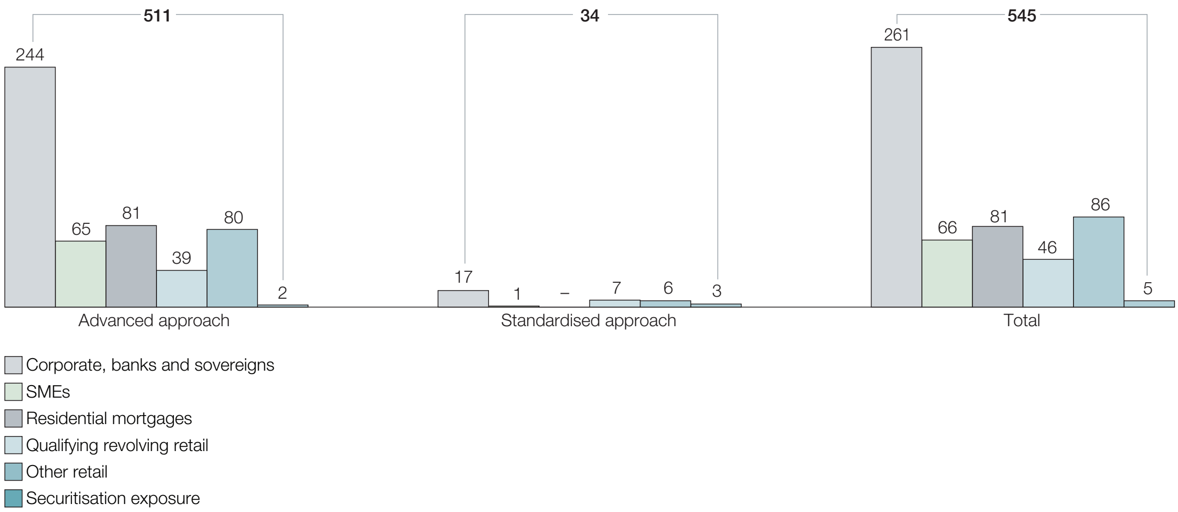


FRB RWA analysis



FRB overview of credit RWA – June 2022

R billion



Refer to the *Standardised disclosures* section of this report for additional capital and leverage disclosures required in terms of the Regulations:

> KM1: Key prudential requirements

> CC1: Composition of regulatory capital

> CC2: Reconciliation of regulatory capital to balance sheet

> CCA: Main features of regulatory capital instruments

> OV1: Overview of RWA

> LR1: Summary comparison of accounting assets vs leverage ratio

> LR2: Leverage ratio common disclosure template

Capital adequacy position for the group and its regulated entities

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

Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet regulatory and economic capital requirements. Capital generated by subsidiaries in excess of targeted levels is returned to FirstRand, usually in the form of dividends unless retained for organic or inorganic growth. No restrictions were experienced on the repayment of dividends during the year under review. RMB Nigeria declared and paid a dividend to FREMA in May 2022. FREMA is in the process of converting the naira dividend into dollars, and this repatriation is expected to be concluded over an extended period given dollar liquidity constraints in Nigeria. All prior year naira dividends have been converted to dollars.

Capital for insurance entities is calculated on a regulatory basis in line with the Insurance Act 18 of 2017 and regulations, as well as on an economic basis. Capital requirements are risk sensitive and also used to understand the exposure to insurance risk. The insurance group's own risk and solvency assessment (ORSA) assesses the impact of various stresses on the solvency position of the insurance entities and informs capital targets. Target levels for capital coverage are specified in the insurance risk appetite statement and have been met over the year under review. Insurance entities remain appropriately capitalised.

CAPITAL ADEQUACY POSITIONS OF FIRSTRAND AND ITS REGULATED ENTITIES

	As at 30 June				
	2022				2021
	Total minimum requirement*	RWA** R million	Tier 1 %	Total capital adequacy	Total capital adequacy
BANKING (%)					
Basel III (PA regulations)					
FirstRand#	13.0	1 135 517	14.5	16.7	16.3
FirstRand Bank#,†		757 205	14.9	17.7	17.8
FirstRand Bank South Africa#		731 523	14.6	17.4	17.6
FirstRand Bank London		25 270	20.6	21.6	22.0
FirstRand Bank India		615	>100	>100	82.9
FirstRand Bank Guernsey		544	43.0	43.0	27.5
Basel III (local regulations)					
Aldermore Bank	12.6	124 888	16.1	17.7	18.1
FNB Namibia	10.0	30 527	19.3	20.4	19.5
Basel II (local regulations)					
FNB Botswana	12.5	25 263	13.5	17.9	18.0
RMB Nigeria	10.0	6 150	35.7	35.7	49.4
FNB Eswatini	8.0	4 620	22.4	23.2	20.4
First National Bank Ghana	13.0	2 617	33.6	34.1	38.4
FNB Mozambique	12.0	2 317	28.7	28.7	23.7
Basel I (local regulations)					
FNB Zambia	10.0	4 245	31.9	34.0	27.3
FNB Lesotho	8.0	945	18.5	19.9	16.5
FNB Tanzania‡	14.5	852	47.9	47.9	60.1
INSURANCE (times)^					
FirstRand Life Assurance (FNB Life)	1.0		1.9		1.7
FirstRand STI			1.9		3.3
FRISCOL			1.8		1.0

* *Excluding any confidential bank-specific add-ons.*

** *RWA for entities outside of South Africa converted to rand using the closing rates at 30 June 2022.*

Including unappropriated profits.

† *FRB including foreign branches.*

‡ *No longer a registered bank from 7 July 2022.*

^ *Solvency capital requirements per quarterly returns as at 30 June 2022.*

Economic capital

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

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

> the risk universe;
> consistent standards and measurements for each risk type, where relevant;
> continual refinements to risk drivers, sensitivities, correlations and aggregations;
> transparent and verifiable results, subject to rigorous governance processes; and
> alignment and integration with the group's risk and capital frameworks.

Regular reviews of the EC position are carried out across businesses, enabling efficient portfolio optimisation with respect to financial resources and portfolio behaviour. The group's EC multiples (loss-absorbing capital/economic capital requirement) on a post-diversification basis are provided in the table below.

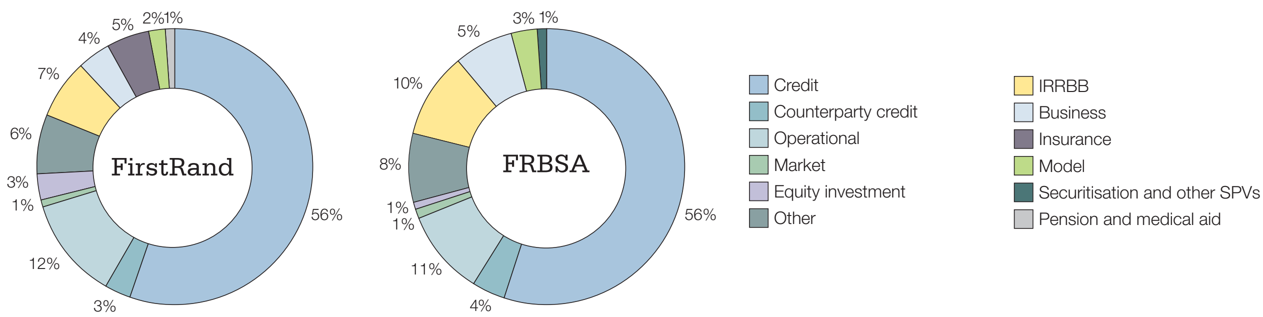
EC MULTIPLE

	As at 30 June	
Times	**2022**	2021
FirstRand	**1.7**	1.6
FRBSA	**1.8**	1.9

EC incorporates inter-risk aggregation/diversification for both FirstRand and FRBSA. Various approaches (such as variance-covariance, copula, constant factor, etc.), which vary in complexity, are used in aggregating EC across risk types and legal entities.

The following graphs unpack the EC requirement per risk type (post diversification) at 30 June 2022.

Economic capital analysis per risk type (post diversification)



Regulatory update

<table>
<tr><td rowspan="7">BASEL III REFORMS</td><td colspan="2">The revised large exposure framework and TLAC holdings regulations were effective 1 April 2022.
The proposed implementation dates for the remaining Basel III reforms are summarised in the table below.
Proposed implementation dates*</td></tr>
<tr><td>2022 and 2023</td><td>2024 onwards</td></tr>
<tr><td>1 October 2022</td><td>1 January 2024</td></tr>
<tr><td>> Revisions to the securitisation framework</td><td>> Interest rate risk in the banking book: disclosure requirements
> Revised standardised approach for credit risk framework
> Revised internal ratings-based approach for credit risk
> Revised operational risk framework
> Leverage ratio – revised exposure definition
> Minimum capital requirements for market risk**
> Revised credit valuation adjustment framework**</td></tr>
<tr><td>1 January 2023</td><td>1 January 2024 to 2028</td></tr>
<tr><td>> Interest rate risk in the banking book</td><td>> Output floor</td></tr>
<tr><td colspan="2">The group continues to participate in quantitative impact studies to assess the impact of the proposed reforms on the group's capital and leverage positions.</td></tr>
<tr><td rowspan="2">FINANCIAL CONGLOMERATE FRAMEWORK</td><td colspan="2">The Financial Sector Regulation Act empowers the PA to designate a group of companies as a financial conglomerate and to also regulate and supervise such designated financial conglomerates. The PA is also empowered to issue prudential standards relating to financial conglomerates, and these must be complied with by the holding companies of such financial conglomerates.
The PA published the following documents during the past year:
> January 2022: Draft prudential capital standard for financial conglomerates and the regulatory return were published. The draft capital standard and return will be tested over a period of two years from 1 February 2022. Formal consultation of the standard will commence thereafter.
> December 2021: Final standards for intragroup transactions and exposure requirements, auditor requirements for holding companies of financial conglomerates, governance and risk management requirements, and risk concentration requirements were published.</td></tr>
<tr><td colspan="2">FirstRand has not been designated as a financial conglomerate, however, its designation will be reassessed on a frequent basis. FirstRand has volunteered to participate in the field testing of the draft prudential capital standards, as well as the submission of regulatory returns for the final standards.</td></tr>
</table>

* *As per Guidance Note 4 of 2022, Proposed implementation dates in respect of specified regulatory reforms (9 May 2022).*

** *Subject to Guidance Note 8 of 2022, Effective date for the capitalisation requirements of the revised market risk and credit valuation adjustment frameworks, which will include a provision for transitional arrangements for the PA to determine the effective date for the capitalisation requirements of the frameworks.*

Liquidity risk and funding

Introduction and objectives

The group recognises two types of liquidity risk:

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

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

Due to the liquidity risk introduced by its business activities, the group optimises its funding composition within structural and regulatory constraints to enable business to operate in an efficient and sustainable manner. The group aims to fund its activities from diverse and sustainable funding pools, targeting a funding profile with natural liquidity risk offsets. Compliance with prudential liquidity ratios is a key consideration in the group's funding strategy.

The group's objective is to maintain and enhance its deposit market share by appropriately rewarding depositors. The group continues to offer innovative and competitive products to further grow its deposit franchise whilst also optimising its institutional funding profile.

The group entered the Covid-19 crisis in a strong liquidity position. The strength and diversification of the group's deposit franchise resulted in its liquidity position improving during and post the crisis. The group remains well funded with adequate liquidity buffers to meet both prudential liquidity requirements and internal targets. The temporary reduction of the LCR requirement from 100% to 80%, which came into effect on 1 April 2020, was withdrawn with the issuance of *Directive 8 of 2021, Withdrawal of the temporary relief measure related to the liquidity coverage ratio.* The LCR requirement was increased to 90% as at 1 January 2022, and to 100% as at 1 April 2022.

While the post-pandemic market has normalised with the South African economy recovering, the group continues to monitor key risk metrics and early warning indicators closely. The group regularly forecasts its liquidity position and uses scenario analysis in its decision-making process. FirstRand continues to hold appropriate liquidity buffers to withstand unexpected market disruptions.

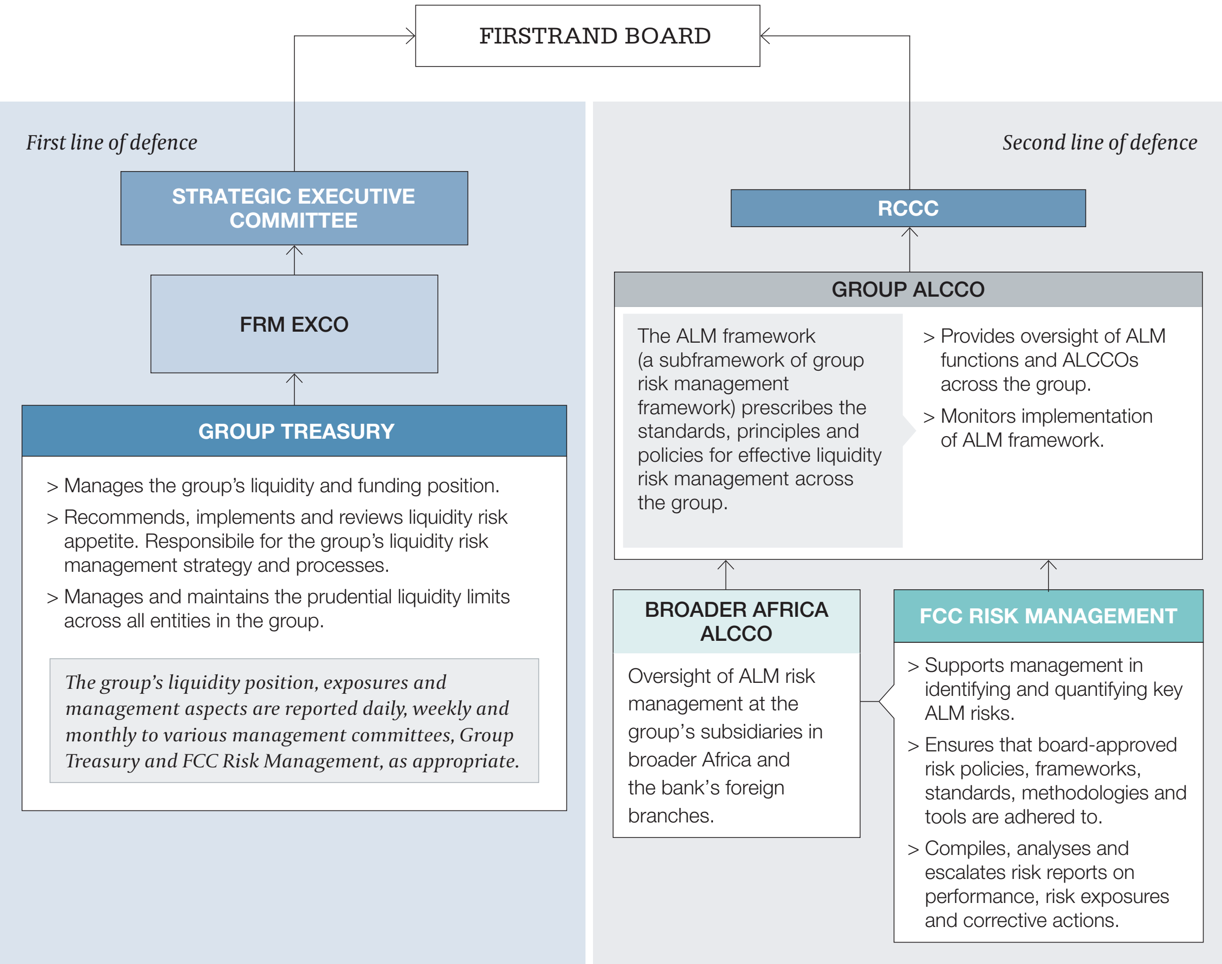
SARB monetary policy implementation framework

In June 2022, following extensive research and market consultation, the SARB announced a modernisation to its monetary policy implementation framework (MPIF). The MPIF is the means by which the monetary policy stance is transmitted to financial markets, and the price of money and credit. The SARB has moved from a shortage framework – which transmits the policy rate by virtue of the marginal rate of borrowing, to a surplus framework which seeks to transmit the policy rate through offering a deposit rate for marginal deposits.

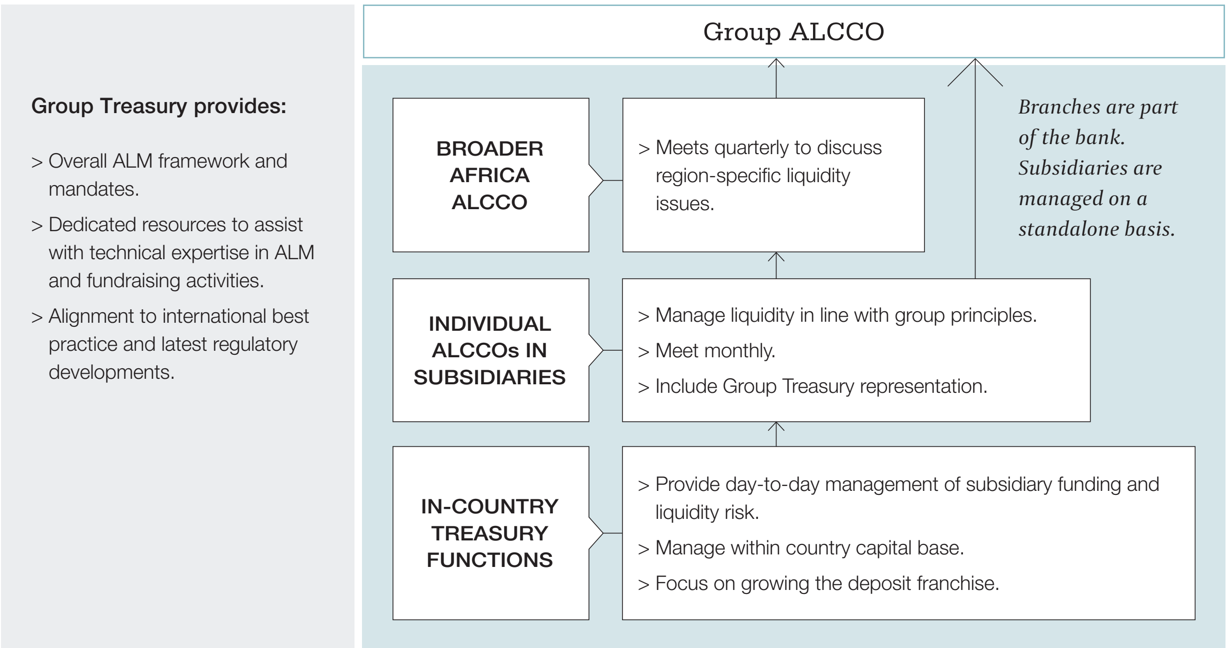
The MPIF is designed to improve the banking system's liquidity availability and payment capacity and thereby enhance overall financial stability. In addition, it is substantially more efficient for the SARB, and less complex, with less dependency on estimation of open market operations required to achieve a target liquidity shortage as was previously the case. Implementation of the framework is following a 12-week transition period and has thus far been well received by the market. More information on the MPIF can be found on the SARB's website: https://www.resbank.co.za/en/home/publications/new-monetary-policy-implementation-framework.

Organisational structure and governance

GROUP AND BANK



BROADER AFRICA AND FOREIGN BRANCHES



Funding management

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

> concentration of customer current accounts with the large South African banks;

> the closed rand system, where rand transactions are cleared and settled through registered banks and clearing institutions domiciled in South Africa;

> the prudential exchange control framework; and

> South African banks' low dependence on foreign currency funding.

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

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

Funds transfer pricing

The group operates a funds transfer pricing framework that incorporates the relevant base interest rates, and the cost or benefit of liquidity into product pricing by currency, for all significant business activities on- and off-balance sheet. Where fixed-rate commitments are undertaken (fixed-rate loans or fixed-rate deposits), transfer pricing also includes the cost to immunise business against interest rate risk. Businesses are effectively incentivised to:

> enhance and preserve funding stability;

> ensure that asset pricing is aligned to the group's liquidity risk appetite;

> reward liabilities in accordance with behavioural characteristics and maturity profile; and

> manage contingencies with respect to potential funding drawdowns.

Funding measurement and activity

FRB remains the primary debt-issuing entity in the group. Although its funding profile reflects the structural features described earlier, it derives a greater proportion of total funding from customer deposits and therefore has a lower reliance on institutional funding compared to the South African banking industry aggregate.

The group manages its funding profile by source, counterparty type, market, product and currency. The deposit franchise remains the most efficient and stable source of funding, representing 75% of total group funding liabilities at June 2022 (2021: 70%).

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

Refer to the group's analysis of financial results for the year ended 30 June 2022, which is available at https://www.firstrand.co.za/investors/financial-results/ for an update on the group's funding portfolio.

Foreign currency balance sheet

Funding structure of 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 greenfield start-ups to mature subsidiaries, and can be characterised from a funding perspective as follows:

> **Mature deposit franchises:** All assets are largely funded in-country. The pricing of funding is determined via in-country funds transfer pricing, which is already in place.

> **Growing deposit franchises:** Assets are first funded in-country at relevant funds transfer pricing rates. Any excess over and above in-country capacity is funded by the group's hard currency funding platforms. This is a temporary arrangement, which allows these entities to develop adequate in-country deposit bases.

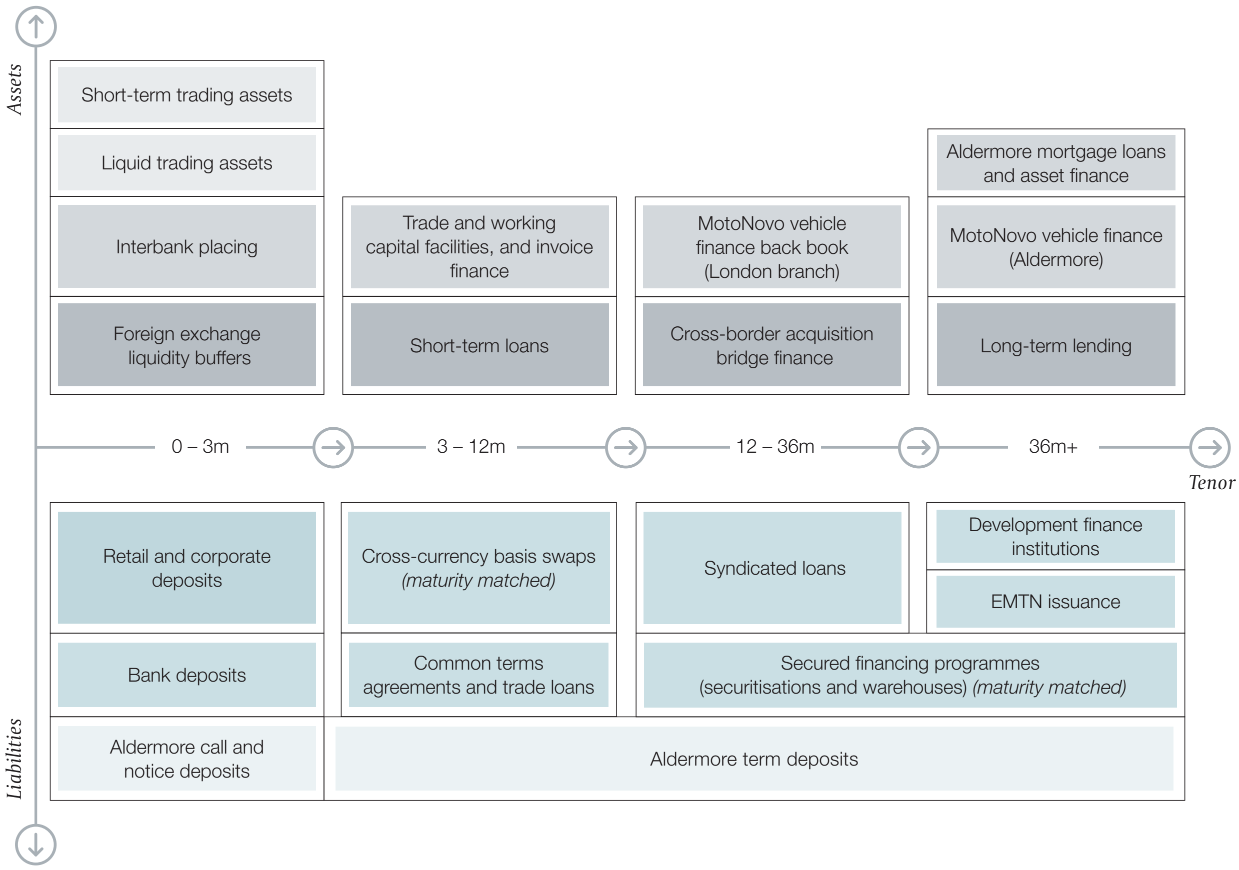
> **No deposit franchises:** All activities are funded by the group's hard currency funding platforms in the institutional market.

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

Group funding support

Any funding provided by the group is constrained by the appetite set independently by the credit risk management committee. In arriving at limits, the credit risk management committee considers the operating jurisdiction and any sovereign risk limits that should apply. Group Treasury must, therefore, ensure that any resources provided to foreign entities are priced appropriately and do not exceed agreed limits.

GRAPHICAL REPRESENTATION OF THE FOREIGN CURRENCY BALANCE SHEET



Liquidity risk management

Overview

Liquidity risk is a consequential risk. The group, therefore, continually monitors and analyses the potential impact of other risks and events on its funding and liquidity position to ensure that the group's activities preserve and improve funding stability. This ensures that the group can operate through periods of stress when access to funding could be constrained.

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

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

LIQUIDITY RISK MANAGEMENT APPROACHES

STRUCTURAL LIQUIDITY RISK	DAILY LIQUIDITY RISK	CONTINGENCY LIQUIDITY RISK
Managing the risk that structural, long-term, and 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 contingent funding sources to draw upon in times of economic stress.
> Setting liquidity risk tolerance. > Setting liquidity strategy. > Ensuring substantial diversification of funding sources. > Assessing the impact of future funding and liquidity needs considering anticipated liquidity shortfalls or excesses. > Setting the approach to liquidity management in different currencies and countries. > Ensuring adequate liquidity ratios. > Ensuring an appropriate structural liquidity gap. > Maintaining a funds transfer pricing methodology and process.	> Managing intraday liquidity positions. > Managing daily payment queue. > Monitoring net funding requirements. > Forecasting cash flows. > Performing short-term cash flow analysis for all currencies (individually and in aggregate). > Managing intragroup liquidity. > Managing central bank clearing. > Managing net daily cash positions. > Managing and maintaining market access. > Managing and maintaining collateral.	> Managing early warning and key risk indicators. > Performing stress testing, including sensitivity analysis and scenario testing. > Maintaining product behaviour and optionality assumptions. > Ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place. > Maintaining the contingency funding plan.

Stress testing and scenario analysis

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

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

Liquidity contingency planning

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

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

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

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

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

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

Liquidity risk position

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

COMPOSITION OF GROUP HQLA*

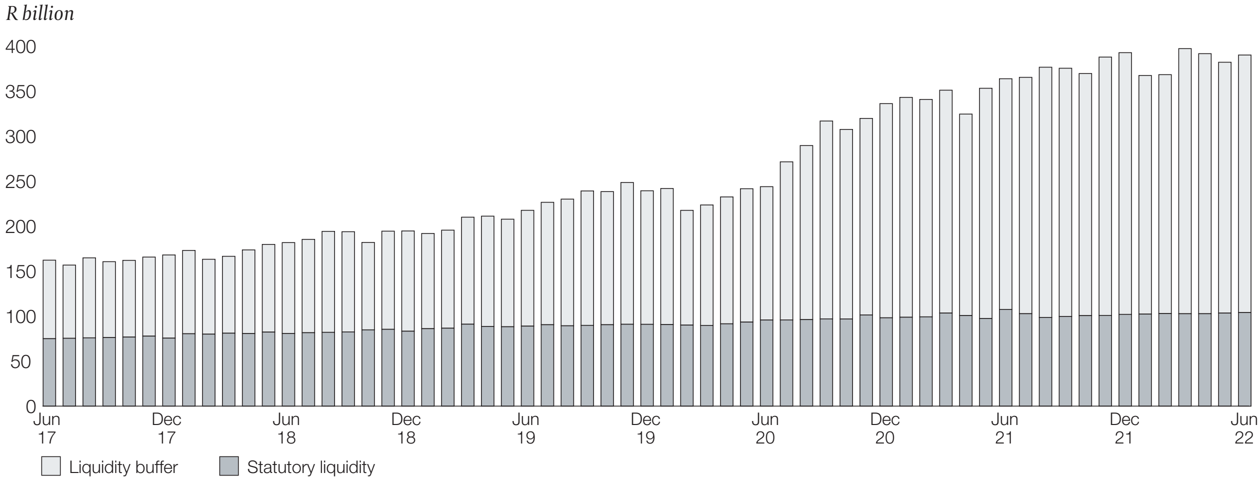
	As at 30 June	
R billion	**2022**	2021
Cash and deposits with central banks	**60**	51
Short-term liquidity instruments	**119**	91
Long-term investment securities	**128**	127
Other liquid assets	**34**	44
Total liquid assets	**341**	313

* *The composition of HQLA is calculated as a simple average of 91 days of daily observations over the period ended 30 June 2022 for FRBSA and the London branch, as well as FNB Botswana and FNB Namibia. The remaining banking entities, including Aldermore, and the India and FNB Channel Island branches, are based on the quarter-end values.*

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

The group has built its liquid asset holdings in accordance with asset growth, risk appetite and regulatory requirements. The increase in HQLA resulted from changes in market liquidity conditions together with the updated MPIF. The group's market business increased its client financing activities, which resulted in larger holdings of securities and a related increase in HQLA. The HQLA portfolio is continually assessed and actively managed to ensure optimal composition, cost and quantum.

FRBSA assets held as a source of stress funding*



* *The assets held as a source of stress funding, observed at each month end, consist of highly liquid assets that can secure funding and form part of FRBSA's liquidity buffer and statutory liquidity portfolio.*

Liquidity ratios for the group and bank at June 2022 are summarised below.

	Group*		FRBSA*	
%	LCR	NSFR	LCR	NSFR
Regulatory minimum	**100**	**100**	**100**	**100**
Actual	**121**	**123**	**124**	**120**

* *The group's LCR and NSFR include FRB, and all other banking subsidiaries. The FRBSA LCR and NSFR reflect South African operations only. The group LCR is calculated as a simple average of 91 days of daily observations over the period ended 30 June 2022 for FRBSA, the London Branch, FNB Botswana and FNB Namibia. The remaining banking entities, including Aldermore, and the India and FNB Channel Island branches are based on the quarter-end values. The FRBSA LCR is calculated as a simple average of 91 days of daily observations over the period ended 30 June 2022.*

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

Refer to the *Standardised disclosures* section of this report for additional liquidity disclosures required in terms of the Regulations:

> LIQ1: LCR

> LIQ2: NSFR

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, securitisation risk and climate risk (physical and transitional risks).

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

> retail credit is offered by FNB, WesBank and Aldermore to individuals and SMEs with a turnover of up to R12.5 million;
> commercial credit is offered by WesBank and FNB to businesses that are mainly single-banked, and also includes asset and invoice finance in Aldermore; and
> corporate credit is offered by RMB and WesBank to large corporate and institutional multi-banked clients.

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

The goal of credit risk management is to maximise the group's measure of economic profit, NIACC, within acceptable levels of earnings volatility by maintaining credit risk exposure within acceptable parameters.

Credit risk is one of the core risks assumed as part of achieving the group's business objectives. It is the most significant risk type in terms of regulatory and economic capital requirements.

Credit risk management objectives are twofold:

Risk control: Appropriate limits are placed on the assumption of credit risk. There are also processes in place to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams are responsible for risk control.

Management: Credit risk is taken within the constraints of the group's return and risk appetite, and credit risk appetite frameworks. The credit portfolio is managed at an aggregate level to optimise the exposure to this risk. Business units and deployed risk functions, overseen by the group credit risk management function in ERM and relevant board committees, fulfil this role.

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 the 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.

Credit risk appetite measures are set in line with overall risk appetite.

> Credit risk appetite is determined using both a top-down group credit risk appetite and an aggregated bottom-up assessment of the business unit-level credit risk appetites.
> Stress testing is used to model financial performance and measure the credit volatility profile of the different credit businesses units at a portfolio, segment, operating business and ultimately diversified group-wide level.

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

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

Types of credit risk limits are outlined below.

BUSINESS UNIT LIMITS	
Counterparty limits	Borrowers' risk grades are mapped to the FirstRand rating scale.
Collateral limits	For secured loans, limits are based on collateral profiles, e.g. loan-to-value bands.
Capacity limits	Measures of customer affordability.
Concentration limits	Limits for concentrations to, for example, customer segments or high-collateral risk.
PORTFOLIO-LEVEL LIMITS	
Additional limits for subportfolios subject to excessive credit loss volatility and elevated climate risk, e.g. coal, and oil and gas (refer to the TCFD report for further detail).	

YEAR UNDER REVIEW AND FOCUS AREAS

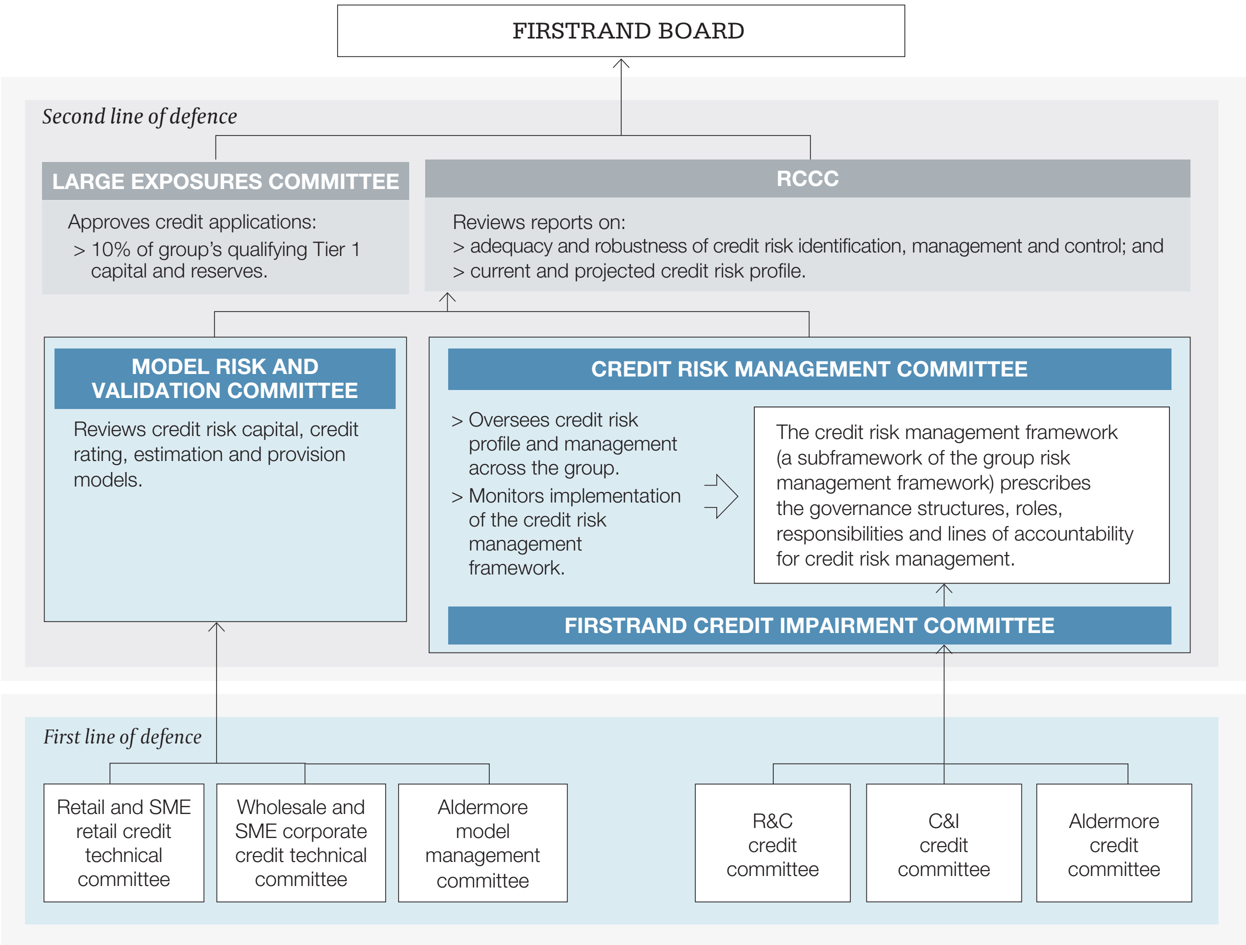
YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
> Normalisation of credit criteria post Covid-19, to enable approriate growth as underlying credit portfolio performance continued to improve ahead of expectations and the economic recovery continued. > Significant focus on climate risk to refine the measurement and management of the interaction between climate risk and credit risk. > Focused efforts to enhance efficiencies in credit risk rating systems used for regulatory capital (AIRB) and IFRS 9 impairments to reduce duplication whilst improving prediction accuracy. > Enhanced the use of credit economic capital models in portfolio performance measurement and credit risk appetite capacity assessments. > Despite continued challenging economic conditions, the group benefited from prudent risk mitigation and provisioning in prior periods.	> Monitor the impact of the geopolitical tension in Europe on global and domestic inflation-, interest rate- and growth outlooks. Adjust risk responses accordingly. > Extend BCBS 239 compliance to Aldermore. > Leverage BCBS 239 capabilities to integrate credit risk aggregation and reporting, and credit risk stress testing activities. > Ensure the group has a comprehensive programme in place to manage adoption of Basel III reforms.

Credit risk reporting

Credit risk information reporting follows the credit governance structure illustrated on the next page. Segment (retail, commercial, wholesale (corporate) and Aldermore) credit performance, outlook and adherence to credit risk appetite are reported to the relevant segment portfolio committees. A consolidated group credit risk report is then tabled by Group Credit Risk Management in ERM at the FirstRand credit risk management committee and the RCCC.

Organisational structure and governance

CREDIT RISK GOVERNANCE STRUCTURE



Second line of defence

BUSINESS CREDIT RISK FUNCTIONS

Portfolio heads (retail, commercial, wholesale (corporate) and Aldermore)

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

ERM GROUP CREDIT RISK MANAGEMENT

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

Third line of defence

GIA

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

Credit assets

CREDIT ASSETS BY TYPE, SEGMENT AND PA APPROACH

	As at 30 June				
	2022				2021
		AIRB approach	Standardised approach		
R million	Total	FRBSA	Regulated banking entities in broader Africa	Other subsidiaries and foreign branches	Total
On-balance sheet exposures	**1 828 915**	**1 287 792**	**107 873**	**433 250**	1 694 018
Cash and short-term funds	131 925	93 764	13 716	24 445	124 503
– Money at call and short notice	77 773	64 321	5 771	7 681	67 410
– Balances with central banks	54 152	29 443	7 945	16 764	57 093
Gross advances*	1 382 058	955 443	67 335	359 280	1 274 052
Less: impairments**	47 734	34 107	3 857	9 770	50 618
Net advances	1 334 324	921 336	63 478	349 510	1 223 434
Debt investment securities (excluding non-recourse investments)#	362 666	272 692	30 679	59 295	346 081
Off-balance sheet exposures	**252 973**	**199 855**	**9 881**	**43 237**	232 130
Total contingencies†	73 237	48 386	4 616	20 235	60 002
– Guarantees	59 117	35 688	3 194	20 235	49 943
– Letters of credit	14 120	12 698	1 422	–	10 059
Irrevocable commitments	172 796	144 529	5 265	23 002	166 397
Credit derivatives	6 940	6 940	–	–	5 731
Total	**2 081 888**	**1 487 647**	**117 754**	**476 487**	1 926 148

* *The business split of gross advances is provided in the CR1: Credit quality of assets table.*
** *Impairments include expected credit loss on both on- and off-balance sheet exposures.*
\# *Debt investment securities are net of allowances and impairments.*
† *Includes acceptances.*

Credit quality of assets

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

The group adopted the PD/LGD approach for the calculation of ECL for advances. The ECL is based on an average of three macroeconomic scenarios incorporating a base scenario, upside scenario and downside scenario, weighted by the probability of occurrence. In 2021 and 2022, a fourth stress scenario was also added to reflect additional event risk. The relevance of the scenarios are reviewed on an ongoing basis. Regression modelling techniques are used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the group of accounts to which the model will be applied. This results in the production of models that are used to predict impairment parameters (PD, LGD and EAD) based on the predictive characteristics identified through the regression process.

