FirstRand Bank Holdings

Basel II Pillar 3 Disclosure

for the six months ended 31 December 2008

FirstRand Bank Holdings Limited

CONTENTS

1 EXECUTIVE SUMMARY

This is the risk and capital management report of FirstRand Bank Holdings Limited ("FRBH"), a wholly owned subsidiary of FirstRand Limited ("the Group"). FRBH is the regulated banking component of the Group. A simplified diagrammatic representation of the Group is set out on page 47 of this report.

This report deals with the processes and procedures relating to the identification, management, measurement and reporting for the different risk types as well as capital management, and complies with the disclosure requirements of Basel II Pillar 3 for semi annual reporting in accordance with the Banks Act, Act 94 of 1990 and its regulations. The Pillar 3 disclosures in this report have been internally verified by the Group's governance processes. The semi annual disclosures are not subject to external verification, and as such, have not been audited.

The capital management section of this report includes an overview for the six months under review, capital adequacy ratios and economic capital. The risk management section of this report includes an overview of FRBH's business philosophy, risk governance, risk management framework, risk appetite, risk categories and stress testing. For its risk exposures, the report outlines the policies and procedures to manage and measure the financial and operational risks of FRBH.

A brief overview of capital management and the most important risks are presented below. For more detail on these as well as information on the risk types not covered in the executive summary, please refer to the main body of the report.

Capital management summary

In June 2008 the targeted capital ratios for both FRBH and FirstRand Bank Limited ("FRB" or "the Bank') were increased and the new levels have been achieved. FRBH targets a Tier 1 ratio of 10%, up from 9.25%, well above the regulatory minimum of 7%. The actual Tier 1 ratio for FRBH was a very solid 11.08%. FRB is also above the new Tier 1 target of 9.5%, at 9.89%. Overall FRB and FRBH are appropriately capitalised under a range of normal and severe scenarios and stress events.

Basel II was implemented at the beginning of 2008 and the effect of procyclicality resulting from this new standard is evidenced in the December 2008 capital ratios. As expected capital ratios have declined marginally during the downturn, we would expect an improvement in more benign times.

Risk management summary

FRBH subscribes to the business philosophy and risk management strategy of the Group. The Group defines risk as any factor which could prevent it from achieving its desired business objectives or result in adverse outcomes, including reputational damage. In line with its business philosophy, the Group recognises that effective risk management and governance is essential to generate sustainable profits, to safeguard its reputation, comply with regulations, create a competitive edge and achieve an optimal risk reward profile.

The major risk types faced by FRBH include strategic and business risk, credit risk, market risk, liquidity risk, interest rate risk in the banking book, operational risk and regulatory risk. For each, the report outlines the definition, governance structures and processes, measurement, management/mitigation and an assessment of the risk.

Credit risk

Credit risk constitutes the most significant risk that FRBH is exposed to, and its contribution to the total regulatory and economic capital requirement of FRBH is the highest of all risk types. Credit risk is managed within FRBH's risk appetite to ensure appropriate capital levels are maintained and that risk is priced for on an individual and portfolio basis.

Credit risk is managed through comprehensive policies and processes that ensure adequate identification, measurement, monitoring, control and reporting of credit risk exposures. The objective is to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement and monitoring through the implementation of adequate risk management controls.

FRB, a subsidiary of FRBH, has been authorised by the South African Reserve Bank ("SARB") to use the Basel II Advanced Internal Ratings Based ("AIRB") approach in its calculations of credit risk regulatory capital. The remaining FRBH subsidiaries use the Standardised Approach ("TSA") for Basel II. The Group Credit Risk Management ("GCRM") function (located within the Enterprise Risk Management ("ERM") division) is responsible for credit risk oversight. The Credit Portfolio Management pillar in the Group's Balance Sheet Management ("BSM") division focuses on the management of the Group's credit portfolio and the risks the portfolio is exposed to.

At the end of December 2008, FRBH's advances totaled R441.6 billion (June 2008: R456 billion), of which R206 billion (46%) was derived from lending activities within First National Bank ("FNB"), and R125.5 billion (28%) from the Group's investment banking activities within Rand Merchant Bank ("RMB"). WesBank's advances totaled R96 billion, representing 22% of FRBH's total advances.

In the period under review, the international credit and liquidity crunch worsened significantly, culminating in governments rescuing and subsequently partly nationalising some of the largest international financial institutions. Global economic growth deteriorated rapidly, with the US, Japan and the UK officially entering a recession.

Although the South African economy was to some extent sheltered from the international economic turmoil, it was not immune to it, particularly with regard to a significant slowdown in exports and a decline in commodity prices. This, together with the high domestic inflation and interest rate environment, contributed to a significant slowdown in GDP, with negative growth of 1.8% being reported in the fourth quarter of 2008. Domestic interest rates remained high during the reporting period, with the first downward adjustment of 50bps occurring on 11 December 2008. These factors negatively impacted asset growth and, combined with falling equity and house prices and lower customer affordability levels, resulted in further increases in bad debt levels, especially in the retail lending franchises. The deteriorating growth outlook for the SA economy has resulted in job losses and the Group is expecting South Africa to enter a recession. The Group expects that the SARB will continue to lower rates, however, affordability levels are expected to remain depressed, resulting in further increases in bad debts and lower advances growth as job losses become a reality. The pressure on the consumer is expected to continue for some time, resulting in further increases in arrears, non performing loans and impairment charges for bad debts. The corporate environment is, however, showing resilience in current market conditions, albeit that there is an increased risk of corporate defaults. The pressure on smaller businesses in the small and medium enterprise ("SME") market has increased due to the economic environment.

For the six months under review, non performing loans ("NPLs") increased to 4.2% from 2.9% at June 2008. The income statement impairment charge on average gross advances increased to 1.68% from 1.28% (June 2008 before taking into account income from credit protection strategies). FRBH manages its credit portfolio actively to minimise the impact of the deteriorating macroeconomic environment. Credit impairment levels are also carefully considered to ensure adequate provisioning levels. Going forward the focus will be on keeping origination strategies in line with risk appetite, and implementing credit portfolio hedges where possible.

Market risk

RMB has approval from the SARB to measure regulatory market risk capital for the local trading book under the internal model approach, while the Standardised Approach is used for all international legal entities. For economic capital measurement, the internal model approach based on a distressed Expected Tail Loss ("ETL") methodology is used for all legal entities, whilst soft Value at Risk ("VaR") triggers indicate that positions need to be reviewed by management. FRBH supplements these measurement techniques with defined stress tests and scenario analyses. The aggregate market risk VaR exposure for the trading book exposure increased from R326.1 million at 30 June 2008 to R372.4 million at 31 December 2008. The VaR risk measure estimates the potential loss over a 10 day holding period at a 99% confidence level.

RMB incurred significant losses of approximately R335 million following the collapse of Dealstream Securities (Proprietary) Limited ("Dealstream"), a futures clearing client, during the period. These losses consist of bad debt impairments of R219 million in respect of margin call claims against Dealstream and mark to market losses of R116 million on the portfolio it took over from Dealstream. Due to market liquidity constraints and the relative size of the holdings, three large investments in the portfolio, Vox Telecoms Limited (R318 million), Simmers & Jack Mines Limited (R359 million) and Control Instruments Limited (R51 million) were retained. These investments are held in RMB's private equity portfolio, and as a result of the significant shareholding in and influence over these companies, RMB will account for them as associates in terms of International Financial Reporting Standards ("IFRS"), consistent with its treatment of other investments of similar size and nature.

Liquidity risk

For the six months under review, FRBH complied with Basel II principles relating to liquidity risk and funding management. FRBH has a diversified funding mix by term, source and product to protect the Group against concentration risk and to mitigate possible market disruptions. To protect the balance sheet against a stress event, liquidity buffers (in excess of the statutory requirements) have been accumulated. FRBH continues to maintain these buffers and actively manages and monitors these portfolios. Enhancements have been made to the measurement and analytical processes, applying best practice principles to international standards. Risks arising from the off balance sheet activities are captured by the liquidity risk management, measurement and stress testing processes.

Interest rate risk in the banking book

In line with the objective to protect and enhance FRBH's balance sheet and income statement, interest rate risk in the banking book is managed from an earnings approach over a specified horizon. Changes to economic value are also monitored and managed within defined risk tolerance levels. The net interest rate profile is adjusted by changing the profile of liquid assets or through transactions in derivative instruments. The desired profile is based on FRBH's interest rate outlook with reference to other risk factors impacting the balance sheet, most notably credit risk.

The natural position of the banking book remains asset sensitive (positively gapped), since interest earning assets reprice sooner than interest paying liabilities, making the projected net interest income ("NII") vulnerable to a drop in interest rates. Projected 12 month NII would decline by 7.28% for a 200bps instantaneous, parallel downward shift in the yield curve (assuming no management intervention to mitigate the impact of the changes in the level of interest rates).

Operational risk

FRBH obtained approval from the SARB to use the Advanced Measurement Approach ("AMA") for operational risk in accordance with Basel II and SARB requirements for its South African operations defined as the Bank or FRB from 1 January 2009. All other banking subsidiaries and foreign operations will remain on the Basel II Standardised Approach ("TSA") for calculating operational risk capital for internal capital allocation as well as regulatory purposes. The AMA represents a more sophisticated operational risk quantification and capital calculation methodology and is currently being implemented across the Bank. For the six months ended 31 December 2008 only the TSA approach was used to calculate and determine the minimum operational risk capital for FRBH.

Independent monitoring of operational risk occurs through a number of functions within the Group's ERM division, including business continuity management, legal, information risk services, forensic services and operational risk governance.

2 CAPITAL MANAGEMENT

Management aims to produce solid returns to the Group's shareholders while maintaining sound capital ratios and a strong credit rating – all against the backdrop of an efficient capital structure with limited excess.

The optimal level of capital is achieved after taking into account business units' organic growth requirements – provided financial targets are met – as well as expectations of investors, considerations of rating agencies, targeted capital ratios, future business plans, issuance and buffers.

FRBH's targeted return on invested shareholders' capital is 10% above the weighted average cost of capital and FRBH constantly monitors whether this target is being met by the business units. In December 2008 the return on capital is below the targeted level. In June 2008 the board decided that it would not be appropriate to provide short or medium term targets, and unfortunately the continued financial uncertainty does not allow the reinstatement of those targets at this time. Instead FRBH continues to operate within limits set for risk appetite, earnings volatility and variability in return on capital above weighted average cost of capital.

In FRBH the focus remains on core capital, or normalised net asset value, which it believes is the core of measuring strength, performance and capital requirements. Basel II was implemented at the beginning of 2008 and the effect of procyclicality resulting from this new standard is evident in the December 2008 capital ratios. As expected capital ratios have declined marginally during the downturn, we would expect an improvement in more benign times.

In June 2008 the targeted capital ratios for both FRBH and FRB were increased and the new levels have been achieved. FRBH targets a Tier 1 ratio of 10%, up from 9.25%, and well above the regulatory minimum of 7%. The actual Tier 1 ratio for FRBH was a very solid 11.08%. FRB is also above the new Tier 1 target of 9.5%, at 9.89%. Overall FRB and FRBH are appropriately capitalised under a range of normal and severe scenarios and stress events.

FRBH's key ratios are set out below.

	At 31 December		At 30 June
R million	**2008**	2007	2008
Capital adequacy			
Capital adequacy ratio: FRBH	**13.0**	13.8	13.8
	Basel II	Basel I	Basel II
Breakdown of capital			
Core equity (%)	**74.1**	74.9	73.7
Non cumulative non redeemable preference shares (%)	**6.3**	7.2	6.4
Debt instruments (%)	**19.6**	17.9	19.9
	100.0	100.0	100.0

Dividends

The total capital plan includes a dividend policy, which is set in order to ensure sustainable dividend cover based on sustainable normalised earnings – after taking into account volatile earnings brought on by fair value accounting, anticipated earnings yield on capital employed, organic growth requirements and a safety margin for unexpected fluctuations in business plans. In the prevailing uncertain environment FRBH would prefer to maintain capital ratios at the upper end of the band despite the effects of procyclicality tending to lower ratios in the credit down cycle.

The six months under review

As the credit cycle deteriorates, the procyclicality of capital introduced by Basel II is evident. Despite a decline in assets, the deteriorating credit conditions led to an increase in Risk Weighted Assets ("RWA") in FRB and hence capital usage. This is further amplified in the capital ratios through the inclusion of the expected loss over eligible provisions impairment. This is effectively a forward looking provision for credit losses carried in capital (split 50:50 between Tier 1 and Tier 2). The expected loss over eligible provisions impairment has increased to R2.1 billion at 31 December 2008.

A decision was taken on 17 November 2008 by the FRBH board to early exercise the option to convert the FRB1999 debentures to ordinary shares. The original conversion was set for June 2009. This conversion improved the Tier 1 ratio for FRB, and reduced the Tier 2 ratio, therefore neutral on FRB's total capital adequacy.

Although access to debt markets continues, the current pricing of Tier 2 instruments is unattractive and no new instruments were issued during the period.

Capital adequacy ratios

The registered banks in FRBH must comply with the SARB regulations and those of their home regulators. Capital adequacy is measured via three risk based ratios; Core Tier 1 capital, Tier 1 capital and Total capital.

The Banks Act requires FRBH to maintain a minimum level of capital based on its risk weighted assets. These minimum requirements are a Tier 1 capital ratio of 7.0% and a Total capital ratio of 9.5% (excluding the Pillar 2b add on). FRBH and FRB have always held Tier 1 capital and Total capital well in excess of these required ratios.

The next table shows the composition of regulatory capital for FRBH and FRB at 31 December 2008.

Composition of regulatory capital

	At 31 December 2008	
R million	FRBH	FRB*
Tier 1		
Ordinary share capital and share premium	5 672	10 294
Minority interest	1 930	–
Non redeemable non cumulative preference shares	3 100	3 000
Reserves	32 536	18 123
Less: Total impairments	(3 230)	(1 741)
Excess of expected loss over eligible provisions (50%)	(1 055)	(1 055)
First loss credit enhancements in respect of securitisation structures (50%)	(262)	(13)
Goodwill and other intangible assets	(1 146)	(150)
Other impairments	(767)	(523)
Total Tier 1 capital	**40 008**	**29 676**

	At 31 December 2008	
R million	FRBH	FRB*
Tier 2		
Upper Tier 2 instruments	1 068	1 068
Tier 2 subordinated debt instruments	6 911	6 055
Other reserves	160	–
Less: Total impairments	(1 317)	(1 068)
Excess of expected loss over eligible provisions (50%)	(1 055)	(1 055)
First loss credit enhancement provided in respect of securitisation scheme (50%)	(262)	(13)
Total Tier 2 capital	**6 822**	**6 055**
Total qualifying capital and reserves	**46 830**	**35 731**

Risk weighted assets by risk type

	At 31 December 2008	
R million	FRBH	FRB*
Credit risk	245 336	211 196
Operational risk	61 696	47 435
Market risk	12 689	6 272
Equity investment risk	24 624	20 609
Other risk	16 840	14 513
Total risk weighted assets	**361 185**	**300 025**

* *Reflects solo supervision, i.e. FRB excluding branches, subsidiaries and associates.*

Under Basel II, risk weighted assets for each risk type is calculated as indicated in the table below.

Risk type	FRB	Other regulated entities
Credit risk	Advanced Internal Ratings Based approach	Standardised approach
Operational risk*	Standardised approach	Standardised approach
Market risk	Internal model approach	Standardised approach

* *Approval for the Advanced Measurement Approach has been obtained from the SARB, with implementation expected in January 2009.*

Targeted ratios

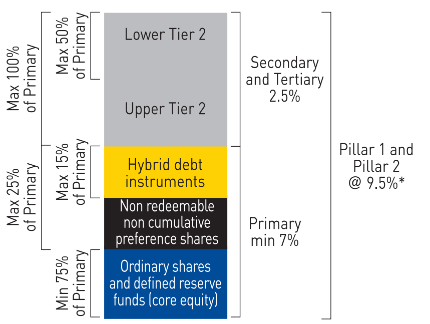
The total capital adequacy ratios for FRBH and FRB are within the target range as shown below. The Core Tier 1 ratios exceeded the respective targets. FRBH and FRB aim to remain within the targeted range during upturns and downturns.

