MAKE
THINGS
HAPPEN

NEDBANK

*NEDBANK GROUP LIMITED AND NEDBANK LIMITED*

# PILLAR 3

## Basel III Public Disclosure Report

for the six months ended 30 June 2015

# CONTENTS

# EXECUTIVE SUMMARY

The 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.

PORTFOLIO COVERAGE
**0,68%**
(JUN 14: 0,67%) (DEC 14: 0,70%)

SPECIFIC COVERAGE
**39,6%**
(JUN 14: 42,7%) (DEC 14: 43,1%)

POST-WRITEOFF RECOVERIES
**R520m**
(JUN 14: R422m) (DEC 14: R941m)

GROSS ADVANCES GROWTH
**8,1%**
(EXCLUDING TRADING ADVANCES)
(JUN 14: 7,9%) (DEC 14: 7,9%)

BANKING BOOK PAYOUTS
**R88,5bn**
(JUN 14: R86,1bn) (DEC 14: R166,8bn)

IRRBB % ORDINARY SHAREHOLDERS' EQUITY
**1,61%**
(JUN 14: 1,48%) (DEC 14: 1,52%)

NET INTEREST INCOME (NII) SENSITIVITY TO 1% INCREASE
**R1 104m**
(JUN 14: R937m) (DEC 14: R1 019m)

CREDIT LOSS RATIO
**0,77%**
(JUN 14: 0,83%) (DEC 14: 0,79%)

DEFAULTED ADVANCES AS A % OF GROSS ADVANCES
**2,53%**
(JUN 14: 2,81%) (DEC 14: 2,54%)

TRADING BOOK – **LOW RISK**

BASEL III LEVERAGE **15,9 TIMES**
(< 20 TIMES INTERNAL TARGET
< 25 TIMES REGULATORY MAXIMUM)
(DEC 14 PRO FORMA: 15,1 times)

LOAN-TO-DEPOSIT-RATIO
**94,0%**
(JUN 14: 96,3%) (DEC 14: 93,8%)

LONG-TERM FUNDING RATIO
**27,6%**
(AHEAD OF INDUSTRY AVERAGE)
(JUN 14: 24,9%) (DEC 14: 25,4%)

LIQUIDITY COVERAGE RATIO
**76,3%**
(JUN 14: 51,5%) (DEC 14: 66,4%)

AVAILABLE FINANCIAL RESOURCES: ECONOMIC CAPITAL
**126%**
(JUN 14: 158%) (DEC 14: 140%; DEC 14 PRO FORMA: 124%)

TOTAL TIER 1
**12,1%**
(JUN 14: 13,1%) (DEC 14: 12,5%)

SURPLUS CET1 CAPITAL
**R22 769m**
(JUN 14: R27 706m) (DEC 14: R26 874m)

TOTAL SOURCES OF QUICK LIQUIDITY
**R148,4bn**
(JUN 14: R113,0bn[1]) (DEC 14: R126,0bn[1])

TOTAL CAPITAL ADEQUACY RATIO
**14,5%**
(JUN 14: 15,0%) (DEC 14: 14,6%)

COMMON-EQUITY TIER 1 (CET1)
**11,4%**
(JUN 14: 12,1%) (DEC 14: 11,6%)

[1] *To align with the Basel disclosure requirements the total sources of quick liquidity are now stated as the quarterly average of month-end balances (ie June 2014 restated from R109,2bn to R113,3bn and December 2014 restated from R121,1bn to R126,0bn).*

- Nedbank Group remains well capitalised, with strong capital ratios and low levels of leverage, relative to its business activities, strategy, risk appetite, risk profile and the external environment in which the group operates.
- 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 liquidity coverage ratio (LCR) exceeding the minimum regulatory requirement of 60%, a strong loan-to-deposit ratio consistently below 100% and a low reliance on interbank and foreign-currency funding.
- Market risk remains low with the exception of interest rate risk in the banking book (IRRBB), which is well managed, incorporating impairment sensitivity and positioned for the expected rate cycle.
- Credit risk is well managed and growth is consistent with the group's portfolio tilt strategy, with the group benefiting from early actions taken in the home loans and personal loans portfolios. Derisking these portfolios has positioned Nedbank well for market-related growth going forward, while retaining our selective origination of credit.
- Further improvement was experienced in the credit loss ratio (CLR), which remained at the bottom end of the through-the-cycle (TTC) target range as a result of risk mitigating actions taken, while total coverage was maintained.
- Nedbank Group's operational risk losses remained low relative to gross operating income (GOI) and were within the group's risk appetite.

**Regulatory risk**

- The extent of regulatory change across the industry and its impact on our businesses and clients remains pervasive. As these requirements become more onerous, they are likely to change the shape of bank balance sheets, increase the costs of regulatory compliance, adversely impact the price of credit extension and, as a result, will cause banks to revise their strategies.
- The group's strategic focus areas have been designed to incorporate these changing requirements, but the nature and extent of these changes are such that their impact cannot be fully predicted. In addition, the group has established a comprehensive regulatory change programme that is focused on integrating these requirements while creating synergies and efficiencies through a strategic response and worldclass governance and programme management.
- Although the group is well positioned to respond to these regulatory changes, they are likely to put pressure on levels of return across the financial services industry as a result of, inter alia, the increased costs of compliance, increased quality and size of capital buffers, increased liquid-asset portfolios and decreased levels of liquidity transformation. These should in turn lead to lower levels of risk.

# GROUP STRUCTURE AND BASIS OF PILLAR 3 DISCLOSURE

The group's comprehensive Pillar 3 and public disclosure is in line with regulation 43 of the regulations relating to banks in SA based on Basel III. 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.

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' section on the next page, again in compliance with the regulations.

## NEDBANK GROUP LIMITED

### NEDBANK LIMITED 100%

#### Local subsidiaries

- BoE Holdings (Pty) Limited (H)
- Peoples Mortgage Limited (F)
- Nedcor Investments Limited (F)
- Nedgroup Investment 102 Limited (F)
- Depfin Investments (Pty) Limited (F)
- BoE Investment Holdings Limited (H)

#### Foreign Nedbank subsidiaries

- Nedbank (Lesotho) Limited (B)
- Nedbank (Swaziland) Limited (B) 65%
- 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) 71,4%
- Nedbank Namibia Limited (B)
- Nedgroup International Holdings Limited (Isle of Man) (H)
- Nedgroup Trust Limited (Guernsey) (T)

### 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 (Pty) Limited (SB)
- Nedgroup Collective Investments Limited (S)
- Nedinvest (Pty) Limited (FSB)
- Dr Holsboer Benefit Fund (T)[2]
- Nedgroup Securities (Pty) Limited (S)
- NBG Capital Management (Pty) Limited (F)
- NIB Blue Capital Investments (Pty) Limited (F)
- Nedgroup Private Wealth (Pty) Limited (F)

*All subsidiaries are wholly-owned, unless stated otherwise.*

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

[1] *Entities outside Pillar 3 consolidation.*

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

# CONSOLIDATED SUPERVISION

Consolidation of all entities for accounting purposes is in accordance with IFRS and for regulatory purposes is in accordance with the requirements of Basel III, the Banks Act and accompanying SA regulations.

There are some differences in the basis of consolidation for accounting and regulatory purposes. Accounting consolidation is based on IFRS statements whilst the regulations relating to the Banks Act 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 groups capital adequacy ratio (CAR) through the application of the threshold deduction method. Refer to the table, 'Summary of regulatory qualifying capital and reserves' on page 45 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 from 1 January 2013.

The following is a summary of the treatment followed for Basel III consolidation.

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

[1] *Includes regulated and unregulated entities.*
[2] *Types of activities 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.*
[3] *TSA = The Standardised Approach.*
[4] *IRB = Internal Ratings-based.*

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; and
- all commercial entities are treated as set out on the previous page.

# BASEL III RWA CALCULATION APPROACHES

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

| NEDBANK GROUP LIMITED | | | | | | |
|---|---|---|---|---|---|---|
| | Nedbank Limited | | | | | |
| Risk type | Nedbank Limited Solo[1] | Local subsidiaries | Foreign subsidiaries | Foreign subsidiaries | Trusts and securities entities | Other insurance entities[2] |
| Credit risk | AIRB/TSA[3] | AIRB/TSA | TSA | TSA | TSA | N/A |
| Counterparty credit risk | CEM | N/A | CEM[4] | N/A | N/A | N/A |
| Securitisation risk | AIRB | 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 Nedbank London branch. Nedbank Limited Solo is in line with the regulatory specifications for the bank entity.*

[2] *In terms of the regulations relating to the Banks Act, regulations 36(7)(a)(iii) and 36(10)(c)(ii) investments in insurance entities are only included in the calculation of the groups 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] *CEM is applicable for London branch only; all other foreign subsidiaries are not applicable.*

[5] *TSA portion in Nedbank Limited Solo is insignificant/immaterial.*

[6] *The AMA coverage is 93% and TSA is 7%.*

***Abbreviations:***

*AIRB = Advanced Internal Ratings-based.*

*CEM = Current Exposure Method.*

*IMA = Internal Model Approach [based on stressed value at risk (VaR)].*

*AMA = Advanced Measurement Approach.*

*SRWA = Simple Risk Weight Approach.*

*TSA = The Standardised Approach.*

# ENHANCED PILLAR 3 DISCLOSURE

In order to continue to strengthen confidence and trust in the banking system, banks are urged to place a greater emphasis on the comprehensive public disclosure of their risk and capital position and risk management processes and how this relates 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 which they believe are fundamental principles which should be included in a bank’s risk disclosure.

Nedbank has implemented the EDTF recommendations, where appropriate, in our quest 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 reports.

In January 2015 the Basel Committee on Banking Supervision issued Revised Pillar 3 Disclosure Requirements. Nedbank is currently involved with the Banking Association of South Africa (BASA), South African Reserve Bank (SARB) and peer banks regarding the implementation thereof in SA. The refinement of our Pillar 3 Report is an ongoing process to keep up with changing regulation and leading practice.

# RISK GOVERNANCE AND CULTURE

The business of banking fundamentally involves the management of risk. The primary function of a bank in an economy is funds maturity transformation. We lend out money, which gives rise to credit risk. We also receive money to fund our lending, resulting in asset and liability mismatches, as well as interest rate risk and liquidity risk. In addition, we trade and invest in financial markets that drive other market risks, and all these business activities are potentially prone to operational risk, reputational risk and other risks. Collectively there are 17 key risks that make up the risk universe in Nedbank's Enterprisewide Risk Management Framework (ERMF).

Accordingly, one of Nedbank Group's five deep green aspirations is to be 'worldclass at managing risk'.

Ultimately, the group seeks to optimise risk versus return on a sustainable basis, and risk management is therefore approached across three integrated core dimensions:

- 'Managing risk as a THREAT' – to minimise and protect against downside risk, and against material unforeseen losses.
- 'Managing risk as an UNCERTAINTY' – to eliminate excessive earnings volatility and minimise material negative surprises.
- 'Managing risk as an OPPORTUNITY' – to maximise financial performance through the application of superior risk and business intelligence, risk-based performance measurement, managing for value, strategic portfolio management and client value management.

A critical success factor in achieving Nedbank Group's 2020 vision and related financial aspirations is for the group's risk management, risk culture and risk infrastructure, together, to become a clearly distinctive competitive differentiator.

Adding to the importance of excellence in risk management has been the persistent volatile, uncertain, complex and ambiguous (VUCA) macroeconomic and geopolitical environments, both locally and globally.

Our regulatory landscape has changed significantly, impacted by ongoing Basel III implementation from 2013 to 2019, anti-money-laundering (AML) and combating the financing of terrorism (CFT), Solvency II/SAM, Twin Peaks (in 2016), the Financial Sector Regulation Bill, market conduct risk and regulation [eg Treating Customers Fairly (TCF)], amendments to the National Credit Act (NCA) as well as other consumer protection legislation. This means that it can no longer just be a deep green aspiration to be worldclass at managing risk but rather, it has become an imperative to survive and thrive. Nedbank embraces these significant regulatory changes as they help us enhance our clients' experience, and the bank's relationship with and service to them, and also strengthen the safety and soundness of our organisation and country. We approach these regulations as a lever to elevate our risk management further in an integrated manner, through our client-centric, strategic emphasis, the improvement of the onboarding of our clients and the 'know your client' (KYC) initiative.

While regulation has indeed changed banking over the past five years, and continues to do so, technological advancement, together with rapid innovation, is likely to see information technology reshaping banking over the next five to ten years, leading to heightened key risk focuses, such as cybercrime, but also to strategic opportunities. As in the case of regulatory and conduct risks, we are giving much greater focus to information technology risk and strategic risk in our risk plans for 2016 to 2018 and further out to 2020.

Additionally, with our expansion and strategic intent of building a Pan-African banking network, we are enhancing our risk management focus and capability in the rest of Africa, addressing the related risk appetite holistically.

Of course, our more traditional major risks of credit and liquidity remain, as always, a key focus, and we will leverage the implementation of the IFRS 9 and Basel III to elevate credit and liquidity risk measurement and management to an even higher level than today.

Nedbank Group has a sound risk culture that has generally served us well over the past several years. However, with the continuing VUCA macroeconomic and geopolitical environments, the highly competitive environment, extensive regulation, the zero tolerance of regulators, technological advancement and innovation, and in view of our fundamental business of managing risk, risk management will have to become a competitive differentiator for Nedbank if we want to achieve our 2020 vision on a sustainable basis. We must truly be 'worldclass at managing risk'.

Therefore, the vision for risk at Nedbank Group is to be admired as Africa's leading bank in risk management by both our internal and external stakeholders, being a core strategic and competitive differentiator that helps make Nedbank's 2020 aspirations happen in a sustainable manner.

**The origins of risk within Nedbank Group**

Nedbank Group is made up of three client-facing clusters and the Rest of Africa. The business undertaken by the group and clusters, the strategic focus areas and the core activities give rise to Nedbank's risk universe as disclosed on page 31.

Our risk management is underpinned by a comprehensive, best-practice ERMF, which we are constantly evolving and enhancing so it remains relevant and most effective in this environment and changing times and risks.

## OVERVIEW OF NEDBANK GROUP'S ENTERPRISEWIDE RISK MANAGEMENT FRAMEWORK

### Risk Universe

- Accounting and Taxation Risks
- Operational Risk
- Insurance and Assurance Risk (Underwriting Insurance Risk and Corporate Insurance)
- New Business Risk
- Liquidity Risk
- Capital Risk
- Market Risk (Trading Book; Banking Book)
- Investment Risk
- Information Technology Risk
- Credit Risk
- Compliance Risk
- Strategic Risk
- Reputational Risk
- Transformation Risk
- Social and Environmental Risk
- People Risk

### 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 board is assisted by eight board committees.
- The Group Exco is assisted by six subcommittees and the Group Operational Committee (Opcom), Taxation, Property, Procurement, Reputational Risk Committee and Group Transformation Forum.
- The Chief Risk Officer reports to the Chief Executive, who has ultimate individual accountability for risk.
- Group Risk Cluster is independent of the operational business units.
- Strong emphasis in the ERMF is placed on individual accountability and not on undue reliance on committees.
- Primary responsibility and accountability for the risks originating in the businesses are clearly assigned to the respective business cluster leaders and executives.
- Risk management frameworks and risk officers are in place across all businesses and Group Technology for all major risk types.

**1ST LINE OF DEFENCE**

### Board Committees

**Board of Directors**

- Group Audit Committee
- Group Risk and Capital Management Committee
- Group Information Technology Committee
- Group Credit Committee
- Large Exposure Approval Committee
- Directors' Affairs Committee
- Transformation, Social and Ethics Committee
- Group Remuneration Committee

### Group Exco Committees

**Group Executive Committee (Group Exco)**

- Executive Taxation Committee
- CFO Forum
- Group Operational Risk Committee
- Group ALCO and Executive Risk Management Committee
- Property Strategy Committee
- Group Procurement Committee
- Executive Information Technology Committee
- Divisional Credit Committees
- Business Risk Management Forum
- Brand and Client Committee
- Reputational Risk Committee
- Nedbank Employee Equity Forum
- Group Transformation Forum
- Transformation and Human Resources Executive Committee
- Brand Risk Management Forum

**Group Operational Committee (Opcom)**

### Business Clusters' Risk Governance

NEDBANK RETAIL AND BUSINESS BANKING, NEDBANK CORPORATE AND INVESTMENT BANKING, NEDBANK WEALTH AND REST OF AFRICA (DIVISION)

- Cluster and business unit EXCOs, Divisional Credit Committees (DCCs), Trading Risk Committee, Investment Committee and Enterprise Risk Committees (ERCOs) and other specialist committees, with representation from the relevant independent group functions.
- Heads of risk and risk functions, independent of business origination, report directly to business cluster heads.

### Central Finance and Balance Sheet Management

**Group Finance**

**Chief Financial Officer – Raisibe Morathi**

- BUSINESS TRANSFORMATION – Ian Fuller
- GROUP BUSINESS SERVICES – Darryl McMullen
- GROUP FINANCIAL CONTROL – Steven Bird
- PLANNING, ANALYSIS AND TECHNICAL FINANCE – George Procommenos
- SHARED SERVICES AND CONTROL FINANCE – Vern Solomon
- STRATEGY, PROJECT AND RISK MANAGEMENT – Veona Watson
- INVESTOR RELATIONS – Alfred Visagie
- GROUP TAX – Riaan Cloete

**Balance Sheet Management**

**Group Executive: Balance Sheet Management – Mike Davis**

- CHIEF FINANCIAL OFFICER – Kobus Bisschoff
- INTEREST RATE RISK MANAGEMENT – Philip Visser
- GROUP STRESS TESTING AND GROUP VALUE BASED MANAGEMENT AND INTERNAL REPORTING – Charlotte Crowther
- LIQUIDITY AND FUNDING MANAGEMENT – Paul Bowes
- CHIEF OPERATING OFFICE – Alan Faber
- STRATEGIC CAPITAL MANAGEMENT – Nandi Mxokozeli

**2ND LINE OF DEFENCE**

### Independent Group Risk and Compliance

**Group Risk**

**Chief Risk Officer – Trevor Adams**

- INTEGRATED FINANCIAL CRIME AND SECURITY – Nick Jacobs
- GROUP FORENSIC SERVICES – Gerda Ferreira
- GROUP INSURANCE – Phillip Kaye
- ENTERPRISEWIDE RISK MANAGEMENT – Sheralee Morland
- GROUP OPERATIONAL RISK MANAGEMENT – Jan van Zyl
  - GROUP DATA MANAGEMENT
- GROUP CREDIT RISK MONITORING – Johan Theron
- GROUP MARKET RISK MONITORING – Albertus Bekker
- RISK STRATEGY AND REGULATORY CHANGE PROGRAMME OFFICE – Grant Kelly
- GROUP LEGAL – Anna Isaac
- GROUP CREDIT PORTFOLIO MANAGEMENT – Tony Johnson
- CHIEF OPERATING OFFICE – Dhiren Haripersad

**GROUP ENTERPRISE GOVERNANCE AND COMPLIANCE**

CHIEF GOVERNANCE AND COMPLIANCE OFFICER – Thabani Jali

**3RD LINE OF DEFENCE**

### Independent Assurance

**Internal and External Audit**

- GROUP INTERNAL AUDIT
- EXTERNAL AUDIT
- INDEPENDENT ACTUARIES

The ERMF, fully embedded in business and central functions across Nedbank Group, is supplemented by individual frameworks such as those for credit risk, market risk, liquidity risk, operational risk, capital risk and a comprehensive stress and scenario testing framework. Coupled with these are a complete set of risk policies, practices and procedures that operate within specific limits. These include the role of the board, the setting and monitoring of the group's risk appetite and risk limits, and oversight of the ERMF, duly assisted by its board committees. At executive management level the Group Executive Committee (Group Exco) is assisted with its risk, strategic and operational responsibilities by the respective committees.

In these various committees the 17 key risks are contained in formal terms of reference (or charters) and linked to the agendas of meetings. Comprehensive reporting on the universe of risks thus occurs at least quarterly, where their status, materiality and effective management are assessed, reviewed and challenged. This process originates in the business clusters, proceeds based on materiality up to the group executive level and then to the non-executive board level.

The ERMF facilitates effective challenge and debate at executive management and board levels, and strong interaction across the group, between the clusters and central group services. This requires a continuous process of risk identification, measurement, management, monitoring and formal review and assessment by our external auditors.

Within the ERMF, processes are integrated with the group’s strategic and business planning, new and/or emerging risks are identified, captured and addressed. A residual-heat map is used to support the iterative reassessment of the 17 key risks. Escalation criteria have been defined and significant risks/issues and limit breaches are raised and recorded in the Key Issues Control Log, which is a fundamental tool of the ERMF and risk reporting across Nedbank Group, and is reviewed by executive management and the board.

A formal process is followed in an annual review of risk policies, limits and frameworks that comprise the ERMF.

The ERMF has served Nedbank well and has been resilient through economic cycles. The organisation has placed a strong reliance on this Risk Governance Framework and the Three Lines of Defence Model, which underpins Nedbank Group’s aspiration to be 'worldclass at managing risk'. However, in response to evolving, emerging risk trends, changing business environment, the significant regulatory change and developments, a refresh of the ERMF is underway incorporating the current internal and external environment, with a focus on:

- Simplifying and revisiting the key risks comprising Nedbank’s risk universe.
- Enabling innovation, new product development and regulatory compliance with a strong focus on 'know your client'.
- Ensuring best-practice risk management and leveraging the extensive regulatory developments to achieve this.
- Structural changes following the creation of the integrated corporate and investment business and more integration of the RBB business.

The process of corporate governance, including the risk management process, as contemplated in regulation 39 of the Banks Act, 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, is carried out with due regard to governance, risk management and long-term planning of the banking group.

Across the ERMF, Nedbank applies the three-lines-of-defence model in its risk governance.

- First line – The board and management of Nedbank Group are ultimately responsible for the implementation and management of risk.
- Second line – Group Risk and Enterprise Governance and Compliance perform a policy-setting and monitoring role, and to ensure implementation of best-practice risk management principles, methodologies, practices, systems and processes lead by the Chief Risk Officer.
- Third line – Group Internal Audit (GIA), external auditors and independent actuaries provide additional assurance on the effectiveness of risk management across the organisation.

The three-lines of defence of Nedbank's ERMF, as well as the principle responsibilities that extend across the group, function as follows:

## NEDBANK'S THREE-LINES OF DEFENCE

| 1ST Line Of Defence | 2nd Line of Defence | 3rd Line of Defence |
|---|---|---|
| Nedbank Group Board of Directors | | |
| 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. | Independent risk oversight and monitoring by the Group Risk and Enterprise Governance and Compliance Divisions. | Independent assurance provided by Internal and External Audit. |
| **Strategy, Performance and Risk Management** | **Policy, validation and oversight** | **Independent assurance** |

**1st Line of Defence**

- Board Committees
- Chief Executive (CE)
- Group Executive Committee
- Executive Committees
- Chief Operating Officer
- **Rest of Africa:** Investments, Alliances and Strategy Subsidiaries
- Group Marketing, Communications and Corporate Affairs
- Nedbank Corporate and Investment Banking (CIB)
- Nedbank Wealth
- Nedbank Retail and Business Banking

Spanning the 1st and 2nd lines:

- Balance Sheet Management[1]
- Group Human Resources[1]
- Group Technology[1]
- Group Strategic Planning[1]
- Group Finance[1]

**2nd Line of Defence**

- Group Chief Risk Officer (CRO)
- Group Risk

The Chief Risk Officer, who reports directly to the CE, provides:

- Strategic risk management leadership
- Group independent risk oversight
- Key support to various risk committees
- Interacts closely with the business units
- Is responsible for championing effective enterprise-wide risk management and control
- Independent model validation
- Some first line functions, eg forensics and physical security

- Group Chief Governance and Compliance Officer
- Group Enterprise Governance and Compliance

The group Chief Governance and Compliance Officer, who reports directly to the CE, provides continuous strategic compliance risk management leadership, 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.

**3rd Line of Defence**

- Group Internal Audit
- External Auditors
- Independent Actuaries

**2nd line functions performed in front facing clusters**

| Nedbank Corporate and Investment Banking (CIB) | Nedbank Wealth | Nedbank Retail and Business Banking | | Group functions |
|---|---|---|---|---|
| Executive Head: Risk | Executive Head: Risk | Executive Head: Risk (Retail) | Executive Head: Risk (Business Banking) | Executive Head: Risk |
| BU Risk Officers | BU Risk Officers | BU Risk Officers | | BU Risk Officers |
| Head Governance and Compliance | Head Governance and Compliance | Head Governance and Compliance | | Head Governance and Compliance |
| BU Compliance Officers | BU Compliance Officers | BU Compliance Officers | | BU Compliance Officers |

[1] *These functions undertake an element of both the 1st and 2nd line of defence roles.*

**Sustaining a strong risk culture**

Nedbank Group has a strong risk culture and follows best practice enterprisewide risk management, which aligns strategy, policies, people, processes, technology and business intelligence in order to evaluate, manage and optimise the opportunities, threats and uncertainties the group may face in its ongoing efforts to maximise sustainable shareholder value within the group's defined risk appetite.

Nedbank embraces risk management as a core competency that allows the business to optimise risk-taking and is objective and transparent. This ensures that the business prices for risk appropriately, linking risk to return.

The importance attached to risk management and the attention given to it is deeply rooted in Nedbank's culture. Being 'worldclass at managing risk' is included as one of five 'deep green' aspirations in the group's strategic framework and cascades down across the organisation.

## NEDBANK GROUP'S STRATEGIC FRAMEWORK INCORPORATES RISK MANAGEMENT

**VISION**

TO BE AFRICA'S MOST ADMIRED BANK BY ALL OUR STAKEHOLDERS – OUR STAFF, CLIENTS, SHAREHOLDERS, REGULATORS AND THE COMMUNITIES THAT WE LIVE IN

**DEEP GREEN ASPIRATIONS**

| Great place to work | Great place to bank | Great place to invest | Worldclass at managing risk | Green and caring bank |
|---|---|---|---|---|

**In Nedbank, to be 'Worldclass at managing risk' means that**:

'Understanding, measuring and managing risk are central to everything we do. We have engrained risk management in our business. We understand that banking at Nedbank is about managing risk, not avoiding it. Our risk management methodologies are worldclass.'

**Approach to risk and balance sheet management**

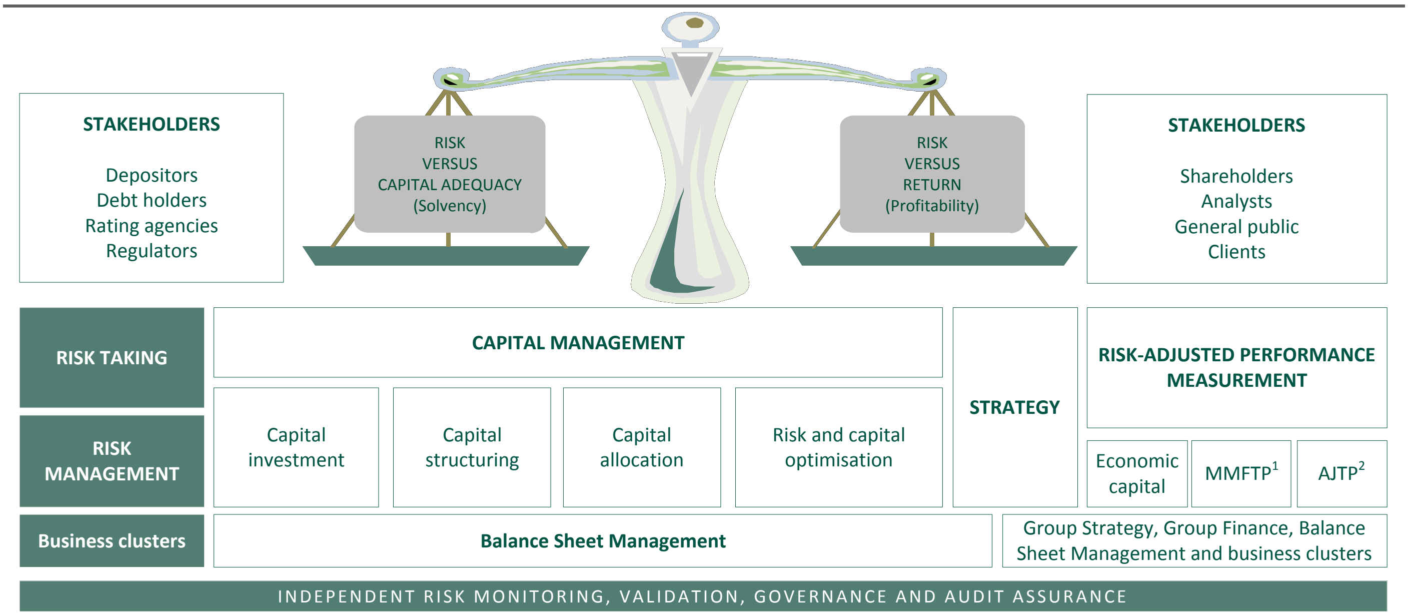
We approach our strategy development, business activities, risk appetite, risk and balance sheet management in a fully integrated manner. At the heart of the group's business and management processes are integrated worldclass risk and balance sheet management frameworks.

## NEDBANK GROUP'S RISK AND BALANCE SHEET MANAGEMENT FRAMEWORKS

- ERMF
  - Sub frameworks (examples)
    - Group Credit Risk Management Framework
    - Group Market Risk Management Framework
    - Group Operational Risk Management Framework
    - Group Liquidity Risk Management Framework
- Capital Management Framework
  - Solvency and Capital Management Policy
  - Economic Capital Framework
- Stress and Scenario Testing Framework
- Risk Appetite Framework
- Risk-adjusted Performance Measurement Framework

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

## NEDBANK GROUP'S CAPITAL MANAGEMENT FRAMEWORK




[1] *MMFTP = Matched maturity funds transfer pricing.*

[2] *AJTP = Activity-justified transfer pricing.*

Nedbank Group's Capital Management Framework (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.

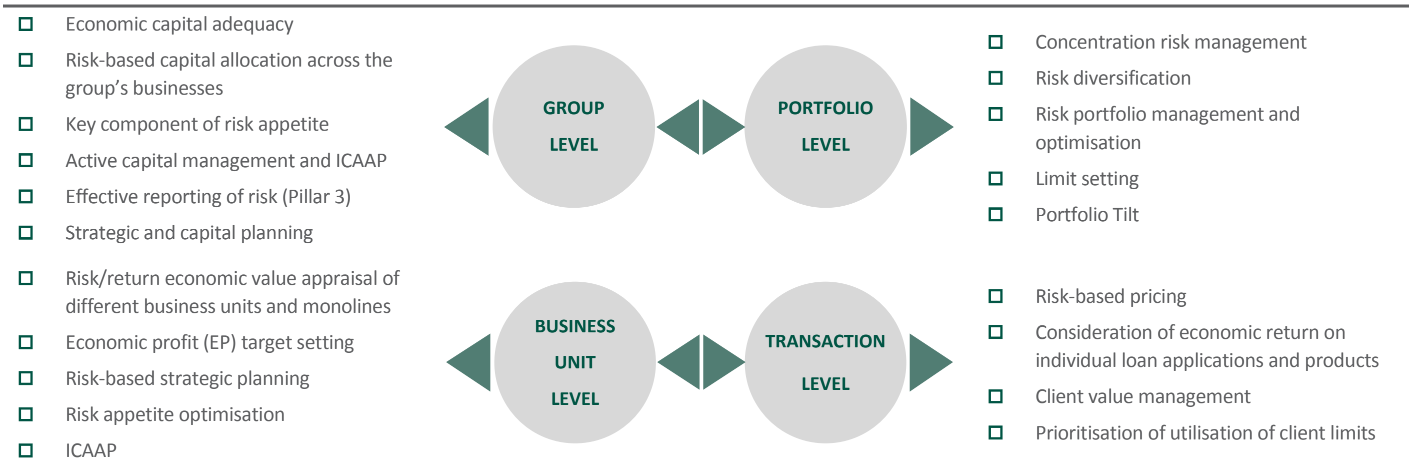
All Nedbank Group's quantifiable risks across the 17 key risks of the ERMF are also captured in our Economic Capital Framework.

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 assesses the internal requirements for capital using its proprietary economic capital methodology.

All of these quantifiable risks, as measured by 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. Please refer to page 50 for detail.

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

## ECONOMIC CAPITAL USE ACROSS NEDBANK GROUP




The Nedbank Group's economic capital and ICAAP methodology is constantly reviewed and updated, taking cognisance of regulatory developments such as Basel III and Solvency II/SAM. Refer to page 33 for the economic capital changes implemented as part of this year's enhancements.

Economic capital not only facilitates a 'like for like' measurement and comparison of risk across businesses, but, by incorporating it 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 (VIA ECONOMIC CAPITAL ALLOCATION)**

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

EP is a combination of familiar metrics that enables trade-off between:

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

Currently EP and RORAC are used interchangeably as the primary measure for performance measurement 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 (economic capital), however, the return is not risk-adjusted as IFRS earnings are used. This is shown in the table below.

The risk-adjusted return on capital (RAROC) measure is calculated using both risk-adjusted return and capital, and is also reported internally as a secondary performance measure. In order to derive the risk-adjusted earnings, impairments are replaced with expected loss (EL). Impairments represent an accounting charge that is cyclical in nature and volatile over the economic cycle, whereas the expected-loss charge is a through-the-economic-cycle measure that is more aligned to long-run business profitability and sound management decision making.

Globally, following the financial crisis, 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.

| R | | |
|---|---|---|
| EP | = | 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 that RORAC or RAROC provides.

| % | | |
|---|---|---|
| RORAC OR RAROC | = | [IFRS EARNINGS FOR RORAC (INTERNAL ROE) (OR RISK ADJUSTED PROFIT FOR RAROC) + CAPITAL BENEFIT] ÷ ECONOMIC CAPITAL |

- Value is created if RAROC OR RORAC > hurdle rate.
- If capital is scarce, businesses with the highest RORAC or RAROC (ie highest marginal return per rand of economic capital) should be prioritised.
- No information on magnitude of value being created for shareholders which EP provides.

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

In line with Basel III and the Banks Act regulations, a best practice Internal Capital Adequacy Assessment Process (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 Internal Liquidity Adequacy Assessment Process (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 practise and regulatory developments. Further detail regarding the framework is discussed in the Liquidity Risk 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 Recovery Plan 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 recovery plan 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 recovery plan also covers the various options considered by senior management to mitigate stresses encountered by Nedbank.

The recovery plan fits into and aligns with Nedbank's ERMF and complements the existing group's capital, liquidity and stress-testing policies and procedures.

National Treasury, SARB and the FSB recently released for comment a white paper titled 'Strengthening SA's Resolution Framework for Financial Institutions' in August 2015. This paper will form the basis of a new Special Resolution Bill that will facilitate the resolution of a financial institution. Nedbank's Recovery and Resolution Plan will be appropriately enhanced when this bill is finalised and enacted by 2017.

Further information is discussed in the Recovery Plan Overview section.

Nedbank Group has a comprehensive Stress and Scenario Testing Framework as described from page 18, which is used, inter alia, to stress its base-case projections in order 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 Risk Appetite Framework was first approved by the board of directors in 2006 and subsequently is being significantly enhanced, which is 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, RORAC and RAROC as well as other important metrics 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. This risk-adjusted performance measurement (RAPM) has been applied across the group for many years now 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 risk-based economic capital allocation, as discussed above. 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 Remuneration Report within the Integrated Report, which can be found at www.nedbankgroup.co.za. Nedbank Group continues to monitor the evolving governance environment to ensure appropriate compliance of the group's risk-adjusted remuneration practices with the 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 total RWA to total assets and the Basel III leverage ratio, comprise the group's core risk appetite metrics. In addition, a large variety of other risk appetite metrics with targets, triggers, mandates and guidelines are in place for all the financial risks [eg credit, market, asset and liability management (ALM) and concentration risks]. The suite of base-case risk appetite metrics are incorporated into the business plans at both group and business cluster levels. Stressed (extreme event) risk appetite limits for the point-in-time 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, major business unit and the monolines in Nedbank Retail. The relevant operational risk appetite metrics have also been cascaded down to the business cluster level.

The current risk appetite metrics for Rest of Africa is under review given the acquisition of an approximate 20% shareholding in ETI as well as Nedbank Group's Pan-African growth strategy.

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, which are updated annually. The coordination and maintenance of this formal process rests with the head of Enterprisewide Risk Management, who reports directly to the Chief Risk Officer.

Nedbank Group's core risk appetite is defined as per the table below:

## NEDBANK GROUP CORE RISK APPETITE METRICS

| Group metrics | Definition | Measurement methodology | Current target | Target achieved as at June 2015 |
|---|---|---|---|---|
| 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 | ✓ |
| 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 10% buffer | ✓ |
| Total RWA to total assets | The average risk profile (risk weight) of Nedbank Group's assets. | Measured as the ratio of total RWA and total assets. | 50% – 59% | ✓ |
| Leverage ratio | 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 | ✓ |

Nedbank Group's Risk Appetite Framework 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 Risk Appetite Framework and RAPM system (ie for RORAC, EP measures).

Nedbank Group has a cascading system of risk limits at all levels of the group and for all financial risks, which is a core component of the implementation of the Risk Appetite Framework. The size of the various 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

| % | Through-the-cycle targets |
|---|---|
| **Core risk appetite metrics** | |
| Earnings at risk (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 |
| AFR/economic capital at 99,93% confidence interval (A target rating) | > 110 |
| Total RWA:Total assets (%) | 50 – 59 |
| Leverage ratio (including unappropriated profits) | < 20 times |
| **Credit risk profile** | |
| Credit loss ratio | 0,80 – 1,20 |
| Credit RWA:Loans and advances | 52 – 58 |
| Properties in possession:Loans and advances | < 0,1 |
| Average PD – performing book (TTC) | < 3 |
| Average LGD – performing book (TTC) | 18 – 24 |
| Average expected loss – performing book (TTC) | 0,5 – 0,8 |
| Non-performing loan (NPL) ratio | < 3,5 |
| Exposure at default (EAD):Exposure | < 120 |
| **Counterparty credit risk (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** | |
| VaR (99%, three-day) | < 127 |
| Stress trigger (Rm) | < 846 |
| 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 | < 57 |
| Cumulative short- and medium-term (0 to 180 days) funding:Total funding | < 73 |
| Long-term (> 180 days) funding:Total funding | > 27 |
| Contractual maturity mismatch (0 to 31 days):Total funding | < 38 |
| Liquidity stress event (minimum survival period):Days | > 35 |
| Net interbank reliance:Total funding | < 1,5 |
| **ALM risk profile – IRRBB** | |
| Nedbank Group – NII sensitivity:Equity | < 2,25 |
| Nedbank Group – NII sensitivity (25 bps shift in call rates):Equity | < 1 |
| Nedbank Limited – NII sensitivity:Equity | < 2,5 |
| Nedbank Limited – NII sensitivity (25 bps shift in call rates):Equity | < 1 |
| Nedbank Limited – Economic value of equity (EVE) sensitivity:Equity | < 2 |
| Nedbank Limited – MtM Sensitivity:25 bps shift between bond and swap curves (Rm)[1] | < 215 |
| Nedbank Group – MtM Sensitivity:100 bps parallel shift (Rm)[1] | < 150 |
| **ALM risk profile – FCTR** | |
| Currency equity:Total equity | < 6 |
| **Long-term insurance risk profile** | |
| Net claims ratio[2] | < 50 |
| Earnings at risk | < 40 |
| Capital at risk (required capital) | > 1,50 |
| Economic capital ratio | > 1,0 |
| **Short-term insurance risk profile** | |
| Net claims ratio[2] | < 75 |
| Earnings at risk | < 40 |
| Capital at risk (required capital) | > 1,30 |
| Economic capital ratio | > 1,00 |

## NEDBANK GROUP RISK APPETITE

| % | Through-the-cycle targets |
|---|---|
| **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:GOI | < 1,0 |
| Internal fraud loss:GOI | < 0,1 |
| External fraud loss:GOI | < 0,4 |
| Client, products and business practices:GOI | < 0,3 |
| Execution, delivery and process management (EDPM):GOI | < 0,4 |
| OpVaR:GOI | < 10 |

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

[2] *% of gross premium, net of re-insurance.*

Nedbank Group has developed and embedded a prudent and conservative risk appetite, focused on its core activities. This is illustrated by reference to the following:

- Reasonable credit concentration risk levels.
  - Large individual or single-name exposure risk is low as shown on page 138.
  - The high contribution from loans and advances originated in SA (91,8%) 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 in the concentration risk section on page 140.
  - Nedbank Group's concentration in total mortgage exposure decreased from December 2014 but remains high at 40,9% which is however in line with the other big three SA banks.
- Counterparty credit risk (CCR) is almost exclusively restricted to non-complex banking transactions. There is continued emphasis on the use of credit mitigation strategies, such as netting and collateralisation of exposures.
- Low level of securitisation exposure at approximately 0,5% of total RWA.
- Low leverage ratio under Basel III, which includes off-balance-sheet exposure, at 15,9 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.
- The group's selective asset origination and disciplined risk management is further evidenced by the CLR which remains below the target range at 0,77% (0,83% as at June 2014).
- Low trading market risk 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). The risk appetite within the trading business has remained largely unchanged over the past two years. Trading activities have focused on the domestic market with a bias towards local interest rate and forex products, with an even lower 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.
- Both equity (investment) risk and foreign currency translation (FCT) risk increased in 2014 due to the investment in Ecobank Transnational Incorporated (ETI) (carrying value of R5,6bn as at 30 June 2015) and, hence, will be actively managed as part of the aforementioned enhancement of the risk appetite for Rest of Africa.
- Comprehensive stress and scenario testing performed during the period confirm the adequacy and robustness of the group's CARs and accompanying capital buffers.
- Individual risk appetite targets, as relevant to the approved business activities, have been approved and cascaded down from group level for each business cluster, major business unit and the product lines in Nedbank Retail. Additionally, individual limits for CLRs in a stressed macroeconomic environment have been approved and cascaded down.

In conclusion, Nedbank Group has a strong risk culture and a conservative risk appetite, which is well-formalised, managed and monitored on an ongoing basis, bearing the board's ultimate approval and oversight.

# STRESS AND SCENARIO TESTING

Nedbank Group has a comprehensive Stress and Scenario Testing Framework which is used, inter alia, to stress its base-case projections in order to assess the adequacy of Nedbank Group's capital levels, capital buffers and target ratios. The framework in place is continuously enhanced and is an integral part of the group's ICAAP under Basel III, strategy and business plans.

The group's stress and scenario testing recognises and estimates the potential volatility of the capital requirements and base-case (expected) three-year business plan projections, including the key assumptions and sensitivities contained therein, which themselves are subject to fluctuation. Comprehensive stress and scenario testing is performed and reported quarterly, during the strategic three-year planning process, and more regularly if called upon.

Nedbank's approach to comprehensively cover stress and scenario testing, both for regulatory and economic capital purposes, comprises several levels, including macroeconomic stress testing, reverse stress testing (ie what would 'break the bank'), benchmarking to the latest and previously relevant international stress testing exercises, procyclicality tests (ie the extent to which Nedbank's capital levels fluctuate through economic cycles), cluster and business unit level stress testing, and additional ad hoc stress scenarios determined through executive and non-executive input.

The impact of the stress scenarios on Nedbank's impairments, earnings, liquidity position, CARs and capital buffers is considered. The macroeconomic stress testing scenarios include a continuum of stress levels from mild to high stress levels, a 1-in-25-year stress event and, finally, both severe inflationary and severe deflationary stressed environments.

The 2015 stress and scenario testing ICAAP results using the December 2014 base financial position and the 2015 to 2017 group business plans confirm that the capital levels and capital buffers at Nedbank, both current and projected capital positions (both regulatory capital and our internal capital assessment, economic capital), remain appropriate. We believe both Nedbank Group and Nedbank Limited are strongly capitalised relative to their business activities, strategy, risk appetite, risk profile and the difficult external macro-environment in which the group operates.

## APPROACH TO MACROECONOMIC STRESS AND SCENARIO TESTING

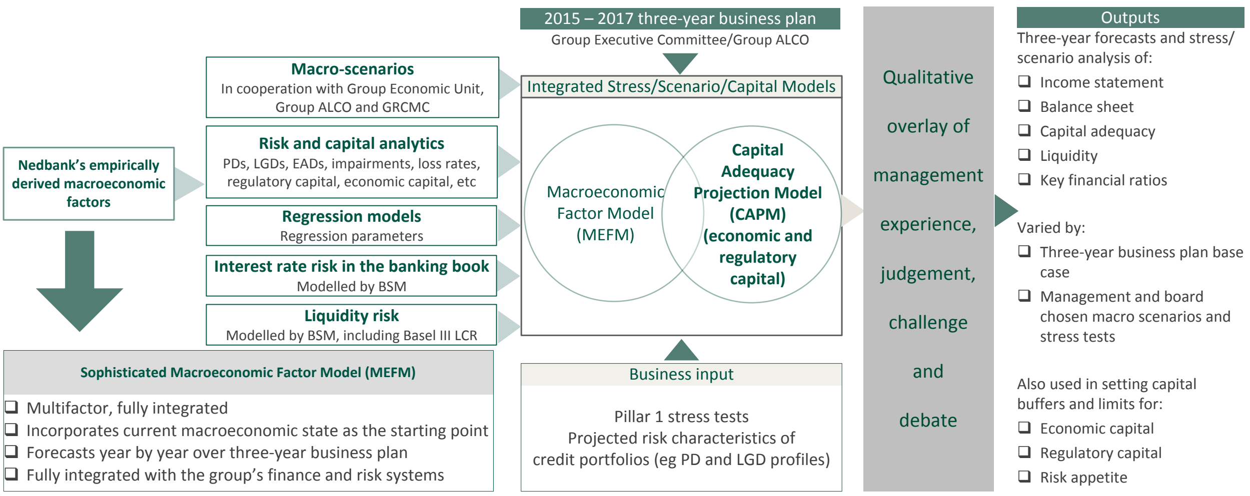
The main objective of the group's stress testing is to assess the effect of possible unexpected events on Nedbank Group's base-case projections, including the capital requirements, resources and adequacy of capital buffers for both regulatory capital and the ICAAP. In addition, stress testing is an important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

Nedbank Group's strategy and approach to cover stress and scenario testing, both for regulatory and economic capital purposes, comprehensively considers the groups:

- Risk profile (through stress testing of the capital requirements covering all quantifiable risk types).
- Capital profile (through stress testing of qualifying capital and AFR).
- Earnings (growth) profile (through stress testing of impairments, net interest income (NII), non-interest revenue (NIR) and consequently headline earnings).
- Return metrics (eg ROE, utilising the three points above).
- Risk appetite (eg through stress testing of EaR and credit risk appetite metrics at the group, cluster, business unit and retail monoline level).
- Liquidity profile (showing the link between stress scenario results to possible liquidity stress events).
- Incorporation of the effects from Basel III regulations in the forecasted results.

A high level depiction of the framework is provided in the figure below.

### OVERVIEW OF NEDBANK'S STRESS AND SCENARIO TESTING FRAMEWORK



The stress and scenario testing framework and process are adhered to in order to stress the base-case projections, and so assess and ultimately conclude on the adequacy of Nedbank Group's capital buffers and target CARs. The group's strategic planning process, rolling forecasts and integrated capital planning include three-year projections of expected (base-case) financial performance, regulatory (Basel III) and economic capital risk parameters and capital requirements, which are compared with projected AFR and the board-approved risk appetite metrics. The three-year projections and base-case capital planning are derived from the group's three-year business plans, which are updated on a quarterly basis during the year. The groupwide Macroeconomic Factor Model (MEFM) is utilised to stress test regulatory (Basel III) capital, economic capital, expected losses as well as AFR of the expected (base-case) three-year projections for Nedbank Group and Nedbank Limited for different macroeconomic stress events.

The following table provides a high level overview of the stress testing process and governance associated with each step.

## NEDBANK GROUP'S STRESS TEST PROCESS AND GOVERNANCE

| STRESS TEST PHASES | STRESS TEST PROCESS MODELLED BY NEDBANK'S PROPRIETARY MEFM | | GOVERNANCE |
|---|---|---|---|
| **Choice of scenarios** | **Choice of scenarios**<br>For example 'severe recession'. | The five scenarios of mild, high, severe inflation, severe deflation stress conditions and positive scenario conditions are determined by the Group Economic Unit and endorsed by the Group ALCO and board. Additional specific-event scenarios are added. The scenarios are updated regularly.<br><br>Each scenario covers a three-year forward-looking period to capture a negative (or positive) phase of a business cycle. | Group ALCO[1]<br>GRCMC[2]<br>GCC[2]<br>DCCs[2] |
| **Translation of scenarios** | **Macroeconomic forecasting**<br>Forecast macroeconomic variables (eg real GDP[3] growth, household debt-to income ratio, etc) for each scenario (mild, severe, etc).<br><br>**Impact of key risk drivers**<br>Holistic, MEFM calculates the impact on the key risk drivers (PD, LGD, decline in income growth, etc) for each scenario. | | Group Economic Unit<br>↕<br>Balance Sheet Management<br>↕<br>Group Risk |
| **Stress test calculations**<br>On the basis of the current portfolio and the three-year business plan, the stress tests calculate the consequences of the individual scenarios for RWA and so regulatory capital, economic capital, impairments charges, net profit and available capital resources. Risk types eg credit risk, business risk, investment risk, etc, are stressed within each scenario, and consolidated. | **Risk types**<br>Credit risk, business risk, operational risk, etc, calculation of RWA, economic capital and expected losses.<br><br>**Capital requirements**<br>For each stress scenario based on the MEFM. | **Earnings**<br>Effect on earnings change in activity level, interest rate margins, credit impairments, etc.<br><br>**Impact on available capital resources**<br>For each stress scenario based on the MEFM. | |
| **Overall results of stress tests** | **Decision on required capital buffers**<br>Decision on capital levels and buffers is based on an overall assessment, including several factors such as probability of the scenario, strategic measures, etc. | | Group ALCO[1]<br>and<br>GRCMC[2] |

*[1] Group ALCO = Group ALCO and Executive Risk Committee.*

*[2] GRCMC = Group Risk and Capital Management Committee (board committee). GCC = Group Credit Committee. DCC = Divisional Credit Committee.*

*[3] Gross domestic product.*

The MEFM covers all Nedbank Group's (group) and Nedbank Limited's (bank) portfolios. Income statements are stressed at the business unit level and then aggregated to the cluster, bank and group level. The same holds for stress testing of required capital per risk type, with the exception of credit risk, which is stressed at a subportfolio level, of which the results are then aggregated to the business unit, cluster, bank and group level.

The following are the key assumptions made in the model:

- Regression-based models are maintained for credit risk as this risk type is the most important (as measured by materiality), and has proven links to the macroeconomic cycle.
- The credit regression model has been enhanced mainly to ensure that the impact of lower inflation and lower interest rates in SA, are not underestimated given the structural change in interest rates over the past few years. Historically, low interest rates were associated with a positive macroeconomic environment, whilst recently low rates are linked with a weaker economic environment. Specifically, in a deflationary stress scenario, low interest rates are coupled with decreasing GDP, equity and property prices which have not been seen in our history.
- Structural models are maintained for IRRBB, business, investment and property risks, as these risks are structurally dependent on, and driven by, specific macroeconomic factors.
- A linked model is maintained for transfer risk, consistent with the Capital Adequacy Projection Model (CAPM).
- The chosen macroeconomic factors have undergone extensive data and validation processes, and proved to be the key drivers and best predictors contributing to losses due to the different risk types.
- Diversification between risk types is included within the model in exactly the same way as for economic capital. Diversification benefits between risk types are determined by utilising Nedbank-specific correlations.

Nedbank's approach to comprehensively cover stress and scenario testing, both for regulatory and economic capital purposes, comprises several levels. The 2015 ICAAP considered the following **seven main levels**:

- **Level 1 – Macroeconomic stress testing** (ie quarterly business-as-usual (BaU) scenarios provided by the Group Economic Unit).
  - Mild stress (at least a 1-in-4 year event scenario).
  - High stress (at least a 1-in-10 year event scenario).
  - 1-in-25 year stress event.
  - Severe inflationary stress (extreme, at least a 1-in-25 year event scenario).
  - Severe deflationary stress (extreme, at least a 1-in-25 year event scenario).

  These stress tests also consider and present, amongst other results the stressed Basel III leverage ratio, which is a focus of the 2015 international stress testing exercises in both the UK and the US.

- **Level 2 – Impairments and business unit specific management actions.**
  Impairments are analysed in all stress scenarios. This section addresses further plausible management actions that, if required, could be implemented by the business units in the key retail portfolios:
  - Home Loans.
  - Motor Finance Corporation (MFC).
  - Personal Loans.

- **Level 3 – Additional stress scenarios.**
  In addition to the above scenarios, the following scenarios are considered:
  - A further SA credit ratings downgrade scenario.
  - A low rate scenario depicting a continuation of the status quo, but with significantly lower real GDP growth, a firmer rand and lower global oil and food prices. In this scenario, the firmer rand emerges as a consequence of the US Federal Reserve delaying the normalisation of US interest rates this year, while credit growth is poor but is combined with lower inflation.
  - Sensitivity analysis of the impact of higher interest rates on consumers due to high debt levels across multiple portfolios.
  - A 'deep dive' into the Property Finance portfolio to consider the concentration risk inherent in the portfolio, its leading (and growing) domestic market share and evolving regulatory treatment of income-producing real estate (IPRE) exposures by global regulators.
  - Impact of strong actual and projected growth in renewable energy projects by Nedbank Capital, as well as stress testing of commodities, including the Oil and Gas segment, given the significant decrease in oil prices this year.
  - Impact of a default by five of the largest SA corporates on Nedbank's headline earnings and capital ratios.
  - Impact of the significant slow-down in lending by African Bank Limited on Nedbank's Personal Loans portfolio.

- Stress testing of the Rest of Africa:
  - Plausible currency translation stress due to the rand strength on Nedbank's share of dollar denominated associate income, together with a decline in in-country foreign exchange rates against the US dollar.
  - Plausible adverse scenario on Nedbank's ETI investment, assessing the adverse impact of the oil price decline on ETI's oil dependent businesses and resulting decline in Nedbank's associate income.
  - The impact of an appreciation of the US Dollar against the Ghanaian Cedi and other ETI in-country currencies of 25% and 50% respectively in terms of Nedbank's FCTR.
- Stress testing of concentration risk.
- Stress testing for credit valuation adjustments (CVA).
- The impact of a public sector strike on Nedbank's lending portfolios.
- Liquidity crisis.
- Material negative change in funding mix (from retail/commercial to wholesale), culminating in an increased liquidity buffer requirement.

- **Level 4 – Reverse stress testing** (ie what would 'break the bank').
  - Determination of the 'distance to default' that could trigger a liquidity event, with cross reference to the Nedbank Recovery Plan.
- **Level 5 – Benchmarking to the 2015 Bank of England and US Federal Reserve stress testing exercises.**
- **Level 6 – Procyclicality tests** (ie the extent to which Nedbank's capital levels fluctuate through economic cycles).
- **Level 7 – Cluster and business unit level stress testing.**

Pillar 1 stress testing is performed by each business unit which is approved by the business cluster's DCC's. The overall Pillar 2 stress test results and effects on regulatory capital, economic capital, available capital resources and therefore CARs are reported to the Group ALCO and the board's GRCMC on a regular basis (at least quarterly).

There is a focus to link different risk types in the stress scenarios, ie a market risk event (property price crash) may lead to a credit risk event (increase in impairments) and eventually to a possible liquidity crisis, depending on the severity of the losses.

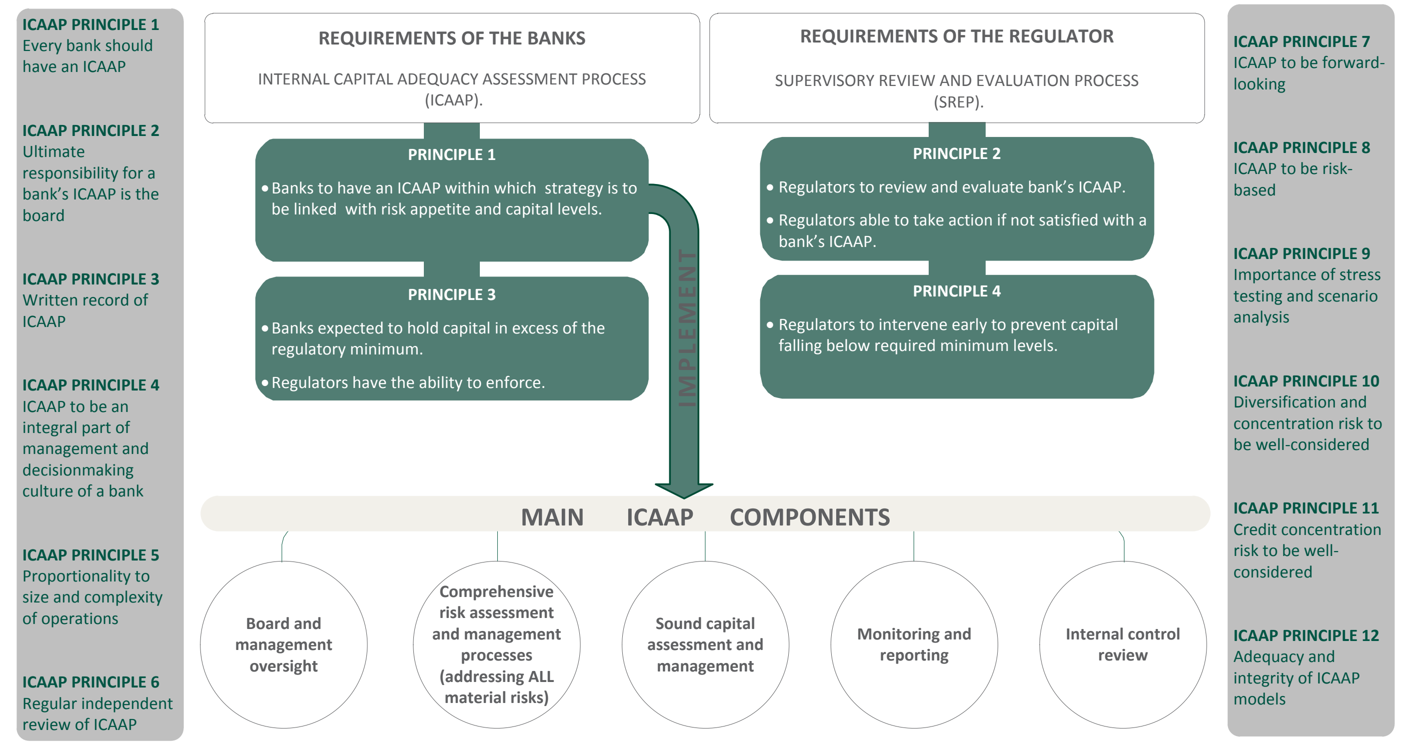
The results of the stress testing scenarios form part of Nedbank Group's ICAAP and the three-year business plan, which is reviewed by the board of directors. The forward-looking capability of the stress testing model ensures that management action can be taken in advance when necessary.

The latest stress and scenario testing results performed in August 2015, using the 2015 to 2017 business plan as the base, confirm that the capital levels and capital buffers, both regulatory capital and economic capital (Nedbank Group's internal capital assessment), remain appropriate. Nedbank Group's conclusion is that, the group is strongly capitalised relative to its business activities, strategy, risk appetite, risk profile and the external environment in which the group operates.

# INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS OVERVIEW

In line with the four key principles contained in Pillar 2 of Basel III, the SA regulations relating to banks set out, in regulation 39, the ICAAP requirements of banks and related Supervisory Review and Evaluation Process (SREP) requirements of the SARB. A summary of this is depicted below. In addition, the SARB provided further guidance in the form of Position Paper 230 ('Implementation of the Basel II framework Pillar 2 requirements, with specific reference to the ICAAP'), and specifies 12 'ICAAP principles'.

## SUMMARY OF THE ICAAP AND SREP REQUIREMENTS




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. ICAAP was completed in SA since 2008, following Basel II implementation.

To this end it is important to highlight that Nedbank Group has seven levels of capital and other components to be measured and managed simultaneously:

- Regulatory capital (risk-sensitive but is a global, universal standard with some limitations/restrictions).
- Economic capital (risk-sensitive using regulatory capital as the core foundation but is more economic-based and tailored internally and for the local environment, with less limitations/restrictions, and used for Nedbank's ICAAP).
- Rating agencies capital (their expectations of capital levels).
- Buffer capital (level of capital buffers to carry above minimum requirements).
- Actual book or statutory capital (based on greater of regulatory capital and economic capital requirements).
- Qualifying capital and reserves (to cover regulatory capital requirements).
- AFR (to cover economic capital requirements).

These different levels illustrate the delicate and challenging balancing act involved in effective capital management.

## SUMMARY BACKGROUND TO THE DIFFERENT CAPITAL LEVELS TO BE MANAGED

**MEASURES OF THE GROUP'S RISK PROFILE**
(capital requirements)

**Regulatory capital**

- Amount of capital required to protect the bank against **regulatory insolvency** over a one-year timeframe.
- Determined based on regulatory rules (ie Basel Accord, Banks Act and Regulations).
- 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 ICAAP and regulators SREP.

**Minimum capital you are told to have by regulators**

**Economic capital**

- 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.
- A comprehensive internal capital assessment that aligns more closely with the Rating Agency requirements.
- Designed to provide a level of confidence as to the bank's economic solvency to depositors, creditors, **debt holders** and shareholders.
- Used for many applications such as risk-based capital allocation, risk-based pricing, client value management, and the bank's ICAAP.

**Internal capital assessment, total level of capital you need**

**ACTUAL BOOK CAPITAL**
(capital resources)

**Available book capital**
(statutory)

- 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 to regulatory capital and economic capital 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'.

**Capital you actually have**

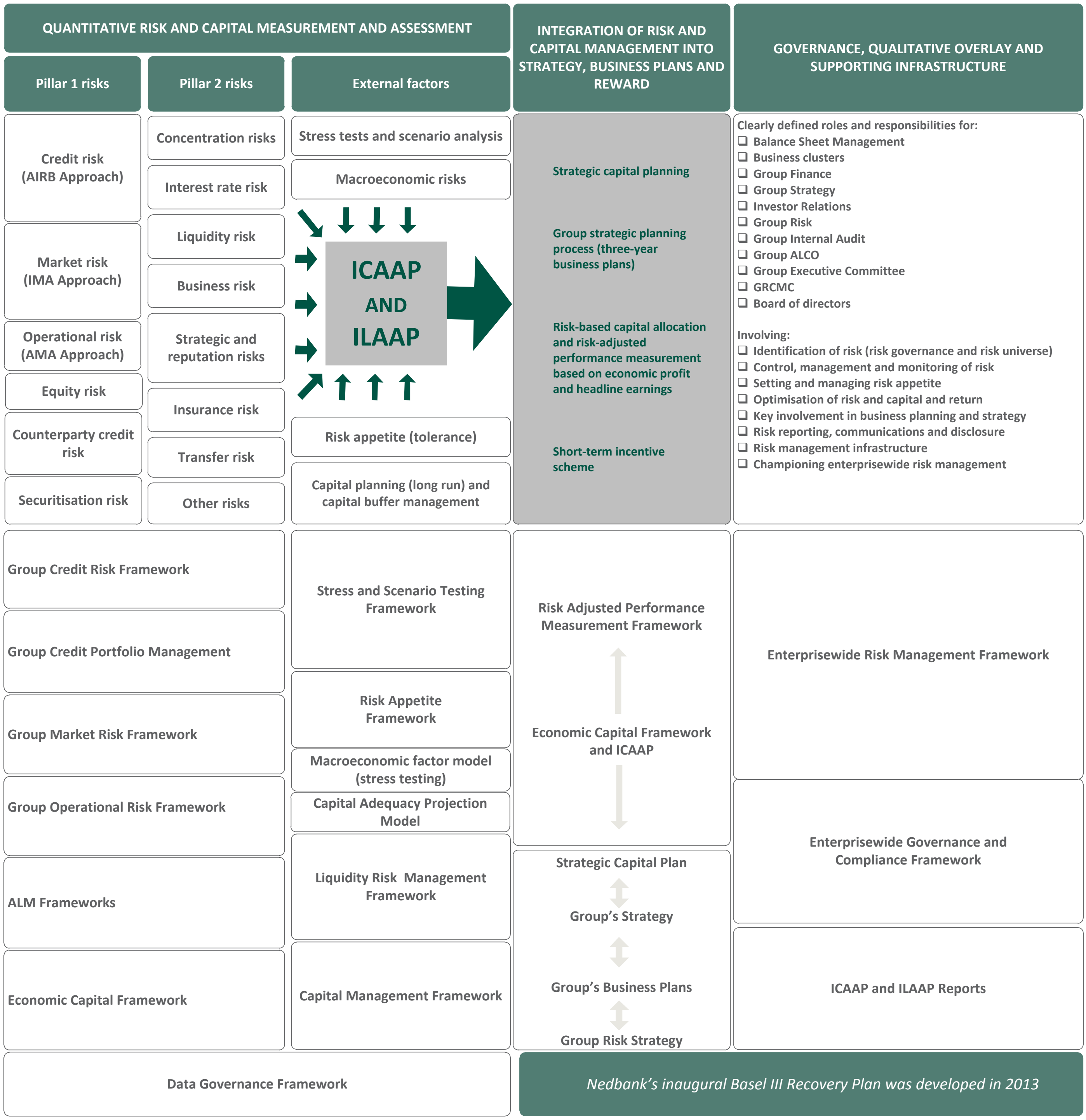
| Qualifying capital (regulatory capital) | Available financial resources (economic capital) |
|---|---|

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.

Nedbank Group's ICAAP blueprint, on the next page, 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




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 details of the group's capital management are covered from page 32.

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 Balance Sheet Management (BSM) Cluster.

# RECOVERY PLAN OVERVIEW

The financial crisis highlighted deficiencies in both banks and regulators risk management and supervisory frameworks, respectively. Post the crisis, regulation, mainly in the form of Basel III, has been largely about three key themes (capital, liquidity and risk coverage), and recovery and resolution planning (RRP) is a clear part of this in:

- Reducing the risk of banks failing (recovery plans).
- Reducing the impact of failure (resolution plans).
- Ring fencing the state/tax payers from any implicit support to the banking sector (ie mitigate against resolution with bail-out).

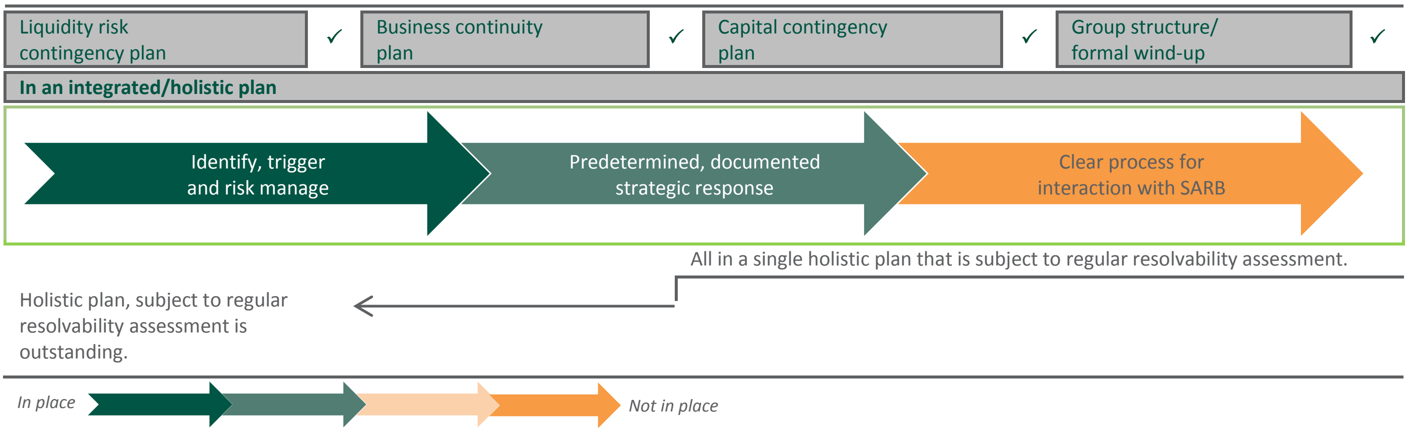
At a high level the RRP initiative is sponsored by the G20 and Financial Stability Board with national regulators required to develop resolution plans. As a member of the G20, SA has committed to develop robust and credible Recovery and Resolution Plans in line with Basel III. Recovery and Resolution Plans, while at an advanced stage internationally (in respect of GSIBs), are now at a progressive stage in SA, with SA banks having established recovery plans for the first time in 2013. The SARB released for comment its resolution white paper titled 'Strengthening South Africa's Resolution Framework for Financial Institutions' in August 2015, with industry comments required by the end of September 2015. By mid-year 2016 the draft Special Resolution Bill is expected to be finalised with the bill being enacted by 2017. The resolution white paper introduces and/or confirms the following:

- The establishment of a resolution authority (SARB) specifically responsible for managing the resolution of a financial institution.
- The creation of a Deposit Guarantee Scheme (DGS).
- 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 of in resolution than it would be in normal liquidation.
  - In order 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 gone-concern loss absorbing capacity (GLAC), 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 recovery plan outlined below:

- Liquidity: ✓
  - Liquidity Risk Contingency Plan (LRCP) established and embedded.
  - The LRCP and Recovery Plan were rigorously tested in March 2015 through a liquidity simulation that involved all relevant internal and external participants. The 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 this exercise and areas of improvement identified have either been implemented or will be implemented in due course.
  - Embedded ILAAP.
- Capital: ✓
  - ICAAP.
  - Existing hybrid debt, preference share capital and subordinated debt issued prior to 2013 have either been early redeemed or are being phased-out until it is redeemed/called and/or replaced.
  - Nedbank has successfully issued new-style Basel III-compliant tier 2 subordinated-debt instruments that are fully loss absorbent amounting to R2,5bn in 2014 and R2,3bn year to date in 2015, bringing the total issuance of new-style Basel III-compliant tier 2 subordinated-debt to R4,8bn.
  - Bail-in of debt via the changes in the Banks Amendment Bill in order 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, validated and have recently been updated for the latest electricity supply constraints that may impact business continuity and the provision of financial services to our clients.

- Group structure/formalised wind-up while being 'open for business': ✓
  - ERMF.
  - Relatively simple group structure.
  - Structure has been cleaned up over the past years, and is ongoing.
  - Big SA banks are not complex versus international banks.



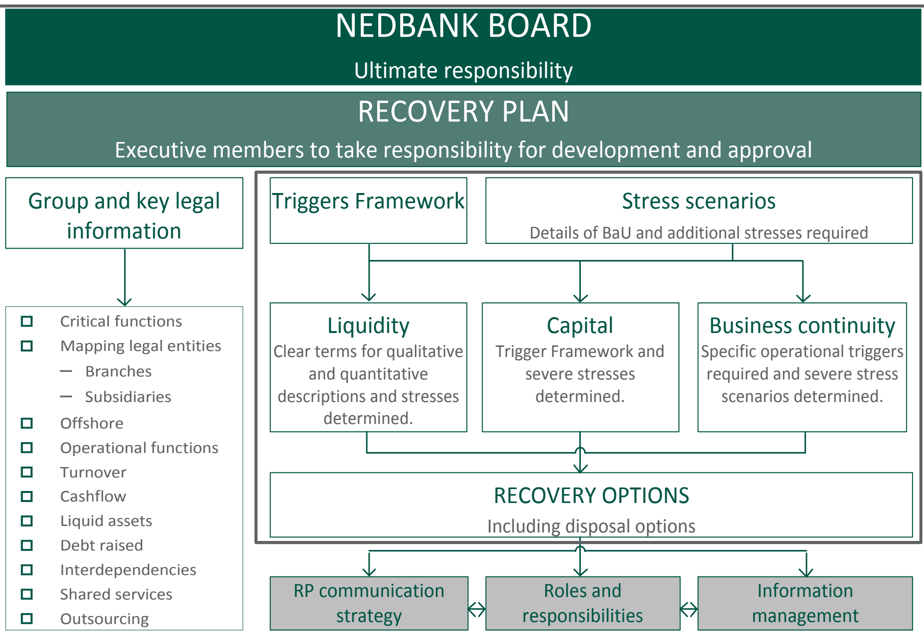

Overall Nedbank Group believes it currently has the ability to identify, trigger and manage a recovery state caused typically by a solvency or liquidity event, but needs to continuously evolve and test this plan with strategic responses for various feasible causes of such an event and needs to close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

The recovery plan 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 recovery plan 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 system-wide market failures.

The recovery plan 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 recovery plan addresses stresses invoked by severe shortfalls in liquidity and capital, as well as significant operational failures which may jeopardise Nedbank's ability to continue business operations. In addition, the recovery plan addresses the various options considered by senior management to mitigate stresses encountered by Nedbank.

The recovery plan applies to all subsidiaries, divisions and branches of Nedbank Group, across all the geographic locations in which they operate. This recovery plan will relate to all entities within the group, including associates and joint ventures, noting that new recovery plans were specifically created for Nedbank Private Wealth International (based in the Isle of Man) and the London branch of Nedbank Limited, during 2014/Q1 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 recovery plan. Additionally, the inclusion of associates and joint ventures is required in order 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 recovery plan fits into Nedbank Group's ERMF. This plan has been developed with input by BSM, Group Risk, Business Continuity Planning (BCP) and the business clusters, and approved by Group Exco and the board. The recovery plan complements the existing group's capital, liquidity and stress testing policies and procedures.

The recovery plan includes levels of 'low to severe stress', whereby 'recovery' and 'resolution' levels represent escalating degrees of stress that the group might 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 have been identified that would be initiated at level one during a low to moderate stress while the recovery plan would be initiated at level three and the resolution plan instigated by the authorities at level five. The establishment of these ordered levels and early warning indicators 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 appropriately assess the levels of stress 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, rating agencies and media).

Recommendations made by the SARB following their review of our initial recovery plan were taken into account in Nedbank's annual update of its recovery plan, which has been approved by Group Exco and the board, and has subsequently also been reviewed by the SARB with some refinements noted. These refinements will be incorporated in our next annual update.

# MARGIN MANAGEMENT

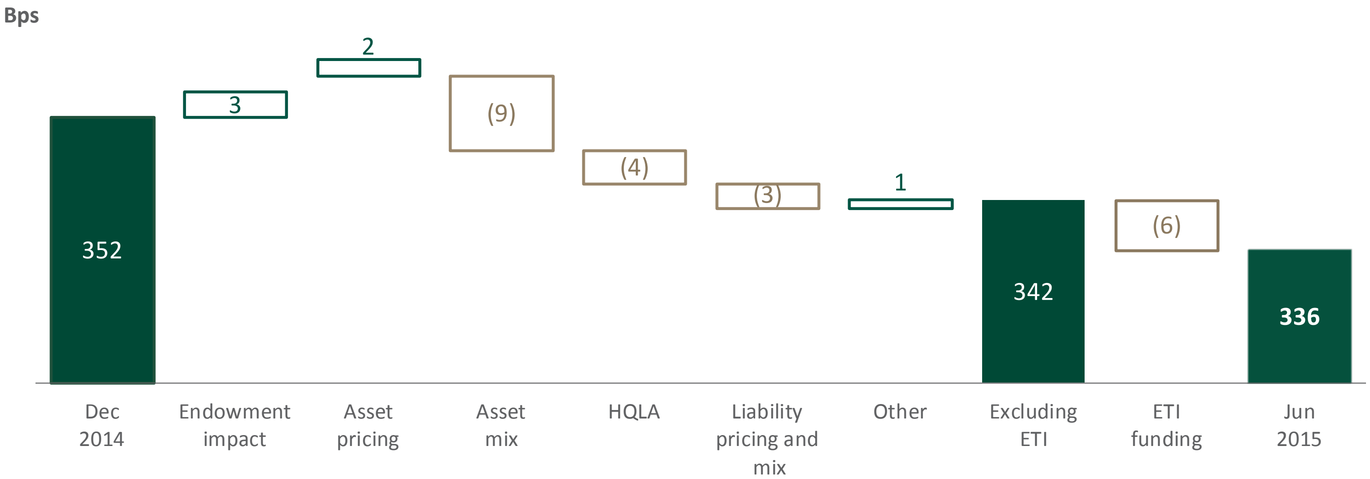
## MARGIN SUMMARY ANALYSIS

| Nedbank Group | Jun 2015[1] | | Jun 2014[1] | | Dec 2014 | |
|---|---|---|---|---|---|---|
| | **Bps** | **Rm** | Bps | Rm | Bps | Rm |
| **Interest-earning banking assets (year-to-date average)[2]** | | **701 125** | | 639 592 | | 652 194 |
| **Opening net interest margin (NIM)/net interest income (NII)** | **352** | **22 961** | 357 | 21 220 | 357 | 21 220 |
| **Growth in banking assets** | | **1 723** | | 1 601 | | 2 051 |
| **Johannesburg Interbank Agreed Rate (JIBAR)/Prime reset risk due to rate change** | | | 1 | 33 | 1 | 58 |
| **Asset margin pricing and mix** | **(7)** | **(492)** | (12) | (793) | (15) | (998) |
| Impact due to pricing | **2** | **109** | (3) | (195) | (3) | (188) |
| Impact due to mix change | **(9)** | **(601)** | (9) | (598) | (12) | (810) |
| **Endowment** | **3** | **177** | 9 | 609 | 11 | 743 |
| Capital | | **(4)** | 3 | 241 | 3 | 219 |
| Deposits | **3** | **181** | 6 | 368 | 8 | 524 |
| **Liability pricing and mix** | **(3)** | **(195)** | (2) | (91) | (1) | (61) |
| Impact due to pricing and mix change | **1** | **84** | (2) | (113) | (1) | (84) |
| Change in marginal cost of wholesale funding | **(3)** | **(203)** | | 2 | | 19 |
| Cost of enhancing liquidity risk profile (Basel III) | **(1)** | **(76)** | | 20 | | 4 |
| **Ecobank Transnational Incorporated funding** | **(6)** | **(403)** | | | (1) | (71) |
| **High-quality liquid assets (HQLA)** | **(4)** | **(278)** | | 11 | (3) | (166) |
| **Other** | **1** | **51** | 2 | 123 | 3 | 185 |
| **Closing NIM/NII for the period ended** | **336** | **23 544** | 355 | 22 713 | 352 | 22 961 |

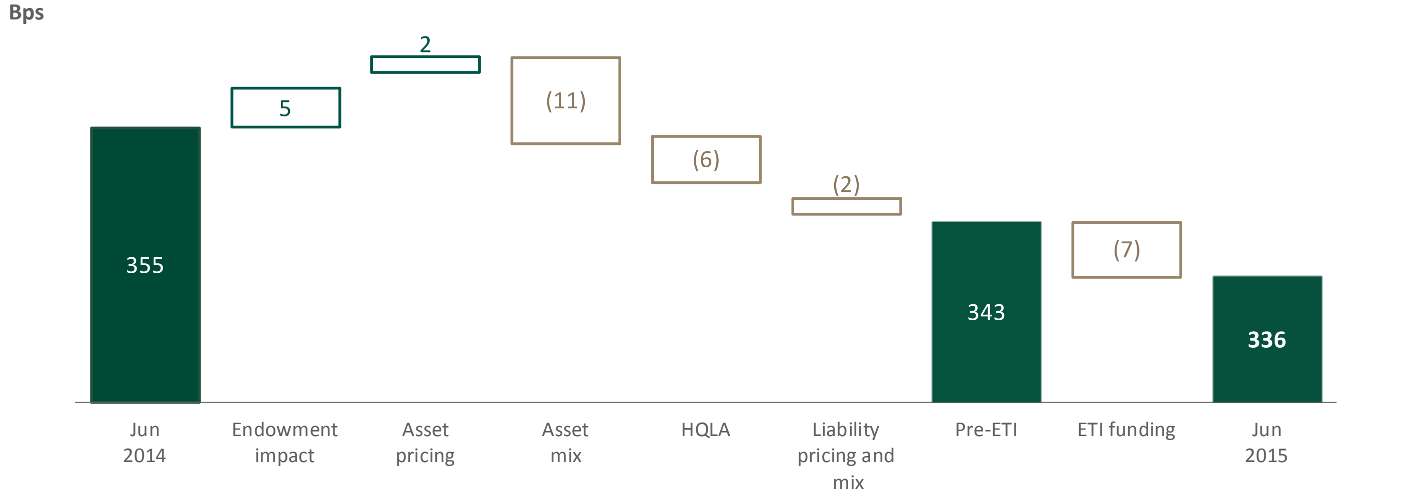
*[1] NII for the six months is annualised.*

*[2] The year-to-date average is disclosed for June 2014 and June 2015.*

## NET INTEREST MARGIN (DECEMBER 2014 TO JUNE 2015)



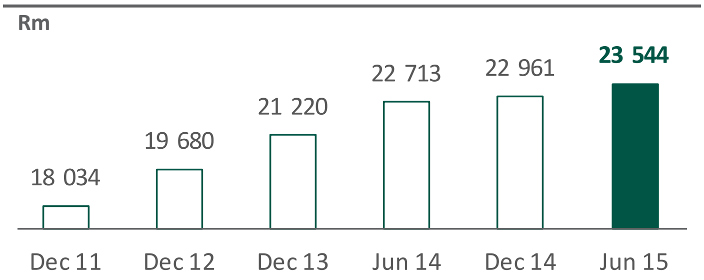
## NET INTEREST MARGIN (YEAR-ON-YEAR)



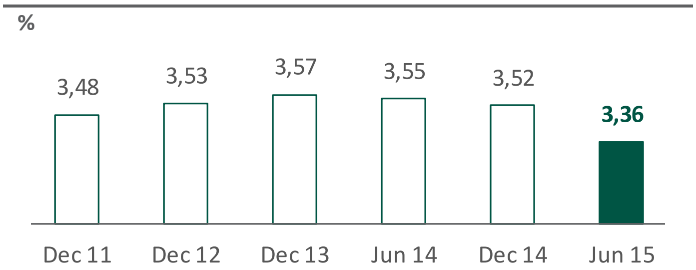

# NET INTEREST INCOME

| Favourable | Unfavourable |
|---|---|
| ☐ Strong advances growth across wholesale advances, Rest of Africa, Vehicle Finance and Card. | ☐ Muted consumer demand resulting in weak retail advances growth. |
| ☐ NIM endowment benefit from the full-run rate impact of 2014 interest rate increases. | ☐ Higher growth in lower-yielding wholesale advances. |
| ☐ Improved risk-based pricing, with specific reference to home loans and personal loans. | ☐ Pressure on funding costs as a result of increased competition for Basel-friendly deposits. |
| ☐ Pragmatic compliance with transitional regulatory requirements. | ☐ ETI funding full-year carry cost (with profits included in associate income). |
| | ☐ Higher levels of negatively yielding HQLA in line with the LCR transitional requirements. |

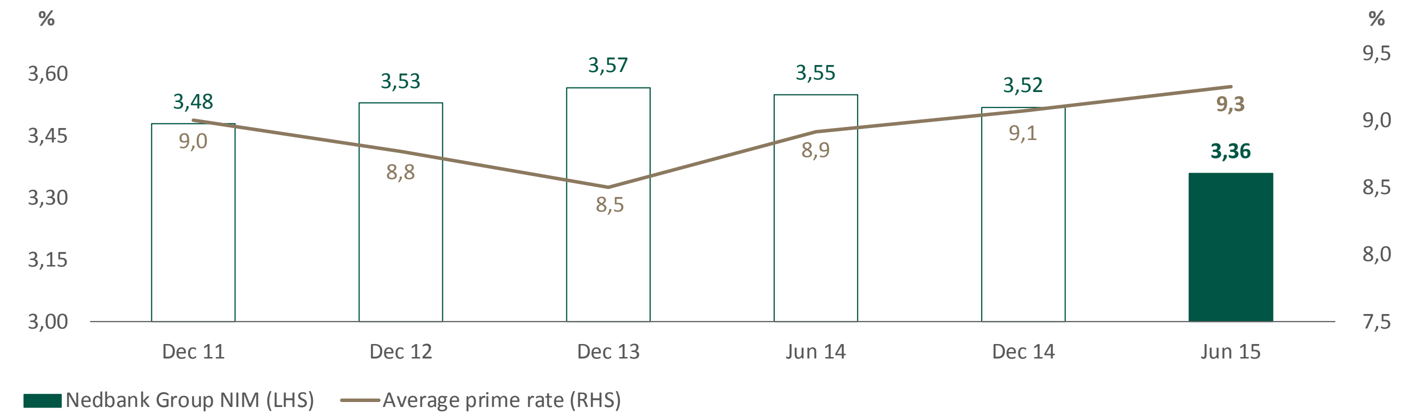
## NET INTEREST INCOME



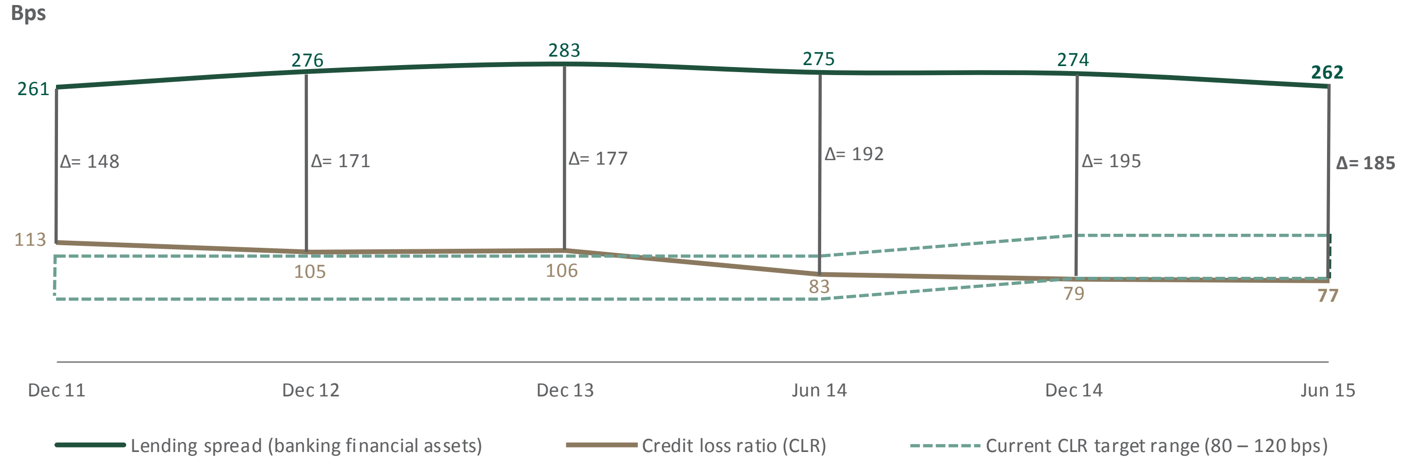

## NET INTEREST MARGIN



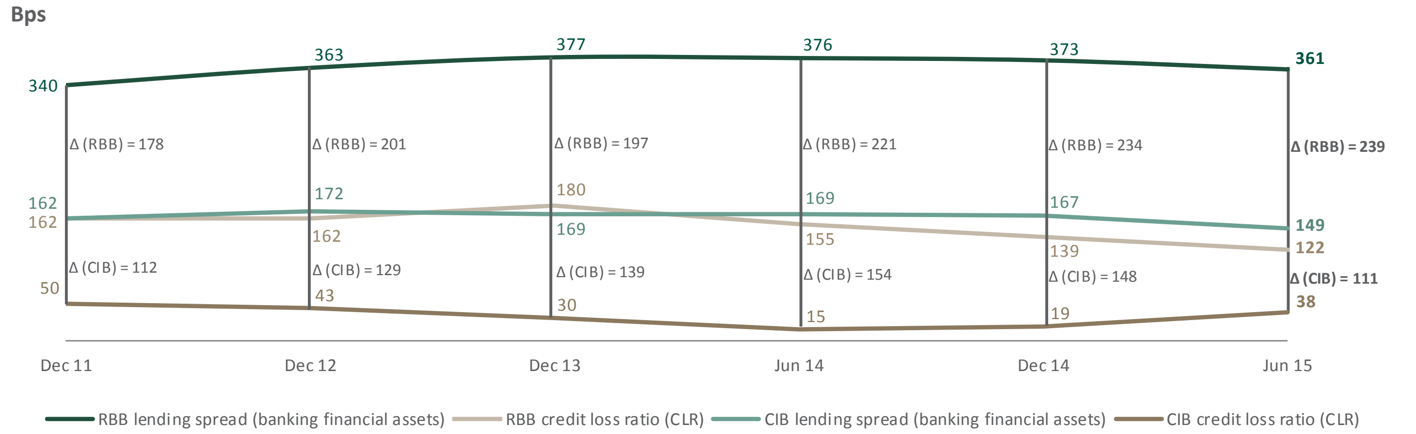

## INTEREST MARGIN TRENDS VERSUS PRIME RATE OF NEDBANK GROUP



### LENDING SPREAD VERSUS CREDIT LOSS RATIO (INCLUDING TARGET RANGE) OF NEDBANK GROUP




### LENDING SPREAD VERSUS CREDIT LOSS RATIO OF NEDBANK RETAIL AND BUSINESS BANKING AND NEDBANK CORPORATE AND INVESTMENT BANKING




While the change in mix towards low-margin wholesale assets has reduced Nedbank's NIM, this is compensated for by the lower credit loss ratio, currently at 77 bps. Over the period, since 2011, net lending spreads have improved from 148 bps to 185 bps.

- The improvement in the group's lending spread has been driven largely by RBB, through better risk-adjusted pricing and overall better risk management across its lending portfolios.
- CIB experienced a squeeze in net lending spreads more recently, as a result of adverse advances mix changes and a level of ratings migration, given the weak economic conditions and the provisioning against a few large counterparties.

# STRATEGIC PORTFOLIO TILT

Strategic Portfolio Tilt forms part of the five key strategic focus areas of Nedbank Group, 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 management and client value management.

