NEDBANK
GROUP

RISK AND BALANCE SHEET MANAGEMENT REPORT

For the year ended 31 December 2009

Pillar 3 (of Basel II) public disclosure report, as required by regulation 43 of the South African banking regulations

MAKE THINGS HAPPEN

NEDBANK GROUP

A Member of the OLD MUTUAL Group

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HIGHLIGHTS

SA BANKING SYSTEM AND FINANCIAL SYSTEM

CONTINUES TO REMAIN STRUCTURALLY SOUND, LIQUID AND STRONGLY CAPITALISED

- Financial soundness of banking system improved from 15th to 6th place in World Economic Forum Global Competitiveness Report.

CAPITAL ADEQUACY

INCREASED SIGNIFICANTLY AGAIN IN 2009

Regulatory capital

- Core Tier 1 – from 7,2% (2007) to 8,2% (2008) to **9,9% (2009).**
- Tier 1 – from 8,2% (2007) to 9,6% (2008) to **11,5% (2009).**
- Total – from 11,4% (2007) to 12,4% (2008) to **14,9% (2009).**

Economic capital

- In 2009 the group's internal target solvency standard was made more conservative from A- (99,9%) to A (99,93%) while a more conservative definition of available financial resources (AFR), which covers the economic capital requirements, was also introduced.
- AFR surplus (after 10% capital buffer)
  - increased from R9,6 billion (2008) to R16,1 billion (2009), based on the old basis.
  - amounts to R11,8 billion (2009), based on the new, more conservative basis.

Leverage ratio

- Low at 14,4 times (2008: 16,2 times), compared with international levels.

Stress and scenario testing

- Best-practice framework and process followed to confirm the robustness of the group's capital adequacy and to assist in derisking the bank in appropriate segments ahead of the global financial crisis.

LIQUIDITY

REMAINS SOUND

- Lengthened the funding profile, including successful R5,4 billion senior debt issue in September 2009.
- Strengthened liquidity buffers.
- Well-diversified funding mix (ie retail vs wholesale deposit reliance).
- Strong deposit franchise (across Retail, Business Banking and Corporate Banking businesses).
- Low reliance on interbank, foreign and capital markets.

RISK AND CAPITAL MANAGEMENT SYSTEMS

PROVE CONSISTENTLY EFFECTIVE

- Enterprisewide Risk Management Framework (ERMF) and Capital Management Framework remain effective and well-embedded across the group.
- Sound risk governance prevails.
- Prudent risk appetite followed.
- Risk-based remuneration practices applied since 2008.
- With the exception of the retail asset classes where impairments remain challenging, wholesale credit asset classes remained within target credit loss ratios throughout the global financial crisis and local recession.

GLOBAL REGULATORY DEVELOPMENTS

COMPREHENSIVE RESPONSE TO GLOBAL FINANCIAL CRISIS IS IN PROGRESS

- Significant new international regulatory requirements and proposals (‘Basel III’) related to capital, liquidity, risk management and accounting provisioning, aimed at a more resilient global banking sector, are currently due for implementation end 2012.
- Comprehensive quantitative impact study and finalisation of the proposals are due end 2010.
- Impact of the liquidity proposals would be pervasive if implemented as is, but we anticipate modifications and changes appropriate for South Africa and its various structural issues.
- Impact on capital and all other proposals for Nedbank Group are initially anticipated to be moderate, not significant.

BALANCE SHEET MANAGEMENT

A NEW BALANCE SHEET MANAGEMENT CLUSTER WAS ESTABLISHED IN 2009

BACKGROUND

In 2009 the local banking industry continued to experience a tough and volatile year as a result of the impact of the ongoing global recession, combined with cyclical credit stresses in the domestic economy. In response to the global financial crisis, during 2009 Nedbank continued its focus on proactive risk management and strengthening of capital ratios as well as further diversifying the funding base, lengthening the funding profile and increasing liquidity buffers. Although underlying conditions in the banking industry are expected to remain challenging for 2010, the SA economy is expected to grow by around 2,2%, which should translate into a better year for banking.

The landscape of banking is changing rapidly following the global financial crisis and the significant international regulatory response that is underway. Much of this change relates to and impacts the measurement and management of risk, the balance sheet (in particular, capital and liquidity) and financial performance, as well as the associated remuneration practices of banks.

South Africa's banking industry has remained structurally sound and weathered the global financial crisis and local recession extremely well due to factors that include:

- Sound and proactive regulation of financial services, especially in the banking sector.
- Strong risk and capital management in the SA banking industry.
- Basel II being successfully implemented and embraced in South Africa.
- The National Credit Act being successfully implemented in South Africa to help minimise irresponsible lending practices, overgearing and excessive consumer debt.
- Fiscal authorities in South Africa never allowing interest rates to fall as low and for as long as in the United States, where this resulted in excessive borrowing and untenable levels of household debt. South Africa has not had negative real interest rates.
- Exchange controls preventing large flows of funds from local institutions out of the country.
- Rand liquidity remaining stable, with the interbank market operating normally.
- The 'originate and sell' business model and complex credit derivatives, which resulted in excessive leverage in some foreign banks, not being implemented and used in South Africa to the same extent.
- Lessons learned from the 2002/3 SA banking crisis.

In South Africa our banking regulator has consistently been effective, and this has played a significant role in preventing any local fallout from the global financial crisis. However, South Africa does operate in a globally regulated market and the significant response to the crisis by international regulators, in particular the Basel Committee on Banking Supervision ('Basel Committee'), will have an effect on the local banking industry.

Nedbank Group anticipates that the impact on the group of the proposed international regulatory changes will be moderate rather than pervasive, with one potential exception (see next page). This view is substantiated by the sound positioning of the SA banking industry throughout the global financial crisis, successful Basel II implementation in 2008 and, in particular, Nedbank Group's prudent risk appetite, sound governance and strong risk culture, which is evidence of Nedbank Group's 'business benefits'-based approach to the implementation of Basel II, where our emphasis was not only to comply with Basel II, but also to elevate the group's risk, capital and balance sheet management to best-practice standards.