	At 31 December 2008				
	FRBH		FRB**		
%	Actual	Target	Actual	Target	Regulatory minimum
Capital adequacy ratio	12.97	12.0 –13.5	11.91	11.5 – 13.0	9.50*
Tier 1 ratio	11.08	10.00	9.89	9.50	7.00
Core Tier 1 ratio	10.22	8.25	8.89	7.75	5.25
Perpetual preference shares as a % of Tier 1	7.75		10.11		<25
Tier 2 subordinated debt as % of Tier 1	17.27		20.40		<50

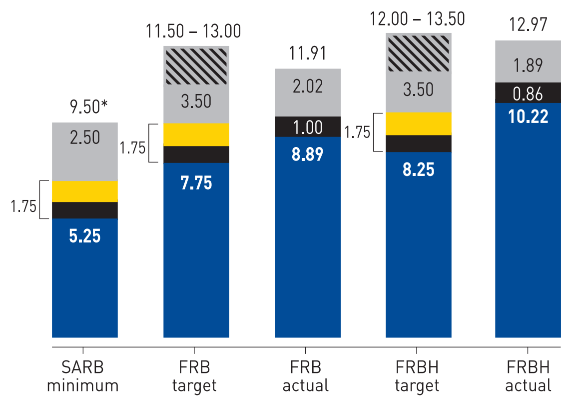
* *The regulatory minimum excludes bank specific (Pillar 2b) add on.*
** *Ratios above exclude the unappropriated profits of R951 million for FRB on 31 December 2008.*

The graphs below depict the current capital adequacy position:

Minimum capital adequacy



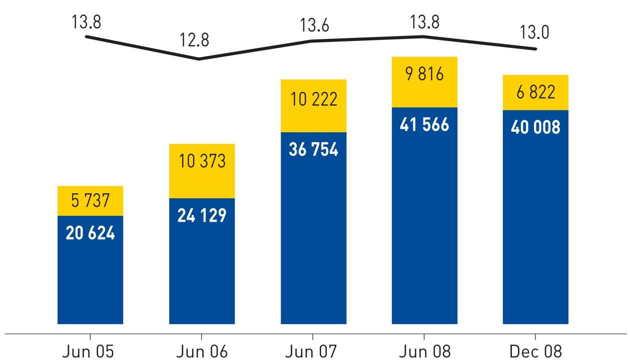
Capital adequacy
(%)



* *Excludes bank specific (Pillar 2b) add on.*

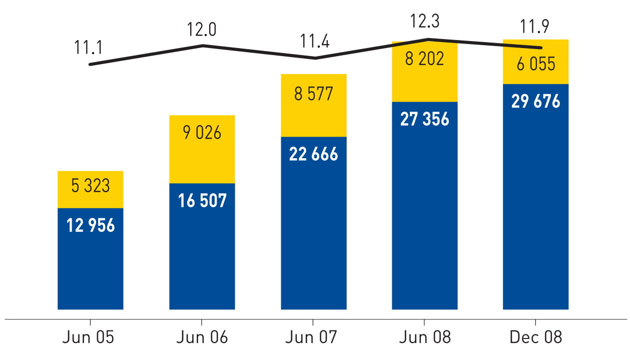
The graphs below indicate the regulatory capital position of FRBH and FRB*

FRBH



Tier 1 capital (R million)
Tier 2 capital (R million)
Capital adequacy (%)

FRB



Tier 1 capital (R million)
Tier 2 capital (R million)
Capital adequacy (%)

* *June 2007 and prior years reflect Basel I, while June and December 2008 are based on Basel II.*

The capital adequacy position of FRBH and its subsidiaries is set out below.

	At 31 December 2008	
R million	Risk weighted assets	Capital adequacy %
Basel II		
FRBH	361 185	12.97
FirstRand Bank Limited (South Africa)	300 025	11.91
FirstRand Bank UK (London Branch)	2 323	18.53
FirstRand (Ireland) PLC	14 231	18.31
RMB Australia Holdings Limited	5 673	15.78
Basel I		
FNB (Botswana) Limited	6 366	15.90
FNB (Namibia) Limited	8 050	19.62
FNB (Lesotho) Limited	174	16.10
FNB (Swaziland) Limited	974	23.26
FNB (Moçambique) S.A.	434	18.08

* *Entities operating under Basel II are subject to a minimum capital requirement of 9.5% (excluding the Pillar 2b add on). The Africa subsidiaries currently report under Basel I. These entities also report under Basel II and are included on this basis for the consolidated position of FRBH.*

Economic capital

Economic capital is defined as the capital which FRBH must hold, commensurate with its risk profile under severe stress conditions, to give comfort to third party stakeholders, shareholders, counterparties and depositors, rating agencies and regulators, that it will be able to discharge its obligations to third parties in accordance with an indicated degree of certainty even under stress conditions, and would continue to operate as a going concern entity. The adequacy of the capital base is assessed via economic capital review. FRBH remains well capitalised with current levels of qualifying capital exceeding the economic capital required.

Capital is allocated to business units at the higher of:

- regulatory capital; and
- economic capital.

Both measures include an appropriate buffer.

FRBH's internal capital adequacy assessment process ("ICAAP") framework assists in the attribution of capital to business units in proportion to the risks inherent in their respective businesses, which also drives the optimisation of returns in terms of risk and reward.

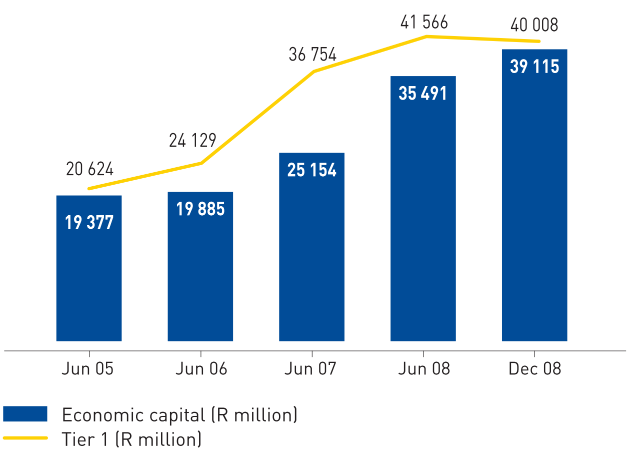
The framework also serves to consistently measure and align economic capital with the underlying risks associated with the activities of each business unit. The capital attribution methodologies involve a number of assumptions and estimates that are revised periodically. Any changes to these factors directly impact other measures such as business units return on average equity and economic profit, or net income after capital charge ("NIACC").

The economic capital allocation methodology is broadly based on the advanced approaches followed under Basel II and takes into account the following risk types (Pillar 1 and Pillar 2):

- Credit risk – the risk of loss due to non performance of a counterparty in respect of any financial or performance obligation due to a deterioration in the financial status of the counterparty;
- Traded market risk – the risk of loss on trading instruments and portfolios due to changes in market prices and rates;
- Equity investment risk – the risk associated with the buying and holding of unlisted and listed shares;
- Operational risk – the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events;
- Interest rate risk in the banking book – the risk of changes in the economic value of assets and liabilities due to changes in interest rates; and
- Business and other residual risks – the risk of loss due to variances in volumes, prices and costs caused by competitive forces, regulatory changes, reputation and strategic risks.

FRBH has consistently backed all economic risk with equity and innovative primary capital instruments, or Tier 1 capital.

Economic capital



3 RISK MANAGEMENT OVERVIEW

Philosophy

FRBH subscribes to the business philosophy and risk management strategy of the Group. The Group defines risk as any factor which could prevent it from achieving its desired business objectives or result in adverse outcomes, including reputational damage. In line with its business philosophy, the Group recognises that effective risk management and governance is essential to generate sustainable profits, safeguard its reputation, comply with regulations, create a competitive edge and achieve an optimal risk reward profile.

The Group's strategy and its day to day operating activities are underpinned by its risk management framework, which is designed to ensure that all risks across all subsidiaries are appropriately managed within the defined and approved risk appetite framework. The board is responsible for oversight of business performance and risk management activities. The Group's ERM function is responsible for independent oversight and driving improvements in risk management. FRBH operates in specific markets that result in particular financial and non financial risks and opportunities. Risk management in FRBH is governed by its own risk management framework.

The Group's business philosophy embodies sustainable business practices and good corporate governance. The values espoused in this philosophy include the importance of being a good corporate citizen, integrity, individual empowerment and personal accountability. In support of accountability, all employees of the Group subscribe to the code of ethics which forms part of the Group's Board Charter. Adherence to the code of ethics is a business imperative.

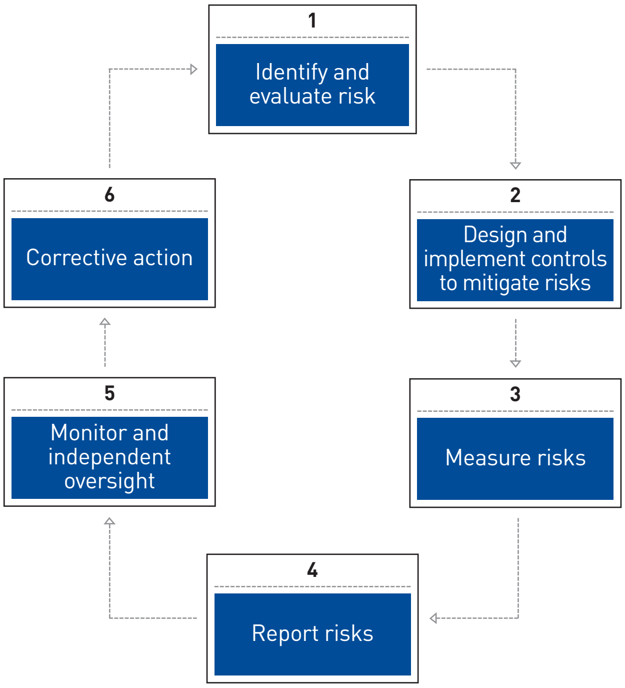
Management recognises the importance of good communication between non executive directors, executive management and senior management across the Group to ensure compliance with regulations applicable to FRBH and communication with external stakeholders.

Risk governance

The Group's ERM division is responsible for the independent oversight and discipline required to continuously drive improvement of the Group's risk management capabilities in a challenging and ever changing operating environment. The objective of the risk management programme is not only to protect, but also to add enterprise value to the Group's strategy, people, processes, technology and knowledge. Risk management is embedded in the Group strategy and is integrated in its day to day operating activities. Direction and oversight of risk management occur at the top of the organisation.

The board of FRBH through the Risk, Compliance and Capital committee ("RCC committee"), in line with its Board Charter, is responsible for oversight of risk management activities. The board is supported in these tasks by board committees and sub committees, independent and deployed risk management

FRBH adopts the following approach to risk management:



functions, as well as internal audit and compliance. These committees and functions monitor FRBH's risks and provide assurance that risk management processes operate effectively.

The independent risk management functions are responsible for ensuring that appropriate, effective and efficient business performance and risk management processes, controls and compliance are in place and integrated in day to day activities.

Governance structure

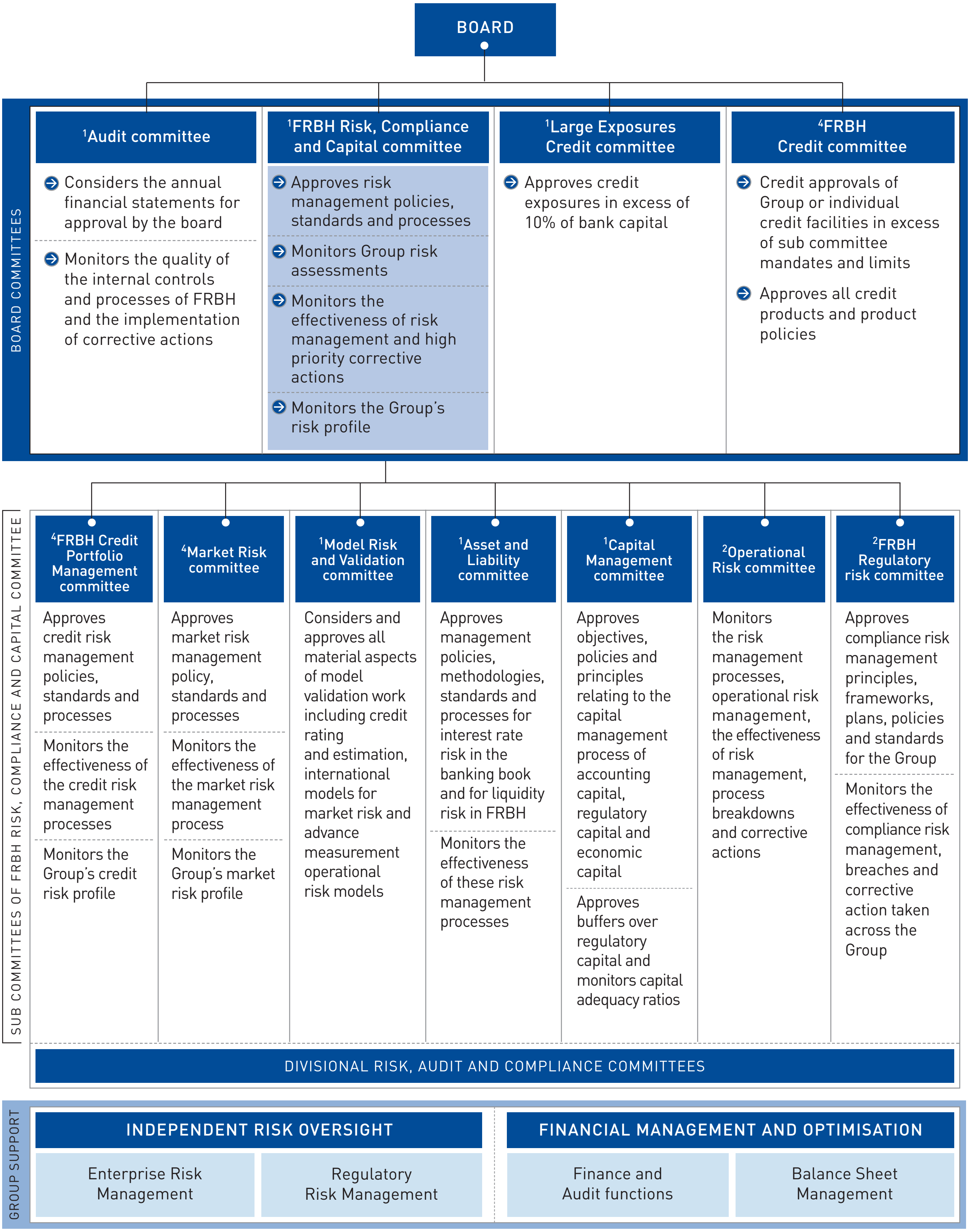
FRBH's risk management governance structures cascade down from the board to the subsidiaries and main divisions and their business units. Divisional and risk sub committees oversee the risk management processes of FRBH. (Refer to diagram on next page).

ERM provides independent risk oversight and the FRBH Regulatory Risk Management ("RRM") function provides independent compliance oversight. These independent oversight functions report directly to the CEO and are responsible for coordinating and monitoring the risk governance functions and oversight, as well as establishing and driving implementation of risk management standards, methodologies and processes.

BSM is responsible for balance sheet optimisation and portfolio management of credit risk, interest rate risk, liquidity risk and capital and funding requirements. The Finance and Audit function manages financial reporting, tax risk, legal risk and internal audit. BSM and the financial function report to the CFO.

Deployed risk managers in the various divisions and business units are responsible for supporting the implementation of the risk management framework at business unit level. All business

FRBH's governance structure is illustrated in the diagram below.



1. Denotes chairperson is a non executive board member.
2. Denotes chairperson is a non executive non board member.
3. Denotes chairperson is an executive board member.
4. Denotes chairperson is executive management. The FRBH Credit Committee has non executive board representation.

units report on the effectiveness of their risk management processes to their relevant risk management functions and risk committees via a bottom up process. The risk reporting process is designed to provide an appropriate representation of the risk profile. The risk reports for each of the main business divisions are submitted quarterly for review by the FRBH RCC committee. The FRBH RCC committee reports on a quarterly basis to the board.

FRBH has aligned the responsibilities and tasks of the various board committees and sub-committees with the recommendations of Basel II.

All FRBH subsidiaries, divisions and major business units have their own risk and audit committees. All audit committees and the FRBH RCC committee have non executive representation. The FRBH RCC committee and all audit committee meetings are attended by representatives from external and internal auditors and independent risk management functions. Independent and deployed risk managers attend all risk committees as appropriate.

These mechanisms ensure the integrity of reports presented to the board committees through external and independent oversight at all levels of governance.

Risk management framework

FRBH has adopted its own risk management framework. This framework, a policy of the board, governs the risk management process and provides a matrix of business, strategic, financial and non financial risks that FRBH monitors. In terms of this framework, risk management is vested as an integral part of management's functions at all levels of FRBH and includes the management of governance, strategy, business performance, competitiveness, human resources, external factors, processes, information technology, and operational, financial and tax risk.

The risk management frameworks are based on the experience that:

- top performing organisations of long standing excel at good governance, strategic and competitive positioning, the management of key risks, and the implementation of world class processes and systems;
- entrepreneurs add value to an organisation through innovation, risk management and the identification of profitable opportunities which will yield sustainable returns and minimise negative impacts on all stakeholders;
- successful businesses are those that manage their business performance and risks better than their competitors; and
- a business has to get many things right to be successful, whilst a single factor could cause it to fail.

The FRBH Risk Management Framework ("RMF") aims to incorporate risk management processes into the overall management process. Management drives strategy, products, services and processes to generate profits and growth in a sustainable manner. The risk management processes support management by providing checks and balances to ensure sustainability, performance, the achievement of desired objectives and avoidance of adverse outcomes and reputational damage through risk quantification, qualitative assessments, monitoring and the initiation of corrective measures.

The RMF complies with statutory and regulatory requirements and is in line with King II and the Committee of Sponsoring Organisations (COSO) requirements. The framework has been reviewed and benchmarked against international best practice and has proved to be thorough, effective and robust in fully supporting enterprise risk management principles.

Risk appetite

FRBH aims to maintain a mix of businesses, business activities, income streams and risk exposures which will ensure that the group will not pierce minimum regulatory capital levels under conditions of severe stress. In addition, FRBH targets a desired credit rating and counterparty status. This is achieved by means of approved strategic business plans and budgets, risk quantification and risk and capital management processes in accordance with board policies.

The board aims to preserve capital by means of the afore-mentioned processes, and also to limit earnings volatility within acceptable levels under all economic and market conditions to avoid loss of confidence or adverse reputational impacts.

Establishing the risk appetite and finding an adequate balance between risk and reward is a dynamic process that is built on a blend of qualitative and quantitative principles to set acceptable thresholds for risk appetite.

The principles include, but are not limited to the following:

- prevent excessive gearing on the balance sheets of FRB and FRBH (back economic risk with Tier 1 capital);
- diversify sources of income widely across business entities, products, market segments, investments, financial and commodity markets and regions;
- limit off balance sheet exposures relative to own capital and funding base;
- target true risk transfer and not accounting/regulatory arbitrage;
- identify, measure, quantify, understand and contain the potential impact of severe downturn and stress conditions within capital preservation and earnings volatility parameters;
- avoid concentration in risky asset classes;
- diversify sources of funding; and
- hold sufficient buffers for capital and liquidity purposes.

Protection of FRBH's reputation

Safeguarding FRBH's reputation is of paramount importance to its continued prosperity and is the responsibility of every staff member. Reputational risks can arise from environmental, social and governance issues or as a consequence of financial or operational risk events. FRBH's good reputation depends on the way in which it conducts business and protects its reputation by managing and controlling risks incurred in the course of business. This means avoiding large concentrations or exposures and limiting potential stress losses from credit, market, liquidity and operational risk, and taking account of reputational risk to its business.

