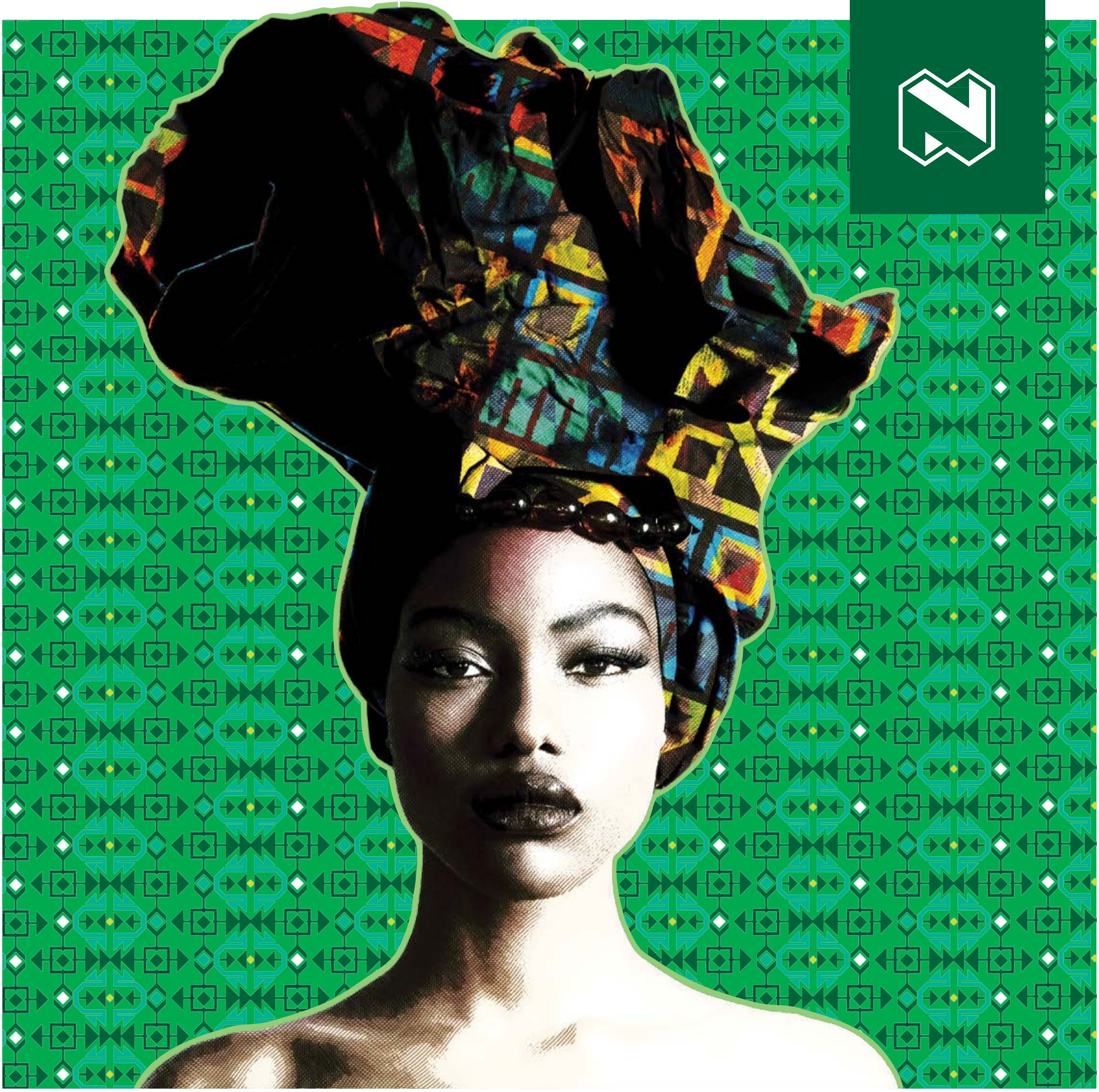

P3

Pillar 3 Risk and Capital Management Report 2017

FOR THE SIX MONTHS ENDED 30 JUNE

Basel III Public Disclosure Report

see money differently

NEDBANK

A Member of the OLDMUTUAL Group

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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.

Long-term funding ratio
33,1%
(Jun 16: 30,9%)
(Dec 16: 29,6%)

Postwriteoff recoveries
R578m
(Jun 16: R564m)
(Dec 16: R1 157m)

Defaulted advances as a % of gross advances
2,80%
(Jun 16: 2,62%)
(Dec 16: 2,72%)

Portfolio coverage
0,65%
(Jun 16: 0,71%)
(Dec 16: 0,69%)

Liquidity coverage ratio
104,6%
(Jun 16: 93,1%)
(Dec 16: 109,3%)

Trading book –
low risk

Credit loss ratio
0,47%
(Jun 16: 0,67%)
(Dec 16: 0,68%)

Specific coverage
37,2%
(Jun 16: 36,2%)
(Dec 16: 37,4%)

Loan-to-deposit ratio
93,1%
(Jun 16: 93,5%)
(Dec 16: 92,8%)

IRRBB % ordinary shareholders' equity
1,74%
(Jun 16: 1,66%)
(Dec 16: 1,81%)

Common-equity tier 1
12,3%
(Jun 16: 11,6%)
(Dec 16: 12,1%)

Total tier 1
13,2%
(Jun 16: 12,5%)
(Dec 16: 13,0%)

Total capital adequacy ratio
15,7%
(Jun 16: 14,5%)
(Dec 16: 15,3%)

Enhanced Pillar 3 disclosure

To continue strengthening confidence and trust in the banking system banks are urged to place greater emphasis on the comprehensive public disclosure of their risk and capital position and risk management processes and the relationship of these to key business activities.

The Financial Stability Board established the Enhanced Disclosure Task Force (EDTF) to develop principles for enhanced disclosures by institutions. The EDTF published 32 recommendations that it believes are fundamental principles that should be included in a bank's risk disclosure.

Nedbank has implemented the EDTF recommendations, where appropriate, in our endeavour to continuously enhance and drive improvement in the quality, clarity, consistency and comparability of risk disclosures, thereby allowing stakeholders to draw increased value, understanding and insight from the report. The refinement of our Pillar 3 Report is an ongoing process to ensure alignment with changing regulation and leading practice.

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. The material revisions relate primarily to the inclusion of prescribed fixed-format quantitative disclosure templates, which aim to enhance the comparability of bank's disclosures. The fixed-format templates have been supplemented with additional disclosure, where appropriate, to add value to the user.

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.

Available financial resources:economic capital
135%
(Jun 16: 125%)
(Dec 16: 131%)

Group structure and basis of Pillar 3 disclosure

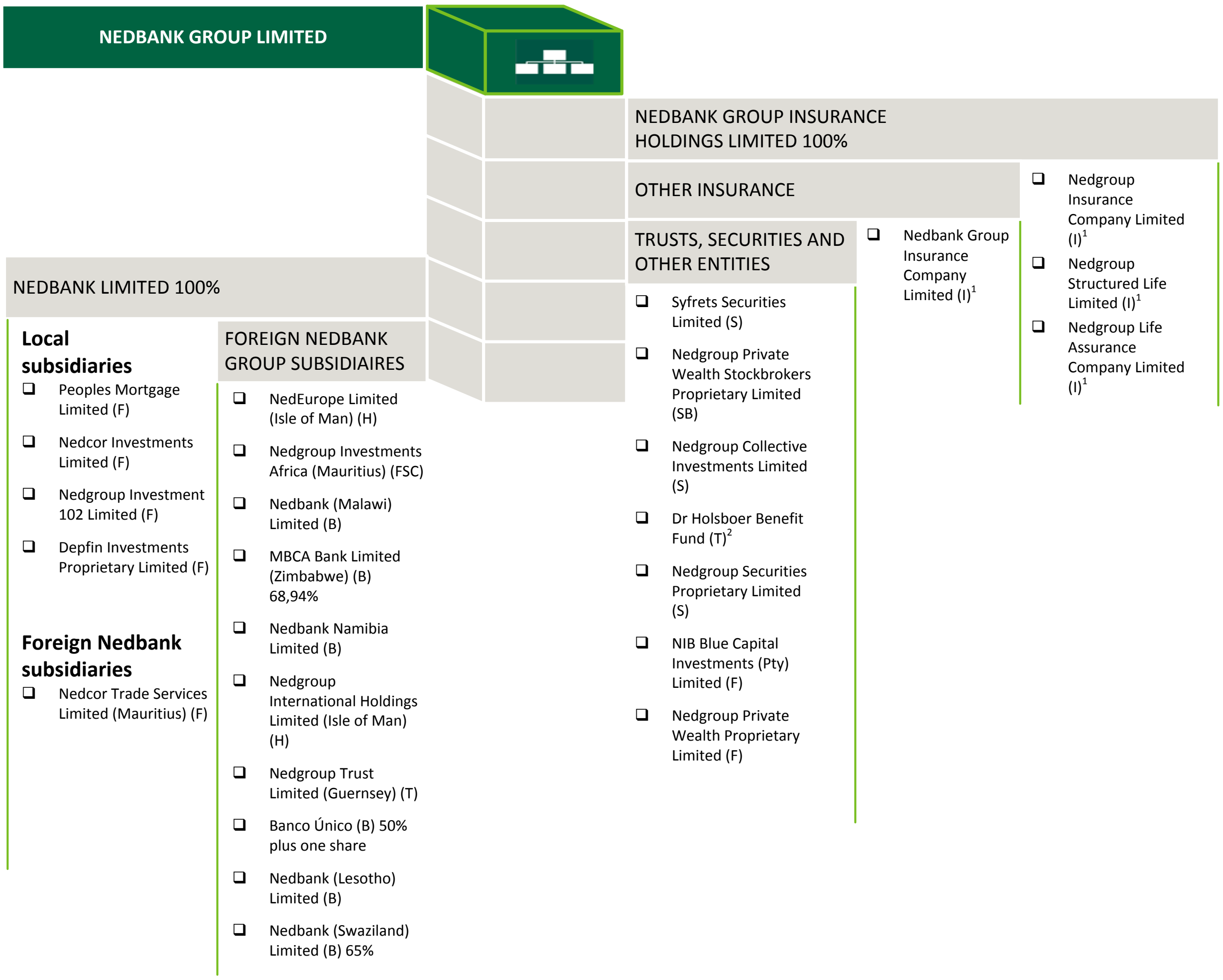
The group's comprehensive Pillar 3 and public disclosure complies with regulation 43 of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990). Set out below are the key subsidiary companies of Nedbank Group. Consistent with the principle of proportionality (or materiality) contained in the regulations, this Pillar 3 Report covers Nedbank Group Limited and Nedbank Limited. The other banking subsidiary companies 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 101. 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 in terms of financial assistance between related companies.



NEDBANK GROUP LIMITED

NEDBANK GROUP INSURANCE HOLDINGS LIMITED 100%

- ☐ Nedgroup Insurance Company Limited (I)[1]
- ☐ Nedgroup Structured Life Limited (I)[1]
- ☐ Nedgroup Life Assurance Company Limited (I)[1]

OTHER INSURANCE

- ☐ Nedbank Group Insurance Company Limited (I)[1]

TRUSTS, SECURITIES AND OTHER ENTITIES

- ☐ Syfrets Securities Limited (S)
- ☐ Nedgroup Private Wealth Stockbrokers Proprietary Limited (SB)
- ☐ Nedgroup Collective Investments Limited (S)
- ☐ Dr Holsboer Benefit Fund (T)[2]
- ☐ Nedgroup Securities Proprietary Limited (S)
- ☐ NIB Blue Capital Investments (Pty) Limited (F)
- ☐ Nedgroup Private Wealth Proprietary Limited (F)

NEDBANK LIMITED 100%

Local subsidiaries

- ☐ Peoples Mortgage Limited (F)
- ☐ Nedcor Investments Limited (F)
- ☐ Nedgroup Investment 102 Limited (F)
- ☐ Depfin Investments Proprietary Limited (F)

Foreign Nedbank subsidiaries

- ☐ Nedcor Trade Services Limited (Mauritius) (F)

FOREIGN NEDBANK GROUP SUBSIDIAIRES

- ☐ NedEurope Limited (Isle of Man) (H)
- ☐ Nedgroup Investments Africa (Mauritius) (FSC)
- ☐ Nedbank (Malawi) Limited (B)
- ☐ MBCA Bank Limited (Zimbabwe) (B) 68,94%
- ☐ Nedbank Namibia Limited (B)
- ☐ Nedgroup International Holdings Limited (Isle of Man) (H)
- ☐ Nedgroup Trust Limited (Guernsey) (T)
- ☐ Banco Único (B) 50% plus one share
- ☐ Nedbank (Lesotho) Limited (B)
- ☐ Nedbank (Swaziland) Limited (B) 65%

All subsidiaries are wholly owned, unless stated otherwise.

B: Banks
F: Financial entities
H: Holding companies
SB: Stockbrokers

I: Insurance entities
S: Securities entities
T: Trusts
FSB: Investment holding company

FSC: Investment company

[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 34 for differences in the basis of consolidation for accounting and regulatory purposes.

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

SUMMARY OF THE TREATMENT FOLLOWED FOR BASEL III CONSOLIDATION

	Percentage holding					
	Minority interest			Majority/Controlling interest		
		20% and ≤ 50%		20% and ≤ 50%		
Type of entity	≤ 20%	Other significant shareholder.	No other significant shareholder.	Aggregate of investment ≤ 10% of the bank or controlling company's CET1.	Aggregate of investment > 10% of the bank or controlling company's CET1.	> 50%
Banking, securities and other financial entities[1,2]	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)].	Proportionately consolidate.	Apply deduction method.	Risk weight at the appropriate risk weighting based on nature of holding of instrument and measurement approach.	Risk weight at the appropriate risk weighting based on nature of holding of instrument and measurement approach up to 10% of the bank or controlling company's CET1. Deduct the amount in excess of 10% of CET1 against the corresponding component of capital.	Full consolidation OR financial entities with specific limitations will have to apply the deduction method.
Insurance entities	As above.	Risk weight at 250% up to 10% of the bank or controlling company's CET1 capital. Deduct the amount in excess of 10% of CET1 against the corresponding component of capital.		Risk weight at 250% up to 10% of the bank or controlling company's CET1 capital. Deduct the amount in excess of 10% of CET1 against the corresponding component of capital.	Risk weight at 250% up to 10% of the bank or controlling company's CET1 capital. Deduct the amount in excess of 10% of CET1 against the corresponding component of capital.	
Commercial entities	Treat as equity investment. Apply 100% risk weight (TSA) or 300%/400% risk weight (IRB market based – SRWA).			**Standardised Approach**	**Advanced Approach**	
				Individual investment up to 15% of CET1. Additional tier 1 and tier 2 is to be risk-weighted at no less than 100%.	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].	
				Individual investment in excess of 15% of CET1. Additional tier 1 and tier 2 is to be risk-weighted at 1 250%.		
				Aggregate of investment > 60% of CET1. Additional tier 1 and tier 2 the excess above 60% is to be risk-weighted at 1 250%.	Individual investment in excess of 15% of CET1. Additional tier 1 and tier 2 is to be risk-weighted at 1 250% or risk-weighted assets (RWA) equivalent.	

[1] *Includes regulated and unregulated entities.*

[2] *Types of activity that financial entities might be involved in include financial leasing, issuing 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 fully deducted.
- 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 risk-weighted assets (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.*

[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 89% and TSA portion is 11% 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

			Carrying values of items subject to:						
June 2017 **Rm**	**Statement of financial position**	**Regulatory consolidation scope**	**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	19 314	19 149	16 860						
Other short-term securities	90 741	89 916	39 916			50 718			
Derivative financial instruments	18 727	18 727		18 117		18 362			
Government and other securities	49 306	49 293	49 306			22 055			
Loans and advances	709 864	709 858	693 702	16 162	1 502				
Other assets	10 691	9 586						9 586	
Current taxation assets	159	136	136						
Investment securities	15 980	2 688					2 688		
Non-current assets held for sale	592	405						405	
Investments in private-equity associates, associate companies and joint arrangements	5 965	5 965					5 965		
Deferred taxation assets	145	207	207						
Investment property	21	21						21	
Property and equipment	8 644	8 640						8 640	
Long-term employee benefit assets	5 563	5 563						1 969	3 594
Mandatory reserve deposits with central banks	19 556	19 556	19 556						
Intangible assets	10 562	10 569							10 569
Total assets	965 830	950 279	819 683	34 279	1 502	91 135	8 653	20 621	14 163
Liabilities									
Derivative financial instruments	13 011	13 011		10 819		12 871			
Amounts owed to depositors	762 712	771 426							
Other liabilities	24 728	23 002							
Current taxation liabilities	174								
Deferred taxation liabilities	1 089	1 097						1 097	33
Long-term employee benefit liabilities	3 561	3 561							
Investment contract liabilities	17 405								
Insurance contract liabilities	2 553								
Long-term debt instruments	55 938	55 938							
Total liabilities	881 171	868 035		10 819		12 871		1 097	33
Total equity	84 659	82 244							

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

		Items subject to:					
June 2017 **Rm**	**Total**	**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)	950 279	819 683	1 502	34 279	91 135	8 653	20 621
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	868 035			10 819	12 871		1 097
Total net amount under regulatory scope of consolidation	82 244	819 683	1 502	23 460	78 264	8 653	19 524
Off-balance-sheet amounts	183 878	177 904		5 974			
Differences in valuations	80 983	73 238		7 745			
Differences due to different netting rules, other than those already included in row 2	(134 096)	(112 247)		(22 979)			1 130
Differences due to consideration of provisions	12 046	12 046					
Differences due to prudential filters							
Exposure amounts considered for regulatory purposes	307 189	1 024 550	1 502	44 668	78 264	8 653	18 394

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

Risk governance and culture

Worldclass risk management

The current risk landscape is experiencing unprecedented levels of change dominated by the persisting volatile and uncertain socioeconomic environment. This is characterised by:

- slower growth and rising inequality;
- disruptive technologies, disintermediation and increased competition;
- scarce and evolving skills requirements;
- the transformation of society within environmental constraints;
- increased demands on governance, regulation and risk management; and
- changing relationships between business, government, labour and civil society.

Global strategic themes

1 People and society

People are being forced to adapt in a rapidly changing world

- Fundamental social and behavioural shifts are taking place, driven by technology
- Digital connectivity and wisdom of the crowd increasingly guide decisionmaking
- Accelerated urbanisation
- Globally people are living longer
- Asian nations account for almost half of the population of the world
- The gap between rich and poor is widening
- Increasing unemployment while employment expectations are changing
- Free, personalised and adaptive learning is becoming increasingly accessible
- Increased focus and investment in personalised healthcare

2 Technology

Technology is exponentially changing the way we live and work

- Chinese technology companies are redefining the financial services industry by using platforms driven by data
- In an 'always online' society cybersecurity is paramount
- Automation and artificial intelligence are becoming necessary to remain cost competitive
- Four billion currently disconnected human beings will come online, but the divide between 'digital haves' and 'digital havenots' increases
- The promise of the internet of things is just emerging – its 'fuel' cryptocurrency is still being decided on.
- Technological disruption is accelerating for financial services – leveraging data analytics is becoming imperative
- Infinite storage – big data growing 40% annually

3 Politics and policy

The current global climate is strained and characterised by a rise in nationalist policies

- The increasing conflict between nationalism and globalism
- The rise of state involvement in capitalism
- Geopolitical relations becoming increasingly strained
- Emerging markets contend with outward migration and brain drain
- Global violent extremism and terrorism continuing
- Governments struggling to keep up with regulating new technologies
- New technology platforms have an advantage in managing regulatory complexity

4 Natural resources

The transition to renewable energy makes sense on multiple levels as we are facing increasing demand for food, water and energy

- The frequency of extreme weather events is increasing
- Natural resources are increasingly scarce
- Technological advances are challenging the traditional energy order and unlocking access to previously unattainable sources
- A large part of the world is becoming water-stressed
- The switch to renewables could have a positive effect on global water consumption

5 Macroeconomics

Global economic activity has improved, but key risks remain

- Manufacturing and trade activity will trend higher, although at moderate rates
- Global growth will pick up, but remain modest over the next two years
- The gradual slowdown and rebalancing of China continue, while India's growth is likely to accelerate
- Monetary policy trends remain divergent in the major economies
- Sub-Saharan Africa benefitting from higher commodity prices and the end of the drought
- The threat of sovereign credit defaults is still high
- Elevated sociopolitical risks in Europe as key nations hold elections
- Commodity prices have picked up

Despite the challenging environment, Nedbank's risk profile and risk management outcomes, together with capital management and the balance sheet, remain appropriate and have come through the first half of 2017 in excellent shape overall.

Nedbank's sound risk culture and robust ERMF serve as a solid foundation. Nedbank fully embeds the concept of risk management being fundamental to the business of banking and effectively practices risk management as a competitive differentiator.

The 'accelerated change' of the operating environment has, in Nedbank's view, created five new additional focus risks, on top of the historical but relevant key risks of credit, market, operational and liquidity.

A VUCA environment is the 'new normal'

Traditional major risks	Credit risk	Market risk	Operational risk	Capital risk	Liquidity risk
New major risks (5 Cs)	**Client centredness** ☐ Consumerism ☐ Know Your Client (KYC) **Digital era**	**Change** ☐ Execution risk ☐ Geopolitical risks **Digital era**	**Cyber** ☐ Technology ☐ Operating models **Digital era**	**Conduct and culture** ☐ Social media ☐ Regulatory change **Digital era**	**Criminality** ☐ Terrorism ☐ Corruption **Digital era**
Reputational risk					

Overview of Nedbank Group's Enterprisewide Risk Management Framework

Risk universe

Accounting financial and taxation risks	Credit risk	Operational risk	Financial crime risk	Liquidity and funding risk	Capital risk	Insurance risk including non-banking risks	Market risk (Trading book, Banking book)	Concentration risk	Conduct risk	Regulatory risk	Information technology risk	Business and strategic (execution) risk	Reputational risk	Governance and compliance risk	Transformation, social and environmental risk	People risk
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	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 and 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

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

Chief Executive (CE)

Group executive committees

Nedbank Group Executive Committee

- Group Alco and Executive Risk Management Committee (Group Alco) C
- Brand, Client and Conduct Committee (BCC) 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 forums

- Cluster Credit Committee 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

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.	

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 fist-line functions, eg forensic and physical security.

CRO

- Finance, Operations and RCPO[1]
- Group AML, CFT and Sanctions Office
- Group Insurance
- Group Legal[1]
- Group Financial Crime and Forensics (GRCF)
- Group Operational Risk and Data Management (GORDM)
- 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 Head of 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.*

The board of directors has ultimate responsibility for the bank's business strategy, financial soundness, governance, risk management and compliance obligations, hence the board sits across all three lines of defence.

LINES OF DEFENCE AND COORDINATED ASSURANCE – KEY PRINCIPLES

- The three lines of defence together with assurance providers:
  - focus on integrating and aligning assurance processes and reporting in the bank so that management and directors obtain an optimal insight into the management of:
    - strategic and business operational risks; and
    - the overall risk profile of the bank taking into account the current risk, governance and control efficiencies;
  - while executing different functions, work closely together in a collaborative and information-sharing manner, leveraging off the insights and intelligence of the others to enhance the efficiency and effectiveness of the risk management systems;
  - provide clear and concise, yet detailed reports that facilitate sound internal controls;
  - ensure management and directors receive sound and relevant information that enables them to make informed and proper decisions;
  - collaborate, engage with and share information with each other to create a risk-based approach to risk management; and
  - ensures alignment with the principles and standards of King IV.

Nedbank's risk management function, embedded across the group, is fully described therein. It sets out the group's risk universe and major risk classifications, and assigns board and executive responsibility thereto. The organisation places a strong reliance on this risk governance framework.

In response to evolving, emerging-risk trends, a changing business environment and the significant regulatory change and developments certain risk categories are being accorded more or less prominence dependent on the current risk environment.

- Four-lines-of-defence Model.
  - The revised model, currently being implemented across the organisation, clearly articulates responsibility and accountability based on the role that an individual/team plays as opposed to where the individual is structurally located within the organisational hierarchy.
  - It also ensures a culture shift from lines of defence to lines of offence, thereby further entrenching the concept of risk being effectively managed as a strategic enabler.
- Coordinated assurance.
  - The coordinated assurance model implemented in the first half of 2017 ensures a more holistic view across the organisation in respect of the various risk types.
  - It also ensures that the risk profile of the bank is established in a vastly enhanced manner, allowing for improved management information, leading to expedient and more effective response.
- Frameworks, charters [board, exco and Enterprisewide Risk Committee (ERCO)] and policies (level 3 risk policies).
  - The governance of risk management remains well managed within Nedbank with no issues being raised in the board's regulation 39 and 40 attestation to the South African Reserve Bank (SARB).
  - Policies undergo annual reviews and are tailored to suit the Nedbank environment.
    - Policy owners ensure that the policy meets the requirements of all current regulation, is relevant to meet Nedbank's risk with objectives and has a process that gives effect to the requirements of the policy.
- Dedicated board committees across Nedbank's lines of defence further augment and entrench the ERMF.
- King IV.
  - Anticipated changes on board and exco committee charters are minimal and will be effected during the second half of 2017.
  - Based on Nedbank's impact analysis conducted, the board and management of Nedbank Group believe that the group is currently applying the 17 King IV Code Principles.
  - Taken together, Nedbank Group's corporate governance philosophy, approach, standards, policies and practices support achievement of each of the King IV Principles and enable its board and management to conclude that it is currently achieving the King IV governance outcomes in all material respects.
  - The board and management are also satisfied that Nedbank's application of the King IV Code is appropriately documented and evidenced, and are satisfied that Nedbank's King IV applies and explains disclosures (to be included in its 2017 Governance and Ethics Review).
- Root cause analysis.
  - The Root Cause Analysis Framework is well embedded within the organisation and ensures that causal analysis of risks and issues is fully understood and acted upon at the very heart of the matter.
  - This facilitates improved end-to-end processes across the entire organisation.

NEDBANK'S TOP 10 RISKS

Given the persistent volatile, uncertain, complex and ambiguous (VUCA) macroeconomic and geopolitical environments, as well as heightened competition from traditional and non-traditional competitors, we continue to monitor and manage our top 10 risks actively and regularly revise these risks in light of any developments.

Nedbank's top 10 risks form the cornerstone of the group's Risk Plan and are tabled at the Group Executive Committee (Group Exco) and various board committees, ensuring that the organisation has a comprehensive and consolidated view of the risks affecting it. Our top 10 risks are summarised as:

- Business risk (VUCA macro, markets and SA/ geopolitical risks).
- Strategic and execution risks.
- Cyberrisk.
- Regulatory and compliance risks.
- Conduct and culture risks.
- Reputational (and association) risk.
- Operational (including IT and financial crime) risks and data.
- Credit risk.
- Market risk.
- Balance sheet risks.

RISK STRATEGY

A comprehensive risk strategy is in place and forms an integrated component of Nedbank's annual business plan and Group Risk Plan.

- This is led by the Chief Risk Officer (CRO) in conjunction with Balance Sheet Management (BSM) and business.
- The updated 2017–2020 Group Risk Plan was prepared to accelerate the transformation of risk management, compliance and regulation strategically across Nedbank, and sustainably implement the regulatory change programme.

The impact of a sovereign ratings downgrade was raised in almost all board meetings in 2016. Nedbank performed extensive stress testing on our balance sheet and income statement to test the impact of high and severe stress events. Relative to the period prior to the global financial crisis, currently we are in a significantly stronger position to deal with any potential downturn. The group has planned for a tough and uncertain environment and over the past few years we have been prudent in our lending. Our business remains well positioned with strong capital and liquidity levels. These actions ensure our ability to withstand the negative consequences of the ratings downgrade. In addition, comprehensive stress testing was performed and the resultant risk mitigation plan, 'Management's response to the risk of a severe stress event in SA', received board approval.

RISK ESCALATION

Escalation criteria are formalised and significant risk issues and/or limit breaches are raised and included in all relevant forum and committee meeting packs, which is a key feature of the ERMF and risk reporting across Nedbank Group. The process of corporate governance, including the risk management process, as contemplated in regulation 39 of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990), is assessed annually against the existing internal control environment. Similarly, an assessment of whether the bank can continue as a going concern, as required in terms of regulation 40 of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990), is carried out with due regard to governance, risk management and long-term planning of the group.

RISK PROFILES

- Within each ERCO residual risk profiles are reflective of the risk universe applicable to the entity, taking into account various sources of risk identification, namely annual strategy and business planning process, issues raised through management meetings and committee structures, guidance obtained from best-practice risk frameworks and issues raised by Internal and External Audit.
    - Residual risk profiles are also included for review by the Group Risk and Capital Management Committee (GRCMC). These provide an overall view of the residual risk profile of the organisation.
    - In addition, the group's key issues control log is regularly reviewed and updated, ensuring that the bank at all times has a view of the key issues and risks affecting it at any given point in time.
    - Linked closely to the monitoring of the group's risk profile is the holistic enterprisewide assessment of the internal control environment for the consideration of the Group Audit Committee (GAC) in particular, and for the information of the board.

REGULATORY CHANGE

Nedbank recognises that the volume and speed of regulatory change remains challenging both globally and locally, requiring agility from a bank aspiring to be worldclass at managing risk.

Given the extent of new regulation, a Regulatory Affairs Office and a Regulatory Change Programme Office (RCPO) ensures that the impact of new or pending regulatory changes are proactively identified and appropriately managed.

The RCPO continues to drive remediation relating to AML, Combating the Financing of Terrorism (CFT) and Sanctions compliance as well as other new regulatory requirements.

RISK APPETITE

Nedbank's risk appetite is prudent and appropriately conservative, and remains enabling for our businesses, promoting competitive and appropriate growth and returns.

This remains the case for the 2017–2020 Group Business Plan, providing our business with 'freedom within agreed and acceptable boundaries'.

The current and forecast business plans are well supported by the current Risk Appetite Framework (RAF), with additional capacity to enable further growth with corresponding risk taking and capital consumption.

Enhancements included in the risk appetite section of the Group Risk Plan relate mainly to AML, CFT and Sanctions, as well as cyberrisk. Where new risk frameworks are evolving for subrisks of financial crime risk management (eg corruption and fraud risk management), the definition of applicable risk appetite for each has received focus.

RISK CULTURE

Nedbank Group has a strong risk culture. This is achieved through following best-practice enterprisewide risk management (ERM), a strong 'tone from the top' from the CE, top management and the board, and ongoing risk leadership from the CRO.

The approach adopted aligns strategy, policies, people, processes, technology and business intelligence to measure, evaluate, manage and optimise the opportunities, threats and uncertainties that Nedbank faces daily as a large financial institution (FI). In this way the group is able to maximise sustainable shareholder value within its clearly defined risk appetite.

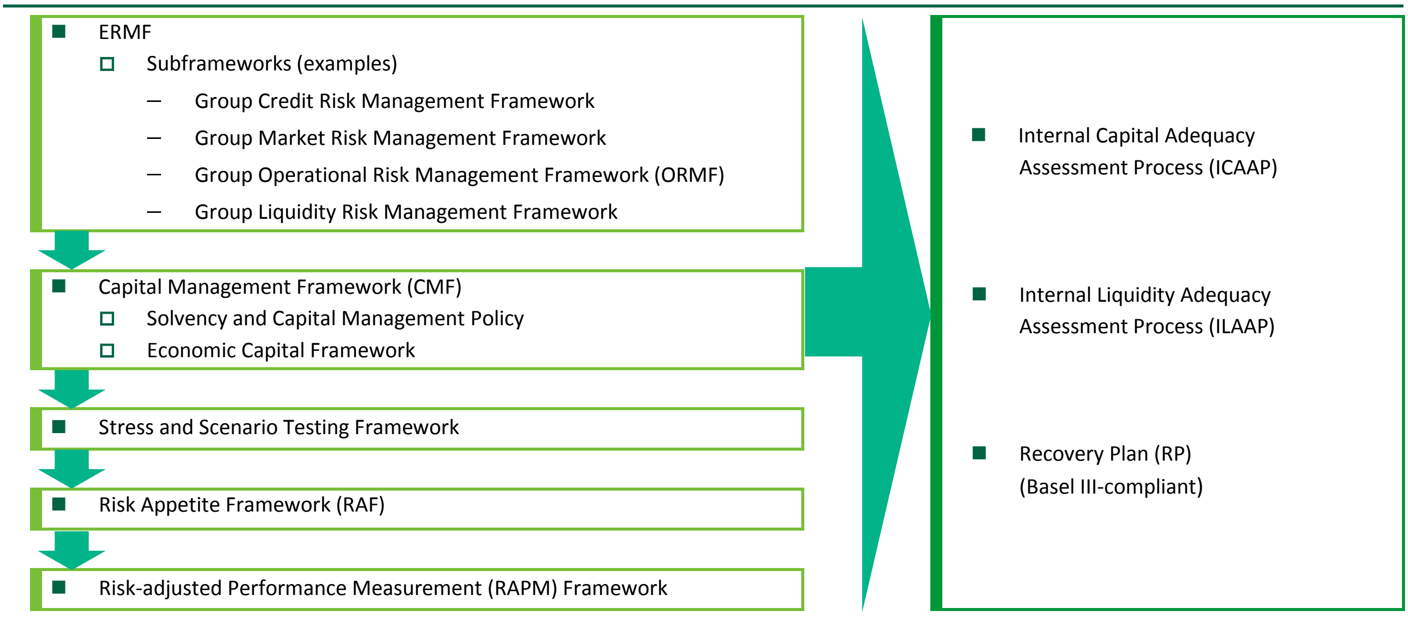
Nedbank has adopted the strategic enabler of 'accelerated change'. Accelerated change leads to accelerated risk in a VUCA environment (as described above), complete with the digital revolution, increasing regulatory change, Old Mutual managed separation and the target operating model review.

Regular assessments of culture are undertaken. Historically this involved the use of Barett Surveys and most recently a Compass Culture Assessment. Elements of these assessments include risk culture indicators for which specific actions can be formulated.

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.

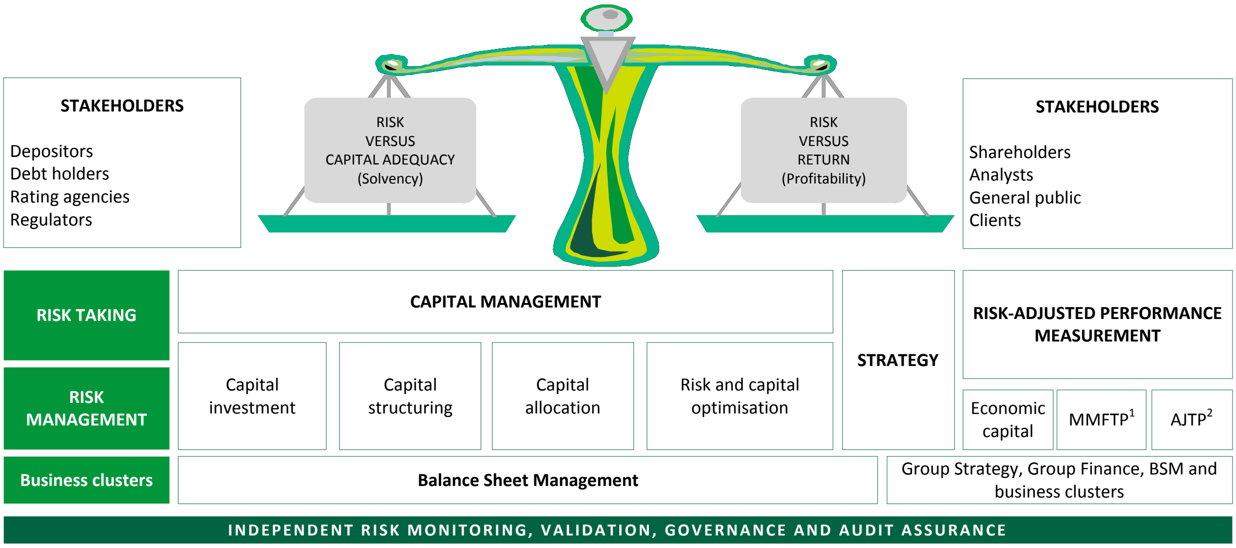
Nedbank Group's Risk and Balance Sheet Management frameworks



- ERMF
  - Subframeworks (examples)
    - Group Credit Risk Management Framework
    - Group Market Risk Management Framework
    - Group Operational Risk Management Framework (ORMF)
    - Group Liquidity Risk Management Framework
- 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



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[1] *Matched maturity 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.

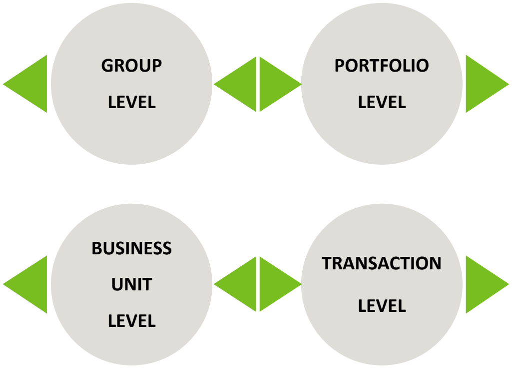
Nedbank Group assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital within 12 quantifiable risk categories. The quantification and capitalisation of transfer risk has been discontinued effective 1 January 2017, due 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)

$$\mathbf{EP = \underbrace{CAPITAL}_{\text{Robust measure of risk, based on Basel III}} \times (\underbrace{RORAC}_{\text{Economic ROE}} - \underbrace{\text{cost of capital}}_{\text{Shareholder requirements}})}$$

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 on the next page.

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 ECONOMIC 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.

RORAC % = [IFRS EARNINGS (INTERNAL ROE) + CAPITAL BENEFIT] ÷ ECONOMIC CAPITAL

- 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.

The primary performance indicator is EP driven off risk-based capital.

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 12), 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 includes one of 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 process 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 discussed 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 prospective.

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.

In August 2015 the National Treasury, SARB and the FSB released for comment a white paper titled 'Strengthening SA’s Resolution Framework for Financial Institutions'. This paper will form the basis of a new Special Resolution Bill that will facilitate the resolution of a FI. Nedbank’s RP has been appropriately enhanced for this white paper and will evolve as this bill is finalised and possibly enacted in 2018.

