NEDBANK GROUP LIMITED

and NEDBANK LIMITED

PILLAR 3

BASEL II PUBLIC DISCLOSURE REPORT

for the year ended 31 December 2011

MAKE THINGS HAPPEN

NEDBANK GROUP

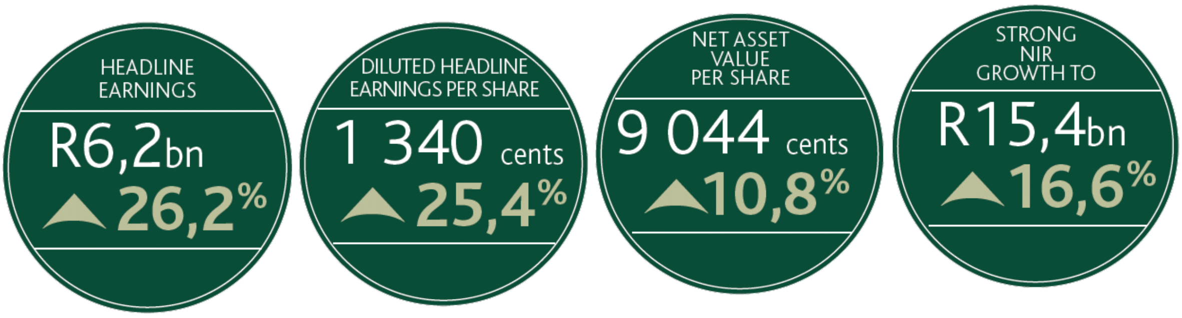
A Member of the OLD MUTUAL Group

CONTENTS

EXECUTIVE SUMMARY

▲ Financial Performance

- **Solid earnings growth in a challenging economic environment**



  - Headline profit before tax increased **31,9%** to **R8 691m**
  - Economic profit increased over **100%** to **R924m**
  - Return on assets increased to **0,99%** from **0,82%** in 2010
  - Return on ordinary shareholders' equity (excluding goodwill) increased to **15,3%** from **13,4%** in 2010
  - Nedbank Retail turnaround progressing well with earnings up **163,4%**
  - Full-year dividend per share of **605 cents**, up **26,0%**
- **Continued new product development – leading through innovation**
- **Ongoing enhancement of capital management and risk processes**
  - Approval by the South African Reserve Bank of Advanced Measurement Approach for Operational Risk and Internal Model Approach for Market Risk
  - Strong capital and liquidity positions
  - Capital adequacy further strengthened (Core Tier 1: **11,0%**)
- **Retained and strengthened position as South Africa's green and caring bank**
  - Carbon Neutral – Africa's first carbon neutral financial services organisation
  - Seventh year of being listed on the Dow Jones World Sustainability Index
  - Invested **R9m** in WWF Water Balance Programme
- **Maintained and enhanced level 2 broad-based black economic empowerment ranking under DTI codes**
- **Based on an analysis of the published scorecards of the big five banks, Nedbank Group came out top scoring bank in BBBEE for 2011**
- **High levels of staff morale maintained despite challenging operating conditions**
- **Consistent delivery on the group's key strategic focus areas**

For further detail, refer to the group's Integrated Report at www.nedbankgroup.co.za.

Balance Sheet

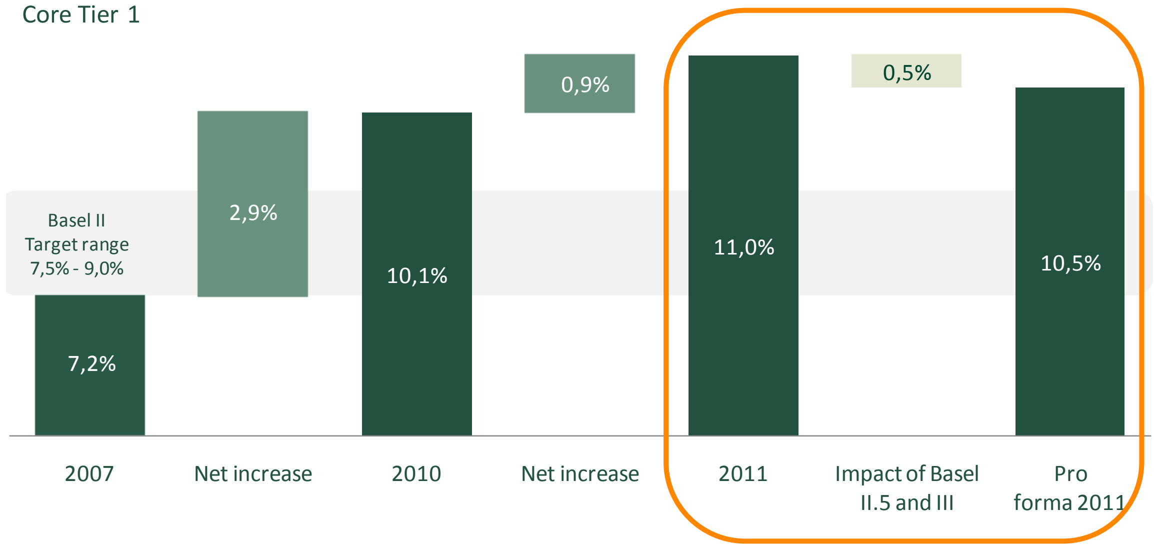
- **Capital adequacy** *(Strengthened further due to ongoing risk and capital optimisation, strong earnings growth and strategic portfolio management)*

– **Regulatory capital (RegCap)**[1]

		2011			2010
		Actual	**Pro forma Basel II.5**[4]	**Pro forma Basel III**[5]	Actual
Core Tier 1 capital ratio	(%)	**11,0**	**10,5**	**10,5**	10,1
Total capital ratio[2]	(%)	**15,3**	**14,6**	**15,0**	15,0
Surplus capital over regulatory minimum[3]	(Rm)	**19 356**			17 662
Dividend cover (2,25 – 2,75 times target range)		**2,26x**			2,30x

[1] *Including unappropriated profits.*
[2] *R1,5bn of Tier 2 debt capital redeemed and was not replaced in 2011.*
[3] *Based on the South African Reserve Bank (SARB) total minimum required capital ratio (9,5%).*
[4] *Basel II.5 is effective from 1 January 2012.*
[5] *Basel III is effective from 1 January 2013 but the new requirements are phased-in over several years.*

WELL CAPITALISED AND POSTIONED FOR BASEL II.5 AND BASEL III



– **Economic capital (ECap)**

		2011	2010[7]
Available financial resources (AFR): ECap[6] ratio	(%)	**141**	147
Surplus AFR over minimum ECap[6] requirements	(Rm)	**13 705**	13 901

[6] *Includes a 10% capital buffer, based on the group's comprehensive stress testing framework. In line with Basel III investment in insurance entities is no longer deducted from AFR.*
[7] *Restated.*

– **Internal Capital Adequacy Assessment Process (ICAAP)**

- Economic capital is the group's comprehensive internal measurement of risk and related capital requirements, and forms the basis of the annual ICAAP, signed off by the board. The SARB's Supervisory Review and Evaluation Process (SREP) of Nedbank Group's ICAAP was concluded favourably in Q4 2011 with no issues raised.
- A best-practice stress and scenario testing framework and governance process are followed to confirm the robustness of the group's capital adequacy position.

– **Risk-weighted assets (RWA)**

		2011	2010
Total RWA	(Rm)	**331 980**	323 681
RWA : Total assets	(%)	**51**	53

The integrity and conservatism inherent in the measurement of the group's RWA are confirmed by:

- Back testing of the Basel II risk parameters that determine RWA.
- Comprehensive internal governance process, including independent validation by the Group Risk function.
- Regular independent onsite reviews by the SARB and long-form audits by the external auditors.
- Comprehensive use of the Basel risk parameters in running the business of the bank.

The SARB is highly rated internationally as a regulator, especially following South Africa's successful navigation through the global financial crisis. The World Economic Forum's competitiveness report of 2011 ranked South Africa as number two in the world in the category 'Soundness of Banks', and number one in 'Strength of Auditing and Reporting Standards'.

– **Leverage ratio**[8]

- This remains at an appropriate level of 13,7x (2010: 14,3x).
- Under Basel III, which includes off-balance-sheet exposures, the ratio would increase to 18,0 times against a group target < 20 times. The Basel III limit is 33,3 times.

[8] *Leverage is now calculated using daily average shareholders' funds.*

- **Liquidity and funding** *(Strengthened and lengthened further in preparation for Basel III)*

		2011	2010
– **Total sources of quick liquidity**	(Rm)	**103 571**	78 656
▪ Surplus liquid assets	(Rm)	**23 736**	6 300
▪ Statutory liquid assets and cash reserves (prudential minimum)	(Rm)	**37 751**	35 154
▪ Other sources of quick liquidity	(Rm)	**42 048**	37 202
▪ As a % of total assets	(%)	**16**	13
– **Long-term funding ratio** (Q4 average)	(%)	**25**	24
▪ Senior unsecured debt	(Rm)	**17 026**	12 197
▪ Retail savings bond	(Rm)	**3 994**	-
– **Loan: Deposits ratio**	(%)	**95,2**	96,9
– **Reliance on negotiable certificates of deposits (original maturity < 12 months)**[9]	(%)	**13**	16
– **Reliance on interbank funding and foreign markets**[9]	(%)	**5**	4

[9] *As a % of total funding.*

– 2011 Internal Liquidity Adequacy Assessment Process (ILAAP) successfully completed with the ICAAP, also without any concerns raised by the SARB.

- **Asset quality and balance sheet impairments** *(Strengthened, increased portfolio impairments and reduced defaulted advances)*

– The asset quality of the group has been enhanced through portfolio tilt, selective origination, risk-based pricing, the group's 'Manage for Value' strategic focus and effective risk management.

		2011	2010
– **Portfolio impairments** (strengthened)	(Rm)	**2 748**	2 154
▪ As % of performing advances	(%)	**0,6**	0,5
– **Specific impairments** (improved)	(Rm)	**8 749**	9 072
▪ Defaulted advances	(Rm)	**23 073**	26 765
▪ Coverage ratio	(%)	**37,9**	33,9
▪ Defaulted advances to gross loans and advances	(%)	**4,5**	5,5

– The increased level of portfolio impairments includes R159m relating to lengthened emergence-period assumptions and R200m in the centre for unknown events that may have already occurred, but will only be evident in the future.

▲ Net Interest Margin *(Improved by 11 basis points on the back of strong margin management in a tough economic environment)*

• **NIM improved from 3,35% to 3,46%**	**Change in NIM on prior period (bps) 2011**	2010
– Total year-on-year change	**11**	(4)
▪ Pricing assets fully to reflect risk (including both credit and liquidity risks, enhanced funds transfer pricing, risk-based capital allocation and charging liquidity premiums)	**4**	5
▪ Benefit in asset mix changes, in line with the portfolio tilt strategy	**4**	7
▪ Liability pricing and mix change – change in marginal cost of funds	**9**	2
▪ Prime/Johannesburg Interbank Agreed Rate (JIBAR) reset risk	**2**	5
▪ Other	**2**	2
In 2011 the above more than offset the negative effect of:		
▪ Net endowment	**(3)**	(19)
▪ In preparation for Basel III, the cost of lengthening the bank's funding profile and carrying higher levels of lower-yielding liquid assets	**(7)**	(6)

▲ Credit Risk *(Sound profile, strong credit risk management and conservative risk appetite)*

- **Summary of credit risk profile**

		% change	2011	2010
– New loans advanced to clients (during the year)[10]	(Rm)	**4,1**	**116 156**	111 631
– Gross loans and advances (closing year-end balance)	(Rm)	**4,3**	**507 545**	486 499
– Net loans and advances (closing year-end balance)	(Rm)	**4,4**	**496 048**	475 273

[10] *Substantially offset by early repayments as clients continue to deleverage and the writeoff of defaulted advances. The amounts above exclude trading advances.*

		2011	2010
• **Credit loss ratio** (improved 22 bps while strengthening portfolio impairments)	(%)	**1,14**	1,36
– Portfolio	(%)	**0,12**	0,04
– Specific	(%)	**1,02**	1,32

- Total credit loss ratio (CLR) improved to 1,14%, but remains above the group's 0,6% - 1,0% TTC target range.
- CLR relating to specific impairments improved substantially as defaulted advances decreased by 13,8%, reflecting writeoffs, improved collections processes, ongoing restructuring and other initiatives in home loans.
- Nedbank Retail's CLR of 1,98% (2010: 2,67%) is now within the cluster's TTC target range of 1,5% - 2,2%. Nedbank Capital's CLR of 1,23% remained elevated at levels similar to those of 2010, mainly due to impairment charges on increased non-performing loans.
- CLRs in all other clusters remained within or better than the respective cluster's TTC ranges.

- **Sovereign exposure** *(The sovereign debt crisis in the Eurozone remains unresolved, but Nedbank's exposure remains very low)*

	2011		2010	
	Rm	**%**	Rm	%
– **Exposure to banks in the Eurozone**[11]	**9 737**	**100,0**	10 006	100,0
▪ Exposure to banks in the PIIGS[12]	**261**	**2,7**	2 487	24,9
▪ Other Eurozone countries	**9 476**	**97,3**	7 519	75,1
▪ As a % of balance sheet credit exposure		**1,6**		1,8

[11] *Includes the 17 European union member states that have adopted the euro as their common currency.*

[12] *PIIGS = Portugal, Ireland, Italy, Greece, Spain.*

	2011		2010	
	Rm	**%**	Rm	%
– **Sovereign exposure**	**49 613**	**100,0**	34 543	100,0
▪ South African government[13]	**47 685**	**96,1**	31 754	91,9
▪ Other countries	**1 928**	**3,9**	2 789	8,1
▪ Non-South African government exposure as a % of balance sheet credit exposure		**0,3**		0,5

[13] *Predominantly comprising statutory liquid asset requirements.*

▲Market Risks *(Sound profile, strong market risk management and a low risk appetite)*

• **Summary of market risks profile**		**2011**	2010
– **Trading (proprietary) market risk** *(very low)*			
▪ % of total group ECap	(%)	**1,5**	1,6
▪ Total value at risk (VaR) (99%, one-day VaR) exposure (average)	(Rm)	**12**	11
▪ Total stressed VaR exposure (year-end) as per Basel II.5	(Rm)	**33**	22
– **Equity risk in the banking book** *(very low)*			
▪ Total equity portfolio	(Rm)	**4 385**	3 919
▪ % of total assets	(%)	**0,7**	0,6
▪ % of total group ECap	(%)	**5,1**	5,3
– **Exposure to hedge funds** *(zero)*	(Rm)	**-**	-
– **Interest rate risk in the Banking book** *(positioned for forecast interest rate cycle)*			
▪ Net interest income (NII) sensitivity to 1% decline in interest rates (approximate equal and opposite positive NII impact for an increase in interest rates)	(Rm)	**(843)**	(660)
▪ % of ordinary shareholders' equity (board limit: 2,5%)	(%)	**1,7**	1,5
– **Foreign currency translation risk** *(very low)*			
▪ Impact on group's total RegCap ratio for 10% change in the value of the rand[14]	(%)	**0,07**	0,06

[14] *Due to foreign currency translation reserves being currently excluded from qualifying RegCap under Basel II in South Africa.*

▲Operational Risk *(Sound profile, strong operational risk management and low risk tolerance)*

		2011	2010
• Total operational risk losses	(Rm)	**238**[15]	240[15]
– % change year-on-year	(%)	**(0,01)**	(0,28)
– As a % of gross operating income (GOI)	(%)	**0,73**	0,80

[15] *The majority of losses relate to credit card fraud.*

- A low level of operational risk loss experience to GOI was maintained. Material events were limited. The group managed all losses consistently within the board approved group operational risk appetite.

▲ Securitisation Risk *(Plain vanilla and low risk)*

		2011	2010
• Total assets securitised	(Rm)	**2 000**[16]	4 000
• Total assets outstanding *(all performing)*	(Rm)	**1 462**	2 306
– as % of total assets	(%)	**0,23**	0,38
• Liquidity facilities provided	(Rm)	**4 047**	5 009

[16] *Octane ABS 1 (Pty) Limited, a securitisation of motor vehicle loans launched in July 2007, successfully repaid all investors in October 2011.*

▲ Insurance Risk *(Sound, low risk appetite)*

		2011	2010
• As % of total group ECap	(%)	**0,6**	0,7

▲ Risk and Balance Sheet Management *(A strong risk culture prevails throughout the group)*

- **Enterprisewide Risk Management Framework (ERMF)**
  - The group's worldclass ERMF is embedded groupwide and continued to be resilient in 2011, encompassing strong and effective risk management, governance and compliance, aligned with the latest international Basel requirements.
  - Some 2011 salient features include:
    - Approval for using the Advanced Measurement Approach (AMA) for operational risk and Internal Model Approach (IMA) for market trading risk was attained from the SARB, effective December 2010 and January 2011 respectively.
    - Comprehensive risk appetite framework maintained, with group metrics cascaded down to all business units.
    - Risk-based remuneration practices applied since 2008, aligning in all material respects with best practice.
    - Significant steps taken to enhance risk management in Nedbank Retail.
    - Successful Imperial Bank integration into Nedbank Limited.
    - Effective operational and security risk management, containing the impact of crime.
    - Risks to sustainability, such as environmental and transformation risks, continued to be well managed.

- **Risk strategy**
  - A comprehensive risk strategy is in place and forms an integrated component of the group's 2012 to 2014 business plan. The salient features include evolving the strong risk culture and a particular focus on:
    - Deposits.
    - Basel III and Solvency II implementation.
    - Strategic response of clusters to the Basel III impacts, especially on ROE and deposits.
    - Strategic portfolio management via portfolio tilt.
    - Managing for value, not volume and delta EP growth.
    - Client value management and exploiting value skews within credit portfolios.
    - Judicious use, optimisation and allocation of capital, funding and liquidity, information technology spend and expenses.
    - Credit loss ratio, especially collections and recoveries in home loans and Nedbank Capital.
    - Risk appetite.
    - Superior business intelligence and data quality.
    - Maintain strong relationships with regulators and other stakeholders.
    - Sustainability.
- **Balance Sheet Management (BSM)**
  - Over the past five years or so, and post the global financial crisis, the landscape of banking has changed fundamentally, together with very significant regulatory developments (eg Basel II and now Basel III).
  - Accordingly, Nedbank has embedded worldclass BSM, fully integrated within its BSM Cluster across the following five core functions:
    - Risk management.
    - Funding and liquidity management.
    - Capital management.
    - Margin management.
    - Strategic portfolio management (eg coordination of the portfolio tilt strategic focus area).

▲ Regulatory Update *(significant developments and strategic impact)*

- **Basel II.5**
  - The new Basel II.5 requirements, effective 1 January 2012, have been successfully implemented by Nedbank Group.
    - There is a 50 bps decline in the pro forma Core Tier 1 capital ratio, mainly due to the additional 6% Advanced Internal Ratings-based (AIRB) credit RWA scaling factor now introduced and the switch to stressed VaR for calculating market trading risk RWA. The impact of the new securitisation risk requirements is immaterial for Nedbank.
  - Nedbank Group is also compliant with the Basel II.5 enhancements to the Pillar 2 and ICAAP requirements. These include:
    - Bankwide governance and risk management.
    - Principles for sound liquidity risk management.
    - Principles for risk concentrations.
    - Valuation and liquidity risks of financial instrument fair-value practices.

    - Principles for sound stress testing practices.
    - Off-balance-sheet exposures and securitisation activities (complex).
    - Reputational risk and implicit support.
    - Sound remuneration practices (risk-based).
  - The additional Pillar 3 public disclosure requirements will be included in the next report for the half year ended 30 June 2012.

- **Basel III**
  - The majority of the Basel III proposals were finalised by the Financial Stability Board of the Bank of International Settlements (BIS) in December 2010, although some significant aspects remain outstanding for finalisation, namely:
    - Once the observation periods are completed, finalisation of the two new liquidity ratios [ie 'liquidity coverage ratio' (LCR) and 'net stable funding ratio' (NSFR)].
    - Surcharges for systematically important financial institutions (SIFIs), including 'domestic SIFIs' likely to be applicable to Nedbank.
    - Recovery and resolution plans.
    - Counterparty credit risk capital requirements.
    - Over-the-counter (OTC) derivatives.
    - Large exposures.
    - Review of the trading book.
    - Role of rating agencies.
    - Shadow banking.
    - Principles of banking supervision.
    - Expectations for capital planning.
    - Review of banks' RWA calculations.
  - In South Africa the details of exactly how Basel III will be adopted will be determined by the SARB, and according to their circular 2/2012, draft one of the proposed amended regulations will be issued for comment by the end of March 2012. Draft one is expected to deal with the minimum requirements contained in the Basel III framework, which will be phased in from 1 January 2013. The SARB will continue to issue circulars, directives and guidance notices as and when further decisions are taken.
  - The strategic impact of Basel III internationally is very significant, changing business models and potentially reducing returns on equity (ROE). South Africa is well placed, but there is much to do, and the strategic impact will also be significant locally, especially driven by the new liquidity requirements and higher capital levels.
  - For Nedbank Group the impact of the new capital requirements is expected to be easily manageable, given existing strong capital ratios and the high quality of Core Tier 1 equity.
  - On a Basel III pro forma basis for 31 December 2011 the group is well positioned to absorb the capital implications, with all capital ratios remaining well above the top end of current internal target ranges and with the Core Tier 1 ratio currently estimated to be unchanged after the Basel II.5 impact mentioned above, mainly due to certain accounting reserves and the portion of investment in insurance entities, which now qualify as RegCap, largely offsetting the new relevant aspects to Nedbank of the capital deductions and risk coverage. This is illustrative of the group's existing high-quality Core Tier 1 capital.
    - Once Basel III has been finalised by the SARB, Nedbank Group will review and advise of any revisions to its target capital ratios. For now Nedbank continues to operate well above its current Basel II target capital ratios.

  - The main capital related-work relates to the conversion or replacement of the existing Non-core Tier 1 and Tier 2 capital instruments in line with the new Basel III full loss absorbency and other requirements (eg no 'step-ups' or incentives to redeem), as existing instruments will be phased out over 10 years from 1 January 2013.
  - Additional RWA optimisation opportunities still remain [eg full benefit of the AMA approach for operational risk and switch to the AIRB credit approach for the MFC (ex Imperial Bank) book] and are excluded from the 2011 pro forma Basel II.5 and Basel III capital ratios disclosed in this report.
- The main challenge of Basel III is in respect of the two proposed liquidity ratios, namely the LCR for implementation in 2015 and the NSFR for implementation in 2018.
  - The structural constraints within the South African financial markets add to the local challenge of complying with the LCR and NSFR ratios. However, this is being proactively tackled by the SARB and National Treasury in conjunction with the financial services industry.
  - The group together with the local industry has remained focused on how best to comply with the LCR, given that banks would need to be compliant ahead of 2015. The building of surplus liquid buffers is an initial, proactive response, and this together with some permissible areas of national discretion is expected to enable compliance.
  - The impact of NSFR compliance by South Africa and most banking industries worldwide would be punitive if implemented as the draft requirements currently stand, significantly impacting in a negative way on economic growth and job creation.
  - The group anticipates that, following the observation period that commences in 2012, the NSFR requirement will be appropriately adjusted and a pragmatic approach to this issue resolved prior to the implementation in 2018.
  - The above views are supported by the recent G20 meeting in Mexico, where the key new outcome was an agreement that a study would be undertaken by the BIS into the unintended consequences of the regulatory reforms on emerging markets.

- **Solvency II/Solvency Assessment and Measurement**
  - Solvency Assessment and Measurement (SAM) is the local Financial Services Board (FSB)'s new economic risk-based solvency regime for South African insurers, which closely follows international regulatory trends, in particular Solvency II. SAM affects the Nedbank Wealth Cluster and implementation, which is set for 1 January 2015 (previously 2014), is on track, with an immaterial impact on existing solvency or capital levels.

- **Companies Act**
  - The Companies Act, 71 of 2008, as amended, came into effect on 1 May 2011. Nedbank Group completed an assessment of the full effect of the act on its business, and continues to monitor compliance with the act across the group, and how the courts will interpret the provisions of this new legislation. Processes have been put in place to meet the compliance requirements and to mitigate credit risks.

- **The Consumer Protection Act**
  - The Act and regulations came into effect on 31 March 2011. Nedbank Group's processes and documentation have been amended to align with the provisions of the Act.

- **Protection of Personal Information Bill**
  - Nedbank Group is reviewing current systems and processes to ensure compliance with this anticipated legislation. The Minister of Justice announced in Parliament that the legislation is expected to be passed in 2012.

GROUP STRUCTURE AND BASIS OF PILLAR 3 DISCLOSURE

The group's comprehensive Pillar 3 and public disclosure is in line with Regulation 43 of the regulations relating to banks in South Africa based on Basel II. Set out below are the key subsidiary companies of the Nedbank Group.

Consistent with the principle of proportionality (or materiality) contained in the regulations, this Pillar 3 report covers Nedbank Group Limited and Nedbank Limited. The other banking subsidiary companies are not in themselves material enough to warrant individual Pillar 3 reporting.

All subsidiary companies and legal entities are consolidated into the Nedbank Group Limited ICAAP and Pillar 3 reporting as explained in the 'consolidated supervision' section on the following page, again in compliance with the regulations.

NEDBANK GROUP LIMITED

NEDBANK LIMITED (B) 100%

LOCAL SUBSIDIARIES

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

FOREIGN NEDBANK SUBSIDIARIES

- Nedbank (Lesotho) Limited (B)
- Nedbank (Swaziland) Limited (B) 65%
- Nedcor Trade Services Limited (F)

FOREIGN SUBSIDIARIES

- NedEurope Limited (H)
- MN Holding Limited (H)
- Nedbank (Malawi) Limited (B) 97,1%
- MBCA Bank Limited (B) 70,9%
- NedNamibia Holdings Limited (B H)
- Nedbank Namibia Limited (B)
- Nedgroup International Holdings (H)
- Fairbairn Private Bank Limited (B)
- Fairbairn Trust Company Limited (Guernsey) (T)
- Tando AG (F)
- Alliance Investment Limited (F)

BoE INVESTMENT HOLDINGS LIMITED (H) 100%

- BoE Private Client Investment Holdings Limited (F)
- Nedgroup Wealth Management Limited (F)
- BoE Life Limited (I)
- Nedgroup Life Assurance Company Limited (I)

NEDGROUP INVESTMENT HOLDINGS 101 LIMITED (H) 100%

- Nedgroup Securities (Pty) Limited (S)
- NBG Capital Management Limited (F)
- NIB Blue Capital Investments (Pty) Limited (F)
- BoE (Pty) Limited (F)

TRUSTS AND SECURITIES ENTITIES

- Syfrets Securities Limited (S)
- Syfrets Securities Nominees (Pty) Limited (S) 99%
- Nedgroup Collective Investments Limited (S)
- Nedinvest Limited (S)
- Dr Holsboer Benefit Fund (T)

OTHER INSURANCE ENTITIES

- Nedgroup Insurance Company Limited (I)
- Nedcor Group Insurance Company Limited (I)
- Nedcor (SA) Insurance Company Limited (I)

B: Banks
F: Financial entities
H: Holding Companies
I: Insurance entities
S: Securities entities
T: Trusts

Consolidated Supervision

Consolidation of all entities for accounting purposes is in accordance with the International Financial Reporting Standards (IFRS) and for regulatory purposes is in accordance with the requirements of Basel II, the Banks Act and accompanying regulations.

There are some differences in the basis of consolidation for accounting and regulatory purposes. These include the exclusion of certain accounting reserves [eg the foreign currency translation (FCT) reserve, share-based payments (SBP) reserve and available-for-sale (AFS) reserve], the deduction of the investment in insurance entities and the exclusion of trusts that are consolidated in terms of IFRS but are not currently subject to regulatory consolidation. Refer to the table, 'summary of qualifying capital and reserves' on page 57 for differences in the basis of consolidation for accounting and regulatory purposes.

In accordance with the SARB circular 2/2012 the FCT, SBP and AFS reserves will qualify as regulatory capital (RegCap) under Basel III from 1 January 2013.

The following is a summary of the available treatment for Basel II consolidation.

Type of entity	**Percentage holding**			
	Minority interest		Majority/controlling interest	
	≤ 20%	20% and ≤ 50% No control	20% and ≤ 50% Joint control (eg JVs)	> 50%
Banking, securities and other financial entities[1,2]	Treat as equity investment. Apply 100% risk-weight (SA) or 300%/400% risk weight (IRB market based - simple risk weight approach).	Deduct equity and investment.	Pro rata consolidation (ie include corresponding % of assets, liabilities and capital) where parent is legally or de facto expected to support the entity.	Full consolidation OR Pro-rata consolidation.
Insurance entities	As above.	Deduct equity and investment.	Deduct assets, liabilities and capital from balance sheet.	
Commercial entities	As above.	If individual investment > 15% of the bank's capital or aggregate investments > 60% of bank's capital, then deduct portion of investment/s that exceed threshold. If below threshold then treat as follows: Investments below materiality levels above will be risk-weighted at no lower than 100% or risk-weighted in accordance with one of the available equity risk approaches (Market based approach - simple risk weight or Internal Model; or PD/LGD Approach).		

[1] Includes regulated and unregulated entities

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

For the Nedbank Group, the following Basel II consolidation approaches are followed:

- The banking, securities and other financial entities are fully consolidated.
- The insurance entities are fully deducted.
- All commercial entities are treated as set out above.

Basel II RWA calculation approaches

The following approaches have been adopted by Nedbank Group for the calculation of risk weighted assets.

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

[1] *Legacy MFC (ex Imperial Bank) book under TSA.*
[2] *The AMA coverage is 83%, TSA 17%.*
[3] *Approaches followed by Nedbank Limited solo also apply to Nedbank London branch.*
[4] *CEM is applicable for London branch only, all other foreign subsidiaries are not applicable.*

Abbreviations:

AIRB = Advanced Internal Ratings-Based Approach
CEM =Current Exposure Method
IMA = Internal Model Approach
AMA = Advanced Measurement Approach
SRWA = Simple Risk Weight Approach
TSA = The Standardised Approach

Internal audit and board of directors review

This Pillar 3 report involved an independent review by Group Internal Audit (GIA). The final version of this report incorporates the board of directors' comments and approval.

RISK CULTURE

Nedbank Group has a strong risk management culture that is embedded in the group's strategic framework and day-to-day operations.

The three core objectives with regards to risk management at Nedbank are as follows:

- **'Managing risk as a THREAT'**

  To minimise and protect against downside risk, protect against material unforeseen losses and maximise long run sustainability.

- **'Managing risk as an UNCERTAINTY'**

  To eliminate excessive earnings volatility and minimise material negative surprises.

- **'Managing risk as an OPPORTUNITY'**

  To maximise financial and share price performance upside via application of superior business intelligence, managing for value including strategic portfolio management and client value management, and optimising business opportunities, risk appetite, funding, capital and the balance sheet shape and mix.

The three lines of defence in the group's ERMF are as follows:

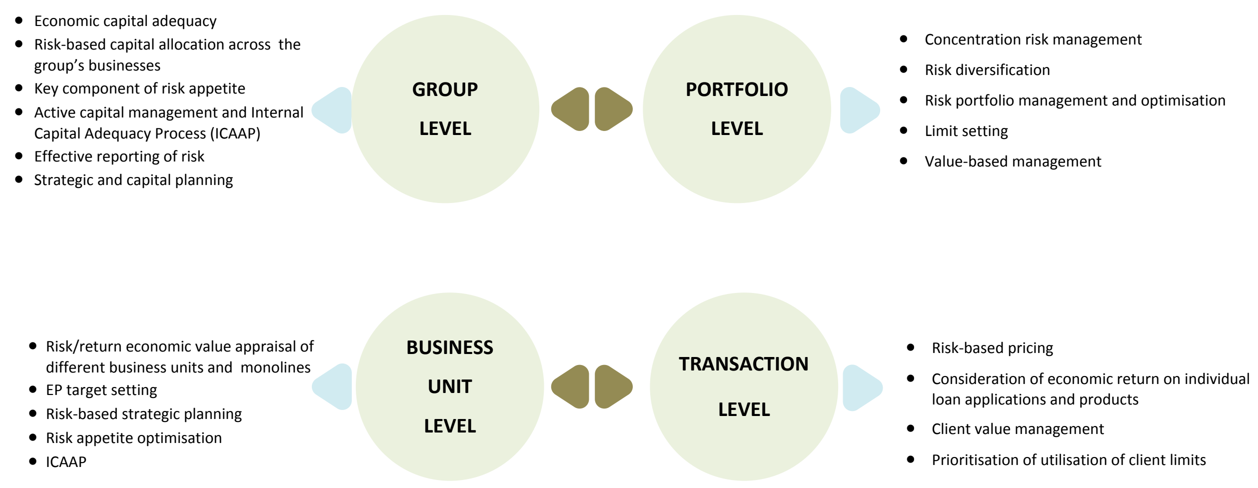
- 1st line [Business clusters and the Balance Sheet Management (BSM) Cluster (centrally)]
- 2nd line (Group Risk and Group Governance and Compliance)
- 3rd line (Internal and External Audit)

The three lines of defence governance model is covered in more detail from page 32.

Some of the key elements of the risk management culture, which are embedded in the way the group is run, include its strong focus on:

- **Economic capital (ECap) and economic profit (EP)**

ECAP AND ECONOMIC PROFIT USE ACROSS NEDBANK



ECap 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 Group assesses the internal requirements for capital using its proprietary ECap methodology, which models and assigns ECap within 12 quantifiable risk categories, as summarised on page 43.

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

ECap not only facilitates an 'apples-to-apples' measurement and comparison of risk across businesses but, by incorporating it into performance measurement, the performance of each business can be measured and compared on an absolute basis using EP and a relative percentage return basis, namely 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 within Nedbank Group. In the calculation of RORAC the capital is calculated on a risk-adjusted basis (ECap), 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 return and risk-adjusted capital, and is also reported internally as a secondary performance measure. In order to derive the risk-adjusted earnings, impairments are replaced with expected loss. Impairments represent an accounting charge that is cyclical in nature and volatile over the economic cycle, whereas the expected-loss charge is a through-the-economic-cycle measure that is more aligned to long-run business profitability and sound management decision making. Globally, following the financial crisis, there has been a move towards using through-the-cycle (TTC) risk measures of return that provide a longer-term view and appropriate incentivisation of reward.

R **EP = IFRS EARNINGS (OR RISK ADJUSTED PROFIT) - HURDLE RATE X ECAP**
• 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 ECap that RORAC or RAROC provides.

% **RORAC OR RAROC = [IFRS EARNINGS FOR RAROC (OR RISK ADJUSTED PROFIT FOR RAROC) + CAPITAL BENEFIT] ÷ ECAP**
• Value is created if RAROC > hurdle rate. • If capital is scarce, businesses with the highest RORAC or RAROC (ie highest marginal return per rand of ECap) should be prioritised. • No information on magnitude of value being created for shareholders which EP provides.

ECap, economic profit (EP) and RORAC as well as other important metrics, such as return on assets (ROA), credit loss ratio (CLR), non-interest revenue (NIR): Expenses and efficiency ratio, are included in performance scorecards across the group. The primary performance indicator is economic profit driven off risk-based ECap.

- **Risk-based remuneration practices**

  ECap and EP are comprehensively in use across the group, embedded within businesses on a day-to-day basis, and in performance measurement and reward schemes as discussed above. This risk-adjusted performance measurement has been applied across the group for some years now and helps ensure that excessive risk-taking is prevented and managed appropriately within the group.

  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 a combination of profitable returns, risk and growth appropriately. It is driven from an EP and headline earnings basis, using risk-based ECap allocation as discussed above. Risk is thus an integral component of capital allocation and performance measurement (and reward) in Nedbank Group.

  The global financial crisis also precipitated a number of initiatives aimed at improving the governance and management of remuneration. The recommendations, guidance and practice notes are primarily aimed at the remuneration of executive directors, but the underlying principles and statements of good practice can be applied to most incentive arrangements for the majority of staff members. The group's remuneration practices and public disclosure compare favourably when benchmarked against the latest evolving principles, practices and governance codes released for the financial industry. For this detail please refer to the group’s Remuneration Report within the Integrated Report which may be found at www.nedbankgroup.co.za.

  Nedbank Group continually assesses any gaps to ensure an optimal compliance of risk-based remuneration practices.

- **Risk Appetite Framework**

  A comprehensive Risk Appetite Framework was first approved by the board of directors in 2006 and subsequently has been enhanced as explained from page 18.

- **Stress and Scenario Testing Framework**

  A comprehensive Stress and Scenario Testing Framework was also originally implemented in 2006 as described from page 19, and this has also been further enhanced.

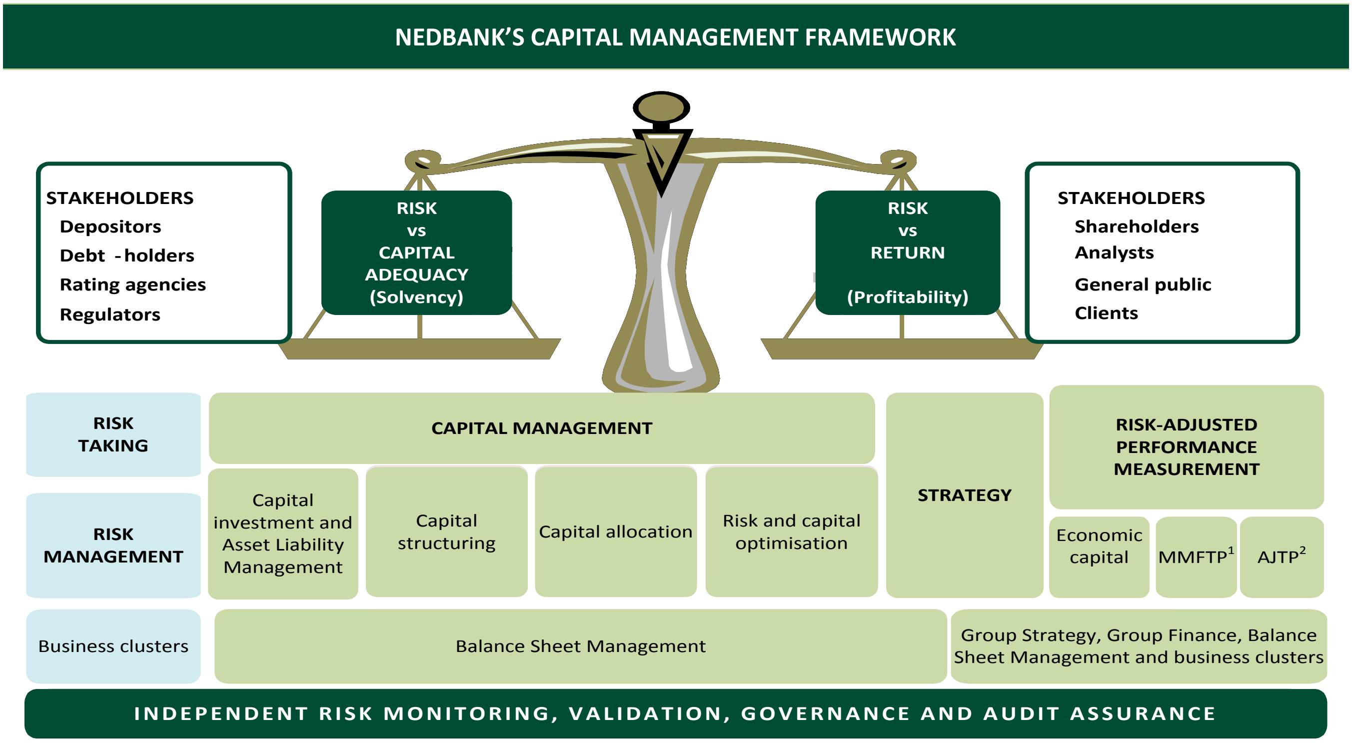
  Stress testing has been an integral part of the group's Internal Capital Adequacy Assessment Process (ICAAP) since 2008 and has contributed to the proactive risk management that has facilitated the group's resilience through the global financial crisis and the local recession in 2009.

- **Enterprisewide Risk Management Framework (ERMF)**

  The backbone of the group's strong risk management culture and risk governance has been and continues to be the group's ERMF, first developed and rolled out in 2004.

  Enterprisewide risk management is a structured and disciplined approach to risk management. It aligns 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.

- **Capital Management Framework**

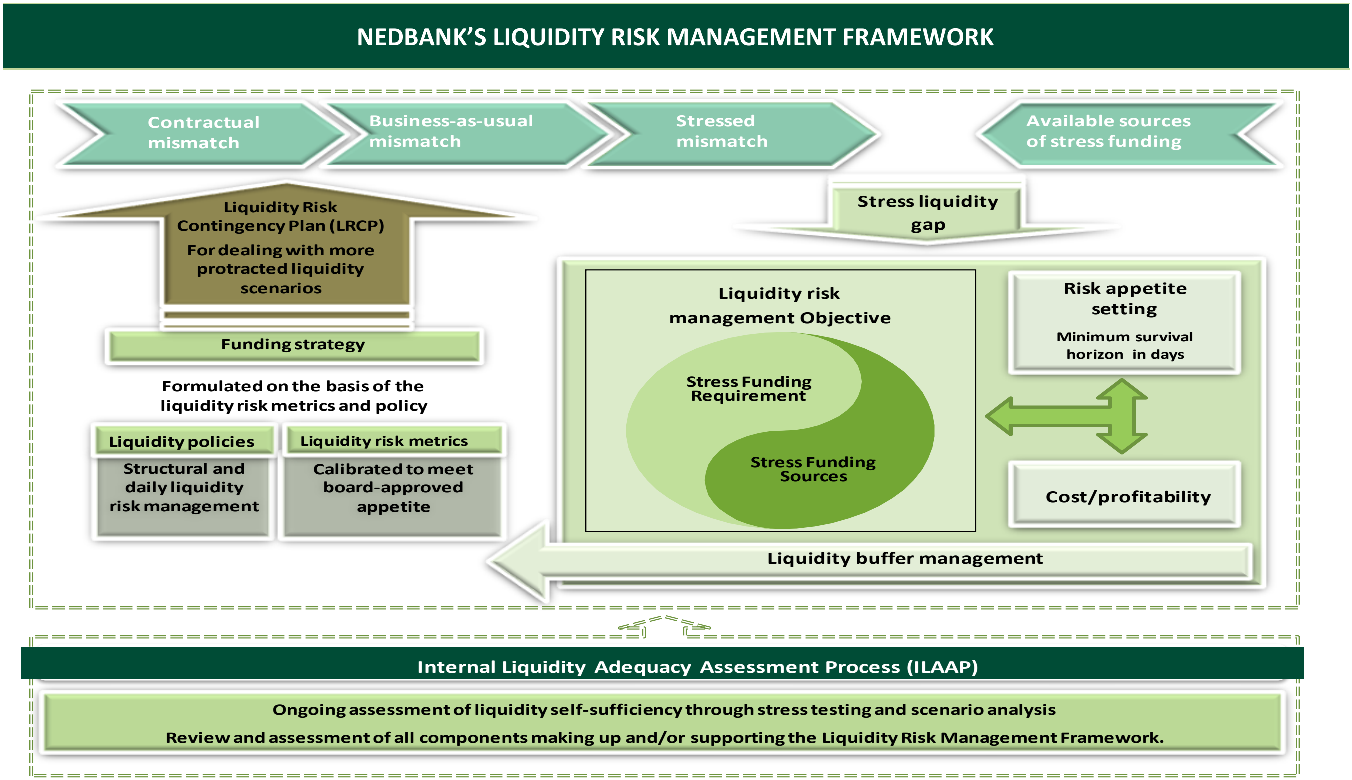


[1] *MMFTP = Matched maturity funds transfer pricing.*

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

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

- **Liquidity Risk Management Framework**



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

In conclusion, the group's risk culture, risk profile and overall BSM systems have been duly tested and proven effective during the recent global financial crisis.

Key ICAAP enhancements in 2011

The following is a summary of key enhancements made to Nedbank Group's ICAAP.

- **Inter-risk diversification**

  Enhancements to the inter-risk diversification matrix are work in progress, namely the move from a basic variance-covariance methodology to an advanced approach which is based on joint loss simulation using copulas.

  A McKinsey 2011 study of European banks highlighted that 80% include inter-risk diversification in their ECap framework, as Nedbank Group does.

- **Capital management**

  All goodwill and intangibles are now deducted from AFR, as done for regulatory capital (RegCap) since 2010.

- **Capital allocation to business clusters**

  The following enhancements/updates to the capital allocation methodology to business clusters for 2011 were implemented:

  – Full tail risk

    In 2010, Nedbank Group agreed to move to a full tail risk allocation for credit risk ECap with effect from 2011. The group previously applied a 1/3 Body + 2/3 Tail weighting as an interim approach.

  – Credit correlations (used in credit ECap)

    Credit portfolio modelling (CPM) correlations are updated on an annual basis. The updated parameters reflect extended time series until June 2010. In line with the 3 year planning cycle, correlation updates happen annually in June each year.

  – New LGD for Home Loans

    Instead of applying a flat LGD for all Home Loans, LGD parameters depending on the respective LTV bands are used (significantly more conservative). Accordingly the average capitalisation rate increased from 3,1% to 5,2%.

  – New capital buffer allocation methodology introduced.

  – Imperial Bank integration.

    Nedbank Group fully integrated Imperial Bank's portfolios into the existing group ECap structure from 2011.

  – Business risk methodology

  Parameters used in the business risk methodology have been refined and updated. These are now based on more recent data.

- **Risk appetite**

  Stressed risk appetite results have been introduced and approved in 2011, which now supplement the existing TTC metrics.

  The following enhancements to the group risk appetite framework have been made in 2011.

  – Concentration risk targets

    The framework has been enhanced in order to view concentration risk in a more holistic manner. Concentration risk appetite targets have now been established, supplementing existing concentration risk limits and mandates, both in areas where Nedbank Group is exposed to concentration risk as well as areas of under-concentration and so promoting their potential growth. The targets were approved by the board and are in line with the expectations of the new Basel II.5 regulations and the board's responsibilities.

The new concentration risk targets are one of the key considerations in setting the group's Portfolio Tilt strategy.

– Tax risk targets

Risk appetite targets have recently been approved in order to better align the group's appetite for tax risk. This includes cash and accounting tax rates, concentration risk measures and gross exposure at risk targets.

– Operational risk targets

Following the implementation of the Advanced Measurement Approach (AMA) for regulatory and ECap, operational risk appetite targets have been approved in 2011. These targets include loss ratio targets, which have been set for the main operational risk types at the group level, and operational risk value at risk targets, which have been set at the group and cluster levels. These targets were set, having been benchmarked against 14 European and Asian banks, and are detailed below:

	OPERATIONAL RISK METRICS	TARGET	FREQUENCY	RATIONALE
Loss ratio	Operational risk loss : GOI[1]	1,3%	Quarterly	• Losses allow for monitoring the actual efficiency of the control environment for each type of risk. • Globally, frauds and litigations have the most important contribution[4].
	Internal fraud loss : GOI[1]	0,1%	Quarterly	
	External fraud loss : GOI[1]	0,6%	Quarterly	
	CPBP[5] loss : GOI[1]	0,2%	Quarterly	
OpVaR ratio	Group OpVaR[2] : GOI[1]	15,0%	Quarterly	• OpVaR allow for monitoring the exposure for the different types of businesses. • Each cluster has a different risk profile. • Monitoring a cluster level allows for a risk sensitive allocation.
	Capital OpVar[2] : GOI[1]	30,0%	Quarterly	
	Corporate OpVaR[2] : GOI[1]	20,0%	Quarterly	
	Retail[3] OpVaR[2] : GOI[1]	10,0%	Quarterly	
	Business Banking OpVaR[2] : GOI[1]	15,0%	Quarterly	

[1] *GOI = Group operating income.*
[2] *Diversified VaR (99,9%) excluding regulatory caps and inter-risk diversification.*
[3] *Including Nedbank Wealth.*
[4] *97% of the total operational risk loss amounts are due to frauds or litigation (based on South Africa's public database).*
[5] *CPBP = Clients, products and business practices*

– Changes to Earnings-at-Risk (EaR) targets

Nedbank Group revised the EaR and chance of loss metrics in 2011, as follows:

- EaR target of less than 100% to less than 80%.
- Chance of loss of greater than 1-in-10 years to greater than 1-in-15 years.

The above revisions follow the new retail strategy and growth of NIR. The retail secured lending risk profile should improve significantly in terms of lower earnings volatility in future years.

- **Stress testing enhancements**

Nedbank strives to continually enhance its stress testing framework which has been in place since 2006.

The following are the enhancements completed in 2011:

– Inclusion of a deflationary severe stress scenario in the group's business-as-usual scenarios.
– Implementation of Basel II.5 and Basel III expectations in the group's three year plan projections and stress testing of these.

- Implementation of credit growth related changes to NII.
- Implementation of gross and net leverage ratios.
- Recalibration of the credit model within Capital Adequacy Projection Model (CAPM)/Macroeconomic Factor Model (MEFM) to the more granular credit ECap model utilised for ECap calculation.
- Alignment of Interest rate risk in the Banking book (IRRBB) ECap projections with IRRBB stress testing.
- Implementation of a 'what if' scenario model.
- Implementation of an 'overlay' facility, to incorporate and investigate expected impacts of RWA optimization.
- Customising stress testing of the Personal Loans portfolio.

- **Business intelligence and data**

  Substantial progress has been achieved around data governance and business intelligence (BI) within the bank since 2008 when the group initiated the Group Data Project with a view of achieving Nedbank Group's vision of 'Superior Business Intelligence, enabled by World-class Data Governance'.

  Apart from developing and implementing a world-class aligned Data Governance Framework (which is subject to continuous review / upgrade to ensure ongoing alignment to best practice fit for Nedbank), with its associated governance oversight committees, now functioning on a business as usual basis, the Group Data Project was successfully completed and closed-out at the end of 2011, having delivered entirely on its mandate, with inter-alia all 144 material credit data issues having been mitigated.

  Further to this a Group BI Forum (under the direction and review of a Group Exco sub-committee) has been established with representatives from across the Nedbank Group BI community, with a mandate to develop an integrated group data management and BI strategy together with a detailed road map, with a phased implementation approach. The central tenet to the BI forum's mandate is enhanced value-based management and 'client centricity'.

- **Quantitative Risk Management (QRM)**

  Phase one

  Nedbank Group has been implementing the QRM Asset/Liability (A/L) solution over the past 3 years in order to facilitate an integrated A/L solution, particularly as it relates to banking book interest rate risk, credit risk and liquidity risk. This solution has also been built at the group level and will in due course cater for business unit level balance sheet modelling. The application will also facilitate an integrated stress testing and capital planning solution.

  Following the appropriate period of parallel runs and independent validation by the Group Market Risk Monitoring unit, all risk based A/L reporting for the Nedbank Limited entity has now been migrated from Sendero to QRM. Accordingly, all associated reporting for ALCO and SARB is now sourced from QRM. This marks the end of phase 1 of this project that included the termination of the Sendero application with effect from May 2011 reporting.

  The completion of phase 1 of this project has facilitated commencement of phase 2, laying the foundation for a fully integrated BSM solution.

  Phase two

  Nedbank Group is making good progress in its implementation of phase 2 of its QRM project. Once fully integrated, QRM will play a more significant role in the group's planning solution, providing a more sophisticated integrated balance sheet modelling capability at the business unit level. The focus of phase 2 includes the migration of the group's current matched maturity funds transfer pricing solution across to the QRM platform, modelling alignment at not only legal entity level, but sub-portfolio level, that will facilitate balance sheet modelling at the business unit level, the implementation of a business unit level planning structure at which the current contractual position and forecasting attributes are available and can then be modelled. In addition, within this phase QRM will be integrated into the existing SAP forecasting solution.

  Integrating QRM with the group's planning solution at a business unit level will enable all business areas to make use of the sophisticated cash flow and repricing capabilities within QRM. Through QRM's interface these results will be automatically aggregated. In addition, business units will be able to run multiple balance sheet and NII scenarios, using risk and financial parameters specific to these areas, whilst maintaining a consistent set of centrally approved macro-economic factors, applicable across the group.

Creating this capability has significant benefits in modelling multiple and integrated business strategies, where balance sheet and NII results are more timeously available, consistent and easy to analyse.

Rebuilding the groups' capital adequacy projection model within the QRM solution, as well as an integrated impairment modelling capability is also planned, albeit later during this phase.

- **IMA/AMA regulatory approvals**

  Nedbank Limited received approval from SARB to use the Advanced Measurement Approach (AMA) for operational risk (from December 2010) and the Internal Model Approach (IMA) for market trading risk (from January 2011) for RegCap purposes.

As a result Nedbank Limited now has approval for all three major Pillar 1 risk types for Basel II, having received approval for the Advanced Internal Ratings-based (AIRB) Approach for credit risk on day 1 implementation of Basel II (January 2008). The RegCap approaches now align with those already in use for ECap (and ICAAP) purposes. This contributes to Nedbank Group's risk weighted asset optimisation while representing a more sophisticated measurement of risk.

RISK APPETITE

Risk appetite is an articulation and allocation of the risk capacity or quantum of risk Nedbank Group is willing to accept in pursuit of its strategy, duly set and monitored by the Group Executive Committee and the board, and integrated into the group's strategy, business, risk and capital plans.

Nedbank Group measures and expresses risk appetite qualitatively and in terms of quantitative risk metrics. The quantitative metrics include earnings at risk (EaR) (or earnings volatility) and, related to this, the chance of experiencing a loss, the chance of regulatory insolvency and economic capital (ECap) adequacy. These comprise the group's core risk appetite metrics. In addition, a large variety of other risk appetite metrics with targets, triggers, mandates and guidelines are in place for all the financial risks (eg credit, market and asset and liability management (ALM) and concentration risks).

In 2009 the group sought to enhance the extent, focus and reporting of the key financial risk appetite metrics, and the cascade from group level down to cluster, business unit and monoline level. Accordingly an enhanced suite of base case (through-the-cycle) risk appetite metrics was established and incorporated into the 2010 – 2012 business plans at both group and business cluster levels.

In 2010 the risk appetite metrics and targets were enhanced to include short term, long term, insurance and asset management risk profiles. In 2011 the risk appetite metrics and targets were further enhanced to include operational- and tax risk profiles of the group. Credit risk and investment risk appetite metrics and targets, as relevant to the approved business activities, have been cascaded down from group level for each business cluster, major business unit and the business units in Nedbank Retail. The relevant operational risk appetite metrics have also been cascaded down to the business cluster level. Stressed (extreme event) risk appetite limits for the point-in-time risk appetite metrics, and linked to Nedbank Group's stress- and scenario-testing programme, were then introduced in 2011.

Earnings volatility is the level of potential deviation from expected financial performance that the group is prepared to sustain at relevant points on its risk profile. It is established with reference to the strategic objectives and business plans of the group, including the achievement of financial targets, payment of dividends, funding of capital growth and maintenance of target capital ratios.

Qualitatively, the group also expresses risk appetite in terms of policies, processes, procedures, statements and controls meant to limit risks that may or may not be quantifiable. Policies, processes and procedures relating to governance, effective risk management, adequate capital and internal control has board and senior management oversight and is governed by the three lines of defence. A key component of the Enterprisewide Risk Management Framework (ERMF) is a comprehensive set of board-approved risk policies and procedures, which are updated annually. The coordination and maintenance of this formal process rests with the head of ERMF, who reports directly to the Chief Risk Officer.

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

- Core risk appetite metrics:
  - Earnings at risk (EaR)
  - Chance of a loss
  - Chance of Regulatory insolvency
  - Available finance resources (AFR): ECap (A solvency target)
  - Total RWA: Total assets
  - Leverage ratio

  During 2011 Nedbank Group revised the EaR and chance of a loss metrics from 100% to 80% and from 1-in-10 to 1-in-15 respectively, adding further conservatism to these core risk appetite metrics.
- Specific risk-type limit setting (which clarify across the group's 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 performance targets, regulatory capital (RegCap) targets and target debt rating for ECap adequacy, ECap allocations to business clusters, dividend policy, target credit impairment ratios, derisking the balance sheet of non-core assets, etc).
- Policies, procedures and controls.
- Zero-tolerance statements.

NEDBANK GROUP CORE RISK APPETITE METRICS

Group metrics	Definition	Measurement methodology	Current targets	Target achieved in 2012-2014 business plan
Earnings at risk (EaR)	Percentage pretax earnings potentially lost over a one-year period	Measured as a ratio of earnings volatility as a 1-in-10 chance event (ie 90% confidence level) and pretax earnings	EaR less than 80%	✓
Chance of experiencing a loss	Event in which Nedbank Group experiences an annual loss	Utilises economic loss at different confidence intervals and comparing with expected profit over the next year	Better than 1 in 15 years	✓
Chance of regulatory insolvency	Event in which losses would result in Nedbank Group being undercapitalised relative to minimum total RegCap ratio	Utilises economic loss at different confidence intervals and compares with capital buffer above regulatory minimum – expressed as a 1-in-N chance event of regulatory insolvency	Better than 1 in 50 years	✓
ECap adequacy	Nedbank Group adequately capitalised on an economic basis to its current international foreign currency target debt rating	Measured by the ratio of AFR and required ECap at an A international foreign currency debt rating	Greater than an A rating plus 10% buffer	✓

Nedbank Group's Risk Appetite Framework and modelling of the group level metrics are integrated with the ECap model and the ERMF. The two measures, EaR and ECap, are methodologically very similar and differing primarily in the confidence level used. Both ECap and EaR are calculated at granular levels and are key components of Nedbank Group's Risk Appetite Framework and Risk Adjusted Performance Measurement system (ie for RORAC, EP measures).

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

RISK APPETITE – ENHANCED SUITE OF METRICS FINALISED IN 2011	GROUP TARGET
CREDIT RISK PROFILE	
Credit loss ratio (%)	0,60% – 1,0%
Credit RWA: Loans and advances (%)	52% – 58%
Credit property exposure: Loans and advances (%)	< 45%
NOPs: Loans and advances (%)	< 0,1%
Average PD (%) – performing book (TTC)	< 3%
Average LGD (%) – performing book (TTC)	18% – 24%
Average EL (%) – performing book (TTC)	0,6% – 0,7%
Defaulted exposure at default (EAD): Total EAD (%)	< 2%
EAD: Exposure (%)	< 120%
COUNTERPARTY CREDIT RISK (DERIVATIVES) PROFILE	
CCR EAD: Total EAD (%)	< 2%
CCR ECap: Total ECap (%)	< 0,5%
SECURITISATION RISK PROFILE	
Securitisation RWA: Total RWA (%)	< 5%
TRADING MARKET RISK PROFILE	
VaR (99%, three-day)	< 127
Stress trigger (Rm)	< 846
Trading ECap: Total ECap (%)	< 3%
EQUITY (INVESTMENT) RISK PROFILE	
Exposure: Total assets	< 2%
Equity investment ECap: Total ECap (%)	< 7%
ALM RISK PROFILE – LIQUIDITY	
Short-term (0 to 31 days) funding: Total funding (%)	< 58% (tolerable deviation +5%)
Medium-term (32 to 180 days) funding: Total funding (%)	< 17% (tolerable deviation +5%)
Long-term (> 180 days) funding: Total funding (%)	> 25% (tolerable deviation -5%)
Contractual maturity mismatch (0 to 31 days): Total funding (%)	< 38% (tolerable deviation +5%)
Liquidity stress event (minimum survival period) : Days	> 14
Net interbank reliance: Total funding (%)	< 1,5% (tolerable deviation +1%)
ALM RISK PROFILE – Interest rate risk in the Banking book	
NII interest sensitivity: Equity (%)	< 2,5%
NII interest sensitivity: 12-month NII (%)	< 7,5%
NII interest sensitivity: Interest earning assets (bps)	< 25 bps
Economic value of equity sensitivity: Equity (%)	< 2,5%
Nedbank Limited – 25 bps shift between bond and swap curve (Rm)	< 240
ALM RISK PROFILE – Foreign currency translation risk	
Currency equity: Total equity (%)	< 5%
LONG TERM INSURANCE RISK PROFILE	
Net claims ratio[1]	< 75%
Capital adequacy requirement cover[2]	> 2 times
Max loss per client after re-insurance (Rk)	400
SHORT TERM INSURANCE RISK PROFILE	
Net claims ratio[1]	< 75%
Capital adequacy requirement cover[3]	> 1,5 times
Short term insurance ECap: Total Nedbank Wealth ECap (%)	< 15%
Net exposure after re-insurance: Total Exposure (%)	< 5%
ASSET MANAGEMENT RISK PROFILE	
Asset management ECap: Total Nedbank Wealth ECap (%)	< 25%
INSURANCE INVESTMENT RISK PROFILE	
Equity exposure: Total investment from premium received (%)	< 10%
OPERATIONAL RISK PROFILE	
Total operational risk loss: GOI (%)	< 1,3%
Internal fraud loss: GOI (%)	< 0,1%
External fraud loss: GOI (%)	< 0,6%
Client, products and business practices: GOI (%)	< 0,2%
OpVaR: GOI (%)	< 15%
CORE RISK APPETITE METRICS	
Earnings at risk	< 80%
Chance of a loss (1 in x years)	> 15
Chance of regulatory insolvency (1 in x years)	> 50
AFR: ECap (A solvency target)	> 110%
Total RWA: Total assets (%)	55% – 57%
Leverage ratio	< 18 times
GROUP CAPITAL ADEQUACY (under Basel II)	
Core Tier 1 (in current environment target is above top end of range)	7,5% – 9%
Tier 1 (in current environment target is above top end of range)	8,5% – 10%
Total (in current environment target is above top end of range)	11,5% – 13%

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

[2] *Long term insurance CAR cover 1 times is statutory requirement*

[3] *Short term insurance CAR cover 1,25 times is statutory requirement*

Nedbank Group has cultivated and embedded a prudent and conservative risk appetite, focused 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 and value-based credit underwriting practices that have culminated in a high-quality, well-collateralised wholesale book and an emphasis on selective, value-based origination in the retail book.
- Reasonable credit concentration risk levels:
  - Large individual or single-name exposure risk is low as shown on page 117.
  - Geographic exposure risk is high (95% of the group's loans and advances originate in South Africa), however this concentration has been positive for Nedbank Group, during the global international crisis, and reflects focus on an area of core competence.
  - Industry exposure risk is reasonably well-diversified as shown in the concentration risk section on page 119.
  - Nedbank Group's property exposure is high, similar to the other South African big four banks.
- The direct exposure of Nedbank Group to the banking sectors of Portugal, Ireland, Italy, Greece and Spain (PIIGS) is R261m, while total exposure to banks in the Eurozone is R9 737m and are not material, as highlighted earlier. The group holds no sovereign bonds issued by these countries. Refer to page 118 for further detail on the PIIGS.
- 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 derivative activities have been materially restricted to single-name trades of South Africa's exposures and are biased towards providing risk mitigation.
- A strong, well-diversified funding deposit base and a low reliance on offshore funding. Additionally, Nedbank Group's reliance on its top ten depositors is not unduly concentrated.
- The ILAAP Report describes in detail Nedbank Group's prudent liquidity risk management and ILAAP.
- Low level of securitisation exposure at approximately 1% of total RWA.
- Low leverage ratio (total assets to shareholders' equity) of 13,7 times (2010: 14,3 times[1]), which compares very favourably on an international benchmarking basis. 2010 has been restated. Under Basel III, which includes off-balance-sheet exposure, the ratio would increase to 18,0 times against a group target < 20 times. The Basel III limit is 33,3 times.

  [1] *Leverage is now calculated using daily average shareholders' funds.*
- Low risk of assets and liabilities exposed to the volatility of International Financial Reporting Standards (IFRS) fair-value mark-to-market (MTM) when considered with the associated derivative hedges.
  - *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 Group does.

    The group has entered into a large number of fixed rate deals both for assets and liabilities. When a fixed rate deal is entered into interest rate risk arises, which is hedged with an interest rate swap derivative. This process is controlled and monitored by the 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 (NIR).

    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 (assuming a perfect hedge relationship). 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 the accounting mismatch described above, 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 Group also 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 as at fair value through profit and loss.

– *Trading Book*

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

The trading portfolio has limited exposure to the credit derivatives market. This, coupled with the group's conservative risk appetite, has restricted losses incurred in the portfolio during the current period.

- Low market trading (proprietary) risk in relation to total bank operations (ECap held is only 1,5% of total and is conservatively based on limits rather than utilisation, plus a 10% capital buffer). Although proprietary trading activities are small, they play an essential role in facilitating client trades.
- 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 has been relatively sound, an indication that the impacts from the credit crunch and difficult equity markets were successfully navigated, and the group's risk systems are sound.
- IRRBB is appropriate for the size of the Nedbank Group balance sheet, in line with other peer group banks that manage IRRBB on a similar basis.
- Low equity (investment) risk, including private equity exposure. The total equity risk exposure, including the private equity business, is R4,4bn, comprising only 0,7% of total assets. Further, within this a wide range of individual investments exist and many are linked to a wider client relationship.
- Low foreign currency translation risk (FCTR) to the rand's volatility, which is in line with Nedbank Group's appropriate offshore capital structure (shown in the table on page 145).
- Well-diversified earnings streams. Most of the group's earnings are generated by traditional vanilla annuity-based income products in wholesale and retail banking, and specialised finance (kindly refer to page 18B in Nedbank Group's Analyst Booklet, December 2011).
- Well-diversified subordinated debt and Non-core Tier 1 maturity profile. However, Nedbank Group has a higher concentration of Tier 2 capital as a percentage of total capital in comparison to its peers (refer to page 57). The concentration has been identified and a target measure has been implemented as part of the concentration risk appetite dashboard.
  – As a result of Nedbank's high total CAR of 15,3% and concentration in Tier 2 capital the R1,5bn of the Nedbank Limited Tier 2 bond (NED 5) bond was called in April 2011 without being replaced.
- Comprehensive stress and scenario testing to confirm the adequacy and robustness of the group's capital ratios and accompanying capital buffers.
- A proactive response to the global financial crisis successfully executed, including a strong focus on and great success in strengthening the group's capital ratios since the end 2007 and through to December 2011.
- Individual risk appetite targets, as relevant to the approved business activities, have been approved and cascaded down from group level for each business cluster, major business unit and the monolines in Nedbank Retail. Additionally, individual limits for credit loss ratios in a stressed macro-economic environment has been approved and cascaded down.

  New concentration risk appetite metrics have been approved across Nedbank Group enhancing the active management of any concentrated areas.

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

STRESS AND SCENARIO TESTING

Stress testing

Nedbank Group has a comprehensive stress and scenario testing framework which is used, inter alia, to stress its base case projections in order to assess the adequacy of Nedbank Group's capital levels, capital buffers and target ratios. The framework has been in place since 2006 and is an integral part of the group's ICAAP.

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

The process includes benchmarking to the international stress testing exercises that have been conducted post the global financial crisis as part of its stress and scenario testing framework. In the European Banking Association stress testing exercise Nedbank compared favourably by being in the top 10% of the European banks that participated. The results of the Irish Central Bank and the recent US Federal Reserve stress testing exercise also show that Nedbank's stressed capital ratios are far above regulatory minima. These stress testing scenarios, together with Nedbank's comprehensive internal stress testing scenarios, support and confirm Nedbank's strong capital adequacy.

This has been further supported by the SARB's recent onsite review of Nedbank Group's ICAAP in Q4 2011, which was concluded favourably with no issues raised.

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 Group explicitly addresses the issue of procyclicality by an effective capital management process, of which an integral part is the holistic stress testing of required and available capital under various macroeconomic stress scenarios.