Risk categories

The financial and operational risks for FRBH are discussed in this report. Financial risks include credit risk, market risk, liquidity risk, and interest rate risk. The non financial business risks and opportunities include issues such as reputation, regulation, transformation, customer relationships and the impact of HIV/AIDS on the customer base. Managing sustainability and reputational risk is a key component of the risk governance process at FRBH. The principal risks to which FRBH is exposed and which it manages are defined as follows:

Strategic and business risk – Strategic risk is the risk to current or prospective earnings and capital, arising from adverse business decisions or the improper implementation of decisions. Business risk describes the risk FRBH assumes due to potential changes in general business conditions, such as FRBH's market environment, client behaviour and technological progress. This can affect FRBH's earnings if it fails to adjust quickly or respond to changes in the business environment.

Credit risk – The risk of loss due to non performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty.

Market risk – The risk of revaluation of any financial instrument as a consequence of adverse changes in the market prices or rates exists in all trading, banking and investment portfolios. For the purpose of these financial statements market risk is considered to be fully contained within the trading portfolios.

Liquidity risk – The risk that the bank will not meet all payment obligations as liabilities fall due. It also represents the risk associated with not being able to realise assets to meet depositor repayment obligations in a stress scenario.

Interest rate risk in the banking book – Interest rate risk in the banking book is defined as the sensitivity of the balance sheet and income statement to unexpected, adverse movements in interest rates and can be an important source of profitability and shareholder value. Excessive interest rate risk could potentially pose a significant threat to a bank's earnings and capital base, therefore, effective risk management that maintains the risk within prudent levels is essential to the safety and soundness of banks.

Operational risk – Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic, business and reputational risk.

Compliance risk – Compliance risk is defined as the risk of legal or regulatory sanction, material loss or loss of reputation suffered as a result of failure to comply with laws, regulations, rules, related self regulatory organisation standards and codes of conduct applicable to its banking activities.

The quantitative and qualitative risk management information contained in this report forms an integral part of the interim financial statements, and like interim financial set of statements, it has not been audited.

Stress testing

FRBH views stress testing and scenario analysis goes beyond meeting regulatory requirements and is seen as an integral risk management technique. The technique is used to assess the financial and management capability of the Group to continue operating effectively under extreme but plausible trading conditions, and thus play an important part in terms of preparing the Group for unexpected events, encouraging thinking about possible future outcomes and allowing it to react quickly to emerging threats.

A stress testing forum is led by ERM with participation from the businesses, Balance Sheet Management and Group Finance. Its primary objective is to ensure the Group understands the earnings volatility and capital implications of given stress scenarios.

In summary, stress testing:

- provides forward looking assessments of risk;
- identifies key risks to the Group's financial position and strategy;
- supplements models and historical data;
- supports internal and external communication;
- feeds into capital and liquidity planning procedures;
- assesses the impact of the stresses on the Group profitability and business plans
- allows for comparison against the bank's risk appetite; and
- facilitates the development of risk mitigation or contingency plans across a range of stressed conditions.

The stress test programme and regular execution of stress and scenario analyses are guided by a stress testing framework which is continually refined and updated as new information becomes available and emerging risks and threats are identified.

4 STRATEGIC AND BUSINESS RISK

STRATEGIC RISK IS THE RISK TO CURRENT OR PROSPECTIVE EARNINGS AND CAPITAL, ARISING FROM ADVERSE BUSINESS DECISIONS OR THE IMPROPER IMPLEMENTATION OF DECISIONS. BUSINESS RISK DESCRIBES THE RISK FRBH ASSUMES DUE TO POTENTIAL CHANGES IN GENERAL BUSINESS CONDITIONS, SUCH AS OUR MARKET ENVIRONMENT, CLIENT BEHAVIOUR AND TECHNOLOGICAL PROGRESS.

Strategic and business risk could affect FRBH's earnings if it lacked in its responsiveness to change in the business environment. In essence, it is any risk that could result in FRBH not meeting its business performance objectives.

Accountability for strategic risk

Strategic risk is primarily addressed through the development and implementation of an effective strategic plan. The board is responsible for approving FRBH's objectives and the strategies and plans for achieving those objectives. The board approves any subsequent material changes in strategic direction, as well as significant acquisitions, mergers, take overs, equity investments and new strategic alliances by the company or its subsidiaries. The CEO is responsible for the development and implementation of the strategic plan.

Risk identification

FRBH's executive management continually reviews its strategy, taking into account the business, legal and regulatory environments in which it operates. Executive management identifies and assesses strategic and business opportunities and addresses the associated risks throughout the strategic planning process.

Risk management

Senior management monitors the external business environment (industry trends, regulatory changes, customer behaviour, competitors) and reports on risks and opportunities through FRBH's risk reporting structure. The board reviews the performance of FRBH every quarter and ensures that management takes corrective action to address potential strategic and business risks.

5 CREDIT RISK

CREDIT RISK IS THE RISK OF LOSS DUE TO NON PERFORMANCE OF A COUNTERPARTY IN RESPECT OF ANY FINANCIAL OR PERFORMANCE OBLIGATION DUE TO DETERIORATION IN THE FINANCIAL STATUS OF THE COUNTERPARTY.

Credit risk arises from advances to customers, lending commitments, contingent products (e.g. letters of credit) and traded products such as investments in debt securities and derivative instruments. It could also arise from the reduction in value of an asset subsequent to the downgrading of the counterparty's credit rating.

Country risk relates to the likelihood that changes in the business environment will occur that would reduce the profitability of doing business in a country and ultimately might result in credit losses arising from cross border transactions.

Credit risk is the most significant risk type FRBH is exposed to. The contribution of credit risk to the total regulatory and economic capital requirement of FRBH is also the highest of all risk types.

Credit risk governance

Credit risk in FRBH is managed in terms of the Credit Risk Management Framework. This framework is a sub framework of FRBH's Risk Management Framework. Through the establishment of formal credit risk management and governance structures, policies, procedures and methodologies, FRBH aims to achieve effective management of credit risk to provide an adequate return on risk adjusted capital in line with its risk appetite.

The overall responsibility for the effectiveness of credit risk management vests with the board. Through its establishment of formal credit risk management governance structures, the board has delegated responsibility for the oversight of credit risk management to FRBH's RCC committee and its sub committees, the credit approval committees, and boards of subsidiary companies. Operational responsibility is delegated to executive management and risk functions both at group and business unit level.

The approval of credit vests with FRBH's Credit committee (a sub committee of the board) and its committee structures. The approval committee approves credit facilities according to delegated mandates. The Large Exposures Credit committee, which is also a sub committee of the board, approves credit facilities in excess of 10% of capital. For the FNB Africa subsidiaries, each subsidiary company has its own set of delegated authorities approved by the subsidiary's board and the FRBH Credit committee.

FRBH's RCC committee approves the Credit Risk Management Framework. It receives and reviews reports that demonstrate the effectiveness of credit risk management and information on the credit risk profile of FRBH. Operational breakdowns or significant weaknesses in the credit risk management process are reported to the committee. It is supported by a sub committee structure which includes the FRBH Credit Portfolio Management committee ("Credit Exco"), as well as the Model Risk and Validation ("MRV") committee.

The Credit Exco is responsible for strategic management of credit risk and oversight of the credit risk profile of the Group. Its responsibilities include the review of the following:

- macro economic and credit conditions outlook;
- credit risk profile;
- credit portfolio performance, including the appropriateness of loss impairments;
- new business origination, including credit risk appetite and adjustments thereto based on the macro cycle;
- sensitivity and scenario analyses, credit economic capital and stress testing; and
- credit concentrations.

The MRV committee is responsible for oversight of credit risk measurement systems such as credit rating systems. Reports on the design and operation of the rating systems are submitted to the MRV committee for challenge and approval. All model development and validation frameworks are set by the MRV committee.

The operational roles and functions for credit risk management are fulfilled by both centralised group functions as well as decentralised functions within the business units. FRBH has a two tiered centralised structure which provides for a Group Credit Risk Management function within ERM, as well as a Credit Portfolio Management function that resides within BSM.

Group Credit Risk Management is responsible for independent oversight of the credit segments in the business units and Credit Portfolio Management in BSM. It owns the credit risk management framework and policies and monitors the implementation of the frameworks. Its role also includes the following:

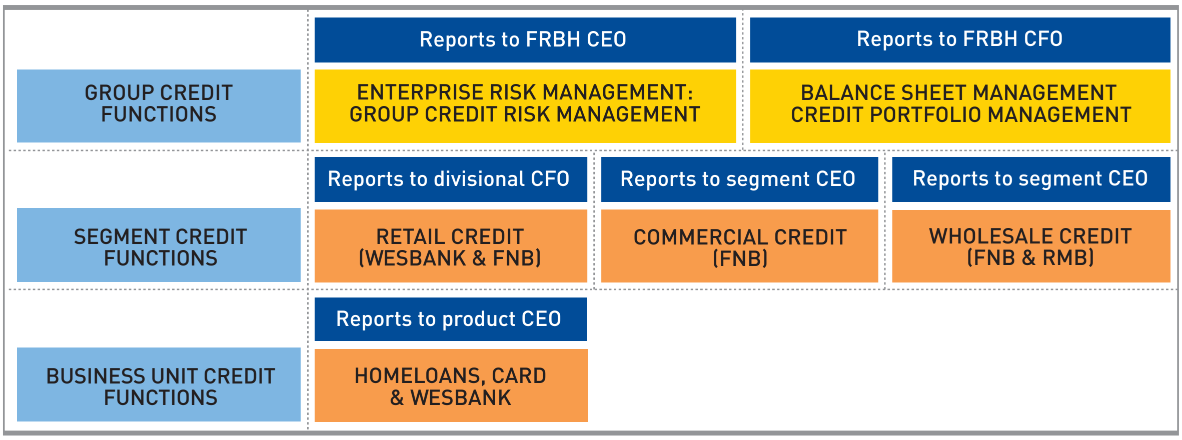
- oversight of the risk appetite framework for credit risk;
- monitoring the credit risk profile of the group;
- reviewing all credit rating systems, as well as independent revalidation of material credit rating systems;
- management of the interaction with third party stakeholders, e.g. the Regulator;
- oversight of the aggregate credit impairment process;
- regulatory reporting; and
- risk profile reporting.

Group Credit Portfolio Management is responsible for the balance sheet management aspects of credit risk, including the following:

- formulation of the credit outlook based on the Group's macro economic outlook;
- quantification and allocation of credit economic risk and capital, including the credit risk assessment used for the ICAAP and assessment of capital buffer requirements;
- active participation in credit strategy and origination activities;
- management of risk appetite implementation across business units;
- credit risk stress testing, scenario analysis and portfolio modelling;
- management of impairments, including impairment reporting, analysis and assessment;
- initiation of structured credit transactions to optimise the balance sheet;
- coordination of the group securitisation process; and
- credit portfolio reporting and analysis for Credit Exco and other stakeholders.

The diagram below shows the group and segment credit functions. The credit segment heads are supported by teams within the business units and subsidiaries. These functions are responsible for operational implementation of credit risk policies. This includes implementation of sufficient credit risk structures, processes and infrastructure to manage the credit process effectively. These functions are responsible for operational credit business management including the following:

- formulation of credit strategy and determination of credit appetite;
- provision of strategic support to business unit heads to ensure appropriate origination, and effectiveness of returns on risk adjusted capital;
- formulation and implementation of risk policies, procedures, methodologies and standards for credit risk management in each segment;
- development of credit rating systems, processes and other decision support tools and pricing approaches;
- monitoring of the quality of new business origination and the existing portfolio;
- implementation of structures for ongoing risk management, including management of collateral and facilities;
- reporting on credit risk profile, pricing trends and other key measures; and
- ongoing management of credit risk processes and infrastructure.



Credit risk management

Credit risk is managed through comprehensive policies and processes that ensure adequate identification, measurement, monitoring and control as well as reporting of credit risk exposure. The objectives of the policies and processes are to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement and monitoring through the implementation of adequate risk management controls.

Based on FRBH's credit risk appetite, credit risk is managed with reference to such principles including appropriate levels of capital and pricing for risk on an individual and portfolio basis.

The credit value chain incorporates credit risk management at every level in the organisation. Upon application, creditworthiness of the counterparty is assessed and measured in terms of the risk appetite. The counterparty's credit risk is measured using internally developed and validated risk models as described in the credit risk measurement section below. The credit exposure is approved at appropriate levels as prescribed per the delegated mandates.

Processes are in place for the wide range of product and counterparty types in FRBH. Based on product/counterparty characteristics, the credit processes are aligned to manage the specific risk at business unit level. Subsequent to credit approval, all facilities are continually measured, managed and monitored as part of the ongoing credit risk management processes designed at credit segment level. These include the following:

- quantification of exposure and risk, as well as management of facility utilisation within predetermined and approved credit limits;
- ongoing monitoring of creditworthiness of counterparties to ensure early identification of high risk exposures;
- reviewing facilities at appropriate intervals;
- collateral and covenant management;
- management of high risk exposures ("watch list" exposures);
- collections and workout processes for defaulted assets; and
- credit risk reporting.

Credit defaults are monitored relative to expected losses. Impairments are created against the portfolio and against non performing loans as described in the section below on impairments.

Credit risk mitigation

Credit risk mitigation is implemented at the initial stage of an application for an advance by granting credit based primarily on the borrower's ability to repay the loan out of cashflow resources. In addition to this, credit mitigation instruments are used where appropriate to reduce FRBH'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 segment, product or counterparty type:

- Mortgage and instalment sale finance portfolios are secured by the underlying assets financed.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured via guarantees and suretyships.
- Commercial segment credit counterparties are mostly secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and cash flows received from the use thereof.
- Working capital facilities in FNB Corporate are unsecured, whereas structured facilities in RMB are mostly secured as part of the structure through financial or other collateral, including guarantees or credit derivative instruments and assets. The credit risk in RMB's FICC environment is mitigated through the use of netting agreements and financial collateral.

Policies and processes for collateral valuation and collateral management

Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For wholesale and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness. For mortgage portfolios, collateral is revalued using an index model on an ongoing basis. For all the retail portfolios, including mortgages, collateral is again valued through physical inspection at the time the exposure enters the workout process.

Collateral is managed internally to ensure the bank's title to the collateral is maintained on an ongoing basis.

Concentrations within credit risk mitigation types, such as property, are monitored and managed within the credit segments' portfolios. FNB HomeLoans and the Wealth segment monitor their exposure to a number of geographical areas, as well as within loan to value bands.

For FRB, collateral is taken into account for capital calculation purposes through the determination of the loss given default ("LGD"). The existence of collateral results in a reduced LGD, and the level of the LGD is determined through statistical modelling techniques based on the historical experience of recovery processes.

Use of netting agreements

FRBH uses International Swaps and Derivative Association ("ISDA") agreements to govern the netting of derivative transactions. All transactions are valued on a daily basis and the appropriate netting of exposures is applied. The master agreement contains internationally accepted valuation and default covenants. For accounting purposes, netting is only applied where there is legal right of setoff and there is the intention to settle on a net basis.

Definition of 'default'

A default is generally defined as the earlier of:

- when an exposure is more than 90 days in arrears (time driven element); or
- when there is reason to believe that the exposure will not be recovered in full and the exposure is classified as such. This also includes the situation where there is a material forgiveness of principle, fees or interest amounts in a distressed restructuring (event driven element).

Definition of 'impaired advances'

An advance is judged to be impaired when there is observable data indicating a measurable decrease in the estimated future cash flows from the advance.

Definition of a portfolio specific impairment ("PSI")

A PSI occurs where there is objective evidence of the occurrence of an impairment event affecting a sub segment of the performing portfolio.

In the FNB retail and WesBank portfolios, the account status, namely arrears versus non arrears, is taken as a primary indicator of an impairment event. In the commercial portfolios, other indicators such as the existence of "high risk" accounts, based on internally assigned risk ratings and management judgment, are used, while the wholesale portfolio assessment includes a judgmental review of individual industries for objective signs of distress.

A PSI calculation which reflects the decrease in estimated future cash flows is performed for this sub segment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.

Definition of 'incurred but not reported ("IBNR") provision'

A standard performing portfolio represents all the advances that are not impaired. The performing portfolio will, however, consist of advances for which incurred impairment events are inherent in the advances, but have not specifically been identified. A so called IBNR provision is calculated on this sub segment of the portfolio based on a historical analysis of loss ratios, roll rates from performing status into non performing status, and similar risk indicators over an estimated loss emergence period.

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from one to twelve months.

Credit concentration risk management

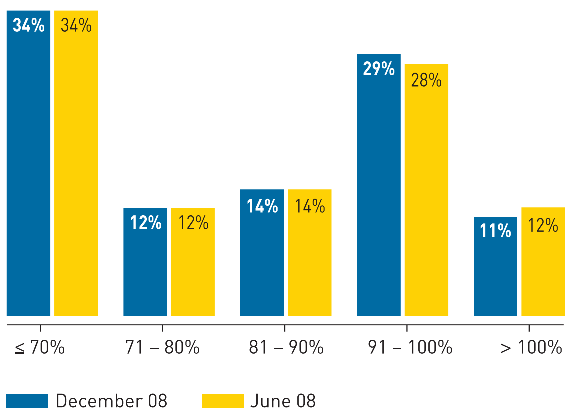
Concentration risk is managed in the credit portfolios based on the nature of the credit concentration within each segment:

- Wholesale credit portfolio:
  - Concentration risk management is based on individual name limits for large exposures (which are reported to and approved by the Large Exposures Credit committee) and the monitoring of industry and country concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and the potential impact thereof on the credit portfolio. Securitisation structures and the purchase of credit derivatives as a credit mitigation tool are also used to address credit concentration risk management;
- Commercial credit portfolio:
  - For commercial (SME level) exposures, the emphasis of concentration risk measurement is on industry distribution.
- Retail credit portfolios:
  - Due to the inherent diversification in the retail portfolios, concentrations are managed with reference to collateral concentrations.