Further information is discussed in the 'Recovery plan overview' section.

Nedbank Group has a comprehensive Stress and Scenario Testing Framework as described from page 19, 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 within 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 or 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 2016 Remuneration Report and the Remuneration section within the 2016 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 with relevant regulatory and/or statutory requirements.

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. The quantitative metrics include earnings-at-risk (EaR) (or earnings volatility) and, related to this, the chance of experiencing a loss, the chance of regulatory insolvency and economic capital adequacy. Earnings volatility is the level of potential deviation from expected financial performance that the group is prepared to sustain at relevant points on its risk profile. It is established with reference to the strategic objectives and business plans of the group, including the achievement of financial targets, payment of dividends, funding of capital growth and maintenance of target capital ratios. These measures, together with the CET1 ratio, total RWA to total assets, Basel III leverage ratio, LCR and CLR, comprise the group's core risk appetite metrics.

A large variety of further risk appetite metrics with targets, triggers, mandates and guidelines are in place for all the financial risks to enable monitoring of the group's profile against risk appetite [eg credit, market, asset and liability management (ALM) and concentration risks]. The suite of base case risk appetite metrics is incorporated into the business plans at both group and business cluster levels. Stressed (extreme event) risk appetite limits for the point-in-time (PIT) risk appetite metrics are in place and are linked to Nedbank Group's stress and scenario testing programme.

Credit risk and investment risk appetite metrics and targets, as relevant to the approved business activities, have been cascaded down from group level for each business cluster and major business units. The relevant operational risk appetite metrics have also been cascaded down to business cluster level.

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 three lines of defence (refer to page 10 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.

Nedbank Group's core risk appetite is defined in accordance with the table on the following page.

NEDBANK GROUP CORE RISK APPETITE METRICS

Group metrics	Definition	Measurement methodology	Current target	Target achieved at June 2017
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%	✓
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	✓
Credit loss ratio (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% CLR improved to below the lower end of the target range largely due to improvements in the Corporate and Investment Banking (CIB) portfolio.	✓
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.	✓
CET1 ratio	Nedbank Group adequately capitalised from a regulatory perspective.	Measured as the ratio of CET1 capital and total RWA.	10,5% - 12,5%	✓
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%	✓
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 coverage ratio (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. 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.	> 90% (for 2017, future increases in line with phasing-in of Basel III).	✓

Nedbank Group's RAF and modelling of the group-level metrics are integrated with the economic capital model and the ERMF. The two measures, EaR and economic capital, are methodologically very similar and differ primarily in the confidence level used. Both economic capital and EaR are calculated at granular levels and are key components of Nedbank Group's RAF and RAPM system (ie for RORAC and EP measures).

Nedbank Group has a cascading system of risk appetite targets and limits at all levels of the group and for all financial risks, which is a core component of the implementation of the RAF. The size of the various targets and limits is a direct reflection of the board's risk appetite, given the business cycle, market environment, business plans and strategy, and capital planning.

NEDBANK GROUP RISK APPETITE

%	TTC targets
Core risk appetite metrics	
EaR (one-year forward looking)	< 80
Chance of a loss (1-in-N chance in the next year)	> 15
Chance of regulatory insolvency (1-in-N chance in the next year)	> 50
CLR	0,60–1,00
AFR/economic capital at 99,93% confidence interval ('A' target rating)	> 130
CET1 ratio	10,5–12,5
Total RWA:total assets	50–59
Leverage ratio (including unappropriated profits)	< 20 times
LCR	> 90
Credit risk profile	
Credit RWA:loans and advances	52–58
Properties in possession (PiPs):loans and advances	< 0,1
Average PD – performing book (TTC)	< 3
Average LGD – performing book (TTC)	18–24
Average EL – performing book (TTC)	0,5–0,8
Non-performing loan (NPL) ratio	< 3,5
Exposure at default (EAD):exposure	< 120

%	TTC targets
CCR (derivatives) profile	
CCR EAD:total EAD	< 2
CCR economic capital:total economic capital	< 1
Securitisation credit risk profile	
Securitisation RWA:total RWA	< 5
Trading market risk profile	
Value at risk (VaR) (99%, three-day), (Rm)	< 150
Stress trigger (Rm)	< 1 050
Economic capital:total economic capital	< 3
Equity (investment) risk profile	
Exposure:total assets	< 2
Economic capital:total economic capital	< 10
ALM risk profile – liquidity	
Short-term (0 to 31 days) funding:total funding	< 55
Cumulative short- and medium-term (0 to 180 days) funding:total funding	< 70
Long-term (> 180 days) funding:total funding	> 28
Contractual maturity mismatch (0 to 31 days):total funding	< 38
Liquidity stress event (minimum survival period in days)	> 38
Net interbank reliance:total funding	< 1,5
ALM risk profile –IRRBB	
Nedbank Group – net interest income (NII) sensitivity:equity	< 2,25
Nedbank DI Entity – NII sensitivity:equity	< 2,5
Nedbank DI Entity – NII sensitivity [25 bps shift in call and 3m Johannesburg Interbank Agreed Rate (JIBAR) rate]:equity	< 1,5
Nedbank DI Entity – Economic value of equity (EVE) sensitivity:equity	< 1,5
Nedbank Limited – Mark-to-market (MtM) sensitivity:25 bps shift between bond and swap curves (Rm)[1]	< 160
Nedbank Limited – MtM sensitivity:100 bps parallel shift (Rm)[1]	< 145
Total insurance risk profile	
EaR	< 40
Long-term insurance risk profile	
Net claims ratio[2]	< 50
Capital at risk (required capital)[3]	> 1,5
Economic capital ratio[3]	> 1,0
Short-term insurance risk profile	
Net claims ratio[2]	< 75
Capital at risk (required capital)[3]	> 1,3
Economic capital ratio[3]	> 1,0
Asset management risk profile	
Asset management economic capital:total Nedbank Wealth economic capital	< 25
Insurance investment risk profile	
Equity exposure:total shareholders’ investment	< 10
Operational risk profile	
Operational risk loss: gross operating income (GOI)	< 1,75
Internal fraud loss:GOI	< 0,1
External fraud loss:GOI	< 0,75
Client, products and business practices:GOI	< 0,325
Execution, delivery and process management (EDPM):GOI	< 1,25
Operational value at risk (OpVaR):GOI	< 10

[1] *Applicable to liquid-asset, senior-unsecured-debt and subordinated-debt portfolio.*

[2] *Percentage of gross premium, net of reinsurance.*

[3] *Targets presented as ratios and not percentages.*

The Nedbank Group 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 103.
  - The high contribution from loans and advances originated in SA (92,7%) 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 105.
  - Nedbank Group's concentration in total mortgage exposure increased from 41,3% in December 2016 to 41,8% in June 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 0,23% of total RWA.
- Low leverage ratio under Basel III, which includes off-balance-sheet exposure, at 14,7 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 0,47% (December 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 can increase.
- 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

The main objective of Nedbank Group's stress testing is to assess the effect of possible unexpected events on Nedbank Group's base case projections, including capital requirements, resources and adequacy of capital buffers for both regulatory capital and the ICAAP. In addition, stress testing is an important tool for analysing Nedbank Group's risk profile and setting risk appetite.

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.

Nedbank's holistic groupwide stress testing is at the forefront of international bank's similar processes. 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.

During 2016 and in the beginning of 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 ratings agencies. In this regard Nedbank has extensively considered a response to such an event, well before the actual downgrade events of April and June 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 post the Standard and Poor's and Fitch downgrades in April 2017, against what was predicted. Further stress testing was then performed specifically to address the possibility that SA's local currency sovereign credit rating be 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 on the impact of management actions.
- Event-type or risk-type stress tests are further designed to probe for portfolio-specific weaknesses. For example, Nedbank has significant exposure to the commercial property sector, therefore 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. Such participation helps to ensure that any remedial actions based on contingency plans drawn up in response to approved stress tests will be implemented.
- Market risk stressing is performed daily and utilises 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 is 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 Asset and Liability Committee and Executive Risk Committee (Group Alco) and to the board's 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:

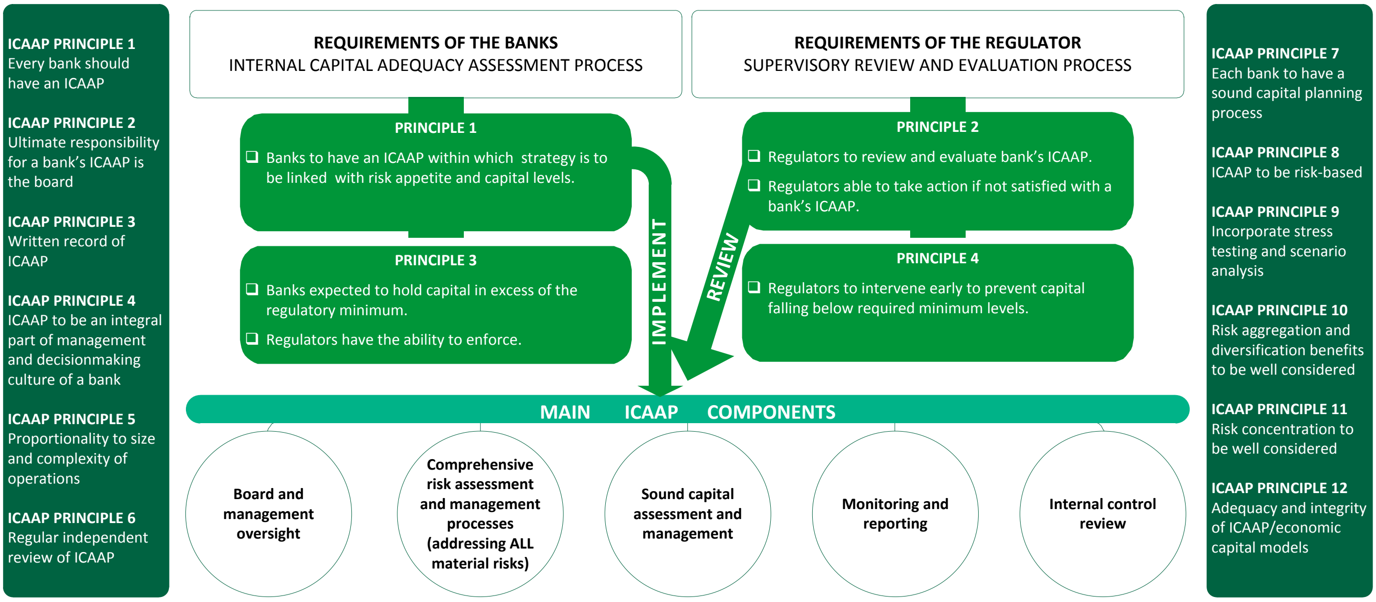
- A continuum of macroeconomic stress scenarios as described above.
- Further possible downgrades of SA's local currency rating to subinvestment grade.
- Specific high-concentration-risk stresses, such as Nedbank's exposure to the commercial property finance sector and Nedbank's investment in ETI.
- Specific risk-type stresses, such as credit valuation adjustment (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 before being finalised for the annual ICAAP at an executive management level by Group Alco and at a non-executive management level by the GRCMC.

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



ICAAP PRINCIPLE 1
Every bank should have an ICAAP

ICAAP PRINCIPLE 2
Ultimate responsibility for a bank's ICAAP is the board

ICAAP PRINCIPLE 3
Written record of ICAAP

ICAAP PRINCIPLE 4
ICAAP to be an integral part of management and decisionmaking culture of a bank

ICAAP PRINCIPLE 5
Proportionality to size and complexity of operations

ICAAP PRINCIPLE 6
Regular independent review of ICAAP

REQUIREMENTS OF THE BANKS
INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

PRINCIPLE 1
- ☐ Banks to have an ICAAP within which strategy is to be linked with risk appetite and capital levels.

PRINCIPLE 3
- ☐ Banks expected to hold capital in excess of the regulatory minimum.
- ☐ Regulators have the ability to enforce.

REQUIREMENTS OF THE REGULATOR
SUPERVISORY REVIEW AND EVALUATION PROCESS

PRINCIPLE 2
- ☐ Regulators to review and evaluate bank's ICAAP.
- ☐ Regulators able to take action if not satisfied with a bank's ICAAP.

PRINCIPLE 4
- ☐ Regulators to intervene early to prevent capital falling below required minimum levels.

MAIN ICAAP COMPONENTS
- Board and management oversight
- Comprehensive risk assessment and management processes (addressing ALL material risks)
- Sound capital assessment and management
- Monitoring and reporting
- Internal control review

ICAAP PRINCIPLE 7
Each bank to have a sound capital planning process

ICAAP PRINCIPLE 8
ICAAP to be risk-based

ICAAP PRINCIPLE 9
Incorporate stress testing and scenario analysis

ICAAP PRINCIPLE 10
Risk aggregation and diversification benefits to be well considered

ICAAP PRINCIPLE 11
Risk concentration to be well considered

ICAAP PRINCIPLE 12
Adequacy and integrity of ICAAP/economic capital models

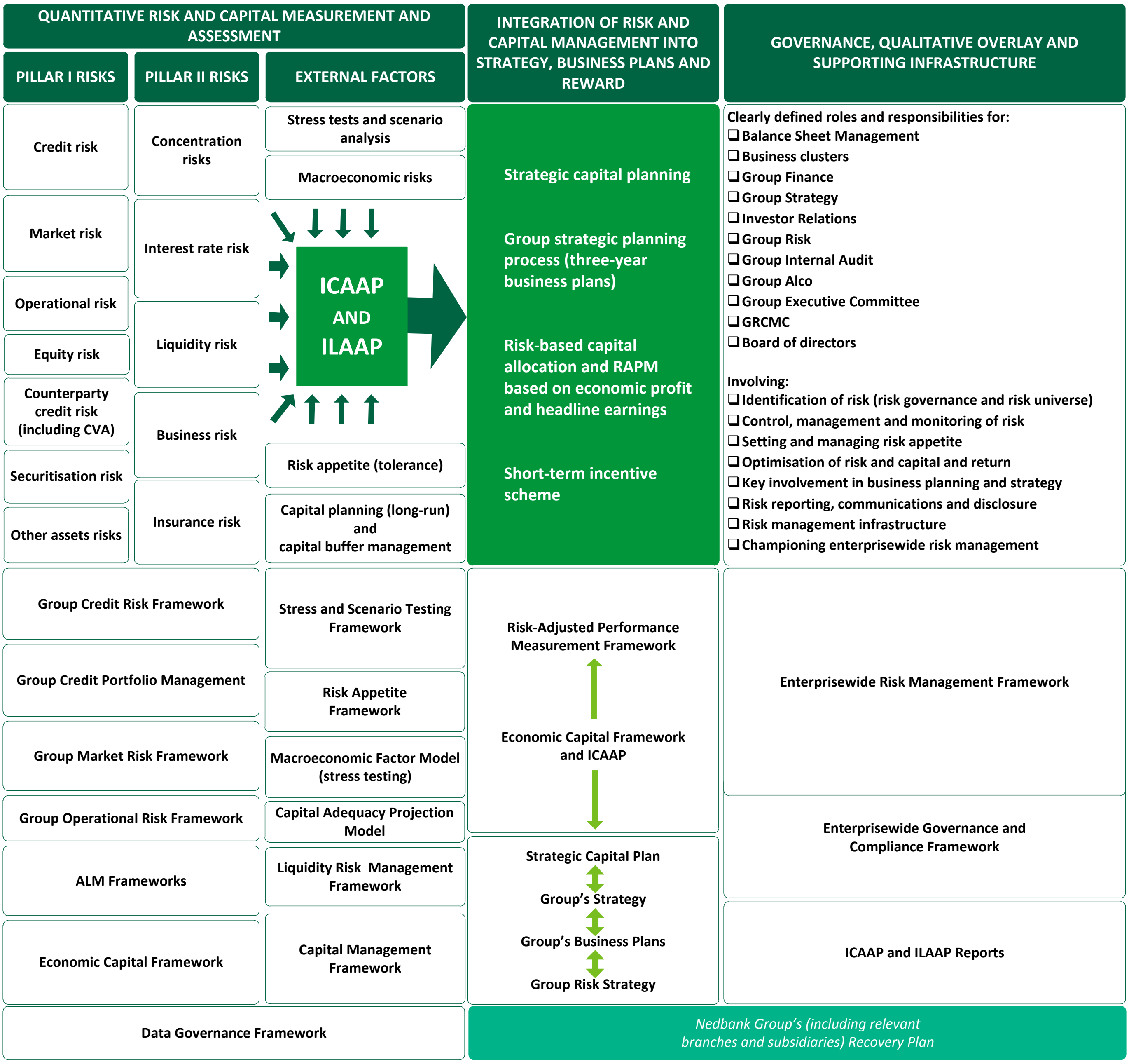
The ICAAP is primarily concerned with Nedbank's comprehensive approach, measurement and management of risk and capital from an internal perspective, that is, over and above the minimum regulatory rules and requirements of Basel III. To this end it is important to highlight that Nedbank Group has several 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 99,9%). ■ 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 level of 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 its 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



QUANTITATIVE RISK AND CAPITAL MEASUREMENT AND ASSESSMENT

PILLAR I RISKS
- Credit risk
- Market risk
- Operational risk
- Equity risk
- Counterparty credit risk (including CVA)
- Securitisation risk
- Other assets risks

PILLAR II RISKS
- Concentration risks
- Interest rate risk
- Liquidity risk
- Business risk
- Insurance risk

EXTERNAL FACTORS
- Stress tests and scenario analysis
- Macroeconomic risks
- Risk appetite (tolerance)
- Capital planning (long-run) and capital buffer management

ICAAP AND ILAAP

INTEGRATION OF RISK AND CAPITAL MANAGEMENT INTO STRATEGY, BUSINESS PLANS AND REWARD
- Strategic capital planning
- Group strategic planning process (three-year business plans)
- Risk-based capital allocation and RAPM based on economic profit and headline earnings
- Short-term incentive scheme

GOVERNANCE, QUALITATIVE OVERLAY AND SUPPORTING INFRASTRUCTURE

Clearly defined roles and responsibilities for:
- ☐ Balance Sheet Management
- ☐ Business clusters
- ☐ Group Finance
- ☐ Group Strategy
- ☐ Investor Relations
- ☐ Group Risk
- ☐ Group Internal Audit
- ☐ Group Alco
- ☐ Group Executive Committee
- ☐ GRCMC
- ☐ Board of directors

Involving:
- ☐ Identification of risk (risk governance and risk universe)
- ☐ Control, management and monitoring of risk
- ☐ Setting and managing risk appetite
- ☐ Optimisation of risk and capital and return
- ☐ Key involvement in business planning and strategy
- ☐ Risk reporting, communications and disclosure
- ☐ Risk management infrastructure
- ☐ Championing enterprisewide risk management

- Group Credit Risk Framework
- Group Credit Portfolio Management
- Group Market Risk Framework
- Group Operational Risk Framework
- ALM Frameworks
- Economic Capital Framework

- Stress and Scenario Testing Framework
- Risk Appetite Framework
- Macroeconomic Factor Model (stress testing)
- Capital Adequacy Projection Model
- Liquidity Risk Management Framework
- Capital Management Framework

Data Governance Framework

Risk-Adjusted Performance Measurement Framework

Economic Capital Framework and ICAAP

Strategic Capital Plan

Group's Strategy

Group's Business Plans

Group Risk Strategy

- Enterprisewide Risk Management Framework
- Enterprisewide Governance and Compliance Framework
- ICAAP and ILAAP Reports

Nedbank Group's (including relevant branches and subsidiaries) Recovery Plan

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 27.

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), and the Recovery and Resolution Plan (RRP) is a clear part of this in:

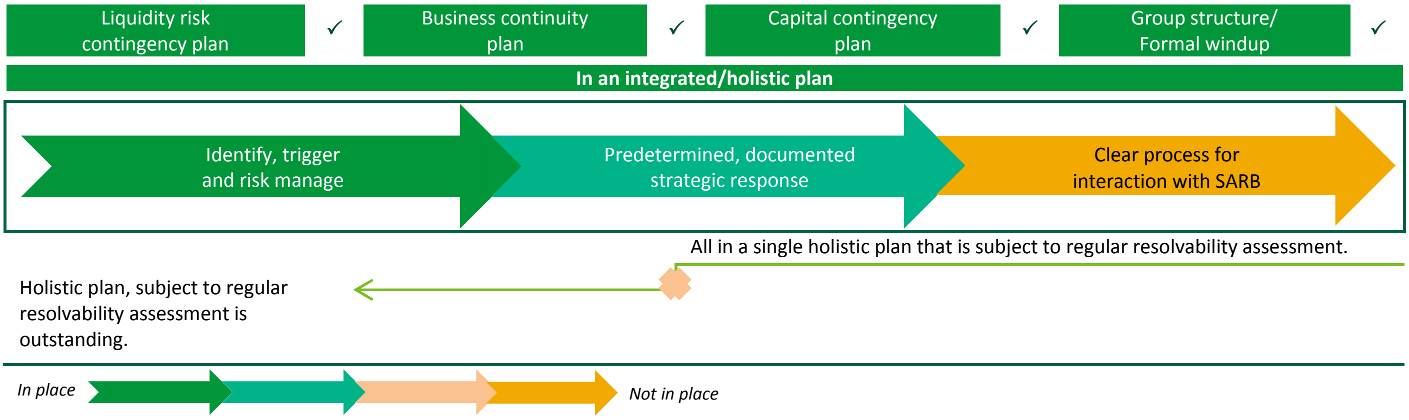
- reducing the risk of banks failing (RPs);
- reducing the impact of failure (resolution plans); and
- ringfencing state/taxpayers from any implicit support to the banking sector (ie mitigate against resolution with bailout).

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. A draft Special Resolution Bill is expected in the second half of 2017, with such bill then being enacted within a reasonable time thereafter. The resolution white paper introduced and/or confirmed the following:

- The establishment of a resolution authority (SARB) specifically responsible for managing the resolution of an FI.
- The creation of a Deposit Insurance Scheme (DIS), with further detail pertaining to the mechanics and funding of the DIS set out in a discussion paper released jointly by SARB and National Treasury in May 2017. The industry is currently working with the SARB and National Treasury to finalise the specifics of the DIS with the aim of achieving an optimal outcome between systemic benefits and potential enduser costs associated with the scheme.
- The introduction of the bail-in concept.
    - 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 possible 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, 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. The latest simulation was 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 (R0,6bn) and tier 2 (R2,5bn) capital instruments in the first half of 2017 in line with the group's capital plan.
    - Bail-in of debt established via 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 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 versus international banks.



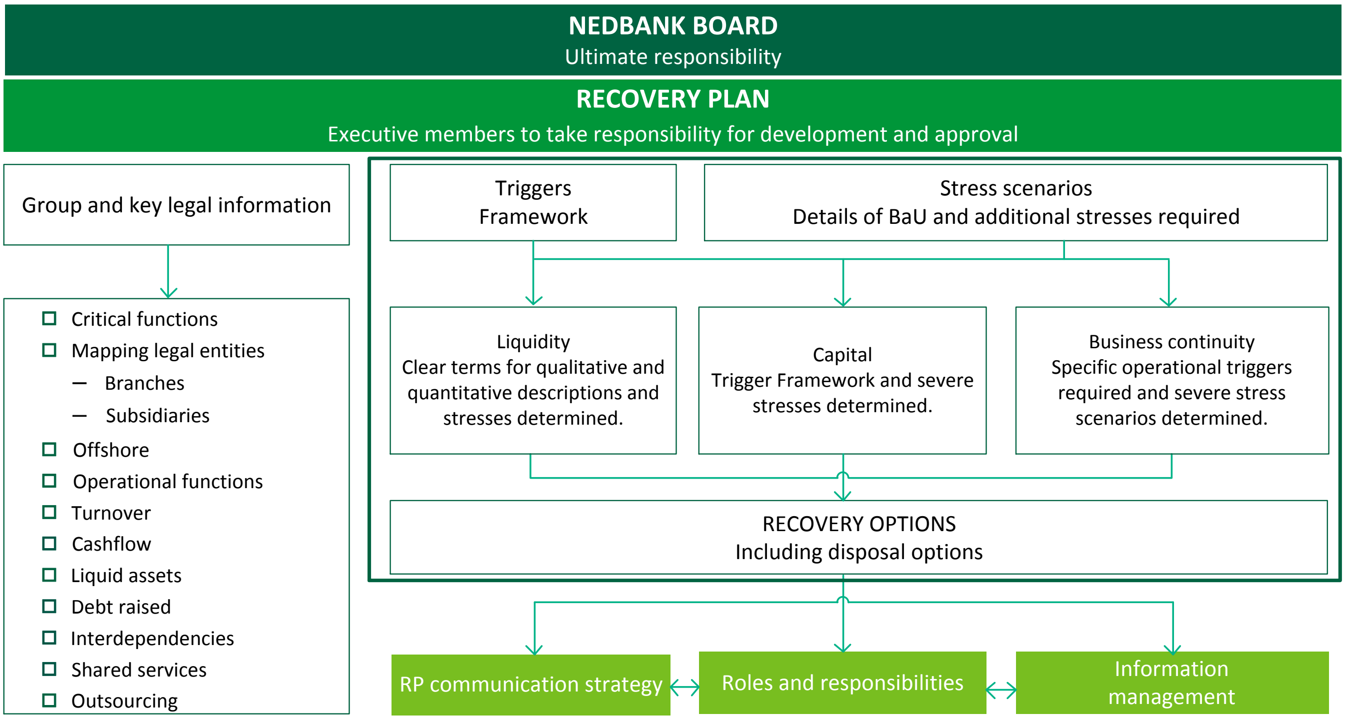
Overall Nedbank Group believes it currently has the ability to identify, trigger and manage a recovery state caused typically by a solvency or liquidity event, but needs to continuously evolve and test this plan with strategic responses for various feasible causes of such an event, and needs to close the gap between the bank's RP and the regulator's resolution plan in due course, as the Special Resolution Bill is finalised in strengthening SA's Resolution Framework for FIs.

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 within the group, across all the geographic locations in which they operate. This RP relates to all entities within the group, including associates and joint ventures, noting that a new RP was specifically created for Nedbank Namibia during 2016, with RPs having been created for Private Wealth International [based on the Isle of Man (IOM)] and the London branch of Nedbank Limited during 2015. 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.

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 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 to separate its four businesses 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, 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.

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 avoid 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 RPs will be submitted to SARB during Q4 2017, with the RP onsite scheduled for early 2018. Nedbank again partnered with Pricewaterhousecoopers (PwC) to update the RPs, with PwC providing insights into best-practice given its global operating footprint.

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.
- Strategic portfolio management to optimise the allocation and use of scarce resources [eg capital, funding and liquidity, information technology (IT) innovation and marketing spend] and risk appetite, while investing for the future to grow the franchise and maintain a robust balance sheet.
- Differentiated, selective growth strategies aligned with the macroeconomic cycle and biased towards high growth and high EP businesses.
- 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 high growth of EP-rich transactional deposits.
- Effective risk management within the desired risk appetite.
- Fair Share 2030: contributing to government's planning objectives in creating a prosperous and long-term sustainable society through investment in education, water, clean energy, financial inclusion, job creation, etc.

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:

- Political and policy uncertainty leading to further sovereign-credit-ratings downgrades.
- Lower levels of confidence and recessionary economic conditions with gross domestic product (GDP) expected to remain low at approximately 0,6% year-on-year growth.
- Ongoing currency and market volatility.
- Commodity prices off their lows and forecast to increase for industrial commodities, principally energy and metals.
- Inflation remaining under the SARB's 6% upper target range for the remainder of the year as a result of lower food price inflation (the expected average inflation rate of 5,3% for this year is significantly lower than last year's 6,4%).
- Persistent macroeconomic challenges in SA evident by slow GDP growth of 0,6%.
- The forecast of an interest rate decrease of 25 bps in September 2017, January 2018 and March 2018, given the expected inflation profile.
- Regulation continuing to have a substantial impact on bank strategy and profitability in the planning cycle, although the group is well positioned for Basel III regulatory requirements.

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 sub-frameworks, including economic capital. A summary table of the key risk types impacting the group is provided below and highlights the mapping if 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 9 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:	Liquidity risk mitigated through the ILAAP, liquidity profile targets and limits, and the holding of surplus liquidity buffers as opposed to holding economic capital.
	■ Concentration risk	
	■ Stress testing	
	■ Securitisation	
	■ Liquidity and funding risk	
	■ Market liquidity risk	
Market risks	Market risk in the trading book:	Trading (Position) risk
	■ Concentration risk	
	■ Stress testing	
	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 twelfth quantitative economic risk type relates to other assets, which covers 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 ratings 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 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 that establishes 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, ie total regulatory minimum requirement with effect from 2016, 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. 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 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 35 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	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 35.

Credit risk capital

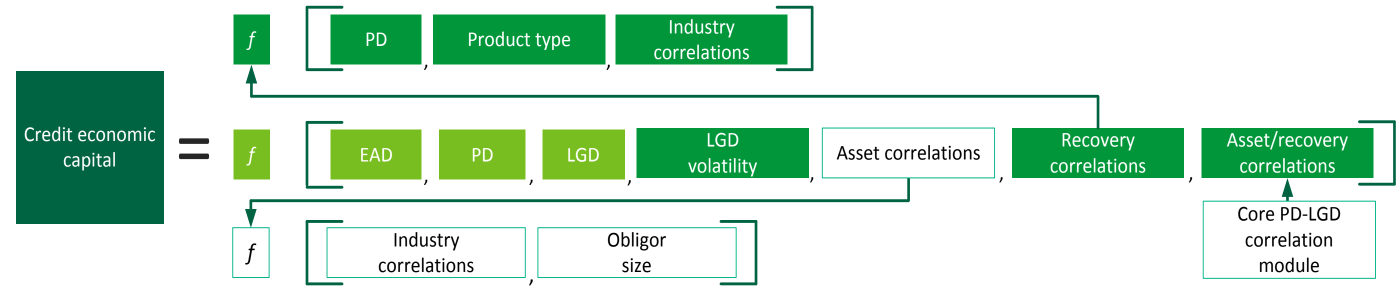
Nedbank Limited and Nedbank London branch make up 94% of the total credit extended by Nedbank Group and are on the AIRB Approach. The legacy Fairbairn Private Bank (UK), the non-SA subsidiaries' credit portfolios and some of the legacy Imperial Bank portfolio in Nedbank RBB remain on TSA.

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 formulation of its Standardised Approach (SA-CCR) for measuring EAD for CCR. 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, which was originally proposed to be implemented from 1 September 2017.

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. The credit exposures that Nedbank Group measures in terms of securitisation use a combination of the ratings-based approach and supervisory formula approach (both AIRB approaches) 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 the 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 the SARB and is based on their 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 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.

Interest rate risk in the banking book capital

Interest rate risk in the banking book (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 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 and short-term claims. 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

STRONG CAPITAL RATIOS ABOVE REGULATORY MINIMUM REQUIREMENTS AND WITHIN INTERNAL TARGET RANGES[1]

		SARB minimum[2]	Internal targets[3]	Jun 2017	Jun 2016	Dec 2016
Nedbank Group						
Including unappropriated profits						
Total	(%)		**> 14**	**15,7**	14,5	15,3
Total tier 1	(%)		**> 12**	**13,2**	12,5	13,0
CET1	(%)		**10,5–12,5**	**12,3**	11,6	12,1
Surplus total capital	(Rm)			**25 791**	20 869	24 868
Total RWA	(Rm)			**516 051**	507 466	509 221
Total RWA/total assets	(%)		**> 50**	**53**	54	53
Leverage	(times)	**< 25**	**< 20**	**14,7**	15,7	15,3
Dividend cover	(times)		**1,75–2,25**	**1,80**	1,99	2,00
Cost of equity	(%)			**13,9**	14,4	14,2
Excluding unappropriated profits						
Total	(%)	**10,75**		**14,3**	13,3	14,4
Total tier 1	(%)	**8,75**		**11,8**	11,3	12,1
CET1	(%)	**7,25**		**10,9**	10,4	11,3
Nedbank Limited						
Including unappropriated profits						
Total	(%)		**> 14**	**16,8**	14,7	15,9
Total tier 1	(%)		**> 12**	**13,4**	12,1	12,9
CET1	(%)		**10,5–12,5**	**12,2**	11,0	11,7
Surplus total capital	(Rm)			**25 668**	18 141	23 676
Total RWA	(Rm)			**421 467**	421 874	425 406
Excluding unappropriated profits						
Total	(%)	**10,75**		**15,7**	13,9	15,6
Total tier 1	(%)	**8,75**		**12,3**	11,3	12,5
CET1	(%)	**7,25**		**11,1**	10,2	11,3

[1] *In line with regulation 38(10) of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990) profits do not qualify as regulatory capital, unless formally appropriated by the board by way of a resolution. Accordingly, capital ratios are shown above, both including and excluding unappropriated profits.*

[2] *SARB minimum requirements for 2017 have increased in line with the transitional requirements and excludes bank-specific Pillar 2b and D-SIB capital requirements.*

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

Nedbank's IFRS 9 implementation programme is on track and the group is well positioned for implementation in January 2018. While we expect a transitional increase in balance sheet provisions in line with the requirements of the standard, it is not anticipated to have a significant impact on capital adequacy.

Nedbank Group subsidiaries are well capitalised for the environments in which they operate

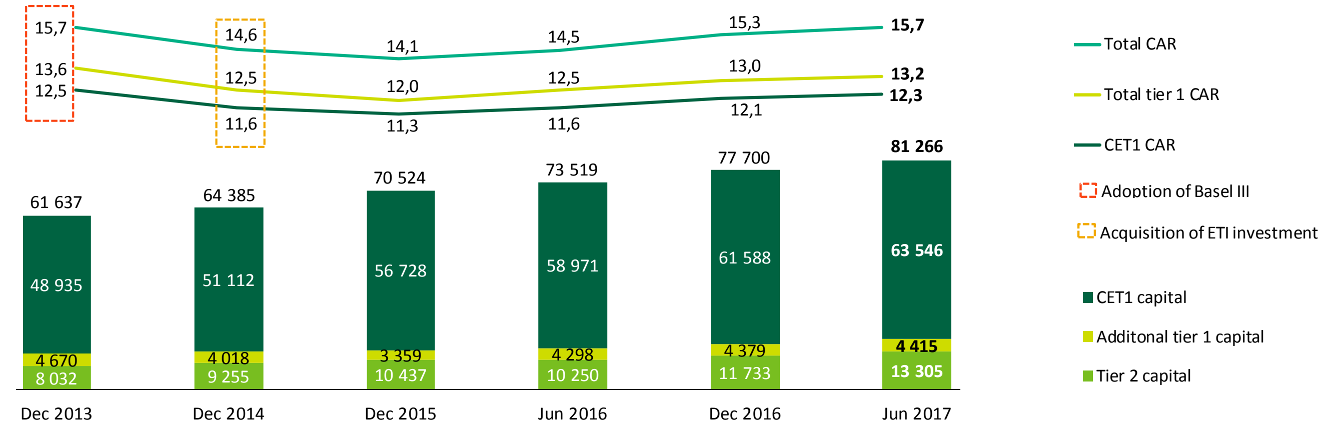
	Jun 2017				Jun 2016			Dec 2016		
	Total capital requirement (host country)	RWA	CET1 ratio	Total capital ratio	RWA	CET1 ratio	Total capital ratio	RWA	CET1 ratio	Total capital ratio
	%	Rm	%	%	Rm	%	%	Rm	%	%
Rest of Africa										
Banco Único[1]	**8,0**	**2 982**		**13,0**				2 772		12,4
Nedbank Namibia Limited	**10,0**	**12 106**	**13,2**	**14,3**	10 872	12,9	14,1	11 573	12,1	14,0
Nedbank (Swaziland) Limited	**8,0**	**3 050**		**23,2**	2 789		22,4	3 262		21,0
Nedbank (Lesotho) Limited	**8,0**	**1 621**		**27,3**	1 546		24,9	1 611		25,0
Nedbank (Malawi) Limited	**15,0**	**332**		**17,3**	349		21,5	408		15,8
MBCA Bank Limited (Zimbabwe)	**12,0**	**2 435**		**28,3**	2 479		26,6	2 491		26,0
United Kingdom (UK)										
Nedbank Private Wealth (IOM) Limited	**10,0**	**7 028**	**15,6**	**15,6**	8 055	14,7	14,7	6 781	15,1	15,1

[1] *Nedbank acquired control of Banco Único and accordingly this previously equity-accounted investment was consolidated from 3 October 2016.*

Nedbank Group continued to strengthen its capital adequacy position at June 2017. The group's strong capital profile is supported by:

- A focus on fully loss-absorbent capital, with Basel III fully compliant capital now making up 96% of the group's total capital and the balance consisting of old-style capital instruments subject to grandfathering.
- A conservative RWA density of 53% (RWA/total assets), which compares favourably with local and international peers.
- A substantial capital surplus of R25,8bn.

Nedbank Group's capital adequacy strengthened year on year



Includes unappropriated profits.

Nedbank Group's CET1 ratio improved to 12,3% from 12,1% in December 2016 due to an increase in qualifying capital and reserves as a result of organic earnings, offset by the payment of the 2016 final dividend of R3,1bn in April 2017.

- This was offset to a degree by a R6,8bn increase in RWA, primarily as a result of:
  - ☐ Equity RWA growth of R4,6bn due to balance sheet movements.
  - ☐ Operational RWA growth of R2,9bn due to an increase in the three-year average GOI parameters.
- RWA increases were offset by a decrease in:
  - ☐ Threshold deduction items of R714m as result of a reduction in the value of the ETI investment.
  - ☐ Trading market RWA of R360m due to a decrease in market volatility and the capital requirements for XVA hedges.

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

Nedbank Group has performed extensive and comprehensive stress testing during this period, with a strong focus on the recent sovereign-ratings downgrade, and concluded that the group's capital levels and capital buffers remain appropriate and that Nedbank Group is strongly capitalised relative to its business activities, strategy, risk appetite, risk profile and the external environment in which the group operates.

Nedbank Group's gearing (including unappropriated profits) under the 'Leverage Ratio Framework and disclosure requirements' has strengthened to 14,7 times (or 6,8%) from 15,3 times (or 6,6%) in December 2016, essentially due to an increase in the capital measure, primarily driven by organic capital generation with relatively low balance sheet growth during the period, and the issuance of new-style additional tier 1 capital instruments of R600m during the first half of 2017.