The key objectives of Strategic Portfolio Tilt are as follows:

- Maximise 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 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.
- Optimise the strategic impact of Basel III, including the transitional requirements and ongoing work in progress items.
- Grow market share in retail and commercial deposits, in particular high growth of EP rich transactional (lazy) deposits.
- Effective risk management within the desired risk appetite.
- Fair Share 2030: contributing to government's planning objectives in creating a prospering 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:

- Global economic conditions will remain tough with commodity prices under pressure and export demand weak.
- Domestically, growth will be restricted by electricity supply constraints, a non-conducive policy environment for investment and weak investor confidence. Consumer finances will remain under pressure coupled with high debt as interest rates rise to a relatively low peak in 2016. Growth in disposable income will be contained by low employment growth, modest wage settlements and high inflation.
- A surprise rate hike in July 2015 with endowment benefit up to December 2016.
- Capital formation will be constrained in the short-term:
  - Private sector capital formation will be impacted by the poor labour relations environment, the negative policy climate, electricity constraints, and weak investor confidence. However, corporate action may provide some opportunities in energy and expansion elsewhere will underpin corporate credit demand.
  - Public sector fixed investment spending will be positive but will be dependent on the declining efficiencies and budget and organisational constraints, particularly at a local level.
- Inflation to remain high over the forecast period and short-term inflation forecasts have deteriorated further, albeit moderately, despite the better-than-expected inflation outcome in June. Inflation is now projected to remain above 6% in the first two quarters of 2016. High agricultural prices and electricity tariff increases, which are assumed at 13% a year in 2016 and 2017, are expected to push inflation higher. Demand-pull pressures remain subdued.
- GDP growth has been revised lower given electricity constraints, weak domestic demand and weak global growth.
- Regulation will have a substantial impact on bank strategy and profitability in the planning cycle mainly due to:
  - Transitional LCR compliance which came into effect from 1 January 2015 through to 1 January 2019, which will dilute banks margins and adversely impact ROE.
  - Net stable funding ratio (NSFR) compliance of 100% required by January 2018 that will reduce the ability of the bank to transform short-dated liquidity into long-dated lending and therefore dilute bank margins and adversely impact ROE.
  - The possible introduction of TLAC, will lead to an even higher Basel III capital requirement of TLAC of 16% to 20%, if these principles are adopted.
  - Capital floors and The Standardised Approaches are being considered and will adversely impact RWA and capital levels, if adopted.
- Strategic Portfolio Tilt is evident in Nedbank Group's results with EP increasing significantly by R2 055m (December 2009: R57m) to R2 112m in December 2014. EP for the period ended June 2015 increased by R495m (59,4%) in comparison to June 2014. The growth in EP is supported by selective origination of credit to mitigate against downside risk in the personal and home loans portfolios, while focusing on strong EP-generative activities (ie deposits growth, card, vehicle finance, commercial property finance, insurance, asset management and investment banking) to ensure optimal risk and balance sheet outcomes.

# RISK MANAGEMENT

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

*Nedbank's ERMF has served Nedbank well and has been resilient through economic cycles. The organisation has placed a strong reliance on this Risk Governance Framework and the three lines of defence model, which underpins Nedbank's aspiration to be 'worldclass at managing risk'.*

*However in response to evolving, emerging risk trends, changing business environment, the significant regulatory change and developments, a refresh of the ERMF is underway incorporating the current internal and external environment.*

## 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 where the 17 key ERMF risk types map to the quantitative risk types of the Economic Capital (and ICAAP) Framework.

An overview of the key risks impacting Nedbank Group follows thereafter.

Refer to page 8 for details on Nedbank Group's ERMF.

| Major risk categories | ERMF's 17-key risk types | Economic capital (ICAAP) risk types |
|---|---|---|
| **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' |
| | ☐ Collateral risk | Integrated in 'credit 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' |
| **Counterparty credit risk** | Sub-set of credit risk | Counterparty credit risk |
| **Transfer (cross border) risk** | Sub-set of credit risk | Transfer risk |
| **Securitisation risk** | Sub-set of liquidity risk | Securitisation risk |
| **Liquidity 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. |
| **Market risks** | Market risk in the trading book | Trading (position) risk |
| | Market risk in the banking book | |
| | ☐ Interest rate risk in the banking book | Interest rate risk in the banking book |
| | ☐ Foreign currency translation risk in the banking book | 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, taxation and valuation (instruments, assets and liabilities) risks | Covered by operational risk |
| | ☐ Compliance risk | Covered by operational risk |
| | ☐ People risk (non-strategic component) | Covered by operational risk |
| | ☐ Insurance and assurance risks | Covered by insurance risk |
| | ☐ Information technology risk (non-strategic component) | Covered by operational risk |
| **Business risks** | ☐ Transformation risk | Covered by business risk |
| | ☐ New business risk | Covered by business risk |
| | ☐ Reputational risk | N/A |
| | ☐ Social and environmental risks | Covered by business risk |
| | ☐ Strategic risk | N/A |
| | ☐ People risk (strategic component, strategic and compensation practices for directors and officers) | Covered by business risk |
| | ☐ Information technology risk (strategic component) | Covered by business risk |

# 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 document requires Nedbank Group and its banking subsidiaries (including Nedbank Limited, Nedbank Private Wealth Limited, Nedbank Namibia, Nedbank Swaziland, Nedbank Lesotho, MBCA Bank Limited and Nedbank Malawi) to be capitalised at the higher of regulatory or economic capital.

A bank is required to hold capital primarily so as to be able to cope with or absorb significant ULs in any particular year. From this follows the two key 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, the expectations of the rating agencies, the requirements of the regulators, and, not least of all, the returns expected by shareholders.
- The bank needs to ensure that the actual capital level is not only in line with this assessment, but that it takes full advantage of the range of capital instruments and capital management activities (eg dividend policy and share buy-backs) 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 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) 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). This is integrated into the overall ALCO process of Nedbank Group.

The group's MEFM 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. This is a dynamic plan and process which sets out 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 CAPM. The CAPM is fully integrated with the group's three-year 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 as well as the next three years. 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.

Each quarter 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 allocation

The BSM Cluster is also responsible for managing the efficient employment of capital across Nedbank Group's businesses, using risk-based economic capital allocation, strategic portfolio management and RAPM (primarily driven by EP and 'manage for value' principles).

The group is capitalised at the higher of regulatory capital and economic capital, currently being regulatory capital. The capital allocation process to business clusters is then as follows:

| SOURCES OF REGULATORY CAPITAL | | CAPITAL ALLOCATION TO BUSINESS CLUSTERS FOR PERFORMANCE MEASUREMENT |
|---|---|---|
| **CET1 capital**<br>□ Shareholders' equity | → | Allocated as capital using:<br>□ Bottomup risk based economic capital measurement.<br>□ Capital buffer at 11% of bottomup risk based economic capital measurement, as above.<br>□ Capital impairment for goodwill, intangible assets and 100% of the excess of downturn expected loss (dEL) over provisions.<br>□ Regulatory capital add-ons. |
| **Additional tier 1 capital**<br>□ Preference shares | → | □ Allocated as part of funding costs, impacting businesses' earnings. |
| **Tier 2 capital**<br>□ 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 13 quantifiable risk categories (in the graphic on the following page, property and investment risk are treated as separate risks). 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 was deemed appropriate, based on the group's comprehensive Stress and Scenario Testing Framework and Risk Appetite Framework.

Nedbank's economic capital and ICAAP methodology was reviewed also taking cognisance of regulatory developments as a result of the onset of Basel III from 1 January 2013.

During 2015 Nedbank's economic capital and ICAAP methodology was enhanced with the following changes:

- A revised business risk methodology, including a top-down quantification approach to determine the group's business risk capital and a scenario-based approach for the allocation of capital across the business units.
- Enhancements to the calculation and allocation of credit economic capital, including:
  - Implementation of downturn loss effects in the Credit Portfolio Model used to calculate credit economic capital. This is achieved by the introduction of a PD-LGD Correlation Framework to simulate the empirically observed relationship between default rates and loss rates.
  - Advanced modelling of credit risk for the existing non-performing portfolio to assess specific coverage.
  - Full allocation of excess dEL over provisions to the business units, in line with Basel III.
- A new economic capital charge for the CVA was implemented in order to holistically cover CCR, which consists of default risk (ie losses in the event of default), as well as market value losses due to a deterioration in the counterparty's creditworthiness. This aligns with the regulatory implementation of the CVA charge, with effect from 1 April 2015.
- Implementation of a revised interrisk diversification methodology.
- Not capitalising for FCT risk following the inclusion of FCTR as qualifying regulatory capital and reserves under Basel III, since 1 January 2013.
- A revised buffer capital allocation based on an 11% buffer on minimum economic capital, for the client-facing banking business units.

## 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 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.<br>CVA risk: Basel III standardised methodology. | Basel III AIRB credit methodology integrated with sophisticated credit portfolio modelling. |

+

**TRANSFER RISK**
(closely related to credit risk but arises due to sovereign default and so separately modelled and quantified)

Similar to AIRB credit methodology, but dependent on the probability and extent of a transfer event (ie sovereign default), with no interrisk diversification recognised.

+

**MARKET RISKS**

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

+

| Operational risk | Business risk | Insurance underwriting risk | Other assets |
|---|---|---|---|
| Advanced Measurement Approach | GOI based top-down approach | SAM - based methodology | 100% risk weighting |

=

**MINIMUM ECONOMIC CAPITAL REQUIREMENT**
(after interrisk diversification benefits)

+

**CAPITAL BUFFER**
(10% 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 hybrid debt subject to grandfathering under Basel III and new style Basel III additional tier 1 and tier 2 capital instruments.

*Note: There are 13 quantifiable risk categories (FCT risk was removed, in line with the inclusion of FCTR in qualifying capital under SA Basel III regulations). Property and equity (investment) risk are treated as separate risks.*

The economic capital results are shown from page 47.

## Credit risk capital

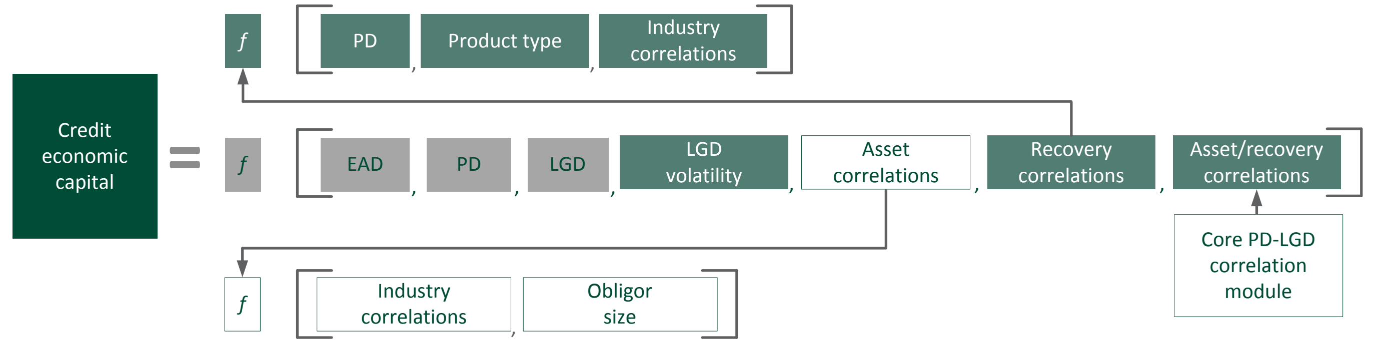
Nedbank Limited and the Nedbank London branch make up 95% of the total credit extended by Nedbank Group and are on the AIRB Approach. The remaining portion of the legacy Imperial Bank (ie in Nedbank Business Banking), Fairbairn Private Bank (UK) and the non-SA Nedbank African subsidiaries' credit portfolios remain on TSA, however, the group plans to move the remaining of the legacy Imperial Bank Business Banking exposure to the AIRB Approach by the end of 2015.

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) and as of January 2015 includes PD-LGD correlation effects which aim to capture the phenomenon of joint movements in default and loss rates, ie lower than expected (or, rather, average through-the-cycle) recoveries during periods with elevated default rates above the through-the-cycle PDs (and vice versa). This new risk driver does not affect the average level of simulated losses, ie the mean of the loss distribution still aligns to the analytical derivation of total expected loss based on deal level EAD, PD and LGD inputs.

**CREDIT RISK CAPITAL (INCLUDING PD-LGD CORRELATION)**




Nedbank Group's credit portfolio model 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 Basel III CEM for CCR for both regulatory capital and economic capital.

The Basel III regulatory standards for counterparty credit risk (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. In line with SA's adopting of Basel III, and in accordance with SARB Directive D5/2015, SA banks removed the zero-risk weighting for CVA in ZAR-based derivatives and derivatives with local counterparties as of 1 April 2015. The CVA RWA impact increased to R6,7bn as at June 2015 (from R558m in June 2014, based on D10/2014).

During July 2015, the Bank for International Settlements (BIS) released for comment the first draft of the Review of the Credit Valuation Adjustment Risk Framework which, at a high level, aims to:

- Completely overhaul the current Basel III CVA regulatory regime and address a number of key failings of the current standard.
- Align the revised CVA Framework with the changes that will be implemented under the Fundamental Review of the Trading Book (FRTB).
- Closer alignment of CVA regulatory capitalisation with the risk management frameworks banks employ in this regard.
- The inclusion of exposure hedging into the capitalisation calculation to incentivise risk-reduction strategies.
- Enhance governance framework standards for CVA in line with those of market and credit risk requirements.

Nedbank will participate in the third FRTB Quantitative Impact Study (QIS) exercise to be conducted during quarter three of 2015, which will include a QIS relating to the proposed revision of the CVA Regulatory Framework.

Nedbank is currently assessing the impact of the second draft of SA OTC Derivative Regulations released by National Treasury during June 2015, which provides greater clarity on forthcoming local regulatory requirements.

## Securitisation risk capital

As with credit derivatives, Nedbank Group does not have significant exposure to securitisation.

Nedbank 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 standard 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.

## Transfer risk capital

Transfer risk is the risk that a government will be unable or unwilling to make 'hard currency' available by imposing currency controls, which limit the ability of otherwise healthy borrowers within the country from servicing their foreign currency debt, causing a transfer event. Transfer events usually only impact facilities repayable in 'hard currency' made to clients in foreign countries, but they also affect any loan denominated in a currency other than the local currency of the borrower, since the borrower needs to obtain foreign currency to repay the debt. It covers losses suffered when a client, because of circumstances in its country of domicile, is unable to obtain the foreign currency needed to meet its obligations.

Transfer risk is not separately identified by Basel III for Pillar 1 regulatory capital. It is potentially a significant risk type and therefore is included in Nedbank Group's economic capital model. However, given that very little credit risk currently originates from outside SA, transfer risk economic capital is not a significant amount for the group at present.

Transfer risk is treated separately from CCR because it is wholly caused by a sovereign's action, and, fundamentally, it is independent of the counterparty.

Transfer events and sovereign defaults are closely related, as both are driven by the credit quality of the sovereign. However, while transfer events are often coincidental with sovereign defaults, they are not synonymous. Governments may default rather than restrict access to 'hard currency' so as to maintain cross-border trade. Alternatively governments may impose currency restrictions to prevent capital flight and hence retain 'hard currency' to meet debt payments.

In general transfer risk is modelled similarly to credit (issuer and counterparty) risk, but it is dependent on the following:

- The probability of a country declaring a transfer event (probability of transfer event).
- The percentage of the exposure that will be lost in the event of a transfer event (loss given transfer event).
- The exposure in the event of a transfer event (exposure at transfer event).

The methodology also takes into account the correlation of transfer risk events occurring between countries.

## 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 proposed Fundamental Review of the Trading Book (FRTB) initiative. This regulation aims to address the shortfalls of the current regulatory framework and provide substantial enhancements, not only to trading market risk capitalisation levels but towards the entire governance process. Nedbank has participated in a number of QIS exercises in this regard and is actively preparing towards 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 properties in possession (PIPs) as well as its fixed property.

Property risk 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 to the treatment under the Simple Risk Weighted Approach (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 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 the risk 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 situation or government regulations. This quantified risk category however does not address Nedbank Group's strategic risk.

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 the group faces.

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, which would have long-term impacts on the franchise.

The business risk approach is effectively split into two parts; a top-down 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.

A top-down calculation is used to size, at a group level, the business risk exposure that Nedbank faces as a consolidated entity. This is achieved through the use of 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%). Adjustments are made to the calculated risk exposure for non-business risk factors to arrive at the business risk economic capital for Nedbank Group. The peers are selected so as to provide relevant insights into Nedbank's business risk. A bottomup scenario-based approach is then used to allocate the quantified business risk economic capital across the individual business units of the group.

## 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 to the 99,90% confidence interval required for regulatory capital. For economic capital no capital floors are applied under the 2015 methodology. For regulatory capital a floor based on a percentage of TSA capital is applied to meet minimum requirements prescribed by the SARB.

## Insurance underwriting risk capital

Insurance underwriting risk can be defined as the risk that the underwriting process permits clients to enter risk pools with a higher level of risk than priced for, resulting in a loss to the business unit or group. It also takes into account the fact that the underwriting experience is worse than expected due to changing trends in experience or once-off worse-case shocks.

Actuarial and statistical methodologies are used to price insurance risk (eg morbidity, mortality and theft), while 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.

Nedbank Group's economic capital methodology is based on modelling the bank's losses due to changes in claims as represented by a 'worse-case' stochastic liability shock, which is defined as a 7-in-10 000 event. The liability shock is quantified based on industry standard parameters and considers long-term increases to risks as well as extreme short-term shocks that could affect multiple customers (such as a hail storm). The insurance economic capital is defined as the losses that result from the liability shock.

Insurance risk economic capital is calculated in line with the methodology requirements of the Solvency Assessment and Management (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, long-term and short-term insurance products, and non-life products.

The insurance risk methodology was reviewed during 2015 to ensure that there is closer alignment between economic capital requirements based on ICAAP and Solvency II or SAM for banking and non-banking entities. The SAM regime is expected to be in force in the first half of 2016. The insurance businesses are currently engaged in the SAM comprehensive parallel run reporting to the Financial Services Board (FSB). The launch of SAM has been delayed with implementation not expected before April 2016.

## Other assets risk capital

For economic capital (ICAAP) purposes the same approach as for regulatory capital requirements is followed, namely 100% risk weighting in line with regulation 23 and the BA 200 return. 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. A McKinsey 2011 study of European banks highlighted that 80% of these banks include interrisk diversification in their Economic Capital Framework. Further to this, Deloitte's 2013 global risk management survey indicated that approximately 60% of respondents make use of risk aggregation techniques in quantifying economic capital. This supports Nedbank's inclusion of interrisk diversification in its Economic Capital Framework.

Enhancements to the group's interrisk diversification matrix have been completed, namely the move from a basic variance-covariance methodology to an advanced approach, which is based on joint loss simulation using a copula. These enhancements have been included in Nedbank Group's economic capital methodology from January 2015.

The revised methodology 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 being 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 in line with international best practice. Not all risks can be mitigated by holding capital against them, although Nedbank Group has mapped all 17 key risk categories in its ERMF to the group's Economic Capital Framework, with one exception being liquidity risk.

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 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.

# Capital optimisation (including risk optimisation)

Capital optimisation in Nedbank Group is about seeking 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 as set out in the group's RAPM Framework.

Aside from helping to optimise financial performance and shareholder value creation, the group's enhanced 'managing for value' capabilities will have a positive influence on the group's ability to operate in a much more capital- and liquidity-constrained market environment, including on its strategic decisions about where and to what extent it chooses to allocate the group's capital.

# REGULATORY CAPITAL ADEQUACY

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

| | | SARB minimum[2] | Internal targets[3] | Jun 2015 | Jun 2014 | Dec 2014 |
|---|---|---|---|---|---|---|
| **Nedbank Group** | | | | | | |
| **Including unappropriated profits** | | | | | | |
| Common-equity tier 1 | (%) | | 10,5 – 12,5 | 11,4 | 12,1 | 11,6 |
| Total tier 1 | (%) | | 11,5 – 13,0 | 12,1 | 13,1 | 12,5 |
| Total | (%) | | 14,0 – 15,0 | 14,5 | 15,0 | 14,6 |
| Surplus CET1 capital[4] | (Rm) | | | 22 769 | 27 706 | 26 874 |
| Total risk-weighted assets | (Rm) | | | 465 544 | 422 165 | 440 696 |
| Total RWA:total assets | (%) | | > 50 | 54 | 54 | 54 |
| Dividend cover | (times) | | 1,75 – 2,25 | 2,10 | 2,16 | 2,07 |
| **Excluding unappropriated profits** | | | | | | |
| Common-equity tier 1 | (%) | 6,5 | | 10,3 | 10,8 | 11,1 |
| Total tier 1 | (%) | 8,0 | | 11,0 | 11,8 | 12,0 |
| Total | (%) | 10,0 | | 13,4 | 13,7 | 14,1 |
| **Nedbank Limited** | | | | | | |
| **Including unappropriated profits** | | | | | | |
| Common-equity tier 1 | (%) | | 10,5 – 12,5 | 10,6 | 10,0 | 11,0 |
| Total tier 1 | (%) | | 11,5 – 13,0 | 11,5 | 11,2 | 12,1 |
| Total | (%) | | 14,0 – 15,0 | 14,6 | 13,4 | 14,7 |
| Surplus CET1 capital[4] | (Rm) | | | 15 779 | 16 057 | 20 134 |
| Total RWA | (Rm) | | | 386 051 | 358 164 | 368 823 |
| **Excluding unappropriated profits** | | | | | | |
| Common-equity tier 1 | (%) | 6,5 | | 10,0 | 9,0 | 10,5 |
| Total tier 1 | (%) | 8,0 | | 11,0 | 10,2 | 11,7 |
| Total | (%) | 10,0 | | 14,0 | 12,4 | 14,3 |

*[1] In line with regulation 38(10) of the Banks Act, 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] The SARB minimum requirements for 2015 have increased since 2014, in line with Basel III phasing-in over 2013 to 2019.*
*[3] Nedbank's internal TTC target ranges are based on the final minimum regulatory requirements of 2019 for CET1 and the 2015 minimum regulatory requirements for the total tier 1 and total capital ratios and are set on the basis of including unappropriated profits.*
*[4] Excluding the bank-specific Pillar 2B add-on.*

## NEDBANK GROUP SUBSIDIARIES ARE WELL CAPITALISED FOR THE ENVIRONMENTS WITHIN WHICH THEY OPERATE

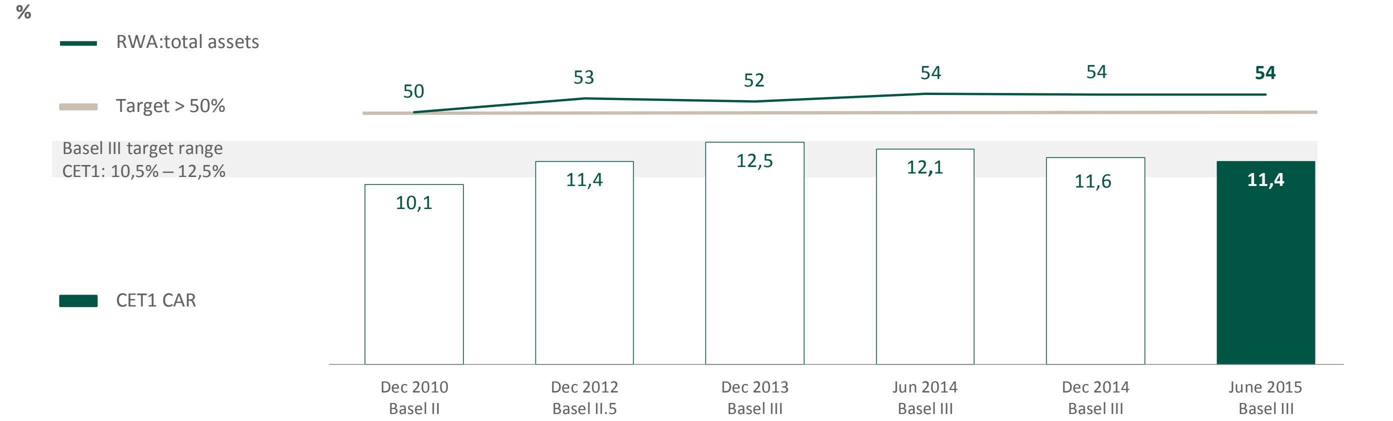
| | Jun 2015 | | | | Jun 2014 | | | Dec 2014 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital requirement (host country) % | RWA Rm | CET1 ratio % | Total capital ratio % | RWA Rm | CET1 ratio % | Total capital ratio % | RWA Rm | CET1 ratio % | Total capital ratio % |
| **Rest of Africa** | | | | | | | | | | |
| Nedbank Namibia Limited | 10,0 | 9 206 | 13,3 | 14,9 | 7 280 | 14,7 | 16,0 | 8 364 | 12,7 | 15,2 |
| Nedbank (Swaziland) Limited | 8,0 | 2 626 | | 19,9 | 2 310 | | 18,7 | 2 673 | | 18,4 |
| Nedbank (Lesotho) Limited | 8,0 | 1 508 | | 23,1 | 1 376 | | 22,6 | 1 407 | | 22,3 |
| Nedbank (Malawi) Limited | 15,0 | 382 | | 17,5 | 269 | | 22,4 | 328 | | 17,2 |
| MBCA Bank Limited (Zimbabwe) | 12,0 | 2 968 | | 21,6 | 1 850 | | 20,1 | 1 860 | | 23,5 |
| **United Kingdom** | | | | | | | | | | |
| Nedbank Private Wealth (IOM) Limited | 10,0 | 6 910 | 15,6 | 15,6 | 6 847 | 14,3 | 14,3 | 6 801 | 14,0 | 14,0 |

Nedbank Group remains well capitalised with a strong capital adequacy position at June 2015. This is supported by:

- A strong capital stack, with a continued focus on the CET1 capital base.
- Active management of the capital stack, with a well-diversified additional tier 1 and tier 2 capital profile, including an additional R2,3bn of new-style Basel III compliant tier 2 subordinated-debt instruments issued during the period.
- A conservative RWA density of 54% (RWA:total assets), which compares favourably with local and international peers.
- A significant CET1 capital surplus of R22,8bn, above the minimum regulatory requirements.

Capital adequacy is strong relative to Nedbank's business activities, strategy, risk profile and the external environment in which it operates.

## NEDBANK GROUP'S CET1 CAPITAL ADEQUACY RATIO REMAINS STRONG



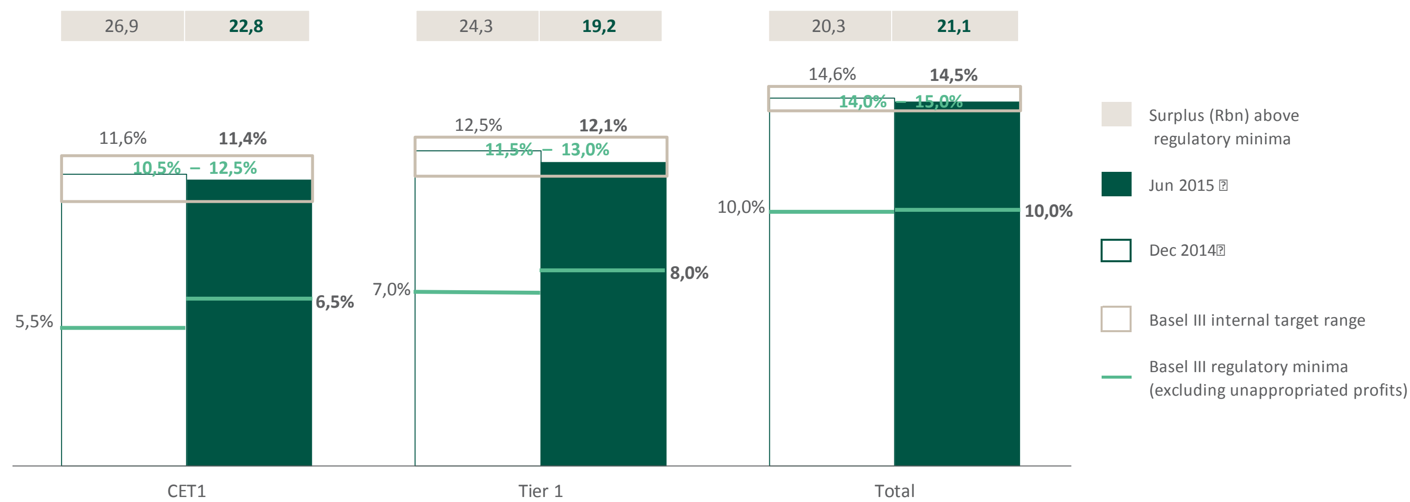

Nedbank Group's CET1 ratio declined to 11,4% from 11,6% in December 2014 as a result of:

- An increase in RWA that was only partially offset by growth in qualifying capital and reserves, which increased as a result of organic earnings for the half year (R5,3bn), after adjusting for the payment of the 2014 final ordinary dividend of R2,8bn in April 2015 and negative ETI FCTR movements.

The RWA growth of R24,8bn from December 2014 to June 2015 was largely due to:

- An increase in credit RWA of R27,6bn as a result of:
  - Growth in loans and advances.
  - The removal by SA banks of the zero-risk weighting for CVA in ZAR-based derivatives and derivatives with local counterparties as of 1 April 2015. The CVA RWA impact increased to R6,7bn as at June 2015 (from R558m based on SARB –issued Directive D10/2014).
  - Increased conservatism in the ratings of the wholesale portfolios due to prevailing economic conditions.
  - RWA growth was offset to a degree by the reduction in RWA of R3,7bn in Business Banking, following the implementation of a new approved exposure-at-default (EAD) model.
- Operational RWA increased by R1,1bn due to an increase in the AMA risk exposures as a result of an increase in the three-year average GOI parameter.
- Equity RWA decreased by R2,2bn during the period, due to the revaluation and settlement of both listed and unlisted investments.
- Other assets RWA decreased by R1,6bn due to balance sheet movement.

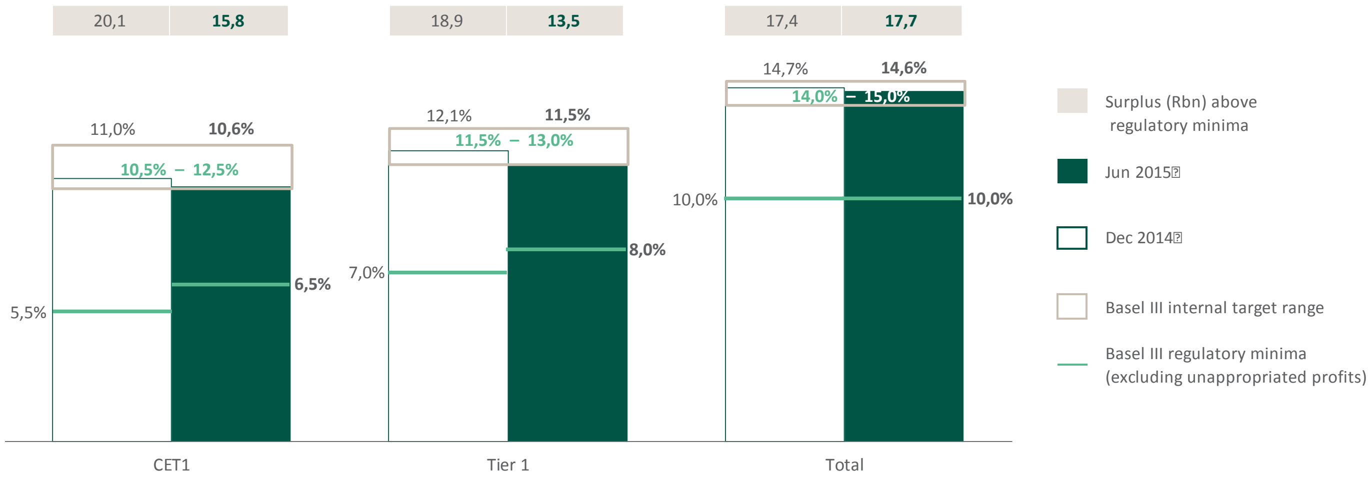
## NEDBANK GROUP'S STRONG CAPITAL RATIOS, ACROSS ALL CLASSES OF CAPITAL WITHIN BASEL III TARGET RANGES




Nedbank Group's total tier 1 CAR of 12,1% (December 2014: 12,5%) was adversely impacted by the redemption of old-style hybrid debt on 15 January 2015, in line with the regulatory disqualification event, resulting in a further R1,8bn reduction in qualifying tier 1 capital.

Nedbank Group's total CAR of 14,5% (December 2014: 14,6%) was then positively impacted with the issuance of new-style Basel III-compliant tier 2 subordinated-debt instruments of R225m (NED18) in January 2015, R1,6bn (NED19) and R407m (NED20) in June 2015.

## NEDBANK LIMITED'S STRONG CAPITAL RATIOS, ACROSS ALL CLASSES OF CAPITAL WITHIN BASEL III TARGET RANGES




Nedbank Limited's CET1 decreased to 10,6% from 11,0% in December 2014 as a result of an increase in RWA and a decrease in qualifying capital and reserves. Qualifying capital and reserves increased as a result of organic earnings for the half year (R3,9bn), after adjusting for the payment of the 2014 final dividend to group of R2,2bn.

Nedbank Limited's capital adequacy is not impacted by the Rest of Africa expansion, as acquisitions are through Nedbank Group Limited.

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

| Rm | Credit risk[1] | Equity risk | Trading market risk | Operational risk | Other assets |
|---|---|---|---|---|---|
| Balance at the beginning of the period (as at 1 January 2015) | 334 131 | 13 998 | 6 889 | 55 185 | 30 493 |
| Book growth | 21 346 | (2 176) | 548 | 1 149 | (1 867) |
| Book quality | 6 535 | | 337 | | |
| Model updates | (6 810) | | | | |
| Methodology and policy | 6 500 | | | | |
| Foreign exchange movements | | | (714) | | |
| **Balance at the end of the period – 30 June 2015** | 361 702 | 11 822 | 7 060 | 56 334 | 28 626 |

*[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 the underlying customer behaviour or demographics, including changes through model calibrations/realignments.
- Model updates – model implementation, change in model scope or any change to address model malfunctions.
- Foreign exchange movements – movement in RWA as a result of currency movement.
- Methodology and policy – methodology changes to the calculations driven by regulatory policy changes.

## NEDBANK GROUP SUMMARY OF REGULATORY CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

| | Jun 2015 | | | Jun 2014 | | | Dec 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | RWA | Mix | MRC[1] | RWA | Mix | MRC[1] | RWA | Mix | MRC[1] |
| Risk type | Rm | % | Rm | Rm | % | Rm | Rm | % | Rm |
| **Credit risk** | **349 386** | **76** | **34 939** | 311 480 | 74 | 31 148 | 328 154 | 74 | 32 815 |
| Advanced Internal Ratings-based Approach | **310 000** | **67** | **31 000** | 275 353 | 65 | 27 535 | 289 310 | 66 | 28 931 |
| Corporate, sovereign, banks, SME[2] | **170 322** | **37** | **17 032** | 141 870 | 34 | 14 187 | 150 237 | 34 | 15 024 |
| Residential mortgages | **50 850** | **11** | **5 085** | 47 132 | 11 | 4 713 | 49 178 | 11 | 4 918 |
| Qualifying revolving retail | **13 140** | **3** | **1 314** | 11 148 | 3 | 1 115 | 12 244 | 3 | 1 224 |
| Other retail | **75 688** | **16** | **7 569** | 75 203 | 18 | 7 520 | 77 651 | 18 | 7 765 |
| The Standardised Approach | **26 268** | **6** | **2 627** | 19 812 | 5 | 1 981 | 23 274 | 5 | 2 327 |
| Corporate, sovereign, banks, SME[2] | **17 794** | **4** | **1 779** | 11 877 | 3 | 1 188 | 15 210 | 3 | 1 521 |
| Retail exposures | **8 474** | **2** | **847** | 7 935 | 2 | 793 | 8 064 | 2 | 806 |
| Non-regulated entities | **13 118** | **3** | **1 312** | 16 315 | 4 | 1 632 | 15 570 | 3 | 1 557 |
| **Counterparty credit risk** | | | | | | | | | |
| Current Exposure Method | **10 104** | **2** | **1 010** | 3 870 | < 1 | 387 | 3 929 | 1 | 393 |
| **Securitisation risk** | | | | | | | | | |
| Internal Ratings-based Approach | **2 212** | **< 1** | **221** | 2 147 | < 1 | 215 | 2 048 | < 1 | 205 |
| **Equity risk** | | | | | | | | | |
| Market-based Simple Risk Weight Approach | **11 822** | **3** | **1 182** | 18 511 | 4 | 1 851 | 13 998 | 3 | 1 399 |
| Listed (300% risk weighting) | **123** | **< 1** | **12** | 2 157 | < 1 | 216 | 1 984 | < 1 | 198 |
| Unlisted (400% risk weighting) | **11 699** | **3** | **1 170** | 16 354 | 4 | 1 635 | 12 014 | 3 | 1 201 |
| **Trading market risk** | | | | | | | | | |
| Internal Model Approach[3] | **7 060** | **1** | **706** | 8 288 | 2 | 829 | 6 889 | 2 | 689 |
| **Operational risk** | **56 334** | **12** | **5 633** | 52 786 | 13 | 5 279 | 55 185 | 13 | 5 519 |
| Advanced Measurement Approach | **52 585** | **11** | **5 258** | 49 628 | 12 | 4 963 | 51 746 | 12 | 5 175 |
| The Standardised Approach | **3 749** | **1** | **375** | 3 158 | < 1 | 316 | 3 439 | 1 | 344 |
| **Other assets** | **28 626** | **6** | **2 863** | 25 083 | 6 | 2 508 | 30 493 | 7 | 3 050 |
| 100% risk weighting | **15 577** | **3** | **1 558** | 21 424 | 5 | 2 142 | 17 166 | 4 | 1 717 |
| Threshold deduction items: 250% risk weighting[4] | **13 049** | **3** | **1 305** | 3 659 | < 1 | 366 | 13 327 | 3 | 1 333 |
| **Total** | **465 544** | **100** | **46 554** | 422 165 | 100 | 42 216 | 440 696 | 100 | 44 070 |
| Total MRC[1] | | | **46 554** | | | 42 216 | | | 44 070 |
| Pillar 1 MRC[5] | | | **37 243** | | | 33 773 | | | 35 256 |
| Pillar 2a MRC[6] | | | **9 311** | | | 8 443 | | | 8 814 |
| **Total qualifying capital and reserves[7]** | | | **67 628** | | | 63 130 | | | 64 385 |
| **Total surplus capital over MRC** | | | **21 074** | | | 20 914 | | | 20 315 |
| **Analysis of total surplus capital[7]** | | | | | | | | | |
| CET1 | | | **22 769** | | | 27 706 | | | 26 874 |
| Total tier 1 | | | **19 178** | | | 25 610 | | | 24 282 |
| Total | | | **21 074** | | | 20 914 | | | 20 315 |

*[1] Total minimum required capital (MRC) is measured at 10,0% in line with SARB regulations and circular 5/2011.*
*[2] SME = Small- and medium-sized enterprises.*
*[3] TSA is immaterial (approximately 5% of trading market risk RWA), hence it has been aggregated with the IMA portion.*
*[4] Includes the aggregate of investments in other financial entities and other items that fall within the Basel III 10% of CET1 capital threshold according to regulation 38(5)(i).*
*[5] Pillar 1 MRC is measured at 8% in line with the phasing-in of Basel III minimum regulatory capital ratios.*
*[6] Pillar 2a MRC is measured at 2% in line with the phasing-in of Basel III minimum regulatory capital ratios.*
*[7] Includes unappropriated profits.*

## NEDBANK GROUP SUMMARY OF RISK-WEIGHTED ASSETS BY CLUSTER

| | Jun 2015 | | Jun 2014 | | Dec 2014 | |
|---|---|---|---|---|---|---|
| | Rm | Mix % | Rm | Mix % | Rm | Mix % |
| **Credit risk**[1] | **361 702** | **77,6** | 317 497 | 75,2 | 334 131 | 75,8 |
| Nedbank Corporate and Investment Banking | **165 548** | **35,5** | 132 658 | 31,4 | 141 418 | 32,1 |
| Nedbank Retail and Business Banking | **164 904** | **35,4** | 157 653 | 37,3 | 165 159 | 37,5 |
| Nedbank Wealth | **11 053** | **2,4** | 7 915 | 1,9 | 10 544 | 2,4 |
| Rest of Africa | **19 058** | **4,1** | 18 593 | 4,4 | 16 061 | 3,6 |
| Centre | **1 139** | **0,2** | 678 | 0,2 | 949 | 0,2 |
| **Equity risk** | **11 822** | **2,5** | 18 511 | 4,4 | 13 998 | 3,2 |
| Nedbank Corporate and Investment Banking | **15 778** | **3,4** | 18 643 | 4,4 | 17 196 | 3,9 |
| Nedbank Retail and Business Banking | **73** | **< 0,1** | 73 | < 0,1 | 73 | < 0,1 |
| Nedbank Wealth | **186** | **< 0,1** | 159 | 0,1 | 156 | 0,1 |
| Rest of Africa | **145** | **< 0,1** | 1 232 | 0,3 | 1 379 | 0,3 |
| Centre | **(4 360)** | **(0,9)** | (1 596) | (0,4) | (4 806) | (1,1) |
| **Trading market risk** | **7 060** | **1,5** | 8 288 | 2,0 | 6 889 | 1,6 |
| Nedbank Corporate and Investment Banking | **6 954** | **1,5** | 7 854 | 1,9 | 6 643 | 1,5 |
| Nedbank Retail and Business Banking | | | | | | |
| Nedbank Wealth | **58** | **< 0,1** | 33 | < 0,1 | 87 | < 0,1 |
| Rest of Africa | **48** | **< 0,1** | 401 | 0,1 | 159 | 0,1 |
| Centre | | | | | | |
| **Operational risk** | **56 334** | **12,2** | 52 786 | 12,5 | 55 185 | 12,5 |
| Nedbank Corporate and Investment Banking | **18 126** | **3,9** | 17 737 | 4,2 | 18 125 | 4,1 |
| Nedbank Retail and Business Banking | **29 584** | **6,4** | 27 917 | 6,6 | 28 879 | 6,6 |
| Nedbank Wealth | **3 255** | **0,7** | 3 513 | 0,8 | 3 996 | 0,9 |
| Rest of Africa | **3 009** | **0,7** | 2 556 | 0,6 | 2 781 | 0,6 |
| Centre | **2 360** | **0,5** | 1 063 | 0,3 | 1 404 | 0,3 |
| **Other assets** | **28 626** | **6,2** | 25 083 | 5,9 | 30 493 | 6,9 |
| Nedbank Corporate and Investment Banking | **2 304** | **0,5** | 5 639 | 1,3 | 2 311 | 0,5 |
| Nedbank Retail and Business Banking | **3 367** | **0,7** | 5 669 | 1,4 | 4 809 | 1,1 |
| Nedbank Wealth | **3 143** | **0,7** | 3 808 | 0,9 | 2 740 | 0,6 |
| Rest of Africa | **10 258** | **2,2** | 911 | 0,2 | 11 215 | 2,6 |
| Centre | **9 554** | **2,1** | 9 056 | 2,1 | 9 418 | 2,1 |
| **Total risk-weighted assets** | **465 544** | **100,0** | 422 165 | 100,0 | 440 696 | 100,0 |
| Nedbank Corporate and Investment Banking | **208 710** | **44,8** | 182 531 | 43,2 | 185 693 | 42,1 |
| Nedbank Retail and Business Banking | **197 928** | **42,5** | 191 312 | 45,3 | 198 920 | 45,2 |
| Nedbank Wealth | **17 695** | **3,8** | 15 428 | 3,7 | 17 523 | 4,0 |
| Rest of Africa | **32 518** | **7,0** | 23 693 | 5,6 | 31 595 | 7,2 |
| Centre | **8 693** | **1,9** | 9 201 | 2,2 | 6 965 | 1,5 |

[1] *Includes CCR and securitisation risk.*

## NEDBANK LIMITED[1] SUMMARY OF REGULATORY CAPITAL REQUIREMENTS AND RISK-WEIGHTED ASSETS

| | Jun 2015 | | | Jun 2014 | | | Dec 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | RWA | Mix | MRC[2] | RWA | Mix | MRC[2] | RWA | Mix | MRC[2] |
| Risk type | Rm | % | Rm | Rm | % | Rm | Rm | % | Rm |
| **Credit risk** | **298 200** | **77** | **29 820** | 273 576 | 76 | 27 358 | 285 271 | 77 | 28 527 |
| Advanced Internal Ratings-based Approach | **296 414** | **77** | **29 641** | 271 393 | 76 | 27 139 | 283 337 | 76 | 28 334 |
| Corporate, sovereign, banks, SME[3] | **156 734** | **41** | **15 673** | 137 907 | 39 | 13 791 | 144 264 | 39 | 14 426 |
| Residential mortgages | **50 850** | **13** | **5 085** | 47 132 | 13 | 4 713 | 49 178 | 13 | 4 918 |
| Qualifying revolving retail | **13 140** | **3** | **1 314** | 11 148 | 3 | 1 115 | 12 244 | 3 | 1 224 |
| Other retail | **75 690** | **20** | **7 569** | 75 206 | 21 | 7 521 | 77 651 | 21 | 7 765 |
| The Standardised Approach | **1 786** | **< 1** | **179** | 2 183 | 1 | 218 | 1 934 | 1 | 193 |
| Corporate, sovereign, banks, SME[3] | **916** | **< 1** | **92** | 1 101 | < 1 | 110 | 974 | < 1 | 97 |
| Retail exposures | **870** | **< 1** | **87** | 1 082 | < 1 | 108 | 960 | < 1 | 96 |
| **Counterparty credit risk** | | | | | | | | | |
| Current Exposure Method | **9 883** | **3** | **988** | 3 685 | 1 | 368 | 3 768 | 1 | 377 |
| **Securitisation risk** | | | | | | | | | |
| Internal Ratings-based Approach | **2 212** | **1** | **221** | 2 147 | 1 | 215 | 2 048 | 1 | 205 |
| **Equity risk** | | | | | | | | | |
| Market-based Simple Risk Weight Approach | **8 615** | **2** | **862** | 13 810 | 4 | 1 381 | 10 817 | 3 | 1 082 |
| Listed (300% risk weighting) | **123** | **< 1** | **12** | 2 126 | 1 | 213 | 1 983 | 1 | 198 |
| Unlisted (400% risk weighting) | **8 492** | **2** | **849** | 11 684 | 3 | 1 168 | 8 834 | 2 | 884 |
| **Trading market risk** | | | | | | | | | |
| Internal Model Approach[4] | **5 262** | **1** | **526** | 5 942 | 2 | 594 | 4 538 | 1 | 454 |
| **Operational risk** | **48 502** | **13** | **4 850** | 44 521 | 12 | 4 452 | 47 161 | 13 | 4 716 |
| Advanced Measurement Approach | **48 401** | **13** | **4 840** | 44 407 | 12 | 4 441 | 47 047 | 13 | 4 705 |
| The Standardised Approach | **101** | **< 1** | **10** | 114 | < 1 | 11 | 114 | < 1 | 11 |
| **Other assets** | **13 377** | **3** | **1 338** | 14 483 | 4 | 1 448 | 15 220 | 4 | 1 522 |
| 100% risk weighting | **12 381** | **3** | **1 238** | 14 483 | 4 | 1 448 | 14 143 | 4 | 1 414 |
| Threshold deduction items: 250% risk weighting | **996** | **< 1** | **100** | | | | 1 077 | < 1 | 108 |
| **Total** | **386 051** | **100** | **38 605** | 358 164 | 100 | 35 816 | 368 823 | 100 | 36 882 |
| Total MRC[2] | | | **38 605** | | | 35 816 | | | 36 882 |
| Pillar 1 MRC[5] | | | **30 884** | | | 28 653 | | | 29 506 |
| Pillar 2a MRC[6] | | | **7 721** | | | 7 163 | | | 7 376 |
| **Total qualifying capital and reserves[7]** | | | **56 268** | | | 47 900 | | | 54 259 |
| **Total surplus capital over MRC** | | | **17 663** | | | 12 084 | | | 17 377 |
| **Analysis of total surplus capital[7]** | | | | | | | | | |
| CET1 | | | **15 779** | | | 16 057 | | | 20 134 |
| Total tier 1 | | | **13 549** | | | 14 934 | | | 18 851 |
| Total | | | **17 663** | | | 12 084 | | | 17 377 |

*[1] Nedbank Limited refers to the SA reporting entity in terms of regulation 38 (BA 700) of the SA banking regulations.*
*[2] Total minimum required capital (MRC) is measured at 10,0% in line with SARB regulations and circular 5/2011.*
*[3] SME = Small- and medium-sized enterprises.*
*[4] TSA is immaterial (approximately 5% of trading market risk RWA), hence it has been aggregated with the IMA portion.*
*[5] Pillar 1 MRC is measured at 8% in line with the phasing-in of Basel III minimum regulatory capital ratios.*
*[6] Pillar 2a MRC is measured at 2% in line with the phasing-in of Basel III minimum regulatory capital ratios.*
*[7] Includes unappropriated profits.*

## SUMMARY OF REGULATORY QUALIFYING CAPITAL AND RESERVES[1]

| | Nedbank Group | | | Nedbank Limited | | |
|---|---|---|---|---|---|---|
| Rm | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 |
| **Including unappropriated profits** | | | | | | |
| **Total tier 1 capital** | **56 422** | 55 161 | 55 130 | **44 433** | 40 005 | 44 669 |
| **Common-equity tier 1 capital** | **53 029** | 50 925 | 51 112 | **40 872** | 35 755 | 40 419 |
| Ordinary share capital and premium | **17 943** | 17 270 | 17 247 | **18 571** | 17 461 | 17 461 |
| Minority interest: ordinary shareholders | **269** | 242 | 258 | | | |
| Reserves | **50 150** | 45 391 | 49 204 | **31 874** | 26 374 | 31 860 |
| Deductions[2] | **(15 333)** | (11 978) | (15 597) | **(9 573)** | (8 080) | (8 902) |
| Goodwill | **(5 166)** | (5 268) | (5 141) | **(1 410)** | (1 410) | (1 410) |
| Capitalised software development costs | **(3 527)** | (3 143) | (3 356) | **(3 291)** | (2 885) | (3 105) |
| Gross value | **(3 600)** | (3 234) | (3 438) | **(3 291)** | (2 885) | (3 105) |
| Related deferred tax liability | **73** | 91 | 82 | | | |
| Excess of downturn expected loss over provisions | **(1 833)** | (1 551) | (1 585) | **(1 844)** | (1 564) | (1 606) |
| Impairments | **(3 206)** | (169) | (3 459) | **(1 427)** | (374) | (725) |
| Capital requirement in respect of foreign branches | | | | **(1 352)** | (324) | (655) |
| Deferred tax assets, excluding temporary differences net of deferred tax liabilities | **(136)** | (155) | (160) | | | |
| Total derivative debit valuation adjustment | **(39)** | (14) | (34) | **(39)** | (14) | (34) |
| Investments in the common stock of financial entities (amount above 10% threshold) | **(3 031)** | | (3 265) | | | |
| Qualifying instruments held in banks or other regulated institutions | | | | **(36)** | (36) | (36) |
| Defined-benefit pension fund assets | **(1 601)** | (1 847) | (2 056) | **(1 601)** | (1 847) | (2 056) |
| Gross value | **(2 977)** | (2 566) | (2 855) | **(2 977)** | (2 566) | (2 855) |
| Related deferred tax liability | **1 376** | 719 | 799 | **1 376** | 719 | 799 |
| **Additional tier 1 capital** | **3 393** | 4 236 | 4 018 | **3 561** | 4 250 | 4 250 |
| Preference share capital and premium | **3 561** | 2 848 | 2 866 | **3 561** | 2 848 | 2 848 |
| Hybrid debt capital instruments[3] | | 1 402 | 1 402 | | 1 402 | 1 402 |
| Minority interest deduction | **(168)** | (14) | (250) | | | |
| **Tier 2 capital** | **11 206** | 7 969 | 9 255 | **11 835** | 7 895 | 9 590 |
| Subordinated debt instruments[4] | **11 825** | 7 873 | 9 569 | **11 825** | 7 873 | 9 569 |
| Minority interest deduction[5] | **(746)** | | (408) | | | |
| General allowance for credit impairments | **127** | 96 | 94 | **10** | 22 | 21 |
| **Total qualifying capital and reserves[1]** | **67 628** | 63 130 | 64 385 | **56 268** | 47 900 | 54 259 |
| **Excluding unappropriated profits** | | | | | | |
| **Common-equity tier 1 capital** | **47 821** | 45 735 | 48 785 | **38 722** | 32 114 | 38 830 |
| **Total tier 1 capital** | **51 214** | 49 972 | 52 803 | **42 283** | 36 364 | 43 080 |
| **Total qualifying capital and reserves** | **62 420** | 57 941 | 62 058 | **54 117** | 44 259 | 52 669 |

[1] *For comprehensive 'composition of capital' and 'capital instruments main features' disclosure please refer to www.nedbankgroup.co.za/financialBaselII.asp.*
[2] *In terms of regulation 43(2)(e)(i)(B)(ii)(aa)(ii) disclosure is required for all exposures that are subject to TSA 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 hybrid debt instruments were redeemed on 15 January 2015, in line with the regulatory disqualification event.*
[4] *A total of R2,3bn new-style subordinated-debt instruments have been issued in the current year.*
[5] *In terms of regulation 38(16) any surplus capital attributable to third-party and/or minority shareholders of fully consolidated subsidiaries must be derecognised as qualifying capital.*

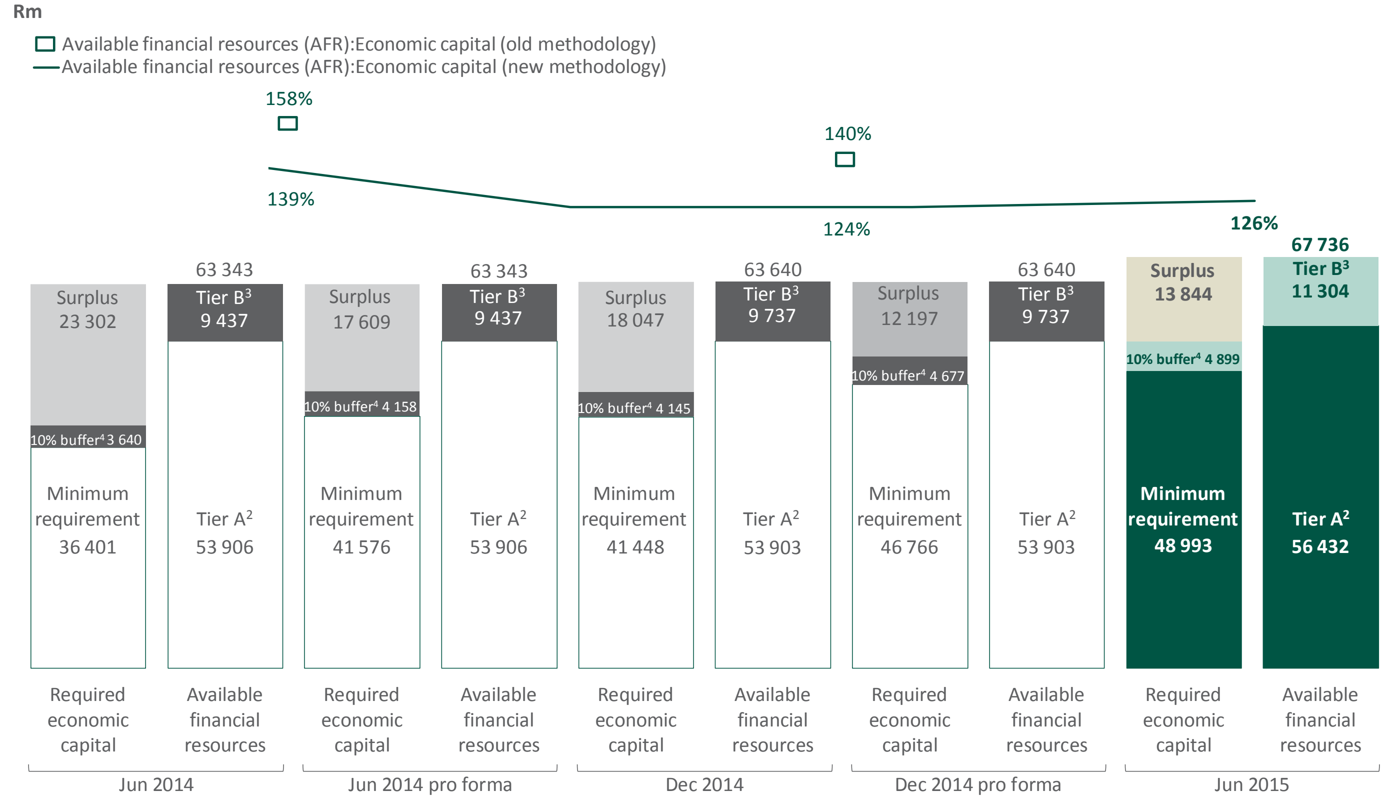
## FLOW STATEMENT FOR TOTAL REGULATORY CAPITAL

| | Nedbank Group | | Nedbank Limited | |
|---|---|---|---|---|
| **Rm** | **Jun 2015** | Dec 2014 | **Jun 2015** | Dec 2014 |
| **Including unappropriated profits** | | | | |
| **Common-equity tier 1 capital** | | | | |
| Opening CET1 capital | **51 112** | 50 925 | **40 419** | 35 755 |
| New capital issues | **696** | | **1 110** | |
| Redeemed capital | | (24) | | |
| Gross dividends (deduction) | **(2 775)** | (2 210) | **(3 200)** | (800) |
| Shares issued in lieu of dividends (add back) | | | | |
| Other distributable reserves | **5 596** | 5 237 | **4 045** | 5 896 |
| Removal of own credit spread (net of tax) | | | | |
| Movements in other comprehensive income | | | | |
| Currency translation differences | **(901)** | 296 | | |
| Available-for-sale reserves | **(178)** | (2) | **(2)** | 2 |
| Property revaluation reserves | **(36)** | 186 | **(30)** | 157 |
| Share-based payments reserves | **(610)** | 250 | **(799)** | 230 |
| Other | **(137)** | 45 | | |
| Goodwill and other intangible assets (deduction, net of related tax liability) | **(196)** | (86) | **(186)** | (220) |
| Other, including regulatory adjustments and transitional arrangements | | | | |
| Capital requirements in respect of foreign branches | | | **(697)** | (330) |
| Deferred tax assets that rely on future profitability (excluding those arising from temporary differences) | **24** | (5) | | |
| Defined-benefit pension fund assets | **455** | (208) | **455** | (208) |
| Excess of downturn expected loss over provisions | **(248)** | (34) | **(238)** | (42) |
| Prudential valuation adjustments: regulation 38(16) minority deduction | **11** | 16 | | |
| Prudential valuation adjustments: Dr Holsboer funds | **(13)** | 10 | | |
| Total derivative debit valuation adjustment | **(5)** | (21) | **(5)** | (21) |
| Investments in the common stock of financial entities (amount above 10% threshold) | **234** | (3 265) | | |
| Closing CET1 capital | **53 029** | 51 112 | **40 872** | 40 419 |
| **Additional tier 1 capital** | | | | |
| Opening additional tier 1 capital | **4 018** | 4 236 | **4 250** | 4 250 |
| Additional tier 1 eligible capital issues | | | | |
| Grandfathering | **1 045** | | **1 063** | |
| Prudential valuation adjustments: regulation 38(16) minority deduction | **82** | (218) | | |
| Redeemed capital | **(1 752)** | | **(1 752)** | |
| Closing additional tier 1 capital | **3 393** | 4 018 | **3 561** | 4 250 |
| **Total tier 1 capital** | **56 422** | 55 130 | **44 433** | 44 669 |
| **Tier 2 capital** | | | | |
| Opening tier 2 capital | **9 255** | 7 969 | **9 590** | 7 895 |
| New tier 2 eligible capital issues | **2 256** | 300 | **2 256** | 300 |
| Redeemed capital | | (150) | | (150) |
| Grandfathering | | 1 546 | | 1 546 |
| Prudential valuation adjustments: regulation 38(16) minority deduction | **(338)** | (408) | | |
| General allowance for credit impairments | **33** | (2) | **(11)** | (1) |
| Other, including regulatory adjustments and transitional arrangements | | | | |
| Closing tier 2 capital | **11 206** | 9 255 | **11 835** | 9 590 |
| **Total regulatory capital** | **67 628** | 64 385 | **56 268** | 54 259 |

The composition of capital disclosure and capital instruments main features disclosure templates can be accessed on www.nedbankgroup.co.za/financialBaselII.asp.

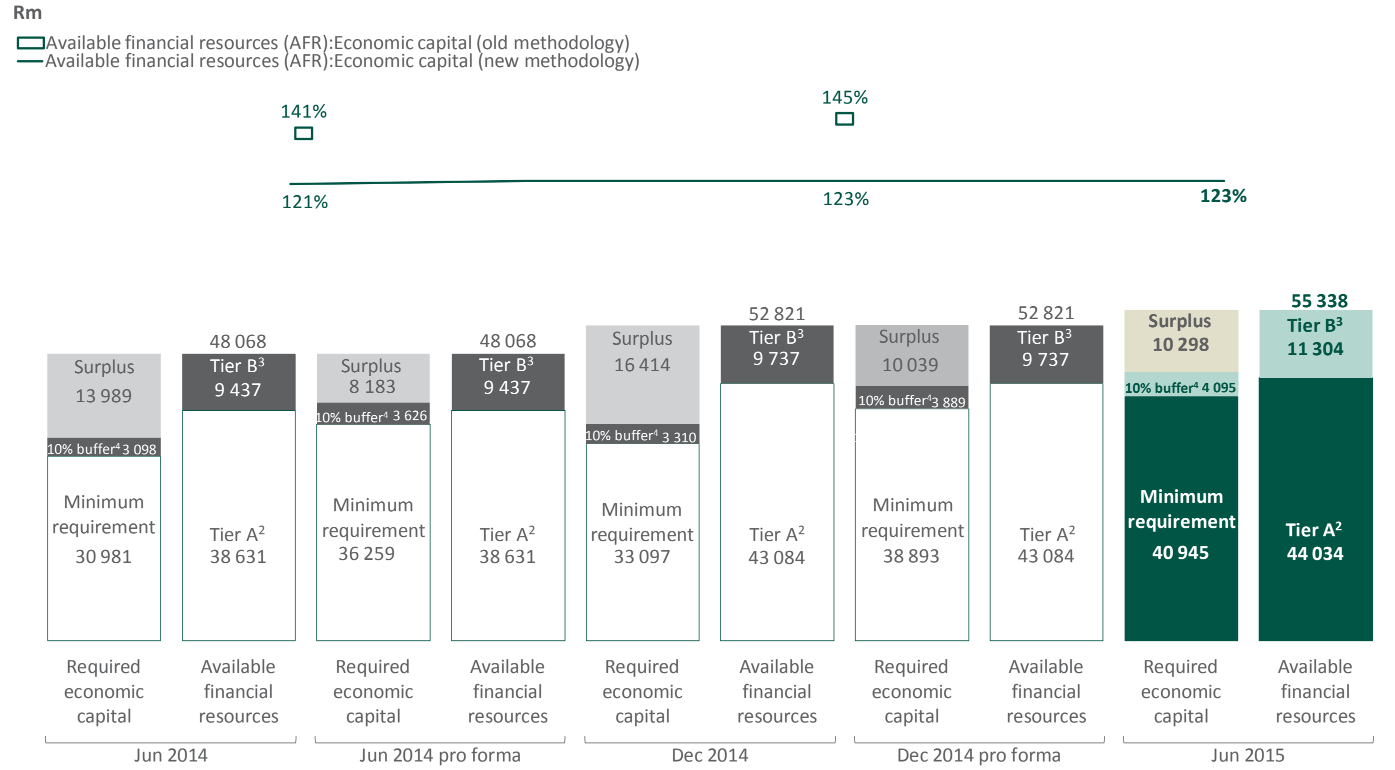
# ECONOMIC CAPITAL ADEQUACY

## STRONG NEDBANK GROUP ECONOMIC CAPITAL ADEQUACY[1] AND ICAAP MAINTAINED




[1] *Including unappropriated profits.*
[2] *Tier A = CET1-type regulatory capital.*
[3] *Tier B = Includes Basel II perpetual preference shares and hybrid debt subject to grandfathering under Basel III and new-style Basel III-compliant additional tier 1 and tier 2 capital instruments.*
[4] *10% buffer determined in accordance with the group's comprehensive stress testing and ICAAP.*

## STRONG NEDBANK LIMITED ECONOMIC CAPITAL ADEQUACY[1] AND ICAAP MAINTAINED




[1] *Including unappropriated profits.*
[2] *Tier A = CET1-type regulatory capital.*
[3] *Tier B = Includes Basel II perpetual preference shares and hybrid debt subject to grandfathering under Basel III and new-style Basel III-compliant additional tier 1 and tier 2 capital instruments.*
[4] *10% buffer determined in accordance with the group's comprehensive stress testing and ICAAP.*

Economic capital is the group's comprehensive internal measurement of risk and related capital requirements, and forms the basis of the group's ICAAP and allocation of risk-based capital to the business clusters.

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 ICAAP reflects a surplus AFR of R13,8bn at June 2015 (December 2014: R18,0bn) after a 10% capital buffer is added. This is determined in accordance with the group's comprehensive Stress and Scenario Testing Framework, to the minimum required economic capital. The decrease in surplus AFR during the period is mainly due to economic capital methodology changes implemented with effect from January 2015. On a like-for-like basis the surplus AFR has increased by R1,6bn from R12,2bn in December 2014 on the back of organic capital generated during the period.
- Nedbank Limited's ICAAP reflects a surplus AFR of R10,3bn at June 2015 (December 2014: R16,4bn) after a 10% capital buffer is added. The negative movement in Nedbank Limited's surplus AFR between December 2014 and June 2015, is as explained above for Nedbank Group.

Further details on Nedbank's risk types and economic capital methodology are reflected from page 33.

## NEDBANK GROUP ECONOMIC CAPITAL REQUIREMENT VERSUS AVAILABLE FINANCIAL RESOURCES

| | **Jun 2015** | | Jun 2014 | | Dec 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | **New methodology** | | Old methodology | | Pro forma | | Old methodology | |
| | **Rm** | **Mix %** | Rm | Mix % | Rm | Mix % | Rm | Mix % |
| **Credit risk** | **30 619** | **62** | 22 759 | 62 | 29 195 | 62 | 24 003 | 58 |
| **Counterparty credit risk**[1] | **885** | **2** | 179 | < 1 | 834 | 2 | 153 | < 1 |
| **Securitisation risk** | **160** | **< 1** | 34 | < 1 | 69 | < 1 | 47 | < 1 |
| **Transfer risk** | **14** | **< 1** | 20 | < 1 | 53 | < 1 | 53 | < 1 |
| **Market risk** | **6 996** | **14** | 5 699 | 16 | 6 712 | 14 | 9 103 | 22 |
| Trading risk | **266** | **< 1** | 435 | 1 | 266 | < 1 | 441 | 1 |
| IRRBB | **3 343** | **7** | 2 246 | 6 | 3 194 | 7 | 3 212 | 8 |
| Property risk | **1 018** | **2** | 1 593 | 4 | 964 | 2 | 1 644 | 4 |
| Equity investment risk | **2 369** | **5** | 1 305 | 4 | 2 288 | 5 | 2 860 | 7 |
| Foreign currency translation risk | | | 120 | < 1 | | | 946 | 2 |
| **Business risk** | **5 844** | **12** | 4 718 | 13 | 5 328 | 12 | 4 936 | 12 |
| **Operational risk** | **2 755** | **6** | 2 064 | 6 | 2 769 | 6 | 2 000 | 5 |
| **Insurance risk** | **384** | **< 1** | 369 | 1 | 379 | < 1 | 391 | 1 |
| **Other assets risk** | **1 336** | **3** | 559 | 2 | 1 427 | 3 | 762 | 2 |
| **Minimum economic capital requirement** | **48 993** | **100** | 36 401 | 100 | 46 766 | 100 | 41 448 | 100 |
| Add: stress-tested capital buffer (10%) | **4 899** | | 3 640 | | 4 677 | | 4 145 | |
| **Total economic capital requirement** | **53 892** | | 40 041 | | 51 443 | | 45 593 | |
| **Available financial resources** | **67 736** | **100** | 63 343 | 100 | 63 640 | 100 | 63 640 | 100 |
| Tier A capital | **56 432** | **83** | 53 906 | 85 | 53 903 | 85 | 53 903 | 85 |
| Tier B capital | **11 304** | **17** | 9 437 | 15 | 9 737 | 15 | 9 737 | 15 |
| **Total surplus AFR** | **13 844** | | 23 302 | | 12 197 | | 18 047 | |

[1] *Includes CVA.*

Nedbank Group's total economic capital requirement (including a 10% stress-tested buffer) increased by R8,3bn from December 2014, mainly due to a R5,9bn increase from the economic capital methodology changes implemented in 2015. The total economic capital requirement increased by R2,4bn on a like-for-like basis on the back of:

- A R1,4bn increase in credit economic capital, which was largely driven by strong asset growth in some of the wholesale portfolios, in particular Property Finance, Markets business and the Corporate Banking lending portfolios, as well as increased conservatism in the ratings of the wholesale portfolios due to prevailing economic conditions.
- A R516m increase in business risk economic capital, mainly as a result of the increase in revenue forecasts.
- A R149m increase in IRRBB economic capital, mainly driven by organic balance sheet growth.

Nedbank Group's total AFR increased by R4,1bn from December 2014 due to:

- A R2,5bn increase in tier A AFR, driven by organic earnings growth during the period.
- A R1,6bn increase in tier B AFR, following the issue of R2,3bn new-style Basel III-compliant tier 2 subordinated-debt during the period, offset by the redemption of hybrid debt discussed previously.

The total increase in AFR was lower than the increase in minimum economic capital requirement from December 2014 to June 2015 as a result of the economic capital methodology changes implemented in 2015, resulting in the total AFR surplus decreasing from R18,0bn to R13,8bn.

## NEDBANK LIMITED ECONOMIC CAPITAL REQUIREMENT VERSUS AVAILABLE FINANCIAL RESOURCES

| | Jun 2015 | | Jun 2014 | | Dec 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | New methodology | | Old methodology | | Pro forma | | Old methodology | |
| | Rm | Mix % | Rm | Mix % | Rm | Mix % | Rm | Mix % |
| **Credit risk** | **26 872** | **66** | 20 303 | 65 | 25 483 | 66 | 21 347 | 64 |
| **Counterparty credit risk** | **875** | **2** | 176 | < 1 | 826 | 2 | 153 | < 1 |
| **Securitisation risk** | **164** | **< 1** | 34 | < 1 | 71 | < 1 | 48 | < 1 |
| **Transfer risk** | **7** | **< 1** | 10 | < 1 | 9 | < 1 | 9 | < 1 |
| **Market risk** | **4 697** | **12** | 4 487 | 14 | 4 480 | 12 | 5 371 | 16 |
| Trading risk | **210** | **1** | 342 | 1 | 210 | 1 | 341 | 1 |
| IRRBB | **2 833** | **7** | 1 765 | 6 | 2 651 | 7 | 2 651 | 8 |
| Property risk | **843** | **2** | 1 321 | 4 | 781 | 2 | 1 339 | 4 |
| Equity investment risk | **811** | **2** | 1 059 | 3 | 838 | 2 | 1 040 | 3 |
| **Business risk** | **4 912** | **12** | 3 715 | 12 | 4 565 | 12 | 3 897 | 12 |
| **Operational risk** | **2 085** | **5** | 1 794 | 6 | 2 134 | 5 | 1 558 | 5 |
| **Other assets risk** | **1 333** | **3** | 462 | 2 | 1 325 | 3 | 714 | 2 |
| **Minimum economic capital requirement** | **40 945** | **100** | 30 981 | 100 | 38 893 | 100 | 33 097 | 100 |
| Add: stress-tested capital buffer (10%) | **4 095** | | 3 098 | | 3 889 | | 3 310 | |
| **Total economic capital requirement** | **45 040** | | 34 079 | | 42 782 | | 36 407 | |
| **Available financial resources** | **55 338** | **100** | 48 068 | 100 | 52 821 | 100 | 52 821 | 100 |
| Tier A capital | **44 034** | **80** | 38 631 | 80 | 43 084 | 82 | 43 084 | 82 |
| Tier B capital | **11 304** | **20** | 9 437 | 20 | 9 737 | 18 | 9 737 | 18 |
| **Total surplus AFR** | **10 298** | | 13 989 | | 10 039 | | 16 414 | |

Nedbank Limited's total economic capital requirement (including a 10% stress-tested buffer) increased by R7,8m from December 2014, mainly due to a R6,4bn increase from the economic capital methodology changes implemented in 2015. The total economic capital requirement increased by R2,3bn on a like-for-like basis on the back of:

- A R1,4bn increase in credit economic capital that was largely driven by strong asset growth in some of the wholesale portfolios, in particular the commercial real estate, investment banking and corporate lending portfolios.
- A R347m increase in business risk economic capital, mainly as a result of the increase in revenue forecasts.
- A R182m increase in IRRBB economic capital, mainly driven by organic balance sheet growth.

Nedbank Limited's total AFR increased by R2,5bn from December 2014 due to:

- A R1,6bn increase in tier B AFR, following the issue of R2,3bn new-style Basel III-compliant tier 2 subordinated-debt during the period, offset by the redemption of hybrid debt discussed previously.
- A R950m increase in tier A AFR, driven by organic earnings growth during the period.

The total increase in AFR was lower than the increase in minimum economic capital requirement from December 2014 to June 2015 as a result of the economic capital methodology changes implemented in 2015, resulting in the total AFR surplus decreasing from R16,4bn to R10,3bn.

## ANALYSIS OF AVAILABLE FINANCIAL RESOURCES

| | Nedbank Group | | | Nedbank Limited | | |
|---|---|---|---|---|---|---|
| **Rm** | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 |
| **Tier A capital** | **56 432** | 53 906 | 53 903 | **44 034** | 38 631 | 43 084 |
| Ordinary share capital and premium | **17 943** | 17 270 | 17 247 | **18 571** | 17 461 | 17 461 |
| Minority interest: ordinary shareholders | **269** | 242 | 258 | | | |
| Reserves | **50 150** | 45 390 | 49 204 | **31 874** | 26 374 | 31 860 |
| Retained income | **51 341** | 40 934 | 44 002 | **31 884** | 25 989 | 31 039 |
| Non-distributable reserves | **(4 492)** | 155 | 167 | | | |
| AFS reserves | **(161)** | 24 | 25 | **9** | 9 | 11 |
| FCTR | **713** | 1 319 | 1 615 | **9** | 9 | 9 |
| SBP reserves | **1 044** | 1 403 | 1 654 | **(1 315)** | (799) | (516) |
| Property revaluation reserves | **1 705** | 1 555 | 1 741 | **1 287** | 1 166 | 1 317 |
| Deductions | **(13 461)** | (10 413) | (13 977) | **(7 690)** | (6 503) | (7 262) |
| Impairments | | | | **(1 388)** | (361) | (691) |
| Deferred tax assets, excluding temporary differences | **(136)** | (155) | (159) | | | |
| Goodwill | **(5 166)** | (5 268) | (5 141) | **(1 410)** | (1 410) | (1 410) |
| Capitalised software development costs | **(3 265)** | (2 818) | (3 063) | **(3 291)** | (2 885) | (3 105) |
| Other intangibles | **(262)** | (325) | (293) | | | |
| Other adjustments[1] | **(3 031)** | | (3 265) | | | |
| Defined benefit pension fund assets | **(1 601)** | (1 847) | (2 056) | **(1 601)** | (1 847) | (2 056) |
| Excess of IFRS provisions over TTC expected loss | **1 531** | 1 417 | 1 171 | **1 279** | 1 299 | 1 025 |
| **Tier B capital** | **11 304** | 9 437 | 9 737 | **11 304** | 9 437 | 9 737 |
| Preference shares | **3 561** | 2 848 | 2 848 | **3 561** | 2 848 | 2 848 |
| Tier 2 debt instruments[2] | **7 743** | 5 187 | 5 487 | **7 743** | 5 187 | 5 487 |
| Hybrid debt capital instruments | | 1 402 | 1 402 | | 1 402 | 1 402 |
| **Total AFR** | **67 736** | 63 343 | 63 640 | **55 338** | 48 068 | 52 821 |

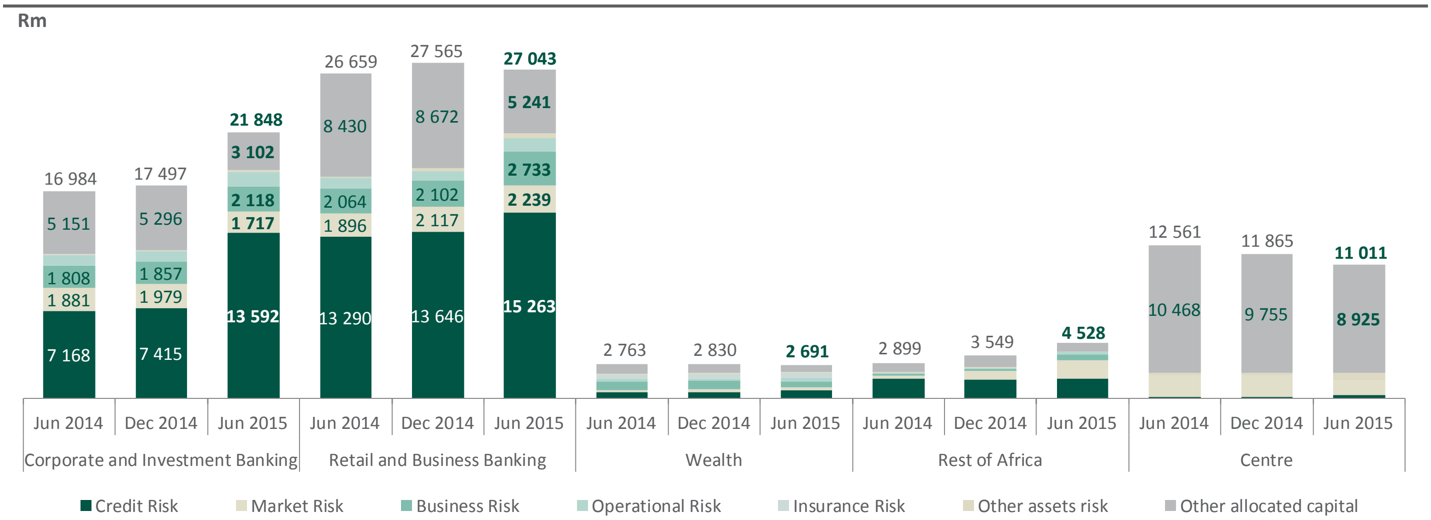
*[1] Impairment to tier A capital in line with Basel III regulatory treatment as a result of Nedbank's investment in ETI and other financial entities breaching the 10% of CET1 capital threshold.*

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

The total increase in AFR was less than the increase in minimum economic capital requirement from December 2014 to June 2015 as a result of the economic capital methodology changes implemented in 2015, resulting in the total AFR surplus decreasing from R18,0bn to R13,8bn.

Nedbank Limited remains well capitalised on a like-for-like basis as is evidenced by the sizeable surplus of R10,3bn (December 2014 pro forma: R10,0bn). The significant increase in AFR was driven by new tier B capital issuances as well as the organic earnings growth.

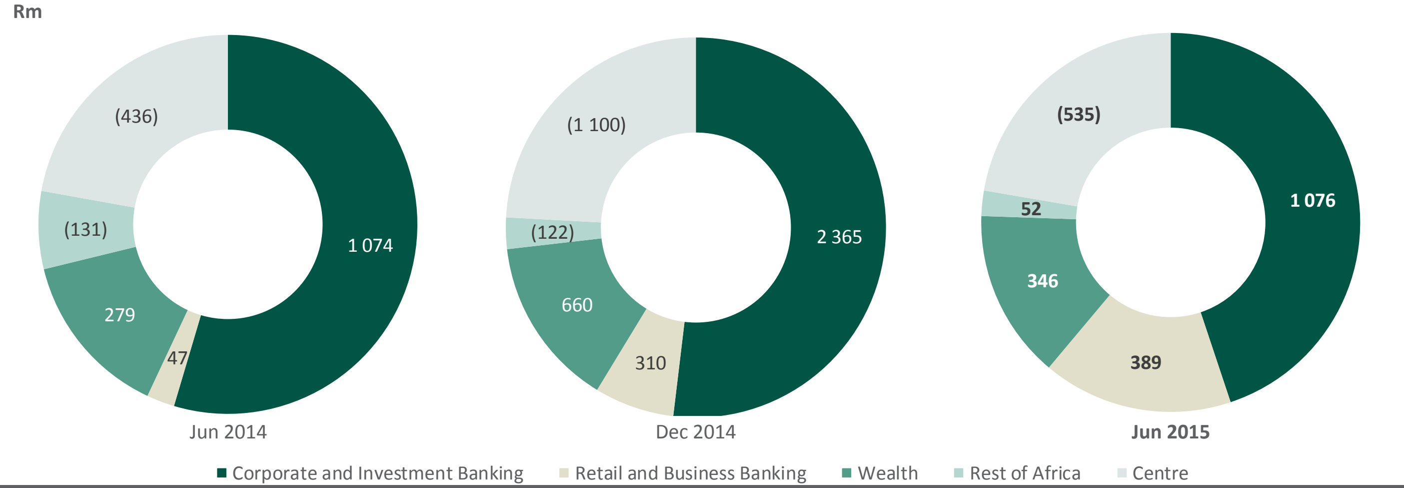
## RISK-BASED CAPITAL ALLOCATION TO THE BUSINESS CLUSTERS[1, 2]




*[1] Summary of average year-to-date capital allocation at June 2015 versus June 2014 and December 2014, using average year-to-date capital consumption.*

*[2] June 2015 business cluster economic capital allocations are based on the new methodology. Prior period cluster economic capital allocations have not been restated as these methodology changes are not material at the cluster level when considered in total.*

## ECONOMIC PROFIT




# COST OF EQUITY

Nedbank Group revised its cost of equity (COE) to 13,0% in 2015 (December 2014: 13,5%) as a result of a lower than expected risk-free rate in the Capital Asset Pricing Model and in consideration of the approach followed by the group's parent company (Old Mutual plc), average investment analysts' consensus and management judgement.

# EXTERNAL CREDIT RATINGS

Nedbank engages three credit rating agencies, whose ratings are summarised below:

- In August 2015 Standard & Poor's affirmed Nedbank's long- and short-term counterparty credit ratings as well as the long- and short-term SA national scale ratings. The affirmation balances Nedbank's strong earnings and good quality assets with continuing economic headwinds and industry turbulence.
- In June 2015 Moody's affirmed all of Nedbank's ratings. This was based on Nedbank's position as a strong local franchise with good financial performance in recent years, robust capitalisation buffers and increased non-performing loans-provisioning coverage ratio. Concurrently the ratings also reflect Nedbank's high proportion of short-term wholesale deposit funding and credit risk concentrations (structural issues faced by all major SA banks).
- In June 2015 Fitch Ratings affirmed all of Nedbank's ratings, citing a strong company profile, quality management and coherent strategies, sophisticated risk management and overall good financial metrics as the main positive drivers of Nedbank's ratings. These factors are counterbalanced by a decline in SA's operating and economic environment.

## STANDARD & POOR'S RATINGS

| | Nedbank Limited August 2015 |
|---|---|
| Counterparty credit risk rating | BBB-/A-3 |
| Outlook – counterparty credit risk | Stable |
| SA national scale | ZaAA/ZaA-1 |

## FITCH RATINGS

| | Nedbank Group Limited June 2015 | Nedbank Limited June 2015 | Sovereign rating SA June 2015 |
|---|---|---|---|
| Support | 2 | 2 | |
| **Foreign currency** | | | |
| Long-term | BBB | BBB | BBB |
| Short-term | F3 | F3 | F3 |
| Outlook | Negative | Negative | Negative |
| **Local currency** | | | |
| Long-term | BBB | BBB | BBB+ |
| Outlook | Negative | Negative | Negative |
| **National scale** | | | |
| Long-term | AA(zaf) | AA(zaf) | |
| Short-term | F1+(zaf) | F1+(zaf) | |
| Outlook | Stable | Stable | |
| **Viability rating** | bbb | bbb | |
| **Country ceiling**[1] | | | A- |

[1] *Fitch country ceiling is an expression of the maximum limit for the foreign-currency issuer rating of most, but not all, issuers in a given country.*

| MOODY'S INVESTOR SERVICE RATINGS | Nedbank Limited June 2015 | Sovereign rating SA May 2015 |
|---|---|---|
| **Foreign currency deposit ratings** | | |
| Long-term | Baa2 | Baa2 |
| Short-term | P-2 | P-2 |
| Outlook | Stable | Stable |
| **Local currency deposit ratings** | | |
| Long-term | Baa2 | Baa2 |
| Short-term | P-2 | |
| Outlook | Stable | Stable |
| **National scale** | | |
| Long-term deposits | A1.za | |
| Short-term deposits | P-1.za | |
| **Counterparty risk assessment** | Baa1/P-2 | |

External rating agencies still view the SA banking sector as resilient, with stable core earnings, sophisticated risk management and good levels of capitalisation and liquidity.

- Nedbank is regarded as a strong franchise with sound credit metrics, risk and balance sheet management, and good financial performance over several years.
- Rating agencies recognise Nedbank's strong capital adequacy position.

# LEVERAGE

The leverage ratio is a simple, transparent, non-risk-based ratio intended to supplement the Basel III risk-based capital requirements, in order to help avoid the buildup of excessive leverage and to capture both on- and off-balance-sheet exposure.

Nedbank Group's gearing under the revised Basel III Leverage Ratio Framework and disclosure requirements (which came into effect on 1 January 2015) is 15,9 times (or 6,3%) at 30 June 2015 (December 2014 pro forma: 15,1 times or 6,6%) against an internal risk appetite target of less than 20 times (or > 5%), and well below the Basel III limit, in accordance with the revised SA regulations of 25 times (or > 4%), which is more prudent than Basel III at 33,3 times (or > 3%). The slight decline in the leverage position is largely as a result of derecognition of tier 1 hybrid debt qualifying as tier 1 capital.

SA banks, including Nedbank, compare favourably to most international banks on leverage.

- SA's banking system generally has low leverage.
- As a consequence, deleveraging is not a matter of concern in SA.

The Basel III leverage ratio differs from the IFRS accounting or the financial leverage ratio in both the capital measure and the exposure measure:

- In terms of the capital measure Basel III currently utilises total tier 1 qualifying regulatory capital, whereas the IFRS accounting leverage ratio utilises only ordinary shareholders' equity (OSE).
- In terms of the exposure measure the main difference between Basel III and IFRS accounting is the inclusion of off-balance-sheet exposure in the Basel III measurement.
- Nedbank Group's gearing or daily average IFRS accounting-based financial-leverage ratio is 12,5 times (or 8,0%) at 30 June 2015 (December 2014: 12,4 times or 8,1%).

In accordance with the provisions of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990), banks are directed to comply with the relevant leverage disclosure requirements, as set out in Directive 4/2014. (This can be accessed on www.nedbankgroup.co.za/pdfs/baselIIIDisclosure/Leverage_ratio_common_disclosure_template_30_June_2015.pdf.).

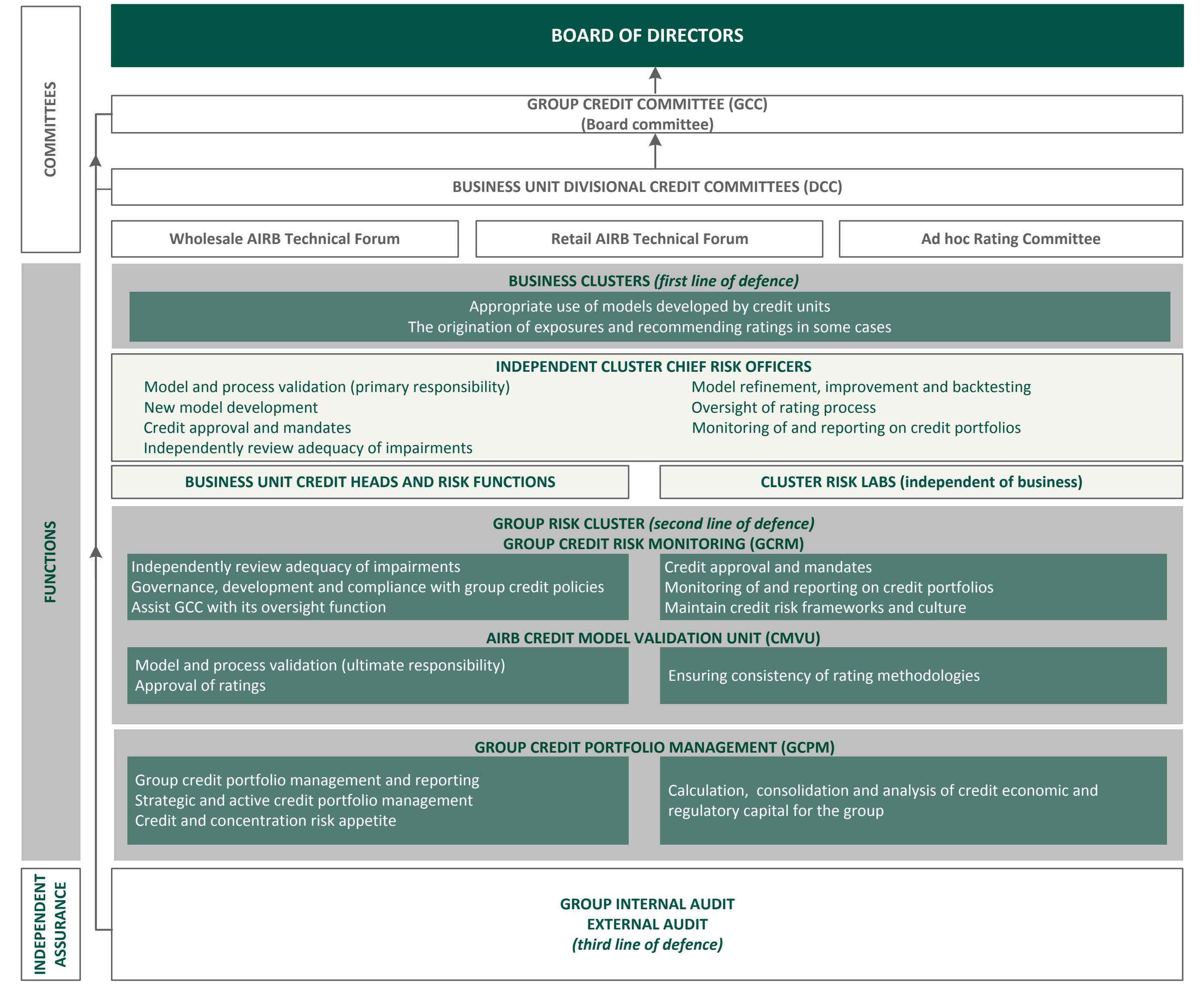
# CREDIT RISK

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 78% of regulatory capital requirements. The lower percentage contribution under economic capital is mainly due to the additional risk types (such as business risk) explicitly capitalised under economic capital.