Residential mortgages balance to value

The following graph provides the balance to value distribution for residential mortgages. The graph presents the balance to property value (at application date or physical valuation date) and excludes any non performing loans.

Residential mortgages balance to value



Credit risk measurement

Internally developed credit risk measurement models provide the basis for credit risk management in all segments. The models are widely used in the determination of capital levels, pricing, impairment calculations, scenario analysis and stress testing.

Through the implementation of the Basel II requirements for the AIRB approach, FRB developed a number of rating systems and risk quantification models. The SARB provided FRB with approval to use its internal rating models for the assessment of regulatory capital for the South African divisions under Basel II from 1 January 2008. The remaining FRBH subsidiaries use the Standardised Approach for Basel II.

The FNB Africa subsidiaries have implemented the Standardised Approach of Basel II for regulatory reporting to the SARB. For internal purposes, however, the credit measurement models are being aligned to those used at FRB as far as possible. To a large extent, processes have been implemented in most of the subsidiaries using similar models and principles.

Where possible, FRBH's remaining subsidiaries use similar credit measurement systems to those implemented in FRB. Although the Standardised Approach is used for regulatory capital purposes, the credit measurement systems are used to assign ratings and estimate the probability of default and loss given default internally.

Measured risk parameters are described below.

Probability of default ("PD") and credit ratings

The probability of default is the probability that a counterparty will default within the next year and considers the ability and willingness of the counterparty to repay. The definition of default is dependent on the earlier of the following two drivers:

- a time driven element where an exposure is more than 90 days in arrears; or
- an event driven element where there is reason to believe that the exposure will not be recovered in full.

The definition of default is used in the modelling of credit rating systems described below. The definition of default used for the recognition of non performing loans is similar to the above definition. For some portfolios, the definition used in credit modelling is slightly more conservative than the definition described above due to the different day count conventions to determine the time driven component.

Cumulative default probabilities over a multi year cycle are established for internal purposes.

The FirstRand master rating scale ("FR ratings") ranges from FR 1 to FR 100, with FR 1 being the best rating with the lowest probability of default. FR ratings have been mapped to default probabilities as well as external rating agency national and international rating scales. The granular 100 point scale is summarised for internal purposes into 18 buckets and for reporting purposes into 9 performing buckets, as described below.

The ratings and associated PDs reflect two different conventions. The point in time ("PIT") PD reflects the default expectations under the current economic cycle, whereas through the cycle ("TTC") PDs reflect a longer term average over the economic cycle. These PDs are applied in different circumstances as appropriate to the business and regulatory requirements under Basel II. Typically, PIT estimates are used for the calculation of impairments, whereas TTC estimates are used for regulatory and economic capital calculations.

The FR rating scale is summarised in the following table, together with a mapping to international scale ratings from external rating agencies.

FR rating	Midpoint PD	International scale mapping*
FR 1 – 12	0.04%	AAA, AA, A
FR 13 – 25	0.27%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 37	1.34%	BB-
FR 38 – 48	2.15%	B+
FR 49 – 60	3.53%	B+
FR 61 – 83	6.74%	B
FR 84 – 91	15.02%	B-
Above FR 92		Below B-
FR 100	100%	D (defaulted)

* *Indicative mapping to international rating scale of Fitch Ratings and Standard & Poor's.*

The rating assignment process depends on the type of counterparty. The processes vary from an automated score card process in the retail areas to an extensive analysis on an individual basis for corporate counterparties. The retail portfolio is segmented into homogeneous pools through an automated scoring process using statistical models of customer behaviour and application data, delinquency status and other client or product specific parameters. Based on internal product level history associated with the homogeneous pools, probabilities of default are estimated for each pool. For the commercial portfolios, counterparties are scored using the Moody's RiskCalc model, which has been calibrated to internal historical default experience. Corporate counterparties are rated through a combination of a detailed individual assessment of the counterparty's creditworthiness and an internally developed statistical rating model. The assessment of the counterparty's creditworthiness is performed through a qualitative analysis of the business and financial risks of the counterparty. The quantitative rating model was developed using more than 10 years' internal and external data.

Loss given default ("LGD")

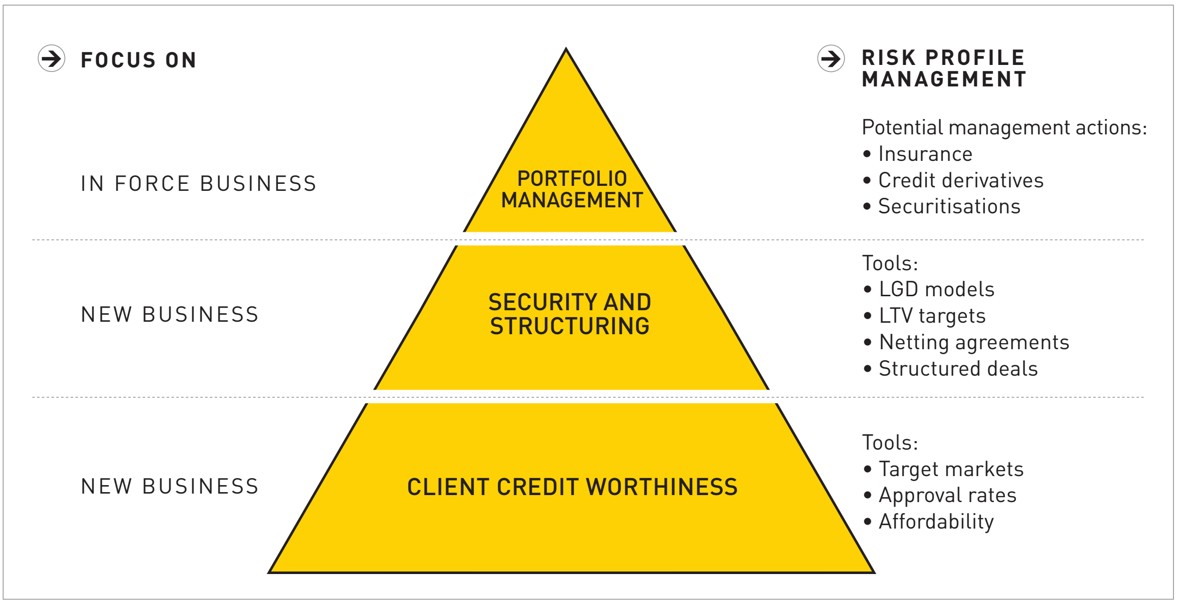
Loss given default is defined as the economic loss that will be suffered on an exposure following default of the counterparty, and is expressed as a percentage of the amount outstanding at the time of default. Recoveries are significantly impacted by the types and levels of collateral held against the exposure, the level of subordination, the effectiveness of the recovery processes and the timing of the recovered cash flows. Estimation of LGD is determined through the use of internal data as well as benchmarking to external data. Long run and downturn LGDs are determined where applicable. The downturn LGD reflects increased LGDs relative to the long run average LGD estimates during periods of high defaults (i.e. where a positive correlation exists between the PD and LGD). Downturn LGDs are used for the calculation of capital.

Exposure at default ("EAD")

Exposure at default is defined as the gross exposure of a facility upon default of a counterparty. This measurement reflects potential credit exposure for off balance sheet exposures, such as the probability of further drawdown under a committed facility and the potential future exposure of derivatives.

Use of credit risk measures

Credit risk measures are used extensively in FRBH's processes for pricing and credit impairments. The assigned ratings are also used in the setting of credit risk appetite. Credit ratings and loss parameters are inputs into the capital assigned and are used to determine return on risk adjusted capital. The diagram below provides an overview of the elements of risk appetite and how they interact.



Expected loss

Expected loss is calculated as PD x LGD x EAD. This measurement is a forward looking measure of risk through the cycle. For internal purposes, such as inputs into pricing and impairment processes, PIT probability of default is used in the determination of a PIT expected loss.

The PD, LGD and EAD estimates are used as inputs into the credit approval process, pricing, provisioning, reporting and regulatory and economic capital estimates where appropriate.

Credit portfolio management

The PD, LGD and EAD estimates provide input into the portfolio level credit exposure assessment of FRBH. In addition to these metrics, the correlations between counterparties and industries are assessed as well as potential diversification benefits. Portfolio management includes the following:

- monitoring of credit concentrations to single counterparties and industry sectors relative to capital levels;
- economic capital (unexpected loss) measurement using internally developed macro economic models and simulations for the retail credit portfolios and a sophisticated simulation portfolio model for wholesale credit portfolios;
- assessment of economic risk with reference to potential downturn and severe downturn scenarios, together with the earnings and capital impact thereof and the link to ICAAP;

- portfolio stress tests on expected losses, including the assessment of the impact of macro economic factors on the credit portfolio, for example the impact of interest rate changes, property downturns, and general recession conditions; and
- consideration of the need for macro credit hedges given the potential scenarios determined, including the identification of structured transactions, such as securitisations and credit insurance.

Policy for impairment of financial assets

General

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

Assets carried at amortised cost

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

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

i. significant difficulty of the issuer or debtor;

ii. a breach of contract, such as a default or delinquency in payments;

iii. it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;

iv. the disappearance of an active market for that financial asset because of financial difficulties; or

v. observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:

  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, FRBH may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). FRBH regularly reviews the methodologies and assumptions used for estimating future cash flows to reduce any differences between loss estimates and actual loss experience.

An uncollectible loan is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairments in the income statement.

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

The table below provides FRBH's credit exposure.

Maximum exposure to credit risk at 31 December

R million	2008
Cash and short term funds	29 045
– Money at call and short notice	1 959
– Balances with other banks	14 334
– Balances with central banks and guaranteed by central banks	12 753
Advances	441 632
– Total FNB	202 302
FNB Retail	165 214
FNB Corporate	7 270
FNB Commercial	25 379
FNB Other	4 439
– WesBank	96 024
– RMB	125 526
– FNB Africa	17 304
– Other (BSM, other subsidiaries)	476
Derivatives	81 525
Debt investment securities	77 530
Accounts receivable	5 145
Loans to Insurance Group	1 997
Credit risk not recognised on the balance sheet	55 020
– Guarantees	18 268
– Acceptances	451
– Letters of credit	6 231
– Irrevocable commitments	29 869
– Underwriting exposures	200
Total	691 895

The table below provides the geographic distribution of FRBH's material credit exposures.

Concentration risk of significant credit exposures at 31 December 2008

R million	South Africa	Other Africa	United Kingdom	Ireland	Europe	North America	South America	Other	Total
Advances	406 235	21 745	4 993	–	5 375	182	1 042	2 059	**441 632**
Derivatives	49 937	440	15 925	7	13 042	1 601	–	572	**81 525**
Debt securities	61 113	7 803	–	7 664	–	720	205	25	**77 530**
Off balance sheet securities	47 664	4 112	29	–	–	34	–	3 180	**55 020**
Guarantees, acceptances and letters of credit	20 346	1 583	–	–	–	–	–	3 021	**24 951**
Irrevocable commitments	27 118	2 529	29	–	–	34	–	159	**29 869**
Underwriting exposures	200	–	–	–	–	–	–	–	**200**
Total									655 707

The average advances for the period under review totaled R308 378.

The table below provides the industry distribution of advances.

Gross advances

R million	At 31 December 2008	At 30 June 2008
Agriculture	12 319	9 000
Banks and financial services	55 386	64 363
Building and property development	17 219	15 246
Government, Land Bank and public authorities	17 529	20 503
Individuals	252 262	251 867
Manufacturing and commerce	38 417	46 527
Mining	11 142	12 829
Transport and communication	13 360	11 061
Other services	25 795	26 117
Notional value of advances	443 429	457 513
Interest in suspense	(1 797)	(1 175)
Net advances before impairment	441 632	456 338

Analysis of movement in impairment of advances per class of advance

	At 31 December 2008		
R million	Total impairment	Specific impairment	Portfolio impairment
Opening balance	7 383	4 918	2 465
Exchange rate difference	(20)	(16)	(4)
Amounts written off	(2 530)	(2 526)	(4)
Unwinding of discounted present value on non performing loans	(123)	(118)	(5)
Reclassifications	–	(63)	63
Net new impairment created	3 905	3 904	1
– impairments created	6 776	6 560	216
– impairments released	(2 871)	(2 656)	(215)
Acquisitions	6	3	3
Closing balance	8 621	6 102	2 519

	At 30 June 2008		
R million	Total Impairment	Specific impairment	Portfolio impairment
Opening balance	4 550	2 749	1 801
Exchange rate difference	53	45	8
Amounts written off	(2 889)	(2 864)	(25)
Unwinding of discounted present value on non performing loans	(211)	(209)	(2)
Reclassifications	–	129	(129)
Net new impairment created	5 813	5 019	794
– impairments created	6 379	5 526	853
– impairments released	(566)	(507)	(59)
Acquisitions	67	49	18
Closing balance	7 383	4 918	2 465

Analysis of non performing loans

	NPL as % of advances		Non performing loans (NPL)		Specific impairments (Balance Sheet)	
%/R million	At 31 Dec 2008	At 30 June 2008	At 31 Dec 2008	At 30 June 2008	At 31 Dec 2008	At 30 June 2008
Non performing loans by class						
FNB	6.61	4.16	13 366	8 630	4 213	3 112
FNB Retail	7.45	4.90	12 301	7 978	3 715	2 700
FNB Commercial	3.63	2.12	920	512	382	291
FNB Corporate Banking	1.99	0.91	145	140	116	121
FNB Other	–	–	–	–	-	–
WesBank	3.45	3.18	3 312	3 181	1 323	1 288
RMB	1.18	0.66	1 479	857	260	170
FNB Africa	2.24	2.47	388	389	197	198
Other	9.18	1.82	67	47	109	150
Total NPL	4.21	2.87	18 612	13 104	6 102	4 918
Non performing loans by sector						
Agriculture	4.57	1.16	561	104	38	37
Banks and financial services	0.19	0.09	103	60	31	31
Building and property development	3.70	2.99	631	451	282	216
Government, Land Bank and public authorities	0.27	1.36	48	278	21	13
Individuals	6.11	4.32	15 330	10 834	5 028	3 890
Manufacturing and commerce	1.54	1.18	591	549	296	381
Mining	0.42	0.23	47	30	10	9
Transport and communication	1.51	1.41	201	156	31	29
Other	4.28	2.46	1 100	642	365	312
Total NPL	4.21	2.87	18 612	13 104	6 102	4 918
Non performing loans by geographical area						
South Africa	4.17	2.96	16 957	12 186	5 580	4 435
Other Africa	1.79	2.24	389	423	182	205
UK	0.60	0.36	30	52	27	40
Ireland	-	-	–	–	–	–
Europe	3.31	1.37	178	78	–	–
North America	–	–	–	–	–	–
South America	44.33	–	462	–	18	–
Other	28.94	20.54	596	365	295	238
Total NPL	4.21	2.87	18 612	13 104	6 102	4 918

The credit exposures in the table below are classified into the Basel II approaches followed by FRBH. The exposures below are the IFRS accounting exposures and not those used for regulatory capital calculations. The exposures used in the regulatory capital calculations are after recognition of regulatory netting and other capital related impacts.

Exposure to credit risk – Basel II approaches

				Standardised Approach subsidiaries	
R million	As at 31 December 2008	(AIRB)	Total standardised approach	FNB Africa	Other subsidiaries and consolidation journals
Cash and short term funds	29 045	23 863	5 182	1 494	3 688
– Money at call and short notice	1 959	891	1 068	398	670
– Balances with other banks	14 334	11 832	2 502	402	2 100
– Balances with central banks and guaranteed by central banks	12 753	11 140	1 613	695	918
Advances	441 632	394 744	46 888	17 304	29 584
– Total FNB	202 302	192 426	9 877	–	9 877
FNB Retail	165 214	155 337	9 877	–	9 877
FNB Corporate	7 270	7 270	–	–	–
FNB Commercial	25 379	25 379	–	–	–
FNB Other	4 439	4 439	–	–	–
– WesBank	96 024	86 246	9 777	–	9 7774
– RMB	125 526	114 774	10 753	–	10 753
– FNB Africa	17 304	–	17 304	17 304	–
– Other (BSM, other subsidiaries)	476	1 298	(822)	–	(822)
Derivatives	81 525	80 299	1 226	27	1 199
Debt Investment securities	77 530	62 428	15 102	7 283	7 819
Accounts receivable	5 145	2 895	2 250	27	2 223
Loans to Insurance Group	1 997	1 651	346	–	346
Credit risk not recognised on the balance sheet	55 020	50 435	4 585	4 076	509
– Guarantees	18 268	16 689	1 579	1 397	182
– Acceptances	451	451	–	–	–
– Letters of credit	6 231	6 043	188	188	–
– Irrevocable commitments	29 869	27 052	2 817	2 490	327
– Underwriting exposures	200	200	–	–	–
Total	**691 895**	616 315	**75 580**	30 211	45 370

– The table above excludes any intergroup balances with FRBH entities.

For portfolios using the Standardised Approach, the following rating agencies are used, however, exposures in the relevant jurisdictions are mostly unrated:

- Fitch Ratings
- Moody's
- Standard & Poor's

The ratings are mostly used for corporate, bank and sovereign counterparties in the portfolios where available. Where applicable, FRBH uses the internally developed rating mapping between the rating agencies and the risk weightings.

Regulated bank entities' (mostly FNB Africa) exposures after risk mitigation in each risk bucket

R million	31 December 2008
0%	398
10%	–
20%	2 502
35%	6 202
50%	598
75%	8 598
100%	11 912
Deducted	–
Total risk weighted assets	30 211

The following table summarises the rating PD, LGD and EAD approaches used in FRB.

