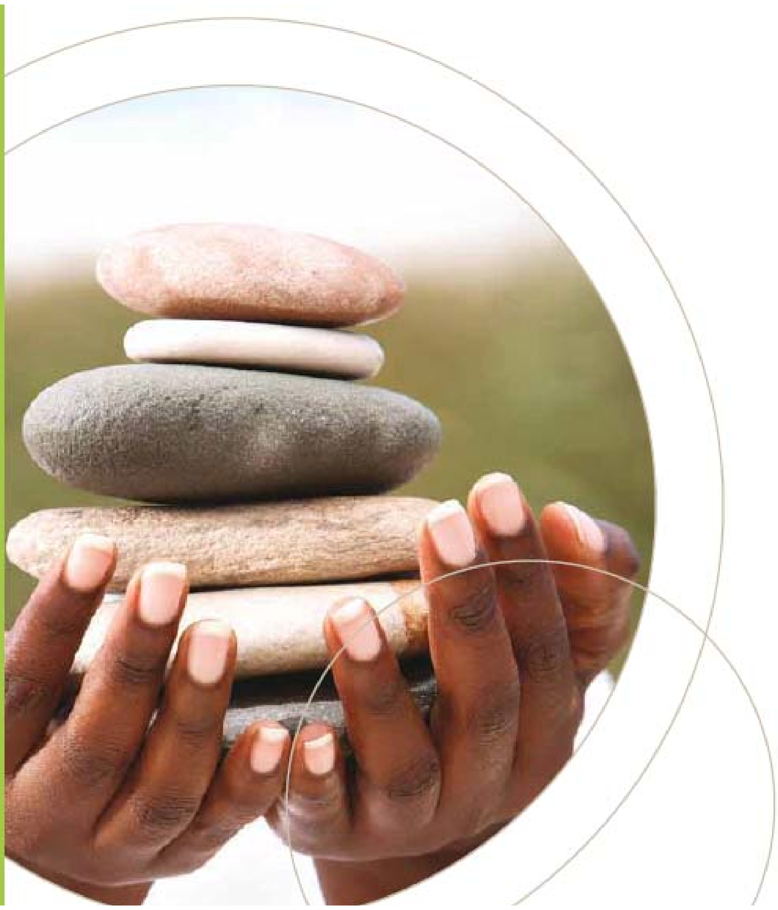
NEDBANK GROUP

RISK AND CAPITAL MANAGEMENT REPORT

For the half year ended 30 June 2009

Pillar 3 (of Basel II) Public Disclosure Report, as required by Regulation 43 of the South African banking regulations



MAKE THINGS HAPPEN

NEDBANK GROUP

A Member of the OLD MUTUAL Group

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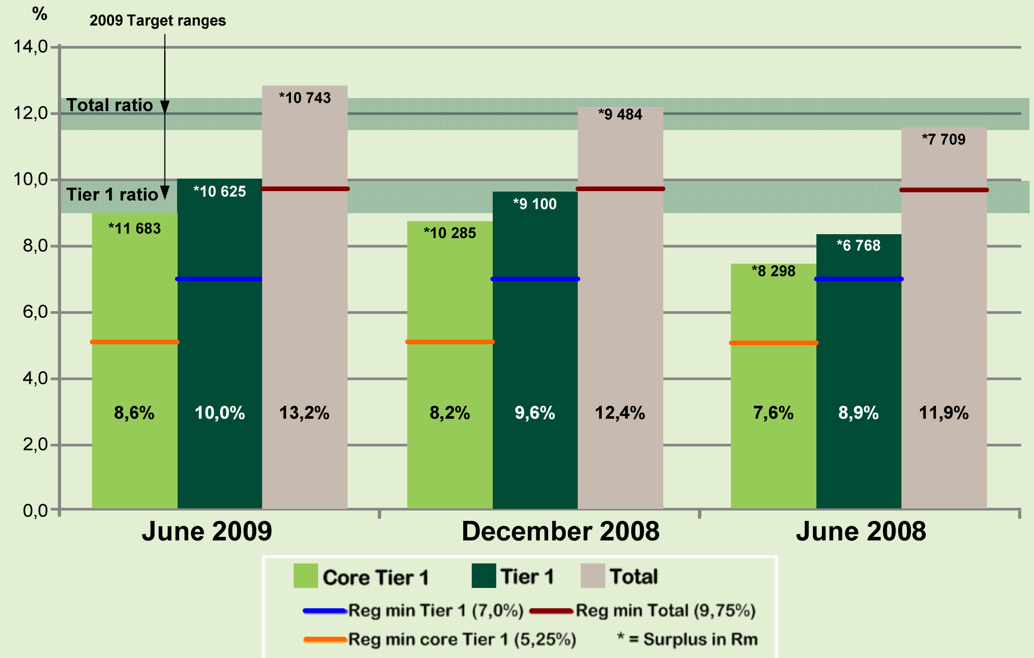
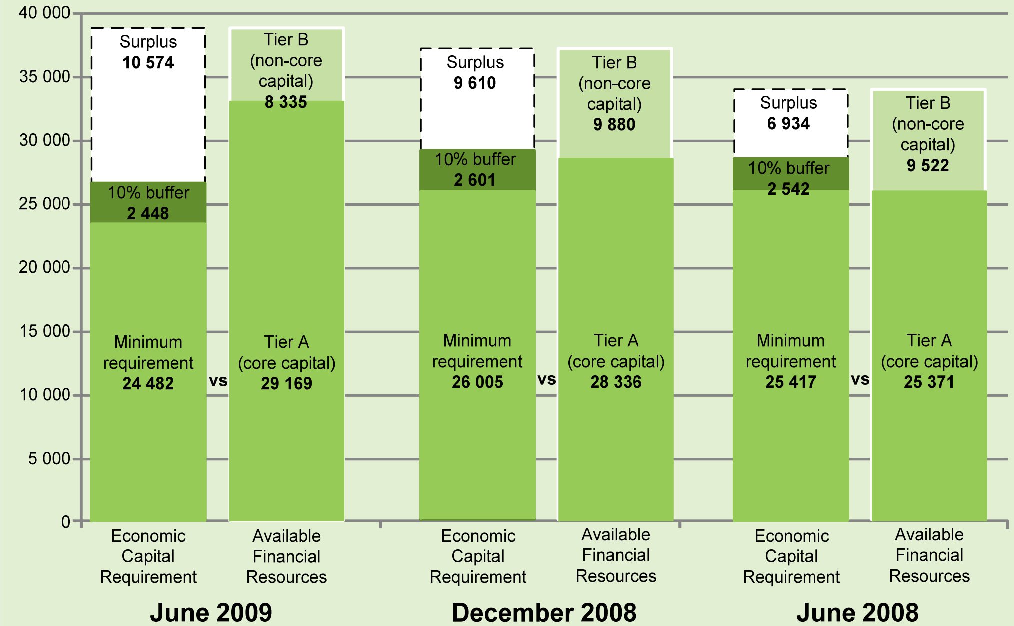
HIGHLIGHTS

NEDBANK GROUP

Basel II regulatory capital adequacy**



Economic capital adequacy**



** includes unappropriated profits

TARGET CAPITAL ADEQUACY RANGES ~ NEDBANK GROUP AND NEDBANK LIMITED

Regulatory Capital	Core Tier 1	Tier 1	Total	**Economic Capital** - capitalised to a confidence interval (ie solvency standard or target debt rating) plus a 10% capital buffer
Regulatory minimum	5,25%	7,00%	9,75%	
To end 2008 (old)	-	8 - 9%	11 - 12%	A- (99,9%) which is the same confidence interval as Basel II
From 2009 (new)	7,5 - 9%	8,5 - 10%	11,5 - 13%	

CAPITAL ADEQUACY

Increased significantly.

Regulatory capital

- Core Tier 1 - from 7,6% (06/2008) to 8,2% (12/2008) to 8,6% (06/2009)
- Tier 1 - from 8,9% (06/2008) to 9,6% (12/2008) to 10,0% (06/2009)
- Total - from 11,9% (06/2008) to 12,4% (12/2008) to 13,2% (06/2009)

Leverage ratios of South African Banks remain conservative when compared to global banks. The prudence and high conservatism of Nedbank Group's Basel II implementation is evident from a peer group comparison of the total Risk Weighted Assets (RWAs) to Total Assets ratio, summarised below: -

	Nedbank Group	Bank A	Bank B	Bank C
Leverage ratio (times) - June 2008	16,6	15,0	18,5	16,7
Leverage ratio (times) - December 2008	16,2	18,2	16,4	16,4
Leverage ratio (times) - June 2009	14,9	14,7	16,1	14,3
RWA / Total Assets (%) - June 2008	63,9	56,8	47,8	50,9
RWA / Total Assets (%) - December 2008	62,6	52,1	49,2	47,4
RWA / Total Assets (%) - June 2009	62,8	50,9	52,0	52,4

If Nedbank Group's RWA / Total Assets ratio was 52,4% then its Tier 1 capital ratio would be 12,0% as at 30 June 2009, compared to the actual of 10,0%.

Economic capital

- Available Financial Resources (AFR) surplus (after 10% capital buffer) increased from R6,9 billion (06/2008) to R9,6 billion (12/2008) to R10,6 billion (06/2009)

Stress and Scenario Testing

- Best practice framework and process followed to stress test and confirm the robustness of the group's capital adequacy. Recent international developments incorporated

LIQUIDITY

Remains sound.

RISK MANAGEMENT SYSTEMS

Proving effective.

SOUTH AFRICAN BANKS AND FINANCIAL SYSTEM

Remain structurally sound, liquid and well capitalised.

EXECUTIVE SUMMARY

The protracted global crisis and its continuing developments in 2009, as well as increasing concerns in the more traditional loan books of banks, have naturally been of major concern to us. Nevertheless, our continuing sound profitability albeit at lower levels and the successful turnaround of the group have generated strong capital levels and appropriately positioned us to weather the challenges prevailing in the external environment.

In this report we summarise our: -

- Views of the global crisis' impact on South Africa as well as Nedbank's response to the crisis and South Africa's recession
- Strong risk and capital management culture, which together with sound corporate governance has helped us maintain a prudent, conservative risk appetite. We will illustrate this by reference to a summary of Nedbank's current risk profile and capital adequacy
- Importantly, we highlight that capital adequacy levels must be seen in relation to a bank's unique risk profile and risk appetite, which should be transparent. This is a core objective of Basel II, namely not to measure all banks on a 'one-size-fits-all' basis but rather that banks with higher risk profiles should have commensurately higher capital ratios. This was reinforced by the Basel Committee in January 2009
- Financial, risk and capital management profile for the half year ended 30 June 2009
- Current understanding of the key changes and evolving requirements on the international regulatory front in response to the crisis, and our view on the implications of these for Nedbank together with our actions to date and plans going forward.

In South Africa our banking regulator has consistently been effective, and this has played a significant role to prevent any local fall out from the global crisis. We do, however, operate in a globally regulated market and as a result of the significant response to the crisis by international supervisors, this will have a knock-on effect in South Africa.

Regulation 43 of the revised regulations relating to banks in South Africa requires disclosure to the public of reliable, relevant and timely qualitative and quantitative information that enables users of that information, amongst other things, to make an accurate assessment of a bank's financial condition, including its capital adequacy, financial performance, business activities, risk profile and risk management practices. Nedbank Group and Nedbank Limited (collectively – Nedbank) are fully committed to regulation 43.

The requirements of regulation 43 are aligned with International Financial Reporting Standards (IFRS) but significantly extend the public disclosure requirements, in terms of both content and frequency, relating to risk and capital management. This extension of disclosure is embodied in what is commonly known as 'Pillar 3' of the Basel II Accord.

Basel II and the revised regulations were effective in South Africa, and introduced successfully in Nedbank, from 1 January 2008.

Global financial crisis

The past eighteen month period was one of unprecedented economic turmoil globally. We witnessed the start of a widespread international recession, the implosion of the financial sector and the demise and even nationalisation of some of the most established and reputable global institutions. Few could have predicted the magnitude of this catastrophe.

History has shown that the key risks that cause a bank to fail are:

- The quality of a bank's board and/or executive management, and/or their failure to endorse sound risk management
- Liquidity risk (banks borrow short, lend long)
- Concentration risk(s) – especially credit risk and associated poor quality lending
- Insufficient capital
- Poor governance, risk management and/or internal controls
- Lack of transparency (and undue complexity)
- Reputational risk (and erosion of the bank's franchise value).

In this crisis all these key risks and more have materialised, exacerbated by several additional key factors, all acting in concert, resulting in what some refer to as the 'perfect storm'.

South Africa's banking industry has, however, remained structurally sound and stood up extremely well amidst the crisis due to factors that include:

- Sound and proactive regulation of financial services, especially the banking sector
- The extent of the 'originate and sell' mentality and use of complex credit derivatives resulting in excessive leverage in some foreign banks was not followed in South Africa
- Fiscal authorities in South Africa never allowed interest rates to fall so low for so long as in the United States, encouraging excessive borrowing and untenable levels of household debt. South Africa has not had negative real interest rates
- The National Credit Act was successfully implemented in South Africa to help minimise irresponsible lending practices, over gearing and excessive consumer debt
- Exchange controls prevented large flows of funds from local institutions out of the country
- Rand liquidity remained stable, with the interbank market operating normally
- Good risk and capital management in the South African banks
- Basel II was successfully implemented and embraced in South Africa
- Lessons learned from the 2002/3 South African banking crisis.

In Nedbank specifically, we emphasise what we have messaged in our annual reports over the past few years with respect to the group's strong risk and capital management culture and commitment:

- Since 2004 the Nedbank vision has been 'to become Southern Africa's most highly rated and respected bank ... by our staff, clients, shareholders, regulators and communities. The vision is supported by our group's 10 deep green aspirations which include becoming 'Worldclass at Managing Risk'
- Nedbank Group has followed a 'business benefits' based approach to our Basel II implementation, not only to comply with Basel II but also to elevate and integrate the group's risk management, capital management and performance management to worldclass standards
- Nedbank successfully implemented Basel II on 1 January 2008
- Nedbank's Capital Management Framework embraces the integration of risk, capital, strategy, performance management and incentive schemes across the group.

Striving to become 'Worldclass at Managing Risk' is a journey not a destination, and there are always areas for us to improve upon. We fully embraced the spirit of Basel II commencing back in 2004 and this has assisted in our sound financial performance and sustainability amidst the crisis and South Africa's economic downturn.

Nedbank's proactive response to the crisis and South Africa's recession

During 2008/9 the group's strategy was further refined by anticipating changing global and local events and conducting scenario planning exercises to identify the appropriate course of action. As a result the focus areas of the group for 2009 were refined as follows:

- Managing for value (growing our share of economic profit)
- Become client-driven
- Manage risk as an enabler
- Enhance productivity and execution
- Build a unique culture
- Accelerate transformation
- Lead as a corporate citizen.

More specifically around the disciplines of risk and capital management and in response to the turmoil in the global financial markets and the slower domestic economy, Nedbank Group adopted a more conservative approach and intensified its focus on the following:

- Increasing capital adequacy levels
- Growing deposits and liquidity
- Proactive risk management
- Selectively growing assets in businesses that are well positioned to increase economic profit
- Continuing to manage for value in those businesses that have lower economic profit profiles
- Managing down positions in riskier lines of business
- Risk and capital optimisation (including risk-weighted assets)
- Risk-based pricing of loans and advances
- Excellence in collections
- Refining credit and credit risk parameters
- Excellence in data and building superior business intelligence.

The SMART Programme

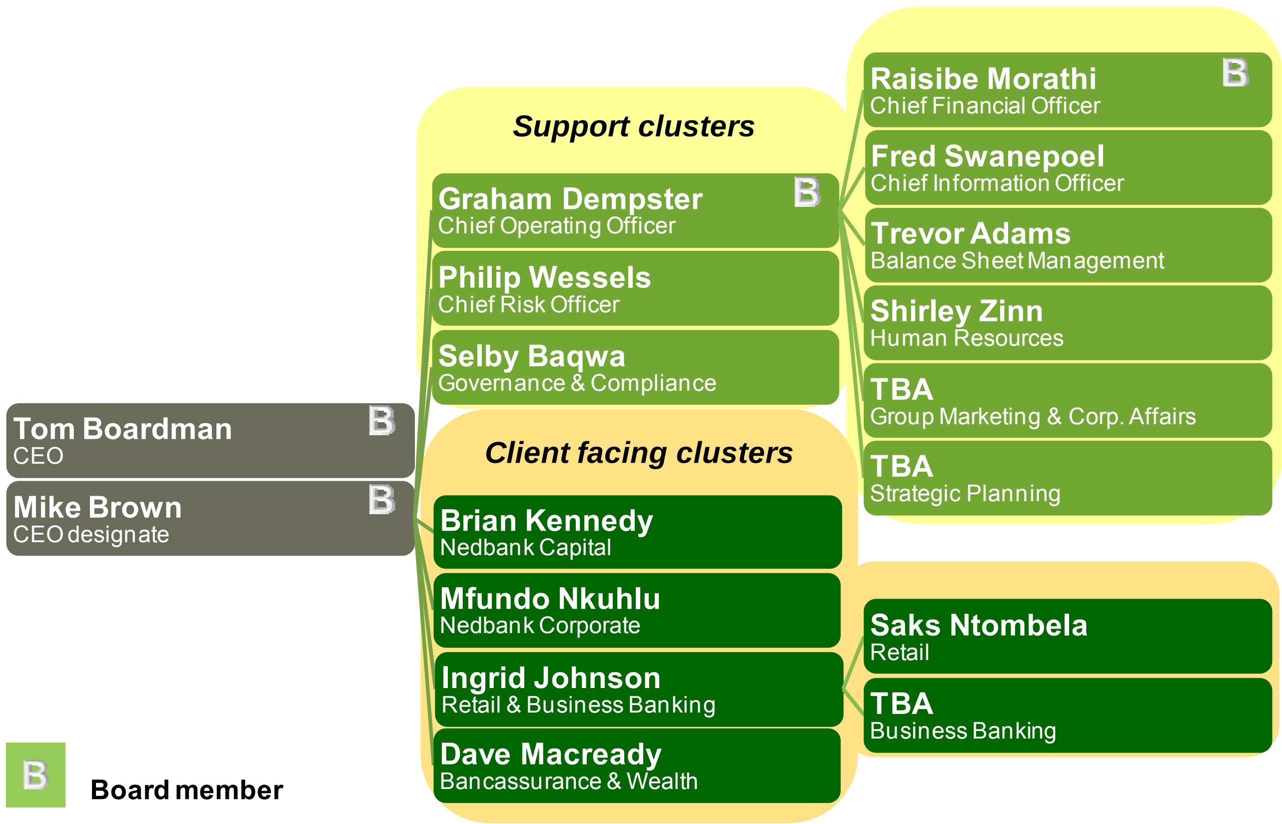
Additionally in H1 2009 we launched the 'SMART Programme' ('SMART'). In summary, SMART is the group's pro-active response to the following:

- Global Financial Crisis
- Lessons learnt and positioning for the new era in banking
- New requirements of banks (this continues to evolve) such as those coming from / likely to come from
  - Financial Stability Board (eg G20's 'eight point plan')
  - Basel Committee / South African Reserve Bank (SARB)
  - Institute of International Finance, Financial Services Authorities' (FSA's) Turner report and the USA's Federal Reserve
  - International Accounting Services Board (IASB) (accounting issues)
- South African environment
  - Pro-actively managing through the economic recession (as highlighted above)
  - Impact of global financial crisis
  - Avoidance of excessive risks
  - Positioning for the upturn
- Old Mutual Group's 'integrated Capital, Risk and Financial Transformation' (iCRaFT) Programme

  iCRaFT, which incorporates the Solvency 2 requirements for the insurance industry due for implementation in 2012, was launched by Old Mutual Group in 2008 and is very similar to Nedbank's Basel II Programme completed and fully implemented last year.

Nedbank Group Structure

The new Nedbank group structure announced on 5 August 2009 is shown below. This Pillar 3 document, however, is based on the previous group structure that was effective as at 30 June 2009.



Risk Appetite vs Risk Profile vs Capital Adequacy

Nedbank's conservative risk appetite

The global financial crisis has highlighted that the appropriate level of capital for a bank is a direct function of its risk appetite, strategy and existing risk profile. This aligns directly with one of the key objectives of Basel II and that is to differentiate capital requirements, and adequacy of capital buffers above the regulatory minimum, to reflect the unique risk profile on a bank by bank basis, rather than the 'one-size-fits-all' approach amongst all banks that Basel I engendered. The Basel Committee confirmed this again in January 2009.

In Nedbank risk appetite is an articulation and allocation of the risk capacity or quantum of risk we are willing to accept in pursuit of our strategy, duly set and monitored by the board, and integrated into our strategy, business, risk and capital plans.

Nedbank has cultivated and embedded a prudent and conservative risk appetite, focussed on the basics and core activities of banking. This is illustrated by reference to the following:-

- No direct exposure to US sub-prime credit assets nor associated credit derivative transactions
- Conservative credit underwriting practices which have culminated in a high quality well collateralised wholesale book and further tightening of our retail book since 2007 in anticipation of the economic downturn and introduction of the National Credit Act
- Reasonable credit concentration risk levels:
  - Large individual (single name) exposure risk is low. Refer page 70 for details
  - Geographic exposure risk is high (refer page 71 which highlights that 95% of the group's loans and advances originate in South Africa) but in reality this concentration was positive for Nedbank given the global international crisis and reflects focus on an area of core competence
  - Industry exposure risk is reasonably well diversified. Refer page 71 for details

- At first sight our property exposure appears high but this is in line with our domestic peer group and most banks world-wide. As a result of this perceived risk, we undertook a more detailed analysis, assisted by international risk consultants, of our commercial property exposures

  The conclusions and recommendations that resulted from this detailed analysis were:

  - potential credit losses in a stressed scenario would remain within Nedbank's risk appetite
  - the portfolio is well balanced, and higher risk loans are closely monitored
  - the most appropriate business strategy is one of selective origination, sacrificing business volumes and market share growth for risk-based pricing, economic profit and margin management. This is broadly in line with our approach over the last few years
  - the commercial property portfolio is largely focussed on developed properties with a track record of predictable cash flows from rentals over the medium term.

  Stemming from this detailed analysis were several useful benchmarks derived from the experience that international banks had, where we compare favourably.

  The analysis has been useful not only from the business perspective of shaping our commercial property loan origination and deal pricing approach for the future, but also from the credit risk management perspective of providing us with additional relevant benchmarks against which to monitor our commercial property exposures and of highlighting risky exposures on which to focus increased risk management

- Counterparty credit risk 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.

  Credit derivatives activities have been restricted to single-name trades of South African exposures and biased towards providing risk mitigation. Refer page 71 for further details on our relatively low counterparty credit risk exposure

- A strong, well diversified funding deposit base and a low reliance on off-shore funding. Additionally, Nedbank's reliance on its top 10 depositors is not concentrated.

  Refer to page 77 onwards for our analysis in support of this and our prudent liquidity risk management

- Low level of securitisation exposure which reduced during 2008.

  Refer page 74 for summary detail on this exposure

- Low leverage ratio (total assets to shareholder equity) of 14,9 times (16,2 times : 31 December 2008) which compares very favourably on an international benchmarking basis
- High risk weighted assets (RWAs) to total assets ratio of 62,8% indicative of our conservative Basel II implementation and measurement of risk which compares very conservatively on a local and international benchmarking basis
- Low risk of assets and liabilities exposed to the volatility of International Financial Reporting Standards (IFRS) fair value mark-to-market (MTM) accounting

  - *Banking Book*

    In terms of IAS 39, an entity has the option to designate a financial instrument at fair value provided that certain criteria are met, which Nedbank does.

    Nedbank has entered into a large number of fixed rate deals both for assets and liabilities. When a fixed rate deal is entered into an interest rate risk arises and is hedged with an interest rate swap derivative. This process is controlled and monitored by the Group ALCO and Executive Risk Committee (Group ALCO).

    In terms of IAS 39, all derivatives need to be carried at fair value and it is the mark-to-market of all these hedging derivatives that causes an accounting mismatch. In order to eliminate the accounting mismatch, the underlying financial instrument is designated fair value through profit and loss and subsequently fair valued. All fair value adjustments in this regard are unrecognised profits and losses and are disclosed in non-interest revenue.

    It is important to note that these profits and losses will not be realised and will merely unwind over time as the various financial instruments mature. The financial instruments are effectively fully hedged on an interest rate risk basis. The present volatility that is being seen in the income statement on the designated fair value line is a result of basis risk and because IAS 39 requires an entity to fair value its own credit at fair value through profit and loss designated financial liabilities.

Nedbank carries all its investment securities, both listed and unlisted, at fair value. There are no material hedges in place for these investment securities and they are designated fair value through profit and loss.

- *Trading Book*

  The trading book is fair valued and the impact taken through the income statement.

  The crisis and the consequent impact on the South African sovereign credit spreads have impacted on the value of certain assets within the trading portfolio. However, Nedbank's holding of foreign assets in the trading portfolio has been constrained by our low risk appetite for foreign credit risk, and consequently the portfolio was and remains relatively small with mainly shorter-dated assets with a bias to financial institutions and large corporate exposures.

  The trading portfolio has limited exposure to the credit derivatives market and has been focused mainly on the provision of protection on South African corporate names. This, coupled with our conservative risk appetite, has restricted losses incurred in the portfolio in the current period.

- Market trading risk is small in relation to total bank operations (economic capital held is only 1,7% of total and is conservatively based on limits rather than utilisation, plus a 10% capital buffer).

  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.

  The overall performance of the trading business was sound, an indication that the impacts from the 'credit crunch' and difficult equity markets were successfully navigated, and our risk systems sound. In addition, over the past year Nedbank Capital pro-actively managed and reduced the risk pertaining to 'single stock futures' and 'contracts for difference', and the forfaiting business was closed with the existing exposure being managed over the maturity of the book.

  Refer page 89 for more details

- Low interest rate risk in the banking book as reflected by the sensitivity analysis provided in page 85

- Low equity (investment) risk exposure. The total equity risk exposure, including our private equity business, is R3,5 billion comprising only 0,6% of total assets. Further, within this a wide range of individual investments exist and many are linked to a wider client relationship.

  Refer page 93 for further details

- Assets non-core to the business of banking are immaterial

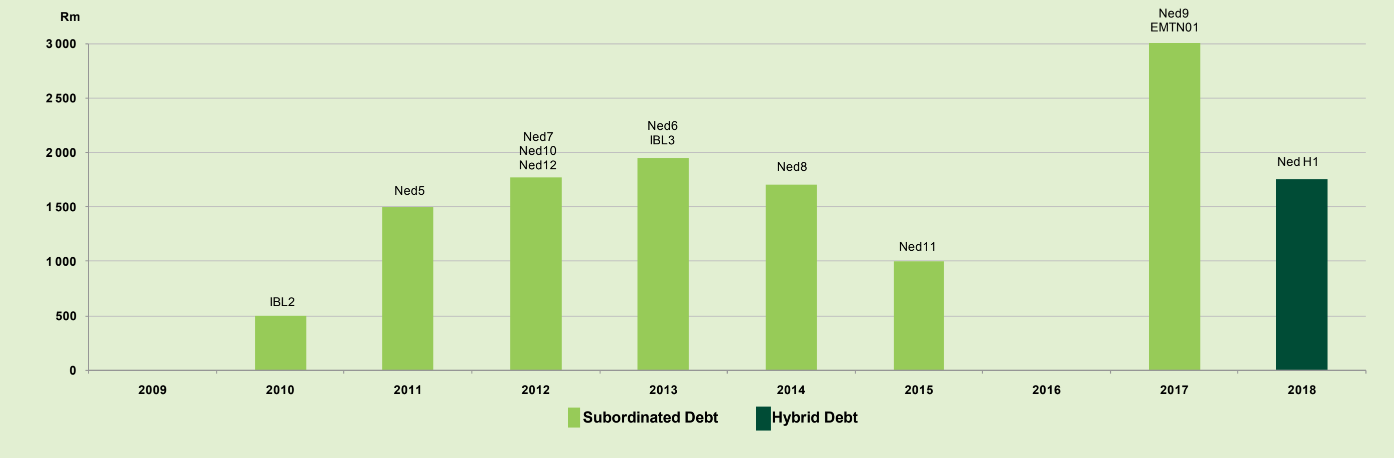
- Low foreign currency translation risk to the rand's volatility, which is in line with Nedbank's appropriate offshore capital structure.

  Refer page 86 for more details

- Well diversified earnings streams. Most of the group's earnings are generated by traditional, vanilla, annuity based income in wholesale and retail banking, and specialised finance

- Well diversified subordinated debt profile, with no maturity of any existing Tier 2 regulatory capital until 2010 (Imperial Bank Limited) and 2011 (Nedbank Limited). Despite the difficult international markets, Nedbank successfully raised Tier 2 subordinated debt in March 2009 in the amount of US$100 million and at acceptable pricing levels (ie Libor + 150bps)

NEDBANK GROUP'S NON-CORE TIER 1 AND TIER 2 MATURITY PROFILE



- Comprehensive stress and scenario testing to confirm the adequacy of our capital ratios and accompanying capital buffers (refer page 122 onwards for details)
- We also measure and express risk appetite in terms of quantitative risk metrics as well as qualitatively. The quantitative metrics include credit loss ratio and earnings-at-risk (EaR) (based on earnings volatility) and, related to this, the 'chance of regulatory insolvency', 'chance of experiencing a loss' and economic capital adequacy. These, together with several others comprise our 'group-level risk appetite metrics', and have been cascaded down to business cluster level.

  In addition, a large variety of risk limits, triggers, mandates, and guidelines are in place for all the financial risks (eg credit, market and ALM risks).

  One of the risk appetite metrics that we are currently in excess of due to the current economic recession, and which is in line with our peer group, is the group's target credit loss ratio range of 0,55% - 0,85%, the actual ratio being 1,57% at 30 June 2009. This ratio showed a slight improvement from the 1,67% reflected in the group's first quarter trading update. Prudent provisioning for this is reflected in our credit impairments, details of which may be found on page 40. We currently expect to remain outside the range in 2009 but addressing this will be a key component of the 2010-2012 business planning process, and expect to be back within the range within that three year window.

  Qualitatively, we also express risk appetite in terms of policies, procedures, statements and controls to limit risks that may or may not be quantifiable
- In our pro-active response to the global financial crisis we have had a strong focus and high success since the beginning of 2008 on strengthening our capital ratios and liquidity (as covered below), and selective asset growth

Nedbank's strong capital adequacy and sound risk profile

Further to Nedbank's conservative risk appetite discussed above, set out below is an overview of the salient features of the group's risk and capital profile.

Actual regulatory capital ratios *		**Nedbank Group**			**Nedbank Limited**		
		Basel II			**Basel II**		
%	**Target (revised in 2009)**	**Jun 2009**	Dec 2008	Jun 2008	**Jun 2009**	Dec 2008	Jun 2008
Core Tier 1	7,5-9,0	**8,6**	8,2	7,6	**8,4**	8,0	7,2
Tier 1	8,5-10,0	**10,0**	9,6	8,9	**10,2**	9,8	8,7
Total	11,5-13,0	**13,2**	12,4	11,9	**13,9**	13,1	11,9

** includes unappropriated profits*

Leverage ratio	**14,9 times**	16,2 times	16,6 times

Nedbank Group Limited has strengthened its regulatory capital ratios significantly, with a Tier 1 capital adequacy ratio of 10,0% (December 2008 : 9,6%; June 2008 : 8,9%) and a total capital adequacy ratio of 13,2% (December 2008 : 12,4%; June 2008 : 11,9%). The core Tier 1 capital adequacy ratio was 8,6% (December 2008 : 8,2%; June 2008 : 7,6%).

The group currently holds a surplus of R10,6 billion (December 2008 : R9,6 billion; June 2008 : R6,9 billion) against its internally calculated economic capital requirements calibrated to an A- or 99,9% (solvency standard). A surplus of R10,7 billion (including Basel II capital floor) and R11,9 billion (excluding Basel II capital floor) over the total regulatory capital adequacy requirements exists at 30 June 2009.

Nedbank Limited has also significantly strengthened regulatory capital ratios, with a Tier 1 capital adequacy ratio of 10,2% (December 2008 : 9,8%; June 2008 : 8,7%) and a total capital adequacy ratio of 13,9% (December 2008 : 13,1%; June 2008 : 11,9%). The core Tier 1 capital adequacy ratio was 8,4% (December 2008 : 8,0%; June 2008 : 7,2%).

Nedbank Limited currently holds a surplus of R10,2 billion against its internally calculated economic capital requirements calibrated to the same solvency standard as group. A surplus of R10,1 billion (including the Basel II capital floor) and R11,3 billion (excluding the Basel II capital floor) over the total regulatory capital adequacy requirements exists at 30 June 2009.

All capital adequacy ratios are now at or above the group's target ranges, except core Tier 1 which is nearing the top end. They include unappropriated profits at the half year end to the extent that these are not expected to reverse and are expected to be appropriated subsequent to the half year end.

Nedbank's capital adequacy ratios increased significantly over the past 18 months due to a strong focus on the optimisation of risk weighted assets, enabled by enhancing data quality and more selective asset growth using our economic profit based 'managing for value' philosophy, the retention of earnings, the profits made on the disposal of Visa shares, the issue in 2008 of the first Hybrid Tier 1 capital instruments in South Africa (amounting to R1,75 billion) and the private placement of a 13 year (non-call eight year) US$100 million Tier 2 subordinated debt with an international investor in March 2009.

Against the background of the group's conservative risk appetite and sound risk management discussed earlier, the group believes that its capital levels (both regulatory capital and its internal capital assessment, economic capital) and provisioning for credit impairments are appropriate and conservative, and that the group and its subsidiaries are strongly capitalised relative to our business activities, strategy, risk appetite, risk profile and the external environment in which we operate. Additionally, the group is currently not holding excess capital for major acquisitions.

In summary, the above statement is further supported by:

- Strong risk and capital management which is embedded across the group based on a best-practice Enterprise-wide Risk Management Framework (ERMF) and Capital Management Framework, built on rigorous governance, challenge and debate. These frameworks are supported by a strong level of expert and experienced human resources, for which succession plans are in place. These are regularly monitored and updated.

  The principles of prudence and conservatism prevail in our frameworks and economic capital numbers. Basel II, as applied in South Africa has high levels of conservatism, including for example downturn loss-given-default credit risk parameters (dLGDs), the 1,5% Pillar 2a add-on (for emerging market and concentrat6ion risks particular to South Africa) and does not recognise inter-risk diversification in the Pillar 1 minimum regulatory capital requirements

- Our economic capital outcome and process is comprehensively in use across the group, embedded within businesses on a day-to-day basis, and in performance measurement and reward schemes that are based on economic profit, using risk-based economic capital allocation

- Nedbank Limited was granted approval, effective 1 January 2008, by the SARB for use of the Advanced Internal Ratings Based (AIRB) approach for credit risk for the bank's entire credit portfolio.

  Nedbank's AIRB credit system forms the basis for our measurement and management of credit risk across the bank. The Group Credit Portfolio Management unit in the Group Capital Management division measures, manages and strives to optimise the group's credit portfolios and credit concentration risk. For this purpose the group uses a tailored Credit Portfolio Model (CPM) run on KMV Portfolio Manager software.

  Nedbank's credit economic capital is separately derived by integrating the key Basel II AIRB credit risk parameters with Nedbank's sophisticated CPM. The CPM also takes credit portfolio concentrations and intra-risk diversifications into account.

- Nedbank is a well-diversified banking group in the context of South African markets, split across its four business clusters and Imperial Bank. Our 'top 20' individual exposure analysis, in particular the 'percentage of total Nedbank Group credit economic capital by individual borrower', indicates that Nedbank does not have high risk single-name credit concentration risk. Nedbank's CPM model incorporates the asset size of obligors / borrowers into its measurement and calculation of credit economic capital. In our stress and scenario testing, and arriving at conclusions on the adequacy of our capital buffers, we also include stress testing of single-name large exposures and their potential impact on capital ratios.

  Geographically, almost all credit exposures of the group originate in South Africa (non-South African exposure is approximately 5%). This geographical and industry concentration risk is also built into Nedbank's CPM

- Nedbank has made a significant investment (in excess of R450 million in external costs alone over the past five years or so) in our journey to world class risk management, to implement best-practice economic capital modelling and an Internal Capital Adequacy Assessment Process (ICAAP), and scores highly in the 'use test' across the group, which demonstrates our significant commitment to this and a belief in our economic capital numbers.

- Comprehensive business planning integrated with long run capital planning and active capital management driven off internal capital generation across a well-diversified banking group
  - The group's financial performance is characterised by diversified, sound and stable capital generation. Most of the group's headline earnings are generated by business portfolios servicing traditional wholesale and retail banking, and specialised finance
  - Our current expected (base case) three-year projections to 31 December 2011 reflect further strengthening of capital adequacy and are in line with or above the revised target regulatory capital ranges at both the group and bank level, both for internal economic capital adequacy and regulatory capital
  - The quality and diversification of Nedbank's capital base is sound, as reflected by our Tier 1 and Tier 2 composition. This includes the replacement in recent years of the concentrated NED1 (R2 billion) and NED2 (R4 billion) subordinated debt with a smooth, well diversified maturity profile with nine sub-debt issues totalling approximately R8 billion and their maturity relatively evenly spread over from 2011 to 2018
  - A sound capital management and capital planning process is applied continuously, in which procyclicality and stressed scenarios are comprehensively addressed, confirming the adequacy of our target (and actual) regulatory capital ratios and economic capital buffer levels.

- Comprehensive stress and scenario testing is used to stress our base case projections, and so assess and conclude upon the adequacy of our capital buffers and target capital ratios
  - Our strategic planning process, rolling forecasts and integrated capital planning include three-year projections of expected (base case) financial performance, Basel II and economic capital requirements, which are compared to projected available capital resources and our risk appetite metrics. The three-year projections and base case capital planning are derived from the group's three-year business plans that are updated quarterly during the year and revised on a full bottom-up basis annually
  - The main objective of our stress testing is to assess the effect of possible unexpected events on our base case projections, including our capital requirements, resources and the adequacy of capital buffers for both regulatory and economic capital. In addition, stress testing is an important tool for analysing Nedbank's risk profile and risk appetite.

External credit ratings

In July 2009, Moody's Investors Service took a number of rating actions on the leading South African banks, including the ratings of Nedbank Limited (Nedbank), the 100%-owned subsidiary of Nedbank Group Limited (Nedbank Group).

According to Moody's these rating actions were triggered by the following three factors

- The deteriorating macroeconomic conditions and the resultant challenges for the South African banking sector that led to Moody's changing the outlook on the entities' bank financial strength ratings (BFSRs) to negative from stable, which affected Nedbank
- The expected change in the systemic support indicator for the banking system in South Africa that has not impacted Nedbank
- Moody's upgrade of South Africa's foreign currency deposit ceiling from Baa1/P-2 to A3/P-2 that has led to an upgrade of Nedbank's long-term foreign currency deposit ratings, since these ratings were constrained by the country's ceiling. Similarly, the upgrade of South Africa's foreign currency debt ceiling to A1, with a stable outlook, from A2 also triggered a rating upgrade in respect of Nedbank's senior unsecured debt rated under its European Medium Term Note Program (EMTN).

The specific impact on Nedbank's ratings is as follows:

Nedbank Limited
The foreign currency deposit ratings -- upgraded to "A3/P-2" from "Baa1/P-2"
Nedbank's EMTN programme -- rating for senior unsecured debt upgraded to "A1 (negative outlook)" from "A2"; and to "A2 (negative outlook)" for subordinated notes.
Outlook on the C BFSR -- downgraded to "negative" from "stable"
Outlook on the A1 GLC deposit rating -- downgraded to "negative" from "stable"
Nedbank's national scale debt ratings (relating to the DMTN programme) -- remains unchanged, but now all carry a negative outlook.
Outlook on the Aa1.za national scale rating -- downgraded to "negative" from "stable"

Nedbank's other ratings from Moody's are not affected by this rating action.

In addition during July 2009 there was credit rating action by Fitch Ratings. Fitch Ratings has affirmed the ratings of Nedbank Group Limited (Nedbank Group) at long-term foreign and local currency Issuer Default Rating (IDR) BBB, and national long-term rating at AA-(zaf), respectively. The short-term foreign currency IDR has been upgraded to 'F2' from 'F3'. The outlook on all three ratings has been revised to stable from negative.

Fitch Ratings has downgraded Nedbank Limited's (Nedbank) long-term foreign and local currency Issuer Default Ratings (IDRs) to 'BBB' from 'BBB+', and the national long-term rating to 'AA-(zaf)' from 'AA(zaf)', respectively. The outlook on the three ratings has been revised upward to stable from negative.

In aligning Nedbank Limited's ratings with the Nedbank Group's ratings, Fitch has also reviewed the level of integration between the holding company and its bank subsidiary and believes there is very little difference in the credit quality of the two entities. The agency considers the overall levels of integration between the two entities to be high, with insignificant external obligations within the holding company and inter-group obligations interest free and without repayment dates.

The rating actions are summarised as follows:

NEDBANK GROUP LIMITED
Long-term foreign currency IDR -- affirmed at 'BBB'; outlook revised to stable from negative
Long-term local currency IDR -- affirmed at 'BBB'; outlook revised to stable from negative
Short-term foreign currency IDR -- upgraded to 'F2' from 'F3'
National long-term rating -- affirmed at 'AA-(zaf)'; outlook revised to stable from negative
National short-term rating -- affirmed at 'F1+(zaf)'
Individual rating -- affirmed at 'C'
Support rating -- affirmed at '2'

NEDBANK LIMITED
Long-term foreign currency IDR -- downgraded to 'BBB' from 'BBB+'; outlook revised to stable from negative
Long-term local currency IDR -- downgraded to 'BBB' from 'BBB+'; outlook revised to stable from negative
Short-term foreign currency IDR -- affirmed at 'F2'
National long-term rating -- downgraded to 'AA-(zaf)' from 'AA(zaf)'; outlook revised to stable from negative
National short-term rating -- affirmed at 'F1+(zaf)'
Individual rating -- affirmed at 'C'
Support rating -- affirmed at '2'

Conclusion

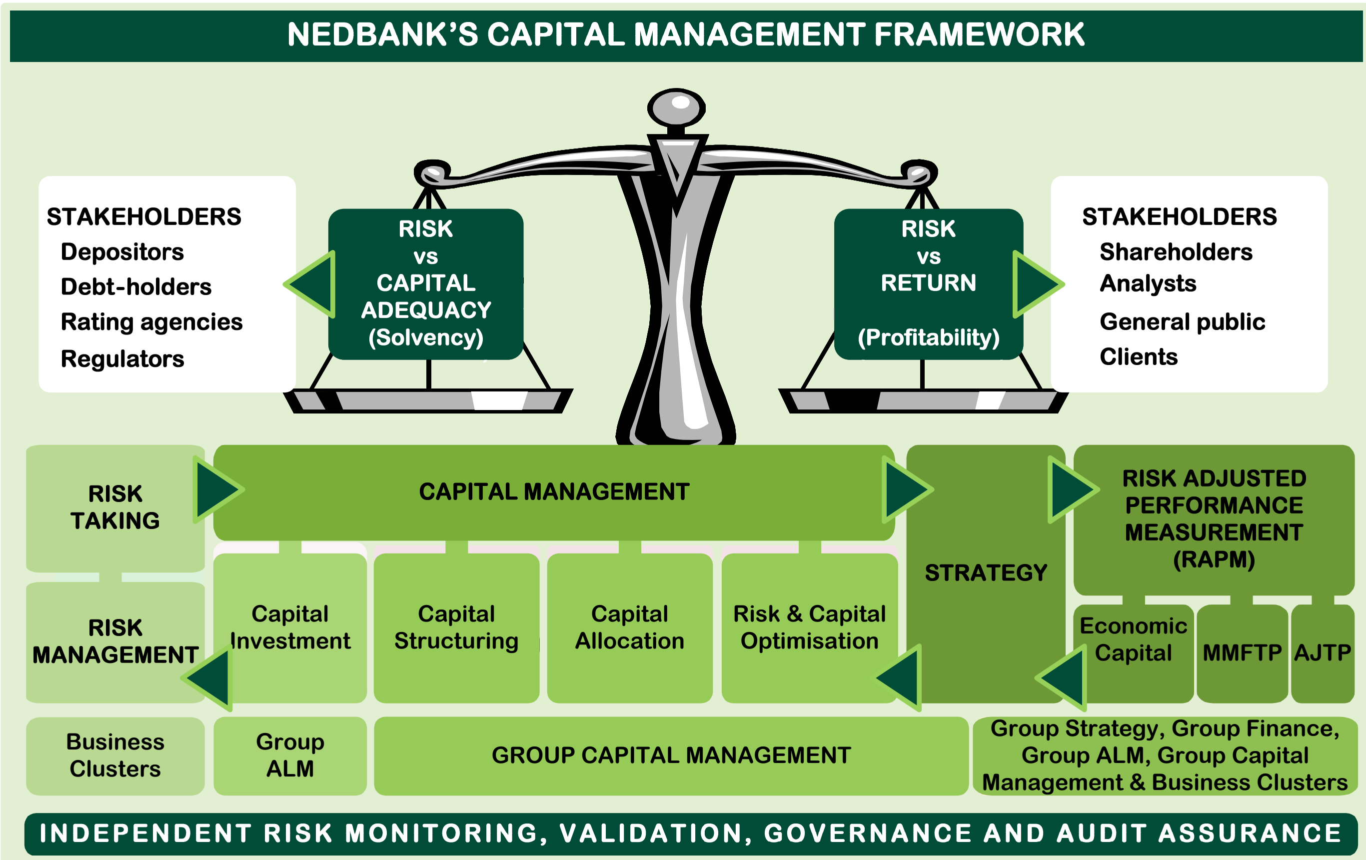
In our pro-active response to the global financial crisis we have had a strong focus and high success since the beginning of 2008 on strengthening our capital ratios and liquidity, reduction of risk in a number of areas affected by the economic climate and selective asset growth.

In view of all above, the board of directors are satisfied that the capital levels (both regulatory capital and our internal capital assessment, economic capital) are appropriate and believe Nedbank Group, Nedbank Limited and the other subsidiaries are strongly capitalised relative to their business activities, strategy, risk appetite, risk profile and the external environment in which the group operates.

Additionally, the board is satisfied with the overall effectiveness of the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy.

FULL PILLAR 3

RISK AND CAPITAL MANAGEMENT REPORT



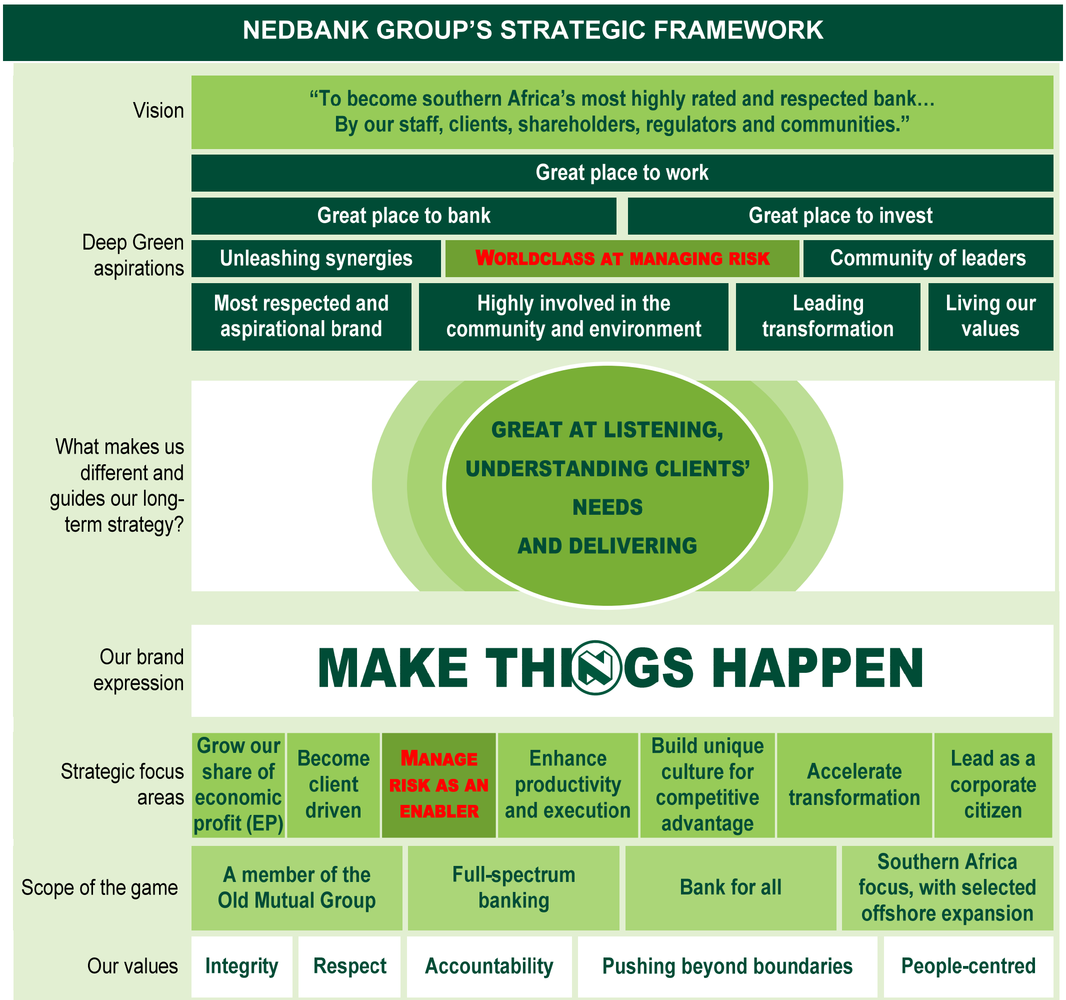
RISK AND CAPITAL MANAGEMENT CULTURE

Nedbank has a strong risk and capital management culture which is embedded in the group's strategic framework

Nedbank successfully implemented Basel II in 2008 and with the benefit of hindsight can look back over the past eighteen months and re-confirm this. We have invested significantly in advanced risk and capital management capabilities, as well as human resources and systems, and have transformed these using our comprehensive Basel II programme as the main catalyst. Our Basel II implementation was in line with the revisions to the Banks Act and the revised Basel II based banking regulations introduced by SARB that were effective from 1 January 2008.

Our approach, which at all times 'embraced the true spirit' of Basel II, involved implementing, inter alia, best-practice enterprise-wide risk management (ERM) across the group. ERM is a structured and disciplined approach to risk management, aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the opportunities, threats and uncertainties the group faces as it strives to create shareholder value. It involves integrating risk and capital management effectively across the group's risk universe, business units and operating divisions, geographical locations and legal entities.

The Nedbank vision is 'to become Southern Africa's most highly rated and respected bank ... by our staff, clients, shareholders, regulators and communities. The vision is supported by our group's 10 deep green aspirations (long-term objectives), which include becoming 'Worldclass at managing risk', incorporated within the group's Strategic Framework.

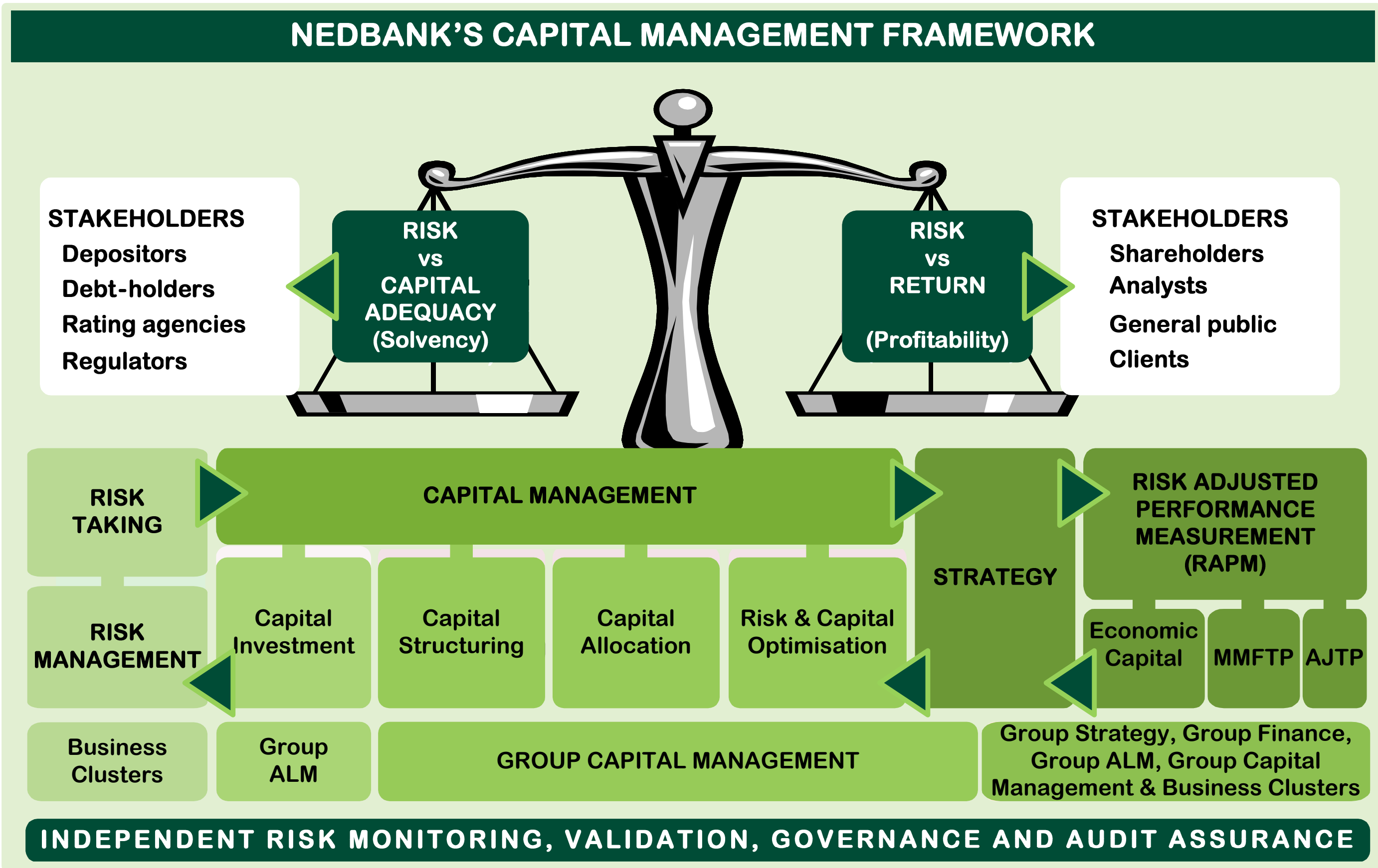


In Nedbank to be 'Worldclass at managing risk' means that:

'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.'

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

Consistent with our risk philosophy and strong risk culture engrained in our Enterprise-wide Risk Management Framework (ERMF) is the culture with respect to capital management.



Our comprehensive Capital Management Framework 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 vs solvency) and those focused more on the return or profitability of the group relative to the risk assumed (or risk vs return). The challenge for management and the board is to achieve an optimal balance between these two important dimensions.

Nedbank's risk and capital management positioning provides the group with sophisticated management science and capabilities for active capital management and economic value-based management to optimise the risk / return performance and growth of our various businesses, aligned with the established risk appetite of the group.

Nedbank recognises that to become 'Worldclass at managing risk' (and so capital management too), is a journey not a destination. We believe we have made significant progress over the past five years and that our Internal Capital Adequacy Assessment Process (ICAAP) is closely aligned with best practice internationally. [We are currently focused on further enhancements via the SMART Programme, as discussed earlier on page 5.]

The group's risk culture and risk management systems have been duly tested and proven effective during these abnormal and prolonged volatile markets amidst the global financial crisis.

GOVERNANCE, RISK AND CAPITAL MANAGEMENT FRAMEWORKS

At the heart of Nedbank's business and management processes are integrated, worldclass risk and capital management frameworks

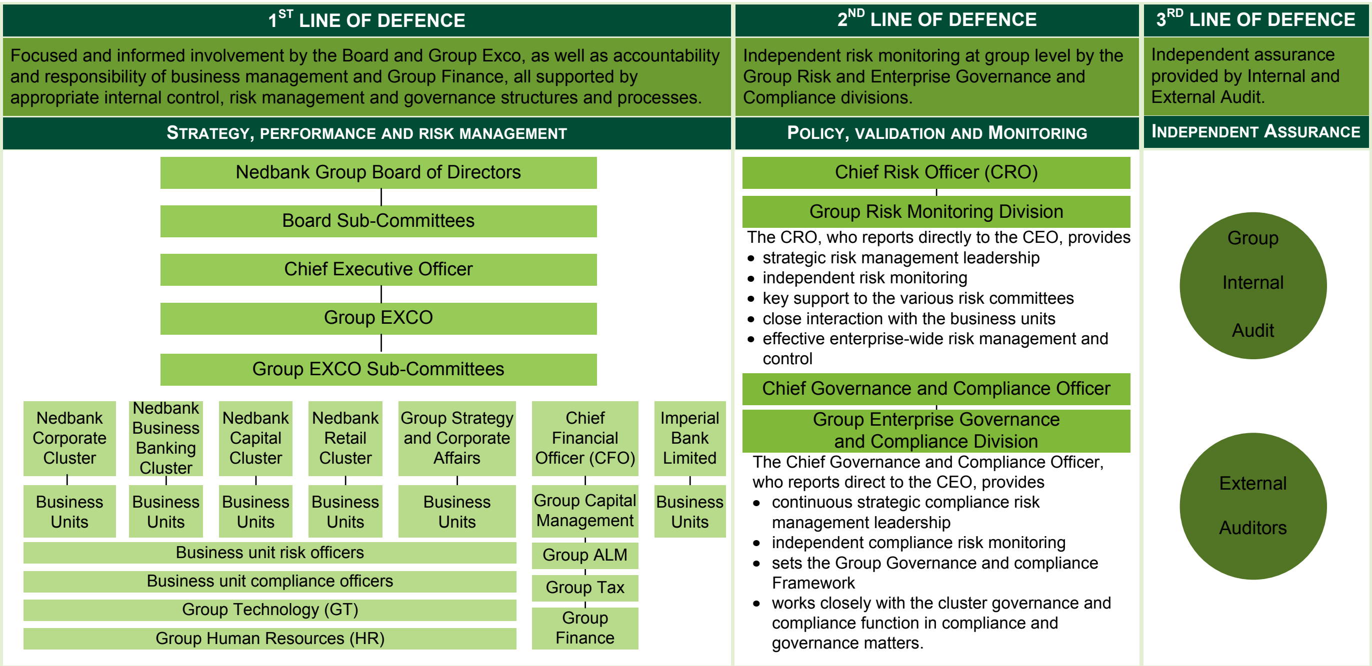
The business of banking is fundamentally about managing risk. As discussed earlier, Nedbank actively strives to attain worldclass risk and capital management as integrated core competencies critical to the success and sustainability of our business. This began with the roll out in 2004 of Nedbank's Enterprise-wide Risk Management Framework (ERMF) which at that initial point in time essentially covered best practice risk governance.

Risk universe and the Enterprise-wide Risk Management Framework (ERMF)

Nedbank sees strong risk governance applied pragmatically and consistently as the foundation for successful risk and capital management.

The high focus on risk governance is based on a 'three lines of defence' concept, which is the backbone of the group's ERMF. The ERMF places a strong emphasis on accountability, responsibility, independence, reporting, communication, and transparency, both internally and with all our key external stakeholders.

The three lines of defence, as well as the principal responsibilities that extend across the group, function as follows:



The 17 key risks that comprise Nedbank's risk universe and their materiality are re-assessed, reviewed and challenged on a regular basis. The ERMF specifically allocates the 17 key risks (which individually also include various sub-risks) at each of three levels, namely to:

- board committees
- executive management committees (at Group Exco level and those within business clusters)
- individual functions, roles and responsibilities (at group level and across all business clusters, as relevant).

