NEDBANK GROUP

NEDBANK GROUP

PILLAR 3

BASEL II PUBLIC DISCLOSURE REPORT

FOR THE SIX MONTHS ENDED

30 JUNE 2011

MAKE THINGS HAPPEN

NEDBANK GROUP

A Member of the OLD MUTUAL Group

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For a glossary of risk terms and definitions please refer to the Basel II Disclosures section on the Nedbank Group website www.nedbankgroup.co.za/financialBaselII.asp.

HIGHLIGHTS

BALANCE SHEET REVIEW

Rm	Jun 2011	Dec 2010	% growth (annualised)
ASSETS			
Cash and cash equivalents*	**23 397**	19 745	37,3
Other short-term securities	**29 125**	27 044	15,5
Derivative financial instruments	**8 284**	13 882	(81,3)
Government and other securities	**36 056**	31 824	26,8
Loans and advances	**471 918**	475 273	(1,4)
All other assets	**41 095**	40 950	0,7
Total assets	**609 875**	608 718	0,4
EQUITY AND LIABILITIES			
Amounts owed to depositors	**493 974**	490 440	1,5
Derivative financial instruments	**8 894**	12 052	(52,8)
Long-term debt instruments	**28 190**	26 104	16,1
All other liabilities	**29 089**	32 308	(20,1)
Total equity	**49 728**	47 814	8,1
Total equity and liabilities	**609 875**	608 718	0,4

** Including mandatory deposits with the South African Reserve Bank (SARB).*

Balance sheet growth only slightly up in 2011 due to low demand for credit across most asset classes and lower trading activity.

Strong growth in government and other securities as group builds additional liquid asset buffers*.

Positive deposit growth, albeit low, following flat asset growth and issuance of new long-term debt*.

* *Specific ALCO strategy.*

- **Summary of key balance sheet movements**
  - Asset growth for the industry remains subdued. While corporate credit demand remained limited, loan growth in the retail sector was mostly from continued demand for personal loans, instalment sales and cards. Mortgage advances growth was muted as buyers remained cautious in line with the flat outlook for house prices, high levels of consumer debt and increased living costs.
  - Total assets of R609,9 billion are R1,2 billion up on December 2010 (R608,7 billion) or 0,4% annualised. A decrease in the group's derivative assets (R5,6 billion) and advances (R3,3 billion) portfolios has been offset by an increase in the statutory assets portfolio (R4,3 billion) as the group builds additional liquid asset buffers in preliminary preparation for Basel III.
    - Loans and advances at R471,9 billion are down on December 2010 (R475,3 billion), while trading assets also declined. An increase in foreign correspondent balances (R1,5 billion) and overnight loans (R1,0 billion) has been offset by a decline in term loans (R3,4 billion) and other loans (R2,3 billion).
  - Total liabilities at R560,1 billion are R0,8 billion down on December 2010 (R560,9 billion) as the group shareholder equity increased.
    - Amounts owed to depositors at R493,9 billion are up on December 2010 (R490,4 billion). A decrease in foreign currency liabilities (R2,3 billion), deposits received under repurchase agreements (R1,3 billion) and other deposits (R11,6 billion) was offset by an increase in cash management deposits (R1,6 billion), fixed deposits (R2,4 billion), negotiable certificates of deposit (R1,8 billion) and call and term deposits (R14,7 billion).
    - Long-term debt instruments issued increased by R2,1 billion to R28,2 billion from R26,1 billion in December 2010, as the group issued a further R3,7 billion senior unsecured debt this year and redeemed the R1,5 billion Ned 5 Tier 2 subordinated debt in April 2011.

- **Loans and advances**
  - Banking advances growth in Nedbank Capital declined 2,2% (annualised).
  - Nedbank Corporate advances decreased by 3,9% (annualised), reflecting gross new advances offset by the effect of slow utilisation of credit facilities, early unscheduled repayments, and delays in both public and private sector investment programmes. Commercial mortgages continued to exhibit positive growth in 2011, albeit at lower levels, continuing their positive trend from last year. Nedbank Corporate showed strong growth in its overnight loans portfolio. The advances pipelines in the wholesale banking areas remain strong and Nedbank Capital experienced strong growth in foreign client lending, albeit off a reasonably low base.
  - Nedbank Business Banking advances increased by 35,7% (annualised) and Nedbank Retail advances decreased by 7,9% (annualised) due to migrations from Nedbank Retail of R8,2 billion of former Imperial Bank, Supplier Asset Finance and Professional advances and R1,0 billion from Small Business Services under Retail Relationship Banking. Adjusting for these two movements, Business Banking advances have decreased by 0,8% (annualised) and Retail advances grew by 2,1% (annualised).
  - Strategic rebalancing of the asset portfolio in Nedbank Retail resulted in a decrease in home loans of 2,7% (annualised) and an increase in motor finance of 7,5% (annualised). Unsecured lending continued to grow with personal loans and card receivables increasing by 26,5% (annualised) and 13,6% (annualised), respectively.
  - Personal Loans growth was significant but below the industry growth rate, resulting in a marginal decline in market share. Nedbank Group remains vigilant against any future potential asset bubble in this class of unsecured lending, pricing correctly for the risks assumed.
  - While advances growth was marginally down, new advances were nevertheless still substantial, being offset by the roll off of maturing exposures.

MANAGE FOR VALUE AND PORTFOLIO TILT

- Introduced in 2010, portfolio tilt is about refining Nedbank Group's manage for value key strategic focus by:
  - Ultimately targeting an optimal balance sheet shape in order to maximise return on ordinary shareholders' equity (ROE), improve sustainability and proactively respond to Basel III.
  - Actively managing the portfolio of businesses which comprise the group, and being judicious in the allocation of capital and liquidity/funding to the various businesses.
  - Business clusters exploiting value skews within their portfolios, following differentiated strategies and applying client value management.
  - Focusing on growth of market share 'by value' (or economic profit), not just in terms of 'volume or asset size'.
  - Recognising low or negative growth portfolios are just as important to exploit the value skews, and so follow a differentiated strategy (eg Home Loans).
  - A stronger focus on deposits.
- In summary, Nedbank Group's portfolio tilt objectives include:
  - **Advances**
    - Appropriate growth rates in order to attain the desired change in advances mix over time. For example, low negative growth in home loans given that overall the current economics are unattractive, even after recent repricing of the front book, low economic profit pool attractiveness, high concentration risk, negative Basel III implications, high capital and liquidity consumption, and high earnings volatility especially under stress, and so a differentiated strategy is followed. In Business Banking and Corporate Banking, Nedbank Group seeks high growth linked to high deposit growth and

the non-interest revenue (NIR) strategy. In Personal Loans, the group also seeks high growth but below explosive industry growth rates as the group remains vigilant against a potential asset bubble and completes a comprehensive risk versus return analysis on this asset class.

  - Targeted tilts are open to revision if alternative financial attractiveness, strategic attractiveness and/or risk profile is presented in respect of the front book.

- **Deposits**
  - Focus on transactional (primary client) deposits, linking with the group's NIR growth project.
  - Reduce wholesale funding reliance.
  - Increase corporate and business bank deposits to relative market share.
  - Retain strong retail deposits market share position.
- **Non-banking**
  - Essentially targeting high earnings growth in Nedbank Wealth, especially Asset Management and Insurance.
- **Net interest income (NII)/NIR and NIR/expenses ratio**
  - Significant growth improvement in all business clusters, and positive shift overall in the group's NII/NIR mix and NIR/expenses ratio.
- **Capital and liquidity**
  - Risk (capital) versus return enhancement – shift to higher economic profit businesses generally and Nedbank Retail from negative to a positive economic profit on a sustainable basis.
  - Shift towards lower capital/liquidity demanding businesses, eg Nedbank Wealth, Nedbank Capital and Nedbank Business Banking.
  - Reduce earnings volatility risk and balance sheet duration.
- **Productivity and execution**
  - Information technology simplification and rationalisation.
  - Cost optimisation.
  - Embed a culture of innovation and improve on execution.

- Accordingly, in H1 2011 Nedbank Group continued with its strong Manage for Value strategic focus, including pricing for risk (for credit and liquidity), pursuing selective asset growth, a differentiated growth strategy for Home Loans and other active balance sheet management by applying 'portfolio tilt', which contributed to the improvement in NII, NIR, the credit loss ratio (while retaining a conservative stance on impairments), capital and liquidity ratios and the group's ROE, in conjunction with proactive preparation for Basel III.
  - Although balance sheet growth remains subdued in light of the slow global and local economic recovery and ever present associated global risks, growth in certain asset classes has retained some positive momentum in the first half of 2011, new advances are being correctly priced for the risks being assumed (both credit and liquidity) and portfolio tilts have been embedded within the group's financial and strategic plans.
  - The group net interest margins have widened as a result of the benefits of pricing new advances to reflect risk and funding costs more appropriately, as well as the ongoing change in asset mix within the balance sheet growth. A reduction in the cost of term liquidity, which has continued as the deposit base is refinanced at lower levels due to a substantially lower cost of market liquidity, has also contributed to enhanced group interest margins.
  - The group realised strong first-half earnings, with further strengthened capital adequacy ratios and, as a result, an increase in organic liquidity. The group lengthened its funding profile through the issue of senior unsecured debt, reflected in an increase in the proportion of funding raised through long-term funding, and

through the launch of retail savings bonds (which raised over R3,0 billion to date; R2,0 billion at 30 June 2011).

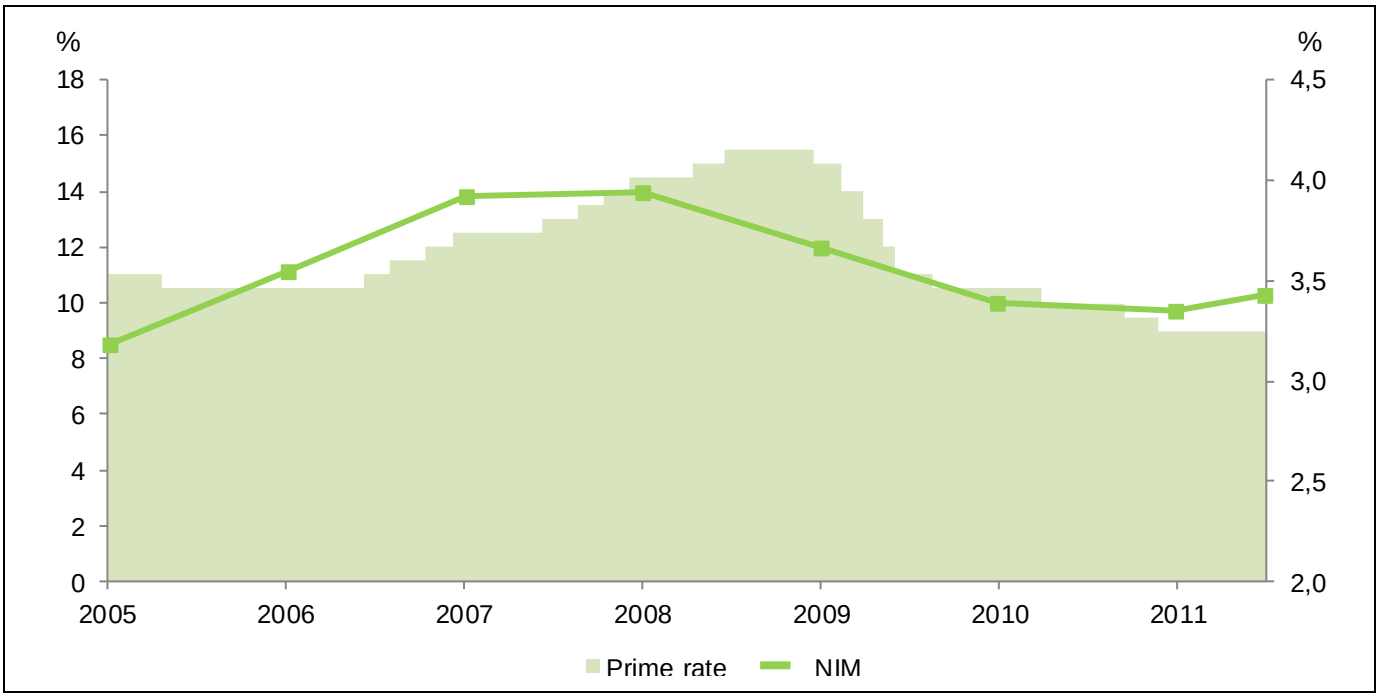
- In a low-growth economic environment the opportunity to give effect to a portfolio tilt strategy is limited and will take time. Nevertheless some sound progress has been made to date, contributing to the enhanced financial performance and sustainability of the group mentioned above, as summarised below:
  - Growth in the Nedbank Wealth business which recorded an earnings growth of 16,6%.
  - Acquisition of the remaining 50% in Imperial Bank in 2010, which has now been fully integrated into Nedbank Group.
  - High growth in unsecured lending, albeit conservatively below the explosive growth rates of competitors.
  - Negative growth in Home Loans, intentional due to the poor through-the-cycle economics of this asset class and Basel III liquidity implications, even with recent repricing.
  - Continuing high growth in NIR (15,9%) positively shifting the group's NII/NIR mix and improving the NIR/expenses ratio.
  - Significant pipeline of advances deals approved, not yet paid out, in the targeted high-growth businesses of Nedbank Corporate and Nedbank Capital.
  - Focus on deposits, increasing by 1,5% (annualised), with loans and advances declining by 1,4%. In March 2011 Nedbank Group launched a retail savings bond, which was well received by the market and thus far attracted in excess of R2,0 billion of new funds.
  - Overall shift in portfolio mix, growing primary clients, and client value management within portfolios contributing to higher interest margin.
  - The balance sheet remained well-capitalised, with the core Tier 1 capital adequacy ratio increasing to 10,7% (December 2010: 10,1%), while the group's Tier 2 capital position was reduced in line with the group's focus on core Tier 1. The R1,5 billion Ned 5 bond that was called in April 2011 and not replaced.

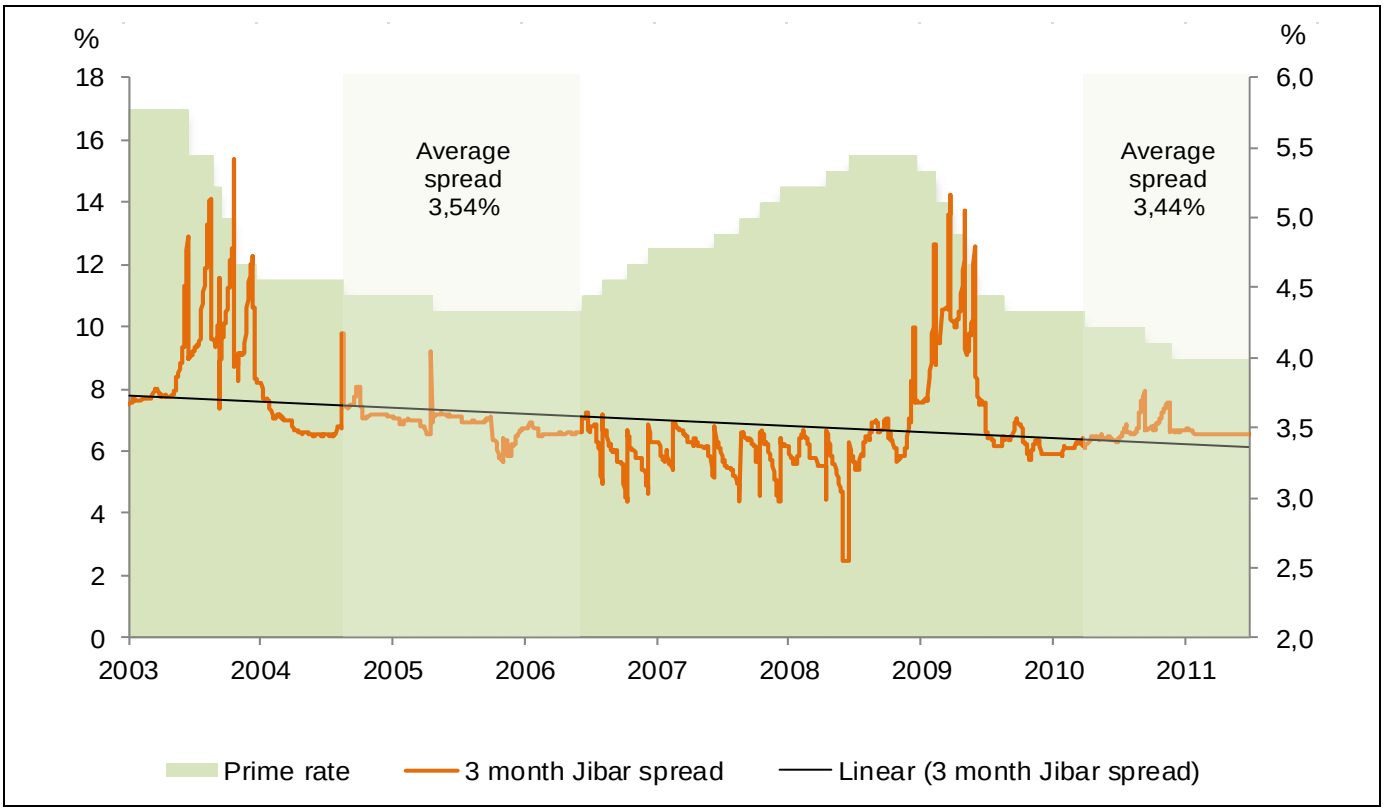
    The group's liquidity buffers were increased by R9,0 billion and the funding profile continued to lengthen, with its long-term funding profile now at 27%, all this in proactive preparation for Basel III.

NET INTEREST MARGIN (NIM)

- NIM has improved to 3,43% (June 2010: 3,34%) due to:
  - The benefits from pricing assets to fully reflect risk (including both credit and liquidity) and funding costs more appropriately.
  - Ongoing improvement in asset mix in line with the group's portfolio tilt strategy.
  - A relative benefit in this period owing to interest rates remaining stable, given that advances reprice quicker than deposits.
  - The cost of term liquidity continuing to decline.
- The above more than offset the effect of:
  - Negative endowment from lower average rates compared with the 2010 period.
  - The cost of lengthening the bank's funding profile.
  - The costs associated with carrying higher levels of lower-yielding liquid assets.

- Below is a summarised historical analysis of NIM and Nedbank Group's views on the structural shifts that have impacted margins:





- Looking forward bank margins will be negatively impacted by the following structural changes:
  - Interest rates continue to move to structurally lower levels as depicted in the graph above (of the Prime lending rate). This has negative implications for bank margins in South Africa, as banks are exposed to negative endowment on transactional accounts and equity in a lower rate environment.
- 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, that is in the spread between the Prime lending rate and three-month Jibar.
- Accordingly, bank margins are likely to be under pressure and not return to previous highs, all other things being equal.

CAPITAL ADEQUACY

Regulatory capital

Ratio	Target range	Nedbank Group			Nedbank Limited	
%		**Jun 2011**		Dec 2010	**Jun 2011**	Dec 2010
	Under Basel II	**Actual**	**Pro forma Basel III**	Actual	**Actual**	Actual
Core Tier 1	7,5 - 9,0	**10,7**	**9,7**	10,1	**10,1**	9,3
Tier 1	8,5 - 10,0	**12,4**	**10,7**	11,7	**12,0**	11,1
Total	11,5 - 13,0	**15,2**	**13,7**	15,0	**15,3**	14,9

The capital ratios above include unappropriated profits to the extent these are expected to be duly appropriated by the board.

- Nedbank Group's capital ratios remain strong with further increases since December 2010 due to a R451 million increase in ordinary share capital from the vesting of shares under the black economic empowerment and management share structures, strong organic earnings and further risk weighted asset (RWA) optimisation, including a R4,0 billion reduction in market risk RWA with the adoption of the Internal Model Approach (IMA) from January 2011 following approval by the South African Reserve Bank (SARB).
- A surplus of R18,4 billion (restated - refer to page 54) over the group's total regulatory capital adequacy requirements exists at 30 June 2011.
- Given the predominant focus on the core Tier 1 ratio by Basel III and new future requirements to ensure all classes of capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss, all of which will be phased-in from 2013 onwards, and in consideration of Nedbank Group's high total capital adequacy ratio of 15,2%. The Nedbank Limited Tier 2 bond (Ned 5), amounting to R1,5 billion, was called in April 2011 without being replaced as part of the group's proactive capital management programme.

Economic capital

- The group currently holds a surplus of R10,7 billion against its internally calculated economic capital [and Internal Capital Adequacy Assessment Process (ICAAP)] requirements calibrated to an A solvency standard or 99,93% confidence interval, which is more conservative than that for regulatory capital.

Rm	Nedbank Group		Nedbank Limited	
	Jun 2011	Dec 2010	**Jun 2011**	Dec 2010
Available financial resources (AFR): Economic capital (%)	**134%**	144%	**130%**	134%
AFR*	**42 294**	42 157	**35 129**	33 047
Tier A (core capital)	**36 982**	36 845	**29 817**	27 735
Tier B (non-core capital)	**5 312**	5 312	**5 312**	5 312
Total requirements	**31 580**	29 373	**27 023**	24 641
Capital buffer (10%)	**2 871**	2 670	**2 457**	2 240
Minimum requirement	**28 709**	26 703	**24 566**	22 401
Surplus	**10 714**	12 784	**8 106**	8 406

** Includes unappropriated profits.*

- The decrease in the AFR surplus and ratio since December 2010 is due to the enhancements to the group's economic capital methodology summarised below. On a comparable pro-forma basis to 2010, the surplus at 30 June 2011 would have been R13,8 billion.

Capital allocation to business clusters

- The group is capitalised at the higher of regulatory and economic capital (ie excluding capital buffer), currently being regulatory capital. The group's equity included in its ROE calculation is allocated to the business clusters using the group's sophisticated economic capital framework.
- The following enhancements/updates to the group's economic capital methodology for 2011 were implemented and impact the various businesses differently:
  - Changed to a 'full tail risk' allocation for credit risk economic capital, which aligns with the Basel III developments. The group previously applied a '1/3 body and 2/3 tail' weighting.
  - Credit portfolio modelling correlations were updated, done annually.
  - New loss given default (LGD) used for Home Loans in the credit economic capital calculations.

    Instead of applying a flat average LGD for all Home Loans, LGD parameters depending on the respective LTV bands are now used (significantly more conservative). Accordingly, the capitalisation rate for Home Loans increased from 3,2% to 5,1%, better reflecting the risk inherent in that portfolio.
  - A simpler capital buffer allocation methodology is now used, directly related to the clusters' minimum economic capital requirement.
  - Imperial Bank's portfolios were fully integrated into the existing Nedbank Group economic capital structures.
  - Parameters used in the business risk methodology were refined and updated, using more recent data.
- Clusters' capital allocation quantums will also naturally alter due to any material risk weighted assets (RWA) optimisation and changes in the risk profile of the different portfolios.

ICAAP

- The annual group ICAAP was completed and signed off by the board on 27 July 2011.
- Best-practice stress and scenario testing was performed to confirm the robustness and of the group's capital adequacy and appropriateness of capital levels.
- The board's conclusion on ICAAP is that it remains satisfied that the capital (both regulatory capital and the internal capital assessment, economic capital) and liquidity levels are appropriate, and 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 their liquidity profile is sound [for which a separate Internal Liquidity Adequacy Assessment Process (ILAAP) Report supporting this view is produced].

Leverage

- The group's leverage ratio remains low at 13,3 times (December 2010: 13,8 times) when compared with international levels.
- Under Basel III the Nedbank Group pro forma leverage ratio for June 2011 is 17,9 times (including unappropriated profits). The main difference under Basel III is the inclusion of off-balance-sheet exposure, but the group is still well within the Basel III proposed maximum of 33,3 times.

LIQUIDITY AND FUNDING

- Nedbank Group continued to enhance its liquidity risk profile in 2011, mainly in preparation for Basel III.
  - Significantly lengthened the long-term funding ratio to 27% (December 2010: 23%), supported by the successful issue of R3,7 billion in senior unsecured debt and the launch of Nedbank's Retail Savings Bond, with in excess of R2,0 billion having been issued during the period.
  - Further strengthened the group's liquidity buffer by increasing the surplus liquid asset portfolio to R15,0 billion, up from R6,0 billion at December 2010.
  - Matched maturity funds transfer pricing (MMFTP) and liquidity premiums (pricing for liquidity risk) are well entrenched across the businesses, ensuring pricing discipline is maintained and contributing to the enhanced NIM.
  - Amounts owed to depositors increased by 1,5%, improving the loan-to-depositor percentage from 96,9% at December 2010 to 95,5% at June 2011.
  - A well-diversified funding mix prevails (ie retail versus wholesale deposit reliance) and strong retail household deposits positioning maintained.
  - Low reliance on interbank funding and foreign markets.
  - Annual Internal Liquidity Adequacy Assessment Process (ILAAP) also completed as part of the ICAAP.

CREDIT RISK

Rm	Jun 2011	Dec 2010
Gross loans and advances	**483 384**	486 499
Standard advances	**458 143**	459 734
Defaulted advances	**25 241**	26 765
Total impairment	**11 466**	11 226
Specific impairment	**9 026**	9 072
Portfolio impairment	**2 440**	2 154
Credit loss ratio	**1,21%**	1,36%
Specific	**1,10%**	1,32%
Portfolio	**0,11%**	0,04%
Total impairment to gross loans and advances	**2,37%**	2,31%
Specific impairment to defaulted loans and advances	**35,76%**	33,90%
Portfolio impairment to standard advances	**0,53%**	0,47%

- The credit loss ratio improved to 1,21% (December 2010: 1,36%), but remains above the group's 0,60% – 1,00% target range. This was due to the uncertain economic environment, as a result of increased emergence periods, the increased level of portfolio impairments and as R100 million additional impairment has been included in the centre to provide for unknown events that may have been already incurred, but will only be evident in the future.
  - The credit loss ratio relating to specific impairments improved from 1,46% in June 2010 to 1,10%, reflecting the improvement in asset quality.
  - The primary reduction in the specific impairment charge came from Nedbank Retail's secured lending portfolio in particular Nedbank Motor Finance, as a result of the accelerating impact of the improved environment and various risk management mitigation initiatives, with the credit loss ratio in Retail improving significantly from 2,93% in June 2010 to 2,24%, now only marginally outside the upper end of the cluster's through-the-cycle target range.
  - Credit loss ratios in all other clusters, with the exception of Nedbank Capital and Nedbank Wealth, remain within the respective clusters' through-the-cycle target levels.
- Defaulted advances decreased by 11,5% (annualised) to R25 241 million (December 2010: R26 765 million), reflecting write-offs, the improved collections processes and credit environment, and ongoing restructuring initiatives in Home Loans.
- The sovereign debt crisis in the Eurozone remains unresolved. Portugal was bailed out by the European Union in May and Greece in June 2011. These two countries may need further bailouts in the near future. Spain will be at risk should contingent liabilities from the banking sector increase.
  - Nedbank Group's total exposure to banks in Portugal, Italy, Ireland, Greece and Spain at June 2011 was low at R3,6 billion, with R3,3 billion (short term exposure) to Italy, R282,1 million to Spain and R2,5 million to Portugal. Overall 98% of Nedbank Group's total sovereign exposures of R40 billion is to highly rated credit sovereigns (NGR00 to NGR08). Of the R40 billion, R36,2 billion is in the form of SA government bonds. In the international and domestic financial institutions portfolio, over 96% is to institutions rated NGR00 to NGR08.

RISK MANAGEMENT

- The group's Enterprise-wide Risk Management Framework (ERMF) continued to be resilient, with sound risk governance and compliance aligned with Basel Committee requirements.
  - Reducing credit impairments, which are now evident in the declining credit loss ratios across all business clusters, except for Nedbank Capital.
  - Robust capital and liquidity risk management, and proactively managing the potential implications of the proposed Basel III regulations in respect of capital, liquidity and risk management requirements.
  - Significant steps to enhance risk management in Nedbank Retail and to fix the economics in secured lending.
  - Successful Imperial Bank integration into Nedbank Limited.
  - Giving effect to the requirements having achieved Advanced Measurement Approach (AMA) and Internal Model Approach (IMA) approval from SARB, attained with effect from December 2010 and January 2011, respectively.
  - Prudent risk appetite followed with group metrics cascaded to all business units.
  - Risk-based remuneration practices applied since 2008 align in all material respects with recent international requirements.
  - Effective operational and security risk management, containing impact of crime at reasonable levels. Alternative operational risks to sustainability, such as environmental and transformation risks, have been well managed by the group.

- Preparing Nedbank Group for legislation that will come into effect in 2011, such as the Consumer Protection Act, Protection of Personal Information Act and the revised Companies Act.

BASEL III

- The majority of the Basel III proposals were finalised in December 2010, although some significant aspects remain to be completed in 2011. In South Africa the details of exactly how Basel III will be adopted will be determined by the SARB, and this is anticipated to be clarified in 2012.
- The strategic impact of Basel III internationally is very significant, changing business models and potentially reducing ROEs extensively. In South Africa we are well placed, but there is much to do and the strategic impact is also significant, especially driven by the new liquidity requirements and higher capital levels, but also other implications such as counterparty credit risk.
- For Nedbank Group the impact of the new capital requirements is expected to be manageable, given existing strong capital ratios and the high quality of core Tier 1 equity. On a Basel III pro forma basis for 30 June 2011 the group is in a position to absorb the Basel III capital implications, with all capital ratios still remaining well above the top end of current internal target ranges.

  By the end of 2013 these ratios should improve further from projected earnings and be well positioned in the anticipated revised target ranges, even before considering further capital and RWA optimisation and the impact of the group's portfolio tilt strategy.

  Once Basel III has been finalised by SARB, Nedbank Group will finalise its revised target capital ratios and communicate these. For now Nedbank Group continues to operate well above its current Basel II target capital ratios.
- The main challenge of Basel III is in respect of the two proposed liquidity ratios, the liquidity coverage ratio (LCR) for implementation in 2015, and the net stable funding ratio (NSFR) for implementation in 2018.

  The group, together with the industry, has remained focused on how best to comply with the LCR, given that banks would need to be compliant ahead of 2015. The impact of NSFR compliance by South Africa and most banking industries worldwide would be punitive if implemented as it currently stands. The structural constraints within the SA financial markets add to the local challenge of complying with these ratios. However, this is being proactively tackled by National Treasury in conjunction with the financial services industry.

  The group anticipates that, following the observation period that has commenced, the Basel Committee will soften the NSFR requirement and a pragmatic approach to this issue will be applied prior to the finalisation in 2018.

SOLVENCY II

- Solvency Assessment and Measurement (SAM) is the Financial Services Board's new economic risk-based solvency regime for SA insurers, which closely follows international regulatory trends, in particular Solvency II. SAM affects the Nedbank Wealth Cluster and implementation is set for 1 January 2014.

FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE FOR THE SIX MONTHS ENDED 30 JUNE 2011

HEADLINE EARNINGS
R2 772m
▲28,8%

DILUTED HEADLINE EARNINGS PER SHARE
600 cents
▲26,3%

STRONG NIR GROWTH
R7 139m
▲15,9%

- ROE (excluding goodwill) 13,7% and ROE 12,2%
- Capital adequacy further strengthened (core Tier 1: 10,7%)
- Interim dividend per share up to 25,0% to 265 cents

'The growth trend of the second half of 2010 continued into the first half of 2011. During the past six months Nedbank Group has made good progress with its key strategic focus areas of repositioning Nedbank Retail, growing non-interest revenue and implementing a portfolio tilt strategy. This has resulted in the group delivering strong earnings growth while further strengthening portfolio impairments.

Given our focus on growing the transaction franchise, it is pleasing to see that, since June 2010, we gained 94 000 net new retail primary clients. We increased the number of branches and other outlets by 116 and ATMs by 420, while transactional pricing is now at levels similar to 2005. We continue to see record transaction volume growth in electronic banking and increased net new primary client gains in the wholesale banking areas.

The group remains focused on a client-centred strategy and is well positioned to deliver growth in earnings for 2011 in excess of our medium- to long-term financial target.'

Mike Brown
Chief Executive

FINANCIAL HIGHLIGHTS		% change	**Jun 2011**	Jun 2010	Dec 2010
STATISTICS					
Number of shares listed	m		**507,4**	512,6	514,9
Number of shares in issue excluding shares held by group entities	m		**454,4**	445,8	448,6
Weighted average number of shares	m		**451,2**	440,7	443,9
Diluted weighted average number of shares	m		**462,2**	453,7	458,2
Headline earnings	Rm	28,8	**2 772**	2 153	4 900
Profit attributable to equity holders of the parent	Rm	28,6	**2 764**	2 150	4 811
Pre-provisioning operating profit	Rm	10,1	**6 577**	5 974	12 454
Economic profit/(loss)	Rm		**146**	(352)	(289)
Headline earnings per share	cents	25,6	**614**	489	1 104
Diluted headline earnings per share	cents	26,3	**600**	475	1 069
Basic earnings per share	cents	25,6	**613**	488	1 084
Diluted basic earnings per share	cents	26,2	**598**	474	1 050
Ordinary dividends declared per share	cents	25,0	**265**	212	480
– Interim			**265**	212	212
– Final					268
Dividend paid per share	cents		**268**	230	442
Dividend cover	times		**2,32**	2,31	2,30

		% change	Jun 2011	Jun 2010	Dec 2010
TOTAL ASSETS ADMINISTERED BY THE GROUP	Rm	5,2	**715 981**	680 285	711 288
Total assets	Rm	3,2	**609 875**	590 847	608 718
Assets under management*	Rm	18,6	**106 106**	89 438	102 570
Life assurance embedded value	Rm	14,8	**1 122**	977	1 031
Life assurance value of new business	Rm	13,4	**152**	134	295
Net asset value per share	cents	7,8	**10 128**	9 397	9 831
Tangible net asset value per share	cents	9,6	**8 477**	7 732	8 160
Closing share price	cents	22,1	**14 650**	12 000	13 035
Price/Earnings ratio	historical		**11,8**	12,2	11,8
Market capitalisation	Rbn	20,8	**74,3**	61,5	67,1
Number of employees		4,8	**28 210**	26 924	27 525
KEY RATIOS (%)					
Return on ordinary shareholders' equity (ROE)			**12,2**	10,7	11,8
ROE excluding goodwill			**13,7**	12,2	13,4
Return on total assets (ROA)			**0,92**	0,75	0,82
Net interest income to average interest-earning banking assets			**3,43**	3,34	3,35
Non-interest revenue to total income			**45,1**	43,2	44,3
Non-interest revenue to total expenses			**80,8**	78,2	79,6
Credit loss ratio banking advances			**1,21**	1,46	1,36
Efficiency ratio			**55,9**	55,3	55,7
Efficiency ratio (excluding BEE transaction expenses)			**55,5**	54,9	55,2
Effective taxation rate			**25,7**	19,9	20,7
Group capital adequacy ratios: Basel II (including unappropriated profits)					
– Core Tier I			**10,7**	9,9	10,1
– Tier 1			**12,4**	11,5	11,7
– Total			**15,2**	14,8	15,0

** Restated.*

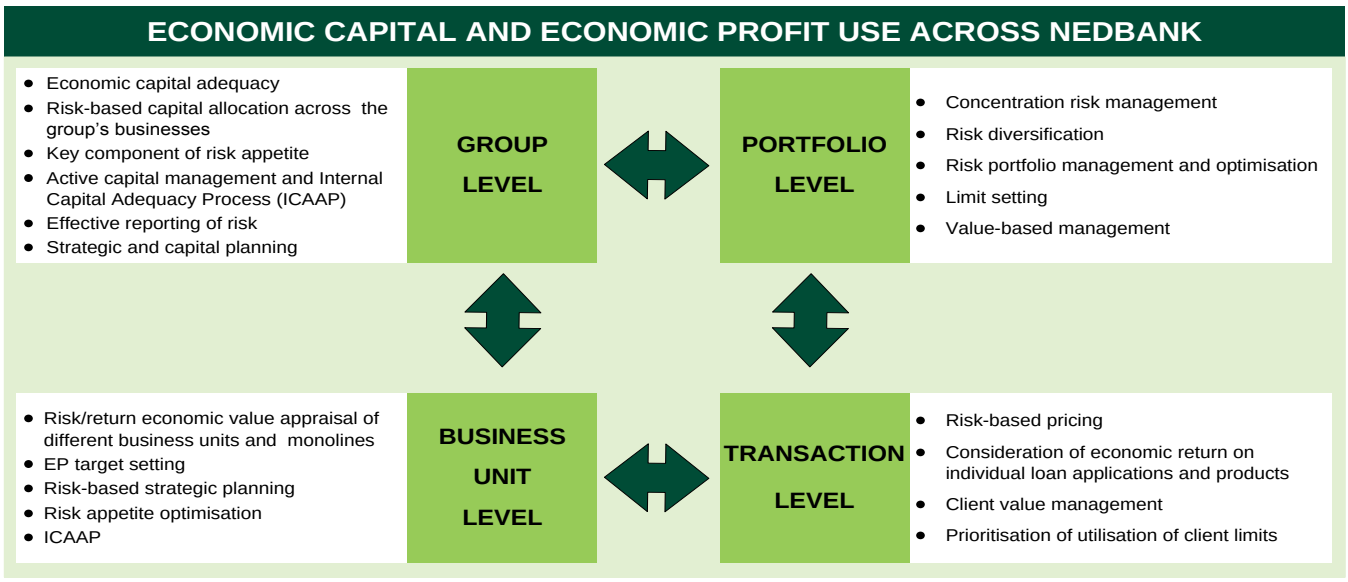
For further detail on financial performance please refer to the Interim results section of the Nedbank Group website www.nedbankgroup.co.za.

RISK CULTURE

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

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 and economic profit (EP)**



Economic capital is a sophisticated, consistent measurement and comparison of risk across business units, risk types and individual products or transactions. This enables a focus on both downside risk (risk protection) and upside potential (earnings growth). Nedbank Group assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital within 12 quantifiable risk categories, as summarised on page 41.

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

Economic capital not only facilitates an apples-to-apples measurement and comparison of risk across businesses but, by incorporating it into performance measurement, 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 (economic capital), however, the return is not risk-adjusted as International Financial Reporting Standards (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 measures of return that provide a longer-term view and incentivisation of profitability.

EP (R) = **IFRS earnings (or risk adjusted profit) - hurdle rate x economic capital**	**RORAC or RAROC (%)** = **[IFRS earnings (or risk adjusted profit) + capital benefit] / economic capital**
• Value is created if EP > 0. • EP is a core metric for shareholder value-add. • If capital is unconstrained, all business with EP > 0 should be grown subject to established hurdle ranges. • No information on the marginal percentage return on economic capital that RORAC or RAROC provides.	• 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 economic capital) should be prioritised. • No information on magnitude of value being created for shareholders which EP provides.

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

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

- **Risk-based remuneration practices**

Economic capital and EP is 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 managed appropriately within the 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. There will always be minor gaps to be closed in

the group's remuneration practices when benchmarked against the latest evolving principles, practices and governance codes released for the financial industry.

Nedbank Group continually assesses the above gaps to ensure an optimal compliance of all risk based remuneration practices.

For further detail refer to the Remuneration Report in the 2010 Annual Report.

- **Risk Appetite Framework**

  A comprehensive Risk Appetite Framework was first approved by the board of directors in 2006 and subsequently further enhanced as explained from page 20.

- **Stress and Scenario Testing Framework**

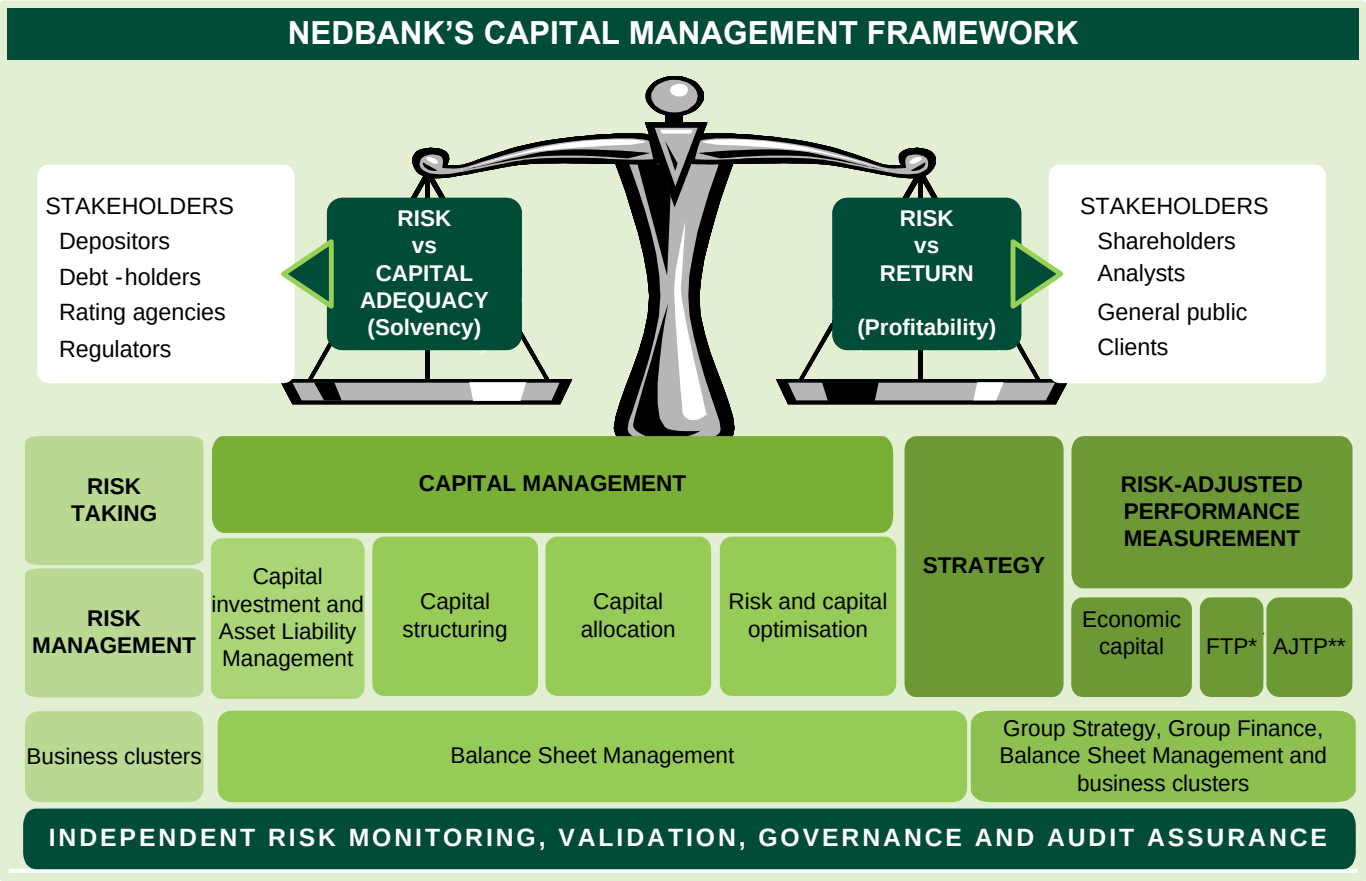
  A comprehensive Stress and Scenario Testing Framework was also originally implemented in 2006 as described from page 25, and this has also been further enhanced. Stress testing has been an integral part of the group's Internal Capital Adequacy Assessment Process (ICAAP) since 2008 and has contributed to the proactive risk management that has facilitated the group's resilience through the global financial crisis and the local recession.

- **Enterprise-wide 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.

  Enterprise-wide 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**

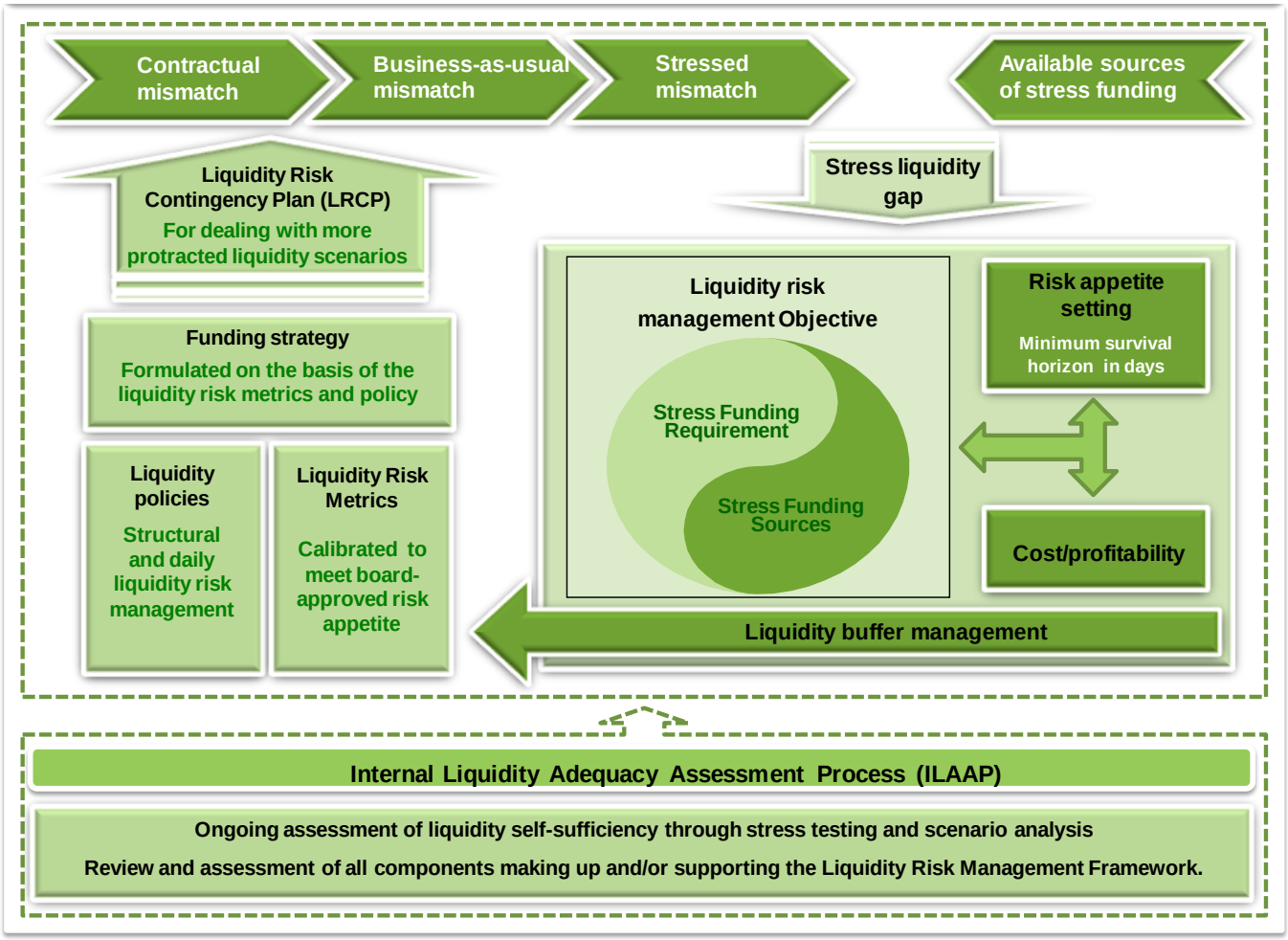


** Funds transfer pricing*

*** 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 and overall balance sheet management systems have been duly tested and proven effective during the global financial crisis.

Key ICAAP enhancements in 2011

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

- **Business risk methodology**

  In the process of being enhanced for implementation in 2012.

- **Inter-risk diversification**

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

  Enhancements to the inter-risk diversification matrix are work in progress.

- **Capital management**

  All goodwill and intangibles are now deducted from available financial resources (AFR), as done for regulatory capital in 2010.

  Stressed risk appetite results have been introduced and approved in 2011.

- **Capital allocation**

  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 economic capital 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 economic capital)

    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 3,2% to 5,1%.

LTV band	LGD
≤ 70%	7,60%
≤ 90%	12,93%
≤ 100%	15,84%
> 100%	20,39%

  – New capital buffer allocation methodology introduced.

  – Imperial Bank integration.

    Nedbank Group fully integrated Imperial Bank's portfolios into the existing group economic capital 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**

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

  – Tax risk

    Risk appetite targets have recently been approved in order to avoid concentrated tax risk. This includes cash and accounting tax rates, concentration risk measures and gross exposure at risk targets.

– Operational risk

Following the implementation of AMA for regulatory and economic capital, 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*	1,3%	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****.
	Internal fraud loss : GOI*	0,1%	Quarterly	
	External fraud loss : GOI*	0,6%	Quarterly	
	CPBP loss : GOI*	0,2%	Quarterly	
OpVaR ratio	Group OpVaR** : GOI*	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** : GOI*	30,0%	Quarterly	
	Corporate OpVaR** : GOI*	20,0%	Quarterly	
	Retail*** OpVaR** : GOI*	10,0%	Quarterly	
	Business Banking OpVaR** : GOI*	15,0%	Quarterly	

** Gross Operating Income.*
*** Diversified VaR (99,9%) excluding regulatory caps and inter-risk diversification.*
**** Including Nedbank Wealth.*
***** 97% of the total operational risk loss amounts are due to frauds or litigation (based on SAS public database).*

– Changes to Earnings-at-risk (EaR) target

Nedbank Group revised the earnings at risk and chance of loss metrics in 2011:

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

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

- **Stress testing enhancements**

– Inclusion of a deflationary severe stress scenario in the group's business-as-usual scenarios.
– Implementation of Basel 2.5 and Basel III expectations in the group's three year plan projections and stress testing of these.
– Implementation of credit growth related changes to net interest income.
– 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 economic capital model utilised for economic capital calculation.
– Alignment of interest rate risk in the banking book (IRRBB) economic capital 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), since late 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, with its associated governance oversight committees, which is now functioning on a business as usual basis, a significant reduction in the number of outstanding material credit data issues mitigated has also been achieved (144 down to 40).

  Further to this a Group Business Intelligence Forum (under the direction and review of a Group Executive BI 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. Central to the BI forum's mandate is 'client centricity'.

- **QRM (phase 1)**

  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 includes 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 balance sheet management solution.

- **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 regulatory capital 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 regulatory capital approaches now align with those already in use for economic capital (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 adequacy. These comprise the group's core risk appetite metrics. In addition, a large variety of 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) risks).

In 2009 the group sought to enhance the consolidation, 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 the group established an enhanced suite of base case (through-the-cycle) risk appetite metrics and incorporated these within the three-year business plans since then, at both group and business cluster levels (see page 22). 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, have been introduced.

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 Enterprise 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. These are expanded upon in the table below.
- 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 targets and target debt rating for economic capital adequacy, economic capital (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
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 regulatory capital 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	✓
Economic capital adequacy	Nedbank Group adequately capitalised on an economic basis to its current international foreign currency target debt rating	Measured by the ratio of available financial resources and required economic capital 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 economic capital model and the ERMF. The two measures, EaR and economic capital, are methodologically very similar and differing primarily in the confidence level used. Both economic capital and EaR are calculated at granular levels and are key components of Nedbank Group's Risk Appetite Framework and 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. Interest rate risk in the banking book (IRRBB) and foreign currency translation risk is transferred to Balance Sheet Management who, in conjunction with Group ALCO, would have primary responsibility for managing/hedging the risk.

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.

RISK APPETITE – ENHANCED SUITE OF METRICS FINALISED IN 2011	
	GROUP TARGET (Board-approved)
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 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 – IRRBB	
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

RISK APPETITE – ENHANCED SUITE OF METRICS FINALISED IN 2011	
	GROUP TARGET (Board-approved)
ALM RISK PROFILE – FCTR	
Currency equity: Total equity (%)	< 5%
LONG TERM INSURANCE RISK PROFILE	
Net claims ratio*	< 75%
Capital adequacy requirement cover**	> 2 times
Max loss per client after re-insurance (Rk)	400
SHORT TERM INSURANCE RISK PROFILE	
Net claims ratio*	< 75%
Capital adequacy requirement cover***	> 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
Available financial resources: 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%
NOTES	
*% of gross premium, net of re-insurance	
**Long term insurance CAR cover 1 times is statutory requirement	
***Short term insurance CAR cover 1,25 times is statutory requirement	
ABBREVIATIONS	
RWA	Risk-weighted assets
NOPs	Nedbank owned properties
PD	Probability of default
LGD	Loss given default
EL	Expected loss
EAD	Exposure at default
TTC	Through-the-cycle
CCR	Counterparty credit risk
ECap	Economic capital
NII	Net interest income
IRRBB	Interest rate risk in the banking book
FCTR	Foreign currency translation risk
GOI	Gross operating income
OpVar	Operational risk value-at-risk
STC	Secondary tax on companies

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 in on pages 117 and 118.
  - 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.
  - Nedbank Group's property exposure is high, as like any South African big four bank.
- The exposure of Nedbank Group to the PIIGS is monitored on an ongoing basis and is fairly immaterial. Nedbank Group hold no sovereign bonds issued by these countries. Direct lines to banks in Italy and Spain are restricted to systemically important banks. 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 SA 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.
- Low leverage ratio (total assets to shareholders' equity) of 13,3 times (December 2010: 13,8 times), which compares very favourably on an international benchmarking basis.
- Low risk of assets and liabilities exposed to the volatility of International Financial Reporting Standards (IFRS) fair-value mark-to-market (MTM) 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.

    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.

- Immaterial market trading (proprietary) risk in relation to total bank operations (economic capital held is only 1,6% 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 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.
- Interest rate risk in the banking book in line with peer group, as reflected by the results of the sensitivity analysis provided on page 140.
- Low equity (investment) risk, including private equity exposure. The total equity risk exposure, including the private equity business, is R4,5 billion, comprising only 0,73% of total assets. Further, within this a wide range of individual investments exist and many are linked to a wider client relationship.
- Immaterial assets non-core to the business of banking.
- Low foreign currency translation risk to the rand's volatility, which is in line with Nedbank Group's appropriate offshore capital structure.
- 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.
- Well-diversified subordinated debt and non-core Tier 1 maturity profile. However, Nedbank Group is concentrated in Tier 2 capital as a percentage of total capital in comparison to its peers. The concentration has been identified and a target measure has been implemented as part of the concentration risk dashboard.
- 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 June 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.
- Individual limits for credit loss ratios in a stressed macro-economic environment has been approved and cascaded down from group level for each business cluster, major business unit and the monolines in Nedbank Retail.

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

STRESS AND SCENARIO TESTING

Nedbank Group has a comprehensive Stress and Scenario Testing Framework which is used, inter alia, to stress the base case projections and so assess the adequacy of Nedbank Group's capital buffers and target ratios.

A best-practice framework and process are adhered to in order to confirm the robustness of the group's capital adequacy and to assist in proactively derisking the bank in appropriate segments in view of the global financial crisis.

The BIS enhancements to the Basel II framework (July 2009), or Basel 2.5, have been incorporated in the group's Stress and Scenario testing Framework and process early in 2010.

Nedbank Group's stress and scenario testing recognises and estimates the potential volatility of its capital requirements and the base-case (expected) three-year business plan projections, including the key assumptions and sensitivities contained therein, which themselves are subject to fluctuation, and ultimately the adequacy of the group's capital buffers and target capital ratios.

Risk relating to procyclicality

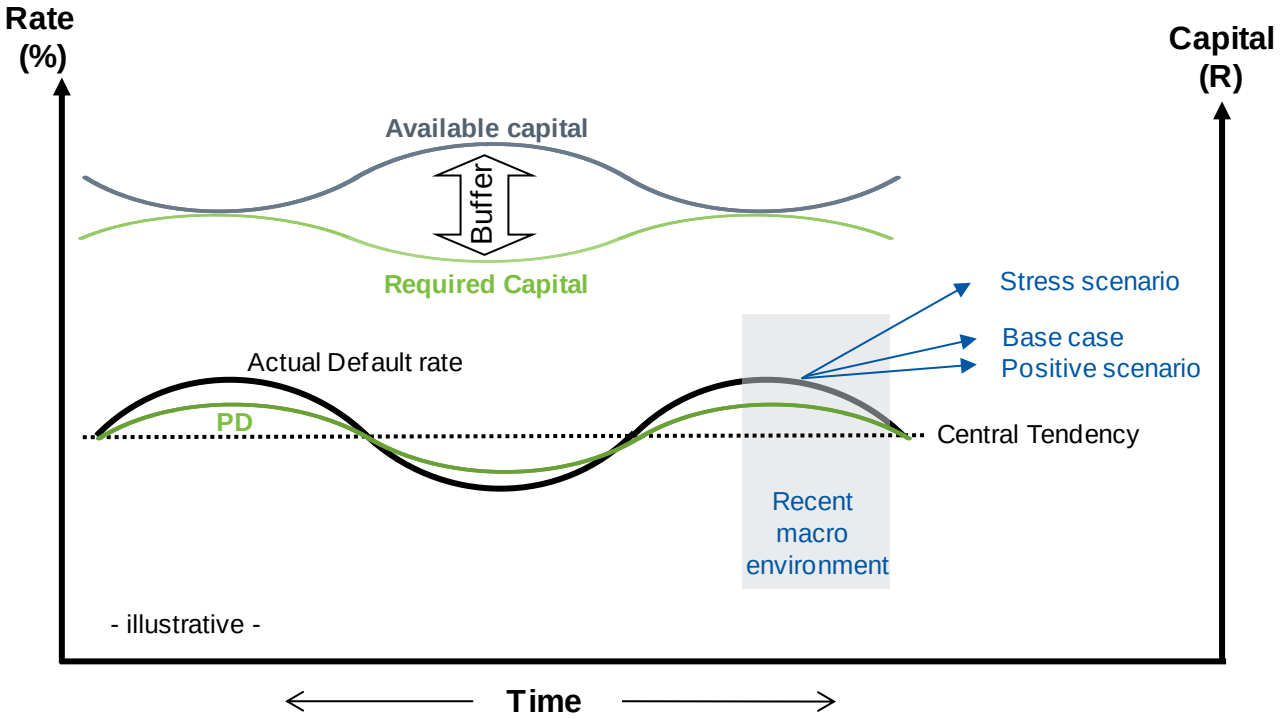
Procyclicality is the extent to which the buffer between available-capital and required-capital levels (regulatory and economic) changes as a direct result of changes in the economic cycle, and would decrease in a downturn economic cycle.