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

Rm	Credit risk[1]	Equity risk	Trading market risk	Operational risk	Other assets	Total
Balance at 1 January 2017	376 846	18 156	17 542	61 345	35 332	509 221
Book growth	3 045	4 589	400	2 921	(491)	10 464
Book quality	(1 236)		1 112			(124)
Model updates	(2 059)					(2 059)
Methodology and policy						
Foreign exchange movements	421		(1 872)			(1 451)
Balance as at 30 June 2017	**377 017**	**22 745**	**17 182**	**64 266**	**34 841**	**516 051**

[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

		Jun 2017	Mar 2017	Jun 2017
		RWA	RWA	Minimum capital requirements[1]
1	**Credit risk (excluding CCR)**	**358 231**	360 909	**38 510**
2	Standardised Approach (TSA)	**39 807**	36 477	**4 279**
3	AIRB Approach[2]	**318 424**	324 432	**34 231**
4	**CCR**	**17 583**	16 031	**1 890**
5	SA-CCR	**17 583**	16 031	**1 890**
6	Internal Model Method (IMM)			
7	**Equity positions in banking book under market-based approach (SRWA)**	**22 745**	21 929	**2 445**
11	Settlement risk			
12	**Securitisation exposures in banking book**	**1 203**	942	**129**
13	IRB Ratings-based Approach (RBA)	**39**	42	**4**
14	IRB Supervisory Formula Approach (SFA)	**1 164**	900	**125**
15	SA/Simplified Supervisory Formula Approach (SSFA)			
16	**Market risk**	**17 182**	14 842	**1 847**
17	Standardised Approach (TSA)	**3 814**	2 438	**410**
18	IMA	**13 368**	12 404	**1 437**
19	**Operational risk**	**64 266**	61 345	**6 909**
20	Basic Indicator Approach			
21	Standardised Approach	**5 997**	5 044	**645**
22	AMA	**46 137**	43 741	**4 960**
24	Floor adjustment	**12 132**	12 560	**1 304**
23	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**14 690**	13 582	**1 579**
25	**Other assets (100% risk weighting)**	**20 151**	19 212	**2 166**
26	**Total**	**516 051**	508 792	**55 475**

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

[2] *The AIRB credit RWA includes the total RWA from the CR6 (AIRB – credit risk exposure by portfolio and PD range) disclosure and the high-volatility commercial real estate (HVCRE) RWA from CR10 (AIRB Specialised lending) disclosure.*

SUMMARY OF REGULATORY QUALIFYING CAPITAL AND RESERVES[1]

	Nedbank Group			Nedbank Limited		
Rm	**Jun 2017**	Jun 2016	Dec 2016	**Jun 2017**	Jun 2016	Dec 2016
Including unappropriated profits						
Total tier 1 capital	**67 961**	63 269	65 967	**56 681**	51 080	54 983
CET1	**63 546**	58 971	61 588	**51 425**	46 392	49 795
Ordinary share capital and premium	**19 179**	18 540	18 521	**19 221**	19 221	19 221
Minority interest: ordinary shareholders	**741**	326	675			
Reserves	**58 389**	56 600	56 687	**43 533**	37 818	40 951
Deductions[2]	**(14 763)**	(16 495)	(14 295)	**(11 329)**	(10 647)	(10 377)
Goodwill	**(5 142)**	(5 212)	(5 199)	**(1 410)**	(1 410)	(1 410)
Excess of downturn expected loss (dEL) over provisions	**(1 888)**	(1 630)	(1 502)	**(1 921)**	(1 597)	(1 537)
Impairments	**(322)**	(282)	(415)	**(882)**	(1 754)	(1 106)
Investments in the common stock of financial entities (amount above 10% threshold)[3]		(3 290)	(514)			
Other deductions	**(7 411)**	(6 081)	(6 665)	**(7 116)**	(5 886)	(6 324)
Additional tier 1 capital	**4 415**	4 298	4 379	**5 256**	4 688	5 188
Tier 2 capital	**13 305**	10 250	11 733	**14 294**	10 830	12 829
Total qualifying capital and reserves[1]	**81 266**	73 519	77 700	**70 975**	61 910	67 812
Excluding unappropriated profits						
Total qualifying capital and reserves	**73 994**	67 418	73 504	**66 226**	58 442	66 181
Total tier 1 capital	**60 689**	57 169	61 771	**51 932**	47 612	53 352
CET1 capital	**56 274**	52 872	57 392	**46 676**	42 925	48 164

[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.*

[2] *In terms of regulation 43 of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990) disclosure is required for all exposures that are subject to the Standardised Approach and are deducted from the bank's capital and reserves. None of the group's standardised exposures were deducted from the bank's capital and reserves.*

[3] *The investment in the common stock of financial entities is within the 10% CET1 threshold in June 2017 and therefore there is no threshold deduction during the period. Nedbank Group 'investments in the common stock of other financial entities' (amount above 10% threshold) for the previous periods are summarised as follows:*

Rm	Jun 2017	Jun 2016	Dec 2016
Investments in the common stock of financial entities (amount above the 10% threshold)	–	(3 290)	(514)
ETI		(2 222)	(324)
Investments in other financial entities		(204)	(28)
Other		(864)	(162)

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 reflects surplus AFR of R21,4bn (December 2016: R18,8bn) and R22,2bn (December 2016: R19,0bn) 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 28.

ECONOMIC CAPITAL REQUIREMENT VERSUS AVAILABLE FINANCIAL RESOURCES

	Nedbank Group						Nedbank Limited					
	Jun 2017		Jun 2016		Dec 2016		**Jun 2017**		Jun 2016		Dec 2016	
	Rm	**Mix %**	Rm	Mix %	Rm	Mix %	**Rm**	**Mix %**	Rm	Mix %	Rm	Mix %
Credit risk	**36 167**	**64**	34 022	64	35 211	65	**31 726**	**70**	29 228	68	30 804	70
Transfer risk[1]			54	< 1	83	< 1			46	< 1	34	< 1
Market risk	**8 186**	**15**	8 194	15	8 356	15	**5 334**	**12**	5 263	12	5 291	12
Business risk	**6 630**	**12**	6 365	12	6 375	12	**4 553**	**10**	4 642	11	4 642	10
Operational risk	**3 214**	**6**	2 928	5	2 907	5	**2 354**	**5**	2 165	5	2 085	5
Insurance risk	**385**	**< 1**	362	1	370	1						
Other assets risk	**1 655**	**3**	1 584	3	1 053	2	**1 459**	**3**	1 416	3	1 430	3
Minimum economic capital requirement	**56 237**	**100**	53 509	100	54 355	100	**45 426**	**100**	42 760	100	44 286	100
Add: stress-tested capital buffer (10%)	**5 624**		5 351		5 436		**4 543**		4 276		4 429	
Total economic capital requirement	**61 861**		58 860		59 791		**49 969**		47 036		48 715	
AFR	**83 229**	**100**	73 303	100	78 557	100	**72 177**	**100**	61 161	100	67 693	100
Tier A capital	**65 730**	**79**	60 872	83	63 626	81	**54 678**	**76**	48 730	80	52 762	78
Tier B capital	**17 499**	**21**	12 431	17	14 931	19	**17 499**	**24**	12 431	20	14 931	22
Total surplus AFR	**21 368**		14 443		18 766		**22 208**		14 125		18 978	
AFR/total economic capital requirement (%)	**135**		125		131		**144**		130		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 total economic capital requirement (including a 10% stress-tested buffer) increased by R2,1bn from December 2016 mainly due to:

- A R956m increase in credit risk economic capital following low asset growth.
- A R255m increase in business risk economic capital, which was primarily driven by parameter updates of the internal business risk model.
- A R307m increase in operational risk economic capital, predominantly as a result of updated parameters in the operational risk model.

Nedbank Group's total AFR increased by R4,7bn from December 2016 due to:

- A R2,1bn 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 R531m.

Nedbank Limited's total economic capital requirement (including a 10% stress-tested buffer) increased by R1,3bn from December 2016 mainly due to:

- A R922m increase in credit risk economic capital following low asset growth.
- A R269m 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 R4,5bn from December 2016 due to the same reasons as stated above for the group.

ANALYSIS OF AVAILABLE FINANCIAL RESOURCES

	Nedbank Group			Nedbank Limited		
Rm	**Jun 2017**	Jun 2016	Dec 2016	**Jun 2017**	Jun 2016	Dec 2016
Tier A capital	**65 730**	60 872	63 626	**54 678**	48 730	52 762
Ordinary share capital and premium	**19 179**	18 540	18 521	**19 221**	19 221	19 221
Reserves	**58 389**	56 600	56 687	**43 533**	37 818	40 951
Deductions	**(12 875)**	(14 865)	(12 793)	**(9 408)**	(9 050)	(8 840)
Goodwill	**(5 142)**	(5 212)	(5 199)	**(1 410)**	(1 410)	(1 410)
Impairments	**(322)**	(282)	(415)	**(882)**	(1 754)	(1 106)
Investments in the common stock of financial entities (amount above 10% threshold)[1]		(3 290)	(514)			
Other deductions	**(7 411)**	(6 081)	(6 665)	**(7116)**	(5 886)	(6 324)
Excess of IFRS provisions over TTC expected loss	**1 037**	597	1 211	**1 332**	741	1 430
Tier B capital	**17 499**	12 431	14 931	**17 499**	12 431	14 931
Preference shares	**2 656**	3 188	3 188	**5 256**	3 188	5 188
Tier 2 debt instruments[2]	**12 243**	7 743	9 743	**12 243**	7 743	9 743
Perpetual subordinated-debt instruments	**2 600**	1 500	2 000		1 500	
Total AFR	**83 229**	73 303	78 557	**72 177**	61 161	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
	Jun 2017	Jun 2017	Jun 2017	Jun 2017
Outlook	Negative	Negative	Negative	Negative
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+	BBB-	Baa3	Baa3
Short-term	B	A-3	P-3	P-3
National scale ratings				
Long-term deposits	zaA	zaAA-		
Short-term deposits	zaA-1	zaA-1		

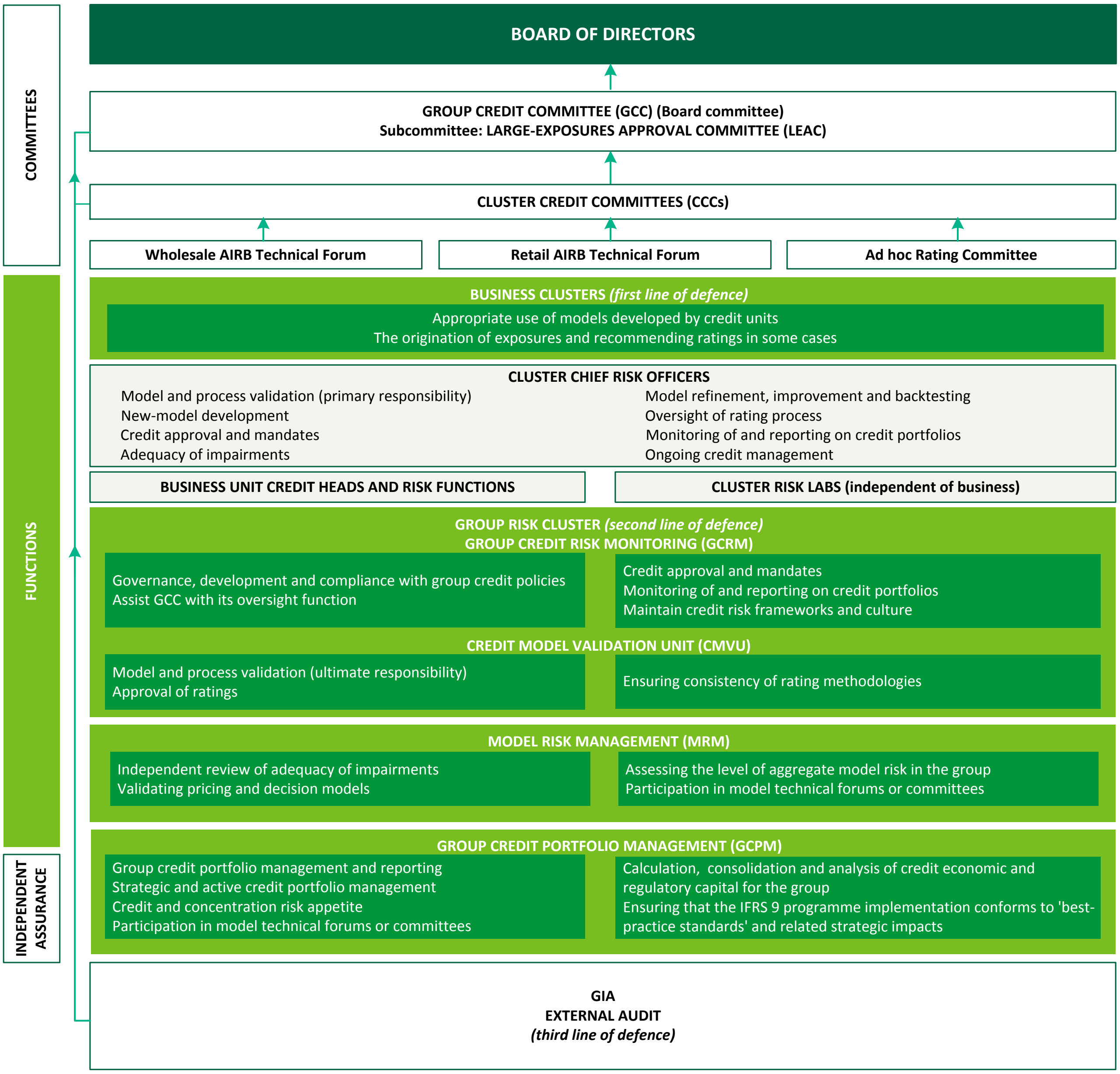
Credit risk

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 64% of the group's economic capital and 73% 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



COMMITTEES

BOARD OF DIRECTORS

GROUP CREDIT COMMITTEE (GCC) (Board committee)
Subcommittee: LARGE-EXPOSURES APPROVAL COMMITTEE (LEAC)

CLUSTER CREDIT COMMITTEES (CCCs)

Wholesale AIRB Technical Forum

Retail AIRB Technical Forum

Ad hoc Rating Committee

FUNCTIONS

BUSINESS CLUSTERS *(first line of defence)*
Appropriate use of models developed by credit units
The origination of exposures and recommending ratings in some cases

CLUSTER CHIEF RISK OFFICERS

Model and process validation (primary responsibility)
New-model development
Credit approval and mandates
Adequacy of impairments

Model refinement, improvement and backtesting
Oversight of rating process
Monitoring of and reporting on credit portfolios
Ongoing credit management

BUSINESS UNIT CREDIT HEADS AND RISK FUNCTIONS

CLUSTER RISK LABS (independent of business)

GROUP RISK CLUSTER *(second line of defence)*
GROUP CREDIT RISK MONITORING (GCRM)

Governance, development and compliance with group credit policies
Assist GCC with its oversight function

Credit approval and mandates
Monitoring of and reporting on credit portfolios
Maintain credit risk frameworks and culture

CREDIT MODEL VALIDATION UNIT (CMVU)

Model and process validation (ultimate responsibility)
Approval of ratings

Ensuring consistency of rating methodologies

MODEL RISK MANAGEMENT (MRM)

Independent review of adequacy of impairments
Validating pricing and decision models

Assessing the level of aggregate model risk in the group
Participation in model technical forums or committees

GROUP CREDIT PORTFOLIO MANAGEMENT (GCPM)

Group credit portfolio management and reporting
Strategic and active credit portfolio management
Credit and concentration risk appetite
Participation in model technical forums or committees

Calculation, consolidation and analysis of credit economic and regulatory capital for the group
Ensuring that the IFRS 9 programme implementation conforms to 'best-practice standards' and related strategic impacts

INDEPENDENT ASSURANCE

GIA
EXTERNAL AUDIT
(third line of defence)

Credit risk is managed across the group in terms of its board-approved Group Credit Risk Monitoring Framework (GCRMF), which covers the macrostructures for credit risk management and incorporates selected excerpts from the 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 it is reviewed on a quarterly basis.

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

The GCC also acts as the designated committee appointed by the board to monitor, challenge and ultimately approve all material aspects of the group's AIRB rating and risk estimation 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 also needs to ensure the independence of the Group Credit Risk Monitoring (GCRM), which includes the Credit Model Validation Unit (CMVU) and Model Risk Management (MRM), from the business units originating the credit in the bank.

GCRM monitors the business units' credit portfolios, risk procedures, policies and credit standards, maintains the Group Credit Risk Framework and validates AIRB credit models. GCRM reports to executive management, CCC's 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 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.

CCCs, with chairpersons' independent of the business units and mainly from GCRM, exist for all business-units 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 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 their 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. GCPM maintains the group's RAF and concentration appetite. Strategic management of the health status of the bank's AIRB system as well as contribution 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 credit portfolio model and the credit risk calculation engine, as well as the testing and implementation of all credit regulatory model updates. GCRM is responsible for groupwide advisory for questions relating to credit economic capital.

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 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 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 30 June 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 biannually.

Credit risk approaches across Nedbank

Nedbank Limited and Nedbank London branch make up 94% of the total credit extended by Nedbank Group and are on the AIRB Approach. 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, 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.

							Nedbank Group Jun 2017						Nedbank Group Jun 2016			Nedbank Group Dec 2016		
	Nedbank CIB	Property Finance	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	Downturn expected loss (dEL)[2] Rm	BEEL[3] Rm	Rm	Downturn expected loss (dEL)[2] Rm	BEEL[3] Rm
AIRB Approach	452 176	140 111	300 005	19 266		50 752	822 199	94,0	5,3	34,6	6 217	7 156	780 521	6 348	6 440	792 166	6 132	7 032
Corporate	184 704	42 222	15 919	1			200 624	22,9	5,2	37,5	776	848	190 668	790	247	191 708	820	795
Specialised lending – HVCRE	6 905	6 905		60			6 965	0,8	(2,4)	112,5	100	62	7 139	104	222	6 561	94	114
Specialised lending – IPRE	86 041	86 041	1 566	4 930			92 537	10,6	13,1	35,5	283	92	81 794	288	360	88 451	330	173
Specialised lending – project finance	38 147						38 147	4,4	85,5	43,4	84		20 559	57	84	23 571	38	75
SME – corporate	4 881	4 059	18 259	2 620			25 760	2,9	(14,7)	39,9	139	107	30 213	186	16	26 955	150	92
Public sector entities	22 977		251				23 228	2,7	15,2	26,5	40		20 165	16		22 561	50	
Local governments and municipalities	8 350		988				9 338	1,1	(12,7)	22,1	3	8	10 700	1	7	9 548	1	8
Sovereign	46 859		2			50 752	97 613	11,2	(6,1)	3,8	15		103 946	25		99 864	5	
Banks	52 347	46	4				52 351	6,0	(6,0)	24,6	107		55 696	209		53 226	135	
Securities firms									(100,0)	23,6			200	1				
Retail mortgage[6]			112 095	9 874			121 969	13,9	3,8	30,6	810	1 235	117 513	1 010	1 166	119 691	796	1 254
Retail revolving credit			15 586	80			15 666	1,8	6,5	56,7	743	1 420	14 709	761	1 260	15 007	672	1 299
Retail – other			101 379	249			101 628	11,6	7,8	52,5	2 656	2 654	94 291	2 484	2 359	99 702	2 582	2 513
SME – retail[6]	65		33 268	1 452			34 785	4,0	10,7	35,4	461	730	31 415	416	719	34 168	459	709
Securitisation exposure	900	838	688				1 588	0,2	5,0	85			1 513			1 153		
TSA[4]			2 305	22 876	26 810		51 991	5,9	0,3	52			51 837			53 704		
Corporate					4 917		4 917	0,6	25,4	108			3 922			6 194		
SME – corporate			620	1 213			1 833	0,2	(46,0)	87,7			3 393			1 742		
Public sector entities					489		489	0,1	15,9	88,0			422			645		
Local government and municipalities					47		47	< 0,1	11,9	84,8			42			37		
Sovereign				5 363	4 555		9 918	1,1	31,6	49,8			7 535			9 944		
Banks				10 575	3 456		14 031	1,6	(25,6)	19,3			18 849			14 767		
Retail mortgage			1 674	5 008	5 999		12 681	1,4	(0,1)	64,8			12 689			12 545		
Retail revolving credit					1 637		1 637	0,2	> 100,0	73,2			369			1 521		
Retail – other			6	717	3 116		3 839	0,4	(16,7)	64,9			4 609			4 175		
SME – retail			5		2 594		2 599	0,3	> 100,0	72,6			7			2 134		
PiPs	74	74	96	37	30		237	< 0,1	(30,1)				339			250		
Non-regulated entities	397	55					397	< 0,1	(98,8)				32 260			40 336		
Total Basel III balance sheet exposure[5,6]	452 647	140 240	302 406	42 179	26 840	50 752	874 824	100,0	1,1		6 217	7 156	864 957	6 348	6 440	886 456	6 132	7 032
dEL (AIRB Approach)												13 373			12 788			13 164
Expected loss performing book												6 217			6 348			6 132
BEEL on defaulted advances												7 156			6 440			7 032
IFRS impairment on AIRB loans and advances												(11 485)			(11 158)			(11 662)
Excess of downturn expected loss over eligible provisions												1 888			1 630			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] *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.*

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

[6] *The Retail Mortgages and SME – Retail asset classes were misallocated between clusters in the June 2017 Results Booklet, which is corrected above, and the total Basel III exposure for CIB and RBB has been restated.*

Loans and advances

In view of slow credit demand and weak levels of growth in loans to households and corporates, Nedbank gross loans and advances grew by 0,8% annualised to R722bn (December 2016: R719bn), driven by solid performance in RBB.

RBB gross loans and advances grew by 4,9% annualised to R306 069m (December 2016: R298 789m), despite the subdued industry growth since 2016 and continuing trend in 2017, as a result of growth in Card, MFC and Unsecured Lending within the current risk appetite.

- Card gross loans and advances grew by 9,8% annualised to R15 572m (December 2016: R14 848m).
- Unsecured Lending had positive growth of 8,6% annualised to R18 209m (December 2016: R17 468m) due to increased market presence and more efficient onboarding processes.
- MFC gross loans and advances have increased by 4,8% annualised to R87 102m (December 2016: R85 090m) due to an increase in new-business volumes, and has attained market share of 34,0%, resulting in its continued leading position in the second-hand and affordable-vehicle segments. This is partially indicative of the current vehicle price inflation.

CIB gross loans and advances decreased by 3,5% annualised to R365 859m (December 2016: R372 364m) as a result of decreases in Client Coverage and Investment Banking offset by Property Finance.

- Gross CIB banking book advances decreased by 6,0% annualised to R327 252m (December 2016: R337 278m).
  - ☐ Nedbank Property Finance advances were stable at R137 064m (December 2016: R136 989m), while industry growth has slowed since mid-2014. Nedbank Group has maintained dominant market share at May 2017. The portfolio contains collateralised good-quality assets and is managed by a highly experienced team who are market leaders in SA property finance.
- Gross CIB trading book advances increased by 20,2% annualised to R38 607m (December 2016: R35 086m), driven by an increase in foreign currency placements.

CR1: CREDIT QUALITY OF ASSETS

		Gross carrying values of			
June 2017 **Rm**		**Defaulted exposures**	**Non-defaulted exposures**	**Allowances/ Impairments**	**Net values**
1	Loans	**20 190**	**701 720**	**12 046**	**709 864**
2	Debt securities		**109 501**		**109 501**
3	Off-balance-sheet exposures		**177 938**		**177 938**
4	**Total**	**20 190**	**989 159**	**12 046**	**997 303**
December 2016					
1	Loans	19 553	701 518	12 149	708 922
2	Debt securities		114 089		114 089
3	Off-balance-sheet exposures		176 756		176 756
4	**Total**	19 553	992 363	12 149	999 767

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

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

June 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	**32 937**	**32 382**	**555**	**3 092**	**2 229**	**863**	**332**	**2 566**		**38 927**
Letters of credit	**2 927**	**2 927**		**404**	**336**	**68**		**202**		**3 533**
Undrawn facilities	**73 862**	**69 685**	**4 177**	**62 789**	**20 883**	**41 906**	**5 228**	**2 981**		**144 860**
Of which irrevocable commitments	**61 491**	**57 314**	**4 177**	**20 883**	**20 883**		**2 307**	**1 733**		**86 414**
Of which revocable[2]	**12 371**	**12 371**		**41 906**		**41 906**	**2 921**	**1 248**		**58 446**
Credit-derivative instruments	**5 730**	**5 730**								**5 730**
Total off-balance-sheet activities	**115 456**	**110 724**	**4 732**	**66 285**	**23 448**	**42 837**	**5 560**	**5 749**		**193 050**
June 2016 **Rm**										
Guarantees on behalf of clients	42 900	41 824	1 076	3 244	2 392	852	303	1 364		47 811
Letters of credit	2 548	2 548		321	263	58		39		2 908
Undrawn facilities	78 740	73 821	4 919	61 907	20 165	41 742	5 524	2 601		148 772
Of which irrevocable commitments	71 395	66 476	4 919	20 165	20 165		2 601	1 881		96 042
Of which revocable[2]	7 345	7 345		41 742		41 742	2 923	720		52 730
Credit-derivative instruments	5 451	5 451								5 451
Total off-balance-sheet activities	129 639	123 644	5 995	65 472	22 820	42 652	5 827	4 004		204 942

[1] *Values include intercompany exposures.*

[2] *Includes other contingent liabilities.*

Defaulted loans and advances

Group defaulted advances increased by 6,6% to R20 190m (December 2016: R19 553m) due to higher defaulted advances in RBB, offset by the decrease in CIB. The increase in RBB was due to a combination of economic pressure experienced in the portfolio and the reclassification of performing loans as defaulted. The defaulted advances as a percentage of gross loans and advances remained flat since 2013, however, the reclassification of performing loans as defaulted in 2015 resulted in an increase in the ratio.

Group defaulted advances increased mainly as a result of continued adverse economic conditions and consumer distress, impacting consumer repayment ability predominantly in the MFC and Card portfolios in Retail, as well as the addition of Banco Único in Rest of Africa. Further, defaulted advances were impacted by R3 582m of performing loans, which were reclassified as defaulted. Excluding the reclassification of performing loans as defaulted, defaulted advances were stable at R16 608m (December 2016: R16 238m) due to improved quality of the book despite the current economic pressure.

The group defaulted advances as a percentage of gross loans and advances increased to 2,80% (December 2016: 2,72%), however, this does not pose a risk as it is within acceptable limits.

- The increase in group defaulted advances resulted in a change in the defaulted-advances mix, with higher defaults in RBB accounting for 74,8% (December 2016: 72,8%) of group defaulted advances, and CIB accounting for 18,6% (December 2016: 21,4%), of group defaulted advances.

RBB defaulted advances increased by 12,2% annualised to R15 097m (December 2016: R14 235m), given the continued adverse economic conditions.

- Business Banking defaulted advances increased by 16,2% annualised to R2 314m (December 2016: R2 142m), illustrating the tough macroeconomic conditions that continue to place company profits under pressure.

CIB defaulted advances decreased by 20,4% annualised to R3 753m (December 2016: R4 176m), primarily due to Property Finance defaulted advances, which decreased by 24,6% to R1 195m (December 2016: R1 361m), as well as resolutions in the commodity sectors. This was offset by continued strain experienced in mainly the retail and construction sectors that negatively impacted the portfolio.

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

	Jun 2017		Dec 2016	
Group	**Actual**	**Non-performing default**	Actual	Non-performing default
Defaulted advances	**20 190**	**16 608**	19 553	16 238
Defaulted advances as a percentage of gross loans and advances	**2,80**	**2,30**	2,72	2,25
Portfolio coverage	**0,65**	**0,71**	0,69	0,69
Specific coverage ratio	**37,2**	**42,3**	37,4	42,5
Total impairments as a percentage of gross loans and advances	**1,67**	**1,67**	1,69	1,69

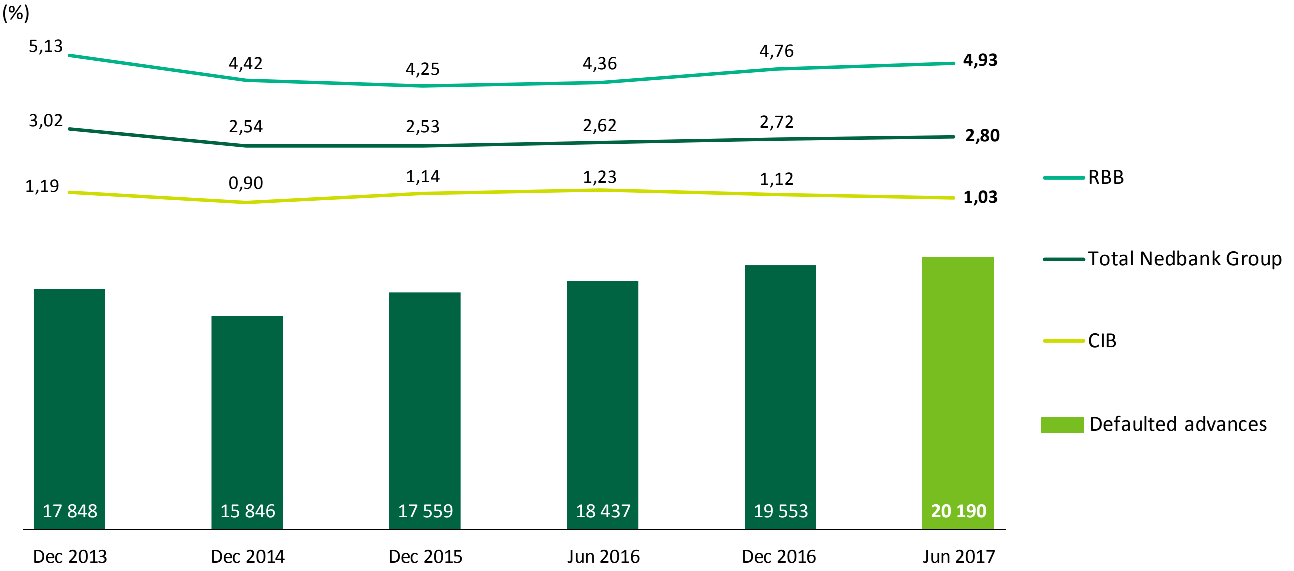
NEDBANK GROUP DEFAULTED ADVANCES BY BUSINESS CLUSTER

	Dec 2013		Dec 2014		Dec 2015		Jun 2016		Dec 2016		**Jun 2017**	
	Rm	Mix %	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	4 437	24,1	4 176	21,4	**3 753**	**18,6**
CIB, excluding Property Finance	1 389	7,8	950	6,0	2 636	15,0	2 676	14,5	2 815	14,4	**2 558**	**12,7**
Property Finance	2 017	11,3	1 809	11,4	1 438	8,2	1 761	9,6	1 361	7,0	**1 195**	**5,9**
Retail and Business Banking	13 736	77,0	12 266	77,4	12 263	69,8	12 806	69,5	14 235	72,8	**15 097**	**74,8**
Business Banking	2 334	13,1	2 087	13,2	2 059	11,7	2 327	12,6	2 142	11,0	**2 314**	**11,5**
Retail	11 402	63,9	10 179	64,2	10 204	58,1	10 479	56,9	12 093	61,8	**12 783**	**63,3**
Home Loans	4 746	26,6	4 053	25,6	3 869	22,0	4 088	22,2	4 880	25,0	**4 909**	**24,3**
MFC	1 933	10,8	1 898	12,0	2 182	12,4	2 227	12,1	2 539	13,0	**3 017**	**14,9**
Unsecured Lending	2 828	15,8	2 502	15,8	2 297	13,1	2 175	11,8	2 423	12,4	**2 395**	**11,9**
Card	824	4,6	892	5,6	1 072	6,1	1 179	6,4	1 323	6,8	**1 465**	**7,3**
Relationship Banking	914	5,1	674	4,3	625	3,6	640	3,5	765	3,9	**808**	**4,0**
Client Engagement	147	0,8	158	1,00	157	0,9	170	0,9	163	0,8	**189**	**0,9**
Wealth	525	2,9	599	3,8	587	3,3	626	3,4	608	3,1	**653**	**3,2**
Rest of Africa	181	1,0	222	1,4	635	3,6	568	3,1	534	2,7	**687**	**3,4**
Nedbank Group	17 848	100,0	15 846	100,0	17 559	100,0	18 437	100,0	19 553	100,0	**20 190**	**100,0**

CR2: CHANGES IN STOCK OF DEFAULTED LOANS AND SECURITIES

Rm		**Jun 2017**	Dec 2016
1	**Defaulted loans and debt securities at end of the previous reporting period**	**19 553**	17 559
2	Loans and debt securities defaulted since the last reporting period	**10 266**	21 617
3	Returned to non-defaulted status	**(5 032)**	(11 948)
4	Amounts written off	**(2 307)**	(5 177)
5	Other changes	**(2 290)**	(2 498)
6	**Defaulted loans and debt securities at end of the reporting period**	**20 190**	19 553

Defaulted advances as a percentage of gross loans and advances



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

June 2017 **Rm**	Less than 1 year	1 to 5 years	Greater than 5 years	Total on-balance-sheet exposure
Corporate[1]	**89 214**	**173 374**	**88 739**	**351 327**
Public sector entities	**6 145**	**6 014**	**8 237**	**20 396**
Local governments and municipalities	**1 130**	**1 745**	**5 903**	**8 778**
Sovereign	**62 522**	**16 027**	**19 050**	**97 599**
Banks	**26 516**	**7 497**	**226**	**34 239**
Retail exposure	**3 680**	**100 193**	**170 150**	**274 023**
Retail mortgage	**202**	**1 410**	**120 357**	**121 969**
Retail revolving credit		**15 666**		**15 666**
Retail – other	**2 273**	**66 996**	**32 360**	**101 629**
SME – retail	**1 205**	**16 121**	**17 433**	**34 759**
Securitisation exposure	**854**	**46**	**688**	**1 588**
Total	**190 061**	**304 896**	**292 993**	**787 950**
December 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 remaining of the legacy Imperial Bank (ie in Nedbank Business Banking), Fairbairn and the African subsidiaries.

