NEDBANK GROUP LIMITED

p3

PILLAR 3 RISK AND CAPITAL MANAGEMENT REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

Basel III Public Disclosure Report

see money differently

NEDBANK

A Member of the OLDMUTUAL Group

EXECUTIVE SUMMARY

Nedbank Group's financial performance was underpinned by a robust balance sheet, with a strong capital, liquidity and funding position, as well as sound credit asset quality aided by the group's strategic portfolio tilt focus, an enabling but prudent risk appetite, and excellence in risk management.

This report complies with regulation 43 of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990) and the Basel Committee on Banking Supervision's (BCBS's) revised Pillar 3 disclosure requirements.

Highlights

Defaulted advances as a % of gross advances
2,71%
(2016: 2,72%)

Postwriteoff recoveries
R1 224m
(2016: R1 157m)

Portfolio coverage
0,70%*
(2016: 0,69%)

Trading book – low risk
R146,8m
(2016: R141,5m)

Credit loss ratio
0,49%
(2016: 0,68%)

Specific coverage
36,2%
(2016: 37,4%)

IRRBB % ordinary shareholders' equity
1,67%
(2016: 1,81%)

Common-equity tier 1
12,6%
(2016: 12,1%)

Total tier 1
13,4%
(2016: 13,0%)

Long-term funding ratio
27,0%
(2016: 29,6%)

Liquidity coverage ratio
116,2%
(2016: 109,3%)

Loan-to-deposit ratio
92,1%
(2016: 92,8%)

Total capital adequacy ratio
15,5%
(2016: 15,3%)

Available financial resources: economic capital
136%
(2016: 131%)

The Nedbank Group Chief Operating Officer (COO) Mfundo Nkuhlu and Chief Financial Officer (CFO) Raisibe Morathi, on behalf of the board, are satisfied that information provided in this report has been prepared in accordance with board-approved internal control processes and in accordance with the Nedbank Group Public Disclosure Policy, which can be accessed at nedbank.co.za.

**Increases to approximately 1,05% under IFRS 9.*

Contents

Group structure and basis of Pillar 3 disclosure

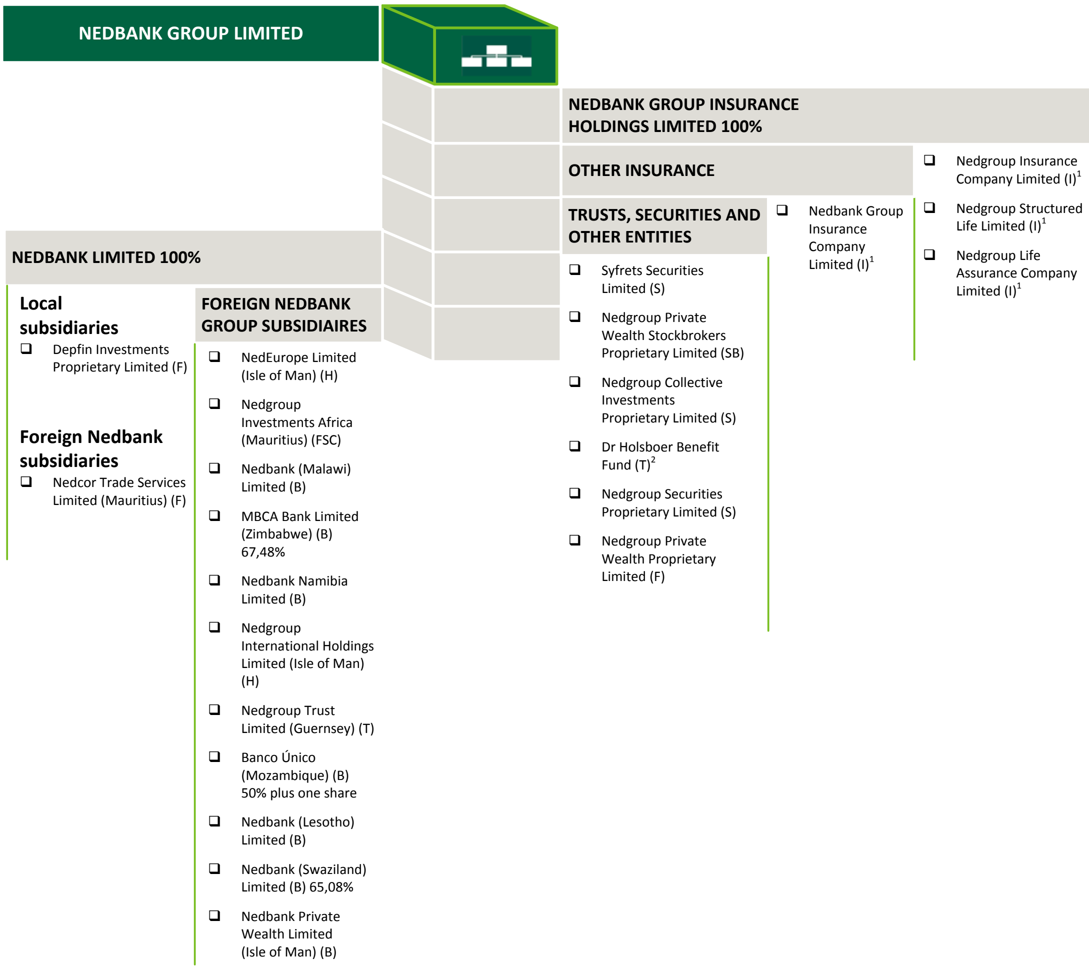
The group's comprehensive Pillar 3 and public disclosure complies with regulation 43 of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990). Set out below are the key subsidiary companies of Nedbank Group. Consistent with the principle of proportionality (or materiality) contained in the regulations, this Pillar 3 Report covers Nedbank Group Limited and Nedbank Limited. The other banking subsidiaries are not in themselves material enough to warrant individual Pillar 3 reporting.

Insurance risk is managed in terms of the Enterprisewide Risk Management Framework (ERMF), for which detail can be found on page 107. However, the insurance businesses are outside the scope of Pillar 3 consolidation, and investments in insurance entities are only included in the calculation of the group's capital adequacy ratio (CAR) through the application of the threshold deduction method, detail of which can be found on the next page. Implementation of the Solvency Assessment and Management (SAM) regime is only expected during the second half of 2018. The insurance businesses are on track with their SAM implementation, which has been embedded in the risk management frameworks, strategic initiatives and system enhancements. The businesses are currently engaged in a SAM comprehensive parallel run, during which they are required to report to the Financial Services Board (FSB) on both the current regulatory regime and the SAM regulatory regime. The approach taken by the businesses is to ensure strategic alignment of SAM by using risk management in the business decisionmaking framework and business planning processes through own-risk and solvency assessments, which are being embedded in the existing reporting structures.

In addition, the Rest of Africa Cluster is included in the Pillar 3 Report through the group structure illustrated below. The same risk management culture, governance structures, policies and processes as for the group apply to the African subsidiaries.

All subsidiary companies and legal entities are consolidated into the Nedbank Group Limited Internal Capital Adequacy Assessment Process (ICAAP) and Pillar 3 reporting as explained in the 'Consolidated supervision' subsection on the next page, again in compliance with the regulations.

The credit risk management process incorporates the review of the granting of financial assistance, funding in the normal course of business, investments and bank accounts across related companies. The Group Credit Committee (GCC) in particular reviews the governance in respect of intercompany loans granted by regulated entities. The GCC also receives reports from Group Financial Control to ensure compliance with the requirements of section 45 of the Companies Act (Act No 71 of 2008) in terms of financial assistance between related companies.



All subsidiaries are wholly owned, unless stated otherwise.

B: Banks	*H: Holding companies*	*T: Trusts*
F: Financial entities	*I: Insurance entities*	
FSB: Investment holding company	*S: Securities entities*	
FSC: Investment company	*SB: Stockbrokers*	

[1] *Entities outside Pillar 3 consolidation.*
[2] *Entities inside International Financial Reporting Standards (IFRS), but outside the Pillar 3 consolidation group.*

Consolidated supervision

There are some differences in the basis of consolidation for accounting and regulatory purposes. Accounting consolidation is based on IFRS, while the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990) prescribes regulatory consolidation and lists specific exclusions. These differences include the treatment of accounting reserves (eg the profits not formally appropriated by the board of directors by way of resolution to constitute retained earnings for group banking entities or the controlling company), as well as the investments in insurance entities, which are only included in the calculation of the group's CAR through the application of the threshold deduction method. Refer to the table 'Summary of regulatory qualifying capital and reserves' on page 37 for differences in the basis of consolidation for accounting and regulatory purposes.

The definition of capital includes the foreign currency translation reserves (FCTR), share-based payment (SBP) reserves, property revaluation (PR) reserves and available-for-sale (AFS) reserves as common-equity tier 1 (CET1) capital under Basel III.

SUMMARY OF THE TREATMENT FOLLOWED FOR BASEL III CONSOLIDATION

<table>
<tr><th></th><th colspan="6">Percentage holding</th></tr>
<tr><th></th><th colspan="3">Minority interest</th><th colspan="3">Controlling/Majority interest</th></tr>
<tr><th rowspan="2">Type of entity</th><td rowspan="2">≤ 20%</td><td colspan="2">20% and ≤ 50%</td><td colspan="2">20% and ≤ 50%</td><td rowspan="2">> 50%</td></tr>
<tr><td>Other significant shareholder.</td><td>No other significant shareholder.</td><td>Aggregate of investment ≤ 10% of the bank's or controlling company's CET1.</td><td>Aggregate of investment > 10% of the bank's or controlling company's CET1.</td></tr>
<tr><th>Banking, securities and other financial entities[1,2]</th><td>Treat as equity investment. Apply 100% risk weight – The Standardised Approach (TSA) or 300%/400% risk weight [Internal Ratings-based (IRB) market based – Simple Risk Weight Approach (SRWA)].</td><td>Proportionately consolidate.</td><td>Apply deduction method.</td><td>Risk weight at the appropriate risk weighting based on nature of holding of instrument and measurement approach.</td><td>Risk weight at the appropriate risk weighting based on nature of holding of instrument and measurement approach up to 10% of the bank's or controlling company's CET1. Deduct the amount in excess of 10% of CET1 against the corresponding component of capital.</td><td>Full consolidation
OR
financial entities with specific limitations will have to apply the deduction method.</td></tr>
<tr><th>Insurance entities</th><td>As above.</td><td colspan="5">Risk weight at 250% up to 10% of the bank's or controlling company's CET1 capital.
Deduct the amount in excess of 10% of CET1 against the corresponding component of capital.</td></tr>
<tr><th rowspan="4">Commercial entities</th><td colspan="3" rowspan="4">Treat as equity investment. Apply 100% risk weight (TSA) or 300%/400% risk weight (IRB market based – SRWA).</td><td>Standardised Approach</td><td colspan="2">Advanced Approach</td></tr>
<tr><td>Individual investment up to 15% of CET1. Additional tier 1 and tier 2 is to be risk-weighted at no less than 100%.</td><td colspan="2" rowspan="2">Individual investment up to 15% of CET1. Additional tier 1 and tier 2 is to be risk-weighted in accordance with one of the available equity risk approaches [Market SRWA or Internal Model, or probability of default (PD)/loss given default (LGD) approach].</td></tr>
<tr><td>Individual investment in excess of 15% of CET1. Additional tier 1 and tier 2 is to be risk-weighted at 1 250%.</td></tr>
<tr><td>Aggregate of investment > 60% of CET1. Additional tier 1 and tier 2 the excess above 60% is to be risk-weighted at 1 250%.</td><td colspan="2">Individual investment in excess of 15% of CET1. Additional tier 1 and tier 2 is to be risk-weighted at 1 250% or the risk-weighted assets (RWA) equivalent.</td></tr>
</table>

[1] Includes regulated and unregulated entities.

[2] Types of activity that financial entities might be involved in include financial leasing, issuing of credit cards, portfolio management, investment advisory, custodial and safekeeping services and other similar activities that are ancillary to the business of banking.

For Nedbank Group the following Basel III consolidation approaches are followed:

- The banking, securities and other financial entities are fully consolidated.
- The insurance entities are treated as set out on the previous page.
- All commercial entities are treated as set out on the previous page.

Basel III RWA calculation approaches

The following approaches have been adopted by Nedbank Group for the calculation of RWA.

NEDBANK GROUP LIMITED

	Nedbank Limited					
Risk type	Nedbank Limited Solo[1]	Local subsidiaries	Foreign subsidiaries	Foreign subsidiaries	Trusts and securities entities	Other insurance entities[2]
Credit risk	AIRB/TSA[3]	AIRB/TSA	TSA	TSA	TSA	N/A
Counterparty credit risk (CCR)	CEM	N/A	CEM[4]	CEM[4]	N/A	N/A
Securitisation risk	IRB	N/A	N/A	N/A	N/A	N/A
Market risk[5]	IMA	TSA	TSA	TSA	TSA	N/A
Equity risk	SRWA	SRWA	SRWA	SRWA	SRWA	N/A
Operational risk[6]	AMA/TSA	AMA	TSA	TSA	AMA	N/A
Other assets	AIRB	AIRB	TSA	TSA	TSA	N/A

[1] Approaches followed by Nedbank Limited Solo also apply to the Nedbank London branch. Nedbank Limited Solo is in line with the regulatory specifications for the bank entity.

[2] In terms of regulation 36(7)(a)(iii) and 36(10)(c)(ii) of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990) investments in insurance entities are only included in the calculation of the group's CARs through the application of the threshold deduction method and risk-weighted at 250%.

[3] The remaining portion of the legacy Imperial Bank book [ie in Nedbank Retail and Business Banking (RBB)] remains on TSA.

[4] Current Exposure Method (CEM) is applicable for the London branch as well as Swaziland and Namibia.

[5] The Internal Model Approach (IMA) portion is 91% and TSA portion is 9% in Nedbank Limited Solo.

[6] The Advanced Measurement Approach (AMA) coverage is 90% and TSA is 10%.

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

2017 Rm	Statement of financial position	Regulatory consolidation scope	Carrying values of items subject to: Credit Risk Framework	Counterparty Credit Risk Framework	Securitisation Framework	Market Risk Framework	Equity risk in the banking book	Other assets[1]	Not subject to capital requirements or subject to deduction from capital
Assets									
Cash and cash equivalents	16 900	16 711	6 341						
Other short-term securities	92 775	91 830	74 402			60 750			
Derivative financial instruments	29 904	29 904		27 380		29 474			
Government and other securities	49 241	49 240	49 240		844	19 217			
Loans and advances	710 329	710 195	692 829	17 366					
Other assets	14 589	13 895						13 895	
Current taxation assets	211	196	196						
Investment securities	16 634	2 764					2 620	144	
Non-current assets held for sale	388	388						388	
Investments in private-equity associates, associate companies and joint arrangements	6 722	6 722					3 196	3 526	
Deferred taxation assets	189	189	189						
Investment property									
Property and equipment	8 902	8 775						8 775	
Long-term employee benefit assets	5 924	5 924						2 058	3 866
Mandatory reserve deposits with central banks	19 222	19 222	19 222						
Intangible assets	11 384	11 371							11 371
Total assets	**983 314**	**967 326**	**842 419**	**44 746**	**844**	**109 441**	**5 816**	**28 786**	**15 237**
Liabilities									
Derivative financial instruments	23 367	23 367		23 367		22 936			
Amounts owed to depositors	771 584	782 970							
Provisions and other liabilities	23 292	21 605							
Current taxation liabilities	259	232							
Other liabilities held for sale									
Deferred taxation liabilities	761	700						700	10
Long-term employee benefit liabilities	3 525	3 525							
Investment contract liabilities	18 134								
Insurance contract liabilities	2 277								
Long-term debt instruments	51 576	51 576							
Total liabilities	**894 775**	**883 975**		**23 367**		**22 936**		**700**	**10**
Total equity	**88 539**	**83 351**							

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

2017 Rm	Total	Items subject to: Credit Risk Framework	Securitisation Framework	Counterparty Credit Risk Framework	Market Risk Framework	Equity risk in the banking book	Other assets[1]
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	967 326	842 419	844	44 746	109 441	5 816	28 786
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	883 975			23 367	22 936		700
Total net amount under regulatory scope of consolidation	83 351	842 419	844	21 379	86 505	5 816	28 086
Off-balance-sheet amounts	184 716	177 826		6 890			
Differences in valuations	121 989	130 653		(8 664)			
Differences due to different netting rules, other than those already included in row 2	(177 386)	(173 929)		(2 747)			(710)
Differences due to consideration of provisions	(7 081)	(7 081)					
Differences due to prudential filters	544					544	
Exposure amounts considered for regulatory purposes	206 133	969 888	844	16 858	86 505	6 360	27 376

[1] *Subject to other assets/risks not risk-weighted elsewhere.*

Risk governance and culture

The world of banking has dramatically transformed in a very short space of time. The advent and speed of disruptive technologies, artificial intelligence, digitisation, local and global politics, increased consumerism and competition, corporate governance failures, the rapidly changing physical environment (weather patterns), intensified regulatory burden, shifting socio-economic dynamics, and the ever-increasing cyber-threat have become the new 'normal' operating environment.

Prudent, effective and agile risk management, especially in the new digital world, is necessary to navigate towards competitive differentiation and business success. Bearing this in mind, Nedbank has crystallised and actively manages its top ten risks, which, in the current operating environment emanates from both typical and non-typical sources. The traditional risks comprising credit, market, operational, capital and liquidity are appropriately managed despite the adverse macroenvironment, while the newer c-suite risks (capture/corruption, cyber, conduct, compliance (abnormal regulatory change) and change (execution risk) are requiring high alert, and an extraordinary level of effort and focus.

The 'new normal'

Traditional major risks	**Credit risk**	**Market risk**	**Operational risk**	**Capital risk**	**Liquidity risk**
New c-suite risks	**Client/Competitor** ❑ Consumerism ❑ Know Your Client (KYC) **Digital era**	**Change** ❑ Execution risk ❑ Compliance ❑ Estimation risk **Digital era**	**Cyber** ❑ Technology ❑ Operating models **Digital era**	**Conduct and culture** ❑ Social media ❑ Regulatory change **Digital era**	**Criminality** ❑ State capture ❑ Corruption ❑ Terrorism **Digital era**
Reputational risk					

Despite the volatile operating environment, our risk management practices and culture ensure that Nedbank's ERMF remains robust, resilient and agile enough to respond appropriately. The ERMF is continuously enhanced to ensure it remains relevant to shifting times.

Two such enhancements were embedded during 2017, in the form of coordinated assurance and a refresh of our Lines-of-defence Model. These enhancements are in response to the changing requirements of banks and companies, and contribute to our efforts in keeping our risk management relevant and effective.

The introduction of a Coordinated Assurance Model for material matters enables further aligned integration across all lines of defence. This affords opportunities to enhance and streamline risk reporting for the decisionmaking process.

The refresh of our Lines-of-defence Model, in line with Basel recommendations and King IV, provides clearer accountability and responsibility, focusing more on the actual role or function rather than structural fit within the organisation's hierarchy. As such, it places more emphasis on and improves the concepts of responsibility and accountability across the organisation.

These enhancements optimise the efficiency and effectiveness of the activities of risk management, compliance and internal audit functions and also better illustrate and consolidate all assurance activities and coverage undertaken across these disciplines in the first line of defence (business management and ownership of risk), the second line of defence (risk management/monitoring and compliance (risk officers at business level – micro, and at group level – macro and fully independent) and the third line of defence [Group Internal Audit (GIA)]. A fourth line of defence has been specified for assurance providers external to Nedbank, namely as external auditors and the regulators.

Nedbank's fully embedded ERMF covers the group's risk universe and major risk classifications, with board and executive responsibility assigned to each. Nedbank places a strong reliance on this risk governance framework.

Overview of Nedbank Group's Enterprisewide Risk Management Framework

Risk universe

Risk	No.
Accounting financial and taxation risks	1
Credit risk	2
Operational risk	3
Financial crime risk	4
Liquidity and funding risk	5
Capital risk	6
Insurance risk including non-banking risks	7
Market risk (Trading book; Banking book)	8
Concentration risk	9
Conduct risk	10
Regulatory risk	11
Information technology risk	12
Business and strategic (execution) risk	13
Reputational risk	14
Governance and compliance risk	15
Transformation, social and environmental risk	16
People risk	17

Key features of the ERMF

- The board of directors is ultimately responsible for all risks in the group, approval and oversight of the risk measurement and management system and the setting of risk appetite.
- The ERMF provides the foundation and underpins the entire risk management structure and system of Nedbank Group (implementation, monitoring, reporting and remediation).
  - Strong emphasis in the ERMF is placed on individual accountability and not on undue reliance on committees.
  - Risk management frameworks (for all major risk types) and risk officers are in place across all businesses and Shared Services, ie Group Technology.
  - Provides a set of subrisks where relevant to each main risk category.
  - Shows the statutory board committee (as required by the Banks Act and the Companies Act) and their respective roles as the final oversight and monitoring functions for the group.
  - Depicts the structure of the executive management committees and their roles/responsibilities for the proper, efficient and effective functioning of the group's business.
  - Reporting philosophy – provides a reporting structure from business units through to the board.
- Three-lines-of-defence Model – sets out and positions the Three-lines-of-defence Model across the group and the role/responsibility of each within the overall framework.
  - Primary responsibility and accountability for the risks originating in the businesses are clearly assigned to the respective business cluster leaders and executives.
- The CRO reports to the CE, who has the ultimate individual accountability for risk.

First line of defence

Strategy, performance and risk management (risk taking and risk ownership)

Focused and informed involvement by the board and group exco, accountability and responsibility of business management and Group Finance, all supported by appropriate internal control, risk management and governance structures and processes.

Board committees (A-H)

Nedbank Board of Directors

- A – Group Audit Committee (GAC) – 1 I 11 I 13
- B – Group Credit Committee (GCC) – 2 I 9 I 11 I 13
  - Large-exposures Approval Committee (LEAC) – 2 I 9
- C – Group Risk and Capital Management Committee (GRCMC) – 3 I 4 I 5 I 6 I 7 I 8 I 10 I 11 I 13
  - AML GRCMC
- D – Group Information Technology Committee (GITCO) – 11 I 12 I 13
- E – Related-party Transactions Committee (RPTC) – 2 I 14
- F – Directors' Affairs Committee (DAC) – 11 I 13 I 14 I 15
- G – Group Remuneration Committee (Remco) – 10 I 11 I 13 I 17
- H – Group Transformation, Social and Ethics Committee (GTSEC) – 11 I 14 I 15 I 16

Chief Executive (CE)

Group executive committees

Nedbank Group Executive Committee (Exco)

- Group Alco and Executive Risk Management Committee (Group Alco) – C
- Brand, Client and Conduct Committee (BCCC) – F
- Group Operational Risk Committee (GORC) – C I D
- Executive Information Technology Committee (EITCO) – D
- Financial Crime Committee (FCC) – C I D
- Group Reputational Risk Committee (GRRC) – G
- Transformation Human Resources Committee (TRAHRCO) – F I H

Group executive committees and forums

Group Operational Committees (Opcom)

- Cluster Credit Committees (CCC) – B
- Executive Taxation Forum – A
- Finance Forum – A
- Group Transformation Forum – H
- Mergers and Acquisitions Forum – A
- Nedbank Employee Equity Forum – G I H
- Regulatory Risk and Compliance Forum – F
- Transactional Deposits Forum – B

Enterprisewide Risk Committees (ERCOs)

Chief Operating Office

Chief Operating Officer (COO)

- Group Marketing, Communication and Corporate Affairs (GMCCA)
- Rest of Africa (RoA): Investments, Alliances and Strategic Subsidiaries
- Balance Sheet Management (BSM)[1]
- Group Human Resources (GHR)[1]
- Group Technology (GT)[1]
- Group Strategic Planning and Economics[1]
- Group Finance[1]

Client-facing clusters

Corporate and Investment Banking (CIB)	Nedbank Retail and Business Banking (RBB)	Nedbank Wealth	Rest of Africa
Business line managers		Some central functions (Group Risk/BSM), eg Forensics, Legal, Security Services, etc.	

Second line of defence

Risk oversight, monitoring and advisory

Group Risk and Compliance functions

Second line of defence (group level)

Group Risk

The CRO, who reports directly to the CE, provides strategic risk management leadership, group independent risk oversight and key support to various risk committees; interacts closely with business units; is responsible for championing effective ERM and control, independent model validation and some first-line functions, eg forensic and physical security.

CRO

- Finance, Operations and RCPO[1]
- Group AML, CFT and Sanctions Office
- Group Legal[1]
- Group Insurance
- Group Financial Crime and Forensics (GFCF)
- Group Operational Risk and Data Management (GORDM)
- Cyber Information Security Office and Business Continuity Management
- Group Credit Risk Monitoring (GCRM)
- Group Credit Portfolio Management (GCPM)
- Enterprisewide Risk Management (ERM)
- Group Market Risk Monitoring (GMRM)

Group Enterprise Governance and Compliance (EGC)

The Group Chief Governance and Compliance Officer (CGCO), who reports directly to the CE, provides continuous strategic compliance risk management leadership and independent compliance risk monitoring (of compliance monitoring in the first line), sets the Group Governance and Compliance Framework and works closely with the cluster governance and compliance functions on compliance and governance matters.

CGCO

- Banks Act and Regulatory Programmes
- Group Money-laundering Reporting Officer
- Compliance Services and Oversight
- EGC: Sustainability
- Monitoring: FAIS and Special Projects
- EGC: Governance and Ethics
- Exchange Control

Client-facing clusters

Second line of defence (business level)

Corporate and Investment Banking (CIB)	Nedbank Retail and Business Banking (RBB)	Nedbank Wealth	Rest of Africa
Cluster Executive Head: Risk		Cluster Executive Head: Governance and Compliance	
Business Unit Risk Officers		Business Unit Compliance Officers	
Other statutory-/regulatory-appointed officers			

Third and fourth lines of defence

Independent assurance

Third line of defence	Group Internal Audit	
Fourth line of defence	External audit	Regulators

[1] *These functions undertake a combination of first and second line-of-defence roles.*

Risk culture, strategy and appetite

RISK CULTURE

Nedbank recognises that a more strategic approach to business and risk management is essential in the fluctuating environment, where the impact and speed of change is unprecedented. This translates into being more strategic in the risk management space for our clients in fulfilling compliance requirements, as well as for our internal risk management practices. To this end digitisation of risk management in Nedbank is an integral component of the bank's digitisation drive.

The digitisation and optimisation of risk and compliance processes in the client environment have a direct positive impact on overall experience, by meeting risk and compliance requirements in an efficient, automated manner.

In addition, digitisation within the risk, internal audit and compliance functions ensures a more streamlined, strategic and efficient approach to Nedbank's risk management practice aligns with and plays a key role in the bank's transformation and reinvent strategy.

Our approach to risk and compliance management goes beyond simply meeting legislative requirements. Our practical and enabling risk culture ensures that spirit and intent are borne in mind, while valuing the integrity and importance of appropriate governance.

The group also recognises that substantive shifts in our people and management of people risk are essential for succeeding in our ambitious 2020 vision. Emanating from the People 2020 initiative is the New Ways of Work (nWoW) concept, which seeks to flatten structures and reduce red tape, thereby enabling timely and efficient solutions-based results.

RISK STRATEGY

Nedbank undergoes a comprehensive and robust annual three-year strategy planning process. The risk strategy is fundamental to this process, with risk informing and influencing the formulation, implementation and execution of Nedbank's strategy.

Nedbank's top ten risks (and the responsive changes thereto), as well as our risk appetite, are integral to the strategy and planning process.

A major component of Nedbank's 2020 vision and strategy is the concept of being more agile. As such, the strategy of Nedbank has undergone various amendments in response to the shifting environment, with risk management also strategically gearing toward enhanced agility.

The risk strategy has been prepared on the basis of transforming risk management strategically across Nedbank to differentiate it from our competitors. The most fundamental aspect of the risk strategy is strategically leveraging the regulatory environment, and building towards a winning regulatory environment in 2020. To this end our Regulatory Change Programme is well established, with updates on programmes tracked at monthly Operational Committee (OPCOMs), Group Executive Committee (group exco), Group Risk and Capital Management Committee and board meetings.

The Regulatory Change Programme adopts a business-led approach that creates a competitive advantage, as seen and experienced by roleplayers, through the introduction of new systems, processes and practices, as well as mindset and behavioural changes.

RISK APPETITE

Risk appetite has always been an articulation and allocation of the risk tolerance or quantum of risk we are willing to accept in pursuit of our strategy, and is duly set, approved and monitored by the board and integrated into our business and risk plans.

Nedbank has, over many years, cultivated a strong risk culture and embedded a prudent and conservative risk appetite, focused on the basics and core activities of banking and other financial services. A comprehensive Risk Appetite Framework (RAF) has been in place since 2006, and risk appetite metrics have been cascaded down to all our businesses.

The RAF has served the group well over the years and continues to support our underlying businesses, ensuring that the risk profile is known and assessed against established risk appetite targets and limits.

However over the past few years, it has become necessary to refresh the framework against those of peers as well as best practice, and to identify key areas of enhancement such as addressing non-financial risk types [eg financial crime, Anti-money laundering (AML), cyber and reputational risks].

For this purpose comprehensive reviews were completed in 2017, with the results of the benchmarking highlighting some areas of enhancement.

All core risk appetite metrics are currently tracking within appetite limits and are forecast to stay within our stated risk appetite through to 2020.

During 2017 the Group Risk and Capital Management Committee approved changes to metrics within the RAF. Please refer to the Risk appetite section on page 18 for further detail.

While prudent and appropriately conservative, our risk appetite is enabling our businesses, as well as promoting competitive but appropriate growth and returns.

Top ten risks

In addition to Nedbank's risk universe, the top ten risks across the enterprise have been identified, which Nedbank actively manages and monitors, reprioritising focus and resources appropriately.

The updated top ten risks for 2018 are depicted below:

	Nedbank top 10 risks	Trend
1	Business risk (SA country risk/State capture/SA politics, volatile, uncertain, complex and ambiguous (VUCA) global markets, competitor and geo-political risks)	▼
2	Strategic and execution risks (unprecedented level of change)	►
3	Cyberrisk (digital revolution and DFL)	▲
4	Reputational (and association) risk	►
5	Regulatory and compliance risks (abnormal regulatory change agenda)	►
6	Conduct and culture risks (consumerism and Twin Peaks)	►
7	Operational risks (including IT, digital/nWoW, legal, financial crime and people risks)	▲
8	Credit risk	▼
9	Market risk	▼
10	Balance sheet risks [concentration, capital (incorporating Basel IV), funding and liquidity risks]	▼

▲ *Increasing.*
► *Stable.*
▼ *Improving.*

Business risk

The adverse, abnormal and uncertain political and economic landscape in SA in 2017 has elevated business risk to our number one risk. Client activity and associated revenue growth are slower in the current operating environment. The organisation is, however, well prepared for this, having been managed prudently and conservatively since the global financial crisis in 2008. Nedbank's focus on costs, the implementation of the strategic portfolio tilt (selective origination) strategy and the further strengthening in the credit risk management space are paying off in the current environment.

The impact and speed of geo-political risk in the current operating environment should not be underestimated, with the local political dynamic in 2017 serving as example. To this end, extensive work has been done since late 2015 on 'management's response (preparation) for SA's sovereign-rating downgrade(s)', which places us in good stead, despite the sovereign-rating downgrades in 2017.

Our business planning process is sufficiently mature and advanced to respond to the adverse environment, and the updated 2018–2020 plans include a heightened focus on discretionary spend.

Strategic and execution risks

The unprecedented level of change in the operating environment, coupled with the plethora of new and amended regulatory requirements, has given rise to a number of large and complex projects/programmes – which are initiatives, often with extraordinary tight timelines, in addition to business as usual responsibilities. This naturally introduces a higher level of execution risk for the organisation.

The focus on execution risk stemmed from the 2015 ERMF refresh, and was further elevated during 2017 through the embedding of a Strategic and Execution Risk Framework. The Group Operational Risk Committee (GORC) tracks and monitors execution risks across all major initiatives enterprisewide.

Two major programmes in the form of Managed Evolution (ME) and the Target Operating Model (TOM) review further aim to reduce enterprisewide execution risk.

Financial crime

Financial crime in Nedbank is viewed in an integrated manner, comprising fraud, corruption, cybercrime, violent crime, AML, Combating the financing of terrorism (CFT) and sanctions, data and privacy breaches, market abuse, tax fraud and tax evasion, exchange control and capital control contraventions. The development of component frameworks for financial-crime risks continued during 2017, with the overarching Integrated Financial Crime-Risk Management Framework approved early in 2018.

AML, CFT AND SANCTIONS

AML, CFT and Sanctions resources continued to be bolstered at the centre and in business clusters to monitor controls. A development in 2017 saw AML risk management and oversight assigned to Group Financial Crime and Forensic Services, and the introduction of a dedicated AML Group Risk and Capital Management Committee.

Nedbank has met the deadline for the SA remediation plan in all material respects, following various successful transformations of our remediation strategy and approach, most recently the implementation of a new risk-based approach to replace the old rules-based regulations, as agreed to by the South African Reserve Bank (SARB). However, there are a few minor items (including independent assurance) expected to be completed in Q1 of 2018. The SARB has been extensively engaged, and is supportive and aligned with Nedbank's approach.

AML remediation and control enhancement continue to receive focus in the RoA subsidiaries, with the remediation programme being centrally managed.

goAML is a regulatory AML reporting system to which Nedbank submits its Cash and Suspicious Reporting Transactions reports. Phase two of the project relates to international funds transfer reporting. The project is due for completion in 2018 and compliance officers are in place to monitor compliance with regulation.

The implementation dates for the Financial Intelligence Centre Amendment Act has been confirmed by SARB as 2 April 2019.

FRAUD AND CYBERRISK

Losses at Nedbank are within our fraud loss tolerance thresholds for 2017, despite the general increase in the industry.

The rapidly changing technological, digital and cyberlandscapes, with heightened cyberrisk exposure, has prompted a radically elevated focus from Nedbank's cyberrisk management, led by the Chief Risk Officer (CRO) and the Chief Information Officer (CIO), to fast-track Nedbank from cybersecurity to cyberresilience.

Consistent with global and local trends, Nedbank is experiencing a significant year-on-year increase in cyberattacks and cyberincidents, but has in all material respects, successfully defended all to date.

An independent cyberassessment, Nedbank's own cybermaturity assessments and the MWR (Red) Team Targeted Attack Simulation (ethical hacking) were used to gain a full understanding of Nedbank's cyberrisk. These tools indicated that Nedbank is rated above average in the financial services industry, but highlighted key aspects that still needed to be matured, which were incorporated in Nedbank's Cyberresilience Programme, especially to mitigate advanced persistent threat attacks.

Reputational risk

With the allegations of state capture, among other matters, focus on the financial industry in general increased dramatically, with Nedbank actively managing a number of high-risk reputational matters. High-priority matters have resulted in much time spent by the Chief Executive (CE), CRO and Chief Legal Counsel on reputational risk management over the course of the year.

A fully functional Group Reputational Risk Committee was introduced to attend to the heightened reputational risk at group level and high-risk committees at business cluster level, with appropriate board-level involvement.

The number and severity of reputational matters have translated into additional focus and resources being deployed in the fraud and forensics environments, where further active risk management has become a necessity.

With allegations of state capture extending into the private sector, Nedbank has reviewed its engagements with certain key suppliers. We await the pending outcome of various investigations underway.

Regulatory and compliance risks

The pervasive, abnormal regulatory change agenda continues unabated with additional scrutiny on banks by regulators, and a plethora of new and amended regulation dominating time and resources. The cost of implementation of the changing regulations is also high.

Nedbank's strategic response to the high execution risk and regulatory change agenda comprises of a comprehensive Regulatory Change Programme (RCP), under the leadership of the CRO, which has required a significant R3,2bn budget. The RCP is facilitating the evolution from short-term to long-term sustainable solutions, with regulatory risks being managed through various steering committees, Regulatory Change Programmes, exco and board committees. Nedbank's RCP seeks to leverage off compliance requirements as a competitive differentiator, maximising the benefits of the spirit of what is intended by the regulation.

Key programmes currently underway include:

- An operating model review (TOM) which seeks to ensure client-centredness (single view of a client), as well as an 'enterprise view' of a client.
- ME (systems and data), focusing on enterprise client onboarding and Know Your Client (KYC).
- Enterprise Data Programme (EDP), an advanced data analytics/data-driven intelligence programme, placing Nedbank in a competitively advantageous position by using data analytics and intelligence.
- Risk management/risk-based approach instead of a historical pure-compliance-based approach.

Key focus areas for 2017 included:

- AML, CFT and sanctions (refer to financial crime section).
- The IFRS 9 programme, which has progressed well with the key challenges actively managed and the group going live in Q1 of 2018 in all material respects.
- The EDP/RDARR [Basel Committee on Banking Supervision (BCBS) 239] project, which continued to progress well across all streams of the programme.

- POPI readiness which continued with the promulgation of the POPI regulations and a deep dive that is underway to unpack the deliverables of the programme to streamline execution planning.
- Basel III which has been substantially implemented and Basel IV which continues to be beset by uncertainty and delays from the regulators.
- Market conduct and culture, in respect of which, with the assistance of E&Y we developed a leading practice Blueprint, Diagnostic and Gap Analysis, as well as a high-level implementation road map, and in terms of which phase two (execution) commenced in Q1 of 2018.

In addition, Mandatory Audit Firm Rotation (MAFR) is a new rule issued by the Independent Regulatory Board for Auditors (IRBA) through a board notice in terms of the Auditing Profession Act (Act No 26 of 2005) to address auditor independence and reporting of irregularities.

It will become effective for financial years on or after 1 April 2023. The rule states that an audit firm may not serve as an auditor of a public interest entity (such as Nedbank) for 10 or more consecutive years.

Nedbank is considering its options in implementing this, given several practical challenges:

- Large banks must be audited by two audit firms in terms of SA banking regulatory guidance.
- Nedbank can only appoint an audit firm after a cooling-off period from section 90(2) for a period of five years prior to appointment. Section 90(2) of the Companies Act (Act No 71 of 2008) prohibits an audit firm from being appointed as an auditor if it habitually or regularly performs the duties of accountant or bookkeeper, or performs related secretarial work, for the company, ie advisory work that could be construed as 'doing the work of management' for financial reporting.
- Nedbank's parent company, Old Mutual plc, is in the process of completing its strategy of managed separation. The managed separation process will really gain momentum in 2018 and should be materially complete by the end of the year. Nedbank and Old Mutual plc have KPMG as a common auditor. In view of this, it would not be in the interest of stakeholders to change auditors in the middle of this process.

Both our external auditors have reached the 10-year limit. Accordingly, Nedbank will engage stakeholders in due course. However, based on the above and in the best interest of its stakeholders, the board has recommended to shareholders that Deloitte and KPMG be reappointed for the 2018 audit.

Conduct and culture risks

SA has not been exempt from the global shift in increasing consumer protection legislation. In the SA context, Treating Customers Fairly (TCF) has evolved and is now treated as a market conduct risk with the advent of the Market Conduct Framework for SA (Twin Peaks). Nedbank holds itself to high ethical values for all of its stakeholders and as such rates conduct and culture risk as a Top Ten risk, beyond just compliance requirements. Our Market Conduct and Culture programme continues to progress well, striving to be at market leading practice levels.

Operational risk (including IT, legal and financial crime)

Though exposure to operational risk has increased across Nedbank, it remains appropriately managed, with a low level of operational losses experienced year to date. The inherent operational risk profile remains high due to geopolitical global and local SA risks, unprecedented levels of change, abnormal regulatory pressures, macroeconomic and social shifts.

Operational risk is further heightened due to the pressure to manage costs and grow revenue and to improve the efficiency and JAWS ratios.

The number of material loss events (> R5m) were limited to seven for the year, with three of the events fully recovered. Net losses of R233m have decreased by 27% in 2017 compared to 2016. The net loss to total assets is low at 0,02% (2016: 0,03%).

Throughout the reporting period the group remained within risk appetite limits for the two main metrics being:

- The Operational value at risk (OpVaR) to Gross Operating Income (GOI) ratio is 8,3% against a limit of 10%.
- The net loss to GOI ratio is 0,11% against a limit of 1,75%.

The AMA capital update was approved by the Internal Model Committee (IMC) and GORC (Exco subcommittee). The capital requirement increased by 20,2% (to R4,2bn) from the previous iteration in December 2016, mainly due to increased cyber risk, business disruption and system failure exposures.

Corporate insurance is a key component of a bank's risk management strategy and in this regard Nedbank successfully renewed its 2017/2018 groupwide insurance programme, substantially increasing cover for cybercrime particularly, in line with local and global trends.

Risk management of core IT processes and data governance is in place with key risk indicators (KRI's) used to identify, manage, measure and report risk proactively. All known control deficiencies are highlighted and escalated to relevant ERMF committees. There is continuing benefit from the ongoing maturity of key foundation and enabling programmes that are delivering the supporting capabilities required in go-to-market solutions.

In line with Nedbank's ME systems roll out currently underway, as well as our DFL strategy, and given the vast number of changes being introduced, an increased level of information technology (IT) disruption and impact to systems availability is anticipated. This is being addressed by our Group Technology (GT) cluster and we continue to invest in strengthening our people, systems, policies, processes and related controls to ensure that they are robust and that sufficient measures are in place to minimise any impact and recover timeously from any major incidents. We continue to improve controls for Identity and Access Management (IAM) and governance through the ME Enterprise Security Foundation Programme. The programme includes access governance and privileged access management projects as well as creation of an access governance centre of excellence addressing, inter alia, cyber-related risks.

Credit risk

Nedbank Group's credit portfolio and key credit metrics are proving resilient amid the unfavourable macroeconomic and political environment, illustrating the success of the strategic portfolio tilt, proactive credit risk management and conservative provisioning. This is evident in Nedbank Group's credit loss ratio (CLR), which decreased 0,19% to 0,49% at 31 December 2017. Excluding the central provision release (as a result of risks that had previously been identified but had not materialised), the group CLR would have been 0,54%, below the bottom end of the target range (0,60–1,00%).

Prudent watch list management in our Investment Bank, and effective resolution of most wholesale key watch list clients, added to Nedbank's effective credit risk management.

Credit process and governance across the bank remains efficiently and effectively managed, within an enabling risk appetite.

Nedbank's Advanced Internal Ratings-based (AIRB) credit system remains in good shape, with enhanced credit models approved by SARB (eg home loans) facilitating risk- weighted assets (RWA) optimisation and increases in the CET1 capital ratio.

Market risks

Market risk and all its subrisk components remain well managed and monitored, with favourable outcomes and within risk limits.

The implementation of Overnight Indexed Swap (OIS) discounting methodology by Corporate and Investment Banking (CIB) to align the current valuation framework with best market practice progressed well in 2017.

The 2007/2008 financial crisis exposed the fragility of using interbank-defined interest rates [eg London Interbank Offered Rate (LIBOR), Johannesburg Interbank Agreed Rate (JIBAR), etc], which were considered a good proxy to produce the risk-free yield curve required for pricing. OIS is currently the best approximation of a risk-free rate that removes the bank credit and liquidity risk inherently priced in interbank rates.

Nedbank is aware of the forthcoming substantial change to the market risk regulatory capitalisation requirements under the updated 'Minimum capital requirements for market risk' [previously referred to as the Fundamental Review of the Trading Book (FRTB)]. This regulation aims to address the shortfalls of the current regulatory framework and provides substantial enhancements, not only to trading market risk capitalisation levels, but also to the entire governance process. Nedbank has participated in a number of Quantitative Impact Study (QIS) exercises and is actively preparing for the expected future regulatory requirements in this regard.

Although SARB has deferred the implementation date for the Basel III minimum capital requirements for market risk to 1 January 2021, work is continuing. A project steering committee was formed in 2017 and a gap analysis on Nedbank's key business requirements, specifications and understanding of the proposed regulation is in progress.

Two successful quarterly SARB Internal Model Approval (IMA) onsite inspections for position risk in the trading book were conducted, with no material issues raised. Nedbank also completed a SARB questionnaire on managing risks associated with the settlement of foreign exchange transactions.

Balance sheet risks

The group continued to strengthen its capital position, with our CET1 ratio of 12,6% (pre-IFRS 9) now above the top end of our internal target range of 10,5–12,5%, following organic capital generation through earnings growth, lower asset growth and some RWA optimisation.

In the current environment of slower advances growth, capital generation has been stronger following lower credit RWA growth and continued refinement of Basel models. This was partially offset by the impact of the rand strengthening at the back end of 2017, which adversely impacted foreign currency translation reserves and led to higher credit valuation adjustment (CVA) RWA. Higher levels of equity exposure resulted in increased equity RWA. As a result overall RWA increased 3,7% to R528,2bn.

The group's tier 1 ratio improved to 13,4% and includes the issuance of R600m of new-style additional tier 1 capital instruments during the year, offsetting the progressive grandfathering of old-style perpetual preference shares as we transition towards end-state Basel III requirements. The group's total capital ratio has improved to 15,5% and includes the issuance of R2,5bn of new-style tier 2 capital instruments during the year, partially offsetting the redemption of R3,0bn in old-style tier 2 capital instruments.

Optimising our funding profile and maintaining a strong liquidity position remain a priority for the group, especially in the current environment. The group's quarterly average Liquidity coverage ratio (LCR) of 116,2% exceeded the minimum regulatory requirement of 80% in 2017 and 90% effective from 1 January 2018. The group maintains appropriate operational buffers designed to absorb seasonal and cyclical volatility in the LCR.

Nedbank has maintained the net stable funding ratio (NSFR) at above 100% on a pro forma basis and is compliant with the minimum regulatory requirements that are effective from 1 January 2018.

At December 2017 the net interest income (NII) sensitivity of the group's banking book for a 1% parallel reduction in interest rates, measured over 12 months, is 1,67% of total group ordinary shareholders' equity (OSE), which is within the board's approved risk limit of < 2,25%. This exposes the group to a decrease in NII of approximately R1 363m before tax should interest rates decrease by 1%, measured over a 12-month period.

Interest rate risk in the banking book (IRRBB) is actively managed through a combination of on- and off-balance-sheet strategies, including hedging activities. Hedging is typically transacted on a portfolio basis for deposits and retail advances, albeit that larger, longer-dated deposits along with wholesale fixed-rate advances are typically individually hedged.

Balance Sheet Management (BSM) provides strategic insight and motivation in managing IRRBB to Group Alco and Executive Risk Committee (Group Alco) through appropriate risk reporting and analytics and by providing strategic input based on the committee's interest rate views, impairment sensitivity and defined risk appetite.

Rest of Africa

The strategy of growth in the rest of Africa increases the risk profile of the organisation in markets with commensurate higher returns, but which are more volatile and require increased governance and control at this stage. Nedbank RoA subsidiaries are grappling with scale issues, growing profitability, adverse macroenvironments and significant regulatory requirements, especially AML. These are further exacerbated by costs, skills, talent and resourcing constraints. The 2018–2020 Group Business Plan includes steps to manage strategic and correlated risks in the RoA strategy.

While positive for the businesses, the rollout of a new core banking system (Flexcube) has increased levels of operational risk in the interim. Flexcube is now running successfully in Namibia, Swaziland, Lesotho and Malawi, with MBCA (Zimbabwe) having gone live in March 2018. There have been no Flexcube related loss incidents after the Malawi implementation, and there is a noticeable trend of system stability after the Flexcube implementation in other subsidiaries, notwithstanding issues needing attention and resolution.

In all RoA subsidiaries regulatory scrutiny by both incountry regulators and SARB has intensified, especially in relation to AML.

ETI has underperformed over the past two years against the initial investment case, having to manage, among others, governance, risk and balance sheet management issues as well as the recessionary environment in Nigeria. Nedbank exco and board have agreed to a fix strategy for its ETI investment and made good progress in 2017 with the ETI share price up 65%.

We have also increased our representation on the ETI board with Mfundo Nkuhlu our Chief Operating Officer (COO) newly appointed as Chair of the Risk Committee, now complemented by Brian Kennedy, Managing Executive for CIB, who has joined the Audit and Remuneration Committees.

APPROACH TO RISK AND BALANCE SHEET MANAGEMENT

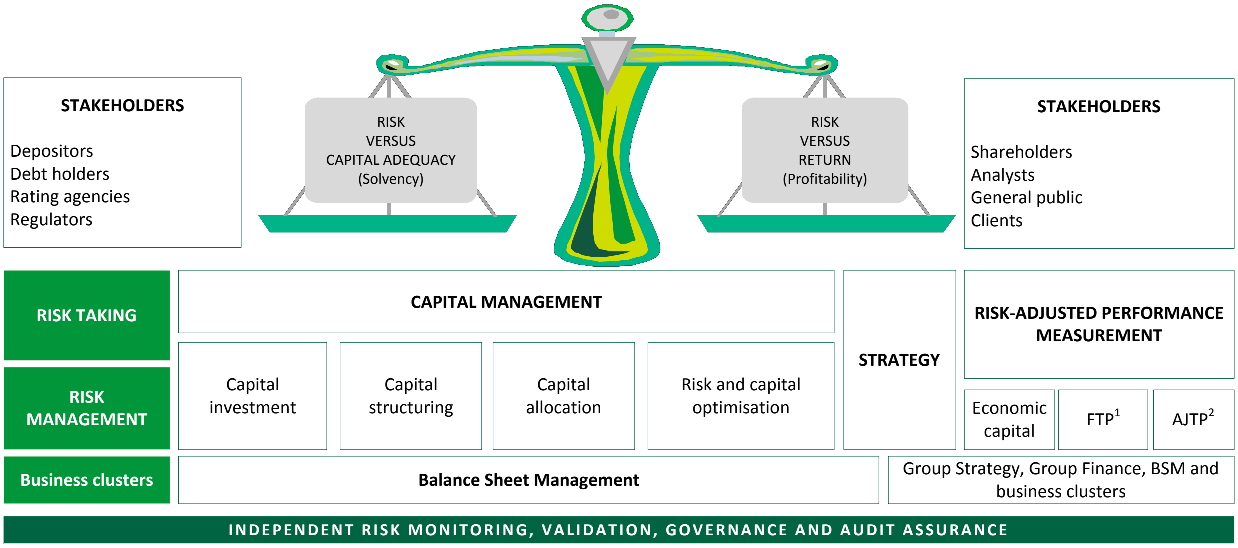
We approach our strategy development, business activities, risk appetite, risk and balance sheet management in a fully integrated manner. At the heart of the group's business and management processes are integrated worldclass risk and balance sheet management frameworks.

Nedbank Group's Risk and Balance Sheet Management frameworks

- ERMF
  - Subframeworks (examples)
    - Group Liquidity Risk Management Framework
    - Group Credit Risk Management Framework
    - Group Market Risk Management Framework
    - Group Operational Risk Management Framework (ORMF)
- Capital Management Framework (CMF)
  - Solvency and Capital Management Policy
  - Economic Capital Framework
- Stress and Scenario Testing Framework
- Risk Appetite Framework (RAF)
- Risk-adjusted Performance Measurement (RAPM) Framework

- Internal Capital Adequacy Assessment Process (ICAAP)
- Internal Liquidity Adequacy Assessment Process (ILAAP)
- Recovery Plan (RP) (Basel III-compliant)

Nedbank Group's Capital Management Framework



[1] *Funds transfer pricing.*
[2] *Activity-justified transfer pricing.*

Nedbank Group's CMF is designed to meet our key external stakeholders' needs, both those focused more on the adequacy of the group's capital in relation to its risk profile (or risk versus solvency) and those focused more on the return or profitability of the group relative to the risk assumed (or risk versus return). The challenge for management and the board is to achieve an optimal balance between these two important dimensions.

All Nedbank Group's quantifiable risks across the 17 key risks of the ERMF are also captured in our Economic Capital Framework, where they are appropriately quantified and capitalised.

Economic capital is a sophisticated, consistent measurement and comparison of risk across business units, risk types and individual products or transactions. This enables a focus on both downside risk (risk protection), upside potential (earnings growth) and shareholder value-add.

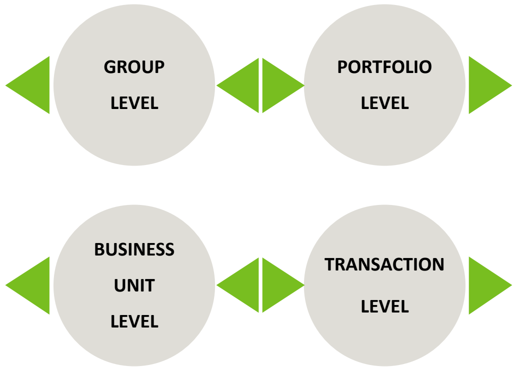
Nedbank Group assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital based on 12 quantifiable risk categories. The quantification and capitalisation of transfer risk has been discontinued effective 1 January 2017 due to the large overlap between the modelling of transfer risk and country risk. This discontinuation is expected to have a minimal financial impact due to the low economic materiality. Nedbank Group regularly enhances its economic capital methodology and benchmarks the output to external reference points.

All of these quantifiable risks, as measured by the higher of regulatory or economic capital, are then allocated back to the businesses in the form of a capital allocation to where the assets or risk positions reside or originate.

Economic capital is embedded in the organisation and the way the business is managed. This is summarised below.

Economic capital use across Nedbank Group

- Economic capital adequacy
- Risk-based capital allocation across the group's businesses
- Key component of risk appetite
- Active capital management and ICAAP
- Effective reporting of risk (Pillar 3)
- Strategic and capital planning
- Risk/return economic value appraisal of different business units and monolines
- Economic profit (EP) target setting
- Risk-based strategic planning
- Risk appetite optimisation
- ICAAP



- Concentration risk management
- Risk diversification
- Risk portfolio management and optimisation
- Limit setting
- Portfolio tilt

- Risk-based pricing
- Consideration of economic return on individual loan applications and products
- Client value management
- Prioritisation of utilisation of client limits

Nedbank Group's economic capital and ICAAP methodology are constantly reviewed and updated, taking cognisance of regulatory developments such as Basel III and Solvency II/SAM.

Economic capital not only facilitates a like-for-like measurement and comparison of risk across businesses but, by incorporating the allocation of the higher of economic or regulatory capital into performance measurement, the performance of each business can be measured and compared on an absolute basis by using EP and a relative percentage return basis, namely return on risk-adjusted capital (RORAC) – the same as return on equity (ROE), by comparing these measures against the group's cost of capital.

Economic profit is Nedbank's primary financial performance metric as it aligns closest with shareholder value creation and incorporates risk (through capital allocation)

EP = CAPITAL x (RORAC – cost of capital)

Robust measure of risk, based on Basel III	Economic ROE	Shareholder requirements

EP is a combination of familiar metrics that enables tradeoff between:

- risk and return;
- growth and profitability; and
- shareholder value creation.

Currently EP and RORAC are used interchangeably as the primary measure for performance within Nedbank Group. In the calculation of RORAC, which equates to Nedbank Group's internal measure of ROE, the capital is calculated on a risk-adjusted basis, however, the return is not risk-adjusted as IFRS earnings are used. This is shown in the table below.

Globally, there has been a move towards using through-the-cycle (TTC) risk measures of return that provide a longer-term view and appropriate incentivisation of reward.

EP R = IFRS EARNINGS (OR ALTERNATIVELY RISK ADJUSTED PROFIT) – HURDLE RATE X HIGHER OF ECONOMIC AND REGULATORY CAPITAL	**RORAC % = [IFRS EARNINGS (INTERNAL ROE) + CAPITAL BENEFIT] ÷ HIGHER OF ECONOMIC AND REGULATORY CAPITAL**
■ Value is created if EP > 0. ■ EP is a core metric for shareholder value-add. ■ If capital is unconstrained, all business with EP > 0 should be grown subject to established hurdle ranges. ■ No information on the marginal percentage return on economic capital, which is provided by RORAC.	■ Value is created if RORAC > hurdle rate. ■ If capital is scarce, businesses with the highest RORAC (ie highest marginal return per rand of economic capital) should be prioritised. ■ No information on magnitude of value being created for shareholders, which is provided by EP.

In line with Basel III and the Banks Act (Act No 94 of 1990), a best-practice ICAAP is embedded in Nedbank Group. It is an integral component of the group's ERMF, CMF (see diagram on page 14), strategy and business planning process, balance sheet management, remuneration and reward mechanisms, day-to-day business operations, pricing and lending decisions, and client-value management. Nedbank Group scores highly on the 'use test', because the group's risk culture is based on the understanding that the business of banking is fundamentally about managing risk, and risk drives capital and liquidity requirements, against which return is measured and rewarded.

LIQUIDITY RISK MANAGEMENT FRAMEWORK

Embedded within the Liquidity Risk Management Framework is Nedbank Group's ILAAP. The ILAAP involves an ongoing and rigorous assessment of Nedbank Group's liquidity self-sufficiency under a continuum of stress liquidity scenarios, taking into consideration the board-approved risk appetite. The ILAAP also involves an ongoing review and assessment of all components that collectively make up and/or support the Liquidity Risk Management Framework. The objective of this review and assessment is to ensure that the framework remains sound in terms of measuring, monitoring, managing and mitigating liquidity risk, taking cognisance of best-practice and regulatory developments. Further detail regarding the framework is provided in the Liquidity risk and funding section.

In view of the significance of liquidity risk in banking, the ILAAP is conducted from both a group and bank perspective.

RECOVERY PLAN AND STRESS TESTING

The Nedbank RP establishes a framework for the bank to act quickly and decisively (eg selling businesses and significant assets) during a severe crisis to ensure that it is able to recover. The plan describes the integration with existing contingency planning and the possible recovery options, including a detailed assessment of their likely effectiveness and the defined points at which they would be invoked. The RP addresses stresses invoked by shortfalls in liquidity and capital, as well as significant operational failures that may jeopardise Nedbank's ability to continue normal business operations. The RP also covers the various options considered by senior management to mitigate stresses encountered by Nedbank.

The RP fits into and aligns with Nedbank's ERMF and complements the existing capital, liquidity and stress and scenario testing policies and procedures of the group.

SARB released its resolution white paper titled Strengthening SA's Resolution Framework for Financial Institutions in August 2015 and in January 2018 released a first draft of the Resolution Framework. Nedbank RPs are being appropriately enhanced as-and-when details are provided in terms of the Resolution Framework, which is expected to be finalised and possibly enacted in late 2018.

Further information is provided in the Recovery plan overview section.

Nedbank Group has a comprehensive Stress and Scenario Testing Framework as described on page 22, which is used, among others, to stress its base case projections to assess the adequacy of Nedbank Group's capital levels, capital buffers and target ratios. The framework has been in place, and continuously enhanced, since 2006 and is an integral part of the group's ICAAP under Basel III, strategy and business plans.

RISK APPETITE FRAMEWORK

A comprehensive RAF was first approved by the board of directors in 2006 and has recently undergone a significant enhancement. It continues to be an integral component of the group's ERMF and is embedded in strategy and business plans. Further detail is discussed in the Risk appetite section.

RISK-ADJUSTED PERFORMANCE MEASUREMENT, MANAGEMENT AND REWARD

Economic capital, EP and RORAC as well as other important metrics, such as return on assets (ROA), CLR, non-interest revenue (NIR)-to expenses and the efficiency ratio, are included in performance scorecards across the group. Economic capital and EP are comprehensively in use across the group, embedded in businesses on a day-to-day basis and in performance measurement and reward schemes. RAPM has been applied across the group for many years and helps ensure that excessive risk-taking is mitigated and managed appropriately within the group.