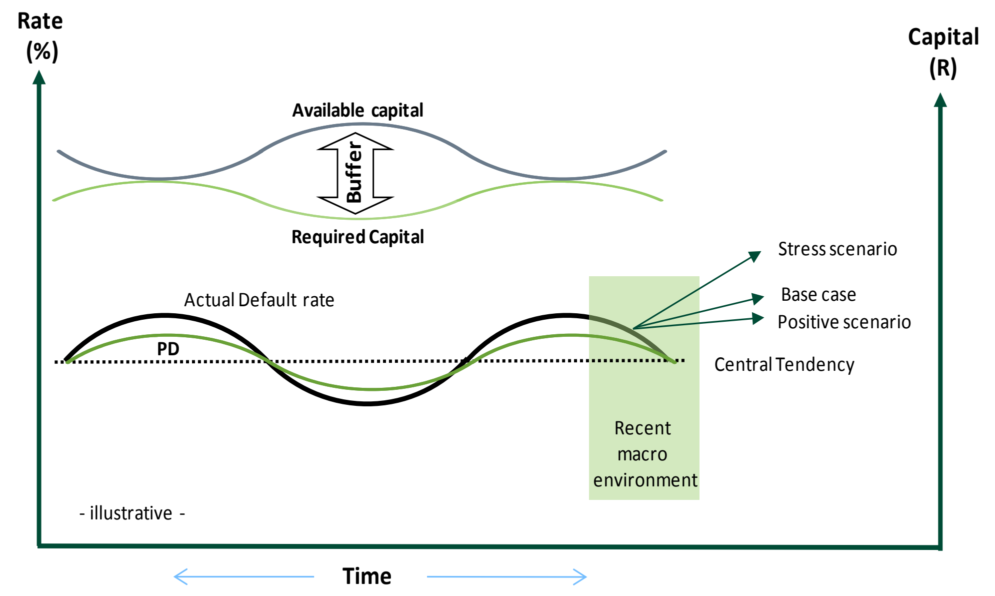
The following points explain procyclicality and how it is addressed in Nedbank Group:

- Dynamic enterprisewide 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 Group 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 (PIT) default rates.
- These credit rating models that are calibrated to long-term average default rates are thus much less procyclical than PIT rating models that are used for IFRS accounting purposes.
- Due to the fact that PDs are hybrids between cycle-neutral and PIT default rates, both Basel II RWA as well as credit ECap figures are pro-cyclical. This is considered in Pillar 1 stress testing as well as the group wide macroeconomic factor model (MEFM) stress testing. The MEFM explicitly models increases in PDs over time for different macroeconomic stress scenarios (mild, severe, etc.), differentiated by credit sub-portfolio.
- Nedbank Group applies a downturn adjustment to all its LGDs used for RegCap requirements. TTC LGDs, which are utilised for ECap requirements, are stressed for worsening economic conditions but not adjusted for improved conditions. The MEFM explicitly models increases in TTC LGDs over time for different macroeconomic 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:

PROCYCLICAL 'HYBRID' PDS IN THE ECONOMIC CYCLE AND IMPACT ON CAPITAL ADEQUACY



The stress testing of impacts of procyclicality are performed both for RegCap purposes and for ECap purposes in setting and assessing the adequacy of the ECap 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 (UL) and so the impact on capital levels.

Nedbank Group's strategy and approach to macroeconomic stress and scenario testing

Stress and scenario testing capabilities were significantly enhanced as far back as 2006 with the group's building of a proprietary Macroeconomic Factor Model (MEFM) and completion of a comprehensive Stress and Scenario testing Framework.

The Stress and Scenario testing Framework and process were further enhanced during 2009 and 2010 to assist in proactively derisking the bank in appropriate segments in view of the global financial crisis. The main objective of the group's stress testing is to assess the effect of possible unexpected events on Nedbank Group's base case projections, including the capital requirements, resources and adequacy of capital buffers for both RegCap and the Internal Capital Adequacy Assessment Process (ICAAP). In addition, stress testing is an important tool for analysing Nedbank Group's risk profile and setting risk appetite.

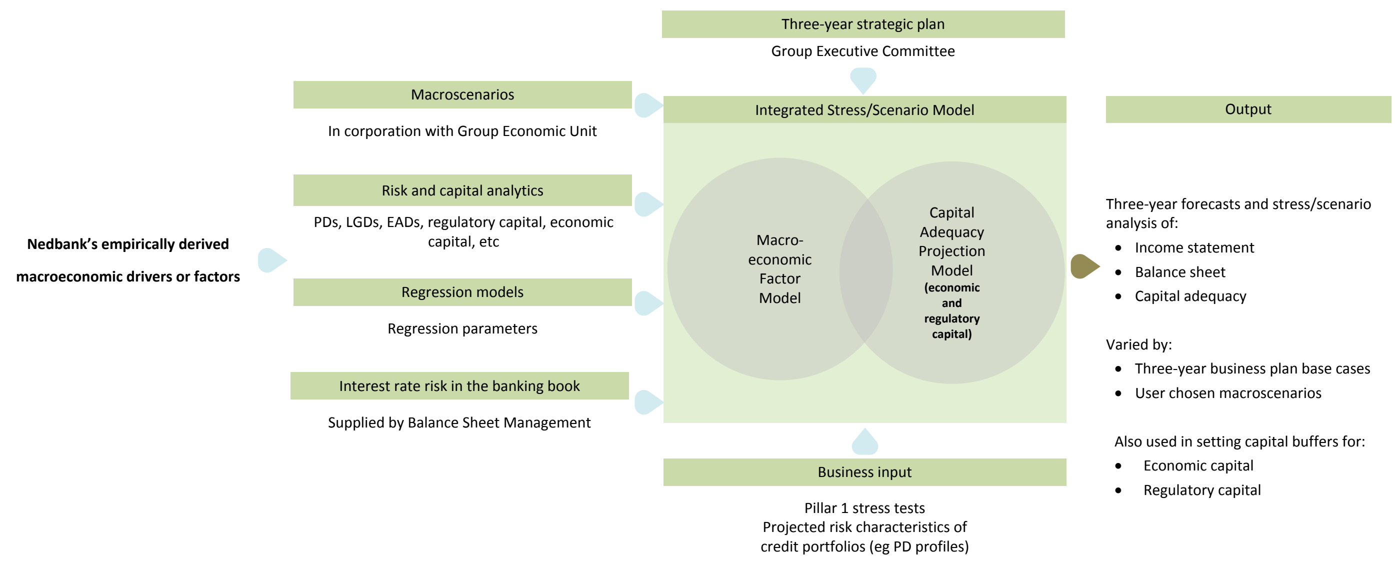
Nedbank Group's strategy and approach to cover stress and scenario testing, both for regulatory and ECap purposes, comprehensively considers Nedbank Group's:

- Risk profile (through stress testing of required capital considering all risk types).
- Capital profile (through stress testing of AFR).
- Return metrics (utilising the two points above).
- Risk appetite (through stress testing of earnings-at-risk and credit risk appetite metrics at the group, cluster, business unit and retail monoline level).
- Liquidity profile (showing the link between stress scenario results to possible liquidity stress events).

- Incorporating the following anticipated impact of Basel III in the stress testing results for 2012 and 2013:
  - Increases in credit and trading risk weighted assets from January 2012 onwards.
  - Additional deductions against qualifying capital from January 2013 onwards, namely deferred tax assets, defined benefit pension fund assets and liabilities and minority interests. Also the inclusion of a 250% risk weighted insurance RWA due to the first time inclusion of the group's investment in insurance entities in its qualifying capital from January 2013 onwards.
- The cost of anticipated Basel III liquidity requirements, ie compliance with the liquidity cover ratio (LCR) and net stable funding ratio (NSFR), were not yet taken into account.

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

OVER VIEW OF NEDBANK'S STRESS AND SCENARIO TESTING FRAMEWORK



STRESS TESTING GOVERNANCE PROCESS (refer to the table on the following page for details)

The framework and process are adhered to in order to stress the base case projections, and so assess and ultimately conclude on the adequacy of Nedbank Group's capital buffers and target 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 ECap risk parameters and capital requirements, which are compared with projected AFR and the board-approved risk appetite metrics. The three-year projections and base case capital planning are derived from the group's three-year business plans, which are updated quarterly during the year. The group wide macroeconomic factor model (MEFM) is utilised to stress test Basel II RegCap, ECap, expected loss (EL) as well as AFR of the expected (base case) three-year projections for Nedbank Group and Nedbank Limited for different macroeconomic stress events.

Regression-based models are maintained for credit and business risks as these risk types are the most important (as measured by materiality), and credit risk in particular has proven links to the macroeconomic cycle. Structural models are maintained for IRRBB and investment and property risks, as these risks are structurally dependent on and driven by specific macro factors. Linked models are maintained for operational and transfer risks, consistent with the Capital Adequacy Projection Model (CAPM). The chosen macroeconomic factors have undergone extensive data and validation processes, and proved to be the key drivers and best predictors contributing to losses due to the different risk types.

Diversification between risk types is included within the model in exactly the same way as for ECap. Diversification benefits between risk types are determined by utilising Nedbank-specific correlations and the MEFM.

NEDBANK GROUP'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, severe stress conditions and positive stress conditions are determined by the Group Economic 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[1] GCC DCCs
Translation of scenarios	**Macroeconomic forecasting** Forecast macroeconomic variables (eg real GDP[2] growth, household debt-to-income ratio, etc) for each scenario (mild, severe, etc). **Impact on key risk drivers** Holistic ,Macroeconomic Factor Model calculates for key risk drivers (PD, LGD, decline in income growth, etc) for each scenario.	Group Economic Unit Balance Sheet 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, credit impairments, etc. **Capital requirements** In stressed situations based on Macroeconomic 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

[1] *Group Risk and Capital Management Committee (board committee)*

[2] *Gross domestic product*

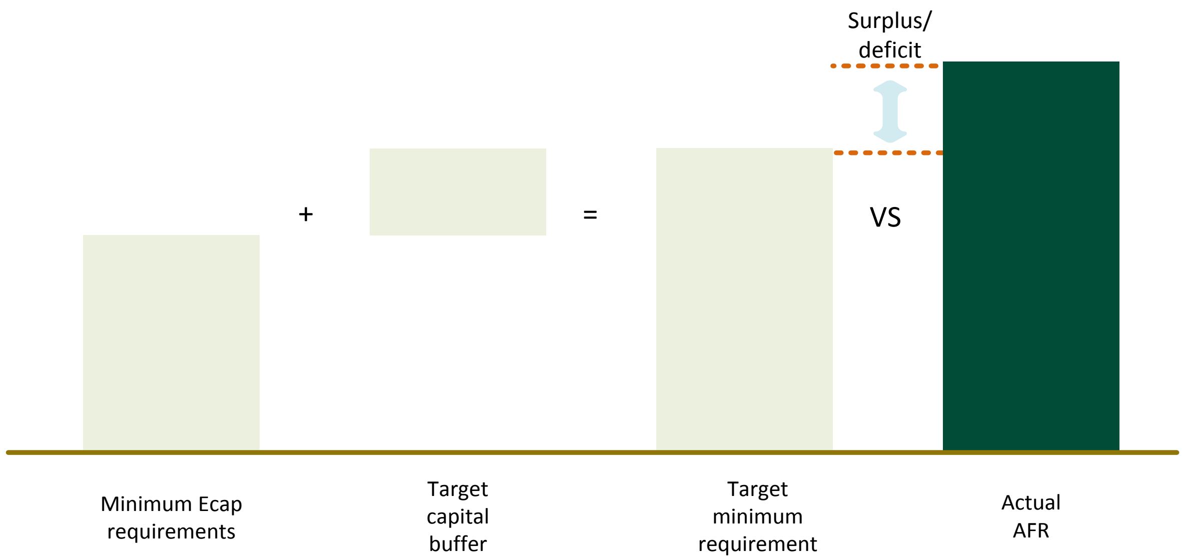
The key factors influencing ECap buffer size may include:

- Proyclicality (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 Group's ECap buffer level is set, tested and validated using its MEFM and comprehensive Stress and Scenario Testing Framework.

Using the MEFM, an ECap buffer of 10% above the minimum ECap requirements has been set and approved. The target minimum AFR to cover the ECap requirements will therefore be at least the minimum ECap requirement plus 10%. This is continuously monitored against the actual AFR to assess the surplus/deficit as illustrated below.

AFR TO ASSESS THE SURPLUS/DEFICIT



Nedbank Group's approach to comprehensively cover stress and scenario testing, both for regulatory and ECap (ICAAP) purposes, comprises **six main levels**, namely:

- **Macroeconomic stress testing**, ie quarterly business-as-usual scenarios provided by the Group Economic Unit and reviewed by the committees as mentioned above, covering:
  - Mild Stress (at least a 1 in 4 chance event scenario).
  - High Stress (at least a 1 in 10 chance event scenario).
  - Severe Inflationary Stress (at least a 1 in 25 chance event scenario).
  - Severe Deflationary Stress (at least a 1 in 25 chance event scenario).
  - Positive Stress (1 in 4 year positive scenario better than the base case).
- **Additional stress scenarios**

  The following are the additional stress scenarios that are to be considered (ie in addition to the quarterly business-as-usual scenarios above):

  - Liquidity crisis.
  - W-shaped global recovery (covered by above severe deflation stress event).
  - Turn in tightening monetary cycle (covered by above severe deflation stress event).
  - Political event (covered by above severe inflation stress event).

- Property price crash (covered by above severe inflation stress event).
- Hyperinflation scenario (increase in inflation, no real growth, increase in property prices, etc).
- Stress testing of share covered deals, including black economic empowerment (BEE) exposures.
- Financial markets shutdown, incorporating a derivatives-market meltdown.
- Credit risk:
  - Home Loans stress scenario.
  - Personal Loans stress testing.
  - Property Finance stress testing.
- Major operational risk event.
- Benchmarking to the Central Bank of Ireland stress testing exercise.

- **Reverse stress testing** (ie 'What would break the bank?')
- **Procyclicality tests**
- **Other cluster/business unit stress testing**
- **Benchmarking to international stress testing exercises**
  - The stress and scenario testing process includes benchmarking to the international stress testing exercises that have been conducted post the global financial crisis. Nedbank compares favourably by being in the top 10% of the European banks that participated. The results of the Irish Central Bank and the recent US Federal Reserve stress testing exercise also show that Nedbank's stressed capital ratios would remain above regulatory minima. These stress testing scenarios, together with Nedbank's comprehensive internal stress testing scenarios, support and confirm Nedbank's strong capital adequacy.

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

Pillar 1 stress testing is performed by each business unit which is approved by the business cluster's Divisional Credit Committee. Stressed AIRB credit parameters results, provided by the group-wide (Pillar 2) macroeconomic factor model, are approved by the business units and reported to the board's Group Credit Committee on a quarterly basis. The overall Pillar 2 stress test results and effects on RegCap, ECap, available capital resources and therefore capital adequacy ratios are reported to the Group ALCO and the board's 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 for example include limiting credit exposure growth to what was originally planned by the business units, tightening credit limits, limiting RWA growth in the credit portfolio, especially to high-risk clients, thereby 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 the South African Reserve Bank. 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 proactive response to the global financial crisis and significant strengthening of capital ratios over the past two years, Nedbank Group is strongly capitalised relative to its business activities, strategy, risk appetite, risk profile and the external environment in which the group operates.

RISK AND ICAAP GOVERNANCE

The business of banking is fundamentally about managing risk. Nedbank Group actively strives to attain world-class risk and balance sheet management as integrated core competencies critical to the success and sustainability of its business.

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

The strong focus on risk governance is based on the concept of three lines of defence, which is the backbone of the group's Enterprisewide Risk Management Framework (ERMF). The ERMF places a strong emphasis on accountability, responsibility, independence, reporting, communication, and transparency, both internally and with regard to key external stakeholders.

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

NEDBANK'S THREE-LINES OF DEFENCE

1ST Line Of Defence

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

Strategy, Performance and Risk Management

- Nedbank Group Board of Directors
- Board Committees
- Chief Executive (CE)
- Group Executive Committee
- Executive Committees
- Chief Operating Officer
  - Group Finance
  - Balance Sheet Management
  - Group Human Resources
  - Group Technology
  - Group Marketing, Communications and Corporate Affairs
  - Group Strategic Planning

Nedbank Corporate	Nedbank Capital	Nedbank Wealth	Chief Operating Officer	Retail and Business Banking: Nedbank Retail	Retail and Business Banking: Business Banking
Cluster Risk Officer	Cluster Risk Officer	Cluster Risk Officer	Cluster Risk Officers	Cluster Risk Officer	Cluster Risk Officer
BU Risk Officers	Risk Officers	BU Risk Officer	BU Risk Officers	BU Risk Officers	BU Risk Officers
Head Governance amd Compliance	Head Governance and Compliance	Head Governance and Compliance	Heads Governance and Compliance	Head Governance and Compliance	Head Governance and Compliance
BU Compliance Officers	BU Compliance Officers	BU Compliance Officer	BU Compliance Officers	BU Compliance Officers	BU Compliance Officers

* CLUSTER GOVERNANCE and COMPLIANCE (Reg 49 Banks Act 94 of 1990) - Line management within the clusters are accountable and responsible for implementation of governance and compliance requirements. The cluster governance and compliance functions shall support line management and be responsible for continuously monitoring compliance by establishing a line of communication with management, requiring line management to monitor compliance as part of their normal operational duties, requiring regulatory requirements to be incorporated into operational procedure manuals and making recommendations in order to ensure that there is compliance.

2nd Line of Defence

Independent risk oversight and monitoring by the Group Risk and Enterprise Governance and Compliance Divisions

Policy, Validation and Oversight

- Group Chief Risk Officer (CRO)
- Group Risk Monitoring Division

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

- strategic risk management leadership
- group independent risk oversight
- key support to various risk committees
- interacts closely with the business units
- is responsible for championing effective enterprise-wide risk management and control
- Independent model validation

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

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

3rd Line of Defence

Independent assurance provided by Internal and External Audit

Independent Assurance

- Group Internal Audit
- External Auditors
- Independent Actuaries

AT THE HEART OF THE GROUP'S BUSINESS AND MANAGEMENT PROCESSES ARE INTEGRATED WORLDCLASS RISK, ASSET AND LIABILITY MANAGEMENT, CAPITAL AND GOVERNANCE FRAMEWORK

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

- **Internal Capital Adequacy Assessment Process (ICAAP)**
- **Internal Liquidity Adequacy Assessment Process (ILAAP)**

The 17 key risks that comprise Nedbank Group's risk universe and their materiality are reassessed, reviewed and challenged on a regular basis. The ERMF specifically allocates the 17 key risks (which individually also include various subrisks) at each of three levels 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 in 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 the group's three lines of defence governance model set out on the previous page, so that the assessment, review and challenge are not only the responsibility of management and the board, but also of Group Risk, Group Compliance, Group Internal Audit (GIA) and the external auditors in the second and third lines of defence.

Within this recurring enterprisewide risk management 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.

A residual heat map is used and supports the iterative reassessment of the 17 key risks. Escalation criteria have been formalised and 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.

The process of corporate governance, including the risk management process, as contemplated in regulation 39 of the Banks Act, is assessed annually against the existing internal control environment. Similarly, an assessment of whether the bank can continue as a going concern, as required in terms of regulation 40, is carried out with due regard to governance, risk management and long-term planning of the banking group.

The ERMF, fully embedded across Nedbank Group, is supplemented by individual 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 10 subcommittees and a BEE forum.

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 auditors.

A formal process is in place to review, at least annually, the full set of risk policies, limits and various frameworks that 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 following page.

Further details on the group's governance and various key committees are contained in the Nedbank Group Integrated Report 2011 under the section Enterprise Governance and Compliance.

OVERVIEW OF NEDBANK GROUP'S ENTERPISE-WIDE RISK MANAGEMENT FRAMEWORK (ERMF)

Risk Universe

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

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 ar management system and the setting of risk appetite.
- The board is assisted by nine board committees.
- The Group Exco is also assisted by eleven subcommittees and the BEE Forum.
- 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 Committees

Board of Directors

- Group Audit Committee
- Group Finance and Oversight Committee
- Group Risk and Capital Management Committee
- Group Information Technology Committee
- Group Credit Committee
- Large Exposure Approval Committee
- Directors' Affairs Committee
- Transformation & Sustainability Committee
- Group Remuneration Committee

Group Exco Committees

Group Executive Committee (Group Exco)

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

Business Clusters' Risk Governance

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

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

Support Areas

CHIEF OPERATING OFFICER- Graham Dempster: GROUP HUMAN RESOURCES, GROUP TECHNOLOGY, GROUP STRATEGIC PLANNING, GROUP MARKETING, COMMUNICATIONS AND CORPORATE AFFAIRS, GROUP FINANCE DIVISION AND BALANCE SHEET MANAGEMENT DIVISION

Central Financial Risk and Balance Sheet Management

Group Finance Division

Chief Financial Officer – Raisibe Morathi

- GROUP TAX – Rian Cloete
- GROUP FINANCIAL CONTROL – Darryl McMullen
- GROUP SHARED SERVICES CENTRE – Ian Fuller
- GROUP FINANCE STRATEGY AND PROJECTS – Veona Watson
- HUMAN RESOURCES – Meshack Qacha
- INVESTOR RELATIONS – Alfred Visagie
- RISK, COMPLIANCE & SARB RELATIONS – Lionel Diakanyo
- PLANNING, MEASUREMENT AND CONTROL – Luigi Bianco

Balance Sheet Management

Group Managing Executive: BSM Trevor Adams

- GROUP CREDIT PORTFOLIO MANAGEMENT – Tony Johnson
- GROUP VALUE BASED MANAGEMENT – Dhiren Haripersad
- GROUP ASSET, LIABILITY & CAPITAL MANAGEMENT – Mike Davis
- STRATEGIC PROJECTS, REPORTING & EXECUTION – Alan Faber

2nd Line of Defence

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

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

Independent Group Risk and Compliance

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 – Thabani Jali

3rd Line of Defence

Independent Assurance

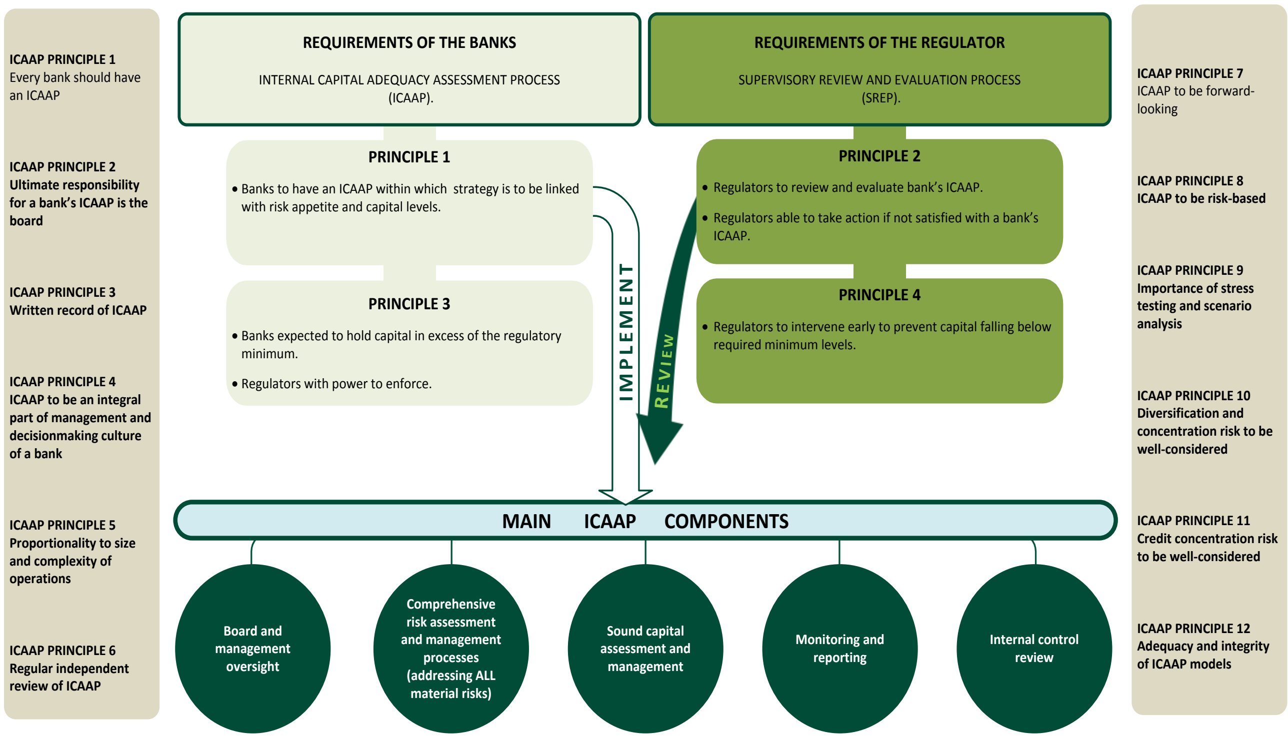
Internal and External Audit

- GROUP INTERNAL AUDIT
  - CHIEF INTERNAL AUDITOR – Glynis Hunziker
- EXTERNAL AUDIT
  - DELOITTE
  - KPMG
- INDEPENDENT ACTUARIES

OVERVIEW OF THE 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 South African Reserve Bank (SARB). A summary of this is depicted below. In addition, SARB provided further guidance in the form of Position Paper 230 ('Implementation of the Basel II framework Pillar 2 requirements, with specific reference to the Internal Capital Adequacy Assessment Process'), and specifies 12 'ICAAP principles'.

SUMMARY OF THE ICAAP AND SREP REQUIREMENTS



ICAAP is primarily concerned with Nedbank Group's comprehensive approach, assessment, coverage 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.

ICAAP has been completed in South Africa since 2008, following Basel II implementation. It is approved by the board and then submitted to SARB for review.

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 RegCap (risk-sensitive but with limitations/restrictions).
- ECap (risk-sensitive, more economic-based and tailored internally with less limitations/restrictions, and used for Nedbank Group'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 ECap requirements).
- Qualifying capital and reserves (to cover RegCap requirements).
- AFR (to cover ECap 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

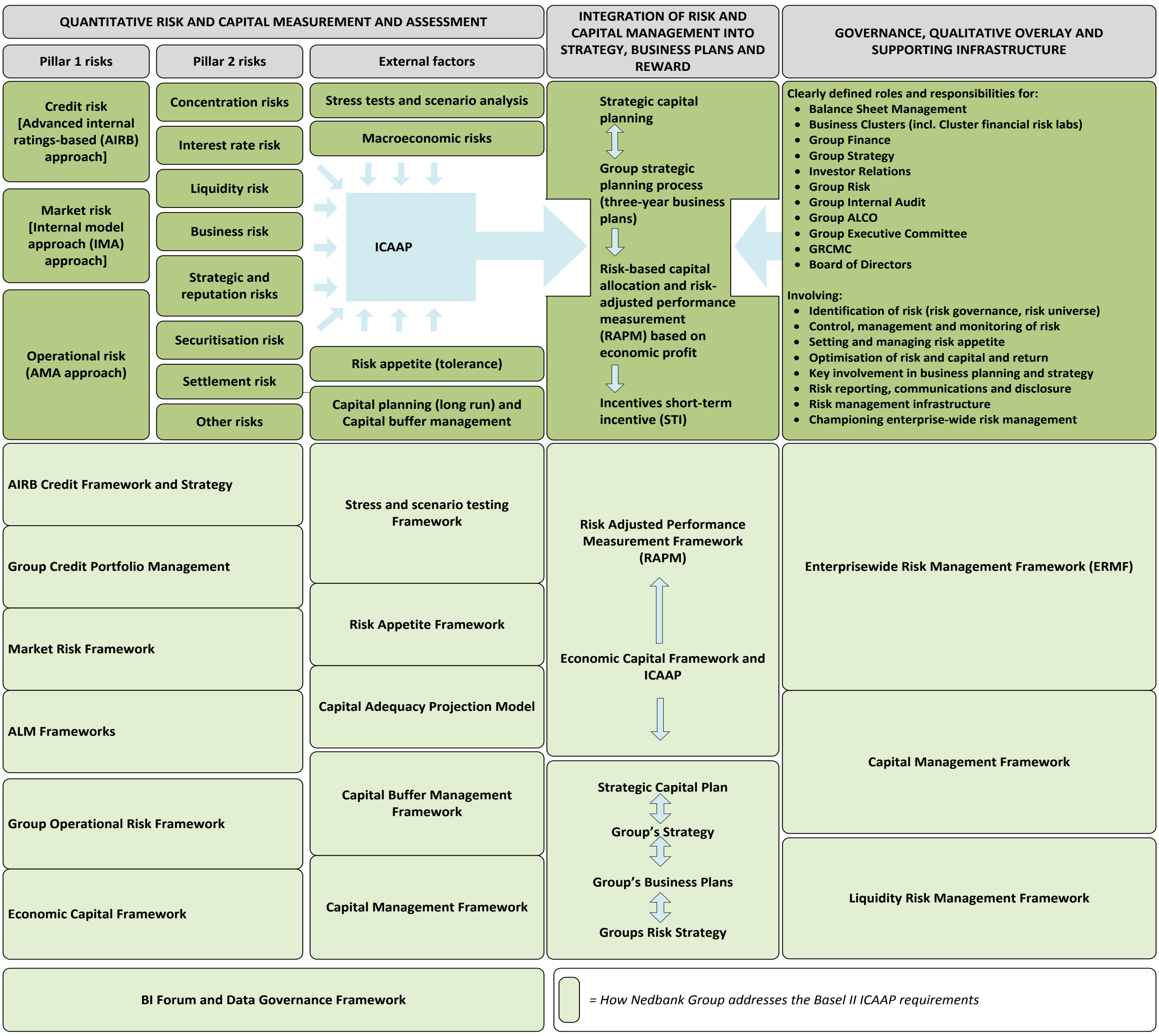
MEASURES OF GROUP'S RISKINESS (capital requirements)		ACTUAL BOOK CAPITAL (capital resources)
Basel II regulatory capital	**Economic capital**	**Available book capital** (statutory)
• Amount of capital required to protect the bank against **regulatory insolvency** over a one-year timeframe. • Determined 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 requirement, 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 a 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, 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 International Financial Reporting Standards rules. • The book capital will be the highest of the two other types of capital as it incorporates the need for a predetermined 'capital buffer'.
Minimum capital you are told to have by regulators	**Internal capital assessment**	**Capital you actually have** Qualifying capital (Regcap) | Available financial resources (Ecap)

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

Nedbank Group's ICAAP is embedded within the group's Capital Management Framework.

Nedbank Group's ICAAP blueprint on the next page sets out its ICAAP building blocks and overall process, and the various frameworks underpinning this. This process is repeated regularly, which facilitates the continuous assessment, management and monitoring of Nedbank Group's capital adequacy in relation to its risk profile.

NEDBANK GROUP'S INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS BLUEPRINT



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

Further details of the group's capital management is covered from page 43.

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 Group Asset and Liability Committee (ALCO) respectively.

Group ALCO, in turn, is assisted by the BSM Cluster (see following page) and the BSM Committee (subcommittee of Group ALCO).

SUMMARY OF NEDBANK GROUP'S INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS GOVERNANCE AND REPORTING PROCESS

BOARD OF DIRECTORS

Provides direction and approves overall strategy proposed by management.
Approves the group risk appetite based on a clear regard for the integration and an understanding of capital and risk.
Monitors management's performance against approved business plans/strategy and in line with the agreed risk appetite.

GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE
(Board committee)

Monitors, on behalf of the board, management of the group's 'capital risk' as defined in the ERMF (includes the defined functions of capital investment, capital structuring, capital allocation and capital optimisation).

GROUP REMUNERATION COMMITTEE
(Board committee)

Approves, on behalf of the board, the remuneration strategy for performance and aligns this with shareholder interests and optimises shareholder value creation.

GROUP EXCO
Chief Executive: Mike Brown

Sets, for approval by the board, the group's strategy and business plans on the basis of, inter alia, a comprehensive internal assessment of risk and capital (economic capital) and investment in quality growth through optimising economic capital allocation and capital utilisation by linking risk to capital requirements, aligning this with the group's risk appetite and integrating this with return and performance measurement (via risk-adjusted performance measurement).
Performance measurement is formalised in performance scorecards linked to incentives (remuneration).

ALCO AND EXECUTIVE RISK COMMITTEE
(Group EXCO committee)

Chairman: Graham Dempster (Chief Operating Officer)

Oversees and directs, on behalf of Group Exco, the capital management key functions of capital investment, capital structuring, capital allocation and capital optimisation (ie over and above asset and liability management strategy and market and liquidity risk management).

GROUP OPCOM
(Group EXCO committee)

Chairman: Mike Brown (Chief Executive)

Oversees, on behalf of Group EXCO, cluster/business unit and the group performance against the approved strategy/business plans.

TRANSFORMATION AND HUMAN RESOURCES (HR) EXECUTIVE COMMITTEE
(Group EXCO committee)

Chairman: Abe Thebyane (Group Executive: HR)

Recommends to Group Exco, and then Group Remuneration Committee for approval, the remunerations strategy and incentives linked to performance based on agreed performance scorecards directly linked to approved strategy / three year business plans.

BALANCE SHEET MANAGEMENT CLUSTER
Group Managing Executive: Trevor Adams

Finance Forum
Chair: Chief Financial Officer – Raisibe Morathi
or
Group Managing Executive – Trevor Adams (BSM)

BUSINESS CLUSTERS

Develops, and then executes the approved cluster strategy/business plans.

GROUP FINANCE DIVISION
Chief Financial Officer: Raisibe Morathi

INVESTOR RELATIONS
Head: Alfred Visagie

STRATEGIC PLANNING PROCESS
(Three-year plan)

Formal annual strategic planning process (three-year business plan), championed and coordinated by the Group Strategy Division and Group Finance, reporting direct into Group EXCO.

STRATEGIC PLANNING DIVISION
Head: John Bestbier

BUSINESS CLUSTERS
Cluster and business unit financial risk analytics, portfolio analysis, and model development and maintenance

CLUSTER CHIEF FINANCIAL OFFICERS AND CHIEF RISK OFFICERS
FINANCIAL RISK LABS

COMMUNICATIONS WITH KEY EXTERNAL STAKEHOLDERS (including Pillar 3 public disclosure)
Shareholders, analysts, regulators (South African Reserve Bank, Financial Services Authority, other), rating agencies, debtholders and clients

GROUP RISK

Chief Risk Officer:
Philip Wessels

GROUP OPERATIONAL RISK COMMITTEE
Chair: Philip Wessels

GROUP INTERNAL AUDIT AND EXTERNAL AUDIT

REGULATORS

BALANCE SHEET MANAGEMENT (BSM)

Established as a separate cluster in 2009, BSM helps to optimise the financial performance, strategy, risk appetite and sustainability of Nedbank Group through proactive management of all material components of the balance sheet and NIM.

The creation of the specialist BSM Cluster recognises the importance of managing risk on a portfolio basis and integrating the management of risk with liquidity and funding, capital management, managing for value and risk-based financial performance optimisation. BSM strives to attain the ideal balance sheet shape and mix via, inter alia, portfolio tilt, and optimisation of shareholder value-add, within an acceptable risk appetite and with a strong qualitative overlay of experience and common sense.

The BSM Cluster is the central consolidation point for strategic portfolio management and the optimisation of risk, capital and liquidity and funding across the group, also proactively positioning the group for Basel III.

BSM'S CORE FUNCTIONS AND RESPONSIBILITIES				
RISK MANAGEMENT	**FUNDING AND LIQUIDITY MANAGEMENT**	**CAPITAL MANAGEMENT**	**STRATEGIC PORTFOLIO MANAGEMENT**	**STRATEGIC PROJECTS, REPORTING AND EXECUTION**
• **Credit portfolio management** – AIRB Credit Strategy – Holistic credit risk measurement framework (IFRS and Basel II / III) – Loss forecasting (impairments) • **ALM risks** – Liquidity risk – Interest rate risk banking book – Foreign currency translation risk • **Concentration risk management** • **Risk** (RWA) **optimisation** • **Risk strategy** • **Risk appetite** • **Stress testing** • **Capital consumption** – Economic capital – Regulatory capital • **Basel III**	• Internal Liquidity Adequacy Assessment Process (**ILAAP**) • **Funding and liquidity management** – Strategy – Funding plan – Deposit growth and mix optimisation ('Good to Great in Deposits') – Cost of funding optimisation • **Liquidity risk allocation** (eg liquidity premiums and ALM charges) • **Debt raising** • **Basel III**	• Internal Capital Adequacy Assessment Process (**ICAAP**) • **Capital management** – Strategy – Capital plan – Capital optimisation – Regulatory capital – Economic capital – Stress and scenario testing • **Capital investment** • **Capital allocation** • **Capital raising** • **Basel III**	• **Portfolio Tilt** – SPM for Group Exco • **NIM optimisation** • **Funds Transfer Pricing** • **Active Credit Portfolio Management (ACPM)** • **Value-Based Management (VBM) - managing for value** – EP Optimisation et al – Risk Adjusted Performance Management (RAPM) – Risk-based pricing – EP pools analysis – Market share analysis – Peer group analysis – Scenario analysis • **Forecasting and planning** • **Economic outlook/forecast** • **Internal valuation model** • **Group ALCO coordination** • **Basel III**	• **Group regulatory reporting (Banks Act)** • **External reporting** – ICAAP and ILAAP – Pillar 3 – Analyst booklet – Integrated report • **Basel III programme** • **Solvency II/SAM** • **End-to-end, integrated and automated BSM solution** – QRM programme • **Group and BSM Data and Business Intelligence** **SHARED SERVICES** • **ALM finance and accounting** • BSM data, BI and IT • HR • Governance and compliance
MARGIN (NII AND NIM) MANAGEMENT				

Portfolio Tilt

Portfolio tilt and maximising economic profit (EP) form part of the four key strategic focus areas of Nedbank Group, a carefully structured, integral and holistic component of the group's 'manage for value' emphasis, involving strategic portfolio management and client value management. In the group's three-year business plan granular targets have been formalised across the balance sheet and income statement, and cascaded down to each business unit.

The targets are for the medium to long term and have to be achieved over the next three to five years, depending on macro-economic factors. They are intended to be somewhat aspirational and directional, aligned with the agreed portfolio tilts. Clearly to the extent that the market is not growing and/or is behaving irrationally, this will impact the timing by when the targeted tilts, and optional balance sheet shape and mix, are achieved.

- **Key objectives of Portfolio Tilt**
  - Target an optimal balance sheet and income statement shape and mix.
  - Maximise EP and return on equity (ROE) via optimising EP rich activities.
  - Optimise the strategic impact of Basel III.
  - Further strengthen the group's balance sheet and long-term sustainability.
  - Reduce TTC earnings volatility.
  - Optimise the risk profile versus return of the group, aligned with the approved risk appetite.
  - Embed a culture of client value management in all businesses (and exploit the value skews within portfolios, pursuing selective origination where appropriate).
  - Optimise to invest [capital, liquidity, information technology (IT) innovation spend and expenses reallocated to strategic priorities].

- **Key considerations when setting Portfolio Tilt**
  - Delta EP growth, being the primary driver of shareholder value-add.
  - Growth of market share by economic value or EP more important than volume or asset size.
  - Strategic impact of Basel III on the various businesses, portfolios, products and transactions across the group.
  - Emphasising capital and liquidity 'light' areas, and being judicious in the allocation of capital and funding.
  - Differentiated, selective growth strategies within portfolios and products eg, home loans.
  - Differentiation between frontbook versus backbook economics within portfolios.
  - Client and transactional emphasis over a product-based approach.
  - Cross-sell opportunity between businesses and products.
  - Risk appetite, including concentration risk.
  - Overlay of current and forecasted economic cycles.
  - Non-financial strategic considerations eg 'green advances' and sustainability.
  - Investing for the future to grow the franchise.

- **Underlying basis of targeted tilts**
  - **Deposits**
    - Focus on transactional (primary clients) deposits, linking with NIR growth strategy.
    - Enhance the deposits mix and reduce wholesale funding reliance.
    - Increase corporate and business bank deposits to relative market share.
    - Retain strong retail household deposit market share position.
  - **Loans and advances**
    - Differentiated origination by growing higher/in line/below (ie selectively) versus market, by credit portfolio.
    - Revised if risk versus return profile changes, and with consideration of the forecast economic cycle.
  - **Non-banking**
    - Targeting high growth in Nedbank Wealth, especially insurance and asset management.

- **NIR to NII mix**
  - Significant NIR growth in all businesses.
  - Positive shift overall in the group's NII/NIR mix and NIR/expenses ratio.
  - 'Manage for value', properly pricing for risk (eg credit and liquidity), funds transfer pricing and risk-based ECap allocation to optimise NII.
- **Capital and liquidity allocation**
  - Proactive preparation for and strategic optimisation of Basel III.
  - Risk versus return enhancement – generally a shift to higher EP generating businesses.
  - Nedbank Retail from negative to positive EP, on a sustainable basis.
  - Shift towards lower capital/liquidity-demanding businesses, eg Nedbank Wealth and Nedbank Capital.
  - Reduce earnings volatility risk, balance sheet duration and areas of undue concentration risk.
  - Grow Core Tier 1 capital ratio, reduce Tier 2 capital ratio.
  - Lengthen funding profile.
- **Prioritisation and efficiency**
  - IT simplification, rationalisation and innovation spend prioritisation.
  - Cost optimisation for reinvestment in strategic priorities.

Several portfolio tilt successes to date

- Achieving portfolio tilt in the current economic environment is challenging and likely to take three to five years to attain the desired balance sheet mix, while awaiting Basel III finalisation.
- However, several successes have been achieved to date, since the group's focus on portfolio tilt began two years ago:

	CAGR[1] %	2011 Rm	2010 Rm	2009 Rm
Examples of high growth areas				
– **Non-interest revenue (NIR)**	**13,8**	**15 412**	13 215	11 906
– **Wealth**				
▪ Value of new business (insurance)	**47,9**	**409**	295	187
▪ Embedded value[2] (insurance)	**38,4**	**1522**	1 031	795
▪ Assets under management (asset management)	**13,4**	**112 231**	102 570	87 204
– **Assets**				
▪ Leases and instalment debtors[3,4]	**5,3**	**71 168**	67 881	64 128[4]
▪ Personal loans	**37,0**	**17 847**	13 001	9 508
▪ Card	**8,7**	**8 666**	7 910	7 334
▪ Surplus liquid assets		**23 736**	6 300	7 556
– **Deposits**				
▪ Retail Savings Bond		**3 945**		
– **Long-term funding ratio**		**25%**	24%	21%
– **Retail Cluster delta EP**	**>100**	**1 380**	634	(1 925)
– **Core Tier 1 capital ratio**		**11,0**	10,1	9,9
Examples of selective origination				
– **Advances**				
▪ Home loans (in Retail	**(1,1)**	**91 018**	92 009	93 052
o Pre - 2009	**(13,2)**	**64 606**	73 947	85 662
o 2009 – 2011	**89,1**	**26 412**	18 062	7 390
▪ Commercial mortgages[5]	**5,3**	**89 488**	86 100	80 672

[1] Capital adequacy growth rate
[2] After dividends paid out.
[3] 31% market share.
[4] Assets of Imperial Bank fully consolidated historically, but 100% of the earnings since 2010 upon acquisition of remaining 50% of the business.
[5] 37% market share.

- Additionally, the portfolio tilt success to date has further strengthened Nedbank Group's balance sheet, risk profile, preparation for Basel III and long-term sustainability.

ECONOMIC CAPITAL

Economic capital (ECap) 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 Group assesses the internal requirements for capital using its proprietary ECap methodology, which models and assigns ECap within 12 quantifiable risk categories (in the graphic below, securitisation risk is included in credit risk and property and investment risk have been treated as one).

The total average ECap required by the group, as determined by the quantitative risk models and after incorporating the groups 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 ECAP MODEL AND TARGET CAPITAL ADEQUACY (ICAAP)

CREDIT RISKS

Basel II AIRB credit methodology integrated with sophisticated credit portfolio modelling
(incorporating credit concentration risk and intrarisk 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 (ie sovereign default).

+

MARKET RISKS

Trading (position) risk	IRRBB risk	Equity (investment) and property risks	FX translation risks
Value at risk (VaR) scaled to one year using VaR limits (board approved).	Simulation modelling of net interest income; economic value of equity also used.	300% and 400% risk weightings in line with Basel II equity risk. Probability of default (PD)/ loss given default (LGD) approach for Property Finance.	Multiple of exposure, based on rand volatility measures.

+

OPERATIONAL RISK

Advanced Measurement Approach used.

+

BUSINESS RISK

Earnings-at-risk methodology used

+

INSURANCE UNDERWRITING RISK

Earnings-at-risk methodology used

+

OTHER ASSETS
(100% risk weighting)

=

MINIMUM ECONOMIC CAPITAL REQUIREMENT
(after interrisk diversification benefits)

+

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

=

TOTAL ECONOMIC CAPITAL REQUIREMENT

MEASUREMENT PERIOD / TIME HORIZON: one year (same as Basel II)
CONFIDENCE INTERVAL (SOLVENCY STANDARD): 99,93% (A) (ie more conservative than Basel II at 99,90%)

versus

AVAILABLE FINANCIAL RESOURCES (AFR)

Comprises
Tier A = core Tier 1 regulatory capital and qualifying reserves
Tier B = perpetual preference shares and hybrid debt capital

The economic capital results are shown from page 59.

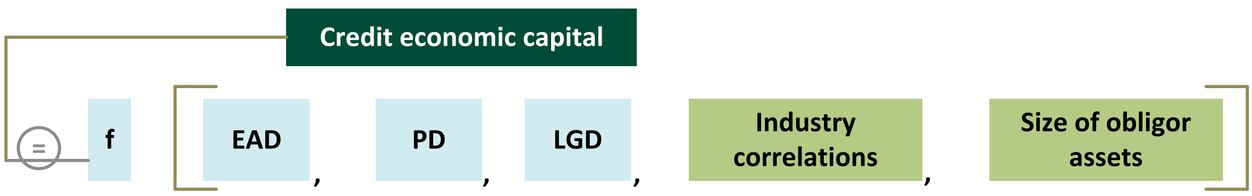
Credit risk capital

The Advanced Internal Ratings-based (AIRB) Approach is used for Nedbank Limited and The Standardised Approach (TSA) for all other subsidiaries for regulatory capital (RegCap) purposes, as discussed earlier. For the purpose of estimating internal economic capital, conservative AIRB credit benchmarks are applied for all the subsidiaries that are utilising TSA.

The group's credit risk ECap (or credit value at risk) is more sophisticated than AIRB and is calculated using credit portfolio modelling based on the volatility of expected loss (EL). These estimated unexpected losses (UL) are measured from the key AIRB credit risk parameters [probability of default (PD), exposure at default (EAD), loss given default (LGD) and maturity] as well as taking portfolio concentrations and intra-risk diversification into account.

It is important to recognise that the group's ECap goes further than Basel II in explicitly recognising credit concentration risks (eg single large name, industry sector).

CREDIT RISK CAPITAL



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

Counterparty credit risk capital

Nedbank Group applies the Basel II Current Exposure Method (CEM) for counterparty credit risk (CCR) for both RegCap and ECap (ICAAP).

In terms of active management of CCR 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 PD.

ECap calculations currently utilise the Basel II CEM results as input in the determination of credit ECap.

Having received IMA approval as of January 2011, Nedbank will consider, as part of its Basel III programme, the IMM approach as an alternative to the current CEM approach for the calculation of CCR.

Securitisation risk capital

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

Nedbank Group has used securitisation primarily as a funding diversification tool. The credit exposures that Nedbank Group measures in terms of securitisation use a combination of the ratings based approach and standard formula approach (both AIRB approaches) for regulatory capital purposes. From an ECap (ICAAP) point of view, IRB credit risk parameters are used. As is evident from the low level of exposure, the risk of underestimation of the Pillar 1 securitisation risk charge is considered immaterial.

Transfer risk capital

Transfer risk is not separately identified by Basel II for Pillar 1 RegCap. It is potentially a significant risk type and so is included in Nedbank Group's ECap Model. However, given that very little credit risk currently originates from outside South Africa, transfer risk ECap 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 it is dependent on the following:

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

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

The Group Economic Unit also monitors sovereign risk using a number of sources, including country risk information service providers, specifically IHS Global Insight and The Economist Intelligence Unit Limited, external rating agencies, news wires; broker reports, and market data, such as sovereign CDS spreads and bond yields.

Market trading (or position) risk capital

For trading risk, value at risk (VaR) is used for ECap (ICAAP). The VaR limit is the starting point for calculating ECap. The regulatory 99% confidence interval, three-day VaR limit is transformed to a 99,93% confidence interval, one-year ECap number adjusted for liquidity constraints and incorporating the management intervention framework.

The Internal Model Approach (IMA), implemented on 1 January 2011, is now used for RegCap measurement. In addition to VaR, stress testing is applied on a daily basis to identify exposure to extreme market moves.

The ECap and RegCap requirements for trading market risk are not materially different. However, extra conservatism is introduced in the ICAAP by using the total approved VaR limit rather than the actual VaR limit utilisation.

For the RegCap charge Nedbank Limited obtained approval to use the IMA which is based on the VaR utilisation multiplied by a factor. The factor is determined by the SARB and is based on their review of the market risk environment. The RegCap charge based on the IMA does allow for diversification between different market risk types while no diversification benefit is applied for ECap requirements.

As part of Basel II.5 revisions, which has been updated in the Banks Act regulations implemented in South Africa on 1 January 2012, the RWA for market risk will require an add-on for stressed VaR as opposed to being based purely on normal VaR as required by Basel II. This will result in an approximate doubling of the RWA required for market risk, but will have a small impact on capital adequacy ratios due to Nedbank Group's risk profile having a very low market trading risk component.

Interest rate risk in banking book (IRRBB) capital

IRRBB is not separately identified by Basel II for Pillar 1 RegCap.

IRRBB is the risk a bank faces due to interest rate repricing mismatches (ie fixed-rate versus floating-rate assets/liabilities) and maturity mismatches 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.

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

Liquidity risk capital

From a pure solvency perspective at a 99,93% confidence level, it is totally impractical to hold capital against liquidity risk as it is a consequential risk. Liquidity risk is best managed by a rigorous control and governance framework, and a best practice Asset and Liability Committee (ALCO) process.

A sophisticated and well-resourced asset and liability management (ALM) function, within Balance Sheet Management (BSM), and Group ALCO process have been implemented in Nedbank Group to manage and mitigate liquidity risk.

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

Property risk capital

Property risk is included under 'Other Assets' for RegCap 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 Group this includes the capital to be held against property in possessions as well as its fixed property.

Nedbank Group's ECap calculations for property risk are far more conservative than the 100% risk weight for RegCap, 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 ECap in Nedbank Group for equity (investment) risk is similar to property risk above.

However, the two risks have been separated as both are material to the group and therefore deserve separate focus and quantification.

The calculations of ECap for equity (investment) risk are based on the same principles as for Basel II, namely the Simple Risk Weight Approach is used for the bulk of the portfolio, the exception being in the Property Finance Division, where a PD/LGD Approach has been adopted, subject to a 300% risk weight floor.

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 ECap figures. In line with moving to a bottom up approach, the Property Finance book investment risk ECap 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 its risk is in a strengthening of the rand. The current methodology at Nedbank Group uses a simple VaR methodology scaled to a one-year, 99,93% confidence interval to calculate standalone ECap for FCTR, based on exchange rate volatility. FCTR is not required for Basel II Pillar 1 RegCap.

Capital is currently held against FCTR as the SARB does not currently allow FCT reserves to qualify for RegCap. As a result, adverse translation effects on the capital held in foreign investments negatively impacts the group's qualifying capital and reserves.

However, in accordance with the SARB circular 2/2012, FCT reserves, together with share based payments reserves and available for sale reserves, will qualify as RegCap under Basel III from 1 January 2013, at which time BSM will reconsider the necessity to hold capital for exchange rate movements on group investments in foreign companies that have issued foreign capital.

Business risk capital

Business risk is not specified for Basel II Pillar 1 RegCap. It is, however, measured in Nedbank Group's ECap 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, 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 Group's risk taxonomy, provides for a complete coverage of the quantifiable economic risks Nedbank Group faces.

Nedbank Group 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 Group data, which allows for analysis to understand more about earnings at risk across business units within the bank as more historical data is accumulated.

ECap for business risk increases with increasing volatility of income streams, but can be offset by variable cost structures that may exist within a business unit. In other words, a business unit would be penalised for high volatility in income, but would receive credit for the ability to reduce costs when faced with declining incomes.

Operational risk capital

Nedbank Group was granted approval in December 2010 from the SARB for the use of the Advanced Measurement Approach (AMA), and now calculates its operational risk RegCap requirements using partial and hybrid AMA. This is consistent with that used for ECap. Partial use is where a bank or controlling company or banking group is using AMA for some parts of its operations and the standardised approach for the remainder of its operations. Hybrid AMA is the attribution of group operational risk capital to legal entities by means of an allocation mechanism.

The AMA Operational Risk Management Framework was approved by the board's Group Risk and Capital Management Committee. The AMA methodologies contained therein have been rolled out and embedded in the businesses, including for the purposes of the ICAAP.

Nedbank use a more conservative confidence interval approach of 99,93% for economic capital when compared to the 99,90% confidence interval required for regulatory capital.

Insurance underwriting risk capital

Insurance underwriting risk can be defined as the risk that the underwriting process permits clients to enter risk pools with a higher level of risk than priced for, resulting in a loss to the business unit or group.

Actuarial and statistical methodologies are used to price insurance risk (eg morbidity, mortality, theft), while underwriters align clients with this pricing basis and respond to any anti-selection by placing clients in substandard risk pools, pricing this risk with an additional risk premium, excluding certain claim events or causes, or excluding clients from entering pools at all.

Nedbank Group's ECap methodology is based on modelling the bank's losses due to changes in claims as represented by a 'worse-case' stochastic liability shock, which is defined as a 7-in-10 000 event. The liability shock is quantified based on the volatility derived from the past five years of claims data, with sophisticated catastrophe modelling used in addition to this. The insurance ECap is defined as the losses that result from the liability shock.

Other assets risk capital

For ECap (ICAAP) purposes the same approach as for RegCap 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, and it is included in Nedbank Group's economic capital (ICAAP) measurement in the form of inter-risk diversification benefits. A McKinsey 2011 study of European banks highlighted that 80% of these banks include inter-risk diversification in their economic capital framework, supporting Nedbank's inclusion of inter-risk diversification in its ECap framework.

The group's inter-risk diversification benefit at Nedbank Group is allocated back (in the capital allocation) to the business units rather than being held at the centre.

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

Enhancements to the group's inter-risk diversification matrix are work in progress, namely the move from a basic variance-covariance methodology to an advanced approach, which is based on joint loss simulation using Copulas. These enhancements are scheduled for implementation 2012.

Qualitative risks that cannot be mitigated by capital

Nedbank Group's ECap Framework is in line with best international practice. Not all risks can be mitigated by holding capital against them, although Nedbank Group has mapped all 17 key risk categories in its ERMF to the group's ECap 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 Group's Enterprise Risk Management Framework (ERMF) discussed earlier.

Sensitivity analysis, conservatism, data and model risk

For Basel II and Nedbank Group's internal capital assessment (ie ECap) it is necessary to develop models and estimate parameters in order to measure the capital requirements. Consequently, there is potentially a degree of uncertainty 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 signoff process has been implemented. Also, it is important to highlight that, currently as a general rule, where Nedbank Group is not comfortable with the quality/availability of data that impacts risk and capital quantification, 'extra' conservatism is applied to more than compensate. This results, if anything, in overstated capital requirements.

The second source of 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 the group's robust governance, the fact that this matter is consistently challenged and debated, 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 in assessing adequate capital is the magnitude of future business cycles. This has implications as the severity of future recessions will influence the extent of the group's capital levels and buffers. It is believed that this risk is mitigated by the comprehensive Stress and Scenario Testing Framework and related processes covered in detail earlier 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 Group'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 Group has adopted a principle-based approach to the development of its AIRB Credit Model. The overriding principle is consistently to be on the right side of conservatism. This is enforced by the rigorous governance and approval process, culminating in the Group Credit Committee (GCC), as explained from page 66.

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

Nedbank Group's comprehensive ERMF, quantitative resources (Cluster Risk Labs, Credit Models Validation Unit in Group Risk, BSM, Group Market Risk Monitoring, etc) and strong governance ensure models, their use and outputs are continuously challenged and debated at various levels, including senior management and Internal Audit (eg at ALCO, GCC 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 therefore capital requirements. However, Nedbank Group uses a wide range of models and parameters that have all been developed and are maintained on an individual standalone basis, by following a rigorous process that includes validation and reporting (ie scrutiny, challenge and debate by management experience). There is also the principle of conservatism, which is routinely applied and, where there is uncertainty, extra conservatism is applied, which, if anything, results in an overestimation of capital.

CAPITAL MANAGEMENT

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

The board-approved 'Solvency and Capital Management' policy document requires Nedbank Group to be capitalised at the greater of regulatory capital (RegCap) or economic capital (ECap).

Importantly though, one should not view Nedbank Group's ECap as divorced from RegCap. On the contrary, the group's ECap is an extension of the Basel II Pillar 1 requirements to incorporate Pillar 2, together with a few other key refinements tailored to Nedbank Group and South Africa, and to incorporate the Rating Agency perspective (eg Tier 2 RegCap does not qualify for the group's ECap definition of AFR).

The Balance Sheet Management (BSM) Cluster is mandated to champion the successful development and implementation of the Capital Management Framework and the Internal Capital Adequacy Assessment Process (ICAAP) across the group. The capital management responsibilities (incorporating ICAAP) of the board and Group Executive Committee (EXCO) are incorporated in their respective terms of reference (charters) contained in the Enterprisewide Risk Management Framework (ERMF).

The Group Asset and Liability Committee (ALCO), in turn, is coordinated by the BSM Cluster.

NEDBANK'S FOUR KEY FUNCTIONS FOR SUCCESSFUL CAPITAL MANAGEMENT			
Capital investment	**Capital structuring**	**Capital allocation**	**Risk and capital optimisation**

Capital investment

This involves managing the 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.

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

Capital structuring and capital allocation

The BSM Cluster is responsible for the group's Strategic Capital Plan (SCP). This is a dynamic plan and process, 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 updated plan accompanies all capital actions for which board approval is ultimately required.

A key sophisticated planning tool enabling the SCP is the group's Capital Adequacy Projection Model (CAPM). CAPM is fully integrated with the group's three-year business and strategic plans, together with the economic capital (ECap), Basel II, Basel II.5, IFRS and other important parameters and financial data.

CAPM projects Basel II and ECap 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 of proposed capital actions and contingencies.

Each quarter the group updates its financial forecasts and projected risk parameters, and so updates the projections in the SCP. This also takes into account any actual change in the business environment and/or the group's risk profile, as well as any capital actions (or proposed revisions to previous capital plans, including any new constraints).

This ensures that Nedbank Group's capital management is forward-looking and proactive, and is driven off sophisticated and comprehensive long-run capital planning.

The above process provides 'base case (or expected) projections'. The base case is then stressed by using various macroeconomic scenarios (eg Pillar 2 stress testing), in addition to risk-specific stress testing (ie additional scenarios, reverse stress testing and Pillar 1 stress testing). Details of this are covered from page 26. The outcome of this stress and scenario testing is the key factor in assessing and deciding on Nedbank Group's capital buffers – another key component of the SCP.

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

The group is capitalised at the higher of RegCap and ECap, being RegCap. 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 ECap measurement. Any shortfall versus group RegCap is addressed via the allocation of a capital buffer to the businesses (capped at an equivalent group 10% Core Tier 1 capital ratio, currently considered to be the appropriate target operating level).
• Preference shares and hybrid debt capital (Non-core Tier 1)	Allocated as part of funding costs, impacting businesses' earnings.
Tier 2 capital	
• Subordinated debt	Allocated as part of funding costs, impacting businesses' earnings.

Capital optimisation (including risk optimisation and credit portfolio management)

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, ECap 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 Framework.

An ongoing challenge for Nedbank Group is to extract as much value as possible from the bank's position as a risk and capital management front-runner from its significant Basel II investment by continuing to build the emerging 'managing for value' culture in Nedbank Group.

In summary, this 'managing for value' emphasis currently incorporates:

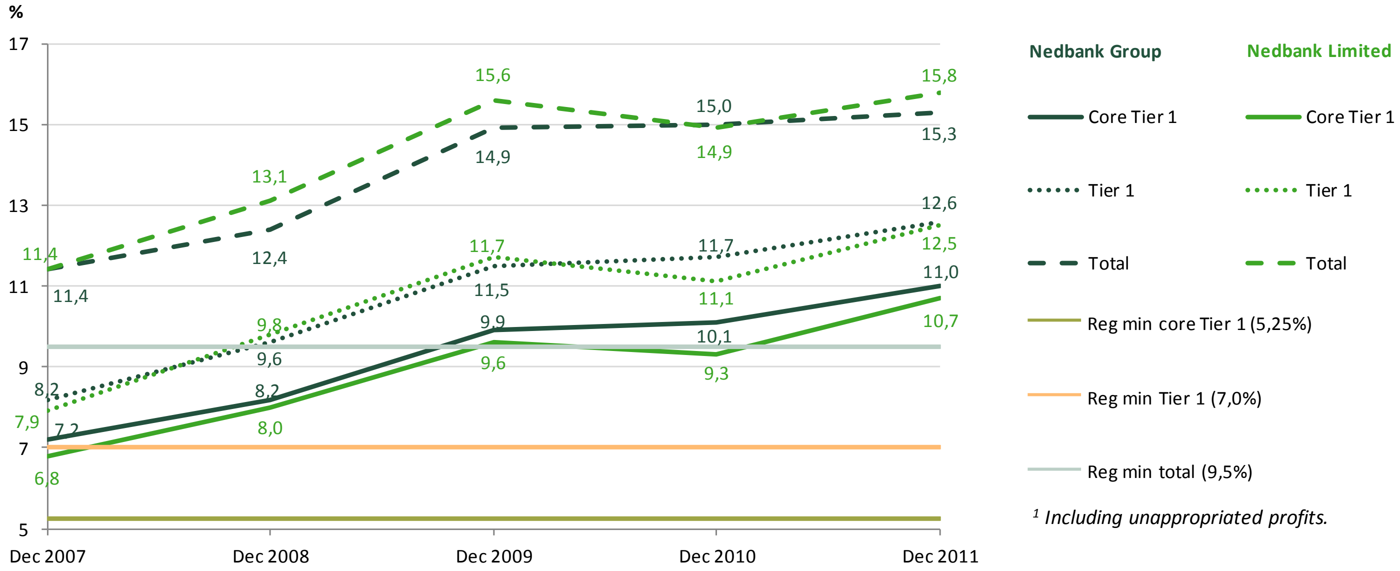
- Comprehensively embedding risk-based economic profit (EP) in the strategic planning and management processes.
- Articulating a revised group financial target fit for the new EP world, supplemented with business unit EP targets.
- Quantitative and qualitative strategic position analysis at business unit level for all clusters, involving a heavy emphasis on risk-based EP, thereby also driving much enhanced business portfolio reviews at group level, with quantified drivers for risk and growth optimisation.
- Quantitative prioritisation of the business-oriented strategic thrusts through high-level EP impact analysis applied to single and appropriately grouped initiatives.

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

Regulatory capital (RegCap) adequacy

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

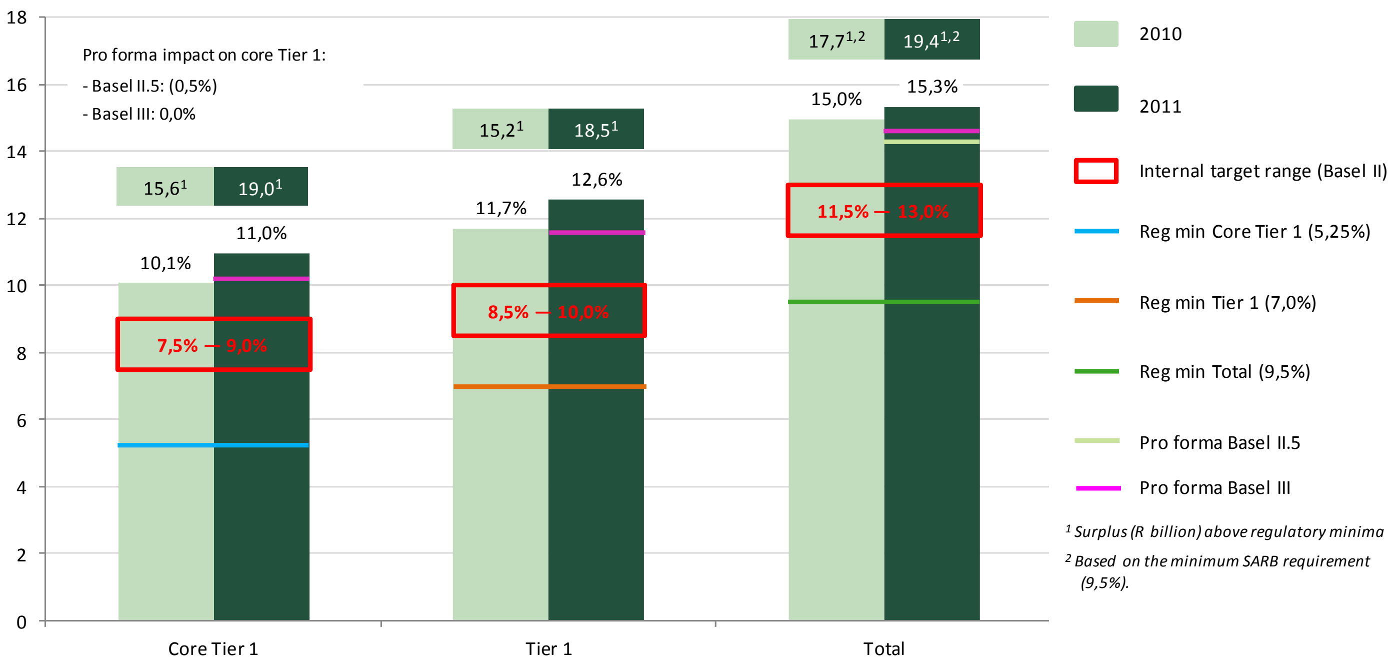
CAPITAL ADEQUACY TRENDS[1]



[1] *Including unappropriated profits.*

Nedbank Group capital ratios have continued to strengthen since 2007, enhanced by the group's RWA optimisation programme, which is ongoing. The downward or slowing trend in 2010 is the result of using internal capital resources to buy out the minorities in Imperial Bank, the increase in RWA resulting from its integration into Nedbank Limited, and the impairment as intangible assets against qualifying capital and reserves, rather than being treated as fixed assets, of capitalised software development costs, that was previously only expected from 2013 onwards under the Basel III requirements.