## Credit governance and structures

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

**GOVERNANCE STRUCTURE OF NEDBANK'S ADVANCED INTERNAL RATINGS BASED CREDIT SYSTEM**




Credit risk is managed across the group in terms of its board approved Group Credit Risk Framework, which incorporates selected excerpts from the credit policy, mandate limits and governance structures. It is a key component of the group's ERMF, Capital Management and Risk Appetite Frameworks and it is reviewed on a quarterly basis.

The Group Credit Risk Framework, which covers the macrostructures for credit risk management, monitoring and approval mandates, includes the two AIRB Approach technical forums (ie Wholesale and Retail) and a Group Credit Ad Hoc Ratings Committee which report into the GCC. Also included is the Large Exposures Approval Committee (LEAC), whose sole function is the approval of credit applications in excess of the threshold imposed by the Banks Act.

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 credit rating and risk estimation systems and processes. The SARB requires that the GCC is chaired by a non-executive director. The current membership includes four non-executive directors and three executive directors.

In this regard the board and the GCC are required by the banking regulations to have a general understanding of the AIRB credit system and the related reports. They also need to ensure the independence of the Group Credit Risk Monitoring (GCRM) which includes the Credit Model Validation Unit (CMVU).

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, DCCs and ultimately the board's GCC on a regular basis. 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. GCPM monitors the group's credit portfolio and is responsible for reporting strategic and active credit portfolio management as well as risk and concentration appetite. GCPM also runs the group's calculation, consolidation and analysis of credit economic and regulatory capital.

The technical understanding required of senior management is greater than that required at board level. Management must have a detailed understanding of the AIRB credit system and the reports it generates. Management needs to ensure the effective operation of the AIRB credit system assisted by an independent credit risk control unit, namely the GCRM and the CMVU.

DCCs, with chairpersons independent of the business units, exist for all business units across the group. The DCCs are responsible for approving credit policy and credit mandate as well as reviewing business unit-level credit portfolios, compliance with credit policies, credit risk appetite parameters, adequacy of impairments, expected loss and credit capital levels.

In each of the four business clusters credit risk management functions operate independently of credit origination. In line with the Basel III AIRB methodology, the clusters have implemented economic capital quantification and RAPM. Each cluster also has a cluster credit risk lab that is responsible for the ongoing design, implementation, business validation and performance of their business cluster's internal rating systems and AIRB credit models, subject to independent annual validation by the CMVU.

## 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 is a 12-month estimate based on the long-run annual average level of credit losses through a full credit cycle based on historical data.
- Unexpected Loss is the annualised volatility of expected loss for credit risk.

Analytically, expected loss and UL can be defined respectively as the average and one standard deviation of the distribution of potential losses inherent in the group's credit portfolio.

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 also form an integral part of Nedbank's credit risk measurement and management. Nedbank assesses the adequacy of impairments, in line with IFRS, on a continuous basis. 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.

As a result of the global financial crisis in 2008 the International Accounting Standards Board (IASB) undertook a substantial review of the suite of financial instrument standards, which included the impairment section of IAS 39. In July 2014 the 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 provide users of financial statements with more useful information about an entity's expected credit losses (ECL) on financial instruments. The model requires an entity to recognise ECL at all times and to update the amount of ECL recognised at each reporting date to reflect changes in the credit risk of financial instruments.

Effectively, the incurred-loss model under IAS 39 is being replaced with an expected loss model for calculating impairments. The published expected loss approach is designed to result in earlier loss recognition compared to the 'incurred loss' approach by taking into account ECL over the expected life or 12-months. The decision whether to recognise a 12-month or lifetime ECL depends on the deterioration in credit quality of the financial asset relative to the credit quality of the financial asset at initial recognition.

This is based on three categories, namely credit quality that has not deteriorated significantly (stage one), credit quality that deteriorated significantly (stage two) and objective evidence of impairment (stage three). A 12-month ECL (stage one) or lifetime ECL (stage two) should be recognised in the impairment line with no impact on interest income (recognised on a gross basis) for financial instruments without objective evidence of impairment. However, for financial assets where there is objective evidence of impairment (stage three), interest income will be based on the net recoverable amount (interest income is recognised on the exposure net of impairments).

In February 2015 the Basel Committee issued for consultation 'guidance on accounting for ECL' which outlines 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 interpretations and practice where there are commonalities and when the same accounting framework is applied. The guidance will be taken into consideration in the implementation of IFRS 9.

The final version of IFRS 9 is effective from 1 January 2018. Although IFRS 9 will be available for early adoption, the group will only apply the standard retrospectively from 1 January 2018, subject to the transition provisions.

The generic methodological differences between expected loss estimation, IAS 39 and IFRS 9 impairment 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 ECL 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 – point-in-time (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 post-default recoveries. | Current estimate of the discounted value of post-default recoveries. | Estimate of the discounted value of post-default recoveries. The measurement period is dependent on the relevant performance of the asset. |
| 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 cost of equity. | Cashflows discounted using instrument's original effective interest rate. | Cashflows are discounted at a discount rate which approximates the original effective interest rate. This discount rate is not changed because of impairment. |
| Period of measurement | Reflects period of high credit losses.<br>Downturn loss given default (dLGDs) 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. |

As shown in the table above, IAS 39 impairments are determined using PIT metrics, which are used to estimate the default expectations under the current economic cycle. For Nedbank's active portfolio, the portfolio impairments estimated using the PIT methodology are based on emergence periods of 12 months or less. Specific impairments are estimated for the defaulted portfolio and added to portfolio impairments, which then constitute the total impairments for the credit portfolio.

Basel III also requires banks to base their LGD estimates for regulatory capital requirements on a downturn scenario (ie dLGD), rather than an average TTC loss estimate. dLGD thus represents what could be expected in downturn economic conditions in the trough of an economic cycle. TTC metrics reflect a one-year forward-looking estimate based on a long-term average through an economic cycle and are used for the group's regulatory capital calculations.

In the case of the defaulted portfolio a best estimate of expected loss (BEEL) is calculated, which is in line with the specific impairment for that exposure. The BEEL or specific impairment takes the current economic and business conditions into account as well as the counterparty's current circumstances and condition of the collateral/mitigants to determine the PIT BEEL estimate. The dLGD estimation for the defaulted exposure is updated and compared with the BEEL. Normally no capital is held for defaulted exposures due to the specific impairment that should fully provide for any possible losses. If the dLGD exceeds BEEL, it is considered an unexpected loss and the difference is then the required capital for the defaulted portfolio.

## 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)
  PD 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)
  EAD 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)
  LGD is the economic loss the group expects to incur on a particular facility should the client default and is 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 that are used to develop 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 Nedbank's Group Internal Audit Division 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.<br>◻ A range of questions that allows for the differentiation of risk is developed in consultation with experts in the field.<br>◻ These questions are structured so as to ensure objectivity. | ◻ Hybrid models comprise the best of conventional statistical modelling techniques and constrained expert judgement.<br>◻ These models are typically used for those portfolios where there is insufficient data to develop robust statistical measures in isolation.<br>◻ Statistical tests are still performed, but these are enhanced by the addition of suitably conservative expert opinion. | ◻ These models represent conventional credit scoring and are developed utilising standardised statistical methodologies.<br>◻ 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 models.<br>◻ In some instances the data requirements are also significant. This is the case with the workout models used to estimate LGD and EAD. |

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

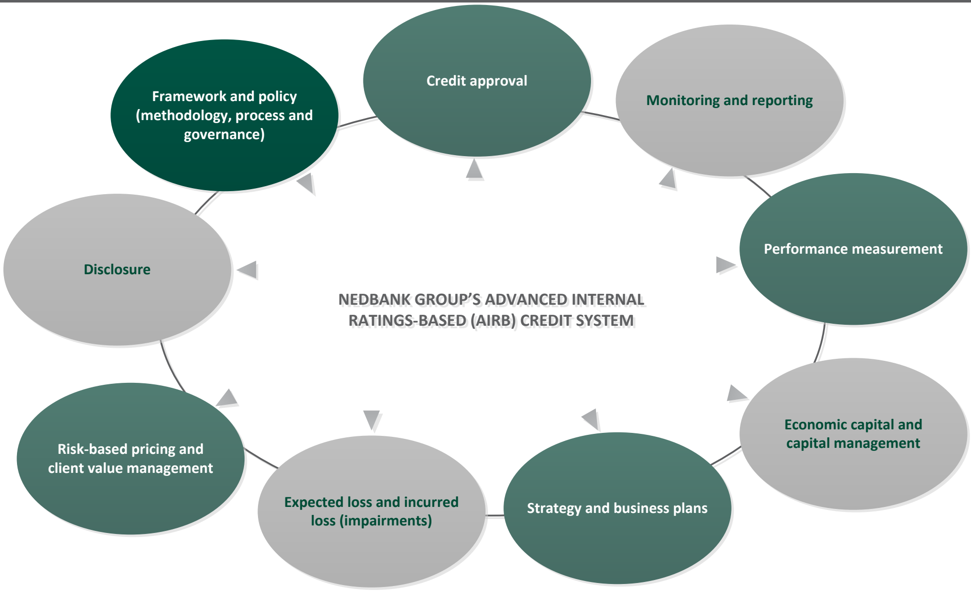
## NATURE OF RATING SYSTEM

| WHOLESALE RATING SYSTEM | | RETAIL RATING SYSTEM | |
|---|---|---|---|
| **Asset classes** | **Modelling approaches adopted** | **Asset classes** | **Modelling approaches adopted** |
| ◻ Corporate<br>◻ Small- and medium-sized enterprises (SME) - Corporate<br>◻ Banks<br>◻ Sovereign, Public Sector entities and Local government and municipalities<br>◻ Specialised lending, comprising:<br>- Project finance<br>- Commodity finance<br>- Income-producing real estate (IPRE)<br>- High-volatility commercial real estate (HVCRE) | ◻ A range of modelling approaches is adopted across Nedbank's wholesale portfolios.<br>◻ Hybrid models are typically used to measure PD, while structural EAD and workout LGD models are in place for most portfolios.<br>◻ 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.<br>◻ Structural cashflow simulation models has been developed for the project finance, leveraged buyout and IPRE portfolios that provide estimates of PD and LGD.<br>◻ The supervisory slotting approach is used for the HVCRE (development and vacant land real estate) portfolio.<br>◻ Expert judgement model. | ◻ Retail mortgages<br>◻ Retail revolving credit<br>◻ SME - Retail<br>◻ Retail other, comprising:<br>- Overdrafts, student and term loans<br>- Personal loans<br>- Vehicle and asset finance | ◻ A number of PD models have been developed for the various retail portfolios.<br>◻ Both application stage and behavioural PD models are utilised in most portfolios.<br>◻ Application models are developed using a combination of internal and external (credit bureau) data, while internal data is used to develop behavioural models.<br>◻ Given the large data volumes available for these portfolios, pure statistical techniques are invariably used.<br>◻ EAD and LGD models are in use across all material portfolios and these have been developed using the group's own default experience. |

Whenever possible, PD models are calibrated to long-term default and loss rates, thus 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




Group Credit Policy not only incorporates the minimum requirements stipulated in the revised SA banking regulations, but also documents 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 expected loss), 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 (%) Lower bound (PD >) | Upper bound (PD ≤) | Mapping to Standard and Poor's grades[1] |
|---|---|---|---|---|---|
| Performing | NGR01 | 0,010 | 0,000 | 0,012 | |
| | NGR02 | 0,014 | 0,012 | 0,017 | AAA |
| | NGR03 | 0,020 | 0,017 | 0,024 | AA+ |
| | NGR04 | 0,028 | 0,024 | 0,034 | AA |
| | NGR05 | 0,040 | 0,034 | 0,048 | AA- |
| | NGR06 | 0,057 | 0,048 | 0,067 | A+ |
| | NGR07 | 0,080 | 0,067 | 0,095 | A |
| | NGR08 | 0,113 | 0,095 | 0,135 | A- |
| | NGR09 | 0,160 | 0,135 | 0,190 | BBB+ |
| | NGR10 | 0,226 | 0,190 | 0,269 | BBB |
| | NGR11 | 0,320 | 0,269 | 0,381 | BBB- |
| | NGR12 | 0,453 | 0,381 | 0,538 | |
| | NGR13 | 0,640 | 0,538 | 0,761 | BB+ |
| | NGR14 | 0,905 | 0,761 | 1,076 | BB |
| | NGR15 | 1,280 | 1,076 | 1,522 | BB- |
| | NGR16 | 1,810 | 1,522 | 2,153 | |
| | NGR17 | 2,560 | 2,153 | 3,044 | B+ |
| | 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- |
| | NGR22 | 14,482 | 12,177 | 17,222 | |
| | NGR23 | 20,480 | 17,222 | 24,355 | |
| | NGR24 | 28,963 | 24,355 | 34,443 | CCC |
| | NGR25 | 40,960 | 34,443 | 99,999 | CC-C |
| | NP1 | 100 | 100 | 100 | D |
| Non-performing | NP2 | 100 | | | D |
| (defaulted) | NP3 | 100 | | | D |

[1] *The mapping methodology for corporate exposures was amended during 2014 based on default information published by the rating agency.*

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

NGR01 to NGR20 reflect a profile of credit risk where low-risk borrowers may reflect a PD as low as 0,01% and risky borrowers that may reflect a PD as high as 8,6%.

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 four 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.

The final rating categories represent those borrowers that have defaulted. 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 expected loss (expected loss – the product of the PD, LGD and EAD) as a percentage of EAD and contains 10 rating bands. The first three bands representing facilities of low risk, the next three bands being for facilities of average risk and the final four bands indicating facilities of high or very high risk.

**EXPECTED LOSS TRANSACTION RATING SCALE (NTR)**

| | Expected loss as a % 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 expected loss) 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 credit export agencies ratings are used indirectly as inputs into rating models for the bank, sovereign and securitisation asset classes. During 2015 there were no changes in the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) utilised. Moody's, Fitch and Standard and 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.

## Credit risk approaches across Nedbank

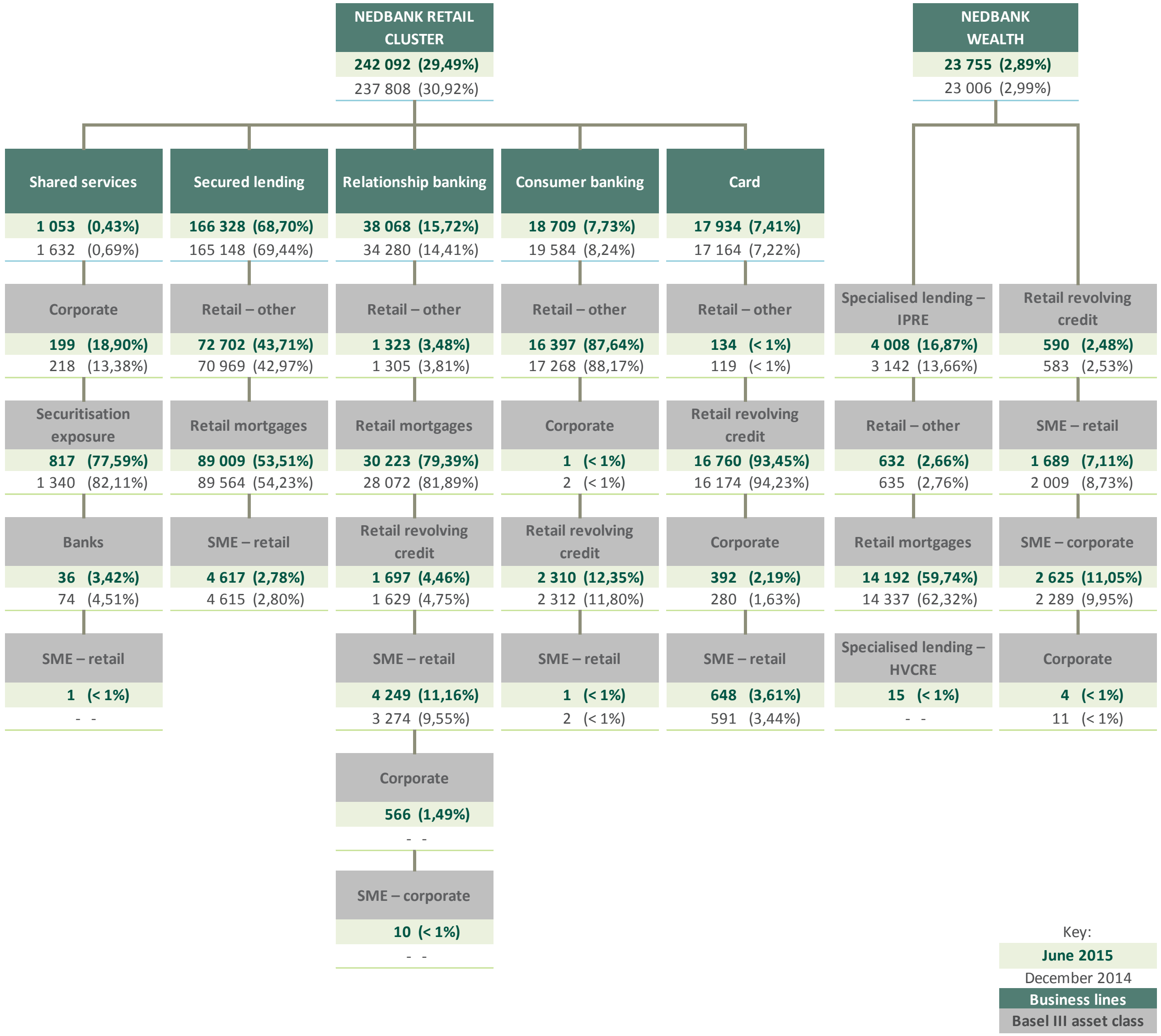
Nedbank Limited and Nedbank London branch make up 95% of the total credit extended by Nedbank Group and are on the AIRB Approach. The remaining portion of the legacy Imperial Bank (ie in Nedbank Business Banking), Fairbairn Private Bank (UK) and the non-SA subsidiaries credit portfolio remain on TSA. The majority of the legacy Imperial Bank exposures still on TSA reside in the Business Banking Professional Finance portfolio. There are plans to migrate these exposures to the AIRB Approach by end 2015.

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

# Roadmap of Nedbank's credit rating systems

The following three diagrams provide an overview of the group's credit risk profile by business line, major Basel III asset class and regulatory measurement methodology. The distribution of retail exposures that are measured with the AIRB Approach is reflected in the following diagram as at June 2015. Basel III AIRB credit exposure is reported on the basis of EAD.

## RETAIL AIRB RATING SYSTEM[1,2]

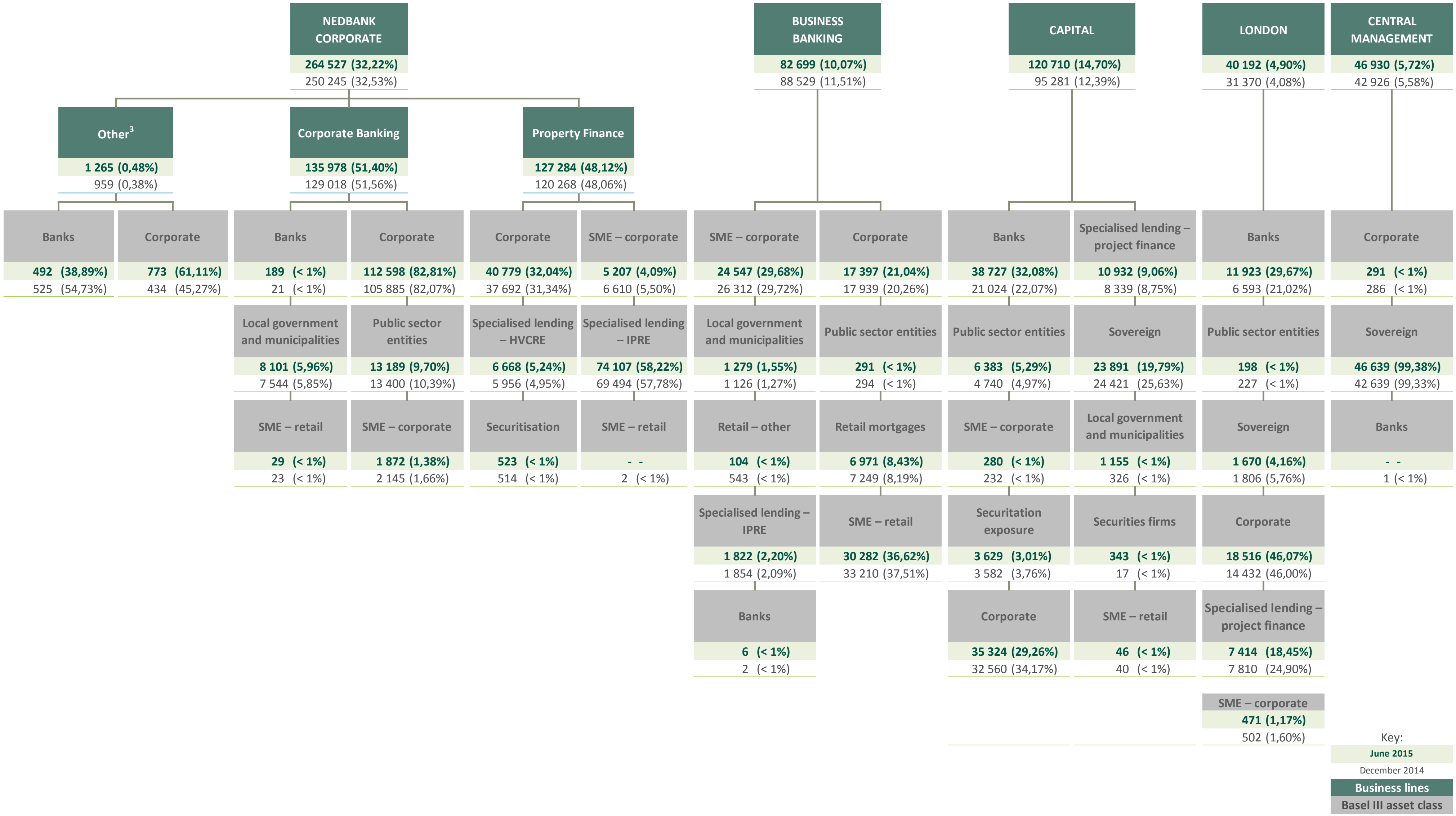



*[1] Nedbank Group refers to the SA reporting entity in terms of regulation 38 (BA 700) of the SA banking regulations.*

*[2] Percentages in brackets reflect the mix of the asset class per business unit.*

The distribution of wholesale exposures that are measured with the AIRB Approach is similarly reflected in the following diagram on an EAD basis as at June 2015.

## WHOLESALE AIRB RATING SYSTEM[1,2]




[1] *Nedbank Group refers to the SA reporting entity in terms of regulation 38 (BA 700) of the SA banking regulations. Results include Nedbank London.*

[2] *Percentages in brackets reflect the mix of the asset class per business unit.*

[3] *Includes Nedbank Corporate Shared Services and Transactional Banking units.*

The distribution of exposures, based on total credit extended, across the various subsidiaries that utilise TSA is reflected in the diagram below as at June 2015.

## STANDARDISED RATING SYSTEM AND NON-REGULATED ENTITIES[1]

| Entity | June 2015 | December 2014 |
|---|---|---|
| NON-REGULATED ENTITIES | 31 618 | 38 819 |
| TOTAL STANDARDISED APPROACH[2] | 49 179 (5,65%) | 47 520 (5,82%) |

**NEDBANK LIMITED[3]** — 3 748 (7,62%) / 4 028 (8,48%)

| Basel III asset class | June 2015 | December 2014 |
|---|---|---|
| Retail mortgages | 2 641 (70,46%) | 2 798 (69,46%) |
| SME – retail | 25 (< 1%) | 44 (1,08%) |
| Corporate | - - | 5 (< 1%) |
| SME – corporate | 1 059 (28,26%) | 1 132 (28,11%) |
| Retail – other | 23 (< 1%) | 49 (1,22%) |

**REST OF AFRICA[4]** — 25 611 (52,08%) / 24 819 (52,23%)

| Basel III asset class | June 2015 | December 2014 |
|---|---|---|
| Banks | 5 170 (20,19%) | 4 983 (20,08%) |
| Public sector entities | 434 (1,69%) | 431 (1,74%) |
| SME – corporate | 1 132 (4,42%) | 113 (< 1%) |
| Corporate | 6 273 (24,49%) | 7 927 (31,94%) |
| Retail – other | 3 443 (13,44%) | 3 066 (12,35%) |
| Retail revolving credit | 797 (3,11%) | 1 037 (4,18%) |
| Sovereign | 3 592 (14,03%) | 2 664 (10,73%) |
| Local government and municipalities | 36 (< 1%) | 49 (< 1%) |
| Retail mortgages | 4 734 (18,48%) | 4 549 (18,33%) |

**NEDBANK WEALTH[5]** — 19 820 (40,30%) / 18 673 (39,29%)

| Basel III asset class | June 2015 | December 2014 |
|---|---|---|
| Banks | 10 333 (52,13%) | 9 836 (52,68%) |
| Corporate | 8 (< 1%) | - - |
| Retail – other | 769 (3,88%) | 913 (4,89%) |
| Sovereign | 1 826 (9,21%) | 1 784 (9,55%) |
| Retail mortgages | 5 405 (27,27%) | 4 932 (26,41%) |
| SME – corporate | 1 479 (7,46%) | 1 208 (6,47%) |

Key:
June 2015
December 2014
Business lines
Basel III asset class

*[1] Percentages in brackets reflect the mix of the asset class per business unit.*

*[2] The remaining portion of the legacy Imperial Bank (ie in Nedbank Business Banking), Fairbairn Private Bank (UK) and the non-SA subsidiaries credit portfolios remain on TSA.*

*[3] Total credit extended includes on-balance-sheet, off-balance-sheet (includes unutilised facilities), repurchase and resale agreements, and derivative exposure.*

*[4] Includes Namibia, Swaziland, Lesotho, Malawi and Zimbabwe which are on TSA.*

*[5] Includes the Isle of Man, Jersey and London.*

## Overview

Underlying credit demand was moderate, with retail credit demand remaining weak as household debt to disposable income increased to 78,4%. In the wholesale sector conditions for production remains challenging. Growth in the wholesale sector has largely been driven by government infrastructure projects.

Gross loans and advances grew by 11,5% (annualised) to R659 848m (December 2014: R624 116m), with banking and trading advances increasing by 8,1% and 86,7% respectively.

The portfolio tilt strategy has been successful and continues to benefit from the early actions taken in reducing the backbook of the home loans and personal loans portfolios. Derisking these portfolios has positioned Nedbank Group well for market-related growth going forward, while retaining our selective origination credit criteria.

Income statement impairments remained stable at R2 307m (June 2014: R2 333m).

The group CLR improved to 0,77% (June 2014: 0,83%) and remained at the bottom end of the target range. This is as a result of a lower specific impairments charge of 0,73% (June 2014: 0,78%) and the portfolio impairments charge reducing to 0,04% (June 2014: 0,05%).

Defaulted advances reduced to R16 695m (June 2014: R17 409m) as the residential-mortgage and personal-loans books continued to improve.

Total balance sheet impairments reduced by 4,1% to R11 004m (June 2014: R11 476m) with postwriteoff recoveries increasing to R520m (June 2014: R422m) and writeoffs and other transfers increasing slightly to R2 917m (June 2014: R2 735m).

The coverage ratio for total impairments was maintained at 65,9% (June 2014: 65,9%), the specific-coverage ratio declined to 39,6% (June 2014: 42,7%) while portfolio coverage on the performing book increased slightly to 0,68% (June 2014: 0,67%).

## Loans and advances[1]

Group gross banking advances growth was primarily driven by the strong performance in Nedbank CIB, which now contributes 47,3% of total gross banking advances.

- Banking book payouts increased by 2,8% to R88 508m (June 2014: R86 060m), supported by strong wholesale growth and offset by lower retail payouts as a result of the selective origination portfolio tilt strategy.

Nedbank Business Banking recorded a gross loans and advances decrease of 4,3% to R65 705m (December 2014: R67 152m), mainly due to the migration of the Professional Medical portfolio to Small Business Services in Nedbank Retail.

Nedbank Corporate gross loans and advances increased by 10,8% to R211 408m (December 2014: R200 697m), which was driven by strong commercial-mortgage growth.

Nedbank Capital gross loans and advances increased by 28,9% to R121 108m (December 2014: R105 942m).

- Gross banking advances increased by 9,1% to R82 496m (December 2014: R78 937m) as a result of good pipeline conversion rates across sector-focused businesses.
- Trading advances increased by 86,7% to R38 612m (December 2014: R27 005m), driven by an increase in foreign currency placements, other loans and deposits placed under reverse repurchase agreements.

Nedbank Retail loans and advances growth was led by the selective origination portfolio tilt strategy.

- Home Loans gross loans and advances increased by 0,8% to R81 221m (December 2014: R80 885m).
- MFC (vehicle finance) gross loans and advances increased by 5,1% to R75 556m (December 2014: R73 687m), with increases in market share.
- The Personal Loans gross loans and advances have now stabilised at R16 210m down 10,2% from December 2014.
- Card gross loans and advances increased by 10,5% to R14 053m (December 2014: R13 357m) driven by line management strategies, increased utilisation and new client acquisition by increased activity in the Greenbacks rewards portfolio.

[1] *All change percentages are annualised from December of the preceding year.*

## SUMMARY OF LOANS AND ADVANCES BY BUSINESS CLUSTER AND BUSINESS LINE

| | Gross business | | Balance sheet impairments | | Net | | |
|---|---|---|---|---|---|---|---|
| | Rm | Change %[1] | Rm | Mix % | Rm | Mix % | Change %[1] |
| **June 2015** | | | | | | | |
| **Nedbank Corporate and Investment Banking** | **332 516** | **17,0** | **(1 447)** | **13,1** | **331 069** | **51,0** | **17,1** |
| **Nedbank Capital** | **121 108** | **28,9** | **(462)** | **4,1** | **120 646** | **18,6** | **28,7** |
| Trading book | **38 612** | **86,7** | | | **38 612** | **6,0** | **86,7** |
| Banking book | **82 496** | **9,1** | **(462)** | **4,1** | **82 034** | **12,6** | **8,8** |
| **Nedbank Corporate** | **211 408** | **10,8** | **(985)** | **9,0** | **210 423** | **32,4** | **11,0** |
| Corporate Banking | **88 405** | **1,9** | **(326)** | **3,0** | **88 079** | **13,6** | **2,3** |
| Property Finance | **117 111** | **13,4** | **(659)** | **6,0** | **116 452** | **17,9** | **13,5** |
| Other | **5 892** | **> 100,0** | | | **5 892** | **0,9** | **> 100,0** |
| **Nedbank RBB[2]** | **283 912** | **4,4** | **(8 833)** | **80,3** | **275 079** | **42,4** | **4,6** |
| **Nedbank Business Banking** | **65 705** | **(4,3)** | **(1 408)** | **12,8** | **64 297** | **9,9** | **(4,7)** |
| **Nedbank Retail** | **218 207** | **7,2** | **(7 425)** | **67,5** | **210 782** | **32,5** | **7,7** |
| Home Loans[3] | **81 221** | **0,8** | **(1 629)** | **14,8** | **79 592** | **12,3** | **1,2** |
| MFC | **75 556** | **5,1** | **(1 848)** | **16,8** | **73 708** | **11,4** | **5,6** |
| Consumer Banking | **17 185** | **(10,0)** | **(2 426)** | **22,0** | **14 759** | **2,3** | **(10,3)** |
| Personal Loans | **16 210** | **(10,2)** | **(2 270)** | **20,6** | **13 940** | **2,1** | **(10,4)** |
| Client Engagement | **952** | **(4,8)** | **(156)** | **1,4** | **796** | **0,1** | **(8,0)** |
| Other[5] | **23** | **(29,9)** | | | **23** | **< 0,1** | **(29,9)** |
| Relationship Banking[4] | **30 183** | **45,3** | **(392)** | **3,6** | **29 791** | **4,6** | **45,8** |
| Card | **14 053** | **10,5** | **(1 130)** | **10,3** | **12 923** | **2,0** | **8,6** |
| Other[5] | **9** | | | | **9** | **< 0,1** | |
| **Nedbank Wealth** | **26 797** | **14,6** | **(145)** | **1,3** | **26 652** | **4,1** | **14,9** |
| **Rest of Africa** | **16 097** | **26,1** | **(248)** | **2,3** | **15 849** | **2,4** | **25,4** |
| **Centre** | **526** | **49,7** | **(331)** | **3,0** | **195** | **< 0,1** | **> 100,0** |
| **Nedbank Group** | **659 848** | **11,5** | **(11 004)** | **100,0** | **648 844** | **100,0** | **11,8** |
| Trading book | **38 612** | **86,7** | | | **38 612** | **6,0** | **86,7** |
| Banking book | **621 236** | **8,1** | **(11 004)** | | **610 232** | **94,0** | **8,3** |
| June 2014 | | | | | | | |
| **Nedbank Corporate and Investment Banking** | 308 544 | 15,3 | (1 278) | 11,1 | 307 266 | 50,5 | 15,4 |
| **Nedbank Capital** | 115 311 | 9,6 | (279) | 2,4 | 115 032 | 18,9 | 10,1 |
| Trading book | 44 728 | 39,0 | | | 44 728 | 7,3 | 39,0 |
| Banking book | 70 583 | (5,5) | (279) | 2,4 | 70 304 | 11,6 | (4,9) |
| **Nedbank Corporate** | 193 233 | 19,5 | (999) | 8,7 | 192 234 | 31,6 | 19,5 |
| Corporate Banking | 89 188 | 19,2 | (434) | 3,8 | 88 754 | 14,6 | 19,2 |
| Property Finance | 100 814 | 16,5 | (565) | 4,9 | 100 249 | 16,5 | 16,6 |
| Other | 3 231 | > 100,0 | | | 3 231 | 0,5 | > 100,0 |
| **Nedbank RBB[2]** | 270 198 | 1,8 | (9 636) | 84,0 | 260 562 | 42,9 | 1,8 |
| **Nedbank Business Banking** | 65 087 | 3,2 | (1 355) | 11,8 | 63 732 | 10,5 | 3,0 |
| **Nedbank Retail** | 205 111 | 1,4 | (8 281) | 72,2 | 196 830 | 32,4 | 1,4 |
| Home Loans[3] | 80 733 | (1,3) | (1 960) | 17,1 | 78 773 | 13,0 | (1,1) |
| MFC | 68 456 | 8,8 | (2 273) | 19,8 | 66 183 | 10,9 | 8,6 |
| Consumer Banking | 19 311 | (16,7) | (2 663) | 23,2 | 16 648 | 2,7 | (18,9) |
| Personal Loans | 18 348 | (17,8) | (2 520) | 22,0 | 15 828 | 2,6 | (20,1) |
| Client Engagement | 932 | 6,9 | (143) | 1,2 | 789 | 0,1 | 6,9 |
| Other[5] | 31 | | | | 31 | < 0,1 | |
| Relationship Banking[4] | 24 300 | (1,0) | (440) | 3,8 | 23 860 | 3,9 | (0,6) |
| Card | 12 303 | 17,0 | (945) | 8,2 | 11 358 | 1,9 | 17,2 |
| Other[5] | 8 | | | | 8 | | |
| **Nedbank Wealth** | 24 761 | 22,8 | (164) | 1,4 | 24 597 | 4,0 | 23,0 |
| **Rest of Africa** | 15 583 | 12,9 | (217) | 1,9 | 15 366 | 2,5 | 12,9 |
| **Centre** | 600 | > 100,0 | (181) | 1,6 | 419 | 0,1 | > 100,0 |
| **Nedbank Group** | 619 686 | 9,8 | (11 476) | 100,0 | 608 210 | 100,0 | 10,0 |
| Trading book | 44 728 | 39,0 | | | 44 728 | 7,4 | 39,0 |
| Banking book | 574 958 | 7,9 | (11 476) | | 563 482 | 92,6 | 8,0 |

## SUMMARY OF LOANS AND ADVANCES BY BUSINESS CLUSTER AND BUSINESS LINE

| | Gross business Rm | Gross business Change %[1] | Balance sheet impairments Rm | Balance sheet impairments Mix % | Net Rm | Net Mix % | Net Change %[1] |
|---|---|---|---|---|---|---|---|
| December 2014 | | | | | | | |
| **Nedbank Corporate and Investment Banking** | 306 639 | 7,1 | (1 481) | 13,4 | 305 158 | 49,8 | 7,1 |
| **Nedbank Capital** | 105 942 | (3,7) | (341) | 3,1 | 105 601 | 17,2 | (3,6) |
| Trading book | 27 005 | (28,0) | | | 27 005 | 4,4 | (28,0) |
| Banking book | 78 937 | 8,8 | (341) | 3,1 | 78 596 | 12,8 | 9,1 |
| **Nedbank Corporate** | 200 697 | 13,9 | (1 140) | 10,3 | 199 557 | 32,6 | 13,9 |
| Corporate Banking | 87 562 | 7,5 | (484) | 4,4 | 87 078 | 14,2 | 7,4 |
| Property Finance | 109 790 | 17,8 | (656) | 5,9 | 109 134 | 17,8 | 17,8 |
| Other | 3 345 | > 100,0 | | | 3 345 | 0,6 | > 100,0 |
| **Nedbank RBB[2]** | 277 815 | 3,8 | (8 933) | 80,5 | 268 882 | 43,9 | 4,1 |
| **Nedbank Business Banking** | 67 152 | 4,8 | (1 333) | 12,0 | 65 819 | 10,7 | 4,8 |
| **Nedbank Retail** | 210 663 | 3,4 | (7 600) | 68,5 | 203 063 | 33,2 | 3,9 |
| Home Loans[3] | 80 885 | (0,5) | (1 767) | 15,9 | 79 118 | 12,9 | (0,1) |
| MFC | 73 687 | 12,4 | (1 981) | 17,9 | 71 706 | 11,7 | 13,0 |
| Consumer Banking | 18 079 | (14,1) | (2 523) | 22,7 | 15 556 | 2,5 | (15,3) |
| Personal Loans | 17 077 | (15,1) | (2 377) | 21,4 | 14 700 | 2,4 | (16,4) |
| Client Engagement | 975 | 8,3 | (146) | 1,3 | 829 | 0,1 | 8,8 |
| Other[5] | 27 | (15,6) | | | 27 | < 0,1 | (15,6) |
| Relationship Banking[4] | 24 646 | 0,9 | (367) | 3,3 | 24 279 | 4,0 | 1,4 |
| Card | 13 357 | 17,7 | (962) | 8,7 | 12 395 | 2,0 | 18,4 |
| Other[5] | 9 | (10,0) | | | 9 | < 0,1 | (10,0) |
| **Nedbank Wealth** | 24 987 | 12,3 | (168) | 1,5 | 24 819 | 4,0 | 12,4 |
| **Rest of Africa** | 14 253 | (4,3) | (180) | 1,6 | 14 073 | 2,3 | (4,3) |
| **Centre** | 422 | > 100,0 | (333) | 3,0 | 89 | < 0,1 | > 100,0 |
| **Nedbank Group** | 624 116 | 5,6 | (11 095) | 100,0 | 613 021 | 100,0 | 5,8 |
| Trading book | 27 005 | (28,0) | | | 27 005 | 4,4 | (28,0) |
| Banking book | 597 111 | 7,9 | (11 095) | 100,0 | 586 016 | 95,6 | 8,1 |

[1] *All change percentages are annualised from December of the preceding year.*
[2] *RBB = Retail and Business Banking.*
[3] *Home Loans represents a specific business unit within Nedbank Retail. This excludes Home Loans in the Nedbank Retail Relationship Banking business unit.*
[4] *Nedbank Retail Relationship Banking includes Small Business Services and Personal Relationship Banking.*
[5] *The other line item includes Retail Central Unit, Human Resources, Risk, Prospects and Strategy, Finance and Divisional Management.*

## SUMMARY OF LOANS AND ADVANCES BY PRODUCT

| **Nedbank Group** | **Jun 2015 Gross Rm** | **Jun 2015 Mix %** | **Jun 2015 Change[1] %** | Jun 2014 Gross Rm | Jun 2014 Mix % | Dec 2014 Gross Rm | Dec 2014 Mix % | Dec 2013 Gross Rm | Dec 2013 Mix % |
|---|---|---|---|---|---|---|---|---|---|
| Residential mortgages | **140 207** | **21,2** | **4,0** | 135 879 | 21,9 | 137 449 | 22,0 | 136 156 | 23,0 |
| Commercial mortgages | **130 254** | **19,7** | **10,8** | 115 085 | 18,6 | 123 652 | 19,8 | 106 325 | 18,0 |
| Leases and instalment sales | **96 567** | **14,6** | **5,0** | 88 276 | 14,2 | 94 237 | 15,1 | 85 038 | 14,4 |
| Card | **14 160** | **2,1** | **11,4** | 12 439 | 2,0 | 13 404 | 2,2 | 11 441 | 1,9 |
| Overdrafts | **16 218** | **2,5** | **1,0** | 15 410 | 2,5 | 16 141 | 2,6 | 15 048 | 2,5 |
| Properties in possession | **570** | **0,1** | **(8,8)** | 555 | 0,1 | 596 | 0,1 | 772 | 0,1 |
| Term loans | **109 379** | **16,6** | **6,1** | 98 119 | 15,8 | 106 175 | 17,0 | 97 528 | 16,5 |
| Personal loans | **17 593** | **2,7** | **(8,3)** | 19 402 | 3,1 | 18 346 | 2,9 | 21 145 | 3,6 |
| Other term loans[2] | **91 786** | **13,9** | **9,1** | 78 717 | 12,7 | 87 829 | 14,1 | 76 383 | 12,9 |
| Overnight loans | **23 239** | **3,5** | **14,9** | 24 719 | 4,0 | 21 638 | 3,5 | 17 927 | 3,0 |
| Other loans to clients[2] | **87 233** | **13,2** | **52,7** | 84 347 | 13,7 | 69 161 | 11,1 | 70 976 | 12,0 |
| Foreign correspondents | **20 414** | **3,1** | **> 100,0** | 20 876 | 3,4 | 12 512 | 2,0 | 12 658 | 2,1 |
| Remittances in transit | **295** | **< 0,1** | **> 100,0** | 336 | 0,1 | 195 | < 0,1 | 237 | < 0,1 |
| Other loans | **66 524** | **10,1** | **36,0** | 63 135 | 10,2 | 56 454 | 9,0 | 58 081 | 9,8 |
| Preference shares and debentures | **16 991** | **2,6** | **(12,3)** | 18 061 | 2,9 | 18 098 | 2,9 | 18 984 | 3,2 |
| Factoring accounts | **5 099** | **0,8** | **4,6** | 4 642 | 0,7 | 4 986 | 0,8 | 4 796 | 0,8 |
| Deposits placed under reverse repurchase agreements | **19 927** | **3,0** | **18,0** | 21 837 | 3,5 | 18 291 | 2,9 | 25 796 | 4,4 |
| Trade, other bills and bankers' acceptances | **4** | **< 0,1** | **(< 100,0)** | 317 | 0,1 | 288 | < 0,1 | 41 | < 0,1 |
| **Gross loans and advances** | **659 848** | **100,0** | **11,5** | 619 686 | 100,0 | 624 116 | 100,0 | 590 828 | 100,0 |
| **Total impairments** | **(11 004)** | | **(1,7)** | (11 476) | | (11 095) | | (11 456) | |
| **Net loans and advances** | **648 844** | | **11,8** | 608 210 | | 613 021 | | 579 372 | |

[1] *All change percentages are annualised from December of the preceding year.*
[2] *An additional view of other term loans and other loans to clients is provided in the summary of other loans by cluster.*

## SUMMARY OF OTHER LOANS BY BUSINESS CLUSTER

| | Other term loans | | | | Other loans to clients | | | |
|---|---|---|---|---|---|---|---|---|
| | Jun 2015 | | Jun 2014 | Dec 2014 | Jun 2015 | | Jun 2014 | Dec 2014 |
| | Gross Rm | Change[1] % | Gross Rm | Gross Rm | Gross Rm | Change[1] % | Gross Rm | Gross Rm |
| **Nedbank Corporate and Investment Banking** | **88 457** | **9,7** | 75 568 | 84 401 | **72 034** | **50,5** | 68 620 | 57 613 |
| Nedbank Capital | **20 906** | **6,1** | 14 290 | 20 293 | **69 044** | **49,0** | 66 121 | 55 545 |
| Trading book | **58** | **3,5** | | 57 | **18 627** | **> 100,0** | 22 892 | 8 657 |
| Banking book | **20 848** | **6,1** | 14 290 | 20 236 | **50 417** | **15,2** | 43 229 | 46 888 |
| Nedbank Corporate | **67 551** | **10,8** | 61 278 | 64 108 | **2 990** | **89,9** | 2 499 | 2 068 |
| Corporate Banking | **57 869** | **5,0** | 55 500 | 56 477 | **2 725** | **67,6** | 2 489 | 2 041 |
| Property Finance | **9 676** | **54,0** | 5 778 | 7 631 | | | | |
| Other | **6** | | | | **265** | **> 100,0** | 10 | 27 |
| **Nedbank RBB[2]** | **2 077** | **16,4** | 1 771 | 1 921 | **6 546** | **51,5** | 5 023 | 5 215 |
| Nedbank Business Banking | **2 077** | **16,4** | 1 771 | 1 921 | **6 283** | **56,9** | 4 827 | 4 900 |
| Nedbank Retail | | | | | **263** | **(33,3)** | 196 | 315 |
| **Nedbank Wealth** | **1 227** | **50,3** | 763 | 982 | **4 187** | **37,9** | 4 827 | 3 524 |
| **Rest of Africa** | **28** | **(> 100,0)** | 618 | 528 | **3 502** | **> 100,0** | 4 860 | 1 940 |
| **Centre** | **(3)** | | (3) | (3) | **964** | **22,0** | 1 017 | 869 |
| **Nedbank Group** | **91 786** | **9,1** | 78 717 | 87 829 | **87 233** | **52,7** | 84 347 | 69 161 |

*[1] All change percentages are annualised from December of the preceding year.*
*[2] RBB = Retail and Business Banking.*

## Basel III balance sheet credit exposure

**RECONCILIATION OF GROSS LOANS AND ADVANCES TO BASEL III BALANCE SHEET CREDIT EXPOSURE BY BUSINESS CLUSTER AND ASSET CLASS**

| | Nedbank Corporate and Investment Banking Rm | Nedbank Capital[1] Rm | Nedbank Corporate[1] Rm | Nedbank RBB[2] Rm | Nedbank Business Banking Rm | Nedbank Retail Rm | Nedbank Wealth Rm | Rest of Africa Rm | Centre Rm | Nedbank Group Jun 2015 Rm | Nedbank Group Jun 2015 Mix % | Nedbank Group Jun 2015 Change[3] % | Nedbank Group Jun 2015 Risk weighting[4] % | Nedbank Group Jun 2014 Rm | Nedbank Group Jun 2014 Mix % | Nedbank Group Dec 2014 Rm | Nedbank Group Dec 2014 Mix % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Advanced Internal Ratings-based Approach** | **375 422** | **164 497** | **210 925** | **277 962** | **65 444** | **212 518** | **15 970** | | **46 907** | **716 261** | **90,1** | **15,2** | **38,3** | 648 862 | 88,2 | 666 179 | 88,6 |
| Corporate | 160 218 | 46 660 | 113 558 | 14 836 | 14 041 | 795 | 2 | | 268 | 175 324 | 22,1 | 14,1 | 39,1 | 165 003 | 22,4 | 163 848 | 21,8 |
| Specialised lending – HVCRE | 6 317 | | 6 317 | | | | 13 | | | 6 330 | 0,8 | 25,8 | 103,3 | 5 237 | 0,7 | 5 613 | 0,7 |
| Specialised lending –IPRE | 68 141 | | 68 141 | 1 574 | 1 574 | | 3 050 | | | 72 765 | 9,2 | 14,7 | 45,3 | 61 361 | 8,3 | 67 828 | 9,0 |
| Specialised lending – project finance | 15 685 | 15 685 | | | | | | | | 15 685 | 2,0 | 46,4 | 41,5 | 6 502 | 0,9 | 12 751 | 1,7 |
| SME – corporate | 6 325 | 169 | 6 156 | 19 144 | 19 134 | 10 | 2 012 | | | 27 481 | 3,5 | 0,2 | 49,9 | 30 051 | 4,1 | 27 459 | 3,7 |
| Public sector entities | 17 438 | 8 963 | 8 475 | 281 | 281 | | | | | 17 719 | 2,2 | (7,6) | 15,5 | 14 750 | 2,0 | 18 413 | 2,4 |
| Local governments and municipalities | 8 710 | 1 276 | 7 434 | 1 274 | 1 274 | | | | | 9 984 | 1,2 | 27,7 | 13,5 | 8 663 | 1,2 | 8 777 | 1,2 |
| Sovereign | 27 775 | 27 775 | | | | | | | 46 639 | 74 414 | 9,3 | 8,8 | 3,2 | 54 820 | 7,4 | 71 305 | 9,5 |
| Banks | 63 763 | 63 452 | 311 | 13 | 3 | 10 | | | | 63 776 | 8,0 | > 100,0 | 17,4 | 58 313 | 7,9 | 39 481 | 5,2 |
| Securities firms | 232 | 232 | | | | | | | | 232 | < 0,1 | > 100,0 | 31,1 | | | | |
| Retail mortgage | | | | 104 328 | 5 376 | 98 952 | 9 367 | | | 113 695 | 14,3 | 2,1 | 36,2 | 112 280 | 15,3 | 112 534 | 15,0 |
| Retail revolving credit | | | | 14 300 | | 14 300 | 71 | | | 14 371 | 1,8 | 8,8 | 61,5 | 12 734 | 1,7 | 13 769 | 1,8 |
| Retail – other | | | | 89 959 | 100 | 89 859 | 444 | | | 90 403 | 11,4 | 1,2 | 64,9 | 86 533 | 11,8 | 89 857 | 12,0 |
| SME – retail | 35 | 25 | 10 | 31 436 | 23 661 | 7 775 | 1 011 | | | 32 482 | 4,1 | 0,3 | 39,7 | 31 506 | 4,3 | 32 430 | 4,3 |
| Securitisation exposure | 783 | 260 | 523 | 817 | | 817 | | | | 1 600 | 0,2 | (49,0) | 44,5 | 1 109 | 0,2 | 2 114 | 0,3 |
| **The Standardised Approach[5]** | | | | **3 134** | **706** | **2 428** | **19 465** | **23 595** | | **46 194** | **5,8** | **13,9** | **53,4** | 40 946 | 5,6 | 43 211 | 5,7 |
| Corporate | | | | | | | 8 | 5 454 | | 5 462 | 0,7 | (7,4) | 109,6 | 4 835 | 0,7 | 5 670 | 0,8 |
| SME – corporate | | | | 897 | 265 | 632 | 1 479 | 731 | | 3 107 | 0,4 | 82,0 | 66,5 | 1 110 | 0,2 | 2 209 | 0,3 |
| Public sector entities | | | | | | | | 422 | | 422 | 0,1 | 22,9 | 125,7 | 397 | 0,1 | 379 | < 0,1 |
| Local government and municipalities | | | | | | | | 36 | | 36 | < 0,1 | (50,4) | 74,8 | 58 | < 0,1 | 48 | < 0,1 |
| Sovereign | | | | | | | 1 826 | 3 592 | | 5 418 | 0,7 | 44,0 | 65,4 | 3 274 | 0,4 | 4 448 | 0,6 |
| Banks | | | | | | | 10 333 | 5 066 | | 15 399 | 1,9 | 10,1 | 28,1 | 15 222 | 2,1 | 14 666 | 2,0 |
| Retail mortgage | | | | 2 189 | 393 | 1 796 | 5 405 | 4 496 | | 12 090 | 1,5 | 4,5 | 40,8 | 11 505 | 1,6 | 11 828 | 1,6 |
| Retail revolving credit | | | | | | | | 355 | | 355 | < 0,1 | (12,8) | 68,2 | 368 | 0,1 | 379 | < 0,1 |
| Retail – other | | | | 23 | 23 | | 414 | 3 443 | | 3 880 | 0,5 | 19,4 | 65,0 | 4 095 | 0,6 | 3 540 | 0,5 |
| SME – retail | | | | 25 | 25 | | | | | 25 | < 0,1 | (87,1) | 48,0 | 82 | < 0,1 | 44 | < 0,1 |
| **Properties in possession** | **388** | | **388** | **143** | **2** | **141** | **39** | | | **570** | **0,1** | **(8,8)** | | 555 | < 0,1 | 596 | 0,1 |
| **Non-regulated entities[6]** | **29 695** | **23 172** | **6 523** | **1 721** | **262** | **1 459** | **1 805** | **339** | **(1 942)** | **31 618** | **4,0** | **(6,5)** | | 45 541 | 6,2 | 32 666[6] | 4,4 |
| **Total Basel III balance sheet exposure[7]** | **405 505** | **187 669** | **217 836** | **282 960** | **66 414** | **216 546** | **37 279** | **23 934** | **44 965** | **794 643** | **100,0** | **14,1** | | 735 904 | 100,0 | 742 652[6] | 100,0 |
| *Less:* Assets included in Basel III asset classes | **(69 375)** | **(66 561)** | **(2 814)** | **1 058** | **(603)** | **1 661** | **(10 482)** | **(7 837)** | **(44 439)** | **(131 075)** | | | | (111 785) | | (113 416)[6] | |
| Derivatives | (17 531) | (17 531) | | | | | (36) | (1) | | (17 568) | | | | (15 330) | | (17 511) | |
| Government stock and other dated securities | (21 053) | (13 486) | (7 567) | | | | | (340) | (14 474) | (35 867) | | | | (28 972) | | (25 341)[6] | |
| Short-term securities | (27 825) | (27 825) | | | | | (10 353) | (4 926) | (32 165) | (75 269) | | | | (51 382) | | (73 485)[6] | |
| Call money | | | | | | | | | | | | | | (3 570) | | | |
| Deposits with monetary institutions | | | | | | | | | | | | | | (6 894) | | (178)[6] | |
| Remittances in transit | 8 | 6 | 2 | 125 | 32 | 93 | | 141 | 21 | 295 | | | | 248 | | 141[6] | |
| Fair-value adjustments | (765) | (282) | (483) | 152 | (18) | 170 | | | | (613) | | | | (571) | | | |
| Other assets net of fair-value adjustments on assets | (2 209) | (7 443) | 5 234 | 781 | (617) | 1 398 | (93) | (2 711) | 2 179 | (2 053) | | | | (5 314) | | 2 958[6] | |
| Setoff of accounts within IFRS total gross loans and advances[8] | (3 614) | | (3 614) | (106) | (106) | | | | | (3 720) | | | | (4 433) | | (5 120) | |
| **Total gross loans and advances – June 2015** | **332 516** | **121 108** | **211 408** | **283 912** | **65 705** | **218 207** | **26 797** | **16 097** | **526** | **659 848** | | | | | | | |
| **Total gross loans and advances – June 2014** | 308 544 | 115 311 | 193 233 | 270 198 | 65 087 | 205 111 | 24 761 | 15 583 | 600 | 619 686 | | | | 619 686 | | | |
| **Total gross loans and advances – December 2014** | 306 639 | 105 942 | 200 697 | 277 815 | 67 152 | 210 663 | 24 987 | 14 253 | 422 | 624 116 | | | | | | 624 116 | |

*1 Nedbank Capital and Nedbank Corporate include London branch (AIRB Approach).*
*2 Nedbank RBB = Nedbank Retail and Business Banking.*
*3 All change percentages are annualised from December of the preceding year.*
*4 Risk weighting is shown as a percentage of EAD for the AIRB Approach and as a percentage of total credit extended for TSA.*
*5 A portion of the legacy Imperial Bank book in Nedbank Business Banking, Nedbank Private Wealth (UK) and the non-SA banking entities in Africa, are covered by TSA.*
*6 The table is restated from the December 2014 Analyst Booklet due to the reclassification of non-regulated-entity exposures.*
*7 Balance sheet credit exposure includes on-balance-sheet, repurchase and resale agreements and derivative exposure (refer to next page for details).*
*8 Relates to the difference in the level of setoff applied under IFRS when compared with the setoff applied to the balance sheet credit exposure under Basel III.*

Nedbank Limited and the Nedbank London branch make up 95% of the total credit extended by Nedbank Group and are on the AIRB Approach. The remaining portion of the legacy Imperial Bank (ie in Nedbank Business Banking), Fairbairn Private Bank (UK) and the non-SA subsidiaries credit portfolios remain on TSA. The remaining portion of the legacy Imperial Bank was migrated from Business Banking to Nedbank Retail in 2015 and the group plans to move it to the AIRB Approach by the end of 2017.

The growth in AIRB exposure was driven by:

- Total exposure to wholesale asset classes increased by 11,4% to R465 114m (December 2014: R417 589m), with the largest proportion of this increase in term loans (R25 587m), government bonds (R7 387m) and commercial mortgages (R6 761m).
- Total Retail exposure increased by 1,0% to R250 951m (December 2014: R248 590m) mainly due to growth in the MFC gross exposure to R75 216m (December 2014: R73 065m).

The increase in TSA exposure is mainly due to Fairbairn Private Bank (UK) and the African subsidiaries.

## SUMMARY OF THE COMPONENTS OF THE TOTAL BASEL III BALANCE SHEET EXPOSURE BY BUSINESS CLUSTER AND ASSET CLASS

| Rm | On-balance-sheet exposure Jun 2015 | Off-balance-sheet exposure Jun 2015 | Repurchase and resale exposure Jun 2015 | Derivative exposure Jun 2015 | Total credit extended[1] Jun 2015 | Total credit extended[1] Jun 2014 | Total Basel III balance-sheet credit exposure[2] Jun 2015 | Total Basel III balance-sheet credit exposure[2] Jun 2014 | Exposure at default (EAD) Jun 2015 | Exposure at default (EAD) Jun 2014 | Downturn expected loss (dEL)[3] Jun 2015 | Downturn expected loss (dEL)[3] Jun 2014 | BEEL[4] Jun 2015 | BEEL[4] Jun 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Nedbank Corporate and Investment Banking** | 338 035 | 110 930 | 19 856 | 17 531 | 486 352 | 440 106 | 375 422 | 344 673 | 425 429 | 374 045 | 988 | 708 | 515 | 621 |
| **Nedbank Capital** | 127 110 | 32 289 | 19 856 | 17 531 | 196 786 | 158 784 | 164 497 | 143 524 | 157 119 | 128 277 | 291 | 196 | 115 | 79 |
| Corporate | 36 519 | 22 415 | 8 057 | 2 084 | 69 075 | 51 446 | 46 660 | 41 747 | 50 521 | 44 459 | 188 | 138 | 49 | 56 |
| Specialised lending – project finance | 14 884 | 4 791 | | 801 | 20 476 | 6 502 | 15 685 | 6 502 | 18 346 | 6 632 | 49 | 23 | 66 | 22 |
| SME – corporate | | 29 | | 169 | 198 | 194 | 169 | 194 | 294 | 295 | 2 | 4 | | |
| Public sector entities | 5 758 | 152 | 1 878 | 1 327 | 9 115 | 6 727 | 8 963 | 6 577 | 6 581 | 4 971 | | | | |
| Local governments and municipalities | 627 | | | 649 | 1 276 | 686 | 1 276 | 686 | 1 155 | 307 | | | | |
| Sovereign | 24 755 | 702 | 3 016 | 4 | 28 477 | 32 728 | 27 775 | 32 693 | 25 561 | 27 756 | 7 | 1 | | 1 |
| Banks | 44 307 | 831 | 6 905 | 12 240 | 64 283 | 55 694 | 63 452 | 54 897 | 50 643 | 39 005 | 45 | 30 | | |
| Securities firms | | | | 232 | 232 | | 232 | | 343 | | | | | |
| SME – retail | | | | 25 | 25 | 25 | 25 | 25 | 46 | 70 | | | | |
| Securitisation exposure | 260 | 3 369 | | | 3 629 | 4 782 | 260 | 203 | 3 629 | 4 782 | | | | |
| **Nedbank Corporate** | 210 925 | 78 641 | | | 289 566 | 281 322 | 210 925 | 201 149 | 268 310 | 245 768 | 697 | 512 | 400 | 542 |
| Corporate | 113 558 | 64 529 | | | 178 087 | 179 452 | 113 558 | 111 418 | 157 470 | 145 264 | 319 | 210 | 19 | 193 |
| Specialised lending – HVCRE | 6 317 | 350 | | | 6 667 | 5 458 | 6 317 | 5 237 | 6 668 | 5 459 | 67 | 76 | 234 | 253 |
| Specialised lending – IPRE | 68 141 | 2 507 | | | 70 648 | 60 882 | 68 141 | 58 024 | 74 107 | 62 624 | 261 | 181 | 146 | 92 |
| SME – corporate | 6 156 | 1 175 | | | 7 331 | 11 835 | 6 156 | 10 819 | 7 534 | 12 003 | 38 | 43 | 1 | |
| Public sector entities | 8 475 | 6 560 | | | 15 035 | 12 035 | 8 475 | 7 902 | 13 189 | 11 237 | 11 | | | |
| Local governments and municipalities | 7 434 | 800 | | | 8 234 | 7 638 | 7 434 | 6 838 | 8 101 | 7 553 | 1 | 1 | | |
| Banks | 311 | 2 687 | | | 2 998 | 3 444 | 311 | 375 | 689 | 1 022 | | 1 | | |
| SME – retail | 10 | 33 | | | 43 | 50 | 10 | 9 | 29 | 32 | | | | 4 |
| Retail – other | | | | | | 1 | | | | 47 | | | | |
| Securitisation exposure | 523 | | | | 523 | 527 | 523 | 527 | 523 | 527 | | | | |
| **Nedbank RBB** | 277 962 | 63 333 | | | 341 295 | 329 388 | 277 962 | 264 616 | 324 791 | 315 934 | 5 002 | 4 636 | 5 755 | 6 469 |
| **Nedbank Business Banking** | 65 444 | 22 127 | | | 87 571 | 85 435 | 65 444 | 61 712 | 82 699 | 83 755 | 563 | 550 | 801 | 823 |
| Corporate | 14 041 | 4 507 | | | 18 548 | 15 769 | 14 041 | 11 473 | 17 397 | 15 036 | 88 | 74 | 75 | 85 |
| Specialised lending – IPRE | 1 574 | 264 | | | 1 838 | 1 808 | 1 574 | 1 578 | 1 822 | 1 819 | 3 | 6 | | |
| SME – corporate | 19 134 | 6 998 | | | 26 132 | 25 735 | 19 134 | 17 306 | 24 547 | 25 544 | 165 | 145 | 158 | 155 |
| Public sector entities | 281 | 15 | | | 296 | 287 | 281 | 271 | 291 | 288 | | | | |
| Local governments and municipalities | 1 274 | 7 | | | 1 281 | 1 141 | 1 274 | 1 139 | 1 279 | 1 182 | 1 | 1 | | |
| Banks | 3 | 5 | | | 8 | 2 | 3 | 1 | 6 | 2 | | | | |
| Retail mortgage | 5 376 | 2 028 | | | 7 404 | 8 133 | 5 376 | 5 979 | 6 971 | 7 620 | 41 | 38 | 131 | 143 |
| Retail – other | 100 | 29 | | | 129 | 569 | 100 | 496 | 104 | 539 | 2 | 7 | 10 | 12 |
| SME – retail | 23 661 | 8 274 | | | 31 935 | 31 991 | 23 661 | 23 469 | 30 282 | 31 725 | 263 | 279 | 427 | 428 |
| **Nedbank Retail** | 212 518 | 41 206 | | | 253 724 | 243 953 | 212 518 | 202 904 | 242 092 | 232 179 | 4 439 | 4 086 | 4 954 | 5 646 |
| Corporate | 795 | 1 944 | | | 2 739 | 1 753 | 795 | 140 | 1 158 | 451 | 35 | 11 | | |
| SME – corporate | 10 | | | | 10 | | 10 | | 10 | | | | | |
| Retail mortgage | 98 952 | 17 852 | | | 116 804 | 115 872 | 98 952 | 97 292 | 119 232 | 117 444 | 854 | 754 | 1 102 | 1 303 |
| Retail revolving credit | 14 300 | 16 307 | | | 30 607 | 28 619 | 14 300 | 12 667 | 20 767 | 19 075 | 719 | 629 | 1 122 | 941 |
| Retail – other | 89 859 | 841 | | | 90 700 | 86 477 | 89 859 | 85 634 | 90 556 | 86 381 | 2 647 | 2 525 | 2 528 | 3 166 |
| Banks | 10 | 26 | | | 36 | 35 | 10 | | 36 | 35 | | | | |
| SME – retail | 7 775 | 4 236 | | | 12 011 | 10 818 | 7 775 | 6 792 | 9 516 | 8 414 | 184 | 167 | 202 | 236 |
| Securitisation exposure | 817 | | | | 817 | 379 | 817 | 379 | 817 | 379 | - | | | |
| **Nedbank Wealth** | 15 970 | 5 031 | | | 21 001 | 18 995 | 15 970 | 14 185 | 23 755 | 21 292 | 64 | 50 | 104 | 125 |
| Corporate | 2 | 1 | | | 3 | 5 | 2 | 4 | 4 | 6 | | | | |
| Specialised lending – HVCRE | 13 | 2 | | | 15 | | 13 | | 15 | | | | | |
| Specialised lending – IPRE | 3 050 | 327 | | | 3 377 | 2 101 | 3 050 | 1 759 | 4 008 | 2 562 | 19 | 6 | 1 | |
| SME – corporate | 2 012 | 346 | | | 2 358 | 1 948 | 2 012 | 1 732 | 2 625 | 2 151 | 5 | 4 | 7 | 20 |
| Sovereign | | | | | | | | | | | | | | |
| Banks | | | | | | | | | | | | | | |
| Retail mortgage | 9 367 | 3 804 | | | 13 171 | 12 660 | 9 367 | 9 009 | 14 192 | 13 481 | 26 | 24 | 81 | 84 |
| Retail revolving credit | 71 | 227 | | | 298 | 279 | 71 | 67 | 590 | 550 | 2 | 2 | 4 | 3 |
| Retail – other | 444 | 111 | | | 555 | 529 | 444 | 403 | 632 | 604 | 8 | 9 | 5 | 3 |
| SME – retail | 1 011 | 213 | | | 1 224 | 1 473 | 1 011 | 1 211 | 1 689 | 1 938 | 4 | 5 | 6 | 15 |
| **Centre** | 46 907 | 16 | | | 46 923 | 25 390 | 46 907 | 25 388 | 46 930 | 25 429 | 9 | 51 | 17 | 19 |
| Corporate | 268 | 16 | | | 284 | 223 | 268 | 221 | 291 | 228 | 8 | 6 | 17 | 19 |
| Sovereign | 46 639 | | | | 46 639 | 22 127 | 46 639 | 22 127 | 46 639 | 22 127 | 1 | | | |
| Banks | | | | | | 3 040 | | 3 040 | | 3 074 | | 45 | | |
| **Total** | 678 874 | 179 310 | 19 856 | 17 531 | 895 571 | 813 879 | 716 261 | 648 862 | 820 905 | 736 700 | 6 063 | 5 445 | 6 391 | 7 234 |
| Downturn expected loss (AIRB Approach) | | | | | | | | | | | | | 12 454 | 12 679 |
| Expected loss performing book | | | | | | | | | | | | | 6 063 | 5 445 |
| BEEL on defaulted advances | | | | | | | | | | | | | 6 391 | 7 234 |
| IFRS impairment on AIRB loans and advances | | | | | | | | | | | | | (10 621) | (11 128) |
| **Excess of downturn expected loss over eligible provisions** | | | | | | | | | | | | | 1 833 | 1 551 |

[1] *Total credit extended includes on-balance-sheet, off-balance-sheet (including unutilised facilities), repurchase and resale agreements and derivative exposure.*
[2] *Balance sheet credit exposure includes on-balance-sheet, repurchase and resale agreements and derivative exposure.*
[3] *dEL is in relation to performing loans and advances.*
[4] *Best estimate of expected loss (BEEL) is in relation to defaulted loans and advances.*

## DISTRIBUTION OF THE AIRB KEY CREDIT RISK PARAMETERS BY VALUE (ANALYSIS BASED ON THE TOTAL BOOK WHICH CONSISTS OF BOTH PERFORMING AND DEFAULTED PORTFOLIOS)

### Nedbank Limited[1] and Nedbank London branch

| PD bands<br>June 2015 | Exposure (EAD)<br>Rm | EAD weighted average PD<br>% | EAD weighted average dLGD<br>% | dEL<br>% | EAD weighted average risk weight<br>% |
|---|---|---|---|---|---|
| NGR01 | 73 491 | 0,01 | 14,03 | | 2,13 |
| NGR02 | 1 769 | 0,01 | 12,60 | | 3,84 |
| NGR03 | | | | | |
| NGR04 | 25 892 | 0,03 | 24,39 | 0,01 | 9,40 |
| NGR05 | 23 519 | 0,04 | 27,82 | 0,01 | 9,88 |
| NGR06 | 114 612 | 0,06 | 21,78 | 0,02 | 8,09 |
| NGR07 | 37 145 | 0,08 | 26,42 | 0,02 | 15,07 |
| NGR08 | 36 372 | 0,11 | 30,54 | 0,03 | 20,17 |
| NGR09 | 27 206 | 0,16 | 22,63 | 0,04 | 19,33 |
| NGR10 | 39 304 | 0,23 | 24,39 | 0,06 | 23,07 |
| NGR11 | 24 999 | 0,32 | 24,46 | 0,09 | 25,97 |
| NGR12 | 45 764 | 0,45 | 27,39 | 0,13 | 40,45 |
| NGR13 | 31 583 | 0,64 | 23,17 | 0,16 | 33,08 |
| NGR14 | 37 300 | 0,91 | 25,01 | 0,23 | 38,76 |
| NGR15 | 42 294 | 1,28 | 23,62 | 0,33 | 43,57 |
| NGR16 | 74 945 | 1,81 | 22,40 | 0,41 | 43,66 |
| NGR17 | 51 187 | 2,56 | 27,49 | 0,71 | 55,53 |
| NGR18 | 41 912 | 3,62 | 31,10 | 1,13 | 64,35 |
| NGR19 | 37 952 | 5,12 | 33,26 | 1,70 | 62,79 |
| NGR20 | 39 347 | 7,24 | 35,06 | 2,52 | 84,21 |
| NGR21 | 16 735 | 10,24 | 32,93 | 3,33 | 93,46 |
| NGR22 | 10 383 | 14,48 | 34,05 | 4,85 | 97,14 |
| NGR23 | 5 792 | 20,48 | 35,26 | 7,00 | 122,00 |
| NGR24 | 4 296 | 28,96 | 41,67 | 11,59 | 133,80 |
| NGR25 | 6 437 | 40,96 | 32,34 | 13,05 | 125,99 |
| Default | 14 390 | 100,00 | 35,06 | 42,79 | 33,84 |
| **Sub-total** | 864 626 | 3,85 | 25,52 | 1,41 | 35,61 |
| Slotting exposure[2] | 6 683 | | | | |
| Securitisation[2] | 4 969 | | | | |
| **Total EAD** | 876 278 | | | | |
| Intercompany balances | 40 176 | | | | |
| Intercompany London | 15 197 | | | | |
| EAD net of intercompany | 820 905 | | | | |

*[1] Nedbank Limited refers to the SA reporting entity in terms of regulation 38 (BA 700) of the SA banking regulations.*

*[2] Supervisory slotting and securitisation exposures are not reported by NGR band in the BA 200 return.*

## ANALYSIS OF PORTFOLIOS – WHOLESALE (AS AT 30 JUNE 2015)

| | | Corporate[1] | | | | | SME – Corporate | | | | | Public sector entities | | | | | Local government and municipalities | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk grade | Average PD % | EL Rm | EAD Rm | dEL % | dLGD % | Exposure weighted average risk weight % | EL Rm | EAD Rm | dEL % | dLGD % | Exposure weighted average risk weight % | EL Rm | EAD Rm | dEL % | dLGD % | Exposure weighted average risk weight % | EL Rm | EAD Rm | dEL % | dLGD % | Exposure weighted average risk weight % |
| **Performing** | | | | | | | | | | | | | | | | | | | | | |
| 1 | 0,00 | | | | | | | | | | | | 6 003 | 0,00 | 26,59 | 6,82 | | | | | |
| 2 | 0,01 | | | | | | | | | | | | | | | | | | | | |
| 3 | 0,02 | | | | | | | | | | | | | | | | | | | | |
| 4 | 0,03 | 2 | 15 232 | 0,01 | 28,72 | 12,91 | | | | | | | 5 338 | 0,01 | 19,91 | 6,50 | | | | | |
| 5 | 0,04 | 2 | 13 350 | 0,02 | 29,51 | 10,14 | | | | | | | 1 705 | 0,01 | 19,50 | 6,66 | | 351 | 0,01 | 13,52 | 9,57 |
| 6 | 0,06 | 18 | 41 771 | 0,04 | 24,51 | 11,95 | | 14 | 0,01 | 11,68 | 3,24 | | 1 503 | 0,01 | 19,50 | 13,82 | | 5 461 | 0,01 | 13,52 | 9,72 |
| 7 | 0,08 | 6 | 28 849 | 0,02 | 25,27 | 14,69 | | | | | | | | | | | | 2 962 | 0,01 | 13,52 | 12,13 |
| 8 | 0,11 | 12 | 32 777 | 0,04 | 31,83 | 20,96 | | 65 | 0,05 | 48,10 | 34,55 | | 1 589 | 0,02 | 15,30 | 12,16 | | 638 | 0,02 | 13,52 | 16,22 |
| 9 | 0,16 | 8 | 19 964 | 0,04 | 25,60 | 23,77 | | 247 | 0,04 | 27,27 | 21,86 | | 262 | 0,02 | 12,85 | 17,80 | | 482 | 0,03 | 18,04 | 24,92 |
| 10 | 0,23 | 17 | 26 306 | 0,07 | 28,84 | 30,43 | | 524 | 0,05 | 23,62 | 23,44 | | | | | | | 489 | 0,04 | 19,50 | 28,97 |
| 11 | 0,32 | 14 | 18 405 | 0,08 | 23,82 | 30,04 | 1 | 1 202 | 0,09 | 28,91 | 29,52 | | | | | | | 20 | 0,04 | 12,60 | 11,99 |
| 12 | 0,45 | 39 | 29 801 | 0,13 | 29,11 | 48,64 | 3 | 2 831 | 0,10 | 23,18 | 31,58 | 3 | 2 497 | 0,09 | 19,50 | 28,06 | | 1 | 0,08 | 17,20 | 19,80 |
| 13 | 0,64 | 27 | 19 649 | 0,13 | 21,03 | 38,80 | 5 | 3 203 | 0,15 | 22,77 | 35,05 | | | 0,22 | 34,69 | 88,13 | | | | | |
| 14 | 0,91 | 36 | 16 325 | 0,22 | 24,26 | 52,03 | 10 | 4 876 | 0,21 | 22,72 | 39,72 | | 2 | 0,18 | 19,50 | 29,34 | | 22 | 0,38 | 41,63 | 115,78 |
| 15 | 1,28 | 57 | 18 523 | 0,31 | 23,92 | 58,18 | 16 | 5 204 | 0,30 | 23,46 | 45,40 | 3 | 790 | 0,38 | 29,70 | 62,91 | | 66 | 0,40 | 30,94 | 86,68 |
| 16 | 1,81 | 89 | 19 950 | 0,44 | 24,48 | 66,89 | 21 | 5 830 | 0,35 | 19,49 | 41,14 | 5 | 335 | 1,45 | 80,28 | 174,89 | | 3 | 0,99 | 54,73 | 185,11 |
| 17 | 2,56 | 84 | 14 324 | 0,58 | 22,79 | 66,06 | 23 | 3 615 | 0,64 | 25,19 | 56,69 | | 16 | 0,38 | 14,90 | 36,69 | | | | | |
| 18 | 3,62 | 101 | 11 307 | 0,89 | 24,39 | 77,65 | 29 | 2 789 | 1,04 | 28,67 | 70,68 | | | | | | | | | | |
| 19 | 5,12 | 30 | 2 781 | 1,06 | 20,79 | 73,57 | 26 | 1 932 | 1,33 | 25,92 | 71,21 | | | | | | | | | | |
| 20 | 7,24 | 305 | 13 959 | 2,19 | 29,35 | 110,74 | 21 | 1 113 | 1,88 | 25,90 | 82,27 | | 21 | 1,08 | 14,90 | 53,83 | 1 | 40 | 1,41 | 19,50 | 92,07 |
| 21 | 10,24 | 16 | 614 | 2,54 | 24,78 | 107,51 | 22 | 706 | 3,16 | 30,89 | 133,81 | | | | | | | | | | |
| 22 | 14,48 | 63 | 1 877 | 3,37 | 23,24 | 14,52 | 7 | 164 | 4,13 | 28,53 | 124,07 | | | | | | | | | | |
| 23 | 20,48 | 16 | 352 | 4,43 | 21,64 | 129,81 | 5 | 100 | 5,13 | 25,03 | 113,09 | | | | | | | | | | |
| 24 | 28,96 | 15 | 301 | 5,15 | 17,77 | 102,05 | 6 | 59 | 10,15 | 35,05 | 173,03 | | | | | | | | | | |
| 25 | 40,96 | 44 | 487 | 8,98 | 21,93 | 118,85 | 15 | 98 | 15,74 | 38,43 | 202,15 | | | | | | | | | | |
| **Defaulted** | 100,0 | 372 | 1 725 | 23,80 | 25,78 | 152,90 | 166 | 438 | 25,71 | 25,71 | 73,56 | | | | | | | | | | |
| **Total** | | 1 373 | 348 629 | 0,40 | 26,22 | 38,71 | 376 | 35 010 | 0,89 | 23,94 | 49,88 | 11 | 20 061 | 0,06 | 22,72 | 15,55 | 1 | 10 535 | 0,02 | 14,21 | 13,46 |

[1] *The corporate asset class includes corporate and specialised lending asset classes.*

## ANALYSIS OF PORTFOLIOS – WHOLESALE (AS AT 30 JUNE 2015) CONTINUED

| | | Sovereign | | | | | Banks | | | | | Securities firms | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Risk grade | Average PD % | EL Rm | EAD Rm | dEL % | dLGD % | Exposure weighted average risk weight % | EL Rm | EAD Rm | dEL % | dLGD % | Exposure Weighted average risk weight % | EL Rm | EAD Rm | dEL % | dLGD % | Exposure weighted average risk weight % |
| **Performing** | | | | | | | | | | | | | | | | |
| 1 | 0,00 | 1 | 67 488 | | 12,91 | 1,71 | | | | | | | | | | |
| 2 | 0,01 | | 1 769 | | 12,60 | 3,84 | | | | | | | | | | |
| 3 | 0,02 | | | | | | | | | | | | | | | |
| 4 | 0,03 | | | | | | | 872 | 0,01 | 32,52 | 6,97 | | | | | |
| 5 | 0,04 | | 1 286 | 0,01 | 33,04 | 7,37 | 1 | 6 827 | 0,01 | 26,34 | 10,68 | | | | | |
| 6 | 0,06 | | | | | | 8 | 64 585 | 0,01 | 20,77 | 5,40 | | 1 278 | 0,01 | 21,36 | 4,72 |
| 7 | 0,08 | | 323 | 0,02 | 26,26 | 12,07 | 2 | 4 741 | 0,03 | 42,36 | 20,19 | | | | | |
| 8 | 0,11 | | 20 | 0,03 | 30,08 | 36,11 | | 519 | 0,05 | 42,68 | 21,87 | | | | | |
| 9 | 0,16 | | | | | | | 190 | 0,05 | 31,62 | 19,05 | | | | | |
| 10 | 0,23 | | 47 | 0,06 | 28,70 | 47,91 | | 186 | 0,07 | 31,54 | 37,42 | | | | | |
| 11 | 0,32 | | 186 | 0,11 | 34,69 | 33,42 | | 13 | 0,13 | 42,18 | 40,56 | | | | | |
| 12 | 0,45 | 1 | 803 | 0,18 | 39,27 | 57,18 | 3 | 2 339 | 0,15 | 32,45 | 45,36 | | | | | |
| 13 | 0,64 | | | | | | 1 | 341 | 0,23 | 35,32 | 71,64 | | | | | |
| 14 | 0,91 | | | | | | | 6 | 0,47 | 52,24 | 144,84 | | | | | |
| 15 | 1,28 | | | | | | 2 | 257 | 0,63 | 49,55 | 98,44 | | | | | |
| 16 | 1,81 | 2 | 176 | 0,65 | 35,64 | 120,55 | | 1 | 0,88 | 48,64 | 105,96 | | 47 | 0,64 | 35,31 | 98,96 |
| 17 | 2,56 | | | | | | 3 | 229 | 1,15 | 44,94 | 109,10 | | | | | |
| 18 | 3,62 | | 13 | 1,28 | 35,31 | 125,24 | 12 | 588 | 1,97 | 54,40 | 153,09 | | | | | |
| 19 | 5,12 | 1 | 32 | 1,81 | 35,31 | 187,25 | 2 | 65 | 2,54 | 49,55 | 147,11 | | | | | |
| 20 | 7,24 | 1 | 39 | 2,56 | 35,31 | 139,96 | 7 | 371 | 2,26 | 31,18 | 43,78 | | | | | |
| 21 | 10,24 | | 0 | | | | 3 | 50 | 5,92 | 57,84 | 235,61 | | | | | |
| 22 | 14,48 | 1 | 18 | 7,82 | 54,00 | 257,77 | 5 | 54 | 9,48 | 65,46 | 314,31 | | | | | |
| 23 | 20,48 | | | | | | | | | | | | | | | |
| 24 | 28,96 | | | | | | | | 19,64 | 67,80 | 376,60 | | | | | |
| 25 | 40,96 | | | | | | 5 | 25 | 20,29 | 49,55 | 271,74 | | | | | |
| **Defaulted** | 100,0 | | | | | | | | 1,00 | 100,00 | | | | | | |
| **Total** | | 7 | 72 200 | | 13,77 | 3,18 | 54 | 82 259 | | 23,72 | 10,68 | | 1 325 | | 21,85 | 8,06 |

## ANALYSIS OF PORTFOLIOS – RETAIL (AS AT 30 JUNE 2015)

| | | Retail mortgage | | | | | Retail revolving credit | | | | | SME – Retail | | | | | Retail – Other | | | | | Nedbank AIRB[1] total | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Average PD | EL | EAD | dEL | dLGD | Exposure weighted average risk weight | EL | EAD | dEL | dLGD | Exposure weighted average risk weight | EL | EAD | dEL | dLGD | Exposure weighted average risk weight | EL | EAD | dEL | dLGD | Exposure weighted average risk weight | EL | EAD | dEL | dLGD | Exposure weighted average risk weight |
| Risk grade | % | Rm | Rm | % | % | % | Rm | Rm | % | % | % | Rm | Rm | % | % | % | Rm | Rm | % | % | % | Rm | Rm | % | % | % |
| **Performing** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 | | | | | | | | | | | | | | | | | | | | | | 1 | 73 491 | | 14,03 | 2,13 |
| 2 | 0,01 | | | | | | | | | | | | | | | | | | | | | | 1 769 | | 12,60 | 3,84 |
| 3 | 0,02 | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 | 0,03 | | 4 293 | | 12,57 | 1,23 | | | | | | | 17 | 0,01 | 34,67 | 3,63 | | 140 | 0,01 | 34,67 | 3,63 | 2 | 25 892 | 0,01 | 24,39 | 9,40 |
| 5 | 0,04 | | | | | | | | | | | | | | | | | | | | | 3 | 23 519 | 0,01 | 27,82 | 9,88 |
| 6 | 0,06 | | | | | | | | | | | | | | | | | | | | | 26 | 114 612 | 0,02 | 21,78 | 8,09 |
| 7 | 0,08 | | 270 | 0,01 | 10,88 | 2,31 | | | | | | | | | | | | | | | | 8 | 37 145 | 0,02 | 26,42 | 15,07 |
| 8 | 0,11 | | 755 | 0,01 | 11,03 | 3,05 | | | | | | | 9 | 0,04 | 31,54 | 9,06 | | | | | | 12 | 36 372 | 0,03 | 30,54 | 20,17 |
| 9 | 0,16 | 1 | 5 586 | 0,02 | 11,61 | 4,18 | | 329 | 0,06 | 31,92 | 3,01 | | 94 | 0,05 | 30,03 | 7,71 | | 52 | 0,09 | 32,20 | 11,85 | 9 | 27 206 | 0,04 | 22,63 | 19,33 |
| 10 | 0,23 | 4 | 10 802 | 0,03 | 12,34 | 5,75 | 1 | 476 | 0,13 | 54,72 | 6,84 | | 406 | 0,06 | 24,58 | 11,21 | | 68 | 0,21 | 23,42 | 10,91 | 22 | 39 304 | 0,06 | 24,39 | 23,07 |
| 11 | 0,32 | 3 | 3 569 | 0,09 | 16,29 | 9,79 | 2 | 1 075 | 0,21 | 52,43 | 8,68 | | 476 | 0,10 | 31,61 | 18,01 | | 53 | 0,92 | 38,71 | 22,61 | 20 | 24 999 | 0,09 | 24,46 | 25,97 |
| 12 | 0,45 | 4 | 4 326 | 0,08 | 13,09 | 10,09 | 3 | 1 088 | 0,27 | 56,39 | 12,33 | 2 | 1 994 | 0,10 | 22,12 | 15,81 | | 84 | 0,37 | 29,52 | 21,27 | 58 | 45 764 | 0,13 | 27,39 | 40,45 |
| 13 | 0,64 | 6 | 4 299 | 0,13 | 14,48 | 14,21 | 8 | 1 838 | 0,43 | 60,21 | 17,29 | 5 | 2 183 | 0,21 | 26,70 | 23,19 | | 70 | 0,70 | 33,22 | 28,96 | 52 | 31 583 | 0,16 | 23,17 | 33,08 |
| 14 | 0,91 | 11 | 7 297 | 0,15 | 13,80 | 17,15 | 9 | 1 568 | 0,56 | 58,41 | 21,95 | 10 | 4 360 | 0,22 | 24,74 | 25,48 | 12 | 2 844 | 0,42 | 43,87 | 45,27 | 88 | 37 300 | 0,23 | 25,01 | 38,76 |
| 15 | 1,28 | 19 | 9 928 | 0,20 | 13,81 | 21,58 | 14 | 1 774 | 0,78 | 59,00 | 28,87 | 17 | 4 850 | 0,36 | 24,50 | 29,11 | 10 | 902 | 1,08 | 38,59 | 45,91 | 138 | 42 294 | 0,33 | 23,62 | 43,57 |
| 16 | 1,81 | 93 | 35 255 | 0,26 | 14,43 | 28,10 | 23 | 2 087 | 1,10 | 60,48 | 38,30 | 24 | 5 247 | 0,46 | 24,68 | 32,82 | 55 | 6 014 | 0,92 | 46,23 | 61,51 | 312 | 74 945 | 0,41 | 22,40 | 43,66 |
| 17 | 2,56 | 84 | 15 296 | 0,55 | 21,32 | 51,26 | 24 | 1 552 | 1,55 | 60,31 | 49,10 | 34 | 4 490 | 0,76 | 28,11 | 40,45 | 114 | 11 665 | 0,98 | 37,10 | 53,45 | 366 | 51 187 | 0,71 | 27,49 | 55,53 |
| 18 | 3,62 | 48 | 7 710 | 0,62 | 17,35 | 50,93 | 35 | 1 590 | 2,21 | 61,25 | 63,56 | 43 | 3 932 | 1,10 | 29,77 | 45,09 | 207 | 13 983 | 1,48 | 40,55 | 61,45 | 475 | 41 912 | 1,13 | 31,10 | 64,35 |
| 19 | 5,12 | 62 | 7 454 | 0,83 | 16,63 | 58,78 | 42 | 1 341 | 3,14 | 62,31 | 81,61 | 56 | 3 385 | 1,64 | 31,97 | 50,13 | 428 | 20 962 | 2,04 | 39,79 | 62,39 | 647 | 37 952 | 1,70 | 33,26 | 62,79 |
| 20 | 7,24 | 35 | 2 659 | 1,33 | 19,34 | 80,98 | 78 | 1 940 | 4,03 | 63,94 | 104,39 | 153 | 6 431 | 2,38 | 32,97 | 54,11 | 390 | 12 774 | 3,05 | 42,15 | 69,17 | 991 | 39 347 | 2,52 | 35,06 | 84,21 |
| 21 | 10,24 | 151 | 7 365 | 2,07 | 20,61 | 100,17 | 46 | 741 | 6,15 | 62,76 | 125,69 | 24 | 870 | 2,76 | 29,83 | 53,51 | 295 | 6 389 | 4,59 | 44,92 | 80,56 | 557 | 16 735 | 3,33 | 32,93 | 93,46 |
| 22 | 14,48 | 45 | 2 385 | 1,90 | 14,05 | 77,19 | 76 | 842 | 8,84 | 62,88 | 151,25 | 26 | 665 | 4,06 | 30,95 | 63,63 | 280 | 4 378 | 6,39 | 44,23 | 90,92 | 503 | 10 383 | 4,85 | 34,05 | 97,14 |
| 23 | 20,48 | 95 | 2 114 | 4,47 | 22,76 | 136,28 | 62 | 504 | 12,25 | 63,75 | 178,82 | 22 | 400 | 5,58 | 31,88 | 76,03 | 206 | 2 322 | 8,87 | 43,52 | 103,81 | 406 | 5 792 | 7,00 | 35,26 | 122,00 |
| 24 | 28,96 | 43 | 756 | 5,65 | 22,39 | 138,66 | 87 | 497 | 17,44 | 64,39 | 201,55 | 20 | 247 | 7,91 | 38,79 | 104,14 | 327 | 2 436 | 13,41 | 46,42 | 124,60 | 498 | 4 296 | 11,59 | 41,67 | 133,80 |
| 25 | 40,96 | 216 | 3 118 | 6,92 | 16,90 | 99,33 | 212 | 854 | 24,93 | 64,19 | 208,30 | 15 | 112 | 12,98 | 31,69 | 89,29 | 333 | 1 743 | 19,11 | 46,64 | 131,42 | 840 | 6 437 | 13,05 | 32,34 | 125,99 |
| **Defaulted** | 100,0 | 1 315 | 5 158 | 0,17 | 18,38 | 12,99 | 1 125 | 1 261 | 0,91 | 66,01 | 13,10 | 635 | 1 395 | 0,33 | 32,67 | 70,51 | 2 543 | 4 413 | 0,51 | 51,05 | 2,91 | 6 156 | 14 390 | 0,33 | 35,06 | 33,84 |
| **Total** | | 2 235 | 140 395 | 0,01 | 15,81 | 36,22 | 1 847 | 21 357 | 0,08 | 60,17 | 59,16 | 1 086 | 41 563 | 0,02 | 28,12 | 39,71 | 5 200 | 91 292 | 0,05 | 41,91 | 64,85 | 12 190 | 864 626 | 0,01 | 25,52 | 35,61 |

[1] *Results shown are for Nedbank Limited, which refers to the SA reporting entity in terms of regulation 38 (BA 700) of the SA banking regulations and London branch.*

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

### Nedbank Limited[1] and Nedbank London branch

| June 2015<br>Rm | Less than 1 year | 1 to 5 years | Greater than 5 years | Total on-balance-sheet exposure |
|---|---|---|---|---|
| Corporate[2] | **62 966** | **152 940** | **70 568** | **286 474** |
| Public sector entities | **3 741** | **6 577** | **4 196** | **14 514** |
| Local governments and municipalities | **31** | **2 444** | **6 860** | **9 335** |
| Sovereign | **50 589** | **8 170** | **12 635** | **71 394** |
| Banks | **37 030** | **7 514** | **87** | **44 631** |
| Retail exposure | **3 087** | **90 840** | **156 999** | **250 926** |
| Retail mortgage | **244** | **1 158** | **112 293** | **113 695** |
| Retail revolving credit | | **14 371** | | **14 371** |
| Retail – other | **1 852** | **59 538** | **29 013** | **90 403** |
| SME – retail | **991** | **15 773** | **15 693** | **32 457** |
| Securitisation exposure | | **783** | **817** | **1 600** |
| **Total** | **157 444** | **269 268** | **252 162** | **678 874** |
| June 2014<br>Rm | | | | |
| Corporate[2] | 61 970 | 131 367 | 66 690 | 260 027 |
| Public sector entities | 1 829 | 4 781 | 5 891 | 12 501 |
| Local governments and municipalities | 203 | 2 151 | 5 740 | 8 094 |
| Sovereign | 31 309 | 8 298 | 9 700 | 49 307 |
| Banks | 31 198 | 4 867 | 1 591 | 37 656 |
| Retail exposure | 3 454 | 85 847 | 153 727 | 243 028 |
| Retail mortgage | 251 | 1 109 | 110 920 | 112 280 |
| Retail revolving credit | | 12 734 | | 12 734 |
| Retail – other | 2 122 | 56 780 | 27 631 | 86 533 |
| SME – retail | 1 081 | 15 224 | 15 176 | 31 481 |
| Securitisation exposure | | 730 | 379 | 1 109 |
| **Total** | 129 963 | 238 041 | 243 718 | 611 722 |

*[1] Nedbank Limited refers to the SA reporting entity in terms of regulation 38 (BA 700) of the SA banking regulations.*
*[2] Includes corporate, SME – corporate and specialised lending asset classes.*

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 2015.