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

June 2017 **Rm**	Less than 1 year	1 to 5 years	Greater than 5 years	Total on-balance-sheet exposure
Corporate[1]	**2 537**	**2 849**	**897**	**6 283**
Public sector entities	**2**	**275**	**92**	**369**
Local governments and municipalities	**1**	**31**	**15**	**47**
Sovereign	**6 379**	**4 754**	**1**	**11 134**
Banks	**13 048**	**3 132**		**16 180**
Retail exposure	**6 113**	**5 785**	**8 406**	**20 304**
Retail mortgage	**5 172**	**210**	**7 537**	**12 919**
Retail revolving credit	**38**	**1 361**	**236**	**1 635**
Retail – other	**856**	**2 936**	**107**	**3 899**
SME – retail	**47**	**1 278**	**526**	**1 851**
Total	**28 080**	**16 826**	**9 411**	**54 317**
December 2016 **Rm**				
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 14,8% to R7 807m (June 2016: R6 798m) and the number of accounts in debt counselling increased by 11,7% to R125 216m (June 2016: R112 116m). 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			
	Jun 2017		Jun 2016		Jun 2017		Jun 2016	
Product	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm
Mortgages	**1 045**	**458**	1 172	464	**6 011**	**2 299**	5 692	2 136
Vehicle and asset finance	**4 861**	**739**	4 680	649	**26 175**	**3 122**	21 336	2 557
Unsecured lending	**13 022**	**500**	12 048	435	**48 437**	**1 770**	43 982	1 574
Card	**12 913**	**196**	11 045	161	**40 663**	**593**	36 485	503
Overdrafts	**2 150**	**9**	1 888	12	**3 930**	**22**	4 621	28
Total	**33 991**	**1 902**	30 833	1 721	**125 216**	**7 806**	112 116	6 798

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

	Jun 2017								Jun 2016								Dec 2016							
	Defaulted loans and advances		Expected recoveries	Specific impairments				Specific coverage ratio	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	%	Rm	as % of total	Rm	Rm	as % of total	on defaulted advances Rm	for discounted cashflow losses Rm	%
Nedbank CIB	3 753	18,6	2 830	923	12,3	605	318	24,6	4 437	23,8	3 779	658	9,9	246	412	14,8	4 176	21,4	3 080	1 096	15,0	755	342	26,2
Nedbank CIB; excluding Property Finance	2 558	12,7	1 788	770	10,2	597	173	30,1	2 676	14,5	2 431	245	3,7	92	153	9,6	2 815	14,4	2 004	811	11,1	654	158	28,8
Leases and instalment debtors									2	< 0,1	(1)	3		3		150,0								
Other loans and advances	2 558	12,7	1 788	770	10,2	597	173	30,1	2 674	14,5	2 432	242	3,7	89	153	8,6	2 815	14,4	2 004	811	11,1	654	158	28,8
Property Finance	1 195	5,9	1 042	153	2,1	8	145	12,8	1 761	9,5	1 348	413	6,2	154	259	23,5	1 361	7,0	1 076	285	3,9	101	184	20,9
Commercial mortgages	1 121	5,6	968	153	2,1	8	145	13,6	1 526	8,3	1 113	413	6,2	154	259	27,0	1 267	6,5	982	285	3,9	101	184	22,5
PiPs	74	0,3	74						190	1,0	190						94	0,5	94					
Nedbank RBB	15 097	74,8	8 897	6 200	82,4	5 365	835	41,1	12 806	69,4	7 090	5 717	85,6	5 040	677	44,6	14 235	72,8	8 380	5 855	80,0	5 103	754	41,1
Nedbank Business Banking	2 314	11,5	1 455	859	11,4	604	255	37,1	2 327	12,6	1 427	900	13,5	674	226	38,7	2 142	11,0	1 337	805	11,0	580	226	37,6
Residential mortgages	832	4,1	632	200	2,7	104	96	24,0	849	4,6	633	216	3,2	125	91	25,4	831	4,4	616	215	2,9	122	93	25,9
Commercial mortgages	505	2,5	391	114	1,5	33	81	22,6	449	2,4	353	96	1,5	27	69	21,4	476	2,4	372	104	1,4	30	74	21,8
Leases and instalment debtors	263	1,3	103	160	2,1	141	19	60,8	332	1,8	139	193	2,9	172	21	58,1	250	1,3	92	158	2,2	141	17	62,9
Cards	8	< 0,1	1	7	0,1	7		87,5	9	< 0,1	1	8	0,1	8		88,9	7	< 0,1		7	0,1	7		100,0
PiPs	5	< 0,1	5						3	< 0,1	3						3	< 0,1	3					
Other loans and advances	701	3,5	323	378	5,0	319	59	53,9	685	3,7	298	387	5,8	342	45	56,5	575	2,9	254	321	4,4	280	42	56,0
Nedbank Retail	12 783	63,3	7 442	5 341	71,0	4 761	580	41,8	10 479	56,8	5 662	4 817	72,1	4 366	451	46,0	12 093	61,8	7 043	5 050	69,0	4 523	528	41,8
Residential mortgages	5 499	27,2	4 372	1 127	15,0	928	199	20,5	4 479	24,3	3 439	1 040	15,6	872	168	23,2	5 419	27,7	4 308	1 111	15,2	906	205	20,5
Commercial mortgages	19	0,1	13	6	0,1	4	2	31,6	27	0,1	13	14	0,2	12	2	51,9	36	0,2	23	13	0,2	11	2	36,1
Leases and instalment debtors	3 070	15,2	1 956	1 113	14,8	1 024	90	36,3	2 282	12,4	1 308	974	14,6	912	62	42,7	2 589	13,2	1 613	976	13,3	899	77	37,7
Cards	1 465	7,3	191	1 274	16,9	1 258	16	87,0	1 179	6,4	63	1 116	16,7	1 104	12	94,6	1 323	6,8	162	1 161	15,9	1 147	14	87,8
Unsecured lending	2 396	11,9	804	1 593	21,2	1 320	272	66,5	2 174	11,8	731	1 443	21,6	1 237	206	66,4	2 423	12,4	839	1 584	21,6	1 355	229	65,4
PiPs	91	0,5	91						99	0,5	99						89	0,4	89					
Other loans and advances	243	1,2	15	228	3,0	227	1	93,8	239	1,3	9	230	3,4	229	1	95,8	214	1,1	9	205	2,8	205	1	95,8
Nedbank Wealth	653	3,2	567	86	1,2	(5)	91	13,1	626	3,4	518	108	1,6	(3)	111	17,3	608	3,1	494	118	1,6	(4)	118	19,4
Residential mortgages	438	2,2	373	65	0,9	(26)	91	14,8	436	2,4	365	71	1,1	(40)	111	16,3	371	1,9	299	76	1,0	(45)	118	20,5
Commercial mortgages	149	0,7	135	14	0,2	14		9,4	123	0,7	94	29	0,4	28		23,6	177	0,9	143	34	0,5	34		19,3
Leases and instalment debtors	8	< 0,1	7	1	< 0,1	1		12,5	11	0,1	9	2	< 0,1	2		18,2	10		9	1	< 0,1			10,4
PiPs	36	0,2	36						47	0,2	47						38	0,2	38					
Other loans and advances	22	0,1	16	6	0,1	6		27,3	9	< 0,1	3	6	0,1	6		66,7	12	0,1	5	7	0,1	7		59,0
Rest of Africa	687	3,4	380	307	4,1	107	200	44,7	568	3,1	370	198	3,0	(55)	253	34,9	534	2, 7	289	245	3,4	27	215	45, 9
Residential mortgages	177	0,9	146	31	0,4	(30)	61	17,5	144	0,8	112	32	0,5	(15)	47	22,2	134	0,7	103	31	0,4	(14)	45	23,1
Commercial mortgages	10	< 0,1	6	4	0,1		4	40,0	2	< 0,1	1	1	< 0,1	(11)	12	50,0	6	0,0	2	4	0,1	(11)	15	61,8
Leases and instalment debtors	93	0,5	37	56	0,7	10	46	60,2	92	0,5	48	44	0,7	5	39	47,8	79	0,4	36	43	0,6	5	38	54,2
Cards	8	< 0,1	1	7	0,1		7	87,5	6	< 0,1	2	4	< 0,1		4	66,7	7	< 0,1	1	6	0,1		6	85,4
Unsecured lending	72	0,4	34	38	0,5	4	34	52,8	55	0,3	23	32	0,5		32	58,2	54	0,3	20	34	0,5	8	26	63,4
PiPs	30	0,1	30														26	0,1	26					
Other loans and advances	297	1,5	126	171	2,3	123	48	57,6	269	1,5	184	85	1,3	(34)	120	31,6	228	1,2	101	127	1,7	39	85	55,8
Centre				2		2					(2)	2	< 0,1	2				< 0,1	(3)	3	< 0,1			
Other loans and advances				2		2					(2)	2	< 0,1	2				< 0,1	(3)	3	< 0,1			
Nedbank Group	20 190	100,0	12 672	7 518	100,0	6 074	1 444	37,2	18 437	100,0	11 754	6 683	100,0	5 229	1 454	36,2	19 553	100,0	12 236	7 317	100,0	5 882	1 429	37,4
Residential mortgages	6 946	34,4	5 523	1 423	19,0	976	447	20,5	5 908	32,0	4 549	1 359	20,4	942	417	23,0	6 755	34,5	5 322	1 433	19,6	969	461	21,2
Commercial mortgages	1 804	8,9	1 513	291	4,0	59	232	16,2	2 127	11,5	1 574	553	8,3	211	342	26,0	1 962	10,0	1 522	440	6,0	165	275	22,4
Leases and instalment debtors	3 434	17,0	2 104	1 330	17,6	1 176	154	38,7	2 719	14,8	1 503	1 216	18,2	1 094	122	44,7	2 928	15,0	1 750	1 178	16,1	1 046	132	40,2
Cards	1 481	7,3	193	1 288	17,1	1 265	23	86,9	1 194	6,5	66	1 128	16,8	1 112	16	94,5	1 337	6,8	163	1 174	16,1	1 154	20	87,8
Unsecured lending	2 468	12,2	837	1 631	21,7	1 325	306	66,0	2 229	12,1	754	1 475	22,1	1 237	238	66,2	2 477	12,7	859	1 618	22,1	1 363	255	65,3
PiPs	236	1,2	236						339	1,8	339						250	1,3	250					
Other loans and advances	3 821	18,9	2 266	1 555	20,6	1 273	282	40,7	3 921	21,3	2 969	952	14,2	633	319	24,2	3 844	19,7	2 370	1 474	20,1	1 185	286	38,3

Credit risk mitigation

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

The Nedbank Group Credit Policy acknowledges the role played by credit risk mitigation 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 credit risk mitigation 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

	June 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	**291 298**	**418 566**	**413 487**	**15 292**	**7 755**		
2	Debt securities	**109 501**						
3	**Total**	**400 799**	**418 566**	**413 487**	**15 292**	**7 755**		
4	Of which defaulted	**2 639**	**9 358**	**8 692**	**458**	**254**		
	December 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	
	June 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	**10 898**		**10 818**		**8 441**	**78,03**
2	Non-central government public sector entities	**492**	**133**	**492**	**131**	**559**	**89,87**
3	Multilateral development banks	**1 711**		**1 711**			
4	Banks	**16 958**	**26**	**16 958**	**26**	**4 595**	**27,05**
5	Securities firms						
6	Corporates	**7 574**	**2 913**	**6 808**	**668**	**11 588**	**155,00**
7	Regulatory retail portfolios	**8 333**	**2 677**	**7 678**	**2 499**	**7 253**	**71,27**
8	Secured by residential property	**12 920**	**1 284**	**13 072**	**1 082**	**7 371**	**52,08**
9	Secured by commercial real estate						
10	Equity						
11	Past-due loans						
12	Higher-risk categories						
13	Other assets	**1 706**		**1 706**			
14	**Total**	60 592	7 033	59 243	4 406	39 807	62,54

[1] Total RWA excludes CCR RWA.

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

		Risk weight									
June 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	3 741				1 376		1 564	4 137		10 818
2	Non-central government public sector entities					242		231	150		623
3	Multilateral development banks	1 711									1 711
4	Banks	2 589		9 629		2 997		745	1 024		16 984
5	Securities firms										
6	Corporates			15		4		5 109	2 348		7 476
7	Regulatory retail portfolios			1 170	78	18	8 712	185	14		10 177
8	Secured by residential property				7 041	18	6 370	725			14 154
9	Secured by commercial real estate										
10	Equity										
11	Past-due loans										
12	Higher-risk categories										
13	Other assets	417		444				845			1 706
14	**Total**	**8 458**		**11 258**	**7 119**	**4 655**	**15 082**	**9 404**	**7 673**		**63 649**

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 form an integral part of Nedbank's credit risk measurement and management. Nedbank continuously assesses the adequacy of impairments in line with IFRS. 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,* which included the new impairment requirements.

The main objective of the new impairment requirements is to replace the backward-looking 'incurred loss' model under IAS 39 with a forward-looking 'expected credit loss (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.

In December 2015 the BCBS issued its supervisory guidance titled 'Guidance 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. The guidance will impact banks implementing IFRS 9 and is designed to drive consistent interpretation and practice where there are commonalities or where the same accounting framework is applied. The guidance will be incorporated in Nedbank's implementation of IFRS 9.

IFRS 9 will be effective from 1 January 2018. Although IFRS 9 will be available for early adoption, the group will only apply the standard from

1 January 2018, subject to the transition provisions. The IFRS 9 programme is on track and we are satisfied with the progress of the parallel run in 2017.

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 (including fully performing loans).
Period of measurement	■ Long-run historical average over whole economic cycle – TTC.	■ Should reflect current economic conditions – PIT.	■ Reflects current and future economic cycles to the extent relevant to the remaining life of the loan on a 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 are discounted at the original effective interest rate of the instrument or an approximation thereof.
Period of measurement	■ Reflects period of high credit losses. ■ Downturn loss given default (dLGD) required.	■ Should reflect current economic conditions – PIT.	■ Reflects current and future economic cycles to the extent relevant to the remaining life of the loan.
EL			
Basis of exposure	■ Based on EAD, which includes unutilised and contingent facilities.	■ Based on actual exposure (on balance sheet).	■ Based on 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 'expected loss' approach:

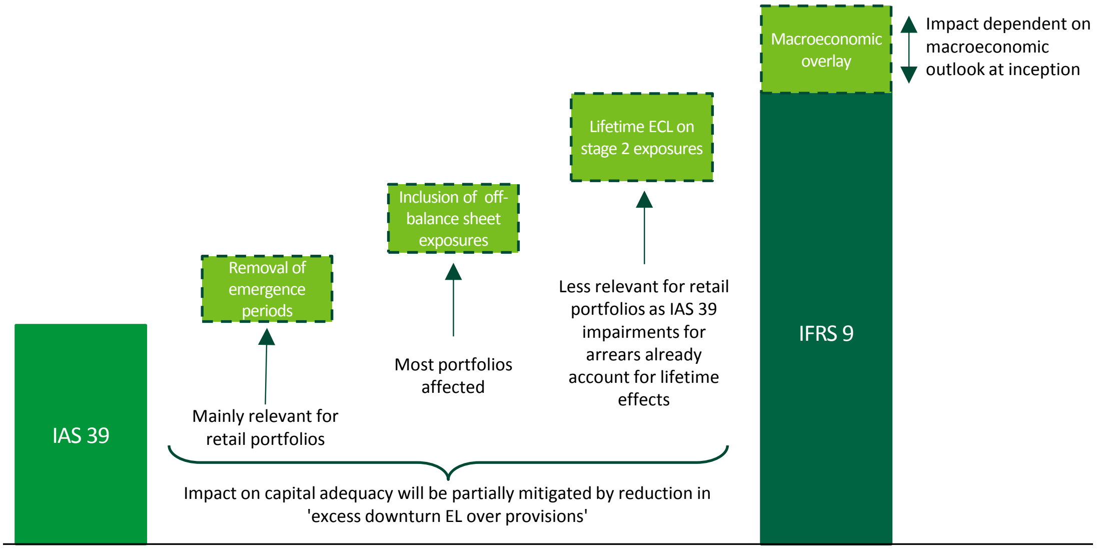
- IAS 39 reflects current economic conditions at a PIT, while IFRS 9 requires consideration of current and forecast economic conditions.

As credit RWA for defaulted exposures is based on the difference between specific impairments [or best estimate of expected loss (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 new IFRS 9 accounting rules for impairments is expected to lead to an overall increase in balance sheet impairments and thus portfolio coverage with different levels of impact by portfolio. There will be a once-off impact at inception (1 January 2018), which will be taken from reserves without impacting Nedbank's income statement, however, this decrease in reserves will be partially mitigated by a lower capital deduction due to 'excess dEL over provisions' (June 2017: R1,9bn), which will result in a lower impact on CARs.

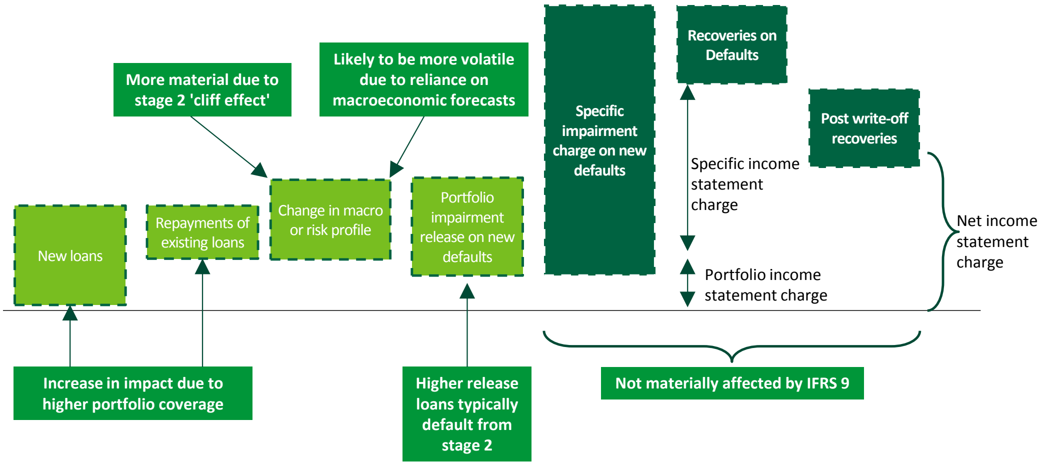
Drivers of impact on balance sheet impairments at inception (portfolio impairments)



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.

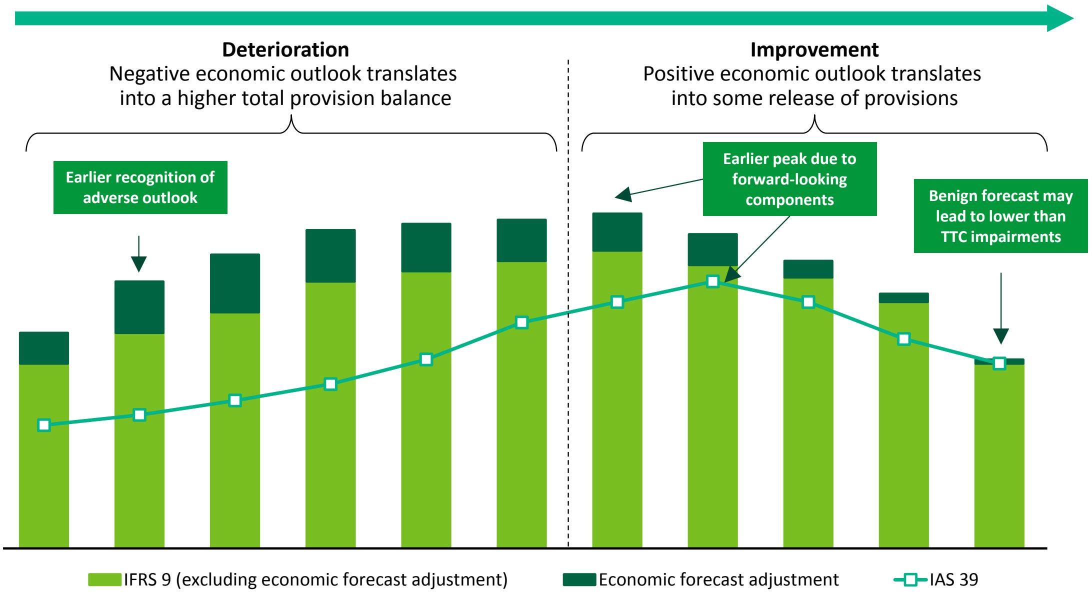
Expected impact on income statement impairments

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 in- 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:

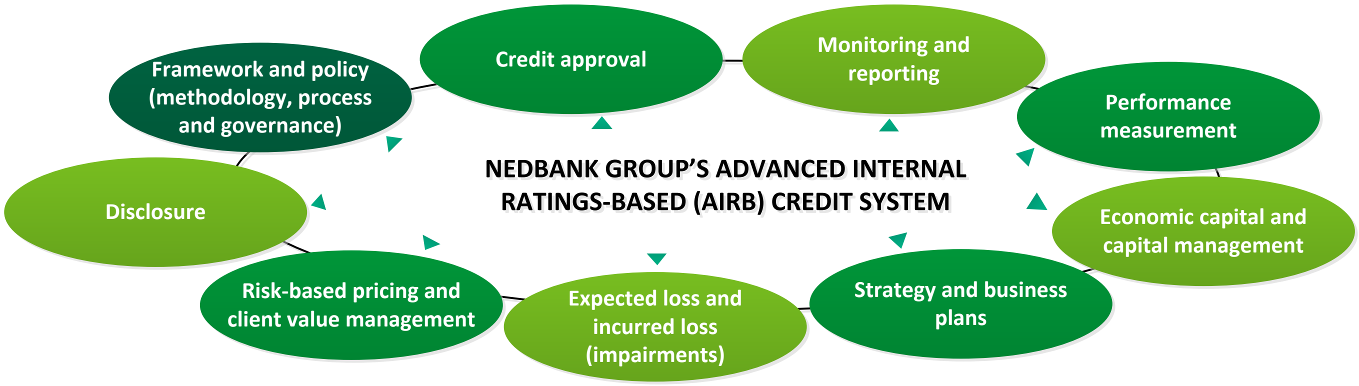
NATURE OF RATING SYSTEM

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 credit risk mitigation (ie PD only), while the second measures transaction risk (ie EL), which incorporates the effect of collateral, any other credit risk mitigation 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 (%)		Mapping to Standard & Poor's grades[1]	Mapping to
			Lower bound (PD >)	Upper bound (PD ≤)		
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 (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 credit risk mitigation 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 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 export credit agencies 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

June 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	78 344	45 151	68,15	108 517	0,08	452	26,67	1,75	18 473	17,02	26	
0,15 to < 0,25	28 162	14 478	68,02	38 001	0,21	360	25,56	1,72	9 334	24,56	19	
0,25 to < 0,50	38 748	14 467	77,92	48 600	0,37	466	20,48	1,82	16 696	34,35	43	
0,50 to < 0,75	15 652	2 414	130,77	13 513	0,51	475	21,47	1,49	6 730	49,81	22	
0,75 to < 2,50	25 739	8 460	83,38	32 531	1,44	2 010	22,09	2,10	19 736	60,67	124	
2,50 to < 10,00	22 724	7 258	78,66	28 422	4,39	1 961	26,54	2,17	27 289	96,01	379	
10,00 to < 100,00	3 753	1 558	55,15	4 511	21,41	236	25,14	1,56	7 157	158,66	303	
100,00 (default)	3 017	646	24,72	3 177	100,00	40	23,25	1,86	3 114	98,04	955	
	216 139	94 432	70,14	277 272	2,18	6 000	24,76	1,85	108 529	39,14	1 871	2 172
Specialised Lending[1]												
0,00 to < 0,15	33 288	1 636	196,89	36 509	0,07	508	9,86	3,67	4 470	12,24	5	
0,15 to < 0,25	21 368	1 445	104,10	22 871	0,17	193	12,40	3,45	6 395	27,96	11	
0,25 to < 0,50	19 328	712	213,10	20 846	0,45	326	12,50	4,37	6 932	33,25	14	
0,50 to < 0,75	5 172	283	194,97	5 723	0,88	313	13,25	3,90	1 883	32,91	18	
0,75 to < 2,50	23 495	771	211,52	25 281	1,48	929	14,40	4,05	13 163	52,22	78	
2,50 to < 10,00	22 205	772	178,74	23 585	5,03	524	13,77	3,41	16 361	69,37	274	
10,00 to < 100,00	2 594	292	137,01	2 993	14,89	116	13,26	3,91	3 072	102,62	69	
100,00 (default)	772			772	100,00	31	26,07	3,03	1 078	139,53	154	
	128 222	5 911	173,13	138 580	2,63	2 940	12,47	3,77	53 354		623	414
Public sector entities												
0,00 to < 0,15	9 943	1 313	63,90	10 782	0,02	14	43,13	2,28	916	8,49	1	
0,15 to < 0,25	9 576	2 792	72,03	11 587	0,18	6	16,40	3,68	2 551	22,02	4	
0,25 to < 0,50	215			215	0,45	2	5,00	4,91	60	27,91		
0,50 to < 0,75	254	27	100,00	280	0,64	1	20,81	4,55	183	65,44		
0,75 to < 2,50	150	73	83,65	211	4,25	4	78,97	14,51	120	56,96	2	
2,50 to < 10,00	266	1 655	100,28	1 926	3,63	1	41,08	1,49	2 515	130,59	32	
10,00 to < 100,00												
100,00 (default)												
	20 404	5 860	78,46	25 001	0,42	28	30,31	3,02	6 345	25,38	39	15

June 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	3 171	105	156,78	3 335	0,08	5	13,43	4,45	618	18,52	1	
0,15 to < 0,25	5 455	28	562,21	5 612	0,20	6	11,55	4,12	1 322	23,56	2	
0,25 to < 0,50	24	64	56,20	60	0,40	4	13,01	2,17	16	27,21		
0,50 to < 0,75	80	0	2 092,31	82	0,64	5	21,96	4,82	56	68,83		
0,75 to < 2,50	12	15	80,41	24	1,04	8	19,26	2,05	13	56,80		
2,50 to < 10,00												
10,00 to < 100,00												
100,00 (default)	29			29	100,00		12,50	5,00		< 1	8	
	8 771	212	175,10	9 142	0,47	28	12,36	4,23	2 025	22,16	11	11
Sovereign												
0,00 to < 0,15	95 112	1 498	17,66	95 377	0,01	12	5,67	2,03	1 972	2,07	2	
0,15 to < 0,25	364	132	60,59	444	0,03	1	11,57	0,70	411	92,38	1	
0,25 to < 0,50	1			1					1	67,22		
0,50 to < 0,75	1 939			1 945	0,64	3	43,29	2,22	1 742	89,58	6	
0,75 to < 2,50	11		690,51	11	0,91	1	17,75	1,02	5	40,33		
2,50 to < 10,00	147	17	19,68	151	3,73	4	35,74	1,50	313	207,49	5	
10,00 to < 100,00	24			24	10,02	2	34,88	0,73	70	289,05	2	
100,00 (default)												
	97 598	1 647	21,54	97 953	0,03	23	6,50	2,03	4 513	4,61	16	8
Banks												
0,00 to < 0,15	27 417	135	621,55	28 207	0,10	80	21,34	1,32	3 676	13,06	6	
0,15 to < 0,25	5 045	93	203,01	5 234	0,22	14	22,61	1,75	1 270	24,27	3	
0,25 to < 0,50	862	271	158,43	1 293	0,54	18	34,58	1,80	602	46,57	2	
0,50 to < 0,75	313	1	900,72	317	0,85	7	42,19	2,30	190	59,86	1	
0,75 to < 2,50	9	1	109,27	13	51,24	6	2 093,05	70,62	12	108,07	3	
2,50 to < 10,00	329	1 044	143,61	1 373	4,41	35	46,82	0,62	1 975	143,83	30	
10,00 to < 100,00	265	269	129,33	538	17,68	8	57,64	0,69	1 620	301,27	63	
100,00 (default)												
	34 240	1 814	190,79	36 975	0,57	168	24,34	1,40	9 344	25,32	108	16

June 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	4 010	2 866	82,03	6 361	0,06	7 834	8,19	0,01	162	2,55	1	
0,15 to < 0,25	5 063	5 963	92,03	10 551	0,21	17 156	8,50	1,12	651	6,17	3	
0,25 to < 0,50	18 638	6 988	90,23	24 943	0,40	52 928	8,99	0,63	2 584	10,36	14	
0,50 to < 0,75	13 970	2 957	95,17	16 784	0,64	31 861	8,83	0,94	2 426	14,46	16	
0,75 to < 2,50	29 257	2 865	114,96	32 550	1,26	58 780	9,57	1,03	7 738	23,77	63	
2,50 to < 10,00	32 141	1 998	74,77	33 635	4,12	68 110	10,44	0,76	17 409	51,76	231	
10,00 to < 100,00	12 773	139	217,96	13 075	22,18	27 040	10,53	0,28	12 323	94,23	481	
100,00 (default)	6 117	334	5,85	6 137	100,00	11 684	12,00	0,67	1 041	16,97	1 235	
	121 969	24 110	91,53	144 036	7,68	275 393	9,64	0,77	44 331	30,78	2 044	1 630
Retail – Revolving credit												
0,00 to < 0,15	14	131	14,84	34	0,11	7 029	27,46		1	2,53		
0,15 to < 0,25	389	2 182	32,26	1 093	0,21	55 019	41,35		60	5,52	1	
0,25 to < 0,50	1 234	3 570	27,99	2 233	0,39	125 513	46,92		223	9,98	4	
0,50 to < 0,75	760	1 271	54,20	1 449	0,64	77 449	49,43		223	15,37	5	
0,75 to < 2,50	3 282	4 633	29,78	4 661	1,22	256 678	47,41		1 128	24,19	29	
2,50 to < 10,00	4 833	3 865	51,95	6 841	5,42	1 218 661	48,90		4 864	71,10	198	
10,00 to < 100,00	3 509	888	66,79	4 102	23,00	311 194	49,52		5 881	143,38	506	
100,00 (default)	1 645			1 645	100,00	2 464 543	52,29		120	7,32	1 420	
	15 666	16 540	38,65	22 058	13,76	4 516 086	48,38		12 500	56,67	2 163	1 629
SME – Retail												
0,00 to < 0,15	100	213	30,82	165	0,09	2 791	17,91	1,66	9	5,61		
0,15 to < 0,25	362	533	60,23	684	0,21	4 461	16,12	2,43	65	9,57		
0,25 to < 0,50	1 438	1 872	66,93	2 691	0,43	15 326	14,16	3,31	380	14,12	2	
0,50 to < 0,75	1 477	1 277	70,71	2 380	0,64	11 664	15,34	3,22	450	18,92	3	
0,75 to < 2,50	10 993	4 347	78,68	14 407	1,36	35 857	15,44	3,59	3 753	26,05	43	
2,50 to < 10,00	16 770	4 130	75,01	19 867	5,13	110 016	23,24	2,47	8 900	44,80	306	
10,00 to < 100,00	1 940	949	21,67	2 146	18,62	9 658	20,63	2,05	1 216	56,66	106	
100,00 (default)	1 678	216	2,97	1 684	100,00	5 831	21,92	2,58	797	47,34	730	
	34 758	13 537	68,49	44 024	7,56	195 604	19,40	2,91	15 572	35,37	1 190	1 119

June 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	11		21,23	11	0,11	199	49,43		2	18,94		
0,15 to < 0,25	26	106	87,72	119	0,20	375	24,14	0,85	17	14,94		
0,25 to < 0,50	41	161	63,21	143	0,40	508	25,31	1,71	29	20,33		
0,50 to < 0,75	135	153	89,29	271	0,64	5 551	30,23	0,58	91	33,70	1	
0,75 to < 2,50	8 335	229	81,95	8 523	1,35	108 505	27,99	0,05	3 035	35,61	34	
2,50 to < 10,00	67 170	153	76,17	67 287	3,98	565 452	29,71	0,00	31 626	47,00	863	
10,00 to < 100,00	20 523	52	81,71	20 566	22,59	281 855	36,53	0,00	18 172	88,36	1 757	
100,00 (default)	5 387		100,00	5 387	100,00	160 246	40,47	0,01	721	13,38	2 654	
	101 628	854	79,37	102 307	12,54	1 122 691	31,50	0,01	53 693	52,48	5 309	4 342
Group												
0,00 to < 0,15	251 410	53 048	72,63	289 298	0,06	18 924	17,19	2,06	30 298	10,48	42	
0,15 to < 0,25	75 810	27 752	73,49	96 196	0,20	77 591	18,53	2,42	22 076	22,95	44	
0,25 to < 0,50	80 529	28 105	77,98	101 025	0,40	195 091	16,56	2,06	27 522	27,24	79	
0,50 to < 0,75	39 752	8 383	69,10	42 744	0,68	127 329	18,47	1,85	13 976	32,70	72	
0,75 to < 2,50	101 283	21 394	80,05	118 212	1,39	462 778	17,94	2,20	48 703	41,23	376	
2,50 to < 10,00	166 585	20 892	80,26	183 087	4,38	1 964 764	23,89	1,21	111 251	60,76	2 318	
10,00 to < 100,00	45 381	4 147	65,93	47 955	21,68	630 109	27,55	0,57	49 509	103,24	3 287	
100,00 (default)	18 645	1 196	15,52	18 831	100,00	2 642 375	27,03	0,90	6 872	36,49	7 156	
Total group	779 395	164 917	74,97	897 348	4,50	6 118 961	19,55	1,83	310 207	34,58	13 374	11 356

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

December 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 Years	RWA[1] 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

December 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 Years	RWA[1] 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

December 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 Years	RWA[1] 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	0,03	168	2,58	1	
0,15 to < 0,25	5 451	6 715	93,14	11 705	0,72	19 332	15,73	1,17	1 422	12,13	3	
0,25 to < 0,50	18 886	6 855	89,04	24 990	0,40	53 536	14,68	0,61	2 563	10,25	15	
0,50 to < 0,75	25 285	4 043	97,09	29 211	0,76	67 269	15,41	0,62	4 946	16,93	34	
0,75 to < 2,50	17 282	1 575	131,05	19 347	1,51	31 866	15,37	1,58	5 158	26,66	45	
2,50 to < 10,00	30 796	1 578	87,98	32 184	4,11	63 321	16,79	0,79	16 742	52,02	227	
10,00 to < 100,00	12 256	143	> 150	12 537	22,29	25 877	16,88	0,33	11 907	94,97	471	
100,00 (default)	5 982	432	4,00	5 999	100,00	10 746	18,65	0,65	985	16,42	1 252	
	120 128	24 193	92,51	142 508	7,59	280 038	15,84	0,78	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

December 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 Years**	**RWA[1] 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		2	14,63	< 1	
0,15 to < 0,25	26	145	101,86	173	0,20	418	31,55	1,10	23	13,52	< 1	
0,25 to < 0,50	56	163	61,12	155	0,39	532	29,64	1,93	29	18,84	< 1	
0,50 to < 0,75	1 307	285	70,82	1 509	0,85	11 246	31,47	0,11	471	31,21	4	
0,75 to < 2,50	7 830	133	91,03	7 951	1,43	111 695	29,59	0,06	2 900	36,48	34	
2,50 to < 10,00	65 396	165	78,52	65 526	3,90	567 858	30,92		30 747	46,92	826	
10,00 to < 100,00	20 018	60	73,18	20 062	22,28	290 313	39,11		17 884	89,14	1 718	
100,00 (default)	5 057			5 057	100,00	169 007	44,39	0,01	813	16,08	2 513	
	99 703	954	77,95	100 446	12,15	1 151 271	33,14	0,01	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	35,10	12 930	11 486

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

[2] *December 2016 has been restated to correct asset class split of provisions.*

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

Rm		Jun 2017 Pre-credit derivatives RWA[2]	Jun 2017 Actual RWA[2]	Dec 2016 Pre-credit derivatives RWA[2]	Dec 2016 Actual RWA[2]
1	Sovereign – Foundation IRB (FIRB)				
2	Sovereign – AIRB	**4 514**	**4 514**	3 237	3 237
3	Banks – FIRB				
4	Banks – AIRB	**9 344**	**9 344**	9 318	9 318
5	Corporate – FIRB				
6	Corporate – AIRB	**108 530**	**108 530**	117 729	117 729
7	Specialised lending – FIRB				
8	Specialised lending – AIRB	**53 352**	**53 352**	51 813	51 813
9	Retail – qualifying revolving	**12 500**	**12 500**	11 669	11 669
10	Retail – residential mortgage exposures	**44 331**	**44 331**	43 891	43 891
11	Retail –SME	**15 572**	**15 572**	15 787	15 787
12	Other retail exposures	**53 693**	**53 693**	52 869	52 869
13	Equity – FIRB				
14	Equity – AIRB				
15	Purchased receivables – FIRB				
16	Purchased receivables – AIRB				
	Public sector entities – AIRB	**9 983**	**9 983**	7 314	7 314
	Local government and municipalities – AIRB	**2 213**	**2 213**	1 304	1 304
17	**Total**	**314 032**	**314 032**	314 931	314 931

[1] *No credit derivatives were applied as credit risk mitigation in the first half of 2017.*

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

CR8: RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER AIRB

Rm		Jun 2017 RWA[1]	Dec 2016 RWA[1]
1	**RWA at the end of the previous reporting period**	**324 432**	348 196
2	Asset size	**(664)**	18 338
3	Asset quality	**(3 315)**	(10 976)
4	Model updates	**(2 059)**	(26 671)
5	Methodology and policy		(2 100)
6	Acquisitions and disposals		
7	Foreign exchange movements	**30**	(3 232)
8	Other		
9	**RWA at the end of the reporting period**	**318 424**	323 555

[1] *RWA includes Specialised lending – HVCRE.*

Credit loss ratio

Nedbank has maintained a low CLR despite the tough economic conditions, with all business units below or within their TTC target ranges, resulting from the proactive management of the portfolio and conservative provisioning within the group.

As part of the Strategic Portfolio Tilt initiatives, our selective growth approach across all asset classes has proactively limited downside risk in this challenging operating climate, enabling a CLR of 0,47% (June 2016: 0,67%), below the TTC target range of 0,60% to 1,00%.

The group CLR improved due to the proven track record of high recovery rates, lower impairments as a result of positive resolutions of various counters in CIB and overlay releases in RBB.

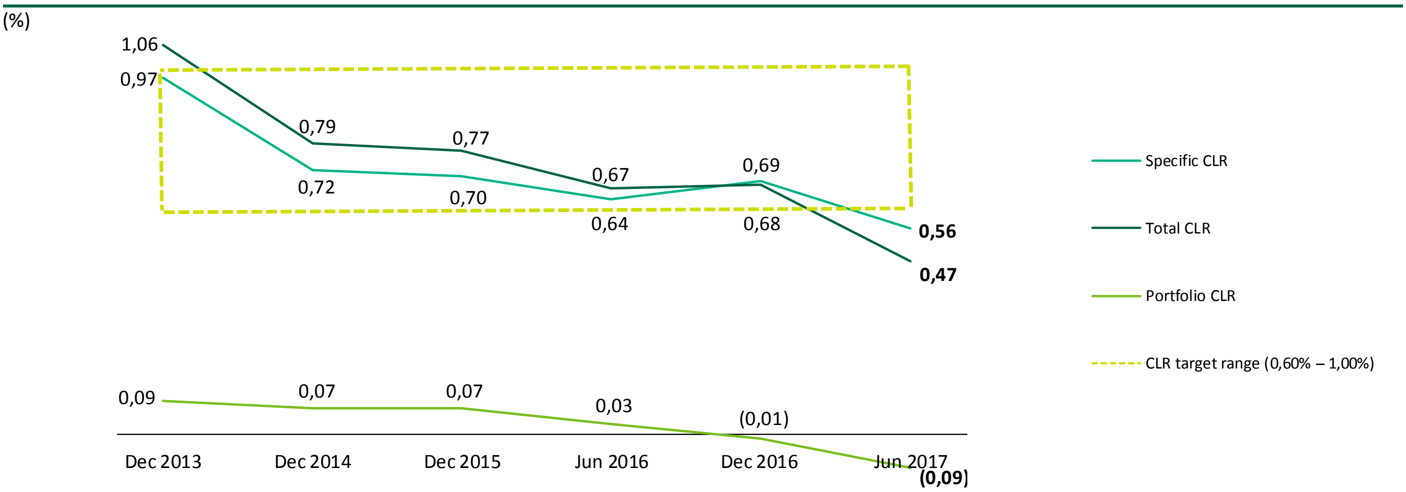
- The CIB CLR improved to -0,03% (June 2016: 0,31%) and is below the TTC target range of 0,15% to 0,45%. The improvement was due to resolutions of various clients, which resulted in a 0,11% decrease while new and existing defaults contributed to a 0,09% increase in the CLR.
  - The CIB portfolio CLR decreased to -0,01% (June 2016: 0,04%) due to the performance of the portfolio.
- RBB CLR improved to 1,14% (June 2016: 1,23%) and is below the TTC target of 1,30% to 1,80% due to the following:
  - A decrease in Retail CLR to 1,42% (June 2016: 1,49%) due to proactive collection strategies and the release of overlays.
  - A decrease in the Business Banking CLR to 0,12% (June 2016: 0,36%), mainly attributable to the R50m release of the drought overlay relating to certain geographies materialising, in the first half of 2017, as well as continued proactive and disciplined risk management practices.

The Rest of Africa CLR increased to 0,80% (June 2016: 0,76%) and is within the TTC target range of 0,65% to 1,00%.