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 within the business clusters, proceeds based on materiality up to the group executive level and then to the non-executive board level. The process is overlaid by our three lines of defence governance model set out above, so the assessment, review and challenge not only happens by management and the board but also by Group Risk and Group Compliance, and Group Internal Audit and External Audit in the second and third lines of defence, respectively.

Within this recurring ERM process, and additionally via the strategic / business planning process, new and/or emerging risks are identified, captured and addressed within the ERMF and its associated process. An example of the re-assessment of material risks taking place in practice is the decision in 2008 to include 'transformation risk' as a key risk in the ERMF universe going forward.

A residual heat map is used and helps the iterative reassessment of the 17 key risks. Escalation criteria have been formalised and so significant risk issues and/or limit breaches are raised and included in the 'Key Issues Control Log' which is a key feature of the ERMF and risk reporting across Nedbank Group.

Annually the process of corporate governance, including the risk management process, as contemplated in regulation 39 of the Banks Act is assessed 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.

The ERMF, fully embedded across Nedbank Group, is supplemented by individual sub-frameworks such as those for credit risk, market risk, liquidity risk, operational risk and capital risk, as well as a comprehensive set of risk policies and limits. These also include the role of the board, which includes setting and monitoring the group's risk appetite (which includes risk limits) and oversight of the ERMF, duly assisted by its board committees. At executive management level the Group Exco is also assisted with its risk, strategic and operational responsibilities by eight sub-committees.

The ERMF thus facilitates effective challenge and debate at executive management and board levels, and strong interaction across the group between the businesses and central group services. This includes an ongoing process of risk identification, review and assessment, including formal documentation of this, which is subjected to review by External Audit.

A formal process is in place to, at least annually, review the full set of risk policies, limits and various frameworks which comprise the ERMF.

An overview of Nedbank Group's ERMF, including the 17 key risks that comprise the group's risk universe and the risk governance structures, is provided on the next page.

OVERVIEW OF NEDBANK GROUP'S ENTERPRISE-WIDE RISK MANAGEMENT FRAMEWORK (ERMF) (as at 30 June 2009)

Risk Universe

Accounting and Taxation Risks	Operational Risk	Insurance & Assurance Risk	New Business Risk	Liquidity Risk	Capital Risk	Market Risk: Trading Book	Market Risk: Banking Book	Investment Risk	Information Technology Risk	Credit Risk	Compliance Risk	Strategic Risk	Reputational Risk	Transformation Risk	Social & 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 also assisted by eleven subcommittees.
- The Chief Risk Officer Reports to the Chief Executive, who has ultimate individual accountability for risk.
- Group Risk Division 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 the businesses and GT and for all major risk types.

1st Line of Defence

Board of Directors

Board Committees

- Group Audit Committee
- Group Finance and Oversight Committee
- Group Risk and Capital Management Committee
- Board Strategic Innovation Management Committee
- Group Credit Committee
- Directors' Affairs Committee
- Transformation & Sustainability Cte
- Group Remuneration Committee

Group Executive Committee (Group Exco)

Group Exco Committees

- Group Operational Committee (OPCOM)
  - Executive Taxation Committee
  - Brand Committee
- Business Risk Management Forum
- Group ALCO & Executive Risk Management Committee
  - Property Strategy Committee
  - Group Procurement Committee
- Executive Strategic Innovation Management Cte
- Executive Credit Committee
  - Group OPCOM
- Business Risk Management Forum
- Group Operational Committee (OPCOM)
- Transformation and Human Resources Executive Committee
  - BEE Forum

Business Clusters' Risk Governance

NEDBANK BUSINESS BANKING, NEDBANK CORPORATE, NEDBANK CAPITAL AND NEDBANK RETAIL

- Cluster and business unit EXCOs, Divisional Credit Committees (DCCs), Trading Risk Committees 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 direct to Head of Risk/Divisional Director Risk Management

Support Areas

HUMAN RESOURCES, GROUP TECHNOLOGY, GROUP STRATEGY AND CORPORATE AFFAIRS

Central Financial Risk and Capital Management

Group Finance Division

Chief Financial Officer – Mike Brown

GROUP CAPITAL MANAGEMENT AND BASEL II	Trevor Adams
GROUP ALM	Mike Davis
GROUP TAX	Dave Hammond
FINANCIAL & MANAGEMENT ACCOUNTING	Darryl McMullen
GROUP SHARED SERVICES CENTRE	Ian Fuller
REGULATORY REPORTING & CENTRAL ACCOUNTING	David Crewe-Brown
GROUP PLANNING AND ALIGNMENT	Wayne McAdam
INVESTOR RELATIONS	Don Bowden
RISK, COMPLIANCE AND SARB RELATIONS	Lionel Diakanyo
PROJECT ACCOUNTING	Luigi Bianco

2nd Line of Defence

Independent group risk, governance and compliance

Independent functions for Group Policy, risk monitoring, model validation and challenge.

Championing of Enterprise-wide Risk Management and 'worldclass at managing risk'

Group Risk Division

Chief Risk Officer – Philip Wessels

GROUP RISK SERVICES	Nick Jacobs
GROUP LEGAL AND INSURANCE	Willem Kruger
ENTERPRISE-WIDE RISK MANAGEMENT	Sheralee Morland
GROUP OPERATIONAL RISK MANAGEMENT	Andy Mothibi
GROUP CREDIT RISK MONITORING	Johan Theron
GROUP MARKET RISK MONITORING	Anny Pachyannis-Alman

GROUP ENTERPRISE GOVERNANCE AND COMPLIANCE

CHIEF GOVERNANCE AND COMPLIANCE OFFICER Selby Baqwa

3rd Line of Defence

Internal and External Audit

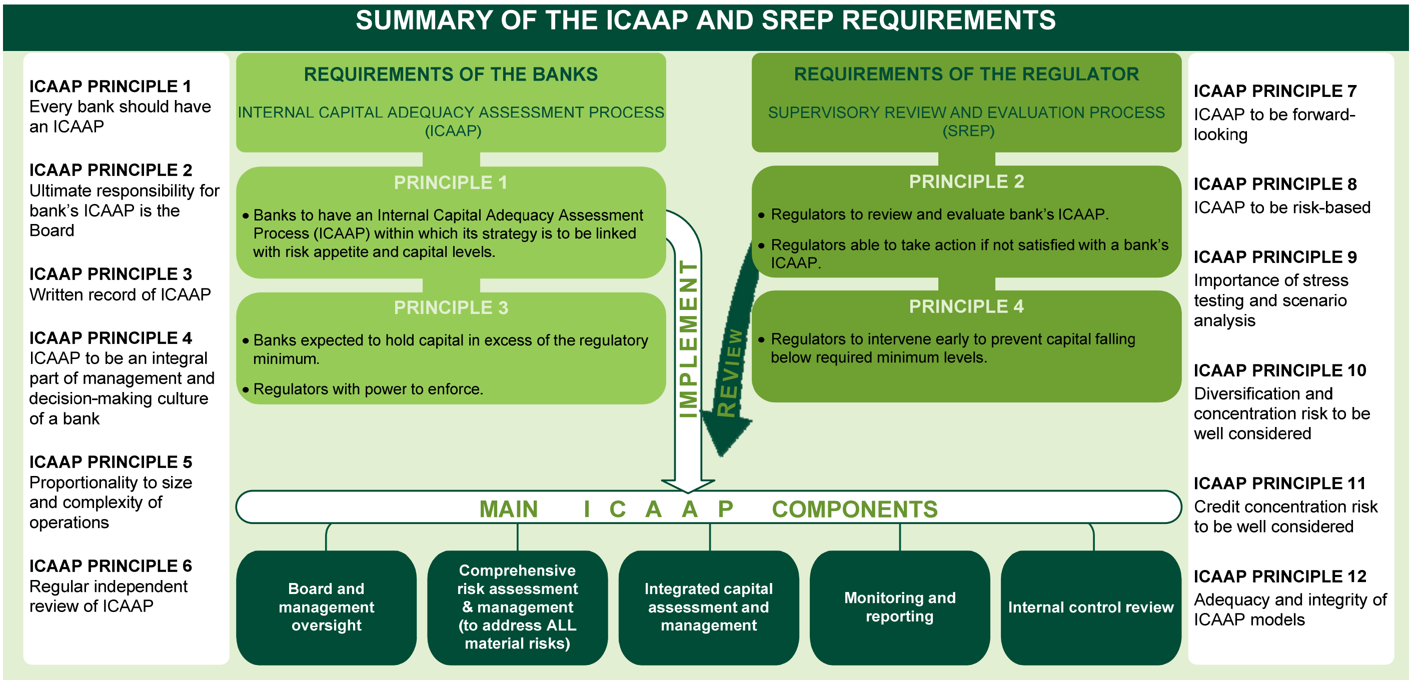
Independent Assurance

- GROUP INTERNAL AUDIT
  - CHIEF INTERNAL AUDITOR
- EXTERNAL AUDIT
  - DELOITTE
  - KPMG

Overview of the Internal Capital Adequacy Assessment Process (ICAAP)

In line with the four key principles contained in Pillar 2 of Basel II, the South African regulations relating to banks set out in regulation 39 the Internal Capital Adequacy Assessment Process (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, SARB have provided further guidance in the form of Position Paper 230 ('Implementation of the Basel II framework Pillar 2 requirements, with specific reference to the Internal Capital Adequacy Assessment Process'), which in turn specifies 12 'ICAAP principles', and Position Paper 162 ('Framework for the setting of individual capital requirements').



The main purpose of ICAAP is about Nedbank's approach, assessment and management of risk and capital from an internal perspective that is over and above the minimum regulatory rules and capital requirements of Basel II.

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: -

- Basel II regulatory capital (risk sensitive but with limitations / restrictions)
- Economic capital (risk sensitive, more economic-based and tailored internally 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 Basel II and economic capital requirements)
- Qualifying capital and reserves (to cover regulatory capital requirements)
- Available financial resources (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 BANK'S RISKINESS (capital requirements)		ACTUAL CAPITAL HELD (capital resources)
Basel II Regulatory Capital	**Economic Capital**	**Available Book Capital (statutory)**
• Amount of capital required to protect the bank against **regulatory insolvency** over a one year timeframe • Determined based on regulatory rules (ie Basel Accord, Banks Act and Regulations) • Designed mainly to protect depositors and creditors • Pillar 1 is rules based and acts as the minimum capital requirements, which triggers action by the regulators as necessary under Pillar 2 • Pillar 2 then creates the bank specific, internal link to ICAAP and the regulator's SREP	• Amount of capital required to protect the group against **economic insolvency** over a one year timeframe • Based on desired level of confidence/target debt rating set internally • A comprehensive internal capital assessment that aligns more closely with 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, RAPM, Value Based Management, and the bank's ICAAP.	• Net asset value, adjusted to be consistent with the two measures of required capital (regulatory and economic) to arrive at 'Available Financial Resources' 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 pre-determined 'capital buffer'
Minimum capital you are told to have by regulators	**Internal capital assessment**	**Capital you actually have** Qualifying capital (RegCap) | Available Financial Resources (ECap)

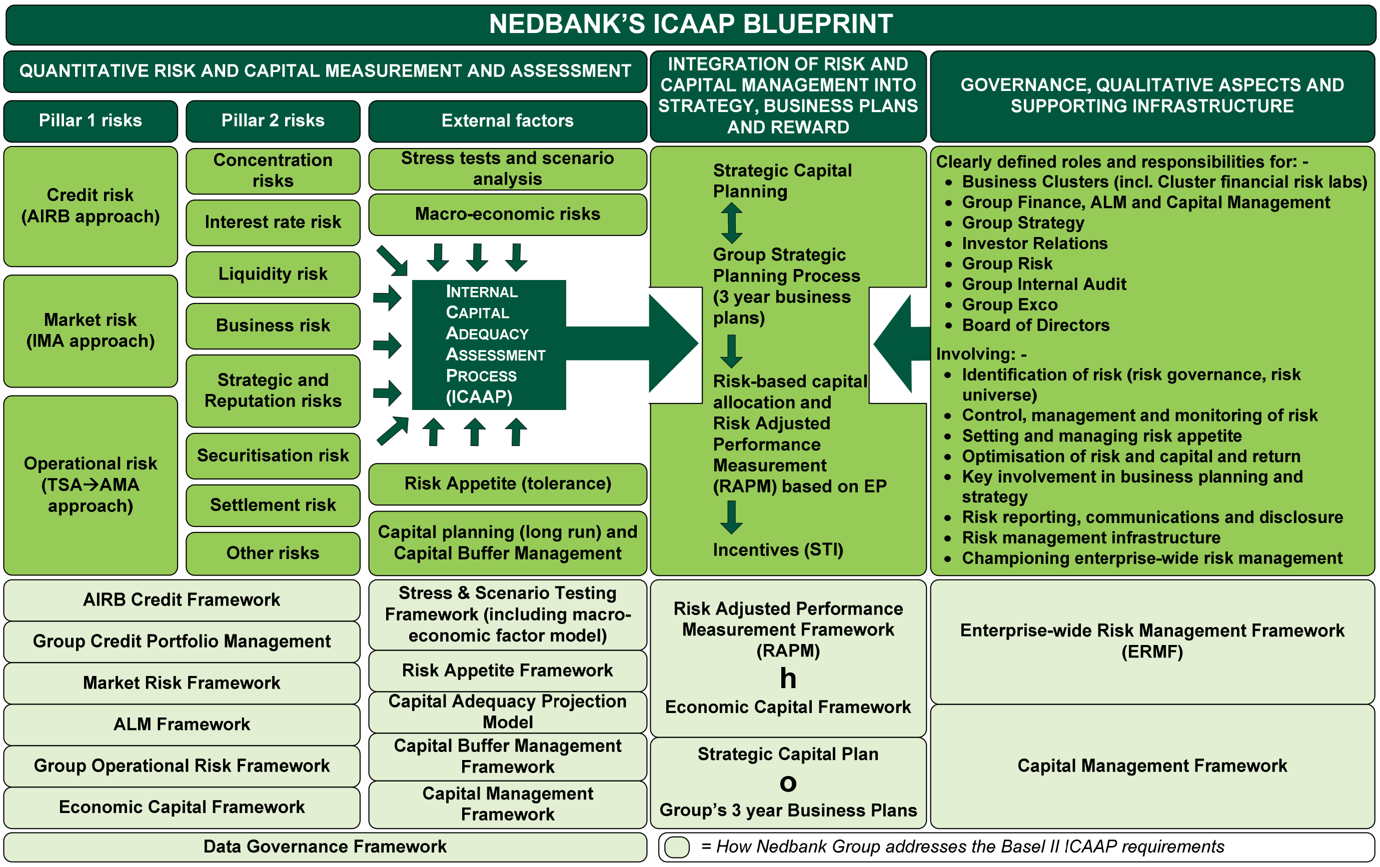
INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Separate ICAAP's are required for each banking legal entity and for the consolidated Nedbank Group. Size and materiality play a major role in the extent of each bank's ICAAP.

SARB use the ICAAP reports as major components of their Supervisory Review and Evaluation Process (SREP) in deciding on, inter alia, what Nedbank's Pillar 2b capital add-on will be.

Nedbank's ICAAP has been embedded within our Capital Management Framework since it was first approved by the Board of Directors in 2006.

Nedbank's ICAAP blueprint below sets out our 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's capital adequacy in relation to its risk profile.

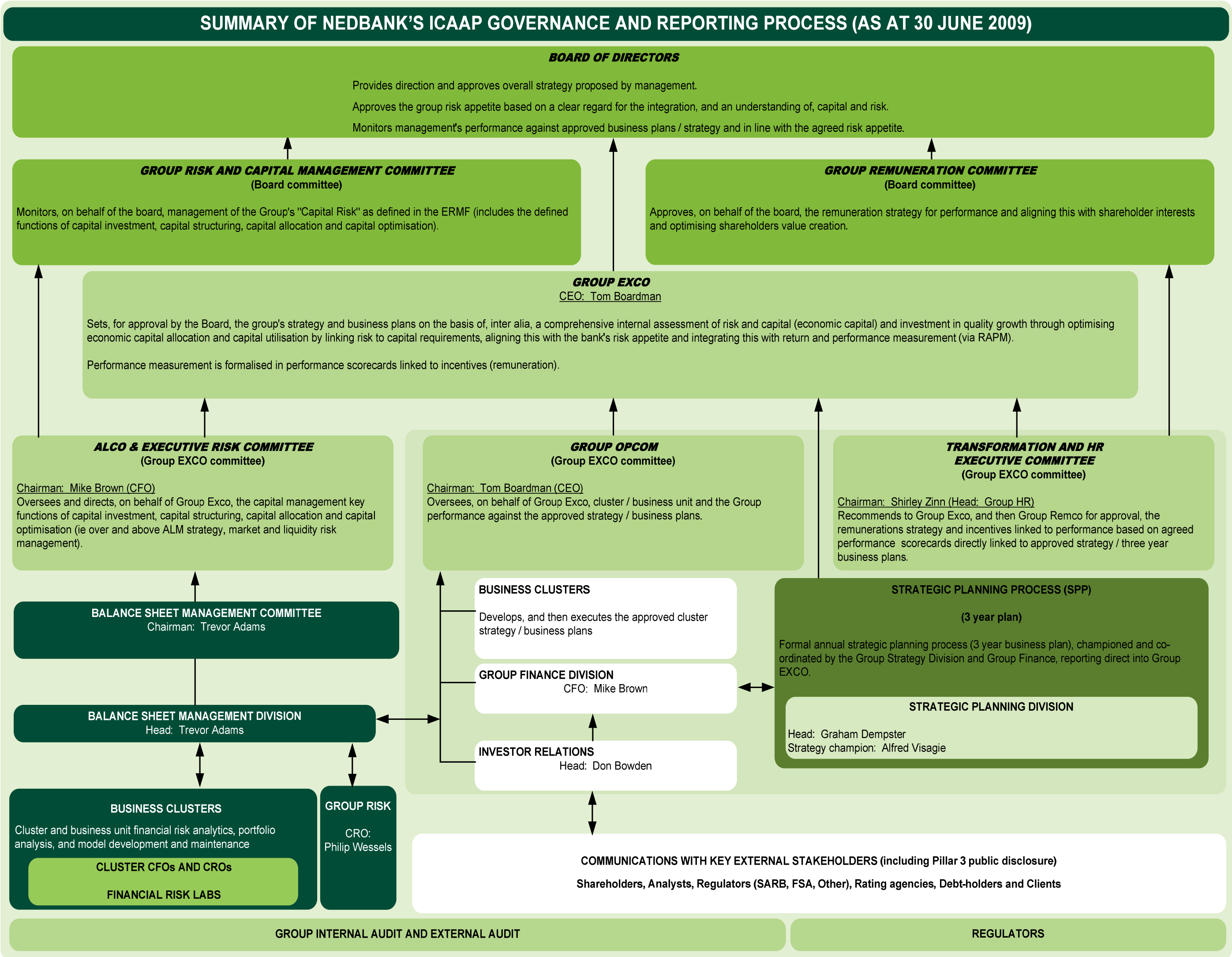


The foundations of Nedbank's ICAAP, Capital Management Framework and ERMF are a strong and rigorous governance structure and process as discussed earlier. The ERMF is actively maintained, updated and regularly reported on up to board level, co-ordinated by the ERMF division in Group Risk. This same governance process is followed for Nedbank's ICAAP and involves key participants from business, finance, risk, capital management and internal audit, as well as the relevant Exco committees, board committees and the board.

Further detail on the group's capital management is covered from page 108.

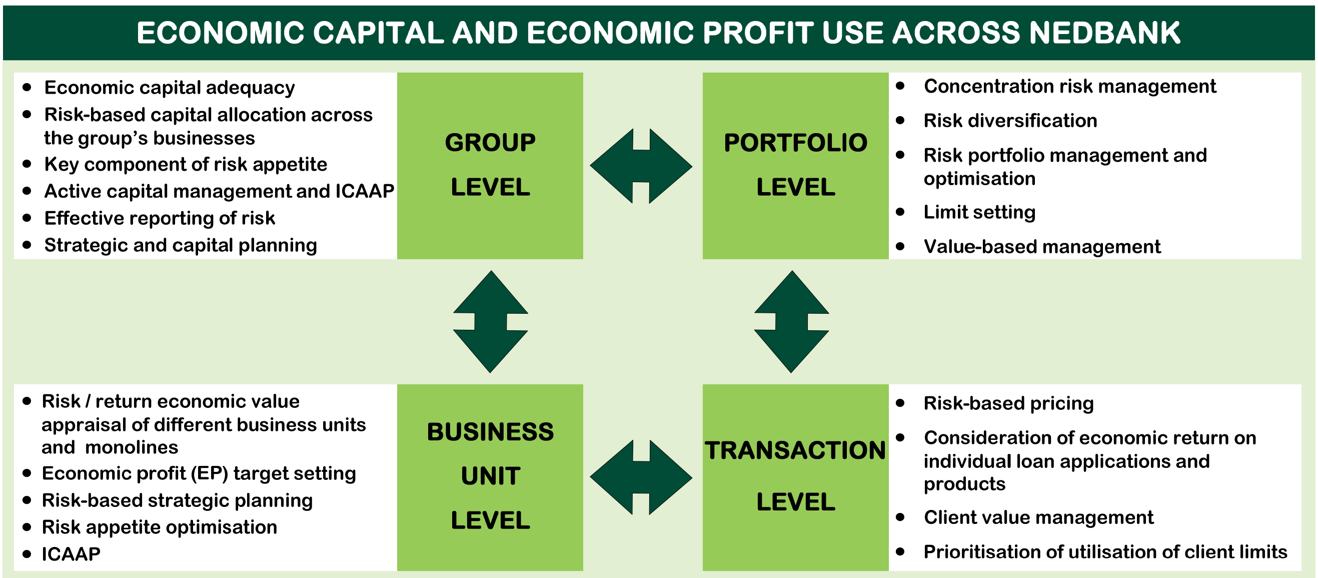
The ultimate responsibility for the ICAAP rests with the board of directors. The risk and capital management responsibilities of the board and Group Exco are incorporated in their respective terms of reference (charters) contained in the ERMF. They are assisted in this regard, and in overseeing the group's capital risk (defined in the ERMF), by the board's Group Risk and Capital Management Committee and the ALCO and Executive Risk Committee (Group ALCO) respectively.

Group ALCO, in turn, is assisted by the Group Capital Management and Group ALM divisions, and the Capital Management Committee (sub-committee of Group ALCO).



Engrained in running the business

Our risk and capital management, and so economic capital too, are embedded in the grain of the organisation and the way the business is managed. This is summarised below.



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) and upside potential (earnings growth). Nedbank assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital within nine quantifiable risk categories, as summarised on page 99.

All of Nedbank's quantifiable risks, as measured by our economic capital, are then allocated back to the businesses in the form of an economic capital allocation to where the assets or risk positions reside / originate.

Economic capital not only facilitates an apples-to-apples measurement and comparison of risk across businesses but, by incorporating it into performance measurement, we are able to measure and compare the performance of each business on an absolute basis using economic profit (EP) and relative percentage return basis, of return on risk adjusted capital (RORAC) and risk adjusted return on capital (RAROC), by comparing these measures against the group's cost of capital.

Currently, EP and RORAC are used interchangeably as the primary measure for performance measurement at Nedbank. In the calculation of RORAC, 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 diagram below.

The RAROC measure is calculated using both risk-adjusted return and capital and is also reported internally as a secondary performance measure at Nedbank. In order to derive the risk adjusted earnings, impairments are replaced with expected loss. 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 measures of return that provide a longer term view and incentivisation of profitability.

EP = IFRS earnings – (Hurdle rate * ECap)	**RORAC (%) = (IFRS earnings + Capital Benefit) / Economic Capital**
• Value is created if EP >0 • EP is a core metric for shareholder value-add • If capital is unconstrained, all business with EP > 0 should be grown subject to established hurdle ranges • No information on the marginal percentage return on economic capital which RORAC provides	• Value is created if RORAC > hurdle rate • If capital is scarce, businesses with the highest RORAC (i.e. highest marginal return per rand of economic capital) should be prioritised in line with strategic intent • No information on magnitude of value being created for shareholders which EP provides

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

Economic capital, economic profit, RORAC and RAROC and other important metrics are included in performance scorecards across the group. The key financial performance indicator (KPI) is economic profit driven off risk-based economic capital, while other measures such as RAROC are used as important secondary measures.

Risk is thus an integral component of capital allocation and performance measurement (and reward) in Nedbank.

OVERVIEW OF THE MAJOR RISKS IMPACTING NEDBANK AND THE RISK MANAGEMENT THEREOF

Nedbank's risk and capital management frameworks enable us to identify, measure, manage, price and control our material risks and risk appetite, and then relate these to capital requirements to ensure our capital adequacy and sustainability

Nedbank's risk universe is defined, actively managed and monitored in terms of our ERMF, in conjunction with the Capital Management Framework and its sub-frameworks, including economic capital, as discussed earlier.

A summary table of the key risk types impacting the group is provided below which 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 then follows.

Major risk categories	ERMF'S 17 key risk types	Economic capital (ICAAP) risk types (see page 99)
Capital risk	**Capital risk**	Is the aggregation of all risk types below (refer page 108)
Credit risks	**Credit risk**	✓
	Underwriting (lending) risk	✓ (combined as 'credit risk')
	Transfer (sovereign) risk	✓
	Counterparty credit risk	✓ (combined as 'credit risk')
	Securitisation risk	✓ (combined as 'credit risk')
Liquidity risk	**Liquidity risk**	n/a (refer page 101)
Market risks	**Market risk** in the **trading book**	✓
	Market risk in the **banking book**	✓
	Interest rate risk in the banking book	✓
	Foreign currency translation risk in the banking book	✓
	Investment risk	✓
	Equity risk in the banking book	✓
	Property risk	✓
Operational risks	**Operational risk**	✓
	Accounting and Taxation risks	✓ (covered by operational risk)
	Compliance risk	✓ (covered by operational risk)
	Insurance and assurance risks	✓ (covered by operational risk)
	People risk	✓ (covered by operational risk)
	Information technology risk	✓ (covered by operational risk)
Business risks	**Transformation risk**	✓ (covered by business risk)
	New business risk	✓ (covered by business risk)
	Reputational risk	n/a (refer page 97)
	Social and environmental risks	✓ (covered by business risk)
	Strategic risk	✓ (covered by business risk)
	People risk	✓ (also covered by business risk)
	Information technology risk	✓ (also covered by business risk)

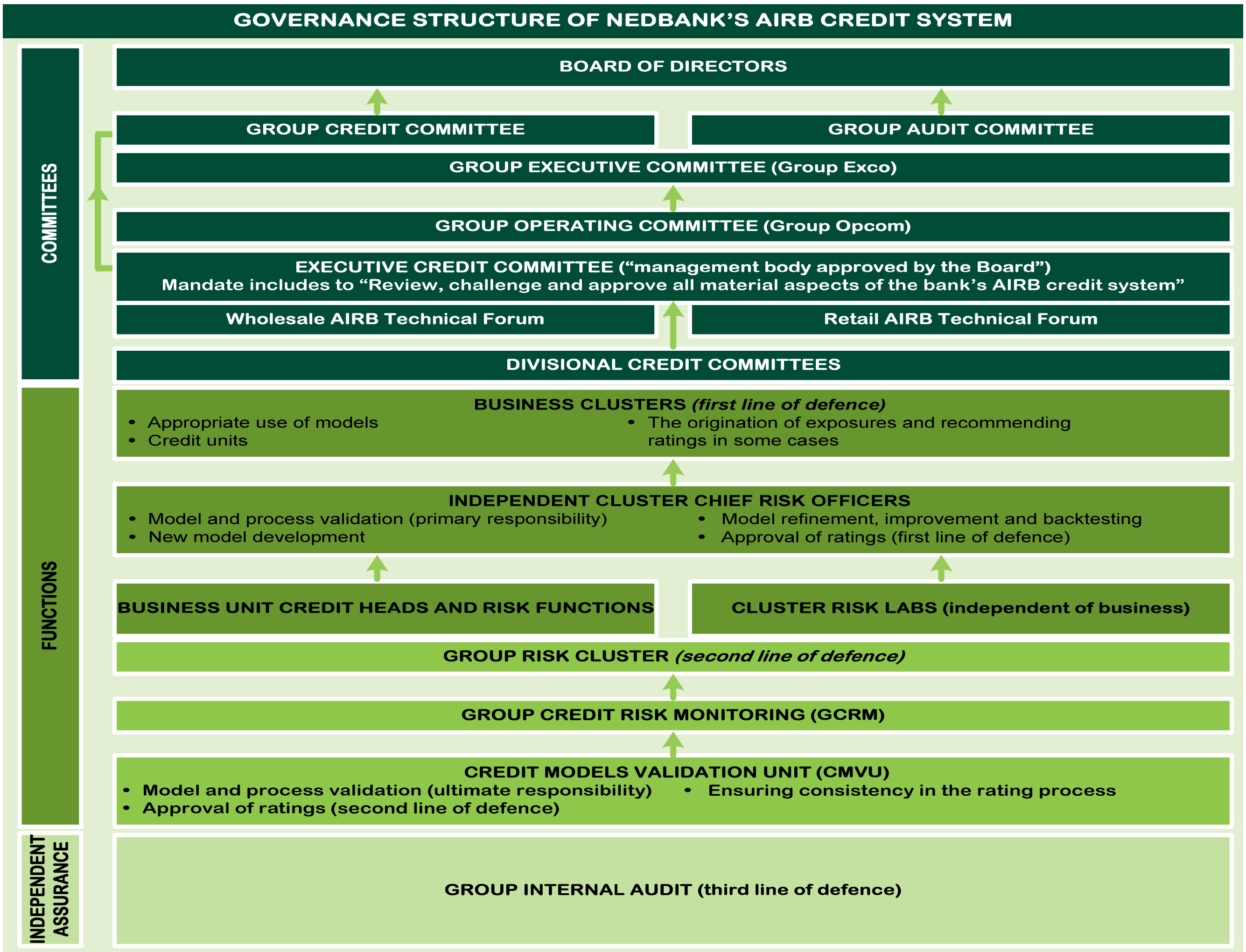
n/a = not applicable to economic capital

Credit risk

Credit risk strategy, governance structures and processes

Credit risk arises from lending and other financing activities that constitute the group's core business. It is by far the most significant risk type and accounts for over 60% of the group's economic capital requirement and 79% for regulatory capital.

One of the major investments by Nedbank in risk in recent years has been to elevate its credit risk management to best practice. This, together with our strong client service focus, not only positioned Nedbank to achieve appropriate growth and returns, but also to obtain approval from SARB for the AIRB approach for credit risk.



Credit risk is managed across the group in terms of its board-approved Group Credit Risk Management Framework (GCRF), which encompasses comprehensive credit policy, mandate limits and governance structures. It is a key component of the group's ERMF, Capital Management and Risk Appetite Frameworks discussed earlier.

The GCRF, which covers the macrostructures for credit risk management, monitoring and approval mandates, includes the Executive Credit Committee (ECC), its two AIRB technical forums and a Group Credit Ad Hoc Ratings Committee.

The ECC is the designated committee appointed by the board to monitor, challenge and ultimately approve all material aspects of the bank's AIRB credit rating and risk estimation processes.

In this regard the board and its Group Credit Committee (GCC) are required by the Basel II regulations to have a general understanding of the AIRB credit system and the related reports generated. They also need to ensure the independence of the bank's credit risk control unit, the Credit Models Validation Unit (CMVU) and the effective functioning of the ECC.

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.

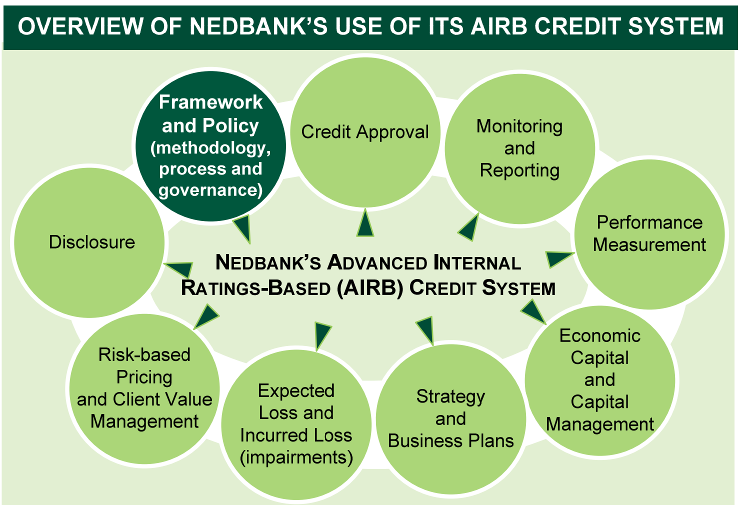
Management needs to ensure the effective operation of the AIRB credit system assisted by the independent credit risk control units.

Divisional credit committees (DCCs), with chairpersons independent of the business units, operate for all major business units across the group. The DCCs are responsible for approving and recommending credit and credit policy, as well as reviewing divisional-level credit portfolios, parameters, impairments, expected loss and credit capital levels.

An independent Group Credit Risk Monitoring (GCRM) unit is part of Group Risk. It champions the ongoing enhancement of credit risk management across the group, the GCRF and AIRB credit system, monitors credit portfolios and reports to executive management, DCCs, ECC and ultimately the board's GCC on a regular basis. As part of GCRM the CMVU has overall responsibility for the ongoing championing of the Basel II AIRB methodology across the group and ensuring consistency in the rating processes as well as ultimate responsibility for independent model validation.

In each of the four business clusters credit risk management functions operate independently of credit origination, reporting into the cluster head of risk, who in turn reports to the cluster managing director. In line with the Basel II AIRB methodology each cluster has implemented economic capital quantification and economic profit performance measurement. Each cluster also has cluster credit risk labs that are responsible for the ongoing expert design, implementation, validation and performance of their business cluster's internal rating systems, with input and oversight by the CMVU.

The AIRB credit system is used for the following major aspects of Nedbank's business and risk management:



Group credit policy incorporates the relevant credit risk principles stipulated in the revised regulations related to banks as well as best practice. This policy is implemented across the group with detailed and documented policies and procedures, suitably adopted for either the retail, commercial or corporate business units, and 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.

In respect of credit approvals, knowing the client, identifying and understanding risks and having an adequate free cashflow to service the loan remain key drivers in granting good credit. Following credit approval, all facilities / portfolios are subject to an ongoing credit risk management process, which is reviewed annually. In terms of this process credit exposures are identified, classified, measured, managed, controlled and monitored on a continuous basis and regularly reported on. There is considerable emphasis on the early identification of high-risk loans which, together with a pro-active intervention and work out approach, ensures an acceptable cure rate of such loans. In addition, renewed focus on the risk / reward relationship and the resultant pricing for risk ensure that credit risk is managed within the predetermined credit risk appetite for the group.

Nedbank assesses the adequacy of impairments on a monthly basis. Specific impairments are created in respect of non-performing advances where there is objective evidence that all amounts due will not be collected. Portfolio impairments are created in respect of performing advances based on historical evidence and trends of losses in each component of the performing portfolio, in line with IFRS. Careful consideration is given to the AIRB credit rating system, NGRs and NTRs ratings, as well as rating migrations. Best estimate of expected loss for the impaired portfolios is compared with specific impairments on a monthly basis to ensure alignment.

The ratings and associated PDs are applied for different conventions. Point-in-time (PIT) PDs are used to estimate the default expectations under the current economic cycle, as required for determining IFRS impairments, whereas through-the-cycle (TTC) PDs reflect a one-year forward estimate based on a long-term average through an economic cycle and are used for the group's regulatory and economic capital calculations.

Expected loss (EL) is a forward-looking measure, on a through-the-cycle basis (ie the long-run average) of the statistically estimated credit losses on the performing portfolios for the forthcoming 12 months. For Nedbank's active portfolio, portfolio impairment and specific impairment for impaired advances estimated using the point-in-time methodology are based on emergence periods that are 12 months or less. Specific impairments are estimated for the impaired portfolio and added to portfolio impairments which then constitute the total impairments for the credit portfolio. The total EL and the total impairments are compared and should the total EL for the AIRB credit portfolio be higher than the total impairments the difference is subtracted from qualifying capital. Should the total impairments be higher than the EL the difference is added to qualifying capital up to a maximum of 0,6% of credit RWA's.

In the case of the defaulted portfolio a best estimate of expected loss (BEEL) is calculated and generally is the specific impairment for that exposure. The BEEL / specific impairment takes the current economic and business conditions into regard as well as the counterparty's current circumstances. It is typically a point-in-time estimate. LGD estimation for defaulted exposures is updated and this is compared to the BEEL. Normally no capital is held for defaulted exposures due to the specific impairment that should provide for any possible losses. Where LGD exceeds BEEL it is considered an unexpected loss and the difference is then the required capital for the defaulted portfolio.

The generic methodological differences between EL estimation and IFRS impairment are summarised in the table below:

Key Parameters	Basel II	IAS39
PDs		
Intention of estimate	• Conservative estimate of PD within next 12 months	• Best estimate of likelihood and timing of credit losses over life of loan
Period of measurement	• Long-run historical average over whole economic cycle – 'TTC'	• Should reflect current economic conditions – 'PIT'
LGDs		
Intention of estimate	• Conservative estimate of discounted value of post-default recoveries	• Conservative estimate of discounted value of post-default recoveries
Treatment of collection costs	• Recoveries net of direct and indirect collection costs	• Recoveries net of direct cash collection costs only
Discount rate	• Recoveries discounted using entity's cost of capital	• Cash flows discounted using instrument's original effective interest rate
Period of measurement	• Reflects period of high credit losses • Downturn LGDs required	• Should reflect current economic conditions – 'PIT'
EL		
Basis of exposure	• Based on EAD, which includes unutilised facilities	• Based on actual exposure (on and off balance sheet)

Credit risk mitigation and the provision of collateral is generally negotiated to protect the group against the effect of unforeseen circumstances. It needs to be stressed, though, that the primary consideration in the assessment of any lending opportunity remains the borrower's financial position and ability to repay from its own resources and cashflow. Collateral mitigates the overall risk of an exposure and it affects pricing due to the fact that collateral provided will decrease the LGD of an exposure.

Collateral obtained to mitigate credit risk is contracted, documented and safely stored. This information is loaded in Nedbank's electronic collateral management system that is integrated with our exposure management system and linked to borrower facilities. The borrower rating data together with exposure, facility and collateral data is used in our Credit Risk Calculation Engine (CRCE) to calculate all the relevant credit risk parameters used for calculating regulatory and economic capital requirements. The typical collateral loaded in the collateral system is sureties, guarantees, mortgage bonds, fixed deposits, moveable assets, etc.

Other forms of credit risk mitigation that take place are on- and off-balance sheet netting and set-off. Off-balance sheet netting usually occurs in the over-the-counter (OTC) environment whilst set-off and on-balance sheet netting takes place in the banking book.

Other policies and principles well articulated in the group's credit policy are the definitions of past due, default, impaired and non-performing loans and advances, as well as specific and portfolio impairments.

Key definitions:

- *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).

- *Definition of a 'defaulted advance'*

  Any advance or group of loans and advances that has triggered the Basel II definition of default criteria and which is in line with the revised South African banking regulations, effective 1 January 2008. 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 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.

  At a minimum, a default is deemed to have occurred where, for example, a specific impairment is raised against a credit exposure due to a significant perceived decline in the credit quality, a material obligation is past due for more than 90 days or an obligor exceeded an advised limit for more than 90 days.

- *Definition of 'impaired advances and specific impairments'*

  Impaired loans and advances are defined as loans and advances in respect of which the bank has raised a specific impairment (accounting / IFRS 39 definition). A specific impairment is raised in respect of an asset that has triggered a loss event where the collateral held against the advance is insufficient to cover the total expected losses. Such a loss event may be, for example, significant financial difficulty of the issuer or obligor, a breach of contract, such as a default or delinquency in interest or principal payments, with ageing arrears as the primary driver.

- *Definition of '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 which may have an impairment without the bank yet being aware of it. A period of time will elapse between the occurrence of an occurred 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. Alternatively the portfolio impairment is known as the impairment calculation based on 'incurred but not yet reported' (IBNR) methodology.

- *Definition of 'non-performing loans and advances'*

  Non-performing loans and advances are the same as defaulted loans and advances (as defined above).

Credit risk approaches group-wide

For credit risk, the following Basel II regulatory approaches have been fully adopted by Nedbank Group, in the various subsidiaries:

Subsidiary	Approach	Description of banking activity	Total credit extended (size relative to total group)
			%
Nedbank Limited	Advanced IRB (AIRB)	Full commercial banking (wholesale and retail)	88
Imperial Bank Limited	Standardised	Commercial and retail banking	8
Nedbank (Namibia) Limited	Standardised	Commercial and retail banking	<1
Nedbank (Swaziland) Limited	Standardised	Commercial and retail banking	<1
Nedbank (Lesotho) Limited	Standardised	Commercial and retail banking	<1
Nedbank (Malawi) Limited	Standardised	Commercial and retail banking	<1
Fairbairn Private Bank (IOM) Limited	Standardised	Private banking	1
Fairbairn Private Bank Limited	Standardised	Private banking	<1
			100

All credit exposure and asset classes in Nedbank Limited are covered by the AIRB approach. All the other subsidiaries are under the Standardised Approach and there is currently no intention to migrate them to AIRB in the near future.

The above Basel II regulatory approaches all carry the formal approval of SARB.

However, for credit economic capital, across the entire group we apply conservative AIRB credit parameter benchmarks for subsidiaries other than Nedbank Limited (where actual derived estimates are obviously used). Nedbank Group's credit economic capital is separately derived by integrating the same key Basel II AIRB credit risk parameters with Nedbank's sophisticated CPM. The CPM takes portfolio concentrations and diversifications into account. Further detail on Nedbank's Credit Economic Capital methodology is provided on page 68.

Credit risk measurement and reporting systems

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

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

- expected loss (EL), which is a 12-month estimate based on the long-run annual average level of credit losses through a full credit cycle based on time series data history
- unexpected loss (UL), which is the annualised volatility of expected losses for credit risk.

Analytically, EL and UL are defined respectively as the average and one standard deviation from that average of the distribution of potential losses inherent in the bank's credit portfolio.

These statistically estimated losses are determined by the key Basel II AIRB credit risk parameters, namely probability of default (PD), exposure at default (EAD), loss-given default (LGD) and maturity (M). These, together with the Basel II capital formulae, culminate in the Pillar 1 minimum regulatory capital requirements for credit risk.

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

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

NEDBANK'S PD MASTER RATING SCALE (NGR RATINGS) – INTERNATIONAL SCALE					
			PD band (%)		
Rating category	Rating grade	Geometric mean (%)	Lower bound (PD>)	Upper bound (PD≤)	Mapping to Standard and Poor's grades
Performing	NGR 01	0,010	0,000	0,012	AAA
	NGR 02	0,014	0,012	0,017	AA+
	NGR 03	0,020	0,017	0,024	AA
	NGR 04	0,028	0,024	0,034	AA-
	NGR 05	0,040	0,034	0,048	A+
	NGR 06	0,057	0,048	0,067	A+ to A
	NGR 07	0,080	0,067	0,095	A to A-
	NGR 08	0,113	0,095	0,135	A- to BBB+
	NGR 09	0,160	0,135	0,190	BBB+
	NGR 10	0,226	0,190	0,269	BBB+ to BBB
	NGR 11	0,320	0,269	0,381	BBB to BBB-
	NGR 12	0,453	0,381	0,538	BBB-
	NGR 13	0,640	0,538	0,761	BBB- to BB+
	NGR 14	0,905	0,761	1,076	BB+ to BB
	NGR 15	1,280	1,076	1,522	BB
	NGR 16	1,810	1,522	2,153	BB to BB-
	NGR 17	2,560	2,153	3,044	BB- to B+
	NGR 18	3,620	3,044	4,305	B+
	NGR 19	5,120	4,305	6,089	B+ to B
	NGR 20	7,241	6,089	8,611	B to B-
	NGR 21	10,240	8,611	12,177	B to B-
	NGR 22	14,482	12,177	17,222	B- to CCC
	NGR 23	20,480	17,222	24,355	CCC
	NGR 24	28,963	24,355	34,443	CCC to C
	NGR 25	40,960	34,443	100	CCC to C
Non-performing	NP 1	100	100	100	D
(defaulted)	NP 2	100	100	100	D
	NP 3	100	100	100	D

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 a low risk corporate or high risk individual borrower. The principal benefit thereof is that comparisons can be made between the riskiness of borrowers making up various portfolios. A brief explanation of the scale follows.

NGR01 to NGR20 reflect a profile of credit risk starting with very low risk borrowers with a PD as low as 0,01%, to risky borrowers with a default probability as high as approximately 8%.

NGR21 to NGR25 represent very high risk borrowers with default probabilities of 10% or more. While many banks would generally not knowingly expose themselves to this degree of risk, these rating grades exist for four reasons:

- Being 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 – for example, a marginal going concern with existing loans but a strong business plan
- It caters 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 ratings on the scale 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 moneys owing and NP3 is for long term legal cases, exceeding a period of 12 months.

Basel II specifically requires that AIRB banks maintain two ratings, one measuring the probability of the borrower defaulting and the second considering facility characteristics. The NTR table below reflects EL 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.

NEDBANK'S EL TRANSACTION RATING SCALE (NTR)		
	EL 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) in 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.

Both rating scales are based on the requirements of Basel II, namely that defaults that are 90 days or more past due date be consistently recognised across the group as exposures, unless there are other qualitative considerations that render default classification prior to that point. All estimates are also based on a through-the-cycle (TTC) view of risk. Basel II requires banks to base their LGD estimates for regulatory capital requirements on a downturn scenario (ie downturn LGD), rather than an average TTC loss estimate. Downturn LGD thus represents what could be expected in downturn economic conditions in the trough of a business cycle.

Our approach is also consistent with the Basel II requirement that risk estimates be based on a bank's long-run default history. Nedbank also calculates 'point in time' (PIT) measures, based on current economic conditions. These are incorporated in business decision making as well as in determining appropriate levels of impairment in accordance with the requirements of IFRS as discussed earlier.

The new methodologies, afforded Nedbank Group as a result of its AIRB credit system and other significant investments in CPM and economic capital, contribute significantly to considerable risk intelligence for use in pricing, loan approval and client value management.

Credit risk reporting across the bank 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 therefore.

The level of reporting, based on the new AIRB rating system, is comprehensive and consistent, and provides significant insight into credit risk across the businesses and the group, and has allowed Nedbank to make significant strides in the field of credit risk management in line with international best practice.

The bank's credit reporting systems generate reports on many different reporting categories that are uniform across the bank. The following main categories of reporting are covered:

- Credit risk asset growth and quality that include tables, graphs, and text that discuss trends and other observations
- Impaired and defaulted loans and advances, including security values
- Credit risk mitigation
- Adequacy of impairments
- Maturity analysis of the credit portfolio and how the observed trends will affect it
- Expected loss and impairment comparisons
- Actual write-offs in comparison with expected loss projections
- Distressed restructures
- Arrears, excesses, large exposures and watch list summaries
- Peer group comparisons
- Exceptions to credit policy
- Securitisation activities
- Distribution and migration across the NGR and NTR buckets
- Concentration risk
- Stress testing results
- Risk appetite – credit loss ratio and credit portfolio limits

Each of the above reporting categories has coinciding reporting templates and more detail is added to the reporting down the hierarchy of credit risk reporting forums (eg GCC to ECC to DCCs). These templates have been embedded in semi-automated fashion with the objective of having the regularly generated reports automated. The system is also designed to allow drill down and data mining for proper analysis of trends and causes at almost any level in the organisation.

Credit risk profile as at 30 June 2009

In the first quarter of 2009 the South African economy contracted at its fastest rate since the third quarter of 1984. The deterioration in the South African banking environment, as indicated in the group's first quarter trading update in May, was more severe than was anticipated at the time of the release of the 2008 financial results in February. The risk remains high that the recovery in economic growth may be slow and protracted, and that retrenchments will increase and house prices will continue to decline into the second half of the year.

While lower interest rates are positive for consumers - as reflected in the slower rate at which retail impairments are increasing - this has a negative impact on bank earnings in the short term. Wholesale banking, which has been resilient, even at the peak of the interest rate cycle, is starting to show increased signs of credit stress reflecting the economic strain being experienced by some clients.

Advances are 1,1% (annualised) lower than at December 2008, reducing from R434 billion to R432 billion at June 2009 with the reduction being mainly attributable to lower levels of trading assets flowing from a more cautious approach to risk appetite. Overall, growth has slowed down as result of subdued demand as well as the group's focus on more selective advances growth and improving margins.

The advances by division are as follows:

	Jun 2009 Rm	Dec 2008 Rm	Increase / (Decrease) (%)
Nedbank Capital	**43 897**	47 686	(16,1)
Banking activity	**38 679**	37 274	7,6
Trading activity	**5 218**	10 412	<(100)
Nedbank Corporate	**135 079**	136 222	(1,7)
Nedbank Business Banking	**52 354**	55 321	(10,8)
Nedbank Retail	**154 106**	150 107	5,4
Imperial Bank	**46 772**	44 734	9,2
Other	**(255)**	163	<(100)
Total	**431 953**	434 233	(1,1)

The group reduced its exposure to foreign correspondents, overnight loans and trading advances. Excluding these categories core banking advances grew by 5,7% (annualised) from December 2008. Home loans grew by 6,2% (annualised) and vehicle and asset finance loans by a more muted 1,9% (annualised) with market share increasing in both of these categories.

The credit loss ratio reflects the very tough economic conditions and increased to 1,57% for June 2009 compared to 0,96% for the same period in 2008 and 1,36% for the second half of 2008. It is encouraging that this ratio showed a slight improvement from the 1,67% reflected in the group's first quarter 2009 trading update. Given the recessionary environment, South African businesses are experiencing increased levels of stress which has resulted in higher levels of impairments in the wholesale advances books but within the through the cycle range for this sector.

The group's credit loss ratio is anticipated to remain above the medium- to long-term target range of between 0,55% and 0,85% for 2009 and 2010. Nedbank Group's long-run average EL range (on an EAD weighted basis) for its credit portfolio is estimated at 0,6% - 0,7%.

Defaulted advances increased by 94,8% (annualised) to R25 437 million from R17 301 million reported in December 2008 and total impairment provisions increased by 32,9% (annualised) to R9 142 million for the same period. Approximately R1 billion of the defaulted advances are technical in nature and are directly as a result of applying a reduced instalment to historic arrears balances as interest rates fall.

Management has maintained a strong focus on risk management and improving asset quality, particularly in retail home loans. Good progress has been made and average loan-to-value ratios for new home loans at grant stage have reduced to 80%.

The majority of the group's exposure to BEE and other loans and advances secured by shares continue to be within their default cover ratios. Loans and advances that are below these cover ratios continue to service their debts and are considered to have appropriate impairment provisions.

Initially the domestic economy was resilient during the international financial crisis but has increasingly succumbed to the effects of the global recession. Consequently we believe the recovery will be more protracted than previously anticipated, with gross domestic product (GDP) growth currently forecast by the group to decrease by 2,0% during 2009 with a modest expansion of 1,7% in 2010.

New business volumes in retail remain constrained by low levels of consumer confidence and consumer concerns around falling asset prices and increasing unemployment. Lower local demand, international trade activity and commodity prices together with the strong rand have increased the pressure on businesses and led to declining corporate demand and confidence.

In addition to the 400 basis point cut in interest rates this year to date, a further 100 basis point cut in interest rates is currently anticipated during the remainder of 2009. The reduced endowment effect on banking interest margins will increase during the second half, whilst a reversal in the impairment trend is currently only anticipated to begin to positively impact bank earnings growth in the next 12 to 18 months.

The group remains cautious in its outlook for the remainder of 2009 and performance is likely to reflect advances growth in the mid-single digits and with the group's credit loss ratio improving marginally from the 1,56% for the period to June 2009.

The tables below and on the following pages summarise Nedbank Group's advances portfolio, credit portfolio quality and level of impairments.

