FIRSTRAND

BASEL PILLAR 3 DISCLOSURE

for the quarter ended 30 September 2017

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contents

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INTRODUCTION

This quarterly Pillar 3 disclosure covers the operations of FirstRand Limited (FirstRand or the group) and complies with the Basel Committee on Banking Supervision's (BCBS) revised Pillar 3 disclosure requirements (Pillar 3 standard), BCBS 309 published in January 2015.

OVERVIEW OF RISK WEIGHTED ASSETS

FirstRand applies the Basel framework to determine risk weighted assets (RWA). The framework consists of three pillars. This disclosure focuses on regulatory measures defined in Pillar 1, which requires banks to adopt specified approaches for measuring credit, market and operational risks and their associated resulting RWA and capital requirements. Pillar 2 covers the consideration of whether additional capital is required over and above Pillar 1 risk calculations. To promote transparency and effective risk management, Pillar 3 requires disclosure of exposures and associated RWA for each risk type and approach to calculating Pillar 1 capital requirements.

RISK MEASUREMENT APPROACHES

The following approaches are adopted by the group and its wholly-owned subsidiary, FirstRand Bank Limited (FRB) for the calculation of RWA.

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

* *All entities were included in the approval for the use of AMA (from January 2009) and TSA (from January 2008). Some entities were moved to FRIHL (unregulated prior to 2010) with a subsequent legal entity restructure. All other entities in FRIHL adopted BIA in 2010.*

** *Subject to the threshold rules as per Regulation 38(5).*

The table below provides the RWA per risk type and associated minimum capital requirements.

OV1: Overview of RWA

		RWA		Minimum capital requirements#
R million		As at 30 September 2017	As at 30 June 2017	As at 30 September 2017
1.	**Credit risk (excluding counterparty credit risk)**	**497 028**	489 712	**53 430**
2.	– Standardised approach	**119 911**	113 930	**12 890**
3.	– AIRB	**377 117**	375 782	**40 540**
12.	**Securitisation exposures in banking book**	**23 169**	24 071	**2 491**
13.	– IRB ratings-based approach	**17**	17	**2**
14.	– IRB supervisory formula approach	**1 871**	1 525	**201**
15.	– Standardised approach/simplified supervisory formula approach	**21 281**	22 529	**2 288**
	Total credit risk	**520 197**	513 783	**55 921**
4.	**Counterparty credit risk***	**14 473**	15 718	**1 556**
5.	– Standardised approach	**14 473**	15 718	**1 556**
11.	**Settlement risk**	**–**	–	**–**
7.	**Equity positions in banking book under market-based approach****	**26 090**	26 624	**2 805**
16.	**Market risk**	**22 221**	21 459	**2 389**
17.	– Standardised approach	**12 105**	11 263	**1 301**
18.	– Internal model approach	**10 116**	10 196	**1 088**
19.	**Operational risk**	**108 440**	108 440	**11 657**
20.	– Basic indicator approach	**7 547**	7 547	**811**
21.	– Standardised approach	**21 531**	21 531	**2 315**
22.	– Advanced measurement approach	**79 362**	79 362	**8 531**
23.	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**15 391**	14 240	**1 655**
24.	**Floor adjustment**	**9 047**	9 047	**973**
	Other assets	**30 452**	29 075	**3 274**
25.	**Total**	**746 311**	738 386	**80 230**

* *The current exposure and standardised methods are applied to counterparty credit risk. The group does not apply the internal model method to counterparty credit risk (row 6 of OV1 template). The standardised approach for counterparty credit risk (SA-CCR) has been delayed to a date later than 1 September 2017.*

** *The simple risk weighted method approach is applied to equity investment risk. The BCBS standard on equity investment in funds has not yet been implemented, rows 8 – 10 of OV1 template have, therefore, been excluded from this table. The standard on equity investment risk in funds has been delayed to a date later than 1 September 2017.*

Capital requirement calculated at 10.75% of RWA. The minimum requirement excludes the add-ons for domestic systemically important banks (D-SIB) and bank-specific individual capital requirement (Pillar 2B) as these are confidential. The difference to the BCBS base minimum (8%) relates to the buffer add-ons for Pillar 2A and capital conservation buffer as prescribed in the Regulations.

The overall increase in RWA primarily relates to an increase in credit risk. Additional information on credit RWA movement is provided on page 03. No other material movements in RWA were noted.

CREDIT RISK WEIGHTED ASSETS

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

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

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

CR8: RWA flow statement of credit risk exposures under AIRB

R million		RWA
1.	**RWA as at 30 June 2017**	**375 782**
2.	Asset size	**5 692**
3.	Asset quality	**(2 902)**
4.	Model updates	**(261)**
5.	Methodology and policy	**–**
6.	Acquisitions and disposals	**–**
7.	Foreign exchange movements	**–**
8.	Other	**(1 194)**
9.	**RWA as at 30 September 2017**	**377 117**

Credit RWA increased from R376 billion to R377 billion for the quarter ended September 2017.

Key movements in credit RWA included:

- asset size due to increased exposure to sovereign, secured SME retail and corporate entities; and
- asset quality due to a decline in both FNB HomeLoans and personal loans defaults.

MARKET RISK WEIGHTED ASSETS

The IMA for general market risk was approved by the South African Reserve Bank (SARB) for the group's domestic trading units. Regulatory capital for domestic trading units is based on the internal Value-at-Risk (VaR) model supplemented with a stressed VaR (sVaR). VaR is calculated at the 99%, 10-day actual holding period level using data from the past 260 trading days and sVaR is calculated using a pre-defined static stress period (2008/2009). VaR calculations over a holding period of one day are used as an additional tool in the assessment of market risk.

The group's subsidiaries in the rest of Africa and foreign branches are measured using the standardised approach for regulatory capital and an internal stress loss methodology for internal measurement of risk. Capital is calculated for general and specific market risk using the Basel III standardised duration methodology.

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

*MR2: RWA flow statement of market risk exposures under IMA**

R million		VaR	sVaR	RWA
1.	**RWA as at 30 June 2017**	**3 007**	**7 189**	**10 196**
2.	Movement in risk levels	**674**	**(754)**	**(80)**
3.	Model updates/changes	**–**	**–**	**–**
4.	Methodology and policy	**–**	**–**	**–**
5.	Acquisitions and disposals	**–**	**–**	**–**
6.	Foreign exchange movements	**–**	**–**	**–**
7.	Other	**–**	**–**	**–**
8.	**RWA as at 30 September 2017**	**3 681**	**6 435**	**10 116**

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

The market RWA for the quarter ended 30 September 2017 remained relatively flat.

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