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

The points discussed above are illustrated in the diagram below:



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

Nedbank 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.

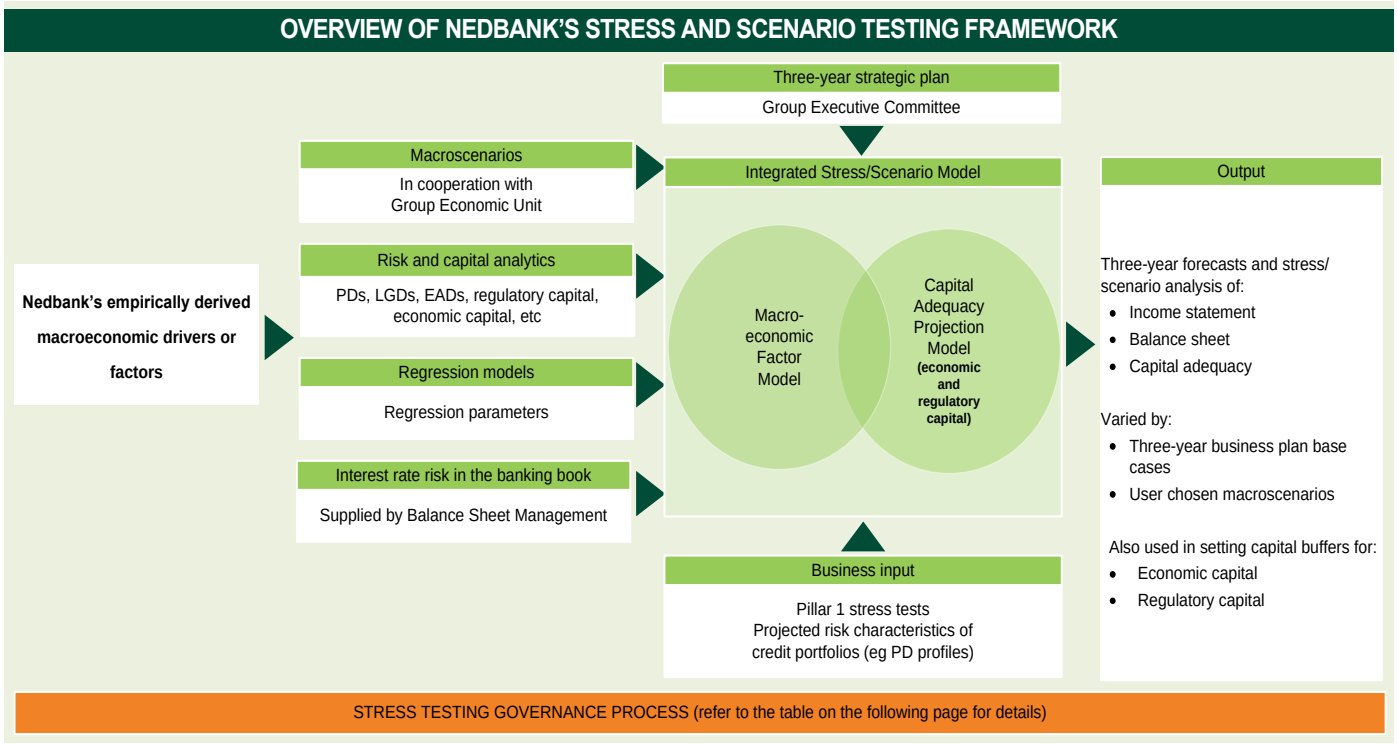
The Stress and Scenario testing Framework and process were further enhanced during 2009 and 2010 to assist in proactively derisking the bank in appropriate segments in view of the global financial crisis. The main objective of the group's stress testing is to assess the effect of possible unexpected events on Nedbank Group 's base case projections, including the capital requirements, resources and adequacy of capital buffers for both regulatory capital 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 economic capital purposes, comprehensively considers Nedbank Group's:

- risk profile (through stress testing of required capital considering all risk types);
- capital profile (through stress testing of available financial resources);
- 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); and
- 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 and net stable funding ratio, were not yet taken into account.

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

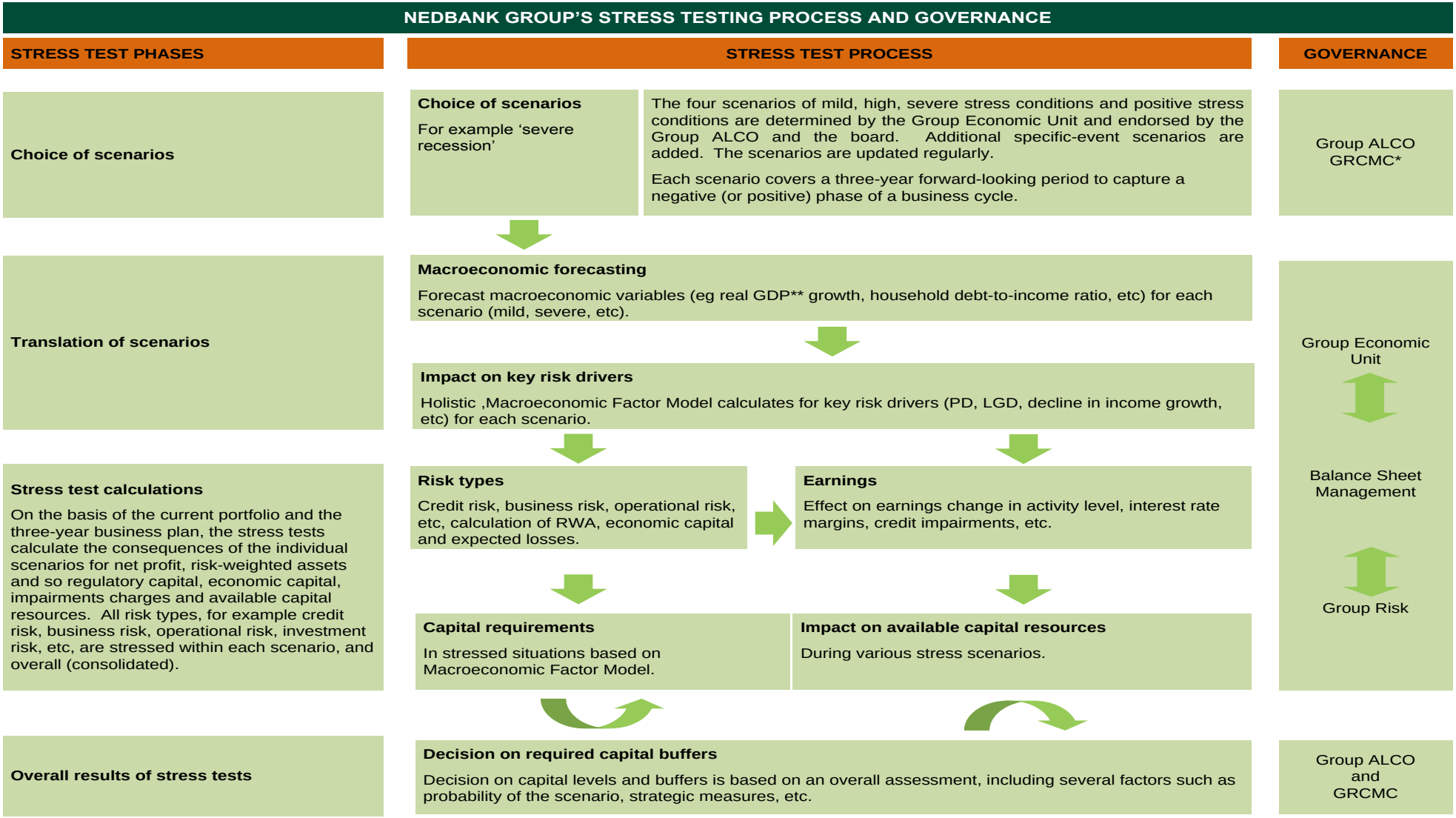


The framework and process are adhered to in order to stress the base case projections, and so assess and ultimately conclude on the adequacy of Nedbank Group's capital buffers and target capital adequacy ratios. The group's strategic planning process, rolling forecasts and integrated capital planning include three-year projections of expected (base case) financial performance, Basel II and economic capital risk parameters and capital requirements, which are compared with projected available financial resources and the board-approved risk appetite metrics. The three-year projections and base case capital planning are derived from the group's three-year business plans, which are updated quarterly during the year. The group wide macroeconomic factor model (MEFM) is utilised to stress test Basel II regulatory capital, economic capital, expected losses as well as available financial resources of the expected (base case) three-year projections for 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 interest rate risk in the banking book 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 economic capital. Diversification benefits between risk types are determined by utilising Nedbank-specific correlations and the MEFM.

NEDBANK GROUP'S STRESS TESTING PROCESS AND GOVERNANCE



** Group Risk and Capital Management Committee (board committee).*

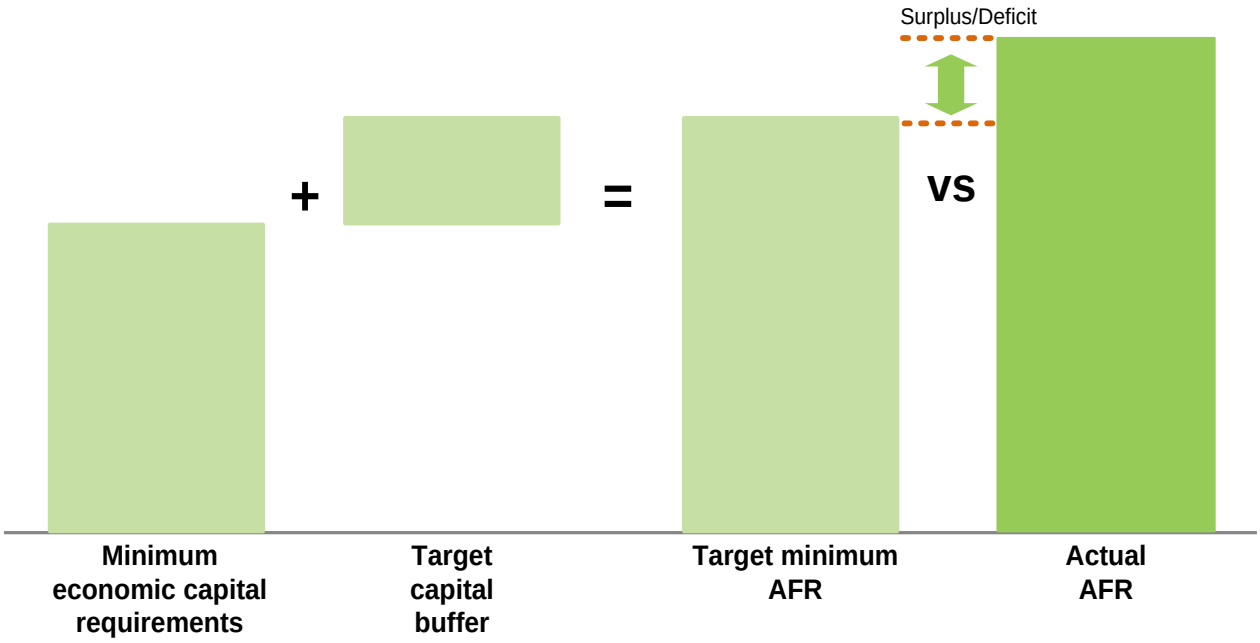
*** Gross domestic product.*

The key factors influencing economic capital buffer size may include:

- procyclicality (economic cycles);
- abnormal constraints arising in the market impacting capital raising and/or liquidity (funding);
- earnings volatility levels;
- concentration risks;
- accounting impacts on available capital (eg IFRS);
- foreign capital deployment; and
- strategic acquisitions (if applicable).

As highlighted above, Nedbank Group's economic capital buffer level is set, tested and validated using its MEFM and comprehensive Stress and Scenario Testing Framework.

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



The group's strategic planning process, rolling forecasts and integrated capital planning includes three-year projections of expected (base case) financial performance, Basel II and economic capital risk parameters and capital requirements that are compared with projected AFR and 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 revised quarterly during the year.

Nedbank Group’s strategy to comprehensively cover stress and scenario testing, both for regulatory and economic capital (ICAAP) purposes, comprises **five 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**

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

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

The result and impacts are provided on both a pre- and post-management intervention basis. Management intervention may 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 SA 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.

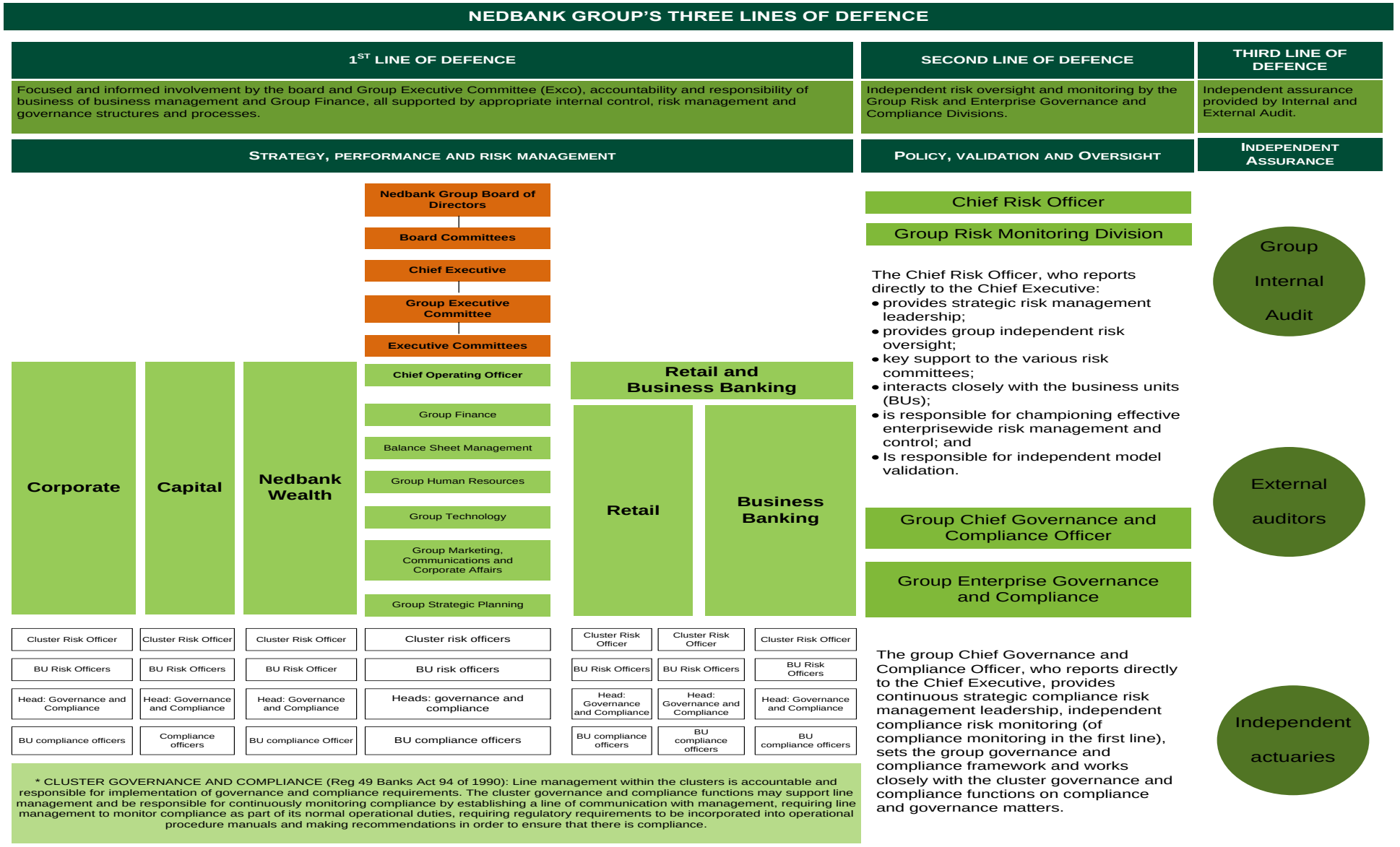
RISK AND ICAAP GOVERNANCE

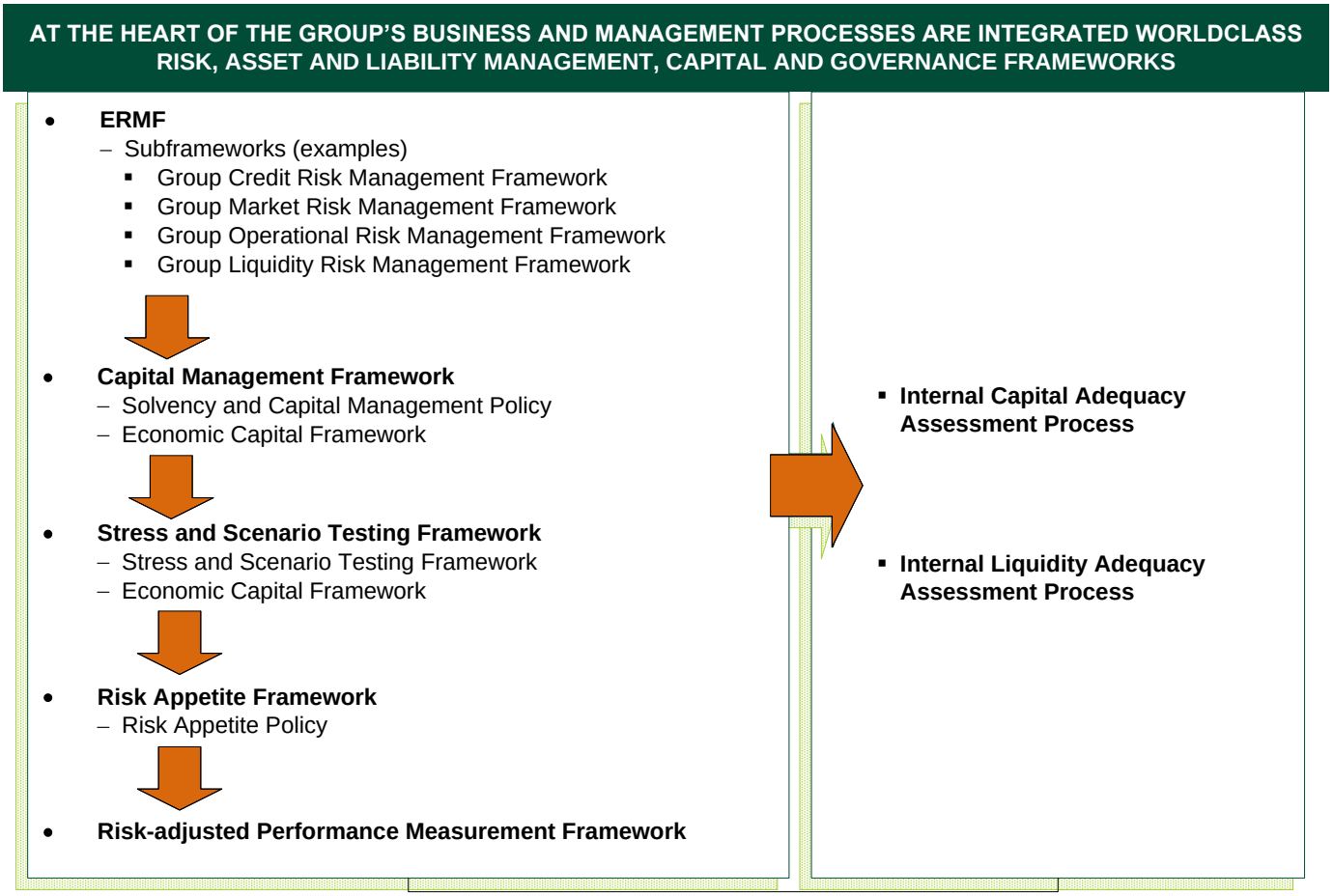
The business of banking is fundamentally about managing risk. Nedbank Group actively strives to attain world-class risk asset and liability and capital management as integrated core competencies critical to the success and sustainability of its business.

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 Enterprise-wide 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:





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 and the external auditors in the second and third lines of defence.

Within this recurring enterprise-wide 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 12 subcommittees.

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 2010 under the section Enterprise Governance and Compliance.

OVERVIEW OF NEDBANK GROUP'S ENTERPRISE-WIDE RISK MANAGEMENT FRAMEWORK

Risk universe	Accounting and taxation risks	Operational risk	Insurance and assurance risk (Underwriting insurance risk; Insurance)	New-business risk	Liquidity risk	Capital risk	Market risk (Trading book; Banking book)	Investment risk	Information technology risk	Credit risk	Compliance risk	Strategic risk	Reputational risk	Transformation risk	Social and environmental risk	People risk

Key features of the ERMF

- The board of directors is ultimately responsible for all risks in the group, approval and oversight of the risk measurement and management system and the setting of risk appetite.
- The board is assisted by nine board committees.
- The Group Exco is also assisted by 12 subcommittees.
- The Chief Risk Officer Reports to the Chief Executive, who has ultimate individual accountability for risk.
- Group Risk Division is independent of the operational business units.
- Strong emphasis in the ERMF is placed on individual accountability and not on undue reliance on committees.
- Primary responsibility and accountability for the risks originating in the businesses are clearly assigned to the respective business cluster leaders and executives.
- Risk management frameworks and risk officers are in place across all the businesses and in Group Technology and for all major risk types.

First line of defence

Board of Directors

Board committees

Group Audit Committee | Group Finance and Oversight Committee | Group Risk and Capital Management Committee | Group Information Technology Committee | Group Credit Committee | Directors' Affairs Committee | Transformation and Sustainability Committee | Group Remuneration Committee

Group EXCO

Group EXCO

Group Operational Committee (OPCOM): Executive Taxation Committee; Group Operational Risk Committee
Business Risk Management Forum
Group Asset and Liability Committee and Executive Risk Management Committee: Property Strategy Committee; Group Procurement Committee
Executive Information Technology Committee
Executive Credit Committee; Group Opcom
Business Risk Management Forum
Group Opcom: Brand Committee
Transformation and Human Resources Executive Committee: Black Economic Empowerment Forum

Business clusters' risk governance

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

- Cluster and business unit EXCO, 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

Central financial risk and balance sheet management

Group Finance

Chief Financial Officer: Raisibe Morathi

GROUP TAX	GROUP FINANCIAL CONTROL	GROUP SHARED SERVICES CENTRE	HUMAN RESOURCES	INVESTOR RELATIONS	RISK, COMPLIANCE AND SOUTH AFRICAN RESERVE BANK RELATIONS	PLANNING, MEASUREMENT AND CONTROL
Rian Cloete	Darryl McMullen	Ian Fuller	Meshack Qacha	Alfred Visagie	Lionel Diakanyo	Luigi Bianco

Balance Sheet Management

Group Managing Executive: Trevor Adams

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

Second line of defence

Independent Group Risk and Compliance

Independent functions for group policy, risk monitoring, model validation and challenge.

Championing of Basel II, enterprise-wide risk management and being 'worldclass at managing risk'

Group Risk Division

Chief Risk Officer: Philip Wessels

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

GROUP ENTERPRISE GOVERNANCE AND COMPLIANCE

CHIEF GOVERNANCE AND COMPLIANCE OFFICER
Selby Baqwa

Third line of defence

Internal and External Audit

Independent assurance

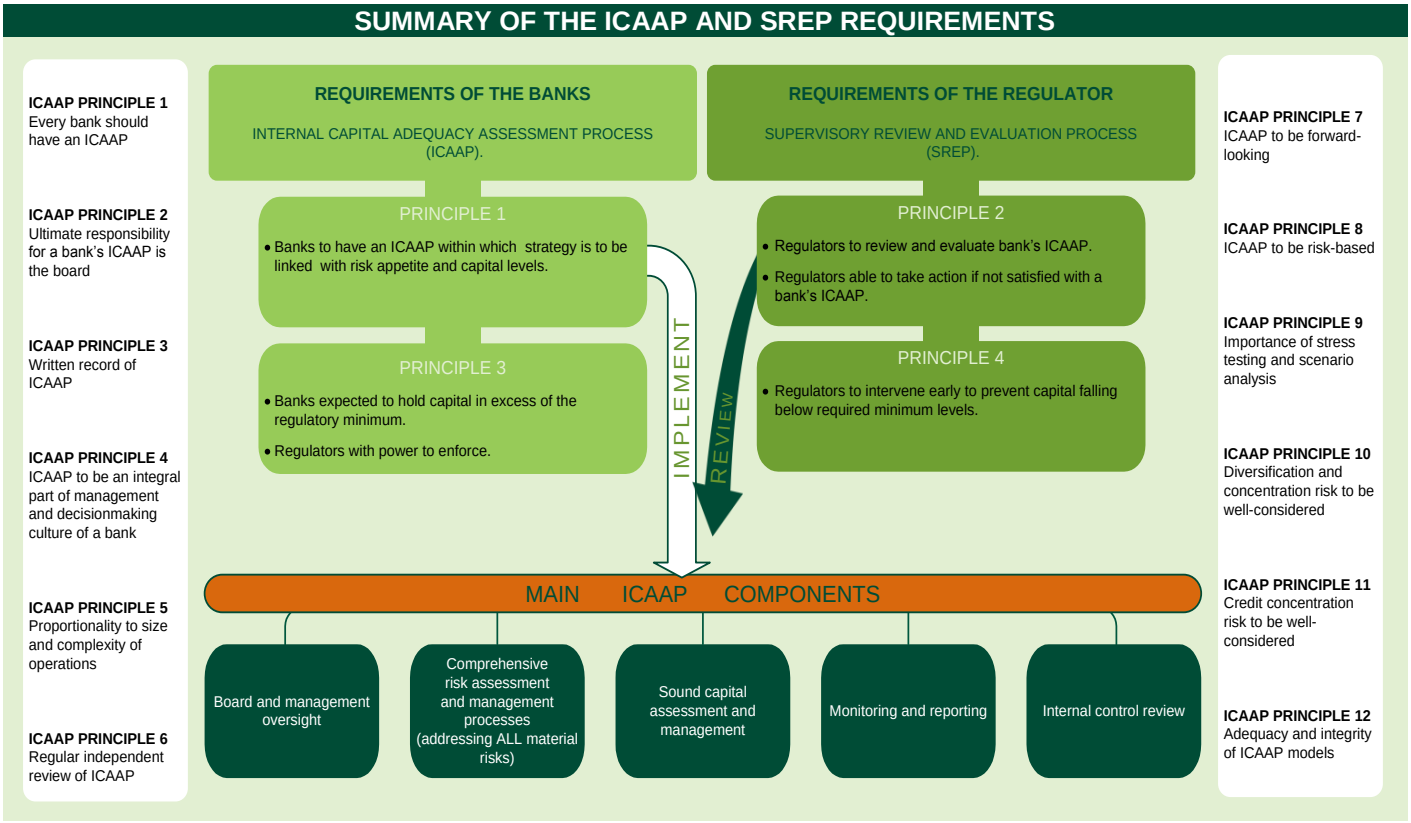
GROUP INTERNAL AUDIT
CHIEF INTERNAL AUDITOR
Glynis Hunziker

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 SA 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'.



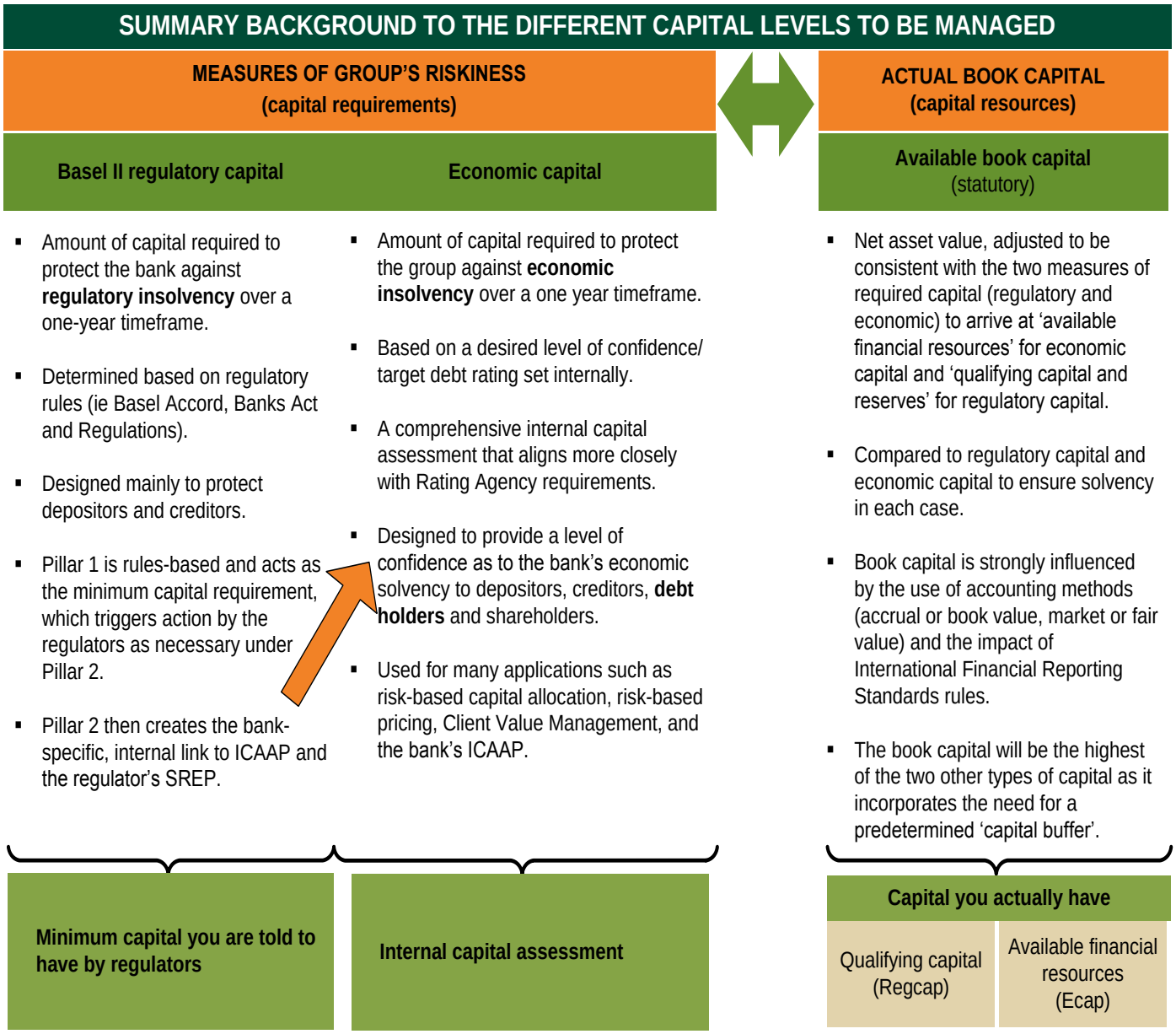
ICAAP is primarily concerned with Nedbank Group's comprehensive approach, assessment, coverage and management of risk and capital from an internal perspective, that is over and above the minimum regulatory rules and capital requirements of Basel II.

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 regulatory capital (risk-sensitive but with limitations/restrictions).
- Economic capital (risk-sensitive, more economic-based and tailored internally with less limitations/restrictions, and used for Nedbank 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 economic capital requirements).
- Qualifying capital and reserves (to cover regulatory capital requirements).
- Available financial resources (to cover economic capital requirements).

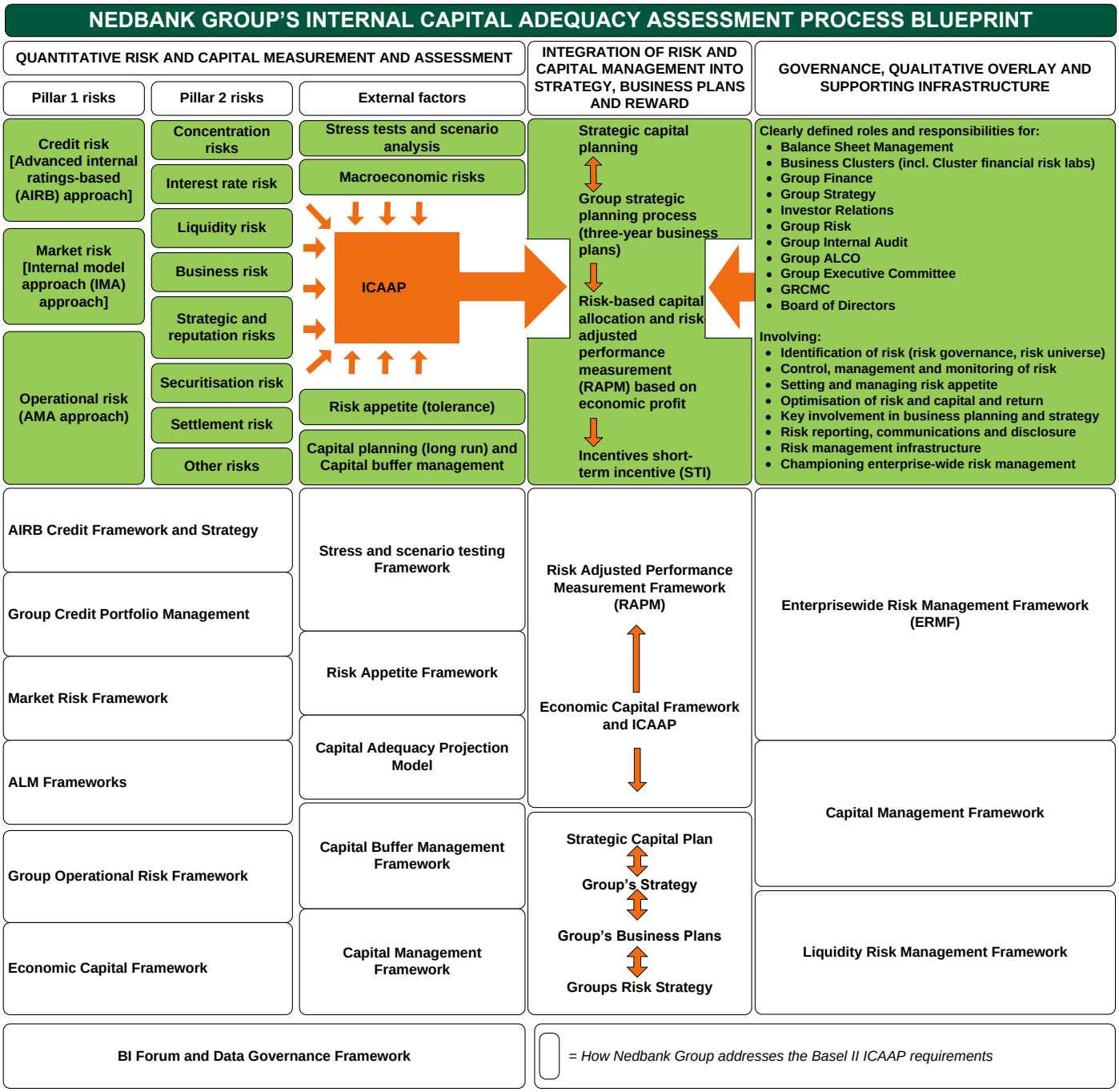
These different levels illustrate the delicate and challenging balancing act involved in effective capital management.



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

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.



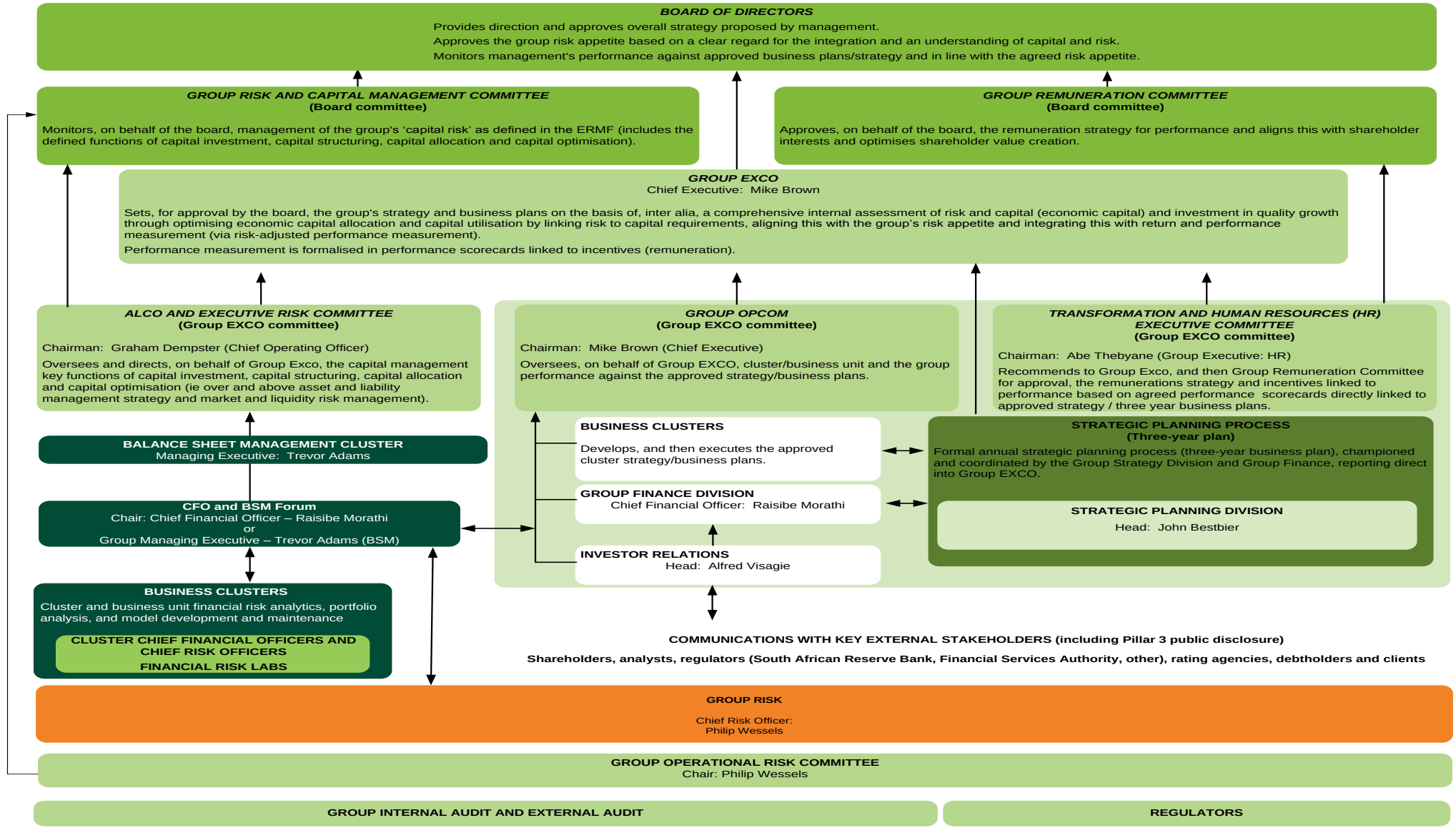
The foundations of Nedbank Group's ICAAP, Capital Management Framework and ERMF are a strong and rigorous governance structure and process as discussed earlier. The ERMF is actively maintained, updated and regularly reported on up to board level, coordinated by the ERMF Division in Group Risk. This same governance process is followed for Nedbank Group's 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 47.

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 Balance Sheet Management Cluster (see page 40) and the Balance Sheet Management Committee (subcommittee of Group ALCO).

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



BALANCE SHEET MANAGEMENT

Established as a separate cluster in 2009, Balance Sheet Management (BSM) helps to optimise the financial performance, strategy and sustainability of Nedbank Group through proactive management of all material components of the balance sheet.

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 to help attain the ideal balance sheet shape via, inter alia, portfolio tilt, and to ensure the group's long-term sustainability 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 the active portfolio management and optimisation of risk, capital and liquidity funding across the group.

PORTFOLIO RISK MANAGEMENT	FUNDING AND LIQUIDITY MANAGEMENT	CAPITAL MANAGEMENT	ACTIVE PORTFOLIO MANAGEMENT (APM)	STRATEGIC PROJECTS AND REPORTING
• Credit Portfolio Management (CPM) • ALM risks – Liquidity risk – Interest rate risk banking book – Foreign currency translation risk • Concentration Risk Management • Risk (RWA) Optimisation • Risk Management Strategy • Risk Appetite • Stress Testing • Capital consumption – Economic Capital – Regulatory Capital	• Internal Liquidity Adequacy Assessment Process (ILAAP) • Funding and Liquidity Management – Strategy – Funding Plan – Deposit Growth Optimisation ('Good to Great in Deposits') • Liquidity Risk Allocation (eg liquidity premiums and ALM charges) • Debt Raising • Basel 3	• Internal Capital Adequacy Assessment Process (ICAAP) • Capital Management – Strategy – Planning, Structuring and Optimisation – Regulatory capital – Economic capital – Stress and scenario testing • Capital Investment • Capital Allocation • Capital Raising • Basel 3	• Margin Management • Funds Transfer Pricing • Portfolio TILT – Enable APM for Exco – Active Credit Portfolio Management (ACPM) • Value-Based Management (VBM) … Manage for Value – Peer Group Analysis – Market Share Analysis – EP optimisation – Risk Adjusted Performance Management (RAPM) – Risk based pricing • Economic Outlook (house view) • Internal Valuation Model • Group ALCO coordination	• Group Regulatory Reporting (Bank's Act) • External Reporting – ICAAP and ILAAP – Pillar 3 – Analysts Booklet • Basel 3 Programme • Solvency 2 / SAM • QRM Programme • Group Data and Business Intelligence • SEA reporting for Group Exco **SHARED FUNCTIONS** • ALM Finance and Accounting • BSM data, BI and IT • Governance and Compliance • HR

ECONOMIC CAPITAL

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

Nedbank Group assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital 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 economic capital required by the group, as determined by the quantitative risk models and after incorporating the group's estimated portfolio effects, is supplemented by a capital buffer of 10% to cater for any residual cyclicality and stressed scenarios. The total requirement is then compared with available financial resources (AFR).

NEDBANK GROUP'S ECONOMIC CAPITAL MODEL AND TARGET CAPITAL ADEQUACY ICAAP

CREDIT RISKS

Basel II Advanced Internal Ratings-based (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

Shareholder VaR based on the liability claims distribution

+

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

Note: There are 12 quantifiable risk categories. Securitisation risk is included in credit risk. Property and investment risk have been treated as one.

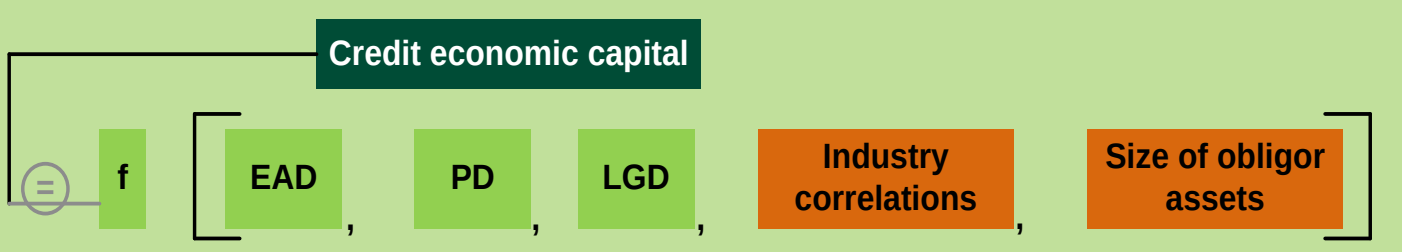
The economic capital results are shown from page 57.

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 purposes, as discussed earlier.

The group's credit risk economic capital (or credit value at risk) is more sophisticated than AIRB and is calculated using credit portfolio modelling based on the volatility of expected losses. These estimated unexpected losses are measured from the key AIRB credit risk parameters [probability of default (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 economic capital goes further than Basel II in explicitly recognising credit concentration risks (eg single large name, industry sector).



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 for both regulatory capital and economic capital (ICAAP).

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

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

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 counterparty credit risk.

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 assumes are measured, from both a regulatory and economic capital (ICAAP) point of view, using the ratings-based approach and the standardised formula approach, both under the Internal Ratings-based Approach for securitisation exposures. As is evident from the low level of exposure, the risk of underestimation of the Pillar 1 securitisation risk charge is considered immaterial.

Transfer risk capital

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

Transfer risk is the risk that a government will be unable or unwilling to make 'hard currency' available by imposing currency controls, which limit the ability of otherwise healthy borrowers within the country from servicing their foreign

currency debt, causing a transfer event. Transfer events usually only impact facilities repayable in hard currency made to clients in foreign countries, but they also affect any loan denominated in a currency other than the local currency of the borrower, since the borrower needs to obtain foreign currency to repay the debt. It covers losses suffered when a client, because of circumstances in its country of domicile, is unable to obtain the foreign currency needed to meet its obligations.

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

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

In general transfer risk is modelled similarly to credit (issuer and counterparty) risk, but 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 exposure of Nedbank Group (Nedbank Limited; Nedbank Namibia Limited; Fairbairn Private Bank Limited) to the Portuguese, Irish, Italian, Greek, and Spanish (PIIGS) banking sectors is monitored on an ongoing basis and is fairly immaterial. The Nedbank Group hold no sovereign bonds issued by these countries. Direct lines to banks in Italy and Spain are restricted to systemically important banks.

The Group Economic Unit 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 economic capital (ICAAP). The VaR limit is the starting point for calculating economic capital. The regulatory 99% confidence interval, three-day VaR limit is transformed to a 99,93% confidence interval, one-year economic capital 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 regulatory capital measurement. In addition to VaR, stress testing is applied on a daily basis to identify exposure to extreme market moves.

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

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

Interest rate risk in banking book (IRRBB) capital

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

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

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.

However, in line with recent international developments post the global financial crisis Nedbank Group is investigating the merits of introducing a charge for economic capital based on stress testing of the incremental increase in the cost of funding (liquidity) arising from a stressed event.

A sophisticated and well-resourced Asset and Liability Management (ALM) function, within 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 regulatory capital and so attracts a 100% risk weighting.

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

Nedbank Group's economic capital calculations for property risk are far more conservative than the 100% risk weight for regulatory capital, being aligned to the treatment under the Simple Risk Weight Approach applied under Basel II for equity risk, namely a 400% risk weighting.

Equity (investment) risk capital

Equity risk is the risk of decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to any investment itself (eg reputation, quality of management). Note that these investments are long-term as opposed to the holding of short-term positions that are covered under trading risk. The calculation of economic capital in Nedbank Group for equity (investment) risk is similar to property risk above.

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

The calculations of economic capital for equity (investment) risk are based on the same principles as for Basel 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.

The risk weight multipliers are currently set at 30% (300% x 10%) for listed equities and 40% (400% x 10%) for unlisted equities. These multipliers are applied to the investment exposures to derive the standalone economic capital figures. In line with moving to a bottom up approach, the Property Finance book investment risk economic capital is modelled using a PD/LGD Approach.

Foreign currency translation risk in the banking book capital

Foreign currency translation risk (FCTR) is the risk that the bank's exposures to foreign capital will lose value as a result of shifts in the exchange rate. As Nedbank Group is a rand-reporting entity 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 economic capital for FCTR, based on exchange rate volatility. FCTR is not required for Basel II Pillar 1 regulatory capital.

Business risk capital

Business risk is not specified for Basel II Pillar 1 regulatory capital. It is, however, measured in Nedbank Group's Economic Capital Model, in line with current best practice, which is an earnings volatility methodology.

Business risk is the risk caused by uncertainty in profits due to changes in the competitive environment that damage the franchise or operational economics of a business. In other words, it is the risk the bank faces due to fluctuations in earnings, readily observable and driven mainly by volumes, margins and fees. In the extreme, 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.

Economic capital 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 South African Reserve Bank for the use of the Advanced Measurement Approach (AMA), and now calculates its operational risk regulatory capital requirements using partial and hybrid AMA.

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

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

Other assets risk capital

For economic capital (ICAAP) purposes the same approach as for regulatory capital requirements is followed, namely 100% risk weighting in line with regulation 23 and the 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.

Nedbank Group's inter-risk correlation matrix was first developed in 2004, mainly using Oliver Wyman benchmarks. However, in 2006, with the building of various macro models as part of Nedbank Group's overall Macroeconomic Factor Model (MEFM) and its Stress and Scenario Testing Framework, the group revised the correlation matrix using empirical estimation and data, and the use of Nedbank Group specific factors. The inter-risk diversification matrix was independently validated in 2009 by Group Market Risk Monitoring with a favourable outcome and no major issues or concerns were raised.

The group 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.

Qualitative risks that cannot be mitigated by capital

Nedbank Group's Economic Capital 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 Economic Capital Framework, with two exceptions being reputational risk and liquidity risk.

By its nature, reputational risk is difficult to quantify and almost impossible to capitalise. This risk in essence arises when one or more of the other 17 key risks fail and so is indirectly captured therein. However, within the Operational Risk Framework the impact of events will include the cost of reputational risk. Reputational risk is managed within Nedbank 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 economic capital) 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; and
- 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 later in this report.

The last source of uncertainty is model risk and that the models may not accurately measure the risk. The validation around Nedbank 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 Executive Credit Committee (ECC), as explained from page 64.

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, Balance Sheet Management, 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, ECC meetings), and are always overlaid with common sense, business logic and management's experience.

In conclusion, there will always be a degree of uncertainty related to the accuracy of models and their correct estimation of risk – and 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 enterprise-wide risk management.

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

Importantly though, one should not view Nedbank Group's economic capital as divorced from regulatory capital. On the contrary, the group's economic capital is an extension of the Basel II Pillar 1 requirements to incorporate Pillar 2, together with a few other key refinements tailored to Nedbank Group and South Africa, and to incorporate the Rating Agency perspective [eg Tier 2 regulatory capital does not qualify for the group's economic capital definition of available financial resources (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 Enterprise-wide Risk Management Framework (ERMF).

The Group Asset and Liability Committee (ALCO), in turn, is coordinated by the Balance Sheet Management 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, Basel II, Basel 2.5, International Financial Reporting Standards (IFRS) and other important parameters and financial data.

CAPM projects Basel II and economic capital requirements for the current year-end and the next three years. This also covers capital requirements, available capital resources, capital buffers, target capital ratios, earnings, impairments, dividend plan, any constraints or limits, risk appetite metrics and details 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 27. 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 economic capital 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 regulatory capital and economic capital, being regulatory capital. The capital allocation process to business clusters is then as follows:

Sourcing of regulatory capital		Capital allocation to business clusters for performance measurement
Tier 1 capital		
▪ Shareholders' equity (Core Tier 1)		Allocated as capital using bottom-up economic capital measurement. In 2011 any shortfall versus group regulatory capital will be addressed via the allocation of a capital buffer to the businesses (capped at 10% core tier 1).
▪ 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, economic capital allocation and sound management of the capital buffers. This is achieved by integrating risk-based capital into the group's strategy and aligning this with management's performance measurement, through established governance and management structures, the formal strategic planning process, performance scorecards and as set out in the group's Risk-adjusted Performance Measurement 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 adequacy

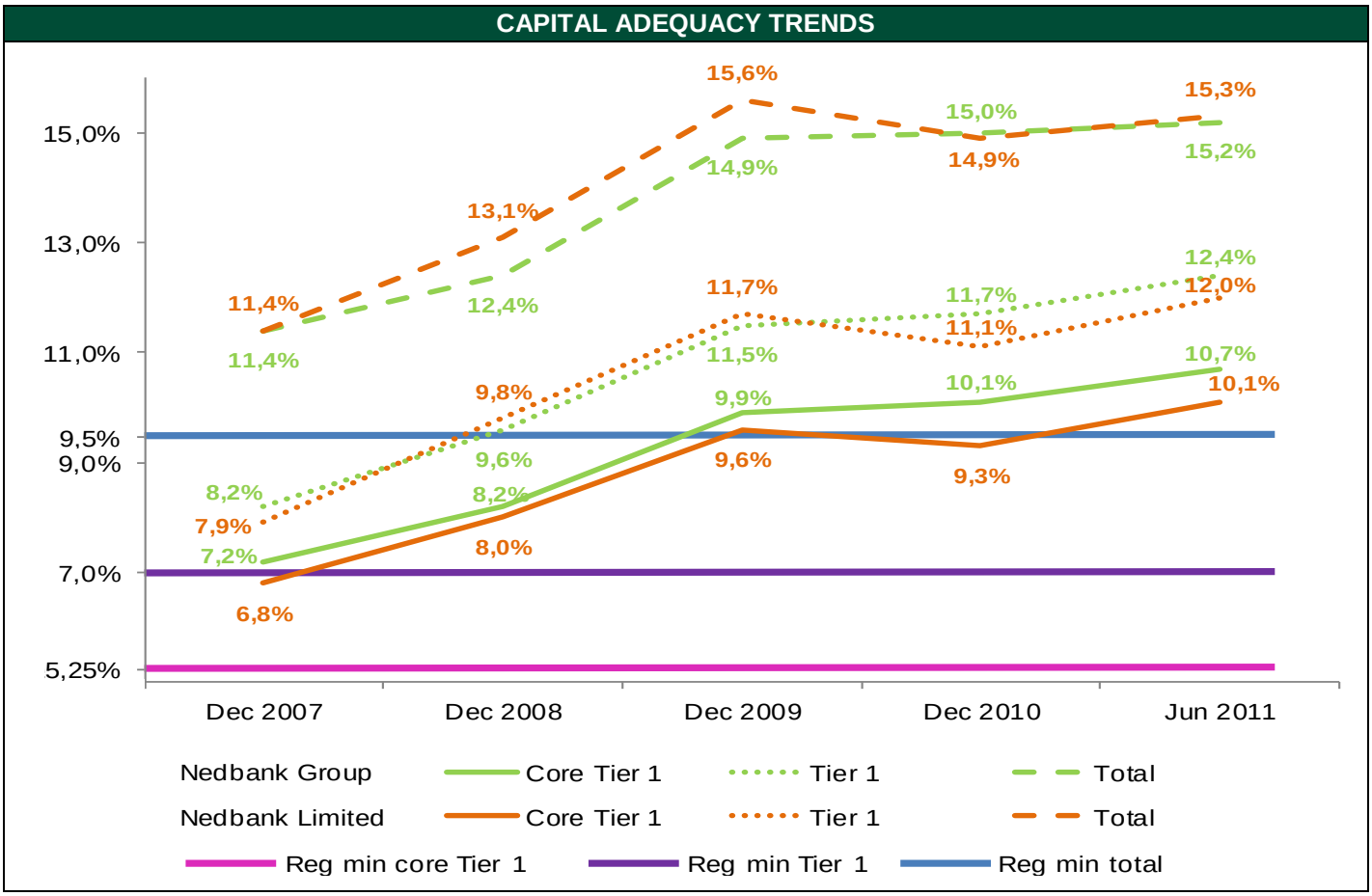
Capital adequacy is strong relative to Nedbank Group's business activities, strategy, risk profile and the external environment in which it operates.

Comprehensive business planning is integrated with long-run capital planning, stress testing and active capital management across a well-diversified banking group.

The current expected (base case) three-year projections to 31 December 2013 reflect further strengthening of capital adequacy and are well above the target capital ranges at both the group and bank levels, both for internal economic capital adequacy and regulatory capital.

The quality and diversification of Nedbank Limited's capital base is sound, as reflected by its core Tier 1, Tier 1 and Tier 2 composition (refer page 55 for details). This includes a smooth, well-diversified debt maturity profile with 10 subordinated-debt issues totalling a nominal value of approximately R9,5 billion, with their maturities appropriately spread over 2012 to 2017.

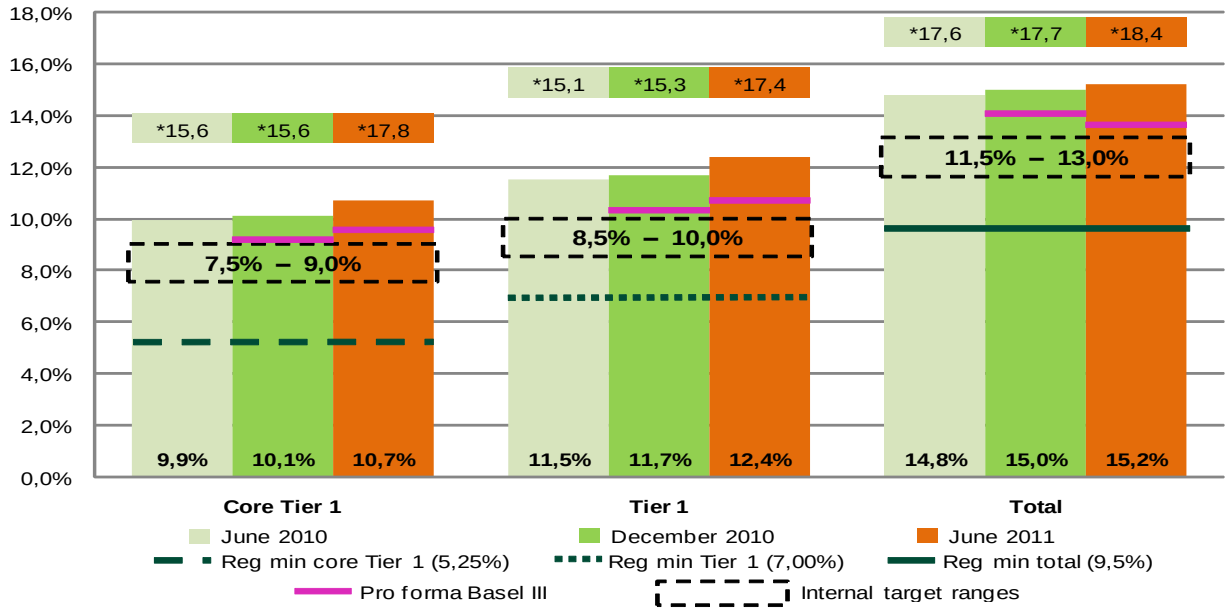
The graph below shows Nedbank Group's capital adequacy ratios (CARs), from December 2007 to June 2011.