Impairment of financial assets

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

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

IMPAIRMENT CLASSIFICATION

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

IMPAIRMENT ASSESSMENT

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

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

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

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

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

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

CR1: CREDIT QUALITY OF ASSETS

		As at 30 June 2022*						
		Gross carrying values of			Of which ECL accounting provisions for credit losses on standardised approach exposures†		Of which ECL accounting provisions for credit losses on AIRB exposures	
	R million	(a) Defaulted exposures**	(b) Non-defaulted exposures#	(c) Allowances/ impairments	Allocated in regulatory category of specific	Allocated in regulatory category of general		(a+b-c) Net value
1.	**Gross advances**	50 886	1 331 172	47 734	5 069	5 563	37 102	1 334 324
	FNB	31 665	459 173	27 816	2 783	2 379	22 654	463 022
	– Retail	23 720	306 388	18 982	739	634	17 608	311 126
	– Commercial	4 627	103 196	5 292	128	118	5 046	102 531
	– Broader Africa	3 318	49 589	3 542	1 916	1 627	–	49 365
	WesBank	7 106	137 375	6 237	1	4	6 232	138 244
	RMB investment banking	2 757	326 115	5 828	–	–	5 828	323 044
	RMB corporate banking	1 430	64 835	1 550	–	–	1 550	64 715
	Aldermore	7 001	291 566	4 676	2 026	2 650	–	293 891
	FCC (including Group Treasury)	927	52 108	1 627	259	530	838	51 408
2.	**Debt investment securities‡**	–	362 980	314	–	–	314	362 666
3.	**Off-balance sheet exposures**	435	252 538	–	–	–	–	252 973
4.	**Total**	51 321	1 946 690	48 048	5 069	5 563	37 416	1 949 963

* *During the year, asset-based finance (ABF) advances to customers that bank with FNB were moved from FNB commercial to WesBank corporate. This change was implemented to create consistency of process and to effect business efficiencies by managing the ABF book as a single portfolio within WesBank.*

** *Defaulted exposure is stage 3/NPLs.*

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

† *ECL = expected credit loss.*

‡ *Exclude non-recourse investments.*

CR1: CREDIT QUALITY OF ASSETS continued

		As at 30 June 2021						
		Gross carrying values of			Of which ECL accounting provisions for credit losses on standardised approach exposures			
R million		(a) Defaulted exposures*	(b) Non-defaulted exposures**	(c) Allowances/ impairments	Allocated in regulatory category of specific	Allocated in regulatory category of general	Of which ECL accounting provisions for credit osses on AIRB exposures	(a+b+c) Net value
1.	**Gross advances**	60 705	1 213 347	50 618	5 021	5 299	40 298	1 223 434
	FNB	37 333	436 611	30 937	3 011	2 774	25 152	443 007
	– Retail	27 428	284 908	21 000	967	982	19 051	291 336
	– Commercial	6 378	104 743	6 310	82	127	6 101	104 811
	– Broader Africa	3 527	46 960	3 627	1 962	1 665	–	46 860
	WesBank	10 725	116 363	6 476	6	48	6 422	120 612
	RMB investment banking	3 009	300 523	6 039	–	–	6 039	297 493
	RMB corporate banking	670	48 972	1 640	–	–	1 640	48 002
	Aldermore	7 738	260 729	3 791	1 766	2 025	–	264 676
	Centre (including Group Treasury)	1 230	50 149	1 735	238	452	1 045	49 644
2.	**Debt investment securities#**	–	346 339	258	–	–	258	346 081
3.	**Off-balance sheet exposures**	797	231 332	–	–	–	–	232 129
4.	**Total**	61 502	1 791 018	50 876	5 021	5 299	40 556	1 801 644

* *Defaulted exposure is stage 3/NPLs.*
** *Non-defaulted exposure is the sum of stage 1 and stage 2 gross advances.*
\# *Exclude non-recourse investments.*

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

	R million	Total
1.	**Defaulted credit exposures at 30 June 2021**	61 502
2.	Advances defaulted	24 163
3.	Return to non-defaulted status	(9 827)
4.	Amounts written off	(15 169)
5.	Payment received	(7 410)
6.	Other changes	(1 938)
7.	**Defaulted credit exposures at 30 June 2022**	51 321

Age analysis of credit exposures

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

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

AGE ANALYSIS OF CREDIT EXPOSURES

	As at 30 June 2022*			
	Gross carrying values of			
R million	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net value
FNB	31 665	459 173	27 816	463 022
– Retail	23 720	306 388	18 982	311 126
– Commercial**	4 627	103 196	5 292	102 531
– Broader Africa	3 318	49 589	3 542	49 365
WesBank	7 106	137 375	6 237	138 244
RMB investment banking	2 757	326 115	5 828	323 044
RMB corporate banking	1 430	64 835	1 550	64 715
Aldermore	7 001	291 566	4 676	293 891
Centre (including Group Treasury)	927	52 108	1 627	51 408
Total	50 886	1 331 172	47 734	1 334 324
Percentage of total book (%)	3.7	96.3		100.0

	As at 30 June 2021			
	Gross carrying values of			
R million	Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Net value
FNB	37 333	436 611	30 937	443 007
– Retail	27 428	284 908	21 000	291 336
– Commercial**	6 378	104 743	6 310	104 811
– Broader Africa	3 527	46 960	3 627	46 860
WesBank	10 725	116 363	6 476	120 612
RMB investment banking	3 009	300 523	6 039	297 493
RMB corporate banking	670	48 972	1 640	48 002
Aldermore	7 738	260 729	3 791	264 676
Centre (including Group Treasury)	1 230	50 149	1 735	49 644
Total	60 705	1 213 347	50 618	1 223 434
Percentage of total book (%)	4.8	95.2		100.0

* *During the year, ABF advances to customers that bank with FNB were moved from FNB commercial to WesBank corporate. This change was implemented to create consistency of process and to effect business efficiencies by managing the ABF book as a single portfolio within WesBank.*

** *Includes public sector.*

Income statement impairment charge

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

Refer to the group's *Analysis of financial results for the year ended 30 June 2022,* available on the group's website at www.firstrand.co.za/investors/financial-results/, for the NPL and impairment history graph and a description of normalised credit performance.

Sector and geographical analysis of defaulted advances

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

SECTOR DEFAULTED ADVANCES*

	As at 30 June 2022			
R million	Defaulted advances before write-offs	Less: write-offs excluding interest in suspense	Defaulted advances net of write-offs	Specific impairments
Agriculture	2 827	354	2 473	1 306
Financial institutions	498	160	338	252
Building and property development	1 864	434	1 430	823
Government, Land Bank and public authorities	207	16	191	115
Individuals	49 347	12 135	37 212	17 067
Manufacturing and commerce	5 108	755	4 353	3 046
Mining	131	28	103	78
Transport and communication	1 166	286	880	394
Other services	4 908	1 002	3 906	2 241
Total	66 056	15 170	50 886	25 322

	As at 30 June 2021			
R million	Defaulted advances before write-offs	Less: write-offs excluding interest in suspense	Defaulted advances net of write-offs	Specific impairments
Agriculture	2 522	540	1 982	823
Financial institutions**	1 709	144	473	517
Building and property development	2 728	889	1 839	939
Government, Land Bank and public authorities	837	11	826	187
Individuals	55 775	12 166	43 609	19 073
Manufacturing and commerce	5 795	782	5 013	3 065
Mining	91	(20)	111	69
Transport and communication	1 664	268	1 396	527
Other services**	5 781	1 417	5 456	2 276
Total	76 902	16 197	60 705	27 476

* *There were no defaulted advances in the banks sector during 2021 and 2022.*

** *June 2021 has been restated. Reallocation of real estate entities from financial institutions to other services category during the year.*

GEOGRAPHIC DEFAULTED ADVANCES

	As at 30 June 2022			
R million	Defaulted advances before write-offs	Less: write-offs excluding interest in suspense	Defaulted advances net of write-offs	Specific impairments
South Africa	53 078	13 662	39 416	20 244
Broader Africa	4 395	948	3 447	2 030
UK	8 397	467	7 930	2 959
Other Europe	8	3	5	3
North America	2	1	1	–
South America	–	–	–	–
Australasia	83	–	83	83
Asia	93	89	4	3
Total	66 056	15 170	50 886	25 322

	As at 30 June 2021			
R million	Defaulted advances before write-offs	Less: write-offs excluding interest in suspense	Defaulted advances net of write-offs	Specific impairments
South Africa	61 703	13 825	47 878	22 557
Broader Africa	5 091	1 409	3 682	2 077
UK	9 973	1 004	8 969	2 711
Other Europe	5	2	3	3
North America	(45)	(46)	1	1
South America	1	–	1	–
Australasia	85	–	85	43
Asia	89	3	86	84
Total	76 902	16 197	60 705	27 476

Restructured exposures

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

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

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

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

RESTRUCTURED EXPOSURES SPLIT BETWEEN IMPAIRED AND NOT IMPAIRED*

	As at 30 June					
	2022			2021		
R million	**Impaired**	**Not impaired**	**Total**	Impaired	Not impaired	Total
Advances	**7 259**	**13 266**	**20 525**	7 798	7 554	15 352
Off-balance sheet exposures	**–**	**–**	**–**	189	182	371
Total	**7 259**	**13 266**	**20 525**	7 987	7 736	15 723

* *There were no restructured debt investment securities (excluding non-recourse investments and equities) in 2021 and 2022.*

Covid-19 restructures

The PA released *Directive 7 of 2021, Withdrawal of the temporary treatment of restructured credit exposures due to the Covid-19 pandemic* to withdraw *Directive 3 of 2020, Matters related to the treatment of restructured credit exposures due to the Covid-19 pandemic* (which had provided temporary relief for credit risk, specifically the treatment of restructured credit exposures related to Covid-19), effective 1 April 2022. Directive 3 of 2020 no longer applies to any restructured credit exposures (new or reapplications) granted from 1 January 2022 onwards.

At 30 June 2022, no customers were still receiving relief.

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

	As at 30 June					
	2022			2021		
R million	**Drawn**	**Undrawn**	**Total**	Drawn	Undrawn	Total
Commercial advances	**1 291**	**–**	**1 291**	1 599	35	1 634
Total	**1 291**	**–**	**1 291**	1 599	35	1 634

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 and 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 and borrowers, as well as publicly available information. The frequency of monitoring and contact with the borrower is determined by the borrower's risk profile. Reports on the overall quality of the portfolio are monitored at business unit level, portfolio level and in aggregate for the group.

Management of concentration risk

Credit concentration risk is the risk of loss to the group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, country or region, maturity or climate risk (physical and transitional risks). 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. This is achieved by setting maximum exposure guidelines to individual counterparties. The group continually reviews its concentration levels and maximum exposure guidelines. Breaches of concentration limits are reported to the RCCC.

Geographic, industry and residual maturity concentration risk

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

BREAKDOWN OF EXPOSURES ACROSS GEOGRAPHICAL AREAS

	As at 30 June			
	2022		2021	
R million	**Gross advances and debt investment securities***	**Significant off-balance sheet exposures**	Gross advances and debt investment securities*	Significant off-balance sheet exposures
South Africa	**1 150 947**	**181 471**	1 051 992	170 402
Broader Africa	**139 463**	**23 450**	125 114	19 613
UK	**354 616**	**37 769**	355 221	32 479
Other Europe	**49 714**	**5 302**	34 610	6 711
North America	**38 131**	**1 702**	37 715	64
South America	**1 351**	**23**	2	15
Australasia	**1 258**	**10**	587	79
Asia	**9 558**	**3 246**	15 150	2 766
Total	**1 745 038**	**252 973**	1 620 391	232 129

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

BREAKDOWN OF EXPOSURES ACROSS INDUSTRIES

	As at 30 June			
	2022		2021	
R million	Gross advances and debt investment securities*	Significant off-balance sheet exposures	Gross advances and debt investment securities*	Significant off-balance sheet exposures
Agriculture	52 136	3 094	44 096	2 147
Banks and financial services	269 230	62 305	238 670	62 551
Building and property development	80 606	3 615	74 285	4 990
Government, Land Bank and public authorities	328 487	5 736	329 919	4 276
Individuals	655 793	62 528	632 723	64 335
Manufacturing and commerce	164 707	43 281	131 402	42 458
Mining	8 094	28 350	9 080	24 284
Transport and communication	40 661	14 296	29 897	12 066
Other services	145 324	29 768	130 319	15 022
Total	**1 745 038**	**252 973**	1 620 391	232 129

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

BREAKDOWN OF EXPOSURES BY RESIDUAL MATURITY

	As at 30 June			
	2022		2021	
R million	Gross advances and debt investment securities*	Significant off-balance sheet exposures	Gross advances and debt investment securities*	Significant off-balance sheet exposures
Less than one year (including call)	638 255	224 517	587 908	206 096
Between one year and five years	597 670	26 944	591 216	4 769
Over five years	456 507	1 512	384 602	1 542
Non-contractual amounts	52 606	–	56 665	19 722
Total	**1 745 038**	**252 973**	1 620 391	232 129

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

Credit risk mitigation

The group's credit risk mitigation approach is described on page 23.

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

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

CR3: CREDIT RISK MITIGATION TECHNIQUES

	As at 30 June 2022				
	Exposures*				
		Secured by collateral		**Secured by financial guarantees**	
R million	**Unsecured carrying value**	**Carrying value**	**Secured amount**	**Carrying value**	**Secured amount**
Advances	212 190	1 122 134	1 122 134	12 038	12 038
Debt securities	61 354	301 312	301 312	–	–
Total advances and debt securities	273 544	1 423 446	1 423 446	12 038	12 038
Of which defaulted	3 800	21 765	21 765	–	–

	As at 30 June 2021				
	Exposures*				
		Secured by collateral		Secured by financial guarantees	
R million	Unsecured carrying value	Carrying value	Secured amount	Carrying value	Secured amount
Advances	197 264	1 026 170	1 026 170	9 416	9 416
Debt securities	81 943	264 138	264 138	–	–
Total advances and debt securities	279 207	1 290 308	1 290 308	9 416	9 416
Of which defaulted	4 199	29 029	29 029	–	–

* *No exposures were secured by credit derivatives during 2021 and 2022.*

Credit risk under the standardised approach

For regulatory capital purposes, the group predominantly uses the AIRB approach for FRBSA exposures, and the standardised approach for the group's other legal entities, the bank's foreign branches and Aldermore. Due to the relatively small size of the subsidiaries and the scarcity of relevant data, the group plans to continue using the standardised approach for the foreseeable future for the majority of these portfolios.

For portfolios using the standardised approach, only S&P Global Ratings (S&P) ratings are used. As external ratings are not available for all jurisdictions and for certain parts of the portfolio, the group uses its internally developed mapping between internal rating grades and S&P grades (refer to the *Mapping of FirstRand grades to rating agency scales* on page 71).

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

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

The following table provides the credit risk exposures, credit risk mitigation effects and RWA for standardised approach exposures per asset class. RWA density is the ratio of RWA to exposures post CCF and CRM. There are no exposures to multilateral development banks, secured by commercial real estate, equity, past due advances, higher-risk categories and other asset categories. Rows 3 and 10 – 13 were therefore excluded from this table.

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

		As at 30 June 2022					
		Exposures before CCF and CRM		Exposure post CCF and CRM		RWA and RWA density	
R million		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density %
	Asset classes						
1.	Sovereigns and their central banks	105 485	2 025	101 533	997	45 549	44.43
2.	Non-central government public sector entities	3 762	1 493	2 684	207	1 445	49.98
4.	Banks	29 720	82	26 622	309	9 273	34.43
5.	Securities firms	1 364	43	1 364	21	693	50.04
6.	Corporates	66 746	48 266	70 640	25 616	73 741	76.61
7.	Regulatory retail portfolios	135 138	14 038	134 964	2 820	102 231	74.20
8.	Secured by residential property	170 631	9 667	170 639	2 417	62 138	35.91
9.	Secured by commercial real estate	25 986	5 258	25 986	1 386	27 372	100.00
14.	**Total**	538 832	80 872	534 432	33 773	322 442	56.75

		As at 30 June 2021					
		Exposures before CCF and CRM		Exposure post CCF and CRM		RWA and RWA density	
R million		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density %
	Asset classes						
1.	Sovereigns and their central banks	99 005	67	97 984	23	45 717	46.65
2.	Non-central government public sector entities	3 346	1 035	2 417	203	1 246	47.56
4.	Banks	23 171	541	22 723	279	5 888	25.60
5.	Securities firms	939	37	939	19	479	50.00
6.	Corporates	61 055	29 963	62 710	18 805	70 331	86.28
7.	Regulatory retail portfolios	114 017	15 699	113 870	5 076	85 369	71.77
8.	Secured by residential property	152 695	5 443	152 688	4 710	45 767	29.08
9.	Secured by commercial real estate	22 512	525	22 512	523	23 120	100.37
14.	**Total**	476 740	53 310	475 843	29 638	277 917	54.98

The following tables provide a breakdown of exposures rated through the standardised approach by asset class to show the effect of credit risk mitigation. Further breakdown by risk weight per asset class is shown where the risk weights used are those prescribed in the Regulations and will differ primarily by asset class as well as credit rating. There are no exposures to multilateral development banks, secured by commercial real estate, equity, past due advances, higher-risk categories and other asset categories. Rows 3 and 10 – 13 were therefore excluded from this table.

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

As at 30 June 2022

	R million	Risk weight 0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post CRM)
	Asset classes										
1.	Sovereigns and their central banks	60 825	–	–	–	7 418	–	19 181	15 106	–	102 530
2.	Non-central government public sector entities	–	–	–	–	2 891	–	–	–	–	2 891
4.	Banks	–	1 646	19 792	–	1 945	–	2 638	910	–	26 931
5.	Securities firms	–	–	–	–	1 385	–	–	–	–	1 385
6.	Corporates	1 611	–	4 794	2 554	6 019	5 008	71 243	5 027	–	96 256
7.	Regulatory retail portfolios	1 132	–	–	335	–	132 585	3 351	381	–	137 784
8.	Secured by residential property	–	–	–	171 264	–	1 683	109	–	–	173 056
9.	Secured by commercial real estate	–	–	–	–	–	–	27 372	–	–	27 372
14.	**Total**	63 568	1 646	24 586	174 153	19 658	139 276	123 894	21 424	–	568 205

As at 30 June 2021

	R million	Risk weight 0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post CRM)
	Asset classes										
1.	Sovereigns and their central banks	51 228	–	–	–	11 321	–	17 818	17 640	–	98 007
2.	Non-central government public sector entities	–	–	–	–	2 621	–	–	–	–	2 621
4.	Banks	2 289	1 273	16 667	–	1 112	–	940	720	–	23 001
5.	Securities firms	–	–	–	–	958	–	–	–	–	958
6.	Corporates	–	–	4 187	8 003	2 245	12 894	51 224	2 958	5	81 516
7.	Regulatory retail portfolios	1 534	–	–	15 588	137	97 983	3 343	361	–	118 946
8.	Secured by residential property	–	–	–	156 613	–	754	30	–	–	157 397
9.	Secured by commercial real estate	–	–	–	–	–	–	22 868	168	–	23 036
14.	**Total**	55 051	1 273	20 854	180 204	18 394	111 631	96 223	21 847	5	505 482

Credit risk under the AIRB approach

The use of quantitative models is crucial to the successful management of credit risk. Models are used across the credit value chain in decision-making and in credit risk measurement and reporting.

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

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

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

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

EAD % per portfolio	AIRB approach	Standardised approach
Retail	60	40
Commercial	60	40
Corporate	75	25

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

> probability of default;

> exposure at default; and

> loss given default.

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

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

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

MAPPING OF FIRSTRAND GRADES TO RATING AGENCY SCALES

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

> 1 represents the lowest PD and 100 the highest on the FirstRand rating scale.
> External ratings have also been mapped to the master rating scale for reporting purposes.

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

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

Expected loss

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

Credit risk model development and approval

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

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

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

> **Model owner** – Responsible for the overall performance of the model, including ensuring that the model is implemented correctly and used appropriately. The model owner should be the head of credit for the portfolio to which the model will be applied unless model ownership has been delegated to an appropriate central function.

> **Model developer** – Responsible for the development of the model, using appropriate methodologies that align with the intended model use and for producing appropriate model documentation. The model developer should be a senior analyst in the business unit in which the model will be used, unless model development has been outsourced to an appropriate central function.

> **Model validator** – Performs the independent validation of the model in accordance with the relevant approved model validation framework. The model validator should be in ERM, unless independent validation has been delegated to another function or area that is independent from the model owner and model developer.

> **Model approver** – Responsible for the final approval of the model for its intended use. Model approval is the responsibility of the RCCC or its designated subcommittee, and the final model approval is dependent on model type and model risk classification.

> **GIA** – Responsible for monitoring adherence to the requirements of the model risk management framework for credit risk and other related policies and frameworks.

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

MODEL GOVERNANCE AND VALIDATION IN THE CREDIT MODEL LIFE CYCLE

Life cycle stage	Description	Model governance and validation
Model development	New models, updates and calibrations.	Model and documentation sign-off by model owner. Approval by retail/wholesale technical committee.
Independent validation	Independent review of model, underlying methodology and results.	In line with requirements of regulatory capital model validation frameworks.
Model approval	Final approval indicating model may be implemented and used as intended.	Approval by: > Model risk and validation committee (MRVC). > RCCC (for material models). > PA (if required by PA communication policy).
Model implementation	Model deployed to production environment.	Model owner sign off.
Post-implementation review	Confirmation of successful model implementation.	Model owner sign off. Noted at MRVC. Material models noted at RCCC.
Ongoing monitoring and validation	Confirmation of continued model relevance and accuracy.	Model owner and technical committee sign off results. Annual independent validation noted at: > MRVC. > RCCC (material models). > PA (if required by PA communication policy).

AIRB models

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

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

> PDs – 0.3%;

> residential mortgage LGDs – 10%; and

> EADs – 100% of drawn exposure.

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

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

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

PORTFOLIO	NUMBER OF MODELS	MODEL TYPE	MODEL DESCRIPTION
Specialised lending portfolios (RMB, FNB commercial) Exposures to private sector counterparties for the financing of project finance, high-volatility commercial real estate, and income-producing real estate.	9	PD	> The rating systems are based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks. > All ratings (and associated PDs) are reviewed by the wholesale credit committee and, if necessary, final adjustments made to ratings to reflect information not captured by the models.
		LGD	> The LGD estimation process is similar to that followed for PD with simulation and expert judgement used as appropriate.
		EAD	> EAD estimates are based on internal as well as suitably adjusted external data. The credit conversion factor approach is typically used to inform the EAD estimation process.
Commercial portfolios (FNB commercial, WesBank) Exposures to SME corporate and retail clients. Products include loan facilities, contingent products and term lending products.	12	PD	> **SME commercial** – counterparties are scored using financial statement information in addition to other internal risk drivers, the output of which is calibrated to internal historical default data. > **SME retail** – the SME retail portfolio is segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status. PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools.
		LGD	> **SME commercial** – recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data and Basel guidelines. > **SME retail** – LGD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.
		EAD	> **SME commercial** – portfolio-level credit conversion factors are estimated on the basis of the group's internal historical experience and benchmarked against international studies. > **SME retail** – EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.
Residential mortgages (FNB retail) Exposures to individuals for financing of residential properties.	12	PD	> Portfolios/products are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status. > PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools.
		LGD	> LGD estimates are based on subsegmentation with reference to collateral or product type, time in default and post-default payment behaviour. Final estimates are based on associated analyses and modelling of historical internal loss data.
		EAD	> EAD estimates are based on subsegmentation with reference to product-level analyses and modelling of historical internal exposure data.

PORTFOLIO	NUMBER OF MODELS	MODEL TYPE	MODEL DESCRIPTION
Qualifying revolving retail exposures (FNB retail) Exposures to individuals providing a revolving limit through credit card or overdraft facility.	9	PD	> Portfolios/products are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status. > PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools.
		LGD	> LGD estimates are based on subsegmentation with reference to product type. Final estimates are based on associated analyses and modelling of historical internal loss data.
		EAD	> EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately, e.g. straight versus budget in the case of credit cards.
Other exposures (Personal loans and vehicle asset finance (VAF))	15	PD	> Portfolios/products are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status. > PDs are estimated for each subpool based on internal product-level history associated with the respective homogeneous pools and subpools.
		LGD	> LGD estimates are based on subsegmentation with reference to collateral (in the case of VAF) or product type and time in default. Final estimates are based on associated analyses and modelling of historical internal loss data.
		EAD	> EAD estimates are based on subsegmentation with reference to product-level analyses and modelling of historical internal exposure data.

Use of credit risk measures

Credit risk management encompasses the following:

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

CREDIT RISK MANAGEMENT ACTIONS AND MEASURES IN THE CREDIT LIFE CYCLE

	CORPORATE	RETAIL
Determination of portfolio and client acquisition strategy	> Assessment of overall portfolio credit risk determined by PD, EAD and LGD. > Acquisition and overall strategy set in terms of appropriate limits and group risk appetite.	> Same measures as for corporate. > Credit models determine loss thresholds used in setting of credit risk appetite.
Determination of individual and portfolio limits	> Industry and geographical concentrations. > Credit ratings. > Risk-related limits on the composition of portfolio. > Group credit risk appetite.	> Same measures as for corporate. > Modelled versus actual experience is evaluated in setting of risk appetite.
Profitability analysis and pricing decisions	> PD, EAD and LGD used to determine pricing. > Economic profit used for profitability.	> Same measures as for corporate.
Credit approval	> Consideration of application's ratings. > Credit risk appetite limits. > Projected risk-adjusted return on economic capital (PD, EAD and LGD are key inputs in these measures).	> Automated based on application scorecards (scorecards are reflective of PD, EAD and LGD). > Assessment of client's affordability.
Credit monitoring and risk management	> Risk assessment based on PD, EAD and LGD. > Counterparty FirstRand grades updated based on risk assessment. > Additional capital for large transactions that will increase concentration risk.	> Same measures as for corporate. > Monthly analysis of portfolio and risk movements used in portfolio management and credit strategy decisions.
Impairments	> Macroeconomic models, PD, EAD and LGD used for stage 1, stage 2 and stage 3 ECL. > Judgemental assessment to determine adequacy of impairments.	> Macroeconomic models, PD, EAD and LGD used for stage 1, stage 2 and stage 3 ECL.
Regulatory and economic capital calculation	> Primary credit risk measures, PD, EAD and LGD are the most important inputs.	> Primary credit risk measures, PD, EAD and LGD are the most important inputs.
Reporting to senior management and board	> Portfolio reports discussed at business and business unit risk committee meetings. > Quarterly portfolio reports submitted to credit risk management and RCCC.	> Portfolio reports discussed at business and business unit risk committee meetings. > Quarterly portfolio reports submitted to credit risk management and RCCC.

Credit risk exposures by portfolio and PD range

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

> regulatory supplied CCF are used;

> CRM measures applied are described on page 23;

> number of obligors corresponds to the number of counterparties in the PD band;

> average PD and LGD are weighted by EAD;

> average maturity is the obligor maturity in years weighted by EAD;

> RWA density is the total RWA to EAD post CRM; and

> provisions are only included on a total basis.

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

	Total FRBSA					
	As at 30 June 2022					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	78 104	18 465	38.35	82 292	0.06	127 425
0.15 to <0.25	49 937	53 713	52.31	81 209	0.20	110 140
0.25 to <0.50	325 979	83 744	55.61	355 210	0.44	367 810
0.50 to <0.75	102 586	33 436	58.65	119 671	0.65	296 128
0.75 to <2.50	313 791	84 983	66.10	368 934	1.51	1 453 326
2.50 to <10	151 821	25 306	64.83	166 687	4.48	3 109 917
10 to <100	36 622	3 878	58.42	39 105	24.86	1 959 557
100 (default)	37 105	184	1.63	37 164	100.00	784 485
Total	1 095 945	303 709	58.02	1 250 272	5.00	8 208 788

	Total FRBSA					
	As at 30 June 2022					
PD scale	Average LGD %	Average maturity years	RWA* R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	22.17	0.36	3 746	4.55	12	
0.15 to <0.25	29.38	1.42	17 983	22.14	47	
0.25 to <0.50	16.01	2.01	66 711	18.78	237	
0.50 to <0.75	24.37	2.27	37 327	31.19	187	
0.75 to <2.50	26.76	2.11	163 292	44.26	1 533	
2.50 to <10	39.70	1.98	126 824	76.09	3 148	
10 to <100	39.44	2.59	47 743	122.09	3 879	
100 (default)	48.94	2.55	26 421	71.09	18 205	
Total	26.13	1.95	490 047	39.20	27 248	31 801

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

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

	Total FRBSA					
	As at 30 June 2021					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	74 693	19 612	38.69	81 760	0.06	118 472
0.15 to <0.25	43 890	47 700	54.43	66 937	0.20	100 297
0.25 to <0.50	298 108	71 634	53.37	321 355	0.44	346 129
0.50 to <0.75	102 173	39 414	52.68	118 422	0.64	274 371
0.75 to <2.50	274 742	81 471	66.63	326 920	1.52	1 459 282
2.50 to <10	140 068	24 071	61.48	154 660	4.50	3 156 718
10 to <100	36 228	4 422	62.00	38 976	26.76	2 037 866
100 (default)	43 695	225	–	44 183	100.00	698 696
Total	1 013 597	288 549	56.97	1 153 213	5.98	8 191 831

	Total FRBSA					
	As at 30 June 2021					
PD scale	Average LGD %	Average maturity years	RWA* R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	22.63	0.40	4 208	5.15	12	
0.15 to <0.25	30.23	1.34	15 225	22.75	39	
0.25 to <0.50	16.25	2.30	65 348	20.34	217	
0.50 to <0.75	23.99	2.11	36 570	30.88	182	
0.75 to <2.50	26.29	2.19	140 485	42.97	1 344	
2.50 to <10	40.45	2.12	118 169	76.42	2 966	
10 to <100	40.85	2.00	48 648	124.64	4 205	
100 (default)	47.27	3.04	22 312	50.50	20 196	
Total	26.42	2.05	450 965	39.10	29 161	35 395

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

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

	Corporate					
	As at 30 June 2022					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	1 380	615	46.98	1 671	0.09	2
0.15 to <0.25	29 896	35 521	49.16	47 942	0.19	46
0.25 to <0.50	43 232	38 250	45.74	56 022	0.41	100
0.50 to <0.75	22 502	12 430	51.85	26 975	0.70	87
0.75 to <2.50	48 390	19 977	51.93	58 532	1.53	264
2.50 to <10	15 254	6 118	58.97	18 194	4.35	143
10 to <100	1 454	882	54.14	1 972	11.02	90
100 (default)	1 699	178	–	1 821	100.00	9
Total	163 807	113 971	49.27	213 129	1.99	741

	Corporate					
	As at 30 June 2022					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	30.00	1.37	227	13.58	–	
0.15 to <0.25	31.13	1.64	12 731	26.56	29	
0.25 to <0.50	29.61	1.58	21 068	37.61	66	
0.50 to <0.75	26.91	1.78	12 253	45.42	50	
0.75 to <2.50	30.84	2.04	42 177	72.06	282	
2.50 to <10	34.14	1.57	19 455	106.93	280	
10 to <100	38.02	1.22	3 082	156.29	80	
100 (default)	53.07	1.32	–	–	967	
Total	30.61	1.74	110 993	52.08	1 754	2 485

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

	Corporate					
	As at 30 June 2021					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	2 220	2 360	46.94	3 330	0.09	3
0.15 to <0.25	22 252	30 283	49.35	34 231	0.19	48
0.25 to <0.50	39 663	36 288	45.46	56 357	0.40	86
0.50 to <0.75	21 516	12 318	50.32	24 172	0.68	87
0.75 to <2.50	35 140	20 488	55.19	45 006	1.53	213
2.50 to <10	15 144	5 463	49.52	17 608	4.63	124
10 to <100	2 131	1 231	54.17	2 697	11.46	106
100 (default)	881	219	–	939	100.00	9
Total	138 947	108 650	49.18	184 340	1.74	676

	Corporate					
	As at 30 June 2021					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	30.00	1.19	424	12.73	1	
0.15 to <0.25	32.36	1.65	9 500	27.75	22	
0.25 to <0.50	29.42	1.86	23 148	41.07	66	
0.50 to <0.75	27.83	1.54	10 482	43.36	45	
0.75 to <2.50	29.08	1.96	30 279	67.28	205	
2.50 to <10	36.46	1.58	20 031	113.76	292	
10 to <100	39.45	1.20	4 600	170.56	123	
100 (default)	29.76	1.82	–	–	279	
Total	30.51	1.76	98 464	53.41	1 033	2 662

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

	Specialised lending					
	As at 30 June 2022					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	99	5	–	99	0.08	1
0.15 to <0.25	733	91	–	733	0.18	2
0.25 to <0.50	38 760	9 872	87.18	40 976	0.41	62
0.50 to <0.75	14 914	2 973	58.56	16 118	0.68	56
0.75 to <2.50	35 838	3 017	57.32	37 548	1.45	1 211
2.50 to <10	4 604	154	57.87	4 798	3.78	360
10 to <100	3 552	132	57.80	3 629	13.12	35
100 (default)	711	–	–	711	100.00	35
Total	99 211	16 244	75.37	104 612	2.09	1 762

	Specialised lending					
	As at 30 June 2022					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	25.00	3.19	18	18.18	–	
0.15 to <0.25	18.12	2.59	131	17.87	–	
0.25 to <0.50	16.80	2.60	10 609	25.89	28	
0.50 to <0.75	22.38	3.19	7 432	46.11	24	
0.75 to <2.50	25.54	2.41	23 021	61.31	140	
2.50 to <10	29.65	3.11	4 898	102.08	56	
10 to <100	20.48	4.02	3 953	108.93	105	
100 (default)	41.77	4.91	–	–	248	
Total	21.70	2.71	50 062	47.85	601	1 082

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

	Specialised lending					
	As at 30 June 2021					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	–	–	–	–	–	–
0.15 to <0.25	989	86	–	989	0.18	8
0.25 to <0.50	41 065	6 046	64.16	41 220	0.41	53
0.50 to <0.75	14 192	2 252	58.72	15 185	0.65	56
0.75 to <2.50	33 076	3 742	57.92	35 213	1.50	1 135
2.50 to <10	6 090	123	61.52	6 249	3.97	325
10 to <100	782	317	57.92	968	17.16	32
100 (default)	1 235	–	–	1 235	100.00	33
Total	97 429	12 566	60.71	101 059	2.42	1 642

	Specialised lending					
	As at 30 June 2021					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	–	–	–	–	–	
0.15 to <0.25	20.26	3.21	233	23.56	–	
0.25 to <0.50	18.84	2.75	12 444	30.19	32	
0.50 to <0.75	23.93	2.90	7 416	48.84	24	
0.75 to <2.50	25.45	2.67	22 552	64.04	135	
2.50 to <10	27.46	3.23	5 897	94.37	67	
10 to <100	21.71	3.54	1 168	120.66	42	
100 (default)	38.73	4.94	–	–	478	
Total	22.73	2.81	49 710	49.19	778	1 327

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

	Sovereign					
	As at 30 June 2022					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	43 172	985	57.08	43 734	0.04	8
0.15 to <0.25	–	–	–	–	–	–
0.25 to <0.50	191 201	2 598	55.88	190 024	0.48	23
0.50 to <0.75	2 592	388	37.87	2 800	0.70	39
0.75 to <2.50	693	274	45.70	843	1.47	99
2.50 to <10	3 154	277	51.15	2 798	4.92	998
10 to <100	539	1 036	52.47	1 141	23.60	10
100 (default)	24	6	50.00	27	100.00	1
Total	241 375	5 564	53.46	241 367	0.58	1 178

	Sovereign					
	As at 30 June 2022					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	15.14	0.46	1 114	2.55	3	
0.15 to <0.25	–	–	–	–	–	
0.25 to <0.50	7.79	2.08	21 764	11.45	71	
0.50 to <0.75	28.68	2.60	1 980	70.71	2	
0.75 to <2.50	29.85	2.75	650	77.11	4	
2.50 to <10	9.43	3.26	971	34.70	13	
10 to <100	44.46	1.92	2 676	234.53	114	
100 (default)	2.50	1.24	–	–	1	
Total	9.64	1.81	29 155	12.08	208	388

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

	Sovereign					
	As at 30 June 2021					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	29 021	140	55.67	29 099	0.04	6
0.15 to <0.25	–	–	–	–	–	–
0.25 to <0.50	175 209	2 893	56.06	169 475	0.48	17
0.50 to <0.75	1 694	429	48.35	1 907	0.68	45
0.75 to <2.50	485	76	50.55	519	1.62	53
2.50 to <10	2 558	735	55.78	2 200	4.91	662
10 to <100	661	1 276	52.43	1 401	24.63	8
100 (default)	564	6	–	567	100.00	2
Total	210 192	5 555	54.51	205 168	0.91	793

	Sovereign					
	As at 30 June 2021					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	13.15	0.23	529	1.82	1	
0.15 to <0.25	–	–	–	–	–	
0.25 to <0.50	7.53	2.42	19 837	11.70	61	
0.50 to <0.75	27.95	3.12	1 187	62.24	4	
0.75 to <2.50	22.50	1.55	256	49.33	2	
2.50 to <10	7.12	3.45	588	26.73	8	
10 to <100	52.01	2.29	3 955	282.30	161	
100 (default)	2.50	1.22	–	–	14	
Total	8.84	2.12	26 352	12.84	251	628

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

	Banks and securities firms					
	As at 30 June 2022					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	24 591	2 415	32.74	22 497	0.07	42
0.15 to <0.25	2 228	5 059	55.20	7 621	0.17	37
0.25 to <0.50	15 683	4 151	36.72	13 852	0.42	68
0.50 to <0.75	1 344	363	51.85	1 533	0.65	28
0.75 to <2.50	2 968	1 795	30.99	3 452	1.95	44
2.50 to <10	1 175	869	23.85	1 372	4.67	41
10 to <100	208	620	21.50	361	10.98	22
100 (default)	–	–	–	–	–	–
Total	48 197	15 272	40.55	50 688	0.53	282

	Banks and securities firms					
	As at 30 June 2022					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	29.63	0.08	1 783	7.93	5	
0.15 to <0.25	26.90	0.48	1 282	16.82	3	
0.25 to <0.50	29.32	0.66	4 914	35.48	17	
0.50 to <0.75	19.22	1.25	512	33.40	2	
0.75 to <2.50	36.22	1.53	3 442	99.71	24	
2.50 to <10	49.52	0.90	2 046	149.13	32	
10 to <100	47.62	0.81	710	196.68	17	
100 (default)	–	–	–	–	–	
Total	29.93	0.46	14 689	28.98	100	78

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

	Banks and securities firms					
	As at 30 June 2021					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	33 514	2 378	39.78	33 948	0.05	51
0.15 to <0.25	6 346	4 865	56.68	9 161	0.17	35
0.25 to <0.50	13 303	3 696	48.01	11 117	0.43	68
0.50 to <0.75	4 289	1 367	54.43	5 036	0.70	35
0.75 to <2.50	647	730	35.18	922	1.62	45
2.50 to <10	310	1 693	20.71	604	4.65	43
10 to <100	124	282	22.23	146	12.78	29
100 (default)	–	–	–	–	–	–
Total	58 533	15 011	45.91	60 934	0.29	306

	Banks and securities firms					
	As at 30 June 2021					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	27.37	0.46	2 619	7.71	5	
0.15 to <0.25	27.98	0.39	1 596	17.42	4	
0.25 to <0.50	30.16	1.01	4 530	40.75	14	
0.50 to <0.75	19.53	1.32	1 885	37.43	6	
0.75 to <2.50	44.21	1.49	1 027	111.39	7	
2.50 to <10	46.47	0.60	824	136.42	13	
10 to <100	45.67	0.76	282	193.15	7	
100 (default)	–	–	–	–	–	
Total	27.81	0.64	12 763	20.95	56	38

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

	SME corporate					
	As at 30 June 2022					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	4	23	62.16	17	0.09	582
0.15 to <0.25	9 375	2 090	86.90	11 191	0.24	162
0.25 to <0.50	7 995	5 920	41.29	10 326	0.44	3 578
0.50 to <0.75	8 065	3 551	53.84	9 731	0.66	2 738
0.75 to <2.50	42 811	14 350	54.77	48 874	1.54	21 308
2.50 to <10	13 076	5 538	55.83	13 966	3.85	10 730
10 to <100	2 197	183	64.04	2 301	21.15	1 257
100 (default)	1 668	–	–	1 611	100.00	7 846
Total	85 191	31 655	54.51	98 017	3.59	48 201

	SME corporate					
	As at 30 June 2022					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	88.30	1.00	5	29.41	–	
0.15 to <0.25	24.75	1.01	2 921	26.10	7	
0.25 to <0.50	21.13	2.41	3 347	32.41	9	
0.50 to <0.75	21.14	2.18	3 866	39.73	13	
0.75 to <2.50	21.21	2.00	22 015	45.04	156	
2.50 to <10	24.56	1.97	10 471	74.97	132	
10 to <100	19.52	2.10	2 120	92.13	98	
100 (default)	43.91	2.92	357	22.16	729	
Total	22.42	1.96	45 102	46.01	1 144	1 533

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

	SME corporate					
	As at 30 June 2021					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	–	–	–	–	–	–
0.15 to <0.25	8 135	3 055	98.42	11 142	0.24	33
0.25 to <0.50	2 266	722	14.48	2 374	0.42	1 528
0.50 to <0.75	11 616	10 550	42.50	15 514	0.60	6 461
0.75 to <2.50	34 128	12 411	57.38	39 573	1.51	13 198
2.50 to <10	12 018	4 637	55.35	13 880	3.85	8 645
10 to <100	2 545	257	52.97	2 659	21.47	3 704
100 (default)	2 234	–	48.11	2 253	100.00	1 055
Total	72 942	31 632	55.07	87 395	4.67	34 624

	SME corporate					
	As at 30 June 2021					
PD scale	Average LGD %	Average maturity years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	–	–	–	–	–	
0.15 to <0.25	26.71	1.00	3 141	28.19	7	
0.25 to <0.50	24.52	2.10	816	34.37	2	
0.50 to <0.75	21.79	2.35	5 900	38.03	20	
0.75 to <2.50	20.75	2.04	18 799	47.50	124	
2.50 to <10	24.75	2.14	10 100	72.77	133	
10 to <100	22.63	2.17	2 873	108.05	134	
100 (default)	44.35	2.96	664	29.47	963	
Total	23.10	2.01	42 293	48.39	1 383	1 970

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

	SME retail					
	As at 30 June 2022					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	101	3	112.15	104	0.07	1 026
0.15 to <0.25	10	45	64.17	38	0.22	1 027
0.25 to <0.50	1 368	666	51.89	1 702	0.42	4 923
0.50 to <0.75	3 224	2 255	70.82	5 003	0.63	19 603
0.75 to <2.50	26 714	9 531	57.62	33 332	1.74	368 248
2.50 to <10	25 574	3 798	48.19	29 136	4.15	1 989 704
10 to <100	3 728	239	26.51	3 904	29.57	77 049
100 (default)	4 038	–	–	4 029	100.00	132 404
Total	64 757	16 537	56.60	77 248	9.08	2 593 984

	SME retail					
	As at 30 June 2022					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	37.70		7	6.73	–	
0.15 to <0.25	83.97		14	36.84	–	
0.25 to <0.50	25.51		289	16.98	2	
0.50 to <0.75	31.75		1 390	27.78	10	
0.75 to <2.50	31.90		13 862	41.59	192	
2.50 to <10	40.55		18 131	62.23	515	
10 to <100	45.09		4 101	105.05	529	
100 (default)	59.01		2 996	74.36	3 208	
Total	37.13		40 790	52.80	4 456	5 009

* *As per the Regulations, average maturity is not applied to the SME retail RWA calculation.*

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

	SME retail					
	As at 30 June 2021					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	29	3	114.89	32	0.09	97
0.15 to <0.25	5	12	94.38	17	0.21	114
0.25 to <0.50	430	202	61.60	550	0.35	4 400
0.50 to <0.75	3 315	1 180	53.87	3 914	0.58	10 875
0.75 to <2.50	25 140	11 398	62.58	33 441	1.75	394 082
2.50 to <10	23 887	3 121	47.07	26 835	4.23	2 006 053
10 to <100	4 531	253	38.83	4 727	28.41	78 081
100 (default)	5 736	–	–	5 731	100.00	85 504
Total	63 073	16 169	58.60	75 247	11.72	2 579 206

	SME retail					
	As at 30 June 2021					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	28.95		2	6.25	–	
0.15 to <0.25	58.03		4	23.53	–	
0.25 to <0.50	44.25		151	27.45	1	
0.50 to <0.75	24.54		801	20.46	6	
0.75 to <2.50	32.26		14 050	42.01	193	
2.50 to <10	36.86		15 182	56.58	436	
10 to <100	40.06		4 403	93.15	549	
100 (default)	52.71		3 189	55.64	3 246	
Total	35.64		37 782	50.21	4 431	5 591

* *As per the Regulations, average maturity is not applied to the SME retail RWA calculation.*

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

	Retail mortgages					
	As at 30 June 2022					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	8 124	9 541	23.22	10 340	0.09	19 771
0.15 to <0.25	7 084	7 048	44.87	10 247	0.18	12 568
0.25 to <0.50	24 550	12 859	58.17	32 030	0.38	33 809
0.50 to <0.75	42 904	6 282	55.24	46 374	0.63	45 243
0.75 to <2.50	100 849	23 631	85.12	120 965	1.36	151 074
2.50 to <10	29 357	2 178	95.58	31 439	4.48	47 868
10 to <100	8 762	213	133.95	9 047	28.77	14 594
100 (default)	12 991	–	–	12 990	100.00	21 979
Total	234 621	61 752	62.85	273 432	6.98	346 906

	Retail mortgages					
	As at 30 June 2022					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	15.39		369	3.57	1	
0.15 to <0.25	14.89		610	5.95	3	
0.25 to <0.50	15.23		3 353	10.47	19	
0.50 to <0.75	16.99		7 816	16.85	51	
0.75 to <2.50	17.31		34 296	28.35	292	
2.50 to <10	17.04		17 310	55.06	241	
10 to <100	16.76		8 404	92.89	433	
100 (default)	23.90		8 730	67.21	2 519	
Total	17.11		80 888	29.58	3 559	4 013