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

- Global Financial Crisis, the lessons learnt and positioning for the new era in banking.
- New regulatory and accounting (IFRS) requirements.
- South African environment
  - Pro-actively managing through the local economic recession.
  - Avoidance of excessive risks.
  - Positioning for the upturn.
- Old Mutual Group's 'integrated Capital, Risk and Financial Transformation' (iCRaFT) Programme

  iCRaFT, which incorporates the Solvency 2 requirements for the insurance industry due for implementation in 2012, is very similar to Nedbank Group's Basel II Programme implemented two years ago.

The possible exception to the moderate impact discussed above will be the new international regulatory liquidity proposals for which the impact would be pervasive if implemented as they stand, but we anticipate modifications and changes appropriate for South Africa and its various structural issues. SA banks are well-funded and liquid, and remained so throughout the global financial crisis mainly due to the sound, small and closed nature of the local funding system.

The new Group Executive Committee (Group Exco) structure, which was completed in January 2010, also includes the creation of a specialist Balance Sheet Management (BSM) cluster. This recognises the importance of managing risk on a portfolio basis and integrating the management of risk with liquidity and funding, capital management, shareholder value-add optimisation and reward practices. The creation of this new cluster is also acknowledgement that portfolio optimisation is an essential component of optimising the financial returns and long-term sustainability of the group.

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

The requirements of regulation 43 are aligned with International Financial Reporting Standards (IFRS) but significantly extend the public disclosure requirements. This extension of disclosure is embodied in what is commonly known as 'Pillar 3' of the Basel II Accord.

An executive summary of this long-form Pillar 3 report may be found in the 2009 Annual Report, available on the group's website (www.nedbankgroup.co.za).

GLOBAL REGULATORY DEVELOPMENTS AND THE CHANGING LANDSCAPE OF BANKING

The measures taken by the Basel Committee in July 2009 to strengthen the international Basel II framework, as well as the far-reaching proposals released in December 2009, are the committee's comprehensive response, under the mandate of the group of 20 leading economies, to address the lessons of the global financial crisis.

The Basel Committee's proposals aim to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector. The objective of the reform package is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy.

Through its reform package the Basel Committee also aims to improve risk management and governance as well as strengthen banks' transparency and disclosures. Moreover, the reform package also includes the committee's efforts to strengthen the resolution of systemically significant crossborder banks and the financial regulatory system.

The new Basel requirements and proposals are discussed in more detail below.

The first response package was released in July 2009 and included improvements to Basel II's Pillars 1, 2 and 3.

- Enhancements to **Pillar 1**
  - Securitisation (implementation end 2009).
  - Market trading risk (implementation end 2010).
- Enhancements to **Pillar 2** Internal Capital Adequacy Assessment Process (ICAAP) (implementation July 2009)
  - Bankwide governance and risk management.
  - Principles for sound liquidity risk management.
  - Principles for risk concentrations.
  - Sound remuneration practices (risk-based).

  - Valuation and liquidity risks of financial instrument fair-value practices.
  - Principles for sound stress-testing practices.
  - Off-balance-sheet exposures and securitisation activities.
  - Reputational risk and implicit support.
- Enhancements to **Pillar 3** (public disclosure/market discipline)
  - Securitisation exposures (implementation end 2009).

The second response package, which includes only proposals at this stage, was released in December 2009. The objectives of the proposals in this package are as follows:

- Raising the quality, consistency and transparency of the capital base, while also harmonising the other elements of a bank's capital structure.
- Strengthening risk coverage.

  In addition to the trading book and securitisation reforms announced in July 2009, the new proposals include strengthening of the capital requirements for counterparty credit risk exposures arising from derivatives, repurchase agreements (repos) and securities financing activities. The strengthened counterparty capital requirements will also increase incentives to move over-the-counter (OTC) derivative exposures to central counterparties and exchanges, and generally improve counterparty credit risk management. The interconnectivity of large financial institutions is also a key focus area as reflected by, for example, introducing a multiplier (1,25) to the asset value correlation for these exposures held by banks.

- Introducing a leverage ratio as a supplementary measure to the Basel II risk-based framework.

  The leverage ratio will help contain the buildup of excessive leverage in the banking system. To ensure comparability the details of the leverage ratio will be harmonised internationally, fully adjusting for any remaining differences in accounting.

- Reducing procyclicality and promoting countercyclical capital buffers.

  The key objectives are:

  - Dampen any excess cyclicality of the minimum capital requirement.
  - Promote more forward-looking credit provisions based on 'expected losses', rather than the current 'incurred loss' provisioning model under IFRS.
  - Conserve capital to build buffers that can be used in stress by the introduction of a framework linking the amount of earnings a bank is allowed to distribute to shareholders to the bank's capital ratios.
  - Protect the banking sector from periods of excess credit growth by requiring banks further to increase capital buffers available when selected macroeconomic indicators suggest that credit volumes have grown excessively.

- Introducing a global liquidity framework.

  This would consist of a stressed liquidity coverage ratio, a longer-term structural stable funding ratio and a common set of monitoring metrics to assist in identifying and analysing liquidity risk trends. These complement the Basel Committee's 'Principles for sound liquidity risk management and supervision' issued in September 2008.

- Addressing systemic risk and banks' interconnectedness.

  More specific proposals are expected to be developed in the first half of 2010.

The Basel Committee is mindful of the need to introduce these measures in a manner that raises the resilience of the global banking sector over the longer term, while avoiding negative effects on bank lending activity that could impair the economic recovery. To this end the committee is initiating a comprehensive impact assessment of the capital and liquidity standard proposals and has highlighted that 'decisions on the final proposals and their calibration will be made only after a thorough analysis of the impact assessment and the comments received on the consultative documents. The committee will ensure that implementation of the new standards is consistent with financial market stability and sustainable economic growth'.