To align the group's current short-term incentive (STI) scheme with shareholder value drivers, the STI scheme has been designed to incentivise a combination of profitable returns, risk and growth appropriately. It is driven from an EP and headline earnings basis, using the higher of risk-based economic and regulatory capital allocation. Risk is therefore an integral component of capital allocation and performance measurement (and reward) in Nedbank.

The group's remuneration practices and public disclosures are compliant with the evolving principles, practices and governance codes released for the SA financial services industry. For this detail please refer to the group's 2017 Remuneration Report and the Remuneration section in the 2017 Integrated Report, which can be found at nedbank.co.za. Nedbank Group continues to monitor the evolving governance environment to ensure appropriate compliance of the group's risk-adjusted remuneration practices meet the relevant regulatory and/or statutory requirements.

Conclusion

Nedbank's risk and balance sheet profile across the enterprise remains resilient despite, among others, the challenging external environment, recent sovereign ratings downgrades, increasing risks and increased regulatory change agenda.

Nedbank's ERMF continues to be robust and our strong risk culture supports Nedbank's overall positive risk state to date. However, there are a few significant concerns and issues that are actively managed, as can be expected in the current operating environment, in Nedbank's Key Issues Control Log (KICL).

Effective risk management across Nedbank is supported by and enhanced through the ERMF governance structures and the efficient functioning of Enterprisewide Risk Committees (ERCOs). Matters requiring escalation are reported on in the KICL and are communicated through the business-specific excos, OPCOM, the monthly CEO pack, group exco, and board committees and full board of directors, where OM plc is represented. The KICL reporting process promotes a robust risk culture and facilitates timely identification and escalation of all material risks (including forward looking) and issues (risks already materialised) to the appropriate levels.

Our proactive risk culture ensures that risks are considered in advance and appropriate levels of capital and resources are allocated in the event of the risk materialising. One such example is the extensive work done on management's response (preparation) for SA sovereign rating downgrade(s), which has put us in good stead to navigate through the VUCA environment.

Nedbank has embedded a prudent and conservative risk appetite focussed on the basics and core activities of banking and other financial services. Risk appetite remains enabling for our businesses, promoting competitive but appropriate growth and returns.

All core risk appetite metrics are currently tracking within approved limits and are forecast to remain so over the planning period.

Risk management in Nedbank continues to be a fundamental component of the bank's strategy and operations and continues to evolve into more agile, smarter, practical and efficient practices that remain relevant and competitive in an ever-shifting internal and external environment.

Risk appetite

Risk appetite is an articulation and allocation of the risk capacity or quantum of risk Nedbank Group is willing to accept in pursuit of its strategy, duly set and monitored by group exco and the board, and integrated into our strategy, business, risk and capital plans. Nedbank Group measures and expresses risk appetite both qualitatively and in terms of quantitative risk metrics.

Additional concentration risk appetite targets have been set for areas in Nedbank with exposures that have similar risk characteristics, which reduces the level of diversification, and that can have a material financial impact on the bank under adverse scenarios. The targets are reviewed and approved by senior management and the board annually as part of the three-year strategic business planning process in line with the Basel III regulations and the board's responsibilities. Further detail is contained in the Concentration and off-balance-sheet risks section.

Qualitatively, the group also expresses risk appetite in terms of policies, processes, procedures, statements and controls meant to limit risks that may or may not be quantifiable. Policies, processes and procedures relating to governance, effective risk management, adequate capital and internal control have board and senior management oversight and are governed by Nedbank's lines of defence (refer to page 6 for details). A key component of the ERMF is a comprehensive set of board-approved risk policies and procedures that are updated annually. The coordination and maintenance of this formal process rests with the head of ERM, who reports directly to the CRO.

A review of Nedbank's RAF conducted in 2017 resulted in the following key enhancements in order to ensure its continued relevance for the bank:

- Introduction of an overarching Risk Appetite Statement (RAS) for the group that will also form the basis for setting both quantitative and qualitative risk appetite targets for the various risk types and business units across the group.
- Increased risk coverage through risk appetite statements for key non-financial risks that have been evolving over recent years.
- Introduction of a more tiered segmentation of risk appetite metrics to improve senior management's focus on the key aspects of Nedbank's risk appetite.

These changes are described in more detail below.

Overarching Risk Appetite Statement

Nedbank Group's board of directors endorsed the following fundamental principles for the bank's risk appetite:

- Nedbank Group is a diversified financial services provider committed to its corporate purpose to use our financial expertise to do good for individuals, families, businesses and society. Our vision to be the most admired financial services provider in Africa by our staff, clients, shareholders, regulators and communities, means that we hold ourselves to the highest standards of governance and ethics.
- We acknowledge that the financial performance of banks and therefore Nedbank Group is closely correlated to the macroeconomic environment in which they operate and as such earnings are of a cyclical nature.
- Our clients are at the heart of our strategy, and we strive to deliver innovative market-leading client experiences integrated with sound risk management and regulatory compliance.
- The business of banking fundamentally involves the management of risk and the group and its subsidiaries will always strive to be 'world class at managing risk' with a strong risk culture and robust ERMF.
- We are committed to creating sustainable value through a thorough understanding of the needs of all our stakeholders, understanding material risks to which the group is exposed, as well as the opportunities that can be pursued.
- Our risk appetite spans key overarching dimensions defined by the board against which all risk appetite measures and statements developed within the group must adhere to:
  - The group's capital adequacy must be maintained/preserved at all times to ensure that the group is able to withstand adverse impact from unexpected outcomes.
  - The group must maintain adequate liquidity ratios and buffers to successfully navigate the group through a liquidity stress event.
  - The strength of Nedbank's balance sheet must be demonstrated by the quality of underlying assets, which must be managed and monitored against approved risk appetite.
  - The group strives to achieve its desired performance through defining specific financial and other performance targets aimed at delivering value to all our stakeholders, and its earnings, liquidity and capital should enable resilience to stressed macroeconomic and abnormal events.
  - The group enters into transactions or positions where the risks and opportunities are well understood. These same positions and transactions must be core to the group achieving its strategic objectives, and any ancillary activities or opportunities should generally be avoided.
  - The board sets and approves targets and limits for concentration risk across key dimensions, which align with our strategic focus areas and these risks must be well understood and managed within the risk appetite.
  - The group has a low risk appetite for trading activities that profit from the market (proprietary trading) and mainly enters into market transactions to facilitate client trades and to help create liquidity in the market.

- Nedbank has a moderate risk appetite for investment into the Rest of Africa, understanding that while there are significant opportunities, there are significant risks. This is to ensure participation in the long-term growth opportunities for financial services in Africa, in a risk-mitigated manner, while serving our clients and aligned with our stated risk appetite.
- With financial services and specifically banking being built on a foundation of trust, it is imperative that the Nedbank brand and reputation is protected at all times. Nedbank is committed to the highest standards of governance, ethics and integrity, it is thus the expectation of the board that all business decisions made are in line with this commitment.
- Nedbank has a zero tolerance for corruption and we expect all staff, our service providers and clients to conduct themselves in an ethical manner, and with integrity.
- As the group develops innovative solutions, products and services, due care must be undertaken to ensure that our clients' experience is enhanced while ensuring that our clients, their financial data and information assets entrusted with us are protected at all times.
- The group understands the increase in financial crime due to the challenging macro and political environments and the complexity of increasing digital activity. Heightened cyber-risks/exposure and information security risks are exacerbated by the digital revolution and the group has a very low risk appetite for security incidents on its external systems, data or crown jewels as defined.

Increased risk appetite coverage for key non-financial risks

With the increased importance of non-financial risks such as cyber, AML or fraud/corruption for modern banking, Nedbank identified the need to also adequately account for these in its RAF. A set of key, predominantly qualitative, risk appetite expressions have been developed and implemented in 2017. Further work on other, less material non-financial risks has been planned for 2018.

Refinement of Tier 1 risk appetite metrics

The previous RAF distinguished between a set of core versus non-core quantitative risk appetite metrics, with both being subject to direct oversight by the board. These metrics have been refined into a set of Tier 1 metrics which remain subject to direct oversight by the board.

Most of these metrics have been previously reported, with the following exception;

- Net stable funding ratio: As this metric became effective on 1 January 2018 from a regulatory perspective and poses an important constraint to banks' balance sheets going forward, it was considered to be important to also articulate a corresponding risk appetite target.

Nedbank Group's Tier 1 risk appetite metrics are defined in the table on the next page.

NEDBANK GROUP TIER 1 RISK APPETITE METRICS

Group metrics	Definition	Measurement methodology	Current target	Target achieved at December 2017
Credit risk				
CLR	Level of actual credit losses in Nedbank Group's credit portfolios.	Measured as the ratio of the annual income statement impairment charge and average gross loans and advances.	0,60–1,00%	✔
Capital and earnings risk				
Chance of experiencing a loss	Event in which Nedbank Group experiences an annual loss.	Compares expected profit over the next year with economic loss at different confidence intervals – expressed as a 1-in-N chance event of experiencing a loss.	Better than 1-in-15 years	✔
Chance of regulatory insolvency	Event in which losses would result in Nedbank Group being undercapitalised relative to the minimum total regulatory capital ratio.	Compares the capital buffer above minimum required regulatory capital with economic loss at different confidence intervals – expressed as a 1-in-N chance event of regulatory insolvency.	Better than 1-in-50 years	✔
EaR	Percentage pretax earnings potentially lost over a one-year period.	Measured as a ratio of earnings volatility as a 1-in-10 chance event (ie 90% confidence level) and pretax earnings.	EaR less than 80%	✔
Economic capital adequacy	Nedbank Group adequately capitalised on an economic basis to its current international foreign currency target debt rating.	Measured by the ratio of available financial resources (AFR) and required economic capital at an 'A' international foreign currency debt rating.	Greater than an 'A' rating plus 30% buffer.	✔
Total RWA to total assets	The average risk profile (risk weight) of Nedbank Group's assets.	Measured as the ratio of total RWA and total assets.	50–59%	✔
CET1 ratio	Nedbank Group adequately capitalised from a regulatory perspective.	Measured as the ratio of CET1 capital and total RWA.	10,5 –12,5%	✔
Leverage ratio (Basel III)	The extent to which Nedbank Group is leveraged in terms of assets, including off-balance-sheet assets, per unit of qualifying tier 1 regulatory capital.	Measured as the ratio of total assets, including off-balance-sheet assets, to qualifying tier 1 regulatory capital (aligns with Basel III).	Less than 20 times	✔
Liquidity risk				
Liquidity stress event - regulatory	Survival period in a stressed liquidity event based on regulatory assumptions.	Number of days that Nedbank would be able to meet all payment requirements under a pre-defined stress scenario based on regulatory prescribed assumptions.	> 30 days	✔
LCR	The extent to which high-quality liquid assets (HQLA) cover total net cash outflows (NCOF) over a 30-day period.	Measured as the ratio of HQLA and total NCOF over the next 30 calendar days. The ratio is based on Nedbank Limited's balance sheet, as a high level of liquid assets in foreign subsidiaries typically yields higher ratios at a Nedbank Group level.	> 100%	✔
Liquidity stress event - internal	Survival period in a stressed liquidity event based on internal assumptions.	Number of days that Nedbank would be able to meet all payment requirements under a pre-defined stress scenario based on internal models.	> 38 days	✔
NSFR	Assessment of whether there is sufficient stable funding (equity, deposits, long-term wholesale) for the bank's lending profile (higher requirements for long-term assets).	Measured as the ratio of available and required stable funding.	> 106%	✔
Interest rate risk				
NII sensitivity	Sensitivity of Nedbank Group's NII due to changes in market interest rates.	Measured as the ratio of the 1-year NII impact of a 100 bps instantaneous parallel shift in interest rates and Nedbank Group's equity.	< 2,25%	✔
Economic value of equity (EVE) sensitivity	Materiality of unhedged fixed rate assets versus liabilities.	Measured as the ratio of the change in present value of fixed rate assets versus liabilities due to a 100 bps instantaneous parallel shift in interest rates and Nedbank Limited's equity.	< 1,5%	✔
Mark-to-market (MtM) sensitivity	Sensitivity of the fair value of the liquid asset portfolio to structural changes in interest rates.	Measured as the change in fair value of the liquid asset portfolio due to a 25 bps shift between bond and swap curves.	< R160m	✔

Group metrics	Definition	Measurement methodology	Current target	Target achieved at December 2017
Market risk				
Trading VaR	Potential market value losses in the trading book over a three-day time period (only to be exceeded once every 100 days).	Measured as the maximum three-day value at risk (VaR) (at a 99% confidence level) of the last 60 trading days.	< R150m	✔
Stress trigger	Potential trading book loss during periods of extreme volatility.	Measured as the maximum, scenario based trading loss of the last 60 trading days.	< R1 050m	✔
Insurance risk				
Capital at risk	Regulatory view of capital adequacy.	Ratio of Net Asset Value (insurance view of available capital) to minimum regulatory capital for Nedbank's insurance entity.	> 1,5	✔
Economic capital ratio	Internal view of capital adequacy.	Ratio of Net Asset Value to economic capital (internal view of risk profile) for Nedbank's insurance entity.	> 1,0	✔
Operational risk				
Operational risk losses	Level of actual financial losses due to operational risk events (eg fraud) in relation to the total operating income.	Measured as the ratio of operational risk related losses and Nedbank Group's GOI.	< 1,75%	✔
Operational VaR	Level of losses due to operational risk events that Nedbank is not willing to exceed under an extreme scenario.	Measured as the ratio of the operational risk VaR (at a 99,93% confidence level) and Nedbank Group's GOI.	< 10%	✖

An update of the scenarios used in the operational risk value-at-risk model resulted in gross losses slightly exceeding the corresponding risk appetite target. However, as the corresponding net losses remained well below the target, the corresponding breach was condoned.

Nedbank Group's risk appetite continues to be assessed following material changes within the operating environment, including the recent sovereign downgrade and elevated financial crime risks among other material matters. The current and forward view of the group's risk profile under the changing base case as well as scenario and stress testing informs decisions to adjust risk appetite and/or to change the risk profile if required. The current RAF as defined continues to remain prudent and conservative, focusing on the group's core activities. This is illustrated by reference to the following:

- Credit concentration risk levels remain within risk appetite.
  - Large individual or single-name exposure risk is low as shown on page 109.
  - The high contribution from loans and advances originated in SA (93,0%) is a direct consequence of Nedbank's strong footprint in the domestic banking market. As Nedbank has strong retail and wholesale operations in SA, in line with its universal bank business model, there is no undue concentration risk from a geographic perspective.
  - Industry exposure risk is reasonably well diversified as shown on page 111.
  - Nedbank Group's concentration in total mortgage exposure increased from 41,3% in 2016 to 43,1% in 2017, with the increase mainly from the commercial mortgages book in line with growth plans. This level of total mortgage exposure remains high, though still in line with the other big three SA banks.
- Low level of securitisation exposure at approximately 0,12% of total RWA.
- Low leverage ratio under Basel III, which includes off-balance-sheet exposure, at 14,2 times against a group internal target of less than 20 times, and well below the Basel III limit, in accordance with the revised SA regulations of 25 times, which is more prudent than Basel III at 33,3 times.
- Notwithstanding the tough macroeconomic environment, the group's CLR improved further to 0,49% (2016: 0,68%) as the group continues to originate selectively in line with portfolio tilt strategic objectives. The CLR is now below the lower end of the risk appetite target range, however, given the VUCA environment, risk appetite remains unadjusted as credit losses are expected to increase into the bottom half of the target range in 2018, also due to the introduction of IFRS 9 in 2018.
- Trading market risk remains low in relation to total bank operations (economic capital held is only 0,5% of the minimum economic capital requirement for Nedbank Group and is conservatively based on limits rather than utilisation). Trading activities continue to focus on the domestic market with a bias towards local interest rate and forex products, with a low risk appetite for proprietary trading. Although proprietary trading activities remain low, they play an essential role in facilitating client trades and creating liquidity in the market.
- Comprehensive stress and scenario testing performed during the period confirms the adequacy and robustness of the group's CARs and accompanying capital buffers. Please refer to the Stress and scenario testing section for further details, specifically relating to the recent sovereign downgrade.
- Individual risk appetite targets, as relevant to the approved business activities, have been approved and cascaded down from group level for each business cluster and major business unit. Additionally, individual limits for CLRs in a stressed macroeconomic environment have been approved and cascaded down.

In conclusion, Nedbank's risk appetite continues to support the group and is well formalised, managed and monitored, bearing in mind the board's ultimate approval and oversight.

Stress and scenario testing

Nedbank Group has a comprehensive Stress and Scenario Testing Framework that is used, inter alia, to stress its base-case projections in order to assess the adequacy of Nedbank Group's and Nedbank Limited's capital levels, buffers and target ratios. The framework is an integral part of the group's ICAAP under Basel III, strategy and business planning. By adhering to this framework Nedbank is ultimately able to conclude whether Nedbank's capital planning and base-case projected regulatory and economic capital levels, ratios, targets and buffers, including the results and impacts of the stress and scenario testing applied, are sound and appropriate.

Nedbank's holistic groupwide stress testing is at the forefront of similar processes at international banks'. Stress testing is a component of Nedbank's aspiration to be 'worldclass at managing risk', and it is an evolving process, incorporating latest international methodologies and standards. Stress testing is also an important tool for analysing Nedbank Group's risk profile and setting risk appetite.

During 2016 and 2017 Nedbank performed comprehensive stress testing on the possible impact of the South African sovereign being downgraded to subinvestment grade by one or more of the rating agencies. In this regard Nedbank has extensively considered a response to such an event, well before the actual downgrade events during 2017, as part of its proactive contingency planning to mitigate potential adverse consequences.

Benchmarking of Nedbank's response to the SA sovereign ratings downgrades was performed to describe what transpired after the Standard and Poor's and Fitch downgrades in April 2017, as opposed to what was predicted. Further stress testing was then performed before the downgrades in November 2017, specifically to address the possibility of SA's local currency sovereign credit rating being downgraded to subinvestment grade.

Nedbank Group's Stress and Scenario Testing Framework

The key features of the Stress and Scenario Testing Framework are as follows:

- A holistic view of Nedbank Group and Nedbank Limited is considered.
- The Pillar 2 stress testing model allows for quick turnaround times, what-if analysis and analysis of the impact of management actions.
- Event-type or risk-type stress tests are further designed to probe for portfolio-specific weaknesses. For example, as Nedbank has significant exposure to the commercial-property sector, a possible specific stress test event would incorporate all risk factors affecting this sector, including obligor-specific, industry and macroeconomic factors.
- Senior management has active knowledge of and, where appropriate, involvement in the design of stress test scenarios, and in drawing up contingency plans for remedial action. Their participation helps to ensure that any remedial actions will be implemented.
- Market risk stress testing is performed daily and using a full portfolio revaluation technique.
- Extensive liquidity stress testing and scenario analysis is performed, at both a bank and industry level, to appropriately size the liquidity buffer portfolio in the most optimal manner for seasonal, cyclical and/or stress events.
- Pillar 1 stress testing is performed by each business unit and approved by the respective Business Unit Credit Committee or Cluster Credit Committee (CCC).

Stress frequency and scenarios

Pillar 2 stress and scenario testing is performed quarterly and reported to the Group Alco and to the board's Group Risk and Capital Management Committee (GRCMC). Macroeconomic scenarios of different severities are considered, ranging from a mild stress to a high stress, and eventually to severe inflationary and severe deflationary stress scenarios. Results include effects on the major income statement items and consequently earnings, regulatory capital, economic capital, available capital resources and, therefore, CARs.

In addition to the quarterly stress testing process, a comprehensive set of relevant scenarios are also considered and presented during the annual ICAAP. The scenarios considered for the 2017 ICAAP were:

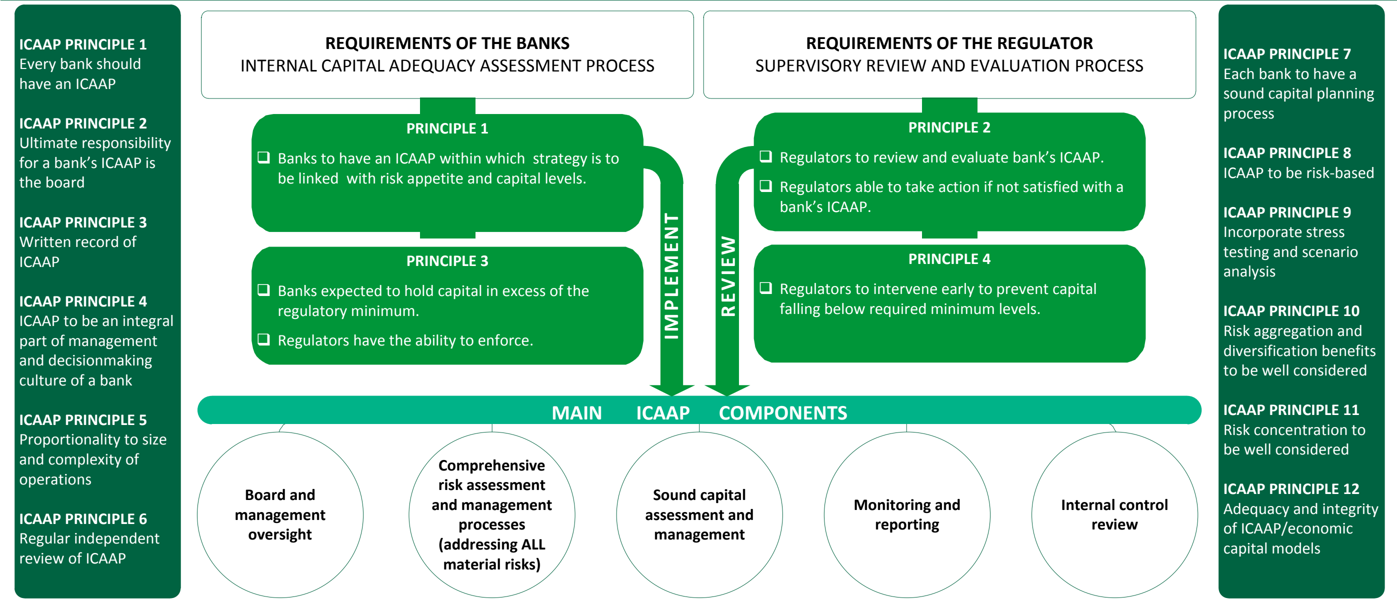
- A continuum of macroeconomic stress scenarios as described above.
- Further possible downgrades of SA's local currency rating to subinvestment grade.
- Specific high-concentration-risk stresses, such as Nedbank's exposure to the commercial-property finance sector and Nedbank's investment in ETI.
- Specific risk-type stresses, such as CVA shocks and liquidity risk stress testing.
- Specific event-type scenarios, such as a sudden operational risk loss event in the form of a cyberattack.
- Reverse stress testing.
- Benchmarking to relevant international stress scenarios such as the Bank of England and US Federal Reserve stress testing exercises.

Nedbank's stress testing strategy, the severity of the stressed macroeconomic scenarios and the additional stress scenarios are challenged, debated and discussed at executive management level by the Group Alco and at non-executive management level by the GRCMC before being finalised for the annual ICAAP.

Internal Capital Adequacy Assessment Process overview

A summary of the four key principles contained in Pillar 2 of Basel III, regulation 39 of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990) (including guidance provided by SARB in Guidance Note 4 of 2015), the ICAAP requirements of banks and related Supervisory Review and Evaluation Process (SREP) requirements of the SARB are depicted below.

Summary of the ICAAP and SREP requirements



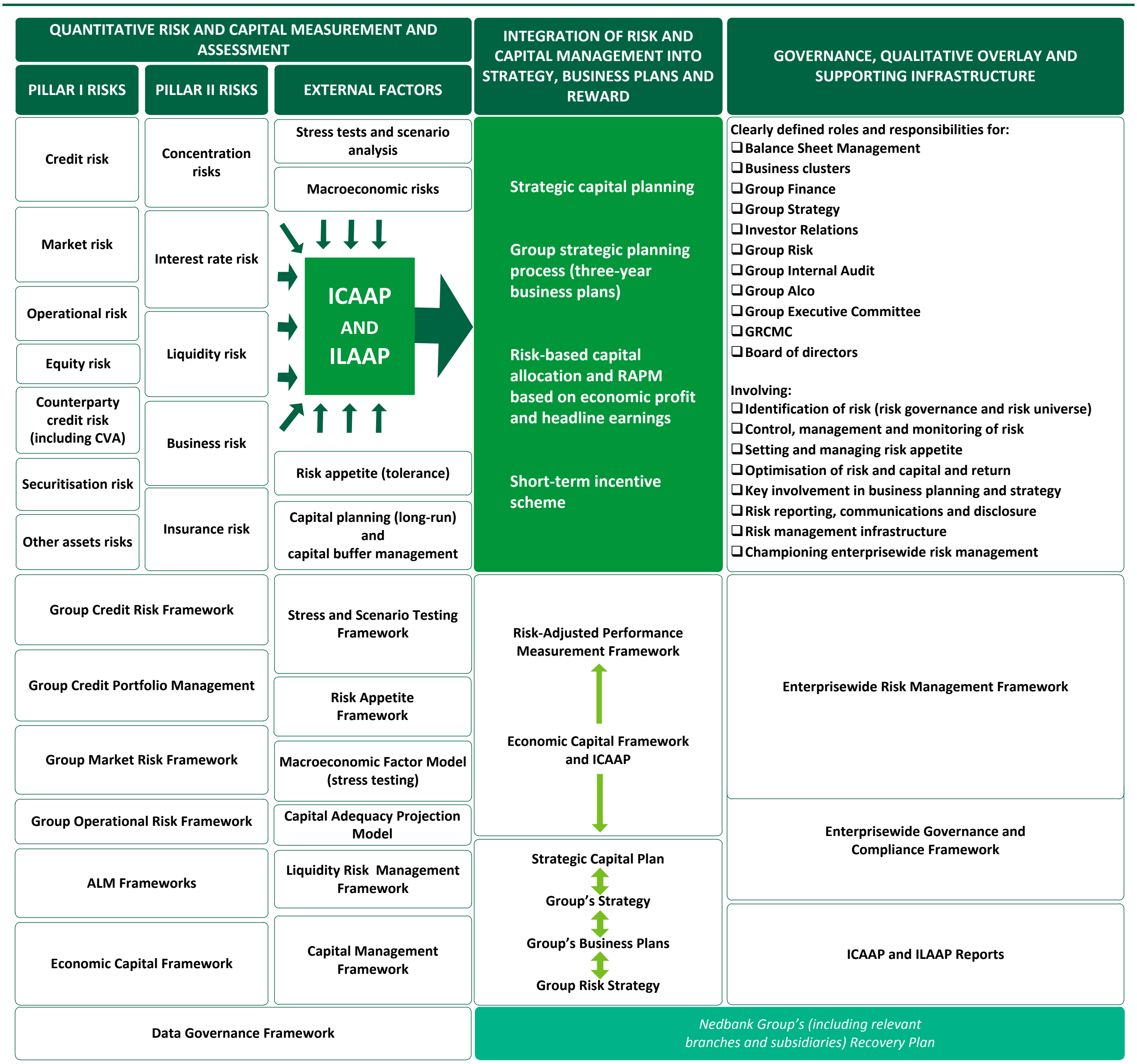
The ICAAP is primarily concerned with Nedbank's comprehensive approach, measurement and management of risk and capital from an internal perspective, that is, over and above the minimum regulatory rules and requirements of Basel III. To this end, it is important to highlight that Nedbank Group has several levels of capital and other components, as depicted in the table below, to be measured and managed simultaneously.

Summary background to the different capital levels to be managed

MEASURES OF THE GROUP'S RISK PROFILE (capital requirements)		ACTUAL BOOK CAPITAL (capital resources)
Regulatory capital	**Economic capital**	**Available book capital (statutory)**
■ Amount of capital required to protect the bank against **regulatory insolvency** over a one-year timeframe. ■ Determined based on regulatory rules [ie Basel Accord and Banks Act (Act No 94 of 1990)]. ■ Designed mainly to protect depositors and creditors. ■ Pillar 1 is rules-based and acts as the minimum capital requirement, which triggers action by the regulators as necessary under Pillar 2. ■ Pillar 2 then creates the bank-specific, internal link to the ICAAP and regulators SREP.	■ Amount of capital required to protect the group against **economic insolvency** over a one-year timeframe. ■ Based on a desired level of confidence/target debt rating set internally (currently 99,93%). ■ A comprehensive internal capital assessment that aligns more closely with ratings agency requirements. ■ Designed to provide a level of confidence as to the bank's economic solvency to depositors, creditors, debt-holders and shareholders. ■ Used as a base for various purposes such as risk-based capital allocation, risk-based pricing, client value management, and the bank's ICAAP.	■ Net asset value, adjusted to be consistent with the two measures of required capital (regulatory and economic) to arrive at 'AFR' for economic capital and 'qualifying capital and reserves' for regulatory capital. ■ Compared with regulatory capital and economic capital requirement to ensure solvency in each case. ■ Book capital is strongly influenced by the use of accounting methods (accrual or book value, market or fair value) and the impact of IFRS rules. ■ The book capital will be the highest of the two other types of capital as it incorporates the need for a predetermined 'capital buffer'.
Minimum capital you are told to have by regulators	**Internal capital assessment of total capital you need**	**Capital you actually have** Qualifying capital (regulatory capital) | Available financial resources (economic capital)

A separate ICAAP is required for each material banking legal entity and for the consolidated Nedbank Group. Size and materiality play a major role in the extent of each bank's ICAAP. Nedbank Group's ICAAP is embedded within the group's CMF and a blueprint thereof (see below) sets out the ICAAP building blocks and overall process, and the various frameworks underpinning this. This process is repeated regularly, which facilitates the continuous assessment, management and monitoring of Nedbank Group's capital adequacy in relation to its risk profile.

Nedbank Group's ICAAP blueprint



The foundations of Nedbank Group's ICAAP, CMF and ERMF are a strong and rigorous governance structure and process, as discussed earlier. The ERMF is actively maintained, updated and regularly reported on up to board level, coordinated by the ERMF Division in Group Risk. This same governance process is followed for Nedbank Group and each banking legal entity ICAAP and involves key participants from the business, finance, risk, capital management and internal audit areas, as well as the relevant executive committees, board committees and the board.

Further detail of the group's capital management is covered from page 30.

The ultimate responsibility for the ICAAP rests with the board of directors. The risk and capital management responsibilities of the board and group exco are incorporated in their respective terms of reference (charters) contained in the ERMF. They are assisted in this regard, and in overseeing the group's capital risk (defined in the ERMF), by the board's GRCMC and the Group Alco respectively. Group Alco, in turn, is assisted by the BSM Cluster.

Recovery plan overview

Changes in regulation, mainly in the form of Basel III, have been largely about three key themes (capital, liquidity and risk coverage) where the Recovery and Resolution Plan (RRP) forms an integral part of these regulatory reforms in terms of:

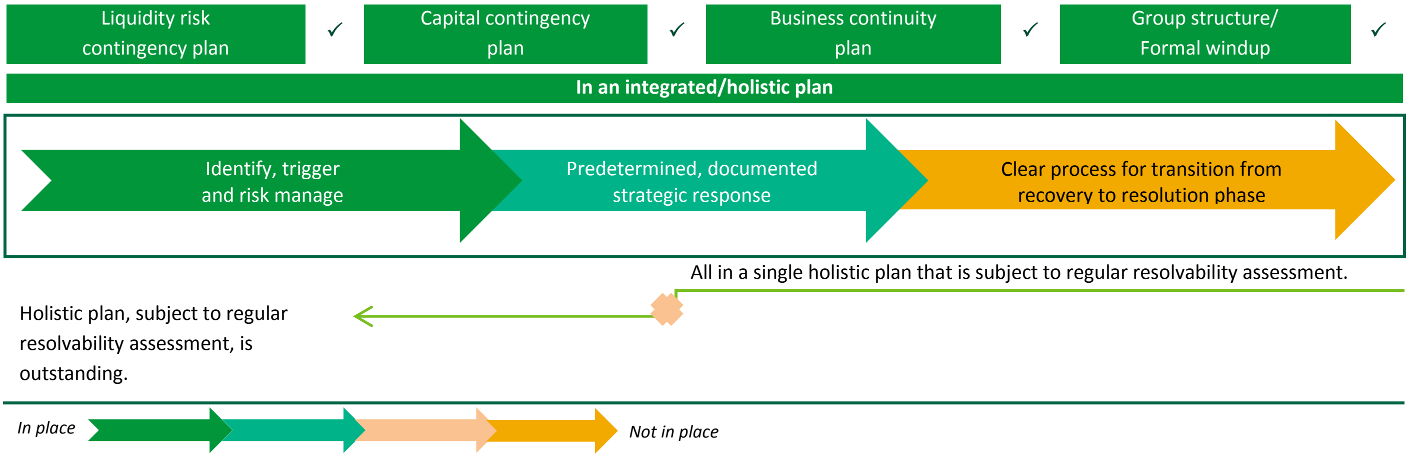
- reducing the risk of banks failing (RPs);
- reducing the impact of failure (resolution plans); and
- ringfencing state/taxpayers from any implicit support to the banking sector (ie mitigate against resolution with bailout).

At a high level the RRP initiative is sponsored by the G20 and Financial Stability Board, with national regulators required to develop resolution plans. As a member of the G20, SA has committed to develop robust and credible RRPs in line with Basel III. RRPs, while at an advanced stage internationally [in respect of global systemically important banks (G-SIBs)], are now at a progressive stage in SA, with SA banks having established RPs for the first time in 2013. The SARB released for comment its resolution white paper titled 'Strengthening SA's Resolution Framework for Financial Institutions' in August 2015 and in January 2018 released a first draft of the Resolution Framework. The draft Resolution Framework basically reconfirmed the following:

- The Reserve Bank will be the Resolution Authority (RA) and have resolution powers over designated institutions (banks, systemically important FIs, holding companies of banks and systemically important FIs).
- The RA itself cannot put a Designated Institution into resolution, but may recommend to the Minister that he/she puts the institution into resolution. Should an institution be put into resolution the RA will in terms of the draft Resolution Framework be able to recover all resolution costs reasonably incurred in terms of performing its resolution function.
- A Deposit Insurance Scheme (DIS) will be created with the establishment of the Corporation for Deposit Insurance, which will collect deposit insurance levies and deposit insurance premiums and be mandated to manage the Deposit Insurance Fund.
- The concept of bail-in will be applied.
  - Bail-in, which is defined as any process outside liquidation that has the effect of allocating losses to liability holders and shareholders, for the purpose of increasing the capital ratio of the institution, is envisaged to take place through either contractual or statutory bail-in, depending on the circumstances.
- The establishment of the no-creditor-worse-off (NCWO) rule.
  - The NCWO rule aims to ensure that no creditor is worse off in resolution than it would be in normal liquidation.
  - To adhere to the NCWO rule the sequence in which creditors are bailed in, should respect and be in line with the hierarchy of creditor claims in liquidation.
- The introduction of the total loss-absorbing capacity (TLAC) principle.
  - The regulatory framework requires regulated institutions to hold loss-absorbing capital (LAC), such as regulatory capital, as well as first loss after capital (FLAC), which collectively makes up TLAC.

Taking cognisance of the above updates and the key Basel III features of effective resolution regimes, used as a benchmark, Nedbank is well positioned in terms of the four key components of a RP outlined below:

- Liquidity ✓
  - Liquidity Risk Contingency Plan (LRCP) established and embedded.
  - The LRCP and RP were rigorously tested in March 2011 and March 2015 through a liquidity simulation that involved all relevant internal and external participants. These simulations were managed independently by one of the large audit firms and forms part of the group's overall approach to stress testing. The group performed well during these exercises and areas of improvement identified have been implemented. These simulations are typically conducted every three years, with the next simulation scheduled for 2018.
  - The ILAAP has been fully embedded.
- Capital ✓
  - Best-practice ICAAP fully entrenched.
  - Existing hybrid debt, preference share capital and subordinated debt issued prior to 2013 have either been redeemed on optional redemption dates or are being phased out until it is redeemed/called and/or replaced.
  - Nedbank issued new-style additional tier 1 of R600m and tier 2 of R2,5bn capital instruments in 2017 in line with the group's capital plan.
  - Bail-in of debt was established through the changes in the Banks Amendment Bill to support the resolution of African Bank.
- Business continuity ✓
  - Nedbank has a robust Business Continuity Management (BCM) programme in place that is aimed at ensuring resilient group business activities in emergencies and disasters. These programmes are regularly tested and validated.
- Group structure (Formalised, ie the ability to windup while being 'open for business') ✓
  - Part of the ERMF.
  - Relatively simple group structure.
  - The entities within the group are reviewed regularly and rationalised where possible.
  - The big SA banks are not complex compared with international banks.



Overall Nedbank Group believes it currently has the ability to identify, trigger and manage a recovery state caused typically by a solvency or liquidity event, but needs to continuously evolve and test this plan with strategic responses for various scenarios. Furthermore, closing the gap between the bank's RP and the regulator's resolution plan is required as part of strengthening SA's resolution regime based on finalisation of the Resolution Framework.

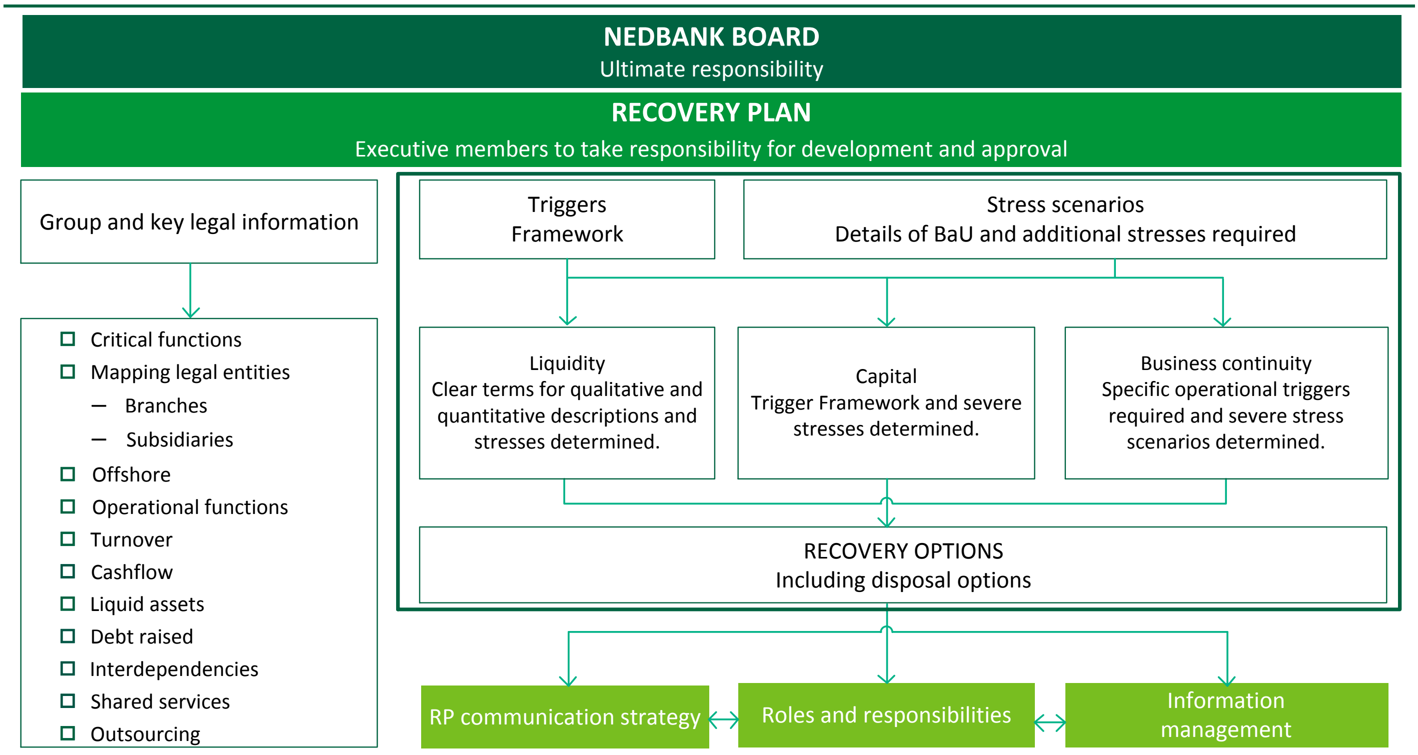
The RP element of RRP aims to set a clearer framework for Nedbank to take the most severe actions (ie sale of the business, significant asset sales, etc) during a crisis to ensure that the bank is able to recover, including the ability to act quickly and decisively. Nedbank's RP sets out the circumstances under which the group may need to activate recovery actions and options available for addressing extreme stress scenarios caused by either idiosyncratic events or systemwide market failures.

The RP also describes the integration with existing contingency planning and the possible recovery options, including a detailed assessment of their likely effectiveness and the defined points at which they would be invoked. The RP addresses stresses invoked by severe shortfalls in liquidity and capital, as well as significant operational failures that may jeopardise Nedbank's ability to continue business operations. In addition, the RP addresses the various options considered by senior management to mitigate stresses encountered by Nedbank.

The Nedbank Group RP applies to all subsidiaries, divisions and branches in the group, in all the geographic locations in which they operate. The RP relates to all entities in the group, including associates and joint ventures. In addition RPs have specifically been created for Nedbank Namibia, Private Wealth International [based on the Isle of Man (IOM)] and the London branch of Nedbank Limited. The inclusion of entities not controlled by the group is required, as the potential impact of a non-controlled entity may still have a systemic or reputational impact, causing a stress of sufficient magnitude to invoke the RP. Additionally, the inclusion of associates and joint ventures is required to assess whether the disposal of such an investment may assist in the recovery of the group in a particular crisis scenario.

In 2018 country specific RPs will be developed for all remaining African subsidiaries. These RPs will be developed using the group RP blueprint in order to ensure consistency and alignment across all entities.

Nedbank Group's Recovery Plan blueprint



The RP fits into Nedbank Group's ERMF. This plan has been developed and is updated annually with input by BSM, Group Risk, Business Continuity Planning (BCP) and the business clusters, and approved by Nedbank Group Exco and the board. The RP complements the existing capital, liquidity and stress testing policies and procedures of the group.

On 11 March 2016 Old Mutual plc announced its plan to reduce its controlling stake in Nedbank Group Limited to a strategic minority shareholding, with a target date for material completion by end 2018. Old Mutual stated that it plans to reduce its controlling stake to 19,9% by way of a distribution of Nedbank shares to shareholders of Old Mutual and not by way of selling shares to another strategic investor.

Old Mutual's decision of managed separation will have no impact on the strategy, day-to-day management or operations of Nedbank. In addition, there is no anticipated impact on the capital and liquidity position of Nedbank. With regard to recovery planning it is assumed that, for as long as Old Mutual remains a majority shareholder (separation is expected in 2018, resulting in Nedbank being de-consolidated), it will continue to fulfil the role of a majority shareholder, noting that over time its role will migrate into one of a strategic minority shareholder and that the RP will be amended accordingly. The RP will be monitored and updated accordingly based on Old Mutual's transition from a majority shareholder to a strategic minority shareholder that is still on track to be materially complete before the end of 2018.

The RP includes levels of 'low to severe stress', whereby 'recovery' and 'resolution' levels represent escalating degrees of stress that the group may encounter. As levels progress, management actions will become more severe and far-reaching in nature, with the aim of restoring the financial viability of the group under recovery and thereby avoiding resolution. Under this plan early-warning indicators (EWI) have been identified that would be initiated at level one during a low-to-moderate stress, while the RP would be initiated at level three and the resolution plan instigated by the authorities at level five. The establishment of these ordered levels and EWI are designed to increase Nedbank's ability to effectively manage any potential crisis situation and prepare itself for recovery. This is consistent with the Nedbank ERMF. These crisis levels allow Nedbank to assess the levels of stress appropriately and implement necessary responses. Nedbank's response to crises will include identifying and executing appropriate recovery options, proper escalation and communication within the organisation and appropriate communication to external stakeholders (eg regulators, investors, ratings agencies and media).

Nedbank's updated RPs were submitted to SARB during Q4 2017. The SARB RP onsite review took place in February 2018 and based on written feedback, SARB noted the detailed and comprehensive nature of the RPs and no material issues were raised.

Managing scarce resources to optimise economic outcomes

Managing scarce resources to optimise economic outcomes forms part of the five key strategic focus areas of Nedbank Group, which seeks to optimise the group's TTC ROE through proactive portfolio decisions such as judiciously managing groupwide allocation of scarce resources, including capital and funding for strategic and optimal financial outcomes.

Strategic portfolio tilt management is an integral part of optimising economic outcomes and is a carefully structured, integrated and holistic component of the group's 'manage for value' emphasis, involving balance sheet structuring and optimisation, strategic portfolio and client value management.

The key objectives of Strategic Portfolio Tilt are as follows:

- Maximising EP by emphasising and optimising EP-rich activities while maintaining a robust balance sheet.
- Strategic portfolio management to optimise the allocation and use of scarce resources and risk appetite.
- Differentiated and selective growth strategies aligned with the macroeconomic cycle and biased towards high-growth and high-EP businesses with a focus on the client value proposition.
- Optimising the strategic impact of Basel III, including the transitional requirements and ongoing work in progress items.
- Growing market share in retail and commercial deposits, in particular focusing on high growth of EP-rich transactional deposits.
- Effective risk management within the desired risk appetite.

The key considerations of strategic portfolio tilt are as follows:

- Delta EP growth, being the primary driver of shareholder value-add.
- Growth of market share by economic value or EP (more important than volume or asset size).
- Emphasising capital and liquidity 'light' areas, the increased value and importance of deposits, and being judicious in the allocation of the scarce commodities, ie capital and funding.
- Differentiated, selective growth strategies within portfolios and products.
- Differentiation between frontbook versus backbook economics.
- Client and transactional emphasis over a product-based approach.
- Embedding cross-sell opportunities between businesses and products.
- Strategic impact of Basel III on the various businesses, portfolios, products and transactions across the group.
- Risk appetite, including concentration risk.
- Investing for the future to grow the franchise.

The overlays of the current and forecast economic cycles are as follows:

- Financial services activity was impacted by unresolved structural changes, which was exacerbated by a cyclical downturn in SA that led to credit ratings downgrades.
- Political and policy uncertainty existed in 2017, however, 2018 has commenced with renewed optimism supported by a strong global environment with structural changes now more likely.
- Business and consumer confidence was at multiyear lows in 2017, however, 2018 has commenced with renewed optimism.
- Improving business and consumer confidence should lead to cyclical economic upturn from a low base, with gross domestic product (GDP) forecasts revised upwards from 1,3% in 2017 to 1,8% for 2018, 1,8% for 2019 and 2,4% for 2020.
- Stronger wholesale and retail advances growth anticipated, with Rest of Africa growth expected to be ahead of SA.
- Ongoing currency and market volatility.
- Commodity prices off their lows are forecast to increase for industrial commodities, principally energy and metals.
- Inflation should remain under the SARB's 6% upper target range for the year as a result of lower food price inflation (the average inflation rate of 5,3% for this year is significantly lower than last year's 6,4%).
- Although growth prospects are improving, underlying trading conditions and confidence remain subdued. The forecast is that the SARB will use this opportunity to provide some stimulus, albeit very modest, by cutting official interest rates by 25 bps, taking the prime lending rate down to 10%.
- The group is well positioned for Basel III regulatory requirements, with an average LCR ratio for the fourth quarter of 2017 at 116,2% and an NSFR ratio >100% on a pro forma basis at 31 December 2017. NSFR becomes effective on 1 January 2018.
- New regulation, namely Twin Peaks and the DIS, are set to have an additional impact on bank profitability in the planning cycle, and has been provided for from the last quarter of 2018 to 2020.

Risk management

Nedbank Group's ERMF enables the group to identify, measure, manage, price and control its risks and risk appetite, and relate these to capital requirements to help ensure its capital adequacy and sustainability, and so promotes sound business behaviour by linking these with performance measurement and remuneration practices.

Risk universe

Nedbank Group's risk universe is defined, actively managed and monitored in terms of the ERMF, in conjunction with the CMF and its subframeworks, including economic capital. A summary table of the key risk types impacting the group is provided below and highlights the mapping of the 17 key ERMF risk types to the 12 quantitative risk types of the Economic Capital (and ICAAP) Framework. An overview of the key risks impacting Nedbank Group follows thereafter. Refer to page 7 for details on Nedbank Group's ERMF.

Major risk categories	ERMF's 17 key risk types	Economic capital (ICAAP) risk types[1]
Capital risk	Capital risk	Is the aggregation of all risk types = economic capital
Credit risks	Credit risk:	Credit risk
	■ Underwriting (lending) risk	Integrated in credit risk
	■ Procyclicality risk	Integrated in credit risk
	■ Counterparty risk (includes CVA)	Counterparty risk (including CVA) integrated in credit risk
	■ Collateral risk	Integrated in credit risk
	■ Concentration risk	Concentration risk integrated in credit risk
	■ Industry risk	Integrated in credit risk
	■ Issuer risk	Integrated in credit risk
	■ Settlement risk	Integrated in credit risk
	■ Country risk/Crossborder risk	Integrated in credit risk
	■ Securitisation risk or resecuritisation structures	Securitisation risk integrated in credit risk
	■ Stress testing	Integrated in credit risk
Liquidity and funding risk	Liquidity risk: ■ Concentration risk ■ Stress testing ■ Securitisation ■ Liquidity and funding risk ■ Market liquidity risk	Liquidity risk mitigated through the ILAAP, liquidity profile targets and limits, and the holding of surplus liquidity buffers as opposed to holding economic capital.
Market risks	Market risk in the trading book: ■ Concentration risk ■ Stress testing	Trading (Position) risk
	Market risk in the banking book:	
	■ IRRBB	IRRBB
	■ Foreign currency translation (FCT) risk	N/A
	■ Foreign exchange transaction risk	N/A
	■ Investment risk	Investment risk
	■ Equity risk in the banking book	Equity (Investment risk)
	■ Property risk	Property risk
Operational risks	Operational risk:	Operational risk
	■ Accounting, financial and taxation risks	Covered by operational risk
	■ Compliance risk	Covered by operational risk
	■ People risk (non-strategic component)	Covered by operational risk
	■ Insurance risks	Covered by insurance risk
	■ IT risk (non-strategic component)	Covered by operational risk
	■ Financial-crime risk	Covered by operational risk
	■ Reputational risk	Covered by operational risk
Business risks	■ Transformation, social and environmental risks	Covered by business risk
	■ Business and strategic execution risk	Covered by business risk (excluding strategic execution risk)
	■ People risk (strategic component, strategic and compensation practices for directors and officers)	Covered by business risk
	■ IT risk (strategic component)	Covered by business risk
	■ Governance risk	Covered by business risk
	■ Regulatory risk	Covered by business risk
	■ Conduct risk	Covered by business risk

[1] *The 12th quantitative economic capital risk type relates to other assets, which include other assets not specifically mentioned above.*

Capital management

Nedbank Group's CMF reflects the integration of risk, capital, strategy and performance measurement, including incentives, across the group. This contributes significantly to successful enterprisewide risk management.

The board-approved Solvency and Capital Management Policy requires Nedbank Group and its banking subsidiaries (including Nedbank Limited, Nedbank Private Wealth Limited, Nedbank Namibia, Nedbank Swaziland, Nedbank Lesotho, MBCA Bank Limited, Nedbank Malawi and Banco Único) to be capitalised at the higher of regulatory or economic capital.

A bank is required to hold capital primarily to absorb significant unexpected losses (ULs) in any particular year. From this follows the two primary aspects of capital management:

- The banking group needs to ensure that the overall capital level is in line with a number of factors, such as the internal assessment of the level of risk being taken (economic capital), the expectations of the rating agencies, the requirements of the regulators and, not least of all, the returns expected by shareholders.
- The bank needs to ensure that the actual capital level is not only in line with this assessment, but that it takes full advantage of the range of capital instruments and capital management activities available to optimise the financial efficiency of the capital base.

Sound capital management encompasses both of these aspects, critically supported by long-run capital planning.

The BSM Cluster is mandated to facilitate and champion the successful development and implementation of the CMF and the ICAAP across the group. The capital management responsibilities (incorporating the ICAAP) of the board and group exco are incorporated in their respective terms of reference (charters) as contained in the ERMF. The Group Alco, in turn, is coordinated by the BSM Cluster.

NEDBANK'S FOUR KEY FUNCTIONS FOR SUCCESSFUL CAPITAL MANAGEMENT

Capital investment	Capital structuring	Capital allocation	Risk and capital optimisation

Capital investment

This involves managing the financial resources raised through the issue of capital and the internal generation of capital (ie retention of profits) and is integrated into the overall Asset and Liability Committee (Alco) process of Nedbank Group.

The group's interest rate risk management function within the BSM Cluster provides further rigour behind Group Alco's decisions on the extent of hedging, if at all, the group's capital against interest rate changes, and hence the impact on endowment income. This is done by modelling the relationship between changes in credit extension volumes, impairment levels and the group's endowment income when the economic cycle changes and the extent to which there is a natural hedge between them.

Capital structuring

This is the process of managing the amount of regulatory, economic and statutory capital available and ensuring it is consistent with the group's current and planned (over at least three years) levels of activity, risk appetite and required/desired level of capital adequacy (including its target debt rating), using as a tool the group's Strategic Capital Plan (SCP). The BSM Cluster is responsible for the SCP, which is a dynamic plan and process to establish all capital actions for which board approval is ultimately required. This plan is updated and reviewed regularly (monthly by Group Alco and at least quarterly by the board's GRCMC and the full board itself).

A key sophisticated planning tool enabling the SCP is the group's Capital Adequacy Projection Model (CAPM). The CAPM is fully integrated with the group's business and strategic plans, together with economic capital, Basel III, IFRS and other important parameters and financial data. CAPM projects Basel III-based regulatory and economic capital requirements for the current year and also the full planning cycle. This also covers capital requirements, AFR, capital buffers, target capital ratios, earnings, impairments, dividend plan, any constraints or limits, risk appetite metrics and details of proposed capital actions and contingencies.

Periodically the group updates its financial forecasts and projected risk parameters, and so updates the projections in the SCP. This also takes into account any actual change in the business environment and/or the group's risk profile, as well as any capital actions (or proposed revisions to previous capital plans, including any new constraints). This ensures that Nedbank Group's capital management is forward-looking and proactive, and is driven off sophisticated and comprehensive long-term capital planning.

The above process provides 'base case (or expected) projections'. The base case is then stressed by using various macroeconomic scenarios (ie Pillar 2 stress testing), in addition to risk-specific stress testing (ie additional scenarios, reverse stress testing and Pillar 1 stress testing). The outcome of the stress and scenario testing is the key factor in assessing and deciding on Nedbank Group's capital buffers, which is another key component of the SCP.

Capital optimisation (including risk optimisation)

Capital optimisation in Nedbank Group is about deriving an optimal level of capital by optimising the risk profile of the balance sheet through risk portfolio and economic-value-based management principles, risk-based strategic planning, capital allocation and sound management of the capital buffers. This is achieved by integrating risk-based capital into the group's strategy and aligning this with management's performance measurement through established governance and management structures, the formal strategic planning process, performance scorecards and the group's RAPM Framework.

Capital allocation

The BSM Cluster is also responsible for managing the efficient employment of capital across Nedbank Group's businesses, using the higher of risk-based economic and regulatory capital allocation (currently being regulatory capital), strategic portfolio management and RAPM (primarily driven by EP and 'manage for value' principles). Business unit capital allocation is determined at the higher of incountry statutory capital, regulatory capital or economic capital.

SOURCES OF REGULATORY CAPITAL	CAPITAL ALLOCATION TO BUSINESS CLUSTERS FOR PERFORMANCE MEASUREMENT
CET1 capital ■ Shareholders' equity	Allocated as capital using: ■ Bottomup risk-based economic capital measurement. ■ Allocated additional capital at 11% of bottomup risk-based economic capital measurement, as above. ■ Selected regulatory capital impairments and capital add-ons. ■ Subject to a regulatory capital floor, resulting in the higher of regulatory and economic capital allocation.
Additional tier 1 capital ■ Preference shares ■ Subordinated debt	■ Allocated as part of funding costs, impacting businesses' earnings.
Tier 2 capital ■ Subordinated debt	■ Allocated as part of funding costs, impacting businesses' earnings.

Economic capital

Economic capital is a sophisticated, consistent measurement and comparison of risk across business units, risk types and individual products or transactions, enabling a focus on both downside risk (risk protection), upside potential (earnings growth) and shareholder value-add. Nedbank Group assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital within 12 quantifiable risk categories. Nedbank Group regularly enhances its economic capital methodology and benchmarks the output to external reference points.

The total average economic capital required by the group, as determined by the quantitative risk models and after incorporating the group's estimated portfolio effects, is supplemented by a capital buffer of 10% to cater for any residual cyclicality and stressed scenarios. The total requirement is then compared with AFR. The 10% capital buffer is deemed appropriate, based on the group's comprehensive Stress and Scenario Testing Framework and RAF. Refer to page 22 for further detail.

Nedbank's economic capital and ICAAP methodology is reviewed taking cognisance of any regulatory developments.

Summary of Nedbank's economic capital model

CREDIT RISKS			
Banking book credit risk	**Credit concentration risk**	**Counterparty credit risk (default and CVA risk)**	**Securitisation risk**
Basel III AIRB credit methodology integrated with sophisticated credit portfolio management modelling.	Nedbank's Credit Portfolio Model (CPM) incorporates concentration risk and intrarisk diversification for both large exposures and industry/sector concentration.	Default risk; incorporates the CEM for EAD, PD and LGD from the Basel III credit methodology, which are all integrated with sophisticated credit portfolio modelling. CVA risk: Basel III standardised methodology.	Basel III AIRB credit methodology integrated with sophisticated credit portfolio modelling.

+

MARKET RISKS			
Trading (position) risk	**Interest rate risk in the banking book**	**Equity (investment) risk**	**Property risk**
VaR scaled to one year using board-approved VaR limits with no intrarisk diversification recognised.	Simulation modelling of NII, EVE is also used	300% and 400% risk weightings in line with Basel III equity risk. PD/LGD approach for Property Finance.	

+

Operational risk	Business risk	Insurance underwriting risk	Other assets
AMA	GOI-based topdown approach	SAM-based methodology	100% risk weighting

=

MINIMUM ECONOMIC CAPITAL REQUIREMENT
(after interrisk diversification benefits)

+

CAPITAL BUFFER
(10% ICAAP buffer for procyclicality, stressed scenarios, etc)

=

TOTAL ECONOMIC CAPITAL REQUIREMENT
Measurement period/Time horizon: one year (same as Basel III).
Confidence interval (solvency standard): 99,93% (A) (ie more prudent than Basel III at 99,90%).

versus

AVAILABLE FINANCIAL RESOURCES
Tier A = CET1 regulatory capital and qualifying reserves.
Tier B = Includes Basel II perpetual preference shares
and new-style Basel III additional tier 1 and tier 2 capital instruments.

Note: There are 12 quantifiable risk categories. Property and equity (investment) risk are treated as separate risks. The group no longer capitalises for transfer risk separately, as this risk type is captured under the Country Risk Framework in credit risk.