* *As per the Regulations, average maturity is not applied to the retail mortgages RWA calculation.*

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

	Retail mortgages					
	As at 30 June 2021					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	9 403	10 208	24.32	11 886	0.09	21 602
0.15 to <0.25	5 699	5 870	44.72	8 324	0.18	11 281
0.25 to <0.50	22 907	12 698	57.67	30 229	0.38	33 512
0.50 to <0.75	39 646	6 308	51.13	42 872	0.63	44 323
0.75 to <2.50	96 307	20 622	80.82	112 975	1.39	158 671
2.50 to <10	22 670	2 039	87.31	24 451	4.36	38 615
10 to <100	9 160	179	150.65	9 429	30.81	15 791
100 (default)	13 195	–	–	13 493	100.00	19 740
Total	218 987	57 924	59.34	253 659	7.67	343 535

	Retail mortgages					
	As at 30 June 2021					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	15.60		429	3.61	2	
0.15 to <0.25	14.66		486	5.84	2	
0.25 to <0.50	14.94		3 140	10.39	18	
0.50 to <0.75	16.66		7 063	16.47	46	
0.75 to <2.50	17.04		31 692	28.05	272	
2.50 to <10	16.98		13 210	54.03	181	
10 to <100	16.26		8 340	88.45	464	
100 (default)	24.29		6 655	49.32	2 873	
Total	16.93		71 015	28.00	3 858	4 202

* *As per the Regulations, average maturity is not applied to the retail mortgages RWA calculation.*

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

	Retail revolving					
	As at 30 June 2022					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	579	4 796	65.49	3 720	0.13	105 604
0.15 to <0.25	541	3 714	74.64	3 313	0.20	95 973
0.25 to <0.50	2 670	9 088	76.12	9 588	0.35	321 943
0.50 to <0.75	2 659	5 088	79.58	6 708	0.63	201 381
0.75 to <2.50	12 515	12 211	79.82	22 263	1.48	637 395
2.50 to <10	13 029	6 253	83.72	18 265	4.54	455 139
10 to <100	3 289	563	99.22	3 847	25.23	120 841
100 (default)	4 146	–	–	4 147	100.00	128 103
Total	39 428	41 713	77.72	71 851	8.86	2 066 379

	Retail revolving					
	As at 30 June 2022					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	73.46		209	5.62	3	
0.15 to <0.25	71.40		271	8.18	5	
0.25 to <0.50	70.86		1 216	12.68	24	
0.50 to <0.75	71.18		1 350	20.13	30	
0.75 to <2.50	71.41		8 577	38.53	236	
2.50 to <10	72.17		15 569	85.24	598	
10 to <100	70.96		6 837	177.72	685	
100 (default)	80.89		4 634	111.74	3 076	
Total	72.14		38 663	53.81	4 657	4 929

* *As per the Regulations, average maturity is not applied to the retail revolving RWA calculation.*

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

	Retail revolving					
	As at 30 June 2021					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	460	4 446	65.39	3 367	0.13	96 347
0.15 to <0.25	448	3 445	74.16	3 003	0.20	88 363
0.25 to <0.50	2 125	8 747	75.26	8 709	0.36	297 370
0.50 to <0.75	2 128	4 917	78.77	6 001	0.63	187 266
0.75 to <2.50	10 806	11 710	79.57	20 124	1.48	622 852
2.50 to <10	14 452	6 196	86.80	19 831	4.59	506 581
10 to <100	3 568	612	104.63	4 209	25.30	126 757
100 (default)	4 196	–	–	4 310	100.00	138 535
Total	38 183	40 073	77.99	69 554	9.58	2 064 071

	Retail revolving					
	As at 30 June 2021					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	73.39		193	5.73	3	
0.15 to <0.25	71.38		246	8.19	4	
0.25 to <0.50	70.79		1 109	12.73	22	
0.50 to <0.75	71.04		1 208	20.13	27	
0.75 to <2.50	71.10		7 724	38.38	213	
2.50 to <10	72.01		16 998	85.71	655	
10 to <100	70.53		7 300	173.44	747	
100 (default)	79.23		527	12.23	3 340	
Total	71.91		35 305	50.76	5 011	5 309

* *As per the Regulations, average maturity is not applied to the retail revolving RWA calculation.*

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

	Other retail					
	As at 30 June 2022					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	54	82	80.71	110	0.08	389
0.15 to <0.25	70	145	42.85	124	0.20	325
0.25 to <0.50	520	340	87.81	690	0.40	3 304
0.50 to <0.75	4 382	106	57.52	4 429	0.55	26 953
0.75 to <2.50	43 013	197	90.72	43 125	1.72	273 683
2.50 to <10	46 598	121	99.90	46 719	4.95	604 934
10 to <100	12 893	10	102.29	12 903	27.16	1 745 659
100 (default)	11 828	–	–	11 828	100.00	494 108
Total	119 358	1 001	79.69	119 828	15.35	3 149 355

	Other retail					
	As at 30 June 2022					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	50.78		14	12.73	–	
0.15 to <0.25	44.93		23	18.55	–	
0.25 to <0.50	32.96		151	21.88	1	
0.50 to <0.75	20.45		728	16.44	5	
0.75 to <2.50	27.20		15 252	35.37	207	
2.50 to <10	50.98		37 973	81.28	1 281	
10 to <100	52.68		15 860	122.92	1 818	
100 (default)	62.41		9 704	82.04	7 457	
Total	42.50		79 705	66.46	10 769	12 284

* *As per the Regulations, average maturity is not applied to the other retail RWA calculation.*

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

	Other retail					
	As at 30 June 2021					
PD scale	Original on-balance sheet gross exposure R million	Off-balance sheet exposures pre CCF R million	Average CCF %	EAD post CRM and post CCF R million	Average PD %	Number of obligors
0.00 to <0.15	46	77	81.89	98	0.08	366
0.15 to <0.25	16	84	71.80	70	0.19	415
0.25 to <0.50	1 140	342	94.99	1 324	0.42	9 095
0.50 to <0.75	3 777	93	79.88	3 821	0.56	25 223
0.75 to <2.50	39 013	294	93.27	39 147	1.73	269 033
2.50 to <10	42 939	64	100.14	43 002	4.91	595 670
10 to <100	12 726	15	102.34	12 740	29.08	1 813 358
100 (default)	15 654	–	–	15 655	100.00	453 818
Total	115 311	969	90.42	115 857	19.15	3 166 978

	Other retail					
	As at 30 June 2021					
PD scale	Average LGD %	Average maturity* years	RWA R million	RWA density %	Expected loss R million	Provisions R million
0.00 to <0.15	47.64		12	12.24	–	
0.15 to <0.25	62.60		19	27.14	–	
0.25 to <0.50	19.06		173	13.07	1	
0.50 to <0.75	20.41		628	16.44	4	
0.75 to <2.50	27.65		14 106	36.03	193	
2.50 to <10	51.71		35 339	82.23	1 181	
10 to <100	53.76		15 727	122.92	1 978	
100 (default)	60.04		11 277	72.03	9 003	
Total	43.53		77 281	66.69	12 360	13 668

* *As per the Regulations, average maturity is not applied to the other retail RWA calculation.*

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

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

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

		Pre-credit derivatives RWA	
	R million	**As at 30 June 2022**	As at 30 June 2021
2.	Sovereign	**29 156**	26 352
4.	Banks and securities firms	**14 689**	12 763
6.	Corporate	**110 994**	99 109
8.	Specialised lending	**50 060**	49 711
	SME corporate	**45 102**	42 293
9.	Retail revolving	**38 662**	35 304
10.	Retail mortgages	**80 890**	71 017
11.	SME retail	**40 790**	37 783
12.	Other retail	**79 706**	77 281
14.	Equity	**–**	–
16.	Purchased receivables	**–**	–
17.	**Total**	**490 049**	451 613

RWA flow statement of credit risk exposure under the AIRB approach

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

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

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

CR8: RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER AIRB

	R million	RWA
1.	**RWA at 31 March 2022**	**474 002**
2.	Asset size	**10 780**
3.	Asset quality	**2 974**
4.	Model updates	**2 293**
5.	Methodology and policy	**–**
6.	Acquisitions and disposals	**–**
7.	Foreign exchange movements	**–**
8.	Other	
9.	**RWA at 30 June 2022***	**490 049**

* *The RWA represents AIRB credit risk exposures excluding securitisation exposure per the OV1: Overview of RWA template on page 192.*

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO

Corporate								
As at 30 June 2022								
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	0.09	0.09	3	2	–	–	–
0.12 to <0.45	BBB	0.27	0.30	90	97	–	–	–
0.45 to <1.08	BB+, BB	0.66	0.65	152	166	–	–	–
1.08 to <1.80	BB-	1.33	1.37	130	161	–	–	–
1.80 to <3.23	B+	2.45	2.45	62	73	–	–	–
3.23 to <9.12	B	4.35	4.63	124	143	–	–	–
9.12 to <18.23	B-	10.07	10.07	66	55	–	–	–
18.23 to <99.99	Below B-	20.82	25.05	40	35	–	–	–
100 (default)	Defaulted	100.00	100.00	9	9	3	–	100.00
Total		1.99	5.58	676	741	3	–	0.40

Corporate								
As at 30 June 2021								
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	0.09	0.09	1	3	–	–	–
0.12 to <0.45	BBB	0.29	0.28	90	90	–	–	–
0.45 to <1.08	BB+, BB	0.63	0.66	142	152	–	–	–
1.08 to <1.80	BB-	1.36	1.38	127	130	–	–	–
1.80 to <3.23	B+	2.45	2.45	67	62	–	–	–
3.23 to <9.12	B	4.63	4.95	121	124	–	–	–
9.12 to <18.23	B-	10.07	10.07	56	66	–	–	–
18.23 to <99.99	Below B-	19.81	25.54	37	40	–	–	–
100 (default)	Defaulted	100.00	100.00	10	9	9	3	100.00
Total		1.74	5.68	651	676	9	3	0.38

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Specialised lending							
	As at 30 June 2022							
				Number of obligors		Defaulted obligors		
PD scale	**External rating equivalent**	**Weighted average PD %**	**Arithmetic average PD by obligors %**	**End of prior year**	**End of current year**	**During current year**	**New during current year**	**Average historical annual default rate %**
0.00 to <0.12	AAA, AA, A	**0.08**	**0.08**	**–**	**1**	**–**	**–**	**–**
0.12 to <0.45	BBB	**0.37**	**0.38**	**37**	**37**	**–**	**–**	**–**
0.45 to <1.08	BB+, BB	**0.65**	**0.86**	**297**	**299**	**4**	**4**	**0.44**
1.08 to <1.80	BB-	**1.32**	**1.38**	**674**	**693**	**22**	**22**	**0.91**
1.80 to <3.23	B+	**2.43**	**2.37**	**384**	**461**	**12**	**12**	**0.92**
3.23 to <9.12	B	**4.44**	**4.21**	**184**	**201**	**11**	**11**	**1.36**
9.12 to <18.23	B-	**11.14**	**14.68**	**16**	**18**	**–**	**–**	**2.40**
18.23 to <99.99	Below B-	**27.03**	**27.53**	**17**	**17**	**11**	**4**	**10.14**
100 (default)	Defaulted	**100.00**	**100.00**	**33**	**35**	**304**	**17**	**100.00**
Total		**2.09**	**6.44**	**1 642**	**1 762**	**364**	**70**	**4.16**

	Specialised lending							
	As at 30 June 2021							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	–	–	1	–	–	–	–
0.12 to <0.45	BBB	0.37	0.34	30	37	–	–	–
0.45 to <1.08	BB+, BB	0.64	0.86	120	297	–	–	0.53
1.08 to <1.80	BB-	1.34	1.39	239	674	28	20	1.32
1.80 to <3.23	B+	2.45	2.38	218	384	25	9	1.12
3.23 to <9.12	B	4.56	4.10	380	184	36	32	1.75
9.12 to <18.23	B-	11.17	12.30	350	16	–	–	3.06
18.23 to <99.99	Below B-	27.04	28.05	124	17	24	18	14.94
100 (default)	Defaulted	100.00	100.00	32	33	263	22	100.00
Total		2.42	6.18	1 494	1 642	376	101	4.46

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Sovereign							
	As at 30 June 2022							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	**0.04**	**0.04**	**5**	**8**	**–**	**–**	**–**
0.12 to <0.45	BBB	**–**	**0.17**	**1**	**–**	**–**	**–**	**–**
0.45 to <1.08	BB+, BB	**0.48**	**0.58**	**70**	**67**	**–**	**–**	**–**
1.08 to <1.80	BB-	**1.39**	**1.49**	**30**	**30**	**–**	**–**	**–**
1.80 to <3.23	B+	**2.46**	**2.46**	**21**	**65**	**–**	**–**	**0.50**
3.23 to <9.12	B	**4.92**	**6.65**	**656**	**997**	**–**	**–**	**0.31**
9.12 to <18.23	B-	**10.07**	**10.61**	**5**	**6**	**–**	**–**	**–**
18.23 to <99.99	Below B-	**25.86**	**12.34**	**3**	**4**	**–**	**–**	**–**
100 (default)	Defaulted	**97.69**	**100.00**	**2**	**1**	**–**	**–**	**100.00**
Total		**0.58**	**4.29**	**793**	**1 178**	**–**	**–**	**0.13**

	Sovereign							
	As at 30 June 2021							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	0.04	0.04	2	5	–	–	–
0.12 to <0.45	BBB	0.14	0.14	6	1	–	–	–
0.45 to <1.08	BB+, BB	0.48	0.61	66	70	–	–	–
1.08 to <1.80	BB-	1.25	1.43	18	30	–	–	–
1.80 to <3.23	B+	2.46	2.49	28	21	–	–	–
3.23 to <9.12	B	4.93	6.66	1 113	656	–	–	6.35
9.12 to <18.23	B-	10.07	11.04	7	5	–	–	–
18.23 to <99.99	Below B-	24.84	38.17	–	3	–	–	–
100 (default)	Defaulted	100.00	100.00	2	2	2	–	100.00
Total		0.91	7.57	1 242	793	2	–	6.37

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Banks and securities firms							
	As at 30 June 2022							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	0.07	0.07	51	42	–	–	–
0.12 to <0.45	BBB	0.24	0.32	67	69	–	–	–
0.45 to <1.08	BB+, BB	0.54	0.55	73	69	–	–	–
1.08 to <1.80	BB-	1.41	1.29	21	21	–	–	–
1.80 to <3.23	B+	2.45	2.45	22	18	–	–	–
3.23 to <9.12	B	4.67	4.86	43	41	–	–	–
9.12 to <18.23	B-	10.07	10.07	17	16	–	–	–
18.23 to <99.99	Below B-	30.66	27.50	12	6	–	–	–
100 (default)	Defaulted	–	–	–	–	–	–	–
Total		0.53	5.89	306	282	–	–	–

	Banks and securities firms							
	As at 30 June 2021							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	0.05	0.06	46	51	–	–	–
0.12 to <0.45	BBB	0.22	0.26	64	67	–	–	–
0.45 to <1.08	BB+, BB	0.57	0.61	66	73	–	–	–
1.08 to <1.80	BB-	1.42	1.18	19	21	–	–	–
1.80 to <3.23	B+	2.45	2.46	25	22	–	–	–
3.23 to <9.12	B	4.65	4.84	40	43	–	–	–
9.12 to <18.23	B-	10.07	10.07	16	17	–	–	–
18.23 to <99.99	Below B-	29.25	27.50	8	12	–	–	–
100 (default)	Defaulted	–	–	–	–	–	–	–
Total		0.29	5.87	284	306	–	–	–

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	SME corporate							
	As at 30 June 2022							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	–	0.08	–	554	26	26	–
0.12 to <0.45	BBB	0.15	0.43	1 512	3 125	548	172	0.25
0.45 to <1.08	BB+, BB	0.13	0.79	12 197	14 221	2 996	1 997	0.59
1.08 to <1.80	BB-	0.21	1.39	4 496	7 150	714	650	1.12
1.80 to <3.23	B+	0.50	2.32	4 839	5 021	589	537	1.78
3.23 to <9.12	B	0.99	4.38	6 770	8 973	3 085	2 037	3.39
9.12 to <18.23	B-	7.61	12.65	1 948	435	314	281	4.97
18.23 to <99.99	Below B-	4.58	25.96	1 807	876	664	507	20.28
100 (default)	Defaulted	5.20	100.00	1 055	7 846	28 247	21 505	100.00
Total		3.59	6.00	34 624	48 201	37 183	27 712	132.37

	SME corporate							
	As at 30 June 2021							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	–	–	5	–	–	–	–
0.12 to <0.45	BBB	0.25	0.41	3 952	1 512	67	66	0.13
0.45 to <1.08	BB+, BB	0.71	0.76	12 511	12 197	411	321	0.83
1.08 to <1.80	BB-	1.36	1.42	4 257	4 496	384	332	1.80
1.80 to <3.23	B+	2.40	2.44	4 228	4 839	436	412	2.39
3.23 to <9.12	B	4.57	4.31	7 283	6 770	3 223	3 136	3.39
9.12 to <18.23	B-	14.05	16.30	968	1 948	667	157	9.44
18.23 to <99.99	Below B-	27.82	27.91	1 093	1 807	632	456	16.96
100 (default)	Defaulted	100.00	100.00	2 600	1 055	12 812	2 405	100.00
Total		4.67	6.69	36 897	34 624	18 632	7 285	4.17

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	SME retail							
	As at 30 June 2022							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	**0.02**	**0.06**	**80**	**1 009**	**535**	**535**	**0.12**
0.12 to <0.45	BBB	**0.01**	**0.40**	**3 857**	**5 127**	**13**	**13**	**0.64**
0.45 to <1.08	BB+, BB	**0.02**	**0.82**	**22 160**	**32 075**	**88**	**88**	**1.45**
1.08 to <1.80	BB-	**0.12**	**1.38**	**115 049**	**96 791**	**855**	**855**	**0.80**
1.80 to <3.23	B+	**1.15**	**2.43**	**621 355**	**637 516**	**19 802**	**19 801**	**4.08**
3.23 to <9.12	B	**0.85**	**5.34**	**1 646 772**	**1 604 036**	**89 047**	**89 045**	**10.36**
9.12 to <18.23	B-	**3.24**	**12.43**	**57 606**	**55 039**	**4 434**	**4 431**	**14.75**
18.23 to <99.99	Below B-	**12.98**	**38.24**	**26 823**	**29 987**	**7 606**	**7 547**	**30.12**
100 (default)	Defaulted	**39.29**	**100.00**	**85 504**	**132 404**	**80 865**	**13 690**	**100.00**
Total		**9.08**	**7.64**	**2 579 206**	**2 593 984**	**203 245**	**136 005**	**10.11**

	SME retail							
	As at 30 June 2021							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	0.08	0.08	79	80	–	–	1.03
0.12 to <0.45	BBB	0.34	0.35	4 637	3 857	24	24	0.65
0.45 to <1.08	BB+, BB	0.78	0.75	32 140	22 160	191	191	1.53
1.08 to <1.80	BB-	1.43	1.57	246 942	115 049	3 850	3 850	0.84
1.80 to <3.23	B+	2.48	2.53	515 939	621 355	36 127	36 123	4.40
3.23 to <9.12	B	5.23	6.41	1 472 739	1 646 772	94 185	94 183	11.18
9.12 to <18.23	B-	12.75	13.25	49 437	57 606	4 914	4 903	16.34
18.23 to <99.99	Below B-	37.16	39.07	42 498	26 823	11 962	11 705	39.00
100 (default)	Defaulted	100.00	100.00	122 240	85 504	105 593	10 170	100.00
Total		11.72	8.00	2 486 651	2 579 206	256 846	161 149	11.19

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

		Retail mortgages						
		As at 30 June 2022						
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	**0.09**	**0.08**	**19 822**	**18 246**	**1**	**–**	**0.09**
0.12 to <0.45	BBB	**0.30**	**0.29**	**37 973**	**39 397**	**3**	**–**	**0.20**
0.45 to <1.08	BB+, BB	**0.73**	**0.74**	**105 250**	**101 399**	**26**	**–**	**0.67**
1.08 to <1.80	BB-	**1.34**	**1.36**	**65 850**	**69 470**	**49**	**–**	**1.10**
1.80 to <3.23	B+	**2.30**	**2.34**	**50 183**	**43 187**	**118**	**–**	**2.22**
3.23 to <9.12	B	**4.78**	**4.71**	**27 519**	**36 949**	**381**	**–**	**4.77**
9.12 to <18.23	B-	**12.23**	**12.12**	**5 697**	**6 125**	**72**	**–**	**11.23**
18.23 to <99.99	Below B-	**38.57**	**41.61**	**11 501**	**10 154**	**452**	**1**	**39.65**
100 (default)	Defaulted	**100.00**	**100.00**	**19 740**	**21 979**	**10 255**	**65**	**100.00**
Total		**6.98**	**7.91**	**343 535**	**346 906**	**11 357**	**66**	**7.23**

		Retail mortgages						
		As at 30 June 2021						
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	0.09	0.08	19 669	19 822	1	–	0.10
0.12 to <0.45	BBB	0.31	0.29	37 254	37 973	1	–	0.19
0.45 to <1.08	BB+, BB	0.73	0.74	99 011	105 250	32	–	0.62
1.08 to <1.80	BB-	1.35	1.37	68 350	65 850	55	–	1.07
1.80 to <3.23	B+	2.30	2.34	59 658	50 183	72	–	2.15
3.23 to <9.12	B	4.74	4.69	25 606	27 519	186	–	4.50
9.12 to <18.23	B-	12.32	12.23	6 579	5 697	54	–	11.16
18.23 to <99.99	Below B-	40.05	43.46	10 247	11 501	828	–	38.99
100 (default)	Defaulted	100.00	100.00	21 408	19 740	7 715	25	100.00
Total		7.67	8.15	347 782	343 535	8 944	25	7.01

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Retail revolving							
	As at 30 June 2022							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	**0.09**	**0.08**	**36 608**	**44 169**	**–**	**–**	**1.06**
0.12 to <0.45	BBB	**0.27**	**0.28**	**412 644**	**440 377**	**12**	**–**	**1.24**
0.45 to <1.08	BB+, BB	**0.73**	**0.73**	**403 763**	**429 079**	**40**	**–**	**2.29**
1.08 to <1.80	BB-	**1.42**	**1.41**	**262 316**	**272 131**	**44**	**–**	**3.77**
1.80 to <3.23	B+	**2.46**	**2.44**	**320 679**	**311 127**	**71**	**–**	**6.06**
3.23 to <9.12	B	**5.05**	**5.07**	**344 886**	**305 943**	**202**	**2**	**11.90**
9.12 to <18.23	B-	**11.71**	**12.09**	**81 552**	**67 402**	**140**	**3**	**26.65**
18.23 to <99.99	Below B-	**37.84**	**36.85**	**63 088**	**68 048**	**628**	**3**	**65.56**
100 (default)	Defaulted	**100.00**	**100.00**	**138 535**	**128 103**	**53 157**	**1 100**	**100.00**
Total		**8.86**	**7.37**	**2 064 071**	**2 066 379**	**54 294**	**1 108**	**16.86**

	Retail revolving							
	As at 30 June 2021							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	0.09	0.09	53 151	36 608	12	–	0.68
0.12 to <0.45	BBB	0.27	0.28	441 158	412 644	259	1	0.80
0.45 to <1.08	BB+, BB	0.74	0.74	427 549	403 763	284	1	1.11
1.08 to <1.80	BB-	1.42	1.41	253 128	262 316	254	1	2.10
1.80 to <3.23	B+	2.47	2.45	333 579	320 679	371	–	3.43
3.23 to <9.12	B	4.98	5.03	424 066	344 886	400	1	7.14
9.12 to <18.23	B-	11.75	12.11	102 446	81 552	157	1	14.75
18.23 to <99.99	Below B-	40.37	39.89	87 051	63 088	156	2	38.65
100 (default)	Defaulted	100.00	100.00	302 455	138 535	72 953	605	100.00
Total		9.58	7.75	2 424 583	2 064 071	74 846	612	13.37

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO continued

	Other retail							
	As at 30 June 2022							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	0.07	0.04	340	375	1	–	18.09
0.12 to <0.45	BBB	0.35	0.36	7 980	2 301	4	2	1.10
0.45 to <1.08	BB+, BB	0.73	0.71	46 782	49 381	400	393	0.24
1.08 to <1.80	BB-	1.49	1.50	109 914	112 504	18	3	0.61
1.80 to <3.23	B+	2.38	2.45	223 325	237 520	82	42	1.07
3.23 to <9.12	B	5.37	5.69	478 558	473 783	263	5	2.76
9.12 to <18.23	B-	11.88	12.83	244 657	252 820	1 443	43	6.97
18.23 to <99.99	Below B-	37.45	35.49	1 601 604	1 526 563	38 720	4 536	14.04
100 (default)	Defaulted	100.00	100.00	453 818	494 108	350 283	98 599	100.00
Total		15.35	7.38	3 166 978	3 149 355	391 214	103 623	87.20

	Other retail							
	As at 30 June 2021							
				Number of obligors		Defaulted obligors		
PD scale	External rating equivalent	Weighted average PD %	Arithmetic average PD by obligors %	End of prior year	End of current year	During current year	New during current year	Average historical annual default rate %
0.00 to <0.12	AAA, AA, A	0.06	0.04	1 400	340	1	–	3.07
0.12 to <0.45	BBB	0.40	0.41	48 017	7 980	4	–	1.76
0.45 to <1.08	BB+, BB	0.73	0.71	100 010	46 782	9	1	1.06
1.08 to <1.80	BB-	1.49	1.51	185 329	109 914	52	1	1.62
1.80 to <3.23	B+	2.37	2.41	187 512	223 325	181	2	2.68
3.23 to <9.12	B	5.31	5.65	458 257	478 558	1 540	28	7.85
9.12 to <18.23	B-	11.99	12.89	293 967	244 657	2 069	9	15.28
18.23 to <99.99	Below B-	38.99	35.87	1 396 778	1 601 604	50 342	5 092	28.63
100 (default)	Defaulted	100.00	100.00	508 245	453 818	332 878	84 105	100.00
Total		19.15	7.44	3 179 515	3 166 978	387 076	89 238	47.21

Backtesting of PD per portfolio

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

CR10: AIRB – SPECIALISED LENDING

R million		As at 30 June 2022							
		Other than high-volatility commercial real estate*							
					Exposure amount				
Regulatory categories	**Remaining maturity**	**On-balance sheet amount**	**Off-balance sheet amount**	**Risk weight**	**Project finance**	**Income-producing real estate**	**Total**	**RWA**	**Expected losses**
Strong	Less than 2.5 years	–	–	50%	–	–	–	–	–
	Equal to or more than 2.5 years	25	–	70%	–	25	25	24	–
Good	Less than 2.5 years	–	–	70%	–	–	–	–	–
	Equal to or more than 2.5 years	–	–	90%	–	–	–	–	–
Satisfactory		314	–	115%	–	314	314	423	12
Weak		41	–	250%	–	41	41	109	4
Default		–	–	–	–	–	–	–	–
Total		380	–	–	–	380	380	556	16

R million		As at 30 June 2021							
		Other than high-volatility commercial real estate*							
					Exposure amount				
Regulatory categories	Remaining maturity	On-balance sheet amount	Off-balance sheet amount	Risk weight	Project finance	Income-producing real estate	Total	RWA	Expected losses
Strong	Less than 2.5 years	–	–	50%	–	–	–	–	–
	Equal to or more than 2.5 years	–	–	70%	–	–	–	–	–
Good	Less than 2.5 years	–	–	70%	–	–	–	–	–
	Equal to or more than 2.5 years	8	–	90%	–	8	8	11	–
Satisfactory		182	–	115%	–	182	182	305	8
Weak		13	–	250%	–	13	13	34	1
Total		203	–		–	203	203	350	9

* *There were no high-volatility commercial real estate exposures during 2021 and 2022. For specialised lending exposures other than high-volatility commercial real estate, there were no exposures to object finance or commodities asset classes during 2021 and 2022.*

Specialised lending exposures under slotting approach

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

Risk analysis

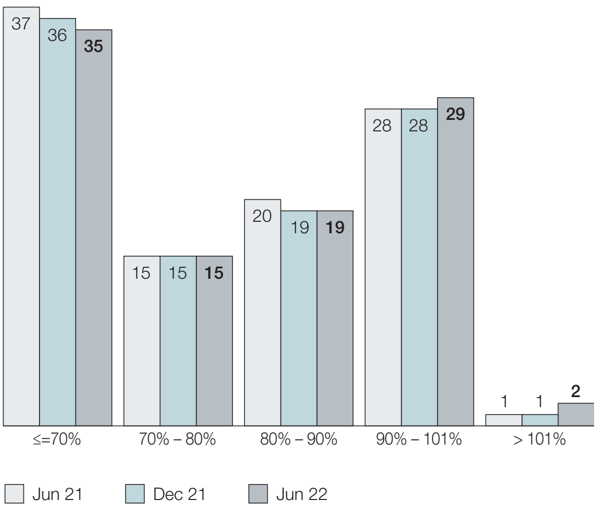
FNB residential mortgages

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

Increased levels of new business over the last year, resulting from an increase in mortgage market activity, have translated in a marginal increase in the loan to value (LTV) profile and younger account age distribution. The risk profile remains well within credit risk appetite levels.

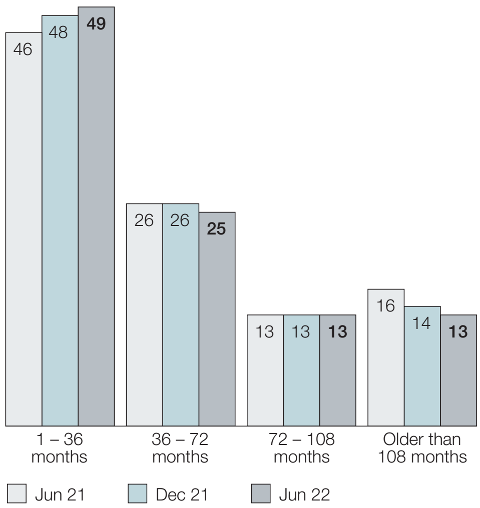
Residential mortgages balance-to-original value

%



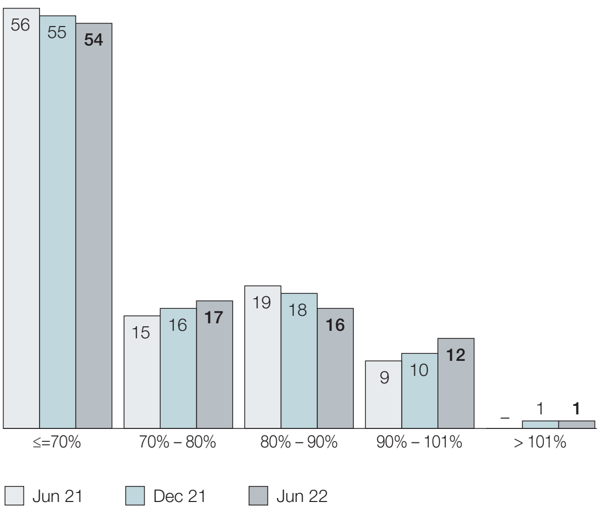
Residential mortgages age distribution total

%



Residential mortgages balance-to-market value

%

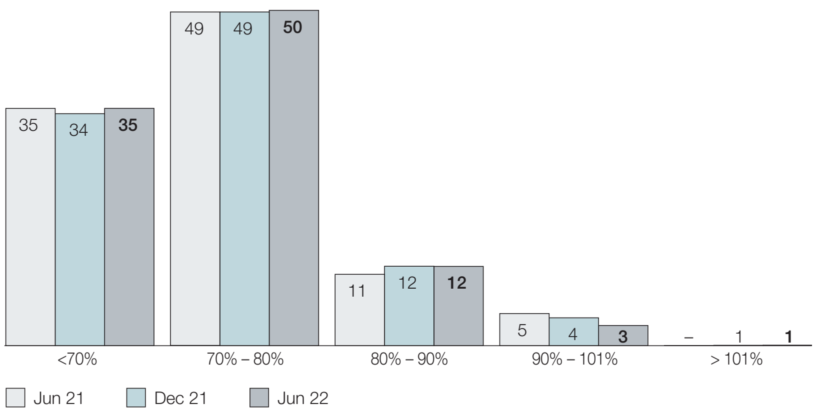


Aldermore total mortgages

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

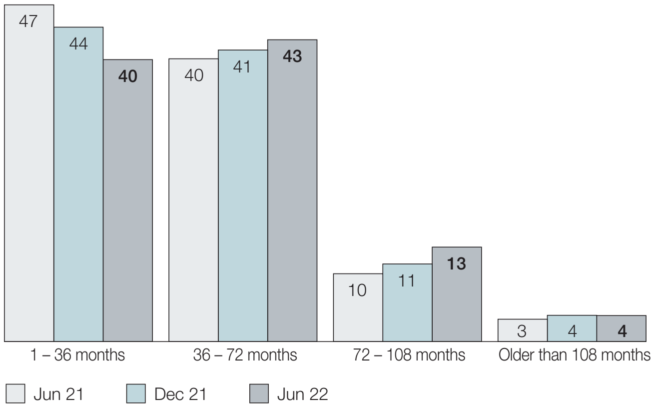
Total mortgages balance-to-original value

%



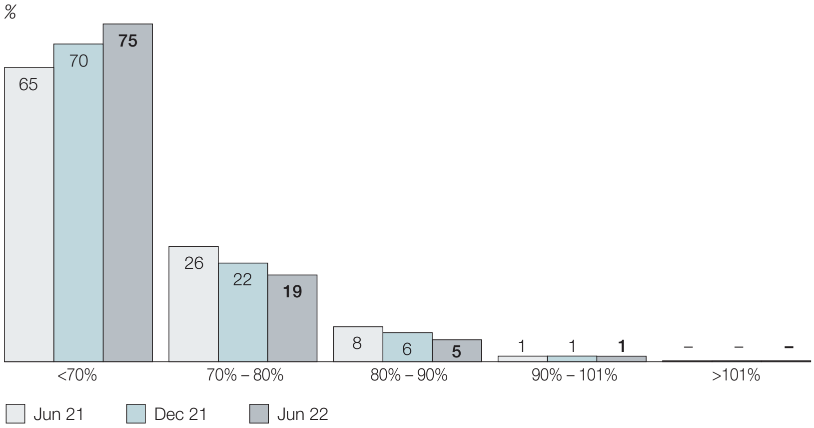
Total mortgages age distribution total

%



Total mortgages balance-to-market value

%



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 counterparty.

Counterparty credit risk is 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.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
> Enhanced counterparty credit risk exposure and monitoring methodology, through the build-out of a new platform with extended capabilities aligned to market best practice. > Continued to embed the new SA-CCR regulatory capital methodology following external audit reviews. > Finalised the economic capital model for counterparty credit risk, aligning to established methods for credit risk economic capital and reported in parallel with the regulatory methodology. > Prepared a final assessment of the group's readiness to comply with BCBS 239 from a counterparty credit risk perspective under the new regulations, with a review performed by GIA. > Implemented initial margin requirements for non-centrally cleared derivatives in line with ISDA's standard initial margin model methodology for in-scope counterparties.	> Ongoing focus on preparing for the implementation of the local regulator's variation margin requirements for non-centrally cleared derivatives, which is expected to go live in February 2023, following a one-year extension. > Finalise embedding of BCBS 239 principles to achieve full compliance with SA-CCR reporting. > Focus on analysis and readiness for the credit impact of the Basel III reforms including revisions to the credit risk methodology as well as the approach to CVA with the current project go-live date of 1 January 2024. > Manage and monitor new reporting requirements under the revised large exposure methodology.

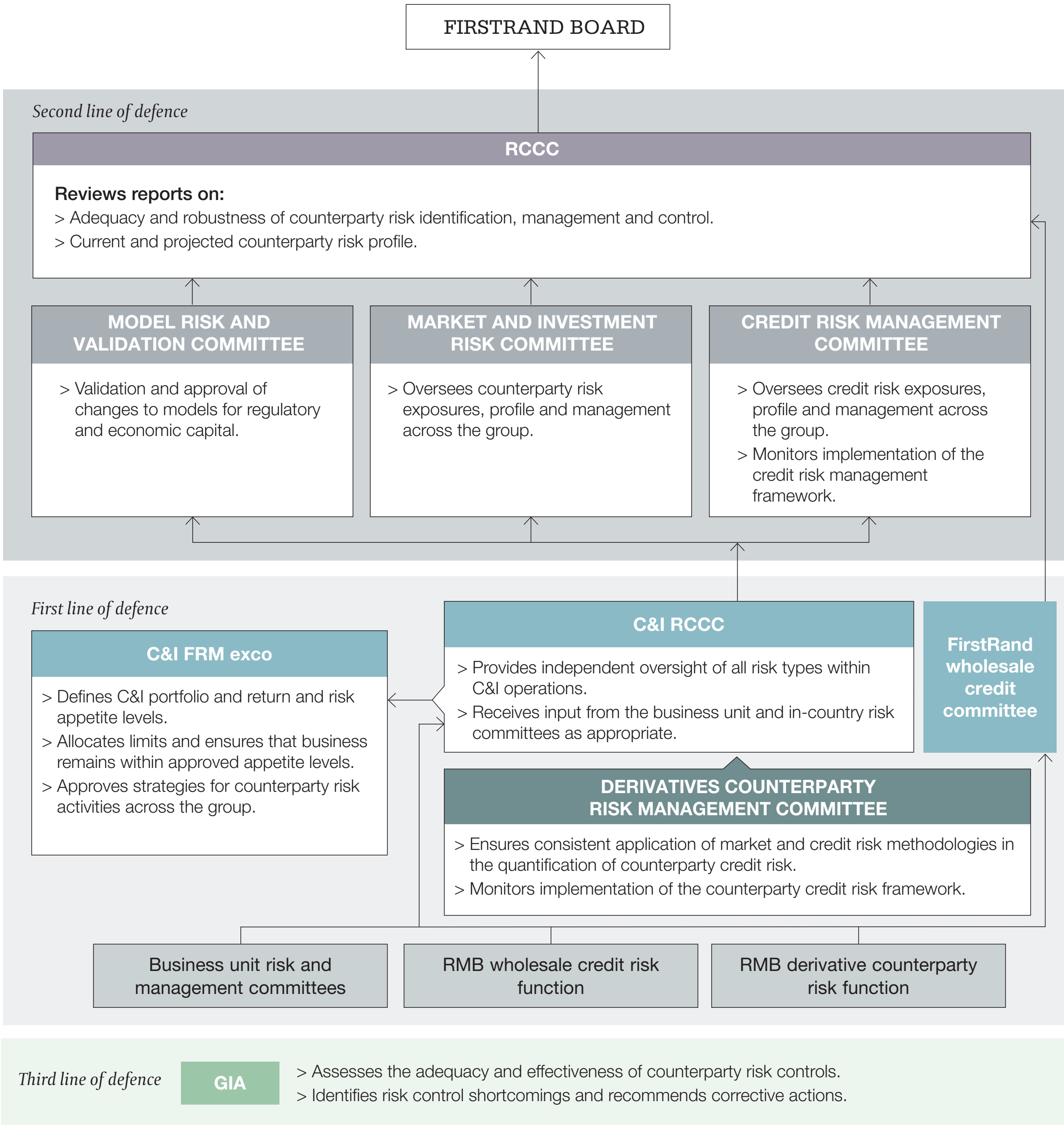
Organisational structure and governance

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

Counterparty credit risk is managed based on 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 C&I RCCC to the respective credit committees and subcommittees, as well as deployed and central risk management functions. Refer to the *Risk governance* section and the organisational structure and governance in the *Credit risk* section for more details.

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

COUNTERPARTY CREDIT RISK GOVERNANCE STRUCTURE



Assessment and management

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

QUANTIFICATION OF COUNTERPARTY CREDIT RISK EXPOSURE

Quantification of exposure

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

Individual counterparty risk limits

Overall limits allocated to products

Regulatory capital limits

Assessment and approval

Relevant technical committees

Derivative counterparty risk management committee

Market and investment risk committee

Business and risk management responsibilities

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

Risk functions

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

The historical tail loss, or expected tail loss or profit method is applied internally to estimate counterparty credit risk exposure at counterparty and/or portfolio level. These exposures are monitored daily against limits. Excesses and covenant breaches are managed in accordance with the excess approval and escalation mandates.

Counterparty credit risk mitigation

The group's counterparty credit risk mitigation approach is described on page 24.

Wrong-way risk exposure

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

Credit valuation adjustment

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

The current CVA framework is being revised by the BCBS with the intention to implement new standards by 1 January 2024. The rationale for revising the current framework is to:

> capture all CVA risks and better recognise CVA hedges;
> align with industry practices for accounting purposes; and
> align with proposed revisions of the market risk framework.

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

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

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

Counterparty credit exposure

The *CCR1: Analysis of counterparty credit risk* table on the following page provides an overview of the counterparty credit risk arising from the group's derivative and structured finance transactions. The information provided in row 1 corresponds to the requirements of SA-CCR as applied by FRBSA and other group entities. EAD under the standardised approach is quantified by scaling the sum of replacement cost and the potential future exposure by a factor of 1.4 (alpha). The group does not apply the internal model method or the simple approach for credit risk mitigation for derivatives and securities financing transactions (SFTs). Rows 2 and 3 of the CCR1 template are therefore excluded from CCR1.

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

The table below provides an explanation of the approaches used in the *CCR1: Analysis of counterparty credit risk* table on the next page.

Replacement cost	The replacement cost for trades that are not subject to margining requirements is the loss that would occur if a counterparty were to default and was immediately closed out of its transactions. For margined trades, the replacement cost is the loss that would occur if a counterparty were to default at present or at a future date, assuming that the close-out and replacement of transactions occur simultaneously.
Potential future exposure	The potential increase in the exposure between the present and the end of the margin period of risk. An add-on factor is applied to the replacement cost to determine the potential future exposure over the remaining life of the contract.
Effective expected positive exposure (EEPE)	The weighted average of the effective expected exposure over the first year, or, if all the contracts in the netting set mature before one year, over the time period of the longest-maturity contract in the netting set, where the weights represent the proportion of an individual expected exposure over the entire time interval.
EAD post CRM	Refers to the amount relevant to the calculated capital requirement over applying credit risk mitigation techniques, credit valuation adjustments and specific wrong-way adjustments.

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

CCR1: ANALYSIS OF COUNTERPARTY CREDIT RISK BY APPROACH FOR FIRSTRAND*

		As at 30 June 2022				
R million		**Replacement cost**	**Potential future exposure**	**Alpha used for computing regulatory EAD**	**EAD post-CRM**	**RWA**
1.	Standardised approach (for derivatives)**	**22 540**	**13 259**	**1.4**	**50 119**	**14 115**
4.	Comprehensive approach for credit risk mitigation for securities financing transactions#				**6 554**	**1 607**
6.	**Total**	**22 540**	**13 259**		**56 673**	**15 722**

		As at 30 June 2021				
R million		Replacement cost	Potential future exposure	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1.	Standardised approach (for derivatives)**	12 432	12 402	1.4	34 767	12 338
4.	Comprehensive approach for credit risk mitigation for securities financing transactions#				5 686	1 711
6.	**Total**	12 432	12 402		40 453	14 049

* *Replacement cost, potential future exposure, EEPE, alpha used for computing regulatory EAD, EAD post CRM and RWA are not inputs into the VaR model calculation for SFTs. Row 5 is therefore excluded from these tables.*

** *EEPE is not calculated under the SA-CCR (for derivatives).*

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

The changes in counterparty exposure numbers year-on-year were attributable to factors which include changes in market prices, an increase in trade volumes, and expiry of trades and hedges. Counterparty credit risk portfolio exposures increased year-on-year as a result of increased trading volumes, mainly in foreign exchange, interest rate and commodity derivatives for securities entities. The overall increase in RWA was mainly attributable to an increase in trading activity as well as exposures in commodity transactions to facilitate corporate hedging. The largest drivers by sector were international banks and corporates. In addition, there was some credit relief as outlook improved as a result of the ongoing global recovery from the Covid-19 pandemic.