The key timelines are as follows:

- Consultation period for the December 2009 proposals until 16 April 2010.
- Undertaking of a comprehensive impact assessment during the first half of 2010.
- Development of a fully calibrated set of standards by end 2010.
- Targeted implementation by end 2012 (including phase-in measures and grandfathering arrangements beyond 2012).

The complexity of the Basel Committee's proposals, the risks of unintended consequences and the interaction between these and other developments place a strong burden on the banking industry to assess the impacts carefully and ensure that the right balance is achieved between risk management and economic wellbeing.

In conclusion, most of these new developments are still at the proposal stage and changes are expected following the quantitative impact study, calibrations and consultative process. The exact impact remains uncertain, however, and the issue is not 'if', but 'how much?'.

Impact of the international regulatory developments on Nedbank Group

Nedbank Group is supportive of the recent international regulatory developments. While some details and clarity are still sought and refinement needed before they are finalised, the principles behind most of the proposals are appropriate, prudent and necessary.

The proposed changes will have an impact on the SA banking industry, although this will only come into effect after a minimum of three years following finalisation by the Basel Committee, as discussed above, and after the SA Reserve Bank (SARB) has determined exactly what will be adopted and/or modified as appropriate for the SA banking industry.

At this early stage Nedbank Group's expectation is that the impact of these proposals will be moderate, both on implementation requirements, strategy and financial performance returns, with the possible exception of the liquidity proposals.

In summary, our reasons for this view are as follows:

- South Africa fully embraced its Basel II implementation successfully completed two years ago, which involved a very strong collaborative approach among the regulator SARB and the banking industry.

  Nedbank Group's approach since 2004, which at all times embraced the true spirit of Basel II, involved implementing, inter alia, best-practice enterprisewide risk management (ERM) across the group. We have invested significantly in advanced risk and capital management capabilities, as well as human resources and systems, and transformed these using our comprehensive Basel II programme as the main catalyst. Additionally, we launched the SMART Programme in H1 2009 to respond proactively to the global financial crisis.

  Many of the global issues around poor risk, capital and balance sheet management were a matter of implementation, governance and risk cultures, and risk management lessons that needed relearning. A significant portion of the new Basel proposals are about enforcing what was already required and/or expected, albeit in principles that are now more detailed and specific. The new proposals comprehensively formalise these requirements and therefore reduce opportunities for regulatory arbitrage. It's mostly the environment in which banks operate that has changed materially.

NEDBANK GROUP'S STRATEGIC FRAMEWORK

Vision	"To become southern Africa's most highly rated and respected bank… by our staff, clients, shareholders, regulators and communities."
Deep Green aspirations	Great place to work; Great place to bank; Great place to invest; Unleashing synergies; Worldclass at managing risk; Community of leaders; Most respected and aspirational brand; Highly involved in the community and environment; Leading transformation; Living our values
What makes us different and guides our long-term strategy?	GREAT AT LISTENING, UNDERSTANDING CLIENTS' NEEDS AND DELIVERING
Our brand expression	MAKE THINGS HAPPEN
Strategic focus areas	Grow our share of economic profit (EP); Become client driven; Manage risk as an enabler; Enhance productivity and execution; Build unique culture for competitive advantage; Accelerate transformation; Lead as a corporate citizen
Scope of the game	A member of the Old Mutual Group; Full-spectrum banking; Bank for all; Southern Africa focus, with selected offshore expansion
Our values	Integrity; Respect; Accountability; Pushing beyond boundaries; People-centred

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

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

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

- As far as the proposed new **capital** requirements are concerned, SA banks' regulatory capital rules are already considerably more conservative than the Basel II international rules. The Tier 1 minimum ratio is 7% in South Africa, compared with 4% in Basel II, while the core Tier 1 minimum at 5,25% is more than double the minimum 2% of Basel II. In addition, all the major SA banks are currently operating at capital ratios significantly above the minimum regulatory ratios required in South Africa.

  All the major SA banks have also completed comprehensive Internal Capital Adequacy Assessment Processes (ICAAPs) in both 2008 and 2009. These are required to be signed off by the board of directors of each bank and then be subjected to a supervisory review and evaluation process by SARB.

  In view of the above we do not foresee change for SA banks in the minimum capital requirements.

  The new Basel proposals have, however, significantly increased the focus on, and quality of, core Tier 1 capital (with ordinary shareholders' equity and retained earnings by far the predominant form of Tier 1 capital).

  In view of Nedbank Group's significantly strengthened capital ratios over the past two years to levels well beyond our target regulatory capital ratios (see page 122) and expected further strengthening over our current 2010 – 2012 business plan as a result of our ongoing Risk-weighted Assets (RWA) Capital Optimisation Programme, SMART Programme, managing for value strategic focus area and internal generation of capital from projected retained earnings, Nedbank Group does not anticipate the need to raise additional capital in response to these global developments, notwithstanding the list of additional regulatory deductions being proposed.

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

- Concerning the finalised (ie July 2009) and proposed (ie December 2009) new **risk coverage** requirements, Nedbank Group's trading book is small in relation to its total bank operations, securitisation exposure/activities are low and counterparty credit risk, including repurchase transactions and securities financing, is mostly restricted to low-risk, non-complex transactions, with credit derivatives activities restricted to mainly single-name trades of SA exposures. We therefore do not envisage a significant overall increase in minimum capital requirements due to the new requirements and proposals.

- With regard to the proposed new **leverage ratio**, at 14,4 times, excluding off-balance-sheet exposure (2008: 16,2 times), this requirement will not be an issue of concern for Nedbank Group. The risk appetite target approved by the board of directors is 18 times, well below the international average.

- With reference to the **procyclicality and countercyclical capital framework** proposals, the intended dampening of procyclicality via potentially more conservative through-the-cycle (TTC) or downturn probabilities of default (PDs) [the regulations already require the use of downturn loss given defaults (LGDs)] used in the Internal Ratings-based (IRB) Credit Approach may have a marginal impact on Nedbank Group's minimum credit capital requirements.