NEDBANK GROUP REGULATORY CAPITAL ADEQUACY



[1] *Surplus (R billion) above regulatory minima*
[2] *Based on the minimum SARB requirement (9,5%).*

CAPITAL ADEQUACY RATIOS

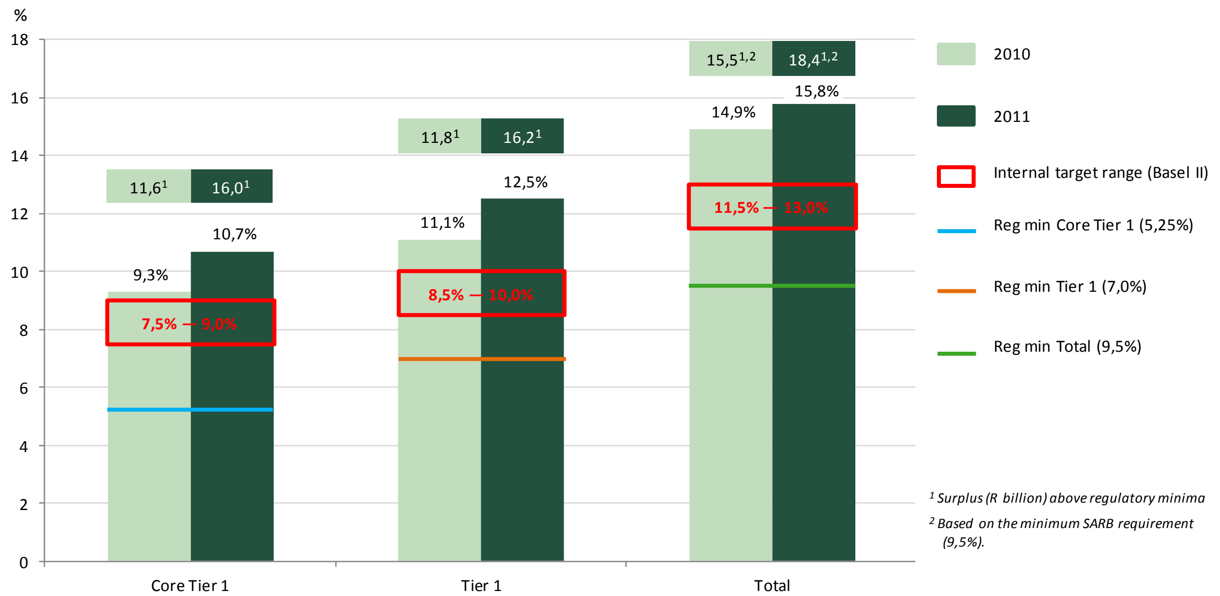
%	Current SARB minimum	Current target ranges	Nedbank Group actual 2011	Nedbank Group actual 2010	Nedbank Group Pro forma Basel II.5 2011	Nedbank Group Pro forma Basel III 2011	Nedbank Limited actual 2011	Nedbank Limited actual 2010
Including unappropriated profits								
Core Tier 1		7,5 - 9,0	**11,0**	10,1	**10,5**	**10,5**	**10,7**	9,3
Tier 1		8,5 - 10,0	**12,6**	11,7	**12,0**	**12,0**	**12,5**	11,1
Total		11,5 - 13,0	**15,3**	15,0	**14,6**	**15,0**	**15,8**	14,9
Excluding unappropriated profits								
Core Tier 1	5,25		**10,3**	9,8			**10,1**	9,0
Tier 1	7,00		**11,9**	11,4			**11,9**	10,8
Total	9,50		**14,7**	14,6			**15,1**	14,6

Nedbank Group's capital adequacy ratios (CARs) strengthened again in 2011, mainly due to a R418m increase in ordinary share capital from the vesting of shares under the black economic empowerment (BEE) and management share schemes, and additional capital supply of R4,5bn following further strong organic earnings, risk and capital optimisation, including a R3,6bn reduction in market RWA with the adoption from January 2011 of the Internal Model Approach (IMA) approved by the South African Reserve Bank (SARB) and the strategic focus on 'managing for value' and portfolio tilt strategies. Total CARs were, however, impacted by the redemption of the Nedbank Limited Tier 2 bond (Ned 5) of R1,5bn.

Given the predominant focus on the Core Tier 1 ratio by Basel III and new requirements to ensure all classes of capital instruments fully absorb losses, all of which will be phased in from January 2013 onwards, as well as in consideration of Nedbank Group's high total CAR of 15,3%, the Ned 5 was called in April 2011 without being replaced.

The group's CARs remain well above the regulator's minimum Basel II requirements and group's internal targets in preparation for Basel III.

NEDBANK LIMITED REGULATORY CAPITAL ADEQUACY



Nedbank Limited's CARs have also strengthened consistent with those of the group, as set out above.

The group has successfully implemented Basel II.5, effective 1 January 2012. The impact of the new Basel III capital requirements is expected to be easily manageable, given existing strong capital ratios and the high quality of Core Tier 1 equity. On a Basel II.5

(50 bps negative impact) and Basel III (neutral impact after Basel II.5 impact) pro forma basis for 31 December 2011 the group is in a position to absorb the Basel II.5 and III capital implications comfortably, with all capital ratios remaining well above the top end of current internal target ranges, as illustrated on the previous page.

By the end of 2013 the CARs should improve further from projected earnings and be well-positioned within the anticipated revised Basel III target ranges, even before considering the effects of the group's portfolio tilt strategy and further RWA optimisation opportunities.

Once Basel III has been finalised by the SARB Nedbank Group will finalise and communicate its revised target capital ratios. For now Nedbank continues to operate well above its current Basel II target CARs.

Consolidation of all entities for accounting purposes is in accordance with the International Financial Reporting Standards (IFRS) and for regulatory purposes is in accordance with the requirements of Basel II, the Banks Act and accompanying regulations. There are some differences in the basis of consolidation for accounting and regulatory purposes. These include the exclusion of certain accounting reserves [eg the foreign currency translation (FCT) reserve, share-based payments (SBP) reserve and available-for-sale (AFS) reserve], the deduction of the investment in insurance entities and the exclusion of trusts that are consolidated in terms of IFRS but are not currently subject to regulatory consolidation. Refer to table, summary of qualifying capital and reserves on page 57 for differences in the basis of consolidation for accounting and regulatory purposes. However, in accordance with the SARB circular 2/2012 the FCT, SBP and AFS reserves will qualify as RegCap under Basel III from 1 January 2013.

The FCT, SBP and AFS reserves that arise in the consolidation of entities in terms of IFRS amount to R1,5bn at 31 December 2011 and are currently excluded from qualifying RegCap.

Restrictions on the transfer of funds and RegCap within the group are not a material factor. These restrictions mainly relate to those entities that operate in countries other than South Africa where there are exchange control restrictions in place.

Summary of RWA (by risk type and business cluster)

	NEDBANK GROUP			
	2011 Rm	Mix %	2010 Rm	Mix %
Credit risk	**253 112**	**76,2**	246 793	76,2
Nedbank Capital	**31 113**	**9,4**	28 632	8,8
Nedbank Corporate	**73 260**	**22,1**	76 794	23,7
Nedbank Retail and Business Banking (RBB)	**138 479**	**41,7**	134 488	41,5
Nedbank Retail	**103 685**	**31,2**	97 483	30,1
Nedbank Business Banking	**34 794**	**10,5**	37 005	11,4
Nedbank Wealth	**6 780**	**2,0**	6 031	1,9
Central Management and Shared Services	**3 480**	**1,0**	848	0,3
Equity risk	**14 451**	**4,4**	13 273	4,1
Nedbank Capital	**6 094**	**1,8**	4 756	1,5
Nedbank Corporate	**5 539**	**1,7**	6 234	1,9
Nedbank RBB	**860**	**0,3**	919	0,3
Nedbank Retail	**860**	**0,3**	919	0,3
Nedbank Business Banking				
Nedbank Wealth	**2 069**	**0,6**	1 685	0,5
Central Management and Shared Services	**(112)**		(320)	(0,1)
Market risk	**3 775**	**1,1**	7 339	2,3
Nedbank Capital	**3 567**	**1,1**	7 339	2,3
Nedbank Corporate	**190**	**0,1**		
Nedbank RBB				
Nedbank Retail				
Nedbank Business Banking				
Nedbank Wealth	**18**			
Central Management and Shared Services				
Operational risk	**46 251**	**13,8**	43 415	13,3
Nedbank Capital	**10 057**	**3,0**	11 600	3,6
Nedbank Corporate	**11 113**	**3,3**	11 633	3,6
Nedbank RBB	**11 629**	**3,5**	17 759	5,5
Nedbank Retail	**6 316**	**1,9**	8 888	2,7
Nedbank Business Banking	**5 313**	**1,6**	8 871	2,7
Nedbank Wealth	**3 663**	**1,1**	1 091	0,3
Central Management and Shared Services	**9 789**	**2,9**	1 332	0,4
Other assets	**14 391**	**4,3**	12 861	3,9
Nedbank Capital	**888**	**0,3**	534	0,2
Nedbank Corporate	**2 333**	**0,7**	1 343	0,4
Nedbank RBB	**4 034**	**1,2**	2 784	0,8
Nedbank Retail	**3 875**	**1,2**	2 676	0,8
Nedbank Business Banking	**159**	**0,0**	108	0,0
Nedbank Wealth	**721**	**0,2**	608	0,2
Central Management and Shared Services	**6 415**	**1,9**	7 592	2,3
Total RWA	**331 980**	**100,0**	323 681	100,0
Nedbank Capital	**51 719**	**15,6**	52 861	16,3
Nedbank Corporate	**92 435**	**27,8**	96 004	29,7
Nedbank RBB	**155 002**	**46,7**	155 950	48,2
Nedbank Retail	**114 736**	**34,6**	109 966	34,0
Nedbank Business Banking	**40 266**	**12,1**	45 984	14,2
Nedbank Wealth	**13 251**	**4,0**	9 415	2,9
Central Management and Shared Services	**19 573**	**5,9**	9 452	2,9

Summary of RWA, minimum required capital and surplus capital adequacy position

Risk type	NEDBANK GROUP						NEDBANK LIMITED[3]					
	2011			2010			2011			2010		
Rm	RWA	Mix (%)	MRC[1]	RWA	Mix (%)	MRC[1]	RWA	Mix (%)	MRC[1]	RWA	Mix (%)	MRC[1]
Credit risk	**249 960**	**75**	**23 746**	241 381	76	22 931	**224 822**	**77**	**21 358**	220 374	76	20 936
Advanced Internal Ratings-based (AIRB) Approach	**192 167**	**58**	**18 256**	188 610	59	17 918	**179 023**	**61**	**17 007**	176 680	61	16 785
Corporate, sovereign, bank, SME	**107 379**	**32**	**10 201**	106 312	33	10 100	**95 019**	**32**	**9 027**	95 545	33	9 077
Residential mortgages	**41 618**	**13**	**3 954**	46 305	14	4 399	**40 833**	**14**	**3 879**	45 141	16	4 288
Qualifying revolving retail	**8 957**	**3**	**851**	8 489	3	806	**8 957**	**3**	**851**	8 490	3	807
Other retail	**34 213**	**10**	**3 250**	27 504	9	2 613	**34 214**	**12**	**3 250**	27 504	9	2 613
Standardised Approach	**57 793**	**17**	**5 490**	52 771	17	5 013	**45 799**	**16**	**4 351**	43 694	15	4 151
Corporate, sovereign, bank, SME	**17 061**	**5**	**1 621**	17 645	6	1 676	**9 339**	**3**	**887**	12 111	4	1 151
Retail exposures	**40 732**	**12**	**3 870**	35 126	11	3 337	**36 460**	**13**	**3 464**	31 583	11	3 000
Counterparty credit risk	**2 352**	**1**	**223**	4 543	1	432	**2 282**	**1**	**217**	4 476	2	425
Current exposure method												
Securitisation risk	**800**	**<1**	**76**	869	<1	83	**800**	**<1**	**76**	869	<1	83
Internal Ratings-based Approach												
Equity risk	**14 451**	**5**	**1 373**	13 273	4	1 261	**12 886**	**4**	**1 224**	10 829	4	1 029
Market-based Simple Risk Weight Approach												
Listed (300% risk weighting)	**2 387**	**1**	**227**	1 605	0	152	**2 373**	**1**	**225**	1 596	1	152
Unlisted (400% risk weighting)	**12 064**	**4**	**1 146**	11 668	4	1 108	**10 513**	**3**	**999**	9 233	3	877
Market risk	**3 775**	**1**	**359**	7 339	2	697	**2 458**	**1**	**234**	6 373	2	605
Internal Model Approach												
Operational risk	**46 251**	**14**	**4 394**	43 415	13	4 124	**38 567**	**13**	**3 664**	35 693	12	3 391
Advanced Measurement Approach												
Other assets	**14 391**	**4**	**1 367**	12 861	4	1 222	**10 804**	**4**	**1 026**	9 721	4	923
100% risk weighting												
Total RWA	**331 980**	**100**		323 681	100		**292 619**	**100**		288 335	100	
Total MRC (9,5%)			**31 538**			30 750			**27 799**			27 392
Pillar 1 MRC (8,0%)			**26 558**			25 894			**23 410**			23 067
Pillar 2a MRC (1,5%)			**4 980**			4 855			**4 389**			4 325
Total qualifying capital and reserves[2]			**50 894**			48 412			**46 233**			42 860
Total surplus capital over MRC			**19 356**			17 662			**18 434**			15 468
Analysis of total surplus capital[2]												
Core Tier 1			**18 975**			15 596			**16 018**			11 571
Tier 1			**18 478**			15 243			**16 210**			11 838
Total			**19 356**			17 662			**18 434**			15 468

[1] *Minimum required capital (MRC) is measured at 9,5% in line with SARB regulations and circular 5/2011. 2010 numbers have been restated by R7m.*

[2] *Includes unappropriated profits.*

[3] *Nedbank Limited refers to the South African reporting entity in terms of Regulation 38 (BA700) of the South African banking regulations.*

Key movements in RWA are as follows:

- Credit RWA increased in line with the loans and advances growth, offset to a limited degree by the impact of RWA optimisation.
- Counterparty credit risk RWA decreased primarily due to additional netting benefits derived from international Swaps and Derivatives Association (ISDA) agreements and collateral taken in terms of margining agreements.
- Market RWA decreased following the adoption of the IMA approach from January 2011.
- Operational RWA increased in line with the AMA GOI threshold as approved by the SARB.

Summary of qualifying capital and reserves

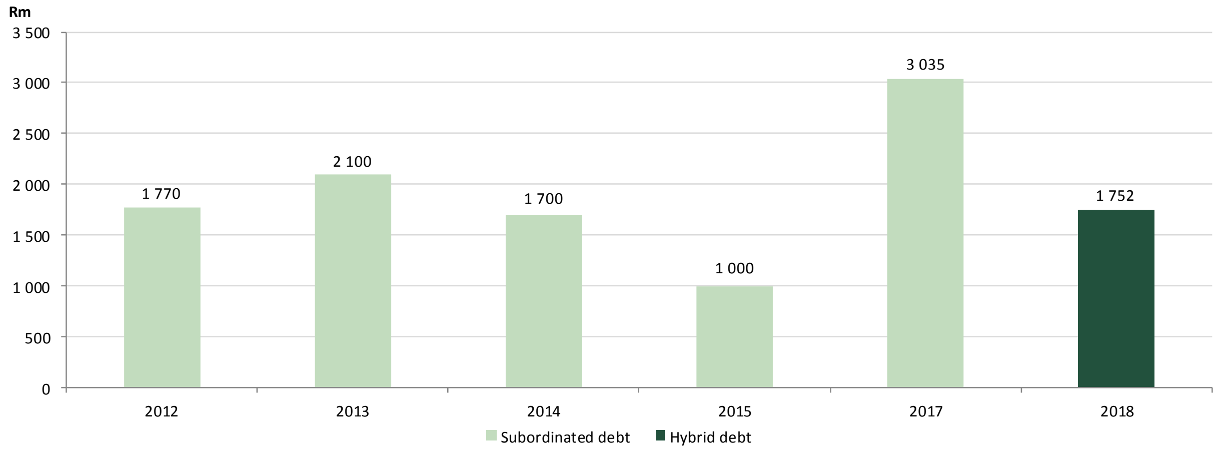
Including unappropriated profits	NEDBANK GROUP		NEDBANK LIMITED	
Rm	**2011**	2010[1]	**2011**	2010
Total Tier 1 capital (primary)	**41 717**	37 901	**36 693**	32 021
Core Tier 1 capital	**36 404**	32 589	**31 380**	26 709
Ordinary share capital and premium	**16 389**	15 971	**14 461**	14 461
Minority interest: ordinary shareholders	**178**	153		
Reserves	**32 558**	28 130	**21 913**	17 605
Deductions	**(12 721)**	(11 665)	**(4 994)**	(5 357)
Impairments	**(263)**	(10)	**(444)**	(720)
Goodwill	**(4 996)**	(4 945)	**(1 410)**	(1 410)
Capitalised software development costs	**(2 211)**	(1 998)	**(2 157)**	(1 936)
Other intangibles	**(571)**	(551)[1]		
Excess of downturn EL over eligible provisions (50%)	**(729)**	(866)	**(802)**	(869)
AFS reserves	**(77)**	(98)	**(9)**	(9)
FCT reserves	**(441)**	20	**(9)**	(9)
SBP reserves	**(975)**	(949)	**823**	557
Property revaluation reserves	**(1 370)**	(1 146)	**(969)**	(747)
Capital held in insurance entities (50%)	**(669)**	(562)		
Other regulatory differences	**(419)**	(560)	**(17)**	(214)
Non-core Tier 1 capital	**5 313**	5 312	**5 313**	5 312
Preference share capital and premium	**3 561**	3 560	**3 561**	3 560
Hybrid debt capital instruments	**1 752**	1 752	**1 752**	1 752
Tier 2 capital (secondary)	**9 177**	10 511	**9 540**	10 839
Long-term debt instruments	**9 502**	11 000	**9 500**	10 998
Property revaluation reserves (50%)	**685**	573	**485**	374
Deductions	**(1 010)**	(1 062)	**(445)**	(533)
Capital held in insurance entities (50%)	**(669)**	(562)		
Excess of downturn EL over eligible provisions (50%)	**(729)**	(866)	**(802)**	(869)
General allowance for credit impairments	**401**	410	**370**	380
Other regulatory differences	**(13)**	(44)	**(13)**	(44)
Total qualifying capital and reserves	**50 894**	48 412	**46 233**	42 860
Excluding unappropriated profits				
Rm				
Core Tier 1 capital	**34 206**	31 542	**29 440**	25 937
Total Tier 1 capital (primary)	**39 519**	36 854	**34 753**	31 249
Total qualifying capital and reserves	**48 696**	47 365	**44 293**	42 088

[1] *2010 has been restated by R7m.*

The Nedbank Group total qualifying capital and reserves increased by R2,5bn due to strong organic earnings for 2011 and after profit distributions (ordinary and preference dividend payments), an increase in regulatory deductions such as the FCT reserve and higher capitalised software development costs, and the redemption of the Nedbank Limited Ned 5 (R1,5bn) on 27 April 2011 without being replaced.

The group has a dividend cover policy range of 2,25 to 2,75 times cover by headline earnings per share, with an average dividend cover of 2,26 times for 2011.

NEDBANK GROUP'S TIER 2 SUBORDINATED DEBT AND NON-CORE TIER 1 MATURITY PROFILE[1]



[1] The subordinated debt is based on call dates and not maturity dates and values are based on nominal values.

The main Basel III capital related work and focus relates to the conversion or replacement of the existing Non-core Tier 1 and Tier 2 capital instruments in line with the new Basel III full loss absorbency and other requirements, effective 1 January 2013.

Existing Non-core Tier 1 and Tier 2 capital instruments will be phased out over 10 years from 1 January 2013, with the exception of hybrid debt capital in South Africa that will be phased out from 1 January 2012. The implications of the phase out of hybrid debt capital will only impact Nedbank from 2014.

Given Nedbank's strong total CAR position, Basel III's strong focus on Core Tier 1 capital and the group's current higher concentration on Tier 2 capital instruments, maturing Tier 2 capital instruments may be called and not replaced (examples include the Ned 5 bond in 2011 and more recently the NED 7 bond in 2012).

Summary of regulatory capital adequacy of all banking subsidiaries

A summary of all other banking subsidiaries' RegCap positions is provided below, reported based on their host country requirements.

	2011			2010		
Excluding unappropriated profits	**RWA**	**Core Tier 1 ratio**	**Total capital ratio**	RWA	Core Tier 1 ratio	Total capital ratio
Bank[1]	**Rm**	**%**	**%**	Rm	%	%
Nedbank Namibia Limited	**5 590**	**11,4**	**14,3**	5 067	10,4	13,5
Fairbairn Private Bank (IOM) Limited	**2 451**	**15,1**	**15,4**	1 729	17,6	18,2
Fairbairn Private Bank Limited	**1 484**	**16,7**	**17,3**	1 400	13,6	14,7
Nedbank (Swaziland) Limited[2]	**1 907**		**16,3**	1 290		20,2
MBCA Bank Limited[2]	**1 076**		**15,5**	761		15,3
Nedbank (Lesotho) Limited[2]	**961**		**24,2**	984		20,6
Nedbank (Malawi) Limited[2]	**212**		**31,8**	232		22,8

[1] Nedbank Limited has been separately disclosed on previous pages.

[2] Core Tier 1 ratios are not calculated/included in the host country capital adequacy (ECap) returns being submitted in the respective jurisdictions.

The capitalisation of all these banking entities is deemed adequate, all have conservative risk profiles and risk appetites, and are managed, monitored and integrated within the group's ERMF and ICAAP.

Summary of solvency of insurance subsidiaries

Solvency ratios	Regulatory minimum	Target range[1]	2011	2010
Long-term insurance (Nedgroup Life)	1,00x	> 1,50x	**4,10x**	4,00x
Short-term insurance (Nedgroup Insurance Company)	1,25x	> 1,50x	**1,41x**	1,38x

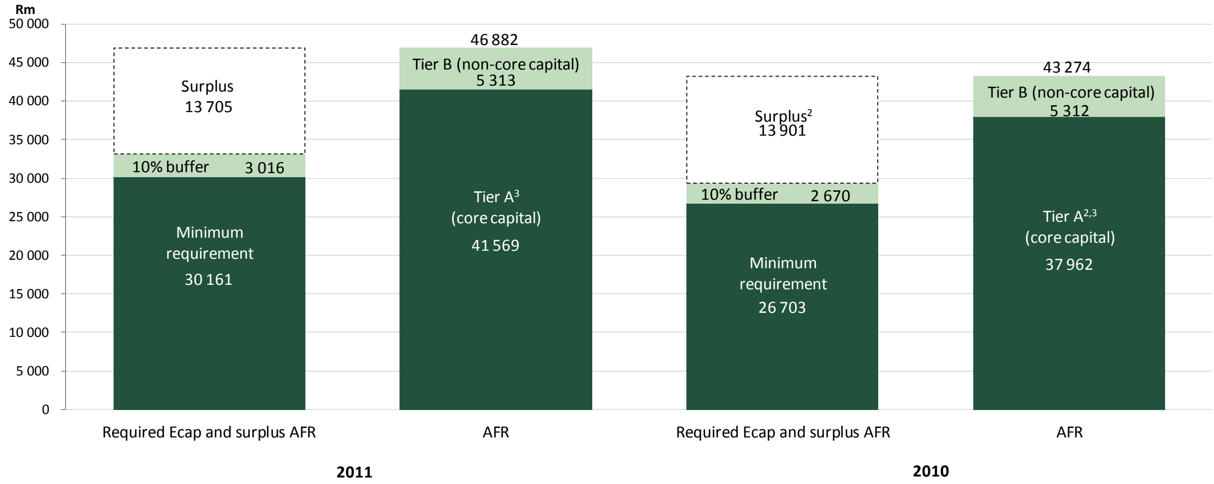
[1] *Management target range is based on the greater of regulatory and ECap.*

The long-term insurance ratio is well above the regulatory minimum limit and management target ratio. It is higher due to higher shareholder assets being retained within the company. This is because of strong profit flows during the last quarter of 2011 and because of management's requirement to hold ECap, which is higher than the RegCap requirement.

The short-term insurance ratio improved from 1,38 times to 1,41 times. However, the ratio is below the group target ratio of 1,5 times. In terms of the current Financial Services Board (FSB) solvency and the proposed interim measures effective from 1 January 2012, the company is well capitalised and exceeds the minimum requirements under both methodologies. Management's mitigating plan of action to achieve the target of 1,5 times is to continue accumulating surpluses until the desired level is achieved.

Economic capital (ECap) adequacy and ICAAP

NEDBANK GROUP ECONOMIC CAPITAL ADEQUACY[1]

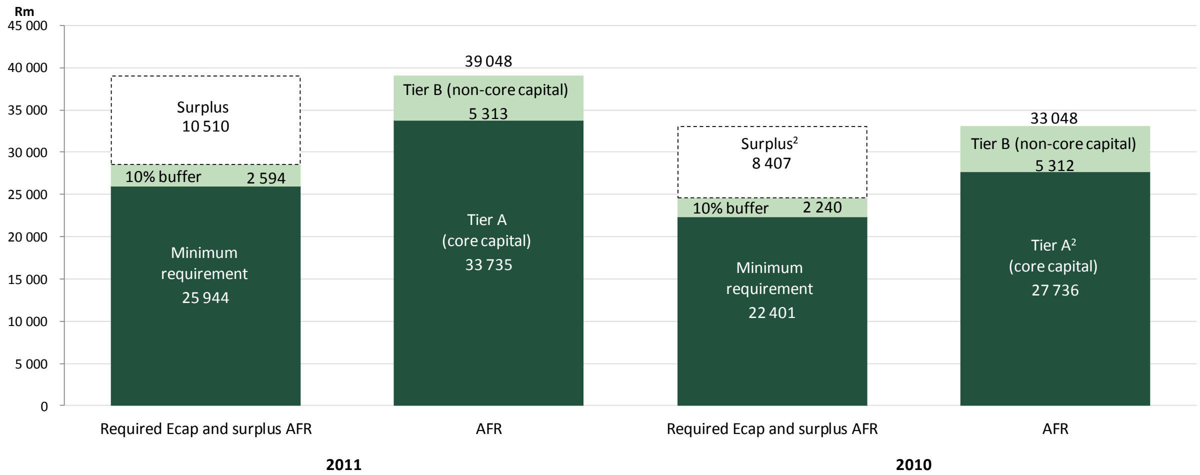


[1] *Including unappropriated profits.*

[2] *Restated Tier A after R7 million understatement of 'other intangibles' deduction in December 2010 Analyst booklet.*

[3] *Tier A capital no longer includes a deduction of the capital held in insurance entities in line with Basel III.*

NEDBANK LIMITED ECONOMIC CAPITAL ADEQUACY[1]



[1] *Including unappropriated profits.*

[2] *Nedbank Limited December 2010 Tier A capital has been restated to exclude the 2011 credit risk methodology changes in order to align with Nedbank Group comparatives*

Nedbank Group's ICAAP confirms that the group and Nedbank Limited are capitalised above its current 'A' or 99,93% target debt rating (solvency standard) in terms of its proprietary ECap methodology. This includes a 10% capital buffer.

The annual group ICAAP review was completed and signed off by the board on 27 July 2011. Best-practice stress and scenario testing was performed to confirm the robustness of the group's capital adequacy and appropriateness of the 10% capital buffer.

The board's conclusion on the ICAAP submitted to the SARB is that it remains satisfied that the capital (both RegCap and ECap) and liquidity levels are appropriate, and that both Nedbank Group and Nedbank Limited are strongly capitalised relative to their business activities, strategy, risk appetite, risk profile and the external environment in which the group operates, and that their liquidity profile is sound (a separate ILAAP report supports this view).

The SARB's SREP of the ICAAP and ILAAP during the fourth quarter of 2011 was favourable and no concerns were raised.

Enhancements made to the group's ECap methodology in 2011, which impact the capital allocated to the business clusters, include:

- 'Full tail risk' allocation for credit risk ECap, which aligns with the Basel III developments. The group previously applied a '1/3 body and 2/3 tail' weighting.
- Credit portfolio modelling correlations update, which is done annually.
- Instead of applying a flat average LGD for all home loans, using LGD parameters depending on the respective loan-to-value bands (significantly more conservative, with home loans cap rate increasing from 3,1% to 5,2%).
- Using simpler capital buffer allocation methodology, directly related to the clusters' minimum ECap requirements.
- Refining and updating parameters used in the business risk methodology, using more recent data.

In line with Basel III capital held in insurance entities is no longer deducted from AFR.

ECONOMIC CAPITAL REQUIREMENTS AND AVAILABLE FINANCIAL RESOURCES

	NEDBANK GROUP				NEDBANK LIMITED			
	2011		2010		2011		2010	
	Rm	Mix (%)	Rm	Mix (%)	Rm	Mix (%)	Rm	Mix (%)
Credit risk	19 031	63	15 396	58	17 596	68	14 235	64
Counterparty credit risk	55	<1	92	<1	50	<1	50	<1
Securitisation risk	13	<1	18	<1	13	<1	23	<1
Transfer risk	118	<1	89	<1	31	<1	22	<1
Market risk	3 499	12	3 340	12	2 403	9	2 249	10
Trading risk	447	2	424	2	347	1	348	2
Interest rate risk in the Banking book	22	<1	27	<1	18	<1	23	<1
Property risk	1 430	5	1 436	5	1 189	5	1 169	5
Equity investment risk	1 533	5	1 421	5	849	3	708	3
Foreign currency translation risk	67	<1	32	<1				
Business risk	4 664	15	4 715	18	3 842	15	3 778	17
Operational risk	1 966	7	1 997	8	1 578	6	1 599	7
Insurance risk	188	1	192	1				
Other assets risk	627	2	864	3	431	2	446	2
Minimum ECap requirement	30 161	100	26 703	100	25 944	100	22 401	100
Capital buffer (10%)	3 016		2 670		2 594		2 240	
Total ECap requirement	33 177		29 373		28 538		24 641	
Available financial resources (AFR)	46 882	100	43 274	100	39 048	100	33 048	100
Tier A capital (Core Tier 1-type capital)	41 569	88	37 962[1]	87	33 735	86	27 736	84
Tier B capital (Non-Core Tier 1 type capital; excludes Tier 2 capital)	5 313	12	5 312	13	5 313	14	5 312	16
Total surplus AFR	13 705		13 901		10 510		8 407	

[1] *2010 has been restated by R7m.*

Total Nedbank Group ECap requirements (including a 10% buffer) increased by R3,8bn in 2011, largely due to the impact of the more conservative credit risk methodology change applied to the Home Loans portfolio within the Retail Cluster. AFR increased by R3,6bn due to reasons as for regulatory qualifying capital and reserves discussed earlier.

Total ECap requirements (including a 10% buffer) for Nedbank Limited increased by R1,6bn in 2011, largely due to the impact of the more conservative credit risk methodology change applied to the Home Loans portfolio within the Retail Cluster. AFR increased by R7,3bn mainly due to an increase in profitability and an improvement in the credit risk profile resulting in a lower TTC expected loss and a higher 'Excess of IFRS provisions over TTC expected loss'

Available financial resources (AFR)

	Nedbank Group		Nedbank Limited	
Rm	2011	2010	2011	2010
Tier A capital	**41 569**	37 962[1]	**33 735**	27 736
Ordinary share capital and premium	**16 389**	15 971	**14 461**	14 461
Minority interest: ordinary shareholders	**178**	153	**0**	0
Reserves	**32 548**	28 130	**22 005**	17 590
Retained income	**29 559**	25 833	**21 749**	17 397
Non-distributable reserves	**126**	124	**0**	0
AFS reserves	**77**	98	**9**	9
FCT reserves	**441**	(20)	**101**	(6)
SBP reserves	**975**	949	**(823)**	(557)
Property revaluation reserves	**1 370**	1 146	**969**	747
Deductions	**(8 463)**	(8 108)	**(3 756)**	(4 324
Impairments	**(263)**	(10)	**(159)**	(720)
Goodwill	**(4 996)**	(4 945)	**(1 410)**	(1 410)
Capitalised software development costs	**(2 211)**	(1 998)	**(2 157)**	(1 936)
Other intangibles	**(571)**	(551)[1]		
Capital held in insurance entities[2]				
Other adjustments	**(422)**	(604)	**(30)**	(258)
Excess of IFRS provisions over TTC EL	**927**	1 816	**1 025**	9
Tier B capital	**5 313**	5 312	**5 313**	5 312
Preference shares	**3 561**	3 560	**3 561**	3 560
Hybrid debt capital instruments	**1 752**	1 752	**1 752**	1 752
Total AFR	**46 882**	43 274[2]	**39 048**	33 048

[1] 2010 has been restated by R7m.
[2] In line with Basel III capital held in insurance entities is no longer deducted from AFR (2010 has been restated for Nedbank Group).

The Nedbank Group R889m decrease in 'Excess of IFRS provisions over TTC expected loss' is mainly due to the more conservative credit risk ECap methodology introduced in 2011, for home loans.

The Nedbank Limited R7,3bn increase in AFR was mainly due to an increase in profitability and an improvement in the credit risk profile resulting in a lower TTC expected loss (EL) and a higher 'Excess of IFRS provisions over TTC expected loss'.

Risk-based capital allocation to business clusters

SUMMARY OF YEAR-TO-DATE ECONOMIC CAPITAL ALLOCATION AND ECONOMIC PROFIT (BY BUSINESS CLUSTER)[1]

Rm	Nedbank Capital	Nedbank Corporate	Nedbank Business Banking	Nedbank Retail	Nedbank Wealth	Central Management	Nedbank Group
2011							
Credit risk	**1 579**	**3 405**	**2 000**	**10 427**	**641**	**65**	**18 117**
Counterparty credit risk	**41**	**16**	**10**				**67**
Securitisation risk	**13**						**13**
Transfer risk	**66**	**28**				**14**	**108**
Market risk	**1 243**	**542**	**5**	**168**	**138**	**1 379**	**3 475**
Trading risk	**423**	**23**			**2**		**448**
Interest rate risk in the Banking book	**2**	**4**	**2**	**13**	**1**		**22**
Property risk		**41**	**3**	**150**	**6**	**1 232**	**1 432**
Investment risk	**790**	**466**		**5**	**111**	**141**	**1 513**
Foreign currency translation risk	**28**	**8**			**18**	**6**	**60**
Business risk	**713**	**702**	**483**	**2 278**	**293**	**1**	**4 470**
Operational risk	**530**	**515**	**419**	**407**	**50**	**61**	**1 982**
Insurance risk					**201**		**201**
Other assets risk	**37**	**89**	**7**	**150**	**43**	**267**	**593**
Minimum ECap requirement	**4 222**	**5 297**	**2 924**	**13 430**	**1 366**	**1 787**	**29 026**
Capital buffer[2]	**1 113**	**1 399**	**772**	**3 533**	**248**	**12 856**	**19 921**
Total capital allocated	**5 335**	**6 696**	**3 696**	**16 963**	**1 614**	**14 643**	**48 947**
Economic profit (EP)	**531**	**800**	**372**	**(203)**	**415**	**(991)**	**924**
2010							
Credit risk	1 113	3 486	1 635	8 657	547	14	15 452
Counterparty credit risk	43	28	3				74
Securitisation risk	13						13
Transfer risk	86	34					120
Market risk	1 262	579	6	262	75	1 114	3 298
Trading risk	426						426
Interest rate risk in the Banking book	2	7	3	16	1		29
Property risk		38	3	241	9	1 011	1 302
Investment risk	819	529		5	50	101	1 504
Foreign currency translation risk	15	5			15	2	37
Business risk	726	806	469	1 999	213		4 213
Operational risk	540	499	200	595	85	63	1 982
Insurance risk					178		178
Other assets risk	34	83	6	173	63	389	748
Minimum ECap requirement	3 817	5 515	2 319	11 686	1 161	1 580	26 078
Capital buffer[2]	1 299	2 088	804	4 874	284	8 674	18 023
Total capital allocated	5 116	7 603	3 123	16 560	1 445	10 254	44 101
Economic profit (EP)	477	421	382	(1 583)	388	(374)	(289)

[1] *ECap allocated is based on average year-to-date numbers.*

[2] *The unallocated capital buffer included in Central Management comprises of capital held against goodwill, intangibles and excess capital over and above the 2011 10% Core Tier 1 capital allocation cap.*

Risk-based ECap allocation to the business clusters has been in place since 2008 for risk-adjusted performance measurement and remuneration purposes. It is a fundamental component in the measurement of the businesses' contributions to EP, return on risk-adjusted capital (RORAC) and risk-adjusted return on capital (RAROC). The difference between RORAC and RAROC is simply that the former uses IFRS impairments and the latter TTC expected loss.

As discussed earlier, enhancements have been made in 2011 to the group's ECap methodology and to allocating capital to it businesses. The impact of the methodology changes on the capital allocated to the business clusters was not material except in the Retail Cluster due to the significant increased ECap allocation to the Home Loans portfolio.

Changes in total capital year-on-year average allocated to each cluster are as follows:

- Nedbank Capital: increase of R219m mainly due to increases in credit exposures for Investment Banking and the new full tail credit allocation that resulted in more capital being allocated to lumpier portfolios.
- Nedbank Corporate: decrease of R907m mainly due to low growth, enhanced asset quality and RWA optimisation.
- Nedbank Business Banking: increase of R573m mainly due to the migration of ex-Imperial Bank portfolios, Supplier Asset Finance and Professional Finance from Nedbank Retail.
- Nedbank Retail: increase of R403m mainly due to the more conservative credit risk LGD parameters applied to the Home Loans portfolio.
- Nedbank Wealth: increase of R169m mainly due to an increase in the credit exposures, and investment exposures.
- Central Management: increase of R4,4bn mainly due to increases in the value of the group's owned buildings (R207m) and ordinary shareholders' equity (R4,2bn).

Cost of equity

Year	COE
2010	14,15%
2011	**13,00%**
2012	13,10%

Nedbank Group has applied a cost of equity (COE) of 13,00% in 2011 (2010: 14,15%) and has revised its COE for 2012 to 13,10% following a review of the components calculated based on the Capital Asset Pricing Model and management judgement, (risk-free rate, beta, and equity risk premium), applied in conjunction with the group's parent company, Old Mutual Plc.

The risk-free rate has declined as a result of an expectation of lower growth and lower levels of inflation as a result of the ongoing slower global recovery.

External credit ratings

Fitch ratings

In January 2012 Fitch revised South Africa's outlook on the long-term issuer default ratings from stable to negative. As a result local banks' outlooks have been similarly revised from stable to negative.

	NEDBANK GROUP	NEDBANK LIMITED
Foreign currency		
Short-term	F2	F2
Long-term	BBB	BBB
Long-term rating outlook	Negative	Negative
Local currency		
Long-term senior	BBB	BBB
Long-term rating outlook	Negative	Negative

Moody's investors service

In February 2012 Moody's Investors Service (Moody's) changed South Africa's A3 local- and foreign-currency government debt ratings to negative from stable. As a result of the country rating ceiling, the large South African banks' ratings have been changed from stable to negative.

	NEDBANK LIMITED February 2012
Bank financial-strength rating	C-
Outlook – financial-strength rating	Stable
Global local currency – long-term deposits	A3
Global local currency – short-term deposits	Prime-2
Foreign currency – long-term bank deposits	A3
Foreign currency – short-term bank deposits	Prime-2
Outlook – foreign currency deposit rating	Negative

RISK MANAGEMENT

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

Nedbank Group's risk universe

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

A summary table of the key risk types impacting the group is provided below and highlights where the 17 key ERMF risk types map to the quantitative risk types of the ECap [and Internal Capital Adequacy Assessment Process (ICAAP)] Framework.

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

Major risk categories	ERMF's 17-key risk types	Economic capital (ICAAP) risk types
Capital risk	Capital risk	Is the aggregation of all risk types
Credit risks	Credit risk	✓
	• Underwriting (lending) risk	✓ (integrated in 'credit risk')
	• Collateral risk	✓ (integrated in 'credit risk')
	• Concentration risk	✓ (integrated in 'credit risk')
	• Industry risk	✓ (integrated in 'credit risk')
	• Issuer risk	✓ (integrated in 'credit risk')
	• Settlement risk	✓ (integrated in 'credit risk')
	• Counterparty credit risk	Own separate major risk category
	• Country risk and Transfer (sovereign) risk	Own separate major risk category
	• Securitisation and re-securitisation risk	Own separate major risk category
Counterparty credit risk	✓ (integrated in 'credit risk')	✓
Country risk and Transfer (sovereign) risk	✓ (integrated in 'credit risk')	✓
Securitisation and re-securitisation risk	✓ (integrated in 'credit risk')	✓
Liquidity risk	Liquidity risk	Liquidity risk mitigated through Internal Liquidity Adequacy Assessment Process, liquidity profile targets and limits, and the holding of surplus liquidity buffers as opposed to holding ECap.
Market risks	Market risk in the trading book [1]	✓
	Market risk in the banking book [1]	✓
	• Interest rate risk in the Banking book	✓
	• Foreign currency translation risk in the banking book • Foreign exchange transaction risk	✓
	Investment risk [1]	✓
	• 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)
	People risk (non-strategic component)	✓ (covered by operational risk)
	Insurance and assurance risks	✓ (covered by insurance risk)
	Information technology risk (non-strategic component)	✓ (covered by operational risk)
Business risks	Transformation risk	✓ (covered by business risk)
	New business risk	✓ (covered by business risk)
	Reputational risk	n/a
	Social and environmental risks	✓ (covered by business risk)
	Strategic risk	✓ (covered by business risk)
	People risk (strategic component)	✓ (covered by business risk)
	Information technology risk (strategic component)	✓ (covered by business risk)

n/a = not applicable to ECap.

✓ = included in Nedbank Group's ECap Framework.

[1] *Includes risks related to the inappropriate valuation of instruments, assets or liabilities.*

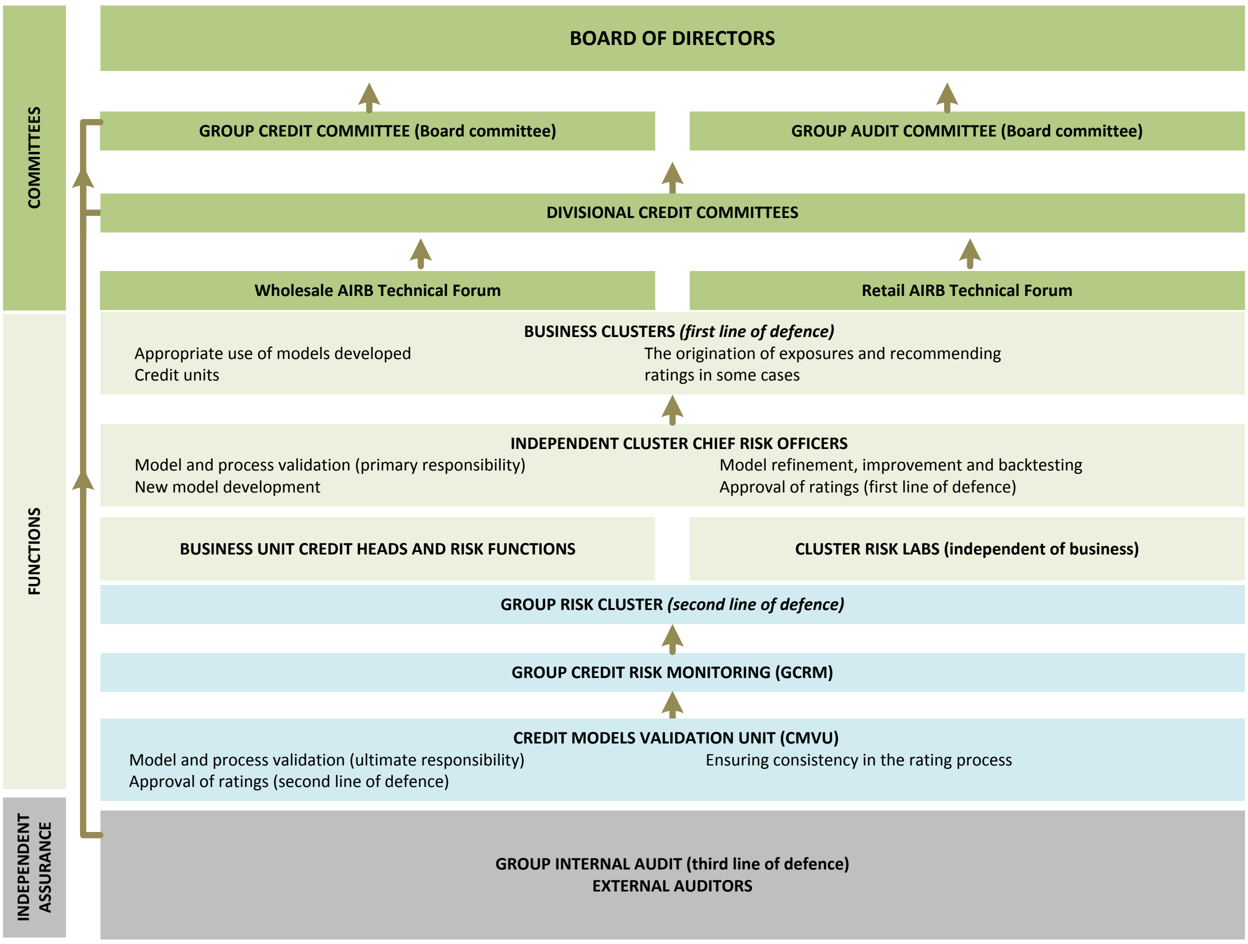
Credit Risk

Credit governance and structures

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 minimum economic capital (ECap) requirement and 76% of regulatory capital (RegCap). The lower percentage contribution under ECap is mainly due to the extra risk types (eg business risk) capitalised for under ECap, and for ICAAP, compared to RegCap.

Nedbank Group's credit risk governance structures are reflected in the following diagram:

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



Credit risk is managed across the group in terms of its board-approved Group Credit Risk Management Framework, which encompasses selective 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 Group Credit Risk Management Framework, which covers the macrostructures for credit risk management, monitoring and approval mandates, includes the two AIRB technical forums and a Group Credit Ad Hoc Rating Committee which report into the Group Credit Committee (GCC).

The GCC is the designated committee appointed by the Board to monitor, challenge and ultimately approve all material aspects of the group's AIRB credit rating and risk estimation processes. The South African Reserve Bank (SARB) requires that the GCC is chaired by a non-executive director. Current membership includes six non-executive directors and three executive directors.

In this regard the board and the GCC are required by the banking regulations to have a general understanding of the AIRB credit system and the related reports generated. They also need to ensure the independence of the group's credit risk monitoring unit, Group Credit Risk Monitoring, including the Credit Models Validation Unit (CMVU).

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 policy, as well as reviewing business unit-level credit portfolios, parameters, impairments, expected loss (EL) and credit capital levels.

An independent Group Credit Risk Monitoring (GCRM) unit is part of Group Risk. It monitors the on-going development and enhancement of credit risk management across the group, the Group Credit Risk Management Framework and AIRB credit system, monitors credit portfolios and reports to executive management, DCCs and ultimately the board's GCC on a regular basis. GCRM together with BSM has overall responsibility for the on-going championing of the Basel II AIRB methodology across the group. GCRM also ensures consistency in the rating processes, and has ultimate responsibility for independent credit model validation through CMVU the Group's Independent Risk Control Unit as per the banking regulations.

In each of the five 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 ECap quantification and EP performance measurement. Each cluster also has a cluster credit risk lab that is responsible for the on-going expert design, implementation, validation and performance of their business cluster's internal rating systems, with independent annual validation by CMVU.

Nedbank Group's credit policy regarding lending to related parties is properly documented and approved by the GCC. The policy is also subject to an annual review by the GCC. Definitions used for related parties are aligned with the definitions specified by the South African Institute of Chartered Accountants [International Accounting Standard (IAS 24)] and banking regulations. Compliance with the policy requires appropriate processes and procedures for the approval monitoring and reporting by business units. In addition, the policy requires that all related party loans are concluded at arm's length and hence subject to normal credit criteria applicable to all other lending. The re-pricing on all related party transactions requires sign-off by Group Taxation Department for advice on tax consequences arising from funding or pricing issues.

The policy also stipulates that no person benefiting from a particular loan or exposure can be responsible for the preparation, assessment or approval of the application, while credit signatories are encouraged to escalate, to a higher mandate for approval, any instances where they feel it is impossible to consider or agree the credit application on a commercial arm's length basis.

Nedbank Group's credit risk measurement and methodology

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

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

- Expected loss (EL), 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 EL 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 group'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 RegCap requirements for credit risk.

The IAS 39 requirements for credit risk also form an integral part of Nedbank Group's credit risk measurement and management. Nedbank Group assesses the adequacy of impairments, in line with International Financial Reporting Standards

(IFRS), on a continuous basis. Specific impairments are created in respect of defaulted 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.

As a result of the financial crisis in 2008 the International Accounting Standard Board undertook a substantial review of the suite of financial instrument standards, which included the impairment portion of the standard (ie IFRS 9).

The IASB is proposing to move away from the incurred-loss methodology towards an expected-loss methodology of calculating impairments. The proposed 'expected loss' approach is designed to result in earlier loss recognition compared with the 'incurred loss' approach currently in IAS 39 by taking into account future credit losses expected over the life or a fixed period of time of the financial asset measured at amortised cost. The decision whether the EL will be determined over the entire lifetime or over a fixed period will depend on the performance of the financial asset (based on three categories: performing, watch-list and non-performing). The latest proposals are that the recognition of these losses should be recognised in the impairment line with no impact on interest income.

The proposed changes will have a significant operational impact due to the additional data requirements and system changes needed.

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

Key parameters	Basel II	IAS 39	IFRS 9
PDs			
Intention of estimate	• Average estimate of default within next 12 months.	• Best estimate of likelihood and timing of credit losses over life of loan.	• Best estimate of likelihood and timing of credit losses over full life of all financial assets or a fixed period depending on performance of the asset (including fully performing loans).
Period of measurement	• Long-run historical average over whole economic cycle – TTC.	• Should reflect current economic conditions – point-in-time (PIT).	• Reflects current and future economic cycles to the extent relevant to the remaining life of the loan.
LGDs			
Intention of estimate	• Average estimate of discounted value of post-default recoveries.	• 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.	• Recoveries net of direct cash collection costs only.
Discount rate	• Recoveries discounted using entity's cost of capital.	• Cashflows discounted using instrument's original effective interest rate.	• Cashflows are discounted at a discount rate which approximates the original effective interest rate.
Period of measurement	• Reflects period of high credit losses. • Downturn LGDs required.	• Should reflect current economic conditions – PIT.	• Reflects current and future economic cycles to the extent relevant to the remaining life of the loan. Length of relevant cycles is dependent of the relevant performance of the asset.
EL			
Basis of exposure	• Based on EAD, which includes unutilised and contingent facilities.	• Based on actual exposure (on and off balance sheet).	• Based on the contractual outstanding balance at balance sheet date and expected cash flows on the outstanding balance.

As shown in the table above, IAS 39 impairments are determined using PIT metrics, which are used to estimate the default expectations under the current economic cycle, whereas TTC metrics 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 ECap calculations.

Basel II also requires banks to base their LGD estimates for RegCap 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.

EL is a forward-looking measure, on a TTC basis (ie the long-run average) of the statistically estimated credit losses on the performing portfolios for the forthcoming 12 months. For Nedbank Group's active portfolio, the portfolio impairments estimated using the PIT methodology is based on emergence periods of 12 months or less. Specific impairments are estimated for the defaulted portfolio and added to portfolio impairments, which then constitute the total impairments for the credit portfolio. 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.

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

Nedbank Group's master credit rating scale

Nedbank Group 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 Group Transaction Rating (NTR) master rating scale].

NEDBANK GROUP'S PD MASTER RATING SCALE (NGR RATINGS) – INTERNATIONAL SCALE

Rating category	Rating grade	Geometric mean (%)	PD band (%)		Mapping to Standard and Poor's grades
			Lower bound (PD >)	Upper bound (PD ≤)	
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	99,999	CCC to C
Non-performing (defaulted)	NP 1	100	100	100	D
	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 low-risk corporate or high-risk individual borrowers. The principal benefit thereof is that comparisons can be made between the riskiness of borrowers making up various portfolios. A brief explanation of the scale follows.

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

The final 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 GROUP'S EXPECTED LOSS 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 EL) 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.

Credit risk reporting across the group is, to a large extent, based on the twin rating scales discussed above. Business units report on the distribution of their credit exposures across the various rating scales and explain any changes in such distribution, including the migration of exposures between rating grades and underlying reasons therefore.

The development of credit rating models

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

- Probability of default (PD)

  PD measures the likelihood of a client defaulting on credit obligations within the next 12 months (as per Basel II).

- Exposure at default (EAD)

  EAD quantifies the expected exposure on a particular facility at the time of default. EAD risk measures consider the likelihood that a client would draw down against available facilities in the period leading up to default and are based on Nedbank Group's historical default experience in respect of similar clients and facilities.

- Loss given default (LGD)

  LGD is a measure of the economic loss the group expects to incur on a particular facility should the client default. LGD risk measures are based on Nedbank Group's historical recovery experience in respect of similar clients and facilities and consider the type, quality and level of collateral held.

The Pillar 1 models that are used to develop the key measures of PD, EAD and LGD form the cornerstone of Nedbank Group's internal rating and ECap systems.

The group decided at an early stage to develop its own expertise in this regard, rather than rely on the ongoing use of consultants and external rating agencies. Each business cluster has developed a team of specialist quantitative analysts who are responsible for creating and maintaining a range of rating models. A team of suitably qualified individuals within GCRM, namely the CMVU, is responsible for the independent validation of all the models, while Nedbank Group's Internal Audit Division performs risk-based audits.

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

MODEL TYPE

MODEL CHARACTERISTICS

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

Low — COMPLEXITY AND DATA REQUIREMENTS — High

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

NATURE OF RATING SYSTEM

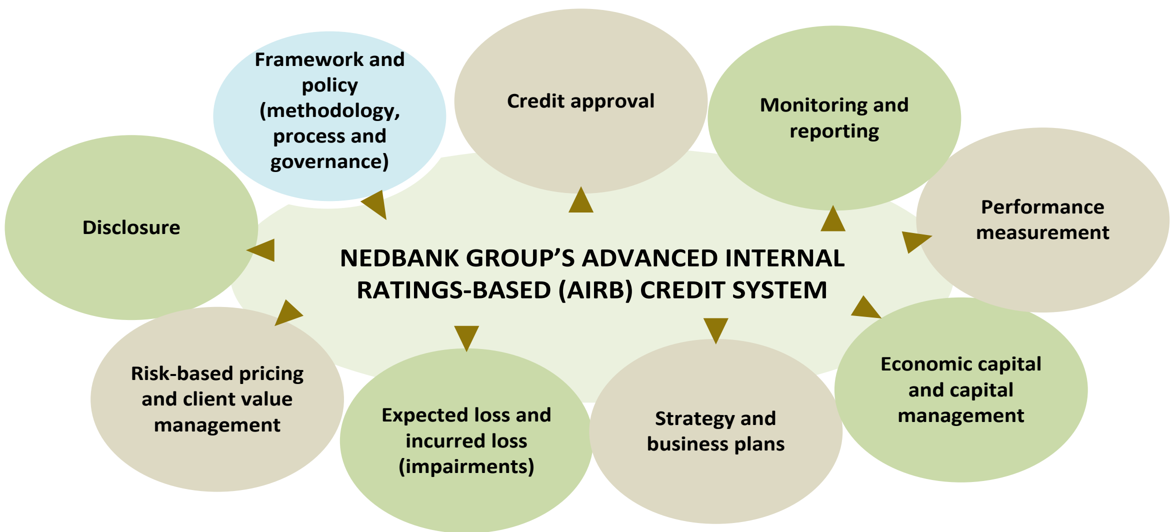
WHOLESALE RATING SYSTEM		RETAIL RATING SYSTEM	
Asset classes	**Modelling approaches adopted**	**Asset classes**	**Modelling approaches adopted**
• Corporates • SME-Corporate • Banks • Sovereign • Specialised lending, comprising: - Project finance - Commodity finance - Income-producing commercial real estate - High-volatility commercial real estate	• A range of modelling approaches is adopted across Nedbank's wholesale portfolios. • Hybrid models are typically used to measure PD, while structural EAD and workout LGD models are in place for most portfolios. • Models are typically developed using internal data although external data has been used for the bank portfolio in view of the low number of defaults experienced in that portfolio. • A structural cashflow simulation model has been developed for the project finance portfolio that provides estimates of PD, EAD and LGD. • The supervisory slotting approach is used for the high-volatility commercial real estate (development real estate) portfolio. • Expert judgement models.	• Retail mortgages • Retail revolving credit • SME-Retail • Retail other, comprising: - Overdrafts, student and term loans - Personal loans - Vehicle and asset finance	• A number of PD models have been developed for the various retail portfolios. • Both application stage and behavioural PD models are in use across all material portfolios. • Application models are developed using a combination of internal and external (credit bureau) data, while internal data is used to develop behavioural models. • Given the large data volumes available for these portfolios, pure statistical techniques are invariably used. • Statistical EAD and LGD models are in use across all material portfolios and these have been developed using the group's own default experience.

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

LGD estimates are adjusted to those applicable during a downturn to meet regulatory requirements. Due to the lack of sufficient downturn period defaults Nedbank Group is currently utilising the scaling factor developed by the US Federal Reserve Board of Governors to convert its cycle-neutral LGD estimates to those applicable to downturn conditions. Own estimates of dLGD are utilised for some portfolios and it is expected that the group will finalise the remaining portfolios over the course of 2012 and 2013.

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

OVERVIEW OF NEDBANK GROUP'S USE OF ITS ADVANCED INTERNAL RATINGS-BASED APPROACH CREDIT SYSTEM



Group credit policy not only incorporates the minimum requirements stipulated in the revised South African banking regulations, but also documents Nedbank Group's aspiration to best-practice credit risk management. This policy is implemented across the group with detailed and documented policies and procedures, suitably adapted for use by the various business units. The policy forms the cornerstone for sound credit risk management as it provides a firm framework for credit granting as well as the subsequent monitoring of credit risk exposures.

Credit risk approaches across the group

Nedbank Limited and London Branch make up 88% of the total credit extended by Nedbank Group and are covered by the Basel II AIRB approach with the legacy Imperial Bank, Fairbairn Private Bank (UK) and the non-SA Nedbank African subsidiaries' credit portfolios on the Standardised Approach (TSA). Nedbank intends to apply to the SARB in 2012 for approval to use the AIRB approach for the legacy Imperial Bank book.

The use of internal rating models within these subsidiaries is encouraged as it is anticipated that a number of them will migrate to the IRB approach once they have developed the data history required to adopt the approach for the estimation of regulatory capital.

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

Roadmap of Nedbank Group's credit rating systems

The following diagrams provide an overview of the group's credit risk profile by business line and major Basel II asset class at 31 December 2011.

The distribution of exposures, based on total credit extended, across the various subsidiaries that are utilising TSA is reflected in the diagram below.

STANDARDISED RATING SYSTEM AND NON-REGULATED ENTITIES

Rm (exposure basis at 31 December 2011)

	2011	2010
NON-REGULATED ENTITIES	**32 432**	36 735
TOTAL STANDARDISED APPROACH	**83 071 (12,76%)**	80 668 (12,94%)

Nedbank Limited[3]	**61 069 (73,52%)**	58 180 (72,12%)
Retail mortgages	**3 910 (6,40%)**	3 482 (5,98%)
SME - retail	**3 246 (5,31%)**	3 332 (5,73%)
Banks	**0 (<1%)**	129 (<1%)
Corporate	**159 (<1%)**	289 (<1%)
SME - corporate	**9 574 (15,68%)**	12 310 (21,16%)
Securitisation exposure	**- -**	321 (<1%)
Retail - other	**44 179 (72,34%)**	38 313 (65,85%)
Local government and municipalities	**1 (<1%)**	4 (<1%)

Africa[1]	**12 123 (14,59%)**	11 576 (14,35%)
Banks	**1 332 (10,99%)**	1 206 (10,42%)
Public sector entities	**48 (<1%)**	32 (<1%)
SME - corporate	**1 206 (9,95%)**	1 121 (9,68%)
Corporate	**3 485 (28,75%)**	2 931 (25,32%)
Retail - other	**1 660 (13,69%)**	1 523 (13,16%)
SME - retail	**215 (1,78%)**	179 (1,55%)
Sovereign	**925 (7,63%)**	1 450 (12,53%)
Local government and municipalities	**32 (<1%)**	17 (<1%)
Retail mortgages	**3 220 (26,56%)**	2 804 (24,22%)
Securities firms	**- -**	313 (2,70%)

Fairbairn[2]	**9 879 (11,89%)**	10 912 (13,53%)
Banks	**5 711 (57,80%)**	6 798 (62,30%)
Retail - other	**911 (9,22%)**	738 (6,76%)
Sovereign	**479 (4,85%)**	1 239 (11,35%)
Retail mortgages	**2 777 (28,12%)**	2 137 (19,58%)
Corporate	**1 (<1%)**	- -

Key:
- **2011**
- 2010
- Business lines
- Basel II asset class

1 Includes Namibia, swaziland, Lesotho, Malawi and Zimbabwe.
2 Includes the Isle of Man and Jersey.
3 Legacy Imperial Bank Limited book.

The distribution of retail exposures that are measured by way of the AIRB Approach is reflected in the following diagram. Basel II AIRB credit exposure is reported on the basis of EAD.

RETAIL AIRB RATING SYSTEM

Rm (EAD basis at 31 December 2011)

- **NEDBANK RETAIL CLUSTER** — **172 423 (26,49%)** / 174 837 (28,05%)
  - **Shared services** — **542 (0,31%)** / 450 (0,26%)
    - Corporate — **324 (59,83%)** / 222 (49,33%)
    - Securitisation exposure — **218 (40,17%)** / 228 (50,67%)
  - **Secured lending** — **105 377 (61,12%)** / 109 561 (63,54%)
    - Retail - other — **99 778 (94,69%)** / 7 425 (6,78%)
    - Retail mortgages — **5 599 (5,31%)** / 102 136 (93,22%)
  - **Relationship banking** — **33 002 (19,14%)** / 36 460 (21,15%)
    - Retail - other — **1 319 (4,00%)** / 1 133 (3,11%)
    - Retail mortgages — **25 805 (78,19%)** / 28 723 (78,78%)
    - Retail revolving credit — **2 073 (6,28%)** / 1 990 (5,46%)
    - SME - retail — **3 805 (11,53%)** / 4 614 (12,65%)
  - **Consumer banking** — **20 232 (11,73%)** / 16 008 (9,28%)
    - Retail - other — **17 576 (86,87%)** / 13 029 (81,39%)
    - Corporate — **2 (<1%)** / 1 (<1%)
    - Retail revolving credit — **2 654 (13,12%)** / 2 978 (18,60%)
  - **Card** — **13 270 (7,70%)** / 12 358 (7,17%)
    - Retail - other — **436 (3,29%)** / 419 (3,39%)
    - Retail revolving credit — **12 834 (96,71%)** / 11 939 (96,61%)
- **NEDBANK WEALTH** — **17 826 (2,74%)** / 16 988 (2,61%)
  - Retail - other — **903 (5,07%)** / 876 (5,16%)
  - Retail mortgages — **12 777 (71,68%)** / 15 549 (91,53%)
  - Retail revolving credit — **644 (3,61%)** / 563 (3,31%)
  - SME - retail — **3 502 (19,65%)** / - -

Key:

2011
2010
Business lines
Basel II asset class

The distribution of wholesale exposures that are measured by way of the AIRB Approach is similarly reflected in the following diagram on the basis of EAD.

WHOLESALE AIRB RATING SYSTEM

Rm (EAD basis as at 31 December 2011)

Business line	Sub-division	Basel II asset class	2011	2010
NEDBANK CORPORATE			**185 396 (28,48%)**	179 748 (28,84%)
NEDBANK CORPORATE	Other[1]		**1 671 (0,90%)**	2 667 (1,48%)
NEDBANK CORPORATE	Other[1]	Banks	**1 104 (66,02%)**	1 673 (62,73%)
NEDBANK CORPORATE	Other[1]	Securities Firms	**176 (10,56%)**	- -
NEDBANK CORPORATE	Other[1]	Corporate	**391 (23,42%)**	994 (37,27%)
NEDBANK CORPORATE	Corporate Banking		**107 645 (58,06%)**	104 713 (58,26%)
NEDBANK CORPORATE	Corporate Banking	Banks	**784 (<1%)**	60 (<1%)
NEDBANK CORPORATE	Corporate Banking	Local government and municipalities	**5 792 (5,38%)**	6 545 (6,25%)
NEDBANK CORPORATE	Corporate Banking	SME - Retail	**- -**	31 (<1%)
NEDBANK CORPORATE	Corporate Banking	Corporate	**87 950 (81,70%)**	83 269 (79,52%)
NEDBANK CORPORATE	Corporate Banking	Public sector entities	**10 786 (10,02%)**	12 222 (11,67%)
NEDBANK CORPORATE	Corporate Banking	SME - corporate	**2 333 (2,17%)**	2 586 (2,47%)
NEDBANK CORPORATE	Property Finance		**76 080 (41,04%)**	72 368 (40,26%)
NEDBANK CORPORATE	Property Finance	Corporate	**17 611 (23,15%)**	17 392 (24,03%)
NEDBANK CORPORATE	Property Finance	Specialised lending - HVCRE	**6 517 (8,57%)**	7 081 (9,78%)
NEDBANK CORPORATE	Property Finance	Banks	**121 (<1%)**	237 (<1%)
NEDBANK CORPORATE	Property Finance	SME - Retail	**2 (<1%)**	2 (<1%)
NEDBANK CORPORATE	Property Finance	SME - corporate	**3 056 (4,02%)**	2 190 (3,03%)
NEDBANK CORPORATE	Property Finance	Specialised lending - IPRE	**47 478 (62,41%)**	44 634 (61,68%)
NEDBANK CORPORATE	Property Finance	Public sector entities	**1 158 (1,52%)**	777 (1,07%)
NEDBANK CORPORATE	Property Finance	Sovereign	**137 (<1%)**	55 (<1%)
BUSINESS BANKING			**71 829 (11,04%)**	69 568 (11,16%)
BUSINESS BANKING		SME - corporate	**21 910 (30,50%)**	31 044 (44,62%)
BUSINESS BANKING		Local government and municipalities	**1 171 (1,63%)**	1 113 (1,60%)
BUSINESS BANKING		Retail - other	**312 (<1%)**	1 879 (2,70%)
BUSINESS BANKING		Specialised lending - IPRE	**3 365 (4,68%)**	2 630 (3,78%)
BUSINESS BANKING		Corporate	**11 400 (15,87%)**	8 094 (11,63%)
BUSINESS BANKING		Public sector entities	**24 (<1%)**	13 (<1%)
BUSINESS BANKING		Retail mortgages	**5 904 (8,22%)**	5 621 (8,08%)
BUSINESS BANKING		SME - retail	**27 743 (38,62%)**	19 174 (27,56%)
CAPITAL			**84 529 (12,99%)**	67 683 (10,86%)
CAPITAL		Banks	**20 500 (24,25%)**	17 666 (26,10%)
CAPITAL		Public sector entities	**5 740 (6,79%)**	6 558 (9,69%)
CAPITAL		SME - corporate	**463 (<1%)**	710 (1,05%)
CAPITAL		Specialised lending - commodities finance	**148 (<1%)**	69 (<1%)
CAPITAL		Corporate	**22 026 (26,06%)**	21 213 (31,34%)
CAPITAL		Retail - other	**- -**	9 (<1%)
CAPITAL		Securitation exposure	**4 851 (5,74%)**	5 313 (7,85%)
CAPITAL		Specialised lending - project finance	**2 362 (2,79%)**	2 161 (3,19%)
CAPITAL		Specialised lending - IPRE	**10 (<1%)**	- -
CAPITAL		Local government and municipalities	**289 (<1%)**	193 (<1%)
CAPITAL		Securities firms	**1 (<1%)**	6 (<1%)
CAPITAL		SME - retail	**79 (<1%)**	111 (<1%)
CAPITAL		Sovereign	**28 060 (33,20%)**	13 674 (20,20%)
LONDON			**19 485 (2,99%)**	15 747 (2,53%)
LONDON		Banks	**2 818 (14,46%)**	4 031 (25,60%)
LONDON		Public sector entities	**429 (2,20%)**	293 (1,86%)
LONDON		Sovereign	**524 (2,69%)**	290 (1,84%)
LONDON		Corporate	**15 714 (80,64%)**	11 095 (70,46%)
LONDON		Securities firms	**- -**	38 (<1%)
CENTRAL MANAGEMENT			**16 311 (2,51%)**	18 071 (2,90%)
CENTRAL MANAGEMENT		Corporate	**18 (<1%)**	1 (<1%)
CENTRAL MANAGEMENT		Sovereign	**13 942 (85,48%)**	18 070 (99,99%)
CENTRAL MANAGEMENT		Banks	**2 350 (14,41%)**	- -

Key:
2011
2010
Business lines
Basel II asset class

[1] *Includes centralised credit risk and finance*

Loans and advances

The global economic environment deteriorated in 2011 as the European sovereign-debt crisis continued to unfold, leading to a loss of economic growth momentum in both developed and emerging markets. For South African GDP growth is expected to end at 3,2% for the 2011 year and interest rates remained unchanged at 37-year lows.