SUMMARY OF LOANS AND ADVANCES

Rm	Annualised % change	Jun 2009	Jun 2008	Dec 2008
Home loans	6,2	**147 732**	134 535	143 342
Commercial mortgages	2,7	**73 995**	65 076	73 031
Properties in possession	38,2	**941**	575	791
Term loans	1,9	**64 752**	45 789	64 144
Credit cards	(2,2)	**7 170**	7 486	7 248
Overnight loans	(46,6)	**12 127**	18 355	15 760
Overdrafts	13,9	**13 317**	13 781	12 461
Other loans to clients	(23,7)	**39 349**	52 737	44 581
Leases and instalment sales	1,9	**61 930**	57 237	61 362
Preference shares and debentures	11,9	**16 593**	12 112	15 667
Trade and other bills	<(100)	**433**	2 118	1 075
Reverse repurchase agreements	9,7	**2 756**	5 172	2 630
Gross loans and advances	(0,5)	**441 095**	414 973	442 092
Impairment of loans and advances	32,9	**(9 142)**	(6 902)	(7 859)
Net loans and advances	(1,1)	**431 953**	408 071	434 233

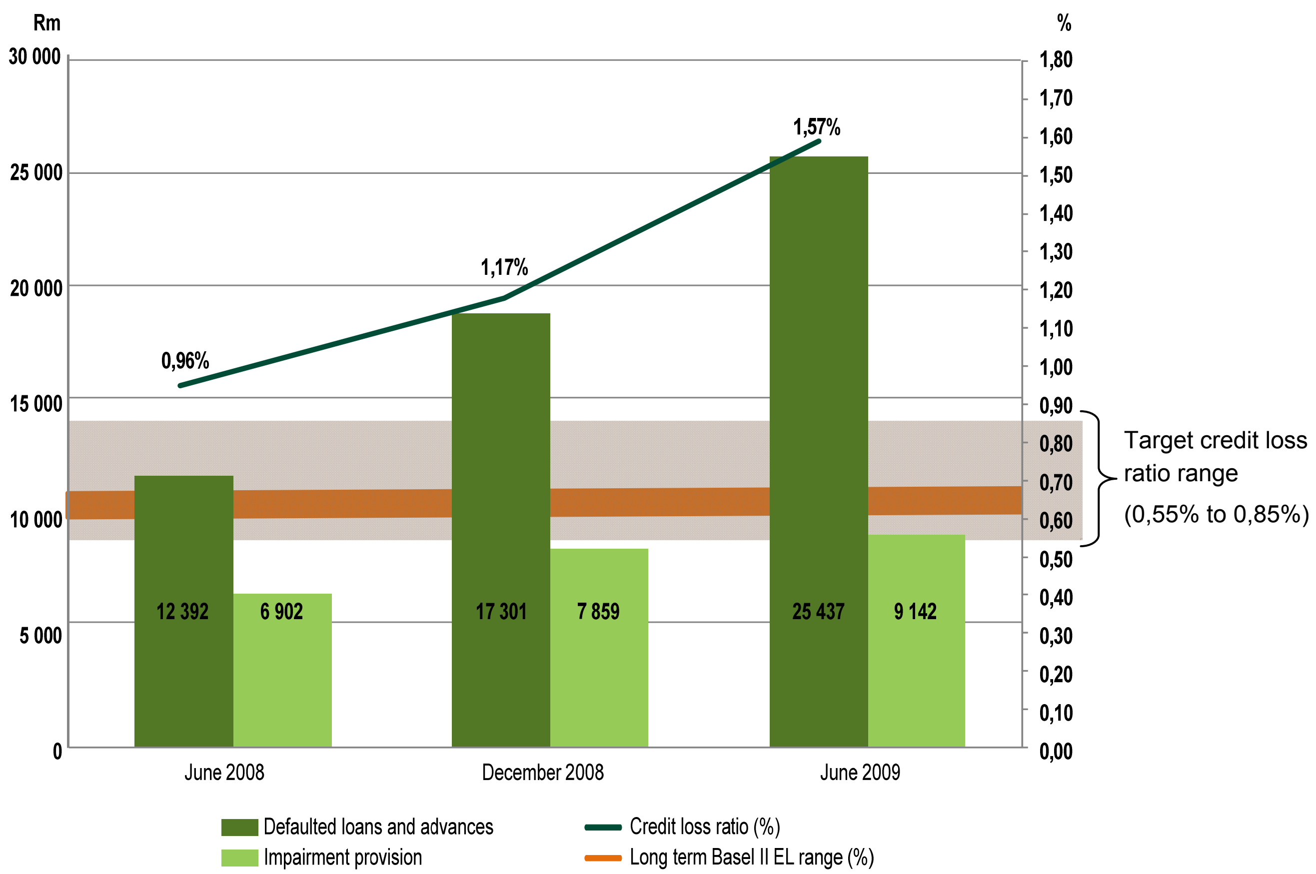
SUMMARY OF IMPAIRMENT CHARGE AND CREDIT LOSS RATIO (%)

	% of average loans and advances	Jun 2009	Jun 2008	Dec 2008
Impairment charge (Rm)		**3 435**	1 894	4 822
As % of NII		**42,0**	23,8	29,8
Nedbank Group		**1,57**	0,96	1,17
Nedbank Capital	12,1	**0,44**	0,12	0,06
Nedbank Corporate*	31,0	**0,25**	0,05	0,12
Nedbank Business Banking	12,6	**0,79**	0,34	0,59
Nedbank Retail	35,7	**3,00**	2,00	2,47
Imperial Bank	10,6	**2,50**	1,75	1,71

**** Comparatives restated to exclude Business Banking.***

NEDBANK GROUP

Summary of impairments vs defaulted loans and advances



(Refer page 29 for relevant definitions)

BALANCE SHEET CREDIT EXPOSURE[3] PER BASEL II ASSET CLASS AND BUSINESS CLUSTER								
Regulated Rm	Business Banking	Nedbank Corporate[2]	Nedbank Capital[2]	Nedbank Retail[2]	Imperial Bank	Central Mngmnt	Jun 2009	Dec 2008
Advanced Internal Rating-Based approach (AIRB)	**54 241**	**144 909**	**65 083**	**147 217**	**-**	**21 366**	**432 816**	**469 860**
Corporate	6 169	82 870	15 851			12	104 902	136 101
Specialised lending – high volatility commercial real estate		8 017					8 017	8 301
Specialised lending – income producing real estate	1 978	38 176					40 154	38 507
Specialised lending – object finance			906				906	449
Specialised lending – commodities finance			60				60	62
Specialised lending – project finance			5 230				5 230	2 897
SME - corporate	20 560	2 967	410				23 937	23 798
Public sector entities	1	10 436	3 055			1 873	15 365	12 705
Local government and municipalities	183	1 985	464				2 632	2 444
Sovereign			7 541			19 481	27 022	27 653
Banks	2	312	30 248				30 562	43 326
Securities firms		136	561				697	2 091
Retail mortgages	4 662	10	3	118 496			123 171	119 853
Retail revolving credit				6 822			6 822	6 832
Retail – other	3 302		11	18 254			21 567	23 520
SME – retail	17 384		514	3 645			21 543	21 091
Securitisation exposure			229				229	230
Standardised approach (SA)	**-**	**7 380**	**-**	**11 805**	**49 666**	**-**	**68 851**	**67 692**
Corporate		2 175			1 880		4 055	1 628
SME – Corporate		1 034			11 951		12 985	12 729
Public sector entities		20					20	21
Local government and municipalities		33			38		71	26
Sovereign		138			2 436		2 574	2 245
Banks		36		9 067	117		9 220	10 456
Securities firms		302					302	303
Retail mortgages		2 116		1 628	2 628		6 372	3 286
Retail – other		1 357		1 110	27 177		29 644	30 678
SME – retail		169			3 138		3 307	3 677
Securitisation exposure					301		301	283
Other								2 360
Properties in possession	**16**	**3**		**922**			**941**	**791**
Non-regulated	**123**	**8 224**	**15 224**	**5 318**		**129**	**29 018**	**30 481**
On balance sheet exposure (Basel II)	**54 380**	**160 516**	**80 307**	**165 262**	**49 666**	**21 495**	**531 626**	**568 824**
Less assets included in Basel II asset classes							(71 223)	(87 224)
Derivatives							(19 601)	(25 218)
Government stock and other dated securities							(33 886)	(34 105)
Short term securities							(15 441)	(13 969)
Other assets net of fair value adjustments on assets							(2 295)	(13 932)
Set-off accounts within IFRS total gross loans and advances[1]							(19 308)	(39 508)
Total gross loans and advances							**441 095**	**442 092**

1. *The set-off mainly relates to the 'Corporate' asset class within Nedbank Corporate cluster in respect of cash management accounts.*
2. *Nedbank Corporate, Capital and Retail include London Branch (AIRB approach).*
3. *Balance sheet exposure includes on-balance sheet exposure and derivatives.*

SUMMARY OF ADVANCED INTERNAL RATINGS-BASED APPROACH (AIRB) FOR NEDBANK LIMITED SOLO
BASEL II CREDIT EXPOSURES BY CLUSTER AND ASSET CLASS

Jun 2009 Rm	AIRB on balance sheet exposure	AIRB off balance sheet exposure	Repurchase and resale exposure	Derivative exposure	Total credit extended*	Exposure at default (EAD)	Downturn expected loss (performing)	Best estimate of expected loss (non-performing)
Nedbank Business Banking	**54 241**	**18 098**	**-**	**-**	**72 339**	**71 597**	**601**	**884**
Corporate	6 169	2 320			8 489	7 943	93	6
Specialised lending – income producing real estate	1 978	213			2 191	2 242	8	4
SME – corporate	20 560	7 453			28 013	27 614	201	317
Public sector entities	1	3			4	2		
Local government and municipalities	183	25			208	207		
Banks	2	62			64	63		
Retail mortgages	4 662	1 275			5 937	5 911	46	90
Retail - other	3 302	504			3 806	3 900	60	161
SME - retail	17 384	6 243			23 627	23 715	193	306
Nedbank Corporate	**138 123**	**60 886**	**-**	**-**	**199 009**	**170 367**	**396**	**291**
Corporate	76 084	50 913			126 996	99 140	171	115
Specialised lending – high volatility commercial real estate	8 017	1 023			9 040	9 213	77	12
Specialised lending – income producing real estate	38 176	2 177			40 353	41 744	113	160
SME - corporate	2 967	716			3 683	3 496	28	3
Public sector entities	10 436	4 670			15 106	13 349	6	
Local government and municipalities	1 985	417			2 402	2 420		
Banks	312	955			1 267	843	1	
Securities firms	136	15			151	150		
Retail mortgages	10				10	11		
Retail - other					1	1		1
Nedbank Capital	**41 568**	**14 595**	**2 757**	**18 809**	**77 729**	**59 267**	**194**	**17**
Corporate	11 110	620	474	4 741	16 945	15 626	163	17
Specialised lending – object finance	906				906	944	5	
Specialised lending - commodities finance	60				60	62		
Specialised lending – project finance	5 230				5 230	5 426	8	
SME - corporate			199	410	609	470	3	
Public sector entities	1 890		989	1 042	3 921	3 137	1	
Local government and municipalities	412			52	464	499		
Sovereign	6 950				6 950	6 951	1	
Banks	14 437	700	1 054	11 833	28 024	18 170	10	
Securities firms	8	5 701	41	539	6 289	1 371		
Retail mortgages				3	3	3		
Retail - other				11	11	12		
SME - retail	336			178	514	545	2	
Securitisation exposure	229	7 574			7 803	6 051	1	

SUMMARY OF ADVANCED INTERNAL RATINGS-BASED APPROACH (AIRB) FOR NEDBANK LIMITED SOLO

BASEL II CREDIT EXPOSURES BY CLUSTER AND ASSET CLASS (CONTINUED)

Jun 2009 Rm	AIRB on balance sheet exposure	AIRB off balance sheet exposure	Repurchase and resale exposure	Derivative exposure	Total credit extended*	Exposure at default (EAD)	Downturn expected loss (performing)	Best estimate of expected loss (non-performing)
Nedbank Retail	**147 217**	**42 142**	**-**	**-**	**189 359**	**183 331**	**2 462**	**4 161**
Corporate		230			231	231	6	
Banks		7			7	7		
Retail mortgages	118 496	19 398			137 894	143 007	1 158	1 938
Retail revolving credit	6 822	16 815			23 637	11 618	443	570
Retail - other	18 254	4 484			22 737	23 212	740	1 332
SME - retail	3 645	1 208			4 853	5 256	115	321
Central Management	**21 366**	**-**	**-**	**-**	**21 366**	**21 368**	**-**	**-**
Corporate	12				12	13		
Public sector entities	1 873				1 873	1 873		
Sovereign	19 481				19 481	19 481		
Banks						1		
Intercompany	**69 467**				**69 467**	**68 021**	**93**	**-**
Total	**471 982**	**135 721**	**2 757**	**18 809**	**629 269**	**573 951**	**3 746**	**5 353**

* *Total credit extended is AIRB on-balance sheet exposure, derivatives and off-balance sheet exposures (includes unutilised facilities)*

Downturn expected loss (AIRB approach)	9 099
IFRS impairment on loans and advances	7 504
Excess of downturn expected loss over eligible provisions	**1 595**

SUMMARY OF IMPAIRMENTS AND DEFAULTED LOANS AND ADVANCES – NEDBANK GROUP

Rm	Nedbank Business Banking	Nedbank Corporate	Nedbank Capital	Nedbank Retail	Imperial Bank	Central Management	Jun 2009	Jun 2008	Dec 2008
Opening balance	**1 377**	**774**	**433**	**4 465**	**812**	**(2)**	**7 859**	6 078	6 078
Specific impairment	791	191	381	3 614	565		**5 542**	4 063	4 063
Specific impairment excluding discounts	595	105	381	3 013	472		**4 566**	3 384	3 384
Specific impairment for discounted cash flow loses	196	86		601	93		**976**	679	679
Portfolio impairment	586	583	52	851	247	(2)	**2 317**	2 015	2 015
Income statement impairment charge (net of recoveries)	218	170	117	2 350	579	1	**3 435**	1 894	4 822
Specific impairment	217	148	108	2 570	514	1	**3 558**	1 731	4 209
Net increase in impairment for discounted cashflow losses	28	102	(1)	2	3		**134**	40	297
Portfolio impairment	(27)	(80)	10	(222)	62		**(257)**	123	316
Recoveries	9	18		149	22		**198**	146	379
Amounts written off / other transfers	(158)	(23)	(122)	(1 704)	(339)	(4)	**(2 350)**	(1 216)	(3 420)
Specific impairments	(140)	(27)	(113)	(1 696)	(340)	(4)	**(2 320)**	(1 218)	(3 406)
Portfolio impairment	(18)	4	(9)	(8)	1		**(30)**	2	(14)
Total impairments	1 446	939	428	5 260	1 074	(5)	**9 142**	6 902	7 859
Specific impairment	905	432	375	4 639	764	(3)	**7 112**	4 762	5 542
Specific impairment excluding discounts	681	244	376	4 036	668	(3)	**6 002**	4 043	4 566
Specific impairment for discounted cash flow loses	224	188	(1)	603	96		**1 110**	719	976
Portfolio impairment	541	507	53	621	310	(2)	**2 030**	2 140	2 317
Total loans and advances	**53 800**	**136 018**	**44 325**	**159 366**	**47 845**	**(259)**	**441 095**	414 973	442 092
Total average loans and advances	**55 609**	**136 932**	**53 523**	**157 722**	**46 696**	**(204)**	**441 593**	397 505	411 063
Defaulted loans and advances									
Residential mortgage loans and advances	1 036	58		14 213	70		**15 377**	6 132	9 969
Commercial mortgage loans and advances	291	1 053		36	520		**1 900**	462	889
Lease and instalment debtors	537	42		845	910		**2 334**	1 880	1 839
Credit card balances	4			612			**616**	537	583
Personal loans		25		1 172	16		**1 213**	1 090	1 035
Properties in possession	16	3		922			**941**	575	791
Other loans and advances	662	610	1 046	738			**3 056**	1 716	2 195
Total defaulted loans and advances	2 546	1 791	1 046	18 538	1 516	-	**25 437**	12 392	17 301
Less : Expected recoveries	1 641	1 359	671	13 899	752	3	**18 325**	7 630	11 759
Net uncovered position after discounting	905	432	375	4 639	764	(3)	**7 112**	4 762	5 542
Specific impairments	905	432	375	4 639	764	(3)	**7 112**	4 762	5 542
Specific impairments on defaulted loans and advances	681	244	376	4 036	668	(3)	**6 002**	4 043	4 566
Specific impairments for discounted cash flow losses	224	188	(1)	603	96		**1 110**	719	976
Value at risk	-	-	-	-	-	-	-	-	-

SUMMARY OF IMPAIRMENTS AND DEFAULTED LOANS AND ADVANCES – NEDBANK GROUP (CONTINUED)

%	Nedbank Business Banking	Nedbank Corporate	Nedbank Capital	Nedbank Retail	Imperial Bank	Central Management	Jun 2009	Jun 2008	Dec 2008
Ratios									
Impairments to total loans and advances	2,69	0,69	0,97	3,30	2,24		**2,07**	1,66	1,78
Specific impairments	1,68	0,32	0,85	2,91	1,60		**1,61**	1,15	1,26
Portfolio impairments	1,01	0,37	0,12	0,39	0,64		**0,46**	0,52	0,52
Credit loss ratio	0,79	0,25	0,44	3,00	2,50		**1,57**	0,96	1,17
Credit loss ratio - specific	0,89	0,37	0,40	3,29	2,23		**1,69**	0,88	1,09
Credit loss ratio - portfolio	(0,10)	(0,12)	0,04	(0,29)	0,27		**(0,12)**	0,08	0,08
Defaulted loans and advances to total loans and advances	4,73	1,32	2,36	11,63	3,17		**5,77**	2,99	3,91
Properties in possession to total loans and advances	0,03			0,58			**0,21**	0,14	0,18

Product analysis - Jun 2009	Residential mortgage loans and advances	Commercial mortgage loans and advances	Lease and instalment debtors	Credit card balances	Personal loans and advances	Other loans and advances	Jun 2009 Total
Rm							
Defaulted loans and advances	15 377	1 900	2 334	616	1 213	3 997	**25 437**
Expected recoveries	12 877	1 571	927	55	564	2 331	**18 325**
Net uncovered position before discounting	2 500	329	1 407	561	649	1 666	**7 112**
Specific impairments	2 500	329	1 407	561	649	1 666	**7 112**
Specific impairments on defaulted loans and advances	2 066	193	1 248	550	432	1 513	**6 002**
Specific impairments for discounted cash flow loses	434	136	159	11	217	153	**1 110**
Value at risk	-	-	-	-	-	-	-
Expected recoveries as a % of defaulted loans and advances	84	83	40	9	46	58	**72**

SUMMARY OF IMPAIRMENTS AND DEFAULTED LOANS AND ADVANCES – NEDBANK GROUP (CONTINUED)

Product analysis - Jun 2008	Residential mortgage loans and advances	Commercial mortgage loans and advances	Lease and instalment debtors	Credit card balances	Personal loans and advances	Other loans and advances	Jun 2008 Total
Rm							
Defaulted loans and advances	6 132	462	1 880	537	1 090	2 291	12 392
Expected recoveries	4 958	355	419	40	561	1 297	7 630
Net uncovered position before discounting	1 174	107	1 461	497	529	994	4 762
Specific impairments	1 174	107	1 461	497	529	994	4 762
Specific impairments on defaulted loans and advances	974	38	1 307	492	320	912	4 043
Specific impairments for discounted cash flow loses	200	69	154	5	209	82	719
Value at risk	-	-	-	-	-	-	-
Expected recoveries as a % of defaulted loans and advances	81	77	22	7	51	57	62

Product analysis - Dec 2008	Residential mortgage loans and advances	Commercial mortgage loans and advances	Lease and instalment debtors	Credit card balances	Personal loans and advances	Other loans and advances	Dec 2008 Total
Rm							
Defaulted loans and advances	9 969	889	1 839	583	1 035	2 986	17 301
Expected recoveries	8 220	556	770	38	422	1 753	11 759
Net uncovered position before discounting	1 749	333	1 069	545	613	1 233	5 542
Specific impairments	1 749	333	1 069	545	613	1 233	5 542
Specific impairments on defaulted loans and advances	1 300	240	924	541	411	1 150	4 566
Specific impairments for discounted cash flow loses	449	93	145	4	202	83	976
Value at risk	-	-	-	-	-	-	-
Expected recoveries as a % of defaulted loans and advances	81	63	42	7	41	59	68

PROPERTIES IN POSSESSION (PIPS)									
Rm	**Nedbank Business Banking**	**Nedbank Corporate**	**Nedbank Capital**	**Nedbank Retail**	**Imperial Bank**	**Central Management**	**Jun 2009**	Jun 2008	Dec 2008
Balance at beginning of period	18	3		770			**791**	308	308
Disposal / write downs / revaluations	(4)			(226)			**(230)**	(75)	(76)
PIPs acquired during the period	2			378			**380**	342	559
Balance at end of period	16	3	-	922	-	-	**941**	575	791
Unsold	14	3		675			**692**	439	655
Sold awaiting transfer	2			247			**249**	136	136

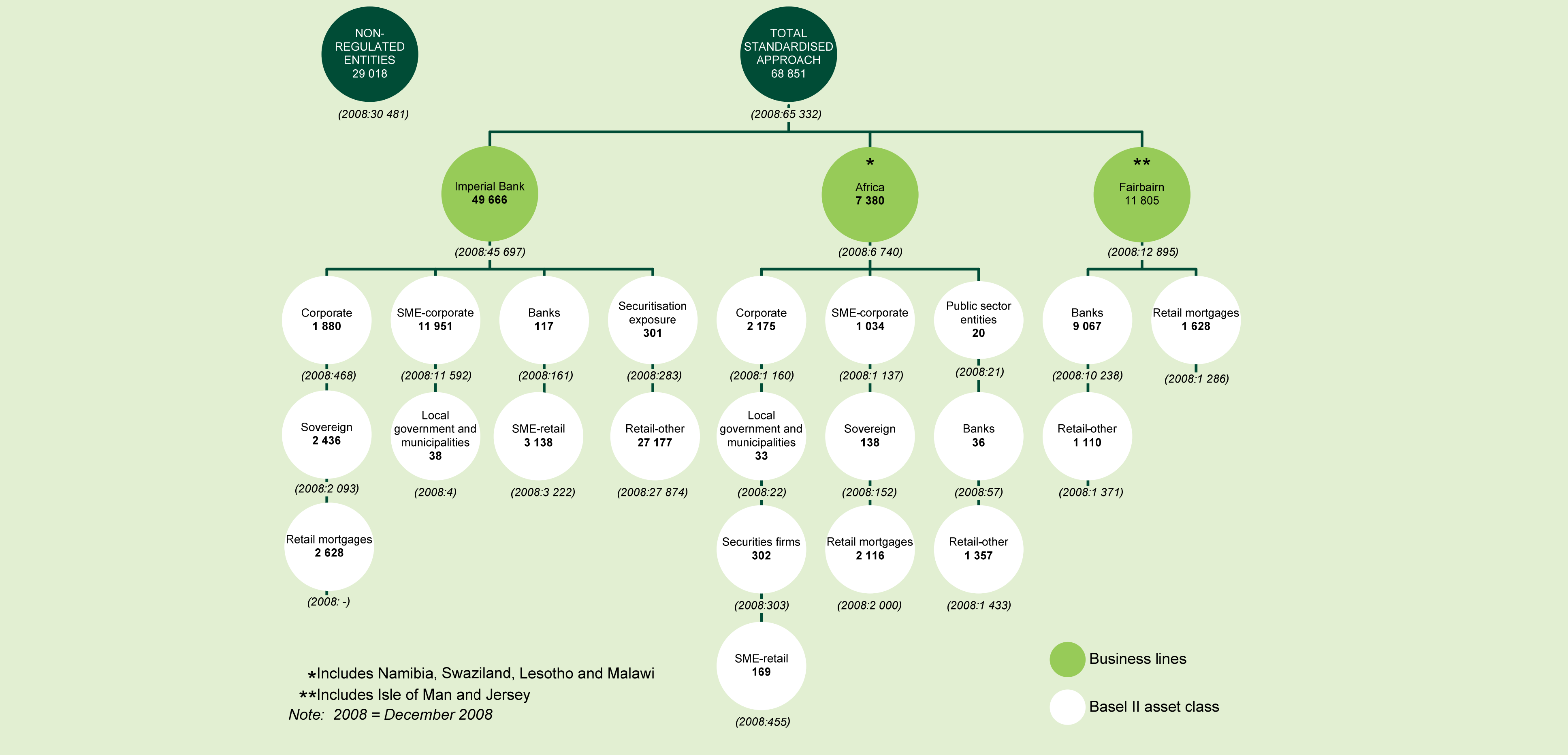
DEFAULTED LOANS AND ADVANCES AND RELATED SECURITY AND IMPAIRMENTS - BY BUSINESS AND ASSET CLASS								
Regulated Rm	**Nedbank Business Banking**	**Nedbank Corporate**	**Nedbank Capital**	**Nedbank Retail**	**Imperial Bank**	**Central Mngmnt**	**Jun 2009**	**Dec 2008**
Advanced internal ratings-based approach (AIRB)	2 530	1 547	30	17 547	-	-	**21 654**	14 710
Corporate	66	484	30				**580**	263
Specialised lending – high volatility commercial real estate		444					**444**	202
Specialised lending – income producing real estate	45	612					**657**	335
SME – corporate	730	6					**736**	468
Retail mortgages	373			14 249			**14 622**	8 573
Retail revolving credit				601			**601**	427
Retail – other	407	1		2 257			**2 665**	2 343
SME – retail	909			440			**1 349**	2 099
Standardised approach	-	-	-	-	1 516	-	**1 516**	918
SME – corporate					549		**549**	142
Retail mortgages					67		**67**	36
Retail – other					759		**759**	632
SME – retail					141		**141**	108
Other regulated entities		161					**161**	225
Properties in possession	16	3		922			**941**	791
Non-regulated		80	1 016	69			**1 165**	657
Total defaulted loans and advances	2 546	1 791	1 046	18 538	1 516	-	**25 437**	17 301
Less: Expected recoveries	1 641	1 359	671	13 899	752	3	**18 325**	11 759
Net uncovered position after discounting	905	432	375	4 639	764	(3)	**7 112**	5 542
Specific impairments	905	432	375	4 639	764	(3)	**7 112**	5 542
Specific impairments on defaulted loans and advances	681	244	376	4 036	668	(3)	**6 002**	4 566
Specific impairments for discounted cash flow losses	224	188	(1)	603	96	-	**1 110**	976
Value at risk	-	-	-	-	-	-	**-**	-

Roadmap of Nedbank's credit rating systems

Nedbank's AIRB credit rating system provides an overview of the bank's credit risk profile by business line (note: the tables below includes Imperial Bank and the non-South African portfolios, that are under the Standardised Approach, separately) and major Basel II asset class. Basel II AIRB credit exposure is reported on the basis of EAD, except in the case of the entities on the Standardised Approach, as set out below.

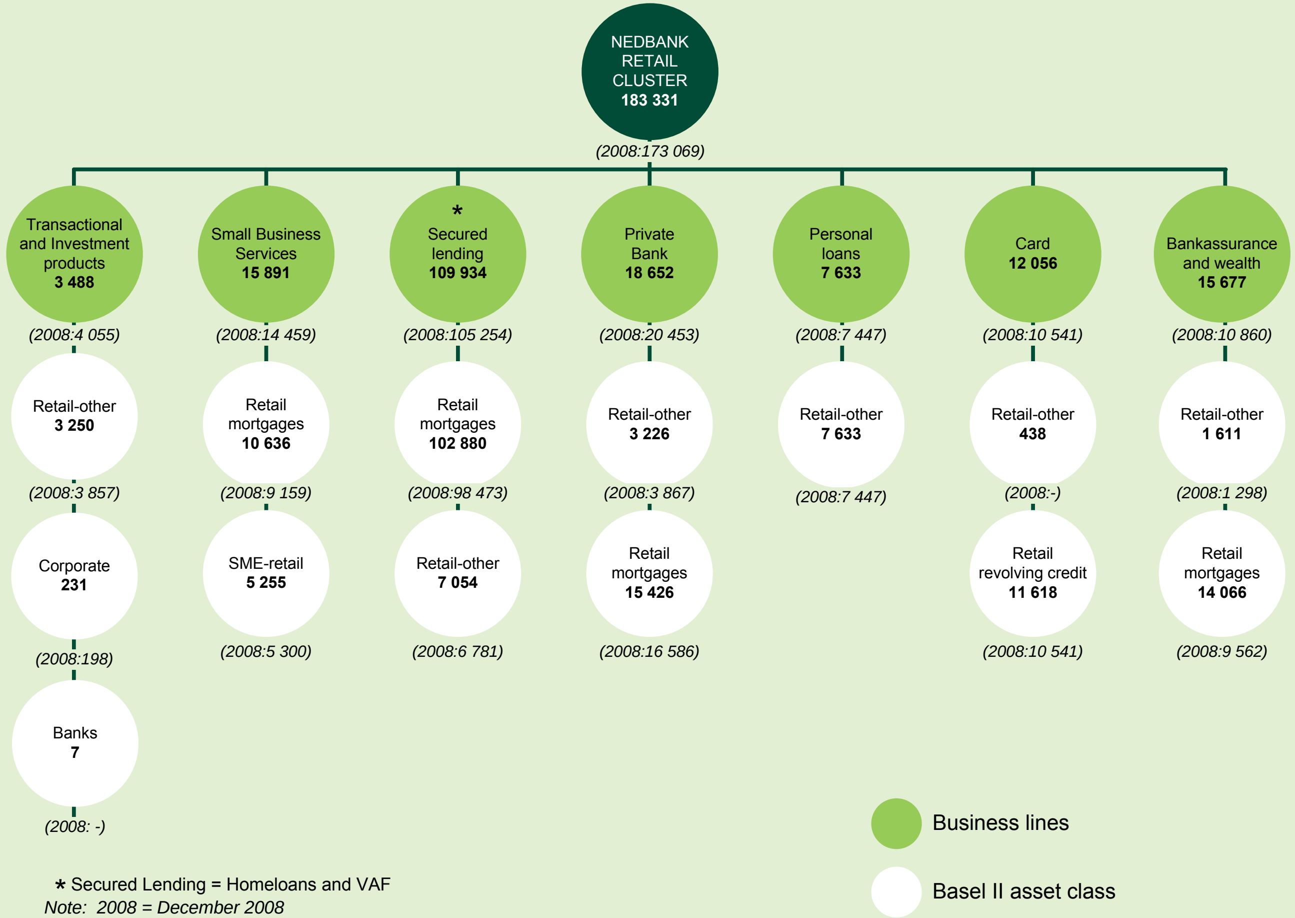
STANDARDISED RATING SYSTEM AND NON-REGULATED ENTITIES

Rm (Exposure basis at 30 June 2009)



RETAIL AIRB RATING SYSTEM

Rm (EAD basis at 30 June 2009)

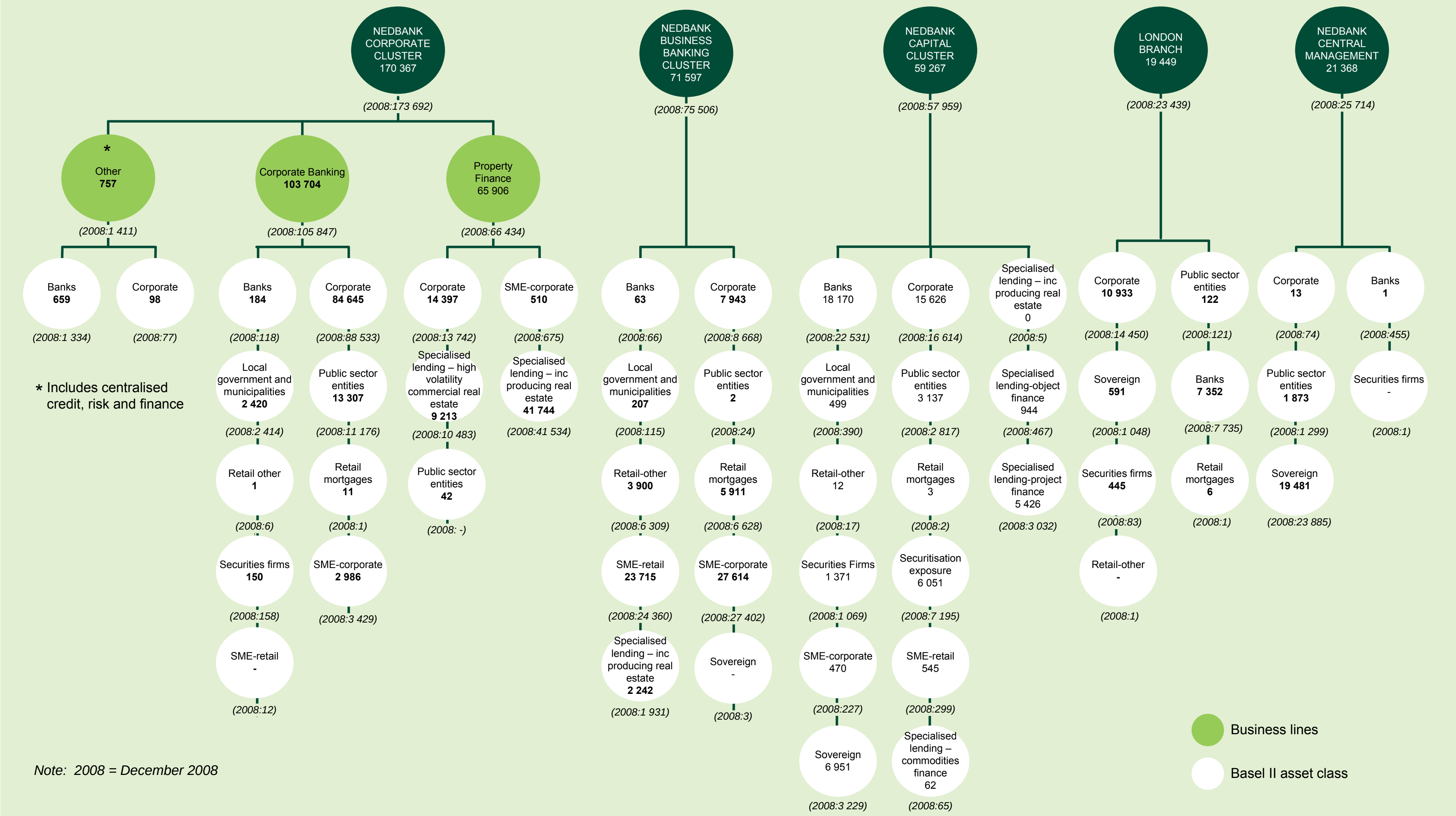


* Secured Lending = Homeloans and VAF

Note: 2008 = December 2008

WHOLESALE AIRB RATING SYSTEM

Rm (EAD basis at 30 June 2009)



Note: 2008 = December 2008

Nedbank has implemented robust processes to rate its various credit portfolios set out above. These processes have been designed to ensure the integrity and accuracy of the AIRB rating process and are subjected to independent validation by the CMVU and regular audits by the group's Internal Audit Department. Except in isolated cases, Nedbank does not specifically rely on external ratings except for benchmarking purposes.

An overview of the principal AIRB rating processes follows:

Wholesale

- Nedbank's wholesale lending portfolio includes a number of sub-portfolios, including:
- Large corporates
- Large private firms
- SMEs
- Commercial property finance
- Property development finance
- Project finance
- Leveraged buyouts and BEE finance
- Commodity finance
- Sovereigns
- Banks

A range of bespoke rating models have been developed to rate these various sub-portfolios and to produce estimates of PD, LGD and EAD. All models are developed in accordance with international best practice and are, wherever possible, based on Nedbank's own internal data and long run default experience. For certain low default portfolios, such as exposures to other banks, Nedbank simply does not have sufficient default experience to allow robust statistical modelling. In these instances suitable data has been sourced from appropriate data bureaux and the models developed thereon together with independent expert judgement / experience. When external data is used to develop the models great care is taken to ensure that this data is both appropriate and relevant.

When utilising models to rate corporate exposures a pure statistical approach is not always the best option. While Nedbank's models include both financial and qualitative factors it is not always possible or even appropriate to include all relevant quantitative information in model inputs. For this reason all corporate ratings are subject to review by suitable experts, who have the authority to override model-based ratings within well defined authority and reporting levels. This is in accordance with Basel II that states that 'sufficient human judgement and human oversight is necessary to ensure that all relevant and material information, including that which is outside the scope of the model, is also taken into consideration, and that the model is used appropriately' (Basel II accord, para 417, pg 86). The override process is also subjected to regular audits by the bank's Internal Audit Department, to ensure that overrides are appropriate and take place within authority levels.

For one sub-portfolio (Developer Loans, R4 229 million) Nedbank makes use of the supervisory slotting approach to map internal ratings to five standard supervisory categories, each of which is associated with a specific risk weight. A rating model is currently nearing completion for this developer loans (high-volatility commercial real estate) portfolio that will allow Nedbank to utilise its own estimates of PD for this portfolio.

Retail

- Nedbank's retail portfolio comprises a number of sub-portfolios, including the following:
- Residential mortgages
- Vehicle and asset finance
- Credit cards
- Personal loans
- Retail SMEs
- Overdrafts

All applications are rated at the time of application by way of a number of bespoke rating scorecards tailored to the various segments that make up the portfolio. These scorecards have been internally developed and are based on Nedbank's own default experience for these portfolios and developed in terms of internal data, relevant credit bureau data or a suitable combination thereof.

The existing sub-portfolios are re-rated monthly via a range of bespoke behavioural scorecards that have been developed in terms of Nedbank's own internal data and experience of the portfolios.

Given the volumes of default data that exist in respect of retail portfolios a statistical approach has been followed in respect of all rating models, including PD, LGD and EAD. The large data volumes used to develop these models mean that the likelihood of statistical anomalies is considerably reduced and so rating overrides are not permitted on retail exposures.

Nedbank has implemented processes within its AIRB Framework to conduct back testing and so actively monitor the performance of all models, including analysing model predictions against actual outcomes. A direct comparison is not appropriate as models are calibrated to cycle neutral default rates but we are able to neutralise the impact of changes in the economic cycle when doing such comparisons. We are considering introducing a second calibration that is based on current default rates and will thus allow a direct comparison of actual versus expected default rates. Formal back testing of the models takes place at least annually and the models are also monitored on an ongoing basis to ensure that they remain predictive.

Nedbank seeks continuous improvement of its AIRB system and has implemented a number of enhancements to the system and its governance process as part of our ongoing goal of attaining best practice. While we are satisfied with the performance of the system we will continue to seek to refine and improve it.

Equities

Nedbank utilises the 'market-based simple risk weight' approach for equity exposures that are held in its banking book, other than in respect of investments in property holding and development companies where the PD / LGD approach is utilised for economic capital purposes only. These equity exposures typically originate when the bank takes an equity stake in a property company over and above normal lending exposure to such entity and both the equity and lending exposures are accorded the same PD, although the prescribed supervisory LGD of 90% is utilised for the equity exposure.

Distribution and migration of Nedbank's credit risk profile

The graphs below are derived from our AIRB credit system and provide a means of comparative analysis across Nedbank's portfolios. Long run average or through-the-cycle LGDs are used for the derivation of expected loss for the Nedbank Group graphs in line with internal economic capital use instead of downturn LGDs used for Basel II regulatory capital.

Thereafter, Nedbank Limited is presented on an asset class basis for regulatory purposes using downturn LGD (dLGD) and thus downturn EL (dEL). The NTR bands for Nedbank Group's business unit distributions are based on through-the-cycle EL (EL) whereas the NTR bands for Nedbank Limited's asset class distributions are based on downturn EL (dEL). The graphs below are based on both the performing and non-performing portfolios. Both the average performing PD, LGD and EL percentages as well as the total PD, LGD and EL percentages (which includes performing and non-performing) are shown below.

The trends in the graphs can mainly be attributed to three factors, namely the change in the economic cycle (negative), methodological changes (positive) and the continued focus on data quality enhancements (positive).

The economy has moved from a low base of credit defaults in the beginning of 2008 into a worsening credit environment that has continued into 2009. The strain in the economy has significantly affected retail consumers. The increase in credit defaults is noticeable when looking at the non-performing loans that have increased in the Nedbank Retail cluster and is particularly evident in the Retail Mortgages and Retail Other asset classes. We anticipate the relief from interest rate reductions to have more of an impact and become more evident going forward. Wholesale banking, which has been resilient even at the peak of the interest rate cycle, is starting to show signs of credit stress and reflects the economic strain being experienced by some of its client base as seen in the increase in defaults across Business Banking and Property Finance.

Nedbank's rating models are based on through-the-cycle PD's, which means that they are built on long-term historical default data. The factors that are included in the models assess the client's recent behaviour and metrics in order to adjust the PD accordingly with their risk profile. As a result the models are not cycle-neutral as they are sensitive to changes in the economy and will result in clients being downgraded if they are negatively affected by the downturn in the economy.

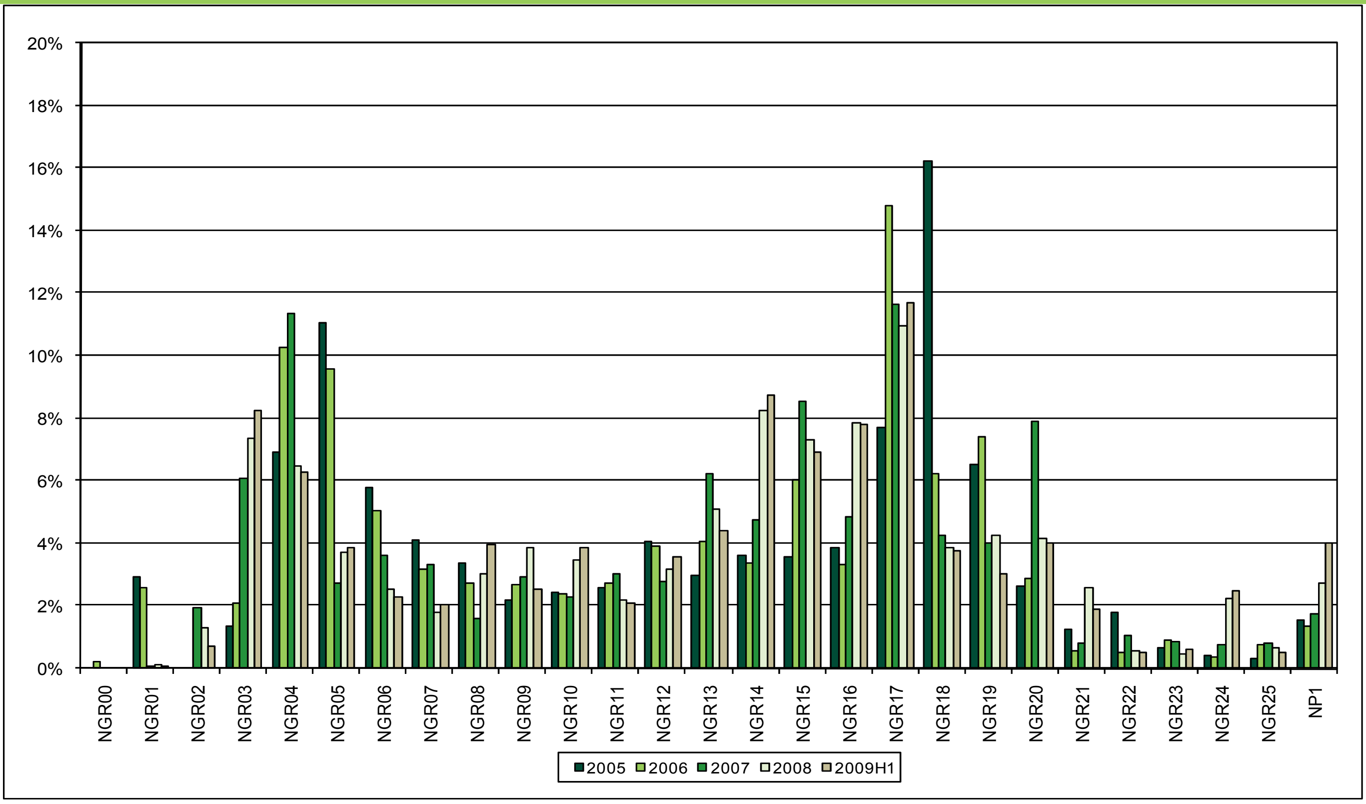
Despite the downgrading of clients as a result of the worsening cycle, the performing PD and expected loss parameters in a number of portfolios have showed a slight improvement compared to December 2008. This can be explained by the low Basel II credit model cyclicality as well as the change in the mix of the book. Although there has been a general downward migration of clients due to increased stress in the economy, the defaulting of the worse rated clients (who effectively leave the performing portfolio) as well as better quality clients coming onto the book due to tighter underwriting standards and more selective asset growth has resulted in minimal changes or a slight improvement in the performing portfolios.

Methodological changes are also responsible for some of the movements since 2006. In Nedbank Capital, a more sophisticated approach was introduced for the treatment of bank LGDs in December 2007, which rendered an overall reduction in LGDs for this portfolio. In the Corporate Banking portfolio, further refinement of the Corporate PD model resulted in lower PD's for this portfolio. In June 2008, a refinement to the LGD model that is used in the Business Banking business line resulted in a decrease in their through-the-cycle and downturn LGDs. The results of the implementation of this model change are visible in the improvement in NTR ratings in both the Corporate SME and Retail SME asset classes. For the income producing real estate asset class, the updated central tendency calculation has resulted in an improved NGR distribution since June 2008. The change in distribution that is evident in Business Banking as well as the Retail Other and Retail SME asset classes is as a result of new behavioural models which were implemented in September 2008. In January 2009 the review and updating of the Africa PD and LGD parameters has resulted in the improved NGR and NTR distributions for the Africa portfolio. In March 2009, new PD and LGD models implemented in Card have resulted in the improved NGR distribution and the increased LGD that is also evident in the Retail Revolving Credit asset class distributions.

During our Basel II implementation we applied extra-conservatism in deriving some credit risk parameter estimates. With refinement and data quality enhancements overtime we increasingly have been in a position to remove some of this extra-conservatism, reducing risk weighted assets and so to a significant extent offsetting the impact of the current deteriorating economic environment. Nedbank continues to dedicate efforts to the continuous improvement of data quality and the credit risk parameters that are key inputs into the AIRB rating system.

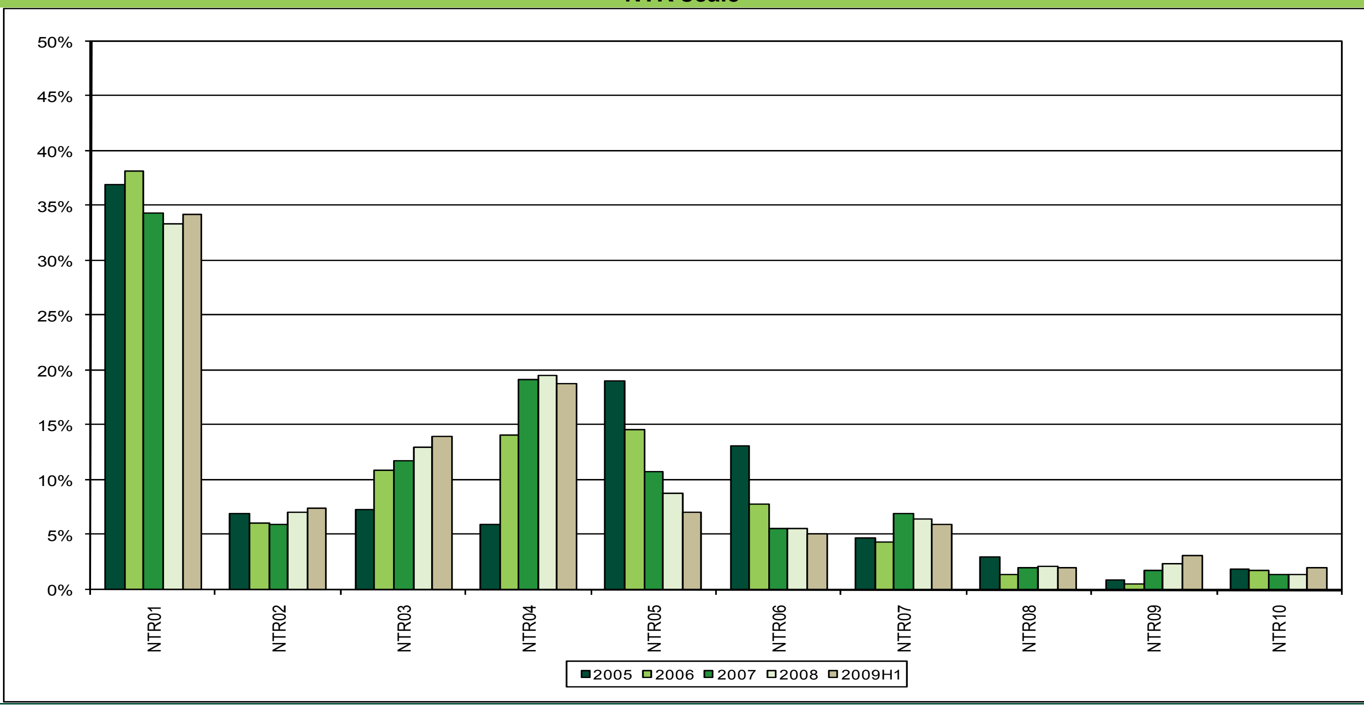
DISTRIBUTION OF TOTAL EAD OF NEDBANK GROUP*

Based on master credit rating scale (ie PD only)
NGR Scale



- Average performing book EAD–weighted PD 2,70%
- Average total book EAD–weighted PD 6,63%
- Average performing book EAD–weighted LGD 21,75%
- Average total book EAD–weighted LGD 21,71%
- Average performing book EAD–weighted EL 0,58%
- Average total book EAD–weighted EL 1,40%

Based on master transaction rating scale (ie EL)
NTR scale

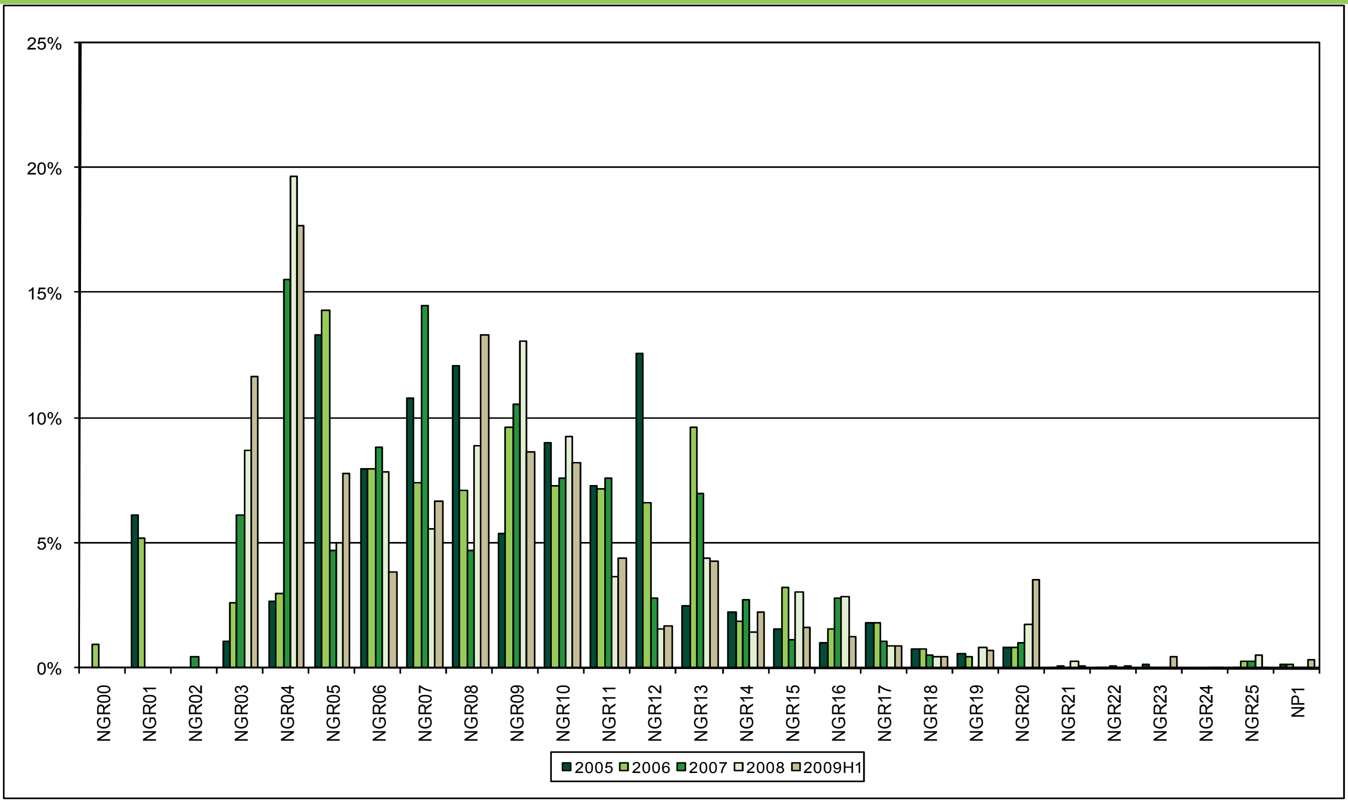


* *For reporting group results, AIRB benchmarks based on expert judgement are applied to Imperial Bank and the small group subsidiaries under the Standardised Approach. Nedbank Limited operates fully under the AIRB approach, and this accounts for 88% of total group credit exposure.*

DISTRIBUTION OF NEDBANK GROUP'S TOTAL EAD BY MAJOR BUSINESS LINE

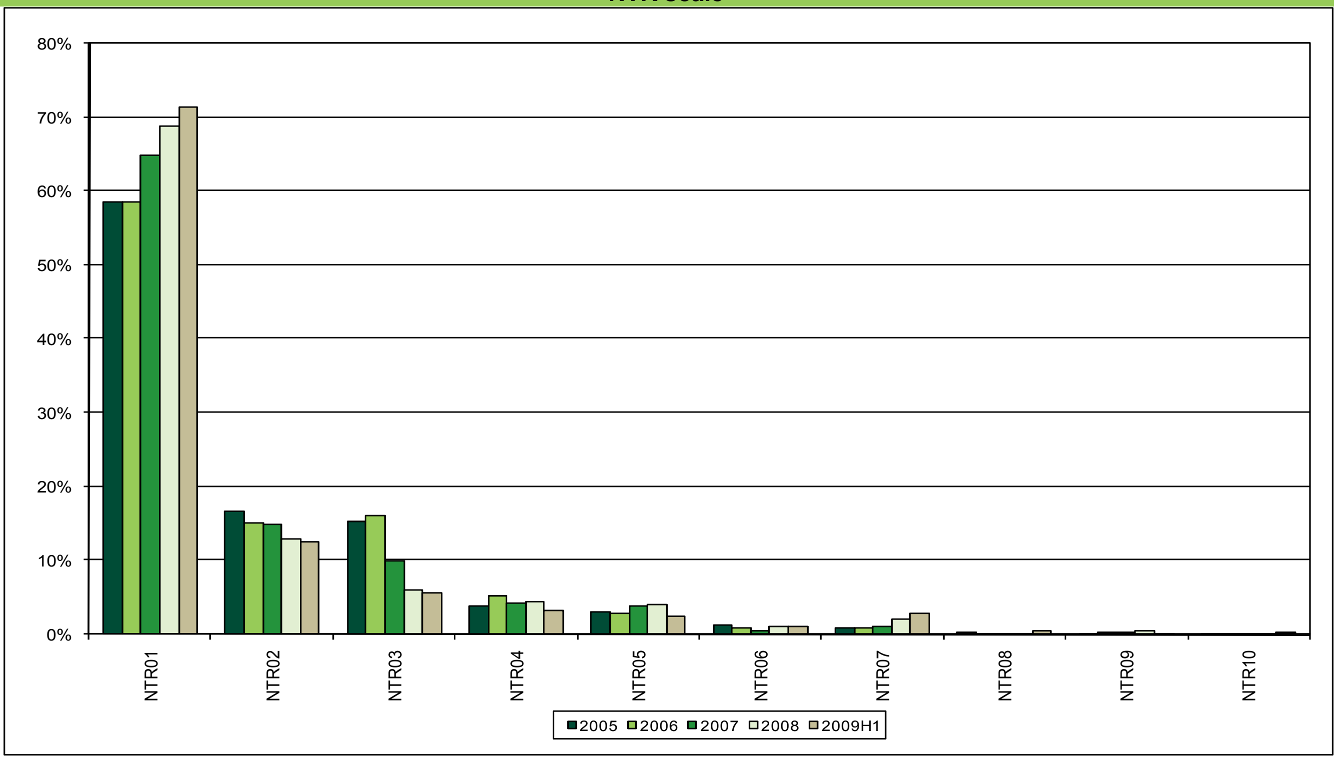
NEDBANK CORPORATE CLUSTER: CORPORATE BANKING

Based on master credit rating scale (ie PD only)
NGR Scale



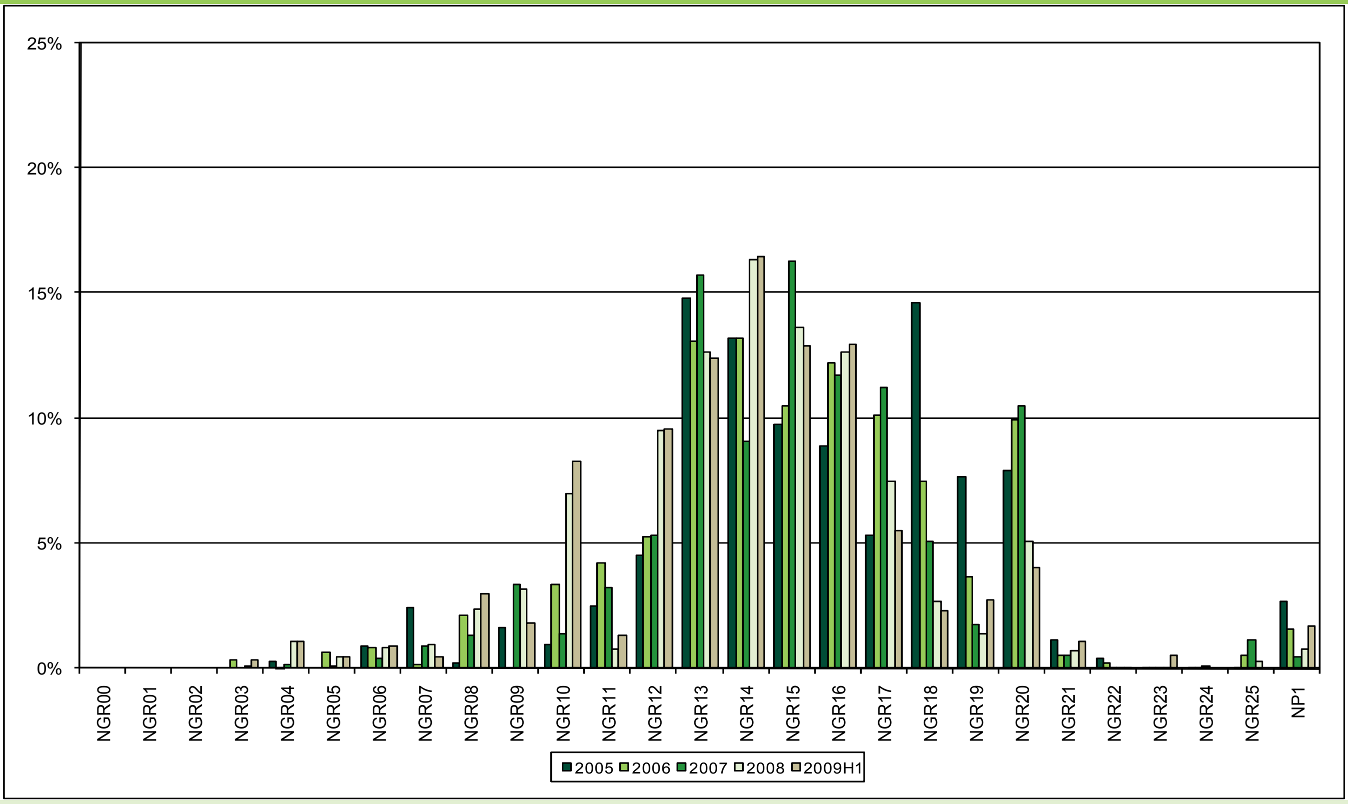
- •Average performing book EAD–weighted PD 0,65%
- •Average total book EAD–weighted PD 0,98%
- •Average performing book EAD–weighted LGD 22,90%
- •Average total book EAD–weighted LGD 22,91%
- •Average performing book EAD–weighted EL 0,15%
- •Average total book EAD–weighted EL 0,24%

Based on master transaction rating scale (ie EL)
NTR scale



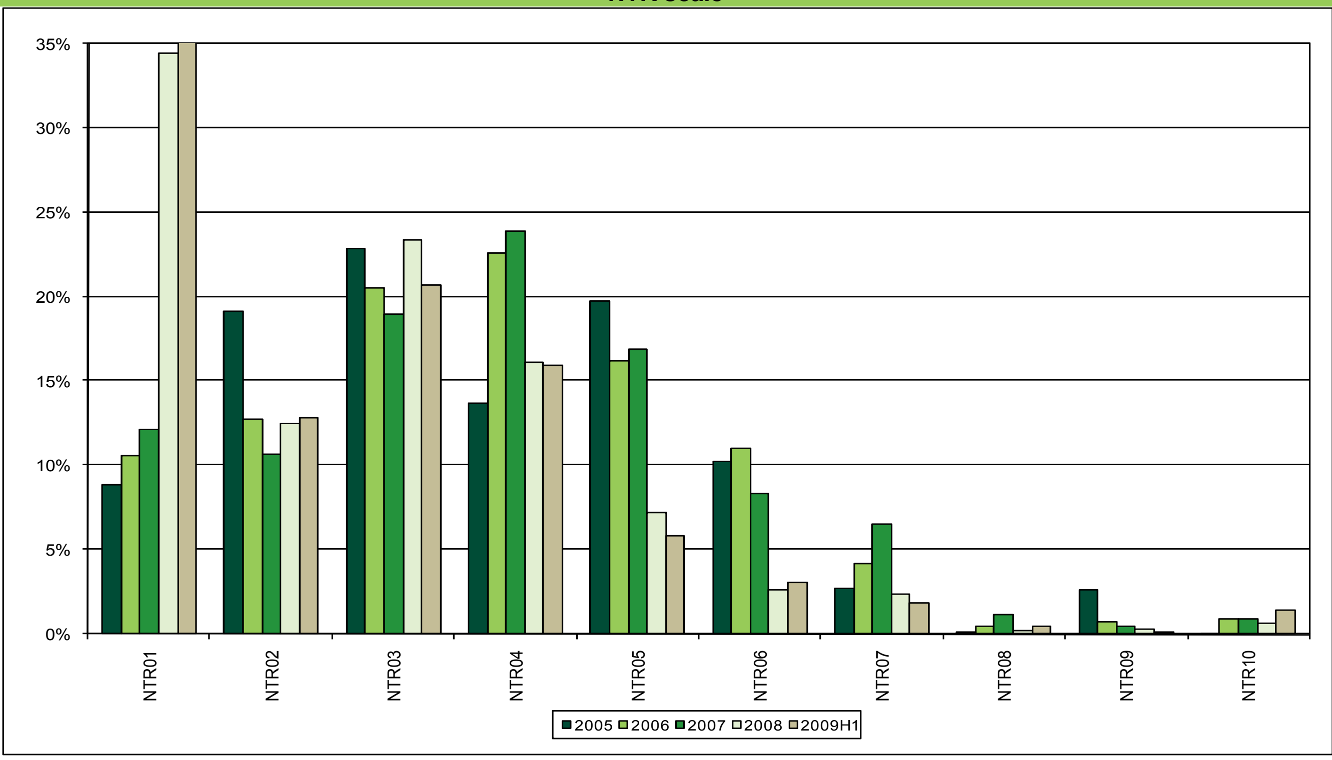
NEDBANK CORPORATE CLUSTER: PROPERTY FINANCE

Based on master credit rating scale (ie PD only)
NGR Scale



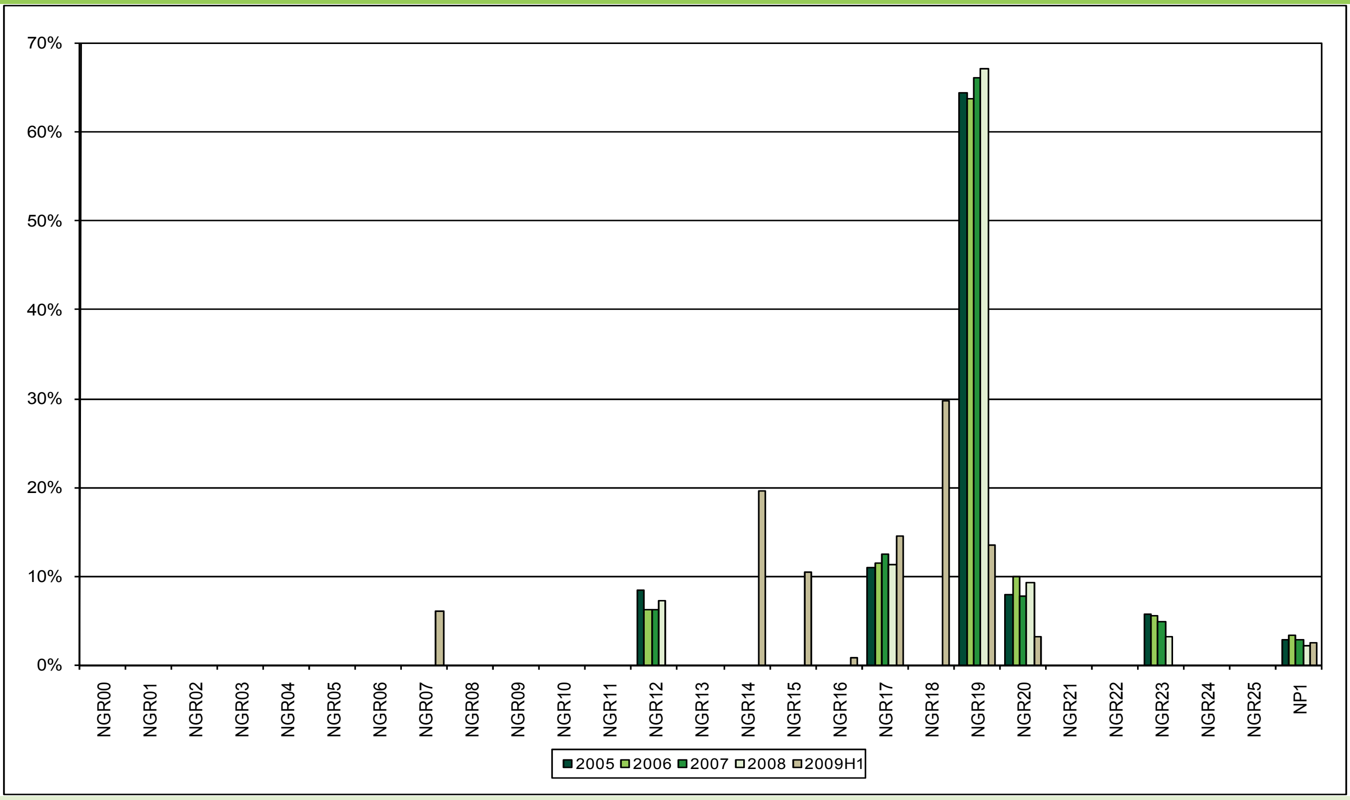
- Average performing book EAD–weighted PD 1,61%
- Average total book EAD–weighted PD 3,29%
- Average performing book EAD–weighted LGD 13,73%
- Average total book EAD–weighted LGD 13,85%
- Average performing book EAD–weighted EL 0,22%
- Average total book EAD–weighted EL 0,57%