  Nedbank Group agrees with the objectives of the November 2009 exposure draft (ED) released by the IASB on the proposed move to an 'expected loss' approach to credit provisioning rather than the current 'incurred loss' model. However, much still needs to be worked out in this ED over the consultative period, such as whether it in fact would adequately reduce procyclicality, as well as the practicality of the implementation of the ED. At this stage it is too early to comment on the expected impact of the ED.

  The other capital conservation and capital buffer proposals generally align with current Nedbank Group practices and our target capital ratios that are validated by the group's ICAAP and extensive stress and scenario testing.

- As far as the new **liquidity risk** proposals are concerned, while our liquidity **risk management** aligns closely with best practice, the proposed new Basel liquidity ratios as they stand are a potential pervasive issue for the SA banking industry, as the local industry, compared with other first-world countries, has certain structural differences. These include, by way of example:

  - South Africa not being aligned with other jurisdictions in terms of deposit insurance schemes.
  - SA savings levels being low partly due to the lack of a large middle class, which typically generates significant pools of stable retail deposits.
  - SA banks having been disintermediated by money market funds, which account for nearly a third of total funding. This has resulted in more expensive funding (due to the wholesale nature) as well as a shorter liquidity profile.
  - Almost 90% of assets being corporate and mortgage loans, which typically have a long duration.
  - Small and less liquid local capital markets limiting the SA banks' ability to bolster liquidity buffers and/or lengthen their funding profiles.

  It is also important to recognise various positive structural differences between the SA and international financial markets that are currently not taken into account in the new Basel proposals. SARB may well consider adapting the new proposals to meet SA requirements.

Some items that may be considered in modifying the proposals include:

- Changes to some definitions (eg apply look-through principle to money market funding and classify as retail).
- Lengthening the implementation period to make compliance practically achievable for the SA banks and importantly also to allow SARB adequate time to interact with government and the National Treasury to address some of the structural issues.
- Reducing the minimum target ratio; maintaining global comparability of calculations, but modifying for South Africa's structural issues.
- Adjusting for South Africa not being aligned with other jurisdictions in terms of deposit insurance schemes.
- Clarifying whether cash reserves and liquid assets will be allowed to qualify as part of the stock of highly liquid assets. Currently only 25% of liquid assets and 0% of cash reserves qualify (the Basel paper suggests that 100% of sovereign paper and 100% of cash reserves could qualify).
- The closed nature of SA money markets, mainly resulting from exchange controls, which means that rands are more 'sticky' for SA banks in the rand system than for euro- or dollar-denominated banks in their respective systems that are more open.
- SA asset managers having four large banks for depositing funds. In Europe and the United States there are significantly more major banks for depositing funds, meaning wholesale funding is less 'sticky' compared with South Africa.
- Given that liquidity risk is a consequential risk, legislation such as the National Credit Act (NCA) reduces systemic risk and so the need for oversized liquidity buffers. Many developed economies do not have the safety net of NCA-type legislation yet.

These are some of the SA structural issues that we anticipate are likely to be addressed collectively by government, SARB and the financial services industry in order for SA banks practically to align with the proposed liquidity ratios.

- On the banking industry **systemic risk** proposals, further work is ongoing on the proposals by the Basel Committee, but in South Africa a unique Pillar 2(a) 1,5% and Pillar 2(b) add on, additional to the minimum Basel II 8% ratio requirement, are already in place.

As regards the emphasis on risk-based remuneration practices, Nedbank Group is positioned very well and has only a few minor gaps to close given our risk-based approach already implemented in recent years (see the Remuneration Report in the Nedbank Group 2009 Annual Report).

In summary Nedbank Group recognises that to become worldclass at managing risk is a journey, not a destination. We believe we have made excellent progress over the past five years and that overall our risk, capital and balance sheet management, and ICAAP, align closely with best practice. This positioned the group to be resilient through the global financial crisis and local economic recession. However, there is always room for improvement, and as the bar has been raised with the new international regulatory proposals, we will continue with our endeavours strongly focused on continuously enhancing the group's risk, capital and balance sheet management processes and systems.

RISK CULTURE, STRATEGY AND 2009 DEVELOPMENTS

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

The group's strong risk culture is evidenced in our proactive and comprehensive response to the global financial crisis. During 2008 and 2009 group strategy was refined by anticipating changing global and local events. We conducted scenario planning exercises to identify appropriate courses of action. Specifically around risk and balance sheet management a more conservative approach was implemented including an intensified focus on:

- Increasing capital adequacy levels.
- Growing deposits and liquidity.
- Proactive risk management and derisking the bank in appropriate areas.
- Selectively growing assets.
- Managing for value in those businesses that have low/negative economic profit profiles (eg Home Loans).
- Risk-based pricing and application of liquidity premiums.
- Collections.
- Data quality and data governance.

Specifically for the group's business clusters some of our proactive risk management actions are summarised below:

- Nedbank Corporate cluster –
  - Reviewed internal/external events and trends, and proactively engaged with management in terms of strategic responses to the deteriorating environment.
    - Reviewed high-risk industries to identify specific areas of stress, including shipping, steel, motor, gaming, retail and telecommunications industries.
    - Implemented proactive and intensive client engagement programmes for all clients in affected industries.
    - Identified early warning signals ahead of formal reviews and rerated clients using warning signal triggers.
    - Implemented various risk reduction strategies, including limit and exposure reduction programmes, as well as additional security requests.
  - Tightened controls on international trade and transactions.
    - Suspended trades with certain international bank counterparties due to volatile daily stock price movements.
    - Business units reviewed portfolios in terms of reliance on international banks for support on corporate exposures.
    - Undertook an assessment of international payments in Corporate Shared Services, resulting in short-term measures to tighten controls over large payments to and from all global banks.
    - Reviewed committed/foreign lines especially in respect of tighter liquidity and reduced facilities by using headroom limits.
  - Actively managed clients with large exposures.
    - High risk exposures have been actively managed by reducing limits/risk appetite and/or obtaining additional security.