## NEDBANK GROUP OFF-BALANCE-SHEET EXPOSURE PER BUSINESS CLUSTER

| June 2015<br>Rm | Nedbank Corporate and Investment Banking | Nedbank Capital | Nedbank Corporate | Total Nedbank RBB | Nedbank Business Banking | Nedbank Retail | Nedbank Wealth | Rest of Africa | Centre | Nedbank Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Guarantees on behalf of clients | **39 119** | **10 269** | **28 850** | **3 248** | **361** | **2 887** | **233** | **1 167** | **(8 802)** | **34 965** |
| Letters of credit | **2 764** | **1 332** | **1 432** | **495** | **31** | **464** | | **12** | | **3 271** |
| Undrawn facilities | **88 888** | **38 286** | **50 602** | **60 513** | **19 253** | **41 260** | **5 155** | **2 519** | | **157 075** |
| Of which irrevocable commitments | **77 532** | **26 930** | **50 602** | **19 253** | **19 253** | | **2 315** | **2 049** | | **101 149** |
| Of which revocable[1] | **11 356** | **11 356** | | **41 260** | | **41 260** | **2 840** | **470** | | **55 926** |
| Credit-derivative instruments | **8 698** | **8 698** | | | | | | | | **8 698** |
| **Total off-balance-sheet activities** | **139 469** | **58 585** | **80 884** | **64 256** | **19 645** | **44 611** | **5 388** | **3 698** | **(8 802)** | **204 009** |
| June 2014<br>Rm | | | | | | | | | | |
| Guarantees on behalf of clients | 37 979 | 13 528 | 24 451 | 3 371 | 2 302 | 1 069 | 308 | 1 006 | | 42 664 |
| Letters of credit | 3 198 | 1 028 | 2 170 | 497 | 426 | 71 | | 26 | 2 | 3 723 |
| Undrawn facilities | 77 329 | 36 458 | 40 871 | 61 711 | 21 789 | 39 922 | 4 833 | 2 085 | | 145 958 |
| Of which irrevocable commitments | 67 721 | 26 850 | 40 871 | 21 789 | 21 789 | | 2 136 | 1 283 | | 92 929 |
| Of which revocable[1] | 9 608 | 9 608 | | 39 922 | | 39 922 | 2 697 | 802 | | 53 029 |
| Credit-derivative instruments | 10 995 | 10 995 | | | | | | | | 10 995[2] |
| **Total off-balance-sheet activities** | 129 501 | 62 009 | 67 492 | 65 579 | 24 517 | 41 062 | 5 141 | 3 117 | 2 | 203 340[2] |

*[1] Includes other contingent liabilities.*
*[2] Restated to include trading book exposure which was not reported previously.*

The traditional accounting leverage ratio does not include the impact of off-balance-sheet exposure. The introduction of the Basel III leverage ratio requires banks to include this important aspect in the calculation. While the quantum of the off-balance-sheet exposure impacts both capital and leverage requirements, it gives rise to NIR income through commitment fees on wholesale products as well as commissions on guarantees and letters of credit.

The revised Basel III Leverage Ratio Framework and disclosure requirements published by the Basel Committee came into effective on 1 January 2015. Revisions to this framework relate primarily to the exposure measure of the leverage ratio, in particular with respect to the credit conversion factors applied to off-balance-sheet exposures. The changes amend the credit conversion factors applied to off-balance-sheet exposures from 100% of the notional value to between 20% and 100% of the notional value.

## The Standardised Approach

The remaining portion of the legacy Imperial Bank (ie in Nedbank Business Banking), Fairbairn Private Bank (UK) and the non-SA Nedbank African subsidiaries' credit portfolios remain on TSA. The remaining portion of the legacy Imperial Bank was migrated from Business Banking to Nedbank Retail in 2015 and the group plans to move it to the AIRB Approach by the end of 2017.

### NEDBANK GROUP TSA BASEL III BALANCE SHEET EXPOSURE BY BUSINESS CLUSTER AND ASSET CLASS

| | **On-balance-sheet exposure** | **Off-balance-sheet exposure** | **Derivative exposure** | **Total credit extended[1]** | **Total Basel III balance sheet credit exposure[2]** | |
|---|---|---|---|---|---|---|
| **Rm** | **Jun 2015** | **Jun 2015** | **Jun 2015** | **Jun 2015** | **Jun 2015** | Jun 2014 |
| **Nedbank Corporate** | | | | | | 32 |
| Corporate | | | | | | 3 |
| SME – corporate | | | | | | 29 |
| **Total Nedbank RBB** | **3 134** | **614** | | **3 748** | **3 134** | 3 743 |
| **Nedbank Business Banking** | **706** | **129** | | **835** | **706[3]** | 3 578[3] |
| SME – corporate | **265** | **48** | | **313** | **265** | 921 |
| Retail mortgage | **393** | **81** | | **474** | **393** | 2 481 |
| Retail – other | **23** | | | **23** | **23** | 94 |
| SME – retail | **25** | | | **25** | **25** | 82 |
| **Nedbank Retail** | **2 428** | **485** | | **2 913** | **2 428[3]** | 165[3] |
| Corporate | | | | | | 7 |
| SME – corporate | **632** | **114** | | **746** | **632** | 117 |
| Retail mortgage | **1 796** | **371** | | **2 167** | **1 796** | 41 |
| SME – retail | | | | | | |
| **Nedbank Wealth** | **19 429** | **355** | **36** | **19 820** | **19 465** | 16 918 |
| Corporate | **8** | | | **8** | **8** | 4 |
| SME – corporate | **1 479** | | | **1 479** | **1 479** | |
| Sovereign | **1 826** | | | **1 826** | **1 826** | 689 |
| Banks | **10 311** | | **22** | **10 333** | **10 333** | 9 966 |
| Retail mortgage | **5 405** | | | **5 405** | **5 405** | 4 858 |
| Retail – other | **400** | **355** | **14** | **769** | **414** | 1 401 |
| **Rest of Africa** | **23 594** | **2 016** | **1** | **25 611** | **23 595** | 20 251 |
| Corporate | **5 453** | **819** | **1** | **6 273** | **5 454** | 4 821 |
| SME – corporate | **731** | **401** | | **1 132** | **731** | 43 |
| Public sector entities | **422** | **12** | | **434** | **422** | 397 |
| Local governments and municipalities | **36** | | | **36** | **36** | 58 |
| Sovereign | **3 592** | | | **3 592** | **3 592** | 2 585 |
| Banks | **5 066** | **104** | | **5 170** | **5 066** | 5 254 |
| Retail mortgage | **4 496** | **238** | | **4 734** | **4 496** | 4 125 |
| Retail revolving credit | **355** | **442** | | **797** | **355** | 368 |
| Retail – other | **3 443** | | | **3 443** | **3 443** | 2 600 |
| **Centre** | | | | | | 2 |
| Banks | | | | | | 2 |
| **Total** | **46 157** | **2 985** | **37** | **49 179** | **46 194** | 40 946 |

[1] *Total credit extended includes on-balance-sheet, off-balance-sheet (including unutilised facilities), repurchase and resale agreements and derivative exposure.*

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

[3] *The change in total Basel III balance sheet credit exposure is due to the migration of the Professional Medical portfolio from Business Banking to Nedbank Retail.*

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).

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

| **Nedbank Limited**[1] **June 2015** **Rm** | **Less than 1 year** | **1 to 5 years** | **Greater than 5 years** | **Total on-balance-sheet exposure** |
|---|---|---|---|---|
| Corporate[2] | **155** | **173** | **569** | **897** |
| Retail exposure | **42** | **37** | **2 164** | **2 243** |
| Retail mortgage | **1** | **29** | **2 164** | **2 194** |
| Retail – other | **20** | **3** | | **23** |
| SME – retail | **21** | **5** | | **26** |
| **Total** | **197** | **210** | **2 733** | **3 140** |
| June 2014 Rm | | | | |
| Corporate[2] | 145 | 152 | 781 | 1 078 |
| Banks | | 3 | | 3 |
| Retail exposure | 85 | 112 | 2 508 | 2 705 |
| Retail mortgage | 1 | 20 | 2 508 | 2 529 |
| Retail – other | 39 | 55 | | 94 |
| SME – retail | 45 | 37 | | 82 |
| **Total** | 230 | 267 | 3 289 | 3 786 |

*[1] Nedbank Limited refers to the SA reporting entity in terms of regulation 38 (BA 700) of the SA banking regulations, and the remaining portion of the legacy Imperial Bank book (ie in Property Finance and Nedbank Business Banking).*
*[2] Includes Corporate, SME – corporate and specialised lending asset classes.*

## Defaulted advances

Defaulted advances reduced by 4,1% to R16 695m (June 2014: R17 409m).

Nedbank Retail accounts for 63,4% of total defaulted advances and decreased to R10 587m (June 2014: R11 336m), or 4,85% of gross loans and advances, due to continued improvement in the residential-mortgage and personal-loans books.

- Nedbank Retail defaulted advances were impacted by the writeoff policy implemented in H2 2014 in MFC.

Nedbank Business Banking defaulted advances decreased to R2 145m (June 2014: R2 323m), or 3,26% of gross loans and advances.

Nedbank Capital defaulted advances increased to R1 185m (June 2014: R409m) primarily due to the default of two clients.

Nedbank Corporate defaulted advances decreased to R1 949m (June 2014: R2 497m) mainly due to the writeoff of a single large client.

Nedbank Wealth defaulted advances decreased to R567m (June 2014: R622m), due to the curing of some clients from defaulted to performing and the increase in writeoffs to R46m (June 2014: R30m).

**NEDBANK GROUP KEY DEFAULTED ADVANCES METRICS**

| | Dec 2011 | Dec 2012 | Dec 2013 | Jun 2014 | Dec 2014 | **Jun 2015** |
|---|---|---|---|---|---|---|
| **Gross loans and advances (Rm)** | 510 520 | 538 036 | 590 828 | 619 686 | 624 116 | **659 848** |
| **Defaulted advances (Rm)** | 23 210 | 19 273 | 17 848[3] | 17 409 | 15 846 | **16 695** |
| Wholesale[1] defaulted advances | 8 219 | 6 141 | 5 740 | 5 229 | 4 846 | **5 279** |
| Retail defaulted advances | 14 350 | 12 449 | 11 402[3] | 11 336 | 10 179 | **10 587** |
| Group defaulted advances excluding Personal Loans[2] | 21 485 | 16 666 | 15 020[3] | 14 667 | 13 344 | **14 325** |
| Personal Loans[2] defaulted advances | 1 725 | 2 607 | 2 828 | 2 742 | 2 502 | **2 370** |
| **Defaulted advances as a % of gross loans and advances (%)** | 4,55 | 3,58 | 3,02[3] | 2,81 | 2,54 | **2,53** |
| Wholesale | 2,85 | 1,99 | 1,64 | 1,40 | 1,30 | **1,33** |
| Retail | 7,50 | 6,27 | 5,60[3] | 5,53 | 4,83 | **4,85** |
| Retail (excluding Personal Loans[2]) | 7,25 | 5,58 | 4,67[3] | 4,60 | 3,97 | **4,07** |
| **Properties in possession as a % of total gross loans and advances** | 0,12 | 0,11 | 0,13 | 0,09 | 0,10 | **0,09** |

*[1] Wholesale includes Nedbank CIB and Nedbank Business Banking.*
*[2] Personal Loans represents a specific business unit within Nedbank Retail.*
*[3] Restated in the December 2014 Results Booklet.*

## NEDBANK GROUP DEFAULTED ADVANCES BY BUSINESS CLUSTER

| | Dec 2011 | | Dec 2012 | | Dec 2013 | | Jun 2014 | | Dec 2014 | | **Jun 2015** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rm | Mix % | Rm | Mix % | Rm | Mix %[1] | Rm | Mix % | Rm | Mix % | **Rm** | **Mix %** |
| **Nedbank Corporate and Investment Banking** | 5 138 | 22,2 | 3 544 | 18,4 | 3 406 | 19,1 | 2 906 | 16,7 | 2 759 | 17,4 | **3 134** | **18,8** |
| Nedbank Capital | 1 454 | 6,3 | 776 | 4,0 | 661 | 3,7 | 409 | 2,4 | 209 | 1,3 | **1 185** | **7,1** |
| Nedbank Corporate | 3 684 | 15,9 | 2 768 | 14,4 | 2 745 | 15,4 | 2 497 | 14,3 | 2 550 | 16,1 | **1 949** | **11,7** |
| Corporate Banking | 86 | 0,4 | 200 | 1,0 | 728 | 4,1 | 547 | 3,1 | 741 | 4,7 | **224** | **1,4** |
| Property Finance | 3 598 | 15,5 | 2 568 | 13,4 | 2 017 | 11,3 | 1 950 | 11,2 | 1 809 | 11,4 | **1 725** | **10,3** |
| **Nedbank RBB**[2] | 17 431 | 75,1 | 15 046 | 78,1 | 13 736[1] | 77,0 | 13 659 | 78,4 | 12 266 | 77,4 | **12 732** | **76,2** |
| Nedbank Business Banking | 3 081 | 13,3 | 2 597 | 13,5 | 2 334 | 13,1 | 2 323 | 13,3 | 2 087 | 13,2 | **2 145** | **12,8** |
| Nedbank Retail[3] | 14 350 | 61,8 | 12 449 | 64,6 | 11 402[1] | 63,9 | 11 336 | 65,1 | 10 179 | 64,2 | **10 587** | **63,4** |
| Home Loans[4] | 8 652 | 37,3 | 6 242 | 32,4 | 4 746 | 26,6 | 4 513 | 25,9 | 4 053 | 25,6 | **4 141** | **24,8** |
| MFC | 1 956 | 8,4 | 1 707 | 8,9 | 1 933 | 10,8 | 2 244 | 12,9 | 1 898 | 12,0 | **2 120** | **12,7** |
| Personal Loans[5] | 1 725 | 7,4 | 2 607 | 13,5 | 2 828 | 15,8 | 2 742 | 15,8 | 2 502 | 15,8 | **2 370** | **14,2** |
| Card | 519 | 2,2 | 614 | 3,2 | 824 | 4,6 | 877 | 5,0 | 892 | 5,6 | **1 074** | **6,4** |
| **Nedbank Wealth** | 443 | 1,9 | 555 | 2,9 | 525 | 2,9 | 622 | 3,6 | 599 | 3,8 | **567** | **3,4** |
| **Rest of Africa** | 198 | 0,8 | 128 | 0,6 | 181 | 1,0 | 222 | 1,3 | 222 | 1,4 | **262** | **1,6** |
| **Nedbank Group** | 23 210 | 100,0 | 19 273 | 100,0 | 17 848[1] | 100,0 | 17 409 | 100,0 | 15 846 | 100,0 | **16 695** | **100,0** |

[1] *Restated in the December 2014 Results Booklet.*
[2] *RBB = Retail and Business Banking.*
[3] *Only Nedbank Retail business units are reflected that contribute significantly to defaulted advances.*
[4] *Home Loans represents a specific business unit within Nedbank Retail.*
[5] *Personal Loans represents a specific business unit within Nedbank Retail.*

## NEDBANK GROUP DEFAULTED ADVANCES BY PRODUCT

| | **Jun 2015** | | | Jun 2014 | | Dec 2014 | |
|---|---|---|---|---|---|---|---|
| | **Rm** | **Mix %** | **Change %**[1] | Rm | Mix % | Rm | Mix % |
| Residential mortgages | **5 817** | **34,9** | **(8,8)** | 6 375 | 36,6 | 5 649 | 35,6 |
| Commercial mortgages | **1 850** | **11,1** | **(15,1)** | 2 180 | 12,5 | 1 959 | 12,4 |
| Leases and instalment sales | **2 658** | **15,9** | **(3,0)** | 2 739 | 15,7 | 2 309 | 14,6 |
| Card | **1 087** | **6,5** | **22,7** | 886 | 5,1 | 903 | 5,7 |
| Personal loans | **2 408** | **14,4** | **(13,3)** | 2 778 | 16,0 | 2 536 | 16,0 |
| Properties in possession | **570** | **3,4** | **2,7** | 555 | 3,2 | 596 | 3,8 |
| Other loans and advances | **2 305** | **13,8** | **21,6** | 1 896 | 10,9 | 1 894 | 11,9 |
| **Nedbank Group** | **16 695** | **100,0** | **(4,1)** | 17 409 | 100,0 | 15 846 | 100,0 |

[1] *The change percentage is calculated from June 2014.*

## NEDBANK GROUP DEFAULTED ADVANCES AS A PERCNTAGE OF GROSS LOANS AND ADVANCES

| % | Dec 2011 | Dec 2012 | Dec 2013 | Jun 2014 | Dec 2014 | **Jun 2015** |
|---|---|---|---|---|---|---|
| **Nedbank Corporate and Investment Banking** | 2,35 | 1,58 | 1,42 | 1,12 | 1,03 | **0,94** |
| **Nedbank Capital** | 2,10 | 0,94 | 0,60 | 0,35 | 0,20 | **0,98** |
| **Nedbank Corporate** | 2,32 | 1,69 | 1,56 | 1,29 | 1,27 | **0,92** |
| Corporate Banking | 0,11 | 0,26 | 0,89 | 0,61 | 0,85 | **0,25** |
| Property Finance | 4,48 | 3,05 | 2,16 | 1,93 | 1,65 | **1,47** |
| **Total Nedbank RBB** | 6,93 | 5,79 | 5,13 | 5,06 | 4,41 | **4,48** |
| **Nedbank Business Banking** | 5,10 | 4,23 | 3,64 | 3,57 | 3,11 | **3,26** |
| **Nedbank Retail** | 7,50 | 6,27 | 5,60 | 5,53 | 4,83 | **4,85** |
| Home Loans | 9,67 | 7,38 | 5,84 | 5,59 | 5,01 | **5,10** |
| MFC | 3,78 | 2,99 | 2,95 | 3,25 | 2,58 | **2,81** |
| Consumer Banking | 10,41 | 11,92 | 14,12 | 15,00 | 14,71 | **14,77** |
| Personal Loans[2] | 9,99 | 11,74 | 14,05 | 14,94 | 14,65 | **14,62** |
| Client Engagement | 17,33 | 16,12 | 15,65 | 16,03 | 15,64 | **17,14** |
| Relationship Banking | 5,66 | 4,73 | 3,74 | 3,31 | 2,74 | **2,36** |
| Card | 6,07 | 6,19 | 7,26 | 7,13 | 6,68 | **7,64** |
| **Nedbank Wealth** | 2,25 | 2,78 | 2,36 | 2,52 | 2,40 | **2,12** |
| **Rest of Africa** | 2,00 | 1,01 | 1,22 | 1,42 | 1,56 | **1,63** |
| **Nedbank Group** | 4,55 | 3,58 | 3,02 | 2,81 | 2,54 | **2,53** |

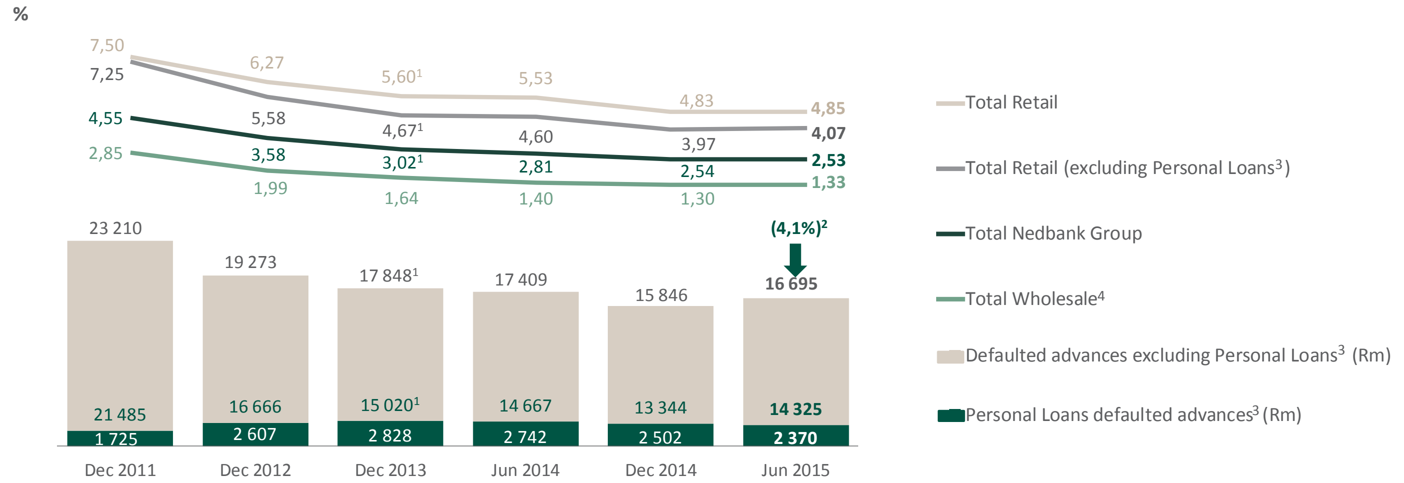
[1] *Wholesale includes Nedbank CIB and Nedbank Business Banking.*
[2] *Personal Loans represents a specific business unit within Nedbank Retail.*

## DEFAULTED ADVANCES BY BUSINESS CLUSTER AND BASEL III AIRB ASSET CLASS

| Rm | Nedbank Corporate and Investment Banking | Nedbank Capital | Nedbank Corporate | Total Nedbank RBB | Nedbank Business Banking | Nedbank Retail | Nedbank Wealth | Rest of Africa | Nedbank Group Jun 2015 | Jun 2014 | Dec 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **AIRB Approach** | 1 819 | 258 | 1 561 | 12 477 | 2 050 | 10 427 | 461 | | 14 757 | 16 448 | 14 194 |
| Corporate | 448 | 240 | 208 | 169 | 157 | 12 | | | 617 | 979 | 591 |
| Specialised lending – HVCRE | 738 | | 738 | | | | | | 738 | 1 027 | 799 |
| Specialised lending – IPRE | 594 | | 594 | 1 | 1 | | 67 | | 662 | 578 | 678 |
| Specialised lending – PF[1] | 18 | 18 | | | | | | | 18 | 131 | 25 |
| SME – corporate | 21 | | 21 | 369 | 369 | | 41 | | 431 | 495 | 356 |
| Bank | | | | | | | | | | | |
| Sovereign | | | | | | | | | | 15 | |
| Retail mortgage | | | | 4 921 | 440 | 4 481 | 306 | | 5 227 | 5 638 | 4 910 |
| Retail revolving credit | | | | 1 253 | | 1 253 | 7 | | 1 260 | 1 042 | 1 060 |
| Retail – other | | | | 4 401 | 17 | 4 384 | 14 | | 4 415 | 5 140 | 4 509 |
| SME – retail | | | | 1 363 | 1 066 | 297 | 26 | | 1 389 | 1 403 | 1 266 |
| **TSA** | | | | 105 | 86 | 19 | | | 105 | 184 | 224 |
| Corporate | | | | | | | | | | | 2 |
| SME – corporate | | | | 33 | 24 | 9 | | | 33 | 77 | 134 |
| Retail mortgage | | | | 54 | 44 | 10 | | | 54 | 74 | 65 |
| Retail – other | | | | 6 | 6 | | | | 6 | 9 | 8 |
| SME – retail | | | | 12 | 12 | | | | 12 | 24 | 15 |
| **Other regulated entities** | 927 | 927 | | | | | 74 | 262 | 1 263 | 222 | 832 |
| **Properties in possession** | 388 | | 388 | 150 | 9 | 141 | 32 | | 570 | 555 | 596 |
| **Total defaulted loans and advances** | 3 134 | 1 185 | 1 949 | 12 732 | 2 145 | 10 587 | 567 | 262 | 16 695 | 17 409 | 15 846 |

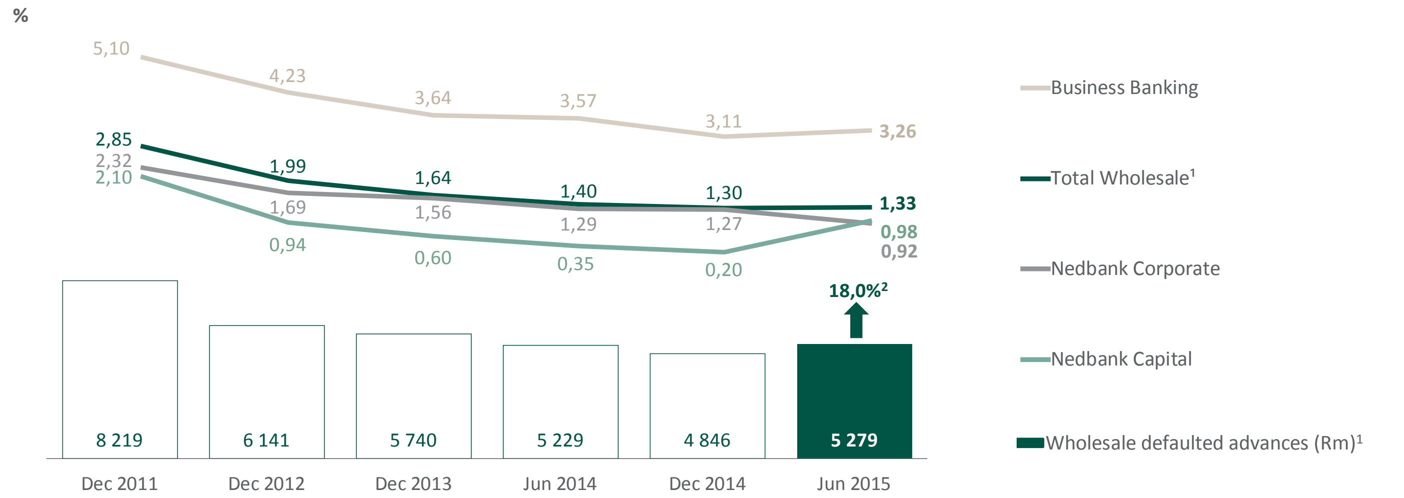
[1] *PF = Project Finance.*

## DEFAULTED ADVANCES AS A PERCENTAGE OF GROSS LOANS AND ADVANCES




[1] *Restated in the December 2014 Results Booklet.*
[2] *The change percentage is calculated from June 2014.*
[3] *Personal Loans represents a specific business unit within Nedbank Retail.*
[4] *Wholesale includes Nedbank CIB and Nedbank Business Banking.*

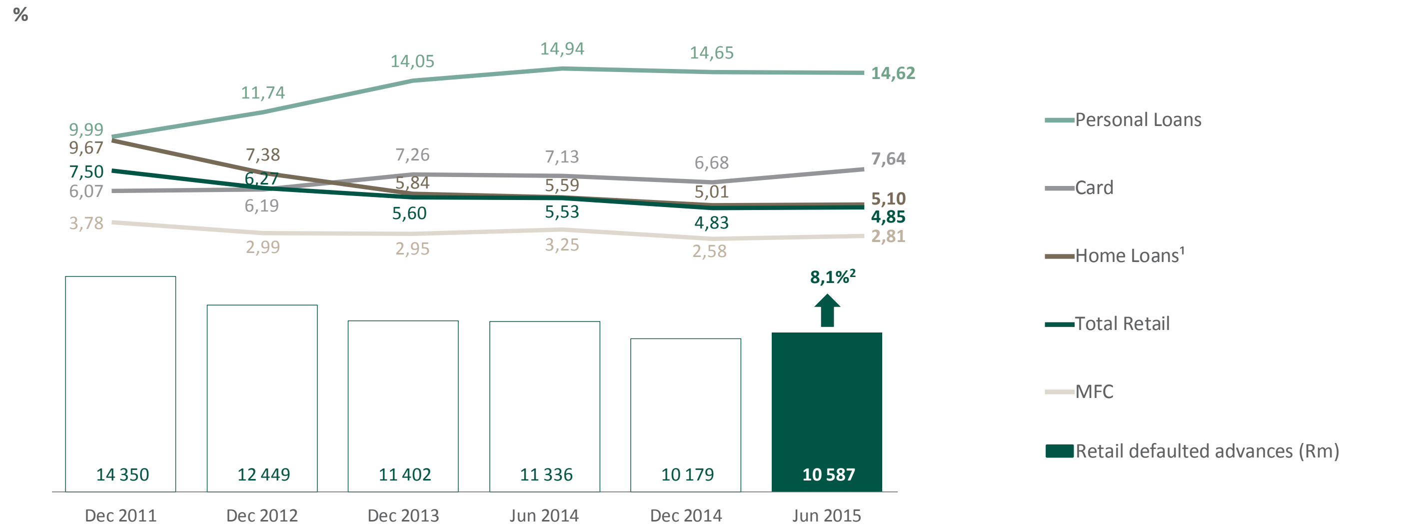
## WHOLESALE DEFAULTED ADVANCES AS A PERCENTAGE OF GROSS LOANS AND ADVANCES




[1] *Wholesale includes Nedbank CIB and Nedbank Business Banking.*

[2] *The change percentage is annualised from December 2014.*

## RETAIL DEFAULTED ADVANCES AS A PERCENTAGE OF GROSS LOANS AND ADVANCES




[1] *Home Loans represents a specific business unit within Nedbank Retail. This excludes home loans in the Nedbank Retail Relationship Banking business unit.*

[2] *The change percentage is annualised from December 2014.*

## Properties in possession

Nedbank's strategy is to sell its PIPs as soon as possible, at an acceptable market-related price. Each business unit ensures that this specialist function is handled and controlled in terms of a set of dedicated credit policies. The policies clearly outline prudent measurement and management of the assets, mandated authorities and the content and frequency of reporting on these properties.

In June 2015 PIPs decreased by 8,8% (annualised) to R570m (December 2014: R596m), largely driven by the sale of properties in the Nedbank Retail. Comparatively few PIPs were brought in compared with the same period in 2014. The PIPs for the group as a percentage of gross loans and advances was stable at 0,09% (December 2014: 0,09%).

### NEDBANK GROUP RECONCILIATION OF PROPERTIES IN POSSESSION

| | | | | | | | | Nedbank Group | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Rm | Nedbank Corporate and Investment Banking | Nedbank Capital | Nedbank Corporate | Total Nedbank RBB | Nedbank Business Banking | Nedbank Retail | Nedbank Wealth | Jun 2015 | Jun 2014 | Dec 2014 |
| **Opening balance** | **388** | | **388** | **176** | **9** | **167** | **32** | **596** | 772 | 772 |
| Disposal/writedowns/revaluations | **(4)** | | **(4)** | **(93)** | **(7)** | **(86)** | **(1)** | **(98)** | (311) | (428) |
| PIPs acquired | **4** | | **4** | **60** | | **60** | **8** | **72** | 94 | 252 |
| **Closing balance** | **388** | | **388** | **143** | **2** | **141** | **39** | **570** | 555 | 596 |
| Unsold | **200** | | **200** | **78** | **2** | **76** | **39** | **317** | 457 | 515 |
| Sold awaiting transfer | **188** | | **188** | **65** | | **65** | | **253** | 98 | 81 |

## Debt counselling

The portfolio balance increased by 28,8% to R5 700m (June 2014: R4 427m) and the number of accounts in debt counselling increased by 27,2% to 105 539 (June 2014: 82 962). Growth in the debt counselling book is in line with the industry and the debt counselling market share is lower year on year.

Matters are finalised either through a voluntary process or a court order process. Matters finalised through the courts and/or voluntary processes remain high at approximately 44%.

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 2015** | | Jun 2014 | | **Jun 2015** | | Jun 2014 | |
| **Product** | **Number of accounts** | **Exposure Rm** | Number of accounts | Exposure Rm | **Number of accounts** | **Exposure Rm** | Number of accounts | Exposure Rm |
| Mortgages | **1 143** | **388** | 951 | 294 | **4 978** | **1 825** | 3 872 | 1 460 |
| Vehicle and asset finance | **6 053** | **689** | 4 019 | 462 | **19 715** | **1 985** | 14 861 | 1 416 |
| Personal loans | **11 247** | **428** | 11 802 | 444 | **40 076** | **1 465** | 33 847 | 1 255 |
| Card | **10 153** | **152** | 8 618 | 94 | **31 630** | **396** | 23 736 | 269 |
| Overdrafts | **6 011** | **13** | 4 279 | 10 | **9 140** | **29** | 6 646 | 27 |
| **Total** | **34 607** | **1 670** | 29 669 | 1 304 | **105 539** | **5 700** | 82 962 | 4 427 |

## Credit loss ratio

The Nedbank Group CLR improved to 0,77% (June 2014: 0,83%) and remains at the bottom end of the TTC target range of 0,80% to 1,20%. The focus on selective asset origination and disciplined risk management supported the improvement.

- The decrease in specific CLR to 0,73% (June 2014: 0,78%) is in line with decreases in defaulted advances.

The improvement in the group CLR was driven by Nedbank RBB remaining below their target ranges, demonstrating selective origination and strong collections management.

- The decrease in the Personal Loans CLR to 8,12% (June 2014: 10,75%) is due to the improved default profile distribution, positive collections and improved risk performance.
- The improvement in Home Loans CLR to 0,04% (June 2014: 0,22%) is favourable and remains below the target range.
- The MFC CLR improved to 1,03% (June 2014: 1,33%), performing below the target range.

The change in product mix positively impacted the group CLR. Personal loans, which attract a higher level of impairments, are now a smaller portion of gross loans and advances.

The Nedbank Capital CLR increased to 0,41% [June 2014: (0,04%)], driven by higher provisions on a few counterparties. The CLR however, remains within TTC target range of 0,10% to 0,55%.

The Nedbank Corporate CLR is now above the upper end of the TTC CLR target range at 0,36% (June 2014: 0,22%), as a single large counterparty was exited.

Nedbank Wealth is at the bottom end of the TTC target range and no material movement in impairments was evident over the first half of 2015.

### CREDIT LOSS RATIO PER BUSINESS CLUSTER

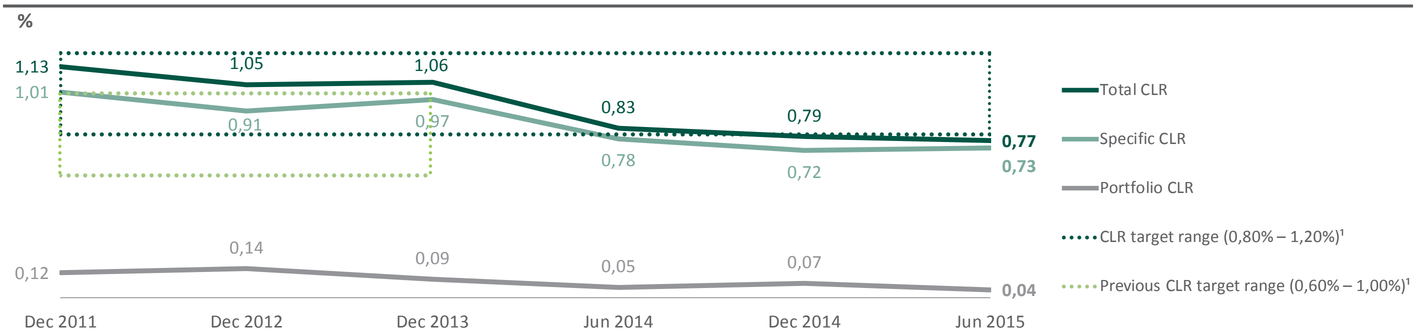
| % | Nedbank Corporate and Investment Banking | Nedbank Capital | Nedbank Corporate | Nedbank RBB | Nedbank Business Banking | Nedbank Retail | Nedbank Wealth | Rest of Africa | Nedbank Group |
|---|---|---|---|---|---|---|---|---|---|
| **Through-the-cycle target ranges** | | 0,10 – 0,55 | 0,20 – 0,35 | | 0,55 – 0,75 | 1,90 – 2,60 | 0,20 – 0,40 | | 0,80 – 1,20 |
| **June 2015** | | | | | | | | | |
| **Total credit loss ratio** | **0,38** | **0,41** | **0,36** | **1,22** | **0,49** | **1,44** | **0,18** | **0,86** | **0,77** |
| Specific credit loss ratio | **0,27** | **0,29** | **0,26** | **1,28** | **0,32** | **1,59** | **0,16** | **0,30** | **0,73** |
| Portfolio credit loss ratio | **0,11** | **0,12** | **0,10** | **(0,06)** | **0,17** | **(0,15)** | **0,02** | **0,56** | **0,04** |
| June 2014 | | | | | | | | | |
| **Total credit loss ratio** | 0,15 | (0,04) | 0,22 | 1,55 | 0,44 | 1,90 | 0,21 | 0,42 | 0,83 |
| Specific credit loss ratio | 0,10 | (0,10) | 0,17 | 1,51 | 0,42 | 1,86 | 0,23 | 0,24 | 0,78 |
| Portfolio credit loss ratio | 0,05 | 0,06 | 0,05 | 0,04 | 0,02 | 0,04 | (0,02) | 0,18 | 0,05 |
| December 2014 | | | | | | | | | |
| **Total credit loss ratio** | 0,19 | 0,14 | 0,21 | 1,39 | 0,42 | 1,70 | 0,17 | 0,23 | 0,79 |
| Specific credit loss ratio | 0,14 | 0,06 | 0,18 | 1,36 | 0,29 | 1,69 | 0,18 | 0,24 | 0,72 |
| Portfolio credit loss ratio | 0,05 | 0,08 | 0,03 | 0,03 | 0,13 | 0,01 | (0,01) | (0,01) | 0,07 |

## SUMMARY OF THE CREDIT LOSS RATIO BY BUSINESS UNIT

| | Mix of average banking advances | | | Impairment charge | | | | | | Credit loss ratio | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Jun 2015 %** | Jun 2014 % | Dec 2014 % | **Jun 2015 Rm** | **Jun 2015 Mix %** | Jun 2014 Rm | Jun 2014 Mix % | Dec 2014 Rm | Dec 2014 Mix % | **Jun 2015 %** | Jun 2014 % | Dec 2014 % |
| **Nedbank Group** | **100,0** | 100,0 | 100,0 | **2 307** | **100,0** | 2 333 | 100,0 | 4 506 | 100,0 | **0,77** | 0,83 | 0,79 |
| **Nedbank Corporate and Investment Banking** | **47,2** | 45,4 | 45,9 | **536** | **23,2** | 185 | 7,9 | 506 | 11,3 | **0,38** | 0,15 | 0,19 |
| Nedbank Capital | **13,7** | 12,6 | 12,8 | **169** | **7,3** | (14) | (0,6) | 106 | 2,4 | **0,41** | (0,04) | 0,14 |
| Nedbank Corporate[1] | **33,5** | 32,8 | 33,1 | **367** | **15,9** | 199 | 8,5 | 400 | 8,9 | **0,36** | 0,22 | 0,21 |
| Corporate Banking | **14,3** | 15,4 | 15,2 | **296** | **12,8** | 130 | 5,6 | 192 | 4,3 | **0,69** | 0,30 | 0,22 |
| Property Finance | **18,6** | 17,1 | 17,5 | **71** | **3,1** | 69 | 2,9 | 208 | 4,6 | **0,13** | 0,14 | 0,21 |
| **Nedbank RBB** | **46,2** | 47,8 | 47,4 | **1 686** | **73,1** | 2 067 | 88,7 | 3 771 | 83,7 | **1,22** | 1,55 | 1,39 |
| Nedbank Business Banking | **11,0** | 11,5 | 11,4 | **163** | **7,1** | 141 | 6,1 | 271 | 6,0 | **0,49** | 0,44 | 0,42 |
| Nedbank Retail[1] | **35,2** | 36,3 | 36,0 | **1 523** | **66,0** | 1 926 | 82,6 | 3 500 | 77,7 | **1,44** | 1,90 | 1,70 |
| Home Loans | **13,4** | 14,5 | 14,2 | **17** | **0,7** | 87 | 3,7 | 105 | 2,3 | **0,04** | 0,22 | 0,13 |
| MFC | **12,1** | 11,7 | 11,9 | **375** | **16,2** | 439 | 18,8 | 852 | 18,9 | **1,03** | 1,33 | 1,25 |
| Consumer Banking | **3,0** | 3,7 | 3,5 | **707** | **30,7** | 1 064 | 45,6 | 1 921 | 42,7 | **7,94** | 10,43 | 9,70 |
| Personal Loans | **2,8** | 3,6 | 3,3 | **680** | **29,5** | 1 041 | 44,6 | 1 879 | 41,7 | **8,12** | 10,75 | 10,04 |
| Client Engagement | **0,2** | 0,1 | 0,2 | **27** | **1,2** | 23 | 1,0 | 42 | 1,0 | **5,29** | 4,43 | 3,87 |
| Relationship Banking | **4,4** | 4,3 | 4,3 | **20** | **0,9** | 4 | 0,2 | 18 | 0,4 | **0,15** | 0,03 | 0,07 |
| Card | **2,3** | 2,1 | 2,2 | **404** | **17,5** | 332 | 14,2 | 604 | 13,4 | **5,83** | 5,56 | 4,79 |
| **Nedbank Wealth** | **4,2** | 4,1 | 4,2 | **22** | **0,9** | 24 | 1,0 | 41 | 0,9 | **0,18** | 0,21 | 0,17 |
| **Rest of Africa** | **2,4** | 2,7 | 2,6 | **64** | **2,8** | 31 | 1,3 | 35 | 0,8 | **0,86** | 0,42 | 0,23 |

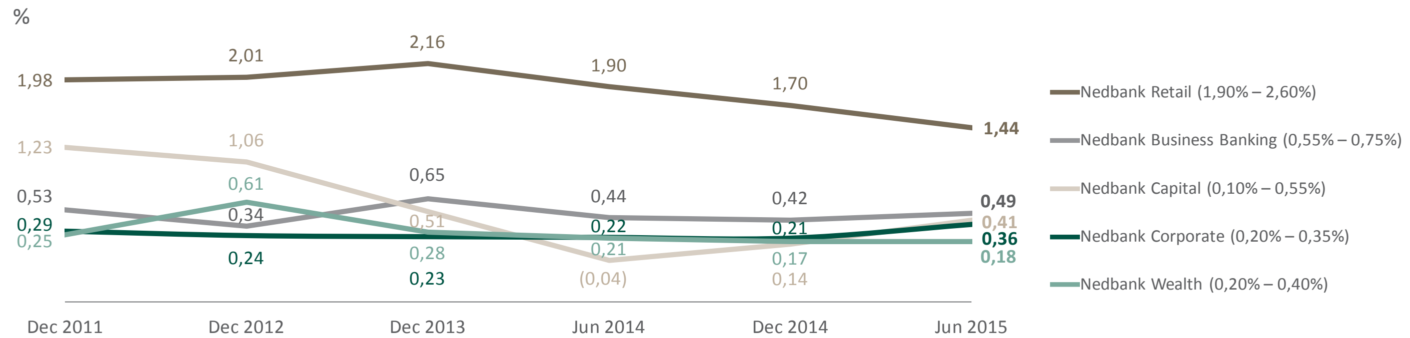
[1] *The central units in Corporate Banking and Retail do not contribute to CLR and are excluded from the table.*

## NEDBANK GROUP CREDIT LOSS RATIO TRENDS

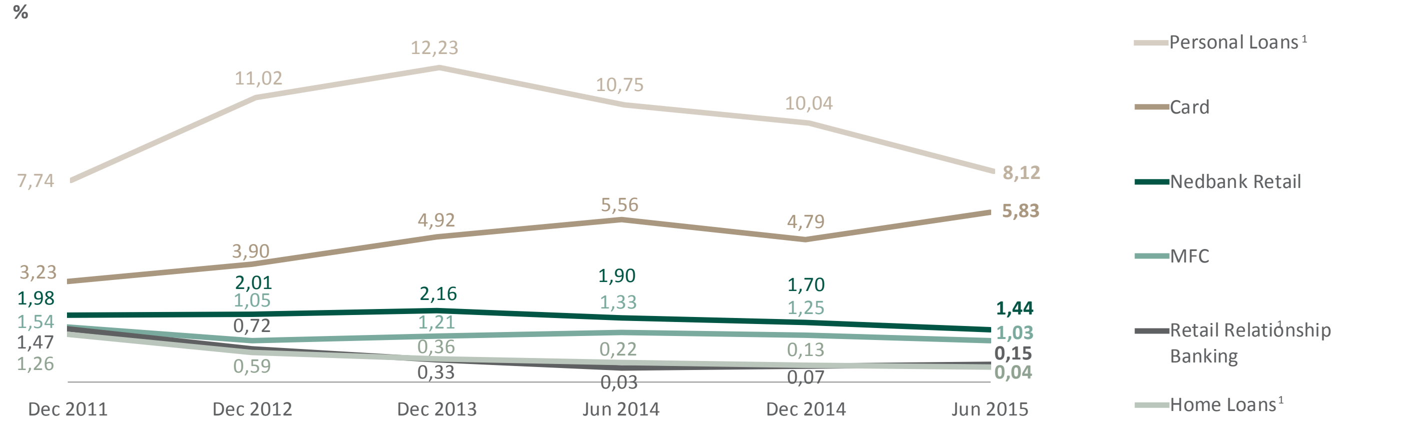



[1] *The Nedbank Group target range was revised from between 0,60% and 1,00% to between 0,80% and 1,20%, with effect from 2014.*

## BUSINESS CLUSTER CREDIT LOSS RATIO TRENDS



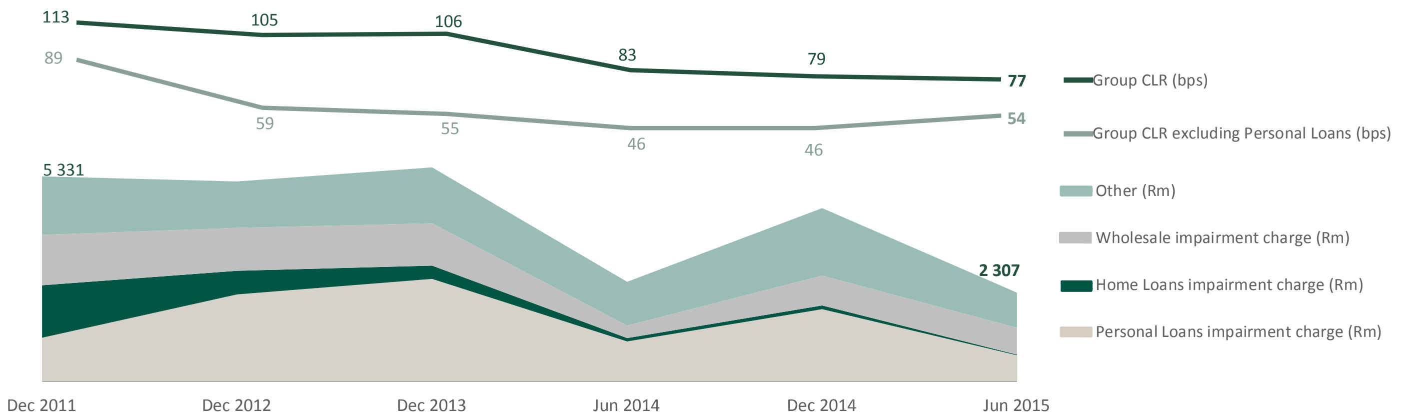
## NEDBANK RETAIL CREDIT LOSS RATIO PER BUSINESS UNIT




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

Better asset quality is reflected by the decrease in the impairment charge in the high risk portfolios like Home Loans and Personal Loans. This led to a decrease in the group's CLR to 0,77% (June 2014: 0,83%).

## GROUP IMPAIRMENT CHARGE AND CREDIT LOSS RATIO




## Impairments

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.
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- Observable 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. A loan or advance is considered to be 'past due but not impaired' when its limit is exceeded or is in arrears but where the borrower is continuing to make repayments against its obligation.

Directive 7 became effective on 1 January 2015 and impacts the restructures, hence the default definition with no impairment impact. Loans that would otherwise be past due or impaired and whose terms have been renegotiated and display the characteristics of a performing loan are reset to performing status. Under the directive, restructures are to be held in monitoring for a period of six months (extended from three months). At the end of the six-months monitoring period, accounts will either cure or remain in default (restructure non-cure). Loans whose terms have been renegotiated continue to be monitored to determine whether they are considered to be impaired or past due.

The income statement impairments charge decreased by 1,1% to R2 307m (June 2014: R2 333m) due to good risk management across portfolios.

- The Nedbank Retail impairments charge decreased to R1 523m (June 2014: R1 926m), with specific impairments declining by R212m to R1 673m (June 2014: R1 885m), driven mainly by lower defaulted advances in the Personal Loans and Home Loans portfolios.
- Postwriteoff recovery performance continues to improve and generated postwriteoff recoveries of R520m (June 2014: R422m), this includes recoveries in Personal Loans of R196m (June 2014: R153m).
- The Nedbank Wealth impairments remained stable year on year.

During the first half of 2015 the total balance sheet impairments decreased to R11 004m (December 2014: R11 095m), with specific impairments decreasing to R6 618m (December 2014: R6 832m) and portfolio impairments increasing to R4 386m (December 2014: R4 263m).

Nedbank Retail balance sheet impairments as a percentage of gross loans and advances decreased to 3,40% (June 2014: 4,04%), due to the writeoff policy implemented in H2 2014 in MFC as well as lower impairments in Home Loans driven by improved ageing in the defaulted portfolio.

Overall, balance sheet impairments decreased to 1,67% of total advances (June 2014: 1,85%) in line with the change in mix of advances, lower defaulted advances and the aforementioned MFC writeoff policy implemented in H2 2014.

## NEDBANK GROUP SUMMARY OF KEY IMPAIRMENT TRENDS

| | Jun 2011 | Dec 2011 | Jun 2012 | Dec 2012 | Jun 2013 | Dec 2013 | Jun 2014 | Dec 2014 | **Jun 2015** |
|---|---|---|---|---|---|---|---|---|---|
| **Total income statement impairments net of recoveries (Rm)** | 2 792 | 5 331 | 2 702 | 5 199 | 3 325 | 5 565 | 2 333 | 4 506 | **2 307** |
| Specific impairments | 2 531 | 4 753 | 2 419 | 4 517 | 3 156 | 5 091[1] | 2 187 | 4 143 | **2 199** |
| Portfolio impairments | 261 | 578 | 283 | 682 | 169 | 474[1] | 146 | 363 | **108** |
| **Total balance sheet impairments (Rm)** | 11 466 | 11 497 | 11 545 | 10 870 | 11 859 | 11 456 | 11 476 | 11 095 | **11 004** |
| Specific impairments | 9 026 | 8 749 | 8 518 | 7 443 | 8 254 | 7 543[1] | 7 430 | 6 832 | **6 618** |
| Portfolio impairments | 2 440 | 2 748 | 3 027 | 3 427 | 3 605 | 3 913[1] | 4 046 | 4 263 | **4 386** |
| **Total impairments to gross loans and advances (%)** | 2,37 | 2,25 | 2,20 | 2,02 | 2,08 | 1,94 | 1,85 | 1,78 | **1,67** |
| Total wholesale[2] | 1,21 | 1,22 | 1,10 | 0,84 | 0,90 | 0,77 | 0,70 | 0,75 | **0,72** |
| Nedbank Retail | 4,20 | 3,97 | 3,99 | 3,98 | 4,20 | 4,05 | 4,04 | 3,61 | **3,40** |
| Home Loans[3] | 3,13 | 3,32 | 3,19 | 2,92 | 2,88 | 2,56 | 2,43 | 2,18 | **2,01** |
| MFC | 3,99 | 3,71 | 3,36 | 3,19 | 3,18 | 3,23 | 3,32 | 2,69 | **2,45** |
| Personal Loans | 7,76 | 7,30 | 8,25 | 9,80 | 12,04 | 12,66 | 13,73 | 13,92 | **14,00** |
| Card | 7,20 | 6,93 | 7,19 | 7,04 | 7,14 | 7,79 | 7,68 | 7,21 | **8,04** |

[1] *Restated in the December 2014 Results Booklet.*

[2] *Wholesale includes Nedbank CIB and Nedbank Business Banking.*

[3] *Home Loans represents a specific business unit within Nedbank Retail. This excludes home loans in the Nedbank Relationship Banking and Business Banking business units.*

## RECONCILIATION OF BALANCE SHEET IMPAIRMENTS BY BUSINESS CLUSTER

| June 2015 | Nedbank Corporate and Investment Banking | Nedbank Capital Rm | Nedbank Corporate Rm | Total Nedbank RBB Rm | Nedbank Business Banking Rm | Nedbank Retail Rm | Nedbank Wealth Rm | Rest of Africa Rm | Centre Rm | Nedbank Group Rm | Annualised Change % | Nedbank Group 2014 Rm |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Opening balance** | **1 481** | **341** | **1 140** | **8 933** | **1 333** | **7 600** | **168** | **180** | **333** | **11 095** | **(6,4)** | 11 456 |
| Specific impairments | **764** | **100** | **664** | **5 835** | **803** | **5 032** | **143** | **105** | **(15)** | **6 832** | **(19,0)** | 7 543 |
| Specific impairments excluding discounts | **510** | **99** | **411** | **5 160** | **621** | **4 539** | **18** | | **(15)** | **5 673** | **(19,7)** | 6 287 |
| Specific impairments for discounted cashflow losses | **254** | **1** | **253** | **675** | **182** | **493** | **125** | **105** | | **1 159** | **(15,6)** | 1 256 |
| Portfolio impairments | **717** | **241** | **476** | **3 098** | **530** | **2 568** | **25** | **75** | **348** | **4 263** | **18,0** | 3 913 |
| **Income statement impairments charge (net of recoveries)** | **536** | **169** | **367** | **1 686** | **163** | **1 523** | **22** | **64** | **(1)** | **2 307** | **(1,1)** | 4 506 |
| Specific impairments | **330** | **104** | **226** | **1 767** | **104** | **1 663** | **37** | **20** | **(1)** | **2 153** | **(1,4)** | 4 240 |
| Net increase/decrease in impairments for discounted cashflow losses | **48** | **16** | **32** | **13** | **3** | **10** | **(17)** | **2** | | **46** | **> 100,0** | (97) |
| Portfolio impairments | **158** | **49** | **109** | **(94)** | **56** | **(150)** | **2** | **42** | | **108** | **(26,0)** | 363 |
| **Postwriteoff recoveries** | **35** | | **35** | **482** | **13** | **469** | **1** | **2** | **(1)** | **519** | **(23,0)** | 941 |
| **Amounts written off and other transfers** | **(605)** | **(48)** | **(557)** | **(2 268)** | **(101)** | **(2 167)** | **(46)** | **2** | | **(2 917)** | **(> 100,0)** | (5 808) |
| Specific impairments | **(610)** | **(52)** | **(558)** | **(2 264)** | **(81)** | **(2 183)** | **(46)** | **(13)** | **1** | **(2 932)** | **99,6** | (5 795) |
| Portfolio impairments | **5** | **4** | **1** | **(4)** | **(20)** | **16** | | **15** | **(1)** | **15** | **> 100,0** | (13) |
| **Closing balance** | **1 447** | **462** | **985** | **8 833** | **1 408** | **7 425** | **145** | **248** | **331** | **11 004** | **(1,7)** | 11 095 |
| Specific impairments | **567** | **168** | **399** | **5 833** | **842** | **4 991** | **118** | **116** | **(16)** | **6 618** | **(6,3)** | 6 832 |
| Specific impairments, excluding discounts[1] | **265** | **151** | **114** | **5 145** | **657** | **4 488** | **10** | **9** | **(16)** | **5 413** | **(9,2)** | 5 673 |
| Specific impairments for discounted cashflow losses[2] | **302** | **17** | **285** | **688** | **185** | **503** | **108** | **107** | | **1 205** | **8,0** | 1 159 |
| Portfolio impairments | **880** | **294** | **586** | **3 000** | **566** | **2 434** | **27** | **132** | **347** | **4 386** | **5,8** | 4 263 |
| **Total gross loans and advances** | **332 516** | **121 108** | **211 408** | **283 912** | **65 705** | **218 207** | **26 797** | **16 097** | **526** | **659 848** | **11,5** | 624 116 |
| **Total average gross loans and advances** | **318 109** | **115 380** | **202 729** | **279 805** | **66 973** | **212 832** | **25 327** | **14 966** | **1 097** | **639 304** | **23,6** | 572 405 |
| **Total average gross banking book loans and advances** | **285 610** | **82 881** | **202 729** | **279 805** | **66 973** | **212 832** | **25 327** | **14 966** | | **605 708** | **(1,2)** | 609 343 |
| December 2014 | | | | | | | | | | | | |
| Income statement impairments charge (net of recoveries) | 506 | 106 | 400 | 3 771 | 271 | 3 500 | 41 | 35 | 153 | 4 506 | | |
| Recoveries | 51 | 3 | 48 | 873 | 19 | 854 | 5 | 13 | (1) | 941 | | |
| Amounts written off and other transfers | (484) | (265) | (219) | (5 247) | (238) | (5 009) | (46) | (55) | 24 | (5 808) | | |
| Total gross loans and advances | 306 639 | 105 942 | 200 697 | 277 815 | 67 152 | 210 663 | 24 987 | 14 253 | 422 | 624 116 | | |
| Total average gross banking book loans and advances | 262 429 | 73 154 | 189 275 | 271 480 | 65 300 | 206 180 | 23 854 | 14 272 | 370 | 572 405 | | |
| Total average gross loans and advances | 298 615 | 109 340 | 189 275 | 271 480 | 65 300 | 206 180 | 23 854 | 15 023 | 370 | 609 343 | | |
| June 2014 | | | | | | | | | | | | |
| Income statement impairments charge (net of recoveries) | 185 | (14) | 199 | 2 067 | 141 | 1 926 | 24 | 31 | 26 | 2 333 | | |
| Recoveries | 18 | | 18 | 397 | 11 | 386 | 1 | 6 | | 422 | | |
| Amounts written off and other transfers | (333) | (204) | (129) | (2 364) | (78) | (2 286) | (29) | (9) | | (2 735) | | |
| Total gross loans and advances | 308 544 | 115 311 | 193 233 | 270 198 | 65 087 | 205 111 | 24 761 | 15 584 | 599 | 619 686 | | |
| Total average gross banking book loans and advances | 256 286 | 71 016 | 185 270 | 269 229 | 64 755 | 204 474 | 23 132 | 14 978 | 334 | 563 559 | | |
| Total average gross loans and advances | 295 178 | 109 908 | 185 270 | 269 229 | 64 755 | 204 474 | 23 132 | 14 978 | 334 | 602 851 | | |

[1] *Specific impairments excluding discounts is the difference between the total balance sheet specific impairment and the specific impairments for discounted cashflow losses.*

[2] *Specific impairments for discounted cashflow losses is the component of the total specific impairment charge, which is calculated as the lesser of the projected nominal recovery amount and the amount owing on the loan and advances minus the present value of the nominal recovery amount, discounted at the original effective interest rate.*

## 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 that have 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 that is an input into the LGD calculation and would result in a decrease in the LGD and decrease in specific impairments.
- A change in the mix of new versus older defaults, as in 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 coverage ratio for total impairments was maintained at 65,9% (June 2014: 65,9%), declining in specific coverage to 39,6% (June 2014: 42,7%) while portfolio coverage on the performing book was maintained at 0,68% (June 2014: 0,67%).

The Nedbank Retail total coverage decreased to 70,1% (June 2014: 73,0%) driven by the following:

- Specific coverage decreased to 47,1% (June 2014: 50,1%), which is reflective of the improving book profile.
- Portfolio coverage on Nedbank Retail decreased to 1,17% (June 2014: 1,34%), driven by changes in portfolio mix and lower impairments in Home Loans and MFC.

The Business Banking total coverage increased to 65,6% (June 2014: 58,3%), indicating continued conservatism in impairments raised.

Wholesale total coverage increased to 54,0% (June 2014: 50,3%) with portfolio coverage increasing to 0,37% (June 2014: 0,30%) and specific coverage decreasing to 26,7% (June 2014: 29,2%).

- Portfolio coverage increased in Nedbank CIB as a result of some increases in client ratings given prevailing economic conditions, while the specific-coverage ratio decreased to 20,5% (June 2014: 23,1%) due to the writeoff of a single large counterparty.
- The Nedbank Business Banking portfolio coverage increased to 0,89% (June 2014: 0,72%) due to impairments raised as a result of the general economic pressure on SME clients.
- The Nedbank Capital portfolio coverage increased to 0,25% (June 2014: 0,17%).

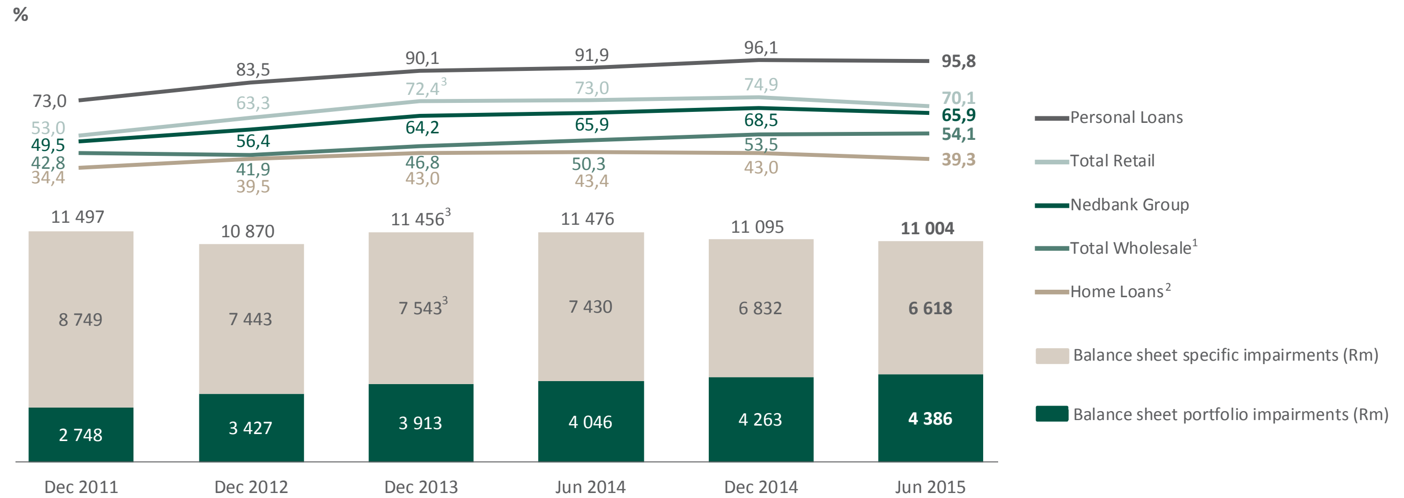
The Rest of Africa portfolio-coverage ratio increased to 0,83% (June 2014: 0,75%) due to the ratings migration of a few large clients.

## NEDBANK GROUP COVERAGE RATIOS BY BUSINESS CLUSTER

| % | Dec 2011 | Dec 2012 | Dec 2013 | Jun 2014 | Dec 2014 | Jun 2015 |
|---|---|---|---|---|---|---|
| **Total coverage ratio** | 49,5 | 56,4 | 64,2[1] | 65,9 | 70,0 | **65,9** |
| Nedbank Corporate and Investment Banking | 39,2 | 37,1 | 41,4 | 44,0 | 53,7 | **46,2** |
| Nedbank Capital | 56,5 | 54,0 | 75,2 | 68,2 | 163,2 | **39,0** |
| Nedbank Corporate | 32,3 | 32,4 | 33,2 | 40,0 | 44,7 | **50,5** |
| Nedbank Retail and Business Banking | 52,2 | 60,8 | 69,4 | 70,5 | 72,8 | **69,4** |
| Nedbank Business Banking | 49,0 | 48,5 | 54,9 | 58,3 | 63,9 | **65,6** |
| Nedbank Retail | 53,0 | 63,3 | 72,4[1] | 73,0 | 74,7 | **70,1** |
| Nedbank Wealth | 17,3 | 20,1 | 32,0 | 26,3 | 28,0 | **25,6** |
| Rest of Africa | 48,5 | 114,1 | 103,3 | 97,9 | 81,1 | **71,0** |
| **Specific-coverage ratio** | 37,7 | 38,6 | 42,3[1] | 42,7 | 43,1 | **39,6** |
| Nedbank Corporate and Investment Banking | 30,6 | 22,3 | 23,6 | 21,6 | 27,7 | **18,1** |
| Nedbank Capital | 49,7 | 33,4 | 48,9 | 20,3 | 47,4 | **14,2** |
| Nedbank Corporate | 23,1 | 19,2 | 17,6 | 21,8 | 26,0 | **20,5** |
| Nedbank Retail and Business Banking | 40,7 | 43,4 | 47,5 | 48,2 | 47,6 | **45,8** |
| Nedbank Business Banking | 38,3 | 34,4 | 35,8 | 38,8 | 38,5 | **39,2** |
| Nedbank Retail | 41,2 | 45,2 | 49,9[1] | 50,1 | 49,4 | **47,1** |
| Nedbank Wealth | 12,0 | 15,9 | 26,9 | 22,5 | 23,9 | **20,8** |
| Rest of Africa | 25,8 | 43,8 | 47,0 | 45,7 | 47,3 | **44,3** |
| **Portfolio-coverage ratio** | 0,56 | 0,66 | 0,68[1] | 0,67 | 0,70 | **0,68** |
| Nedbank Corporate and Investment Banking | 0,20 | 0,22 | 0,21 | 0,21 | 0,24 | **0,27** |
| Nedbank Capital | 0,15 | 0,20 | 0,16 | 0,17 | 0,23 | **0,25** |
| Nedbank Corporate | 0,22 | 0,23 | 0,25 | 0,24 | 0,24 | **0,28** |
| Nedbank Retail and Business Banking | 0,86 | 1,07 | 1,18 | 1,19 | 1,17 | **1,11** |
| Nedbank Business Banking | 0,57 | 0,62 | 0,72 | 0,72 | 0,82 | **0,89** |
| Nedbank Retail | 0,96 | 1,21 | 1,33[1] | 1,34 | 1,28 | **1,17** |
| Nedbank Wealth | 0,12 | 0,12 | 0,12 | 0,11 | 0,10 | **0,10** |
| Rest of Africa | 0,45 | 0,72 | 0,70 | 0,75 | 0,53 | **0,83** |

*[1] Restated in the December 2014 Results Booklet.*

## NEDBANK GROUP TOTAL COVERAGE RATIOS

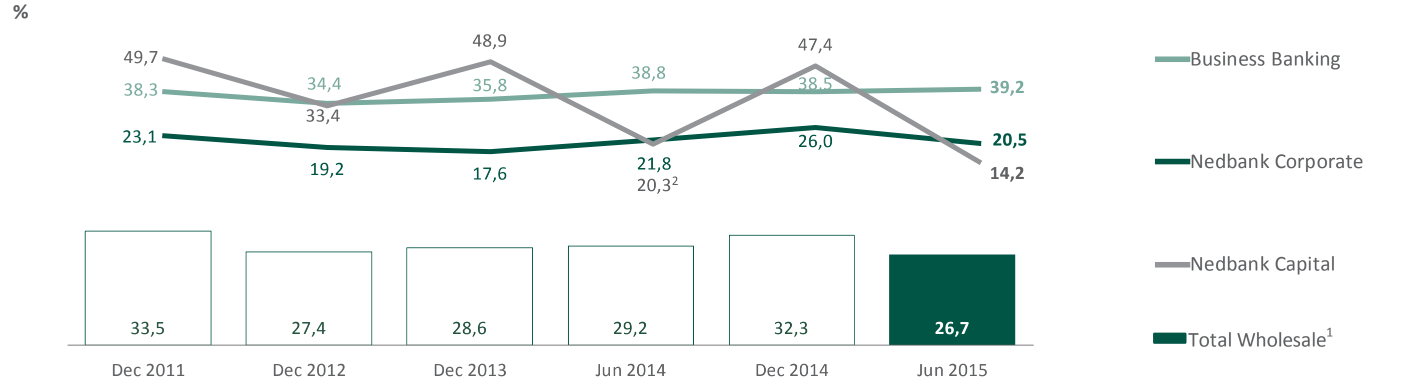



*[1] Wholesale includes Nedbank CIB and Nedbank Business Banking.*

*[2] Home Loans represents a specific business unit within Nedbank Retail. This excludes home loans in the Nedbank Retail Relationship Banking business unit.*

*[3] Restated due to the reclassification of restructures in MFC as defaulted advances.*

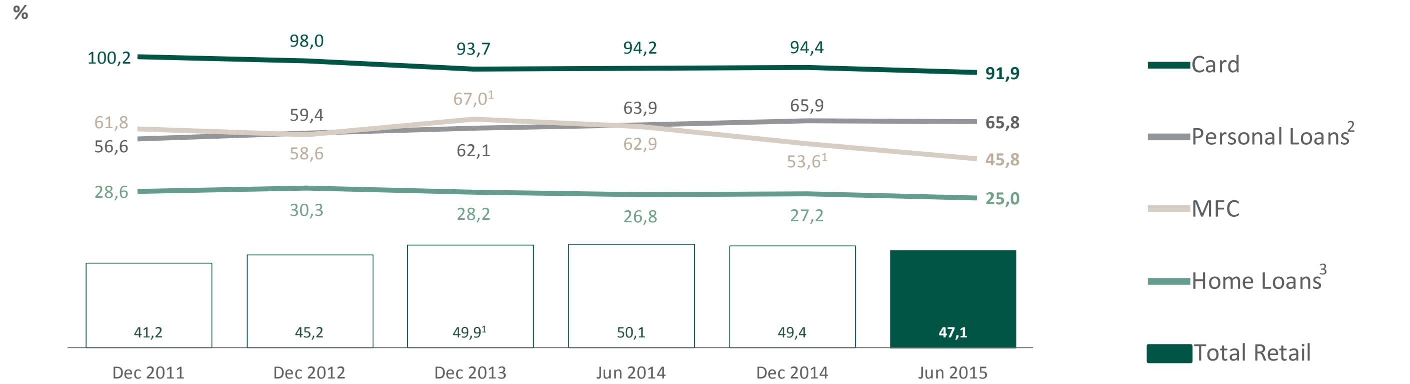
## WHOLESALE SPECIFIC-COVERAGE RATIO




[1] Wholesale includes Nedbank CIB and Nedbank Business Banking.

[2] The decrease in Nedbank Capital's specific coverage to 20,3% in June 2014 was due to the R50m specific impairment release for a defaulted client performing better than anticipated as well as a decrease in defaulted advances due to writeoffs of R206m.

## RETAIL SPECIFIC-COVERAGE RATIO

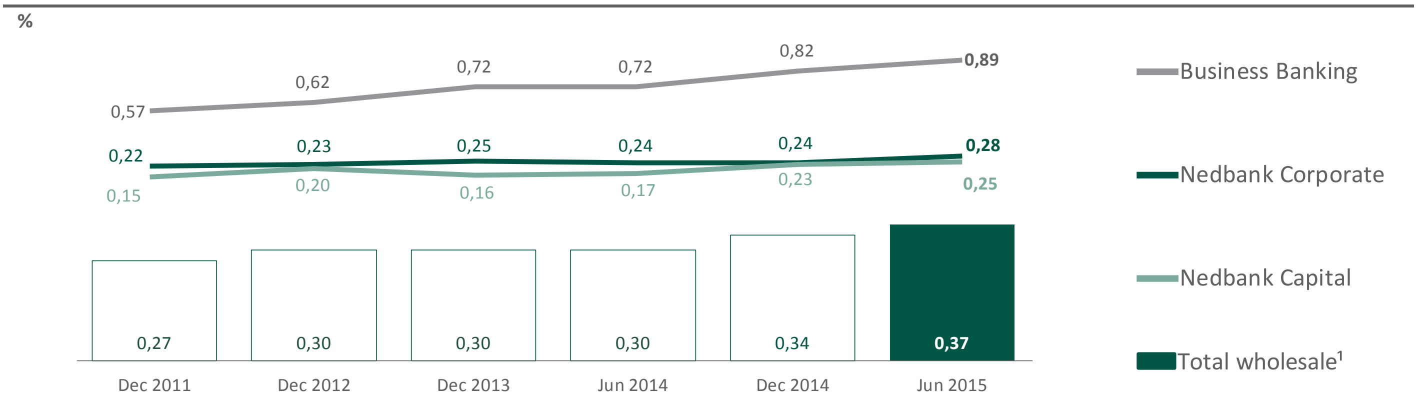



[1] Restated in the December 2014 Results Booklet.

[2] Personal Loans represents a specific business unit within in Nedbank Retail.

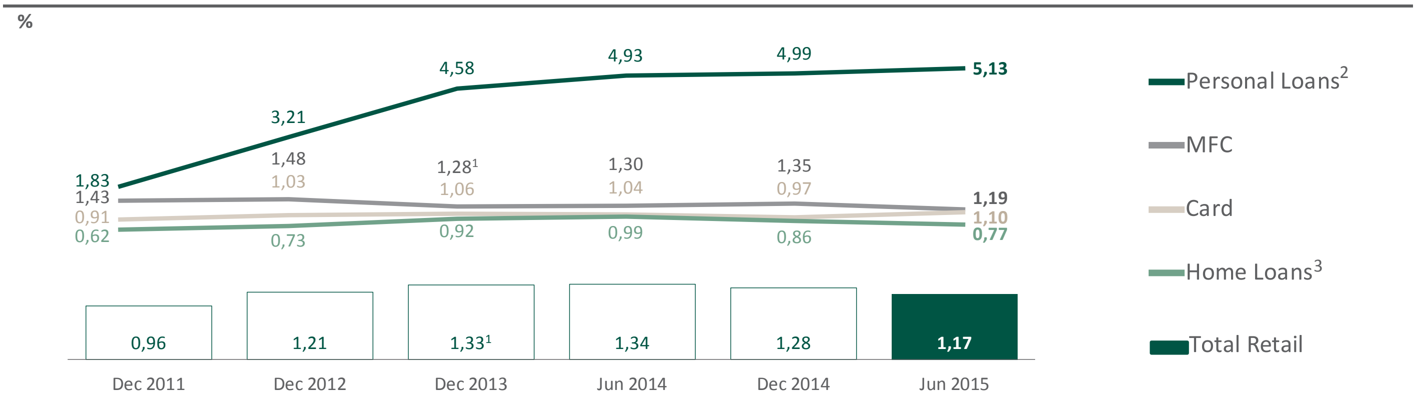
[3] Home Loans represents a specific business unit within Nedbank Retail. This excludes home loans in the Nedbank Retail Relationship Banking business unit.

## WHOLESALE PORTFOLIO-COVERAGE RATIO




[1] Wholesale includes Nedbank CIB and Nedbank Business Banking.

## RETAIL PORTFOLIO-COVERAGE RATIO




[1] Restated in the December 2014 Results Booklet.

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

[3] Home Loans represents a specific business unit within Nedbank Retail. This excludes home loans in the Nedbank Retail Relationship Banking business unit.

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

| | Jun 2015 | | | | | | | | Jun 2014 | | | | | | | | Dec 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| | | | | | | on defaulted advances | for discounted cashflow losses | | | | | | | on defaulted advances | for discounted cashflow losses | | | | | | | on defaulted advances | for discounted cashflow losses | |
| | Rm | as % of total | Rm | Rm | as % of total | Rm | Rm | % | Rm | as % of total | Rm | Rm | as % of total | Rm | Rm | % | Rm | as % of total | Rm | Rm | as % of total | Rm | Rm | % |
| **Nedbank Corporate and Investment Banking** | **3 134** | **18,8** | **2 567** | **567** | **8,5** | **265** | **302** | **18,1** | 2 906 | 16,6 | 2 279 | 627 | 8,4 | 451 | 176 | 21,6 | 2 759 | 17,4 | 1 996 | 763 | 11,1 | 509 | 254 | 27,7 |
| **Nedbank Capital** | **1 185** | **7,1** | **1 017** | **168** | **2,5** | **151** | **17** | **14,2** | 409 | 2,3 | 326 | 83 | 1,1 | 77 | 6 | 20,3 | 209 | 1,3 | 110 | 99 | 1,4 | 98 | 1 | 47,4 |
| Other loans and advances | **1 185** | **7,1** | **1 017** | **168** | **2,5** | **151** | **17** | **14,2** | 409 | 2,3 | 326 | 83 | 1,1 | 77 | 6 | 20,3 | 209 | 1,3 | 110 | 99 | 1,4 | 98 | 1 | 47,4 |
| **Nedbank Corporate** | **1 949** | **11,7** | **1 550** | **399** | **6,0** | **114** | **285** | **20,5** | 2 497 | 14,3 | 1 953 | 544 | 7,3 | 374 | 170 | 21,8 | 2 550 | 16,1 | 1 886 | 664 | 9,7 | 411 | 253 | 26,0 |
| Commercial mortgages | **1 337** | **8,0** | **958** | **379** | **5,7** | **150** | **229** | **28,3** | 1 630 | 9,4 | 1 279 | 351 | 4,7 | 188 | 163 | 21,5 | 1 421 | 9,0 | 1 003 | 418 | 6,1 | 169 | 249 | 29,4 |
| Leases and instalment debtors | **76** | **0,5** | **70** | **6** | **0,1** | **6** | | **7,9** | 16 | 0,1 | 10 | 6 | 0,1 | 6 | | 37,5 | 7 | < 0,1 | 4 | 3 | | 3 | | 42,9 |
| Properties in possession | **388** | **2,3** | **388** | | | | | | 321 | 1,8 | 321 | | | | | | 388 | 2,4 | 388 | | | | | |
| Other loans and advances | **148** | **0,9** | **134** | **14** | **0,2** | **(42)** | **56** | **9,5** | 530 | 3,0 | 343 | 187 | 2,5 | 180 | 7 | 35,3 | 734 | 4,6 | 491 | 243 | 3,6 | 239 | 4 | 33,1 |
| **Nedbank Retail and Business Banking** | **12 732** | **76,3** | **6 899** | **5 833** | **88,3** | **5 145** | **688** | **45,8** | 13 659 | 78,5 | 7 080 | 6 579 | 88,6 | 5 718 | 861 | 48,2 | 12 266 | 77,4 | 6 431 | 5 835 | 85,5 | 5 160 | 675 | 47,6 |
| **Nedbank Business Banking** | **2 145** | **12,9** | **1 303** | **842** | **12,6** | **657** | **185** | **39,2** | 2 323 | 13,3 | 1 422 | 901 | 12,1 | 713 | 188 | 38,8 | 2 087 | 13,2 | 1 284 | 803 | 11,8 | 621 | 182 | 38,5 |
| Residential mortgages | **796** | **4,8** | **584** | **212** | **3,2** | **136** | **76** | **26,6** | 905 | 5,2 | 642 | 263 | 3,5 | 181 | 82 | 29,1 | 763 | 4,8 | 541 | 222 | 3,2 | 142 | 80 | 29,1 |
| Commercial mortgages | **371** | **2,2** | **290** | **81** | **1,2** | **33** | **48** | **21,8** | 406 | 2,3 | 322 | 84 | 1,1 | 32 | 52 | 20,7 | 365 | 2,3 | 284 | 81 | 1,2 | 33 | 48 | 22,2 |
| Leases and instalment debtors | **338** | **2,0** | **117** | **221** | **3,3** | **207** | **14** | **65,4** | 345 | 2,0 | 103 | 242 | 3,3 | 229 | 13 | 70,1 | 308 | 1,9 | 101 | 207 | 3,0 | 192 | 15 | 67,2 |
| Cards | **9** | **0,1** | | **9** | **0,1** | **9** | | **100,0** | 8 | < 0,1 | 1 | 7 | 0,1 | 7 | | 87,5 | 9 | 0,1 | 1 | 8 | 0,1 | 8 | | 88,9 |
| Properties in possession | **2** | **< 0,1** | **2** | | | | | | 13 | 0,1 | 13 | | | | | | 9 | 0,1 | 9 | | | | | |
| Other loans and advances | **629** | **3,8** | **310** | **319** | **4,8** | **272** | **47** | **50,7** | 646 | 3,7 | 341 | 305 | 4,1 | 264 | 41 | 47,2 | 633 | 4,0 | 348 | 285 | 4,3 | 246 | 39 | 45,0 |
| **Nedbank Retail** | **10 587** | **63,4** | **5 596** | **4 991** | **75,7** | **4 488** | **503** | **47,1** | 11 336 | 65,2 | 5 658 | 5 678 | 76,5 | 5 005 | 673 | 50,1 | 10 179 | 64,2 | 5 147 | 5 032 | 73,7 | 4 539 | 493 | 49,4 |
| Residential mortgages | **4 545** | **27,2** | **3 369** | **1 176** | **17,8** | **1 020** | **156** | **25,9** | 4 921 | 28,3 | 3 512 | 1 409 | 19,0 | 1 312 | 97 | 28,6 | 4 408 | 27,8 | 3 138 | 1 270 | 18,6 | 1 137 | 133 | 28,8 |
| Commercial mortgages | **30** | **0,2** | **12** | **18** | **0,3** | **17** | **1** | **60,0** | 32 | 0,2 | 17 | 15 | 0,2 | 14 | 1 | 46,9 | 34 | 0,2 | 15 | 19 | 0,3 | 18 | 1 | 55,9 |
| Leases and instalment debtors | **2 191** | **13,2** | **1 158** | **1 033** | **15,7** | **967** | **66** | **47,1** | 2 331 | 13,4 | 858 | 1 473 | 19,8 | 1 421 | 52 | 63,2[2] | 1 949 | 12,3 | 905 | 1 044 | 15,3 | 988 | 56 | 53,6[1] |
| Cards | **1 074** | **6,4** | **87** | **987** | **15,0** | **971** | **16** | **91,9** | 877 | 5,0 | 51 | 826 | 11,1 | 817 | 9 | 94,2 | 892 | 5,6 | 50 | 842 | 12,3 | 832 | 10 | 94,4 |
| Personal loans | **2 370** | **14,2** | **811** | **1 559** | **23,6** | **1 296** | **263** | **65,8** | 2 742 | 15,8 | 991 | 1 751 | 23,6 | 1 239 | 512 | 63,9 | 2 502 | 15,8 | 853 | 1 649 | 24,1 | 1 357 | 292 | 65,9 |
| Properties in possession | **141** | **0,8** | **141** | | | | | | 206 | 1,2 | 206 | | | | | | 167 | 1,1 | 167 | | | | | |
| Other loans and advances | **236** | **1,4** | **18** | **218** | **3,3** | **217** | **1** | **92,4** | 227 | 1,3 | 23 | 204 | 2,8 | 202 | 2 | 89,9 | 227 | 1,4 | 19 | 208 | 3,1 | 207 | 1 | 91,6 |
| **Nedbank Wealth** | **567** | **3,4** | **449** | **118** | **1,8** | **10** | **108** | **20,8** | 622 | 3,6 | 482 | 140 | 1,9 | 21 | 119 | 22,5 | 599 | 3,8 | 456 | 143 | 2,1 | 18 | 125 | 23,9 |
| Residential mortgages | **395** | **2,4** | **303** | **92** | **1,4** | **(16)** | **108** | **23,3** | 478 | 2,7 | 380 | 98 | 1,3 | (21) | 119 | 20,5 | 410 | 2,6 | 314 | 96 | 1,4 | (29) | 125 | 23,4 |
| Commercial mortgages | **111** | **0,7** | **93** | **18** | **0,3** | **18** | | **16,2** | 112 | 0,6 | 80 | 32 | 0,4 | 32 | | 28,6 | 139 | 0,9 | 98 | 41 | 0,6 | 41 | | 29,5 |
| Leases and instalment debtors | **13** | **0,1** | **10** | **3** | | **3** | | **23,1** | 10 | 0,1 | 6 | 4 | 0,1 | 4 | | 40,0 | 10 | 0,1 | 8 | 2 | | 2 | | 20,0 |
| Properties in possession | **39** | **0,2** | **39** | | | | | | 15 | 0,1 | 13 | 2 | < 0,1 | 2 | | 13,3 | 32 | 0,2 | 32 | | | | | |
| Other loans and advances | **9** | **< 0,1** | **4** | **5** | **0,1** | **5** | | **55,6** | 7 | < 0,1 | 3 | 4 | 0,1 | 4 | | 57,1 | 8 | 0,1 | 4 | 4 | 0,1 | 4 | | 50,0 |
| **Rest of Africa** | **262** | **1,5** | **146** | **116** | **1,6** | **9** | **107** | **44,3** | 222 | 1,3 | 121 | 101 | 1,4 | (2) | 103 | 45,5 | 222 | 1,4 | 117 | 105 | 1,5 | | 105 | 47, 3 |
| Residential mortgages | **81** | **0,5** | **60** | **21** | **0,3** | **(2)** | **23** | **25,9** | 71 | 0,4 | 51 | 20 | 0,3 | 4 | 16 | 28,2 | 68 | 0,4 | 47 | 21 | 0,3 | 7 | 14 | 30,9 |
| Commercial mortgages | **1** | **< 0,1** | | **1** | | **(1)** | **2** | **100,0** | | | | | | (7) | 7 | | | | | | | (7) | 7 | |
| Leases and instalment debtors | **40** | **0,2** | **19** | **21** | **0,3** | **2** | **19** | **52,5** | 37 | 0,2 | 16 | 21 | 0,3 | 3 | 18 | 56,8 | 35 | 0,2 | 14 | 21 | 0,3 | 3 | 18 | 60,0 |
| Cards | **4** | **< 0,1** | **1** | **3** | | | **3** | **75,0** | 1 | < 0,1 | | 1 | < 0,1 | | 1 | < 0,1 | 2 | < 0,1 | 1 | 1 | | | 1 | 50,0 |
| Personal loans | **38** | **0,2** | **11** | **27** | **0,4** | **(1)** | **28** | **71,1** | 36 | 0,2 | 12 | 24 | 0,3 | (3) | 27 | 66,7 | 34 | 0,2 | 12 | 22 | 0,3 | (3) | 25 | 64,7 |
| Other loans and advances | **98** | **0,6** | **55** | **43** | **0,6** | **11** | **32** | **43,9** | 77 | 0,4 | 42 | 35 | 0,5 | 1 | 34 | 45,5 | 83 | 0,5 | 43 | 40 | 0,6 | | 40 | 48,2 |
| **Centre** | | | **16** | **(16)** | **(0,2)** | **(16)** | | | | | 17 | (17) | (0,2) | (17) | | | | | 14 | (14) | (0,2) | (14) | | |
| Other loans and advances | | | **16** | **(16)** | **(0,2)** | **(16)** | | | | | | | | | | | | | 14 | (14) | (0,2) | (14) | | |
| **Nedbank Group** | **16 695** | **100,0** | **10 077** | **6 618** | **100,0** | **5 413** | **1 205** | **39,6** | 17 409 | 100,0 | 9 979 | 7 430 | 100,0 | 6 171 | 1 259 | 42,7 | 15 846 | 100,0 | 9 014 | 6 832 | 100,0 | 5 673 | 1 159 | 43,1 |
| Residential mortgages | **5 817** | **34,8** | **4 316** | **1 501** | **22,7** | **1 138** | **363** | **25,8** | 6 375 | 36,6 | 4 585 | 1 790 | 24,1 | 1 476 | 314 | 28,1 | 5 649 | 35,6 | 4 040 | 1 609 | 23,5 | 1 257 | 352 | 28,5 |
| Commercial mortgages | **1 850** | **11,1** | **1 353** | **497** | **7,5** | **217** | **280** | **26,9** | 2 180 | 12,5 | 1 698 | 482 | 6,5 | 259 | 223 | 22,1 | 1 959 | 12,4 | 1 400 | 559 | 8,2 | 254 | 305 | 28,5 |
| Leases and instalment debtors | **2 658** | **15,9** | **1 374** | **1 284** | **19,4** | **1 185** | **99** | **48,3** | 2 739 | 15,7 | 993 | 1 746 | 23,5 | 1 663 | 83 | 63,7 | 2 309 | 14,6 | 1 032 | 1 277 | 18,7 | 1 188 | 89 | 55,3 |
| Cards | **1 087** | **6,5** | **88** | **999** | **15,1** | **980** | **19** | **91,9** | 886 | 5,1 | 52 | 834 | 11,2 | 824 | 10 | 94,1 | 903 | 5,7 | 52 | 851 | 12,4 | 840 | 11 | 94,2 |
| Personal loans | **2 408** | **14,4** | **822** | **1 586** | **24,0** | **1 295** | **291** | **65,9** | 2 778 | 16,0 | 1 003 | 1 775 | 23,9 | 1 236 | 539 | 63,9 | 2 536 | 16,0 | 865 | 1 671 | 24,5 | 1 354 | 317 | 65,9 |
| Properties in possession | **570** | **3,4** | **570** | | | | | | 555 | 3,2 | 553 | 2 | < 0,1 | 2 | | 0,4 | 596 | 3,8 | 596 | | | | | |
| Other loans and advances | **2 305** | **13,9** | **1 554** | **751** | **11,3** | **598** | **153** | **32,6** | 1 896 | 10,9 | 1 095 | 801 | 10,8 | 711 | 90 | 42,2 | 1 894 | 11,9 | 1 029 | 865 | 12,7 | 780 | 85 | 45,7 |

[1] *Restated in the December 2014 Results Booklet.*

[2] *There was a prospective change in the writeoff policy of the MFC portfolio during the second half of 2014. Although the June 2014 coverage ratio was not required to be restated should the change have been applied retrospectively, the June 2014 coverage ratio would have been 53,3% for defaulted advances.*

## Distribution and quality of Nedbank's credit risk profile

The graphs on the following pages are derived from Nedbank's AIRB credit system and provide a means of comparative analysis across Nedbank Group's portfolios.