The following table provides the EAD post-CRM and RWA amounts for portfolios subject to the standardised CVA capital charge. As the group does not apply the advanced approach for CVA charge, rows 1 and 2 are excluded from CCR2. The decrease in CVA RWA was mainly driven by a decrease in longer dated exposures and a migration of credit rating mix in the portfolio.

CCR2: CVA CAPITAL CHARGE

		As at 30 June 2022		As at 30 June 2021	
	R million	**EAD post CRM**	**RWA***	EAD post-CRM	RWA
3.	All portfolios subject to the standardised CVA capital charge	**50 119**	**10 373**	34 767	11 110
4.	**Total subject to the CVA capital charge**	**50 119**	**10 373**	34 767	11 110

* *CVA RWA includes the subsidiaries in broader Africa and foreign branches.*

CCR3: STANDARDISED APPROACH FOR COUNTERPARTY CREDIT RISK EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS*

	As at 30 June 2022					
	Risk weight**					
R million	**0%**	**20%**	**50%**	**100%**	**150%**	**Total credit exposure**
Asset classes#						
Sovereigns	**–**	**–**	**–**	**2 044**	**–**	**2 044**
Banks	**584**		**1**	**1**	**116**	**702**
Corporates		**0.2**	**302**	**173**	**2**	**477**
Total	**584**	**0.2**	**303**	**2 218**	**118**	**3 223**

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

** *There were no exposures in the 10%, 35% and 75% risk weight buckets at 30 June 2022.*

\# *There were no exposures in the non-central government public sector entities, multilateral development banks, securities firms, regulatory retail portfolios and other asset classes at 30 June 2022.*

	As at 30 June 2021					
	Risk weight**					
R million	0%	20%	50%	100%	150%	Total credit exposure
Asset classes#						
Sovereigns	–	–	–	735	–	735
Non-central government public sector entities	–	–	7	–	–	7
Banks	2 550	4	–	10	116	2 681
Corporates	–	–	–	371	135	505
Total	2 550	4	7	1 116	251	3 928

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

** *There were no exposures in the 0%, 10%, 35% and 75% risk weight buckets at 30 June 2021.*

\# *There were no exposures in the multilateral development banks, securities firms, regulatory retail portfolios and other asset classes at 30 June 2021.*

The decrease in total credit exposure from 2021 to 2022 was driven by the reduction in mark-to-market on currency trades and a migration to lower risk exposures in the banks asset class, specifically with foreign banks.

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

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

> EAD post-CRM, gross of accounting provisions;

> average PD is the obligor-grade PD weighted by EAD;

> average LGD is the obligor-grade LGD weighted EAD;

> average maturity in years is obligor maturity weighted by EAD; and

> RWA density is total risk weighted assets to EAD post-CRM.

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

	Total FRBSA						
	As at 30 June 2022						
PD scale	EAD post CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	19 074	0.07	15	23.17	1.27	2 521	13.22
0.15 to <0.25	7 462	0.21	50	38.46	0.59	1 048	14.05
0.25 to <0.50	8 443	0.46	91	21.44	1.08	2 705	32.03
0.50 to <0.75	7 024	0.72	37	38.78	1.03	4 060	57.80
0.75 to <2.50	2 178	1.86	97	26.47	0.70	1 394	64.03
2.50 to <10	388	4.61	32	31.94	1.18	383	98.60
10 to <100	176	10.48	19	27.41	2.27	218	124.11
100 (default)	–	–	–	–	–	–	–
Total	44 745		341			12 329	36.97

	Total FRBSA						
	As at 30 June 2021						
PD scale	EAD post CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	8 021	0.06	26	31.86	1.51	1 103	13.75
0.15 to <0.25	7 062	0.22	62	39.26	0.47	892	12.64
0.25 to <0.50	10 463	0.45	114	33.43	1.40	5 003	47.82
0.50 to <0.75	1 962	0.63	55	34.35	1.29	977	49.81
0.75 to <2.50	2 019	1.63	178	35.88	1.50	1 713	84.84
2.50 to <10	1 039	4.86	50	32.03	2.65	1 176	113.14
10 to <100	253	10.21	24	45.94	1.27	529	209.23
100 (default)	–	100.00	1	45.00	0.33	–	–
Total	30 819		510			11 393	36.97

The change in exposure and RWA across the PD bands reflects the increase in trading activity with significant counterparties as well as the improvement in credit outlook.

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

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

	Banks						
	As at 31 June 2022						
PD scale	**EAD post CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	**13 212**	**0.07**	**13**	**25.19**	**1.27**	**2 047**	**15.50**
0.15 to <0.25	**764**	**0.16**	**7**	**37.22**	**1.42**	**260**	**33.99**
0.25 to <0.50	**538**	**0.46**	**9**	**31.01**	**1.52**	**237**	**44.11**
0.50 to <0.75	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.75 to <2.50	**12**	**1.20**	**4**	**38.90**	**1.27**	**9**	**74.67**
2.50 to <10	**11**	**5.28**	**6**	**51.93**	**1.57**	**20**	**174.45**
10 to <100	**1**	**34.79**	**5**	**40.86**	**1.00**	**3**	**221.93**
100 (default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**14 538**		**44**			**2 576**	**17.72**

	Banks						
	As at 31 June 2021						
PD scale	EAD post CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	4 355	0.07	20	33.58	1.46	757	17.39
0.15 to <0.25	599	0.17	6	35.91	1.20	178	29.68
0.25 to <0.50	919	0.46	17	29.72	1.50	464	50.48
0.50 to <0.75	0.12	0.74	1	25.00	0.04	0.04	30.67
0.75 to <2.50	10	1.00	4	43.38	2.27	9	92.17
2.50 to <10	12	4.85	7	52.13	1.07	19	162.30
10 to <100	67	10.36	7	54.93	0.76	151	225.36
100 (default)	–	–	–	–	–	–	–
Subtotal	5 962		62			1 578	26.48

The overall increase in exposure and RWA in the 0.00 to <0.15 and 0.15 to <0.25 PD bands was driven by increased trading in interest rate derivatives and equity options.

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

	Corporate						
	As at 30 June 2022						
PD scale	**EAD post CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	–	–	–	–	–	–	–
0.15 to <0.25	1 129	0.18	15	32.86	1.00	241	21.36
0.25 to <0.50	588	0.43	32	31.49	1.13	228	38.85
0.50 to <0.75	5 337	0.74	21	40.41	1.01	3 247	60.85
0.75 to <2.50	425	1.39	38	26.52	1.23	222	52.30
2.50 to <10	280	4.61	17	30.56	1.04	261	93.07
10 to <100	93	10.47	8	26.97	0.58	103	111.11
100 (default)	–	–	–	–	–	–	–
Subtotal	**7 852**		**131**			**4 302**	**54.80**

	Corporate						
	As at 30 June 2021						
PD scale	EAD post CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	1	0.09	1	30.00	1.00	0.11	11.79
0.15 to <0.25	571	0.22	9	32.47	1.01	144	25.16
0.25 to <0.50	1 644	0.42	37	34.04	1.68	812	49.26
0.50 to <0.75	289	0.71	7	31.93	0.85	130	44.89
0.75 to <2.50	712	1.43	92	32.25	1.01	450	63.20
2.50 to <10	163	4.67	45	37.25	1.20	190	116.51
10 to <100	99	10.11	8	40.43	1.96	193	194.88
100 (default)	–	–	–	–	–	–	–
Subtotal	3 479		199			1 919	55.17

The increase in exposure and RWA in the 0.15 to <0.25 and 0.50 to <0.75 PD bands was driven by increased valuations on interest rate, cross currency swaps, commodity forwards and commodity options.

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

	Sovereign						
	As at 30 June 2022						
PD scale	EAD post CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	–	–	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–
0.25 to <0.50	49	0.48	2	5.00	1.00	3	5.98
0.50 to <0.75	3	0.60	2	45.00	0.18	1	50.19
0.75 to <2.50	–	–	–	–	–	–	–
2.50 to <10	–	–	–	–	–	–	–
10 to <100	–	–	–	–	–	–	–
100 (default)	–	–	–	–	–	–	–
Subtotal	52		4			4	7.69

	Sovereign						
	As at 30 June 2021						
PD scale	EAD post CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	–	–	–	–	–	–	–
0.15 to <0.25	0.1	0.17	1	45.00	0.73	0.03	35.45
0.25 to <0.50	360	0.48	1	5.00	0.42	19	5.20
0.50 to <0.75	4	0.60	3	45.00	0.79	2	57.99
0.75 to <2.50	–	–	–	–	–	–	–
2.50 to <10	–	–	–	–	–	–	–
10 to <100	–	–	–	–	–	–	–
100 (default)	–	–	–	–	–	–	–
Subtotal	364		5			21	5.74

The reduction in exposure and RWA in the 0.25 to <0.50 PD band was on the back of a matured foreign exchange trade.

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

	Securities firms						
	As at 30 June 2022						
PD scale	**EAD post CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	**5 862**	**0.06**	**2**	**18.63**	**1.28**	**474**	**8.08**
0.15 to <0.25	**5 546**	**0.22**	**26**	**39.76**	**0.40**	**541**	**9.75**
0.25 to <0.50	**6 341**	**0.47**	**36**	**19.31**	**0.88**	**1 901**	**29.97**
0.50 to <0.75	**1 611**	**0.65**	**6**	**34.08**	**0.97**	**772**	**47.93**
0.75 to <2.50	**1 466**	**2.06**	**44**	**25.86**	**0.45**	**998**	**68.12**
2.50 to <10	**59**	**4.27**	**7**	**37.13**	**1.18**	**67**	**113.42**
10 to <100	**13**	**10.07**	**3**	**38.97**	**0.51**	**21**	**159.73**
100 (default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**20 898**		**124**			**4 774**	**22.84**

	Securities firms						
	As at 30 June 2021						
PD scale	EAD post CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	3 665	0.06	5	29.83	1.57	345	9.43
0.15 to <0.25	5 836	0.22	30	40.42	0.34	560	9.60
0.25 to <0.50	5 564	0.47	41	39.95	0.70	2 960	48.37
0.50 to <0.75	1 375	0.60	13	37.69	1.01	713	51.87
0.75 to <2.50	561	1.62	81	53.57	0.85	758	135.04
2.50 to <10	59	4.50	11	33.87	1.40	65	111.14
10 to <100	80	10.07	4	44.99	0.60	169	209.80
100 (default)	–	–	–	–	–	–	–
Subtotal	17 140		185			5 570	32.50

The increase in exposure and RWA in the 0.00 to <0.15, 0.25 to <0.50 and 0.75 to <2.50 PD bands was driven by increased valuations on interest rate and commodity derivatives and equity options.

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

	Public sector and local government						
	As at 30 June 2022						
PD scale	**EAD post CRM R million**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWA R million**	**RWA density %**
0.00 to <0.15	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.15 to <0.25	**23**	**0.18**	**2**	**40.88**	**0.40**	**6**	**27.93**
0.25 to <0.50	**169**	**0.48**	**2**	**30.00**	**0.63**	**56**	**32.90**
0.50 to <0.75	**–**	**–**	**–**	**–**	**–**	**–**	**–**
0.75 to <2.50	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2.50 to <10	**32**	**4.93**	**1**	**30.00**	**1.93**	**32**	**100.57**
10 to <100	**0.02**	**19.03**	**1**	**64.00**	**1.00**	**0.07**	**332.01**
100 (default)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Subtotal	**224**		**6**			**94**	**41.96**

	Public sector and local government						
	As at 30 June 2021						
PD scale	EAD post CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	–	–	–	–	–	–	–
0.15 to <0.25	56	0.22	1	23.66	0.33	11	0.19
0.25 to <0.50	19	0.48	1	30.00	2.00	7	2.00
0.50 to <0.75	–	–	–	–	–	–	–
0.75 to <2.50	–	–	–	–	–	–	–
2.50 to <10	546	4.93	1	30.00	1.00	573	1.00
10 to <100	1	19.03	3	64.00	3.00	4	3.00
100 (default)	0.03	100.00	1	45.00	0.33	–	–
Subtotal	622		7			595	95.64

The decreased exposure and RWA in the 2.5 to <10 PD band was on the back of a matured foreign exchange swap and reduced valuations on cross-currency swaps.

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

	Other						
	As at 30 June 2022						
PD scale	EAD post CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	–	–	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–
0.25 to <0.50	758	0.44	6	23.75	2.55	280	36.89
0.50 to <0.75	73	0.67	7	23.55	3.78	39	53.52
0.75 to <2.50	275	1.52	16	29.09	1.23	165	59.95
2.50 to <10	6	4.55	2	18.27	2.86	4	60.22
10 to <100	69	10.07	1	25.55	4.92	91	132.97
100 (default)	–	–	–	–	–	–	–
Subtotal	1 181		32			579	48.94

	Other						
	As at 30 June 2021						
PD scale	EAD post CRM R million	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWA R million	RWA density %
0.00 to <0.15	–	–	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–
0.25 to <0.50	1 957	0.44	17	21.24	3.28	741	37.88
0.50 to <0.75	294	0.67	16	20.99	3.08	132	44.91
0.75 to <2.50	736	1.85	20	25.80	2.46	496	67.39
2.50 to <10	260	4.93	4	31.34	4.34	328	126.32
10 to <100	5	10.07	1	45.00	5.00	12	235.84
100 (default)	–	–	–	–	–	–	–
Subtotal	3 252		58			1 709	52.57

The decrease in exposure and RWA in the 0.25 to <0.75 and 0.75 to <2.50 PD bands was driven by reduced mark-to-market values on existing longer-dated interest rate swaps and matured short-dated foreign exchange swap trades.

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

CCR5: COMPOSITION OF COLLATERAL FOR COUNTERPARTY CREDIT RISK EXPOSURE*

	As at 30 June 2022					
	Collateral used in derivative transactions				Collateral used in securities financing transactions	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
R million	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	**9 238**	**6 575**	**–**	**10 942**	**–**	**–**
Cash – other currencies	**–**	**5 990**	**–**	**7 611**	**–**	**–**
Domestic sovereign debt	**–**	**2 744**	**–**	**1 238**	**78 326**	**35 313**
Other sovereign debt	**–**	**–**	**–**	**–**	**4 130**	**–**
Government agency debt	**–**	**–**	**–**	**–**	**2 629**	**109**
Corporate bonds	**–**	**–**	**–**	**–**	**3 796**	**2 870**
Total	**9 238**	**15 309**	**–**	**19 791**	**88 881**	**38 292**

	As at 30 June 2021					
	Collateral used in derivative transactions				Collateral used in securities financing transactions	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
R million	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	9 264	3 061	–	8 951	–	–
Cash – other currencies	–	2 800	–	3 509	–	–
Domestic sovereign debt	–	1 707	–	192	67 165	30 986
Other sovereign debt	–	–	–	–	652	1 855
Government agency debt	–	–	–	–	208	–
Corporate bonds	–	–	–	–	173	100
Total	9 264	7 568	–	12 652	68 198	32 941

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

Increased collateral was driven by an increase in trading activity and a number of margining agreements in place.

The group employs credit derivatives for the purposes of protecting credit positions, facilitating hedging of structured notes and general market making of specific underlyings, as indicated in the following tables.

CCR6: CREDIT DERIVATIVES EXPOSURES

	As at 30 June 2022		As at 30 June 2021	
R million	**Protection bought**	**Protection sold**	Protection bought	Protection sold
Notionals*				
– Single-name credit default swaps	**12 025**	**6 940**	12 923	5 510
Total notionals	**12 025**	**6 940**	12 923	5 510
Fair values	**13**	**(78)**	(44)	42
– Positive fair value (asset)	**35**	**59**	6	84
– Negative fair value (liability)	**(22)**	**(137)**	(50)	(42)

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

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

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

CCR8: EXPOSURES TO CENTRAL COUNTERPARTIES

	As at 30 June 2022		As at 30 June 2021	
R million	**EAD post CRM**	**RWA**	EAD post CRM	RWA
2. Exposures for trade at qualifying central counterparties (excluding initial margin and default fund contributions) of which:	**5 919**	**118**	6 044	182
3. – OTC derivatives	**2 314**	**46**	1 936	39
4. – Exchange-traded derivatives	**3 605**	**72**	4 108	143
5. – Securities financing transactions	**–**	**–**	–	–
6. – Nettings sets where cross-product netting has been approved	**–**	**–**	–	–
7. Segregated initial margin*	**9 238**		9 264	
8. Non-segregated initial margin			–	–
9. Pre-funded default fund contributions	**352**	**70**	339	48
10. Unfunded default fund contributions	**–**	**–**	–	–
1. **Total exposures to qualifying central counterparties****	**15 509**	**188**	15 647	230

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

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

Securitisations

Introduction and objectives

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

Objectives of securitisation activities

Securitisation enables the group to access funding markets at ratings that are typically better than its own corporate credit rating. This generally provides access to broader funding sources at more favourable rates. The removal of the assets and supporting funding from the balance sheet enables the group to reduce the cost of on-balance sheet financing and to manage potential asset-liability mismatches and credit concentrations.

Exposures intended to be securitised or resecuritised in the future

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

Resecuritisation

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

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

Organisational structure and governance

THE GROUP'S ROLE IN SECURITISATION AND CONDUIT STRUCTURES

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap counterparty
Own securitisations							
Nitro 6	✓	✓	✓				✓
Nitro 7	✓	✓	✓				✓
FAST Issuer	✓	✓	✓	✓			✓
Turbo Finance 8	✓	✓	✓	✓			
MotoPark	✓	✓	✓	✓			
MotoFirst	✓	✓	✓	✓			
MotoWay	✓	✓	✓	✓			✓
Oak 2	✓	✓	✓	✓			
Oak 3	✓	✓	✓	✓			
MotoMore	✓	✓	✓	✓			
Turbo Finance 9	✓	✓	✓	✓			
Conduit structures							
iVuzi*		✓	✓		✓	✓	✓
iNkotha**			✓				
iNguza**			✓				✓
Third party							
Velocity Finance Issuer Trust				✓			✓
Velocity Finance (RF) Limited				✓			✓
Clover Capital				✓			
Spartan House#							

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

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

\# *Spartan House is part of the group's securitisation risk structure in the capacity of an arranger only.*

The RCCC has delegated responsibility for independent oversight and monitoring of securitisation exposures to group ALCCO. Group ALCCO is also responsible for the allocation of sublimits and any remedial action in the event of limit breaches. The FirstRand wholesale credit committee approves credit limits for retained securitisation exposures per SPV.

Assessment and management

Oversight and risk mitigation

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

> compliance risk;

> credit risk;

> currency risk;

> interest rate risk;

> liquidity and funding risk;

> operational risk; and

> reputational risk.

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

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

> rigorous internal approval processes are in place for proposed securitisations, and transactions are reviewed by group ALCCO and the RCCC against approved limits;

> changes to retained exposures (as a result of ratings changes, reviews, note redemptions and credit losses) are reflected in the monthly BA 500 regulatory return for FRBSA and the quarterly BA 600 for group; and

> transaction investor reports, alignment with SPV financial reporting and the impact of underlying asset performance are reflected on the semi-annual BA 501 regulatory return.

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

Summary of accounting policies for securitisation activities

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

Securitisation entities are consolidated into FRIHL, FRI and FRB for financial reporting purposes. Any retained notes are accounted for as investment securities in the banking book. Liabilities resulting from securitisation vehicles are accounted for in line with group accounting policies for liabilities, provisions and contingent liabilities.

YEAR UNDER REVIEW

MotoFirst
The clean-up call option was exercised on 24 January 2022.

Turbo Finance 8 plc
The clean-up call option was exercised on 20 January 2022.

FAST Issuer
There was a final top-up of R1 billion of assets in July 2021, after which the structure began amortising. The initial outstanding balance of the class A notes was $500 million. There have been capital redemptions in October 2021, January 2022 and April 2022, reducing the outstanding class A note balance to $252 million as at 30 June 2022.

Velocity Finance (RF) Limited
There were four issuances during the year under review: R1.8 billion in July 2021, R2 billion in November 2021, R2.1 billion in February 2022 and R2.2 billion in May 2022.

MotoPark
The clean-up call option was exercised on 20 June 2022.

Nitro 6
The clean-up call option was exercised on 22 March 2022.

External credit assessment institutions

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

TRADITIONAL SECURITISATIONS TRANSACTIONS*

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

		Assets outstanding#		Notes outstanding		Retained exposure	
R million	**Assets securitised**	**June 2022**	June 2021	**June 2022**	June 2021	**June 2022**	June 2021
Nitro 6	**–**	**27**	379	**–**	304	**–**	–
Nitro 7	**381**	**477**	861	**412**	806	**–**	–
FAST Issuer†	**5 688**	**7 129**	9 883	**6 222**	9 139	**2 073**	1 988
Turbo Finance 8†	**–**	**–**	1 283	**–**	1 268	**–**	158
MotoPark†	**–**	**–**	2 919	**–**	2 580	**–**	2 580
MotoFirst†	**–**	**2**	4 821	**–**	3 123	**–**	1 069
MotoWay†	**1 788**	**1 985**	5 351	**2 120**	5 302	**2 120**	1 758
Total	**7 857**	**9 620**	25 497	**8 754**	22 522	**4 193**	7 553

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

** *Aldermore's Oak, MotoMore and Turbo Finance 9 securitisations have not derecognised assets in terms of the securitisation framework and therefore remain on-balance sheet.*

Assets outstanding do not include cash reserves.

† *Non-rand denominated.*

Securitisation exposures in the banking book

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

SEC1: SECURITISATION EXPOSURES IN THE BANKING BOOK PER PORTFOLIO

		As at 30 June 2022*				
		Traditional securitisations				
	R million	Group acts as originator	Group acts as sponsor	Group acts as investor	Group acts as originator and sponsor	Total
1.	**Retail**					
4.	– Auto loans	4 193	–	23 358	–	27 551
6.	**Corporate**					
7.	– Loans to corporates	–	–	–	3 706	3 706
	Total	4 193	–	23 358	3 706	31 257

		As at 30 June 2021*				
		Traditional securitisations				
	R million	Group acts as originator	Group acts as sponsor	Group acts as investor	Group acts as originator and sponsor	Total
1.	**Retail**					
4.	– Auto loans	7 552	–	25 363	–	32 915
6.	**Corporate**					
7.	– Loans to corporates	–	–	–	5 676	5 676
	Total	7 552	–	25 363	5 676	38 591

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

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

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

There were no synthetic securitisations during the year under review.

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

As at 30 June 2022*

		Exposure values by risk-weighted (RW) bands					Exposure values by regulatory approach				RWA by regulatory approach				Minimum capital requirements**			
							IRB		SA		IRB		SA		IRB		SA	
	R million	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1 250% RW	1 250% RW	RBA	SFA	SSFA	1 250%	RBA	SFA	SSFA	1 250%	RBA	SFA	SSFA	1 250%
	Securitisation																	
4.	– Retail	2 073	342	1 778	–	–	–	2 073	2 120	–	–	154	1 778	–	–	20	232	–
5.	– Corporate	–	3 706	–	–	–	–	–	3 706	–	–	–	1 458	–	–	–	189	–
	Total	2 073	4 048	1 778	–	–	–	2 073	5 826	–	–	154	3 236	–	–	20	421	–

* *There were no resecuritisations or synthetic securitisations (rows 6 – 15 of the SEC3 template) in 2022.*

** *Capital requirement calculated at 13% of RWA. The minimum requirement excludes the confidential individual capital requirement (Pillar 2B). The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB, capital conservation and the D-SIB as prescribed in the Regulations.*

As at 30 June 2021*

		Exposure values by RW bands					Exposure values by regulatory approach				RWA by regulatory approach				Minimum capital requirements**			
							IRB		SA		IRB		SA		IRB		SA	
	R million	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1 250% RW	1 250% RW	RBA	SFA	SSFA	1250%	RBA	SFA	SSFA	1250%	RBA	SFA	SSFA	1250%
	Securitisation																	
4.	– Retail	1 988	1 863	2 182	–	1 520	–	1 988	4 045	1 520	–	147	3 113	18 999	–	18	374	2 280
5.	– Corporate	–	5 676	–	–	–	–	–	5 676	–	–	–	2 162	–	–	–	259	–
	Total	1 988	7 539	2 182	–	1 520	–	1 988	9 721	1 520	–	147	5 275	18 999	–	18	633	2 280

* *There were no resecuritisations or synthetic securitisations (rows 6 – 15 of the SEC3 template) in 2021.*

** *Capital requirement calculated at 12% of RWA. The minimum requirement excludes the confidential individual capital requirement (Pillar 2B). The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB, capital conservation and the D-SIB as prescribed in the Regulations.*

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

As at 30 June 2022*

		Exposure values by RW bands**	Exposure values by regulatory approach[#]		RWA by regulatory approach		Minimum capital requirements[†]	
			IRB		IRB		IRB	
	R million	≤20% RW	RBA	SFA	RBA	SFA	RBA	SFA
	Securitisation							
4.	– Retail	**23 358**	**–**	**23 358**	**–**	**1 733**	**–**	**225**
5.	– Corporate	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	Total	**23 358**	**–**	**23 358**	**–**	**1 733**	**–**	**225**

* *There were no resecuritisations or synthetic securitisations (rows 6 – 15 of the SEC4 template) in 2022.*
** *There were no exposures in the >20% to 50%, >50% to 100%, >100% to <1 250% and 1 250% RW bands.*
[#] *There were no exposures under the standardised approach or to unrated notes risk weighted at 1 250%.*
[†] *Capital requirement calculated at 13% of RWA. The minimum requirement excludes the confidential individual capital requirement (Pillar 2B). The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB, capital conservation and the D-SIB as prescribed in the Regulations.*

As at 30 June 2021*

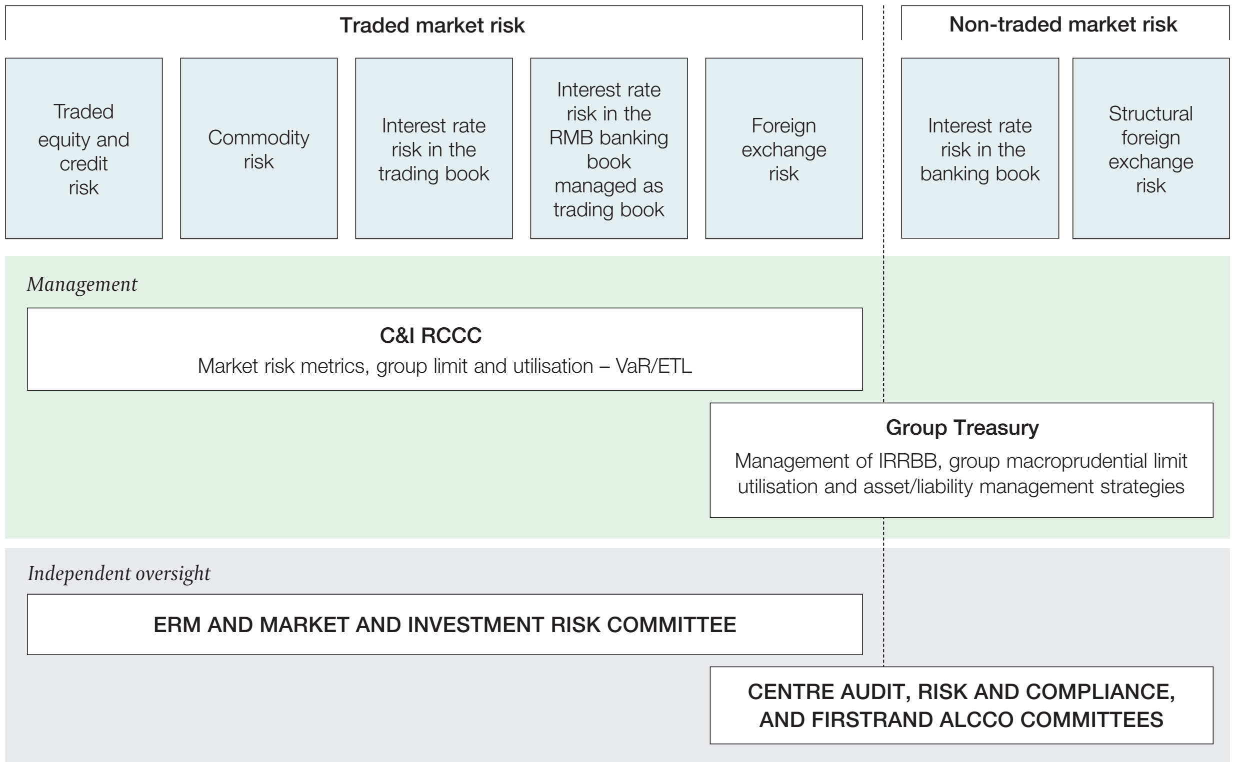
		Exposure values by RW bands**	Exposure values by regulatory approach[#]		RWA by regulatory approach		Minimum capital requirements[†]	
			IRB		IRB		IRB	
	R million	≤20% RW	RBA	SFA	RBA	SFA	RBA	SFA
	Securitisation							
4.	– Retail	25 363	–	25 363	–	1 882	–	226
5.	– Corporate	–	–	–	–	–	–	–
	Total	25 363	–	25 363	–	1 882	–	226

* *There were no resecuritisations or synthetic securitisations (rows 6 – 15 of the SEC4 template) in 2021.*
** *There were no exposures in the >20% to 50%, >50% to 100%, >100% to <1 250% and 1 250% RW bands.*
[#] *There were no exposures under the standardised approach or to unrated notes risk weighted at 1 250%.*
[†] *Capital requirement calculated at 12% of RWA. The minimum requirement excludes the confidential individual capital requirement (Pillar 2B). The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB, capital conservation and the D-SIB as prescribed in the Regulations.*

Market risk

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

TRADED AND NON-TRADED MARKET RISK ELEMENTS



Traded market risk

Introduction and objectives

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

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

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

> **business mix** – ensure that RMB's current and future strategies, spanning various activities and geographies, achieve their growth and return targets within acceptable levels of risk;

> **financial performance** – optimise portfolio performance and manage the interplay between growth and ROE given the differentiated risk/return characteristics of various activities; and

> **risk and capital impact** – only accept an appropriate level of risk commensurate with performance objectives and market opportunity.

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

The group uses global and industry-accepted models and operating platforms to measure market risk. These operating platforms support regulatory reporting, external disclosure and internal management reporting for market risk. The risk infrastructure incorporates the relevant legal entities and business units, and provides the basis for reporting on risk positions, capital adequacy and limit utilisation to the relevant governance and management forums on regular and *ad hoc* bases. Established units in risk management functions assume responsibility for measurement, analysis and reporting of risk while promoting sufficient quality and integrity of risk-related data. The VaR and sVaR calculations and aggregations are performed daily by these operating platforms and risk measures are compared to limits. Breaches are escalated to senior management.

Interest rate risk in the banking book activities under the market risk framework

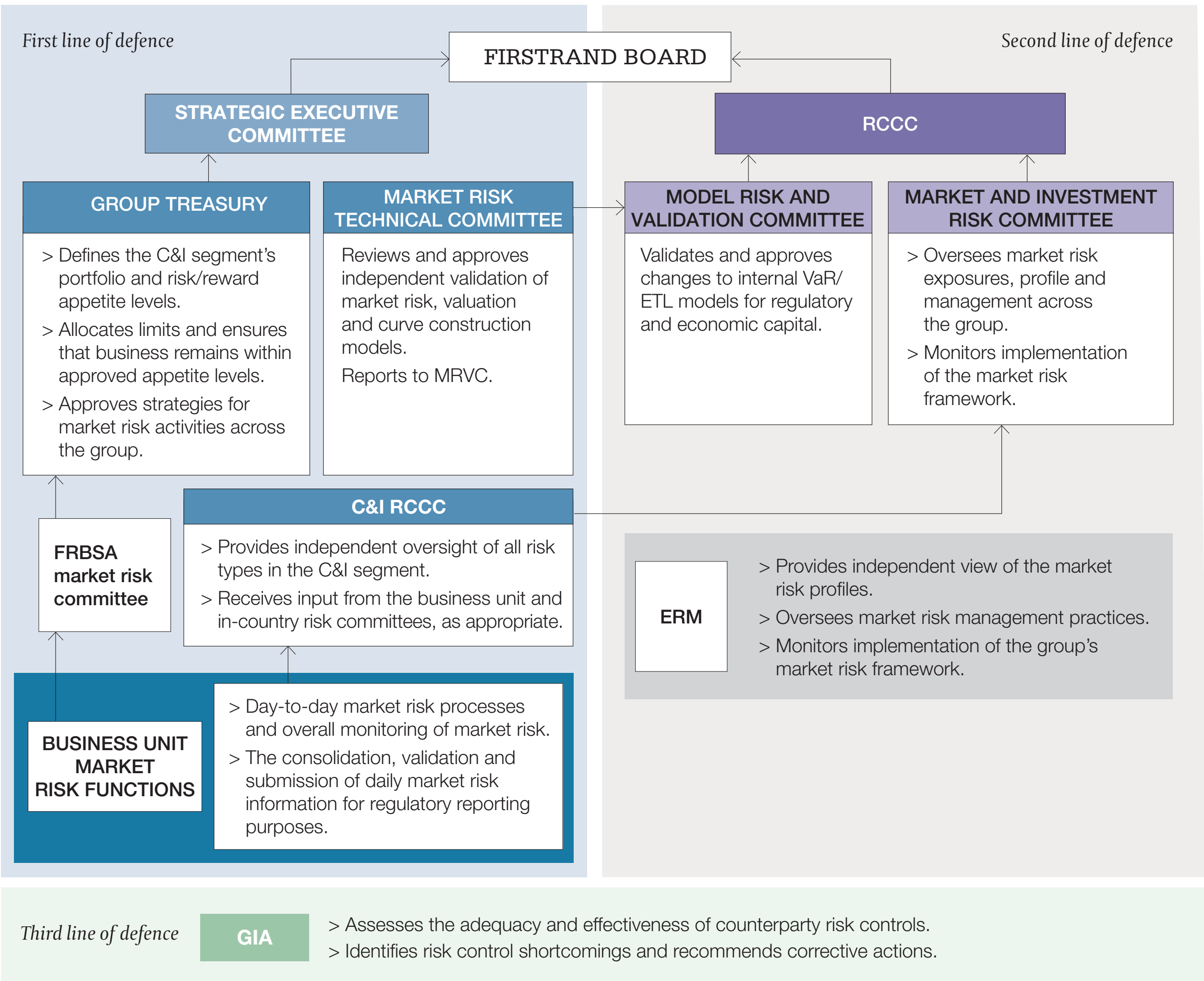
Management and monitoring of interest rate risk in the banking book are split between the RMB banking book and the remaining domestic banking book, (which is covered in the *Interest rate risk in the banking book* section). RMB manages the majority of its banking book under the market risk framework, with risk measured and monitored in conjunction with the trading book and management oversight provided by the FirstRand market and investment risk committee (MIRC). The RMB banking book interest rate risk exposure was R81 million on a 10-day ETL basis at 30 June 2022 (2021: R59 million).

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
> Short-term effects of the pandemic have steadily decreased throughout the year. In the latter part of 2021, inflation uncertainty led to sustained market volatility. Higher inflation trends across the globe have led to interest rate hikes, and concerns around recessions and stagflation is a focal point. > The Ukrainian conflict resulted in sharp increases in commodity prices led by supply and demand factors on the back of the uncertain geopolitical outlook. The fallout from the invasion will be evident over the longer term. > A number of key regulatory reforms have gone live including SA-CCR, uncleared margin rules and large exposure requirements, and have been implemented during the financial year. > The fundamental review of the trading book (FRTB) foundational application was submitted to the PA for consideration after rigorous internal consultation with strict adherence to internal and external governance requirements. > As part of the alternative reference rate reform project, all non-dollar London Interbank Offered Rate (LIBOR) exposures were successfully migrated during December 2021. > Implemented the technical solution for FRTB in the group's core market risk system.	> Focus on implementation and operationalisation of the FRTB framework. > Focus on ensuring management oversight and governance controls on the back of volatile international and local markets. These include continued refinements of the control fabric across the front office, operations, risk management and finance. > Focus on the transition of dollar LIBOR exposures to alternative reference rates, given the cessation of dollar LIBOR rates in June 2023.

Organisational structure and governance

TRADED MARKET RISK GOVERNANCE STRUCTURE



Market risk reporting

High-quality risk reporting enables senior management and governance committees to make well-considered decisions to achieve objectives and manage key risks. The group regularly reviews market risk reports to ensure their relevance and that reporting adequately and accurately reflects the group's market risk profile. Market risk reporting follows the market risk governance structure on the previous page. The frequency of each report aligns with the timing of governance committee meetings and content is driven by information requirements of the target audience.

Market risk reports are provided to the C&I FRM executive committee on a monthly basis, and the C&I RCCC and MIRC on a quarterly basis. Daily and monthly reports on market risk movements, risk factors and limit utilisation are provided to senior management and executive committees, as appropriate. Information in market risk reports includes, but is not limited to:

- ETL/VaR and sVaR, and specific risks;
- utilisation of the above against predefined limits;
- concentrations and risk build-ups;
- governance issues, such as limit breaches;
- risk factor sensitivities, stress test results and earnings volatility;
- nominal exposures;
- profit and loss attribution;
- risk and profit trends;
- internal model backtesting results;
- model risk; and
- *ad hoc* reporting to MIRC during stress periods and specific events outside of the normal governance cycle.

Model risk reports on counterparty credit and market risk, valuation and curve construction models, as well as on the independent validation of models, are provided to the FirstRand model risk and validation committee and the C&I RCCC on a quarterly basis. Information in the model risk reports includes, but is not limited to, an overview of activities of the market risk technical committee, approval of independently validated models, model risk classifications, and material issues and corrective actions.

Internal models approach: domestic trading portfolios

The group uses the internal models approach (IMA) for its domestic trading units – the internal VaR model for general market risk was approved by the PA for domestic trading units. For all other entities, the standardised approach is used for regulatory market risk capital calculation purposes. Economic capital for market risk is calculated using liquidity-adjusted ETL plus an assessment of specific risk.

The risk related to market risk-taking activities is measured as the higher of the group's internal ETL measure (as a proxy for economic capital) and regulatory capital based on VaR plus sVaR. The 10-day holding period used in the calculation of 10-day VaR, 10-day sVaR and ETL is directly modelled on the group's market risk platform.

Market risk in the trading book is taken and managed by RMB using risk limits approved by the C&I FRM executive committee and MIRC. ETL/VaR limits are set for portfolios and risk types, with market liquidity being a primary factor in determining the level of limits set. Market risk limits are governed according to the market risk framework. The ETL/VaR model is designed to take into account a comprehensive set of risk factors across all asset classes.

VaR enables the group to apply a consistent measure across all trading desks and products. It allows a comparison of risk in different businesses and provides a means of aggregating and netting positions in a portfolio to reflect correlations and offsets between different asset classes. Furthermore, it facilitates comparisons of market risk both over time and against daily trading results.

QUANTIFICATION OF RISK EXPOSURES

ETL	The internal measure of risk is an ETL metric at the 99% confidence level under the full revaluation methodology using historical risk factor scenarios (historical simulation method). In order to accommodate the regulatory stress loss imperative, the set of scenarios used for revaluation of the current portfolio comprises historical scenarios which incorporate both the past 260 trading days and at least one static period of market distress (2008/2009). The stress period is periodically reviewed for suitability. The ETL is liquidity adjusted for illiquid exposures. Holding periods, ranging between 10 and 90 days or more, are used in the calculation and are based on an assessment of distressed liquidity of portfolios.

VaR and sVaR	VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days. For regulatory capital purposes, this is supplemented with an sVaR, calibrated to a one-year period of stress observed in history (2008/2009). The choice of period 2008/2009 is based on the assessment of the most volatile period in recent history and is reviewed for suitability. sVaR calculations are based on the same systems, trade information and processes as VaR calculations. The only difference is that sVaR is supplemented with historical risk factor scenarios (historical simulation method) as an input for the full revaluation methodology. The historical factor scenarios include historical market data from a period of significant financial stress, characterised by high volatilities in recent history. When simulating potential movements in risk factors, both absolute and relative risk factors are used. VaR calculations over a holding period of one day are used as an additional tool in the assessment of market risk. The updating of historical scenarios is kept within the one-month regulatory requirement and is monitored on a daily basis.

VaR is subject to the limitations of this methodology, namely:

> historical simulation VaR may not provide an accurate estimate of future market movements;
> the use of a 99% confidence level does not reflect the extent of potential losses beyond that percentile – ETL is a better measure to quantify losses beyond that percentile (but still subject to similar limitations as stated for VaR);
> the use of a one-day time horizon is not a fair reflection of profit or loss for positions with low trading liquidity, which cannot be closed out or hedged in one day;
> as exposures and risk factors can change during daily trading, exposures and risk factors are not necessarily captured in the VaR calibration which uses end-of-day trading data; and
> where historical data is not available, time series data is approximated or backfilled using appropriate quantitative methodologies. Use of proxies is, however, limited.

These limitations mean that the group cannot guarantee that losses will not exceed VaR. Recognising its limitations, VaR is supplemented with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables.

The group does not apply the incremental risk charge or comprehensive risk capital charge approach.

Risk concentrations

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

RWA flow statement for IMA market risk exposures

Regulatory capital for domestic trading units is based on the internal VaR model supplemented with sVaR. VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days. sVaR is calculated using a predefined static stress period (2008/2009). VaR calculations over a holding period of one day are used as an additional tool in the assessment of market risk.

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

MR2: RWA FLOW STATEMENTS OF MARKET RISK EXPOSURES UNDER AN IMA*

	R million	VaR	sVaR	Total RWA
1.	**RWA at 31 March 2022**	7 499	8 481	15 980
2.	Movement in risk levels	(333)	3 048	2 715
3.	Model updates/changes	–	–	–
4.	Methodology and policy	–	–	–
5.	Acquisitions and disposals	–	–	–
6.	Foreign exchange movements	–	–	–
7.	Other	–	–	–
8.	**RWA at 30 June 2022**	7 166	11 529	18 695

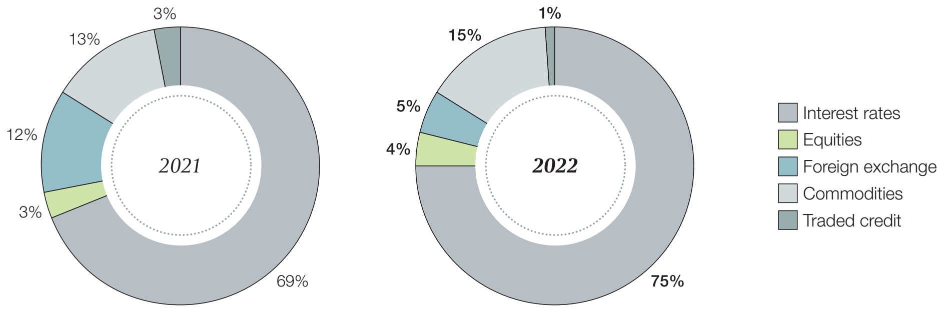
* *The group does not use the incremental risk charge or comprehensive risk measure approaches.*

The increase in total RWA during the quarter was driven by increased activity in the interest rate and foreign exchange market.