  In Nedbank Property Finance

  - Tightened credit granting criteria, especially in relation to residential development and vacant land loans and to stepped-repayment and matched cashflow deal profiles.
  - Reviewed possible risk hotspots in the book, focusing on vacant land and residential development exposures, listed-scrip-backed deals and covenant-governed lending.
  - Introduced additional credit monitoring and management routines and mechanisms, including regional 'worry lists' of exposures that fall below the threshold of the official 'watch lists'.
  - Improved the focus on pricing appropriate to risk and rationing of limited available liquidity through refinement of pricing models and implementation of explicit risk-based pricing hurdles.
  - Focused on increased pricing for credit risk, high quality and selective asset growth.
    - Emphasised pricing for credit risk, with measurement of returns against hurdle rates to be achieved on capital consumption.
    - Grew assets selectively in the larger, high-quality corporate segment.

- Increased resources in collections and recoveries.
    - Implemented stress testing on share-based exposures to manage security levels.
    - Emphasised the management of security cover for BEE and other share-based exposures.

- Nedbank Business Banking cluster –
    - Developed a specific stress test exercise in early 2008 and successfully executed this in 2008/9, resulting in the cluster staying within its credit loss ratio target.
    - Reviewed high-risk industries, such as the diamond industry, which led to repricing and additional security.
    - Strengthened the collection process.
- Nedbank Capital cluster –
    - Closely monitored the individual credit exposures within the Nedbank Capital credit portfolio, made easier by the smaller number of individual credit exposures.
    - Undertook specific actions, including
        - Monitored share-based deal cover ratios.
        - Included 'pricing intelligence dashboard' for all transactions.
        - Monitored key performance indicators (KPI) of individual exposures, linking risk to specific economic factors.
        - Only considered new project finance opportunities that are restricted to Africa.
        - Reviewed private equity model to manage earnings volatility and excessive capital consumption.
        - Signed collateral agreements with the majority of banks who are active in the derivative market and where we have material exposure beyond one year.
        - Increased margin calls and substantially reduced the risk exposure on the contracts for difference book on Tier 3 and 4 stocks.
        - Increased the focus on hedging of exposures to single-stock futures.
        - Reduced international and domestic mining exposure.
    - Reviewed potentially illiquid instruments, resulting in monthly dashboard reporting of illiquid trading exposure.
    - Contained BEE exposure risk well.

  Equity trading book

    - Equity arbitrage book closely monitored and substantially reduced.
    - Revised strategy of equity derivatives business to focus more on client-driven business with the view to hedge the exposure in the market once client trade executed.
    - Reduced the exposure to equity derivatives from a non-linear perspective.
- Nedbank Retail cluster –
    - Decreased higher-risk asset growth as a result of tightening of credit granting criteria in those areas.
    - Reduced loan-to-value (LTV) ratio in Home Loans.
    - Implemented higher risk acceptance criteria in scorecards and increased pricing on new bookings.
    - Emphasised improvement of collections efficiency.
    - Set up of 'fraud busters' in Home Loans.
    - Adopted tighter policy stance on non-Nedbank Group clients.
    - Increased affordability buffers during assessment to preempt balance sheet stress.
    - Increased collections capacity at both management and operational level, almost doubling the Collections headcount.

– Introduced a deposit requirement for vehicle and asset finance loan applications.

– Risk-based incentives for originators and dealers introduced in order to align their interests to that of the bank.

- Imperial Bank –

– Repriced margins to align risk/return better.

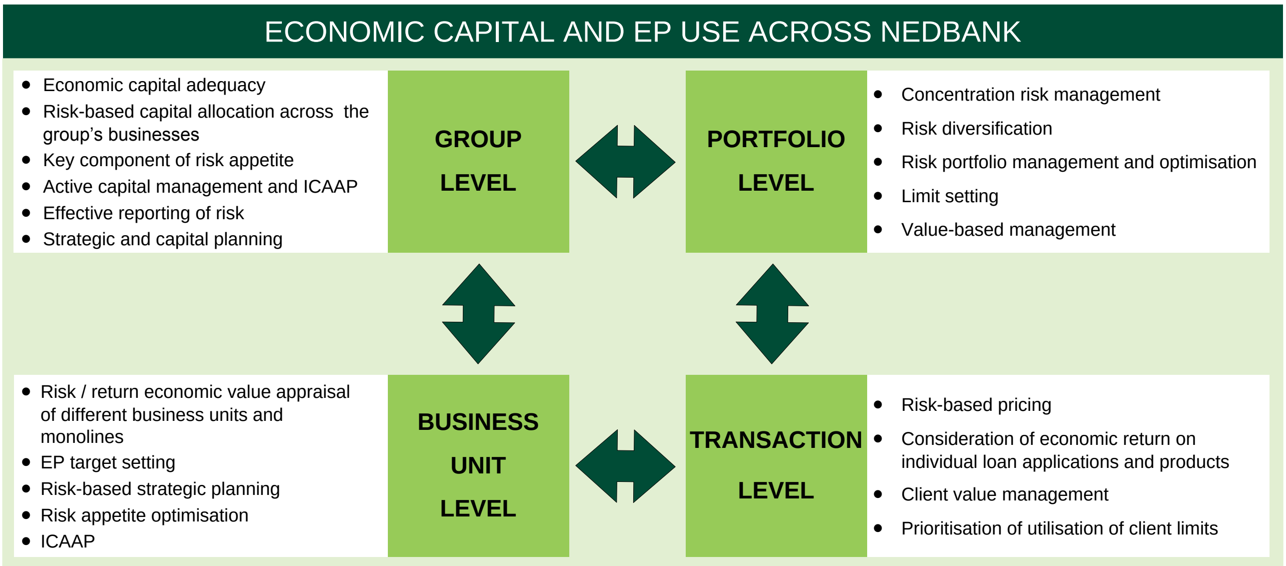
– Reviewed the Professional and Supplier Asset Finance Division.

– Increased pricing in property lending.