Based on master transaction rating scale (ie EL)
NTR scale



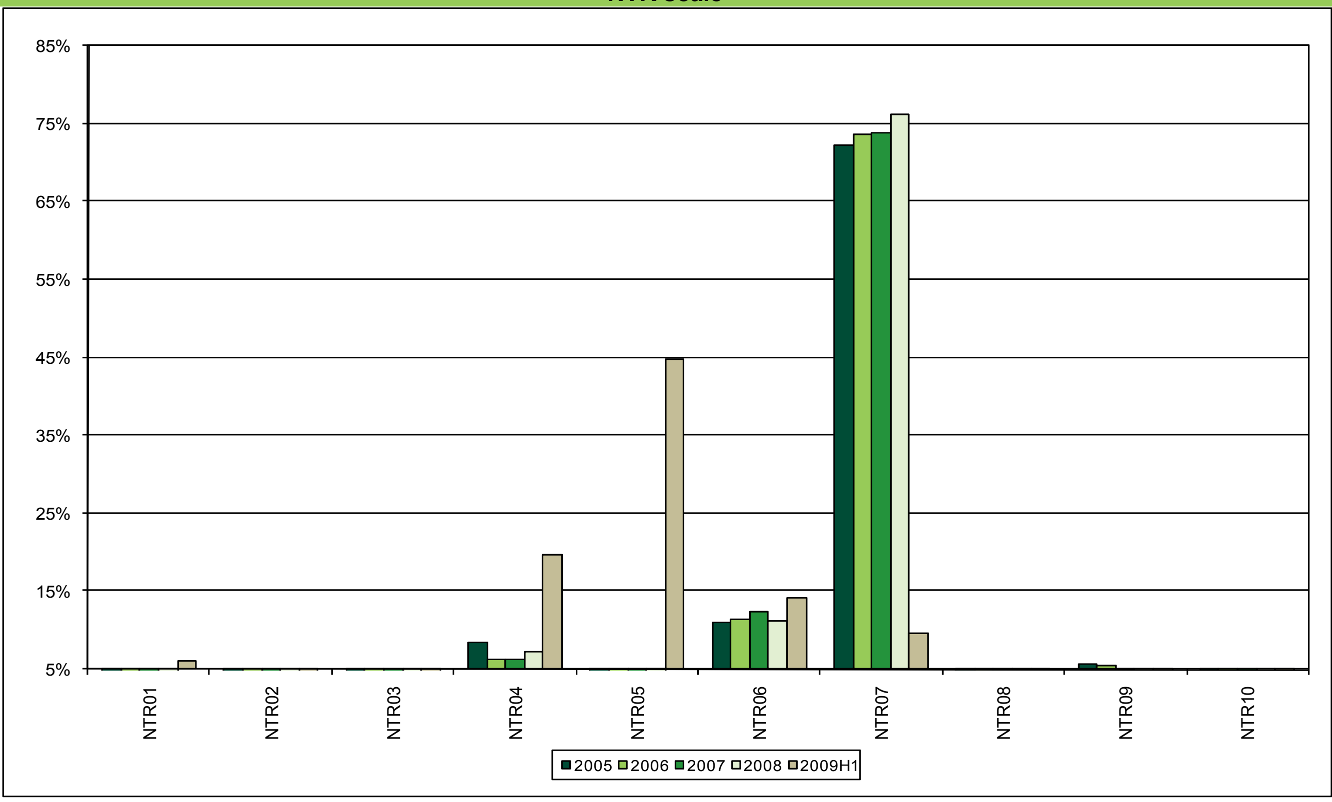
NEDBANK CORPORATE CLUSTER: NEDBANK AFRICA

Based on master credit rating scale (ie PD only)
NGR Scale



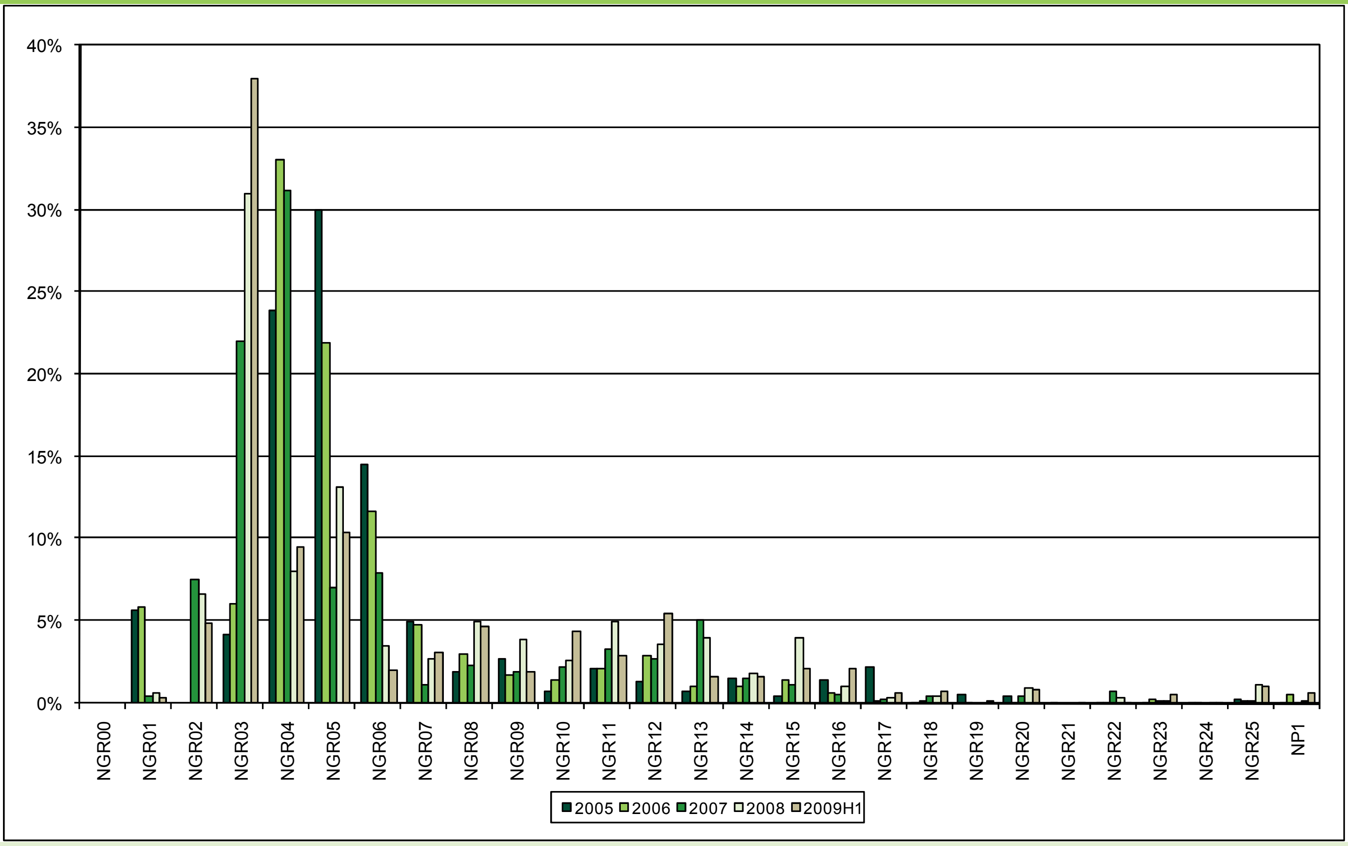
- Average performing book EAD–weighted PD 2,76%
- Average total book EAD–weighted PD 5,18%
- Average performing book EAD–weighted LGD 33,30%
- Average total book EAD–weighted LGD 33,18%
- Average performing book EAD–weighted EL 0,94%
- Average total book EAD–weighted EL 1,63%

Based on master transaction rating scale (ie EL)
NTR scale



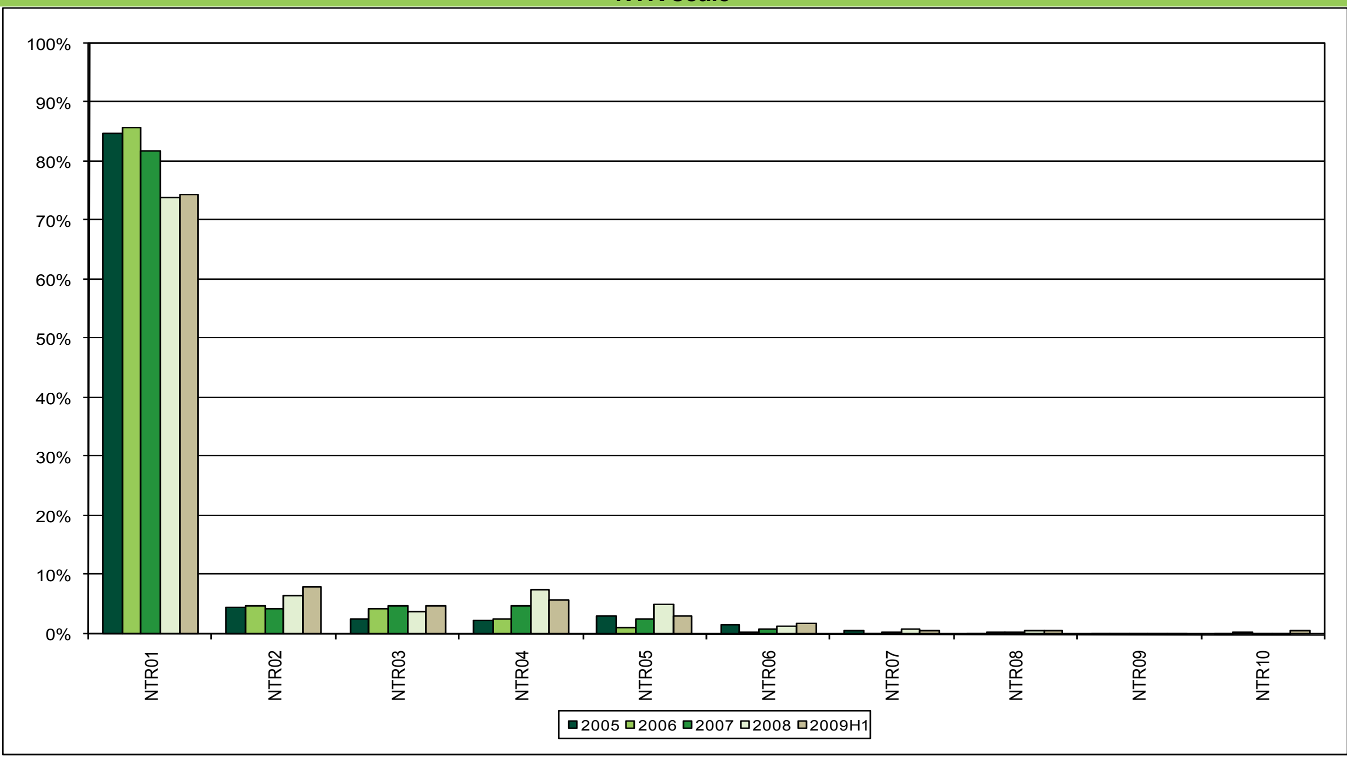
NEDBANK CAPITAL CLUSTER

Based on master credit rating scale (ie PD only)
NGR Scale



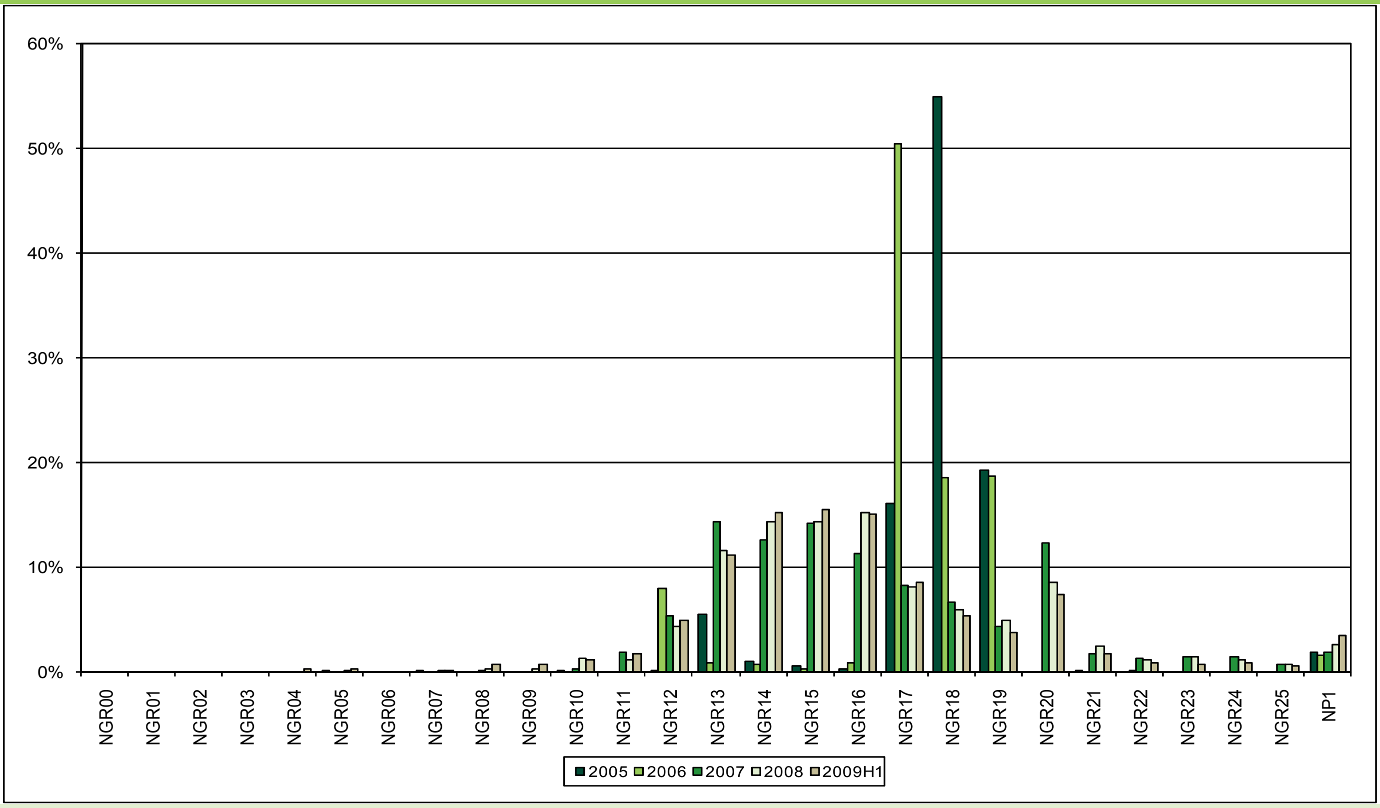
- Average performing book EAD–weighted PD 0,84%
- Average total book EAD–weighted PD 1,51%
- Average performing book EAD–weighted LGD 21,48%
- Average total book EAD–weighted LGD 21,62%
- Average performing book EAD–weighted EL 0,12%
- Average total book EAD–weighted EL 0,40%

Based on master transaction rating scale (ie EL)
NTR scale



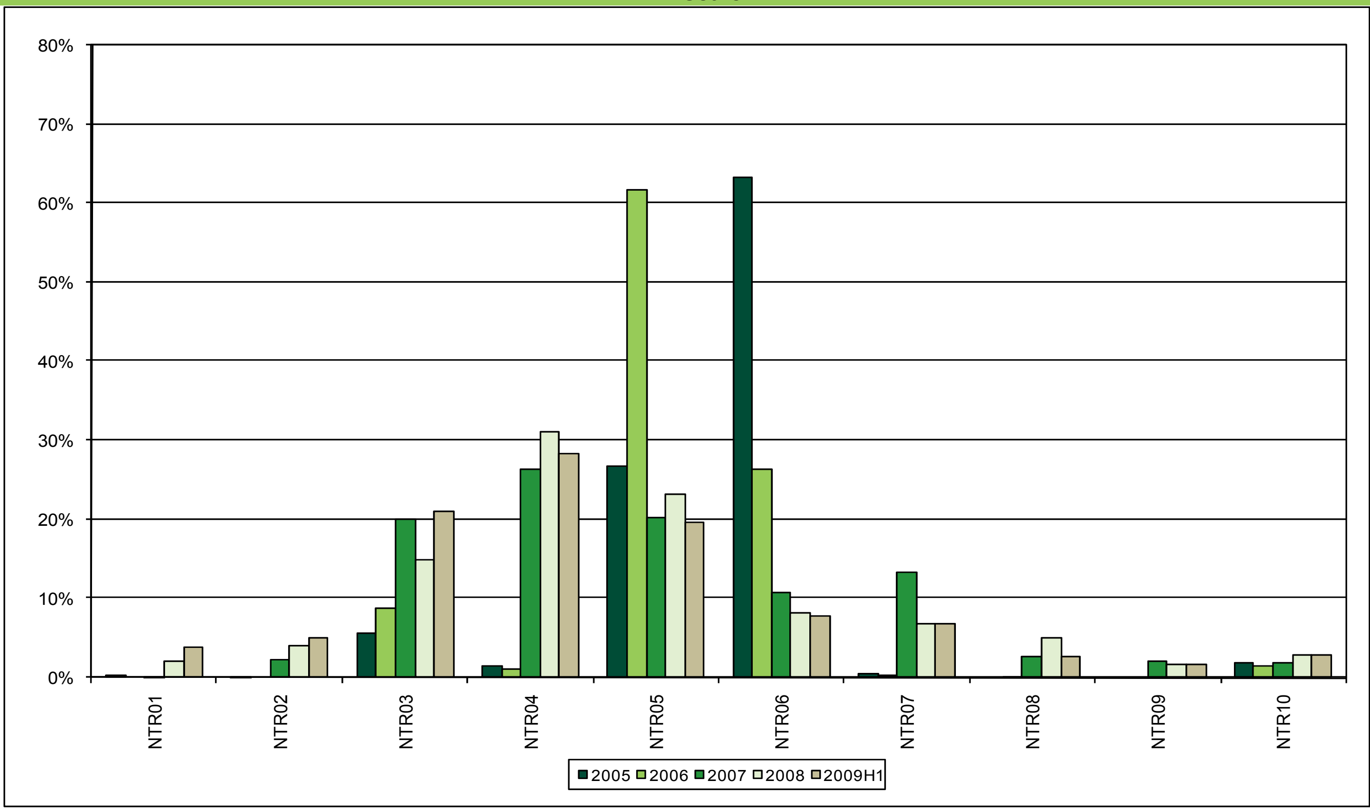
NEDBANK BUSINESS BANKING CLUSTER

Based on master credit rating scale (ie PD only)
NGR Scale



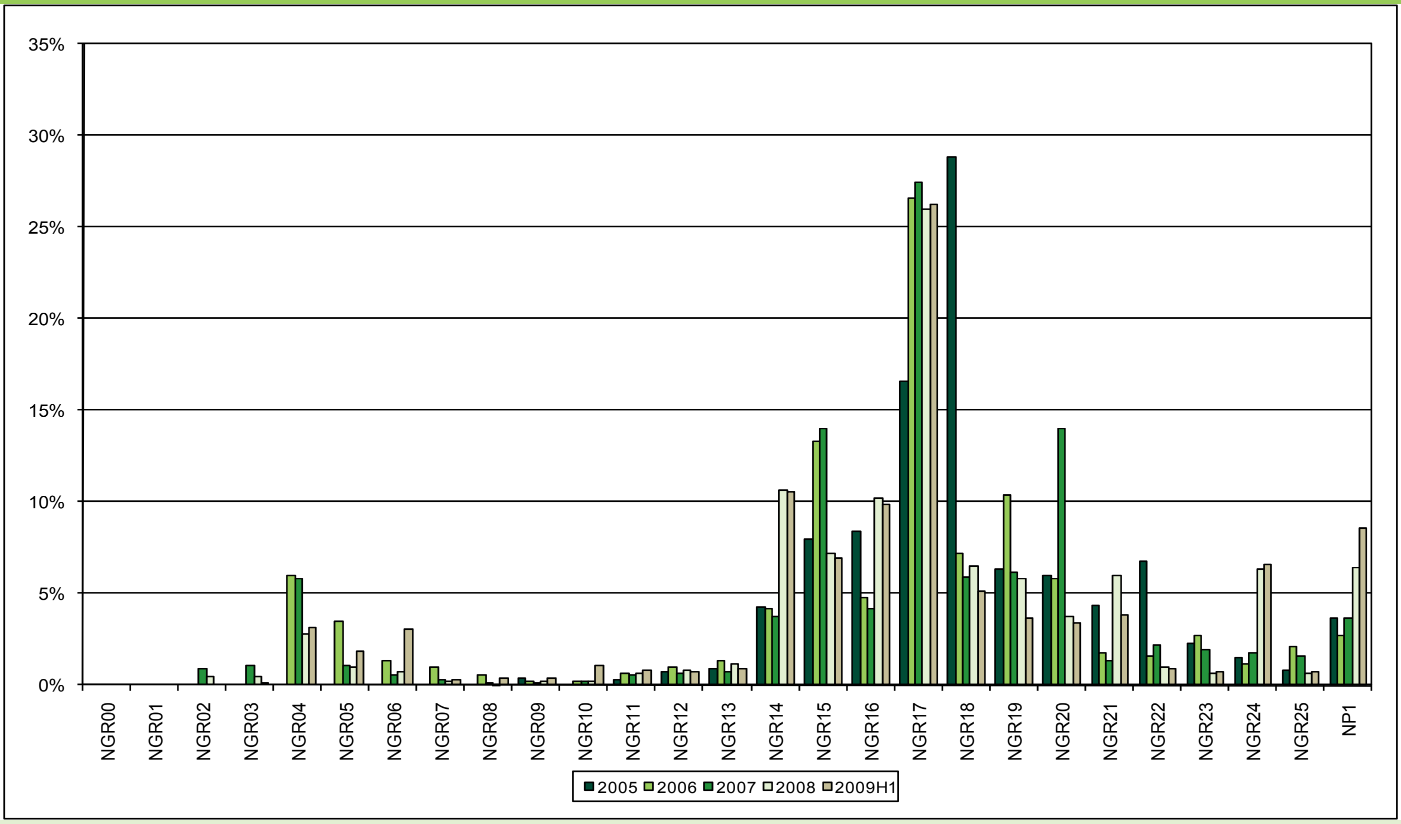
- Average performing book EAD–weighted PD 2,92%
- Average total book EAD–weighted PD 6,33%
- Average performing book EAD–weighted LGD 23,43%
- Average total book EAD–weighted LGD 23,61%
- Average performing book EAD–weighted EL 0,69%
- Average total book EAD–weighted EL 1,67%

Based on master transaction rating scale (ie EL)
NTR scale



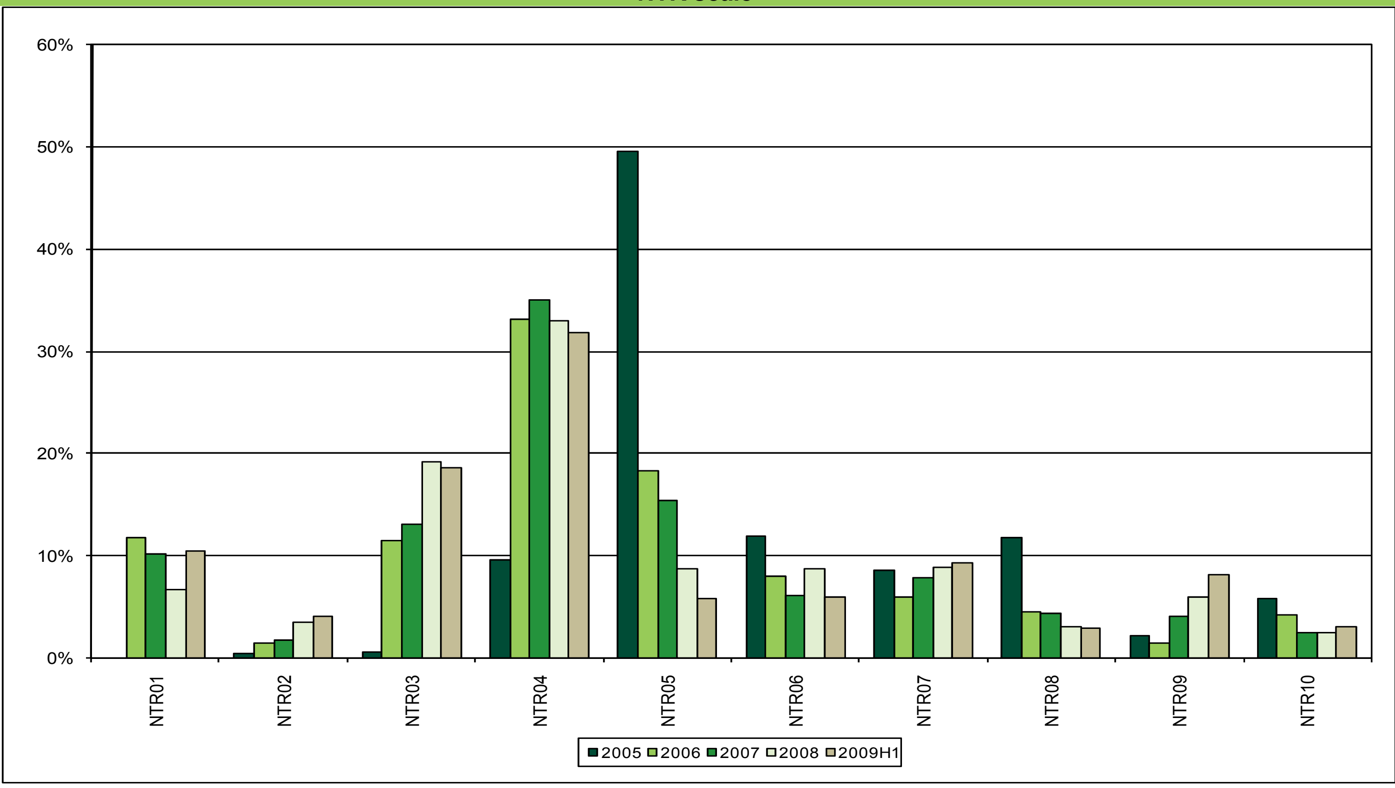
NEDBANK RETAIL CLUSTER

Based on master credit rating scale (ie PD only)
NGR Scale



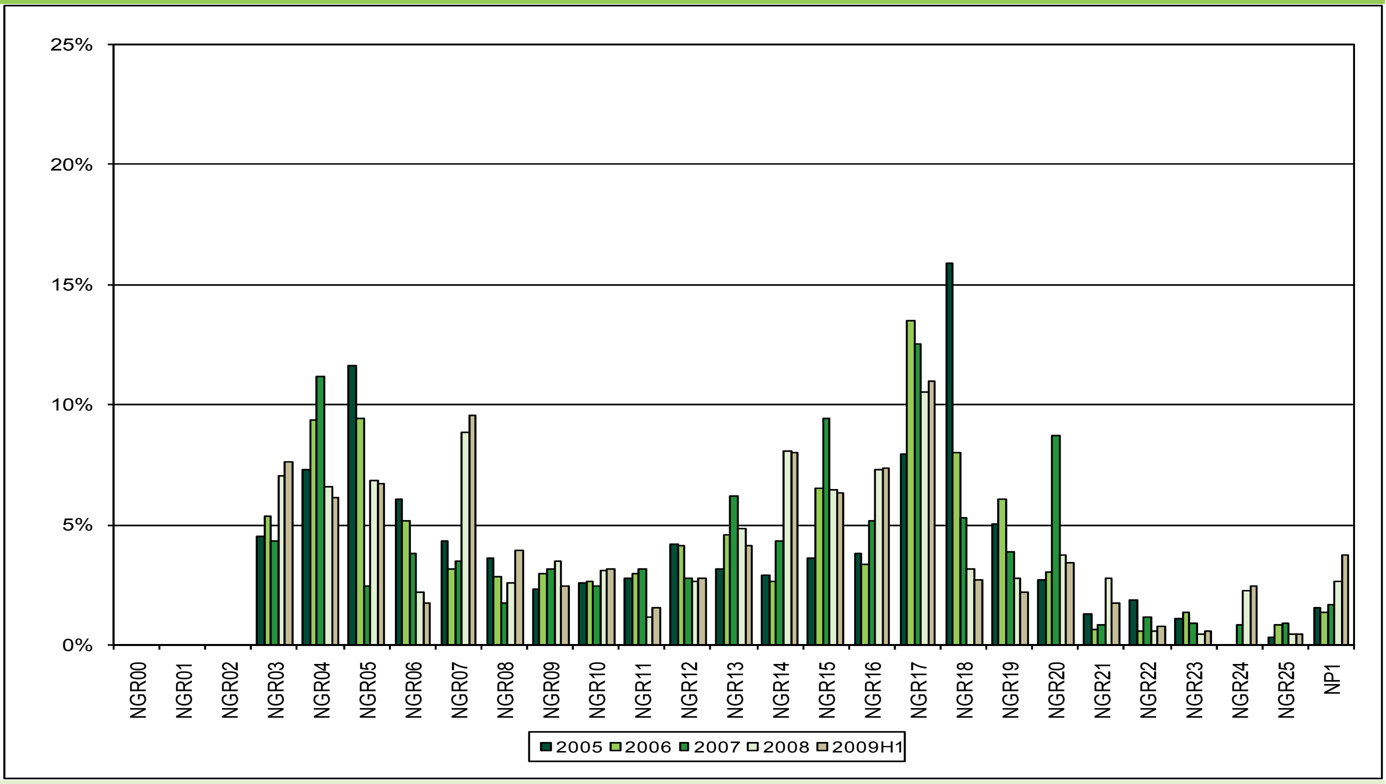
- •Average performing book EAD–weighted PD 4,98%
- •Average total book EAD–weighted PD 13,11%
- •Average performing book EAD–weighted LGD 21,43%
- •Average total book EAD–weighted LGD 21,11%
- •Average performing book EAD–weighted EL 1,03%
- •Average total book EAD–weighted EL 2,46%

Based on master transaction rating scale (ie EL)
NTR scale



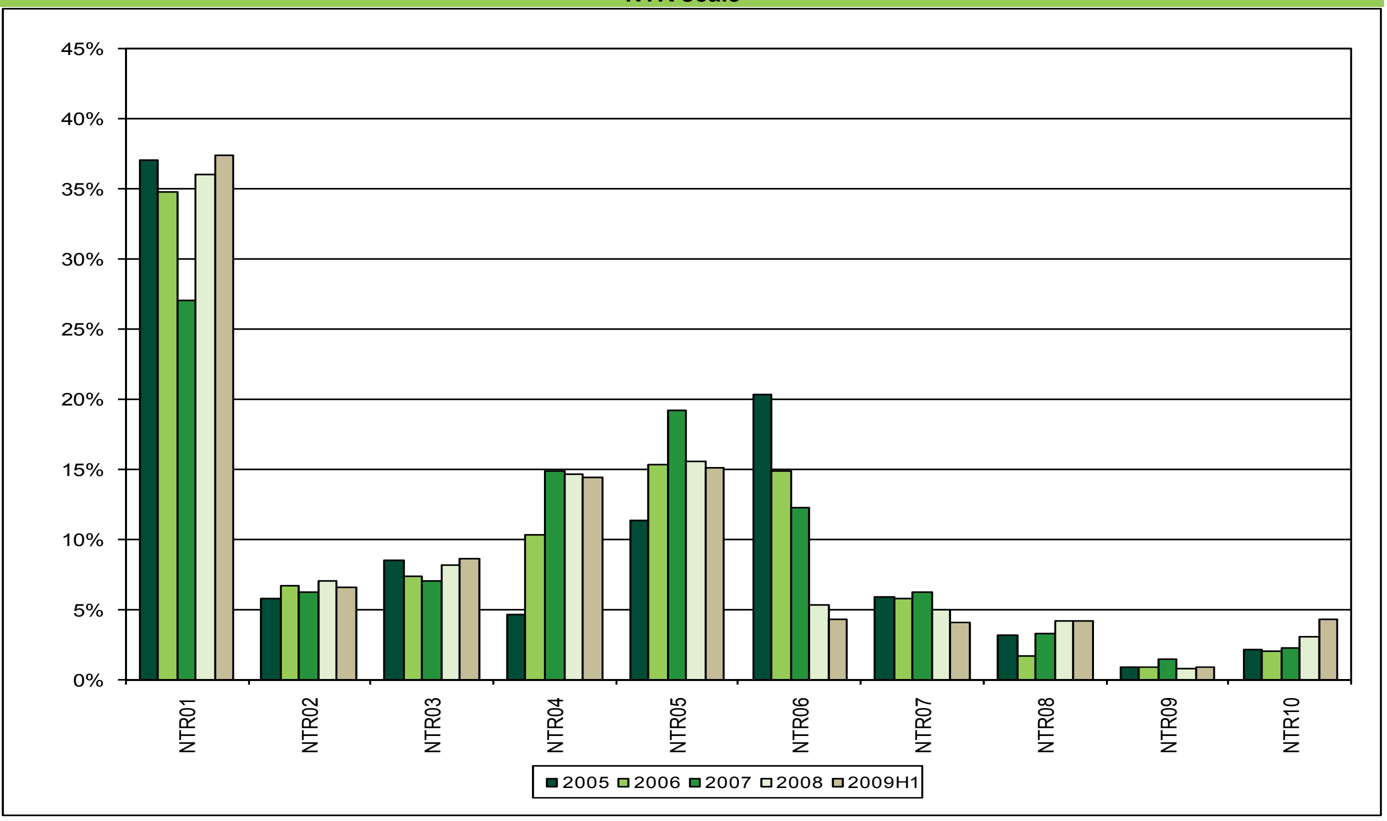
DISTRIBUTION OF TOTAL EAD OF NEDBANK LIMITED

Based on master credit rating scale (ie PD only)
NGR Scale



- Average performing book EAD–weighted PD 2,46%
- Average total book EAD–weighted PD 6,09%
- Average performing book EAD–weighted dLGD 27,76%
- Average total book EAD–weighted dLGD 27,69%
- Average performing book EAD–weighted dEL 0,67%
- Average total book EAD–weighted dEL 1,58%

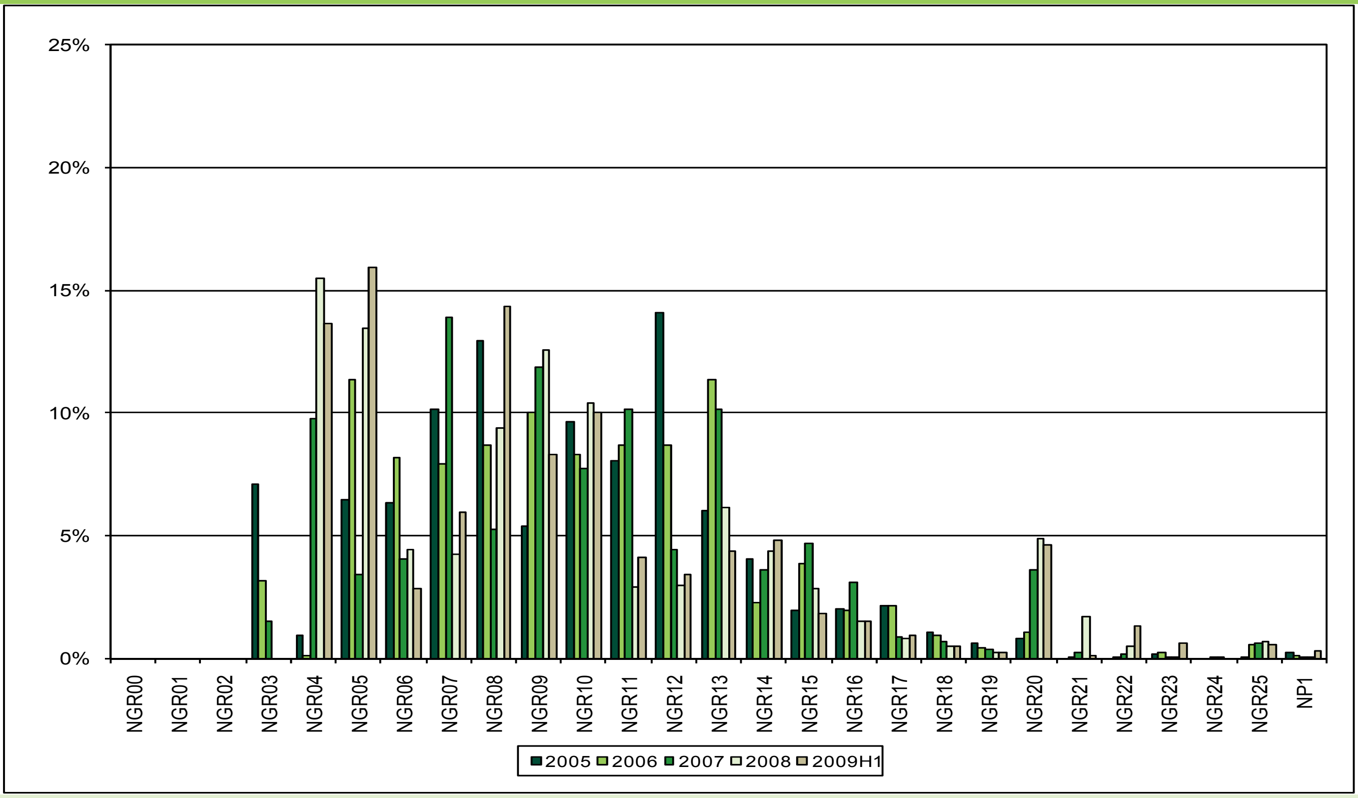
Based on master transaction rating scale (ie dEL)
NTR scale



DISTRIBUTION OF NEDBANK LIMITED'S EAD BY SELECTED MAJOR BASEL II ASSET CLASSES

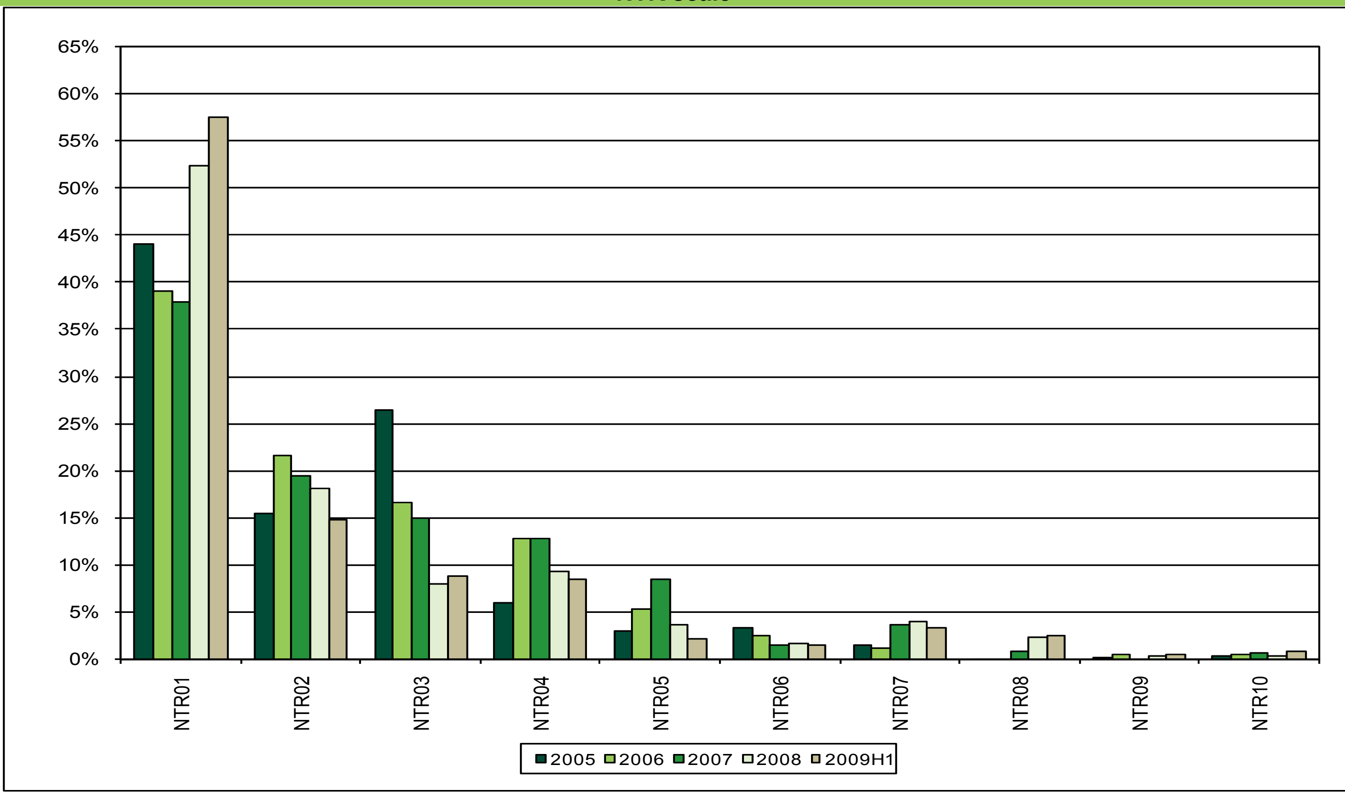
ASSET CLASS: CORPORATE

Based on master credit rating scale (ie PD only)
NGR Scale



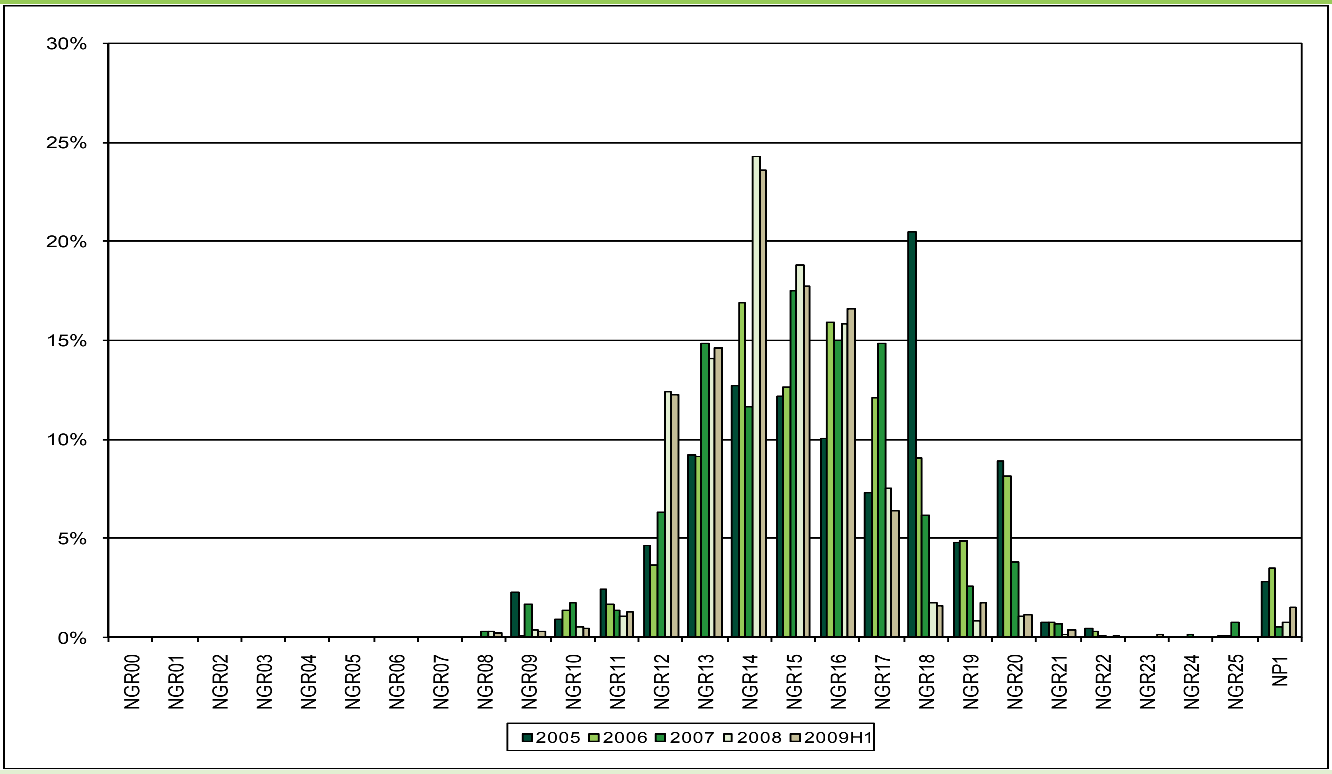
- •Average performing book EAD–weighted PD 1,16%
- •Average total book EAD–weighted PD 1,44%
- •Average performing book EAD–weighted dLGD 30,18%
- •Average total book EAD–weighted dLGD 30,18%
- •Average performing book EAD–weighted dEL 0,35%
- •Average total book–weighted dEL 0,44%

Based on master transaction rating scale (ie dEL)
NTR scale



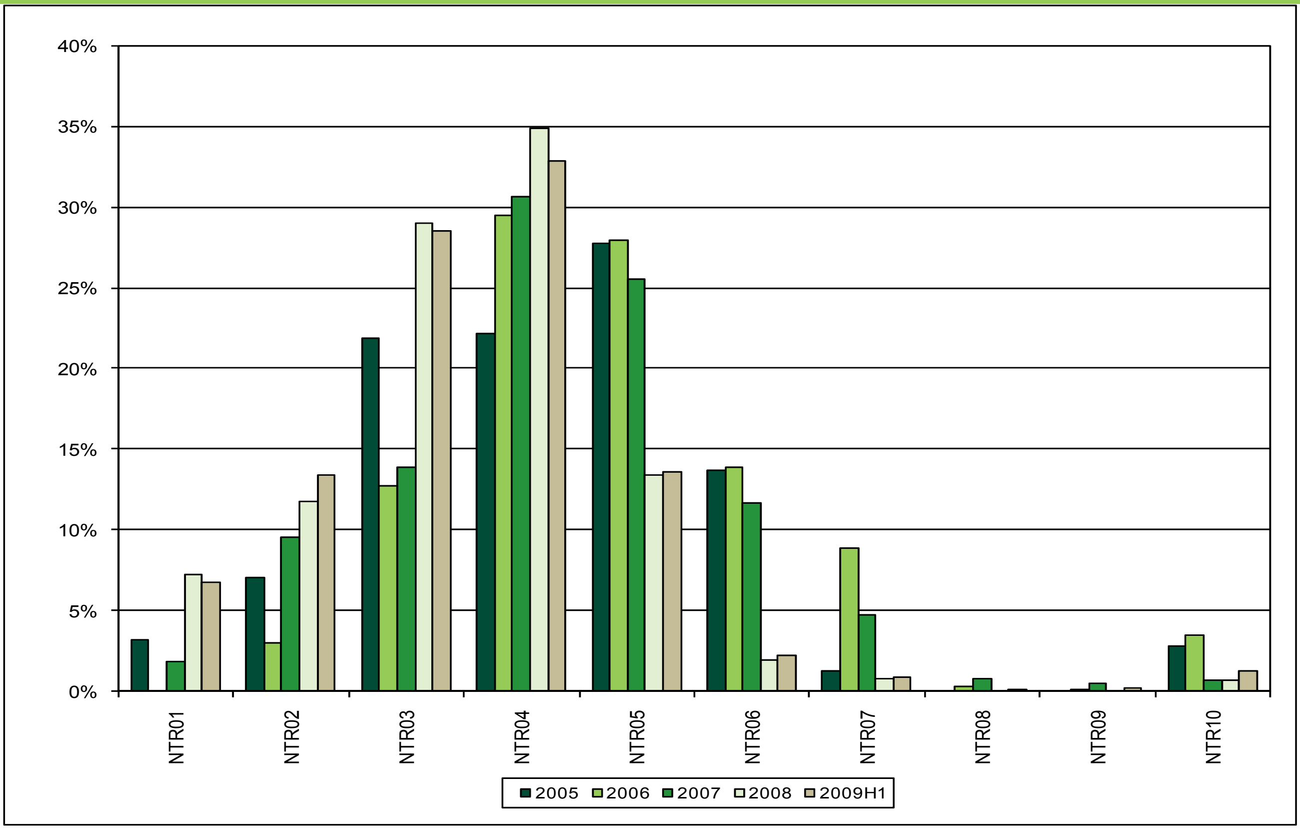
ASSET CLASS: SPECIALISED LENDING - INCOME PRODUCING REAL ESTATE

Based on master credit rating scale (ie PD only)
NGR Scale



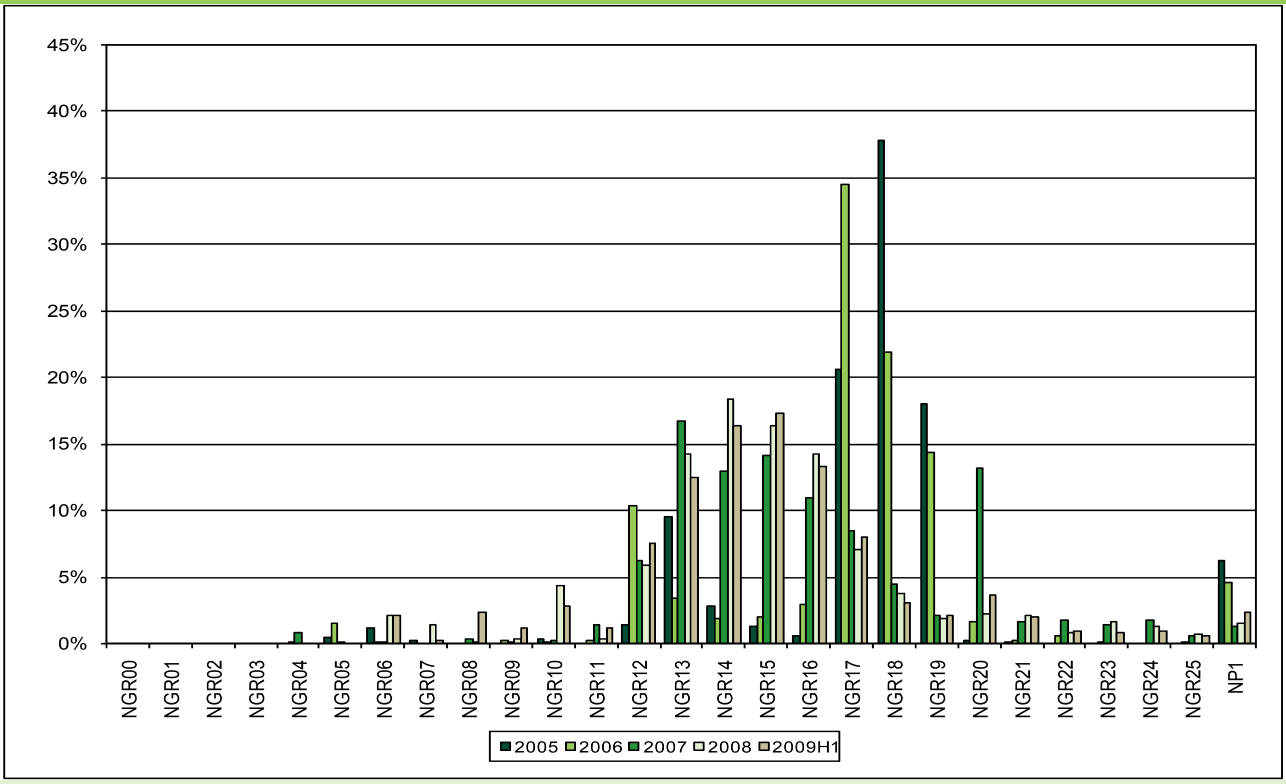
- •Average performing book EAD–weighted PD 1,38%
- •Average total book EAD–weighted PD 2,86%
- •Average performing book EAD–weighted dLGD 19,97%
- •Average total book EAD–weighted dLGD 20,05%
- •Average performing book EAD–weighted dEL 0,28%
- •Average total book EAD–weighted dEL 0,65%

Based on master transaction rating scale (ie dEL)
NTR scale



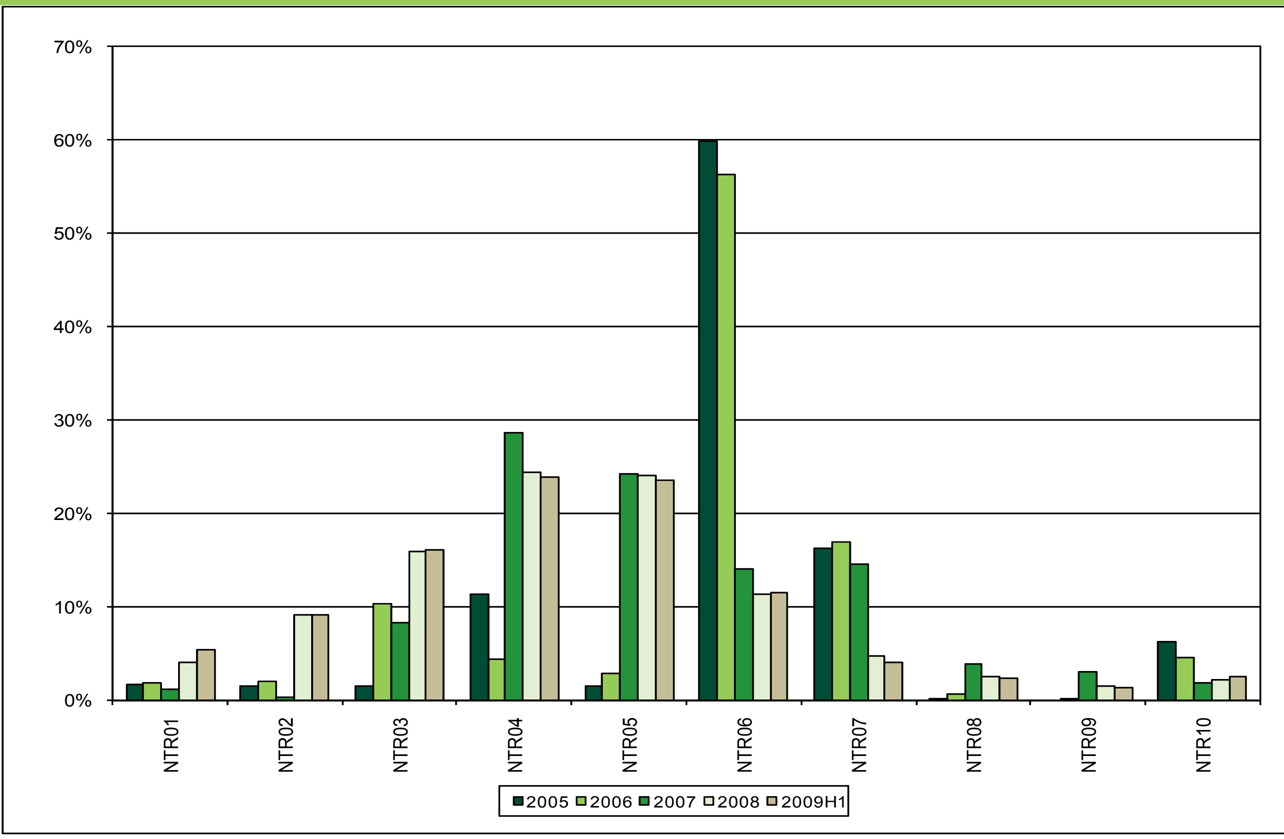
ASSET CLASS: SME - CORPORATE

Based on master credit rating scale (ie PD only)
NGR Scale



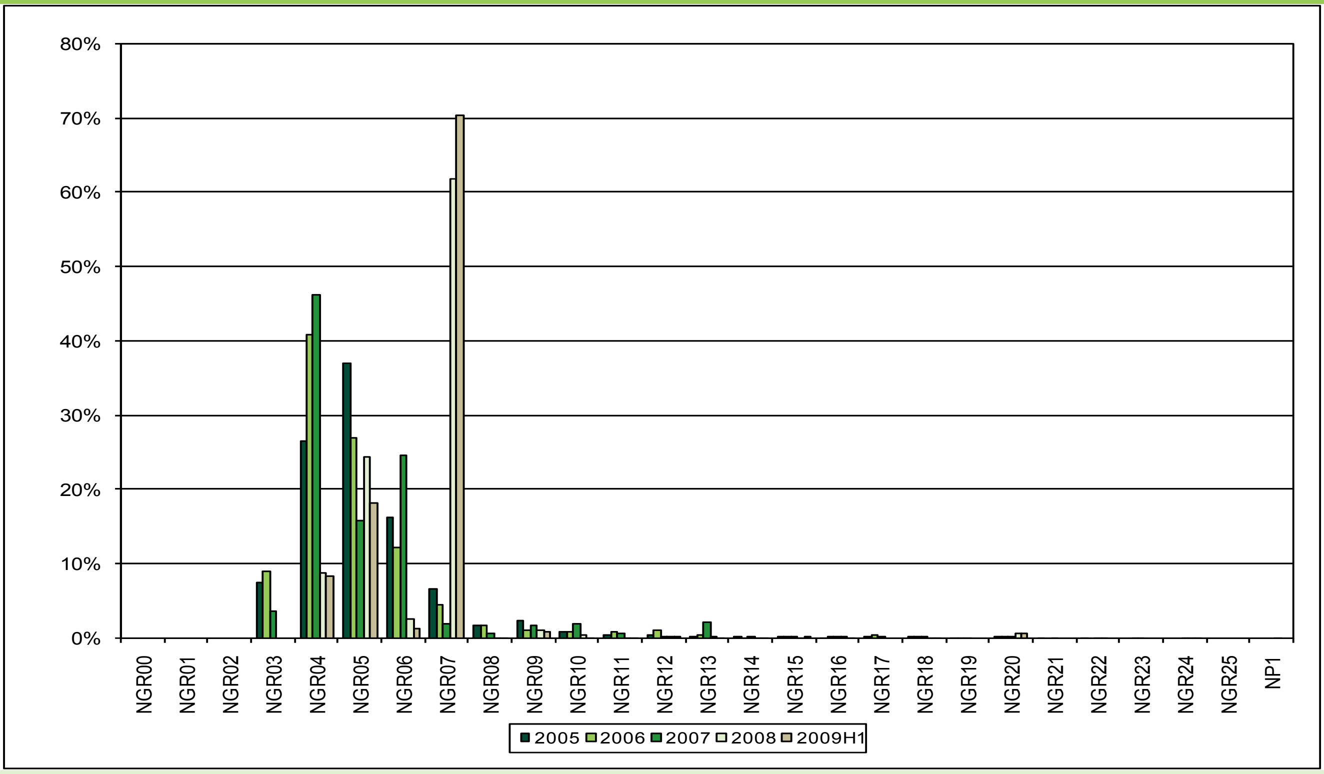
- •Average performing book EAD–weighted PD 2,43%
- •Average total book EAD–weighted PD 4,72%
- •Average performing book EAD–weighted dLGD 32,21%
- •Average total book EAD–weighted dLGD 32,35%
- •Average performing book EAD–weighted dEL 0,75%
- •Average total book EAD–weighted dEL 1,75%