The economic capital results are shown from page 39.

Credit risk capital

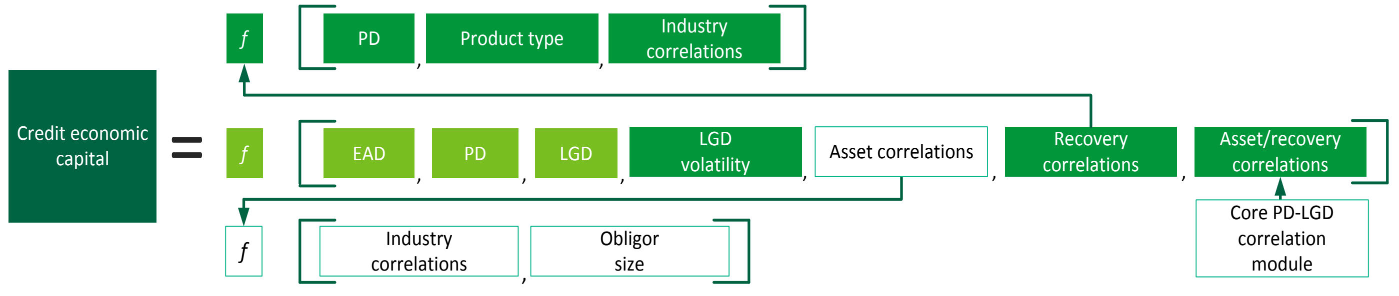
Nedbank Limited and Nedbank London branch make up 94% of the total credit extended by Nedbank Group and are on the AIRB Approach. The legacy Fairbairn Private Bank (UK), the non-SA subsidiaries' credit portfolios and some of the legacy Imperial Bank portfolio in Nedbank RBB remain on TSA.

For the purpose of estimating internal economic capital conservative AIRB credit benchmarks are applied for the subsidiaries that are utilising TSA, except for the legacy Fairbairn Private Bank (UK) book that applies internal-model estimates.

The group's credit risk economic capital (or credit VaR) is more sophisticated than the AIRB Approach and is calculated using credit portfolio modelling based on the volatility of UL. This estimated UL is measured from the key AIRB Approach credit risk parameters (PD, EAD and LGD) as well as taking LGD volatility, portfolio concentrations and intrarisk diversification into account.

It is important to recognise that the group's economic capital goes further than Basel III in explicitly recognising credit concentration risks (eg single large-name and industry/sector risks) and includes PD-LGD correlation effects that aim to capture the phenomenon of joint movements in default and loss rates, ie lower-than-expected (average TTC) recoveries during periods with elevated default rates above the TTC PDs (and vice versa).

Credit risk capital (including PD-LGD correlation)



Nedbank Group's CPM aggregates standalone credit risks into an overall group credit portfolio view, then takes concentration risk and diversification effects into account.

Counterparty credit risk capital

Nedbank Group applies the CEM for Basel III CCR. The CEM results are also used as input into the economic capital calculations to determine credit economic capital. In April 2014 the BCBS published a revision to the paper The Standardised Approach for measuring CCR exposures, which outlines the new Standardised Approach for calculating EAD in respect of over-the-counter (OTC) derivatives. TSA for counterparty credit risk (SA-CCR) will replace both the CEM and the Standardised Method. Nedbank is well positioned to implement the new requirements and continues to monitor the impact of the new measurement of EAD for CCR. On 23 August 2017 the SARB published Guidance Note 7 of 2017, communicating the regulator's decision to delay implementation of the new standard. In December 2017 the BCBS published the paper Basel III: Finalising post-crisis, which among other changes introduced the following, to the determination of RWA for CCR:

- The introduction of the Basic Approach and a new Standardised Approach for the measurement of CVA RWA.
- The application of the Foundation IRB Approach for financial institution and large corporate counters.
- The introduction of PD and LGD parameter floors for the Advanced IRB Approach.

Securitisation risk capital

As with credit derivatives, Nedbank Group does not have significant exposure to securitisation. The group has used securitisation primarily as a funding diversification tool. For the credit exposures that Nedbank Group measures in terms of securitisation, a combination of the ratings-based approach and supervisory formula approach (SFA) (both AIRB approaches) are used for regulatory capital purposes. From an economic capital (ICAAP) point of view IRB credit risk parameters are used. As is evident from the low level of exposure, the risk of underestimation of the Pillar 1 securitisation risk charge is considered immaterial.

Trading market risk capital

The economic capital and regulatory capital requirements for trading market risk are not materially different. However, conservatism is introduced in Nedbank Group's economic capital methodology by using the total approved VaR limit rather than the actual VaR limit utilisation.
The VaR limit is set per market risk type and also per legal entity. The economic capital requirements are calculated for each market risk type and legal entity. Applying further conservatism, the trading risk per market risk type and legal entity are all added up without applying any diversification benefits when deriving the required group economic capital.

For the regulatory capital charge Nedbank Limited has obtained approval to use the IMA methodology that is based on VaR utilisation multiplied by a regulatory-driven factor. The factor is determined by SARB and is based on its review of the bank's market risk environment.

The regulatory capital charge based on the IMA does allow for diversification between different market risk types, while no diversification benefit is applied for economic capital requirements.

Nedbank is aware of the forthcoming substantial change to the market risk regulatory capitalisation requirements under the updated 'Minimum capital requirements for market risk' (previously referred to as the FRTB). This regulation aims to address the shortfalls of the current regulatory framework and provides substantial enhancements, not only to trading market risk capitalisation levels, but also to the entire governance process. Nedbank has participated in a number of QIS exercises and is actively preparing for the expected future regulatory requirements in this regard.

Interest rate risk in the banking book capital

IRRBB is the risk a bank faces due to timing mismatches in the maturity (for fixed rate) and repricing (for floating rate) of bank assets, liabilities and off-balance-sheet positions, as well as the non-repricing elements of its balance sheet, including equity, certain transactional deposit accounts and working capital. The repricing mismatch between the two sides of the balance sheet makes the bank vulnerable to changes in interest rates, a risk against which the bank therefore needs to hold capital.

IRRBB is not separately identified by Basel III for Pillar 1 regulatory capital, and so Nedbank captures this under Pillar 2 in the ICAAP.

Nedbank Group's IRRBB economic capital methodology is based on simulation modelling of the bank's NII exposure to changes in interest rates as represented by a stochastic interest rate shock. EVE exposure is also used as a secondary measure. The stochastic interest rate shock is quantified based on the volatility, derived from a one-year log return of the past five years of money market data, applied to current interest rates. The IRRBB economic capital is defined as the difference between the 99,93% probability NII and the probability weighted mean NII of stochastic modelling.

Property risk capital

Property risk is the risk a bank faces due to the fluctuation of property values. In the case of Nedbank Group this includes the capital to be held against properties in possession (PiPs) as well as its fixed property, and is included under 'other assets' for regulatory capital and so attracts a 100% risk weighting.

Nedbank Group's economic capital calculations for property risk are far more conservative than the 100% risk weight for regulatory capital, being aligned with the treatment under the SRWA applied under Basel III for unlisted equity risk, namely a 400% risk weighting.

Equity risk capital

Equity risk is the risk of decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to any investment itself (eg reputation and quality of management). These investments are long-term as opposed to the holding of short-term positions that are covered under trading risk. The calculation of economic capital in Nedbank Group for equity (investment) risk is similar to property risk above. However, the two risks have been separated as both are material to the group and therefore deserve separate focus and quantification.

The calculations of economic capital for equity (investment) risk are based on the same principles as for Basel III, namely the SRWA is used for the bulk of the portfolio, the exception being in the Property Finance Division. In line with moving to a bottomup approach, the Property Finance book investment risk economic capital is modelled using a PD/LGD approach. The risk weight multipliers are currently set at 30% (300% x 10%) for listed equities and 40% (400% x 10%) for unlisted equities. These multipliers are applied to the investment exposures to derive the standalone economic capital figures.

Business risk capital

Business risk is caused by uncertainty in profits due to changes in the competitive environment that damage the franchise or operational economics of a business. In other words, it is the risk the bank faces due to fluctuations in earnings, readily observable and driven mainly by volumes, margins and fees. In the extreme, business risk can be seen as the risk of being unable to cover one's cost base should all or most of an entity's earnings fall away.

Business risk is defined as the risk assumed due to potential changes in general business conditions, such as our competitive market environment, client behaviour and disruptive technological innovation.

The business risk approach at Nedbank is effectively split into two parts:

- a topdown calculation of the group's capital requirement; and
- a bottomup scenario-based allocation approach to businesses across the group.

While business risk can arise through changes in revenues and costs, this methodology uses revenues as the primary anchor point and accounts for costs primarily as a business risk mitigation mechanism.

Operational risk capital

Nedbank Group uses the AMA with diversification, and calculates its operational risk regulatory and economic capital requirements using partial and hybrid AMA. Partial use refers to a bank, controlling company or banking group using AMA for some parts of its operations and TSA for the remainder of its operations. Hybrid AMA refers to the attribution of group operational risk capital to legal entities by means of an allocation mechanism.

Nedbank uses a more conservative confidence interval approach of 99,93% for economic capital when compared with the 99,90% confidence interval required for regulatory capital. For economic capital no capital floors were applied under the 2017 methodology. For regulatory capital a floor based on a percentage of TSA capital is applied to meet the minimum requirements prescribed by SARB.

Insurance underwriting risk capital

Insurance underwriting risk can be defined as the risk that underwriting experience is worse than expected due to changing trends in experience or once-off events that cover death, disability, retrenchment, property and motor vehicle damage. Nedbank Group insurance risk also includes insurance product design risk.

Actuarial and statistical methodologies are used to price insurance risk. These methods are quantified based on industry-standard parameters and considers long-term increases to risks as well as extreme short-term shocks that could affect multiple clients (such as a hail storm). Economic capital allows for the implementation of authorised management actions after a 12-month period. These management actions include repricing products where it is possible, adjusting bonus declarations and the removal of non-vested bonuses.

Insurance risk economic capital is aligned with the requirements of the SAM regime (the local version of Solvency II), but at a higher internal statistical confidence level of 99,93%. It is calculated for both life products and non-life products.

The launch of SAM has been delayed. The insurance businesses are currently engaged in the SAM comprehensive parallel run during which the insurance business is required to report to the FSB on both the current regulatory regime and the SAM regulatory regime.

Other assets risk capital

For economic capital purposes the same approach as for regulatory capital requirements is followed, namely 100% risk weighting in line with regulation 23 of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990), which incorporates the monthly return concerning credit risk (BA200). Note that for economic capital this excludes property risk, as that is treated as a separate risk type, whereas for regulatory capital property risk is subsumed under other assets risk and attracts a 100% risk weighting.

Interrisk diversification

Risk diversification is a basic premise of any prudent risk management strategy and it is included in Nedbank Group's economic capital (ICAAP) measurement in the form of interrisk diversification benefits. The methodology is based on a joint loss simulation using copula and involves the specification of standalone risk distributions for each relevant risk type, either as an empirical or parametric distribution. Risk indicators are defined for each of the economic capital risk types and a dependence structure is derived in the form of a risk indicator correlation matrix based on appropriate time series data.

The interrisk diversification model simulates a combined loss distribution using this dependence structure and the Monte-Carlo simulation. Total diversified economic capital is derived and allocated to risk types using the correlated loss distribution.
The group's interrisk diversification benefit at Nedbank Group is allocated back (in the capital allocation) to the business units rather than held at the centre.

Diversification benefits are allocated on a continuous basis. The continuous approach allocates economic capital to business units according to the contribution of the business unit to the total group capital requirement. Smallest and/or least uncorrelated business units benefit most from diversification. Allocation of capital allows business units to benefit from being part of a larger, well-diversified group and they can therefore price products more appropriately and competitively.

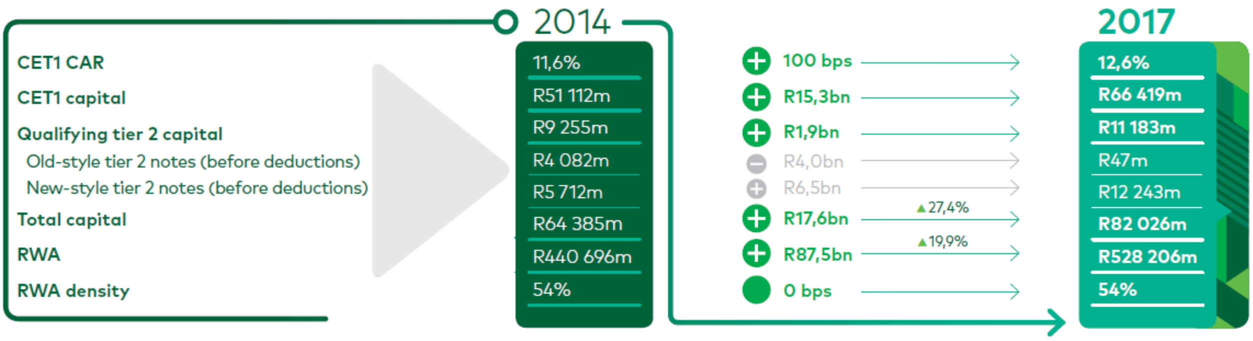
Qualitative risks that cannot be mitigated by capital

Nedbank Group's Economic Capital Framework is aligned with international best practice. Not all risks can be mitigated by holding capital against them, although Nedbank Group has mapped 12 of the key risk categories in its ERMF to the group's Economic Capital Framework, liquidity risk being one of the unmapped risks.

Within Nedbank Group's BSM Cluster, a dedicated funding and liquidity function is responsible for the strategic management of funding and liquidity across the group. The group's daily liquidity requirements are managed by the experienced Centralised Funding Desk (CFD) within Group Treasury. Within the context of the board-approved Liquidity Risk Management Framework, BSM and the CFD are responsible for proactively managing liquidity risk at an operational, tactical and strategic level.

Regulatory capital adequacy and leverage

NEDBANK GROUP'S CAPITAL ADEQUACY, A FOUR-YEAR REVIEW



Nedbank manages its capital levels in line with a number of factors, including the internal assessment of the level of risk being taken, the expectations of the rating agencies, the requirements of the regulators and the returns expected by shareholders. Nedbank also seeks to ensure that its capital structure takes full advantage of the range of capital instruments and capital management activities available in optimising the financial efficiency and loss absorption capacity of its capital base.

Nedbank Group has performed extensive and comprehensive stress testing during this period, with a strong focus on the sovereign-ratings downgrades, and concludes that the group remains strongly capitalised relative to its business activities, the board's strategic plans, risk appetite, risk profile and the external environment in which the group operates.

Nedbank Group significantly strengthened its capital adequacy position over the past three years, with the CET1 capital ratio improving by 100 bps over this period. The strengthening of the CET1 capital ratio has been supported by strong earnings generation and an appropriate dividend policy. The group's sound capital structure is supported by:

- A focus on fully loss-absorbent capital, with Basel III-fully compliant capital now making up 99% of the group's total capital structure, having issued R2,6bn of new-style additional tier 1 and R12,2bn of new-style tier 2 capital since the implementation of Basel III in 2013.
- A conservative RWA density of 54% (RWA/total assets), which compares favourably with local and international peers.
- A substantial tier 1 capital surplus of R24,6bn, which includes management buffers earmarked to absorb the impact of regulatory changes in the short term (IFRS 9), other regulatory reforms (prudential requirements, tax and IFRS) over the medium to long term and management's strategic plans.

YEAR UNDER REVIEW

		SARB minimum[1]	Internal targets[2]	2017	2016
Nedbank Group					
Including unappropriated profits					
Total CAR	(%)		**> 14**	**15,5**	15,3
Total tier 1	(%)		**> 12**	**13,4**	13,0
CET1	(%)		**10,5–12,5**	**12,6**	12,1
Surplus tier 1 capital	(Rm)			**24 625**	23 320
Leverage	(times)	**< 25**	**< 20**	**14,2**	15,3
Dividend cover	(times)		**1,75–2,25**	**1,91**	2,00
Cost of equity (COE)	(%)			**14,0**	14,2
Excluding unappropriated profits					
Total CAR	(%)	**10,75**		**14,4**	14,4
Total tier 1	(%)	**8,75**		**12,3**	12,1
CET1	(%)	**7,25**		**11,4**	11,3
Nedbank Limited					
Including unappropriated profits					
Total CAR	(%)		**> 14**	**16,7**	15,9
Total tier 1	(%)		**> 12**	**13,9**	12,9
CET1	(%)		**10,5–12,5**	**12,6**	11,7
Surplus tier 1 capital	(Rm)			**22 055**	19 355
Excluding unappropriated profits					
Total	(%)	**10,75**		**15,9**	15,6
Total tier 1	(%)	**8,75**		**13,1**	12,5
CET1	(%)	**7,25**		**11,9**	11,3

[1] *SARB minimum requirement for 2017 reflects the phase-in of the conservation buffer at 1,25% and is disclosed excluding bank-specific Pillar 2b and domestic systemically important bank (D-SIB) capital requirements.*

[2] *Nedbank's internal TTC targets are based on the 2019 end state minimum regulatory requirement.*

Nedbank Group's CET1 ratio improved to 12,6% due to an increase in qualifying capital and reserves as a result of organic earnings, offset by the payment of R6,1bn in ordinary dividends during the year.

- This was offset to a degree by movements in RWA, as follows:
  - Credit risk RWA decreasing by R3,8bn, primarily due to Basel III model refinements within the Nedbank Retail portfolio, which had been initiated in 2016 and continued into 2017. This decrease was offset by an R8,2bn increase in CCR RWA, which was driven by the impact of the rand strengthening in the fourth quarter on client hedges.
  - Equity RWA growth of R8,8bn as a result of new acquisitions and revaluations as well as other RWA growth of R2,2bn due to balance sheet movements during the year.
  - Operational RWA growth of R5,0bn due to an increase in AMA capital and an update in the three-year average GOI parameters.

The issuance of new-style additional tier 1 of R600m and tier 2 of R2,5bn capital instruments during 2017 further strengthened the group's tier 1 and total CAR respectively.

Nedbank Group's gearing (including unappropriated profits) under the Leverage Ratio Framework and disclosure requirements improved to 14,2 times (or 7,0%) due to relatively low balance sheet growth, organic capital generation and the issuance of new-style additional tier 1 capital instruments of R600m during 2017.

NEDBANK GROUP SUMMARY OF RISK-WEIGHTED ASSET MOVEMENTS BY KEY DRIVERS

Rm	Credit risk[1]	Equity risk	Trading market risk	Operational risk	Other assets	Total
Balance at 1 January 2017	377 573	18 156	17 542	61 345	34 605	509 221
Book growth	7 678	8 771	1 493	4 988	1 764	24 694
Book quality	9 638		(636)			9 002
Model updates	(12 839)					(12 839)
Methodology and policy						
Foreign exchange movements	(615)		(1 257)			(1 872)
Balance at 31 December 2017	381 435	26 927	17 142	66 333	36 369	528 206

[1] *Credit risk includes CCR and securitisation risk.*

High-level definitions

- Book growth – organic changes in book size and composition (including new business and maturing loans). In the case of operational risk, any movements in GOI.
- Book quality – movements caused by changes in underlying client behaviour or demographics, including changes through model calibrations/realignments.
- Model updates – model implementation, change in model scope or any change to address model malfunctions.
- Methodology and policy – methodology changes to the calculations driven by regulatory policy changes.
- Foreign exchange movements – movement in RWA as a result of currency movement.

OV1: OVERVIEW OF RISK-WEIGHTED ASSETS

		Nedbank Group			Nedbank Limited[1]		
		2017		2016	2017		2016
		RWA	MRC[2]	RWA	RWA	MRC[2]	RWA
1	**Credit risk**	356 893	38 366	360 731	295 646	31 782	304 491
2	Standardised Approach	37 410	4 022	37 176	426	46	1 464
3	AIRB Approach	319 483	34 344	323 555	295 220	31 736	303 027
4	**Counterparty credit risk**	23 921	2 571	15 745	23 169	2 491	14 899
5	Current Exposure Method	23 921	2 571	15 745	23 169	2 491	14 899
7	**Equity positions in banking book under Market-based Approach**	26 927	2 895	18 156	20 386	2 191	14 637
12	**Securitisation exposures in banking book under Internal Ratings-based Approach**	621	67	1 097	621	67	1 097
16	**Market risk**	17 142	1 843	17 542	14 046	1 510	16 140
17	Standardised Approach	3 643	392	2 125	1 222	131	1 706
18	Internal Model Approach	13 499	1 451	15 417	12 824	1 379	14 434
19	**Operational risk**	66 333	7 131	61 345	57 664	6 199	54 278
21	Standardised Approach	6 030	648	5 044	16	2	49
22	Advanced Measurement Approach	52 596	5 654	43 741	50 380	5 416	42 040
24	Floor adjustment	7 707	829	12 560	7 268	781	12 189
23	**Amounts below the thresholds for deduction (subject to 250% risk weighting)**	15 016	1 614	15 404	2 058	221	3 308
25	**Other assets (100% risk weighting)**	21 353	2 295	19 201	17 616	1 894	16 556
26	**Total**	528 206	56 782	509 221	431 206	46 355	425 406

[1] *Nedbank Limited refers to the SA reporting entity in terms of regulation 38 (BA700) of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990).*

[2] *Total minimum required capital (MRC) is measured at 10,75% in line with the transitional requirements and excludes bank-specific Pillar 2b and D-SIB capital requirements.*

SUMMARY OF REGULATORY QUALIFYING CAPITAL AND RESERVES[1]

Rm	Nedbank Group 2017	Nedbank Group 2016	Nedbank Limited 2017	Nedbank Limited 2016
Including unappropriated profits				
Total tier 1 capital	**70 843**	65 967	**59 786**	54 983
CET1	**66 419**	61 588	**54 530**	49 795
Share capital and premium	**19 170**	18 521	**19 221**	19 221
Reserves	**62 055**	56 687	**47 427**	40 951
Minority interest: Ordinary shareholders	**812**	675		
Deductions	**(15 618)**	(14 295)	**(12 118)**	(10 377)
Goodwill	**(5 131)**	(5 199)	**(1 410)**	(1 410)
Excess of expected loss over eligible provisions	**(2 008)**	(1 502)	**(1 952)**	(1 537)
Defined benefit pension fund assets	**(1 957)**	(1 805)	**(1 957)**	(1 805)
Capitalised software and development costs	**(5 994)**	(4 558)	**(5 930)**	(4 519)
Other regulatory differences and non-qualifying reserves	**(528)**	(1 231)	**(869)**	(1 106)
Additional tier 1 capital	**4 424**	4 379	**5 256**	5 188
Preference share capital and premium	**2 656**	3 188	**2 656**	3 188
Perpetual subordinated debt instruments	**2 600**	2 000	**2 600**	2 000
Regulatory adjustments	**(832)**	(809)		
Tier 2 capital	**11 183**	11 733	**12 294**	12 829
Subordinated debt instruments	**12 290**	12 825	**12 290**	12 825
General allowance for credit impairment	**157**	180	**4**	4
Regulatory adjustments	**(1 264)**	(1 272)		
Total capital	**82 026**	77 700	**72 080**	67 812
Excluding unappropriated profits				
Tier 1 capital	**64 737**	61 771	**56 403**	53 352
CET1 capital	**60 313**	57 392	**51 147**	48 164
Total capital	**75 920**	73 504	**68 697**	66 181

[1] *For comprehensive 'composition of capital' and 'capital instruments main features' disclosure please refer to nedbank.co.za/content/nedbank/desktop/gt/en/aboutus/information-hub/capital-and-risk-management-reports.html.*

REGULATED BANKING SUBSIDIARIES

Nedbank Group banking subsidiaries are well capitalised for the environments in which they operate, with CARs well in excess of respective host regulators' minimum requirements, with the exception of Nedbank (Malawi) Limited due to a significant writeoff this year. The host country regulator has given condonation for this breach, as the group recapitalises this entity.

	2017			2016	
	Total capital requirement (host country) %	RWA Rm	Total capital ratio %	RWA Rm	Total capital ratio %
Rest of Africa					
Banco Único	**8,0**	**2 861**	**17,7**	2 772	12,4
Nedbank Namibia Limited	**10,0**	**12 096**	**15,2**	11 573	14,0
Nedbank (Swaziland) Limited	**8,0**	**3 219**	**23,8**	3 262	21,0
Nedbank (Lesotho) Limited	**8,0**	**1 711**	**25,8**	1 611	25,0
Nedbank (Malawi) Limited	**15,0**	**301**	**11,4**	408	15,8
MBCA Bank Limited (Zimbabwe)	**12,0**	**2 252**	**30,7**	2 491	26,0
United Kingdom (UK)					
Nedbank Private Wealth (IOM) Limited	**10,0**	**6 624**	**16,3**	6 781	15,1

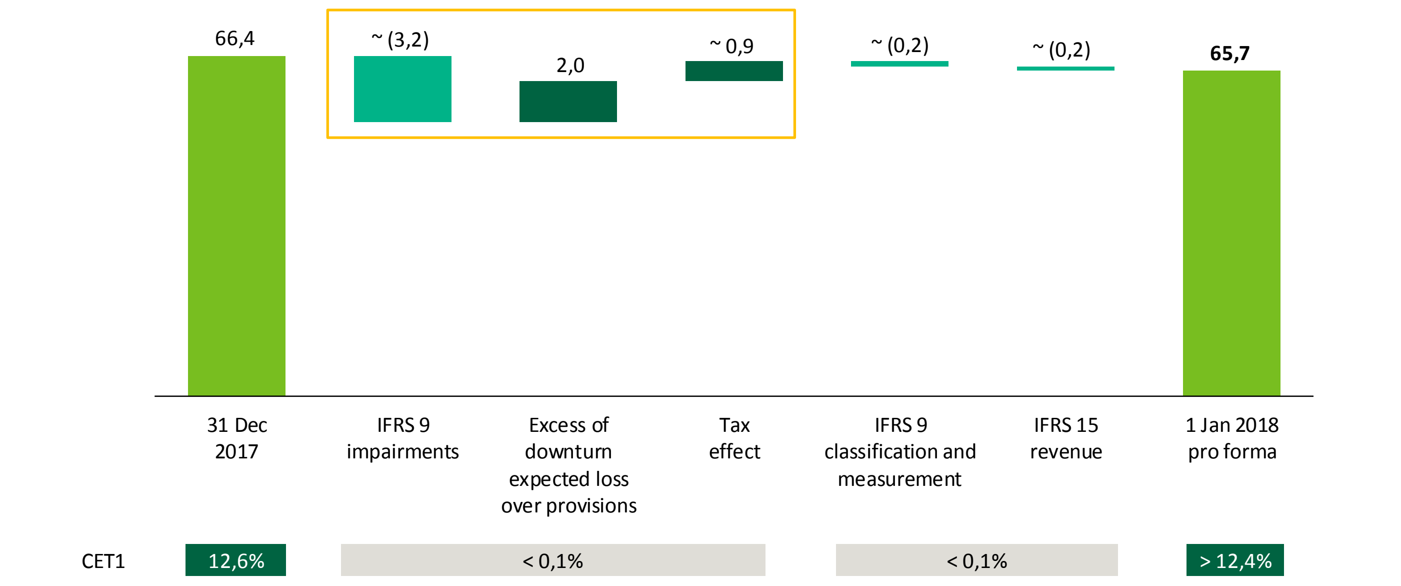
IFRS 9 and IFRS 15 – Transition impact on CET1 at transition date, 1 January 2018

IFRS 9 is effective and will be implemented by the group from 1 January 2018. IFRS 9 replaces IAS 39 and sets out the updated requirements for the recognition and measurement of financial instruments. These requirements specifically deal with the classification and measurement of financial instruments, measurement of impairment losses based on an expected credit loss (ECL) model, and closer alignment between hedge accounting and risk management practices.

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with clients, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments. The standard is effective and will be implemented by the group from 1 January 2018.

Summary impact of transition on CET1

(Rbn)



The implementation of IFRS 9 ECL requirements increases balance sheet impairments at 1 January 2018 by approximately R3,2bn, (approximately 27% increase in on-balance-sheet impairments), which results in a net reduction in total equity of approximately R2,3bn after adjusting for an approximate R0,9bn tax impact. The impact on CET1 is reduced by a R2,0bn excess of downturn expected loss (dEL) over provisions already taken into account in the calculation of regulatory capital under IAS 39.

- The key drivers of the increase in impairment provisions is the mix of the lending book where Nedbank has a greater wholesale versus retail mix when compared with the industry.
  - The impact of lengthening the emergence periods under IFRS 9 has a greater impact on retail portfolio provisions versus wholesale portfolio provisions.
  - Nedbank has a relatively large commercial property finance book that includes appreciating assets that mitigate lifetime ECL impacts.
- For 94% of Nedbank's book, the AIRB Approach is followed, which is higher than the peer average, resulting in Nedbank having a relatively larger excess of dEL over provisions under IAS 39.

The impact of approximately R0,2bn for IFRS 9 classification and measurement arose due to the revocation of the fair value through profit or loss designation for certain loans and advances, amounts owed to depositors and long-term debt instruments to facilitate the implementation of macro fair-value hedge accounting of interest rate risk and hedge accounting of inflation risk; the reclassification of certain loans from amortised cost to fair value through other comprehensive income, and fair value through profit or loss to align with the business-model-driven classifications of IFRS 9; and a review of the effective interest rate calculation for certain loans based on the additional guidance provided in IFRS 9.

The impact of approximately R0,2bn for IFRS 15 arose in respect of the group's loyalty points awarded to clients where the expected consideration payable to clients has been updated to take into account the requirements specifically where loyalty points awarded to clients are determined to be consideration payable to our clients.

The estimated impact of IFRS 9 (excluding ETI IFRS 9 impact to be announced in H1 2018) and IFRS 15 is less than 20 bps on our CET1 ratio.

Economic capital adequacy

Strong Nedbank Group economic capital adequacy and ICAAP maintained

Economic capital is the group's comprehensive internal measurement of risk and related capital requirements, and forms the basis of the group's ICAAP. Nedbank's ICAAP confirms that both Nedbank Group and Nedbank Limited are well capitalised above their current 'A' or 99,93% target debt rating (solvency standard) in terms of the group's proprietary economic capital methodology.

- Nedbank Group's and Nedbank Limited's ICAAP reflect surplus AFR of R22,6bn and R23,7bn respectively after a 10% capital buffer is added. This is determined in accordance with the group's comprehensive Stress and Scenario Testing Framework.

Further details on Nedbank's risk types and economic capital methodology are reflected from page 31.

ECONOMIC CAPITAL REQUIREMENT VERSUS AVAILABLE FINANCIAL RESOURCES

	Nedbank Group				Nedbank Limited			
	2017		2016		**2017**		2016	
	Rm	**Mix %**	Rm	Mix %	**Rm**	**Mix %**	Rm	Mix %
Credit risk	**37 027**	**65**	35 211	65	**31 935**	**69**	30 804	70
Transfer risk[1]			83	< 1			34	< 1
Market risk	**7 789**	**14**	8 356	15	**5 784**	**12**	5 291	12
Business risk	**6 654**	**12**	6 375	12	**4 553**	**10**	4 642	10
Operational risk	**3 420**	**5**	2 907	5	**2 488**	**5**	2 085	5
Insurance risk	**535**	**1**	370	1				
Other assets risk	**1 904**	**3**	1 053	2	**1 630**	**4**	1 430	3
Minimum economic capital requirement	**57 329**	**100**	54 355	100	**46 390**	**100**	44 286	100
Add: stress-tested capital buffer (10%)	**5 733**		5 436		**4 639**		4 429	
Total economic capital requirement	**63 062**		59 791		**51 029**		48 715	
AFR	**85 675**	**100**	78 557	100	**74 705**	**100**	67 693	100
Tier A capital	**68 176**	**80**	63 626	81	**57 206**	**77**	52 762	78
Tier B capital	**17 499**	**20**	14 931	19	**17 499**	**23**	14 931	22
Total surplus AFR	**22 613**		18 766		**23 676**		18 978	
AFR/total economic capital requirement (%)	**136**		131		**146**		139	

[1] The group no longer capitalises for transfer risk separately as this risk type is captured under the Country Risk Framework in credit risk.

Nedbank Group's minimum economic capital requirement increased by R3,0bn during the year primarily due to:

- A R1,8bn increase in credit risk economic capital, which was largely driven by a rise in CCR economic capital, as a result of the impact of the rand strengthening in the fourth quarter on client hedges and good advances growth in the Motor Finance Corporation (MFC) portfolio.
- A R513m increase in operational risk economic capital, predominantly as a result of updated parameters in the operational risk model.
- A R279m increase in business risk economic capital, which was primarily driven by parameter updates of the internal business risk model.

These higher economic capital requirements were offset by a R567m decrease in market risk economic capital, which was primarily driven by:

- The strengthening of the rand in the fourth quarter, decreasing the rand value of the ETI investment.
- Marginally lower levels of IRRBB.

Nedbank Group's total AFR increased by R7,1bn from December 2016 due to:

- A R4,5bn increase in tier A AFR, driven by organic earnings growth.
- A R2,6bn increase in tier B AFR, following the issuance of new-style tier 2 capital instruments of R2,5bn and additional tier 1 capital instruments of R600m, partially offset by further grandfathering of old-style preference shares of R532m.

Nedbank Limited's minimum economic capital requirement increased by R2,1bn from 2016 mainly due to:

- A R1,1bn increase in credit risk economic capital for the same reasons as stated above for the group.
- A R493m increase in market risk capital, largely due to an increase in investment risk economic capital as a result of growth in property exposures.
- A R403m increase in operational risk economic capital, predominantly as a result of updated parameters in the operational risk model.

Nedbank Limited's total AFR increased by R7,0bn from December 2016 for the same reasons as stated above for the group.

ANALYSIS OF AVAILABLE FINANCIAL RESOURCES

	Nedbank Group		Nedbank Limited	
Rm	**2017**	2016	**2017**	2016
Tier A capital	**68 176**	63 626	**57 206**	52 762
Ordinary share capital and premium	**19 170**	18 521	**19 221**	19 221
Reserves	**62 055**	56 687	**47 427**	40 951
Deductions	**(13 610)**	(12 793)	**(10 166)**	(8 840)
Goodwill	**(5 131)**	(5 199)	**(1 410)**	(1 410)
Impairments	**(279)**	(415)	**(869)**	(1 106)
Investments in the common stock of financial entities (amount above 10% threshold)[1]		(514)		
Other deductions	**(8 200)**	(6 665)	**(7 887)**	(6 324)
Excess of IFRS provisions over TTC expected loss	**561**	1 211	**724**	1 430
Tier B capital	**17 499**	14 931	**17 499**	14 931
Preference shares	**2 656**	3 188	**2 656**	5 188
Tier 2 debt instruments[2]	**12 243**	9 743	**12 243**	9 743
Perpetual subordinated-debt instruments	**2 600**	2 000	**2 600**	
Total AFR	**85 675**	78 557	**74 705**	67 693

[1] *Impairment to tier A capital in line with Basel III regulatory treatment as a result of Nedbank's investment in ETI and other financial entities breaching the 10% of CET1 capital threshold.*

[2] *Basel III-compliant new-style tier 2 subordinated-debt deemed sufficiently loss-absorbing to qualify as tier B AFR.*

External credit ratings

	Standard & Poor's		Moody's Investors Service	
	Nedbank Limited	Sovereign rating SA	Nedbank Limited	Sovereign rating SA
	Nov 2017	Nov 2017	Mar 2018	Mar 2018
Outlook	**Stable**	**Stable**	**Stable**	**Stable**
Foreign currency deposit ratings				
Long-term	**BB**	**BB**	**Baa3**	**Baa3**
Short-term	**B**	**B**	**P-3**	**P-3**
Local currency deposit ratings				
Long-term	**BB**	**BB+**	**Baa3**	**Baa3**
Short-term	**B**	**B**	**P-3**	**P-3**
National scale rating				
Long-term deposits	**zaAA-**	**zaAA+**		
Short-term deposits	**zaA-1+**	**zaA-1+**		

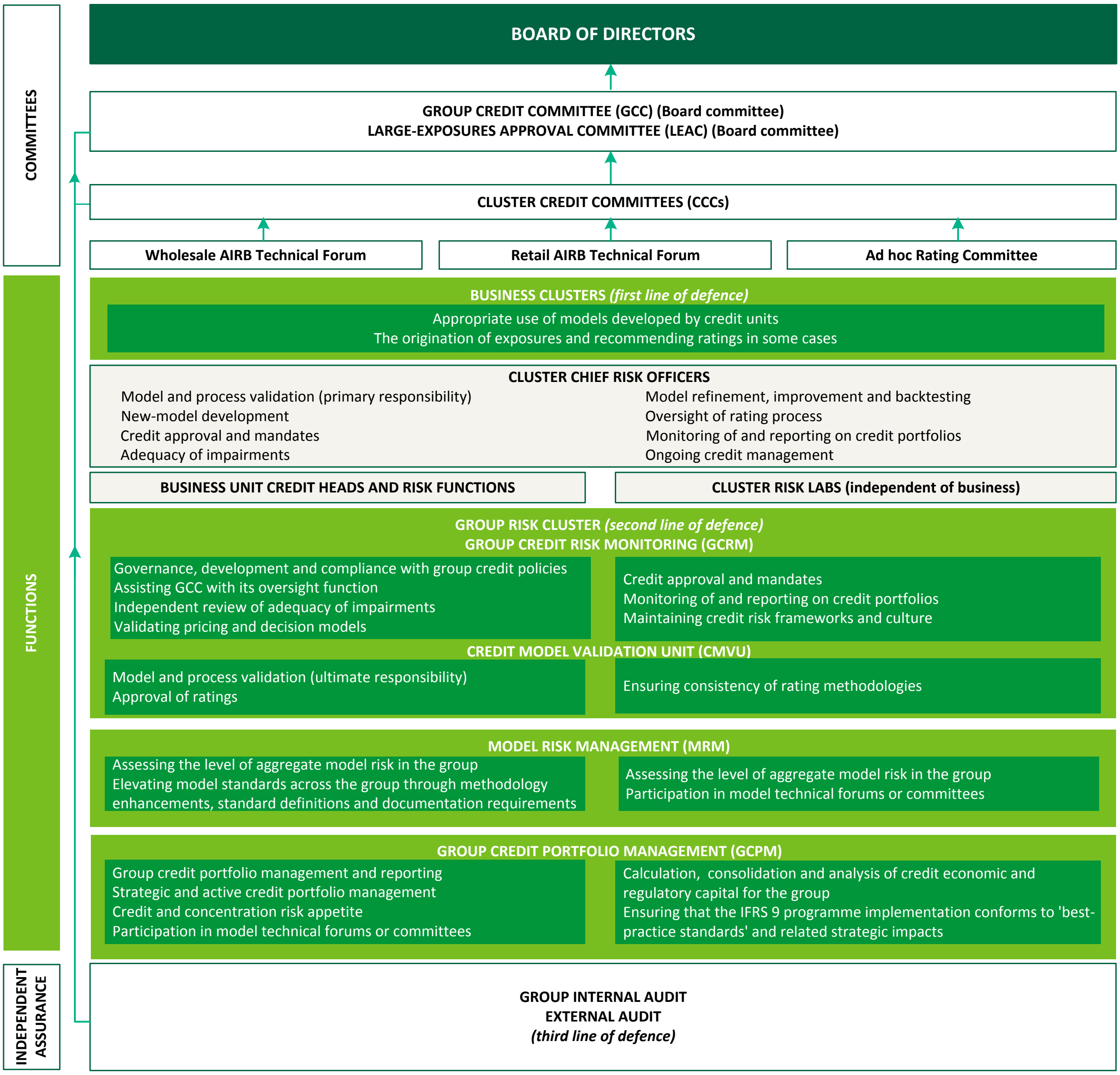
Credit risk

Credit risk arises from lending and other financing activities that constitute the group's core business. It is the most significant risk type and accounts for 65% of the group's economic capital and 72% of regulatory capital requirements. The lower percentage contribution under economic capital is mainly due to the additional risk types (such as business risk) explicitly capitalised under economic capital.

Credit governance and structures

Nedbank's credit risk governance structure is reflected in the following diagram:

Governance structure of Nedbank's Advanced Internal Ratings-based credit system



Credit risk is managed across the group in terms of the board-approved Group Credit Risk Management Framework (GCRMF), which covers the macrostructures for credit risk management. The GCRMF incorporates selected excerpts from the banking regulations, group credit policy, credit approval mandates, credit risk monitoring and governance structures. It is a key component of the group's ERMF, Capital Management and RAF, and is reviewed quarterly.

The GCRMF includes the two AIRB Approach technical forums (ie wholesale and retail) and the Group Credit Ad hoc Rating Committee, which reports into the GCC. Also included is the Large-exposures Approval Committee (LEAC), whose function is the approval or decline of credit applications in excess of the large-exposure threshold, imposed by the Banks Act (Act No 94 of 1990).

The GCC is the designated committee appointed by the board to monitor, challenge and ultimately approve all material aspects of the group's AIRB rating systems and processes. The current membership includes seven non-executive directors and three executive directors. The board and the GCC are required by the banking regulations to have a general understanding of the AIRB system and the related reports. The GCC ensures the independence of the Group Credit Risk Monitoring (GCRM) function from the business units originating the credit financial assets in the bank.

GCRM monitors the business units' credit portfolios, risk procedures, policies and credit standards, maintains the Group Credit Risk Management Framework and validates AIRB credit models and non-regulatory capital models. GCRM reports to executive management, CCCs and ultimately the board's GCC on a regular basis. Additionally, GCRM ensures consistency in the rating processes, and has ultimate responsibility for independent credit model validation through the Credit Model Validation Unit (CMVU), the group's independent risk control unit, as per the banking regulations. GCRM and Group Credit Portfolio Management (GCPM) champion the Basel III AIRB methodology across the group. Model risk, defined as the risk that adverse consequences may arise from decisions made using models that are deficient, misunderstood or misused, is managed by Model Risk Management (MRM) through robust independent validation, a sound model governance framework and group-wide awareness and oversight of the model risk environment.

CCCs, with chairpersons mainly from GCRM and independent of the business units, exist for all clusters across the group. The CCCs are responsible for approving credit policy and credit mandates as well as reviewing business-unit-level credit portfolios, compliance with credit policies, credit risk appetite parameters, adequacy of impairments, EL and credit capital levels. In respect of tier 2 credit approvals Credit Risk Management Committees (CCCs in credit approval mode) are also chaired by GCRM staff to ensure independence from the business. Each cluster has a cluster credit risk lab that is responsible for the ongoing design, implementation, business validation and performance of the cluster's internal rating systems and AIRB credit models, subject to independent annual validation by the CMVU.

GCPM monitors the group's credit portfolio and is responsible for reporting strategic and active credit portfolio management, maintaining the group's RAF and concentration appetite, reporting on strategic management of the health status of the bank's AIRB system, as well as contributing to Nedbank's IFRS9 and Credit 2020 programmes. GCPM runs the group's calculation, consolidation and analysis of credit economic and regulatory capital. GCPM is responsible for the maintenance and enhancement of the inhouse-developed CPM and the credit risk calculation engine, as well as the testing and implementation of all credit regulatory model updates.

The credit risk management process incorporates the review of the granting of financial assistance, funding in the normal course of business, investments and bank accounts across related companies. Group Credit Policy includes the required governance in respect of intercompany loans granted by regulated entities. The GCC also receives reports from Group Financial Control to ensure compliance with the requirements of section 45 of the Companies Act in terms of financial assistance between related companies.

Intercompany loans in terms of section 45 of the Companies Act have a threshold as per Nedbank board and shareholder resolutions. The balances at 31 December 2017 for Nedbank Group Limited and Nedbank Limited have not breached the threshold. While the Companies Act requires a special resolution every two years when financial assistance is provided, Nedbank Group Limited and Nedbank Limited consider this resolution annually, performing both solvency and liquidity tests bi-annually.

Credit risk approaches across Nedbank

Nedbank Limited and the Nedbank London branch make up 94% of the total credit extended by Nedbank Group and are on the AIRB Approach. Private Wealth International, the non-SA subsidiaries credit portfolios and some of the legacy Imperial Bank portfolio in Nedbank RBB remain on TSA.

For the purpose of estimating internal economic capital, and for use in ICAAP, conservative AIRB credit benchmarks are applied for all the subsidiaries that use TSA.

Roadmap of Nedbank's credit rating systems

The following table provides an overview of the group's credit risk profile by business line, major Basel III asset class and regulatory measurement methodology. Balance sheet credit exposure includes on-balance-sheet, repurchase and resale agreements and derivative exposure.

BASEL III BALANCE SHEET CREDIT EXPOSURE BY BUSINESS CLUSTER AND ASSET CLASS

							Nedbank Group 2017						Nedbank Group 2016			
	Nedbank CIB	Property Finance	Nedbank Retail and Business Banking	Nedbank Wealth	Rest of Africa	Centre	Rm	Mix %	Change %	Risk weighting[1] %	Downturn expected loss (dEL)[2] Rm	BEEL[3] Rm	Rm	Mix %	Downturn expected loss (dEL)[2] Rm	BEEL[3] Rm
AIRB Approach	431 124	146 995	309 203	19 646		49 897	809 870	90,4	2,2	36,9	6 757	6 629	792 166	93,6	6 132	7 032
Corporate	162 910	43 796	14 745	1			177 656	19,8	(7,3)	42,6	1 125	486	191 708	22,6	820	795
Specialised lending – HVCRE[4]	7 241	7 241		46			7 287	0,8	11,1	109,1	89	87	6 561	0,8	94	114
Specialised lending – IPRE[5]	91 864	91 864	1 732	4 828			98 424	11,0	11,3	32,4	273	105	88 451	10,5	330	173
Specialised lending – project finance	34 807						34 807	3,9	47,7	57,4	172		23 571	2,8	38	75
SME – corporate	4 660	3 498	19 601	2 405			26 666	3,0	(1,1)	41,1	150	159	26 955	3,2	150	92
Public sector entities	24 465		238				24 703	2,8	9,5	65,5	55		22 561	2,7	50	
Local governments and municipalities	8 057		943				9 000	1,0	(5,7)	20,8	2	7	9 548	1,1	1	8
Sovereign	49 550		1			49 897	99 448	11,1	(0,4)	7,2	16		99 864	11,8	5	
Banks	46 916	45	12				46 928	5,2	(11,8)	30,1	88		53 226	6,3	135	
Securities firms										23,6				< 0,1		
Retail mortgage			115 923	9 935			125 858	14,0	5,2	24,0	656	1 141	119 691	14,2	796	1 254
Retail revolving credit			15 523	78			15 601	1,8	4,0	60,7	766	1 335	15 007	1,7	672	1 299
Retail – other			107 471	158			107 629	12,0	8,0	51,8	2 910	2 636	99 702	11,8	2 582	2 513
SME – retail	103		32 714	2 195			35 012	3,9	2,5	34,2	455	673	34 168	4	459	709
Securitisation exposure	551	551	300				851	0,1	(26,2)	72,5			1 153	0,1		
TSA[6]			556	16 298	31 894		48 748	5,4	(9,2)	65,9			53 704	6,4		
Corporate					6 554		6 554	0,7	5,8	95,5			6 194	0,7		
SME – corporate			271	1 181			1 452	0,2	(16,6)	17,7			1 742	0,2		
Public sector entities					419		419	0,0	(35,0)	67,1			645	0,1		
Local government and municipalities					34		34	0,0	(8,1)	76,2			37	< 0,1		
Sovereign				5 200	8 026		13 226	1,5	33,0	73,7			9 944	1,1		
Banks				4 002	2 648		6 650	0,7	(55,0)	66,1			14 767	1,7		
Retail mortgage			277	5 160	6 328		11 765	1,4	(6,2)	40,2			12 545	1,4		
Retail revolving credit					2 063		2 063	0,2	35,6	69,6			1 521	0,2		
Retail – other			4	755	3 075		3 834	0,4	(8,2)	61,9			4 175	0,5		
SME – retail			4		2 747		2 751	0,3	28,9	69,0			2 134	0,2		
PiPs			74	25	56		155	0,0	(38,0)				250	< 0,1		
Non-regulated entities	37 827						37 827	4,2	(6,2)				40 337	4,6		
Total Basel III balance sheet exposure[7]	468 951	146 995	309 833	35 969	31 950	49 897	896 600	100	1,1		6 757	6 629	886 457	100	6 132	7 032
dEL (AIRB Approach)												13 386				13 164
Expected loss performing book												6 757				6 132
BEEL on defaulted advances												6 629				7 032
IFRS impairment on AIRB loans and advances												(11 379)				(11 662)
Excess of dEL over eligible provisions												2 008				1 502

[1] *Risk weighting is shown as a percentage of exposure at default (EAD) for the AIRB Approach and as a percentage of total credit extended for TSA.*

[2] *dEL is in relation to performing loans and advances.*

[3] *Best estimate of expected loss (BEEL) is in relation to defaulted loans and advances.*

[4] *High-volatility commercial real estate.*

[5] *Income-producing real estate.*

[6] *A portion of the legacy Imperial Bank book in Nedbank RBB, Nedbank Private Wealth (UK) and the non-SA banking entities in Africa are covered by TSA.*

[7] *Balance sheet credit exposure includes on-balance-sheet, repurchase and resale agreements and derivative exposure.*

Credit risk exposure

Nedbank's gross loans and advances grew 0,4% to R722,3bn, driven by solid performance in RBB, offset by a decline in CIB, with the exception of Property Finance.

- The increase in gross loans and advances resulted in a change in the gross loans and advances mix, with RBB increasing its contribution to 43,5%, while CIB's contribution decreased to 49,6%.

RBB's gross loans and advances grew 5,1% to R314,1bn across all asset classes, with solid growth in Retail. This growth was attained while maintaining market share yet improving the mix of low-risk clients in line with the current risk appetite and prudent origination strategies.

- Retail's gross loans and advances grew 5,5% to R246,4bn due to the following:
  - MFC's gross loans and advances increasing by 8,6% to R92,4bn, with consecutive growth yoy since 2012 as a result of enhancements in the operating model and strong dealer relationships due to a robust frontend system. Despite the contraction in the vehicle market, MFC has maintained its dominant local market share position.
  - Unsecured Lending grew by 7,6% to R18,8bn mainly due to an additional R683m previously disclosed under client engagement, which relates to non-retail relationship banking overdrafts and student loans. Unsecured lending as a standalone increased by 3,7% to R18,1bn, reflecting slower market growth, driven by the weak macro environment and increased consumer stress.
  - Card's gross loans and advances grew by 5,2% to R15,6bn, primarily due to increases in existing balances. The Card portfolio has experienced consistent healthy growth since 2012.
  - Home Loans gross loans and advances showed moderate growth of 2,6% to R85,6bn in line with the industry. Growth has been consistent since 2011, but still below the volumes of 2007 to 2010.
- Business Banking advances pipeline remained good; however, client drawdowns remained subdued given the negative economic outlook.

RoA's gross loans and advances grew 5,1% to R21,1bn due to growth across the various countries.

Wealth gross loans and advances grew 2,8% to R29,5bn as a result of increased growth in home loans and commercial mortgages.

CIB's gross loans and advances decreased 3,8% to R358,2bn due to a combination of unexpected early repayments, which resulted in portfolio impairment releases, sell-downs, which allowed for the diversification of risk, and a decrease in the trading book. CIB's other loans and advances decreased as a result of muted capital expenditure in the subdued economic climate with a competitive market.

- Gross trading advances decreased by 10,6% to R31,4bn, being subject to volatility based on liquidity needs and overnight placement demands.
- Property Finance advances experienced growth of 5,0% to R143,8bn, which was in line with industry growth. The portfolio contains collateralised good-quality assets with low loan-to-value (LTVs) and is managed by a highly experienced team, the leaders in SA property finance, and has maintained the leading market share.

CR1: CREDIT QUALITY OF ASSETS

2017 Rm		Gross carrying values of Defaulted exposures	 Non-defaulted exposures	Allowances/ Impairments	Net values
1	Loans	19 576	702 755	12 002	710 329
2	Debt securities		110 124		110 124
3	Off-balance-sheet exposures		190 254		190 254
4	**Total**	**19 576**	**1 003 133**	**12 002**	**1 010 707**
2016					
1	Loans	19 553	699 673	12 149	707 077
2	Debt securities		114 089		114 089
3	Off-balance-sheet exposures		195 555		195 555
4	**Total**	19 553	1 009 317[1]	12 149	1 016 721[1]

[1] 2016 restated to include RoA off-balance-sheet exposure.

The table below shows a breakdown of the Nedbank Group banking book off-balance-sheet exposure by cluster and product at the end of 2017.

NEDBANK GROUP OFF-BALANCE-SHEET EXPOSURE PER BUSINESS CLUSTER[1]

2017 Rm	Nedbank CIB	Nedbank CIB, excluding Property Finance	Property Finance	Total Nedbank RBB	Nedbank Business Banking	Nedbank Retail	Nedbank Wealth	Rest of Africa	Centre	Nedbank Group
Guarantees on behalf of clients	29 368	28 275	1 093	2 823	2 244	579	229	1 784		34 204
Letters of credit	2 610	2 610		369	331	38		219		3 198
Undrawn facilities, of which	79 808	75 198	4 610	64 962	22 326	42 636	5 270	2 812		152 852
irrevocable commitments	77 143	72 533	4 610	22 326	22 326		2 209	1 620		103 298
revocable[2]	2 665	2 665		42 636		42 636	3 061	1 192		49 554
Credit-derivative instruments	6 992	6 992								6 992
Total off-balance-sheet activities	**118 778**	**113 075**	**5 703**	**68 154**	**24 901**	**43 253**	**5 499**	**4 815**		**197 246**

2016 Rm	Nedbank CIB	Nedbank CIB, excluding Property Finance	Property Finance	Total Nedbank RBB	Nedbank Business Banking	Nedbank Retail	Nedbank Wealth	Rest of Africa	Centre	Nedbank Group
Guarantees on behalf of clients	39 762	38 892	870	2 858	2 343	515	282	1 463		44 365
Letters of credit	2 952	2 952		389	338	51		51		3 392
Undrawn facilities, of which	74 062	69 664	4 398	64 202	22 000	42 202	5 450	4 082	2	147 798
irrevocable commitments	62 952	58 554	4 398	22 000	22 000		2 531	1 874	2	89 359
revocable[2]	11 110	11 110		42 202		42 202	2 919	2 208		58 439
Credit-derivative instruments	4 732	4 732								4 732
Total off-balance-sheet activities	121 508	116 240	5 268	67 449	24 681	42 768	5 732	5 596	2	200 287

[1] *Values include intercompany exposures.*
[2] *Includes other contingent liabilities.*

Defaulted loans and advances

Nedbank Group's defaulted advances remained stable at R19,6bn, despite the growth in the portfolio. This was due to the decrease in CIB defaulted advances with the successful resolution, curing and rerating of counters into the performing portfolio, as well as settlement by various clients. This was offset by RBB's defaulted advances, which increased due to consumer strain on repayment ability as well as the increase in performing defaults in the portfolio.

Nedbank Group's defaulted advances as a percentage of gross loans remained stable at 2,71%, remaining within our credit risk appetite.

RBB's defaulted advances increased by 6,4% to R15,1bn, representing 4,82% as a percentage of gross loans, mainly driven by:

- Retail's defaulted advances increasing by 8,0% to R13,1bn as a result of higher defaults in MFC, which increased by 34,7% to R3,4bn, driven by performing defaulted advances and Card increasing by 9,6% to R1,5bn, which is reflective of adverse economic conditions and consumer distress impacting consumer repayment ability.
- The increase in performing defaulted advances being a catalyst for the increase in defaulted loans and advances, which resulted in an additional R4,2bn exposure accounted for as defaulted.
- The Home Loans defaulted advances decreasing by 2,6% to R4,8bn, which represents 5,55% as a percentage of gross loans and advances, with Home Loans benefiting from lower-risk new business as well as the improved quality of the home loan book.
- Business Banking's defaulted advances decreasing by 2,4% to R2,1bn.

CIB's defaulted advances decreased by 29,5% to R2,9bn, representing 0,82% as a percentage of gross loans, and caused by the resolution, curing and rerating of counters into the performing portfolio, as well as settlement of various clients.

On each reporting date the group assesses 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 has (or events have) an impact on the estimated future cashflows of the financial asset.

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

- Significant financial difficulty of the issuer or obligor.
- A breach of contract, such as a default or delinquency in respect of interest or principal payments.
- The group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the group would not otherwise consider.
- The probability arising that the borrower will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observing data indicating that there is a measurable decrease in the estimated future cashflows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

Specific impairments are raised against those loans identified as impaired and where there is objective evidence after initial recognition that all amounts due will not be collected.

Portfolio impairments are recognised in respect of performing advances based on historical evidence and trends of losses in each component of the performing portfolio. Portfolio impairments are recognised against loans and advances classified as 'past due' or 'neither past due nor impaired'. A loan or advance is considered to be 'past due' when it exceeds its limit for an extended period or is in arrears.