Our balance sheet management focus, in particular the significant strengthening of the group's capital adequacy and liquidity, is summarised from page 105.

Some of the other key elements of the risk management embedded in the way we run the group include our 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 assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital within nine quantifiable risk categories, as summarised on page 99.

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

Economic capital not only facilitates an apples-to-apples measurement and comparison of risk across businesses but, by incorporating it into performance measurement we are able to measure and compare the performance of each business on an absolute basis using EP and 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 at 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 IFRS earnings are used. This is shown in the diagram on the next page.

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 decisionmaking. Globally, following the financial crisis, there has been a move towards using through-the-cycle measures of return that provide a longer-term view and incentivisation of profitability.

EP = IFRS earnings – (Hurdle rate * Ecap)

- Value is created if EP › 0
- EP is a core metric for shareholder value add
- If capital is unconstrained, all business with EP › 0 should be grown subject to established hurdle ranges
- No information on the marginal percentage return on economic capital which RORAC provides

RORAC (%) = IFRS earnings + Capital Benefit / Economic Capital

$$\text{RORAC (\%)} = \frac{\text{IFRS earnings} + \text{Capital Benefit}}{\text{Economic Capital}}$$

- Value is created if RORAC › hurdle rate
- If capital is scarce, business with the highest RORAC (i.e. highest marginal return per rand of economic capital) should be prioritised in line with strategic intent
- No information on magnitude of value being created for shareholders which EP provides

cher s

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

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

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

- 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 (RAPM) has been applied across the group for some years now and helped ensure that excessive risk-taking never arose in the group.

  There are minor gaps to be closed in our remuneration practices when benchmarked against the latest principles, practices and codes released in 2009 such as King III, Basel Committee and the FSA (England). Further details on this is contained in the Remuneration Report in the Nedbank Group 2009 Annual Report.

- Risk Appetite Framework

  A comprehensive risk appetite framework was originally approved by the board of directors in 2006 and further refined during 2009 as explained from page 18.

- Stress and Scenario Testing Framework

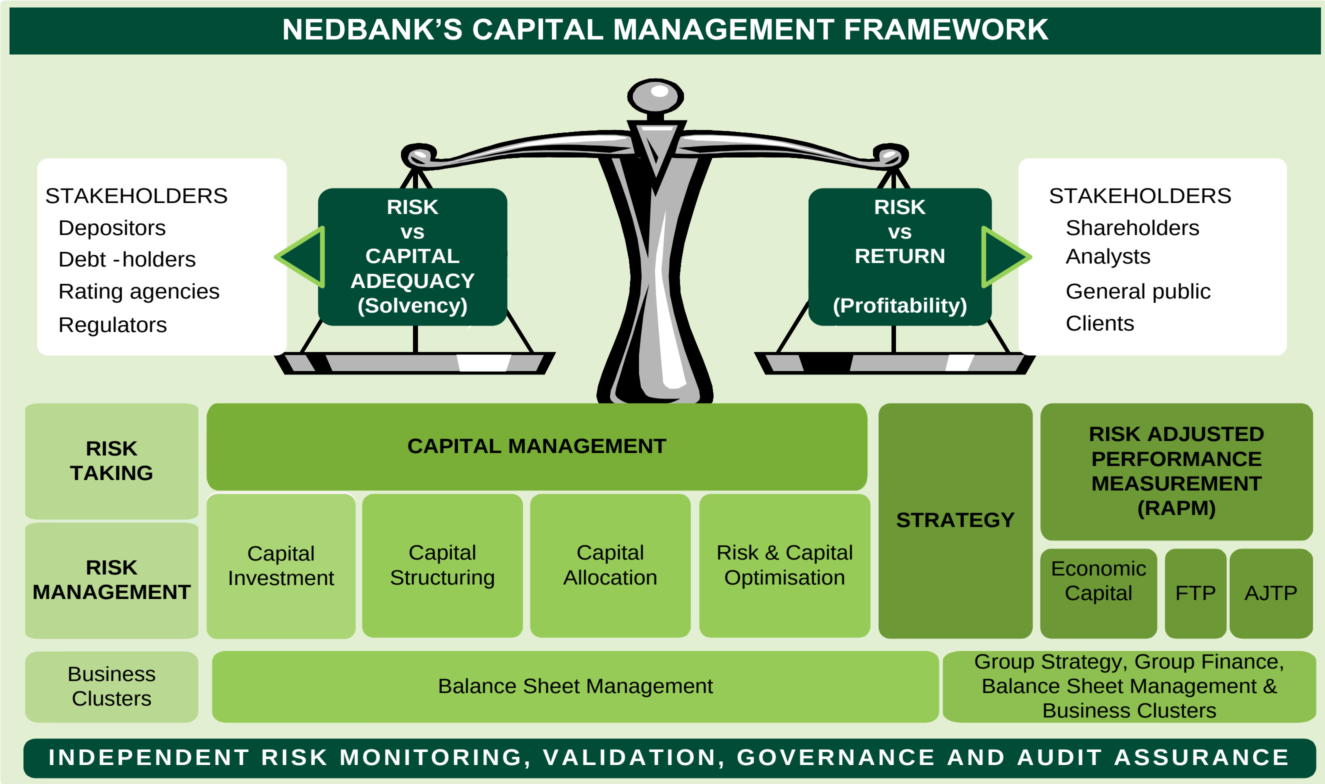
  A comprehensive stress and scenario testing framework was also originally implemented in 2006 as described from page 136 and this was further enhanced in 2009. Such testing has been an integral part of the group's ICAAP in 2008 and 2009, and contributed to the proactive risk management that has facilitated the group's resilience through the global financial crisis and the local recession.