VaR exposure per asset class

The following chart shows the distribution of exposures per asset class across the group's trading activities at 30 June 2022 based on the VaR methodology. The interest rate asset class represented a significant portion of traded market risk exposure as at 30 June 2022.

Traded market risk VaR exposure per asset class for the group excluding subsidiaries in broader Africa (excluding diversification effects across jurisdictions)



IMA values

The group does not use the incremental risk charge (rows 9 – 12 of the MR3 template) and comprehensive risk measure (rows 13 – 17 of the MR3 template) approaches.

MR3: IMA VALUES FOR TRADED MARKET RISK

		FRBSA*						
		As at 30 June 2022						
	R million	Equities	Interest rates	Foreign exchange	Commodities	Traded credit	Diversification effect	Diversified total
	VaR (10-day 99%)							
1.	Maximum value	**86.5**	**329.7**	**121.4**	**71.3**	**33.1**		**277.7**
2.	Average value	**15.7**	**196.7**	**43.0**	**35.8**	**16.2**		**188.3**
3.	Minimum value	**4.6**	**126.8**	**8.1**	**9.6**	**1.5**		**101.2**
4.	Period end	**6.9**	**257.8**	**34.6**	**62.9**	**2.2**	**(175.0)**	**189.4**
	sVaR (10-day 99%)							
5.	Maximum value	**103.1**	**446.8**	**166.3**	**86.9**	**40.9**		**439.2**
6.	Average value	**23.7**	**324.4**	**64.7**	**48.2**	**16.4**		**187.7**
7.	Minimum value	**8.8**	**116.4**	**13.2**	**16.8**	**2.3**		**76.7**
8.	Period end	**15.8**	**365.5**	**156.9**	**46.3**	**7.3**	**(152.6)**	**439.2**
	VaR (1-day 99%)							
	Maximum value	**67.8**	**198.1**	**68.5**	**51.0**	**11.5**		**146.1**
	Average value	**7.3**	**90.2**	**18.3**	**20.8**	**5.4**		**95.8**
	Minimum value	**3.0**	**60.2**	**0.3**	**4.5**	**1.0**		**54.6**
	Period end	**4.5**	**100.6**	**7.1**	**20.3**	**1.1**	**(49.4)**	**84.2**

		FRBSA*						
		As at 30 June 2021						
	R million	Equities	Interest rates	Foreign exchange	Commodities	Traded credit	Diversification effect	Diversified total
	VaR (10-day 99%)							
1.	Maximum value	162.3	554.2	80.9	65.8	47.2		374.4
2.	Average value	38.0	266.9	35.3	41.0	17.8		242.2
3.	Minimum value	3.2	110.7	5.9	16.4	4.9		140.2
4.	Period end	12.5	193.3	40.6	41.8	6.4	(92.4)	202.2
	sVaR (10-day 99%)							
5.	Maximum value	91.8	415.9	131.1	60.7	80.4		218.9
6.	Average value	21.1	278.4	53.1	32.3	29.6		162.5
7.	Minimum value	1.8	137.3	10.5	15.8	7.9		108.6
8.	Period end	9.2	267.7	60.2	46.9	10.7	(259.0)	135.6
	VaR (1-day 99%)							
	Maximum value	39.3	332.3	45.5	28.7	16.8		181.0
	Average value	8.7	140.0	17.6	17.3	8.5		127.6
	Minimum value	2.2	35.5	1.8	8.5	4.0		31.9
	Period end	5.5	112.0	19.1	21.4	4.9	(50.0)	112.8

* *The IMA values for traded market risk are for FRBSA, which excludes foreign branches, which are reported on in the standardised approach for market risk.*

At 30 June 2022 sVaR showed an overall increase over VaR from the previous year. This was due to the normalisation of historical scenarios after the Covid-19 pandemic. The overall increase in risk was due to increased activity in the interest rate and foreign exchange market.

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 stress scenarios and includes the use of "what-if" hypothetical and forward-looking simulations. Stress test calibrations are reviewed regularly to ensure that results are indicative of the possible impact of severely distressed and event-driven market conditions. Stress and scenario analyses are regularly reported to and considered by the relevant governance bodies.

Earnings volatility

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

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

Regulatory backtesting

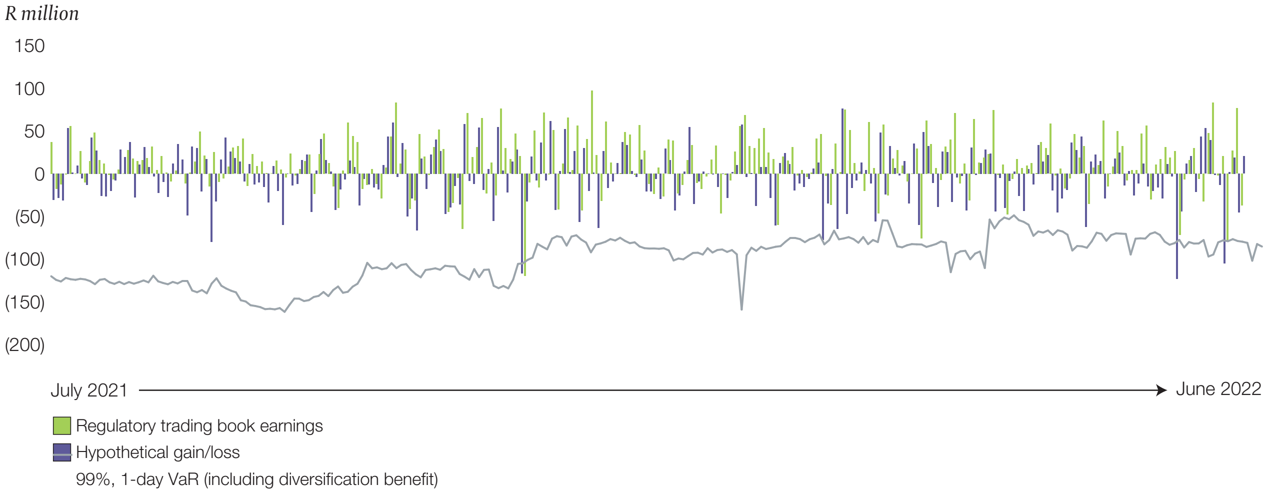
Backtesting is performed to verify the predictive ability of the VaR model and ensure ongoing appropriateness. The backtesting process is a regulatory requirement and seeks to estimate the performance of the regulatory VaR model. Performance is measured by the number of exceptions to the results produced by the model, i.e. if net trading profit and loss in one trading day is greater than the estimated VaR for the same trading day. The group's procedures could be underestimating VaR if exceptions occur regularly (a 99% confidence interval indicates that one exception will occur in 100 days).

The regulatory standard for backtesting is to measure daily actual and hypothetical changes in portfolio value against VaR at the 99th percentile (one-day holding period equivalent). The number of breaches over a period of 250 trading days is calculated, and should the number exceed that which is considered appropriate, the model is recalibrated.

Backtesting: daily regulatory trading book earnings versus 1-day, 99% VaR

The group monitors its daily domestic earnings profile as illustrated in the following chart. The earnings and 1-day VaR relate to the group's internal VaR model. Exposures were contained within risk limits during the year ended 30 June 2022.

MR4: Comparison of VaR estimates with gains/losses for FRBSA



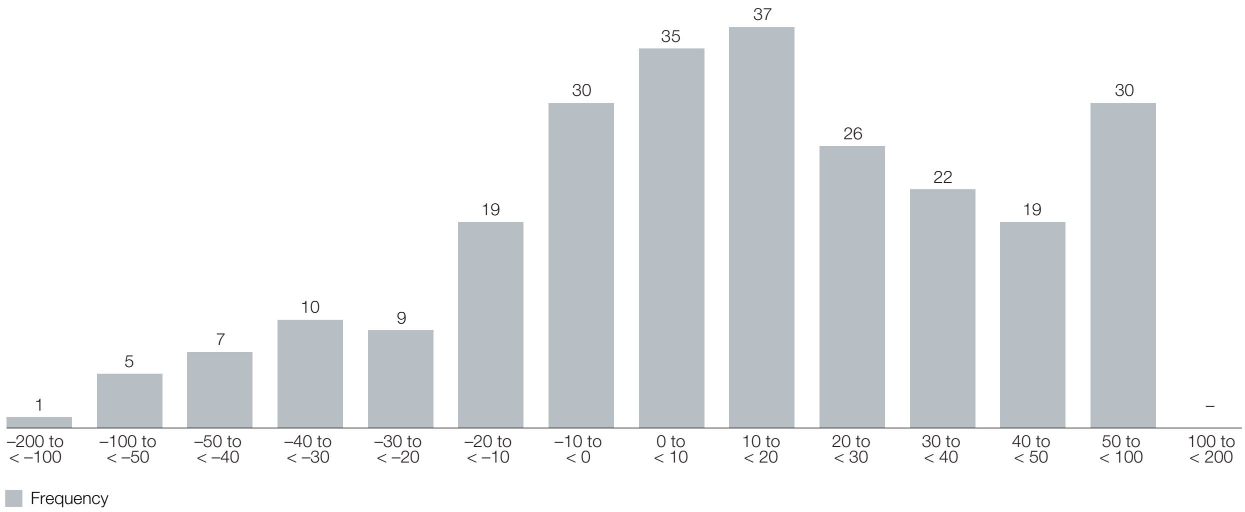
There were no significant changes to the 99%, 1-day VaR. Trading book earnings exceeded 1-day VaR on one occasion due to real bond moves in the fixed income portfolio. Despite the three incidents of hypothetical breaches related to high bond yields, the group's internal model continues to quantify market risk appropriately on an overall basis.

Distribution of daily trading earnings from trading units

The following diagram shows a histogram of daily observations within each revenue bracket of the group's domestic trading units for the year ended 30 June 2022. The results are skewed towards profitability.

FRBSA distribution of daily earnings – frequency

Days in a period – number of observations per R million bracket



Standardised approach: General and specific risk

The bank's London branch (and India branch until the end of March 2022) and the group's subsidiaries in broader Africa also have market risk exposure. The India and London branches are measured and managed on the same basis as the domestic portfolios for internal measurement, with regulatory capital based on the regulatory standardised approach. Due to the cessation of trading activities at the India branch towards the end of the 2022 financial year, year-end market risk exposures do not include India branch activity. This follows the group's decision to close the India branch. The subsidiaries in broader Africa are measured using the regulatory standardised approach for regulatory capital and an internal stress loss methodology for internal measurement of risk. Under the standardised approach, capital is calculated for general market risk and specific market risk using the Basel III standardised duration methodology. Capital for specific risk is held in addition to general market risk capital.

General market risk capital	The general market risk capital calculation is based on the duration methodology. To calculate the general market risk capital charge, the long or short position (at current market value) of each debt instrument and other sources of interest rate exposure, including derivatives, is distributed into appropriate time bands by maturity. The long and short positions in each time band are then summed respectively and multiplied by the appropriate risk weight factor (reflecting the price sensitivity of the positions to changes in interest rates) to determine the risk-weighted long and short market risk positions for each time band.

Specific risk capital	Specific risk accurately measures idiosyncratic risk not captured by general market risk measures for interest rate and equity risk, such as default, credit migration and event risks, and identifies concentrations in a portfolio. The total regulatory-specific risk capital amount is the sum of equity-specific risk and interest rate-specific risk, and is based on the Basel III standardised approach duration method.

FRBSA's balance sheet is exposed to interest rate and equity specific risk. The bank's London branch and the group's subsidiaries in broader Africa are exposed to interest rate and foreign exchange (general risk). Aldermore is exposed to foreign exchange (general risk).

MR1: MARKET RISK UNDER STANDARDISED APPROACH

		RWA			
		FirstRand		FRB*	
		As at 30 June			
	R million	2022	2021	2022	2021
	Outright products				
1.	Interest rate risk	**7 904**	8 668	**4 370**	6 204
	– Specific risk	**5 327**	6 861	**4 370**	6 194
	– General risk	**2 577**	1 807	**–**	10
2.	Equity risk	**344**	866	**326**	830
	– Specific risk	**344**	866	**326**	830
	– General risk	**–**	–	**–**	–
3.	Foreign exchange risk	**1 220**	3 154	**547**	2 077
	– Traded market risk	**800**	504	**127**	82
	– Non-traded market risk	**420**	2 650	**420**	1 995
4.	Commodity risk	**–**	–	**–**	–
9.	**Total**	**9 468**	12 688	**5 243**	9 111

* *FRB includes foreign branches.*

Market risk was contained within acceptable stress loss limits and effectively managed across the subsidiaries during the year.

Options are excluded from using IMA (rows 5 – 7 of the MR1 template are therefore excluded), (refer to the *MR3: IMA values for traded market risk* template) and securitisations (row 8 of the MR1 template are therefore excluded) are capitalised under the securitisation framework (refer to the *Securitisation* section).

The decrease in interest rate specific risk was driven by reduced client positioning; reduced risk in the equity and traded credit business lines as higher rates in global markets impacted the present value of expected returns; and weaker sovereign credit spreads led to reduced demand for high-yielding emerging market debt. The decrease in non-traded foreign exchange market risk was due to increased funding in the off-shore bond portfolio, repayment of foreign exchange preference shares and decrease in proceeds from matured foreign exchange positions.

Non-traded market risk

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

RISK AND JURISDICTION	RISK MEASURE	MANAGED BY	OVERSIGHT
Interest rate risk in the banking book			
Domestic – FNB, RMB, WesBank and Centre	> 12-month earnings sensitivity. > Economic sensitivity of open risk position.	Group Treasury	> FCC Risk Management > Group ALCCO
Subsidiaries in broader Africa and the bank's foreign branches	> 12-month earnings sensitivity. > Economic sensitivity of open risk position.	In-country management	> Group Treasury > FCC Risk Management > In-country ALCCOs > Broader Africa ALCCO
Structural foreign exchange			
Group including Aldermore	> Total capital in a functional currency other than rand. > Impact of translation back to rand reflected in group's income statement. > Foreign currency translation reserve value.	Group Treasury	> Group ALCCO > FCC Risk Management

Interest rate risk in the banking book

Introduction and objectives

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

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

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

IRRBB is an inevitable risk associated with banking and can be an important source of profitability and shareholder value.

Group Treasury implements ALM strategies to manage the group's interest rate and other mismatches to protect the group's net interest margin. These ALM strategies are actively monitored along with macroeconomic factors impacting domestic rates, as well as rates in the other countries where the group operates.

Effect of interbank offered rate reform

LIBOR is the reference interest rate that underpins trillions of dollars of loan and derivative contracts worldwide. A process is under way to replace these reference rates with alternative risk-free rates. The publication of dollar LIBOR (one-week and two-month tenors); and pound, euro, Swiss franc, and yen LIBOR for all tenors ceased at the end of December 2021. The publication of dollar LIBOR for the remaining tenors will cease after 30 June 2023. Due to the difference in the manner in which the LIBOR rate and alternative risk-free rates are determined, adjustments were applied to LIBOR referencing contracts to ensure economic equivalence on transition to the new alternative risk-free rates. The following alternative risk-free rates replaced the following LIBORs which the group has exposure to:

- $ – SOFR
- £ – SONIA
- € – euro short-term rate
- ¥ – Tokyo overnight average rate
- CHF – Swiss average rate overnight

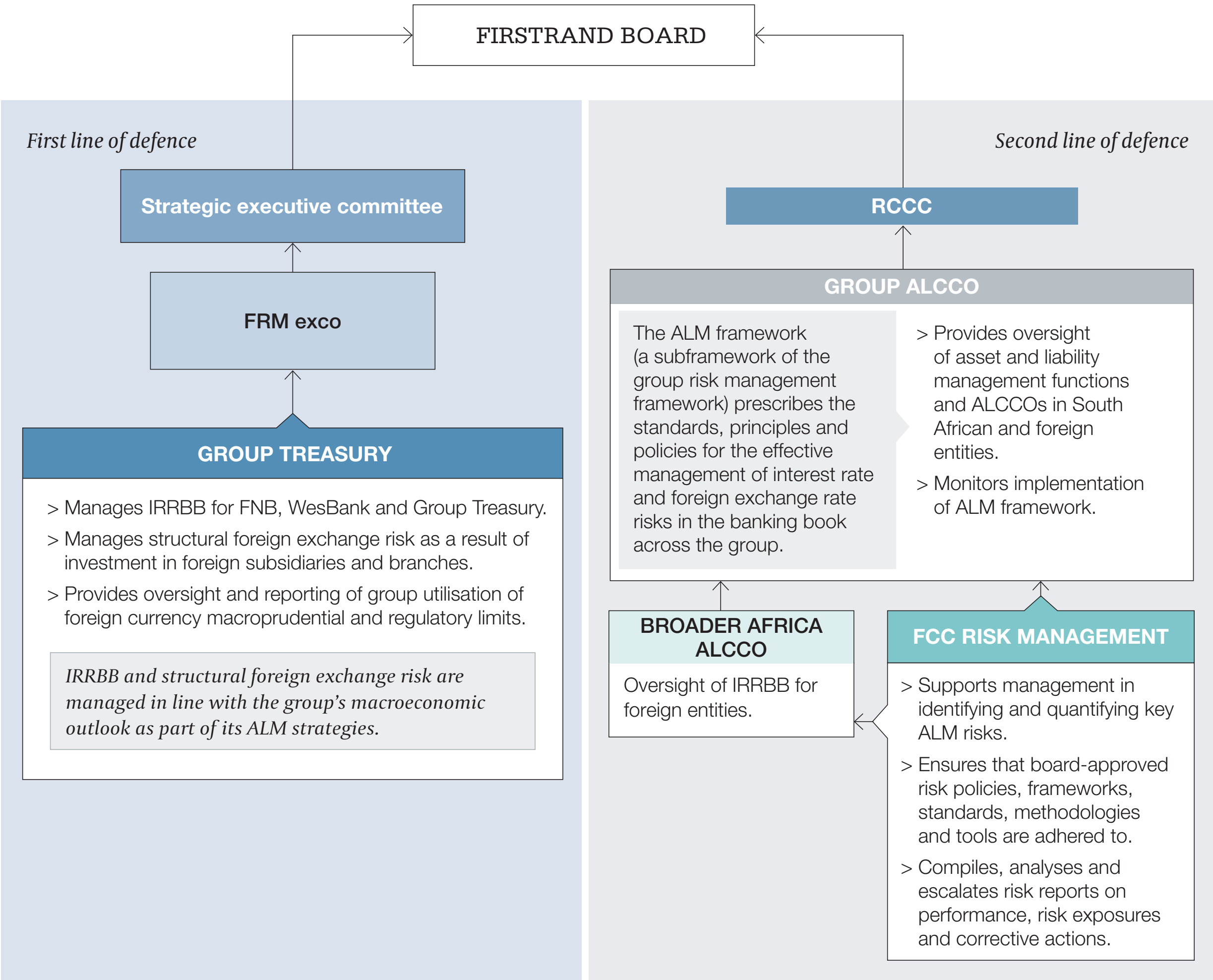
The group established a steering committee consisting of key finance, risk, IT, treasury, legal and compliance personnel, and external advisors to oversee its interbank offered rate (IBOR) reform transition plan. The steering committee has put in place a transition project for affected contracts with the aim of minimising the potential disruption to business and mitigating operational and conduct risks and possible financial losses.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
> The SARB increased interest rates by 125 bps between 1 July 2021 and 30 June 2022. > The group has made the necessary arrangements to cater for IBOR reform.	> The BCBS, through the task force for IRRBB, has published more robust regulations for IRRBB. The group is addressing these new requirements, which will be formally adopted on 1 January 2023. > In line with the FirstRand house view and given current uncertainty about the level and direction of future interest rates, the group continues to actively manage endowment risk.

Organisational structure and governance

IRRBB GOVERNANCE STRUCTURE



Assessment and management

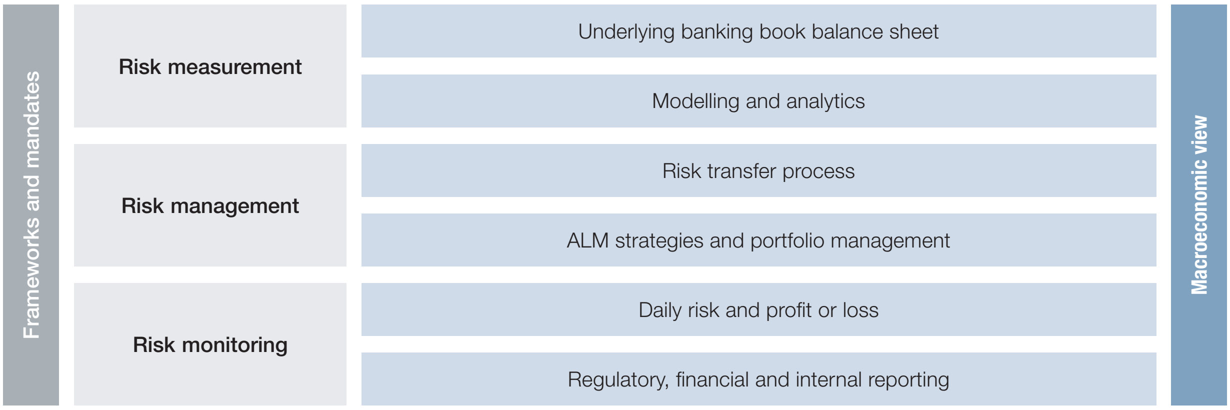
The measurement techniques used to monitor IRRBB in FRBSA include NII sensitivity/earnings risk and NAV/economic value of equity (EVE) sensitivity. A repricing gap is also generated to better understand the repricing characteristics of the balance sheet. In calculating the repricing gap, all banking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

The internal funds transfer pricing process is used to transfer interest rate risk from the operating businesses to Group Treasury. This process allows risk to be managed centrally and holistically in line with the group's macroeconomic outlook. Management of the resultant risk position is part of Group Treasury's ALM approach.

Where possible, the group minimises 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 reference asset/liability.

Management of IRRBB in the subsidiaries in broader Africa, Aldermore and the bank's foreign branches is performed by in-country management teams with oversight provided by Group Treasury and FCC Risk Management. For subsidiaries, earnings sensitivity measures are used to monitor and manage interest rate risk in line with the group's appetite. Where applicable, NAV sensitivity risk limits are also used for ALM positions.

INTEREST RATE RISK MANAGEMENT AND ASSESSMENT



Sensitivity analysis

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

Earnings sensitivity

Earnings sensitivity to interest rate risks is considered on a regulatory, stress, and business as usual basis.

The NII sensitivity shown here is based on the regulatory view. Applying the banking book regulatory assumptions on a contractual basis, which assumes that demand deposits behave contractually, no management action in response to interest rate movements, and an instantaneous, sustained parallel 200 bps rate change.

The revised interest rate risk in the banking book regulations, which come into effect on 1 January 2023, will require more detailed disclosure, including a behaviorally adjusted basis.

The following tables show the 12-month NII sensitivity for sustained, instantaneous parallel 200 bps downward and upward shocks to interest rates. The sensitivity decreased year-on-year due to the shortening of the hedge portfolio duration.

Most of the group's NII sensitivity relates to the endowment book mismatch. The group's average endowment book was R335 billion for the year ended 30 June 2022. Total sensitivity is measured to rand interest rate moves in South Africa, and to local currency interest rate moves in the subsidiaries in broader Africa.

PROJECTED NII SENSITIVITY TO INTEREST RATE MOVEMENTS

	As at 30 June 2022		
	Change in projected 12-month NII		
R million	FRBSA	Subsidiaries in broader Africa and the bank's foreign branches	FirstRand
Downward 200 bps	(277)	(754)	(1 031)
Upward 200 bps	102	561	663

	As at 30 June 2021		
	Change in projected 12-month NII		
R million	FRBSA	Subsidiaries in broader Africa and the bank's foreign branches	FirstRand
Downward 200 bps	(1 621)	(777)	(2 398)
Upward 200 bps	1 066	428	1 494

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 R1 031 million. A similar increase in interest rates would result in an increase in projected 12-month NII of R663 million.

Economic value of equity

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

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

The following table:

> highlights the sensitivity of banking book NAV as a percentage of total capital; and

> reflects a point-in-time view, which is dynamically managed and can fluctuate over time.

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

	FRBSA		FirstRand	
	As at 30 June			
%	2022	2021	2022	2021
Downward 200 bps	5.35	4.55	3.49	3.20
Upward 200 bps	(4.77)	(4.12)	(3.11)	(2.90)

The increase in NAV sensitivity in the year under review was attributable to the change in duration of the hedge portfolios. The group maintained its active management of the endowment book in line with the macroeconomic house view.

Structural foreign exchange risk

Introduction and objectives

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

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

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

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
> Continued to strengthen principles for the management of foreign exchange positions and funding of the group's foreign entities. > Monitored the net open forward position in foreign exchange exposure against limits in each of the group's foreign entities.	> Continue to assess and review the group's foreign exchange exposures and enhance the quality and frequency of reporting.

Organisational structure and governance

Reporting of the group's foreign exchange exposure and management of that exposure resulting from banking book activities relative to the macroprudential limit utilisation is a function performed by Group Treasury as the clearer of all group currency positions. Group Treasury is also responsible for oversight of structural foreign exchange risk and reports on this risk to group ALCCO. 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 macroprudential and regulatory limits. The group sets additional board limits and management appetite levels for this exposure. The impact of any residual on-balance positions is managed as part of market risk reporting (see *Traded market risk* section). Group Treasury is responsible for consolidated group reporting and utilisation of these limits against approved limits and appetite levels.

Foreign exchange risk in the banking book comprises funding and liquidity management and risk mitigating activities. To minimise funding risk across the group, foreign currency transactions are matched, where possible, with residual liquidity risk managed centrally by Group Treasury, and usually to low levels (see *Liquidity risk and funding* section). Structural foreign exchange risk impacts both the current NAV of the group as well as future profitability and earnings potential. Economic hedging is undertaken where feasible, given market constraints and within risk appetite levels. Where possible, hedge accounting is applied. Any open positions are capitalised under the market risk in the trading book framework.

Net structural foreign exposures and sensitivity

The following table provides an overview of the group's exposure to entities with functional currencies other than rand and the pre-tax impact on equity of a 15% change in the exchange rate between the South African rand and the relevant functional foreign currencies. There were no significant structural hedging strategies in the year under review. The increase in pound capital was largely a result of an increase in investment in GBP-denominated operations.

NET STRUCTURAL FOREIGN EXPOSURES

	As at 30 June 2022		As at 30 June 2021	
R million	Exposure	Impact on equity from 15% currency translation shock	Exposure	Impact on equity from 15% currency translation shock
Functional currency				
Botswana pula	**4 951**	**743**	5 632	845
US dollar	**10 592**	**1 589**	9 232	1 385
British pound sterling	**34 186**	**5 128**	26 390	3 958
Nigerian naira	**2 433**	**365**	2 010	301
Australian dollar	**–**	**–**	25	4
Zambian kwacha	**1 324**	**199**	502	75
Mozambican metical	**670**	**101**	439	66
Indian rupee	**838**	**126**	742	111
Ghanaian cedi	**1 126**	**169**	1 266	190
Tanzanian shilling	**(139)**	**(21)**	318	48
Common Monetary Area (CMA) countries*	**7 539**	**1 131**	7 220	1 083
Total	**63 520**	**9 530**	53 776	8 066

* *Namibia, Eswatini and Lesotho are part of the CMA, therefore, rand volatility does not impact their rand reporting values.*

Equity investment risk

Introduction and objectives

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

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

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

FirstRand Investment Management Holdings Limited, the group's asset management business, also contributes to equity investment risk. This risk emanates from long-term and short-term seeding activities both locally and offshore. Short-term seeding of new traditional and alternative funds exposes the group to equity investment risk until the funds reach sufficient scale for sustainable external distribution. The timeline for short-term seeding is defined in the business cases for the funds and typically ranges between one and three years.

Long-term seeding is provided if there is alignment with the business strategy, the business case meets the group's internal return hurdle requirements, and the liquidity and structure of the funds imply that an exit will only be possible over a longer period, aligned with the interests of other investors in these funds. Long-term investments, such as investment in private equity and real estate, will only be exited at the end of the investment horizon of the funds. This maturity period typically ranges from five to eight years post investment in the fund.

Equity investments in funds

The BCBS standard on *Capital requirements for banks' equity investments in funds* requires banks' equity investment risk exposures in funds to be risk weighted using the following approaches with varying degrees of risk sensitivity:

> look-through approach;
> mandate-based approach; and
> fall-back approach.

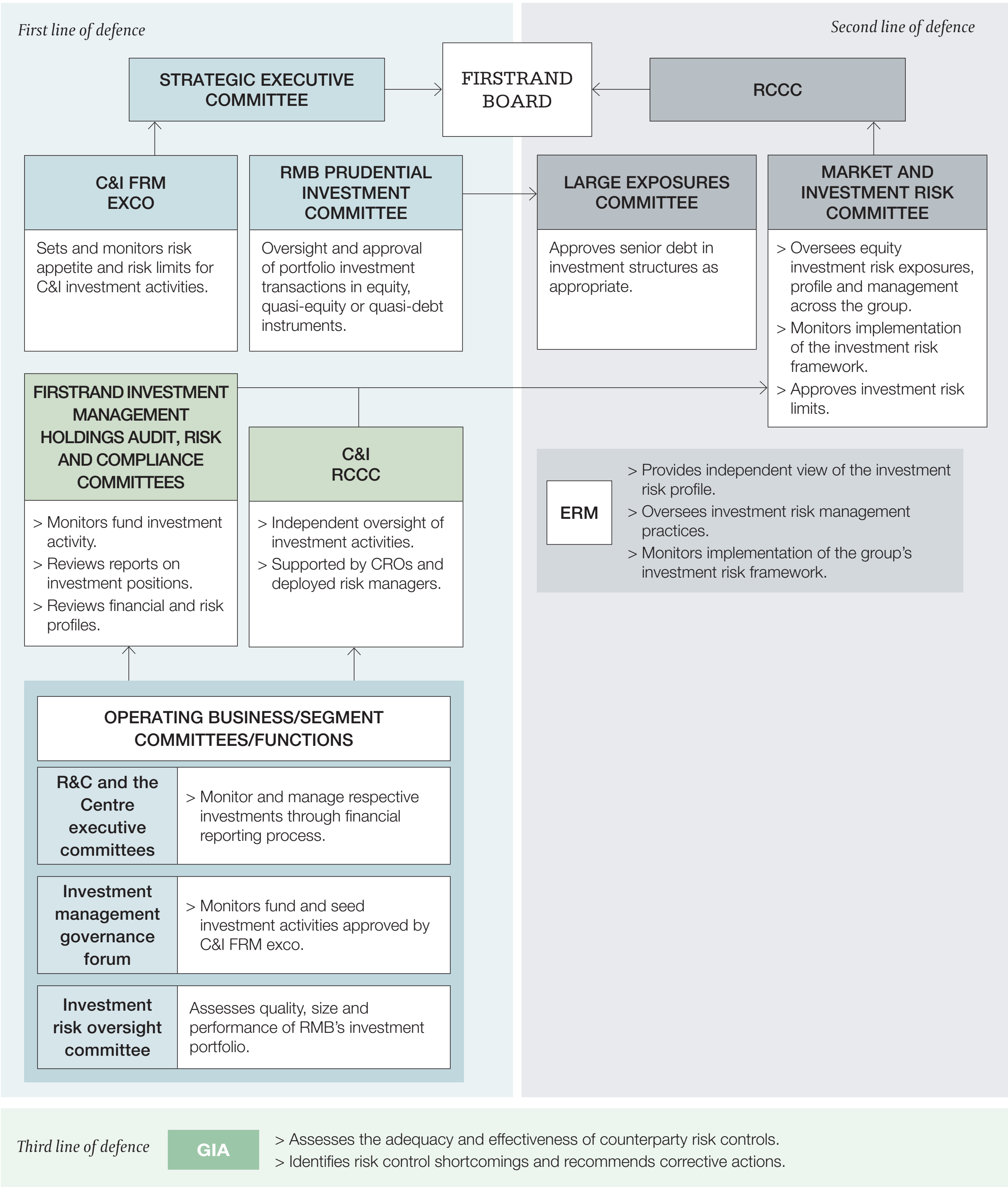
To ensure that banks have appropriate incentives to enhance the management of exposures, the degree of conservatism increases with each successive approach. The BCBS also incorporated a leverage adjustment to RWAs derived from the above approaches to appropriately reflect a fund's leverage. The group has implemented the necessary processes to comply with the standard.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
> The year under review was characterised by acquisitions, with the private equity team deploying R900 million of capital. The quality of the investment portfolio remains acceptable and within risk appetite. > The portfolio continues to perform well as evidenced by an increase in the market value which has been driven predominantly by growth in earnings. Strong cash generation by portfolio companies has also resulted in capital being returned to shareholders. > The unrealised value of RMB Private Equity's portfolio as at 30 June 2022 was R5.9 billion (2021: R4.4 billion).	> The private equity teams continue to work closely with management teams to navigate the challenging macroeconomic environment being experienced in South Africa, with rising interest rates and inflation likely to curb consumer spending.

Organisational structure and governance

EQUITY INVESTMENT RISK GOVERNANCE STRUCTURE



Assessment and management

Management of exposures

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

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

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

Recording of exposures – accounting policies

All equity investments in scope of IFRS 9 are measured at fair value in the statement of financial position, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to present value changes in "other comprehensive income". There is no "cost measurement" exemption for unquoted equities.

If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at fair value through other comprehensive income with only dividend income recognised in profit or loss. Despite the fair value requirement for all equity investments, IFRS 9 contains guidance on when cost may be the best estimate of fair value and also when it might not be representative of fair value.

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

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

Measurement of risk exposures and stress testing

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

In the private equity portfolios, the group targets an investment profile that is diversified along a number of pertinent dimensions, such as geography, industry, investment stage and vintage.

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

Regulatory and economic capital

The simple risk weighted method under the market-based approach (300% for listed equities or 400% for unlisted equities) is applied with the scaling factor (where appropriate) for the quantification of regulatory capital. Under the Regulations, the risk weight applied to investments in financial, banking and insurance entities is subject to the aggregate and individual value of the group's shareholding in these investments and also in relation to the group's qualifying CET1 capital.

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

For the quantification of regulatory capital, equity investments in funds are risk weighted using the LTA, MBA or FBA, depending on the criteria met by the fund. For LTA, the underlying exposures in the funds are risk weighted as if those exposures were directly held by the group. For MBA, funds are risk weighted according to the fund's mandate or information obtained from other relevant disclosures of the fund. Where the fund mandate further permits the use of leverage and/or derivatives, the RWA is adjusted to take these into account. The FBA approach applies a 1 250% risk weighting, which is the maximum risk weighting permissible under either of the approaches.

Equity investment risk valuations

The table below shows the equity investment risk exposure and sensitivity. The 10% sensitivity movement is calculated on the carrying value of investments, excluding those subject to the ETL process and including the carrying value of investments in associates and joint ventures.

GROUP INVESTMENT RISK EXPOSURE, SENSITIVITY OF INVESTMENT RISK EXPOSURE AND EQUITY INVESTMENTS IN FUNDS

	As at June 2022			As at June 2021		
R million	**Publicly quoted investments**	**Privately held investments**	**Total**	Publicly quoted investments	Privately held investments	Total
Carrying value of investments	4	10 882	10 886	4	10 139	10 143
Per risk bucket						
250% – Basel III investments in financial entities	–	5 503	5 503	–	5 255	5 255
300% – Listed investments	4	–	4	4	–	4
400% – Unlisted investments	–	5 379	5 379	–	4 884	4 884
Equity investments in funds	–	2 011	2 011	–	2 072	2 072
Look-though approach	–	77	77	–	–	–
Mandate-based approach	–	1 912	1 912		2 072	2 072
Fall-back approach	–	22	22	–	–	–
Latent revaluation gains not recognised on the balance sheet*	–	1 885	1 885	–	6 689	6 689
Fair value	4	14 778	14 782	4	18 900	18 904
Listed investment risk exposure included in the equity investment risk ETL process	4	–	4	4	–	4
Estimated sensitivity to 10% movement in market value on investment fair value of remaining investment balances			215			149
Cumulative gains realised from sale of positions during the year			173			54
Capital requirement**	2	5 921	5 923	2	5 049	5 051

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

** *Capital requirement calculated at 13% (2021: 12%) of RWA. The minimum requirement excludes the confidential individual capital requirement (Pillar 2B). The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB, capital conservation and the D-SIB as prescribed in the Regulations.*

FRBSA INVESTMENT RISK EXPOSURE, SENSITIVITY OF INVESTMENT RISK EXPOSURE AND EQUITY INVESTMENTS IN FUNDS

	As at June 2022			As at June 2021		
R million	**Publicly quoted investments**	**Privately held investments**	**Total**	Publicly quoted investments	Privately held investments	Total
Carrying value of investments	4	529	533	4	830	834
Per risk bucket						
250% – Basel III investments in financial entities	–	143	143	–	153	153
300% – Listed investments	4	–	4	4	–	4
400% – Unlisted investments	–	386	386	–	677	677
Equity investments in funds		47	47	–	136	136
Look-though approach	–	–	–	–	–	–
Mandate-based approach	–	25	25		136	136
Fall-back approach	–	22	22			
Latent revaluation gains not recognised in the balance sheet*	–	–	–	–	–	–
Fair value	4	576	580	4	966	970
Listed investment risk exposure included in the equity investment risk ETL process	4	–	4	4	–	4
Estimated sensitivity to 10% movement in market value on investment fair value of remaining investment balances			58			97
Cumulative gains realised from sale of positions during the year			9			–
Capital requirement**	2	308	310	2	450	452

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

** *Capital requirement calculated at 13% (2021: 12%) of RWA. The minimum requirement excludes the confidential individual capital requirement (Pillar 2B). The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB, capital conservation and the D-SIB as prescribed in the Regulations.*

CR10: FIRSTRAND EQUITY EXPOSURES USING SIMPLE RISK WEIGHT METHOD AND EQUITY INVESTMENTS IN FUNDS

	As at 30 June 2022				
R million	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA
Categories					
Exchange-traded equity exposures*	4	–	300%	4	14
Private equity exposures*	5 379	–	400%	5 379	22 806
Subtotal	5 383	–		5 383	22 820
Equity investment in funds	2 011	–		2 011	8 980
Look-through approach	77	–	344%	77	266
Mandate-based approach	1 912	–	442%	1 912	8 444
Fall-back approach	22	–	1250%	22	270
Financial and insurance entities	5 503	–	250%	5 503	13 759
Total	12 897	–		12 897	45 559

	As at 30 June 2021				
R million	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA
Categories					
Exchange-traded equity exposures*	4	–	300%	4	14
Private equity exposures*	4 884	–	400%	4 884	20 708
Subtotal	4 888	–		4 888	20 722
Equity investment in funds	2 072	–		2 072	8 224
Look-though approach	–	–		–	–
Mandate-based appoach	2 072	–	397%	2 072	8 224
Fall-back approach	–	–		–	–
Financial and insurance entities	5 255	–	250%	5 255	13 138
Total	12 215	–		12 215	42 084

* *RWA includes 6% scaling factor.*

CR10: FRBSA* EQUITY EXPOSURES USING SIMPLE RISK WEIGHT METHOD AND EQUITY INVESTMENTS IN FUNDS

	As at 30 June 2022				
R million	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA
Categories					
Exchange-traded equity exposures**	4	–	300%	4	13
Private equity exposures**	386	–	400%	386	1 639
Subtotal	390	–		390	1 652
Equity investment in funds	47	–		47	374
Look-though approach	–	–		–	–
Mandate-based appoach	25	–	424%	25	104
Fall-back approach	22	–	1 250%	22	270
Financial and insurance entities	143	–	250%	143	357
Total	580	–		580	2 383

	As at 30 June 2021				
R million	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA
Categories					
Exchange-traded equity exposures**	4	–	300%	4	13
Private equity exposures**	677	–	400%	677	2 872
Subtotal	681	–		681	2 885
Equity investment in funds	136	–		136	497
Look-though approach	–	–		–	–
Mandate-based appoach	136	–	365%	136	497
Fall-back approach	–	–	1 250%	–	–
Financial and insurance entities	153	–	250%	153	383
Total	970	–		970	3 765

* *Excludes foreign branches.*
** *RWA includes 6% scaling factor.*

Insurance risk

Introduction and objectives

Insurance risk arises from the inherent uncertainties of liabilities payable under an insurance contract. These uncertainties can result from the occurrence, amount or timing of the liabilities differing from expectations. Insurance risk can arise throughout the product cycle and is related to product design, pricing, underwriting and claims management.

The risk arises from the group's third-party insurance operations. Currently insurance risk arises from the group's long-term insurance operations, underwritten through its subsidiary FirstRand Life Assurance Limited (FirstRand Life), and short-term insurance operations, underwritten through its subsidiary FirstRand Short Term Insurance Limited (FirstRand STI).

FNB Life offers funeral policies, accidental death plans, risk policies, credit life policies (against group credit products), health cash plans and guaranteed annuities on the group's life licence. FNB Life also writes linked-investment policies and guaranteed endowments. There is, however, no insurance risk associated with these policies as these are not guaranteed.

Most life policies pay benefits upon the death of the policyholder and, therefore, expose the group to mortality risk. The underwritten risk policies, credit life policies and policies sold to companies to cover their employees further cover policyholders for disability and critical illness, which are morbidity risks. Credit life policies also cover retrenchment risk. Health cash plans pay a benefit per day for each day that a policyholder is hospitalised. Guaranteed annuities pay benefits on continued survival of the policyholder and expose the group to longevity risk, interest rate risk and inflation risk.

FNB Short Term Insurance and MotoVantage offer legal plans, warranty policies, scratch and dent products, business cash flow cover policies, building and home contents cover and motor comprehensive insurance, as well as commercial guarantee products on the group's short-term insurance licence. FNB is in the process of developing further short-term insurance products.

Legal plans provide legal assistance or pay for legal fees on the occurrence of events specified in the policies. Building, home contents and motor cover indemnifies policyholders against damage to their property. Business cash flow cover provides cover in the form of daily cash amounts for interruption of commercial customers' business operations due to insured events.

As a result of these insurance risk exposures, the group is exposed to catastrophe risk, stemming from the possibility of an extreme event linked to any of the above.

For all the above, the risk is that the decrement rates (e.g. mortality rates, morbidity rates, etc.) and associated cash flows are different from those assumed when pricing or reserving. These risks can further be broken down into parameter risk, random fluctuations and trend risk, which may result in the parameter value assumed differing from actual experience.

Policies underwritten by the group are sold through FNB's distribution channels. Some of these channels introduce the possibility of anti-selection, which also affects insurance risk.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
> Managing the impact of the Covid-19 pandemic on claims. > Managing risk associated with the growth in policies on the short-term insurance licence.	> Risk appetite for period post Covid-19. > Development of scenario testing capabilities. > Embedding risk management processes and tools for the comprehensive short-term insurance business.

Organisational structure and governance

FirstRand Life and FirstRand STI are wholly owned subsidiaries of FirstRand Insurance Holdings and are licensed insurers under the Insurance Act of 2017. FirstRand Insurance Holdings, FirstRand Life, FirstRand STI and FRISCOL have been designated as an insurance group and FirstRand Insurance Holdings is licensed as a controlling company under the Insurance Act.