Household demand for credit remained stable and transactional demand continued to strengthen, supported by real wage increases. Business confidence remained at low levels for most of 2011, with corporate credit demand gaining some traction towards the end of the year as both private and public sector fixed-investment activity increased off a low base.

South Africa's GDP is currently forecast to grow by 2,7% in 2012, but remains dependent on international developments, particularly in Europe. Given that confidence is anticipated to remain fragile, private sector fixed-investment activity is expected to remain modest. However, government and public corporations are forecast to escalate infrastructure spending, which is expected to contribute to improved wholesale advances growth.

Consumer spending is anticipated to moderate as concerns on inflation, house prices and job security prevail. Transactional demand is expected to remain robust, while credit demand is likely to improve slowly off a low base as consumer balance sheets strengthen and debt levels decline.

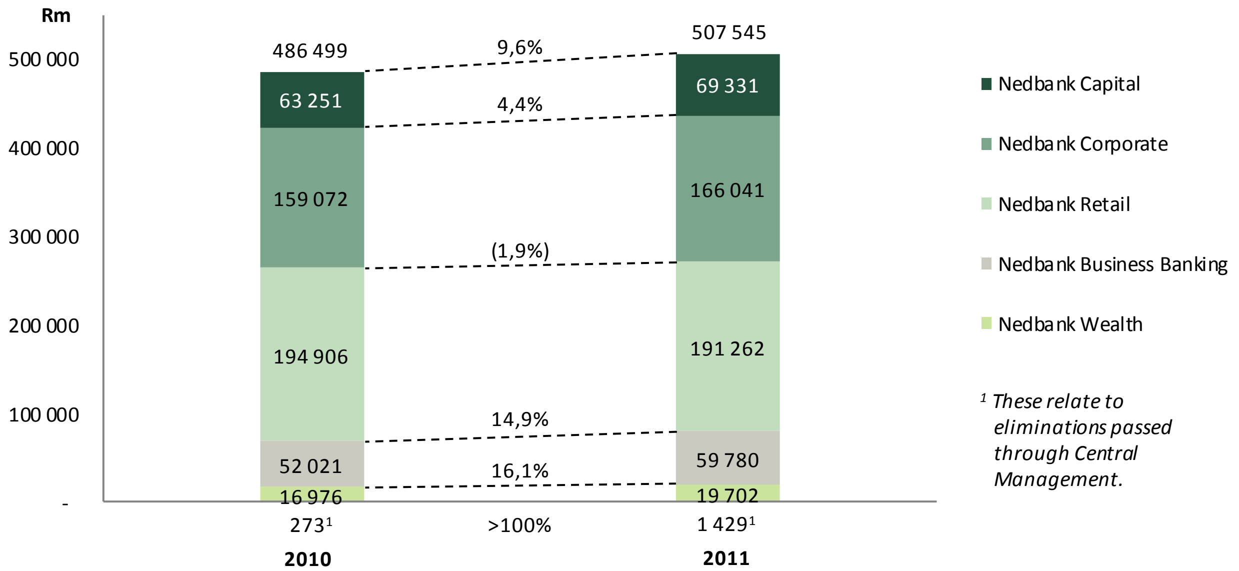
SUMMARY OF LOANS AND ADVANCES BY BUSINESS CLUSTER

2011 **Rm**	**Gross**	**Mix** **%**	**Total** **impairments**	**Net**	**Mix** **%**
Nedbank Capital	**69 331**	**14**	**(821)**	**68 510**	**14**
Trading Book	**19 952**	**4**		**19 952**	**4**
Banking Book	**49 379**	**10**	**(821)**	**48 558**	**10**
Nedbank Corporate	**166 041**	**33**	**(1 287)**	**164 754**	**33**
Total Nedbank RBB	**251 042**	**49**	**(9 107)**	**241 935**	**49**
Nedbank Retail	**191 262**	**37**	**(7 599)**	**183 663**	**37**
Nedbank Business Banking	**59 780**	**12**	**(1 508)**	**58 272**	**12**
Nedbank Wealth	**19 702**	**4**	**(77)**	**19 625**	**4**
Other	**1 429**		**(205)**	**1 224**	
Total	**507 545**	**100**	**(11 497)**	**496 048**	**100**
2010 Rm	Gross	Mix %	Total impairments	Net	Mix %
Nedbank Capital	63 251	13	(923)	62 328	13
Trading Book	19 679	4		19 679	4
Banking Book	43 572	9	(923)	42 649	9
Nedbank Corporate	159 072	33	(1 369)	157 703	33
Total Nedbank RBB	246 927	51	(8 828)	238 099	50
Nedbank Retail	194 906	40	(7 572)	187 334	39
Nedbank Business Banking	52 021	11	(1 256)	50 765	11
Nedbank Wealth	16 976	3	(107)	16 869	4
Other	273		1	274	
Total	486 499	100	(11 226)	475 273	100

Gross loans and advances grew 4,3% to R508bn (2010: R487bn) with growth increasing, particularly in the wholesale portfolios, during the fourth quarter.

Advances totalling R9bn were transferred from Nedbank Retail to Nedbank Business Banking in 2011 to leverage its strong client and risk practices. On a like-for-like basis the growth in Nedbank Retail was 2,7%, while Nedbank Business Banking's advances, excluding the full impact of the Imperial Bank transfer and other client moves, remained flat.

GROSS LOANS AND ADVANCES BY BUSINESS CLUSTER



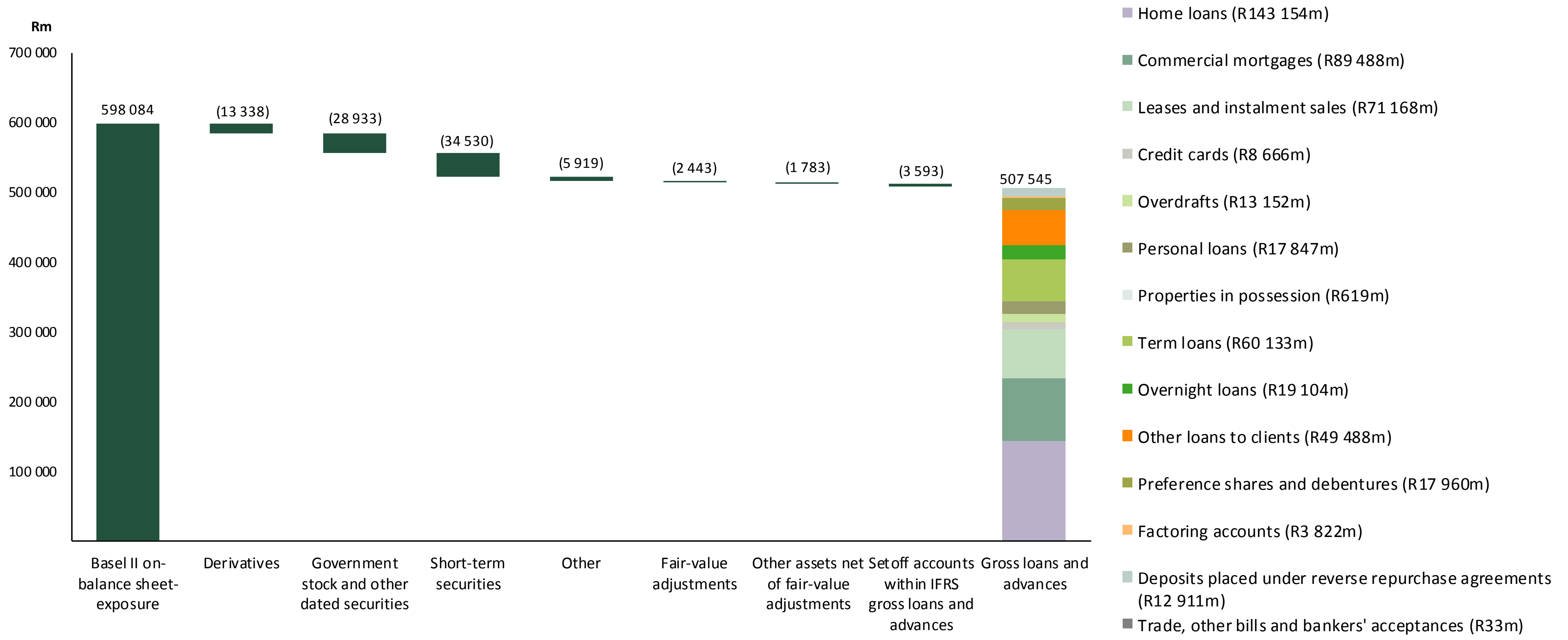
SUMMARY OF LOANS AND ADVANCES BY PRODUCT

Rm	Annual change %	2011 Rm	Mix %	2010 Rm	Mix %
Home loans	(1,9)	143 154	28,2	145 895	30,0
Commercial mortgages	3,9	89 488	17,6	86 100	17,7
Leases and installment debtors	4,8	71 168	14,0	67 881	14,0
Credit cards	9,6	8 666	1,7	7 910	1,6
Overdrafts	(1,2)	13 152	2,6	13 307	2,7
Personal loans	37,3	17 847	3,5	13 001	2,7
Properties in possession	(6,5)	619	0,1	662	0,1
Other term loans	(2,4)	60 133	11,9	61 604	12,7
Overnight loans	52,2	19 104	3,8	12 552	2,6
Other loans to clients	15,4	49 488	9,8	42 897	8,8
Preference shares and debentures	(12,4)	17 960	3,5	20 499	4,2
Factoring accounts	19,4	3 822	0,8	3 202	0,7
Deposits placed under reverse repurchase agreements	19,0	12 911	2,5	10 849	2,2
Trade, other bills and bankers' acceptances	(76,4)	33	<0,01	140	<0,01
Gross loans and advances	4,3	507 545	100,0	486 499	100,0
Total impairments	2,4	(11 497)		(11 226)	
Net loans and advances	4,4	496 048		475 273	

The group advanced R116bn (R112bn) of new loans during the period. However, this was largely offset by early repayments as clients continued to deleverage in the subdued economic climate.

The Basel II balance-sheet exposure at year-end is R598bn (2010: R569bn). The reconciliation of the Basel II exposure to gross loans and advances of R508bn at 31 December 2011 is shown below.

RECONCILIATION OF BALANCE SHEET CREDIT EXPOSURE TO GROSS LOANS AND ADVANCES AT DECEMBER 2011



Balance sheet credit exposure analysis

SUMMARY OF TOTAL BALANCE SHEET CREDIT EXPOSURE[2] BY BASEL II ASSET CLASS AND BUSINESS CLUSTER, RECONCILED TO GROSS LOANS AND ADVANCES

Rm	Nedbank Capital[1]	Nedbank Corporate[1]	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Nedbank Wealth	Central Manage-ment	Total 2011	Mix (%)	Annual change (%)	Total 2010	Mix (%)
Advanced Internal Ratings-based Approach (AIRB)	110 247	148 752	194 807	141 724	53 083	12 938	16 034	482 778	80,7	6,9	451 766	79,4
Corporate	26 420	76 433	8 439		8 439		17	111 309	18,6	9,5	101 652	17,9
Specialised lending – high-volatility commercial real estate (HVCRE)		6 123						6 123	1,0	(9,2)	6 740	1,2
Specialised lending – income-producing real estate (IPRE)	8	45 014	2 933		2 933			47 955	8,1	9,2	43 936	7,7
Specialised lending – commodities finance	143							143	0,0	113,4	67	0,0
Specialised lending – project finance	2 270							2 270	0,4	8,3	2 097	0,4
SME[3] – corporate	383	4 354	15 103		15 103		1	19 841	3,3	(28,0)	27 576	4,8
Public sector entities	6 212	10 132	14		14			16 358	2,7	(4,7)	17 158	3,0
Local governments and municipalities	513	5 631	1 105		1 105			7 249	1,2	(1,3)	7 343	1,3
Sovereign	34 384	132					13 693	48 209	8,1	51,3	31 854	5,6
Banks	39 223	931					2 323	42 477	7,1	13,2	37 515	6,6
Securities firms	36							36	0,0	(68,4)	114	0,0
Retail mortgages			110 026	105 307	4 719	9 159		119 185	19,9	(4,6)	124 883	22,0
Retail revolving credit			9 391	9 391		64		9 455	1,6	6,6	8 866	1,6
Retail – other	1		24 800	24 508	292	717		25 518	4,3	2,9	24 803	4,4
SME – retail	61	2	22 768	2 290	20 478	2 998		25 829	4,3	57,7	16 376	2,9
Securitisation exposure	593		228	228				821	0,1	4,5	786	0,1
The Standardised Approach (TSA)[4]		19 336	52 923	46 115	6 808	9 879	117	82 255	13,8	3,3	79 623	14,0
Corporate		3 485	36	2	34	1	117	3 639	0,6	13,0	3 220	0,6
SME – corporate		8 419	2 150	310	1 840			10 569	1,8	(19,0)	13 054	2,3
Public sector entities		48						48	0,0	50,0	32	0,0
Local government and municipalities		32	1		1			33	0,0	57,1	21	0,0
Sovereign		925				479		1 404	0,2	(47,8)	2 689	0,5
Banks		1 332				5 711		7 043	1,2	(13,4)	8 132	1,4
Securities firms										(100,0)	313	0,1
Retail mortgages		3 220	3 548		3 548	2 777		9 545	1,6	13,3	8 424	1,5
Retail – other		1 660	43 985	43 284	701	911		46 556	7,8	16,5	39 971	7,0
SME – retail		215	3 203	2 519	684			3 418	0,6	(0,8)	3 446	0,6
Securitisation exposure										(100,0)	321	0,1
Properties in possession		186	410	398	12	23		619	0,1	(6,5)	662	0,1
Non-regulated entities	19 803	11 636	2 478	1 832	646	380	(1 865)	32 432	5,4	(11,7)	36 735	6,5
Total Basel II balance sheet exposure[2]	130 050	179 910	250 618	190 069	60 549	23 220	14 286	598 084	100,0	5,2	568 786	100,0
Less assets included in Basel II asset classes	(60 702)	(10 750)	881	1 193	(312)	(3 518)	(12 857)	(86 946)		10,0	(79 033)	
Derivatives	(13 106)	(74)				(2)	(156)	(13 338)		(8,2)	(14 526)	
Government stock and other dated securities	(10 905)	(4 572)	(9)	(9)			(13 447)	(28 933)		0,4	(28 818)	
Short-term securities	(29 874)	(1 130)				(3 279)	(247)	(34 530)		34,0	(25 764)	
Call money	(3 020)	(127)	155	155		(603)	3	(3 592)		184,4	(1 263)	
Deposits with monetary institutions	(1 442)	(1 090)				(10)	12	(2 530)		62,6	(1 556)	
Remittances in transit	3	167	33	31	2			203		78,1	114	
Fair-value adjustments	(515)	(1 795)	(133)	(43)	(90)			(2 443)		6,0	(2 305)	
Other assets net of fair-value adjustments on assets	(1 843)	(2 129)	835	1 059	(224)	376	978	(1 783)		(63,7)	(4 915)	
Setoff of accounts within IFRS total gross loans and advances	(17)	(3 119)	(457)		(457)			(3 593)		10,4	(3 254)	
Total gross loans and advances	69 331	166 041	251 042	191 262	59 780	19 702	1 429	507 545		4,3	486 499	

[1] Nedbank Corporate and Nedbank Capital include London Branch (AIRB Approach).
[2] Balance sheet credit exposure includes on-balance-sheet, repurchase and resale agreements, and derivative exposure (refer next page for details).
[3] SME = small and medium-sized enterprises.
[4] The Legacy Imperial Bank Book, Fairbairn Private Bank (UK) and the non-South African banking entities in Africa are covered by TSA.

Advanced Internal Ratings-based Approach for Nedbank Group

Nedbank Limited and London Branch make up 88% of the total credit extended by Nedbank Group and are covered by the Basel II AIRB approach, with the legacy Imperial Bank Fairbairn Private Bank (UK) and the non-South African Nedbank African subsidiaries' credit portfolios covered by TSA. Nedbank intends to apply to the SARB in 2012 for approval to use the AIRB approach for the legacy Imperial Bank book.

SUMMARY OF THE COMPONENTS OF THE TOTAL BASEL II BALANCE SHEET CREDIT EXPOSURE BY BUSINESS CLUSTER AND ASSET CLASS

2011 Rm	AIRB on-balance-sheet exposure	AIRB off-balance-sheet exposure	Repurchase and resale exposure	Derivative exposure	Total credit extended[1]	EAD	Downturn EL (performing)	Best estimate of EL (non-performing)
Nedbank Capital	84 505	10 985	12 910	12 832	121 232	100 831	116	557
Corporate	23 742	5 080	928	1 751	31 501	29 561	87	557
Specialised lending – IPRE				8	8	10		
Specialised lending – commodities finance	142				142	148		
Specialised lending – project finance	2 270	25			2 295	2 362	14	
SME – corporate	47			336	383	463	4	
Public sector entities	5 282		24	905	6 211	6 168		
Local governments and municipalities	197			317	514	289		
Sovereign	28 408	13	5 972	4	34 397	28 583	1	
Banks	23 824	749	5 950	9 450	39 973	28 315	9	
Securities firms			36		36	1		
Retail – other						1		
SME – retail				61	61	79	1	
Securitisation exposure	593	5 118			5 711	4 851		
Nedbank Corporate	148 752	56 624			205 376	188 579	345	572
Corporate	76 433	46 797			123 230	109 126	183	30
Specialised lending – HVCRE	6 123	395			6 518	6 517	42	380
Specialised lending – IPRE	45 014	1 112			46 126	47 478	99	82
SME – corporate	4 354	1 075			5 429	5 388	19	39
Public sector entities	10 132	2 258			12 390	11 944		41
Local governments and municipalities	5 631	25			5 656	5 792	1	
Sovereign	132				132	137		
Securities firm		1 048			1 048	177		
Banks	931	3 914			4 845	2 018	1	
SME – retail	2				2	2		
Total Nedbank RBB	194 807	58 086			252 893	244 252	3 063	6 013
Corporate	8 449	3 981			12 430	11 726	67	119
Specialised lending – IPRE	2 933	379			3 312	3 366	9	6
SME – corporate	15 103	7 053			22 156	21 910	123	172
Public sector entities	14	17			31	24		
Local governments and municipalities	1 105	32			1 137	1 170		
Retail mortgages	110 026	19 744			129 770	131 487	684	2 881
Retail revolving credit	9 391	16 202			25 593	17 561	557	666
Retail – other	24 800	2 019			26 819	25 242	1 334	1 455
SME – retail	22 768	8 659			31 427	31 548	289	714
Securitisation exposure	218				218	218		
Nedbank Retail	141 724	37 887			179 611	172 423	2 610	5 083
Corporate	10	315			326	326	8	
Retail mortgages	105 307	18 295			123 602	125 583	647	2 744
Retail revolving credit	9 391	16 202			25 592	17 561	557	666
Retail – other	24 508	1 942			26 450	24 930	1 333	1 431
SME – retail	2 290	1 133			3 423	3 805	65	242
Securitisation exposure	218				218	218		
Nedbank Business Banking	53 083	20 199			73 282	71 829	453	930
Corporate	8 439	3 666			12 105	11 400	59	119
Specialised lending – IPRE	2 933	379			3 312	3 366	9	6
SME – corporate	15 103	7 053			22 156	21 910	123	172
Public sector entities	14	17			31	24		
Local governments and municipalities	1 105	32			1 137	1 170		
Retail mortgages	4 719	1 449			6 168	5 904	37	137
Retail – other	292	77			369	312	1	24
SME – retail	20 478	7 526			28 004	27 743	224	472
Nedbank Wealth	12 938	3 329			16 267	17 826	40	51
Retail mortgages	9159	2814			11 973	12 777	26	41
Retail revolving credit	64	257			321	644	3	1
Retail – other	717	124			841	903	6	8
SME – retail	2998	134			3 132	3 502	5	1
Central Management	16 032			2	16 034	16 311	59	46
Corporate	16			1	17	18		46
Sovereign	13693				13693	13942		
Banks	2322			1	2323	2350	59	
SME – retail	1				1	1		
Total excluding intercompany	457 034	129 024	12 910	12 834	611 802	567 799	3 623	7 239
Downturn EL (AIRB Approach)								10 862
IRFS impairment on loans and advances								9 404
Excess of downturn EL over eligible provisions								1 458

[1] *Total credit extended is AIRB on-balance-sheet repurchase and resale derivatives and off-balance sheet exposures (includes unutilised facilities).*

[2] *Results shown include Nedbank Limited and London branches.*

SUMMARY DISTRIBUTION BY VALUE OF NEDBANK LIMITED'S[3] AIRB KEY CREDIT RISK PARAMETERS (ANALYSIS BASED ON THE TOTAL BOOK IE PERFORMING AND NON PERFORMING (DEFAULT) PORTFOLIOS)

PD bands 2011	Exposure (EAD) Rm	EAD weighted average PD %	EAD weighted average dLGD %	dEL %	EAD weighted average risk weight %
NGR 01[1]					
NGR 02[1]					
NGR 03	53 827	0,02	13,10	0,00	3
NGR 04	40 380	0,03	31,26	0,01	8
NGR 05	16 738	0,04	23,80	0,01	6
NGR 06	49 457	0,06	21,90	0,01	6
NGR 07	16 852	0,08	24,76	0,02	11
NGR 08	10 164	0,11	35,96	0,04	23
NGR 09	18 036	0,16	29,46	0,05	24
NGR 10	17 696	0,23	29,69	0,07	23
NGR 11	10 333	0,32	24,05	0,08	18
NGR 12	34 562	0,45	23,20	0,11	32
NGR 13	36 702	0,64	22,38	0,14	31
NGR 14	47 570	1,01	19,20	0,19	30
NGR 15	63 447	1,32	18,31	0,24	30
NGR 16	33 359	1,90	21,14	0,40	42
NGR 17	19 398	2,56	27,20	0,70	47
NGR 18	25 998	3,62	23,39	0,85	51
NGR 19	12 660	5,12	33,49	1,71	67
NGR 20	20 234	6,70	37,74	2,53	80
NGR 21	10 516	10,24	35,01	3,58	88
NGR 22	4 918	14,48	43,74	6,34	105
NGR 23	5 542	20,48	29,68	6,08	108
NGR 24	1 936	28,96	49,55	14,35	140
NGR 25	4 478	40,96	36,30	14,87	130
DEFAULT	17 105	100,00	28,18	28,18	35
Sub-total	571 907	496	29,55	1,47	31
Slotting exposure[2]	6 664				
Securitisation[1]	5 068				
Total EAD	583 639				
Intercompany balances	35 254				
EAD net of intercompany	548 385				

[1] *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 ECap parameters.*

[2] Supervisory *slotting and securitisation exposures are not reported by NGR band in the BA200 return.*

[3] *Nedbank Limited refers to the South African reporting entity in terms of Regulation 38 (BA700) of the South African banking regulations. Results do not include the legacy Imperial Bank book and London branch.*

ANALYSIS OF PORTFOLIOS - WHOLESALE (AS AT DECEMBER 2011)

		Corporate[1]				SME Corporate				Public Sector Entities				Local Government and Municipalities			
Risk Grade	Average PD	EL	EAD	dLGD	Exposure weighted average risk weight	EL	EAD	dLGD	Exposure weighted average risk weight	EL	EAD	dLGD	Exposure weighted average risk weight	EL	EAD	dLGD	Exposure weighted average risk weight
	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%
Performing																	
1																	
2																	
3	0,02									<1	13 419	14,41	4,60				
4	0,03	3	30 990	35,03	8,64					<1	4 017	14,08	6,30	<1	12	33,80	5,38
5	0,04	<1	3 007	29,58	11,75	<1	1	51,07	6,26	<1	1	17,10	3,60	<1	415	13,52	8,07
6	0,06	3	22 993	22,74	8,32	<1	66	50,47	24,67					<1	5 455	13,65	10,46
7	0,08	2	11 427	26,97	13,14	<1	12	50,42	16,94		< 1	17,20	6,08	<1	766	13,52	12,88
8	0,11	4	9 548	34,98	24,43	<1	27	24,07	15,38								
9	0,16	8	17 500	29,25	24,31	<1	33	26,26	16,26								
10	0,23	9	15 145	26,07	23,43	<1	180	17,69	14,75					<1	26	17,20	25,00
11	0,32	3	3 743	21,00	23,55	1	1 708	20,01	21,39					<1	494	17,34	29,18
12	0,45	25	22 426	24,79	42,15	1	1 187	23,90	31,30					<1	10	17,20	19,25
13	0,64	28	17 426	25,30	46,23	3	3 045	16,89	25,27								
14	0,91	32	17 220	20,77	42,14	8	3 953	23,52	39,02					<1	3	17,20	26,80
15	1,28	37	12 974	22,28	53,19	11	3 776	22,55	40,76					<1	15	17,04	47,03
16	1,81	43	10 619	22,52	58,47	17	3 653	25,56	51,72					<1	15	17,20	54,64
17	2,56	12	2 558	18,96	55,65	24	3 809	24,88	53,55					<1	3	17,20	41,82
18	3,62	15	2 134	18,92	54,96	21	2 449	23,58	55,89								
19	5,12	29	2 599	22,15	79,61	22	1 782	24,22	63,21								
20	7,24	102	5 258	26,71	88,75	17	1 006	23,54	73,84					1	38	30,31	104,24
21	10,24	30	1 449	20,43	89,11	8	280	29,04	100,43								
22	14,48	15	631	16,28	74,67	<1	13	24,31	97,23								
23	20,48	18	269	32,89	170,24	4	103	16,98	76,08								
24	28,96	1	18	12,67	75,90	6	104	20,20	95,77								
25	40,96	19	187	24,95	133,61												
Default	100	840	1 764	48,18	116,31	211	576	30,77	129,37	41	271	30,37	188,25				
Total		1 278	2 11 884	26,59	32,66	354	27 763	23,18	46,92	41	17 708	14,58	7,80	1	7 252	14,03	12,59

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

ANALYSIS OF PORTFOLIOS - WHOLESALE (AS AT DECEMBER 2011) continued...

		Sovereigns				Banks				Securities Firms			
Risk Grade	Average PD	EL	EAD	dLGD	Exposure weighted average risk weight	EL	EAD	dLGD	Exposure weighted average risk weight	EL	EAD	dLGD	Exposure weighted average risk weight
	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%
Performing													
1													
2													
3	0,02	1	40 409	12,66	2,91								
4	0,03	<1	1 545	12,6	7,25	<1	2 152	34,89	7,36				
5	0,04					1	13 113	22,12	5,26				
6	0,06	<1	22	15,89	9,07	2	16 587	21,98	3,15	1	3 916	24,09	<1
7	0,08	<1	7	34,17	12,07	<1	1 269	36,77	12,99				
8	0,11					<1	17	40,73	19,72	<1	176	34,17	15,46
9	0,16					<1	3	33,44	21,51				
10	0,23					1	588	49,21	59,36				
11	0,32					<1	354	13,31	23,49	<1	1	34,17	30,62
12	0,45	<1	134	49,4	73,52	<1	23	40,01	40,94				
13	0,64							45,02	52,64				
14	0,91					<1	9	44,23	59,88				
15	1,28					1	203	49,23	131,66				
16	1,81		< 1	34,17	70,22			44,23	90,93		< 1	34,17	70,22
17	2,56					1	99	50,47	113,89				
18	3,62					1	43	44,37	106,1				
19	5,12					1	32	44,23	120,91				
20	7,24					67	2 830	32,59	96,79				
21	10,24												
22	14,48						< 1	63,99	289,32				
23	20,48												
24	28,96						< 1	57,52	300,99				
25	40,96												
Default	100		23	49,4	617,5		< 1	77,82	24,13				
Total		1	42 138	12,8	3,63	75	37 323	24,72	13,9	1	4 093	24,52	0,67

ANALYSIS OF PORTFOLIOS - RETAIL (AS AT DECEMBER 2011) — Nedbank Limited[1]

Risk Grade	Average PD	Retail Mortgages EL	Retail Mortgages EAD	Retail Mortgages dLGD	Retail Mortgages Exposure weighted average risk weight	Retail Revolving Credit EL	Retail Revolving Credit EAD	Retail Revolving Credit dLGD	Retail Revolving Credit Exposure weighted average risk weight	SME Retail EL	SME Retail EAD	SME Retail dLGD	SME Retail Exposure weighted average risk weight	Retail Other EL	Retail Other EAD	Retail Other dLGD	Retail Other Exposure weighted average risk weight	Total EL	Total EAD	Total dLGD	Total Exposure weighted average risk weight
	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%	Rm	Rm	%	%
Performing																					
1																					
2																					
3	0,02																	1	53 827	13,1	3,33
4	0,03	<1	1 663	13,49	1,24													3	40 380	31,19	7,98
5	0,04					<1	199	67,98	1,89									1	16 738	23,8	6,45
6	0,06					<1	412	55,5	2,08					<1	2	67,98	8,43	6	49 457	21,9	6,13
7	0,08	<1	3 257	14,6	2,92	<1	114	31,93	1,59					<1	6	50,09	8,16	2	16 852	24,76	11,06
8	0,11					<1	393	61,02	4,07									4	10 164	35,96	23,45
9	0,16	<1	75	13,69	4,65	<1	422	41,31	3,67	<1	3	27,04	9,39	<1	2	70,67	19,16	8	18 036	29,46	23,73
10	0,23	<1	226	13,52	5,94	2	1 487	62,83	7,41	<1	32	22,48	9,89					12	17 696	29,69	22,95
11	0,32	1	2 025	13,13	7,44	2	1 366	56,88	8,89	1	634	27,97	15,41	<1	12	63,76	28,04	8	10 333	24,05	17,87
12	0,45	5	8 649	13,42	9,76	2	877	53,69	11,08	1	807	33,3	22,63	1	8	53,83	29,65	35	34 562	23,2	32,38
13	0,64	10	11 207	13,75	12,73	5	1 567	54,72	14,83	3	2 615	20,89	17,18	2	450	43,47	29,55	51	36 702	22,38	30,56
14	0,91	22	15 330	15,75	18,47	8	1 436	58,31	20,67	17	8 074	22,76	22,16	5	842	41	33,72	92	47 570	21,37	30
15	1,28	73	40 032	14,16	20,87	12	1 559	62,52	28,86	14	4 074	27,1	30,42	5	1 544	36,56	35,59	153	63 447	18,85	30,22
16	1,81	37	13 764	14,77	27,13	15	1 263	64,09	38,29	17	3 349	27,77	34,86	6	814	45,49	51,06	135	33 359	22,22	41,62
17	2,56	28	6 577	16,44	37,29	23	1 374	64,64	49,64	20	3 053	25,76	35,02	27	696	44,82	56,26	135	19 398	27,2	47,39
18	3,62	100	15 366	17,99	49,81	19	832	63,85	62,51	32	3 443	25,43	36,36	33	1 926	53,92	73,3	221	25 998	23,39	51,21
19	5,12	16	1 917	16,32	54,42	21	642	63,33	78,25	33	2 379	26,89	39,77	95	1 733	52,58	75,17	217	12 660	33,49	66,95
20	7,24	29	2 430	16,5	65,19	47	1 016	64,28	99	83	3 684	31,09	48,14	166	3 309	56,17	83,1	512	20 234	34,92	79,55
21	10,24	73	4 499	15,83	72,59	39	571	66,44	125,53	17	523	31,06	52,55	210	3 972	57,66	89,27	376	10 516	35,01	88,42
22	14,48	27	1 199	15,39	79,76	52	538	67,39	152,92	16	369	30,52	59,18	201	3 195	64,18	108,59	311	4 918	43,74	105,1
23	20,48	111	3 511	15,49	87,52	61	447	66,68	176,46	7	122	29,15	65,58	135	2 167	63,94	123,99	337	5 542	29,68	107,65
24	28,96	11	228	16,25	94,95	66	337	67,26	198,62	24	295	28,09	71,14	171	1 089	60,7	136,58	279	1 936	49,55	139,58
25	40,96	167	2 371	17,24	95,58	184	647	69,44	212,56	11	78	33,13	88,05	285	953	61,83	156,6	666	4 478	36,3	129,7
Default	100	2 922	9 937	16,76	8,53	667	707	71,65	5,29	714	1 598	32,29	82,67	1 463	1 194	58,17	154,62	6 858	17 105	29,1	34,79
Total		3 632	144 264	15,21	28,3	1 225	18 205	61,39	49,2	1 010	35 132	26,34	34,56	2 805	2 230	52,4	13,43	10 423	571 907	24,27	30,65

[1] Results shown are for Nedbank Limited only and do not include the legacy Imperial Bank book and London branch.

NEDBANK LIMITED[1] AIRB BASEL II ON-BALANCE-SHEET EXPOSURE BY RESIDUAL CONTRACTUAL MATURITY

2011 Rm	Less than 1 year	1 year	1 to 5 years	Greater than 5 years	Total on-balance-sheet exposure
AIRB Approach	79 313	29 432	116 493	213 083	438 321
Corporate[2]	24 377	25 665	65 933	58 360	174 335
Public sector entities	2 338	382	4 483	7 796	14 999
Local governments and municipalities	93	30	734	6 074	6 932
Sovereign	23 048		12 865	5 796	41 709
Banks	16 288	621	2 084	966	19 960
Securities firms					
Retail exposure	12 864	2 734	30 106	133 872	179 576
Retail mortgages	4		1 196	117 637	118 837
Retail revolving credit	9 454				9 454
Retail – other	1 746	2	22 142	1 627	25 516
SME – retail	1 660	2 732	6 768	14 608	25 768
Securitisation exposure	304		288	218	810
TSA	8 531		32 056	19 666	60 253
Corporate[1]	7 569		655	1 292	9 516
Local governments and municipalities			1		1
Retail exposure	961		31 400	18 374	50 735
Retail mortgages			28	3 520	3 548
Retail – other	719		29 014	14 252	43 985
SME – retail	242		2 358	602	3 203
Total	87 843	29 432	148 549	232 749	498 574

[1] Nedbank Limited refers to the South African reporting entity in terms of Regulation 38 (BA700) of the South African banking regulations. Results do not include the legacy Imperial Bank book and London branch.

[2] Includes corporate, SME corporate and specialised lending asset classes.

The Standardised Approach (TSA) for Nedbank Group

The exposure under TSA which consists of the legacy Imperial Bank book Nedbank Group's African subsidiaries and Fairbairn is 12% of Nedbank Group total credit extended. A breakdown of exposures by asset class is shown in the table below.

SUMMARY OF STANDARDISED APPROACH FOR NEDBANK GROUP - BASEL II CREDIT EXPOSURES BY BUSINESS CLUSTER AND ASSET CLASS

2011 Rm	TSA on-balance-sheet exposure	TSA off-balance-sheet exposure	Repurchase and resale exposure	Derivative exposure	Total credit extended[1]
Nedbank Corporate	**19 320**	**99**		**16**	**19 435**
Corporate	3 469			16	3 485
SME –corporate	8 419	99			8 518
Public sector entities	48				48
Local governments and municipalities	32				32
Sovereign	925				925
Banks	1 332				1 332
Retail mortgages	3 220				3 220
Retail –other	1 660				1 660
SME –retail	215				215
Total Nedbank RBB	**52 923**	**717**			**53 640**
Corporate	36	5			41
SME – corporate	2 150	112			2 262
Local governments and municipalities	1				1
Retail mortgages	3 548	363			3 911
Retail – other	43 985	195			44 180
SME – retail	3 203	42			3 245
Securitisation					
Nedbank Retail	**46 115**	**259**			**46 374**
Corporate	2	5			7
SME – corporate	310	28			338
Retail – other	43 284	190			43 474
SME – retail	2 519	36			2 555
Securitisation exposure					
Business Banking	**6 808**	**458**			**7 266**
Corporate	34				34
SME – corporate	1 840	85			1 925
Local governments and municipalities	1				1
Retail mortgages	3 548	363			3 911
Retail – other	701	4			705
SME – retail	684	6			690
Nedbank Wealth	**9 879**				**9 879**
Corporate	1				1
Sovereign	479				479
Banks	5 711				5 711
Retail mortgages	2 777				2 777
Retail – other	911				911
Central Management	**117**				**117**
Corporate	117				117
Banks					
Total	**82 239**	**816**		**16**	**83 071**

[1] *Total credit extended is on-balance-sheet exposure derivatives and off-balance-sheet exposures (includes unutilised facilities).*

Impairments, credit loss ratios and defaulted loans and advances

The tables on the following pages summarise Nedbank Group's level of impairments, credit loss ratios (CLRs) and defaulted portfolio. The policies, principles and definitions relating to the defaulted portfolio and impairments are well articulated in the group's credit policy and a summary of these definitions is included in Annexure B.

SUMMARY OF IMPAIRMENTS, CREDIT LOSS RATIOS, DEFAULTED LOANS AND ADVANCES, AND PROPERTIES IN POSSESSION

%	Nedbank Capital	Nedbank Corporate	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Nedbank Wealth	Total
2011							
Impairments to gross loans and advances	**1,18**	**0,77**	**3,63**	**3,98**	**2,53**	**0,39**	**2,27**
Specific impairments	**1,04**	**0,54**	**2,82**	**3,09**	**1,98**	**0,27**	**1,73**
Portfolio impairments	**0,14**	**0,23**	**0,81**	**0,89**	**0,55**	**0,12**	**0,54**
Impairments charge as a % of NII	**46,53**	**12,83**	**32,51**	**38,62**	**11,52**	**10,20**	**29,56**
Credit loss ratio	**1,23**	**0,29**	**1,63**	**1,98**	**0,54**	**0,25**	**1,14**
specific	**1,27**	**0,33**	**1,45**	**1,77**	**0,47**	**0,26**	**1,02**
portfolio	**(0,04)**	**(0,04)**	**0,18**	**0,21**	**0,07**	**(0,01)**	**0,12**
Credit loss ratio target range	**0,10 – 0,35**	**0,20 – 0,35**		**1,50 – 2,20**	**0,55 – 0,75**	**0,20 – 0,40**	**0,60 – 1,00**
Defaulted advances to gross loans and advances	**2,10**	**2,34**	**6,89**	**7,43**	**5,15**	**2,25**	**4,55**
Properties in possession to gross loans and advances	**-**	**0,11**	**0,16**	**0,21**	**0,02**	**0,12**	**0,12**
2010							
Impairments to gross loans and advances	1,45	0,86	3,58	3,88	2,42	0,63	2,30
Specific impairments	1,27	0,59	2,94	3,20	1,95	0,48	1,86
Portfolio impairments	0,18	0,27	0,64	0,68	0,47	0,15	0,44
Impairments charge as a % of NII	44,55	9,29	45,82	55,66	8,64	6,17	37,26
Credit loss ratio	1,27	0,20	2,18	2,67	0,40	0,15	1,36
specific	1,17	0,27	2,08	2,46	0,71	0,16	1,32
portfolio	0,10	(0,07)	0,10	0,21	(0,31)	(0,01)	0,04
Defaulted advances to gross loans and advances	2,03	2,58	8,51	9,09	6,31	2,16	5,50
Properties in possession to gross loans and advances	-	-	0,26	0,32	0,02	0,11	0,14

Nedbank Group has business-cluster-specific CLR targets (as set out above) taking into account historic TTC targeted performance as well as desired risk appetite. Nedbank Group's targeted CLR is 0,6% to 1,0%.

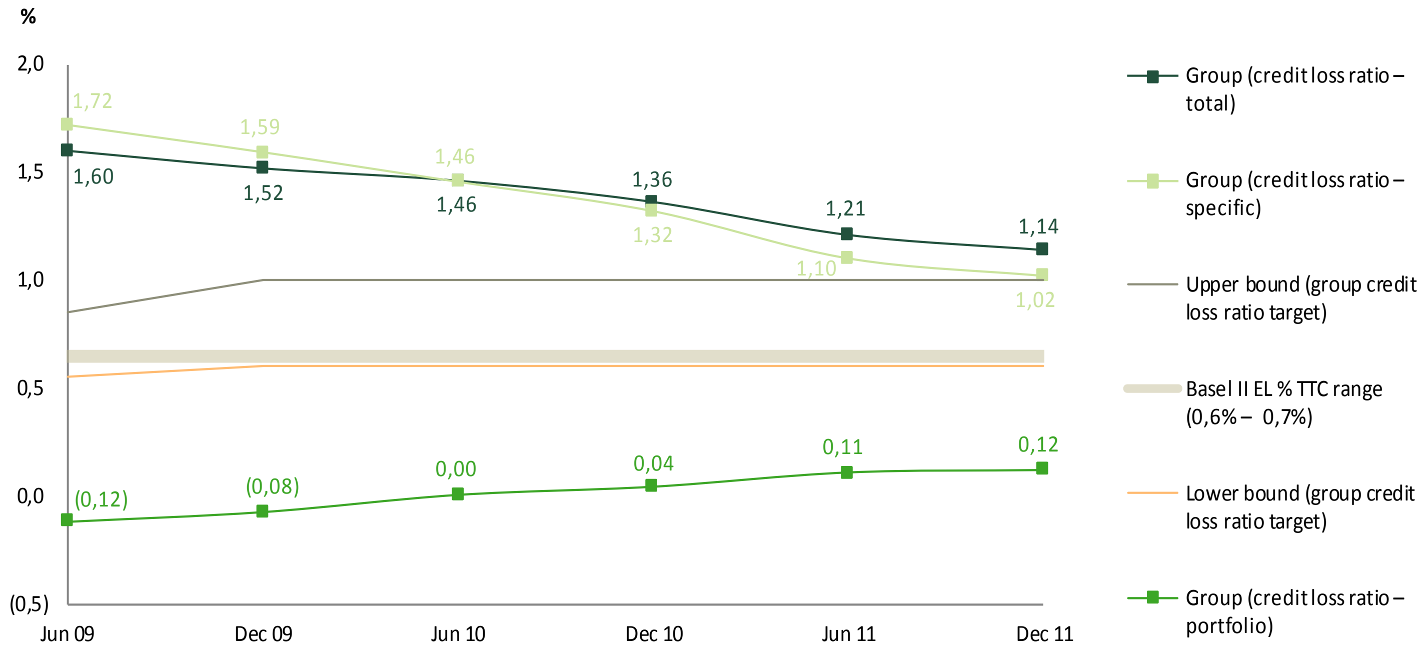
The increased level of portfolio impairments includes R159m relating to lengthened emergence period assumptions and R200m in the centre for unknown events that may have already occurred but will only be evident in the future.

The CLR on the banking book improved to 1,14% for the year (2010: 1,36%) while further strengthening the portfolio impairment provisions. The CLR relating to specific impairments improved substantially to 1,02% for the year (2010: 1,32%) as defaulted advances continued tracking downwards to R23 073m (2010:R26 765m).

Nedbank Retail's CLR of 1,98% (2010: 2,67%) is now within the cluster's TTC target range of 1,5% - 2,2%. Nedbank Capital's CLR of 1,23% remained elevated at similar levels to 2010 mainly due to impairment charges on increased non-performing loans. CLRs in Nedbank Corporate, Nedbank Business Banking and Nedbank Wealth remained within or better than the respective clusters' TTC target ranges.

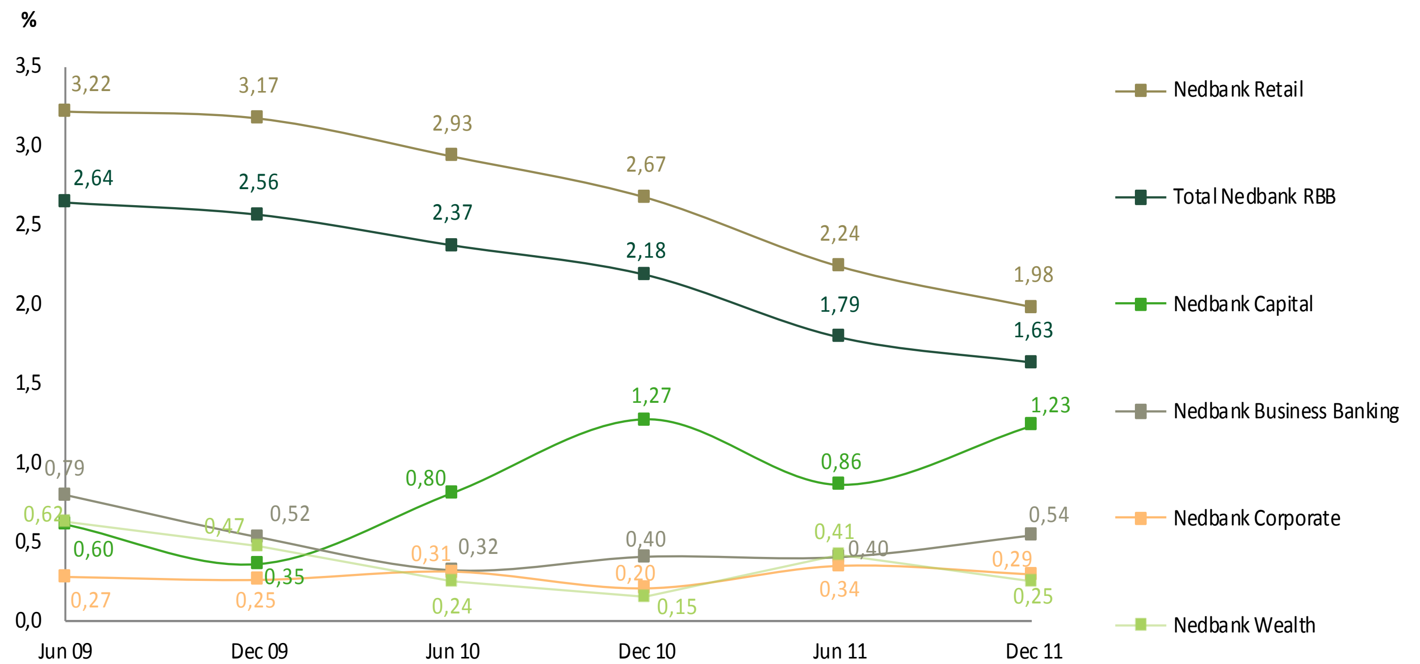
CLRs in all other clusters remained within or better than the respective cluster's TTC ranges.

TREND OF CREDIT LOSS RATIO VERSUS TARGET RANGE FOR NEDBANK GROUP



The business clusters' credit loss ratios over time are also shown below.

BUSINESS CLUSTERS' TOTAL CREDIT LOSS RATIO TRENDS



Note: Nedbank Corporate and Nedbank Retail CLRs restated due to Imperial Bank integration.

A reconciliation of the impairments movements over the past year is shown below.

RECONCILIATION OF IMPAIRMENTS BY BUSINESS CLUSTER

Rm	Nedbank Capital	Nedbank Corporate	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Nedbank Wealth	Central Management	2011	Annual change (%)	2010
Opening balance	923	1 369	8 828	7 572	1 256	107	(1)	11 226	14,6	9 798
Specific impairments	806	932	7 251	6 237	1 014	82	1	9 072	15,9	7 830
Specific impairments, excluding discounts	782	555	6 385	5 588	797	17	1	7 740	15,7	6 690
Specific impairments for discounted cashflow losses	24	377	866	649	217	65		1 332	16,8	1 140
Portfolio impairments	117	437	1 577	1 335	242	25	(2)	2 154	9,5	1 968
Income statement impairments charge (net of recoveries)	549	458	4 053	3 729	324	45	226	5 331	(13,8)	6 188
Specific impairments	545	636	3 559	3 254	305	61	3	4 804	(17,2)	5 802
Net increase/decrease in impairments for discounted cashflow losses	23	(117)	58	80	(22)	(15)		(51)	(>100)	192
Portfolio impairments	(19)	(61)	436	395	41	(1)	223	578	>100	194
Recoveries	1	18	624	598	26	1	(3)	641	(16,0)	763
Amounts written off/other transfers	(652)	(558)	(4 398)	(4 300)	(98)	(76)	(17)	(5 701)	3,2	(5 523)
Specific impairments	(653)	(566)	(4 405)	(4 263)	(142)	(76)	(17)	(5 717)	3,7	(5 515)
Portfolio impairments	1	8	7	(37)	44			16	>100	(8)
Closing balance	821	1 287	9 107	7 599	1 508	77	205	11 497	2,4	11 226
Specific impairments	722	903	7 087	5 906	1 181	53	(16)	8 749	(3,6)	9 072
Specific impairments, excluding discounts	675	643	6 163	5 177	986	3	(16)	7 468	(3,5)	7 740
Specific impairments for discounted cashflow losses	47	260	924	729	195	50		1 281	(3,8)	1 332
Portfolio impairments	99	384	2 020	1 693	327	24	221	2 748	27,6	2 154
Total gross loans and advances	69 331	166 041	251 042	191 262	59 780	19 702	1 429	507 545	4,3	486 499
Total average gross banking book loans and advances	44 835	158 396	248 880	188 473	60 407	18 155	(2 350)	467 916	3,0	454 105
Total average gross loans and advances	67 088	158 396	248 880	188 473	60 407	18 155	(479)	492 041	3,4	477 767

An age analysis of total gross loans and advances is shown below.

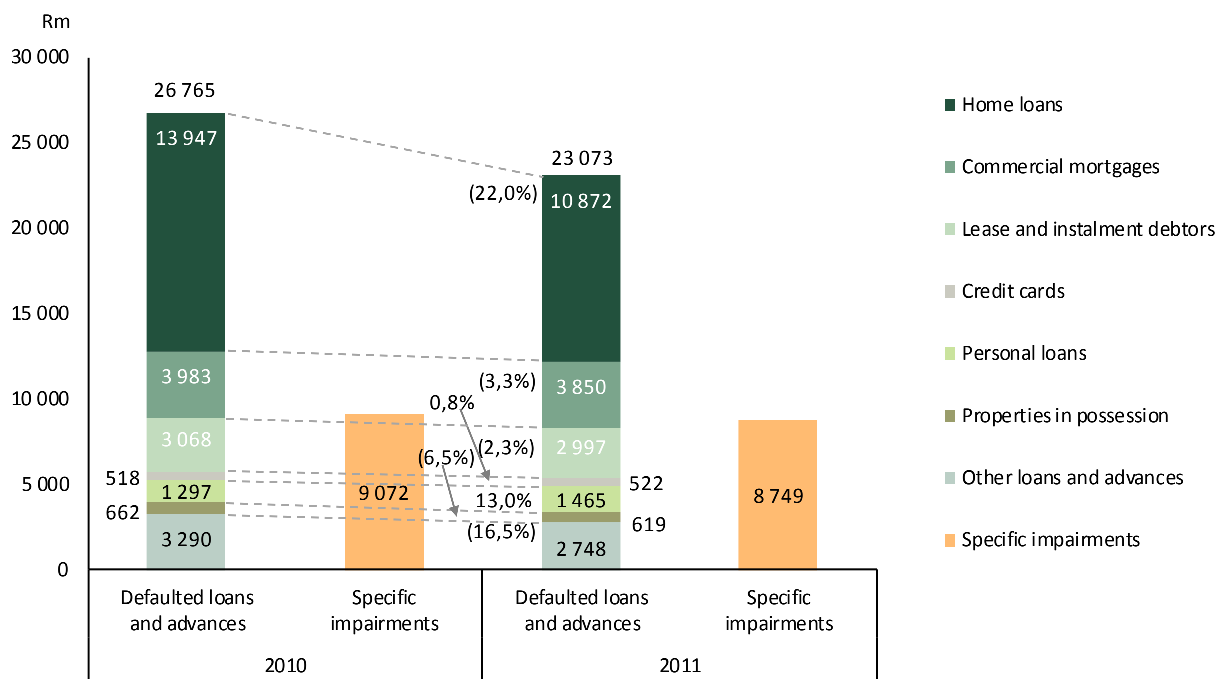
AGE ANALYSIS OF LOANS AND ADVANCES

Rm	Total 2011	Total 2010	<1 month 2011	<1 month 2010	>1 month <3 months 2011	>1 month <3 months 2010	>3 months <6 months 2011	>3 months <6 months 2010	>6 months <12 months 2011	>6 months <12 months 2010	>12 months 2011	>12 months 2010
Neither past due nor impaired	**442 037**	423 375	**442 037**	423 375	-	-	-	-	-	-	-	-
Mortgage loans	**200 447**	199 182	**200 447**	199 182								
Net finance lease and instalment debtors	**59 152**	55 715	**59 152**	55 715								
Credit cards	**7 450**	6 819	**7 450**	6 819								
Properties in possession												
Overdrafts	**11 838**	11 362	**11 838**	11 362								
Term loans	**61 914**	63 153	**61 914**	63 153								
Overnight loans	**19 099**	12 552	**19 099**	12 552								
Other loans to clients	**47 626**	40 796	**47 626**	40 796								
Preference shares and debentures	**17 923**	19 642	**17 923**	19 642								
Factoring accounts	**3 644**	3 165	**3 644**	3 165								
Deposits placed under reverse repurchase agreements	**12 911**	10 849	**12 911**	10 849								
Trade, other bills and bankers' acceptances	**33**	140	**33**	140								
Past due but not impaired	**42 435**	36 359	**35 886**	30 364	**6 187**	4 765	**23**	748	**5**	228	**334**	254
Mortgage loans	**17 414**	14 884	**14 150**	11 903	**3 245**	2 948		33			**19**	
Net finance lease and instalment debtors	**9 124**	9 098	**7 346**	8 189	**1 729**	893	**2**	16			**47**	
Credit cards	**698**	573	**507**	421	**191**	152						
Properties in possession												
Overdrafts	**518**	727	**446**	627	**55**	50	**15**	50	**2**			
Term loans	**13 968**	9 629	**13 012**	8 999	**942**	630	**6**				**8**	
Overnight loans	**5**		**5**									
Other loans to clients	**547**	664	**268**	223	**16**	20		2	**3**	181	**260**	238
Preference shares and debentures	**4**	784		2	**4**	72		647		47		16
Factoring accounts	**157**		**152**		**5**							
Deposits placed under reverse repurchase agreements												
Trade, other bills and bankers acceptances												
Subtotal	**484 472**	459 734	**477 923**	453 739	**6 187**	4 765	**23**	748	**5**	228	**334**	254
Defaulted	**23 073**	26 765										
Mortgage loans	**14 781**	17 929										
Net finance lease and instalment debtors	**2 892**	3 068										
Credit cards	**518**	518										
Properties in possession	**619**	662										
Overdrafts	**796**	1 218										
Term loans	**2 098**	1 823										
Overnight loans												
Other loans to clients	**1 315**	1 437										
Preference shares and debentures	**33**	73										
Factoring accounts	**21**	37										
Deposits placed under reverse repurchase agreements												
Trade, other bills and bankers acceptances												
Total loans and advances	**507 545**	486 499										

DEFAULTED LOANS AND ADVANCES BY BUSINESS CLUSTER AND ASSET CLASS

Rm	Nedbank Capital	Nedbank Corporate	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Nedbank Wealth	2011	2010
AIRB Approach	1 057	2 500	14 829	12 205	2 624	420	19 474	22 557
Corporate	1 034	48	221		221		1 700	1 531
Specialised lending – HVCRE		1 950					1 950	1 664
Specialised lending – IPRE		421	29		29		450	574
SME – corporate		81	527		527		608	1 366
Bank								
Sovereign	23						23	26
Retail mortgages			9 592	9 073	519	362	9 954	13 093
Retail revolving credit			705	705		2	707	749
Retail – other			2 215	2 139	76	15	2 230	2 393
SME – retail			1 540	288	1 252	41	1 581	1 161
TSA		909	2 036	1 610	426		2 945	2 983
Corporate								7
SME – corporate		909	237	2	235		1 146	1 450
Retail mortgages			83		83		83	97
Retail other			1 553	1 534	19		1 553	1 278
SME – retail			163	74	89		163	151
Other regulated entities		271					271	254
Properties in possession		186	410	398	12	23	619	662
Non-regulated entities	397	16	19		19		432	309
Total defaulted loans and advances	1 454	3 882	17 294	14 213	3 081	443	23 073	26 765

DEFAULTED LOANS AND ADVANCES AND SPECIFIC IMPAIRMENTS BY PRODUCT



Asset quality trends improved for the sixth consecutive quarter.

- Defaulted advances declined by 13,8% (annualised) to R23 073m (2010: R26 765m).
- Home loans were the main contributor with defaulted advances dropping significantly by 22,0%. Improved client affordability stabilising house prices and restructure initiatives contributed largely to the improvement.
- Restructure initiatives have kept over 13 900 families in their homes since 2009.
- Credit card default percentage reduced slightly year-on-year from 6,5% in 2010 to 6,0% in 2011.

Coverage ratio

The coverage ratio is the amount of specific impairments that have been raised for the total defaulted loans and advances. This is effectively the inverse of the expected recoveries ratio. The expected recoveries are equal to the defaulted loans and advances less the specific impairments, as specific impairments are raised for any shortfall that would arise after all recoveries are taken into account.

The expected recoveries of defaulted loans and advances include recoveries as a result of liquidation of security or collateral as well as recoveries as a result of a client curing or partial client repayments.

The absolute value of expected recoveries of defaulted accounts (which includes security values) will increase as the number of defaults increase. The expected recovery amount will in most instances be less than the total defaulted exposure, as it is seldom the case that 100% of the defaulted loan would be written off.

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

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

The Group's coverage ratio increased to 37,9% (2010: 33,9%), in line with the general improvement in the bank's credit profile and conservative stance on impairments.

SUMMARY OF DEFAULTED LOANS AND ADVANCES, SPECIFIC IMPAIRMENTS AND COVERAGE RATIO BY BUSINESS CLUSTER

Rm	Defaulted loans and advances	Defaulted loans and advances as % of total	Expected recoveries	Net uncovered position after discounting	Specific impairments	Specific impairments on defaulted loans and advances	Specific impairments for discounted cashflow losses	Coverage ratio (%) 2011	Coverage ratio (%) 2010	Expected recovery ratio (%) 2011	Expected recovery ratio (%) 2010
2011											
Nedbank Capital	1 454	6,3	732	722	722	675	47	49,7	62,6	50,3	37,4
Other loans and advances	1 454	6,3	732	722	722	675	47	49,7	62,6	50,3	37,4
Nedbank Corporate	3 882	16,9	2 979	903	903	643	260	23,3	22,7	76,7	77,3
Home loans	93	0,4	67	26	26	21	5	28,0	28,9	72,0	71,1
Commercial mortgages	3 347	14,5	2 590	757	757	532	225	22,6	21,5	77,4	78,5
Leases and instalment debtors	39	0,2	24	15	15	11	4	38,5	48,3	61,5	51,7
Personal loans	17	0,1	7	10	10	8	2	58,8	57,9	41,2	42,1
Properties in possession	186	0,8	183	3	3	2	1	1,6		98,4	100,0
Other loans and advances	200	0,9	108	92	92	69	23	46,0	27,1	54,0	72,9
Nedbank Retail	14 213	61,6	8 307	5 906	5 906	5 177	729	41,6	35,2	58,4	64,8
Home loans	9 201	39,8	6 465	2 736	2 736	2 520	216	29,7	22,8	70,3	77,2
Commercial mortgages	34	0,1	15	19	19	17	2	55,9	46,0	44,1	54,0
Leases and instalment debtors	2 252	9,8	977	1 275	1 275	1 103	172	56,6	64,8	43,4	35,2
Credit cards	519	2,3		519	519	516	3	100,0	97,3	0,0	2,7
Personal loans	1 448	6,3	471	977	977	643	334	67,5	61,7	32,5	38,3
Properties in possession	398	1,7	354	44	44	44		11,1	9,4	88,9	90,6
Other loans and advances	361	1,6	25	336	336	334	2	93,1	88,5	6,9	11,5
Nedbank Business Banking	3 081	13,3	1 900	1 181	1 181	986	195	38,3	30,9	61,7	69,1
Home loans	1 232	5,3	945	287	287	213	74	23,3	18,2	76,7	81,8
Commercial mortgages	412	1,8	329	83	83	19	64	20,1	16,0	79,9	84,0
Leases and instalment debtors	701	3,0	264	437	437	415	22	62,3	46,4	37,7	53,6
Credit cards	3	0,0	3					0,0	50,0	100,0	50,0
Personal loans											
Properties in possession	12	0,1	12					0,0		100,0	100,0
Other loans and advances	721	3,1	347	374	374	339	35	51,9	46,1	48,1	53,9
Nedbank Wealth	443	1,9	390	53	53	3	50	12,0	22,3	88,0	77,7
Home loans	346	1,5	304	42	42	(8)	50	12,1	21,4	87,9	78,6
Commercial mortgages	57	0,2	57					0,0		100,0	
Leases and instalment debtors	5	0,0	2	3	3	3		60,0		40,0	100,0
Properties in possession	23	0,1	22	1	1	1		4,3	27,8	95,7	72,2
Other loans and advances	12	0,1	5	7	7	7		58,3	100,0	41,7	
Central Management	-	-	16	(16)	(16)	(16)	-	-	-	100,0	100,0
Other loans and advances			16	(16)	(16)	(16)				100,0	100,0
Group	23 073	100,0	14 324	8 749	8 749	7 468	1 281	37,9	33,9	62,1	66,1
Home loans	10 872	47,1	7 781	3 091	3 091	2 746	345	28,4	22,3	71,6	77,7
Commercial mortgages	3 850	16,7	2 991	859	859	568	291	22,3	21,7	77,7	78,3
Leases and instalment debtors	2 997	13,0	1 267	1 730	1 730	1 532	198	57,7	60,6	42,3	39,4
Credit cards	522	2,3	3	519	519	516	3	99,4	96,9	0,6	3,1
Personal loans	1 465	6,3	478	987	987	651	336	67,4	61,6	32,6	38,4
Properties in possession	619	2,7	571	48	48	47	1	7,8	9,7	92,2	90,3
Other loans and advances	2 748	11,9	1 233	1 515	1 515	1 408	107	55,1	56,9	44,9	43,1
2010											
Group	26 765	100,0	17 693	9 072	9 072	7 740	1 332				
Home loans	13 947	52,1	10 834	3 113	3 113	2 684	429				
Commercial mortgages	3 983	14,9	3 120	863	863	467	396				
Leases and instalment debtors	3 068	11,5	1 209	1 859	1 859	1 758	101				
Credit cards	518	1,9	16	502	502	500	2				
Personal loans	1 297	4,8	498	799	799	505	294				
Properties in possession	662	2,5	598	64	64	64					
Other loans and advances	3 290	12,3	1 418	1 872	1 872	1 762	110				

Properties in Possession (PiPs)

Rm	Nedbank Capital	Nedbank Corporate	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Nedbank Wealth	Central Management	2011	2010
Opening balance		5	639	631	8	18		662	887
Disposal/Writedowns/Revaluations		(125)	(503)	(495)	(8)	(8)		(636)	(627)
PiPs acquired		306	274	262	12	13		593	402
Closing balance		186	410	398	12	23		619	662
Unsold		48	318	309	9	5		371	490
Sold awaiting transfer		138	92	89	3	18		248	172

PiPs have reduced from R662m in 2010 to R619m in 2011, driven largely by both reduced buy-ins and increased sales in the Nedbank Retail portfolio, where PiPs reduced by 37%.

Debt counselling

The analysis below is Nedbank Group's debt counselling book within the Retail Cluster, which shows both new applications in the year and the portfolio balance.

	New applications				Portfolio balance			
	2011		2010		2011		2010	
Product	No. of accounts	Exposure Rm	No. of accounts	Exposure Rm	No. of accounts	Exposure Rm	No. of accounts	Exposure Rm
Card	9 584	102	12 458	127	16 118	173	16 280	175
Personal Loans	12 643	363	14 673	369	18 273	531	15 591	397
Mortgages	1 825	822	3 665	1 760	4 222	1 762	5 759	2 672
Overdrafts	4 406	21	5 003	41	5 359	39	5 867	46
Vehicle and Asset Finance	5 230	485	9 614	607	11 948	1 151	13 621	1 286
Total	33 688	1 793	45 413	2 904	55 920	3 656	57 118	4 576

The total portfolio in terms of rand value showed a positive decline over the last year in line with what is being experienced in the industry.

Nedbank's total exposure is now under R4bn, with the rand value decline trend seen in the secured portfolios while the unsecured portfolio remained relatively stable.

Distribution and quality of Nedbank Group's credit risk profile

The graphs on the following pages are derived from group's AIRB credit system and provide a means of comparative analysis across Nedbank Group's portfolios. Long-run average or TTC LGDs are used for the derivation of EL for Nedbank Group in line with internal ECap use instead of downturn LGDs used for Basel II RegCap.

Thereafter the Nedbank Limited AIRB portfolio is presented on an asset class basis for regulatory purposes using downturn LGD (dLGD) and thus downturn EL (dEL). The graphs provided are based on both the performing and non-performing portfolios. Both the average and total performing PD, LGD and EL percentages (which include performing and non-performing advances) are shown.

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

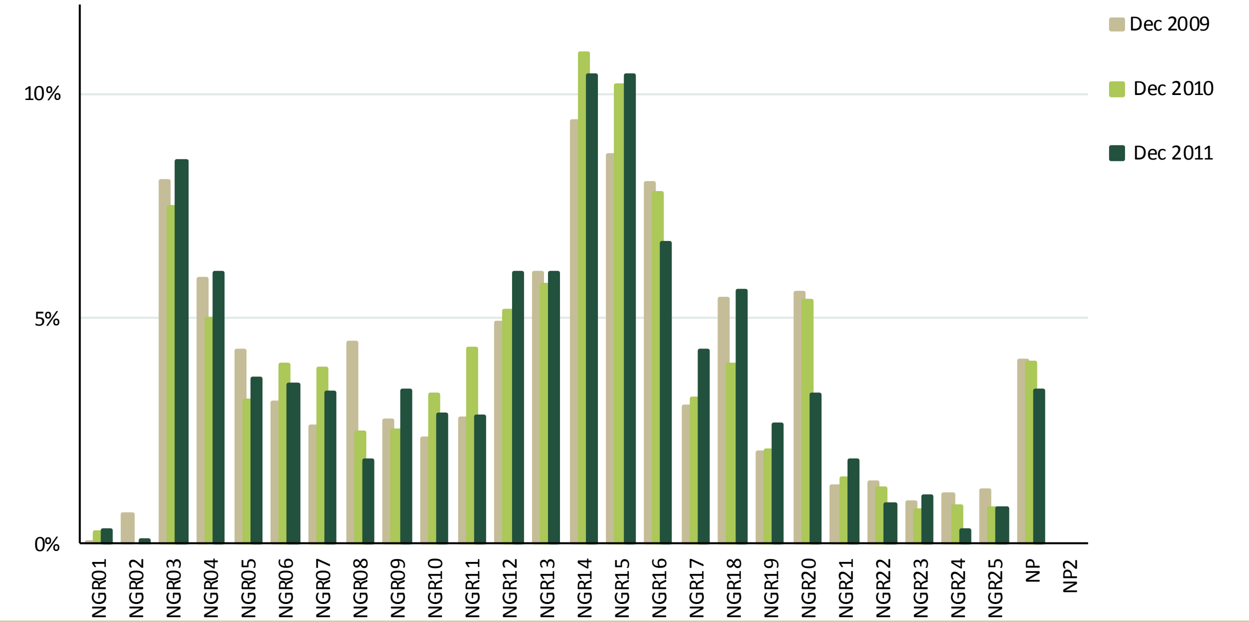
Nedbank Group's rating models are based on TTC PDs which means that they are built on long-term historical default data. The factors that are included in the models also assess clients' recent behaviour in order to update the PD accordingly with their risk profile. The models are not cycle-neutral and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

During Basel II implementation the group applied extra-conservatism in deriving some credit risk parameter estimates. With on-going refinement and data quality enhancements over time it has increasingly been in a position to remove most of this extra-conservatism reducing risk weighted assets and so to a significant extent offsetting the impact of the current deteriorating economic environment. Nedbank Group continues to dedicate efforts to the continuous improvement of data quality and the credit risk parameters that are key inputs into the AIRB credit rating system, but always erring on the side of conservatism.