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's CARs strengthened since December 2010 due to a R451 million increase in ordinary share capital from the vesting of shares under the black economic empowerment (BEE) and management share structures, strong organic earnings and further RWA optimisation, including a R4,0 billion reduction in market risk RWA with the adoption from January 2011 of the Internal Model Approach (IMA) approved by the South African Reserve Bank (SARB).

NEDBANK GROUP REGULATORY CAPITAL ADEQUACY

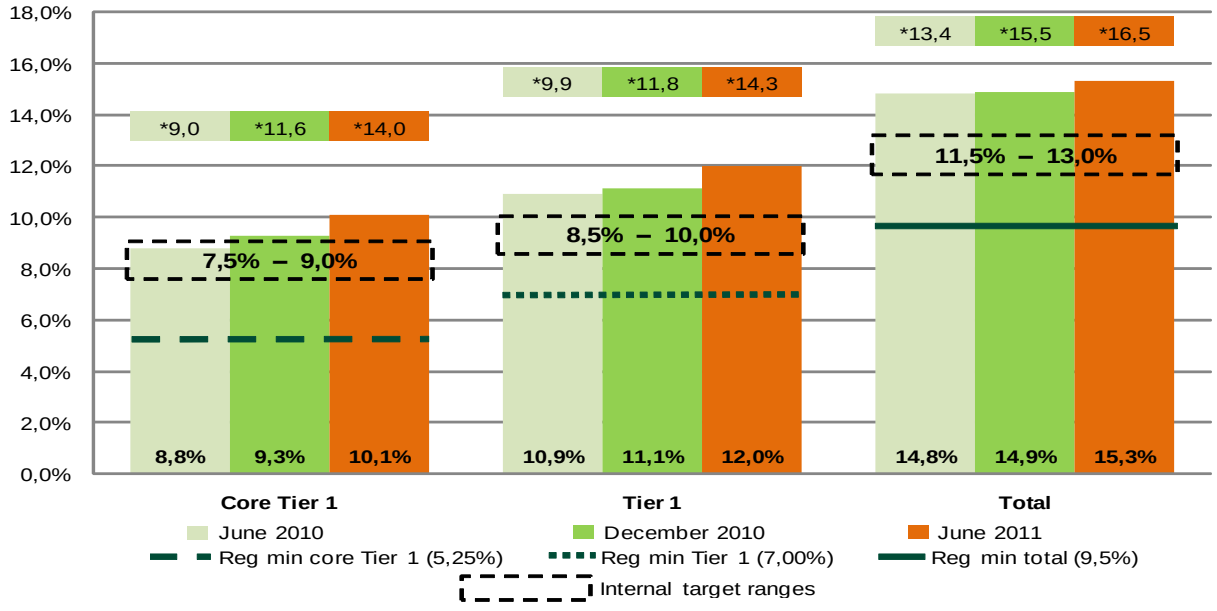


** Surplus (R billion) above regulatory minima including unappropriated profits (Note the Total ratio surplus has been restated to give effect to the SARB directive in August 2011 to not disclose Pillar 2b add-ons and so show the minimum capital requirement at 9,5%. June 2010 and December 2010 Total surplus is restated as these numbers now exclude the impact of the capital floor and other additional requirements.).*

The group's capital ratios remain well above the group's internal targets in preparation for Basel III, being 10,7% core Tier 1 (December 2010: 10,1%; June 2010: 9,9%), 12,4% Tier 1 (December 2010: 11,7%; June 2010: 11,5%) and 15,2% Total (December 2010: 15,0%; June 2010: 14,8%). The ratios include unappropriated profits at the end of the half-year to the extent that these are not expected to be reversed and are expected to be appropriated subsequent to the end of the half-year.

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 at the point of non-viability before taxpayers are exposed to loss, all of which will be phased in from 2013 onwards, as well as in consideration of Nedbank Group's high total CAR of 15,2%, the Nedbank Limited Tier 2 bond (Ned 5), amounting to R1,5 billion, was called in April 2011 without being replaced.

NEDBANK LIMITED REGULATORY CAPITAL ADEQUACY



** Surplus (R billion) above regulatory minima including unappropriated profits (Note the Total ratio surplus has been restated to give effect to the SARB directive in August 2011 to not disclose Pillar 2b add-ons and so show the minimum capital requirement at 9,5%. June 2010 and December 2010 Total surplus is restated as these numbers now exclude the impact of the capital floor and other additional requirements.).*

Nedbank Limited regulatory capital ratios also strengthened since December 2010 on the back of profitability and RWA optimisation to 10,1% core Tier 1 (December 2010: 9,3%; June 2010: 8,8%), 12,0% Tier 1 (December 2010: 11,1%; June 2010: 10,9%), 15,3% Total (December 2010: 14,9%; June 2010: 14,8%).

The impact of the new Basel III capital requirements is expected to be manageable for Nedbank Group, given existing strong capital ratios and the high quality of core Tier 1 equity. On a Basel III pro forma basis for 30 June 2011 the group is in a position to easily absorb the Basel III capital implications, with all capital ratios remaining well above the top end of current internal target ranges.

These ratios should improve further by the end of 2013 from projected earnings and be well-positioned in the anticipated revised target ranges, even before considering the effects of capital and RWA optimisation and the impact of the group's portfolio tilt strategy.

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

Consolidation of entities for regulatory purposes is performed 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 insurance entities and the exclusion of trusts that are consolidated in terms of International Financial Reporting Standards (IFRS) but not currently subject to regulatory consolidation, which Nedbank Group anticipates will qualify in terms of Basel III, subject to limitations.

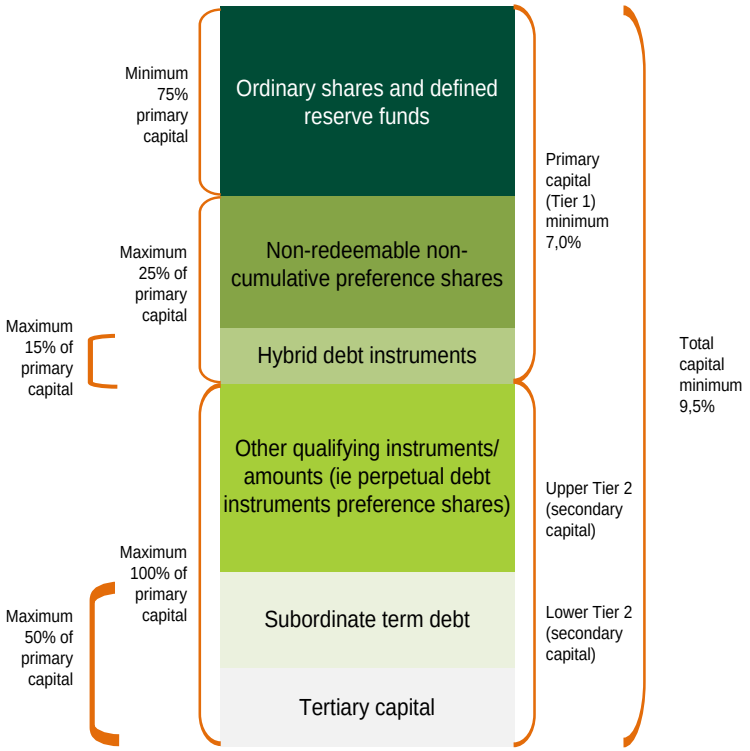
The FCT, SBP and AFS reserves that arise in the consolidation of entities in terms of IFRS amounted to R0,9 billion at the end of June 2011 (December 2010: R1,0 billion) and are currently excluded from qualifying regulatory capital. Restrictions on the transfer of funds and regulatory capital within the group are not a material factor. These restrictions mainly relate to those entities that operate in countries other than South Africa where there are exchange control restrictions in place.

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

QUALIFYING REGULATORY CAPITAL AND RESERVES

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

REGULATORY MINIMUM CAPITAL STRUCTURE



Summary of risk-weighted assets (by risk type and business cluster)

Nedbank Group	Jun 2011	Mix	Dec 2010	Mix
	Rm	%	Rm	%
Credit risk	**246 005**	**76,1**	246 793	76,3
Nedbank Capital	**27 677**	**8,6**	28 632	8,9
Nedbank Corporate	**73 565**	**22,7**	76 794	23,7
Nedbank Retail and Business Banking (RBB)	**137 570**	**42,5**	134 488	41,5
Nedbank Retail	**99 636**	**30,8**	97 483	30,1
Nedbank Business Banking	**37 934**	**11,7**	37 005	11,4
Nedbank Wealth	**6 347**	**2,0**	6 031	1,9
Central Management and Shared Services	**846**	**0,3**	848	0,3
Equity risk	**15 150**	**4,7**	13 273	4,1
Market risk	**3 897**	**1,2**	7 339	2,3
Operational risk	**45 007**	**13,9**	43 415	13,4
Other assets	**13 503**	**4,2**	12 861	3,9
Total RWA	**323 562**	**100,0**	323 681	100,0

Nedbank Group's total RWA decreased by R119 million since December 2010. This is mainly due to negative growth in gross loans and advances of 1,4% and RWA optimisation, as discussed earlier.

Summary of risk weighted assets and capital adequacy position

	NEDBANK GROUP				NEDBANK LIMITED***			
Risk type	Jun 2011		Dec 2010		Jun 2011		Dec 2010	
Rm	**RWA**	**Minimum Capital Requirement***	RWA	Minimum Capital Requirement*	**RWA*****	**Minimum Capital Requirement***	RWA	Minimum Capital Requirement*
Credit risk	**246 005**	**23 370**	246 793	23 445	**224 317**	**21 310**	225 719	21 443
Credit portfolios subject to the Advanced Internal Ratings-based (AIRB) Approach	**188 928**	**17 948**	188 610	17 918	**177 466**	**16 859**	176 680	16 785
Corporate, sovereign, bank, SME****	**104 940**	**9 969**	106 312	10 100	**94 569**	**8 984**	95 545	9 077
Residential mortgages	**44 871**	**4 263**	46 305	4 399	**43 779**	**4 159**	45 141	4 288
Qualifying revolving retail	**9 126**	**867**	8 489	806	**9 126**	**867**	8 490	807
Other retail	**29 991**	**2 849**	27 504	2 613	**29 992**	**2 849**	27 504	2 613
Credit portfolios subject to the Standardised Approach	**54 155**	**5 145**	52 771	5 013	**43 958**	**4 176**	43 694	4 151
Corporate, sovereign, bank, SME	**17 072**	**1 622**	17 645	1 676	**10 632**	**1 010**	12 111	1 151
Retail exposures	**37 083**	**3 523**	35 126	3 337	**33 326**	**3 166**	31 583	3 000
Counterparty credit risk (Current Exposure Method)	**2 246**	**213**	4 543	432	**2 217**	**211**	4 476	425
Securitisation exposures (Internal Ratings-based Approach)	**676**	**64**	869	83	**676**	**64**	869	83
Equity risk (Market-based Simple Risk Weight Approach)	**15 150**	**1 439**	13 273	1 261	**12 190**	**1 158**	10 829	1 029
– Listed (300% risk weighting)	**1 637**	**156**	1 605	152	**1 625**	**154**	1 596	152
– Unlisted (400% risk weighting)	**13 513**	**1 284**	11 668	1 108	**10 565**	**1 004**	9 233	877
Market risk (Internal Model Approach)	**3 897**	**370**	7 339	697	**2 771**	**263**	6 373	605
Operational risk (Advanced Measurement Approach)	**45 007**	**4 276**	43 415	4 124	**36 910**	**3 506**	35 693	3 391
Other assets (100% risk weighting)	**13 503**	**1 283**	12 861	1 222	**10 250**	**974**	9 721	923
Total risk weighted assets	**323 562**		323 681		**286 438**		288 335	
Total minimum regulatory capital requirements*		**30 738**		30 750		**27 212**		27 392
Total qualifying capital and reserves**		**49 129**		48 419		**43 743**		42 860
Total surplus capital over minimum requirements		**18 391**		17 669		**16 531**		15 468
Analysis of total surplus capital**								
Core Tier 1		**17 768**		15 603		**13 983**		11 571
Tier 1		**17 418**		15 250		**14 282**		11 838
Total		**18 391**		17 669		**16 531**		15 468

** Minimum regulatory requirement measured at 9,5%. December 2010 numbers have been restated to exclude the impact of capital floor and other additional requirements.*

*** Includes unappropriated profits.*

**** Nedbank Limited refers to the SA reporting entity in terms of Regulation 38 (BA700) of the SA banking regulations.*

***** SME = Small and medium-sized enterprises.*

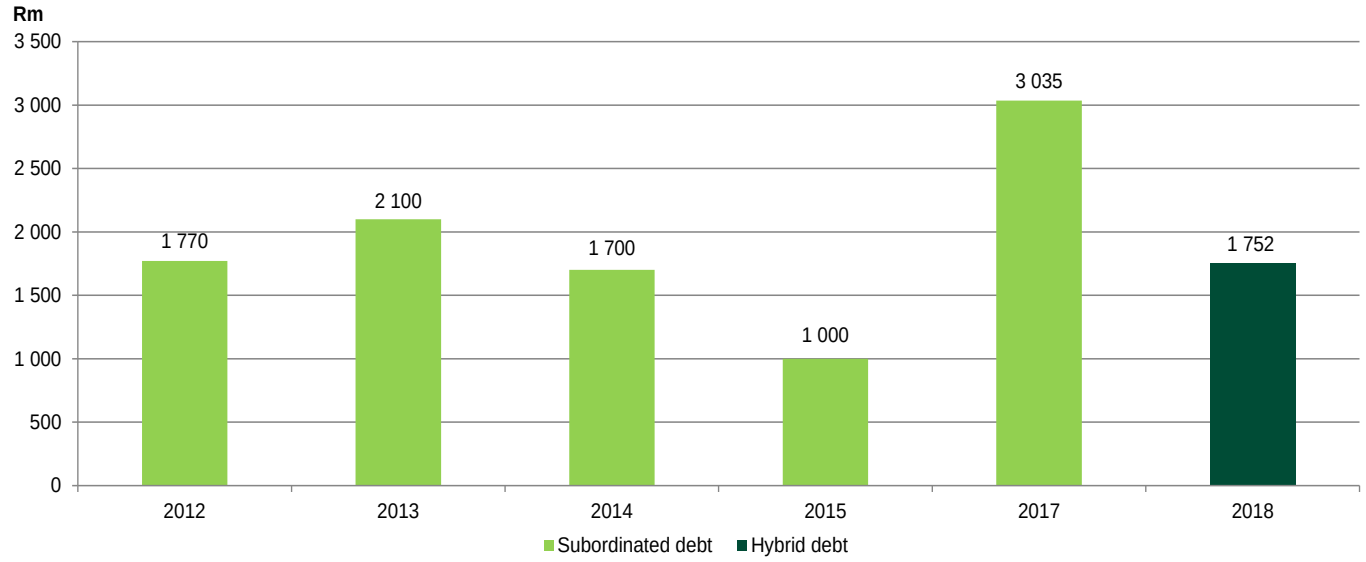
****** Restated.*

Summary of qualifying capital and reserves

	NEDBANK GROUP		NEDBANK LIMITED	
Rm	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010
EXCLUDING UNAPPROPRIATED PROFITS				
Tier 1 capital (primary)	**37 636**	36 861	**32 134**	31 249
Core Tier 1 capital	**32 324**	31 549	**26 822**	25 937
Ordinary share capital	**454**	449	**27**	27
Ordinary share premium	**15 968**	15 522	**14 434**	14 434
Reserves	**29 600**	28 130	**18 923**	17 605
Minority interest: ordinary shareholders	**146**	153		
Deductions	**(13 844)**	(12 705)	**(6 562)**	(6 129)
Impairments	**(10)**	(10)	**(264)**	(720)
Goodwill	**(4 958)**	(4 945)	**(1 410)**	(1 410)
Capitalised software development costs	**(2 026)**	(1 998)	**(1 972)**	(1 936)
Other intangibles	**(519)**	(544)		
Excess of expected loss over eligible provisions (50%)	**(765)**	(866)	**(790)**	(869)
Unappropriated profits	**(2 510)**	(1 217)	**(2 277)**	(942)
AFS reserves	**(90)**	(98)	**(9)**	(9)
FCT reserves	**(66)**	20	**(9)**	(9)
SBP reserves	**(755)**	(949)	**947**	557
Property revaluation reserves	**(1 133)**	(1 146)	**(738)**	(747)
Capital held in insurance entities (50%)	**(602)**	(562)		
Other regulatory differences	**(410)**	(390)	**(40)**	(44)
Non-core Tier 1 capital	**5 312**	5 312	**5 312**	5 312
Preference share capital and premium	**3 560**	3 560	**3 560**	3 560
Hybrid debt capital instruments	**1 752**	1 752	**1 752**	1 752
Tier 2 capital (secondary)	**9 061**	10 511	**9 410**	10 839
Long-term debt instruments	**9 501**	11 000	**9 499**	10 998
Revaluation reserves (50%)	**566**	573	**369**	374
Deductions	**(1 006)**	(1 062)	**(458)**	(533)
Capital held in insurance and financial entities (50%)	**(602)**	(562)		
Excess of expected loss over eligible provisions (50%)	**(765)**	(866)	**(790)**	(869)
General allowance for credit impairment	**401**	410	**372**	380
Other regulatory differences	**(40)**	(44)	**(40)**	(44)
Total capital	**46 697**	47 372	**41 544**	42 088
INCLUDING UNAPPROPRIATED PROFITS*				
Core Tier 1 capital	**34 756**	32 596	**29 021**	26 709
Tier 1 capital (primary)	**40 068**	37 908	**34 333**	32 021
Total capital	**49 129**	48 419	**43 743**	42 860

** Includes unappropriated profits, adjusted for Tier 2 debt interest obligations.*

NEDBANK GROUP'S SUBORDINATED DEBT AND NON-CORE TIER 1 MATURITY PROFILE*



** The subordinated debt is based on call dates and not maturity dates and values are based on book values.*

Dividend cover

The group has a dividend cover policy range of 2,25 to 2,75 covered by headline earnings per share, with an average dividend cover of 2,30 times for 2010. For the six months to 30 June 2011 dividend cover was 2,32 times.

Summary of regulatory capital adequacy of all banking subsidiaries

A summary of all the group's banking subsidiaries' Basel II regulatory capital positions is provided below:

	Jun 2011		Dec 2010	
Bank	**RWA**	**Total capital ratio**	RWA	Total capital ratio
	Rm	**%**	Rm	%
Nedbank Limited (including unappropriated profits)	**286 438**	**15,3**	288 335	14,9
Nedbank Limited (excluding unappropriated profits)	**286 438**	**14,5**	288 335	14,6
Nedbank Namibia Limited*	**5 213**	**14,2**	5 067	13,5
Fairbairn Private Bank (IOM) Limited*	**1 850**	**17,7**	1 729	18,2
Fairbairn Private Bank Limited*	**1 289**	**17,2**	1 400	14,7
Nedbank (Swaziland) Limited*	**1 847**	**14,9**	1 290	20,2
Nedbank (Lesotho) Limited*	**1 003**	**23,7**	984	20,6
MBCA Bank Limited*	**746**	**16,1**	761	15,3
Nedbank (Malawi) Limited*	**162**	**36,8**	232	22,8

** Ratio reported based on host country requirements.*

The capitalisation of all these banking entities is deemed adequate, all have conservative risk profiles, and are managed and monitored within the group's Enterprise-wide Risk Management Framework and Internal Capital Adequacy Assessment Process (ICAAP).

Summary of solvency of insurance subsidiaries

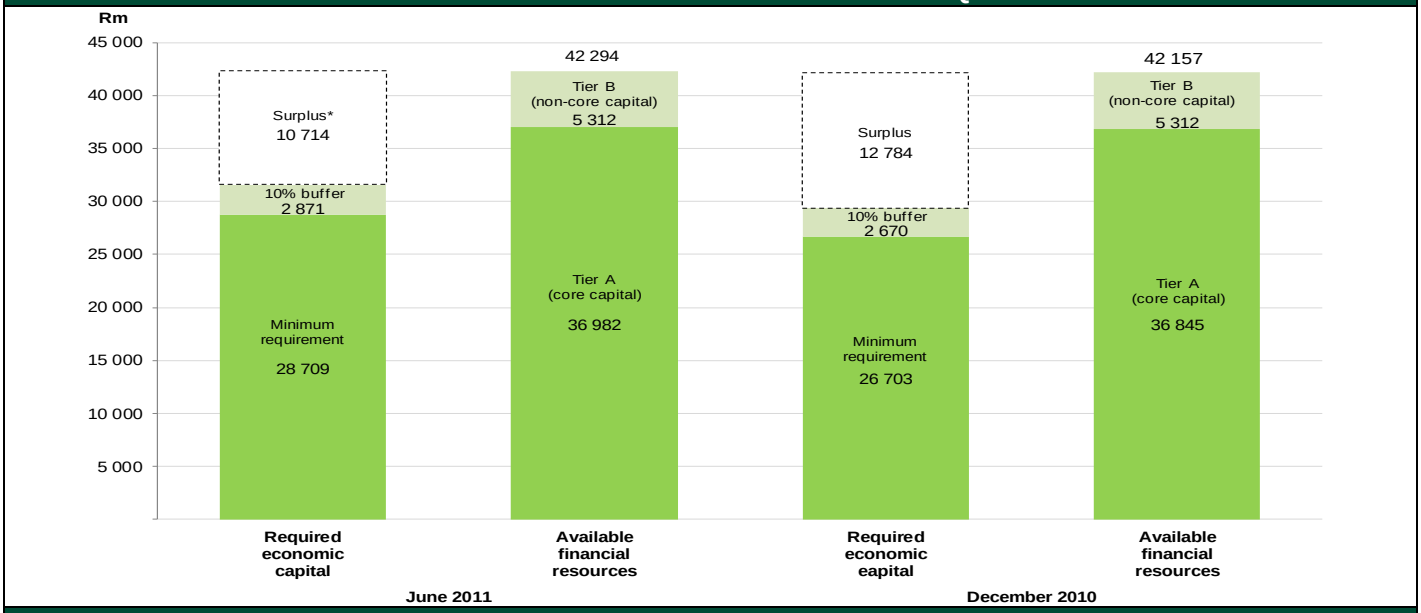
The new solvency assessment and management (SAM) requirements, South Africa's version of Solvency II, are expected to be implemented in 2014, with revised measurements in respect of which the concept of risk-based capital is similar to that in Basel II.

SOLVENCY RATIOS			
	Regulatory minimum	**Jun 2011**	Dec 2010
Long-term insurance (Nedgroup Life)	1,00x	**4,00x**	4,00x
Short-term insurance (Nedgroup Insurance Company)	1,25x	**1,38x**	1,38x

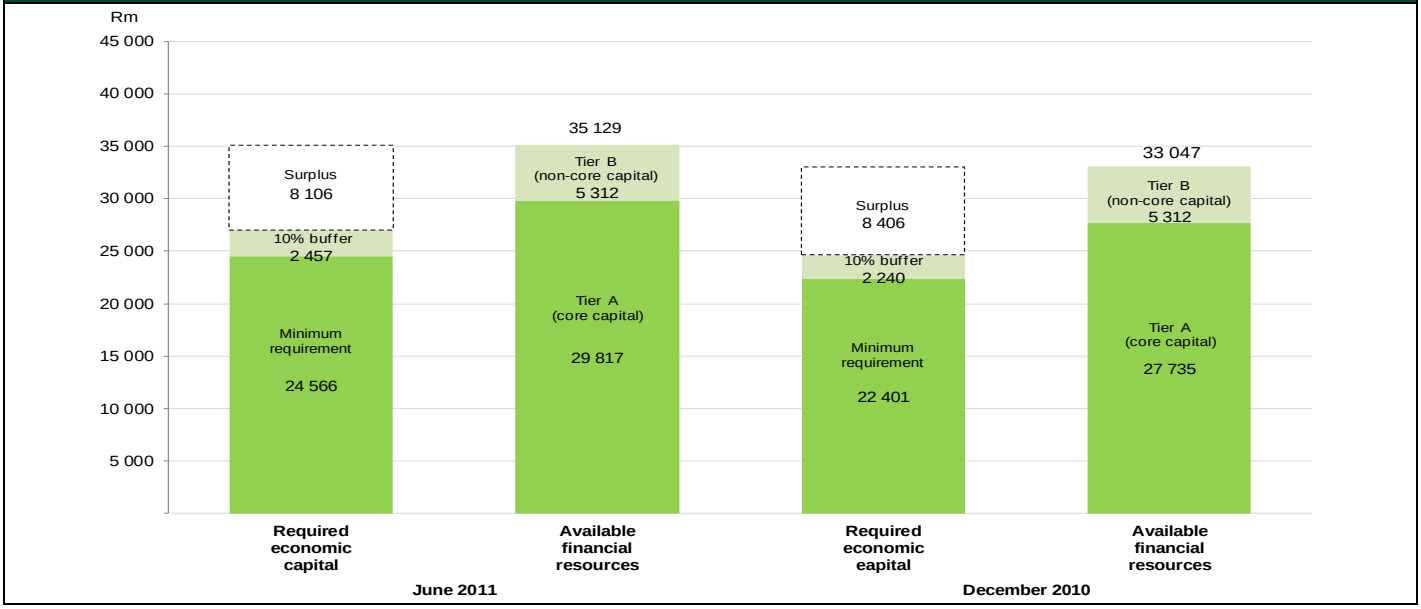
Economic capital adequacy and ICAAP

Nedbank Group's economic capital methodology has been summarised on page 41. Set out below is a summary of the group's economic capital adequacy and capital allocation to the business clusters:

NEDBANK GROUP ECONOMIC CAPITAL ADEQUACY



NEDBANK LIMITED ECONOMIC CAPITAL ADEQUACY



** Sharp drop in Nedbank Group surplus was mainly due to credit risk methodology changes implemented in 2011 resulting in a R1,9 billion increase in total economic capital requirement (including 10% buffer) compounded by a R1,2 billion decrease in AFR.*

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

The annual group ICAAP 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.

The board's conclusion on ICAAP is that it remains satisfied that the capital (both regulatory capital and economic capital, the internal capital assessment) and liquidity levels are appropriate, that both Nedbank Group Limited 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 Internal Liquidity Adequacy Assessment Process (ILAAP) report supports this view].

All risk and balance sheet methodologies and models are reviewed regularly to ensure they remain in line with best industry practice and regulatory developments.

ECONOMIC CAPITAL REQUIREMENTS (BY RISK TYPE) AND AVAILABLE FINANCIAL RESOURCES

	Nedbank Group		Nedbank Limited	
Rm	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010
Credit risk	**18 044**	15 488	**16 637**	14 285
Securitisation risk	**10**	18	**19**	23
Transfer risk	**84**	89	**27**	22
Market risk	**3 453**	3 340	**2 312**	2 248
Trading risk	**448**	424	**348**	348
Interest rate risk in the banking book (IRRBB)	**22**	27	**19**	23
Property risk	**1 453**	1 436	**1 190**	1 169
Investment risk	**1 477**	1 421	**755**	708
Foreign currency translation (FCT) risk	**53**	32		
Business risk	**4 355**	4 715	**3 580**	3 778
Operational risk	**1 985**	1 997	**1 593**	1 599
Insurance risk	**184**	192		
Other assets risk	**594**	864	**398**	446
Minimum economic capital requirement	**28 709**	26 703	**24 566**	22 401
Capital buffer (10%)	**2 871**	2 670	**2 457**	2 240
Total economic capital requirement	**31 580**	29 373	**27 023**	24 641
Available financial resources	**42 294**	42 157	**35 129**	33 047
*Tier A capital (core capital)**	**36 982**	36 845	**29 817**	27 735
Tier B capital (non-core capital)	**5 312**	5 312	**5 312**	5 312
Surplus available after capital buffer**	**10 714**	12 784	**8 106**	8 406

* *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.*

** *Comparable pro forma AFR surplus for the group at June 2011 excluding the impact of credit risk methodology changes summarised in the highlights section on page 9:*

Add back: Impact of credit risk methodology changes on total economic capital requirement	*1 875*
Add back: Impact of credit risk methodology changes on AFR	*1 224*
Surplus available excluding the impact of 2011 credit risk methodology changes	*13 813*

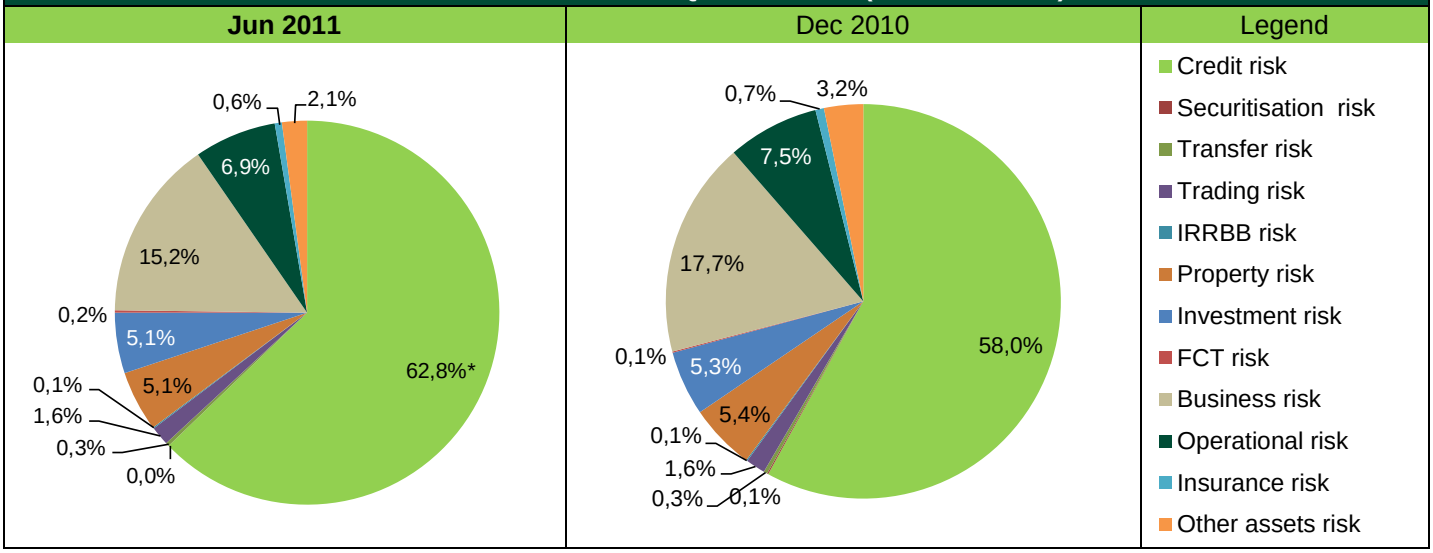
Total economic capital requirements (including 10% buffer) increased by R2,2 from R29,4 billion in December 2010 to R31,6 billion in June 2011, largely due to the impact of the credit risk methodology change applied to the Home Loans portfolio within the Retail cluster.

AFR increased by only R137 million mainly due to the credit risk methodology change that also increased expected loss, which reduced the excess of IFRS provisions over expected loss (100%), offset by half-year profits and additional BEE and employee share scheme capital.

In conclusion, Nedbank Group's economic capital adequacy remains strong at its A (99,93%) target debt rating (solvency standard), with a surplus at group level of R10,7 billion. This is after the implementation of the methodology

enhancements previously mentioned and providing for a 10% economic capital buffer, the adequacy of which is confirmed by sophisticated stress testing and the group's ICAAP.

ECONOMIC CAPITAL REQUIREMENTS (BY RISK TYPE)



Restated.

AVAILABLE FINANCIAL RESOURCES

Rm	Nedbank Group Jun 2011	Nedbank Group Dec 2010	Nedbank Limited Jun 2011	Nedbank Limited Dec 2010
Tier A capital	**36 982**	36 845	**29 817**	27 735
Ordinary share capital and premium	**16 422**	15 971	**14 461**	14 461
Minority interest: ordinary shareholders	**146**	153		
Reserves	**29 600**	28 130	**18 923**	17 590
Retained income	**20 810**	16 924	**10 946**	10 564
Unappropriated profits	**2 510**	1 217	**2 277**	942
Distributable reserves	**4 130**	7 692	**5 891**	5 891
Non-distributable reserves	**106**	124		
AFS reserves	**90**	98	**9**	(6)
FCT reserves	**66**	(20)	**(947)**	(557)
SBP reserves	**755**	949	**9**	9
Property revaluation reserves	**1 133**	1 146	**738**	747
Deductions	**(9 246)**	(9 225)	**(3 803)**	(4 324)
Impairments	**(10)**	(10)	**(144)**	(451)
Capitalised software development costs	**(2 026)**	(1 998)	**(1 972)**	(1 936)
Other intangibles	**(519)**	(544)	**(119)**	(270)
Goodwill	**(4 958)**	(4 945)	**(1 410)**	(1 410)
Subordinated-debt portion of unappropriated profits	**(78)**	(170)	**(78)**	(170)
First loss credit enhancement in respect of securitisation scheme (100%)	**(80)**	(88)	**(80)**	(88)
Capital held in insurance and financial entities (100%)	**(1 204)**	(1 124)		
Other adjustments	**(371)**	(346)		
Excess of IFRS provisions over expected loss (100%)*	**60**	1 816	**236**	9
Tier B capital	**5 312**	5 312	**5 312**	5 312
Preference shares	**3 560**	3 560	**3 560**	3 560
Hybrid debt capital instruments	**1 752**	1 752	**1 752**	1 752
Total AFR	**42 294**	42 157	**35 129**	33 047

** 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.*

Risk-based capital allocation to business clusters

The group is capitalised at the higher of regulatory and economic capital, currently being regulatory capital. The group's equity included in its return on equity (ROE) calculation is allocated to the business clusters using the group's sophisticated economic capital framework.

Risk-based economic capital 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' contribution to economic profit (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 through-the-cycle expected loss.

As discussed in the Highlights section on page 9, further enhancements have been made in 2011 to the group's methodology for allocating capital to its businesses. Overall the move to 'full tail' allocation resulted in higher capital allocation for lumpy wholesale portfolios and lower capital allocation for homogenous retail portfolios. Pro-rata allocation of the capital buffer also resulted in the Retail Cluster consuming a larger proportion of the capital buffer as a result of the significant increased economic capital consumption by the Home Loans portfolio within Retail.

A summary of the economic capital allocation by business cluster is presented below. The group is capitalised at the higher of regulatory and economic capital (ie excluding capital buffer), currently being regulatory capital. The group's equity included in its ROE calculation (refer page 41) is allocated to the business clusters using the group's sophisticated Economic Capital Framework. The capital buffer allocated is increased to align the total economic capital allocated with the group's statutory capital.

SUMMARY OF ECONOMIC CAPITAL ALLOCATION (BY BUSINESS CLUSTER)*

Rm	Nedbank Group	Nedbank Capital	Nedbank Corporate	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Nedbank Wealth	Central Management
Jun 2011								
Credit risk	18 044	1 555	3 364	12 473	10 345	2 128	639	13
Securitisation risk	10	10						
Transfer risk	84	58	26					
Market risk	3 453	1 224	560	199	192	7	90	1 380
Trading risk	448	423	23				2	
IRRBB risk	22	2	4	15	12	3	1	
Property risk	1 453		43	179	175	4	7	1 224
Investment risk	1 477	773	483	5	5		64	152
FCT risk	53	26	7				16	4
Business risk	4 355	698	632	2 738	2 260	478	287	
Operational risk	1 985	530	516	828	408	420	50	61
Insurance risk	184						184	
Other assets risk	594	35	84	161	156	5	42	272
Minimum economic capital requirement	**28 709**	**4 110**	**5 182**	**16 399**	**13 361**	**3 038**	**1 292**	**1 726**
Capital buffer**	17 313	1 086	1 369	4 321	3 518	803	244	10 293
Total capital allocated	**46 022**	**5 196**	**6 551**	**20 720**	**16 879**	**3 841**	**1 536**	**12 019**
Dec 2010								
Credit risk	15 488	1 239	3 194	10 552	8 961	1 591	492	11
Securitisation risk	18	18						
Transfer risk	89	66	23					
Market risk	3 340	1 161	532	235	229	6	83	1 329
Trading risk	424	424						
IRRBB risk	27	2	6	18	15	3	1	
Property risk	1 436		38	212	209	3	10	1 176
Investment risk	1 421	721	483	5	5		61	151
FCT risk	32	14	5				11	2
Business risk	4 715	711	835	2 910	2 412	498	259	
Operational risk	1 997	546	504	799	596	203	85	63
Insurance risk	192						192	
Other assets risk	864	32	93	191	184	7	57	491
Minimum economic capital requirement	**26 703**	**3 773**	**5 181**	**14 687**	**12 382**	**2 305**	**1 168**	**1 894**
Capital buffer**	17 398	1 342	2 109	6 683	5 715	968	314	6 950
Total capital allocated	**44 101**	**5 115**	**7 290**	**21 370**	**18 097**	**3 273**	**1 482**	**8 844**

* *The economic capital numbers disclosed in this table are at 30 June 2011 and not year to date averages as disclosed in the operational segmental reporting.*

** *Unallocated buffer included in Central Management. The increase in the capital buffer retained in Central Management in 2011 is largely the result of a bigger impact of the application of a 10% core Tier 1 capital allocation cap due to strengthening group CARs. The major components of the buffer held in the Centre are goodwill, intangibles and excess capital over and above the 10% core Tier 1 capital cap.*

Cost of equity

Following a shift in the constituents of the cost of equity calculated using the Capital Asset Pricing Model, Nedbank Group revised its cost of equity to 13,00% at the beginning of 2011 (2010: 14,15%). The risk-free rate applied was the primary driver of this change with the 10-year point of the SA sovereign yield curve declining to 8,16% at 31 December 2010 (2009: 9,17%). The cost of equity is updated on an annual basis, using the closing risk-free rate from the prior year, but also reviewed quarterly.

CAPITAL ASSET PRICING MODEL				
	Risk-free rate (GSAB10YR index)	Beta	Equity risk premium	After-tax cost of ordinary shares*
	%		%	%
2010	9,17	0,90	5,50	14,15
2011	**8,16**	**0,90**	**5,40**	**13,00**

** Rounded.*

External credit ratings

Fitch Ratings

Old Mutual Group (OMG)

In May 2011 Fitch Ratings upgraded the long-term Issuer Default Rating (IDR) of Nedbank Group's parent, Old Mutual plc, to 'A-' from 'BBB+' and senior unsecured debt to 'BBB+' from 'BBB'. The outlooks on all of OMG's long-term IDRs and Insurer Financial Strength (IFS) ratings are 'stable'.

Nedbank Group and Nedbank Limited

In July 2011 Fitch reaffirmed the ratings of Nedbank Group and Nedbank Limited, the 100%-owned subsidiary of Nedbank Group.

The ratings of Nedbank Group and Nedbank Limited reflect the bank's intrinsic strength through its well established and improving domestic franchise.

FITCH RATINGS	NEDBANK GROUP	NEDBANK LIMITED
	July 2011	**July 2011**
Individual	C	C
Support	2	2
Foreign currency		
Short-term	F2	F2
Long-term	BBB	BBB
Long-term rating outlook	Stable	Stable
Local currency		
Long-term senior	BBB	BBB
Long-term rating outlook	Stable	Stable
National		
Short-term	F1+ (zaf)	F1+ (zaf)
Long-term	AA- (zaf	AA- (zaf)
Long-term rating outlook	Stable	Stable

Definitions:

Individual and support:

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

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

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

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

BBB = Good credit quality. Indicates that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate.
The modifiers '+' or '-' denote relative status within major categories.

National:

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

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

AA = Denotes a very strong credit risk relative to other issuers or issues in the same country.
The modifiers '+' or '-' denote relative status within major categories.

Moody's Investors Service

Moody's Investors Service (Moody's) reaffirmed the ratings of Nedbank Limited in July 2010.

MOODY'S INVESTORS SERVICE	NEDBANK LIMITED
	July 2010
Bank financial-strength rating	C-
Outlook – financial-strength rating	Stable
Global local currency – long-term deposits	A2
Global local currency – short-term deposits	Prime-1
Foreign currency – long-term bank deposits	A3
Foreign currency – short-term bank deposits	Prime-2
Outlook – foreign currency deposit rating	Stable
National scale rating – long-term deposits	Aa2.za
National scale rating – short-term deposits	Prime-1.za
Outlook – national scale rating	Stable

Definitions:

Bank financial-strength rating

C = Banks rated C possess good intrinsic financial strength. Typically, they will be institutions with valuable and defensible business franchises. These banks will demonstrate either acceptable financial fundamentals within a stable operating environment, or better than average financial fundamentals within an unstable operating environment.
Where appropriate, a '+' modifier is appended to ratings below the 'A' category and a '-' modifier will be appended to ratings above the 'E' category to distinguish those banks that fall in intermediate categories.

Long-term (capped by sovereign rating)

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

Aa = Obligations rated Aa are subject to very low credit risk and considered high-quality grade.
Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa.
The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.

Short-term

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

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

RISK MANAGEMENT

Nedbank Group's Enterprise-wide 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 subframeworks, including economic capital, 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 economic capital [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
	• Transfer (sovereign) risk	Own separate major risk category
	• Securitisation risk	Own separate major risk category
Counterparty Credit risk	✓ (integrated in 'credit risk')	✓
Transfer (sovereign) risk	✓ (integrated in 'credit risk')	✓
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 economic capital.
Market risks	Market risk in the trading book	✓
	Market risk in the banking book	✓
	• Interest rate risk in the banking book	✓
	• Foreign currency translation risk in the banking book	✓
	• Foreign exchange transaction risk	
	Investment risk	✓
	• Equity risk in the banking book	✓
	• Property risk	✓
Operational risks	Operational risk	✓
	Accounting and taxation risks	✓ (covered by operational risk)
	Compliance risk	✓ (covered by operational risk)
	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 economic capital.

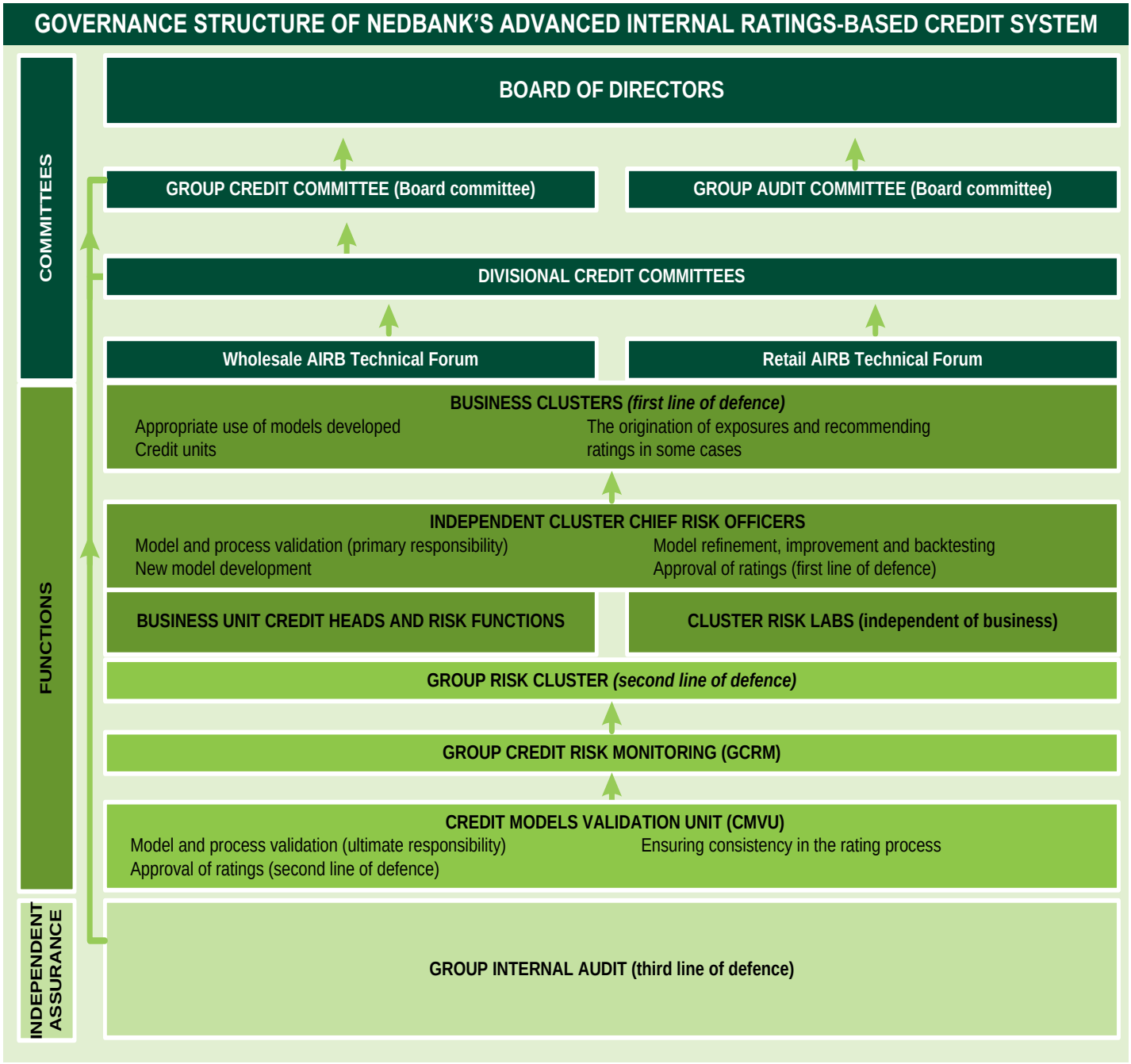
✓= included in Nedbank Group's Economic Capital Framework.

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

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



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 Ratings Committee which report into the Group Credit Committee (GCC).

At a Nedbank Group board of directors meeting in May 2011, the resolution was taken to streamline the GCC and the ECC into a single committee, with effect from 1 July 2011. This new committee is known as the Group Credit Committee (GCC) and is responsible for all functions previously carried out by the ECC and GCC. The new GCC will also be the 'designated committee' for Basel II AIRB Approach purposes, and comply with banking regulations.

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 a board committee chaired by a non-executive director. Current membership includes two non-executive directors and three executive directors.

In this regard the board and its 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) and the effective functioning of the GCC.

The technical understanding required of senior management is greater than that required at board level. Management must have a detailed understanding of the AIRB credit system and the reports it generates.

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

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

An independent Group Credit Risk Monitoring (GCRM) unit is part of Group Risk. It monitors the ongoing 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 Balance Sheet Management (BSM) has overall responsibility for the ongoing 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 economic capital quantification and EP performance measurement. Each cluster also has a cluster credit risk lab that is responsible for the ongoing 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, a committee of the board. 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 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 expected losses for credit risk.

Analytically, EL and UL are defined respectively as the average and one standard deviation from that average of the distribution of potential losses inherent in the 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 regulatory capital 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.

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 expected losses will be determined over the entire lifetime or over a fixed period will depend on the performance of the financial asset. 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, including fully performing loans.
Period of measurement	• Long-run historical average over whole economic cycle – through-the-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.
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 economic capital calculations.

Basel II also requires banks to base their LGD estimates for regulatory capital requirements on a downturn scenario (ie downturn LGD), rather than an average TTC loss estimate. Downturn LGD thus represents what could be expected in downturn economic conditions in the trough of a business cycle.

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 are based on emergence periods of 12 months or less. Specific impairments are estimated for the defaulted portfolio and added to portfolio impairments, which then constitute the total impairments for the credit portfolio. 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 risk-weighted assets.

In the case of the defaulted portfolio a best estimate of expected loss (BEEL) is calculated, which is in line with the specific impairment for that exposure. The BEEL or specific impairment takes the current economic and business conditions into regard as well as the counterparty's current circumstances. It is typically a PIT estimate. The downturn LGD 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 downturn LGD 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.

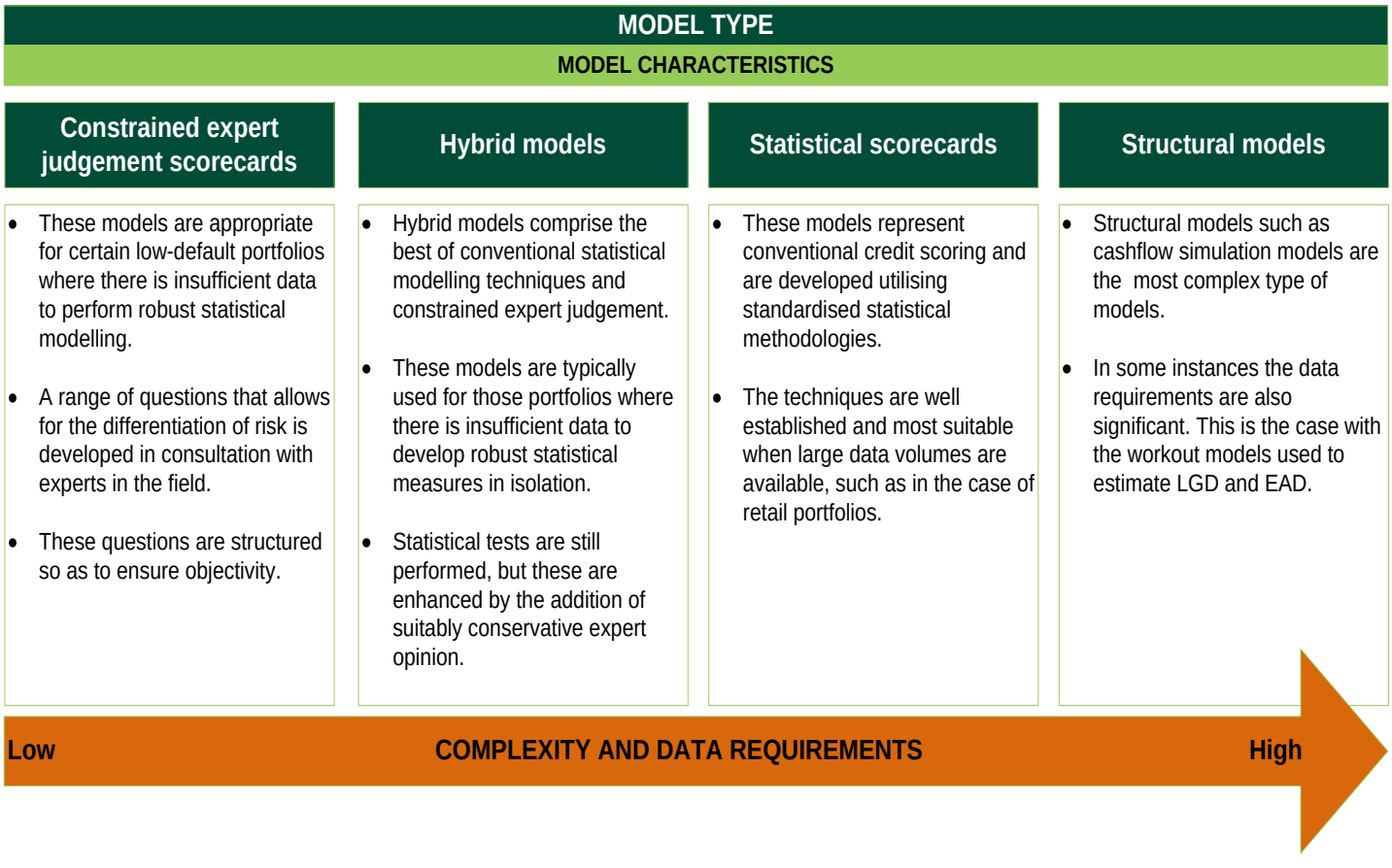
- Loss given default (LGD)

  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 economic capital 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 a governance process audit.

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



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

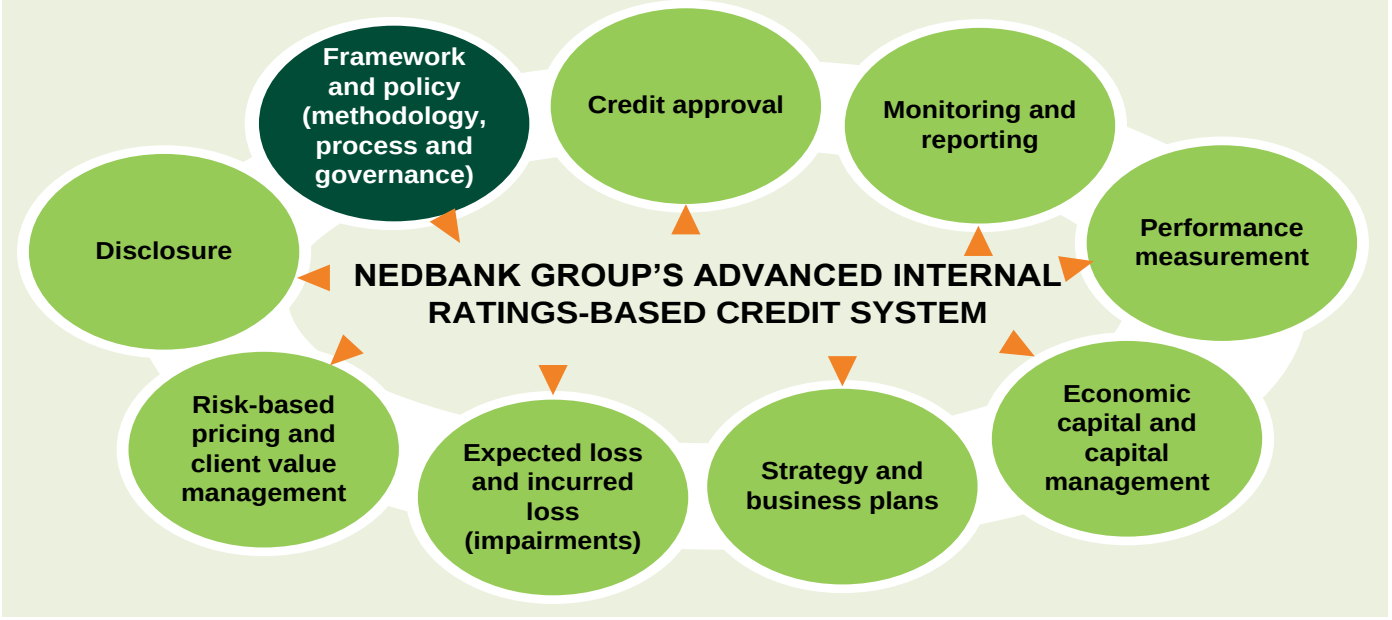
NATURE OF RATING SYSTEM			
WHOLESALE RATING SYSTEM		**RETAIL RATING SYSTEM**	
Asset classes	**Modelling approaches adopted**	**Asset classes**	**Modelling approaches adopted**
• Corporates • SME-Corporate • Banks • Sovereign • Specialised lending, comprising: - Project finance - Commodity finance - Income-producing 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.	• 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. • Structural 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, then 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 in this regard. 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, but it is expected that the group will finalise its own downturn estimates during 2011, based on data collected during the recent economic downturn.

The risk estimates generated from Nedbank Group's internal models are utilised across the credit process, as indicted 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 SA 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, and forms the cornerstone for sound credit risk management as it provides a firm framework for credit granting as well as the subsequent monitoring of credit risk exposures.

Credit risk approaches across the group

On a total credit extended basis, the majority of Nedbank Group (88%) is on the AIRB Approach, while the Imperial Bank, Fairbairn and Nedbank Group African subsidiaries' credit portfolios are on The Standardised Approach (TSA) (12%).

The use of internal rating models within these subsidiaries is encouraged as it is anticipated that a number of them will migrate to the AIRB Approach once they have developed the data history required to adopt the approach for the estimation of regulatory capital. Work is also progressing on migrating the legacy Imperial Bank portfolios to the AIRB Approach during 2011.

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 still utilising TSA.