The Nedbank Group portfolio is presented using long-run average TTC LGDs for the derivation of expected loss in line with internal economic capital use rather than dLGDs used for Basel III regulatory capital.

Nedbank Group portfolios subject to TSA, namely Rest of Africa and the remaining legacy Imperial Bank book within Business Banking, are subject to benchmarked PD and LGD estimates, based on expert judgment, for economic capital purposes and presented as such. The legacy Fairbairn Private Bank (UK) book within Nedbank Wealth is currently subject to TSA, however, internal models are used for this portfolio for economic capital purposes.

Thereafter the Nedbank Limited (including Nedbank London) AIRB portfolio, which accounts for 95% of total group credit exposure, is presented on an asset class basis for regulatory purposes using dLGD and thus dEL. The graphs provided include both the performing and non-performing portfolios. Both the average and total performing PD, LGD and expected loss percentages are shown.

The trends in the graphs can mainly be attributed to four factors, namely portfolio growth, the change in the economic cycle, methodological and model enhancements, and the continued focus on data quality improvement.

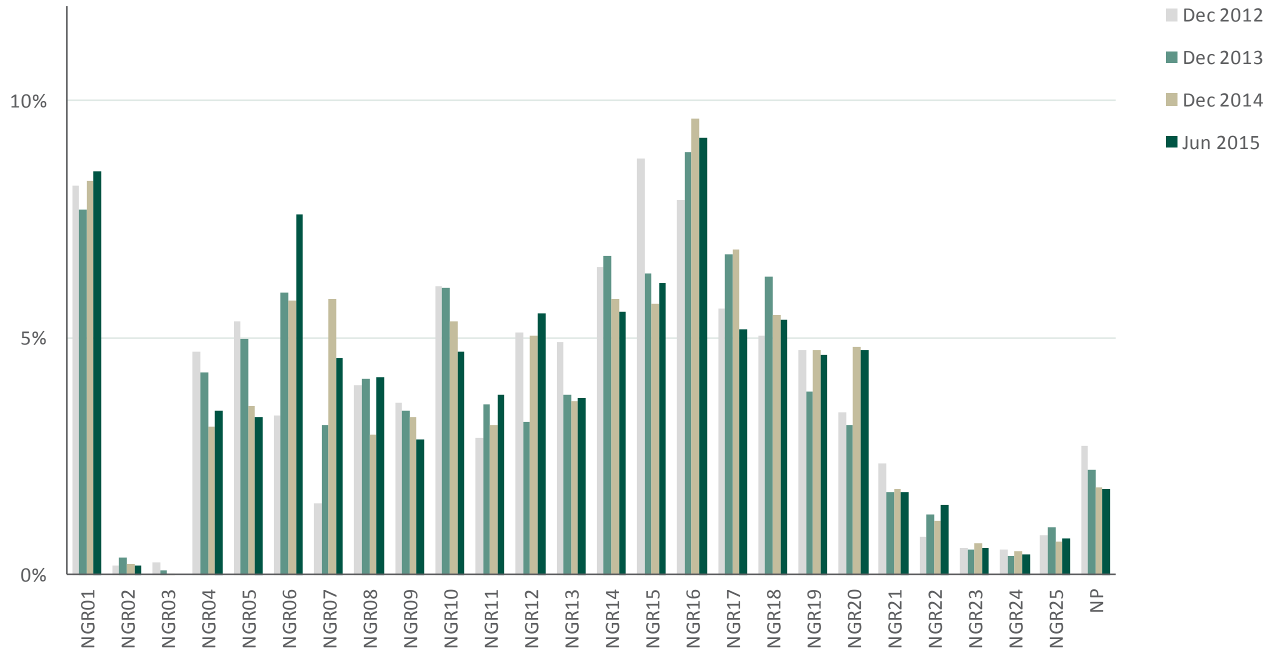
Nedbank Group's rating models are based on TTC PDs, which means that they are built on long-term historical default data. The factors that are included in the models also assess clients' risk attributes, including account conduct, in order to update the PD with their current risk profile. The models are not completely cycle-neutral and have some sensitivity to changes in the economy, which may result in clients being up- or downgraded, and accordingly changes to PDs, LGDs and expected losses.

Please refer to the graphs that follow for brief explanations of some of the drivers behind the migrations and trends between the NGR bands for the individual business units and Basel III asset classes for the first half of 2015.

## NEDBANK GROUP PORTFOLIO BASED ON ECONOMIC CAPITAL PARAMETERS

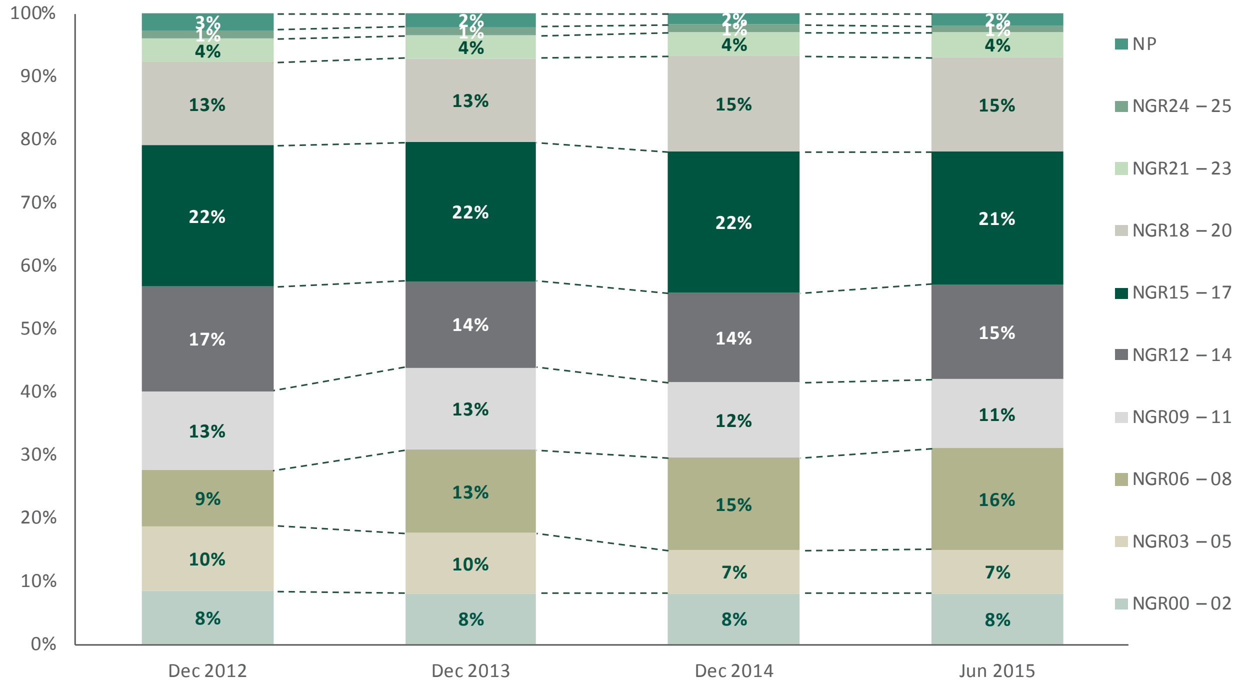
### DISTRIBUTION OF TOTAL EAD OF NEDBANK GROUP

EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**2,27%** (Dec 2014: 2,31%) | Average performing book EAD – weighted LGD<br>**20,60%** (Dec 2014: 20,93%) | Average performing book EAD – weighted EL<br>**0,60%** (Dec 2014: 0,62%) |
| Average total book EAD – weighted PD<br>**4,04%** (Dec 2014: 4,10%) | Average total book EAD – weighted LGD<br>**20,74%** (Dec 2014: 21,11%) | Average total book EAD – weighted EL<br>**1,11%** (Dec 2014: 1,17%) |

EAD distribution by bucketed NGR bands over time (ie PD only)

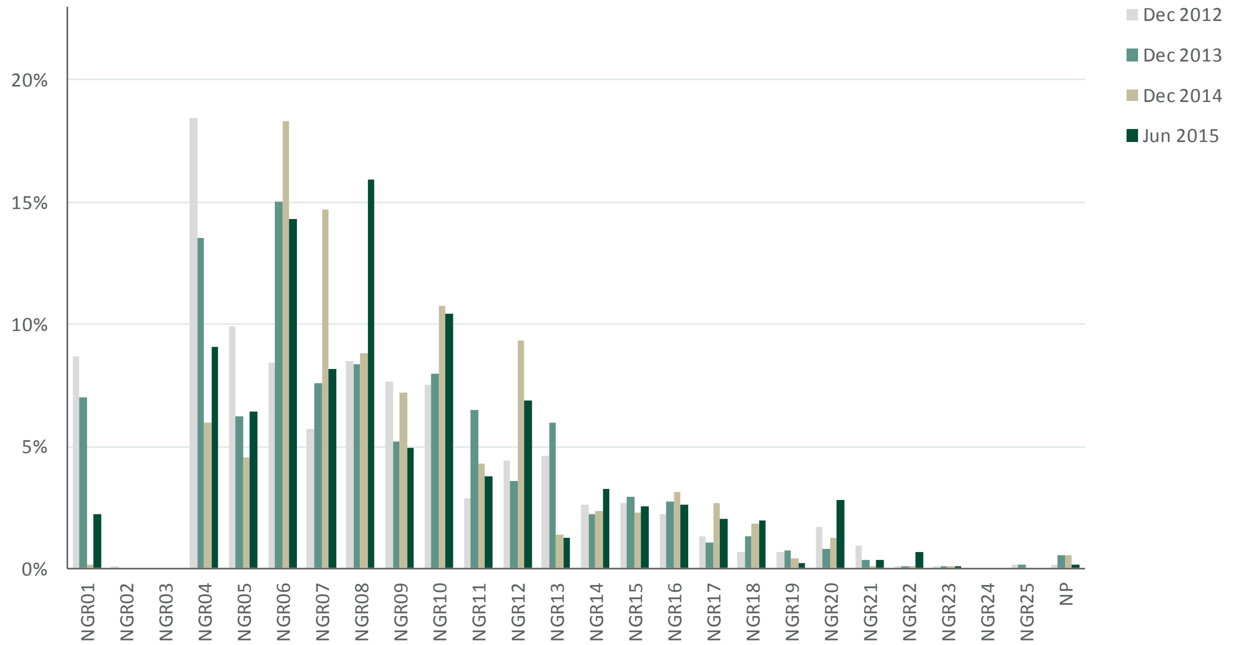



A number of factors drove the shift in the NGR distribution, as well as caused changes in the PD, LGD and expected loss estimates over the period December 2014 to June 2015, including:

- A significant increase in short-term placements with banks, which drove an increase in the NGR06 – 08 bucket and the redevelopment and recalibration of a new rating model for mortgage exposure within Business Banking contributed to the improvement of the group EAD weighted PD.
- The update of the Home Loans through-the-cycle LGD model incorporating updated collateral valuations, implemented in the first half of 2015, drove the decrease in the group EAD weighted LGD.

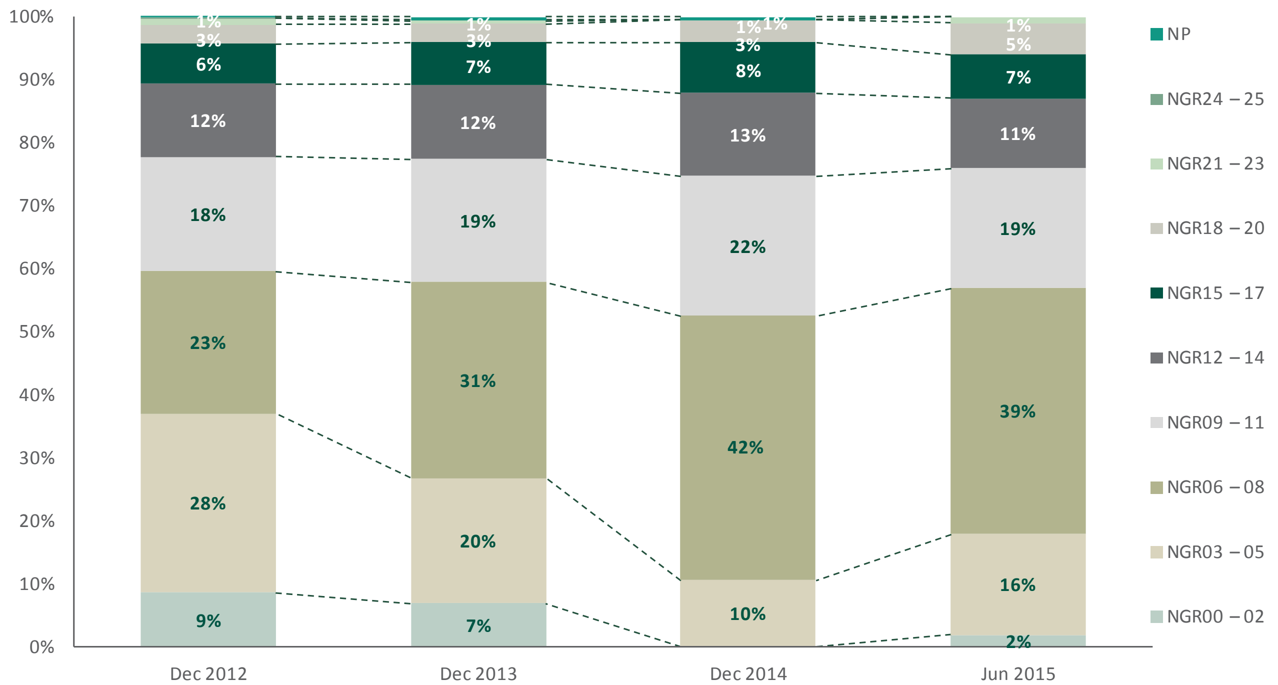
## DISTRIBUTION OF NEDBANK GROUP'S TOTAL EAD BY MAJOR BUSINESS LINE
## NEDBANK CORPORATE AND INVESTMENT BANKING: CORPORATE BANKING

EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**0,72%** (Dec 2014: 0,50%) | Average performing book EAD – weighted LGD<br>**27,92%** (Dec 2014: 27,45%) | Average performing book EAD – weighted EL<br>**0,19%** (Dec 2014: 0,14%) |
| Average total book EAD – weighted PD<br>**0,88%** (Dec 2014: 1,03%) | Average total book EAD – weighted LGD<br>**27,90%** (Dec 2014: 27,41%) | Average total book EAD – weighted EL<br>**0,21%** (Dec 2014: 0,25%) |

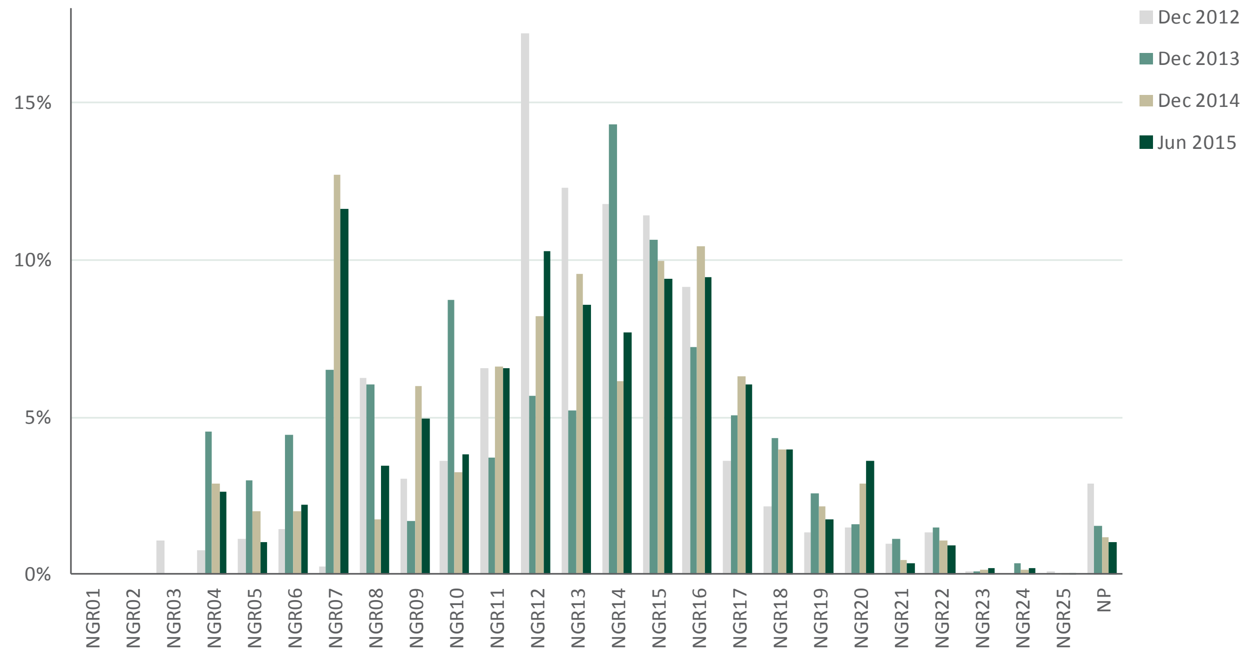
EAD distribution by bucketed NGR bands over time (ie PD only)




- Reviews of corporate financials in the first half of 2015 drove the shifts observed in the distribution, including improvements driving an increase in the NGR03 – 05 bucket, however this was offset by other rating downgrades. The increased performing portfolio weighted PD reflects the weak economic conditions.
- The improvement of the total book EAD weighted PD was driven by the exiting of a single large client, reducing defaulted advances.

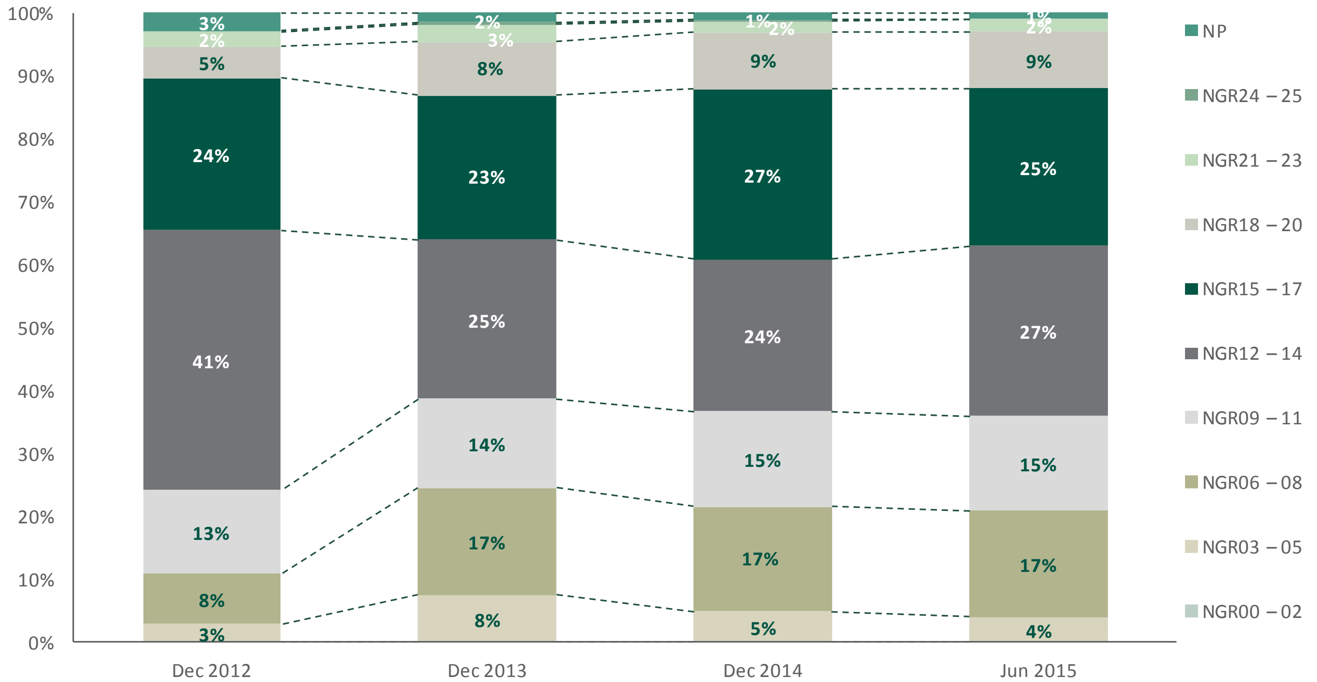
## NEDBANK CORPORATE AND INVESTMENT BANKING: PROPERTY FINANCE

EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**1,48%** (Dec 2014: 1,46%) | Average performing book EAD – weighted LGD<br>**10,04%** (Dec 2014: 10,46%) | Average performing book EAD – weighted EL<br>**0,20%** (Dec 2014: 0,19%) |
| Average total book EAD – weighted PD<br>**2,50%** (Dec 2014: 2,61%) | Average total book EAD – weighted LGD<br>**10,12%** (Dec 2014: 10,59%) | Average total book EAD – weighted EL<br>**0,38%** (Dec 2014: 0,44%) |

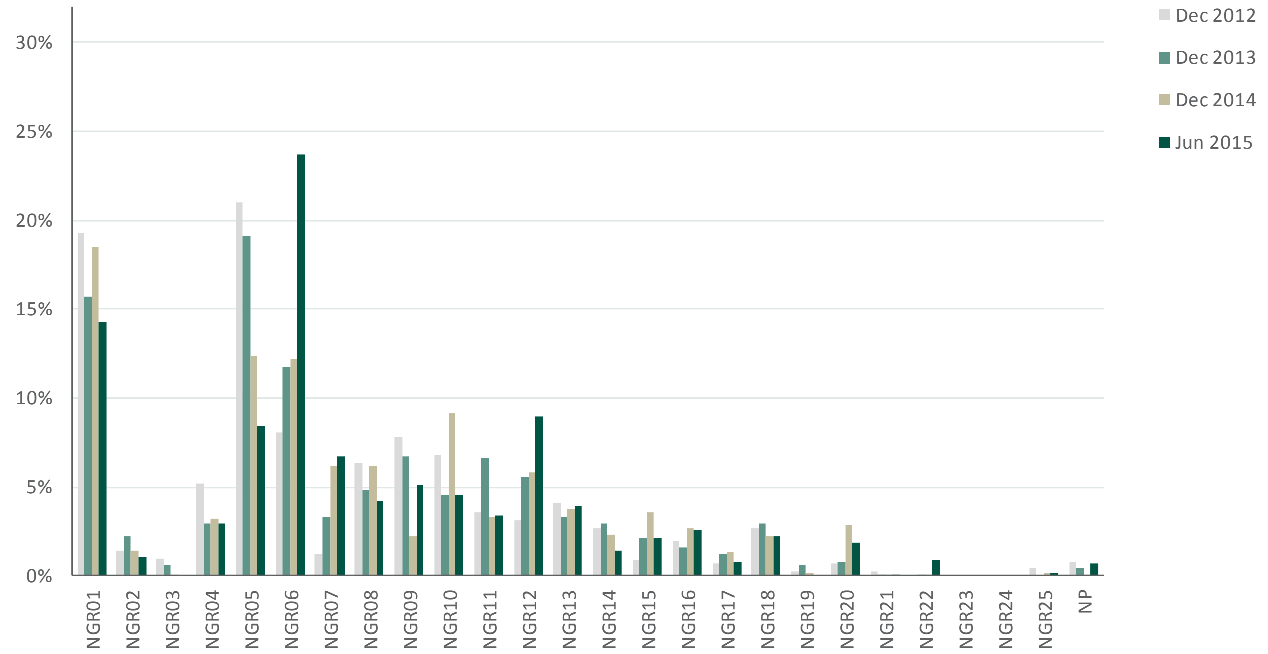
EAD distribution by bucketed NGR bands over time (ie PD only)




- Portfolio growth as well as a review of ratings for the commercial real estate book in the first half of 2015 drove the shifts in the distribution. Declining ratings for small exposures in the NGR18 – 20 and NGR24 – 25 buckets drove the increase in the performing book weighted PD.

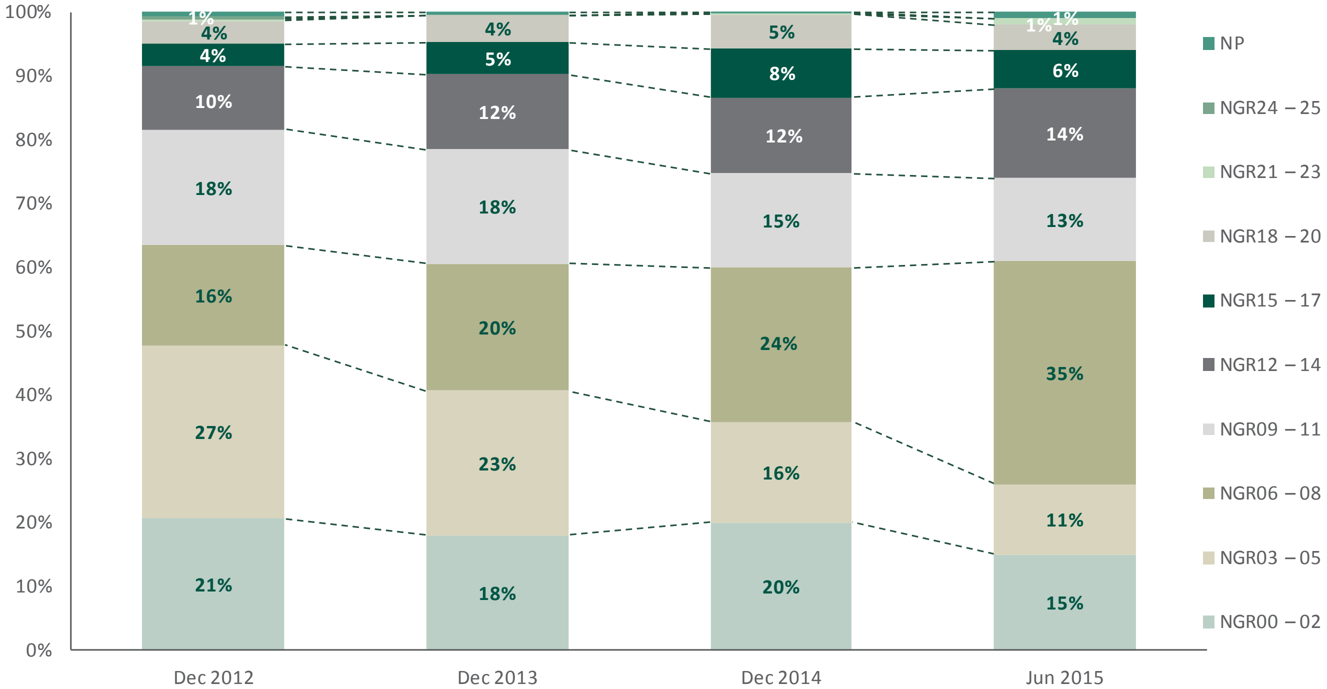
## NEDBANK CORPORATE AND INVESTMENT BANKING: NEDBANK CAPITAL

EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**0,66%** (Dec 2014: 0,63%) | Average performing book EAD – weighted LGD<br>**20,93%** (Dec 2014: 21,50%) | Average performing book EAD – weighted EL<br>**0,14%** (Dec 2014: 0,15%) |
| Average total book EAD – weighted PD<br>**1,32%** (Dec 2014: 0,72%) | Average total book EAD – weighted LGD<br>**20,87%** (Dec 2014: 21,25%) | Average total book EAD – weighted EL<br>**0,22%** (Dec 2014: 0,19%) |

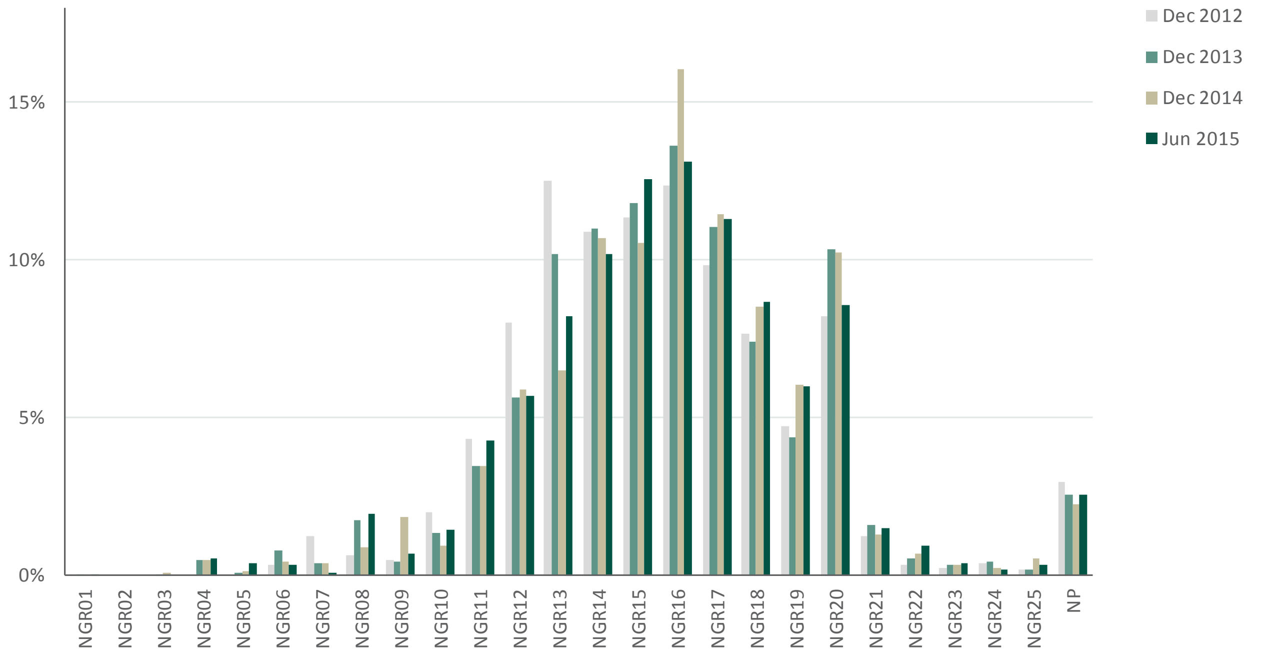
EAD distribution by bucketed NGR bands over time (ie PD only)




- The increase in total book weighted PD was driven by the default of a client in the first half of 2015.
- An increase in short-term placements with large local and international banks drove the increase in the NGR06 – 08 bucket, while a decrease in liquid asset exposure for Nedbank Capital in lieu of liquid asset growth in the Centre drove the decrease in the NGR00 – 02 bucket. The annual review of corporate financials drove further shifts in the distribution.

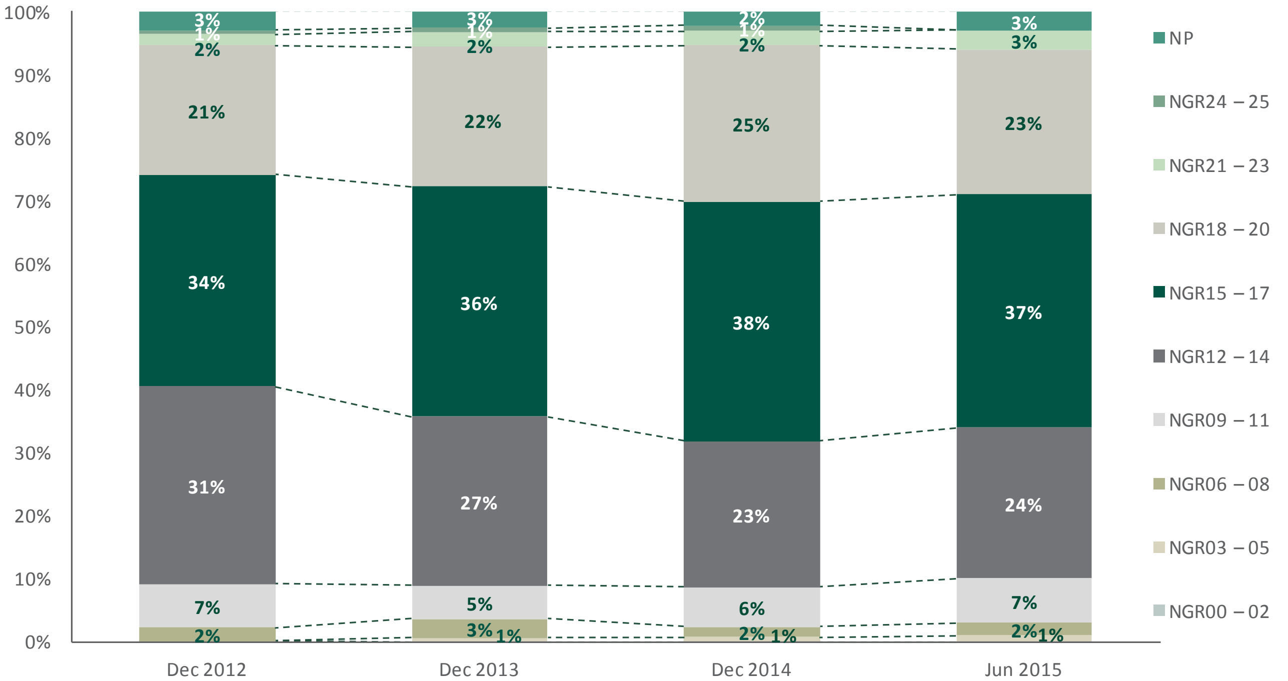
## NEDBANK BUSINESS BANKING CLUSTER

### EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**2,75%** (Dec 2014: 2,91%) | Average performing book EAD – weighted LGD<br>**18,05%** (Dec 2014: 18,02%) | Average performing book EAD – weighted EL<br>**0,51%** (Dec 2014: 0,54%) |
| Average total book EAD – weighted PD<br>**5,23%** (Dec 2014: 5,11%) | Average total book EAD – weighted LGD<br>**18,14%** (Dec 2014: 18,15%) | Average total book EAD – weighted EL<br>**1,05%** (Dec 2014: 1,07%) |

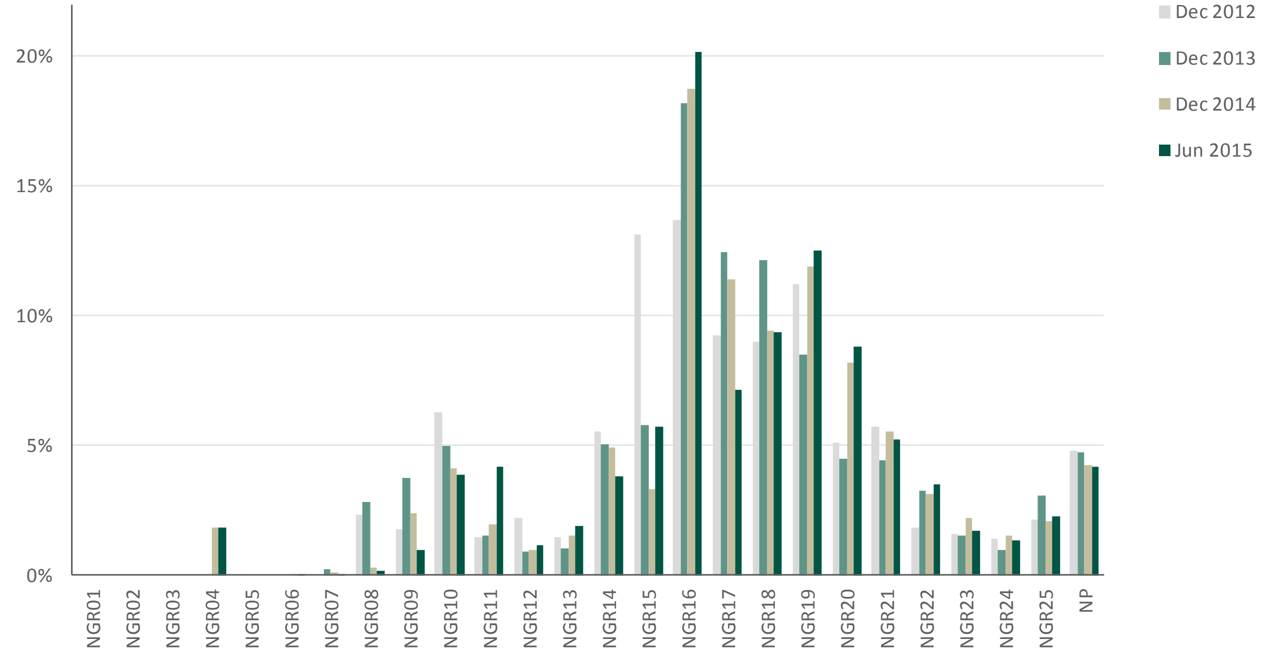
### EAD distribution by bucketed NGR bands over time (ie PD only)




- The redevelopment and recalibration of a model for mortgage exposure within Business Banking drove shifts in the distribution noticeably from the NGR15 – 17 rating bucket to the NGR12 – 14 rating bucket. This drove the decrease in EAD weighted PD for the portfolio.

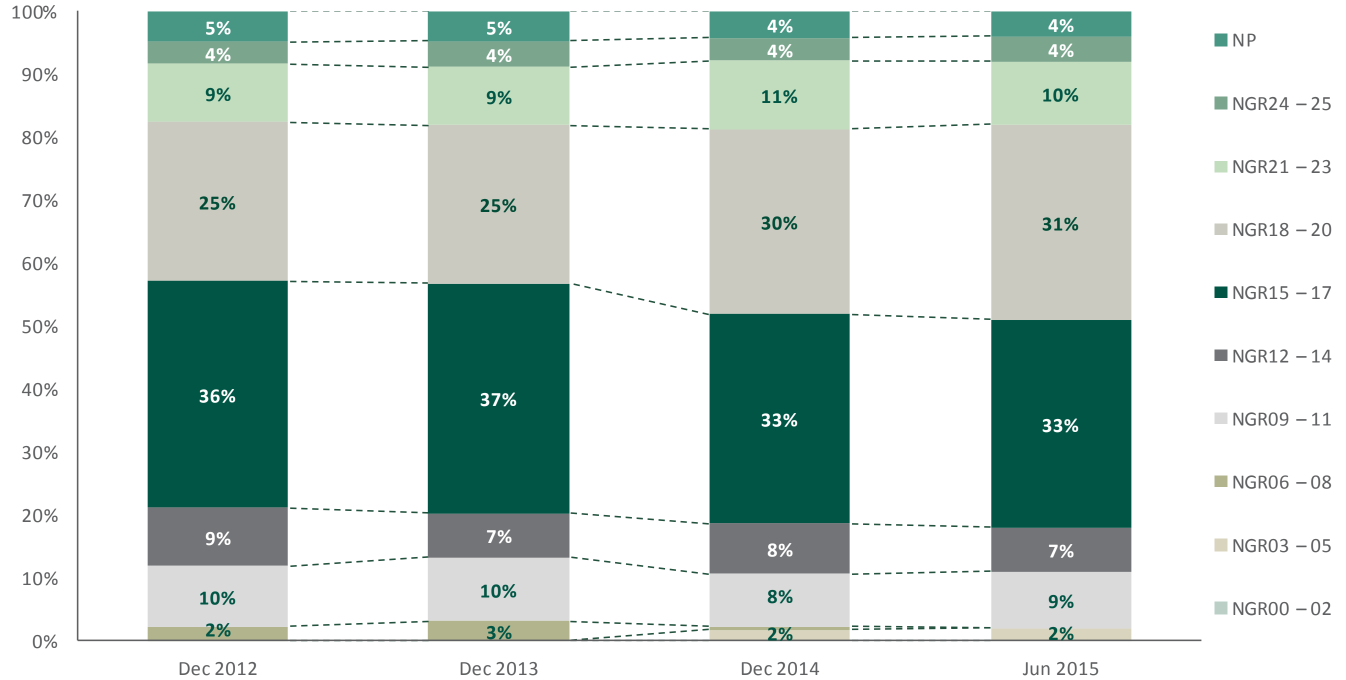
## NEDBANK RETAIL CLUSTER

### EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**5,25%** (Dec 2014: 5,30%) | Average performing book EAD – weighted LGD<br>**24,29%** (Dec 2014: 25,21%) | Average performing book EAD – weighted EL<br>**1,59%** (Dec 2014: 1,62%) |
| Average total book EAD – weighted PD<br>**9,20%** (Dec 2014: 9,31%) | Average total book EAD – weighted LGD<br>**24,72%** (Dec 2014: 25,63%) | Average total book EAD – weighted EL<br>**2,96%** (Dec 2014: 3,05%) |

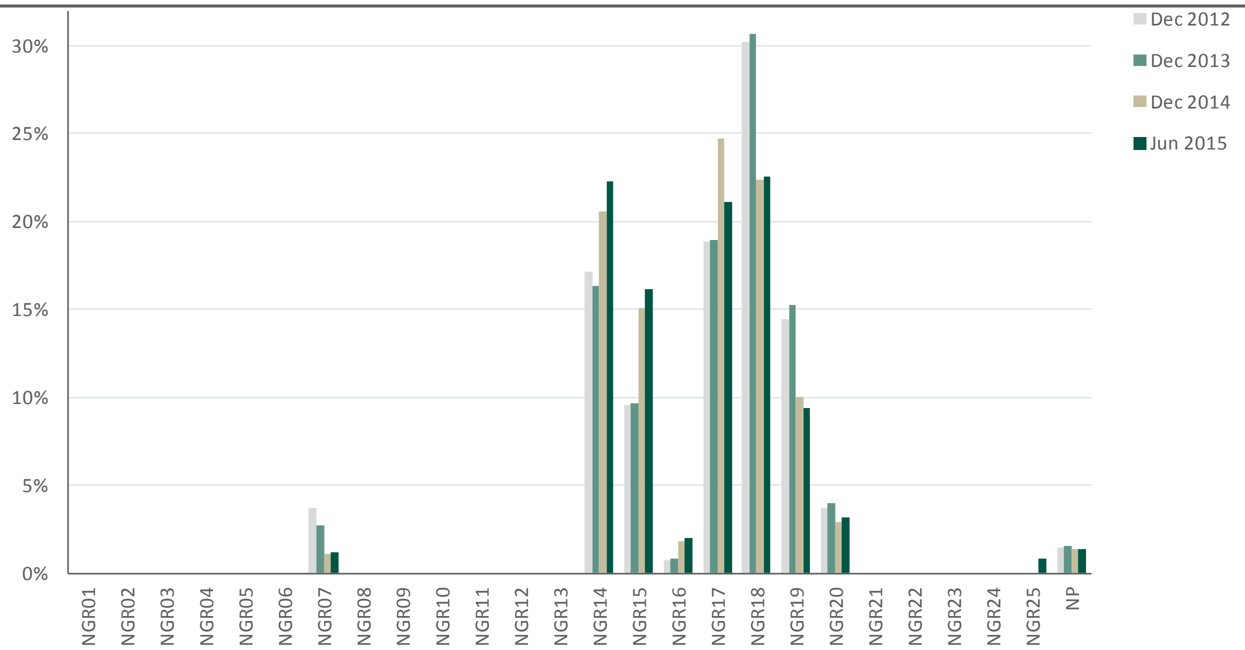
### EAD distribution by bucketed NGR bands over time (ie PD only)




- An update to the Home Loans through-the-cycle LGD model in the first half of 2015, incorporating updated collateral valuations resulted in a decrease in the Nedbank Retail EAD weighted LGD.

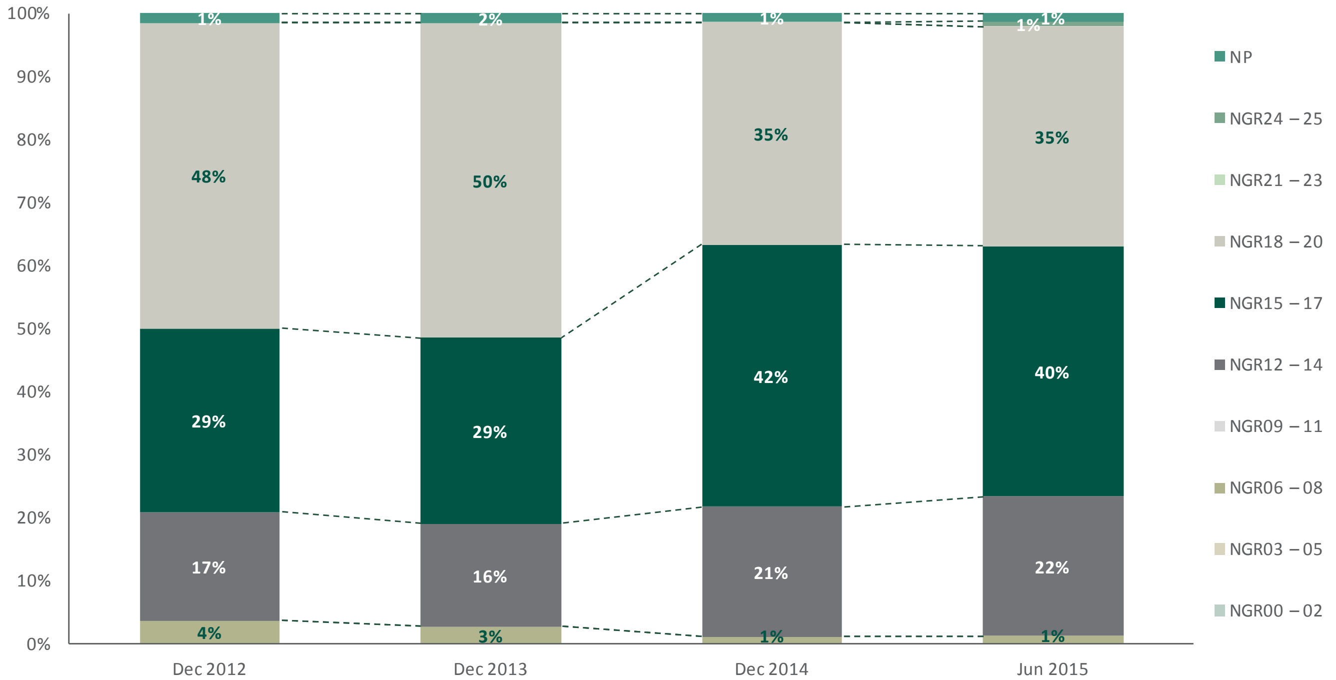
## CENTRAL MANAGEMENT: REST OF AFRICA

EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**2,88%** (Dec 2014: 2,60%) | Average performing book EAD – weighted LGD<br>**34,16%** (Dec 2014: 34,02%) | Average performing book EAD – weighted EL<br>**0,98%** (Dec 2014: 0,90%) |
| Average total book EAD – weighted PD<br>**4,18%** (Dec 2014: 3,96%) | Average total book EAD – weighted LGD<br>**34,21%** (Dec 2014: 34,06%) | Average total book EAD – weighted EL<br>**1,48%** (Dec 2014: 1,40%) |

EAD distribution by bucketed NGR bands over time (ie PD only)

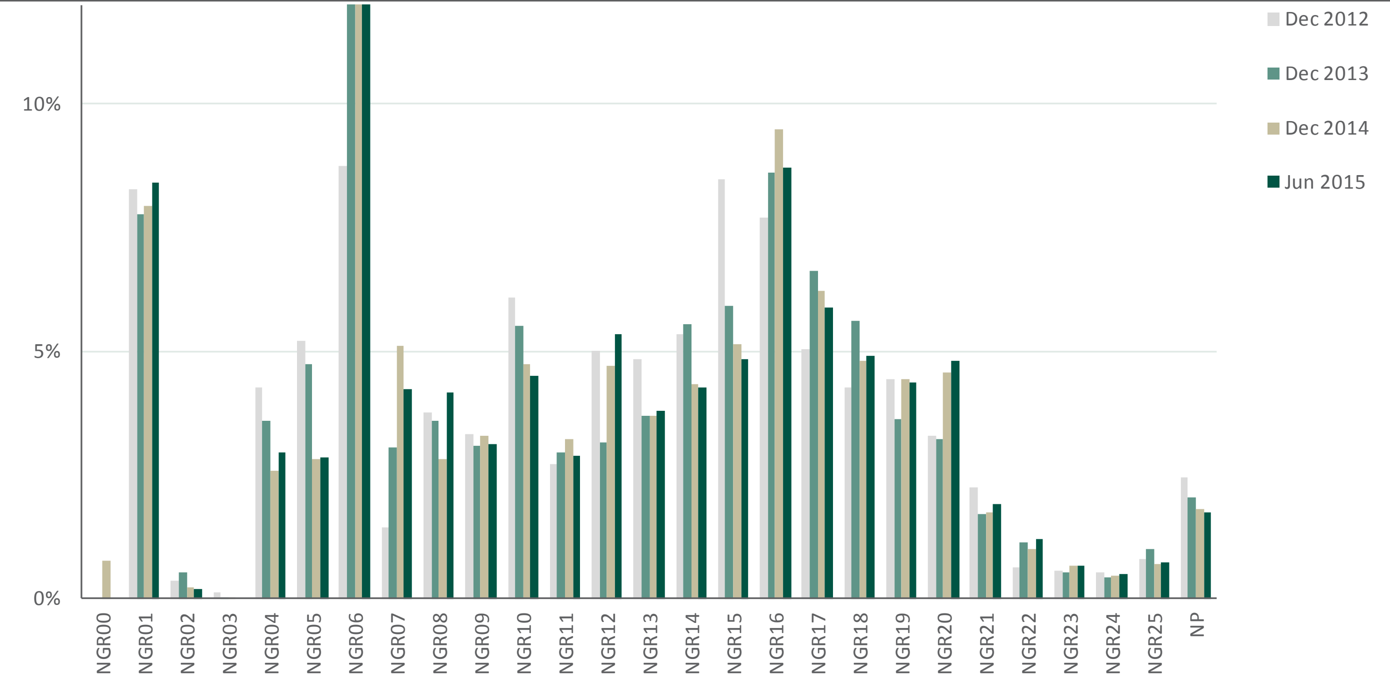



- It is important to note that the Nedbank Rest of Africa portfolio is subject to TSA for regulatory capital purposes and therefore conservative benchmark parameters are applied to the portfolio for economic capital purposes.
- The downgrade of a single corporate entity to NGR25 drove the increase in portfolio EAD weighted PD.

## NEDBANK LIMITED (INCLUDING NEDBANK LONDON) AIRB PORTFOLIO BASED ON REGULATORY CAPITAL PARAMETERS

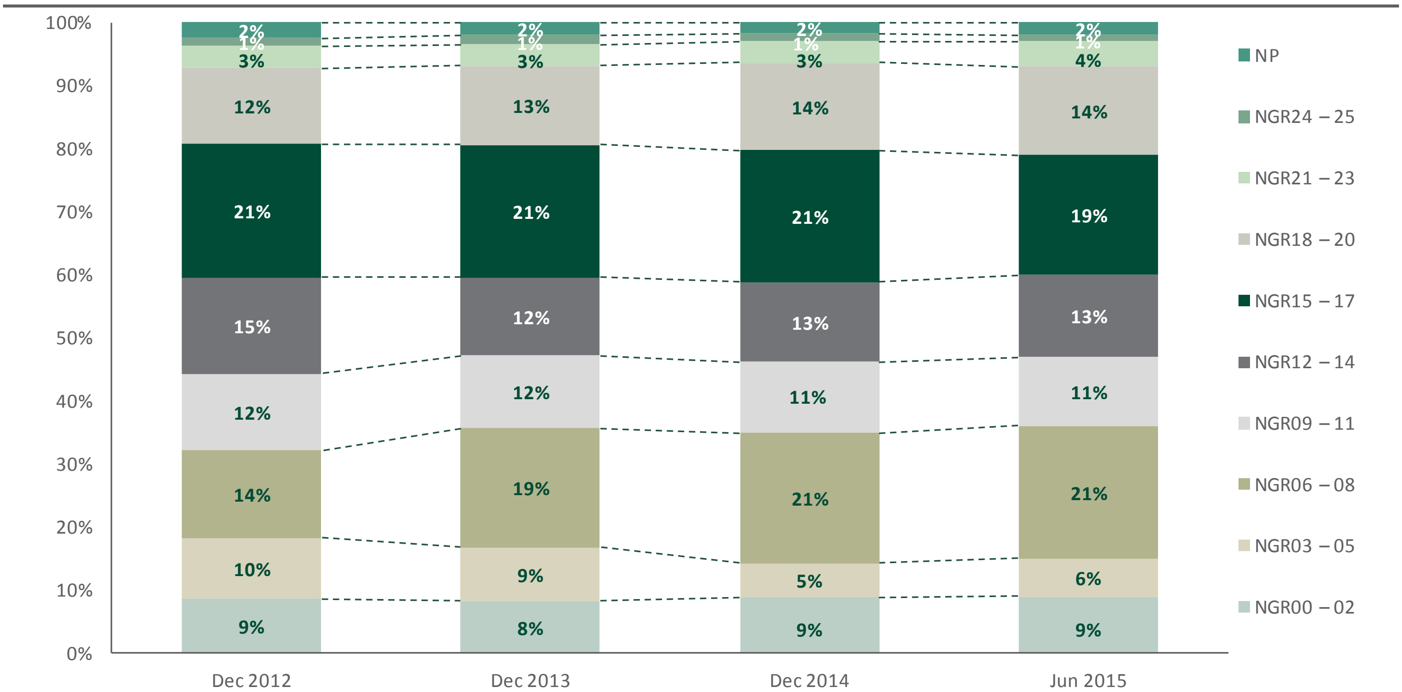
### DISTRIBUTION OF TOTAL EAD OF NEDBANK LIMITED (INCLUDING NEDBANK LONDON)

EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**2,23%** (Dec 2014: 2,20%) | Average performing book EAD – weighted LGD<br>**25,28%** (Dec 2014: 25,52%) | Average performing book EAD – weighted dEL<br>**0,74%** (Dec 2014: 0,70%) |
| Average total book EAD – weighted PD<br>**3,94%** (Dec 2014: 3,97%) | Average total book EAD – weighted dLGD<br>**25,43%** (Dec 2014: 25,70%) | Average total book EAD – weighted dEL<br>**1,30%** (Dec 2014: 1,31%) |

EAD distribution by bucketed NGR bands over time (ie PD only)

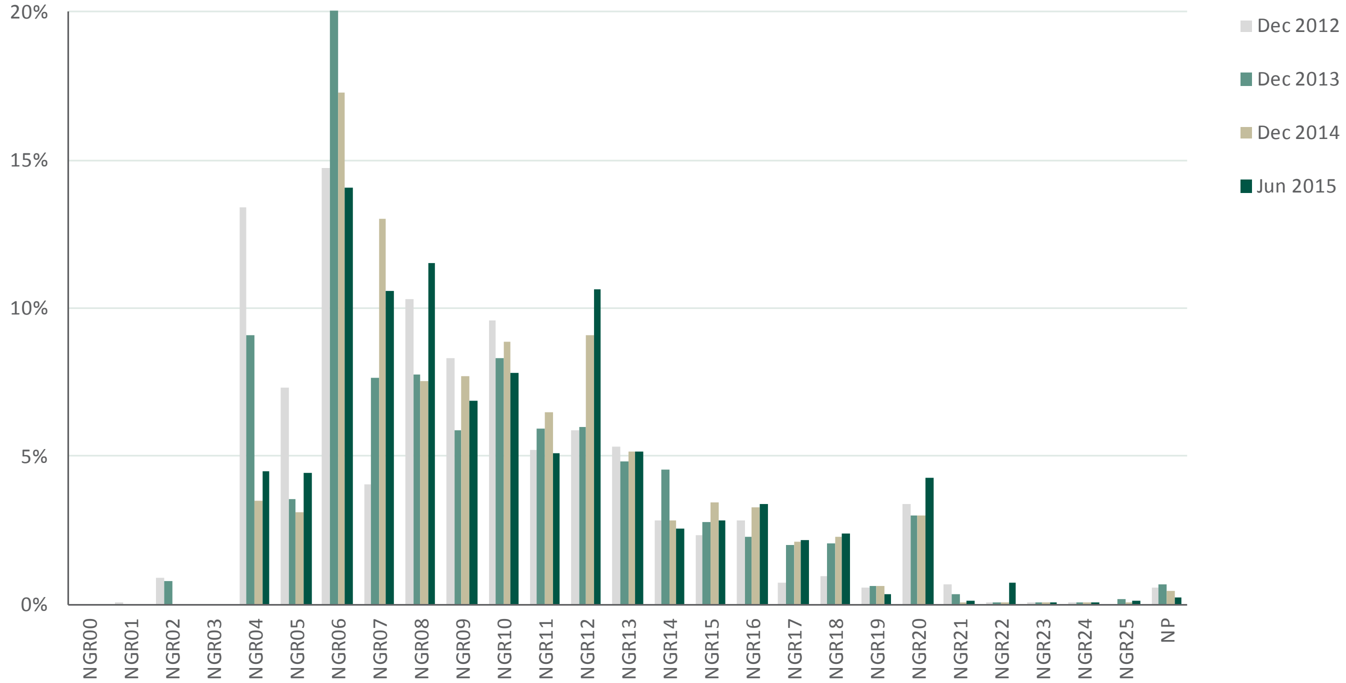



- The redevelopment and recalibration of a model for mortgage exposure within Business Banking was offset by rating downgrades for corporate entities following the annual review of financials for certain corporates, driven by weak economic conditions.

## DISTRIBUTION OF NEDBANK LIMITED'S EAD BY SELECTED MAJOR BASEL III ASSET CLASS

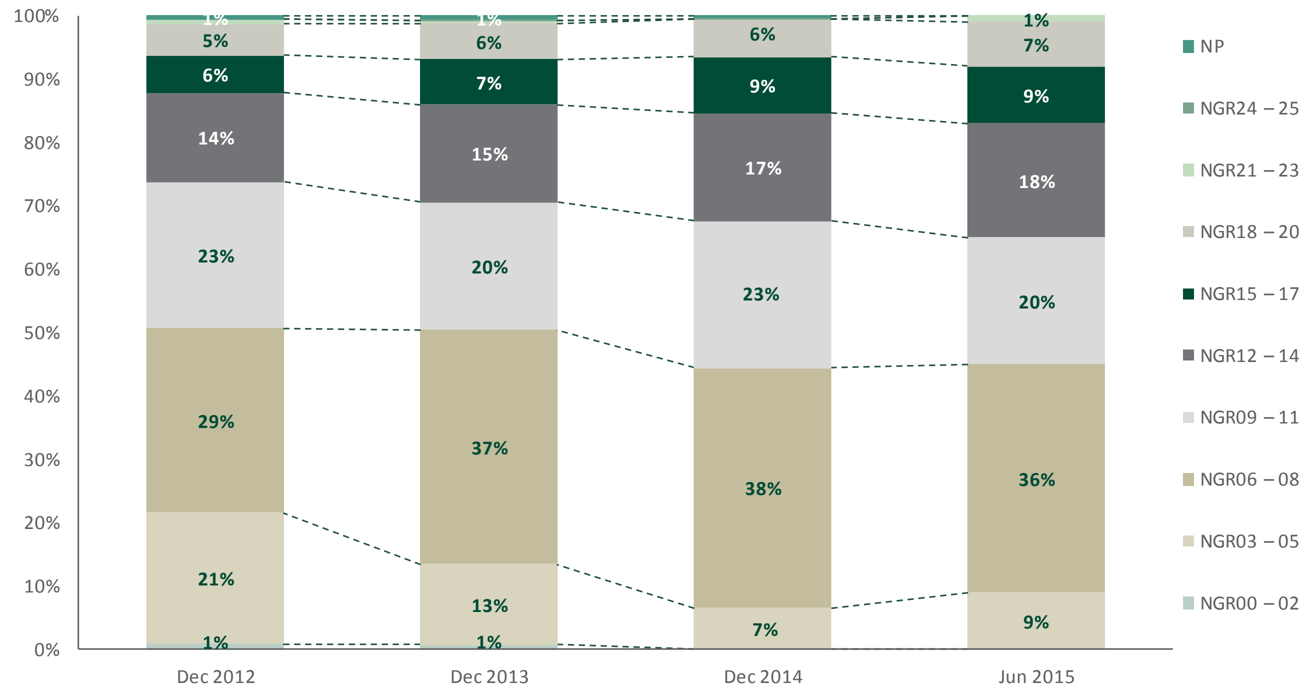
## ASSET CLASS: CORPORATE

### EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**0,92%** (Dec 2014: 0,72%) | Average performing book EAD – weighted dLGD<br>**29,37%** (Dec 2014: 30,69%) | Average performing book EAD – weighted dEL<br>**0,33%** (Dec 2014: 0,23%) |
| Average total book EAD – weighted PD<br>**1,18%** (Dec 2014: 1,16%) | Average total book EAD – weighted dLGD<br>**29,37%** (Dec 2014: 30,71%) | Average total book – weighted dEL<br>**0,41%** (Dec 2014: 0,38%) |

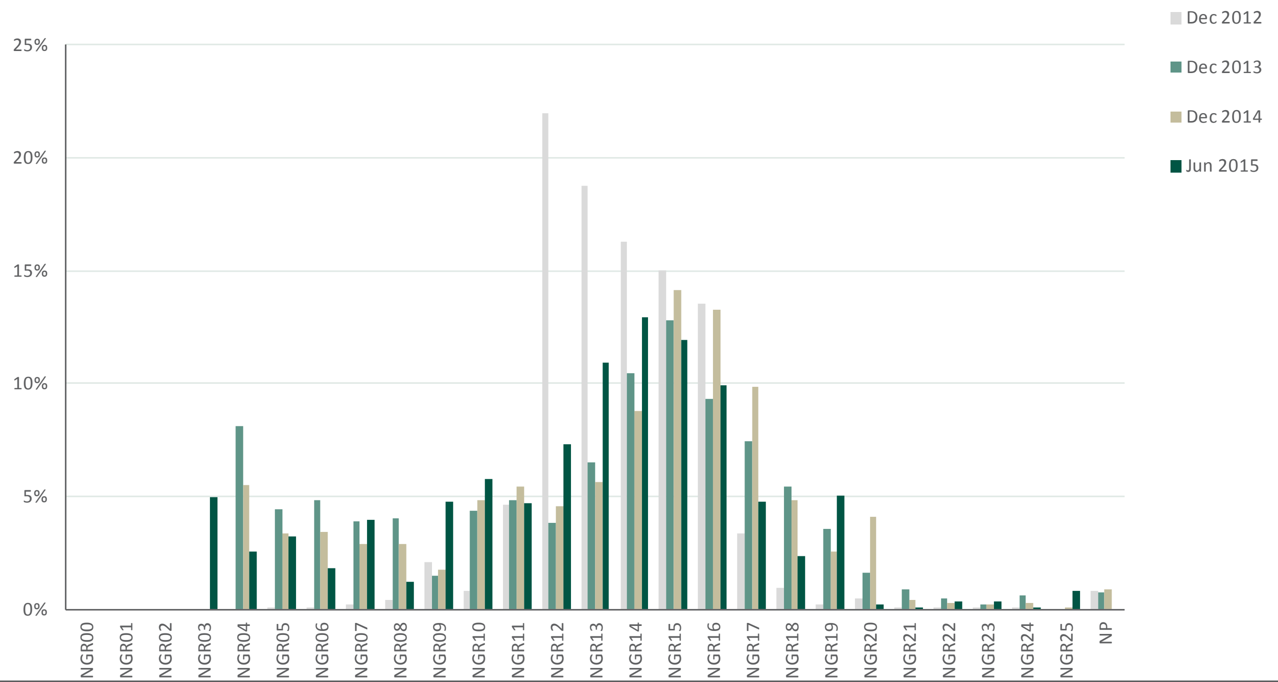
### EAD distribution by bucketed NGR bands over time (ie PD only)




- Reviews of corporate financials in the first half of 2015 drove the shifts observed in the distribution, including improvements driving an increase in the NGR03 – 05 bucket, however this was offset by some rating downgrades. The increased performing portfolio weighted PD reflects the weak economic conditions.

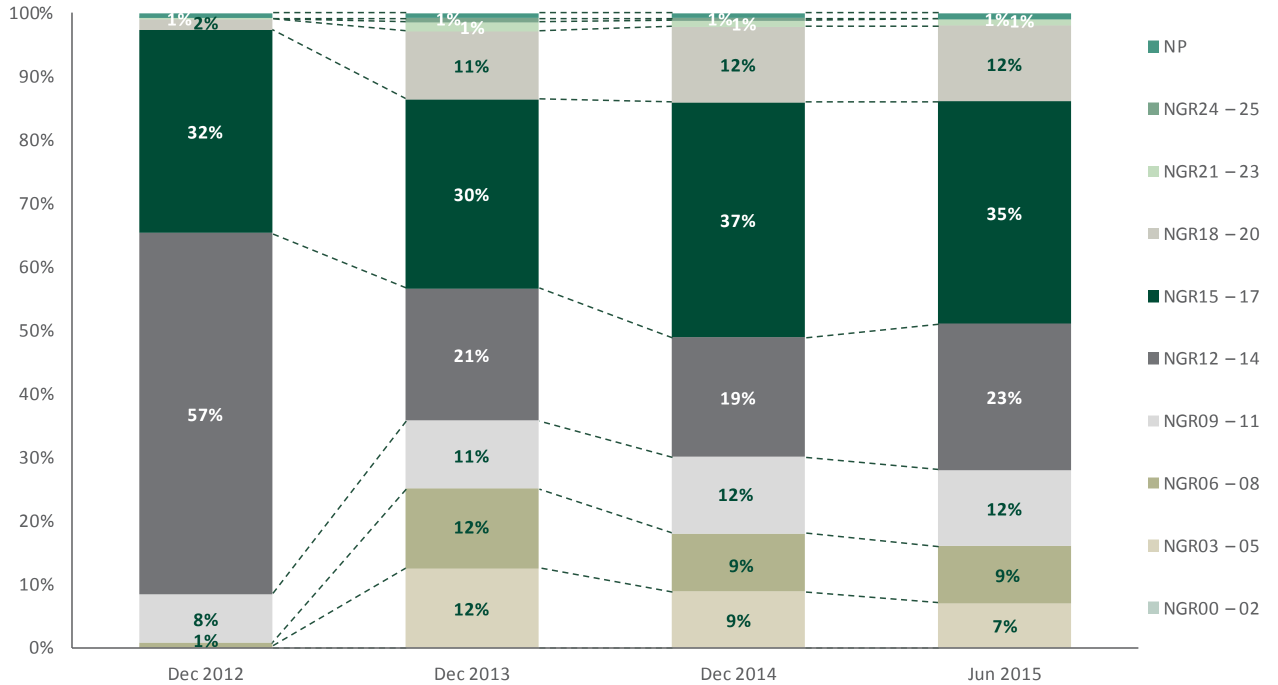
## ASSET CLASS: SPECIALISED LENDING – INCOME-PRODUCING REAL ESTATE

EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**1,75%** (Dec 2014: 1,69%) | Average performing book EAD – weighted dLGD<br>**18,89%** (Dec 2014: 18,02%) | Average performing book EAD – weighted dEL<br>**0,36%** (Dec 2014: 0,31%) |
| Average total book EAD – weighted PD<br>**2,57%** (Dec 2014: 2,56%) | Average total book EAD – weighted dLGD<br>**18,90%** (Dec 2014: 18,00%) | Average total book EAD – weighted dEL<br>**0,52%** (Dec 2014: 0,40%) |

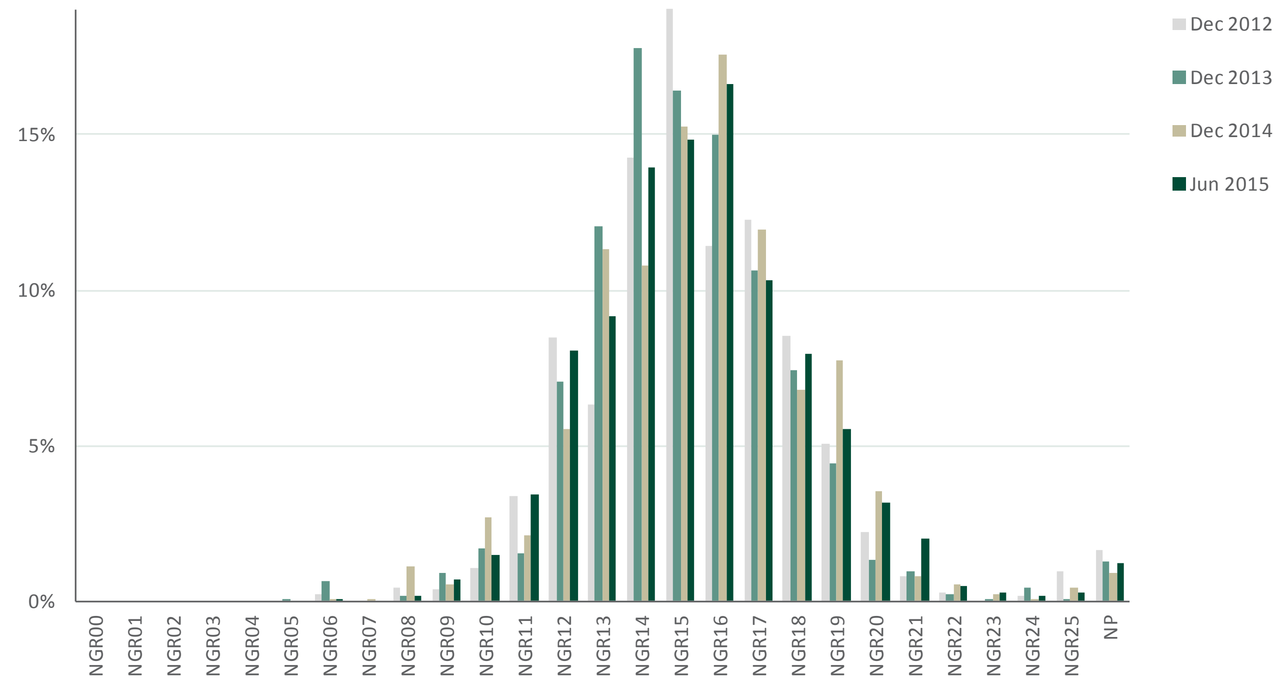
EAD distribution by bucketed NGR bands over time (ie PD only)




- Portfolio growth as well as the annual review of ratings for the commercial real estate book in the first half of 2015 drove the shifts in the distribution.
- Some downgrades for small exposures in the NGR18 – 20 and NGR24 – 25 buckets drove the increase in the performing book weighted PD.

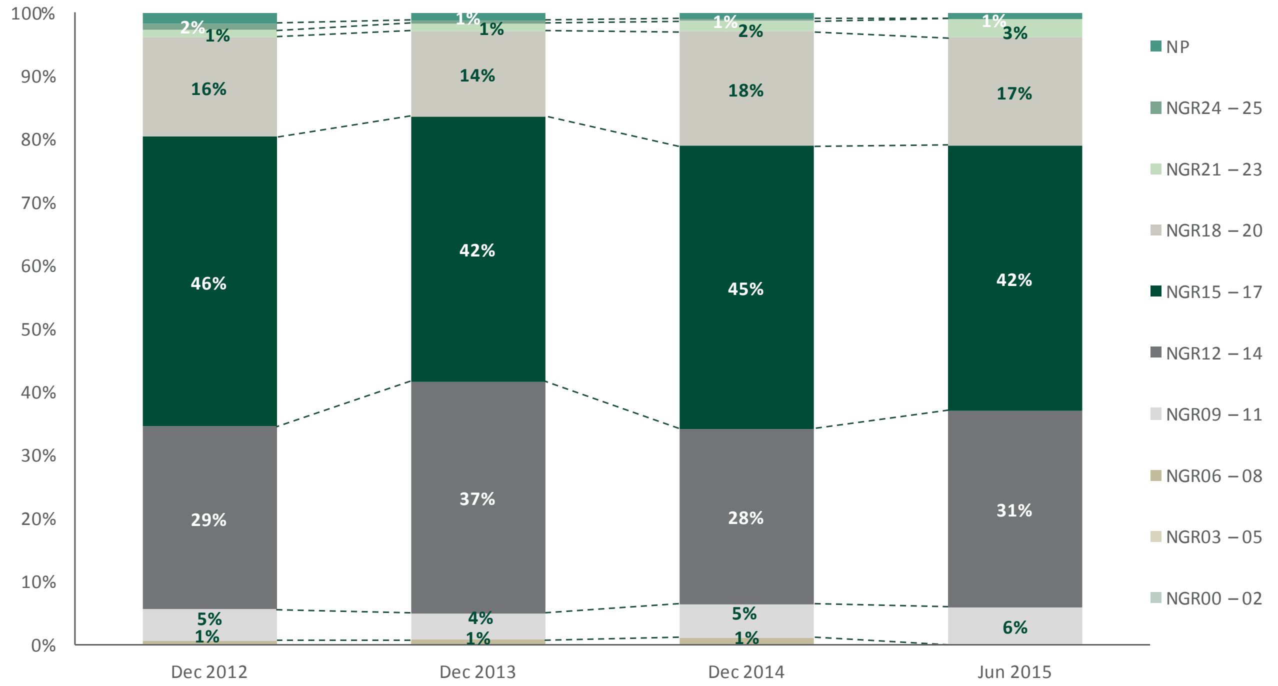
## ASSET CLASS: SME – CORPORATE

### EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**2,32%** (Dec 2014: 2,35%) | Average performing book EAD – weighted dLGD<br>**23,92%** (Dec 2014: 25,61%) | Average performing book EAD – weighted dEL<br>**0,61%** (Dec 2014: 0,63%) |
| Average total book EAD – weighted PD<br>**3,54%** (Dec 2014: 3,24%) | Average total book EAD – weighted dLGD<br>**23,94%** (Dec 2014: 25,63%) | Average total book EAD – weighted dEL<br>**0,92%** (Dec 2014: 0,89%) |

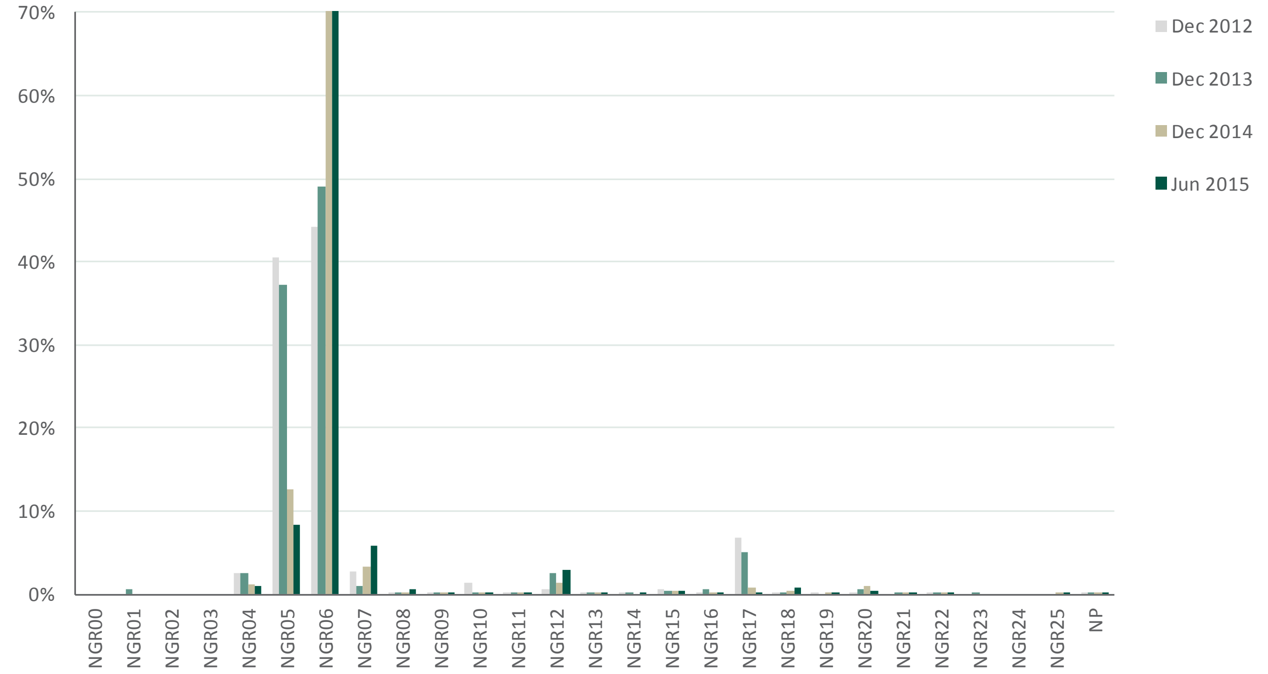
### EAD distribution by bucketed NGR bands over time (ie PD only)




- The performing book EAD weighted PD remained relatively stable in the first half of 2015 with shifts in the underlying distribution driven largely by asset re-classifications between the corporate and SME – corporate asset classes and re-ratings following the annual review of financials for some entities.
- Growth in property related exposure drove the decrease in the portfolio weighted LGD.

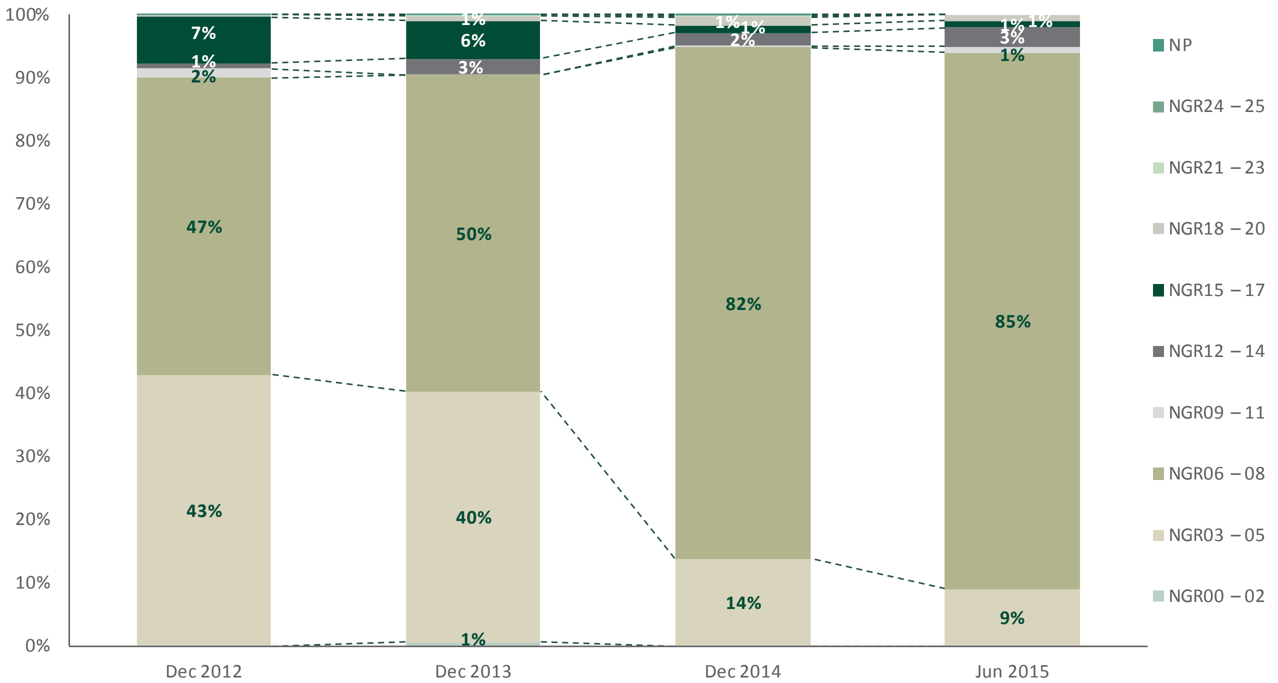
## ASSET CLASS: BANKS

### EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**0,17%** (Dec 2014: 0,26%) | Average performing book EAD – weighted dLGD<br>**23,65%** (Dec 2014: 22,07%) | Average performing book EAD – weighted dEL<br>**0,06%** (Dec 2014: 0,10%) |
| Average total book EAD – weighted PD<br>**0,17%** (Dec 2014: 0,26%) | Average total book EAD – weighted dLGD<br>**23,65%** (Dec 2014: 22,07%) | Average Total book EAD – weighted dEL<br>**0,06%** (Dec 2014: 0,10%) |

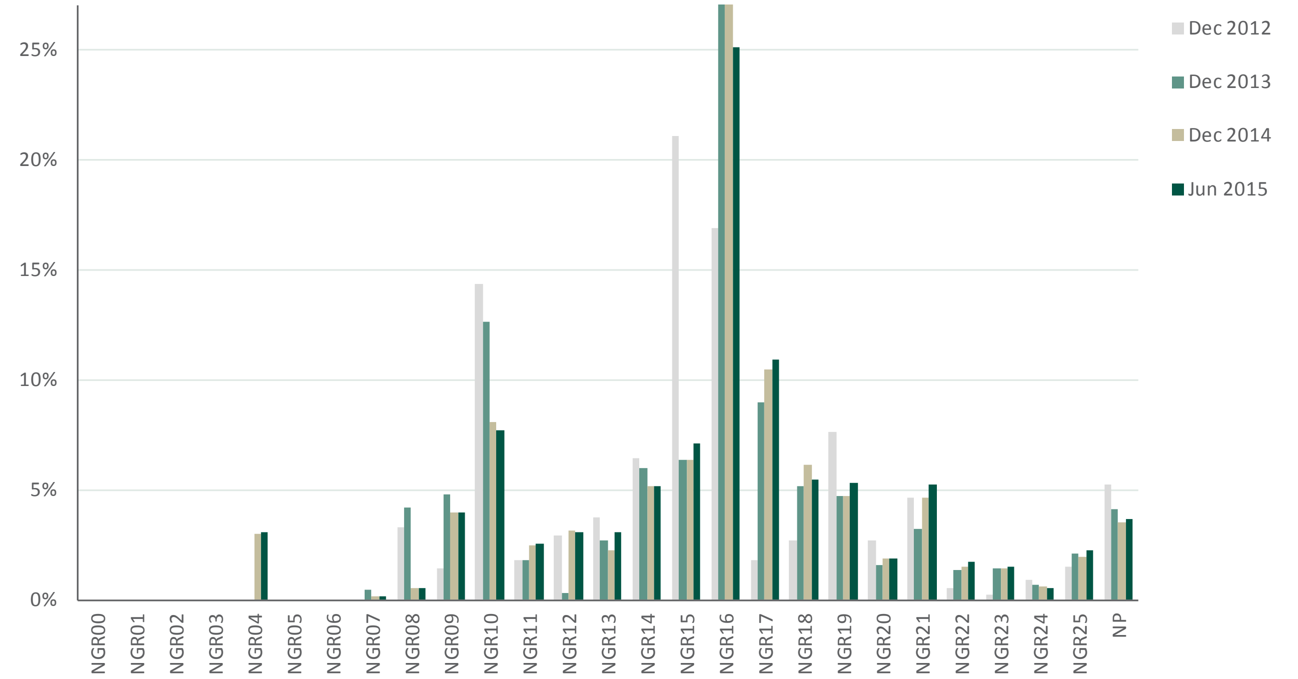
### EAD distribution by bucketed NGR bands over time (ie PD only)




- An increase in short-term placements with large local and international banks drove the increase in the NGR06 – 08 bucket.

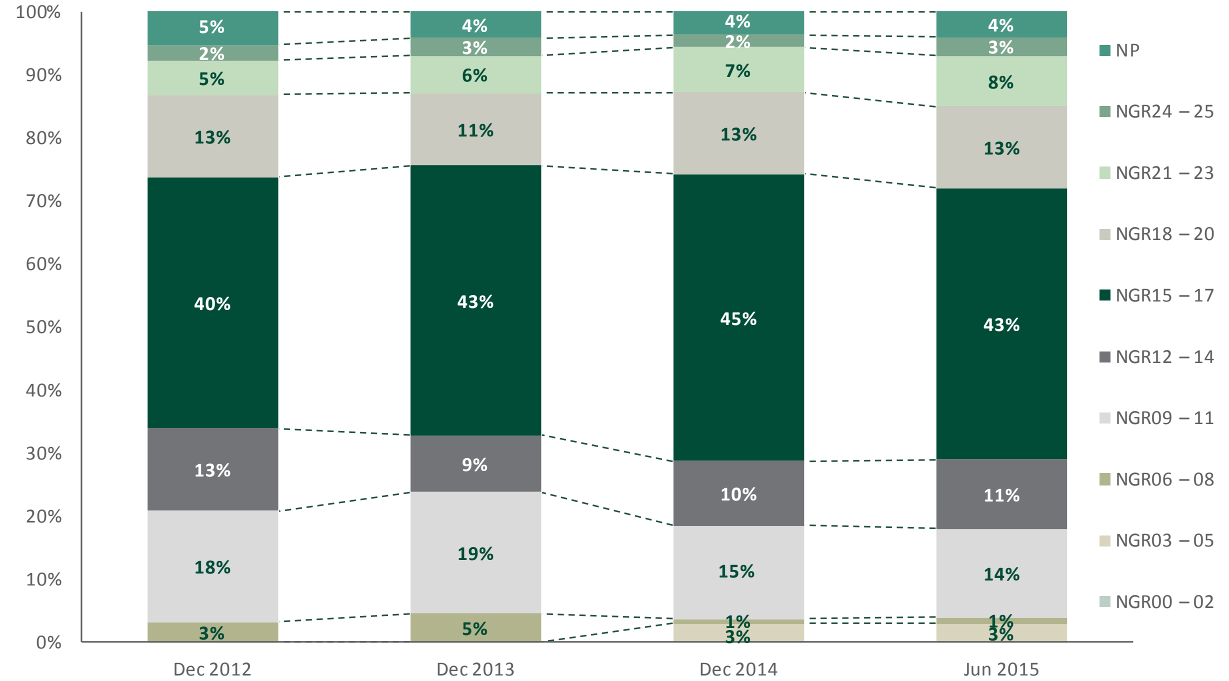
## ASSET CLASS: RETAIL MORTGAGE

EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**3,84%** (Dec 2014: 3,66%) | Average performing book EAD – weighted dLGD<br>**15,71%** (Dec 2014: 15,51%) | Average performing book EAD – weighted dEL<br>**0,68%** (Dec 2014: 0,64%) |
| Average total book EAD – weighted PD<br>**7,38%** (Dec 2014: 7,07%) | Average total book EAD – weighted dLGD<br>**15,81%** (Dec 2014: 15,63%) | Average total book EAD – weighted dEL<br>**1,28%** (Dec 2014: 1,26%) |

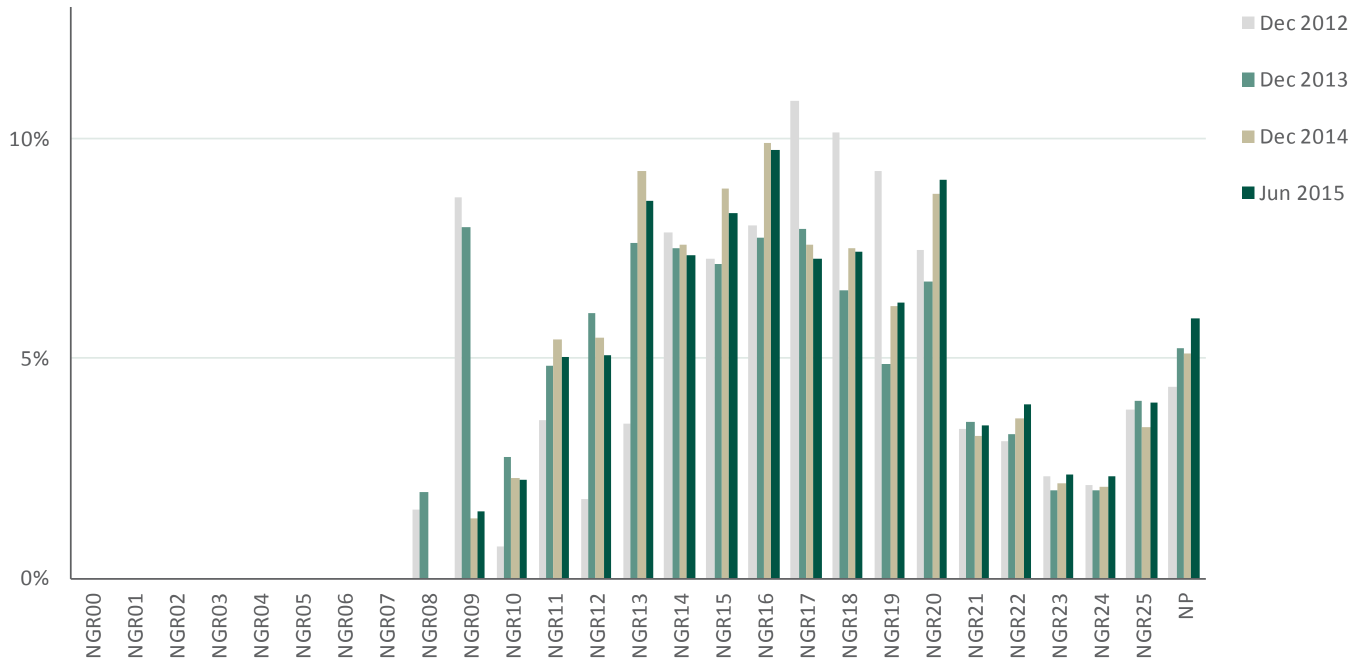
EAD distribution by bucketed NGR bands over time (ie PD only)




- Seasonal effects in the beginning of the year drove an increase in the arrears population of the Home Loans portfolio which drove an increase in the EAD weighted PD for mortgage exposures.