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

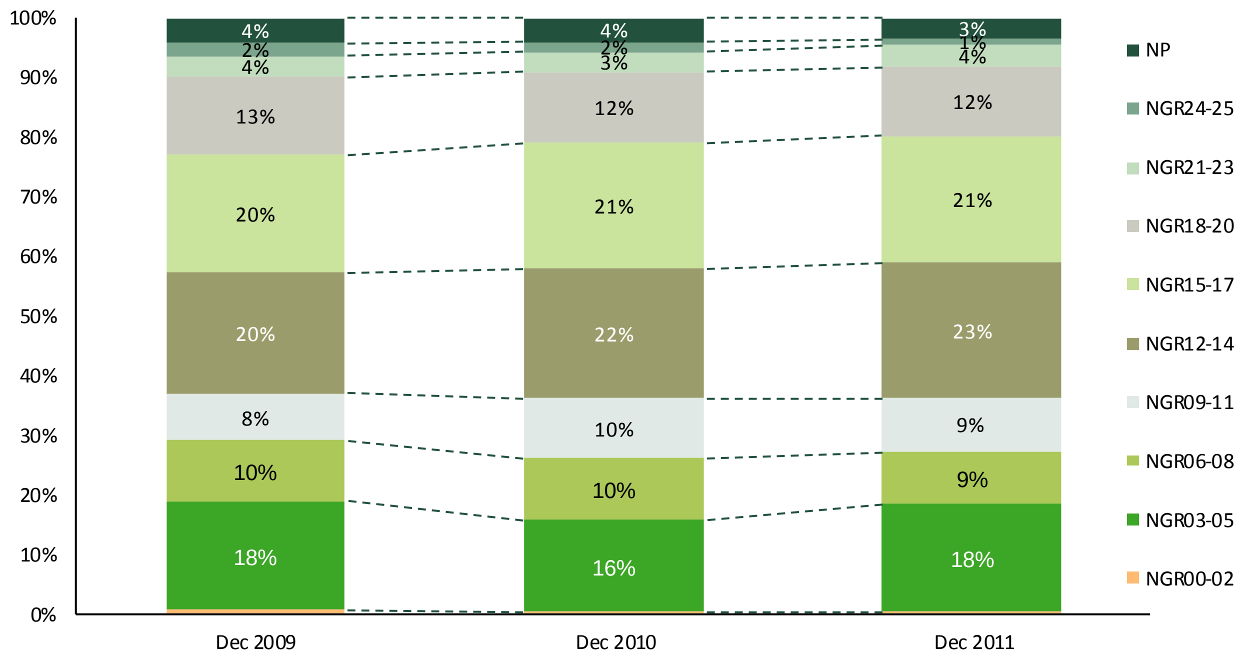
DISTRIBUTION OF TOTAL EAD OF NEDBANK GROUP[1]

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **2,15%** (2010: 2,33%)	Average performing book EAD – weighted LGD **22,49%** (2010: 20,90%)	Average performing book EAD – weighted EL **0,63%** (2010: 0,55%)
Average total book EAD – weighted PD **5,48%** (2010: 6,32%)	Average total book EAD – weighted LGD **22,69%** (2010: 20,99%)	Average total book EAD – weighted EL **1,57%** (2010: 1,47%)

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



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

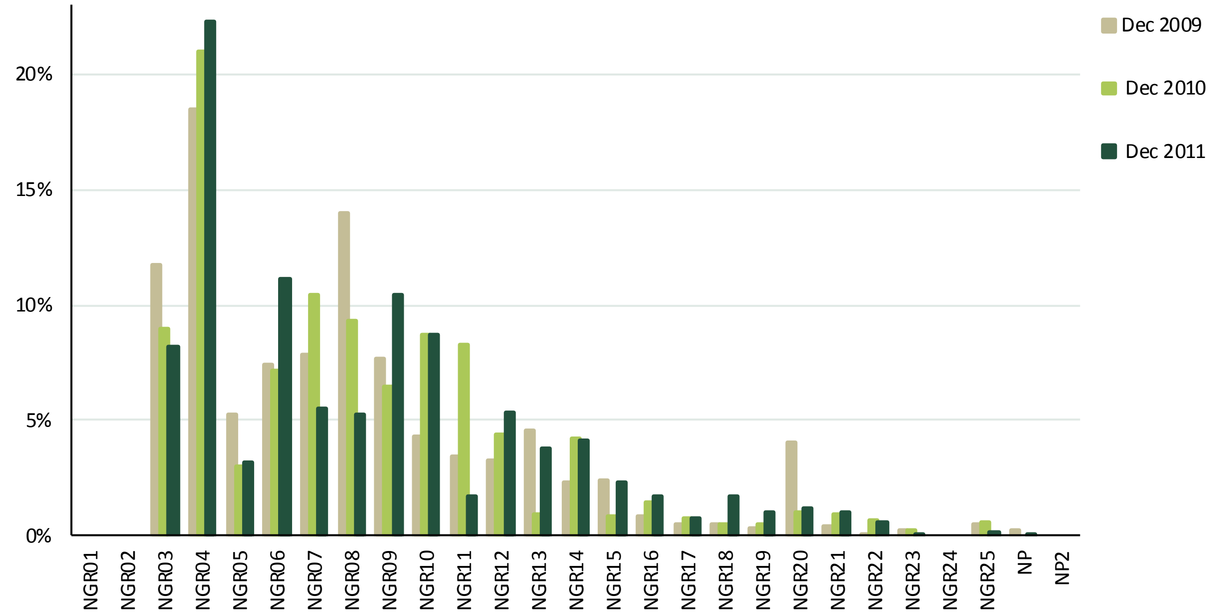
Overall the NGR distribution of the group's portfolio has remained fairly stable, with a slight decrease in defaulted exposures.

The improvement in the average performing EAD weighted PD of Nedbank Group was largely driven by improvements in the NGR distribution of the Home Loans portfolio within the Retail cluster. This was driven by an annual recalibration of the home loans PD models which highlighted the decreasing behavioural default rate experience in the portfolio, and showed the effects of the tightened credit policy since 2008 and the maturing portfolio.

The increase in LGD for the Nedbank Group portfolio was also due to increases in the Home Loans LGD's which were part of the enhancements made to the group's economic capital methodology in 2011 which implemented LTV dependant, more conservative LGD values for the calculation of economic capital.

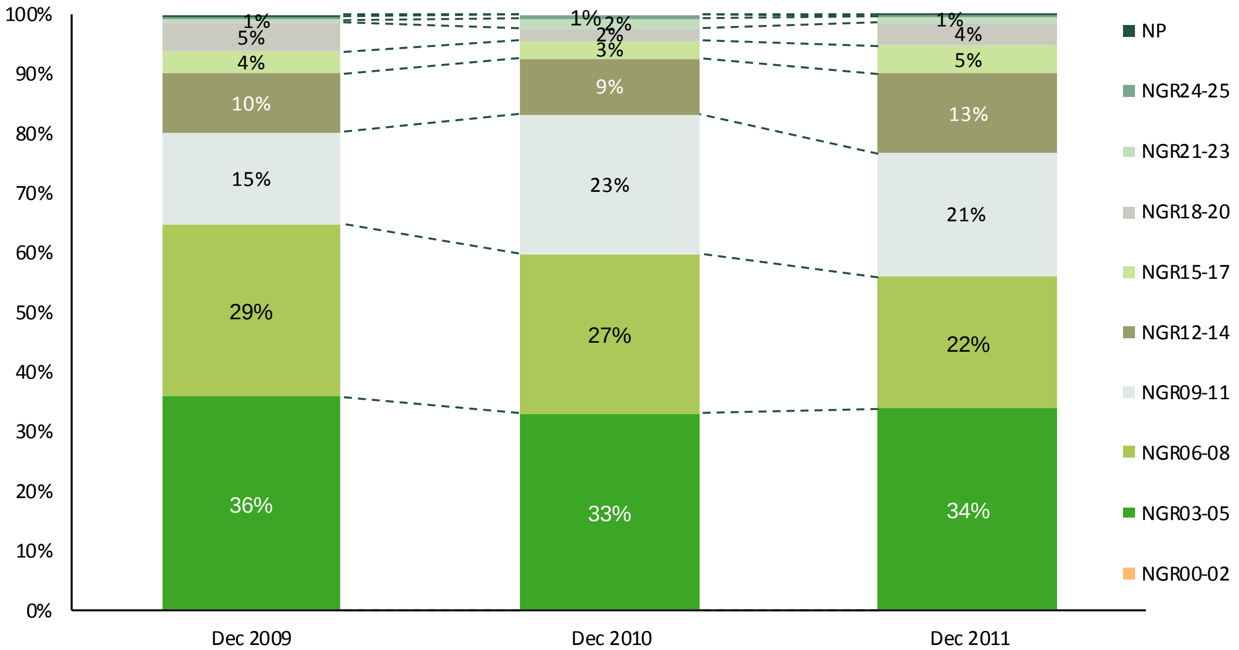
DISTRIBUTION OF NEDBANK GROUP'S TOTAL EAD BY MAJOR BUSINESS LINE
NEDBANK CORPORATE CLUSTER: CORPORATE BANKING

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **0,68%** (2010: 0,76%)	Average performing book EAD – weighted LGD **23,46%** (2010: 23,00%)	Average performing book EAD – weighted EL **0,13%** (2010: 0,16%)
Average total book EAD – weighted PD **0,75%** (2010: 1,03%)	Average total book EAD – weighted LGD **23,46%** (2010: 22,96%)	Average total book EAD – weighted EL **0,15%** (2010: 0,18%)

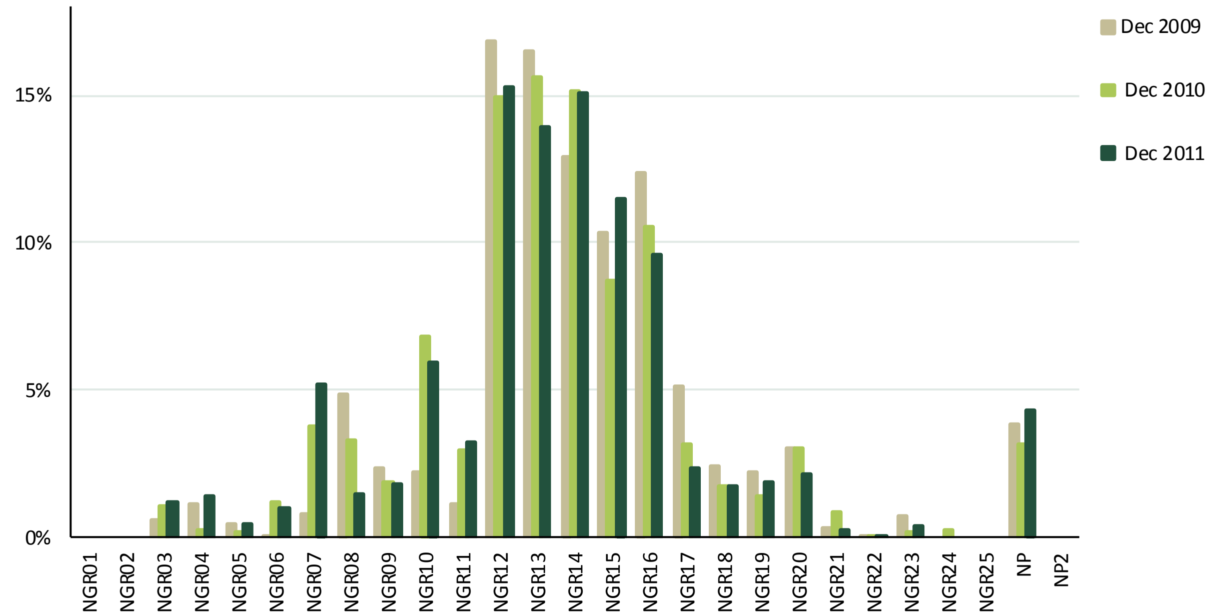
EAD % distribution by bucketed NGR bands over time (ie PD only)



The Corporate Banking portfolio is characterised by large deals to a small number of clients with low NGR ratings and the exposures are largely unsecured. This means that the LGD is generally stable evidenced by the consistent portfolio LGD. The decrease in the PD of the Corporate Banking portfolio was driven by the movement of a high value PD client out of the portfolio. The bulk of the portfolio has consistently been in the NGR03 – NGR11 buckets. In 2011 there was a slight increase in the weights in the NGR12- NGR14 buckets due to concerns in the construction industry.

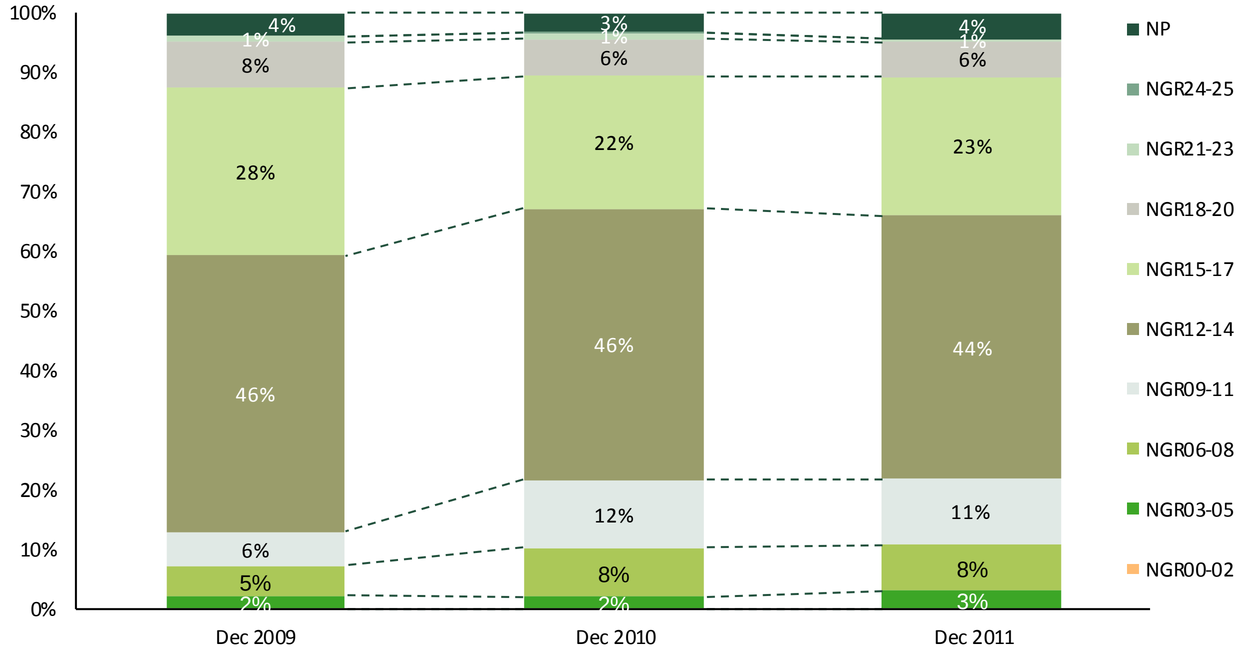
NEDBANK CORPORATE CLUSTER: PROPERTY FINANCE

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **1,17%** (2010: 1,31%)	Average performing book EAD – weighted LGD **10,43%** (2010: 11,33%)	Average performing book EAD – weighted EL **0,14%** (2010: 0, 17%)
Average total book EAD – weighted PD **5,40%** (2010: 4,40%)	Average total book EAD – weighted LGD **10,90%** (2010: 11,59%)	Average total book EAD – weighted EL **1,05%** (2010: 0,78%)

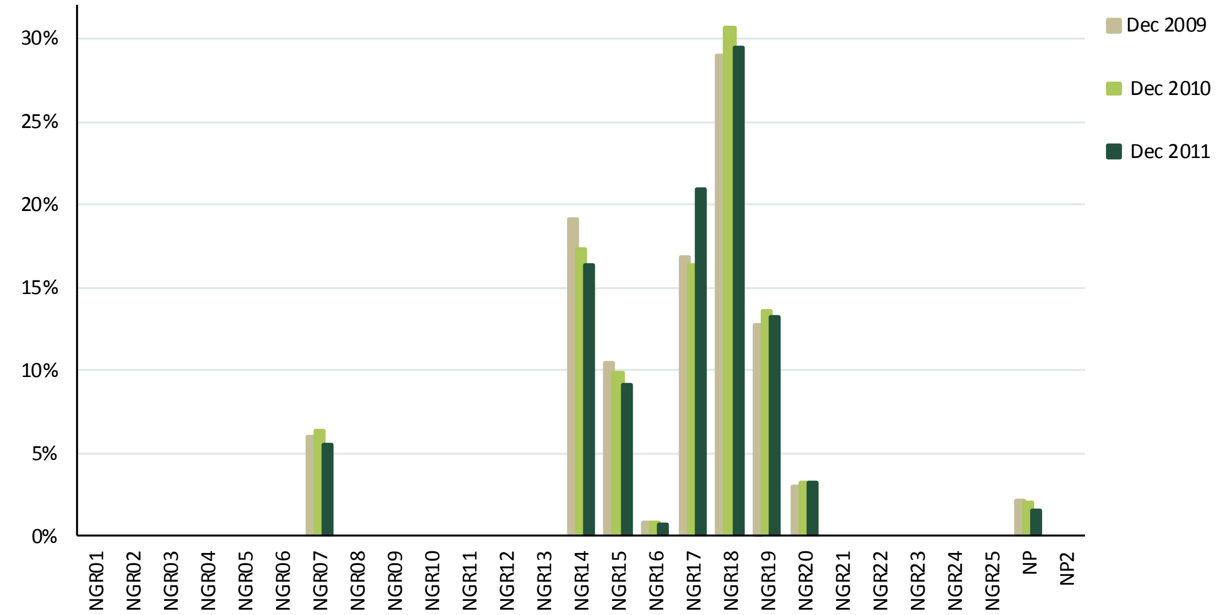
EAD % distribution by bucketed NGR bands over time (ie PD only)



With low average loan to values of below 50% across the portfolio, the LGD values in the Property Finance portfolio have consistently remained low and continued to decrease to 10,43% for the performing portfolio (2010: 11,33%). The decrease in the performing PD has largely been due to defaults impacting the residential development and vacant land portfolio negatively.

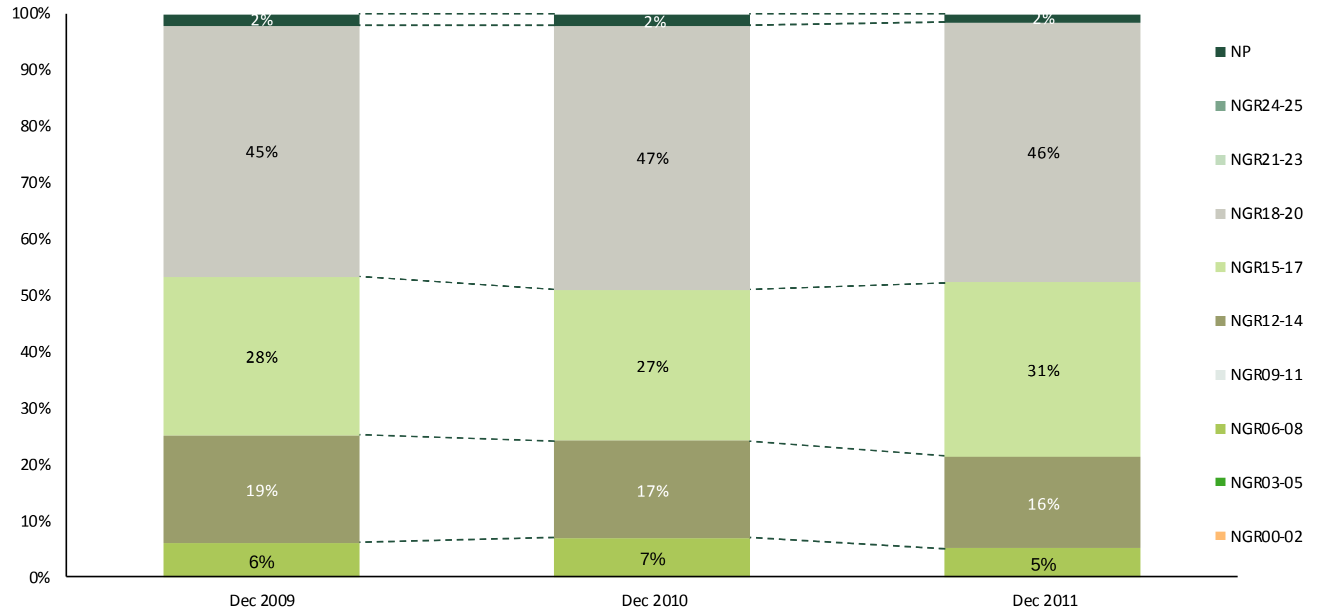
NEDBANK CORPORATE CLUSTER: NEDBANK AFRICA

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **2,84%** (2010: 2,81%)	Average performing book EAD – weighted LGD **32,82%** (2010: 32,99%)	Average performing book EAD – weighted EL **0,96%** (2010: 0,95%)
Average total book EAD – weighted PD **4,33%** (2010: 4,80%)	Average total book EAD – weighted LGD **32,82%** (2010: 32,91%)	Average total book EAD – weighted EL **1,44%** (2010: 1,52%)

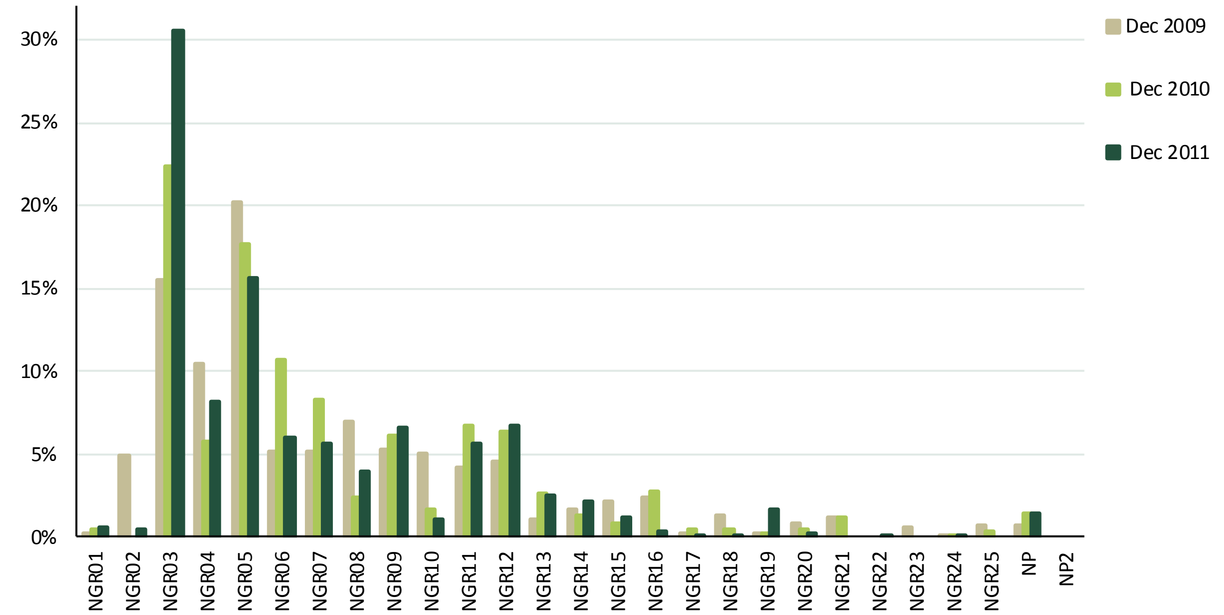
EAD % distribution by bucketed NGR bands over time (ie PD only)



Nedbank Africa utilised TSA for regulatory purposes and as such the ratings for internal economic capital purposes are based on conservative AIRB benchmarks. Changes in the PDs and LGDs are driven by changes in portfolio mix.

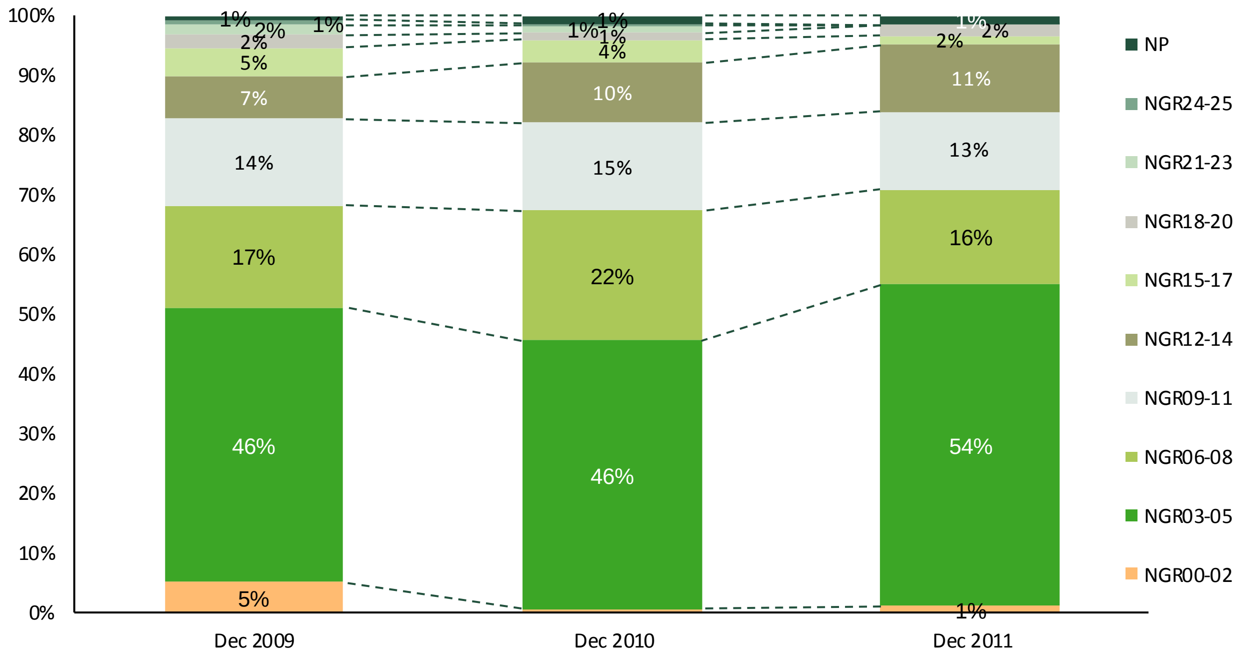
NEDBANK CAPITAL CLUSTER

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **0,25%** (2010: 0,49%)	Average performing book EAD – weighted LGD **23,17%** (2010: 24,19%)	Average performing book EAD – weighted EL **0,06%** (2010: 0,15%)
Average total book EAD – weighted PD **1,69%** (2010: 1,86%)	Average total book EAD – weighted LGD **23,41%** (2010: 24,55%)	Average total book EAD – weighted EL **0,64%** (2010: 0,84%)

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

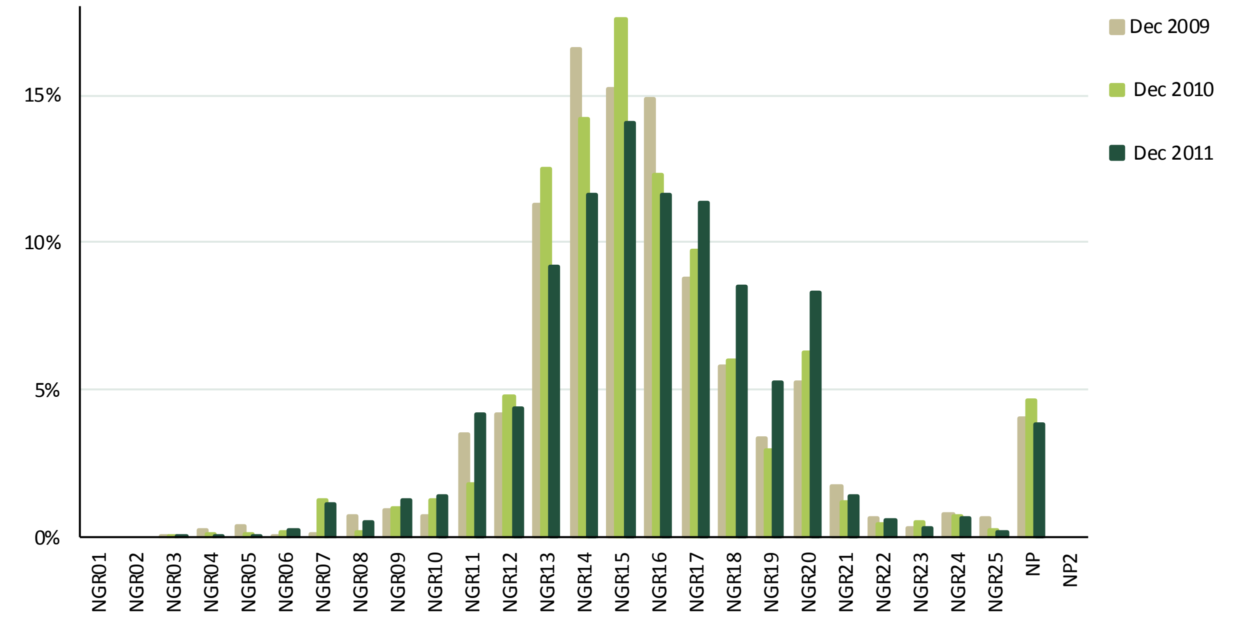


The decrease in weight in the NGR00 – 02 rating bucket in 2010 was due to the improvement of a rating model used to rate a large exposure.

The increase in weight of the NGR03 – NGR05 bucket in 2011 was due to increases in SA government exposure arising from the higher liquid asset buffer due to anticipated Basel III requirements. This was also one of the drivers of the decrease in average performing EAD weighted PD to 0,25% (2010: 0,49%). The decrease was also affected by the improvement in rating of some high PD (NGR25) clients

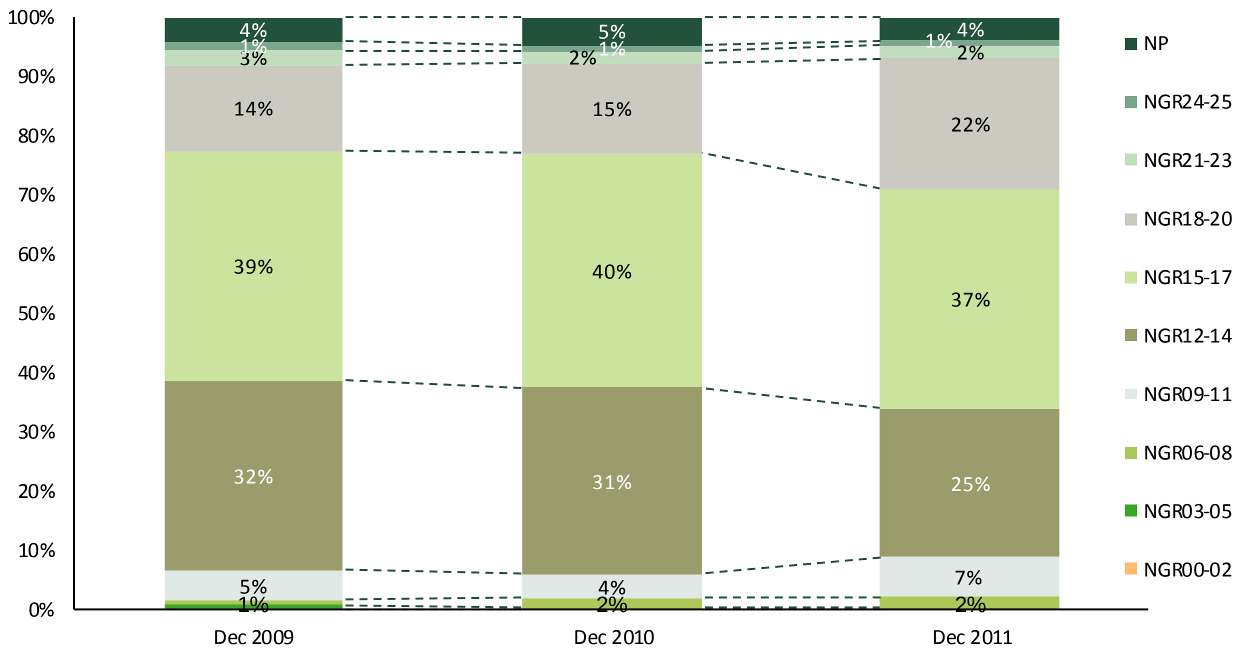
NEDBANK BUSINESS BANKING CLUSTER

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **2,71%** (2010: 2,47%)	Average performing book EAD – weighted LGD **17,16%** (2010: 16,84%)	Average performing book EAD – weighted EL **0,49%** (2010: 0,44%)
Average total book EAD – weighted PD **6,44%** (2010: 6,99%)	Average total book EAD – weighted LGD **17,42%** (2010: 17,19%)	Average total book EAD – weighted EL **1,40%** (2010: 1,55%)

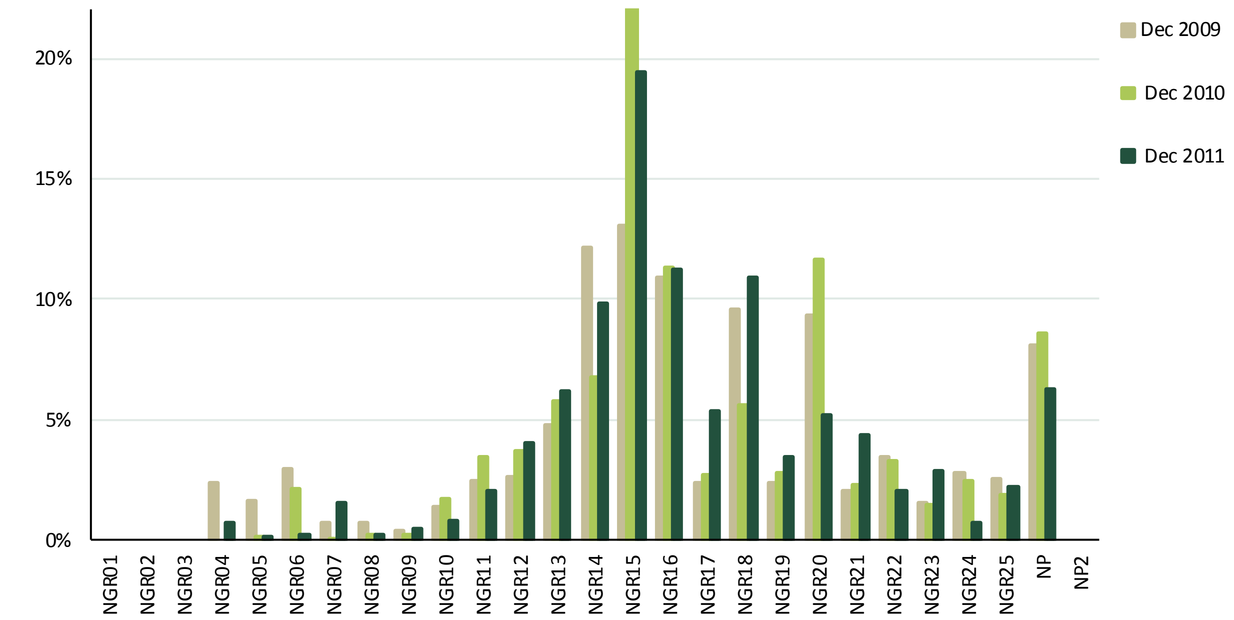
EAD% distribution by bucketed NGR bands over time (ie PD only)



As part of an annual validation in 2011, the central tendency on the SME segment of the portfolio increased which had an impact on the distribution of NGR's which caused an increase in PD for the performing portfolio to 2,71% (2010: 2,47%). This was also the driver of the increase in performing EL. The decrease in total book EL% was due to decreases in defaulted advances.

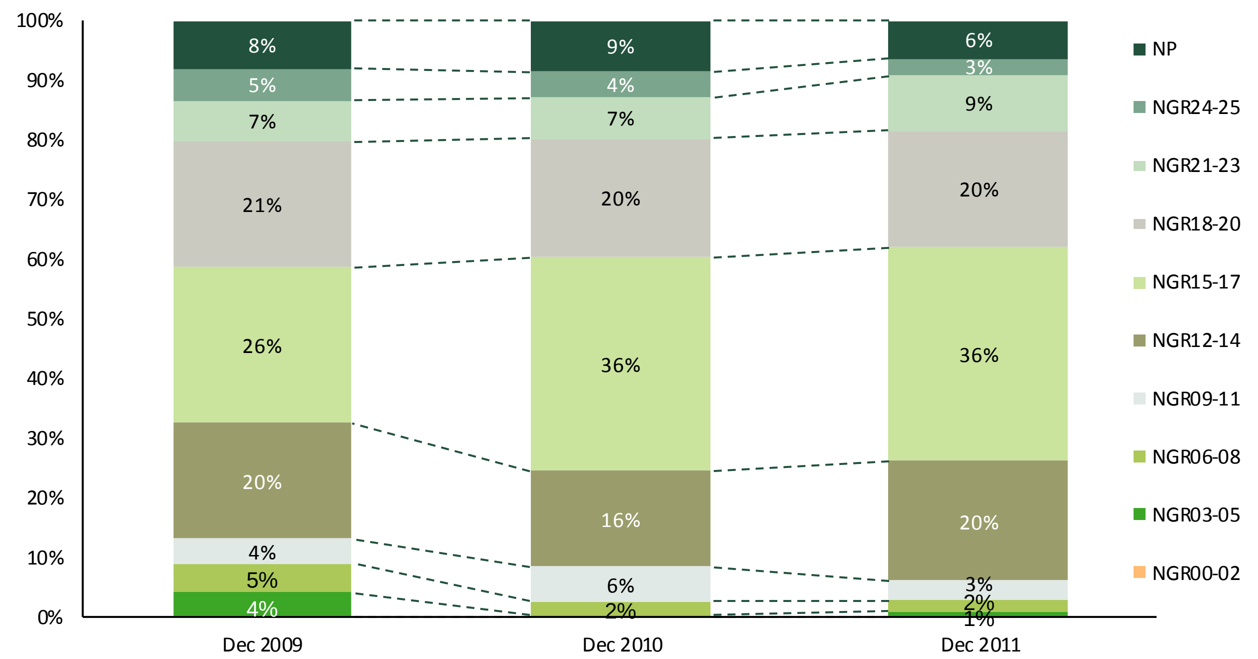
NEDBANK RETAIL CLUSTER[1]

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **4,40%** (2010: 4,75%)	Average performing book EAD – weighted LGD **27,62%** (2010: 18,95%)	Average performing book EAD – weighted EL **1,53%** (2010: 1,08%)
Average total book EAD – weighted PD **10,35%** (2010: 12,93%)	Average total book EAD – weighted LGD **27,77%** (2010: 18,72%)	Average total book EAD – weighted EL **3,30%** (2010: 2,38%)

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



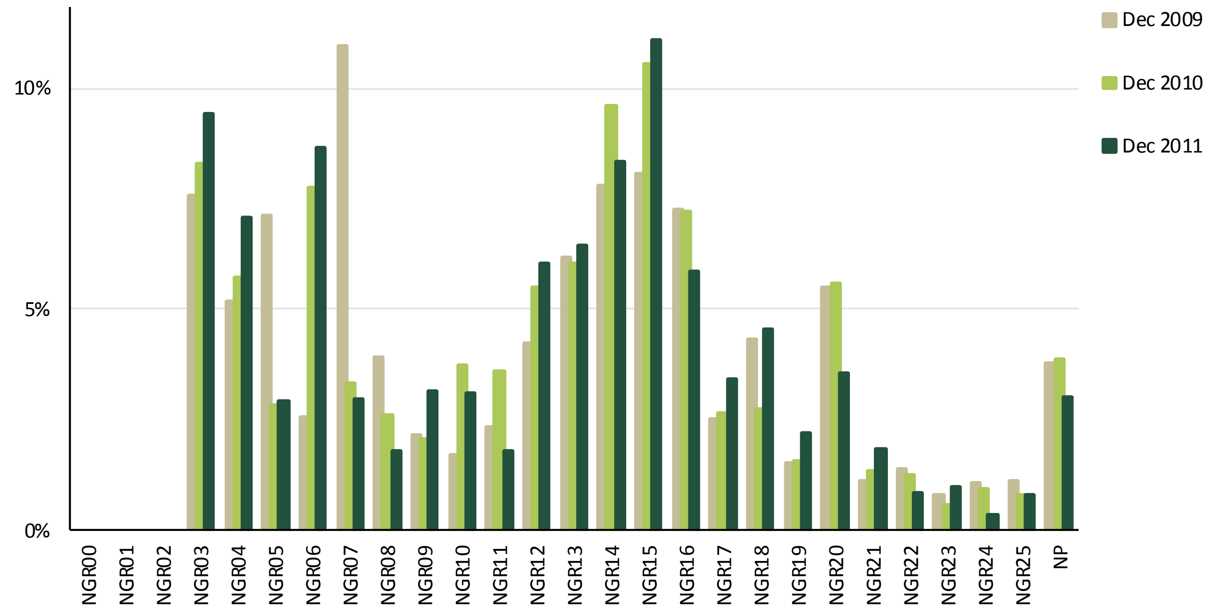
[1] *The figures for the Nedbank Retail Cluster exclude the Nedbank Wealth Cluster since 2010.*

The decrease in EAD weighted PD for the retail cluster portfolio was driven by an annual recalibration of the home loans PD models which highlighted the decreasing behavioural default rate experience in the portfolio and showed the effects of the tightened credit policy since 2008 and the maturing portfolio. This has also shifted the NGR distribution of the Retail book.

The increase in LGD in the Home Loans portfolio was part of the enhancements made to the group's economic capital methodology in 2011 which implemented LTV dependant, more conservative LGD values for the calculation of economic capital.

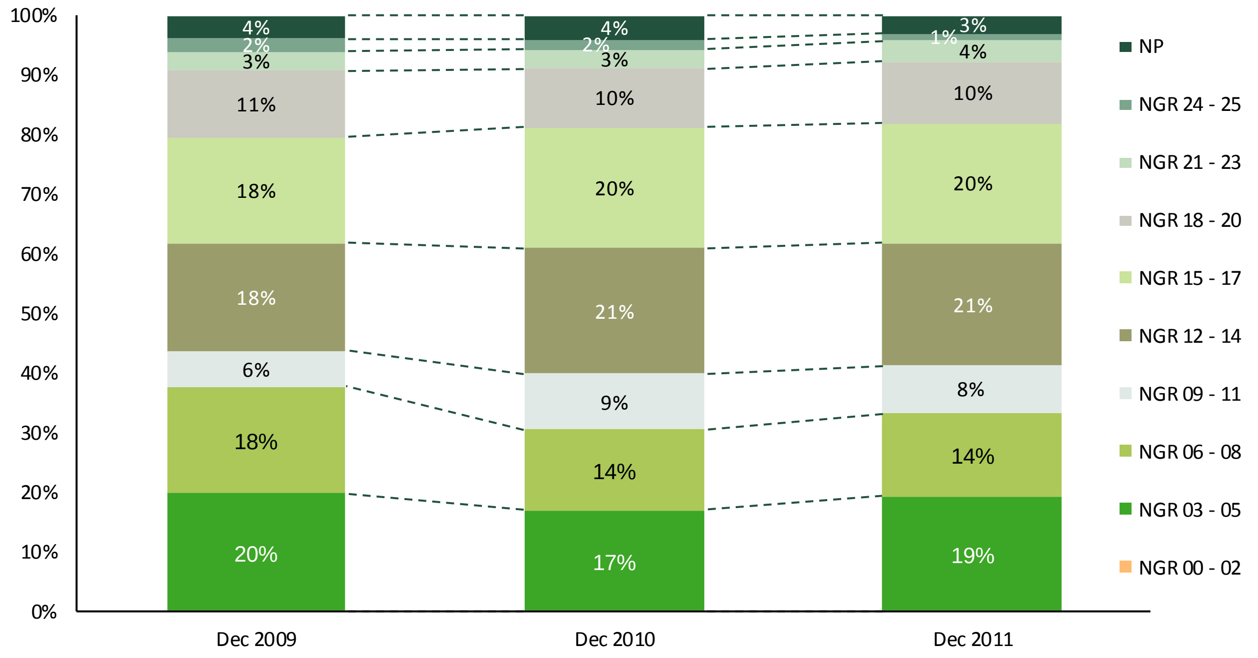
DISTRIBUTION OF TOTAL EAD OF NEDBANK LIMITED

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **2,07%** (2010: 2,33%)	Average performing book EAD – weighted LGD **24,28%** (2010: 24,04%)	Average performing book EAD – weighted dEL **0,67%** (2010: 0,62%)
Average total book EAD – weighted PD **4,96%** (2010: 6,03%)	Average total book EAD – weighted dLGD **24,27%** (2010: 24,15%)	Average total book EAD – weighted dEL **1,82%** (2010: 1,91%)

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

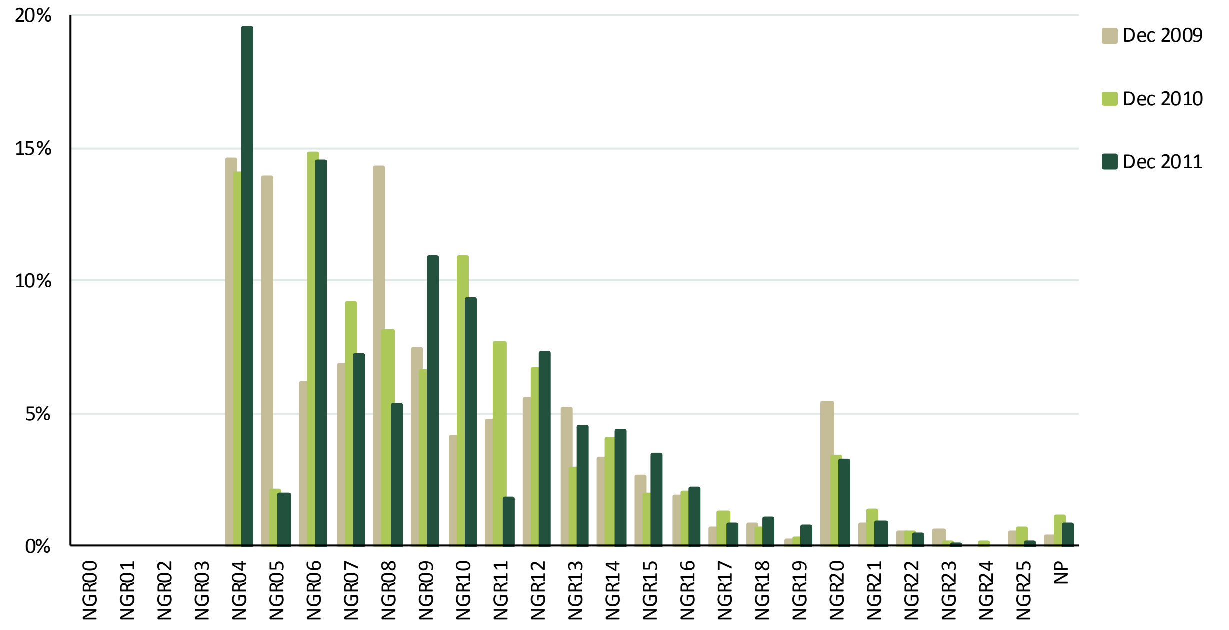


Overall the NGR distribution of the bank's portfolio has remained fairly stable, with a slight decrease in defaulted exposures and LGD of the portfolio has remained stable.

The improvement in the average performing EAD weighted PD of Nedbank Group was largely driven by improvements in the NGR distribution of the Home Loans portfolio within the Retail cluster. This was driven by an annual recalibration of the home loans PD models which highlighted the decreasing behavioural default rate experience in the portfolio and showed the effects of the tightened credit policy since 2008 and the maturing portfolio.

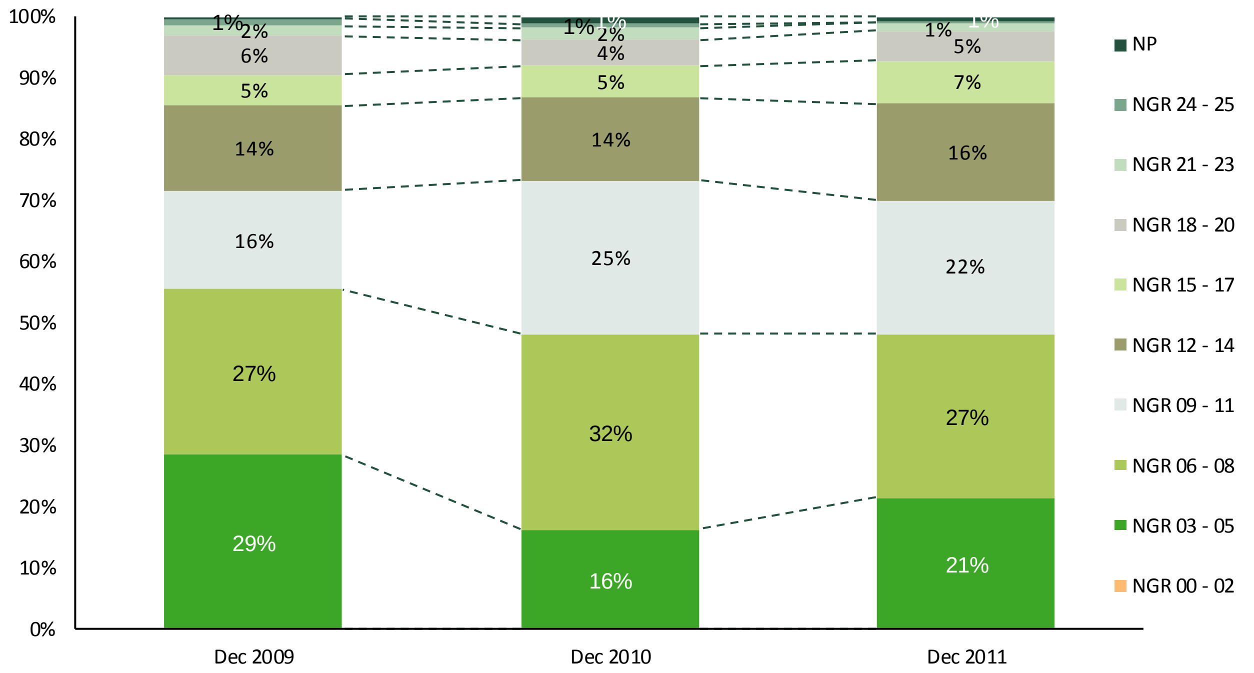
DISTRIBUTION OF NEDBANK LIMITED'S EAD BY SELECTED MAJOR BASELL II ASSET CLASS
ASSET CLASS: CORPORATE

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **0,82%** (2010: 1,07%)	Average performing book EAD – weighted dLGD **28,87%** (2010: 28,52%)	Average performing book EAD – weighted dEL **0,20%** (2010: 0,30%)
Average total book EAD – weighted PD **1,64%** (2010: 2,13%)	Average total book EAD – weighted dLGD **29,09%** (2010: 28, 79%)	Average total book – weighted dEL **0,67%** (2010: 0,38%)

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

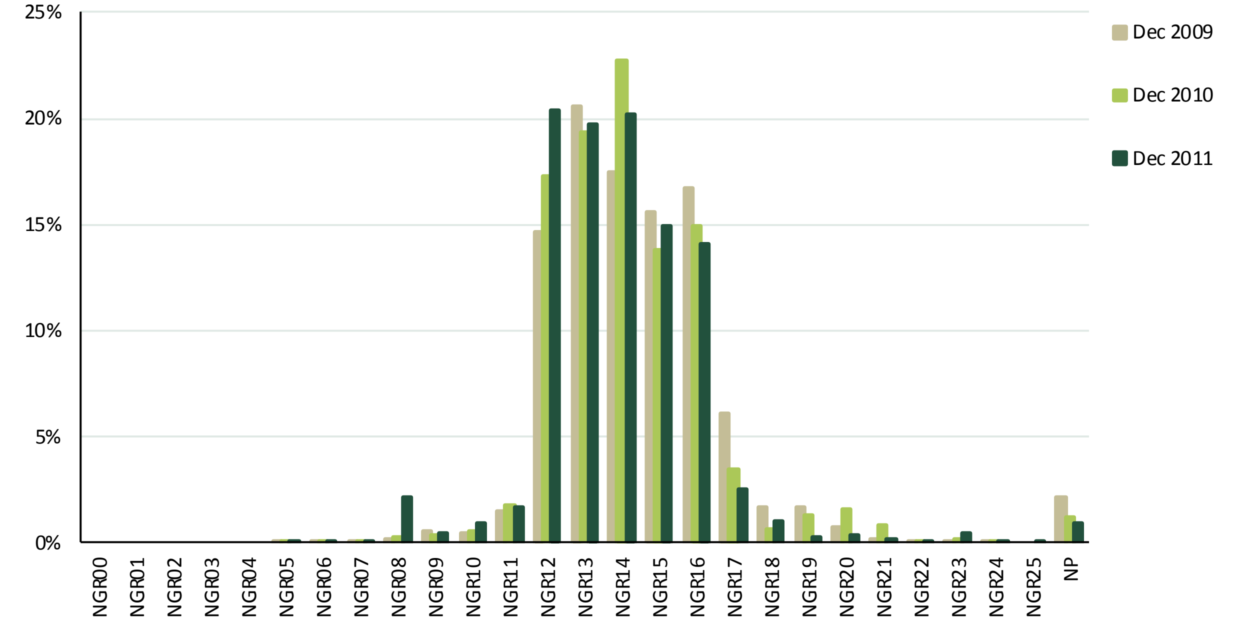


In 2011 there were a number of positive rating migrations of large clients within this asset class which affected both the average weighted PD as well as the NGR distribution.

The corporate asset class is largely characterised by large deals to a small number of clients with low NGR ratings and the exposures are largely unsecured by collateral, evidenced by the relatively stable dLGD.

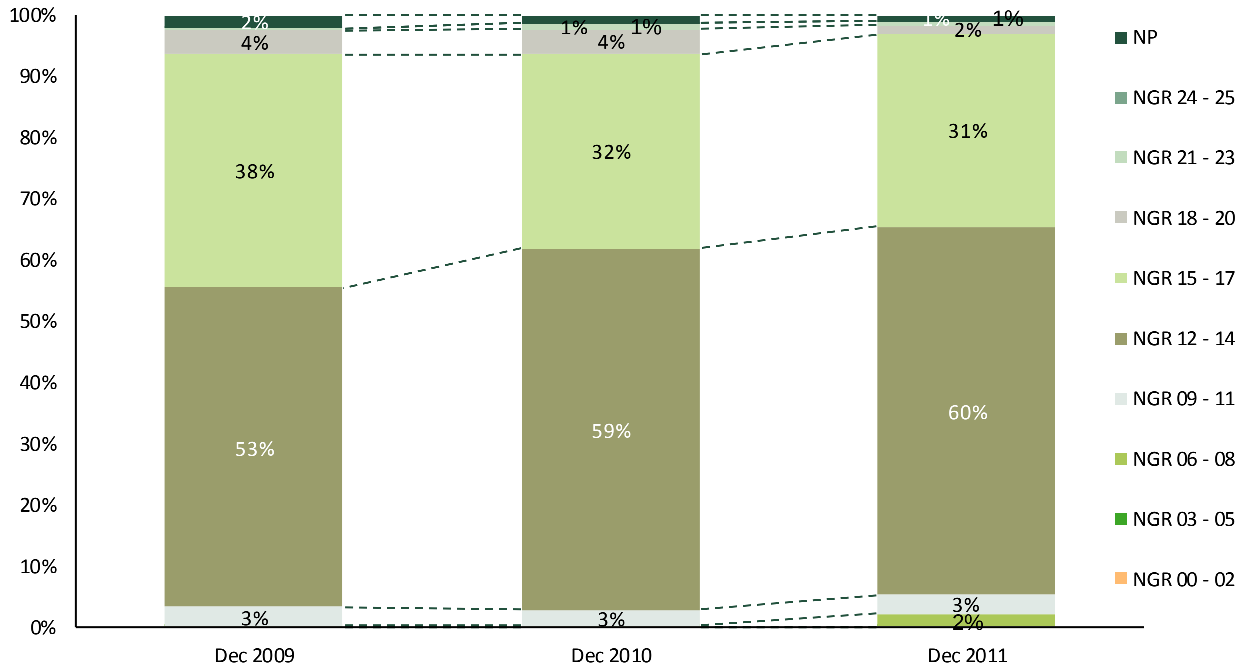
ASSET CLASS: SPECIALISED LENDING – INCOME PRODUCING REAL ESTATE

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **1,15%** (2010: 1,30%)	Average performing book EAD – weighted dLGD **18,90%** (2010: 19,35%)	Average performing book EAD – weighted dEL **0,22%** (2010: 0,26%)
Average total book EAD – weighted PD **1,99%** (2010: 2,50%)	Average total book EAD – weighted dLGD **19,02%** (2010: 19,43%)	Average total book EAD – weighted dEL **0,39%** (2010: 0,41%)

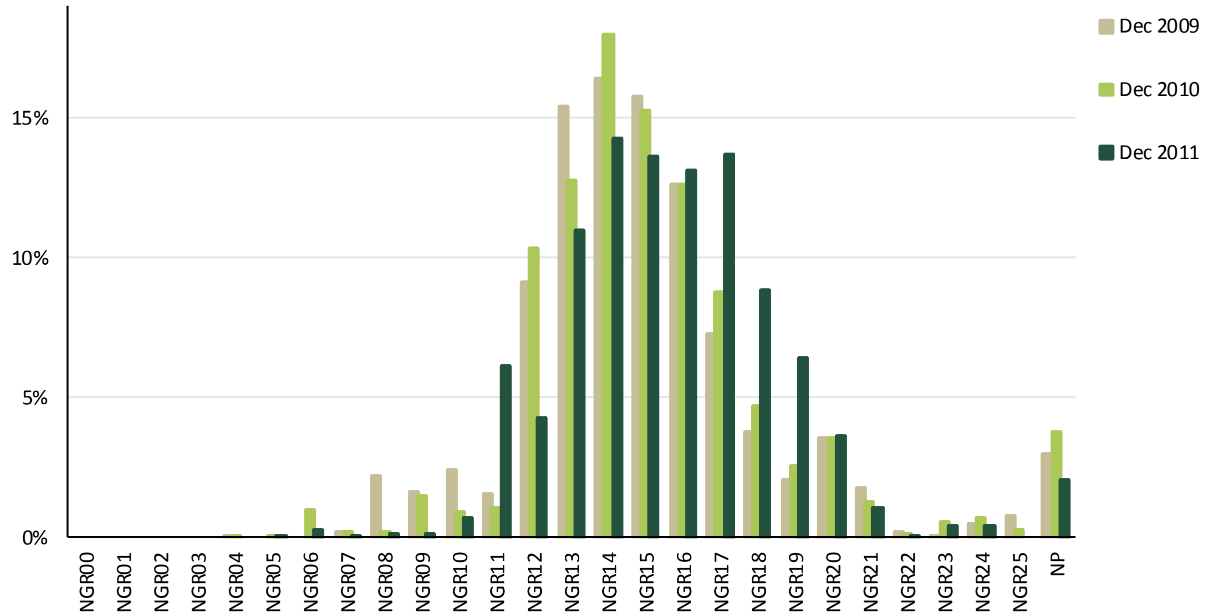
EAD % distribution by bucketed NGR bands over time (ie PD only)



The decreasing average LGD % for the portfolio are evidence of a low LTV, well managed commercial real estate book. The book has performed well over the period and both the NGR distribution and the average PD have improved.

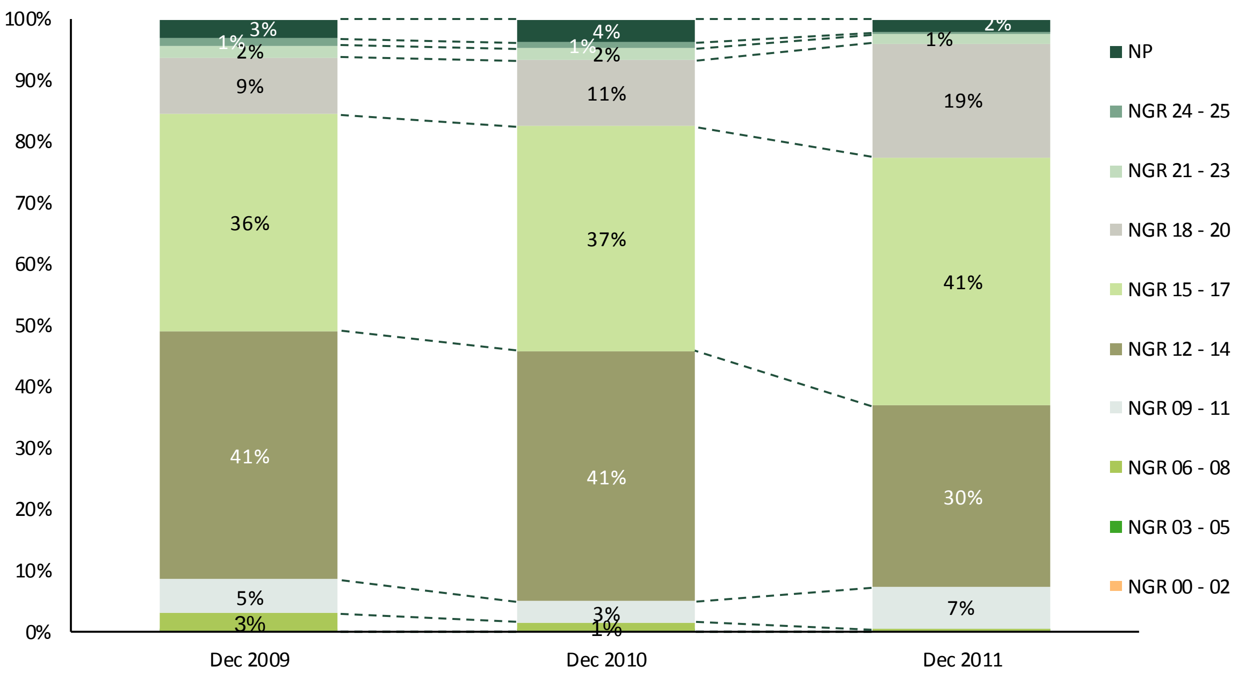
ASSET CLASS: SME – CORPORATE

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **2,26%** (2010: 2,15%)	Average performing book EAD – weighted dLGD **23,02%** (2010: 24,20%)	Average performing book EAD – weighted dEL **0,53%** (2010: 0,51%)
Average total book EAD – weighted PD **4,28%** (2010: 5,84%)	Average total book EAD – weighted dLGD **23,18%** (2010: 24,49%)	Average total book EAD – weighted dEL **1,28%** (2010: 1,70%)

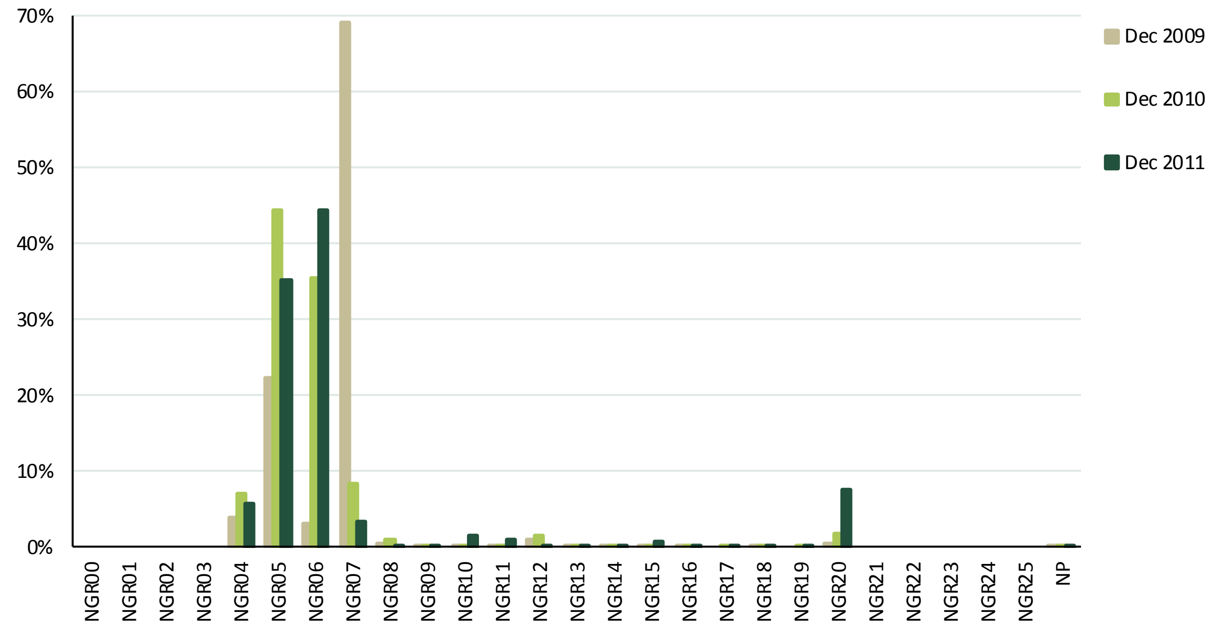
EAD % distribution by bucketed NGR bands over time (ie PD only)



As part of an annual validation in 2011, the central tendency on the SME segment in the Business Banking portfolio increased which had an impact on the distribution of NGR's and which caused an increase in PD on the performing portfolio to 2,26% (2010: 2,15%). This was also the driver of the increase in performing EL. The decrease in total book EL% was due to decreases in defaulted advances.