NEDBANK GROUP DEFAULTED ADVANCES

Group	2017 Actual	2017 Non-performing default	2016 Actual	2016 Non-performing default
Defaulted advances	**19 576**	**15 399**	19 553	16 238
Defaulted advances as a percentage of gross loans and advances	**2,71**	**2,13**	2,72	2,25
Portfolio coverage	**0,70**		0,69	
Specific coverage ratio	**36,2**	**42,3**	37,4	42,5
Total impairments as a percentage of gross loans and advances	**1,66**		1,69	

NEDBANK GROUP DEFAULTED ADVANCES BY BUSINESS CLUSTER

	2013		2014		2015		2016		2017	
	Rm	Mix %	Rm	Mix %	Rm	Mix %	Rm	Mix %	Rm	Mix %
Corporate and Investment Banking	3 406	19,1	2 759	17,4	4 074	23,2	4 176	21,4	**2 944**	**15,0**
CIB, excluding Property Finance	1 389	7,8	950	6,0	2 636	15,0	2 815	14,4	**1 814**	**9,3**
Property Finance	2 017	11,3	1 809	11,4	1 438	8,2	1 361	7,0	**1 130**	**5,8**
Retail and Business Banking	13 736	77,0	12 266	77,4	12 263	69,8	14 235	72,8	**15 148**	**77,4**
Business Banking	2 334	13,1	2 087	13,2	2 059	11,7	2 142	11,0	**2 090**	**10,7**
Retail[1]	11 402	63,9	10 179	64,2	10 204	58,1	12 093	61,8	**13 058**	**66,7**
Home Loans	4 746	26,6	4 053	25,6	3 869	22,0	4 880	25,0	**4 753**	**24,3**
MFC	1 933	10,8	1 898	12,0	2 182	12,4	2 539	13,0	**3 419**	**17,5**
Unsecured Lending	2 828	15,8	2 502	15,8	2 297	13,1	2 423	12,4	**2 418**	**12,4**
Card	824	4,6	892	5,6	1 072	6,1	1 323	6,8	**1 450**	**7,4**
Relationship Banking	914	5,1	674	4,3	625	3,6	765	3,9	**827**	**4,2**
Wealth	525	2,9	599	3,8	587	3,3	608	3,1	**648**	**3,3**
Rest of Africa	181	1,0	222	1,4	635	3,6	534	2,7	**836**	**4,3**
Nedbank Group	17 848	100,0	15 846	100,0	17 559	100,0	19 553	100,0	**19 576**	**100,0**

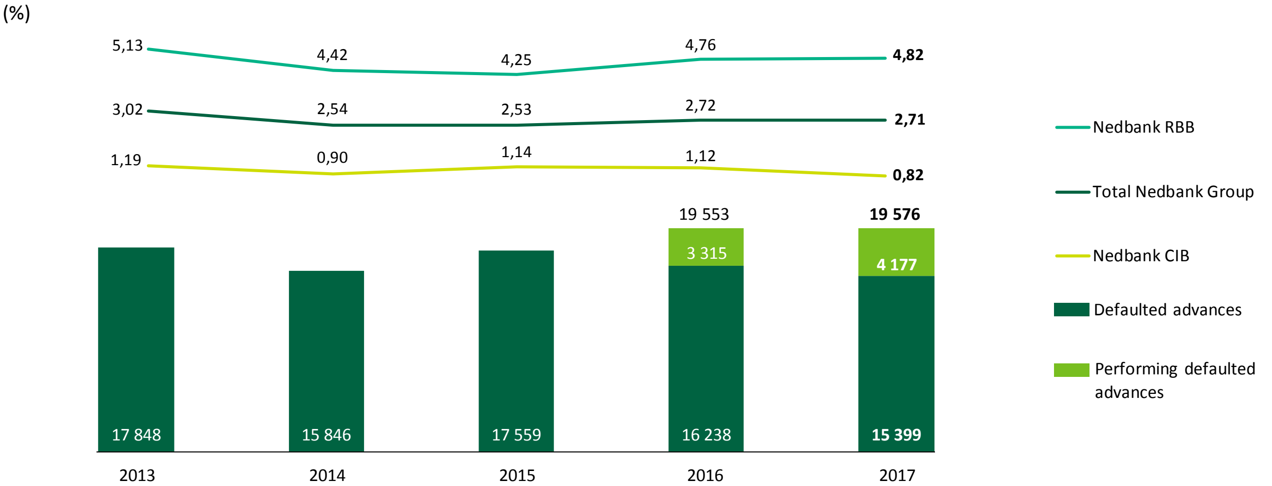
[1] *Client engagement is included in the Retail total.*

CR2: CHANGES IN STOCK OF DEFAULTED LOANS AND SECURITIES

Rm		2017	2016
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**19 553**	17 559
2	Loans and debt securities defaulted since the last reporting period	**17 689**	21 617
3	Returned to non-defaulted status	**(8 656)**	(11 948)
4	Amounts written off	**(4 675)**	(4 973)[1]
5	Other changes	**(4 335)**	(2 702)[1]
6	**Defaulted loans and debt securities at end of the reporting period**	**19 576**	19 553

[1] *2016 restated to correct classification of amounts written-off and other charges.*

Defaulted advances as a percentage of gross loans and advances



BASEL III AIRB ON-BALANCE-SHEET EXPOSURE BY RESIDUAL CONTRACTUAL MATURITY

2017 Rm	Less than 1 year	1 to 5 years	Greater than 5 years	Total on-balance-sheet exposure
Corporate[1]	99 302	164 496	88 782	352 580
Public sector entities	6 807	5 070	8 006	19 883
Local governments and municipalities	1 302	1 417	5 670	8 389
Sovereign	64 154	13 547	21 730	99 431
Banks	16 408	5 854	45	22 307
Retail exposure	3 983	102 897	177 485	284 365
Retail mortgage	183	1 554	124 466	126 203
Retail revolving credit		15 601		15 601
Retail – other	2 543	69 928	35 159	107 630
SME – retail	1 257	15 814	17 860	34 931
Securitisation exposure	551		306	857
Total	192 507	293 281	302 024	787 812
2016				
Corporate[1]	87 903	176 641	85 957	350 501
Public sector entities	3 834	7 074	7 823	18 731
Local governments and municipalities	60	2 431	6 548	9 039
Sovereign	56 988	9 703	33 122	99 813
Banks	21 496	13 177	229	34 902
Retail exposure	3 652	98 241	167 040	268 933
Retail mortgage	223	1 355	118 550	120 128
Retail revolving credit		15 008		15 008
Retail – other	2 271	65 635	31 796	99 702
SME – retail	1 158	16 243	16 694	34 095
Securitisation exposure		489	664	1 153
Total	173 933	307 756	301 383	783 072

[1] *Includes corporate, SME – corporate and specialised lending asset classes.*

The Nedbank Limited TSA Basel III on-balance-sheet exposure below relates to the Private Wealth International, the non-SA subsidiaries and some of the legacy Imperial Bank in Nedbank RBB.

BASEL III TSA ON-BALANCE-SHEET EXPOSURE BY RESIDUAL CONTRACTUAL MATURITY

2017 Rm	Less than 1 year	1 to 5 years	Greater than 5 years	Total on-balance-sheet exposure
Corporate[1]	4 084	3 649	785	8 518
Public sector entities	40	278	101	419
Local governments and municipalities	2	21	11	34
Sovereign	8 075	5 150		13 225
Banks	6 339	3 107		9 446
Retail exposure	6 539	6 536	7 307	20 382
Retail mortgage	5 167	184	6 414	11 765
Retail revolving credit	56	1 751	254	2 061
Retail – other	421	3 304	100	3 825
SME – retail	895	1 297	539	2 731
Total	25 079	18 741	8 204	52 024
2016				
Corporate[1]	2 389	3 052	961	6 402
Public sector entities	8	326	97	431
Local governments and municipalities	1	27	12	40
Sovereign	5 034	3 922		8 956
Banks	12 629	3 801		16 430
Retail exposure	5 871	5 645	8 273	19 789
Retail mortgage	4 983	190	7 388	12 561
Retail revolving credit	33	1 270	218	1 521
Retail – other	814	3 068	130	4 012
SME – retail	41	1 117	537	1 695
Total	25 932	16 773	9 343	52 048

[1] *Includes corporate, SME – corporate and specialised lending asset classes.*

Debt counselling

The portfolio balance increased by 12,8% to R8 298m (2016: R7 356m) and the number of accounts in debt counselling increased by 10,2% to 129 062 (2016: 117 198). Growth in the debt counselling book is in line with the industry and the debt-counselling market share remained stable year on year.

The analysis below shows the Nedbank Retail debt-counselling portfolio, including new applications (year-to-date) and portfolio balance.

NEDBANK RETAIL SUMMARY OF THE DEBT COUNSELLING PORTFOLIO

	New applications				Portfolio balance			
	2017		2016		2017		2016	
Product	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm
Mortgages	**2 012**	**864**	2 180	887	**6 275**	**2 400**	6 013	2 310
Vehicle and asset finance	**9 711**	**1 491**	8 721	1 221	**27 245**	**3 449**	23 297	2 835
Unsecured lending	**24 649**	**947**	23 888	873	**48 927**	**1 802**	45 601	1 652
Card	**24 878**	**376**	22 263	307	**42 677**	**626**	37 998	533
Overdrafts	**4 112**	**15**	3 889	20	**3 938**	**21**	4 219	27
Total	**65 362**	**3 693**	60 941	3 308	**129 062**	**8 298**	117 128	7 357

DEFAULTED ADVANCES, SPECIFIC IMPAIRMENTS AND SPECIFIC COVERAGE RATIO BY BUSINESS CLUSTER AND PRODUCT

	2017								2016							
	Defaulted loans and advances		Expected recoveries	Specific impairments				Specific coverage ratio	Defaulted loans and advances		Expected recoveries	Specific impairments				Specific coverage ratio
	Rm	as % of total	Rm	Rm	as % of total	on defaulted advances Rm	for discounted cashflow losses Rm	%	Rm	as % of total	Rm	Rm	as % of total	on defaulted advances Rm	for discounted cashflow losses Rm	%
Nedbank CIB	2 944	15,0	2 326	618	8,7	370	248	21,0	4 176	21,4	3 080	1 096	15,0	755	342	26,2
Nedbank CIB, excluding Property Finance	1 814	9,3	1 388	426	6,0	334	92	23,5	2 815	14,4	2 004	811	11,1	654	158	28,8
Leases and instalment debtors																
Other loans and advances	1 814	9,3	1 388	426	2,7	334	92	23,5	2 815	14,4	2 004	811	11,1	654	158	28,8
Property Finance	1 130	5,7	938	192	2,7	36	156	17,0	1 361	7,0	1 076	285	3,9	101	184	20,9
Commercial mortgages	1 130	5,7	938	192	2,7	36	156	17,0	1 267	6,5	982	285	3,9	101	184	22,5
PiPs									94	0,5	94					
Nedbank RBB	15 148	77,4	9 196	5 952	84,0	5 126	826	39,3	14 235	72,8	8 380	5 855	80,0	5 103	754	41,1
Nedbank Business Banking	2 090	10,7	1 296	794	11,2	559	235	38,0	2 142	11,0	1 337	805	11,0	580	226	37,6
Residential mortgages	616	3,2	474	142	2,0	54	88	23,1	831	4,4	616	215	2,9	122	93	25,9
Commercial mortgages	479	2,4	377	102	1,4	28	74	21,3	476	2,4	372	104	1,4	30	74	21,8
Leases and instalment debtors	252	1,3	101	151	2,1	135	16	59,9	250	1,3	92	158	2,2	141	17	62,9
Cards	7		2	5	0,1	4	1	71,4	7	< 0,1		7	0,1	7		100,0
PiPs	6		6						3	< 0,1	3					
Other loans and advances	730	3,7	336	394	5,6	338	56	54,0	575	2,9	254	321	4,4	280	42	56,0
Nedbank Retail	13 058	66,7	7 900	5 158	72,8	4 567	591	39,5	12 093	61,8	7 043	5 050	69,0	4 523	528	41,8
Residential mortgages	5 382	27,5	4 333	1 049	14,8	857	192	19,5	5 419	27,7	4 308	1 111	15,2	906	205	20,5
Commercial mortgages	21	0,1	14	7	0,1	5	2	33,3	36	0,2	23	13	0,2	11	2	36,1
Leases and instalment debtors	3 472	17,7	2 412	1 060	14,9	955	105	30,5	2 589	13,2	1 613	976	13,3	899	77	37,7
Cards	1 450	7,4	217	1 233	17,4	1 218	15	85,0	1 323	6,8	162	1 161	15,9	1 147	14	87,8
Unsecured lending	2 418	12,4	825	1 593	22,5	1 317	276	65,9	2 423	12,4	839	1 584	21,6	1 355	229	65,4
PiPs	68	0,3	68						89	0,4	89					
Other loans and advances	247	1,3	31	216	3,1	215	1	87,4	214	1,1	9	205	2,8	205	1	95,8
Nedbank Wealth	648	3,3	565	83	1,2	2	81	12,8	608	3,1	494	118	1,6	(4)	118	19,4
Residential mortgages	476	2,4	422	54	0,8	(27)	81	11,3	371	1,9	299	76	1,0	(45)	118	20,5
Commercial mortgages	136	0,7	114	22	0,3	22		16,2	177	0,9	143	34	0,5	34		19,3
Leases and instalment debtors	1		1						10		9	1	< 0,1			10,4
PiPs	25	0,1	25						38	0,2	38					
Other loans and advances	10	0,1	3	7	0,1	7		70,0	12	0,1	5	7	0,1	7		59,0
Rest of Africa	836	4,3	413	423	6,0	132	291	50,6	534	2, 7	289	245	3,4	27	215	45, 9
Residential mortgages	229	1,1	190	39	0,6	(37)	77	17,5	134	0,7	103	31	0,4	(14)	45	23,1
Commercial mortgages	12	0,1	10	2		1	1	16,7	6	0,0	2	4	0,1	(11)	15	61,8
Leases and instalment debtors	90	0,5	36	54	0,7	9	44	58,9	79	0,4	36	43	0,6	5	38	54,2
Cards	10	0,1	1	9	0,1		9	90,0	7	< 0,1	1	6	0,1		6	85,4
Unsecured lending	82	0,4	39	43	0,6		43	51,8	54	0,3	20	34	0,5	8	26	63,4
PiPs	57	0,3	57						26	0,1	26					
Other loans and advances	356	1,8	80	276	3,9	159	117	77,5	228	1,2	101	127	1,7	39	85	55,8
Centre			(5)	5	0,1	5				< 0,1	(3)	3	< 0,1			
Other loans and advances			(5)	5	0,1	5				< 0,1	(3)	3	< 0,1			
Nedbank Group	19 576	100,0	12 495	7 081	100,0	5 635	1 446	36,2	19 553	100,0	12 236	7 317	100,0	5 882	1 429	37,4
Residential mortgages	6 703	34,2	5 419	1 284	18,1	847	438	19,2	6 755	34,5	5 322	1 433	19,6	969	461	21,2
Commercial mortgages	1 778	9,1	1 453	325	4,6	92	233	18,3	1 962	10,0	1 522	440	6,0	165	275	22,4
Leases and instalment debtors	3 815	19,5	2 550	1 265	17,9	1 099	165	33,1	2 928	15,0	1 750	1 178	16,1	1 046	132	40,2
Cards	1 467	7,5	220	1 247	17,6	1 222	25	85,0	1 337	6,8	163	1 174	16,1	1 154	20	87,8
Unsecured lending	2 500	12,8	864	1 636	23,1	1 317	319	65,4	2 477	12,7	859	1 618	22,1	1 363	255	65,3
PiPs	156	0,8	156						250	1,3	250					
Other loans and advances	3 157	16,1	1 833	1 324	18,7	1 058	266	41,9	3 844	19,7	2 370	1 474	20,1	1 185	286	38,3

Credit risk mitigation

Credit risk mitigation (CRM) refers to the actions that can be taken by a bank to manage its exposure to credit risk to align such exposure to its risk appetite. This action can be proactive or reactive and the level of mitigation that a bank desires may be influenced by external factors such as the economic cycle or internal factors such as a change in risk appetite.

References to CRM normally focus on the taking of collateral as well as the management of such collateral. While collateral is an essential component of CRM, there are a number of other methods used for mitigating credit risk.

The Nedbank Group Credit Policy acknowledges the role played by CRM in the management of credit risk, but emphasises that collateral on its own is not necessarily a justification for lending. The primary consideration for any lending opportunity should rather be the borrower's financial position and ability to repay the facility from own resources and cashflow.

TSA for credit risk allows for the use of certain categories of collateral to reduce exposures prior to the risk weighting thereof, subject to suitable haircuts being applied to the value of such collateral. Under the AIRB Approach banks are allowed to utilise the value of collateral in their own estimates of LGD, which directly influences the risk weighting.

Financial or other collateral, credit derivatives, netting agreements, put and call options, hedging and guarantees are all commonly used to reduce exposure. The amount and type of CRM is dependent on the client, product or portfolio categorisation.

Credit derivatives are transacted with margined counterparties or, alternatively, protection is procured through the issue of credit-linked notes.

The bank monitors the concentration levels of collateral to ensure that it is adequately diversified. Processes and procedures are in place to monitor concentration risk that may arise from collateral, irrespective of exposures being on the AIRB Approach or TSA.

The following collateral types are common in the marketplace:

- Retail portfolio
  - Mortgage lending secured by mortgage bonds over residential property.
  - Instalment credit transactions secured by the assets financed.
  - Overdrafts either unsecured or secured by guarantees, suretyships or pledged securities.
- Wholesale portfolio
  - Commercial properties supported by the property financed and a cession of the leases.
  - Instalment-credit-type transactions secured by the assets financed.
  - Working capital facilities being secured, usually by either a claim on specific assets (fixed assets, inventory and debtors) or other collateral such as guarantees.
  - Term and structured lending, relying on guarantees or credit derivatives (where only internationally recognised and enforceable agreements are used).
  - Credit exposure to other banks with risks commonly being mitigated by using financial collateral and netting agreements.

Collateral valuation and management

The valuation and management of collateral across all business units of the group are governed by the Group Credit Policy. In the wholesale portfolio collateral is valued at the inception of a transaction and reviewed at least annually during the life of the transaction, usually as part of the facility review, which includes a review of the security structure and covenants to ensure that proper title is retained over collateral.

Collateral valuations in respect of retail mortgage portfolios are updated using statistical indexing models, published data by service providers is used in the case of motor vehicles, while a physical inspection is performed for other types of collateral. Physical valuations are performed biannually on the defaulted book. Physical valuations are performed on approximately 50% of new applications. The remainder of new applications are valued using desktop valuations, which are regularly backtested with physical valuations.

Where credit intervention is required, or in the case of default, all items of collateral are immediately revalued. In such instances a physical inspection by an expert valuer is required. This process also ensures that an appropriate impairment is timeous.

Residential and commercial-property collateral exist in the SME – retail and Retail – other asset classes. This is due to both commercial and residential mortgage lending to small and medium businesses in Business Banking and Nedbank Wealth.

The financial collateral reported under the bank's asset class largely relates to collateral posted under International Swaps and Derivatives Association derivative netting agreements and repurchase and resale agreements.

CR3: AIRB and TSA CREDIT RISK MITIGATION TECHNIQUES – OVERVIEW

2017 Rm		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	291 288	419 041	411 046	17 437	6 583		
2	Debt securities	105 699	4 425	4 425				
3	**Total**	396 987	423 466	415 471	17 437	6 583		
4	of which defaulted	1 717	9 595	9 274	384	250		
2016								
1	Loans	296 879	412 043	399 579	17 205	11 007		
2	Debt securities	114 089						
3	**Total**	410 968	412 043	399 579	17 205	11 007		
4	of which defaulted	3 295	8 546	8 413				

Growth in exposures secured by collateral was largely due to book growth across all major asset classes, in particular in the commercial-property portfolio in Nedbank Property Finance and Home Loans in Nedbank Retail.

Credit risk exposure under TSA

Within Nedbank Group the Fairbairn Private Bank (UK), the non-SA subsidiaries credit portfolios and some of the legacy Imperial Bank portfolio in Nedbank RBB remain on TSA.

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

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA[1] and RWA density	
2017 Asset classes		On-balance-sheet amount Rm	Off-balance-sheet amount Rm	On-balance-sheet amount Rm	Off-balance-sheet amount Rm	RWA Rm	RWA density %
1	Sovereigns and their central banks	13 225	20	13 209	20	9 756	73,75
2	Non-central government public sector entities	453	101	444	90	375	70,22
3	Multilateral development banks						
4	Banks	9 446	9	7 893	8	4 383	55,47
5	Securities firms						
6	Corporates	8 518	2 991	7 613	2 829	9 571	91,66
7	Regulatory retail portfolios	8 617	2 759	8 453	2 617	7 540	68,11
8	Secured by residential property	11 765	396	10 380	219	5 008	47,25
9	Secured by commercial real estate						
10	Equity						
11	Past-due loans						
12	Higher-risk categories						
13	Other assets	1 492		1 492		777	52,08
14	**Total**	53 516	6 276	49 484	5 783	37 410	67,69
2016							
1	Sovereigns and their central banks	9 944		9 944		7 188	72,28
2	Non-central government public sector entities	682	86	466	86	376	68,12
3	Multilateral development banks						
4	Banks	14 767	26	14 767	26	4 575	30,93
5	Securities firms						
6	Corporates	7 936	4 203	7 936	3 542	11 047	96,24
7	Regulatory retail portfolios	7 830	2 032	7 788	1 247	6 282	69,53
8	Secured by residential property	12 545	1 221	12 545	1 221	6 981	50,71
9	Secured by commercial real estate						
10	Equity						
11	Past-due loans						
12	Higher-risk categories						
13	Other assets	1 578		1 578		727	46,07
14	**Total**	55 282	7 568	55 024	6 122	37 176	60,80

[1] Total RWA excludes CCR RWA.
CCF = Credit conversion factor.

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

		Risk weight									
	2017 (Rm) **Asset classes**	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post-CCF and post-CRM)**
1	Sovereigns and their central banks	**5 199**				**1 739**		**1 100**	**5 191**		**13 229**
2	Non-central government public sector entities	**2**		**54**		**256**		**193**	**29**		**534**
3	Multilateral development banks										
4	Banks	**767**		**2 361**		**2 003**		**2 492**	**278**		**7 901**
5	Securities firms										
6	Corporates					**3 714**		**4 755**	**1 973**		**10 442**
7	Regulatory retail portfolios	**86**		**1 547**	**107**	**3**	**8 570**	**744**	**13**		**11 070**
8	Secured by residential property				**7 756**	**103**	**2 000**	**740**			**10 599**
9	Secured by commercial real estate										
10	Equity										
11	Past-due loans										
12	Higher-risk categories										
13	Other assets	**480**		**255**				**757**			**1 492**
14	**Total**	**6 534**		**4 217**	**7 863**	**7 818**	**10 570**	**10 781**	**7 484**		**55 267**
	2016										
1	Sovereigns and their central banks	3 980				1 227		1 062	3 675		9 944
2	Non-central government public sector entities					352		200			552
3	Multilateral development banks										
4	Banks	705		10 719		2 162		924	283		14 793
5	Securities firms										
6	Corporates					4 186		3 964	3 328		11 478
7	Regulatory retail portfolios	65				1 786	7 184				9 035
8	Secured by residential property	1			8 920	36	3 868	941			13 766
9	Secured by commercial real estate										
10	Equity										
11	Past-due loans										
12	Higher-risk categories										
13	Other assets	280		737				524	37		1 578
14	**Total**	5 031		11 456	8 920	9 749	11 052	7 615	7 323		61 146

The decrease in total credit exposure in respect of TSA exposures was mainly driven by the rand strengthening in the fourth quarter, impacting exposure in the Private Wealth International and the non-SA subsidiaries credit portfolios.

Credit risk under the Advanced Internal Ratings-based Approach

Nedbank's credit risk measurement and methodology

Nedbank's Basel III AIRB credit methodology is fully implemented across all its major credit portfolios.

Under this methodology credit risk is essentially measured by two key components, namely:

- Expected loss (EL) is a 12-month estimate based on the long-run annual average level of credit losses through a full credit cycle (TTC) based on historical data.
- UL is the 99,9th percentile of credit risk loss distribution.

These statistically estimated losses are determined by the key Basel III AIRB credit risk parameters, namely PD, EAD, LGD and effective maturity. These, together with the relevant Basel III capital formulae per asset class, culminate in the Pillar 1 minimum regulatory capital requirements for credit risk.

The IAS 39: Financial Instruments: Recognition and Measurement (IAS 39) requirements for credit risk have been applied for the quantification of impairments as at 31 December 2017. Specific impairments are recognised in respect of defaulted advances where there is objective evidence, after initial recognition, that all amounts due will not be collected. Portfolio impairments are recognised in respect of performing advances based on historical evidence and trends of losses in each segment of the performing portfolio.

In July 2014 the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments (IFRS 9), which included the new impairment requirements and which replaced the previous IAS 39 impairments model as of 1 January 2018.

The main objective of the new impairment requirements is to replace the backward-looking 'incurred loss' model under IAS 39 with a forward-looking ECL model in order to address concerns raised during the global financial crisis that banks raised impairments 'too little, too late'. These ECL estimates need to incorporate forward-looking information, such as macroeconomic forecasts, which will need to be updated at each reporting date to reflect changes in the credit risk of the underlying financial instrument.

IFRS 9 also introduces a classification of financial assets into three different stages, which determine the ECL quantification approach:

- Stage 1: Financial assets without objective evidence of impairment for which the credit risk at reporting date has not significantly increased since initial recognition.
- Stage 2: Financial assets without objective evidence of impairment for which the credit risk at reporting date has significantly increased since initial recognition.
- Stage 3: Financial assets with objective evidence of impairment.

Financial assets in stage 1 will be subject to a 12-month ECL, ie ECLs on default events in the next 12 months from reporting date, whereas financial assets in stage 2 will be subject to a (higher) lifetime ECL, ie ECLs on any default event between reporting date and the end of the lifetime of the financial asset. Financial assets in stage 3 are also subject to lifetime ECL, however, ECL is based on the difference between the gross carrying amount of the asset and the present value of estimated future cashflows discounted at the original effective interest rate of the financial asset, as the asset is already in default.

The IFRS 9 standard provides some guidance regarding the dimensions for assessing whether there has been a significant increase in credit risk since initial recognition or not, but each bank will be required to specify its own definition, which may differ by portfolio. Nedbank's IFRS 9 implementation accounts for supervisory guidance provided by the BCBS Guidance issued on credit risk and accounting for ECL outlining the basic principles for supervisory requirements for sound credit risk practices associated with the implementation and ongoing application of ECL accounting models and the supervisory evaluation of credit risk as well as the corresponding SARB Guidance Note 3/2016.

The IFRS 9 impairment implementation progressed during 2017, with the following main areas of focus:

- Finalisation of the IFRS 9 impairment model methodology.
- Implementation of an IT framework facilitating efficient model execution and management.
- Development, build and testing of IFRS 9 impairment models with respect to a substantial portion of the group's portfolios, leveraging off the aforementioned IT framework.
- Documentation and implementation of the relevant control environment and related governance processes.

The following areas will continue to receive the required attention as the implementation of IFRS 9 progresses during the 2018 financial reporting period:

- Further refinement of certain models.
- Finalisation of the interim and year-end reporting and disclosure frameworks.
- Observing local and international industry trends with respect to IFRS 9 adoption.

The generic methodological differences between EL estimation, IAS 39 and IFRS 9 impairments are summarised in the table below:

Key parameters	Basel III	IAS 39	IFRS 9
PDs			
Intention of estimate	■ Average estimate of default within next 12 months.	■ Best estimate of likelihood and timing of credit losses over the loss identification period.	■ 12-month or lifetime default risk depending on credit quality of the asset.
Period of measurement	■ Long-run historical average over whole economic cycle – TTC.	■ Reflecting current economic conditions – PIT.	■ Reflecting current and future economic cycles to the extent relevant to the remaining life of the loan on a point in time (PIT) basis.
LGDs			
Intention of estimate	■ Average estimate of the discounted value of postdefault recoveries.	■ Current estimate of the discounted value of postdefault recoveries.	■ Estimate of the discounted value of postdefault recoveries.
Treatment of collection costs	■ Recoveries net of direct and indirect collection costs.	■ Recoveries net of direct cash collection costs only.	■ Recoveries net of direct cash collection costs only.
Discount rate	■ Recoveries discounted using the bank's CoE.	■ Cashflows discounted using instrument's original effective interest rate.	■ Cashflows discounted at the original effective interest rate of the instrument or an approximation thereof.
Period of measurement	■ Reflecting period of high credit losses. ■ Downturn loss given default (dLGD) required.	■ Reflecting current economic conditions – PIT.	■ Reflecting current and future economic cycles to the extent relevant to the remaining life of the loan.
EL			
Basis of exposure	■ EAD, which includes unutilised and contingent facilities.	■ Based on actual exposure (on balance sheet).	■ EAD, which includes unutilised and contingent facilities.

The key differences between IFRS 9 and IAS 39 that impact portfolio impairments on adoption of IFRS 9 are as follows:

- Under IAS 39 the PD is subject to an emergence period that varies by portfolio, whereas for IFRS 9:
  - for stage 1 an ECL is derived using 12 month PDs; and
  - for exposures that have been subject to a significant increase in credit risk, a lifetime ECL is calculated based on lifetime PD estimates.
- Further, IAS 39 is based on loans and advances only, while IFRS 9 uses EAD similar to Basel capital requirements and includes off-balance-sheet exposures (eg unutilised facilities or contingent exposures).

A final key difference impacting portfolio impairments after adoption of IFRS 9 is moving from a backward-looking 'incurred loss' approach to a forward-looking 'EL' approach:

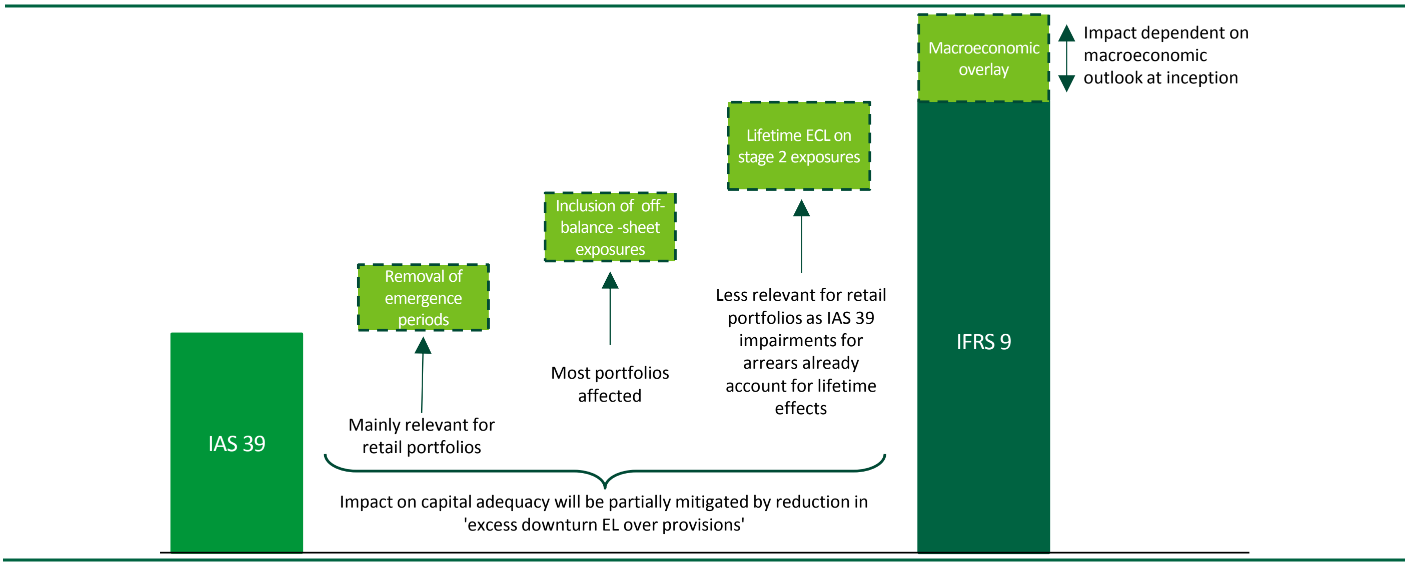
- IAS 39 reflects current economic conditions at a PIT, while IFRS 9 requires consideration of current and forecast economic conditions.

As credit RWA for defaulted exposures is based on the difference between specific impairments (or BEEL) and dEL, any change to the specific impairments under IFRS 9 will have an impact on credit RWA for defaulted exposures.

IFRS 9: Expected changes to income statement and balance sheet impairments

The implementation of the IFRS 9 ECL model requires increases in balance sheet impairments at 1 January 2018 of approximately R3,2bn, with reserves decreasing by approximately R2,3bn on an after-tax basis, but without impacting Nedbank's income statement. However, this decrease in reserves is partially mitigated by a lower capital deduction due to 'excess dEL over provisions' (December 2017: R2,0bn), which results in a less than 10 bps decrease in CARs.

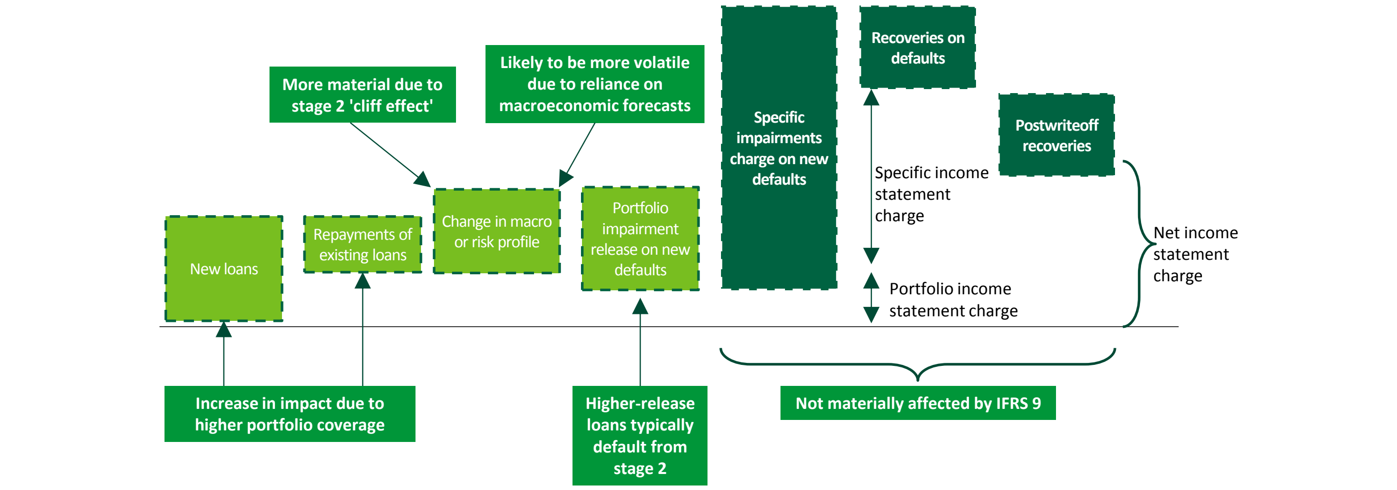
Drivers of impact on balance sheet impairments at inception (portfolio impairments)



After implementation there is potential for an increase in the volatility of the income statement charge due to changes in the macroeconomic outlook as well as 'cliff effects' for clients moving between stage 1 and 2; however, the actual long-run average credit losses will not be affected by IFRS 9, as client defaults and subsequent recoveries are not driven by accounting standards.

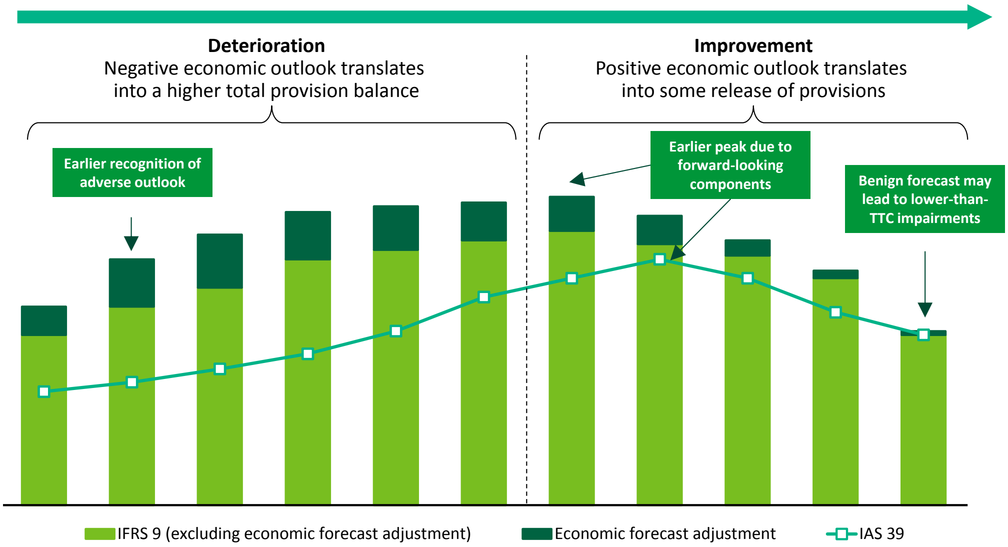
Expected impact on income statement impairments

IAS 39: Buildup of annual income statement charge



The overall income statement impact over the life of a deal will not change; however, losses will be recognised earlier and changes in the macroeconomic outlook may lead to interim increases or decreases in coverage levels.

Expected impact on balance sheet portfolio impairments



Source: National Australia Bank

Development of credit rating models

The three measures of risk that are used in an internal credit rating system are as follows:

- Probability of default (PD), which measures the likelihood of a client defaulting on credit obligations within the next 12 months (as per Basel III and banking regulations).
- Exposure at default (EAD), which quantifies the expected exposure on a particular facility at the time of default. EAD models consider the likelihood that a client would draw down against available facilities in the period leading up to default.
- Loss given default (LGD), which is the economic loss the group expects to incur on a particular facility should the client default (calculated in accordance with Basel III and the banking regulations). Basel III requires that banks use dLGD estimates in regulatory capital calculations, as PD and LGD may be correlated. dLGD is a measure defined as the losses occurring during economic downturn conditions.

The Basel III Pillar 1 models used for developing the key measures of PD, EAD and LGD form the cornerstone of Nedbank's internal rating and economic capital systems.

Each business cluster has developed a team of specialist quantitative analysts, who are responsible for the development and maintenance of the PD, LGD and EAD models. A team of suitably qualified individuals within GCRM, namely the CMVU, is responsible for the independent validation of all models, while GIA performs risk-based audits.

Nedbank makes use of a range of modelling approaches, as illustrated in the following diagram:

MODEL TYPE

MODEL CHARACTERISCTICS			
Constrained expert judgement scorecards	**Hybrid models**	**Statistical scorecards**	**Structural models**
■ These models are appropriate for certain low-default portfolios where there is insufficient data to perform robust statistical modelling. ■ A range of questions that allows for the differentiation of risk is developed in consultation with experts in the field. ■ These questions are structured to ensure objectivity during the rating process.	■ Hybrid models comprise the best of conventional statistical modelling techniques and constrained expert judgement. ■ These models are typically used for portfolios where there is insufficient data to develop robust statistical measures in isolation. ■ Statistical tests are still performed, but these are enhanced with the addition of input from credit experts.	■ These models represent conventional credit scoring and are developed utilising standardised statistical methodologies. ■ The techniques are well established and most suitable when large data volumes are available, such as in the case of retail portfolios.	■ Structural models such as cashflow simulation models are the most complex type of model. ■ In some instances the data requirements are also significant such as in the case of the workout models used to estimate LGD and EAD.

An overview of the rating approaches adopted across the various asset classes is as follows:

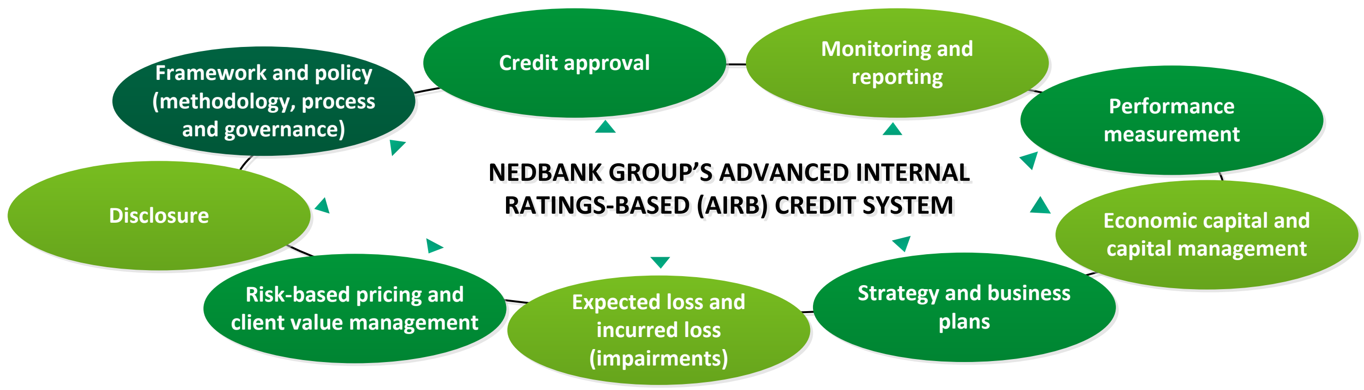
NATURE OF RATING SYSTEM

WHOLESALE RATING SYSTEM		RETAIL RATING SYSTEM	
Asset classes	**Modelling approaches adopted**	**Asset classes**	**Modelling approaches adopted**
■ Corporate ■ SME – corporate ■ Banks ■ Sovereign, public sector entities (PSEs) and local government and municipalities ■ Specialised lending, comprising: ☐ Project finance ☐ Commodity finance ☐ IPRE ☐ HVCRE	■ A range of modelling approaches is adopted across Nedbank's wholesale portfolios. ■ Hybrid models are typically used to measure PD, while structural EAD and workout LGD models are in place for most portfolios. ■ Models are typically developed using internal data, although external data has been used for the bank portfolio in view of the low number of defaults experienced in that portfolio. ■ Structural cashflow simulation models has been developed for the project finance, leveraged buyout and IPRE portfolios that provide estimates of PD and LGD. ■ The supervisory slotting approach is used for the HVCRE (development and vacant-land real-estate) portfolio. ■ Constrained expert judgement models.	■ Retail mortgages ■ Retail revolving credit ■ SME – retail ■ Retail other, comprising: ☐ Overdrafts ☐ Unsecured lending ☐ Vehicle and asset finance	■ A number of statistical PD models have been developed for the various retail portfolios. ■ Both application stage and behavioural PD models are utilised in most portfolios. ■ Application models are developed using a combination of internal and external (credit bureau) data, while internal data is used to develop behavioural models. ■ Given the large data volumes available for these portfolios, pure statistical techniques are applied. ■ EAD and LGD models are in use across all material portfolios, which have been developed using the group's own default experience.

Whenever possible, PD models are calibrated to long-term default and loss rates, ensuring that capital estimates meet regulatory requirements. Where suitably robust default rates are not available, for example in the case of low-default portfolios, external data sources such as external ratings are included to ensure appropriate calibration.

The risk estimates generated from Nedbank's internal models are used across the credit process in running the business, as summarised in the following diagram:

Overview of Nedbank's use of its Advanced Internal Ratings-based Approach credit system



The Group Credit Policy incorporates the minimum requirements stipulated in the revised SA banking regulations as well as Nedbank's aspiration to best-practice credit risk management. This policy is implemented across the group, with detailed and documented policies and procedures, suitably adapted for use by the various business units. The policy forms the cornerstone for sound credit risk management, as it provides a firm framework for credit granting as well as the subsequent monitoring of credit risk exposures.

Nedbank's master credit rating scale

Nedbank uses two master rating scales for measuring credit risk. The first rating scale measures borrower default risk without the effect of collateral and any CRM (ie PD only), while the second measures transaction risk (ie EL), which incorporates the effect of collateral, any other CRM and recovery rates.

All credit applications are required to carry the borrower PD rating [from the Nedbank Group Rating (NGR) master rating scale] and an estimate of LGD.

PD MASTER RATING (NGR) SCALE – INTERNATIONAL SCALE

Rating category	Rating grade	Geometric mean (%)	PD band (%) Lower bound (PD >)	PD band (%) Upper bound (PD ≤)	Mapping to Standard & Poor's grades[1]	Mapping to
Performing	NGR01	0,010	0,000	0,012	AAA	0,00 to < 0,15
	NGR02	0,014	0,012	0,017		
	NGR03	0,020	0,017	0,024	AA+	
	NGR04	0,028	0,024	0,034		
	NGR05	0,040	0,034	0,048	AA	
	NGR06	0,057	0,048	0,067	AA-	
	NGR07	0,080	0,067	0,095	A+	
	NGR08	0,113	0,095	0,135	A	
	NGR09	0,160	0,135	0,190	A-	0,15 to < 0,25
	NGR10	0,226	0,190	0,269	BBB+	
	NGR11	0,320	0,269	0,381	BBB	0,25 to < 0,50
	NGR12	0,453	0,381	0,538	BBB-	
	NGR13	0,640	0,538	0,761	BB+	0,50 to < 0,75
	NGR14	0,905	0,761	1,076	BB	
	NGR15	1,280	1,076	1,522	BB-	0,75 to < 2,50
	NGR16	1,810	1,522	2,153		
	NGR17	2,560	2,153	3,044	B+	2,50 to < 10,00
	NGR18	3,620	3,044	4,305		
	NGR19	5,120	4,305	6,089	B	
	NGR20	7,241	6,089	8,611		
	NGR21	10,240	8,611	12,177	B-	10,00 to < 100,00
	NGR22	14,482	12,177	17,222		
	NGR23	20,480	17,222	24,355	CCC	
	NGR24	28,963	24,355	34,443	CC	
	NGR25	40,960	34,443	99,999	-C	
Non-performing (defaulted)	NP1	100	100	100	D	100,00 (Default)
	NP2	100			D	
	NP3	100			D	

[1] *The indicative mapping methodology for corporate exposures was amended during 2016, based on default information published by the rating agency.*

The comprehensive PD rating scale, which is mapped to default probabilities, enables the bank to rate all borrowers on a single scale, whether they are lower-risk corporate or higher-risk retail borrowers. The principal benefit thereof is that comparisons can be made between the riskiness of borrowers making up various portfolios. A brief explanation of the scale follows on the next page.

NGR21 to NGR25 represent very-high-risk borrowers with default probabilities greater than 8,6%. While many banks would generally not knowingly expose themselves to this degree of risk, these rating grades exist for the following reasons:

- Being in an emerging market, there are times when local banks would be willing to take on this level of risk, while pricing appropriately.
- There may be times when the consequences of not lending may be more severe than lending – eg in the case of a marginal going concern with existing loans but a strong business plan.
- They cater for borrowers that were healthy but have migrated down the rating scale to the point of being near default.
- From time to time the bank may grant facilities to very risky borrowers on the basis of significant collateral offered. This particular rating scale measures only the likelihood of the borrower defaulting and does not recognise that a very high level of default risk may well have been successfully mitigated with collateral.

NP1 applies to recent defaults, NP2 represents those accounts in respect of which the bank is proceeding to legal recovery of money owing and NP3 is for long-term legal cases exceeding a period of 12 months.

Basel III requires that AIRB banks maintain two ratings for wholesale exposures, one measuring the probability of the borrower defaulting and the second considering facility characteristics. The Nedbank Group Transaction Rating (NTR) table below combines these by reflecting the EL (the product of the PD, LGD and EAD) as a percentage of EAD and contains 10 rating bands. The first three bands represent facilities of low risk, the next three bands are facilities of average risk and the final four bands indicate facilities of high or very high risk.

EXPECTED LOSS TRANSACTION RATING SCALE (NTR)

	Expected loss as a percentage of EAD	
Rating class	Lower bound (EL >)	Upper bound (EL ≤)
NTR01	0,00	0,05
NTR02	0,05	0,10
NTR03	0,10	0,20
NTR04	0,20	0,40
NTR05	0,40	0,80
NTR06	0,80	1,60
NTR07	1,60	3,20
NTR08	3,20	6,40
NTR09	6,40	12,80
NTR10	12,80	100,00

- The NTR scale measures the total or overall credit risk (ie EL) of individual exposures, thereby allowing credit officers to consider the mitigating effect of collateral, other CRM and recovery rates on borrower risk. This reflects the true or complete measurement of credit risk, incorporating not only PD, but importantly also LGD.
- Credit risk reporting across the group is, to a large extent, based on the twin rating scales discussed above. Business units report on the distribution of their credit exposures across the various rating scales and explain any changes in such distribution, including the migration of exposures between rating grades and underlying reasons for the migration.
- External credit assessment agencies and export credit agencies (ECA) ratings are used indirectly as inputs into rating models for the bank and sovereign and securitisation asset classes. During 2017 there were no changes in the external credit assessment institutions (ECAIs) and ECA utilised. Moody's, Fitch and Standard & Poor's ratings are used, mainly for exposures in the bank, sovereign and securitisation asset classes. The respective definitions of default of the ECAIs are compared to the internal definition of default and the external ratings mapped to the internal masterscale in a consistent manner.

CR6: AIRB – CREDIT RISK EXPOSURE BY PORTFOLIO AND PD RANGE

2017 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity Years	RWA Rm	RWA density %	EL Rm	Provisions Rm
Corporate												
0,00 to < 0,15	66 915	48 918	0,67	98 970	0,08	7 102	30,86	1,58	14 362	14,51	26	
0,15 to < 0,25	30 808	18 888	0,74	44 739	0,20	4 465	31,58	1,71	12 387	27,69	29	
0,25 to < 0,50	41 587	13 364	0,80	50 405	0,37	11 631	25,48	1,63	15 396	30,54	48	
0,50 to < 0,75	12 881	4 241	3,10	10 306	0,64	3 773	27,43	1,81	4 416	42,85	18	
0,75 to < 2,50	32 118	8 385	0,79	38 670	1,36	13 530	31,42	2,09	26 654	68,93	165	
2,50 to < 10,00	22 765	7 722	0,78	28 754	4,31	22 242	31,04	1,90	27 091	94,22	413	
10,00 to < 100,00	3 733	1 606	0,70	4 798	21,88	1 665	48,52	1,93	12 060	251,36	575	
100,00 (default)	2 337	716	0,39	2 614	100,00	1 444	28,73	2,25	3 466	132,60	644	
	213 144	103 840	0,69	279 256	2,09	65 852	30,25	1,73	115 832	41,48	1 918	1 963
Specialised lending[1]												
0,00 to < 0,15	34 648	2 621	1,69	39 081	0,07	1 116	16,27	3,58	4 836	12,37	9	
0,15 to < 0,25	22 017	403	3,10	23 266	0,19	441	18,50	3,44	4 995	21,47	9	
0,25 to < 0,50	21 419	2 259	1,04	23 768	0,39	566	20,16	4,09	8 971	37,75	19	
0,50 to < 0,75	8 584	120	7,18	9 445	0,64	501	16,59	3,40	3 277	34,70	11	
0,75 to < 2,50	21 567	731	2,80	23 620	1,32	1 314	16,80	3,61	10 713	45,36	57	
2,50 to < 10,00	19 888	374	2,99	21 007	4,43	2 661	17,76	3,28	13 637	64,92	176	
10,00 to < 100,00	3 273	9	14,67	3 404	21,55	233	21,71	3,85	4 251	124,89	163	
100,00 (default)	752			752	100,00	51	17,69	1,56	896	119,04	105	
	132 148	6 517	1,87	144 343	2,05	6 883	17,73	3,59	51 576	35,73	549	549
Public sector entities												
0,00 to < 0,15	9 942	1 718	0,78	11 285	0,04	763	47,45	1,94	1 232	10,92	2	
0,15 to < 0,25	9 108	282	1,82	9 622	0,16	286	20,88	3,52	2 167	22,52	4	
0,25 to < 0,50	260			262	0,45	153	15,35	4,09	76	28,81		
0,50 to < 0,75	254	6	1,00	260	0,64	120	27,15	4,88	177	68,02		
0,75 to < 2,50	74	17	1,11	94	1,71	152	28,41	2,74	68	72,58	10	
2,50 to < 10,00	219	1 615	1,00	1 829	3,62	203	57,89	1,00	2 923	159,80	39	
10,00 to < 100,00	26			26	20,48	2	12,60	1,00	18	66,55	1	
100,00 (default)												
	19 883	3 638	0,96	23 378	0,41	1 679	36,63	2,58	6 661	28,49	56	22

2017 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity Years	RWA Rm	RWA density %	EL Rm	Provisions Rm
Local government and municipalities												
0,00 to < 0,15	5 040	88	2,44	5 255	0,07	87	17,92	4,47	823	15,67	1	
0,15 to < 0,25	3 061			3 111	0,23	51	17,08	3,36	683	21,96	1	
0,25 to < 0,50	174	3	1,67	179	0,44	11	25,66	4,84	100	55,78		
0,50 to < 0,75	79	4	1,33	83	0,64	13	30,72	4,18	57	69,15		
0,75 to < 2,50	8	9	0,70	15	1,06	15	28,52	1,70	10	63,19		
2,50 to < 10,00		1	1,00	1	2,56	7	22,47	0,94		54,75		
10,00 to < 100,00												
100,00 (default)	27			26	100,00	2	26,40	5,00			7	
	8 389	105	2,71	8 670	0,45	186	17,94	4,08	1 673	19,31	9	16
Sovereign												
0,00 to < 0,15	96 807	653	0,71	97 272	0,02	8 985	17,33	2,10	4 614	4,74	4	
0,15 to < 0,25	660			673	0,19	45	42,95	3,30	381	56,67	1	
0,25 to < 0,50												
0,50 to < 0,75	1 829			1 835	0,64	47	49,50	2,68	1 820	99,16	6	
0,75 to < 2,50												
2,50 to < 10,00	113			115	5,71	23	65,90	3,32	300	260,09	4	
10,00 to < 100,00	22			23	13,07	3	58,59	2,23	65	289,05	2	
100,00 (default)												
	99 431	653	0,75	99 918	0,04	9 103	18,15	2,12	7 180	7,19	17	184
Banks												
0,00 to < 0,15	11 519	249	1,86	11 981	0,08	507	26,80	1,18	1 566	13,07	3	
0,15 to < 0,25	9 384	138	(11,54)	9 684	0,16	855	21,00	1,25	1 738	17,95	4	
0,25 to < 0,50	657	464	0,79	1 020	0,44	291	31,30	0,99	454	44,49	2	
0,50 to < 0,75	106	3	2,00	108	0,64	324	29,81	2,86	70	65,02		
0,75 to < 2,50	5			5	1,08	38	43,29	1,00	5	97,06	2	
2,50 to < 10,00	636	461	(2,92)	1 094	4,26	124	49,94	0,61	1 602	146,36	24	
10,00 to < 100,00		529	1,00	529	19,66	33	56,52	0,47	1 394	263,54	54	
100,00 (default)												
	22 307	1 844	2,00	24 421	0,74	2 172	26,38	1,17	6 829	27,96	89	7

2017 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity Years	RWA Rm	RWA density %	EL Rm	Provisions Rm
Retail – mortgages												
0,00 to < 0,15	1 410	5 350	1,00	6 777	0,07	26 772	10,95	10,58	145	2,14	1	
0,15 to < 0,25	7 403	4 065	1,06	11 692	0,19	19 934	11,58	15,15	562	4,80	3	
0,25 to < 0,50	17 260	6 347	1,07	24 027	0,40	34 302	11,34	14,73	1 924	8,01	11	
0,50 to < 0,75	13 246	3 242	1,10	16 816	0,64	28 885	11,74	14,93	1 937	11,52	13	
0,75 to < 2,50	38 134	3 209	1,33	42 402	1,26	68 323	12,59	16,65	8 205	19,35	68	
2,50 to < 10,00	29 450	1 402	1,04	30 907	3,88	61 054	13,66	17,85	12 720	41,16	167	
10,00 to < 100,00	13 367	198	2,06	13 775	20,89	27 371	13,72	17,20	10 419	75,64	395	
100,00 (default)	5 933	351	0,06	5 953	100,00	10 833	15,16	17,21	705	11,85	1 140	
	126 203	24 164	1,08	152 349	7,09	277 474	12,57	16,01	36 617	24,04	1 798	1 514
Retail – revolving credit												
0,00 to < 0,15		19	0,16	3	0,11	1 243	35,36			2,50		
0,15 to < 0,25	449	2 257	0,28	1 073	0,21	62 495	46,76		60	5,57	1	
0,25 to < 0,50	1 034	3 223	0,25	1 839	0,39	113 890	52,34		187	10,17	4	
0,50 to < 0,75	504	1 221	0,49	1 107	0,64	79 149	56,02		178	16,09	4	
0,75 to < 2,50	3 350	5 144	0,25	4 624	1,37	303 776	52,27		1 239	26,79	33	
2,50 to < 10,00	4 457	3 789	0,46	6 197	4,98	615 295	53,29		4 155	67,05	165	
10,00 to < 100,00	4 212	1 187	0,55	4 862	21,08	387 504	54,39		6 868	141,24	559	
100,00 (default)	1 595			1 595	100,00	2 756 927	56,42		238	14,87	1 335	
	15 601	16 840	0,34	21 300	14,13	4 320 279	53,28		12 925	60,67	2 101	1 480
SME – retail												
0,00 to < 0,15	149	160	0,74	268	0,09	1 623	17,20	1,46	11	4,15		
0,15 to < 0,25	447	580	0,52	750	0,21	5 676	20,73	2,67	68	9,02		
0,25 to < 0,50	1 457	1 994	0,62	2 697	0,42	16 401	19,44	3,20	358	13,28	2	
0,50 to < 0,75	1 597	1 246	0,72	2 500	0,64	13 616	20,98	3,27	457	18,28	3	
0,75 to < 2,50	10 778	4 438	0,81	14 374	1,35	37 502	20,68	3,53	3 560	24,77	41	
2,50 to < 10,00	16 989	4 735	0,70	20 293	5,16	130 985	28,02	2,53	8 941	44,06	312	
10,00 to < 100,00	2 015	708	0,19	2 150	18,76	10 000	23,46	2,16	1 104	51,32	97	
100,00 (default)	1 498	199	0,04	1 506	100,00	21 550	29,64	2,37	705	46,85	673	
	34 930	14 060	0,68	44 538	7,14	237 353	24,38	2,91	15 204	34,14	1 128	1 017

2017 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity Years	RWA Rm	RWA density %	EL Rm	Provisions Rm
Retail – other												
0,00 to < 0,15	10	77	0,99	87	0,06	666	41,31	8,49	7	7,76		
0,15 to < 0,25	5	70	0,90	68	0,19	324	27,91	10,81	8	11,37		
0,25 to < 0,50	93	216	0,69	242	0,35	881	38,15	9,93	56	22,98		
0,50 to < 0,75	156	54	0,65	192	0,64	5 029	38,78	8,59	65	33,80		
0,75 to < 2,50	9 006	228	0,56	9 133	1,64	107 096	27,12	4,22	3 154	34,53	40	
2,50 to < 10,00	66 512	191	0,78	66 660	4,17	540 503	30,05	4,19	30 721	46,09	878	
10,00 to < 100,00	25 876	64	0,88	25 932	21,62	311 448	35,69	4,22	21 032	81,10	1 991	
100,00 (default)	5 973			5 973	100,00	161 517	41,00	4,28	1 025	17,17	2 635	
	107 631	900	0,73	108 287	13,40	1 127 464	31,79	4,28	56 068	51,78	5 544	4 474
Group												
0,00 to < 0,15	226 440	59 853	0,76	270 979	0,05	48 864	23,65	2,07	27 596	10,18	46	
0,15 to < 0,25	83 342	26 683	0,81	104 678	0,19	94 572	24,19	2,19	23 049	22,02	52	
0,25 to < 0,50	83 941	27 870	0,80	104 439	0,38	178 126	21,39	1,98	27 522	26,35	86	
0,50 to < 0,75	39 236	10 137	0,67	42 652	0,64	131 457	20,22	1,89	12 454	29,20	55	
0,75 to < 2,50	115 040	22 161	0,81	132 937	1,34	531 746	22,08	1,88	53 608	40,33	416	
2,50 to < 10,00	161 029	20 290	0,81	176 857	4,31	1 373 097	26,90	1,13	102 090	57,73	2 178	
10,00 to < 100,00	52 524	4 301	0,71	55 499	21,28	738 259	31,85	0,56	57 211	103,08	3 837	
100,00 (default)	18 115	1 266	0,24	18 419	100,00	2 952 324	30,34	0,77	7 035	38,19	6 539	
Total group	779 667	172 561	0,78	906 460	4,49	6 048 445	24,33	1,74	310 565[1]	34,26	13 209	11 226
Slotting exposure	7 288								8 918		177	153
Total including slotting	786 955								319 483		13 386	11 379

[1] *RWA excludes Specialised lending – HVCRE, which is included under the Slotting Approach.*