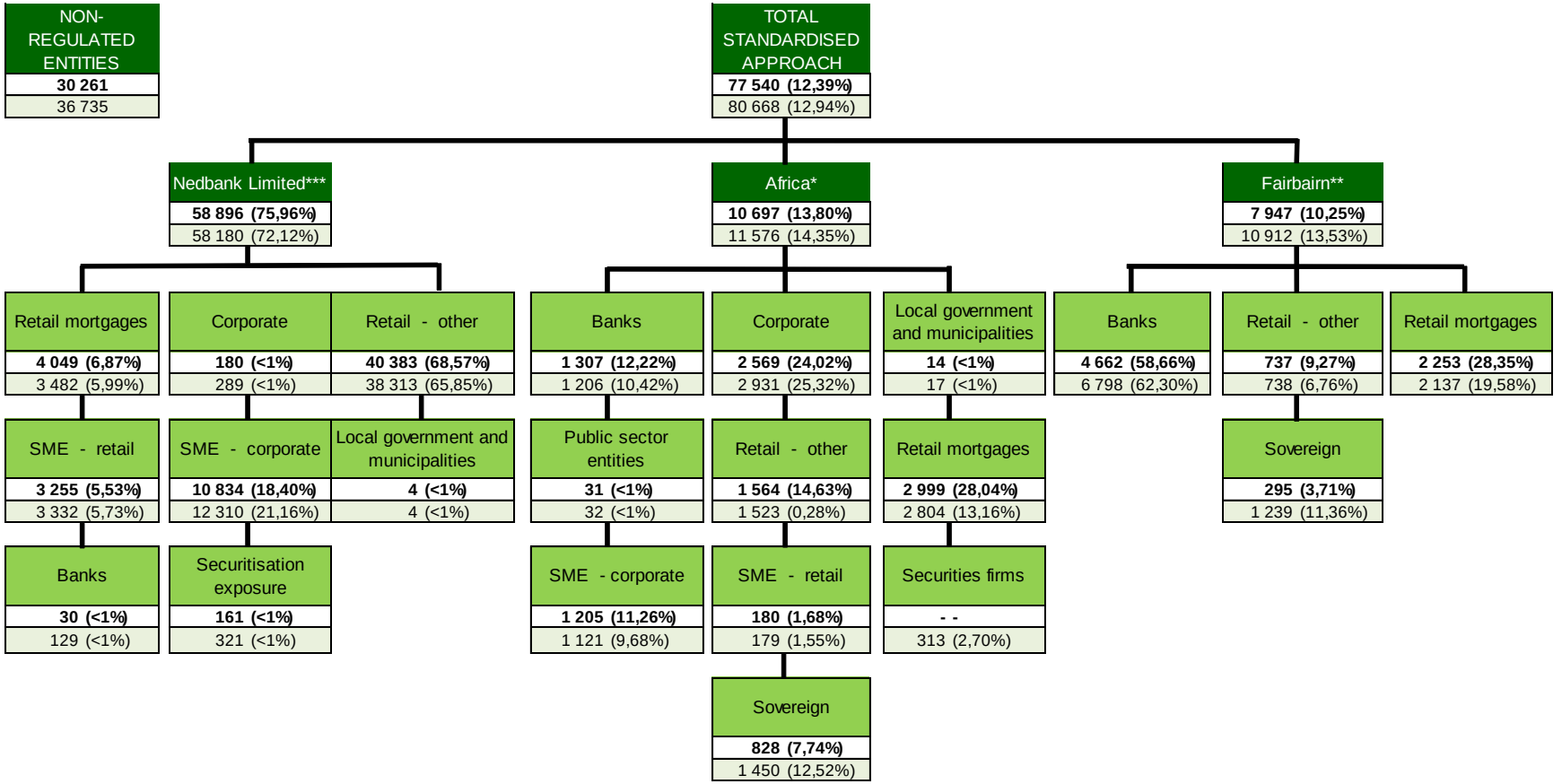
Roadmap of Nedbank Group's credit rating systems

The following diagrams provide an overview of the group's credit risk profile by business line and major Basel II asset class at 30 June 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 30 June 2011)



* Includes Namibia, Swaziland, Lesotho and Malawi.

** Includes Isle of Man and Jersey.

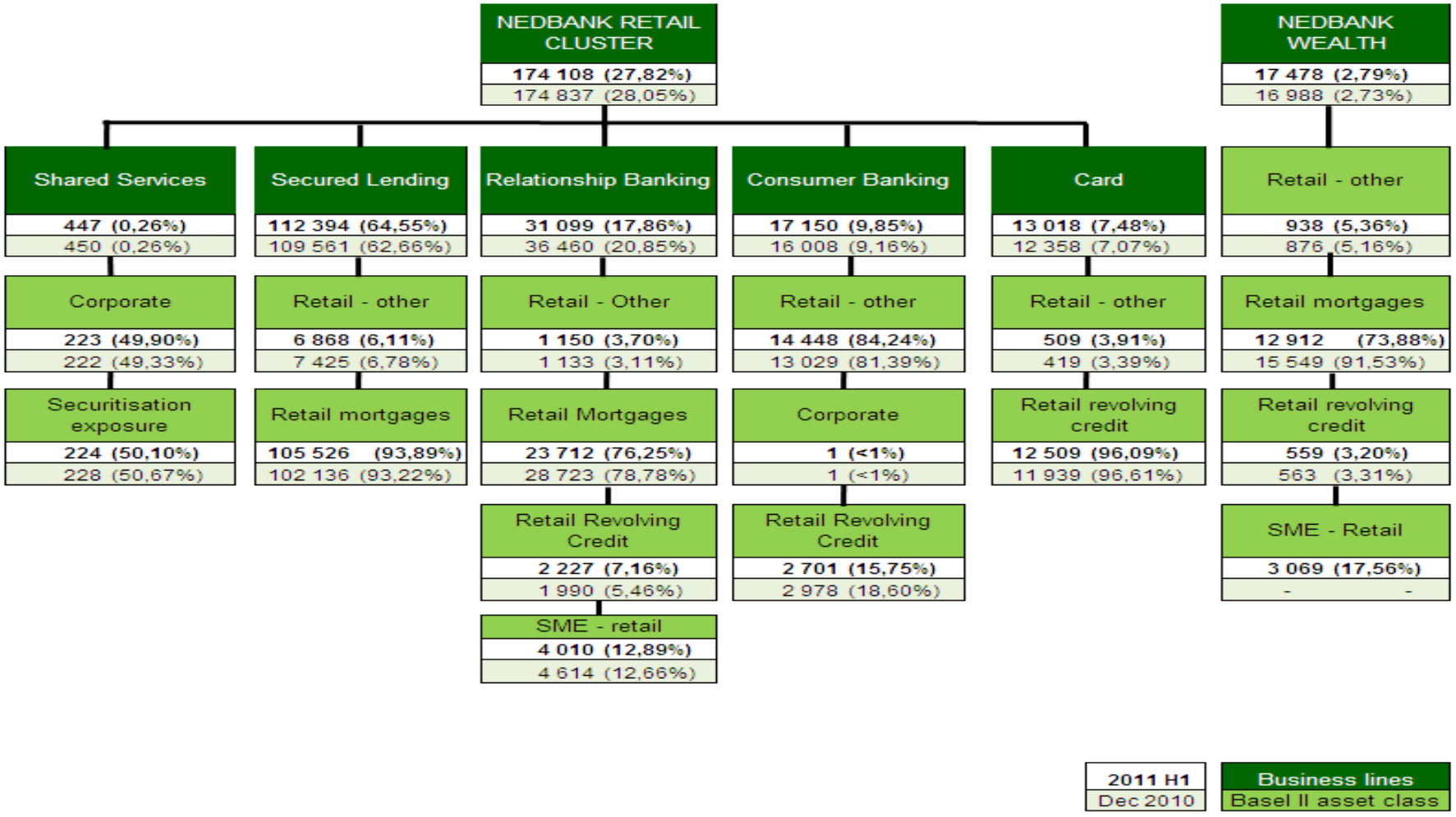
*** Legacy Imperial Bank Limited book.

2011 H1	Business lines
Dec 2010	Basel II asset

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

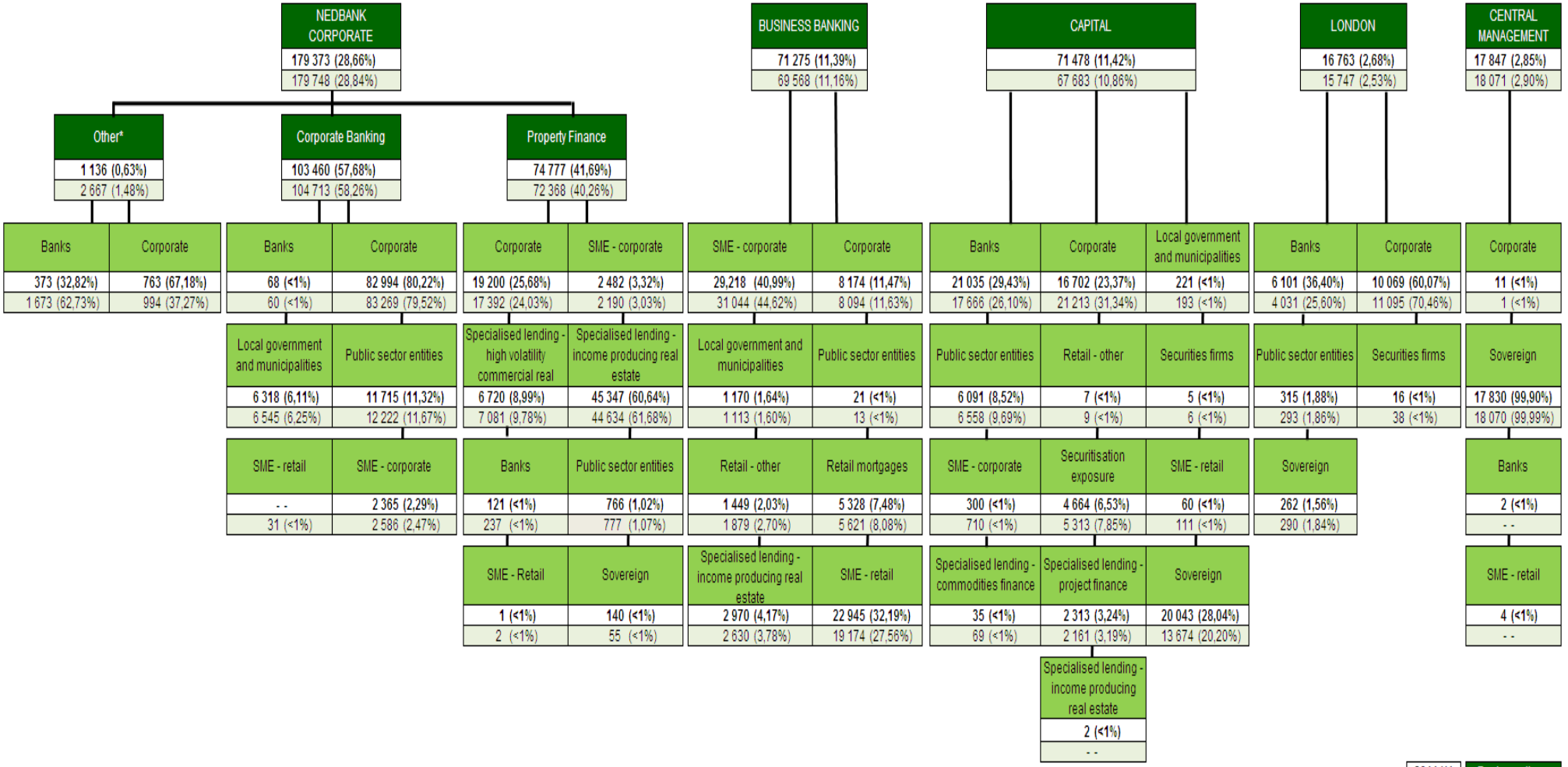
Rm (EAD basis at 30 June 2011)



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 at 30 June 2011)



* Includes centralised credit risk and finance.

Loans and advances

Global demand has slowed in 2011 as industrial production and consumer spending in China and other large emerging markets moderated due to tighter monetary conditions. In many developed markets the fragile recovery faltered as surging oil prices and reduced fiscal and monetary stimulus negatively impacted consumer confidence and spending. In addition, concerns remain about the scale and increasing cost of sovereign debt in many parts of Europe.

Locally, real GDP grew at an annualised rate of 4,8% in the first quarter of 2011. Conditions softened in the second quarter, with the mining and manufacturing sectors in particular having been impacted by the loss of momentum in global markets and the strong rand. Capacity utilisation and confidence levels remain low, resulting in limited demand for corporate credit.

In the retail sector household loan growth came mostly from continued demand for unsecured loans and instalment sales. Mortgage advances growth remained depressed as buyers continued to be cautious in line with the flat outlook for house prices, high levels of consumer debt and increases in living costs.

Given the weak global environment, domestic growth is largely dependent on further fixed-investment spending and an ongoing improvement in consumption levels.

Group net loans and advances decreased by 1,4% (annualised) to R472 billion (December 2010: R475 billion). Since June 2010 loans and advances increased by 2,3%.

Banking advances in Nedbank Capital declined 2,2% (annualised) and Nedbank Corporate's banking advances decreased by 3,9% (annualised). This reflects gross new advances offset by the effect of slow utilisation of credit facilities, early unscheduled repayments and delays in both public and private sector investment programmes. The pipelines in the wholesale banking areas remain strong and growth is expected to increase in the second half.

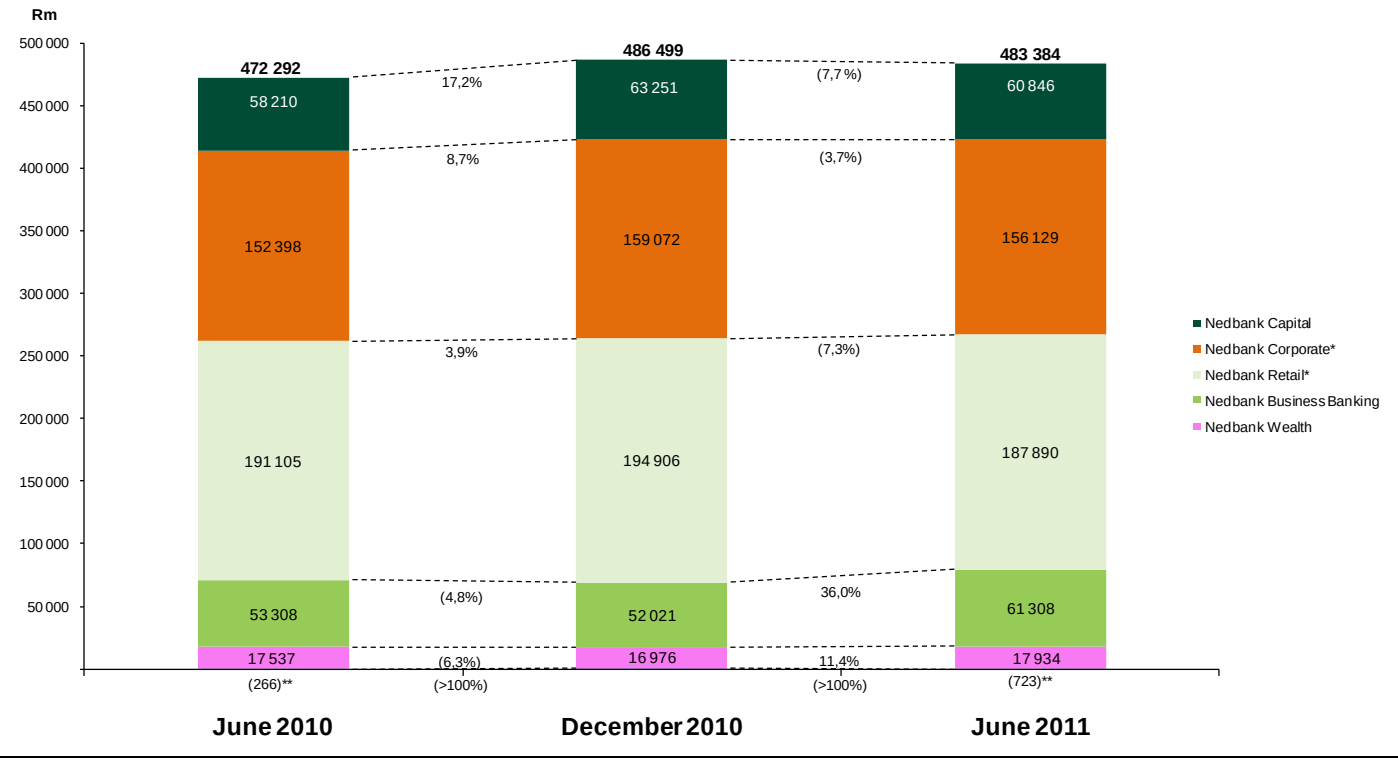
Nedbank Business Banking advances increased by 35,7% (annualised) and Nedbank Retail advances decreased by 7,9% (annualised) due to migrations from Nedbank Retail of R8,2 billion of former Imperial Bank, Supplier Asset Finance and Professional advances and R1,0 billion from Small Business Services under Retail Relationship Banking. Adjusting for these two movements, Business Banking advances have reduced by 0,8% (annualised) and Retail advances grew by 2,1% (annualised). Strategic rebalancing of the asset portfolio in Nedbank Retail, on a like-for-like basis, resulted in a decrease in home loans of 2,7% (annualised) and an increase in motor finance of 7,5% (annualised). Unsecured lending continued to grow with personal loans and card receivables increasing by 26,5% (annualised) and 13,6% (annualised) respectively.

The change in loans and advances by business cluster and by product are given in the following tables and graph:

SUMMARY OF LOANS AND ADVANCES BY BUSINESS CLUSTER

Rm	**Gross advances**	**Total impairments**	**Net advances Jun 2011**	Net advances Dec 2010	Net advances Annualised % change (Jun 2011 on Dec 2010)
Nedbank Capital	**60 846**	**388**	**60 458**	62 328	(6,1)
Nedbank Corporate	**156 129**	**1 439**	**154 690**	157 703	(3,9)
Total Nedbank Retail Business Banking (RBB)	**249 198**	**9 461**	**239 737**	238 099	1,4
Nedbank Retail	**187 890**	**7 896**	**179 994**	187 334	(7,9)
Nedbank Business Banking	**61 308**	**1 565**	**59 743**	50 765	35,7
Nedbank Wealth	**17 934**	**118**	**17 816**	16 869	11,3
Other	**(723)**	**60**	**(783)**	274	>(100)
Net loans and advances	**483 384**	**11 466**	**471 918**	475 273	(1,4)

GROSS LOANS AND ADVANCES BY BUSINESS CLUSTER



* *June 2010 restated to include Imperial Bank loans and advances.*

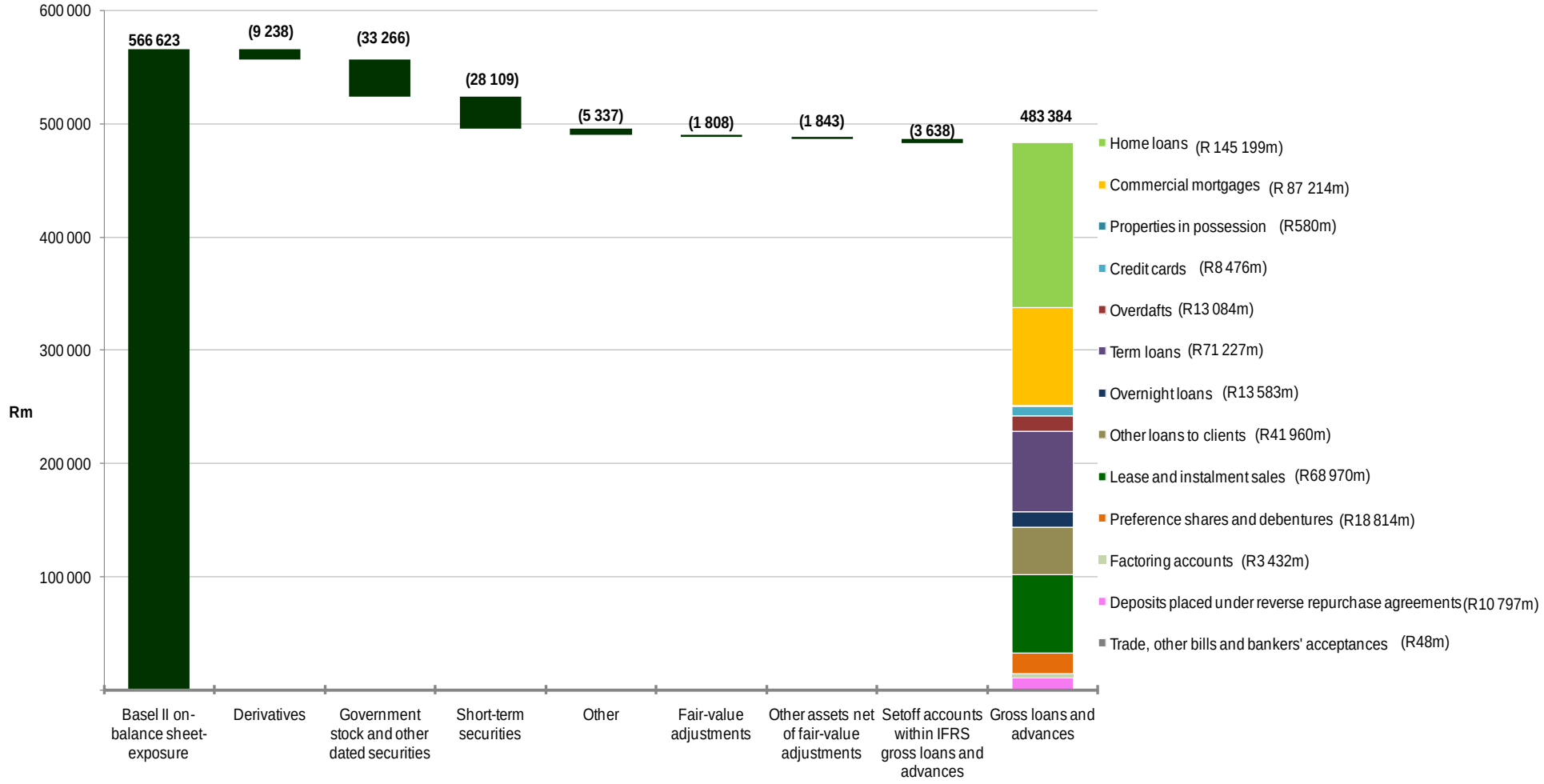
** *These relate to eliminations passed through Central Management.*

SUMMARY OF LOANS AND ADVANCES BY PRODUCT

Rm	Annualised % change (Jun 2011 on Dec 2010)	**Jun 2011**	Dec 2010
Home loans	(1,0)	**145 199**	145 895
Commercial mortgages	2,6	**87 214**	86 100
Properties in possession	(25,0)	**580**	662
Credit cards	14,4	**8 476**	7 910
Overdrafts	(3,4)	**13 084**	13 307
Term loans	(9,1)	**71 227**	74 605
Overnight loans	16,6	**13 583**	12 552
Other loans to clients	(4,4)	**41 960**	42 897
Leases and instalment debtors	3,2	**68 970**	67 881
Preference shares and debentures	(16,6)	**18 814**	20 499
Factoring accounts	14,4	**3 432**	3 202
Deposits placed under reverse repurchase agreements	(1,0)	**10 797**	10 849
Trade, other bills and bankers' acceptances	>(100)	**48**	140
Gross loans and advances	(1,3)	**483 384**	486 499
Impairments	4,3	**(11 466)**	(11 226)
Net loans and advances	(1,4)	**471 918**	475 273

The Basel II balance-sheet exposure at year-end is R567 billion (December 2010: R569 billion). The reconciliation of the Basel II exposure to gross loans and advances of R483 billion at 30 June 2011 is shown below.

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



Balance sheet credit exposure per Basel II asset class by business cluster**

Regulated Rm	Nedbank Capital*	Nedbank Corporate*	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Nedbank Wealth	Central Management	Jun 2011	Dec 2010
Advanced Internal Rating-based Approach (AIRB)	**92 061**	**140 723**	**195 850**	**141 889**	**53 961**	**12 659**	**17 846**	**459 139**	451 766
Corporate	**23 041**	**71 455**	**6 172**		**6 172**		**10**	**100 678**	101 652
Specialised lending – high-volatility commercial real estate		**6 252**						**6 252**	6 740
Specialised lending – income-producing real estate	**2**	**42 843**	**2 677**		**2 677**			**45 522**	43 936
Specialised lending – commodities finance	**34**							**34**	67
Specialised lending – project finance	**2 242**							**2 242**	2 097
SME – corporate	**247**	**3 776**	**21 339**		**21 339**			**25 362**	27 576
Public sector entities	**6 776**	**10 274**	**11**		**11**			**17 061**	17 158
Local governments and municipalities	**333**	**5 800**	**1 114**		**1 114**			**7 247**	7 343
Sovereign	**21 221**	**135**					**17 830**	**39 186**	31 854
Banks	**37 250**	**186**					**2**	**37 438**	37 515
Securities firms	**310**							**310**	114
Retail mortgages			**111 579**	**107 256**	**4 323**	**9 192**		**120 771**	124 883
Retail revolving credit			**9 207**	**9 207**		**67**		**9 274**	8 866
Retail – other	**6**	**1**	**23 958**	**22 578**	**1 380**	**766**		**24 731**	24 803
SME – retail	**43**	**1**	**19 569**	**2 624**	**16 945**	**2 634**	**4**	**22 251**	16 376
Securitisation exposure	**556**		**224**	**224**				**780**	786
The Standardised Approach (TSA)		**18 825**	**49 725**	**42 036**	**7 689**	**7 947**	**146**	**76 643**	79 623
Corporate		**2 569**	**61**	**4**	**57**		**116**	**2 746**	3 220
SME – corporate		**9 333**	**2 388**	**245**	**2 143**			**11 721**	13 054
Public sector entities		**31**						**31**	32
Local government and municipalities		**14**	**4**		**4**			**18**	21
Sovereign		**827**				**295**		**1 122**	2 689
Banks		**1 308**				**4 662**	**30**	**6 000**	8 132
Securities firms									313
Retail mortgages		**2 999**	**3 657**		**3 657**	**2 253**		**8 909**	8 424
Retail – other		**1 564**	**40 234**	**39 325**	**909**	**737**		**42 535**	39 971
SME – retail		**180**	**3 220**	**2 301**	**919**			**3 400**	3 446
Securitisation exposure			**161**	**161**				**161**	321
Properties in possession		**61**	**506**	**494**	**12**	**13**		**580**	662
Non-regulated entities	**18 270**	**10 877**	**2 429**	**2 025**	**404**	**532**	**(1 847)**	**30 261**	36 735
Balance-sheet exposure (Basel II)	**110 331**	**170 486**	**248 510**	**186 444**	**62 066**	**21 151**	**16 145**	**566 623**	568 786
Less assets included in Basel II asset classes	**(49 485)**	**(11 198)**	**1 167**	**1 446**	**(279)**	**(3 217)**	**(16 868)**	**(79 601)**	(79 033)
Derivatives	**(9 025)**	**(62)**				**(3)**	**(148)**	**(9 238)**	(14 526)
Government stock and other dated securities	**(10 708)**	**(4 728)**					**(17 830)**	**(33 266)**	(28 818)
Short-term securities	**(23 760)**	**(1 226)**				**(3 123)**		**(28 109)**	(25 764)
Call money	**(2 116)**	**(61)**	**156**	**156**		**(123)**		**(2 144)**	(1 263)
Deposits with monetary institutions	**(2 389)**	**(896)**					**(30)**	**(3 315)**	(1 556)
Remittances in transit	**2**	**69**	**51**	**48**	**3**			**122**	114
Fair-value adjustments		**(421)**	**(1 387)**	**(1 331)**	**(56)**			**(1 808)**	(2 305)
Other assets net of fair-value adjustments on assets	**(1 489)**	**(3 873)**	**2 347**	**2 573**	**(226)**	**32**	**1 140**	**(1 843)**	(4 915)
Setoff of accounts within IFRS total gross loans and advances		**(3 159)**	**(479)**		**(479)**			**(3 638)**	(3 254)
Gross loans and advances	**60 846**	**156 129**	**249 198**	**187 890**	**61 308**	**17 934**	**(723)**	**483 384**	486 499

* *Nedbank Corporate and Capital include London Branch (AIRB Approach).*

** *Balance sheet exposure includes on-balance-sheet exposure, repurchase and resale, and derivative exposures.*

Advanced Internal Ratings-based Approach for Nedbank Group

Through Nedbank Limited and London Branch 88% of the total credit extended in Nedbank Group is covered by the Basel II AIRB Approach, with the legacy Imperial Bank, Fairbairn and Nedbank Group African subsidiaries' credit portfolios on TSA as set out on page 85. Nedbank Limited intends to apply to the SARB for approval in 2012 to use the AIRB Approach for the legacy Imperial Bank book.

The results shown below include both the Nedbank Limited and London Branch exposure:

SUMMARY OF AIRB APPROACH
BASEL II CREDIT EXPOSURES BY BUSINESS CLUSTER AND ASSET CLASS**

Jun 2011 Rm	AIRB on-balance-sheet exposure	AIRB off-balance-sheet exposure	Repurchase and resale exposure	Derivative exposure	Total credit extended*	Exposure at default (EAD)	Downturn expected loss (performing)	Best estimate of expected loss (non-performing)
Nedbank Capital	**72 363**	**8 316**	**10 768**	**8 930**	**100 377**	**86 039**	**134**	**214**
Corporate	19 079	567	2 262	1 700	23 608	21 833	93	214
Specialised lending – income-producing real estate				2	2	2		
Specialised lending – commodities finance	34				34	35		
Specialised lending – project finance	2 242				2 242	2 313	14	
SME – corporate	42			205	247	300	4	
Public sector entities	5 455		667	654	6 776	6 406		
Local governments and municipalities	143			190	333	221		
Sovereign	20 151	15	1 001	69	21 236	20 305	1	
Banks	24 659	2 412	6 530	6 061	39 662	29 873	21	
Securities firms	2	13	308		323	21		
Retail – other				6	6	7		
SME – retail				43	43	60	1	
Securitisation exposure	556	5 309			5 865	4 663		
Nedbank Corporate	**140 723**	**58 832**			**199 555**	**181 574**	**337**	**684**
Corporate	71 455	50 123			121 578	105 157	145	196
Specialised lending – high volatility commercial real estate	6 252	468			6 720	6 720	41	349
Specialised lending – income-producing real estate	42 843	1 222			44 065	45 347	110	88
SME – corporate	3 776	1 231			5 007	4 847	21	51
Public sector entities	10 274	2 803			13 077	12 481	18	
Local governments and municipalities	5 800	472			6 272	6 318	2	
Sovereign	135				135	140		
Banks	186	2 512			2 698	562		
Retail – other	1				1	1		
SME – retail	1	1			2	1		
Total Nedbank RBB	**195 850**	**56 324**			**252 174**	**245 383**	**2 852**	**6 386**
Corporate	6 172	2 696			8 868	8 397	47	89
Specialised lending – income-producing real estate	2 677	247			2 924	2 970	8	5
SME – corporate	21 339	8 617			29 956	29 218	169	260
Public sector entities	11	16			27	21		
Local governments and municipalities	1 114	12			1 126	1 170		
Retail mortgages	111 579	19 368			130 947	134 566	798	2 973
Retail revolving credit	9 207	16 085			25 292	17 438	578	696
Retail – other	23 958	1 897			25 855	24 424	978	1 598
SME – retail	19 569	7 386			26 955	26 955	274	765
Securitisation exposure	224				224	224		
Nedbank Retail	**141 889**	**37 270**			**179 159**	**174 108**	**2 387**	**5 403**
Corporate		223			223	223	6	
Retail mortgages	107 256	18 136			125 392	129 238	762	2 849
Retail revolving credit	9 207	16 085			25 292	17 438	578	696
Retail – other	22 578	1 789			24 367	22 975	968	1 417
SME – retail	2 624	1 037			3 661	4 010	73	441
Securitisation exposure	224				224	224		
Nedbank Business Banking	**53 961**	**19 054**			**73 015**	**71 275**	**465**	**983**
Corporate	6 172	2 473			8 645	8 174	41	89
Specialised lending – income-producing real estate	2 677	247			2 924	2 970	8	5
SME – corporate	21 339	8 617			29 956	29 218	169	260
Public sector entities	11	16			27	21		
Local governments and municipalities	1 114	12			1 126	1 170		
Retail mortgages	4 323	1 232			5 555	5 328	36	124
Retail – other	1 380	108			1 488	1 449	10	181
SME – retail	16 945	6 349			23 294	22 945	201	324
Nedbank Wealth	**12 659**	**3 155**			**15 814**	**17 478**	**40**	**88**
Retail mortgages	9 192	2 719			11 911	12 912	26	74
Retail revolving credit	67	218			285	559	3	1
Retail – other	766	110			876	938	6	13
SME – retail	2 634	108			2 742	3 069	5	
Central Management	**17 840**			**6**	**17 846**	**17 847**	**1**	**36**
Corporate	10				10	11		36
Sovereign	17 830				17 830	17 830	1	
Banks				2	2	2		
SME – retail				4	4	4		
Total excluding intercompany	**439 435**	**126 627**	**10 768**	**8 936**	**585 766**	**548 321**	**3 364**	**7 408**
Downturn expected loss (AIRB Approach)								10 772
IFRS impairment on loans and advances								9 242
Excess of downturn expected loss over eligible provisions								**1 530**

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

*** Results shown include Nedbank Limited and London branch.*

Nedbank Limited excluding London Branch exposure comprises 85% of the group's total credit extended. Shown below is a summary of Nedbank Limited's distribution of key AIRB parameters at a total level and retail and wholesale asset classes. This is followed by an analysis of the Nedbank Limited portfolio by residual contractual maturity. The Nedbank Limited AIRB portfolio shown below excludes both the legacy Imperial Bank book, and London branch.

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

PD bands	Exposure (EAD)	EAD weighted average PD	EAD weighted average dLGD	dEL	EAD weighted average risk weight
June 2011	**Rm**	**%**	**%**	**%**	**%**
NGR 01*					
NGR 02*					
NGR 03	50 004	0,02	13,1	0,00	4
NGR 04	32 202	0,03	29,0	0,01	8
NGR 05	14 437	0,04	21,6	0,01	5
NGR 06	19 429	0,06	21,1	0,01	11
NGR 07	18 490	0,08	26,9	0,02	13
NGR 08	11 775	0,11	30,0	0,03	19
NGR 09	10 525	0,16	30,7	0,05	24
NGR 10	19 924	0,23	26,8	0,06	23
NGR 11	21 279	0,32	27,6	0,09	30
NGR 12	29 730	0,45	27,4	0,12	38
NGR 13	30 721	0,64	21,1	0,13	27
NGR 14	48 465	0,91	22,5	0,20	31
NGR 15	57 133	1,28	19,3	0,25	30
NGR 16	35 998	1,81	21,7	0,39	40
NGR 17	17 939	2,56	28,8	0,74	55
NGR 18	18 576	3,62	26,4	0,96	52
NGR 19	10 369	5,12	38,6	1,98	71
NGR 20	27 711	7,24	27,6	2,00	73
NGR 21	6 424	10,24	29,2	2,99	81
NGR 22	6 285	14,48	29,7	4,30	92
NGR 23	3 844	20,48	38,8	7,95	126
NGR 24	5 166	28,96	26,3	7,62	106
NGR 25	3 991	40,96	33,3	13,63	124
DEFAULT	19 594	100	25,4	36,03	37
Sub-total	**520 011**	**5,71**	**23,9**	**1,90**	**33**
Slotting Exposure**	6 755				
Securitisation*	4 886				
Total EAD	**531 652**				
Intercompany balances	27 842				
EAD net of intercompany	559 494				

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

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

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

ANALYSIS OF PORTFOLIOS - WHOLESALE (AS AT JUNE 2011)																
Risk Grade		**Corporate**				**SME Corporate**				**Public Sector Entities**				**Local Government and Municipalities**			
	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**
	%	**R'000**	**Rm**	**%**	**%**	**R'000**	**Rm**	**%**	**%**	**R'000**	**Rm**	**%**	**%**	**R'000**	**Rm**	**%**	**%**
Performing																	
1																	
2																	
3	0,02									384	13 459	14,27	4,75				
4	0,03	2 357	22 929	34,26	8,47					199	4 684	14,64	6,36	83	2 200	13,54	6,63
5	0,04	343	3 102	27,68	6,91	3	16	51,68	9,61		2	29,66	4,66				
6	0,06	2 578	21 660	20,88	9,23	73	350	36,79	16,50					308	3 971	13,62	10,26
7	0,08	3 719	17 240	26,96	12,27	4	25	19,18	15,23			17,20	6,08	99	918	13,52	12,88
8	0,11	3 402	10 423	28,89	19,59	51	196	22,86	10,57								
9	0,16	4 525	9 325	30,33	24,65	322	668	30,08	23,88								
10	0,23	8 884	15 824	24,84	25,80	416	595	30,94	28,59					64	165	17,20	26,96
11	0,32	12 470	12 614	30,89	43,00	572	1 106	16,17	15,50			34,30	24,74	182	335	17,02	28,26
12	0,45	24 989	18 899	29,19	47,11	2 554	2 678	21,05	28,20					7	10	17,20	19,25
13	0,64	18 564	14 654	19,79	36,51	3 111	2 161	22,49	33,98								
14	0,91	34 088	16 077	23,43	45,54	9 445	4 387	23,79	40,33					8	5	16,46	28,79
15	1,28	22 740	8 812	20,16	48,95	13 298	4 273	24,31	45,86					34	15	17,05	47,17
16	1,81	35 645	9 486	20,76	53,38	19 650	4 298	25,26	53,16					47	15	17,20	54,64
17	2,56	26 527	4 603	22,51	68,40	31 353	4 641	26,39	59,82					18	4	17,20	44,23
18	3,62	12 142	1 388	24,17	67,55	30 327	3 276	25,57	63,14								
19	5,12	13 304	1 150	22,60	84,94	28 280	2 384	23,17	63,10								
20	7,24	112 005	5 411	28,58	95,52	20 847	1 411	20,39	65,12	1 664	184	12,60	45,18	1 262	71	24,49	90,66
21	10,24	28 054	1 330	20,60	88,57	8 928	361	24,14	84,12								
22	14,48	17 087	698	16,89	79,09	2 342	74	21,89	94,84								
23	20,48	12 957	208	30,46	158,37	8 204	117	34,20	153,19	16 243	264	30,02	176,51				
24	28,96	156	3	17,80	106,97	11 737	181	22,38	109,40								
25	40,96	33 775	169	48,78	269,71	2 282	28	19,59	89,69								
Default	100	**628 172**	**2 103**	**28,41**	**124,97**	**311 283**	**1 139**	**29,28**	**151,78**								
Total	**5,71**	**1 058 483**	**198 108**	**26,15**	**33,54**	**505 082**	**34 365**	**24,43**	**51,98**	**18 490**	**18 593**	**14,58**	**8,00**	**2 112**	**7 709**	**13,93**	**11,62**

** The corporate asset class includes corporate and specialised lending asset classes.*

ANALYSIS OF PORTFOLIOS - WHOLESALE (AS AT JUNE 2011) continued…													
Risk Grade		Sovereigns				Banks				Securities Firms			
	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
	%	R'000	Rm	%	%	R'000	Rm	%	%	R'000	Rm	%	%
Performing													
1													
2													
3	0,02	929	36 545	12,71	3,20								
4	0,03	54	1 435	12,60	7,25	89	954	31,89	7,10				
5	0,04					877	11 463	19,12	4,84				
6	0,06					1 578	11 421	24,24	4,67	168	1 519	19,37	
7	0,08	3	11	34,30	12,12	589	2 335	31,51	11,21				
8	0,11					278	780	31,57	14,33				
9	0,16					5	10	31,04	17,85				
10	0,23					1	1	42,27	30,53				
11	0,32					144	346	12,96	23,50	6	5	34,30	30,8
12	0,45					1 436	709	44,69	73,93				
13	0,64					12	4	49,21	96,28				
14	0,91					15	3	48,87	71,21				
15	1,28					871	138	49,23	143,38				
16	1,81												
17	2,56					614	49	49,24	106,76				
18	3,62					59	4	44,54	106,60				
19	5,12												
20	7,24					5 835	337	23,91	2,03				
21	10,24												
22	14,48												
23	20,48												
24	28,96					6 454	53	42,27	246,27				
25	40,96												
Default	100		**22**	**49,40**	**617,50**			**77,82**	**9,65**				
Total	**5,71**	**986**	**38 013**	**12,74**	**3,72**	**18 857**	**28 607**	**23,81**	**8,86**	**174**	**1 524**	**19,43**	**0,11**

ANALYSIS OF PORTFOLIOS - RETAIL (AS AT JUNE 2011)																	Nedbank Limited			
Risk Grade		Retail Mortgages				Retail Revolving Credit				SME Retail				Retail Other				Total			
	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	EL	EAD	dLGD	Exposure weighted average risk weight
	%	R'000	Rm	%	%	R'000	Rm	%	%	R'000	Rm	%	%	R'000	Rm	%	%	R'000	Rm	%	%
Performing																					
1																					
2																					
3	0,02																	1 313	50 004	13,13	3,62
4	0,03																	2 782	32 202	28,96	7,94
5	0,04					50	184	67,98	1,89					1	2	67,98	8,43	1 274	14 769	21,57	5,25
6	0,06	279	3 266	15,00	2,30	128	406	55,48	2,08					2	6	44,67	7,27	5 115	42 599	21,06	7,23
7	0,08					30	116	31,92	1,59									4 443	20 645	26,90	12,12
8	0,11					258	375	60,83	4,05					1	2	70,39	19,09	3 991	11 776	29,99	18,60
9	0,16	20	83	15,00	5,09	289	438	41,23	3,66	1	1	49,83	17,31					5 161	10 525	30,65	23,56
10	0,23	628	1 854	15,00	6,59	2 060	1 462	62,34	7,35	7	11	28,33	12,46	18	12	62,63	27,54	12 078	19 924	26,82	22,74
11	0,32	2 397	4 994	15,00	8,50	2 484	1 379	56,28	8,79	491	491	31,24	17,21	16	9	56,06	30,88	18 761	21 279	27,55	30,11
12	0,45	3 575	5 261	15,00	10,91	2 093	873	52,93	10,92	1 108	726	33,67	22,88	1 171	574	45,01	30,60	36 932	29 730	27,42	37,66
13	0,64	9 275	9 552	15,17	14,05	5 292	1 516	54,55	14,78	2 897	1 988	22,77	18,72	2 254	846	41,64	34,24	41 405	30 721	21,06	27,07
14	0,91	27 342	18 022	16,76	19,65	7 178	1 366	58,05	20,58	15 108	7 030	23,75	23,12	5 324	1 575	37,36	36,37	98 509	48 465	22,46	31,19
15	1,28	73 442	37 994	15,10	22,26	11 651	1 464	62,22	28,72	12 464	3 385	28,76	32,28	6 285	1 052	46,67	52,39	140 784	57 133	19,25	29,75
16	1,81	46 847	16 999	15,23	27,97	13 964	1 202	64,18	38,34	15 279	2 813	30,01	37,67	10 225	1 185	47,68	59,85	141 656	35 998	21,74	39,84
17	2,56	11 261	2 735	16,08	36,48	21 626	1 315	64,30	49,38	19 361	2 870	26,35	35,81	21 438	1 722	48,63	66,10	132 200	17 939	28,79	54,58
18	3,62	42 807	7 762	15,23	42,17	18 902	830	62,91	61,58	29 797	3 091	26,63	38,06	43 428	2 225	53,91	77,08	177 462	18 576	26,39	52,14
19	5,12	5 923	619	18,68	62,30	21 303	636	65,37	80,78	25 646	1 730	28,96	42,83	110 503	3 850	56,06	82,94	204 959	10 369	38,61	70,54
20	7,24	150 676	13 649	15,25	60,23	48 471	1 038	64,41	99,21	78 492	3 188	34,02	52,66	178 458	4 606	53,50	82,82	597 711	29 895	27,61	70,20
21	10,24	39 354	2 518	15,27	70,00	39 532	585	66,02	124,74	18 639	600	30,31	51,28	57 456	1 030	54,46	92,14	191 961	6 424	29,18	81,42
22	14,48	73 553	3 372	15,06	78,06	54 601	557	67,71	153,66	14 716	299	33,94	65,82	107 897	1 285	58,00	112,47	270 196	6 285	29,69	91,52
23	20,48	47 370	1 517	15,26	86,19	65 306	473	67,38	178,31	8 688	122	35,07	78,91	146 907	1 143	62,68	141,03	305 676	3 844	38,83	125,78
24	28,96	152 818	3 502	15,06	88,01	72 754	370	67,94	200,62	25 560	286	30,88	78,21	124 253	771	55,64	140,92	393 733	5 166	26,32	105,80
25	40,96	136 607	2 212	15,08	83,59	192 926	669	70,42	215,57	10 793	58	45,24	120,24	167 794	855	47,93	127,42	544 178	3 991	33,29	123,55
Default	100	**3 046 965**	**11 567**	**15,76**	**8,43**	**696 880**	**744**	**71,34**	**7,14**	**765 383**	**1 402**	**37,81**	**77,44**	**1 610 591**	**2 617**	**44,15**	**24,27**	**7 059 273**	**19 594**	**25,42**	**36,98**
Total	**5,71**	**3 871 139**	**147 478**	**15,42**	**29,69**	**1 277 778**	**17 998**	**61,31**	**50.71**	**1 044 430**	**30 091**	**28,17**	**36,57**	**2 594 022**	**25 367**	**51,05**	**74,84**	**10 391 553**	**547 853**	**23,93**	**31,68**

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

NEDBANK LIMITED* AIRB BASEL II ON-BALANCE-SHEET EXPOSURE BY RESIDUAL CONTRACTUAL MATURITY				
Jun 2011	Less than 1 year	1 to 5 years	Greater than 5 years	Total on-balance-sheet exposure
Rm				
Corporate	64 898	65 723	57 343	**187 964**
Public sector entities	2 345	4 635	8 445	**15 425**
Local governments and municipalities	34	819	6 204	**7 057**
Sovereign	19 796	5 333	12 725	**37 854**
Banks	20 484	3 558	1 238	**25 280**
Securities firms	2 107			**2 107**
Retail exposure	16 245	30 402	130 327	**176 974**
Retail mortgages	915	3 032	116 824	**120 771**
Retail revolving credit	9 172	39	64	**9 275**
Retail – other	1 638	21 415	1 671	**24 724**
SME – retail	4 520	5 916	11768	**22 204**
Securitisation exposure		556	223	**779**
Total	**125 909**	**111 026**	**216 505**	**453 440**

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

The Standardised Approach 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 exposure. 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					
Jun 2011 **Rm**	**AIRB on-balance-sheet exposure**	**AIRB off-balance-sheet exposure**	**Repurchase and resale exposure**	**Derivative exposure**	**Total credit extended***
Nedbank Corporate	**18 808**	**188**	**-**	**17**	**19 013**
Corporate	2 552			17	2 569
SME –corporate	9 333	188			9 521
Public sector entities	31				31
Local governments and municipalities	14				14
Sovereign	827				827
Banks	1 308				1 308
Retail mortgages	2 999				2 999
Retail –other	1 564				1 564
SME –retail	180				180
Total Nedbank RBB	**49 725**	**709**	**-**	**-**	**50 434**
Corporate	61	4			65
SME – corporate	2 388	130			2 518
Local governments and municipalities	4				4
Retail mortgages	3 657	392			4 049
Retail – other	40 235	148			40 382
SME – retail	3 220	35			3 255
Securitisation	161				161
Nedbank Retail	**42 036**	**212**	**-**	**-**	**42 248**
Corporate	4	4			8
SME – corporate	245	43			288
Retail – other	39 325	139			39 464
SME – retail	2 301	26			2 327
Securitisation exposure	161				161
Business Banking	**7 689**	**497**	**-**	**-**	**8 186**
Corporate	57				57
SME – corporate	2 143	87			2 230
Local governments and municipalities	4				4
Retail mortgages	3 657	392			4 049
Retail – other	909	9			918
SME – retail	919	9			928
Nedbank Wealth	**7 945**	**-**	**-**	**2**	**7 947**
Sovereign	295				295
Banks	4 660			2	4 662
Retail mortgages	2 253				2 253
Retail – other	737				737
Central Management	**146**	**-**	**-**	**-**	**146**
Corporate	116				116
Banks	30				30
Total	**76 624**	**897**	**-**	**19**	**77 540**

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

Impairments and defaulted loans and advances

Impairment levels improved as a result of better economic conditions and affordability levels, together with enhanced collection capabilities and reduced levels of defaulted advances.

The credit loss ratio on the banking book improved to 1,21% for the period (June 2010: 1,46%). The credit loss ratio relating to specific impairments improved from 1,46% to 1,10%, reflecting the ongoing improvement in asset quality. Due to the current uncertain economic environment and as a result of increased emergence periods, the group has increased the level of portfolio impairments, as well as included R100 million in the centre to provide for unknown events that may have already occurred, but which will only be evident in the future.R100 million in the centre to provide for unknown events that may already have occurred, but which will only be evident in the future.

The primary reduction in the impairments charge came from Nedbank Retail's secured lending portfolios due to the momentum gained from the improved environment and various risk management mitigation initiatives. This contributed to the credit loss ratio in Retail improving significantly from 2,93% in the period to June 2010 to 2,24%, which is now only marginally outside the upper end of the cluster's through-the-cycle target range of 1,50% to 2,20%.

The advances portfolios in Nedbank Capital, Nedbank Corporate, Nedbank Business Banking and Nedbank Wealth remain of high quality. Credit loss ratios in these clusters, with the exception of Nedbank Capital, remain within the respective clusters' through-the-cycle levels.

The tables on the following pages summarise Nedbank Group's defaulted portfolio and the level of impairments. The policies, principles and definitions relating to the defaulted portfolio and impairments are well articulated in the group's credit policy.

The key definitions relating to the following pages are included below:

- *Past due*

  A loan or advance is considered past due when it exceeds its limit (fluctuating types of advances) or is in arrears (linear types of advances).

- *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 SA banking regulations. For retail portfolios this is product-centric and therefore a default would be specific to a client or borrower account (a specific advance). For all other portfolios except project-based financing, 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.

- *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].

- *Specific impairment*

  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.

- *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.

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**
June 2011							
Impairments to gross loans and advances	**0,64**	**0,92**	**3,80**	**4,20**	**2,55**	**0,66**	**2,37**
Specific impairments	**0,46**	**0,70**	**3,05**	**3,37**	**2,05**	**0,51**	**1,87**
Portfolio impairments	**0,18**	**0,22**	**0,75**	**0,83**	**0,50**	**0,15**	**0,50**
Impairment charge as a % of net interest income	**33,57**	**15,17**	**36,35**	**44,48**	**8,66**	**17,48**	**32,15**
Credit loss ratio	**0,86**	**0,34**	**1,79**	**2,24**	**0,40**	**0,41**	**1,21**
Credit loss ratio – specific	**0,88**	**0,48**	**1,57**	**1,95**	**0,41**	**0,40**	**1,10**
Credit loss ratio – portfolio	**(0,02)**	**(0,14)**	**0,22**	**0,29**	**(0,01)**	**0,01**	**0,11**
Defaulted loans and advances to gross loans and advances	**1,39**	**2,77**	**7,89**	**8,57**	**5,80**	**2,25**	**5,22**
Properties in possession to gross loans and advances	**-**	**0,04**	**0,20**	**0,26**	**0,02**	**0,07**	**0,12**
December 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
Impairment charge as a % of net interest income	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
Credit loss ratio – specific	1,17	0,27	2,08	2,46	0,71	0,16	1,32
Credit loss ratio – portfolio	0,10	(0,07)	0,10	0,21	(0,31)	(0,01)	0,04
Defaulted loans and 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

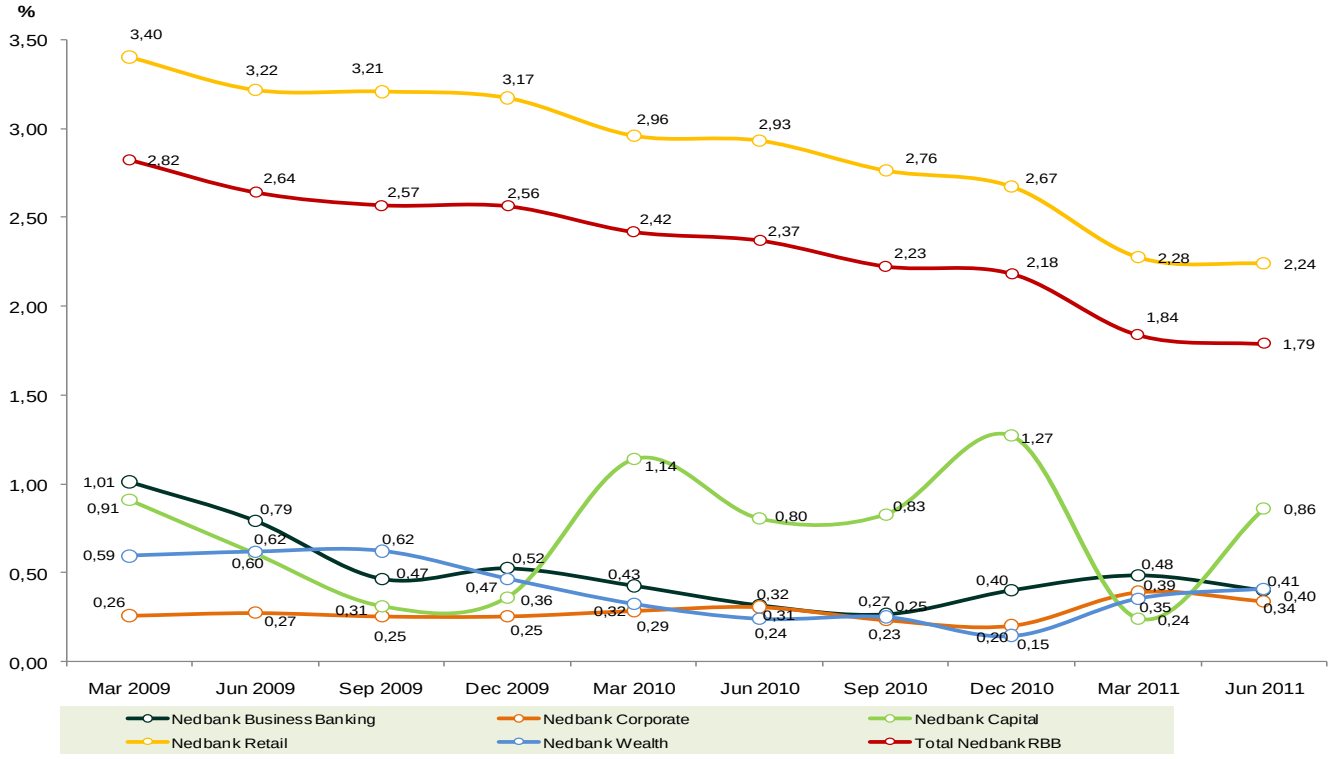
Nedbank Group updated its methodology for calculating the credit loss ratio in 2010, removing trading assets from loans and advances. Impairments are not raised against trading assets as these are designated at fair value through profit or loss, and therefore any losses are realised through a decrease in non-interest revenue.

Nedbank Group has business-cluster-specific credit loss ratio targets, taking into account historic, through-the-cycle, sustainable performance as well as desired risk appetite. Nedbank Group's targeted credit loss ratio is 0,60% to 1,00%.

TREND OF CREDIT LOSS RATIO VERSUS TARGET RANGE

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

BUSINESS CLUSTERS' CREDIT LOSS RATIO TRENDS



Note: Nedbank Corporate and Nedbank Retail credit loss ratios restated due to Imperial Bank integration.

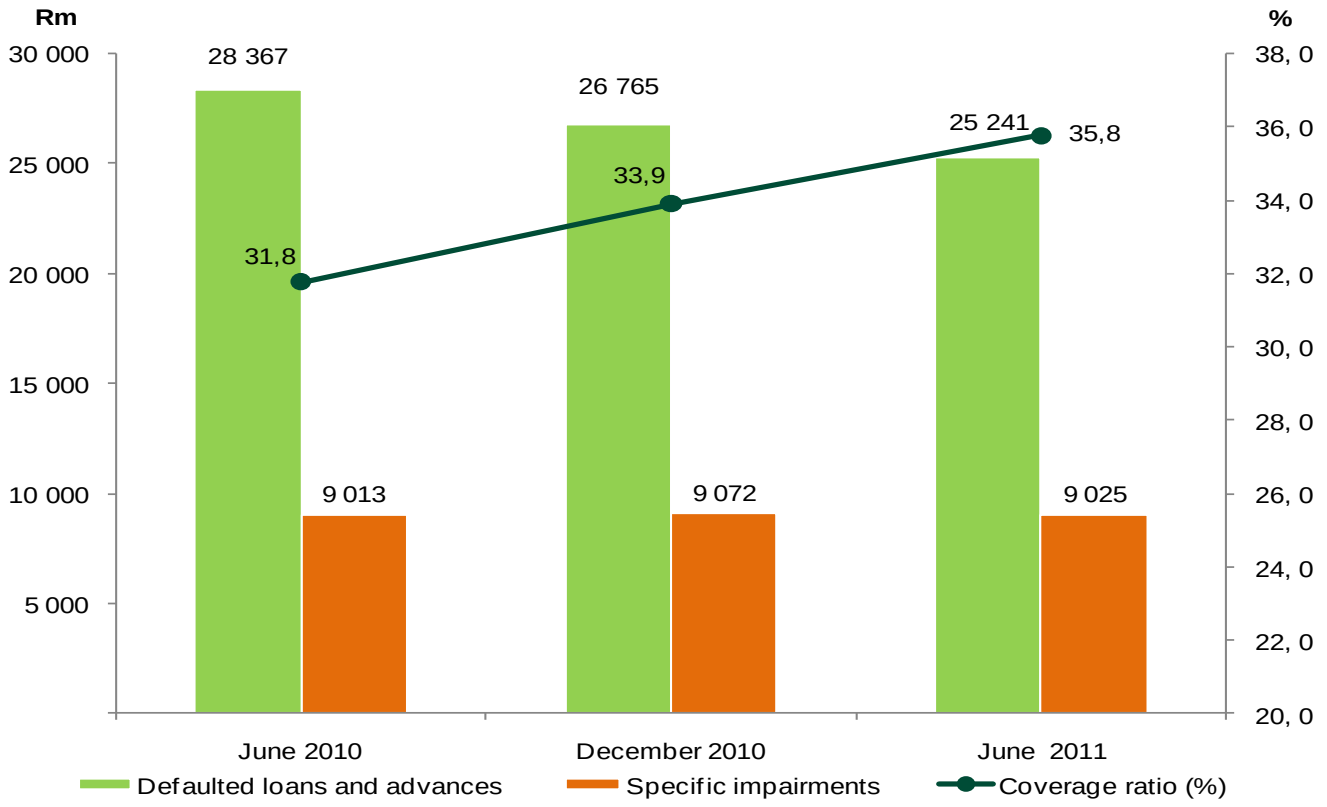
A reconciliation of the impairments movements over the past year is shown below.