- Enterprisewide Risk Management Framework (ERMF)

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

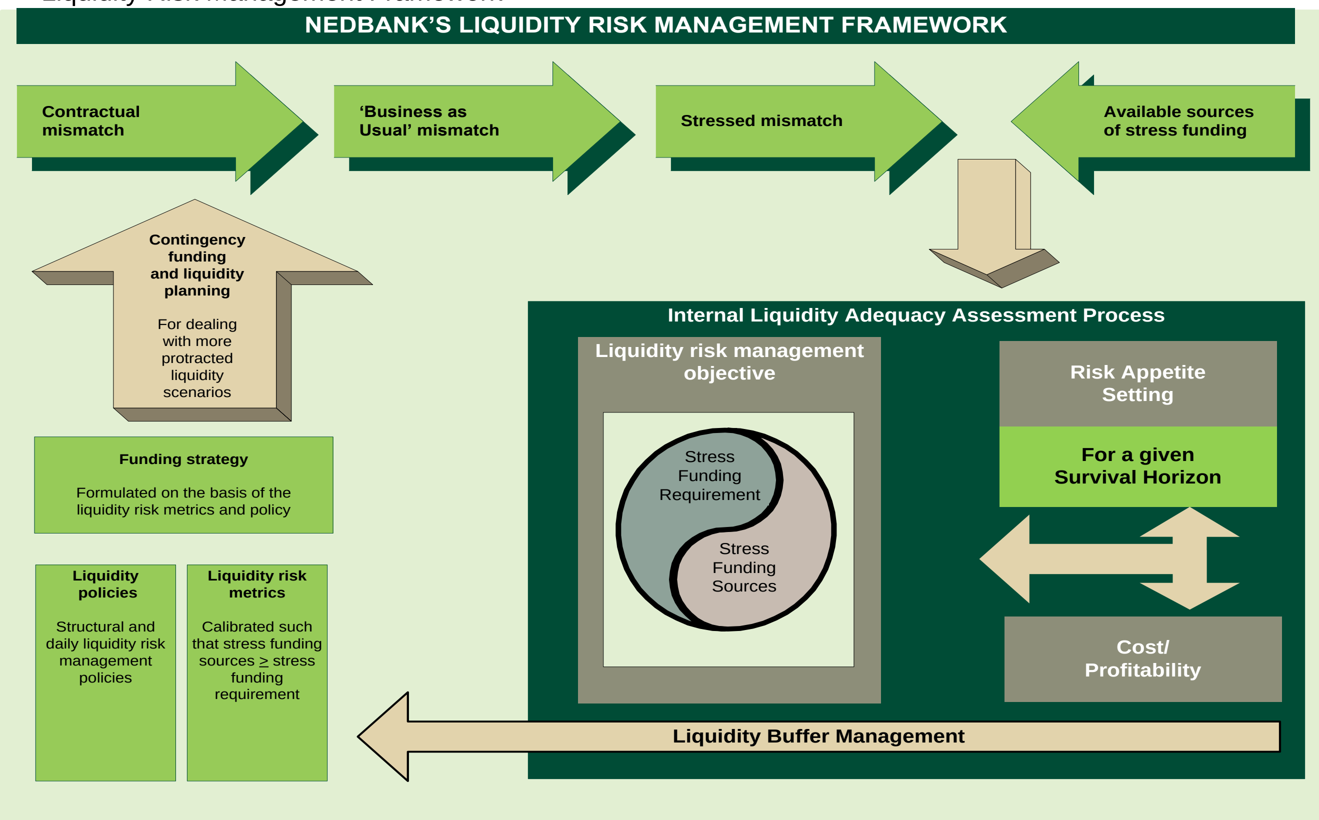
  Enterprisewide risk management is a structured and disciplined approach to risk management, aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the opportunities, threats and uncertainties the group faces as it strives to create shareholder value. It involves integrating risk and capital management effectively across the group's risk universe, business units and operating divisions, geographical locations and legal entities.

- Capital Management Framework



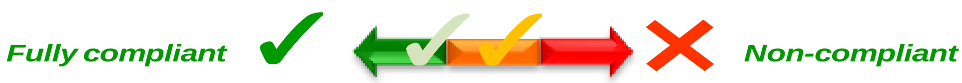
Our comprehensive Capital Management Framework is designed to meet our key external stakeholders' needs, both those focused more on the adequacy of the group's capital in relation to its risk profile (or risk vs solvency) and those focused more on the return or profitability of the group relative to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

- Liquidity Risk Management Framework



Overall Nedbank Group is substantially compliant with the 13 principles issued in September 2008 by the Basel Committee entitled 'Principles for Sound Liquidity Risk Management and Supervision' based on its own ongoing internal assessment.

Principle 1	Robust liquidity risk management framework.	✓
Principle 2	Clearly articulated liquidity risk tolerance / appetite.	✓
Principle 3	Strategies, policies and practices to manage liquidity risk in accordance with the liquidity risk appetite.	✓
Principle 4	Costs, benefits and risks of liquidity incorporated into product pricing and performance management.	✓
Principle 5	Processes to identify, measure, monitor and control liquidity risk.	✓
Principle 6	Management of liquidity risk exposure across legal entities, business lines and currencies.	✓
Principle 7	Funding strategy designed to support funding diversification & liquidity objectives.	✓
Principle 8	Management of daily and intra-day liquidity positions.	✓
Principle 9	Management of collateral positions, differentiating between encumbered and unencumbered assets.	✓
Principle 10	Stress testing for institution specific and market wide stress scenarios.	✓
Principle 11	Contingency funding and liquidity plan.	✓
Principle 12	Cushion of high quality assets which can be used to meet stress funding requirements.	✓
Principle 13	Public disclosure of information which enables market participants to assess Nedbank Group's liquidity position.	✓



Given the rapid pace at which benchmarks continue to evolve, refinement and development can be anticipated for some time to come. No significant gaps were identified, but there are a few areas for refinement and enhancement.

An assessment of Nedbank's liquidity risk management was independently performed by a well known international firm of consultants:

'Overall Nedbank Group is closely aligned with best practice'

'After performing this detailed gap analysis we acknowledge that Nedbank already has strong liquidity risk management capabilities. Nedbank also has the advantage with regard to managing a bank through a liquidity crisis as many of its senior executives have invaluable firsthand experience in dealing with a real-life liquidity crisis in the form of the BoE experience (2002).'