Portfolio and type of exposures	Description of rating system
1. ***Large corporate portfolios (Wholesale: FNB Corporate Banking and RMB)*** Exposures to private sector counterparties including corporates, securities firms and public sector counterparties. A wide range of products gives rise to the credit exposures, including loan facilities, structured finance facilities, contingent products and derivative instruments.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. ***Rating process:*** → The rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness. → This assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by internally developed statistical rating models. → The rating models were developed using internal and external data of more than ten years. The qualitative analysis is based on the methodology followed by international rating agencies. → The rating assessment is reviewed by the FRBH Credit committee and the rating (and associated PD) is approved by this committee. → After approval by the FRBH Credit committee, no overrides of the rating or probability of default are possible. → LGD and EAD estimates are based on modelling of a combination of internal and suitable adjusted international data. ***Validation methodology:*** Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.

Portfolio and type of exposures	Description of rating system
2. *Low default portfolios: Sovereign and bank rating systems (Wholesale: FNB Corporate Banking and RMB)* Exposures to sovereign and bank counterparties.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. *Rating process:* → Expert judgment models are used with external rating agencies and structured peer group analyses forming key inputs in the rating process. The analysis is supplemented by internally developed statistical models. → Calibrations of PD and LGD are done using mappings to external default history and calibrations based on credit spread market data. → The rating assessment is reviewed by the FRBH Credit committee and the rating (and associated PD) is approved by this committee. → After approval by the FRBH Credit committee, no overrides of the rating or probability of default are possible. *Validation methodology:* Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.
3. *Specialised lending rating systems (Wholesale: FNB Corporate Banking, RMB and FNB Commercial)* Exposures to private sector counterparties for the financing of income producing real estate.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. → The rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal and benchmark data. → The rating assessment is reviewed by the FRBH Credit committee and the rating (and associated PD) is approved by this committee. → After approval by the FRBH Credit committee, no overrides of the rating or probability of default are possible. *Validation methodology:* Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.

Portfolio and type of exposures	Description of rating system
4. Commercial portfolio (SME corporate and SME retail counterparties in FNB Commercial and WesBank) (continued) Exposures to SME clients. A wide range of products gives rise to the credit exposures including loan facilities, contingent products, and term lending products.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. **SME retail** *Rating process:* → The retail portfolio is segmented into homogeneous pools and sub pools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status. → Based on internal product level history associated with the homogeneous pools and sub pools, probabilities of default are estimated for each sub pool. → LGD and EAD estimates are applied on portfolio level, estimated from internal historical default and recovery experience. → No overrides are possible. The only potential override is not that of the probability of default, but rather of the automated decision to lend or not. Such overrides are done judgmentally by credit managers in the segments and are supported by business reasons. **SME corporate** *Rating process:* → PD: Counterparties are scored using Moody's RiskCalc, of which the output was calibrated to internal historical experience. → LGD: Collateral type determines recovery rate. Recovery rates set with reference to internal historical experience, external data (Fitch) and Basel II guidelines. → EAD: Portfolio level credit conversion factor ("CCF") estimated from internal historical experience and benchmarked against international studies. → No overrides are possible. *Validation methodology:* Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.
5. Residential mortgages (Retail exposure rating systems for FNB HomeLoans, RMB Private Bank exposures and mortgage exposures in the Mass segment) Exposures to individuals for the financing of residential mortgages.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. *Rating process and approach:* → The retail portfolio is segmented into homogeneous pools and sub pools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status. → Based on internal product level history associated with the homogeneous pools and sub pools, probabilities of default are estimated for each sub pool. → No overrides of the probability of default are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides are done judgmentally by credit managers in the segments and are supported by business reasons. → LGD and EAD estimates are based on sub segmentation based on collateral or product type, and associated modelling of internal data history. Loan to value data are used as inputs into the rating system. *Validation methodology:* Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.

Portfolio and type of exposures	Description of rating system
6. ***Qualifying revolving retail exposures (Retail exposure rating systems for FNB Card and FNB Consumer overdrafts and RMB Private Bank)*** Exposures to individuals providing a revolving limit through a credit card or overdraft facility.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. ***Rating process and approach:*** → The retail portfolio is segmented into homogeneous pools and sub pools through an automated scoring process using statistical models that incorporate product type, bureau data, internal customer behaviour, application data and delinquency status. → Based on internal product level history associated with the homogeneous pools and sub pools, probabilities of default are estimated for each sub pool. → No overrides of the probability of default are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides are done judgmentally by credit managers in the segments and are supported by business reasons. → LGD and EAD estimates are based on sub segmentation and the respective collateral or product type, and associated modelling of internal data history. In general, the revolving credit exposures are unsecured and therefore only the efficiency of the recovery processes impacts on the level of LGD. The EAD measurement plays a significant role due to the high level of undrawn limits inherent in these product types. The EAD estimate is based on actual historic EAD and is segmented depending on whether the facility is straight or budget (credit card) and utilisation size. ***Validation methodology:*** Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.
7. ***Other retail exposures (Retail rating systems for FNB Personal Loans, Smart Products and WesBank retail auto finance and personal loans)***	The default definitions applied in the rating systems are aligned to the requirements of Basel II. ***Rating process and approach:*** → The retail portfolio is segmented into homogeneous pools and sub pools through an automated scoring process using statistical models that incorporate product type, customer behaviour, application data and delinquency status. → Based on internal product level history associated with the homogeneous pools and sub pools, probabilities of default are estimated for each sub pool. → No overrides of the probability of default are possible. The only potential override is not that of the probability of default, but rather of the automated decision to lend or not. Such overrides are done judgmentally by credit managers in the segments and are supported by business reasons. → LGD and EAD estimates are based on sub segmentation and the respective collateral or product type, and associated modelling of internal data history. ***Validation methodology:*** Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.

Control mechanisms implemented for credit risk measurement

Rating systems are recalibrated and validated independently on an annual basis to ensure their validity and accuracy. The focus remains on the predictive power of the underlying models. Models are appropriately conservative and incorporate data of downturn periods such as 2001 and 2007. Independent validation of rating systems is conducted by GCRM in ERM. GCRM is responsible for the review of all rating systems and a comprehensive revalidation of all material rating systems. The rating systems are also reviewed by an actuarial auditing team within Internal Audit, and sampled revalidation is also carried out. The MRV committee, being the board sub committee responsible for the independent oversight and approval of the rating systems, reviews the results of the independent validations.

Documentation that is maintained regarding the models includes:

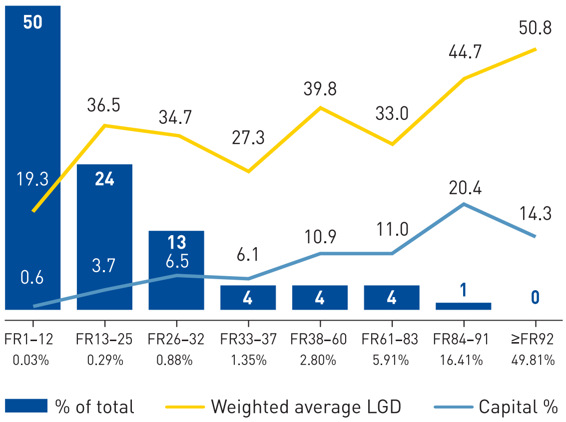
- Developmental evidence – documentation detailing the processes followed, and data used to construct the model. It is maintained and updated annually by the model builders with GCRM acting as custodian.
- GCRM independent validation reports – independent validations of the models are performed annually and the results are documented in these reports.
- Model building frameworks – GCRM are responsible for the frameworks used to construct the models. The frameworks are maintained and reviewed annually.

Basel II asset classes and relevant FRB portfolio

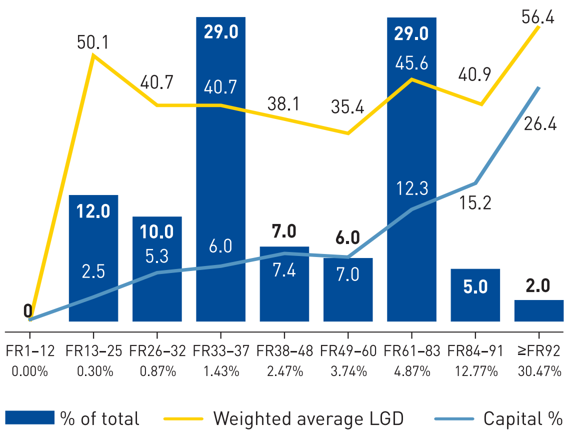
Basel II asset class	FRB portfolio
Corporate, bank and sovereign	RMB FNB Corporate Banking Balance Sheet Management
SME, corporate and retail	FNB Commercial
Residential mortgages	FNB HomeLoans RMB Private Bank and FNB Private Clients Mortgages in FNB Mass
Qualifying revolving retail	FNB Card FNB Personal Banking (Overdrafts) RMB Private Bank and FNB Private Clients
Other retail	FNB Mass (secured and unsecured Smart Products) FNB Personal Banking (Personal loans, student loans)
Other retail SME, corporate	WesBank

The charts below provide the exposure distribution per EAD as well as the exposure weighted average TTC PD, LGD and indicative capital ratio for each Basel II asset class (refer to table). The TTC PD is lower than the PIT PD in the current cycle. The credit conversion factor for FRB is estimated at 89% for off balance sheet products.

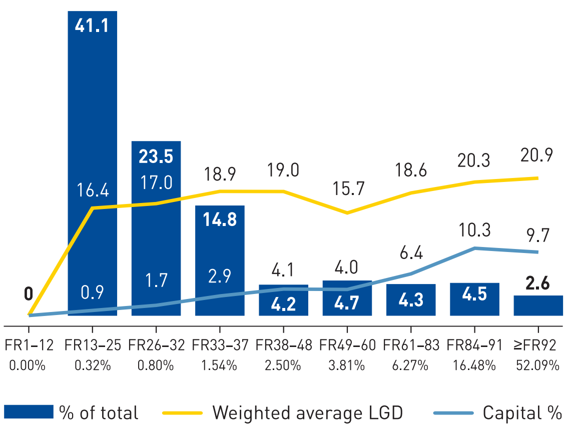
Corporate, bank and sovereign
(%)



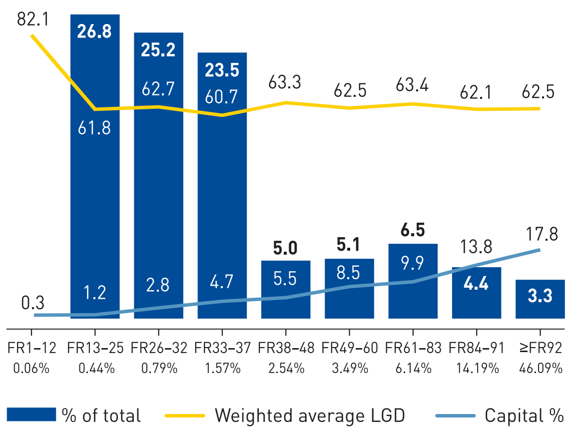
SME exposures (FNB Commercial)
(%)



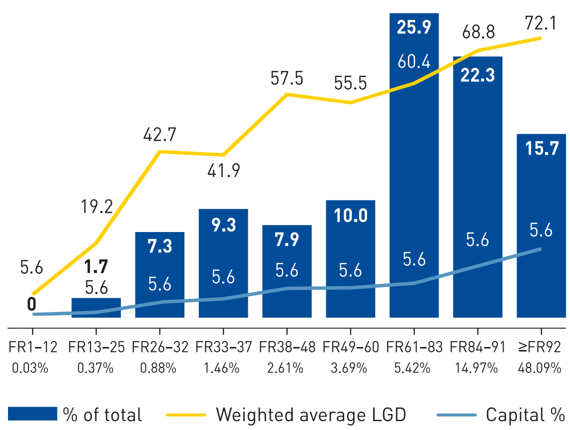
Residential mortgages
(%)



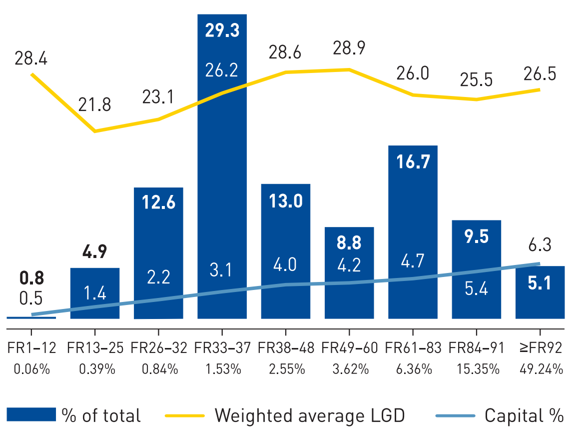
Qualifying revolving retail
(%)



Other retail
(%)



WesBank
(%)



Portfolio weighted average performing PD and LGD per Basel II asset class

	Weighted average performing PD	Weighted average LGD
Corporate, bank and sovereign	0.80%	31.76%
SME exposures	3.66%	43.15%
Residential mortgages	3.26%	17.40%
Qualifying revolving retail	3.54%	62.03%
Other retail	13.05%	59.67%
WesBank	6.09%	26.07%

The performing PD is measured through the cycle. The LGD used is the downturn LGD.

Securitisations

FirstRand Bank uses securitisation as a tool to achieve a combination of some or all of the following results:

- enhanced liquidity position through the diversification of funding sources
- matched cash flow profile of assets and liabilities
- reduction of balance sheet risk
- reduction of capital requirements
- management of credit concentration risk

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold by the Bank to the special purpose vehicle at carrying value and no gains or losses are recognised. The securitisation entities are consolidated into FRBH. For synthetic securitisations, credit derivatives are recognised at fair value, with any fair value adjustments reported in profit or loss.

On balance sheet exposures

Transaction	Year initiated	Rating agency	Assets securitised	Assets outstanding (R million)	Notes outstanding (R million)
Traditional securitisations					
Nitro 1	2006	Moody's	2 000	320	393
Nitro 2	2006	Moody's	5 000	1 282	1 651
Nitro 3	2007	Moody's and Fitch	5 000	2 294	2 758
Ikhaya 1	2007	Fitch	1 900	1 522	1 597
Ikhaya 2	2007	Fitch	2 884	2 160	2 198
Total traditional securitisations			16 784	7 578	–
Synthetic securitisations					
Procul	2002	Fitch	2 000	2 000	2 000
Fresco II	2007	Fitch	20 000	20 000	20 000
Total synthetic securitisations			22 000	22 000	22 000
Total			38 784	29 578	22 000

In each of the abovementioned securitisations, the Bank played the role of originator, investor, servicer and swap counterparty. All the above transactions continue to perform in line with expectations as detailed in each of the respective offering circulars.

Off balance sheet exposures[1]

Transaction	Transaction type	Exposure type	Exposure (R million)
Own transactions			
iNdwa	Conduit	Liquidity facility (programme wide)	8 024
iVuzi	Conduit	Liquidity facility (programme wide)	4 130
iNkhota	Conduit	Loan	10
Third party transactions			
Freestone[1]	Securitisation	Liquidity facility (programme wide)	200
Freestone[2]	Securitisation	Liquidity facility (programme wide)	260
PROPS[2]	Securitisation	Liquidity facility (programme wide)	625
ABSA CARS[1]	Securitisation	Liquidity facility (programme wide)	229
ABSA HOMES[1]	Securitisation	Liquidity facility (programme wide)	233
SANLAM	Securitisation	Liquidity facility (programme wide)	425
Auto Series Investments	Securitisation	Liquidity facility (programme wide)	83
Blue Hanger	Securitisation	Liquidity facility (programme wide)	250
		Credit enhancement	25
AFGRI	Securitisation	Liquidity facility (programme wide)	28
Total			15 200
of which:			
Own transactions			12 843
Third party transactions			2 357

1 *It is important to note that from an accounting perspective, upon consolidation, the underlying assets in the 'Own Transaction' off balance sheet entities are consolidated onto the FRBH balance sheet.*

All the liquidity facilities in the above transactions will rank senior in the priority of payments in the event of a drawdown. As such, the inferred rating on the liquidity facility to iNdwa is F1+(zaf), while the inferred ratings on the other liquidity facilities are AAA on a national scale level. Economic capital is allocated to the liquidity facility extended to iVuzi as if the underlying assets are on balance sheet to reflect the risk that these assets may come on balance sheet in a stress scenario.

The table below shows the conduit programmes currently in place that have been facilitated by the Bank.

Conduits

Transaction	Underlying assets	Year initiated	Rating agency	**Programme size (R million)**	**Current size of non recourse investments (R million)**
iNdwa	Corporate term loans	2003	Fitch	**15 000**	**10 810**
iVuzi	Corporate term loans	2007	Fitch	**15 000**	**5 083**
iNkotha	Call loan bond fund	2006	Fitch	**10 000**	**5 631**
Total				**40 000**	**21 524**

The table below shows the roles played by the Bank in each of the conduit programmes currently in place:

Transaction	Originator	Investor	Servicer	Liquidity provider	Credit enhancement provider	Swap counterparty
iNdwa	–	–	√	√	–	√
iNkotha	–	–	√	–	–	–
iVuzi	–	–	√	√	√	√

All of the above conduit programs continue to perform in line with the expectations as detailed in each of the respective offering circulars.

The table below shows the total outstanding exposures securitised by the Bank subject to the securitisation framework as at the end of the reporting period.

	Corporate receivables (R million)	SME receivables (R million)	Retail mortgages (R million)	Retail: revolving products (R million)	Retail: instalment sales and lending (R million)	Retail: Other (R million)	Total (R million)
Traditional	–	–	3 682	–	3 896	–	7 578
Synthetic	20 000	–	–	–	2 000	–	22 000
Total	20 000	–	3 682	–	5 896	–	29 578

FRB has neither securitised any exposures that were impaired or past due at the time of securitisation, nor has it suffered any losses during the current period on the assets that remained on its balance sheet.

The table below shows the securitisation exposures retained or purchased and the associated internal ratings based capital charge per risk band.