RECONCILIATION OF IMPAIRMENTS

Rm	Nedbank Capital	Nedbank Corporate	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Nedbank Wealth	Central Manage-ment	Jun 2011	Dec 2010
Opening balance	**923**	**1 369**	**8 828**	**7 572**	**1 256**	**107**	**(1)**	**11 226**	9 798
Specific impairment	**806**	**932**	**7 251**	**6 237**	**1 014**	**82**	**1**	**9 072**	7 830
Specific impairment, excluding discounts	**782**	**555**	**6 385**	**5 588**	**797**	**17**	**1**	**7 740**	6 690
Specific impairment for discounted cashflow losses	**24**	**377**	**866**	**649**	**217**	**65**		**1 332**	1 140
Portfolio impairment	**117**	**437**	**1 577**	**1 335**	**242**	**25**	**(2)**	**2 154**	1 968
Income statement impairment charge (net of recoveries)	**187**	**266**	**2 200**	**2 081**	**119**	**36**	**103**	**2 792**	6 188
Specific impairment	**185**	**452**	**1 730**	**1 611**	**119**	**27**	**3**	**2 397**	5 802
Net increase/decrease in impairment for discounted cashflow losses	**8**	**(83)**	**202**	**200**	**2**	**7**		**134**	192
Portfolio impairment	**(6)**	**(103)**	**268**	**270**	**(2)**	**2**	**100**	**261**	194
Recoveries	**-**	**6**	**289**	**281**	**8**	**(1)**	**(4)**	**290**	763
Amounts written off/other transfers	**(722)**	**(202)**	**(1 856)**	**(2 038)**	**182**	**(24)**	**(38)**	**(2 842)**	(5 523)
Specific impairment	**(722)**	**(205)**	**(1 882)**	**(2 000)**	**118**	**(24)**	**(34)**	**(2 867)**	(5 515)
Portfolio impairment		**3**	**26**	**(38)**	**64**		**(4)**	**25**	(8)
Closing balance	**388**	**1 439**	**9 461**	**7 896**	**1 565**	**118**	**60**	**11 466**	11 226
Specific impairment	**277**	**1 102**	**7 590**	**6 329**	**1 261**	**91**	**(34)**	**9 026**	9 072
Specific impairment, excluding discounts	**245**	**808**	**6 522**	**5 480**	**1 042**	**19**	**(34)**	**7 560**	7 740
Specific impairment for discounted cashflow losses	**32**	**294**	**1 068**	**849**	**219**	**72**		**1 466**	1 332
Portfolio impairment	**111**	**337**	**1 871**	**1 567**	**304**	**27**	**94**	**2 440**	2 154
Total loans and advances	**60 846**	**156 129**	**249 198**	**187 890**	**61 308**	**17 934**	**(723)**	**483 384**	486 499
Total average banking book loans and advances	**43 989**	**156 368**	**248 096**	**187 626**	**60 470**	**17 523**	**(2 480)**	**463 496**	454 105
Total average loans and advances	**64 782**	**156 368**	**248 096**	**187 626**	**60 470**	**17 523**	**(857)**	**485 912**	477 767

** Total and averages relate to gross loans and advances.*

DEFAULTED LOANS AND ADVANCES, SPECIFIC IMPAIRMENTS AND COVERAGE RATIO



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.

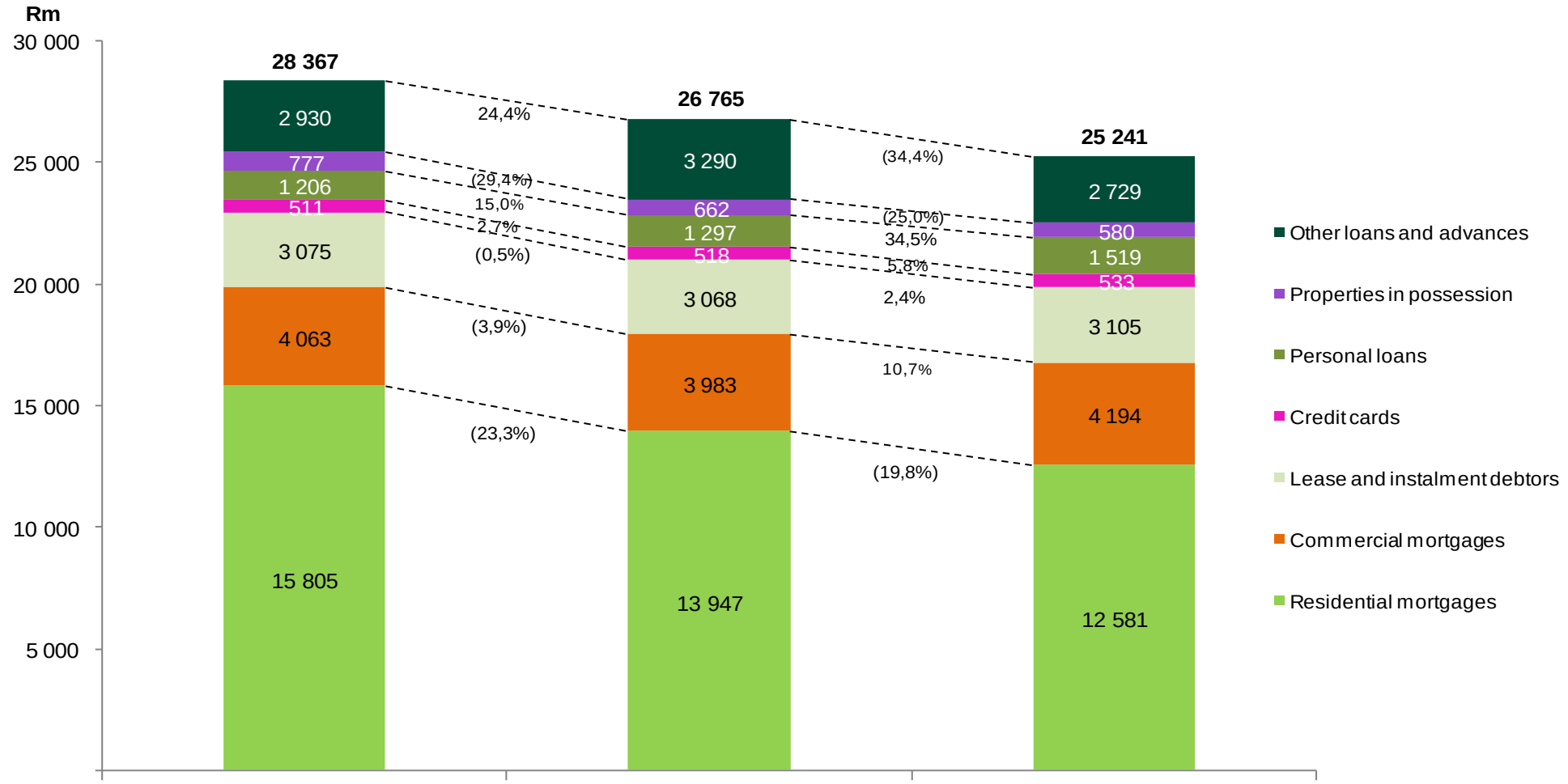
The absolute value of expected recoveries of defaulted accounts (which includes security values) will increase as the number of defaults increase. The expected recovery amount will, in most instances, be less than the total defaulted exposure, as it is seldom the case that 100% of the defaulted loan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

Defaulted advances declined by 11,5% (annualised) to R25 241 million (2010: R26 765 million). This reflects write-offs as well as improved collections processes and credit environment, together with ongoing restructuring initiatives that have resulted in over 10 700 families (clients of Nedbank Group) being kept in their homes since July 2009.

DEFAULTED LOANS AND ADVANCES BY PRODUCT



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	Jun 2011	Dec 2010
AIRB Approach	**519**	**2 431**	**17 325**	**14 215**	**3 110**	**383**	**20 658**	22 557
Corporate	**477**	**577**	**187**		**187**		**1241**	1 531
Specialised lending – high-volatility commercial real estate		**1478**					**1 478**	1 664
Specialised lending – income-producing real estate		**311**	**41**		**41**		**352**	574
SME – corporate		**65**	**1 069**		**1 069**		**1 134**	1 366
Bank								
Sovereign	**42**						**42**	26
Retail mortgages			**11 383**	**10 853**	**530**	**321**	**11 704**	13 093
Retail revolving credit			**715**	**715**			**715**	749
Retail – other			**2 558**	**2 148**	**410**	**43**	**2 601**	2 393
SME – retail			**1 372**	**499**	**873**	**19**	**1 391**	1 161
TSA	**-**	**1 363**	**1 827**	**1 393**	**434**	**7**	**3 197**	2 983
Corporate			**2**		**2**		**2**	7
SME – corporate		**1 363**	**187**		**187**		**1 550**	1 450
Retail mortgages			**79**		**79**	**6**	**85**	97
Retail other			**1 423**	**1 393**	**30**	**1**	**1 424**	1 278
SME – retail			**136**		**136**		**136**	151
Other regulated entities	**-**	**149**	**-**	**-**	**-**	**-**	**149**	254
Properties in possession	**-**	**61**	**506**	**494**	**12**	**13**	**580**	662
Non-regulated entities	**325**	**323**	**9**	**9**	**-**	**-**	**657**	309
Total defaulted loans and advances	**844**	**4 327**	**19 667**	**16 111**	**3 556**	**403**	**25 241**	26 765

The coverage ratio and expected recovery ratio by business cluster and product is shown in detail in the table below.

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

Jun 2011 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 (%)	Expected recovery ratio (%)
Nedbank Capital	**844**	**3,3**	**567**	**277**	**277**	**245**	**32**	**32,8**	**67,2**
Other loans and advances	**844**	**3,3**	**567**	**277**	**277**	**245**	**32**	**32,8**	**67,2**
Nedbank Corporate	**4 327**	**17,1**	**3 225**	**1 102**	**1 102**	**808**	**294**	**25,5**	**74,5**
Residential mortgages	**93**	**0,4**	**65**	**28**	**28**	**22**	**6**	**30,1**	**69,9**
Commercial mortgages	**3 607**	**14,2**	**2 858**	**749**	**749**	**556**	**193**	**20,8**	**79,2**
Lease and instalment debtors	**50**	**0,2**	**30**	**20**	**20**	**16**	**4**	**40,0**	**60,0**
Personal loans	**18**	**0,1**	**7**	**11**	**11**	**10**	**1**	**61,1**	**38,9**
Properties in possession	**61**	**0,2**	**50**	**11**	**11**	**10**	**1**	**18,0**	**82,0**
Other loans and advances	**498**	**2,0**	**215**	**283**	**293**	**194**	**89**	**56,8**	**43,2**
Total Nedbank RBB	**19 667**	**77.9**	**12 077**	**7 590**	**7 590**	**6 522**	**1 068**	**38.6**	**61.4**
Residential mortgages	**12 165**	**48,2**	**9 038**	**3 127**	**3 127**	**2 796**	**331**	**25,7**	**74,3**
Commercial mortgages	**564**	**2,2**	**437**	**127**	**127**	**65**	**62**	**22,5**	**77,5**
Lease and instalment debtors	**3 053**	**12,1**	**1 104**	**1 949**	**1 949**	**1 697**	**252**	**63,8**	**36,2**
Credit cards	**533**	**2,1**	**1**	**532**	**532**	**529**	**3**	**99,8**	**0,2**
Personal loans	**1 501**	**5,9**	**571**	**930**	**930**	**554**	**376**	**62,0**	**38,0**
Properties in possession	**506**	**2,0**	**452**	**54**	**54**	**54**		**10,7**	**89,3**
Other loans and advances	**1 345**	**5,4**	**474**	**871**	**871**	**827**	**44**	**64,8**	**35,2**
Nedbank Retail	**16 111**	**63,8**	**9 782**	**6 329**	**6 329**	**5 480**	**849**	**39,3**	**60,7**
Residential mortgages	**10 792**	**42,8**	**7 964**	**2 828**	**2 828**	**2 576**	**252**	**26,2**	**73,8**
Commercial mortgages	**61**	**0,2**	**21**	**40**	**40**	**40**		**65,6**	**34,4**
Lease and instalment debtors	**2 211**	**8,8**	**727**	**1 484**	**1 484**	**1 268**	**216**	**67,1**	**32,9**
Credit cards	**530**	**2,1**		**530**	**530**	**527**	**3**	**100,0**	
Personal loans	**1 488**	**5,8**	**571**	**917**	**917**	**541**	**376**	**61,6**	**38,4**
Properties in possession	**494**	**2,0**	**440**	**54**	**54**	**54**		**10,9**	**89,1**
Other loans and advances	**535**	**2.1**	**59**	**476**	**476**	**474**	**2**	**89,0**	**11,0**
Nedbank Business Banking	**3 556**	**14,1**	**2 295**	**1 261**	**1 261**	**1 042**	**219**	**35,5**	**64,5**
Residential mortgages	**1 373**	**5,4**	**1 074**	**299**	**299**	**220**	**79**	**21,8**	**78,2**
Commercial mortgages	**503**	**2,0**	**416**	**87**	**87**	**25**	**62**	**17,3**	**82,7**
Lease and instalment debtors	**842**	**3,3**	**377**	**465**	**465**	**429**	**36**	**55,2**	**44,8**
Credit cards	**3**		**1**	**2**	**2**	**2**		**66,7**	**33,3**
Personal loans	**13**	**0,1**		**13**	**13**	**13**		**100,0**	
Properties in possession	**12**		**12**						**100,0**
Other loans and advances	**810**	**3,3**	**415**	**395**	**395**	**353**	**42**	**48,8**	**51,2**
Nedbank Wealth	**403**	**1,7**	**312**	**91**	**91**	**19**	**72**	**22,6**	**77,4**
Residential mortgages	**323**	**1,3**	**252**	**71**	**71**	**(1)**	**72**	**22,0**	**78,0**
Commercial mortgages	**23**	**0,1**	**23**						**100,0**
Lease and instalment debtors	**2**	**0,0**	**1**	**1**	**1**	**1**		**50,0**	**50,0**
Properties in possession	**13**	**0,1**	**10**	**3**	**3**	**3**		**23,1**	**76,9**
Other loans and advances	**42**	**0.2**	**26**	**16**	**16**	**16**		**38,1**	**61,9**
Central Management	**-**	**-**	**34**	**(34)**	**(34)**	**(34)**			**100,0**
Other loans and advances			**34**	**(34)**	**(34)**	**(34)**			**100,0**
Jun 2011									
Group	**25 241**	**100,0**	**16 215**	**9 026**	**9 026**	**7 560**	**1 466**	**35,8**	**64,2**
Residential mortgages	**12 581**	**49,9**	**9 355**	**3 226**	**3 226**	**2 817**	**409**	**25,6**	**74,4**
Commercial mortgages	**4 194**	**16,6**	**3 318**	**876**	**876**	**621**	**255**	**20,9**	**79,1**
Lease and instalment debtors	**3 105**	**12,3**	**1 135**	**1 970**	**1 970**	**1 714**	**256**	**63,4**	**36,6**
Credit cards	**533**	**2,1**	**1**	**532**	**532**	**529**	**3**	**99,8**	**0,2**
Personal loans	**1 519**	**6,0**	**578**	**941**	**941**	**564**	**377**	**61,9**	**38,1**
Properties in possession	**580**	**2,3**	**512**	**68**	**68**	**67**	**1**	**11,7**	**88,3**
Other loans and advances	**2 729**	**10.8**	**1 316**	**1 413**	**1 413**	**1 248**	**165**	**51,8**	**48,2**
Dec 2010									
Group	26 765	100,0	17 693	9 072	9 072	7 740	1 332	33,9	66,1
Residential mortgages	13 947	52,1	10 834	3 113	3 113	2 684	429	22,3	77,7
Commercial mortgages	3 983	14,9	3 120	863	863	467	396	21,7	78,3
Lease and instalment debtors	3 068	11,5	1 209	1 859	1 859	1 758	101	60,6	39,4
Credit cards	518	1,9	16	502	502	500	2	96,9	3,1
Personal loans	1 297	4,8	498	799	799	505	294	61,6	38,4
Properties in possession	662	2,5	598	64	64	64		9,7	90,3
Other loans and advances	3 290	12.3	1 418	1 872	1 872	1 762	110	56,9	43,1

PROPERTIES IN POSSESSION									
Rm	Nedbank Capital	Nedbank Corporate	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Nedbank Wealth	Central Manage-ment	Jun 2011	Dec 2010
Opening balance	**-**	**5**	**639**	**631**	**8**	**18**		**662**	887
Disposal/Writedowns/Revaluations		**(110)**	**(222)**	**(219)**	**(3)**	**(5)**		**(337)**	(627)
Properties in possession acquired during the period		**166**	**89**	**82**	**7**			**255**	402
Closing balance	**-**	**61**	**506**	**494**	**12**	**13**		**580**	662
Unsold		**51**	**353**	**345**	**8**	**12**		**416**	490
Sold awaiting transfer		**10**	**153**	**149**	**4**	**1**		**164**	172

Debt counselling

Shown below is an analysis of the Nedbank Retail debt counselling book. This needs to be managed proactively as it gives rise to defaulted advances, and additional provisions may be raised for any accounts under debt counselling. The total portfolio in terms of rand value showed a contraction within the last six months, in line with what is being experienced in the industry, which is showing signs of stabilisation.

The table below shows both new applications from January to June 2011 and the portfolio balance at 30 June 2011.

PRODUCT	NEW APPLICATIONS		PORTFOLIO BALANCE	
Jun 2011	**Number of accounts**	**Exposure Rm**	**Number of accounts**	**Exposure Rm**
Card	**5 097**	**52**	**15 831**	**166**
Personal Loans	**6 447**	**182**	**16 256**	**444**
Mortgages	**1 077**	**490**	**4 948**	**2 161**
Overdrafts	**2 155**	**11**	**5 819**	**42**
Vehicle and Asset Finance	**3 104**	**289**	**13 197**	**1 253**
Total	**17 880**	**1024**	**56 051**	**4 066**
Jun 2010	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm
Card	6 857	57	15 820	158
Personal Loans	7 754	165	14 567	345
Mortgages	2 175	941	5 400	2 685
Overdrafts	2 965	25	6 012	46
Vehicle and Asset Finance	5 751	524	13 887	1 287
Total	25 502	1 712	55 686	4 521

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 economic capital used instead of downturn LGDs used for Basel II regulatory capital.

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 performing PD, LGD and EL percentages as well as the total PD, LGD and EL percentages (which include performing and non-performing) are shown.

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

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 and metrics 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 and may result in clients being up- or downgraded.

Methodological changes are also responsible for some of the movements since 2008. In January 2009 the review and updating of the Africa PD and LGD parameters resulted in the improved NGR distributions for the Africa portfolio and the lower LGD parameters. The new PD and LGD models implemented in March 2009 in the Retail Card portfolio resulted in the improved NGR distribution and the increased LGD. This is also evident in the Retail revolving credit asset class distributions and parameters.

In December 2009 new PD models were implemented in Home Loans, which resulted in increased granularity across the NGR distribution. Due to the relative size of the Home Loans portfolio the effect of this change can be seen at both a Nedbank Limited and group level. In 2010 the enhancement of a variable within the Home Loans behavioural scorecard model resulted in the improved NGR distribution and the decreased PD for this business unit and the Retail mortgages asset class. Additionally, the reclassification of current account exposure from the 'Retail – other' asset class to 'Retail revolving credit' resulted in an improved LGD and the lower EL.

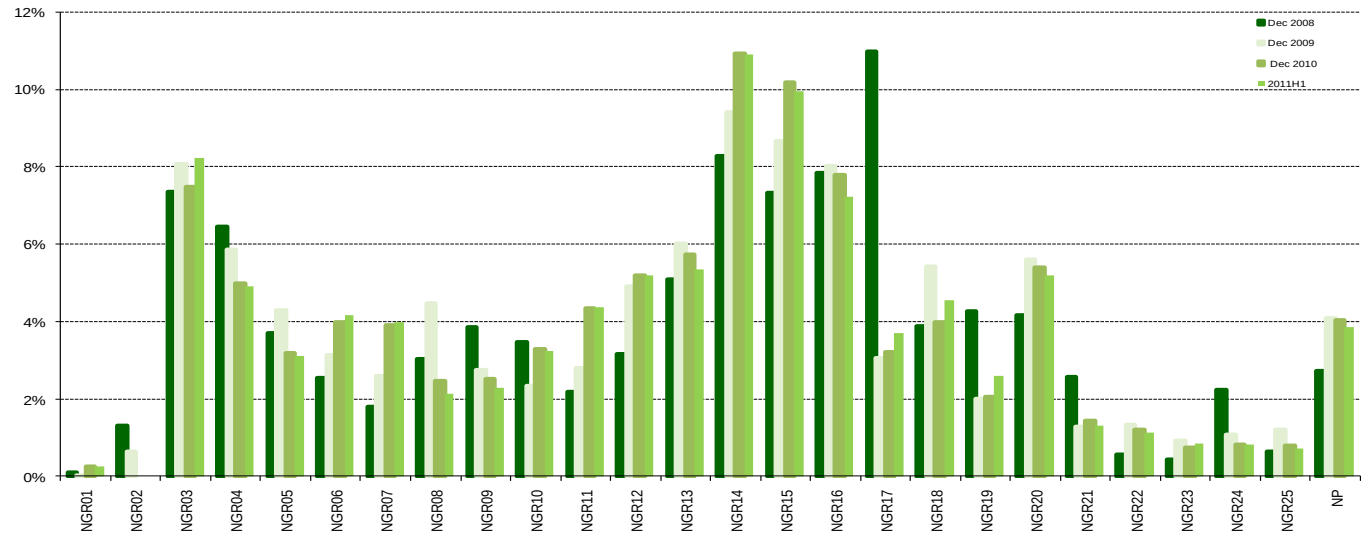
Nedbank Limited's total downturn LGD also improved during 2010 due to the integration of Imperial Bank into Nedbank Limited, which improved the Imperial dLGD in aligning with Nedbank Limited. In February 2011 the new Middle market PD model was implemented in Business Banking which improved the NGR rating for various clients.

During Basel II implementation the group applied extra-conservatism in deriving some credit risk parameter estimates. With ongoing 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.

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

DISTRIBUTION OF TOTAL EAD OF NEDBANK GROUP*

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **2,31%** (Dec 2010: 2,33%)	Average performing book EAD–weighted LGD **21,82%** (Dec 2010: 20,90%)	Average performing book EAD–weighted EL **0,62%** (Dec 2010: 0,55%)
Average total book EAD–weighted PD **6,08%** (Dec 2010: 6,32%)	Average total book EAD–weighted LGD **22,02%** (Dec 2010: 20,99%)	Average total book EAD–weighted EL **1,65%** (Dec 2010: 1,47%)

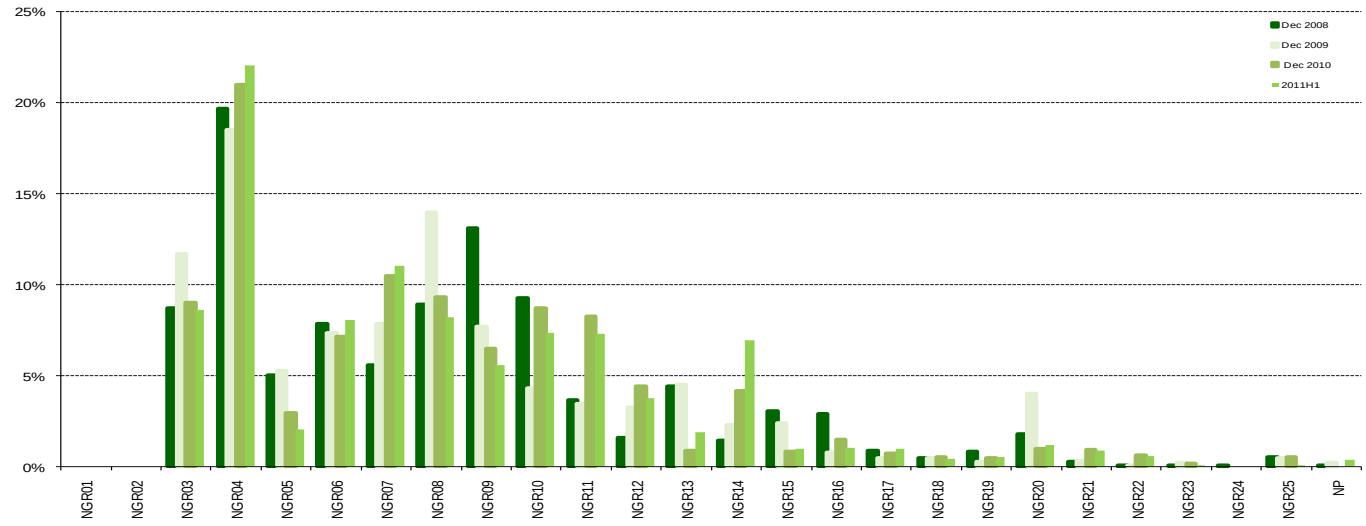
EAD % distribution by bucketed NGR bands over time (ie PD only)

** 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.*

Over the period 2008 to 2009, a significant decrease in exposures in the NGR02 rating class drove a decrease in EAD% for this bucket. New PD models implemented in March 2009 in the Retail Card portfolio resulted in improved NGR parameters which is evident by the increase in EAD% the NGR12 to NGR15 bucket and the decrease in the NGR17, NGR19 buckets. The new PD models implemented in December 2009 in the Home loans portfolio resulted in improved granularity in the NGR distribution which contributed to the shift from NGR17 to the other NGR buckets. Significant increases in %EAD, over the period 2009 to 2010, of the NGR14 and NGR15 rating classes were largely due to previously unrated Imperial deals receiving ratings and rating upgrades of the Home Loans portfolio respectively. As of March 2010 Imperial Bank was included on a 100% owned basis. This did not impact the %EAD distribution by NGR of the group significantly. Over the period of December 2010 to June 2011 Sovereign exposure rated at NGR03 increased by R6 billion.

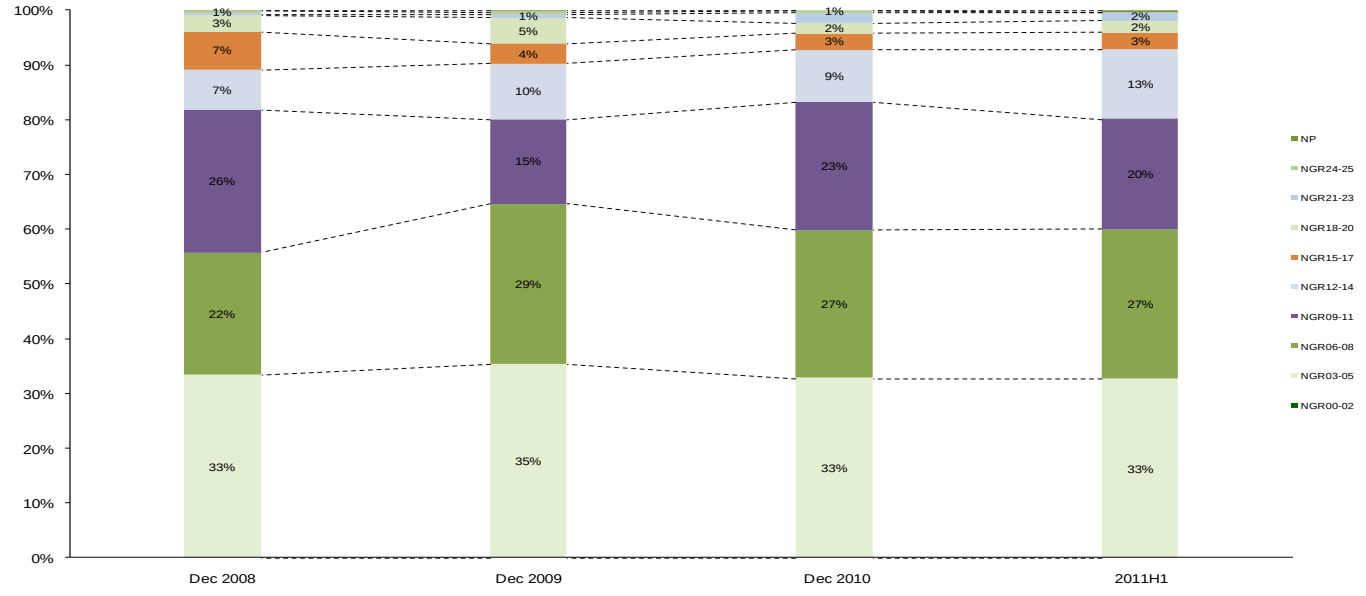
DISTRIBUTION OF NEDBANK GROUP'S TOTAL EAD BY MAJOR BUSINESS LINE
NEDBANK CORPORATE CLUSTER: CORPORATE BANKING

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **0,55%** (Dec 2010: 0,76%)	Average performing book EAD–weighted LGD **23,21%** (Dec 2010: 23,00%)	Average performing book EAD–weighted EL **0,11%** (Dec 2010: 0,16%)
Average total book EAD–weighted PD **0,94%** (Dec 2010: 1,03%)	Average total book EAD–weighted LGD **23,17%** (Dec 2010: 22,96%)	Average total book EAD–weighted EL**0,16%** (Dec 2010: 0,18%)

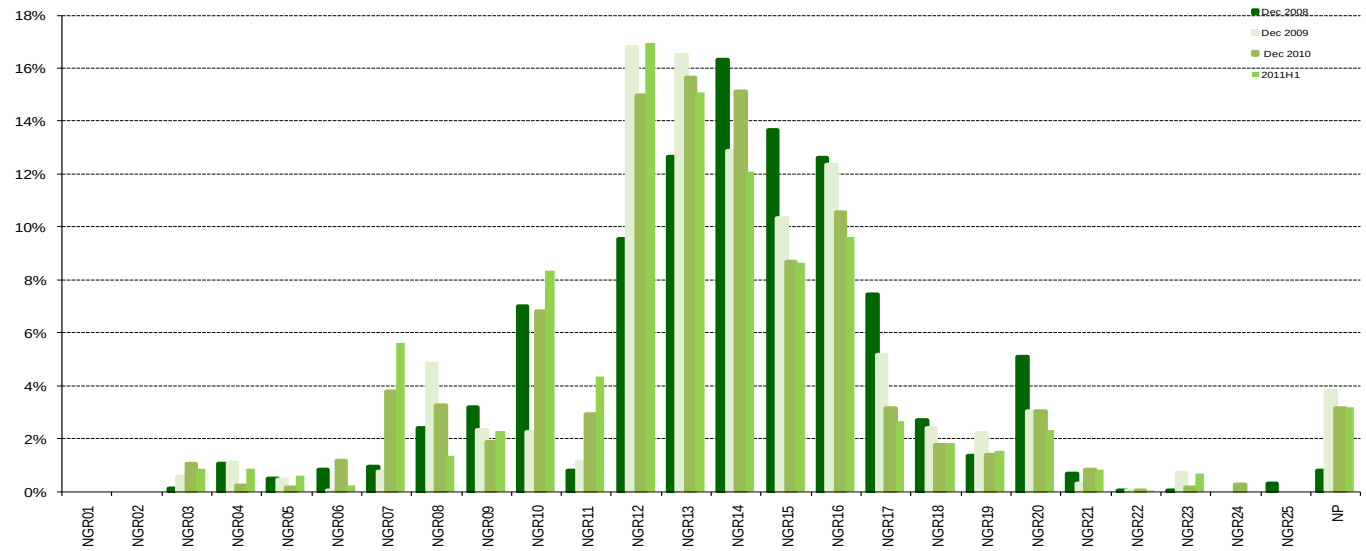
EAD % distribution by bucketed NGR bands over time (ie PD only)



An improved rating in a client with a large exposure during 2009 was the main cause of the increase of EAD% in the NGR08 bucket and the decrease in the NGR09 bucket. The decrease in EAD% in the NGR10 bucket from 2008 to 2009 was driven by rating migrations to lower NGR buckets over this period due to re-ratings. Over the period 2009 to 2010 there were significant rating migrations of 3 clients with relatively large exposures from NGR08 to NGR10 as well as NGR09 and NGR13 to NGR11. The Corporate Banking portfolio is characterised by large deals to a small number of clients with relatively low ratings. As of 2011 the top 30 groups (6% of total number of Corporate Banking groups) within the portfolio comprise 53% of the total EAD of the portfolio. These groups consist primarily of government backed entities, resource and mining entities as well as telecommunication entities. The average rating of these groups, on an EAD weighted basis, is NGR10 compared to the overall average rating of NGR12.

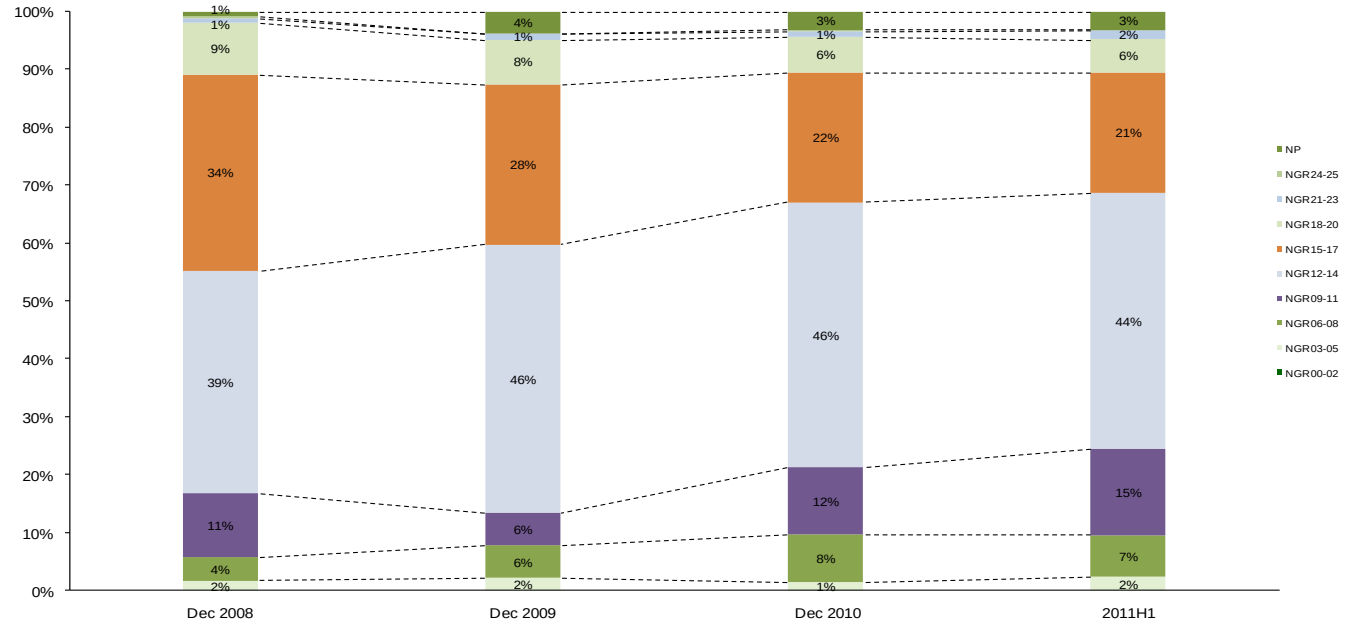
NEDBANK CORPORATE CLUSTER: PROPERTY FINANCE

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **1,26%** (Dec 2010: 1,31%)	Average performing book EAD–weighted LGD **10,38%** (Dec 2010: 11,33%)	Average performing book EAD–weighted EL**0,16%** (Dec 2010: 0,17%)
Average total book EAD–weighted PD **4,41%** (Dec 2010: 4,40%)	Average total book EAD–weighted LGD **10,68%** (Dec 2010: 11,59%)	Average total book EAD–weighted EL **0,79%** (Dec 2010: 0,78%)

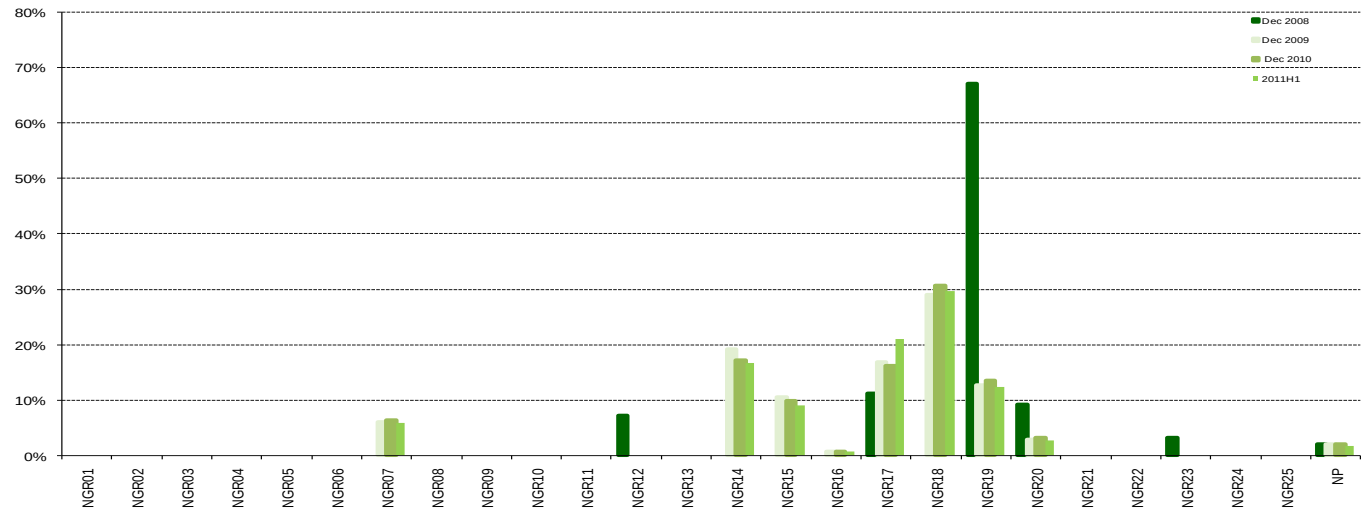
EAD % distribution by bucketed NGR bands over time (ie PD only)



Over the 2008 to 2009 period, a large exposure was downgraded from NGR10 to NGR12, resulting in the shifts in %EAD in these NGR buckets. Increasing defaults over the period 2008 to 2009 was due to stress in the commercial real estate sector. Over the period 2009 to 2010 there was a significant increase in %EAD of the NGR10 bucket following the re-rating of 3 property funds which were previously rated at NGR09, NGR12 and NGR13.As of 2011 the top 1% of Property Finance groups by EAD comprise 51% of the total EAD of the Property Finance portfolio. The average rating of this top 1%, on an EAD weighted basis, is NGR13.Over the period December 2010 to June 2011, a number of re-ratings of large EAD clients caused significant EAD shifts among the NGR bands. Specifically NGR08 to NGR07, NGR14 to NGR12/NGR11. EAD growth in the NGR10 band was caused by an increase in exposure of R1billion in a large EAD client.

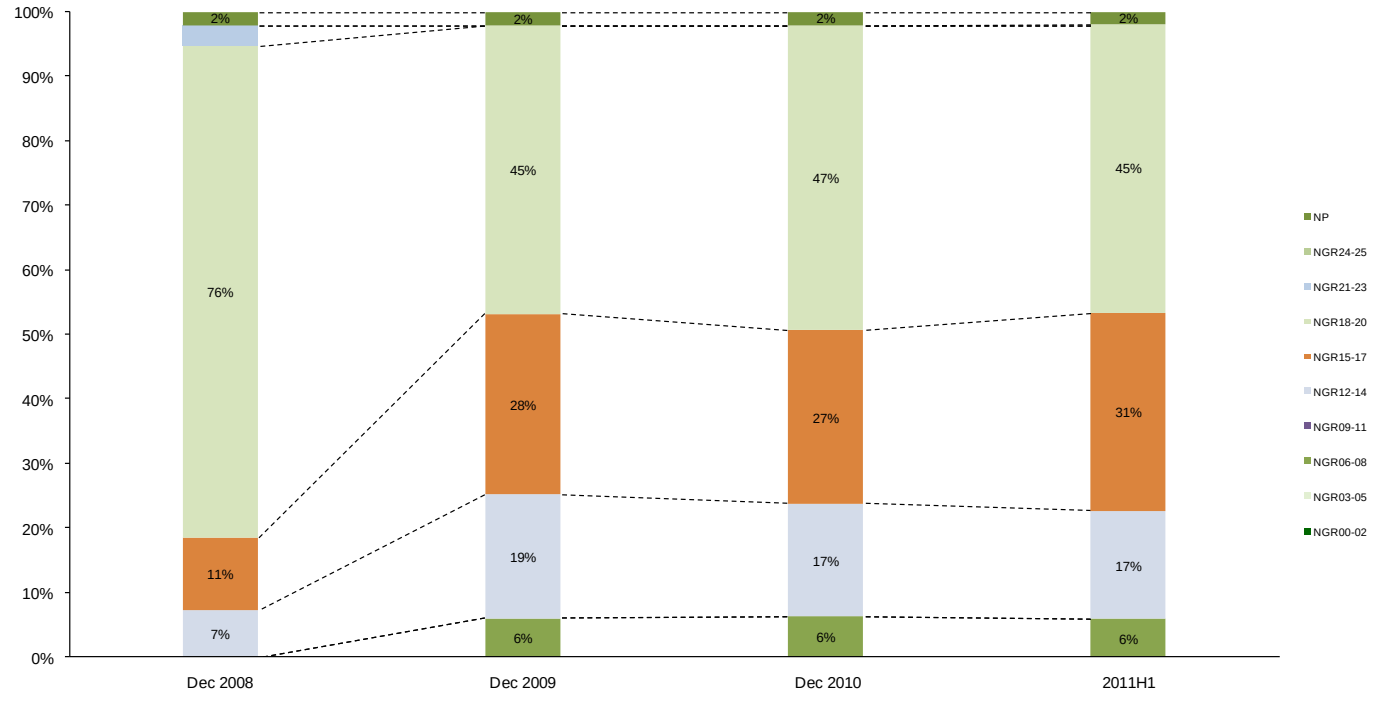
NEDBANK CORPORATE CLUSTER: NEDBANK AFRICA

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **2,78%** (Dec 2010: 2,81%)	Average performing book EAD–weighted LGD **32,59%** (Dec 2010: 32,99%)	Average performing book EAD–weighted EL **0,92%** (Dec 2010: 0,95%)
Average total book EAD–weighted PD **4,54%** (Dec 2010: 4,80%)	Average total book EAD–weighted LGD **32,58%** (Dec 2010: 32,91%)	Average total book EAD–weighted EL **1,49%** (Dec 2010: 1,52%)

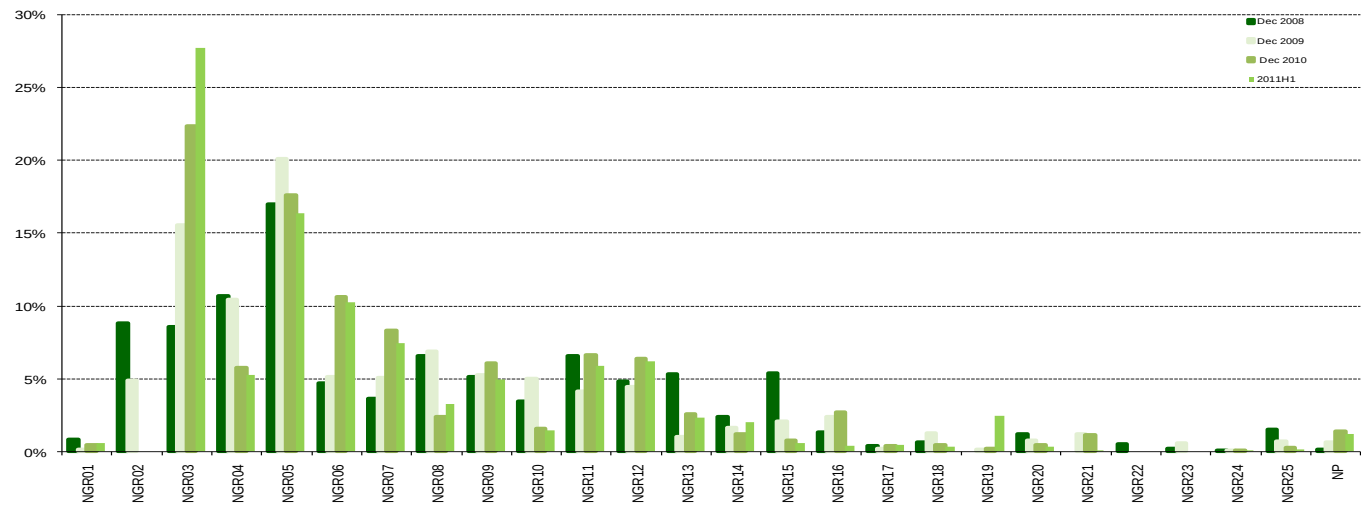
EAD % distribution by bucketed NGR bands over time (ie PD only)



In 2009 the Africa PD parameters were reviewed, which resulted in the improved NGR distributions for the portfolio.

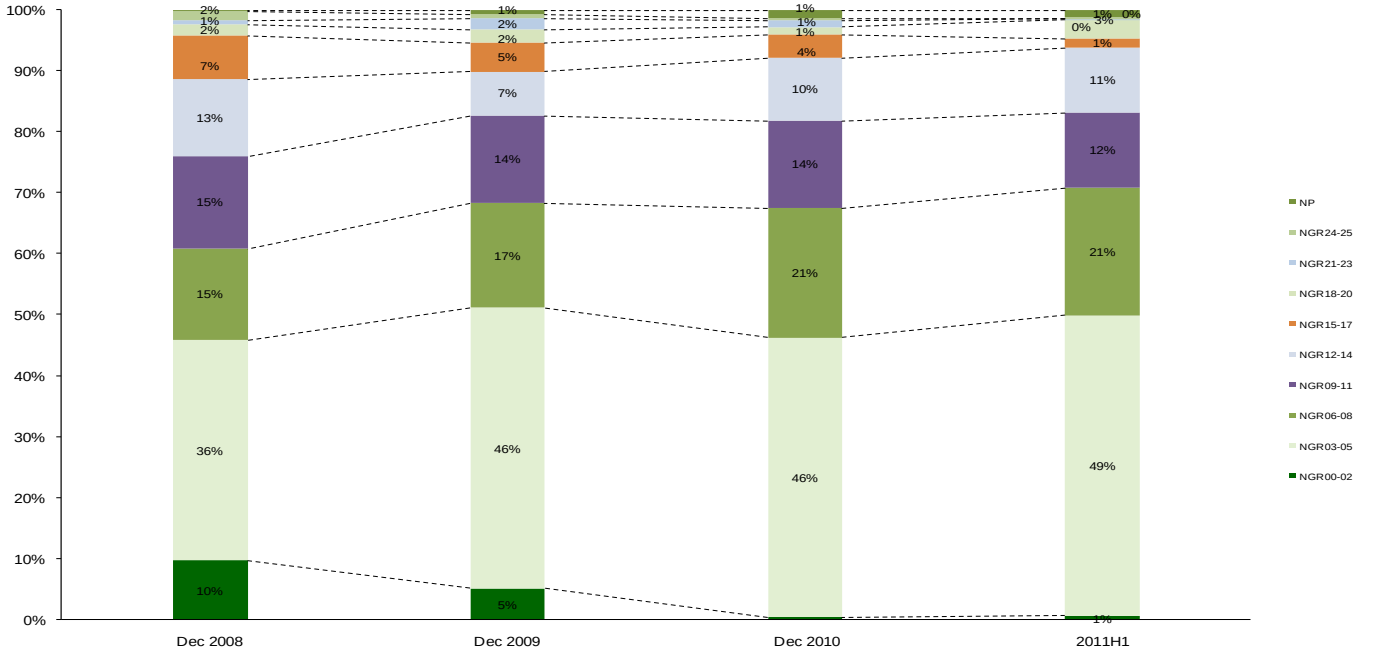
NEDBANK CAPITAL CLUSTER

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **0,40%** (Dec 2010: 0,49%)	Average performing book EAD–weighted LGD **22.54%** (Dec 2010: 24,19%)	Average performing book EAD–weighted EL **0,10%** (Dec 2009: 0,15%)
Average total book EAD–weighted PD **1,64%** (Dec 2009: 1,86%)	Average total book EAD–weighted LGD **22,95%** (Dec 2010: 24,55%)	Average total book EAD–weighted EL **0,80%** (Dec 2010: 0,84%)

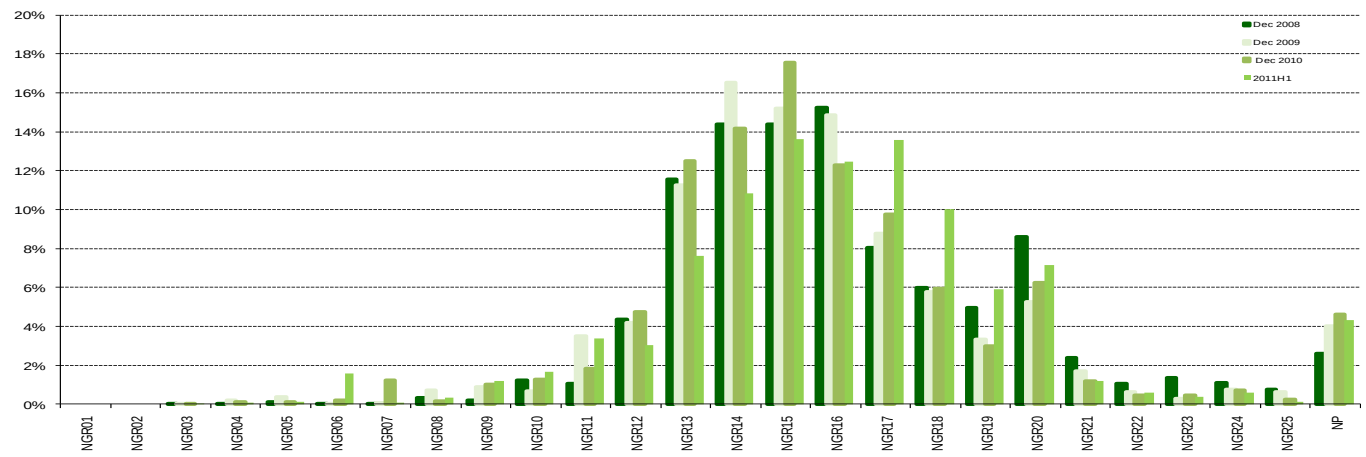
EAD % distribution by bucketed NGR bands over time (ie PD only)



The movement of some NGR03 clients from the Nedbank Capital portfolio to the Central Management portfolio caused the decrease in %EAD in this bucket. The downgrade of a large financial institution from NGR04 to NGR05 over the period 2008 to 2009 caused the increase in EAD % in the NGR05 bucket. Increased government exposure in 2010 resulted in a large increase in %EAD of the NGR03 bucket. Over the period 2009 to 2010 a large entity was downgraded from NGR02 to NGR07 causing the resultant shift in %EAD. As of 2010 40% of Nedbank Capital EAD comprises of bank and financial institution exposures. The average rating of these exposures, on an EAD weighted basis, increased from NGR07 in 2009 to NGR09 in 2010 following a number of rating downgrades of entities within these industries. Over the first quarter of 2011 %EAD of the NGR03 bucket increased significantly following a R7 billion increase in sovereign exposure. Over the period of December 2010 to June 2011, a large EAD client received a rating downgrade from NGR14 to NGR19 resulting in a R1 billion shift between the rating buckets.

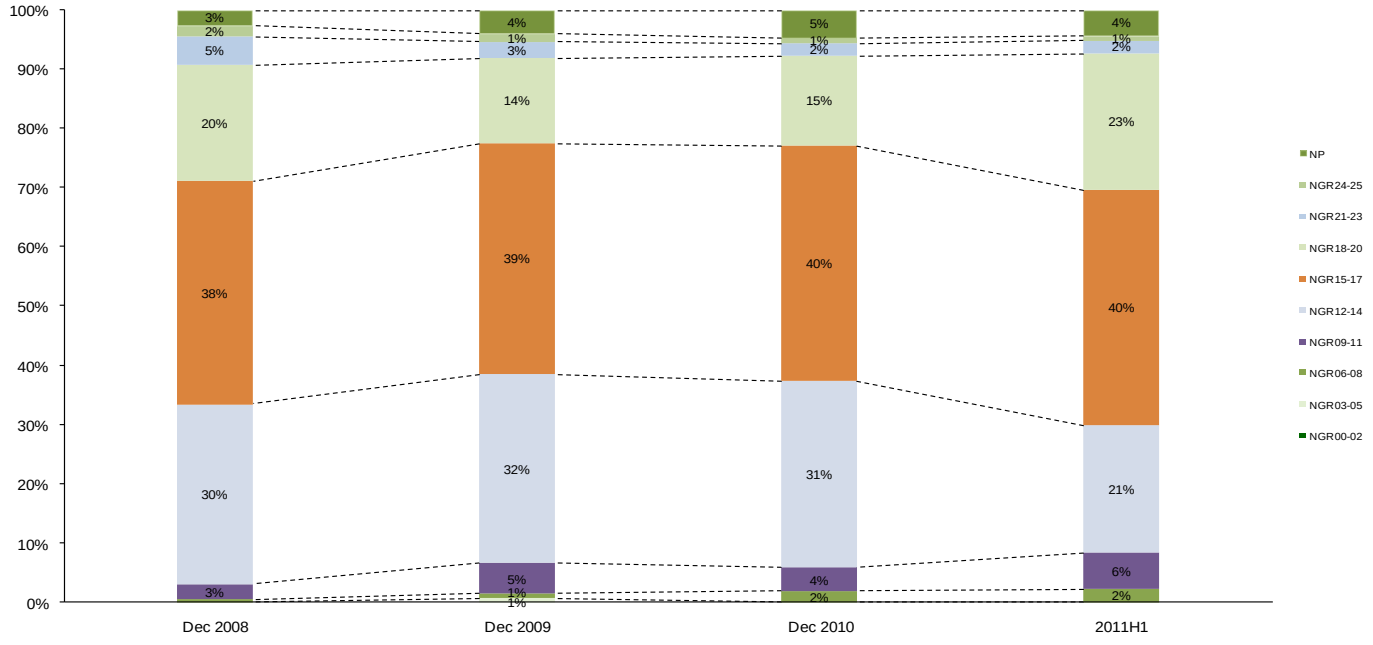
NEDBANK BUSINESS BANKING CLUSTER

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **2,71%** (Dec 2010: 2,47%)	Average performing book EAD–weighted LGD **18,23%** (Dec 2010: 16,84%)	Average performing book EAD–weighted EL **0,53%** (Dec 2010: 0,44%)
Average total book EAD–weighted PD **7,15%** (Dec 2010: 6,99%)	Average total book EAD–weighted LGD **18,58%** (Dec 2010: 17,19%)	Average total book EAD–weighted EL **1,69%** (Dec 2010: 1,55%)

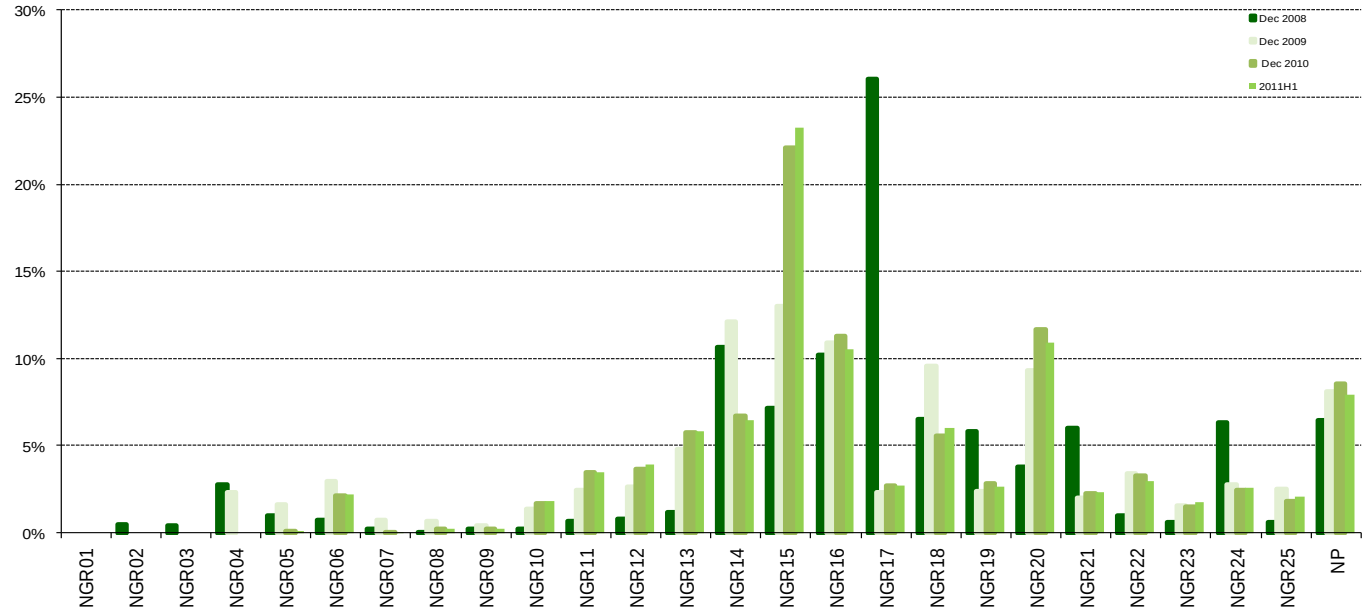
EAD% distribution by bucketed NGR bands over time (ie PD only)



Over the period 2008 to 2009 the NGR14 rating class EAD % increased due to the re-rating of clients in the NGR20 bucket. In terms of policy, any non-rated exposure automatically attracts a penal NGR20 rating. A large number of deals maturing over the period 2009 to 2010 caused the decrease in EAD% of the NGR14 and NGR16 rating classes. The NGR15 rating class experienced a significant increase as there were a large number of re-ratings particularly from the NGR14 and NGR16 rating classes.- As of 2010 the top 4% of Business Banking groups comprise 50% of total EAD of the Business Banking portfolio while the top 39% comprise 95% of total EAD. Compared to the Corporate Banking (top 29% make 95% of total EAD) and Property Finance (top 20% make up 95% of total EAD) the Business Banking portfolio appears to be more evenly distributed in terms of EAD. The average ratings across the top 4%, 39% and total Business Banking book remain consistent at NGR17. Implementation of a new Middle market probability of default model for the Corporate SME and Retail SME asset classes in February 2011 caused a large shift in the %EAD of the NGR12 to NGR15 buckets to the NGR17 to NGR20 buckets.