Based on master transaction rating scale (ie dEL)
NTR scale



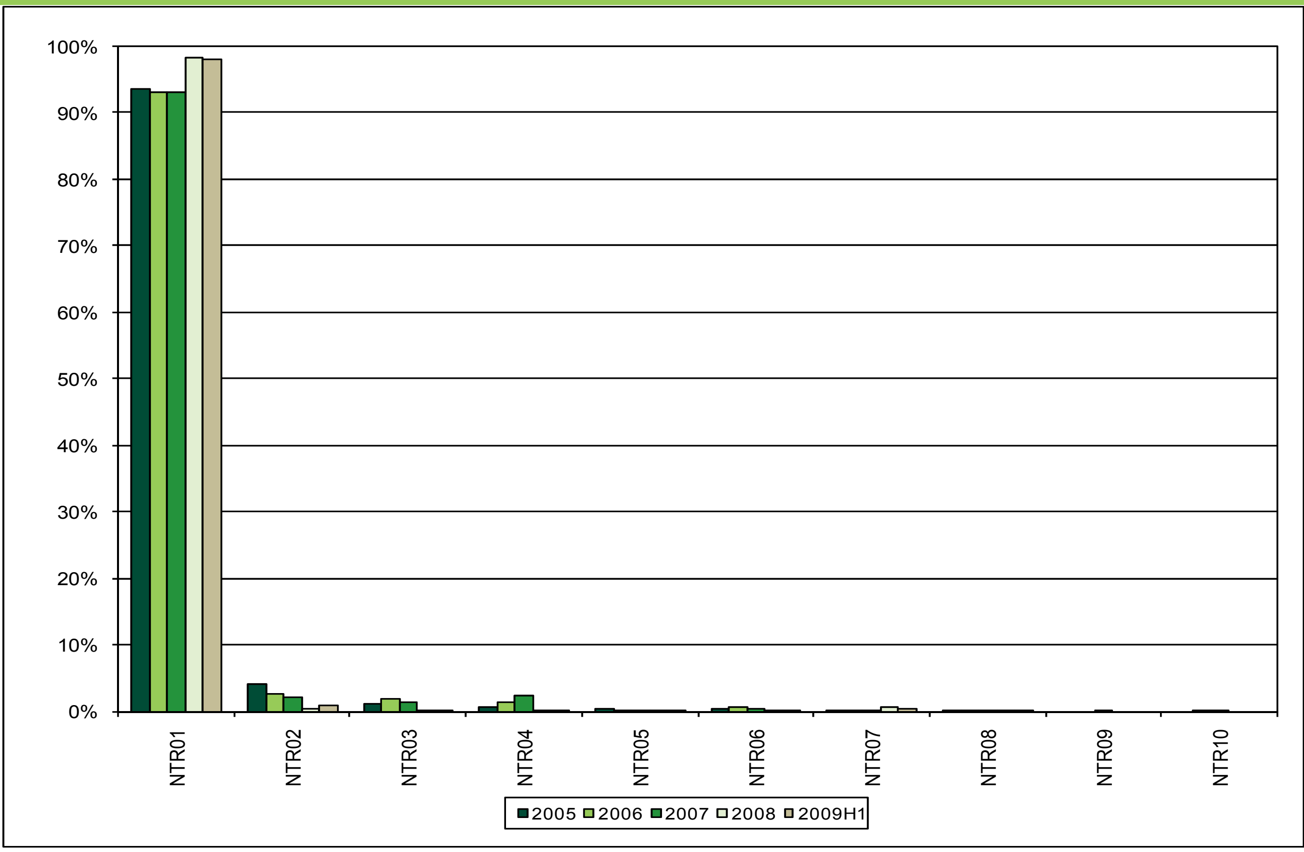
ASSET CLASS: BANKS

Based on master credit rating scale (ie PD only)
NGR Scale



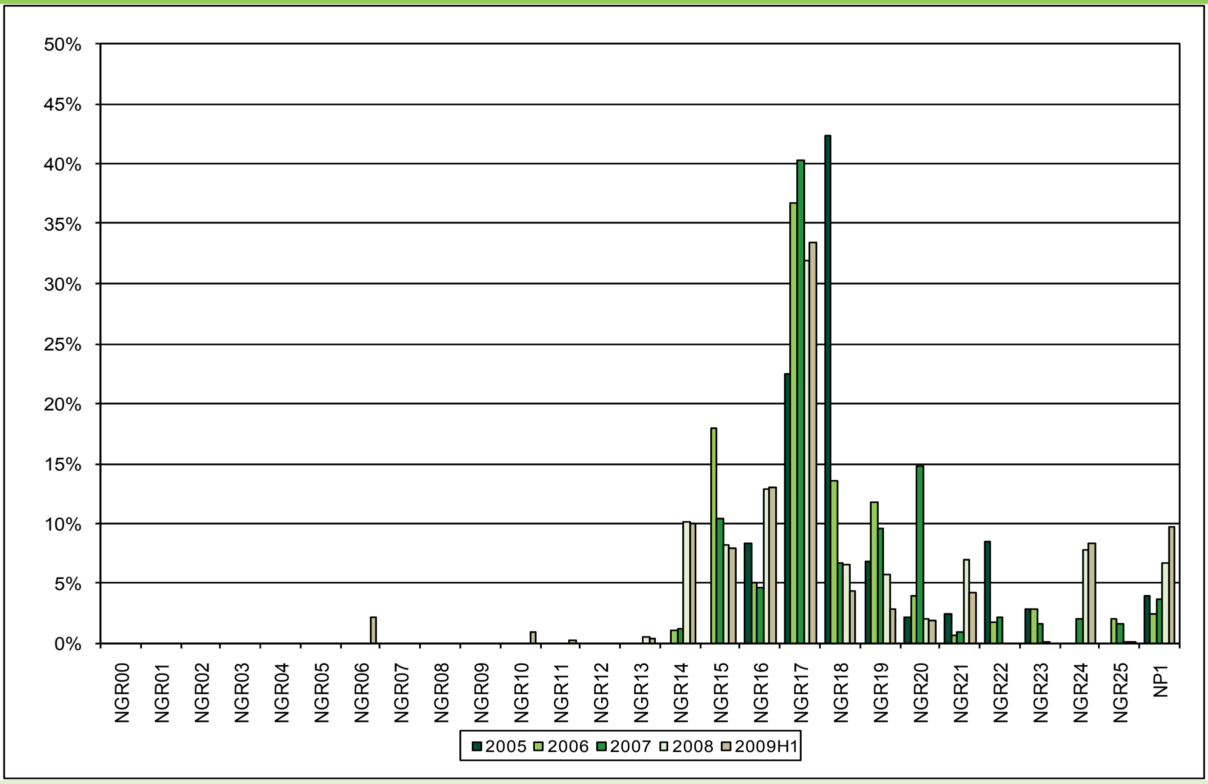
- Average performing book EAD–weighted PD 0,11%
- Average total book EAD–weighted PD 0,11%
- Average performing book EAD–weighted dLGD 42,23%
- Average total book EAD–weighted dLGD 42,23%
- Average performing book EAD–weighted dEL 0,05%
- Average Total book EAD–weighted dEL 0,05%

Based on master transaction rating scale (ie dEL)
NTR scale



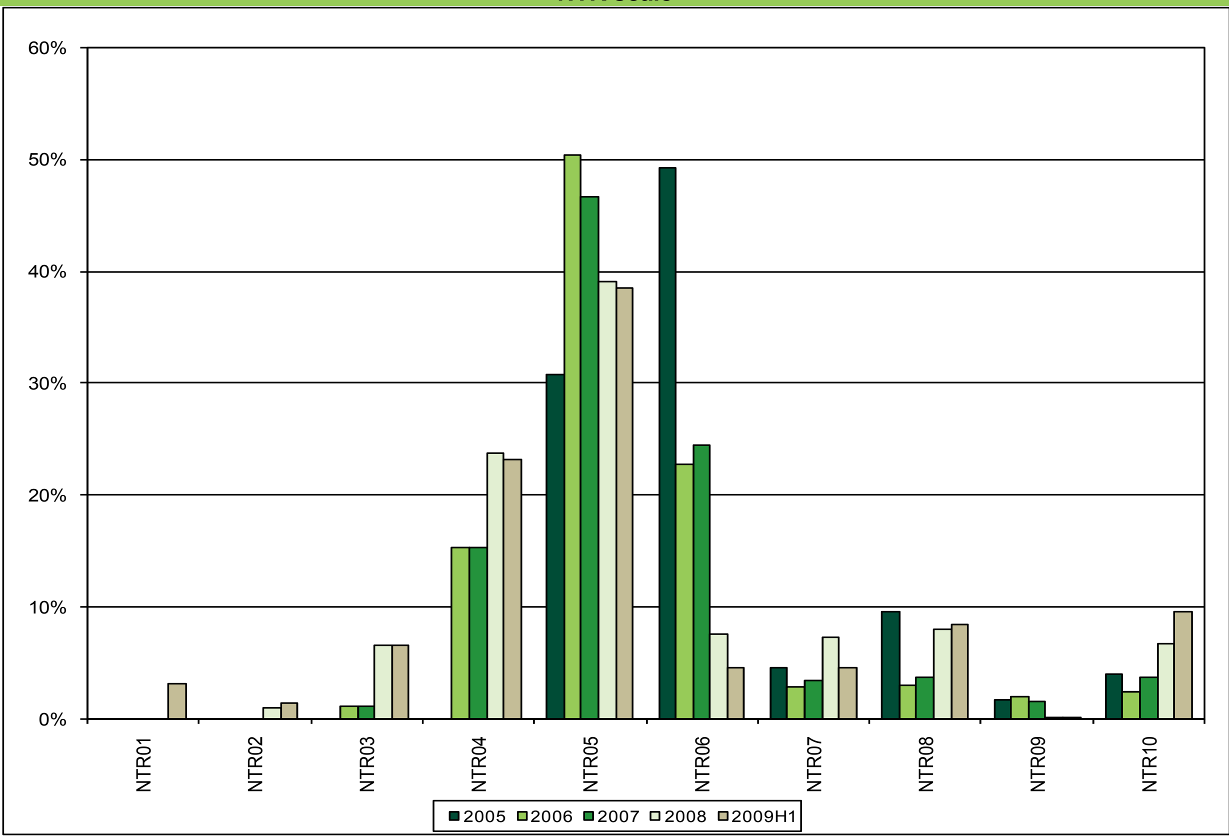
ASSET CLASS: RETAIL MORTGAGES

Based on master credit rating scale (ie PD only)
NGR Scale



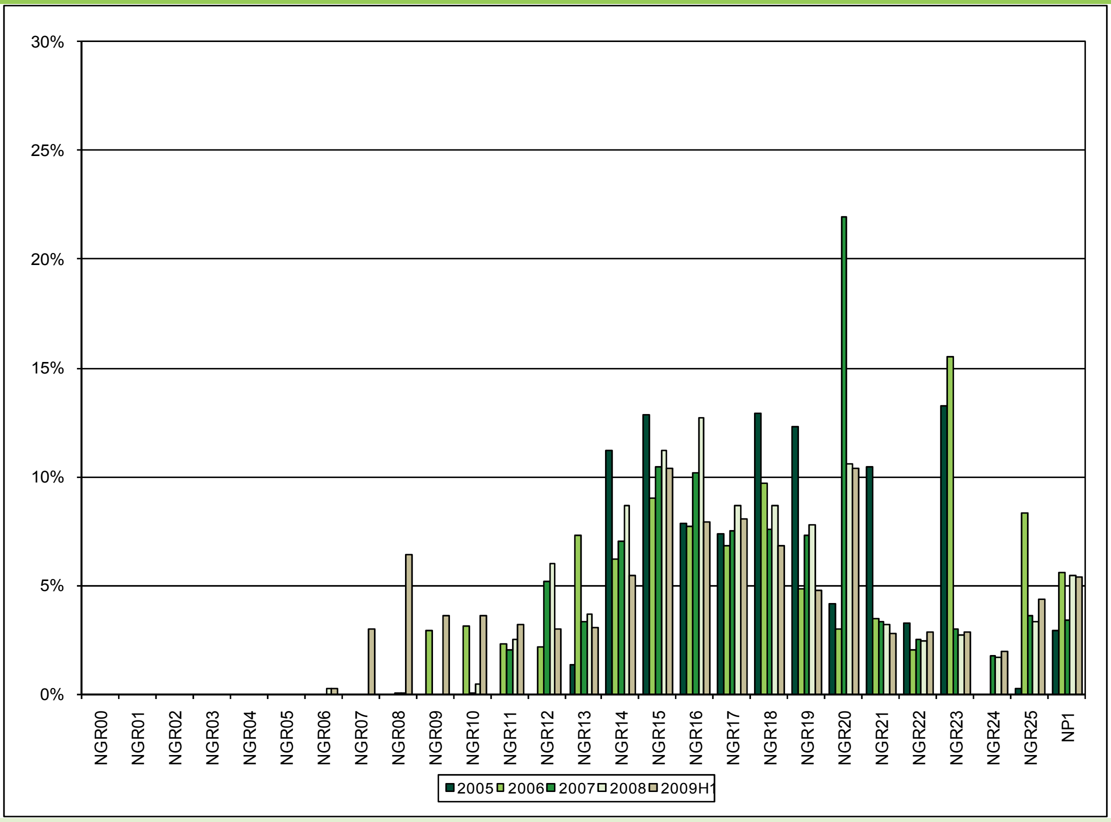
- Average performing book EAD–weighted PD 5,15%
- Average total book EAD–weighted PD 14,33%
- Average performing book EAD–weighted dLGD 17,57%
- Average total book EAD–weighted dLGD 17,58%
- Average performing book EAD–weighted dEL 0,89%
- Average total book EAD–weighted dEL 2,17%

Based on master transaction rating scale (ie dEL)
NTR scale



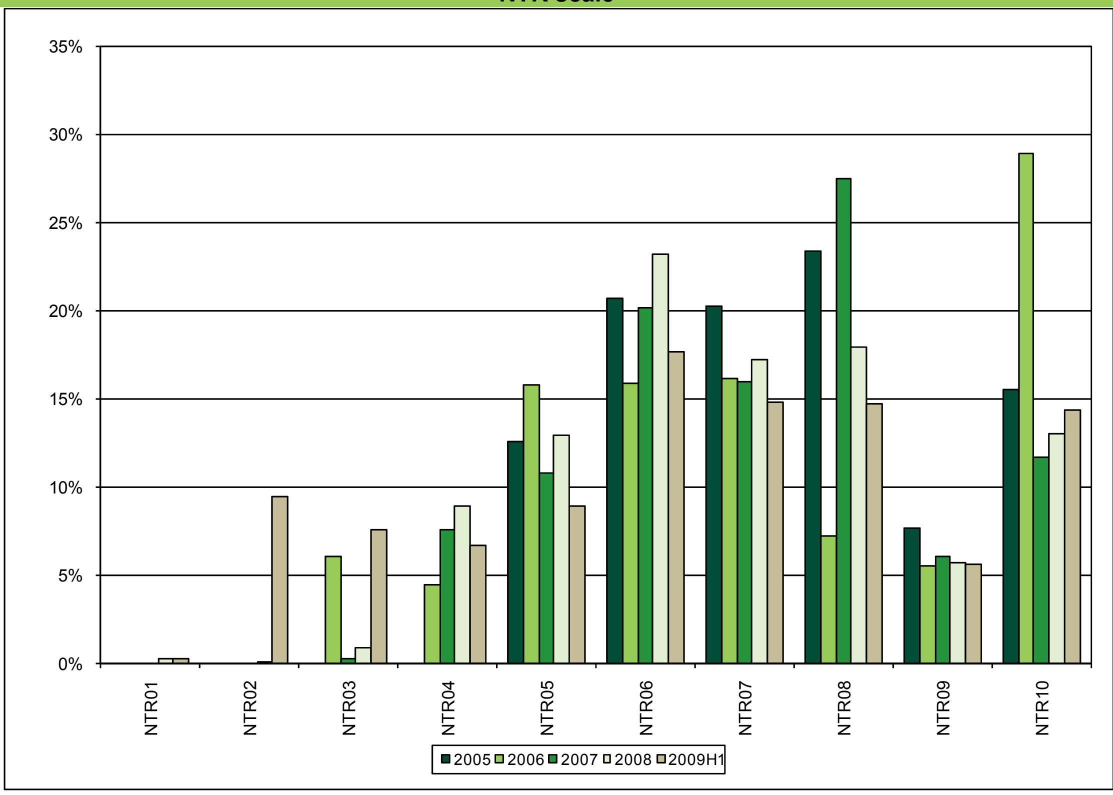
ASSET CLASS: RETAIL REVOLVING CREDIT

Based on master credit rating scale (ie PD only)
NGR Scale



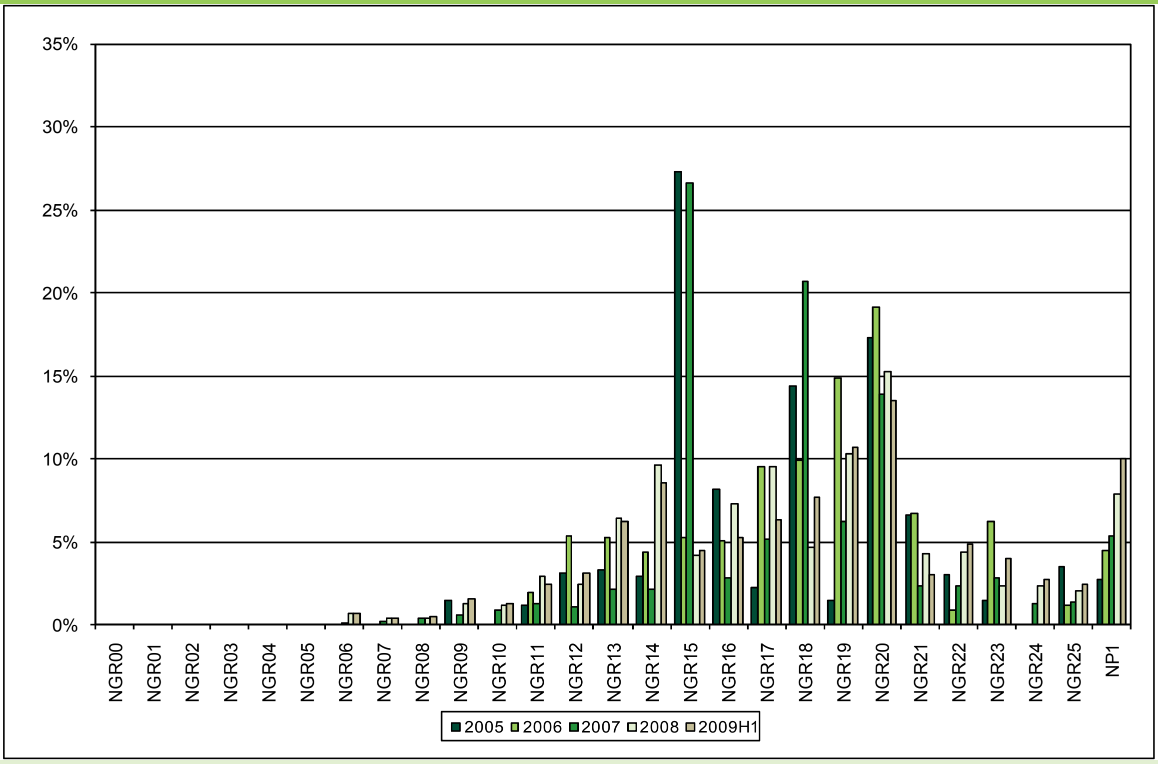
- •Average performing book EAD–weighted PD 5,75%
- •Average total book EAD–weighted PD 10,84%
- •Average performing book EAD–weighted dLGD 68,24%
- •Average total book EAD–weighted dLGD 68,74%
- •Average performing book EAD–weighted dEL 4,03%
- •Average total book EAD–weighted dEL 8,73%

Based on master transaction rating scale (ie dEL)
NTR scale



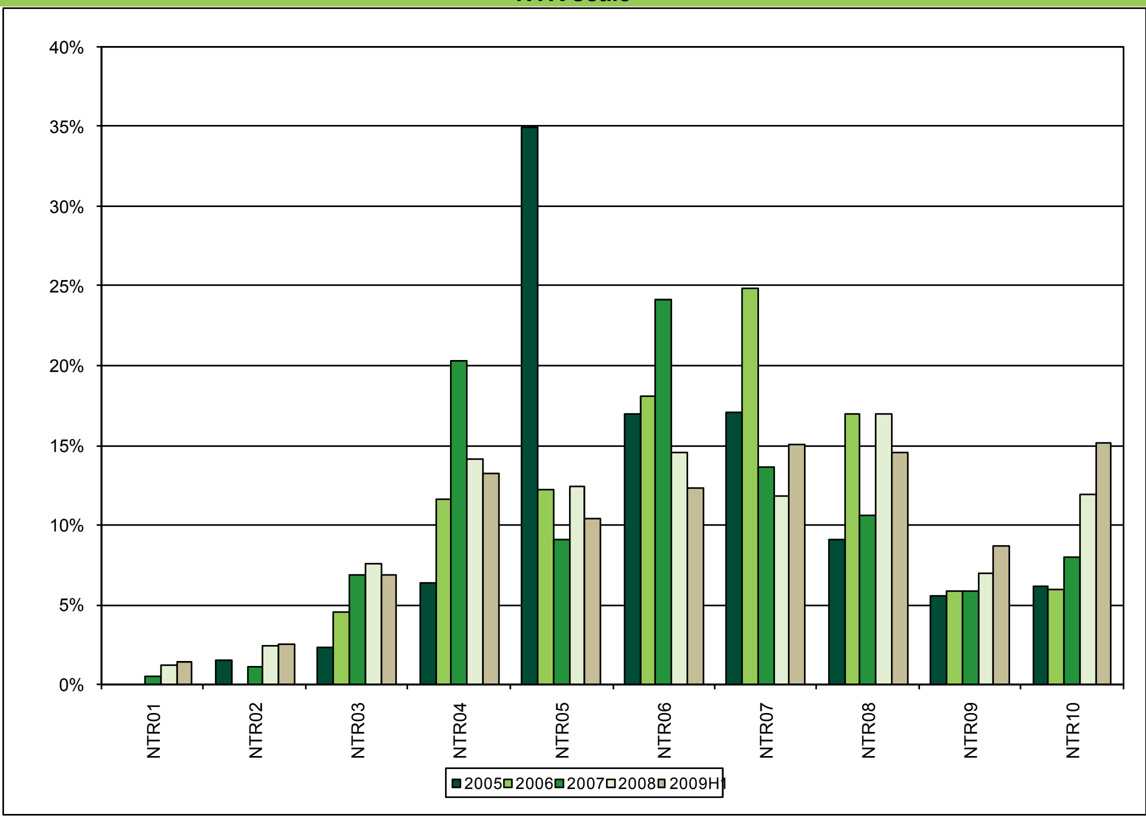
ASSET CLASS: RETAIL - OTHER

Based on master credit rating scale (ie PD only)
NGR Scale



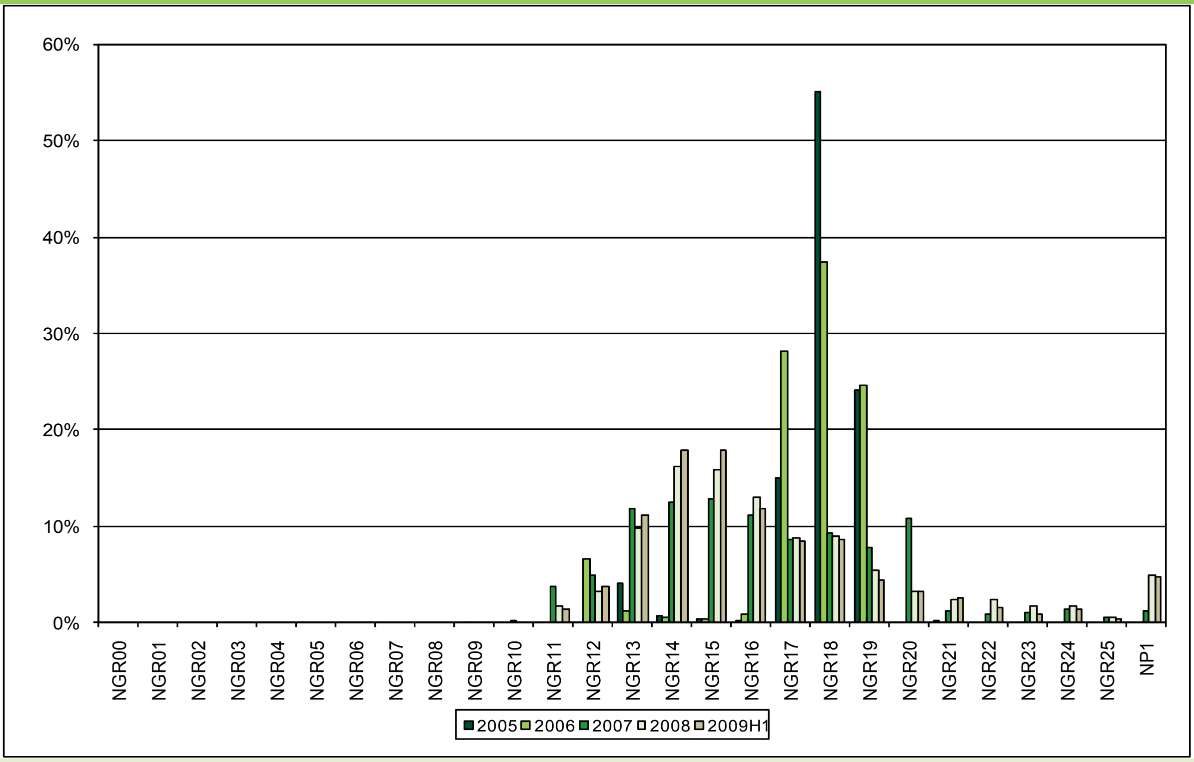
- •Average performing book EAD–weighted PD 6,51%
- •Average total book EAD–weighted PD 15,89%
- •Average performing book EAD–weighted dLGD 45,79%
- •Average total book EAD–weighted dLGD 45,78%
- •Average performing book EAD–weighted dEL 3,28%
- •Average total book EAD–weighted dEL 8,46%

Based on master transaction rating scale (ie dEL)
NTR scale



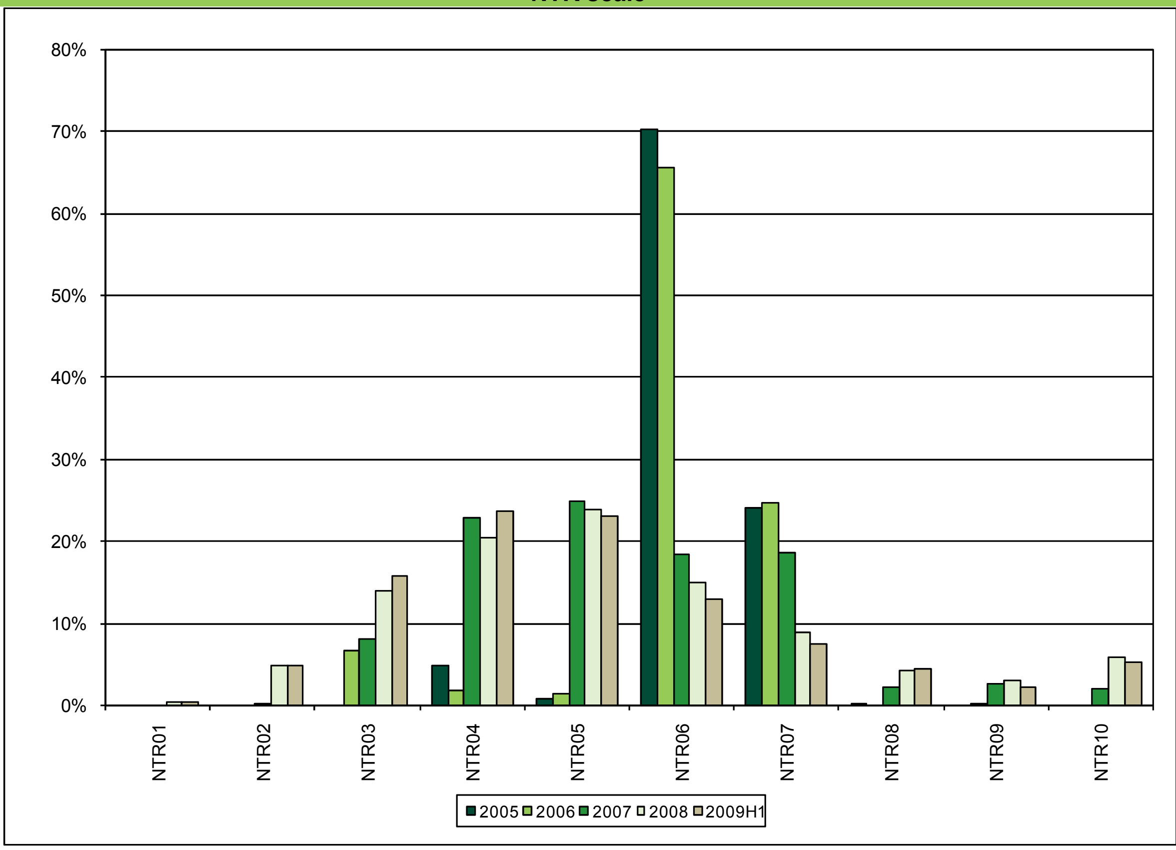
ASSET CLASS: SME - RETAIL

Based on master credit rating scale (ie PD only)
NGR Scale



- Average performing book EAD–weighted PD 3,08%
- Average total book EAD–weighted PD 7,64%
- Average performing book EAD–weighted dLGD 32,62%
- Average total book EAD–weighted dLGD 32,93%
- Average performing book EAD–weighted dEL 1,10%
- Average total book EAD–weighted dEL 3,17%

Based on master transaction rating scale (ie dEL)
NTR scale



SUMMARY DISTRIBUTION BY VALUE OF NEDBANK LIMITED'S KEY CREDIT RISK PARAMETERS (ANALYSIS BASED ON THE TOTAL BOOK IE PERFORMING AND NON-PERFORMING (DEFAULT) PORTFOLIOS)					
PD bands (NGR)	**Exposure (EAD)**	**EAD weighted average PD**	**EAD weighted average LGD**	**dEL**	**EAD weighted average risk weight**
At 30 June 2009	(Rm)	(%)	(%)	(%)	(%)
NGR 01*	-	-	-	-	-
NGR 02*	-	-	-	-	-
NGR 03	43 745	0,020	13,4	0,00	3,7
NGR 04	34 938	0,028	29,7	0,01	9,6
NGR 05	38 449	0,040	22,4	0,01	7,5
NGR 06	9 778	0,057	27,5	0,02	9,5
NGR 07	54 713	0,080	47,0	0,04	4,0
NGR 08	22 599	0,113	39,5	0,04	23,8
NGR 09	13 879	0,160	33,2	0,05	31,9
NGR 10	17 862	0,226	27,9	0,06	27,6
NGR 11	8 862	0,320	30,6	0,10	33,9
NGR 12	15 796	0,453	27,2	0,12	40,4
NGR 13	23 689	0,640	27,3	0,17	44,4
NGR 14	45 962	0,905	25,4	0,23	40,0
NGR 15	36 070	1,280	25,3	0,32	44,3
NGR 16	42 024	1,810	23,6	0,43	49,1
NGR 17	62 994	2,560	20,3	0,52	44,6
NGR 18	15 247	3,620	27,9	1,01	58,1
NGR 19	12 318	5,120	28,9	1,48	63,4
NGR 20	19 571	7,241	34,7	2,52	95,8
NGR 21	9 810	10,240	24,6	2,52	83,6
NGR 22	4 439	14,482	39,1	5,45	89,4
NGR 23	3 274	20,480	42,9	8,78	139,3
NGR 24	14 116	28,963	20,9	6,05	105,2
NGR 25	2 403	40,960	43,8	17,9	158,4
DEFAULT	21 412	100	25,8	25,0	73,3
Sub-total	573 950	6,11	27,61	1,59	37,5
Intercompany balances	68 020				
EAD net of intercompany	505 930				

** There is no exposure to NGR01 and NGR02 due to the application of the South African sovereign floor although these NGR bands are used internally in reporting of economic capital parameters.*

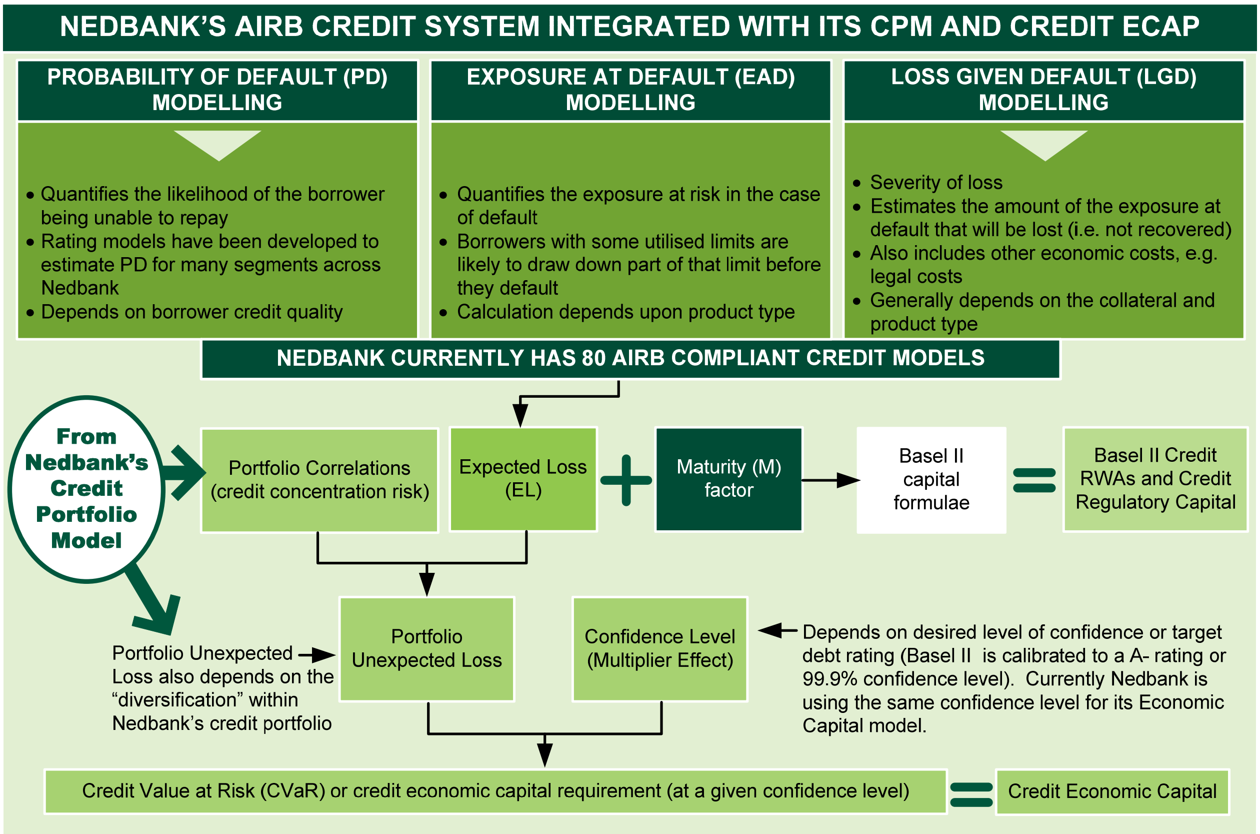
Credit concentration risk

Nedbank's AIRB credit system forms the basis of its measurement and management of credit risk across the bank. The bank requires that ratings be performed for all transactions, not only to achieve Basel II regulatory compliance, but more importantly to allow the bank to measure credit risk consistently and accurately across its entire portfolio. The Group Credit Portfolio Management unit in the Group Capital Management division measures, manages and strives to optimise the group's credit portfolios and credit concentration risk. For this purpose the group uses a tailored Credit Portfolio Model (CPM) run on KMV Portfolio Manager software.

Nedbank's CPM provides the following output, which is well entrenched into the risk management, business processes and ICAAP of the bank:

- Drills down into the credit portfolio to identify and then help manage hotspots and portfolio concentrations
- Provides risk-based pricing input in terms of the portfolio credit risk embedded in the individual client deals
- Produces credit value-at-risk (CVaR) used for credit economic capital
- Enhances credit risk reporting to senior management, DCCs, ECC, GCC and the board
- Facilitates regulatory dialogue to help satisfy the regulators that Nedbank understands the inherent credit risks within its portfolio – Pillar 2 (ICAAP) requirements
- Provides information regarding credit portfolio optimisation and any buy/sell/hedge decisions.

Nedbank's credit economic capital is separately derived by integrating the same key Basel II AIRB credit risk parameters with Nedbank's sophisticated CPM. The CPM also takes credit portfolio concentrations and intra-risk diversification into account.



Key factors affecting credit risk and capital requirements							
PD	EAD		LGD			Concentration	
Credit rating	Current exposure	Unutilised limits	Collateral value [loan-to-value (LTV)]	Collateral quality	Collections (recovery rates)	Client concentration	Sector concentration

Nedbank's CPM thus measures and estimates concentration risk in its credit portfolio, and intra-risk diversification, in arriving at an integrated credit economic capital requirement.

Nedbank's Group Credit Risk Framework (GCRF) includes the following salient features relevant to the management and monitoring of credit concentration risk:

- A separate board sub-committee, the Group Credit Committee (GCC)
- A 'Large Exposure Approval Committee', comprising three non-executive directors, and the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Credit Officer
- An Executive Credit Committee (ECC) and seven (7) executive Divisional Credit Committees (DCCs) covering all the businesses segments of the group
- A comprehensive credit mandate structure and process
- Group Credit Risk Monitoring Division in Group Risk and the CPM Unit housed within Group Capital Management in Group Finance

Reporting on credit concentration risk into the above governance structures generally includes:

- The watch list
- Large intra-group exposures
- Large exposures (ie >10% of capital)
- Top 20 client limits, exposures, EL and economic capital
- Industry (sectoral) exposure
- Credit capitalisation rates (by business and industry segment)
- Asset class and business segment
- Top 20 combined debt and equity exposures.

Single name credit concentration

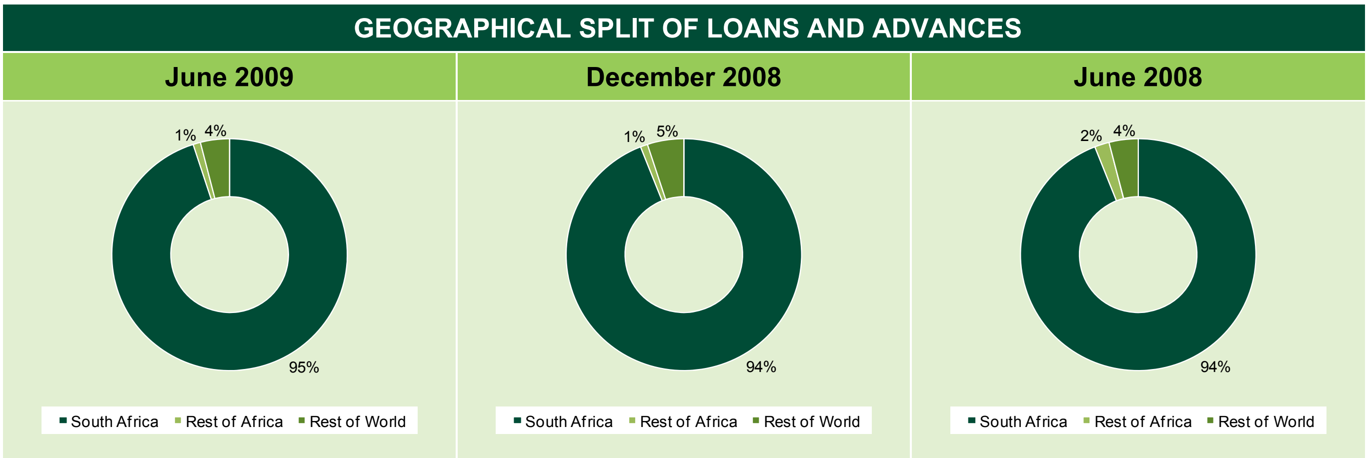
Our 'Top 20' exposure analysis, in particular the 'percentage of total group credit economic capital' by individual borrower, confirms that Nedbank does not have undue single-name credit concentration risk. Nedbank's credit concentration risk measurement incorporates the asset size of obligors / borrowers into its calculation of credit economic capital. We also include stress testing of single-name large exposures, and their potential impact on capital ratios, in our stress and scenario testing in assessing capital buffers.

TOP 20 NEDBANK GROUP EXPOSURES			
No.	**Internal Rating**	**EAD**	**% of total group credit ECAP (% EAD)**
June 2009		Rm	%
1	NGR06	4 306	0,12
2	NGR08	3 519	0,19
3	NGR03	3 248	0,02
4	NGR04	2 907	0,09
5	NGR15	2 890	0,45
6	NGR03	2 843	0,01
7	NGR09	2 696	0,03
8	NGR03	2 655	0,01
9	NGR03	2 454	0,01
10	NGR04	2 334	0,05
11	NGR07	2 314	0,12
12	NGR10	2 117	0,04
13	NGR08	1 994	0,08
14	NGR10	1 916	0,19
15	NGR03	1 910	0,01
16	NGR16	1 902	0,30
17	NGR10	1 882	0,18
18	NGR04	1 856	0,04
19	NGR10	1 800	0,08
20	NGR07	1 556	0,04
Total of top 20 exposures		49 099	2,06

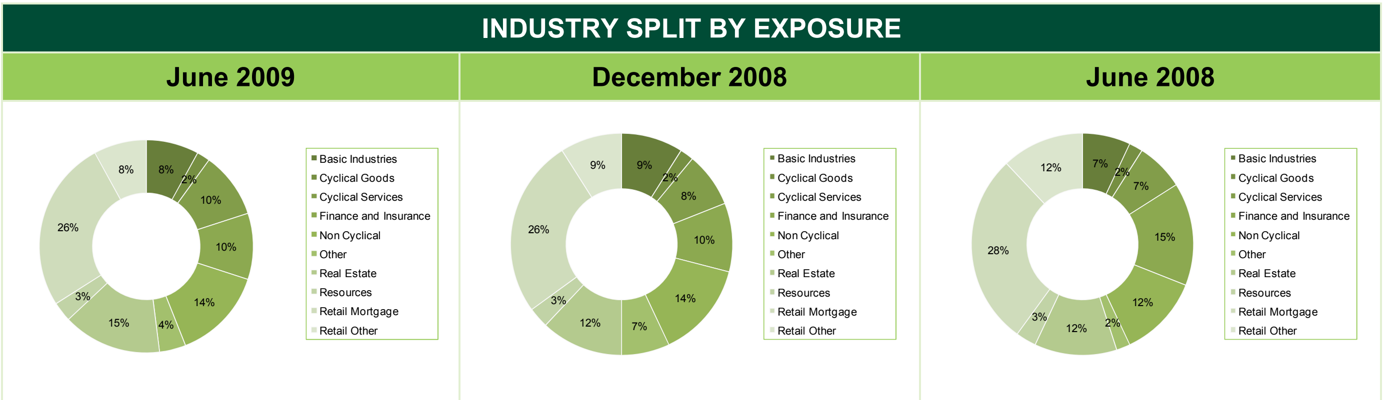
Exposure to banks and the South African government is excluded from the table above.

Geographic concentration risk

Geographically, almost all of Nedbank group's credit exposure originates in South Africa (non-South African exposure is approximately 5%). This geographical and industry concentration risk is built into Nedbank's concentration risk measurement for economic capital purposes.



Industry concentration risk



We conclude that credit concentration risk is adequately measured, managed, controlled, and ultimately capitalised. There is no undue single-name concentration. Nedbank is also a well diversified banking group in the South African context, split across its four major business clusters.

Counterparty credit risk (and settlement risk)

Counterparty credit limits are set at an individual counterparty level and approved within the Group Credit Risk Management Framework. Counterparty credit exposures are reported and monitored at a business unit level. In order to ensure that appropriate limits are allocated to large transactions, scenario analysis is performed within a specialised counterparty risk unit. Based on the outcome of such analysis, proposals regarding potential risk mitigating structures are made prior to final limit approval.

There is continued emphasis on the use of credit risk mitigation strategies, such as netting and collateralisation of exposures. Nedbank and its large bank counterparties have International Swaps and Derivatives Association ('ISDA') and International Securities Market Association ('ISMA') master agreements as well as credit support (collateral) agreements in place to support bi-lateral margining of exposures. Limits and appropriate collateral are determined on a risk-centred basis.

Netting is only applied to underlying exposures where supportive legal opinion is obtained as to the enforceability of the relevant netting agreement in the particular jurisdiction. Margining and collateral arrangements are entered into in order to mitigate counterparty credit risk. Haircuts, appropriate for the specific collateral type, are applied in order to determine collateral value. Margining agreements are pursued with interbank trading counterparties on a proactive basis. Margining thresholds constitute unsecured exposure to the counterparty and are assessed as such. In order to deal with a potential deterioration of counterparty credit risk over the life of transactions, thresholds are typically linked to the counterparty external credit rating. Limits for our Corporate and Business Banking businesses favour a nominal limit to facilitate monitoring.

Nedbank applies the Basel II Current Exposure Method (CEM) for counterparty credit risk. Economic capital calculations also currently utilise the Basel II CEM results as input in the determination of credit economic capital.

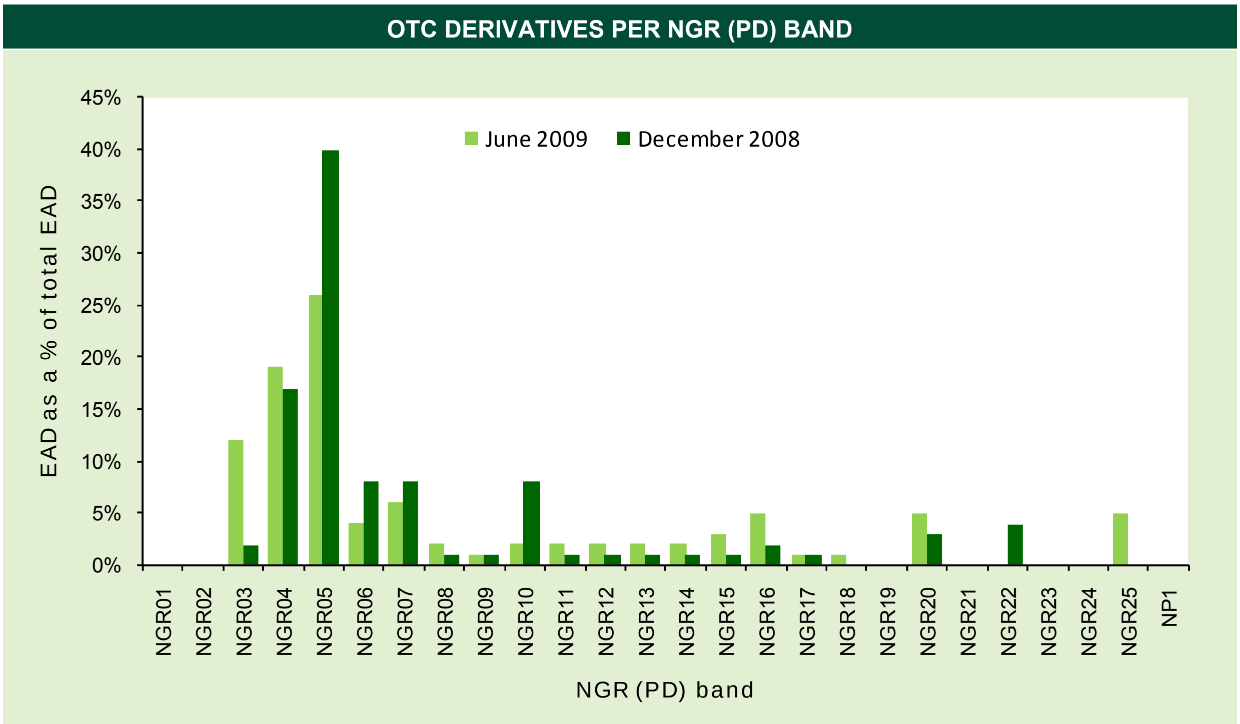
Over-the-counter (OTC) derivatives for Nedbank Limited solo and London branch

OTC derivative products	June 2009		December 2008	
	Notional value	Gross positive fair value	Notional value	Gross positive fair value
	Rm	Rm	Rm	Rm
Credit-default swaps	**1 559**	**7**	2 104	2
Equities	**2**	**628**	4 497	778
FX and gold	**181 867**	**12 609**	215 724	14 807
Interest rates	**291 844**	**5 936**	324 480	8 598
Other commodities	**3**	**170**	13	599
Precious metals except gold	**-***	**32**	4	36
Total	**475 275**	**19 382**	546 822	24 820

** Amount not shown as value is less than R1 million.*

OTC derivative products	Gross positive fair value	Current netting benefits	Netted current credit exposure (pre mitigation)	Collateral amount	Netted current credit exposure (post mitigation)	EAD value	Risk weighted exposure
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
June 2009	**19 382**	**10 851**	**9 218**	**562**	**8 717**	**10 549**	**3 282**
December 2008	24 820	13 272	10 581	1 796	8 996	12 861	3 138

OTC derivatives per NGR (PD) band	June 2009			December 2008		
	Notional value	**Gross positive fair value**	**EAD value**	Notional value	Gross positive fair value	EAD value
	Rm	**Rm**	**Rm**	Rm	Rm	Rm
NGR01						
NGR02						
NGR03	**15 039**	**1 114**	**1 253**	12 741	241	236
NGR04	**165 452**	**5 189**	**2 079**	187 234	8 198	2 187
NGR05	**183 074**	**7 907**	**2 824**	239 191	10 601	5 114
NGR06	**31 428**	**1 497**	**403**	33 544	1 885	990
NGR07	**15 921**	**565**	**582**	23 213	896	968
NGR08	**3 558**	**156**	**181**	2 846	123	142
NGR09	**7 328**	**114**	**148**	4 216	163	181
NGR10	**6 053**	**158**	**214**	10 093	909	994
NGR11	**5 649**	**146**	**183**	4 154	162	178
NGR12	**6 776**	**193**	**250**	1 878	108	121
NGR13	**2 896**	**205**	**227**	2 561	145	116
NGR14	**2 236**	**169**	**187**	2 955	142	168
NGR15	**6 983**	**216**	**289**	3 566	123	143
NGR16	**5 295**	**645**	**508**	5 861	109	201
NGR17	**1 155**	**60**	**72**	1 546	58	74
NGR18	**456**	**78**	**82**	797	15	19
NGR19	**545**	**36**	**41**	135	6	7
NGR20	**14 628**	**430**	**518**	9 506	367	444
NGR21	**133**	**2**	**3**	144	3	5
NGR22	**36**	**3**	**3**	72	539	539
NGR23	**194**	**10**	**11**	190	15	17
NGR24	**73**	**3**	**3**	319	2	6
NGR25	**229**	**479**	**480**	2		
NP1	**138**	**7**	**8**	58	10	11
Total	**475 275**	**19 382**	**10 549**	546 822	24 820	12 861



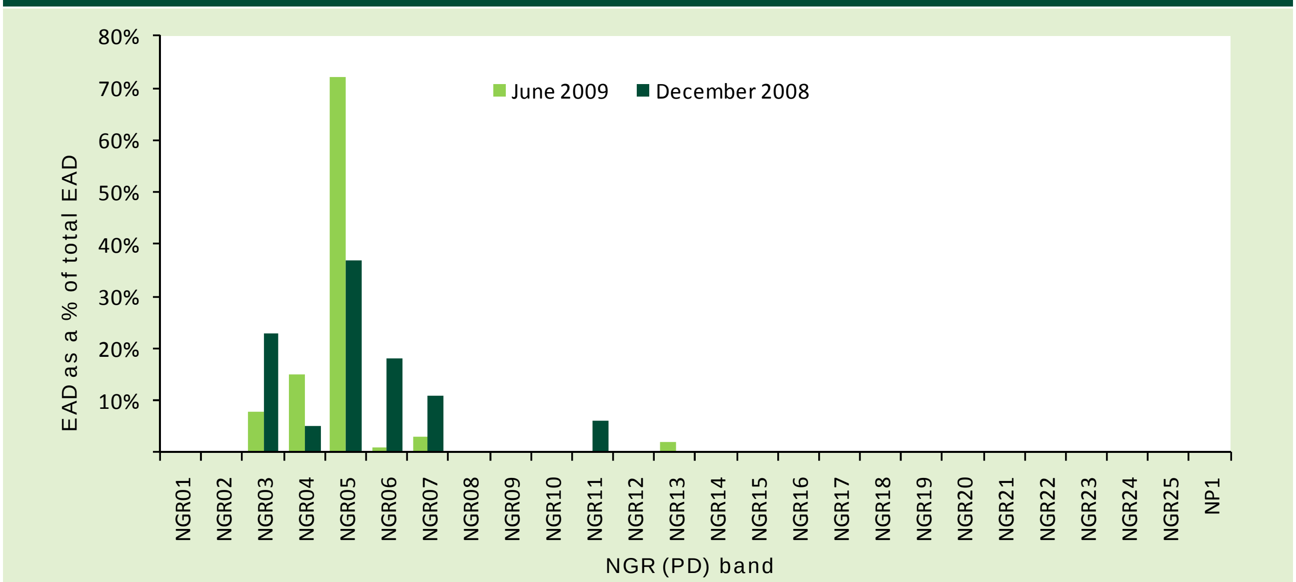
Securities Financing Transactions (SFTs) for Nedbank Limited solo and London branch

SFTs	Gross positive fair value	Collateral value after haircut	Netted current credit exposure (post mitigation)	EAD value	Risk weighted exposure
June 2009	**Rm**	**Rm**	**Rm**	**Rm**	**Rm**
Repurchase agreements (repos)	**2 756**	**4 448**	**173**	**173**	**12**
Securities Lending	**6 326**	**5 677**	**661**	**661**	**48**
Total	**9 082**	**10 125**	**834**	**834**	**60**

SFTs	Gross positive fair value	Collateral value after haircut	Netted current credit exposure (post mitigation)	EAD value	Risk weighted exposure
December 2008	Rm	Rm	Rm	Rm	Rm
Repurchase agreements (repos)	2 630	2 529	101	101	8
Securities Lending	4 686	4 672	14	14	1
Total	7 316	7 201	115	115	9

SFTs per NGR (PD) band	**June 2009**		December 2008	
	Gross exposure	**EAD value**	Gross exposure	EAD value
	Rm	**Rm**	Rm	Rm
NGR03	**989**	**68**	725	27
NGR04	**783**	**128**	185	6
NGR05	**6 404**	**588**	5 155	41
NGR06	**126**	**10**	729	21
NGR07	**512**	**21**	430	13
NGR08			10	
NGR11	**41**	**3**	82	7
NGR13	**199**	**13**		
NGR20	**28**	**3**		
Total	**9 082**	**834**	7 316	115

SFTS PER NGR (PD) BAND



Securitisation risk

Nedbank Group entered the securitisation market during 2004 and currently has three securitisation transactions, Synthesis Funding Limited (Synthesis), an asset-backed commercial paper programme (ABCP Programme) launched during 2004, Octane ABS 1 (Pty) Limited (Octane), a securitisation of motor vehicle loans advanced by Imperial Bank Limited through its subsidiary Motor Finance Corporation that was launched in July 2007, and

GreenHouse Funding (Pty) Limited (GreenHouse), a residential mortgage-backed securitisation programme (RMBS Programme) launched in December 2007.

Nedbank has used securitisation primarily as a funding diversification tool. Nedbank has an established in-house securitisation team within Nedbank Capital.

Synthesis is a hybrid multi-seller ABCP Programme that invests in longer-term rated bonds and offers capital market funding to South African corporates at attractive rates. These assets are funded through the issuance of short-dated investment-grade commercial paper to institutional investors. All the commercial paper issued by Synthesis is assigned the highest short-term RSA local currency credit rating by both Fitch and Moody's, and is listed on the South African Bond Exchange.

Nedbank currently fulfils a number of roles in relation to Synthesis including acting as sponsor, liquidity facility provider, credit enhancement facility provider, swap provider and investor. The exposures to Synthesis that Nedbank assumes are measured, from both a regulatory and economic capital (ICAAP) point of view, using the ratings-based approach and the standardised formula approach, both under the IRB approach for securitisation exposures, thereby ensuring alignment with the methodology adopted across the wider Nedbank Group.

Octane is a securitisation programme of auto loans advanced by Imperial Bank Limited. The inaugural transaction under Octane entailed the securitisation of R2 billion of auto loans under Octane Series 1. Nedbank Group currently fulfil a number of roles in relation to Octane Series 1 including acting as originator, service provider, credit enhancement (subordinated loan) facility provider, swap provider and investor.

The commercial paper issued by Octane Series 1 has been assigned credit ratings by Fitch and is listed on the South African Bond Exchange. The assets of Octane continue to be recognised on the balance sheet of Nedbank Group in terms of IFRS and Octane is consolidated under Nedbank Group.

GreenHouse is a R10 billion RMBS programme to securitise some of Nedbank's residential mortgages. The inaugural transaction under GreenHouse entailed the securitisation of R2 billion of residential mortgages under GreenHouse Series 1. Nedbank currently fulfils a number of roles in relation to GreenHouse Series 1 including acting as originator, service provider, credit enhancement (subordinated loan) facility provider, swap provider and investor. The commercial paper issued by GreenHouse Series 1 has been assigned credit ratings by both Fitch and Moody's and is listed on the South African Bond Exchange. The assets of GreenHouse continue to be recognised on the balance sheet of Nedbank Group in terms of IFRS, and GreenHouse is consolidated under Nedbank Group.

During the period under review, no new securitisation transactions were concluded by the group. The above vehicles are the full extent of the group's current securitisation exposure.

Amidst the adverse external environment, although credit quality deteriorated, all securitisation vehicles continued to perform within the specified parameters detailed in the transaction documentation applicable to the respective transactions and no securitisation assets were subject to early amortisation. The ratings of the various transactions have been affirmed by the rating agencies and remain stable.

The group's securitisation initiatives are overseen by the Group ALCO. All securitisation transactions are also subject to the stringent South African regulatory securitisation framework.

From an IFRS accounting perspective the assets transferred to Greenhouse and Octane vehicles continue to be recognised and consolidated in the balance sheet of the group. Synthesis is also consolidated into Nedbank Group.

On-balance sheet securitisation exposure

Transaction	Year initiated	Rating agency	Transaction type	Assets type	Assets securitised	Carrying Amount of Assets	Assets securitised	Carrying Amount of Assets	Assets securitised	Carrying Amount of Assets
					Jun 2009		Jun 2008		Dec 2008	
					Rm	**Rm**	Rm	Rm	Rm	Rm
Greenhouse	2007	Moody's and Fitch	Traditional Securitisation	Retail mortgages	**2 000**	**1 991**	2 000	1 533	2 000	1 972
Octane	2007	Fitch	Traditional Securitisation	Auto loans	**2 000**	**1 776**	2 000	1 796	2 000	1 781
Total					**4 000**	**3 767**	4 000	3 329	4 000	3 753

Off-balance sheet securitisation exposure

Transaction	Transaction type	Exposure type	Exposure		
			Jun 2009	Jun 2008	Dec 2008
			Rm	Rm	Rm
Own transactions					
Synthesis	ABCP Conduit	Liquidity facility	**7 006**	8 463	7 806
Third parties					
Private Residential Mortgages (Pty) Ltd	Securitisation	Liquidity facility	**100**	100	100
Private Mortgages 2 (Pty) Limited	Securitisation	Liquidity facility	**40**	40	40
Private Mortgages 2 (Pty) Limited	Securitisation	Redraw facility	**428**	452	436
Total			**7 574**	9 055	8 382

The table below contains a summary of Synthesis, Nedbank's asset backed commercial paper mortgage programme (ABCP).

Transaction	Year initiated	Rating agency	Transaction type	Assets type	Programme size	Conduit Size		
						Jun 2009	Jun 2008	Dec 2008
					Rm	**Rm**	Rm	Rm
Synthesis	2004	Moody's and Fitch	ABCP Conduit	Asset backed securities, corporate term loans and bonds	**15 000**	**7 001**	8 458	7 801
Total					**15 000**	**7 001**	8 458	7 801

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

Transaction	Originator	Investor	Servicer	Liquidity provider	Credit enhancement provider	Swap counterparty
Greenhouse	✓	✓	✓		✓	✓
Octane	✓	✓	✓		✓	✓
Synthesis		✓	✓	✓		✓
Private Residential Mortgages (Pty) Ltd				✓		
Private Mortgages 2 (Pty) Limited				✓		

The table below shows the Basel II IRB consolidated group capital charges per risk band for securitised exposures retained or purchased by Nedbank Group.

	Capital charge		
	Jun 2009	Jun 2008	Dec 2008
	Rm	Rm	Rm
AAA or A1/P1	**3,9**	4,0	3,9
AA+ to AA-	**1,1**	1,1	1,1
A+			1,0
A or A2/P2			
A-	**5,8**	5,8	5,7
BBB+			
BBB or A3/P3	**9,8**	9,9	7,2
BBB-	**9,5**	9,6	9,4
BB+	**15,8**	15,9	15,9
BB			
BB-			
Unrated			
Unrated liquidity facilities to ABCP programme	**39,7**	47,7	44,4
Total	**85,6**	94,0	88,6

Asset and liability management (ALM) risks

ALM addresses two of the group's key risk types, namely liquidity risk and market risk in the banking book which inturn includes, interest rate risk in the banking book and foreign currency translation risk on foreign based capital, investments, loans and / or borrowings.