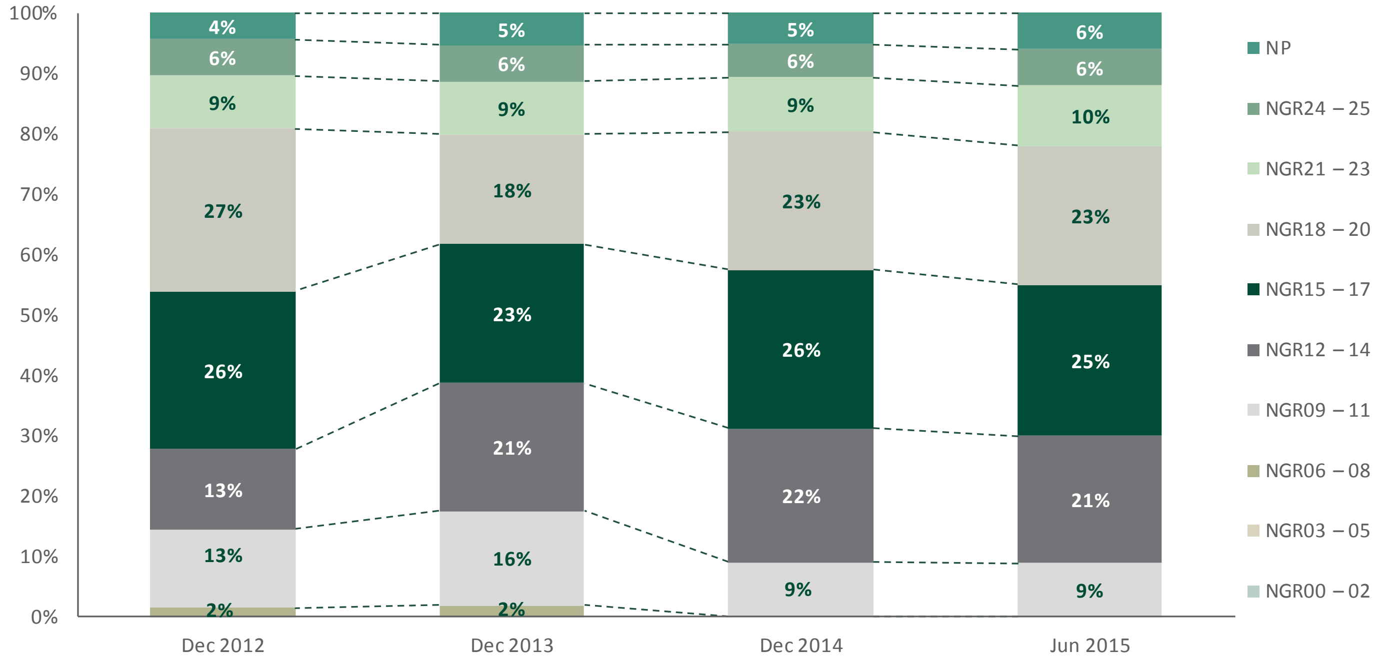
## ASSET CLASS: RETAIL REVOLVING CREDIT

EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**5,96%** (Dec 2014: 5,48%) | Average performing book EAD – weighted dLGD<br>**59,42%** (Dec 2014: 59,85%) | Average performing book EAD – weighted dEL<br>**3,59%** (Dec 2014: 3,29%) |
| Average total book EAD – weighted PD<br>**10,51%** (Dec 2014: 10,32%) | Average total book EAD – weighted dLGD<br>**59,69%** (Dec 2014: 60,17%) | Average total book EAD – weighted dEL<br>**6,74%** (Dec 2014: 6,03%) |

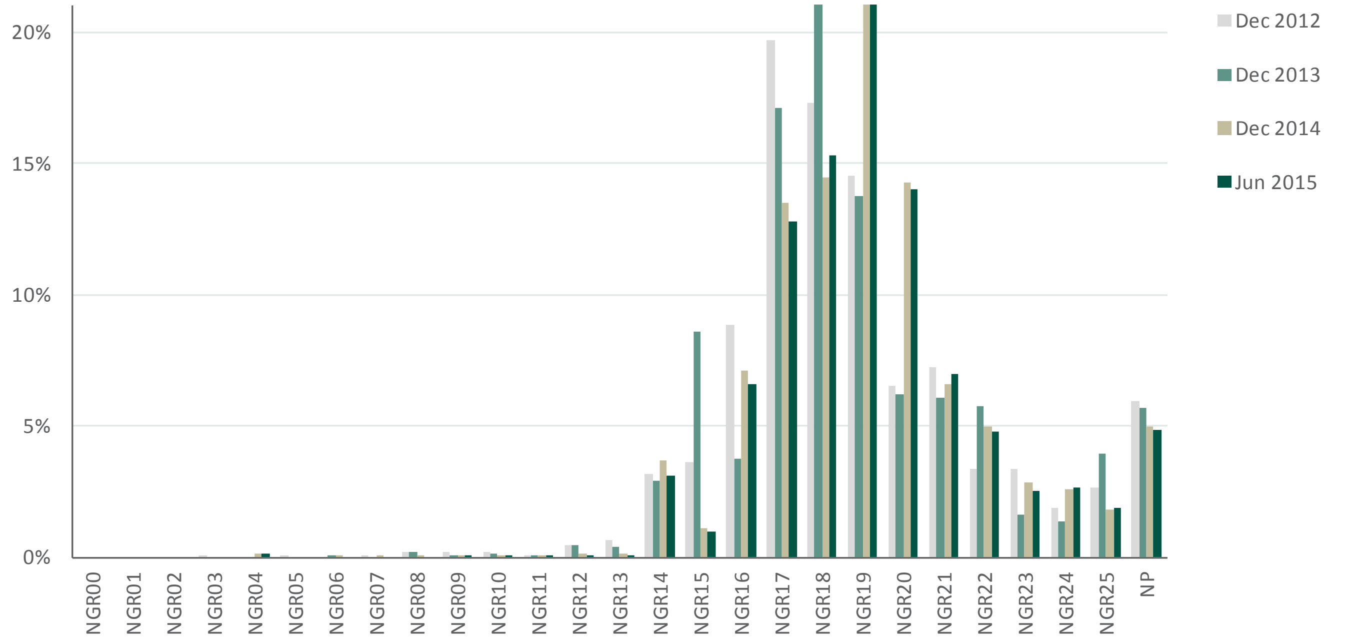
EAD distribution by bucketed NGR bands over time (ie PD only)




- Deteriorating consumer dynamics drove the increase observed for portfolio weighted PD.

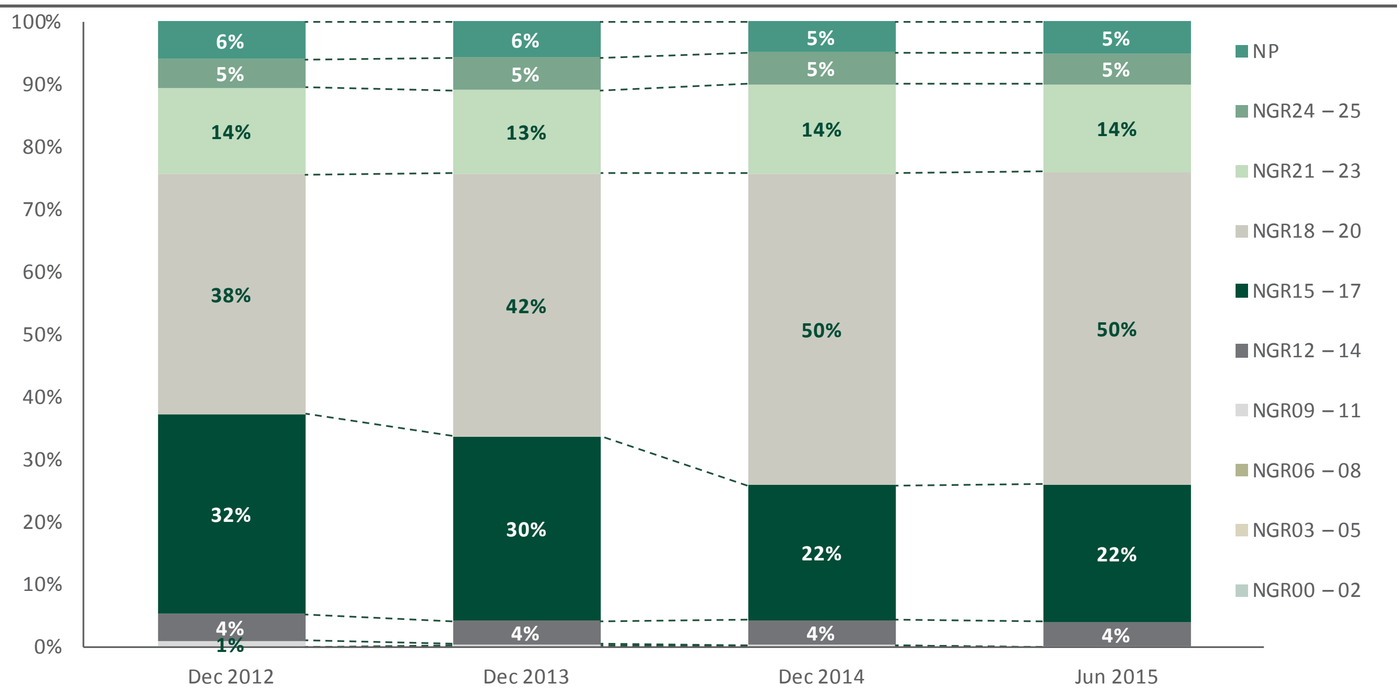
## ASSET CLASS: RETAIL – OTHER

### EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**7,06%** (Dec 2014: 7,00%) | Average performing book EAD – weighted dLGD<br>**41,45%** (Dec 2014: 42,22%) | Average performing book EAD – weighted dEL<br>**3,06%** (Dec 2014: 3,08%) |
| Average total book EAD – weighted PD<br>**10,55%** (Dec 2014: 11,62%) | Average total book EAD – weighted dLGD<br>**41,91%** (Dec 2014: 42,70%) | Average total book EAD – weighted dEL<br>**5,36%** (Dec 2014: 5,47%) |

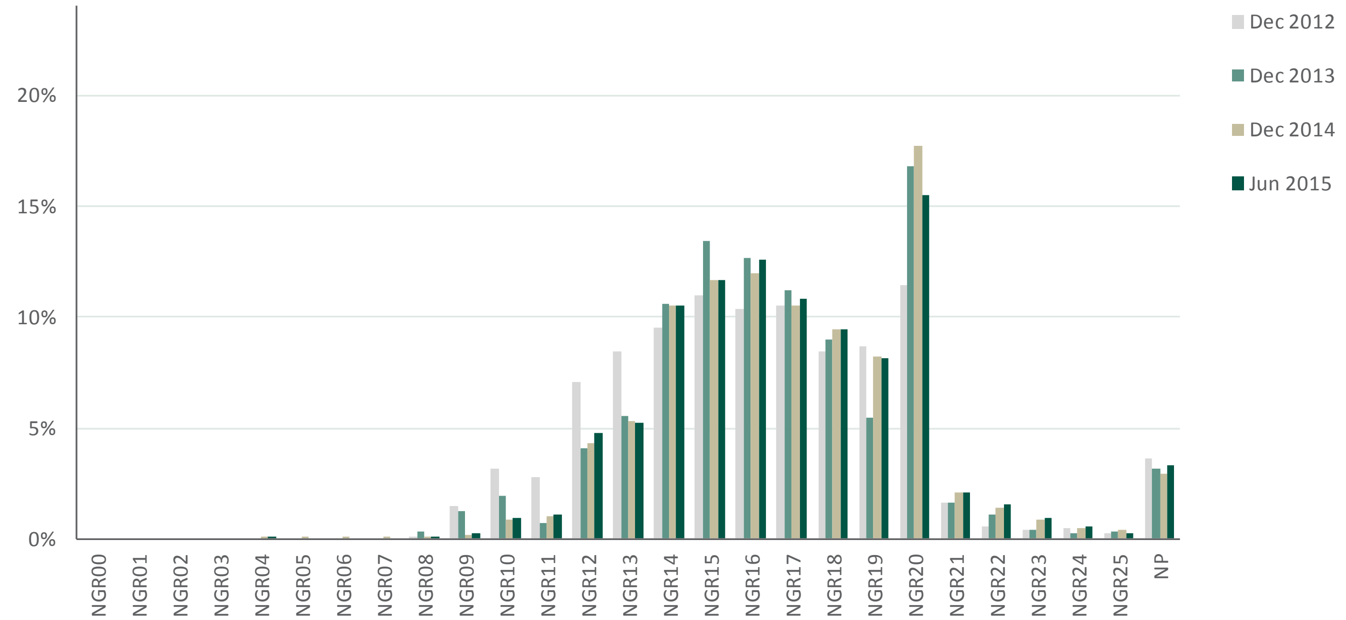
### EAD distribution by bucketed NGR bands over time (ie PD only)




- The distribution for the retail – other asset class has remained relatively stable over the first half of 2015.

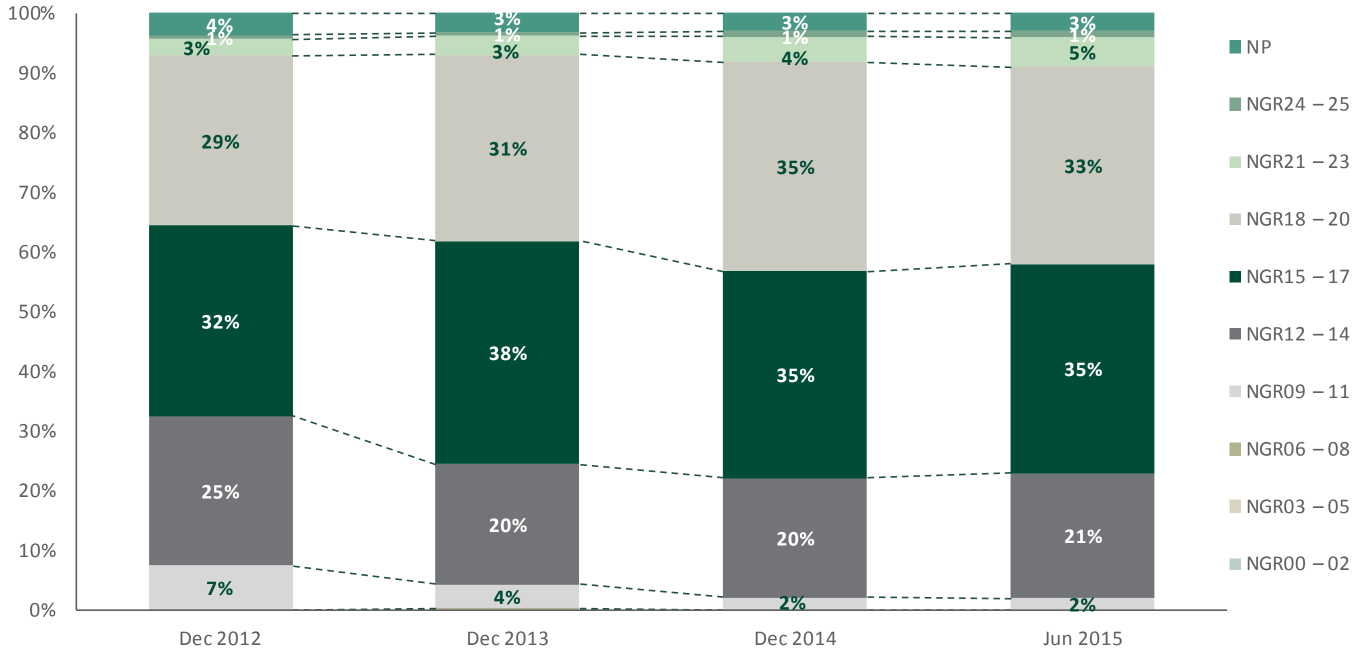
## ASSET CLASS: SME – RETAIL

### EAD distribution by NGR (ie PD only)




| | | |
|---|---|---|
| Average performing book EAD – weighted PD<br>**3,74%** (Dec 2014: 3,87%) | Average performing book EAD – weighted dLGD<br>**27,97%** (Dec 2014: 28,16%) | Average performing book EAD – weighted dEL<br>**1,12%** (Dec 2014: 1,15%) |
| Average total book EAD – weighted PD<br>**6,97%** (Dec 2014: 6,67%) | Average total book EAD – weighted dLGD<br>**28,12%** (Dec 2014: 28,33%) | Average total book EAD – weighted dEL<br>**2,18%** (Dec 2014: 2,11%) |

### EAD distribution by bucketed NGR bands over time (ie PD only)




- Improvement in the distribution was driven by previously unrated clients which were rated over the first half of 2015 driving the decrease in portfolio weighted average PD.

## AIRB credit parameter backtesting

The Pillar 3 credit parameter backtesting is carried out on an annual basis for the respective calendar year. This avoids unwanted fluctuations due to seasonality effects which could arise if a shorter time horizon is considered. This section provides an analysis for the six calendar years from December 2009 to December 2014.

Nedbank applies the AIRB Approach for the majority of its credit portfolios. The corresponding EAD, PD and dLGD credit parameters are long-run or TTC averages and associated models are subject to annual validation, which includes a backtesting exercise in order to compare the estimates to the actual outcomes over time. The Basel III Pillar 3 disclosure regulations require banks to compare the regulatory AIRB expected loss to the actual loss over time, and to analyse the difference between estimated and realised EAD, PD and dLGD credit parameters.

As the AIRB parameters are based on a TTC view (with relevant downturn adjustments), the actual outcome is not expected to align to the corresponding parameters for each point-in-time (PIT) period. One may rather expect that the average actual outcome over a sufficiently long time period (ie at least a full economic cycle of around 10 years) is close to the corresponding TTC parameters. For a typical portfolio or asset class one would expect to observe several 'good' economic years with low defaults and then some years with high losses during an economic downturn. The average actual outcome over that time would be expected to align to the corresponding TTC risk parameters.

Expected loss refers to the AIRB regulatory loss expected for the performing portfolio, and incorporates downturn conditions, as per the beginning of each respective reporting period. The actual loss and loss rate have been restated for years prior to 2014 in order to reflect the latest available loss information for accounts which defaulted during those time periods, eg if actual writeoffs exceeded or fell short of the previously assigned level of specific impairments. Restated actual loss and loss rate includes updated postwriteoff recovery data for the three unsecured products (credit cards, current accounts and personal loans).

The estimates for the three underlying key credit parameters have been derived as follows:

- PD is derived as the EAD weighted average PD as per the beginning of the respective reporting period.
- dLGD is derived as the EAD weighted average dLGD prior to default of all transactions which defaulted in the respective reporting period.
- EAD is derived as the total EAD prior to default of all transactions which defaulted in the respective reporting period.

Conversely, the actual loss outcomes have been derived as follows:

- Actual loss refers to the total IAS 39 specific impairments (including writeoffs) raised against the transactions which defaulted in the respective reporting period.
- Actual default rate is derived as the EAD weighted default rate for the respective reporting period.
- Actual loss rate is derived as the ratio between the actual loss and the actual EAD.
- Actual EAD refers to the exposure as per the date of default.

It should be noted that the analysis, in line with the regulations, excludes:

- Any portfolio that is not yet subject to the AIRB Approach, as there is no regulatory expected loss measure available for the underlying exposures.
- All transactions that were originated and defaulted in the same calendar year, as they did not contribute to the expected loss as measured.

### Actual versus downturn expected loss

The table below provides a summary of the downturn expected and the actual losses per AIRB asset class for the last six years. While the regulatory dEL is meant to serve as a TTC (yet downturn from an LGD perspective) measure, the actual losses are PIT and hence most likely deviate from the dEL depending on the current state of the credit and economic cycle.

**DOWNTURN EXPECTED LOSS**

| AIRB exposure class | 2009 Expected/ actual % | 2010 Expected/ actual % | 2011 Expected/ actual % | 2012 Expected/ actual % | 2013 Expected/ actual % | 2014 dEL Rm | 2014 Actual loss Rm | 2014 Expected/ actual % |
|---|---|---|---|---|---|---|---|---|
| **Corporate**[1] | 96 | 72 | 61 | 217 | 99 | **794** | **215** | **369** |
| **Sovereign, Banks, PSE**[2] **and Local Government** | | | | | | **54** | | |
| **Retail** | 61 | 98 | 96 | 93 | 81 | **4 071** | **4 059** | **100** |
| Retail Mortgage | 52 | 87 | 85 | 87 | 128 | **813** | **584** | **139** |
| Retail Revolving Credit | 55 | 146 | 148 | 122 | 88 | **603** | **837** | **72** |
| Retail – Other | 74 | 95 | 83 | 79 | 65 | **2 240** | **2 354** | **95** |
| SME – Retail | 96 | 100 | 130 | 211 | 177 | **415** | **284** | **146** |
| **Total** | 68 | 91 | 85 | 103 | 83 | **4 919** | **4 274** | **115** |

*[1] The Corporate asset class incorporates the 'Corporate', 'SME-Corporate' and 'Specialised Lending' sub-asset classes and excludes the HVCRE portfolio which is subject to the supervisory slotting approach and, hence, does not have AIRB PD and LGD parameters.*

*[2] PSE = Public sector entities.*

*Note: There have been no losses for the Sovereign, Banks, PSE and Local Government portfolios over the observation period.*

*Note: The actual losses have been restated based on the inclusion of the latest post writeoff recoveries.*

Actual losses are PIT events driven by the state of the credit and economic cycle while the AIRB parameters are based on a TTC view (with relevant downturn adjustments) which aim to align average actual outcomes to estimated parameters over a full credit cycle (eg ten years). Therefore the actual outcome is not expected to align to the corresponding estimated parameters for each single reporting period. In order to assess the appropriateness of parameters these need to be compared to the average actual outcomes over a sufficiently long time period.

Backtesting has been performed on data going back to 2009, the beginning of the global financial crisis and local recession, and is assessed over the period 2009 to 2014, some of which can be attributed to the bottom end of the current credit cycle. It is therefore conceivable that the current TTC parameters applied would be lower than actual outcomes for some asset classes.

It should be noted that actual losses (and therefore actual loss rates) for historical periods have been restated to reflect updated write-off, impairment and postwriteoff recovery amounts. Corporate losses were particularly low in 2014, with good performance of the Commercial Real Estate portfolio in Property Finance continuing and only relatively minor defaults occurring in the corporate and investment banking portfolios. A decrease in the 2010 ratio for the corporate asset class was due to further writeoffs against a problem client.

Actual losses for the retail – other asset class increased in 2013 predominantly due to strong growth in Personal Loans in prior years. There was however a significant slowing of growth in this area since 2013 along with the following changes towards a more conservative impairment methodology:

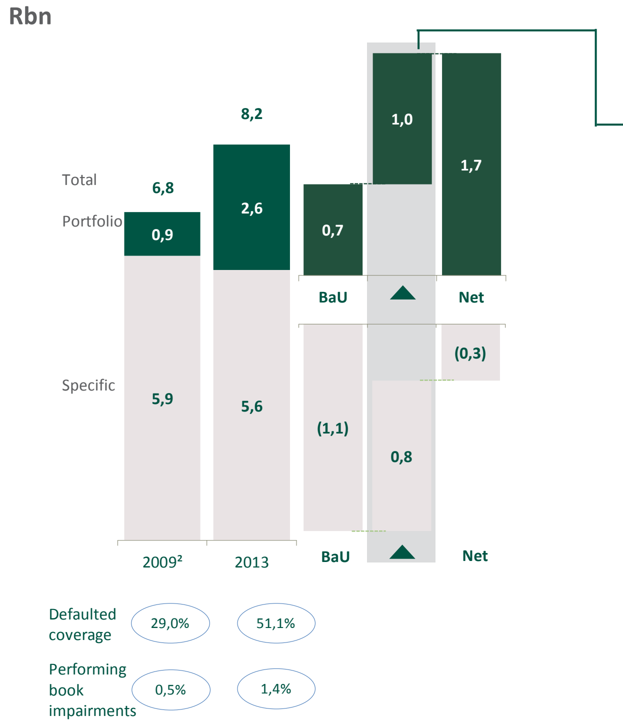
- Adoption of defaulted approach in preference to the industry accepted recency-based approach.
- Full provision made after five months of missed payments (previously six months).
- Further qualitative overlays to cater for model assumptions where they are slow to capture the inherent risk, in light of current specific industry and macroeconomic dynamics.

The seemingly unfavourable trend for the retail mortgage asset class over the period 2009 to 2012 was largely due to a more conservative impairment approach applied for defaults in recent years, which has resulted in higher reported actual losses. The Home Loans portfolio has been subject to a number of impairment methodology changes to address past experience including:

- Enhancement of provisioning on aged loans and inclusion of legal costs in loss severity.
- Separate methodology for restructured and debt counselling accounts.
- Emergence period changed to three months.
- Additional conservatism to address potential knock on impact into secured lending of the concerning personal loan industry dynamics.

The following shows the drivers and a breakdown of the additional impairments of R1,8bn raised over the period 2010 to 2013 for Nedbank Retail through methodology changes to address the past and position for the future.

## NEDBANK RETAIL




**Breakdown of cumulative R1,8bn I/S impairment charge for methodology changes over 2010 to 2013**

| Actions taken | Year | Rm | Rm |
|---|---|---|---|
| Home Loans correction of coding error | 2010 | 185 | |
| Home Loans enhance provisioning on aged loans, include legal costs in loss severity, introduce separate methodology for restructured and debt counselling accounts | 2011<br>2012 | 400 | <br>85 |
| Home Loans and MFC change emergence period to three months | 2010 – 2012 | | 366 |
| MFC hold higher impairments on rearrangements | 2012 | | 65 |
| Personal Loans impairment overlays as model assumptions[1] slow to capture inherent risk | 2012<br>2013 | 64<br>105 | 269<br>15 |
| Home Loans and MFC address potential knock on impact into secured lending of concerning Personal Loans industry dynamics | 2013 | | 203 |
| **To address defaulted coverage** | | **754** | |
| **To address portfolio impairments** | | | **1 003** |

[1] *Includes in Personal Loans, the adoption of defaulted approach in preference to industry accepted recency-based approach.*

[2] *Adjusted for integration of Imperial Bank.*

An improvement in the alignment of expected and actual losses for retail mortgages was driven mainly by improvements in the Home Loans portfolio in 2014 as Nedbank Retail's Home Loan defaulted portfolio improved to 5,0% of home loan advances (2013: 5,8%) and the specific-coverage ratio decreased to 27,2% (2013: 28,2%). This resulted in decreased specific impairments across the observation periods.

An improved CLR for Card as well as the inclusion of postwriteoff recoveries for the Card and Current Account portfolios resulted in improved historical losses for qualifying revolving retail credit exposures. However, worsening consumer credit dynamics impacting card drove an increase in impairments and consequently the low ratio of 72% (2013: 86% as per previous disclosure, the ratio for 2013 has improved to 88% following the inclusion of updated postwriteoff recoveries).

The expected to actual loss ratio has improved significantly for the retail – other asset class for 2014 as a result of the strategic action to decrease lending in personal loans following identification of risks in the unsecured-lending industry early in 2012, as well as strong growth in MFC. MFC has been included for credit parameter backtesting since 2013 following SARB approval to use AIRB models for this portfolio in late 2012 and currently has an expected loss to actual loss ratio of 175,3%.

## Parameters underlying expected loss

### Probability of default

The backtesting of the PD models show the general, but slow, recovery of the credit cycle since 2009 with actual default rates decreasing from 4,15% in 2009 to 2,25% in 2014. The EAD weighted PD also decreased during the observation period as more default data was available which allowed Nedbank to more accurately assess the central tendencies of the various portfolios.

**PROBABILITY OF DEFAULT**

| AIRB exposure class % | 2009 Expected/ actual | 2010 Expected/ actual | 2011 Expected/ actual | 2012 Expected/ actual | 2013 Expected/ actual | 2014 EAD weighted PD | 2014 Default rate | 2014 Expected/ actual |
|---|---|---|---|---|---|---|---|---|
| **Corporate** | 89 | 96 | 117 | 175 | 140 | **1,05** | **0,54** | **194** |
| **Sovereign, Banks, PSE and Local Government** | | 16 | | | | **0,04** | **0,12** | **33** |
| **Retail** | 64 | 89 | 90 | 83 | 82 | **4,56** | **4,80** | **95** |
| Retail Mortgage | 63 | 91 | 96 | 80 | 89 | **3,47** | **3,42** | **101** |
| Retail Revolving Credit | 67 | 103 | 102 | 98 | 83 | **5,35** | **6,81** | **79** |
| Retail – Other | 76 | 87 | 82 | 76 | 76 | **6,75** | **7,51** | **90** |
| SME – Retail | 54 | 66 | 68 | 113 | 91 | **3,41** | **3,08** | **111** |
| **Total** | 69 | 89 | 96 | 94 | 89 | **2,39** | **2,25** | **106** |

The TTC PD in the corporate asset class remained conservative in 2014 largely driven by fewer defaults in the middle-market segments (eg Business Banking) as well as the good performance of the Commercial Real Estate portfolio in Property Finance.

There are two technical default cases in the 'public sector entities' and 'local government and municipalities' asset classes in 2010 and 2014 respectively, which resulted in spikes in the actual default rate. These defaults were subsequently resolved with no actual loss to the group.

The retail asset class showed a positive trend in default rates between 2009 and 2011. The 2012 and 2013 default rates increased slightly due to the higher contribution of Personal Loans to the retail asset class. Higher than expected default rates for the retail – other asset class were observed for Personal Loans and for the old Nedbank Vehicle Asset Finance portfolio which is currently running down with new business originating through the MFC franchise. Tightened credit policies for Personal Loans and strong growth in the MFC portfolio have driven a significant improvement in actual default rate for the retail – other asset class. Worsening consumer credit dynamics impacting the card business drove an increase in actual default rate for the revolving credit asset class to 7,32% (2013: 6,89%).

2009 is considered to be at the bottom of the current credit cycle, being at the height of the global financial crisis (and hence the very low expected/actual ratios) and the four years following 2009 have revealed a small recovery. Hence, the applied PD measures are considered to provide a fair assessment from a TTC perspective.

### Downturn loss given default

As mentioned above, the EAD weighted dLGD in the table below refers to the EAD weighted average dLGD prior to default of all transactions which defaulted in the respective reporting period and hence, does not refer to the EAD weighted LGD for the total portfolio.

**DOWNTURN LOSS GIVEN DEFAULT**

| AIRB exposure class % | 2009 Expected/ actual | 2010 Expected/ actual | 2011 Expected/ actual | 2012 Expected/ actual | 2013 Expected/ actual | 2014 EAD weighted dLGD | 2014 Loss rate | 2014 Expected/ actual |
|---|---|---|---|---|---|---|---|---|
| **Corporate** | 105 | 68 | 47 | 139 | 115 | **20,7** | **14,3** | **145** |
| **Sovereign, Banks, PSE and Local Government** | | | | | | | | |
| **Retail** | 89 | 105 | 95 | 98 | 70 | **34,4** | **32,7** | **105** |
| Retail Mortgage | 81 | 93 | 79 | 100 | 133 | **17,7** | **12,7** | **138** |
| Retail Revolving Credit | 73 | 124 | 116 | 102 | 87 | **61,9** | **72,2** | **86** |
| Retail – Other | 83 | 96 | 91 | 90 | 72 | **42,2** | **41,6** | **101** |
| SME – Retail | 157 | 133 | 152 | 156 | 123 | **31,4** | **27,5** | **114** |
| **Total** | 93 | 96 | 80 | 101 | 86 | **32,8** | **30,6** | **107** |

The integration of postwriteoff recoveries for unsecured retail products had a mitigating impact on actual loss rates both for the retail asset class and at group level for 2009 – 2013. As there is a natural time lag for the realisation of postwriteoff recoveries, the 2013 and 2014 actual losses for the retail asset class are expected to decrease in the next assessment and bring the level of actual loss rates closer to the level of expected loss rates.

The actual loss rates closely align to the predicted dLGD at group level. However, the retail asset classes show varying outcomes for the different sub-asset classes:

- The improvement in the Home Loans portfolio, as well as the decrease in specific coverage in 2014 drove the improved loss rates observed.
- The retail revolving credit asset class experienced higher than expected loss rates in 2009, 2013 and 2014. Whereas the high 2009 loss rate was observed at the bottom of the current credit cycle, the 2013 and 2014 loss rates do not yet fully benefit from postwriteoff recoveries which are expected, due to Nedbank's conservative provisioning of non-performing card exposures (> 90%) and early writeoff strategy.
- The retail – other asset class shows improved actual loss rates following the inclusion of postwriteoff recoveries for the Personal Loans portfolio as well as improvement in loss experience for the Personal Loans book, following the move to decrease lending in this area while driving growth in the MFC franchise.

### Exposure at default

The backtesting of the EAD shows that the various EAD models being used for the regulatory capital calculations yielded especially conservative estimates in the last six years for most AIRB asset classes.

**EXPOSURE AT DEFAULT**

| AIRB exposure class<br>% | 2009<br>Expected/<br>actual | 2010<br>Expected/<br>actual | 2011<br>Expected/<br>actual | 2012<br>Expected/<br>actual | 2013<br>Expected/<br>actual | **2014<br>Expected/<br>actual** |
|---|---|---|---|---|---|---|
| **Corporate** | 117 | 117 | 113 | 122 | 95 | **112** |
| **Sovereign, Banks, PSE and Local Government** | | 86 | | | | **101** |
| **Retail** | 105 | 108 | 115 | 112 | 111 | **107** |
| Retail Mortgage | 101 | 104 | 113 | 111 | 108 | **101** |
| Retail Revolving Credit | 111 | 113 | 123 | 120 | 121 | **107** |
| Retail – Other | 116 | 115 | 112 | 109 | 110 | **109** |
| SME – Retail | 117 | 123 | 123 | 130 | 128 | **121** |
| **Total** | 107 | 109 | 114 | 113 | 109 | **108** |

The main reason for the higher expected than actual EAD relates to the amortising nature of a large portion of Nedbank's credit portfolio. As the Basel III regulations require the EAD measure to be not less than the current on-balance-sheet exposure, the actual EAD typically accounts for some instalments which are paid by the obligor prior to default and hence is lower than the previously estimated EAD.

The deviation in the expected to actual EAD for the corporate asset class in 2013 is due to further advances made to an entity during the 12 months prior to default (the EAD was therefore misaligned to the expected exposure 12 months prior).

## 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 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 its own resources and cashflow.

TSA for credit risk allows for the use of certain categories of collateral to be used 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 are either unsecured or secured by guarantees suretyships or pledged securities.
- Wholesale portfolio
  - Commercial properties are supported by the property financed and a cession of the leases.
  - Instalment credit type of transactions that are secured by the assets financed.
  - Working capital facilities when secured, usually by either a claim on specific assets (fixed assets, inventory and debtors) or other collateral such as guarantees.
  - Term and structured lending which usually relies on guarantees or credit derivatives (where only internationally recognised and enforceable agreements are used).
  - Credit exposure to other banks where the risk is commonly mitigated through the use of 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 six monthly on the defaulted book. Physical valuations are performed on approximately 50% of new applications. The remainder of new applications is valued using desktop valuations and these 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 exists in the SME – retail and Retail – other asset classes due to both commercial and residential mortgage lending to small businesses mainly in the Business Banking and Nedbank Wealth Clusters.

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

### CREDIT RISK MITIGATION FOR PORTFOLIOS UNDER THE AIRB APPROACH

| Rm | Eligible financial collateral[1, 2] | Other eligible collateral[2, 3] | Of which is residential property | Of which is commercial property | Guarantees and credit derivatives[4] | Total credit risk mitigation[5] | Effects of netting agreements | Total credit risk mitigation as % of EAD |
|---|---|---|---|---|---|---|---|---|
| **June 2015** | | | | | | | | |
| **Corporate** | **27 201** | **169 207** | **12 567** | **110 858** | **33 143** | **229 551** | **2 584** | **67,4** |
| **Banks** | **937** | **19** | | | **3** | **959** | **3 068** | **2,4** |
| **Securities firms** | | | | | | | **232** | |
| **Retail** | **3 187** | **229 323** | **147 402** | **8 853** | **58** | **232 568** | **25** | **78,9** |
| Retail mortgage | **190** | **138 886** | **134 309** | **1 009** | **1** | **139 077** | | **99,1** |
| SME – retail | **2 936** | **33 152** | **12 934** | **7 770** | **57** | **36 145** | **25** | **87,0** |
| Retail – other | **61** | **57 285** | **159** | **74** | | **57 346** | | **50,9** |
| **Total** | **31 325** | **398 549** | **159 969** | **119 711** | **33 204** | **463 078** | **5 909** | **68,6** |
| June 2014 | | | | | | | | |
| **Corporate** | 22 141 | 144 822 | 9 435 | 94 867 | 21 132 | 188 094 | 2 298 | 75,7 |
| **Banks** | 1 075 | 2 | | | | 1 078 | 2 203 | 2,0 |
| **Securities firms** | | | | | | | | |
| **Retail** | 2 547 | 219 372 | 145 032 | 7 512 | 13 | 221 933 | 48 | 77,1 |
| Retail mortgage | 205 | 136 657 | 132 484 | 996 | 6 | 136 869 | | 98,8 |
| SME – retail | 2 271 | 30 946 | 12 149 | 6 466 | 7 | 33 224 | 48 | 78,8 |
| Retail – other | 71 | 51 769 | 399 | 50 | | 51 840 | | 48,4 |
| **Total** | 25 763 | 364 196 | 154 467 | 102 379 | 21 145 | 411 105 | 4 549 | 68,7 |

## CREDIT RISK MITIGATION FOR PORTFOLIOS UNDER THE AIRB APPROACH

| Rm | Eligible financial collateral[1, 2] | Other eligible collateral[2, 3] | Of which is residential property | Of which is commercial property | Guarantees and credit derivatives[4] | Total credit risk mitigation[5] | Effects of netting agreements | Total credit risk mitigation as % of EAD |
|---|---|---|---|---|---|---|---|---|
| December 2014 | | | | | | | | |
| **Corporate** | 31 490 | 152 875 | 11 039 | 87 846 | 29 018 | 213 383 | 3 012 | 66,3 |
| **Banks** | 848 | 4 | | | | 852 | 2 759 | 3,9 |
| **Securities firms** | | | | | | | | |
| **Retail** | 3 836 | 230 801 | 146 888 | 8 923 | 49 | 234 686 | 13 | 77,0 |
| Retail mortgage | 287 | 137 438 | 132 842 | 1 078 | 1 | 137 726 | | 98,9 |
| SME – retail | 3 501 | 35 234 | 13 643 | 7 760 | 48 | 38 783 | 13 | 88,6 |
| Retail – other[6] | 48 | 58 129 | 403 | 85 | | 58 177 | | 52,2 |
| **Total** | 36 174 | 383 680 | 157 927 | 96 769 | 29 067 | 448 921 | 5 784 | 70,4 |

*[1] Eligible financial collateral includes pledged cash funds debtors' lists, coins and gems as well as other commodities.*

*[2] Collateral previously recognised as other eligible collateral was reclassified as eligible financial collateral during 2014. The corporate asset class EAD increased due to the growth in the Nedbank Property Finance commercial mortgage portfolios.*

*[3] Other eligible collateral includes mortgage bonds, commercial covering bonds, pledged investments and insurance policies and pledged shares.*

*[4] Guarantees and credit derivatives includes suretyships.*

*[5] Credit risk mitigation reported above has been capped at EAD on a deal by deal basis.*

*[6] The Retail – other asset class was restated due to a disclosure error.*

Total credit risk mitigation (capped at EAD) increased across the board, largely due to book growth across all major asset classes. The credit risk mitigation as a percentage of EAD increased most noticeably in the corporate asset classes for the following reasons:

- Financial collateral in the banks and corporate asset classes increased by R7bn year to date largely due to increased collateral under repurchase and International Swaps and Derivatives Association agreements.
- Total credit risk mitigation as a percentage of EAD increased in the corporate SME asset class as a result of a reduction in EAD due to the implementation of the Business Banking EAD methodology as well as an increase in other collateral of approximately R700m.

## Credit risk mitigation for portfolios under TSA

With respect to the standardised portfolio Nedbank Group applies neither on-balance-sheet netting nor off-balance-sheet netting. The bank holds pledged deposits which are negligible with respect to the related exposure and does not recognise this as qualifying collateral as detailed in the regulations. Should the bank hold any significant qualifying collateral, the valuation will be marked-to-market and revalued at regular intervals not exceeding six months. The bank does not use guarantors or credit derivative counterparties for credit mitigation purposes.

The table below shows the total unmitigated exposures for Nedbank Limited's portfolio under TSA. The remaining portion of the legacy Imperial Bank (ie in Nedbank Business Banking) portfolio remains on TSA.

## NEDBANK LIMITED EXPOSURE SUBJECT TO THE STANDARDISED APPROACH PER RISK WEIGHTING

| Rm | **Jun 2015** | Jun 2014 | Dec 2014 |
|---|---|---|---|
| 0 to 35 | **2 534** | 2 806 | 2 664 |
| 50 | **45** | 103 | 62 |
| 75 | **74** | 218 | 128 |
| 100 and above | **1 101** | 1 273 | 1 181 |
| **Total** | **3 754** | 4 400 | 4 035 |

# LIQUIDITY RISK AND FUNDING

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into longer-term loans. By fulfilling the role of maturity transformation, 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, specifically 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. 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.

### KEY AREAS OF FOCUS

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

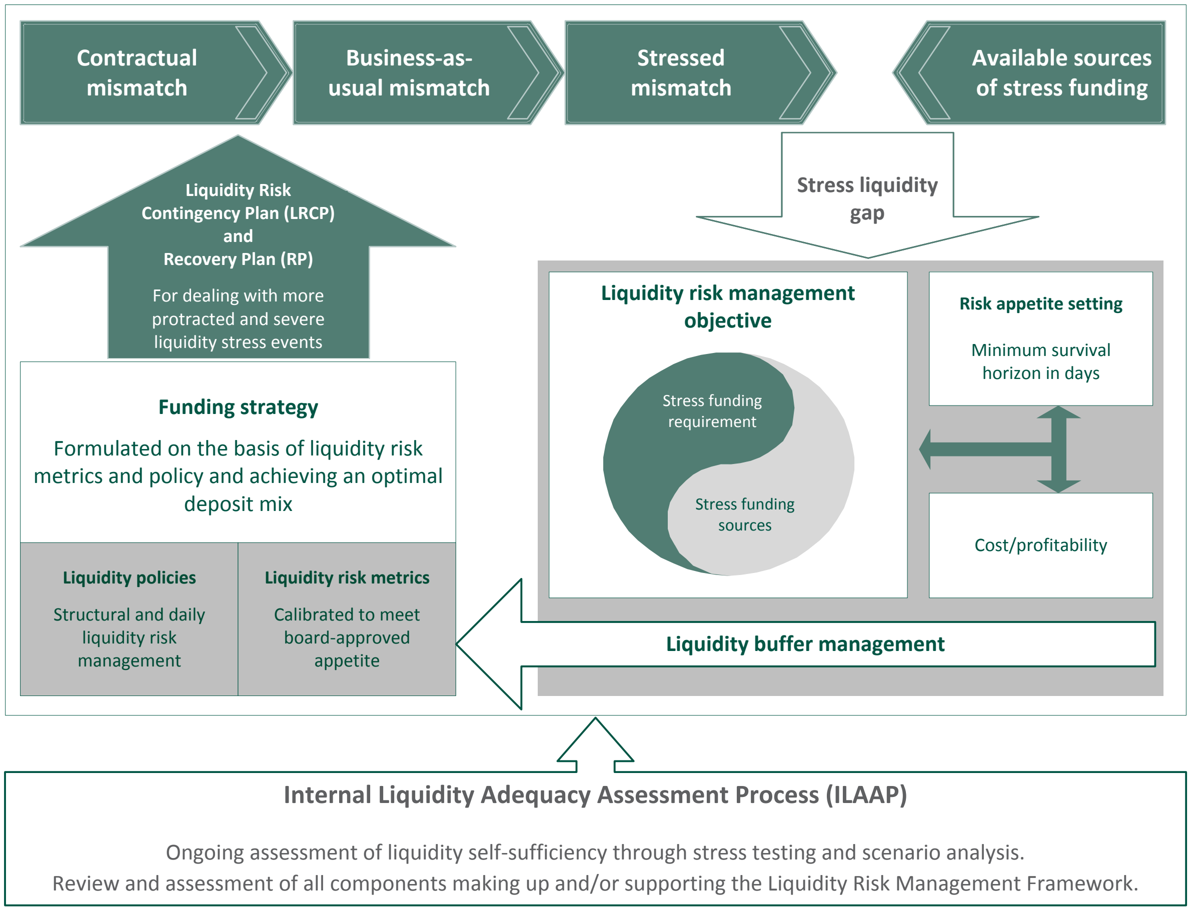
In the case of Nedbank Group's subsidiaries and foreign branches, liquidity risk is managed through the individual Asset and Liability Committees (ALCOs) established in each of these businesses. These businesses are required to have appropriate governance structures, processes and practices designed 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 Basel Committee'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 trade-off 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. 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 practise and regulatory developments.

Based on the most recent internal review process it is evident that Nedbank Group is compliant with the Basel 'Principles for Sound Liquidity Risk Management', with the Liquidity Risk Management Framework and ILAAP fully encapsulating the key principles embedded in the Basel III liquidity standards.

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)

Recovery plan

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

**Best practice and regulatory developments**

### 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 money market shortage
- Settlement and clearing
- Access to market

As presented above, 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

  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.

- 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 and Group ALCO. As per the current funding strategy the key objectives can be summarised as follows:

  – Continue to diversify the funding base to achieve an optimal mix between wholesale, commercial and retail funding.

  – Maintain the funding profile to achieve the targeted contractual and BaU maturity mismatch.

  – Achieve the lowest weighted average funding cost within the context of the targeted liquidity risk profile.

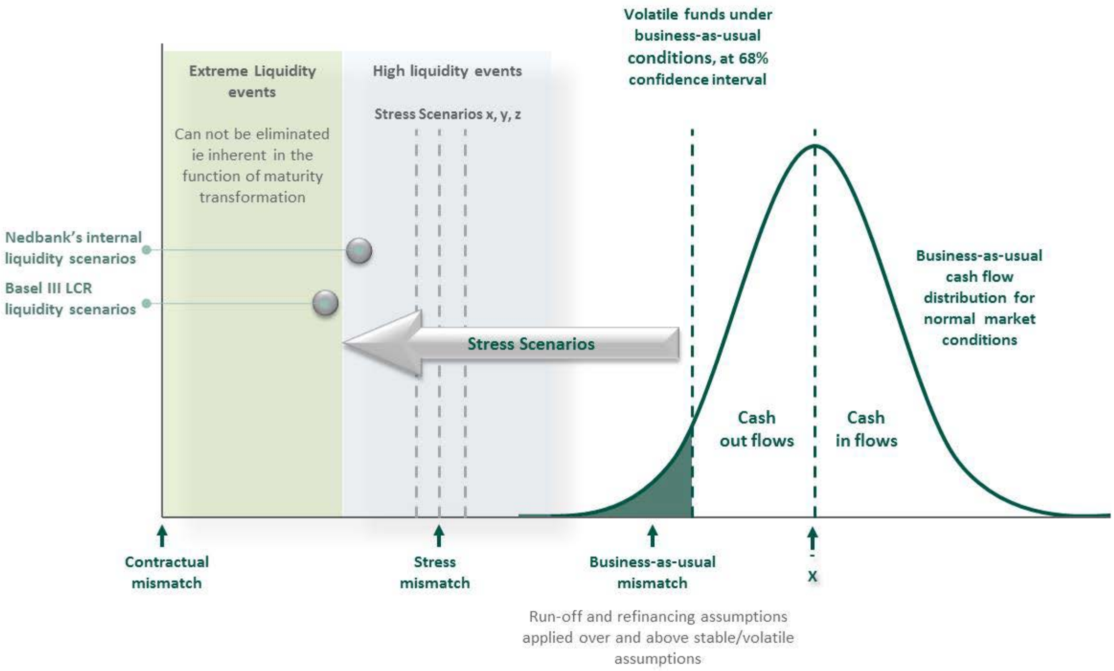
- Scenario analysis and stress testing

  The BSM Cluster conducts regular scenario analysis and stress testing in order to assess the adequacy of the group's liquidity buffers and contingency funding plans required to meet idiosyncratic and marketwide stress liquidity events. Through scenario analysis and stress testing the BSM Cluster is able to:

  – 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.

  The objective of scenario analysis and stress testing is to identify potential weaknesses or vulnerabilities, thus enabling the group to formulate 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 BUSINESS-AS-USUAL 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 achieved (in 2015) and will continue to achieve full compliance with the LCR minimum requirements during the phase-in period from 60% in 2015 to 100% in 2019. While the Basel III LCR liquidity scenario assumes more extreme levels of stress Nedbank recognises, as per the internally based liquidity risk models, that various structurally favourable factors which contribute 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 loss absorbing capital 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.

- 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.

  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 [the Liquidity Steering Committee (LSC)].

  In 2013 Nedbank developed a detailed Recovery Plan which sets out Nedbank's framework for dealing with a crisis emanating from a capital, liquidity and business continuity or operational event. These plans were updated in 2014 for Nedbank Group Limited including Nedbank Limited. In addition, recovery plans were developed for Nedbank Private Wealth International (based in the Isle of Man) and the London branch of Nedbank Limited. The updated plans have been approved by the Group Exco and the board, and have been reviewed by the SARB.

In terms of Nedbank's Liquidity Risk Management Policy it is a requirement that the LRCP and the recovery plan be periodically tested in order to ensure their effectiveness and operational feasibility. The LRCP and recovery plan were rigorously tested in March 2015 through a liquidity simulation that involved all relevant internal and external participants. The 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 this exercise and areas of improvement identified have been implemented. The process for invoking the LRCP is depicted in the following table.

## 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), Chief Operating Officer (COO), Chief Financial Officer (CFO) and Chief Risk Officer (CRO)

**CE, COO, CFO and CRO**

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

**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 imminently about to occur, as evidenced by internal and/or external events. Any member of Group ALCO can escalate trigger breaches to the Chief Executive, Chief Operating Officer, Chief Financial Officer and Chief Risk Officer 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 2015 | Jun 2014 | Dec 2014 |
|---|---|---|---|---|
| **Total sources of quick liquidity**[1] | (Rm) | **148 376** | 113 324 | 126 057 |
| Total high-quality liquid assets | (Rm) | **109 060** | 78 358 | 91 423 |
| Other sources of quick liquidity[2] | (Rm) | **39 316** | 34 966 | 34 634 |
| Total sources of quick liquidity as a % of total assets | (%) | **17,1** | 14,5 | 15,6 |
| **Long-term funding ratio (three-month average)** | (%) | **27,6** | 24,9 | 25,4 |
| Retail Savings Bond[3] | (Rm) | **13 442** | 10 698 | 11 850 |
| Senior unsecured debt | (Rm) | **30 325** | 22 929 | 22 478 |
| Total capital market issuance | (Rm) | **45 230** | 32 868 | 35 638 |
| **Reliance on negotiable certificates of deposit**[4] | (%) | **12,3** | 11,4 | 10,8 |
| **Reliance on foreign funding**[4] | (%) | **5,5** | 4,3 | 4,6 |
| **Loan-to-deposit ratio** | (%) | **94,0** | 96,3 | 93,8 |
| **Basel III liquidity ratios** | | | | |
| LCR (effective date – 1 January 2015) | (%) | **76,3**[5] | 51,5 | 66,4 |
| Minimum regulatory LCR requirement[6] | (%) | **60,0** | N/A | N/A |
| NSFR (effective date – 2018)[7] | (%) | **WIP**[8] | WIP[8] | WIP[8] |

[1] *According to the Basel disclosure requirements, the HQLA portfolio must be reported as the quarterly average of month-end balances as at each reporting date. Prior to the release of the Basel disclosure requirements document, the June 2014 and December 2014 total sources of quick liquidity, which includes the HQLA portfolio, were reflected as a point-in-time month-end balance. To align with the Basel disclosure requirements the total sources of quick liquidity are now stated as the quarterly average of month-end balances (ie June 2014 sources of quick liquidity are restated from R109 185m to R113 324m, December 2014 sources of quick liquidity are restated from R121 074m to R126 057m).*

[2] *In addition to the HQLA portfolio maintained for LCR purposes, Nedbank also identifies other sources of stress liquidity that can be accessed in a time of stress, albeit that they don't qualify as HQLA. These sources of quick liquidity include corporate bonds, listed equities, other marketable securities, price-sensitive overnight loans and other assets which can be used to access stress funding.*

[3] *Nedbank has both Retail Savings Bonds and Green Retail Savings Bonds with tenures of two, three and five years. The proceeds of the Green Retail Savings Bonds are earmarked for renewable-energy projects, while the proceeds of ordinary Retail Savings Bonds are applied to the general funding pool.*

[4] *As a % of total deposits.*

[5] *Only banking and/or deposit-taking entities are included and the group data represents an aggregation of the relevant individual net cash outflows and the individual HQLA portfolios, where surplus HQLA holdings in excess of the minimum requirement of 60% 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 the month-end values at April 2015, May 2015 and June 2015, based on the regulatory submissions to SARB.*

[6] *A 60% minimum LCR was required from 1 January 2015, increasing 10% per annum to 100% by 1 January 2019.*

[7] *The Basel Committee released its final version of the NSFR in October 2014.*

[8] *WIP = work in progress. The SA Banks are working with National Treasury and SARB to address the structural challenges of complying with the NSFR before the effective date of 1 January 2018.*

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.

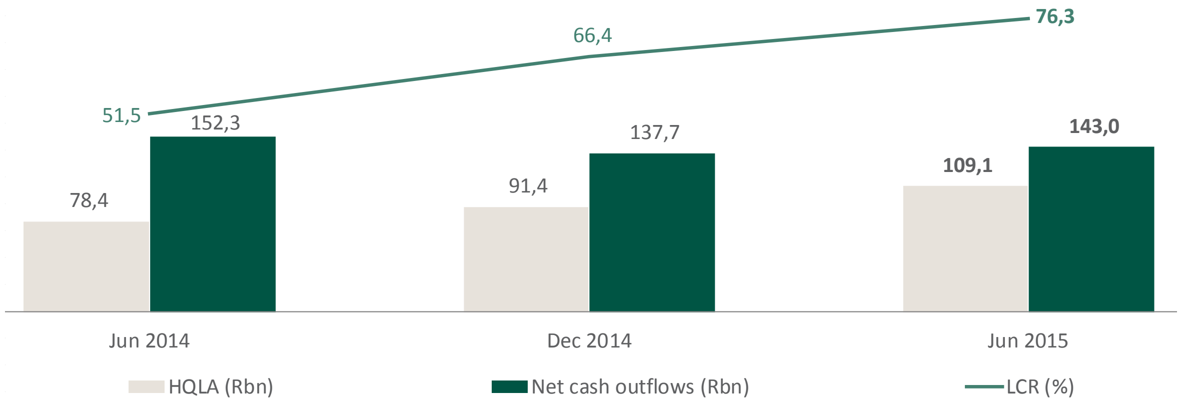
From a Basel III perspective Nedbank has successfully implemented the LCR, exceeding the minimum regulatory requirement of 60,0%, which came into effect on 1 January 2015. Having embedded this ratio into BaU processes Nedbank is well positioned to exceed the minimum requirement throughout the phase-in period, as the LCR requirement increases by 10% per annum to 100% by 1 January 2019.

In terms of the final NSFR standard, published by the Basel Committee in October 2014, full SA banking industry compliance remains challenging given the structurally small retail deposit base, compared with developed economies, which has resulted in a proportionally higher wholesale funding reliance for SA banks. Given these structural challenges and the fact that instruments such as covered bonds are not currently available in SA, closing the NSFR gap may come with a high regulatory cost in terms of slower economic growth. Consequently, Nedbank will continue to work closely with SARB, its peer group and the National Treasury in addressing the structural challenge ahead of the NSFR compliance date, with implementation currently planned for 1 January 2018.

Nedbank's strong funding and liquidity position is illustrated by the following:

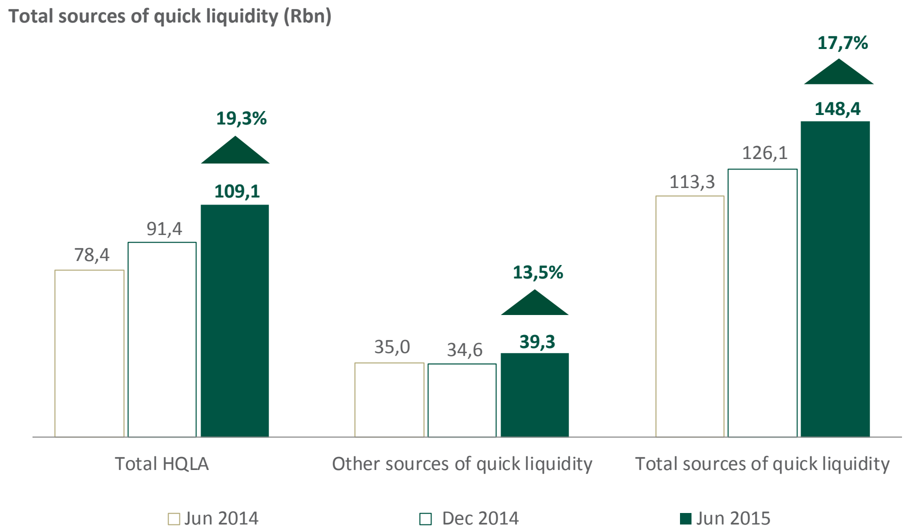
- The June 2015 LCR, calculated using the simple average of the month-end values for April 2015, May 2015 and June 2015, was 76,3% compared with the December 2014 quarterly average of 66,4%, exceeding the minimum regulatory requirement of 60,0%.
  - The total HQLA portfolio increased from a quarterly average of R91,4bn as at December 2014 to R109,1bn as at June 2015, while the LCR net cash outflows increased from R137,7bn to R143,0bn over the same period.
  - 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 domestic financial system and consequently in the LCR.
  - Nedbank will procure additional HQLAs to support balance sheet growth and the LCR phase-in from a minimum regulatory requirement of 60% in 2015 to 100% by 1 January 2019, while continuing to maintain appropriately sized surplus liquid-asset buffers.

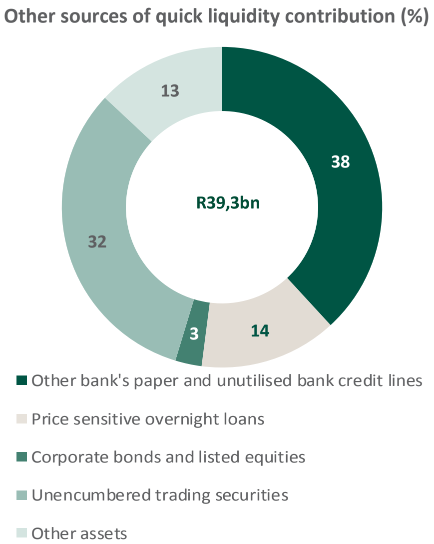
## NEDBANK GROUP LCR EXCEEDS MINIMUM REQULATORY REQUIREMENTS




- 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. These sources of quick liquidity include corporate bonds, listed equities, other marketable securities, price-sensitive overnight loans and other assets, which can be used to access stress funding. Nedbank's combined HQLA and other sources of quick liquidity portfolio amounted to R148,4bn as at June 2015, representing 17,1% of total assets.

## NEDBANK GROUP SIGNIFICANT SOURCES OF QUICK LIQUIDITY

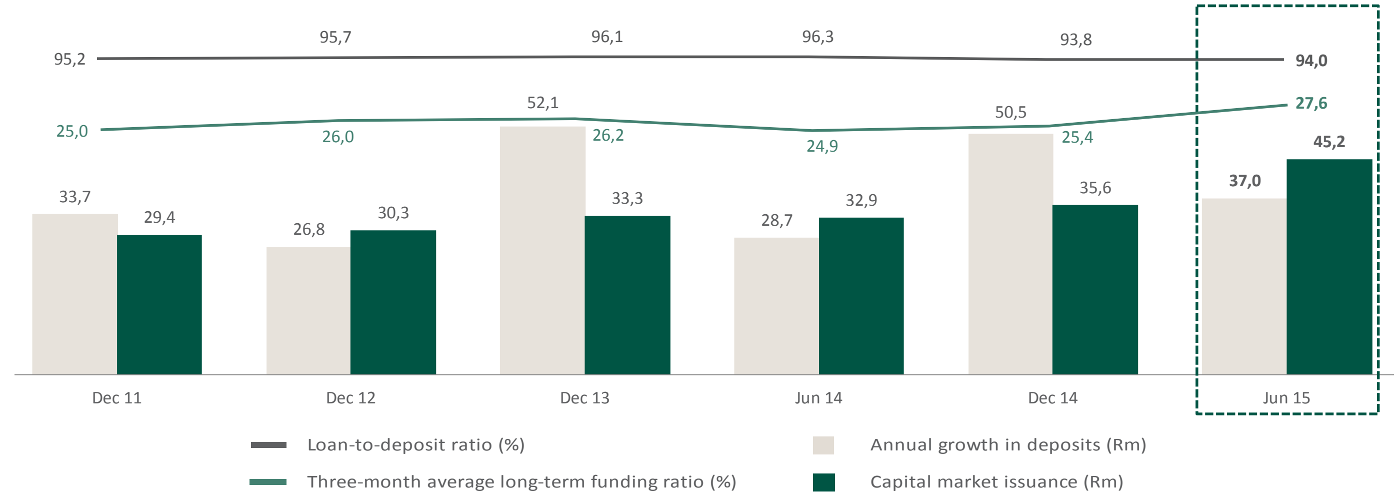


- A strong funding profile has been maintained in 2015, with Nedbank recording a three-month average long-term funding ratio of 27,6% in the second quarter of 2015 (quarterly average December 2014: 25,4%). While long-term funding ratios for the industry as a whole trended slightly lower in Q1 2015, largely driven by expectations of higher interest rates, Nedbank has maintained a slightly more conservative funding profile, with a long-term funding ratio of approximately 2,9% higher than the industry average.
  - Growth in the Nedbank Retail Savings Bonds of R1,6bn contributed positively to the longer-term funding bucket as well as the strategy of diversifying Nedbank's funding base, bringing the total amount issued to R13,4bn.
  - In addition, Nedbank successfully issued R10,5bn in senior unsecured debt in the first half of 2015, while R2,8bn matured during the first half of the year.
  - Nedbank also issued R2,3bn Basel III-compliant, fully loss-absorbent subordinated tier 2 debt capital instruments during the first half of 2015, refinancing R1,8bn of old-style Basel II-compliant hybrid debt instruments that were redeemed.
- The loan-to-deposit ratio remains consistently below 100% at 94,0% (December 2014: 93,8%), noting that the significant amount of long-term capital market funding issued in the first half of 2015, proportionally reduced deposits in relation to loans, albeit that these loans are now funded with more longer-term funding.
- Nedbank's reliance on foreign currency deposits as a percentage of deposits remained small at 5,5%, despite the fact that it has increased (December 2014: 4,6%) as part of Nedbank's strategy to diversify its funding sources and continues to match-fund foreign advances growth.

The annual ILAAP and ICAAP were signed off by the board of directors through the GRCMC in July 2015 and submitted to SARB.

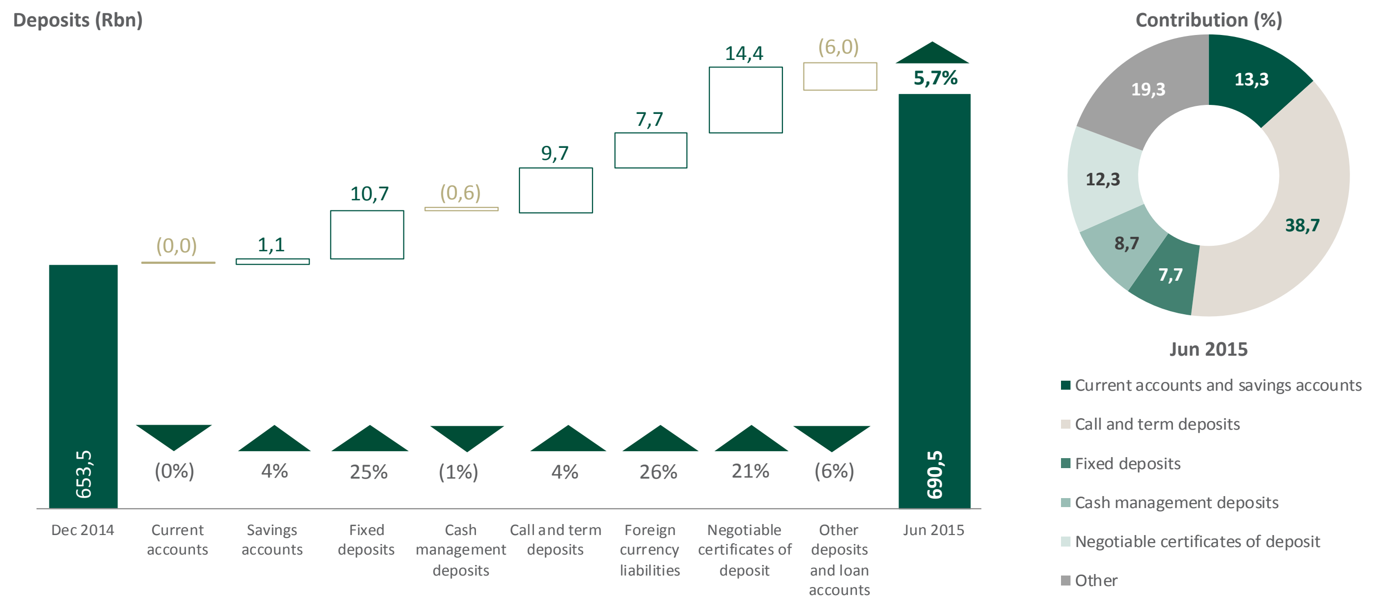
## NEDBANK GROUP FUNDING AND LIQUIDITY PROFILE, UNDERPINNED BY COMPETITIVE CAPITAL MARKETS ISSUANCE




Deposits grew 5,7% (11,4% annualised) to R690,5bn from R653,5bn in December 2014, while total funding-related liabilities grew 6,8% (13,6% annualised) to R735,7bn from R689,1bn.

- With 93,9% of all funding-related liabilities emanating from deposits, Nedbank continued to grow its retail and commercial banking franchise with deposit-funding contributions from the CIB, RBB and Wealth Clusters.
- In addition, Nedbank continued to provide competitive and innovative transactional and investment products, with its ongoing emphasis on meeting client needs through product, pricing and innovation. This will continue to be a key focus area as Nedbank seeks to grow the transactional banking franchise, addressing its suboptimal market share of transactional retail and commercial deposits, which currently represents an opportunity to grow NII and NIR further.
- Growth in fixed deposits and negotiable certificates of deposit have outperformed growth in all other short-term deposit products, including current accounts, cash management accounts and short-term savings accounts, as longer-term interest rates have edged up on the back of interest rate expectations driving demand for longer-term deposit products.
- Growth in Nedbank Retail Green Savings Bonds (part of fixed deposits) contributed positively to funding renewable-energy projects, lengthening and diversifying the funding profile, while also supplementing growth in traditional transactional, savings and investment products.

## NEDBANK GROUP STRONG DEPOSIT GROWTH AND A WELL-DIVERSIFIED DEPOSIT MIX




## Supplementary liquidity risk information

In accordance with the provisions of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990), banks are directed to comply with the relevant LCR disclosure requirements, as set out in Directive 6/2014 and Directive 11/2014. The table below sets out Nedbank's LCR at an aggregated group and bank solo level. The aggregated LCR consists of only banking and/or deposit-taking entities and represents an aggregation of the relevant individual net cash outflows and the individual HQLA portfolios, where surplus HQLA holdings in excess of the minimum requirement of 60% have been excluded from the aggregated HQLA number in the case of all non-SA banking entities. The disclosure reflects the simple average of the month-end values at 30 April 2015, 31 May 2015 and 30 June 2015 based on regulatory submissions to SARB.

### NEDBANK GROUP AND NEDBANK LIMITED LIQUIDITY COVERAGE RATIO

| | Nedbank Group Limited | | Nedbank Limited | |
|---|---|---|---|---|
| June 2015<br>Rm | Total unweighted[1] value (average) | Total weighted[2] value (average) | Total unweighted[1] value (average) | Total weighted[2] value (average) |
| **High-quality liquid assets** | | | | |
| **High-quality liquid assets** | | **109 060** | | **105 958** |
| **Cash outflows** | | | | |
| **Retail deposits and deposits from small business customers, of which:** | **182 934** | **15 227** | **171 131** | **14 191** |
| Stable deposits | 2 882 | 144 | | |
| Less stable deposits | 180 052 | 15 083 | 171 131 | 14 191 |
| **Unsecured wholesale funding, of which:** | **235 977** | **131 467** | **205 939** | **114 763** |
| Operational deposits (all counterparties) and deposits in institutional networks of cooperative banks | 111 056 | 31 754 | 96 893 | 27 857 |
| Non-operational deposits (all counterparties) | 124 921 | 99 713 | 109 046 | 86 906 |
| Unsecured debt | | | | |
| **Secured wholesale funding** | **12 508** | **9** | **12 508** | **9** |
| **Additional requirements, of which:** | **156 749** | **19 781** | **138 657** | **17 739** |
| Outflows related to derivatives exposures and other collateral requirements | 345 | 345 | 290 | 290 |
| Outflows related to loss of funding on debt products | 1 162 | 1 162 | 1 162 | 1 162 |
| Credit and liquidity facilities | 155 242 | 18 274 | 137 205 | 16 287 |
| **Other contractual funding obligations** | **44 741** | **3 598** | **44 741** | **3 598** |
| **Other contingent funding obligations** | **4 280** | **235** | | |
| **Total cash outflows** | **637 189** | **170 317** | **572 976** | **150 300** |
| **Cash inflows** | | | | |
| **Secured lending (eg reverse repos)** | **5 058** | **850** | **5 059** | **850** |
| **Inflows from fully performing exposures** | **33 828** | **24 182** | **19 334** | **10 359** |
| **Other cash inflows** | **4 971** | **4 943** | **2 786** | **2 786** |
| **Total cash Inflows** | **43 857** | **29 975** | **27 179** | **13 995** |
| | | **Total adjusted[3] value** | | **Total adjusted[3] value** |
| **Total HQLA** | | **109 060** | | **105 958** |
| **Total net cash outflows** | | **143 029** | | **136 305** |
| **LCR (%)** | | **76,3** | | **77,7** |

*[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 net cash outflows to the extent that regulatory caps have been applied to cash inflows as specified by the regulations.*

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

## NEDBANK GROUP CONTRACTUAL LIQUIDITY GAP

| Rm | Next day | 2 to 7 days | 8 days to 1 month | 1 to 2 months | 2 to 3 months | 3 to 6 months | 6 to 12 months | > 12 months | Total |
|---|---|---|---|---|---|---|---|---|---|
| **June 2015** | | | | | | | | | |
| Cash and cash equivalents | **37 512** | **1 418** | **2 307** | **12** | **2 477** | **104** | **221** | **199** | **44 250** |
| Other short-term securities | **1 010** | **417** | **9 347** | **6 051** | **6 411** | **15 517** | **21 342** | **5 988** | **66 083** |
| Derivative financial instruments | **23** | **135** | **541** | **699** | **676** | **862** | **1 291** | **10 505** | **14 732** |
| Government and other securities | | **1 300** | | **1 106** | **4 102** | **382** | **2 383** | **28 376** | **37 649** |
| Loans and advances | **40 595** | **18 670** | **51 170** | **12 803** | **14 287** | **26 291** | **46 073** | **438 955** | **648 844** |
| Other assets | | | | | | | | **55 066** | **55 066** |
| **Total assets** | **79 140** | **21 940** | **63 365** | **20 671** | **27 953** | **43 156** | **71 310** | **539 089** | **866 624** |
| Total equity | | | | | | | | **72 574** | **72 574** |
| Derivative financial instruments | **18** | **109** | **435** | **562** | **543** | **892** | **732** | **11 725** | **15 016** |
| Amounts owed to depositors | **326 315** | **13 822** | **46 254** | **63 621** | **49 364** | **43 642** | **62 936** | **84 541** | **690 495** |
| Provision and other liabilities | **12 196** | | | | | | | **31 113** | **43 309** |
| Long-term debt instruments | | | **122** | **252** | **5 604** | | **1 844** | **37 408** | **45 230** |
| **Total equity and liabilities** | **338 529** | **13 931** | **46 811** | **64 435** | **55 511** | **44 534** | **65 512** | **237 361** | **866 624** |
| **Net liquidity gap – June 2015** | **(259 389)** | **8 009** | **16 554** | **(43 764)** | **(27 558)** | **(1 378)** | **5 798** | **301 728** | **-** |
| **Net liquidity gap – June 2014** | (249 542) | 4 082 | 8 962 | (37 019) | (5 644) | (6 477) | (7 208) | 292 846 | - |
| **Net liquidity gap – December 2014** | (256 007) | (26 346) | 31 316 | (32 130) | (19 288) | (11 132) | 7 225 | 306 362 | - |

The BaU liquidity mismatch of Nedbank Group is presented below. The table shows the expected liquidity mismatch under normal market conditions after taking into account the behavioural attributes of stable deposits, savings and investment products and rollover assumptions associated with term deals, but excluding BaU management actions. Based on client behavioural attributes, it is estimated that 93% (December 2014: 94%) of the amounts owed to depositors are stable.

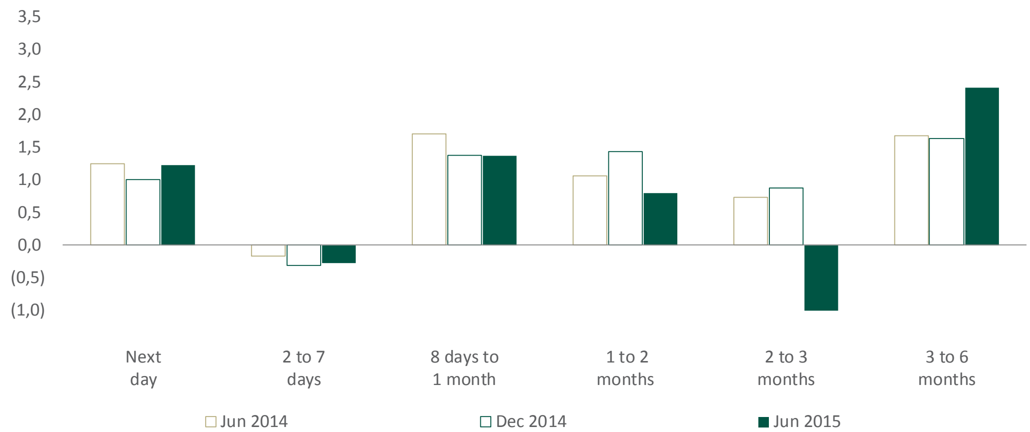
## NEDBANK GROUP BUSINESS-AS-USUAL LIQUIDITY GAP

| 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 2015** | | | | | | | | | |
| Cash and cash equivalents | | | | | | | | **44 250** | **44 250** |
| Other short-term securities | **1 010** | **417** | **9 347** | **6 051** | **6 411** | **15 517** | **21 342** | **5 988** | **66 083** |
| Derivative financial instruments | **23** | **135** | **541** | **699** | **676** | **862** | **1 291** | **10 505** | **14 732** |
| Government and other securities | | | | | | | | **37 649** | **37 649** |
| Loans and advances | **11 423** | **2 340** | **25 488** | **15 017** | **15 665** | **40 299** | **77 207** | **461 405** | **648 844** |
| Other assets | | | | | | | | **55 066** | **55 066** |
| **Total assets** | **12 456** | **2 892** | **35 376** | **21 767** | **22 752** | **56 678** | **99 840** | **614 863** | **866 624** |
| Total equity | | | | | | | | **72 574** | **72 574** |
| Derivative financial instruments | **18** | **109** | **435** | **562** | **543** | **892** | **732** | **11 725** | **15 016** |
| Amounts owed to depositors | **1 750** | **5 173** | **22 947** | **14 060** | **27 130** | **34 799** | **68 897** | **515 739** | **690 495** |
| Provision and other liabilities | | | | | | | | **43 309** | **43 309** |
| Long-term debt instruments | | | **122** | **252** | **5 604** | | **1 844** | **37 408** | **45 230** |
| **Total equity and liabilities** | **1 768** | **5 282** | **23 504** | **14 874** | **33 277** | **35 691** | **71 473** | **680 755** | **866 624** |
| **Net liquidity gap – June 2015** | **10 688** | **(2 390)** | **11 872** | **6 893** | **(10 525)** | **20 987** | **28 367** | **(65 892)** | **-** |
| **Net liquidity gap – June 2014** | 9 837 | (1 279) | 13 379 | 8 310 | 5 753 | 13 227 | 21 305 | (70 532) | - |
| **Net liquidity gap – December 2014** | 8 191 | (2 458) | 11 133 | 11 583 | 7 131 | 13 287 | 21 511 | (70 378) | - |

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

## NEDBANK GROUP BEHAVIOURAL LIQUIDITY MISMATCH[1]

%




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

As supplementary information, 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 2015** | | | | | | | | | |
| **Contractual maturity of assets** | **73 872** | **17 655** | **63 630** | **17 126** | **24 722** | **40 061** | **61 576** | **464 095** | **762 737** |
| Loans and advances | **34 291** | **2 183** | **46 197** | **9 339** | **9 152** | **21 892** | **41 985** | **386 018** | **551 057** |
| Trading, hedging and other investment instruments | **7 232** | **15 472** | **17 433** | **7 787** | **15 570** | **18 169** | **19 591** | **53 506** | **154 760** |
| Other assets | **32 349** | | | | | | | **24 571** | **56 920** |
| **Contractual maturity of liabilities** | **299 670** | **13 113** | **42 475** | **59 129** | **50 460** | **44 953** | **67 689** | **185 248** | **762 737** |
| Stable deposits | **280 310** | **9 865** | **33 107** | **43 841** | **22 891** | **32 032** | **50 529** | **72 056** | **544 631** |
| Volatile deposits | **13 067** | **524** | **3 426** | **2 728** | **2 759** | **3 146** | **7 073** | **6 516** | **39 239** |
| Trading and hedging instruments | **6 293** | **2 724** | **5 942** | **12 560** | **24 810** | **9 775** | **10 087** | **43 571** | **115 762** |
| Other liabilities | | | | | | | | **63 105** | **63 105** |
| **Net liquidity gap – June 2015** | **(225 798)** | **4 542** | **21 155** | **(42 003)** | **(25 738)** | **(4 892)** | **(6 113)** | **278 847** | **-** |
| **Net liquidity gap – June 2014** | (222 763) | 3 815 | 23 888 | (34 136) | (5 201) | (3 336) | (13 302) | 251 035 | - |
| **Net liquidity gap – December 2014** | (222 238) | (28 832) | 32 426 | (30 798) | (16 575) | (11 963) | 2 522 | 275 458 | - |

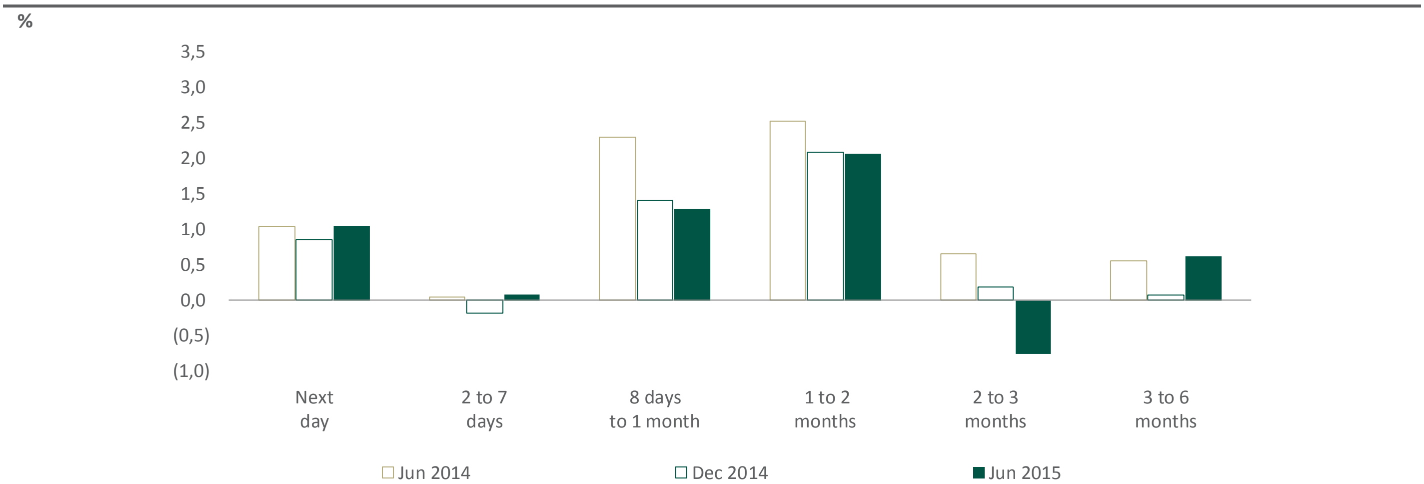
The BaU liquidity mismatch of Nedbank Limited is presented below. The table shows the expected liquidity mismatch under normal market conditions after taking into account the behavioral attributes of stable deposits, savings and investment products and rollover assumptions associated with term deals, but excluding BaU management actions. Based on client behavioral attributes, it is estimated that 93% (December 2014: 94%) 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 2015** | | | | | | | | | |
| **BaU maturity of assets** | **12 719** | **8 125** | **43 775** | **29 031** | **19 454** | **37 947** | **68 890** | **542 796** | **762 737** |
| Loans and advances | **9 706** | **1 987** | **21 646** | **12 754** | **13 304** | **34 226** | **65 571** | **391 863** | **551 057** |
| Trading, hedging and other investment instruments | **3 013** | **6 138** | **22 129** | **16 277** | **6 150** | **3 721** | **3 319** | **94 013** | **154 760** |
| Other assets | | | | | | | | **56 920** | **56 920** |
| **BaU maturity of liabilities** | **4 775** | **8 691** | **34 030** | **13 315** | **25 267** | **33 235** | **65 792** | **577 632** | **762 737** |
| Stable deposits | **157** | **1 451** | **6 380** | **9 161** | **20 182** | **26 279** | **51 185** | **429 836** | **544 631** |
| Volatile deposits | **1 322** | **2 923** | **13 023** | **2 728** | **2 759** | **3 146** | **7 073** | **6 265** | **39 239** |
| Trading and hedging instruments | **3 296** | **4 317** | **14 627** | **1 426** | **2 326** | **3 810** | **7 534** | **78 426** | **115 762** |
| Other liabilities | | | | | | | | **63 105** | **63 105** |
| **Net liquidity gap – June 2015** | **7 944** | **(566)** | **9 745** | **15 716** | **(5 813)** | **4 712** | **3 098** | **(34 836)** | **-** |
| **Net liquidity gap – June 2014** | 7 161 | 335 | 15 848 | 17 482 | 4 476 | 3 843 | 1 931 | (51 076) | - |
| **Net liquidity gap – December 2014** | 6 059 | (1 343) | 10 037 | 14 922 | 1 316 | 529 | 4 591 | (36 111) | - |

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

## NEDBANK LIMITED BEHAVIOURAL LIQUIDITY MISMATCH[1]




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

# SECURITISATION RISK

Nedbank Group uses securitisation exclusively as a funding diversification tool and to add flexibility in mitigating structural liquidity risk.

The group currently has three traditional securitisation transactions and one asset-backed commercial paper (ABCP) programme:

- Greenhouse Funding (RF) Limited (Greenhouse I), a residential-mortgage-backed securitisation (RMBS) programme that was launched in December 2007 and refinanced in November 2012.
- Precinct Funding 1 (RF) Limited (Precinct), a commercial-mortgage-backed securitisation (CMBS) programme that was launched in March 2013.
- Greenhouse Funding III (RF) Limited (Greenhouse III) is a second standalone RMBS programme. In anticipation of the issuance of notes to the capital market, a portfolio of eligible residential mortgages originated by Nedbank Retail was sold to the vehicle and funded by way of a warehousing facility from Nedbank. The notes were issued in April 2015 as part of the group's funding plan.
- Synthesis Funding Limited (Synthesis), an ABCP programme that was launched during 2004.

Greenhouse I and 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, whilst the junior notes were retained by the bank. In addition, Nedbank has retained a portion of the senior A1 notes in Greenhouse III. The notes issued in both transactions have been assigned credit ratings by Fitch and are listed on the Johannesburg Stock Exchange Limited (JSE).

Nedbank fulfils the roles of originator, servicer, credit enhancement (subordinated-loan) facility provider, swap counterparty and investor to Precinct, Greenhouse I and Greenhouse III.

Precinct is a securitisation of commercial property loans originated by Nedbank Corporate. The transaction is 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 are rated by Moody's and listed on the JSE, with the senior notes being placed with SA capital markets investors and the junior notes being retained by the bank.

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-investment-grade commercial paper to institutional investors. 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. All the commercial paper issued by Synthesis is assigned the highest short-term local currency credit rating by Fitch and is listed on the JSE.

Nedbank currently fulfils a number of roles in relation to Synthesis, including acting as sponsor, liquidity facility provider, credit enhancement facility provider, swap counterparty and investor. The exposures to Synthesis that Nedbank assumes, primarily in the form of undrawn liquidity facilities, are measured, from both a regulatory capital 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 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

| Rm | Year initiated | Rating agency | Transaction type | Asset type | Assets securitised[1] Jun 2015 | Jun 2014 | Dec 2014 | Assets outstanding Jun 2015 | Jun 2014 | Dec 2014 | Amount retained/purchased Jun 2015 | Jun 2014 | Dec 2014 | Risk-weighted assets[2] Jun 2015 | Jun 2014 | Dec 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Greenhouse I | 2007 | Fitch | Traditional securitisation | Home loans | **2 049** | 2 049 | 2 049 | **1 459** | 1 669 | 1 557 | **377** | 379 | 377 | **339** | 393 | 361 |
| Precinct | 2013 | Moody's | Traditional securitisation | Commercial property loans | **2 344** | 2 344 | 2 344 | **1 391** | 1 837 | 1 586 | **523** | 527 | 514 | **497** | 652 | 580 |
| Greenhouse III | 2014 | Fitch | Traditional securitisation | Home loans | **2 052** | | 962 | **2 011** | | 962 | **440** | | 967 | **480** | | 225 |

[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

| Rm | Year initiated | Rating agency | Transaction type | Asset type | Programme size | Face value of notes outstanding Jun 2015 | Jun 2014 | Dec 2014 | Liquidity facilities Jun 2015 | Jun 2014 | Dec 2014 | Risk-weighted assets[1] Jun 2015 | Jun 2014 | Dec 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Synthesis | 2004 | Fitch | ABCP programme | Asset-backed securities, corporate term loans and bonds | 15 000 | **3 338** | 4 548 | 3 291 | **3 341** | 4 552 | 3 293 | **708** | 965 | 698 |

[1] *The regulatory capital held against these securitisation exposures is capped at the IRB capital that the bank would have held against the underlying assets had they not been securitised, subject to a 20% risk-weighting floor.*

Nedbank Group also established a CMBS vehicle in 2014 to provide as collateral against its use of the committed liquidity facility (CLF) provided by SARB in 2015.

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 securitisation vehicles and the Precinct securitisation vehicle 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) reflect in the monthly BA 500 regulatory reporting. The processes do not differ for the liquidity facilities provided to Synthesis that are classified as resecuritisation exposures.

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

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 | ✔ | | ✔ | ✔ | | ✔ | ✔ |
| Greenhouse I | ✔ | | ✔ | ✔ | | ✔ | ✔ |
| Greenhouse III | ✔ | | ✔ | ✔ | | ✔ | ✔ |
| Synthesis | | ✔ | ✔ | | ✔ | ✔ | ✔ |
| Fintech Receivables 2 (Pty) Limited | | | ✔ | | ✔ | | ✔ |
| MW Asset Rentals (Pty) Limited | | | ✔ | | | | |

The tables below show the rating distribution of retained and purchased securitisation exposures.

| Rating (national scale) | Securitisation exposure | | | Greenhouse I exposure | | |
|---|---|---|---|---|---|---|
| **Rm** | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 |
| AAA or A1/P1 | | | | | | |
| AA+ to AA- | | | | | | |
| A+ to A- | | | | | | |
| BBB+ to BBB- | **194** | 137 | 195 | **71** | 71 | 71 |
| BB+ to BB- | | | | | | |
| Unrated | **94** | 92 | 94 | **306** | 308 | 306 |
| Unrated liquidity facilities to ABCP programme | **3341** | 4 552 | 3 293 | | | |
| **Total** | **3 629** | 4 781 | 3 582 | **377** | 379 | 377 |

| Rating (national scale) | Greenhouse III exposure | | | Precinct exposure | | |
|---|---|---|---|---|---|---|
| **Rm** | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 |
| AAA or A1/P1 | **152** | | | | | |
| AA+ to AA- | | | | | | |
| A+ to A- | | | | **101** | 101 | 101 |
| BBB+ to BBB- | | | | **127** | 127 | 127 |
| BB+ to BB- | | | | | | |
| Unrated | **288** | | 967 | **295** | 299 | 286 |
| Unrated liquidity facilities to ABCP programme | | | | | | |
| **Total** | **440** | | 967 | **523** | 527 | 514 |

It should be noted that, while national scale ratings have been used in the tables above, global-scale-equivalent ratings are used for regulatory purposes. These resecuritisation exposures are held in the banking book.