The FirstRand Insurance Holdings board committees include an audit and risk committee; an asset, liability and capital committee; and a remuneration committee. The asset, liability and capital committee is responsible for:

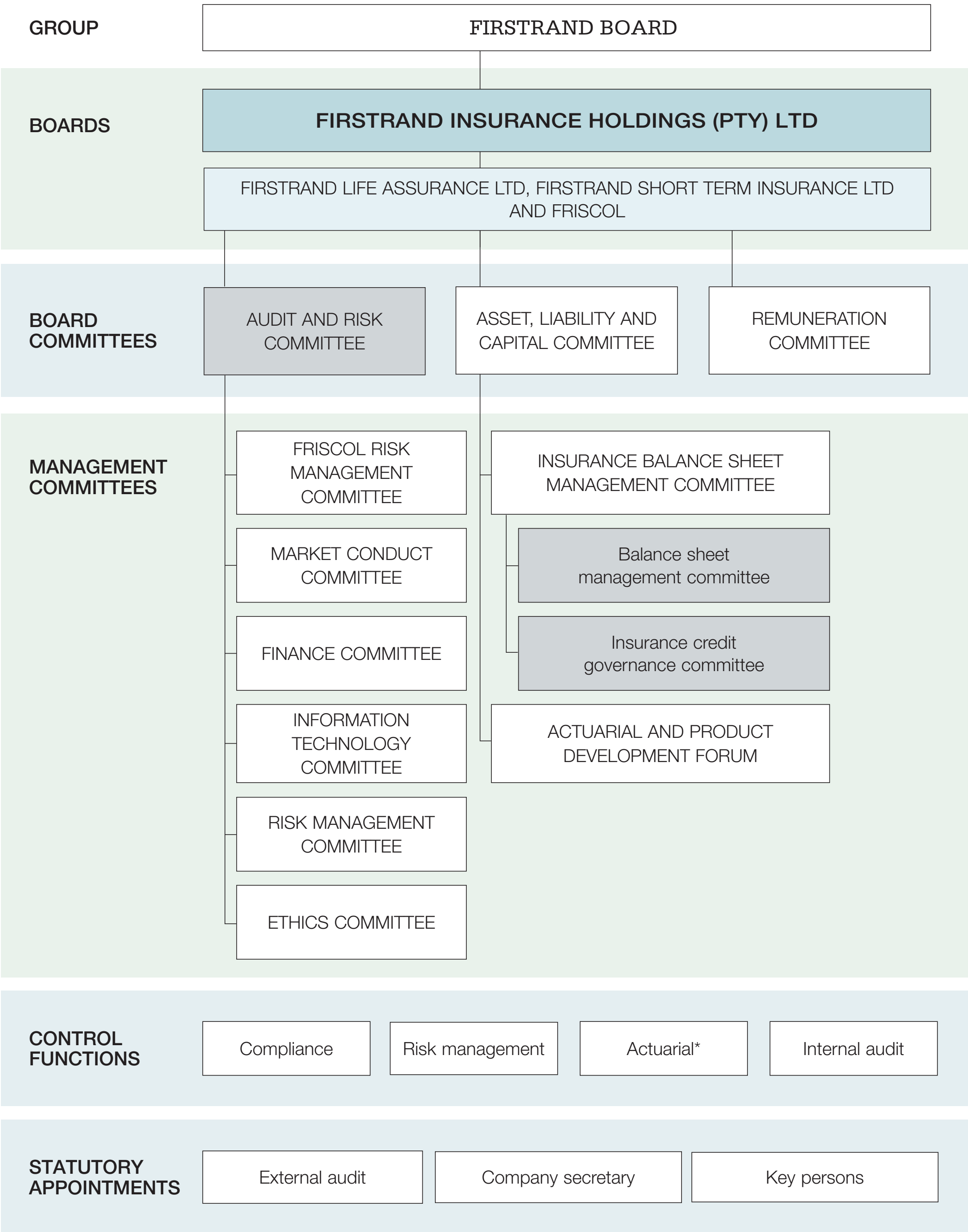
> providing oversight of the product suite;
> approving new products;
> financial resource management; and
> governance, approval and oversight of inputs, models and results of pricing and valuations.

To ensure consistency within the group, FirstRand Life, FirstRand STI and FirstRand Insurance Holdings have the same board and common members on the group governance committees. Relevant group and R&C segment committees have oversight of and receive feedback from the appropriate group insurance committees.

Control functions, namely compliance, risk management, actuarial and internal audit, are key to the management of insurance risk.

The following diagram illustrates the insurance risk governance structures.

INSURANCE RISK GOVERNANCE STRUCTURE



* *FRISCOL, the group's wholly owned first-party insurance company, is exempted from having an actuarial control function.*

Assessment and management

The group manages insurance risk within its stated risk appetite. This translated into risk limits for various metrics that can be monitored and managed.

The assessment and management of risk focus on two main areas, namely:

> product design and pricing; and
> the management of the in-force book.

Ensuring that insurance risk is priced correctly and understood is an important component of managing insurance risk. This is achieved through the following measures:

- Rigorous and proactive risk management processes to ensure sound product design and accurate pricing, including:
  - independent model validation;
  - challenging assumptions, methodologies and results;
  - debating and challenging product design, relevance, target market, market competitiveness and ensuring that customers are treated fairly;
  - identifying potential risks;
  - monitoring business mix and mortality risk of new business; and
  - thoroughly reviewing policy terms and conditions.
- Risk policies sold to FNB's customers are underwritten. This allows underwriting limits and risk-based pricing to be applied to manage the insurance risk. Where specific channels introduce the risk of anti-selection, mix of business by channel is monitored. On non-underwritten products, insurance risk can be controlled through lead selection for outbound sales.
- Pricing for comprehensive products (which include motor, buildings, home contents and portable possessions) is risk-based and considers various underwriting factors that differentiate the level of risk across policyholders, which enables appropriate risk management. There are also various underwriting limits in place to mitigate undesirable risk types. On non-underwritten products, insurance risk can be controlled through lead selection for outbound sales.
- The design of appropriate reinsurance structures is an important component of the pricing and product design to keep risk exposure within appetite.

The assessment and management of the insurance risk in the in-force book use the following methodologies, including advisory and mandatory actuarial methodologies:

- Insurance risk is managed through monitoring and reporting the frequency and severity of claims by considering incidence rates, claims ratios and business mix.
- For the life business, the actuarial valuation process involves the long-term projection of in-force policies and the setting up of insurance liabilities. This gives insight into the longer-term evolution of the portfolio risks.
- Short-term insurance liabilities comprise an outstanding claims reserve, an unearned premium reserve and an incurred-but-not-reported reserve. Adequate reserves are set for future and current claims and expenses. Where actual benefits are different from those originally estimated, actuarial models and assumptions are updated to reflect this. This is fed back into pricing.
- There are also reinsurance agreements in place to mitigate various insurance risks and manage catastrophe risk exposure.
- Asset/liability management is performed to ensure that assets backing insurance liabilities are appropriate and liquid.
- Stress and scenario analyses are performed to provide insights into the risk profile and future capital position.

The management of insurance risk is governed by several policies and there are processes, tools and systems in the business to assess and manage insurance risk.

The ORSA is defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report on short- and long-term risks that FirstRand Insurance Holdings faces or might face, and to determine the own funds necessary to ensure that overall solvency needs are met at all times and are sufficient to achieve its business strategy. An ORSA report is produced annually.

Refer to the *Capital management* section for information on capital held for insurance activities.

Model risk

Introduction and objectives

The use of models causes model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk can lead to financial losses, poor decision-making, or damage to the group's reputation.

The group recognises two types of model risk:

Intrinsic model risk – The risk inherent in the modelling process, which cannot be directly controlled but can be appropriately mitigated. Examples of intrinsic model risk drivers include model complexity, availability of data and model materiality.

Incremental model risk – The risk caused by inadequate internal practices and processes, which can be actively mitigated through, for example, quality model documentation, robust governance processes and a secure model implementation environment.

A model is defined as a quantitative method, system or approach that applies statistical, economic, financial or mathematical theories, techniques and assumptions to process input data into quantitative estimates. A model generally consists of three components:

> the information input component, which delivers assumptions and data to the model;

> the processing component, which transforms inputs into estimates; and

> the reporting component, which translates the estimates into useful business information.

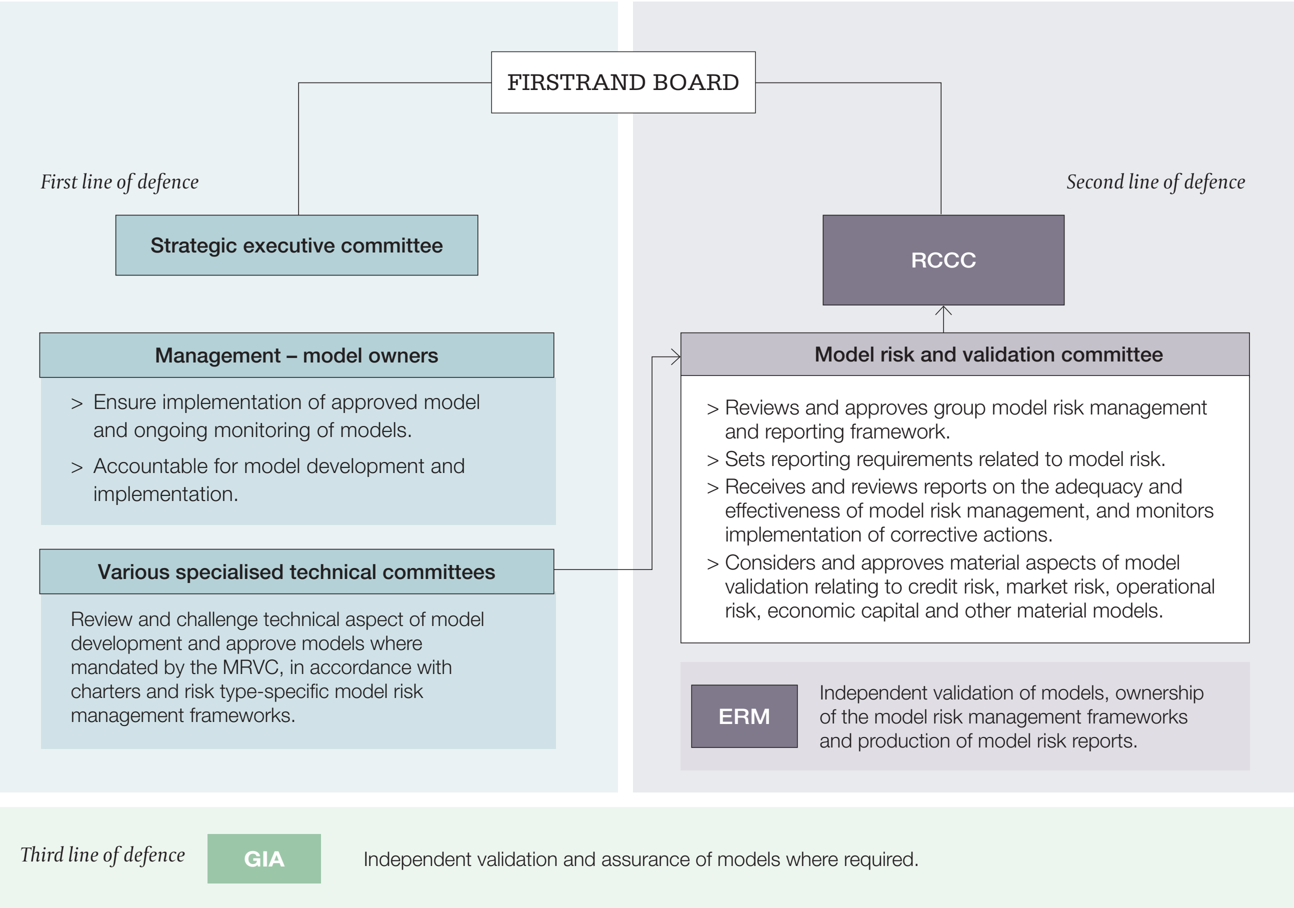
Model risk exists as models may have fundamental errors and produce inaccurate outputs when assessed against the design objective and intended business use. Model risk may also arise as a result of model results being used incorrectly or inappropriately.

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
> Finalised and embedded frameworks, standards, guidance and supporting governance structures for advanced analytics, including artificial intelligence and machine learning. > Completed rollout of model risk management software for Group Treasury models, financial crime models and advanced analytics solutions. > Completed model risk maturity assessments at business unit level across the group and commenced development of roadmaps for maturity upliftment in non-traditional modelling areas.	> Development of detailed technical guidance for ongoing monitoring of advanced analytics solutions deployed on platform. > Onboarding of all new model type inventories onto the model risk manager platform. > Further extension of the scope of model risk reporting to include new model categories loaded onto the model risk manager platform. > Completion of maturity roadmaps for non-traditional modelling areas.

Organisational structure and governance

MODEL RISK GOVERNANCE STRUCTURE



Assessment and management

The level of model risk related to a particular model is influenced by its complexity, uncertainty about inputs and assumptions, and the extent to which it is used to make financial and strategic decisions. The risks, from individual models and in aggregate, are assessed and managed. Aggregated model risk is affected by the interaction of and dependencies between models, reliance on common assumptions, data or methodologies, and any other factors that could adversely affect multiple models and their outputs simultaneously. As an understanding of the source and magnitude of model risk is key to the effective management of the risk. Model risk management is integrated into the group's risk management processes.

Various principles are applied in the model risk management process. Risk owners assess which of these principles apply a specific model and determine levels of materiality for model evaluation and validation.

MODEL RISK MANAGEMENT PRINCIPLES

DATA AND SYSTEMS	DEVELOPMENT	TESTING AND VALIDATION	MONITORING	GOVERNANCE
> Use systems that ensure data and reporting integrity. > Use suitable data. > Maintain master list of field data. > Implement appropriate system controls. > Assess data quality.	> Document model design, theory and logic which are supported by published research and industry practice. > Ensure expert challenge of methods and assumptions. > Ensure appropriate conservatism.	> Provide independent validation. > Review documentation, empirical evidence, model construction assumptions and data. > Perform sensitivity analysis. > Perform stress testing. > Obtain independent assurance from GIA.	> Perform regular stress testing and sensitivity analysis. > Perform quantitative outcome analysis. > Perform backtesting and establish early warning metrics. > Assess model limitations. > Set and test error thresholds. > Test model validity.	> Provided by MRVC. > Approve model risk management framework. > Ensure effective management. > Ensure approval committees with adequate skills. > Ensure appropriate documentation.

Model risk measurement

A scorecard with risk factors based on model risk management principles is used for model risk measurement and quantification of capital requirements. Intrinsic model risk and incremental model risk are assessed and tracked separately, then combined to obtain overall model risk scorecards. The scorecard is tailored for each risk type by applying risk type-specific weightings to each scorecard dimension and by refining the considerations for each dimension to be specific to that risk type.

Each regulatory capital and economic capital model is rated using the model risk scorecard and assigned an overall model risk rating of low, medium or high. These ratings are used to determine the model risk economic capital add-on multiplier, which is applied to the output of capital models to determine the amount of model risk economic capital to be held.

Tax risk

Introduction and objectives

Tax risk is defined as the risk of:

> financial loss due to the final determination of the tax treatment of a transaction by revenue authorities being different from the implemented tax consequences of such a transaction, combined with the imposition of penalties;

> sanction or reputational damage due to non-compliance with the various revenue acts; and/or

> the inefficient use of available mechanisms to benefit from tax dispensations.

Accordingly, any event, action or inaction in an entity's strategy, operations, financial reporting or compliance that either adversely affects its tax or business position, or results in unanticipated penalties, assessments, additional taxes, tax-related harm to reputation, lost opportunities or financial statement exposure, is regarded as tax risk.

FirstRand's long-term strategic objective is to create long-term value and superior returns for its shareholders within acceptable levels of volatility, and maintain balance sheet strength. The group's tax strategy is aligned to this objective. A variety of local and international taxes arise in the normal course of business, including corporate income taxes, employees' taxes, value-added taxes, securities transfer taxes, stamp duties, customs duties and withholding taxes.

FirstRand Group Tax (FRGT) is mandated by the FirstRand tax risk committee to manage the group's tax risks. The group is committed to:

> complying with all taxation laws;

> influencing tax policy, legislation and practice;

> developing and implementing value-adding initiatives in a responsible manner; and

> maintaining effective relationships with all stakeholders.

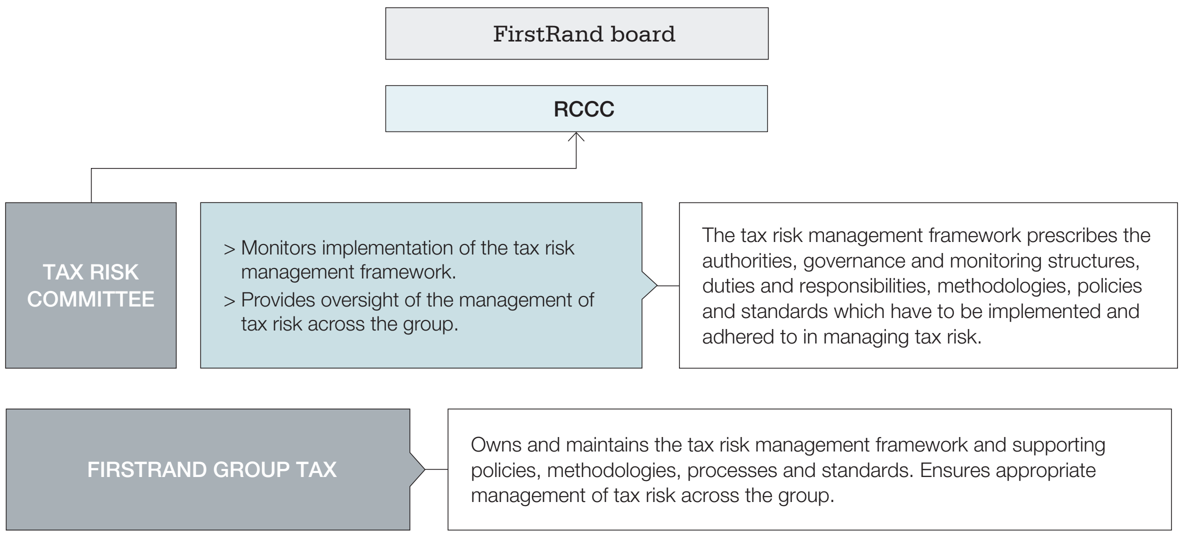
FirstRand commits to being responsible and accountable in managing its tax risk. The group considers the economic and social impacts of its approach to tax, including the sustainable economic development of the jurisdictions in which it operates.

Organisational structure and governance

The head of FRGT takes ultimate responsibility for tax risk management for all taxes on a group-wide basis. The responsibility at a business/entity level lies with the relevant business/entity CEO and CFO. They are responsible for maintaining tax-related risks at an acceptable level. To enable the various businesses/entities to fulfil their tax risk management responsibilities, FRGT has deployed a team of tax specialists to fulfil an advisory role regarding tax issues arising within the various businesses/entities.

Tax risks are reported periodically to the RCCC, which is responsible for the management and monitoring of tax risks, and are ultimately reported to the board, which is responsible for the group's business tax outcomes.

TAX RISK GOVERNANCE STRUCTURE



Assessment and management

Tax risk management is the systematic approach to proactively identify, evaluate, manage and report on tax risks and data quality risks (as far as the relevant tax data is under the control of FRGT) within the agreed and acceptable parameters to facilitate the group's tax strategy.

The group engages in efficient tax planning that supports client business and reflects commercial and economic activity. The tax laws in all the jurisdictions in which the group operates are fully complied with and the risk of uncertainty or disputes is minimised. Transactions between group entities are conducted on an arm's-length basis and in accordance with Organisation for Economic Cooperation and Development (OECD) principles. Where tax incentives or exemptions exist, the group seeks to apply them responsibly in the manner intended by governments and fiscal authorities. FirstRand establishes entities in jurisdictions suitable to hold its offshore operations, considering the business activities and the prevailing regulatory environments in those jurisdictions.

The group seeks to build sustainable working relationships with governments and fiscal authorities, based on mutual respect. Where possible, FRGT works in conjunction with fiscal authorities to resolve disputes and engages with governments on the development of tax laws. FirstRand is committed to the principles of openness and transparency to build trust between the group and fiscal authorities and to align the group with the various systems of tax collection. Tax risk management forms part of the group's overall internal control processes. Responsibility and accountability for the group's tax affairs are clearly defined in the tax risk management framework.

The group is responsible for ensuring that policies and procedures which support the tax risk management framework are in place, monitored and applied consistently in all operations, and that the group's tax team has the skills and experience to implement these appropriately. In this regard, external tax risks arising from legislative and regulatory changes are actively managed, as are internal tax risks, comprising compliance and operational risks. Management oversight also includes the implementation of controls over compliance processes and the ongoing monitoring of control effectiveness.

REGULATORY ENVIRONMENT

The regulatory bodies, industry associations and frameworks the group subscribes to from a tax perspective and complies with are listed below.

BASA and South African Revenue Service (SARS)	FirstRand is a member of BASA, which has a tax committee that promotes discussions on tax issues relating to the various South African revenue acts, advocates for tax reforms, and ensures that the regulatory and supervisory framework addresses relevant issues. BASA has entered into an accord with SARS which sets out the respective parties' expectations to ensure tax compliance. The group complies with this accord.
UK Code of Practice on Taxation for Banks	The group subscribes to this code to ensure compliance of the bank's London branch and Aldermore with the law on tax matters in the UK.
Base erosion and profit shifting (BEPS) recommendations	The group files country-by-country reports in accordance with the BEPS recommendations issued by the OECD to address the weaknesses in the international tax system.
Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS)	FATCA and CRS submissions are made to aid in the exchange of information amongst revenue authorities globally to combat offshore tax evasion. Group entities submit the returns to their local revenue authorities on an annual basis as prescribed under tax administration laws, in compliance with FATCA and CRS. In instances where local laws have not yet incorporated FATCA and CRS, reports are submitted directly to the United States Internal Revenue Service.
Mandatory disclosure rules	BEPS Action 12 contains recommendations regarding the design of mandatory disclosure rules by financial institutions for aggressive tax planning schemes and the circumvention of tax reporting regimes, as well as the promoters and users of such schemes. Where applicable and where required, group entities submit returns to their local revenue authorities as prescribed under tax administration laws.
UK Criminal Finances Act 2017	The group has appropriate systems and controls to prevent the facilitation of tax evasion/fraud and the circumvention of tax reporting, by any person (employee, third party or associated person) acting on behalf of group entities. Where applicable and where required, group entities submit returns to their local revenue authorities as prescribed under tax administration laws or anti-money laundering laws.

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 continually evaluates and enhances its existing operational risk management frameworks, processes and systems to ensure that its practices are adequate and effective, and aligned to business needs, regulatory developments and best practice.

OPERATIONAL RISK OBJECTIVES AND PROGRAMME

KEY OBJECTIVES

- The objective is to build an effective and forward-looking operational (including information technology and cyber risk) risk management programme to support the group in the execution of its strategy to ensure risks are managed within risk appetite.

Automate, digitise and simplify operational risk processes for greater efficiency, simplicity and business value.

Prioritise risk management efforts in key areas through enhanced operational risk analysis.

Provide forward-looking and dynamic operational risk management information for use in decision-making.

Enhance vendor risk management discipline.

Enhance the approach to operational resilience with a focus on interdependencies.

Develop and roll out operational risk management training across the group.

Assess the impact of operational risk-related regulatory developments and ensure compliance.

Proactively drive combined assurance efforts with the assurance community.

Enhance cyber risk management.

Refresh operational and IT risk governance structures.

OPERATIONAL RISK MANAGEMENT PROGRAMME COMPONENTS

- Establish, review and implement operational risk management frameworks and policies (including a cyber risk framework).
- Develop and maintain operational risk management tools and processes (including risk identification, assessment and quantification).
- Operational risk analytics and capital calculations.
- Operational risk management systems and management information.
- Operational risk projects/initiatives.
- Operational risk governance and reporting.
- Operational risk management advisory and support services to business.

Year under review and focus areas

The group's operational resilience response to multiple challenges, including the pandemic, civil unrest, power and water shortages, and floods, was mature and crisis response plans were well embedded. During the year under review a risk-adjusted response was followed for all resilience events incorporating health and safety impact analyses, vaccination status risk analysis, supply chain management and business continuity management. The safety and well-being of group employees is always prioritised.

The group's blended working model has established an appropriate balance of virtual and face-to-face interactions on campus. This ensures maintenance of the group's risk culture, optimises productivity and appropriately manages employee well-being.

The maintenance of a robust control environment and change management discipline in the context of the group's platform journey remained a key focus. Risk management is consulted when changes are required to controls, processes and systems to enable processes/activities to transition to platform.

The group met its business-as-usual commitments and continued with control improvement initiatives. The progress on these initiatives and impact on the operational risk profile are tracked and reported on regularly at business and group level through management and combined assurance and risk governance processes. This is also considered in setting operational risk appetite and risk scenarios. Risk management programmes are continually reviewed and enhanced to focus on identified key and emerging risks based on changes in the internal and external environment.

The principal operational risks currently facing the group are:

> **business resilience risk** due to susceptibility to external factors, e.g. floods, civil unrest and power supply constraints as well as system downtime incidents;

> **cyber risk** (including information security), given the growing sophistication of cyberattacks both locally and globally;

> **technology risk** due to the pace of technology change and increasing digitisation;

> **payment risk** due to the manual nature of certain payment processes, as well as ongoing regulatory and industry payment-related initiatives;

> **vendor risk** due to lack of direct control over external service providers, the potential impact of external events on the group's supply chain and reliance on critical service providers who may pose as single points of failure;

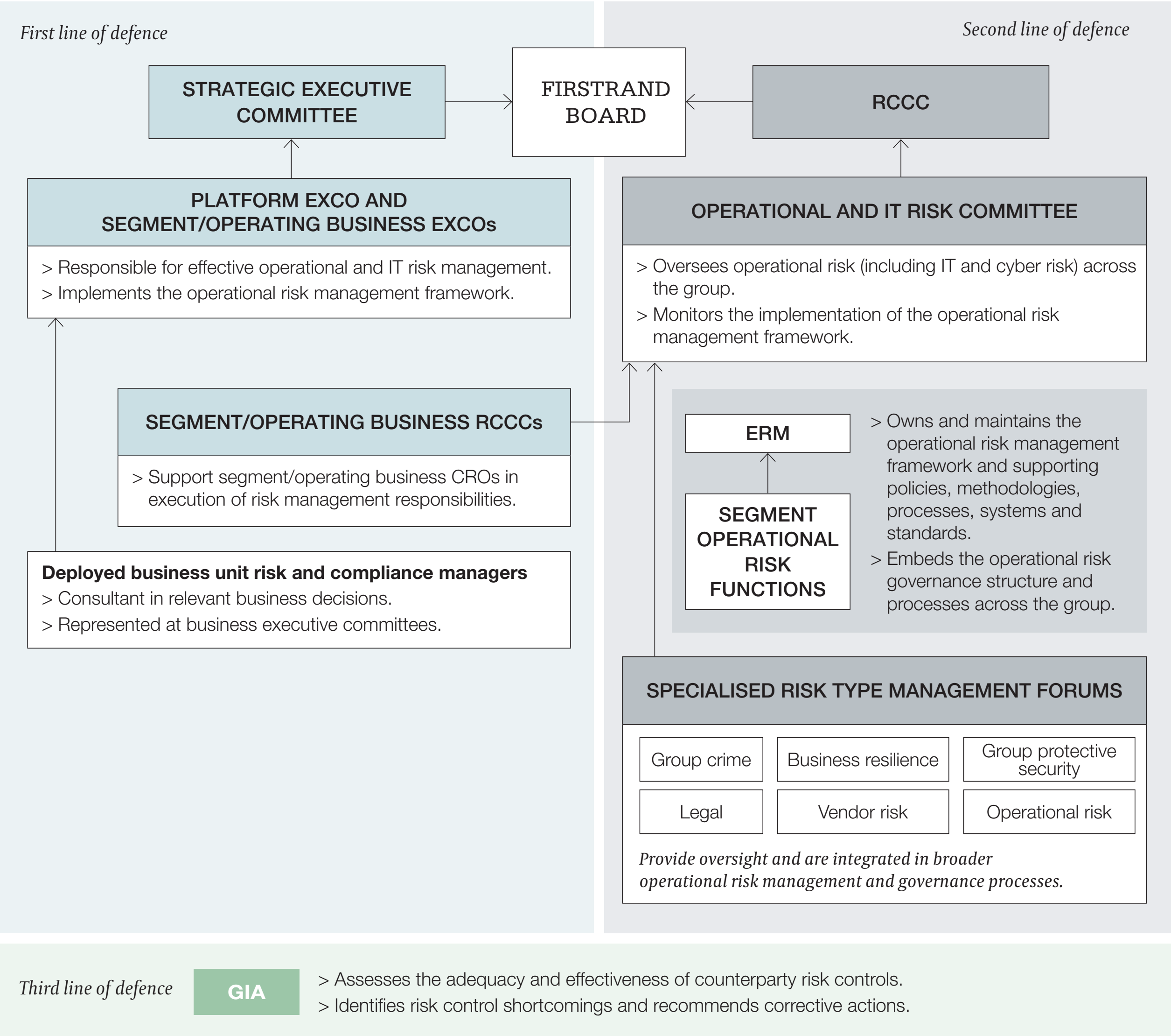
> **people risk** due to changes associated with blended working, social and economic pressures on employees and the shortage of skilled staff, particularly in the IT environment; and

> **execution, delivery and process management risk** (risk of process weaknesses and control deficiencies) as the business continues to employ a risk-adjusted approach through the blended working model while still trying to grow and evolve the business under tough economic conditions.

YEAR UNDER REVIEW	RISK MANAGEMENT FOCUS AREAS
> Enhanced cyber risk management through the approval of a cyber risk framework and a formal cyber risk appetite statement. > Continued to embed BCBS 239 into business-as-usual processes. > Enhanced the operational risk system functionality for improved risk information and greater process automation, reporting and analysis. > Matured the formal payment programme through internal improvements and implementation of industry-wide initiatives. > Refreshed the operational and IT risk governance structures because of the improved maturity in the first line of defence's risk management capability. > Enhancement of vendor risk reporting via automated vendor risk rating dashboards. > Continued process (business and operational risk) automation to reduce manual processes and improve controls. > Drove continued improvement in data quality, metadata and records management practices. > Implemented operational risk general awareness training. > Coordinated the group's successful operational resilience response to the pandemic.	> Enhance cyber risk management on an ongoing basis including the articulation of a cyber risk strategy and testing scenario-based cyber-incident response plans via simulation exercises. > Initiate a third-party risk management programme in addition to further embedding the risk assessment and management of vendors across the vendor life cycle. > Leverage the group's data and digital capabilities optimally for efficient and effective operational risk identification, assessment, management and reporting. > Roll out of the updated risk taxonomy that takes cognizance of emerging and evolving risks as a combined assurance initiative. > Implement a control library to standardise controls, and enhance assessment and aggregation capabilities. > Enhance appetite setting supported by detailed metrics to enable improved monitoring and oversight. > Maintain BCBS 239 compliance. > Enhance information risk management through focus on key risk domains. > Prioritise operational risk management activities to support execution of strategy and strengthen key controls. > Continue to assess the risks inherent in increasing digitisation and innovative business solutions and facilitate management thereof. > Focus on holistic operational resilience. > Roll out basic operational risk general awareness training.

Organisational structure and governance

OPERATIONAL RISK GOVERNANCE STRUCTURE



Measurement of operational risk

Basel approaches

FirstRand applies **AMA** for its domestic operations. Offshore subsidiaries and operations use **TSA** and all previously unregulated entities (prior to 2010) in FirstRand Investment Holdings Limited use **BIA**. FirstRand Investment Management Holdings Limited and Aldermore also apply **BIA**.

Under **AMA**, the group uses a sophisticated statistical model for the calculation of capital requirements, which enables more accurate, risk-based measures of capital for business units on this approach. Operational risk scenarios and internal loss data are used as direct inputs into this model, while risk and control assessments, key risk indicators and external data inform the operational risk scenario analysis process.

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

Analytical loss data and scenario models are combined during simulation to derive the annual, aggregate distribution of operational risk losses. Basel Pillar 1 minimum capital requirements are then calculated (for the group and each operating business) as the operational VaR at the 99.9th percentile of the aggregate loss distribution, excluding the effects of insurance, expected losses and correlation/diversification.

Capital requirements are calculated for each business (management entity) and then allocated to legal entities in the group based on gross income contribution ratios. This split of capital between legal entities is required for internal capital allocation, regulatory reporting and performance measurement purposes.

TSA and **BIA** capital calculations are based on a multiplication factor applied to gross income, as specified by Basel and PA regulations. These capital calculations and allocations do not make use of any risk-based information.

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

- changes in the operational risk profile, as measured by the various operational risk tools and processes;
- emerging risks and the associated actual or potential impact on the operational risk profile;
- material effects of expansion into new markets and new or substantially changed products, systems or activities, as well as the closure of existing operations;
- changes in the control environment – the group targets a continued improvement in the control environment, but deterioration in effectiveness is also possible due to, for example, unforeseen increases in transaction volumes or pace of change;
- changes in organisational structure resulting in the movement of businesses and/or products from one business area to another; and
- changes in the external environment, which drive certain types of operational risk (e.g. pandemic, unrest and protest actions, electricity supply shortages, increasing unemployment, etc.).

Assessment and management

Operational risk assessment and management tools

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

In line with international best practice, various tools are employed and embedded in the assessment and management of operational risk. The approach to the implementation of these tools is reviewed on an ongoing basis to ensure that business value is delivered. The most relevant of these are outlined in the following chart.

OPERATIONAL RISK ASSESSMENT AND MANAGEMENT TOOLS

PROCESS-BASED RISK AND CONTROL IDENTIFICATION AND ASSESSMENT	KEY RISK INDICATORS
> The risk and control assessment per product/service based on key business processes. > Integrated in day-to-day business and risk management processes. > Used by business and risk managers to identify and monitor key risks and assess effectiveness of existing controls.	> Used across the group in all businesses as an early warning risk measure. > Highlight changing trends in exposures to specific key operational risks. > Inform operational risk profiles which are reported periodically to the appropriate management and risk committees, and are monitored on a continuous basis.
INTERNAL/EXTERNAL LOSS DATA	**RISK SCENARIOS**
> Capturing internal loss data is a well-entrenched discipline within the group. > Internal loss data reporting and analyses occur at all levels with specific focus on root causes, process analysis and corrective action. > External loss databases are used to learn from the loss experience of other organisations and are also an input into the risk scenario process.	> Risk scenarios are widely used to identify and quantify low-frequency, extreme-loss events. > Senior management actively participates in the risk scenario thematic deep-dives and overall scenario reviews. > Results are tabled to the appropriate risk committees and are used as an input into the capital modelling process.

FirstRand uses an integrated and reputable operational risk system in which all operational risk assessment and management tools have been automated to provide a holistic view of the group's operational risk tools.

Operational risk events

As operational risk cannot be avoided or mitigated entirely, frequent events resulting in small losses are expected (e.g. external card fraud) and are budgeted for appropriately. Business units minimise these losses through improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur less frequently. The group strives to minimise these and limit their frequency and severity within risk appetite levels through appropriate risk mitigation. Operational losses are measured and reported against the agreed operational risk appetite levels on a regular basis. Where appropriate, focused reviews are conducted to establish root causes of operational events. Appropriate action plans are put in place to prevent or reduce the risk of reoccurrence, to the extent that is possible.

Operational risk management processes

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

KEY SPECIALIST RISK AND MANAGEMENT PROCESSES

	BUSINESS RESILIENCE	LEGAL	IT (INCLUDING CYBER)
Management	> Operations should be resilient enough to withstand severe disruptions from internal failures or external events. > Regular reviews of business continuity plans (including disaster recovery plans) and testing. > Disruptions or incidents are assessed and reported to the relevant risk stakeholders.	> Creation and ongoing management of contractual relationships. > Management of potential and actual disputes and/or litigation. > Protection and enforcement of property rights (including intellectual property). > Accounting for the impact of law or changes in the law as articulated in legislation or court decisions.	> Protection of information systems against unauthorised access, destruction, utilisation and modification. > Ensuring confidentiality, availability and integrity of systems that maintain, process, store and disseminate this information. > Systems are continually assessed for vulnerabilities, which are reported to relevant risk and business stakeholders.
Committees and frameworks	> Business resilience committee (a management forum reporting to the operational and IT risk committee). > Practices are documented in the business resilience policy and standards.	> Compliance with legislation managed by Group Compliance. > Legal risk committee (a management forum reporting to the operational and IT risk committee). > Legal risk management framework, and subframeworks and policies.	> Operational and IT risk committee. > IT governance framework, IT policies, information security policy and cyber-security risk framework.

	VENDOR RISK	CRIME AND SECURITY	RISK INSURANCE
Management	> Vendor risk management oversight. > Implementation of risk-based approach to vendor risk management with focus on key vendors across the group. > Ensuring compliance to applicable regulatory and legislative requirements as they relate to vendors. > Regular and *ad hoc* risk assessments of key vendors.	> Covers internal and external organised/financial crime, and physical security. > Contains criminal losses with enhanced controls and real-time detection models leveraging machine learning. > Mitigates the evolving and emerging financial, organised, cybercrime and cyber-security threat using an integrated approach across multiple disciplines with a focus on cyber-resilience	> Structured risk insurance financing programme in place for material losses from first-party risks. > Insurance refined through risk profile assessment, change in group strategy or markets. > Cover for professional indemnity, directors' and officers' liability, crime, public/general liability and assets, amongst others.
Committees and frameworks	> Vendor risk committee (subcommittee of the operational and IT risk committee). > Vendor risk management framework. > Cloud governance committee (subcommittee of the vendor risk committee) and cloud policy.	> Integrated crime management framework and protective security framework.	> Cover through FRISCOL, the group's wholly owned first-party insurance company.

Risk insurance

The group has over many years developed a structured risk insurance financing programme to protect the group against unexpected material losses arising from non-trading risks. The programme is designed, where appropriate, to complement the risk management strategy to protect against the identified risks which can affect the group's financial performance or position and, therefore, negatively affect shareholder value.

The risk insurance programme is continually refined through ongoing assessment of changing risk profiles, organisational strategy and growth, and international insurance markets. The levels and extent of insurance cover are reviewed and benchmarked annually.

The group's insurance-buying philosophy is to self-insure as much as is economically viable in line with its risk appetite, and to only protect itself against catastrophic risks through the use of third-party (re)insurers.

The insurance programme includes, *inter alia,* cover for operational risk exposures, such as professional indemnity, directors' and officers' liability, crime, public and general liability, assets, etc. This protection extends across the group and into the subsidiaries in broader Africa and the UK where legislation allows. The group does not consider insurance as a mitigant in the calculation of capital for operational risk purposes.

Compliance and conduct risk

Introduction and objectives

The group fosters a compliance culture which aims to follow both the spirit and the letter of applicable legislation and regulations. The group therefore seeks to prevent its platforms from being abused for the purposes of financial crime. It will not accept wilful and deliberate non-compliance. Where unintended failures result in non-compliance, the focus is on implementing remedial action.

Compliance focuses on two types of risk, as noted below:

Compliance risk refers to the risk of not adhering to compliance obligations. For this purpose, although not exhaustive, compliance obligations refer to all applicable compliance obligations, including the group's adherence to applicable laws, regulations, regulatory requirements/expectations, directives, guidelines, and other applicable specifications such as codes of conduct relevant to specific businesses.

Conduct risk includes risks associated with delivery of fair customer outcomes and the integrity and efficiency of financial markets. It touches every part of how juristic persons, inclusive of financial institutions, conduct their business affairs. From a compliance perspective, conduct risk also refers to the risk of non-compliance with conduct standards and related regulatory requirements as may be prescribed and/or expected by regulatory and other related authorities.

Financial institutions operate on the basis of trust, and ethical conduct in the financial system is critical. Increasingly governments and regulators are implementing multiple policy and regulatory requirements to enforce standards and hold business leaders accountable for their actions. The group expects ethical behaviour from its people. This means behaviour that supports its overall objective of prudent regulatory compliance and risk management. It is achieved through providing financial products and services in a responsible manner and treating customers fairly. The group embraces standards of integrity and ethical conduct.

The group's compliance function is tasked with overseeing the management of compliance obligations by the first line of defence, which includes regulatory and conduct requirements. Group Compliance assists management and business in discharging their responsibilities to comply with applicable regulatory requirements and to effectively and expeditiously resolve identified non-compliance matters.

COMPLIANCE AND CONDUCT RISK MANAGEMENT OBJECTIVE AND APPROACH

OBJECTIVE	APPROACH
Ensure business practices, policies, frameworks and approaches across the group are consistent with applicable laws and that regulatory and conduct risks are identified and proactively managed	> Maintain an effective and efficient compliance risk management framework with sufficient operational capacity to assess financial products and services against fair market conduct principles, and promote and oversee compliance with legislative and best practice requirements > Ensure appropriate policies, standards and processes are in place to mitigate the risk of abuse of the group's platforms for unlawful purposes > Promote training, learning and development to ensure an appropriate level of understanding and awareness of legal and regulatory frameworks applicable to the group's business activities > Coordinate regulatory interactions with various regulators across multiple jurisdictions

Compliance with laws and related regulatory requirements is critical. Non-compliance may result in serious consequences and lead to both civil and criminal liability, including penalties, claims for losses and damages, and restrictions imposed by regulatory authorities.