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
June 2017									
TTC target ranges	**0,15–0,45**			**1,30–1,80**			**0,20–0,40**	**0,65–1,00**	**0,60–1,00**
Total credit loss ratio	**(0,03)**	**0,10**	**(0,16)**	**1,14**	**0,12**	**1,42**	**0,09**	**0,80**	**0,47**
Specific credit loss ratio	**(0,02)**	**0,04**	**(0,13)**	**1,22**	**0,35**	**1,47**	**0,05**	**1,10**	**0,56**
Portfolio credit loss ratio	**(0,01)**	**0,06**	**(0,03)**	**(0,08)**	**(0,23)**	**(0,05)**	**0,04**	**(0,30)**	**(0,09)**
June 2016									
Total credit loss ratio	0,31	0,46	0,07	1,23	0,36	1,49	0,16	0,76	0,67
Specific credit loss ratio	0,27	0,36	0,12	1,10	0,35	1,32	0,15	0,70	0,64
Portfolio credit loss ratio	0,04	0,10	(0,05)	0,13	0,01	0,17	0,01	0,06	0,03
December 2016									
Total credit loss ratio	0,34	0,53	0,04	1,12	0,26	1,37	0,08	0,98	0,68
Specific credit loss ratio	0,33	0,52	0,02	1,12	0,26	1,38	0,06	1,12	0,69
Portfolio credit loss ratio	0,01	0,01	0,02	(0,00)	0,00	(0,01)	0,02	(0,14)	(0,01)

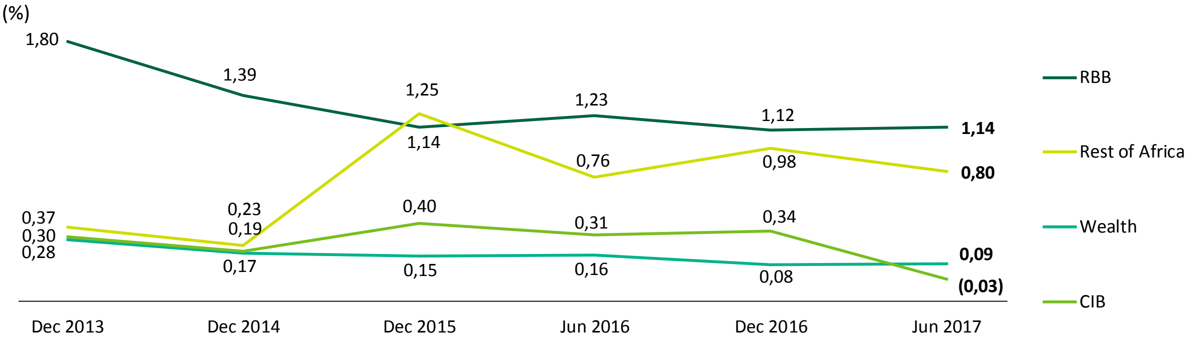
Nedbank Group credit loss ratio trends



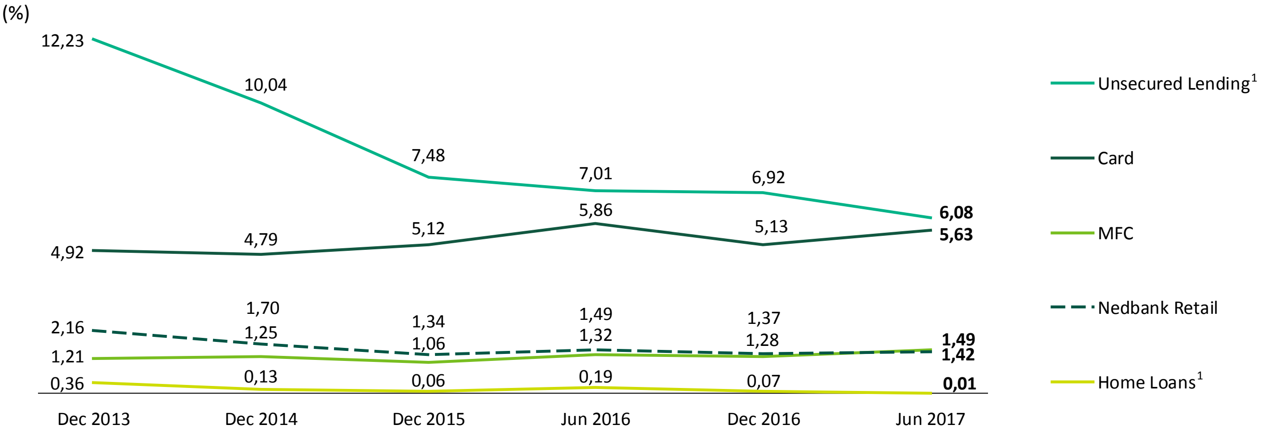
SUMMARY OF THE CREDIT LOSS RATIO BY BUSINESS UNIT

	Mix of average banking advances			Impairments charge						Credit loss ratio		
	Jun 2017	Jun 2016	Dec 2016	**Jun 2017**		Jun 2016		Dec 2016		**Jun 2017**	Jun 2016	Dec 2016
	%	%	%	**Rm**	**Mix**	Rm	Mix	Rm	Mix	**%**	%	%
Nedbank Group	**100,0**	100,0	100,0	**1 594**	**100,0**	2 211	100,0	4 554	100,0	**0,47**	0,67	0,68
Nedbank CIB	**48,7**	49,0	48,9	**(44)**	**(2,8)**	502	22,7	1095	24,0	**(0,03)**	0,31	0,34
Nedbank CIB excluding Property Finance	**28,6**	30,3	29,7	**62**	**3,8**	460	20,8	1 049	23,0	**0,12**	0,46	0,53
Property Finance	**20,1**	18,7	19,2	**(106)**	**(6,6)**	42	1,9	46	1,0	**(0,16)**	0,07	0,04
Nedbank RBB	**44,2**	43,8	43,9	**1 694**	**106,3**	1 773	80,2	3 261	71,6	**1,14**	1,23	1,12
Nedbank Business Banking	**9,7**	10,0	9,9	**38**	**2,4**	118	5,3	173	3,8	**0,12**	0,36	0,26
Nedbank Retail	**34,5**	33,8	34,0	**1 656**	**103,9**	1 655	74,9	3 088	67,8	**1,42**	1,49	1,37
Home Loans	**12,3**	12,3	12,4	**5**	**0,3**	79	3,6	55	1,2	**0,01**	0,19	0,07
MFC	**12,4**	11,9	12,0	**623**	**39,1**	517	23,4	1 019	22,4	**1,49**	1,32	1,28
Unsecured Lending	**2,7**	2,5	2,6	**561**	**35,2**	583	26,4	1 179	25,9	**6,08**	7,01	6,92
Client Engagement	**0,1**	0,2	0,1	**21**	**1,4**	32	1,4	50	1,1	**11,15**	5,90	4,74
Relationship Banking	**4,7**	4,7	4,7	**14**	**0,9**	20	0,9	29	0,6	**0,09**	0,13	0,09
Card	**2,3**	2,2	2,2	**432**	**27,0**	424	19,2	756	16,6	**5,63**	5,86	5,13
Nedbank Wealth	**4,1**	4,5	4,4	**13**	**0,8**	24	1,1	22	0,5	**0,09**	0,16	0,08
Rest of Africa	**3,0**	2,5	2,8	**81**	**5,0**	63	2,8	177	3,9	**0,80**	0,76	0,98

Business cluster credit loss ratio trends

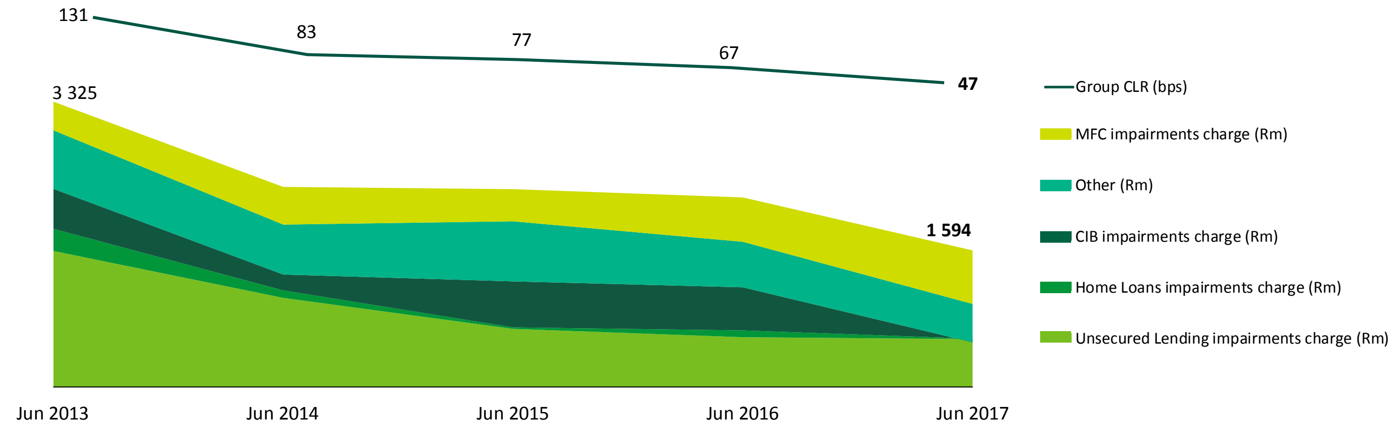


Nedbank Retail credit loss ratio per business unit



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

Group impairments charge and credit loss ratio



Impairments

The current quality of the credit book is sound due to Strategic Portfolio Tilt and selective origination actions implemented since 2009, across all asset classes, with a strong focus on adequacy of impairments, including the total group overlays of R759m at June 2017, as well as mature credit risk management.

The key credit metrics indicate that group credit risk management practices remained prudent across the group. Based on the lower CLR and the stable defaulted advances (excluding the reclassification of performing loans as defaulted), the level of coverage is satisfactory, evidenced by the higher impairment as a percentage of gross loans to 1,67% (June 2016: 1,64%).

The central overlay was R500m at December 2016 and in the first half of 2017 R150m was released. The R350m central overlay is being maintained for the effect of the potential local currency ratings downgrade and stressed sectors such as resources, cement, construction and retailers remaining under pressure. RBB overlays decreased to R409m (June 2016: R701m) as previously raised overlays for event risks such as drought and possible deterioration in the secured and unsecured lending book were released as these risks did not materialise.

The income statement impairments charge decreased to R1 594m (June 2016: R2 211m), which is indicative of good risk management in the portfolio.

- The CIB income statement impairments charge decreased to -R44m (June 2016: R502m), mainly as a result of specific impairment releases in the businesses due to positive resolutions, a reduction in defaulted advances as well as an adequately collateralised portfolio.
- The RBB income statement impairments charge decreased to R1 694m (June 2016: R1 773m), driven by the releases of overlays, offset by higher specific impairments in MFC of R623m (June 2016: R517m).

Group writeoffs decreased to R2 275m (June 2016: R2 647m) mainly due to effective risk management across the group.

Total balance sheet impairments increased to R12 046m (June 2016: R11 539m) due to increased specific impairments as a result of higher defaulted advances in RBB. This was offset by lower portfolio impairments due to the decline in arrears levels in Retail, mainly in Home Loans.

- This increase is attributable to higher specific impairments of R7 518m (June 2016: R6 683m), while portfolio impairments decreased to R4 528m (June 2016: R4 856m).

Total balance sheet impairments as a percentage of gross loans and advances increased to 1,67% (June 2016: 1,64%), with offsetting effects being an increase in CIB to 0,54% (June 2016: 0,49%) and a decrease in RBB to 2,98% (June 2016: 3,06%) in line with the better quality of the RBB portfolio.

Group postwriteoff recoveries increased slightly to R578m (June 2016: R564m), reflective of the change in the collection and recoveries policies since 2012.

NEDBANK GROUP BALANCE SHEET IMPAIRMENTS BY BUSINESS CLUSTER

Rm	Jun 2017	Jun 2016	Dec 2016
Nedbank Group	**12 046**	11 539	12 149
Nedbank CIB	**1 986**	1 769	2 165
Nedbank CIB excluding Property Finance	**1 497**	1 050	1 524
Property Finance	**489**	719	641
Nedbank RBB	**9 124**	8 974	8 907
Nedbank Business Banking	**1 386**	1 505	1 407
Nedbank Retail	**7 738**	7 469	7 500
Nedbank Wealth	**127**	143	154
Rest of Africa	**460**	303	423
Centre	**349**	350	500

NEDBANK GROUP IMPAIRMENT RATIO BY BUSINESS CLUSTER

%	Dec 2013	Dec 2014	Dec 2015	Jun 2016	Dec 2016	Jun 2017
Total impairments to gross loans and advances	1,94	1,78	1,65	1,64	1,69	**1,67**
Nedbank CIB	0,49	0,48	0,49	0,49	0,58	**0,54**
Nedbank CIB excluding Property Finance	0,45	0,42	0,45	0,45	0,65	**0,65**
Property Finance	0,58	0,60	0,55	0,56	0,47	**0,36**
Nedbank RBB	3,56	3,22	3,00	3,06	2,98	**2,98**
Nedbank Business Banking	2,00	1,98	2,17	2,25	2,15	**2,04**
Nedbank Retail[1]	4,05	3,61	3,25	3,30	3,21	**3,25**
Home Loans[2]	2,56	2,18	1,86	1,82	1,70	**1,63**
MFC	3,23	2,69	2,29	2,38	2,33	**2,45**
Unsecured Lending[3]	12,66	13,92	13,89	13,63	13,48	**13,54**
Card	7,79	7,21	8,29	8,67	8,67	**9,17**
Nedbank Wealth	0,76	0,67	0,54	0,48	0,54	**0,43**
Rest of Africa	1,26	1,26	2,18	1,64	2,11	**2,21**

[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.*

RECONCILIATION OF BALANCE SHEET IMPAIRMENTS BY BUSINESS CLUSTER

Rm	Corporate and Investment Banking	Retail and Business Banking	Wealth	Rest of Africa	Centre	Jun 2017	Jun 2016	Dec 2016
Opening balance	2 165	8 907	154	423	500	12 149	11 411	11 411
Specific impairment	1 096	5 855	118	245	3	7 317	6 664	6 664
Specific impairment, excluding discounts	755	5 101		30	3	5 889	5 441	5 441
Specific impairment for discounted cashflow losses	341	754	118	215		1 428	1 223	1 223
Portfolio impairment	1 069	3 052	36	178	497	4 832	4 747	4 747
Impairments charge	(40)	2 248	13	101	(150)	2 172	2 775	5 711
Statement of comprehensive income charge net of recoveries	(44)	1 694	13	81	(150)	1 594	2 211	4 554
Specific impairment	(17)	1 741	35	126		1 885	1 943	4 353
Net Increase/(decrease) in impairment for discounted cashflow losses	(22)	81	(27)	(15)		17	155	205
Portfolio impairment	(5)	(128)	5	(30)	(150)	(308)	113	(4)
Recoveries	4	554		20		578	564	1 157
Amounts written off/Other transfers	(139)	(2 031)	(40)	(64)	(1)	(2 275)	(2 647)	(4 973)
Specific impairment	(138)	(2 031)	(40)	(69)	(1)	(2 279)	(2 643)	(5 062)
Portfolio impairment	(1)			5		4	(4)	89
Total impairments	1 986	9 124	127	460	349	12 046	11 539	12 149
Specific impairment	923	6 200	86	307	2	7 518	6 683	7 317
Specific impairment, excluding discounts	604	5 365	(5)	107	2	6 073	5 305	5 889
Specific impairment for discounted cashflow losses	319	835	91	200		1 445	1 378	1 428
Portfolio impairment	1 063	2 924	41	153	347	4 528	4 856	4 832
Total gross loans and advances	365 859	306 069	29 591	20 842	(451)	721 910	704 871	719 226

RECONCILIATION OF SPECIFIC IMPAIRMENT FOR DISCOUNTED CASHFLOW LOSSES

Rm								
Opening balance	341	754	118	215		1 428	1 223	1 223
Net increase/(decrease) in impairment for discounted cashflow losses	(22)	81	(27)	(15)		17	155	205
Interest on specifically impaired loans and advances	(95)	(517)	(20)	(29)		(661)	(590)	(1 370)
Net specific impairments charge for discounted cashflow losses	73	598	(7)	14		678	745	1 575
Closing balance	319	835	91	200		1 445	1 378	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.

The group specific coverage increased to 37,2% (June 2016: 36,2%) due to the offsetting effects of consumer pressure increasing the defaulted advances in RBB and resolutions of various counters in CIB.

Nedbank is comfortable with the coverage based on the higher proportion of wholesale lending compared with the mix of its peers, high recoveries and the collateralised nature of commercial mortgages, with low loan-to-value ratios as well as the reclassification of performing loans as defaulted.

The group specific coverage was on an increasing trend from 2012. However, the reclassification of performing advances as defaulted led to the dilution of the ratio from December 2015. Although the reclassification of performing advances as defaulted impacted the coverage negatively, it is a more conservative approach to risk management. The group specific coverage has normalised and increased to 37,2% (June 2016: 36,2%).

CIB accounts for 18,6% (June 2016: 24,1%) of total defaulted advances, with the specific coverage increasing to 24,6% (June 2016: 14,8%). This resulted from the resolution of various counters that carried a low specific coverage as the defaulted exposures were adequately secured by collateral, resulting in relatively lower loss expectations.

- The CIB portfolio coverage decreased to 0,29% (June 2016: 0,31%).
- The top 10 CIB defaulted exposures accounted for 76% of total CIB defaulted advances, while contributing 86% of total CIB specific impairments. The specific impairments in CIB are determined on a deal-by-deal basis to ensure adequate impairment for the portfolio as a whole.

RBB accounts for 74,8% (June 2016: 69,5%) of total defaulted advances, with specific coverage decreasing to 41,1% (June 2016: 44,6%).

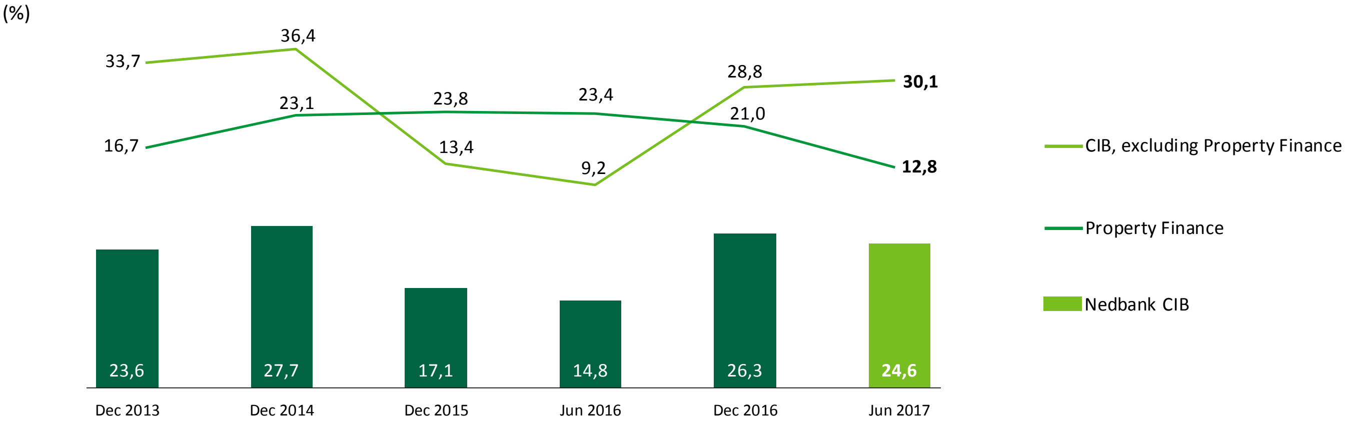
- Retail specific coverage decreased to 41,8% (June 2016: 46,0%) due to the reclassification of the performing loans as defaulted and higher defaulted advances in MFC. Excluding the reclassification of performing loans as defaulted, the Retail specific coverage increased to 52,7% (June 2016: 47,6%), above that of the peers at year-end, as continued consumer pressure produced higher defaults.

The group portfolio coverage decreased to 0,65% (June 2016: 0,71%) due to the release of overlays in RBB and the Centre.

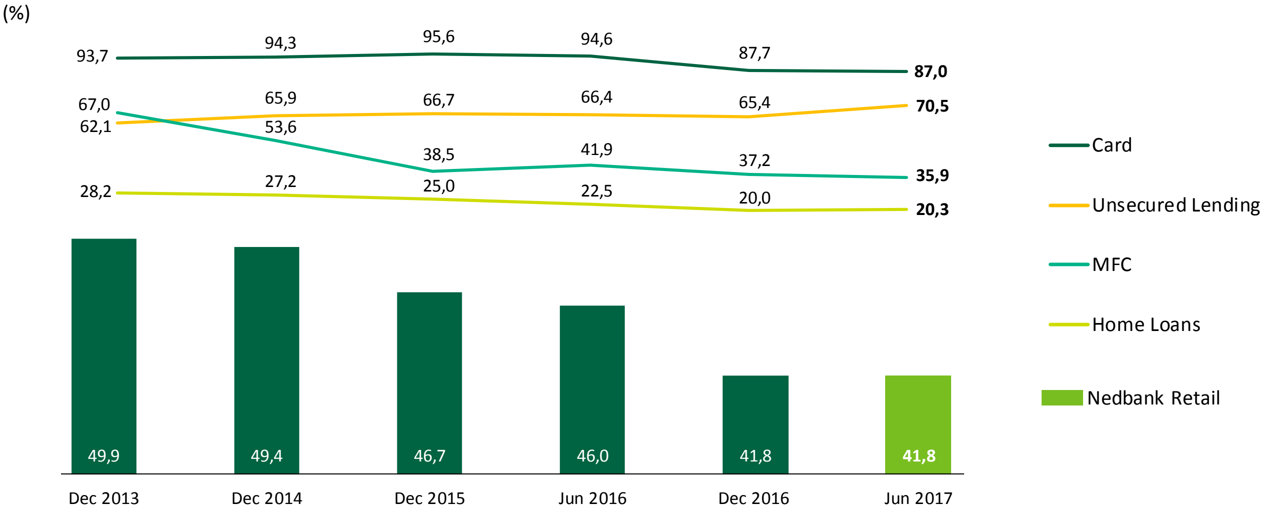
NEDBANK GROUP COVERAGE RATIOS BY BUSINESS CLUSTER

%	Dec 2013	Dec 2014	Dec 2015	Jun 2016	Dec 2016	Jun 2017
Specific coverage ratio	42,3	43,1	38,0	36,2	37,4	**37,2**
Corporate and Investment Banking	23,6	27,7	17,1	14,8	26,3	**24,6**
CIB, excluding Property Finance	33,7	36,4	13,4	9,2	28,8	**30,1**
Property Finance	16,7	23,1	23,8	23,4	21,0	**12,8**
Retail and Business Banking	47,5	47,6	45,6	44,6	41,1	**41,1**
Business Banking	35,8	38,5	40,5	38,7	37,6	**37,1**
Retail	49,9	49,4	46,7	46,0	41,8	**41,8**
Wealth	26,9	23,9	20,8	17,3	19,4	**13,1**
Rest of Africa	47,0	47,3	41,6	34,9	46,1	**44,7**
Portfolio coverage ratio	0,68	0,70	0,70	0,71	0,69	**0,65**
Corporate and Investment Banking	0,21	0,24	0,29	0,31	0,29	**0,29**
CIB, excluding Property Finance	0,21	0,24	0,30	0,35	0,31	**0,32**
Property Finance	0,22	0,22	0,28	0,24	0,26	**0,25**
Retail and Business Banking	1,18	1,17	1,11	1,16	1,07	**1,01**
Business Banking	0,72	0,82	0,94	0,93	0,95	**0,80**
Retail	1,33	1,28	1,16	1,23	1,11	**1,06**
Wealth	0,12	0,10	0,12	0,12	0,13	**0,14**
Rest of Africa	0,70	0,53	0,64	0,59	0,91	**0,76**

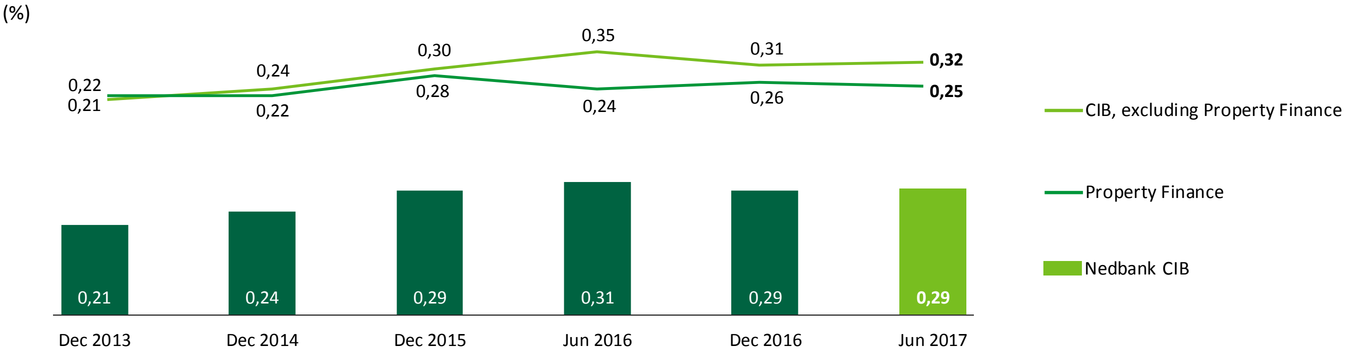
Nedbank CIB specific coverage ratio



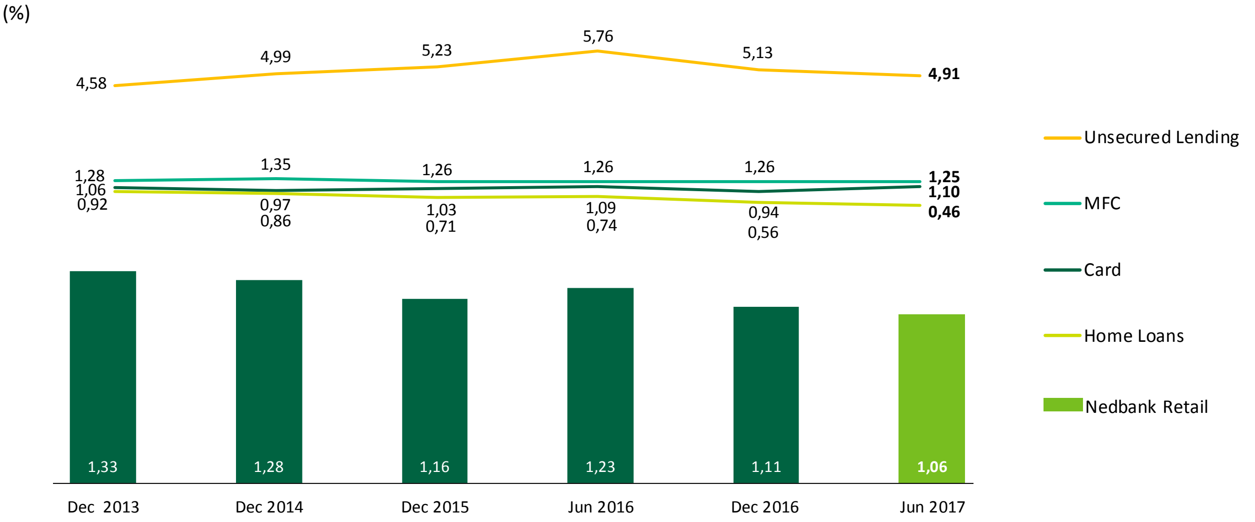
Nedbank Retail specific coverage ratio



Nedbank CIB portfolio coverage ratio



Nedbank Retail portfolio coverage ratio



CR10: AIRB SPECIALISED LENDING

		Specialised lending other than HVCRE									
					Exposure amount						
June 2017 **Regulatory categories** **Rm**	**Remaining maturity**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RW %**	**Project finance**	**Object finance**	**Commodities finance**	**IPRE**	**Total**	**RWA**	**Expected losses**
Strong	**Less than 2,5 years**			**50**							
	Equal to or more than 2,5 years			**70**							
Good	**Less than 2,5 years**			**70**							
	Equal to or more than 2,5 years			**90**							
Satisfactory		**438**	**130**	**115**				**568**	**568**	**692**	**22**
Weak				**250**							
Default		**245**						**245**	**245**		**92**
Total		**683**	**130**					**813**	**813**	**692**	**114**
December 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	765	932	29
Weak				250							
Default		343			38			305	343		175
Total		836	271		38			1 070	1 108	932	204

		Specialised lending – HVCRE					
June 2017 **Regulatory categories** **Rm**	**Remaining maturity**	**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	**4 146**	**225**	**95**	**4 371**	**4 402**	**24**
Good	**Less than 2,5 years**			**95**			
	Equal to or more than 2,5 years	**1 200**	**24**	**120**	**1 224**	**1 557**	**7**
Satisfactory		**901**	**81**	**140**	**982**	**1 458**	**37**
Weak		**297**	**5**	**250**	**302**	**800**	**33**
Default		**414**	**4**		**418**		**62**
Total		**6 958**	**339**		**7 297**	**8 217**	**163**
December 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

	Equities under the SRWA				
June 2017 Categories Rm	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RW %**	**Exposure amount**	**RWA**
Exchange-traded equity exposures	**31**		**300**	**31**	**99**
Private-equity exposures	**821**		**400**	**821**	**3 481**
Other equity exposures	**4 520**		**400**	**4 520**	**19 165**
Total	**5 372**			**5 372**	**22 745**
December 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

Backtesting of PD per portfolio

Pillar 3 credit parameter backtesting is carried out on an annual basis for the relevant calendar year. This avoids unwanted fluctuations due to seasonality effects that could arise if a shorter time horizon is considered. For the December 2016 AIRB credit parameter backtesting please refer to the December 2016 Pillar 3 Report.

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, 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, 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.

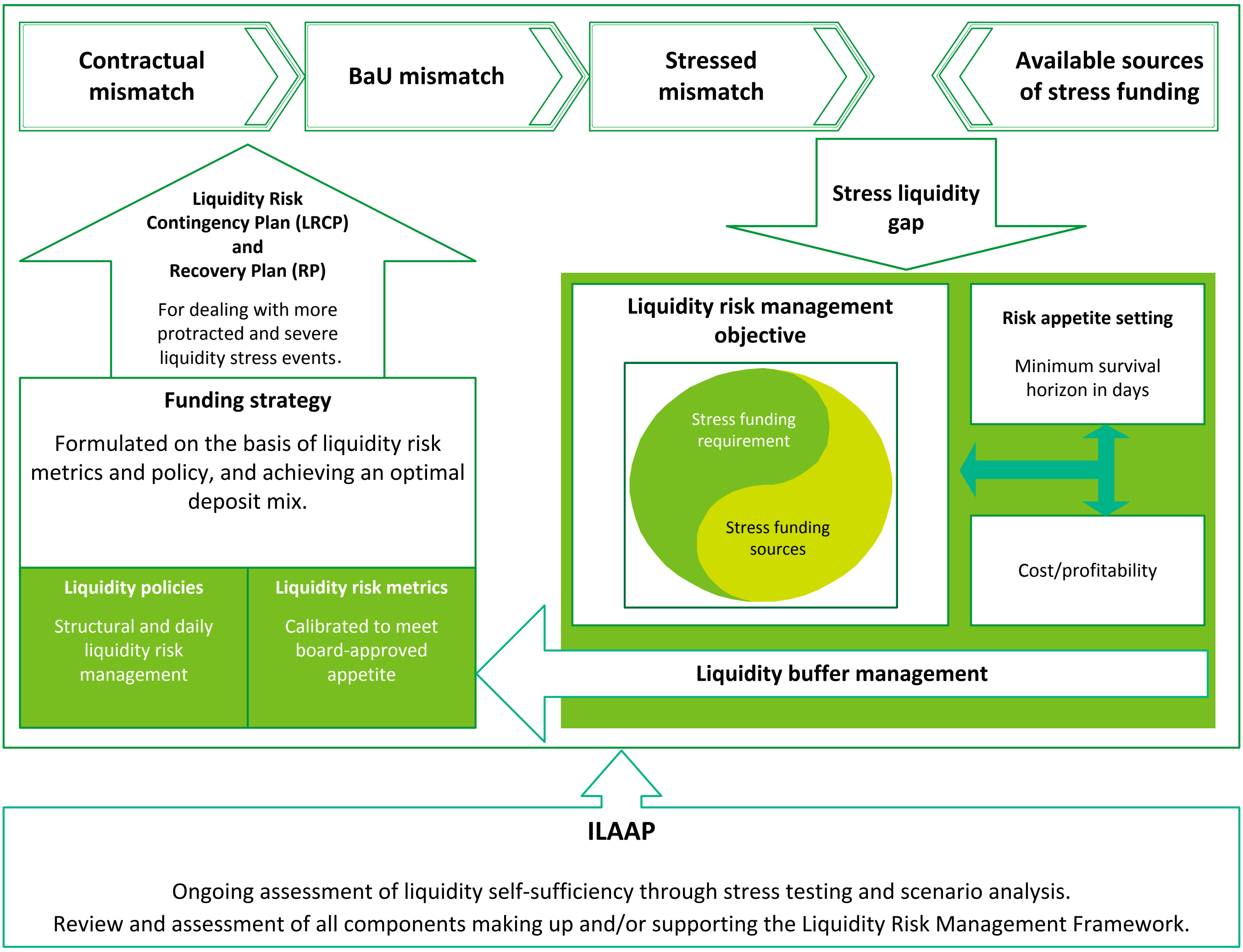
In the case of Nedbank Group's subsidiaries and foreign branches, liquidity risk is managed through the individual Alcos established in each of these businesses. These businesses are required to have appropriate governance structures, processes and practices designed to identify, measure, manage and 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

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

Semi-annually/Quarterly

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/Daily

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 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:

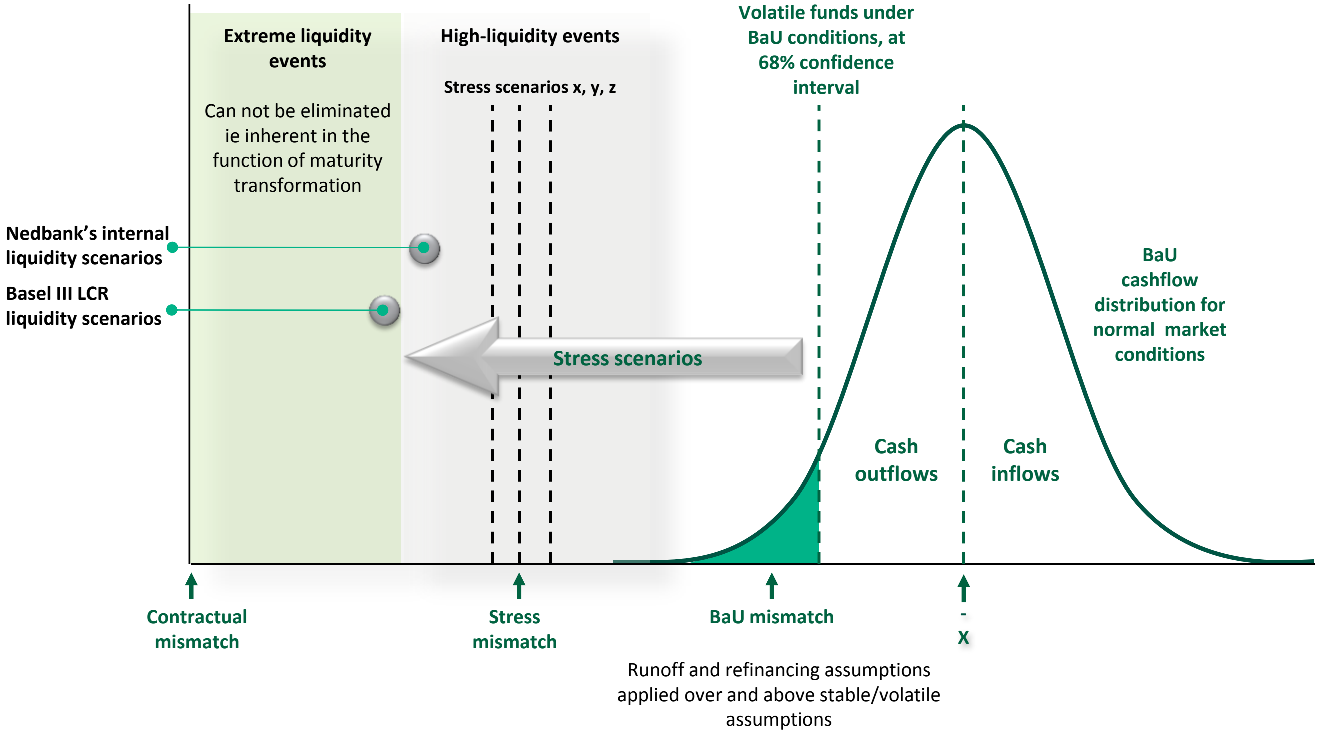
- Intraday liquidity risk management
  The need to manage and control intraday liquidity in real time is recognised by the group as a critical process. The CFD is responsible for ensuring that the bank always has sufficient intraday liquidity to meet any obligations it may have in the clearing and settlement systems. In addition, net daily funding requirements are forecast 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 forecasted 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, thus 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.

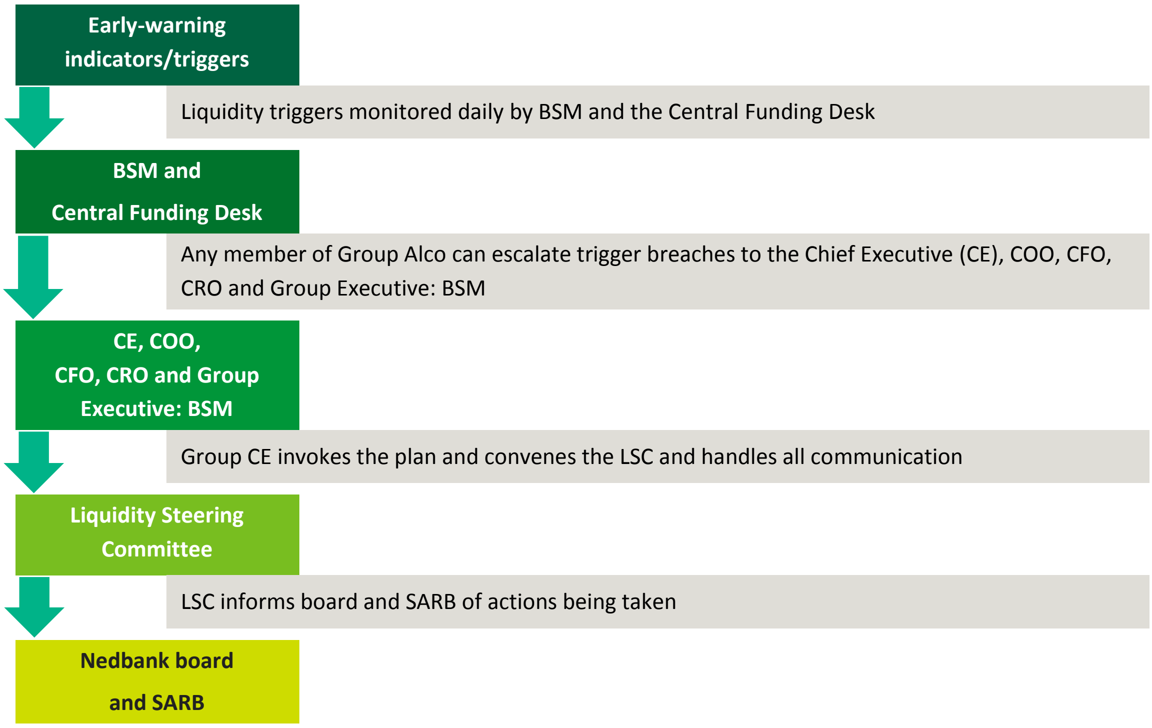
  Nedbank's Liquidity Risk Policies and LRCP were reviewed in November 2016, in accordance with the annual review process.