Risk weight bands	Exposure (R million)	IRB capital (R million)	Capital deduction (R million)
≤10%	17 840	122	–
>10% ≤20%	14 510	122	–
>20% ≤50%	235	9	–
>50% ≤100%	1 019	57	–
>100% ≤650%	722	134	–
Deduction	523		523
Total	34 849	**444**	523

None of the securitisations transactions are subject to early amortisation treatment.

6 COUNTERPARTY CREDIT RISK

COUNTERPARTY CREDIT RISK IS DEFINED AS THE RISK THAT THE COUNTERPARTY TO A TRANSACTION COULD DEFAULT BEFORE FINAL SETTLEMENT OF THE TRANSACTION'S CASH FLOWS.

An economic loss would occur if the transactions or portfolio of transactions with the counterparty have a positive economic value at the time of default. The market value is uncertain and can vary over time with the movement of underlying market factors.

Risk governance and management

Counterparty credit risk is managed in terms of the Credit Risk Management Framework for Wholesale Credit Exposures, a sub framework of the FRBH Credit Risk Management Framework.

Counterparty credit risk limit applications are assessed and approved individually and in conjunction with existing direct and settlement limits. In order to determine the appropriate level of such limits, the Bank requires a comprehensive analysis of counterparty credit risk, including the extent to which the exposure can increase under distressed conditions. This analysis is done by an independent specialist credit analyst (in conjunction with Market Risk), who recommends a counterparty limit. All limit recommendations, prior to going to the appropriate credit committee for approval, are considered and approved by business unit owners who have co-responsibility for ensuring the counterparty credit risks are acceptable, and that appropriate processes and procedures are in place to monitor and manage the level of credit risk. All counterparty credit risk limits are reviewed annually. Approved counterparty credit limits may be sub allocated to business units wishing to avail themselves of the available counterparty credit line, and within these business units the limit will be allocated to various products.

Wherever possible, derivative trading is pursued under ISDA master agreements, International Securities Market Association (ISMA) contracts, or credit support annexes (CSAs). These agreements provide for the ability to settle the net exposures due and payable by both counterparties in the event of a default being called. The CSAs provide for margining and/or collateral arrangements where possible.

Risk measurement, monitoring and economic capital

Limit and exposure management processes are supported by various management information systems and manual intervention processes. A credit risk resource within each business unit ("BU") is responsible for ensuring that limits are monitored and adhered to. Credit risk reports are created at desk level and sent to dealers who use the report to check limit availability before concluding new transactions. The credit operations staff also check the daily credit risk reports to assess whether any dealing excesses have arisen.

Any excess exposure over a sub allocated limit has to be reported to the BU head, the head of BU risk management and relevant counterparty risk control functions without delay and corrective actions must be agreed by all parties. Should an excess exposure arise, it is evaluated taking cognisance of the sub allocated limit and the total actual exposure at FRBH level in relation to the total approved counterparty credit limit at FRBH level. Excesses against sub allocated limits require risk management to identify the cause of the excess (e.g. dealer non compliance, unexpected market moves, settlement failure, counterparty credit deterioration, etc.). It is the responsibility of the dealers to remedy the cause of the excess.

Failure to correct a breach as agreed, or recurrence of the same or similar breaches from desk level upwards, are reported to the RMB Proprietary Board, ERM and to the next meeting of the FRBH RCC committee. These committees are responsible for ensuring that corrective action takes place.

Economic capital is assessed in terms of the internal ratings based ("IRB") approach to credit risk, with exposure at default measured under the Basel II current exposure method for FRB.

The following table shows counterparty credit risk arising from derivative and structured finance transactions of FRB as at 31 December 2008.

Counterparty credit risk arising from derivative and structured finance transactions of FRB

R million	
Gross positive fair value	123 222
Netting benefits	73 042
Netted current credit exposure before mitigation	50 180
Collateral value	21 578
Exposure at default	53 144

Distribution of credit derivatives of FRB based on nominal values as at 31 December 2008

R million	Credit default swaps	Total return swaps	Other	Total
Own credit portfolio				
– protection bought	2 257	–	5 966	8 223
– protection sold	–	–	–	–
Intermediation activities				
– protection bought	–	–	250	250
– protection sold	970	–	–	970

7 MARKET RISK

MARKET RISK IS THE RISK OF ADVERSE REVALUATION OF ANY FINANCIAL INSTRUMENT AS A CONSEQUENCE OF CHANGES IN MARKET PRICES OR RATES. IT EXISTS IN ALL TRADING, BANKING AND INVESTMENT PORTFOLIOS FOR THE PERIOD ENDING 31 DECEMBER 2008. MARKET RISK IS CONSIDERED TO BE FULLY CONTAINED WITHIN THE TRADING PORTFOLIOS.

Substantially all market risk within FRBH is taken in RMB as this is the division within FRBH where market risk taking and management expertise lies.

Market risk governance and management

Market risk is managed in terms of the Market Risk Framework which is a sub framework of FRBH's Risk Management Framework. Activities currently include trading in the foreign exchange, interest rate, equities, commodities and credit markets in both physical and derivative instruments.

A two tiered governance structure governs market risk taking activities within FRBH. The first tier operates at Group level and consists of determining the appetite of the bank for market risk taking activities, and the independent prudential oversight attached thereto. The second tier involves the non statutory governance forums that actively oversee the implementation of board policies at the divisional level. Appetite for market risk taking activities is determined by the FRBH board, with primary independent prudential oversight of market risk then vesting with the FRBH RCC Committee. At the divisional level, the RMB Proprietary Board (an executive management committee that acts as RMB's designated risk committee) has the primary task of strategic risk allocation to the transacting units and ensuring the implementation of the prudential aspects of the board mandate. The RMB Finance, Risk and Capital committee is the market risk committee of RMB and is a sub committee of FRBH RCC committee. It is charged with independent oversight of market risk within RMB and reports all material aspects of market risk to the FRBH RCC committee. Longer term equity investments, both listed and unlisted, are approved by the Investment committee on an individual basis and are managed under the Investment Risk Framework. Market and investment risk limits are reviewed at least annually.

Market risk measurement

Market risk exposures are limited by means of distressed ETL limits, whilst soft VaR triggers indicate that positions need to be reviewed by management. Both sets of limits are approved by the RMB Proprietary Board and ratified by the FRBH RCC committee and the board. Risk concentrations are controlled by means of appropriate sub limits attached to both asset class (interest rate, equity, foreign exchange, commodities and traded credit) and business unit maximum allowable exposures.

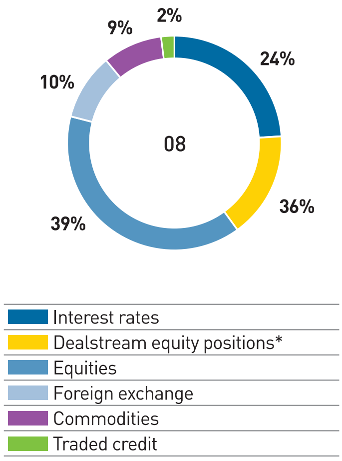
Stress conditions are represented by historic systemic disaster scenarios. The disaster scenarios have been deliberately set to reflect the illiquid conditions and volatile price movements experienced during a typical systemic breakdown in the markets. The distressed ETL measure is derived by way of a full revaluation of the whole portfolio against these scenario moves.

RMB has approval from the SARB to measure regulatory market risk capital for the local trading book under the internal model approach, as stipulated in the Basel II Accord. The standardised approach is used to calculate regulatory market risk capital for all international legal entities although for internal economic capital measurement, the internal model approach is used for all legal entities and is based on distressed ETL.

In addition to the distressed ETL and VaR methodologies, FRBH supplements its measurement techniques with defined stress tests and scenario analyses across all material risk factors. The calibration of the stress tests are reviewed from time to time to ensure that they are indicative of possible market moves under distressed market conditions and they provide additional insight into possible outcomes under stressed market conditions to the RMB Proprietary Board.

The chart below shows the distribution of exposures per asset class across FRBH's trading activities at 31 December 2008 based on the distressed ETL methodology.

FRBH's market risk exposure per risk factor



* *Even though the positions in Vox Telecom Ltd and Simmer and Jack Mines Ltd are accounted for as associates and managed as part of the Private Equity portfolio, these exposures are monitored daily as part of the market risk monitoring process. This explains the large exposure to equity risk relative to other risk factors. The economic and regulatory capital requirement relating to these holdings are, however, calculated under the equity investment risk framework.*

Market risk exposures are quantified on a daily basis across all RMB's trading activities and monitored by the business and central risk managers, desk heads, business unit heads, and designated executive management for any excess against limits. The business and central risk managers at RMB assess the causes of any excesses and monitor the correction thereof. These functions also track the daily profits and losses against risk exposures and monitor the attribution of profits and losses by risk factor to ensure that risk exposures do not go undetected and that profits and losses are explained within the risk measurement framework.

The market risk management processes are well vested and function effectively. Identified process shortcomings are corrected and progress with corrective actions is monitored by the risk managers and the RMB Finance, Risk and Capital committee as they arise.

VaR analysis

The VaR exposures below reflect the aggregate market risk exposure per asset class across different trading activities. The VaR risk measure estimates the potential loss over a 10 day holding period at a 99% confidence level. The VaR scenario set comprises the most recent 250 scenarios, as required for internal model capital regulatory market risk measurement.

	31 December 2008				30 June 2008
R million	Min	Max	Ave	Period end	Year end
Risk type					
Equities	156.4	393.9	270.1	333.5	233.8
Interest rates	65.3	186.1	115.4	104.1	100.7
Foreign exchange	26.8	94.3	57.2	58.6	69.0
Commodities	16.4	122.7	77.6	58.0	119.8
Traded credit	12.7	59.2	31.4	15.1	46.5
Diversification				(196.9)	(243.7)*
Total				372.4	326.1

* *Please note that this number has been updated to reflect the diversification number across banking and trading activities. Previously this only reflected trading activities.*

In order to validate the VaR calculations, back testing is conducted on a daily basis. This is accomplished by comparing the 1 day VaR at the 99% confidence level to actual trading profits or losses for that particular day.

Market risk stress analysis (distressed ETL)

A revaluation of the portfolio is calculated over 500 scenarios, of which 250 scenarios represent a distressed market period. Once the current financial crisis plays itself out, the distressed scenario set will be supplemented with data from the current market crisis.

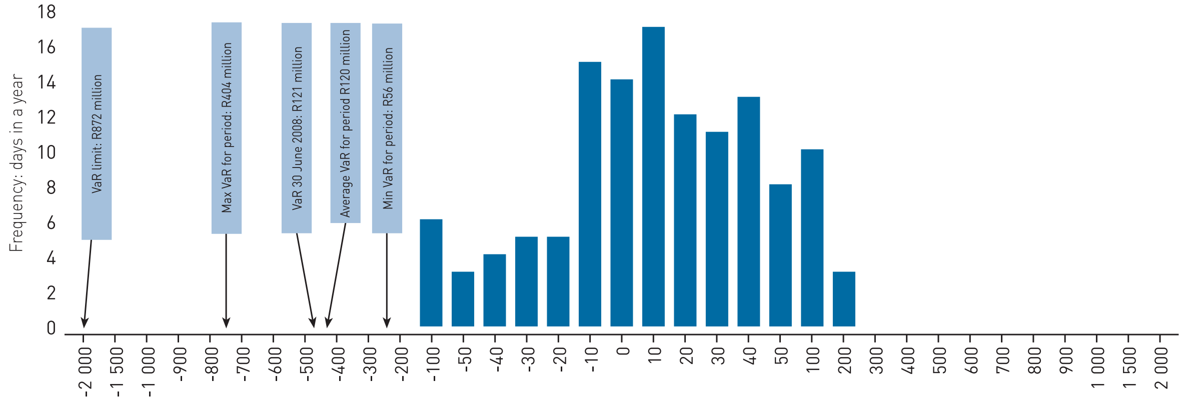
	31 December 2008				30 June 2008
R million	Min	Max	Ave	Period end	Year end
Risk type					
Equities	243.8	663.1	435.6	516.7	346.4
Interest rates	181.2	561.1	351.6	226.8	270.1
Foreign exchange	45.8	193.2	96.6	93.0	124.6
Commodities	24.8	193.3	122.8	88.1	180.5
Traded credit	14.2	93.3	39.1	15.0	67.6
Diversification				(348.6)	(390.7)*
Total				591.0	598.4

* *Please note that this number has been updated to reflect the diversification number across banking and trading activities. Previously this only reflected trading activities.*

Daily earnings at risk

The graph below shows the daily trading earnings profile for the past six months. The distribution is skewed to the profit side. The graph also indicates heightened income volatility which resulted from the market conditions experienced during the period as well as risk positions taken over from Dealstream. Exposures have, however, been contained within risk limits during the trading period.

Distribution of trading income for the six months ended 31 December 2008 for local divisions
(Profit and loss in R millions)

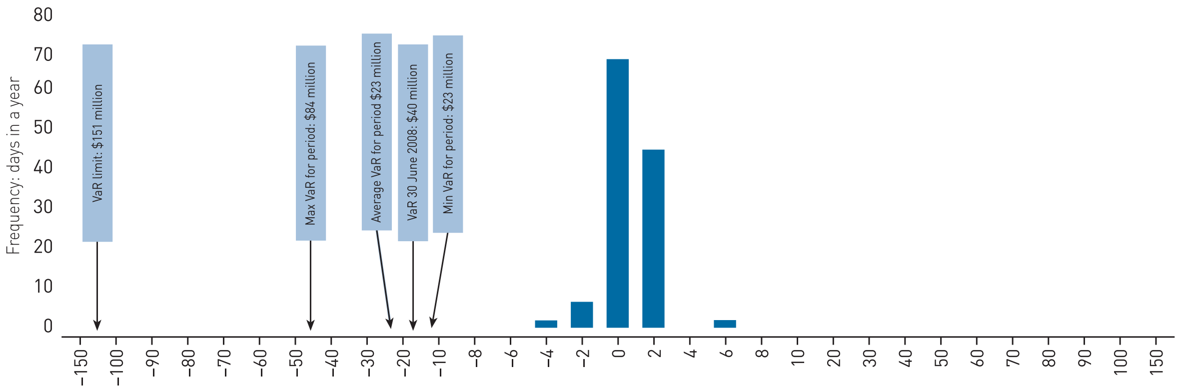


International

FirstRand Ireland plc ("FRIE") represents the most material international subsidiary of FRBH. FRIE makes use of the same distressed ETL and VaR methodologies, additional stress scenario analysis and market risk monitoring processes to manage market risk as are used locally. The FRIE board sets market risk limits for each business area.

The distribution of trading income below indicates a reduced level of trading income volatility incurred during the six months ended 31 December 2008 when compared to the six months ended 30 June 2008. This mainly resulted form the recent de-risking of the offshore trading balance sheet.

Distribution of trading income for the six months ended 31 December 2008 for offshore divisions
(Profit and loss in USD millions)



FNB Africa subsidiaries

FNB Namibia and FNB Botswana are the most material FNB Africa subsidiaries. Both of these entities make use of a stress methodology to estimate the market risk positions held and the maximum losses expected.

8 EQUITY INVESTMENT RISK

EQUITY INVESTMENT RISK GENERALLY REFERS TO THE RISK ASSOCIATED WITH THE ACQUISITION OF EQUITY/OWNERSHIP OR PARTICIPATION IN A LISTED COMPANY OR AN UNLISTED COMPANY OR A START-UP.

Risk governance and management

Equity investments are approved by business unit investment committees, the RMB Investment committee or the FRBH Large Exposures Credit committee depending on the value of individual investments. The FRBH Large Exposures Credit committee also approves investments comprising both debt and equity portions, irrespective of the percentage split, should the total exceed approved thresholds.

Risk associated with private equity investments is managed through various means. Prior to investing, a comprehensive due diligence is performed for each investment providing a thorough understanding of the business and comfort around its management team. Management incentives and constraints are structured such that the interests of the buyer and those of management are aligned for the success of the investment. In the majority of cases, RMB seeks a seat(s) on the board of the investee company. Investments are further monitored regularly throughout the life of the deal. Investee company financial statements are received and analysed on a regular basis. Personal contact with portfolio companies' management is maintained regularly and any concerns are raised with management.

RMB conducts a bi-annual review of all private equity portfolio companies. Matters such as the valuation of the companies are peer reviewed, and the outlook for the companies and any upcoming events that are deemed potential risks to the value of a company are discussed.

On a portfolio level, risk in the private equity portfolio is managed through the diversification of investments across geography, industry, stage (i.e. leveraged buy out or structured deals) and vintage (annual replacements of realisations).

Risk on listed equities is managed in accordance with the market risk framework. This includes the role of both management and oversight bodies.

Risk measurement and economic capital

Economic capital for equity exposures held for investment purposes is calculated using a stress test approach similar to the Basel II approach for equity investments, i.e. applying a risk weighting of 300% and 400% of exposure value for listed and unlisted investments, respectively. A conservative portfolio offset is allowed for unlisted investments that are equity accounted should the carrying value be less than the market value.

Where price discovery permits for liquid listed equity positions, the ETL under distressed market conditions is calculated on a standalone basis (per the trading book methodology and scenarios). This measure is used for economic capital, subject to a floor of 20% of market value on the capital calculation.

Where price discovery into the underlying assets of hedge funds permits for a look though to those underlying assets, modelling of economic capital is based on such a look through approach, as opposed to the simplistic 300% (risk weight) stress tests. This methodology is only applied where the exposure represents less than 5% of the fund and RMB is not the seed capital provider. The underlying assets are modelled onto FRBH's market risk systems and capital is assigned on a general market risk basis, with a specific risk add on of 12% in line with Basel II requirements.

Those funds where asset prices or values are not available on a frequent basis are treated in the same manner as unlisted equity investments with the assumption that the valuation provided by the fund is correct as this is the value at which the fund is carried on book.

The following table provides information relating to equity investments in the banking books of those entities regulated as banks within FRBH as at 31 December 2008.