2016 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity[2] Years	RWA Rm	RWA density %	EL Rm	Provisions[2] Rm
Corporate												
0,00 to < 0,15	74 826	32 163	73,96	98 327	0,08	475	32,17	1,98	17 366	17,67	22	
0,15 to < 0,25	38 369	23 686	64,08	53 319	0,18	336	30,19	1,68	12 847	24,11	27	
0,25 to < 0,50	34 966	14 966	84,08	46 563	0,38	400	26,39	1,71	14 861	32,20	41	
0,50 to < 0,75	21 958	7 874	17,03	23 052	0,75	501	30,48	2,10	12 270	53,20	43	
0,75 to < 2,50	20 308	6 097	93,26	25 537	1,55	759	25,57	2,25	15 416	60,62	94	
2,50 to < 10,00	27 134	8 401	83,03	33 713	4,37	1 319	32,62	1,91	33 259	99,04	466	
10,00 to < 100,00	5 187	1 575	68,55	6 198	13,17	91	31,58	1,83	8 951	144,72	261	
100,00 (default)	3 004	521	29,83	3 150	100,00	113	33,04	1,48	2 759	88,97	887	
	225 752	95 283	70,20	289 859	2,20	3 994	30,21	1,90	117 729	40,76	1 841	2 370
Specialised lending[1]												
0,00 to < 0,15	30 955	1 132	> 150	33 834	0,06	645	17,30	3,49	3 772	11,15	4	
0,15 to < 0,25	13 070	315	> 150	14 005	0,20	217	21,22	4,21	4 200	29,82	6	
0,25 to < 0,50	17 274	1 210	> 150	18 790	0,38	362	18,65	3,78	6 147	32,82	13	
0,50 to < 0,75	14 524	736	> 150	15 710	0,77	747	21,54	3,85	8 175	49,82	16	
0,75 to < 2,50	15 975	844	> 150	17 582	1,48	777	17,16	3,76	8 538	48,23	44	
2,50 to < 10,00	23 081	1 144	139,29	24 665	4,64	666	19,92	3,05	18 013	73,02	235	
10,00 to < 100,00	2 216	40	> 150	2 340	14,50	184	17,13	3,10	2 057	87,91	49	
100,00 (default)	1 096			1 096	100,00	48	20,94	2,20	911	83,13	248	
	118 191	5 421	> 150	128 022	2,41	3 646	18,96	3,59	51 813	40,23	615	555
Public sector entities												
0,00 to < 0,15	13 383	4 495	58,98	16 034	0,07	18	32,71	2,81	2 061	12,85	2	
0,15 to < 0,25	2 557	15	> 150	2 655	0,16	3	12,62	4,98	475	17,91	1	
0,25 to < 0,50												
0,50 to < 0,75	1 766	4	> 150	1 783	0,82	5	18,51	3,20	723	40,55	3	
0,75 to < 2,50	975	384	112,42	1 406	1,42	4	54,56	1,68	1 523	108,31	10	
2,50 to < 10,00	50	1 718	100,15	1 771	3,62	1	49,40	1,47	2 532	143,00	32	
10,00 to < 100,00												
100,00 (default)												
	18 731	6 616	74,35	23 649	0,48	31	31,94	2,92	7 314	30,93	48	23

2016 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity[2] Years	RWA Rm	RWA density %	EL Rm	Provisions[2] Rm
Local government and municipalities												
0,00 to < 0,15	8 324	1 234	91,98	9 459	0,09	10	13,98	3,89	1 105	11,68	1	
0,15 to < 0,25	609			618	0,16	3	19,22	4,39	155	25,03		
0,25 to < 0,50	24	62	55,77	59	0,45	4	18,16	2,28	16	27,83		
0,50 to < 0,75	52	9	77,66	59	0,79	9	19,72	3,90	28	46,88		
0,75 to < 2,50												
2,50 to < 10,00												
10,00 to < 100,00												
100,00 (default)	31			31	100,00	1	19,50	5,00			8	
	9 040	1 305	90,85	10 226	0,40	27	14,37	3,92	1 304	12,75	9	9
Sovereign												
0,00 to < 0,15	99 533	1 108	23,65	99 795	0,01	13	13,01	2,50	2 612	2,62	2	
0,15 to < 0,25		142	55,55	79	0,18		67,80	3,94	67	84,58		
0,25 to < 0,50	858			858	0,45	1	37,90	1,48	420	48,99	1	
0,50 to < 0,75												
0,75 to < 2,50												
2,50 to < 10,00	60			61	5,28	4	65,20	1,98	137	224,36	2	
10,00 to < 100,00					10,24	1	67,80	5,00	1	357,14		
100,00 (default)												
	100 451	1 250	27,38	100 793	0,02	19	13,30	2,49	3 237	3,21	5	2
Banks												
0,00 to < 0,15	27 039	112	> 150	27 683	0,09	79	24,99	1,20	3 623	13,09	6	
0,15 to < 0,25	5 118	285	132,92	5 496	0,18	13	22,93	1,59	1 253	22,80	2	
0,25 to < 0,50	2 183	266	85,55	2 410	0,45	21	29,29	1,30	1 100	45,64	3	
0,50 to < 0,75	7	1	> 150	33	0,88	7	42,88	0,99	29	89,32		
0,75 to < 2,50					1,81	3	34,69	1,00		75,56		
2,50 to < 10,00	61	652	100,37	716	3,80	23	49,87	1,07	1 078	150,63	14	
10,00 to < 100,00	494	144	106,32	647	25,39	8	65,13	0,91	2 235	345,52	106	
100,00 (default)												
	34 902	1 460	142,84	36 985	0,64	154	26,17	1,26	9 318	25,19	131	37

2016 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity[2] Years	RWA Rm	RWA density %	EL Rm	Provisions[2] Rm
Securities firms												
0,00 to < 0,15												
0,15 to < 0,25												
0,25 to < 0,50	< 1			< 1	0,32	1	49,23	1,00	< 1	46,81	< 1	
0,50 to < 0,75												
0,75 to < 2,50												
2,50 to < 10,00												
10,00 to < 100,00												
100,00 (default)												
	< 1			< 1	0,32	1	49,23	1,00	< 1	46,81	< 1	1
Retail – mortgages												
0,00 to < 0,15	4 190	2 852	82,25	6 535	0,06	8 091	14,52	14,77	168	2,58	1	
0,15 to < 0,25	5 451	6 715	93,14	11 705	0,72	19 332	15,73	13,96	1 422	12,13	3	
0,25 to < 0,50	18 886	6 855	89,04	24 990	0,40	53 536	14,68	14,90	2 563	10,25	15	
0,50 to < 0,75	25 285	4 043	97,09	29 211	0,76	67 269	15,41	15,10	4 946	16,93	34	
0,75 to < 2,50	17 282	1 575	131,05	19 347	1,51	31 866	15,37	16,66	5 158	26,66	45	
2,50 to < 10,00	30 796	1 578	87,98	32 184	4,11	63 321	16,79	18,13	16 742	52,02	227	
10,00 to < 100,00	12 256	143	> 150	12 537	22,29	25 877	16,88	17,49	11 907	94,97	471	
100,00 (default)	5 982	432	4,00	5 999	100,00	10 746	18,65	17,30	985	16,42	1 252	
	120 128	24 193	92,51	142 508	7,59	280 038	15,84	16,18	43 891	30,80	2 048	1 669
Retail – revolving credit												
0,00 to < 0,15	12	120	15,01	30	0,11	7 833	35,78		1	2,53		
0,15 to < 0,25	410	2 400	30,92	1 152	0,21	78 754	46,61		64	5,60	1	
0,25 to < 0,50	1 287	3 806	27,74	2 343	0,39	177 189	51,11		232	9,92	5	
0,50 to < 0,75	2 041	3 395	38,05	3 332	0,79	220 337	52,31		585	17,55	14	
0,75 to < 2,50	1 982	2 682	30,68	2 804	1,42	194 292	51,95		769	27,43	21	
2,50 to < 10,00	4 703	3 378	57,37	6 640	5,41	1 357 419	53,21		4 739	71,37	193	
10,00 to < 100,00	3 087	847	64,65	3 634	22,32	326 080	54,05		5 196	142,98	439	
100,00 (default)	1 488			1 488	100,00	2 408 814	55,94		83	5,55	1 299	
	15 010	16 628	38,58	21 423	12,77	4 770 718	52,63		11 669	54,47	1 972	1 512

2016 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity[2] Years	RWA Rm	RWA density %	EL Rm	Provisions[2] Rm
SME – retail												
0,00 to < 0,15	85	200	34,26	154	0,09	2 336	23,79	2,40	9	5,78		
0,15 to < 0,25	314	475	56,04	580	0,21	3 499	24,75	2,81	63	10,84		
0,25 to < 0,50	1 355	1 864	64,27	2 553	0,43	10 003	21,14	3,36	370	14,50	2	
0,50 to < 0,75	4 693	3 353	63,39	6 819	0,81	10 570	22,94	3,70	1 527	22,39	13	
0,75 to < 2,50	7 509	2 354	87,27	9 563	1,56	6 778	22,76	3,49	2 757	28,83	34	
2,50 to < 10,00	16 735	4 233	76,39	19 969	5,01	103 245	28,97	2,48	9 051	45,33	307	
10,00 to < 100,00	1 828	986	20,80	2 034	18,67	6 830	26,12	2,11	1 154	56,75	101	
100,00 (default)	1 576	274	2,58	1 583	100,00	11 749	28,47	2,62	856	54,04	709	
	34 095	13 739	66,66	43 255	7,35	155 010	25,95	2,94	15 787	36,50	1 166	1 191
Retail – other												
0,00 to < 0,15	13	3	9,76	13	0,11	202	50,90	3,45	2	14,63	< 1	
0,15 to < 0,25	26	145	101,86	173	0,20	418	31,55	7,12	23	13,52	< 1	
0,25 to < 0,50	56	163	61,12	155	0,39	532	29,64	6,27	29	18,84	< 1	
0,50 to < 0,75	1 307	285	70,82	1 509	0,85	11 246	31,47	8,77	471	31,21	4	
0,75 to < 2,50	7 830	133	91,03	7 951	1,43	111 695	29,59	4,33	2 900	36,48	34	
2,50 to < 10,00	65 396	165	78,52	65 526	3,90	567 858	30,92	4,17	30 747	46,92	826	
10,00 to < 100,00	20 018	60	73,18	20 062	22,28	290 313	39,11	4,14	17 884	89,14	1 718	
100,00 (default)	5 057			5 057	100,00	169 007	44,39	4,30	813	16,08	2 513	
	99 703	954	77,95	100 446	12,15	1 151 271	33,14	4,29	52 869	52,63	5 095	4 117
Group												
0,00 to < 0,15	258 360	43 419	77,17	291 864	0,06	19 704	22,26	2,32	30 719	10,53	38	
0,15 to < 0,25	65 924	34 178	69,81	89 782	0,25	102 575	26,08	2,11	20 569	22,91	40	
0,25 to < 0,50	76 889	29 192	74,79	98 721	0,39	242 049	22,58	1,82	25 738	26,07	80	
0,50 to < 0,75	71 633	19 700	50,14	81 508	0,77	310 691	23,37	1,94	28 754	35,28	127	
0,75 to < 2,50	71 861	14 069	87,64	84 190	1,51	346 174	22,89	2,26	37 061	44,02	282	
2,50 to < 10,00	168 016	21 269	81,00	185 245	4,29	2 093 856	28,16	1,18	116 298	62,78	2 302	
10,00 to < 100,00	45 086	3 795	62,38	47 452	20,60	649 384	32,11	0,58	49 385	104,07	3 145	
100,00 (default)	18 234	1 227	13,88	18 404	100,00	2 600 478	32,18	0,83	6 407	34,81	6 916	
Total group	776 003	166 849	72,62	897 166	4,32	6 364 911	24,78	1,85	314 931[1]	35,10	12 930	11 486
Slotting exposure	6 561								8 624		234	176
Total including slotting	783 717								323 555		13 164	11 662

[1] *RWA excludes Specialised lending – HVCRE, which is included under the Slotting Approach.*

[2] *2016 restated to correct the asset class split of provisions and effective maturities for the retail asset classes.*

CR7: AIRB – EFFECT ON RWA OF CREDIT RISK DERIVATIVES USED AS CRM TECHNIQUES[1]

		2017		2016	
Rm		**Pre-credit derivatives RWA[2]**	**Actual RWA[2]**	Pre-credit derivatives RWA[2]	Actual RWA[2]
1	Sovereign – Foundation Internal Ratings-based (FIRB)				
2	Sovereign – AIRB	**7 180**	**7 180**	3 237	3 237
3	Banks – FIRB				
4	Banks – AIRB	**6 829**	**6 829**	9 318	9 318
5	Corporate – FIRB				
6	Corporate – AIRB	**115 832**	**115 832**	117 729	117 729
7	Specialised lending – FIRB				
8	Specialised lending – AIRB	**51 576**	**51 576**	51 813	51 813
9	Retail – qualifying revolving	**12 925**	**12 925**	11 669	11 669
10	Retail – residential mortgage exposures	**36 617**	**36 617**	43 891	43 891
11	Retail –SME	**15 204**	**15 204**	15 787	15 787
12	Other retail exposures	**56 068**	**56 068**	52 869	52 869
13	Equity – FIRB				
14	Equity – AIRB				
15	Purchased receivables – FIRB				
16	Purchased receivables – AIRB				
	Public sector entities – AIRB	**6 661**	**6 661**	7 314	7 314
	Local government and municipalities – AIRB	**1 673**	**1 673**	1 304	1 304
17	**Total**	**310 565**	**310 565**	314 931	314 931
	Slotting exposure	**8 918**	**8 918**	8 624	8 624
	Total including slotting exposure	**319 483**	**319 483**	323 555	323 555

[1] No credit derivatives were applied as CRM during the year.

[2] RWA excludes Specialised lending – HVCRE, which is included under the Slotting Approach.

CR8: RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER AIRB

		2017	2016
Rm		**RWA[1]**	RWA[1]
1	**RWA at the end of the previous reporting period**	**323 555**	348 196
2	Asset size	**(1 324)**	18 338
3	Asset quality	**9 224**	(10 976)
4	Model updates	**(11 839)**	(26 671)
5	Methodology and policy		(2 100)
6	Acquisitions and disposals		
7	Foreign exchange movements	**(133)**	(3 232)
8	Other		
9	**RWA at the end of the reporting period**	**319 483**	323 555

[1] RWA includes Specialised lending – HVCRE.

Credit loss ratio

Despite subdued economic conditions, Nedbank has maintained a low CLR of 0,49%, which is below the TTC target range of 0,6% to 1,0%. All business units were below or within their TTC target ranges, with the exception of RoA.

Overall improvement in CLR was as a result of lower growth and lower losses in the wholesale portfolio, which led to impairment releases following improved collections, coupled with historical selective origination improving the quality of the book, which has proactively limited downside risk.

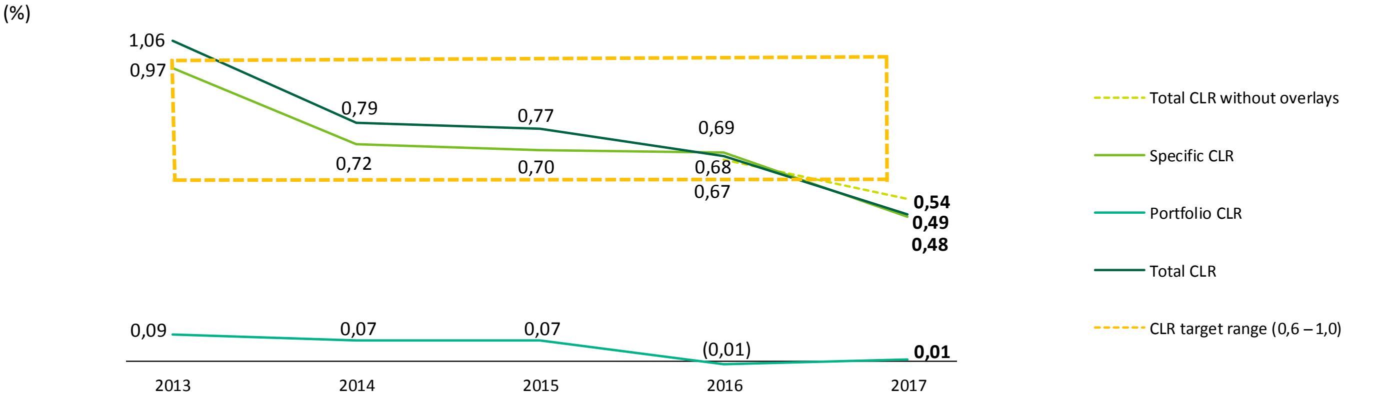
- CIB's CLR improved to 0,06% and remained below the TTC target range of 0,15% to 0,45%, with specific impairment releases as a result of proactive management of the defaulted portfolio, as well as prudent risk management in the overall portfolio. Although the CIB portfolio contracted, the portfolio performed well across all business units as positive risk management countered losses.
- RBB's CLR improved to 1,06% and remained below the TTC target range of 1,30% to 1,80%, with all business units within risk appetite. Lower impairments were driven by the release of overlays and better quality of the portfolio.
- The RoA CLR increased to 1,02%, above the TTC target range of 0,65% to 1,00%, in line with gross loans and advances growth.
- Wealth's CLR increased to 0,09%, remaining below the TTC target range of 0,20% to 0,40%.

The central provision decreased to R150m (2016: R500m) due to risk that has materialised or has been adequately resolved. The remaining R150m is retained to ensure adequate coverage for emerging risks.

CREDIT LOSS RATIO PER BUSINESS CLUSTER

%	Nedbank CIB	Nedbank CIB excluding Property Finance	Property Finance	Nedbank RBB	Nedbank Business Banking	Nedbank Retail	Nedbank Wealth	Rest of Africa	Nedbank Group
TTC target ranges	**0,15–0,45**			**1,30–1,80**			**0,20–0,40**	**0,65–1,00**	**0,60–1,00**
2017									
Total CLR	**0,06**	**0,10**	**(0,05)**	**1,06**	**0,12**	**1,32**	**0,09**	**1,02**	**0,49**
Specific CLR	**(0,10)**	**0,04**	**(0,04)**	**1,08**	**0,17**	**1,33**	**0,08**	**1,34**	**0,48**
Portfolio CLR	**0,16**	**0,06**	**(0,01)**	**(0,02)**	**(0,05)**	**(0,01)**	**0,01**	**(0,32)**	**0,01**
2016									
Total CLR	0,34	0,53	0,04	1,12	0,26	1,37	0,08	0,98	0,68
Specific CLR	0,33	0,52	0,02	1,12	0,26	1,38	0,06	1,12	0,69
Portfolio CLR	0,01	0,01	0,02	(0,00)	0,00	(0,01)	0,02	(0,14)	(0,01)

Nedbank Group credit loss ratio trends

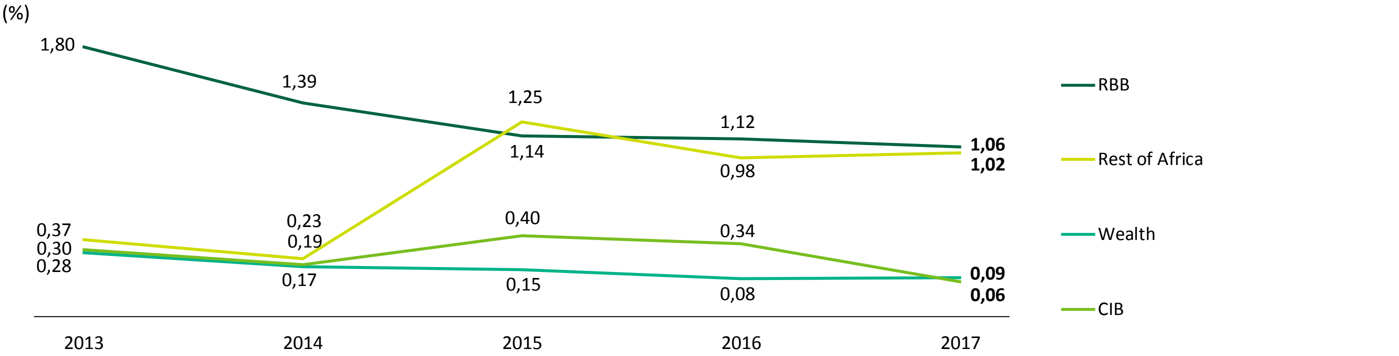


SUMMARY OF THE CREDIT LOSS RATIO BY BUSINESS UNIT

	Mix of average banking advances		Impairments charge (net of recoveries)				Credit loss ratio	
	2017	2016	**2017**		2016		**2017**	2016
	%	%	**Rm**	**Mix**	Rm	Mix	**%**	%
Nedbank Group	**100,0**	100,0	**3 304**	**100,0**	4 554	100,0	**0,49**	0,68
Nedbank CIB	**48,2**	48,9	**193**	**5,8**	1 095	24,0	**0,06**	0,34
Nedbank CIB, excluding Property Finance	**27,9**	29,7	**267**	**8,1**	1 049	23,0	**0,10**	0,53
Property Finance	**20,3**	19,2	**(74)**	**(2,3)**	46	1,0	**(0,05)**	0,04
Nedbank RBB	**44,7**	43,9	**3 222**	**97,5**	3 261	71,6	**1,06**	1,12
Nedbank Business Banking	**9,8**	9,9	**80**	**2,4**	173	3,8	**0,12**	0,26
Nedbank Retail[1]	**34,9**	34,0	**3 142**	**95,1**	3 088	67,8	**1,32**	1,37
Home Loans	**12,4**	12,4	**(4)**	**(0,1)**	55	1,2	**0,00**	0,07
MFC	**12,6**	12,0	**1 276**	**38,6**	1 019	22,4	**1,49**	1,28
Unsecured Lending	**2,7**	2,6	**1 063**	**32,2**	1 179	25,9	**5,69**	6,92
Relationship Banking	**4,8**	4,7	**16**	**0,5**	29	0,6	**0,05**	0,09
Card	**2,3**	2,2	**754**	**22,8**	756	16,6	**4,80**	5,13
Nedbank Wealth	**4,2**	4,4	**26**	**0,8**	22	0,5	**0,09**	0,08
Rest of Africa	**3,1**	2,8	**213**	**6,4**	177	3,9	**1,02**	0,98

[1] *Client engagement included in the Retail total.*

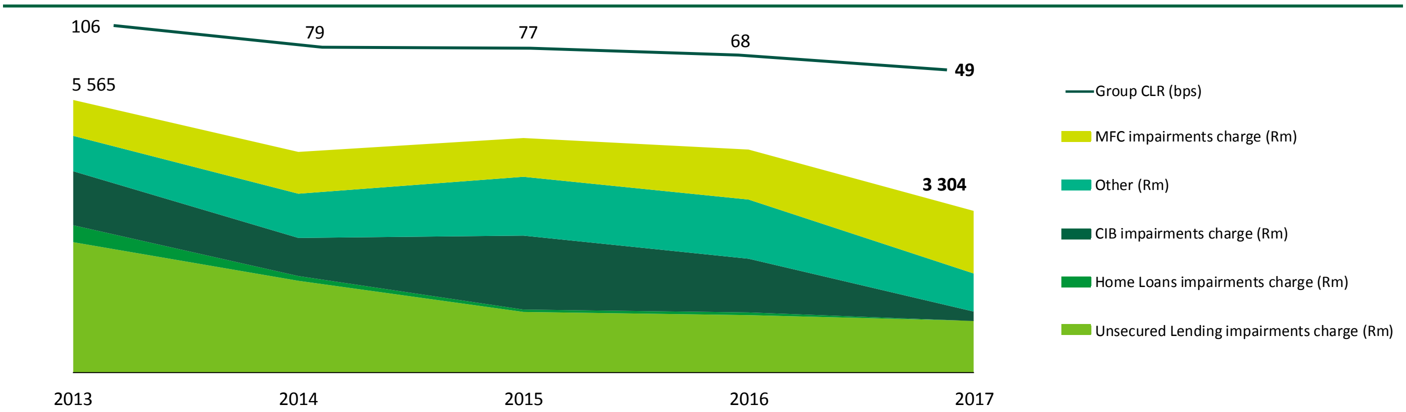
Nedbank Group credit loss ratio per cluster



Nedbank Retail credit loss ratio per business unit

[1] *Unsecured Lending and Home Loans represent specific business units within Nedbank Retail.*

Group impairments charge and credit loss ratio



Impairments

Nedbank Group's balance sheet impairments remained stable at R12,0bn due to the offsetting effects of lower specific impairments in CIB, reflective of the resolutions of various clients from the defaulted portfolio and higher impairments in the performing portfolio.

Total impairments as a percentage of gross loans and advances decreased to 1,66% as a result of a decrease to 2,85% in RBB, which was offset by an increase in CIB to 0,61% off a lower base. Nedbank is comfortable with the level of impairment, as the credit book contains quality assets that have performed well over the financial period.

The income statement impairments decreased to R3,3bn, enabled by an overall derisking of the portfolio by the implementation of proactive risk management in the performing loans portfolio as well as improved collections and resolutions in the defaulted-loans and advances portfolio.

- CIB income statement impairments decreased by 82,4% to R193m, driven by successful restructuring of defaulted advances that led to lower specific impairments, recoveries of previously written off exposures and an adequately collateralised portfolio within Property Finance that represents 38,4% of the CIB defaulted portfolio at 31 December 2017 (32,6% at 31 December 2016).
- RBB income statement impairments decreased by 1,2% to R3,2bn, mainly driven by a 53,8% decrease in Business Banking to R80m. This is evident in the increased proportion of low-risk clients that, taken together with improvements in collections, has resulted in a significant derisking of the overall portfolio over time. This was offset by a slight increase in arrears in 2017 on the back of increased consumer distress levels in the current macroeconomic environment.

Group writeoffs decreased slightly to R4,7bn, reflective of the positive change in the collection and resolution strategies since 2012 in the RBB and CIB portfolios, resulting in postwriteoffs recoveries increasing to R1,2bn.

NEDBANK GROUP BALANCE SHEET IMPAIRMENTS BY BUSINESS CLUSTER

Rm	2017	2016
Nedbank Group	**12 002**	12 149
Nedbank CIB	**2 200**	2 165
Nedbank CIB excluding Property Finance	**1 666**	1 524
Property Finance	**534**	641
Nedbank RBB	**8 951**	8 907
Nedbank Business Banking	**1 362**	1 407
Nedbank Retail	**7 589**	7 500
Nedbank Wealth	**120**	154
Rest of Africa	**578**	423
Centre	**153**	500

NEDBANK GROUP IMPAIRMENT RATIO BY BUSINESS CLUSTER

%	2013	2014	2015	2016	2017
Total impairments to gross loans and advances	1,94	1,78	1,65	1,69	**1,66**
Nedbank CIB	0,49	0,48	0,49	0,58	**0,61**
Nedbank CIB, excluding Property Finance	0,45	0,42	0,45	0,65	**0,78**
Property Finance	0,58	0,60	0,55	0,47	**0,37**
Nedbank RBB	3,56	3,22	3,00	2,98	**2,85**
Nedbank Business Banking	2,00	1,98	2,17	2,15	**2,01**
Nedbank Retail[1]	4,05	3,61	3,25	3,21	**3,08**
Home Loans[2]	2,56	2,18	1,86	1,70	**1,45**
MFC	3,23	2,69	2,29	2,33	**2,44**
Unsecured Lending[3]	12,66	13,92	13,89	13,48	**12,77**
Card	7,79	7,21	8,29	8,67	**7,90**
Nedbank Wealth	0,76	0,67	0,54	0,54	**0,41**
Rest of Africa	1,26	1,26	2,18	2,11	**2,73**

[1] *Only Nedbank Retail business units that contribute significantly to impairments are reflected.*

[2] *Home Loans represents a specific business unit within Nedbank Retail.*

[3] *Unsecured Lending represents a specific business unit within Nedbank Retail.*

IMPAIRMENT OF LOANS AND ADVANCES

Rm	Corporate and Investment Banking	Retail and Business Banking	Wealth	Rest of Africa	Centre	2017	2016
Opening balance	2 165	8 907	154	423	500	12 149	11 411
Specific impairment	1 096	5 855	118	245	3	7 317	6 664
Specific impairment, excluding discounts	755	5 101		30	3	5 889	5 441
Specific impairment for discounted cashflow losses	341	754	118	215		1 428	1 223
Portfolio impairment	1 069	3 052	36	178	497	4 832	4 747
Impairments charge	210	4 386	26	256	(350)	4 528	5 711
Statement of comprehensive income charge net of recoveries	193	3 222	26	213	(350)	3 304	4 554
Specific impairment	(230)	3 203	61	206		3 240	4 353
Net increase/(decrease) in impairment for discounted cashflow losses	(93)	73	(37)	75		18	205
Portfolio impairment	516	(54)	2	(68)	(350)	46	(4)
Recoveries	17	1 164		43		1 224	1 157
Amounts written off/Other transfers	(175)	(4 342)	(60)	(101)	3	(4 675)	(4 973)
Specific impairment	(172)	(4 343)	(59)	(146)	2	(4 718)	(5 062)
Portfolio impairment	(3)	1	(1)	45	1	43	89
Total impairments	2 200	8 951	120	578	153	12 002	12 149
Specific impairment	618	5 952	83	423	5	7 081	7 317
Specific impairment, excluding discounts	370	5 125	2	133	5	5 635	5 889
Specific impairment for discounted cashflow losses	248	827	81	290		1 446	1 428
Portfolio impairment	1 582	2 999	37	155	148	4 921	4 832
Total gross loans and advances	358 229	314 149	29 533	21 119	(699)	722 331	719 226
Average banking advances	327 695	303 966	28 851	20 839	(1 046)	680 305	664 692

RECONCILIATION OF SPECIFIC IMPAIRMENT FOR DISCOUNTED CASHFLOW LOSSES

Rm							
Opening balance	341	754	118	215		1 428	1 223
Net increase/(decrease) in impairment for discounted cashflow losses	(93)	73	(37)	75		18	205
Interest on specifically impaired loans and advances	(200)	(1 061)	(41)	(63)		(1 365)	(1 370)
Net specific impairments charge for discounted cashflow losses	107	1 134	4	138		1 383	1 575
Closing balance	248	827	81	290		1 446	1 428

Balance sheet coverage ratios

The specific coverage ratio is the amount of specific impairments that have been raised for total defaulted loans and advances. This is the inverse of the expected-recoveries ratio. Expected recoveries are equal to defaulted loans and advances less specific impairments, as specific impairments are raised for any shortfall that would arise after all recoveries have been taken into account. Expected recoveries of defaulted loans and advances include recoveries as a result of the liquidation of security or collateral as well as recoveries as a result of a client curing or partial client repayments.

Total coverage is defined as the amount of total impairments as a percentage of defaulted loans and advances.

The absolute value of expected recoveries on or from defaulted accounts (which includes security values) will generally increase as the number of defaults increase. The expected recovery amount will in most instances be less than the total defaulted exposure, as 100% of the defaulted loan is seldom recovered.

A decrease in the coverage ratio (or increase in the expected recoveries ratio) may arise as a result of the following:

- Expected recoveries improving due to improved market conditions and therefore lower LGD.
- Higher curing levels.
- A change in the defaulted product mix, with a greater percentage of products having a higher security value and therefore a lower specific impairment, such as secured products (home loans and commercial real estate).
- An increase in the value of collateral as an input into the LGD calculation resulting in a decrease in the LGD and a decrease in specific impairments.
- A change in the mix of new versus older defaults, as for most products the recoveries expected from defaulted clients decrease over time.
- A change in the writeoff policy, ie if the period is extended prior to writing off a deal, there will be a longer period in which recoveries can be realised.

- Nedbank Group's specific coverage decreased to 36,2% primarily due to lower specific coverage in RBB as well as increased resolutions of various clients in CIB. This resulted in lower specific impairments, partially offset by the impact of a changing mix in the defaulted portfolio as CIB's defaulted advances contribution decreased while RBB increased. The lower coverage reflects increased the performing defaulted advances in RBB and the recovery success in CIB.

- RBB specific coverage decreased to 39,3% mainly due to a reduction in the Retail specific coverage which decreased to 39,5% due to a higher proportion of the defaulted advances being considered performing defaults-which carry lower impairments-while Business Banking's specific coverage increased slightly to 38,0%.

- CIB's specific coverage decreased to 21,0%. This is due to lower specific impairments raised on wholesale advances, which are considered on a client-by-client basis and secured with relatively lower loss expectations in the event of default. Property Finance's loans and advances are highly collateralised with low LTV ratios, relatively lower loss expectations in the event of default and therefore a low specific coverage of 17,0%.

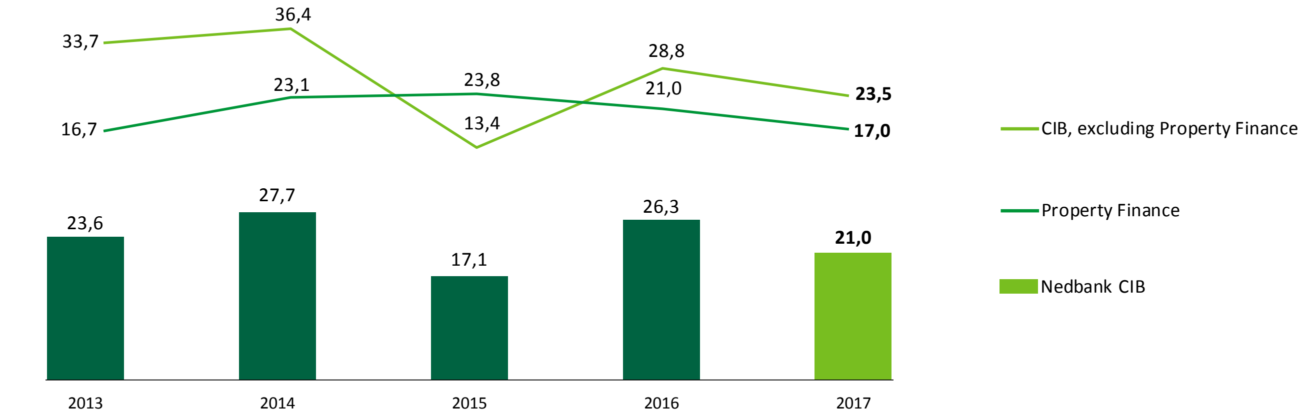
- The Nedbank Group portfolio coverage ratio increased slightly by 0,70%, mainly due to portfolio coverage in CIB increasing to 0,44%, reflective of the deterioration in certain NGRs. RBB decreased to 1,00%, mainly as a result of overlay releases.

NEDBANK GROUP COVERAGE RATIOS BY BUSINESS CLUSTER

%	2013	2014	2015	2016	2017
Specific coverage ratio	42,3	43,1	38,0	37,4	**36,2**
Corporate and Investment Banking	23,6	27,7	17,1	26,3	**21,0**
CIB, excluding Property Finance	33,7	36,4	13,4	28,8	**23,5**
Property Finance	16,7	23,1	23,8	21,0	**17,0**
Retail and Business Banking	47,5	47,6	45,6	41,1	**39,3**
Business Banking	35,8	38,5	40,5	37,6	**38,0**
Retail	49,9	49,4	46,7	41,8	**39,5**
Wealth	26,9	23,9	20,8	19,4	**12,8**
Rest of Africa	47,0	47,3	41,6	46,1	**50,5**
Portfolio coverage ratio	0,68	0,70	0,70	0,69	**0,70**
Corporate and Investment Banking	0,21	0,24	0,29	0,29	**0,45**
CIB, excluding Property Finance	0,21	0,24	0,30	0,31	**0,58**
Property Finance	0,22	0,22	0,28	0,26	**0,24**
Retail and Business Banking	1,18	1,17	1,11	1,07	**1,00**
Business Banking	0,72	0,82	0,94	0,95	**0,87**
Retail	1,33	1,28	1,16	1,11	**1,04**
Wealth	0,12	0,10	0,12	0,13	**0,13**
Rest of Africa	0,70	0,53	0,64	0,91	**0,77**

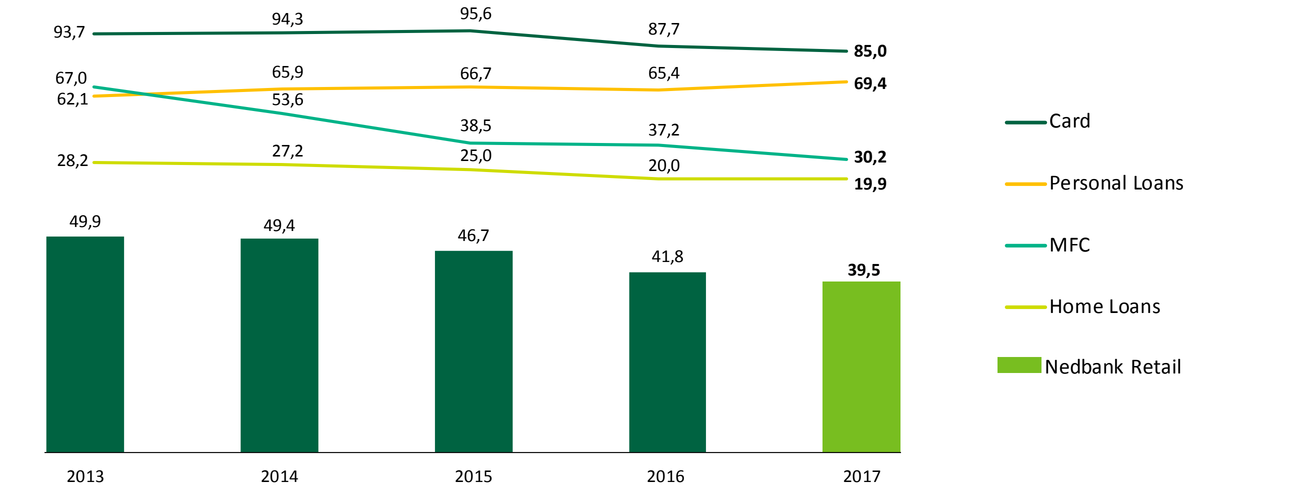
Nedbank CIB specific coverage ratio

(%)



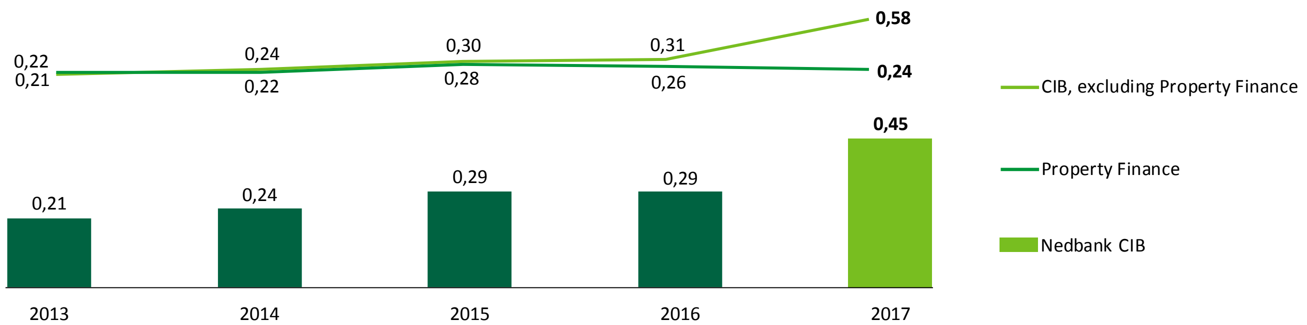
Nedbank Retail specific coverage ratio

(%)



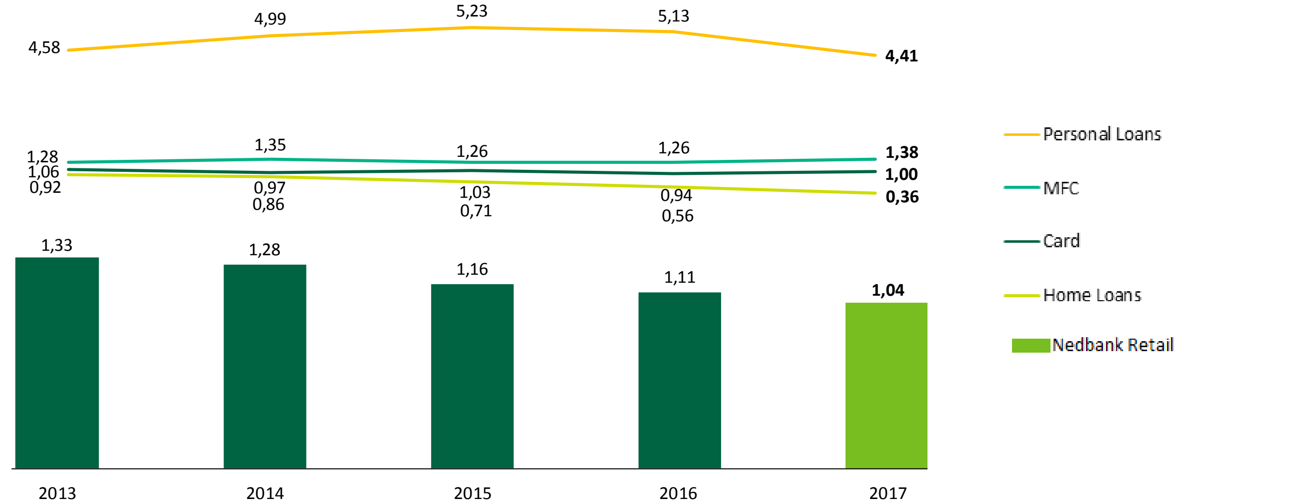
Nedbank CIB portfolio coverage ratio

(%)



Nedbank Retail portfolio coverage ratio

(%)



Backtesting of PD per portfolio

Nedbank applies the AIRB Approach for the majority of its credit portfolios. The corresponding PD parameters are long-run averages and associated models are subject to annual validation, which includes a backtesting exercise in order to compare the estimates to the actual outcomes over time.

The Basel III Pillar 3 disclosure regulations require banks to compare the regulatory AIRB PD parameters to the actual observed average historical annual default rates. The regulations prescribe that a breakdown of key statistics by PD range be tabulated for each major AIRB asset class. These key statistics include:

- Weighted average PD – this has been calculated on an EAD-weighted basis.
- Arithmetic average PD by obligors – a simple average of PDs among obligors within the PD range.
- Number of obligors – the number of obligors within the PD range at the beginning and end of the observation period.
- Defaulted obligors in the year – the total number of obligors in default at any point within the observation period.
- New obligors defaulted in the year – the number of obligors that were new during the observation period and went into default within the observation period.
- Average historical annual default rate – an average of the previous five years' annual default rates.

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO – WHOLESALE ASSET CLASSES

The wholesale asset classes have exhibited relatively stable historical annual default rates over the periods ending December 2016 and December 2017 with the majority of asset classes displaying relatively conservative PD estimates.

The Specialised Lending - Project Finance asset class has improved from an average historical default rate of 3,00% to 2,18% following improved default experience in 2017 with only one notable default occurring during the year. The asset class had been particularly affected by the recent stress in the commodities industries which saw some stress abate during the year.

		2017						
				Number of obligors				
PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
Corporate								
0,00 to < 0,15	AAA, AA, A	0,08	0,09	132	203	8		0,12
0,15 to < 0,25	A-, BBB+	0,20	0,20	90	132	1		
0,25 to < 0,50	BBB	0,37	0,37	96	158	3		0,06
0,50 to < 0,75	BB	0,64	0,64	77	75	2		0,20
0,75 to < 2,50	BB-	1,37	1,30	75	221	5		3,24
2,50 to < 10,00	B+, B	4,80	5,23	484	501	22	2	2,20
10,00 to < 100,00	B- and below	23,46	22,21	13	25	3		0,94
100,00 (Default)	Defaulted	100,00	100,00	13	27	17		
Total		1,94	2,41	980	1 342	61	2	0,58
SME – corporate								
0,00 to < 0,15	AAA, AA, A	0,09	0,10	343	328	5	1	1,66
0,15 to < 0,25	A-, BBB+	0,21	0,20	246	284	5	2	0,05
0,25 to < 0,50	BBB	0,37	0,40	304	322	4	1	0,04
0,50 to < 0,75	BB	0,64	0,65	424	213	10	6	0,25
0,75 to < 2,50	BB-	1,37	1,47	684	966	38	11	0,99
2,50 to < 10,00	B+, B	3,75	3,41	835	931	87	47	2,30
10,00 to < 100,00	B- and below	14,00	14,79	78	125	34	18	6,59
100,00 (Default)	Defaulted	100,00	100,00	100	177	75		
Total		1,85	1,96	3 014	3 346	258	86	1,08

PD Range	External rating equivalent	2017						
		Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
				End of previous year	End of the year			
Corporate – specialised lending project finance								
0,00 to < 0,15	AAA, AA, A	0,08	0,10	6	13			0,13
0,15 to < 0,25	A-, BBB+	0,19	0,19	12	10	1		6,16
0,25 to < 0,50	BBB	0,37	0,37	13	16			7,93
0,50 to < 0,75	BB	0,64	0,64	9	5			0,38
0,75 to < 2,50	BB-	1,14	1,07	6	7			
2,50 to < 10,00	B+, B	5,46	6,65	7	11			15,89
10,00 to < 100,00	B- and below	24,61	25,75	1	4			18,32
100,00 (Default)	Defaulted			1				
Total		0,02	0,03	55	66	1		2,18
Corporate – specialised lending IPRE								
0,00 to < 0,15	AAA, AA, A	0,07	0,06	639	584	4		8,02
0,15 to < 0,25	A-, BBB+	0,19	0,20	205	228	1		0,18
0,25 to < 0,50	BBB	0,41	0,41	349	359			0,01
0,50 to < 0,75	BB	0,64	0,64	738	387	3		0,36
0,75 to < 2,50	BB-	1,36	1,31	771	944	9		1,79
2,50 to < 10,00	B+, B	4,25	4,55	659	580	4		1,10
10,00 to < 100,00	B- and below	19,31	16,40	183	102	9		4,57
100,00 (Default)	Defaulted	100,00	100,00	47	28	15		
Total		1,44	1,75	3 591	3 212	45		0,70
Sovereign								
0,00 to < 0,15	AAA, AA, A	0,02	0,02	13	24			
0,15 to < 0,25	A-, BBB+	0,19	0,22		4			
0,25 to < 0,50	BBB			1				
0,50 to < 0,75	BB	0,64	0,64		2			
0,75 to < 2,50	BB-							
2,50 to < 10,00	B+, B	5,71	6,25	4	5			
10,00 to < 100,00	B- and below	13,07	13,07	1	2			
100,00 (Default)	Defaulted							
Total		0,04	0,18	19	37			
Banks								
0,00 to < 0,15	AAA, AA, A	0,09	0,08	79	68			
0,15 to < 0,25	A-, BBB+	0,16	0,17	13	23			
0,25 to < 0,50	BBB	0,44	0,44	21	10			
0,50 to < 0,75	BB	0,64	0,64	7	9			
0,75 to < 2,50	BB-	1,08	1,15	3	4			
2,50 to < 10,00	B+, B	4,26	4,72	23	33			
10,00 to < 100,00	B- and below	19,66	14,08	8	9			
100,00 (Default)	Defaulted							
Total		0,60	1,34	154	156			

PD range	External rating equivalent	2016						
		Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
				End of previous year	End of the year			
Corporate								
0,00 to < 0,15	AAA, AA, A	0,08	0,08	115	132			0,12
0,15 to < 0,25	A-, BBB+	0,20	0,20	99	90			0,06
0,25 to < 0,50	BBB	0,39	0,40	104	96			0,29
0,50 to < 0,75	BB	0,72	0,76	86	77			
0,75 to < 2,50	BB-	1,57	1,56	84	75	3		3,22
2,50 to < 10,00	B+, B	5,19	6,88	434	484	9	3	1,64
10,00 to < 100,00	B- and below	13,34	15,12	11	13			0,16
100,00 (Default)	Defaulted	100,00	100,00	12	13	9		0,00
Total		1,01	3,66	945	980	21	3	0,53
SME – corporate								
0,00 to < 0,15	AAA, AA, A	0,09	0,09	288	343	3		1,52
0,15 to < 0,25	A-, BBB+	0,21	0,20	263	246	1		0,05
0,25 to < 0,50	BBB	0,43	0,40	340	304	1		0,04
0,50 to < 0,75	BB	0,80	0,78	478	424	2		0,26
0,75 to < 2,50	BB-	1,57	1,58	697	684	3		0,52
2,50 to < 10,00	B+, B	3,83	3,55	919	835	18	9	2,01
10,00 to < 100,00	B- and below	15,76	18,23	83	78	9		10,17
100,00 (Default)	Defaulted	100,00	100,00	120	100	119		
Total		2,14	2,11	3 188	3 014	156	9	1,04
Corporate – specialised lending project finance								
0,00 to < 0,15	AAA, AA, A	0,07	0,07	21	6	1		0,10
0,15 to < 0,25	A-, BBB+	0,17	0,18	11	12			
0,25 to < 0,50	BBB	0,32	0,37	10	13			9,47
0,50 to < 0,75	BB	0,83	0,79	12	9			0,30
0,75 to < 2,50	BB-	1,76	1,60	10	6			
2,50 to < 10,00	B+, B	3,69	3,77	10	7	1	1	12,71
10,00 to < 100,00	B- and below	14,48	23,31	3	1			14,65
100,00 (Default)	Defaulted	100,00	100,00	5	1	5		
Total		1,67	1,82	82	55	7	1	3,00
Corporate – specialised lending IPRE								
0,00 to < 0,15	AAA, AA, A	0,06	0,05	639	639	2		0,44
0,15 to < 0,25	A-, BBB+	0,20	0,21	242	205	1		0,13
0,25 to < 0,50	BBB	0,40	0,40	316	349	2		0,03
0,50 to < 0,75	BB	0,74	0,76	817	738	4		0,41
0,75 to < 2,50	BB-	1,53	1,49	856	771	6		0,99
2,50 to < 10,00	B+, B	4,43	4,71	607	659	9		1,31
10,00 to < 100,00	B- and below	18,02	17,73	205	183	8		9,50
100,00 (Default)	Defaulted	100,00	100,00	45	47	41		
Total		1,79	2,34	3 727	3 591	73		0,69

PD range	External rating equivalent	2016						
		Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
				End of previous year	End of the year			
Sovereign								
0,00 to < 0,15	AAA, AA, A	0,01	0,02	24	13			
0,15 to < 0,25	A-, BBB+	0,00	0,00					
0,25 to < 0,50	BBB	0,43	0,00		1			
0,50 to < 0,75	BB	0,64	0,64	2				
0,75 to < 2,50	BB-							
2,50 to < 10,00	B+, B	5,31	5,24	5	4			
10,00 to < 100,00	B- and below	14,48	14,48	1	1			
100,00 (Default)	Defaulted							
Total		0,04	1,29	32	19			
Banks								
0,00 to < 0,15	AAA, AA, A	0,05	0,05	94	79			
0,15 to < 0,25	A-, BBB+	0,22	0,20	12	13			
0,25 to < 0,50	BBB	0,42	0,41	18	21			
0,50 to < 0,75	BB	0,66	0,73	3	7			
0,75 to < 2,50	BB-	1,42	1,49	5	3			
2,50 to < 10,00	B+, B	3,61	4,21	32	23			
10,00 to < 100,00	B- and below	12,61	18,54	8	8			
100,00 (Default)	Defaulted							
Total		0,34	1,79	172	154			

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO – RETAIL ASSET CLASSES

Basel III model refinements, which addressed a regulatory requirement, resulted in a more accurate risk profile for the retail asset classes. This is reflected in the close alignment of historical annual default rates and PD estimates.

		2017						
				Number of obligors				
PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
Retail – mortgages								
0,00 to < 0,15	AAA, AA, A	0,07	0,07	8 091	19 341	7		0,46
0,15 to < 0,25	A-, BBB+	0,19	0,19	19 332	15 313	40		0,15
0,25 to < 0,50	BBB	0,40	0,39	53 536	35 764	154		0,21
0,50 to < 0,75	BB	0,64	0,64	67 269	30 334	257		0,75
0,75 to < 2,50	BB-	1,26	1,29	31 866	70 112	904	2	1,42
2,50 to < 10,00	B+, B	3,87	3,95	63 321	61 643	2 381	14	3,03
10,00 to < 100,00	B- and below	20,89	22,12	25 877	27 765	5 563	28	19,25
100,00 (Default)	Defaulted	100,00	100,00	10 746	10 947	4 839		
Total		3,28	3,79	280 038	271 219	14 145	44	3,40
Qualifying revolving retail								
0,00 to < 0,15	AAA, AA, A	0,11	0,11	7 833	1 241	4		0,01
0,15 to < 0,25	A-, BBB+	0,21	0,22	78 754	62 466	2 701		0,21
0,25 to < 0,50	BBB	0,39	0,38	177 189	113 851	3 301	6	0,56
0,50 to < 0,75	BB	0,64	0,64	220 337	79 130	1 563	21	1,21
0,75 to < 2,50	BB-	1,37	1,40	194 292	303 690	13 536	68	2,71
2,50 to < 10,00	B+, B	4,98	5,73	1 357 419	580 261	153 913	24 188	6,43
10,00 to < 100,00	B- and below	21,08	22,26	326 080	387 489	82 922	12 500	24,96
100,00 (Default)	Defaulted	100,00	100,00	2 408 814	1 924 072	1 786 472		
Total		7,18	8,17	4 770 718	3 452 200	2 044 412	36 783	7,22
Other – retail								
0,00 to < 0,15	AAA, AA, A	0,06	0,08	202	552	18	1	2,70
0,15 to < 0,25	A-, BBB+	0,19	0,20	418	229	1		0,98
0,25 to < 0,50	BBB	0,35	0,34	532	868			0,02
0,50 to < 0,75	BB	0,64	0,64	11 246	5022	68		0,82
0,75 to < 2,50	BB-	1,64	1,68	111 695	107 023	1 696	49	1,97
2,50 to < 10,00	B+, B	4,17	4,22	567 858	540 107	23 987	656	3,59
10,00 to < 100,00	B- and below	21,62	21,70	290 313	311 236	71 715	9 250	19,44
100,00 (Default)	Defaulted	100,00	100,00	169 007	161 450	48 392		
Total		8,34	9,55	1 151 271	1 126 487	145 877	9 956	6,66
SME – retail								
0,00 to < 0,15	AAA, AA, A	0,09	0,11	2 336	1 422	2		0,02
0,15 to < 0,25	A-, BBB+	0,21	0,19	3 499	5 299	28	1	0,61
0,25 to < 0,50	BBB	0,42	0,40	10 003	15 125	89		0,43
0,50 to < 0,75	BB	0,64	0,64	10 570	12 047	91	4	1,10
0,75 to < 2,50	BB-	1,35	1,38	6 778	32 926	671	56	1,04
2,50 to < 10,00	B+, B	5,16	5,93	103 245	110 181	3 720	575	2,46
10,00 to < 100,00	B- and below	18,76	20,67	6 830	9 279	2 187	339	18,16
100,00 (Default)	Defaulted	100,00	100,00	11 749	9 800	13 640		
Total		3,89	4,86	155 010	196 079	20 428	975	3,10

		2016						
				Number of obligors				
PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
Retail – mortgages								
0,00 to < 0,15	AAA, AA, A	0,08	0,06	45 634	8 091	78		0,80
0,15 to < 0,25	A-, BBB+	0,20	0,21	33 676	19 332	32		0,10
0,25 to < 0,50	BBB	0,39	0,39	7 657	53 536	69	59	0,13
0,50 to < 0,75	BB	0,72	0,79	22 163	67 269	209	22	0,80
0,75 to < 2,50	BB-	1,57	1,56	86 577	31 866	1 185	9	1,25
2,50 to < 10,00	B+, B	5,19	4,18	53 218	63 321	1 700	35	2,75
10,00 to < 100,00	B- and below	13,34	22,93	29 276	25 877	5 897	335	17,56
100,00 (Default)	Defaulted	100,00	100,00	8 357	10 746	8 052	846	
Total		3,53	3,66	286 558	280 038	17 222	1 306	3,57
Qualifying revolving retail								
0,00 to < 0,15	AAA, AA, A	0,11	0,11		7 833			
0,15 to < 0,25	A-, BBB+	0,21	0,22	38 233	78 754	49		0,08
0,25 to < 0,50	BBB	0,39	0,39	118 453	177 189	432	1	0,35
0,50 to < 0,75	BB	0,79	0,79	200 311	220 337	1 826	24	1,01
0,75 to < 2,50	BB-	1,42	1,42	192 102	194 292	4 340	22	2,68
2,50 to < 10,00	B+, B	5,41	6,68	1 389 137	1 357 419	104 175	909	6,61
10,00 to < 100,00	B- and below	22,32	23,29	363 284	326 080	76 433	667	25,73
100,00 (Default)	Defaulted	100,00	100,00	2 048 078	2 408 814	2 009 056	689 978	
Total		7,28	6,26	4 349 598	4 770 718	2 196 311	691 601	7,11
Other – retail								
0,00 to < 0,15	AAA, AA, A	0,11	0,11	954	202	3		0,07
0,15 to < 0,25	A-, BBB+	0,20	0,21	97	418	1		1,97
0,25 to < 0,50	BBB	0,39	0,36	378	532	1		0,02
0,50 to < 0,75	BB	0,85	0,77	14 265	11 246	131		0,99
0,75 to < 2,50	BB-	1,43	1,43	62 729	111 695	1 665		2,69
2,50 to < 10,00	B+, B	3,90	4,11	623 970	567 858	22 974	37	3,39
10,00 to < 100,00	B- and below	22,28	22,09	299 710	290 313	56 538	164	17,85
100,00 (Default)	Defaulted	100,00	100,00	184 968	169 007	215 962	63 662	
Total		7,50	9,08	1 187 071	1 151 271	297 275	63 863	6,17
SME Retail								
0,00 to < 0,15	AAA, AA, A	0,09	0,11	85	2 336	2		2,72
0,15 to < 0,25	A-, BBB+	0,21	0,21	5 044	3 499	10		0,92
0,25 to < 0,50	BBB	0,43	0,37	8 710	10 003	28		0,47
0,50 to < 0,75	BB	0,81	0,73	19 385	10 570	107	4	1,08
0,75 to < 2,50	BB-	1,56	1,54	15 188	6 778	228	1	1,80
2,50 to < 10,00	B+, B	5,01	6,39	77 692	103 245	1 994	59	2,91
10,00 to < 100,00	B- and below	18,67	25,08	21 817	6 830	1 929	15	19,52
100,00 (Default)	Defaulted	100,00	100,00	11 812	11 749	6 656	2 806	
Total		3,83	5,96	159 733	155 010	10 954	2 885	2,98

CR10: AIRB SPECIALISED LENDING

2017 Regulatory categories Rm	Remaining maturity	Specialised lending other than HVCRE									
		On-balance-sheet amount	Off-balance-sheet amount	RW %	Exposure amount					RWA	Expected losses
					Project finance	Object finance	Commodities finance	IPRE	Total		
Strong	Less than 2,5 years			50							
	Equal to or more than 2,5 years			70							
Good	Less than 2,5 years			70							
	Equal to or more than 2,5 years			90							
Satisfactory		451	41	115				492	492	600	19
Weak				250							
Default											
Total		451	41					492	492	600	19
2016											
Strong	Less than 2,5 years			50							
	Equal to or more than 2,5 years			70							
Good	Less than 2,5 years			70							
	Equal to or more than 2,5 years			90							
Satisfactory		493	271	115				765	764	932	29
Weak				250							
Default		343			38			305	343		175
Total		836	271		38			1 070	1 107	932	204

2017 Regulatory categories Rm	Remaining maturity	Specialised lending – HVCRE					
		On-balance-sheet amount	Off-balance-sheet amount	RW %	Exposure amount	RWA	Expected losses
Strong	Less than 2,5 years			70			
	Equal to or more than 2,5 years	39		95	39	40	
Good	Less than 2,5 years	4 265	728	95	4 993	5 028	27
	Equal to or more than 2,5 years	1 545	34	120	1 579	2 008	8
Satisfactory		865	109	140	974	1 446	37
Weak		149		250	149	396	16
Default		423	4		427		90
Total		7 286	875		8 161	8 918	178
2016							
Strong	Less than 2,5 years			70			
	Equal to or more than 2,5 years	4 002	206	95	4 208	4 238	23
Good	Less than 2,5 years			95			
	Equal to or more than 2,5 years	958	40	120	998	1 270	5
Satisfactory		825	93	140	918	1 362	35
Weak		285		250	285	754	31
Default		491	34		525		114
Total		6 561	373		6 934	7 624	208

2017 Categories Rm	Equities under the SRWA				
	On-balance-sheet amount	Off-balance-sheet amount	RW %	Exposure amount	RWA
Exchange-traded equity exposures	36		300	36	115
Private-equity exposures	808		400	808	3 425
Other equity exposures	5 516		400	5 516	23 387
Total	6 360			6 360	26 927
2016					
Exchange-traded equity exposures	19		300	19	59
Private-equity exposures	666		400	666	2 823
Other equity exposures	3 602		400	3 602	15 274
Total	4 287			4 287	18 156

Liquidity risk and funding

The primary role of a bank in terms of financial intermediation is to transform short-term deposits into longer-term loans. By fulfilling this role, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks. Through the robust Liquidity Risk Management Framework, Nedbank Group manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the Liquidity Risk Management Framework include maintaining financial market confidence at all times, protecting key stakeholder interests and meeting regulatory liquidity requirements.