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 (LSC).

The process for invoking the LRCP is depicted graphically below.

Liquidity Risk Contingency Plan



Early-warning indicators/triggers

Liquidity triggers monitored daily by BSM and the Central Funding Desk

BSM and Central Funding Desk

Any member of Group Alco can escalate trigger breaches to the Chief Executive (CE), COO, CFO, CRO and Group Executive: BSM

CE, COO, CFO, CRO and Group Executive: BSM

Group CE invokes the plan and convenes the LSC and handles all communication

Liquidity Steering Committee

LSC informs board and SARB of actions being taken

Nedbank board and SARB

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

		Jun 2017	Jun 2016	Dec 2016
Total sources of quick liquidity	(Rm)	**189 984**	167 716	180 413
Total HQLA	(Rm)	**144 568**	127 114	137 350
Other sources of quick liquidity	(Rm)	**45 416**	40 602	43 063
Total sources of quick liquidity (as a percentage of total assets)	(%)	**19,7**	17,8	18,7
Long-term funding ratio (three-month average)	(%)	**33,1**	30,9	29,6
Retail Savings Bond	(Rm)	**22 308**	16 444	19 213
Senior unsecured debt	(Rm)	**36 892**	37 881	35 705
Total capital market issuance (including senior unsecured debt, tier 2 capital and additional tier 1 capital)	(Rm)	**57 568**	53 329	54 076
Reliance on negotiable certificates of deposit (as a percentage of total deposits)	(%)	**10,6**	11,9	11,8
Reliance on foreign funding (as a percentage of total deposits)	(%)	**3,9**	4,9	4,5
Loan-to-deposit ratio	(%)	**93,1**	93,5	92,8
Basel III liquidity ratios				
LCR[1]	(%)	**104,6**	93,1	109,3
Minimum regulatory LCR requirement	(%)	**80**	70	70
Net stable funding ratio (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, where 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 June 2017 for Nedbank Limited and the simple average of the month-end values at 30 April 2017, 31 May 2017 and 30 June 2017 for all non-SA banking entities.*

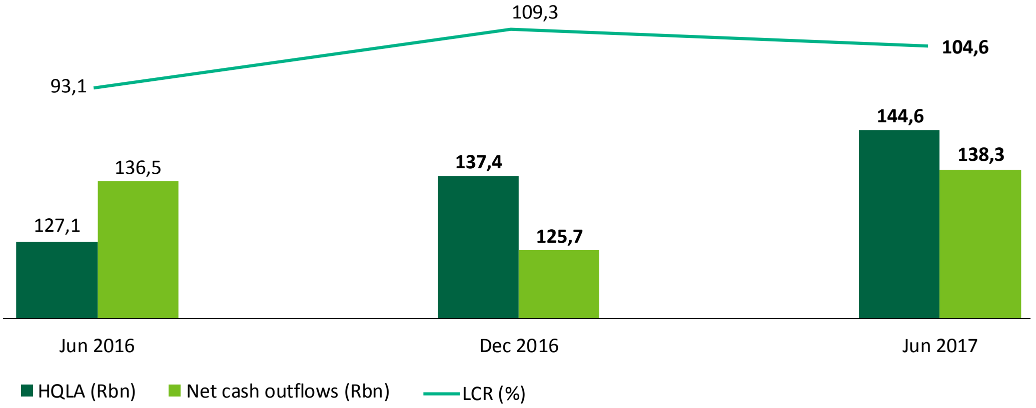
Nedbank Group remains well funded with a strong liquidity position, underpinned by a significant quantum of long-term funding, an appropriately sized surplus liquid-asset buffer, a strong loan-to-deposit ratio consistently below 100% and a low reliance on interbank and foreign currency funding.

Nedbank is already compliant with the NSFR minimum regulatory requirement that is effective from 1 January 2018. The key focus area relating to the NSFR is now achieving compliance in the context of ongoing balance sheet optimisation.

Having exceeded the LCR minimum regulatory requirement of 80% for 30 June 2017, where the management of this ratio is fully embedded into BaU processes, Nedbank is well positioned to exceed the minimum regulatory requirement throughout the phase-in period, as the LCR requirement increases by 10% per annum to 100% by 1 January 2019.

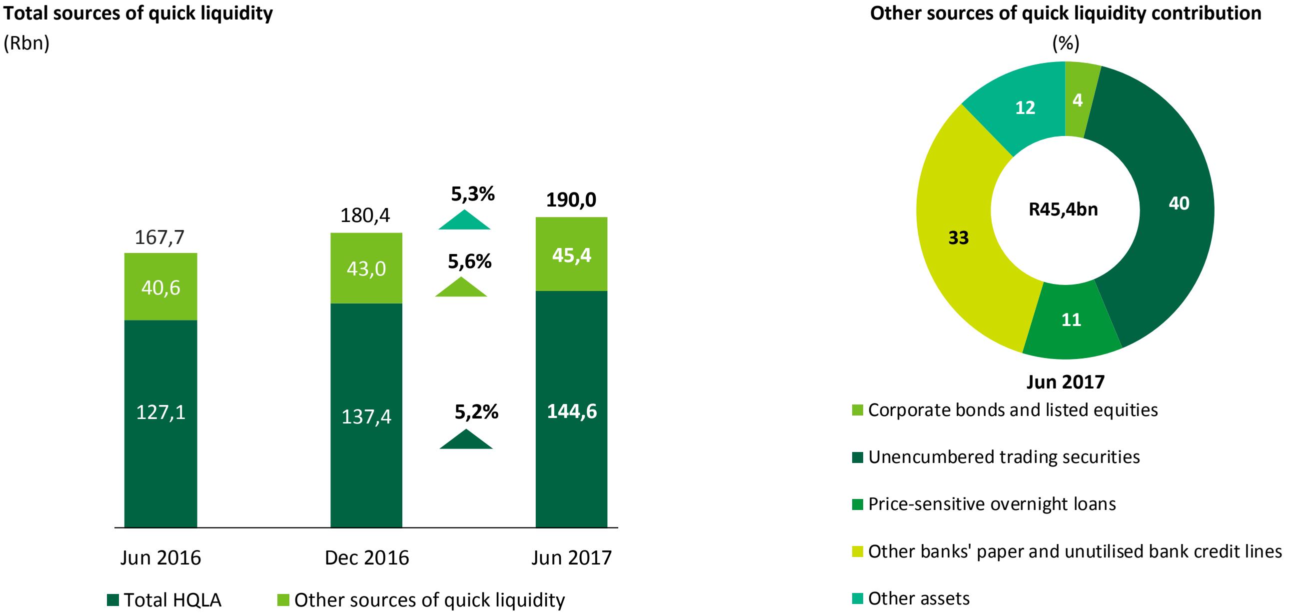
- The LCR, calculated using the simple average of daily observations over the quarter ending June 2017 for Nedbank Limited and the simple average of the month-end values at 30 April 2017, 31 May 2017 and 30 June 2017 for all non-SA banking entities, was 104,6% compared with the December 2016 monthly average of 109,3%.
    - The total HQLA portfolio increased from a quarterly average of R137,4bn at December 2016 to R144,6bn at June 2017, while the LCR NCOF increased from R125,7bn to R138,3bn over the same period, where the increase in NCOF is the result of BaU movements in the funding base.
    - Based on internal risk modelling, Nedbank targets an LCR operational level above the minimum regulatory requirement, designed to absorb normal seasonal and cyclical volatility inherent in the ratio. The actual LCR may therefore fluctuate above or below the operational target from time to time. In addition, Nedbank has pre-positioned the LCR at slightly higher levels to take account of potential volatility that could emanate from further downgrades to SA's sovereign credit rating where slightly larger liquidity buffers have been held during the months leading up to June 2017.
    - Nedbank will procure additional HQLAs to support balance sheet growth and the LCR phase-in, while continuing to maintain 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, which amounted to R45,4bn at June 2017, collectively represented 19,7% of total assets.

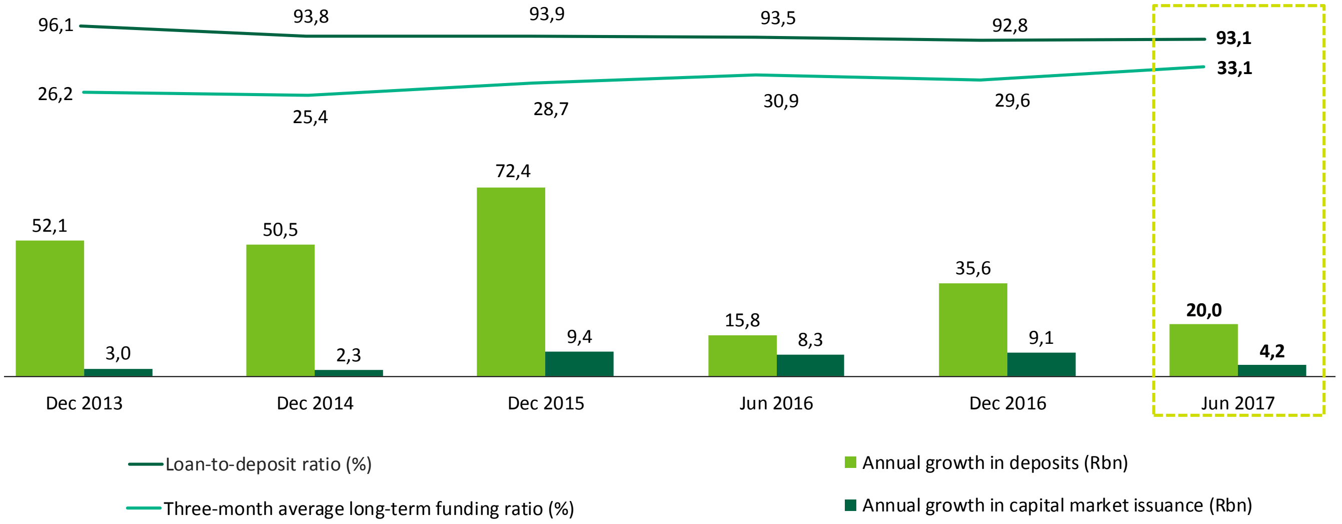
Nedbank Group significant sources of quick liquidity



- A strong funding profile has been maintained in the first half of 2017, with Nedbank recording a three-month average long-term funding ratio of 33,1% in the second quarter of 2017 (quarterly average December 2016: 29,6%), in line with its strategy of strengthening the liquidity risk profile and pre-positioning for a timeous transition to end state Basel III compliance.
  - Nedbank Retail Savings Bonds growth of R3,1bn 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 R22,3bn.
  - In addition, Nedbank successfully issued R3,5bn in senior unsecured debt in the first half of 2017, while R2,2bn matured during the first half of the year.
  - Nedbank issued new-style additional tier 1 capital instruments of R0,6bn in the first half of the year and R2,5bn in new-style tier 2 capital instruments, in line with the group's capital plan.
- Nedbank's reliance on foreign currency funding as a percentage of total deposits remained small at 3,9% (December 2016: 4,5%). 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.

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

Nedbank Group funding and liquidity profile, underpinned by competitive capital markets issuance



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 on the next page 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 June 2017 for Nedbank Limited and the simple average of the month-end values at 30 April 2017, 31 May 2017 and 30 June 2017 for all non-SA banking entities.

LIQ1: NEDBANK GROUP AND NEDBANK LIMITED LIQUIDITY COVERAGE RATIO

		Nedbank Group Limited		Nedbank Limited	
	June 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**		144 568		140 076
	Cash outflows				
2	**Retail deposits and deposits from small-business clients, of which**	180 732	17 911	164 224	16 424
3	Stable deposits	3 227	161		
4	Less stable deposits	177 505	17 750	164 224	16 424
5	**Unsecured wholesale funding, of which**	246 302	128 187	213 814	112 739
6	Operational deposits (all counterparties) and deposits in institutional networks of cooperative banks	118 850	34 169	99 917	28 726
7	Non-operational deposits (all counterparties)	127 148	93 714	113 593	83 709
8	Unsecured debt	304	304	304	304
9	**Secured wholesale funding**	25 583	32	25 529	32
10	**Additional requirements, of which**	86 456	12 278	77 103	10 480
11	Outflows related to derivative exposures and other collateral requirements	795	795	760	760
12	Outflows related to loss of funding on debt products	64	64	64	64
13	Credit and liquidity facilities	85 597	11 419	76 279	9 656
14	**Other contractual funding obligations**				
15	**Other contingent funding obligations**	188 258	9 468	177 853	8 954
16	**Total cash outflows**	727 331	167 876	658 523	148 629
	Cash inflows				
17	**Secured lending**	9 731	125	9 731	125
18	**Inflows from fully performing exposures**	40 419	26 397	25 641	13 751
19	**Other cash inflows**	7 625	7 571	3 103	3 103
20	**Total cash inflows**	57 775	34 093	38 475	16 979
21	**Total HQLA**		144 568		140 076
22	**Total NCOF[3]**		138 260		131 650
23	**LCR (%)**		104,6		106,4

[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 tables below depict the contractual and BaU liquidity mismatches in respect of Nedbank Limited, and highlight the split of total deposits into 'stable' and 'more volatile'.

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**
June 2017									
Contractual maturity of assets	84 755	36 472	46 702	22 246	20 656	49 230	87 239	520 283	867 583
Loans and advances	42 670	18 199	34 984	13 354	10 400	29 019	53 161	416 577	618 364
Trading, hedging and other investment instruments	11 639	18 273	11 718	8 892	10 256	20 211	34 078	73 201	188 268
Other assets	30 446							30 505	60 951
Contractual maturity of liabilities	351 012	19 215	33 295	63 091	38 516	53 632	87 506	221 316	867 583
Stable deposits	334 225	13 650	25 898	36 231	20 570	32 649	64 437	84 080	611 740
Volatile deposits	14 897	377	1 535	1 382	2 597	1 235	5 558	3 578	31 159
Trading and hedging instruments	1 890	5 188	5 862	25 478	15 349	19 748	17 511	53 974	145 000
Other liabilities								79 684	79 684
Net liquidity gap – June 2017	(266 257)	17 257	13 407	(40 845)	(17 860)	(4 402)	(267)	298 967	–
Net liquidity gap – June 2016	(228 322)	3 184	6 625	(59 842)	(3 013)	(4 641)	(25 641)	311 650	–
Net liquidity gap – December 2016	(223 965)	(7 382)	1 515	(57 413)	(10 078)	(25 765)	9 127	313 961	–

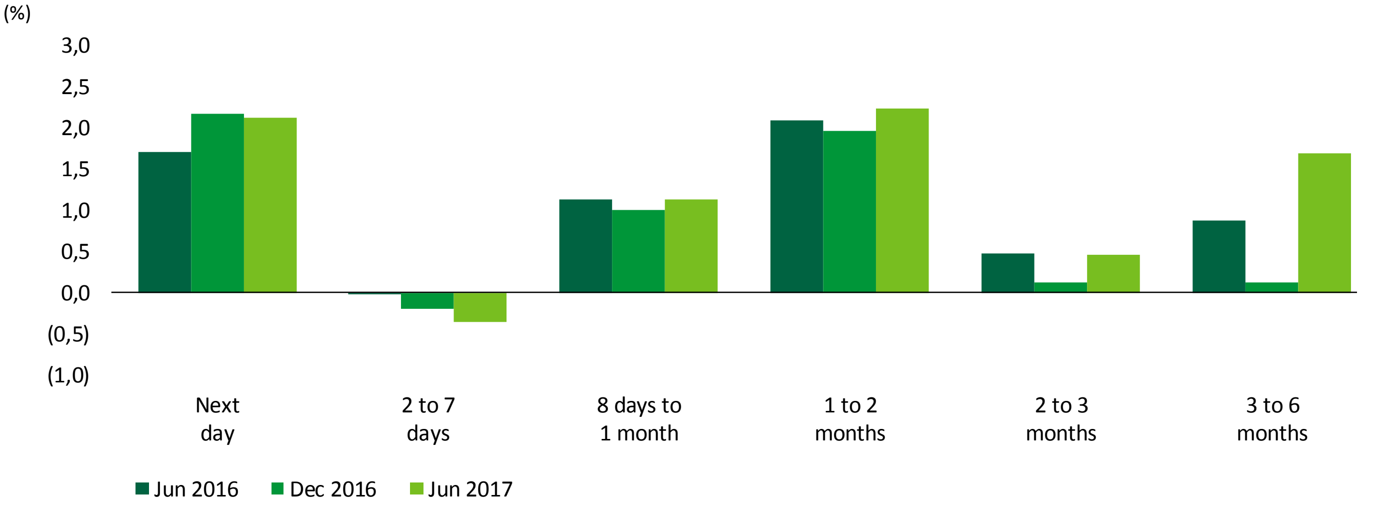
The BaU liquidity gap of Nedbank Limited is presented below. The table shows the expected liquidity mismatch under normal market conditions after taking into account the behavioural attributes of stable deposits, savings and investment products and rollover assumptions associated with term deals, but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

NEDBANK LIMITED BUSINESS-AS-USUAL 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
June 2017									
BaU maturity of assets	**20 308**	**4 588**	**32 569**	**34 836**	**23 780**	**48 018**	**88 600**	**614 884**	**867 583**
Loans and advances	**19 920**	**2 927**	**27 506**	**17 518**	**15 988**	**42 524**	**82 291**	**409 690**	**618 364**
Trading, hedging and other investment instruments	**388**	**1 661**	**5 063**	**17 318**	**7 792**	**5 494**	**6 309**	**144 243**	**188 268**
Other assets								**60 951**	**60 951**
BaU maturity of liabilities	**1 899**	**7 654**	**22 763**	**15 378**	**19 779**	**33 276**	**72 144**	**694 690**	**867 583**
Stable deposits	**188**	**3 119**	**5 873**	**8 977**	**14 408**	**26 391**	**52 103**	**500 681**	**611 740**
Volatile deposits	**1 042**	**3 343**	**13 395**	**1 579**	**2 597**	**1 234**	**5 557**	**2 412**	**31 159**
Trading and hedging instruments	**669**	**1 192**	**3 495**	**4 822**	**2 774**	**5 651**	**14 484**	**111 913**	**145 000**
Other liabilities								**79 684**	**79 684**
Net liquidity gap – June 2017	**18 409**	**(3 066)**	**9 806**	**19 458**	**4 001**	**14 742**	**16 456**	**(79 806)**	**–**
Net liquidity gap – June 2016	14 343	(155)	9 541	17 567	4 002	7 423	(8 418)	(44 303)	–
Net liquidity gap – December 2016	18 908	(1 734)	8 740	17 140	1 108	1 123	13 231	(58 516)	–

As illustrated below, Nedbank Limited's 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]



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[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. 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 in both transactions 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') is a hybrid multiseller ABCP programme that invests in longer-term-rated asset-backed securities and bonds and offers capital market funding opportunities to SA corporates. These assets are funded through the issuance of short-dated commercial paper to institutional investors. On 8 December 2016 the directors and shareholder of Synthesis resolved, subject to the relevant regulatory approvals, to unwind the commercial paper programme following the disposal by the company of all its assets ('the unwind disposal'). The assets purchased or funded by Synthesis are evaluated as part of the group’s credit approval processes applicable to any other corporate or securitisation exposure held by the group. The exposures to Synthesis that Nedbank assumes, primarily in the form of undrawn liquidity facilities, are measured, from both a regulatory and economic capital point of view, using the Supervisory Formula Approach under the IRB Approach for securitisation exposures, thereby ensuring alignment with the methodology adopted across the wider Nedbank Group. The regulatory capital is, however, 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 primary risk assumed by Nedbank through the provision of liquidity facilities to Synthesis is liquidity risk. The liquidity risk associated with these liquidity facilities is included in the stress testing for Nedbank and is managed in accordance with Nedbank’s overall liquidity position.

ASSETS SECURITISED AND RETAINED SECURITISATION EXPOSURE

	Year initiated	Rating agency	Transaction type	Asset type	Assets securitised[1]			Assets outstanding		
Rm					**Jun 2017**	Jun 2016	Dec 2016	**Jun 2017**	Jun 2016	Dec 2016
Greenhouse I	2007	Moody’s	Traditional securitisation	Home loans	**2 049**	2 049	2 049	**1 051**	1 249	1 123
Precinct 1	2013	Moody’s	Traditional securitisation	Commercial-property loans	**2 344**	2 344	2 344	**706**	1 113	982
Greenhouse III	2014	Moody’s	Traditional securitisation	Home loans	**2 052**	2 052	2 052	**1 610**	1 818	1 708
Precinct 2	2017	Moody’s	Traditional securitisation	Commercial-property loans	**1 111**			**1 027**		

	Year initiated	Rating agency	Transaction type	Asset type	Amount retained/ purchased			Risk-weighted assets[2]		
Rm					**Jun 2017**	Jun 2016	Dec 2016	**Jun 2017**	Jun 2016	Dec 2016
Greenhouse I	2007	Moody’s	Traditional securitisation	Home loans	**373**	377	373	**273**	282	286
Precinct 1	2013	Moody’s	Traditional securitisation	Commercial-property loans	**454**	522	489	**198**	327	301
Greenhouse III	2014	Moody’s	Traditional securitisation	Home loans	**291**	293	291	**356**	439	367
Precinct 2	2017	Moody’s	Traditional securitisation	Commercial-property loans	**384**			**322**		

[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	Asset type	Programme size	Face value of notes outstanding			Liquidity facilities			Risk-weighted assets[1]		
Rm						**Jun 2017**	Jun 2016	Dec 2016	**Jun 2017**	Jun 2016	Dec 2016	**Jun 2017**	Jun 2016	Dec 2016
Synthesis	2004	Unrated[2]	ABCP programme	Corporate term loans	15 000	**203**	2 102	675	**203**	2 104	675	**15**	446	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.*

[2] *In June 2017 Nedbank requested that Global Credit Ratings Co (GCR) withdraw the short-term rating of ‘A1+$_{(ZA)(sf)}$’ accorded to the notes issued by Synthesis. This withdrawal follows the decision to wind down the ABCP programme.*

The decline from R675m to R203m in liquidity facilities provided to Synthesis was due to asset sales and redemptions in accordance with the unwind disposal.

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 I	✓		✓	✓		✓	✓
Greenhouse III	✓		✓	✓		✓	✓
Synthesis		✓	✓		✓	✓	✓
Precinct 2	✓		✓	✓		✓	✓
Torque Securitisation			✓				
The South African Securitisation Programme			✓				

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.

Nedbank Group also fulfils a number of secondary roles as liquidity facility provider, hedge counterparty and investor to third-party securitisation transactions.

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 is 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 the SARB. The processes do not differ from the liquidity facilities provided to Synthesis.

Nedbank Group does not employ credit risk mitigation 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			
		Group acts as originator	Group acts as sponsor	Group acts as investor	Total
June 2017					
1	Retail of which	**664**		**16**	**680**
2	residential mortgages	**664**			**664**
4	other retail exposures			**16**	**16**
5	resecuritisation				
6	Wholesale of which	**838**	**203**	**45**	**1 086**
7	loans to corporates		**203**		**203**
8	commercial mortgages	**838**			**838**
9	leases and receivables			**45**	**45**
11	resecuritisation				
Total		**1 502**	**203**	**61**	**1 766**

		Traditional securitisation			
		Group acts as originator	Group acts as sponsor	Group acts as investor	Total
June 2016					
1	Retail of which	670	726		1 396
2	residential mortgages	670			670
5	resecuritisation		726		726
6	Wholesale of which	522	1 378	355	2 255
7	loans to corporates		1 302		1 302
8	commercial mortgages	522			522
9	leases and receivables			355	355
11	resecuritisation		76		76
Total		1 192	2 104	355	3 651
December 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 R1 766m was driven by the decline in liquidity facilities provided to Synthesis. This was however negated by the introduction of Precinct 2 and the exposure that Nedbank retains. Exposures to the value of R61m, that were previously held within Synthesis were sold to Nedbank CIB.

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	
		< 20%	> 20% to 50%	> 50% to 100%	> 100% to < 1 250%	IRB SFA	SA/SSFA	IRB SFA	SA/SSFA	IRB SFA	SA/SSFA
June 2017											
1	**Total exposures**	**203**	**454**	**757**	**291**	**1 705**		**1 164**		**125**	
3	Securitisation of which	**203**	**454**	**757**	**291**	**1 705**		**1 164**		**125**	
4	retail underlying			**373**	**291**	**664**		**629**		**68**	
5	wholesale	**203**	**454**	**384**		**1 041**		**535**		**57**	
6	Resecuritisation of which										
7	senior										
8	non-senior										
June 2016											
1	**Total exposures**	2 104		899	293	3 296		1 494		153	
3	Securitisation of which	1 302		899	293	2 494		1 090		112	
4	retail underlying			377	293	670		721		74	
5	wholesale	1 302		522		1 824		369		38	
6	Resecuritisation of which	802				802		404		41	
7	senior	802				802		404		41	
8	non-senior										
December 2016											
1	**Total exposures**	675		862	291	1 828		1 097		114	
3	Securitisation of which	202		862	291	1 355		965		100	
4	retail underlying			373	291	664		653		68	
5	wholesale	202		489		691		312		32	
6	Resecuritisation of which	473				473		132		14	
7	senior	473				473		132		14	
8	non-senior										

There were no synthetic securitisations (rows 9 to 15) and no exposures in the 1 250% risk weight band at 30 June 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	
	≤ 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
June 2017									
1 Total exposures		**61**		**61**		**39**		**4**	
3 Of which securitisation		**61**		**61**		**39**		**4**	
4 Of which retail underlying		**16**		**16**		**10**		**1**	
5 Of which wholesale		**45**		**45**		**29**		**3**	
6 Of which re-securitisation									
7 Of which senior									
8 Of which non-senior									
June 2016									
1 Total exposures	33	311	11	322	33	229	2	24	0,25
3 Of which securitisation	33	311	11	322	33	229	2	24	0,25
4 Of which retail underlying									
5 Of which wholesale	33	311	11	322	33	229	2	24	0,25
6 Of which re-securitisation									
7 Of which senior									
8 Of which non-senior									

There were no synthetic securitisations (rows 9 – 15) and no exposures in the > 20% to 50% and 1 250% risk-weight bands as at 30 June 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 (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.

This is evident when reflecting on the group's balance sheet repricing profile before hedging (illustrated from page 86). The balance sheet is clearly asset-sensitive as assets reprice quicker than liabilities due to the extent of prime-linked advances, followed by a repricing of term deposits as they mature out to one year and fixed-rate advances as they mature after that. A net non-rate-sensitive credit balance sheet position remains, which comprises equity, non-repricing transactional deposits, debtors, fixed assets and creditors.

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, in order 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 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, policies and portfolio review

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 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.

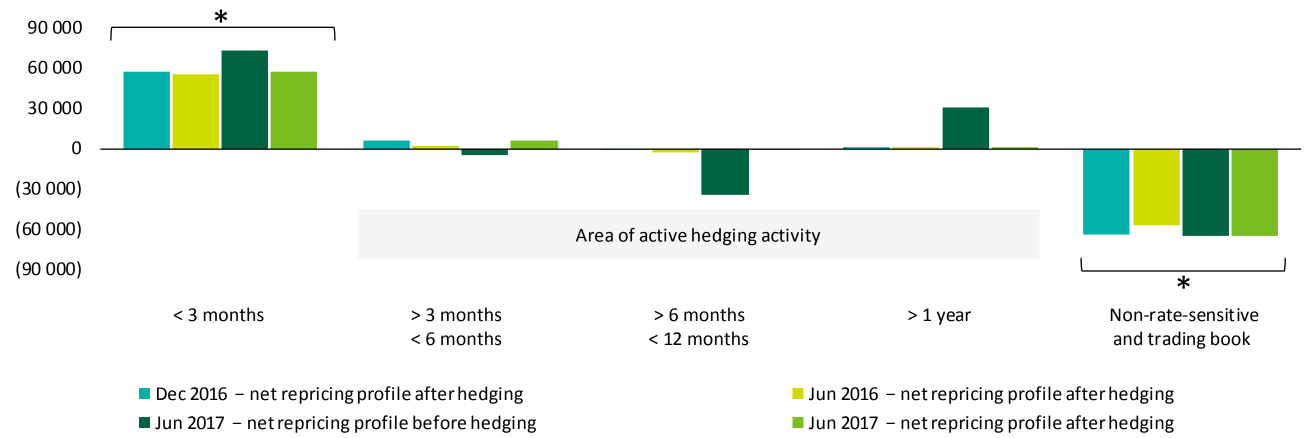
Assets, liabilities and derivative instruments are modelled and reported based on their contractual repricing or maturity characteristics. Where advances are exposed to prepayments and deposits to ambiguous repricing, Group Alco approves the use of prepayment models for the hedging of fixed-rate advances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

Nedbank Limited's interest rate repricing profile graphically represents the repricing of floating-rate assets and liabilities and maturity of fixed-rate assets and liabilities through a repricing time series. The net repricing profile before hedging clearly highlights the asset sensitivity of the bank's balance sheet. The net repricing profile after hedging highlights the impact of hedging that better aligns the repricing of assets and liabilities across the curve, with the residual risk largely transferred into the three-month repricing area – clearly depicted graphically before and after hedging.

NEDBANK LIMITED INTEREST RATE REPRICING GAP

Rm	< 3 months	> 3 months < 6 months	> 6 months < 12 months	> 1 year	Non-rate-sensitive and trading book
June 2017					
Net repricing profile before hedging	**73 804**	**(5 035)**	**(34 180)**	**30 512**	**(65 101)**
Net repricing profile after hedging	**57 415**	**6 644**	**(707)**	**1 749**	**(65 101)**
Cumulative repricing profile after hedging	**57 415**	**64 059**	**63 352**	**65 101**	**–**
June 2016					
Net repricing profile before hedging	63 972	(8 644)	(30 285)	31 486	(56 529)
Net repricing profile after hedging	55 780	2 635	(2 962)	1 076	(56 529)
Cumulative repricing profile after hedging	55 780	58 415	55 453	56 529	–
December 2016					
Net repricing profile before hedging	69 369	(19 247)	(16 452)	30 331	(64 001)
Net repricing profile after hedging	57 364	6 039	(485)	1 083	(64 001)
Cumulative repricing profile after hedging	57 364	63 403	62 918	64 001	–

Nedbank Limited interest rate repricing profile



** Non-rate-sensitive capital, working capital and transactional deposit accounts expose the balance sheet to sensitivity as the rest of the balance sheet is positioned to be repriced in < 3 months.*

The net repricing profile before hedging clearly highlights the following:

- Asset sensitivity in the < 3-month repricing bucket, largely as a result of prime-linked advances.
- Liability sensitivity in the > 3-month to < 12-month repricing buckets, largely as a result of fixed-rate term funding, offset to some extent with fixed-rate treasury bills accumulated as part of the prudential and LCR requirements.
- Asset sensitivity in the > 1-year repricing bucket, as a result of longer-dated fixed-rate advances and government securities, partially offset by fixed-rate deposits and debt raised beyond one year.

The net repricing profile after hedging highlights the impact of hedging strategies that better aligns the repricing of assets and liabilities across the curve. The residual risk position consists of a net endowment position, and short-term reprice risk between prime and JIBAR resets after hedging.

SENSITIVITY ANALYSIS

At June 2017 the NII sensitivity of the group's banking book for a 1% parallel reduction in interest rates measured over 12 months is 1,74% of total group ordinary shareholders' equity (OSE) (December 2016: 1,81%), which is within the board's approved risk limit of < 2,25%.

This exposes the group to a decrease in NII of approximately R1 357m before tax, should interest rates change by 1%, measured over a 12-month period.

- The interest rate cut of 25 bps announced by the Governor on 20 July 2017 will adversely impact NII by approximately R140m during the second half of 2017.
- 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%.

Nedbank Limited's EVE, measured for a 1% parallel decrease in interest rates, remains at a low level of -R26m at June 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			Other group companies			Nedbank Group		
Rm	Note	**Jun 2017**	Jun 2016	Dec 2016	**Jun 2017**	Jun 2016	Dec 2016	**Jun 2017**	Jun 2016	Dec 2016
NII sensitivity	1									
1% instantaneous decline in interest rates		**(1 076)**	(994)	(1 076)	**(281)**	(265)	(291)	**(1 357)**	(1 259)	(1 367)
2% instantaneous decline in interest rates		**(2 149)**	(1 943)	(2 128)	**(538)**	(519)	(565)	**(2 687)**	(2 462)	(2 693)
Basis interest rate risk sensitivity	2									
0,25% narrowing of prime/call differential		**(272)**	(298)	(218)	**(12)**	(15)	(9)	**(284)**	(313)	(227)
EVE sensitivity	3									
1% instantaneous decline in interest rates		**(26)**	(33)	(13)	**n/a**	n/a	n/a	**n/a**	n/a	n/a
2% instantaneous decline in interest rates		**(54)**	(63)	(28)	**n/a**	n/a	n/a	**n/a**	n/a	n/a
NII sensitivity										
Instantaneous stress shock modelled as a ramp[1]	4	**(4 667)**	(4 259)	(4 901)	**n/a**	n/a	n/a	**n/a**	n/a	n/a

[1] *Stressed interest rate changes.*

n/a: not modelled.

Notes

1. ***NII sensitivity**, as currently modelled, exhibits very little convexity. In certain cases the comparative figures have been estimated assuming a linear risk relationship to the interest rate movements.*
2. ***Basis interest rate risk sensitivity** is quantified using a narrowing in the prime/call interest rate differential of 0,25% and is an indication of the sensitivity of the margin to a squeeze in short-term interest rates.*
3. ***EVE sensitivity** is calculated as the net present value of asset cashflows less the net present value of liability cashflows.*
4. *The **instantaneous stress shock** modelled as a ramp uses the same interest rate shock as the instantaneous stress shock described above, but the rate shock is phased in over an eight-month period.*

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 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, 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**
June 2017				
Government and other securities[2]	**34 151**	**10 867**	**270**	**23 014**
Other short-term securities[3]	**58 922**	**30 006**		**28 916**
Total	**93 073**	**40 873**	**270**	**51 930**
June 2016				
Government and other securities[2]	40 377	21 045	270	19 062
Other short-term securities[3]	56 046	19 122		36 924
Total	96 423	40 167	270	55 986
December 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.

June 2017 **Government and other short-term securities**	**Notional Rm**	**PV01[1] no risk management Rm**	**PV01[1] with risk management Rm**
Designated fair value through profit or loss and AFS	**41 143**	**(4,70)**	**(0,56)**
Risk-managed with derivatives	**41 143**	**(4,70)**	**(0,56)**
Held-to-maturity investments	**51 930**	**(11,30)**	**0,27**
Risk-managed with long-term debt instruments with similar designation	**16 962**	**(7,52)**	**0,25**
Risk-managed with fixed-rate term funding	**34 968**	**(3,78)**	**0,02**
Total	**93 073**	**(16,00)**	**(0,29)**
Risk management effectiveness			**98,2%**

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

The interest rate risk sensitivity has been reduced by 98,2% 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
June 2017			
1 RWA at March 2017	**4 610**	**7 794**	**12 404**
2 Movement in risk levels	**464**	**351**	**815**
6 Foreign exchange movements	**183**	**(34)**	**149**
8 RWA at June 2017	**5 257**	**8 111**	**13 368**

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

	Foreign exchange	Interest rate	Credit	Commodity	Diversification[2]	Total VaR
June 2017						
VaR (10-day 99%)[3]						
1 Maximum value[4]	**124,7**	**137,2**	**38,6**	**1,8**		**179,4**
2 Average value	**58,4**	**66,8**	**28,7**	**< 1**	**(37,5)**	**116,6**
3 Minimum value[4]	**21,2**	**32,8**	**23,9**	**< 1**		**63,0**
4 Period end	**36,7**	**88,3**	**26,8**	**< 1**	**(19,7)**	**132,1**
Stressed VaR (10-day 99%)[3]						
5 Maximum value[4]	**159,8**	**183,4**	**128,2**	**2,8**		**287,9**
6 Average value	**75,3**	**116,8**	**81,5**	**< 1**	**(86,8)**	**187,1**
7 Minimum value[4]	**23,3**	**87,4**	**44,4**	**< 1**		**134,8**
8 Period end	**44,4**	**138,0**	**107,4**	**< 1**	**(87,6)**	**202,5**
June 2016						
VaR (10-day 99%)[3]						
1 Maximum value[4]	86,9	106,0	34,4	8,4		164,5
2 Average value	62,1	62,9	27,5	2,0	(37,7)	116,8
3 Minimum value[4]	36,3	33,3	23,0	< 1		72,5
4 Period end	84,1	72,6	27,2	< 1	(31,9)	152,2
Stressed VaR (10-day 99%)[3]						
5 Maximum value[4]	115,4	155,7	81,9	5,6		280,9
6 Average value	81,1	113,8	44,3	1,1	(53,9)	186,5
7 Minimum value[4]	42,0	87,8	27,1	< 1		118,7
8 Period end	111,7	127,7	78,5	< 1	(69,2)	249,0
December 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.*

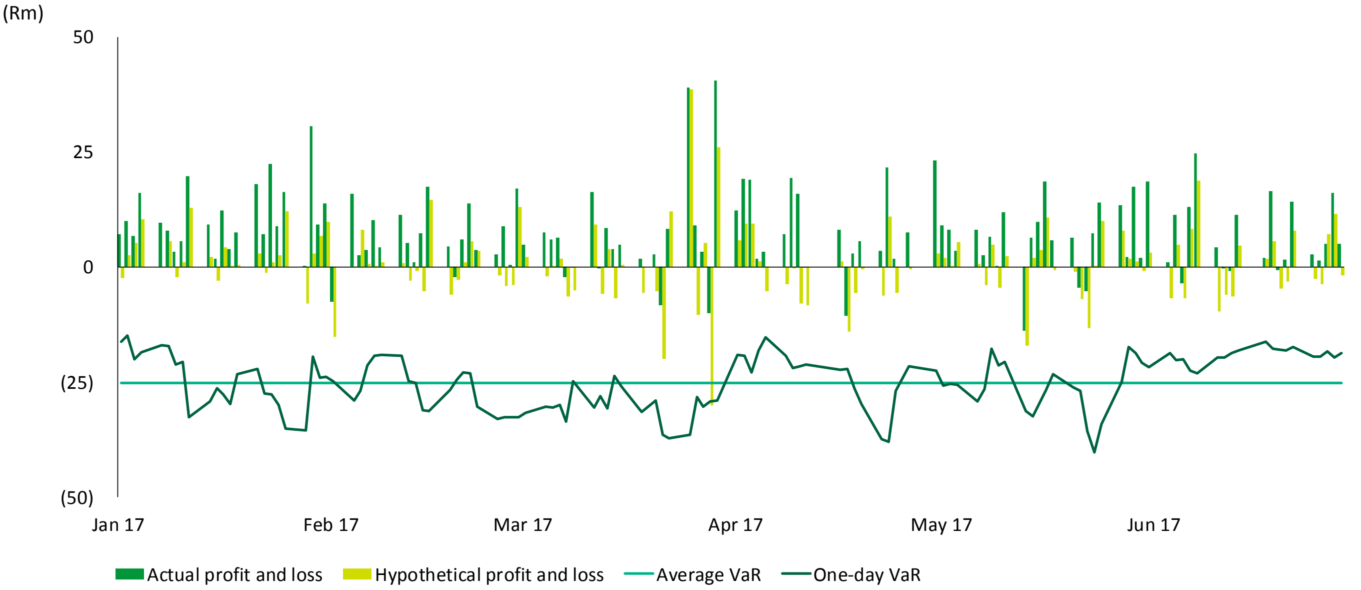
[2] *Diversification benefit is the difference between the aggregate VaR and the sum of VaRs for the four risk types. This benefit arises because the simulated 99% one-day loss for each of the four primary market risk types occurs on different days.*

[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 six-month period ended June 2017.