The Group ALM division is one of three support functions of the Group ALCO and Executive Risk Committee (Group ALCO), specifically facilitating this committee's responsibility regarding these important risks. Group ALM is supported by an established ALM desk and maintains a close interaction with the centralised funding desk, both desks are located in the Group Treasury dealing room. These desks facilitate the implementation of on- and off-balance sheet strategies by providing access to products and tools available within Group Treasury.

Liquidity risk

There are two types of liquidity risk, being market liquidity risk and funding liquidity risk.

The international market turbulence that has and continues to affect many financial markets around the world has sharply focused attention on the crucial role liquidity plays in assuring the effective functioning of the banking sector and related markets. The significant reduction of liquidity in short-term international money markets and virtual drying-up of liquidity in the securitisation and covered bonds market coupled with problems in accessing funding in the secured financing markets, even for highly rated assets, has caused severe liquidity difficulties for many international companies in funding their on- and off-balance sheet requirements. This has prompted significant action by central banks and governments around the world including equity stakes, special liquidity facilities and the acquisition of tainted assets.

The change in market liquidity since the start of this crisis has highlighted how quickly liquidity can evaporate and how illiquidity can last for prolonged periods of time, having catastrophic consequences on what have been seen as strong, mature organisations as well as economic growth rates. This crisis has further highlighted that many banks around the world failed to adopt basic principles of sound liquidity risk management.

Nedbank manage the market risk exposure to illiquid instruments by setting sensitivity, term and concentration limits. Nedbank Market Risk reviews all deals over a certain size, profitability or exposure prior to these trades being executed. This approach proactively ensures all potential exposure to illiquid instruments is approved prior to execution. The exposure to illiquid trading instruments is monitored daily by Nedbank Capital Market Risk and Group Market Risk Monitoring. The information is summarised in an illiquid dashboard and is produced monthly for the Trading Risk Committee and quarterly for Group ALCO and the Group Risk and Capital Management Committee.

As these events continue to develop and unfold the result continues to play out with devastating consequence. This had led to financial institutions increasing capital bases (including significant de-leverage); unprecedented government intervention and support; a refocus on the money-in side of the business and a shift back to vanilla banking books and products (rather than complex financial products).

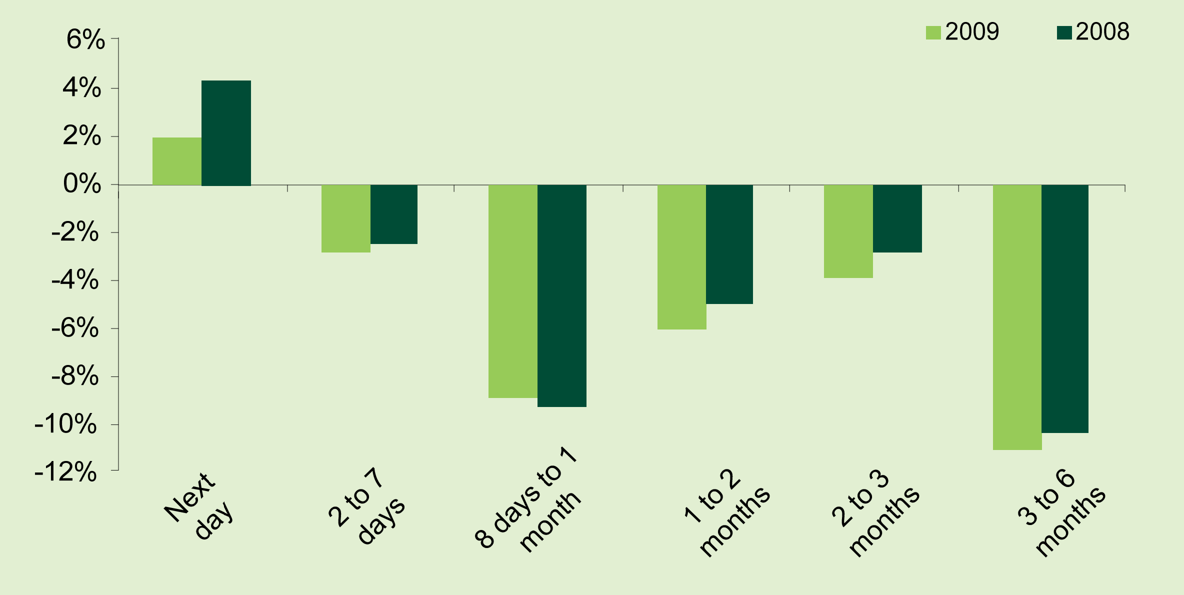
By contrast the South African banking system has remained resilient to these adverse global market conditions and remains structurally sound in a tough economic and financial environment. To date, global contagion has largely been restricted to the domestic capital markets, foreign markets and the real economy and has significantly reduced domestic banks access to the foreign funding markets albeit that these markets are improving, but these funds remains expensive. This has resulted in a repricing of securitised funding and a decline in appetite for this asset class and has caused Tier 1 and Tier 2 capital initiatives to become more expensive and resulted in a decrease in the size of these programmes.

Importantly, the domestic financial market continues to clear efficiently and effectively as the South African banks have not lost trust in one another.

Specifically in Nedbank:

- Liquidity management is a vital risk management function in all entities across all jurisdictions and currencies, and is a key focus of the Nedbank Group
- A bank's role in financial intermediation is the transformation of short-term deposits into longer-term loans. This makes Nedbank, along with other South African banks, inherently susceptible to liquidity mismatches that are managed through a combination of strategic initiatives.

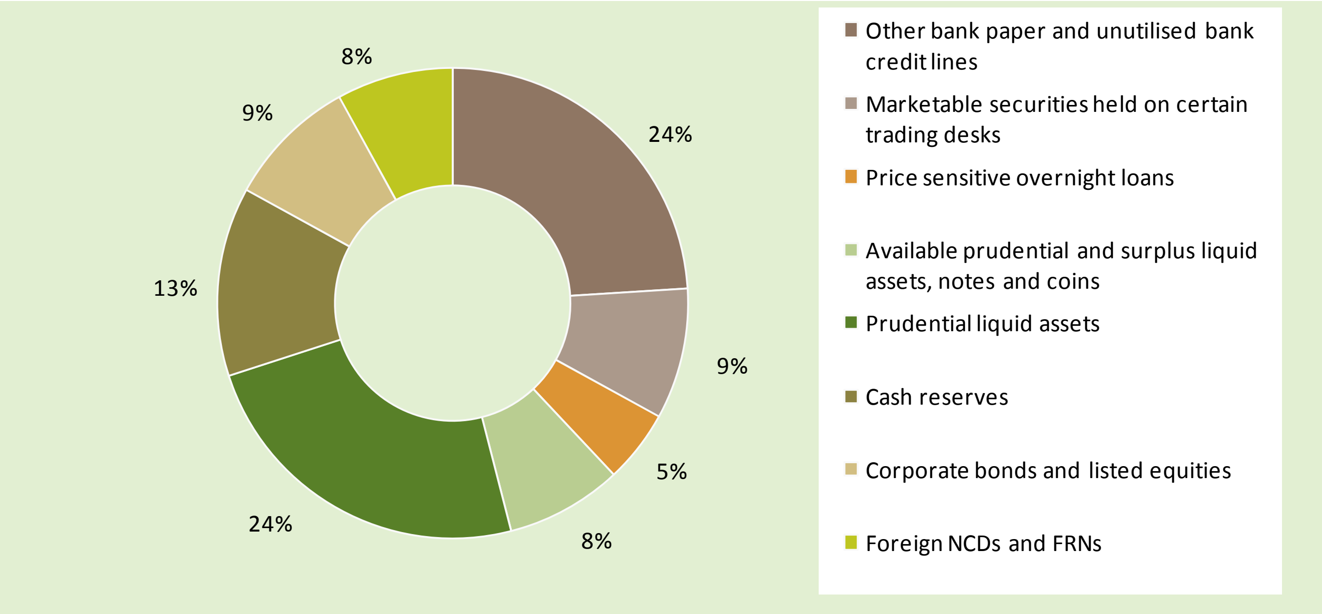
NEDBANK LIMITED BEHAVIOURAL LIQUIDITY MISMATCH



(Expressed on total assets and based on maturity assumptions before rollovers and risk management)

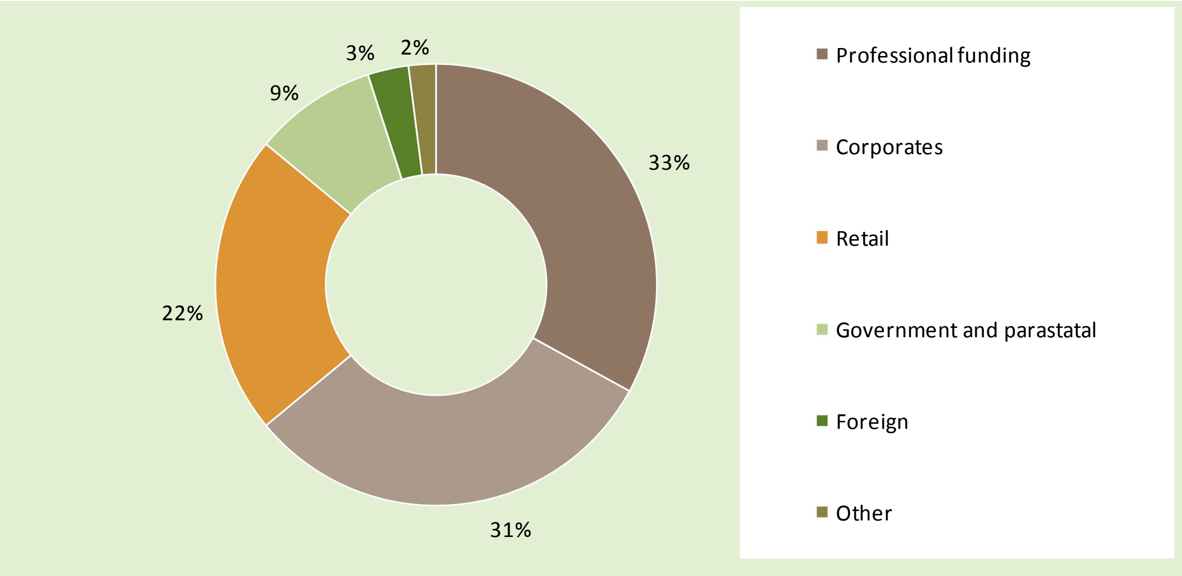
- The impact of the global liquidity events on Nedbank has not been material – primarily because these events have not impacted the domestic funding market. Nedbank has an immaterial foreign funding requirement, a small international footprint and a relatively small conduit business that has no foreign balance sheet components. Nedbank has no direct exposure to the US sub-prime market
- Although the impact of these ongoing global liquidity developments has not been significant for the Nedbank Group, the appropriate risk management resources and forums continue to monitor these developments closely to identify any early signs of contagion within the South African markets in order to manage such risk appropriately
- Ultimate responsibility for liquidity risk management rests with the board of directors, which has approved an appropriate liquidity risk management framework for the management of the group's funding requirements and liquidity mismatches. This framework includes, inter alia, appropriately constituted non-executive and executive risk committees, a funding strategy forum, a centralised funding desk and divisional pricing/interest rate committees. It also includes appropriately defined charters for these forums as well as supporting policies and limits defining risk appetite
- The group's daily liquidity requirements are managed by an experienced centralised funding team in Group Treasury
- Strategic liquidity initiatives are motivated to and approved by Group ALCO before execution
- Group ALCO monitors all liquidity strategies to ensure compliance with the Liquidity Risk Management Framework and their successful implementation
- Nedbank has established a number of liquidity contingency triggers, which are monitored regularly to facilitate early warning. This process is supported by an appropriate liquidity risk contingency plan and framework to ensure an immediate response and process should the need arise
- Group ALCO separately identified deposits that are deemed to be potential funds at risk in a 'break-the-bank' stress scenario. These funds are adequately covered by sources of quick liquidity, including prudential reserves and liquid assets. Sources of quick liquidity totalled R67,7 billion at 30 June 2009 including prudential liquidity holdings of R29,4 billion

NEDBANK'S SOURCES OF QUICK LIQUIDITY



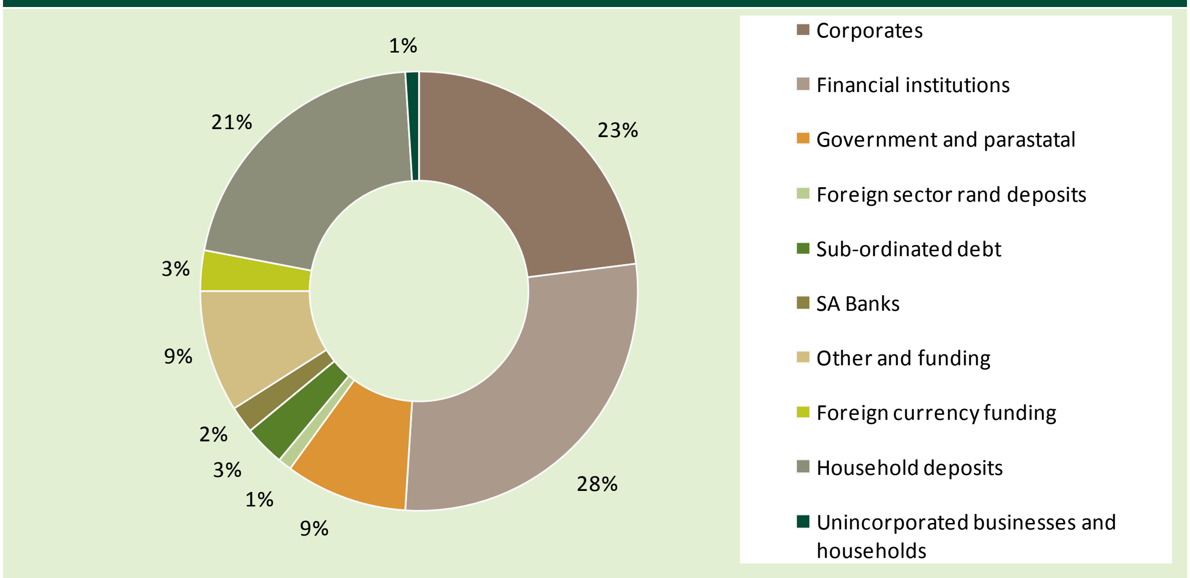
- Portfolios of marketable and highly liquid assets that can be liquidated to meet unforeseen or unexpected funding requirements are held in the group in terms of the Liquidity Risk Management Framework (refer pie chart above)
- Liquidity risk reporting, including appropriately designed dashboards, provides the Group ALCO, as well as the board's Group Risk and Capital Management Committee, with appropriate liquidity risk information. This includes measures of compliance with approved policies and limits
- Behavioural modelling and stress analysis to identify business-as-usual as well as potential stress cashflow requirements are carried out regularly
- Net daily funding requirements are forecast by estimating daily rollovers and withdrawals, managing pipeline deal flow and actively managing daily settlements
- The centralised funding desk maintains regular interaction with the group's larger depositors to understand and manage their cashflow requirements
- Close liaison is maintained with the retail banking, business banking and corporate banking deposit-raising activities, through separate direct dealing desks within this team, ensuring that stable sources of funds are maximised and priced correctly, and client rollovers and flows are understood. Nedbank has strong retail, business banking and corporate deposit bases

NEDBANK LIMITED'S SOUTH AFRICAN FUNDING DISTRIBUTION



- Funding mismatches are managed by currency denomination and a focus is placed on managing short-term funding maturities, daily settlements and collateral management processes. Nedbank Group does not run large funding mismatches in its foreign operations
- Liabilities are appropriately diversified, including by product, market and maturity
- Funding is sourced from a large variety of depositors representing a cross-section of South African public and private economic sectors, industries, commercial enterprises and individuals with a wide range of maturities and using a large number of investment and transactional banking products. Concentration risk within the deposit base is appropriately diversified

NEDBANK LIMITED'S SOUTH AFRICAN SECTORAL DISTRIBUTION OF LIABILITIES TO THE PUBLIC



- Group ALCO continues to identify diversified sources of funding and continue to pursue other markets, for example the capital markets and foreign banks to diversify funding sources during 2009
- Scenario analysis is used in the management of the bank's liquidity risk, including plausible stress scenarios
- The management of liquidity risk and particularly cash flows is strongly focused on the short to medium term to ensure that risk management is quick to respond to the immediate cashflow requirements under different stress scenarios

Liquidity risk measurement, reporting systems and portfolio review

The tables below show the expected profile of cashflows under a contractual and business-as-usual scenario.

NEDBANK GROUP CONTRACTUAL LIQUIDITY GAP AS AT 30 JUNE 2009							
Rm	**<3 months**	**>3 months <6 months**	**>6 months <1 year**	**>1 year <5 months**	**>5 years**	**Non-determined**	**Total**
Cash and cash equivalents (including mandatory reserve deposits with central bank)	4 069		68			14 833	18 970
Other short-term securities	12 374	2 439	3 423	2 398			20 634
Derivative financial instruments	606	118	9 272	4 979	2 865		17 840
Government and other securities	364	558	1 051	21 776	11 964		35 713
Loans and advances	80 092	15 244	22 196	138 787	175 634		431 953
Other assets						32 208	32 208
	97 505	**18 359**	**36 010**	**167 940**	**190 463**	**47 041**	**557 318**
Total equity and liabilities						42 498	42 498
Derivative financial instruments	568	154	7 683	4 358	3 085		15 848
Amounts owed to depositors	349 570	34 524	61 573	12 874	1 817		460 358
Other liabilities						24 227	24 227
Long-term debt instruments			265	8 211	5 911		14 387
	350 138	**34 678**	**69 521**	**25 443**	**10 813**	**66 725**	**557 318**
Net liquidity gap	**(252 633)**	**(16 319)**	**(33 511)**	**142 497**	**179 650**	**(19 684)**	

The contractual liquidity gap is adjusted for behavioural assumptions as this gap overstates the group's liquidity risk profile. These adjustments result largely in a lengthening of deposit cashflows, due to behavioural assumptions through which contractually maturing short term deposits have longer profiles. In addition, certain marketable securities for which there is a liquid market are reflected in this profile in the short term.

NEDBANK GROUP BUSINESS-AS-USUAL LIQUIDITY GAP AS AT 30 JUNE 2009							
Rm	**<3 months**	**>3 months <6 months**	**>6 months <1 year**	**>1 year <5 months**	**>5 years**	**Non-determined**	**Total**
Cash and cash equivalents (including mandatory reserve deposits with central bank)	7 304		72			11 594	18 970
Other short-term securities	20 634						20 634
Derivative financial instruments	606	118	9 272	4 979	2 865		17 840
Government and other securities	35 713						35 713
Loans and advances	67 081	21 076	42 661	178 475	122 660		431 953
Other assets						32 208	32 208
	131 338	**21 194**	**52 005**	**183 454**	**125 525**	**43 802**	**557 318**
Total equity and liabilities						42 498	42 498
Derivative financial instruments	568	154	7 682	4 359	3 085		15 848
Amounts owed to depositors	199 207	76 174	99 638	13 120	72 219		460 358
Other liabilities						24 227	24 227
Long-term debt instruments			457	8 202	5 728		14 387
	199 775	**76 328**	**107 777**	**25 681**	**81 032**	**66 725**	**557 318**
Net liquidity gap	**(68 437)**	**(55 134)**	**(55 772)**	**157 773**	**44 493**	**(22 923)**	

Note: Adjustment for business-as-usual assumptions before roll-overs and risk management action.

The additional disclosure below depicts the contractual and business-as-usual liquidity mismatches in respect of the two major banking entities within the group, Nedbank Limited and Imperial Bank Limited, and highlights the split of total deposits into stable and more volatile. Based on the behaviour of the bank's clients it is estimated that in excess of 66% of the total deposit base is stable in nature.

This information is also reported for the banks in more detailed liquidity buckets.

CONTRACTUAL BALANCE SHEET MISMATCH AS AT 30 JUNE 2009

Rm	Total	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months
Contractual maturity of assets	**546 242**	**59 439**	**8 907**	**12 496**	**11 174**
Loans and advances	436 262	41 943	2 420	6 006	4 859
Trading, hedging and other investment instruments	70 905	3 034	6 487	5 418	4 922
Other assets	39 075	14 462		1 072	1 393
Contractual maturity of liabilities	**546 242**	**191 005**	**19 403**	**56 610**	**33 465**
Stable deposits	256 544	83 286	6 503	30 233	15 048
Volatile deposits	208 744	100 477	6 432	25 391	14 253
Trading and hedging instruments	39 182	6 920	6 468	986	4 164
Other liabilities	41 772	322			
On-balance sheet contractual mismatch	**-**	**(131 566)**	**(10 496)**	**(44 114)**	**(22 291)**
Cumulative on-balance sheet contractual mismatch	**-**	**(131 566)**	**(142 062)**	**(186 176)**	**(208 467)**

The business-as-usual table below shows the expected profile of the group's funding. The 'contractual' maturity profile tabled above is based on the contractual maturity of these items, whereas the business-as-usual maturity profile takes into account the expected cashflow maturities and behavioural attributes of these items.

BUSINESS-AS-USUAL (BAU) BALANCE SHEET MISMATCH AS AT 30 JUNE 2009

Rm	Total	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months
BaU maturity of assets	**546 242**	**37 856**	**3 743**	**12 032**	**9 880**
Loans and advances	436 262	18 732	2 956	8 627	6 851
Trading, hedging and other investment instruments	70 905	13 835	787	2 333	1 636
Other assets	39 075	5 289		1 072	1 393
BaU maturity of liabilities	**546 242**	**27 099**	**17 179**	**57 807**	**40 786**
Stable deposits	256 544	8 883	7 826	25 787	17 885
Volatile deposits	208 744	9 088	8 329	30 238	17 999
Trading and hedging instruments	39 182	8 806	1 024	1 782	4 902
Other liabilities	41 772	322			-
On-balance sheet BaU mismatch	**-**	**10 757**	**(13 436)**	**(45 775)**	**(30 906)**
Cumulative on-balance sheet BaU mismatch	**-**	**10 757**	**(2 679)**	**(48 454)**	**(79 360)**

Having adjusted for behavioural assumptions, the banks have adequate cashflows overnight. There are negative cashflows out to one month and beyond, as this excludes any management actions and any assumptions around the roll over of maturing deposits.

Liquidity risk stress testing

Behavioural modelling and stress analyses to identify business-as-usual as well as potential stress cash flow requirements are carried out regularly and are evolving as markets develop. Behavioural modelling and stress analyses need continual evolution as behaviours are difficult to predict and events are seldom similar.

Stress testing for liquidity risk enables risk managers and the management of financial firms to determine the potential future net funding requirements under varying conditions. Stress testing facilitates the bridging between conventional risk measurement and effective, adequate, and robust measurement of liquidity.

Stress testing is increasingly being used as a key risk management process that complements sound management and contingency planning. It is also recommended and required by regulators and has gained significant focus in light of the current global credit crisis. Stress testing makes provisions for varied but plausible situations through scenario analysis with the single goal of being prepared for potential liquidity problems. Most importantly, stress testing enables the making of appropriate liquidity management decisions to ensure the bank can withstand such events or scenarios without going bankrupt due to being illiquid. This dictates that an active management plan needs to be put in place and reviewed on an ongoing basis to ensure that the onset of potential problems is identified and the necessary actions are taken when specific signals of potential liquidity problems are triggered, the aversion of heightened liquidity strain on the bank is identified and when a liquidity event does occur, that insolvency is successfully prevented.

Furthermore the existing Nedbank Limited advances base has been tiered in order of liquidity to facilitate a theoretical use of any special liquidity facility in the event of systemic liquidity event in South Africa. The bank has identified sources of quick liquidity for liquidity risk management during liquidity distress. In addition, assets that would meet our securitisation criteria have been evaluated.

The bank also holds prudential liquid assets and cash reserves to facilitate liquidity stresses detailed in the table below.

MINIMUM RESERVE BALANCE AND LIQUID ASSETS (COMBINED NEDBANK LIMITED AND IMPERIAL BANK)

Rm		
Average daily minimum reserve balance to be held with the Reserve Bank	10 259	Prescribed Percentage 2,5%
Average daily reserve balance	10 184	
Liquid assets required to be held	22 538	Prescribed Percentage 5%
Average daily amount of liquid assets held	23 133	
Reserve Bank notes and coins held during the preceding month	1 368	
Treasury bills of the Republic	3 737	
Securities issued by virtue of section 66 of the Public Finance Management Act, 1999, to fund the Central Government	17 405	
Securities of the Reserve Bank	622	

Liquidity risk concentration risk

Strategically Nedbank manages its reliance on large depositors by tracking these deposits including in particular the asset manager balances. Any portion of deposits or balances that exceeds internal limits, are placed in surplus in the interbank market or invested in liquefiable paper, readily available to repay these balances should the need arise. Top 10 depositor reliance is also monitored against internal limits and benchmarked against the peer group.

Nedbank's reliance on its top 10 depositors is not onerous as illustrated in the tables below.

CONCENTRATION OF DEPOSIT FUNDING AS AT 30 JUNE 2009 (NEDBANK LIMITED)

Rm	Total	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months	More than 2 months to 3 months
Funding supplied by associates of the reporting bank (arms length)	26 184	7 329	195	1 632	430	576
Ten largest depositors	52 670	12 503	5 930	9 828	7 194	2 627
Ten largest financial institutions funding balances	25 211	8 438	2 406	4 916	4 690	365
Ten largest government and parastatals funding balances	34 391	13 643	1 516	4 119	3 457	1 352
Negotiable paper funding instruments	89 481	1 111	1 843	15 318	6 439	7 427
of which: issued for a period not exceeding twelve months	78 609					
of which: issued for a period exceeding twelve months and not exceeding 5 years	10 872					
of which: issued for a period exceeding five years	-					

Interest rate risk in the banking book (IRRBB)

Nedbank Group is exposed to IRRBB primarily because:

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

IRRBB strategy, governance, policy and processes

Interest rate risk in the banking book (IRRBB) is managed through a combination of on- and off-balance sheet strategies, including hedging activities. The principal interest-rate related contracts used include interest rate swaps and forward rate agreements. Basis products, caps, floors and swaptions are used to a lesser extent. IRRBB strategies are evaluated regularly to align with interest rate views and defined risk appetite, ensuring that optimal on- and off-balance-sheet strategies are applied, either positioning the balance sheet or protecting interest income through different interest rate cycles.

Group ALCO continues to analyse, align and manage IRRBB with the likely change in impairments for similar interest rate changes. This relationship between interest rate sensitivity and impairments, 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, 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 asset and liability 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 measured and stress tested regularly for effectiveness. These positions are fair valued in line with the appropriate accounting standards and designation. The Group ALCO has strategic appetite out to one year and largely as a matter of policy eliminates reprice risk longer than one year, unless this committee chooses to lengthen the investment profile of its equity and or the ambiguous deposit accounts as it has done during 2008 in order to better align interest rate sensitivity with impairment sensitivity or better position the balance sheet for forecast interest rate changes. Such strategic decisions must maintain interest rate sensitivity and the economic value of equity within board approved limits.

IRRBB cannot be taken by business units and accordingly is extracted from these units via a funds transfer pricing solution. This solution removes reprice risk from the business units whilst leaving credit and funding spread in the businesses upon which they are measured. Certain basis risk and endowment on free funds and ambiguous deposits resides within these businesses in order for basis risk to be managed through pricing and in order for the endowment to naturally hedge impairment changes for similar interest rate changes. Strategies regarding the reprice risk are separately measured and monitored, having been motivated by Group ALM and approved by the Group ALCO.

IRRBB measurement, policies and portfolio review

The group employs various analytical techniques to measure interest rate sensitivity within the banking book. This includes a static reprice gap analysis, simulated modelling of the bank's earnings-at-risk and economic value of equity for a standard interest rate shock and stress testing earnings-at-risk and economic value of equity for a number of stressed interest rate scenarios. These analyses include the application of parallel and non-parallel interest rate shocks and rate ramps.

At 30 June 2009 the group's margin at risk sensitivity of the banking book for a 1% parallel reduction in interest rates was 1,12% of total group equity (30 June 2008: 1,27% of total group equity), well within the approved risk limit of 2,5%. This exposes the group to a decrease in NII of R476 million should interest rates fall by 1%, measured over a 12 month period, which translates into an 11 basis point reduction in margin or an absolute reduction of approximately 3% of last year's NII. The Group's level of IR sensitivity is benchmarked regularly against the peer group and at current levels is in line with the Group's main competitors. Nedbank Limited's economic value of equity (EVE) measured for a 1% parallel decrease in interest rates is a gain of R155 million (30 June 2008 loss of R152 million).

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

30 June 2009 Rm	Note	Nedbank Limited	Other Group Companies	Nedbank Group
Net interest income sensitivity	1			
1% instantaneous decline in interest rates		(306)	(170)	(476)
2% instantaneous decline in interest rates		(611)	(341)	(952)
Linear path space	2			
Lognormal interest rate sensitivity		(310)	n/a	n/a
Basis interest rate risk sensitivity	3			
0,25% narrowing of prime/call differential		(117)	(61)	(178)
Economic value of equity sensitivity	4			
1% instantaneous decline in interest rates		155	n/a	n/a
2% instantaneous decline in interest rates		336	n/a	n/a
Stress testing				
Net interest income sensitivity				
Instantaneous stress shock	5	(1 221)	n/a	n/a
Linear path space	2			
Absolute-return interest rate sensitivity		(1 578)	n/a	n/a

n/a: not modelled

Notes

1 **Net interest income 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 **Linear path space** is a stochastic method used to generate random interest rate paths. These paths are then modelled and a probabilistic impact of interest rate changes on NII is derived. The 'Lognormal interest rate sensitivity' uses two years of interest rate movements to derive interest rate volatility. The stress scenario 'Absolute-return interest rate sensitivity' is based on the volatility of interest rates over nine years.

3 **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.

4 **Economic value of equity sensitivity** is calculated as the net present value (npv) of asset cashflows less the net present value of liability cashflows.

5 **The instantaneous stress shock** is derived from the principles espoused in the bank for International Settlements paper 'Principles for the Management and Supervision of Interest Rate Risk'.

6 The **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 a nine-month period.

The Group ALCO has maintained the group's sensitivity at approximately 2008 year end levels of around 1.12% of equity at 30 June 2009.

The table below shows the repricing profile of Nedbank Group's banking book balance sheet and highlights the fact that assets reprice quicker than liabilities following derivative-hedging activities.

NEDBANK GROUP INTEREST RATE REPRICING GAP AS AT 30 JUNE 2009							
Rm	<3 months	>3 months <6 months	>6 months <1 year	>1 year <5 years	>5 years	Trading and non-rate	Total
Total assets	405 075	3 510	5 587	39 685	23 458	80 003	557 318
Total equity and liabilities	353 985	22 275	34 764	13 047	1 785	131 462	557 318
Interest rate hedging activities	(20 312)	19 350	30 420	(9 047)	(20 411)		
Repricing profile	30 778	585	1 243	17 591	1 262	(51 459)	
Cumulative repricing profile	30 778	31 363	32 606	50 197	51 459		
Expressed as a percentage of total assets	5,5	5,6	5,9	9,0	9,2		

Foreign currency translation risk in the banking book

Currency translation risk arises as a result of Nedbank's investments in foreign companies that have issued foreign equity. This foreign equity is translated into rand for domestic reporting purposes recording a profit where the rand exchange rate has deteriorated between periods and a loss where the rand exchange rate has strengthened between periods.

Currency translation risk remains relatively low and currently aligns with an appropriate offshore capital structure. Risk limits are based on the normal level of currency-sensitive foreign capital of approximately US$218 million at 30 June 2009 (31 December 2008: US$193 million).

OFFSHORE CAPITAL SPLIT BY FUNCTIONAL CURRENCY – 30 JUNE 2009					
Rm	USD equivalent ($ millions)				
	Income Statement	Equity	FX sensitivity	Non-FX sensitivity	Total
US Dollar		101	101		101
Pound Sterling	3	98	101		100
Swiss Franc		10	10		10
Malawi Kwatcha		6	6		6
Other				431	431
Total	**3**	**215**	**218**	**431**	**648**

FX SENSITIVE PORTION OF OFFSHORE CAPITAL – 30 JUNE 2009	
	$m
FX sensitive portion of offshore capital	218
Limit	250

The effective average capitalisation rate of the foreign denominated business is 25%. The total foreign RWA as a percentage of Nedbank Group total is very low at 1,9% (R6,7 billion out of the total group RWA of R350 billion). Therefore any foreign exchange rate movement will have a minimal effect on Nedbank Group's capital adequacy ratio.

High rand volatility has a minimal effect on capital adequacy as a 10% depreciation in the rand will decrease capital adequacy by only 0,05%.

Market risk

Market risk in Nedbank Group arises in three main areas:

- Market risk (or position risk) in the trading book arises exclusively in Nedbank Capital
- Equity (investment) risk in the banking book arises in the private equity and property portfolios within Nedbank Capital and Nedbank Corporate clusters, respectively and in other strategic investments of the group. This risk also includes market risk in respect of business premises, property required for future expansion and properties-in-possession (PiPs)
- IRRBB that arises from repricing and/or maturity mismatches between on- and off-balance sheet components originated across all the business clusters. This is covered in the ALM section above.

Market risk strategy, governance and policy

A group market risk management framework including comprehensive governance structures is in place to achieve effective independent monitoring and management of market risk as follows:

- The board's Group Risk and Capital Management Committee
- The Group ALCO and Executive Risk Committee (Group ALCO), which is responsible for ensuring that the impact of market risks is being effectively managed and reported on throughout the Nedbank Group, and that all policy, risk limit and relevant market risk issues are reported to the Group Risk and Capital Management Committee
- The Trading Risk Committee, which is responsible for ensuring independent oversight and monitoring of the trading market risk activities of the trading areas. In addition, the Trading Risk Committee also approves new market risk activities and appropriate trading risk limits for the individual business units within the trading area. The committee is held monthly and is chaired by the Head of Group Market Risk Monitoring. Attendees include the Chief Risk Officer, the Chief Financial Officer, risk managers from the cluster, Managing Executive and Chief Risk Officer of the Cluster and representatives from Group Market Risk Monitoring
- An independent function within the Group Risk Division, namely Group Market Risk Monitoring (GMRM), which monitors market risks across the Nedbank Group – this is a specialist risk area that provides independent oversight of market risk, validation of risk measurement, policy co-ordination and reporting
- The federal model followed by the Nedbank Group in terms of which business clusters are responsible and accountable for the management of the market risks that emanate from their activities (within preset limits), with a separate risk function within each cluster
- 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 Director and Head of Risk of relevant business cluster and a representative from Group Market Risk Monitoring.

The board ultimately approves the market risk appetite and related limits for both banking book (asset and liability management and investments) and trading book. Group Market Risk Monitoring (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 Capital only may incur trading market risk but is restricted to formally approved securities and derivative products. Products and product strategies that are new to 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), specific, operational, legal, tax, regulatory (eg exchange control, tax and accounting) risks are addressed and that adequate operational procedures and risk control systems are in place.

In terms of market trading activities Nedbank is adequately capitalised. In terms of our economic capital, the capital requirement is based on Value-at-Risk (VaR) trading limits which is a conservative approach as limit utilisation is generally moderate. From a regulatory capital perspective the standardised approach is used which is more conservative as it does not take any diversification into account. In addition to VaR, stress testing is applied on a daily basis to identify exposure to extreme market moves.

Trading (position) market risk

Trading market risk measurement and reporting systems

The potential for changes in the market value of trading positions is referred to as market risk. Such positions result from market-making and proprietary trading. All material positions are marked-to-market on a daily basis.

Categories of market risk include exposure to interest rates, equity prices, currency rates and credit spreads. A description of each market risk category is set forth below:

- Interest rate risks primarily result from exposure to changes in the level, slope and curvature of the yield curve
- Equity price risk results from exposure to changes in prices and volatilities of individual equities and equity indices
- Currency rate risk result from exposure to changes in spot, forward prices and volatilities of currency rates
- Credit spread risk results from exposure to changes in the rate that reflects the spread investors receive for bearing credit risk.

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

- Risk limits based on a portfolio measure of market risk exposure referred to as VaR
- Scenario analyses, stress tests and other analytical tools that measure the potential effects on the trading revenue of various market events.

The material risks identified by these processes are summarised in reports produced by the Market Risk Department 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. VaR 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 one-day, 99% VaR number used by the group reflects a 99% confidence level that the daily loss will not exceed the reported VaR. Daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days.

The group uses historical data to estimate VaR. One year of historical data is used in the calculation. There are a number of considerations that should be taken into account when reviewing the VaR numbers:

- 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.

While VaR captures the group's exposure under normal market conditions, sensitivity and stress-scenario analyses (and in particular stress-testing) are used to add insight to the possible outcomes under abnormal market conditions.

Trading market risk profile

The tables below reflect the VaR statistics for the Nedbank Group's trading book activities for the year ended 31 December 2008 and half-year ended 30 June 2009.

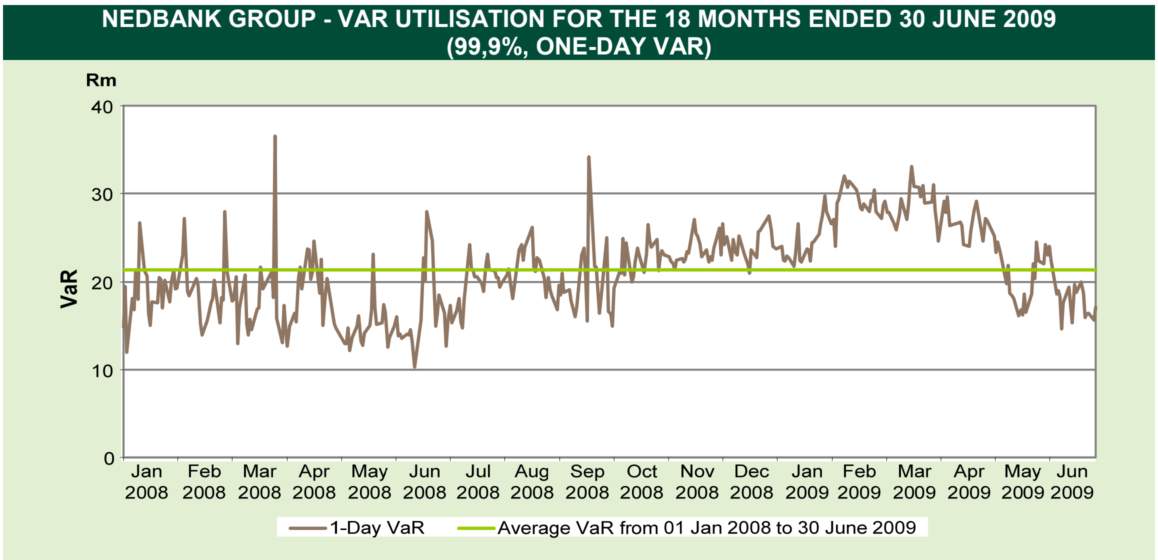
GROUP TRADING BOOK VAR FOR JUNE 2009(i)				
Rm	Historical VaR (99%, one-day) by risk type			
Risk Categories	**Average**	**Minimum(ii)**	**Maximum(ii)**	**Year end**
Foreign exchange	**4,3**	**1,0**	**9,8**	**8,6**
Interest rate	**21,3**	**13,2**	**28,7**	**13,5**
Equity	**6,1**	**2,7**	**13,3**	**8,9**
Credit	**6,1**	**4,1**	**11,1**	**7,2**
Diversification(iii)	**(13,0)**			**(21,1)**
Total VaR exposure	**24,8**	**14,6**	**33,1**	**17,1**

GROUP TRADING BOOK VAR FOR DECEMBER 2008(i)				
Rm	Historical VaR (99%, one-day) by risk type			
Risk Categories	**Average**	**Minimum(ii)**	**Maximum(ii)**	**Year end**
Foreign exchange	6,1	2,3	20,1	3,4
Interest rate	13,8	7,4	25,0	19,3
Equity	7,8	3,3	21,2	6,5
Credit	6,2	3,4	8,7	6,6
Diversification (iii)	(14,2)			(11,8)
Total VaR exposure	19,7	10,3	36,5	24,0

(i) Certain positions are illiquid and VaR may not always be the most appropriate measure of risk (later on we summarise the 'other market risk measures' we apply to mitigate this).
(ii) The maximum and minimum VaR values reported for each of the different risk factors did not necessarily occur on the same day. As a result a diversification number for the maximum and minimum values have been omitted from the table.
(iii) Diversification benefit is the difference between the Aggregate VaR and the sum of VaRs for the four risk categories. This benefit arises because the simulated 99% / one-day loss for each of the four primary market risk categories occurs on different days.

The group's trading market risk exposure, expressed as average daily VaR, increased by 25% from R19.7 million to R24.8 million from December 2008 to June 2009. The increase was mainly due to a strategic decision to increase Nedbank Group Ltd's exposure to interest rates in 2009.

The graph below illustrates the daily VaR for the eighteen months ended 30 June 2009. The daily VaR has increased due to higher levels of exposure to interest rates and the increased levels of volatility observed in the market.

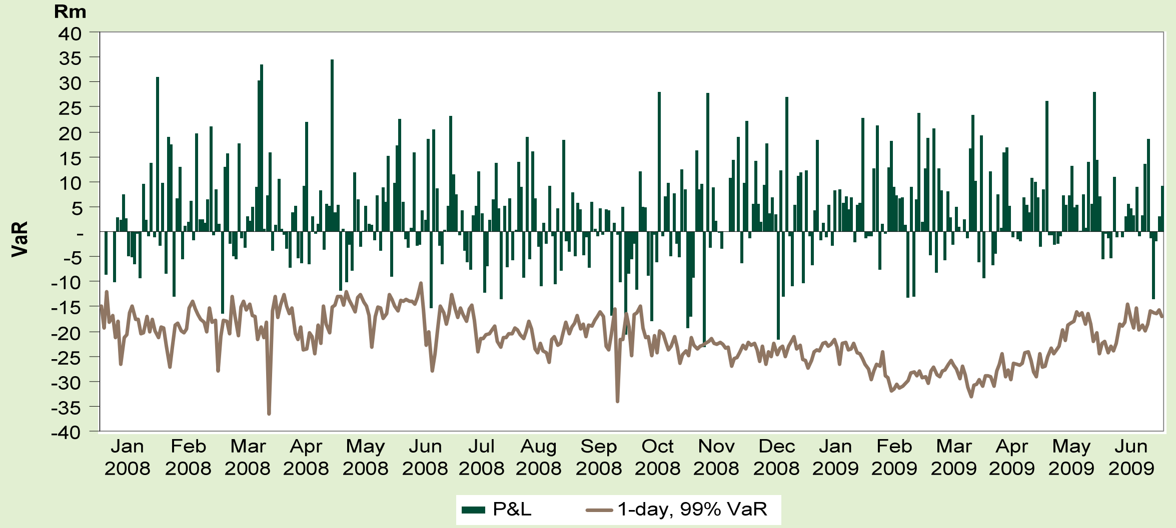


VaR for all material risk factors have been reported.

VaR is an important measurement tool and the performance of the model is regularly assessed. The approach to assessing whether the model is performing adequately is known as backtesting. Backtesting is simply a historical test of the accuracy of the VaR model. To conduct a backtest, the bank reviews its actual daily value at risk (VaR) over one year (about 250 trading days) and compares the actual daily trading revenue (includes net interest but excludes commissions and primary revenue) outcomes to its VaR estimate and counts the number of times the trading loss exceeds the VaR estimate.

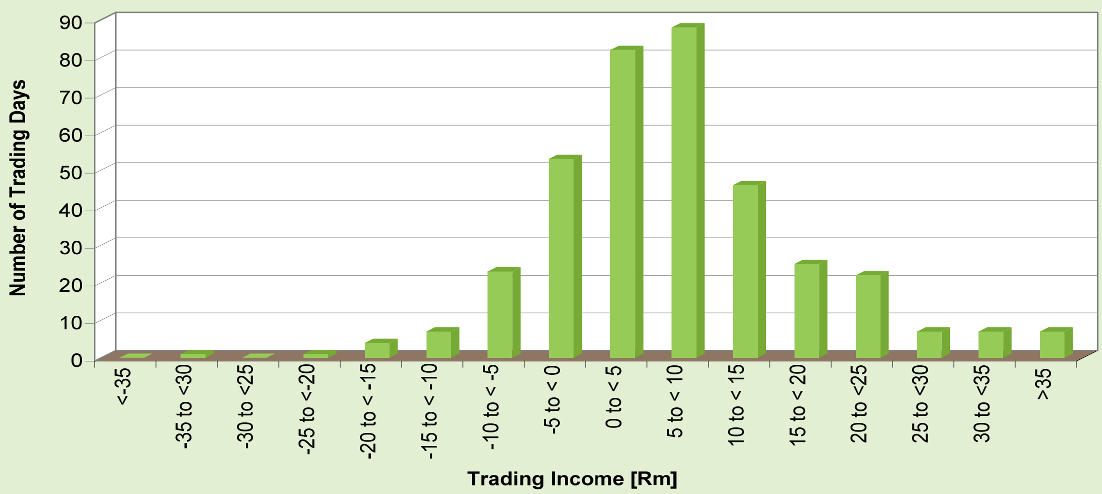
The group uses a holding period of one day with a confidence level of 99%, and had no backtesting exception for the first half of 2009. This suggests that VaR, as currently implemented, has been a conservative measure of the potential net revenue variability on the daily trading activities.

VAR PROFIT AND LOSS (P&L) FOR THE 18 MONTHS ENDED 30 JUNE 2009



The histogram below illustrates the distribution of daily revenue for Nedbank's trading businesses (including net interest, commissions and primary revenue income of the trading businesses). The distribution is skewed to the profit side and the graph shows that trading revenue was realised on 284 days out of a total of 373 days in the trading businesses. The average daily trading revenue generated for the eighteen months was R6,9 million.

ANALYSIS OF TRADING REVENUE FOR THE 18 MONTHS ENDED 30 JUNE 2009



Trading market risk stress testing

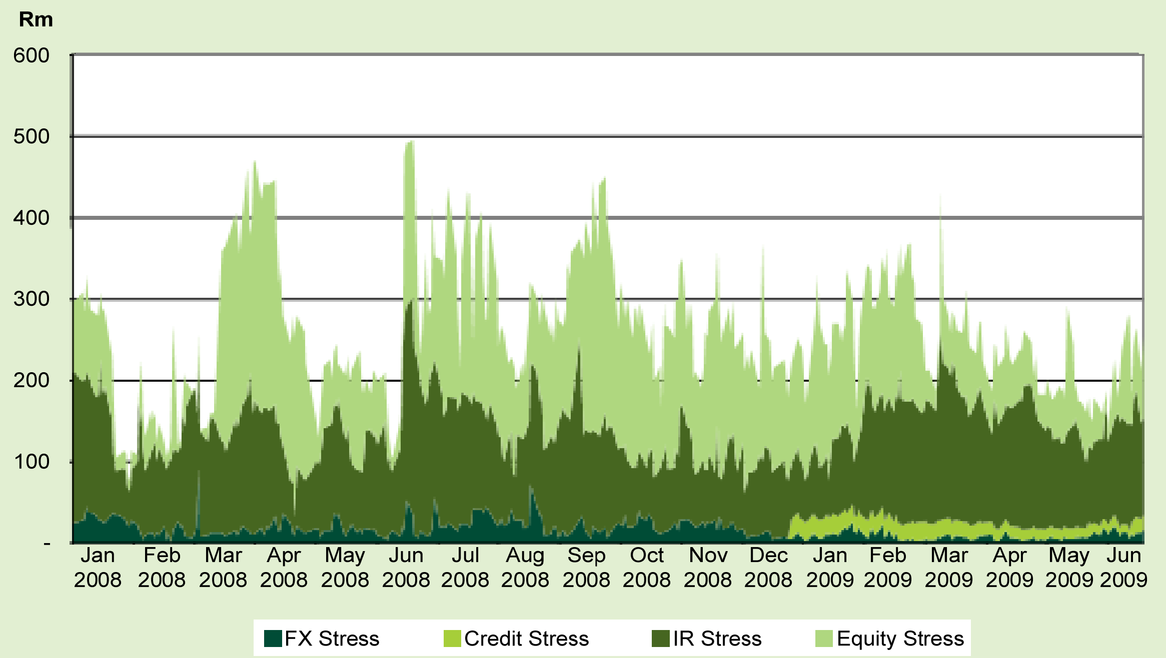
Nedbank Capital uses a number of stress scenarios to measure the impact on portfolio values of extreme moves in markets, based on historical experience as well as hypothetical scenarios. The stress testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk, reflecting the decreased liquidity that frequently accompanies market shocks. Stress tests results are reported daily to senior management and monthly to the Trading Risk Committee.

RISK FACTORS

Rm	Average	High	Low	30 June 2009
Interest rate stress	127	233	46	**116**
Equity position stress	92	217	15	**102**
Foreign exchange stress	10	28	2	**17**
Credit spread stress	18	25	9	**19**
Overall	247	429	140	**254**

The high and low stress values reported for each of the different risk factors did not necessarily occur on the same day. As a result the high and low risk factor stress exposure is not additive.

RISK FACTORS FOR THE 18 MONTHS ENDED 30 JUNE 2009



Trading market risk – other risk measures

In addition, other risk measures are used to monitor the individual trading desks and these include performance triggers, approved trading products, concentration of exposures, maximum tenor limits and market liquidity constraints.

Market risk is governed by a number of policies which cover management, identification, measurement and monitoring. In addition, all market risk models are subject to periodic independent validation in terms of the Group Market Risk Management Framework.

Market risk reports are available at a variety of levels and detail ranging from individual trader level right through to a group level view.

Nedbank Limited currently has regulatory approval for the Standardised Approach for market (position) risk and intends to apply to SARB early in 2010 for approval to switch to the Internal Model Approach (IMA) which is currently used in the bank as described above.

Trading market risk under the Standardised Approach for regulatory capital

The tables below reflect the market risk capital requirement and statistics for Nedbank Capital's trading book under the Standardised Approach which is used for regulatory capital purposes only.

TRADING CAPITAL REQUIREMENT BY RISK FACTOR – JUNE 2009
DOMESTIC AND FOREIGN OPERATIONS

Rm	Average	High	Low	30 June 2009
Interest rate risk	**361**	**404**	**327**	**327**
Equity position risk	**34**	**54**	**14**	**52**
Foreign exchange risk	**26**	**59**	**7**	**11**
Commodities risk	**52**	**93**	**23**	**23**
Capital requirement	**473**	**517**	**412**	**413**

TRADING CAPITAL REQUIREMENT BY RISK FACTOR – JUNE 2008
DOMESTIC AND FOREIGN OPERATIONS

Rm	Average	High	Low	30 June 2008
Interest rate risk	289	350	241	350
Equity position risk	28	38	14	14
Foreign exchange risk	50	66	33	55
Commodities risk	39	47	14	47
Capital requirement	**406**	**465**	**327**	**466**

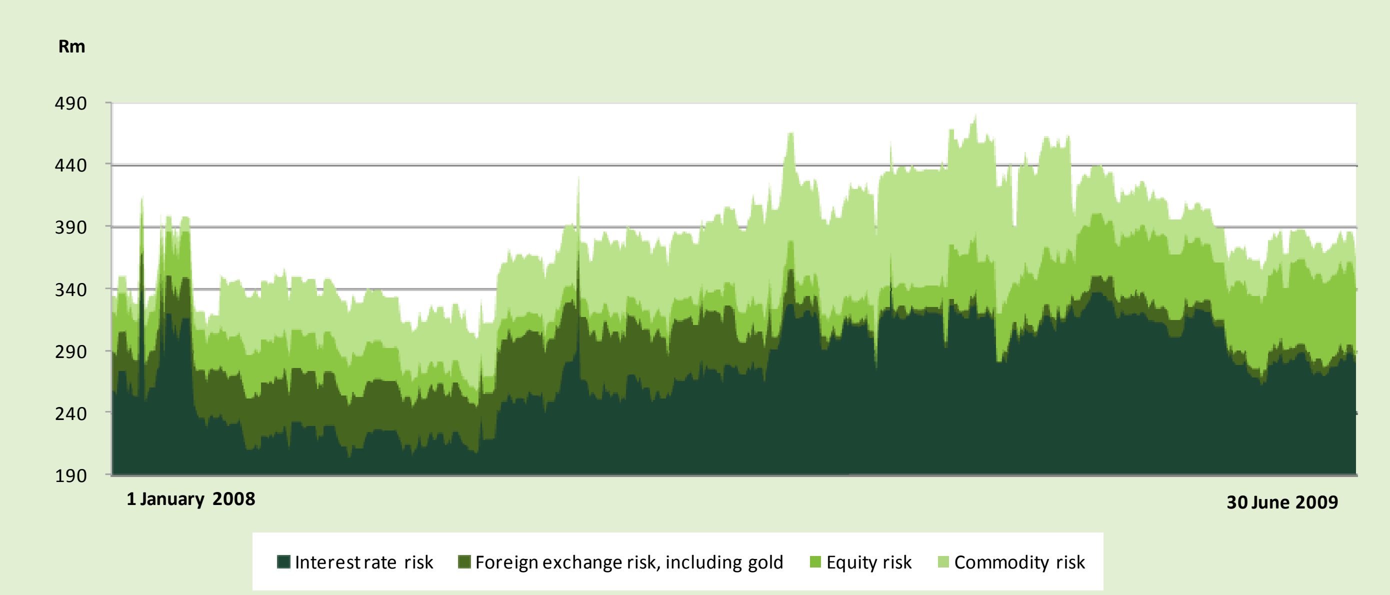
TRADING CAPITAL REQUIREMENT BY RISK FACTOR – DECEMBER 2008
DOMESTIC AND FOREIGN OPERATIONS

Rm	Average	High	Low	30 June 2008
Interest rate risk	333	404	268	365
Equity position risk	26	45	14	45
Foreign exchange risk	45	66	9	9
Commodities risk	56	93	14	93
Capital requirement	**458**	**517**	**400**	**512**

The high (and low) figures reported for each risk factor did not necessarily occur on the same day as with the high (and low) total capital requirement.

The graph below shows the history of Nedbank Capital's domestic trading book on a daily basis by risk factor for the 18 months ended 30 June 2009.

DOMESTIC TRADING CAPITAL REQUIREMENT BY RISK FACTOR FOR THE 18 MONTHS ENDED 30 JUNE 2009



Equity risk (investment risk) in the banking book

The total equity portfolio for investment risk is R3 536 million (December 2008 R3 779 million). R2 686 million (December 2008 R2 716 million) is held for capital gain while the rest is mainly strategic investments.

Equity investments held for capital gain are generally classified as fair value through profit and loss, with fair value gains and losses reported in non-interest revenue. Strategic investments are generally classified as available-for-sale with fair value gains and losses recognised directly in equity.

Investments Rm	Publicly listed			Privately held			Total		
	Jun 2009	Jun 2008	Dec 2008	**Jun 2009**	Jun 2008	Dec 2008	**Jun 2009**	Jun 2008	Dec 2008
Fair value disclosed in balance sheet (excluding Associates and JV's)	**486**	498	525	**2 136**	2 072	2 087	**2 622**	2 570	2 612
Fair value disclosed in balance sheet (including Associates and JV's)	**486**	498	525	**3 050**	3 079	3 254	**3 536**	3 577	3 779

Nedbank Group has adopted the market-based Simple Risk Weight Approach for regulatory and economic capital measurement purposes, with one exception. For economic capital the PD/LGD approach is used for exposures in respect of investments in property holding and development companies in our Property Finance division. The approach for regulatory capital was approved by SARB.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal, 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 strategy, governance and policy

To minimise the exposure to operational risk that arises as a consequence of the group's financial risk-taking (credit and market) and operating activities, we have embedded a Group Operational Risk Management Framework (GORF) that facilitates a consistent and worldclass approach to operational risk management.

OVERVIEW OF NEDBANK GROUP'S OPERATIONAL RISK MANAGEMENT FRAMEWORK

Nedbank Group has approval from SARB to use the Standardised Approach (TSA) for operational risk for Basel II regulatory capital from 1 January 2008. We intend to apply for the use of the Advanced Measurement Approach (AMA). The AMA Operational Risk Management Framework (AMA ORMF) was approved by the Group Risk and Capital Management Committee in April 2009. The AMA methodologies are already rolled out and implemented in the business, and so shortly will submit our AMA application to SARB.

Business management is responsible for the identification, management, monitoring and reporting of their operational risk. Operational risk is addressed at the divisional Enterprise-wide Risk Committees (ERCOs). Significant operational risks are escalated to the Enterprise-wide Risk Committees and then, if warranted, to the board's Group Risk and Capital Management Committee. Operational risk officers, who are tasked with co-ordinating the implementation and maintenance of the operational risk management processes and GORF in the business, support management in the execution of its duties.

The Group Operational Risk Management (GORM) division within Group Risk functions in the second line of defence, its primary responsibilities being to maintain and champion the Group Operational Risk Management Framework, policies and enablers to support operational risk management in the business. GORM also champions the implementation of the Basel II requirements for operational risk.

Specialist functions in Group Risk, for example forensic services, business continuity planning, group legal and corporate insurance, also assist frontline businesses with specialist advice, policies and standard-setting. Pervasive operational risk trends are monitored and reported on to the Group Risk and Capital Management Committee.

Group Internal Audit (the third line of defence) and Enterprise Governance and Compliance provide assurance to the board that the Group Operational Risk Management Framework is sound and that the policies and processes related to operational risk management are adhered to.

The board annually reviews and approves the group-level risk policies.

Operational risk measurement, processes and reporting systems

The three primary operational risk management processes in the group are risk assessment, loss data collection and the tracking of key risk indicators (KRIs), which are designed to function in a mutually reinforcing manner.

Risk and control self assessments are designed to be forward looking. In other words, management is identifying risks that could threaten the achievability of business objectives, together with the required set of controls and actions, to mitigate the risks. Loss data collection and tracking are backward looking and enable the monitoring of trends and the analysing of the root causes of loss events. KRIs are designed to be both forward and backward looking in the sense that they function not only as early-warning indicators but also as escalation triggers where set risk tolerance levels have been exceeded.

The results of the three processes are utilised to enhance the internal control environment, with the ultimate aim of reducing losses incurred, improving process efficiency and reducing earnings volatility.

Risk profiles, loss trends and risk mitigation actions are reported to and monitored by the risk governance structures of the group.

Management is responsible for developing and maintaining control environments to mitigate operational risks inherent in their business. Specific mitigating action is reported at the ERCOs.

Nedbank Group is in the process of finalising operational risk tolerance levels and incorporating these into the overall risk-adjusted performance calculations of the group that will drive performance measurement. At this point the Basel II Standardised Approach capital requirements are used in Nedbank Group's economic capital model.

There are several other important operational risk specialist functions that assist the business in managing operational risk. These functions include but are not limited to:

- information security
- safety and security services
- regulatory risk services (including money-laundering control, financial advice and the new credit legislation awareness)
- forensic services
- business continuity planning and disaster recovery
- legal-risk management
- the group insurance programme.

Nedbank Group considers financial crime to be a major operational risk that leads not only to financial losses but also damages the very fabric of society. For this reason the group pursues a vigorous policy of mitigating this risk through the following measures:

- pursuance of a zero-tolerance policy in respect of staff dishonesty
- proactive identification and prevention of criminal onslaught against the group
- reactive investigation and recovery of losses
- close cooperation with government and industry role players to ensure the successful apprehension and conviction of the perpetrators of financial crime.

Business risk

Business risk is the risk of adverse outcomes resulting from a weak competitive position or from a poor choice of strategy, markets, products, activities or structures. Major potential sources of business risk include revenue volatility, owing to factors such as macro-economic conditions, inflexible cost structures, uncompetitive products or pricing, and structural inefficiencies.