R'million	Publicly quoted	Privately held	Total
Carrying value disclosed in balance sheet	2 210	6 452	8 662
Fair value*	1 836	6 896	8 733
Total unrealised gains recognised directly in the balance sheet through equity instead of the income statement**	702	92	794
Latent revaluation gains not recognised in the balance sheet**	(374)	444	71
Economic capital held	500	1 470	1 970

* *Fair values of publicly quoted investments were not considered to be materially different from the quoted prices.*

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

9 LIQUIDITY RISK

LIQUIDITY RISK IS THE RISK THAT THE BANK WILL NOT MEET ALL PAYMENT OBLIGATIONS AS LIABILITIES FALL DUE. IT ALSO REPRESENTS THE RISK ASSOCIATED WITH NOT BEING ABLE TO REALISE ASSETS TO MEET DEPOSITOR REPAYMENT OBLIGATIONS IN A STRESS SCENARIO.

Liquidity risk: A broader definition

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

Market liquidity risk is the risk that market disruptions or lack of market liquidity causes the Bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly. Liquidity risk is a consequential risk and FRBH continues to monitor and understand possible impacts of other risks and events on its funding and liquidity risk. This is also taken into account when stress testing and scenario analyses are performed.

Liquidity risk governance

FRBH's Liquidity Risk Management Framework aims to apply sound principles for managing liquidity risk, based on best practice international standards. It is designed in line with Basel principles to identify measure and manage the liquidity risk position of FRBH. Rapidly changing markets with growing product complexities, changes in the economy, international expansion, entry of new participants to the market and global liquidity risk conditions highlight the need for continual reassessment of and improvements to the framework. The framework is reviewed and updated on a regular basis by ERM. The framework is also independently approved by FRBH's Asset/Liability Management committee ("ALCO") and ratified by FRBH's RCC committee. ERM provides independent risk oversight over FRBH's liquidity risk management.

The Liquidity Risk Management Framework covers three broad topics:

- governance and organisational structure for managing liquidity;
- analytical framework for measuring, monitoring, and managing liquidity; and
- stress testing and contingency planning.

FRBH acknowledges that good governance and an effective organisational structure are imperative for the efficient management of liquidity risk. BSM is responsible for the measurement and management of liquidity risk. A dedicated asset/liability oversight team in ERM is responsible for independent oversight of liquidity risk and reports to FRBH ALCO.

Liquidity risk measurement

Liquidity risk is measured in a combination of daily, weekly and monthly procedures for the purpose of determining FRBH's liquidity risk status. As a strategic management tool, this assists dynamically in strategy formulation and tracking of effectiveness. The liquidity risk measurement processes attempt to analyse and depict liquidity risks evident in the material portfolios and legal entities of FRBH.

The risk measurement processes are classified into the following broad categories:

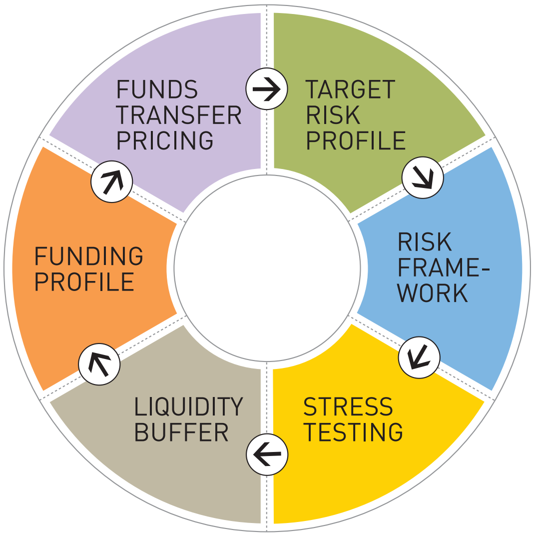
- Funding limits:
  - funding buckets;
  - liquidity concentrations; and
  - intergroup funding limits.
- Liquidity gap analysis
- Early warning and key risk indicators ("KRIs"):
  - diversification (term, source, product);
  - off balance sheet exposures;
  - available funding resources;
  - performance measurement;
  - reputation (risks & events);
  - regulatory requirements;
  - liquidity ratios;
  - competitor analysis;
  - asset quality; and
  - other risks/events.

Each category has multiple KRIs, highlighting the risks and trends on and off balance sheet. Conduits, securitisations, contingent liabilities and undrawn facilities are all included and managed as if on balance sheet. Limits are set at two levels (amber and red) for each key risk indicator. Amber levels indicate a warning signal and possible negative trends and that action is required to restore the status to green (depending on tolerance levels). Red levels indicate that immediate action is required and possibly activating contingency plans. These KRIs are monitored regularly (daily, weekly and monthly) to enable BSM to effectively manage the FRBH's liquidity position and are reported monthly to FRBH ALCO and quarterly to the FRBH RCC committee.

Management of liquidity risk

Liquidity risk is managed in terms of the Liquidity Risk Management Framework, a sub framework of the RMF. Liquidity risk for FRBH is centrally managed by BSM. The liquidity risk management approach includes firstly the intraday management (operational liquidity), managing the daily payment queue, forecasting cash flows and factoring in access to central banks.

Secondly, tactical liquidity risk management deals with access to unsecured funding sources and the liquidity characteristics of FRBH's asset inventory (asset liquidity). Finally, dynamic liquidity risk measurement and analysis assist in the strategic decision making process when formulating the issuance strategy. The following diagram illustrates the liquidity risk management cycle.



Term funding diversification is considered very important. Liquidity risk resides in the short term exposure of FRBH, where most of its liabilities mature within one month and relatively few of its assets mature in that period. To manage this risk, the steps indicated in the diagram above are followed.

Determining the liquidity risk target profile is the key starting point. Comparing the current profile with that of the industry and identifying the target risk profile forms part of the measurement process which filters through the Liquidity Risk Management Framework. Stress testing is performed to determine how effectively the current and targeted risk profiles would withstand certain stress events at certain severity levels. Stress testing also plays a key role in the methodology for calculating the size of the liquidity buffers, considering FRBH's risk appetite. These unencumbered liquidity risk buffers are in excess of the statutory requirements and are actively managed in portfolios of high quality liquid assets, maintained at targeted levels for protection against any unexpected disruptions. The current funding profile is strategically adjusted to reach the target risk profile by implementing certain short, medium and long term action plans. The wholesale funding market is utilised to correct any strategic adjustment differences. The costs of these strategic decisions are passed on to the respective business units via the internal matched maturity funds transfer pricing models. Once the cycle is complete, the risk profile is reassessed, considering current market and economic conditions, as well as risk appetite, and the process is repeated.

The following actions are taken within this process to maintain an adequate liquidity risk profile and status:

- industry benchmarking;
- analyse and manage concentration of short term funding maturities;
- diversify the range of products offered to financial institutions and maintain an appropriate mix of funding sources;
- maintain and manage a portfolio of available liquid securities;
- make assumptions based on sensitivity analyses to assess potential cash flows at risk in stressed conditions;
- maintain liquidity contingency plans;
- monitor sources of funding for contingency funding needs;
- monitor daily cash flow movements across FRBH's various payment streams;
- actively manage daily settlements and collateral management processes;
- define, measure and monitor KRIs;
- define and monitor liquidity risk limits;
- monitor balance sheet liquidity ratios against internal and regulatory requirements;
- maintain an appropriate term mix of funding;
- consider off balance sheet exposure and contagion risks (for example conduits) and manage within appropriate risk appetite levels;
- consider KRIs on reputation risk and performance measurement as an integral part of determining FRBH's liquidity risk status; and
- assess liquidity risk position on a daily basis to support decision making on liquidity risk and funding management.

Although FRBH also engages in financial transactions utilising special purpose entities, it is not reliant upon these entities to any material extent in terms of its funding and liquidity capacity. These entities (and FRBH's obligations to them) are fully consolidated in its liquidity risk measurement, stress testing and management processes and are managed conservatively from a liquidity risk perspective.

FRBH is adequately funded and able to meet all its current obligations.

Management of the funding profile

Funding risk is the risk that the Bank does not have an appropriate mix of funding sources. This represents the risk of not having a diversified funding base by market segment, term structure (term to maturity), product range and client mix. High concentration in any one of these categories poses the risk that the Bank may have insufficient funding opportunities for advances growth or during a liquidity stress scenario.

BUILDING BLOCKS			
DIVERSIFICATION	EFFICIENCY	FLEXIBILITY	RELATIONSHIP MANAGEMENT
Natural market	Infrastructure	Liquid balance sheet	Segments
Investor base	Cost of funding	Geographical market	Customers
Tenor	Liquidity cost curve	Capacity	Financial institutions
Maturity	Interest rate curve	Innovation	Rating agencies
Segments	MMMFTP	MMMFTP*	Capital markets
Instruments	Instruments	Platforms	Regulatory
Products			
Geographic			
Markets			

* *Marginal matched maturity funds transfer pricing*

FRBH follows an integrated approach to financing activities with regards to funding, contingent funding and capital.

The table above sets out the key building blocks of the funding strategy, i.e. diversification, efficiency, flexibility and relationship management.

BSM is involved in relevant product developments, pricing committees and product funding/pricing solutions with certain business units. The Bank's funding base is compared monthly with industry peers to ensure that it is well diversified in terms of term structure and market segment of funding (financial institutions, government, corporates and retail clients). On both counts, FRB is in line with market norms and has a well diversified funding portfolio.

Management of liquidity and funding risks in FRBH's international operations

BSM is involved in asset/liability issues associated with the Group's International business entities and the FNB Africa subsidiaries. This involves ensuring that the FRBH offshore treasury operations operate within appropriate business mandates, are in compliance with the FRBH liquidity risk management policy and that they are active in the international market for cost effective funding in a manner which would not reprice the Bank's funding base inappropriately.

FNB Africa

Liquidity risk management forms an integral part of risk management in the FNB Africa subsidiaries. The primary risk management process takes place in country, with monthly review of exposures performed by local ALCOs in each jurisdiction. Governance and oversight occurs via reporting of the liquid asset requirements, funding reports and contractual gaps to FRBH ALCO on a monthly basis. Intragroup funding (where permitted, given the constraints of exchange controls) is also subject to limits which are monitored continuously. Breaches are reported via ERM to FRBH ALCO and RCC committees.

FirstRand International

Liquidity risk for international business entities is managed on a decentralised basis. Each of the subsidiaries is responsible for the management of its own liquidity risk and must ensure that adequate and effective measurement and management tools are in place as prescribed by the FRBH Liquidity Risk Management Framework. International ALCO monitors and oversees the risks undertaken by these entities and reports to FRBH ALCO. The liquidity risk management processes of all international entities are set up to comply with the principles as set out by the regulatory authorities in each jurisdiction. These same principles would apply for any new business venture as a prerequisite.

Liquidity mismatch analysis

The purpose of liquidity mismatch analysis is to anticipate the maturities in the balance sheet when business is done under normal, stressed and contractual conditions. To quantify liquidity risk, FRB has developed three liquidity forecast models:

- Business as usual model: This model forecasts the liquidity situation of the Group on an ongoing basis. The output of the business as usual model is an estimate of the funds that need to be raised under normal or routine circumstances taking into account behavioural attributes.
- Stress/event model: This is a liquidity forecast under extra-ordinary circumstances. The output of this methodology is the outflow of funds under extraordinary circumstances.
- Contractual maturity model: This is a liquidity forecast on the assumption that assets and liabilities will be liquidated at contracted maturity. The model indicates how much funding needs to be raised based on actual contractual obligations.

By way of illustration the tables below show the mismatch between assets and liabilities before and after applying behavioural profiling.

FRB contractual liquidity gap

	As at 31 December 2008			
		Term to maturity		
R million	Total	Call – 3 months	3 – 12 months	Over 12 months
Total assets	607 766	194 838	83 938	328 990
Total liabilities and equity	607 766	374 383	95 034	138 349
Net liquidity gap	–	(179 545)	(11 096)	190 641
Cumulative liquidity gap	–	(179 545)	(190 641)	–

FRB business as usual gap

	As at 31 December 2008			
		Term to maturity		
R million	Total	Call – 3 months	3 – 12 months	Over 12 months
Total assets	607 766	95 165	134 323	378 278
Total liabilities and equity	607 766	107 928	129 444	370 394
Net liquidity gap	–	(12 763)	4 878	7 884
Cumulative liquidity gap	–	(12 763)	(7 884)	–

The above business as usual gap is compiled in a manner consistent with the statutory view of the scenario, i.e. static (no new business).

Liquidity contingency planning

FRBH has in place a formal contingency plan that consists of policies and procedures to use as a blueprint in the event of a liquidity crisis. The comprehensive contingency funding plan provides a useful framework for meeting both temporary and long range liquidity disruptions. The plan emphasises reliable but flexible administrative structures, realistic action plans, ongoing communications at all levels in the Group, backed by an adequate management information system. The contingency plan is closely integrated with the FRBH's ongoing analysis of liquidity risk and with the results of stress tests, KRIs and early warning systems.

10 INTEREST RATE RISK IN THE BANKING BOOK

INTEREST RATE RISK IN THE BANKING BOOK IS DEFINED AS THE SENSITIVITY OF THE BALANCE SHEET AND INCOME STATEMENT TO UNEXPECTED, ADVERSE MOVEMENTS IN INTEREST RATES AND CAN BE AN IMPORTANT SOURCE OF PROFITABILITY AND SHAREHOLDER VALUE. EXCESSIVE INTEREST RATE RISK COULD POTENTIALLY POSE A SIGNIFICANT THREAT TO A BANK'S EARNINGS AND CAPITAL BASE, THEREFORE, EFFECTIVE RISK MANAGEMENT THAT MAINTAINS THE RISK WITHIN PRUDENT LEVELS IS ESSENTIAL TO THE SAFETY AND SOUNDNESS OF BANKS.

Banks are typically exposed to the following sources of interest rate risk:

- repricing risk (which arises from the differences in timing between repricing of assets, liabilities and derivative positions);
- yield curve risk (when unanticipated changes in the shape of the yield curve adversely affect the Bank's income or underlying economic value);
- basis risk (imperfect correlation in the adjustment of the rates earned and paid on different instruments with similar repricing characteristics); and
- optionality (the right that the holder has to alter the cash flow of the underlying position).

Interest rate risk governance

Interest rate risk in the banking book is managed in terms of FRBH's Framework for the Management of Interest Rate Risk in the Banking Book, a sub framework of the Risk Management Framework. The framework is reviewed by ERM at least annually.

Interest rate risk management is performed in BSM. The objective of BSM is to protect and enhance the balance sheet and income statement of FRBH. In line with this objective, interest rate risk in the banking book is managed from an earnings approach over a specified horizon and changes to economic value are monitored and managed within defined risk tolerance levels. ERM provides independent risk oversight.

Interest rate risk in the banking book is reported to FRBH ALCO, a sub committee of the board's RCC committee, on a monthly basis. FRBH ALCO is responsible for monitoring the implementation of the framework and the management of interest rate risk in the banking book across FRBH (i.e. it monitors the risk exposures and the effectiveness of the interest rate risk management). Interest rate risk arising from trading activities is managed under the Market Risk Framework.

The board (through FRBH RCC committee) approves overall risk limits for interest rate risk in the banking book. FRBH ALCO approves additional sub limits. In addition to the monthly risk reporting to FRBH ALCO, any limit breaches and proposed remedies are reported immediately to ERM, BSM, the chair of ALCO and to the next meeting of the FRBH RCC committee.

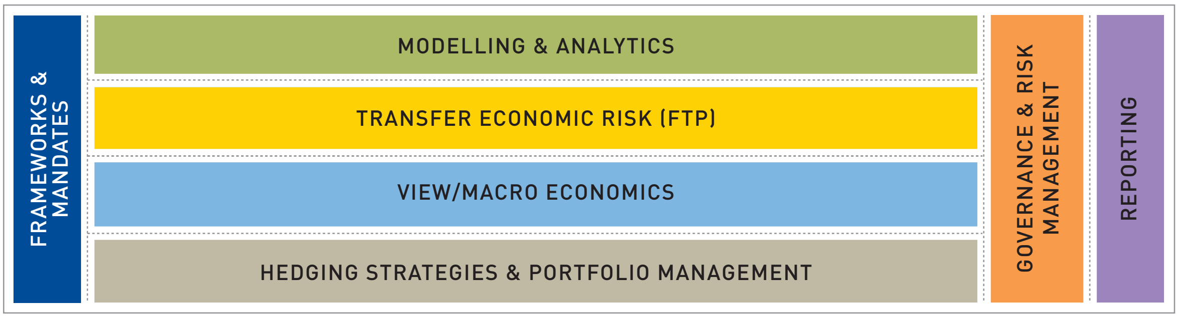
To ensure that region specific issues are addressed, the effectiveness of interest rate risk management in the banking books of international businesses entities is monitored by FRBH's International ALCO, which is a sub committee of FRBH ALCO.

Each of the FNB Africa subsidiaries has its own ALCO, which monitors interest rate risk associated with the banking book of that subsidiary and reports back to FRBH ALCO on a monthly basis.

Interest rate risk management process

The net interest rate risk profile of the domestic banking book is managed centrally by the Macro Portfolio Management ("MPM") pillar in BSM. The graph below illustrates the portfolio management process. The banking book of RMB is managed separately. It is managed in terms of the Market Risk Framework and limits.

The interest rate profile is adjusted by changing the profile of liquid assets or through transactions in derivative instruments, based on FRBH's interest rate outlook with reference to other risk factors impacting the balance sheet, most notably credit risk. Risk measurement and hedging is, in general, done at an aggregate level (i.e. the net interest rate risk profile is hedged). Micro hedging is generally reserved for large and complex once-off transactions. Management of the interest rate profile is done within the risk limits approved by FRBH ALCO. An investment committee oversees these activities and challenges the macro economic view and debates proposed investment strategies.



Where possible, cash flow hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedges do not qualify for cash flow hedge accounting, mismatches may arise due to timing differences in the recognition of income between hedges, which are fair valued, and underlying banking book exposures, many of which are accounted for on an accrual basis.