VaR remained fairly range-bound during the course of 2017 and was around 1% lower than 2016. The period was categorised by greater volatility and uncertainty. Geopolitical risks remain at a premium and economic growth forecasts for SA have been reduced to below 1% for 2017.

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 3,3% 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 backtesting exception in the period under reviews 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.

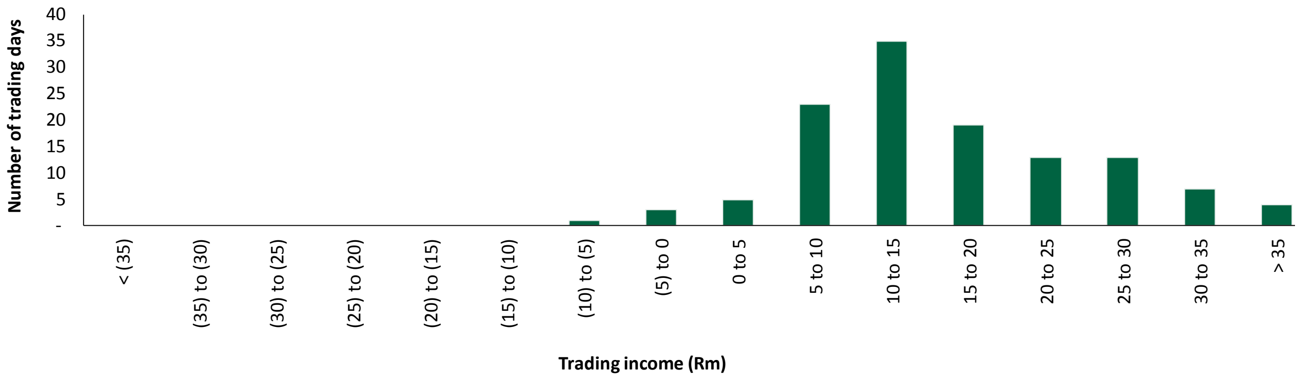
Analysis of trading revenue

The first six months of 2017 were 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 being realised on 119 days out of a total of 123 days in the period.

The average daily trading revenue generated for the period, excluding revenue related to investment banking, was R16,4m (December 2016: R11,5m).

Nedbank Group analysis of trading revenue for the six-months ended June 2017



Stress testing results

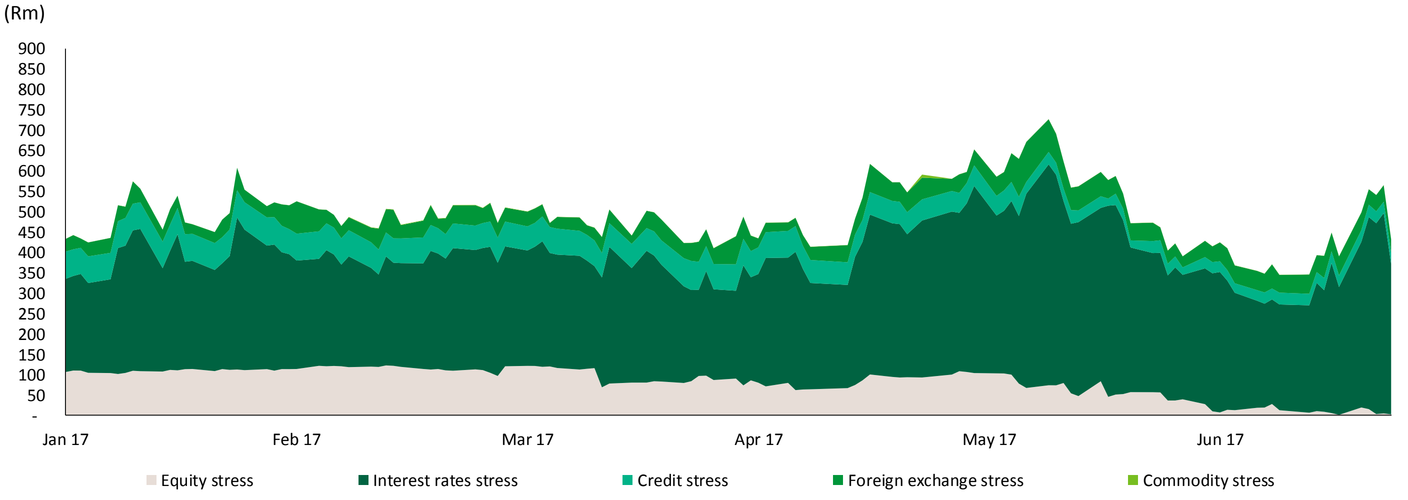
The table below summarises the daily stress testing results for June 2017, June 2016 and December 2016, which represent a set of extreme market movements as applied to the trading activities.

NEDBANK GROUP RISK EXPOSURES PER RISK FACTOR

	Average	High[1]	Low[1]	End of period
June 2017				
Foreign exchange stress	**42**	**98**	**10**	**33**
Interest rate stress	**317**	**542**	**211**	**369**
Equity stress	**83**	**123**	**2**	**3**
Credit spread stress	**52**	**71**	**17**	**27**
Commodity stress	**1**	**8**	**< 1**	**1**
Overall	**495**	**727**	**345**	**433**
June 2016				
Foreign exchange stress	82	137	15	27
Interest rate stress	228	386	97	136
Equity stress	160	312	44	193
Credit spread stress	28	47	14	24
Commodity stress	27	55	< 1	< 1
Overall	525	776	310	380
December 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 six-months ended June 2017



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 30 June 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
June 2017			
Foreign exchange	**5,6**	**8,1**	**6,2**
Interest rates	**22,3**	**51,8**	**25,0**
Equities	**1,3**	**5,7**	**2,3**
Credit	**6,9**	**15,9**	**10,8**
Commodities	**< 0,1**	**< 0,1**	**< 0,1**
Diversification	**(15,9)**	**(21,3)**	**(22,1)**
Total VaR exposure	**20,3**	**60,2**	**22,3**
June 2016			
Foreign exchange	3,0	5,0	3,7
Interest rates	9,4	29,5	12,3
Equities	5,3	25,6	6,8
Credit	6,6	16,8	8,8
Commodities	0,1	0,1	0,1
Diversification	(10,7)	(39,2)	(13,3)
Total VaR exposure	13,7	37,8	18,4
December 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

FCT 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

	Jun 2017			Jun 2016			Dec 2016		
$m (US dollar equivalent)	**Forex-sensitive**	**Non-forex-sensitive**	**Total**	Forex-sensitive	Non-forex-sensitive	Total	Forex-sensitive	Non-forex-sensitive	Total
US dollar	**436**		**436**	543		543	497		497
Pound sterling	**161**		**161**	141		141	138		138
Malawi kwacha	**5**		**5**	5		5	5		5
Mozambican metical	**44**		**44**	19		19	37		37
Other		**511**	**511**		530	530		563	563
Total	**646**	**511**	**1 157**	708	530	1 238	677	563	1 240
Limit	**1 100**			1 100			1 100		

Foreign-denominated equity in subsidiaries and associates has decreased by 8,8% to US$646m in June 2017 (June 2016: US$708m), primarily due to a decrease in the value of the investment made in ETI as a result of Nedbank's share of ETI associate losses and FCT losses over the period.

The total RWA for the group's foreign entities is R40bn, which is low at approximately 7,8% of total RWA.

Equity risk in the banking book

		Jun 2017	Jun 2016	Dec 2016
Total equity portfolio	(Rm)	**9 757**	11 168	10 166
Disclosed at fair value	(Rm)	**6 434**	4 641	5 956
Equity-accounted	(Rm)	**3 323**	6 527	4 210
Percentage of total assets	(%)	**1,0**	1,2	1,1
Percentage of group minimum economic-capital requirement	(%)	**4,2**	5,2	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 investments, 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 323m (June 2016: R6 527m). During the prior reporting period Nedbank acquired control of Banco Único and accordingly this previously equity-accounted investment has been consolidated from 3 October 2016.

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 credit risk mitigation 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 over-the-counter (OTC) derivative counterparties.

The decrease in the replacement cost of interest rate swap and foreign exchange derivative products since June 2016 was driven by the valuation of these products, attributable to the relative strengthening of the rand against major currencies and a slight flattening of the yield curves.

CCR1: ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

Rm		Replacement cost	Potential future exposure	EAD post-CRM	Risk-weighted assets[1]
June 2017					
1	CEM CCR (for derivatives)	**7 281**	**6 456**	**12 328**	**5 467**
4	Comprehensive Approach for credit risk mitigation (for SFT)			**1 875**	**549**
6	**Total**	**7 281**	**6 456**	**14 203**	**6 016**
June 2016					
1	CEM CCR (for derivatives)	8 691	6 722	11 649	4 258
4	Comprehensive Approach for credit risk mitigation (for SFT)			1 388	281
6	**Total**	8 691	6 722	13 037	4 539
December 2016					
1	CEM CCR (for derivatives)	8 345	5 827	12 038	4 748
4	Comprehensive Approach for credit risk mitigation (for SFT)			1 560	320
6	**Total**	8 345	5 827	13 598	5 068

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

Rows two, three and five are excluded from the CCR1 disclosure as the Internal Model Method [for derivatives and securities financing transactions (SFT)], the Simple Approach for credit risk mitigation (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 R11,5bn in June 2017, largely as a result of new-client hedging activities, in part related to Nedbank's participation in renewable-energy funding.

CCR2: CREDIT VALUATION ADJUSTMENT CAPITAL CHARGE

		Jun 2017		Jun 2016		Dec 2016	
Rm		EAD post-CRM	Risk-weighted assets	EAD post-CRM	Risk-weighted assets	EAD post-CRM	Risk-weighted assets
3	All portfolios subject to the Standardised CVA capital charge	**12 328**	**11 514**	11 649	8 912	12 038	10 608
4	**Total subject to the CVA capital charge**	**12 328**	**11 514**	11 649	8 912	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, Nedbank Private Wealth (UK) operations are covered by TSA.

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

Regulatory portfolio Rm	Risk weights				
June 2017	**0%**	**20%**	**50%**	**100%**	**Total credit exposure**
Banks	**9**		**5**		**14**
Corporates				**11**	**11**
Regulatory retail portfolios				**13**	**13**
Total	**9**		**5**	**24**	**38**
December 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 10%, 75% and 150% risk weight buckets at 30 June 2017.

There were no exposures to sovereigns, non-central government public sector entities, multilateral development banks, securities firms and other assets at 30 June 2017.

SA, as a member of the G20, has committed itself to 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, Bank and Sovereign).

CCR4: AIRB – CCR EXPOSURES BY PORTFOLIO AND PD SCALE

PD scale	EAD post-CRM Rm	Average PD %	Number of obligors	Average LGD %	Average maturity Years	RWA Rm	RWA density %
June 2017							
Corporate							
0,00 to < 0,15	**1 409**	**0,07**	**162**	**33,29**	**2,22**	**251**	**17,81**
0,15 to < 0,25	**898**	**0,19**	**100**	**24,53**	**4,13**	**280**	**31,18**
0,25 to < 0,50	**828**	**0,36**	**168**	**22,77**	**3,37**	**262**	**31,64**
0,50 to < 0,75	**226**	**0,64**	**120**	**33,06**	**2,79**	**139**	**61,50**
0,75 to < 2,50	**2 248**	**1,33**	**344**	**24,90**	**2,53**	**1 288**	**57,30**
2,50 to < 10,00	**835**	**6,65**	**399**	**35,38**	**2,70**	**1 134**	**135,81**
10,00 to < 100,0	**98**	**11,04**	**15**	**17,57**	**3,86**	**87**	**88,78**
100,0 (default)	**3**	**100,00**	**4**	**22,50**	**1,00**	**9**	**300,00**
	6 545	**1,62**	**1 312**	**27,90**	**2,84**	**3 450**	**52,71**
Sovereign[1]							
0,00 to < 0,15	**70**	**0,04**	**5**	**19,13**	**3,42**	**8**	**11,43**
0,15 to < 0,25	**1 362**	**0,17**	**6**	**23,17**	**4,29**	**413**	**30,32**
0,25 to < 0,50							
0,50 to < 0,75							
0,75 to < 2,50	**712**	**0,91**	**6**	**24,35**	**3,58**	**420**	**58,99**
2,50 to < 10,00	**3**	**3,62**	**1**	**49,40**	**1,00**	**4**	**133,33**
10,00 to < 100,0							
100,0 (default)							
	2 147	**0,42**	**18**	**23,46**	**4,02**	**845**	**39,36**
Banks							
0,00 to < 0,15	**3 343**	**0,09**	**75**	**29,28**	**1,52**	**557**	**16,66**
0,15 to < 0,25	**951**	**0,17**	**14**	**21,73**	**1,24**	**195**	**20,50**
0,25 to < 0,50	**371**	**0,33**	**11**	**34,53**	**1,75**	**191**	**51,48**
0,50 to < 0,75	**102**	**0,64**	**3**	**42,72**	**1,39**	**86**	**84,31**
0,75 to < 2,50	**686**	**0,92**	**10**	**42,76**	**1,26**	**653**	**95,19**
2,50 to < 10,00	**3**	**3,62**	**4**	**56,87**	**1,00**	**4**	**133,33**
10,00 to < 100,0		**10,24**	**2**	**62,34**	**1,00**		
100,0 (default)		**100,00**	**2**	**100,00**	**1,00**	**2**	
	5 456	**0,24**	**121**	**30,28**	**1,45**	**1 688**	**30,94**

PD scale	EAD post-CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
	Rm	%		%	Years	Rm	%
Group							
0,00 to < 0,15	**4 822**	**0,08**	**242**	**30,30**	**1,75**	**816**	**16,92**
0,15 to < 0,25	**3 211**	**0,18**	**120**	**23,12**	**3,34**	**888**	**27,65**
0,25 to < 0,50	**1 199**	**0,35**	**179**	**26,41**	**2,87**	**453**	**37,78**
0,50 to < 0,75	**328**	**0,64**	**123**	**36,07**	**2,36**	**225**	**68,60**
0,75 to < 2,50	**3 646**	**1,17**	**360**	**28,15**	**2,50**	**2 361**	**64,76**
2,50 to < 10,00	**841**	**6,63**	**404**	**35,50**	**2,69**	**1 142**	**135,79**
10,00 to < 100,0	**98**	**11,04**	**17**	**17,61**	**3,86**	**87**	**88,78**
100,0 (default)	**3**	**100,00**	**6**	**27,20**	**1,00**	**11**	**366,67**
Total group	**14 148**	**0,91**	**1 451**	**28,14**	**2,48**	**5 983**	**42,29**
June 2016							
Corporate							
0,00 to < 0,15	1 285	0,07	148	34,10	1,79	217	16,89
0,15 to < 0,25	1 048	0,21	112	31,14	3,12	367	35,02
0,25 to < 0,50	861	0,35	169	25,18	3,47	315	36,59
0,50 to < 0,75	437	0,64	115	30,35	1,82	195	44,62
0,75 to < 2,50	1 776	1,11	387	19,62	2,59	748	42,12
2,50 to < 10,00	595	6,53	420	34,76	2,41	771	129,58
10,00 to < 100,0	36	13,65	15	22,48	4,03	40	111,11
100,0 (default)	4	100,00	5	11,44	1,01	6	150,00
	6 042	1,27	1 371	27,77	2,57	2 659	44,01
Sovereign[1]							
0,00 to < 0,15	1 386	0,10	12	17,50	3,41	216	15,58
0,15 to < 0,25	1	0,16	2	35,06	2,43		
0,25 to < 0,50	693	0,33	3	34,67	4,69	454	65,51
0,50 to < 0,75	199	0,64	3	19,50	3,21	79	39,70
0,75 to < 2,50	4	1,77	2	18,79	1,00	2	50,00
2,50 to < 10,00		3,76	2	14,90	1,00		
10,00 to < 100,0							
100,0 (default)							
	2 283	0,22	24	22,89	3,78	751	32,90
Banks							
0,00 to < 0,15	4 141	0,06	102	31,32	1,70	652	15,74
0,15 to < 0,25	1	0,16	4	31,81	1,00		
0,25 to < 0,50	221	0,34	13	42,89	1,99	149	67,42
0,50 to < 0,75							
0,75 to < 2,50	191	1,45	10	46,67	2,63	221	115,71
2,50 to < 10,00	4	3,56	4	51,31	1,00	6	150,00
10,00 to < 100,0		35,79	4	67,57	1,00	1	
100,0 (default)							
	4 558	0,14	137	32,54	1,75	1 029	22,58
Group							
0,00 to < 0,15	6 812	0,07	262	29,03	2,06	1 085	15,93
0,15 to < 0,25	1 050	0,21	118	31,14	3,12	367	34,95
0,25 to < 0,50	1 775	0,34	185	31,09	3,76	918	51,72
0,50 to < 0,75	636	0,64	118	26,95	2,26	274	43,08
0,75 to < 2,50	1 971	1,14	399	22,23	2,59	971	49,26
2,50 to < 10,00	599	6,51	426	34,87	2,40	777	129,72
10,00 to < 100,0	36	13,87	19	22,91	4,00	41	113,89
100,0 (default)	4	100,00	5	11,44	1,01	6	150,00
Total group	12 883	0,68	1 532	28,59	2,49	4 439	34,46

PD scale	EAD post-CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
	Rm	%		%	Years	Rm	%
December 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, 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, for a range of market movements and stress scenarios to provide senior management with a forward-looking view of future collateral requirements that may arise 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		
June 2017						
Cash – domestic currency		**1 022**		**6 277**	**9 679**	**924**
Domestic sovereign debt		**387**			**21 412**	**4 670**
Government agency debt					**158**	**84**
Corporate bonds					**294**	
Equity securities					**3 739**	
Other collateral					**55**	
Total		**1 409**		**6 277**	**35 337**	**5 678**
June 2016						
Cash – domestic currency		3 732		5 807	18 886	1 095
Domestic sovereign debt		31			20 971	11 406
Government agency debt					135	104
Corporate bonds					477	
Equity securities					2 821	
Other collateral					45	
Total		3 763		5 807	43 335	12 605
December 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 R3 222m is bought and R41m 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 (R7 287m) and sale (R11 223m) of credit protection.

CCR6: CREDIT DERIVATIVES EXPOSURE

	Jun 2017		Jun 2016		Dec 2016	
Rm	Protection bought	Protection sold	Protection bought	Protection sold	Protection bought	Protection sold
Notionals						
Single-name credit default swaps	**10 509**	**11 264**	10 419	11 137	4 824	4 580
Embedded derivatives	**3 222**	**41**	3 827	80	3 537	80
Third-party	**7 287**	**11 223**	6 592	11 057	1 287	4 500
Index credit default swaps			7 893	7 893	4 180	4 180
Total notionals	**10 509**	**11 264**	18 312	19 030	9 004	8 760
Fair values						
Positive fair value (asset)	**177**	**52**	379	303	59	96
Negative fair value (liability)	**(31)**	**(225)**	(292)	(349)	(83)	(132)

Nedbank Group exposure to qualifying central counterparties (CCP's) relates to exchange-traded derivatives**.**

CCR8: EXPOSURES TO CENTRAL COUNTERPARTIES

	Jun 2017		Jun 2016		Dec 2016	
Rm	**EAD post-CRM**	**RWA**	EAD post-CRM	RWA	EAD post-CRM	RWA
1 Exposures to qualifying CCPs	**9 337**	**53**	11 118	69	10 583	69
2 Exposures for trades at qualifying CCPs (excluding initial margin and default fund contributions), of which	**2 564**	**51**	3 354	67	3 357	67
3 (i) OTC derivatives						
4 (ii) Exchange-traded derivatives	**2 564**	**51**	3 354	67	3 357	67
5 (iii) Securities financing transactions						
6 (iv) Netting sets where cross-product netting has been approved						
7 Segregated initial margin	**6 708**		7 698		7 155	
8 Non-segregated initial margin						
9 Prefunded default fund contributions	**65**	**2**	66	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 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, and 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, which was originally proposed to be implemented from 1 September 2017.

Insurance risk

Insurance is based on the principle of pooling homogenous risks that are caused by low-probability events. 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; and non-independence, where a single event results in claims from multiple customers. When many clients are affected simultaneously, this is known as a catastrophe. The Nedbank Group insurance risk also includes insurance product design 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.

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. 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.

The framework seeks to ensure that risk characteristics are properly understood, incorporated and managed where insurance activities are undertaken.

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. The risks are subsequently managed through the risk management framework outlined above.

The board of Nedbank Insurance acknowledge responsibility for risk management. 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 and 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 oversight.

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

- These requirements are already a core part of BaU 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's strategic portfolio tilt strategy. Nedbank Insurance consumes only 1,9% (December 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]	Jun 2017	Jun 2016	Dec 2016
Long-term insurance (Nedgroup Life)	**1,00**	**> 1,5**	**10,6**	13,9	11,1
Long-term insurance (Nedgroup Structured Life)	**1,00**	**> 1,5**	**1,3**	1,8	1,5
Non-life insurance (NedIC)	**1,00**	**> 1,5**	**1,5**	2,2	2,2

[1] *Management target is based on the greater of regulatory and economic capital.*

The long-term insurance ratio 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 June 2016:

- The main driving factor for the decrease in Nedgroup Structured Life's solvency ratio is the increase in the CAR, due to growth in assets under management over the period, thus decreasing the net asset value. The future generation of organic earnings and payment of lower dividends in the near term will restore the solvency ratio to above internal targeted levels. This ratio remains above regulatory minimum requirements.
- The decrease in NedIc's solvency ratio was driven by the dividend payment of R100m in November 2016, as well as the recent Knysna fire event which resulted in a significant increase in provisions, thus decreasing the net asset value. The future generation of organic earnings and payment of lower dividends in the near term will restore the solvency ratio to above internal targeted levels. This ratio remains above regulatory minimum requirements.

Concentration and off-balance-sheet risks

Nedbank Group has enhanced its holistic groupwide concentration risk measurement, which 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 64% 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 learned from the global financial crisis. Other potential areas of concentration risk in Nedbank include equity risk in the banking book – property investments, property risk, liquidity risk (wholesale funding reliance) 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 underconcentration, 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 8,1% (June 2016: 6,7%).

TOP 20 NEDBANK GROUP EXPOSURES

June 2017	Excluding banks and government exposure		
Number	Internal NGR[1] (PD) rating	EAD (Rm)	Percentage of total group credit economic capital
1	NGR15	8 378	0,86
2	NGR10	8 504	0,45
3	NGR10	6 914	0,58
4	NGR10	5 624	0,31
5	NGR10	6 067	0,38
6	NGR10	8 030	0,87
7	NGR06	5 315	0,11
8	NGR15	4 911	0,90
9	NGR11	4 388	0,44
10	NGR10	4 889	0,42
11	NGR06	4 543	0,15
12	NGR07	4 425	0,25
13	NGR10	4 211	0,33
14	NGR12	3 776	0,82
15	NGR10	3 686	0,09
16	NGR07	3 626	0,12
17	NGR10	3 541	0,28
18	NGR10	3 191	0,23
19	NGR10	3 914	0,20
20	NGR13	3 184	0,34
Total of top 20 exposures	NGR11	101 117	8,13
Total group[2]		994 727	100,00

[1] *Nedbank Group Rating.*

[2] *Total group EAD includes all Nedbank Group subsidiaries. Although the subsidiaries are subject to TSA, conservative benchmarks are applied to estimate internal credit economic capital.*

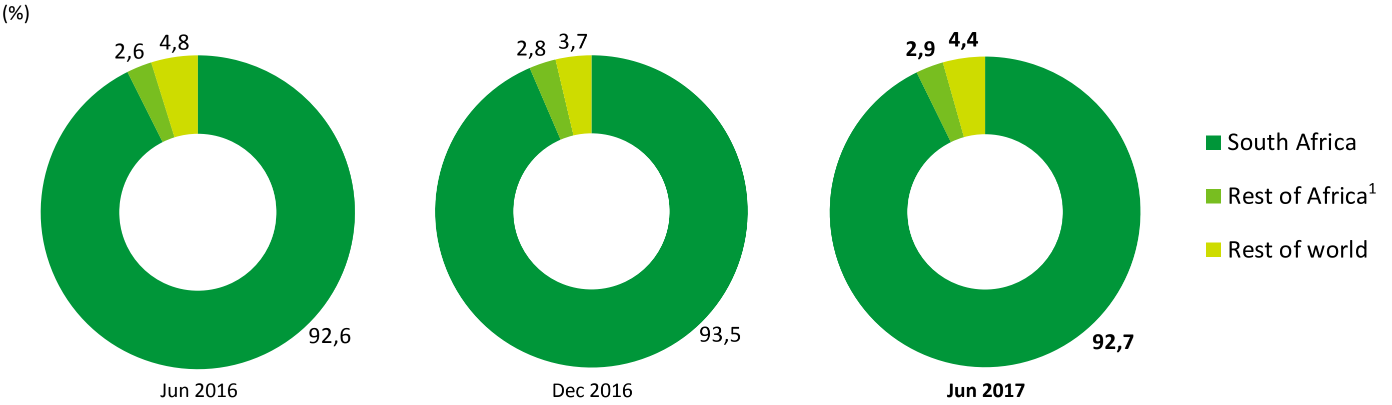
Direct exposure to the SA government relates mainly to statutory liquid-asset requirements, as well as Basel III liquidity buffers, and constitutes 11,9% (June 2016: 10,6%) of total balance sheet credit exposure.

- 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 increased to 92,7% (June 2016: 92,6%). 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.

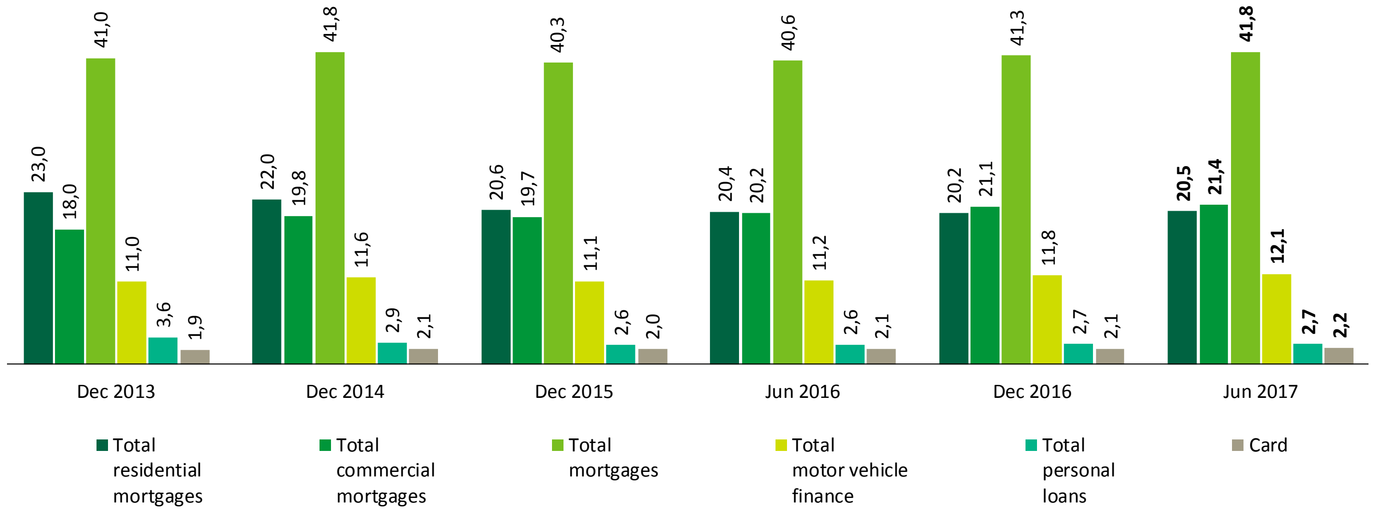
Geographic concentration risk



[1] *The Rest of Africa geographical segmental consists of the Southern African Development Community banking subsidiaries and the investment in ETI. 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 21,4% (June 2016: 20,2%) of gross loans and advances, and consequently Nedbank Group has maintained its leading local market share position, currently at 40,1%. This potentially high concentration is mitigated by good-quality assets, high levels of collateral, a low average LTV ratio (approximately 50%), 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 20,5% in June 2017 (June 2016: 20,4%). 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.

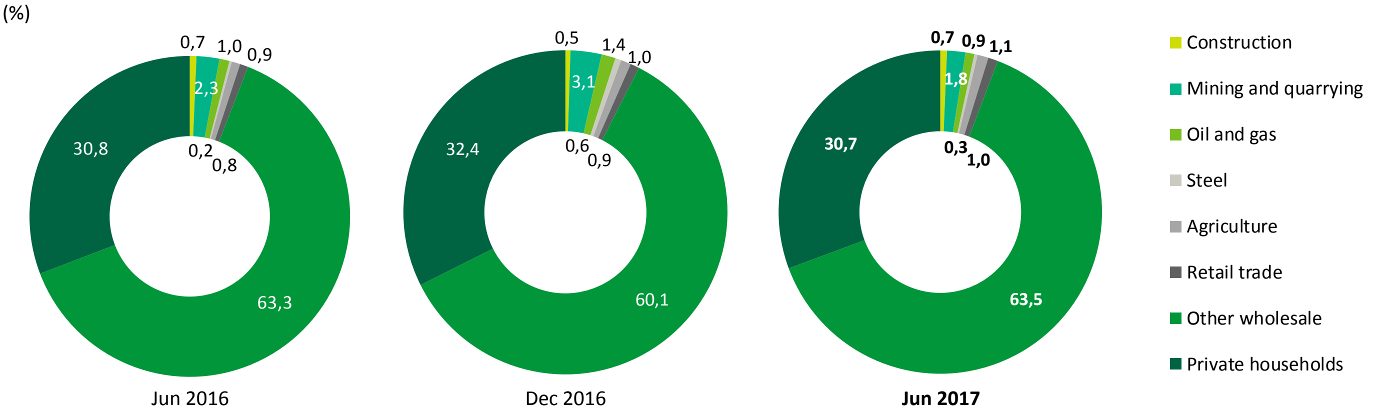
- When including commercial and residential mortgages, Nedbank's total mortgage market share is in line with that of its peers at 21,8%.

- Total motor vehicle finance exposure in Nedbank Group has increased to 12,1% (June 2016: 11,2%) of gross loans and advances. Current market share is approximately 27,6%, 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 7,6% 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 2,7% of gross loans and advances. Personal Loans gross loans and advances increased by 1 bps point from June 2016, for the first time since the implementation of strategic portfolio tilt strategies in 2012.
- 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 June 2017 (June 2016: 2,1%).

Industry concentration risk

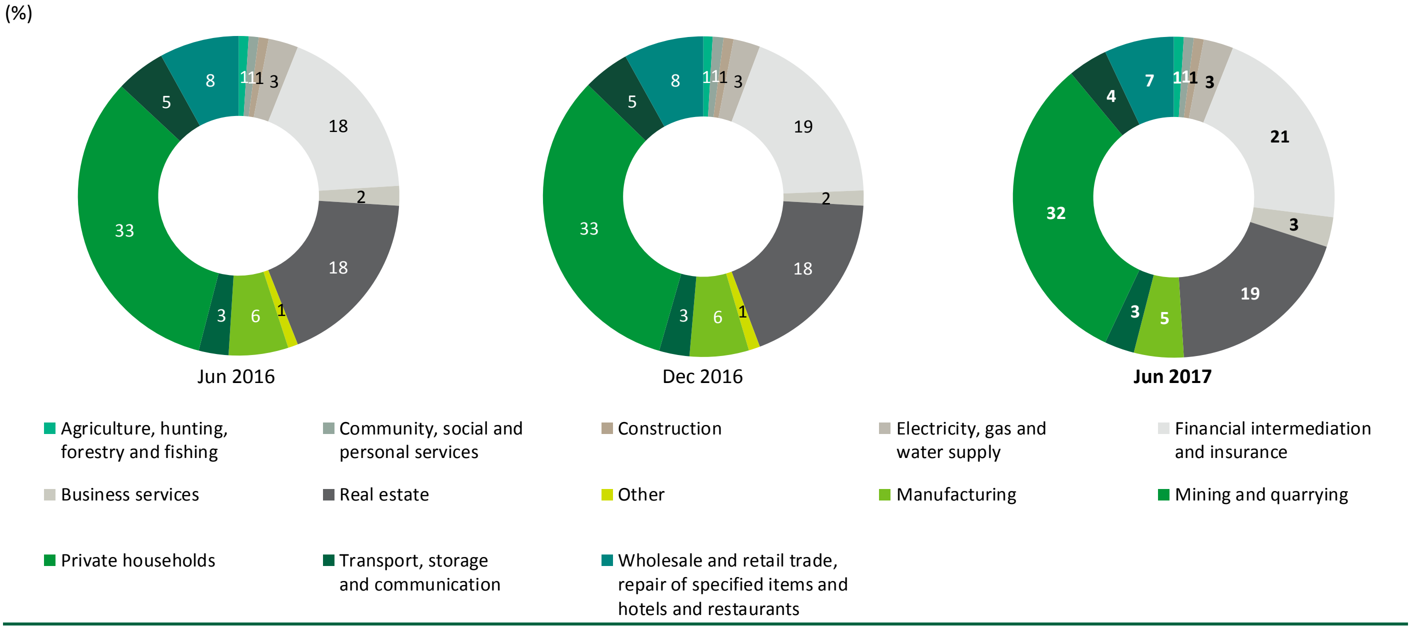
- The group has low concentration risk to the agriculture sector (affected by the recent drought) as well as those portfolios impacted by commodity prices that have stabilised at higher levels. These industries are a small component of the overall portfolio, representing 4,1% of the group's on-balance-sheet exposure, down from 6,3% in June 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 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, R862bn (December 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 29%, but constitutes only 0,38% of total assets at 30 June 2017. In terms of sector split, 31% of the real estate portfolio is in retail property, 16% in commercial property, 17% in residential property and 25% in mixed-use developments. In terms of geographic classification, 42% 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 80% 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 38% 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 87).

Off-balance-sheet risks

With regard to off-balance-sheet risks, there are only four 'plain vanilla' securitisation transactions (see page 80), 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 33), and Nedbank Group is well below both the Basel and SARB limit with respect to the leverage ratio. A breakdown of the size of off-balance-sheet credit is shown on page 40, together with a breakdown of the contribution of each cluster.

Operational risk

Introduction

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements.

Operational risk is inherent in all products, activities, processes and systems and is generated in all areas of the business. Nedbank's Operational Risk Management (ORM) and control systems are designed to help ensure that the risks associated with the group's activities, including, but not limited to, those arising from process error, failed execution, fraud, cyberattacks, breaches of information security, system failures, and physical security failures, are appropriately managed. Managing operational risk is a core element of our activities and is aimed at protecting and promoting a sustainable business.

Operational risk strategic objectives

The overall operational risk strategic objectives of the group include the following:

- Actively working with clusters to ensure we offer products and services that meet our clients financial needs and are in their best interests.
- Supporting growing clusters in developing the appropriate infrastructure to manage the risk of Nedbank's growth.
- Expressing an independent opinion on the strategy and performance of all risk-taking activities.
- Demonstrating the use test, focusing on business benefits and maintaining and using internal operational risk models.
- Contributing significantly to capital analysis, review and strategic planning.