In terms of measuring, managing and mitigating liquidity mismatches, Nedbank focuses on two types of liquidity risk, namely funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that Nedbank Group is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals or the inability to roll over maturing debt or meet contractual commitments to lend. Market liquidity risk is the risk that the group will be unable to sell assets, without incurring an unacceptable loss, in order to generate cash required to meet payment obligations under a stress liquidity event.

Liquidity risk management is a vital risk management function in all entities across all jurisdictions and currencies, and is a key focus for Nedbank Group.

Liquidity risk governance and policy

The board of directors retains ultimate responsibility for the effective management of liquidity risk. Through the GRCMC (a board subcommittee), the board has delegated its responsibility for the management of liquidity risk to the Group Alco.

Nedbank Group's Liquidity Risk Management Framework articulates the board-approved risk appetite in the form of limits and guidelines, and sets out the responsibilities, processes, reporting and assurance required to support the management of liquidity risk. The Liquidity Risk Management Framework is reviewed annually by Group Alco and approved by the GRCMC.

Within Nedbank Group's BSM Cluster, a dedicated funding and liquidity function is responsible for the strategic management of funding and liquidity across the group. The group's daily liquidity requirements are managed by an experienced CFD within Group Treasury. In the context of the board-approved Liquidity Risk Management Framework, BSM and the CFD are responsible for proactively managing liquidity risk at an operational, tactical and strategic level.

Key areas of focus

Operational liquidity Daily	**CFD focus:** **Operational and tactical**	■ Projected daily liquidity requirements ■ Intraday liquidity risk management ■ Daily clearing and settlement ■ Liquid assets and cash reserve requirements ■ Participation in the money market shortage and interbank reliance ■ Operation within approved liquidity risk limits and guidelines ■ Managing and maintaining market access
Tactical and strategic liquidity Weekly, monthly, quarterly and annually	**BSM focus:** **Strategic and tactical**	■ Tactically managing seasonal and cyclical liquidity requirements ■ Liquidity risk appetite and strategy ■ Balance sheet optimisation ■ Funding base diversification ■ Liquidity buffers and internal assessment of liquidity self-sufficiency for stress scenarios ■ Pricing for liquidity risk through the funds transfer pricing process ■ Enhancing structural liquidity ■ Best international practice

In terms of the overall liquidity risk management process, independent oversight and assurance are provided by Group Market Risk Monitoring (GMRM) and GIA, which conduct independent reviews.

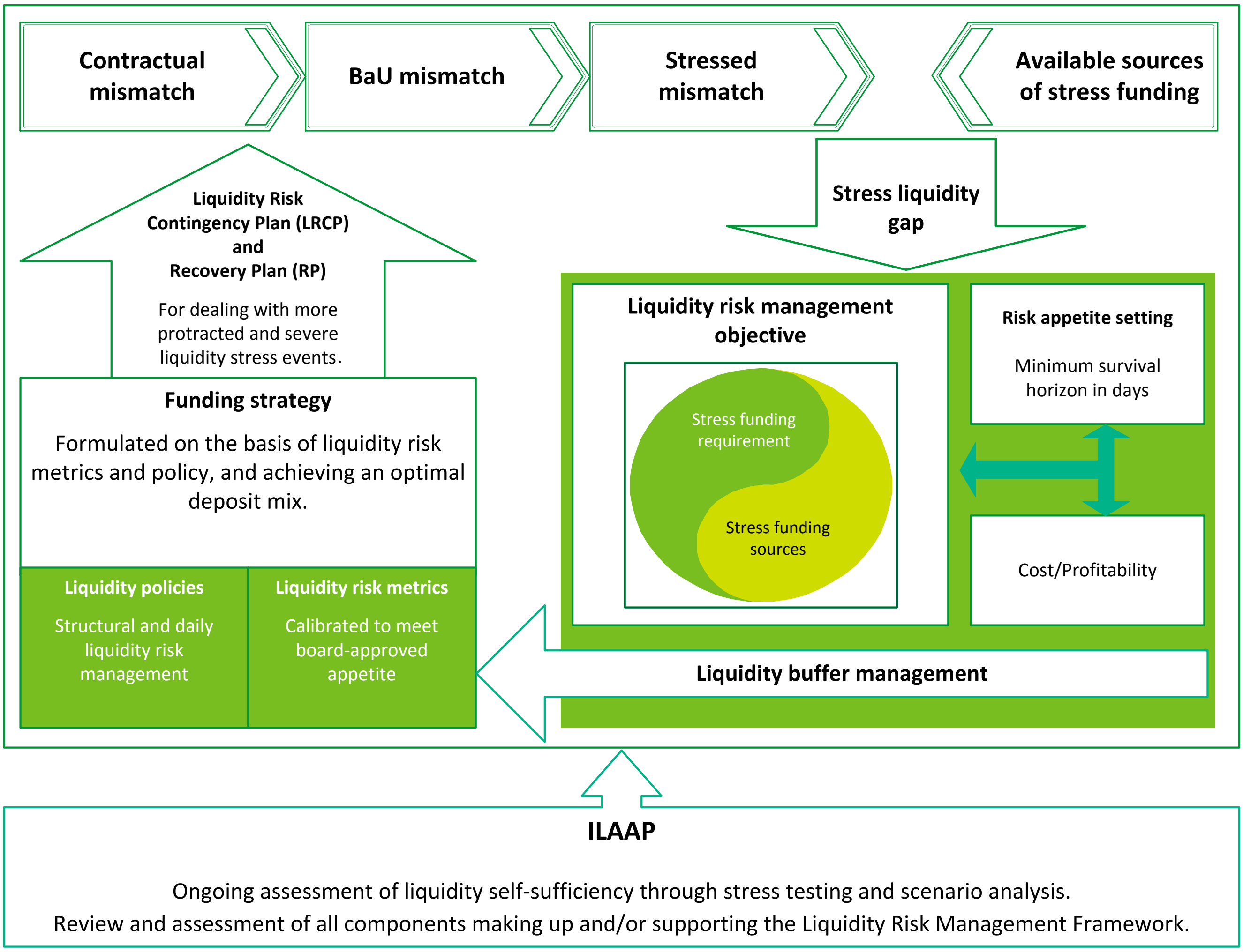
In the case of Nedbank Group's subsidiaries and foreign branches, liquidity risk is managed through the individual Alco's established in each of these businesses. These businesses are required to have appropriate governance structures, processes and practices designed to identify, measure, manage and mitigate liquidity risk in accordance with the group's Liquidity Risk Management Framework. These businesses are required to report into the Group Alco on a monthly basis.

Liquidity Risk Management Framework and management processes

Based on the BCBS's principles for sound liquidity risk management and other best-practice principles, Nedbank Group's Liquidity Risk Management Framework takes into account all sources and uses of liquidity and seeks to optimise the balance sheet by balancing the tradeoff between liquidity risk on the one hand and cost or profitability on the other. This optimisation process (as depicted below) is managed by taking cognisance of:

- Nedbank Group's contractual maturity mismatch between assets and liabilities.
- The business-as-usual (BaU) mismatch arising from normal market conditions.
- The stress mismatch or stress funding requirement likely to arise from a continuum of plausible stress liquidity scenarios.
- The quantum of stress funding sources available to meet a scenario-specific stress funding requirement.

Nedbank's Liquidity Risk Management Framework



Embedded within the Liquidity Risk Management Framework is Nedbank Group's ILAAP. Through the ILAAP, BSM seeks to maintain appropriate liquidity buffers while continually reviewing the appropriateness of the liquidity risk metrics, the liquidity policy, the funding strategy and the contingency funding and liquidity plan. These individual components of the Liquidity Risk Management Framework should at all times support the board-approved risk appetite, which is to ensure that stress funding sources are sufficient to meet stress funding requirements for a given time horizon.

The ILAAP has therefore been formulated on the basis of ensuring that the framework remains sound in terms of measuring, monitoring, managing and mitigating liquidity risk, taking cognisance of best-practice and regulatory developments.

Based on the most recent internal review process, it is evident that Nedbank Group is compliant with both the Basel Principles for Sound Liquidity Risk Management and the principles embedded in the Basel III liquidity standards, which have in turn been encapsulated in the Liquidity Risk Management Framework and ILAAP.

Nedbank Group's internal review and assessment process, which is designed to ensure that all components making up the Liquidity Risk Management Framework remain robust, is depicted graphically below.

Nedbank's internal review and assessment process of the Liquidity Risk Management Framework

Annually	Semi-annually/Quarterly	Monthly/Daily
Liquidity risk policies Liquidity Risk Contingency Plan (LRCP) and Recovery Plan (RP) Liquidity risk appetite, limits, guidelines and buffers Liquidity model assumptions, principles and methodologies Principles and methodologies applied to pricing assets and liabilities for liquidity risk Annual funding strategy (designed to support liquidity objectives and balance sheet optimisation) Independent review of liquidity risk management in subsidiaries and branches	Liquidity risk premium and charges applied through the Funds Transfer Pricing Framework Appropriateness of the continuum of liquidity stress testing scenarios Off-balance-sheet liquidity risk (Loan covenants, securitisation vehicles, derivative positions, revocable and irrevocable commitments, etc) Liquidity early-warning indicators	**Monthly funding and liquidity review** (As reported to Group Alco) **Key areas of focus** ■ Compliance with limits, guidelines and buffers ■ Prevailing market conditions from a funding and market liquidity risk perspective ■ Actual asset/liability growth versus funding plan – impact on liquidity risk management objectives ■ Liquidity adequacy based on stress testing and scenario analysis ■ Depositor concentration risk ■ Rollout of liquidity risk mitigating strategies ■ Liquidity risk within subsidiaries and branches **Daily funding and liquidity review:** **Key areas of focus** ■ Projected liquidity requirements ■ Compliance with limits, guidelines and buffers ■ Cash reserves and liquid assets ■ Participation in the money market shortage (MMS) ■ Settlement and clearing ■ Access to market

As presented on the previous page, the Liquidity Risk Management Framework is supported by a number of management processes designed to manage and mitigate liquidity risk under normal and stressed market conditions.

The key management processes and activities are summarised below:

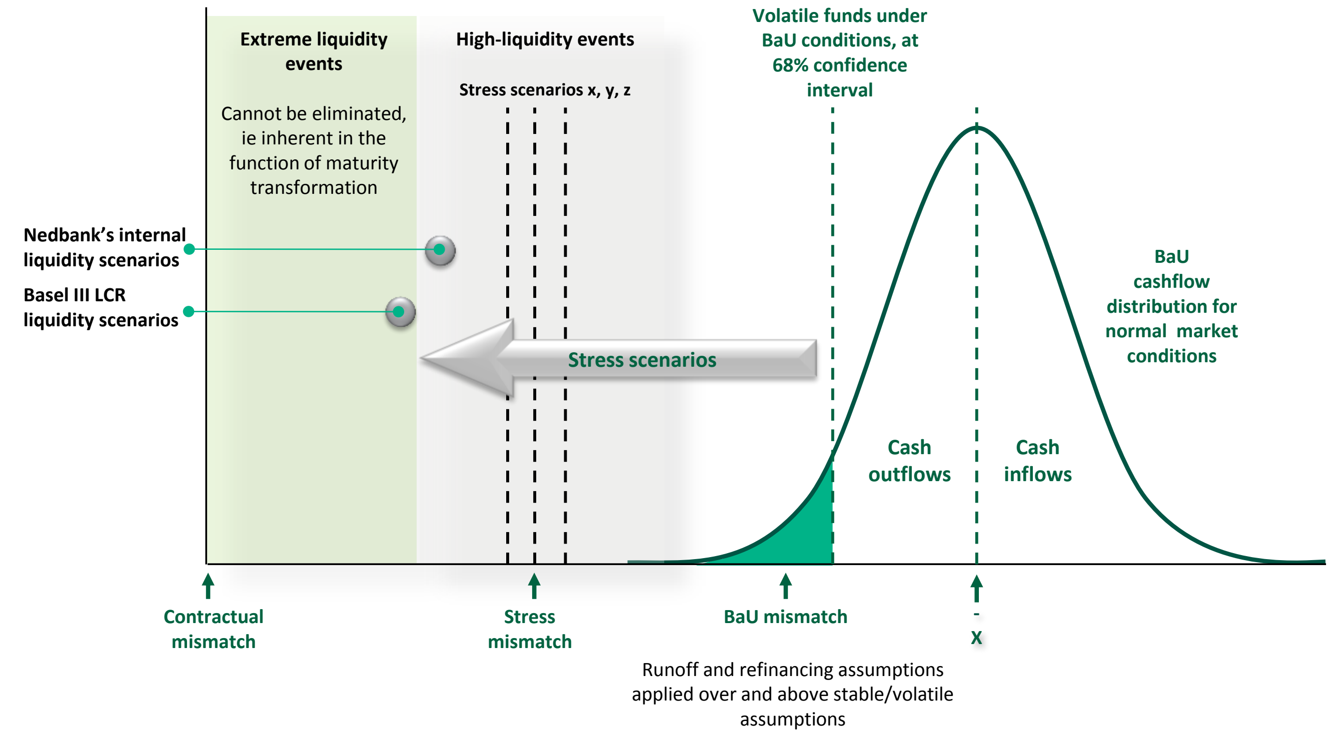
- Intraday liquidity risk management
  The need to manage and control intraday liquidity in real time is recognised by the group as a critical process. The CFD is responsible for ensuring that the bank always has sufficient intraday liquidity to meet any obligations it may have in the clearing and settlement systems. In addition, net daily funding requirements are forecasted by estimating daily rollovers and withdrawals, and managing the funding pipeline of new deals. The CFD is responsible for maintaining close interaction with the bank's larger depositors in order to manage their cashflow requirements and the consequential impact on the bank's intraday liquidity position.

- Liquidity buffer portfolio management
  A portfolio of marketable and highly liquid assets, which could be liquidated to meet unforeseen or unexpected funding requirements, is maintained. The market liquidity by asset type (and for a continuum of plausible stress scenarios) is considered as part of the internal stress testing and scenario analysis process. While BSM is responsible for the strategic and tactical management of seasonal and cyclical HQLA requirements, CFD is responsible for the operational execution of BSM and Group Alco strategy.

- Liquidity stress testing and scenario analysis
  To ensure regulatory compliance and the ability to meet future liquidity requirements the BSM Cluster performs extensive stress testing and scenario analysis, at both a bank and industry level, to appropriately size the liquidity buffer portfolio in the most optimal manner for seasonal, cyclical and/or stress events. The stress testing and scenario analysis focus on estimating if and when the liquidity buffer could be significantly eroded beyond some tolerable level in order to pre-emptively facilitate the formulation of mitigating actions designed to ensure that the size of the liquidity buffer will always remain appropriate for future forecast liquidity requirements. Based on the scenario analysis and stress testing described above, which also include periodic liquidity simulations, the BSM Cluster is able to do the following:
  - Evaluate the impact of various scenarios on the group's liquidity.
  - Set limits and guidelines designed to position the group better for a stress liquidity event.
  - Formulate appropriate actions designed to reduce the severity of a liquidity crisis.
  - Determine appropriate funding strategies and initiatives designed to support liquidity risk mitigation.
  - Right-size the surplus liquidity buffer portfolio to meet stress funding requirements.

The objective of scenario analysis and stress testing is to identify potential weaknesses or vulnerabilities, thereby enabling the group to formulate appropriate strategies designed to mitigate potential weaknesses. Nedbank Group's approach to estimating the stress maturity mismatch in relation to the BaU and contractual maturity mismatch is depicted graphically below.

Contractual versus BaU versus stress maturity mismatch



In terms of assessing the bank's liquidity risk through stress testing and scenario analysis, Nedbank uses both its own internally based liquidity risk models and the outputs of the Basel III LCR, noting that Nedbank has exceeded the minimum LCR regulatory requirement during 2017 and will continue to achieve full compliance with the LCR minimum requirement during the phase-in period, which commenced in January 2015 with a minimum requirement of 60% and increasing 10% per annum to 100% by January 2019. While the Basel III LCR liquidity scenario assumes more extreme levels of stress, Nedbank recognises, in terms of the internally based liquidity risk models, that various structurally favourable factors contributing positively towards liquidity risk mitigation in SA are not taken into account in the LCR approach. These include, for example, the closed nature of SA's money markets, resulting from exchange controls and the mechanics of the domestic settlement and clearing system, the higher proportion of LAC compared with many international jurisdictions, and Nedbank's low foreign currency funding reliance and hence low refinancing risk associated with external markets.

Stress and scenario testing is a key risk management process that complements sound liquidity risk management and contingency planning.

- Funding strategy formulation and execution
  In terms of achieving the board-approved liquidity risk appetite, the BSM Cluster formulates a detailed funding strategy on an annual basis, which is approved by Group Alco. The execution of the annual funding plan is then monitored monthly through the Funding Strategy Forum, the Transactional Deposits Forum and Group Alco. In accordance with the current funding strategy, the key objectives can be summarised as follows:
  - Portfolio tilt towards an optimal mix of wholesale, commercial and household deposits, with a specific focus on growing transactional deposits market share.
  - Targeting a funding profile designed to achieve a contractual and BaU maturity mismatch aligned with the board-approved liquidity risk appetite.
  - Diversifying the funding base through capital market issuance using medium-term notes and securitisation programmes, bilateral and syndicated loans and structured note offerings, taking into account domestic and international investor demand and pricing spreads.
  - Achieving the lowest weighted-average cost of funding within the context of the targeted liquidity risk profile.
- Contingency funding and liquidity planning
  Nedbank Group's LRCP, as set out in the Liquidity Risk Management Framework, is designed to protect depositors, creditors and shareholders under adverse liquidity situations.

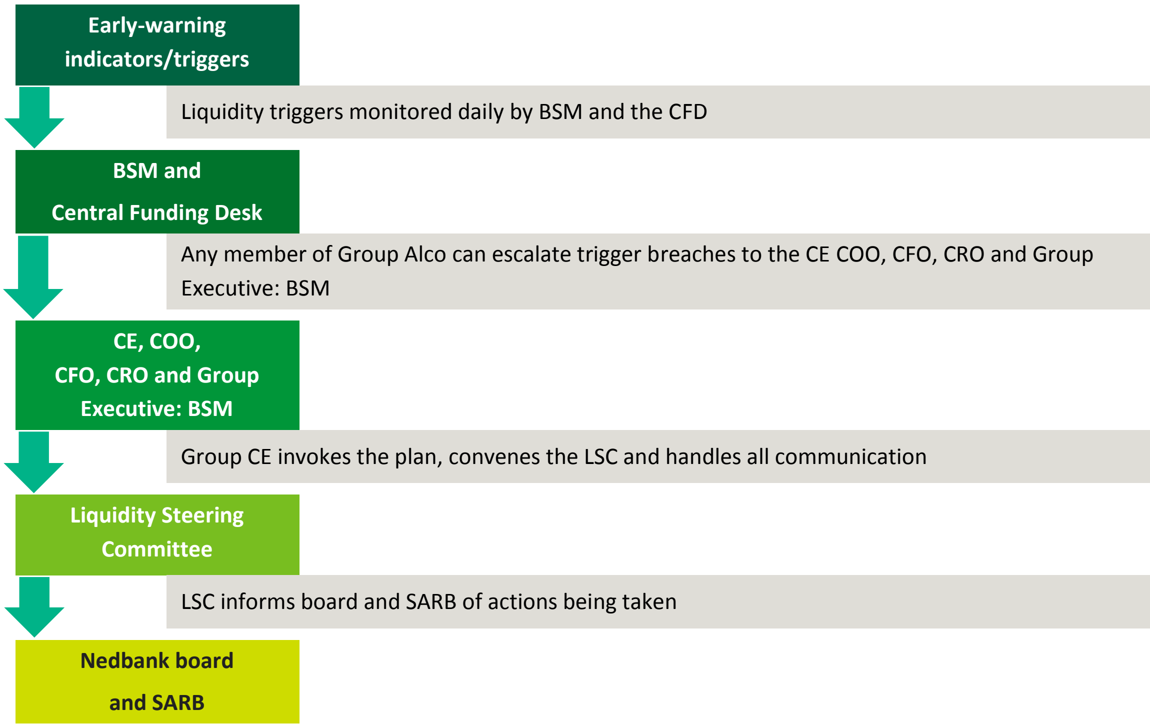
  Nedbank's liquidity risk policies and LRCP were reviewed in November 2017, in accordance with the annual review process.

The LRCP has been formulated in the belief that early detection, advance preparations and prompt responses can contribute to liquidity crisis avoidance or minimisation, and that accurate, timely and coordinated communication both internally and externally is essential for managing a crisis situation. The LRCP establishes guidelines for managing a liquidity crisis, identifying early-warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure.

In addition, the LRCP identifies the individuals responsible for formulating and executing Nedbank Group's response to a liquidity event through the Liquidity Steering Committee (LSC).

The process for invoking the LRCP is depicted graphically below.

Liquidity Risk Contingency Plan



Nedbank has developed an early-warning indicator or triggers report that is produced daily to identify any signs that a liquidity event may be prevailing or is about to occur, as evidenced by internal and/or external events. Any member of Group Alco can escalate trigger breaches to the CE, COO, CFO, CRO and Group Executive: BSM as part of the LRCP invocation process presented in the graphic above.

Liquidity risk portfolio review

SUMMARY OF NEDBANK GROUP LIQUIDITY RISK AND FUNDING PROFILE

		2017	2016
Total sources of quick liquidity	(Rm)	**195 414**	180 413
Total HQLA	(Rm)	**138 180**	137 350
Other sources of quick liquidity	(Rm)	**57 234**	43 063
Total sources of quick liquidity (as a percentage of total assets)	(%)	**19,9**	18,7
Long-term funding ratio (three-month average)	(%)	**27,0**	29,6
Retail Savings Bond	(Rm)	**24 874**	19 213
Senior unsecured debt	(Rm)	**36 255**	35 705
Total capital market issuance (including senior unsecured debt, tier 2 capital and additional tier 1 capital)	(Rm)	**54 098**	54 076
Reliance on negotiable certificates of deposit (as a percentage of total deposits)	(%)	**10,0**	11,8
Reliance on foreign funding (as a percentage of total deposits)	(%)	**2,8**	4,5
Loan-to-deposit ratio	(%)	**92,1**	92,8
Basel III liquidity ratios			
LCR[1]	(%)	**116,2**	109,3
Minimum regulatory LCR requirement	(%)	**80**	70
NSFR	(%)	**> 100**	> 100

[1] *Only banking and/or deposit-taking entities are included in the group LCR and the group ratio represents an aggregation of the relevant individual NCOF and the individual HQLA portfolios across all banking and/or deposit-taking entities. Surplus HQLA holdings in excess of the minimum requirement of 80% have been excluded from the aggregated HQLA number in the case of all non-SA banking entities. The above figures reflect the simple average of daily observations over the quarter ending December 2017 for Nedbank Limited and the simple average of the month-end values at 31 October 2017, 30 November 2017 and 31 December 2017 for all non-SA banking entities.*

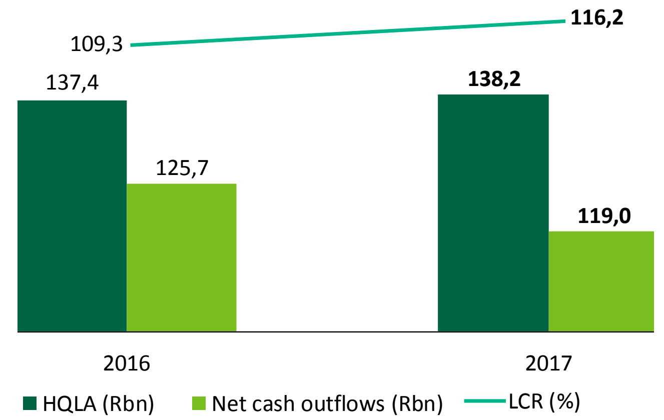
Nedbank Group remains well funded with a strong liquidity position, underpinned by a significant quantum of long-term funding, an appropriately sized surplus liquid-asset buffer, a strong loan-to-deposit ratio consistently below 100% and a low reliance on interbank and foreign currency funding.

Nedbank has maintained the NSFR at above 100% on a pro forma basis and is already compliant with the minimum regulatory requirements that will be effective from 1 January 2018. The focus going forward will be on achieving NSFR compliance within the context of balance sheet optimisation.

The group's quarterly average LCR exceeded the minimum regulatory requirement of 80% in 2017 and 90% effective from 1 January 2018, with the group maintaining appropriate operational buffers designed to absorb seasonal and cyclical volatility in the LCR.

- The LCR, calculated using the simple average of daily observations over the quarter ending December 2017 for Nedbank Limited and the simple average of the month-end values at 31 October 2017, 30 November 2017 and 31 December 2017 for all non-SA banking entities, was 116,2%.
  - Nedbank's portfolio of LCR-compliant HQLA increased to a quarterly average of R138,2bn, up marginally from December 2016 when the portfolio amounted to R137,4bn.
  - Notwithstanding the low growth in HQLA, the LCR has still increased yoy as a result of a decrease in LCR NCOF attributable to a positive tilt in Nedbank’s deposit mix towards proportionally more Basel III-friendly deposits in the form of RBB and Wealth deposits as well as through market share gains in commercial deposits.
  - Nedbank will continue to procure additional HQLA to support balance sheet growth and the LCR phase-in, while maintaining appropriately sized surplus liquid-asset buffers.

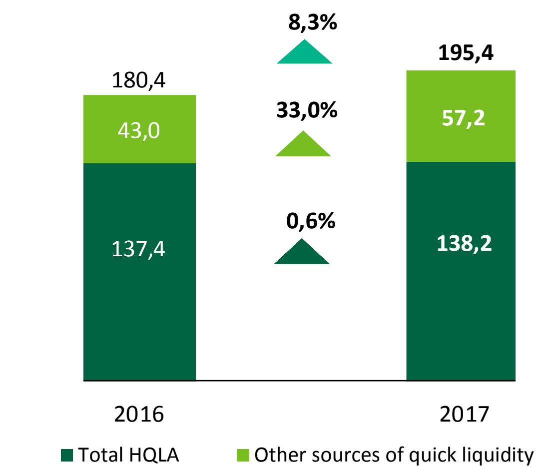
Nedbank Group LCR exceeds minimum regulatory requirements



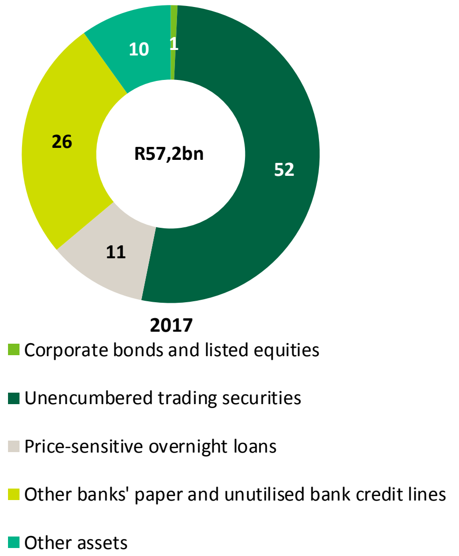
- In addition to the HQLA portfolio maintained for LCR purposes, Nedbank also identifies other sources of stress liquidity, which can be accessed in times of stress. Nedbank's combined portfolio of HQLA and other sources of quick liquidity, collectively amounted to R195,4bn at December 2017, and represented 19,9% of total assets.

Nedbank Group significant sources of quick liquidity

Total sources of quick liquidity
(Rbn)



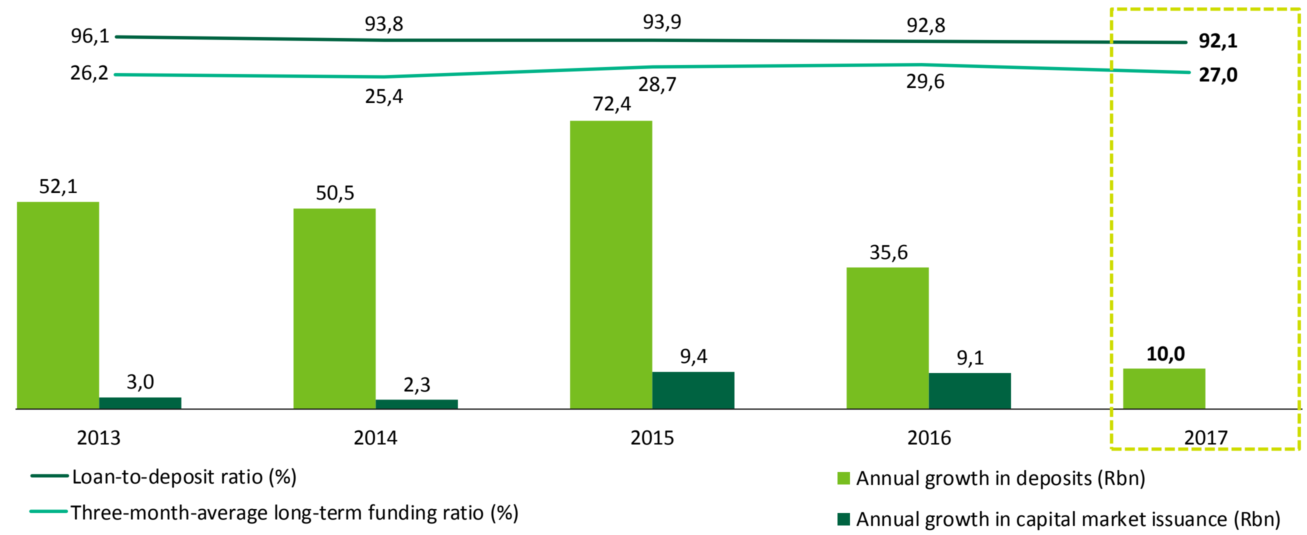
Other sources of quick liquidity contribution
(%)



- A strong funding profile has been maintained in 2017, with Nedbank recording a three-month average long-term funding ratio of 27,0% in the fourth quarter of 2017. The proportional tilt towards more Basel III-friendly RBB and Wealth deposits as well as market share gains in commercial deposits, has afforded Nedbank the opportunity to marginally reduce its long-term funding profile, even though Nedbank continues to run a more prudent long-term funding profile when compared with the industry average of approximately 24%.
  - Nedbank Retail Savings Bonds growth of R5,7bn contributed positively to the longer-term funding profile, as well as the strategy of diversifying Nedbank's funding base, bringing the total amount issued to R24,9bn.
  - In addition, Nedbank successfully issued R3,5bn in senior unsecured debt during 2017, while R3,3bn matured during the year.
  - Nedbank issued new-style additional tier 1 capital instruments of R0,6bn and R2,5bn in new-style tier 2 capital instruments during the year, while redeeming R3,0bn of old-style tier 2 capital instruments on call dates in line with the group's capital plan.
- Nedbank's reliance on foreign currency funding as a percentage of total deposits remained small at 2,8%. However, increasing retail and commercial foreign currency deposits remains a key component of Nedbank's strategy to diversify its funding sources and to fund foreign advances growth at attractive interest rates.

The group's annual board-approved ICAAP, ILAAP and updated RPs include appropriate consideration of the managed separation with Old Mutual, with no material impact expected.

Nedbank Group funding and liquidity profile, underpinned by strong liquidity risk metrics



Supplementary liquidity risk information

In accordance with the provisions of section 6(6) of the Banks Act (Act No 94 of 1990), banks are directed to comply with the relevant LCR disclosure requirements, as set out in directive 6/2014 and directive 11/2014. The table below sets out Nedbank's LCR at an aggregated group and bank solo level. The aggregated LCR consists of only banking and/or deposit-taking entities and represents an aggregation of the relevant individual NCOF and the individual HQLA portfolios, with surplus HQLA holdings in excess of the minimum requirement of 80% excluded from the aggregated HQLA number in the case of all non-SA banking entities. The disclosure reflects the simple average of daily observations over the quarter ending December 2017 for Nedbank Limited and the simple average of the month-end values at 31 October 2017, 30 November 2017 and 31 December 2017 for all non-SA banking entities.

LIQ1: NEDBANK GROUP AND NEDBANK LIMITED LIQUIDITY COVERAGE RATIO

		Nedbank Group Limited		Nedbank Limited	
2017 Rm		Total unweighted[1] value (average)	Total weighted[2] value (average)	Total unweighted[1] value (average)	Total weighted[2] value (average)
1	**Total HQLA**		138 180		133 146
	Cash outflows				
2	**Retail deposits and deposits from small-business clients, of which**	174 627	17 291	157 325	15 732
3	stable deposits	3 424	171		
4	less stable deposits	171 203	17 120	157 325	15 732
5	**Unsecured wholesale funding, of which**	237 769	114 117	201 025	96 025
6	operational deposits (all counterparties) and deposits in institutional networks of cooperative banks	122 379	31 140	102 176	25 544
7	non-operational deposits (all counterparties)	115 017	82 604	98 616	70 248
8	unsecured debt	373	373	233	233
9	**Secured wholesale funding**	21 836	21	21 899	21
10	**Additional requirements, of which**	101 394	15 245	88 957	12 988
11	outflows related to derivative exposures and other collateral requirements	967	967	895	895
12	outflows related to loss of funding on debt products	127	127	127	127
13	credit and liquidity facilities	100 300	14 151	87 935	11 966
14	**Other contractual funding obligations**	4	4	4	4
15	**Other contingent funding obligations**	171 717	8 714	161 673	8 194
16	**Total cash outflows**	707 347	155 392	630 883	132 964
	Cash inflows				
17	**Secured lending**	9 137	22	9 137	22
18	**Inflows from fully performing exposures**	52 203	35 421	36 421	22 018
19	**Other cash inflows**	4 749	4 627	410	410
20	**Total cash inflows**	66 089	40 070	45 968	22 450
21	**Total HQLA**		138 180		133 146
22	**Total NCOF[3]**		118 956		110 514
23	**LCR (%)**		116,2		120,5

[1] Unweighted values are calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

[2] Weighted values are calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

[3] Total cash outflows less total cash inflows may not be equal to total NCOF to the extent that regulatory caps have been applied to cash inflows as specified by the regulations.

The contractual and BaU liquidity mismatches of Nedbank Group are presented below.

NEDBANK GROUP CONTRACTUAL LIQUIDITY GAP

Rm	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months	Total
2017									
Cash and cash equivalents	**34 044**	**740**	**391**	**9**	**119**	**249**	**320**	**250**	**36 122**
Other short-term securities	**747**	**1 874**	**10 037**	**14 002**	**10 375**	**24 427**	**22 858**	**8 455**	**92 775**
Derivative financial instruments	**68**	**408**	**1 565**	**2 041**	**2 042**	**2 828**	**3 321**	**17 631**	**29 904**
Government and other securities			**121**	**37**	**13**	**3 602**	**3 309**	**42 159**	**49 241**
Loans and advances	**58 573**	**22 374**	**44 747**	**15 598**	**19 052**	**37 656**	**50 886**	**461 443**	**710 329**
Other assets								**64 943**	**64 943**
Total assets	**93 432**	**25 396**	**56 861**	**31 687**	**31 601**	**68 762**	**80 694**	**594 881**	**983 314**
Total equity								**88 539**	**88 539**
Derivative financial instruments	**57**	**343**	**1 315**	**1 715**	**1 716**	**2 357**	**3 113**	**12 751**	**23 367**
Amounts owed to depositors	**364 890**	**44 085**	**40 830**	**74 668**	**44 052**	**73 269**	**65 080**	**64 710**	**771 584**
Provision and other liabilities	**18 134**							**30 114**	**48 248**
Long-term debt instruments				**475**		**1 432**	**3 720**	**45 949**	**51 576**
Total equity and liabilities	**383 081**	**44 428**	**42 145**	**76 858**	**45 768**	**77 058**	**71 913**	**242 063**	**983 314**
Net liquidity gap – 2017	**(289 649)**	**(19 032)**	**14 716**	**(45 171)**	**(14 167)**	**(8 296)**	**8 781**	**352 818**	**–**
Off-balance-sheet – 2017	**(135 189)**								**(135 189)**
Net liquidity gap – 2016	(270 532)	(6 203)	(4 714)	(57 155)	(2 836)	(18 287)	10 195	349 532	–
Off-balance-sheet – 2016	(122 911)								(122 911)

The BaU liquidity gap of Nedbank Group is presented below. The table shows the expected liquidity mismatch under normal market conditions after taking into account the behavioural attributes of stable deposits, savings and investment products and rollover assumptions associated with term deals, but excluding BaU management actions. Based on client behavioural attributes, it is estimated that 95% (2016: 93%) of the amounts owed to depositors are stable.

NEDBANK GROUP BaU LIQUIDITY GAP

Rm	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months	Total
2017									
Cash and cash equivalents								**36 122**	**36 122**
Other short-term securities	**747**	**1 654**	**4 896**	**1 756**	**3 698**	**5 153**	**5 982**	**68 889**	**92 775**
Derivative financial instruments	**68**	**408**	**1 565**	**2 041**	**2 042**	**2 828**	**3 321**	**17 631**	**29 904**
Government and other securities								**49 241**	**49 241**
Loans and advances	**22 935**	**5 324**	**32 277**	**19 534**	**21 988**	**52 796**	**89 724**	**465 751**	**710 329**
Other assets								**64 943**	**64 943**
Total assets	**23 750**	**7 386**	**38 738**	**23 331**	**27 728**	**60 777**	**99 027**	**702 577**	**983 314**
Total equity								**88 539**	**88 539**
Derivative financial instruments	**57**	**343**	**1 315**	**1 715**	**1 716**	**2 357**	**3 113**	**12 751**	**23 367**
Amounts owed to depositors	**1 017**	**5 525**	**17 778**	**10 744**	**16 609**	**42 177**	**60 932**	**616 802**	**771 584**
Provision and other liabilities								**48 248**	**48 248**
Long-term debt instruments				**475**		**1 432**	**3 720**	**45 949**	**51 576**
Total equity and liabilities	**1 074**	**5 868**	**19 093**	**12 934**	**18 325**	**45 966**	**67 765**	**812 289**	**983 314**
Net liquidity gap – 2017	**22 676**	**1 518**	**19 645**	**10 397**	**9 403**	**14 811**	**31 262**	**(109 712)**	**–**
Off-balance-sheet – 2017	**(64)**	**(387)**	**(1 547)**	**(1 934)**					**(3 932)**
Net liquidity gap – 2016	24 645	(411)	9 130	7 814	(3 696)	585	22 873	(60 940)	–
Off-balance-sheet – 2016	(70)	(417)	(1 668)	(2 085)					(4 240)

As illustrated below, Nedbank Group's 2017 cumulative inflows exceed outflows in the one-and two-month time bucket, highlighting the strength of Nedbank's retail and commercial deposit franchise and the associated behavioural stability of these deposits.

Nedbank Group behavioural liquidity mismatch[1]

[1] *Expressed on total assets and based on maturity assumptions before rollovers and risk management.*

The tables below depict the contractual and BaU liquidity mismatches in respect of Nedbank, while also highlighting the split of total deposits into 'stable' and 'more volatile'. The liquidity profile attributable to foreign operations is relatively small, with approximately 91% of Nedbank Group's balance sheet emanating from Nedbank.

NEDBANK LIMITED CONTRACTUAL LIQUIDITY GAP

Rm	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months	Total
2017									
Contractual maturity of assets	**81 841**	**22 685**	**60 262**	**30 414**	**26 356**	**63 281**	**76 002**	**532 014**	**892 855**
Loans and advances	**45 713**	**19 642**	**36 455**	**12 854**	**16 354**	**34 017**	**46 239**	**420 312**	**631 586**
Trading, hedging and other investment instruments	**9 197**	**3 043**	**23 807**	**17 560**	**10 002**	**29 264**	**29 763**	**78 256**	**200 892**
Other assets	**26 931**							**33 446**	**60 377**
Contractual maturity of liabilities	**318 162**	**43 035**	**38 414**	**73 106**	**45 763**	**77 362**	**65 685**	**231 328**	**892 855**
Stable deposits	**303 717**	**39 852**	**25 447**	**36 781**	**24 936**	**48 722**	**55 870**	**81 817**	**617 142**
Volatile deposits	**11 920**	**1 339**	**192**	**1 394**	**2 012**	**6 121**	**2 315**	**4 761**	**30 054**
Trading and hedging instruments	**2 525**	**1 844**	**12 775**	**34 931**	**18 815**	**22 519**	**7 500**	**59 072**	**159 981**
Other liabilities								**85 678**	**85 678**
Net liquidity gap – 2017	**(236 321)**	**(20 350)**	**21 848**	**(42 692)**	**(19 407)**	**(14 081)**	**10 317**	**300 686**	**–**
Off-balance-sheet – 2017	**(127 538)**								**(127 538)**
Net liquidity gap – 2016	(223 965)	(7 382)	1 515	(57 413)	(10 078)	(25 765)	9 127	313 961	–
Off-balance-sheet – 2016	(126 361)								(126 361)

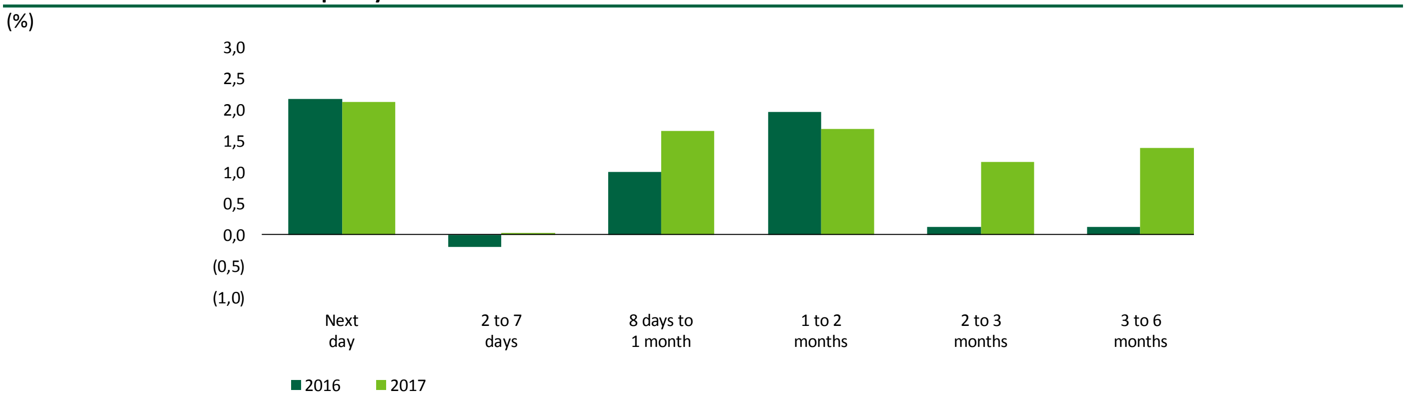
The BaU liquidity gap of Nedbank is presented below. The table shows the expected liquidity mismatch under normal market conditions after taking into account the behavioural attributes of stable deposits, savings and investment products and rollover assumptions associated with term deals, but excluding BaU management actions. Based on client behavioural attributes, it is estimated that 95% (2016: 93%) of the amounts owed to depositors are stable.

NEDBANK LIMITED BaU LIQUIDITY GAP

Rm	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months	Total
2017									
BaU maturity of assets	**20 868**	**6 153**	**34 453**	**36 554**	**27 956**	**53 654**	**88 540**	**624 677**	**892 855**
Loans and advances	**20 392**	**4 734**	**28 699**	**17 369**	**19 550**	**46 943**	**79 778**	**414 121**	**631 586**
Trading, hedging and other investment instruments	**476**	**1 419**	**5 754**	**19 185**	**8 406**	**6 711**	**8 762**	**150 179**	**200 892**
Other assets								**60 377**	**60 377**
BaU maturity of liabilities	**1 928**	**5 813**	**19 543**	**21 347**	**17 529**	**41 219**	**69 765**	**715 711**	**892 855**
Stable deposits	**193**	**1 076**	**3 778**	**7 652**	**11 920**	**29 257**	**48 794**	**514 472**	**617 142**
Volatile deposits	**660**	**3 559**	**11 134**	**1 360**	**2 012**	**6 121**	**2 315**	**2 893**	**30 054**
Trading and hedging instruments	**1 075**	**1 178**	**4 631**	**12 335**	**3 597**	**5 841**	**18 656**	**112 668**	**159 981**
Other liabilities								**85 678**	**85 678**
Net liquidity gap – 2017	**18 940**	**340**	**14 910**	**15 207**	**10 427**	**12 435**	**18 775**	**(91 034)**	**–**
Off-balance-sheet – 2017	**(61)**	**(365)**	**(1 460)**	**(1 824)**					**(3 710)**
Net liquidity gap – 2016	18 908	(1 734)	8 740	17 140	1 108	1 123	13 231	(58 516)	–
Off-balance-sheet – 2016	(72)	(431)	(1 724)	(2 155)					(4 382)

As illustrated below, Nedbank's 2017 cumulative inflows exceed outflows in the one-to six-month time buckets, highlighting the strength of Nedbank's retail and commercial deposit franchise and the effective management of the funding profile and asset-liability composition from a behavioural perspective.

Nedbank Limited behavioural liquidity mismatch[1]



[1] *Expressed on total assets and based on maturity assumptions before rollovers and risk management.*

Securitisation risk

Nedbank Group uses securitisation as a funding diversification tool, as well as to add flexibility in mitigating structural liquidity risk. The group currently has four traditional securitisation transactions and one asset-backed commercial paper (ABCP) programme.

Greenhouse Funding (RF) Limited (Greenhouse I) and Greenhouse Funding III (RF) Limited (Greenhouse III) are securitisations of portfolios of home loans, originated by Nedbank Retail. Greenhouse I fully redeemed its listed notes on their scheduled maturity dates in October 2017. In both transactions the senior notes issued were placed with SA capital market investors as part of Nedbank Group's funding strategy, while the junior notes were retained by the bank. The notes issued by Greenhouse III have been assigned credit ratings by Moody's Investor Ratings Services (Moody's) and are listed on the Johannesburg Stock Exchange Limited (JSE).

Precinct Funding 1 (RF) Limited (Precinct 1) and Precinct Funding 2 (RF) Limited (Precinct 2) are securitisations of commercial property loans originated by Nedbank CIB. Precinct 2 issued its first notes in March 2017. The transactions are a further step in the group's strategy to develop capacity to raise funding in the capital markets using different asset classes. The notes issued by Precinct 1 and Precinct 2 are rated by Moody's and listed on the JSE, with the senior notes being placed with SA capital market investors and the junior notes retained by the bank.

Synthesis Funding Limited (Synthesis) was a hybrid multiseller ABCP programme that invested in longer-term-rated asset-backed securities and bonds and offered capital market funding opportunities to SA corporates. Synthesis sold its remaining assets and fully redeemed its remaining notes in December 2017.

ASSETS SECURITISED AND RETAINED SECURITISATION EXPOSURE

	Year initiated	Rating agency	Transaction type	Asset type	Assets securitised[1]		Assets outstanding		Amount retained/ purchased		Risk-weighted assets[2]	
Rm					**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Greenhouse I	2007	Moody's	Traditional securitisation	Home loans	**2 049**	2 049		1 123		373		286
Precinct 1	2013	Moody's	Traditional securitisation	Commercial-property loans	**2 344**	2 344	**284**	982	**375**	489	**55**	301
Greenhouse III	2014	Moody's	Traditional securitisation	Home loans	**2 052**	2 052	**1 462**	1 708	**296**	291	**259**	367
Precinct 2	2017	Moody's	Traditional securitisation	Commercial-property loans	**1 111**		**1 036**		**173**		**301**	

[1] This includes all assets identified for securitisation at the transaction close.

[2] The regulatory capital held against these securitisation exposures is capped at the IRB Approach capital that the bank would have held against the underlying assets had they not been securitised.

LIQUIDITY FACILITIES PROVIDED TO NEDBANK'S ASSET-BACKED COMMERCIAL PAPER PROGRAMME

	Year initiated	Rating agency	Transaction type	Programme size	Face value of notes outstanding		Liquidity facilities		Risk-weighted assets[1]	
Rm					**2017**	2016	**2017**	2016	**2017**	2016
Synthesis	2004	Unrated	ABCP programme	15 000		675		675		143

[1] The regulatory capital held against these securitisation exposures is capped at the IRB Approach capital that the bank would have held against the underlying assets had they not been securitised, subject to a 7% risk-weighting floor.

The various roles fulfilled by Nedbank Group in securitisation transactions are indicated in the table below.

Transaction	Originator	Sponsor	Investor	Servicer	Liquidity facility provider	Credit enhancement provider	Swap counterparty
Precinct 1	✔		✔	✔		✔	✔
Greenhouse III	✔		✔	✔		✔	✔
Precinct 2	✔		✔	✔		✔	✔
Torque Securitisation			✔				

There have been no downgrades of any of the commercial paper or notes issued by Nedbank Group's securitisation transactions and the performance of the underlying portfolios of assets remains sound.

All securitisation transactions entered into thus far have involved the sale of the underlying assets to the special-purpose vehicles. Nedbank Group has not originated or participated in synthetic securitisations.

Nedbank Group complies with IFRS in recognising and accounting for securitisation transactions.

- In particular, the assets transferred to the Greenhouse and Precinct securitisation vehicles continue to be recognised on the balance sheet of the bank and the securitisation vehicles are consolidated under Nedbank Group for financial reporting purposes, as was Synthesis.
- Securitisations are treated as sale transactions (rather than financing transactions). The assets are sold to the special-purpose vehicles at carrying value and no gains or losses are recognised.

Proposed securitisation initiatives undertaken by Nedbank Group follow a rigorous internal approval process and are reviewed for approval by Group Alco, GRCMC and the board. Retained securitisation exposures are reviewed and monitored by the relevant credit committees in the group, and changes to retained securitisation exposures (ratings, redemptions and losses) are reflected in the monthly return concerning securitisation schemes (BA500) submitted to SARB.

Nedbank Group does not employ CRM techniques to hedge credit risk on retained securitisation exposures or resecuritisation exposures.

The table below details Nedbank Group's securitisation exposures in the banking book. Nedbank Group has no securitisation exposure in the trading book.

SEC1: SECURITISATION EXPOSURES IN THE BANKING BOOK

	Traditional securitisation			
Rm	Group acts as originator	Group acts as sponsor	Group acts as investor	Total
2017				
1 Retail, of which	**296**		**6**	**302**
2 residential mortgages	**296**			**296**
4 other retail exposures			**6**	**6**
5 resecuritisation				
6 Wholesale, of which	**548**			**548**
7 loans to corporates				
8 commercial mortgages	**548**			**548**
9 leases and receivables				
11 resecuritisation				
Total	**844**		**6**	**850**
2016				
1 Retail, of which	664	411		1 075
2 residential mortgages	664			664
5 resecuritisation		411		411
6 Wholesale, of which	489	264		753
7 loans to corporates		202		202
8 commercial mortgages	489			489
9 leases and receivables				
11 resecuritisation		62		62
Total	1 153	675		1 828

The decline in total exposure from R1 828m to R850m was driven by the decline in liquidity facilities provided to Synthesis, and the redemption of Greenhouse notes.

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

	Exposure values by risk weight bands				Exposure values by regulatory approach		RWA by regulatory approach		Capital charge after cap	
Rm	≤ 20%	> 20% to 50%	> 50% to 100%	> 100% to < 1 250%	IRB RBA	IRB SFA	IRB RBA	IRB SFA	IRB RBA	IRB SFA
2017										
1 Total exposures										
3 Securitisation, of which	**375**		**296**	**173**	**170**	**674**	**257**	**358**	**28**	**38**
4 retail underlying			**296**			**296**		**259**		**28**
5 wholesale	**375**			**173**	**170**	**378**	**257**	**99**	**28**	**10**
6 Resecuritisation, of which										
7 senior										
8 non-senior										
2016										
1 Total exposures	675		862	291	750	1 078	391	705	40	72
3 Securitisation, of which	202		862	291	277	1 078	260	705	27	72
4 retail underlying			373	291	71	593	84	568	9	58
5 wholesale	202		489		206	485	176	137	18	14
6 Resecuritisation, of which	473				473		131		13	
7 senior	473				473		131		13	
8 non-senior										

There were no synthetic securitisations (rows 9 to 15) and no exposures in the > 20% to 50% risk weight band at 31 December 2017.

SEC4: SECURITISATION EXPOSURES IN THE BANKING BOOK AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS

BANK ACTING AS INVESTOR

	Exposure values by risk weight bands			Exposure values by regulatory approach		RWA by regulatory approach		Capital charge after cap	
Rm	≤ 20%	> 50% to 100%	> 100% to < 1 250%	IRB RBA (including IAA)	IRB SFA	IRB RBA (including IAA)	IRB SFA	IRB RBA (including IAA)	IRB SFA
2017									
1 Total exposures		**6**		**6**		**6**		**1**	
3 Securitisation, of which		**6**		**6**		**6**		**1**	
4 retail underlying		**6**		**6**		**6**		**1**	
5 wholesale									
6 Re-securitisation, of which									
7 senior									
8 non-senior									

There were no securitisation exposures where the bank acted as an investor at 31 December 2016.

There were no synthetic securitisations (rows 9 to 15) and no exposures in the ≤ 20% and > 100% to 1 250% risk-weight bands at 31 December 2017.

Market risks

Market risk comprises four main areas:

- IRRBB, which arises from repricing and/or maturity mismatches between on- and off-balance-sheet components across all the business clusters.
- Market risk (or position risk) in the trading book, which arises predominantly in Nedbank CIB.
- Foreign exchange risk in the banking book, which arises from the conversion of the group's/businesses' offshore banking book assets or liabilities or commitments or earnings from foreign currency to local or functional currency.
- Equity risk in the banking book, which arises in the private-equity and investment property portfolios of Nedbank CIB and in other strategic investments of the group; and property market risk, which arises from business premises, property required for future expansion and repossessed properties.

Other than IRRBB, Nedbank does not have a significant risk appetite for, or exposure to, market risk.

Market risk strategy, governance and policy

The Group Market Risk Management Framework is in place to achieve effective independent monitoring and management of market risk. The framework is approved by the board and comprises:

- The board's GRCMC.
- The Group Alco, which is responsible for ensuring that market risks are effectively managed and reported on throughout Nedbank Group, and that all policy, risk limits and relevant market risk issues are reported to the GRCMC.
- GMRM, an independent function within the Group Risk Cluster monitors market risks across Nedbank Group – this is a specialist risk area that provides independent oversight of market risk, validation of risk measurement, policy coordination and reporting.
- The Trading Risk Committee (TRC), which is responsible for the oversight and monitoring of the trading market risk activities of Nedbank CIB. The TRC approves appropriate trading risk limits for the individual business units within the trading area. Committee meetings are held every second month and are independently chaired by the Executive Head of GMRM. Members include the CRO, risk managers from the cluster, the cluster's managing executive and executive head of risk, as well as representatives from GMRM.
- Specialist investment risk committee meetings within the business areas are convened monthly and as required to approve acquisitions and disposals, and quarterly to review investment valuations and monitor investment risk activities. Membership includes the CRO, CFO, managing executive and executive head of risk of the relevant business cluster as well as a representative from GMRM.

The board ultimately approves the market risk appetite and related limits for both the banking [Asset and liability management (ALM) and investments] and the trading books. GMRM reports on the market risk portfolio and is instrumental in ensuring that market risk limits are compatible with a level of risk acceptable to the board. No market risk is permitted outside these board-approved limits. Hedging is an integral part of managing trading book activities on a daily basis. Banking book hedges are in line with Group Alco strategies and stress testing is performed monthly to monitor residual risk.

Nedbank CIB is the only cluster in the group that may incur trading market risk, but is restricted to the formally approved securities and derivative products. Products and product strategies that are new to the business undergo a new-product review and approval process to ensure that their market risk characteristics are understood and can be properly incorporated into the risk management process. The process is designed to ensure that all risks, including market, credit (counterparty), operational, legal, tax, compliance and regulatory (eg exchange control and accounting) risks are addressed and that adequate operational procedures and risk control systems are in place.

Interest rate risk in the banking book

Nedbank Group is exposed to IRRBB primarily due to the following:

- The bank writes a large quantum of prime-linked advances.
- To lengthen the funding profile of the bank term funding is raised across the curve at fixed-term deposit rates that are repriced only on maturity.
- Three-month repricing swaps and forward-rate agreements are typically used in the risk management of term deposits and fixed-rate advances.
- Short-term demand funding products are repriced to different short-end base rates.
- Certain non-repricing transactional deposit accounts are non-rate-sensitive.
- The bank has a mismatch in net non-rate-sensitive balances, including shareholders' funds that are not repriced for interest rate changes.

IRRBB comprises:

- Repricing risk (mismatch risk) – timing difference in the maturity (for fixed rate) and repricing (for floating rate) of bank assets, liabilities and off-balance-sheet positions.
- Endowment risk – the net mismatch between non-rate-sensitive assets, liabilities, capital and non-repricing transactional deposit accounts effectively invested in rate-sensitive assets.
- Reset or basis risk – imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.
- Yield curve risk – changes in the shape and slope of the yield curve.
- Embedded optionality – the risk related to interest-related options embedded in bank products.

IRRBB strategy, governance, policy and processes

IRRBB is managed within Nedbank Group's ERMF under market risk. The board of directors retains ultimate responsibility for the effective management of IRRBB. Through the GRCMC (a board subcommittee) the board has delegated its responsibility for the management of IRRBB to the Group Alco. The Group Alco, a subcommittee of the board's GRCMC, proactively manages IRRBB. BSM provides strategic insight and motivation in managing IRRBB to Group Alco through appropriate risk reporting and analytics and by providing strategic input based on the committee's interest rate views, impairment sensitivity and defined risk appetite.