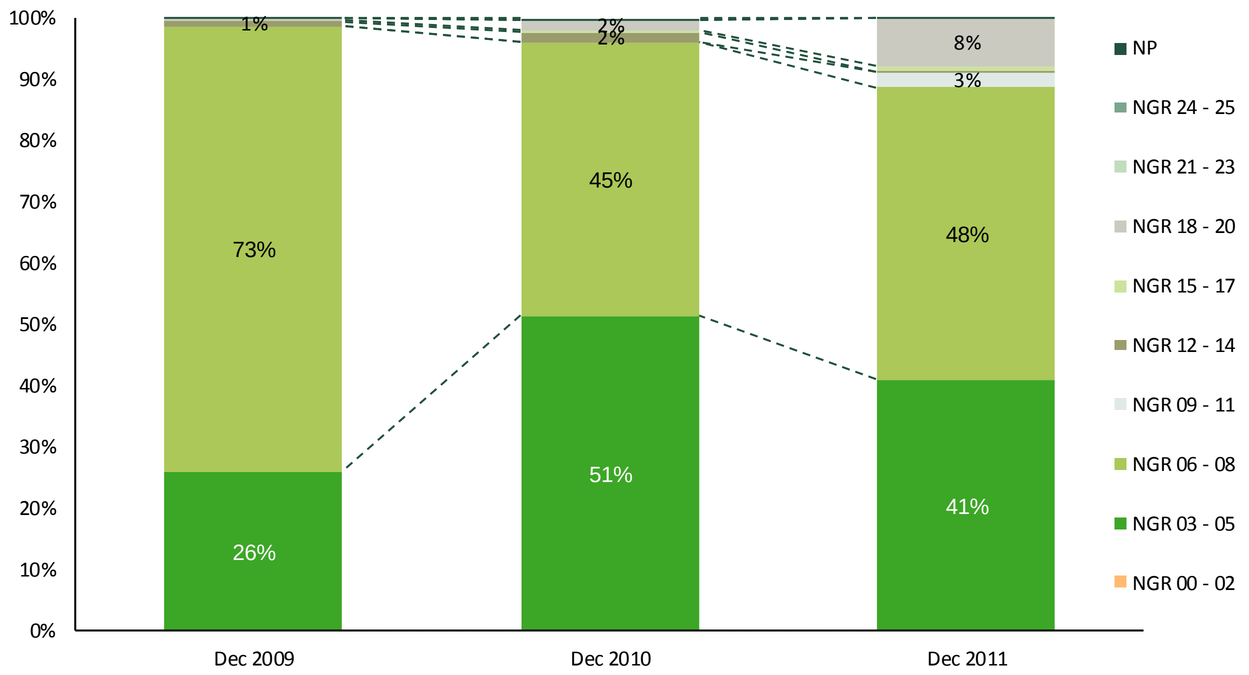
ASSET CLASS: BANKS

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **0,31%** (2010: 0,18%)	Average performing book EAD – weighted dLGD **24,72%** (2010: 24,45%)	Average performing book EAD – weighted dEL **0,2%** (2010: 0,09%)
Average total book EAD – weighted PD **0,33%** (2010: 0,44%)	Average total book EAD – weighted dLGD **24,72%** (2010: 24,59%)	Average Total book EAD – weighted dEL **0,20%** (2010: 0,09%)

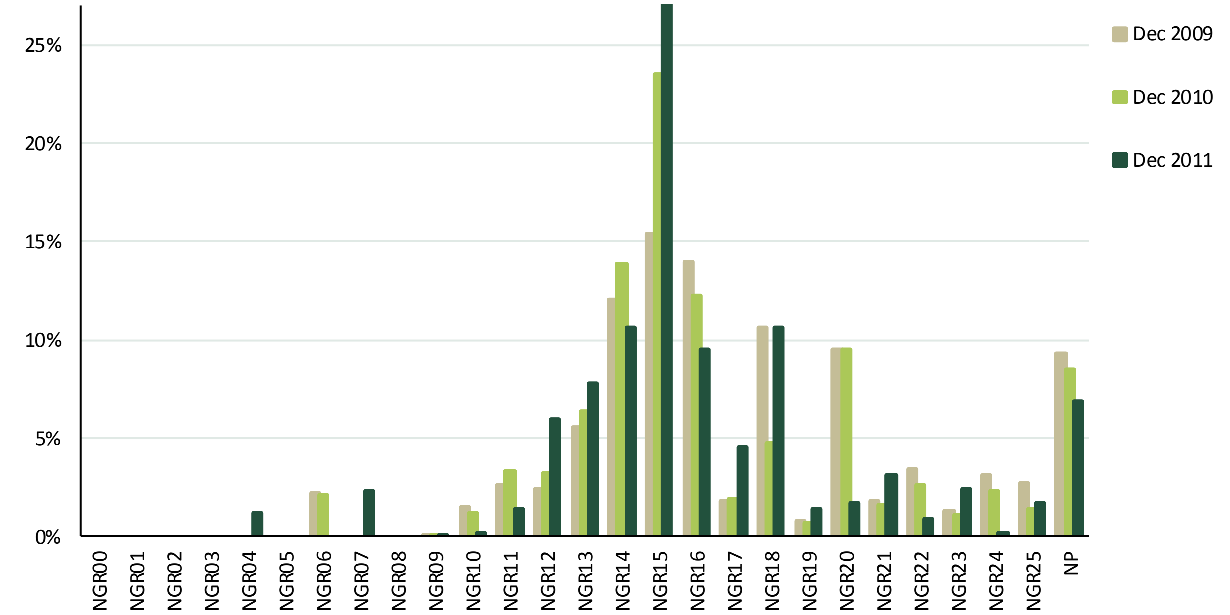
EAD % distribution by bucketed NGR bands over time (ie PD only)



The majority of the movement in the NGR distribution between 2009 and 2010 was due to the cancellation of the previous Imperial bank intercompany loan due to the Imperial Bank exposures moving into the Nedbank Limited portfolio.

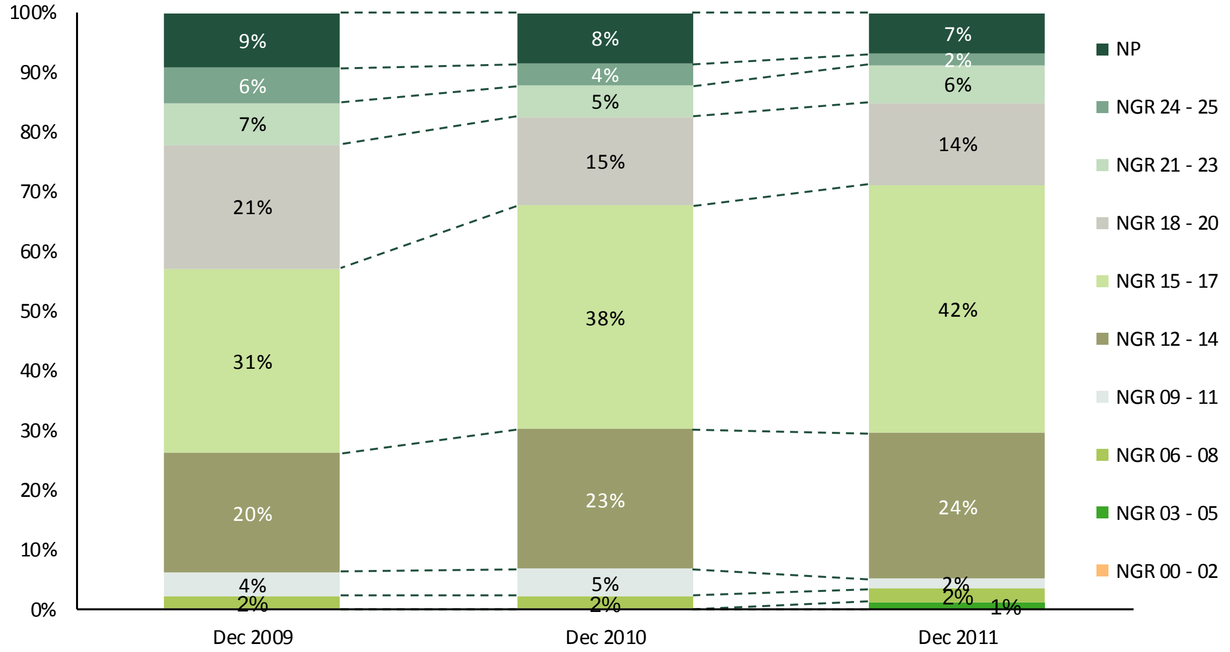
ASSET CLASS: RETAIL MORTGAGES

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **3,32%** (2010: 3,99%)	Average performing book EAD – weighted dLGD **15,09%** (2010: 15,46%)	Average performing book EAD – weighted dEL **0,53%** (2010: 0,61%)
Average total book EAD – weighted PD **9,98%** (2010: 12,12%)	Average total book EAD – weighted dLGD **15,21%** (2010: 15,48%)	Average total book EAD – weighted dEL **2,52%** (2010: 2,50%)

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

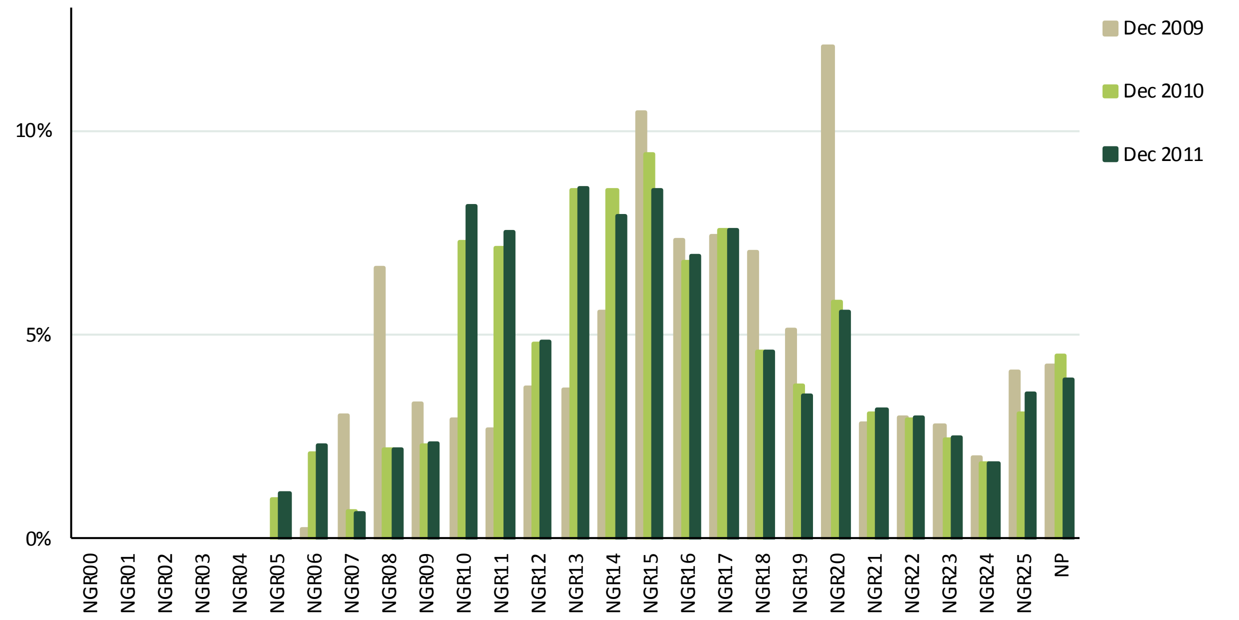


The improvement in the average performing EAD weighted PD of the residential mortgage asset class in 2011 was driven by an annual recalibration of the home loans PD models which highlighted the decreasing behavioural default rate experience in the portfolio and showed the effects of the tightened credit policy since 2008 and the maturing portfolio. This has also improved the NGR distribution of the performing portfolio over the period

The decrease in defaulted exposures since 2009 was primarily due to enhanced collection process within home loans and effective rehabilitations and nurturing of clients towards financial fitness.

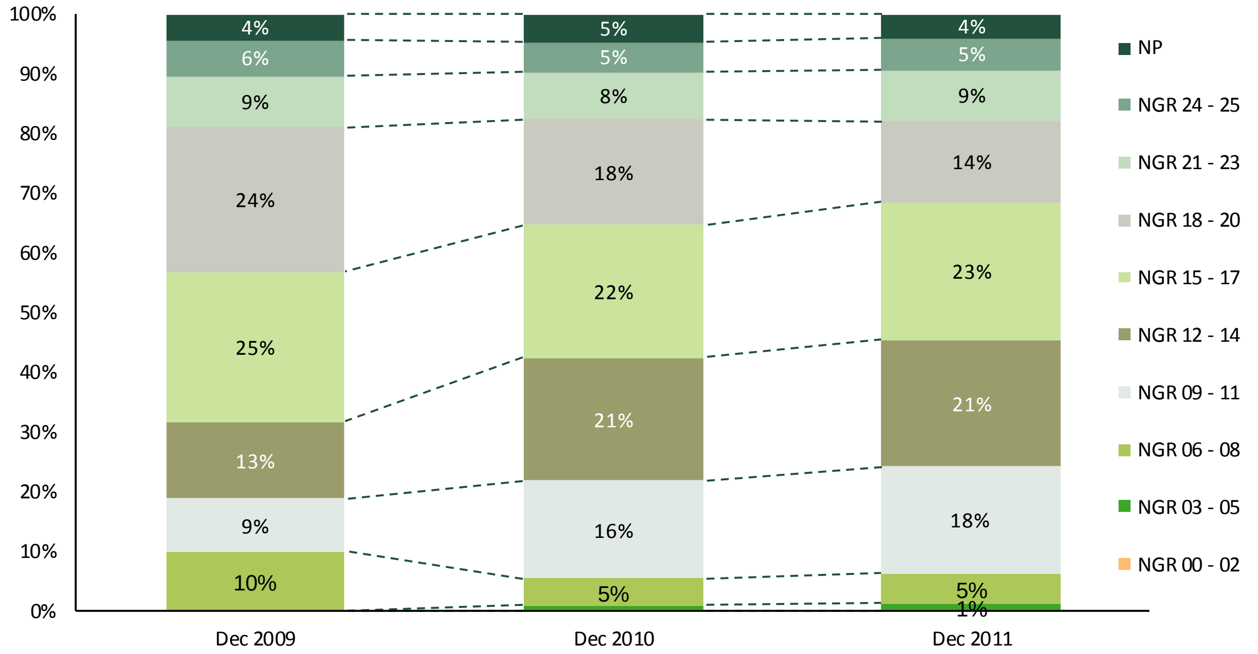
ASSET CLASS: RETAIL REVOLVING CREDIT

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **4,81%** (2010: 4,63%)	Average performing book EAD – weighted dLGD **60,98%** (2010: 61,07%)	Average performing book EAD – weighted dEL **3,20%** (2010: 3,11%)
Average total book EAD – weighted PD **8,51%** (2010: 8,88%)	Average total book EAD – weighted dLGD **61,39%** (2010: 61,46%)	Average total book EAD – weighted dEL **6,74%** (2010: 7,08%)

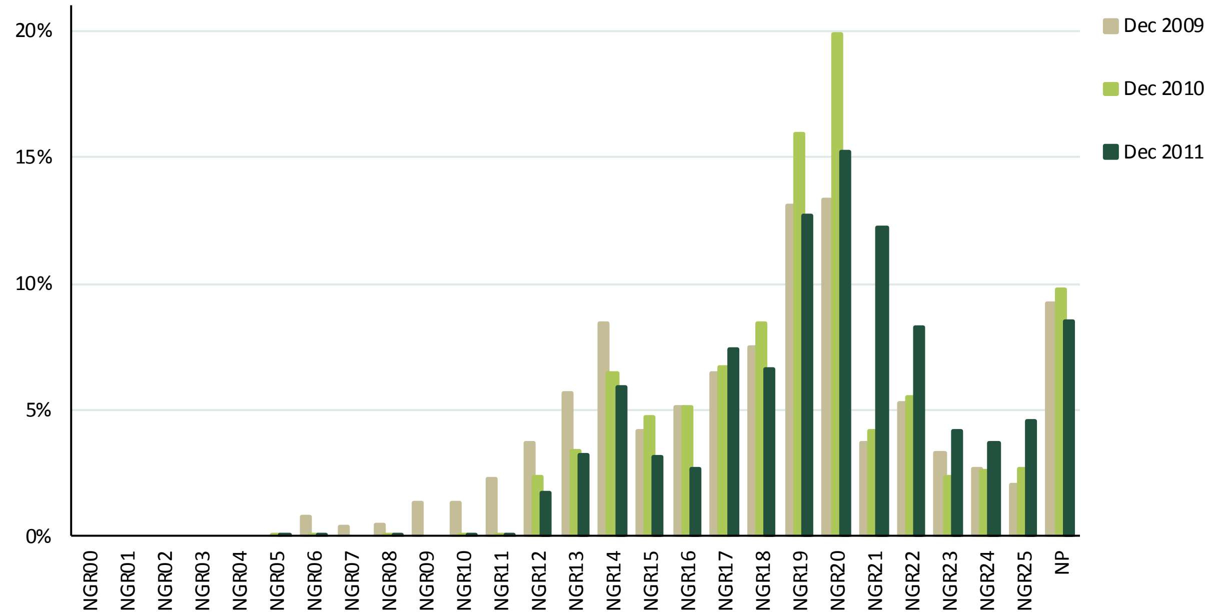
EAD % distribution by bucketed NGR bands over time (ie PD only)



Between 2009 and 2010 Retail revolving credit exposure in the NGR10 to NGR14 buckets increased due to the reclassification of current account exposures from the 'Retail – other' asset class. Over the period 2010 to 2011, there were no major movements in the NGR distribution.

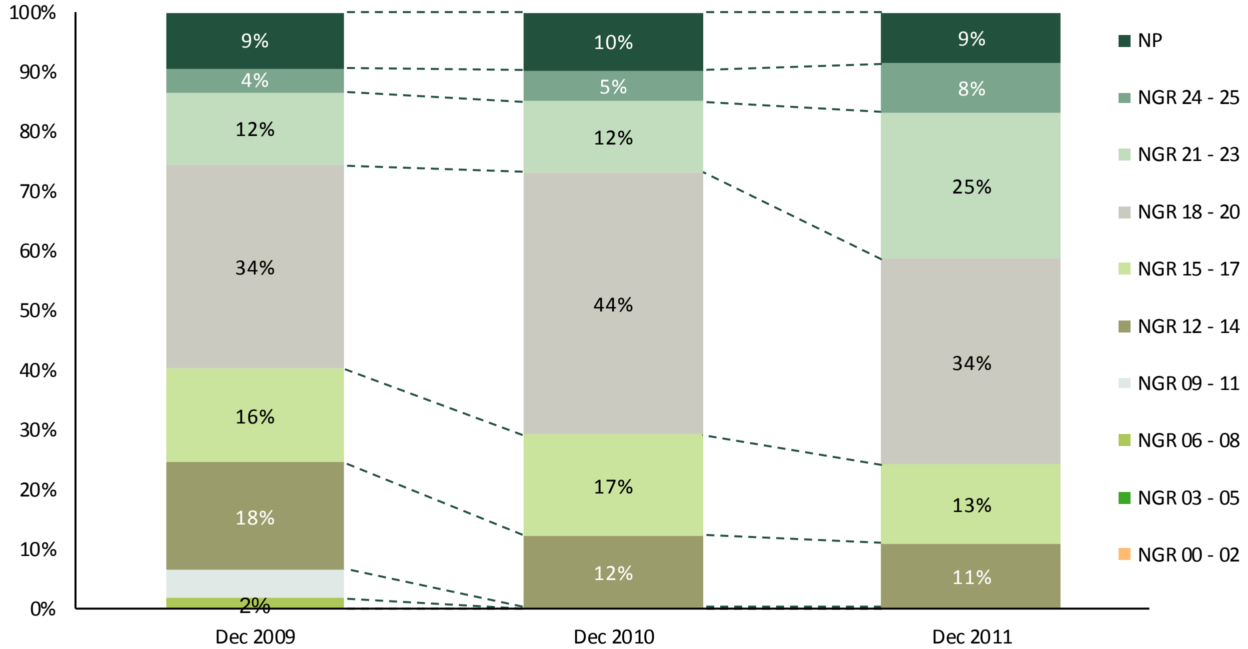
ASSET CLASS: RETAIL – OTHER

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **9,38%** (2010: 7,20%)	Average performing book EAD – weighted dLGD **55,55%** (2010: 51,16%)	Average performing book EAD – weighted dEL **5,61%** (2010: 3,84%)
Average total book EAD – weighted PD **17,11%** (2010: 16,25%)	Average total book EAD – weighted dLGD **55,28%** (2010: 50,55%)	Average total book EAD – weighted dEL **10,72%** (2010: 9,26%)

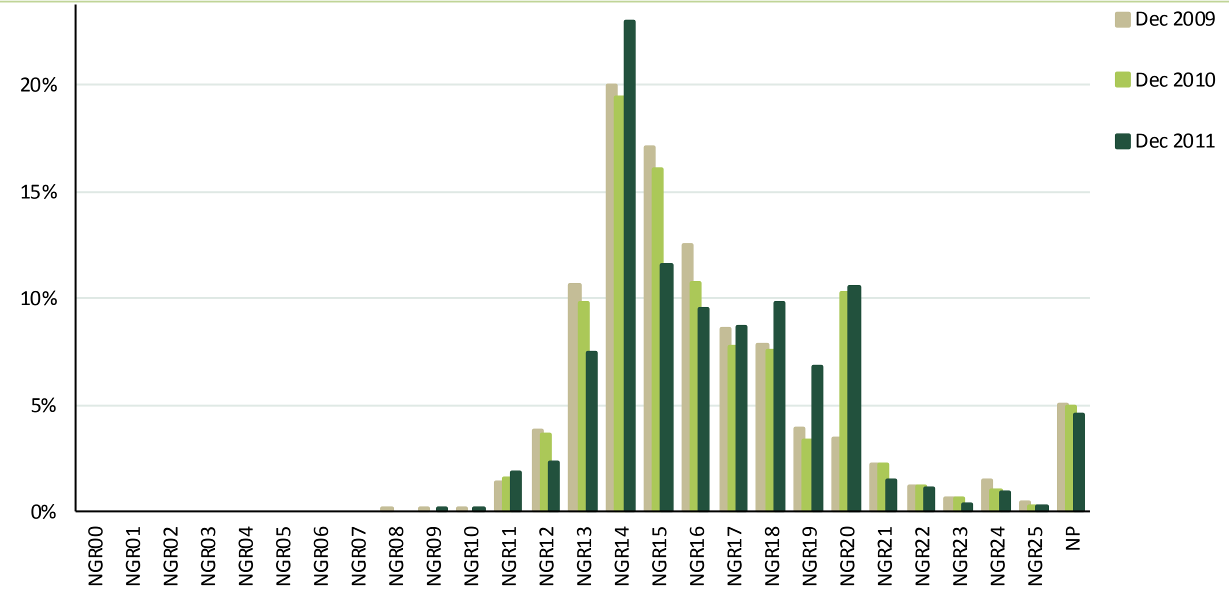
EAD % distribution by bucketed NGR bands over time (ie PD only)



Between 2009 and 2010 'Retail - other' exposure in the NGR10 to NGR14 bands decreased due to the correction of asset classification of current account exposures to the 'Retail revolving credit' asset class. Increases in the NGR21 – 23 weights in 2011 were due to growth in the personal loans book, while the shift in the NGR distribution was also affected by the maturing of the Nedbank AIRB VAF portfolio as the legacy Imperial MFC portfolio is on the TSA. This caused the increase in average weighted PD and LGD within the asset class.

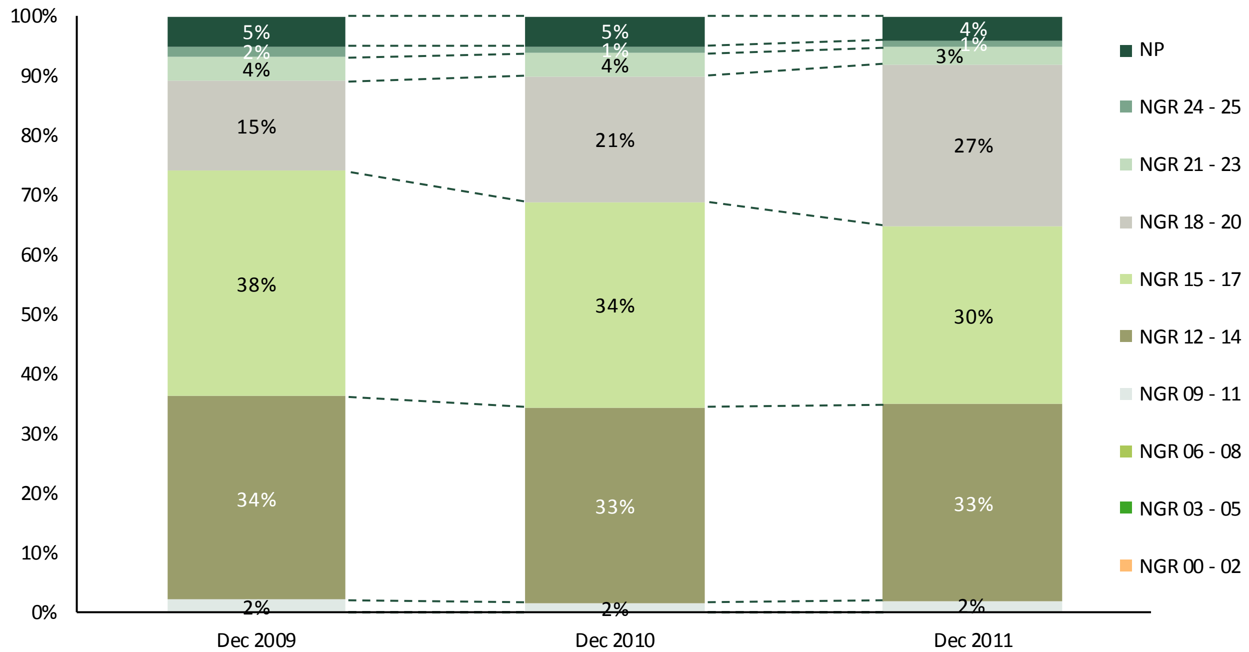
ASSET CLASS: SMALL AND MEDIUM ENTERPRISES – RETAIL

EAD distribution by NGR (ie PD only)



Average performing book EAD – weighted PD **3,13%** (2010: 3,10%)	Average performing book EAD – weighted dLGD **26,06%** (2010: 30,16%)	Average performing book EAD – weighted dEL **0,88%** (2010: 1,02%)
Average total book EAD – weighted PD **7,53%** (2010: 7,86%)	Average total book EAD – weighted dLGD **26,34%** (2010: 30,66%)	Average total book EAD – weighted dEL **2,87%** (2010: 3,82%)

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



Between 2010 and 2011, the increase in EAD % for NGR14 bucket was largely due reclassification of Small Business Services loans and Commercial Property loans from Retail mortgage asset class to the SME -retail asset class. This change also caused a decrease in the average LGD of this asset class due to the property loans having low average LGD's due to their secured nature.

Advanced Internal Ratings-based Approach (AIRB) credit parameter backtesting

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

As the AIRB parameters are based on a TTC basis view (yet downturn from a LGD perspective), the actual outcome is not expected to align to the corresponding parameters for each point-in-time (PIT) period. One may rather expect that the average actual outcome over a sufficiently long time period (ie at least a full economic cycle) is close to the corresponding TTC parameters. For these portfolios one would expect to observe several 'good' years with minimal defaults and then one or two years with very high losses. However, the average actual outcome over time would be expected to align to the corresponding TTC risk parameters.

This section provides an analysis for the three calendar years 2009, 2010 and 2011. Expected loss refers to the regulatory expected loss for the performing portfolio, and incorporates downturn LGD (dLGD), as per the beginning of the respective time period.

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

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

Conversely, the actual outcomes have been derived as follows:

- Actual loss refers to the total IFRS specific impairments (including write-offs) raised against the transactions which defaulted in the respective time period.
- Actual default rate is derived as the EAD weighted default rate for the respective time period.
- Actual loss rate is derived as the ratio between the actual loss and the actual exposure at default.
- Actual exposure at default refers to the exposure as per end of the month of default.

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

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

Actual versus Expected Loss (EL)

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

IRB exposure class	2011 Expected loss Rm	2011 Actual loss Rm	2011 Expected/ actual %	2010 Expected loss Rm	2010 Actual loss Rm	2010 Expected/ actual %	2009 Expected loss Rm	2009 Actual loss Rm	2009 Expected/ actual %
Corporate exposure	710	592	120	790	574	138	971	1 006	97
Sovereign, banks, PSE and local government	9			11			17		
Retail exposure	2 454	2 720	90	2 643	2 811	94	2 722	3 958	69
Retail mortgages	846	986	86	1 081	1 057	102	1 229	2 186	56
Retail revolving credit	518	497	104	457	452	101	365	360	101
Retail – other	858	1 006	85	853	1 053	81	766	1 057	73
SME retail	231	231	100	252	248	102	362	354	102
Total	3 174	3 312	96	3 443	3 385	102	3 711	4 963	75

As discussed, the AIRB parameters are based on a through-the-cycle (TTC) view (yet downturn from an LGD perspective), the actual outcome is not expected to align to the corresponding parameters for each single time period. With the global financial crisis and local recession, the 2009 actual losses were expected to exceed the EL given the PIT nature of the actual losses. This is clearly visible in the table for the retail mortgage asset class, whereas due to the high quality of the wholesale exposures this was not the case for the corporate asset class.

Bearing in mind that 2009 was right at the bottom of the current credit cycle and that there was only a small improvement in the economy in 2010 and 2011, the relatively close alignment between expected and actual default and loss rates in the last two years shows that the applied AIRB credit parameters can be considered to provide a sound assessment from a TTC perspective.

Parameters underlying EL

Probability of default (PD)

IRB exposure class %	2011 EAD weighted PD	2011 Default rate	2011 Expected/ actual	2010 EAD weighted PD	2010 Default rate	2010 Expected/ actual	2009 EAD weighted PD	2009 Default rate	2009 Expected/ actual
Corporate exposure	1,19	1,02	117	1,30	1,35	96	1,44	1,61	89
Sovereign, banks, PSE and local government	0,05			0,07	0,42	16	0,12		
Retail exposure	4,30	4,76	90	5,09	5,75	89	5,20	8,17	64
Retail mortgages	3,99	4,17	96	5,23	5,71	91	5,36	8,53	63
Retail revolving credit	4,63	4,55	102	5,75	5,60	103	5,62	8,36	67
Retail – other	7,20	8,81	82	6,37	7,33	87	5,96	8,02	74
SME retail	3,10	4,54	68	2,92	4,45	66	3,57	6,60	54
Total	2,29	2,38	96	2,75	3,08	89	2,85	4,15	69

The backtesting of the PD models show the general, but slow, recovery of the credit cycle since 2009 with actual default rates decreasing from 4,15% to 2,38% in 2011. The EAD weighted PD also decreased during the observation period as more default data was available which allowed Nedbank to more accurately assess the central tendencies of the various portfolios.

The actual default rate in the corporate asset class consistently improved during the observation period which was largely driven by less defaults in the middle-market segments as well as a good performance of the commercial real estate portfolio.

There was one technical default case in the public sector entities (PSE) asset class in 2010 which resulted in the spike in actual default rate, although the default was worked out with no actual loss to the Group.

The retail asset class showed a very positive trend in default rates. This decrease was achieved notwithstanding the growth in the personal loans portfolio. 2009 is considered to be at the bottom of the current credit cycle and the years 2010/11 have revealed a small recovery. Hence, the applied PD measure is considered to provide a fair assessment from a TTC perspective.

Loss given default (LGD)

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

	2011			2010			2009		
IRB exposure class %	**EAD weighted LGD**	**Loss rate**	**Expected/ actual**	EAD weighted LGD	Loss rate	Expected/ actual	EAD weighted LGD	Loss rate	Expected/ actual
Corporate exposure	**26,6**	**28,7**	**93**	28,0	21,4	131	32,1	30,8	104
Sovereign, banks, PSE and local government				36,0					
Retail exposure	**29,1**	**32,8**	**89**	26,4	26,3	100	26,4	26,0	101
Retail mortgages	**15,5**	**19,4**	**80**	15,4	14,1	109	17,7	19,9	89
Retail revolving credit	**65,8**	**80,8**	**81**	69,1	80,4	86	64,8	47,9	135
Retail – other	**53,5**	**57,5**	**93**	52,0	63,7	82	47,2	56,4	84
SME retail	**32,4**	**27,6**	**117**	34,5	25,6	135	37,0	22,2	167
Total	**28,6**	**32,0**	**90**	26,9	24,9	108	27,5	26,8	102

The improvement of EAD weighted LGD from 2009 to 2010 was a consequence of a slightly better average degree of collateralisation for new defaulted obligors in the corporate asset class. The increase between 2010 and 2011 was largely driven by the higher average LGD of defaulted accounts in the retail asset class which was caused by a change in the product mix in 2011. While the total exposure of new defaulted accounts decreased, the relative contribution from higher LGD products in the retail – other and retail revolving credit asset classes increased due to a change to a more conservative impairment methodology in 2011.

The actual loss rates closely align to the predicted dLGD at group level. However, there are some asset classes which reveal a material deviation between the expected and the actual loss rates.

The retail asset classes show varying outcomes for the different sub-asset classes:

- As presented in the PD section, the retail mortgages asset class revealed a significant decrease in default rates in 2011. However, the average loss rate for the new defaults increased.
- The retail revolving credit asset class experienced higher than expected loss rates in 2010 and 2011. This was largely offset by a smaller than expected usage of the facilities in the case of default (cf. next table) and hence the total actual loss aligned closely to the expected loss.
- The retail - other asset revealed a similar offsetting effect between LGD and EAD in the last three years. The composition of this asset class will be subject to a material change going forward once Nedbank receives approval to apply IRB models for the MFC portfolio.
- The conservative LGD estimates for SME retail offset the aforementioned higher actual than expected default rates.

Exposure at default (EAD)

IRB exposure class (%)	**2011** **Expected/ actual**	2010 Expected/ actual	2009 Expected/ actual
Corporate exposure	**113**	117	117
Sovereign, banks, PSE and local government		86	
Retail exposure	**115**	108	106
Retail mortgages	**114**	104	102
Retail revolving credit	**123**	113	111
Retail – other	**113**	115	117
SME retail	**123**	123	117
Total	**115**	109	108

The backtesting of the EAD shows that the various EAD models being used for the regulatory capital calculations yielded especially conservative estimates in the last three years for all AIRB asset classes. The main reason for the higher expected than actual EAD relates to the amortising nature of a large portion of Nedbank's credit portfolio. As the Basel II regulations require the EAD measure to be not less than the current on-balance sheet exposure, the actual exposure at default typically accounts for some instalments which are paid by the obligor prior to default and hence is lower than the previously estimated EAD.

Credit risk mitigation

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

Credit risk mitigation forms part of business as usual at most banks but actively to seek to optimize the level of mitigation in accordance with the risk/reward relationship represents industry best practice.

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

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

While the new South African banking regulations do not specifically refer to credit risk mitigation they do allow for the use of collateral to reduce the risk weighting of credit assets. TSA for credit risk allows for the use of certain categories of collateral to be used to reduce exposures prior to the risk weighting thereof subject to suitable haircuts being applied to the value of such collateral. Under the AIRB Approach banks are allowed to utilise the value of collateral in their own estimates of LGD which directly influences the risk weighting.

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

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

Risk mitigation is spread amongst approved counterparties. The bank monitors the concentration levels of collateral to ensure that it is diversified.

The following security types are common in the marketplace:

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

Collateral valuation and management

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

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

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

Credit risk mitigation for portfolios under the AIRB Approach

Rm	Eligible financial collateral	Other eligible internal ratings-based collateral	Guarantees and credit derivatives	Total credit risk mitigation	Effects of netting agreements
2011					
Corporate	**15 835**	**114 313**	**10 163**	**140 312**	**2 008**
Banks	**835**	**122**		**957**	**1 458**
Securities firms	**1**			**1**	**1 674**
Retail exposures	**2 690**	**164 050**	**3**	**166 74**	**61**
Retail mortgages	**3**	**134 393**		**134 397**	
SME – retail	**2 687**	**25 083**	**3**	**27 773**	**61**
Retail – other		**4 574**		**4 574**	
Total	**19 361**	**278 485**	**10 166**	**308 014**	**5 201**
2010					
Corporate	13 853	11 192	5 612	136 657	446
Banks	508	210		718	6 414
Securities firms	106			106	
Retail exposures	1 397	162 652	18	164 067	
Retail mortgages	31	138 442		138 474	
SME – retail	1337	17 824	18	19 179	
Retail – other	29	6 386		6 414	
Total	15 864	280 054	5 630	301 548	6 860

Note: Eligible financial collateral includes pledged cash funds, debtor's lists coins and gems as well as other commodities.
Other eligible collateral includes mortgage bonds commercial covering bonds pledge investments and insurance policies and pledged shares.
Guarantees and credit derivatives includes guarantees and suretyships.

Credit risk mitigation for portfolios under TSA

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

The table below shows the total unmitigated exposures for Nedbank Limited's portfolio under TSA.

EXPOSURE SUBJECT TO THE STANDARDISED APPROACH PER RISK WEIGHTING		
Rm	**2011**	**2010**
0% - 35%	**3 560**	3 571
50%	**1 226**	1 503
75%	**46 040**	40 071
100% and above	**10 243**	13 035
Total	**61 069**	58 180

Credit concentration risk

Within Nedbank Group, the credit concentration risk is actively managed, measured and ultimately capitalised for in the group's economic capital (ECap) and ICAAP.

Single-name credit concentration risk

Of total group credit ECap only 2,94% (2010: 3,09%) is attributable to the top 20 exposures, excluding bank and government exposure, and 3,72% (2010: 1,39%) to the top 20 banks' exposure, highlighting that Nedbank Group does not have undue single-name credit concentration risk.

The group's credit concentration risk measurement incorporates the asset size of obligors/borrowers into its calculation of credit ECap. Single-name concentration is monitored at all credit committees within the group's ERMF, which includes the applicable regulatory and economic capital per exposure.

TOP 20 NEDBANK GROUP EXPOSURES (excluding banks and government exposure)

2011 No.	Internal NGR (PD) rating	EAD Rm	% of total group credit ECap %
1	NGR04	3 998	0,10
2	NGR14	3 826	0,39
3	NGR03	3 554	0,01
4	NGR08	3 224	0,11
5	NGR10	3 162	0,02
6	NGR13	2 802	0,27
7	NGR12	2 926	0,55
8	NGR04	2 806	0,15
9	NGR03	2 468	0,01
10	NGR03	2 830	0,00
11	NGR03	2 278	0,00
12	NGR10	2 276	0,19
13	NGR07	2 108	0,05
14	NGR09	2 249	0,41
15	NGR12	2 071	0,01
16	NGR09	2 110	0,24
17	NGR04	2 640	0,07
18	NGR04	3 310	0,11
19	NGR06	1 984	0,01
20	NGR15	1 927	0,24
Total of top 20 exposures		**54 549**	**2,94**
Total group[1]		**672 007**	

[1] *Total group EAD includes all Nedbank Group subsidiaries. Although the subsidiaries have adopted TSA, credit benchmarks are applied for the purpose of estimating internal credit ECap.*

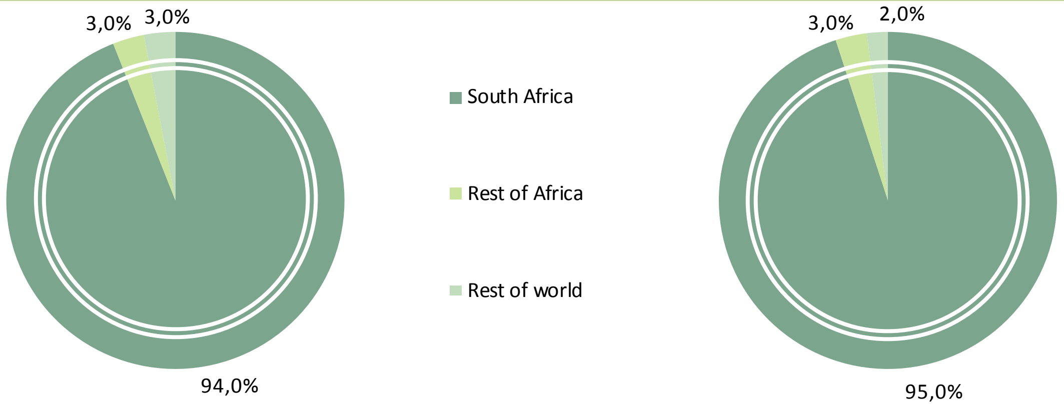
TOP 20 NEDBANK GROUP EXPOSURES (banks only)			
2011	Internal NGR (PD) rating	EAD	% of total group credit ECap
No		Rm	%
1	NGR05	4 451	0,12
2	NGR05	3 569	0,06
3	NGR05	2 902	0,04
4	NGR17	2 346	2,47
5	NGR05	2 117	0,11
6	NGR06	1 812	0,18
7	NGR04	1 414	0,06
8	NGR05	937	0,06
9	NGR06	812	0,04
10	NGR05	1 130	0,06
11	NGR05	686	0,05
12	NGR07	739	0,06
13	NGR06	635	0,05
14	NGR10	587	0,13
15	NGR06	501	0,05
16	NGR07	487	0,05
17	NGR04	517	0,03
18	NGR04	480	0,03
19	NGR05	487	0,04
20	NGR04	448	0,03
Total of top 20 exposures		27 057	3,72
Total group[1]		672 007	

[1] *Total group EAD includes all Nedbank Group subsidiaries. Although the subsidiaries have adopted TSA, credit benchmarks are applied for the purpose of estimating internal credit ECap.*

Geographic concentration risk

Given that 94% of the group's loans and advances originate in South Africa, geographic exposure risk is high. Practically, however, this concentration has proven positive for Nedbank Group, given the global financial crisis, and reflects its focus on its area of core competence.

GEOGRAPHIC CONCENTRATION RISK – 2011



2011

2010

The sovereign-debt crisis in the Eurozone remains unresolved. Nedbank Group has significantly reduced its exposure to the PIIGS countries to R261m (2010: R2 487m) and the extent of the total Eurozone exposure is low, being only 1,63% of balance sheet credit exposure.

A summary of Nedbank Group's exposure to the Eurozone, and specifically to banks in the PIIGS region, is provided below.

SUMMARY OF EXPOSURE TO BANKS IN THE EUROZONE

Country (Rm)[1]	2011	Exposure as a % of balance sheet credit exposure	2010	Exposure as a % of balance sheet credit exposure
Total exposure to banks in PIIGS	261	0,04	2 487	0,44
Portugal	14	<0,01	21	<0,01
Italy	201	0,03	2 437	0,43
Ireland			21	<0,01
Greece				
Spain	46	0,01	8	<0,01
France	4 813	0,81	1 316	0,23
Other	4 663	0,79	6 203	1,09
Total	9 737	1,63	10 006	1,76

[1] *Includes the 17 European union member states that have adopted the Euro as their common currency.*

Industry concentration risk

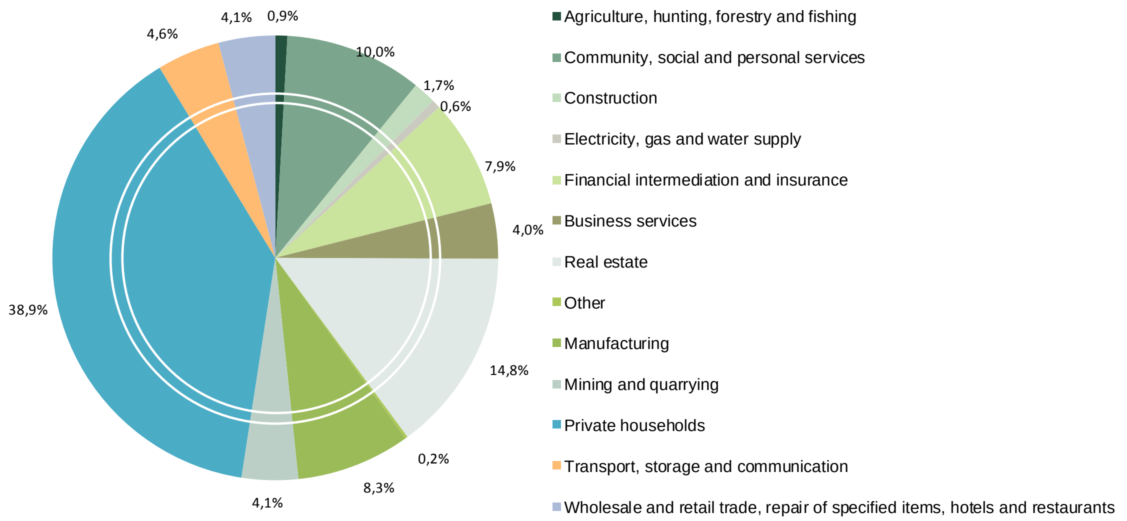
Given that total mortgages comprise 46% of total gross loans and advances, total real estate exposure is high, but in line with the peer group.

While commercial mortgage lending comprises only 18% of the total gross loans and advances, Nedbank Group currently has a dominant market share position in this area of lending. This risk is mitigated by high levels of collateral, low average loan to values (ie below 50%) across the portfolio and the existence of an experienced management team. This portfolio has performed very well TTC.

Although residential mortgage exposure comprises 28% of total gross loans and advances, Nedbank Group has the smallest portfolio when compared to its peers. This portfolio is a focus area of a differentiated, selective origination growth strategy within portfolio tilt.

Retail Motor Vehicle Finance exposure within Nedbank Group is only 11,3% of total gross loans and advances while market share is dominant at approximately 31%. This portfolio has been built by an experienced management team and their application of sound ‘manage for value’ principles and risk-based pricing generating in excess of R1bn in headline earnings during 2011.

NEDBANK GROUP INDUSTRY EXPOSURE



We conclude that credit concentration risk is adequately measured, managed, controlled and ultimately capitalised. There is no undue single-name concentration or sector concentrations. While there is a concentration of Nedbank Group loans and advances in South Africa, this has been positive for Nedbank Group as evident after the global financial crisis.

Counterparty credit risk

Counterparty credit limits are set at an individual counterparty level and approved within the Group Credit Risk Management Framework. Counterparty credit risk (CCR) exposures are reported and monitored at both a business unit and group level. 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. Limits for the group's Corporate and Business Banking businesses favour a nominal limit to facilitate monitoring.

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

Netting is applied only to underlying exposures where supportive legal opinion is obtained as to the enforceability of the relevant netting agreement in the particular jurisdiction. Margining and collateral arrangements are entered into in order to mitigate CCR. Haircuts, appropriate for the specific collateral type, are applied 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. To deal with a potential deterioration of CCR over the life of transactions thresholds are typically linked to the counterparty external credit rating.

Nedbank Group applies the Current Exposure Method (CEM) for Basel II CCR. ECap calculations also currently utilise the CEM results as input in the determination of credit ECap.

Wrong-way risk is identified and monitored by relevant risk committees, and in line with the standardised approach.

Under a worst case scenario or credit rating downgrade, it is estimated that collateral would increase by 50%.

Over-the-counter derivatives for Nedbank Group

The tables below include a breakdown of the group's over-the-counter (OTC) derivative CCR exposure by product and NGR band. Overall the group had a R1 012m increase in fair value, with the increases being to clients with low risk profiles.

OTC derivative products	Notional value	Gross positive fair value	Notional value	Gross positive fair value
Rm	2011		2010	
Credit default swaps	**12 220**	**248**	8,338	56
Embedded derivatives	**2 308**[1]	**2**	3 720	2
Proprietary trading	**9 912**[2]	**246**	4 618	54
Equities	**1 305**	**1 976**	11 740	569
Foreign exchange and gold	**241 164**	**4 356**	346 824	6 212
Interest rates	**628 780**	**8 735**	419 210	7 234
Other commodities	**147**	**19**	4 172	147
Precious metals except gold			6 487	105
Total	**883 616**	**15 334**	796 771	14 323

[1] Credit default swaps embedded in credit-linked notes (CLNs) issued by Nedbank Group, whereby credit protection of R2 260m is purchased (on CLNs) and credit protection of R48m is sold.

[2] Proprietary trading positions at the end of the respective period where Nedbank Group is the purchaser (R5 295m) and seller (R4 617m) of credit protection.

OTC derivative products Rm	Gross positive fair value	Current netting benefits	Netted current credit exposure (before mitigation)	Collateral amount	Netted current credit exposure (after mitigation)	EAD value	Risk-weighted exposure
2011	**15 335**	**8 806**	**6 299**	**900**	**5 542**	**9 437**	**2 353**
2010	14 323	6 983	9 052	368	8 766	11 718	4 428

Despite an increase in gross positive fair value, both the netted exposure and risk weighted exposure of the group decreased. This was due to increased benefits from the group's netting agreements, increased collateral as well as the growth in exposure being to lower risk clients, which is highlighted in the table below.

OTC derivatives per NGR (PD) band Rm	Notional value 2011	Gross positive fair value 2011	EAD value 2011	Notional value 2010	Gross positive fair value 2010	EAD value 2010
NGR02[1]						
NGR03	**30 214**	**913**	**853**	37 557	1 123	1 593
NGR04	**110 377**	**1 846**	**1 154**	179 019	2 042	1 482
NGR05	**478 742**	**6 603**	**2 282**	210 164	3 469	1 148
NGR06	**158 200**	**3 647**	**2 449**	163 003	2 037	1 317
NGR07	**47 012**	**338**	**474**	81 045	808	607
NGR08	**3 148**	**178**	**205**	10 387	1 337	1 392
NGR09	**4 333**	**103**	**125**	2 271	110	125
NGR10	**9 911**	**344**	**173**	9 094	133	208
NGR11	**1 180**	**15**	**22**	34 164	116	442
NGR12	**4 992**	**151**	**190**	13 102	794	396
NGR13	**1 903**	**55**	**70**	3 527	161	192
NGR14	**3 100**	**70**	**112**	8 359	223	263
NGR15	**6 242**	**232**	**283**	18 875	332	721
NGR16	**3 846**	**32**	**62**	3 102	225	246
NGR17	**1 734**	**48**	**66**	449	29	33
NGR18	**861**	**14**	**27**	765	29	36
NGR19	**2 707**	**111**	**127**	475	24	28
NGR20	**13 851**	**593**	**715**	19 403	587	724
NGR21	**1 063**	**27**	**29**	1 579	639	654
NGR22	**10**	**1**	**2**	172	1	3
NGR23				16		1
NGR24	**8**					
NGR25				3		
NP	**184**	**14**	**18**	240	104	107
Total	**883 616**	**15 335**	**9 436**	796 771	14 323	11 718

[1] *Nedbank Group rating scale is from NGR01 to NGR25.Currently there are no NGR01 exposures.*

The trend noted is a migration of the composition of portfolio to better quality counterparties.

Securities financing transactions

SECURITIES FINANCING TRANSACTIONS (SFTs)					
Rm **2011**	**Gross positive fair value**	**Collateral value after haircut**	**Netted current credit exposure (after mitigation)**	**EAD value**	**Risk-weighted exposure**
Repurchase agreements	**12 911**	**12 572**	**339**	**339**	**12**
Securities lending	**7 216**	**13 350**	**940**	**940**	**103**
Total	**20 127**	**25 922**	**1 279**	**1 279**	**115**
2010					
Repurchase agreements	10 849	10 343	506	506	26
Securities lending	8 738	9 715	1 237	1 237	89
Total	19 587	20 058	1 743	1 743	115

STFs reflects the funding of the bank’s listed bond and listed equity positions, and varies in line with size of positions.

SFTs per NGR (PD) band Rm	Gross exposure 2011	EAD value 2011	Gross exposure 2010	EAD value 2010
NGR03	**5 993**	**86**	506	30
NGR04	**2 639**	**277**	3 308	877
NGR05	**7 468**	**385**	7 128	593
NGR06	**2 752**	**340**	8 194	220
NGR07			287	9
NGR08	**1 060**	**178**		
NGR11	**36**	**1**	94	6
NGR16				
NGR20	**177**	**12**	70	8
Total	**20 125**	**1 279**	19 587	1 743

Securitisation risk

Securitisation activities of the group

Nedbank Group uses securitisation exclusively as a funding diversification tool and to add flexibility in mitigating structural liquidity risk. The group currently has two traditional securitisation transactions:

- GreenHouse Funding (Pty) Limited, Series 1 (GreenHouse), a residential mortgage-backed securitisation programme launched in December 2007.
- Synthesis Funding Limited (Synthesis), an asset-backed commercial paper (ABCP) programme launched during 2004.

Octane ABS 1 (Pty) Limited, a securitisation of motor vehicle loans launched in July 2007, successfully repaid all investors in October 2011.

Synthesis is a hybrid multiseller ABCP programme that invests in longer-term rated asset-backed securities and bonds and offers capital market funding opportunities to South Africa 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 local currency credit rating by Fitch and is listed on JSE Limited (the JSE).

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

GreenHouse is a R10bn RMBS programme that securitises a portion of Nedbank Group's residential mortgages. The inaugural transaction entailed the securitisation of R2bn of residential mortgages under GreenHouse in 2007. Nedbank Group currently fulfils a number of roles in relation to GreenHouse, including acting as originator, servicer, credit enhancement (subordinated-loan) facility provider, swap counterparty and investor. The commercial paper issued by GreenHouse has been assigned credit ratings by both Fitch and Moody's and is listed on the JSE.

In January 2010 the arrears levels in GreenHouse breached the arrear-trigger level pre-set in the securitisation programme. As a result, a stop-purchase event occurred, resulting in no further home loans (other than servicing redraws, ie access facilities on existing GreenHouse loans) being acquired for as long as the arrears level remains above the arrear-trigger level. As a consequence, since this date all capital repayments have been directed to noteholders. In August 2010 Fitch Ratings placed 10 South African RMBS transactions, including GreenHouse, on rating watch negative. This reflected Fitch's revised rating criteria for South African RMBS transactions and performance concerns in the sector. In order to validate Fitch's assumptions, the rating agency requested additional data from the affected originators. Fitch is expected to update its rating criteria for South African RMBS in early 2012 and further rating action will be considered.

The Regulations Relating to Banks have been amended, effective 1 January 2011, to incorporate the revised market risk and securitisation proposals as per Basel II.5. These revisions incorporate, inter alia, higher risk weightings for resecuritised exposures and will not have a material impact on Nedbank's securitisation exposures.

Assets securitised and retained securitisation exposure

Transaction	Year	Rating	Transaction	Asset	Assets securitised		Assets outstanding		Amount retained[1]	
Rm	initiated	agency	type	type	**2011**	2010	**2011**	2010	**2011**	2010
GreenHouse	2007	Moody's and Fitch	Traditional securitisation	Retail mortgages	**2 000**	2 000	**1 462**	1 699	**218**	226
Octane	2007	Fitch	Traditional securitisation	Auto loans		2 000		607		312
Total					**2 000**	4 000	**1 462**	2 306	**218**	538

[1] *This is the nominal amount of exposure and excludes accrued interest.*

Liquidity facilities provided to Nedbank's asset-backed commercial paper programme

Transaction	Year	Rating		Asset	Programme size	Assets outstanding	Liquidity facilities	Assets outstanding	Liquidity facilities
Rm	initiated	agency	Transaction type	type		2011		2010	
Synthesis	2004	Fitch	ABCP programme	Asset-backed securities, corporate term loans and bonds	15 000	**4 044**	**4 047**	5 006	5 009

Nedbank Group has not engaged in any new securitisation transactions of its own assets in the period under review. There have been no downgrades of any of the commercial paper issued in Nedbank Group's securitisation transactions and the performance of the underlying portfolios of assets remains acceptable.

Nedbank Group also fulfils a number of secondary roles as liquidity provider, swap provider and investor in third-party securitisation transactions. All securitisation transactions entered into thus far have involved the sale of the underlying assets to the special-purpose vehicles. Nedbank Group has not originated or participated in synthetic securitisations.

Nedbank Group complies with IFRS in recognising and accounting for securitisation transactions. In particular, the assets transferred to the GreenHouse securitisation vehicle continue to be recognised and consolidated in the balance sheet of the group and the securitisation vehicle is consolidated under Nedbank Group for financial reporting purposes, as is Synthesis. Securitisations are treated as sales transactions (rather than financing). The assets are sold to the special-purpose vehicles at carrying value and no gains or losses are recognised. Any retained interest in the special-purpose vehicles is valued on the basis of the respective asset's performance based on interest rates and changes in credit profiles of underlying assets.

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

Transaction	Originator	Sponsor	Investor	Servicer	Liquidity facility provider	Credit enhancement provider	Swap counterparty
GreenHouse	✔		✔	✔		✔	✔
Synthesis		✔	✔		✔	✔	✔
Private Residential Mortgages (Pty) Limited					✔		
Private Mortgages 2 (Pty) Limited					✔		
Fintech Receivables 2 (Pty) Limited			✔		✔		✔
OntheCards Investments II (Pty) Limited			✔				
MW Asset Rentals (Pty) Limited			✔				

The table below shows the rating distribution of retained and purchased securitisation exposures.

Rating	Exposure	
Rm	2011	2010
AAA or A1/P1	529	523
AA+ to AA-		101
A+ to A-	62	127
BBB+ to BBB-	104	161
BB+ to BB-		14
Unrated	1 197	776
Unrated liquidity facilities to ABCP programme	4 047	5 009
Total	5 939	6 711

It should be noted that, while national scale ratings have been used in the information above, global-scale-equivalent ratings are used for RegCap purposes.

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

Risk weighted bands	Exposure		Capital charge		Capital deduction	
Rm	2011	2010	2011	2010	2011	2010
7 - 10%	1 627	6 161	13	44		
11 - 19%	4 119	73	53	1		
20 - 49%	26	26	1	1		
50 - 75%	37		2			
76 - 99%						
100%	40	40	4	4		
250%	65	65	16	16		
425%						
650%						
1 250% or deducted	25	25	25		25[1]	25[1]
Total	5 939	6 390	114	66	25[1]	25[1]

[1] *This deduction relates entirely to the GreenHouse exposure.*

Market risk

Market risk comprises three main areas:

- Market risk (or position risk) in the trading book, which arises exclusively in Nedbank Capital.
- Equity risk (a subrisk of investment risk) in the banking book, which arises in the private equity and property portfolios of Nedbank Capital and Nedbank Corporate respectively and in other strategic investments of the group; and property market risk (also a subrisk of investment risk), which arises from business premises, property required for future expansion and properties in possession (PiPs).
- Interest rate risk in the Banking book (IRRBB), which arises from repricing and/or maturity mismatches between on- and off-balance-sheet components across all the business clusters. This is covered in the asset and liability management (ALM) section that follows on page 131.

Market risk strategy, governance and policy

The Group Market Risk Management Framework, including 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, which is responsible for ensuring that the impact of market risks is being effectively managed and reported on throughout 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 approves new market risk activities and appropriate trading risk limits for the individual business units within the trading area. Committee meetings are held monthly and are chaired by the Head of Group Market Risk Monitoring (GMRM). Attendees include the Chief Risk Officer (CRO), risk managers from the cluster, the cluster's Managing Executive and Executive Head of Risk as well as representatives from GMRM.
- An independent function within the Group Risk Division, namely GMRM, which monitors market risks across Nedbank Group – this is a specialist risk area that provides independent oversight of market risk, validation of risk measurement, policy coordination and reporting.
- The federal model followed by Nedbank Group in terms of which business clusters are responsible and accountable for the management of the market risks that emanate from their activities, 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 CRO, Chief Financial Officer (CFO), Managing Executive and Executive Head of Risk of the relevant business cluster as well as a representative from GMRM.

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

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

In terms of market trading activities Nedbank Group is adequately capitalised. In terms of ECap, the capital requirement is based on value-at-risk (VaR) trading limits, which is a conservative approach as limit utilisation is generally moderate. In addition to VaR, stress testing is applied on a daily basis to identify exposure to extreme market moves.

Trading market risk governance

The trading market risk governance structure is aligned with the generic Group Market Risk Management Framework mentioned above. The relevant documentation has been comprehensively reviewed to ensure that an appropriate management and control environment supports the aspiration of a world-class risk management environment. At the end of 2010 Nedbank Group's application for approval to use the Internal Model Approach (IMA) for regulatory market risk measurement was approved by the South African Reserve Bank (SARB) with effect 1 January 2011.

The daily responsibility for market risk management resides with the trading business unit heads in Nedbank Capital. Nedbank Capital has a market risk team that operates independently of the dealing room and is accountable for independent monitoring of the activities of the dealing room within the mandates agreed by the Trading Risk Committee. Independent oversight is provided to the business by GMRM.

Market risk reports are available at a variety of levels and details, ranging from individual-trader level right through to a group level view of market risk. Market risk limits are approved at board level and are reviewed periodically, but at least annually. The limits approved by the board are VaR and stress trigger limits. These limits are then allocated within the business clusters and exposures against these limits are reported on to management and bank executives on a daily basis. Market risk exposures are measured and reported on a daily basis. Documented policies and procedures are in place to ensure that exceptions are timeously resolved.

Additional risk measures have been set to monitor the individual trading desks and include performance triggers, approved trading products, concentration of exposures, maximum tenor limits and market liquidity constraints.

Trading market risk

Trading market risk is the potential for changes in the market value of the trading book resulting from changes in the market risk factors over a defined period. The trading book is defined as positions in financial instruments and commodities, including derivative products and other off-balance-sheet instruments that are held with trading intent or used to hedge other elements of the trading book.

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

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

Most of Nedbank Group's trading activity is executed in Nedbank Capital. This includes marketmaking and the facilitation of client business and proprietary trading in the foreign exchange, interest rate, equity, credit, and commodity markets. Nedbank Capital primarily focuses on client activities in these markets.

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

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

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

VaR is the potential loss in pretax profit due to adverse market movements over a defined holding period with a specified confidence level. The 99% one-day VaR number used by Nedbank Group reflects, at a 99% confidence level, that the daily loss will not exceed the reported VaR and therefore that the daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days. 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.

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

- The assumed one-day holding period will not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day.
- The historical VaR assumes that the past is a good representation of the future, which may not always be the case.
- The 99% confidence level does not indicate the potential loss beyond this interval.

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

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 that 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.

Trading market risk profile

GROUP TRADING BOOK VALUE AT RISK

	2011				2010			
Risk type	Historical VaR (99%, one-day VaR)				Historical VaR (99%, one-day VaR)			
Rm	Average	Minimum[1]	Maximum[1]	Year-end	Average	Minimum[1]	Maximum[1]	Year-end
Foreign exchange	3,5	0,7	13,6	3,9	2,2	0,6	6,7	3,9
Interest rate	8,8	5,1	14,2	5,1	9,0	3,9	14,9	6,2
Equity	4,0	2,2	10,6	9,2	3,6	1,4	9,3	2,8
Credit	2,7	1,3	4,0	2,3	2,8	0,8	4,0	4,0
Commodity	0,3	0,0	1,1	0,8	0,7	0,0	1,5	0,2
Diversification[2]	(7,3)			(7,4)	(7,3)			(6,2)
Total VaR exposure	12,0	5,9	21,0	13,9	11,0	6,1	18,3	10,9

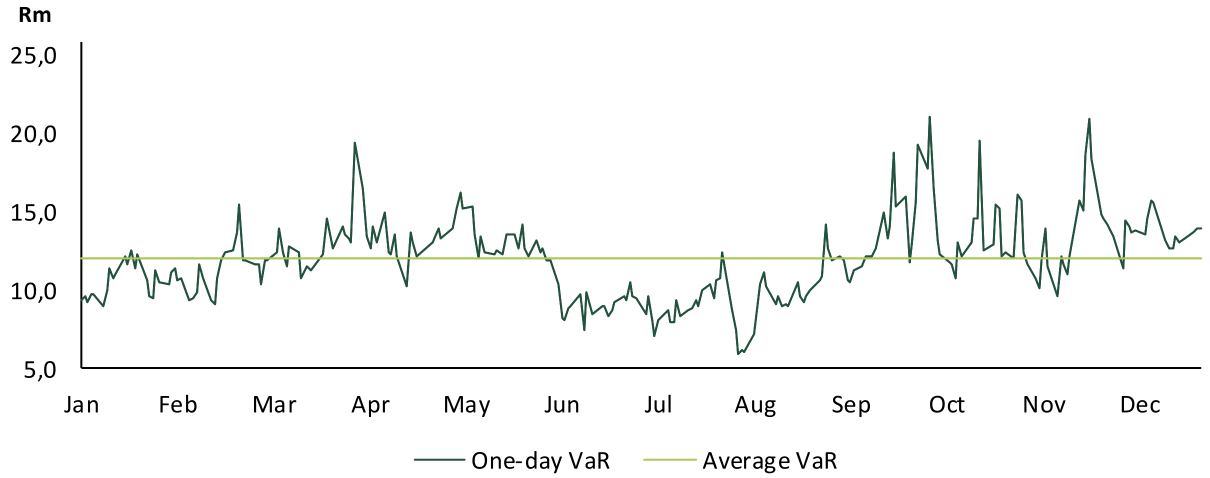
[1] The maximum and minimum VaR values reported for each of the different risk factors do not necessarily occur on the same day. As a result a diversification number for the maximum and minimum values has been omitted from the table.

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

Nedbank Group's trading market risk exposure expressed as average daily VaR increased in 2011 by 9% from R11m to R12m. The economic and financial outlook in 2011 was uncertain against the backdrop of a fragile global economy and the threat of sovereign default in the Eurozone. This negatively impacted the risk appetite in all the market risk categories.

The graph below illustrates the daily VaR for the 12-month period from 1 January to 31 December 2011. Nedbank Group remained within the approved risk appetite and the VaR limits allocated by the board, which remain low, with market trading risk consuming only 1,6% and 1,2% of group economic capital (ECap) and regulatory capital (RegCap) respectively.

VALUE-AT-RISK UTILISATION FOR 2011 (99%, ONE-DAY VaR)

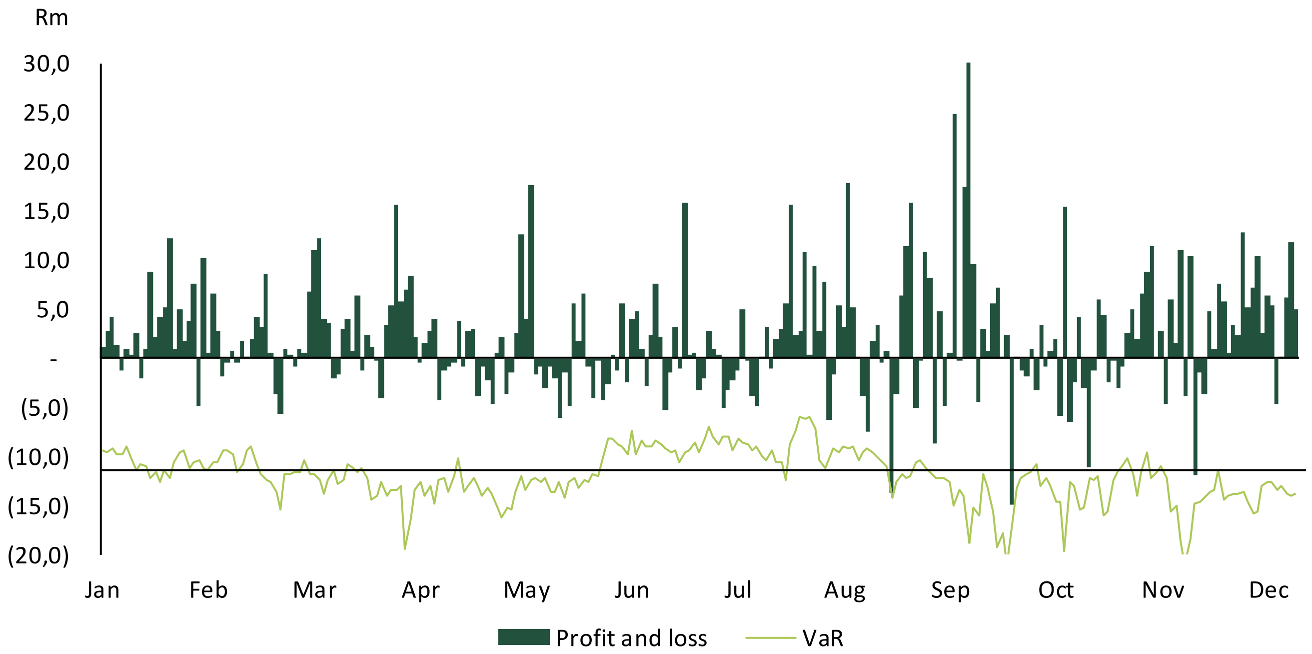


VaR is an important measurement tool and the performance of the model is regularly assessed. The approach for assessing whether the model is performing adequately is known as backtesting, which is simply a historical test of the accuracy of the VaR model. To conduct a backtest the bank reviews the actual daily VaR over a one-year period (on average 250 trading days) and compares the actual and hypothetical daily trading revenue (including net interest but excluding commissions and primary revenue) with the VaR estimate and counts the number of times the trading loss exceeds the VaR estimate.