The table below shows the IRB consolidated group regulatory presentation per risk band for securitised exposures retained or purchased by Nedbank Group.

| **Risk – weighted bands** | **Exposure** | | | **Capital charge** | | | **Capital deduction** | | |
|---|---|---|---|---|---|---|---|---|---|
| **Rm** | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 |
| 7% – 10% | **302** | 200 | 199 | **1** | 1 | 1 | | | |
| 11% – 19% | | | | | | | | | |
| 20% – 49% | **3 493** | 4 552 | 4 260 | **72** | 77 | 74 | | | |
| 50% – 75% | **526** | 239 | 527 | **13** | 7 | 10 | | | |
| 76% – 99% | | 230 | | **86** | | 29 | | | |
| 100% or more | **294** | 299 | 286 | **49** | 84 | 46 | | | |
| 250% or more | **186** | 11 | | | 3 | | | | |
| 425% or more | **138** | 127 | 138 | **6** | | 4 | | | |
| 650% or more | | | | | | | | | |
| 1 250% or deducted | **30** | 30 | 30 | | | | | | |
| **Total** | **4 969** | 5 688 | 5 440 | **227** | 172 | 164 | | | |

*Note: The Greenhouse and Precinct exposures are bucketed into the risk weighted bands based on the Ratings-based Approach and Supervisory Formula Approach results. However the risk weight of these exposures was capped to that of the underlying assets.*

Nedbank Group did not securitise any exposures that were impaired or past due at the time of securitisation. No losses were recognised by the bank during the current reporting period.

# MARKET RISKS

Market risk comprises four main areas:

- Interest rate risk in the banking book (IRRBB), which arises from re-pricing 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 function currency.
- Equity risk (a sub-risk of investment 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 (also a sub-risk of investment 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.

- Nedbank's IRRBB is positioned for an upward interest rate cycle and is predominantly managed in line with impairment sensitivity for similar rate change expectations.
- The focus of the trading businesses is to continue to develop the flow model by leveraging the dealflow from clients.
- Equity risk in the banking book, or investment risk, is low relative to the rest of the balance sheet. The main development in this area in 2014 was the strategic acquisition of Banco Único and ETI. These are accounted for under the equity method of accounting which, total R6 119m. The total equity risk in the banking book portfolio that is fair-valued is R4 224m.
- FCT risk remains relatively low, even after the acquisition of equity stakes in ETI and Banco Único in 2014, with a sensitivity to a 10% change in the value of the rand only having a 0,2% (June 2014: 0,1%) impact on the group's total regulatory capital adequacy ratio.

## SUMMARY OF NEDBANK GROUP MARKET RISK PROFILE

| | | **Jun 2015** | Jun 2014 | Dec 2014 |
|---|---|---|---|---|
| **Interest rate risk in the banking book (high)** | | | | |
| NII sensitivity to 1% decline in interest rates (equal and opposite positive NII impact for an increase in interest rates)[1] | (Rm) | **(1 104)** | (937) | (1 019) |
| NII sensitivity to 2% decline in interest rates (equal and opposite positive NII impact for an increase in interest rates)[1] | (Rm) | **(2 181)** | (1 869) | (2 022) |
| % of OSE (board limit: < 2,25%)[2] | (%) | **1,61** | 1,48 | 1,52 |
| **Trading market risk (low)** | | | | |
| % of group minimum economic capital requirement | (%) | **0,5** | 1,2 | 1,1 |
| Total VaR (99%, one-day VaR) exposure (average) | (Rm) | **11,1** | 10,1 | 10,7 |
| Total stressed VaR exposure (99%, one-day VaR at the end of the period) | (Rm) | **21,4** | 31,8 | 24,2 |
| **Foreign currency translation risk (low)** | | | | |
| Impact on group's total regulatory capital ratio for 10% change in the value of the rand | (%) | **0,2** | 0,1 | 0,2 |
| **Equity risk in the banking book (low)** | | | | |
| Total equity portfolio | (Rm) | **10 343** | 5 732 | 11 533 |
| Disclosed at fair value | (Rm) | **4 224** | 5 227 | 4 761 |
| Equity-accounted[3] | (Rm) | **6 119** | 505 | 6 772 |
| % of total assets | (%) | **1,2** | 0,7 | 1,4 |
| % of group minimum economic capital requirement | (%) | **4,8** | 3,6 | 6,9 |

[1] *Positioned for an upward interest rate cycle.*

[2] *Measured for a 1% decline in interest rates.*

[3] *Equity-accounted investments increased significantly in December 2014 due to the strategic acquisition of Banco Único and ETI.*

The contribution of equity risk in the banking book to the group's minimum economic capital increased to 4,8% (June 2014: 3,6%) largely as a result of the acquisition of an approximate 20% stake in ETI, driving a significant increase in investment exposure. The impact of the increased equity exposure was partially offset by the economic capital methodology updates implemented in 2015, resulting in a higher minimum economic capital requirement and a larger interrisk diversification benefit for investment risk (ie lower diversified investment risk economic capital). On a like-for-like basis the contribution for June 2014 and December 2014 would have been 2,6% and 4,9% respectively had the current methodology been in place during 2014.

**NEDBANK GROUP MARKET RISKS ECONOMIC CAPITAL AS A PERCENTAGE OF TOTAL ECONOMIC CAPITAL**


## 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 being effectively managed and reported on throughout Nedbank Group, and that all policy, risk limit 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) 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 monthly and are independently chaired by the Head of GMRM. Members include the Chief Risk Officer, risk managers from the cluster, the cluster's Managing Executive and Executive Head of Risk, as well as representatives from GMRM.
- Specialist investment risk committees within the business areas meetings are convened monthly and as required to approve acquisitions and disposals, and on a quarterly basis to review investment valuations and monitor investment risk activities. Membership includes the Chief Risk Officer, Chief Financial Officer, 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 book (ALM and investments) and the trading book. 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 interest rate risk in the banking book (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 125). 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 economic value, within which this risk must be managed. Compliance with these limits is measured and reported to the Group ALCO and the board on a monthly basis.

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 fixed-rate advances are typically individually hedged. The principle 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 principle 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 chooses 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 interest rate sensitivity and the EVE 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 via 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 earnings-at-risk and EVE for a standard interest rate shock, and stress testing of earnings-at-risk 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 Group'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 group'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 GROUP INTEREST RATE REPRICING GAP

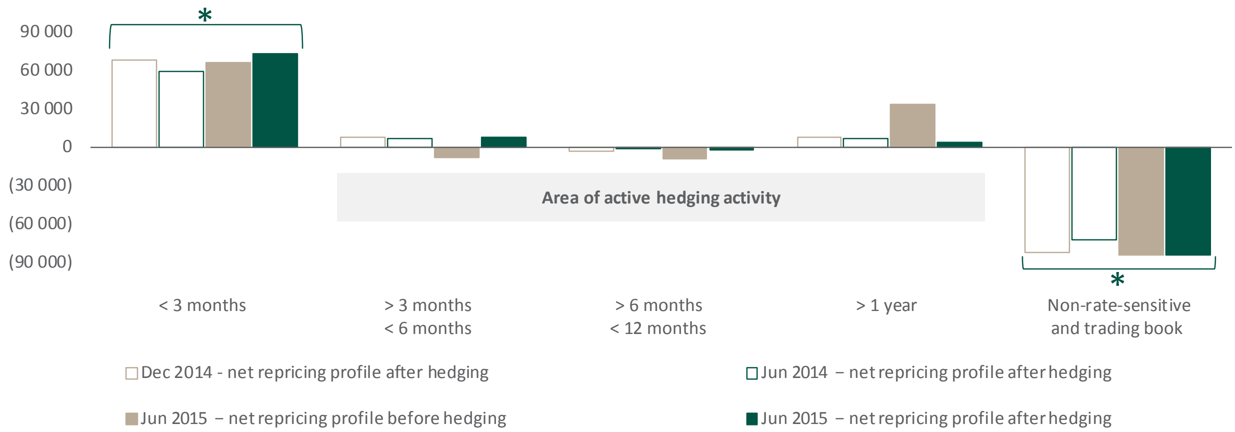
| Rm | < 3 months | > 3 months < 6 months | > 6 months < 12 months | > 1 year | Non-rate sensitive and trading book |
|---|---|---|---|---|---|
| **June 2015** | | | | | |
| Net repricing profile before hedging | **66 255** | **(7 900)** | **(8 557)** | **34 200** | **(83 998)** |
| Net repricing profile after hedging | **73 407** | **8 385** | **(1 409)** | **3 615** | **(83 998)** |
| Cumulative repricing profile after hedging | **73 407** | **81 792** | **80 383** | **83 998** | **-** |
| June 2014 | | | | | |
| Net repricing profile before hedging | 42 719 | (3 587) | (9 981) | 43 027 | (72 178) |
| Net repricing profile after hedging | 59 501 | 6 746 | (1 185) | 7 116 | (72 178) |
| Cumulative repricing profile after hedging | 59 501 | 66 247 | 65 062 | 72 178 | - |
| December 2014 | | | | | |
| Net repricing profile before hedging | 44 092 | 593 | (3 944) | 40 987 | (81 728) |
| Net repricing profile after hedging | 68 472 | 8 121 | (2 674) | 7 809 | (81 728) |
| Cumulative repricing profile after hedging | 68 472 | 76 593 | 73 919 | 81 728 | - |

## 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 2015** | | | | | |
| Net repricing profile before hedging | **46 688** | **(15 623)** | **(9 416)** | **32 554** | **(54 203)** |
| Net repricing profile after hedging | **50 912** | **1 234** | **(1 343)** | **3 400** | **(54 203)** |
| Cumulative repricing profile after hedging | **50 912** | **52 146** | **50 803** | **54 203** | **-** |
| June 2014 | | | | | |
| Net repricing profile before hedging | 22 476 | (6 241) | (14 041) | 38 258 | (40 452) |
| Net repricing profile after hedging | 36 941 | 3 608 | (4 559) | 4 462 | (40 452) |
| Cumulative repricing profile after hedging | 36 941 | 40 549 | 35 990 | 40 452 | - |
| December 2014 | | | | | |
| Net repricing profile before hedging | 28 961 | (7 994) | (4 507) | 35 898 | (52 358) |
| Net repricing profile after hedging | 50 705 | (645) | (2 270) | 4 568 | (52 358) |
| Cumulative repricing profile after hedging | 50 705 | 50 060 | 47 790 | 52 358 | - |

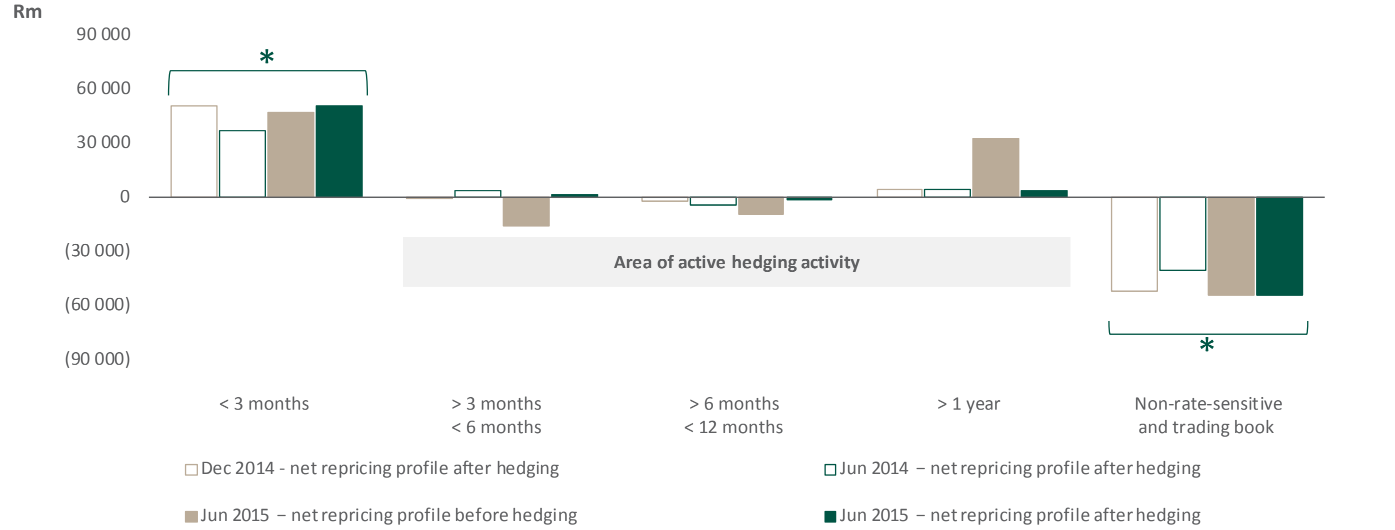
## NEDBANK GROUP INTEREST RATE REPRICING PROFILE

Rm




** Non-rate sensitive capital, working capital and transactional deposit accounts expose the balance sheet to sensitivity as this net position is positioned to reprice in < 3 months.*

## NEDBANK LIMITED INTEREST RATE REPRICING PROFILE




** Non-rate-sensitive capital, working capital and transactional deposit accounts expose the balance sheet to sensitivity as net advances are positioned to reprice in < 3 months.*

Group ALCO typically has strategic appetite for IRRBB out to one year and, largely as a matter of policy, eliminates reprice risk longer than one year, unless Group ALCO chooses 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.

Nedbank's interest rate repricing profile graphically represents the repricing of floating-rate assets and liabilities and the maturity of fixed-rate assets and liabilities through a repricing time series. The net repricing profile before hedging clearly highlights the following:

- Asset sensitivity in the < 3-month repricing bucket, as a result of primarily prime-linked advances.
- Liability sensitivity in the > 3-month and < 12-month repricing buckets, largely as a result of fixed-rate term funding.
- Asset sensitivity in the > 1-year repricing bucket, as a result of longer-dated fixed-rate advances and government securities offsetting fixed-rate deposits and debt raised beyond one year.

The net repricing profile after hedging highlights the impact of hedging 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 2015 the NII sensitivity of the group's banking book for a 1% parallel reduction in interest rates is 1,61% of total group OSE (December 2014: 1,52%), which is well within the board's approved risk limit of < 2,25%. This exposes the group to a decrease in NII of approximately R1 104m before tax should interest rates fall by 1%, measured over a 12-month period. NII sensitivity, as currently modelled, exhibits very little convexity and therefore will also result in an increase in pretax NII of approximately similar amounts should interest rates increase by 1%.

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

Nedbank Limited's EVE, measured for a 1% parallel decrease in interest rates, remains at a low level of R65m at June 2015 (December 2014: R105m). The low level of EVE is the 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.

The table below highlights the group's and bank's exposure to interest rate risk, measured for normal and stressed interest rate changes.

## EXPOSURE TO INTEREST RATE RISK

| | | Nedbank Limited | | | Other Group Companies | | | Nedbank Group | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Rm | Note | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 |
| **NII sensitivity** | 1 | | | | | | | | | |
| 1% instantaneous decline in interest rates | | **(935)** | (736) | (844) | **(169)** | (201) | (175) | **(1 104)** | (937) | (1 019) |
| 2% instantaneous decline in interest rates | | **(1 884)** | (1 499) | (1 708) | **(297)** | (370) | (314) | **(2 181)** | (1 869) | (2 022) |
| **Basis interest rate risk sensitivity** | 2 | | | | | | | | | |
| 0,25% narrowing of prime/call differential | | **(258)** | (258) | (299) | **(7)** | (0) | (1) | **(265)** | (258) | (300) |
| **EVE sensitivity** | 3 | | | | | | | | | |
| 1% instantaneous decline in interest rates | | **65** | 145 | 105 | **n/a** | n/a | n/a | **n/a** | n/a | n/a |
| 2% instantaneous decline in interest rates | | **137** | 294 | 209 | **n/a** | n/a | n/a | **n/a** | n/a | n/a |
| **NII sensitivity** | | | | | | | | | | |
| Instantaneous stress shock[1] | 4 | **(4 858)** | (3 865) | (4 238) | **n/a** | n/a | n/a | **n/a** | n/a | n/a |
| Instantaneous stress shock modelled as a ramp[1] | 5 | **(4 630)** | (3 777) | (4 345) | **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 moves.*
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** is derived from the principles espoused in the Basel Committee paper 'Principles for the Management and Supervision of Interest Rate Risk'. 1st and 99th percentile observed interest rate changes over a five-year period with a one-year holding period have been used.*
5. *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 is hedged using derivative positions removing 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] | At fair value through profit or loss Designated | Available-for-sale financial assets | Held-to-maturity investments |
|---|---|---|---|---|
| **June 2015** | | | | |
| Government and other securities[2] | **32 281** | **17 257** | **270** | **14 754** |
| Other short-term securities[3] | **46 338** | **12 483** | | **33 855** |
| **Total** | **78 619** | **29 740** | **270** | **48 609** |
| June 2014 | | | | |
| Government and other securities[2] | 30 678 | 20 444 | | 10 234 |
| Other short-term securities[3] | 29 935 | 19 986 | | 9 949 |
| **Total** | 60 613 | 40 430 | | 20 183 |
| December 2014 | | | | |
| Government and other securities[2] | 25 705 | 16 577 | 270 | 8 858 |
| Other short-term securities[3] | 48 112 | 14 572 | | 33 540 |
| **Total** | 73 817 | 31 149 | 270 | 42 398 |

*[1] Nedbank Limited banking book liquid asset portfolios.*
*[2] Government bonds.*
*[3] Treasury bills.*

Nedbank's liquid asset portfolios accounting treatment is determined by the group's interest rate risk management strategies as described above in order 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 banking book portfolios are risk managed using interest rate swaps. These portfolios are managed within board approved mark-to-market (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 are a clear example of Nedbank's embedded interest rate risk management approach in managing risks within clearly defined risk appetite.

| June 2015<br>Government and other short-term securities | Notional<br>Rm | PV01[1]<br>no risk management<br>Rm | PV01[1]<br>with risk management<br>Rm |
|---|---|---|---|
| **Designated fair value through profit or loss and AFS** | **30 010** | **(5,5)** | **(0,6)** |
| Risk-managed with derivatives | **30 010** | **(5,5)** | **(0,6)** |
| **Held-to-Maturity investments** | **48 609** | **(7,3)** | **-** |
| Risk-managed with long-term debt instruments with similar designation | **14 250** | **(5,8)** | **-** |
| Risk-managed with fixed-rate term funding | **34 359** | **(1,5)** | **-** |
| **Total** | **78 619** | **(12,8)** | **(0,6)** |
| **Risk management effectiveness** | | | **95%** |

[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 95% through on- and of-balance sheet risk management strategies.

# Trading market risk

Trading market risk is the potential for changes in the market value of the trading book resulting from changes in the market risk factors over a defined period. 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 detail, ranging from individual trader-level right 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 timeously resolved.

## 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 expected 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 pre-tax 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 VaR's 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 in 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 on portfolio values of extreme moves in markets, 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 monthly to 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 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.

Since the publication of the Basel Committee's second consultative paper on the Fundamental Review of the Trading Book (FRTB) published in October 2013, Nedbank has participated in three QISs during the course of 2014 and the first half of 2015. Nedbank continues to assess the impact of the FRTB on its trading business, both from a capitalisation and operational perspective, and will continue to participate in further QISs in the second half of 2015.

| | Trading book VaR | | | | Trading book stressed VaR | | | |
|---|---|---|---|---|---|---|---|---|
| **Risk type** | **Historical VaR (99%, one-day VaR)** | | | | **Historical stressed VaR (99%, 10-day VaR)**[1] | | | |
| | Average | Minimum[2] | Maximum[2] | End of period | Average | Minimum[2] | Maximum[2] | End of period |
| **January – June 2015** | | | | | | | | |
| Foreign exchange | **2,0** | **0,6** | **5,2** | **3,3** | **24,6** | **4,2** | **58,0** | **44,5** |
| Interest rate | **6,0** | **3,7** | **11,8** | **4,4** | **58,6** | **37,2** | **76,8** | **54,1** |
| Equity | **1,9** | **0,6** | **5,9** | **2,0** | **14,4** | **3,3** | **32,6** | **5,3** |
| Credit | **6,2** | **4,9** | **7,9** | **7,4** | **36,7** | **22,9** | **50,2** | **49,0** |
| Commodity | **0,3** | **< 0,1** | **1,1** | **< 0,1** | **0,3** | **< 0,1** | **1,8** | **0,1** |
| Diversification[3] | **(5,3)** | | | **(6,2)** | **(57,5)** | | | **(85,3)** |
| **Total VaR exposure** | **11,1** | **7,5** | **22,3** | **10,9** | **77,1** | **57,5** | **101,0** | **67,7** |
| January – June 2014 | | | | | | | | |
| Foreign exchange | 5,2 | 1,3 | 10,7 | 4,7 | 51,4 | 15,9 | 103,2 | 71,6 |
| Interest rate | 7,6 | 5,2 | 12,1 | 6,2 | 60,6 | 39,8 | 80,1 | 47,6 |
| Equity | 1,5 | 0,6 | 5,6 | 4,0 | 8,0 | 2,2 | 22,0 | 21,9 |
| Credit | 3,6 | 2,7 | 4,4 | 3,6 | 23,4 | 20,4 | 28,0 | 24,2 |
| Commodity | 0,1 | < 0,1 | 0,8 | < 0,1 | 0,2 | < 0,1 | 2,0 | < 0,1 |
| Diversification[3] | (7,9) | | | (3,8) | (56,4) | | | (64,7) |
| **Total VaR exposure** | 10,1 | 6,9 | 14,8 | 14,7 | 87,2 | 44,5 | 130,8 | 100,6 |

| | Trading book VaR | | | | Trading book stressed VaR | | | |
|---|---|---|---|---|---|---|---|---|
| **Risk type** | **Historical VaR (99%, one-day VaR)** | | | | **Historical stressed VaR (99%, 10-day VaR)**[1] | | | |
| | Average | Minimum[2] | Maximum[2] | End of period | Average | Minimum[2] | Maximum[2] | End of period |
| January – December 2014 | | | | | | | | |
| Foreign exchange | 3,7 | 0,6 | 10,7 | 0,9 | 41,1 | 3,5 | 103,2 | 4,5 |
| Interest rate | 7,8 | 5,2 | 12,1 | 5,8 | 57,6 | 36,3 | 111,9 | 59,9 |
| Equity | 2,0 | 0,6 | 5,7 | 1,1 | 14,8 | 2,2 | 45,7 | 8,0 |
| Credit | 3,8 | 2,7 | 5,3 | 5,3 | 35,4 | 20,4 | 68,6 | 26,0 |
| Commodity | 0,3 | < 0,1 | 0,9 | 0,9 | 0,5 | < 0,1 | 2,0 | 1,5 |
| Diversification[3] | (6,9) | | | (4,8) | (60,8) | | | (23,5) |
| **Total VaR exposure** | 10,7 | 6,9 | 16,5 | 9,2 | 88,6 | 44,5 | 152,2 | 76,4 |

[1] *A summary of the 10-day 99% stressed VaR from January 2015 to June 2015. Stressed VaR is calculated weekly and is included on the daily BA 325 and monthly BA 320 that are submitted to the SARB. It is calculated using a 99% confidence interval for a one-day holding period and then scaled to a 10-day holding period.*

[2] *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.*

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

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 had no backtesting exceptions in the period under review.

## Backtesting – Daily trading revenue and VaR

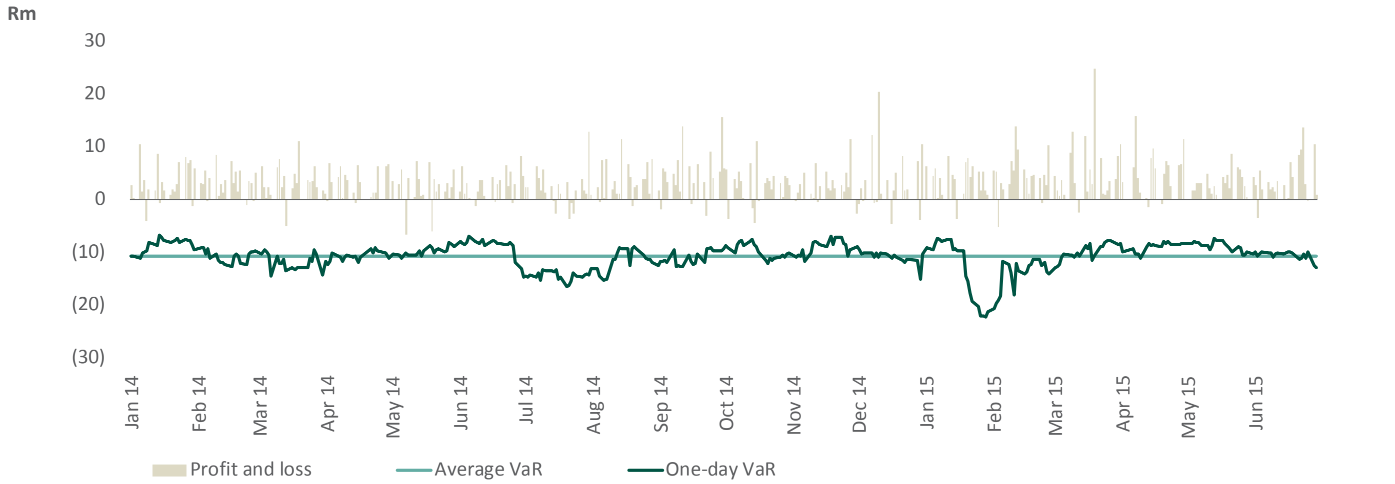
The first six months of 2015 was characterised by an increase in volatility across the major risk types. Major uncertainties threatening the world economic outlook, include the risks associated with the quantitative easing exit and normalisation of interest rates in the United States, the vulnerability in emerging economies to external shocks and domestic structural bottlenecks, as well as the possible escalation of geopolitical tensions. Uncertainty around the Greek debt crisis and China's stock market decline also contributed to a noticeable uptick in volatility at the end of June 2015.

The average daily VaR exposures increased marginally during the first half of 2015. Foreign exchange VaR exposures decreased during the first half of 2015 due to a reduction in trading activity from the non-linear foreign exchange business. Credit VaR exposures showed an increase of approximately 63% in the first half of 2015, due to the ratings downgrade of some of the issuers in the credit portfolio.

In addition, there was a general increase in interest rate volatility, as evidenced by the unexpected rate hike at the end of January 2014.

The graph below illustrates the daily normal VaR for the 18-month period ended June 2015. Nedbank Group 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 1,6% of group economic capital and regulatory capital respectively.

**NEDBANK GROUP VaR VERSUS PROFIT AND LOSS FOR THE 18-MONTHS ENDED JUNE 2015 (99%, ONE-DAY VaR)**




The first six months of 2015 was characterised by a positive contribution from all business lines, which resulted in strong financial performance, notably from the fixed-income and equity areas.

## Analysis of trading revenue

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 363 days out of a total of 372 days in the period. The average daily trading revenue generated for the period, excluding revenue related to investment banking, was R9,9m (December 2014: R8,9m).

## NEDBANK GROUP ANALYSIS OF TRADING REVENUE FOR THE 18-MONTHS ENDED JUNE 2015


## Stress testing results

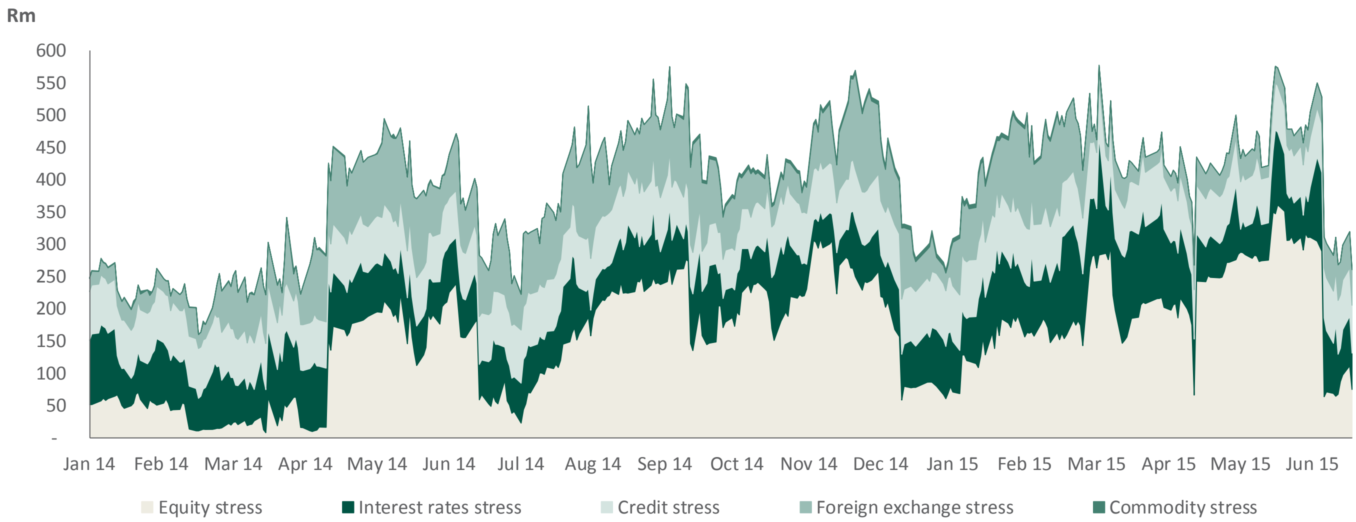
The table below summarises the daily stress testing results for June 2014, December 2014 and the first half of 2015, which represent a set of extreme market movements as applied to the trading activities.

## NEDBANK GROUP RISK EXPOSURES PER RISK FACTOR

| | Average | High[1] | Low[1] | End of period |
|---|---|---|---|---|
| **June 2015** | | | | |
| Foreign exchange stress | **58** | **175** | **17** | **55** |
| Interest rate stress | **93** | **184** | **36** | **57** |
| Equity stress | **200** | **361** | **61** | **75** |
| Credit spread stress | **81** | **89** | **71** | **74** |
| Commodity stress | **2** | **7** | **< 1** | **< 1** |
| **Overall** | **434** | **578** | **260** | **261** |
| June 2014 | | | | |
| Foreign exchange stress | 66 | 143 | 19 | 118 |
| Interest rate stress | 77 | 120 | 42 | 51 |
| Equity stress | 87 | 239 | 8 | 90 |
| Credit spread stress | 74 | 84 | 70 | 81 |
| Commodity stress | 1 | 7 | | |
| **Overall** | 305 | 495 | 161 | 340 |
| December 2014 | | | | |
| Foreign exchange stress | 77 | 202 | 19 | 58 |
| Interest rate stress | 72 | 128 | 32 | 85 |
| Equity stress | 140 | 309 | 8 | 87 |
| Credit spread stress | 76 | 87 | 61 | 87 |
| Commodity stress | 2 | 7 | | 5 |
| **Overall** | 367 | 576 | 161 | 322 |

[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 18-MONTHS ENDED JUNE 2015



## Nedbank Group trading book stressed VaR

As part of the Basel II.5 update to the Banks Act 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 this period captures 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 2015. The three different calculations are historical VaR, ETL and stressed VaR. The ETL measures the expected 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 2015** | | | |
| Foreign exchange | **3,3** | **14,1** | **3,6** |
| Interest rates | **4,4** | **17,1** | **6,0** |
| Equities | **2,0** | **1,7** | **11,1** |
| Credit | **7,4** | **15,5** | **8,6** |
| Commodities | **< 0,1** | **< 0,1** | **< 0,1** |
| Diversification | **(6,2)** | **(27,0)** | **(12,2)** |
| **Total VaR exposure** | **10,9** | **21,4** | **17,1** |
| **June 2014** | | | |
| Foreign exchange | 7,6 | 15,0 | 8,9 |
| Interest rates | 1,5 | 7,0 | 4,3 |
| Equities | 3,6 | 7,6 | 7,1 |
| Credit | 0,1 | < 0,1 | < 0,1 |
| Commodities | (7,9) | (20,4) | (9,5) |
| Diversification | 10,1 | 31,8 | 16,6 |
| **Total VaR exposure** | 5,2 | 22,6 | 5,8 |
| **December 2014** | | | |
| Foreign exchange | 3,7 | 1,4 | 1,1 |
| Interest rates | 7,8 | 18,9 | 11,6 |
| Equities | 2,0 | 2,5 | 1,7 |
| Credit | 3,8 | 8,2 | 13,6 |
| Commodities | 0,3 | 0,5 | 1,4 |
| Diversification | (6,9) | (7,3) | (10,1) |
| **Total VaR exposure** | 10,7 | 24,2 | 19,3 |

# Foreign currency translation risk in the banking book

Foreign currency translation (FCT) risk is the risk that the bank's exposures to foreign capital will lose value as a result of shifts in the exchange rate. As Nedbank Group is a rand-reporting entity, its risk is in the strengthening of the rand.

**NEDBANK GROUP OFFSHORE CAPITAL SPLIT BY FUNCTIONAL CURRENCY**

| | **Jun 2015** | | | Jun 2014 | | | Dec 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| $m (US dollar equivalent) | **Forex sensitive** | **Non-forex sensitive** | **Total** | Forex sensitive | Non-forex sensitive | Total | Forex sensitive | Non-forex sensitive | Total |
| US dollar | **631** | | **631** | 161 | | 161 | 696 | | 696 |
| Pound sterling | **146** | | **146** | 161 | | 161 | 153 | | 153 |
| Swiss franc | | | | 1 | | 1 | 1 | | 1 |
| Malawi kwacha | **6** | | **6** | 6 | | 6 | 5 | | 5 |
| Mozambican metical | **22** | | **22** | | | | 25 | | 25 |
| Other | | **560** | **560** | | 565 | 565 | | 559 | 559 |
| **Total** | **805** | **560** | **1 365** | 329 | 565 | 894 | 880 | 559 | 1 439 |
| **Limit** | **1 000** | | | 390 | | | 1 000 | | |

The forex-sensitive offshore capital limit was revised from US$390m to US$1,0bn in September 2014, in line with an increased FCT risk appetite supporting the decision to purchase an approximate 20% stake in ETI an approximate 37% stake in Banco Único.

Foreign denominated equity in subsidiaries has decreased by 8,5% to US$805m in June 2015 (December 2014: US$880m), mainly as a result of a decrease in the value of the investments made into ETI (-US$76m) and Banco Único (-US$2m) as a result of translation.

FCT risk remains relatively low and is aligned with the appropriate offshore capital structure of the group.

The total RWA for the group's foreign entities is R29,8bn, which is low at approximately 6,4% of total RWAs.

The fact that FCTR now qualifies as regulatory capital, any foreign exchange rate movement will have a small effect on Nedbank Group's capital adequacy, as a result of translation movements in both supply- and demand-side capital largely offsetting each other.

## Equity risk in the banking book

Equity investments in the banking book are primarily undertaken by the Nedbank CIB. 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.

Key strategic investments (ETI and Banco Único) are accounted for under the equity method of accounting and are therefore not included in this fair-value disclosure. Equity investments that are accounted for under the equity method of accounting total R6 119m.

The total equity portfolio that is fair-valued is R4 224m (June 2014: R5 227m).

- A total of R2 262m (June 2014: R3 263m) of this portfolio is held for capital gain, while the balance predominantly comprises investments held for operational purposes.

The total equity portfolio that is fair-valued is a very small component of the group's balance sheet, comprising only 0,5% of the group's total assets.

| | Publicly listed | | | Privately held | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| Rm | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 |
| Fair value disclosed in balance sheet[1] | **52** | 676 | 635 | **3 146** | 3 628 | 3 229 | **3 198** | 4 304 | 3 864 |
| Fair value disclosed in balance sheet[2] | **52** | 676 | 635 | **4 172** | 4 551 | 4 126 | **4 224** | 5 227 | 4 761 |

[1] *Excluding investments in private-equity associates, associate companies and joint arrangements.*

[2] *Including investments in private-equity associates, associate companies and joint arrangements.*

### EQUITY INVESTMENTS HELD FOR CAPITAL GAIN (PRIVATE EQUITY) REPORTED IN NON-INTEREST REVENUE

| | | | | Nedbank Corporate and Investment Banking | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Nedbank Group | | | Nedbank Capital | | | Nedbank Corporate | | |
| Rm | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 | **Jun 2015** | Jun 2014 | Dec 2014 |
| Securities dealing | **95** | 130 | 339 | **(7)** | 57 | 120 | **102** | 73 | 219 |
| Investment income – dividends received | **20** | 15 | 84 | **20** | 14 | 40 | | 1 | 44 |
| **Total** | **115** | 145 | 423 | **13** | 71 | 160 | **102** | 74 | 263 |
| Realised | **383** | 119 | 434 | **31** | 10 | 100 | **352** | 109 | 334 |
| Unrealised | **(268)** | 26 | (11) | **(18)** | 61 | 60 | **(250)** | (35) | (71) |
| **Total** | **115** | 145 | 423 | **13** | 71 | 160 | **102** | 74 | 263 |

Equity investments held for capital gain are generally classified as 'fair value through profit and loss', with fair-value gains and losses reported in NIR. The rest of the portfolio is generally classified as 'available-for-sale', with fair-value gains and losses recognised directly in equity.

# COUNTERPARTY CREDIT RISK

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 an individual counterparty level and approved within the Group Credit Risk Management Framework. CCR exposures are reported and monitored at both a 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 applied only to underlying exposures where supportive legal opinion is obtained as to the enforceability of the relevant netting agreement in the particular jurisdiction.

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

The Basel III regulatory standards for CCR contain significant enhancements. Included is the introduction of a standalone CVA capital charge for potential loss due to deterioration in the credit quality of the OTC derivative counterparties. In line with SA's adopting of Basel III, and in accordance with SARB Directive D5/2015, SA banks removed the zero-risk weighting for CVA in ZAR-based derivatives and derivatives with local counterparties as of 1 April 2015. The CVA RWA impact increased to R6,7bn as at June 2015 (from R558m as at June 2014, based on D10/2014).

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.

Wrong-way risk is identified and monitored in line with internal risk processes. No excessive wrong-way risk exists within Nedbank Group and is monitored by stress testing that is run on both a portfolio and counterparty level. Wrong-way risk is currently mitigated through the following mechanisms:

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

Potential collateral calls or postings are monitored with our various counterparties under a range of market movements and stress scenarios to provide senior management with a forward-looking view of future collateral requirements that may be incurred or imply liquidity risk for the bank. Under a credit rating downgrade scenario, it is estimated that collateral placed would increase by less than US$21m.

During July 2015, the Bank for International Settlements (BIS) released for comment the first draft of the Review of the Credit Valuation Adjustment Risk Framework which, at a high level, aims to:

- Completely overhaul the current Basel III CVA regulatory regime and address a number of key short-comings in the current standard.
- Align the revised CVA Framework with the changes that will be implemented under the FRTB.
- Closer alignment of CVA regulatory capitalisation with the risk management frameworks banks employ in this regard.
- The inclusion of exposure hedging into the capitalisation calculation to incentivise prudent risk-reduction strategies.
- Enhance governance framework standards for CVA in-line with those of market and credit risk requirements.

Nedbank participated in the fourth FRTB QIS exercise conducted in September 2015, which included a QIS relating to the proposed revision of the CVA Regulatory Framework.

Nedbank is currently assessing the impact of the second draft of SA OTC Derivative Regulations released by National Treasury during June 2015, which provides greater clarity on forthcoming local derivative regulatory requirements and the impact on the bank's CCR exposure and risk mitigation thereof.

## Over-the-counter derivatives for Nedbank

The tables below include a breakdown of the group's OTC derivative CCR exposure by product and NGR band. Overall, the group had a R2 280m increase in fair value, with the increases being to clients with lower risk profiles.

### NEDBANK GROUP OVER-THE-COUNTER DERIVATIVE PRODUCTS

| | **Jun 2015** | | Jun 2014 | | Dec 2014 | |
|---|---|---|---|---|---|---|
| Rm | **Notional value** | **Gross positive fair value** | Notional value | Gross positive fair value | Notional value | Gross positive fair value |
| **Credit default swaps** | **32 356** | **703** | 37 286 | 1 222 | 36 742 | 1 102 |
| Embedded derivatives | **4 944[1]** | **85** | 4 724 | 31 | 4 469 | 28 |
| Trading | **27 412** | **618** | 32 562 | 1 191 | 32 273 | 1 074 |
| MarkIt iTraxx Europe | **21 812[2]** | **594** | 27 534 | 1 168 | 26 654 | 1 044 |
| Third Party | **5 600[3]** | **24** | 5 028 | 23 | 5 619 | 30 |
| **Equities** | **3 044** | **446** | 9 063 | 754 | 4 837 | 498 |
| **Foreign exchange** | **342 193** | **7 426** | 263 667 | 4 915 | 301 581 | 7 445 |
| **Interest rates** | **741 288** | **9 041** | 618 030 | 8 445 | 565 216 | 8 567 |
| **Total** | **1 118 881** | **17 616** | 928 046 | 15 336 | 908 376 | 17 612 |

*[1] Credit default swaps embedded in credit-linked notes issued by Nedbank Group whereby credit protection of R4 129m is purchased and R815m is sold.*
*[2] Trading positions MarkIt iTraxx Europe through the purchase (R10 906m) and sale (R10 906m) of credit protection.*
*[3] Trading positions third-party transactions through the purchase (R869m) and sale (R4 731m) of credit protection.*

### NEDBANK GROUP OVER-THE-COUNTER DERIVATIVE NETTING

| Rm | Gross positive fair value | Current netting benefits | Netted exposure (before mitigation) | Collateral | Netted exposure (after mitigation) | Exposure at default | Risk-weighted assets |
|---|---|---|---|---|---|---|---|
| **June 2015** | **17 616** | **11 591** | **6 025** | **2 111** | **3 914** | **10 579** | **10 104[1]** |
| June 2014 | 15 336 | 10 203[2] | 5 133[2] | 1 168 | 3 965[2] | 10 470 | 3 870[3] |
| December 2014 | 17 612 | 11 424 | 6 188 | 1 456 | 4 732 | 9 447 | 3 929[4] |

*[1] RWA for June 2015 consist of CCR of R3 362m and CVA RWA of R6 742m introduced in Basel III in accordance with SARB-issued Directive D5/2015.*
*[2] Restated due to disclosure error.*
*[3] RWA for June 2014 consist of CCR of R3 174m and CVA RWA of R696m introduced in Basel III in accordance with SARB-issued Directive D14/2013.*
*[4] RWA for December 2014 consist of CCR of R3 093m and CVA RWA of R836m introduced in Basel III in accordance with SARB-issued Directive D14/2013.*

## OTC DERIVATIVES PER NGR (PD) BAND

| Rm | Jun 2015 Notional value | Jun 2015 Gross positive fair value | Jun 2015 EAD value | Jun 2014 Notional value | Jun 2014 Gross positive fair value | Jun 2014 EAD value | Dec 2014 Notional value | Dec 2014 Gross positive fair value | Dec 2014 EAD value |
|---|---|---|---|---|---|---|---|---|---|
| NGR01 | **3 165** | **1** | **10** | 33 286 | 1 037 | 514 | 3 199 | 1 | 10 |
| NGR04 | **39 611** | **870** | **903** | 40 912 | 651 | 671 | 34 293 | 638 | 713 |
| NGR05 | **307 571** | **3 915** | **1 987** | 252 142 | 3 259 | 2 618 | 228 011 | 3 747 | 1 642 |
| NGR06 | **485 142** | **7 772** | **3 037** | 391 296 | 7 335 | 3 123 | 407 157 | 7 185 | 2 425 |
| NGR07 | **124 885** | **1 715** | **1 595** | 85 233 | 1 009 | 544 | 127 450 | 2 554 | 1 723 |
| NGR08 | **16 762** | **343** | **442** | 21 701 | 488 | 741 | 7 613 | 370 | 464 |
| NGR09 | **7 119** | **147** | **225** | 3 061 | 21 | 40 | 2 960 | 19 | 41 |
| NGR10 | **4 841** | **289** | **344** | 5 918 | 243 | 284 | 3 924 | 310 | 347 |
| NGR11 | **12 240** | **235** | **363** | 8 131 | 24 | 101 | 5 856 | 70 | 93 |
| NGR12 | **12 420** | **116** | **209** | 6 829 | 37 | 92 | 13 428 | 146 | 239 |
| NGR13 | **12 045** | **114** | **178** | 16 478 | 202 | 252 | 12 566 | 196 | 274 |
| NGR14 | **7 466** | **171** | **269** | 10 104 | 110 | 180 | 11 257 | 207 | 286 |
| NGR15 | **9 392** | **289** | **371** | 7 968 | 156 | 188 | 8 305 | 270 | 318 |
| NGR16 | **26 861** | **103** | **239** | 6 683 | 134 | 214 | 6 944 | 144 | 210 |
| NGR17 | **6 192** | **16** | **36** | 8 944 | 35 | 104 | 3 281 | 28 | 43 |
| NGR18 | **648** | **6** | **14** | 6 095 | 178 | 31 | 1 614 | 26 | 43 |
| NGR19 | **299** | **2** | **5** | 1 624 | 21 | 42 | 289 | 3 | 6 |
| NGR20 | **26 043** | **163** | **318** | 21 324 | 375 | 707 | 14 844 | 438 | 542 |
| NGR21 | **41** | | **1** | 75 | 1 | 1 | 32 | | |
| NGR22 | **1** | | | 5 | | | | | |
| NGR23 | **1** | | | 9 | | | | | |
| NGR24 | **1** | | | 50 | | | | | |
| NGR25 | **15 988** | **1 347** | **25** | 150 | 20 | 22 | 15 333 | 1 260 | 28 |
| NP | **147** | **2** | **8** | 19 | | | 20 | | |
| **Total** | **1 118 881** | **17 616** | **10 579** | 928 046 | 15 336 | 10 470 | 908 376 | 17 612 | 9 447 |

## NEDBANK GROUP SECURITIES FINANCING TRANSACTIONS

| Rm | Gross positive fair value | Collateral value after haircut | Netted current credit exposure (after mitigation) | Exposure at default | Risk-weighted assets |
|---|---|---|---|---|---|
| **June 2015** | | | | | |
| Repurchase agreements | **19 856** | **24 742** | **882** | **882** | **112** |
| Securities lending | **10 531** | **12 715** | **1 484** | **1 484** | **520** |
| **Total** | **30 387** | **37 457** | **2 366** | **2 366** | **632** |
| June 2014 | | | | | |
| Repurchase agreements | 21 837 | 20 846 | 991 | 997 | 99 |
| Securities lending | 6 265 | 10 728 | 921 | 921 | 513 |
| **Total** | 28 102 | 31 574 | 1 912 | 1 918 | 612 |
| December 2014 | | | | | |
| Repurchase agreements | 18 291 | 17 229 | 1 062 | 1 062 | 163 |
| Securities lending | 9 868 | 14 491 | 890 | 890 | 468 |
| **Total** | 28 159 | 31 720 | 1 952 | 1 952 | 631 |

## SECURITIES FINANCING TRANSACTIONS PER NGR (PD) BAND

| Rm | Jun 2015 Gross exposure | Jun 2015 EAD value | Jun 2014 Gross exposure | Jun 2014 EAD value | Dec 2014 Gross exposure | Dec 2014 EAD value |
|---|---|---|---|---|---|---|
| NGR01 | **3 016** | **162** | 6 715 | 253 | 2 660 | 211 |
| NGR04 | **109** | **5** | 5 204 | 293 | | |
| NGR05 | **8 366** | **495** | 1 928 | 106 | 8 403 | 530 |
| NGR06 | **11 670** | **922** | 9 244 | 490 | 9 424 | 479 |
| NGR07 | **3 405** | **370** | 1 217 | 144 | 3 019 | 304 |
| NGR08 | | | 925 | 257 | | |
| NGR13 | **632** | **37** | | | 926 | 55 |
| NGR20 | **3 189** | **375** | 2 869 | 375 | 3 727 | 373 |
| **Total** | **30 387** | **2 366** | 28 102 | 1 918 | 28 159 | 1 952 |

Securities financing transactions (SFTs) consist of resale agreements (exchange traded with bonds as collateral) and secured lending transactions. Resale agreements gross exposure decreased to R19 856m (June 2014: R21 837m), where securities lending gross exposure increased to R10 531m (June 2014: R6 265m).

Certain asset managers and stock brokers are being assigned an NGR20 rating until such time as the redevelopment of the framework for assigning PD and LGD to these clients is finalised, applicable for both the OTC and SFT rating breakdown tables.

# INSURANCE RISK

## Insurance risk

Insurance is based on the principle of pooling independent, homogenous risks that are caused by low probability events. Insurance risk incorporates three principle risk components, namely, underwriting risk where the customer 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 customers 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 theft). 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 underwriting activities are predominantly undertaken by Nedbank Insurance, a division of the Nedbank Wealth Cluster.

- Nedgroup Life Assurance Company Limited (Nedgroup Life) offers credit life, simple-risk and savings solutions. A large part of the book is derived from the provision of life cover linked to Nedbank Group's lending activities.
- Nedgroup Insurance Company Limited (NedIC) is a short-term insurer that historically focused predominantly on homeowner's insurance, personal accident and vehicle-related value-add products for the retail market. In line with its growth strategy, NedIC launched a full personal-lines offering in 2013.

## 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 underwriting 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 underwriting activities including reporting and monitoring procedures in respect of product, valuation, reinsurance, pricing and regulation.

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 follow the group's formal product approval policy, which include pricing and risk reviews by the statutory actuary; an approval at cluster executive and group executive level, which 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 and 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 underwriting risk is managed during the underwriting process in the following manner:

- Monitoring of the concentration of exposures and changes in the environment.
- Profile analysis.
- Monitoring of key ratios to ensure that they are in line with expectations and to identify any potential areas of concern or any changes in the claims patterns.
- Biannual monitoring of policy movements to identify possible changes to initial risk profiles and pricing. Compilation of an underwriting manual to ensure proper underwriting guidelines are in place and to ensure consistency in the risk acceptance process.
- Assessing underwriting engine assumptions and results to help revise future assumptions.
- Annual repricing of premiums if the claim experience is worse than anticipated.
- Monitoring of the concentration of insurance risk, which includes the assessment of geographical spreads, the impact of catastrophe reinsurance, maximum losses per single events and mitigations that include sufficient reassurance and reviewable pricing and exclusions.
- Monitoring of rigorous assessment procedures to ensure that only valid claims are paid.
- Monitoring of effective reinsurance programmes.
- Independent monitoring by the group on a quarterly basis to assess CARs and net claims.
- Monitoring of key process and key risk indicators (KRI) in the Actuarial Review and the Underwriting Review Committees.
- Seeking board approval for significant decisions including the assessment of investment risk, evaluation of reinsurance partners, review of capital provision, credit appetite and financial soundness.
- Monitoring of underlying investment risk by the Nedbank Wealth Investment Committee on a quarterly basis, which covers asset and liability matching and fund and asset management performance. However, policyholder investment mandates are matched on a monthly basis. Exposure limits are agreed and approved by the boards of the company 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, in accordance with worldclass risk management principles.

## Solvency II and SAM

The Financial Services Board (FSB) is introducing a revised prudential regime for insurance, the Solvency Assessment and Management ('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 risk management frameworks, strategic initiatives and system enhancements. Governance committees, policies and processes have been optimised to cater for the new requirements within the existing business units and oversight.
  - Many of 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.
  - This is evident in the detailed Own Risk and Solvency Assessments (ORSA) that is being embedded in the existing reporting structures.
- SAM is an integral component of the insurance companies' CMF, strategy and business planning and day-to-day business operations and decisions.
- The insurance businesses are engaged in the SAM comprehensive parallel run which requires reporting on the current regulatory basis and the SAM basis to the FSB during 2015 and early 2016.
- The launch of SAM has been delayed. Previous expectations were for a go live across the industry in January 2016 and become the only reporting and prudential regulatory regime/oversight programme. Due to delays in the parliamentary process we do not expect implementation before April 2016.

## Insurance risk in Nedbank

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

The Nedbank Wealth Cluster, which also provides banking and asset management services, is 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. Insurance risk consumes only 0,8% (December 2014: 0,9%) of the group economic capital requirement.

The solvency ratios are reflected in the following table:

**SOLVENCY RATIOS**

| Times | Regulatory minimum | Management target[1] | **Jun 2015** | Jun 2014 | Dec 2014 |
|---|---|---|---|---|---|
| Long-term insurance (Nedgroup Life) | 1,00 | > 1,5 | **9,4** | 6,6 | 11,2 |
| Short-term insurance (NedIC) | 1,00 | > 1,3 | **2,3** | 2,2 | 3,1 |

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

The figures above do not include a deduction for inadmissible assets. The figure reported to the regulator would be lower.

In SA, regulators currently require insurers to hold capital at a minimum of 1 times cover for long-term and short-term insurance.

The long-term insurance ratio is well above statutory and management target levels, mainly due to higher economic capital requirements in the business. The ratio decreased to 9,4 times (December 2014: 11,2 times) due to a dividend payment being made in 2015. The coverage ratio would have increased if the dividend had not been paid.

The short-term insurance ratio decreased to 2,3 times (December 2014: 3,1 times), which is well above the target level. The decrease is due to a dividend payment being made in 2015. The coverage ratio would have increased if the dividend had not been paid.

# CONCENTRATION AND OFF-BALANCE-SHEET RISKS

Nedbank Group has enhanced its holistic group-wide 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 that are considered include single name, industry, geographic, product, collateral and business unit.

Credit risk is the most material risk type as can be seen in its percentage contribution to total economic capital (see page 48). A liquidity crisis is a plausible event that could ultimately 'break a bank'. Therefore, liquidity risk and credit risk are considered the two concentration risk focus areas for Nedbank, which also aligns with lessons learned from the global financial crisis.

Concentration risk appetite targets are set both in areas where Nedbank Group is materially exposed to concentration risk as well as areas of under-concentration, to unlock opportunities. The targets are agreed by senior management and approved by the board of directors.

The potential areas of major concentration risk in Nedbank include credit risk, property investment risk, property risk, liquidity risk, capital and IRRBB.

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, see page 48). These concentrations are monitored by Group ALCO, the Group Credit Committee and the board's GRCMC.

## Credit risk

Within Nedbank Group credit concentration risk is actively managed, measured and ultimately capitalised for in the group's economic capital and ICAAP.

Unmanaged risk concentrations are potentially a cause of major problems in banks. Concentration risk is therefore considered separately as part of Nedbank's Risk Appetite Framework.

### Single-name credit concentration risk

Of the total group credit economic capital, only 5,7% (June 2014: 5,6%) is attributable to the top 20 largest exposures, excluding banks and government exposure, and 1,7% (June 2014: 4,9%) to the top 20 largest bank exposures at June 2015, highlighting that Nedbank Group does not have material single-name credit concentration risk. The decrease in the top 20 largest bank exposures, primarily relates to the acquisition of an approximate 20% shareholding in ETI, which replaced a previous credit exposure to ETI.

Direct exposure to the SA government relates mainly to statutory liquid-asset requirements, and Basel III liquidity buffers, and constitutes 8,4% (June 2014: 6,0%) 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.

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.

**TOP 20 NEDBANK GROUP EXPOSURES**

| June 2015 | Excluding banks and government exposure | | | Banks only | | |
|---|---|---|---|---|---|---|
| Number | Internal NGR[1] (PD) rating | EAD Rm | % of total group credit economic capital | Internal NGR[1] (PD) rating | EAD Rm | % of total group credit economic capital |
| 1 | NGR05 | 7 170 | 0,28 | NGR06 | 6 298 | 0,14 |
| 2 | NGR06 | 4 916 | 0,22 | NGR06 | 3 909 | 0,08 |
| 3 | NGR06 | 4 562 | 0,19 | NGR06 | 3 054 | 0,12 |
| 4 | NGR07 | 4 607 | 0,21 | NGR08 | 2 211 | 0,19 |
| 5 | NGR15 | 4 164 | 0,72 | NGR05 | 2 214 | 0,03 |
| 6 | NGR03 | 3 906 | 0,03 | NGR07 | 1 953 | 0,13 |
| 7 | NGR09 | 4 115 | 0,06 | NGR07 | 1 852 | 0,12 |
| 8 | NGR15 | 3 704 | 0,61 | NGR07 | 2 909 | 0,14 |
| 9 | NGR05 | 3 822 | 0,19 | NGR06 | 1 738 | 0,07 |
| 10 | NGR04 | 5 412 | 0,04 | NGR06 | 2 224 | 0,09 |
| 11 | NGR07 | 3 496 | 0,23 | NGR06 | 1 621 | 0,05 |
| 12 | NGR07 | 4 646 | 0,31 | NGR05 | 1 296 | 0,04 |
| 13 | NGR13 | 3 224 | 0,80 | NGR07 | 1 335 | 0,07 |
| 14 | NGR05 | 3 130 | 0,05 | NGR06 | 1 140 | 0,04 |
| 15 | NGR07 | 3 055 | 0,06 | NGR06 | 1 430 | 0,06 |
| 16 | NGR10 | 3 961 | 0,37 | NGR05 | 941 | 0,03 |
| 17 | NGR10 | 2 958 | 0,40 | NGR12 | 923 | 0,14 |
| 18 | NGR12 | 2 948 | 0,50 | NGR09 | 935 | 0,09 |
| 19 | NGR10 | 3 424 | 0,32 | NGR05 | 1 173 | 0,04 |
| 20 | NGR07 | 2 878 | 0,10 | NGR07 | 825 | 0,04 |
| **Total of top 20 exposures** | NGR10 | 80 098 | 5,69 | NGR07 | 39 981 | 1,71 |
| **Total group[2]** | | 885 858 | 100,0 | | 885 858 | 100,0 |

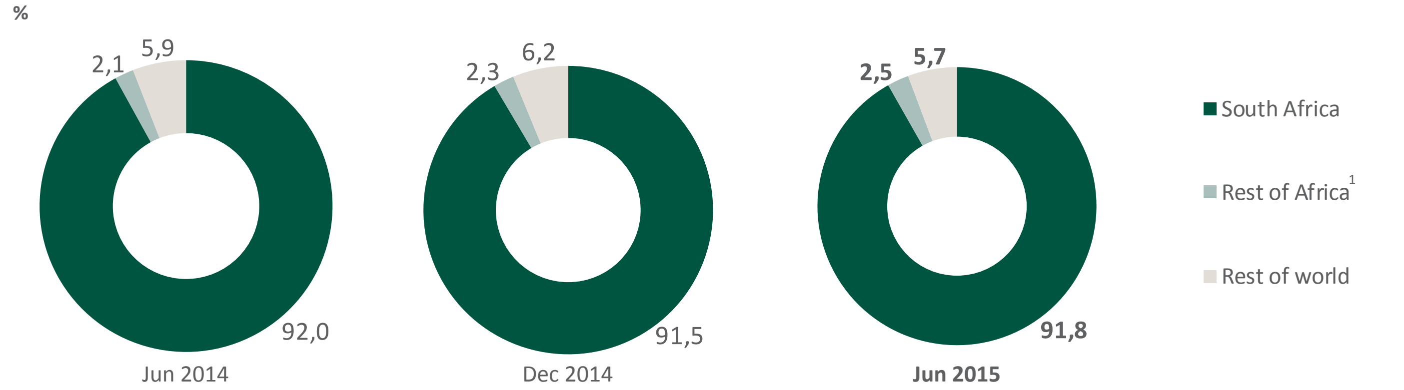
*[1] NGR = Nedbank Group Rating.*

*[2] Total group EAD includes all Nedbank Group subsidiaries. Although the subsidiaries have adopted TSA, conservative benchmarks are applied for the purpose of estimating internal credit economic capital.*

### Geographic concentration risk

Geographic concentration risk in SA has decreased slightly to 91,8% (June 2014: 92,0%) with exposure to the rest of Africa increasing in line with the Rest of Africa strategy. Practically, however, this high concentration to SA has proven positive for Nedbank Group, given the global financial crisis and reflects its focus on its area of core competence.

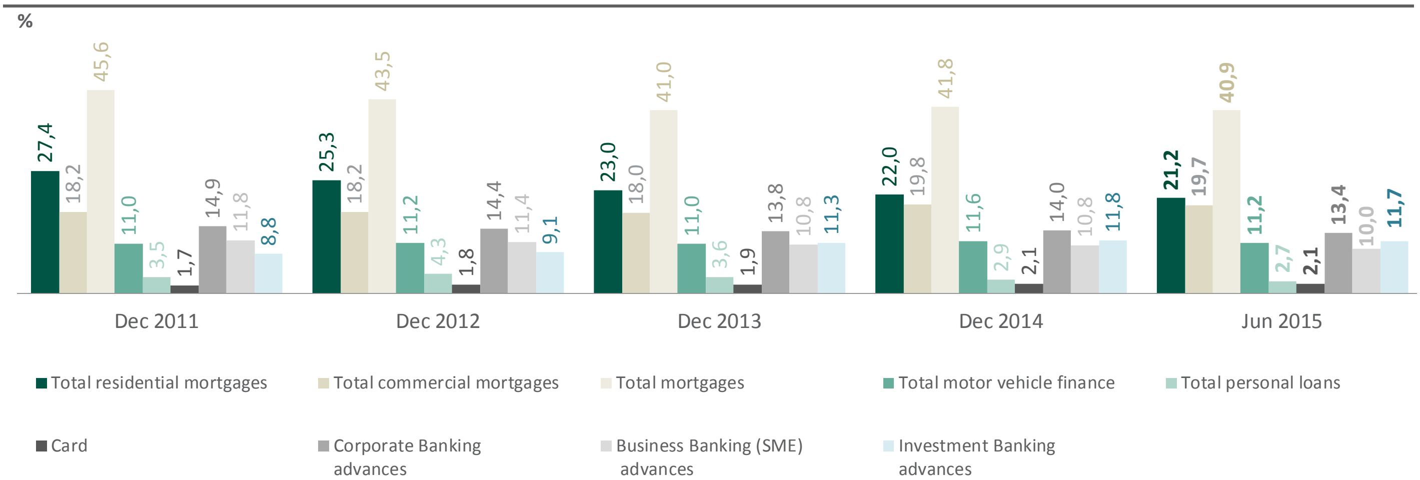
## GEOGRAPHIC CONCENTRATION RISK




[1] *The Rest of Africa geographical segmental consists of the SADC banking subsidiaries and the investments in ETI and Banco Único. They do not include transactions concluded with clients resident in the Rest of Africa by other group entities within Nedbank CIB nor significant transactional banking revenues.*

## Industry concentration risk

### % OF TOTAL GROSS LOANS AND ADVANCES BY MAJOR CREDIT PORTFOLIO




Nedbank Group has adopted a selective origination, client-centred growth emphasis as a core part 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 dominant market share in commercial mortgages given the significantly better risk-based economics and returns. Commercial-mortgage lending has increased moderately since 2011 to 19,7% of gross loans and advances, and consequently Nedbank Group has maintained its dominant local market share position, currently at 41,2%. This potentially high concentration is mitigated by good-quality assets, high levels of collateral, a low average loan-to-value ratio (approximately 50%), the underpinning of corporate leases, and a highly experienced management team considered to be the leader in property finance in SA.

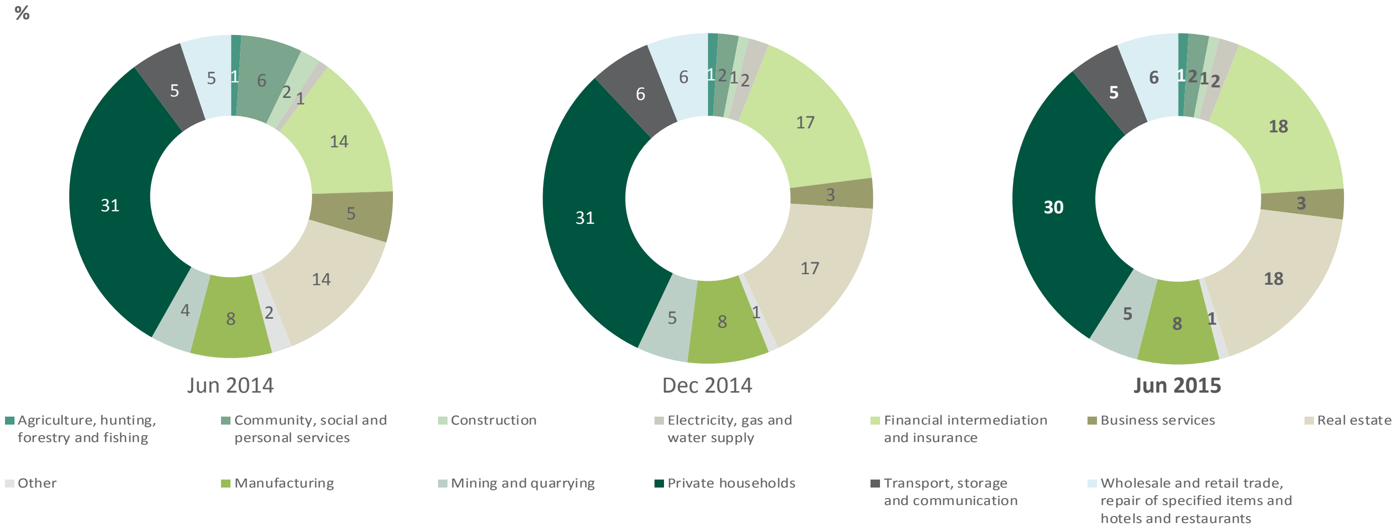
While Nedbank Group has the smallest residential-mortgage portfolio among the local peer group at 14,6% of market share, the contribution of these advances as a percentage of total gross loans and advances was still substantial at 21,2% in June 2015 (December 2014: 22,0%). The focus since 2009 in Home Loans is on lending through our own channels, including branch, own sales force and more recently Nedbank's new home loan application, and to a far lower 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-centered approach. When including residential mortgages, Nedbank's total mortgage market share is in line with that of its peers at 21,5%.

Total retail motor vehicle finance exposure within Nedbank Group has increased slightly since 2011 to 11,2% in June 2015 (December 2011: 11,0%) of gross loans and advances, while current market share is approximately 29,7%, which is second of the big four banks in SA. Sound risk management principles are consistently applied by an experienced management team.

Personal loans advances have stabilised and are now at 2,7% of gross loans and advances (December 2014: 2,9%).

As a percentage of total gross loans and advances, Corporate Banking and Business Banking advances have decreased moderately since 2011, whereas Card and Investment Banking advances have increased relatively strongly to 2,1% in June 2015 (December 2011: 1,7%), and 11,7% in June 2015 (December 2011: 8,8%) respectively.

**NEDBANK GROUP INDUSTRY EXPOSURE**




Similar to the peer group, Nedbank is exposed to the resources sector which either directly or indirectly impacts a number of industries (eg manufacturing, transport, mining and quarrying). The oil and gas, steel, and mining portfolios are closely monitored by the Nedbank teams. The quality of the portfolios are assessed on an ongoing basis to ensure that the levels of credit impairments on portfolios are adequate.

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 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. With the increased focus on the Rest of Africa, SA sovereign concentration will decline, but still remain the dominant sovereign concentration.

## Property investment risk

The investment portfolio is concentrated in real estate at 19%, but constitutes only 0,31% of total assets as at 30 June 2015. In terms of sector split, 58% of the real estate portfolio is in retail, 10% in residential properties and 10% is mixed-use developments. In terms of geographic classification, 40% of the real estate portfolio is concentrated in Gauteng. Concentration risk in listed real estate is managed by secondary limits and constitutes only 1% of the real estate portfolio. 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 77% in Gauteng. The concentration risk in the head office (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 40% of total funding from wholesale deposits that 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 which play 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 the 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 'free funds' raised through equity and/or transactional deposits. These deposit balances and equity are not rate sensitive as they yield 0% 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 126).

## Off-balance-sheet risks

With regards to off-balance-sheet risks, there are only three 'plain vanilla' securitisation transactions (see page 120), 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 (see page 52) 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 72 together with a breakdown of the contribution of each cluster.

# OPERATIONAL RISK

## Sources of operational risk

Operational risk is an inevitable consequence of being in business, as losses can result from inadequate or failed internal processes, people and systems or from external events. Operational risk can also arise from 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 not typically taken in pursuit of an expected return, but exists as part of the normal course of business at all levels. Managing operational risk is a core element of our business activities and is aimed at protecting and building a sustainable business.

## Strategic focus areas

The group's operational risk objectives support the achievement of its financial and business goals through:

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

The group will continue to invest in people, processes and technology in key areas across the business to ensure the successful execution of our operational risk strategy.

## Key developments during the period

Operational risk remains well managed, with a strong focus on enhancing business benefits. We continue to capitalise on our strengths in managing operational risk, concentrating on risk and control systems in all our businesses, while prioritising efforts in operational risk areas that offer opportunities to ensure our businesses create and deliver value to our stakeholders.

Nedbank is on track to deliver the second generation AMA model. Enhanced focus is placed on information technology risk, basic operational risk management and execution risk to align with the group strategy delivery and how to enhance management actions relating to the top operational risks.

Despite the external headwinds the group had minimal significant operational risk incidents. Nedbank Group achieved a stable operational risk environment and the group operated within the board approved, operational risk appetite limits. Notwithstanding the above, the potential impact of operational risk within the group remains high. We are cognisant of the fact that, as the business evolves, the associated growth and level of operational complexity exposes the group to additional operational risks. In response, we continue to focus on improving the internal control environment to minimise potential for losses, with an emphasis on making it easy to do business with Nedbank.

In the past six months, the group remained focused on the ongoing initiatives to enhance process management governance aimed at optimising the risk and control identification and assessment process. The project, overseen by the Group Operational Risk Committee (GORC), is inter alia aimed at ensuring that the risks associated with the group's activities, including those arising from process error, failures in execution, fraud, system failures, cyber-attacks and breaches of information security, are properly identified and appropriately controlled on an end to end process basis. Furthermore, additional work is ongoing to refine and improve the quality of KRIs across the group.

Globally the levels of operational risk capital are increasingly under scrutiny, given the frequency and severity of operational risk losses that have been witnessed. Nedbank's robust governance process ensures that the bank continues to scan the environment and update scenario inputs to ensure that the group remains adequately capitalised. There are significant developments that may have an impact on the current state of the risk-based approaches to measure operational risk. Nedbank continues to work closely with industry bodies and regulators, to ensure the group remains abreast of reforms.

The group continued to refine the Operational Risk Management Framework (ORMF) to ensure it is adaptive to the business environment, responsive to regulatory requirements, in line with emerging leading practices, and supports forward-looking and proactive risk identification and agility in response. For example, the Outsourcing Policy was revised and updated to align with industry developments and to ensure appropriate focus on top outsourcing arrangements and third-parties.

## Key risk themes

Nedbank's approach to identifying and monitoring top and emerging operational risks is an ongoing process. The top and emerging operational risk themes for the first half of 2015 were BCM, conduct risk, cybercrime, information technology risk, outsourcing/third-party risks, and the regulatory environment, and are likely to remain the leading topical emerging operational risks for the second half of 2015, together with the electricity supply constraints in SA. These were, however, contained within approved risk appetite limits and significant material loss events were limited.

Information security (the risk of loss or theft of information) is a significant operational risk for financial institutions and includes losses resulting from cyber-attacks. Cybercrime is a growing global threat to the entire financial services industry and its clients. The extent of cybercrime is far reaching, ranging from internet based attacks to more sophisticated organised crimes aimed at gaining unauthorised access to systems to disrupt business or obtain sensitive information. Enhanced cybersecurity capabilities and the continued development and enhancement of controls, processes and systems to protect Nedbank's networks, computers, software, and data from attack, damage or unauthorized access remain a priority.

Risks relating to the bank's information technology infrastructure, development of new systems and technology, large volumes of transaction processing, complexity of systems, specialised systems and interconnectivity are escalating. Although the group did not experience material losses relating to these risks, multiple strategic and tactical security programs are in place to address the increasing threat of information technology related risks. Where applicable, the group's operational risk and control self-assessments (RCSA) and scenarios were updated to reflect changes in the risk profile. We are addressing information technology and information security risks through programmes overseen by our Board Group Information Technology Committee and the GRCMC.

Compliance and regulatory risks remain significant given the heightened regulatory environment in which we operate. Regulatory pressures persist with more aggressive enforcement by regulators. The timing, content, interpretation, volume and form in which these regulations have to be implemented expose the group to heightened levels of compliance and regulatory risk. In addition, the changes differ significantly across the jurisdictions in which our businesses operate. Massive fines and settlements relating to improper business practices (or business conduct risk related events) witnessed globally will likely continue to dominate the financial services industry over the next several years. These types of events have far-reaching consequences, including operational risk modelling. The group seeks to achieve compliance with applicable local and international laws, regulations and supervisory requirements, guided by an established and comprehensive set of board-approved policies, procedures and governance structures.

The electricity supply constraint in SA is one of the leading topical emerging operational risks for 2015. Management updated the business continuity plan (BCP) to mitigate for a national or regional electricity blackout. This resulted in additional cost to continue business due to the level of reliability placed on the national infrastructure. Nedbank invested in additional resources, both capital and operational expenditure, in order to increase our readiness and response relating to a national electricity blackout. The electricity supply constraint risk is systemic and the group is working with various industry bodies and the government to assist in mitigating the mentioned risk.

Other operational risks are also monitored and managed through the ORMF and all subcomponent frameworks, including BCM, legal, information security and corporate insurance subcomponents.

The operational risk environment within Nedbank remains stable with enhanced management focus on mitigating risks and exploiting opportunities. The group's strategic objective of growing the transactional banking franchise requires increased focus on execution risk.

The macroeconomic environment (eg slow economic growth) pressure on cost reduction and meeting sales targets will likely increase the exposure to operational risk during second half of 2015. The focus for the remaining part of the year includes building the group's capacity to be predictive and forward looking in risk identification, improving the maturity of our practices and demonstrating value add from investments in operational risk management.

## Nedbank Group's approach to managing operational risk

Nedbank Group developed a model to quantify operational risk which meets the regulatory capital standard under the AMA and is approved by the SARB. The group continues to invest in the improvement of its operational risk measurement and management approaches.

## Organisational structure and governance

Business clusters act as the first line of defence and are responsible for the identification, management, monitoring and reporting of operational risk. Operational risk is reported and monitored through the divisional and cluster Enterprisewide Risk Committees (ERCOs) and overseen by the GORC and the board's GRCMC. The GORC provides a forum for executive management to focus on groupwide operational risk issues, and provides leadership and direction in evaluating management of operational risks, establishing priorities, and fostering collaboration and coordination of risk management activities across the group.

The independent Group Operational Risk and Data Management (GORDM) Division, within the Group Risk Cluster, acts as the second line of defence in the Nedbank ERMF.

The primary responsibilities of GORDM is to develop, maintain and champion the Group ORMF, policies and enablers to support operational risk management in the business, as well as implementation of Basel III, regulatory requirements and international best practice for operational risk management. GORDM provides an information technology system for the group to manage operational risk and also estimates the group's exposure to operational risk by applying the internal operational risk model. Furthermore, Nedbank is a member of and actively participates in the Operational Riskdata eXchange Association (ORX), the Institute of International Finance's Working Group on Operational Risk, the Banking Association of SA's Operational Risk Task Group and Operational Risk Forum, and the Financial Sector Contingency Forum Operational Risk sub-group.

Specialist functions in Group Risk, eg the Forensic Services, BCM, Group Legal, Information Security and Corporate Insurance functions, also assist group businesses with specialist advice, policies and standard setting. Operational risk trends are monitored and reported in the ERCOs and, where appropriate, to GORC and to the board's GRCMC. GIA, being the third line of defence, provides independent assurance to clusters, GORC and the board.

# Operational Risk Management Framework

Managing operational risk is a key element of our business activities, implemented through our ORMF. 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 Chief Risk Officer, the GORDM function and specialist functions in Group Risk will continue to manage, implement and enhance the ORMF and its sub–policies and frameworks.

The ORMF is reviewed and updated annually. Amendments to the ORMF are approved by GORC and ratified by the board's GRCMC. The AMA methodologies contained therein have been rolled out and embedded in the AMA businesses, including for the purposes of the ICAAP.

Nedbank Group covers the following operational risk event types:

**OPERATIONAL RISK EVENT TYPES**

| Event type | Description |
|---|---|
| Internal fraud | Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party. |
| External fraud | Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party. |
| Employment practices and workplace safety | Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events. |
| Clients, products and business practices | Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product. |
| Damage to physical assets | Losses arising from loss or damage to physical assets from natural disaster or other events. |
| Business disruption and system failures | Losses arising from disruption of business or system failures. |
| Execution, delivery and process management | Losses from failed transaction processing or process management, or from relations with trade counterparties and vendors. |

The ORMF defines minimum standards and processes, and the governance structure for operational risk across the group. Inherent to the ORMF is a three-lines-of-defence model for the management of risk.

# Operational risk measurement, processes and reporting systems

The primary operational risk measurement processes in the group include the RCSA, internal loss data collection processes and governance, the tracking of KRIs, external loss data, scenario analysis and capital calculation, which are designed to function in an integrated and mutually reinforcing manner. Operational risk quantitative and qualitative tools are combined into a comprehensive methodology to measure and manage operational risk at Nedbank.

## Risk and control self-assessment

The main objective of the RCSA process is to enable business and risk managers to proactively identify, assess and monitor key risks within defined risk tolerance and appetite levels. Key risks are risks that may result in significant financial loss, could damage business or could negatively impede attainment of business strategic objectives. The RCSA process is well entrenched in our business and integral to the business management activities.

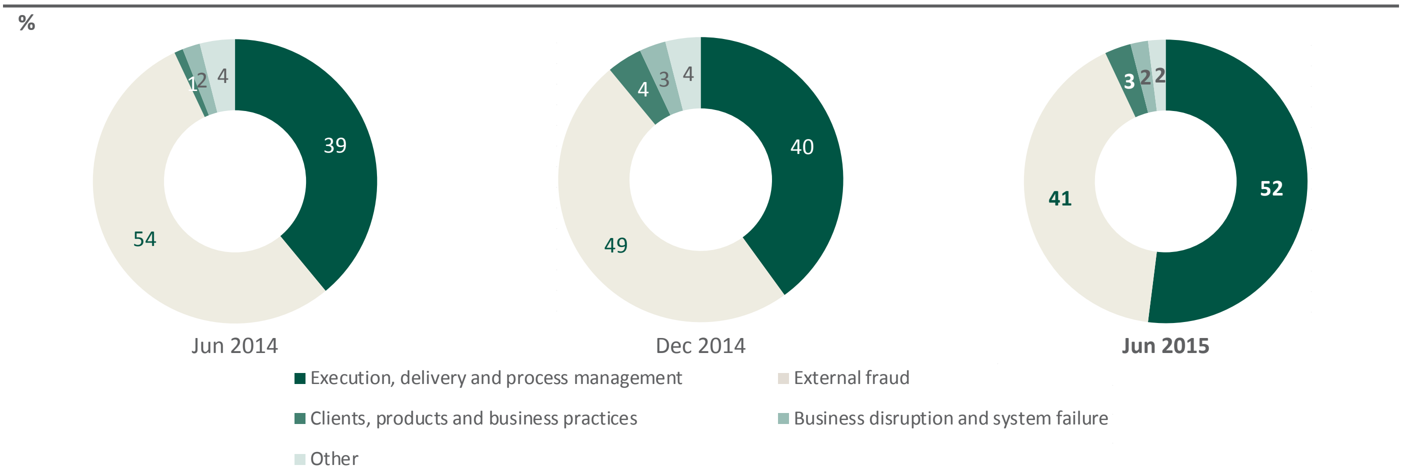
## Key risk indicators

KRIs provide insight on 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 that warn when indicators are approaching or exceeding thresholds; and prompt mitigation plans.

## Internal loss data collection

The internal loss data 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 the Nedbank Internal Loss Data Collection System.

**NEDBANK GROUP OPERATIONAL RISK GROSS LOSS PROFILE FROM INTERNAL LOSS DATA**



The graphs on the previous page reflect Nedbank Group's comparative annual internal loss data by event type. The gross losses depicted are prior to any recoveries being taken into account. There is a difference in the risk profile between the gross loss position (before any recoveries of losses and insurance reimbursements) and the net loss position. One reason for this difference is the higher recovery rate for business disruption and system failures compared to the recovery rate for eg EDPM.

Nedbank Group's operational risk losses remained low relative to GOI and were within the group's risk appetite. All single material loss events of more than R5m are reported to the GRCMC, with a focus on enhancing mitigating actions. Events relating to external fraud and EDPM remained the main reasons for internal losses by frequency and severity.

The EDPM category's contribution to the operational risk loss profile increased to 52% in June 2015 (December 2014: 40%), with June 2014 being recorded at 39%. External fraud decreased to 41% in June 2015 (December 2014: 49%), with June 2014 being recorded at 54%. No significant operational risk events of the nature and severity reported in the previous period occurred during this reporting period.

## Boundary events

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 Internal Loss Data Collection System. In line with the regulations relating to banks 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 Internal Loss Data Collection System. The capital holding thereof is included in operational risk capital.

## External loss data

External data is used to incorporate infrequent, yet relevant and potentially severe, operational risk exposures in the measurement model. The group currently incorporates the effects of external data in the operational risk capital calculation model indirectly, in conjunction with the scenario analysis process. External loss data is also used to benchmark the internal diversification matrix.

Nedbank is a member of and actively participates in working groups of the ORX. ORX accumulates data submitted by each of the member banks quarterly. In addition, the group subscribes to the SAS OpRisk Global Database, which contains data sourced from the media and other sources within the public domain.

## Scenario analysis

Operational risk scenario analysis is a required element of the AMA and is defined in the ORMF as one of the data sources for operational risk modelling and measurement. It serves as the main 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. The group continues to focus on the update of scenarios and actions to improve the management of operational risk.

## Business environment and internal control factors

The group takes into account the business environment and internal control factors (BEICFs) as part of the RCSA process. Consideration of BEICF 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.

## 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 (91%) applies the AMA, and only a small portion of the group (9%), 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 on AMA. Internal loss data and operational risk scenarios represent the main direct input into the model. The outputs of the other data elements, namely external loss data and BEICFs, inform the scenarios. Expected losses 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 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 current operational risk model is under a major review. The Nedbank second generation AMA model is part of the bank's efforts to implement the latest techniques and technologies for operational risk modelling.

## Operational risk appetite

Nedbank has a board-approved operational risk appetite statement that is aligned with the Group Risk Appetite Policy. The group operated within the operational risk appetite limits during the period under review.

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 both group and cluster level, enabling the group and clusters to measure and monitor operational risk profiles against approved appetite limits.

The group continues to focus on refining the operational risk appetite and participates in industry forums such as ORX to enhance the process continuously.

## Reporting

A well-defined and embedded reporting process is in place. Operational risk profiles, loss trends, risk mitigation actions and projects are reported to and monitored by the risk governance structures of the group. Progress was made during the period under review to enhance the internal disclosure and analysis of operational risk reporting via the introduction of a data visualisation tool.

## Managing subcomponents of operational risk

Operational risk comprises a number of key risks including regulatory risk, fraud risk, information and physical security risks, BCM and legal risk. In addition Nedbank has a structured insurance programme to mitigate 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.

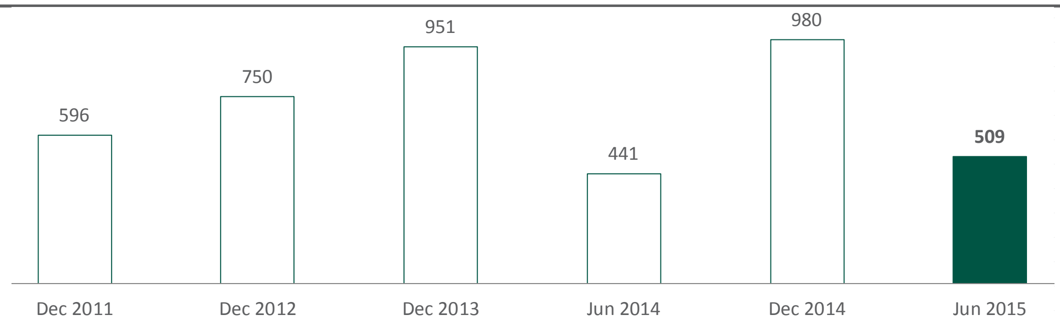
## Compliance and regulatory risk

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 they must stay up to date with all new regulatory instruments that are published throughout the year. Nedbank remains committed to the highest regulatory and compliance standards, especially given the increasing complexity of laws and regulations under which we operate.

**Five-year comparison of new regulations impacting banks**

The graph below illustrates the number of regulatory instruments that have been published annually in the Government Gazette or on the websites of various government departments or industry regulators and that have an impact on banking institutions. It includes instruments that were published for comment.

**GAZETTED AND NON-GAZETTED INSTRUMENTS IMPACTING FINANCIAL INSTITUTIONS[1]**




[1] *By-laws have been specifically excluded from this report.*

The annual increase in regulatory documentation has averaged at approximately 26% year-on-year between 2011 and 2013. The lower increase (3%) during the previous year (2013 to 2014) is consistent with historical evidence of similar declines in the previous election years when the national departments and ministers typically focussed more on finalising existing legislation rather than introducing new laws. However, the increase in legislation as at June 2015 is already at 509, which is an increase of 15% compared to June 2014 (441).

A significant development is the Financial Sector Regulatory Bill (FSRB) which will result in extensive changes (expected in 2016) to the current regulatory system and the manner in which the regulations are applied. It fundamentally changes the legal framework in which the financial services industry has operated until now. The main change brought about by the FSRB will be to create two distinct regulators:

- a prudential regulator (Prudential Authority); and
- a market conduct regulator (Financial Market Conduct Authority).

This system of dual regulation is known as the Twin Peaks model. Twin Peaks will be implemented in two phases. Phase one will address who regulates. The Prudential Authority will regulate (oversee) the safety and soundness of financial institutions that provide financial products, while, the Financial Market Conduct Authority will supervise the conduct of business of all financial institutions and the integrity of the financial markets.

Phase two will address the how and what do they regulate and will deal with:

- the implementation process focused on creating new laws to underpin Twin Peaks; and
- the repeal of current laws and introduction of new all-encompassing financial sector legislation – the Conduct of Financial Institutions Act.

### Twin Peaks

The following three pieces of legislation relating to the Twin Peaks framework have been circulated for comment. Due to the compliance risk exposure that the three pieces of legislation poses, it has been given much attention:

- The Financial Sector Regulation Bill

  The second draft of the Financial Sector Regulation Bill has been released for comment. Material changes that have an impact on the group include the:

  - introduction of a framework for supervision of financial conglomerates relating to the regulating and supervising of financial groups, from both a prudential and a conduct perspective; and
  - licensing requirements relating to financial products, financial services, market infrastructures, payment system operators and payment system participants.

- Draft Market Conduct Policy Framework

  This framework forms part of the Financial Sector reform process which proposes a regulatory and supervisory framework for the new Financial Sector Conduct Authority. It also sets out proposals to support improved market conduct by:

  - better empowering financial customers;
  - improving the Ombuds system so customers can easily and effectively lodge disputes against financial institutions; and
  - refining financial education initiatives.

  Nedbank is represented on both the Twin Peaks and the Market Conduct Task Group at the Banking Association of SA and changes are influenced through active participation in workshops held by National Treasury. Comments on behalf of the group are co-ordinated through the usual commentary process, in consultation with key stakeholders.

- Treating Customers Fairly

  Treating Customers Fairly (TCF) is one of the key programmes driven by the FSB in operationalising the Market Conduct mandate which will be defined once the Twins Peaks model is fully implemented and through the promulgation of the Financial Sector Regulation Bill.

  This initiative follows the lead from United Kingdom and is an outcomes based approach which relates to right culture; right targeting and marketing of products; the provision of appropriate advice, information and communication; delivery of products and services together with the appropriate post sale treatment.

  Nedbank has embarked on a programme to ensure that industry guidelines and best practice are embedded within the business. The (TCF) outcomes have always formed the core of the group's client delivery approach and we have consequently fully embraced this initiative as an opportunity to advance our commitment to the people and businesses that are the lifeblood of our organisation.

  Nedbank clients have always been at the heart of what we do, as evidenced by the strongly client-centred strategy that has directed our business journey the past number of years.

  The key frontline businesses, in particular, have embraced the opportunities that have emerged from the TCF initiative to improve the ways they do business and ensure that the client is always top of mind.

  Deloitte UK are conducting an independent assessment (based on their UK expertise and experiences) to determine Nedbank's state of readiness to meet TCF outcomes. We believe that the continued focus on our clients through TCF enhancements will enrich our client value proposition and will furthermore create value for all our stakeholders.

### Anti-money-laundering, combating the financing of terrorism and sanctions risk management

In line with international and local trends, we have seen increased regulatory scrutiny and inspections in recent years, which have helped to highlight areas of our business where Nedbank can strengthen our administrative regulatory controls.

Regulatory non-compliance relating to anti-money-laundering (AML) and combating the financing of terrorism (CFT) and sanctions continues to receive focus with a view to addressing the weaknesses identified. The fine of R25m that Nedbank received in 2014 (as well as the rest of the big four SA banks) was publicly disclosed as a significant regulatory operational risk event. Steps have been taken to enhance the group's AML/CFT and sanctions programme to be more strategic and to effectively manage any AML, CFT and sanctions risks.

The need to keep increasing the group's oversight, enhancing controls and procedures in respect of all aspects of regulatory compliance is a key focus in Nedbank. This is especially true with regard to combating money laundering, the financing of terrorist and related activities and sanctions compliance. We have ensured that clearly defined policies, processes, practices, procedures and plans have been updated and are in place to inform all statutory duties and meet regulatory obligations or, in the absence of these, agreed standards.

Nedbank will not have its name or brand associated with any form of money laundering, terrorist financing or breach of sanctions. To ensure this, the group monitors all business relationships, applications for business relationships and transactions with the aim of identifying the involvement of any individuals, entities, countries, activities or goods that are, or have been, targeted in the financial sanctions legislation.

Nedbank also maintains close and transparent working relationships with the Financial Intelligence Centre and the SARB's Bank Supervision Department (BSD). We attend quarterly meetings with the BSD to ensure compliance with the regulatory requirements and obtain clarification where necessary.

Various cash threshold, terrorist property and suspicious transaction reports have also been submitted to the Financial Intelligence Centre.

Training in AML, CFT and sanctions remains a high priority for the group. AML and CFT training is conducted on an ongoing basis to create awareness, while suspicious transaction training and sanctions compliance training are once-off training interventions presented to relevant staff members as required. Selected employees are identified on an ongoing basis to complete the prevention of trade based money laundering, politically exposed persons and client risk profiling training.

Nedbank continues to focus on the implementation of innovative initiatives that combat money laundering and terrorism financing, and promote sanctions compliance.