Interest rate risk measurement

Several measures are used to quantify interest rate risk in the banking book, some of which measure the risk from an earnings perspective and others from an economic value perspective. A selection of earning and economic value measures are reported to FRBH ALCO on a monthly basis.

The table below shows the repricing schedules for FRBH's banking book (excluding RMB) as at 31 December 2008. All assets, liabilities and derivative instruments are placed in time buckets based on their repricing characteristics. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets according to management's judgment and analysis, based on the most likely repricing behaviour. Interest rate risk in RMB's banking book is managed as part of market risk and reported accordingly.

Repricing schedule for the FRBH banking book as at 31 December 2008

	Term to repricing				
R million	Call – 3 months	3 – 6 months	6 – 12 months	Over 12 months	Non rate sensitive
Net repricing gap	17 851	13 409	(13 372)	(701)	(17 187)
Cumulative repricing gap	17 851	31 260	17 888	17 187	–

This repricing analysis excludes the banking books of RMB as these are managed separately

The natural position of the banking book remains asset sensitive (positively gapped), since interest earning assets reprice sooner than interest paying liabilities. This makes the projected net interest income ("NII") vulnerable to a drop in interest rates (as reflected above).

NII is forecast using the current balance sheet position. The NII simulation assumes that there is no management intervention in response to changes in the level of interest rates. The implied forward curve (with spreads where appropriate) is used as the base forecast of rates in the future to facilitate simulation of the base case projected NII for the 12 month forecast horizon. A static balance sheet (based on the current position) is used in the modelling of NII to isolate the impact of rate changes on NII by preventing other assumptions relating to volume growth from masking/offsetting the impact of adverse rate movements (that would reduce NII), by increasing NII as a result of growing volumes.

New volume points are assigned to balances as and when they mature to maintain balance sheet size. Derivatives that mature are not replaced as there is no rule based derivative trading strategy which can be used to predict how derivative positions will be replaced. Several assumptions are made with respect to the repricing characteristics of instruments which have no explicit contractual repricing or maturity dates when simulating NII.

- Non maturity deposits ("NMDs") have no specific maturity and individual depositors can freely withdraw or deposit balances. The interest rates associated with these products are administered by the Bank, but not indexed to market rates. Examples of NMDs include current, savings and transmission accounts. NMDs are assumed to reprice overnight since the administered rate can change on any day at the Bank's discretion.
- Prime linked products are assumed to reprice instantaneously when the repo rate changes.

Several interest rate scenarios are modelled to assess their impact on projected earnings in the banking book. For example, a 200 basis point instantaneous, parallel downward/upward shift in the yield curve is modelled to determine the potential impact on NII over the next 12 months (assuming no management intervention to mitigate the impact of changes in the level of interest rates).

Sensitivity of FRBH's projected net interest income as at 31 December 2008

	Change in projected 12 month NII as a % of base	Change in projected 12 month NII
Downward 200 bps	-7.28%	R887m
Upward 200 bps	+7.39%	R899m

This NII sensitivity analysis.

- *excludes the banking books of RMB as these are managed separately;*
- *includes hedges that are accrual accounted;*
- *excludes hedges that are accounted for on a fair value basis; and*
- *excludes bonds that are accounted for on a fair value basis.*

11 OPERATIONAL RISK

OPERATIONAL RISK IS DEFINED AS THE RISK OF LOSS RESULTING FROM INADEQUATE OR FAILED INTERNAL PROCESSES, PEOPLE OR SYSTEMS OR FROM EXTERNAL EVENTS. THIS DEFINITION INCLUDES LEGAL RISK, BUT EXCLUDES STRATEGIC, BUSINESS AND REPUTATIONAL RISK.

Operational risk governance

FRBH has obtained approval from the SARB to adopt AMA for operational risk with effect from 1 January 2009. This achievement is testament to the sound operational risk governance practices at FRBH.

The Operational Risk committee ("ORC"), which is a sub-committee of FRBH RCC committee, was established to assist the board in discharging its responsibilities in terms of the management of operational risk across FRBH. Operational risk is managed in terms of the Operational Risk Management Framework ("ORMF"), which is a sub framework of FRBH's Risk Management Framework. The framework covers methodologies and policies that ensure adequate identification, measurement, monitoring, control and reporting of operational risk exposure. The role of the ORC is to govern, direct and coordinate operational risk processes in accordance with the ORMF.

Operational risk management process

The ORC is mandated by the FRBH RCC committee to provide governance and oversight of operational risk within the Bank. The membership of the committee comprises two non-executive members, one of whom is the chairman, as well as the divisional heads of risk and senior members of the ERM division.

FRBH adopts the "hub and spoke" model for its approach to operational risk management and control. This means that there is a clear distinction between the mandate of ERM (the 'centralised hub') for operational risk management and the responsibilities of the various business entities ('spokes') that are responsible for implementing the risk policies and controls around operational risk.

Independent monitoring of operational risk occurs through a number of ERM functions across FRBH. Examples of these functions include Risk Insurance; Legal; Information Risk Services; Operational Risk Governance; and Forensic Services. Each of the functions has defined roles, responsibilities and performance objectives to ensure that operational risk is effectively managed and reported across FRBH.

Operational risk management tools

A number of operational risk management tools are used to intelligently and proactively deal with the practical implementation of day to day operational risk management. Bringing all these tools and data together is the internal validation tool. Internal validation is an important component of AMA, and is a process that is in place to ensure that the information that is fed into risk systems is accurate, valid and as complete as reasonably possible. Included in this process is cross validation. This cross validation process across all operational risk tools helps to ensure that the individual risk tools are providing a consistent risk message across the business unit, segment or division.

The tools in use include:

- internal loss data – loss data reporting and analyses are used by risk managers to understand the root causes of loss incidents and to understand where corrective action needs to be taken to mitigate against losses;
- external data – subscription to an external database that is a repository of all global publicly known loss events;
- KRIs are used as an early warning risk management measure to highlight areas of increasing risk exposure. KRI reports are included in management information packs to assist in decision making;
- self assessment – risk and control self assessments are integrated in the risk management process to assist risk managers to identify key risk areas and to assess the effectiveness of the controls in place;
- incident and issue reporting – a process of reporting and escalating operational risk incidents and issues through the risk committee structures; and
- risk scenario analysis – risk scenarios are used to help management understand where areas of potential severe losses exist.

Operational risk quantification and capital calculation

For the six months under review FRBH used TSA to calculate operational risk capital for regulatory capital purposes in terms of the requirements of Basel II. Going forward AMA will be used for internal capital calculation and allocation (economic capital), as well as for regulatory purposes. FRBH obtained approval from the SARB to use AMA on a partial use basis for regulatory capital purposes from 1 January 2009.

Under TSA, capital requirements for all entities in FRBH were calculated as a percentage of gross income (per business line). However, under Basel II's AMA, capital charges for operational risk will be calculated using internal statistical models. Risk scenarios and internal loss data will be the key inputs in the AMA operational risk capital modelling process (calculation and allocation). Qualitative risk measures such as RCSA, KRI and audit findings will provide inputs to internal operational risk capital allocation mechanisms for lower levels in the organisation (business unit level).

In terms of the approval granted, only South African entities' capital requirements will be calculated under AMA for FRBH and FRB. FNB Africa subsidiaries, FirstRand International and other offshore subsidiaries will remain on TSA for the 2009/2010 financial period.

Business continuity management

Business continuity management ("BCM") focuses on improving the resilience of banking operations in order to withstand unexpected disruptions and disasters.

A number of improvements were achieved during the period under review, most notably the establishment of an in house training course, staging a comprehensive IT continuity test of the main data centre with emphasis on interdependency of systems, and the implementation of a new and improved dedicated backup site for RMB. The ongoing risk reporting process provides an overall view of the status of FRBH's continuity and disaster readiness to the various risk and compliance committees, as well as a more granular view to enable drilling down to problem areas so that these can be addressed in good time.

Regarding standby power provision, the Group has appointed a central energy manager to coordinate both cost savings on electricity, thereby improving the Group's carbon footprint and reporting on power continuity of key facilities and identifying the facilities that may require upgrading.

The BCM department is in frequent contact with the regulators regarding the monitoring and compliance standards set for the industry, providing relevant and ongoing input to improve own and external quality of disaster and disruption readiness.

Legal risk

Legal risk is the risk of loss due to defective contractual arrangements, legal liability (both criminal and civil) incurred during operations by the inability of the organisation to enforce its rights, or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed (implemented changes are dealt with as part of compliance risk).

Legal risk is managed in terms of the Legal Risk Management Framework and through activities such as the monitoring of new legislation, awareness initiatives, identifying significant legal risks and by managing and monitoring the impact of these risks through appropriate processes and procedures, one of which is the Legal Risk Committee, a sub committee of the Operational Risk Committee.

There were no significant legal risk breakdowns during the period under review.

Information risk

Information risk is defined as the possibility of harm being caused to a business as a result of a loss of confidentiality, integrity or availability of information.

The Information Technology Governance and Information Security Framework ("IT Framework") is a customisation of ISACA's Control Objectives for Information and related Technology (COBIT®) framework and the Information Security Forum's Standard of Good Practice for FirstRand. The IT Framework is approved by the Technology and Information Management Risk committee ("TIMCO"), and applies to FRBH.

The IT Framework:

- defines the objectives for managing IT Governance and information security;
- outlines the processes that need to be addressed across FRBH in terms of IT governance and security; and
- sets out the measurement framework for IT governance and security across FRBH.

Due to the changing nature of information risk and information security, FRBH constantly faces new threats and challenges. The risk management structure for information risk is specifically structured to enable and support the measurement of the status and the resolution of issues.

Fraud and security risks

There has been a marked reduction in violent crimes against the lending sector (e.g. ATM bombings) recently.

This is mainly due to improved physical security infrastructure, enhanced processes and participation by the SAPS with the arrest of key syndicate members.

The existence of appropriate governance committees such as the Physical Security and Fraud Risk Management committees has produced positive results with the identification and analysis of criminal activity and the subsequent pro active initiatives that have been introduced. IT-based fraud was problematic a year ago, however, with the introduction of a number of initiatives including Smartblock (early identification of crime mechanism) the landscape has changed dramatically for the better.

FRBH continues to be committed to creating an environment that safeguards its customers, staff and assets through policies, frameworks and actions.

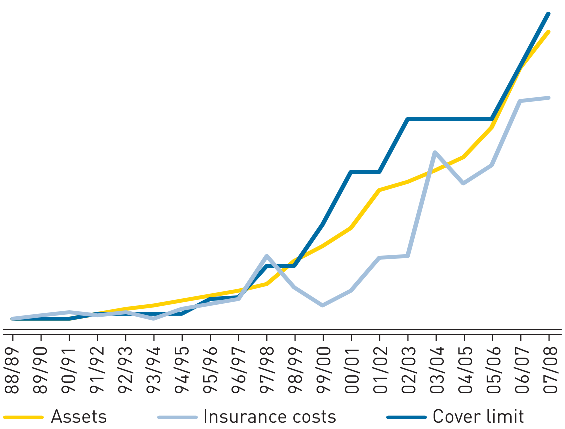
Risk insurance

The Group follows a structured approach to insurance risk financing to protect against unexpected material losses arising from non trading risks. These structures are continuously refined and enhanced through the ongoing assessment of changing risk profiles, organisational growth and the monitoring of international insurance markets. The levels and extent of the various covers are also benchmarked annually. This is achieved through close working relationships with service providers and association with ERM.

FirstRand's insurance buying philosophy is to carry as much risk to its own account as is economically viable within the financial resources of the Group, and to only protect itself against catastrophic risks through the use of third party insurance providers. Therefore, considerable self retentions are built into the insurance risk financing structures. The retentions are insured into a dedicated insurance company, which enhances the Group's ability to carry risk for its own account.

The financial institutions insurance programme remains the largest of the insurance risk financing structures and, as can be seen from the graph below, the levels of cover have kept pace with FirstRand's growth, whilst total cost has been maintained within an acceptable band.

Financial institutions insurance programme – increase in assets, insurance cover limit (base 1988/1989)



Developments within the Group continue to be monitored and the risk insurance team ensures that the insurance financing programme is adapted where appropriate.

12 REGULATORY RISK MANAGEMENT

COMPLIANCE RISK MAY BE DEFINED AS THE RISK OF LEGAL OR REGULATORY SANCTIONS, MATERIAL FINANCIAL LOSS OR REPUTATIONAL DAMAGE THE BANK MAY SUFFER AS A RESULT OF ITS FAILURE TO COMPLY WITH ALL APPLICABLE LAWS, REGULATIONS AND SUPERVISORY REQUIREMENTS.

Regulatory risk management ("RRM") is an integrated component of managing the risks inherent in the business of banking. It is especially important to ensure that the risks identified are managed in accordance with the requirements of the Banks Act No. 94 of 1990 as amended ("the Banks Act"), the Regulations thereto and in accordance with international best practice.

To this end, a Compliance Risk Management Framework has been drawn up and accepted by the board. It is in terms of this framework that RRM carries out its mandate within FRBH. While the responsibility to ensure that FRBH complies with all relevant laws, internal policies, regulations and supervisory requirements rests with the board, the role of monitoring, assessing and reporting the status of compliance is delegated by the board to the Head of RRM. These duties are carried out in terms of Regulation 49 of the Regulations relating to banks.

RRM's approach to compliance and its mandate prescribes a "zero tolerance" towards compliance breaches. To achieve this, RRM have implemented appropriate structures, policies, processes and procedures to identify regulatory risks, monitor the management thereof and report on the status of compliance risk management in FRBH to both the board and the Registrar of Banks.

The independence of the RRM function is enhanced by reporting lines that feed directly to the Group CEO and governance structures, including the board. The independence principle is based upon the requirements set out in the Banks Act and is fully endorsed by the board.

Oversight of regulatory regulatory risk management is robustly tested and managed through committees such as the Compliance committee, the RCC committee as well as the Audit committee. The framework for these committees is illustrated in the governance structure diagram on page 10. A detailed report on the status of compliance as well as all material instances of non compliance are presented to these committees by RRM. It is ultimately through the Audit committee that the status of compliance is reported to the board.

Within this context RRM ensures compliance with disclosure requirements to the general public under Pillar 3 of the Basel II framework. As a minimum the disclosures will adhere to Regulation 43 of the Regulations relating to banks, however, RRM encourages additional, more detailed disclosures where appropriate.

APPENDIX A

FIRSTRAND

The listed holding company

FirstRand Bank Holdings Limited (100%)

Banking

- 100% » FirstRand Bank
  - First National Bank[1]
  - Rand Merchant Bank[1]
  - WesBank[1]
  - FNB India[2]
  - FirstRand Bank London[3]
- 100% » FNB Lesotho
- 59% » FNB Namibia[7]
- 100% » FNB Swaziland
- 70% » FNB Botswana
- 90% » FNB Moçambique
- 47% » OUTsurance[4]
- 100% » FNB Insurance Brokers
- 100% » FirstRand International
  - Ireland
  - Mauritius
  - Australia
- 100% » eBucks

FirstRand Investment Holdings (Proprietary) Limited ("FRIHL") (100%)

Unregulated[5]

- 97% » RMB Private Equity Holdings
- 92% » RMB Private Equity
- 100% » RMB Stockbroking[6]
- 100% » FirstRand International Wealth Management
- 40% » Eris Property Holdings
- 50% » RMB Morgan Stanley
- 50% » Rentworks
- 33% » Tracker

Momentum Group Limited (100%)

Insurance & Asset Management

- 100% » Momentum Insurance[1]
  - FNB Insurance[1]
- 85% » Advantage Asset Managers
- 100% » Momentum Medical Scheme Administrators
- 100% » AdviceAtWork
- 100% » RMB Asset Management
- 100% » Momentum Africa
- 50% » Momentum Short Term Insurance
- 35% » Swabou Life

1. *Division*
2. *Representative office.*
3. *Branch.*
4. *Effective shareholding in FirstRand Short Term insurance Holdings Limited.*
5. *For segmental analysis purposes entities included in FRIHL are reported as part of Banking Group Supersegment within the respective franchise results.*
6. *Regulated by the JSE.*
7. *Includes 65% of Swabou Life.*

APPENDIX B

Abbreviations

AIRB	Advanced internal ratings based
ALCO	Asset/Liability Management committee
AMA	Advanced measurement approach
BGC	FRBH Compliance
BSM	Balance Sheet Management
BU	Business unit
CCF	Credit conversion factor
CEO	Chief executive officer
CFO	Chief financial officer
Credit Exco	FRBH Credit Portfolio Management committee
CSA	Credit support annexes
EAD	Exposure at default
ERM	Enterprise Risk Management
ETL	Expected tail loss
FNB	First National Bank
FRB or the Bank	FirstRand Bank Limited
FRBH	FirstRand Bank Holdings Limited
FRIF	FirstRand Ireland PLC
FTP	Funds transfer pricing
GCRM	Group credit risk management
IBNR	Incurred but not reported
ICAAP	Internal capital adequacy assessment process
IFRS	International Financial Reporting Standards
ISDA	International Swaps and Derivative Association
ISMA	International Securities Market Association
KRIs	Key risk indicators
LGD	Loss given default
LTV	Loan to value
MPM	Macro Portfolio Management
MRV committee	Model Risk and Validation committee
NIACC	Net income after capital charge
NII	Net interest income
NMD	Non maturity deposit
ORC	Operational risk committee
ORMF	Operational risk management framework
PD	Probability of default
PIT	Point in time
PSI	Portfolio specific impairment
RCC committee	Risk, Compliance and Capital committee
RCSA	Risk control self assessment
RER	Risk effectiveness report
RMB	Rand Merchant Bank
RWA	Risk weighted assets
RRM	Regulatory Risk Management
SARB	South African Reserve Bank
SME	Small and medium enterprise
the Group	FirstRand Limited
TSA	The standardised approach
TTC	Through the cycle
VaR	Value at risk