Applicable laws and related requirements include:

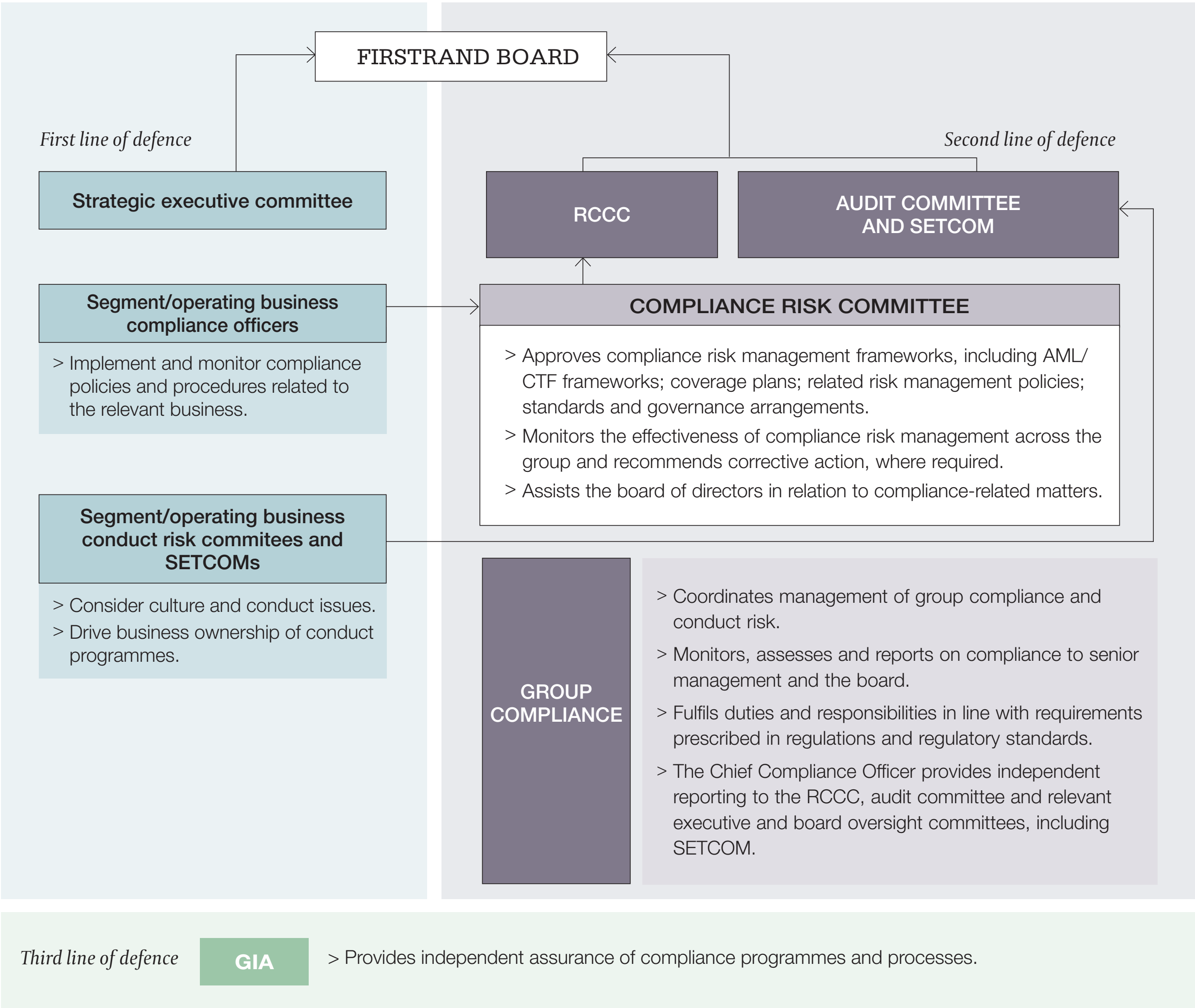
- Banks Act, 1990
- Collective Investment Schemes Control Act, 2002
- Companies Act, 2008
- Competition Act, 1998
- Consumer Protection Act, 2008
- Currency and Exchanges Act, 1933 and Exchange Control Regulations, 1961
- Financial Advisory and Intermediary Services Act, 2002
- Financial Intelligence Centre Act (FICA), 2001
- Financial Markets Act, 2012
- Financial Sector Laws Amendment Act, 2021
- Financial Sector Regulation Act, 2017
- Foreign Account Tax Compliance Act, 2010
- Insurance Act, 2017
- Long-term Insurance Act, 1998
- National Credit Act (NCA), 2005
- National Payment System Act, 1998
- Prevention and Combating of Corrupt Activities Act, 2004
- Protected Disclosures Act, 2000
- Protection of Constitutional Democracy Against Terrorism and Related Activities Act, 2004
- Protection of Personal Information Act (PoPIA), 2013
- Short-term Insurance Act, 1998
- King Code of Governance Principles for South Africa, 2016 (King IV)
- Legislation and rules related to listed instruments on various exchanges
- Statutory codes of conduct, standards, joint standards, and other subordinate legislation issued by, among others, the Financial Sector Conduct Authority (FSCA) and the PA
- Applicable regulations and other regulatory instruments
- Applicable laws in the countries where the group operates

YEAR UNDER REVIEW AND FOCUS AREAS

YEAR UNDER REVIEW	FOCUS AREAS
> The FATF issued a mutual evaluation report (MER) and has given South Africa 18 months (October 2021 to February 2023) to demonstrate that it has taken adequate steps to address the identified shortcomings and avoid a grey listing. > Under the financial crime programme the second round of financial crime risk assessments has been completed. > Anti-bribery and corruption risk assessments, primarily in public sector-related business and other prioritised areas, were performed. > In support of the ethical use of data in alignment with information governance and data privacy requirements, an ethical use of data framework was approved by the group SETCOM. > The group's business operations, which are required to comply with PoPIA, have implemented the material compliance controls by the deadline date of 1 July 2021. > The complaints management system was enhanced to include treating customers fairly categorisations which are aligned to the Conduct Standard for Banks, and associated reports to assist with root cause analysis, remediation, and ongoing improvement in terms of products and services. > The group code of ethics was aligned to the group promises as approved by SETCOM. > The conflicts of interest management policy was enhanced to follow a risk-based approach.	> FirstRand is cooperating with regulatory authorities on addressing the FATF MER findings on Immediate Outcome 4 (preventive measures) and has initiated a formal programme to support the effort to remedy and strengthen the group's internal financial crime controls. > Ongoing focus on enhancing the risk-based approach to financial crime risk management. > Continued focus on the mitigation of emerging risks relating to digitisation and embedment of the ethical use of data framework. > FirstRand continues to mature the privacy control environment to ensure that personal information is processed in a manner that is compliant with applicable data privacy and protection laws. > Cooperation and collaboration with government, the regulatory authorities and relevant industry bodies in the consultation processes for the finalisation of financial sector laws, regulations and related regulatory instruments. > Improvement and enhancement of controls relating to market conduct risk, including the continued alignment of the complaints management system to meet new regulatory requirements and improve service delivery.

Organisational structure and governance

COMPLIANCE AND CONDUCT RISK GOVERNANCE STRUCTURE



Group Compliance's mandate is to facilitate the management of compliance with statutes and regulations. To achieve this, it implemented and maintained appropriate governance arrangements, including structures, policies, processes and procedures, to identify and facilitate the management of compliance obligations and the mitigation of related risks. Group Compliance further reports on these matters to the relevant governance structures, which include board committees and relevant regulators. Regular engagements are held with the chairs of the board and audit committee, and the CEO. Minimum requirements for the management of compliance as a function are prescribed in terms of section 60A of the Banks Act and regulation 49 of the *Regulations relating to Banks* and include:

> risk identification through determining which laws, regulations and supervisory requirements are applicable to the group;

> risk measurement and mitigation through training and the development and execution of risk management plans and related actions;

> risk monitoring and review of remedial actions through the monitoring centre of excellence;

> risk reporting; and

> providing advice on compliance matters.

Although independent of other functions, Group Compliance works closely with GIA and ERM, external auditors, internal and external legal advisors, regulators, industry bodies, human capital, industrial relations, and the company secretary's office to ensure effective functioning of compliance processes.

The relevant FirstRand board subcommittees oversee compliance outcomes and periodically considers the adequacy and effectiveness of governance arrangements relating to the group's compliance functions, the objective of which is to monitor the adequacy and effectiveness of the relevant functions. The board receives independent assurance on the effectiveness of compliance from, among others, GIA. It also receives feedback from regulatory authorities.

Assessment and management

Regulatory developments

Implementation of the Twin Peaks system of financial sector regulation in South Africa has resulted in numerous new and/or amended regulatory objectives and legal, regulatory, and supervisory requirements. In addition, ongoing amendments to regulatory and supervisory requirements are also informed by the need to align to international best practice requirements, which include requirements set by international standard-setting bodies such as the Bank of International Settlements (BIS), including the BCBS, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

The SARB is South Africa's central bank and its mandate includes protecting and enhancing financial stability. In addition to other functions and objectives, the SARB is also responsible for regulating cross-border transactions and ensuring the safety and soundness of the national payment system.

The PA is responsible for prudential regulation and its mandate includes banks, insurers, market infrastructures, banking groups (consolidated supervision) and financial conglomerates.

The FSCA is responsible for market conduct regulation and its mandate includes financial institutions, such as banks and insurers, which are licensed under financial sector laws.

The Financial Intelligence Centre forms part of South Africa's framework relating to AML/CFT.

The National Credit Regulator regulates the credit industry in South Africa.

The Information Regulator is empowered to monitor and enforce compliance with the provisions of PoPIA.

REGULATORY DEVELOPMENTS DURING THE YEAR

FINANCIAL SECTOR REGULATION ACT AND BANKING LEGISLATION	> Regulations are expected to be further amended in accordance with revised frameworks and requirements issued by the BCBS, a large number of which relate to the ongoing implementation of Basel III reforms. The large exposures and TLAC holdings frameworks were implemented on 1 April 2022. > The draft Financial Sector and Deposit Insurance Levies Bill, draft Financial Sector and Deposit Insurance Levies (Administration) and Deposit Insurance Premiums Bill were issued for further comment. > The final Conduct Standard for Banks, issued under the Financial Sector Regulation Act by the FSCA, became effective on 1 July 2021. > The PA's approach to the Covid-19 impact on the banking sector was aimed at temporary relief measures in the form of lower capital and liquidity requirements but these have subsequently been withdrawn, as the PA is of the view that financial markets have since largely normalised. > The focus of the Twin Peaks system of financial regulation remained on strengthening of the regulation and supervision of financial institutions as well as legal and regulatory frameworks with regard to financial stability and the conduct of financial institutions.
PROTECTION OF PERSONAL INFORMATION	> The deadline date for compliance with PoPIA was 1 July 2021. > Various privacy laws apply in the different jurisdictions in which the group operates. Due to developments around General data Protection Regulation (GDPR), the group's operations in the UK would need to comply with both the UK GDPR (and not the EU GDPR) and the UK Data Protection Act 2018.
FINANCIAL CRIME RISK MANAGEMENT	> The group's objective is to ensure compliance with the provisions of AML/CFT legislation, FICA and other requirements to enable an integrated financial crime risk management approach. The group's anti-bribery and corruption (ABC) programme seeks to prevent bribery and corruption in its operations and business dealings, and to ensure compliance with local and global ABC regulatory requirements. Oversight is conducted on an ongoing basis through management of the group's automated screening, monitoring and reporting tools, including the implementation of the goAML (anti-money laundering system) interface with the Financial Intelligence Centre. > In response to the findings and recommendations noted in the FATF MER, FirstRand has initiated a formal programme to support the effort to remedy and strengthen its internal financial crime controls. The programme focuses on Immediate Outcome 4 to address matters identified in the MER such as revising the risk-based approach to focus on inherent risk, prompt transaction monitoring and documentation of the risk management and compliance programme. > Cabinet approved the submission of the Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Bill of 2022 to Parliament for further processing. Once enacted, the Act will amend the current Protection of Constitutional Democracy Against Terrorist and Related Activities Act, 2004 (Act 33 of 2004). The amendments seek to align the country's domestic instruments of combating terrorism with the global measures that have been put in place. > FirstRand continues to actively support the activities of the South African Anti-Money Laundering Integrated Task Force, which is a public-private partnership that enables the sharing of knowledge and expertise to allow the criminal justice system to take rapid action in addressing financial crime. FirstRand is an active participant in all the established expert working groups and is leading the expert working group relating to terrorist financing. FirstRand views this partnership as a critical element in the management of financial crime risk.
MARKET CONDUCT	> The draft Conduct of Financial Institutions Bill (COFI) is expected to be introduced to Parliament during 2022. > The FSCA published its regulatory strategy for December 2021 to March 2025 and its regulation plan for 2022 to 2025. The regulatory strategy sets out its five strategic objectives, which include oversight; enforcement against misconduct; enhancing the regulatory framework for financial markets; promoting the development of an innovative, inclusive and sustainable financial sector; and empowering households and small businesses to be financially resilient. > The FSCA published its regulation plan for the next three years. The plan provides more detail on the review and harmonisation of existing legislation, and development of new legislation to give effect to the FSCA's regulatory strategy. The focus areas are broadly summarised into the following three categories: – Regulatory framework developments focused on conduct. – Regulatory framework developments focused on the financial markets (integrity and efficiency). – Regulatory framework developments focused on a broad scope of cross-cutting sector developments and themes. Whilst this is a three-year plan, it will be reviewed annually, and will include ongoing stakeholder engagement and consultation.

REGULATORY DEVELOPMENTS DURING THE YEAR continued

NATIONAL CREDIT ACT	> FirstRand continues to participate in discussions and position papers on NCA, the Consumer Protection Act and the Home Loan and Mortgage Disclosure Act at industry level. > Key focus areas include consumers and their rights in the credit market and relating to consumer goods and services, i.e. no discrimination, full information disclosure, timely statements, credit profile reporting and consumer complaints process. > There is ongoing focus on all NCA-related issues, including simplifying the way information is disclosed in credit agreements, offering consumers access to affordable credit and aiding over-indebted consumers by restructuring their debt.
INSURANCE REGULATION	> The group's insurance businesses continue to implement and embed compliance controls to meet requirements of the insurance-specific legislation. Various developments are tracked, including new standards on outsourcing by insurers and the Cell Captive Conduct Standard.

Compliance risk management

The group continually monitors the regulatory environment and responds appropriately to changes and developments. Appropriate risk management processes and programmes are employed in response to regulatory developments and requirements as follows:

> Promote risk-informed and efficient utilisation of resources, including investments made in people, systems and processes, to effectively manage risks emanating from the increasing number of new and/or amended local and international regulatory requirements.

> Drive a customer-centric, business-led approach to treating customers fairly.

> Work closely with regulators and industry on the authenticated collections project, the main objective of which is to prevent debit order abuse.

> Manage risks associated with illicit cross-border flows, as well as emerging financial crime threats and vulnerabilities.

> Review market conduct maturity and associated platform developments, including implementation of conduct standards for banks and oversight of employee activity in financial markets via the group's personal account trading programme.

> Strengthen anti-bribery and corruption risk management across the business.

> Enhance the AML/CFT control environment of the group.

> Refine frameworks, policies and standards.

> Drive automation and scale the use of technology and advanced analytics for purposes of identifying regulatory and conduct risks, and the creation of bespoke interventions.

> Review risk appetite statements and key risk indicators.

Conduct risk management

The market conduct programme is overseen by various group committees, the compliance risk committee, SETCOM (supported by the group sustainability and governance executive committee) and RCCC.

This programme aligns to relevant legislative developments and international best practice. Key focus areas include adherence to legislative requirements such as the Financial Advisory and Intermediary Services Act and conduct standards, commenting on draft legislation such as the draft COFI Bill and the UK Consumer Duty rules being developed by the Financial Conduct Authority. Other focus areas include, among others, maturing the conduct programme and governance (e.g. enhancing product governance, developing policies, tracking key risk indicators and utilising insights to improve customer outcomes). Regulatory engagement is well entrenched and managed.

In support of a sound risk culture, the group manages conduct risk programmes with appropriate levels of employee training and communication to ensure responsible conduct. The market conduct programmes include retail market conduct, corporate market conduct, ethical trading in financial markets, credit and consumer protection practices and responsible competitive practices. The collaboration between compliance and business ensures the appropriate focus to advise on and embed the legislative and best practice requirements in terms of market conduct.

Strategic risk

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

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

Strategic risk is not a readily quantifiable risk and not a risk that a company can or should hold a protective capital buffer against. The development and execution of strategy is the responsibility of the group's 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.

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

Business risk

Introduction and objectives

Business risk is defined as the risk to earnings, capital and sustainability from potential changes in the business environment as well as planned new business and expansion activities.

Business risk stems from:

> potential earnings volatility that is unrelated to other known, material and already-capitalised-for risk types;

> potential lower than expected earnings, higher than expected operating costs, or both, from an inability to generate sufficient volumes, margin or fees to maintain a positive net operating margin in a volatile business environment;

> the potential inability to execute on strategy according to the business plan in order for business entities to remain sustainable and well capitalised on a standalone basis over the forecast horizon; and

> the potential inability to timeously adjust strategy or business models in response to unexpected changes to the business and operating environment (legislation, laws, regulations, environment, etc.).

The group's objective is to develop and maintain a well-diversified portfolio that delivers sustainable earnings and minimises the probability of adverse, unexpected outcomes.

Assessment and management

The group has a business risk process which aims to create a group-wide shared definition and understanding, and to ensure business risk is appropriately identified, monitored, measured and embedded in the risk management activities. The components of business risk include the following:

COMPONENT	DESCRIPTION
Volume, margin and fee changes	Related to the group's ability to generate sufficient level of revenue to offset its operating costs.
New business and expansion activities	Risk of downside deviation from planned expansion activities, where franchise value is lower than expected due to lower revenues or higher costs than expected.
Changes in external environment	Related to external political, economic, customer, competition, market, technology, climate and regulatory changes in the environment the businesses operate in.
Internal changes	Related to internal changes in strategy, organisational structure, business model, strategic processes or management.

Business risk assessment cycle

The business risk assessment and management cycle is based on a philosophy that allows integrating, aligning and avoiding/minimising possible double counting of the components of business risk in the following processes:

> risk appetite;

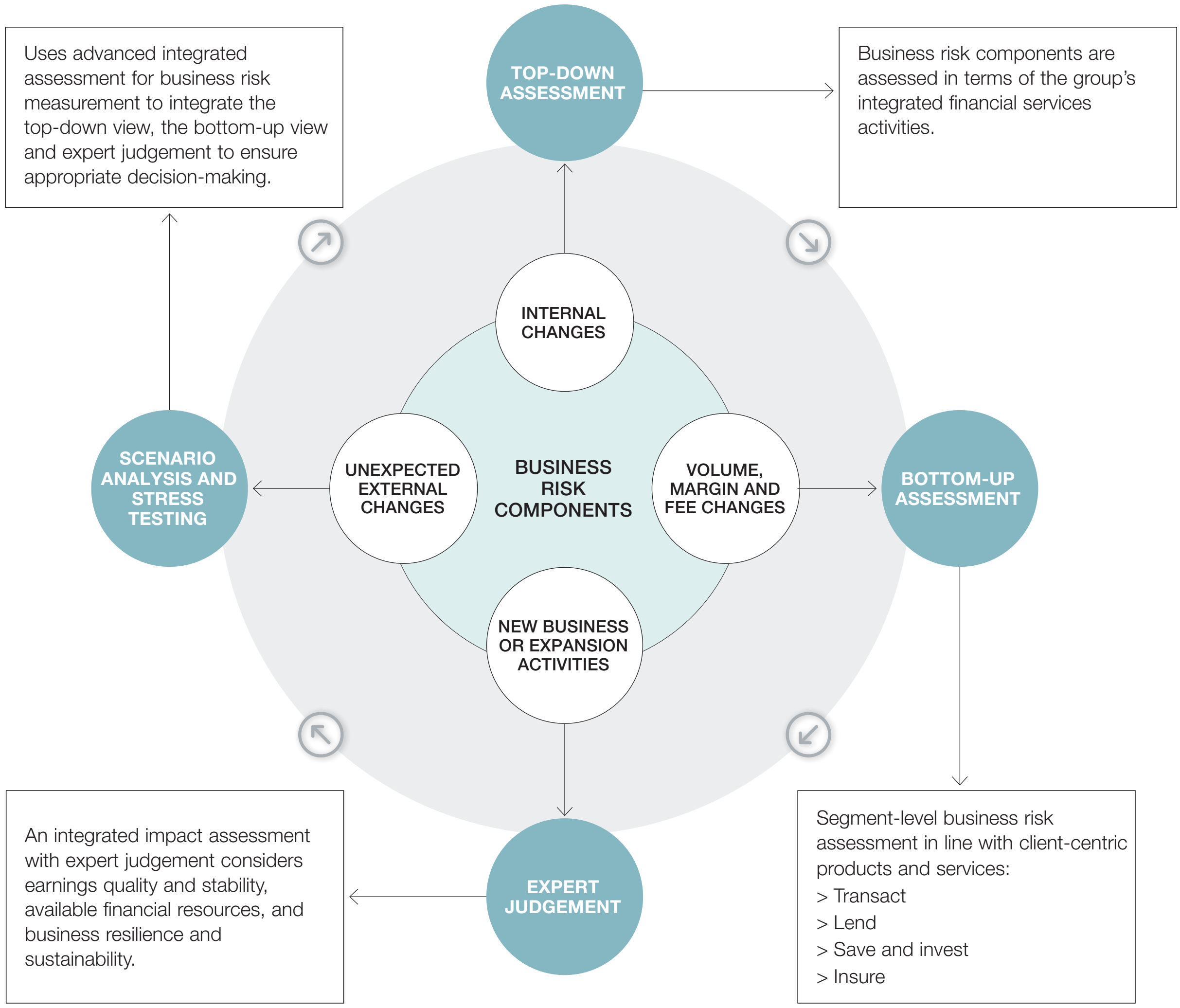
> scenario analysis and stress testing; and

> economic capital.

This ensures that there are adequate and transparent processes with integrated tools for monitoring, assessment, measurement and mitigation of business risk as well as capitalisation for exposure to unexpected losses. The processes and tools for monitoring business risk provide insight across different points of loss distribution to enable financial resource optimisation.

The components of business risk are considered in each step of the business risk cycle.

BUSINESS RISK IDENTIFICATION ASSESSMENT CYCLE



Measurement of business risk capital

Business risk capital is quantified for economic capital purposes and is calculated for volume and margin changes, expansion activities and unexpected regulatory changes, and follows the guidelines of the group's business risk assessment principles. The business risk assessment cycle and approach are incorporated in internal and strategic planning processes supported by the group's management committees and governance structures.

Economic capital estimates for all components of business risk are reported internally to management and externally to the PA on a biannual basis with details of approach, models and methodologies included in the annual ICAAP submission.

The group has established processes to identify, manage and measure business risk exposures, which ultimately enable the quantification of business risk economic capital.

As at 30 June 2022, business risk economic capital accounted for approximately 4% of the total group economic capital base (2021: 4%).

BUSINESS RISK MEASUREMENT AND MANAGEMENT PROCESS

1 DEFINITION AND IDENTIFICATION	
The first step involves tracking key risk drivers and factors that could give rise to business risk. In assessing risk exposure from volume and margin changes, the group performs trend analysis of its revenue volatility, pre-tax operating margin, cost-to-income ratio and fixed-to-total cost ratio, and targets a portfolio of low-earnings volatility and high-margin activities with a variable cost structure. The risk inherent in expansion initiatives is managed through the execution of a robust business plan approval process. This includes in-depth scrutiny of business plans, due diligence (where relevant), understanding and documentation of risk drivers and risk factors, analysis of root causes that could lead to additional unexpected capital injection, and frequent monitoring and reporting of execution variance against the plan.	
Ongoing monitoring of:	Changes to the external environment (for example Covid-19, environmental and climate-related changes, etc.); volume, margin, and fee changes; and new business and expansion initiatives.

2 MEASUREMENT AND MANAGEMENT	
Internal models are used to capture the increasing probability of unexpected losses from the remainder of material risks not captured, mitigated or capitalised for by other Pillar 1 and non-Pillar 1 risk types. The risk exposure is modelled using fit-for-purpose models ranging from stochastic approaches, sensitivity assessment, scenario analysis and stress testing at different levels of the organisation. The outputs of risk measurement are used as input into the return and risk appetite framework and management decision-making.	
Ongoing monitoring of:	Risk triggers, risk exposure, earnings quality, earnings resilience, cost structures and business model changes.

3 CAPITALISATION AND MANAGEMENT ACTION	
The group uses a combination of top-down and bottom-up models to quantify tail risk exposures which are capitalised for. These include risk exposure quantification models and objective qualitative overlay scenarios. In addition, factors proposed by experts for consideration are incorporated into the running of sensitivity assessments, scenario analyses and stress testing model impact assessments. The output of this process is presented to relevant committees for management action, including challenge and approval. The group capitalises for absolute losses beyond risk appetite levels at a percentile to achieve a desired credit rating over a one-year time horizon.	
Ongoing monitoring of:	Unexpected losses, earnings volatility, inflexible operating cost structures and unsustainable performance drivers.

4 CAPITAL ALLOCATION	
The last step of the business risk management process involves capital allocation to business units where the risk exposure originates, where it can be controlled and managed, and action can be taken to align with group strategic objectives. FRM exco continues to annually assess the extent to which the cost is allocated to businesses. Allocation principles will be subject to continuous refinement, challenge and annual update as part of ICAAP.	
Ongoing monitoring of:	Increasing capital costs, operating costs that remain inflexible, and expected revenues continuing to be lower than expected on a forward-looking basis.

Reputational risk

The risk of reputational damage due to events such as compliance failures, pending litigations, underperformance or negative media coverage.

The group's business is inherently built on trust and close relationships with its customers and other stakeholders. Its reputation is, therefore, built on the way in which it conducts business. The group protects its reputation by managing and controlling risks across its operations. Reputational risk can arise from environmental and social issues or as a consequence of financial or operational risk events. The group seeks to avoid large risk concentrations by establishing a risk profile that is balanced within and across risk types. Potential reputational risks are also taken into account as part of stress testing exercises. The group aims to establish a risk and earnings profile within the constraints of its risk appetite, and seeks to limit potential stress losses from credit, market, liquidity or operational risks that may otherwise introduce an undesirable degree of volatility in its financial results and adversely affect its reputation. High-impact transactions or emerging matters are discussed at group and operating business/segment risk committees as appropriate.

Environmental, social and climate risk

Environment and nature risk

Environmental risk is defined as the impact of the natural environment on the group's business as well as the impact and dependencies of the group's business on the environment and on natural capital. These impacts can manifest in legal or regulatory requirements, material financial losses, operational costs, physical damage, credit risk, or loss of reputation that a financial institution may suffer because of its failure to comply with responsible environmental practices, laws, regulations, rules, related self-regulatory organisational standards, and codes of conduct applicable to its activities.

There are five main drivers of nature change, namely climate change, resource exploitation, land and sea use change, pollution and invasive alien species. There is a direct relationship between climate change and natural capital loss, resulting in nature-related financial risks. Other causes of nature-related financial risks include man-made interventions like pollution, deforestation and unsustainable agricultural practices, amongst others. As natural capital declines, the capacity of nature to provide ecosystem services may be reduced temporarily or permanently.

Financial risks to the group are the result of impacts and/or dependencies on nature, including but not limited to a potential financial loss resulting from negative impacts on nature, through regulation, market access or otherwise, and the costs stemming from the loss of certain key ecosystem services on which the group's clients depend. A full analysis of impacts and dependencies can also present opportunities, such as the potential financial benefits resulting from positive impacts on nature or the strengthening of nature on which an organisation depends.

Environmental risks can be grouped into two areas of impact for the group, namely direct and indirect environmental risk.

DIRECT ENVIRONMENTAL RISK	INDIRECT ENVIRONMENTAL RISK
Environmental risk or impact on the environment which is directly associated with the actions of the group's physical operations. These risks may be governed by group operational processes, procedures or policies, and poor performance may result in the risk of legal or regulatory sanctions, physical damage, material financial loss or reputational damage that the group may suffer due to its failure to comply with all applicable laws, voluntary agreements, regulations and supervisory requirements associated with these risks.	Environmental risk or impact on the environment that is not directly associated with the physical activities of the group and its operations, however, may be associated with activities conducted through a business relationship with the group's clients, investees or stakeholders. The group could potentially be negatively affected by the actions of another party such as a government department, a borrower or through a lending activity or investment. The group may suffer in any of these aspects because of its client or stakeholder organisation's failure to comply with all applicable laws, voluntary agreements, regulations and/or supervisory requirements, and the resulting penalties.

Climate risk and social risk

Climate risk, a subset of environmental risk, is defined as a risk resulting from climate change, causing an increase in physical risks (stemming from increased incidences of natural disasters), transition risks (resulting from changes in laws, regulations or customer preferences) and third-party liability risks (due to non-compliance with climate regulations). For more detailed information refer to the group's latest TCFD report at https://www.firstrand.co.za/investors/annual-reporting/ and the group's climate change policy and policy on fossil fuels financing at https://www.firstrand.co.za/investors/esg-resource-hub/policies-and-practices/.

Social risk references social impacts associated with activities conducted through a business relationship with customers, investee companies or stakeholders as a result of financial exposure, lending/financing, investment and equity interest that may lead to a risk of legal or regulatory sanctions, material financial loss or reputational damage. The issuer may suffer in any of these aspects because of its client or stakeholder organisation's failure to comply with all applicable laws, voluntary agreements, regulations and/or supervisory requirements. Social risks include product responsibility and inclusion issues, labour-related issues, occupational health and safety, community involvement, community security, human resettlement, indigenous people's rights and human rights. These risks could lead to criminal sanction, termination of operations and production losses, and subsequently pose a financial, reputational or credit risk to the group.

Sustainable finance opportunities – climate and environment

South Africa and several other countries in which the group operates face a broad range of social and environmental challenges and, whilst FirstRand cannot solve all of these challenges as a systemic financial services business, it has the capacity to be a force for good.

FirstRand is committed to the effective management of the environmental and social risk associated with its lending and investment decisions, product and service offerings, own organisational impacts, and in promoting responsible practices through its value chains.

The vision of shared prosperity principles is captured in the group's financing processes by integrating social and environmental risk management principles in decision-making. As a provider of financial products and services, FirstRand is a systemic participant in the economy and in the allocation of financial resources to society.

Although the group is only at the beginning of its shared prosperity journey, it has, however, started to introduce these principles into certain core frameworks (such as its financial resource management framework which guides the allocation of the group's scarce financial resources, including capital, funding and liquidity, and risk appetite).

The sustainable bond framework as it pertains to environmental or green opportunities, include the following opportunities/solutions:

- Renewable energy
- Energy efficiency
- Climate change adaptation
- Green buildings
- Green mortgages
- Clean and sustainable transportation
- Pollution prevention and control
- Sustainable management of natural resources
- Climate smart agriculture

Environmental, social and climate risk governance

FirstRand has formal governance processes for managing environmental and social risk. These include detailed environmental and social risk due diligence for lending activities, reviewing the impact of natural capital risks on the group's lending portfolios, and managing direct operational environmental risk impacts. Environmental and social risk management processes are formally integrated into the group's risk governance process, which is supported by enterprise-wide risk, social, conduct and ethics committees.

The group's environmental, social and climate risk management programme covers the following thematic focus areas.

01	**Climate risk mitigation and adaptation**	Climate change has the potential to alter the geopolitical landscape, disrupt business models and markets across all sectors, and impact the livelihoods and well-being of individuals. The group acknowledges that it should be part of the solution by supporting climate resilience and a responsible transition to a low-carbon economy.
02	**Water and oceans management** Access to water, water quality, pollution prevention	Enhanced due diligence on all credit transactions to ensure that clients have preventative programmes and reactive clean-up procedures in place and that hazardous/chemical waste is managed as per legal requirements to prevent the occurrence of any pollutants above approved acceptable thresholds (where applicable) in natural water environments. The due diligence process includes accounting for dependencies on water sources for production and processing.
03	**Biodiversity and ecosystem management** Protection of species, deforestation, agriculture	There is a growing awareness of the impact and dependencies of businesses on nature. Economies depend on the services that businesses provide, but nature is in decline. Twenty-three per cent of land is now degraded, and ocean "dead zones" cover an area greater in size than the United Kingdom (CISL, 2021). As nature declines businesses, households and financial institutions are put at risk. Companies, including financial institutions, must account for these impacts and dependencies in their daily decisions. FirstRand is refining its current environmental and social risk analysis tools to better identify, manage and report on the group's impacts and dependencies on nature. The group has also participated in various working groups to contribute to the thinking and tools to better integrate biodiversity considerations into banking portfolios. For example, FirstRand participated in an informal working group that developed the Taskforce Nature-related Financial Disclosure framework, launched in June 2021.
04	**Pollution prevention**	Enhanced due diligence on all credit transactions to ensure that clients have preventative programmes and reactive clean-up procedures in place and that hazardous/chemical waste is managed as per legal requirements.
05	**Circular economy** Resource efficiency and waste management	**Resource efficiency** – efficient use of limited, non-renewable natural resources (which cannot be regenerated after exploitation) and renewable natural resources (which can return to their previous stock levels by natural processes of growth or replenishment) in the process of exploiting nature for production and consumption purposes. **Waste managemen**t – including the control, monitoring and regulation of the production, collection, transport, treatment and disposal of waste, and the prevention of waste production through in-process modifications, reuse and recycling during a project life cycle. FirstRand has not yet assessed resource efficiency and circular economy activities in its portfolio. As part of the group's journey in this field it is currently participating in a United Nations Environment Programme Finance Initiative working group that is developing guidelines to assist banks to adopt resource efficiency and circular economy considerations in their portfolios.

Cross-cutting risk type

Environmental risk, including climate change, nature (including biodiversity) and social risk, is typically a cross-cutting risk issue and therefore cannot be managed in a single risk management function. The group's environmental, social and climate risk management framework consists of an outline of programmes and initiatives which are designed to manage and mitigate environment-related risk.

Remuneration and compensation

FirstRand's compensation policies and practices incorporate international best practice and comply with the requirements of the Banks Act, 1990 (Act No. 94 of 1990) and the *FSB Principles for Sound Compensation Practices.* In accordance with the requirements of Regulation 43 of the Regulations and the Pillar 3 standards, disclosure of the group's compensation policies, practices and performance can be found in the remuneration committee report, which is published on FirstRand's website at www.firstrand.co.za/investors/annual-reporting/.

Standardised disclosures

Contents

KM1: Key metrics (at consolidated group)

The table below consists of key prudential metrics related to regulatory capital, leverage and liquidity for FirstRand Limited (the group).

		FIRSTRAND LIMITED				
	R million	**June 22**	March 22	December 21	September 21	June 21
AVAILABLE CAPITAL (AMOUNTS)*						
1	CET1	**137 189**	126 354	130 810	125 029	124 445
1a	Fully loaded ECL accounting model	**137 189**	126 354	130 810	125 029	123 364
2	Tier 1	**144 229**	133 397	138 265	132 349	131 536
2a	Fully loaded ECL accounting model Tier 1	**144 229**	133 397	138 265	132 349	130 455
3	Total capital**	**169 063**	156 875	163 010	156 027	154 976
3a	Fully loaded ECL accounting model total capital	**169 063**	156 875	163 010	156 027	154 177
RISK-WEIGHTED ASSETS (AMOUNTS)						
4	Total RWA	**1 135 517**	1 085 601	1 113 206	1 078 531	1 058 916
RISK-BASED CAPITAL RATIOS AS A PERCENTAGE OF RWA*						
5	CET1 ratio (%)	**12.1%**	11.6%	11.8%	11.6%	11.8%
5a	Fully loaded ECL accounting model CET1 ratio (%)	**12.1%**	11.6%	11.8%	11.6%	11.6%
6	Tier 1 ratio (%)	**12.7%**	12.3%	12.4%	12.3%	12.4%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	**12.7%**	12.3%	12.4%	12.3%	12.3%
7	Total capital ratio (%)	**14.9%**	14.5%	14.6%	14.5%	14.6%
7a	Fully loaded ECL accounting model total capital ratio (%)	**14.9%**	14.5%	14.6%	14.5%	14.6%
ADDITIONAL CET1 BUFFER REQUIREMENTS AS A PERCENTAGE OF RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	**2.5%**	2.5%	2.5%	2.5%	2.5%
9	CCyB requirement (%)#	**0.0%**	0.0%	0.0%	0.0%	0.0%
10	Bank global systemically important bank (G-SIB) and/or D-SIB additional requirements (%)†	**1.0%**	1.0%	1.0%	1.0%	1.0%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	**3.5%**	3.5%	3.5%	3.5%	3.5%
12	CET1 available after meeting the bank's minimum capital requirements (%)	**1.9%**	1.5%	2.4%	2.3%	2.4%
BASEL III LEVERAGE RATIO‡						
13	Total Basel III leverage ratio exposure measure	**2 058 696**	2 004 882	2 015 391	1 945 643	1 933 685
14	Basel III leverage ratio (%) (row 2/row13)	**7.0%**	6.7%	6.9%	6.8%	6.8%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a/row 13)	**7.0%**	6.7%	6.9%	6.8%	6.8%
LIQUIDITY COVERAGE RATIO						
15	Total HQLA	**341 208**	335 326	341 658	335 039	312 514
16	Total net cash outflow	**281 888**	278 070	288 694	287 727	277 326
17	LCR ratio (%)	**121%**	121%	118%	116%	113%
NET STABLE FUNDING RATIO						
18	Total available stable funding (ASF)	**1 346 540**	1 298 631	1 325 571	1 286 987	1 240 336
19	Total required stable funding (RSF)	**1 093 451**	1 060 080	1 063 848	1 029 799	1 004 757
20	NSFR ratio	**123%**	123%	125%	125%	123%

* *Excluding unappropriated profits.*
** *Relates to total qualifying capital and reserves, which include Tier 1 and Tier 2 capital.*
\# *The FirstRand CCyB requirement is nil at 30 June 2022, therefore the CCyB1 – Geographic distribution of credit exposures used in the CCyB template is not applicable and not included in this disclosure.*
† *Total D-SIB requirement is 1.5% at 30 June 2022, of which 1% is held in CET1 capital.*
‡ *Based on month-end balances.*

KEY DRIVERS: JUNE 2022 VS MARCH 2022	
Risk-based capital ratios	**Available capital** > Tier 1 capital: Increase mainly due to appropriation of profits and an increase in the foreign currency translation reserve due to the rand's depreciation. > Tier 2 capital: Increase due to the rand's depreciation against the dollar. **RWA** > Increase in RWA driven primarily by credit, operational, market and other risks.
Leverage ratio	**Total exposure measure** > Increase in exposure measure driven by an increase in on-balance sheet items and derivative exposures, partly offset by a decrease in SFTs and off-balance sheet exposures. **Tier 1 capital** > Refer to commentary above.
Liquidity ratios	The LCR remained stable from the previous quarter. Both the LCR and NSFR exceeded their minimum requirement of 100%.

KM1: Key metrics (FirstRand Bank Limited*)

The table below consists of key prudential metrics related to regulatory capital, leverage and liquidity for FirstRand Bank Limited (FRB or the bank).

		FIRSTRAND BANK LIMITED*				
R million		June 22	March 22	December 21	September 21	June 21
AVAILABLE CAPITAL (AMOUNTS)**						
1	CET1	**92 145**	91 747	92 186	92 067	92 439
1a	Fully loaded ECL accounting model	**92 145**	91 747	92 186	92 067	91 766
2	Tier 1	**97 116**	96 804	96 994	96 998	97 435
2a	Fully loaded ECL accounting model Tier 1	**97 116**	96 804	96 994	96 998	96 762
3	Total capital#	**118 113**	116 870	117 945	116 165	116 265
3a	Fully loaded ECL accounting model total capital	**118 113**	116 870	117 945	116 165	115 591
RISK-WEIGHTED ASSETS (AMOUNTS)						
4	Total RWA	**757 205**	730 359	730 706	719 659	717 153
RISK-BASED CAPITAL RATIOS AS A PERCENTAGE OF RWA**						
5	CET1 ratio (%)	**12.2%**	12.6%	12.6%	12.8%	12.9%
5a	Fully loaded ECL accounting model CET1 ratio (%)	**12.2%**	12.6%	12.6%	12.8%	12.8%
6	Tier 1 ratio (%)	**12.8%**	13.3%	13.3%	13.5%	13.6%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	**12.8%**	13.3%	13.3%	13.5%	13.5%
7	Total capital ratio (%)	**15.6%**	16.0%	16.1%	16.1%	16.2%
7a	Fully loaded ECL accounting model total capital ratio (%)	**15.6%**	16.0%	16.1%	16.1%	16.1%
ADDITIONAL CET1 BUFFER REQUIREMENTS AS A PERCENTAGE OF RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	**2.5%**	2.5%	2.5%	2.5%	2.5%
9	CCyB requirement (%)†	**0.0%**	0.0%	0.0%	0.0%	0.0%
10	Bank G-SIB and/or D-SIB additional requirements (%)‡	**1.0%**	1.0%	1.0%	1.0%	1.0%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	**3.5%**	3.5%	3.5%	3.5%	3.5%
12	CET1 available after meeting the bank's minimum capital requirements (%)	**2.1%**	2.5%	3.3%	3.5%	3.6%
BASEL III LEVERAGE RATIO^						
13	Total Basel III leverage ratio exposure measure	**1 557 964**	1 536 277	1 503 527	1 474 289	1 463 072
14	Basel III leverage ratio (%) (row 2/row13)	**6.2%**	6.3%	6.5%	6.6%	6.7%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a/row 13)	**6.2%**	6.3%	6.5%	6.6%	6.6%
LIQUIDITY COVERAGE RATIO◊						
15	Total HQLA	**303 744**	306 178	310 337	307 010	286 628
16	Total net cash outflow	**245 147**	245 389	250 357	253 274	245 861
17	LCR ratio (%)	**124%**	125%	124%	121%	117%
NET STABLE FUNDING RATIO◊						
18	Total ASF	**944 069**	924 756	919 696	909 827	879 957
19	Total RSF	**785 233**	774 484	762 525	740 261	722 913
20	NSFR ratio	**120%**	119%	121%	123%	122%

* *FRB including foreign branches.*
** *Excluding unappropriated profits.*
\# *Relates to total qualifying capital and reserves, which include Tier 1 and Tier 2 capital.*
† *FRB's CCyB requirement is nil at 30 June 2022, therefore the CCyB1 – Geographic distribution of credit exposures used in the CCyB template is not applicable and not included in this disclosure.*
‡ *Total D-SIB requirement is 1.5% at 30 June 2022, of which 1% is held in CET1 capital.*
^ *Based on month-end balances.*
◊ *Reflects FRB's operations in South Africa.*

CC1: Composition of regulatory capital

The table below provides a detailed breakdown of regulatory capital according to the scope of regulatory consolidation for the group.