Nedbank Group actively manages business risk through the various management structures, as set out in the ERMF, and within Group Capital Management using an earnings-at-risk methodology similar to the group's risk appetite metrics. It is one of the major risk types within the group's economic capital model. Please refer to page 102 for further details.

Accounting and Taxation risks

These key risks are actively managed within Nedbank's ERMF and in compliance with International Financial Reporting Standards (IFRS) including strong valuation controls over our exposure to fair value MTM accounting. Significant governance and risk management operate effectively to manage these risks in Nedbank.

Taxation risk has been high in recent years due to the legacy structured finance book. As a result of pro-active management, the higher than normal taxation risk, has been significantly reduced over the past two years.

The primary role of the Executive Taxation Committee is monitoring tax compliance and ensuring the management of tax risk throughout the group is in accordance with Nedbank's tax policy. Furthermore, the committee assists the Group Audit Committee in discharging its responsibility relative to the oversight of tax risk.

Provisions are raised / held in respect of accounting and tax risks. These are all subject to rigorous external audit, and challenge / review by the Group Audit Committee and the board.

Technology risk

The use of information technology (IT) and so the associated IT risk, is pervasive in a large bank such as Nedbank.

Accordingly, IT risk is recognised as one of the seventeen key risks in Nedbank Group's risk universe and is addressed appropriately as follows:

- A separate major cluster for IT ie 'Group Technology (GT)' exists. The managing executive of GT is a member of the Group Exco
- Group Technology is Nedbank's centralised technology unit with 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, 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
- One of the board committees is the 'Board Strategic Innovation Committee' specifically focussed on IT risks and IT innovation spend
- Likewise, one of Group Exco sub-committees is the 'Executive Strategic Innovation Management Committee'
- As with the other business clusters, a 'Head of Risk' sits on the GT Cluster Exco and reports directly to the managing executive of GT.

Reputational, strategic, social and environment, transformation and compliance risks

As with IT risk, reputational, strategic, social and environmental, and compliance risks are also potentially pervasive in a banking group, and each are separately identified and addressed as key risks in our ERMF.

To this end these risks receive significant time, resources and focus on an ongoing basis. The following is an illustration of some of the highlights of this:

- At board level, the Directors' Affairs, Group Finance and Oversight, and Group Transformation and Sustainability committees operate

- The Group Exco has the Group Operational, Brand, Transformation and Human Resources committees, and the Business Risk Management Forum assisting it
- Reputational risk is to a large degree mitigated by adequately managing the other sixteen key risks in Nedbank's ERMF. External communication to investment analysts, shareholders, rating agencies and the financial media is controlled by risk policies with designated group spokespeople
- A comprehensive, formal, well documented and closely monitored strategic planning process exists group-wide
- 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 culture, and one of the group's Deep Green aspirations remains 'to be 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, is covered in the 2008 Annual Report, and in our separate Sustainability Report
- Transformation is a business imperative in South Africa and Nedbank Group's focus and progress in this regard is sound and on track to meet our targets, details of which are covered in the 2008 Annual Report
- The Group Strategy and Corporate Affairs cluster plays a major role in managing the group's image and reputation. Key functions include marketing, communications and group strategy. The cluster is also responsible for the Nedbank Foundation and the Nedbank Economic Unit as well as for the delivery of the group's objectives in terms of the Financial Sector Charter and the DTI Code of Good Practice.
- The Nedbank brand image reflects the group's strong marketing and communication drive that has led to positive changes while retaining the aspirational elements, a distinct differentiation from 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 Enterprise-wide Governance and Compliance Framework. 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, Selby Baqwa SC, is a member of the Group Executive Committee (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 the Nedbank Group and other Nedbank boards.

  A strong network of divisional governance and compliance officers works closely with the central Enterprise Governance and Compliance division in training, project implementation and monitoring, as well as the creation of an appropriate governance and compliance culture.

  Nedbank Group's Enterprise Governance Framework 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 in achieving an effective governance process are the co-operation between executive management and non-executive directors and the significant emphasis, resources and structure given to executive management functions 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.

Readers requiring more details on Nedbank Group's Enterprise Governance and Compliance should refer to the group's 2008 Annual Report.

Human Resources (or People) risk

A similar focus and investment in Nedbank Group as with the above risks is given to people and transformation risks (also key risks in our ERMF), and with acknowledgement of the current 'War on Talent' out in the market place. The head of Enterprise-wide Human Resources is a member of Group Exco.

At board level, the Group Remuneration Committee operates under pinned at the executive level by the Transformation and Human Resources Executive Committee. Human Resources functions exist in all clusters group-wide.

Succession planning is an important focus area at board, and at both executive and senior management level. Detailed and intensive planning is conducted through the Chairman's Office in consultation with the Group Directors' Affairs and Group Remuneration committees. In addition, Nedbank's risk and capital management frameworks are supported by a strong level of expert and experienced human resources, for which succession plans are in place and are regularly monitored and updated.

The Chief Executive is required to report regularly to the board on the group's management development and employment equity programmes.

Nedbank Group's philosophy is to encourage sustainable long-term performance and at all times to align performance with the strategic direction and specific value drivers of the business as well as with the interests of stakeholders. Nedbank has adopted a total-reward philosophy as part of an enterprise-wide human resources strategy, which in turn supports the group's business strategy.

Performance is measured at a business level after the finalisation of the year-end results on the achievement of agreed objectives. The financial results drive the short-term incentive (STI) pools, which are distributed to individuals on the basis of relative individual performance measured against agreed targets as stated in the individual performance scorecards.

Nedbank Group's long-term incentive (LTI) schemes are primarily aimed at the retention of key, high-impact employees.

The group's ERMF, ICAAP and financial performance relies heavily on the group's ability to attract and retain highly skilled individuals, and so the effective management of 'People Risk' is a critical success factor. We believe our current status and extent of such skills to be sound. However, we recognise this has to be actively managed and monitored on an ongoing basis.

Accelerating transformation continues to be one of the group's key focus areas.

Major concentration risks

Credit concentration risk is addressed on page 68. Property concentration risk was discussed on page 7, in particular the 'deep dive' into the Property Finance division in 2008, and is incorporated in the quantification of credit economic capital.

The one other potential major concentration risk in Nedbank Group is liquidity risk. The management of this, including diversification of the funding base, contingency planning of sources of funding, related governance, etc is covered on page 77.

Concentration risk is also a key feature of Nedbank Group's Group Market Risk Framework. However, undue concentration risk is not considered to prevail in the group's trading, IRRBB, forex and equity risk portfolios (evident in the low % contributions to Group economic capital, see page 117), nor assets and liabilities subject to mark-to-market fair value accounting.

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) and upside potential (earnings growth).

Nedbank assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital within nine (9) quantifiable risk categories.

Nedbank regularly enhances its economic capital methodology and benchmarks the outputs to external reference points. This methodology incorporates the key credit risk parameters based on average credit conditions (ie through-the-cycle), rather than those prevailing at the balance sheet date, thus seeking to reduce cyclicality from the economic capital calculation. The methodology also reflects the time horizon, correlation of risks and risk concentrations. A single cost of equity, calculated using the standard Capital Asset Pricing Model (CAPM), is applied to calculate the cost of capital at a group level. Economic capital allocations to our businesses reflects the varying levels of risk across the group.

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 available financial resources (AFR).

NEDBANK GROUP'S ECONOMIC CAPITAL MODEL AND TARGET CAPITAL ADEQUACY (USED FOR ICAAP)

CREDIT RISKS

Basel II AIRB credit methodology integrated with sophisticated credit portfolio modelling
(incorporating credit concentration risk and intra-risk diversification, counterparty credit risk and securitisation risk)

+

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 (i.e. sovereign default).

+

MARKET RISKS

Trading (position) risk	IRRBB risk	Equity (investment) and property risks	FX translation risks
VaR scaled to one year using VaR limits (board approved)	Simulation modelling of Net Interest Income (NII); Economic Value of Equity (EVE) also used	300 / 400% risk weighting in line with Basel II Equity Risk. PD / LGD approach for Property Finance	Multiple of exposure, based on rand volatility measures

+

OPERATIONAL RISK

Basel II Standardised Approach used

+

BUSINESS RISK

Earnings-at-risk methodology used

+

OTHER ASSETS
(100% risk weighting)

=

MINIMUM ECONOMIC CAPITAL REQUIREMENT
(after inter-risk diversification benefits)

+

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

=

TOTAL ECONOMIC CAPITAL REQUIREMENT

MEASUREMENT PERIOD / TIME HORIZON: one year (same as Basel II)
CONFIDENCE INTERVAL (SOLVENCY STANDARD): 99,9% (A-) (currently same as Basel II)

vs.

AVAILABLE FINANCIAL RESOURCES (AFR)

Comprises regulatory tier 1 type capital only

Credit risk capital

The AIRB approach is used for Nedbank Limited and the Standardised Approach is used for all other subsidiaries for regulatory capital purposes, as discussed earlier.

Our credit risk economic capital (or credit value-at-risk) goes further than AIRB and is calculated using credit portfolio modelling based on the volatility of expected losses. These estimated unexpected losses are measured from the key AIRB credit risk parameters (Probability of Default, Exposure at Default, Loss Given Default and Maturity) as well as taking portfolio concentrations and intra-risk diversification into account. This was illustrated previously on page 68.

It is important to recognise that our economic capital extends beyond Basel II in explicitly recognising credit concentration risks (eg single large name, industry sector). Economic capital uses through-the-cycle LGDs instead of downturn LGDs required by Basel II, as stress testing and capital buffers capture economic downturns and procyclicality.

Counterparty credit risk capital

Nedbank applies the Basel II current exposure method (CEM) for counterparty credit risk for both regulatory capital and economic capital (ICAAP).

In terms of active management of counterparty credit risk there is continued emphasis on the use of credit mitigation strategies, such as netting and collateralisation of exposures. These strategies have been particularly effective in situations where there has been a high probability of default.

Economic capital calculations currently utilise the Basel II CEM results as input in the determination of credit economic capital.

Securitisation risk capital

As with credit derivatives, Nedbank Group does not have significant exposure to securitisation (refer to page 74 for the details).

Nedbank has used securitisation primarily as a funding diversification tool. The credit exposures that Nedbank assumes are measured, from both a regulatory and economic capital (ICAAP) point of view, using the ratings-based approach and the standardised formula approach, both under the IRB approach for securitisation exposures. 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 not separately identified by Basel II for Pillar 1 regulatory capital. It is potentially a significant risk type and so is included in Nedbank's economic capital model. However, given that very little credit risk currently originates from outside South Africa, transfer risk economic capital is not a significant amount for the group at present.

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 treated separately from counterparty risk because it is wholly caused by a sovereign's actions 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 is dependent on the following:

- The probability of a country declaring a transfer event (Probability of Transfer Event or 'PTE')
- The percentage of the exposure that will be lost in the event of a transfer event (Loss Given Transfer Event or 'LGTE')
- The exposure in the event of a transfer event (Exposure at Transfer Event or 'EATE')

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

Market trading (or position) risk capital

For trading risk, value at risk (VaR) is used for economic capital. The VaR limit is the starting point for calculating economic capital. The 99% confidence interval, three-day VaR limit is transformed to a 99.9% confidence interval, one-year economic capital number by using a Monte Carlo simulation methodology incorporating a management intervention framework.

For regulatory capital, the Standardised Approach is currently used which is more conservative because it does not take diversification into account. In addition to VaR, stress testing is applied on a daily basis to identify exposure to extreme market moves. The economic and regulatory capital requirements for trading market risk are not materially different. Extra conservatism is introduced by using the total approved VaR limit rather than the actual limit utilisation.

We expect to reapply to SARB for Internal Model Approach (IMA) approval in 2010. The regulatory capital charge using IMA is not expected to be materially different from the current charge based on the Standardised Approach.

IRRBB risk capital

Interest rate risk in the banking book (IRRBB) risk is not separately identified by Basel II for Pillar 1 regulatory capital.

IRRBB risk is the risk a bank faces due to a mismatch between its assets and liabilities. The maturity mismatch between the two sides of the balance sheet makes the bank vulnerable to changes in the yield curve, a risk against which the bank therefore needs to hold capital.

In addition to maturity mismatch, IRRBB risk also considers interest rate mismatches (ie fixed rate assets vs floating rate liabilities).

Nedbank's IRRBB economic capital methodology is based on simulation modelling of the bank's net interest income (NII) exposure to changes in interest rates as represented by a stochastic interest rate shock. Economic value of equity (EVE) exposure is also used as a secondary measure. The stochastic interest rate shock is quantified based on the volatility, derived from a 1 year log return of the past 5 years of money market data, applied to current interest rates. The IRRBB economic capital is defined as the difference between the 99,9% probability NII and the probability weighted mean NII of the stochastic modelling.

Liquidity risk capital

From a pure solvency perspective at a 99.9% confidence level, it is totally impractical to hold capital against liquidity risk. Liquidity risk is best managed by a rigorous control and governance framework, and best practice ALCO process. However, in line with recent international developments post the global financial crisis we are working on the introduction of a charge for economic capital based on stress testing of the incremental increase in the cost of funding (liquidity) arising from a stressed event.

A sophisticated and well resourced Group ALM division and Group ALCO process has been implemented in Nedbank to manage and mitigate liquidity risk. This is summarised in detail from page 77 to 83.

Liquidity risk is a key component of Nedbank's stress testing, as well as our choice of the risk of a liquidity crisis as a key stress scenario.

Property risk capital

Property risk is included under 'Other Assets' for regulatory capital and so attracts a 100% risk weighting.

Property risk is the risk a bank faces due to the fluctuation of property values. In the case of Nedbank, this includes the capital to be held against property-in-possessions as well as its fixed property.

Nedbank'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 Weight Approach applied under Basel II for equity risk, namely a 400% risk weighting.

Equity (investment) 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, quality of management). Note that 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 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 II, namely we use the Simple Risk Weight approach for the bulk of the portfolio, the exception being in Property Finance Division, where a PD/LGD approach has been adopted.

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. In line with moving to a bottom up approach, the Property Finance book investment risk economic capital is modelled using a PD/LGD approach.

Foreign currency translation risk in the banking book capital

Foreign currency translation risk (FCTR) 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 our risk is in a strengthening of the rand. The current methodology at Nedbank uses a simple VaR methodology scaled to a one-year, 99.9% confidence interval to calculate standalone economic capital for foreign currency translation risk, based on exchange rate volatility. FCTR is not required for Basel II Pillar 1 regulatory capital.

Business risk capital

Business risk is not specified for Basel II Pillar 1 regulatory capital. It is however measured in Nedbank's economic capital model, in line with current best-practice which is 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 case 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 also essentially addresses 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's risk taxonomy, provides for a complete coverage of the quantifiable economic risks Nedbank faces.

Nedbank has adopted the widely accepted methodology of measuring business risk through the quantification of earnings volatility or earnings-at-risk, and has developed a sophisticated earnings volatility model.

The major driver or input used in the earnings-at-risk methodology is a time series of historical profit and loss, cleansed of the effects of other risk types. The volatility of this time series of historical profits and losses becomes the basis for the measurement of capital. The methodology is based on internal Nedbank data, which allows for analysis to increasingly understand more about earnings-at-risk across business units within the bank.

Operational risk capital

Nedbank intends to apply the 'Advanced Measurement Approach' (AMA) as defined under Basel II from 2010.

For 2009, however, our economic capital operational risk is quantified as a multiple of gross operating income and multipliers that are consistent with the Standardised Approach requirements that Nedbank is applying for regulatory capital.

Other assets

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 BA200 return.

Inter-risk diversification

Risk diversification is the 'ABC' of any prudent risk management strategy, as it is at Nedbank and in our economic capital (ICAAP) measurement in the form of inter-risk diversification benefits.

Nedbank's inter-risk correlation matrix was first developed in 2004 mainly using Oliver Wyman benchmarks. However, in 2006, with the building of various macro models as part of Nedbank's overall Macro-Economic Factor Model (MEFM) and its Stress and Scenario Testing Framework, we revised the correlation matrix using empirical estimation and data, and use of Nedbank specific factors.

The Group inter-risk diversification benefit at Nedbank Group level is allocated back (in the economic capital allocation) to the business units rather than being held at the centre. On this basis, allocation of capital allows business units to benefit from being part of a larger, well diversified group and can price products more appropriately and competitively.

Qualitative risks that cannot be mitigated by capital

Nedbank's economic capital framework is in line with best international practice. Not all risks can be mitigated by holding capital against them, although at Nedbank we have mapped all our 17 key risk categories in our ERMF to the group's economic capital framework, with two exceptions being reputational risk and liquidity risk.

By its nature reputational risk is difficult to quantify and almost impossible to capitalise. This risk in essence arises when one or more of the other 17 key risks fail and so is indirectly captured therein. However, within the operational risk framework the impact of events will include the cost of reputational risk. Reputational risk is managed within Nedbank's ERMF discussed earlier.

Sensitivity analysis, conservatism, data and model risk

For Basel II and our internal capital assessment (ie economic capital) it is necessary to develop models and estimate parameters in order to measure the capital requirements. Consequently, a degree of uncertainty potentially exists in the calculated capital requirements.

Four main sources of potential uncertainty have been identified:

- Data uncertainty
- Uncertainty on estimated risk parameters
- Future business cycle volatility
- Model risk.

The first uncertainty arises due to the fact that data may be incomplete or of poor quality, which would imply that the risk and so capital calculations may be misleading. To mitigate this risk a comprehensive governance, review and sign off process has been implemented. Also, it is important to highlight that, currently as a general rule, where Nedbank is not comfortable with the quality / availability of data that impacts risk and capital quantification we apply 'extra' conservatism to more than compensate. This results, if anything, in overstated capital requirements.

Nedbank places great emphasis on the need for consistent and sustainable data collection, data storage and information sharing practices to facilitate not only sound financial and risk management, but also operational banking and infrastructure management.

A significant effort during our Basel II implementation and beyond has gone into improving Nedbank's data availability, quality and management / governance. A comprehensive Data Governance Framework (DGF) has been approved by the board. This establishes the framework for the bank's data architecture management and governance, and sets minimum standards in respect of data capture, storage and collation for regulatory capital purposes.

NEDBANK'S DATA GOVERNANCE FRAMEWORK

Data Accessibility	Data Availability	Data Quality	Data Consistency	Data Security	Data Auditability
Standards		**Policies and Processes**		**Organisation**	
Data Definitions and taxonomies	Master / reference Data	Data Definition	Monitoring and Measurement	Roles and Responsibilities	Training and Education
Enterprise Data Model	Technology and Tools Standards	Data Access and Delivery	Data Change Management	Planning and Prioritisation	Change Management
Data Integration Infrastructure					

There continues to be many major initiatives across the bank focussed on enhancing business intelligence and data quality in Nedbank.

Conservatism is a principle consistently followed by senior management and the board. High conservatism also prevails throughout the Basel II regulations (eg use of dLGD, Pillar 2a capital add-on for South Africa, other capital buffers, etc) and this is evident in Nedbank's economic capital as well. Consequently, the Group assess this risk to be low.

A summary of some examples of high conservatism evident in our internal capital assessment (ie economic capital) follows:

- We capitalise for business risk which some bank's do not, and this is a significant amount of over R3,8 billion at group level
- Then in our stress testing and assessment of the adequacy of capital buffers, we are being very conservative in the inclusion of business risk because this risk is already measuring the potential volatility in earnings, and we are holding capital for this
- We capitalise property risk at a 400% risk weighting as opposed to 100% under the Basel regulations for 'Other Assets'. This amounts to an extra R836 million in economic capital compared to Basel II regulatory capital
- We capitalise for transfer risk in addition to credit risk in respect of any non- South African exposure.

The second source for uncertainty is that the estimated parameters used in the risk and capital calculations have been wrongly estimated. The impact of this uncertainty has been estimated to be fairly small given our robust governance, challenge and debate that is consistently present, and the AIRB credit, market, ALM and other risk frameworks and processes implemented across the bank (as part of the overall ERMF).

The third source of uncertainty on the assessment of adequate capital is the magnitude of future business cycles. This has implications for the assessment of adequate capital, as the severity of future recessions will influence the extent of our capital levels and buffers. We believe this risk is mitigated by the comprehensive Stress and Scenario Testing Framework and related processes covered in detail later in this report.

The last source of uncertainty is model risk and that the models may not accurately measure the risk. The validation around Nedbank's Pillar 1 credit and market risk models is centred around the banking regulations for the AIRB credit and IMA market risk approaches, respectively, and is very robust. Nedbank has adopted a principle-based approach to its AIRB credit model development. The overriding principle is to consistently be on the right side of conservatism. This is enforced by the rigorous governance and approval process, culminating in the ECC, as explained on page 26.

However, for our other major quantitative risk models, validation requirements are not set out in regulations and so a process and timetable for independent validation has been approved by the Group ALCO.

Nedbank Group's comprehensive ERMF, quantitative resources (Cluster Risk Labs, CMVU, GCM, GMRM, etc) and strong governance ensures models, their use and outputs are continuously challenged and debated at various levels, including senior management and Internal Audit (eg at ALCO, ECC meetings), and are always overlaid with common sense, business logic and management's experience.

In conclusion, there will always be a degree of uncertainty related to the accuracy of models and their correct / estimation of risk and so capital requirements. However, Nedbank Group uses a wide range of models and parameters, which have all been developed and are maintained on an individual stand alone basis following a rigorous process, including validation and reporting (ie scrutiny, challenge and debate by management experience). There is also our principle of conservatism which is routinely applied and where uncertainty exists extra-conservatism is applied which, if anything, results in an over-estimation of capital.

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 quarterly by Group Exco and the board, and integrated into our strategy, business, risk and capital plans.

Nedbank's risk appetite culture is inherently conservative. Details of this, linked to our current risk profile, were summarised in the highlights section earlier from page 6.

We measure and express risk appetite in terms of quantitative risk metrics and qualitatively. The quantitative metrics include earnings at risk (EaR) (or earnings volatility) and, related to this, the 'chance of regulatory insolvency', 'chance of experiencing a loss' and economic capital adequacy. These comprise our 'Group-level risk appetite metrics'. In addition, a large variety of risk limits, triggers, ratios, mandates, targets and guidelines are in place for all the financial risks (eg credit, market and ALM risks).

Earnings volatility is the level of potential deviation from expected financial performance that Nedbank 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.

Qualitatively, we also express risk appetite in terms of policies, procedures, statements and controls meant to limit risks that may or may not be quantifiable.

Nedbank Group's risk appetite is defined across five broad categories as set out in our board approved Risk Appetite Framework, namely:

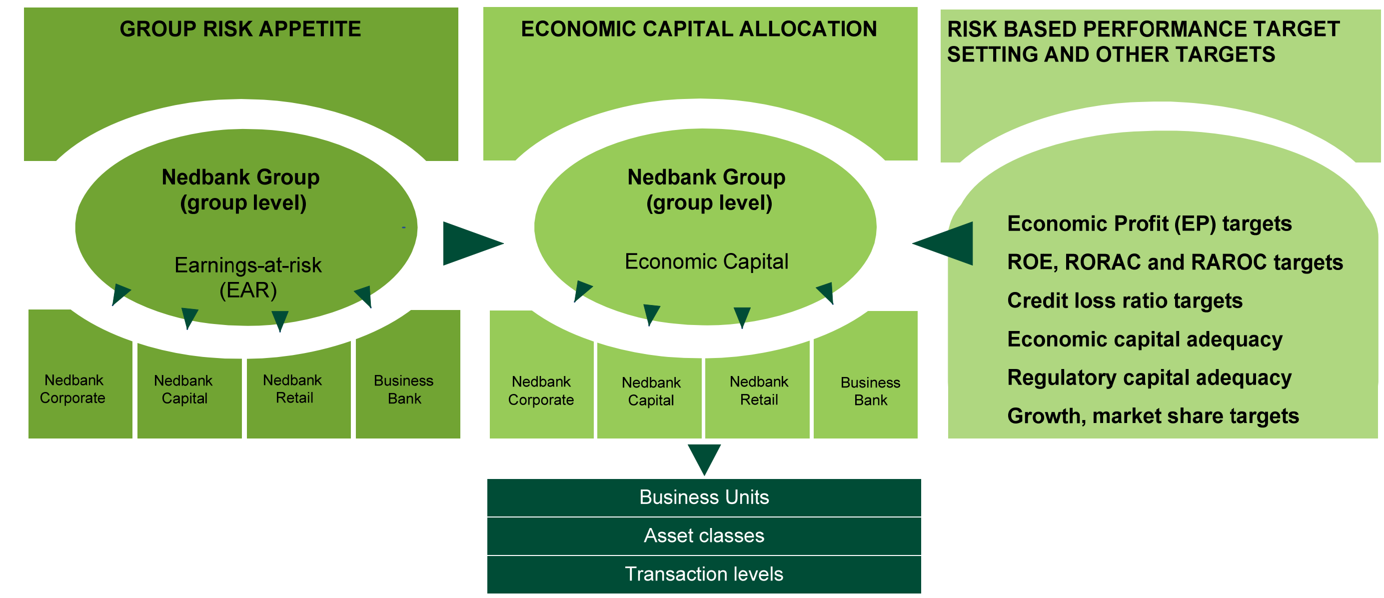
- Group-level risk appetite metrics. These are expanded upon in the table below:
- Specific risk-type limit setting (clarifying across our businesses the mandate levels that are of an appropriate scale relative to the risk and reward of the underlying activities so as to minimise concentrations and other risks that could lead to unexpected losses of a disproportionate scale);
- Stakeholder targets (such as target debt rating for economic capital adequacy and dividend policy);
- Policies, procedures and controls; and
- Zero-tolerance statements.

NEDBANK'S GROUP LEVEL RISK APPETITE METRICS				
Group metrics	**Definition**	**Measurement methodology**	**Current targets**	**Target achieved**
Earnings at risk (EaR)	Pretax earnings potentially lost over a one-year period	Measured as a 1-in-10-year event (ie 90% confidence level)	EaR less than 100% of pretax economic earnings	✓
Chance of experiencing a loss	Event in which Nedbank Group experiences an annual loss (on an economic basis)	Utilises EaR by comparing with expected profit over the next year	Better than 1 in 10 years	✓
Chance of regulatory insolvency	Event in which losses would result in Nedbank being undercapitalised relative to minimum regulatory capital ratios (both Tier 1 and total capital ratios)	Utilises EaR and compares with capital buffer above regulatory minimum – expressed as a 1-in-x-year chance of regulatory insolvency	1 in 30 to 50 years	✓
Economic capital adequacy	Nedbank adequately capitalised on an economic basis to its current international foreign currency target debt rating	Measured by comparing available financial resources with economic capital requirement	Equivalent rating of A- or 99,9% confidence interval or better (plus 10% buffer)	✓

Our Risk Appetite Framework and methodology / modelling of the group level metrics, are integrated with our economic capital model and the ERMF. The two measures, earnings-at-risk and economic capital, are methodologically very similar and differ primarily in the confidence level used. However, earnings-at-risk is less granular in that it is more difficult to allocate accurately to more granular levels, such as individual portfolios, because of some of the assumptions used (eg assumptions about the loss distribution at the 90% confidence level).

On the other hand, economic capital is more robust than earnings-at-risk when pushed down to more granular levels and has the benefit of being a key part of Nedbank's Risk Adjusted Performance Measurement system (ie for RORAC, EP measures).

RISK APPETITE AND ECONOMIC CAPITAL SETTING AND ALLOCATION PROCESS IN NEDBANK



• **Earnings at risk** (EAR) is a tangible measure for setting the **group risk appetite** and cascading the risk profile from the top down • EAR is reported at the Cluster/BU level, but is not as well suited for quantifying and setting detailed management actions (ie not sufficiently granular or linked directly to RAPM)	• **Economic Capital** is measured at a more granular level and is consistent with RAPM, therefore it is used for granular allocation and target setting • For some businesses, Economic Capital is translated into alternate risk measures or limits, eg trading VaR, credit exposures • Businesses can determine Economic Capital down to client/transaction level as part of their client value management and risk based pricing	• Statutory earnings and growth targets, and other constraints also feed into the overall risk/ return target setting process

Nedbank 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. All IRRBB and foreign currency translation risk is transferred to Group ALM who, in conjunction with Group ALCO, would have primary responsibility for managing / hedging the risk.

Another key component of the ERMF is a comprehensive set of board-approved risk policies and procedures, which are updated annually. The co-ordination and maintenance of this formal process rests with the head of ERMF, who reports direct to the Chief Risk Officer.

In conclusion, Nedbank 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.

CAPITAL MANAGEMENT

Nedbank assesses and projects capital requirements using active capital management integrated with our strategy, financial position, risk profile and risk appetite

Nedbank's Capital Management Framework reflects the integration of risk, capital, strategy and performance measurement (and incentives) across the group. This contributes significantly to successful enterprise-wide risk management.

The board approved 'Solvency and Capital Management' policy document requires Nedbank to be capitalised at the greater of Basel II regulatory capital and economic capital.

Importantly though, one should not see Nedbank's economic capital divorced from Basel II regulatory capital – quite the contrary in that our economic capital is an extension of the Basel II Pillar 1 requirements to incorporate Pillar 2, together with a few other key refinements tailored to Nedbank, South Africa and taking more of a Rating Agency perspective (eg Tier 2 regulatory capital does not qualify for our economic capital definition of available financial resources).

The Group Capital Management division is mandated to champion the successful implementation of the Capital Management Framework and ICAAP across the group. The capital management (incorporating ICAAP) 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, by the board's Group Risk and Capital Management Committee, and the Group ALCO, respectively.

Group ALCO, in turn, is assisted by the Capital Management Committee (sub-committee of Group ALCO) chaired by the head of Group Capital Management.

NEDBANK'S FOUR KEY FUNCTIONS FOR SUCCESSFUL CAPITAL MANAGEMENT			
Capital Investment	**Capital Structuring**	**Capital Allocation**	**Risk and Capital Optimisation**
Group ALM Division	**Group Capital Management Division**		

Capital investment

Group ALM is responsible for managing the investment profile 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.

Our macro-economic factor model provides further science behind Group ALCO's decisions on what extent to hedge, 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 a natural hedge exists between them.

Capital structuring, allocation and optimisation (including risk optimisation and credit portfolio management)

Group Capital Management is responsible for the group's Strategic Capital Plan (SCP). This is a dynamic plan and process that is updated and reviewed regularly (monthly to Group ALCO and at least quarterly to the board's Group Risk and Capital Management Committee and the full board itself – in addition, the plan is updated and accompanies all capital actions for which board approval is ultimately required).

A key sophisticated planning tool enabling the SCP is our Capital Adequacy Projection Model (CAPM). CAPM is fully integrated with the group's three year business and strategic plans, together with the economic capital, Basel II, IFRS and other important parameters and financial data.

CAPM projects Basel II and economic capital requirements for the current year end and the next three years. This also covers capital requirements, available capital resources, capital buffers, target capital ratios, earnings, impairments, dividend plan, any constraints or limits, risk appetite metrics and details on 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 would also take 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 Nedbank Group's capital management is forward looking and pro-active (not re-active), and driven off sophisticated and comprehensive long-run capital planning.

The above process provides 'base case (or expected) projections'. The base case is then stressed using various macro-economic scenarios (eg Pillar 2 stress testing), in addition to risk specific stress testing (ie additional scenarios, reverse stress testing and Pillar 1 stress testing). Detail on this is covered from page 122. The outcome of this stress and scenario testing is the key factor in assessing and deciding upon Nedbank's capital buffers – another key component of the SCP.

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, economic-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 risk-adjusted performance measurement (RAPM) framework.

Group Capital Management is thus also responsible for managing the efficient employment of capital across Nedbank Group's businesses, using risk-based economic capital allocation, credit portfolio management and RAPM (primarily driven by economic profit and 'manage for value' principles)

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

Sourcing of regulatory capital		Capital allocation to business clusters for performance measurement
Tier 1 capital		
• Shareholders equity (Core Tier 1)	→	Allocated as capital using bottom-up economic capital measurement. Any shortfall vs regulatory capital is addressed via allocation of a capital buffer to the businesses
• Preference shares and hybrid debt capital (Non-core Tier 1)	→	Allocated as part of funding costs, impacting businesses' earnings
Tier 2 capital		
• Sub-ordinated debt	→	Allocated as part of funding costs, impacting businesses' earnings

CAPITAL ADEQUACY

Capital adequacy is strong relative to our business activities, strategy, risk profile and the external environment in which we operate

Regulatory capital adequacy

The capital base of the group provides the foundation for lending, off-balance sheet transactions and other activities. Capital adequacy is measured in terms of the Banks Act, no. 94 of 1990, in terms of which the group must maintain a minimum level of capital based on risk-adjusted assets and off-balance sheet exposures.

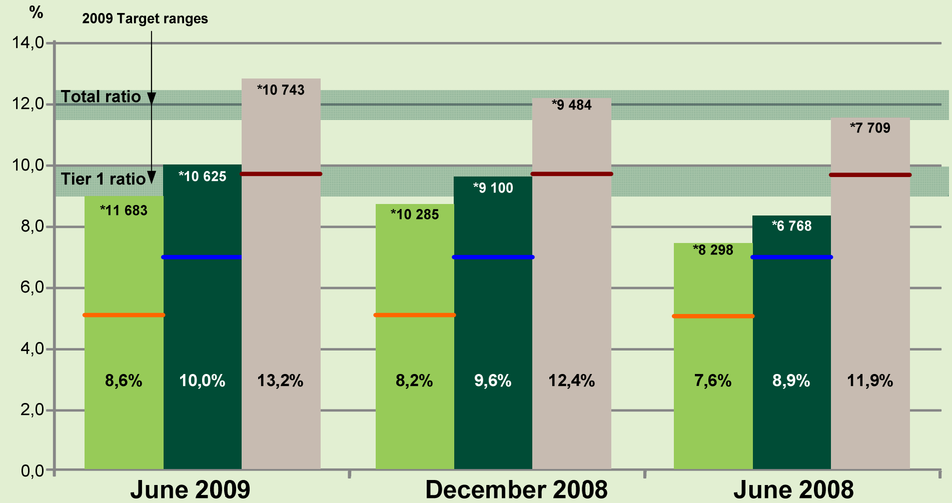
The South African and UK registered banks within the group are subject to regulatory capital adequacy requirements under Basel II from 1 January 2008. The Basel II Capital Accord also applies to Nedbank Group Limited, being the banking group.

Consolidation of entities for regulatory purposes is performed in accordance with the requirements of Basel II, the Banks Act and accompanying regulations. Some differences exist in the basis of consolidation for accounting and regulatory purposes. These include the exclusion of certain accounting reserves (eg Foreign Currency Translation Reserve (FCTR), Share-based Payments Reserve (SBPR) and Available for Sale Reserve (AFSR)), deduction of insurance entities and the exclusion of trusts which are consolidated in terms of IFRS but are not subject to regulatory consolidation.

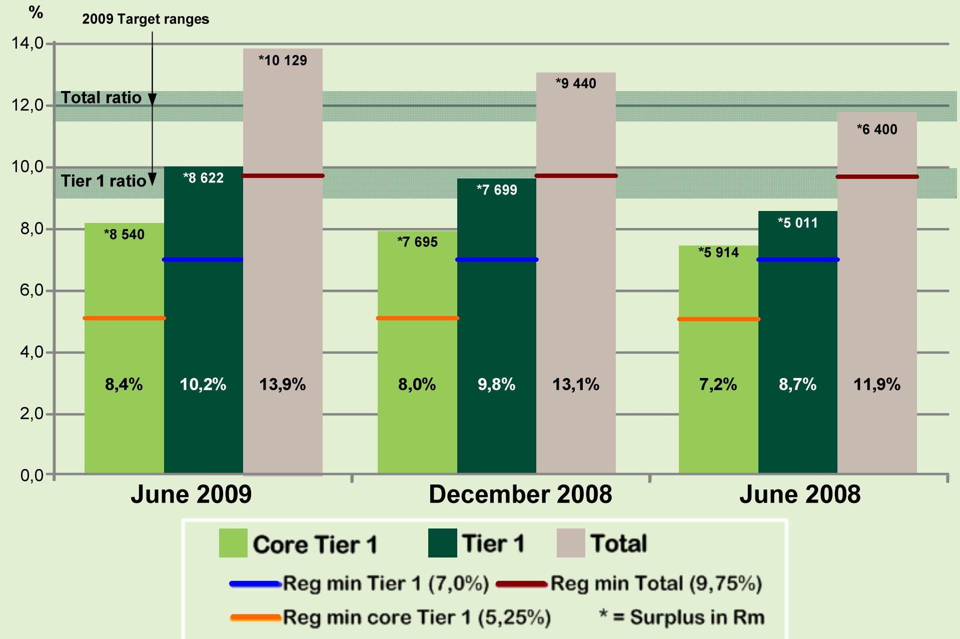
The FCTR, SBPR and AFS reserves that arise in the consolidation of entities in terms of IFRS amounted to R1,3 billion at 30 June 2009 and are excluded from qualifying regulatory capital. Restrictions on the transfer of funds and regulatory capital within the group are not a material factor. These restrictions mainly relate to those entities, which operate in countries other than South Africa where there are exchange control restrictions in place.

Basel II regulatory capital adequacy **

Nedbank Group



Nedbank Limited



Target ranges	Core Tier 1	Tier 1	Total
To 2008	-	8 – 9 %	11 – 12 %
From 2009	7,5 – 9%	8,5 – 10 %	11,5 – 13 %

** includes unappropriated profits

Nedbank Group Limited has strengthened its regulatory capital ratios significantly, with a Tier 1 capital adequacy ratio of 10,0% (December 2008 : 9,6%; June 2008 : 8,9%) and a total capital adequacy ratio of 13,2% (December

2008 : 12,4%; June 2008 : 11,9%). The core Tier 1 capital adequacy ratio was 8,6% (December 2008 : 8,2%; June 2008 : 7,6%).

Nedbank Limited has also significantly strengthened regulatory capital ratios, with a Tier 1 capital adequacy ratio of 10,2% (December 2008 : 9,8%; June 2008 : 8,7%) and a total capital adequacy ratio of 13,9% (December 2008 : 13,1%; June 2008 : 11,9%). The core Tier 1 capital adequacy ratio was 8,4% (December 2008 : 8,0%; June 2008 : 7,2%).

All capital adequacy ratios are now at or above the group's target ranges, except 'core Tier 1' which is nearing the top end. They include unappropriated profits at the half year end to the extent that these are not expected to reverse and are expected to be appropriated subsequent to the half year end.

Nedbank's capital adequacy ratios increased significantly over the past eighteen months due to a strong focus on the optimisation of risk weighted assets, enabled by enhancing data quality and more selective asset growth using our economic profit based 'managing for value' philosophy, the retention of earnings, the profits made on the disposal of Visa shares, the issue in 2008 of the first Hybrid Tier 1 capital instruments in South Africa (amounting to R1,75 billion) and the private placement of a 13 year (non-call eight year) US$100 million Tier 2 subordinated debt with an international investor in March 2009.

The group's leverage ratio (total assets to ordinary shareholders equity) at 14,9 times is also conservative by international standards and in line with the local peer group.

Against the background of the group's conservative risk appetite and sound risk management discussed earlier, the group believes that its capital levels (both regulatory capital and its internal capital assessment, economic capital) and provisioning for credit impairments are appropriate and conservative, and that the group and its subsidiaries are strongly capitalised relative to our business activities, strategy, risk appetite, risk profile and the external environment in which we operate. Additionally, the group is currently not holding excess capital for major acquisitions.

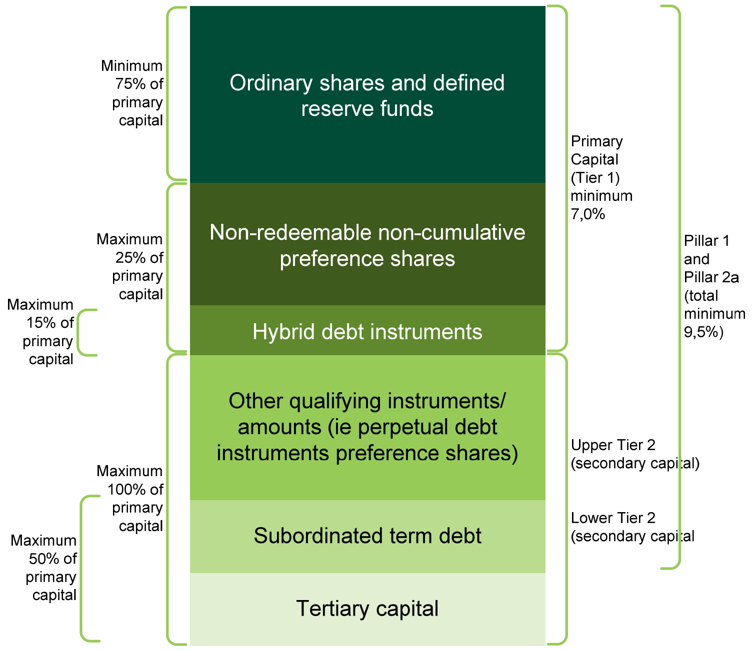
In line with a specific provision of the Banks Act regulations, profits do not qualify as regulatory capital unless formally appropriated by the board. Accordingly, we show below our capital ratios excluding unappropriated profits, noting that these profits could be appropriated at any time if needed.

Actual capital ratios (excluding unappropriated profits)	**Nedbank Group**			**Nedbank Limited**		
%	**Jun 2009**	Jun 2008	Dec 2008	**Jun 2009**	Jun 2008	Dec 2008
Core Tier 1	**8,3**	7,4	8,0	**8,1**	7,1	8,0
Tier 1	**9,7**	8,7	9,4	**9,9**	8,6	9,7
Total	**12,9**	11,7	12,3	**13,7**	11,8	13,1

Minimum Basel II regulatory capital requirements from 1 January 2008	
Pillar 1	8,00%
+ Pillar 2a (South Africa systemic risk)	1,5%
	9,5%
+ Pillar 2b (May vary over time at SARB's discretion – bank specific idiosyncratic risk)	X%
Minimum required capital ratio (excluding board's buffer)	**9,50% + X%**
+ Pillar 2, principle 3 board buffer (required by the regulations but set at the board's discretion)	Y%
Total required minimum capital ratio (including board's buffer)	**9,50% + X% + Y%**

QUALIFYING REGULATORY CAPITAL AND RESERVES	REGULATORY MINIMUM CAPITAL STRUCTURE

- Minimum primary (Tier 1) capital percentage is 7% of RWA.
- 25% of primary capital can be in the form of perpetual preference shares and/or hybrid Tier 1 instruments.
- 15% of primary capital may be in the form of hybrid Tier 1 capital.
- Term secondary (Tier 2) capital instruments are restricted to 50% of primary capital (Tier 1).
- Total secondary and tertiary (Tier 3) capital remains restricted to 100% of primary capital.



Summary of Risk Weighted Assets (by risk type and business cluster)

Risk type and business cluster	Jun 2009 Rm	Mix %	Dec 2008 Rm	Mix %
Credit risk	**277 599**	**79**	285 457	81
Nedbank Corporate	**64 818***	**18**	112 568	32
Nedbank Business Banking	**38 297***	**11**	Note 1	-
Nedbank Capital	**15 346**	**4**	17 309	5
Nedbank Retail	**91 618**	**26**	87 721	25
Imperial Bank	**36 972**	**11**	35 377	10
Africa and UK and Other	**30 548**	**9**	32 482	9
Equity risk	**10 791**	**3**	13 035	4
Market risk	**5 947**	**2**	7 049	2
Operational risk	**42 473**	**12**	36 497	10
Other assets	**13 064**	**4**	13 197	3
Total risk weighted assets	**349 874**	**100**	355 235	100

Note 1: In 2009 Business Banking became a separate cluster, previously part of Nedbank Corporate.

*Restated from 30 June 2009 Analyst Bokolet.

Summary of Risk Weighted Assets (by risk type)

	Nedbank Group			Nedbank Limited		
Risk Type	**Jun 2009**	Jun 2008	Dec 2008	**Jun 2009**	Jun 2008	Dec 2008
	Rm	Rm	Rm	**Rm**	Rm	Rm
Credit risk	**277 599**	278 227	285 457	**215 280**	225 330	221 969
Credit portfolios subject to AIRB approach (ie Nedbank Limited)	**227 745**	232 833	238 480	**211 366**	219 446	218 142
Corporate, sovereign, bank (incl SME)	**120 505**	125 229	131 955	**106 398**	114 451	114 050
Residential mortgage	**71 516**	69 292	70 401	**69 244**	66 683	67 968
Qualifying revolving retail	**7 214**	6 893	6 554	**7 214**	6 893	6 554
Other retail	**28 510**	31 419	29 570	**28 510**	31 419	29 570
Credit portfolios subject to standardised approach	**45 583**	39 320	42 829			
Corporate, sovereign, bank	**17 676**	15 700	16 849			
Retail exposures	**27 907**	23 620	25 980			
Counterparty credit risk	**3 342**	5 159	3 169	**3 245**	5 099	3 109
Securitisation exposures (IRB approach)	**929**	915	979	**669**	785	718
Equity risk (Market-based Simple Risk Weight Approach)	**10 791**	14 895	13 035	**9 121**	27 786	10 190
– Listed (300% risk weighting)	**1 459**	687	1 574	**1 449**	1 281	1 471
– Unlisted (400% risk weighting)	**9 332**	14 208	11 461	**7 672**	26 505	8 719
Market risk (standardised approach)	**5 947**	7 529	7 049	**4 513**	4 555	5 445
Operational risk (standardised approach)	**42 473**	33 731	36 497	**34 655**	28 854	30 559
Other assets (100% risk weighting)	**13 064**	16 399	13 197	**10 244**	11 336	10 170
Total risk weighted assets	**349 874**	350 781	355 235	**273 813**	297 861	278 333
Total minimum regulatory capital requirements*	**35 289**	34 201	34 635	**27 873**	29 041	27 137
Qualifying capital and reserves **	**46 032**	41 910	44 119	**38 002**	35 441	36 577
Total surplus capital over minimum requirements	**10 743**	7 709	9 484	**10 129**	6 400	9 440
Analysis of total surplus capital						
Core Tier 1 capital	**11 683**	8 298	10 285	**8 540**	5 914	7 695
Tier 1 capital	**10 625**	6 768	9 100	**8 622**	5 011	7 699
Total	**10 743**	7 709	9 484	**10 129**	6 400	9 440

**Includes Basel II capital floor from June 2009.*

***Includes unappropriated profits.*

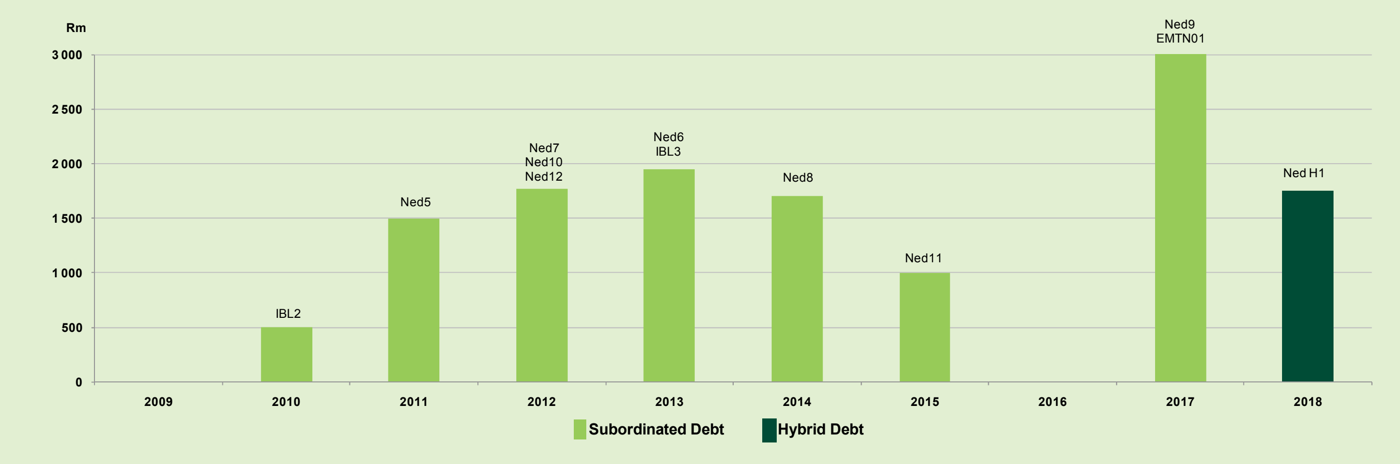
Summary of Qualifying Capital and Reserves

	Nedbank Group			Nedbank Limited		
Rm	**Jun 2009**	Jun 2008	Dec 2008	**Jun 2009**	Jun 2008	Dec 2008
Tier 1 capital (primary)	**34 043**	30 485	33 458	**27 153**	25 457	27 031
Core Tier 1 capital	**28 978**	25 877	28 427	**22 279**	21 148	22 156
Ordinary share capital	**428**	406	410	**27**	27	27
Ordinary share premium	**12 907**	11 204	11 370	**14 434**	14 434	14 434
Reserves	**24 196**	21 517	23 133	**14 707**	13 058	14 298
Minority interest : ordinary shareholders	**1 656**	1 550	1 881			
Deductions	**(10 209)**	(8 800)	(8 367)	**(6 889)**	(6 371)	(6 602)
Impairments	***(7)***	*(118)*	*(6)*	***(3 426)***	*(3 095)*	*(3 608)*
Goodwill	***(5 023)***	*(3 940)*	*(3 894)*	***(1 126)***	*(1 126)*	*(1 126)*
Excess of expected loss over eligible provisions (50%)	***(798)***	*(814)*	*(588)*	***(798)***	*(814)*	*(588)*
Unappropriated profits	***(1 375)***	*(852)*	*(658)*	***(938)***	*(419)*	*(300)*
Foreign currency translation reserves	***(295)***	*(528)*	*(545)*	***(9)***	*(9)*	*(9)*
Share based payment reserves	***(910)***	*(922)*	*(949)*	***82***	*(294)*	*(281)*
Property revaluation reserves	***(933)***	*(843)*	*(951)*	***(652)***	*(592)*	*(668)*
Surplus capital held in insurance entities (50%)	***(466)***	*(357)*	*(387)*			
Other regulatory differences	***(402)***	*(426)*	*(389)*	***(22)***	*(22)*	*(22)*
Non-core Tier 1 capital	**5 065**	4 608	5 031	**4 874**	4 309	4 874
Preference share capital and premium	**3 313**	3 421	3 279	**3 122**	3 122	3 122
Hybrid debt capital instruments	**1 752**	1 187	1 752	**1 752**	1 187	1 752
Tier 2 capital (secondary)	**10 916**	10 287	10 153	**10 213**	9 280	9 395
Long term debt instruments	**11 499**	10 876	10 464	**10 848**	9 811	9 812
Revaluation reserves (50%)	**466**	422	476	**326**	296	334
Deductions	**(1 049)**	(1 011)	(787)	**(961)**	(827)	(751)
Surplus capital held in insurance and financial entities (50%)	***(466)***	*(357)*	*(387)*			
Excess of expected loss over eligible provisions (50%)	***(798)***	*(814)*	*(588)*	***(798)***	*(814)*	*(588)*
General allowance for credit impairment	***249***	*192*	*212*			
Other regulatory differences	***(34)***	*(32)*	*(24)*	***(163)***	*(13)*	*(163)*
Tier 3 capital (tertiary)	**-**	300	-	**-**	300	-
Total	**44 959**	41 072	43 611	**37 366**	35 037	36 426

Including Unappropriated Profits	Nedbank Group			Nedbank Limited		
Rm	**Jun 2009**	Jun 2008	Dec 2008	**Jun 2009**	Jun 2008	Dec 2008
Core Tier 1 capital	**30 051**	26 714	28 935	**22 915**	21 552	22 307
Tier 1 capital (primary)	**35 116**	31 232	33 966	**27 789**	25 861	27 182
Total capital	**46 032**	41 910	44 119	**38 002**	35 441	36 577

The quality and diversification of Nedbank's capital base is sound, as reflected by our Tier 1 and Tier 2 composition. This includes the replacement in recent years of the concentrated NED1 (R2 billion) and NED2 (R4 billion) subordinated debt with a smooth, well diversified maturity profile with nine sub-debt issues totalling approximately R8 billion and their maturity relatively evenly spread over 2010 to 2018.

NEDBANK GROUP'S NON-CORE TIER 1 AND TIER 2 MATURITY PROFILE



Dividend cover

The group has a dividend cover policy range of 2.25 – 2.75, covered by headline earnings per share. Historically the effective cover has been higher as a result of take up under a scrip dividend alternative and also the reinvestment of dividend proceeds by BEE shareholder trusts.

Summary of regulatory capital adequacy of all banking subsidiaries of Nedbank Group

A summary of all the group's banking subsidiaries' Basel II regulatory capital positions as at 30 June 2009 is provided below:

Bank	Risk weighted assets	Basel II capital ratio	Risk weighted assets	Basel II capital ratio
	Jun 2009		Dec 2008	
	Rm	**%**	Rm	%
Nedbank Limited	**273 813**	**13,7**	278 333	13,1
Imperial Bank Limited	**40 235**	**10,7**	38 074	11,1
Nedbank (Namibia) Limited	**4 518**	**10,3**	3 264	13,9
Fairbairn Private Bank (IOM) Limited	**2 826**	**15,9**	2 526	16,1
Fairbairn Private Bank Limited	**1 587**	**16,5**	1 722	14,5
Nedbank (Swaziland) Limited	**1 417**	**11,9**	619	17,4
Nedbank (Lesotho) Limited	**801**	**20,4**	320	23,3
Nedbank (Malawi) Limited	**353**	**12,2**	80	23,0

Note: The capital ratios for the African subsidiaries shown above are on a pro-forma basis and contribute to Nedbank Group ratios, as Basel II is still to be implemented in these jurisdictions.

We conclude that the capitalisation of all these banking entities are adequate, all with conservative risk profiles and well managed and monitored as part of the Group's ERMF and ICAAP.

Capital impact of Nedbank's outright purchase of JVs with Old Mutual and proposed 100% Imperial Bank Limited (IBL) buy out

The capital impact on the Nedbank Group of these transactions is negligible. The transaction with Old Mutual is effective 1 June 2009 and is included in these results. The transaction with Imperial Holdings was still pending as at 30 June 2009, awaiting final regulatory approval.

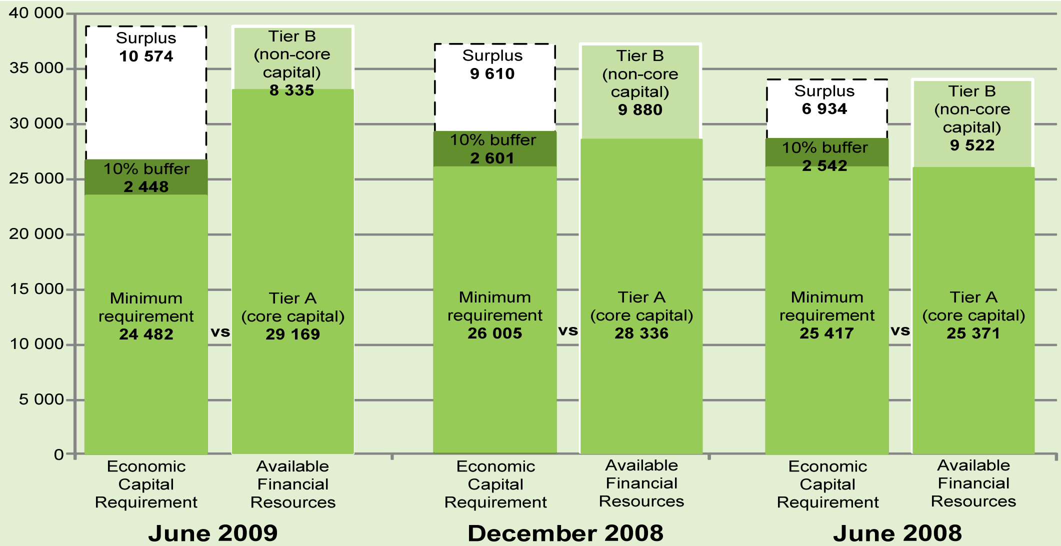
Economic capital adequacy and allocation

Nedbank Group's economic capital model has been discussed on page 99. Set out below is Nedbank Group's economic capital adequacy and capital allocation to business clusters.

Nedbank Group's ICAAP confirms that the group is capitalised to its A- or 99,9% target debt rating (or solvency standard) in terms of its proprietary economic capital methodology set out earlier. This includes a 10% capital buffer based on the group's risk appetite metrics and results of stress and scenario testing of the projected base case capital requirements.