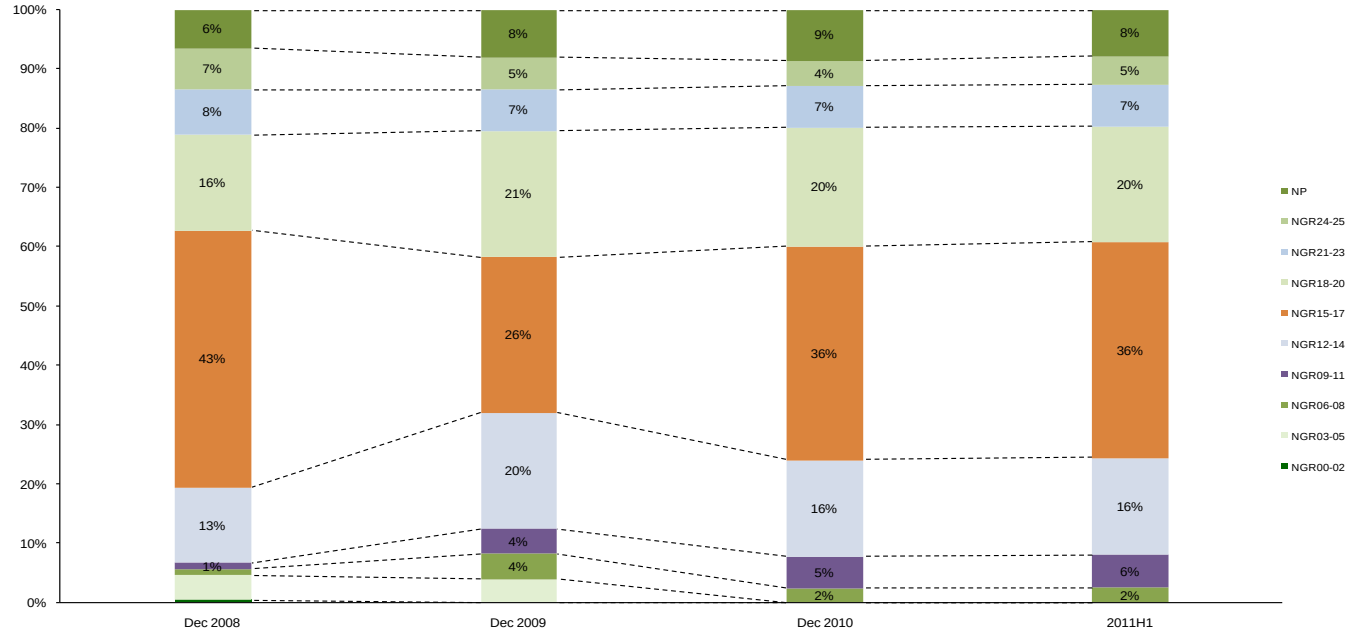
NEDBANK RETAIL CLUSTER*

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **4,70%** (Dec 2010: 4,75%)	Average performing book EAD–weighted LGD **26,69%** (Dec 2010: 18,95%)	Average performing book EAD–weighted EL **1,45%** (Dec 2010: 1,08%)
Average total book EAD–weighted PD **11,35%** (Dec 2010: 12,93%)	Average total book EAD–weighted LGD **26,75%** (Dec 2010: 18,72%)	Average total book EAD–weighted EL**3,28%** (Dec 2010: 2,38%)

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

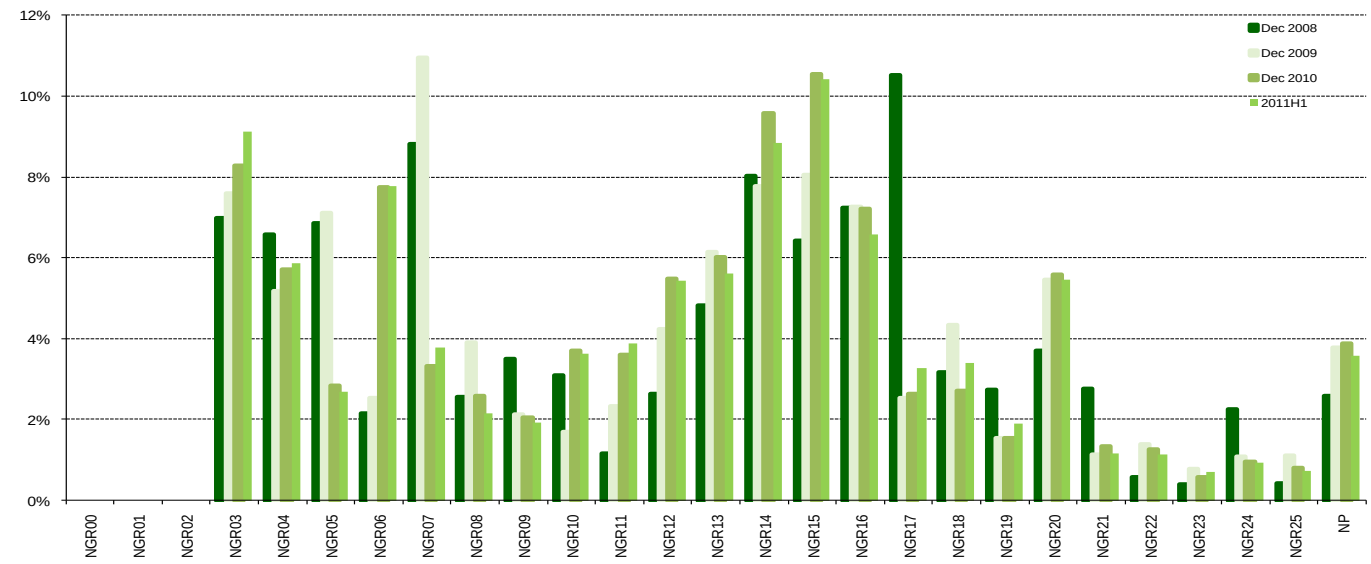


** The figures for the Nedbank Retail Cluster exclude the Nedbank Wealth Cluster since 2010.*

New PD implemented in March 2009 in the Retail Card portfolio resulted in improved NGR parameters which is evident by the increase in EAD% the NGR12 to NGR15 buckets and the decrease in the NGR17 and NGR19 buckets. The new PD models implemented in December 2009 in the Home Loans portfolio resulted in enhanced granularity in the NGR distribution which caused the significant shift from NGR17 to the other NGR buckets. Over the period 2009 to 2010 there was a significant increase in %EAD of the NGR15 bucket following a large shift of EAD from the higher ratings, predominantly the NGR18 bucket, within the Home Loans portfolio.

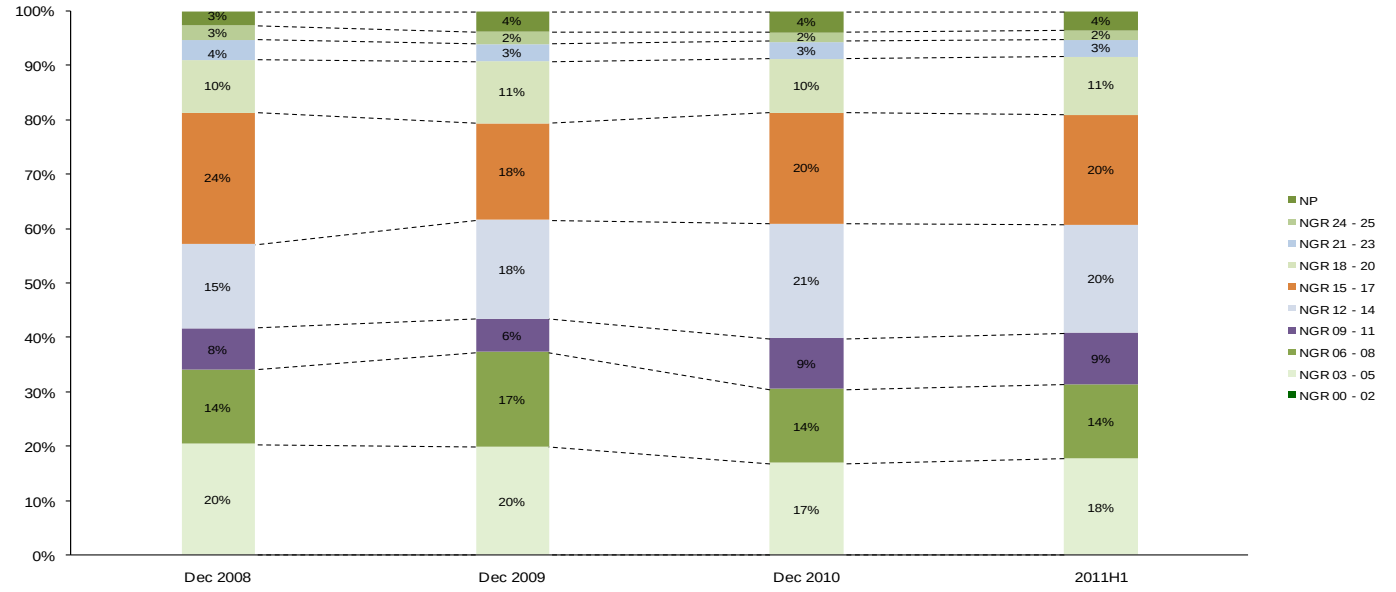
DISTRIBUTION OF TOTAL EAD OF NEDBANK LIMITED

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **2,21%** (Dec 2010: 2,33%)	Average performing book EAD–weighted dLGD**23,88%** (Dec 2010: 24,04%)	Average performing book EAD–weighted dEL**0,63%** (Dec 2010: 0,62%)
Average total book EAD–weighted PD **5,71%** (Dec 2010: 6,03%)	Average total book EAD–weighted dLGD**23,93%** (Dec 2010: 24,15%)	Average total book EAD–weighted dEL**1,90%** (Dec 2010: 1,91%)

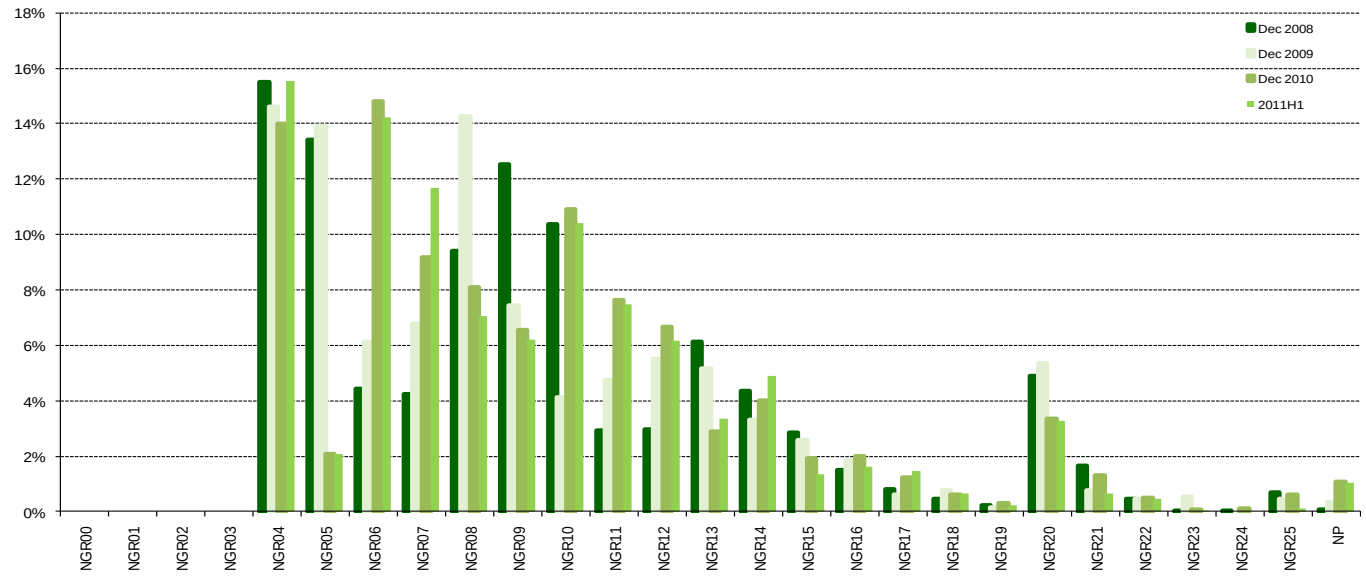
EAD % distribution by bucketed NGR bands over time (ie PD only)



New PD model implemented in March 2009 in the Retail Card portfolio resulted in improved NGR parameters which are evident by the increase in the EAD% in the NGR12 to NGR15 buckets and the decrease in the NGR17 and NGR19 buckets. The new PD models implemented in December 2009 in the Home Loans portfolio resulted in enhanced granularity in the NGR distribution which caused the significant shift from NGR17 to the other NGR buckets. Over the period 2009 to 2010 there was a significant increase in EAD% of the NGR15 bucket following a large shift of EAD from the higher ratings, predominantly the NGR18 bucket, within the Home Loans portfolio. The implementation of a new Middle market probability of default model for the SME - corporate asset class and SME - retail asset class in February 2011 caused a large shift in the EAD% from NGR12 to NGR15 buckets to the NGR16 to NGR20 buckets.

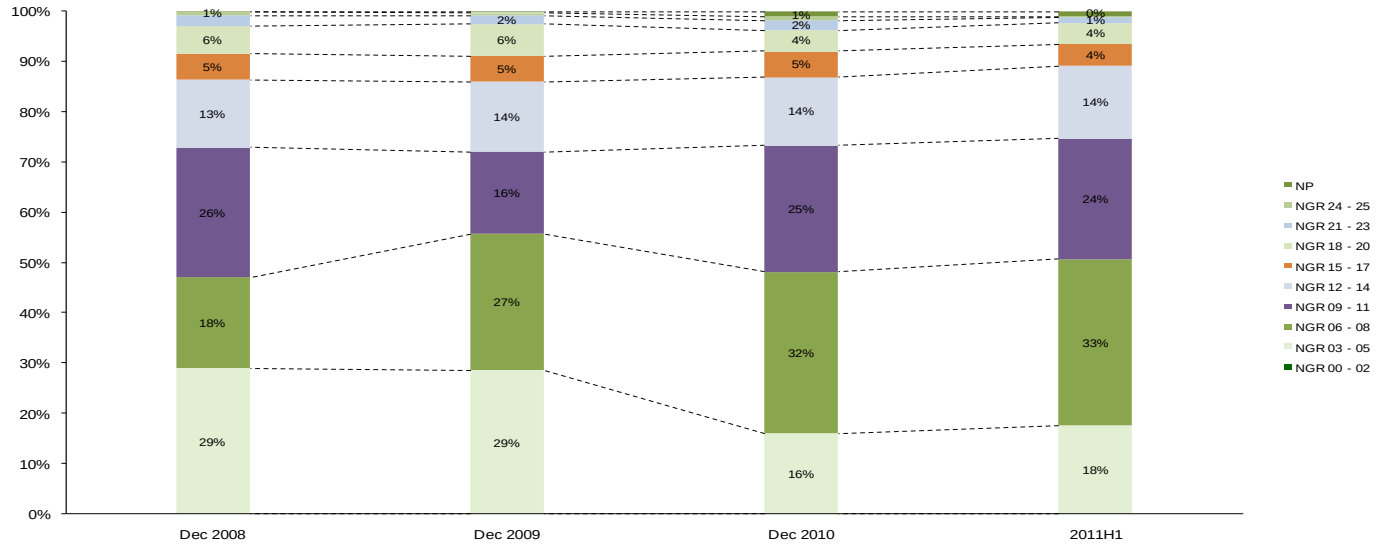
DISTRIBUTION OF NEDBANK LIMITED'S EAD BY SELECTED MAJOR BASELL II ASSET CLASS
ASSET CLASS: CORPORATE

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **0,73%** (Dec 2010: 1,07%)	Average performing book EAD–weighted dLGD **28,46%** (Dec 2010: 28,52%)	Average performing book EAD–weighted dEL **0,20%** (Dec 2010: 0,30%)
Average total book EAD–weighted PD **1,76%** (Dec 2010: 2,13%)	Average total book EAD–weighted dLGD **28,48%** (Dec 2010: 28,79%)	Average total book–weighted dEL **0,57%** (Dec 2010: 0,38%)

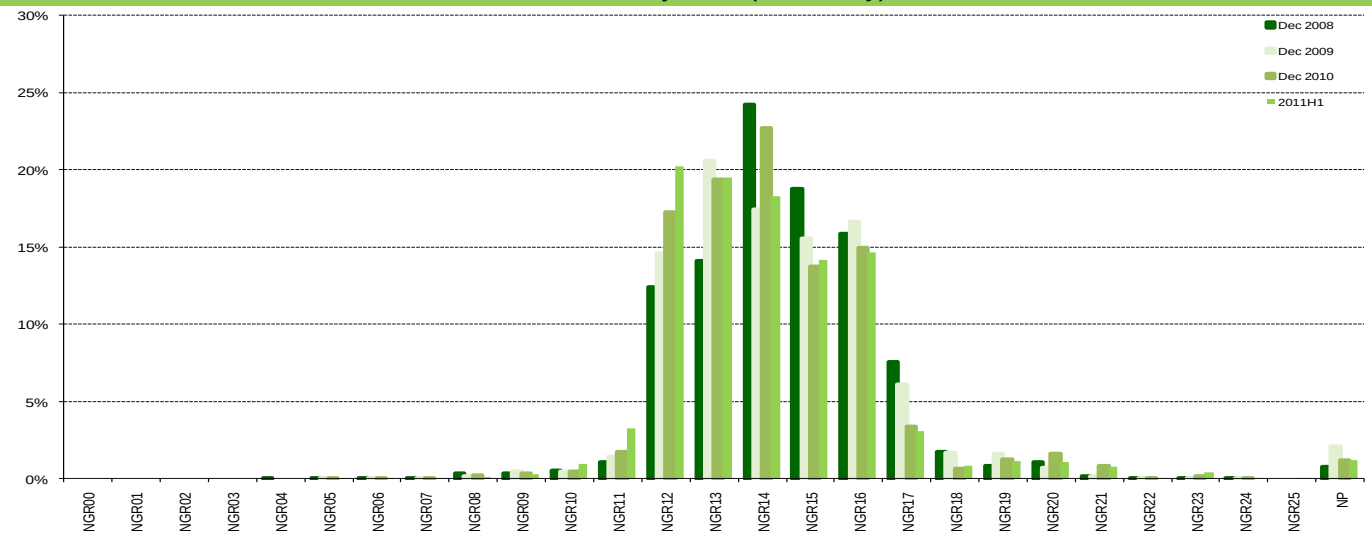
EAD % distribution by bucketed NGR bands over time (ie PD only)



The major movements between 2008 and 2009 in the corporate asset class (NGR08 - 10) were due to the rating migrations of corporate clients between these bands. During 2010 the re-rating of intercompany exposures to NGR06 from NGR05 was the cause of the large movement between the buckets. There were also significant rating migrations of three clients with relatively large exposures from NGR07 and NGR08 to NGR09 and NGR10, and two client upgrades from NGR12 and NGR13 to NGR10 and NGR11 respectively. Over the period December 2010 to June 2011, the large increase in EAD% in the NGR04 bucket was largely due to rating migration of a client from NGR07. There were also significant movements between December 2010 and June 2011, two clients with large exposures were upgraded from NGR09 and NGR14 respectively to NGR07.The decrease in EAD% in NGR10 was largely due to decrease in exposure for clients within this bucket as well as rating downgrade of one client from NGR10 to NGR14.

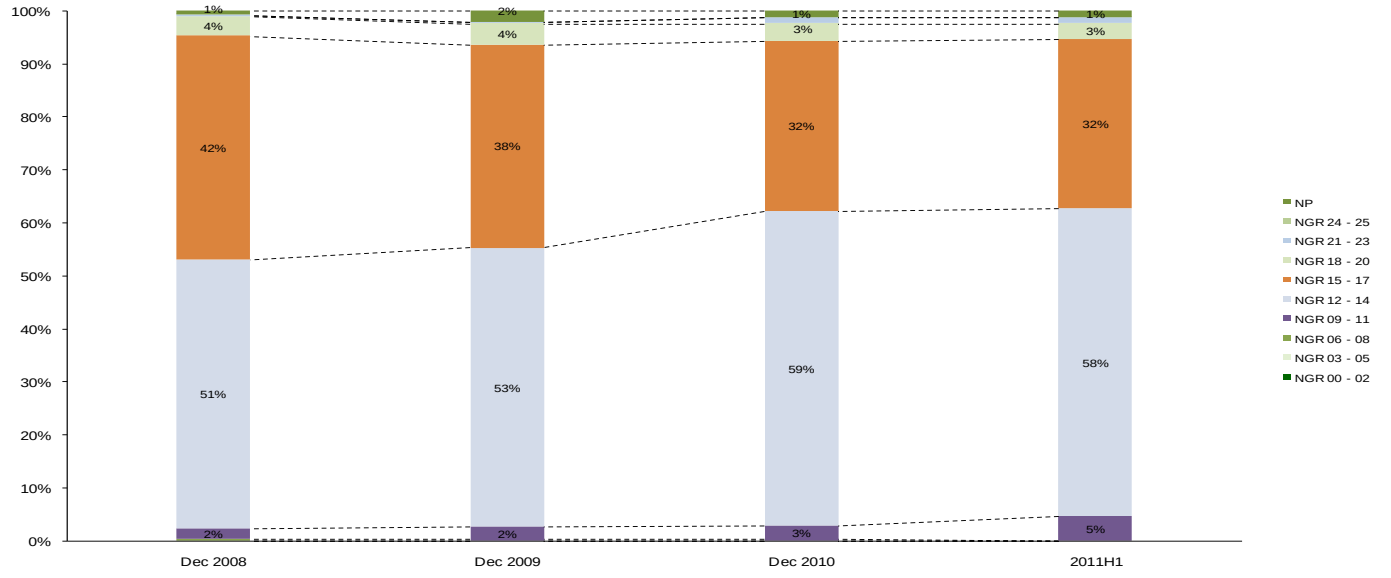
ASSET CLASS: SPECIALISED LENDING – INCOME PRODUCING REAL ESTATE

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **1,27%** (Dec 2010: 1,30%)	Average performing book EAD–weighted dLGD **18,87%** (Dec 2010: 19,35%)	Average performing book EAD–weighted dEL **0,25%** (Dec 2010: 0,26%)
Average total book EAD–weighted PD **2,44%** (Dec 2010: 2,50%)	Average total book EAD–weighted dLGD **18,94%** (Dec 2010: 19,43%)	Average total book EAD–weighted dEL **0,44%** (Dec 2010: 0,41%)

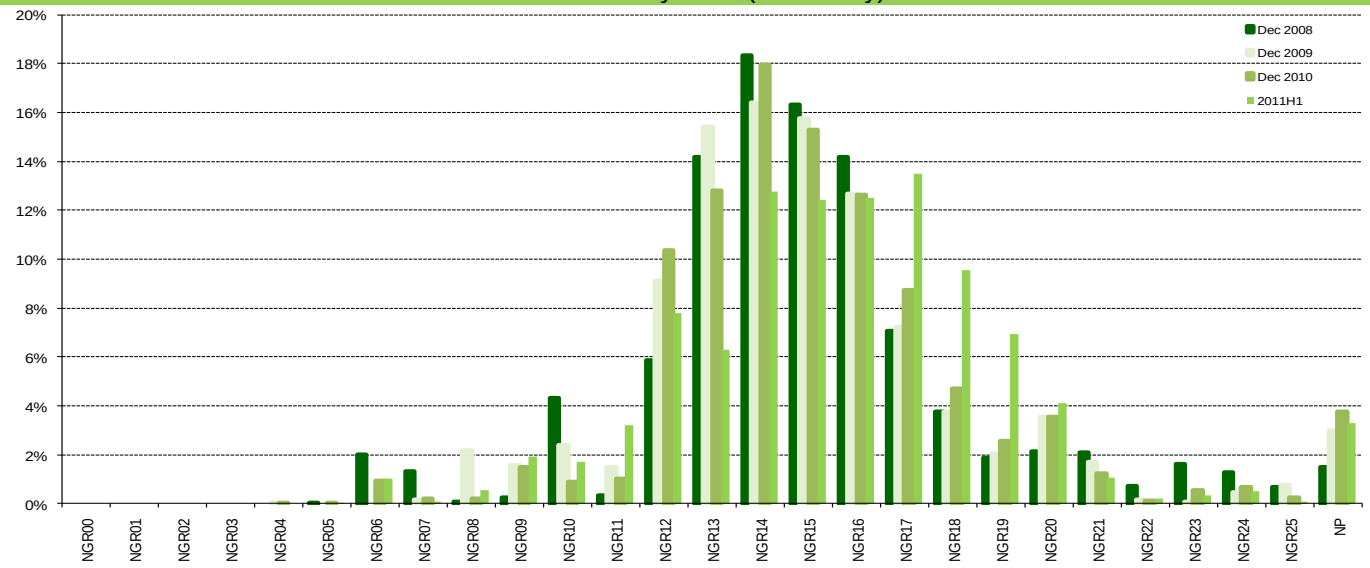
EAD % distribution by bucketed NGR bands over time (ie PD only)



The movements in the EAD% between the NGR bands in the specialised lending – income producing real estate asset class were mainly due to the re-rating of property finance clients between NGR12 to NGR17 buckets over the 2008 to 2010 period. The increase in the defaulted exposure between 2008 and 2009 was due to strain in the commercial real estate sector, which has decreased over 2010 as economic conditions improved over the year. The increase in the EAD% in NGR11 between December 2010 and June 2011 resulted mainly from a client which was upgraded from NGR14. There were also rating migrations of three clients from NGR13 and NGR14 buckets to NGR12 bucket.

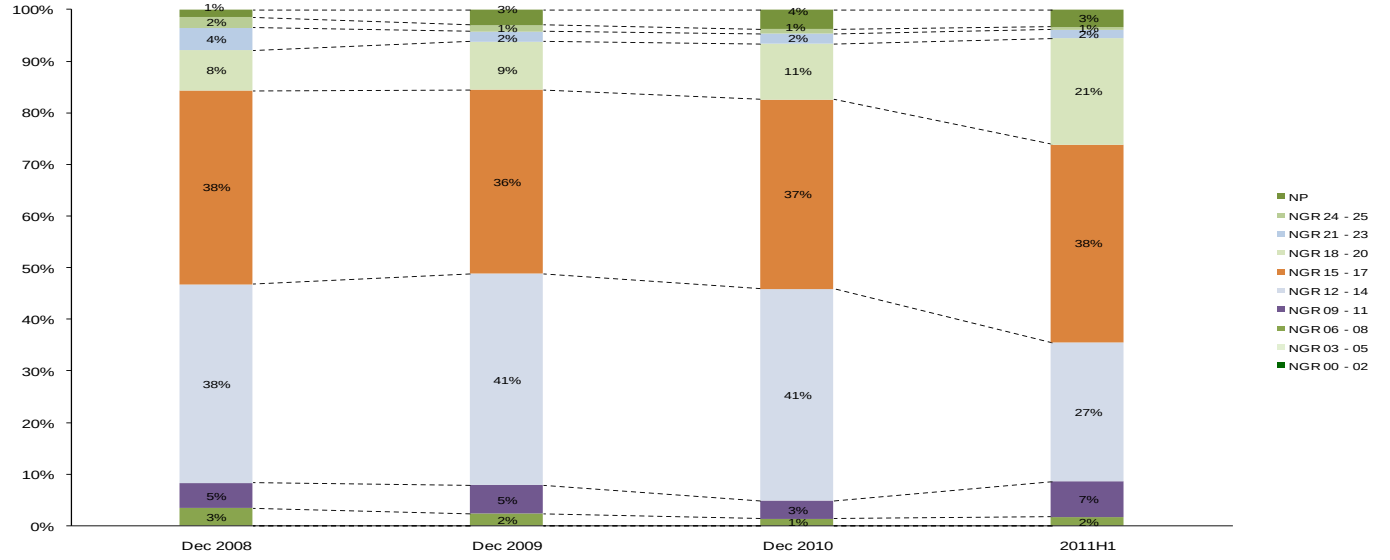
ASSET CLASS: SME – CORPORATE

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **2,41%** (Dec 2010: 2,15%)	Average performing book EAD–weighted dLGD **24,26%** (Dec 2010: 24,20%)	Average performing book EAD–weighted dEL **0,58%** (Dec 2010: 0,51%)
Average total book EAD–weighted PD **5,65%** (Dec 2010: 5,84%)	Average total book EAD–weighted dLGD **24,43%** (Dec 2010: 24,49%)	Average total book EAD–weighted dEL **1,47%** (Dec 2010: 1,70%)

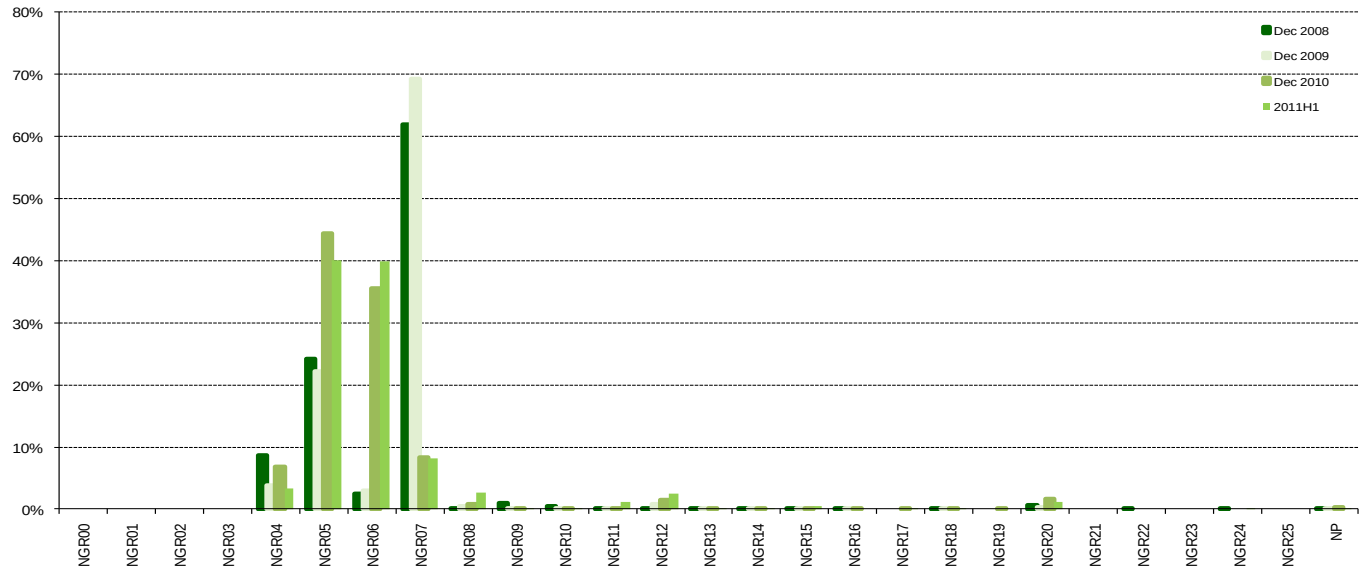
EAD % distribution by bucketed NGR bands over time (ie PD only)



Between 2009 and 2010 NGR14 and NGR17 increased following the reclassification of exposure from the 'Retail – SME' asset class into 'SME – corporate' asset class. The implementation of a new Middle market probability of default model for the SME - corporate asset class and SME - retail asset class in February 2011 caused a large shift in the EAD% in the NGR12 to NGR15 buckets to the NGR16 to NGR20 buckets. Over the period December 2010 to June 2011, there was a decrease in exposure for various NGR buckets (NGR10, NGR15 and NGR17 to NGR20) largely due to turnover correction used in asset class classification, which resulted in clients moving from SME - corporate asset class to SME - retail asset class.

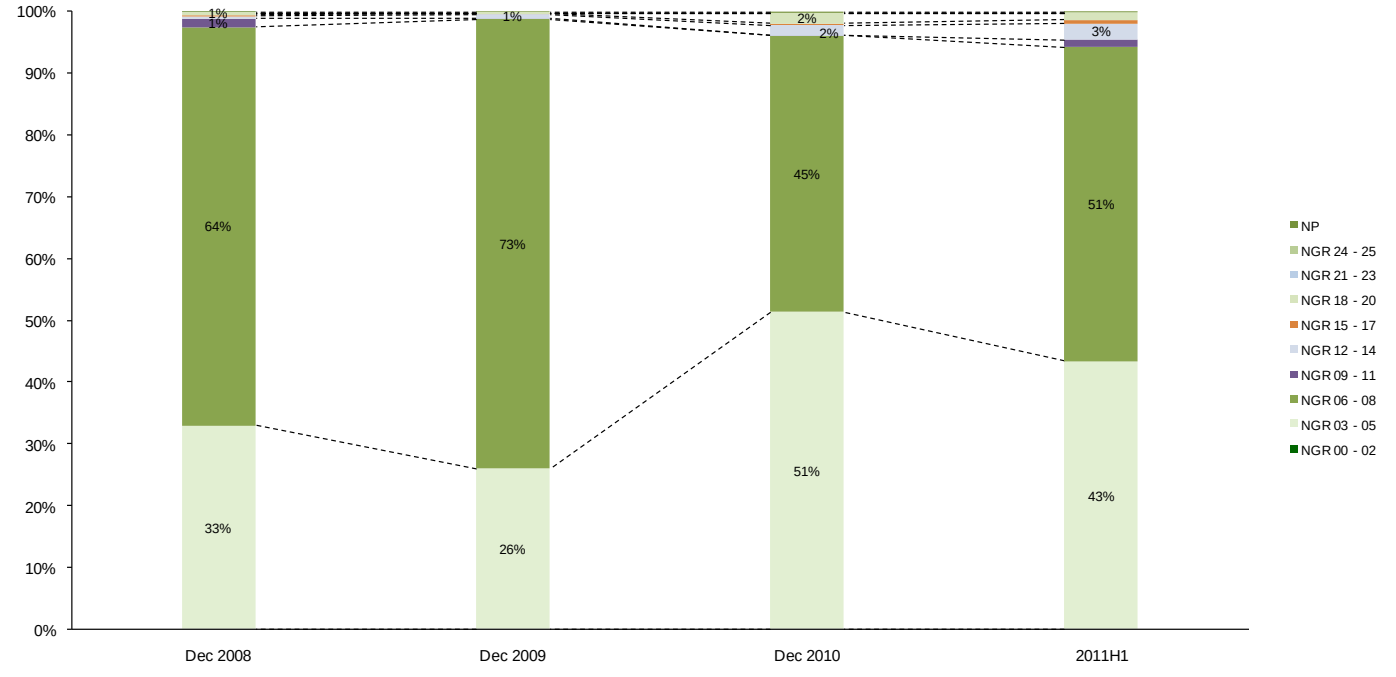
ASSET CLASS: BANKS

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **0,21%** (Dec 2010: 0,18%)	Average performing book EAD–weighted dLGD **23,81%** (Dec 2010: 24,45%)	Average performing book EAD–weighted dEL **0,07%** (Dec 2010: 0,09%)
Average total book EAD–weighted PD **0,21%** (Dec 2010: 0,44%)	Average total book EAD–weighted dLGD **23,81%** (Dec 2010: 24,59%)	Average Total book EAD–weighted dEL **0,07%** (Dec 2010: 0,09%)

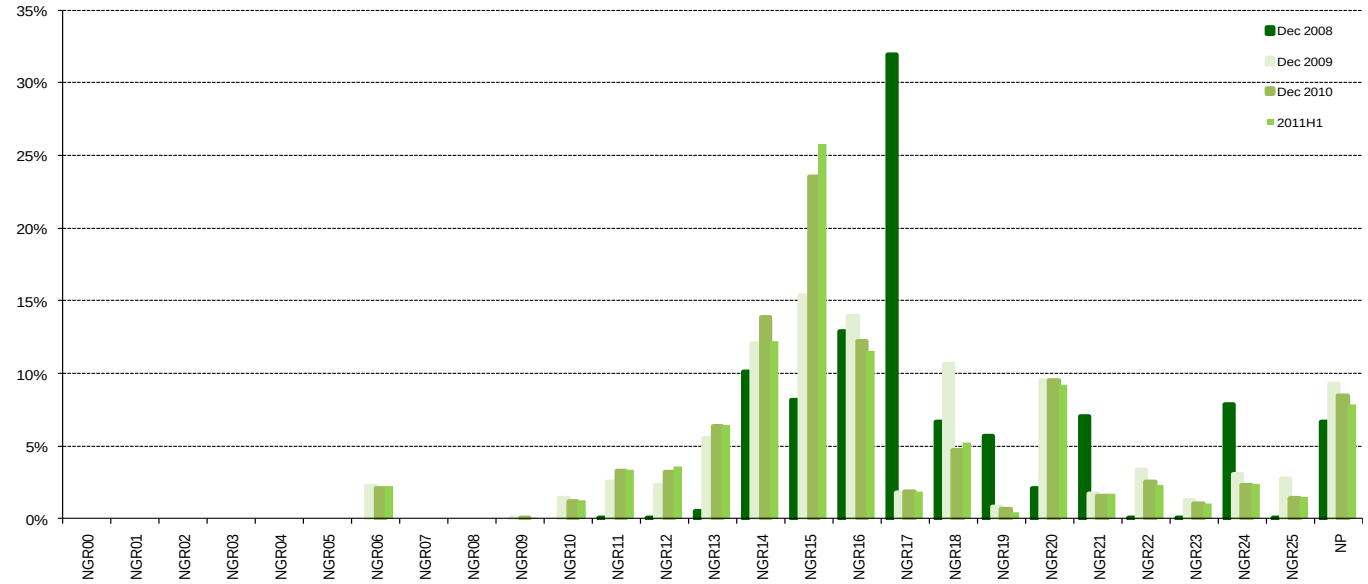
EAD % distribution by bucketed NGR bands over time (ie PD only)



The majority of the movement in exposure from NGR07 to NGR06 in 2010 was due to the change in the Nedbank Group rating and the resultant migration of intercompany exposure. There was also increased exposure to foreign and local banks in 2010, which is evident in the increase in the NGR05 and NGR06 buckets. Between December 2010 and June 2011, the increase in EAD% for NGR06 bucket was largely due to increase in foreign loans exposure within Nedbank Capital portfolio over the period.

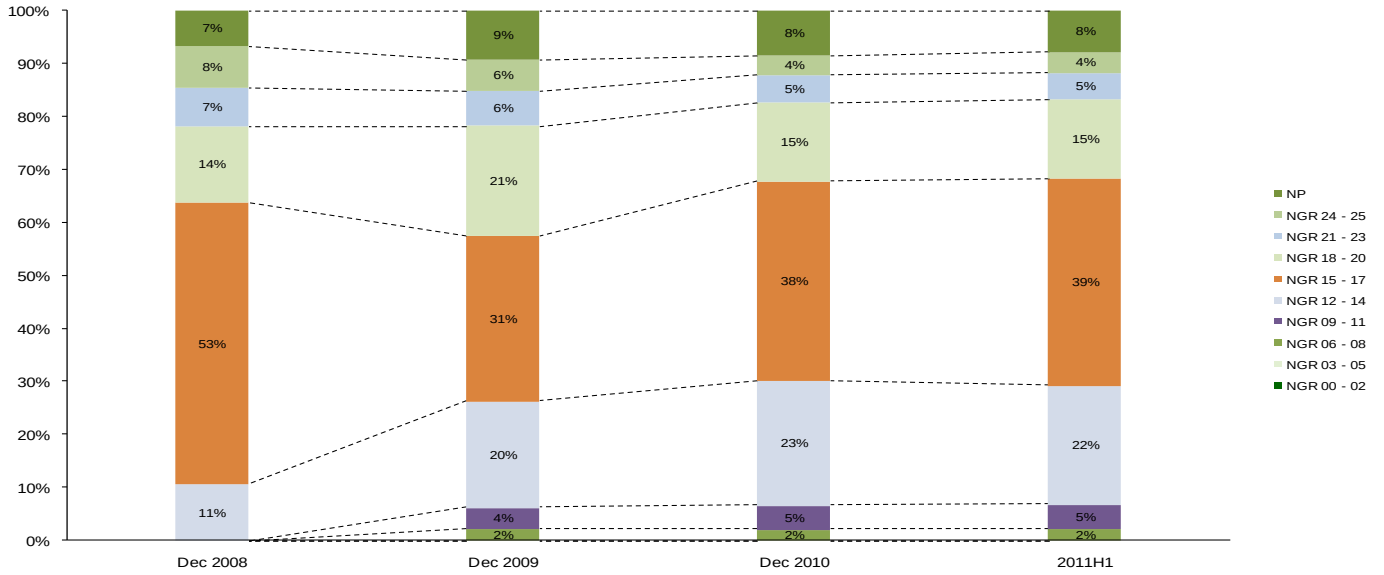
ASSET CLASS: RETAIL MORTGAGES

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **3,98%** (Dec 2010: 3,99%)	Average performing book EAD–weighted dLGD **15,39%** (Dec 2010: 15,46%)	Average performing book EAD–weighted dEL **0,61%** (Dec 2010: 0,61%)
Average total book EAD–weighted PD **11,51%** (Dec 2010: 12,12%)	Average total book EAD–weighted dLGD **15,42%** (Dec 2010: 15,48%)	Average total book EAD–weighted dEL **2,62%** (Dec 2010: 2,50%)

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

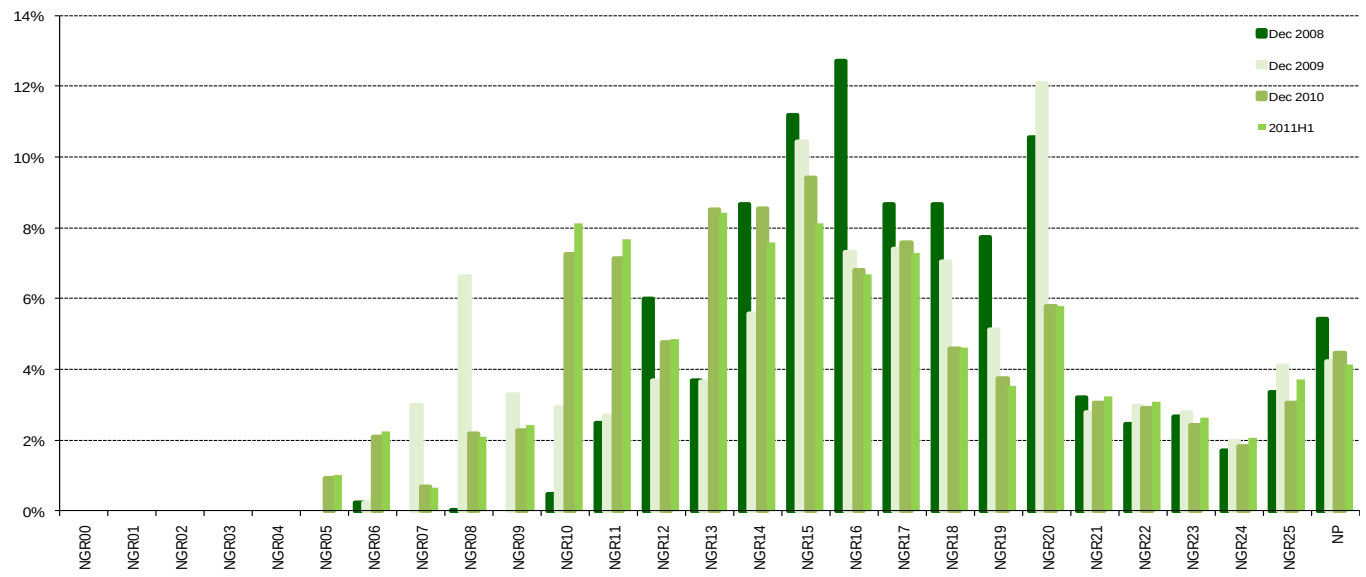


Prior to the implementation of a new behavioural scorecard model during 2009 altogether 34% of the Retail mortgages book was in NGR17. The new scoring resulted in the enhanced granularity and redistribution of the book between NGR18 and NGR25. NGR15 increased further 2010 following the enhancement of a variable within the home loans behavioural scorecard model, while the non-performing bucket decreased as market conditions improved. The decrease in the EAD% for NGR14 bucket was as a result of reclassification of Small Business Services loans and Commercial Property loans from Retail mortgage asset class to SME - Retail asset class in June 2011.

The decrease in defaulted exposure since 2009 was primarily due to improved collection process within home loans. The clients in financial difficulties are being advised to apply for restructuring, while clients unable or unwilling to pay are channelled through Nedbank Assisted Sales program in order to avoid a sale in execution and write-offs.

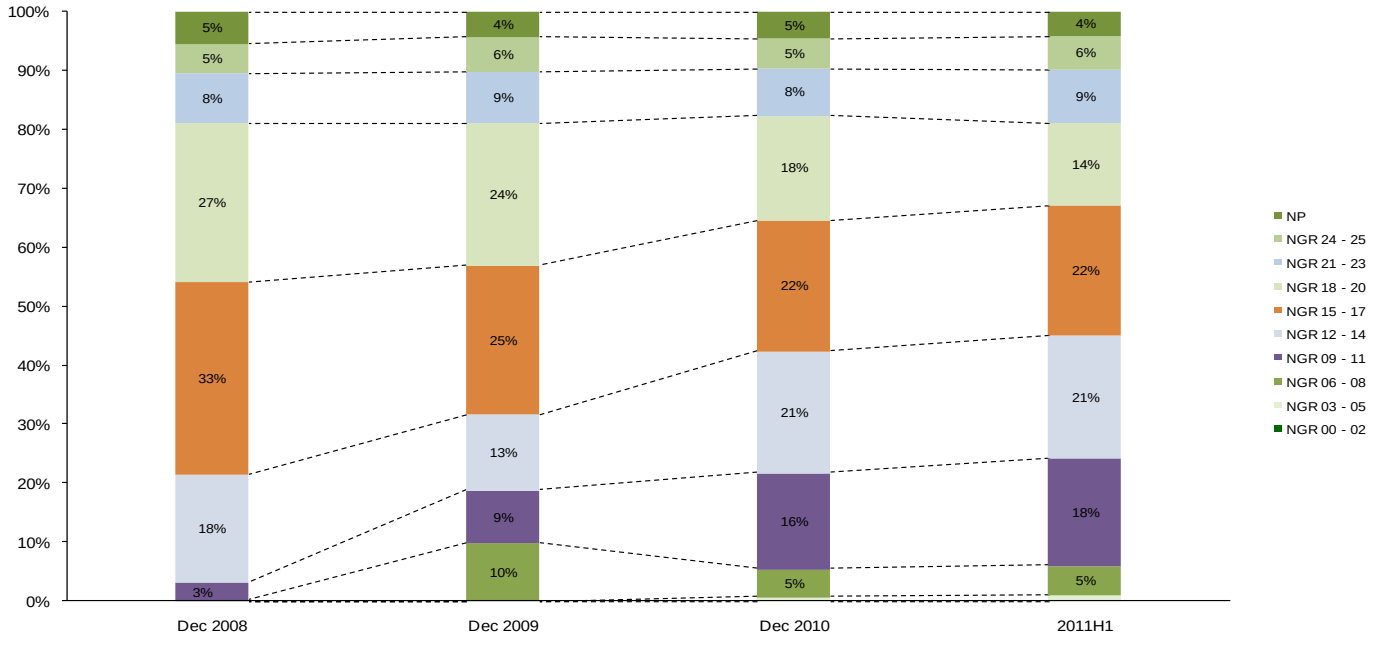
ASSET CLASS: RETAIL REVOLVING CREDIT

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **5,02%** (Dec 2010: 4,63%)	Average performing book EAD–weighted dLGD **60,88%** (Dec 2010: 61,07%)	Average performing book EAD–weighted dEL **3,37%** (Dec 2010: 3,11%)
Average total book EAD–weighted PD **8,94%** (Dec 2010: 8,88%)	Average total book EAD–weighted dLGD **61,31%** (Dec 2010: 61,46%)	Average total book EAD–weighted dEL **7,10%** (Dec 2010: 7,08%)

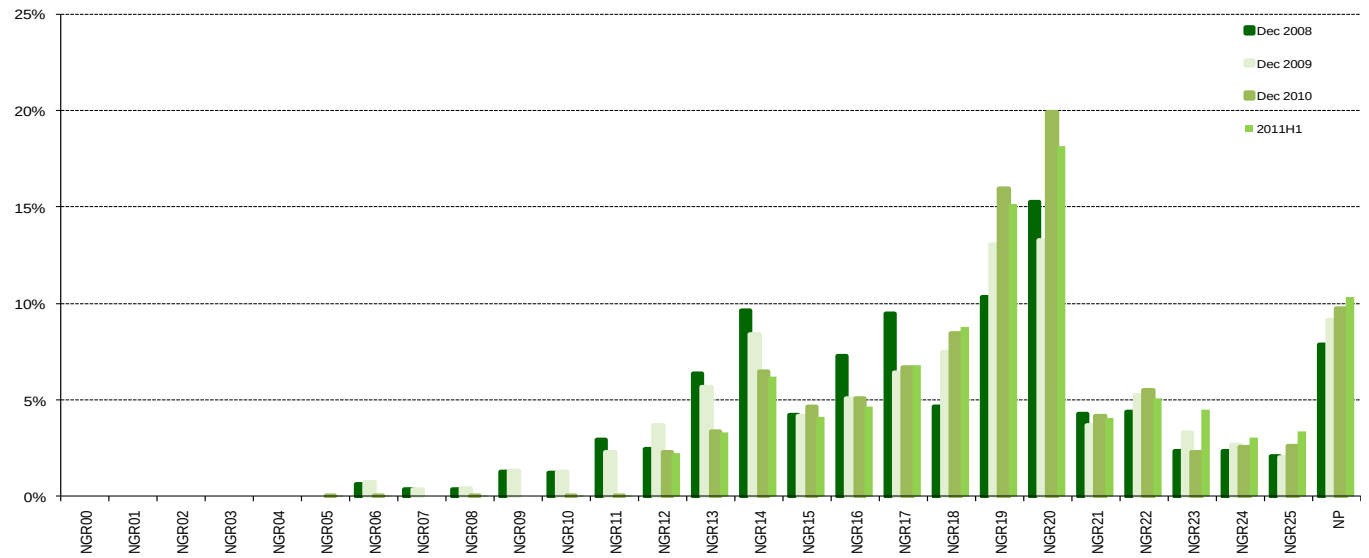
EAD % distribution by bucketed NGR bands over time (ie PD only)



Between 2009 and 2010 Retail revolving credit exposure in the NGR10 to NGR14 buckets increased due to the reclassification of current account and card exposures from the 'Retail – other' asset class.

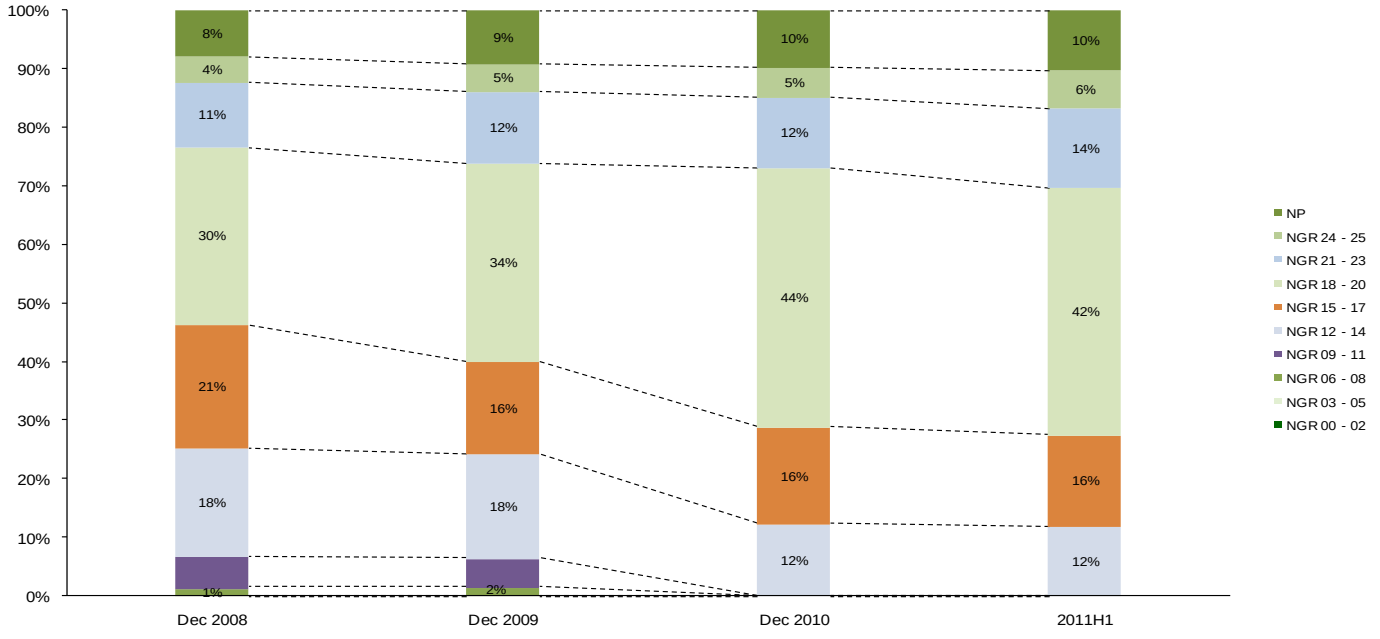
ASSET CLASS: RETAIL – OTHER

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD **7,96%** (Dec 2010: 7,20%)	Average performing book EAD–weighted dLGD **51,84%** (Dec 2010: 51,16%)	Average performing book EAD–weighted dEL **4,32%** (Dec 2010: 3,84%)
Average total book EAD–weighted PD **17,46%** (Dec 2010: 16,25%)	Average total book EAD–weighted dLGD **51,05%** (Dec 2010: 50,55%)	Average total book EAD–weighted dEL **10,23%** (Dec 2010: 9,26%)

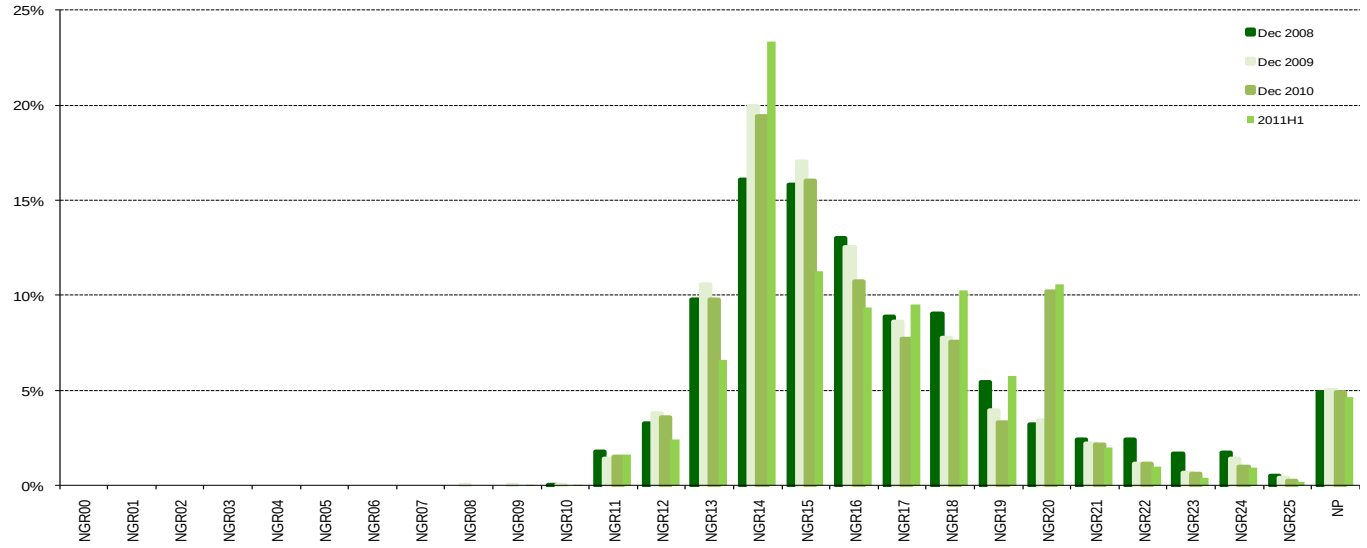
EAD % distribution by bucketed NGR bands over time (ie PD only)



Between 2009 and 2010 'Retail - other' exposure in the NGR10 to NGR14 bands decreased due to the reclassification of current account and card exposures to the 'Retail revolving credit' asset class.