The board assumes ultimate responsibility for IRRBB and has defined the group's overall risk appetite for IRRBB. Appropriate limits have been set to measure this risk for both earnings and EVE, within which this risk must be managed. Compliance with these limits is measured and reported to the Group Alco and the board.

IRRBB is actively managed through a combination of on- and off-balance-sheet strategies, including hedging activities. Hedging is typically transacted on a portfolio basis for deposits and retail advances, albeit that larger, longer-dated deposits along with wholesale fixed-rate advances are typically individually hedged. The principal interest-rate-related contracts used include interest rate swaps and forward-rate agreements. Basis products, caps, floors and swaptions may be used to a lesser extent. The principal on-balance-sheet components used in changing the repricing profile of the balance sheet include the liquid-asset portfolio, term deposits and fixed-rate advances. IRRBB strategies are evaluated regularly to align with interest rate views, impairment sensitivity and defined risk appetite.

Group Alco continues to analyse and manage IRRBB, incorporating the likely change in impairments for similar interest rate changes. This relationship between interest rate sensitivity and impairment sensitivity, which is seen as a natural net income hedge, is a key focus of the Group Alco in managing IRRBB. This analysis includes an assessment of the lag in impairment changes and the increasing change in impairment charges for consecutive interest rate changes. Due to the complexity in determining the extent of this natural net income hedge, particularly during interest rate peaks and troughs, the modelling of this relationship and associated risk management strategies is challenging and continues to be refined and improved.

On-balance-sheet strategies are executed through any one of the business units, depending on the chosen strategy. Changes to the structural interest rate risk profile of the banking book are achieved primarily through the use of the derivative instruments mentioned above and/or new on-balance-sheet products. Hedges are transacted through Group Treasury via the ALM Desk, whereby unwanted IRRBB is passed through a market-making desk into market risk limits or into the external market.

Hedged positions and hedging instruments are regularly measured and stress-tested for effectiveness and reported to Group Alco on a monthly basis. These hedged positions and hedging instruments are fair-valued in line with the appropriate accounting standards and designation. The Group Alco typically has a strategic appetite out to one year and, largely as a matter of policy, eliminates reprice risk longer than one year, unless it elects to lengthen the investment profile of its equity and/or the non-repricing transactional deposit accounts to improve the alignment of interest rate sensitivity with impairment sensitivity or improve the balance sheet position for expected interest rate changes.

Such strategic decisions must, however, maintain NII sensitivity and EVE sensitivity within board-approved limits. Strategies regarding the reprice risk are measured and monitored separately, having been motivated by the BSM Cluster and approved by Group Alco.

IRRBB cannot be taken by business units and is accordingly extracted from these units through an established matched maturity funds transfer pricing (MMFTP) solution. This solution removes repricing risk from the business units, while leaving credit and funding spread in the businesses on which they are measured. However, certain basis risk and the endowment on free funds and non-repricing transactional deposits reside within these businesses in order for basis risk to be managed through pricing and for the endowment on these balances to naturally hedge impairment sensitivity for similar interest rate changes.

IRRBB measurement

The group employs various analytical techniques to measure interest rate sensitivity monthly within the banking book on both an earnings and economic-value basis. This includes a repricing profile analysis, simulated modelling of the bank's earnings-at-risk (EaR) and EVE for a standard interest rate shock, and stress testing of EaR and EVE for multiple stressed-interest-rate scenarios. These analyses include the application of both parallel and non-parallel interest rate shocks and rate ramps.

Assets, liabilities and derivative instruments are modelled and reported based on their contractual repricing or maturity characteristics. Where advances are exposed to prepayments and deposits to ambiguous repricing, Group Alco approves the use of prepayment models for the hedging of fixed-rate advances and behavioural repricing assumptions for the modelling and reporting of ambiguous repricing deposits.

NII SENSITIVITY ANALYSIS

At December 2017 the NII sensitivity of the group's banking book for a 1% parallel reduction in interest rates, measured over 12 months, is 1,67% of total group OSE, which is within the board's approved risk limit of < 2,25%.

This exposes the group to a decrease in NII of approximately R1 363m before tax should interest rates decrease by 1%, measured over a 12-month period.

The group's NII sensitivity exhibits very little convexity and will therefore also result in an increase in pretax NII of approximately similar amounts should interest rates increase by 1%.

The group's NII sensitivity is actively managed through on- and off-balance-sheet interest rate risk management strategies for the group's expected interest rate view and impairment sensitivity.

Nedbank Limited's EVE, measured for a 1% parallel decrease in interest rates, remains at a low level of R60m at December 2017 (December 2016: -R13m).

- This is as a result of the group's risk management strategies, whereby assets and liabilities are typically positioned to reprice in the < 3-month repricing bucket, and net working capital largely offsets the non-rate-sensitive transactional balances from an interest rate sensitivity perspective, thereby positioning OSE to be repriced as interest rates change.

EXPOSURE TO INTEREST RATE RISK

	Nedbank Limited		Nedbank Limited Consolidated		Nedbank Group	
Rm	**2017**	2016	**2017**	2016	**2017**	2016
NII sensitivity[1]						
1% instantaneous decline in interest rates	**(1 123)**	(1 076)	**(1 210)**	(1 197)	**(1 363)**	(1 367)
EVE sensitivity[2]						
1% instantaneous decline in interest rates	**60**	(13)	**n/a**	n/a	**n/a**	n/a

[1] *Nedbank London and Nedbank Private Wealth: 0,5% instantaneous decline in interest rates.*

[2] *Excludes Nedbank London.*

Liquid-asset portfolios

Nedbank's management of IRRBB comprehensively covers the interest rate risk associated with its prudential and buffer liquid-asset portfolios, including reprice risk and basis risk.

Risk strategies comprise of on- and off-balance-sheet components, whereby the associated interest rate risk of the group's liquid-asset portfolios is used to reduce the reprice sensitivity associated with its fixed-rate term funding and long-term debt in order to manage opposing basis risk on such debt, or it is hedged using derivative positions to remove the associated repricing risk.

Alternatively, where the associated risk cannot be used within the banking book, such risk is transferred through market risk limits into the trading book.

NEDBANK LIMITED'S LIQUID-ASSET PORTFOLIOS: ACCOUNTING CLASSIFICATION

Rm	Notional[1]	Designated at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments
2017				
Government and other securities[2]	**31 390**	**5 295**	**3 190**	**22 905**
Other short-term securities[3]	**61 806**	**35 798**		**26 008**
Total	**93 196**	**41 093**	**3 190**	**48 913**
2016				
Government and other securities[2]	34 158	12 716	270	21 172
Other short-term securities[3]	58 186	23 910		34 276
Total	92 344	36 626	270	55 448

[1] *Nedbank Limited banking book liquid-asset portfolios.*

[2] *Government bonds.*

[3] *Treasury bills.*

The accounting treatment of Nedbank's liquid-asset portfolios is determined by the group's interest rate risk management strategies to align the accounting thereof with the economic substance of risk management.

Held-to-maturity investments (accrual accounted)

The accrual-accounted liquid-asset portfolios are not impacted by changes in the yield curve, as these portfolios are designated held to maturity and carried at book value.

These portfolios are used as an on-balance-sheet interest rate risk hedge for the bank's fixed-rate term funding, longer-dated senior unsecured debt and subordinated debt (also carried at book value).

This designation is also used when liquid assets are held for strategic positioning of the balance sheet based on Group Alco's interest rate forecast and IRRBB and impairment sensitivity levels.

Liquid assets designated at fair value through profit and loss (fair-value accounted)

The fair-value-accounted liquid-asset portfolios are risk-managed using interest rate swaps. These portfolios are managed within board-approved MtM limits covering both parallel and basis shifts between the bond and the swap curve.

The banking book has limited appetite for basis risk and, where possible, offsets the basis risk on the liquid-asset portfolio against opposing basis risk positions on the balance sheet (ie basis risk on liquid assets versus basis risk on the subordinated debt) before transferring the residual basis risk into trading limits.

Sensitivity

Sound risk management of the liquid-asset portfolios is a clear example of Nedbank's embedded interest rate risk management approach to managing risks within clearly defined risk appetite.

Government and other short-term securities	Notional Rm	PV01[1] no risk management Rm	PV01[1] with risk management Rm
2017			
Designated fair value through profit or loss and AFS	**44 283**	**(4,31)**	**0,22**
Risk-managed with derivatives	**44 283**	**(4,31)**	**0,22**
Held-to-maturity investments	**48 913**	**(9,13)**	**0,64**
Risk-managed with long-term debt instruments with similar designation	**16 962**	**(7,11)**	**0,45**
Risk-managed with fixed-rate term funding	**31 951**	**(2,02)**	**0,19**
Total	**93 196**	**(13,44)**	**0,86**
Risk management effectiveness			**106,4%**

[1] *The change in the price of an instrument if the yield curve changes by one bps.*

The interest rate risk sensitivity is significantly reduced through on- and off-balance-sheet risk management strategies.

Trading market risk

Trading market risk is the risk of loss as a result of unfavourable changes in the market value of the trading book resulting from changes in market risk factors such as foreign exchange rates, interest rates, equity prices, commodity prices, credit and implied volatilities. The trading book is defined as positions in financial instruments and commodities, including derivative products and other off-balance-sheet instruments that are held with trading intent, or used to hedge other elements of the trading book.

Categories of trading market risk include exposure to interest rates, equity prices, commodity prices, foreign exchange rates and credit spreads. A description of each market risk factor category is set out below:

- Interest rate risk primarily results from exposure to changes in the level, slope and curvature of the yield curve and the volatility of interest rates.
- Equity price risk results from exposure to changes in the price and volatility of individual equities and equity indices.
- Commodity price risk results from exposure to changes in spot prices, forward prices and volatilities of commodity products such as energy, agricultural products, and precious and base metals.
- Foreign exchange rate risk results from exposure to changes in spot prices, forward prices and volatilities of currencies.
- Credit spread risk results from exposure to changes in the interest rate that reflects the spread investors receive for bearing credit risk.

Trading market risk governance

The trading market risk governance structure is aligned with the Group Market Risk Management Framework. The daily responsibility for market risk management resides with the trading business unit heads in Nedbank CIB. An independent market risk team is accountable for independent monitoring of the activities of the dealing room within the mandates agreed by the TRC. Independent oversight is provided to the board by GMRM.

Primary market risk limits, including VaR and stress trigger limits, are approved at board level and are reviewed periodically, but at least annually. These limits are then allocated to the trading units through secondary limits by the TRC. Market risk reports are available at a variety of levels and in various degrees of detail, ranging from individual trader-level through to a group-level view of market risk. Market risk exposures are measured and reported to management and bank executives on a daily basis. Documented policies and procedures are in place to ensure that exceptions are resolved timeously.

Managing trading market risk

Trading market risk is governed by a board-approved policy that covers management, identification, measurement and monitoring.

In addition to applying business judgement, management uses a number of quantitative measures to manage the exposure to trading market risk. These measures include:

- Risk limits based on a portfolio measure of market risk exposures referred to as VaR, including extreme tail loss (ETL).
- Scenario analysis, stress tests and other analytical tools that measure the potential effects on trading revenue arising in the event of various unexpected market events.

The material risks identified by these measures are summarised in daily reports that are circulated to, and discussed with, senior management.

VaR is the potential loss in pretax profit due to adverse market movements over a defined holding period with a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. It facilitates the consistent measurement of risk across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The 99% one-day VaR number used by Nedbank Group reflects, at a 99% confidence level, that the daily loss will not exceed the reported VaR and therefore that the daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days.

Nedbank Group uses one year of historical data to estimate VaR. Some of the considerations that are taken into account when reviewing the VaR numbers are:

- The assumed one-day holding period will not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day.
- The historical VaR assumes that the past is a good representation of the future, which may not always be the case.
- The 99% confidence level does not indicate the potential loss beyond this interval.
- If a product or listing is new in the market, limited historical data would be available. In such cases, a proxy is chosen to act as an estimate for the historical rates of the relevant risk factor. Depending on the amount of (limited) historical rates available, regression analysis is used on the chosen proxy to refine the link between the proxy and the actual rates.

Additional risk measures are used to monitor the individual trading desks, including performance triggers, approved trading products, concentration of exposures, maximum tenor limits and market liquidity constraints. Nedbank CIB also makes use of the ETL measure to overcome some of the VaR shortcomings. ETL seeks to quantify losses encountered in the tail beyond the VaR level.

All market risk models are subject to periodic independent validation in terms of the Group Market Risk Management Framework. A formal review of all existing valuation models is conducted at least annually. Should the review process indicate that models need to be updated, a formal independent review will take place. All new risk models developed are independently validated prior to implementation.

Nedbank Group's current trading activities are focused on liquid markets, which are in line with the current regulatory liquidity horizon assumption of a 10-day holding period, as per Basel III.

Trading market risk stress testing

While VaR captures Nedbank Group's exposure under normal market conditions, sensitivity and stress and scenario analysis are used to add insight into the possible outcomes under abnormal market conditions.

- Nedbank CIB uses a number of stress scenarios to measure the impact of extreme moves in markets on portfolio values, based on historical experience as well as hypothetical scenarios. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk, reflecting the decreased liquidity that frequently accompanies market shocks.
- Stress-testing results are reported daily to senior management and are also tabled at the TRC and Group Alco. Stress scenarios are periodically and at least annually reviewed for relevance in ever-changing market environments.

Trading market risk backtesting

The performance of the VaR model is regularly assessed through a process called backtesting. This is done by comparing daily trading revenue against VaR exposure based on 99% confidence level and a one-day holding period. Nedbank performs backtesting using actual (reported) profit and loss as well as hypothetical profit and loss (calculated income attributed to market moves and stripped of fee/flow income). This is conducted at various levels as well as against risk factors on a daily basis.

Trading market risk profile

Most of Nedbank Group's trading activity is managed in Nedbank CIB and is primarily focused on client activities and flow trading. This includes marketmaking and the facilitation of client business in the foreign exchange, interest rate, equity, credit and commodity markets.

The final version of the BCBS's minimum capital requirements for market risk (previously referred to as FRTB) regulation was released in January 2016. Nedbank participated in the QIS after the release of this regulation and will participate in any further calibration exercises.

The RWA flow statement of market risk exposures under the IMA for the period is presented below; there were no incremental and comprehensive risk capital charges. RWA under TSA is less than 1% of the group RWA, and therefore the MR1 table has not been included in this report as it would not be meaningful nor add value for the user.

MR2: RISK-WEIGHTED ASSETS FLOW STATEMENT OF MARKET RISK EXPOSURES UNDER IMA

Rm		VaR	Stressed VaR	Total RWA
2017				
1	RWA at September 2017	**5 019**	**6 927**	**11 946**
2	Movement in risk levels	**46**	**772**	**818**
6	Foreign exchange movements	**1**	**734**	**735**
8	**RWA at December 2017**	**5 066**	**8 433**	**13 499**

MR3: NEDBANK LIMITED IMA VALUES FOR TRADING PORTFOLIOS[1]

Rm		Foreign exchange	Interest rate	Credit	Commodity	Diversification[2]	Total VaR
2017							
VaR (10-day 99%)[3]							
1	Maximum value[4]	**124,7**	**189,3**	**50,1**	**2,1**		**212,1**
2	Average value	**46,2**	**80,6**	**31,2**	**< 1**	**(39,5)**	**118,7**
3	Minimum value[4]	**12,8**	**32,8**	**23,4**	**< 1**		**51,4**
4	Period end	**48,1**	**98,9**	**40,9**	**2,1**	**(43,2)**	**146,8**
Stressed VaR (10-day 99%)[3]							
5	Maximum value[4]	**192,5**	**234,2**	**128,2**	**3,4**		**287,9**
6	Average value	**64,2**	**138,8**	**73,7**	**< 1**	**(91,7)**	**185,3**
7	Minimum value[4]	**17,0**	**87,4**	**34,0**	**< 1**		**130,2**
8	Period end	**121,6**	**171,0**	**116,7**	**3,4**	**(161,9)**	**250,8**
2016							
VaR (10-day 99%)[3]							
1	Maximum value[4]	126,5	161,4	34,4	8,4		314,3
2	Average value	69,3	75,6	24,3	1,0	(26,3)	143,9
3	Minimum value[4]	36,3	33,3	17,0	< 1		72,5
4	Period-end	80,3	77,2	28,7	< 1	(44,8)	141,5
Stressed VaR (10-day 99%)[3]							
5	Maximum value[4]	139,3	179,6	85,8	5,6		280,9
6	Average value	85,9	118,5	52,0	< 1	(68,0)	189,0
7	Minimum value[4]	42,0	84,5	27,1	< 1		118,7
8	Period end	115,3	108,5	80,4	< 1	(107,1)	197,1

[1] Equities are out of scope for Nedbank Limited IMA purposes and are covered under Nedbank Group.

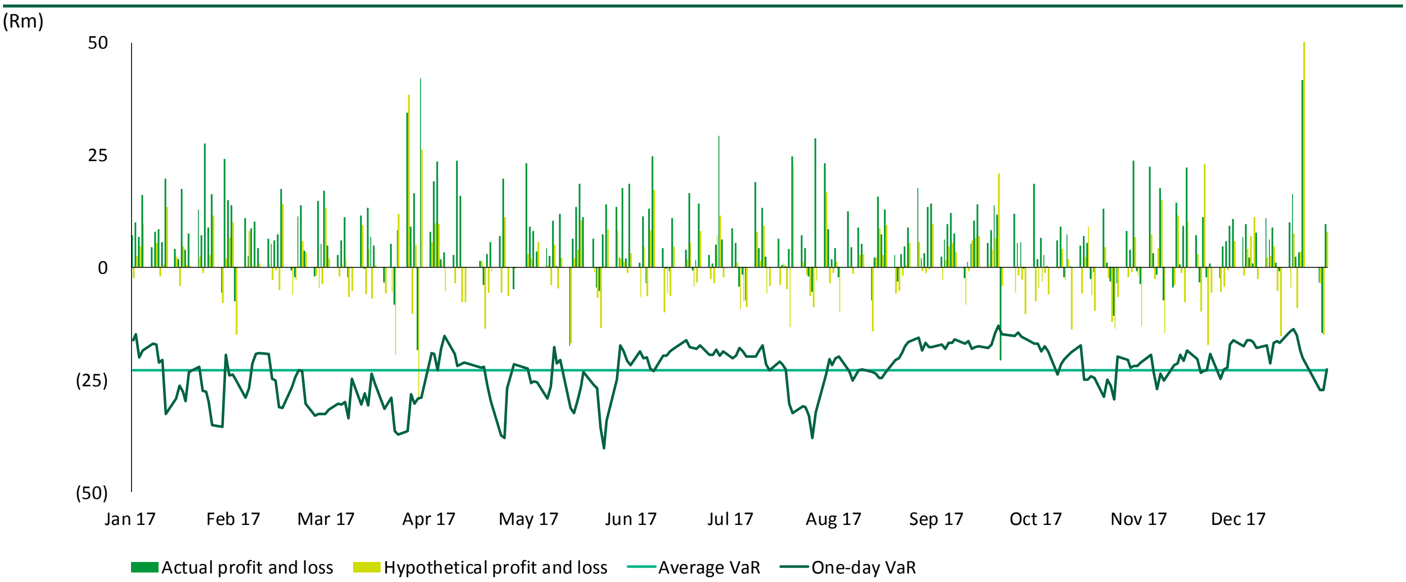
[2] Diversification benefit is the difference between the aggregate VaR and the sum of VaRs for the four risk types. This benefit arises because the simulated 99% one-day loss for each of the four primary market risk types occurs on different days.

[3] A summary of the 10-day 99% stressed VaR. Stressed VaR is calculated weekly and is included on the daily return concerning selected risk exposure (BA325) and the monthly return concerning market risk (BA320) that are submitted to SARB. It is calculated using a 99% confidence interval for a one-day holding period and then scaled to a 10-day holding period.

[4] The minimum and maximum VaR values reported for each of the different risk factors do not necessarily occur on the same day. As a result, a diversification number for the minimum and maximum values have been omitted from the table.

Backtesting – Daily trading revenue and VaR

MR4: Nedbank Group comparison of VaR estimates with gains or losses



The graph above illustrates the daily normal VaR for the 12-month period ended December 2017.

VaR remained fairly range-bound during the course of 2017 and was around 10% lower than in 2016. The period was categorised by greater volatility and uncertainty.

Nedbank Group has remained within the approved risk appetite and VaR limits allocated by the board, which remain low, with trading market risk consuming only 0,5% and 3,2% of group economic capital and regulatory capital respectively.

VaR is an important measurement tool and the performance of the model is regularly assessed through backtesting. This is done by reviewing the daily VaR over a one-year period (on average 250 trading days) and comparing the actual and hypothetical daily trading revenue (including NII but excluding commissions and primary revenue) with the VaR estimate, and counting the number of times the trading loss exceeds the VaR estimate.

- Nedbank Group had one hypothetical backtesting exception in the period under review, which was reported on 30 March 2017. This was due to market volatility on the back of President Zuma's cabinet reshuffle on the day. There was one actual backtesting exception reported on 22 September 2017 as a result of increased Treasury bill prices following the auction.

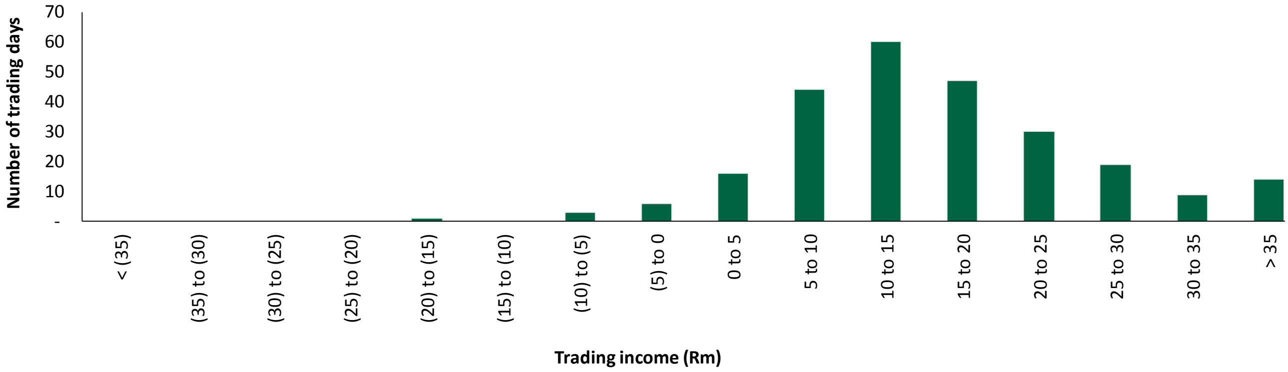
Analysis of trading revenue

The year was characterised by a positive contribution from most business lines, which resulted in strong financial performance, notably from the fixed-income and foreign exchange areas.

Nedbank Group's trading businesses (including NII, commissions and primary revenue credited to Nedbank Group's trading businesses) produced a daily revenue distribution that is skewed to the profit side, with trading revenue realised on 239 days out of a total of 249 days in the period.

The average daily trading revenue generated for the period, excluding revenue related to investment banking, was R16,2m (2016: R11,5m).

Nedbank Group analysis of trading revenue for the 12-months ended December 2017



Stress testing results

The table below summarises the daily stress testing results for December 2017 and December 2016, which represent a set of extreme market movements as applied to the trading activities.

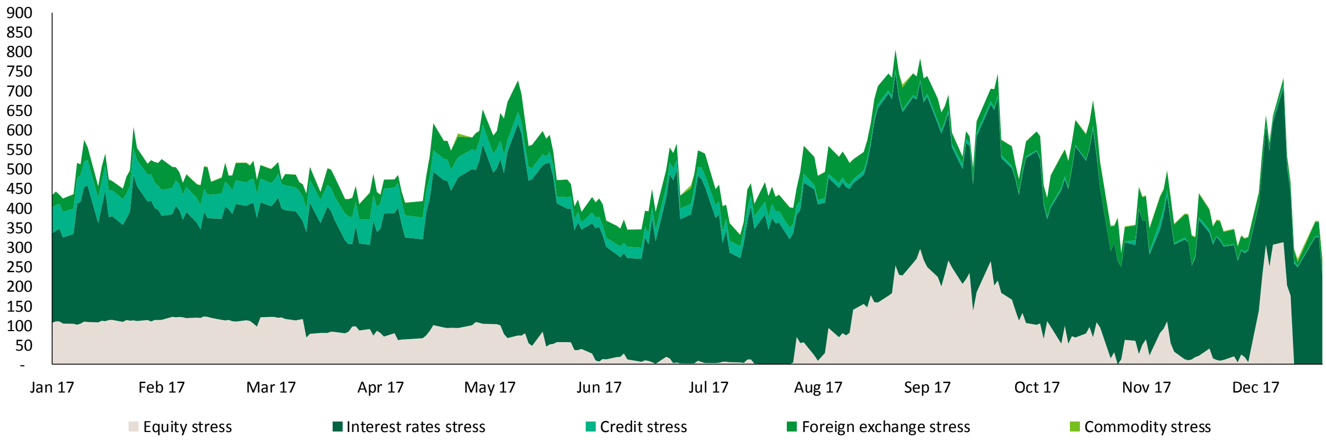
NEDBANK GROUP RISK EXPOSURES PER RISK FACTOR

Rm	Average	High[1]	Low[1]	End of period
2017				
Foreign exchange stress	**45**	**109**	**9**	**30**
Interest rate stress	**336**	**542**	**211**	**229**
Equity stress	**89**	**313**	**< 1**	**< 1**
Credit spread stress	**31**	**71**	**< 1**	**3**
Commodity stress	**< 1**	**12**	**< 1**	**12**
Overall	**501**	**806**	**270**	**274**
2016				
Foreign exchange stress	52	137	13	14
Interest rate stress	199	386	97	233
Equity stress	140	312	44	110
Credit spread stress	26	70	5	66
Commodity stress	13	55	< 1	< 1
Overall	430	776	236	423

[1] *The high and low stress values reported for each of the different risk factors do not necessarily occur on the same day. As a result the high- and low-risk factor stress exposures are not additive.*

Nedbank Group risk exposures for the 12-months ended December 2017

(Rm)



Nedbank Group trading book stressed VaR

As part of the Basel II.5 update to the Banks Act (Act No 94 of 1990) regulations, stressed VaR is calculated using market data taken over a period through which the relevant market factors were experiencing stress. Nedbank Group uses historical data from the period 1 July 2008 to 30 June 2009 as that period represents significant volatility in the SA market.

The information in the table below is the comparison of the VaR using three different calculations at 29 December 2017. The three different calculations are historical VaR, ETL and stressed VaR. ETL measures the extreme loss in the tail of the distribution and stressed VaR uses a volatile historical data period. A 99% confidence level and one-day holding period are used for all the calculations.

NEDBANK GROUP COMPARISON OF TRADING VaR

Rm	Historical VaR 99% (one-day VaR)	Stressed VaR 99% (one-day VaR)	Extreme tail loss
2017			
Foreign exchange	**3,8**	**10,3**	**5,0**
Interest rates	**31,3**	**68,2**	**48,6**
Equities	**3,7**	**6,2**	**4,5**
Credit	**12,1**	**13,7**	**14,4**
Commodities	**0,7**	**1,1**	**0,7**
Diversification	**(27,6)**	**(26,5)**	**(28,6)**
Total VaR exposure	**24,0**	**73,0**	**44,6**
2016			
Foreign exchange	2,8	3,3	4,1
Interest rates	11,4	37,3	12,2
Equities	2,2	15,5	2,4
Credit	8,4	14,3	17,3
Commodities	< 0,1	< 0,1	< 0,1
Diversification	(8,5)	(16,9)	(12,6)
Total VaR exposure	16,3	53,5	23,4

Foreign currency translation risk in the banking book

Foreign currency translation risk is the risk of the group's capital losing value as a result of movements in exchange rates that adversely impact the rand value of foreign-denominated equity in subsidiaries and associates.

NEDBANK GROUP OFFSHORE CAPITAL SPLIT BY FUNCTIONAL CURRENCY

	2017			2016		
$m (US dollar equivalent)	**Forex-sensitive**	**Non-forex-sensitive**	**Total**	Forex-sensitive	Non-forex-sensitive	Total
US dollar	**505**		**505**	497		497
Pound sterling	**185**		**185**	138		138
Malawi kwacha	**4**		**4**	5		5
Mozambican metical	**45**		**45**	37		37
Other		**524**	**524**		563	563
Total	**739**	**524**	**1 263**	677	563	1 240
Limit	**1 100**			1 100		

Foreign-denominated equity in subsidiaries and associates has increased by 9,2% to US $739m in 2017, primarily due to an increase in the value of the Nedbank Private Wealth and Nedbank London investments.

The total RWA for the group's foreign entities is R44,4bn, which is low at approximately 8,4% of total RWA.

Equity risk in the banking book

		2017	2016
Total equity portfolio	(Rm)	**10 647**	10 166
Disclosed at fair value	(Rm)	**7 095**	5 956
Equity-accounted	(Rm)	**3 552**	4 210
Percentage of total assets	(%)	**1,1**	1,1
Percentage of group minimum economic-capital requirement	(%)	**3,6**	4,6

Equity investments in the banking book are primarily undertaken by Nedbank CIB. Any additional investments are undertaken as a result of operational or strategic requirements.

The Nedbank board sets the overall risk appetite and strategy of the group for equity risk, and business compiles portfolio objectives and investment strategies for its investment activities. These address the types of investment, expected business returns, desired holding periods, diversification parameters and other elements of sound investment management oversight.

The ETI strategic investment is accounted for under the equity method of accounting and is therefore not carried at fair value. Equity investments that are accounted for under the equity method of accounting total R3 552m.

Counterparty credit risk

CCR is the risk that a counterparty to a derivative transaction could default before final settlement. An economic loss would occur if a transaction or portfolio of transactions with a given counterparty has a positive economic value at the time of default.

Counterparty credit limits are set at individual counterparty level and approved within the Group Credit Risk Management Framework. CCR exposures are reported and monitored at both business unit and group level. There is continued emphasis on the use of CRM strategies, such as netting and collateralisation of exposures. Nedbank Group and its large bank counterparties have International Swaps and Derivatives Association, International Securities Market Association and International Securities Lending Association master agreements as well as credit support (collateral) agreements in place to support netting and the bilateral margining of exposures.

Netting is only applied to underlying exposures where supportive legal opinion is obtained as to the enforceability of the relevant netting agreement in the particular jurisdiction.

Nedbank Group applies the CEM for Basel III CCR. The CEM results are also used as input into the economic-capital calculations to determine credit economic capital.

The Basel III regulatory standards for CCR contain significant enhancements. Included is the introduction of a standalone CVA capital charge for potential loss due to deterioration in the credit quality of the OTC derivative counterparties.

The increase in the replacement cost of interest rate swap and foreign exchange derivative products since December 2016 was driven by the impact of the rand strengthening in the fourth quarter on client hedges.

CCR1: ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

Rm		Replacement cost	Potential future exposure	EAD post-CRM	Risk-weighted assets[1]
2017					
1	CEM CCR (for derivatives)	**10 705**	**6 145**	**15 397**	**6 997**
4	Comprehensive Approach for CRM (for SFT)			**1 461**	**321**
6	**Total**	**10 705**	**6 145**	**16 858**	**7 318**
2016					
1	CEM CCR (for derivatives)	8 345	5 827	12 038	4 748
4	Comprehensive Approach for CRM (for SFT)			1 560	320
6	**Total**	8 345	5 827	13 598	5 068

[1] *CCR RWA, excluding CVA capital charge (refer to CCR2) and central counterparty (CCP) related RWA (refer to CCR8).*

Rows two, three and five are excluded from the CCR1 disclosure as the Internal Model Method (IMM) [for derivatives and securities financing transactions (SFT)], the Simple Approach for CRM (for SFT) and VaR for SFT are not applicable to the group.

Nedbank continues to actively manage earnings volatility due to its revaluation risk of CVA exposure from its trading activities to ensure this class of risk is managed within the bank's defined risk appetite. The CVA RWA increased from R10,6bn in 2016 to R16,6bn in 2017, largely as a result of client hedging activities, and also driven by the impact of strengthening of the rand in the fourth quarter on client hedges and higher trading volume of approximately 25 000 trades in 2017 (2016: ~19 000).

CCR2: CREDIT VALUATION ADJUSTMENT CAPITAL CHARGE

		2017		2016	
Rm		**EAD post-CRM**	**Risk-weighted assets**	EAD post-CRM	Risk-weighted assets
3	All portfolios subject to the Standardised CVA capital charge	**15 397**	**16 549**	12 038	10 608
4	**Total subject to the CVA capital charge**	**15 397**	**16 549**	12 038	10 608

Rows one and two are excluded from the CCR2 disclosure as the group does not apply the Advanced Approach for the CVA charge.

OTC derivative hedges executed in Nedbank non-SA banking entities in Africa and Nedbank Private Wealth (UK) operations are covered by TSA.

CCR3: STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

Regulatory portfolio	Risk weights					
Rm	0%	20%	50%	75%	100%	Total credit exposure
2017						
Banks			41			41
Corporates					3	3
Regulatory retail portfolios				23	8	31
Total			41	23	11	75
2016						
Banks	10	5	1			16
Corporates					21	21
Regulatory retail portfolios					12	12
Total	10	5	1		33	49

There were no exposures in the 0%, 20%, 10% and 150% risk weight buckets at 31 December 2017.

There were no exposures to sovereigns, non-central government public sector entities, multilateral development banks, securities firms and other assets at 31 December 2017.

SA, as a member of the G20, has committed itself to the OTC derivative reform aimed at reducing systemic risk and Nedbank actively engages with the local industry and its regulators to achieve this objective.

The tables that follow include a breakdown of the group's OTC derivative CCR exposure by entity type (corporate, sovereign and banks).

CCR4: AIRB – CCR EXPOSURES BY PORTFOLIO AND PD SCALE

	EAD post-CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
PD scale	Rm	%		%	Years	Rm	%
2017							
Corporate							
0,00 to < 0,15	2 301	0,07	166	33,51	2,14	391	16,99
0,15 to < 0,25	1 322	0,20	103	24,64	3,24	351	26,55
0,25 to < 0,50	938	0,41	162	24,68	2,98	323	34,43
0,50 to < 0,75	380	0,64	93	25,35	3,32	173	45,53
0,75 to < 2,50	2 109	1,26	306	25,13	2,44	1 184	56,14
2,50 to < 10,00	949	6,10	336	36,53	1,92	1 201	126,55
10,00 to < 100,0	141	14,79	14	30,89	3,22	231	163,83
100,0 (default)	12	100,00	2	22,43	1,00	37	308,33
	8 152	1,57	1 182	28,80	2,54	3 891	47,73
Sovereign[1]							
0,00 to < 0,15	59	0,05	6	18,69	4,76	8	13,56
0,15 to < 0,25	1 468	0,17	5	23,54	4,53	467	31,81
0,25 to < 0,50							
0,50 to < 0,75							
0,75 to < 2,50	2 153	1,81	2	24,33	3,24	1 494	69,39
2,50 to < 10,00	18	3,62	4	40,47	1,08	20	111,11
10,00 to < 100,0							
100,0 (default)							
	3 698	1,14	17	24,00	3,77	1 989	53,79
Banks							
0,00 to < 0,15	2 591	0,08	58	29,81	1,53	436	16,83
0,15 to < 0,25	1 449	0,16	8	20,55	1,29	248	17,12
0,25 to < 0,50	275	0,34	10	33,92	1,62	134	48,73
0,50 to < 0,75	99	0,64	4	42,30	1,41	81	81,82
0,75 to < 2,50	507	0,91	9	43,09	1,49	498	98,22
2,50 to < 10,00	2	3,62	4	54,56	1,00	3	150,00
10,00 to < 100,0		10,24	1	57,84	1,00		
100,0 (default)		100,00	2	100,00	1,00	3	
	4 923	0,22	96	28,94	1,46	1 403	28,50

PD scale	EAD post-CRM Rm	Average PD %	Number of obligors	Average LGD %	Average maturity Years	RWA Rm	RWA density %
Group							
0,00 to < 0,15	**4 951**	**0,08**	**230**	**31,39**	**1,85**	**835**	**16,87**
0,15 to < 0,25	**4 239**	**0,17**	**116**	**22,86**	**3,02**	**1 066**	**25,15**
0,25 to < 0,50	**1 213**	**0,39**	**172**	**26,78**	**2,67**	**457**	**37,68**
0,50 to < 0,75	**479**	**0,64**	**97**	**28,84**	**2,92**	**254**	**53,03**
0,75 to < 2,50	**4 769**	**1,47**	**317**	**26,68**	**2,70**	**3 176**	**66,60**
2,50 to < 10,00	**969**	**6,05**	**344**	**36,64**	**1,90**	**1 224**	**126,32**
10,00 to < 100,0	**141**	**14,79**	**15**	**30,91**	**3,21**	**231**	**163,83**
100,0 (default)	**12**	**100,00**	**4**	**23,73**	**1,00**	**40**	**333,33**
Total group	**16 773**	**1,08**	**1 295**	**27,78**	**2,49**	**7 283**	**43,42**
2016							
Corporate							
0,00 to < 0,15	1 600	0,07	141	36,51	1,94	295	18,44
0,15 to < 0,25	530	0,20	78	22,56	3,64	131	24,72
0,25 to < 0,50	1 347	0,34	160	30,84	3,04	589	43,73
0,50 to < 0,75	323	0,64	108	30,03	2,13	151	46,75
0,75 to < 2,50	2 297	1,11	293	18,04	2,05	859	37,40
2,50 to < 10,00	499	5,55	381	34,98	2,63	599	120,04
10,00 to < 100,0	69	10,82	17	33,48	4,50	118	171,01
100,0 (default)	9	100,00	3	41,10	1,00	51	566,67
	6 674	1,18	1 181	27,45	2,42	2 793	41,85
Sovereign[1]							
0,00 to < 0,15	1 328	0,10	9	17,95	3,98	236	17,77
0,15 to < 0,25							
0,25 to < 0,50							
0,50 to < 0,75							
0,75 to < 2,50	1 240	0,91	7	19,52	3,17	556	44,84
2,50 to < 10,00	14	3,62	1	49,40	1,00	20	142,86
10,00 to < 100,0							
100,0 (default)							
	2 582	0,51	17	18,88	3,57	812	31,45
Banks							
0,00 to < 0,15	2 518	0,07	73	27,24	1,67	382	15,17
0,15 to < 0,25	748	0,17	12	21,39	1,33	156	20,86
0,25 to < 0,50	381	0,33	12	32,43	3,01	235	61,68
0,50 to < 0,75	111	0,64	3	42,75	1,76	100	90,09
0,75 to < 2,50	534	0,92	11	42,73	1,80	553	103,56
2,50 to < 10,00	2	3,64	4	52,01	1,00	2	100,00
10,00 to < 100,0	< 1	40,05	2	67,50	1,00	1	
100,0 (default)							
	4 294	0,24	117	29,03	1,75	1 429	33,28
Group							
0,00 to < 0,15	5 446	0,08	223	27,70	2,31	913	16,76
0,15 to < 0,25	1 278	0,18	90	21,88	2,29	287	22,46
0,25 to < 0,50	1 728	0,34	172	31,19	3,03	824	47,69
0,50 to < 0,75	434	0,64	111	33,30	2,04	251	57,83
0,75 to < 2,50	4 071	1,02	311	21,73	2,36	1 968	48,34
2,50 to < 10,00	515	5,49	386	35,44	2,58	621	120,58
10,00 to < 100,0	69	10,93	19	33,60	4,49	119	172,46
100,0 (default)	9	100,00	3	41,10	1,00	51	566,67
Total group	13 550	0,75	1 315	26,32	2,43	5 034	37,15

[1] *Sovereign entities includes PSE and local governments and municipalities asset classes.*

Wrong-way risk is identified and monitored in line with internal risk processes. Wrong-way risk exposure is not excessive within Nedbank Group and is monitored by stress testing, which is conducted on both portfolio and counterparty level. Wrong-way risk is currently mitigated through the following mechanisms:

- The predominant use of cash collateralisation to mitigate CCR.
- The low - or zero-margin thresholds with counterparties.

Potential collateral calls or postings are monitored with our various counterparties, under a range of market movements and stress scenarios to provide senior management with a forward-looking view of future collateral requirements that may be incurred or imply liquidity risk for the bank.

CCR5: COMPOSITION OF COLLATERAL FOR CCR EXPOSURE

	Collateral used in derivative transactions				Collateral used in SFT	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
Rm	Segregated	Unsegregated	Segregated	Unsegregated		
2017						
Cash – domestic currency		**1 051**		**6 124**	**2 827**	**869**
Domestic sovereign debt		**401**			**22 316**	**9 448**
Government agency debt					**39**	**83**
Corporate bonds					**184**	
Equity securities					**4 935**	
Other collateral					**103**	
Total		**1 452**		**6 124**	**30 404**	**10 400**
2016						
Cash – domestic currency		1 683		6 191	3 200	1 598
Domestic sovereign debt		450			14 774	5 219
Government agency debt					180	263
Corporate bonds					686	
Equity securities					3 020	
Other collateral					40	
Total		2 133		6 191	21 900	7 080

The notional values for single-name credit default swaps are made up of credit default swaps embedded in credit-linked notes, whereby protection of R2 640m is bought and R59m is sold. The remainder of the notional values for single-name credit default swaps relates to trading positions in respect of third-party transactions through the purchase (R1 924m) and sale (R4 307m) of credit protection.

CCR6: CREDIT DERIVATIVES EXPOSURE

	2017		2016	
Rm	Protection bought	Protection sold	Protection bought	Protection sold
Notionals				
Single-name credit default swaps	**4 564**	**4 366**	4 824	4 580
Embedded derivatives	**2 640**	**59**	3 537	80
Third-party	**1 924**	**4 307**	1 287	4 500
Index credit default swaps			4 180	4 180
Total notionals	**4 564**	**4 366**	9 004	8 760
Fair values				
Positive fair value (asset)	**76**	**95**	59	96
Negative fair value (liability)	**(10)**		(83)	(132)

Nedbank Group exposure to qualifying central counterparties (CCPs) relates to exchange-traded derivatives.

CCR8: EXPOSURES TO CENTRAL COUNTERPARTIES

Rm	2017 EAD post-CRM	2017 RWA	2016 EAD post-CRM	2016 RWA
1 Exposures to qualifying CCPs	**8 474**	**54**	10 583	69
2 Exposures for trades at qualifying CCPs (excluding initial margin and default fund contributions), of which	**2 622**	**52**	3 357	67
3 (i) OTC derivatives				
4 (ii) Exchange-traded derivatives	**2 622**	**52**	3 357	67
5 (iii) Securities financing transactions				
6 (iv) Netting sets where cross-product netting has been approved				
7 Segregated initial margin	**5 791**		7 155	
8 Non-segregated initial margin				
9 Prefunded default fund contributions	**61**	**2**	71	2
10 Unfunded default fund contributions				

Rows 11 to 20 are excluded from CCR8 disclosure as there are no exposures to non-qualifying central counterparties for the year.

In December 2017 the BCBS published the paper Basel III: Finalising post-crisis reforms, which among other changes introduced the following, to the determination of RWA for CCR:

- The introduction of the Basic Approach and a new Standardised Approach for the measurement of CVA RWA.
- The application of the Foundation IRB Approach for financial institution and large corporate counters.
- The introduction of PD and LGD parameter floors for the Advanced IRB Approach.

Nedbank is participating in the Basel III monitoring QIS issued by the BCBS in February 2018, which among items will monitor the impact of these reforms.

In April 2014 the BCBS published a revision to the paper The Standardised Approach for measuring CCR exposures, which outlines the new Standardised Approach for calculating EAD in respect of OTC derivatives. The SA-CCR will replace both the CEM and the Standardised Method. Nedbank is well positioned to implement the new requirements and continues to monitor the impact of the new measurement of EAD for CCR. On 23 August 2017 the SARB published Guidance Note 7 of 2017, communicating the regulator's decision to delay implementation of the new standard.

Insurance risk

Insurance is based on the principle of pooling homogenous risks that are caused by low-probability events that cover death, disability, retrenchment, property and motor vehicle damage. Insurance risk incorporates three principal risk components, namely:

- Underwriting risk, where the client is placed into the incorrect risk pool.
- Pricing risk, where the level of risk associated with a pool is mispriced.
- Non-independence, where a single event results in claims from multiple clients. When many clients are affected simultaneously, this is known as a catastrophe.

Insurance risk also includes new business risk.

Actuarial and statistical methodologies are used to price insurance risk (eg morbidity, mortality and retrenchment). Underwriters align clients with this pricing basis and respond to any anti-selection by placing clients in substandard-risk pools, pricing this risk with an additional risk premium, excluding certain claim events or causes, or excluding clients from entering pools at all. Reinsurance is used to reduce the financial impact of claims arising from insured events and is used to reduce the variability of claims and to protect against catastrophe events. The level of reinsurance used is determined by considering the risk appetite mandated by the board.

Insurance risk predominantly arises in Nedbank Insurance, which is within the Nedbank Wealth Cluster.

- Nedgroup Life Assurance Company Limited (Nedgroup Life) offers credit life, simple-risk and savings solutions.
- Nedgroup Insurance Company Limited (NedIC) is a non-life insurer that historically focused predominantly on homeowner's insurance, personal-accident cover and vehicle-related value-added products for the retail market.
- Nedgroup Structured Life (NSL) offers fund, life and sinking-fund life policies.

Insurance risk strategy, governance and policy

Insurance risk is included in the ERMF, which consists of formal risk policy documentation and effective governance structures. These structures encompass management oversight to achieve independent monitoring. The insurance risk policy for the group formalises and communicates an approach to managing insurance risk by adopting industrywide principles and standards.

Although Nedbank Insurance is responsible and accountable for the management of all risks that emanate from insurance activities, underwriting risk is included in the group ERMF and rolls up into various other governance structures, through its link into the Insurance Risk Framework. The framework seeks to ensure that risk characteristics are properly understood, incorporated and managed where insurance activities are undertaken. Internal and external actuaries at appropriate levels play an oversight role with respect to insurance activities, including reporting and monitoring procedures in respect of product design, pricing, valuation, reinsurance, asset liability monitoring, solvency and capital assessment, and regulatory reporting.

Risks associated with new or amended products in the insurance business units fall under the group's formal product approval policy, which covers pricing and risk reviews by the statutory actuary and approval at cluster executive and group executive level (where required). The risks are subsequently managed through the risk management framework outlined above.

The board of Nedbank Insurance acknowledges responsibility for risk management within its business and mandate. Management is accountable to the board and the group for designing, implementing and integrating a risk management process. This allows for optimised risk-taking that is objective, transparent and ensures that the business prices risk appropriately, linking it to return and adequately addressing insurance underwriting risks in its day-to-day activities.

Insurance risk is managed throughout the insurance management process in the following manner:

- Monitoring the concentration of exposures and changes in the environment.
- Performing profile analysis as it relates to the risk characteristics of the insured.
- Monitoring key ratios to ensure that they are in line with expectations and to identify any potential areas of concern or any changes in claims patterns.
- Regular monitoring of policy movements to identify possible changes to the pricing basis for lapses and withdrawals.
- Annually reviewing premiums, taking into account both past and expected claims experience.
- Monitoring the concentration of insurance risk, which includes the assessment of geographical spreads, the impact of catastrophe reinsurance, maximum losses per event and mitigations that include sufficient reassurance and reviewable pricing and exclusions.
- Monitoring rigorous assessment procedures (including Forensics intervention, where required) to ensure that only valid claims are paid.
- Monitoring the effectiveness of reinsurance programmes by the board and various risk forums and external actuaries.
- Monitoring key process and risk indicators in the actuarial control committees.
- Seeking board approval for significant decisions, including the assessment of investment risk, evaluation of reinsurance partners, review of capital provision, credit appetite (as it relates to poor credit ratings of reinsurers and not within the risk appetite of insurance) and financial soundness.
- The Nedbank Wealth Investment Committee monitoring underlying investment risk quarterly, covering asset and liability matching as well as fund and asset management performance. However, policyholder investment mandates are matched monthly. Exposure limits are agreed and approved by the boards of the companies before approval is sought from the Group Alco.
- Following and applying modelling methodologies that are regulated by the Actuarial Society of SA, or, in the absence of such guidance, worldclass risk management principles.

Solvency II and SAM

The FSB is introducing a revised prudential regime for insurance, the SAM regime, to ensure that regulation of the SA insurance sector remains in line with international best practice.

The insurance businesses are on track with their SAM implementation, which has been embedded in the risk management frameworks, strategic initiatives and system enhancements. The businesses are currently engaged in the SAM comprehensive parallel run, during which they are required to report to the FSB on both the current regulatory regime and the SAM regulatory regime. Governance committees, policies and processes have been optimised to cater for the new requirements within the existing business units and in the oversight function.

Implementation of the SAM regime is expected during the second half of 2018.

- These requirements are already a core part of business as usual processes and reporting.
- The approach taken by the businesses is to ensure strategic alignment of SAM by using risk management in the business decisionmaking framework and business planning processes through Own-Risk and Solvency Assessments, which are being embedded in the existing reporting structures.
- SAM is an integral component of the insurance companies' strategy, business planning and day-to-day business operations and decisions.

Insurance risk in Nedbank

As discussed above, insurance risk arises in the Nedbank Wealth Cluster and is assumed by Nedgroup Life, Nedgroup Structured Life and NedIC.

Nedbank Wealth also provides banking and asset management services, and is considered a capital and liquidity 'light' business that generates high returns off a low-risk profile. Accordingly, it is considered a high-growth area in the group. Nedbank Insurance consumes only 1,6% (2016: 1,9%) of the group's allocated capital requirement.

The solvency ratios are reflected in the following table:

SOLVENCY RATIOS

Times	Regulatory minimum	Management target[1]	2017	2016
Long-term insurance (Nedgroup Life)	**1,00**	**> 1,5**	**7,3**	10,9[2]
Long-term insurance (Nedgroup Structured Life)	**1,00**	**> 1,5**	**1,4**	1,5
Non-life insurance (NedIC)	**1,00**	**> 1,5**	**1,6**	1,9[2]

[1] *Management target is based on the greater of regulatory and economic capital.*
[2] *The 2016 numbers are different to the numbers disclosed in the December 2016 Pillar 3 Report due to updates in estimates used in the models applied to calculate the solvency ratios.*

The long-term insurance ratio of Nedgroup Life is well above statutory and management target levels, mainly due to higher economic capital requirements in the business.

The following points explain the movements in the solvency ratios from 2016:

- The Nedgroup Life solvency ratio declined as a result of a material reassessment of the statutory capital requirement.
- The Nedgroup Structured Life solvency ratio declined slightly as the capital requirement has increased by more than the profits generated by this business in 2017. The increase in capital requirements is a result of increased policyholder assets under management.
- The decrease in NedIC's solvency ratio was the result of a change in the calculation methodology of the unearned premium reserve on term products, combined with an increase in disallowed foreign reinsurance receivables. The result was a decrease in statutory net asset value, which led to a decrease in capital cover.

Concentration and off-balance-sheet risks

Nedbank Group's holistic groupwide concentration risk measurement is a key feature of its Risk Appetite Policy and Framework.

All economic capital (ICAAP) and ERMF risk types are analysed by appropriate segmentation for possible concentrations. Segmentations considered are single name, industry, geographic, product, collateral and business unit.

Credit risk is the most material risk type as can be seen in its 65% contribution of the group's total economic capital. A liquidity crisis, however, is plausible due to the fact that banks transform short-term liquidity into long-dated funding, which exposes banks to liquidity mismatches, the most common cause of bank failures. Therefore, liquidity risk and credit risk are considered the two concentration risk focus areas for Nedbank, which also aligns with the lessons learnt from the global financial crisis. Other potential areas of concentration risk in Nedbank include equity risk in the banking book – property investments, property risk and IRRBB.

Concentration risk appetite targets are set in areas where Nedbank Group is materially exposed to concentration risk, as well as in areas of under concentration, to unlock opportunities. The targets are agreed by senior management and approved by the board.

Concentration risk is also a key feature of Nedbank Group's Market Risk Framework. However, undue concentration risk is not considered to prevail in the group's trading, forex and equity risk portfolios (evident in the low percentage contributions to total economic capital). These concentrations are monitored continuously by Group Alco and the board's GRCMC.

Credit risk

Within Nedbank Group credit concentration risk is actively managed, measured and ultimately capitalised through the group's economic capital and ICAAP. Unmanaged risk concentrations are potentially a cause of major risk in banks and are therefore considered separately as part of Nedbank's RAF.

Single-name credit concentration risk

The group's credit concentration risk measurement incorporates the asset size of obligors/borrowers into its calculation of credit economic capital. Single-name credit concentration, including the applicable regulatory and economic capital per exposure, is monitored at all credit committees within the group's ERMF.

The table below illustrates that Nedbank Group does not have excessive single-name concentration, as credit economic capital attributable to these exposures remains relatively low as a percentage of total economic capital at 8,11% (2016: 6,80%).

TOP 20 NEDBANK GROUP EXPOSURES

	Excluding banks and government exposure		
Number	Internal NGR[1] (PD) rating	Exposure (Rm)	Percentage of total group credit economic capital
2017			
1	NGR09	8 562	0,43
2	NGR11	7 917	0,59
3	NGR06	7 697	0,26
4	NGR06	5 767	0,20
5	NGR05	5 752	0,11
6	NGR09	5 569	0,72
7	NGR10	5 436	0,37
8	NGR11	5 387	0,47
9	NGR19	4 914	0,95
10	NGR07	4 499	0,30
11	NGR15	4 013	0,45
12	NGR09	3 905	0,11
13	NGR12	3 852	0,78
14	NGR09	3 349	0,09
15	NGR13	3 111	0,27
16	NGR09	3 064	0,23
17	NGR07	3 036	0,11
18	NGR09	3 019	0,17
19	NGR19	2 966	1,25
20	NGR12	2 891	0,25
Total of top 20 exposures	NGR13	94 706	8,11
Total group[2]		869 725	100,00

[1] Nedbank Group Rating.

[2] Total group EAD includes all Nedbank Group subsidiaries.

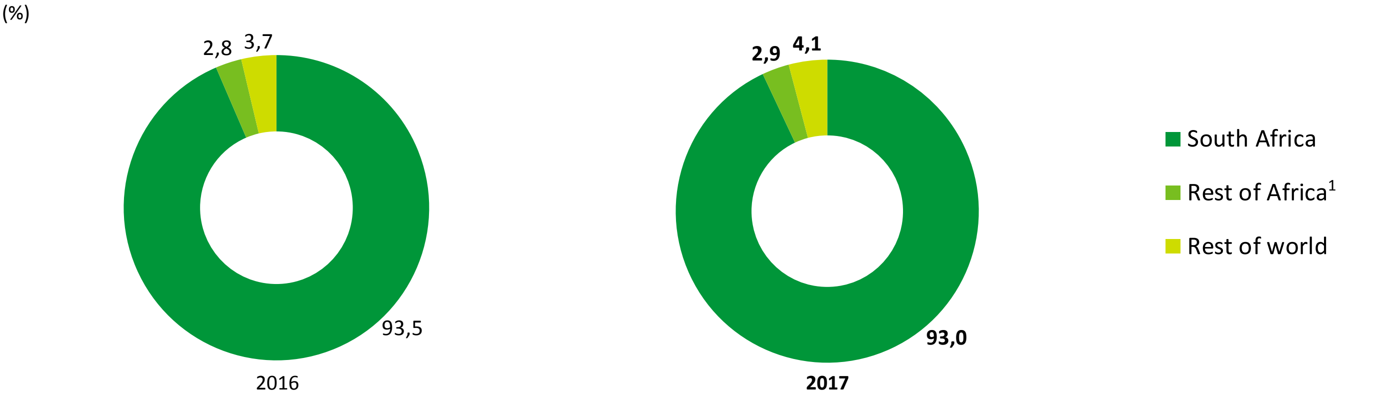
Direct exposure to the SA government relates mainly to statutory liquid-asset requirements, as well as Basel III liquidity buffers, and constitutes 12,4% (2016: 10,8%) of total balance sheet credit exposure.

- This increase relates to the buildup of HQLA, in line with the group's planning for the transitional LCR requirements that became effective on 1 January 2015. In line with these increasing transitional requirements, exposure to the SA government will continue to increase through to 2019.

Geographic concentration risk

Geographic concentration risk in SA has decreased to 93,0% (2016: 93,5%). Practically, however, this high concentration to SA is a direct consequence of Nedbank's strong footprint in the domestic banking market. As Nedbank has strong retail and wholesale operations in SA, in line with its universal bank business model, there is no undue concentration risk from a geographic perspective.

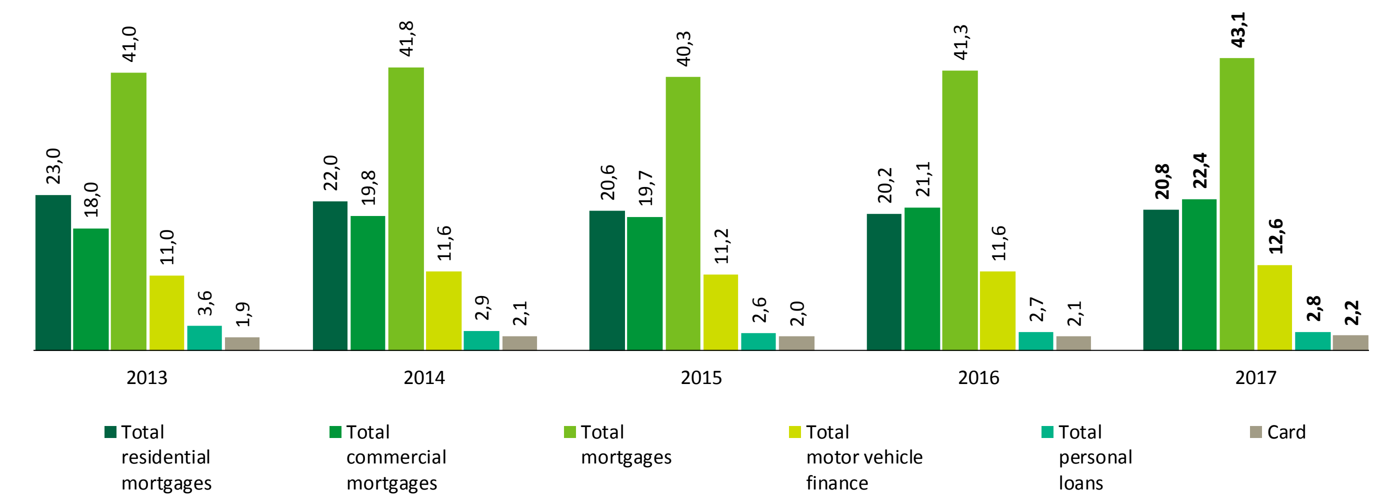
Geographic concentration risk



[1] *The Rest of Africa geographical segment consists of the Southern African Development Community banking subsidiaries. It does not include transactions concluded with clients resident in the rest of Africa by other group entities within Nedbank CIB nor significant transactional banking revenues.*

Product concentration risk

Percentage of total gross loans and advances by major credit portfolio



Nedbank Group has adopted a selective origination, client-centred growth emphasis as a core component of its strategic portfolio tilt strategy.