Key activities for the first half of 2017

Key activities during the first half of 2017 included:

- Review and refresh of operational risk frameworks, with emphasis on the dynamic and rapidly evolving subcategories of operational risk relating to execution, IT and financial-crime risks.
- Review of the AMA operational risk model, including enhancements that use the latest techniques and technologies for operational risk modelling.
- Continued enhancement to the scenario analysis process, with focus a 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.
- Ongoing projects and initiatives to raise the maturity across various components of the CyberResilience Risk Management Framework (CRRMF). This is supported by heightened cybersecurity awareness rolled out across the group.
- Remediation of risk data aggregation and risk reporting (RDARR) gaps as part of the groupwide Enterprise Data Programme (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 remains well managed across Nedbank. The group operated within approved operational risk appetite limits, with no outlier or significant loss events experienced during the period. Targeted efforts continue in managing Nedbank's top operational risks and enhancing the control environment. The top and emerging operational risk themes for the first half of 2017 are as follows:

TOP AND EMERGING OPERATIONAL RISK THEMES

Execution risk	■ The risk of loss due to failures in transaction processing or process management. ■ Execution risk is also assumed as Nedbank runs complex operations to ensure the group remains relevant and continuously adapts to the environment.
Cybersecurity risk	■ The risk of loss or theft of information, data, money, or the inaccessibility of service, including the growing threat of cyberattacks.
Regulatory risk	■ The risk arising from regulatory pressure due to the volume, content and interpretation of regulations and the form in which they have been implemented.
IT risk	■ The risk of loss due to the consolidation, simplification and replacement of legacy systems. ■ Risk relating to the banks' IT, IT infrastructure and communication technology.
Conduct and culture risk	■ The group's pattern of behaviour in executing its pricing and promotion strategy. ■ Relationship between the bank and the public, market, laws, best practices, client expectations, regulators and ethical standards.
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.
Financial-crime risk	■ This risk includes a combination of subrisk categories, ie commercial crime, violent crime and regulatory contraventions.
People risk	■ The risk associated with inadequacies in human capital and the management of human resources, policies and processes resulting in the inability to attract, manage, motivate, develop and/or retain competent resources, with a concomitant negative impact on the achievement of strategic group objectives.

These top risks and net operational risk losses were contained within the approved risk appetite limits.

Outlook for 2017

The exposure to operational risk is compounded, given the external operational risk environment that is characterised by volatile macroeconomic factors, social shifts, regulatory developments and rapid innovation in technology; hence, the inherent operational risk profile will remain under pressure. Despite this VUCA environment, Nedbank will continue to build on its capacity to be forward-looking and predictive in managing operational risk and demonstrate value-add from continuing investment in ORM.

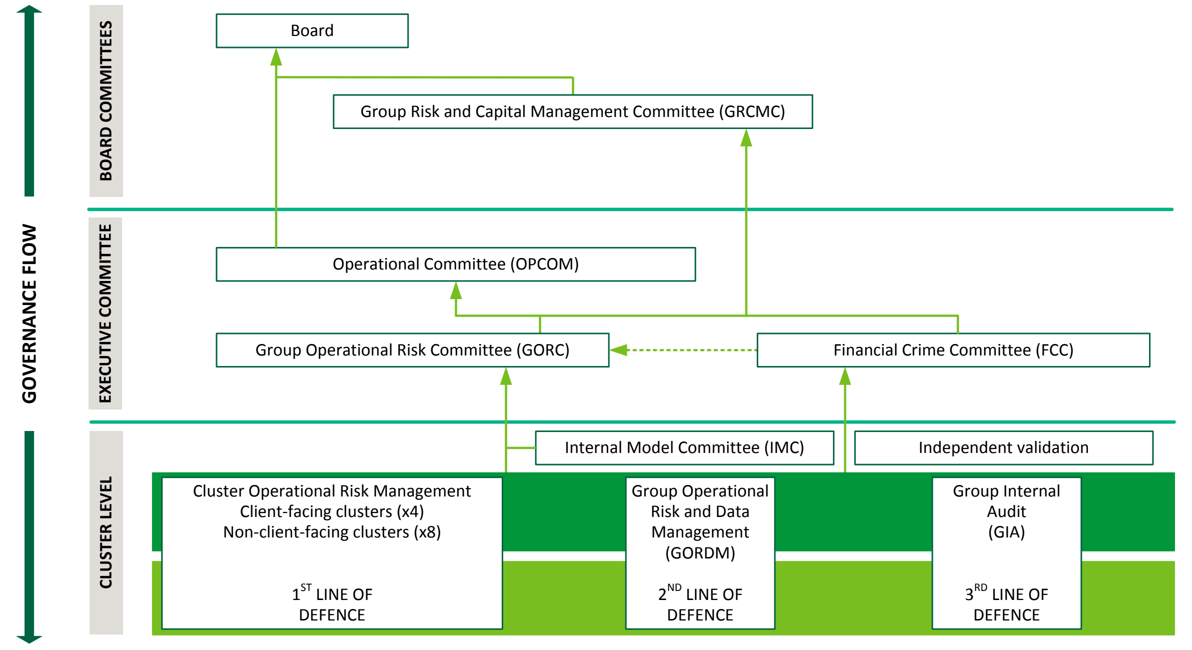
Nedbank Group's approach to managing operational risk

Nedbank Group continued to quantify operational risk using a model that meets the regulatory capital standard under the AMA and is approved by SARB. The group continues to invest in the improvement of its operational risk measurement and management approaches, across all lines of defence.

Organisational risk structure and governance

The governance structure for operational risk, supported by the three-lines-of-defence model, is an integral part of the ORMF.

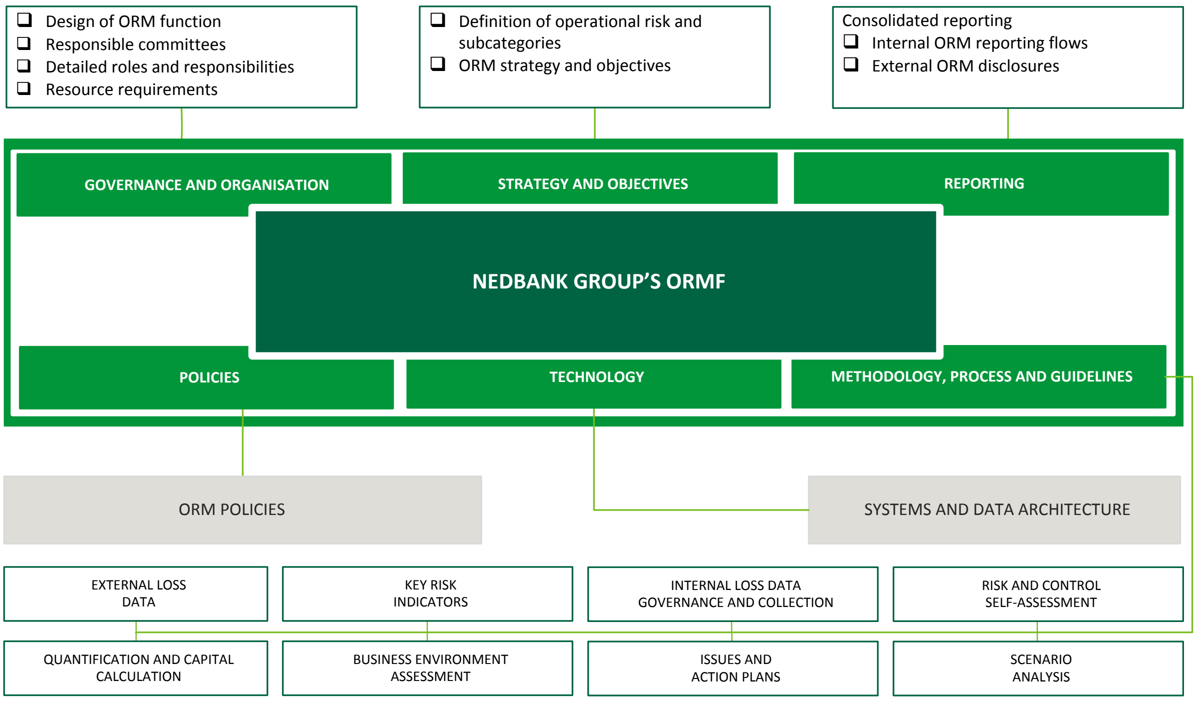
Operational risk organisational structure and governance flow



Operational Risk Management Framework

Managing operational risk is a key element of our business activities, 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. Reporting to the CRO, the Group Operational Risk and Data Management (GORDM) and specialist functions in Group Risk will continue to manage, implement and enhance the ORMF and its subpolicies and frameworks.

The ORMF is reviewed and updated annually to align policies and methodologies with current local and international best practice. Amendments to the ORMF are approved by the Group Operational Risk Committee (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 the tracking of KRIs; RCSAs; the monitoring of BEICFs; ILD collection processes and governance; the considering of ELD; scenario analysis and capital calculation, which are designed to function in an integrated and 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

	Operational risk tool	Description
Qualitative	Key Risk Indicators (KRIs)	KRIs provide insight into trends in exposures to key operational risks, and are used extensively by business to inform their operational risk profiles. They are often paired with escalation triggers warning when indicators are approaching or exceeding threshold and prompting mitigation plans.
	(RCSAs)	The main objective of the RCSA process is to enable business and risk managers proactively to identify, assess and monitor key risks within defined risk tolerance and appetite levels. Key risks are risks that may result in significant financial loss, could damage business or could negatively impede the attainment of business strategic objectives. The RCSA process is well entrenched in Nedbank and integral to the business management activities.
	Business Environment and Internal Control Factors (BEICFs)	The group takes BEICFs into account as part of the RCSA process. Consideration of BEICFs enables the group to take into account 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 ILD collection and tracking process is backward-looking and enables the monitoring of trends and the analysis of the root causes of loss events. Operational risk losses are reported in Nedbank's ILD collection system. Boundary events are those losses that manifest themselves 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 regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990) and Basel III requirements, holding of capital related to these events remains in credit risk. These events are included as part of the ORMF to assist in the monitoring, reporting and management of the 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 operational risk capital.
	External Loss Data (ELD)	ELD is used to incorporate infrequent, yet relevant and potentially severe, operational risk exposures in the measurement model. The group currently incorporates the effects of ELD in the operational risk capital calculation model indirectly, in conjunction with the scenario analysis process. ELD is also used to benchmark the internal diversification matrix. Nedbank is a member of and actively participates in working groups of the Operational Riskdata eXchange Association (ORX). ORX accumulates data submitted by each of the member banks quarterly. In addition, the group subscribes to the SAS Global Database, which contains data sourced from the media and other sources within the public domain.
	Scenario analysis	Operational risk scenario analysis is defined in the ORMF as one of the data sources for operational risk modelling and measurement. It serves as the primary input for operational risk loss exposure estimation. Scenario analysis is conducted in a disciplined and structured way, using expert judgement to estimate the operational risk exposure of the group. Scenario analysis focuses mainly on operational risks that may impact the solvency of the bank. Nedbank shares and uses a set of anonymous operational risk scenarios, made available through ORX, for identifying trends and benchmarking with international peers. During 2017 scenarios were successfully updated and action items developed to improve the management of operational risk.

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 only a small portion of the group (10%), 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 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 to implement enhancements that include the latest techniques and technologies for operational risk modelling. The group continues to invest in the enhancement of its operational risk measurement and management approaches.

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 Group 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 in total, but the group retains a significant interest in the financial impact of losses within the group captive insurance companies. This financial interest keeps Nedbank focused on risk mitigation/loss control to protect the reserves held in our captives. Nedbank structures the programmes in partnership with underwriters, who bear the catastrophic, unpredictable type events and we manage the predictable, higher-frequency, lower-severity losses through the Captives.

The Captive retention structure has been instrumental in controlling pay-away premium and has assisted the group in adverse insurance market conditions where insurance rates hardened. The past eight years reflect effective control in premium spend against insurance VaR. In addition to controlling spend, during the last review the portfolio coverage was extended to include cyberinsurance for the group.

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 so as to prevent unwanted consequences, as well as for the protection of critical assets and reputation against external and internal 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 best-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, wasted 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 and/or 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, bribery, misconduct by staff, clients, suppliers, business partners, third parties, and other stakeholders. The group therefore 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 form of dishonesty on the part its employees.

Financial-crime theme	Mitigation
Fraud	■ Fraud monitoring and prevention measures are in place, including internal and external whistleblowing channels, numerous anticorruption initiatives and ongoing investment into cybercrime-combating capabilities. ■ Targeted awareness training is provided to staffmembers and clients. ■ Standards to prevent, detect, deter and respond to fraud incidents have been implemented. ■ Various reporting channels are available to employees, vendors, service providers and clients. Security and fraud-related incidents can be reported at any time through an internal reporting line that is supported by an external, independently managed, whistleblowing hotline. This hotline is available to staff and clients in SA as well as our Rest of Africa subsidiaries in Namibia, Swaziland, Lesotho, Malawi and Zimbabwe.
Cybercrime	■ Nedbank has introduced various measures to counter cybercrime, including comprehensive fraud detection systems and innovative products such as Approve-IT and the IBM Trusteer software that is offered free of charge to our clients. 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 staff, contractors, temporary employees and consultants. ■ As part of compliance with Financial Advisory and Intermediary Services (FAIS) Act requirements, staff integrity verification is done on appointment of relevant staff and repeated every 24 months.
Online fraud	■ The group implemented the Approve-it™ account activity notification service. In addition, the organisation maintains the secure Nedbank App Suite™, in place since 2012, as well as an online banking fraud detection capability that is available 365 days a year. ■ 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.
Corruption	■ Staff, managers and the Group Exco signed a conduct pledge, committing themselves to taking a stand against corruption and to upholding ethical and transparent business practices. ■ In addition, Nedbank has an ongoing training and awareness programme that includes focus on the requirements of the UK Bribery Act as well as the risk of corruption in general. ■ Annual corruption risk assessments conducted in terms of the UK Bribery Act 2010 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 also required 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. Bribery and corruption assessments have been introduced as part of the third-party due-diligence processes in high-risk areas.

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 subordinate measures applicable to these. 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 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 which the financial services industry has operated 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.
Consumer Protection and the Retail Distribution Review (RDR)	As a primary element of consumer protection, Treating Customers Fairly (TCF) is an approach advanced by the FSB that requires affected firms to ensure fair treatment of their customers at all stages of their relationship, ie from product design and marketing, to the advice, point-of-sale and after-sale stages. The purpose of the Retail Distribution Review (RDR) seeks to ensure insurance distribution models are aligned to achieving TCF outcomes. The RDR put forward 55 specific regulatory proposals, to be implemented in phases.	Nedbank is taking steps to embed fair conduct considerations in our strategies, governance structures and the fundamental workings of our business models. This includes the way in which the bank sells its products and provides client services to ensure favourable outcomes for clients. In this way we aim to identify and mitigate against risk before clients suffer adverse outcomes. Nedbank's focus during the second half of 2017 will be on moving from the concept of TCF to proactive management of market conduct and the conduct of business risks.
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, 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 addressing the weaknesses previously identified. An AML, CFT and sanctions remediation programme has been established to address the weaknesses identified, enhance the group's programme to be more strategic and to manage any AML, CFT and sanctions risks effectively.
Protection of Personal Information Act (POPIA)	The POPIA was signed into law on 26 November 2013. The implementation of the conditions of the POPIA will allow for increased confidence by consumers in how organisations within SA process personal information. Compliance with POPIA not only instils trust in consumers, but also drives an increase 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 programme to ensure that the relevant enhancements are instituted to demonstrate that the compliance obligations are both successfully achieved and maintained. Nedbank's privacy programme has significance at every stage of the information lifecycle and has required targeted change management in terms of the way in which we collect, use, distribute, store and ultimately dispose of personal information.
IFRS 9	This is a new accounting standard for classification and measurement of financial assets and liabilities, hedge accounting as well as the quantification of loss allowances for financial assets and will replace the current IAS 39 rules effective 1 January 2018.	A comprehensive IFRS 9 and Credit 2020 programme jointly sponsored by the group's CRO and CFO has been initiated with a full parallel run in 2017 to prepare for adoption in 2018. Our External auditors will be closely involved in the programme to ensure alignment. In addition, a dedicated workstream is in place for change management.

Compliance/regulatory risk theme	Description	Mitigating actions
Basel III	Basel III is being phased in over several years, from 2013 until 2019, with several major Basel III items still regarded as work in progress.	Nedbank continues to manage the transitional LCR requirements proactively at levels in excess of regulatory minima and has further continued the finalisation of the NSFR calculation through data cleanup, addressing interpretational issues. At 30 June 2017, on a pro-forma basis, we were NSFR compliant. 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 Nedbank 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.
Risk Data Aggregation and Risk Reporting (RDARR)	The 'Principles for Effective RDARR' were issued by the BCBS in January 2013. The principles aim to strengthen the banks' risk management practices by improving its RDARR. It is anticipated that complying with the principles will improve banks' ability to provide rapid and comprehensive risk data by legal entity and business line, which will ultimately enhance banks' decisionmaking processes and improve their resolvability. This has been incorporated into local bank regulation via SARB directive 2/2015, which requires D-SIB's 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 just focusing on compliance, but 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 – focuses on compliance with BCBS's 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 base data management capabilities. ■ Nedbank has achieved material compliance with the RDARR principles at 1 January 2017.
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 income is earned and gains are realised by either US persons or any other person that has foreign tax obligations or tax residencies. The South African FIs report these accounts to SARS, which in turn will report that information to each respective country's revenue authority.	The FATCA and CRS project are run and managed by the 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 being executed 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 Act (OHSA)	OHSA 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 Occupational Health and Safety 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 Occupational Health and Safety (OHS) training, which includes reading and acknowledging the Nedbank Group OHS Policy. Nedbank has ongoing OHS awareness campaigns, including posters, leaflets, awareness events, presentations and inductions for new employees. Emergency procedures are planned, documented, reviewed, practised and updated accordingly to ensure preparation for all types of emergencies. These procedures (including external stakeholder involvement) are exercised at all our sites at least biannually.

Business risk

Business risk is not specified for Basel III Pillar 1 regulatory capital. It is, however, measured in Nedbank Group's economic capital model, in line with current best practice, using an earnings volatility methodology.

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 also associated with losses due to external factors such as the market environment or government regulations. The fluctuations in earnings captured here are those not attributable to the influence of other risk types. Business risk thus closes the circle and, together with the other risks defined in Nedbank Group's risk taxonomy, provides for complete coverage of the quantifiable economic risks Nedbank Group faces.

The current business risk approach is divided into two parts:

- a topdown calculation of the group's capital requirement based on external and internal revenue information; and
- a bottomup allocation approach to businesses across the group based on business unit-specific scenarios.

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.

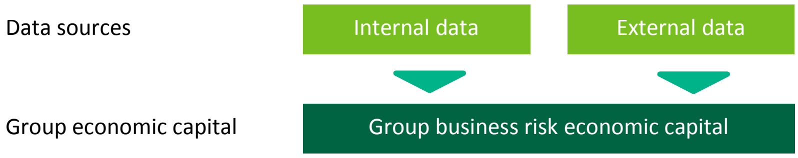
This definition is more precise and goes further to minimise the overlap with other risk types such as operational risk. It also explicitly excludes long-term strategic risk as Nedbank does not believe it should capitalise for poor strategic decisions that would have long-term impacts on the franchise, 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 declines 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

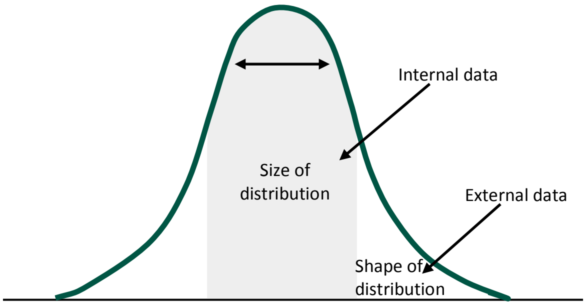


The purpose of the topdown calculation is to size, at a group level, the business risk exposure that Nedbank faces as a consolidated entity. This is done by evaluating to what extent the group's GOI (adjusted for non-business risk factors) can vary, compared with expectations in an extreme event.

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.

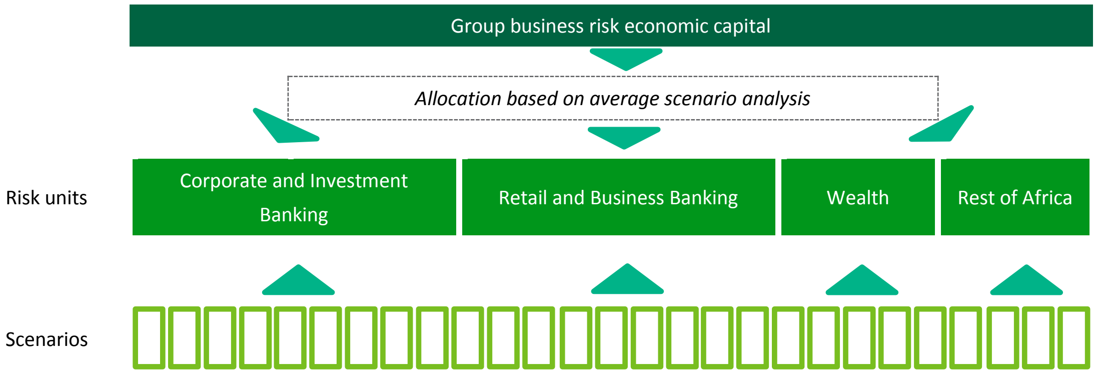
A combination of internal and external data is used in the calculations



The most important methodological aspects were derived in four different stages, as discussed below:

- 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 parametised 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.

Accounting, financial and taxation risks

Key risks related to accounting, finance and taxation are actively managed through the ERMF, which places emphasis on accountability, responsibility, independence, reporting, communication and transparency, both internally and in respect of all Nedbank's key external stakeholders. This ensures that the group maintains a satisfactory system of control to enable the group to comply with all the relevant accounting practices and other statutory disclosure obligations, and to produce regular, reliable, timely and meaningful financial, statutory, regulatory and management reports and related information.

Accounting risk, which is actively managed and monitored through the three-lines-of-defence in the ERMF, is the risk that:

- the accounting policies and related accounting opinions regarding the recognition, measurement and presentation of assets, liabilities, equity, income, expenses and disclosures are not in accordance with the applicable financial reporting framework, ie IFRS and the Companies Act;
- the financial statements and related disclosures and other statutory and regulatory financial information are not in accordance with the requirements of IFRS and/or other relevant statutory requirements;
- the financial accounting system and processes do not account and/or record financial transactions in a manner to ensure the occurrence, completeness, accuracy, and classification of the transactions; and
- the financial accounting system and processes do not account and/or record financial balances in a manner to ensure the existence, completeness, rights and obligations, valuation and classification of the balances.

Inappropriate accounting policies, accounting opinions, financial statements and disclosures and financial accounting systems and processes could lead to suboptimal or incorrect business decisions by Nedbank and/or incorrect conclusions and reviews by external stakeholders (ie regulators, investors, shareholders, staff and government).

Financial risk is defined as the risk that:

- financial targets and key performance indicators are not met; and/or
- inaccurate financial information causes suboptimal investment and operational decisions to be made; and/or
- stakeholders (including regulators) are not adequately informed of significant variances in financial performance to inform key oversight and review decision bodies are not adequately informed of significant variances in financial performance.

Regular reports are prepared by management regarding the financial performance of the group, the tracking and monitoring of key performance indicators, forecasts, long-term plans and capital expenditures, financial reporting controls and processes, and the adequacy and reliability of management information used during the financial reporting process.

Key technical accounting matters and areas of critical accounting judgements and estimates made during the financial reporting process are monitored closely by management and the GAC and reviewed by external audit.

Taxation risk is the risk that any event, action, or inaction in tax strategy, operations, financial reporting or compliance that will adversely affect the group's tax objectives or results in an unanticipated or unacceptable level of tax liabilities. Taxation risk can arise from the following:

- Non-compliance with tax regulations resulting in penalties, fines, payment of interest or under provision of tax.
- Incorrect assessment, deduction and payment of tax liabilities.
- Ineffective tax planning and implementation at group level.
- Inability to engage with revenue authorities and other relevant governmental departments.

Nedbank is committed to being a responsible taxpayer, through professionally executed tax compliance and legitimate tax planning based on valid business purposes in fulfilling its compliance and disclosure obligations in accordance with all relevant laws and regulations in the jurisdictions in which Nedbank operates.

Nedbank strives to maintain an open, honest, constructive and positive working relationship with the revenue authorities in all jurisdictions where we operate and is committed to prompt disclosure and transparency in all tax matters. Nedbank recognises that there may be areas of differing legal interpretations between us and revenue authorities, and where this occurs we will engage in proactive discussion with the view of resolving these issues as soon as possible.

The Executive Taxation Forum is the committee that monitors tax compliance and tax policy, ensures the management of tax risk in Nedbank Group in accordance with the Nedbank Tax Policy, and assists the GAC and the GRCMC in discharging their responsibilities relative to the management and monitoring of tax risk.

Information technology risk

IT risk stems from the risks associated with misalignment of the business strategy, an uncoordinated or inefficient IT strategy, failure of projects to deliver the desired outcome, compromised data protection and information privacy, effects of physical disasters on information systems, IT outsourcing, IT performance and information systems security and governance. These risks may result in IT not delivering the capability required to support the achievement of the group's strategies or not providing a competitive advantage in terms of the group's strategy.

Group Technology (GT) is the centralised IT function providing IT support and services throughout Nedbank Group. During the first half of 2017 GT focused specifically on the strategic drivers introduced to counter the emergence of fintechs in the industry, with the Digital Fast Lane (DFL) Division challenged to deliver a total solution from concept to implementation within 60 days. The GT initiatives were further enhanced by the repositioning of the Enterprise Data Services Division to capitalise on data intelligence opportunities and garner opportunities in the artificial intelligence realm. Nedbank continues to drive the managed-evolution (ME) approach to technology to enhance our IT systems progressively over time and deliver ongoing business benefits following the GT Rationalise, Standardise and Simplify (RSS) strategy to reduce the number or core systems. ME programmes are executing on digitising the operating platforms, continually building towards creating a 'multispeed' organisation that not only simplifies and digitises legacy platforms, but allows us to compete in a digitised and disintermediated global economy.

The ME journey, together with other strategic objectives such as DFL and RSS, balances digital transformation of core banking and client-facing platforms in response to rapid shifts in client preferences and competitive pressures. The programmes consist of multiple initiatives that collectively make up the digital transformation of Nedbank aimed primarily at improving client experience and assisting the bank in our endeavours to win in digital. These therefore address the requirements from a regulatory, data and client experience point of view and identify ways to exploit various opportunities through each of the initiatives.

The use of IT, and therefore the associated technology risk, is pervasive in a large bank such as Nedbank. GT Risk provides effective risk management, supporting the overall GT strategy underpinned by the group’s risk management frameworks, creating a risk and control culture that is embedded in the day-to-day behaviour within the cluster. Accordingly, IT risk is recognised as one of the key risks in Nedbank Group’s risk universe and is addressed appropriately as follows:

- GT is Nedbank Group’s centralised technology unit responsible for all components of the group’s technology processing, development and systems support.
- Risk identification, measurement, monitoring and assurance exist across all lines of defence. While a second-line-of-defence monitoring manager in the GT Cluster has always been in place, a dedicated second-line function team was created in 2015 in GORDM, in the light of the increased focus on IT risk.
- The Group Information Technology Committee, one of the board subcommittees, specifically focuses on IT from both an operational and strategic perspective inclusive of IT risk.
- The Executive Information Technology Committee, a subcommittee of the Group Exco, serves as a steering committee for IT-related matters at group level.

Reputational, strategic, social and environmental risks

Social and environmental risk is one of the 17 risk categories that Nedbank actively monitors. Whether strategic or operational in nature, it is viewed as seriously as all other risks to which our business is exposed.

Nedbank Group’s most significant social and environmental impacts are indirect and result from our lending and investment activities. These include responsible funding of renewable-energy, property development and infrastructure projects as well as high-impact industries, including non-renewable energy generation, mining, oil and gas, waste management and manufacturing. The group takes a partnership approach to all such sensitive investments, working closely with clients and relevant authorities to maximise benefits and minimise the impacts of these activities.

In consultation with sustainability risk experts and various stakeholder groups, such as government departments, non-governmental organisations (NGOs) and other relevant institutions, the group has developed a suite of sustainability risk mitigation tools and policies that not only protect shareholder interests, but also ensure the protection of communities and the environment. Some examples of these policy interventions and tools include:

- The Human Rights Framework.
- The Human Rights Statement.
- Social and Environmental Management System.
- Sector policies for agriculture, mining, oil and gas, natural capital, waste, recycling, hazardous substances, asbestos and contaminated land.

With the rapidly shifting operating environment, the focus on reputational, strategic and execution (ie disenablers to the implementation of strategic initiatives) risk has been elevated in our risk plans and organisational focus.

The Group Reputational Risk Committee (GRRC) is a full subcommittee of the Group Exco, attended by the CE and CRO of Nedbank. With the current plethora of issues plaguing the financial services industry, escalating to this committee has ensured that the management of reputational risk (including association risk) is receiving the necessary focus and attention. In addition, Nedbank has a dedicated social-media team that monitors and manages the group's social-media presence.

Reputational risk in Nedbank is defined as the possibility of the group's image in the community or of the long-term trust placed in the group by its shareholders being impaired as a result of a variety of factors, such as the group's performance, strategy execution, brand positioning and competitiveness, ability to create shareholder value, or an activity, action or stance taken by the group. This may result in loss of business and/or legal action.

The scope and authority of the GRRC:

- extends across Nedbank Group Limited, Nedbank Limited and its subsidiaries, which must refer all reputational risk issues to the GRRC for decision; and
- extends, without limitation or restriction, to all reputational risks arising from, or connected with, any and all risk categories, types and classes of risk, inclusive of current and emerging risks both locally and globally (eg financial crime risk).

The GRRC considers, decides upon and oversees reputational risks to the group and any associated risks or issues that may potentially or actually pose a reputational risk, however arising in terms of regulations, group strategy and group policies. It also establishes a comprehensive process of escalation in dealing with matters of high reputational significance.

The Group Marketing, Communications and Corporate Affairs Cluster play a major role in partnering with business to manage the group's image and reputation. Key functions include marketing and communications. The cluster is also responsible for developing the group's transformation strategy in response to the Broad-Based Black Economic Empowerment (BBBEE) Codes of Good Practice as well as the Nedbank Foundation and management of public affairs.

The Nedbank Group brand image reflects the group's strong marketing and communication drive that has led to positive changes while retaining the aspirational elements, which are distinctly different from those of its competitors.

Enterprise Governance and Compliance is responsible for the monitoring of regulatory and reputational risk arising from compliance failures, and the setting of related policies. It also manages the Enterprisewide Governance and Compliance Framework and is responsible for input into brand and the management and monitoring of reputational risk. Nedbank Group's governance strategy, objectives and structures have been designed to ensure that the group complies with legislation and a myriad of codes, while at the same time moving beyond conformance to governance performance.

The fundamentally shifting financial services and technological landscapes has resulted in additional scrutiny of the bank's strategy to ensure that it remains relevant, innovative, mobile and agile in the rapidly changing world. Nedbank manages its strategic risk through a dedicated Strategy Unit, whose head is a member of the Group Exco. In addition, the annual three-year business planning cycle is essentially one of forecasting and creating the bank's strategy that will propel it into a thriving future.

Fundamental to the three-year business planning process is the development of the group's risk (strategy) plan, spear-headed by the CRO, ensuring that risk (as a threat, uncertainty and/or opportunity) is factored into the development of the bank's strategy.

Strategy execution risk is inherently high across the group as Nedbank reviews operating models, transforms technology and operating processes. It is a new concept introduced within Nedbank and expected to mature over time. A strategic and execution risk framework has been developed and action plans are being implemented to mitigate risks identified.

Human resources (or people) and transformation risks

People risk is associated with the inadequacies in human capital and the management of human resources, policies and processes that may result in the inability to attract, manage, motivate, develop and retain competent resources. This risk has a consequential negative impact on the achievement of the group's strategic objectives. Nedbank Group manages people risk through Group Human Resources, and the cluster human resources functions.

Closely related to people risk is transformation risk. This risk is defined as the failure by the group to respond and address transformation issues, eg BBBEE, adequately, proactively, positively and uphold related law, ie Employment Equity Act. People and transformation risks, key risks in the ERMF, are afforded the same focus as the other risks contained within the ERMF.

From a governance perspective people risk is supported through the following structures:

- Group Remuneration Committee – a subcommittee of the board.
- Group Transformation, Social and Ethics Committee – a subcommittee of the board.
- Executive Transformation and Human Resources Committee – a subcommittee of Group Exco.
- Enterprisewide Human Resources Exco – comprising of GHR executives and Human Resources Cluster executives in the business.
- GHR Exco.
- Enterprisewide Human Resources Risk Committee.
- Group Human Resources Risk Committee.
- Group Transformation Forum.
- Nedbank Employment Equity Forum.

The group executive of Human Resources represents the human resources community on these committees and is also a representative of the Group Exco; however, other members of the Group Exco may also attend as appropriate.

Succession planning for the role of group executive, cluster executive and divisional committee (with the latter completed at cluster level) roles is critical. A formal talent review process takes place annually to identify Nedbank Group's key talent and to ensure succession plan approval by the appropriate forums. Group Exco succession plans are signed off by the CE and the Directors' Affairs Committee of the board.

The CE is required to report to the board regularly on the group's management development, transformation, organisational culture and talent management.

Nedbank Group has implemented a total remuneration philosophy with a purpose to attract, retain, motivate and reward its employees appropriately. This philosophy is aimed at encouraging sustainable long-term performance of the group. There is a strong aim to ensure that performance is closely aligned with the businesses strategic direction and value drivers. The interests of all stakeholders, which can be satisfied by prudent and appropriate risk taking, are integral to the total remuneration philosophy. For further information please refer to the group's Remuneration Review in the Nedbank Group Integrated Report 2016 (pages 111 to 119) to be found at nedbank.co.za.

The group's ERMF, ICAAP and financial performance rely heavily on the group's ability to attract and retain highly skilled individuals, which highlights that the effective management of people risk is a critical success factor. The group's current status and the extent of such skills are believed to be sound. However, the group recognises that active and continuous management and monitoring are required.

Building a unique and innovative culture remains a key aspect of Nedbank Group's competitive advantage and brand differentiation, which is entrenched deep within its leadership philosophy of being 'vision-led and values-driven'. It directly impacts on Nedbank's ability to deliver high-quality client service. Alignment between the organisational and employee values leads to higher levels of commitment and engagement, which in turn positively influences innovation, creativity and accountability, as well as greater levels of trust, adaptability and productivity.

Employee fulfilment has a positive impact on client satisfaction, which further creates an increase in shareholder value. Based on this premise, the group strives to understand the current organisational climate and culture within which it operates by utilising relevant culture and engagement tools and surveys.

Nedbank aims to be at the forefront of transformation and leadership. Long-term sustainable success is highly dependent on the culture that leaders create. The culture that leaders create is highly dependent on their behaviour and their relationships with other leaders and employees in the organisation.

Nedbank has embarked on a culture transformation journey where the required culture to win in 2020 has been articulated using the Competing Values Framework. A culture alignment process is being rolled out, with workshops taking place at a team level to foster inclusivity and alignment with the required risk culture.

Leading transformation continues to be one of the group's key focus areas. Transformation is a key component within organisational culture. Becoming a true reflection of the society in which we operate is a key transformational challenge that the group faces. As a result, new inclusivity strategies, such as engagements with men, reasonable disability accommodation and cultural and religious inclusion fundamentally aimed at creating a workplace where all employees feel they can contribute and develop are being implemented. Therefore inclusivity forms a key part of Nedbank Group's transformation process. We understand the reality that most organisations are either 'strategically' or 'culturally' deficient, and that a deficiency in either sphere impedes growth and success. Knowing this, the inclusivity initiatives form an integral part of Nedbank Group's effort to develop and build an organisational culture that supports an organisation that can confidently execute its strategy. Nedbank continuously reviews, develops and implements its employment equity plans, which are designed to eliminate any form of unfair discrimination and sustain an inclusive work environment. For further information please refer to the group's Transformation Report in the Nedbank Group Integrated Report 2016 to be found at nedbank.co.za.

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
BBBEE	Broad-Based Black Economic Empowerment
BCBS	Basel Committee on Banking Supervision
BCC	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 Conversation 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
CGCO	Chief Governance and Compliance Officer
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	Cyber Resilience 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 Operating Model
EAD	Exposure at default
EaR	Earnings-at-risk
ECA	Export credit agencies
ECAIs	External credit assessment institutions
ECL	Expected Credit Loss

Abbreviation	Definition
EDP	Enterprise Data Programme
EDPM	Execution, delivery and process management
EDTF	Enhanced Disclosure Task Force
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
FAIS	Financial Advisory and Intermediary Services
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
GMCCA	Group Marketing, Communication and Corporate Affairs Committee
GMRM	Group Market Risk Monitoring
GOI	Gross operating income
GORC	Group Operational Risk Committee
GORDM	Group Operational Risk and Data Management
GRCMC	Group Risk and Capital Management Committee
Group Alco	Group Alco and Executive Risk Committee
Group Exco	Group Executive Committee
GRRC	The 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

Abbreviation	Definition
IRRBB	Interest rate risk in the banking book
IT	information technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	JSE Limited
KRI	Key risk indicators
LAC	Loss-absorbing capital
LCR	Liquidity coverage ratio
LEAC	Large-exposures Approval Committee
LGD	Loss given default
LRCP	Liquidity Risk Contingency Plan
LSC	Liquidity Steering Committee
LTV	Loan-to-value
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
NPL	Non-performing loan
NSFR	Net stable funding ratio
NTR	Nedbank Group Transaction Rating
OHS	Occupational Health and Safety
OHSA	Occupational Health and Safety Act
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
PwC	Pricewaterhousecoopers
QIS	Quantitative Impact Study
RAF	Risk Appetite Framework
RAPM	Risk-adjusted performance measurement
RBA	IRB Ratings-based Approach
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
RPTC	Related-party Transactions Committee
RRP	Recovery and resolution plan

Abbreviation	Definition
RSS	Rationalise, Standardise and Simplify
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
SFT	Securities financing transaction(s)
SME	Small- and medium-sized enterprises
SREP	Supervisory Review and Evaluation Process
SRWA	Simple Risk Weight Approach
SSFA	SA/Simplified Supervisory Formula 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

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Computershare Investor Services
Proprietary Limited
15 Biermann Avenue, Rosebank,
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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 further information send an email to Nedbank Group Investor Relations at nedbankgroupir@nedbank.co.za.