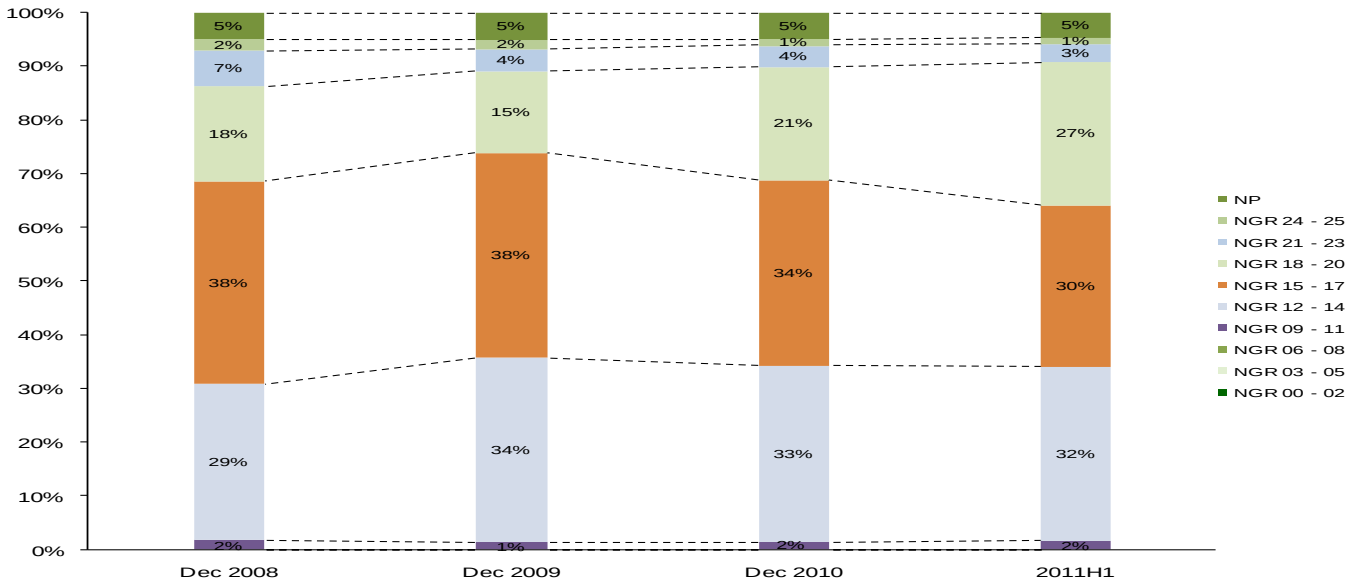
ASSET CLASS: SMALL AND MEDIUM ENTERPRISES – RETAIL

EAD distribution by NGR (ie PD only)



Average performing book EAD-weighted PD **3,19%** (Dec 2010: 3,10%)	Average performing book EAD-weighted dLGD **27,70%** (Dec 2010: 30,16%)	Average performing book EAD-weighted dEL **0,97%** (Dec 2010: 1,02%)
Average total book EAD-weighted PD **7,70%** (Dec 2010: 7,86%)	Average total book EAD-weighted dLGD **28,17%** (Dec 2010: 30,66%)	Average total book EAD-weighted dEL **3,47%** (Dec 2010: 3,82%)

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



In February 2010 the reclassification of exposure from the 'Retail – SME' asset class to 'SME – Corporate' asset class resulted in the EAD % in the NGR13 to NGR16 buckets decreasing. The increase in NGR20 for 'Retail – SME' was largely due to a further change implemented in February 2010 whereby unrated clients with a group exposure of less than R7,5 million were reclassified from the 'Corporate' asset class to 'Retail – SME'. The implementation of a new Middle market probability of default model for the SME - corporate asset class and Retail - SME asset class in February 2011 caused a large shift in the EAD % in the NGR12 to NGR15 buckets to the NGR16 to NGR20 buckets. Between December 2010 and June 2011, the increase in EAD% for NGR14 bucket was largely due to reclassification of Small Business Services loans and Commercial Property loans from Retail mortgage asset class to Retail - SME asset class in June 2011. There was also an increase in the EAD% for NGR15 to NGR18 buckets following the reclassification of clients from Retail - SME asset class to Corporate - SME asset in June 2011.

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 optimise 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 emphasises that collateral on its own is not necessarily a justification for lending. The primary consideration for any lending opportunity should rather be the borrower's financial position and ability to repay the facility from its own resources and cashflow.

While the new SA 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.

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; and
  - overdrafts that are either unsecured or secured by guarantees, suretyships or pledged securities.
- Wholesale portfolio
  - commercial properties are supported by the property financed and a cession of the leases;
  - instalment credit type of transactions that are secured by the assets financed;
  - working capital facilities, when secured, usually by either a claim on specific assets (fixed assets, inventory and debtors) or other collateral such as guarantees;
  - term and structured lending, which usually relies on guarantees or credit derivatives (where only internationally recognised and enforceable agreements are used); and
  - 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 6 monthly on the defaulted book, and physical valuations are performed

on approximately 50% of new applications. The remainder of new applications are 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

BASEL II 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
Jun 2011					
Corporate	**15 638**	**110 036**	**9 816**	**135 490**	**1 562**
Banks	**750**	**118**		**868**	**1 559**
Securities firms					
Retail exposures	**2 738**	**159 762**	**24**	**162 524**	
Retail mortgages	**4**	**138 633**		**138 637**	
SME – retail	**2 703**	**15 164**	**24**	**17 891**	
Retail – other	**31**	**5 965**		**5 996**	
Total	**19 126**	**269 916**	**9 840**	**298 882**	**3 121**
Dec 2010					
Corporate	13 853	117 192	5 612	136 657	446
Banks	508	210		718	6 414
Securities firms	106			106	
Retail exposures	1 397	162 652	18	164 068	
Retail mortgages	31	138 442		138 474	
SME – retail	1 337	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, debtors 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, 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 counter parties for credit mitigation purposes. The table below shows the total unmitigated exposure under TSA.

EXPOSURE SUBJECT TO THE STANDARDISED APPROACH PER RISK WEIGHTING		
Rm	**Jun**	Dec
Based on risk weights	**2011**	2010
0% - 35%	**3 716**	3 571
50%	**1 226**	1 503
75%	**43 019**	40 071
100% and above	**10 935**	13 035
Total	**58 896**	58 180

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 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 counterparty credit risk. 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 counterparty credit risk 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 counterparty credit risk. Economic capital calculations also currently utilise the CEM results as input in the determination of credit economic capital.

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

The tables below include a breakdown of the groups OTC derivative counterparty credit risk exposure by product and NGR band. Overall the group had a R5,1 billion decrease in fair value, R4,2 billion of which relates to the Forex and Gold product and is as a result of the maturity of trades, and revaluations in the foreign exchange book.

OTC derivative products	Notional value	Gross positive fair value	Notional value	Gross positive fair value
Rm		**Jun 2011**		Dec 2010
Credit default swaps	**9 837**	**128**	8 338	56
Embedded derivatives	**2 293***		3 720*	2
Proprietary trading	**7 544****	**128**	4 618**	54
Equities	**6 678**	**502**	11 740	569
Forex and gold	**170 474**	**1 991**	346 824	6 212
Interest rates	**605 789**	**6 557**	419 210	7 234
Other commodities	**581**	**69**	4 172	147
Precious metals except gold			6 487	105
Total	**793 359**	**9 247**	796 771	14 323

* *Credit default swaps embedded in credit-linked notes issued by Nedbank Group whereby credit protection of R2 193 million is purchased or credit linked notes purchased whereby credit protection of R100 million is sold.*

** *Proprietary trading positions through the purchase (R1 877 million) and sale (R2 741 million) of credit protection.*

OTC derivative products	Gross positive fair value	Current netting benefits	Netted current credit exposure (before mitigation)	Collateral amount	Netted current credit exposure (after mitigation)	Exposure at default value	Risk-weighted exposure
Rm							
Jun 2011	**9 247**	**4 958**	**4 289**	**981**	**3 377**	**6 218**	**2 170**
Dec 2010	14 323	6 983	9 052	368	8 766	11 718	4 428

OTC derivatives per NGR (PD) band	Notional value	Gross positive fair value	EAD value	Notional value	Gross positive fair value	EAD value
Rm		**Jun 2011**			Dec 2010	
NGR02*	**7**					
NGR03	**24 204**	**790**	**1 091**	37 557	1 123	1 593
NGR04	**212 284**	**1 485**	**820**	179 019	2 042	1 482
NGR05	**289 418**	**3 254**	**1 268**	210 164	3 469	1 148
NGR06	**132 328**	**1 524**	**794**	163 003	2 037	1 317
NGR07	**70 177**	**525**	**306**	81 045	808	607
NGR08	**6 130**	**160**	**203**	10 387	1 337	1 392
NGR09	**3 354**	**64**	**79**	2 271	110	125
NGR10	**4 418**	**57**	**92**	9 094	133	208
NGR11	**1 963**	**41**	**58**	34 164	116	442
NGR12	**7 777**	**312**	**184**	13 102	794	396
NGR13	**1 707**	**30**	**43**	3 527	161	192
NGR14	**5 166**	**96**	**111**	8 359	223	263
NGR15	**4 276**	**133**	**167**	18 875	332	721
NGR16	**6 063**	**125**	**157**	3 102	225	246
NGR17	**1 129**	**22**	**31**	449	29	33
NGR18	**524**	**7**	**12**	765	29	36
NGR19	**439**	**10**	**15**	475	24	28
NGR20	**17 664**	**517**	**647**	19 403	587	724
NGR21	**991**	**27**	**30**	1 579	639	654
NGR22	**2**			172	1	3
NGR23	**1**			16		1
NGR24	**2 912**	**11**	**53**			
NGR25				3		
NP	**425**	**57**	**57**	240	104	107
Total	**793 359**	**9 247**	**6 218**	796 771	14 323	11 718

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

Securities financing transactions (SFTs) for Nedbank Limited and London Branch

SFTs Rm	Gross positive fair value	Collateral value after haircut	Netted current credit exposure (after mitigation)	Exposure at default value	Risk-weighted exposure
June 2011					
Repurchase agreements	**10 797**	**10 548**	**249**	**249**	**11**
Securities lending	**6 510**	**10 211**	**745**	**745**	**65**
Total	**17 307**	**20 759**	**994**	**994**	**76**
December 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

SFTs per NGR (PD) band	Gross exposure	EAD value	Gross exposure	EAD value
Rm	**Jun 2011**		Dec 2010	
NGR03	**1 668**	**15**	506	30
NGR04	**1 495**	**407**	3 308	877
NGR05	**6 540**	**270**	7 128	593
NGR06	**7 219**	**289**	8 194	220
NGR07	**17**	**2**	287	9
NGR08				
NGR11	**308**	**5**	94	6
NGR16				
NGR20	**60**	**6**	70	8
Total	**17 307**	**994**	19 587	1 743

Credit concentration risk

Single-name credit concentration risk

Of total group credit economic capital only 4,34% is attributable to the top 20 exposures, excluding banks and government exposure, and 1,38% 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 economic capital. Single-name concentration is monitored at all credit committees, which includes the applicable regulatory and economic capital per exposure.

TOP 20 NEDBANK GROUP EXPOSURES (excluding banks and government exposure)			
June 2011	Internal NGR (PD) Rating	EAD	% of total group credit ECap
No.		Rm	(%)
1	NGR05	4 302	0,12
2	NGR14	3 963	1,36
3	NGR14	3 648	0,40
4	NGR03	3 331	0,00
5	NGR11	3 109	0,70
6	NGR07	3 010	0,10
7	NGR08	2 517	0,27
8	NGR03	2 354	0,01
9	NGR03	2 768	0,00
10	NGR04	2 126	0,00
11	NGR10	2 139	0,64
12	NGR04	2 605	0,07
13	NGR04	2 064	0,01
14	NGR07	2 056	0,05
15	NGR03	2 152	0,00
16	NGR04	2 694	0,08
17	NGR13	1 992	0,28
18	NGR08	1 877	0,16
19	NGR12	2 165	0,08
20	NGR10	1 830	0,01
Total of top 20 exposures		**52 702**	**4,34**
Total group*		**646 577**	

** 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 economic capital.*

TOP 20 NEDBANK GROUP EXPOSURES (banks only)			
June 2011	Internal NGR (PD) rating	EAD	% of total group credit ECap
No		Rm	(%)
1	NGR05	4 726	0,12
2	NGR05	4 248	0,08
3	NGR05	3 190	0,05
4	NGR07	1 520	0,11
5	NGR06	1 643	0,10
6	NGR06	1 116	0,11
7	NGR06	1 095	0,07
8	NGR05	885	0,05
9	NGR06	938	0,06
10	NGR07	824	0,06
11	NGR07	559	0,06
12	NGR12	532	0,18
13	NGR04	972	0,04
14	NGR05	656	0,04
15	NGR07	486	0,05
16	NGR06	889	0,06
17	NGR05	500	0,03
18	NGR06	386	0,04
19	NGR05	389	0,03
20	NGR07	317	0,04
Total of top 20 exposures		**25 871**	**1,38**
Total group*		**646 577**	

** 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 economic capital.*

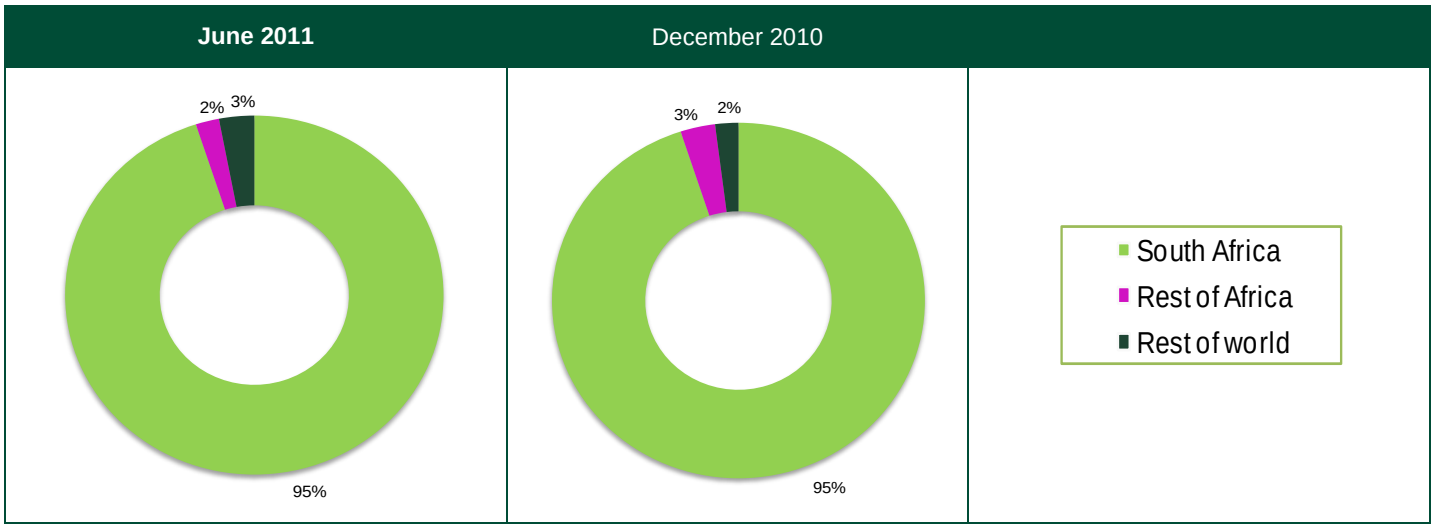
Geographic concentration risk

Given that 95% 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.

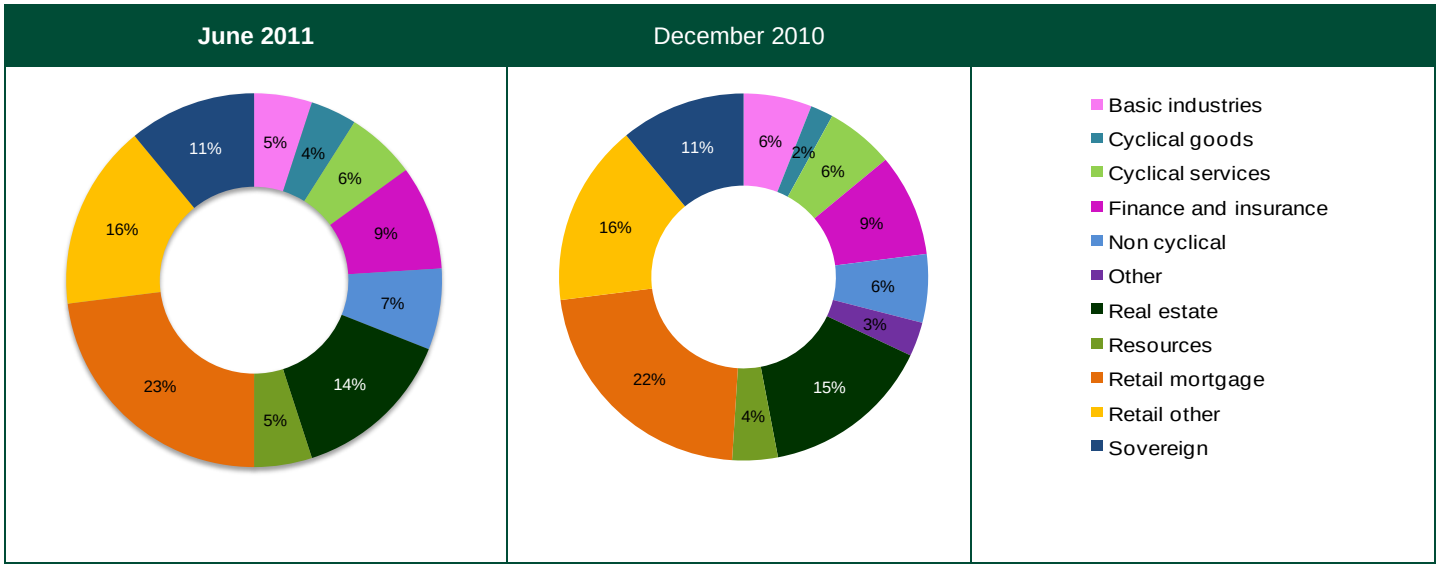
The direct exposure of Nedbank Group to the banking sectors of Portugal, Italy, Ireland, Greece and Spain (PIIGS) is monitored on an ongoing basis and is not material. The group holds no sovereign bonds issued by these countries. Direct lines to banks in Italy and Spain are restricted to systemically important banks.

A summary of Nedbank Group's exposure to the banks based in the PIIGS at 30 June 2011 is provided below:

- Portugal – total exposure amounts to R2,53 million.
- Italy – total exposure amounts to R3,29 billion.
- Ireland – Nedbank Group has no exposure or lines to Irish banks.
- Greece – Nedbank Group has no exposure or lines to Greek banks.
- Spain – total exposure amounts to R282,14 million.



Industry concentration risk



Note: The figures above represent the industry (%) split of Nedbank Group's total exposure, including on-balance-sheet, off-balance-sheet and derivatives based on the Proprietary Credit Portfolio Model used for credit economic capital measurement.

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.

Securitisation risk

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

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

Nedbank Group also fulfils a number of secondary roles as liquidity facility 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 International Financial Reporting Standards in recognising and accounting for securitisation transactions. In particular, the assets transferred to the GreenHouse and Octane securitisation vehicles continue to be recognised and consolidated in the balance sheet of the group and the respective securitisation vehicles are consolidated under Nedbank Group for financial reporting purposes. Synthesis is also consolidated into the group for financial reporting purposes.

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.

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.

Securitisation activities of the group

Synthesis is a hybrid multiseller ABCP programme that invests in longer-term rated bonds and offers capital market investment opportunities to SA 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 provider and investor. The exposures to Synthesis that Nedbank Group assumes are measured, from both a regulatory and economic capital (ICAAP) point of view, using the Ratings-based Approach and the standardised formula approach, both under the Internal Ratings-based (IRB) Approach for securitisation exposures, thereby ensuring alignment with the methodology adopted across the wider Nedbank Group.

Octane is a securitisation programme of auto loans originated by Imperial Bank. The inaugural transaction entailed the securitisation of R2 billion of motor vehicle loans under Octane. Nedbank Group currently fulfils a number of roles in relation to Octane Series 1, including acting as originator, service provider, credit enhancement (subordinated-loan) facility provider, swap provider and investor. The commercial paper issued by Octane has been assigned credit ratings by Fitch and is listed on the JSE. During 2011 the transaction continued to repay investors as envisaged in the transaction documents and Fitch placed the class B to D commercial paper on rating watch positive for a possible upgrade.

GreenHouse is a R10 billion RMBS programme that securitises a portion of Nedbank Group's residential mortgages. The inaugural transaction under GreenHouse entailed the securitisation of R2 billion of residential mortgages under GreenHouse. Nedbank Group currently fulfils a number of roles in relation to GreenHouse, including acting as originator, service provider, credit enhancement (subordinated-loan) facility provider, swap provider 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. As a result, the stop-purchase event remains in effect, 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, all capital repayments were directed to noteholders. In August 2010 Fitch Ratings placed 10 South African RMBS transactions, including Nedbank Limited’s RMBS programme, GreenHouse, on rating watch negative. This reflects Fitch's revised rating criteria for SA RMBS transactions and performance concerns in the sector. In order to validate Fitch's assumptions, it has requested data from the affected originators. Once the data has been analysed, further rating action will be considered.

Assets securitised and retained securitisation exposure

Transaction	Year initiated	Rating agency	Transaction type	Asset type	Assets securitised		Assets outstanding		Amount retained/ purchased*	
					Jun 2011	Dec 2010	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010
GreenHouse	2007	Moody's and Fitch	Traditional securitisation	Retail mortgages	**2 000**	2 000	**1 581**	1 699	**221**	226
Octane	2007	Fitch	Traditional securitisation	Auto loans	**2 000**	2 000	**279**	607	**115**	312
Total					**4 000**	4 000	**1 860**	2 306	**336**	538

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

Liquidity facilities provided

Transaction	Year initiated	Rating agency	Transaction type	Asset type	Programme size	Assets outstanding	Liquidity facilities	Assets outstanding	Liquidity facilities
Rm						**Jun 2011**		Dec 2010	
Synthesis	2004	Fitch	ABCP programme	Asset-backed securities, corporate term loans and bonds	15 000	**4 706**	**4 710**	5 006	5 009

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

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

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

Rating	Exposure	
Rm	**Jun 2011**	Dec 2010
AAA or A1/P1	**518**	523
AA+ to AA-	**42**	125
A+ to A-	**68**	175
BBB+ to BBB-	**128**	160
BB+ to BB-	**6**	14
Unrated	**772**	776
Unrated liquidity facilities to ABCP programme	**4 710**	5 009
Total	**6 243**	6 782

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

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

Risk weighted bands	Exposure		Capital charge		Capital deduction	
Rm	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010
7 - 10%	**1 149**	6 161	**10**	44		
11 - 19%	**4 777**	73	**62**	1		
20 - 49%	**26**	26	**1**	1		
50 - 75%						
76 - 99%						
100%	**40**	40	**4**	4		
250%	**65**	65	**16**	16		
425%						
650%						
1 250% or deducted	**25**	25			**25**	25
Total	**6 082**	6 390	**92**	66	**25**	25

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

Risk weighted bands	Exposure		Capital charge		Capital deduction	
Rm	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010
20%						
50%						
100%	**107**	259	**10**	25		
Deducted	**48**	48			**48**	48
1 250% or deducted	**6**	14			**6**	14
Total	**161**	321	**10**	25	**54**	62

The table below contains a summary of the deductions in respect of securitisation exposures.

Transaction	Asset type	Exposure	
Rm		**Jun 2011**	Dec 2010
GreenHouse	Retail mortgages	**25**	25
Octane	Auto loans	**54**	62
Total		**79**	87

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).
- 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 130.

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

Trading market risk governance structure

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 market-making and the facilitation of client business and proprietary trading in the commodity, equity, credit, interest rate, and currency 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; and
- 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 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. Market risk reports are available at a variety of levels and detail, ranging from an individual-trader level right through to a group level view.

Trading market risk profile

The tables below reflect the VaR statistics for the Nedbank Group trading book activities.

GROUP TRADING BOOK VALUE AT RISK				
Rm	Historical VaR (99%, one-day VaR) by risk type			
Risk categories	Average	Minimum*	Maximum*	End of period
Jan to Jun 2011				
Foreign exchange	**2,3**	**0,7**	**5,0**	**1,8**
Interest rate	**9,8**	**6,0**	**14,2**	**7,4**
Equity	**3,2**	**2,2**	**6,6**	**3,4**
Credit	**2,6**	**1,4**	**4,0**	**1,4**
Commodity	**0,2**	**0,0**	**0,5**	**0,0**
Diversification**	**(6,4)**			**(4,4)**
Total VaR exposure	**11,7**	**7,4**	**19,4**	**9,6**
Jan to Jun 2010				
Foreign exchange	1,8	0,8	3,6	2,0
Interest rate	11,4	6,8	14,9	11,1
Equity	4,0	1,4	9,3	3,4
Credit	2,3	0,8	3,2	2,2
Commodity	0,7	0,0	1,5	0,0
Diversification**	(7,2)			(7,0)
Total VaR exposure	13,0	8,9	18,3	11,7
Jan to Dec 2010				
Foreign exchange	2,2	0,6	6,7	3,9
Interest rate	9,0	3,9	14,9	6,2
Equity	3,6	1,4	9,3	2,8
Credit	2,8	0,8	4,0	4,0
Commodity	0,7	0,0	1,5	0,2
Diversification**	(7,3)			(6,2)
Total VaR exposure	11,0	6,1	18,3	10,9

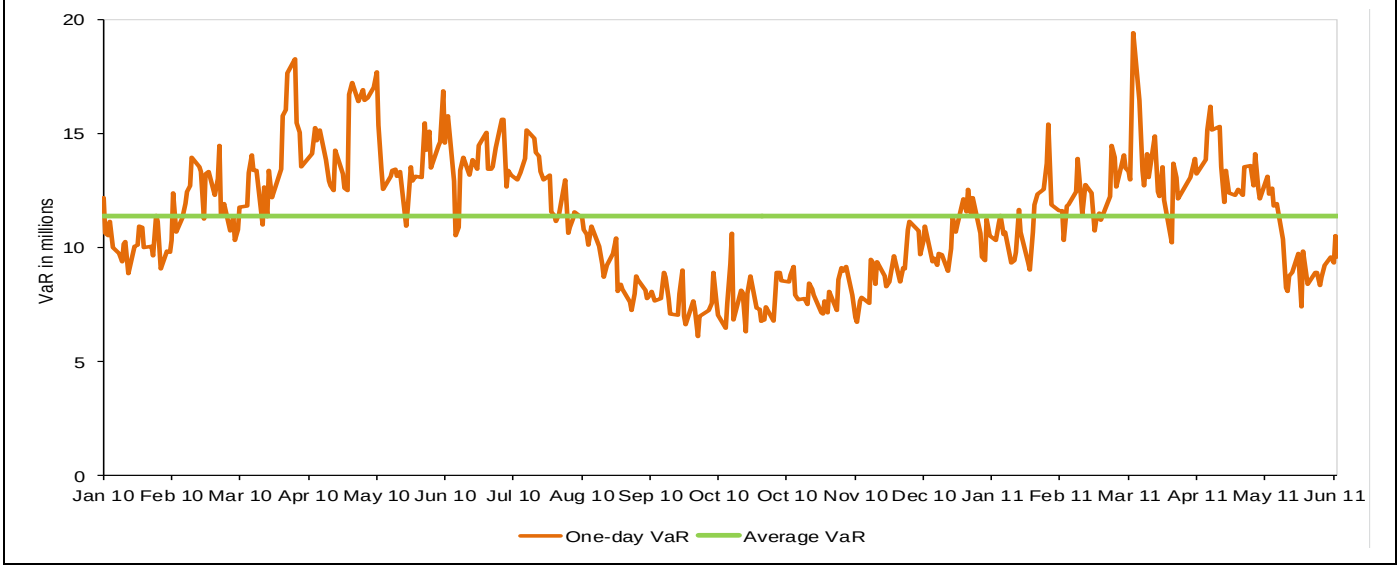
** The maximum and minimum VaR values reported for each of the different risk factors do not necessarily occur on the same day. As a result a diversification number for the maximum and minimum values have been omitted from the table.*

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

Nedbank Group's trading market risk exposure expressed as average daily VaR decreased in the first six months of 2011 by just over 9% from R13,0 million to R11,7 million. The economic and financial outlook in 2011 has continued to remain uncertain against the backdrop of a fragile global economic recovery and near sovereign default in the Eurozone. This has negatively impacted the risk appetite in all the market risk categories.

The following graph illustrates the daily VaR for the 18-month period from 1 January 2010 to 30 June 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 and regulatory capital respectively.

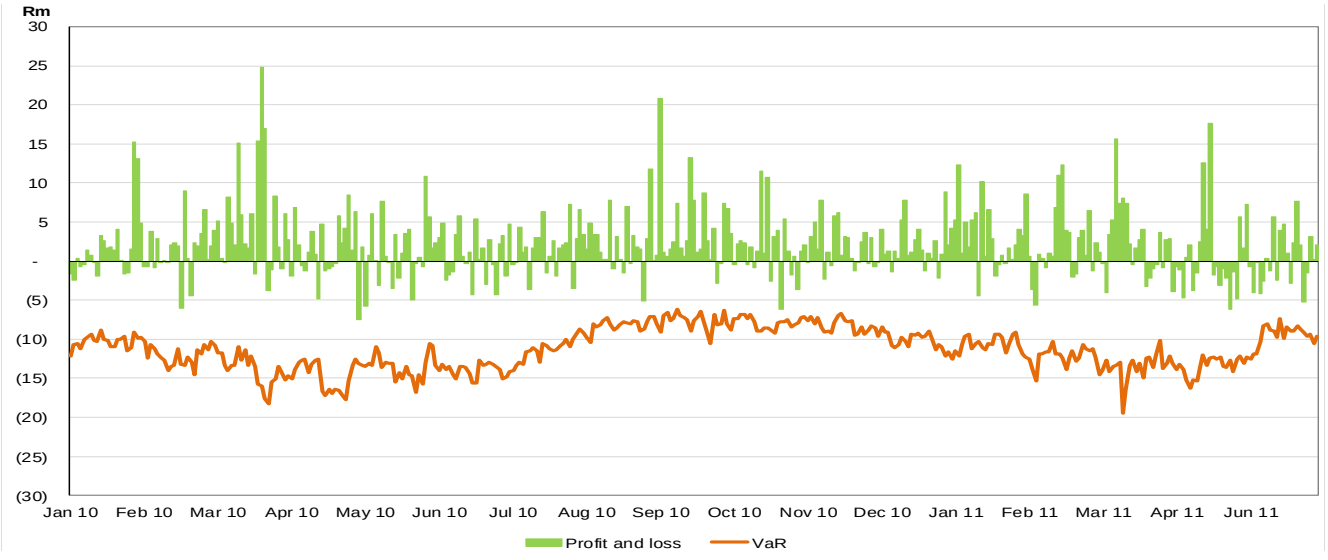
VALUE-AT-RISK UTILISATION FOR THE 18 MONTHS ENDED JUNE 2011 (99%, one-day VaR)



VaR is an important measurement tool and the performance of the model is regularly assessed. The approach to assessing whether the model is performing adequately is known as backtesting, 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 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.

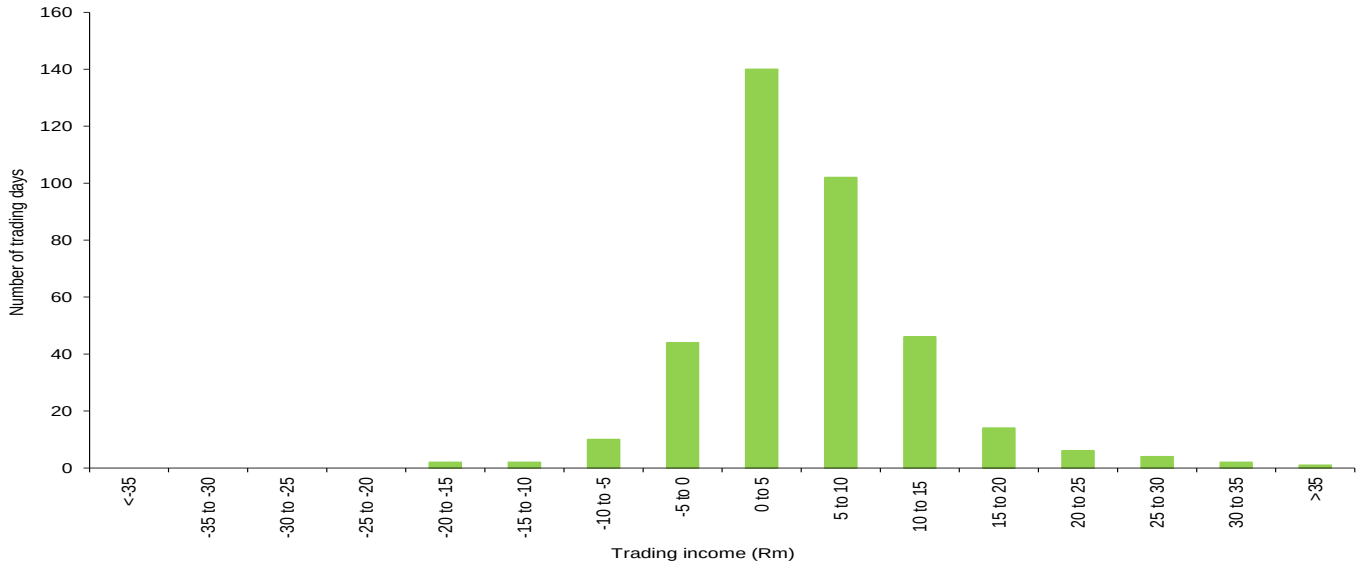
Nedbank Group used a holding period of one day with a confidence level of 99%, and had no backtesting exceptions for the 18-month period from 1 January 2010 to 30 June 2011.

VALUE-AT-RISK PROFIT AND LOSS FOR THE 18 MONTHS ENDED JUNE 2011



The following histogram illustrates the distribution of daily revenue for the period 1 January 2010 to 30 June 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 R5,55 million (December 2010: R6,03 million).

ANALYSIS OF TRADING REVENUE FOR THE 18 MONTHS ENDED JUNE 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 FOR 6 MONTHS ENDED 30 JUNE 2011

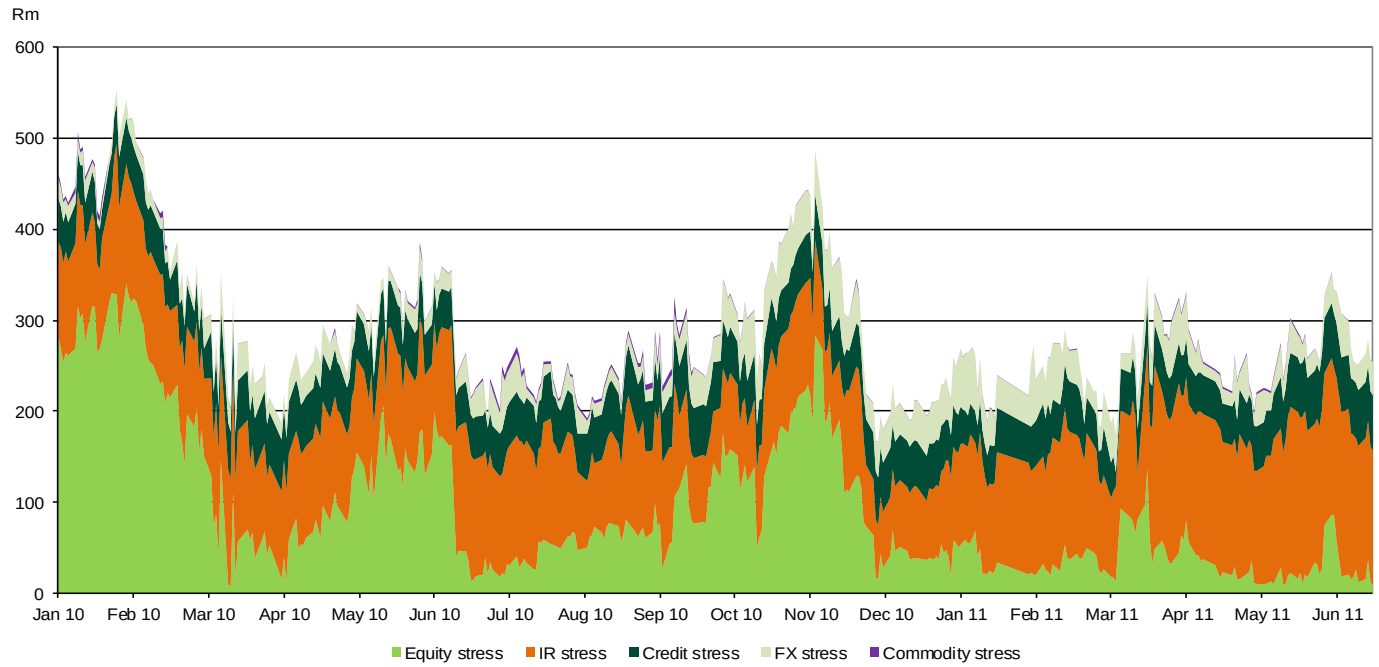
Rm	Average	High*	Low*	30 Jun 2011
Foreign exchange stress	**35**	**85**	**6**	**25**
Interest rate stress	**137**	**202**	**51**	**200**
Equity position stress	**35**	**138**	**9**	**28**
Credit spread stress	**46**	**62**	**15**	**34**
Commodity stress	**1**	**2**	**0**	**0**
Overall	**253**	**353**	**173**	**287**

RISK EXPOSURES PER RISK FACTOR FOR 12 MONTHS ENDED 31 DECEMBER 2010

Rm	Average	High*	Low*	31 Dec 2010
Foreign exchange stress	26	73	6	44
Interest rate stress	102	165	47	78
Equity position stress	124	340	13	37
Credit spread stress	50	58	32	50
Commodity stress	2	16	0	0
Overall	304	553	166	210

** 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 18 MONTHS ENDED 30 JUNE 2011



Revisions to the Basel II Framework

In the revisions to the Basel II Framework published by the Basel Committee 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 SA market.

The information in the following table is the comparison of the VaR using three different calculations at 30 June 2011. The three different calculations are historical VaR, extreme tail loss and stressed VaR. The extreme tail loss measures the expected losses 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

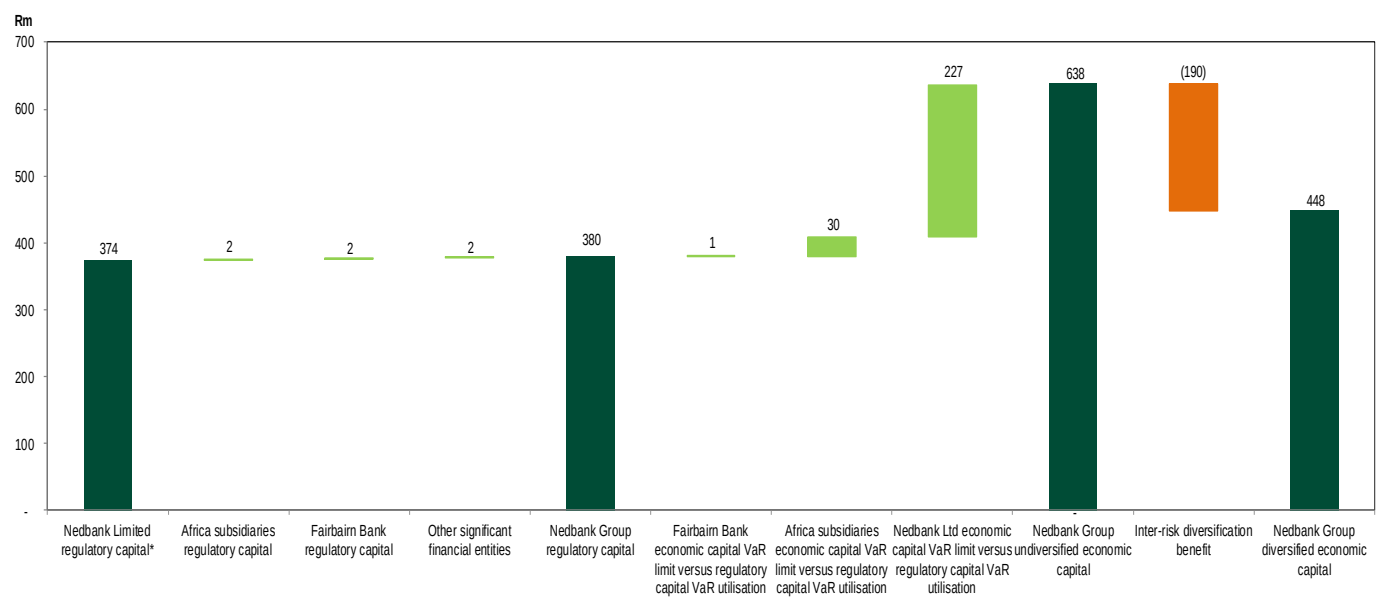
Jun 2011 Rm	Historical VaR 99% (one-day VaR)	Stressed VaR 99% (one-day VaR)	Extreme tail loss
Foreign exchange	1,8	2,6	2,6
Interest rates	7,4	32,9	10,2
Equities	3,4	5,6	4,0
Credit	1,4	5,7	2,5
Commodities	0,0	0,2	0,1
Diversification	(4,4)	(6,5)	(7,9)
Total VaR exposure	**9,6**	**40,5**	**11,5**

As part of the Basel 2.5 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 capital adequacy ratios due to Nedbank Group's risk profile having a low market risk component, and this is incorporated in the pro forma Basel III ratios at 30 June 2011 reported on pages 8 and 51.

Trading market risk under the IMA for regulatory capital

The graph below shows the reconciliation between regulatory and economic capital requirements for market risk as at 30 June 2011.

MARKET TRADING RISK – ECONOMIC CAPITAL VERSUS REGULATORY CAPITAL



** 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 474 million (December 2010: R3 919 million). R3 304 million (December 2010: R2 897 million) is held for capital gain, while the rest is mainly strategic investments.

Investments	Publicly listed		Privately held		Total	
Rm	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010
Fair value disclosed in balance sheet (excluding associates and joint ventures)	**546**	536	**2 828**	2 475	**3 374**	3 011
Fair value disclosed in balance sheet (including associates and joint ventures)	**546**	536	**3 928**	3 383	**4 474**	3 919

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

EQUITY INVESTMENTS HELD FOR CAPITAL GAIN (PRIVATE EQUITY) REPORTED IN NON-INTEREST REVENUE

Rm	Nedbank Group		Nedbank Capital		Nedbank Corporate	
	Jun 2011	Dec 2010	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010
Securities dealing	**79**	3	**34**	(46)	**45**	49
Investment income – dividends received	**58**	225	**51**	194	**7**	31
Total private equity	**137**	228	**85**	148	**52**	80
Realised	**61**	230	**51**	214	**10**	16
Unrealised	**76**	(2)	**34**	(66)	**42**	64
Total private equity	**137**	228	**85**	148	**52**	80

Asset and liability management

Asset and liability management (ALM) addresses two of the 17 key risk types in the group's ERMF, namely liquidity risk and market risk in the banking book, which in turn includes interest rate risk in the banking book and foreign currency translation risk 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.

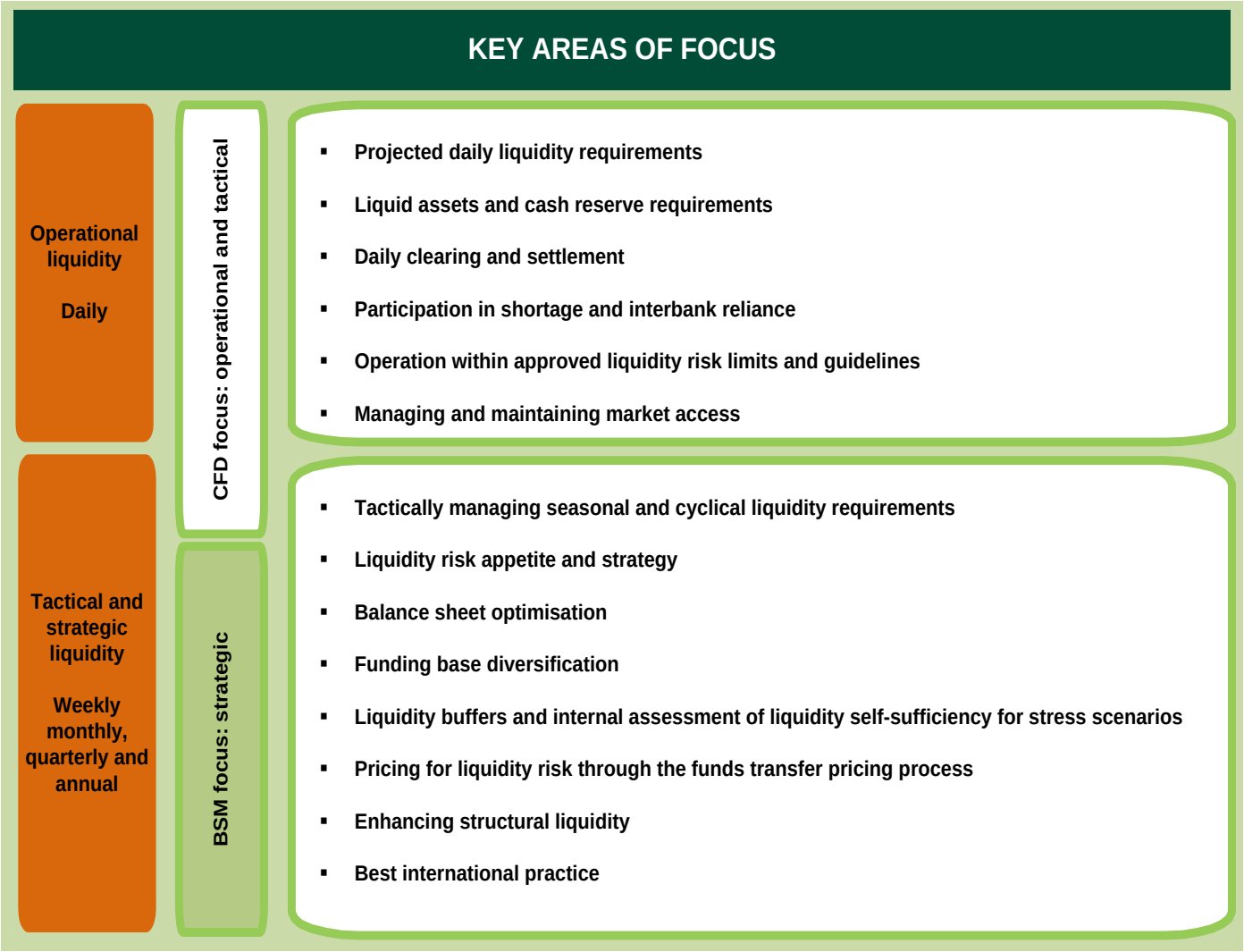
Liquidity risk management is a vital risk management function in all entities across all jurisdictions and currencies, and is a key focus of Nedbank Group.

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.

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 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.



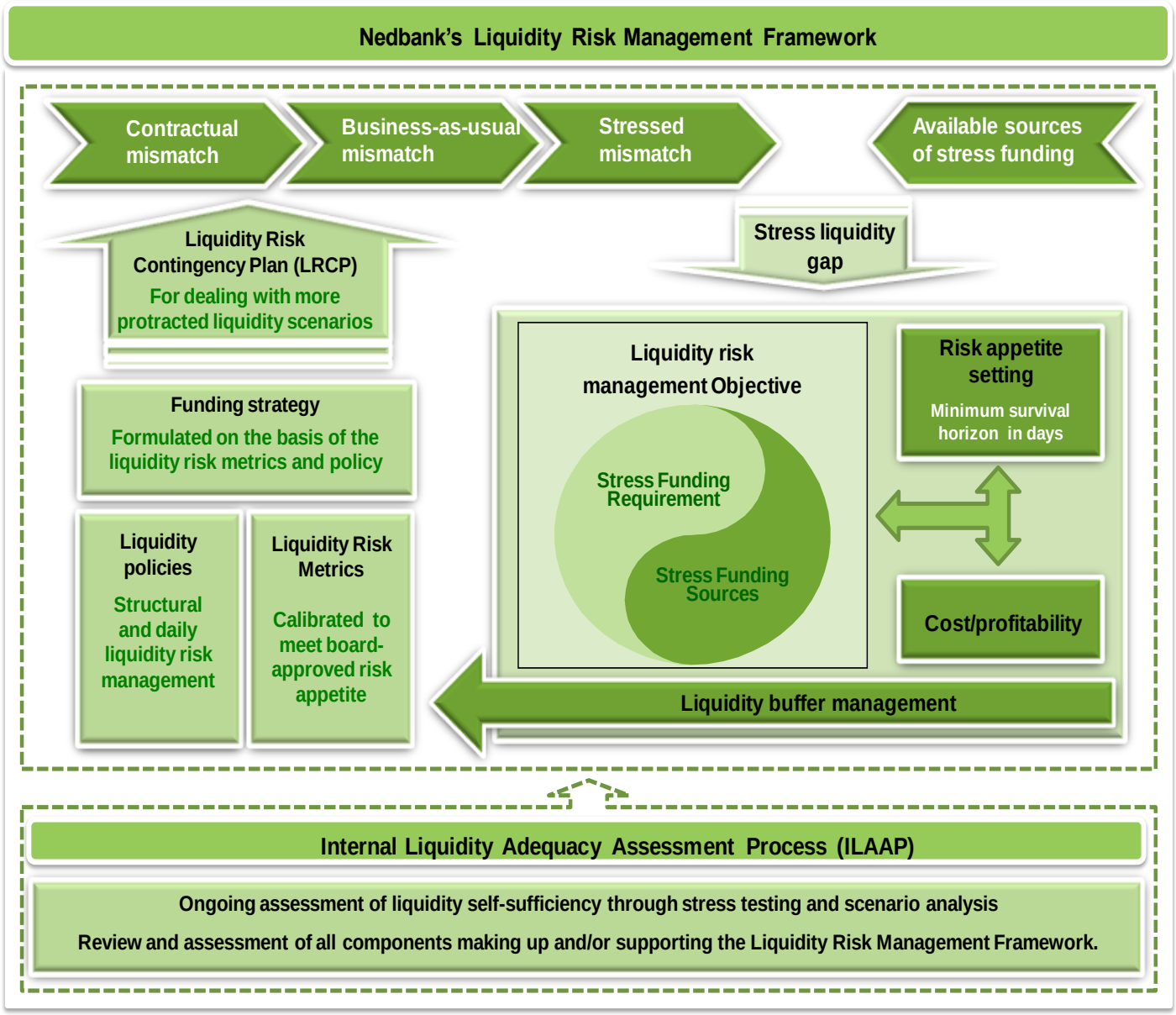
In terms of the overall liquidity risk management process independent oversight and assurance are provided by GMRM and Group Internal Audit (GIA), which conduct independent reviews.

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 on the following page) is managed by taking cognisance of:

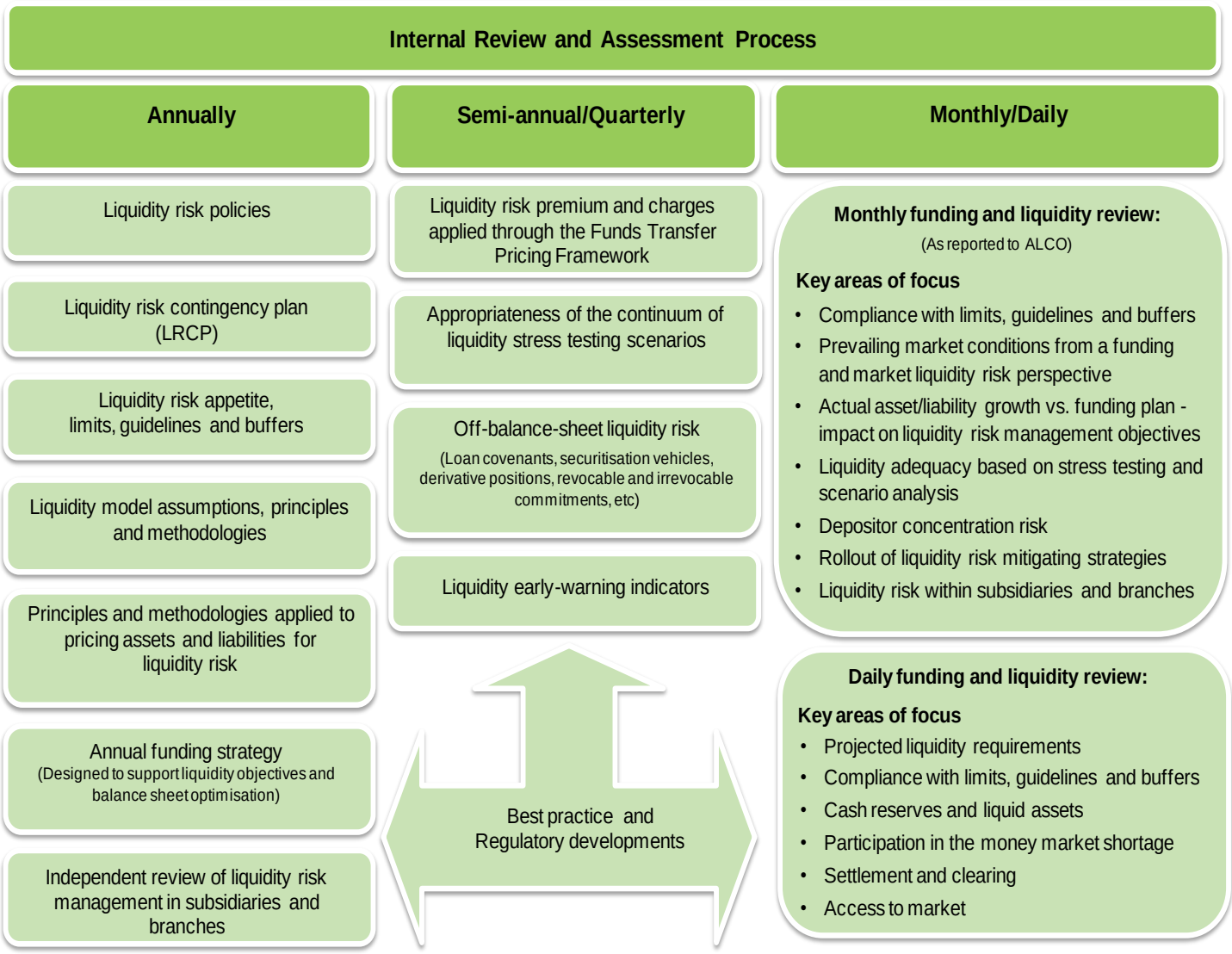
- Nedbank Group's contractual maturity mismatch between assets and liabilities;
- the business-as-usual mismatch arising from normal market conditions;
- the stress mismatch or stress funding requirement (SFR) likely to arise from a continuum of plausible stress liquidity scenarios; and
- the quantum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



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 terms of the new liquidity standards issued by the Basel Committee on Banking Supervision (BCBS) on 16 December 2010 many of the key principles are already encapsulated into the Liquidity Risk Management Framework. However, to meet the requirements of the liquidity coverage ratio (LCR) by 2015 and the net stable funding ratio (NSFR) by 2018 Nedbank Group, together with the other SA banks, is working closely with the SARB and National Treasury to address the structural challenges of compliance for the local banking industry, while at the same time considering the unintended economic consequences that may emanate from the proposed liquidity standards.

Nedbank Group's ILAAP internal review and assessment process, which is designed to ensure that the Liquidity Risk Management Framework remains robust in terms of measuring, monitoring, managing and mitigating liquidity risk, is depicted graphically on the following page.