Nedbank's approach to managing its mortgages (or property portfolio) is to take a holistic approach across both residential and commercial mortgages, preferring a leading market share in commercial mortgages, given the better risk-based economics and returns.

- Commercial-mortgage lending has increased since 2013 from 18,0% to 22,4% (2016: 21,1%) of gross loans and advances, and consequently Nedbank Group has maintained its leading local market share position, currently at 40,5%. This potentially high concentration is mitigated by good-quality assets, high levels of collateral, a low average LTV ratio (approximately 41,8%), the underpinning of corporate leases, and a highly experienced management team considered to be the leader in property finance in SA.
- While Nedbank Group has the smallest residential mortgage portfolio among the local peer group at 14,5% of market share, the contribution of these advances as a percentage of total gross loans and advances is still substantial at 20,8% in 2017 (2016: 20,2%). However, this level of contribution to the balance sheet is lower than that of its peers.
  - The focus in Home Loans since 2009 has been lending through our own channels (including branch, own sales force and more recently Nedbank's online home loan application) and to a far lesser degree, compared with the industry, through mortgage originators. This enables a better-quality risk profile, more appropriate risk-based pricing and therefore more appropriate returns, with a client-centred approach.
- When including commercial and residential mortgages, Nedbank's total mortgage market share is in line with that of its peers at 21,9%.
- Total motor vehicle finance exposure in Nedbank Group has increased to 12,6% (2016: 11,6%) of gross loans and advances. Current market share is approximately 28,1%, which is second among the big four banks in SA. Despite the current slowdown in growth across the vehicle finance sector, MFC's gross loans and advances grew by 6,6% due to its leading position in the secondhand and affordable-vehicle markets.

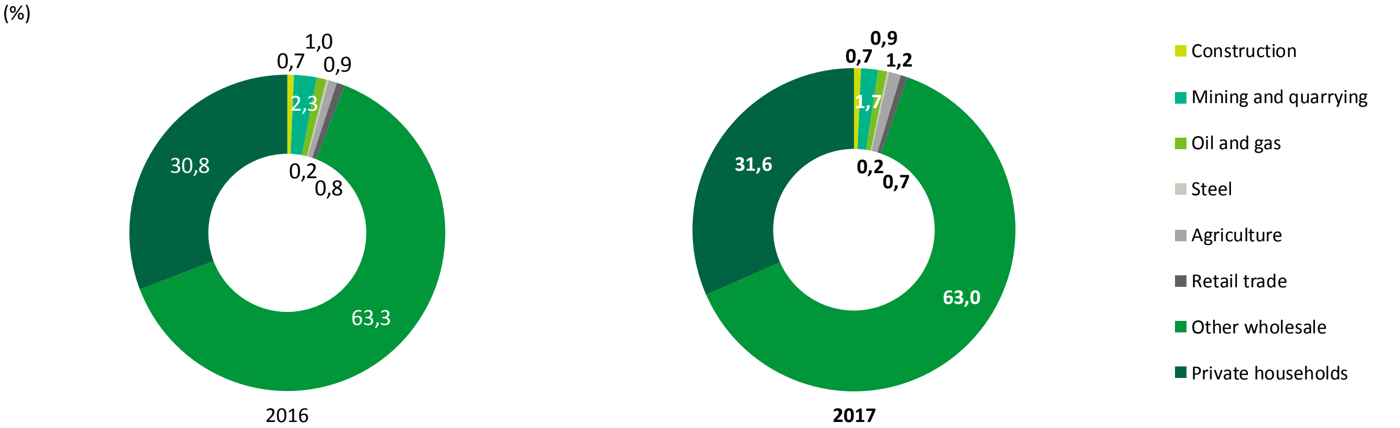
- Personal-loan advances have decreased from 3,6% in 2013 and are now at 2,8% of gross loans and advances. Personal-loan gross loans and advances increased by 3,7% from 2016.
- As a percentage of total gross loans and advances, Card loans and advances have increased moderately from 1,9% in 2013 to 2,2% in 2017 (2016: 2,1%).

Industry concentration risk

- The group has low concentration risk to the agriculture sector (affected by the recent drought) as well as those portfolios impacted by commodity prices that have stabilised at higher levels. These industries are a small component of the overall portfolio, representing 5,4% of the group's on-balance-sheet exposure, up from 5,1% in 2016.
- All impacted portfolios are closely monitored by Nedbank, and the quality thereof is assessed on an ongoing basis to ensure that the levels of credit impairments on these portfolios are adequate. Comprehensive deep dives and sensitivity analyses have been performed on these portfolios to obtain deeper insights into the changes experienced in the client base as well as to quantify the impact of further potential economic stresses.

Percentage of Nedbank Group on-balance-sheet exposure[1]

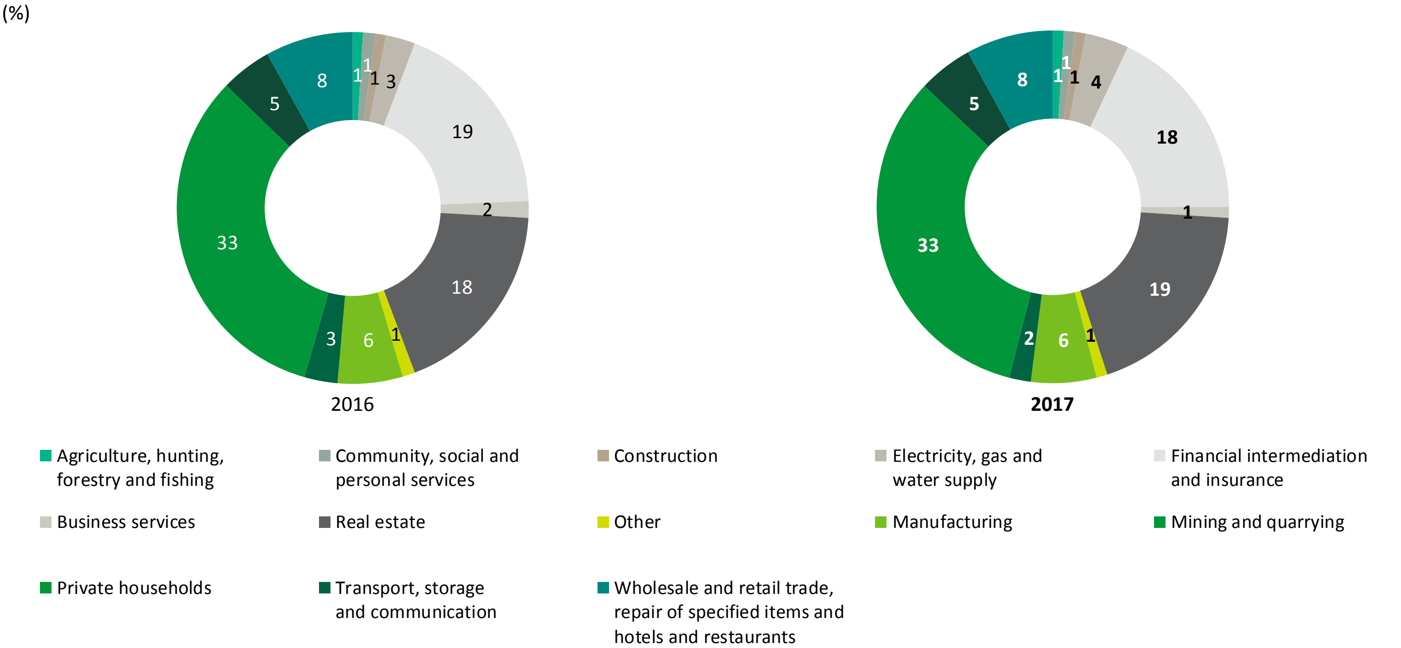
(%)



[1] *Nedbank Group on-balance-sheet exposure, R839bn (2016: R851bn).*

Nedbank Group industry exposure[1]

(%)



[1] *Nedbank Group credit exposure, which includes all credit exposure, with the exception of unutilised committed facilities.*

The group concludes that credit concentration risk is adequately measured, managed, controlled and ultimately capitalised. There is no undue single-name concentration and any sector concentrations that do exist are well managed as indicated above. While there is a concentration of Nedbank Group loans and advances in SA, this has been positive for Nedbank Group and is a function of its domestic footprint and universal bank business model.

Equity risk in the banking book – Property investments

The equity risk portfolio is concentrated in real estate at 35%, however, real estate equity investments constitutes only 0,45% of total assets at 31 December 2017. In terms of sector split, 28% of the real estate portfolio is in retail property, 12% in commercial property, 17% in residential property and 30% in mixed-use developments. In terms of geographic classification, 41% of the real estate portfolio is concentrated in Gauteng. The investment risks are neither unduly large nor concentrated for Nedbank Group.

Property risk

Property market risk includes exposure in Nedbank's business premises, property acquired for future expansion and PiPs. Property risk is highly concentrated, with 83% in Gauteng. The concentration risk in the headoffice (including regional) buildings is driven by the strategic need for Nedbank to own the key buildings from which it operates. Sandton is a high-growth area and the financial centre of Africa. However, any further property investment activities in the Sandton area will be considered against the existing concentration risk.

Liquidity risk – Wholesale funding reliance, consistent with local peers

Nedbank currently sources 37,6% of total funding from wholesale deposits, which include deposits from asset managers, interbank deposits and repo-related deposits. While the overall objective is to reduce wholesale funding reliance through increases in retail and commercial deposits, wholesale deposits are typically a source of long-term funding playing an important part in managing the overall term funding profile and reducing short-term contractual funding reliance.

Interest rate risk in the banking book – Prime/JIBAR reset risk and endowment sensitivity

Nedbank, like its local peer group, has a large quantum of assets linked to the prime index rate. This portfolio is typically funded through deposits linked to short-term deposit rates and term deposit rates that are risk-managed back to three-month repricing JIBAR. This creates short-end reprice risk that exposes the balance sheet to a prime/JIBAR reprice mismatch.

Nedbank's balance sheet is also funded through a large amount of rate-insensitive funding raised through equity and/or transactional deposits. These deposit balances and equity are not rate sensitive as they bear no interest and accordingly earn a higher return when interest rates are high and a lower return when interest rates are low, given that they have been deployed into variable-rate-linked assets. This exposes the bank to endowment sensitivity, which is the main reason for exposure to IRRBB in the balance sheet (see page 94).

Off-balance-sheet risks

With regard to off-balance-sheet risks, there are only four 'plain vanilla' securitisation transactions (see page 91), which have funding diversification rather than risk transfer objectives. In addition, there are no 'exotic' credit derivative instruments or any risky off-balance-sheet special-purpose vehicles.

Furthermore, the size of off-balance-sheet credit is monitored through the inclusion of the metric EAD:exposure in the suite of credit risk appetite metrics. The quantification of credit RWA through the use of EAD ensures capital requirements include off-balance-sheet exposure. The introduction of the Basel III leverage ratio is a further metric that places focus on off-balance-sheet activities as this metric calculates the leverage of the organisation with respect to both on- and off-balance-sheet exposures (see page 36), and Nedbank Group is well below both Basel and SARB limits with respect to the leverage ratio. A breakdown of the size of off-balance-sheet credit is shown on page 44, together with a breakdown of the contribution of each cluster.

Operational risk

Introduction

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or as a result of an external event.

Operational risk is generated in all areas of the business and is inherent in all products, activities, processes and systems. Nedbank's operational risk is managed through a framework designed to ensure that the risks associated with the group's activities are appropriately managed. This includes all risks arising from business practice, processing errors, failed execution, fraud, cyberattacks and information security breaches, system failures, and physical security failures. Identifying and managing operational risk, within acceptable levels, and adopting sound management practices, is a core element of our activities and is aimed at protecting and promoting a sustainable business.

Key activities for 2017

Nedbank made sound progress in pursuing its ORM strategic objectives. The key activities underpinning the ORM strategy that were undertaken and successfully implemented in 2017 include:

- Reviewing and refresh of operational risk frameworks. Emphasis was placed on dynamic and rapidly evolving subcategories of operational risk relating to execution, IT and financial-crime risks.
- Continued management of top and emerging operational risks, and aligning risk mitigation strategies to ensure that controls are adequate and effective.
- Reviewed the AMA operational risk model, including enhancements that use the latest techniques and technologies for operational risk modelling.
- Building on the advanced analytics capacity and capability in order to integrate ORM, measurement and appetite.
- Enhanced the scenario analysis process, with a focus on data quality and the incorporation of emerging risks.
- Implementation of initiatives to consolidate control and framework effectiveness testing in line with the rollout of the combined assurance programme.
- Sound progress in evolving from cybersecurity to cyberresilience. Ongoing projects and initiatives remain in place to raise the maturity across various components of the Cyberresilience Risk Management Framework (CRRMF).
- Remediation of risk data aggregation and risk reporting (RDARR) gaps as part of the groupwide EDP. Nedbank adopted a strategic approach by implementing a sustainable solution that will address the management of enterprise data.

Top and emerging operational risk themes

Operational risk is well managed across Nedbank including the AMA system. The group operated within approved operational risk appetite limits, with limited significant loss events greater than R5m experienced during the period. The focus remains on managing Nedbank's top operational risks and enhancing the control environment. The top and emerging operational risk themes for 2017 are as follows:

TOP AND EMERGING OPERATIONAL RISK THEMES

Risk type	Description
Execution risk	■ The risk of loss due to failures in processing transactions or managing processes. ■ Execution risk is expected as Nedbank runs complex operations to ensure the group remains relevant and is continuously adapting to the environment in which we operate.
Cybersecurity risk	■ The risk of loss or theft of information, data and money, or loss of accessibility of service. The growing threat of cyberattacks.
IT risk	■ Risks associated with running the bank and transforming the bank in a sustainable manner. ■ Includes risks relating to the bank's IT infrastructure, communication technology as well as the consolidation, simplification and replacement of legacy systems within the IT environment.
Regulatory risk	■ The risk arising from regulatory change due to the dynamic nature, varied interpretation and manner of implementation of regulations.
People risk	■ The risk associated with inadequacies in human capital and the management of human resources, policies and processes. This results in an inability to attract, manage, motivate, develop or retain competent resources, with an associated negative impact on the achievement of group strategic objectives.
Conduct and culture risk	■ The group's pattern of behaviour in executing its pricing and promotion strategy. ■ The relationship between the bank and the public, market, laws, best practices, client expectations, regulators and ethical standards.
Financial-crime risk	■ This risk includes a combination of subrisk categories such as commercial crime, violent crime and financial crime related regulatory contraventions.
Outsourcing and third-party risk	■ The risk arising from the use of a service provider to perform a business activity, service, function or process that could be undertaken by the bank.

These top risks and net operational risk losses were contained within the approved risk appetite limits.

Outlook for 2018

The exposure to operational risk has increased and is compounded by the current external operational risk environment. There are adverse macroeconomic and social shifts, global and local geo-political developments, unprecedented levels of change, regulatory developments and rapid innovation in technology resulting in a pressured inherent operational risk profile. Despite this current environment, Nedbank continues to build on its capacity to be forward-looking and predictive in managing operational risk and continues to invest in ORM and provide input and value to the broader community.

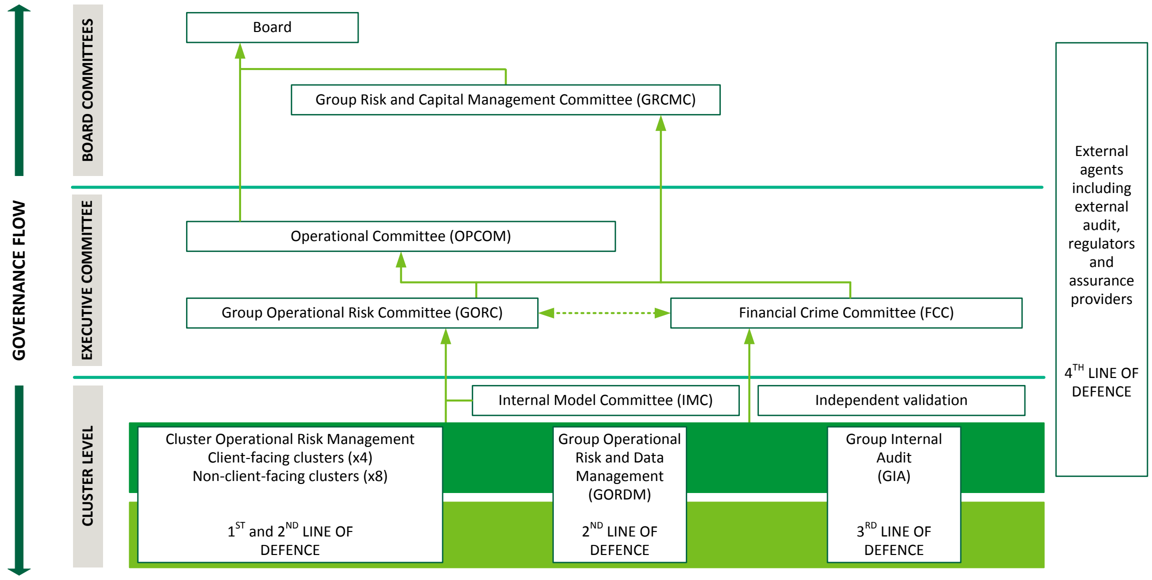
Nedbank Group's approach to managing operational risk

Nedbank Group currently quantifies operational risk using the AMA model. The group continues to invest in the enhancement of its operational risk measurement and management approaches.

Organisational risk structure and governance

The operational risk governance structure, supported by the lines-of-defence model, forms an integral part of the ORMF.

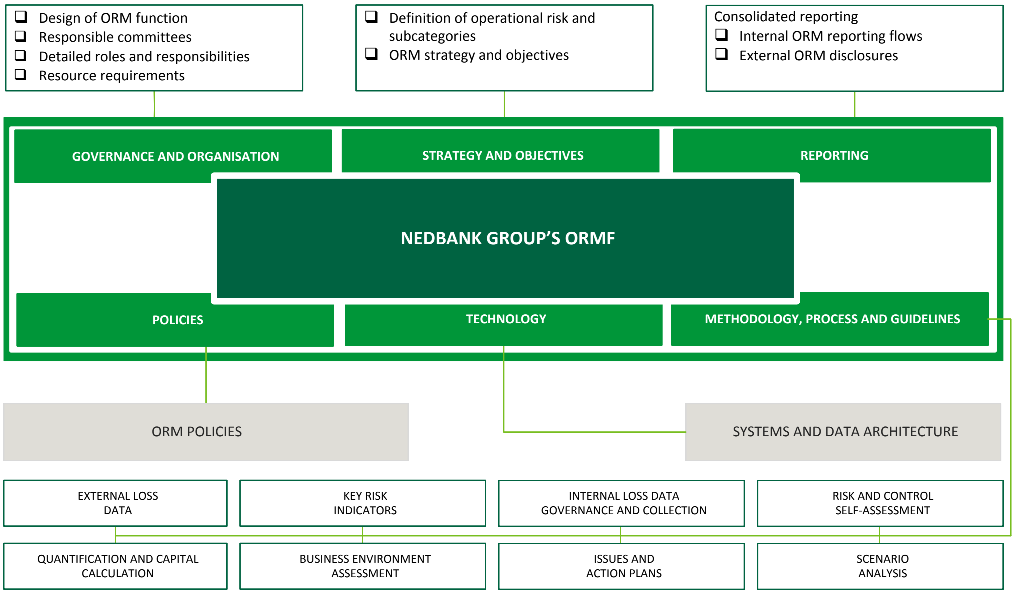
Operational risk organisational structure and governance flow



Operational Risk Management Framework

Managing operational risk is key in all our business activities and is implemented through our ORMF as illustrated below.

Nedbank Group's Operational Risk Management Framework



The group's key objective is to provide a framework that supports the identification, assessment, management, monitoring and reporting of material operational risks. Group Risk continues to manage, implement and enhance the ORMF and its subpolicies and frameworks.

The ORMF is reviewed and updated annually to align policies, processes, methodologies and standards with current local and international best practice. Amendments to the ORMF are approved by the GORC and are ratified by the board's GRCMC. The methodologies contained therein are embedded in the businesses, including for the purposes of the ICAAP.

Operational risk measurement, processes and reporting systems

The primary operational risk measurement processes in the group include tracking of KRIs, RCSAs, monitoring of BEICFs, collection and governance processes of ILD, consideration of ELD, scenario analysis and capital calculation. These processes are integrated and designed to function in a mutually reinforcing manner. Operational risk quantitative and qualitative tools (as illustrated below) are combined into a comprehensive methodology to measure and manage operational risk at Nedbank.

OPERATIONAL RISK TOOLS

Nedbank uses an integrated ORM system that enables the assessment and management of operational risk, and the provision of a holistic view of the group's operational risk profile.

	Operational risk tool	Description
Qualitative	Key risk indicators (KRIs)	■ KRIs are metrics that provide insight into trends in exposures to key operational risks. ■ They are often paired with escalation triggers that provide warning when indicators are approaching or exceeding threshold and prompt mitigation planning.
	Risk and control self-assessments (RCSAs)	■ The main objective of the RCSA process is to enable business and risk managers to proactively identify, assess and monitor key risks within defined risk tolerance and appetite levels.
	Business environment and internal control factors (BEICFs)	■ The group considers BEICFs as part of the RCSA process. ■ Consideration of BEICFs enables the group to regard any changes in the external and internal business environment, consider inherent risks as a result of any changes in the business environment and design appropriate controls.
Quantitative	Internal loss data (ILD)	■ The collection and tracking process of ILD is retrospective and enables monitoring of trends and analysis of the root cause of loss events. ■ Boundary events are losses that manifest in other risk types, such as credit risk, but have relevance to operational risk because they emanate from operational breakdowns or failures. Material credit risk events caused by operational failures in the credit processes are flagged separately in the ILD collection system in line with the regulation issued to banks relating to the Banks Act (Act No 94 of 1990) and Basel III requirements. The holding of capital related to these events remains in credit risk but are included in the ORMF to assist with the monitoring, reporting and managing of control weaknesses and causal factors within the credit process. ■ Material market risk events caused by operational failures in the market risk processes are also flagged separately in the ILD collection system. The capital holding thereof is included in the operational risk capital.
	External loss data (ELD)	■ ELD is used to incorporate infrequent, relevant and potentially severe operational risk exposures in the measurement model. The effects of ELD are indirectly incorporated in the operational risk capital calculation model through the scenario analysis process, and is used to benchmark the internal diversification matrix. ■ Nedbank is a member and actively participates in working groups of the Operational Riskdata eXchange Association (ORX) that accumulates data submitted quarterly by each of the member banks. The group also subscribes to the SAS Global Database, which contains data sourced within the public domain and media.
	Scenario analysis	■ Operational risk scenario analysis serves as the primary input for operational risk loss exposure estimates and is one of the data sources for operational risk modeling and measurement. Scenario analysis uses expert judgement to estimate the operational risk exposure of the group and focuses on operational risks that may impact the solvency of the bank. Nedbank uses a set of anonymous operational risk scenarios from ORX to identify trends and benchmark with international peers.

Capital modelling and capital allocation

Nedbank calculates its operational risk regulatory capital requirements using partial and hybrid AMA, with diversification, which has been in effect since 2010. The majority of the group (90%) applies the AMA and the remainder (including operations in the Rest of Africa) applies TSA.

Under the AMA, Nedbank has approval to use an internal model to determine risk-based operational risk capital requirements for all business units using AMA. ILD and operational risk scenarios represent the main direct input into the model. The outputs of the other data elements, namely ELD and BEICFs, inform the scenarios. EL and insurance offsets are not used to reduce the regulatory operational risk capital.

The model generates a regulatory capital requirement, which is determined at a 99,9% confidence level. The final capital number is then calculated by including updates for TSA entities and meeting SARB minimum requirements relating to the prescribed AMA capital floor.

Operational risk capital is allocated on a risk-sensitive basis to clusters in the form of economic capital charges, providing an incentive to improve controls and to manage these risks within established operational risk appetite levels.

The model and outputs undergo a robust annual validation exercise by an independent model validation unit. Any issues identified are reported, tracked and addressed in accordance with Nedbank's risk governance processes. The model is subject to an annual audit by GIA.

The AMA model was reviewed by the regulator, who has granted permission for the implementation of enhancements that include the latest techniques and technologies for operational risk modelling.

Operational risk appetite

Nedbank has a board-approved operational risk appetite statement that is aligned with the group's RAF. The operational risk appetite combines both quantitative metrics and qualitative judgement to encapsulate financial and non-financial aspects of operational risk. The operational risk appetite statement makes explicit reference to key operational risks. Operational risk appetite is set at a group and cluster level, enabling the group and clusters to measure and monitor operational risk profiles against approved risk appetite limits.

Reporting

A well-defined and embedded reporting process is in place. Operational risk profiles, loss trends, as well as risk mitigation actions and projects are reported to and monitored by the risk governance structures of the group.

Insurance obtained to mitigate the bank's exposure to operational risk

Nedbank's insurance programmes are structured to drive a high standard of risk management within the group. The group's insurable operational risk is not simply transferred to third-party insurers, but a significant interest in the financial impact of losses is retained within the group captive insurance company, namely Nedbank Group Insurance Company Limited (NGIC). As a result of the group's comprehensive self-insurance strategy, the group is always cognisant to the fact that it needs to mitigate insurance risk to the greatest extent possible in order to protect the reserves of the NGIC. The group structures the insurance programmes in conjunction with underwriters, who ultimately bear the catastrophic, unpredictable, large events. The group manages the predictable, higher-frequency, lower-severity losses through NGIC. The NGIC retention structure has been instrumental in controlling pay-away premiums and has assisted the group in adverse insurance market conditions where insurance rates hardened. Recent years reflect effective control in premium spend against insurance VaR. In addition to controlling spend, during the last review period the portfolio coverage included cyberinsurance for group, director and officer liability.

Managing subcomponents of operational risk

Specialist functions, policies, processes and standards have been established and integrated into the main ORMF and governance processes as described under the following sections.

Cyberresilience

Nedbank developed a CRRMF to enhance cyberresilience in the group. It provides a framework for the coordinated management of intelligence, technology and business operations to manage Nedbank's business information assets effectively. The framework aims to prevent unwanted consequences and to protect critical assets and Nedbank's reputation against external and internal cyber-threats through technical and non-technical measures.

Business continuity management

BCM in Nedbank ensures resilient group business activities in emergencies and disasters. A centralised BCM function provides overall guidance and direction, monitors compliance with regulatory and leading practice requirements and facilitates regular review of BCM practices. Independent reporting and assurance of BCP activities are also provided and a focus on identifying critical processes and dependencies across the group facilitates cost-effective BCP strategies.

Legal risk

The group conducts its activities in conformity with the business and contractual legal requirements applicable in each of the jurisdictions where the group conducts its business. Failure to meet these legal requirements may result in unenforceable contracts or contracts not enforceable as intended, litigation, fines, penalties or claims for damages, failure to protect the group's intellectual property, unproductive legal costs and other adverse consequences.

The Legal Risk Management Framework is in place to ensure that sound operational risk governance practices are adopted and implemented in respect of legal risk. The framework addresses key legal risk types such as incorrect legal advice in respect of legal risk; significant new or amended laws; inappropriate selection and use of external lawyers; legal documentation used in transactions that is not enforceable as intended or may be enforced against the group in an adverse way; inadequately managed litigation involving the group as either claimant or defendant; the insufficient protection of the group's intellectual property; and the breach of competition laws or reputational risk.

Nedbank has a decentralised legal risk model with central coordination. Group Legal performs the legal work for all central functions and deals with all intellectual property groupwide and litigation against the group and group entities.

Financial-crime

Nedbank recognises financial crime as a major operational risk that has the potential to result in significant losses. Financial-crime risk includes fraud, cybercrime, corruption and misconduct by staff, clients, suppliers, business partners, third parties and other stakeholders. The group takes a proactive and vigorous approach to managing and mitigating this risk in all its forms and has a zero-tolerance stance against fraud and corruption, and any other form of dishonesty on the part of its employees.

Financial-crime theme	Mitigation
Fraud	■ The group has a board-approved Fraud Risk Management Framework that guides the management of fraud risk. ■ The implementation of controls relating to significant fraud risks identified are monitored by the Fraud Risk Committee and oversight is provided by the Financial Crime Committee (FCC). ■ During 2017 an overall increase in fraud was experienced. However, fraud-related losses remained well within the bank's fraud loss tolerance threshold for the year. ■ Key to the successful containment of fraud risk is the greater focus on creating awareness through training, prevention initiatives such as fraud risk reviews, and continuous improvement of detection solutions. Various new measures to prevent, detect, deter and respond to fraud have been implemented. ■ Proactive fraud risk assessments are performed on a selection of products, processes and systems to identify weaknesses and enhance controls in an effort to prevent these weaknesses from being exploited. ■ Targeted awareness training is provided to staffmembers and clients. A total of 2 937 staffmembers in Nedbank underwent face-to-face fraud prevention training in 2017. In addition, 1 160 representatives from 90 organisations in our Corporate and Business Banking client base also received facilitated fraud awareness training. ■ Various reporting channels are available to employees, vendors, service providers and clients. Security, fraud, corruption and other dishonesty-related incidents can be reported at any time through an internal Nedbank Group Risk Reporting Line (NGRRL), which is managed by Group Financial Crime and Forensic Services (GFCF). The number of reports received and registered by NGRRL and investigated by GFCF was 6 937 (2016: 7 104). ■ The NGRRL is supported by an external, independently managed, whistleblowing hotline. This hotline is available to staff and clients in SA as well as Rest of Africa subsidiaries in Namibia, Swaziland, Lesotho, Malawi and Zimbabwe. During 2017, 296 (2016: 321) anonymous whistleblowing reports were referred for investigation to GFCF. Of these investigations, 12 (2016: 30) led to disciplinary action against staffmembers. ■ In line with the bank's zero tolerance approach to fraud, disciplinary and criminal proceedings are instituted in all cases where the evidence dictates it to be appropriate. During 2017, 175 (2016: 167) Nedbank Group employees were dismissed for dishonesty following internal investigations.
Cybercrime	■ Nedbank has introduced various measures to counter cybercrime. New products and changes to existing products, as well as new threats, form the basis for numerous cybercrime-related risk assessments conducted by GFCF. A fully fledged cybercrime laboratory uses state-of-the art technology to analyse and monitor suspicious activities. Close cooperation between the Group Technology Information Security Department and GFCF led to rapid investigation of suspected cybercrime events. Nedbank continues to work closely with industry bodies, peers and law enforcement agents sharing threat information.
Staff integrity	■ People risk is managed and minimised through a number of specific controls that are incorporated into recruitment and selection processes for all permanent and temporary employees, contractors and consultants. ■ During 2017 we screened 12 386 (2016: 12 582) applicants who were either appointed or transferred. A total of 0,7% (2016: 0,4%) of these job applications were declined during 2017 where applicants did not meet the minimum integrity requirements.
Online fraud	■ The group sees the prevention of online banking fraud as a priority and maintains a state-of-the-art real-time fraud detection system that has resulted in fraud prevention. Compromised accounts of 1 276 (2016: 427) clients were blocked before fraud could occur. ■ Nedbank continues to participate in industry initiatives with other FIs and law enforcement agencies to ensure that the perpetrators of online criminal activities are identified, caught and brought to book.

Financial-crime theme	Mitigation
Corruption and bribery	■ The group has a board-approved Corruption Risk Management Framework that guides the management of fraud risk. ■ The implementation of controls relating to the significant corruption risks identified and monitored by the Corruption Risk Committee and oversight is provided by the FCC. ■ Staff, managers, group exco as well as the managing directors of the Rest of Africa subsidiaries have signed the annual conduct pledge, again committing themselves to taking a stand against corruption and to upholding ethical and transparent business practices. ■ Given the high levels of corruption experienced in SA, anti-corruption interventions were added as a key performance indicator, and is validated by an external party. This was undertaken to provide assurance to Nedbank's stakeholders that its actions in this regard are robust and in no way contribute to the recent negative cycle. During 2017 corruption screening was done on 100% (2016: 100%) of Nedbank's operations without any material concerns or issues being raised. ■ Nedbank has an ongoing training and awareness programme that includes a focus on the requirements of the UK Bribery Act as well as the risk of corruption in general. This includes electronic online learning, presentations and workshop sessions. ■ Annual corruption risk assessments conducted in terms of the UK Bribery Act are integrated into the RCSA process. An attestation regarding the assessment of this risk has also been included in the letter of representation, which is signed on a biannual basis. ■ All new and existing vendors are requested to complete a corruption risk assessment questionnaire, either when they are onboarded or when their existing contract is renewed. In addition, ad hoc corruption risk assessments are conducted in high-risk areas. ■ In terms of third-party risk management, a process is in place for ongoing and risk-based third-party due diligence. The process is aimed at ensuring that all third parties continue to comply with relevant regulations, protect confidential information, have a satisfactory performance history and record of integrity and business ethics, and also mitigate operational risks. The group's supplier risk management process is being enhanced to include fourth parties (subcontractors) that may pose a potential risk to the group while delivering a service to our approved third parties. The second enhancement includes the identification of the beneficial ownership of our third parties that may present corruption or reputational risks to the group. ■ Group-level corruption risk appetite statements have been approved and are being tracked through the appropriate governance committees. In 2017 there were 11 cases of confirmed corruption (2016: 21) and two dismissals (2016: 5).

Compliance and regulatory risk

Compliance and regulatory risk has become increasingly significant given the heightened regulatory environment in which financial services organisations operate. Banks in SA are required to comply with approximately 200 statutes, as well as the relevant applicable subordinate measures. In addition, banks must stay abreast with all new regulatory instruments that are published throughout the year. Nedbank remains committed to the highest regulatory and compliance standards, particularly in the light of the increasing complexity of laws and regulations under which it operates.

Compliance/Regulatory risk theme	Description	Mitigating actions
Financial Sector Regulatory Bill (FSRB)	The FSRB fundamentally changes the legal framework in terms of which the financial services industry has been operating to date. The main change brought about by the FSRB will be to create the following two distinct regulators: ■ A prudential regulator (Prudential Authority). ■ A market conduct regulator (Financial Market Conduct Authority). This system of dual regulation is known as the Twin Peaks Model.	The FSRB has a limited operational impact within Nedbank. However, it will result in extensive changes to the current regulatory system and the manner in which regulations are applied. Nedbank is on track with its preparation for the new regulatory regime of Twin Peaks and has changed its internal structure and processes to align with the new Twin Peaks Model.

Compliance/Regulatory risk theme	Description	Mitigating actions
Consumer Protection and the Retail Distribution Review (RDR)	Twin Peaks implementation has shown significant progress with the promulgation of the Financial Sector Regulation Act. The act will come into effect on a date still to be determined by the Minister of Finance. Market conduct has increasingly become a focus for both the regulator and businesses in SA. The Twin Peaks Model is intended to address the gaps in the existing Consumer Protection Framework. Once finalised and implemented, this regulation will have a significant impact on how FIs conduct their business and will further provide a tool to assess their culture in the context of good customer outcomes and mitigation of conduct risk. The purpose of the RDR is to ensure that the distribution of retail financial products is aligned to TCF outcomes. The RDR put forward 55 specific regulatory proposals, to be implemented in phases. As part of this phased approach, a subset of 14 RDR proposals was identified for implementation in phase 1. These are to be effected within the existing regulatory framework, using existing subordinate legislative and administrative powers. Phase 2 and 3 status updates are expected to be published during the first quarter of 2018.	During 2017 Nedbank focused on the formal incorporation of TCF across the group, ensuring that TCF is an integral part of the culture and the way Nedbank designs, markets and promotes products, as well as the manner in which it communicates and services its clients. Nedbank has now proactively initiated a Market Conduct and Culture programme based on international leading practice standards. This programme enables the bank to identify and mitigate the risk of client detriment through the execution of financial services that deliver fair outcomes for clients. This programme is driven by Nedbank's interactions with clients, as well as the design of Nedbank product and services. Nedbank has developed a detailed plan to take the group to industry leading best practise. Execution of the plan will commence during the first quarter of 2018 across the group. In this regard the various regulatory changes resulting from the phased implementation of RDR are being tracked by the impacted business units. Protecting our clients and ensuring they are treated fairly on a consistent basis is the essence of our business. Similarly, the client is at the heart of market conduct, and the Market Conduct Programme fully aligns with and supports Nedbank's vision to be 'the most admired financial services provider in Africa'.
Anti-money laundering (AML), combating the financing of terrorism (CFT) and sanctions risk management	The group has a framework in which AML, CFT and related activities and sanctions risk management are managed through adequate policies, principles, processes, practices, procedures and plans to discharge statutory duties and regulatory obligations.	Regulatory non-compliance relating to AML, CFT and sanctions continues to receive significant focus with a view to enhancing controls and management action across the lines of defence (LOD). The BaU identified risks are driven to resolution through the relevant governance forums and business clusters. The AML, CFT and Sanctions Programme addresses specific risks identified and enhances the strategic approach to effective risk management.
Protection of Personal Information Act (POPIA)	The POPIA was signed into law on 26 November 2013. The implementation of the act will provide consumers with increased confidence in the way in which organisations in SA process personal information. Compliance with POPIA not only instils trust in consumers, but also drives an improvement of in investor relations. Despite the appointment of the Information Regulator in December 2016, an enforcement date has not yet been issued. However, once issued, Nedbank will have one year to demonstrate compliance with the POPIA.	Nedbank is aligned with international developments and will strive to align with prescribed best practices. The Information Privacy Office is running a groupwide privacy initiative to ensure that the relevant enhancements are made to demonstrate that the compliance obligations are both successfully achieved and maintained. The privacy programme has significance at every stage of the information lifecycle, and requires targeted change management in terms of the way in which Nedbank collects, uses, distributes, stores and ultimately disposes of personal information.

Compliance/Regulatory risk theme	Description	Mitigating actions
IFRS 9	IFRS 9 is effective and will be implemented by the group from 1 January 2018. IFRS 9 replaces IAS 39 and sets out the updated requirements for the recognition and measurement of financial instruments. These requirements specifically deal with the classification and measurement of financial instruments, measurement of impairment losses based on an ECL model, and closer alignment between hedge accounting and risk management practices. As permitted by the transitional provisions of IFRS 9, the group has elected not to restate comparative figures. Any adjustments to the carrying amount of financial assets and financial liabilities at the date of transition will be recognised in the opening retained earnings and other reserves at 1 January 2018. The group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.	The IFRS 9 impairment implementation progressed during 2017 sponsored jointly by the group's CRO and CFO. The following were the main areas of focus for 2017: ■ Finalisation of the IFRS 9 impairment model methodology. ■ Implementation of an IT framework facilitating efficient model execution and management. ■ Development, build and testing of IFRS 9 impairment models with respect to a substantial portion of the group's portfolios, leveraging off the aforementioned IT framework. ■ Documentation and implementation of the relevant control environment and related governance processes. The following areas will continue to receive the required attention as the implementation of IFRS 9 progresses during the 2018 financial reporting period: ■ Further refinement of certain models. ■ Finalisation of the interim and year-end reporting and disclosure frameworks. ■ Observing local and international industry trends with respect to IFRS 9 adoption. The implementation of the IFRS 9 ECL model requires increases in balance sheet impairments at 1 January 2018 of approximately R3,2bn, with reserves decreasing by approximately R2,3bn on an after-tax basis. Our external auditors are closely involved in the programme to ensure alignment and compliance.
Basel III	In December 2017 the BCBS published Basel III: Finalising post-crisis reforms which sets outs the committee's finalisation of the Basel III framework, the central element to the committee's response to the global financial crisis. The key objective of the finalised reforms is to reduce excessive variability in RWA and restore credibility in the calculation of RWA by: ■ Enhancing robustness and risk sensitivity of TSAs for credit and operational risk. ■ Constraining use of internally-modelled approaches. ■ Complementing the risk-weighted capital ratio with a finalised leverage ratio and robust capital floor. The finalised reforms are due to be implemented from 1 January 2022 with the revised capital floor being phased in over 2022 to 2027.	Nedbank will leverage off the IFRS 9 and Basel III implementations to elevate risk measurement and management to an even higher level, and will continue to remain focused on changes to the National Credit Act and any strategic implications. In response to Basel III, management continues to deliver, position and prepare the group optimally for these regulatory changes. Risk principles have been incorporated into the group's strategic portfolio tilt objectives, facilitating the strategic direction in respect of balance sheet portfolio growth, the consumption of capital, the use of long-dated liquidity and determining the size of the levels of HQLA. Nedbank continues to manage the transitional LCR requirements proactively at levels in excess of regulatory minima. Nedbank has maintained the NSFR at above 100% on a pro forma basis and is compliant with the minimum regulatory requirements that are effective from 1 January 2018.

Compliance/Regulatory risk theme	Description	Mitigating actions
Risk data aggregation and risk reporting (RDARR)	The BCBS 239, Principles for effective RDARR, was issued by the BCBS in January 2013. The principles aim to strengthen banks' risk management practices by improving its RDARR practices. It is anticipated that complying with the principles will improve the ability of banks to provide rapid and comprehensive risk data by legal entity and business line. This will ultimately enhance the banks' decisionmaking processes and improve their resolvability. This has been incorporated into local bank regulation through SARB directive 2/2015, which requires D-SIBs' to comply with the principles from 1 January 2017.	Nedbank continues to deliver on actions towards compliance with the principles. To this end Nedbank opted for a strategic approach by not only focusing on compliance, but also on implementing a sustainable solution that will address the management of enterprise data. This gave rise to the EDP, which consists of three streams, namely: ■ RDARR – focused on compliance with the BCBS239 RDARR principles. ■ IT infrastructure – selection and implementation of appropriate hardware and software. ■ Data Management Organisation (DMO) – establishment of the DMO and its related governance and data management capabilities. SARB provided condonation to Nedbank for not being fully compliant with SARB directive 2/2015. Nedbank has, however, achieved material compliance with the RDARR principles at 1 January 2017 by implementing strategic controls and other mitigating actions.
Foreign Account Tax Compliance Act (FATCA) and the Organisation for Economic Cooperation and Development's Common Reporting Standards (CRS)	FATCA and CRS require South African FIs to report all reportable financial accounts where there is a balance on a client's account and that client is either a US person or any other person that has foreign tax obligations or tax residencies. The South African FIs have to report these accounts to SARS, which in turn will report the information to each respective country's revenue authority.	The FATCA and CRS project is run and managed by the Regulatory Change Programme Office (RCPO), which affords the project the appropriate attention. Greater alignment with the AML project is taking place and learnings from the AML project are also being implemented in the FATCA and CRS project. Currently, manual processes are used to deliver on regulatory reporting requirements due to the complexity of the system integration required and the amount of detailed data needed to submit the report to SARS successfully. Significant system changes are being scoped and discussed to ensure that potential system challenges are addressed upfront.
Occupational Health and Safety (OHS) Act	OHS Act and its associated regulations ensure the health and safety of all persons on the premises of a business.	The focus is to ensure that the bank complies with the OHS Act (No 85 of 1993) and its regulations as well as the Compensation for Occupational Injuries and Diseases Act (No 130 of 1993) to ensure a safe and healthy environment for our employees and all stakeholders. All employees complete the compulsory OHS training, which includes reading and acknowledging the Nedbank Group OHS Policy. In addition, Nedbank has ongoing OHS awareness campaigns, including posters, leaflets, awareness events, presentations and roadshows. Emergency procedures are planned, documented, reviewed, practised and updated accordingly to ensure preparation for all types of emergencies. These procedural practice exercises (including external stakeholder involvement) take place at all our sites biannually. Nedbank nominated and elected Occupational Health and Safety Representatives in line with the general administration regulation 6 of the OHS Act. The representatives are currently undergoing formal training. Baseline OHS risk assessments are being conducted in branches and campus sites to determine OHS risk exposures in order to implement appropriate remedial and preventative measures to safeguard staff and other persons within Nedbank premises.

Business risk

Business risk definition

Business risk is defined as the risk assumed due to potential changes in general business conditions, such as our competitive market environment, client behaviour and disruptive technological innovation. Business risk includes the impact of reputational risk but excludes long-term strategic risk.

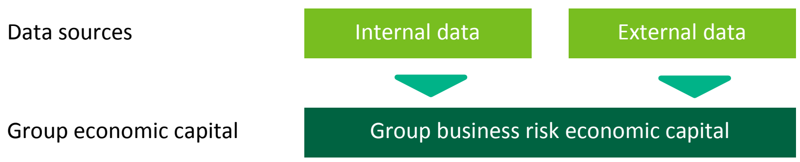
This definition is more precise and goes further to minimise the overlap with other risk types such as operational risk. It also explicitly excludes long-term strategic risk as Nedbank does not believe it should capitalise for poor strategic decisions that would have long-term impacts on the franchise, but should rather replace management responsible for them.

Quantification of business risk capital

The business risk approach at Nedbank is divided into two parts; a topdown calculation of the group's capital requirement and a bottomup scenario-based allocation approach to businesses across the group.

- Topdown-sizing of the group's capital:
  - In this case business risk is estimated for the group as a whole, using a combination of peer data and Nedbank Group data to estimate the risk exposure at Nedbank's target confidence interval for economic capital, currently 7:10 000 (99,93%).
  - The peers are selected to provide relevant insights into Nedbank's business risk.
  - Adjustments are made for non-business risk factors such as operational risks and potential for management actions to mitigate earnings decline such as cost cutting.
- Bottomup allocation of business risk economic capital to businesses:
  - Allocation is based on a scenario-based approach.
  - The allocation of business risk economic capital is based on the relative size of changes in GOI due to scenarios identified for each business unit.

Topdown calculation

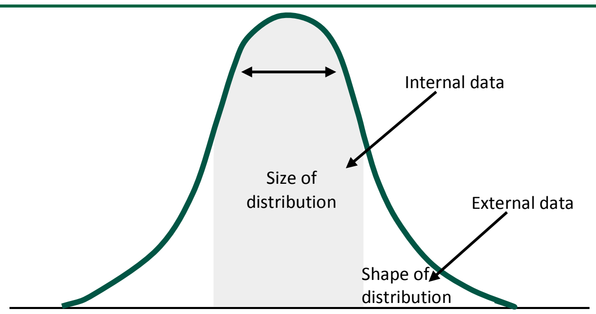


The purpose of the topdown calculation is to size, at a group level, the business risk exposure that Nedbank faces as a consolidated entity. This is done by evaluating to what extent the group's GOI (adjusted for non-business risk factors) can vary, compared with expectations in an extreme event.

While business risk can arise through changes in revenues and costs, this methodology uses revenues as the primary anchor point and accounts for costs primarily as a business risk mitigation mechanism.

The topdown calculation aims to size business-risk-induced earnings volatility at a group level, based on historic volatility observed both internally and externally, as shown in the figure below.

A combination of internal and external data is used in the calculations

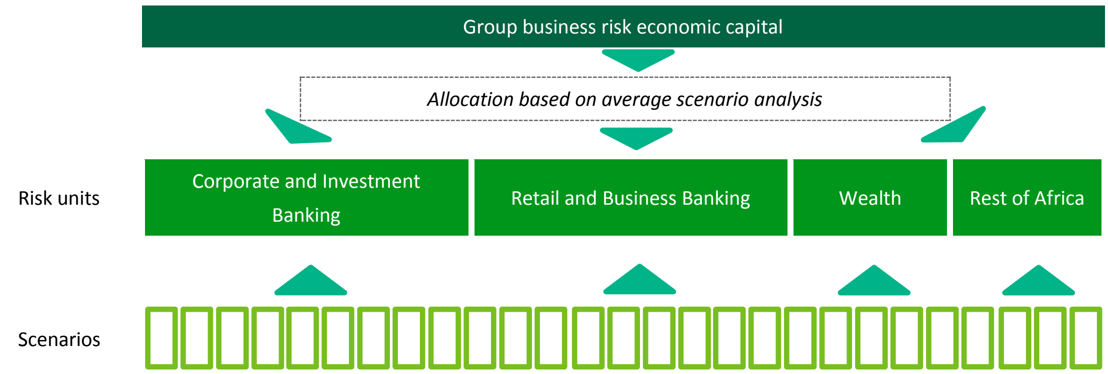


The most important methodological aspects were derived in four different stages, as follows:

- Determine the metric used to model business risk.
  - Business risk looks at changes in GOI, adjusted for non-business risk variables.
- Define the shape of the distribution of the metric (external data used).
  - Peer data is used to base the shape of distribution on significantly more data points.
  - Peers were selected to ensure comparability with Nedbank's business model. Focus is on downside risks when fitting a distribution.

- Define the size of the distribution of the metric around forecasts (internal data used).
  - Once the shape of the distribution is determined, it needs to be parameterised to arrive at the size of the shocks at a specific confidence interval (currently 99,93%).
- Determine the metric used to model business risk.
  - Need to take into account how much influence management can have over a one-year horizon.

Bottomup allocation



A bottomup scenario-based approach is used to allocate business risk economic capital across the individual business units, as follows:

- Identify and assess business risk scenarios per business unit.
- Estimate the profit and loss impact per business risk scenario.
- Aggregate the unweighted average of the top three scenarios per business unit to arrive at a final business risk number per business unit.
- Total business risk economic capital, calculated through the topdown approach, is then allocated to each business unit depending on the relative distribution of the average profit and loss impact per business unit.

Principles of scenario analysis

To ensure comparability between various scenarios per business unit as well as across business units, the set of principles contained in the table below was used in deriving the respective business unit scenarios:

Principle	Description
1 Relevance to Nedbank	■ Only scenarios that will impact Nedbank should be considered. ■ Overlay of scenarios to Nedbank-specific business lines/sensitivities.
2 Similar likelihood across scenarios	■ Scenarios should have the same probability of occurring.
3 Clarity of transmission into profit and loss impact	■ Scenarios should have a clear link to profit and loss changes. ■ Transmission to revenue/cost impact should be identifiable and stable over time.
4 Enrichment of overall list (mutually exclusive, collectively exhaustive)	■ Scenarios should not overlap, where possible. ■ Scenarios should cover a range of possible events.

Annexure A: Abbreviations

Abbreviation	Definition
ABCP	Asset-backed commercial paper
AFR	Available financial resources
AFS	Available-for-sale
AIRB	Advanced Internal Ratings-based
AJTP	Activity-justified transfer pricing
Alco	Asset and Liability Committee
ALM	Asset and liability management
AMA	Advanced Measurement Approach
AML	Anti-money laundering
BaU	Business-as-usual
BCBS	Basel Committee on Banking Supervision
BCCC	Brand, Client and Conduct Committee
BCM	Business Continuity Management
BCP	Business Continuity Plan
BEEL	Best estimate of expected loss
BEICF	Business environment and internal control factors
BSM	Balance Sheet Management
CAPM	Capital Adequacy Projection Model
CAR	Capital adequacy ratio
CCC	Cluster Credit Committee
CCF	Credit Conversion Factor
CCP	Central counterparty
CCR	Counterparty credit risk
CE	Chief Executive
CEM	Current Exposure Method
CET1	Common-equity tier 1
CFD	Centralised Funding Desk
CFO	Chief Financial Officer
CFT	Combating the financing of terrorism
CIB	Corporate and Investment Banking
CLR	Credit loss ratio
CMF	Capital Management Framework
CMVU	Credit Model Validation Unit
COE	Cost of equity
COO	Chief Operating Officer
CPM	Credit Portfolio Model
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CRRMF	Cyberresilience Risk Management Framework
CRS	Common Reporting Standards
CVA	Credit valuation adjustment
DAC	Directors Affairs Committee
DCC	Divisional Credit Committees
dEL	Downturn expected loss
DFL	Digital Fast Lane
DIS	Deposit Insurance Scheme
dLGD	Downturn loss given default
DMO	Data Management Organisation
D-SIB	Domestic systemically important bank
EAD	Exposure at default
EaR	Earnings-at-risk
ECA	Export credit agencies
ECAIs	External credit assessment institutions
ECL	Expected credit loss
EDP	Enterprise Data Programme

Abbreviation	Definition
EGC	Enterprise Governance and Compliance
EITCO	Executive Information Technology Committee
EL	Expected loss/losses
ELD	External loss data
EP	Economic profit
ERCO	Enterprisewide Risk Committee
ERM	Enterprisewide Risk Management
ERMF	Enterprisewide Risk Management Framework
ETL	Extreme tail loss
EVE	Economic value of equity
EWI	Early-warning indicators
FATCA	Foreign Account Tax Compliance Act
FCC	Financial Crime Committee
FCT	Foreign currency translation
FCTR	Foreign currency translation reserves
FI	Financial Institutions
FIRB	Foundation Internal Ratings-based
FRTB	Fundamental review of the trading book
FSB	Financial Services Board
FSRB	Financial Sector Regulatory Bill
GAC	Group Audit Committee
GCC	Group Credit Committee
GCPM	Group Credit Portfolio Management
GCRM	Group Credit Risk Monitoring
GCRMF	Group Credit Risk Monitoring Framework
GDP	Gross domestic product
GHR	Group Human Resources
GIA	Group Internal Audit
GITCO	Group Information Technology Committee
GMRM	Group Market Risk Monitoring
GOI	Gross operating income
GORC	Group Operational Risk Committee
GRCMC	Group Risk and Capital Management Committee
Group Alco	Group Alco and Executive Risk Committee
Group Exco	Group Executive Committee
GRRC	Group Reputational Risk Committee
G-SIBs	Global Systemically Important Banks
GT	Group Technology
GTSEC	Group Transformation, Social and Ethics Committee
HQLA	High-quality liquid assets
HVCRE	High-volatility commercial real estate
IAA	Internal Assessment Approach
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILD	Internal Loss Data
IMA	Internal Model Approach
IMM	Internal Model Method
IOM	Isle of Man
IPRE	Income-producing real estate
IRB	Internal Ratings-based
IRBA	Independent Regulatory Board for Auditors
IRRBB	Interest rate risk in the banking book
IT	Information technology
JIBAR	Johannesburg Interbank Agreed Rate
KICL	Key Issues Control Log
KRI	Key risk indicators

Abbreviation	Definition
LAC	Loss-absorbing capital
LCR	Liquidity coverage ratio
LEAC	Large-exposures Approval Committee
LGD	Loss given default
LIBOR	London Interbank Offered Rate
LRCP	Liquidity Risk Contingency Plan
LSC	Liquidity Steering Committee
LTV	Loan-to-value
MAFR	Mandatory Audit Firm Rotation
ME	Managed-evolution
MFC	Motor Finance Corporation
MMFTP	Matched maturity funds transfer pricing
MMS	Money-market shortage
MRC	Minimum required capital
MRM	Model Risk Management
MtM	Mark-to-market
NCOF	Net cash outflows
NCWO	No-creditor-worse-off
NGR	Nedbank Group Rating
NII	Net interest income
NIR	Non-interest revenue
NSFR	Net stable funding ratio
NTR	Nedbank Group Transaction Rating
nWoW	New Ways of Work
OHS	Occupational Health and Safety
OpVaR	Operational value at risk
ORM	Operational Risk Management
ORMF	Operational Risk Management Framework
ORX	Operational Riskdata eXchange Association
OSE	Ordinary shareholders' equity
OTC	Over-the-counter
PD	Probability of default
PiPs	Properties in possession
PIT	Point in time
POPIA	Protection of Personal Information Act
PR	Property revaluation
PSE	Public sector entity
QIS	Quantitative Impact Study
RAF	Risk Appetite Framework
RAPM	Risk-adjusted performance measurement
RBB	Retail and Business Banking
RCPO	Regulatory Change Programme Office
RCSA	Risk and control self-assessment
RDARR	Risk Data Aggregation and Risk Reporting
RDR	Retail Distribution Review
Remco	Group Remuneration Committee
ROA	Return on assets
ROE	Return on equity
RORAC	Return on risk-adjusted capital
RP	Recovery plan
RRP	Recovery and resolution plan
RWA	Risk-weighted assets
SA-CCR	Standardised Approach for counterparty credit risk
SAM	Solvency Assessment and Management
SARB	South African Reserve Bank
SBP	Share-based payment
SCP	Strategic Capital Plan
SFA	Supervisory Formula Approach

Abbreviation	Definition
SFT	Securities financing transaction(s)
SME	Small-and medium-sized enterprises
SREP	Supervisory Review and Evaluation Process
SRWA	Simple Risk Weight Approach
STI	Short-term incentive
TCF	Treating customers fairly
TLAC	Total loss-absorbing capacity
TRAHRCO	Transformational Human Resources Committee
TRC	Trading Risk Committee
TSA	The Standardised Approach
TTC	Through-the-cycle
UK	United Kingdom
UL	Unexpected loss/losses
VaR	Value at risk
VUCA	Volatile, uncertain, complex and ambiguous

Company details

NEDBANK GROUP LIMITED
Incorporated in the Republic of SA
Registration number 1966/010630/06

Registered office
Nedbank Group Limited, Nedbank 135 Rivonia Campus,
135 Rivonia Road, Sandown, Sandton, 2196
PO Box 1144, Johannesburg, 2000

Transfer secretaries in SA
Computershare Investor Services Proprietary Limited
15 Biermann Avenue, Rosebank, Johannesburg, 2196
PO Box 61051, Marshalltown, 2107

Namibia
Transfer Secretaries (Proprietary) Limited
Robert Mugabe Avenue No 4, Windhoek, Namibia
PO Box 2401, Windhoek, Namibia

INSTRUMENT CODES
Nedbank Group ordinary shares

JSE share code:	NED
NSX share code:	NBK
ISIN:	ZAE000004875
ADR code:	NDBKY
ADR CUSIP:	63975K104

Nedbank Limited non-redeemable non-cumulative preference shares

JSE share code:	NBKP
ISIN:	ZAE000043667

FOR MORE INFORMATION CONTACT

INVESTOR RELATIONS
Email: nedbankgroupir@nedbank.co.za

RAISIBE MORATHI
Chief Financial Officer
Tel: +27 (0)11 295 9693

ALFRED VISAGIE
Executive Head, Investor Relations
Tel: +27 (0)11 295 6249
Email: alfredv@nedbank.co.za

This announcement is available on the group's website at nedbankgroup.co.za, together with the following additional information:

- Financial results presentation to analysts.
- Link to a webcast of the presentation to analysts.

For further information please contact Nedbank Group Investor Relations at nedbankgroupir@nedbank.co.za.

DISCLAIMER
Nedbank Group has acted in good faith and has made every reasonable effort to ensure the accuracy and completeness of the information contained in this document, including all information that may be defined as 'forward-looking statements' within the meaning of United States securities legislation.

Forward-looking statements may be identified by words such as 'believe', 'anticipate', 'expect', 'plan', 'estimate', 'intend', 'project', 'target', 'predict' and 'hope'.

Forward-looking statements are not statements of fact, but statements by the management of Nedbank Group based on its current estimates, projections, expectations, beliefs and assumptions regarding the group's future performance.

No assurance can be given that forward-looking statements will be correct and undue reliance should not be placed on such statements.

The risks and uncertainties inherent in the forward-looking statements contained in this document include, but are not limited to: changes to IFRS and the interpretations, applications and practices subject thereto as they apply to past, present and future periods; domestic and international business and market conditions such as exchange rate and interest rate movements; changes in the domestic and international regulatory and legislative environments; changes to domestic and international operational, social, economic and political risks; and the effects of both current and future litigation.

Nedbank Group does not undertake to update any forward-looking statements contained in this document and does not assume responsibility for any loss or damage arising as a result of the reliance by any party thereon, including, but not limited to, loss of earnings, profits, or consequential loss or damage.