Nedbank Group used a holding period of one day with a confidence level of 99%, and had no backtesting exceptions for the 12-month period from 1 January 2011 to 31 December 2011.

Nedbank Group's trading businesses (including net interest, commissions and primary revenue credited to Nedbank Group's trading businesses) produced a daily revenue distribution that is skewed to the profit side, with trading revenue being realised on 209 days out of a total of 249 days in the period. The average daily trading revenue generated for the period, excluding that related to investment banking, was R6,02m (2010: R6,03m).

VALUE-AT-RISK PROFIT AND LOSS FOR 2011



The following histogram illustrates the distribution of daily revenue for the period 1 January 2011 to 30 December 2011 for Nedbank Group's trading businesses (including net interest, commissions and primary revenue credited to Nedbank Group's trading businesses). The distribution is skewed to the profit side and the graph shows that trading revenue was realised on 315 days out of a total of 373 days in the period. The average daily trading revenue generated for the period was R5,55m (2010: R6,03m).

ANALYSIS OF TRADING REVENUE 2011

Trading market risk stress testing

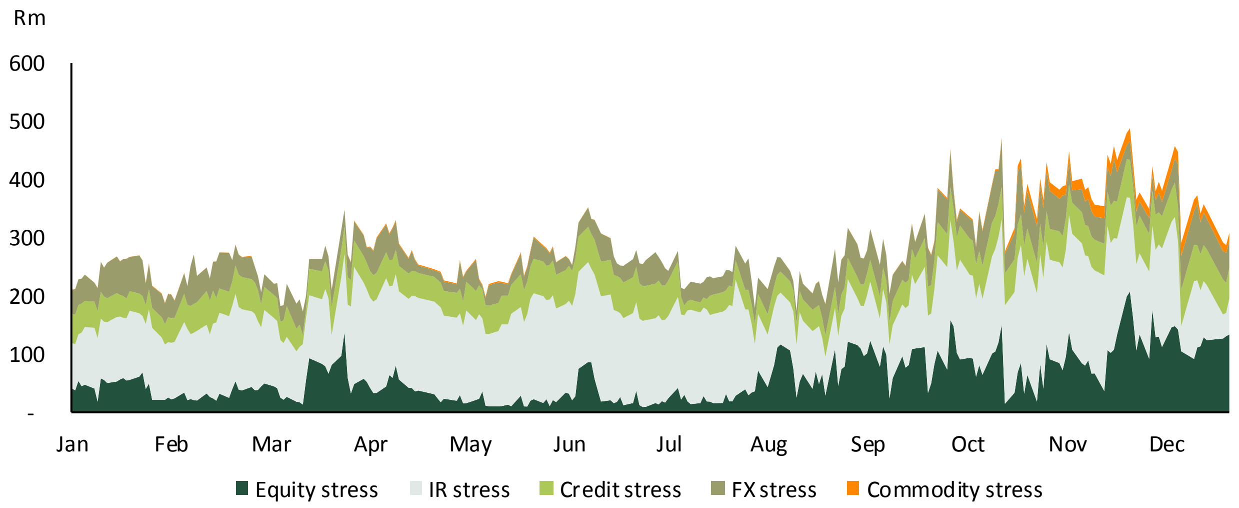
Stress testing is used to supplement VaR. Nedbank Capital uses a number of stress scenarios to measure the impact on portfolio values of extreme moves in markets, based on historical experience as well as hypothetical scenarios. The stress-testing methodology assumes that all market factors move adversely 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 test results are reported daily to senior management and monthly to the Trading Risk Committee and Group ALCO.

RISK EXPOSURES PER RISK FACTOR

	2011				2010			
Rm	**Average**	**High[1]**	**Low[1]**	**Year-end**	Average	High[1]	Low[1]	Year-end
Foreign exchange stress	**39**	**91**	**6**	**47**	26	73	6	44
Interest rate stress	**136**	**214**	**40**	**62**	102	165	47	78
Equity stress	**59**	**207**	**9**	**134**	124	340	13	37
Credit spread stress	**48**	**66**	**15**	**52**	50	58	32	50
Commodity stress	**4**	**23**	**0**	**14**	2	16	0	0
Overall	**286**	**489**	**173**	**309**	304	553	166	209

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

RISK EXPOSURES FOR THE 12 MONTHS ENDED DECEMBER 2011



Revisions to the Basel II Framework

In the revisions to the Basel II Framework contained in Basel II.5, a guideline for calculating stressed VaR was provided. Stressed VaR is calculated using market data taken over a period through which the relevant market factors were experiencing stress. Nedbank Group uses historical data from the period 26 March 2008 to 12 March 2009. This period captures significant volatility in the South African market.

Under Basel II.5 VaR, stressed VaR and stress testing will be applied to identify exposure to extreme market moves.

As part of this revision, which has been updated in the Banks Act regulations implemented in South Africa on 1 January 2012, the RWA for market risk will require an add-on for stressed VaR as opposed to being based purely on normal VaR as required by Basel II. This will result in an approximate doubling of the RWA required for market risk, but will have a small impact on normal capital adequacy ratios (CARs) due to Nedbank Group's risk profile having a very low market trading risk component. This is incorporated in the pro forma Basel II.5 ratios at 31 December 2011 shown on page 53.

The information in the following table is the comparison of the VaR using three different calculations at 31 December 2011. The three different calculations are historical VaR, extreme tail loss and stressed VaR. The extreme tail loss measures the expected loss (EL) in the tail of the distribution and stressed VaR uses a volatile historical data period. A 99% confidence level and one-day holding period are used for all the calculations.

COMPARISON OF TRADING VALUE AT RISK

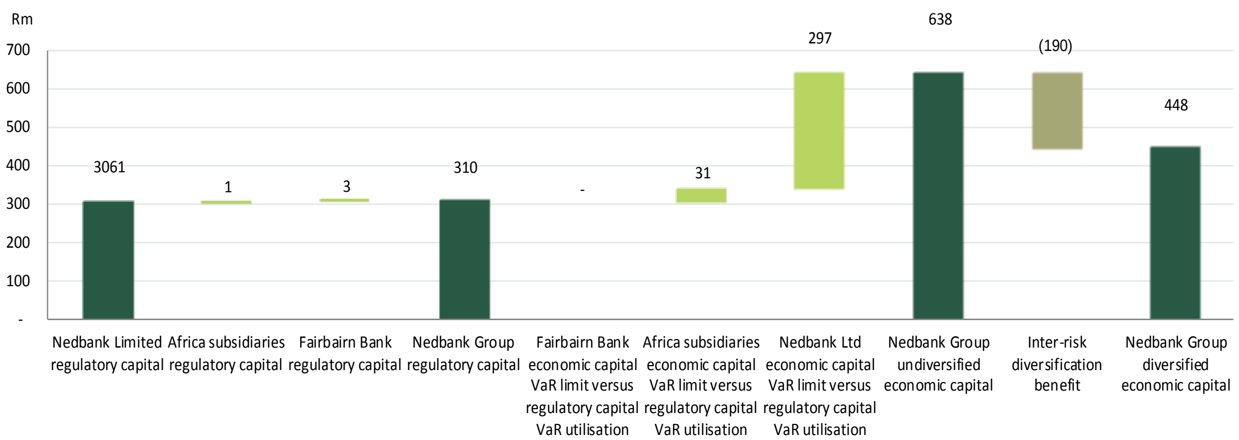
2011	**Historical VaR**	**Stressed VaR**	**Extreme tail loss**
Rm	**99% (one-day VaR)**	**99% (one-day VaR)**	
Foreign exchange	(3,9)	(6,0)	(6,8)
Interest rates	(5,1)	(14,6)	(6,7)
Equities	(9,2)	(23,3)	(9,3)
Credit	(2,3)	(3,3)	(3,8)
Commodities	(0,8)	(0,3)	(2,2)
Diversification	7,4	15,1	13,6
Total VaR exposure	(13,9)	(32,5)	(15,2)

As part of the Basel II.5 updates to the Banks Act regulations, to be implemented in South Africa on 1 January 2012, the risk weighted assets (RWA) for market risk will require an add-on for stressed VaR as opposed to being based purely on VaR as currently required by the regulations. This will result in an approximate two to three times increase in the RWA required for market risk but will have a small impact on CARs due to Nedbank Group's risk profile having a low market risk component, and this is incorporated in the pro forma Basel II.5 ratios at 31 December 2011 as discussed earlier.

Trading market risk under the IMA for RegCap

The graph below shows the reconciliation between regulatory and ECap requirements for market risk as at 31 December 2011.

MARKET TRADING RISK – ECONOMIC CAPITAL VERSUS REGULATORY CAPITAL



[1] *Includes all the South African subsidiaries and Nedbank London.*

Equity risk (investment risk) in the banking book

The total equity portfolio for investment risk is R4 385m (2010: R3 919m). R3 240m (2010: R2 897m) is held for capital gain, while the rest is mainly strategic investments

Investments	Publicly listed		Privately held		Total	
Rm	2011	2010	2011	2010	2011	2010
Fair value disclosed in balance sheet (excluding associates and joint ventures)	796	536	3 049	2 475	3 845	3 011
Fair value disclosed in balance sheet (including associates and joint ventures)	796	536	3 589	3 383	4 385	3 919

Equity risk in the banking book is a very small component of the group's balance sheet, comprising only 0,7% of the group's total assets, 5,1% of the group's total ECap requirement and 4,4% of the group's regulatory risk capital.

EQUITY INVESTMENTS HELD FOR CAPITAL GAIN (PRIVATE EQUITY) REPORTED IN NIR						
	Nedbank Group		Nedbank Capital		Nedbank Corporate	
Rm	2011	2010	2011	2010	2011	2010
Securities dealing	(79)	3	152	(46)	(231)	49
Investment income – dividends received	402	225	97	194	305	31
Total	323	228	249	148	74	80
Realised	499	230	230	214	269	16
Unrealised	(176)	(2)	19	(66)	(195)	64
Total	323	228	249	148	74	80

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

Asset and liability management

Asset and liability management (ALM) addresses two of the 17 key risk types in the group's Enterprisewide Risk Management Framework (ERMF), namely liquidity risk and market risk in the banking book, which in turn includes Interset rate risk in the Banking book (IRRBB) and Foreign currency translation risk (FCTR) on foreign-based capital, investments, loans and/or borrowings.

Liquidity risk

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

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

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

Liquidity risk governance and policy

The board of directors retains ultimate responsibility for the effective management of liquidity risk. Through the Group Risk and Capital Management Committee (a board subcommittee), the board has delegated its responsibility for the management of liquidity risk to the Group ALCO and Executive Risk Committee (Group ALCO).

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

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

KEY AREAS OF FOCUS

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

In terms of the overall liquidity risk management process independent oversight and assurance are provided by Group market risk monitoring (GMRM) and Group Internal Audit (GIA), which conduct independent reviews.

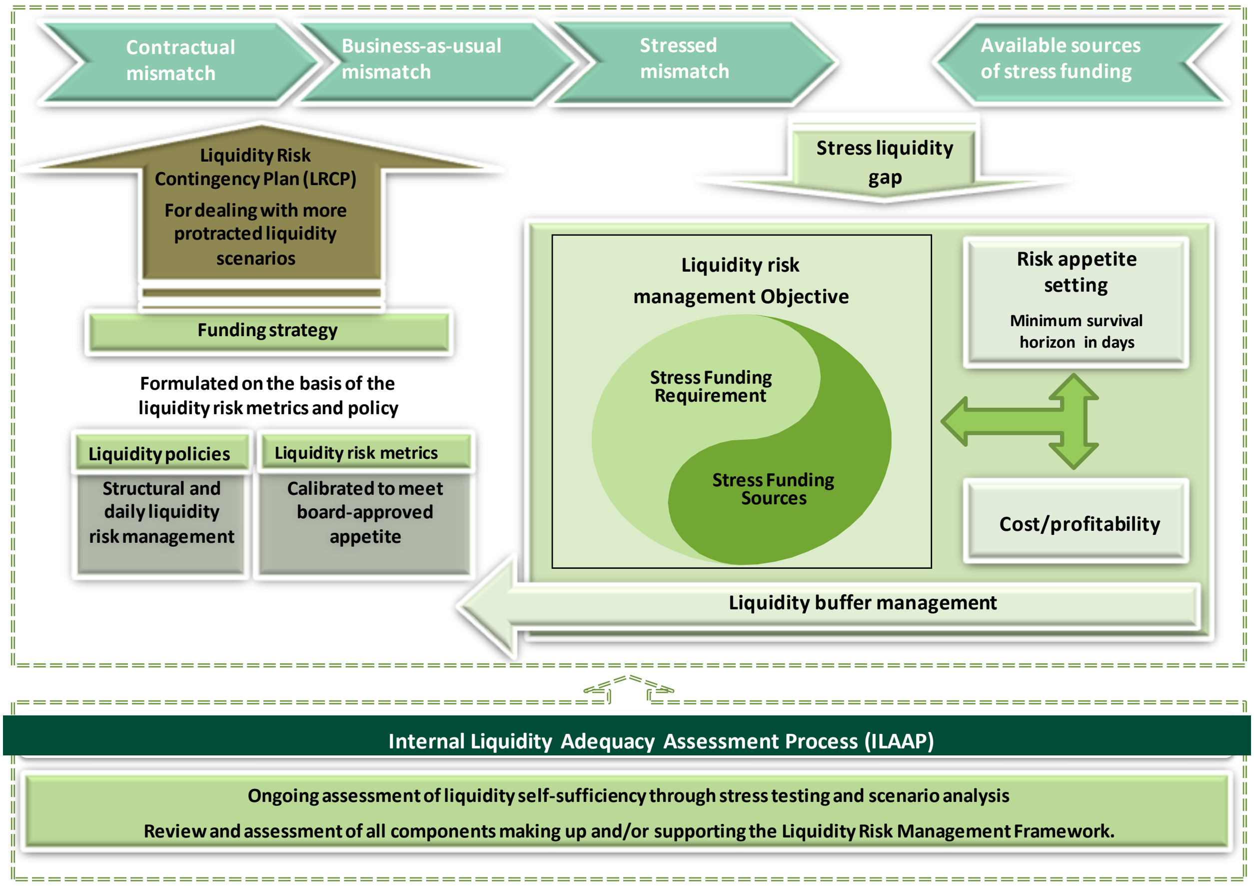
In the case of Nedbank Group's subsidiaries and foreign branches, liquidity risk is managed through the individual ALCO's established in each of these businesses. These businesses are required to have appropriate governance structures, processes and practices designed to identify, measure, manage and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

Liquidity Risk Management Framework and management processes

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

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

NEDBANK'S LIQUIDITY RISK MANAGEMENT FRAMEWORK



Embedded within the Liquidity Risk Management Framework is Nedbank Group's Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP involves an ongoing and rigorous assessment of Nedbank Group's liquidity self-sufficiency under a continuum of stress liquidity scenarios, taking cognisance of the board-approved risk appetite. The ILAAP also involves an ongoing review and assessment of all components that collectively make up and/or support the Liquidity Risk Management Framework. The objective of this review and assessment process is to ensure that the framework remains sound in terms of measuring, monitoring, managing and mitigating liquidity risk, taking cognisance of best practise and regulatory developments.

Based on the most recent internal review process it is evident that Nedbank Group is compliant with the Basel 'Principles for Sound Liquidity Risk Management' in terms of the new Basel II.5 requirements and in terms of the Basel III liquidity standards many of the key principles are already encapsulated in Nedbank's Liquidity Risk Management Framework and ILAAP.

Nedbank Group's ILAAP internal review and assessment process, which is designed to ensure that the Liquidity Risk Management Framework remains robust is depicted graphically on the following page.

NEDBANK GROUP'S INTERNAL REVIEW AND ASSESSMENT PROCESS

Annually

- Liquidity risk policies
- Liquidity risk contingency plan (LRCP)
- Liquidity risk appetite, limits, guidelines and buffers
- Liquidity model assumptions, principles and methodologies
- Principles and methodologies applied to pricing assets and liabilities for liquidity risk
- Annual funding strategy (Designed to support liquidity objectives and balance sheet optimisation)
- Independent review of liquidity risk management in subsidiaries and branches

Semi-annual/Quarterly

- Liquidity risk premium and charges applied through the Funds Transfer Pricing Framework
- Appropriateness of the continuum of liquidity stress testing scenarios
- Off-balance-sheet liquidity risk (Loan covenants, securitisation vehicles, derivative positions, revocable and irrevocable commitments, etc)
- Liquidity early-warning indicators

Best practice and Regulatory developments

Monthly/Daily

Monthly funding and liquidity review:
(As reported to ALCO)

Key areas of focus

- Compliance with limits, guidelines and buffers
- Prevailing market conditions from a funding and market liquidity risk perspective
- Actual asset/liability growth vs. funding plan - impact on liquidity risk management objectives
- Liquidity adequacy based on stress testing and scenario analysis
- Depositor concentration risk
- Rollout of liquidity risk mitigating strategies
- Liquidity risk within subsidiaries and branches

Daily funding and liquidity review:

Key areas of focus

- Projected liquidity requirements
- Compliance with limits, guidelines and buffers
- Cash reserves and liquid assets
- Participation in the money market shortage
- Settlement and clearing
- Access to market

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

The key management processes and activities are summarised below:

- Intraday liquidity risk management

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

- Liquidity buffer portfolio

  A portfolio of marketable and highly liquid assets, which could be liquidated to meet unforeseen or unexpected funding requirements, is maintained. The market liquidity by asset type (and for a continuum of plausible stress scenarios) is considered as part of the internal stress testing and scenario analysis process.

- Funding strategy formulation and execution

  In terms of achieving the board-approved liquidity risk appetite, the BSM Cluster formulates a detailed funding strategy on an annual basis, which is approved by Group ALCO. The execution of the annual funding plan is then monitored monthly through the Funding Strategy Forum and Group ALCO. As per the current funding strategy the key objectives can be summarised as follows:

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

  – Maintain the funding profile to achieve the targeted contractual and business-as-usual maturity mismatch.

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

- Scenario analysis and stress testing

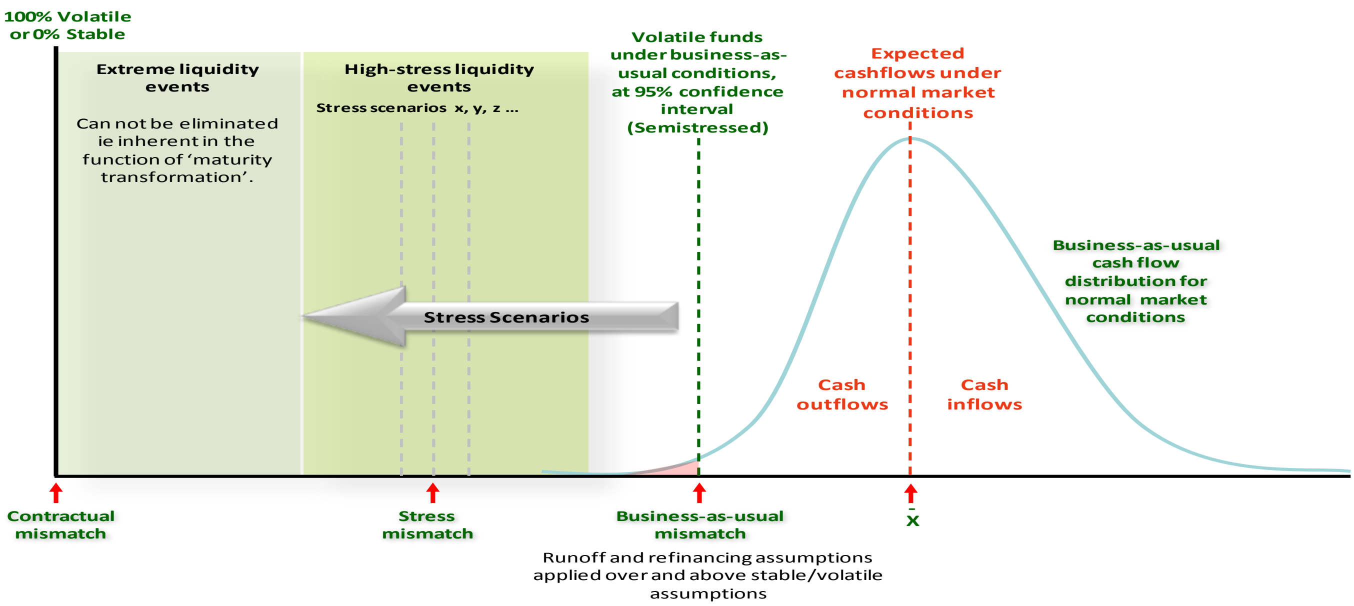
  The BSM Cluster conducts regular scenario analysis and stress testing in order to assess the adequacy of the group's liquidity buffers and contingency funding plans required to meet idiosyncratic and market-wide stress liquidity events.

  Through scenario analysis and stress testing the BSM Cluster is able to:

  – Evaluate the impact of various scenarios on the group's liquidity.
  – Set limits and guidelines designed to position the group better for a stress liquidity event.
  – Formulate appropriate actions designed to reduce the severity of a liquidity crisis.
  – Determine appropriate funding strategies and initiatives designed to support liquidity risk mitigation.

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

CONTRACTUAL VS BUSINESS-AS-USUAL VS STRESS MATURITY MISMATCH



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

- Contingency funding and liquidity planning

  Nedbank Group's Liquidity Risk Contingency Plan (LRCP) as set out in the Liquidity Risk Management Framework is designed to protect depositors, creditors and shareholders under adverse liquidity situations.

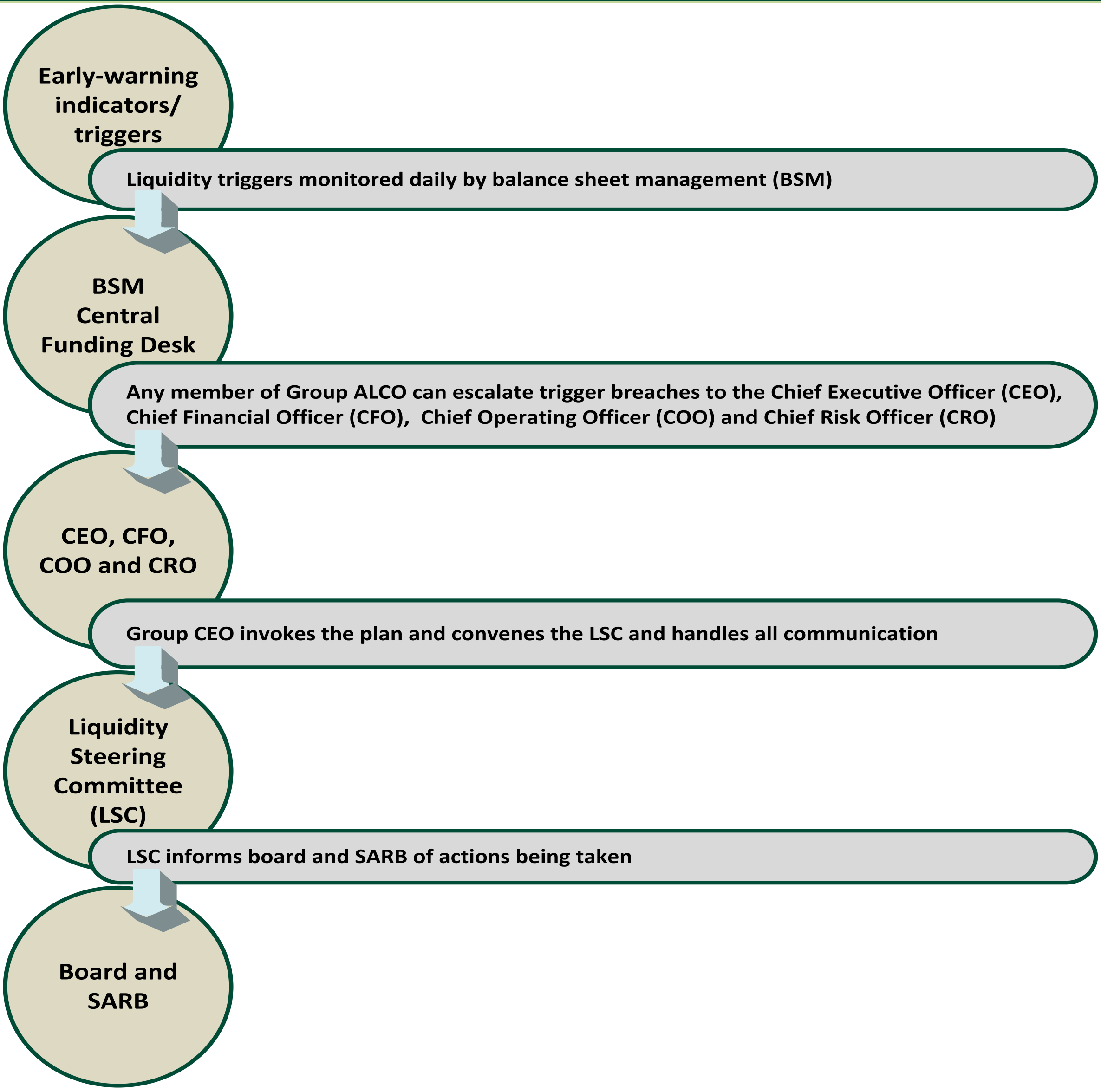
  The LRCP has been formulated in the belief that early detection, advance preparations and prompt responses can contribute to liquidity crisis avoidance or minimisation, and that accurate, timely and coordinated communication both internally and externally is essential for managing a crisis situation.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

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

  The LRCP was rigorously tested in 2011 through a liquidity simulation that involved all relevant internal and external participants. The simulation was managed independently by one of the large audit firms and now forms part of the group's regular stress testing. The group performed exceptionally well during this exercise. Any areas of improvement identified have subsequently been implemented.

The process for invoking the LRCP is depicted in the following table.

LIQUIDITY RISK CONTINGENCY PLAN



Liquidity risk portfolio review

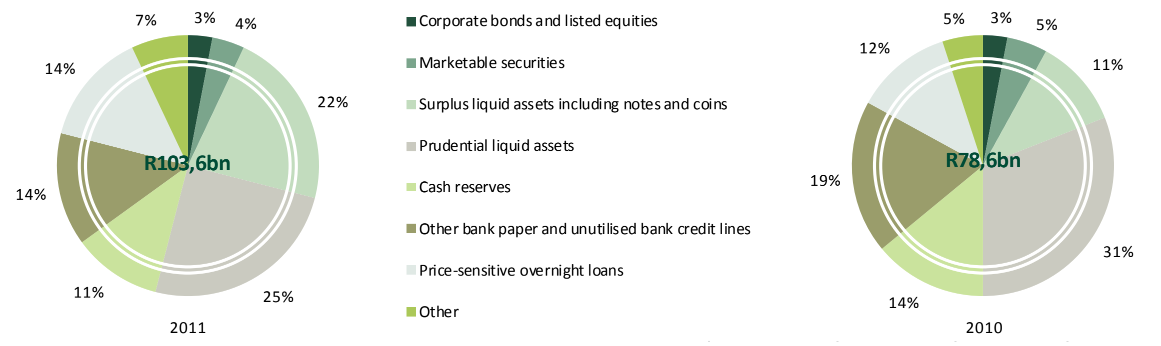
Nedbank Group's liquidity position was further strengthened in 2011 with the long-term funding ratio increasing from 22,6% to 24,2% at 31 December 2011 (the Q4 average of 25% also strengthened when compared with 24% in 2010).

The successful issuance of R4,8bn senior unsecured debt in the capital markets and the launch of South Africa's first bank-originated retail savings bond (R4,0bn issued) contributed positively to lengthening the funding profile.

The surplus liquidity buffer (a ringfenced pool of government bonds, treasury bills, highly rated public sector bonds and other parked liquidity in excess of prudential liquid asset requirements) was strengthened significantly in 2011 from R6bn to R24bn as part of positioning Nedbank to meet the anticipated Basel III liquidity coverage ratio (LCR) by January 2015.

This contributed positively to the increase in Nedbank Group's total sources of quick liquidity available for stress funding requirements, which amounted to R103,6bn at 2011 (2010: R78,6bn). The graph below reflects the composition of this portfolio.

NEDBANK GROUP'S SOURCES OF QUICK LIQUIDITY



The funding and liquidity position is further supported by Nedbank Group's strong household and commercial deposit franchise, low reliance on interbank and foreign markets and an improved loan-to-deposit ratio of 95,2% in 2011 (2010: 96,9%).

From the perspective of meeting the Basel III LCR requirements at an industry level, building significant surplus liquidity buffers may adversely impact credit extension with unintended economic consequences, meaning that national discretions, permissible under the Basel III liquidity framework, need to be carefully considered in terms of finalising local regulations.

Based on industry estimates compliance with the net stable funding ratio (NSFR) currently appears to be structurally impossible and consequently the South African banks are working closely with the SARB and National Treasury, while being mindful of the fact that the Basel Committee may still refine this ratio ahead of its targeted implementation date of January 2018.

The contractual and business-as-usual (BaU) liquidity mismatches of the group are presented below.

NEDBANK GROUP CONTRACTUAL LIQUIDITY GAP

2011 Rm	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	>12 months	Total
Cash and cash equivalents	24 950	39	379					41	25 409
Other short-term securities	18	933	5 199	6 112	4 688	8 105	7 424	3 507	35 986
Derivative financial instruments	30	169	647	844	844	889	1 430	7 987	12 840
Government and other securities	852	27	151	63	227	799	1 022	27 035	30 176
Loans and advances	33 760	4 116	28 051	11 764	8 467	21 849	35 422	352 619	496 048
Other assets	2 975							44 693	47 668
Total assets	62 585	5 284	34 427	18 783	14 226	31 642	45 298	435 882	648 127
Total equity								52 685	52 685
Derivative financial instruments	22	118	453	591	591	775	1 083	10 220	13 853
Amounts owed to depositors	242 163	18 077	52 819	49 113	20 712	39 642	48 884	49 745	521 155
Provisions and other liabilities	11 212							19 780	30 992
Long-term debt instruments				671			3 789	24 982	29 442
Total equity and liabilities	253 397	18 195	53 272	50 375	21 303	40 417	53 756	157 412	648 127
Net liquidity gap	(190 812)	(12 911)	(18 845)	(31 592)	(7 077)	(8 775)	(8 458)	278 470	

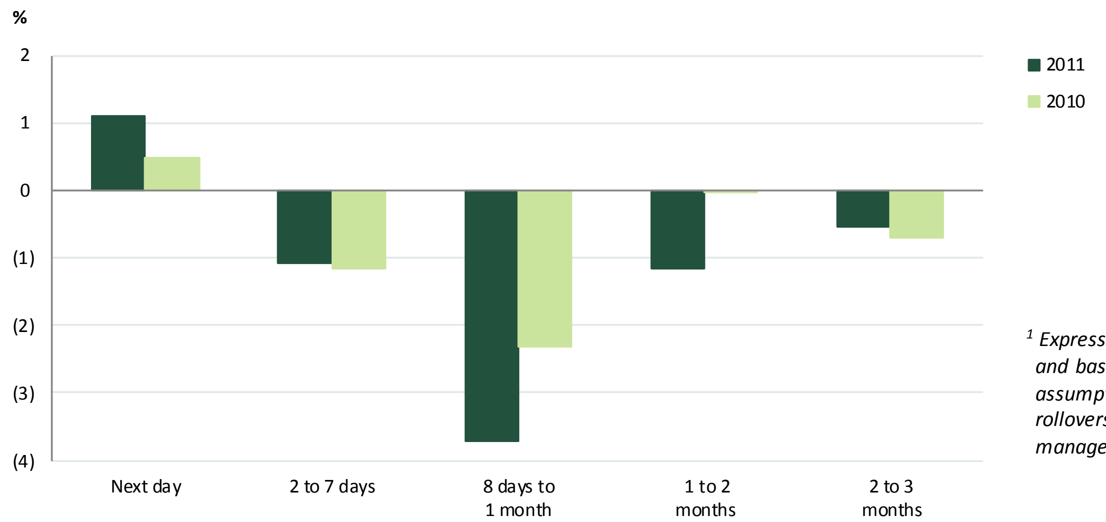
NEDBANK GROUP BaU LIQUIDITY GAP

2011 Rm	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	>12 months	Total
Cash and cash equivalents								25 409	25 409
Other short-term securities	18	933	5 199	6 112	4 688	8 105	7 424	3 507	35 986
Derivative financial instruments	30	169	647	844	844	889	1 430	7 987	12 840
Government and other securities								30 176	30 176
Loans and advances	8 578	2 091	17 522	9 962	11 204	26 147	53 087	367 457	496 048
Other assets								47 668	47 668
Total assets	8 626	3 193	23 368	16 918	16 736	35 141	61 941	482 204	648 127
Total equity								52 685	52 685
Derivative financial instruments	22	118	453	591	591	775	1 083	10 220	13 853
Amounts owed to depositors	1 423	9 984	47 013	23 298	19 677	51 273	74 499	293 988	521 155
Provisions and other liabilities								30 992	30 992
Long-term debt instruments				671			3 789	24 982	29 442
Total equity and liabilities	1 445	10 102	47 466	24 560	20 268	52 048	79 371	412 867	648 127
Net liquidity gap	7 181	(6 909)	(24 098)	(7 642)	(3 532)	(16 907)	(17 430)	69 337	

The BaU table above shows the expected liquidity mismatch under normal market conditions after taking into account the behavioural attributes of stable deposits, savings and investment products, rollover assumptions associated with term deals, but excluding BaU management actions. The next-day BaU liquidity mismatch is positive with cash inflows exceeding outflows.

As illustrated below, Nedbank Group's overnight to one-week liquidity position improved in 2011, compared with 2010 based, on the BaU liquidity mismatch. This has been achieved through a strategy of lengthening the funding profile and managing the asset/liability composition from a behavioural perspective.

NEDBANK GROUP'S BEHAVIOURAL LIQUIDITY MISMATCH



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

As supplementary information, the tables below depict the contractual and business-as-usual liquidity mismatches in respect of Nedbank Limited, and highlights the split of total deposits into 'stable' and 'more volatile' where 81% of the total deposit base is estimated to be stable on the basis of the bank's client behaviour.

NEDBANK LIMITED CONTRACTUAL LIQUIDITY GAP									
2011 Rm	**Next day**	**2 to 7 days**	**8 days to 1 month**	**1 to 2 months**	**2 to 3 months**	**3 to 6 months**	**6 to 12 months**	**>12 months**	**Total**
Contractual maturity of assets	55 864	10 489	42 034	17 152	16 279	26 708	41 814	374 482	584 822
Loans and advances	30 658	1 363	29 196	6 424	7 696	15 309	31 191	313 665	435 502
Trading, hedging and other investment instruments	3 976	8 256	9 594	7 115	4 893	5 347	4 868	34 958	79 007
Other assets	21 230	870	3 244	3 613	3 690	6 052	5 755	25 859	70 313
Contractual maturity of liabilities	229 405	16 320	51 793	32 445	19 104	40 043	53 936	141 776	584 822
Stable deposits	189 415	11 260	36 569	25 080	14 113	27 990	31 824	47 233	383 484
Volatile deposits	25 833	2 303	11 717	5 992	4 064	9 919	14 556	14 916	89 300
Trading and hedging instruments	14 157	2 757	3 507	1 373	927	2 134	7 556	34 644	67 055
Other liabilities								44 983	44 983
Net liquidity gap	(173 541)	(5 831)	(9 759)	(15 293)	(2 825)	(13 335)	(12 122)	232 706	-

The BaU table below shows the expected liquidity mismatch under normal market conditions after taking into account the behavioural attributes of Nedbank Limited's stable deposits, savings and investment products.

NEDBANK LIMITED BUSINESS AS USUAL (BaU) LIQUIDITY GAP									
2011 Rm	**Next day**	**2 to 7 days**	**8 days to 1 month**	**1 to 2 months**	**2 to 3 months**	**3 to 6 months**	**6 to 12 months**	**>12 months**	**Total**
BaU maturity of assets	25 197	4 519	19 623	10 620	13 321	27 684	50 462	433 396	584 822
Loans and advances	7 531	1 836	15 383	8 746	9 837	22 956	46 607	322 606	435 502
Trading, hedging and other investment instruments	17 666	2 683	4 240	1 874	3 484	4 728	3 855	40 477	79 007
Other assets								70 313	70 313
BaU maturity of liabilities	12 634	11 992	46 220	22 517	18 761	48 601	75 101	348 996	584 822
Stable deposits	276	1 746	10 902	15 139	13 755	36 529	52 969	252 168	383 484
Volatile deposits	1 015	7 312	31 747	5 992	4 064	9 919	14 556	14 695	89 300
Trading and hedging instruments	11 343	2 934	3 571	1 386	942	2 153	7 576	37 150	67 055
Other liabilities								44 983	44 983
Net liquidity gap	12 563	(7 473)	(26 597)	(11 897)	(5 440)	(20 917)	(24 639)	84 400	

As per the table above Nedbank Limited's BaU inflows exceed outflows in the next day time bucket and cumulatively for the next week, taking into account behavioural assumptions, including rollover assumptions associated with term deals, but excluding BaU management actions.

Interest rate risk in the banking book

Nedbank Group is exposed to Interest rate risk in the Banking book (IRRBB) primarily due to the following:

- The bank writes a large quantum of prime-linked advances.
- To lengthen the funding profile of the bank term funding is raised across the curve at fixed-term deposit rates that reprice only on maturity.
- Three-month repricing swaps and forward rate agreements are typically used in the risk management of term deposits and fixed-rate advances.
- Short-term demand funding products reprice to different short-end base rates.
- Certain non-repricing transactional deposit accounts are non-rate-sensitive.

- The bank has a mismatch in net non-rate-sensitive balances, including shareholders' funds that do not reprice for interest rate changes.

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

IRRBB comprises:

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

IRRBB strategy, governance, policy and processes

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

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

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

Group ALCO continues to analyse and manage IRRBB and align it 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, particularly during interest rate peaks and troughs, the modelling of this relationship and associated risk management strategies is challenging and continues to be refined and improved.

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

Hedged positions and hedging instruments are regularly measured and stress-tested for effectiveness and reported to Group ALCO on a monthly basis. These hedged positions and hedging instruments are fair-valued in line with the appropriate accounting standards and designation. Group ALCO typically has strategic appetite up to one year and, largely as a matter of policy, eliminates reprice risk longer than one year, unless Group ALCO chooses to lengthen the investment profile of its equity and/or the non-repricing transactional deposit accounts in order to improve the alignment of interest rate sensitivity with impairment sensitivity or improve the balance sheet position for forecast interest rate changes. Such strategic decisions must, however, maintain interest rate sensitivity and the economic value of equity within board-approved limits.

IRRBB cannot be taken by business units and is accordingly extracted from these units via an established matched maturity funds transfer-pricing solution. This solution removes repricing risk from the business units, while leaving credit and funding spread in the businesses, on which they are measured. However, certain basis risk and the endowment on free funds and non-repricing transactional deposits reside within these businesses in order for basis risk to be managed through pricing and for the endowment on these balances to naturally hedge impairment changes for similar interest rate changes. Strategies regarding the reprice risk are measured and monitored separately, having been motivated by the BSM Cluster and approved by Group ALCO.

IRRBB measurement, policies and portfolio review

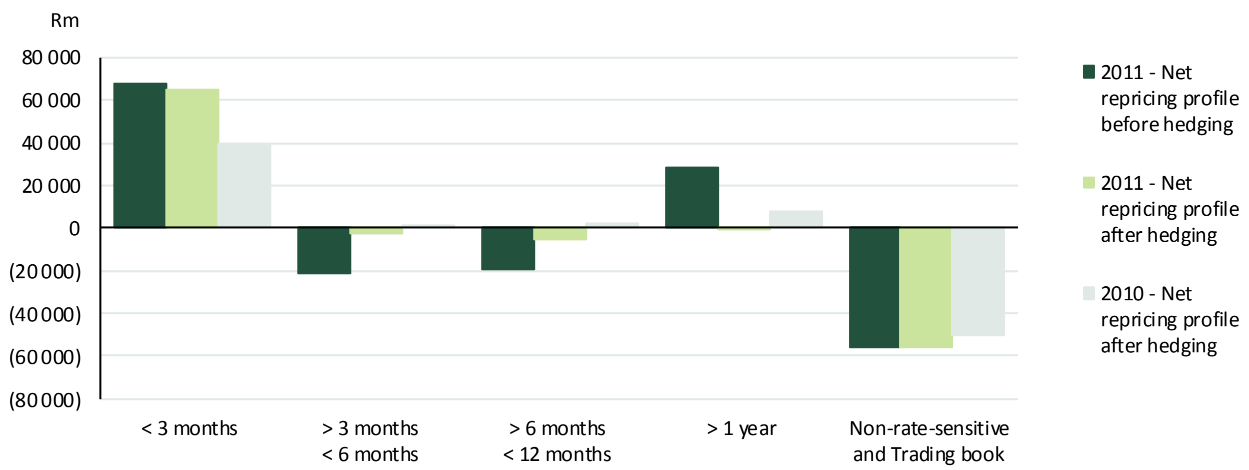
The group employs various analytical techniques to measure interest rate sensitivity within the banking book on both an earnings and economic value basis. This includes a repricing profile analysis, simulated modelling of the bank's earnings-at-risk and economic value of equity for a standard interest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

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

NEDBANK GROUP - INTEREST RATE REPRICING GAP

Rm	< 3 months	> 3 months < 6 months	> 6 months < 12 months	> 1 year	Non-rate-sensitive and Trading Book
2011					
Net repricing profile before hedging	**67 431**	**(20 943)**	**(18 976)**	**28 717**	**(56 229)**
Net repricing profile after hedging	**64 461**	**(2 148)**	**(5 364)**	**(720)**	**(56 229)**
Cumulative repricing profile after hedging	**64 461**	**62 313**	**56 949**	**56 229**	**-**
2010					
Net repricing profile before hedging	67 201	(26 844)	(19 982)	29 879	(50 254)
Net repricing profile after hedging	39 376	746	1 952	8 180	(50 254)
Cumulative repricing profile after hedging	39 376	40 122	42 074	50 254	-

NEDBANK GROUP – INTEREST RATE REPRICING PROFILE



At year-end the NII sensitivity of the group's banking book for a 1% parallel reduction in interest rates was 1,72% of total group ordinary shareholders' equity (2010: 1,50%), which is well within the board's approved risk limit of 2,5%. This exposes the group to a decrease in NII of approximately R843m before tax should interest rates fall by 1%, measured over a 12-month period. NII sensitivity, as currently modelled, exhibits very little convexity and results in an increase in pretax NII of approximately the same quantum should rates increase by 1%.

During 2011 the group's NII sensitivity has been increased through higher levels of endowment, as a result of strong earnings, and the strategic positioning of the asset and liability sensitivities to position the group better for the forecast interest rate cycle.

IRRBB strategies are evaluated regularly to align with interest rate views and defined risk appetite. This ensures that optimal on- and off-balance-sheet strategies are applied, either positioning the balance sheet or protecting interest income through different interest rate cycles, while aligning IRRBB sensitivity with TTC impairment sensitivity, which is seen as a natural economic net income hedge, but is subject to a time lag differential across financial reporting periods.

Nedbank Limited's economic value of equity, measured for a 1% parallel decrease in interest rates, is a reduction in value of R325m at 2011 (2010: R441m).

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

EXPOSURE TO INTEREST RATE RISK

		Nedbank Limited		Other group companies		Nedbank Group	
Rm	Note	**2011**	2010	**2011**	2010	**2011**	2010
NII sensitivity	1						
1% instantaneous decline in interest rates		**(715)**	(562)	**(128)**	(98)	**(843)**	(660)
2% instantaneous decline in interest rates		**(1 419)**	(1 119)	**(257)**	(200)	**(1 676)**	(1 319)
Basis interest rate risk sensitivity	2						
0,25% narrowing of prime/call differential		**(228)**	(215)	**(3)**	(2)	**(231)**	(217)
Economic value of equity sensitivity	3						
1% instantaneous decline in interest rates		**(325)**	(441)	**n/a**	n/a	**n/a**	n/a
2% instantaneous decline in interest rates		**(668)**	(909)	**n/a**	n/a	**n/a**	n/a
NII sensitivity							
Instantaneous stress shock[1]	4	**(4 909)**	(3 447)	**n/a**	n/a	**n/a**	n/a
Instantaneous stress shock modelled as a ramp[1]	5	**(3 754)**	(3 166)	**n/a**	n/a	**n/a**	n/a

n/a: not modelled.

[1] Stressed interest rate changes.

Notes

1. ***NII sensitivity**, as currently modelled, exhibits very little convexity. In certain cases the comparative figures have been estimated assuming a linear risk relationship to the interest rate moves.*
2. ***Basis interest rate risk sensitivity** is quantified using a narrowing in the prime/call interest rate differential of 0,25% and is an indication of the sensitivity of the margin to a squeeze in short-term interest rates.*
3. ***Economic value of equity sensitivity** is calculated as the net present value of asset cashflows less the net present value of liability cashflows.*
4. *The **instantaneous stress shock** is derived from the principles espoused in the Basel Committee paper Principles for the Management and Supervision of Interest Rate Risk. 1st and 99th percentile observed interest rate changes over a five-year period with a one-year holding period have been used.*
5. *The **instantaneous stress shock modelled as a ramp** uses the same interest rate shock as the instantaneous stress shock described above, but the rate shock is phased in over an eight-month period.*

Margin management

NII currently contributes more than 50% of total gross income. Accordingly, effective management of IRRBB together with optimal funding and capital strategies are imperative in shaping the balance sheet to contribute to long-term shareholders' value creation through the optimisation of the margin.

NII increased by 8.6 % to R18 034m this year (2010: R16 608m) and the group's net interest margin (NIM) improved to 3,46% as at 31 December 2011 from 3,35% as at 31 December 2010.

NIM improved from 3,35% to 3,46%	**Change in NIM on prior period (bps)**	
	2011	2010
– Total year-on-year change	**11**	(4)
▪ Pricing assets to fully reflect risk (including both credit and liquidity risks, enhanced funds transfer pricing, risk-based capital allocation and charging liquidity premiums)	**4**	5
▪ Benefit in asset mix changes, in line with the portfolio tilt strategy	**4**	7
▪ Liability pricing and mix change – change in marginal cost of funds	**9**	2
▪ Prime/JIBAR reset risk	**2**	5
▪ Other	**2**	2
In 2011 the above more than offset the negative effect of:		
▪ Net endowment	**(3)**	(19)
▪ In preparation for Basel III, the cost of lengthening the bank's funding profile and carrying higher levels of lower yielding liquid assets	**(7)**	(6)

Looking forward bank margins will be negatively impacted by the following structural changes:

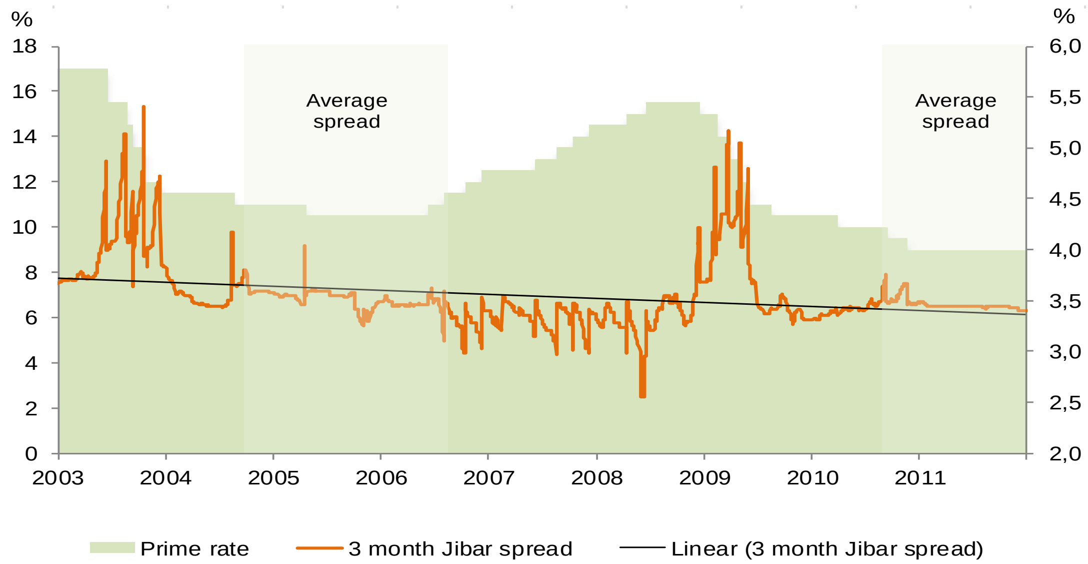
- Basel III will
  - Reduce the extent of liquidity transformation allowed by banks. This will increase the cost of funding and pricing of new advances.
  - Result in banks carrying higher levels of liquidity buffers.

    Bank margins will squeeze to the extent that banks cannot pass on these additional funding and liquidity costs in revised client pricing. The lead times adopted by local banks in complying with these new Basel III liquidity ratios will also determine the timing of this.
  - The spread between lending rates and funding costs have narrowed over time as depicted in the second graph above, ie in the spread between the Prime lending rate and three-month JIBAR.
- Slightly offset by
  - Expected higher Interest rates levels as depicted in the graph below (of the Prime lending rate). This has positive implications for bank margins in South Africa, as banks are exposed to the positive endowment on transactional accounts and equity in a higher rate environment.

Accordingly, bank margins are likely to be under pressure and not return to previous historical highs, all other things being equal.

CORRELATION BETWEEN PRIME RATE AND NEDBANK'S NET INTEREST MARGIN

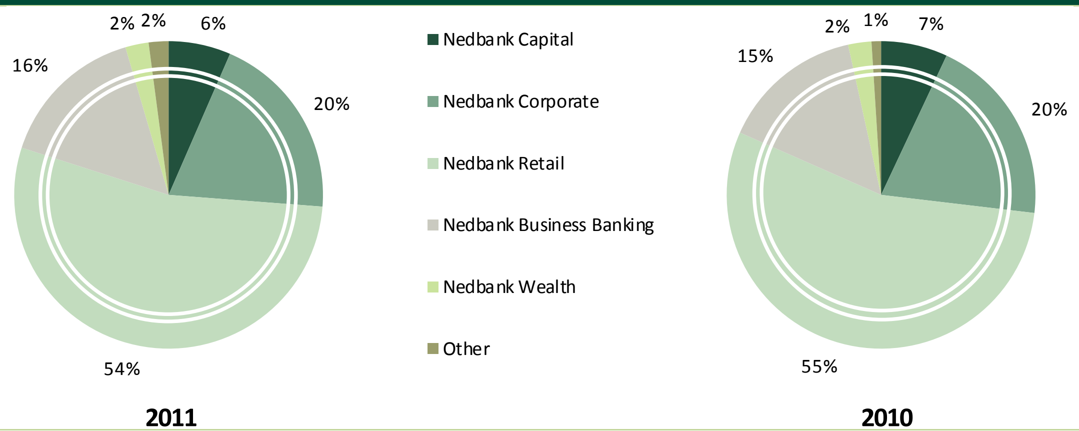
STRUCTURAL NARROWING OF BANK MARGINS



Margin contribution by business cluster

Concentration of NII is mainly in the following areas, Nedbank Retail, Nedbank Corporate and Nedbank Business Banking, which clusters account for approximately 90% of the total group's NII with 54%, 20% and 16% respectively.

NII PER CLUSTER



Foreign currency translation risk in the banking book

Foreign currency translation risk (FCTR) arises as a result of the group's investments in foreign companies that have issued foreign equity. This foreign equity is translated into rands for domestic reporting purposes, recording a profit where the rand exchange rate has deteriorated and a loss where the rand exchange rate has strengthened between financial reporting periods.

Capital is currently held against FCTR as the SARB does not currently allow FCT reserves to qualify for RegCap. As a result, adverse translation effects on the capital held in foreign investments negatively impacts the group's qualifying capital and reserves.

However, in accordance with the SARB circular 2/2012 FCT reserves, together with share based payments reserves and available for sale reserves, will qualify as RegCap under Basel III from 1 January 2013, at which time BSM will reconsider the necessity to hold Ecap for exchange rate movements on group investments in foreign companies that have issued foreign capital.

NEDBANK GROUP - OFFSHORE CAPITAL SPLIT BY FUNCTIONAL CURRENCY

	2011	2010	**2011**			2010
$m (US dollar equivalent)	**Equity**	Equity	**Forex-sensitive**	**Non-forex-sensitive**	**Total**	Total
US dollar	**138**	121	**138**		**138**	121
Pound sterling	**130**	122	**130**		**130**	122
Swiss franc	**17**	16	**17**		**17**	16
Malawi kwacha	**8**	8	**8**		**8**	8
Other				**539**	**539**	543
Total	**293**	267	**293**	**539**	**832**	810
Limit	**350**	325				

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

- The total RWA for the group's foreign entities of R9,8bn is very low at 3% of the group.
- The average capitalisation rate of the group's foreign denominated business is 24%.

Any foreign exchange rate movement will therefore have a small effect on Nedbank Group's capital adequacy.

Insurance risk

Insurance risk arises in the Nedbank Wealth Cluster and is undertaken by Nedgroup Life Assurance Company Limited (Nedgroup Life) and Nedgroup Insurance Company Limited (Nedgroup Insurance).

- Nedgroup Life offers credit life, simple-risk and savings solutions, as well as a set of differentiated underwritten individual risk life products supported by a wellness programme. A large part of the book is derived from the provision of life cover linked to Nedbank Group's lending activities.
- Nedgroup Insurance is a short-term insurer that focuses predominantly on homeowner's insurance, personal accident and limited vehicle-related value-add products for the retail market.

The Nedbank Wealth Cluster, which also provides wealth and asset management services, is a capital and liquidity 'light' business that generates high returns off a low risk profile. Accordingly, it is a 'high growth' area in the group's portfolio tilt strategy and insurance risk consumes only 0,6% of total group ECap. The solvency ratios are set out earlier in this report.

Insurance underwriting risk is the risk that future claims (in relation to property, personal accident, mechanical failure, death, disability, ill health, and retrenchment) will exceed the allowance for expected claims in the measurement of policyholder liabilities and in product pricing. Actuarial and statistical methodologies are used to price underwriting risk. The underwriting tools used by the companies aim to ensure that clients are placed in the correct bucket of risk and priced accordingly

The failure to reinsure with acceptable-quality reinsurers (beyond the level of risk appetite mandated by the board of directors) is also a source of underwriting risk since inappropriate reinsurance or under-reinsurance could lead to disproportionate losses (reinsurance risk).

The Financial Services Board (FSB) is introducing a revised prudential regime for insurance, SAM regime, to ensure that regulation of the South African insurance sector remains in line with international best practice. SAM is based on Solvency II, a risk-based capital adequacy directive being implemented for European insurers and reinsurers in 2014. SAM, like Basel II, is based on three pillars and is intended to be implemented in 2015.

The group is on track to implement the regulatory requirements of SAM, proactively with a focus on the strategic intent to optimise the new regime. During 2011 the first Quantitative Impact Study was submitted to the FSB. This study was done to determine the likely capital levels, analyse the work required to ensure compliance and to design a solution in respect of the three pillars of SAM. SAM will not have a material impact on the group's capital adequacy position and the interim requirements ahead of full implementation are being met.

SUMMARY OF SOLVENCY OF INSURANCE SUBSIDIARIES

Solvency ratios	Regulatory minimum	Target range[1]	2011	2010
Long-term insurance (Nedgroup Life)	1,00x	> 1,50x	**4,10x**	4,00x
Short-term insurance (Nedgroup Insurance Company)	1,25x	> 1,50x	**1,41x**	1,38x

[1] *Management target range is based on the greater of regulatory and ECap.*

Insurance underwriting risk strategy, governance and policy

Insurance risk is included in the Enterprisewide Risk Management Framework (ERMF), which consists of formal risk policy documentation and effective governance structures.

These structures encompass management oversight to achieve independent monitoring.

The insurance underwriting risk policy for the group formalises and communicates an approach to managing underwriting risk by adopting industry-wide principles and standards.

Although Nedgroup Life and Nedgroup Insurance Company are responsible and accountable for the management of all risks that emanate from insurance activities, underwriting risk is included in the Group Enterprisewide risk management framework and rolls up into various other governance structures. Internal and external actuaries at appropriate levels, play an oversight role with respect to underwriting activities including reporting and monitoring procedures in respect of product, valuation, reinsurance, pricing, and regulation.

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

Risks associated with new or amended products in the insurance business units follow the group's formal product approval policy, which include pricing and risk reviews by the statutory actuary; an approval at cluster executive and group executive level, which are subsequently managed through the risk management framework outlined above.

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

Insurance underwriting risk is managed during the underwriting process in the following manner:

- Monitoring of the concentration of exposures and changes in the environment through:
- Profile analysis.
- Monitoring of key ratios to ensure that they are in line with expectations and to identify any potential areas of concern or any changes in the claims patterns.
- Bi-annual monitoring of policy movements to identify possible changes to initial risk profiles and pricing. Compilation of an underwriting manual to ensure proper underwriting guidelines are in place and to ensure consistency in the risk acceptance process.

- Assessing underwriting engine assumptions and results to help revise future assumptions
- Annual repricing of premiums if the claim experience is worse than anticipated.
- Monitoring of the concentration of insurance risk, which includes the assessment of geographical spreads, the impact of catastrophe reinsurance, maximum losses per single events and mitigations that include sufficient reassurance and reviewable pricing and exclusions.
- Monitoring of rigorous assessment procedures to ensure that only valid claims are paid.
- Monitoring of effective reinsurance programmes.
- Independent monitoring by the group on a quarterly basis to assess capital adequacy ratios (CARs), net claims ratios and maximum losses per client after taking reinsurance into consideration.
- Seeking board approval for significant decisions including the assessment of investment risk, evaluation of reinsurance partners, review of capital provision, credit appetite and financial soundness.
- Monitoring of underlying investment risk by the Investment Committee on a quarterly basis, which covers asset and liability matching and fund and asset management performance. However, policyholder investment mandates are matched on a monthly basis. Exposure limits are agreed and approved by the boards of the company before approval is sought from the Group ALCO and Executive Risk Committee.
- Following and applying modelling methodologies that are regulated by the Actuarial Society of South Africa (ASSA), or in the absence of such guidance, in accordance with world-class risk management principles.

Operational risk

In December 2010 the SARB authorised Nedbank Group to use of the Advanced Measurement Approach (AMA) with diversification. Consequently, the group now calculates its operational risk RegCap requirements using partial and hybrid AMA.

This approval by the SARB confirms the existence, across the group, of sound operational risk governance practices aimed at identifying, measuring and mitigating operational risks. The group continued investing in the improvement of its operational risk measurement and management approaches in 2011.

The AMA Operational Risk Management Framework as approved by the board's Group Risk and Capital Management Committee and any subsequent amendments are tabled on an annual basis for consideration. The AMA methodologies contained therein have already been rolled out and embedded in the businesses, including those for the purposes of ECap and the ICAAP.

Operational risk strategy, governance and policy

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements. Operational risk is not typically taken in pursuit of an expected return, but exists as part of the normal course of business at all levels. The main sources of operational risk include:

Legal risk

Legal risk arises from the necessity that the group conducts its activities in conformity with the business and contractual legal principles applicable in each of the jurisdictions where it conducts its business. The possibility of a failure to meet these legal requirements may result in unenforceable contract disputes, litigation, fines, penalties, claims for damages or other adverse consequences.

Compliance and regulatory risk

Compliance and regulatory risk has become increasingly significant and there continues to be considerable demand for compliance with various new and amended regulatory requirements. Nedbank Group remains committed to the highest regulatory and compliance standards, especially due to the increasing scale and complexity of laws and regulations.

The fact that Nedbank Group operates globally means it is subject to a variety of complex local and international laws, regulations and supervisory requirements. The group therefore has board-approved policies, procedures and governance structures that direct compliance risk management and associated activities and the board exercises its oversight of compliance risk via the Directors' Affairs Committee. In addition, the group has an independent Enterprise Governance and Compliance function that forms part of the second line of defence within its risk management model.

The key activities undertaken by this enterprise governance and compliance in support of the directors, executive officers, management and employees in discharging their compliance responsibilities include:

- Providing continuous strategic compliance risk management leadership.
- Undertaking independent compliance risk monitoring.
- Setting the group's governance and compliance framework.
- Working closely with the various cluster governance and compliance functions to embed compliance risk management practices within their respective businesses.

The following were some of the key regulatory developments in 2011:

- The Companies Act was promulgated in May 2011, which represents a total 'overhaul' of the previous governing legislation. Nedbank Group responded to the new requirements via a coordinated groupwide implementation programme.
- The Consumer Protection Act was promulgated and became effective from April 2011, making provision for a fair, accessible and sustainable marketplace for consumer products and services. Nedbank Group embraced this legislation and embarked on a compliance programme to manage the implementation of the act.
- The Protection of Personal Information Bill was tabled before Parliament in August 2009 and governs all aspects of processing of the personal information of individuals and juristic persons. Nedbank Group has been highly proactive in respect of this bill and implemented a programme included:
  - An extensive staff awareness campaign.
  - Enhanced reporting processes in respect of loss of information.
  - Appropriate encryption and controls on all Nedbank Group computers.
  - The appointment of an Information Protection Officer and introduction of a regulatory programme to address the principles of privacy embodied in the bill.

Financial crime

Nedbank Group considers financial crime to be a major operational risk that leads to significant losses, and it is for this reason that the group pursues a vigorous policy of mitigating the risk through active risk management.

Fraud risk management

Crime not only causes financial losses, but also undermines the very fabric of society. Nedbank Group combats fraud and dishonesty in its own ranks and strives to protect its shareholders, clients and stakeholders from falling victim to unscrupulous individuals and organised crime groupings. Fraud prevention measures include internal and external whistleblowing reporting lines, anti-corruption initiatives and cybercrime combating capabilities.

Internal fraud and dishonesty

Nedbank Group maintains a policy of zero tolerance towards any dishonesty among staffmembers. In 2011 a total of 194 staffmembers were dismissed as a result of internal investigations. This is a decrease of 17,5%, compared to 2010.

Assessment of fraud risk

The risk of internal and external fraud is evaluated on several levels:

- Risk control self-assessments are conducted on an ongoing basis to ensure that the appropriate controls are in place and monitored effectively.
- Fraud key risk and control indicators have been developed and are monitored, tracked and reported on in accordance with the Operational Risk Management Framework (ORMF).
- Facilitated fraud risk assessments are undertaken as outlined in the International Standards for Auditing 240 (ISA 240).

- New products, and all processes related to their use, are evaluated to ensure that all aspects of fraud risk, legal risk and regulatory risk (such as the anti-money-laundering requirements) are considered.

Personnel integrity management

Nedbank Group expects all its staffmembers to maintain standards of honesty, integrity and fair dealing and to act with due skill, care and diligence. The group minimises people risk by ensuring that controls are incorporated into the recruitment and selection processes of all employees, including contractors, temporary employees and consultants. This process aims to minimise the group's vulnerability to fraud, embezzlement, theft, corruption and mismanagement of job responsibilities. It also cultivates a culture of business ethics and integrity in keeping with Nedbank Group's values, and endorses the Code of Good Banking Practice that states that 'Banks will conduct their business with uncompromising integrity and fairness so as to promote complete trust and confidence in the banking industry'.

The Financial Advisory and Intermediary Services Act, 37 of 2002, determines the 'fit and proper' requirements that are applicable to all financial service providers, key individuals, representatives and compliance officers. Nedbank ensures screening of these persons every 24 months to ensure the highest level of honesty and integrity. All new appointments of directors or executive directors, as required by the Banks Act, 94 of 1990, are screened to comply with the requirements of honesty and integrity. This also reduces the potential for conflicts of interest.

Due diligence investigations

Due-diligence investigations are performed at the start of any prospective relationship with clients, partners, vendors, agents, intermediaries or joint venture partners. In addition, ongoing assessment is performed on the commercial, political, social and security environment where such business is undertaken, or likely to be undertaken. Social, economic and governmental changes in a country can create an environment that reduces security and increases the risk to the group's assets, staff, premises and information and, consequently, its ability to continue to do business. In 2011 a total of 1 020 due-diligence investigations were performed in 50 countries.

Internal and external whistleblowing reporting lines

Nedbank strives to create a safe and enabling environment where concerns, irregularities and anonymous reports of unethical conduct, including theft, fraud and corruption can be reported safely and without fear of retribution and victimisation. Various reporting channels are available to employees, vendors, service providers and clients and a new reporting website will be launched during 2012.

Security- and fraud-related incidents can be reported, around the clock, through an internal reporting line, which is supported by an external, independently managed whistleblowing hotline, available to staff and clients. The facility also extends to Nedbank Africa subsidiaries in Namibia, Swaziland, Lesotho, Malawi and Zimbabwe. An ethics panel has been established for the appropriate handling of reports of a sensitive or serious nature.

Efforts are made to educate staff around the group about the existence of the whistleblowing facility and to help them detect the signs of possible fraudulent or improper activity. In 2011 a total of 1606 anonymous tipoffs were received (2010: 1497).

Online fraud

The increasing effectiveness of worldwide internal measures to mitigate fraud risk in financial institutions has led organised crime groupings to shift their attention to those environments over which financial roleplayers have less control, specifically the clients of banks. In addition to its ongoing efforts to increase public awareness of cyber-safety, Nedbank Group has developed measures to prevent and detect possible online fraud attempts against its clients. This has led to a year-on-year decrease of 52% in the average loss sustained by clients who had compromised their online banking credentials through non-adherence to elementary online safety principles.

Corruption

Corruption is a key cause of unsustainable businesses. As a responsible lender and corporate citizen, Nedbank Group is opposed to corruption in all its manifestations. In the fourth quarter of 2011 66% of Nedbank Group staff, including Mike Brown and the group Exco, signed an anti-corruption pledge committing themselves to take a stand against corruption and to uphold ethical and transparent business practices. In addition, Nedbank Group embarked on a programme to ensure compliance with the new UK Bribery Act. Fraud and corruption risk assessments were conducted in all subsidiaries of the group.

Whistleblowing

The Whistleblowing Policy guarantees an environment free of victimisation, in which staff can report suspected dishonest or criminal behaviour. An independently run hotline guarantees absolute anonymity of any such whistle blowers. In 2011 a total of 895 whistleblowing reports were referred for investigation to Group Forensic Services. A total of 47 of these investigations led to disciplinary action against staffmembers.

Cybercrime risk

Nedbank Group has taken note of the increasing impact of cybercrime on the banking industry and its clients and has established extensive internal digital forensic and eDiscovery capabilities to deal with this risk effectively. The group also provides training and awareness in digital forensics at tertiary institutions and to the law enforcement community in South Africa.