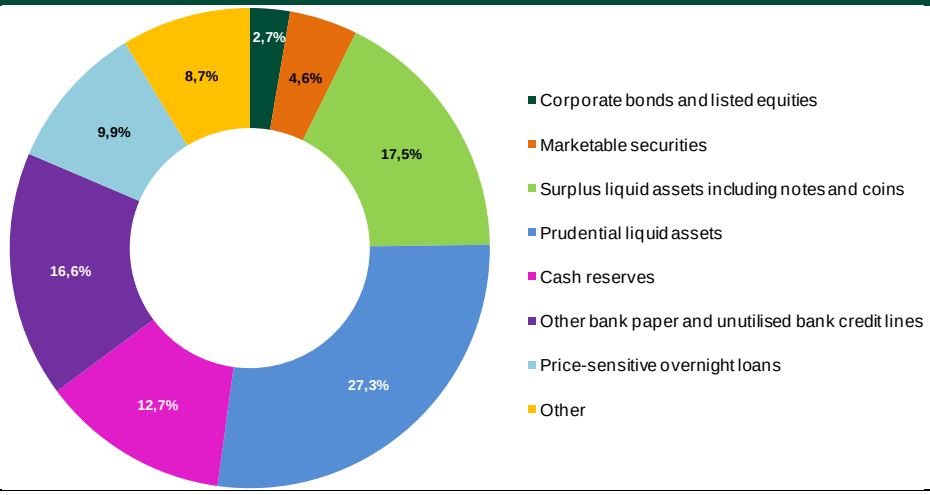
As presented above, the Liquidity Risk Management Framework is supported by a number of management processes designed to manage and mitigate liquidity risk under normal and stressed market conditions.

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.
- 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.

The quantum of unencumbered assets available as collateral for stress funding is measured and monitored on an ongoing basis. Nedbank Group's sources of quick liquidity available for stress funding requirements amounted to R91 billion at June 2011 (December 2010: R78,6 billion). The graph on the following page reflects the composition of this portfolio.

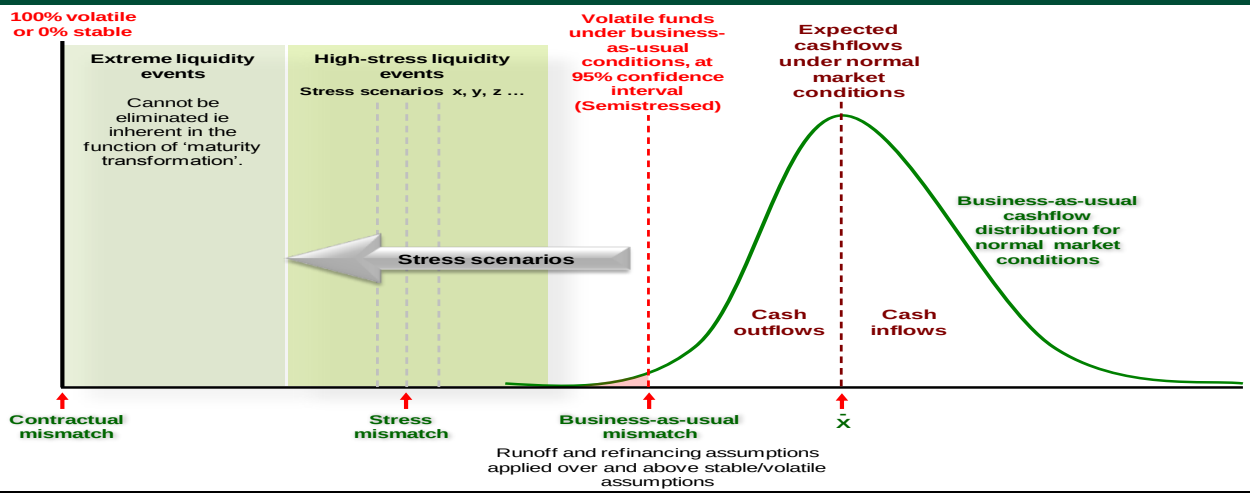
NEDBANK GROUP'S SOURCES OF QUICK LIQUIDITY



- 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;
  - lengthen 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; and
  - determine appropriate funding strategies and initiatives designed to support liquidity risk mitigation.

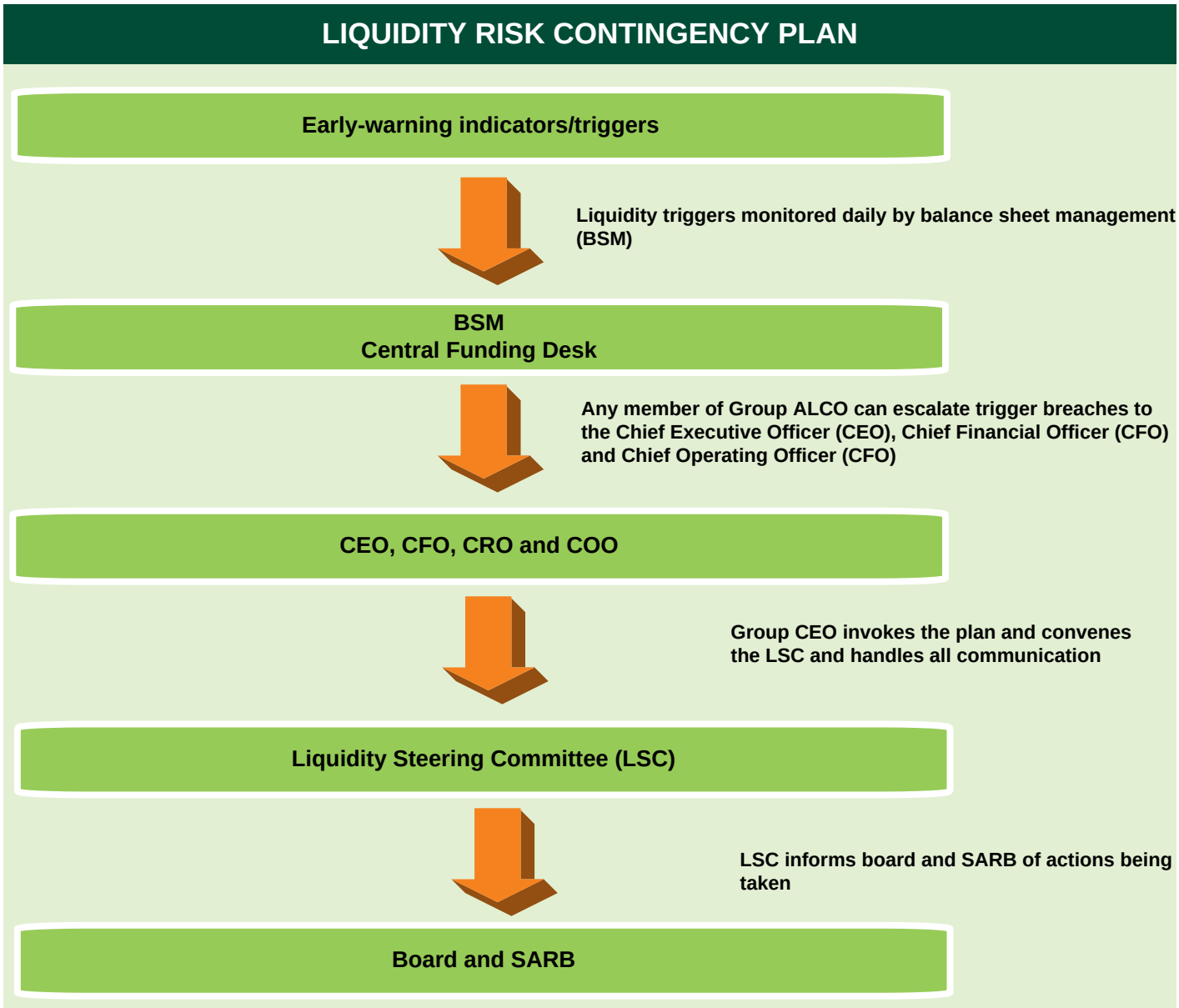
The objective of scenario analysis and stress testing is to identify potential weaknesses or vulnerabilities, thus enabling the group to formulate strategies designed to mitigate potential weaknesses. Nedbank Group's approach to estimating the stress maturity mismatch in relation to the business-as-usual 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 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 process for invoking the LRCP is depicted in the following table.



Liquidity risk portfolio review

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

NEDBANK GROUP CONTRACTUAL LIQUIDITY GAP

June 2011 Rm	< 3 months	> 3 months < 6 months	> 6 months < 1 year	> 1 year < 5 years	> 5 years	Non-determined	Total
Cash and cash equivalents (including mandatory reserve deposits with central bank)	23 229					168	**23 397**
Other short-term securities	14 295	4 673	7 692	2 465			**29 125**
Derivative financial instruments	2 197	667	812	2 910	1 698		**8 284**
Government and other securities	6 082	232	536	18 745	10 461		**36 056**
Loans and advances	83 057	16 360	34 359	180 000	158 142		**471 918**
Other assets	6 759					34 336	**41 095**
Assets	**135 619**	**21 932**	**43 399**	**204 120**	**170 301**	**34 504**	**609 875**
Total equity						49 728	**49 728**
Derivative financial instruments	1 380	762	3 606	3 146			**8 894**
Amounts owed to depositors	345 407	39 072	62 148	44 910	2 437		**493 974**
Other liabilities	10 420					18 669	**29 089**
Long-term debt instruments	209		697	21 144	6 140		**28 190**
Liabilities and equity	**357 416**	**39 834**	**66 451**	**69 200**	**8 577**	**68 397**	**609 875**
Net liquidity gap	**(221 797)**	**(17 902)**	**(23 052)**	**134 920**	**161 724**	**(33 893)**	**-**

The contractual liquidity gap is adjusted with behavioural assumptions in order to determine the group's BaU or anticipated liquidity risk profile. These adjustments result largely in a lengthening of deposit cashflows, due to behavioural assumptions through which contractually maturing short-term deposits have longer profiles under normal market conditions.

NEDBANK GROUP BUSINESS-AS-USUAL LIQUIDITY GAP

June 2011 Rm	< 3 months	> 3 months < 6 months	> 6 months <1 year	> 1 year < 5 years	> 5 years	Non-determined	Total
Cash and cash equivalents (including mandatory reserve deposits with central banks)					23 397		**23 397**
Other short-term securities				29 125			**29 125**
Derivative financial instruments	2 197	667	812	2 910	1 698		**8 284**
Government and other securities					36 056		**36 056**
Loans and advances	62 551	24 339	44 033	272 338	68 657		**471 918**
Other assets						41 095	**41 095**
Assets	**64 748**	**25 006**	**44 845**	**304 373**	**129 808**	**41 095**	**609 875**
Total equity						49 728	**49 728**
Derivative financial instruments	1 380	762	3 606	3 146			**8 894**
Amounts owed to depositors	90 806	45 753	76 395	280 276	744		**493 974**
Other liabilities						29 089	**29 089**
Long-term debt instruments	209		697	21 144	6 140		**28 190**
Liabilities and equity	**92 395**	**46 515**	**80 698**	**304 566**	**6 884**	**78 817**	**609 875**
Net liquidity gap	**(27 647)**	**(21 509)**	**(35 853)**	**(193)**	**122 924**	**(37 722)**	**-**

Note: BaU assumptions include rollover assumptions on term maturities. No management actions are assumed in terms of realising cash through the sale of liquid assets or other marketable securities.

The table below depicts the contractual and business-as-usual (BaU) liquidity mismatches in respect of Nedbank Limited, and highlights the split of total deposits into 'stable' and 'more volatile'. Based on the behaviour of the bank's clients, it is estimated that 84% of the total deposit base is stable.

NEDBANK LIMITED CONTRACTUAL BALANCE SHEET MISMATCH

June 2011 Rm	Total	Next day	2 to 7 days	8 days to1 month	More than 1 month to 2 months
Contractual maturity of assets	551 837	47 926	11 738	35 061	16 202
Loans and advances	422 321	23 429	358	28 253	6 240
Trading, hedging and other investment instruments	74 637	5 707	10 708	5 833	8 675
Other assets	54 879	18 790	672	975	1 287
Contractual maturity of liabilities	551 837	214 736	13 771	37 412	22 144
Stable deposits	389 455	181 765	8 976	31 070	17 377
Volatile deposits	74 988	22 139	1 620	5 781	3 969
Trading and hedging instruments	44 511	10 832	3 175	561	798
Other liabilities	42 883				
On-balance-sheet contractual mismatch	-	**(166 810)**	**(2 033)**	**(2 351)**	**(5 942)**
Cumulative on-balance-sheet contractual mismatch	-	**(166 810)**	**(168 843)**	**(171 194)**	**(177 136)**

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 BaU BALANCE SHEET MISMATCH

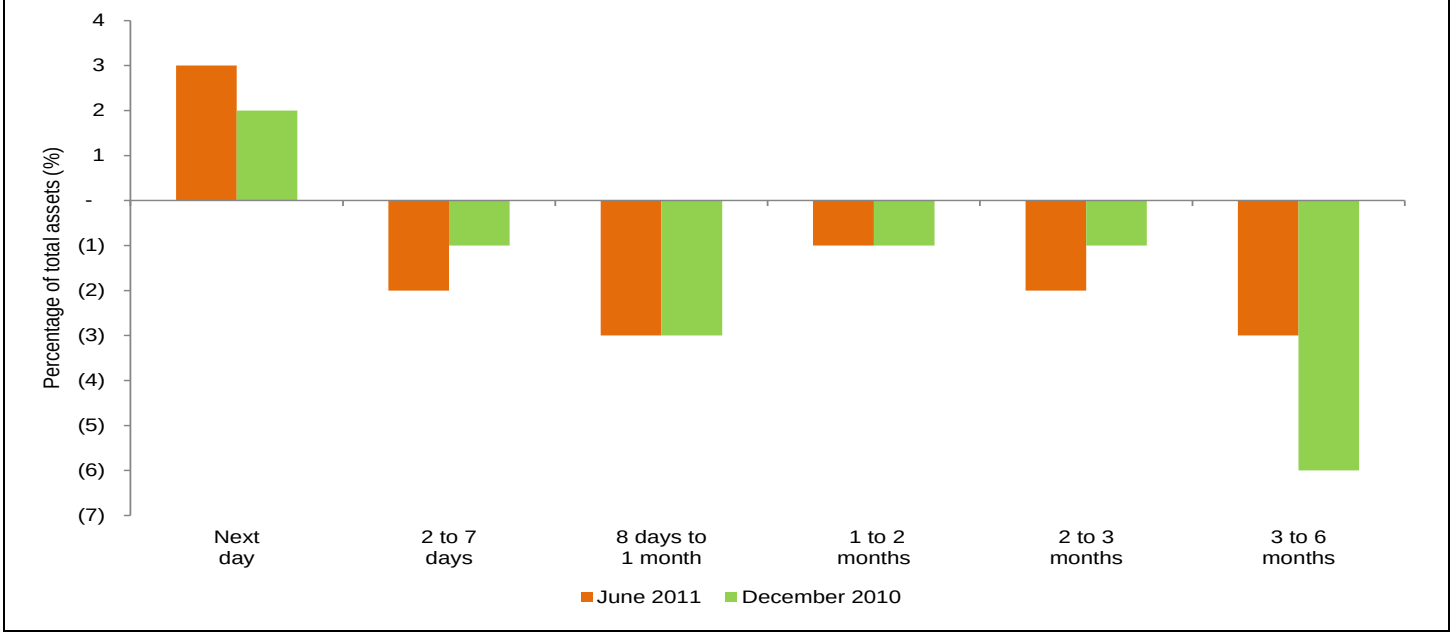
June 2011 Rm	Total	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months
BaU maturity of assets	551 837	27 778	1 781	17 260	9 848
Loans and advances	422 321	4 848	1 044	14 755	8 249
Trading, hedging and other investment instruments	74 637	22 930	737	2 505	1 599
Other assets	54 879				
BaU maturity of liabilities	551 837	10 261	10 405	31 889	17 443
Stable deposits	389 455	465	1 429	8 826	12 676
Volatile deposits	74 988	1 337	5 801	22 501	3 969
Trading and hedging instruments	44 511	8 459	3 175	562	798
Other liabilities	42 883				
On-balance-sheet BaU mismatch	-	**17 517**	**(8 624)**	**(14 629)**	**(7 595)**
Cumulative on-balance-sheet BaU mismatch	-	**17 517**	**8 893**	**(5 736)**	**(13 331)**

As per the table above Nedbank Limited's BaU inflows exceed outflows in the overnight-to-one-week time bucket, taking into account behavioural assumptions, including rollover assumptions associated with term deals, but excluding BaU management actions.

As illustrated on the following page the next day to 6 months cumulative BaU maturity mismatch has continued to improve. In other words, under BaU conditions Nedbank Group's liquidity position is stronger in June 2011 compared with December 2010. This has been achieved through a strategy of lengthening the funding profile and managing the asset/liability composition from a behavioural perspective.

In terms of lengthening the funding profile the long-term funding ratio increased to 27% in June 2011, compared with 23% in December 2010. Nedbank Group's capital market issues of R3,7 billion and the launch of the Nedbank Retail Savings Bond in 2011 have contributed to the increase in the long-term funding ratio.

NEDBANK LIMITED BEHAVIOURAL LIQUIDITY MISMATCH



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

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.
- Funding is prudently raised across the curve at fixed-term deposit rates that reprice only on maturity.
- Three-month Johannesburg Interbank Agreed Rate (JIBAR)-linked swaps and forward-rate agreements are typically used in the risk management of term deposits and fixed-rate advances.
- Short-term demand funding products reprice to different short-end base rates.
- Certain 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 page 140), whereby 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 and Executive Risk Committee, a subcommittee of the board's Group Risk and Capital Management Committee, 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, ensuring that optimal on- and off-balance-sheet strategies are applied, either positioning the balance sheet or protecting interest income through different interest rate cycles.

Group ALCO continues to analyse 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 market-making desk into market risk limits or into the external market.

Hedged positions and hedging instruments are regularly measured and stress-tested for effectiveness and reported to Group ALCO on a monthly basis. These hedged positions and hedging instruments are fair-valued in line with the appropriate accounting standards and designation. The Group ALCO typically has 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 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 naturally to 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

June 2011 Rm	< 3 months	> 3 months < 6 months	> 6 months < 12 months	> 1 year	Non-rate-sensitive / Trading Book	Total
Total assets	424 866	12 414	11 649	55 265	105 681	609 875
Total equity and liabilities	374 390	28 822	38 030	20 786	147 847	609 875
Net repricing profile before hedging	50 476	(16 408)	(26 381)	34 479	(42 166)	-
Net repricing profile after hedging	24 980	8 521	1 127	7 538	(42 166)	-
Cumulative repricing profile after hedging	24 980	33 501	34 628	42 166	-	-

NEDBANK GROUP – INTEREST RATE REPRICING PROFILE

At June 2011 the earnings-at-risk sensitivity of the group's banking book for a 1% parallel reduction in interest rates was 1,29% of total group ordinary shareholders' equity (December 2010: 1,50%), well within the approved risk limit of 2,5%. This exposes the group to a decrease in net interest income (NII) of approximately R592 million pretax should interest rates fall by 1%, measured over a 12-month period.

The level of interest rate sensitivity is managed in conjunction with credit impairment sensitivity and the group's interest rate view, and is benchmarked regularly against the peer group.

Nedbank Limited's economic value of equity, measured for a 1% parallel decrease in interest rates, is a loss of R249 million at June 2011 (December 2010: loss of R441 million).

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							
	Note	Nedbank Limited		Other group companies		Nedbank Group	
Rm		**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010	**Jun 2011**	Dec 2010
Net interest income sensitivity	1						
1% instantaneous decline in interest rates		**(487)**	(562)	**(105)**	(98)	**(592)**	(660)
2% instantaneous decline in interest rates		**(977)**	(1 119)	**(210)**	(200)	**(1 187)**	(1 319)
Basis interest rate risk sensitivity	2						
0,25% narrowing of prime/call differential		**(230)**	(215)	**(3)**	(2)	**(233)**	(217)
Economic value of equity sensitivity	3						
1% instantaneous decline in interest rates		**(249)**	(441)	**n/a**	n/a	**n/a**	n/a
2% instantaneous decline in interest rates		**(525)**	(909)	**n/a**	n/a	**n/a**	n/a
Net interest income sensitivity							
Instantaneous stress shock*	4	**(2 979)**	(3 447)	**n/a**	n/a	**n/a**	n/a
Instantaneous stress shock modelled as a ramp*	5	**(2 556)**	(3 166)	**n/a**	n/a	**n/a**	n/a

n/a: not modelled.

** 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 a nine-month period.*

Margin management

Net Interest Income currently contributes more than 50% of total gross income. Accordingly, the optimal management of interest rate risk in the banking book together with an optimal funding and capital solution are imperative in shaping the balance sheet to ensure long-term shareholders' value through the optimisation of margin.

Net interest income (NII) increased by 7,43% to R8 683 million this half-year period (June 2010: R8 082 million) and the group's net interest margin (NIM) improved to 3,43% as at 30 June 2011 from 3,34% as at 30 June 2010. This was due to:

- The benefits from pricing assets to fully reflect risk (including both credit and liquidity) and funding costs more appropriately.
- Ongoing improvement in asset mix in line with the group's portfolio tilt strategy.

- A relative benefit in this period owing to interest rates remaining stable, given that advances reprice quicker than deposits.
- The cost of term liquidity continuing to decline.

The above more than offset the effect of:

- Negative endowment from lower average rates compared with the 2010 period.
- The cost of lengthening the bank's funding profile.
- The costs associated with carrying higher levels of lower-yielding liquid assets.

For a detailed analysis of NIM and Nedbank Group's views on the structural shifts that have impacted margins refer to the highlights section on page 7.

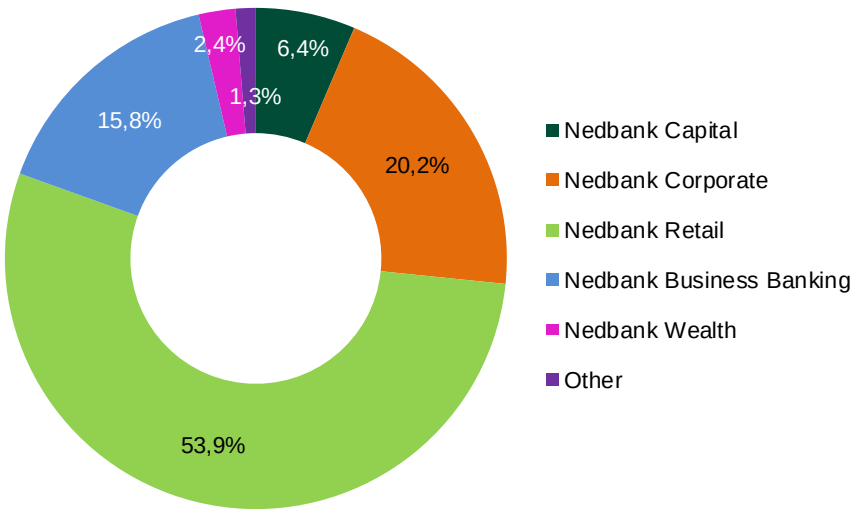
- Looking forward bank margins will be negatively impacted by the following structural changes:
  - Interest rates continue to move to structurally lower levels as depicted in the graph above (of the Prime lending rate). This has negative implications for bank margins in South Africa, as banks are exposed to negative endowment on transactional accounts and equity in a lower rate environment.
- 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, that is in the spread between the Prime lending rate and three-month Jibar.
- Accordingly, bank margins are likely to be under pressure and not return to previous highs, all other things being equal.

Margin contribution by business area

Concentration of net interest income 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 net interest income with 54%, 20% and 16% respectively.

NII PER CLUSTER



Foreign currency translation risk in the banking book

Foreign currency translation (FCT) risk 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 periods.

FCT risk remains relatively low and is currently aligned with an appropriate offshore capital structure. Risk limits are based on the expected level of currency-sensitive foreign capital. The exposure was approximately $301 million at June 2011 (December 2010: $267 million).

NEDBANK GROUP OFFSHORE CAPITAL SPLIT BY FUNCTIONAL CURRENCY					
$m	US dollar equivalent			Jun 2011	Dec 2010
	Equity	Forex-sensitive	Non-forex-sensitive	Total	Total
US dollar	**137**	**137**		**137**	121
Pound sterling	**130**	**130**		**130**	122
Swiss franc	**25**	**25**		**25**	16
Malawi kwacha	**9**	**9**		**9**	8
Other	**0**	**0**	**552**	**552**	543
Total	**301**	**301**	**552**	**853**	810

NEDBANK GROUP FOREX-SENSITIVE PORTION OF OFFSHORE CAPITAL		
$m	Jun 2011	Dec 2010
Forex-sensitive portion of offshore capital	**301**	292
Limit	**325**	325

The total risk weighted assets for foreign entities (R7,1 billion) relative to that for Nedbank Group (R323,6 billion) is 2,20% at year-end. The effective average capitalisation rate of the foreign-denominated business is 27% (December 2010: 27%). Any foreign exchange rate movement will therefore have a limited effect on Nedbank Group's capital adequacy ratio (eg a 10% appreciation in the rand will decrease the capital adequacy ratio only by 0,06%).

Insurance risk

Insurance underwriting risk can be defined as the risk associated with the underwriting process where it permits the client to enter risk pools with a higher level of risk than priced for by the group, resulting in a possible loss.

Within Nedbank Group insurance risk encompasses underwriting and product design risk.

Insurance risk arises in the Nedbank Wealth Cluster and encompasses underwriting and product design risk.

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

The failure to reinsure with acceptable-quality reinsurers (beyond the level of risk appetite mandated by the board of directors) for risks underwritten by the short-term insurance and/or life assurance activities of the group, and also including catastrophe insurance (ie more than one insurance claim on the group arising from the same event), could lead to disproportionate losses (reinsurance risk).

Insurance underwriting activities are predominantly undertaken by Nedgroup Life Assurance Company Limited (Nedgroup Life) and Nedgroup Insurance Company Limited (Nedgroup Insurance) within the Nedbank Wealth Cluster.

Nedgroup Insurance is a short-term insurer that focuses predominantly on homeowner's insurance and limited vehicle-related value-add products for the retail market.

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.

Insurance underwriting risk strategy, governance and policy

Insurance risk is included in the ERMF, which consists of formal risk policy documentation and effective governance structures. These structures encompass management oversight to achieve independent monitoring. Insurance underwriting risk is mitigated as follows:

- The insurance underwriting risk policy for the group formalises and communicates an approach to managing underwriting risk by adopting industry-wide principles and standards. This policy:
  - outlines a set of objectives and principles when engaging in activities that include pricing and underwriting risk exposure and the subsequent management thereof;
  - delegates authority to the appropriate persons with the level of skill and expertise responsible for managing, approving and monitoring underwriting exposures; and
  - establishes reporting requirements to ensure that management receives accurate and sufficient information to manage and monitor levels of pricing and underwriting risk exposure effectively.
- 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 Enterprise-wide risk management framework and rolls up into various other governance structures such as:
  - The Group Risk and Capital Management Committee responsible for advising the board of significant risks facing the group and reviewing the effectiveness of the risk management process.
  - Group ALCO and Executive Risk Committee responsible for the monitoring and mitigation of insurance investment risks.
  - Group Market Risk, Group Operational Risk, Group Enterprise-wide Risk Management and Group Enterprise Governance and Compliance oversight representative at quarterly business unit enterprise-wide risk committees.
  - Appointed actuaries at appropriate levels, playing an oversight role with respect to underwriting activities including reporting and monitoring procedures in respect of product, valuation, reinsurance, pricing, and regulation.

The framework above 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, 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, evaluating the effectiveness thereof and identifying unacceptable levels of risk exposure. 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.

The Financial Services Board (FSB) is in the process of aligning the SA regime via their Solvency Assessment and Management (SAM) project that will commence in January 2014. Both the life and short-term insurance business have begun participating in the project.

Insurance underwriting risk is managed during the underwriting process in the following manner:

- Monitoring of rigorous assessment procedures to ensure that only valid claims are paid, through:
  - Loss ratios.
  - Lapse ratios.
  - Claim likelihood and impact.
- Monitoring of policy movements to identify possible changes to initial risk profiles and pricing:
  - Pricing, compilation of an underwriting manual and assessing underwriting engine assumptions and results.
  - Annual repricing of premiums if the claim experience is worse than anticipated.
  - Performing a taxonomy of the likelihood of insured events (loss events) occurring in the appropriate pools in a manner that is administratively practical, financially viable and cost-effective so that clients with similar risk profiles are grouped together and offered the same terms, by adequately pricing for risk.
- Monitoring of the concentration of exposures and changes in the environment through:
  - Profile analysis.
  - Exposure monitoring.
  - Assessment of capacity.
  - Predictive trend analysis.
- Monitoring of the composition of the client book, a significant portion of which is of short duration. The normal life business increases the duration of reserves and investments.
- 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 effective reinsurance programmes that focus on:
  - Frequent assessments of the process.
  - Retention, treaty limits and exposures.
  - Evaluation of all contracts to identify and manage possible gaps.
  - Special facultative agreements for specific and significant risks, including catastrophe events.
- 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 assessment of investment risk, evaluation of reinsurance partners and 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.

The group's risk appetite for insurance risk is currently low, reflected by its consumption of only 0,6% of total minimum required group economic capital (refer page 59). The solvency ratios are set out on page 57.

Operational risk

Nedbank Group was granted approval in December 2010 from the South African Reserve Bank for the use of the Advanced Measurement Approach (AMA), and now calculates its operational risk regulatory capital requirements using partial and hybrid AMA.

This approval demonstrates the existence of sound operational risk governance practices across the group aimed at identifying, measuring and mitigating operational risks. The group has continued investment in the improvement of its operational risk measurement and management approaches.

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

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. It includes legal, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements. Operational risk is not typically taken in pursuit of an expected return, but exists as part of normal course of business at all levels. Operational risk excludes the strategic components of people risk and information technology risk. These risks are included under the category of business risks.

The sub categories of operational risk include:

- Legal risk

  Legal risk arises from the necessity that Nedbank 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 the legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.

- Compliance and regulatory risk

  Regulatory risk is the risk of legal or regulatory sanction and material financial loss or reputational damage as a result of a failure by the group or any part thereof to comply with any applicable laws, regulations or supervisory requirements. As a business enabler, a key objective of the central risk function is to embrace new and existing legislation and internalise and operationalise regulations as part of normal business operations. Great strides have been made during 2010 to prepare the group for legislation that will come into effect in 2011 and beyond.

  – Compliance with new legislation

    The financial services sector is under increasing pressure from consumer legislation as well as other new and amended legislation and regulation. To comprehend and assess the impact of these changes on the business of the group the Business Risk Management Forum scans and assesses all new legislation and recommendations and, where appropriate, directs implementation programmes to coordinate and standardise the compliance approach. During 2010 programmes in respect of the Consumer Protection Act of 2008 and the Companies Act of 2008 were initiated, although government delayed implementation. Other high-focus areas are the National Credit Act and the Protection of Personal Information.

  – The Companies Act

    The Companies Act 71 of 2008 required significant amendment. The Companies Amendment Bill, which came into force on 1 May 2011 amends almost every section of the original Act. The regulations to the Act were promulgated on the same day the Bill became effective.

For Nedbank Group and the SA banking industry the effect of the unintended consequences of section 46 is being addressed through the Banking Association of South Africa however at a product level competition laws do not permit interbank discussion. Nedbank Group has assessed the full effect this new act will have on its business.

- The Consumer Protection Act

  The Consumer Protection Act came into effect on 31 March 2011. The effect on Nedbank Group has been assessed and the required changes have been made to processes and systems to ensure compliance.

- The National Credit Act

  Nedbank Group, together with the other major banks, have demonstrated the banking industry's willingness to work cooperatively with the Banking and National Credit Regulators and proactively assist in the rehabilitation of overburdened consumers by supporting the Code of Conduct, the introduction of a redefined debt review process and the introduction of industry-agreed restructuring rules. The conditional debt review termination moratorium for primary mortgages was implemented in December 2010 to assist clients with excess levels of debt.

- The Protection of Personal Information Bill

  It is expected that the Protection of Personal Information Bill may be passed into law during the last quarter of 2011. A privacy gap assessment was completed by external consultants in May 2011. Their recommendations have been analysed and a formal programme to close the gaps will be implemented in the third quarter of 2011 to address any risks highlighted by these findings. The Group's Personal Information Office is mandated to oversee the implementation of the Protection of Personal Information Bill and provide guidance on privacy best practices into the Group's business processes. The office also manages and processes the Promotion of Access to Information Act requests received from interested parties. The office works closely with the Group Data Governance and Information Security teams to ensure that business processes are aligned with privacy international best practice and information security and management principles, with specific focus on information risk management.

- Money laundering, terrorist financing and sanctions compliance

  Nedbank Group does not associate, in any way, with illegal 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 such, that agreed 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 CRO, is mandated to provide strategic direction for, and monitor the effective implementation of, anti-money-laundering (AML), combating of financing of terrorists (CFT) and sanctions compliance initiatives throughout the group. The Executive Steering Committee of the Money-laundering Control Programme (MLCP), a subcommittee of the BRMF, ensures the internalisation 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 supervisors, attends bi-monthly meetings with the FIC, SARB and the Financial Services Board (FSB) to ensure compliance with their requirements and obtain clarification, where necessary.

  As at 29 July 2011, 4 576 369 client records reflected on Nedbank Group's Client Information System (CIS) as having been verified. Of the 116 513 non-verified client records 90 055 have been restricted and 26 458 records are currently in the process of being restricted. The number of non-verified, not yet restricted records equates to 0.47% 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 July 2011 a total of 23 237 of the selected 28 443 employees completed the Awareness Training for AML and CFT.

Annual directors' training for money-laundering, terrorist financing and sanctions risk management will be presented to the Group Risk and Capital Management Committee on 12 October 2011 in compliance with SARB, FIC and international requirements.

At 30 June 2011, a total of 1 478 suspicious transaction-reports (STR's) had been submitted to the FIC for the previous 6 calendar months (1 January 2011 to 30 June 2011), compared to the 310 of the previous 6 calendar month period (1 January 2010 to 30 June 2010).

- Information and technology (IT)

Technology as a causal factor for operational risk stems from risks associated with business disruption and system failures (BDSF), misalignment of technology infrastructure or operations with business strategy, uncoordinated or inefficient IT strategies, failure to deliver desired change, data protection, information privacy, effects of physical disasters on information systems, IT outsourcing, IT performance and information systems governance. The Group Technology Cluster manages information and technology risk through the Technology Management Policy.

– Managing information security risk

The main objectives of managing information security risk are to protect information from inadvertent or unauthorised disclosure (confidentiality), inadvertent or unauthorised changes (integrity) and inadvertent or unauthorised destruction or unauthorised access (availability). The growing dependence on information and the systems that carry it, coupled with the risks, benefits and opportunities these resources present, have made information risk an increasingly critical facet of overall risk management for the group.

Accountability for Information Security Management has been consolidated in Group Risk Services under a Chief Information Security Officer, in alignment with international best practice.

Information risk management follows information as it is created, distributed, stored, copied, transformed and interacted with throughout the information management lifecycle. Focus areas include protection against malware, internet and mobile banking services, data loss prevention on workstations, laptops and removable media, as well as data privacy. Investigative, eDiscovery and litigation support capability have been enhanced by the implementation of enterprise digital forensic tools.

Nedbank Group is a founding member of the Cyber Security Incident Response Team (CSIRT) for the banking sector under the auspices of the South African Banking Risk Intelligence Centre (SABRIC) in terms of the new National Cyber Security Policy.

- Business continuity management

Business Continuity Management (BCM) ensures the management of risks relating to all aspects that may disrupt service delivery thereby, safeguarding Nedbank Group's ability to:

– provide uninterrupted services to clients;

– minimise potential financial loss, legal liability and brand damage;

– decrease dependence on the participation of any specific person or group of people during the response, resumption and recovery phases; and

– comply with the Payments Association of South Africa (PASA) requirements for service restoration.

The BCM function provides overall guidance and direction, monitors compliance with regulatory and best-practice requirements and further facilitates regular review of BCM practices.

The group maintains its own dedicated disaster recovery site for critical banking systems, which are recovered and tested four times per year. Nedbank Group is still the only bank to date to be certified fully compliant with PASA requirements. Nedbank Group also complies to the latest (July 2011), more onerous requirement for Credit and Debit card processing recovery (30 minutes, as opposed to the previous requirement of 90 minutes)

There are also three regional resumption areas for business recovery (Gauteng, Western Cape and KwaZulu-Natal). These sites are maintained in a fully equipped and operational status, with a programme of continuous scheduled testing.

- People

  This causal factor includes human error, fraud and malice and inability to fulfil job requirements. People also often fail to follow correct procedures, which can result in losses. The group vigorously manages people risk through the group human resources function at the central and business clusters.

  – Personnel integrity management

  – Nedbank 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, theft, corruption and mismanagement of job responsibilities. It also cultivates a culture of business ethics and integrity in keeping with Nedbank Group's values, as well as endorsing 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 Group 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, Act 94 of 1990, are screened to comply with the requirements of honesty and integrity. This also reduces the potential for conflicts of interest.

- Financial crime

  Nedbank Group considers financial crime to be a major operational risk that has the potential to lead to significant losses. For this reason the group pursues a vigorous policy of proactive risk management.

  – Fraud risk management

    Nedbank Group follows a multi-pronged approach in addressing and eradicating financial crime. In 2010 key aspects of this approach included:

    - Close cooperation with law enforcement by rendering all possible assistance to see to the successful prosecution of offenders.
    - Client and staff education in the printed and electronic media.
    - A substantial increase in the number of investigators.
    - Continued focus on proactive, early detection of financial crime both against the bank and its clients.
    - The introduction of new technologies such as biometric client authentication for the prevention of identity theft.
    - The creation of a dedicated capacity for the combating of home loans crime to address the increased onslaught.
    - Additional measures to combat new types of crime, specifically in the area of online fraud.

  – Internal fraud and dishonesty

    Nedbank Group maintains a policy of zero tolerance towards any dishonesty of staff members. During 2010, 234 staff-members were dismissed as a result of internal investigations, which is a decrease of 15,8% compared with 2009.

- Assessment of fraud risk

  The risk of internal and external fraud is evaluated on several levels:

  - Risk and control self-assessments are conducted on an ongoing basis to ensure that the appropriate controls are in place and monitored effectively. Where controls are lacking, action plans are formulated and implemented to ensure that the risk of fraud is managed within the accepted risk appetite of the group.

- Fraud key risk and control indicators have been developed and are monitored, tracked and reported on in accordance with the Group Operational Risk Management Framework.

  - 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 anti-money-laundering) are considered.

- Due-diligence investigations

  Due-diligence investigations are performed at the outset of any business relationship with clients, partners, vendors, agents/intermediaries and joint ventures. In addition, an ongoing assessment of the commercial, political, social and security environment where business is undertaken or likely to be undertaken is carried out. 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.

- Internal and external whistle-blowing reporting lines

  Security and fraud incidents can be reported, around the clock, to an internal reporting line, which is supported by an external, independently managed whistle-blowing hotline and is available to staff and clients. The facility also extends to Nedbank Group 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.

- Online fraud

  During 2010 the group undertook various initiatives to protect its clients from online fraud, including participation in a concerted media campaign with the rest of the banking sector to educate consumers about online safety. Free software to all internet banking clients to protect them from phishing attacks was provided by Nedbank Group and a sophisticated phishing response infrastructure was created, which led to the successful prevention of 89,6% of all potential phishing losses.

- Cybercrime risk

  Nedbank Group has taken note of the current and expected impact of cybercrime on the banking industry and its clients, and has established an extensive internal digital forensic capability to deal with this risk effectively. The group also provides training and awareness in digital forensics at tertiary institutions and the law enforcement community in South Africa.

- Security risk

  An increase in bank robberies occurred during the first part of 2011. The main reason was the escape of high profile robbers from prison. Nedbank Group experienced 5 robberies against 16 for the rest of the banking industry. ATM explosions are under control. Nedbank Group had 6 attacks against the industry which had 232 attacks year to date. Robberies and burglaries remain a threat and these are mitigated, managed and monitored by highly sophisticated technology in a joint operations centre. Biometric doors at branch entrances, automated roller-shutter doors and a well-implemented cash management system and improved response to incidents are critical in the management of security risk. A guard tracking device, digital video recorder live camera streaming and a Security Analysis Management System (SAMS) are all scheduled for implementation later this year.

Relations with the South African Police Services and National Prosecuting Authority were strengthened for the banking sector under the facilitation of South African Business Intelligence Centre (SABRIC).

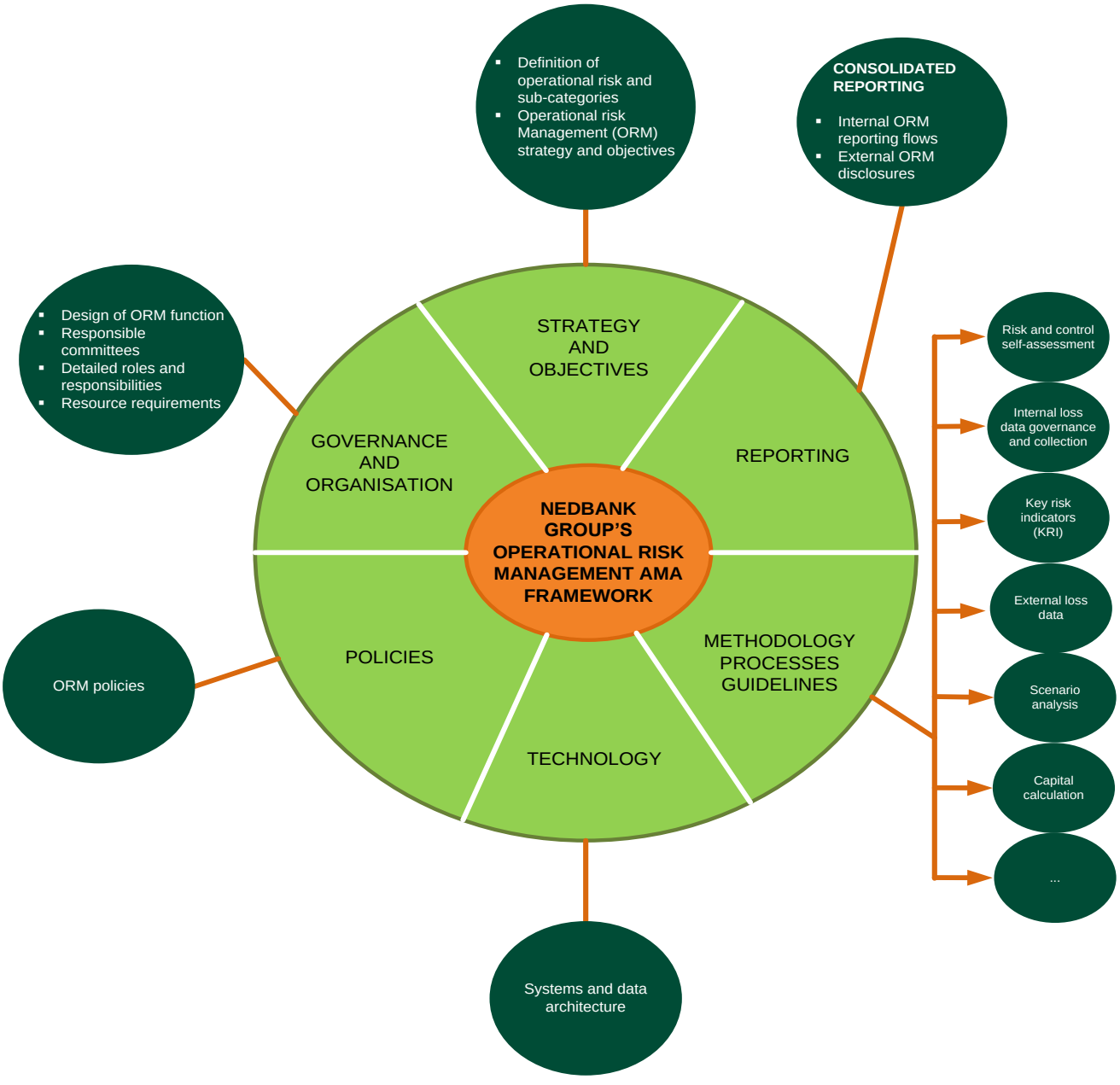
– Cooperation with the criminal justice system

In addition to the day-to-day cooperation with law enforcement in the fight against crime, Nedbank Group reported 522 suspicions of corruption and/or fraud in excess of R100 000 to the South African Police Force during 2010 in terms of section 34 of the Prevention and Combating of Corrupt Activity Act (PRECCA). In addition the bank was able to assist the SAPF in their investigations by responding to 3 163 subpoenas.

Nedbank Group's approach to managing operational risk

To minimise the exposure to operational risk that arises as a consequence of the group's financial risk-taking initiatives within credit, market and operating activities, Nedbank Group has implemented and embedded a Group Operational Risk Management Framework (ORMF), which contains AMA-compliant methodologies, policies and guidelines to facilitate a consistent and world-class approach to operational risk management.

The diagram below depicts the Nedbank Group AMA ORMF elements:



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 at the divisional and cluster Enterprise-wide Risk Committees (ERCOs) 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 Group ERMF. GORM's primary responsibilities are to develop, maintain and champion the Group Operational Risk Management Framework, policies and enablers to support operational risk management in the business as well as the implementation of the Basel II and regulatory requirements and international best practice for operational risk management.

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

Group Internal Audit, as the third line of defence, provides assurance to Executive Management and the Board.

Operational risk governance structure

The primary operational risk measurement processes in the group are risk and control self-assessments (RCSAs), internal loss data collection processes and governance, the tracking of KRIs, external loss data, scenario analysis and capital calculation, which are designed to function in an integrated and mutually reinforcing manner.

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 on in the Nedbank Group 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.

Material credit risk events, which are 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, which are caused by operational failures in the market risk processes, are also flagged separately in the Nedbank Group Internal Loss Data Collection System. The capital holding thereof is included in the operational risk capital.

External loss data

The purpose of using external data is to incorporate infrequent yet relevant and potentially severe operational risk exposures into the measurement model. Nedbank Group currently incorporates the effects of external data in the operational risk capital calculation model indirectly in conjunction with the scenario analysis process.

Scenario analysis

Scenario analysis is also a required element of AMA and is defined in the ORMF as one of the data sources for operational risk modelling and measurement and is the main input for unexpected-loss estimation. Scenario analysis is conducted in a disciplined and structured way using expert judgement to estimate the operational risk exposure of the bank. Scenario analysis focuses on solvency and aims to identify the major operational risks that can negatively affect the solvency of the bank. Nedbank Group has developed scenarios for all operational risk classes derived through an extensive analysis of the group's operational risk exposures and in consultation with business experts. The scenarios are reviewed and updated periodically to ensure ongoing accuracy of risk profile and capital assessment.

Business environment and internal control factors (BEICFs)

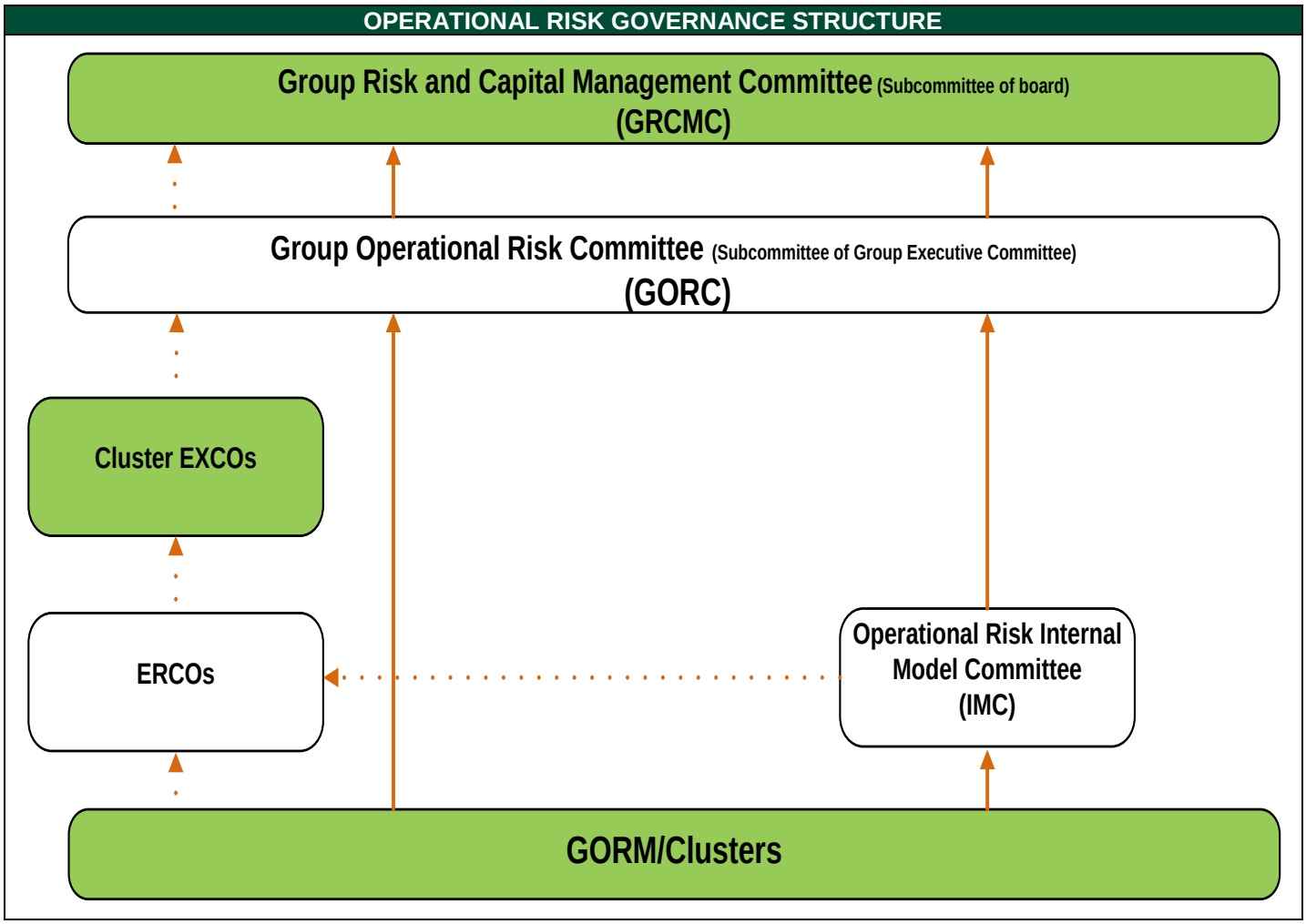
All risk and control self-assessments by Nedbank Group take into account BEICFs, thereby enabling the group to monitor any changes in the external and internal business environment, consider inherent risks as a result of any changes in the business environment and then design appropriate controls.

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 bank.

Operational risk governance structure

Operational risk governance structure:



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 the operational and fraud exposures of the group. The group has an insurance operation that reports to the Group CRO and is responsible for the design and management of the principal insurance programmes addressing the group operational risk exposures.

This function is responsible for ensuring that the cover purchased for the group is in line with the best coverage available within the insurance markets and relevant to the group operating environment. 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

The Enterprise-wide Risk Management Framework (ERMF) covers financial and non-financial risks. In addition to credit, market, liquidity and capital risks, non-financial risks are incorporated under business risk.

Business risk is the risk of adverse outcomes resulting from a weak competitive position or from a poor choice of strategy, markets, products, activities or structures. Major potential sources of business risk include revenue volatility owing to factors such as macroeconomic conditions, inflexible cost structures, uncompetitive products or pricing and structural inefficiencies. The non-financial risks that are categorised under business risk are set out in the table below.

Risk	Definition
Transformation risk	Failure to adequately, proactively and positively respond to address transformation issues.
New business risk	New products and business lines do not generate anticipated revenue or cost savings.
Reputational risk	Risk of impairment of the group's image in the community or long-term trust/confidence.
Social and environmental risks	Non-achievement of balanced and integrated social and environmental performance.
Strategic risk	Business policy decisions, deficient implementation of decisions, or failure to adapt to changes in the environment.
People risk (strategic component)	The risk of inadequacies in human capital.
IT risk (strategic component)	Inadequate or inappropriate IT investment, development, implementation, support or capacity with concomitant negative impact on the achievement of strategic group objectives.

Nedbank Group actively manages business risk through the various management structures, as set out in the ERMF, and within Balance Sheet Management an earnings-at-risk methodology similar to the group's risk appetite metrics is used. This is one of the major risk types within the group's economic capital model. Please refer to page 45 for further details.

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

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.
- 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 sits on the GT Cluster EXCO and reports directly to the managing executive of GT.

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

As in the case of technology risk, reputational, strategic, social and environmental, transformation and compliance 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 2010.

- 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 2010.
- 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 Enterprise-wide 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 2010.

Human resources (or people) risk

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 on talent' in the marketplace. The head of Group Human Resources (HR) represents the HR community at Group EXCO.

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

- Group Remuneration Committee (RemCo) – a sub-committee of the board.
- Transformation and Human Resources Committee (TRHRCO) – a subcommittee of EXCO.
- Transformation Committee (TransCo) – a subcommittee of the board.
- Enterprise-wide 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 at Group Executive, Cluster Executive and Divisional Committee levels. Detailed and intensive planning is conducted through the CEO's Office in consultation with the Group Directors' Affairs Committees. In addition, Nedbank Group clusters are supported by a strong level of expert and experienced human resources, for which succession plans are in place and which are regularly monitored and updated.

The CEO 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 short term incentive pools for all support clusters are based on a combination of performance relative to the targets in respect of group economic profit (EP), group headline earnings and cluster specific non-financial performance scorecards.

In the income-generating clusters incentive pools are structured with a weighting linked to the group, cluster and, where appropriate, divisional performance. The five income-generating clusters within Nedbank Group (Capital, Corporate, Business Banking, Retail and Wealth) are measured against a combination of performance targets namely EP, headline earnings and nonfinancial targets. The Remco continues to institute a control limit whereby there may be no more than a 10% variance between the group top down performance calculation and the independent bottom up cluster performance calculations.

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

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.

Accelerating transformation continues to be one of the group's key focus areas. The group is proud to say that it has achieved a level 2 contributor status to black economic empowerment (BEE) according to the Department of Trade and Industry (DTI) Codes of Good Practice on BEE. Nedbank Group continues to be the most transformed financial institution in South Africa as reported in the Financial Mail Empowerdex Survey.

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. Barrett research confirms 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

'strategic' 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.

There continues to be a number of initiatives, guidelines and principles being published regarding the good corporate governance on executive remuneration. The RemCo and Group Exco continue to evaluate the group's position to ensure Nedbank Group identifies gaps and takes corrective action where necessary. The main sources which the Bank has used in its assessments are the following documents published by the FSB and Basel committee on banking supervision:

- FSB Principles for Sound Compensation Practices (April 2009).
- FSB Thematic Review on Compensation – Review Template (December 2009).
- Compensation Principles and Standards Assessment Methodology (January 2010).
- FSB Second Thematic peer review of compensation practices – Questionnaire for firms (April 2011).
- Range of Methodologies for Risk and Performance Alignment of Remuneration (May 2011).
- Pillar 3 disclosure requirements for remuneration (July 2011).

During 2010, other than the normal course of business, the Remco attended to the following matters:

- Compliance and impact assessment of a number of new remuneration regulations, governance frameworks and regulatory requirements.
- Implementation of the compulsory deferral of a portion of the short term incentives above a threshold in respect of the financial year 2009 as well as approving the compulsory deferral rules for financial years 2010 and 2011.
- In line with the spirit of the King III Code, the introduction of a split allocation in long-term incentives where a portion of all allocations is now in the form of performance shares issued with corporate performance targets and a portion is in the form of retention shares issued without corporate performance targets.
- The redesign of corporate performance targets for long-term incentive issuances during 2010 to incorporate both, a relative external performance target, as well as an absolute internal performance target and the introduction of graduated vesting.
- The vesting of the Eyethu Broad-based Share Incentive Scheme.
- The vesting of the first and second tranche of allocations done in 2005 and 2006 under the Nedbank Eyethu Black Executive and Black Management Schemes.
- The successful integration of Imperial Bank staff into Nedbank Group without any job losses.
- Alignment of the committee charter with regulatory frameworks and the continual upholding of the principles of the charter while taking cognisance of the group’s remuneration challenges.

While the Remco and Group Exco are satisfied with the level of compliance of Nedbank Group on all issues raised in the various documents, specific attention will be paid to the following:

- In the context of evolving best practice, ensuring that the quantum and construct of total remuneration remains market-related and enables the group to attract and retain key staff within the industry.
- Ensuring that the demand for remuneration adjustments is more realistically related to the SA inflation environment.
- Continuously assessing the Nedbank Group Performance Management Framework to ensure that targets set are relevant, appropriate and are driving the desired behaviour within an acceptable risk framework.
- Ensuring that the implementation of total remuneration within Nedbank Group is based on an approach that incorporates a formulaic approach as well as a measure of discretion in an open and transparent process.
- Conducting a total review of all the employee long-term incentive schemes.

Major concentration risks and off-balance-sheet risks

Nedbank Group has enhanced its holistic group-wide concentration risk in 2010 as a key feature in Nedbank Group's Risk Appetite Policy and Framework. The Basel Committee on Banking Supervision published its first package, collectively referred to as Basel 2.5, on enhancements to the Basel II framework post the global financial crisis in July 2009, which includes 'concentration risk' and is effective in South Africa from January 2012. The global financial crisis highlighted various weaknesses in banks' risk management, especially concentration risk (eg sub-prime credit; wholesale funding) and its consequence on the biggest risk generally facing a bank, namely liquidity risk.

All economic capital (ICAAP) risk types and others, such as tax risk and settlement risk, are analysed by appropriate segmentation for possible concentrations. Segmentations that are considered include single name, industry, geographic, product, collateral and business unit segmentation.

Credit concentration risk is addressed from page 117.

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, interest rate risk in the banking book (IRRBB), forex and equity risk portfolios (evident in the low percentage contributions to group economic capital, see page 59). 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 three 'plain vanilla' securitisation transactions, which have funding diversification rather than risk transfer objectives. In addition there are no 'exotic' credit derivative instruments or any risky off-balance-sheet special-purpose vehicles.