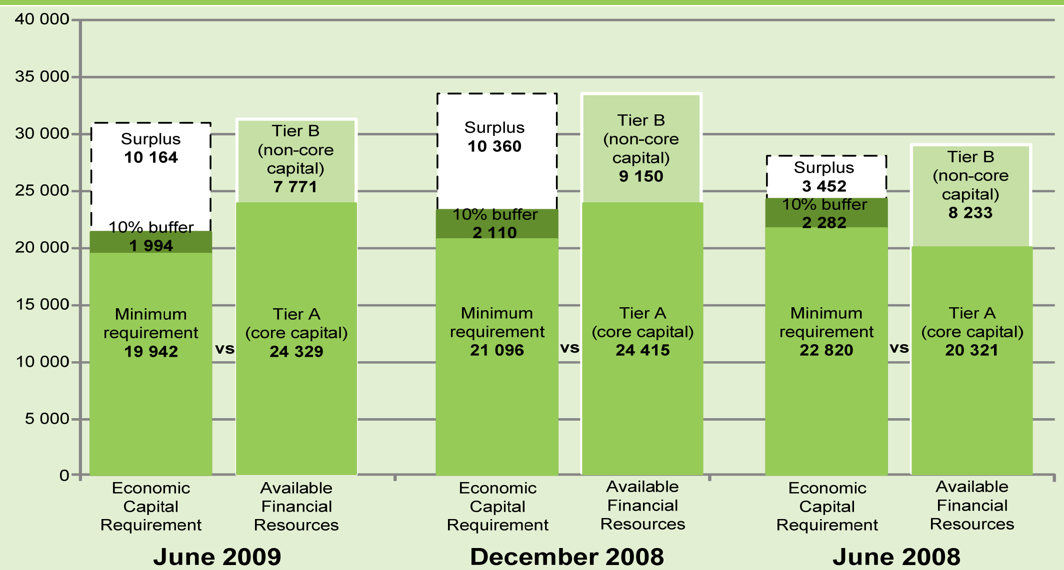
SUMMARY OF ECONOMIC CAPITAL

Nedbank Group



Target for economic capital adequacy
Capitalised to 99,9% confidence interval (target debt rating A-, currently same calibration as Basel II) plus a 10% capital buffer

Nedbank Limited



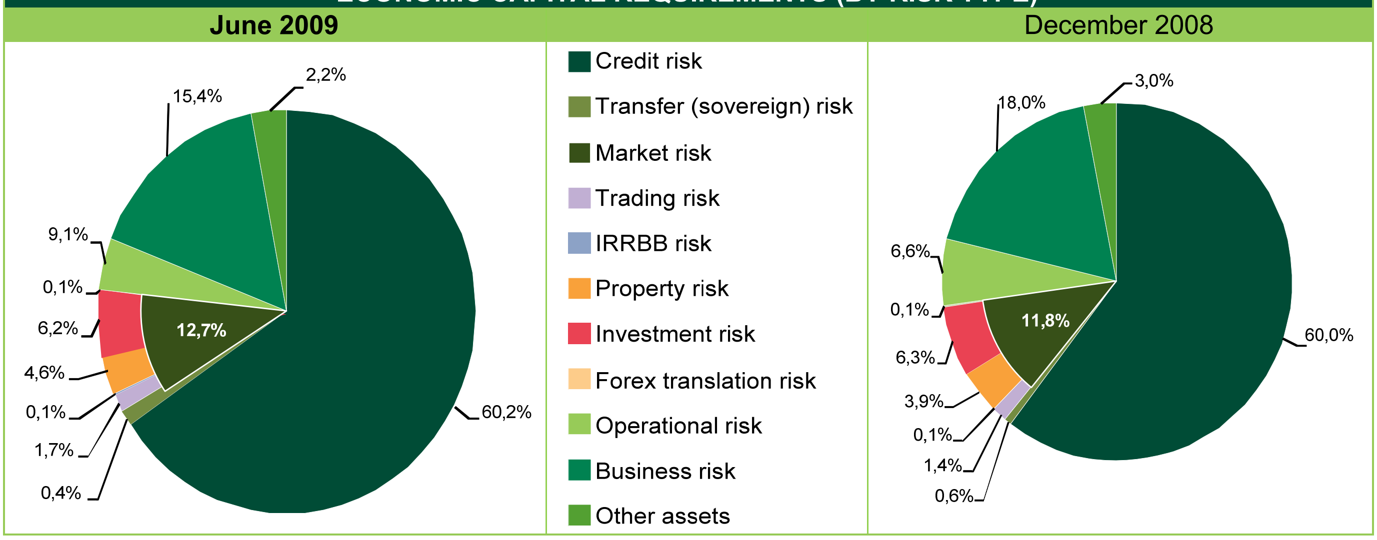
Economic capital requirements and available financial resources

Economic capital requirements and available financial resources						
(by risk type)	**Nedbank Group**			**Nedbank Limited**		
Rm	**Jun 2009**	Jun 2008	Dec 2008	**Jun 2009**	Jun 2008	Dec 2008

Credit risk*	**14 754**	15 771	15 605	**12 488**	13 672	13 197
Transfer (sovereign) risk	**92**	365	166	**8**	365	25
Market risk	**3 105**	2 926	3 066	**1 871**	2 866	1 598
Trading risk	**427**	360	352	**348**	360	137
IRRBB risk	**16**	33	33	**10**	31	21
Property risk	**1 114**	956	1 019	**846**	919	765
Investment risk	**1 519**	1 534	1 635	**667**	1 523	675
Forex translation risk	**29**	43	27	**-**	33	-
Operational risk	**2 223**	1 385	1 682	**1 637**	1 242	1 510
Business risk	**3 776**	4 202	4 798	**3 518**	3 950	4 168
Other Assets	**532**	768	689	**420**	725	598
Minimum economic capital requirement	**24 482**	25 417	26 005	**19 942**	22 820	21 096
+ Capital Buffer (10%)	2 448	2 542	2 601	**1 994**	2 282	2 110
= Total economic capital requirement	**26 930**	27 959	28 606	**21 936**	25 102	23 206
vs Available financial resources	**37 504**	34 893	38 216	**32 100**	28 554	33 566
Tier A capital (shareholders equity)	***29 169***	*25 371*	*28 336*	**24 329**	20 321	24 415
Tier B capital (non-core Tier 1 type capital)	***8 335***	*9 522*	*9 880*	**7 771**	8 233	9 150
= Surplus available after capital buffer	**10 574**	6 934	9 610	**10 164**	3 452	10 360

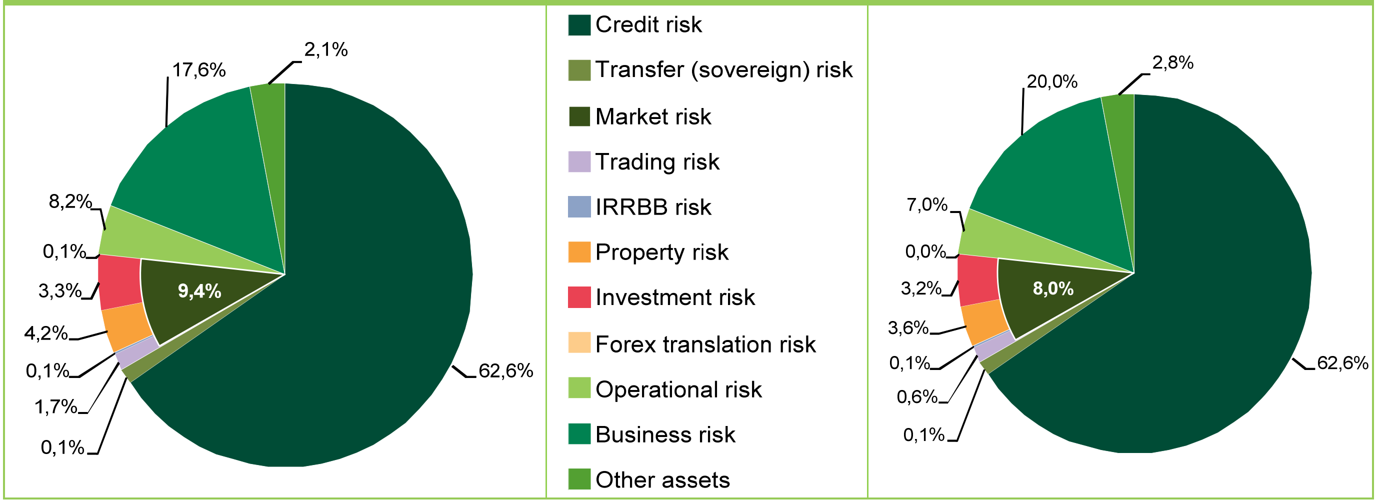
* Credit risk economic capital incorporates counterparty credit risk and securitisation risk

NEDBANK GROUP
ECONOMIC CAPITAL REQUIREMENTS (BY RISK TYPE)



NEDBANK LIMITED
ECONOMIC CAPITAL REQUIREMENTS (BY RISK TYPE)

June 2009 | December 2008



Overall credit risk economic capital has decreased significantly from June 2008 to June 2009. Although the worsening credit cycle has resulted in increases in non-performing loans particularly in Retail, this has not resulted in significant increases in the credit economic capital. For non-performing loans, a specific impairment is assigned in order to cover any expected loss that is not covered by collateral or expected cashflows, and as a result, only a minimal amount of capital is needed for non-performing loans. The decrease in credit economic capital was largely due to the optimisation of risk weighted assets, enabled by data quality enhancements and reduction of "excess" conservatism built in at the launch of Basel II. Furthermore, the slowdown in lending and Nedbank's "Manage for Value" focus and more selective asset growth has also helped reduce overall credit risk economic capital.

Transfer risk has decreased following the refinement of the methodology and increased use of mitigation information. Property risk has increased mainly as a result of the increase in properties-in-possession due to the worsening economic conditions. Operational risk increased due to the inclusion of the most recent year of gross income data in the calculation. The decrease in business risk is as a result of parameter refinements as well as the lower projected income growth compared to that done in the previous year.

Summary of economic capital requirement at half / year end (by business cluster)

Risk Type	Nedbank Group		Nedbank Corporate		Nedbank Business Banking		Nedbank Capital		Nedbank Retail		Imperial Bank		ALM / Other	
Rm	**Jun 2009**	Dec 2008	**Jun 2009**	Dec 2008	**Jun 2009**	Dec 2008	**Jun 2009**	Dec 2008	**Jun 2009**	Dec 2008	**Jun 2009**	Dec 2008	**Jun 2009**	Dec 2008
Credit Risk	**14 754**	15 605	**3 642**	3 897	**2 557**	3 182	**795**	934	**6 384**	6 122	**1 364**	1 450	**12**	20
Transfer (sovereign) Risk	**92**	166	**46**	64			**46**	102						
Market Risk	**3 105**	3 066	**504**	520	**5**	6	**1 210**	1 216	**423**	399	**13**	13	**950**	912
Trading Risk	**427**	352					**427**	352						
ALM (IRRBB) Risk	**16**	33											**16**	33
Property Risk	**1 114**	1 019	**34**	34	**5**	5			**257**	212	**13**	13	**805**	755
Investment Risk	**1 519**	1 635	**468**	484		1	**772**	853	**152**	174			**127**	123
Forex Translation Risk	**29**	27	**2**	2			**11**	11	**14**	13			**2**	1
Operational risk	**2 223**	1 682	**382**	284	**355**	275	**262**	251	**1 115**	803	**88**	51	**21**	18
Business risk	**3 776**	4 798	**649**	745	**548**	676	**579**	1 241	**1 855**	2 009	**145**	127		
Other Assets Risk	**532**	688	**50**	176		35	**25**	21	**165**	174	**12**	1	**280**	282
Total	**24 482**	26 005	**5 273**	5 686	**3 465**	4 174	**2 917**	3 765	**9 942**	9 507	**1 622**	1 642	**1 263**	1 232

Cost of equity

The cost of equity was revised at the beginning of 2009 to 13.25% as a result of a lower 10 year risk free rate expected for the year. In line with international trends, long term government rates were trending downwards in

South Africa. This was due to the higher than normal risk aversion and the expectation of lower rates on the back of lower inflation expectations.

Capital Asset Pricing Model*	Risk free rate (R157)	Beta	Equity risk premium	After-tax cost of ordinary shares
	%		%	%
2006	7,46	1,00	5,13	12,59
2007	7,73	1,02	5,30	13,14
2008	8,43	1,00	5,44	13,87
2009	**7,75**	**1,00**	**5,50**	**13,25**

External credit ratings

In July 2009, Moody's Investors Service took a number of rating actions on the leading South African banks, including the ratings of Nedbank Limited (Nedbank), the 100%-owned subsidiary of Nedbank Group Limited (Nedbank Group).

According to Moody's these rating actions were triggered by the following three factors

- The deteriorating macroeconomic conditions and the resultant challenges for the South African banking sector that has led to Moody's changing the outlook on the entities' bank financial strength ratings (BFSRs) to negative from stable, which has affected Nedbank
- The expected change in the systemic support indicator for the banking system in South Africa that has not impacted Nedbank
- Moody's upgrade of South Africa's foreign currency deposit ceiling from Baa1/P-2 to A3/P-2 that has led to an upgrade of Nedbank's long-term foreign currency deposit ratings, since these ratings were constrained by the country's ceiling. Similarly, the upgrade of South Africa's foreign currency debt ceiling to A1, with a stable outlook, from A2 has also triggered a rating upgrade in respect of Nedbank's senior unsecured debt rated under its European Medium Term Note Program (EMTN).

The specific impact on Nedbank's ratings is as follows:

Nedbank Limited
The foreign currency deposit ratings -- upgraded to "A3/P-2" from "Baa1/P-2"
Nedbank's EMTN programme -- rating for senior unsecured debt upgraded to "A1 (negative outlook)" from "A2"; and to "A2 (negative outlook)" for subordinated notes.
Outlook on the C BFSR -- downgraded to "negative" from "stable"
Outlook on the A1 GLC deposit rating -- downgraded to "negative" from "stable"
Nedbank's national scale debt ratings (relating to the DMTN programme) -- remains unchanged, but now all carry a negative outlook.
Outlook on the Aa1.za national scale rating -- downgraded to "negative" from "stable"

Nedbank's other ratings are not affected by this rating action by Moody's.

In addition during July 2009 there was credit rating action by Fitch Ratings. Fitch Ratings has affirmed the ratings of Nedbank Group Limited (Nedbank Group) at long-term foreign and local currency Issuer Default Rating (IDR) BBB, and national long-term rating at AA-(zaf), respectively. The short-term foreign currency IDR has been upgraded to 'F2' from 'F3'. The outlook on all three ratings has been revised to stable from negative.

Fitch Ratings has downgraded Nedbank Limited's (Nedbank) long-term foreign and local currency Issuer Default Ratings (IDRs) to 'BBB' from 'BBB+', and the national long-term rating to 'AA-(zaf)' from 'AA(zaf)', respectively. The outlook on the three ratings has been revised upward to stable from negative.

In aligning Nedbank Limited's ratings with the Nedbank Group's ratings, Fitch has also reviewed the level of integration between the holding company and its bank subsidiary and believes there is very little difference in the credit quality of the two entities. The agency considers the overall levels of integration between the two entities to be high, with insignificant external obligations within the holding company and inter-group obligations interest free and without repayment dates.

The rating actions are summarised as follows:

NEDBANK GROUP LIMITED
Long-term foreign currency IDR -- affirmed at 'BBB'; outlook revised to stable from negative
Long-term local currency IDR -- affirmed at 'BBB'; outlook revised to stable from negative
Short-term foreign currency IDR -- upgraded to 'F2' from 'F3'
National long-term rating -- affirmed at 'AA-(zaf)'; outlook revised to stable from negative
National short-term rating -- affirmed at 'F1+(zaf)'
Individual rating -- affirmed at 'C'
Support rating -- affirmed at '2'

NEDBANK LIMITED
Long-term foreign currency IDR -- downgraded to 'BBB' from 'BBB+'; outlook revised to stable from negative
Long-term local currency IDR -- downgraded to 'BBB' from 'BBB+'; outlook revised to stable from negative
Short-term foreign currency IDR -- affirmed at 'F2'
National long-term rating -- downgraded to 'AA-(zaf)' from 'AA(zaf)'; outlook revised to stable from negative
National short-term rating -- affirmed at 'F1+(zaf)'
Individual rating -- affirmed at 'C'
Support rating -- affirmed at '2'

Fitch ratings	Nedbank Group	Nedbank Limited	Imperial Bank Limited
	Jun 2009	Jun 2009	Jun 2009
Individual	C	C	
Support	2	2	2
Foreign Currency			
Short-term	F2	F2	
Long-term	BBB	BBB	
Long-term rating outlook	Stable	Stable	
Local Currency			
Long-term senior	BBB	BBB	
Long-term rating outlook	Stable	Stable	
National			
Short-term	F1+ (zaf)	F1+ (zaf)	F1 (zaf)
Long-term	AA- (zaf	AA- (zaf)	A+ (zaf)
Long-term rating outlook	Stable	Stable	Positive

Definitions:

Individual and support

C = An adequate bank which, however, possesses one or more troublesome aspects.

2 = A bank for which there is a high probability of external support and the potential provider of support is highly rated in its own right.

Foreign and local currency (capped by sovereign risk limits of BBB+ for foreign long-term, F2 for foreign short-term and A for local long-term)

F2 = Good credit quality. The capacity for timely payment of financial commitments is satisfactory.

BBB = Good credit quality. Indicates that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate.

The modifiers '+' or '-' denote relative status within major categories.

National

F1 = Indicates the strongest capacity for timely payment of financial commitments relative to other issuers or issues in the same country.

A = Denotes a strong credit risk relative to other issuers or issues in the same country.

AA = Denotes a very strong credit risk relative to other issuers or issues in the same country.

The modifiers '+' or '-' denote relative status within major categories.

Moody's investors service	Nedbank Limited	Imperial Bank Limited
	Jun 2009	Jun 2009
Bank financial strength rating	C	
Outlook – Financial strength rating	Negative	
Global local currency – long-term deposits	A1	Aa3
Global local currency – short-term deposits	Prime-1	Prime-1
Foreign currency – long-term bank deposits	A3	
Foreign currency – short-term bank deposits	Prime-2	
Outlook – foreign current deposit rating	Negative	
National scale rating – long-term deposits	Aa1.za	
National scale rating – short-term deposits	Prime-1.za	
Outlook - national scale rating	Negative	

Definitions:

Bank financial strength rating

C = Banks rated C possess good intrinsic financial strength. Typically, they will be institutions with valuable and defensible business franchises. These banks will demonstrate either acceptable financial fundamentals within a stable operating environment, or better than average financial fundamentals within an unstable operating environment.

Long-term (capped by sovereign rating)

A = Obligations rated A are subject to low credit risk and considered upper-medium grade.

Aa = Obligations rated Aa are subject to very low credit risk and considered high quality grade.

Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.

Short-term

P-1 = Issuers rated Prime-1 have a superior ability to repay short-term debt obligations.

P-2 = Issuers rated Prime-2 have a strong ability to repay short-term debt obligations.

STRESS AND SCENARIO TESTING

Comprehensive stress and scenario testings is used to stress our base case projections and so assess the adequacy of our capital buffers and target ratios

Our stress and scenario testing recognises and estimates the potential volatility of our capital requirements and the base case (expected) projections covered earlier, including the key assumptions and sensitivities contained therein which themselves are subject to fluctuation, and ultimately the adequacy of our capital buffers and target capital ratios.

Risk relating to procyclicality

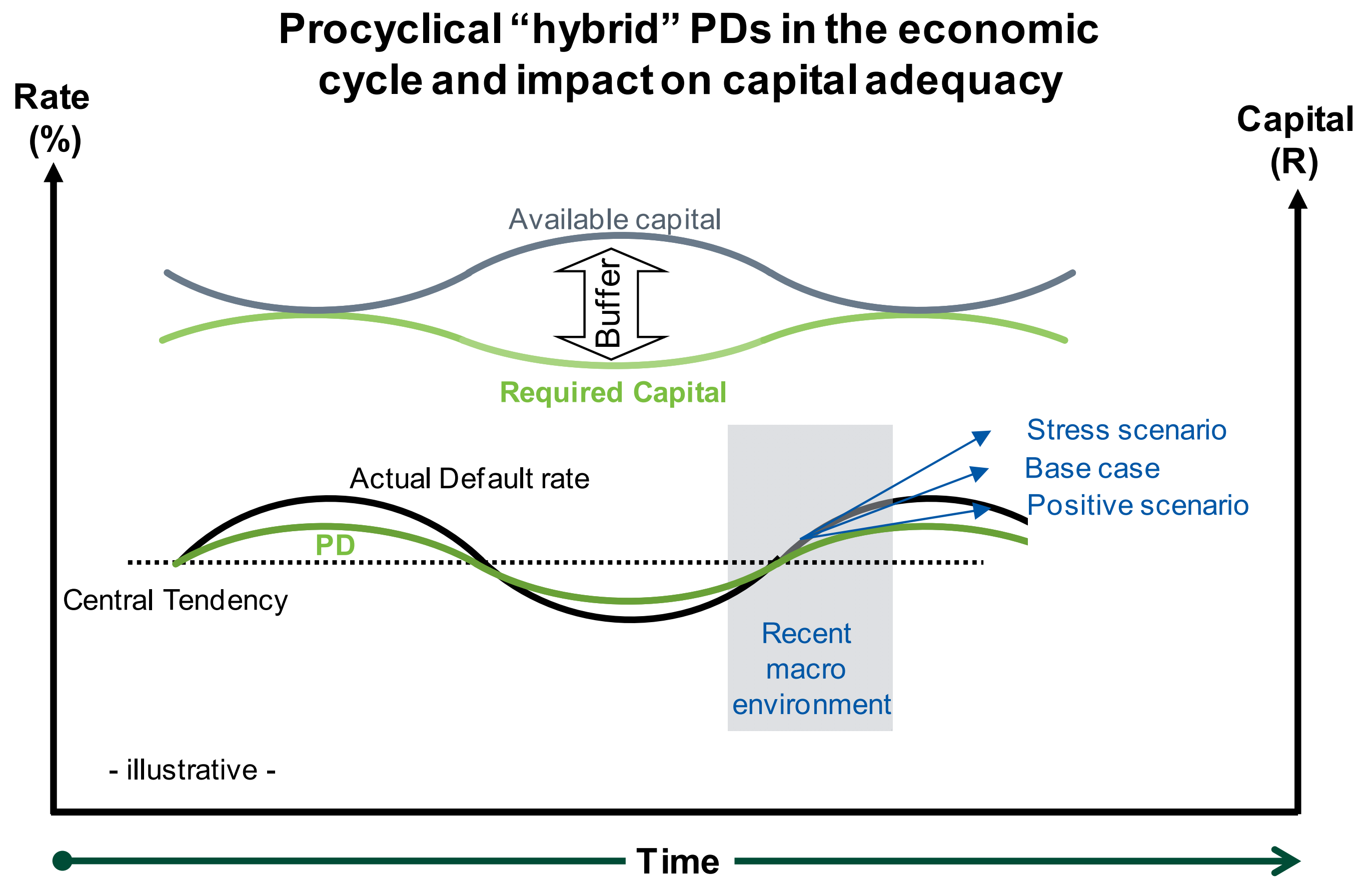
Procyclicality is the extent to which the buffer between available capital and required capital levels (regulatory and economic) changes as a direct result of changes in the economic cycle, and would decrease in a downturn economic cycle.

Nedbank explicitly addresses the issue of procyclicality by an effective capital management process, of which an integral part includes the holistic stress testing of required and available capital under various macro-economic stress scenarios.

The following points explain procyclicality and how it is addressed in Nedbank:

- Dynamic enterprise-wide risk management is tasked to identify and respond to changing economic conditions (eg tightening of credit lending policies) and sophisticated stress and scenario testing is integrated with active capital management that includes the careful determination of capital buffers
- Nedbank employs advanced credit rating models that are used for risk management, pricing, forward looking planning, etc and therefore are appropriately procyclical (ie PDs increase during times of macro- economic stress)
- Credit rating models are, however, calibrated based on long-term historic average default rates (ie through-the-cycle) of at least 5 years for retail and 7 years for wholesale, and the actual level of PDs in any given year represent a hybrid between a cycle-neutral average and point-in-time default rates
- These credit rating models that are calibrated to long-term average default rates are thus much less procyclical than point-in-time rating models that are used for IFRS accounting purposes
- Due to the fact that PDs are hybrids between cycle-neutral and point-in-time default rates, both Basel II RWA as well as credit economic capital figures are pro-cyclical. This is considered in Pillar 1 stress testing as well as the group wide macro-economic factor model (MEFM) stress testing. The MEFM explicitly models increases in PDs over time for different macro-economic stress scenarios (mild, severe, etc), differentiated by credit sub-portfolio
- Nedbank applies a downturn adjustment to all its LGDs used for regulatory capital requirements. Through-the-cycle LGDs, which are utilised for economic capital requirements, are stressed for worsening economic conditions but not adjusted for improved conditions. The MEFM explicitly models increases in through-the-cycle LGDs over time for different macro-economic stress scenarios differentiated by credit sub-portfolio
- Similarly, the MEFM forecasts the decline in available capital levels due to increased credit impairments in a macro-economic downturn
- The excess of available capital over required capital is called the ‘capital buffer’. Capital buffers are employed to ensure that capital adequacy is maintained through economic cycles. Changes in the capital buffers are explicitly modelled for each macro-economic stress scenario and under consideration of appropriate capital actions
- The MEFM is forward looking over the next three-years, and is run and reported to Group ALCO and the board quarterly. This ensures that management can act timeously as the macro-economic environment changes.

The points discussed above are illustrated in the diagram below:



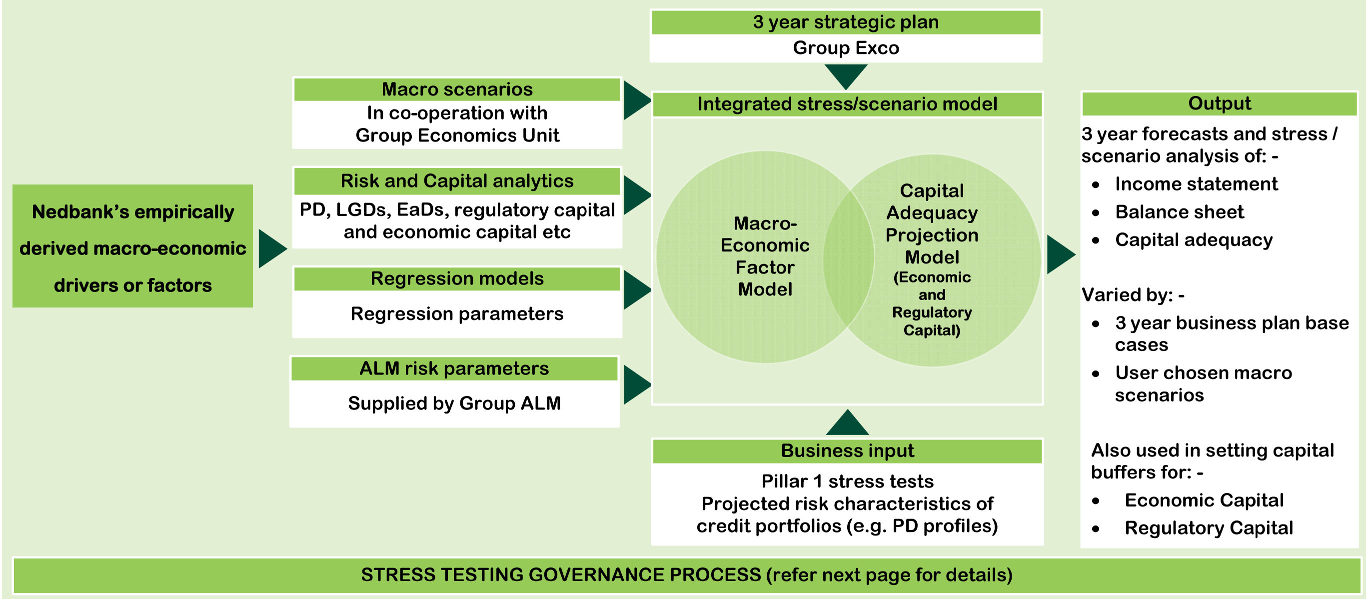
The stress testing of impacts of procyclicality are performed both for regulatory capital purposes and for economic capital purposes in setting and assessing the adequacy of the economic capital buffer. Specific risk (Pillar 1) stress tests are performed on individual major risk types in addition to ongoing monitoring and reporting to assess the maximum potential for unexpected losses and so the impact on capital levels.

Nedbank's strategy and approach to macro-economic stress and scenario testing

Stress and scenario testing capabilities were significantly enhanced in 2006 with our building of a proprietary macro-economic factor model (MEFM) and completion of a comprehensive Stress and Scenario Testing Framework. The main objective of our stress testing is to assess the effect of possible unexpected events on Nedbank's base case projections, including our capital requirements and adequacy of capital buffers for both regulatory and economic capital (ICAAP). In addition, stress testing is an important tool for analysing Nedbank's risk profile and risk appetite.

A high level depiction of the framework is provided on the following page.

OVERVIEW OF NEDBANK'S STRESS AND SCENARIO TESTING FRAMEWORK



The framework and process is followed to stress the base case projections, and so assess and ultimately conclude upon the adequacy of Nedbank's capital buffers and target capital adequacy ratios. The group's strategic planning process, rolling forecasts and integrated capital planning include three year projections of expected (base case) financial performance, Basel II and economic capital risk parameters and capital requirements which are compared to projected available financial resources 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 quarterly during the year. The group wide macro-economic factor model is utilised to stress test Basel II regulatory capital, economic capital, expected losses as well as available financial resources of the expected (base case) three year projections for the Nedbank Group and Nedbank Limited for different macro-economic stress events.

Regression based models were developed for credit and business risk as these risk types were the most important (as measured by materiality) and credit risk in particular has proven links to the macro-economic cycle. Structural models were developed for ALM, investment and property risk as these risks were structurally dependent and driven by specific macro factors. Linked models were developed for operational and transfer risk, consistent with the capital adequacy projection model.

Several macro-economic factors were tested in the development of the model to ensure that all possible combinations were considered. The chosen macro-economic 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. All risk types are stressed within the model with the exception of trading and foreign exchange translation risk, which were deemed not material (which are, together with other assets on the balance sheet, less than 5% of risk contribution towards total economic capital).

Diversification between risk types is included within the model exactly in the same way as for economic capital. Diversification benefits were determined by looking at diversification between risk types and considering these by looking at Nedbank specific correlations utilising the macro-economic factor model.

NEDBANK'S STRESS TESTING PROCESS AND GOVERNANCE

STRESS TEST PHASES	STRESS TEST PROCESS	GOVERNANCE
Choice of scenarios	**Choice of scenarios** For example 'severe recession' The four scenarios of mild, high, and severe stress conditions as well as a positive scenario are determined by the Group Economics Unit and endorsed by the Group ALCO and the board. Additional specific event scenarios are added. The scenarios are updated regularly. Each scenario covers a three year forward looking period to capture a negative (or positive) phase of a business cycle.	Group ALCO GRCMC
Translation of scenarios	**Macro-economic forecasting** Forecast macro-economic variables (eg real GDP growth, household debt-to-income ratio, etc) for each scenario (mild, severe, etc) **Impact on key risk drivers** Holistic macro-economic factor model calculates key risk drivers (PD, LGD, decline in income growth, etc.) for each scenario	Group Economics Unit Group Capital Management Group Risk
Stress test calculations On the basis of the current portfolio and the three year business plan, the stress tests calculate the consequences of the individual scenarios for net profit, risk weighted assets and so regulatory capital, economic capital, impairments charges and available capital resources. All risk types, for example credit risk, business risk, operational risk, investment risk, etc. are stressed within each scenario, and overall (consolidated).	**Risk types** Credit risk, business risk, operational risk, etc calculation of RWA, economic capital and expected losses **Earnings** Effect on earnings change in activity level, interest rate margins, expected loss, etc **Capital requirements** In stressed situations based on macro-economic factor model **Impact on available capital resources** During various stress scenarios	
Overall results of stress tests	**Decision on required capital buffers** 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 and GRCMC

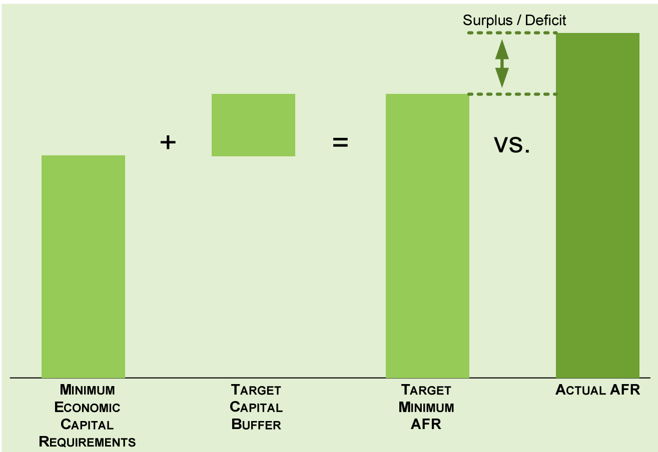
GRCMC = Group Risk and Capital Management Committee (board committee)

The key factors influencing economic capital buffer size may include:

- Procyclicality (economic cycles)
- Abnormal constraints arising in the market impacting capital raising and / or liquidity (funding)
- Earnings volatility levels
- Concentration risks
- Accounting impacts on available capital (eg IFRS)
- Foreign capital deployment
- Strategic acquisitions (if applicable)

As highlighted above, Nedbank's economic capital buffer level is set enlightened by using our MEFM and our comprehensive Stress and Scenario Testing Framework.

Using the MEFM an economic capital buffer of 10% above the minimum economic capital requirements has been set and approved. The target minimum available financial resources (AFR) to cover the economic capital requirements shall thus be at least the minimum economic capital requirement plus 10%. This is continuously monitored against the actual available financial resources (AFR) to assess the surplus / deficit as illustrated below:



Nedbank's strategy to comprehensively cover stress and scenario testing, both for regulatory and economic capital purposes, comprises five main levels. The five levels are as follows:

- **Macro-economic stress testing (pillar 2)** ie quarterly business-as-usual scenarios provided by the Group Economic Unit covering the following:
  - Mild Stress (1 in 4 year scenario worse than base case)
  - High Stress (1 in 10 year scenario worse than base case)
  - Severe Stress (1 in 25 year scenario worse than base case)
  - Positive Stress (1 in 4 year positive scenario better than base case)

- **Additional scenarios**

  The following are the additional scenarios that are considered (ie in addition to the quarterly business-as-usual scenarios above):
  - Prolonged recession
  - Property price crash (incorporating property concentration risk)
    - o Overall for the group's property related debt exposure

  - o Specific commercial real estate focus
  - o Specific retail home loans focus
- Liquidity crisis (for various scenarios), incorporating liquidity concentration risk
- Credit concentration risk
- Derivatives market meltdown
- BEE exposure stress testing
- Inability to raise new capital
- Reputational risk events
- Impact of material defaults by counterparties specifically related to the group's foreign debt and equity exposures
- Material rise in current unemployment levels in SA

- **Reverse stress testing** (ie what would 'break the bank')

  The severe stress scenario, a prolonged recession, property price crash, liquidity crisis, derivative market meltdown and major reputation event are all potential candidates for reverse stress testing.

  In addition, for our reverse stress testing we run an 'extreme' scenario (which is essentially a combination of a prolonged recession and a property price crash) and 'breaking the bank' scenario and benchmark these against the stress testing done in the USA and UK (FSA).

- **Procyclicality tests**

- **Specific risk type stress tests** (incorporating Pillar 1 stress testing within business clusters and specialist risk functions at group level).

The overall stress test results and effects on regulatory capital, economic capital, available capital resources and thus capital adequacy ratios are reported to the Group ALCO and Group Risk and Capital Management Committee on a regular basis (at least quarterly).

The result and impacts are provided on both a pre- and post-management intervention basis. Management intervention may include limiting credit exposure growth to that what was originally planned by the business units, tightening of credit limits, limiting RWA growth in the credit portfolio, especially to high risk clients and so reducing average PDs, and/or cutting costs. The results of the stress testing scenarios form part of the Nedbank Group ICAAP which is submitted to the board of directors and then SARB. The forward looking capability of the stress testing model ensures that management action can be taken in advance when necessary.

Our conclusion is that following the pro-active response to the global financial crisis and significant strengthening of capital ratios over the past 18 months, Nedbank's current capital planning and base case projected regulatory and economic capital levels, ratios, targets and buffers, incorporating the results and impacts of the stress and scenario testing applied, are sound and appropriate.

CONCLUSION

Nedbank recognises to become 'worldclass at managing risk' is a journey, not a destination. We believe we have made excellent progress over the past five years and that our overall risk and capital management (and ICAAP) generally aligns closely with best practice internationally. This has accordingly positioned the group to be resilient through the current global financial crisis. Nevertheless, we are continuously enhancing our risk and capital management processes and systems and remain firm in this endeavour.

In our pro-active response to the global financial crisis, albeit a significant but much reduced impact on South Africa and Nedbank, we have had a strong focus since the beginning of 2008 on strengthening our capital ratios and liquidity position, and selective asset growth based on economic profit (using our 'manage for value' philosophy).

In view of all above, and cognisant of the risks and ongoing volatility inherent in global financial markets, the board of directors and executive management believe that our capital levels (both regulatory capital and our internal capital assessment, economic capital) and provisioning for credit impairments are appropriate and conservative, and that Nedbank Group, Nedbank Limited and other subsidiaries are strongly capitalised relative to our business activities, strategy, risk appetite, risk profile and the external environment in which we operate. Additionally, we are currently not holding excess capital for material acquisitions.

The board of directors is also satisfied with the overall effectiveness of the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy.

GLOSSARY OF RISK TERMS AND DEFINITIONS

TERM	DEFINITION
Accounting and Taxation risk	The risk that the integrity of the financial statements and related information cannot be upheld. This risk has two sub risks: accounting risk and taxation risk
Accounting risk (sub risk of accounting and taxation risk) (Since accounting risk is an operational risk, for economic capital purposes accounting loss events are categorised in terms of one of the sub risks of operational risk)	The risk that: • inappropriate accounting information causes suboptimal decisions to be made, due to inappropriate policy, faulty interpretation of policy, or plain error. • the financial statements and other statutory and regulatory reporting do not accord with International Financial Standards (IFRS) and/or other relevant statutory requirements are not based on appropriate accounting policies and do not incorporate required disclosures. • 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 (IRB) approach for credit risk, the Advanced Measurement Approaches (AMA) for operational risk, and the Internal Models Approach for market risk.

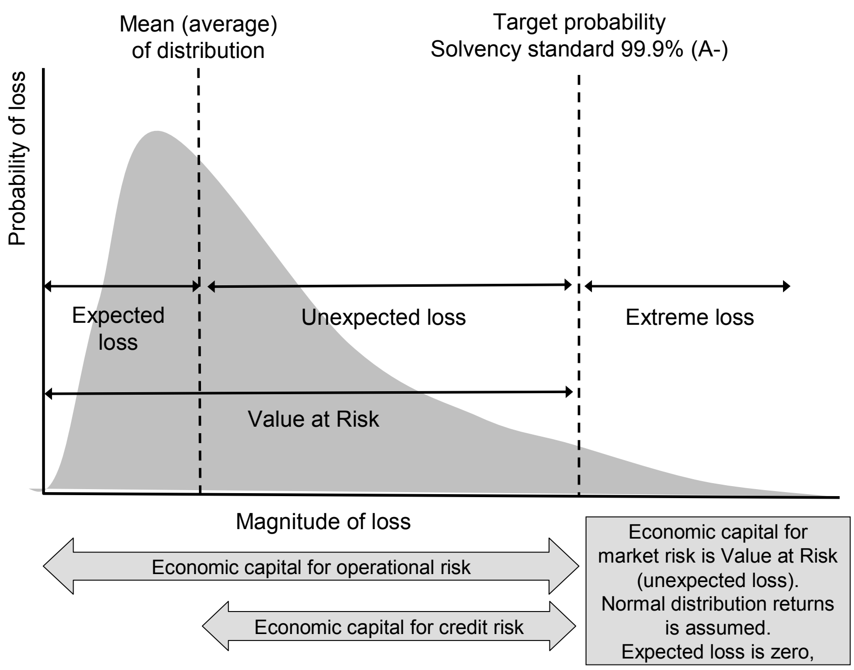
ALM risk	ALM risk is a composite risk category that includes interest rate and foreign-exchange risk in the banking book and liquidity risk. Foreign-exchange risk in the banking book encompasses:
	• foreign exchange translation risk and
	• foreign exchange transaction risk, which includes
	   o known or ascertainable currency cash flow commitments and receivables (termed residual foreign exchange risk).
	   o foreign funding mismatch: The group ALCO approved foreign funding mismatch position for the group run by the Centralised Funding Desk in Treasury, Nedbank Capital; and
	   o any other transaction extending credit or making an investment that attracts foreign exchange risk:

Asset liability management (ALM)	Asset liability management is the on-going process of formulating, implementing, monitoring, and revising strategies related to banking book assets and liabilities in an attempt to: • maximise the interest margin and • manage the risk to earnings and capital from changes in financial market rates, which result from the group's mix of assets and liabilities. 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-

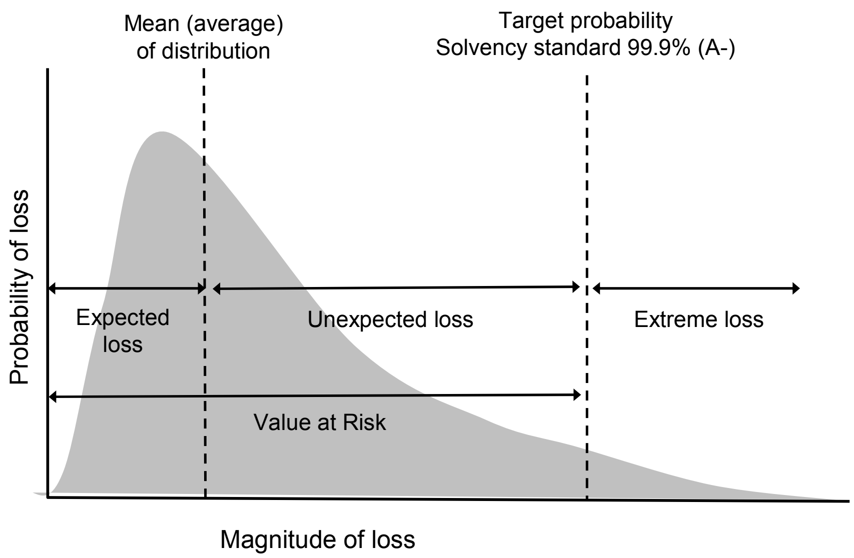
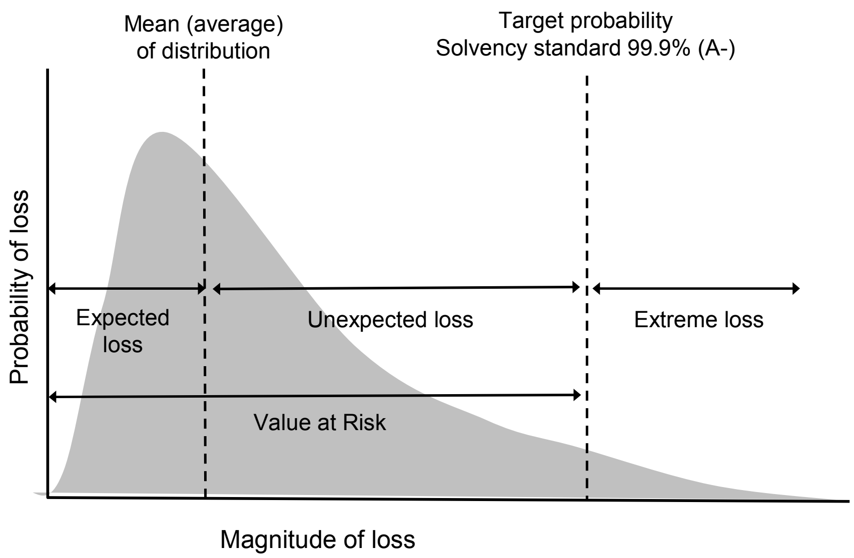
TERM	DEFINITION
	balance sheet instruments and strategies.
Backtesting	The validation of a model by feeding it historical data and comparing the model's results with historic reality.
Banking book	Group assets, liabilities and off-balance sheet items that are not in the trading book.
Brand positioning (a sub risk 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.
Business disruption and system failures (sub risk of operational risk)	The risk of losses arising from disruption of business or system failures Business continuity is included in this sub risk 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. Included in business continuity is disaster recovery: the ability of the group's IT 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.
Capital at Risk (CaR)	The capital required to absorb unexpected losses ie economic capital.
Capital Management	Capital management is the single coherent set of processes that: • ensure 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 • take advantage of the range of capital instruments and activities to optimise the financial efficiency of the capital base and • manage 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. 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.
Clients, products & business practices (sub risk of operational risk)	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. This sub risk includes money laundering.
Collateral (Sub risk of credit risk)	The potential financial loss due to the inability to realise full collateral value due to unforeseen legal or adverse market conditions (e.g. property market slump) which cause the value of certain specific collateral types to deteriorate.

TERM	DEFINITION
Compliance risk (Since compliance risk is an operational risk, for economic capital purposes compliance loss events are categorised in terms of one of the sub risks of operational risk)	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) 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)
Concentration risk (sub risk of credit risk, market risk in the trading book and liquidity risk)	Risk resulting from: • 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; and • reliance on funding or liquidity from a depositor or small group of depositors.
Corporate Governance	Corporate governance is the structures, systems, processes, procedures, and controls within an organisation, at both board of directors level and within the management structure, that are designed to ensure the group achieves its business objectives effectively, efficiently, ethically and within prudent risk management parameters. Good governance requires that an effective risk management process exists that can ensure that the risks to which the group is exposed are addressed effectively.
Counterparty (sub risk of credit risk)	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.
Country risk (sub risk of credit risk)	Country risk includes the following components: • 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); • the risk of the group's assets in the country being appropriated; and • the risk of default by the government on its obligations (referred to as Sovereign Risk).
Credit risk	The risk arising from the probability of borrowers and/or counterparties failing to meet their repayment commitments (including accumulated interest).
	Credit risk has the following sub risks: • Collateral risk • Concentration risk • Counterparty risk • Country risk • Issuer risk • Industry risk • Settlement risk

TERM	DEFINITION
Credit scoring	A method used by a bank to calculate the statistical probability that a loan it grants 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 Libor or Jibar or as a spread to highly-rated reference security such as a government bond. 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	Referred to as foreign exchange.
Damage to physical assets (sub risk of operational risk)	The risk of losses arising from loss of or damage to physical assets from natural disaster or other events.
Default	According to the Basel Committee, a default occurs with respect to a particular obligor when either: • the bank considers that the obligor is unlikely to pay its credit obligations to the bank in full without recourse by the bank to activities such as the release of collateral (if held) • the obligor is past due more than 90 days on any material credit obligation to the bank.
Derivative Financial Instruments	The risk of financial loss and reputational damage to the group resulting from unauthorised and /or improper use, and/or incorrect understanding, application and management, of derivative instruments, whether used for internal or client purposes. Derivatives find application in credit risk, marketing risk in the trading book, market risk in the banking book and investment risk.
EAD	See exposure at default
ECap	See economic capital

TERM	DEFINITION
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. 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. 
Employment practices and workplace safety (sub risk 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.
Enterprise-wide risk	Composite of risk types and categories (called the risk universe) across all business lines, functions, geographical locations and legal entities of the group. There are 17 risk types (ERMF risks): accounting and taxation risk; capital risk; compliance risk; credit risk; information technology risk; insurance and assurance risk; investment risk; liquidity risk; market risk in the banking book; market risk in the trading book; new business risk; operational risk; people risk; reputation risk; social and environmental risk; strategic risk and transformation risk.

TERM	DEFINITION
Enterprise-wide risk management	Enterprise-wide 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.
Enterprise-wide 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).
Equity in the banking book (also termed investment risk) (sub risk of investment risk)	The risk of decline in the net realisable value of equity exposures in the banking book. These include: • Investment in securities (listed and unlisted equity holdings whether direct or indirect and includes private equity); • Investment in associate companies and joint ventures.
Environmental risk (sub risk of social and environment risk)	The risk that that an activity or process in the group will degrade, devalue or destabilise the environment in such a way as to • damage the environment itself and lead to further damage as a result • harm employees of the bank • harm other people in the community / society • damage the long-term prospects of the bank. It includes the risk of association with or financing of environment unfriendly companies or projects.
ERMF	See Enterprise-wide Risk Management Framework.
ERMF risks	The 17 risks listed in the ERMF.
Execution, delivery & process management (sub risk of operational risk)	The risk of losses from failed transaction processing or process management, from relations with trade counterparties and vendors.
Expected Loss	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 provisions should cover expected losses.

<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td></td><td>
</td></tr>
<tr><td>External fraud
(sub risk 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>Exposure at default (EAD)</td><td>Quantification of the exposure at risk in case of default.</td></tr>
<tr><td>Foreign exchange transaction risk (in the banking book)
(sub risk of market risk in the banking book)</td><td>The risk that known or ascertainable currency cash flow 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.

Foreign exchange transaction risk in the banking book includes:
• known or ascertainable currency cash flow commitments and receivables (termed residual foreign exchange risk).</td></tr>
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TERM	DEFINITION
	• foreign funding mismatch: The group ALCO approved foreign funding mismatch position for the group run by the Centralised Funding Desk in Treasury, Nedbank Capital; and • any other transaction extending credit or making an investment that attracts foreign exchange risk.
Foreign exchange translation risk (sub risk of market risk in the banking book)	The risk to earnings or capital arising from the conversion of the group's offshore banking book assets or liabilities or commitments or earnings from foreign currency to local or functional currency.
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. 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.
ICAAP	See Internal Capital Adequacy Assessment Process.
Industry risk (sub risk of credit risk)	The risk that defaults will arise in an industry because of factors specifically affecting that industry.
Information technology 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. The risk resulting from system inadequate or inappropriate information technology investment, development, implementation, support or capacity with concomitant negative impact on the achievement of strategic Group objectives. This includes the risk of an uncoordinated, inefficient and/or under-resourced IT strategy as a result of which the group becomes progressively less competitive.
Inherent risk	Inherent risk is the product of the impact of the risk on the objective(s) and the likelihood of the risk occurring should no management actions / controls be in place to mitigate the risk. Inherent risk is also known as gross risk. An ERMF risk, if applicable with respect to the achievement of the objective(s), is an inherently high (or red) risk.
Insurance and assurance	Insurance and assurance risk comprises:

TERM	DEFINITION
risk	The failure to re-insure with other acceptable quality insurers, 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) The risk of no or inadequate insurance cover for insurable business risks. (insurance risk) The risk of loss caused by events that result in predetermined exposures being exceeded (underwriting risk).
Interest rate risk in the banking book (sub risk 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: • 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; • 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 options risk: the risk pertaining to interest-related options embedded in bank products.
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: • Board and senior management oversight; • Sound capital assessment; • Comprehensive assessment of risks; • Monitoring and reporting; and • Internal control review.
Internal Control system	An internal control system comprises the policies, procedures, and activities within the group designed to: • Ensure that risks are contained within the risk tolerances established by the risk management process; and • Provide reasonable assurance of reliable and accurate information; compliance with policies, procedures and laws; efficient use of resources; protection of assets; and achievement of operational objectives. 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: • efficiency and effectiveness of activities (performance objectives); • reliability, completeness and timeliness of financial and management information (information objectives); and • compliance with applicable laws and regulations (compliance objectives).

TERM	DEFINITION
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Internal fraud (sub risk 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. 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 (e.g. reputation, quality of management). Market prices are independent variables, which include interest rates, property values, exchange rates, equity and commodity prices. Investment risk has the following sub risks: • Equity risk in the banking book (also termed investment risk) • Property market risk (also termed property risk)
Issuer risk (sub risk of credit risk)	The risk that a particular principal payment or set of payments due from an issuer or a listed instrument (e.g. corporate bond) will not be forthcoming as scheduled.
Issue versus risk	An issue has materialised or is in the process of doing so while a risk has not (yet) materialised.
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 on an ongoing basis. KRIs may be leading, concurrent or lagging indicators.
Legal risk (sub risk of operational risk) (for economic capital purposes, legal risk is a sub category of operational risk sub risk 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. It includes 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. 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.
LGD	See loss given default.
Likelihood	An assessment of how likely it is that a risk will occur. A similar term is probability.
Liquidity risk	Liquidity is the ability of the group to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

TERM	DEFINITION
	There are two types of liquidity risk: market liquidity risk and funding liquidity risk. Market liquidity risk is the risk that the bank cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption. Funding liquidity risk is the risk that the bank will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the bank. For purposes of the ERMF, liquidity risk is funding liquidity risk. Market liquidity risk is management within the market risk in the trading book risk management framework. Concentration risk is a sub risk of liquidity risk.
Loss Given Default (LGD)	Estimate of the amount of the exposure at default that will be not be recovered. It also includes other economic costs such as legal costs.
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. The sub risk of market risk in the banking book are: • Interest rate risk in the banking book • foreign exchange translation risk and • foreign exchange transaction risk in the banking book.
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. Trading market risk exists within the group's proprietary trading activities (trading on the group's own account). Concentration risk is a sub risk of market risk.
Model Risk (a sub risk of operational risk) (for economic capital purposes, model risk is a sub category of operational risk sub risk Clients, products and business practices)	The risk that business decisions are made using model results that are incorrect and includes the possibility of losing perspective of the limitations of models in general and to the pitfalls associated with their use.
Net risk	See residual risk.

TERM	DEFINITION
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 inappropriate products and business lines to clients or potential clients which fail to meet their requirements or otherwise fail to impress, compete with competitors products or provide Nedbank with a leading edge in product development and delivery. 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 ERMF risks.
Objective	It is a goal that management has set for the entity (Group or Business) to achieve.
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. The sub risks of operational risk are: • Business disruption and system failures • Clients, products and business practices • Damage to physical assets • Employment practices and workplace safety • Execution, delivery and process management • External fraud • Internal fraud • Legal risk (for economic capital purposes, legal risk is a sub category of sub risk Clients, products and business practices) • Model risk (for economic capital purposes, model risk is a sub category of sub risk Clients, products and business practices)
PD	See probability of default
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. 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 with concomitant negative impact on the achievement of strategic Group objectives. It includes: • the risk that effective risk adjusted performance measurement 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. • The risk that the group fails to motivate staff through the use of inappropriate incentive schemes, or the poor administration of incentive schemes. • 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 (in the form for example of

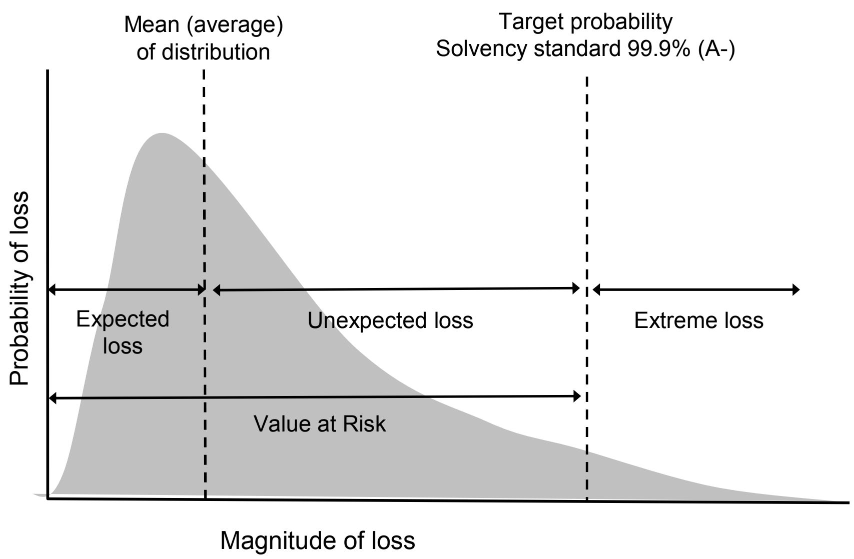
TERM	DEFINITION
	innovative product designs, developed systems, methods and procedures.
Point-in-time rating	Credit rating based on point-in-time risk measures. Point-in-time measures assume the financial condition of the borrower will remain as it is currently. Compare to through-the-cycle rating, which the group uses.
Primary (tier 1) capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other specified regulatory deductions.
Probability	An assessment of how probable it is that a risk will occur. A similar term is likelihood.
Probability of Default (PD)	Quantification of the likelihood of a borrower being unable to repay.
Property market risk (sub risk of investment risk)	Property market 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 (e.g. location). Property comprises business premises, property acquired for future expansion and properties in possession (PIPs).
Regulatory Capital	The total of primary, secondary and tertiary capital.
Regulation 39	Regulation issued in terms of the Banks Act titled “Process of corporate governance”. 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: capital risk; compliance risk; concentration risk; counterparty risk; credit risk; currency risk; equity risk arising from positions held in the bank’s banking book; interest-rate risk; liquidity risk; market risk (position risk) in respect of positions held in the bank’s trading book; operational risk; reputational risk; risk relating to procyclicality; solvency risk; technological risk; translation risk; any other risk regarded as material by the bank.”
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, 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	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. Residual risk is also known as net risk.
Risk	Risk is anything which may prevent the bank from achieving its objectives or

TERM	DEFINITION
	otherwise have an adverse impact on the bank.
Risk-adjusted performance measurement (RAPM)	There are two main measures implemented through Nedbank Group's RAPM framework: 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 economic profit (EP), an absolute measure of shareholder value creation.
Risk-adjusted return on capital (RAROC)	The International Financial Reporting Standard's earnings of the business adjusted for the difference between expected loss and impairments, divided by the economic capital consumed by that business, giving a relative measure of performance.
Risk appetite	The quantum of risk the group is willing to accept in pursuit of its business strategy. Risk appetite is expressed quantitatively as risk measures such as economic capital and risk limits, and qualitatively in terms of policies and controls.
Risk identification	The ongoing recognition and discernment of risk.
Risk management	The proactive management of risks within risk appetite to be reasonable assured of achieving objectives. Risk management consists of taking action to align risks with the group's risk appetite and ensuring that such actions are properly executed. Appropriate risk management will require at least: • System of internal controls • Approval processes • Limit systems • Key risk indicators • Reviews of ERM policies, processes and procedures and their implementation • Reviews of controls, approvals and limits.
Risk management framework	The outline for the management of a risk that is more fully developed or described elsewhere. A risk management framework comprises: • An appropriate risk management environment: o Risk philosophy o Risk culture o Risk appetite o Risk governance structure o Policies, processes and procedures o Staff and other resources • Risk strategy • Risk management process o Risk identification o Risk measurement o Risk management and control o Risk reporting o Risk monitoring
Risk measurement	The evaluation of the magnitude of risk and its impact on the achievement of business objectives

TERM	DEFINITION
Risk monitoring	The ongoing and systematic tracking and evaluating of risk-management decisions and actions against strategies, risk appetite, policies, limits, key risk indicators. 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. Risk reporting includes at least the reporting of: • Aggregate exposures against targets / strategies • Key issues for the key issues control log • Compliance with limit system • Key risk indicators • Review findings.
Risk strategy	A risk strategy describes the fundamental direction with regard to each of the 17 ERMF risks and associated sub risks. A risk strategy is built around and supports business strategy.
Risk versus issue	A risk has not (yet) materialised while an issue has materialised or is in the process of doing so.
Risk-weighted Assets	Risk-weighted assets 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 South African Banks Act, 94 of 1990, or by regulations in the respective countries of the other banking licences.
Secondary (tier 2) capital	Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions.
Security (function of Group Risk Services)	Security is a risk management function consisting of physical security, information security and personnel integrity. The objectives of physical security are to protect: • physical assets under the control of the group, • the well-being of the staff, customers and public and • the group's reputation as it relates to safety and security ie, the protection of the image of and reputation of the bank in providing a safe and secure, environmentally friendly business environment. 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 extends to all information in the group, not only internally system generated information. The objectives of personal integrity are to ensure that staff do not

TERM	DEFINITION
	compromise resources or allow resources to be compromised, be it on purpose, through neglect or unintentionally.
Social and environmental risk	The risk of reputational impairment and ultimately loss of business and profitability as a result of non-achievement of a balanced and integrated social and environment performance, which together with economic performance are referred to as the 'triple bottomline'. Social and environmental risk has two sub risks: • Social risk • Environmental risk
Social risk (sub risk 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	See country risk.
Strategic risk	The risk of an unattractive or adverse impact on capital and earnings due to business policy decisions (mode or not made), changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the environment. Strategic risk is either the failure to do the right thing, doing the right thing poorly, or doing the wrong thing. Strategic risk includes: • The risk associated with the deployment of large chunks of capital into strategic investments that subsequently fail to meet stakeholders expectations. • The risk that the strategic processes to perform the environmental scan, align various strategies, formulation of vision, strategies, goals, objectives and the allocation of resources for achieving, implementing, monitoring and measuring the strategic objectives are not properly in place or are defective. • Failure to adequately review and understand the environment in which the group operates leading to under performance against its strategic and business objectives. Specific environmental components include : industry, political, economic, government, competitive and regulatory factors. Brand positioning is a sub risk of strategic risk.
Sub risk	A component risk of an ERMF risk. A separate risk management framework is defined for a sub risk.
Taxation risk (a sub risk of accounting and taxation risk) (Since taxation risk is an operational risk, for economic capital purposes taxation loss events are	The risk of loss (financial or otherwise) because: • effective tax planning, co-ordination 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 exists. Taxation risk is the risk of loss (financial or otherwise) as a result of • inappropriate tax planning and strategy, which will result in higher taxes

TERM	DEFINITION
categorised in terms of one of the sub risks of operational risk)	being paid by the group than is legally necessary or financial loss through an overly aggressive approach to tax law, • non-compliance with or incorrect interpretation and application of taxation legislation ie, the risk of penalties, fines and/or reputational damage due to non-compliance with tax laws, regulations and/or accepted tax practice or • the effect of new tax legislation on existing financial structures or products.
Tertiary (tier 3) capital	Tertiary capital means • accrued current-year uncapitalised net profits derived from trading activities; and • capital obtained by means of unsecured subordinated loans, subject to such conditions as may be prescribed.
Through-the-cycle rating	Credit rating based on through-the-cycle risk measures. Through-the-cycle measures evaluate the financial condition of the borrower over a longer term that incorporates a full economic (or business) cycle. Compare to point-in-time rating. The group uses through-the-cycle ratings. Therefore PD, LGD and EAD estimates are based on long term averages of the group's historical risk experience.
Trading book	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. This will include financial instruments and commodities that: • are held for short-term resale; or • are held with the intention of benefiting from short-term price variations; or • arise from broking and market making; or • are held to hedge other elements of the trading book.
Transfer risk	See country risk.
Transformation risk (Since transformation risk is an operational risk, for economic capital purposes transformation loss events are categorised in terms of one of the sub risks of operational risk)	The risk of failure by the group to adequately, proactively and positively respond and address transformation issues such as Black Economic Empowerment and uphold related law such as Employment Equity Act.
Unexpected loss	Losses which may exceed the expected loss within a certain time period (e.g. one year) and within a specified confidence level (ie, 99.9%). Unexpected loss is the difference between Value-at-Risk and expected loss.

TERM	DEFINITION
	
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. For example: if a portfolio has a VaR of R10million over a one-day holding period with a 95% confidence interval, the portfolio would have a 5% change of suffering a one-day loss greater than R10million.