The group is working with other financial institutions through South African Bank Risk Information Centre (SABRIC) to establish a financial sector cyber security incident response team (CSIRT). This will be aligned with the envisaged National CSIRT in the Draft Cyber Security Policy of South Africa issued by the Department of Communication to implement proactive measures to reduce the risks of cybercrime and cyber-security incidents as well as responding to such incidents when they occur.

Information security risk

Information security risk arises from an inability to ensure the confidentiality, integrity and availability of business and client information for which the group is accountable. In 2011 all Information Security responsibilities for the group were consolidated under a Chief Information Security Officer. Nedbank Limited is a member of the Information Security Forum (ISF) and subscribes to the ISF's Standards of Good Practice as part of the Information Security Management Framework.

As a result of the effective cooperation in the financial sector CSIRT, the South African financial sector will be viewed as a less attractive target for both local and international fraudsters, thereby reducing security costs and contributing to a safer and more client-friendly electronic banking environment.

Physical security risk

The focus for security in 2011 was to maintain and improve the outstanding results achieved in 2010. This objective was achieved, however, in comparison with the financial services industry as a whole, Nedbank Ltd experienced a slight increase in armed robberies. However, ATM attacks were reduced.

Focal points for 2012 will include the rollout of additional security measures for branches and ATMs and strengthening of relationships with the South African Police Service (SAPS), and National Prosecuting Authority for the banking sector through the facilitation of the SABRIC.

Cooperation with the criminal justice system

In 2011 Nedbank Group reported 497 suspicions of corruption and/or fraud in excess of R100 000 to the SAPS in terms of section 34 of the Prevention and Combating of Corrupt Activity Act. The group was also able to assist the SAPS in its investigations by responding to 3 697 subpoenas.

Money laundering, terrorist financing and sanctions risk management

Nedbank Group does not associate, in any way, with money-laundering activities or terrorist financing. Clearly defined policies and procedures ensure compliance with all statutory requirements and regulatory obligations or, in the absence of these that agreed security standards are met. The group takes a proactive approach by endeavouring to identify any business relationships or applications for business relationships or transactions with individuals, entities and countries targeted in financial sanctions legislation.

The Business Risk Management Forum (BRMF), a Group Executive subcommittee chaired by the Chief Risk Officer, is mandated to provide strategic direction for, and monitor the effective implementation of, anti-money-laundering (AML), combating the financing of terrorists (CFT) and sanctions compliance initiatives throughout the group. The Money-laundering Control Programme (MLCP) Executive Steering Committee, a subcommittee of the BRMF, ensures the internationalisation and operational implementation of AML, CFT and sanctions compliance.

Nedbank Group Risk maintains a close and transparent working relationship with the Financial Intelligence Centre (FIC), and attends bimonthly meetings with the FIC and SARB Bank Supervision Department to ensure compliance with their requirements and obtain clarification where necessary.

2011 key performance indicators

End 2011 a total of 4 745 528 client records were reflected on Nedbank Group's Client Information System as having been verified. Of the 119 797 non-verified client records 95 464 have been restricted, with 24 333 records in the process of being restricted. The number of non-verified, not yet restricted records equates to 0,42% of the total number of records, which is below the BRMF-approved risk threshold of 0,5%. Training for AML and CFT remains a high priority. For the 24 months to 31 December 2011 a total of 24 705 of the selected 29 130 employees completed the awareness training for AML and CFT.

The Awareness Training for AML/CFT was updated to align with the FIC Amendment Act, which became effective 1 December 2011.

Annual directors' training programmes for money-laundering, terrorist financing and sanctions risk management were presented to the Group Risk and Capital Management Committee on 12 October 2011 in compliance with SARB, FIC and international requirements.

Looking forward

Group Regulatory Risk Programmes continue to enjoy the full support of group, cluster, and business line executives. All key decisionmakers are active members of the MLCP Executive Steering Committee or its related governance forums and structures.

The intention going forward is to continue building on the positive interactions with the regulator and supervisory structures, thereby cementing sustainable and trusting relationships that unlock benefits for all parties involved.

Given the challenging economic climate and pressures on already scarce knowledgeable resources, Nedbank Group will continue to focus on the implementation of innovative initiatives that limit money laundering and terrorist financing and to promote sanctions compliance in the months and years ahead.

Business continuity management

Business continuity management (BCM) is aimed at ensuring resilient group business activities in emergencies and disasters. The BCM function provides overall guidance and direction, monitors compliance with regulatory and best-practice requirements and facilitates regular review of BCM practices. Identified critical business units conduct annual business recovery tests from three regional business resumption areas, while all Payments Association of South Africa (PASA)-related recovery is tested in conjunction with the quarterly disaster recovery tests at the group's disaster recovery site. Business recovery tests and disaster recovery tests conducted during the course of 2011 were successful.

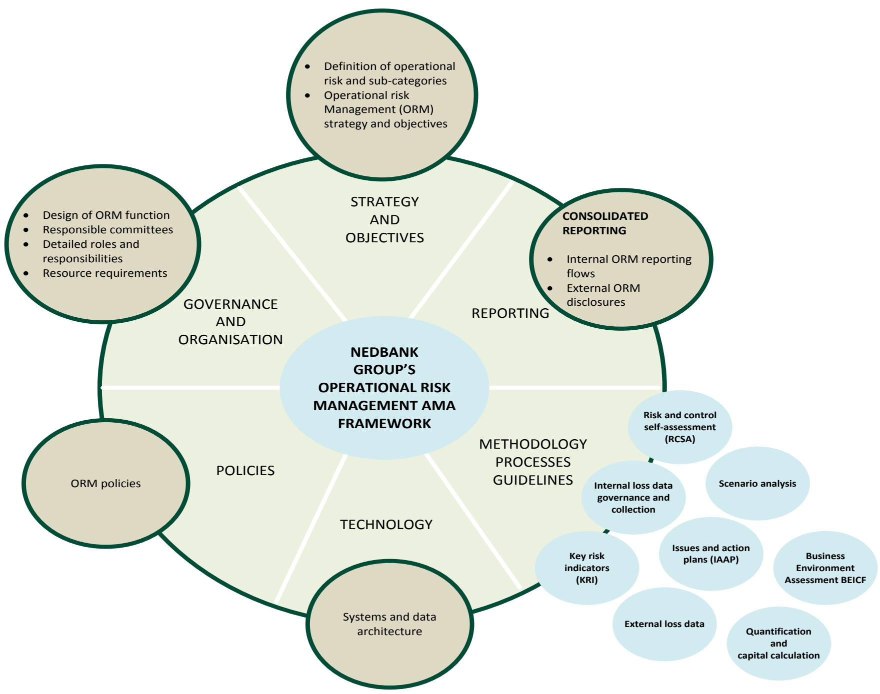
Nedbank Group's approach to managing operational risk

Business clusters act as the first line of defence and are responsible for the identification, management, monitoring and reporting of operational risk. Operational risk is reported and monitored through the divisional and cluster enterprisewide risk committees and overseen by the Group Operational Risk Committee (GORC) and the board's Group Risk and Capital Management Committee. The Group Operational Risk Management (GORM) Division within the Group Risk Cluster acts as the second line of defence in the Nedbank Enterprisewide Risk Management Framework (ERMF).

The primary responsibilities of GORM are to develop, maintain and champion the Group Operational Risk Management Framework, policies and enablers to support Operational Risk Management (ORM) in the business as well as the implementation of the Basel II and regulatory requirements and international best practice for ORM.

The diagram below depicts the Nedbank Group AMA ORMF elements:

NEDBANK GROUP'S AMA ORMF ELEMENTS



Specialist functions in Group Risk, for example Forensic Services, Business Continuity Planning, Group Legal and Corporate Insurance, also assist group businesses with specialist advice, policies and standard setting. Pervasive operational risk trends are monitored and reported on to the enterprisewide risk committees and, where appropriate, to GORC and to the Board Risk and Capital Management Committee. Group Internal Audit, being the third line of defence, provides assurance to GORC.

Operational risk measurement, processes and reporting systems

The primary operational risk measurement processes in the group include risk and control self-assessments, internal loss data collection processes and governance, the tracking of key risk indicators (KRIs), external loss data, scenario analysis and capital calculation, which are designed to function in an integrated and mutually reinforcing manner.

Risk and control self-assessment

Risk and control self-assessment (RCSA) is a forward-looking process through which business unit management identifies risks that could threaten the achievability of business objectives and offers a set of controls and actions to mitigate the risks.

Internal loss data collection and KRI tracking

The internal loss data collection process and KRI tracking are backward looking and enable the monitoring of trends and the analysing of the root causes of loss events. Operational risk losses are reported in the Nedbank Internal Loss Data Collection System. 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.

Boundary events

Boundary events are those losses and near misses that manifest themselves in other risk types, such as credit and market risk, but have relevance to operational risk because they emanate from operational breakdowns or failures. Boundary events are often identified by credit and market risk management, and are included in credit risk loss databases and operational risk capital calculations respectively.

Material credit risk events caused by operational failures in the credit processes are flagged separately in the Internal Loss Data Collection System. In line with the Banks Act and Basel II requirements, holding of capital related to these events remains in Credit Risk. These events are included as part of the ORMF to assist in the monitoring, reporting and management of the control weaknesses and causal factors within the credit process.

Material market risk events caused by operational failures in the market risk processes are also flagged separately in the Internal Loss Data Collection System. The capital holding thereof is included in operational risk capital.

External loss data

External data is used to incorporate infrequent, yet relevant and potentially severe, operational risk exposures into the measurement model. The group currently incorporates the effects of external data in the operational risk capital calculation model indirectly, in conjunction with the scenario analysis process.

The group joined the Operational Riskdata eXchange Association (ORX) in January 2011 to improve the accuracy and relevancy of external loss data used in the model. In addition, the group subscribes to the SAS® OpRisk Global Database.

Scenario analysis

Scenario analysis is a required element of AMA and is defined in the ORMF as one of the data sources for operational risk modeling and measurement. It serves as the main input for UL estimation. Scenario analysis is conducted in a disciplined and structured way using expert judgement to estimate the operational risk exposure of the group. Scenario analysis focuses on solvency and aims to identify the major operational risks that can negatively affect the solvency of the group.

Business environment and internal control factors (BEICFs)

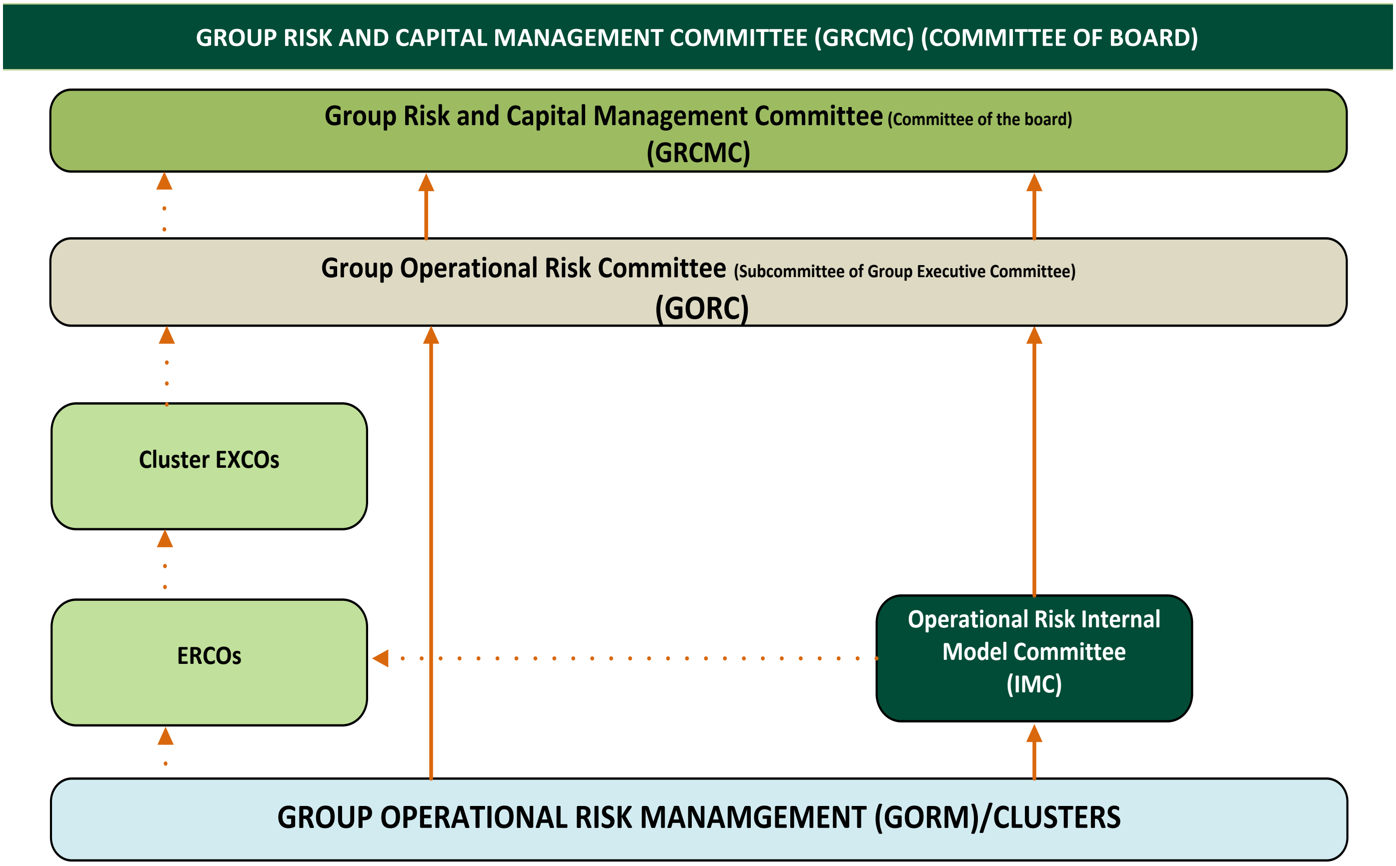
The group takes into account business environment and internal control factors during the conduct of risk and control self-assessments. Consideration of internal control and business environment factors enables the group to take into account any changes in the external and internal business environment, consider inherent risks as a result of any changes in the business environment and design appropriate controls.

Reporting

A well-defined and embedded reporting process is in place. Risk profiles, loss trends and risk mitigation actions are reported to and monitored by the risk governance structures of the group.

Operational risk governance structure

The diagram below depicts the operational risk governance structure within Nedbank Group:



Insurance obtained to mitigate the bank's exposure to operational risk

Nedbank Group has a well-structured insurance programme for its financial and non-financial risks to mitigate its operational and fraud exposures. The group has an insurance operation that reports to the Group Chief Risk Officer and is responsible for the design and management of the principle insurance programmes addressing the group operational risk exposures. This function is responsible for ensuring that the cover purchased for the group is up to date with the best coverage available within the insurance markets and relevant to the group's operating environment.

Cover is reviewed annually and, wherever possible, extended to align with Nedbank Group's strategy and aspirations. A recent example of this was the inclusion of a 'green clause' in the group's asset insurance, allowing additional cost cover to ensure that any buildings that are damaged or destroyed can be replaced with structures that meet the group's 'green' standards.

The Group Insurance Division also ensures that cover is purchased where required to meet any statutory or regulatory requirements. The primary insurance policies that cover exposures to operational risk include comprehensive crime and professional indemnity.

Business risk

Business risk includes the risk of adverse outcomes resulting from a materially weakened competitive position or from a poor choice of strategy, markets, products, activities, systems or structures, as well as inadequacies in human capital. It is the risk the group faces due to extreme volatility in earnings, driven mainly by material changes in volumes, margins and fees and being unable to cover the group's fixed cost base.

Business risk is also associated with losses due to external factors such an abnormal the market situation or change in government regulations. This quantified risk category also essentially addresses Nedbank Group's strategic risk.

Accounting and taxation risks

These key risks are actively managed within Nedbank Group's ERMF and in compliance with IFRS, including strong valuation controls over its exposure to fair-value mark-to-market (MTM) accounting. Significant governance and risk management operates effectively to manage these risks in Nedbank Group.

Information obtained from the valuation of financial instruments is used by the group to assess the performance of the business and, in particular, provide assurance that the risk and return measures the business has taken are accurate and complete. It is important that the valuation of financial instruments accurately represents the financial position of the group while complying with the requirements of the applicable accounting standards.

Taxation risk has been high due to the legacy-structured finance book. As a result of proactive management the higher-than-normal taxation risk has been significantly reduced over the past four years.

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

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

Technology risk

Technology risk stems from risks associated with misalignment with business strategy; an uncoordinated or inefficient information technology (IT) strategy; failure of projects to deliver desired change, data protection and information privacy; effects of physical disasters on information systems; IT outsourcing, IT performance and information systems governance.

The use of information technology, and therefore the associated technology risk (IT risk), is pervasive in a large bank such as Nedbank Group. Accordingly, IT risk is recognised as one of the 17 key risks in Nedbank Group's risk universe and is addressed appropriately as follows:

- There is a separate major support cluster for IT, ie Group Technology (GT). The managing executive of GT is a member of the Group EXCO.
- The Group Technology Cluster manages information and technology risk through the Technology Management Policy.
- GT is Nedbank Group'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 group wide service-oriented architecture and technology strategy.
- One of the board subcommittees, Group IT Committee, specifically focuses on IT from both an operational and strategic perspective inclusive of IT risk.
- The Executive IT Committee, a subcommittee of the Group EXCO, serves as a steering committee for IT related matters at group level.
- As with the other business clusters, the head of Risk Hendrik Swanepoel is a member of the GT Cluster EXCO and reports directly to the managing executive of GT.

Reputational, strategic, social and environmental and transformation risks

Reputational, strategic, social and environmental and transformation risks are also potentially pervasive in a banking group, and each is separately identified and addressed as key risks in the group's ERMF.

To this end significant time, resources and focus are afforded these risks on an ongoing basis. The following highlights illustrate this:

- The Directors' Affairs, Group Finance and Oversight, and Group Transformation and Sustainability Committees operate at board level.
- Group EXCO is assisted by the Group Operational, Brand, Transformation and Human Resources Committees and the Business Risk Management Forum.
- Reputational risk is, to a large degree, mitigated by adequately managing the other 16 key risks in Nedbank Group's ERMF. External communication to investment analysts, shareholders, rating agencies and the financial media is controlled by risk policies, with designated group spokespeople.
- There is a comprehensive, formal, well-documented and closely monitored strategic planning process group wide.
- Sustainability is fundamental to ensuring financial prosperity and stability for investors and staff, integrating social and environmental responsibility for local communities and the countries in which the group operates, and remaining relevant and accessible to clients. Sustainability is a crucial part of the Nedbank Group culture, and one of the group's Deep Green aspirations 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, appear in the Nedbank Group Integrated Report 2011.

- Transformation is a business imperative in South Africa and Nedbank Group's focus and progress in this regard are sound and on track to meet its targets, details of which appear in the Nedbank Group Integrated Report 2011.
- The Group Marketing and Corporate Affairs Cluster plays a major role in managing the group's image and reputation. Key functions include marketing and communications. The cluster is also responsible for the Nedbank Foundation as well as for the delivery of the group's objectives in terms of the Financial Sector Charter and the dti Industry Codes of Good Practice.
- The Nedbank Group brand image reflects the group's strong marketing and communication drive that has led to positive changes while retaining the aspirational elements, which are distinctly different from those of its competitors.
- Enterprise Governance and Compliance is responsible for the monitoring of regulatory and reputational risk and the setting of related policies. It also manages the Enterprisewide Governance and Compliance Framework (EGCF). Nedbank Group's governance strategy, objectives and structures have been designed to ensure that the group complies with legislation and a myriad of codes, while at the same time moving beyond conformance to governance performance.

The Chief Governance and Compliance Officer is a member of Group EXCO, reports directly to the CEO and attends the board committee meetings by invitation. He also has direct access to the Chairman of Nedbank Group and other Nedbank Limited boards.

A strong network of divisional governance and compliance officers works closely with the central EGCF in training, project implementation and monitoring, as well as creating an appropriate governance and compliance culture.

Nedbank Group's EGCF incorporates a full range of governance objectives, a delineation of responsibilities at board committee, Group EXCO and management level, and the identification of champions and key functions for corporate governance integration into all operations.

Key features of achieving an effective governance process are the cooperation between executive management and non-executive directors, and the significant emphasis, resources and structure given to executive management to champion corporate governance on a day-to-day basis and assist the board committees and individual non-executive directors with their corporate governance and compliance responsibilities.

More details on Nedbank Group's EGCF appear in the Nedbank Group Integrated Report 2011.

Human resources (or people) and transformation 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. The group vigorously manages people risk through Group Human Resources.

People and transformation risks, which are also key risks in the ERMF, are afforded the same focus as given to the other ERMF risks, with acknowledgement of the ongoing 'war for talent' in the marketplace.

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

- Group Remuneration Committee (RemCo) – a sub-committee of the board.
- Group Transformation, Social and Ethics Committee– a subcommittee of the board.
- Transformation and Human Resources Committee (TRHRCO) – a subcommittee of EXCO
- Enterprisewide Human Resources EXCO – comprising of HR Cluster representatives in the business.
- Group Human Resources EXCO.
- Group Human Resources Risk Committee.

The Group Human Resources Executive represents the HR community in these committees and is a representative of Group EXCO.

Succession planning is an important focus area for Group Executive, Cluster Executive and Divisional Committee roles. A formal talent review process takes place annually culminating in order to identify our key talent and to ensure the approval of succession plans by the appropriate forums. Group Executive succession plans are signed off by the CE and the Directors Affairs Committee of the Board.

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

The overall purpose of total remuneration in Nedbank Group is to attract, retain, motivate and reward all of its people appropriately. The total remuneration philosophy is aimed at encouraging sustainable long-term performance of the group. At all times, the alignment of performance with the strategic direction and specific value drivers of the business is sought. The interests of all stakeholders, in a manner that does not encourage excessive risk-taking, is also integral to the total remuneration philosophy.

The group's ERMF, ICAAP and financial performance rely 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. The group's current status and the extent of such skills are believed to be sound. However, the group recognises that this has to be actively managed and monitored on an ongoing basis.

Leading transformation continues to be one of the group's key focus areas. Nedbank Group maintained its level 2 rating in respect of the Broadbased Black Economic Empowerment (BBBEE) Codes of Good Practice of the Department of Trade and Industry (dti Codes). Nedbank Group was ranked South Africa's third most empowered corporate for the third year in a row.

Building a unique and innovative culture remains a key source of Nedbank Group's competitive advantage and brand differentiation and is entrenched within its leadership philosophy of being 'vision-led and values-driven'. It directly impacts on its effectiveness in delivering high-quality client service. Alignment between the organisational and employee values leads to higher levels of commitment and engagement, which in turn positively influences innovation, creativity and accountability, as well as greater levels of trust, adaptability and productivity. The Barrett culture survey results confirm that values and vision drive the corporate culture, which in turn drives employee fulfilment; and that employee fulfilment positively impacts client satisfaction, thereby increasing shareholder value. Based on this premise the group strives to understand the current organisational climate and culture within which it operates by utilising employee surveys such as the Barrett and Nedbank Group Staff Survey, as well as engagement surveys.

Long-term sustainable success is highly dependent on the culture that leaders create. And the culture that leaders create is highly dependent on their behaviour and their relationships with other leaders and employees in the organisation. Leading for

Deep Green is an initiative that is aimed at Nedbank Group's leadership community to enable it to create a values driven leadership core that supports its strategic objectives.

Transformation is a key component within organisational culture. 'Leading Transformation' is a core organisational aspiration. To be a true reflection of the society in which it operates, is a key transformational challenge that the group faces. The Diversity Management Strategy is fundamentally aimed at creating a workplace where diversity is embraced and free of all irrelevant prejudgements and stereotypes. As such diversity management forms a key part of Nedbank Group's transformation process. Nedbank Group understands the reality that most organisations are either 'strategically' or 'culturally' deficient and that deficiency in either sphere leads to failure. The diversity management initiatives form an integrated part of the Nedbank Group's effort to develop and build an organisational culture that can execute its strategy.

Major concentration risks and off-balance-sheet risks

Nedbank Group has enhanced its holistic group-wide concentration risk measurement and is a key feature of its Risk Appetite Policy and Framework. The Basel Committee on Banking Supervision published Basel II.5, being enhancements to the Basel II framework, which includes 'concentration risk' and is effective in South Africa from January 2012.

All ECap (ICAAP) and ERMF risk types are analysed, and by appropriate segmentation, for possible concentrations. Segmentations that are considered include single name, industry, geographic, product, collateral and business unit.

Credit risk is the most material risk type as can be seen in its percentage contribution to total ECap (refer page 60). A liquidity crisis is a plausible event that could ultimately 'break a bank'. Therefore liquidity risk and credit risk are considered the two major concentration risk focus areas for Nedbank, and this aligns with lessons learnt from the global financial crisis.

Concentration risk appetite targets were set both in areas where Nedbank Group is materially exposed to concentration risk as well as areas of under-concentration, and so potential growth. The targets were agreed by senior management and approved by the board in 2011, in line with the expectations of the new Basel II.5 regulations and the board’s responsibilities.

The potential areas of major concentration risk in Nedbank include the following:

- Credit risk
  - Commercial mortgages: Nedbank currently has a dominant local market share position in commercial mortgages lending of approximately 38% and accordingly makes up 18% of Nedbank's total loans and advances portfolio at 31 December 2011. This exposes Nedbank, to a greater degree than its peers, to a depressed commercial property market scenario. This risk is mitigated by low average LTVs across its Property Finance portfolio (average LTV is below 50%) and the existence of an experienced management team.
  - Residential mortgages: Although Nedbank has the smallest home loans portfolio amongst the local peer group, the contribution of home loans as a percentage of total loans and advances is substantial at 27,7% at 31 December 2011.
  - Nedbank has adopted a selective origination, client-centric growth strategy going forward regarding home loans, given the historical unattractive economic profit (EP) and excessive earnings-at-risk profile. Accordingly, Nedbank's total exposure to home loans is expected to decline overall or at a minimum remain flat thereby decreasing its proportional exposure to total loans and advances.
  - Total mortgages exposure: Although Nedbank has the smallest home loans portfolio amongst the peer group, Nedbank’s dominant position in commercial mortgages increases Nedbank's overall exposure to total mortgages to a point at which Nedbank, like its local peers, is deemed highly concentrated to total mortgages, comprising 45,8% of total loans and advances at 31 December 2011. Such concentration exposes the bank to an overall property price decline.

    Given the group’s strategy of portfolio tilt and the decreasing the growth of the home loans portfolio, the contribution to total loans and advances will steadily decrease. However, given the below 50% average LTV of the Property Finance book and good returns generated (above 20% ROE), Nedbank is satisfied with its differing commercial versus residential mortgages ‘concentrations’ compared to the local peer group.

  - Vehicle and asset finance: With the acquisition of Imperial Bank, Nedbank now has a strong position in vehicle and asset based finance with a market share of approximately 31% at 31 December 2011. This portfolio now makes up 11% of Nedbank's total loans and advances portfolio.

    Nedbank follows a selective, value-based growth / origination strategy identifying value creating sub-portfolios and origination channels that may result in these portfolios growing at a slower rate and that ultimately results in improved risk adjusted returns and higher EP.

  - Total secured lending: Although Nedbank currently has the smallest market share in retail secured lending amongst its peers, retail secured lending is 38,8% of total group loans and advances at 31 December 2011. This concentration historically exposed the group to high earnings volatility due to its high sensitivity to macro-economic stress events. Nedbank has since adopted a selective, value-based growth strategy going forward as part of its portfolio tilt initiative with home loans exposure overall expected to decline and a differentiated, client-centric origination to achieve improved risk adjusted returns and sustainable profitability.

    Further detail with regards to credit concentration risk is addressed from page 117.

- Property investment risk: 40% of the investment portfolio is concentrated in real estate but constitutes only 0,41% of total assets at 31 December 2011. In terms of sector split, 18% of the real estate portfolio is in retail and 30% in the commercial sector, while 29% is listed. In terms of geographic classification, 33% of the real estate portfolio is concentrated in Gauteng. Concentration risk in listed real estate is managed by secondary limits. The investment risks are neither unduly large nor concentrated for the Nedbank Group.

- Property risk – Gauteng: Property market risk includes exposure in Nedbank's business premises, property acquired for future expansion and properties in possession. Property risk is highly concentrated with 75% in Gauteng. The concentration risk in the head office (including regional) buildings is driven by the strategic need for Nedbank to own the key buildings from which it operates. Sandton is a high growth area and the 'financial centre of Africa'. However, any further property investment activities in the Sandton area will be considered against the existing concentration risk.

- Liquidity risk – Asset manager reliance, consistent with local peers: Nedbank currently sources 37% of total funding from asset managers. Asset managers are specifically used to lengthen term funding. The 2012 – 2014 funding plan and portfolio tilt strategy includes a reduction in asset manager funding through increases in retail and commercial transaction deposits, both in conjunction with the group's NIR and primary client strategies, and the retention of Nedbank's strong household deposits position.

- Capital – Non-core Tier 1 capital instruments: Nedbank has historically been more active than the peer group regarding capital structuring. This has resulted in the bank having a higher proportion of Tier 2 debt and Non-core Tier 1 (hybrid debt capital), currently comprising 18,0% and 10,4% of the group's total qualifying capital and reserves, respectively. Nedbank remains firmly focused on building its Core Tier 1 capital base, in line with Basel III, and the changing mix of Tier 1: Tier 2 capital.

- Interest rate risk in the Banking book – Basis risk: As a result of Nedbank's Government bond holdings, both in the prudential requirements and the liquid asset buffer, the bank is exposed to basis risk due to the associated interest rate risk on the Government bonds being removed via derivatives (ie interest rate swaps).

  The basis risk arises due to the Government bonds and swaps being fair valued using the Government bond curve and swap curve respectively and to the extent that these curves do no not move together. See page 139.

Concentration risk is also a key feature of Nedbank Group's Market Risk Framework. However, undue concentration risk is not considered to prevail in the group's trading, forex and equity risk portfolios (evident in the low percentage contributions to group ECap, see page 60). These are all monitored by Group ALCO and the board's Group Risk and Capital Management Committee.

As regard off-balance-sheet risks, there are only two 'plain vanilla' securitisation transactions, which have funding diversification rather than risk transfer objectives. In addition there are no 'exotic' credit derivative instruments nor any risky off-balance-sheet special-purpose vehicles. See pages 122 and 117.

ANNEXURE A: ABBREVIATIONS

ABBREVIATIONS	DEFINITION
AFR	Available financial resources
AFS	Available-for-sale
AIRB	Advanced Internal Ratings-based Approach
AJTP	Activity-justified transfer pricing
ALM	Asset and liability management
AMA	Advanced Measurement Approach
AML	Anti-money-laundering
ASSA	Actuarial Society of South Africa
BaU	Business as usual
BBBEE	Broadbased Black Economic Empowerment
BCM	Business continuity management
BEE	Black economic environment
BEEL	Best estimate of expected loss
BEICF	Business environment and internal control factors
BI	Business intelligence
bps	Basis points
BIS	Bank of International Settlements
BSM	Balance Sheet Management
CAPM	Capital Adequacy Projection Model
CAR	Capital adequacy ratio
CPBP	Clients, products and business practices
CCR	Counterparty credit risk
CEM	Current Exposure Method
CFO	Chief Financial Officer
CFT	Combating the financing of terrorists
CLN	Credit-linked notes
CLR	Credit loss ratio
CMVU	Credit Models Validation Unit
CPM	Credit portfolio modelling
CRO	Chief Risk Officer
CSIRT	cyber security incident response team
dEL	Downturn expected loss
dLGD	Downturn loss given default
dti	Department of Trade and Industry
EAD	Exposure at default
EaR	Earning-at-Risk
EATE	Exposure at transfer event
ECap	Economic capital
EGCF	Enterprisewide Governance and Compliance Framework
EL	Expected loss
EP	Economic profit
ERMF	Enterprisewide Risk Management Framework
EVE	Economic value of equity
FCT	Foreign currency translation
FCTR	Foreign currency translation risk
FIC	Financial Intelligence Centre
FSB	Financial Services Board
GDP	Gross domestic product
GIA	Group internal audit

ABBREVIATIONS	DEFINITION
GMRM	Group market risk monitoring
GOI	Gross operating income
GORM	Group Operational Risk Management
GreenHouse	GreenHouse Funding (Pty) Limited, Series 1
GT	Group technology
HVCRE	High-volatility commercial real estate
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMA	Internal Model Approach
IPRE	Income-producing real estate
IRB	Internal ratings based
IRRBB	Interest rate risk in the Banking book
ISDA	International Swaps and Derivatives Association
ISF	Information Security Forum
ISMA	International Securities Market Association
IT	Information technology
JIBAR	Johannesburg Interbank Agreed Rate
KRI	Key risk indicators
LCR	Liquidity coverage ratio
LGD	Loss given default
LGTE	Loss give transfer event
LRCP	Liquidity risk contingency plan
M	Maturity
MEFM	Macroeconomic Factor Model
MLCP	Money-laundering Control Programme
MMFTP	Matched maturity funds transfer pricing
MRC	Minimum required capital
MTM	Mark-to-market
Ned 5	Nedbank Limited Tier 2 bond
NGR	Nedbank Group Rating
NII	Net interest income
NIM	Net interest margin
NIR	Non-interest revenue
NOP	Nedbank owned property
NSFR	Net stable funding ratio
NTR	Nedbank Group Transaction Rating
OpVaR	Operational risk value-at-risk
ORM	Operational Risk Management
ORMF	Operational Risk Management Framework
ORX	Operational Riskdata eXchange
OTC	Over-the-counter
PD	Probability of default
PIIGS	Portugal, Ireland, Italy, Greece, Spain
PiPs	Properties in Possession
PIT	Point-in-time
PSE	Public sector entities
PTE	Probability of transfer event
QRM	Quantitative Risk Management
RAPM	Risk-adjusted performance measurement
RAROC	Risk-adjusted return on capital

ABBREVIATIONS	DEFINITION
RBB	Retail and Business Banking
RCSA	Risk and control self-assessment
RegCap	Regulatory capital
ROE	Return on equity
RORAC	Return on risk-adjusted capital
RWA	Risk-weighted assets
SABRIC	South African Bank Risk Information Centre
SAM	Solvency Assessment and Measurement
SAPS	South African Police Service
SARB	South African Reserve Bank
SBP	Share-based payments
SCP	Strategic capital plan
SFT	Securities financing transaction
SIFIs	Systematically important financial institutions
SME	Small- and medium-sized enterprises
SREP	Supervisory Review and Evaluation Process
SRP	Securities Regulation Panel
SSF	Single-stock futures
STI	Short-term Incentive
SWRA	Simple Risk Weight Approach
Synthesis	Synthesis Funding Limited
TSA	The Standardised Approach
TTC	Through-the-cycle
UL	Unexpected loss
VAF	Vehicle asset finance
VaR	Value at risk

Nedbank Group committees

ABBREVIATIONS	DEFINITION
ALCO	Asset and Liability Committee
BRMF	Business Risk Management Forum
DCC	Divisional credit committees
EXCO	Executive Committee
GCC	Group Credit Committee
GCRM	Group Credit Risk Management
GORC	Group Operational Risk Committee
GRCMC	Group Risk and Capital Management Committee
RemCo	Remuneration committee
TRHRCO	Transformation and Human Resources Committee

ANNEXURE B: GLOSSARY OF RISK TERMS AND DEFINITIONS

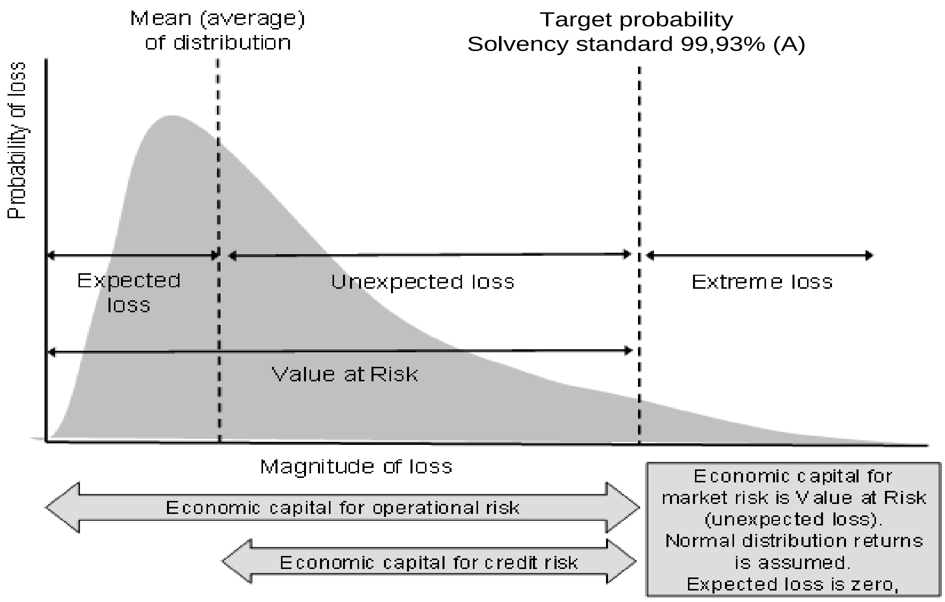
TERM	DEFINITION
Accounting and taxation risk (since accounting and taxation risk is an operational risk, for ECap purposes accounting and taxation loss events are categorised in terms of one of the subrisks of operational risk)	The risk that the integrity and accuracy of the financial statements and related information cannot be upheld. This risk has two subrisks: accounting risk and taxation risk.
Accounting risk (subrisk of accounting and taxation risk) (Since accounting risk is an operational risk, for ECap purposes accounting loss events are categorised in terms of one of the subrisks 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 Reporting Standards (IFRS) and/or other relevant statutory requirements eg Tax Act, are not based on appropriate accounting principles 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 the group's policies and procedures, and that assets are safeguarded.
Advanced approaches	Methods available to banks to calculate their regulatory capital requirements based on own risk estimates. These include the Foundation and Advanced Internal Ratings-based (AIRB) approach for credit risk, the Advance Measurement Approach (AMA) for operational risk, and the Internal Models Approach (IMA) for market risk.
Asset liability management (ALM)	Asset liability management is the ongoing process of formulating, implementing, monitoring and revising strategies related to banking book assets and liabilities in an attempt to: • Maximise the interest margin. • Manage the risk to earnings and capital arising from changes in financial market rates and 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-balance-sheet instruments and strategies.
ALM risk	ALM risk is a composite risk category that includes interest rate and foreign exchange risks in the banking book as well as liquidity risk. Foreign exchange risk in the banking book encompasses: • Foreign exchange translation risk . • Foreign exchange transaction risk, which includes – known or ascertainable currency cashflow commitments and receivables (termed

TERM	DEFINITION
	residual foreign exchange risk), – foreign funding mismatch (the Group Asset and Liability Committee has approved a foreign funding mismatch position for the group, which is managed by the Centralised Funding Desk in Treasury, Nedbank Capital) and – any other transaction extending credit or making an investment that attracts foreign exchange risk.
Backtesting	The validation of a model by feeding it historical data and comparing the model's results with historic reality. The process of comparing model predictions with actual experience.
Banking book	Group assets, liabilities and off-balance-sheet items that are not in the trading book.
Basel	Basel Committee on Banking Supervision housed at the Bank for International Settlements.
Brand-positioning risk (a subrisk of reputational risk)	Failure to manage the group and subsidiary brands properly, which significantly impacts the fundamentals underpinning the objective of the group/subsidiary. Damage to the group's brand may expose it to loss of client brand awareness, clients, profits and competitiveness.
Business disruption and system failure risk (a subrisk of operational risk)	The risk of losses arising from disruption of business or system failures. Business continuity is included in this subrisk and is defined as business disruption and non-continuous service to clients (both internal and external to the group) due to the physical site, human resources, systems or information being unavailable. Included in business continuity is disaster recovery, namely the ability of the group's information technology system(s) to recover timeously, or respond with an acceptable alternative temporary solution, system or site following a disaster impacting the group, which might result in financial loss or reputational damage.
Capital at risk	Capital is the amount to be held by the bank in order to absorb unexpected losses in a bad year (ie a cushion against risk that may materialise on a big scale) for operational risk specifically. Regulatory capital is an instrument the Supervisor uses to protect the economy against systemic risk.
Capital management	Capital management is the single coherent set of processes that: • Ensures the group's capital is in line with the requirements of the regulators, internal assessment of the level of risk being taken by the group, the expectations of the rating agencies and debt holders as well as the returns expected by shareholders. • Takes advantage of the range of capital instruments and activities to optimise the financial efficiency of the capital base. • Manages capital risk.
Capital risk	The risk that the group will become unable to absorb losses, maintain public confidence and support the competitive growth of the business. 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 JSE Limited.

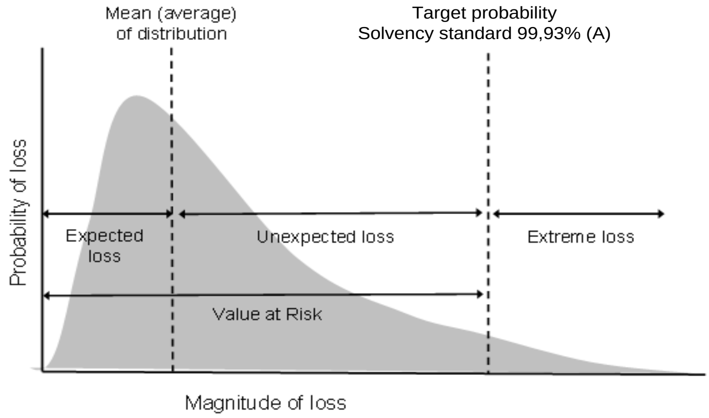
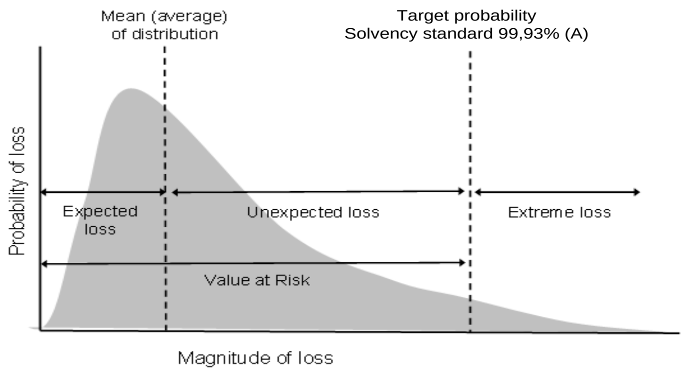
TERM	DEFINITION
Clients, products and business practices (subrisk of operational risk)	The risk of losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product. This subrisk includes money laundering.
Collateral risk (subrisk of credit risk)	The potential financial loss due to the inability to realise the full expected value of collateral due to unforeseen legal or adverse market conditions (eg property market slump), which causes the value of certain specific collateral types to deteriorate.
Compliance risk (Since compliance risk is an operational risk, for ECap purposes compliance loss events are categorised in terms of one of the subrisks of operational risk)	The risk of legal or regulatory sanctions, material financial loss, or loss of 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 clients, 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 (subrisk of credit risk, market risk in the trading book and liquidity risk)	Risk resulting from: • in terms of market risk in the trading book and credit risk: – an excessive concentration of exposure to a single client or group of related clients, specific financial instrument(s), an individual transaction, a specific industry sector or geographical location; security or collateral and – the degree of positive correlation between clients and groups of clients as well as between financial instruments/markets under stressed economic conditions; and – in terms of liquidity risk, over reliance on funding or liquidity from a single 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 there is an effective risk management process that can ensure the risks to which the group is exposed are addressed effectively.
Counterparty credit risk (subrisk 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 (subrisk of credit risk)	Country risk includes: • 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).

TERM	DEFINITION
Credit rating	A credit rating is an assessment as to the borrower's ability to meet future payment obligations, ie it is the PD of the borrower. The group's credit ratings are based on statistical probabilities, derived from a range of bespoke rating models that measure the likely PD of individual borrowers.
Credit risk	The risk arising from the probability of borrowers and/or counterparties failing to meet their repayment commitments (including accumulated interest) and in particular risks arising from impaired or problem assets and the bank's related impairments, provisions or reserves. It also includes risk arising from exposure to related persons. Credit risk has the following subrisks: • collateral risk; • concentration risk; • counterparty risk; • country risk; • issuer risk; • industry risk; • settlement risk; • Securitisation risk or re-securitisation structures; • Underwriting (lending) risk; and • Transfer (sovereign) risk.
Credit scoring	A method used by a bank to calculate the statistical probability that a loan granted will be repaid. The score is usually a single quantitative measure that represents the borrower's probable future repayment performance.
Credit spread	The difference in yield between two debt issues of similar maturity and duration. The credit spread is often quoted as a spread to a benchmark floating-rate index such as LIBOR or JIBAR or as a spread to highly rated reference securities 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 (subrisk of operational risk)	The risk of losses arising from loss of or damage to physical assets from natural disasters or other events.
Default	Default occurs with respect to a particular obligor when: • 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); or • the obligor is past due more than 90 days on any material credit obligation to the bank. Overdrafts will be considered as being past due once the client has breached an advised limit or has been advised of a limit smaller than the current outstanding amount. • In terms of Nedbank 's Group Credit Policy, a borrower will also be assumed to be in

TERM	DEFINITION
	default where the borrower is placed under business rescue in terms of the Companies Act and where a borrower request a restructure of its facilities as a result of distress.
Defaulted loans and advances	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. For retail portfolios this is product-centric and therefore a default would be specific to a client or borrower account (a specific advance). For all other portfolios except specialised lending it is client or borrower-centric meaning that should any transaction within a borrowing group default then all transactions within the borrowing group would be treated as defaulted. 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 has exceeded an advised limit for more than 90 days.
Derivative financial instruments risk	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, market risk in the trading book, market risk in the banking book and investment risk.
Economic capital (ECap)	ECap 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.



TERM	DEFINITION
eDiscovery	eDiscovery (electronic Discovery) is an enterprise product (EnCase eDiscovery) that automates the search for specific data on the bank's network. It is mainly used for litigation support, but this product can be used for digital forensic investigations as it is specifically designed to retrieve data in a forensically sound manner.
Employment practices and workplace safety risk (subrisk of operational risk)	The risk of losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal-injury claims, or from diversity/discrimination events.
Enterprisewide risk	Composite of risk types and categories (called the risk universe) across all business lines, functions, geographical locations and legal entities of the group. 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.
Enterprisewide risk management	Enterprisewide risk management is a structured and disciplined approach aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the opportunities, uncertainties and threats the group faces as it creates value. It involves integrating risk management effectively across an organisation's risk universe, business units and operating divisions, geographical locations and legal entities.
Enterprisewide Risk Management Framework (ERMF)	The risk framework developed by the group and applied to all of its divisions in order to identify, assess or measure, manage, monitor and report risk. The ERMF contains the group's risk universe, which lists 17 risk categories (the ERMF risks).
Equity risk in the banking book (also termed investment risk) (subrisk 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); and • investment in associate companies and joint ventures.
Environmental risk (subrisk of social and environmental risk)	The risk that an activity or process in the Group will degrade, devalue or destabilise the environment and lead to further damage, cause harm to bank employees, cause harm to people in the community / society or damage the long-term prospects of the bank. It includes the risk of the financing of or the association with environmentally unfriendly companies or projects.
ERMF	See Enterprisewide Risk Management Framework.
ERMF risks	The 17 risks listed in the ERMF.
Execution, delivery and process management risk (subrisk of operational risk)	The risk of losses arising from failed transaction processing or process management and relations with trade counterparties and vendors.

TERM	DEFINITION
Expected loss (EL)	Losses that a bank expects to bear over a certain period (generally one year). These losses are a consequence of doing business, namely the bank's role as financial intermediary. Generally impairments should cover EL with respect to credit risk and losses relating to operational risk should be budgeted for. 
Expected shortfall	Expected average loss for losses greater than value at risk (VAR).
External fraud (subrisk of operational risk)	The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent the law by a third party.
Extreme loss	The loss arising from a loss event of catastrophic magnitude. Such an event often leads to the failure of a bank. 
EAD	Quantification of the exposure at risk in case of a credit default.
Foreign exchange transaction risk (in the banking book) (subrisk of market risk in the banking book)	The risk that known or ascertainable currency cashflow commitments and receivables are uncovered and as a result have an adverse impact on the financial results and/or financial position of the group due to movements in exchange rates. Foreign exchange transaction risk in the banking book includes: • known or ascertainable currency cashflow commitments and receivables (termed residual foreign exchange risk); • foreign funding mismatch (Group Asset and Liability Committee has approved a foreign funding mismatch position for the group, which is run by the Centralised Funding Desk in Treasury, Nedbank Capital); and

TERM	DEFINITION
	• any other transaction extending credit or making an investment that attracts foreign exchange risk.
Foreign exchange translation risk (subrisk of market risk in the banking book)	The risk to earnings or capital arising from converting the group's offshore banking book assets 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, future, 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.
Impaired loans and advances	Impaired loans and advances are defined as loans and advances in respect of which the bank has raised a specific impairment IAS 39 definition].
Industry risk (subrisk of credit risk)	The risk that defaults will arise in an industry because of factors specifically affecting that industry.
Information technology (IT) risk	The risk associated with information technology has a strategic and an operational component. Information technology risk encompasses the strategic component, while the operational component is included in operational risk. The risk resulting from system-inadequate or system-inappropriate information technology investment, development, implementation, support or capacity, with a concomitant negative impact on the achievement of strategic group objectives. This includes the risk of an uncoordinated, inefficient and/or under-resourced information technology strategy, as a result of which the group becomes progressively less competitive.
Inherent risk	Assessing inherent risk exposure requires a determination of the severity and frequency of each Operational Risk should an event materialise. An inherent risk exposure assessment provides the business with an understanding of the extent of possible exposure in an uncontrolled environment inherent risk is also known as gross risk. An ERMF risk, if applicable with respect to the achievement of the objective(s), is an inherently high (or red) risk.

TERM	DEFINITION
Insurance and assurance risk (Since insurance and assurance risk is an operational risk, for ECap purposes insurance and assurance loss events are categorised in terms of one of the subrisks of operational risk)	The risk that the underwriting process permits clients to enter risk pools with a higher level of risk than priced for, resulting in a loss to the business unit or group. • Actuarial and statistical methodologies are used to price insurance risk (eg morbidity, mortality, theft, storm). Underwriters align clients with this pricing basis and respond to any anti-selection by placing clients in substandard risk pools and price these risks with an additional risk premium and/or exclude certain claims, events or causes, or exclude clients from entering pools at all. • The failure to reinsure with acceptable quality reinsurers, beyond the level of risk appetite (excessive risk) mandated by the board of directors, risks underwritten by the short-term insurance and/or life assurance activities of the group, including catastrophe insurance (ie more than one insurance claim on the group arising from the same event), leading to disproportionate losses to the group. (Reinsurance risk) • The risk of no or inadequate insurance cover for insurable business risks. (Insurance risk) Insurance underwriting risk in the group arises in the following areas: • Short-term insurance underwriting risk arises exclusively from Nedgroup Insurance Company Limited, a business unit in the Nedbank Wealth Cluster. • Long-term insurance underwriting risk arises from the Nedgroup Life Assurance Company Limited, a business unit in Nedbank Wealth Cluster.
Interest rate risk in the Banking book (IRRBB) (subrisk of market risk in the banking book)	IRRBB is the risk that the group's earnings or economic value will decline as a result of changes in interest rates. The sources of IRRBB 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); and • 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

TERM	DEFINITION
	management process; and • provide reasonable assurance of reliable and accurate information, ensure compliance with policies, procedures and laws, use resources efficiently, protect assets and achieve operational objectives. Internal control is a 'process' effected 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).
Internal fraud (subrisk of operational risk)	The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party. Internal fraud includes insider trading.
Investment risk	The risk of a decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself (eg reputation and the quality of management). Market prices are independent variables, which include interest rates, property values, exchange rates, and equity and commodity prices. Investment risk has the following subrisks: • equity risk in the banking book (also termed investment risk); and • property market risk (also termed property risk).
Issuer risk (subrisk of credit risk)	The risk that a particular payment or set of payments due from an issuer or a listed instrument (eg corporate bond) will not be forthcoming as scheduled.
Issue versus risk	An issue (or event) 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 manage and monitor risk proactively on an ongoing basis. KRIs may be leading, concurrent or lagging indicators. (Note: It is preferable to focus on leading indicators proactively to prevent a risk from materialising).
King III	The King Report on Governance for South Africa 2010.
Legal risk (subrisk of operational risk) (For ECap purposes legal risk is a subcategory of operational risk's subrisk clients, products and business	Legal risk arises from the necessity that the group conducts its activities in conformity with the business and contractual legal principles applicable in each of the jurisdictions where the group conducts its business. It is 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,

TERM	DEFINITION
practices)	insufficient authority of a counterparty and uncertainty about the validity or enforceability of an obligation in counterparty insolvency. It comprises 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, including common-law and other applicable statutory liabilities.
Likelihood	An assessment of how likely it is that a risk will occur. A similar term is probability.
Liquidity risk	There are two types of liquidity risk, namely funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that the group is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals, the inability to roll over maturing debt or meet contractual commitments to lend. Market liquidity risk is the risk that the group will be unable to sell assets, without incurring an unacceptable loss, in order to generate cash required to meet payment obligations under a stress liquidity event. The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into longer-term loans. By fulfilling the role of maturity transformation banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks.
LGD	This is an estimate of the portion of the EAD that will not be recovered, usually expressed as a percentage. 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 subrisks 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. There is trading market risk within the group's proprietary trading activities (trading on the group's own account). Concentration risk is a subrisk of market risk.
Model risk (a subrisk of operational risk) (For ECap purposes model risk is a subcategory of operational risk's subrisk clients, products and business	The risk that business decisions are made using model results that are incorrect. This includes the possibility of losing perspective of the limitations of models in general and the pitfalls associated with their use.

TERM	DEFINITION
practices)	
Net risk	See residual risk.
New-business risk	The risk that new product and business lines do not generate anticipated revenue or cost savings to the group. This could be as a result of providing to clients or potential clients inappropriate products and business lines that fail to meet clients' or potential clients' requirements or otherwise fail to impress, compete with competitor products or provide Nedbank Group 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 risks in the Enterprise Risk Management Framework.
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 subrisks 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; • [1] external fraud; • [1] internal fraud; • legal risk (legal risk is a subcategory of the subrisk clients, products and business practices); and • model risk (for ECap purposes, model risk is a subcategory of the subrisk clients, products and business practices). [1] *Measures are in place for the proactive prevention and detection of criminal activities.*
Outsourcing risk	Risk arising from the outsourcing of material tasks or functions. Outsourcing means the contracting out of services, administration, or operation of core business functions and/or activities and/or services of the bank, in terms of an SLA, to a supplier, to independently perform such activities on a continuing basis, as would normally be undertaken by the bank.
Past dew	A loan or advance is considered past due when it exceeds its limit (fluctuating types of advances) or is in arrears (linear types of advances).
People risk	The risk associated with people has a strategic and operational component. People risk encompasses the strategic component, while the operational component is included in operational risk. People risk is the risk associated with inadequacies in human capital and the management of

TERM	DEFINITION
	human resources, policies and processes, resulting in the inability to attract, manage, motivate, develop and retain competent resources, at the same time having a negative impact on the achievement of strategic group objectives. 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 suboptimal 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 (for example, in the form of innovative product designs, developed systems, methods and procedures); and • risks arising from or related to inappropriate compensation practices for directors and executive officers.
Point-in-time (PIT) rating	A credit rating based on PIT risk measures. PIT measures take into account the current state of the economic environment when measuring the risk of the borrower. Compare with through-the-cycle rating, which the group uses.
Portfolio impairment	The standard portfolio represents all the loans and advances that have not been impaired. These loans and advances have not yet individually evidenced a loss event but loans and advances exist within the standard portfolio that may have impairment without the bank yet being aware of it. A period of time will elapse between the occurrence of an impairment event and objective evidence of the impairment becoming evident. This period is generally known as the emergence period. For each standard portfolio an emergence period is estimated as well as the probability of the loss trigger and the loss given events occurring. These estimates are applied to the total exposures of the standard portfolio to calculate the portfolio impairment.
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 an event will occur. A similar term is likelihood.
Probability of default (PD)	Quantification of the likelihood of a borrower being unable to repay during a specific time horizon, usually 12 months.
Property market risk (subrisk 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 (eg location). Property comprises business premises, property acquired for future expansion and properties in

TERM	DEFINITION
	possession (PiPs).
Regulatory capital (RegCap)	The total of primary, secondary and tertiary capital.
Regulation 39	A 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 that may prevent the bank from achieving its objectives or otherwise may have an adverse impact on the bank.
Risk acceptance	Risk acceptance is used in risk management to describe an informed decision to accept the consequences and likelihood of a particular risk. In terms of best practice, risk can only be accepted if it can be illustrated that the risk is within set risk appetite limits.
Risk avoidance	Risk avoidance is used in risk management to describe an informed decision not to become involved in activities that lead to the possibility of the risk being realised.
Risk Mitigation	Risk mitigation is used in risk management to describe steps taken to control or prevent an issue or event hazard from causing harm and to reduce risk to a tolerable or acceptable level and within risk appetite levels.
Risk-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 (IFRS) earnings of the business, adjusted for the difference between EL and impairments and divided by the ECap consumed by that business, giving a relative measure of performance.

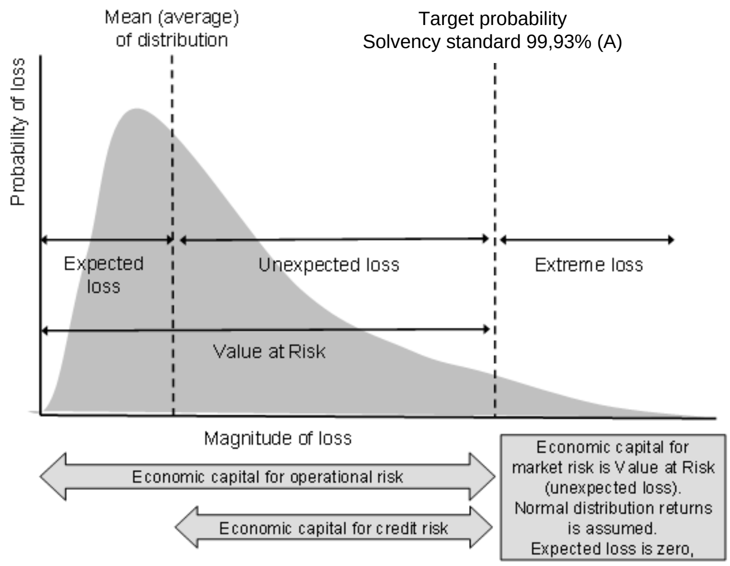
<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td>Risk appetite</td><td>Risk appetite is an articulation and allocation of the risk capacity or quantum of risk Nedbank Group is willing to accept in pursuit of its strategy, duly set and monitored by Group Exco and the board, and integrated into our strategy, business, risk and capital plans. Risk appetite is expressed quantitatively as risk measures such as earnings-at-risk and other ratios, covering all quantifiable risk types, with appropriate targets and 'stressed' limits, and qualitatively in terms of policies and controls.</td></tr>
<tr><td>Risk identification</td><td>The ongoing recognition and discernment of risk.</td></tr>
<tr><td>Risk management and control</td><td>The proactive management of risks within the risk appetite to reasonably assure the achievement of objectives. Risk management consists of taking action to align risks with the group's risk appetite and ensuring that such actions are properly executed.
Appropriate risk management will require at least:
a system of internal controls;
approval processes;
limit systems;
key risk indicators;
reviews of enterprisewide risk management policies, processes and procedures and their implementation; and
reviews of controls, approvals and limits.</td></tr>
<tr><td>Risk management framework</td><td>An outline for the management of a risk, more fully developed or described elsewhere.
A risk management framework comprises:
An appropriate risk management environment
Risk philosophy
Risk culture
Risk appetite
Risk governance structure
Policies, processes and procedures
Staff and other resources
A risk strategy
A risk management process
Risk identification
Risk measurement
Risk management and control
Risk reporting
Risk monitoring</td></tr>
<tr><td>Risk management process</td><td>Risk management is the identification, assessment, and prioritisation of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative) followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/or impact of unfortunate events or to maximise the realisation of opportunities.</td></tr>
</table>

TERM	DEFINITION
Risk management strategy	The strategies to manage risk include transferring the risk to another party, avoiding the risk, mitigating the risk by reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk (see transfer of risk, risk avoidance and risk mitigation).
Risk measurement	The evaluation of the magnitude of risk and its impact on the achievement of business objectives.
Risk monitoring	The ongoing and systematic tracking and evaluating of risk management decisions and actions against strategies, risk appetite, policies, limits and 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; and • review findings.
Risk strategy	A risk strategy describes the fundamental direction with regard to each of the 17 risks in the Enterprisewide Risk Management Framework risks and associated subrisks. A risk strategy is built around and supports the business strategy. Generic risk strategies are: avoid (or terminate), transfer, mitigate (or treat) or accept (or tolerate).
Risk versus issue	A risk has not (yet) materialised, while an issue has materialised or is in the process of doing so.
Risk-weighted assets (RWA)	RWA are determined by applying risk weights to balance sheet assets and off-balance-sheet financial instruments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off-balance-sheet financial instrument is regulated by the South African Banks Act, 94 of 1990, or by regulations in the respective countries of the other banking licences.
RORAC (return on risk-adjusted capital)	RORAC is a relative performance measurement whereby capital is calculated on a risk-adjusted basis (ie ECap) $\text{RORAC} = \frac{\text{(IFRS earnings + capital benefit)}}{\text{ECap}}$
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	Security is a risk management function consisting of physical security, information security and

<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td>(function of Group Risk services)</td><td>personnel integrity.
The objectives of physical security are to protect:
physical assets under the control of the group;
the wellbeing of staff, clients and the public; and
the group's reputation as it relates to safety and security, ie the protection of the image and reputation of the bank in providing a safe and secure, environmentally friendly business environment.
The objectives of information security are to protect the group from breaches in the confidentiality or integrity of group information and from the unavailability of such information when required. This includes all information in the group, not only internally system-generated information.
The objectives of personal integrity are to ensure that staffmembers do not compromise resources or allow resources to be compromised, be it on purpose, through neglect or unintentionally.</td></tr>
<tr><td>Securitisation risk (sub risk of credit risk)</td><td>Risk arising from the creation and issuance of tradeable securities, such as bonds, that are backed by the income generated by an asset, a loan, a public works project or other revenue source.</td></tr>
<tr><td>Settlement risk (subrisk of credit risk)</td><td>The risk that an organisation gives, but fails to receive, consideration from a counterparty during the settlement of a transaction. The settlement may be cash or securities.
Foreign exchange settlement risk is the risk of loss when a bank in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought.</td></tr>
<tr><td>Social and environmental risk</td><td>The risk of reputational impairment and ultimately loss of business and profitability as a result of non-compliance with legislation that governs the banks activities as it relate to social and environmental impacts of the bank’s direct operations and indirect lending activities.
Social and environmental risk has two subrisks:
social risk; and
environmental risk.</td></tr>
<tr><td>Social risk
(subrisk of social and environmental risk)</td><td>The risk of reputational 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.</td></tr>
<tr><td>Sovereign risk</td><td>The risk of default by the government of the country on its obligations (also see country risk).</td></tr>
<tr><td>Specific impairment</td><td>If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cashflows (excluding credit losses that have not been incurred) discounted at the original effective interest rate (ie the effective interest rate computed at initial recognition) of the financial asset.</td></tr>
</table>

TERM	DEFINITION
Strategic risk	The risk of an adverse impact on capital and earnings due to business policy decisions (made or not made), changes in the economic environment, deficient or insufficient implementation of decisions, or 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, formulate a vision, strategies, goals and objectives and allocate resources for achieving, implementing, monitoring and measuring the strategic objectives are not properly in place or are defective; and • failure adequately to review and understand the environment in which the group operates leading to underperformance of its strategic and business objectives (specific environmental components are inter alia industry, political, economic, government, competitive and regulatory factors). Brand positioning is a subrisk of strategic risk.
Stress testing	Nedbank Group has a comprehensive stress and scenario testing framework which is used, inter alia, to stress its base case projections in order to assess the adequacy of Nedbank Group's capital levels, capital buffers and target ratios. The group's stress and scenario testing recognises and estimates the potential volatility of the capital requirements and base-case (expected) three-year business plan projections, including the key assumptions and sensitivities contained therein, which themselves are subject to fluctuation. Stress and scenario testing are performed and reported quarterly or more regularly if called upon. The process includes benchmarking to the international stress testing exercises that have been conducted post the global financial crisis as part of its stress and scenario testing framework. In the European Banking Association stress testing exercise, Nedbank compares favourably by being in the top 10% of the European banks that participated. The results of the Irish Central Bank and the recent US Federal Reserve stress testing exercise also show that Nedbank's stressed capital ratios are far above regulatory minima. These stress testing scenarios, together with Nedbank's comprehensive internal stress testing scenarios, support and confirm Nedbank's strong capital adequacy.
Subrisk	A component of a risk covered by the Enterprise Risk Management Framework. A separate risk management framework is defined for a subrisk.
Taxation risk (a subrisk of accounting and taxation risk) (Since taxation risk is an operational risk, for ECap purposes taxation loss events are categorised in terms of one of the subrisks of operational risk)	The risk that 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 exits, resulting in loss and/or missed opportunities, financial or otherwise, as a result of the organisations' approach to taxation. A Tax Risk refers to a future uncertainty relating to tax that has the potential for adverse consequences or may lead to missed opportunities. Such adverse consequences would usually be monetary; in the form of tax, interest and penalties, but they may also include risks such as the damage to reputation, for example with Revenue Authorities, investors, shareholders, or the general public. A Tax Issue refers to a past event that has the potential for adverse consequences or may lead

TERM	DEFINITION
	to missed opportunities. Such adverse consequences would usually be monetary; in the form of tax, interest and penalties, but they may also include risks such as the damage to reputation, for example with Revenue Authorities, investors, shareholders, or the general public.
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 (TTC) rating	A credit rating based on TTC risk measures. TTC measures evaluate the financial condition of the borrower over a longer term, incorporating a full economic (or business) cycle. Compare to point-in-time rating.
Trading book	This comprises positions in financial instruments and commodities, including derivative products and other off-balance-sheet instruments that are held with trading intent or to hedge other elements of the trading book. It includes financial instruments and commodities that: • 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 of risk	Transfer of risk is used in risk management to describe the shifting of the burden of the risk to another party. Insurance is a common example of risk transfer.
Transformation risk (Since transformation risk is an operational risk, for ECap purposes transformation loss events are categorised in terms of one of the subrisks of operational risk)	The risk of failure by the group adequately, proactively and positively to respond to and address transformation issues such as black economic empowerment and upholding related laws such as the Employment Equity Act.
UL	See unexpected loss.
Underwriting risk	When an investment banker buys the balance or all of the new shares that a company is issuing, the risk that the price will go down before they are sold, or that investors will not want to buy them.

TERM	DEFINITION
Unexpected loss (UL)	Losses that may exceed the expected loss within a certain period (eg one year) and within a specified confidence level (ie 99,93%). Unexpected loss is the difference between value at risk and expected loss. 
Use test	Requirement that the components of advanced approaches for the calculation of regulatory capital (RegCap) should not be used merely for the calculation of RegCap. Instead they should play an essential role in how a bank measures and manages risk in its business.
Value at risk (VaR)	Formally, this is the probabilistic bound of losses over a given period (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 R10m over a one-day holding period with a 95% confidence interval, the portfolio would have a 5% chance of suffering a one-day loss greater than R10m.

COMPANY DETAILS

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