		FIRSTRAND LIMITED as at 30 June			
	R million	2022	Amounts subject to pre-Basel III treatment	Reference*	2021
	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES				
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	7 961		a	8 029
2	Retained earnings	132 846		b	120 846
3	Accumulated other comprehensive income (and other reserves)	3 179		c	4 751
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)				
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	3 864	4 283	d	4 027
6	**CET1 capital before regulatory adjustments**	147 850			137 653
	COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS				
7	Prudential valuation adjustments	490			380
8	Goodwill (net of related tax liability)	7 722		e	7 725
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	1 527		f	1 904
10	Deferred tax assets that rely on future probability, excluding those arising from temporary differences (net of related tax liability)	325		g	264
11	Cash flow hedge reserve	(2 357)			1 355
12	Shortfall of provisions to expected losses	–			–
13	Securitisation gain on sale	–			–
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–			–
15	Defined benefit pension fund net assets	35			9
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	8			5
17	Reciprocal cross-holdings in common equity	–			–
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	–			–
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–			–
20	Mortgage servicing rights (amount above 10% threshold)				
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–			–
22	Amount exceeding the 15% threshold	–			–
23	of which: significant investments in the common stock of financials	–			–
24	of which: mortgage servicing rights				
25	of which: deferred tax assets arising from temporary differences	–			–
26	National specific regulatory adjustments	2 911		h	1 566
27	Regulatory adjustments applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	–			–
28	**Total regulatory adjustments to CET1**	10 661			13 208
29	**CET1 capital**	137 189			124 445
	ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS				
30	Directly issued qualifying AT1 instruments plus related stock surplus	–			–
31	of which: Classified as equity under applicable accounting standards	–			–
32	of which: Classified as liabilities under applicable accounting standards	–			–
33	Directly issued capital instruments subject to phase-out from AT1	–			452
34	AT1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	7 545		i	7 725
35	of which: instruments issued by subsidiaries subject to phase-out	–			–
36	**AT1 capital before regulatory adjustments**	7 545			8 177

* *Reference to CC2: Reconciliation of regulatory capital to balance sheet table on page 191.*

CC1: Composition of regulatory capital continued

		FIRSTRAND LIMITED as at 30 June			
R million		2022	Amounts subject to pre-Basel III treatment	Reference*	2021
ADDITIONAL TIER 1: REGULATORY ADJUSTMENTS					
37	Investments in own AT1 instruments	–			–
38	Reciprocal cross-holdings in AT1 instruments	–			–
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	–			–
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	–			–
41	National specific regulatory adjustments	505		j	1 086
42	Regulatory adjustments applied to AT1 due to insufficient Tier 2 to cover deductions	–			–
43	**Total regulatory adjustments to AT1 capital**	505			1 086
44	**AT1 capital**	7 040		k	7 091
45	**Tier 1 capital (T1 = CET1 + AT1)**	144 229			131 536
TIER 2 CAPITAL: INSTRUMENTS AND PROVISONS					
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	–			–
47	Directly issued capital instruments subject to phase-out from Tier 2	–			–
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	20 375			19 572
49	Of which: instruments issued by subsidiaries subject to phase-out	–			–
50	Provisions	7 186			6 790
51	**Tier 2 capital before regulatory adjustments**	27 561			26 362
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS					
52	Investments in own Tier 2 instruments	–			–
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	–			–
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–			–
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	–			–
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–			–
56	National specific regulatory adjustments	2 727			2 922
57	**Total regulatory adjustments to Tier 2 capital**	2 727			2 922
58	Tier 2 capital	24 834		l	23 440
59	**Total regulatory capital (Tier 1 + Tier 2)**	169 063			154 976
60	**Total RWA**	1 135 517			1 058 916
CAPITAL RATIOS AND BUFFERS					
61	CET1 (as a percentage of RWA)	12.1%			11.8%
62	Tier 1 (as a percentage of RWA)	12.7%			12.4%
63	Total capital (as a percentage of RWA)	14.9%			14.6%
64	Institution-specific buffer requirement (capital conservation buffer plus CCyB requirements plus higher loss absorbency requirement, expressed as a percentage of RWA)**	8.5%			8.0%
65	of which: capital conservation buffer requirement	2.5%			2.5%
66	of which: bank specific CCyB requirement#	0.0%			0.0%
67	of which: D-SIB buffer requirement†	1.0%			1.0%
68	CET1 (as a percentage of RWA) available after meeting the bank's minimum capital requirements	1.9%			2.4%

* *Reference to CC2: Reconciliation of regulatory capital to balance sheet table on page 191.*

** *Including CET1 minimum and institution-specific buffer requirements.*

\# *FirstRand's CCyB requirement is nil for June 2022.*

† *The total D-SIB requirement is 1.5%, of which CET1 is 1.0%.*

CC1: Composition of regulatory capital continued

		FIRSTRAND LIMITED as at 30 June			
R million		2022	Amounts subject to pre-Basel III treatment	Reference*	2021
NATIONAL MINIMA (IF DIFFERENT FROM BASEL III)					
69	National CET1 minimum ratio	8.5%			8.0%
70	National Tier 1 minimum ratio	10.8%			10.0%
71	National total capital minimum ratio	13.0%			12.0%
AMOUNTS BELOW THE THRESHOLD FOR DEDUCTIONS (BEFORE RISK WEIGHTING)					
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	255			335
73	Significant investments in the common stock of financial entities	7 009			6 520
74	Mortgage servicing rights (net of related tax liability)				
75	Deferred tax assets arising from temporary differences (net of tax liability)	7 696		m	5 549
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2					
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	7 896			7 839
77	Cap on inclusion of provisions in Tier 2 under standardised approach	4 093			3 786
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to IRB approach (prior to application of cap)	4 487			6 197
79	Cap for inclusion of provisions in Tier 2 under IRB approach	3 093			3 004
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2018 AND 1 JAN 2022)					
80	Current cap on CET1 instruments subject to phase-out arrangements				
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)				
82	Current cap on AT1 instruments subject to phase-out arrangements	–			452
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	4 519			4 067
84	Current cap on Tier 2 instruments subject to phase-out arrangements	–			–
85	Amount excluded from Tier 2 due to cap (excess over cap after redemptions and maturities)	–			–

* *Reference to CC2: Reconciliation of regulatory capital to balance sheet table on page 191.*

CC2: Reconciliation of regulatory capital to balance sheet

The table below highlights the differences between the scope of accounting and regulatory consolidation. It also links the group's published statement of financial position and the CC1 composition of regulatory capital disclosure template.

	FIRSTRAND LIMITED as at 30 June 2022		
R million	Balance sheet as in published financial statements	Under regulatory scope of consolidation*	Reference**
ASSETS			
Cash and cash equivalents	143 636	143 396	
Derivative financial instruments	65 667	65 667	
Commodities	17 580	17 580	
Investment securities	382 149	373 369	
Advances	1 334 324	1 334 324	
– Advances to customers	1 262 083	1 262 083	
– Marketable advances	72 241	72 241	
Other assets	9 597	9 295	
Current tax asset	624	619	
Non-current assets and disposal groups held for sale	1 501	1 501	
Reinsurance assets	583	–	
Investments in subsidiary companies	–	1 505	
Investments in associates	8 178	8 178	
Investments in joint ventures	2 618	2 625	
Property and equipment	19 725	19 710	
Intangible assets	9 459	9 249	
– Goodwill		7 722	e
– Intangibles		1 527	f
Investment properties	698	698	
Defined benefit post-employment asset	35	35	
Deferred income tax asset	8 028	8 021	
– Relating to temporary differences		7 696	m
– Other than temporary differences		325	g
Total assets	2 004 402		
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	14 623	14 623	
Derivative financial instruments	64 547	64 547	
Creditors, accruals and provisions	35 761	35 558	
Current tax liability	803	775	
Liabilities directly associated with disposal groups held for sale	824	824	
Deposits	1 655 972	1 655 919	
Employee liabilities	13 862	13 725	
Other liabilities	8 248	8 248	
Amounts due to subsidiary companies	–	481	
Policyholder liabilities	7 424	–	
Tier 2 liabilities	20 937	24 834	l#
Deferred income tax liability	692	651	
Total liabilities	1 823 693		
Equity			
Ordinary shares	56	56	a
Share premium	7 905	7 905	a
Reserves	156 820	136 025	
– Retained earnings		132 846	b†
– Accumulated other comprehensive income (and other reserves)		3 179	c
Capital and reserves attributable to ordinary equityholders	164 781		
Other equity instruments	11 645	7 040	k
of which: non-controlling interests – AT1		7 040	i – j#
Non-controlling interests – CET1	4 283	2 094	d – h#
Total equity	180 709		
Total equity and liabilities	2 004 402		

* *Amounts included under regulatory scope of consolidation exclude balances related to insurance entities as the deduction approach is applied. Deduction for insurance entities NAV is included in line 26 of CC1: Composition of regulatory capital table on page 188.*
** *Reference to CC1: Composition of regulatory capital table on page 188.*
# *Subject to the minority and third-party capital rule: net amount reported under regulatory scope of consolidation. Reference h relates to line 26 (regulatory deductions) on CC1: Composition of regulatory capital which includes surplus minority capital of R1.8 billion.*
† *Excluding unappropriated profits.*
Note: Greyed-out cells not applicable or information not available.

OV1: Overview of RWA

The following table provides an overview of RWA per risk type for the group.

		FIRSTRAND LIMITED			
		RWA			Minimum capital requirement*
	R million	As at 30 June 2022	As at 31 March 2022	As at 30 June 2021	As at 30 June 2022
1.	**Credit risk (excluding counterparty credit risk)****	812 491	766 998	729 530	105 624
2.	– Standardised approach	322 442	292 996	277 917	41 918
5.	– AIRB approach	490 049	474 002	451 613	63 706
16.	**Securitisation exposures in banking book**	5 123	9 310	26 303	666
17.	– IRB approach	–	–	–	–
18.	– IRB supervisory formula approach	1 887	1 901	2 029	245
19.	– Standardised approach/simplified supervisory formula approach	3 236	7 409	24 274	421
	Total credit risk	817 614	776 308	755 833	106 290
6.	**Counterparty credit risk#**	15 910	17 913	14 321	2 068
7.	– SA-CCR	15 910	17 913	14 321	2 068
10.	**Credit valuation adjustment**	10 373	8 497	11 110	1 348
11.	**Equity positions in banking book under market-based approach**	22 820	23 059	20 722	2 967
12.	**Equity investments in funds – look-through approach**	266	–	–	35
13.	**Equity investments in funds – mandate-based approach**	8 444	8 118	8 224	1 098
14.	**Equity investments in funds – fall-back approach**	270	275	–	35
15.	**Settlement risk**	–	–	–	–
20.	**Market risk†**	28 163	25 827	30 163	3 661
21.	– Standardised approach	9 468	9 847	12 688	1 231
22.	– Internal model approach	18 695	15 980	17 475	2 430
24.	**Operational risk**	144 389	141 527	137 474	18 770
	– Basic indicator approach	21 131	19 478	17 998	2 747
	– Standardised approach	25 047	25 225	25 075	3 256
	– Advanced measurement approach	98 211	96 824	94 401	12 767
25.	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	36 760	32 522	30 173	4 779
26.	**Floor adjustment**	20 483	20 176	21 092	2 663
	Other assets	30 025	31 379	29 804	3 903
27.	**Total**	1 135 517	1 085 601	1 058 916	147 617

* *Capital requirement calculated at 13% (2021: 12%) of RWA. The minimum requirement excludes the confidential individual capital requirement (Pillar 2B). The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB, capital conservation and the D-SIB as prescribed in the Regulations.*
** *The group does not apply the foundation internal ratings-based and the supervisory slotting approaches (rows 3 and 4 of OV1 template).*
\# *The group does not apply the internal model method to counterparty credit risk (row 8 of OV1 template) and there were no other counterparty credit risks (CCRs) (row 9 of OV1 template).*
† *There were no switches between trading and banking book during the period under review (row 23 of OV1 template).*

CCA: Main features of regulatory capital instruments

FIRSTRAND LIMITED
30 June 2022

	Line description	Ordinary share capital and premium	FRB24	FRB25*	FRB28	FRB22	FRB23	FRB26	FRB27	FRB29	FRB30	FRB31	USD Reg S issuance
1	Issuer	FirstRand Limited	FirstRand Bank Limited	FirstRand Bank Limited	FirstRand Bank Limited	FirstRand Bank Limited	FirstRand Bank Limited	FirstRand Bank Limited	FirstRand Bank Limited	FirstRand Bank Limited	FirstRand Bank Limited	FirstRand Bank Limited	FirstRand Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	ZAE000066304	ZAG000155102	ZAG000157512	ZAG000172925	ZAG000141219	ZAG000146754	ZAG000159955	ZAG000159963	ZAG000175555	ZAG000175563	ZAG000181520	XS1810806395
3	Governing law(s) of the instrument	South African law	South African law	South African law	South African law	South African law	South African law	South African law	South African law	South African law	South African law	South African law	South African and English law
	Regulatory treatment												
4	Transitional Basel III rules	CET1	AT1	AT1	AT1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional Basel III rules	CET1	AT1	AT1	AT1	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/group/group and solo	Group	Group and solo	Group and solo	Group and solo	Group and solo	Group and solo	Group and solo	Group and solo	Group and solo	Group and solo	Group and solo	Group and solo
7	Instrument type (types to be specified by each jurisdiction)	CET1	AT1	AT1	AT1	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (R million, US$ million)	7 961**	2 265	3 461	1 400	1 250	2 750	1 910	715	2 374	698	2 500	US$500
9	Par value of instrument (R million, US$ million)	7 961**	2 265	3 461	1 400	1 250	2 750	1 910	715	2 374	698	2 500	US$500
10	Accounting classification	Shareholders' equity	Equity	Equity	Equity	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	1 April 1998	8 November 2018	19 March 2019	2 December 2020	8 December 2016	20 September 2017	3 June 2019	3 June 2019	19 April 2021	19 April 2021	24 November 2021	23 April 2018
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	No maturity	No maturity	No maturity	No maturity	8 December 2027	20 September 2027	3 June 2029	3 June 2031	19 April 2031	19 April 2031	24 November 2031	23 April 2028
14	Issuer call subject to prior supervisory approval	Not applicable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Not applicable	8 November 2023	19 September 2024	2 December 2025	8 December 2022	20 September 2022	3 June 2024	3 June 2026	19 April 2026	19 April 2026	24 November 2026	23 April 2023
	Tax and/or regulatory event call	Not applicable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Redemption amount	Not applicable	100% of principal	100% of principal	100% of principal	100% of principal	100% of principal	100% of principal	100% of principal	100% of principal	100% of principal	100% of principal	100% of principal
16	Subsequent call dates, if applicable	Not applicable	Any interest payment date after 8 November 2023	Any interest payment date after 19 September 2024	Any interest payment date after 2 December 2025	Each interest payment date after optional call date	Each interest payment date after optional call date	Each interest payment date after optional call date	Each interest payment date after optional call date	Each interest payment date after optional call date	Each interest payment date after optional call date	Each interest payment date after optional call date	Not applicable
	Coupons/dividends												
17	Fixed or floating dividend/coupon	Floating	Floating	Floating	Floating	Floating	Floating	Floating	Fixed to floating#	Floating	Fixed to floating†	Floating	Fixed to floating‡
18	Coupon rate and any related index	Not applicable	445 bps over 3-month JIBAR	440 bps over 3-month JIBAR	440 bps over 3-month JIBAR	390 bps over 3-month JIBAR	315 bps over 3-month JIBAR	224 bps over 3-month JIBAR	10.19%	234 bps over 3-month JIBAR	8.155%	190 bps over 3-month JIBAR	6.25%
19	Existence of a dividend stopper	No	Yes	Yes	Yes	No	No	No	No	No	No	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step-up or other incentive to redeem	Not applicable	No	No	No	No	No	No	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Not applicable	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)												
25	If convertible, fully or partially												
26	If convertible, conversion rate												
27	If convertible, mandatory or optional conversion												
28	If convertible, specify instrument type convertible into												
29	If convertible, specify issuer of instrument it converts into												
30	Write-down feature	Not applicable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)		Contractual. Replaced with statutory once implemented, however, PA can still elect contractual	Contractual. Replaced with statutory once implemented, however, PA can still elect contractual	Contractual. Replaced with statutory once implemented, however, PA can still elect contractual	Contractual. Replaced with statutory once implemented, however, PA can still elect contractuall	Contractual. Replaced with statutory once implemented, however, PA can still elect contractual	Contractual. Replaced with statutory once implemented, however, PA can still elect contractual	Contractual. Replaced with statutory once implemented, however, PA can still elect contractual	Contractual. Replaced with statutory once implemented, however, PA can still elect contractual	Contractual. Replaced with statutory once implemented, however, PA can still elect contractual	Contractual. Replaced with statutory once implemented, however, PA can still elect contractual	Contractual. Replaced with statutory once implemented, however, PA can still elect contractual
32	If write-down, full or partial		Partial	Partial	Partial	Partial	Partial	Partial	Partial	Partial	Partial	Partial	Partial
33	If write-down, permanent or temporary		Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism		Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	AT1	Subordinated debt	Subordinated debt	Subordinated debt	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured
36	Non-compliant transitioned features	Not applicable	No	No	No	No	No	No	No	No	No	No	No
37	If yes, specify non-compliant features		Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

* *Includes tap issuance of R223 million on 18 April 2019 and R761 million on 5 July 2019 respectively.*
** *As at 30 June 2022.*
\# *Floating rate is effective 3 June 2026 at 254 bps over 3-month Johannesburg Interbank Average Rate (JIBAR).*
† *Floating rate is effective 19 April 2026 at 234 bps over 3-month JIBAR.*
‡ *Floating rate is effective 23 April 2023 at 356 bps above the reset reference rate.*
Note: CET1 – Common Equity Tier 1; AT1 – Additional Tier 1.

CC1: Composition of regulatory capital

The table below provides a detailed breakdown of regulatory capital according to the scope of regulatory consolidation for the bank.

		FIRSTRAND BANK LIMITED* as at 30 June			
	R million	2022	Amounts subject to pre-Basel III treatment	Reference**	2021
	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES				
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	16 808		a	16 808
2	Retained earnings	74 265		b	74 265
3	Accumulated other comprehensive income (and other reserves)	(82)		c	2 862
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	–			–
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	–			–
6	**CET1 capital before regulatory adjustments**	90 991			93 935
	COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS				
7	Prudential valuation adjustments	474			370
8	Goodwill (net of related tax liability)	–			–
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	512		d	338
10	Deferred tax assets that rely on future probability excluding those arising from temporary differences (net of related tax liability)	238		e	121
11	Cash flow hedge reserve	(2 379)			1 333
12	Shortfall of provisions to expected losses	–			–
13	Securitisation gain on sale	–			–
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–			–
15	Defined benefit pension fund net assets	–			–
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	1			5
17	Reciprocal cross-holdings in common equity	–			–
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	–			–
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–			–
20	Mortgage servicing rights (amount above 10% threshold)	–			–
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	–			–
22	Amount exceeding the 15% threshold	–			–
23	of which: significant investments in the common stock of financials	–			–
24	of which: mortgage servicing rights	–			–
25	of which: deferred tax assets arising from temporary differences	–			–
26	National specific regulatory adjustments	–			(671)
27	Regulatory adjustments applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	–			–
28	**Total regulatory adjustments to CET1**	(1 154)			1 496
29	**CET1 capital**	92 145			92 439
	ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS				
30	Directly issued qualifying AT1 instruments plus related stock surplus	7 126			7 126
31	of which: classified as equity under applicable accounting standards	7 126		f	7 126
32	of which: classified as liabilities under applicable accounting standards	–			–
33	Directly issued capital instruments subject to phase-out from AT1	–			–
34	AT1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	–			–
35	of which: instruments issued by subsidiaries subject to phase-out	–			–
36	**AT1 capital before regulatory adjustments**	7 126			7 126

* *FRB including foreign branches.*

** *Reference to CC2: Reconciliation of regulatory capital to balance sheet table on page 197.*

CC1: Composition of regulatory capital continued

		FIRSTRAND BANK LIMITED* as at 30 June			
R million		2022	Amounts subject to pre-Basel III treatment	Reference**	2021
ADDITIONAL TIER 1: REGULATORY ADJUSTMENTS					
37	Investments in own AT1 instruments	–			–
38	Reciprocal cross-holdings in AT1 instruments	–			–
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	–			–
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	–			–
41	National specific regulatory adjustments	2 155			2 130
42	Regulatory adjustments applied to AT1 due to insufficient Tier 2 to cover deductions	–			–
43	**Total regulatory adjustments to AT1 capital**	2 155			2 130
44	**AT1 capital**	4 971			4 996
45	**Tier 1 capital (T1 = CET1 + AT1)**	97 116			97 435
TIER 2 CAPITAL: INSTRUMENTS AND PROVISONS					
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	20 401			18 427
47	Directly issued capital instruments subject to phase-out from Tier 2	–			–
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	–			–
49	of which: Instruments issued by subsidiaries subject to phase-out	–			–
50	Provisions	3 628			3 402
51	**Tier 2 capital before regulatory adjustments**	24 029			21 829
TIER 2 CAPITAL: REGULATORY ADJUSTMENTS					
52	Investments in own Tier 2 instruments	–			–
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	–			–
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	–			–
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	–			–
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–			–
56	National specific regulatory adjustments	3 032			2 999
57	**Total regulatory adjustments to Tier 2 capital**	3 032			2 999
58	**Tier 2 capital**	20 997		g	18 830
59	**Total regulatory capital (Tier 1 + Tier 2)**	118 113			116 265
60	**Total RWA**	757 205			717 153
CAPITAL RATIOS AND BUFFERS					
61	**CET1 (as a percentage of RWA)**	12.2%			12.9%
62	**Tier 1 (as a percentage of RWA)**	12.8%			13.6%
63	**Total capital (as a percentage of RWA)**	15.6%			16.2%
64	Institution-specific buffer requirement (capital conservation buffer plus CCyB requirements plus higher loss absorbency requirement, expressed as a percentage of RWA)[#]	8.5%			8.0%
65	of which: capital conservation buffer requirement	2.5%			2.5%
66	of which: bank-specific CCyB requirement[†]	0.0%			0.0%
67	of which: D-SIB buffer requirement[‡]	1.0%			1.0%
68	CET1 (as a percentage of RWA) available after meeting the bank's minimum capital requirements	2.1%			3.6%
NATIONAL MINIMA (IF DIFFERENT TO BASEL III)					
69	National CET1 minimum ratio	8.5%			8.0%
70	National Tier 1 minimum ratio	10.8%			10.0%
71	National total capital minimum ratio	13.0%			12.0%

* FRB including foreign branches.
** Reference to CC2: Reconciliation of regulatory capital to balance sheet table on page 197.
\# Including CET1 minimum and institution-specific buffer requirements.
† FRB's CCyB requirement is nil for June 2022.
‡ The total D-SIB requirement is 1.5%, of which CET1 is 1.0%.

CC1: Composition of regulatory capital continued

		FIRSTRAND BANK LIMITED* as at 30 June			
R million		2022	Amounts subject to pre-Basel III treatment	Reference**	2021
AMOUNTS BELOW THE THRESHOLD FOR DEDUCTIONS (BEFORE RISK WEIGHTING)					
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	**121**			197
73	Significant investments in the common stock of financial entities	**143**			430
74	Mortgage servicing rights (net of related tax liability)				
75	Deferred tax assets arising from temporary differences (net of tax liability)	**6 503**		h	4 299
APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2					
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	**788**			1 189
77	Cap on inclusion of provisions in Tier 2 under standardised approach	**416**			398
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	**5 219**			6 197
79	Cap for inclusion of provisions in Tier 2 under IRB approach	**3 212**			3 004
CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2018 AND 1 JAN 2022)					
80	Current cap on CET1 instruments subject to phase-out arrangements				
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)				
82	Current cap on AT1 instruments subject to phase-out arrangements	**–**			–
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	**–**			–
84	Current cap on Tier 2 instruments subject to phase-out arrangements	**–**			–
85	Amount excluded from Tier 2 due to cap (excess over cap after redemptions and maturities)	**–**			–

* *FRB including foreign branches.*
** *Reference to CC2: Reconciliation of regulatory capital to balance sheet table on page 197.*

CC2: Reconciliation of regulatory capital to balance sheet

The table below highlights the differences between the scope of accounting and regulatory consolidation. It also links the bank's published statement of financial position and the CC1 composition of regulatory capital disclosure template.

	FIRSTRAND BANK LIMITED* as at 30 June 2022		
R million	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference**
ASSETS			
Cash and cash equivalents	104 625	104 625	
Derivative financial instruments	61 674	61 674	
Commodities	17 580	17 580	
Investment securities	278 879	278 879	
Advances	944 087	944 087	
– Advances to customers	871 338	871 338	
– Marketable advances	72 749	72 749	
Other assets	5 789	5 789	
Current tax asset	125	125	
Amounts due by holding company and fellow subsidiaries	70 753	70 753	
Property and equipment	16 333	16 333	
Intangible assets	512	512	d
Investment properties	249	249	
Deferred income tax asset	6 741	6 741	
Relating to temporary differences		6 503	h
Other than temporary differences		238	e
Total assets	1 507 347		
EQUITY AND LIABILITIES			
Liabilities			
Short trading positions	14 183	14 183	
Derivative financial instruments	70 284	70 284	
Creditors, accruals and provisions	18 899	18 899	
Deposits	1 220 026	1 220 026	
Employee liabilities	11 684	11 684	
Other liabilities	5 258	5 258	
Amounts due to holding company and fellow subsidiaries	32 900	32 900	
Tier 2 liabilities	20 433	20 997	g
Total liabilities	1 393 667		
Equity			
Ordinary shares	4	4	a
Share premium	16 804	16 804	a
Reserves	89 746	74 183	
– Retained earnings		74 265	b#
– Accumulated other comprehensive income (and other reserves)		(82)	c
Capital and reserves attributable to ordinary equityholders	106 554		
Other equity instruments	7 126	7 126	f
Total equity	113 680		
Total equity and liabilities	1 507 347		

* *FRB including foreign branches.*
** *Reference to CC1: Composition of regulatory capital table on page 194.*
\# *Excluding unappropriated profits.*
Note: Greyed-out cells not applicable or information not available.

OV1: Overview of RWA

The following table provides an overview of RWA per risk type for the bank.

		FIRSTRAND BANK LIMITED*			
		RWA			Minimum capital requirement**
R million		As at 30 June 2022	As at 31 March 2022	As at 30 June 2021	As at 30 June 2022
1.	**Credit risk (excluding counterparty credit risk)#**	**540 052**	518 492	502 719	**70 206**
2.	– Standardised approach	**31 073**	27 502	28 554	**4 039**
5.	– AIRB approach	**508 979**	490 990	474 165	**66 167**
16.	**Securitisation exposures in banking book**	**5 123**	5 759	7 305	**666**
17.	– IRB approach	**–**	–	–	**–**
18.	– IRB supervisory formula approach	**1 887**	1 901	2 029	**245**
19.	– Standardised approach/simplified supervisory formula approach	**3 236**	3 858	5 276	**421**
	Total credit risk	**545 175**	524 251	510 024	**70 872**
6.	**Counterparty credit risk†**	**14 042**	16 149	12 233	**1 825**
7.	– SA-CCR	**14 042**	16 149	12 233	**1 825**
10.	**Credit valuation adjustment**	**9 427**	7 848	10 328	**1 226**
11.	**Equity positions in banking book under market-based approach**	**1 651**	1 685	2 888	**215**
12.	**Equity investments in funds – look-through approach**	**–**	–	–	**–**
13.	**Equity investments in funds – mandate-based approach**	**104**	183	497	**14**
14.	**Equity investments in funds – fall-back approach**	**270**	275	–	**35**
15.	**Settlement risk**	**–**	–	–	**–**
20.	**Market risk‡**	**23 938**	21 785	26 586	**3 112**
21.	– Standardised approach	**5 243**	5 805	9 111	**682**
22.	– Internal model approach	**18 695**	15 980	17 475	**2 430**
24.	**Operational risk**	**98 205**	97 392	95 575	**12 767**
	– Basic indicator approach	**–**	–	–	**–**
	– Standardised approach	**2 990**	3 333	4 005	**389**
	– Advanced measurement approach	**95 215**	94 059	91 570	**12 378**
25.	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**16 615**	12 223	11 823	**2 160**
26.	**Floor adjustment**	**25 001**	24 069	25 159	**3 250**
	Other assets	**22 777**	24 499	22 040	**2 961**
27.	**Total**	**757 205**	730 359	717 153	**98 437**

* *FRB including foreign branches.*

** *Capital requirement calculated at 13% (2021: 12%) of RWA. The minimum requirement excludes the confidential individual capital requirement (Pillar 2B). The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A, CCyB, capital conservation and the D-SIB as prescribed in the Regulations.*

\# *The bank does not apply the foundation internal ratings-based and the supervisory slotting approaches (rows 3 and 4 of OV1 template).*

† *The bank does not apply the internal model method to counterparty credit risk (row 8 of OV1 template) and there were no other CCRs (row 9 of OV1 template).*

‡ *There were no switches between trading and banking book during the period under review (row 23 of OV1 template).*

LR1: Summary comparison of accounting assets vs leverage ratio exposure measure*

R million		As at 30 June 2022 FIRSTRAND LIMITED	As at 30 June 2022 FIRSTRAND BANK LIMITED**
1	Total consolidated assets as per published financial statements	2 004 402	1 507 347
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(9 007)	–
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	–	–
4	Adjustments for derivative financial instruments	(31 553)	(36 911)
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	2 188	2 188
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	105 237	89 012
7	Other adjustments	(12 571)	(3 672)
8	**Leverage ratio exposure**	2 058 696	1 557 964

* *Based on month-end balances.*

** *FRB including foreign branches.*

LR2: Leverage ratio common disclosure template*

R million		FIRSTRAND LIMITED As at 30 June 2022	FIRSTRAND LIMITED As at 31 March 2022	FIRSTRAND BANK LIMITED** As at 30 June 2022	FIRSTRAND BANK LIMITED** As at 31 March 2022
On-balance sheet exposures					
1	On-balance sheet exposures (excluding derivatives and SFTs, but including collateral)	1 906 829	1 828 376	1 388 987	1 343 286
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(60 289)	(57 844)	(39 160)	(37 347)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	1 846 540	1 770 532	1 349 827	1 305 939
Derivative exposures*					
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	16 357	9 351	20 159	14 658
5	Add-on amounts for potential future exposure associated with all derivatives transactions	15 391	14 414	16 265	15 576
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	–	–	–
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–	–	–	–
8	(Exempted CCP leg of client-cleared trade exposures)	–	–	–	–
9	Adjusted effective notional amount of written credit derivatives	6 940	5 506	6 940	5 506
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(4 574)	(3 215)	(4 574)	(3 215)
11	**Total derivative exposures (sum of lines 4 to 10)**	34 114	26 056	38 790	32 525
Securities financing transaction exposures*					
12	Gross SFT assets (with no recognition of netting), after adjusting for sale-accounting transactions	70 617	106 792	78 148	113 523
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–	–	–
14	CCR exposure for SFT assets	2 188	1 931	2 188	1 931
15	Agent transaction exposures	–	–	–	–
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	72 805	108 723	80 336	115 454
Other off-balance sheet exposures					
17	Off-balance sheet exposure at gross notional amount	457 807	442 185	418 050	400 406
18	(Adjustments for conversion to credit equivalent amounts)	(352 570)	(342 614)	(329 039)	(318 047)
19	**Off-balance sheet items (sum of lines 17 and 18)**	105 237	99 571	89 011	82 359
Capital and total exposures					
20	Tier 1 capital	144 229	133 397	97 116	96 804
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	2 058 696	2 004 882	1 557 964	1 536 277
Leverage ratio					
22	**Basel III leverage ratio**	7.0%	6.7%	6.2%	6.3%

* *Based on month-end balances.*

** *FRB including foreign branches.*

LIQ1: Liquidity coverage ratio

The table below provides a breakdown of the group and bank's available HQLA, cash outflows and cash inflows, as measured and defined according to the LCR standards.

		FIRSTRAND LIMITED*		FIRSTRAND BANK LIMITED SOUTH AFRICA*	
	R million	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
	HIGH-QUALITY LIQUID ASSETS				
1	Total HQLA		392 337		303 744
	CASH OUTFLOWS				
2	Retail deposits and deposits from small business customers, of which:	503 294	43 289	333 691	33 369
3	Stable deposits	104 717	3 431	–	–
4	Less stable deposits	398 577	39 858	333 691	33 369
5	Unsecured wholesale funding, of which:	577 795	287 491	499 702	244 648
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	172 831	43 208	159 120	39 780
7	Non-operational deposits (all counterparties)	399 071	238 390	334 551	198 837
8	Unsecured debt	5 893	5 893	6 031	6 031
9	Secured wholesale funding		2 718		2 718
10	Additional requirements, of which:	290 542	45 987	268 031	43 008
11	Outflows related to derivative exposures and other collateral requirements	15 819	15 824	14 685	14 690
12	Outflows related to loss of funding on debt products	78 305	3 915	77 754	3 888
13	Credit and liquidity facilities	196 418	26 248	175 591	24 430
14	Other contractual funding obligations	–	–	–	–
15	Other contingent funding obligations	233 941	9 201	212 226	8 213
16	TOTAL CASH OUTFLOWS		388 686		331 956
	CASH INFLOWS				
17	Secured lending (e.g. reverse repos)	4 578	4 344	2 492	2 258
18	Inflows from fully performing exposures	127 691	108 547	93 487	80 241
19	Other cash inflows	4 937	4 548	4 687	4 310
20	TOTAL CASH INFLOWS	137 206	117 439	100 666	86 809
			TOTAL ADJUSTED VALUE		TOTAL ADJUSTED VALUE
21	**Total HQLA****		341 208		303 744
22	**Total net cash outflows#**		281 888		245 147
23	**Liquidity coverage ratio (%)†**		121%		124%

* *The consolidated LCR for the group (FirstRand) includes FRB, and all other banking subsidiaries. FRB's LCR reflects its operations in South Africa.*

** *The weighted values have been calculated after the application of the respective haircuts for HQLA outflows and inflows. The surplus HQLA holdings by subsidiaries and foreign branches in excess of the minimum required LCR, which is not considered as fully transferable, has been excluded in the calculation of the consolidated LCR for the group.*

\# *The regulatory cap on inflows is applied per entity and is reflected in total net cash outflow. The total cash inflow balance is prior to the application of the cap.*

† *The group LCR is calculated as a simple average of 91 days of daily observations over the period ended 30 June 2022 for FRBSA, the London Branch, FNB Botswana and FNB Namibia. The remaining banking entities, including Aldermore, and the India and FNB Channel Island branches are based on the quarter-end values. The FRBSA LCR is calculated as a simple average of 91 days of daily observations over the period ended 30 June 2022 for FRBSA.*

LIQ2: Net stable funding ratio

The table below provides a breakdown of the bank's available stable funding and required stable funding components, as measured and defined according to the NSFR standards.

		FIRSTRAND BANK LIMITED SOUTH AFRICA*				
		a	b	c	d	e
		Unweighted value by residual maturity				
R million		No maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value**
ASF item						
1	Capital:	**110 367**	**–**	**–**	**8 197**	**118 564**
2	Regulatory capital	110 367	–	–	8 197	118 564
3	Other capital instruments	–	–	–	–	–
4	Retail deposit and deposits from small business customers:	**165 787**	**225 484**	**11 953**	**17 290**	**380 192**
5	Stable deposits	–	–	–	–	–
6	Less stable deposits	165 787	225 484	11 953	17 290	380 192
7	Wholesale funding	**251 621**	**363 012**	**39 284**	**150 231**	**435 939**
8	Operational deposits	183 999	–	–	–	92 000
9	Other wholesale funding	67 622	363 012	39 284	150 231	343 939
10	Liabilities with matching interdependent assets	**–**	**–**	**–**	**–**	**–**
11	Other liabilities:	**22 351**	**23 213**	**–**	**16 080**	**9 374**
12	NSFR derivative liabilities		–	–	14 873	
13	All other liabilities and equity not included in the above categories	22 351	23 213	–	1 207	9 374
14	**Total ASF**					944 069
RSF item						
15	Total NSFR HQLA					**30 281**
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					**665 605**
18	Performing loans to financial institutions secured by Level 1 HQLA	–	62 842	755	6 536	13 198
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	54 846	7 846	81 853	94 003
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities, of which:	–	80 922	52 943	335 114	351 780
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	–	–	–	–	–
22	Performing residential mortgages, of which:	–	5 518	4 539	215 574	147 197
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	–	5 419	4 451	205 347	138 410
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	4 396	3 468	6 849	59 450	59 427
25	Assets with matching interdependent liabilities					
26	Other assets:					**69 795**
27	Physically traded commodities, including gold	17 580				14 943
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		–	–	27 294	19 363
29	NSFR derivative assets		–	–	8 300	–
30	NSFR derivative liabilities before deduction of variation margin posted		–	–	18 571	1 857
31	All other assets not included in the above categories		–	–	33 632	33 632
32	Off-balance sheet items		**466 255**			**19 552**
33	**Total RSF**					785 233
34	**Net stable funding ratio (%)**					120%

* *The NSFR is calculated as at the month ended 30 June 2022 for FRB's operations in South Africa.*
** *The weighted values have been calculated after the application of the respective haircuts for ASF and RSF as defined by the PA.*

IQ2: NET STABLE FUNDING RATIO continued

LIQ2: Net stable funding ratio

The table below provides a breakdown of the bank's available stable funding and required stable funding components, as measured and defined according to the NSFR standards.

		FIRSTRAND LIMITED*				
		a	b	c	d	e
		Unweighted value by residual maturity				
R million		No maturity	< 6 months	6 months to < 1 year	>= 1 year	Weighted value**
ASF item						
1	Capital:	155 790	–	–	10 210	165 999
2	Regulatory capital	155 790	–	–	10 210	165 999
3	Other capital instruments	–	–	–	–	–
4	Retail deposit and deposits from small business customers:	180 085	441 910	38 902	42 266	641 865
5	Stable deposits	–	81 558	14 274	15 296	106 336
6	Less stable deposits	180 085	360 352	24 628	26 970	535 529
7	Wholesale funding	282 985	403 643	58 239	185 991	520 751
8	Operational deposits	183 999	–	–	–	92 000
9	Other wholesale funding	98 986	403 643	58 239	185 991	428 751
10	Liabilities with matching interdependent assets					
11	Other liabilities:	31 870	27 050	1 469	21 487	17 925
12	NSFR derivative liabilities		–	–	15 320	
13	All other liabilities and equity not included in the above categories	31 870	27 050	1 469	6 167	17 925
14	**Total ASF**					1 346 540
RSF item						
15	Total NSFR HQLA					36 767
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					954 816
18	Performing loans to financial institutions secured by Level 1 HQLA	–	66 323	1 514	12 638	20 027
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	–	38 116	15 867	133 668	147 318
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	–	126 449	69 530	426 550	460 557
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	–	–	–	–	–
22	Performing residential mortgages, of which:	–	7 647	6 852	356 063	265 175
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	–	7 177	6 371	330 222	242 734
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	4 396	5 774	7 341	60 523	61 739
25	Assets with matching interdependent liabilities					
26	Other assets:					80 153
27	Physically traded commodities, including gold	17 580				14 943
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		–	–	27 294	19 363
29	NSFR derivative assets		–	–	13 191	–
30	NSFR derivative liabilities before deduction of variation margin posted		–	–	19 179	1 918
31	All other assets not included in the above categories		–	–	43 929	43 929
32	Off-balance sheet items		560 569			21 715
33	**Total RSF**					1 093 451
34	**Net stable funding ratio (%)**					123%

* *The NSFR is calculated as at the month ended 30 June 2022 for FRB operations in South Africa and all registered banks and foreign branches within the group.*
** *The weighted values have been calculated after the application of the respective haircuts for ASF and RSF as defined by the PA.*

Index of Pillar 3 disclosure templates and regulation 43

The following table provides a list of the Pillar 3 standard and Regulation 43 disclosure requirements and the respective page numbers where the information is provided in this disclosure.

Definitions

Additional Tier 1 (AT1) capital	AT1 capital instruments and qualifying capital instruments issued out of fully consolidated subsidiaries to third parties less specified regulatory deductions
Common Equity Tier 1 (CET1) capital	Share capital and premium, qualifying reserves and third-party capital less specified regulatory deductions
Credit loss ratio	Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year)
Exposure at default (EAD)	Gross exposure of a facility upon default of a counterparty
FRBSA	FRB excluding foreign branches
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default
Net income after cost of capital (NIACC)	Normalised earnings less the cost of equity multiplied by the average ordinary shareholders' equity and reserves
Probability of default (PD)	Probability that a counterparty will default within the next year (considering the ability and willingness of the counterparty to repay)
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders' equity
Risk-weighted assets (RWA)	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets
Tier 1 ratio	Tier 1 capital divided by RWA
Tier 1 capital	CET1 capital plus AT1 capital
Tier 2 capital	Qualifying subordinated debt instruments, capital instruments issued out of fully consolidated subsidiaries to third parties and provisions less specified regulatory deductions
Total qualifying capital and reserves	Tier 1 capital plus Tier 2 capital

Abbreviations

ABC	Anti-bribery and corruption
ABF	Asset-based finance
AIRB	Advanced internal ratings-based
ALCCO	Asset-liability and capital committee
ALM	Asset-liability management
AMA	Advanced measurement approach
AML/CFT	Anti-money laundering and combating the financing of terrorism
ASF	Available stable funding
AT1	Additional Tier 1
BASA	Banking Association of South Africa
BCBS	Basel Committee on Banking Supervision
BEPS	Base erosion and profit shifting
BIA	Basic indicator approach
BIS	Bank of International Settlements
C&I	Corporate and institutional
CCF	Credit conversion factors
CCP	Central clearing counterparties
CCR	Counterparty credit risk
CCyB	Countercyclical buffer
CET1	Common Equity Tier 1
CMA	Common Monetary Area
CoDI	Corporation for Deposit Insurance
CoFi Bill	Conduct of Financial Institution Bill
CRM	Credit risk mitigation
CRO	Chief Risk Officer
CRS	Common Reporting Standard
CSA	Credit support annexes
CVA	Credit valuation adjustment
DBRS	DBRS Ratings Limited
DIS	Deposit insurance scheme
D-SIB	Domestic systemically important bank
EAD	Exposure at default
EC	Economic capital

ECAI	External credit assessment institution
ECL	Expected credit loss
EEPE	Effective expected positive exposure
EL	Expected loss
EMTN	European medium-term note
ERM	Enterprise Risk Management
ETL	Expected tail loss
EVE	Economic value of equity
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FBA	Fall-back approach
FICA	Financial Intelligence Centre Act
Flac	First loss after capital
FRB	FirstRand Bank Limited
FRBSA	FirstRand Bank Limited South Africa
FREMA	FirstRand EMA Holdings
FRGT	FirstRand Group Tax
FRI	FirstRand International Limited
FRIHL	FirstRand Investment Holdings (Pty) Ltd
FRISCOL	FirstRand Insurance Services Company
FRM	Financial resource management
FRTB	The fundamental review of the trading book
FSB	Financial Stability Board
FSCA	Financial Sector Conduct Authority
FSLAA	Financial Sector Laws Amendment Act 23 of 2022
GCR	Global Credit Ratings
GDPR	General Data Protection Regulations
GIA	Group Internal Audit
goAML	Anti-money laundering system
G-SIB	Global systemically important bank
HQLA	High-quality liquid assets
IAA	Internal assessment approach
IBOR	Interbank offered rate

ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standards
IMA	Internal models approach
IRB	Internal ratings-based
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
JIBAR	Johannesburg Interbank Average Rate
LCR	Liquidity coverage ratio
LECL	Lifetime expected credit losses
LGD	Loss given default
LIBOR	London Interbank Offered Rate
LTA	Look-through approach
LTV	Loan to value
MBA	Mandate-based approach
MER	Mutual evaluation report
MIRC	Market and investment risk committee
MPIF	Monetary policy implementation framework
MRVC	Model risk and validation committee
MVNO	Mobile virtual network operator
NAV	Net asset value
NCA	National Credit Act
NCNR	Non-cumulative non-redeemable
NIACC	Net income after cost of capital
NII	Net interest income
NIR	Non-interest revenue
NPLs	Non-performing loans
NSFR	Net stable funding ratio
OECD	Organisation for Economic Cooperation and Development
ORSA	Own risk and solvency assessment
OTC	Over-the-counter
PA	Prudential Authority
PD	Probability of default
PoPIA	Protection of Personal Information Act

PVA	Prudent valuation adjustments
RBA	Ratings-based approach
RCCC	Risk, capital management and compliance committee
RDARR	Risk data aggregation and risk reporting
ROE	Return on equity
RSF	Required stable funding
RW	Risk-weighted
RWA	Risk-weighted assets
S&P	S&P Global Ratings
SA-CCR	Standardised approach for measuring counterparty credit risk
SAM	Solvency assessment and management
SARB	South African Reserve Bank
SARS	South African Revenue Service
SETCOM	Social, ethics and transformation committee
SFA	Supervisory formula approach
SFT	Securities financing transaction
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
SPV	Special purpose vehicle
SSFA	Simplified supervisory formula approach
STI	Short Term Insurance
sVaR	Stressed VaR
TCFD	Task Force on Climate-related Financial Disclosures
TLAC	Total loss-absorbing capacity
TSA	The standardised approach for operational risk
VAF	Vehicle asset finance
VAPS	Value-added products and services
VaR	Value-at-Risk

FirstRand

WWW.FIRSTRAND.CO.ZA