**Retail Distribution Review Paper**

Retail Distribution Review (RDR) advocates a consistent cross-sectorial approach to regulating the distribution of financial products. The primary aim of the RDR is to ensure that financial products are distributed in ways that support the delivery of TCF outcomes. Nedbank is participating in the industry consultation workgroups, which are split into categories, ie adviser categorisation, investments, long-term risk, sales execution and intermediary services and low income market.

**IFRS 9**

As a result of the global financial crisis in 2008 the IASB undertook a substantial review of the suite of financial instrument standards, which included the impairment section of IAS 39. In July 2014 the IASB issued the final version of IFRS 9 *Financial Instruments,* which included the new impairment requirements. IFRS 9 is mandatorily effective from 1 January 2018. Although IFRS 9 will be available for early adoption, the group will only apply the standard retrospectively from 1 January 2018, subject to the transition provisions.

**Basel III**

In responding to Basel III, management continues to deliver, position and prepare Nedbank Group optimally for these regulatory changes. Risk principles have been incorporated in 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.

Basel III is being phased in over several years, from 2013 until 2019, and as such there are several major Basel III items that are still work in progress. Nedbank will leverage the IFRS 9 and Basel III implementations to elevate that risk measurement and management to an even higher level than today, and remain focused on changes to the NCA and any strategic implications.

**Protection of Personal Information Act**

The Protection of Personal Information (POPI) Act was signed into law on 27 November 2013. The implementation of the conditions of the POPI Act will allow for increased client confidence in how financial services and corporate SA uses clients' personal information and it will also contribute to international investor confidence. The effective date of compliance has not yet been published, but once it is, we will have one year to demonstrate compliance.

The POPI Act allows banks to use the conditions of privacy to augment their continued obligation to confidentiality. Nedbank's POPI 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, store and ultimately dispose of personal information.

We are on par with international developments and will strive to align with the prescribed best practices.

**The Foreign Account Tax Compliance Act**

The Foreign Account Tax Compliance Act (FATCA) is a law introduced by the US, but aimed at foreign financial institutions and other financial intermediaries with a focus on preventing tax evasion by US persons and entities through the use of offshore accounts. FATCA was implemented worldwide on 1 July 2014 and requires non-US financial institutions to identify US persons and entities holding accounts or assets with them and report these to the US Internal Revenue Services.

If a foreign financial institution does not enter into an agreement with the Internal Revenue Services, all relevant US-sourced payments, such as dividends and interest paid by US corporations, are subject to a 30% withholding tax. The affiliates of these institutions and their other foreign entities (the expanded affiliate group or EAG) will also be subject to a withholding tax penalty.

The South African Revenue Service (SARS) successfully negotiated an intergovernmental agreement with the US that requires SA financial institutions to report FATCA-related matters to SARS, which in turn will report the information to the Internal Revenue Services.

Nedbank and its subsidiaries comply with the provisions of FATCA to the extent that the laws within the jurisdictions of operations allow.

## Occupational health and safety risk management

The Occupational Health and Safety Act (OHSA) and its associated regulations, places emphasis on all employers and employees to ensure the health and safety of all persons associated with its business. The Nedbank Group Occupational Health and Safety (OHS) department proactively drives the OHS programme to ensure that compliance requirements of the act and regulations, together with international best practice are strictly adhered to at all times. This is achieved by setting standards of health and safety throughout Nedbank Group, appointing the required OHS appointees throughout the group; ensuring that health and safety policies and procedures are regularly reviewed to align with current regulations and that management and staff are constantly aware of, and adhere to these requirements. This further includes incident management, reporting and investigation of work related incidents aligned with the Compensation of Occupational Injuries and Diseases (COID) Act requirements, monitoring of and advising the group of communicable diseases trends, and effective emergency procedures which must and are regularly practised by all Nedbank sites.

The new Construction Regulations that was promulgated in 2015, has been incorporated into the OHS department's contractor's control procedures to ensure that all construction undertaken by contractors appointed by Nedbank, are done in a safe and healthy manner, and that this work complies with the requirements of not only the regulation, but also Nedbank procedures. Communication, training provision and awareness of health and safety to business units, management and staff is regularly maintained. Reporting on health and safety matters is done monthly, to ensure that the Chief Executive, who is ultimately responsible for compliance to the OHSA in terms of Section 16 of the Act, is aware of the status and developments of health and safety throughout Nedbank Group. External audits are conducted annually to provide feedback to ensure Nedbank remains compliant with the requirements of the OHSA, associated regulations, and the COID Act.

## Financial crime

Nedbank recognises financial crime as a major operational risk that has the potential to result in significant losses. The organisation therefore takes a proactive and vigorous approach to managing and mitigating this risk in all its forms.

### Fraud risk management

Given the financial losses and potential negative social impact of fraud, Nedbank actively combats this type of crime and dishonesty within the group while also focusing on protecting shareholders' and clients from falling victim to unscrupulous individuals and organised-crime rings. Fraud monitoring and prevention measures include internal and external whistleblowing channels, numerous anticorruption initiatives and ongoing investment into cybercrime-combating capabilities.

Nedbank places priority on creating awareness of the prevention and detection of fraud, not only among staff members but also its clients. During the first half of 2015, a total of 1 545 staff members in Nedbank underwent face-to-face fraud prevention training. In addition 324 representatives from 56 organisations in our corporate client base also received facilitated fraud awareness training.

We have also produced a number of cautionary messages for clients throughout Africa on new fraud trends.

During the first of half 2015, the group saw the number of fraud cases reported or investigated increase to 2 843 (June 2014: 2 328), but experienced a decrease in the overall value of the fraud cases reported.

Nedbank maintains a policy of zero tolerance towards any dishonesty among staff members. During the first half of 2015, a total of 61 (June 2014: 57) Nedbank Group employees were dismissed for dishonesty following internal investigations.

### Assessment of fraud and corruption risk

The risk of internal and external fraud is evaluated and monitored at several levels within the organisation as follows:

- RCSAs are conducted regularly to ensure appropriate controls and monitoring.
- Fraud key risk and control indicators are monitored, tracked and reported on.
- New products and all processes related to their use are evaluated to ensure that all aspects of fraud risk, legal risk and regulatory risk (such as the AML requirements) are considered.
- Ad hoc fraud and/or corruption risk assessments are undertaken in high-risk areas.
- Annual corruption risk assessments conducted in terms of the UK Bribery Act 2010 have been included in the RCSAs from the third quarter of 2014. The inclusion of these assessments in the RCSAs means that corruption risk will now be reviewed on a more regular basis (at least quarterly). An attestation regarding the assessment of this risk has also been included in the letter of representation that is signed twice a year.

As the requirements of the International Standard of Auditing 240 (ISA 240) dealing with financial statement fraud are currently being incorporated into the Financial Control Initiative project, no separate assessment was conducted during first half of 2015.

As part of ensuring that Nedbank has adequate procedures in place to manage and assess corruption risk, all new and existing vendors are required to complete a corruption risk assessment questionnaire, either when they are onboarded or when their existing contract is renewed.

Employees are also required to sign an anti-corruption pledge annually. This is tracked through an automated compliance tool.

### Staff integrity management

All Nedbank Group employees are expected to maintain the highest standard of honesty and integrity and to act with due care and diligence at all times. 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. In addition to minimising the group's vulnerability to fraud, theft, corruption and financial mismanagement, these processes help to cultivate a culture of ethics and integrity in keeping with Nedbank's corporate values.

The Financial Advisory and Intermediary Services (FAIS) Act requires that persons regarded as key individuals and representatives comply with the prescribed 'fit and proper' requirements. As part of compliance with these requirements, staff integrity management verification is done on appointment of relevant staff and repeated every 24 months. As part of the preemployment screening process, a total of 1 079 FAIS-accredited staffmembers, who were either appointed or transferred to positions where they render financial services on behalf of Nedbank, were screened and met the ongoing 'fit and proper' requirements in 2015. Existing FAIS-accredited staff will be rescreened during 2015 according to the relevant policy.

### Due diligence

Effective risk management programmes require ongoing third-party due diligence. Taking a systematic, ongoing and risk-based approach to third-party due diligence is the only way to effectively ensure that business relationships are not putting the organisation at risk.

Hence the group is currently implementing an enhanced due-diligence process for third-parties. The programme will ensure 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 this third-party due-diligence processes.

Since the beginning of 2015 there has been a decrease in the number of applications for central know your client due-diligence support as the various clusters have improved their internal due-diligence capabilities. At the same time the group has experienced a significant increase in the number of third-party due-diligence applications. Group Procurement has included a risk-based due-diligence profile for use during the onboarding of all new vendors and also where vendor contracts are renewed.

The group successfully decreased dependency on external service providers for due-diligence investigation support by improving the organisations access to national and international information databases. The majority of due-diligence investigations are now insourced. A total of 247 (June 2014: 497) requests for due-diligence investigations were received and 921 (June 2014: 1 740) companies and individuals were investigated in 25 (June 2014: 57) countries in 2015.

Ongoing assessments of the commercial, political, social and security environments in which the group conducts business is performed. Social, economic and governmental changes in any country can create an environment that reduces security and increases the risk to the group's assets, staff, premises and information and, consequently, its ability to continue to do business and deliver value to all stakeholders.

#### Whistleblowing

Nedbank Group strives to create a safe and enabling work and business environment where concerns, suspicions, irregularities and unethical conduct can be reported safely and without fear of retribution or victimisation. To this end 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 in our Nedbank Africa subsidiaries in Namibia, Swaziland, Lesotho, Malawi and Zimbabwe.

Staffmembers are regularly reminded about the existence of the whistleblowing facilities and the type of activities to look out for or suspicions they should report. During first half of 2015 a total of 266 (June 2014: 296) tip-offs were received and a total of 255 (June 2014: 249) anonymous whistleblowing reports were referred for investigation to Group Forensic Services. Of these investigations, 7 (June 2014: 11) led to disciplinary action against staffmembers.

Employees are also able to report suspicions of fraud, corruption and dishonesty through the Nedbank Group Risk Reporting Line, which is managed by Group Forensic Services. During the first half of 2015, total 13 655 reports (June 2014: 13 185) were received and registered, 2 843 (June 2014: 2 328) of which were investigated.

#### Online fraud

Nedbank online banking clients have enjoyed the superior protection of the Approve-it™ account activity notification service and the secure Nedbank App Suite™ since 2012. Despite this, the group recognises that clients remain vulnerable to security breaches that are beyond its control, including malware attacks on their computers and SIM swap attacks as a result of compromised security at their mobile network operators. To offer additional protection against these risks, the organisation maintains an online banking fraud detection capability that is available 365 days a year. During the reporting period, compromised accounts of 609 (June 2014: 245) clients were blocked before fraud could occur.

Nedbank continues to participate in industry initiatives with other financial institutions and law enforcement agencies to ensure that the perpetrators of online criminal activities are identified, caught and brought to book.

#### Corruption

As a responsible lender and corporate citizen Nedbank Group is opposed to corruption in all its forms. In the fourth quarter of 2012, staff, managers and the Group Exco signed an anti-corruption pledge, committing themselves to taking a stand against corruption and to upholding ethical and transparent business practices.

During first half of 2015, 97% (June 2014: 97%) of all Nedbank Group employees have signed the pledge, which will now be extended to staff members in the African subsidiaries.

A manual to assist business with conducting risk-based anti-corruption due-diligence reviews has been developed and made available to all business clusters. The feasibility of implementing a centralised due-diligence system is also being investigated.

As part of the ongoing training and awareness programme the group participated in international fraud awareness week, as well as international anti-corruption day. The campaigns focused on the risks of social engineering and the importance of not divulging seemingly unimportant information to third parties. This theme was carried through to the awareness material distributed to our clients.

Given the high levels of corruption currently experienced in SA, anti-corruption interventions were added as a key performance indicator which is externally assured. This was undertaken to provide assurance to Nedbank's stakeholders that its actions in this regard are robust and in no way contribute to this negative cycle. During first half of 2015, 100% (June 2014: 100%) of Nedbank's operations have undergone corruption screening without any material concerns or issues being raised.

### Cybercrime risk

Nedbank is acutely aware of the increasing impact of cybercrime on the entire banking industry and its clients. Nedbank counters these risks by means of our comprehensive fraud detection systems as well as the IBM Trusteer software that is provided free of charge to clients. The group also maintains extensive internal digital forensic and e-Discovery capabilities to deal with this risk effectively. Nedbank has also established its own internal Cybersecurity Incident Response Team (CSIRT).

In 2015 Nedbank continued to work closely with other financial institutions, through the South African Bank Risk Information Centre (SABRIC), in establishing the financial sector CSIRT. The financial sector CSIRT is aligned with the envisaged National CSIRT as outlined in the draft Cybersecurity Policy of SA issued by the Department of Communication.

### Information security and cyber security risk

Traditionally, information security risk arises from an inability to ensure the confidentiality, integrity and availability of business and client information for which the group is accountable. Information security is a business enabler, allowing clients to safely access products and services that would otherwise not be possible without such advanced information security technologies.

More recently the international emphasis has moved away from 'information security' which is mostly standards-driven, to the concept of 'cyber security', which is more intelligence-driven and requires effective detection, response and remediation of cyber threats. In this regard, Nedbank is a participating member of the CSIRT at the SABRIC, to assist with combatting cybercrime in the SA financial sector. This results in a safer banking environment, not only for our own clients, but also for the SA banking sector as a whole.

Nedbank Limited is a member of the Information Security Forum (ISF) and subscribes to the ISF's Standards of Good Practice as part of the Information Security Management Framework. In 2015 Nedbank adopted the ISF Cyber Resilience Framework. This ensures the application of consistent worldclass information security and cyber security standards across the group.

The operational risk processes include an information security scenario in line with our AMA. This process ensures that information security risks are formally assessed and agreed within the organisation and that the appropriate capital is set aside to deal with these risks should they materialise. It also serves as an important risk indicator for information security risk to be addressed.

## Business Continuity Management

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 Business Continuity Plan (BCP) activities is also provided and a focus on identifying critical processes and dependencies across the group facilitates cost effective BCP strategies.

During 2014 Nedbank started to quantify how the availability and readiness of the resumption areas have safeguarded business against potential loss during a disruptive incident. Simplification of the plan building process has saved business time, when reviewing their plans and has also made the plans more relevant. Campus plans avoid duplications in the plan building process.

The BCM status of Nedbank Group at 30 June 2015 and within the last 270-day cycle was as follows:

| | | |
|---|---|---|
| Total number of BCPs | 1 270 | |
| Completed BCPs | 1 080 | (85%) |
| Tested BCPs | 903 | (83%) |

In addition to the above, identified critical business units conducted annual business recovery tests from the three business resumption areas. A total of 45 tests were performed as follows:

| | |
|---|---|
| Gauteng | 35 |
| Western Cape | 1 |
| KwaZulu-Natal | 9 |

All recovery testing relating to the Payments Association of SA is carried out with the quarterly disaster recovery tests at the group's disaster recovery site. Altogether nine disaster recovery tests, including Gauteng, Africa, Western Cape and KwaZulu-Natal were conducted from January to June 2015. The disaster recovery test held during this reporting period was audited by GIA and the test was successful.

## Legal risk

Legal risk arises from the necessity that the group conducts its activities in conformity with the business and contractual legal principles applicable in each of the jurisdictions where the group conducts its business. The possibility that a failure to meet these legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.

The legal risk management framework, a subcomponent of the ORMF is in place to ensure that sound operational risk governance practices are adopted in respect of legal risk. The framework addresses key legal risk types such as dispute resolution, litigation, creation and ongoing management of the group's contractual arrangements, appointment and management of external legal resources and the protection and management of intellectual property.

Nedbank has a decentralised legal risk model with central coordination. The clusters have a strong dotted line to the centre and Group Legal can make policy decisions where there are conflicting legal views. Group Legal performs all central functions legal work, has strong oversight over cluster legal work and can take over any matter from the clusters. All industrial practices and litigation against the bank is centralised at Group Legal.

## Insurance obtained to mitigate the banks' exposure to operational risk

Nedbank Group insurance programs are structured in such a way that they encourage and contribute towards driving a high standard of risk management within the group. 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 us focused on risk mitigation/loss control to protect the reserves held in our captives. Nedbank structures the programs in partnership with underwriters where they carry the catastrophic, unpredictable type events and we manage the predictable higher frequency, lower severity losses.

The ability of the captive insurers to absorb loss over the years, protecting participating insurers, has been instrumental in being able to control pay away premium. The last seven years reflect effective control in premium spend against VaR.

Nedbank insurance structures also provide a vehicle which allows regulatory compliance in Rest of Africa operations whilst ensuring adequacy of insurance cover which local insurers, in territory, do not have capacity for. The corporate insurance department interacts well with the Rest of Africa in ensuring that relevant and adequate insurance is carried for each country.

# 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 the risk 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 split into two parts, a top-down calculation of the group's capital requirement based on external and internal revenue information and a bottom-up scenario based 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 instead replace management responsible for them.

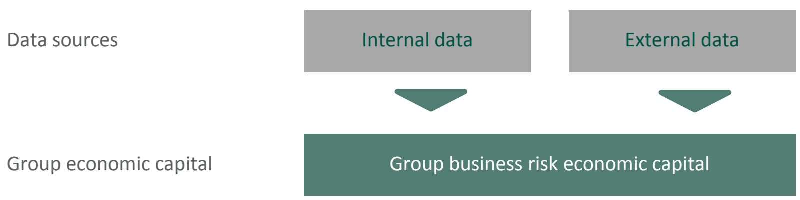
## Quantification of business risk capital

The current business risk approach is split into two parts, a top-down calculation of the group's capital requirement and a bottom-up scenario based allocation approach to businesses across the group.

- Top-down 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 so as 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.
- Bottom-up 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.

## Top-down calculation

**TOP-DOWN CALCULATION**

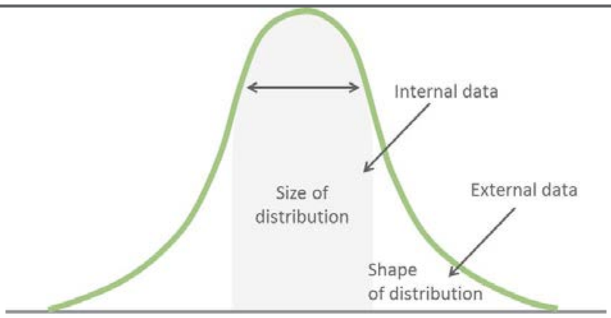



The purpose of the top-down calculation is to size, at a group level, the business risk exposure that Nedbank faces as a consolidated entity. This is done by evaluating to what extent the group's GOI (adjusted for non-business risk factors) can vary compared to expectations in an extreme event.

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 top-down 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**

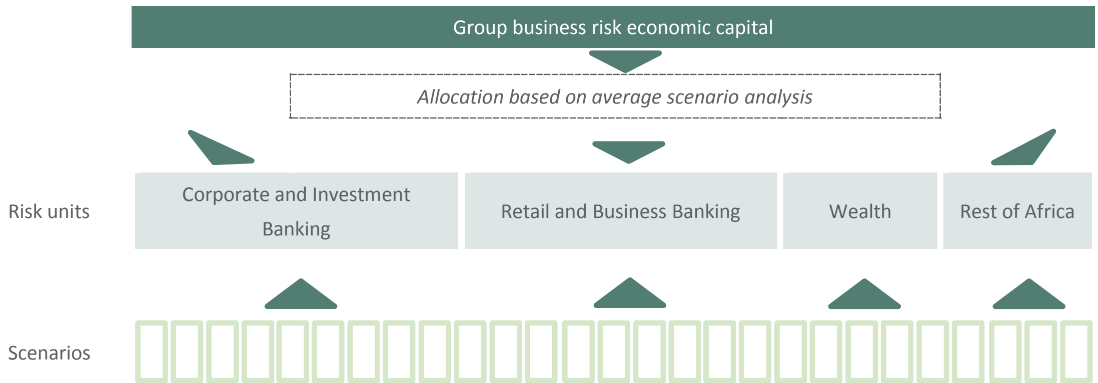



The most important methodological aspects were derived in four different stages, as discussed below:

- 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 in order 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.

## Bottom-up allocation

**BOTTOM-UP ALLOCATION**




A bottom-up 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 top-down 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

In order to ensure comparability between various scenarios per business unit as well as across business units, the set of principles contained in the table below were used in deriving the respective business unit scenarios:

| Principle | | Description |
|---|---|---|
| 1 | Relevance to Nedbank | Only scenarios that will impact Nedbank should be considered.<br>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 | Scenario should have a clear link to profit and loss changes.<br>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.<br>Scenarios should cover a range of possible events. |

# ACCOUNTING AND TAXATION RISKS

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

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 Group Audit Committee and reviewed by external audit.

The primary role of the Executive Taxation Committee is monitoring tax compliance and ensuring that the management of tax risk throughout the group is in accordance with Nedbank Group's Tax Policy. Furthermore, the committee assists the Group Audit Committee in discharging its responsibility relative to the oversight of tax risk.

# INFORMATION TECHNOLOGY RISK

Information technology (IT) risk is defined by Information Systems Audit and Control Association (ISACA) (an international professional body focused on IT governance) as the business risk associated with the use, ownership, operation, involvement, influence and adoption of information technology within an enterprise. Technology risk stems from risks associated with misalignment to the business strategy, an uncoordinated or inefficient information technology strategy, failure of projects to deliver desired change, data protection and information privacy, effects of physical disasters on information systems, information technology outsourcing, information technology performance and information systems governance. This may result in IT not delivering the capability required to support the achievement of the group's strategies or will not provide a competitive advantage in terms of the group's strategy.

IT risk has a number of key components that are listed and defined below:

- Systems – the risk resulting from system malfunction and unavailability, security breaches and inadequate systems investment, development, implementation, support and capacity.
- Information security – the risk from breaches in the confidentiality or integrity of information and from the unavailability of information when required, this extends to all information in the group, not only internal system-generated information.
- e-Commerce – the unique risks arising from the group's electronic banking initiatives, especially new product approval, access security, third-party legal liability and legislative and regulatory requirements.
- Disaster recovery – the risk of the inability of the group's IT system(s) of recovering timeously or responding with an acceptable alternative temporary solution, system or site following a disaster impacting on the group, which may result in loss of service, financial loss or reputational damage.
- Technological innovation – the risk of an uncoordinated, inefficient and/or under-resourced IT strategy as a result of which, the group becomes progressively less competitive.
- IT alignment with the group strategy – the risk that the group's IT development spend and prioritisation do not accord with the group's overall key business objectives, requirements and strategy.
- IT capex spend and control – the risk of financial loss due to excessive, unbudgeted or unnecessary IT capital expenditure (capex) arising from inadequate IT capex policies and authority levels Schedule of Delegated Authorities or poor implementation and monitoring of those approved.
- Project control and management – the risk that projects are unable to deliver the desired implementation results in terms of changes, strategic feasibility, cost-benefits, quality of deliverables and time frames – inadequate project management leading to impairments, increased costs, late delivery, inadequate change management or implementation failure – the failure to perform a post-implementation review and assessment of whether the project deliverables were successfully delivered.

A component of technology risk is a subcategory of operational risk, eg information technology system down time, due to utility disruptions, is mainly classified under the operational risk event type business disruption and system failure, where information security and cybercrime incidents can cover various event types, namely:

- Internal fraud.
- External fraud.
- Execution, delivery and process management.
- Business disruption and system failures.

The use of IT, and therefore the associated technology risk (IT risk), is pervasive in a large bank such as Nedbank Group. Accordingly, IT risk is recognised as one of the 17 key risks in Nedbank Group's risk universe and is addressed appropriately as follows:

- There is a separate major support cluster for IT, ie Group Technology (GT). The managing executive of GT is a member of the Group Exco.
- The GT Cluster manages information and technology risk through the Technology Management Policy.
- GT is Nedbank Group's centralised technology unit with the responsibility for all components of the group's technology processing, development and systems support. The functions that operate all of the group's IT systems, databases, technology infrastructure, and software development and IT projects/programme management are centrally managed to provide economies of scale and facilitate a cohesive groupwide service-oriented architecture and technology strategy.
- 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.
- As with the other business clusters, the head of Risk is a member of the GT Cluster Exco and reports directly to the managing executive of GT.

Nedbank's managed-evolution approach to technology aims to deliberately enhance our IT systems progressively over time and deliver ongoing business benefits. In line with the group's rationalise, standardise and simplify IT strategy, a target was set in 2010 of decreasing core systems from 250 to 60, of which 81 have been decommissioned to date (20 since June 2014 and 5 since December 2014). This is laying the foundation for future cost savings and vast efficiencies. The group progressed well with the SAP ERP replacement system for finance and procurement, and the human resources component (HCM) is currently being implemented.

# REPUTATIONAL, STRATEGIC, SOCIAL AND ENVIRONMENTAL RISKS

Reputational, strategic, social and environmental risks are also potentially pervasive in a banking group, and each is separately identified and addressed as key risks in the group's ERMF.

To this end, significant time, resources and focus are afforded to these risks on an ongoing basis. The following highlights illustrate this:

- The Directors' Affairs and the Transformation, Social and Ethics Committees operate at board level.
- A new Related Party Transactions Committee (RPTC) has been established in June 2015, and is appointed and authorised by the board of directors of Nedbank Group Limited ('Nedbank'), in terms of the provisions of Section 72(1)(b) of the Companies Act (2008), to assist the board and other board committees, to fulfil their responsibilities to strengthen corporate governance and practices, in regard to all related party transactions.
- Group Exco is assisted by the GORC, Brand and Client Committee, Transformation and Human Resources Committee and the Business Risk Management Forum.
- The Reputational Risk Committee is appointed by the Group Exco to administer and manage all reputational risk issues of the group, associated with or connected to the lending activities of the group.
  - Reputational risk is, to a large degree, mitigated by adequately managing the other 16 key risks in Nedbank Group's ERMF. External communication to investment analysts, shareholders, rating agencies and the financial media is controlled by risk policies, with designated group spokespeople.
- There is a comprehensive, formal, well-documented and closely monitored strategic planning process group-wide.
- The board is involved in the planning sessions and has insight into and understanding of the interplay of risk, performance and sustainability.

Sustainability is fundamental to ensuring financial prosperity and stability for investors and staff, integrating social and environmental responsibility for local communities and the countries in which the group operates, and remaining relevant and accessible to clients. Sustainability is a crucial part of the Nedbank Group culture, and one of the group's Deep Green aspirations is to be a 'green and caring bank' by being 'highly involved in the community and environment'. Details on this and the group's sustainability focus, strong governance and transparent reporting, which are integral to maintaining the group's credibility among its stakeholders, appear in the most recent Nedbank Group Integrated Report 2014, which can be accessed on www.nedbankgroup.co.za.

- Transformation is a business imperative in SA and Nedbank Group is focussed to meet its targets, latest details of which appear in the Nedbank Group Integrated Report 2014, which can be accessed on www.nedbankgroup.co.za.
- The adoption of a long-term leadership role in sustainability which Nedbank is currently developing to align more closely to support government's National Development Plan objectives.
- An initial Fair Share 2030 target of approximately R6bn has been set for 2015. This represents a lending or investment target, subject to credit granting criteria, not an expense or donation, and is expected to make an appropriate return on the funding to be deployed into the economy. Fair Share 2030 is not designed to replace any aspect of existing commitment to sustainability. It represents a step change in the way Nedbank approaches our sustainability efforts through core business and a strategic response to our recognition of the need for all South Africans to work towards creating a better future for our country.

- The Group Marketing, Communications and Corporate Affairs Cluster plays a major role in managing the group's image and reputation. Key functions include marketing and communications. The cluster is also responsible for the Nedbank Foundation as well as for the delivery of the group's objectives in terms of the Broad-Based Black Economic Empowerment (B-BBEE) codes.
- 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 and the setting of related policies. It also manages the Enterprisewide Governance and Compliance Framework (EGCF). 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 Chief Governance and Compliance Officer, as a member of Group Exco, reports directly to the Chief Executive and attends the board committee meetings by invitation. He also has direct access to the Chairman of Nedbank Group and other Nedbank Limited boards.

A strong network of divisional governance and compliance officers work closely with the central EGCF in training, project implementation and monitoring, as well as creating an appropriate governance and compliance culture. Nedbank Group's EGCF incorporates a full range of governance objectives, a delineation of responsibilities at board committee, Group Exco and management level, and the identification of champions and key functions for corporate governance integration into all operations.

Key features of achieving an effective governance process are the cooperation between executive management and non-executive directors, and the significant emphasis, resources and structure given to executive management to champion corporate governance on a day-to-day basis and assist the board committees and individual non-executive directors with their corporate governance and compliance responsibilities.

# 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 which 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.

Closely related to people risk is transformation risk. This risk is defined as the failure by the group to adequately, proactively and positively respond and address transformation issues, ie Black Economic Empowerment, and uphold to related law, ie Employment Equity Act. It is important to note that transformation risk is closely linked to operational risk, which is the risk of loss resulting from inadequate or failed internal processes. 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;
- Transformation and Human Resources Executive Committee – a subcommittee of Exco;
- Enterprisewide Human Resources Exco – comprising of Group HR and HR Cluster representatives in the business;
- Group Human Resources Exco;
- Group Human Resources Risk Committee;
- Group Transformation Forum; and
- Nedbank Employer Equity Forum.

The Group Human Resources Executive represents the HR community on these committees and is also a representative of Group Exco.

Succession planning for the Group Executive, Cluster Executive and Divisional Committee roles is critical. A formal talent review process takes place annually to identify Nedbank Group's key talent and to ensure the approval of succession plans are made by the appropriate forums. Group Executive succession plans are signed off by the Chief Executive and the Directors' Affairs Committee of the board.

The Chief Executive is required to regularly report to the board 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 all 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 minimal risk taking, is integral to the total remuneration philosophy. For further information, please refer to the group's Remuneration Report within the latest Integrated Report which can be found at www.nedbankgroup.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 this has to be actively managed and monitored on an ongoing basis.

Leading transformation continues to be one of the group's key focus areas. Nedbank Group proudly maintained its level two rating in respect of the B-BBEE codes.

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 ˈvision-led and values-drivenˈ. 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. The Barrett culture survey results confirm that values and vision drive the corporate culture, which also drive employee fulfilment. Employee fulfilment has an automatic 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 employee surveys such as the Barrett, Nedbank Group Staff Survey, as well as engagement 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. And the culture that leaders create is highly dependent on their behaviour and their relationships with other leaders and employees in the organisation. Leading for Deep Green is an ongoing initiative that is aimed at Nedbank Group's leadership community to enable it to create a values driven leadership core that supports its strategic objectives.

Transformation is a key component within organisational culture. Becoming a true reflection of the society in which an organisation operates in is a key transformational challenge that the group faces. As a result, a Diversity Management Strategy has been implemented and is fundamentally aimed at creating a workplace where diversity is embraced and free of all irrelevant prejudgements and stereotypes. Therefore diversity management forms a key part of Nedbank Group's transformation process. Nedbank Group understands the reality that most organisations are either ˈstrategicallyˈ or ˈculturallyˈ deficient and that a deficiency in either sphere impedes growth and success. Knowing this, the diversity management initiatives form an integrated part of the Nedbank Group's effort to develop and build an organisational culture that can confidently execute its strategy.

# Annexure A: Abbreviations

| ABBREVIATION | DEFINITION |
|---|---|
| ABCP | Asset-backed commercial paper |
| AFR | Available financial resources |
| AFS | Available-for-sale |
| AIRB | Advanced Internal Ratings-based |
| ALCO | Asset and Liability Committee |
| ALM | Asset and liability management |
| AMA | Advanced Measurement Approach |
| AML | Anti-money-laundering |
| BASA | Banking Association of South Africa |
| Basel Committee | Basel Committee on Banking Supervision |
| BaU | Business-as-usual |
| B-BBEE | Broad-Based Black Economic Empowerment |
| 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 |
| CCP | Clearing counterparty |
| CCR | Counterparty credit risk |
| CEM | Current Exposure Method |
| CET1 | Common-equity tier 1 |
| CFD | Centralised Funding Desk |
| CFT | Combating the financing of terrorism |
| CIB | Corporate and Investment Banking |
| CLF | Committed liquidity facility |
| CLR | Credit loss ratio |
| CMBS | Commercial-mortgage-backed securitisation |
| CMF | Capital Management Framework |
| CMVU | Credit Model Validation Unit |
| COE | Cost of equity |
| CSIRT | Cybersecurity Incident Response Team |
| CVA | Credit valuation adjustment |
| DCC | Divisional Credit Committees |
| dEL | Downturn expected loss |
| DGS | Deposit Guarantee Scheme |
| dLGD | Downturn loss given default |
| EAD | Exposure at default |
| EaR | Earnings at risk |
| ECA | Export credit agencies |
| ECAI | External credit assessment institutions |
| ECL | Expected credit losses |
| EDPM | Execution, delivery and process management |
| EDTF | Enhanced Disclosure Task Force |
| EGCF | Enterprisewide Governance and Compliance Framework |
| EL | Expected loss |
| EP | Economic profit |
| ERCO | Enterprisewide Risk Committee |
| ERMF | Enterprisewide Risk Management Framework |
| ETI | Ecobank Transnational Incorporated |
| ETL | Expected tail loss |
| EVE | Economic value of equity |

| ABBREVIATION | DEFINITION |
|---|---|
| FAIS | Financial Advisory and Intermediary Services |
| FATCA | Foreign Account Tax Compliance Act |
| FCT | Foreign currency translation |
| FCTR | Foreign currency translation reserves |
| FRTB | Fundamental review of the trading book |
| FSB | Financial Services Board |
| FSRB | Financial Sector Regulatory Bill |
| GCC | Group Credit Committee |
| GCPM | Group Credit Portfolio Management |
| GCRM | Group Credit Risk Monitoring |
| GDP | Gross domestic product |
| GIA | Group Internal Audit |
| GLAC | Gone-concern loss absorbing capacity |
| GMRM | Group Market Risk Monitoring |
| GOI | Gross operating income |
| GORC | Group Operational Risk Committee |
| GRCMC | Group Risk and Capital Management Committee |
| Greenhouse I | Greenhouse Funding (RF) Limited |
| Greenhouse III | Greenhouse Funding III (RF) Limited |
| Group ALCO | Group ALCO and Executive Risk Committee |
| Group Exco | Group Executive Committee |
| GT | Group Technology |
| HCM | Human resources component |
| HQLA | High-quality liquid assets |
| HVCRE | High-volatility commercial real estate |
| IASB | International Accounting Standards Board |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFRS | International Financial Reporting Standards |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| IMA | Internal Model Approach |
| IPRE | Income-producing real estate |
| IRB | Internal Ratings-based |
| IRRBB | Interest rate risk in the banking book |
| ISF | Information Security Forum |
| JIBAR | Johannesburg Interbank Agreed Rate |
| JSE | Johannesburg Stock Exchange 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 |
| MEFM | Macroeconomic Factor Model |
| MFC | Motor Finance Corporation |
| MRC | Minimum required capital |
| MTM | Mark-to-market |
| NCA | National Credit Act |
| NCWO | No-creditor-worse-off |
| Nedgroup Life | Nedgroup Life Assurance Company Limited |
| NedIC | Nedgroup Insurance Company Limited |
| NGR | Nedbank Group Rating |
| NII | Net interest income |
| NIM | Net interest margin |
| NIR | Non-interest revenue |

| ABBREVIATION | DEFINITION |
|---|---|
| NSFR | Net stable funding ratio |
| NTR | Nedbank Group Transaction Rating |
| OHS | Occupational Health and Safety |
| OHSA | Occupational Health and Safety Act |
| ORMF | Operational Risk Management Framework |
| ORSA | Own Risk and Solvency Assessment |
| ORX | Operational Riskdata eXchange Association |
| OSE | Ordinary shareholders' equity |
| OTC | Over-the-counter |
| PD | Probability of default |
| PIPs | Properties in possession |
| POPI | Protection of Personal Information |
| PR | Property revaluation |
| Precinct | Precinct Funding 1 (RF) Limited |
| QIS | Quantitative Impact Study |
| RAPM | Risk-adjusted performance measurement |
| RAROC | Risk-adjusted return on capital |
| RBB | Retail and Business Banking |
| RCSA | Risk and control self-assessment |
| RMBS | Residential-mortgage-backed securitisation |
| ROE | Return on equity |
| RORAC | Return on risk-adjusted capital |
| RRP | Resolution and recovery planning |
| RWA | Risk-weighted assets |
| SABRIC | South African Bank Risk Information Centre |
| SAM | Solvency Assessment and Management |
| SARB | South African Reserve Bank |
| SBP | Share-based payment |
| SCP | Strategic Capital Plan |
| SFT | Securities financing transaction |
| SME | Small- and medium-sized enterprises |
| SREP | Supervisory Review and Evaluation Process |
| SRWA | Simple Risk Weight Approach |
| STI | Short-term incentive |
| Synthesis | Synthesis Funding Limited |
| TCF | Treating customers fairly |
| TLAC | Total loss-absorbing capacity |
| TRC | Trading Risk Committee |
| TSA | The Standardised Approach |
| TTC | Through-the-cycle |
| UL | Unexpected loss |
| VaR | Value at risk |
| VUCA | Volatile, uncertain, complex and ambiguous |
| WIP | Work in progress |

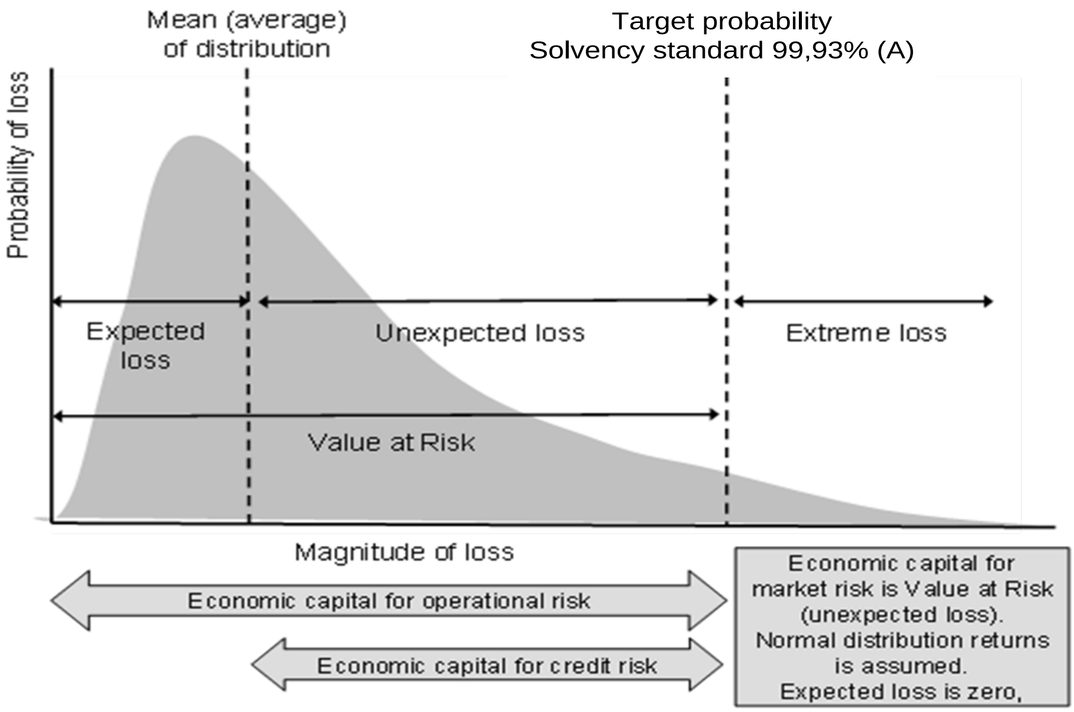
# Annexure B: Glossary of risk terms and definitions

| TERM | DEFINITION |
|---|---|
| Accounting and taxation risk (since accounting and taxation risk is an operational risk, for economic capital purposes accounting and taxation loss events are categorised in terms of one of the subrisks of operational risk) | The risk that the integrity and accuracy of the financial statements and related information cannot be upheld.<br>This risk has two subrisks: accounting risk and taxation risk. |
| Accounting risk (subrisk of Accounting and taxation risk) | The risk that:<br>□ Inappropriate accounting information causes suboptimal decisions to be made, due to inappropriate policy, faulty interpretation of policy, or plain error. (Operational risk will cover classification of causal analysis outcome).<br>□ The financial statements and other statutory and regulatory reporting do not accord with IFRS and/or other relevant statutory requirements eg Tax Act, are not based on appropriate accounting principles and do not incorporate required disclosures. (Business risk component).<br>□ Internal financial and operational controls of accounting and administration do not provide reasonable assurance that transactions are executed and recorded in accordance with generally accepted business practices and group's policies and procedures and that assets are safeguarded. |
| Advanced approaches | Methods available to banks to calculate their regulatory capital requirements based on own risk estimates. These include the foundation and Advanced Internal Ratings-based (AIRB) Approach for credit risk, the Advanced Measurement Approaches (AMA) for operational risk, and the Internal Model Approach (IMA) for market risk. Under AMA the banks are allowed to develop their own empirical model to quantify required capital for operational risk or under Basel III, operational risk charges can be calculated by using one of the three methods (or approaches) that increase in sophistication and risk sensitivity. |
| ALM risk | ALM risk is a composite risk category that includes interest rate and foreign-exchange risk in the banking book and liquidity risk.<br>Foreign-exchange risk in the banking book encompasses:<br>□ Foreign exchange translation risk.<br>□ Foreign exchange transaction risk. |
| Asset and liability management (ALM) | ALM is the ongoing process of formulating, implementing, monitoring, and revising strategies related to banking book assets and liabilities in an attempt to:<br>□ maximise the interest margin; and<br>□ manage the risk to earnings and capital from changes in financial market rates, which result from the group's mix of assets and liabilities.<br>ALM encompasses the management of liquidity risk, interest rate risk and exchange rate risk in the banking book through the use of both on-and off-balance-sheet instruments and strategies. |
| Backtesting | The validation of a model by feeding it historical data and comparing the model's results with historic reality. The process of comparing model predictions with actual experience. |
| Banking book | Group assets, liabilities and off-balance-sheet items that are not in the trading book. |
| Brand positioning (a subrisk of reputational risk) | Failure to manage well the group and subsidiary brands which significantly impact the fundamentals underpinning the objective of the group/subsidiary. Damage to the group's brand may expose it to loss of client brand awareness, customers, profits and competitiveness. |

| TERM | DEFINITION |
|---|---|
| Business disruption and system failures (subrisk of operational risk) | The risk of losses arising from disruption of business or system failures.<br><br>Business continuity is included in this subrisk and is defined as business disruption and non-continuous service to customers (both internal and/or external to the group) due to physical site, human resources, systems or information being unavailable.<br><br>Included in business continuity is disaster recovery: the ability of the group's information technology system(s) to recover timeously, or respond with an acceptable alternative temporary solution, system or site following a disaster impacting the group, which might result in financial loss or reputational damage. |
| 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, which is an earnings volatility methodology.<br><br>Under the current framework, business risk is defined as; the risk 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.<br><br>Nedbank has enhanced its business risk economic capital methodology for implementation in 2015. Under the revised framework, 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. The revised 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 instead replace the managers responsible for them.<br><br>The revised business risk approach is split into two parts; a top-down calculation of the group's capital requirement and a bottom-up 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.<br><br>A top-down calculation is used to size, at a group level, the business risk exposure that Nedbank faces as a consolidated entity. This is achieved through the use of 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%). Adjustments are made to the calculated risk exposure for non-business risk factors to arrive at the business risk economic capital for Nedbank Group. The peers are selected so as to provide relevant insights into Nedbank's business risk. A bottom-up scenario based approach is then used to allocate the quantified business risk economic capital across the individual business units of the group. |
| Capital management | Capital management is the set of processes that:<br><br>□ ensures the group's capital is in line with the requirements of the regulators, internal assessment of the level of risk being taken by the group, the expectations of the rating agencies and debt-holders as well as the returns expected by shareholders;<br><br>□ takes advantage of the range of capital instruments and activities to optimise the financial efficiency of the capital base; and<br><br>□ manages capital risk. |
| Capital risk | The risk that the group will become unable to absorb losses, maintain public confidence and support the competitive growth of the business.<br><br>Capital risk includes failure of the group's entities to maintain the minimum regulatory capital requirements laid down by the Registrar of Banks, Registrar of Securities Services, Registrar of Collective Investment Schemes, Registrars of Long-term and Short-term Insurance and the JSE Limited. |
| Cashflow at risk (CFaR) | Old Mutual Plc risk exposure metric:<br><br>The reduction in the amount of cash earnings generated by business units over the next one-year forward-looking time horizon that should only be exceeded 1-in-10 years. |

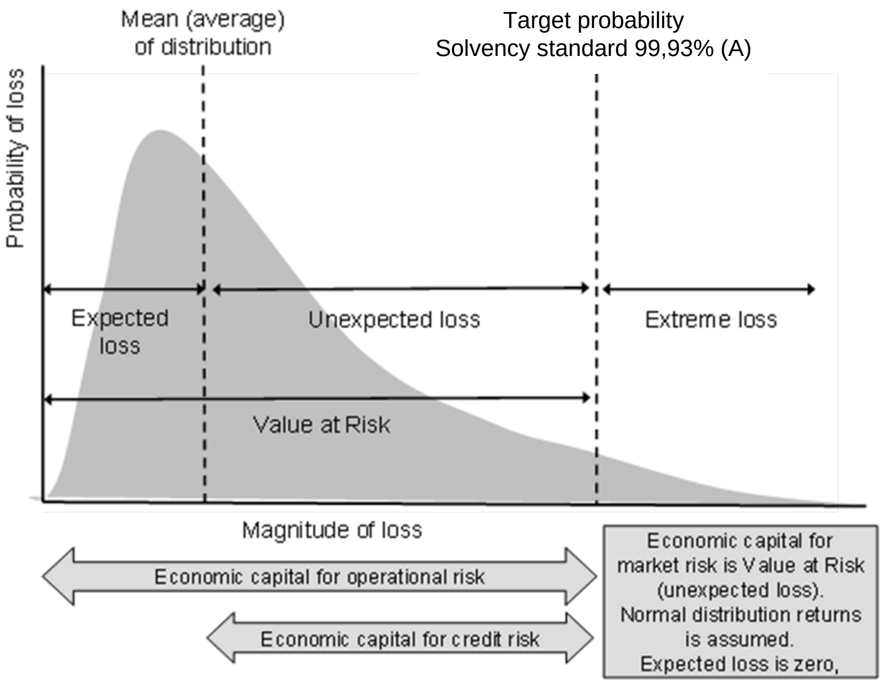
<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td>Clients, products and business practices (subrisk of operational risk)</td><td>The risk of losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.<br><br>This subrisk includes money laundering.</td></tr>
<tr><td>Collateral risk<br>(subrisk of credit risk)</td><td>The potential financial loss due to the inability to realise full collateral value due to unforeseen legal or adverse market conditions (eg property market slump) which cause the value of certain specific collateral types to deteriorate.</td></tr>
<tr><td>Compliance risk<br><br>(since materialised compliance risk is an operational risk, for economic capital purposes compliance loss events are categorised in terms of one of the subrisks of operational risk)</td><td>The risk of legal or regulatory sanctions, material financial loss, or loss to reputation the group may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking and other activities (Basel).<br><br>Compliance risk is the current and prospective risk of damage to the organisation’s business model or objectives, reputation and financial soundness arising from non-adherence to regulatory requirements and expectations of key stakeholders such as customers, employees and society as a whole. It exposes the organisation to fines, civil claims, loss of authorisation to operate and an inability to enforce contracts (CISA).</td></tr>
<tr><td>Concentration risk (subrisk of credit risk, market risk in the trading book and liquidity risk)</td><td>Risk resulting from:<br>□ In terms of market risk in the trading book and credit risk:<br>– an excessive concentration of exposure to a single client or group of related clients, specific financial instrument(s), an individual transaction, a specific industry sector or geographical location, security or collateral; and<br>– the degree of positive correlation between clients and groups of clients as well as between financial instruments/markets under stressed economic conditions.<br>□ In terms of liquidity risk, over reliance on funding or liquidity from a single depositor or small group of depositors.</td></tr>
<tr><td>Corporate governance</td><td>Corporate governance is the structure, systems, processes, procedures, and controls within an organisation, at both the level of the board of directors and within the management structure that is designed to ensure the group achieves its business objectives effectively, efficiently, ethically and within prudent risk management parameters.<br><br>Good governance requires that an effective risk management process exists that can ensure that the risks to which the group are exposed are addressed effectively.</td></tr>
<tr><td>Counterparty credit risk<br>(subrisk of credit risk)</td><td>The risk that a counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing financial loss.</td></tr>
<tr><td>Country risk<br>(subrisk of credit risk)</td><td>Country risk includes the following components:<br>□ the risk that a borrower will be unable to obtain the necessary foreign currency to repay its obligations, even if it has the necessary local currency (referred to as transfer risk);<br>□ the risk of the group’s assets in the country being appropriated; and<br>□ the risk of default by the government on its obligations (referred to as sovereign risk).</td></tr>
<tr><td>Credit rating</td><td>A credit rating is an assessment as to the borrower's ability to meet future payment obligations, ie it is the probability of default (PD) of the borrower.<br><br>The group's credit ratings are based on statistical probabilities, derived from a range of bespoke rating models that measure the likely PD of individual borrowers.</td></tr>
</table>

| TERM | DEFINITION |
| --- | --- |
| Credit risk | The risk arising from the probability of borrowers and/or counterparties failing to meet their repayment commitments (including accumulated interest) and in particular risks arising from impaired or problem assets and the bank's related impairments, provisions or reserves. It also includes risk arising from exposure to related persons.<br>Credit risk has the following subrisks:<br>- collateral risk;<br>- concentration risk;<br>- counterparty risk;<br>- country risk;<br>- issuer risk;<br>- industry risk;<br>- settlement risk;<br>- transfer (sovereign) risk;<br>- underwriting (lending) risk; and<br>- securitisation risk or resecuritisation structures. |
| Credit scoring | A method used by a bank to calculate the statistical probability that a loan granted will be repaid. The score is usually a single quantitative measure that represents the borrower's probable future repayment performance. |
| Credit spread | The difference in yield between two debt issues of similar maturity and duration. The credit spread is often quoted as a spread to a benchmark floating-rate index such as London Interbank offered rate (LIBOR) or Johannesburg Interbank Agreed Rate (JIBAR) or as a spread to highly-rated reference security such as a government bond.<br>The credit spread is often used as a measure of relative creditworthiness with a reduction in the credit spread reflecting an improvement in the borrower's perceived creditworthiness. |
| Currency | Money in any form when in actual use or circulation as a medium of exchange. |
| Damage to physical assets (subrisk of operational risk) | The risk of losses arising from loss of or damage to physical assets from natural disaster or other events. |
| Default | Default occurs with respect to a particular obligor when:<br>- The bank considers that the obligor is unlikely to pay its credit obligations to the bank in full without recourse by the bank to actions such as realising security (if held).<br>- The obligor is past due more than 90 days on any material credit obligation to the bank. Overdrafts will be considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than current outstanding amount.<br>- In terms of Nedbank's Group Credit Policy, a borrower will also be assumed to be in default where the borrower is placed under business rescue in terms of the Companies Act and where a borrower requests a restructure of its facilities as a result of financial distress. |
| Defaulted loans and advances | Any advance or group of loans and advances that has triggered the Basel III definition of default criteria and which is in line with the revised SA banking regulations. For retail portfolios this is product-centric and therefore a default would be specific to a client or borrower account (a specific advance). For all other portfolios except specialised lending it is client or borrower-centric meaning that should any transaction within a borrowing group default then all transactions within the borrowing group would be treated as defaulted.<br>At a minimum a default is deemed to have occurred where a material obligation is past due for more than 90 days or an obligor has exceeded an advised limit for more than 90 days. A specific impairment is raised against such a credit exposure due to a significant perceived decline in the credit quality. |

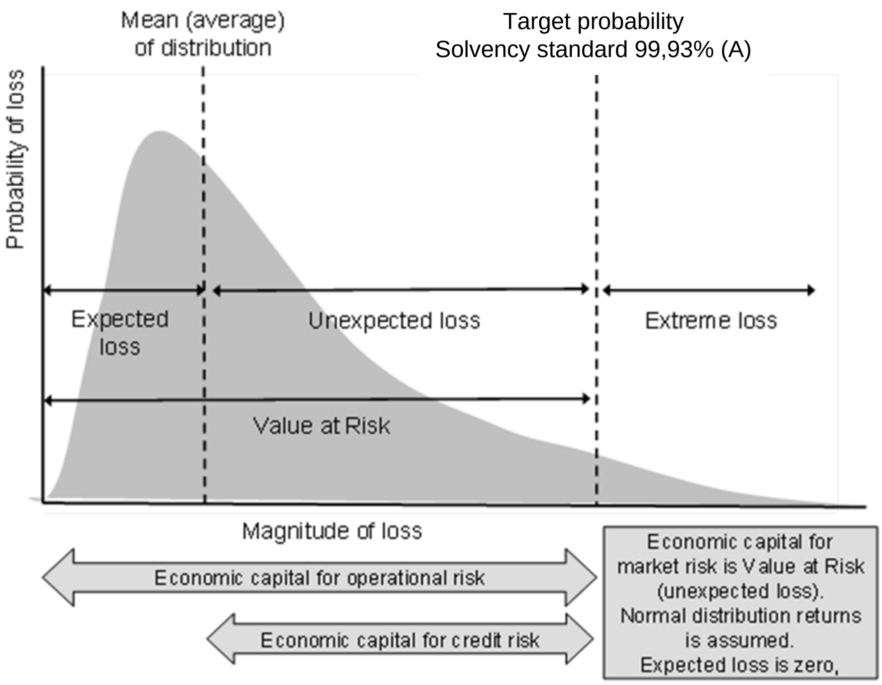
| TERM | DEFINITION |
|---|---|
| Derivative financial instruments | Derivatives are financial instruments whose value is derived from the value of an underlying asset (such as gold, wheat or other commodities) or other financial instruments including bonds, or market benchmarks such as interest rates.<br><br>Derivatives find application in credit risk, marketing risk in the trading book, market risk in the banking book and investment risk. |
| Earnings at risk (EaR) | Nedbank Group risk appetite metric:<br><br>Percentage pretax earnings potentially lost over a one-year period that should only be exceeded 1-in-10 years.<br><br>Old Mutual Plc risk exposure measure:<br><br>The reduction in planned pretax IFRS adjusted operating profit over a one-year forward-looking time horizon that should only be exceeded 1-in-10 years. |
| Economic capital (ECap) | Economic capital is the capital that the group holds and allocates internally as a result of its own assessment of risk. It differs from regulatory capital, which is determined by regulators.<br><br>It represents the amount of economic losses the group could withstand and still remain solvent with a target level of confidence (solvency standard or default probability) over a one-year time horizon.<br><br><br> |
| Economic capital at risk (ECaR) | Old Mutual Plc risk exposure measure: ECaR is defined as the reduction in post-tax economic value (market-consistent embedded value for life entities and IFRS equity for non-life entities) over a one-year forward-looking time horizon that should only be exceeded 7-in-10 000 years (99,93%). |
| eDiscovery | eDiscovery (electronic Discovery) is an enterprise product (EnCase eDiscovery) that automates the search for specific data on the bank's network. It is mainly used for litigation support, but this product can be used for digital forensic investigations as it is specifically designed to retrieve data in a forensically sound manner. |
| Employment practices and workplace safety (subrisk of operational risk) | The risk of losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events. |

| TERM | DEFINITION |
|---|---|
| Enterprisewide risk | Composite of risk types and categories (called the risk universe) across all business lines, functions, geographical locations and legal entities of the group.<br>There are 17 risk types (Enterprisewide Risk Management Framework risks):<br>□ accounting and taxation risks;<br>□ capital risk;<br>□ compliance risk;<br>□ credit risk;<br>□ information technology risk;<br>□ insurance and assurance risk;<br>□ investment risk;<br>□ liquidity risk;<br>□ market risk in the banking book;<br>□ market risk in the trading book;<br>□ new business risk;<br>□ operational risk;<br>□ people risk;<br>□ reputational risk;<br>□ social and environmental risk;<br>□ strategic risk; and<br>□ transformation risk. |
| Enterprisewide risk management | Enterprisewide risk management is a structured and disciplined approach aligning strategy, processes, people, technology, and knowledge with the purpose of evaluating and managing the opportunities, uncertainties and threats the group faces as it creates value. It involves integrating risk management effectively, across an organisation's risk universe, business units and operating divisions, geographical locations and legal entities. |
| Enterprisewide Risk Management Framework (ERMF) | The risk framework developed by the group and applied to all of its divisions in order to identify, assess or measure, manage, monitor and report risk. The ERMF contains the group's risk universe, which lists 17 risk categories (the ERMF risks). |
| Environmental risk (subrisk of social and environment risk) | The risk that an activity or process in the group will degrade, devalue or destabilise the environment and lead to further damage, cause harm to bank employees, cause harm to people in the community/society or damage the long-term prospects of the bank.<br>It includes the risk of the financing of or the association with environmentally unfriendly companies or projects. |
| Equity risk in the banking book (also termed investment risk)<br>(subrisk of investment risk) | The risk of decline in the net realisable value of equity exposures in the banking book. These include:<br>□ Investment in securities (listed and unlisted equity holdings whether direct or indirect and includes private equity).<br>□ Investment in associate companies and joint ventures.<br>□ Property investments (managed by the Property Finance division and excludes owner occupied and repossessed properties). |
| ERMF risks | The 17 risks listed in the ERMF. |
| Execution, delivery and process management (EDPM) (subrisk of operational risk) | The risk of losses from failed transaction processing or process management, from relations with trade counterparties and vendors. |

<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td>Expected loss (EL)</td><td>Losses that a bank expects to bear over a certain time period (generally one year). These losses are a consequence of doing business namely the bank’s role as financial intermediary. Generally impairments should cover expected losses with respect to credit risk and losses relating to operational risk should be budgeted for.



</td></tr>
<tr><td>Expected shortfall</td><td>Expected average loss for losses greater than value at risk (VaR).</td></tr>
<tr><td>Exposure at default (EAD)</td><td>Quantification of the exposure at risk in case of default.</td></tr>
<tr><td>External fraud (subrisk of operational risk)</td><td>The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent the law by a third party.</td></tr>
<tr><td>Extreme loss</td><td>The loss arising from a loss event of catastrophic magnitude. Such an event often leads to the failure of a bank.



</td></tr>
<tr><td>Fair value</td><td>Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.</td></tr>
</table>

| TERM | DEFINITION |
|---|---|
| Financial Group Directive (FGD) Surplus capital at risk (FCaR) | Old Mutual risk exposure measure:<br>The reduction in FGD surplus over a one-year forward-looking time horizon that should only be exceeded 1-in-10 and 1-in-200 years. |
| Financial and Regulatory Reporting Risk | The risk of material misstatement or error in the production of financials, resulting from inadequate or failed internal controls.<br>☐ The risk of material misstatement or error of in the production of Bank's Act (BA) Returns resulting from inadequate or failed internal controls.<br>☐ The risk that financial reporting and operational controls of accounting and administration do not provide reasonable assurance that transactions are executed, recorded and reported in accordance with the group's accounting policies and procedures.<br>☐ The risk that regulatory reporting and operational controls and administration do not provide reasonable assurance that the production BA Returns reported are accurate and in compliance with regulations.<br>☐ The risk of regulatory sanctions, material financial loss, or loss to reputation to the group as a result of its failure to comply with laws, regulations and rules applicable. |
| Foreign currency translation (FCT) risk (subrisk of market risk in the banking book) | The risk to earnings or capital arising from converting the group's offshore banking book assets, liabilities, commitments or earnings from foreign currency to local or functional currency. |
| Foreign exchange transaction risk (in the banking book) (subrisk of market risk in the banking book) | The risk that known or ascertainable currency cashflow commitments and receivables are uncovered and as a result have an adverse impact on the financial results and/or financial position of the group due to movements in exchange rates.<br>Foreign exchange transaction risk in the banking book includes:<br>☐ Known or ascertainable currency cashflow commitments and receivables (termed residual foreign exchange risk).<br>☐ Foreign funding mismatch [Group ALCO and Executive Risk Committee (Group ALCO) has approved a foreign funding mismatch position for the group, which is run by the Centralised Funding Desk (CFD) in Treasury, Nedbank Capital].<br>☐ Any other transaction extending credit or making an investment that attracts foreign exchange risk. |
| Gross risk | See inherent risk. |
| Hedge | A risk management technique used to reduce the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates arising from normal banking operations. Most often, the hedge involves the use of a financial instrument or derivative such as a forward, futures, option or swap.<br>Hedging may prove to be ineffective in reducing the possibility of loss as a result of, inter alia, breakdowns in observed correlations between instruments, or markets or currencies and other market rates. |
| Hedging | Action taken by the group to reduce or eliminate the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates. |
| Impaired loans and advances | Impaired loans and advances are defined as loans and advances in respect of which the bank has raised a specific impairment under the IAS 39 definition. |
| Industry risk (subrisk of credit risk) | The risk that defaults will arise in an industry because of factors specifically affecting that industry. |
| Information technology (IT) risk | The risk associated with information technology has a strategic and an operational component. Information technology risk encompasses the strategic component, while the operational component is included in operational risk.<br>The risk resulting from system inadequate or system-inappropriate information technology investment, development, implementation, support or capacity with a concomitant negative impact on the achievement of strategic group objectives.<br>This includes the risk of an uncoordinated, inefficient and/or under-resourced information technology strategy, as a result of which the group becomes progressively less competitive. |

| TERM | DEFINITION |
|---|---|
| Inherent risk | Assessing inherent risk exposure requires a determination of the severity and frequency of each operational risk should an event materialise. An inherent risk exposure assessment provides the business with an understanding of the extent of possible exposure in an uncontrolled environment. Inherent risk is also known as gross risk.<br>An ERMF risk, if applicable with respect to the achievement of objective(s), is an inherently high (or red) risk. |
| Insurance and assurance risk | The risk that the underwriting process permits clients to enter risk pools with a higher level of risk than priced for, resulting in a loss to the business unit or group.<br>□ Actuarial and statistical methodologies are used to price insurance risk (eg morbidity, mortality, theft and storm). Underwriters align clients with this pricing basis and respond to any anti-selection by placing clients in substandard risk pools and price these risks with an additional risk premium and/or exclude certain claims, events or causes, or exclude clients from entering pools at all.<br>□ The failure to reinsure with acceptable quality reinsurers, beyond the level of risk appetite (excessive risk) mandated by the board of directors, risks underwritten by the short-term insurance and/or life assurance activities of the group, including catastrophe insurance (ie more than one insurance claim on the group arising from the same event), leading to disproportionate losses to the group. (Reinsurance risk).<br>□ The risk of no or inadequate insurance cover for insurable business risks. (Insurance risk).<br>Insurance underwriting risk in the group arises in the following areas:<br>□ Short-term insurance underwriting risk arises exclusively from Nedgroup Insurance Company Limited (NedIC), a business unit in the Nedbank Wealth Cluster.<br>□ Long-term insurance underwriting risk arises from the Nedgroup Life Assurance Company Limited (Nedgroup Life), a business unit in Nedbank Wealth Cluster. |
| Interest rate risk in the banking book (subrisk of market risk in the banking book) | Interest rate risk in the banking book is the risk that the group's earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are:<br>□ repricing risk (mismatch risk) [timing differences in the maturity (for fixed-rate) and repricing (for floating-rate) of bank assets, liabilities, and off-balance-sheet positions];<br>□ endowment risk (the net mismatch between non-rate-sensitive assets, liabilities, capital and non-repricing transactional deposit accounts effectively invested in rate-sensitive assets);<br>□ reset or basis risk (imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics);<br>□ yield curve risk (changes in the shape and slope of the yield curve);<br>□ embedded options risk (the risk pertaining to interest-related options embedded in bank products); and<br>□ endowment risk (the net mismatch between non-rate sensitive assets, liabilities, capital and non-repricing transactional deposit accounts effectively invested in rate-sensitive assets). |
| Internal Capital Adequacy Assessment Process (ICAAP) | The process by which banks demonstrate that chosen internal capital targets are well founded and that these targets are consistent with their overall risk profile and current operating environment. The five main features of a rigorous process are:<br>□ board and senior management oversight;<br>□ sound capital assessment;<br>□ comprehensive assessment of risks;<br>□ monitoring and reporting; and<br>□ internal control review. |
| Internal control system | An internal control system comprises the policies, procedures and activities within the group designed to:<br>□ ensure that risks are contained within the risk tolerances established by the risk management process; and<br>□ provide reasonable assurance of reliable and accurate information, ensure compliance with policies, procedures and laws, use resources efficiently, protect assets and achieve operational objectives.<br>Internal control is a 'process' affected by the board of directors, senior management and all levels of staff in the group. The objectives of the internal control process are to provide reasonable assurance of:<br>□ efficiency and effectiveness of activities (performance objectives);<br>□ reliability, completeness and timeliness of financial and management information (information objectives); and<br>□ compliance with applicable laws and regulations (compliance objectives). |

| TERM | DEFINITION |
|---|---|
| Internal fraud (subrisk of operational risk) | The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party.<br>Internal fraud includes insider trading. |
| Investment risk | The risk of a decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself (eg reputation and the quality of management). Market prices are independent variables, which include interest rates, property values, exchange rates, and equity and commodity prices.<br>Investment risk is also called equity risk in the banking book. |
| Issue versus risk | An issue (or event) has materialised or is in the process of doing so, while a risk has not yet materialised. |
| Issuer risk (subrisk of credit risk) | The risk that a particular payment or set of payments due from an issuer or a listed instrument (eg corporate bond) will not be forthcoming as scheduled. |
| Key risk indicator (KRI) | A management information indicator that provides continuous insight into the level of risk in the group/business. KRIs enable management to proactively manage and monitor risk proactively on an ongoing basis.<br>KRIs may be leading, concurrent or lagging indicators. (Note: It is preferable to focus on leading indicators proactively to prevent a risk from materialising). |
| King III | The King Report on Governance for SA 2010. |
| Legal risk (subrisk of operational risk) (For economic capital purposes legal risk is a subcategory of operational risk's subrisk clients, products and business practices) | Legal risk arises from the necessity that the group conduct its activities in conformity with the business and contractual legal principles applicable in each of the jurisdictions where the group conducts its business. The possibility that a failure to meet these legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.<br>It comprises risk arising from inadequate documentation, legal or regulatory incapacity, insufficient authority of a counterparty and uncertainty about the validity or enforceability of an obligation in counterparty insolvency.<br>It includes contravention, failure to prevent, detect or promptly correct violations of the terms and provisions of contractual agreements and related documents entered into with clients, counterparties, suppliers and other parties, which include common law and other applicable statutory liabilities. |
| Letter of representation | A letter of representation is signed by the Chief Executive and Chief Risk Officer of the Nedbank Group twice a year as part of Old Mutual plc Board's annual review process. It serves to confirm that there has been no indication of any significant business risk occurring, nor any material malfunction in controls, procedures or systems during the reporting period, resulting in loss or reputational damage, which impacts negatively on the attainment of Nedbank Group's business's objectives during the year and up to the date of approval of the Annual Report. Exceptions are noted and reported. In addition the letter confirms that Nedbank Group will continue as a going concern for the year ahead. |
| Likelihood | An assessment of how likely it is that a risk will occur.<br>A similar term is probability. |
| Liquidity risk | There are two types of liquidity risk, namely funding liquidity risk and market liquidity risk.<br>Funding liquidity risk is the risk that the 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.<br>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.<br>The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into longer-term loans. By fulfilling the role of maturity transformation banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks.<br>Concentration risk is a subrisk of liquidity risk. |

| TERM | DEFINITION |
|---|---|
| Loss given default (LGD) | This is an estimate of the portion of the exposure at default that will not be recovered, usually expressed as a percentage. It also includes other economic costs such as legal costs. |
| Market Conduct | Nedbank's approach to market conduct is based upon a broad and all-encompassing definition of what constitutes market conduct.<br>That definition is given below:<br>□ the bank's pattern of behaviour in executing its pricing and promotion strategy<br>□ the relationship between the bank and the public in so far as any product or service is concerned<br>□ its response to the realities of, and changes in, the market it serves<br>□ the nature and extent to which the bank complies with and meets:<br>– the laws that govern the bank, especially those related to the creation and marketing of products and services<br>– established best practices, codes of conduct and directives and<br>– client expectations and requirements.<br>□ the bank's relationship with regulators<br>□ the ethical standards the bank adheres to in conducting its business |
| Market risk in the banking book | The risk of loss in the banking book as a result of unfavourable changes in foreign exchange rates and interest rates.<br>The subrisks of market risk in the banking book are:<br>□ interest rate risk in the banking book;<br>□ foreign exchange translation risk;<br>□ foreign exchange transaction risk in the banking book;<br>□ equity (investment) risk; and<br>□ property risk. |
| Market risk in the trading book | The risk of loss as a result of unfavourable changes in market prices, such as foreign exchange rates, interest rates, equity prices, credit spreads and commodity prices.<br>There is trading market risk within the group's proprietary trading activities (trading on the group's own account).<br>Concentration risk is a subrisk of market risk. |
| Model risk (a subrisk of operational risk) | The risk that business decisions are made using model results that are incorrect. This includes the possibility of losing perspective of the limitations of models in general and to the pitfalls associated with their use. |
| New business risk | The risk that new product and business lines do not generate anticipated revenue or cost savings to the group. This could be as a result of providing to clients or potential clients inappropriate products and business lines that fail to meet clients' or potential clients' requirements or otherwise fail to impress, compete with competitors products or provide Nedbank Group with a leading edge in product development and delivery.<br>Management of this risk requires that new products and business development do not reach the client distribution channel without the appropriate signoff for compliance with the risk management requirements for all 17 risks in the ERMF. |
| Objective | It is a goal that management has set for the entity (group or business) to achieve. |

| TERM | DEFINITION |
| --- | --- |
| Operational risk | The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk but, excludes strategic risk and reputational risk.<br><br>The event types of operational risk are:<br>- business disruption and system failures;<br>- clients, products and business practices;<br>- damage to physical assets;<br>- employment practices and workplace safety;<br>- execution, delivery and process management;<br>- external fraud[1];<br>- internal fraud[1];<br>- legal risk (legal risk is a sub category of the subrisk clients, products and business practices); and model risk<br><br>*[1]Measures are in place for the proactive prevention and detection of criminal activities.* |
| OpsRisk | Old Mutual Plc risk exposure metric:<br>Reduction in pretax economic value due to 1-in-10 operational loss events. |
| Outsourcing risk | Outsourcing is defined as the use of a service provider, whether it is an affiliate within a corporate group or a third party, to perform on a continuing basis a business activity, service, function, or process, which could be undertaken by the bank, on behalf of the bank. This definition includes the contracting out of services, administration, or operation of material business functions and/or activities and/or services of the bank and/or insurer, in terms of an SLA, to a supplier, to independently perform such activities on a continuing basis, as would normally be undertaken by the bank or insurer. This would include, but not be limited to the:<br>- Initial transfer of an activity (or part of that activity) from the bank/insurer to a supplier.<br>- Further transfer of an activity (or part thereof) from one supplier to another, sometimes referred to as subcontracting. |
| Past due | A loan or advance is considered past due when it exceeds its limit (fluctuating types of advances) or is in arrears (linear types of advances). |
| People risk | The risk associated with people has a strategic and operational component. People risk encompasses the strategic component, while the operational component is included in operational risk.<br><br>People risk is 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 retain competent resources, at the same time having a negative impact on the achievement of strategic group objectives.<br><br>It includes:<br>- the risk that effective RAPM and indicators are not implemented in the group, resulting in incorrect reward allocation, failure to optimise the use/allocation of the group's capital and wrong corporate behaviour resulting in sub-optimal returns;<br>- the risk that the group fails to motivate staff through the use of inappropriate incentive schemes, or the poor administration of incentive schemes;<br>- the risk that the group does not ensure that skills and experience are developed, consistently and methodically retained (or capitalised) and enhanced to create value for the group (for example, in the form of innovative product designs, developed systems, methods and procedures); and<br>- risks arising from or related to inappropriate compensation practices for directors and executive officers. |
| Point-in-time rating | A credit rating based on point-in-time risk measures. Point-in-time measures take into account the current state of the economic environment when measuring the risk of the borrower.<br><br>Compare to TTC rating, which the group uses for capital measurement. |

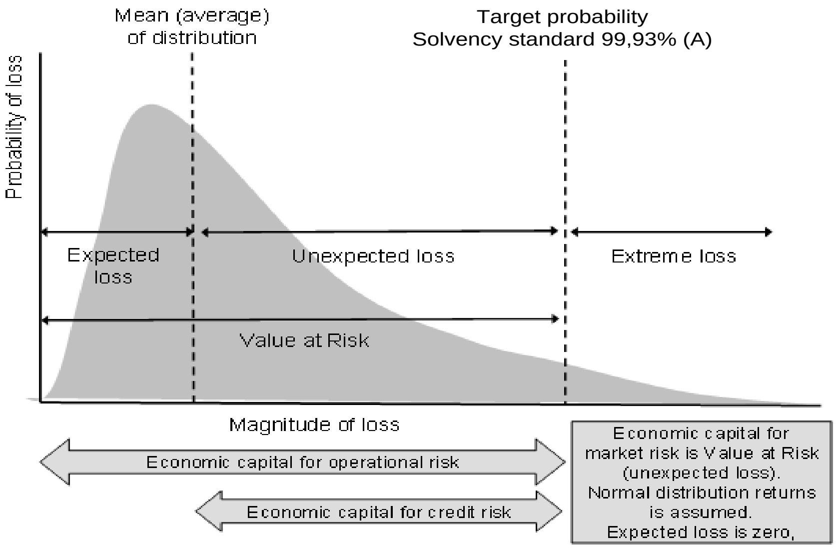
| TERM | DEFINITION |
|---|---|
| Portfolio impairment | The standard portfolio represents all the loans and advances that have not been impaired. These loans and advances have not yet individually evidenced a loss event but loans and advances exist within the standard portfolio that may have impairment without the bank yet being aware of it.<br>A period of time will elapse between the occurrence of an impairment event and objective evidence of the impairment becoming evident. This period is generally known as the emergence period. For each standard portfolio an emergence period is estimated as well as the probability of the loss trigger and the loss given events occurring. These estimates are applied to the total exposures of the standard portfolio to calculate the portfolio impairment. |
| Probability | An assessment of how probable it is that an event will occur.<br>A similar term is likelihood. |
| Probability of default (PD) | Quantification of the likelihood of a borrower being unable to pay his/her obligations during a specific time horizon, usually 12 months. |
| Property risk | Property risk is the risk of decline in the net realisable value of property arising from adverse movements in property prices or factors specific to the property itself (eg location).<br>Property comprises business premises, property acquired for future expansion and properties in possession (PIPs). |
| Regulation 39 | A regulation issued in terms of the Banks Act titled 'Process of corporate governance'.<br>The regulation states that the 'conduct of the business of a bank entails the management of risks, which may include, amongst others, the following types of risk:<br>□ capital risk;<br>□ compliance risk;<br>□ concentration risk;<br>□ counterparty risk;<br>□ country risk and transfer risk;<br>□ credit risk, and in particular risks arising from impaired or problem assets and the bank's related impairments, provisions or reserves;<br>□ currency risk;<br>□ detection and prevention of criminal activities;<br>□ equity risk arising from positions held in the bank's banking book;<br>□ interest rate risk;<br>□ liquidity risk;<br>□ market risk (position risk) in respect of positions held in the bank's trading book;<br>□ operational risk;<br>□ reputational risk;<br>□ risk arising from exposure to a related person;<br>□ risk arising from the outsourcing of material tasks or functions;<br>□ Risk arising from all relevant payment and settlement services, processes or systems;<br>□ risk relating to procyclicality;<br>□ risks arising from or related to inappropriate compensation practices for directors and executive officers;<br>□ risks related to securitisation or resecuritisation structures;<br>□ risks related to stress testing;<br>□ risks related to the inappropriate valuations of instruments, assets or liabilities;<br>□ solvency risk;<br>□ strategic risk;<br>□ technological risk;<br>□ translation risk; and<br>□ any other risk regarded as material by the bank.' |
| Regulatory capital | The total of tier 1 and tier 2 capital. |

| TERM | DEFINITION |
|---|---|
| Reputational risk | The risk of impairment of the group's image in the community or the long-term trust placed in the group by its shareholders 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. |
| Residual risk/net risk | Residual risk is the product of the impact of the risk on the objective(s) and the likelihood of the risk occurring taking into consideration current management actions/controls in place to mitigate the risk.<br>Residual risk is also known as net risk. |
| Return on risk-adjusted capital (RORAC) | RORAC is a relative performance measurement whereby capital is calculated on a risk-adjusted basis (ie economic capital)<br>$\text{RORAC} = \frac{\text{IFRS earnings + capital benefit}}{\text{economic capital}}$ |
| Risk | Risk is anything which may prevent the bank from achieving its objectives or otherwise have an adverse impact on the bank. |
| Risk acceptance | Risk acceptance is used in risk management to describe an informed decision to accept the consequences and likelihood of a particular risk. In terms of best practice, risk can only be accepted if it can be illustrated that the risk is within set risk appetite limits. |
| 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. Risk appetite is expressed quantitatively as risk measures such as earnings-at-risk and other ratios, covering all quantifiable risk types, with appropriate targets and 'stressed' limits, and qualitatively in terms of policies and controls. |
| Risk avoidance | Risk avoidance is used in risk management to describe an informed decision not to become involved in activities that lead to the possibility of the risk being realised. |
| Risk identification | The ongoing recognition and discernment of risk. |
| Risk management and control | The proactive management of risks within risk appetite to reasonably assure achievement of objectives. Risk management consists of taking action to align risks with the group's risk appetite and ensuring that such actions are properly executed.<br>Appropriate risk management will require at least:<br>□ a system of internal controls;<br>□ approval processes;<br>□ limit systems;<br>□ key risk indicators;<br>□ reviews of Enterprisewide Risk Management policies, processes and procedures and their implementation; and<br>□ reviews of controls, approvals and limits. |
| Risk management framework | The outline for the management of a risk, more fully developed or described elsewhere.<br>A risk management framework comprises:<br>□ An appropriate risk management environment:<br>– risk philosophy<br>– risk culture<br>– risk appetite<br>– risk governance structure<br>– policies, processes and procedures<br>– staff and other resources<br>□ Risk strategy<br>□ Risk management process<br>– risk identification<br>– risk measurement<br>– risk management and control<br>– risk reporting<br>– risk monitoring |

| TERM | DEFINITION |
|---|---|
| Risk management process | Risk management is the identification, assessment, and prioritisation of risks (defined in ISO 31 000 as the effect of uncertainty on objectives, whether positive or negative) followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/or impact of unfortunate events or to maximise the realisation of opportunities. |
| Risk management strategy | The strategies to manage risk include transferring the risk to another party, avoiding the risk, mitigating the risk by reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk (see transfer of risk, risk avoidance and risk mitigation). |
| Risk measurement | The evaluation of the magnitude of risk and its impact on the achievement of business objectives. |
| Risk mitigation | Risk mitigation is used in risk management to describe steps taken to control or prevent an issue or event hazard from causing harm and to reduce risk to a tolerable or acceptable level and within risk appetite levels. |
| Risk monitoring | The ongoing and systematic tracking and evaluating of risk management decisions and actions against strategies, risk appetite, policies, limits and key risk indicators.<br><br>Risk monitoring incorporates a feedback loop into the other components of the risk management process namely risk identification, measurement/assessment, management and/or reporting. |
| Risk reporting | The communication of risk information in all phases of the risk management process namely identification, measurement, management and monitoring.<br><br>Risk reporting includes at least the reporting of:<br>□ aggregate exposures against targets/strategies;<br>□ key issues for the key issues control log;<br>□ compliance with limit system;<br>□ key risk indicators; and<br>□ review findings. |
| Risk strategy | A risk strategy describes the fundamental direction with regard to each of the 17 ERMF risks and associated subrisks. A risk strategy is built around and supports the business strategy.<br><br>Generic risk strategies are: avoid (or terminate), transfer, mitigate (or treat) or accept (or tolerate). |
| Risk versus issue | A risk has not (yet) materialised while an issue has materialised or is in the process of doing so. |
| Risk-adjusted performance measurement (RAPM) | There are two main measures implemented through Nedbank Group's RAPM framework:<br>□ risk-adjusted return on capital (RAROC), which expresses the risk-adjusted profit with respect to the capital necessary to generate the revenue, giving a relative measure of performance; and<br>□ EP, an absolute measure of shareholder value creation. |
| Risk-adjusted return on capital (RAROC) | The International Financial Reporting Standards (IFRS) earnings of the business adjusted for the difference between EL and impairments and divided by the economic capital consumed by that business, giving a relative measure of performance. |
| Risk-weighted assets (RWA) | RWA are determined by applying risk weights to balance sheet assets and off-balance-sheet financial instruments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off-balance-sheet financial instrument is regulated by the SA Banks Act, 94 of 1990, or by regulations in the respective countries of the other banking licences. |
| Securitisation risk (subrisk of credit risk) | Risk arising from the creation and issuance of tradable securities, such as bonds, that are backed by the income generated by an asset, a loan, a public works project or other revenue source. |

| TERM | DEFINITION |
|---|---|
| Security (function of Group Risk and Legal Services) | Security is a risk management function consisting of physical security, information security and personnel integrity.<br>The objectives of physical security are to protect:<br>☐ physical assets under the control of the group;<br>☐ the wellbeing of staff, clients and the public; and<br>☐ the group's reputation as it relates to safety and security, ie the protection of the image and reputation of the bank in providing a safe and secure, environmentally friendly business environment.<br>The objectives of information security are to protect the group from breaches in the confidentiality or integrity of group information and from the unavailability of such information when required. This includes all information in the group, not only internally system-generated information.<br>The objectives of personal integrity are to ensure that staff members do not compromise resources or allow resources to be compromised, be it on purpose, through neglect or unintentionally. |
| Settlement risk (subrisk of credit risk) | The risk that an organisation gives but fails to receive consideration from a counterparty during the settlement of a transaction. The settlement may be cash or securities.<br>Foreign exchange settlement risk is the risk of loss when a bank in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought. |
| Social and environmental risk | The risk of reputational impairment and ultimately loss of business and profitability as a result of non-compliance with legislation that governs the banks activities as it relate to social and environmental impacts of the bank's direct operations and indirect lending activities.<br>Social and environmental risk has two subrisks:<br>☐ social risk; and<br>☐ environmental risk. |
| Social risk (subrisk of social and environmental risk) | The risk of reputation damage, political intervention, heightened regulatory pressure, protests, boycotts and operational stoppages – and ultimately loss of business and profitability – due to the real or perceived negative impact of group business practices on a broad range of matters related to human, societal and community welfare such as health and economic opportunity. |
| Sovereign risk | The risk of default by the government of the country on its obligations (also see country risk). |
| Strategic risk | The risk of an adverse impact on capital and earnings due to business policy decisions (made or not made), changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the environment.<br>Strategic risk is either the failure to do the right thing, doing the right thing poorly, or doing the wrong thing.<br>Strategic risk includes:<br>☐ the risk associated with the deployment of large chunks of capital into strategic investments that subsequently fail to meet stakeholders expectations;<br>☐ the risk that the strategic processes to perform the environmental scan, align various strategies, formulate a vision, strategies, goals and objectives and allocate resources for achieving, implementing, monitoring and measuring the strategic objectives are not properly in place or are defective; and<br>☐ failure to adequately review and understand the environment in which the group operates leading to underperformance of its strategic and business objectives (specific environmental components include: industry, political, economic, government, competitive and regulatory factors).<br>Brand positioning is a subrisk of strategic risk. |
| Stress testing | Stress and scenario testing recognises and estimates the potential volatility of Nedbank's impairments, headline earnings, capital requirements, capital resources and the base-case (expected) three-year plan projections, and ultimately the adequacy of Nedbank's capital buffers and target capital ratios. The process includes macroeconomic factor stress testing, additional stress scenarios, reverse stress testing, benchmarking to international stress testing exercises, procyclicality tests and cluster and business unit level stress testing. |

| TERM | DEFINITION |
|---|---|
| Subrisk | A component of a risk covered by the ERMF. A separate risk management framework is defined for a subrisk. |
| Taxation risk (a subrisk of accounting and taxation risk) | The risk that effective tax planning, coordination and strategy, compliance with tax laws and regulations, proactive identification and management of tax risks are not enforced or a poor relationship with revenue authorities exits, resulting in loss and/or missed opportunities, financial or otherwise, as a result of the organisations' approach to taxation.<br><br>In building a taxation risk profile, two key elements are considered:<br><br>□ A tax 'risk' refers to a future uncertainty relating to tax that has the potential for adverse consequences or may lead to missed opportunities. Such adverse consequences would usually be monetary; in the form of tax, interest and penalties, but they may also include risks such as the damage to reputation, for example with revenue authorities, investors, shareholders, or the general public.<br><br>□ A tax 'issue' refers to a past event that has the potential for adverse consequences or may lead to missed opportunities. Such adverse consequences would usually be monetary; in the form of tax, interest and penalties, but they may also include risks such as the damage to reputation, for example with revenue authorities, investors, shareholders, or the general public. |
| Through-the-cycle (TTC) rating | A credit rating based on TTC risk measures. TTC measures evaluate the financial condition of the borrower over a longer term that incorporates a full economic (or business) cycle.<br><br>Compare to point-in-time rating. |
| Tier 1 capital | Tier 1 capital consists of issued ordinary share capital, retained earnings and reserves (CET1), and other qualifying additional tier 1 instruments. Preference shares do not fully qualify as tier 1 capital, they are however subject to grandfathering evenly over 10 year with effect from 1 January 2013. Hybrid debt instruments are being phased out as qualifying capital, subject to limits, and will be fully disqualified with effect from 1 January 2015. This amount is then reduced by the portion of capital that is allocated to trading activities and other specified regulatory deductions. |
| Tier 2 | Tier 2 capital is made up of subordinated debt and portfolio impairment – subject to a limit. |
| Trading book | This comprises positions in financial instruments and commodities, including derivative products and other off-balance-sheet instruments that are held with trading intent or to hedge other elements of the trading book. It includes financial instruments and commodities that:<br><br>□ are held for short-term resale; or<br><br>□ are held with the intention of benefiting from short-term price variations; or<br><br>□ arise from broking and market-making; or<br><br>□ are held to hedge other elements of the trading book. |
| Transfer of risk | Transfer of risk is used in risk management to describe the shifting of the burden of the risk to another party. Insurance is a common example of risk transfer. |
| Transformation risk (since transformation risk is an operational risk, for economic capital purposes transformation loss events are categorised in terms of one of the subrisks of operational risk) | The risk of failure by the group to adequately, proactively and positively respond to and address transformation issues such as black economic empowerment and uphold related law such as the Employment Equity Act. |

| TERM | DEFINITION |
|---|---|
| Underwriting risk | When an investment banker buys the balance or all of the new shares that a company is selling, the risk that the price will go down before they are sold, or that investors will not want to buy them. |
| Unexpected loss (UL) | Losses which may exceed the EL within a certain time period (eg one year) and within a specified confidence level (ie 99,93%). UL is the difference between VaR and expected loss.<br><br> |
| Use test | Requirement that the components of advanced approaches for the calculation of regulatory capital should not be used merely for the calculation of regulatory capital. Instead they should play an essential role in how a bank measures and manages risk in its business. |
| Value at risk (VaR) | Formally, the probabilistic bound of losses over a given period of time (the holding period) expressed in terms of a specified degree of confidence (the confidence interval). Put more simply, VaR is the worst-case loss expected over the holding period within the probability set out by the confidence interval. Larger losses are possible, but with a lower probability.<br><br>For example: if a portfolio has a VaR of R10m over a one-day holding period with a 95% confidence interval, the portfolio would have a 5% chance of suffering a one-day loss greater than R10m. |
| Wrong-way risk | Wrong-way risk can be classified as either specific or general. Specific wrong-way risk is defined as the positive correlation of a counterparty’s credit rating with the underlying value of a derivative(s) transaction. General wrong-way risk is defined as the broad positive correlation of overall CCR with a given trading portfolio valuation. |

# COMPANY **DETAILS**

## NEDBANK GROUP LIMITED

Incorporated in the Republic of SA
Registration number 1966/010630/06

### Registered address

Nedbank 135 Rivonia Campus, 135 Rivonia Road, Sandown, 2196, Johannesburg
PO Box 1144, Johannesburg, 2000

### Transfer secretaries in SA

Computershare Investor Services (Pty) Ltd
70 Marshall Street, Johannesburg, 2001, SA
PO Box 61051, Marshalltown, 2107, SA

### Namibia

Transfer Secretaries (Pty) Ltd, Shop 8, Kaiser Krone Centre,
Post Street Mall, Windhoek, Namibia
PO Box 2401, Windhoek, Namibia

## INSTRUMENT CODES

### Nedbank Group ordinary shares

| | |
|---|---|
| Company Secretary: | TSB Jali |
| Reg no: | 1966/010630/06 |
| JSE share code | NED |
| NSX share code | NBK |
| ISIN code | ZAE000004875 |
| Sponsors in SA: | Merrill Lynch SA (Pty) Ltd |
| | Nedbank Capital |

Sponsor in Namibia: Old Mutual Investment Services (Namibia) (Pty) Ltd

### Nedbank Limited non-redeemable, non-cumulative preference shares

| | |
|---|---|
| JSE share code | NBKP |
| ISIN code | ZAE000043667 |

This announcement is available on the group's website at **nedbankgroup.co.za**, together with the following additional information:

- Detailed financial information in HTML and PDF formats.
- Financial results presentation to analysts.
- Link to a webcast of the presentation to analysts.

For further information please contact Nedbank Group Investor Relations at nedbankgroupir@nedbank.co.za.

## REGISTERED OFFICE

Nedbank Group Limited
Nedbank 135 Rivonia Campus, 135 Rivonia Road, Sandown, 2196, Johannesburg
PO Box 1144, Johannesburg, 2000

## TRANSFER SECRETARIES IN SA

Computershare Investor Services (Pty) Ltd
70 Marshall Street, Johannesburg, 2001, SA
PO Box 61051, Marshalltown, 2107, SA

## TRANSFER SECRETARIES IN NAMIBIA

Transfer Secretaries (Pty) Ltd
Robert Mugabe Avenue No 4, Windhoek, Namibia
PO Box 2401, Windhoek, Namibia

These results and additional information are available on the Nedbank Group website at

**nedbankgroup.co.za**