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 2009

The following is a summary of key enhancements made to Nedbank Group's Internal Capital Adequacy Assessment Process (ICAAP) during 2009:

- Significantly strengthened capital adequacy ratios, on the back of our risk-weighted asset (RWA) capital optimisation programme, and set higher target capital adequacy ratio ranges.
- Significantly strengthened liquidity buffers and lengthened the funding profile, including the successful R5,4 billion senior debt issue in September 2009.
- Introduced more conservatism into the group's economic capital framework that is used for ICAAP:
  - Increased the target debt solvency standard from A- (99,9%) (the same as Basel II) to A (99,93%). This aligns with the targeted standard of our parent company, Old Mutual plc.
  - Refined the definition of available financial resources to cover the economic capital requirements.
    - The '50% of next year's earnings' are no longer included (even though business risk economic capital is still included).
    - A Tier A and Tier B category were created, with Tier A to cover at least the minimum economic capital requirements at the new, more conservative A rating.

> Definitions
>
> Tier A = core Tier 1 regulatory capital and qualifying reserves*
>
> Tier B = perpetual preference shares and hybrid debt capital
>
> *(*In 'qualifying reserves' we now include a share-based payments (SBP) reserve, foreign currency translation (FCT) reserve and available-for-sale (AFS) reserve, as we believe this to be correct and appropriate for economic capital calculations. These are currently excluded for regulatory capital purposes.)*

- Elevated stress and scenario testing to yet a new height in line with new best practice developing over the past year on the back of the global financial crisis.
- Appointed a head for the newly established Group Data Management Office to champion groupwide data governance and data quality, following the launch of the Group Data Project.
- Further embedded our economic profit and managing for value approaches in the 2010 – 2012 updated business plans and day-to-day operational management. Completed the second full year of using economic profit driven off risk-based economic capital allocation to determine bonuses (short-term incentives) across the group's businesses.
- Delivered comprehensive, best-practice Pillar 3 public disclosure reports and were awarded two prizes at the annual Investment Analyst Society (IAS) Reporting and Communication Awards. The IAS is the society that most of the SA buy- and sell-side analysts and fund managers belong to, and their 2 000 members vote on the awards. The awards cover the 2008 year and are these analysts' view on the investor reporting Nedbank Group disclosed last year.

  Our awards were:

  - Award for Best Reporting and Communication.
  - Overall Best Reporting and Communication Award, which is the main award (all the winners in each JSE category competed).
- Enhanced and cascaded the group-level risk appetite metrics down to business clusters (see page 23).
- Completed, with the assistance of international consultants, 'deep dives' into the potential risks inherent in:
  - Commercial real estate portfolio (Property Finance).
  - Mortgage/home loans portfolio (Nedbank Retail).
  - Specialised lending portfolio (Nedbank Capital).
  - Motor vehicle finance (Nedbank Retail and Imperial Bank).

- Enhanced the incorporation of risk in the group's three-year business planning process for the 2010 – 2012 period via a more formal and comprehensive requirement for each major business to produce a risk strategy component, integrated with their business strategy. This is in addition to the group-level risk and capital strategy document produced.
- Addressed the Basel Committee's first response package to the G20's eight-point plan released in January 2009, following the meeting in November 2008, benchmarking these points against Nedbank Group's current practice and incorporating any gaps into the SMART Programme.
- Despite the difficult international markets, successfully raised Tier 2 subordinated debt in March 2009 in the amount of US$100 million and at acceptable pricing levels (London Inter Bank Offered Rate + 150 basis points).
- Implementation of new QRM software for our asset and liability management (ALM) process is progressing well and is due for completion in 2010.
- Ongoing refinement and enhancement of Nedbank Group's Advanced Internal Ratings-based (AIRB) credit system and related credit modelling.
- And finally, after having invested significantly in a worldclass Basel II risk and capital management environment, we embarked on our programme of managing for value to extract significant value for the group from this investment, while ensuring that we continue to improve the underlying data that drives financial and non-financial information. This initiative has further been supported by the implementation of an enhanced financial reporting architecture, which has improved our target-setting processes, financial management activities and external reporting capabilities.

In addition there are a number of economic capital allocation methodology enhancements that will be implemented for 2010, which are expected to have a significant impact on the allocation of capital across the group's business clusters. The impact of the changes by business cluster will be disclosed with the 30 June 2010 results. The following is a summary of the key enhancements being implemented for 2010:

- Full alignment of the group's book capital, included in the RoE calculation, with the aggregate amount allocated to the various business clusters using bottomup economic capital.
- Updating of the credit portfolio modelling correlations and credit economic capital allocation methodology taking into account recent global developments (including downturn years) and the new regulatory thinking in line with the new Basel III proposals discussed earlier.
- Measurement of operational risk for economic capital purposes using the Advanced Measurement Approach instead of the Standardised Approach. We submitted our application to use this approach to the SA Reserve Bank (SARB) in January 2010 and await its feedback.

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 our strategy, business, risk and capital plans.

We measure and express 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 regulatory insolvency, chance of experiencing a loss and economic capital adequacy. These comprise our group-level risk appetite metrics. In addition, a large variety of risk limits, triggers, ratios, mandates, targets and guidelines are in place for all the financial risks (eg credit, market and asset and liability management (ALM) risks).

In 2009 we 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 we established an enhanced suite of base case (through-the-cycle) risk appetite metrics and incorporated these within the 2010 – 2012 business plans at both group and business cluster levels (see page 23). Stressed (extreme event) risk appetite metrics, linked to our stress- and scenario-testing programme, will be finalised in H1 2010.

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

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

- Group-level risk appetite metrics. These are expanded upon in the table below.
- Specific risk-type limit setting (which clarify across our businesses the mandate levels that are of an appropriate scale relative to the risk and reward of the underlying activities so as to minimise concentrations and other risks that could lead to unexpected losses of a disproportionate scale).
- Stakeholder targets (such as performance targets, regulatory capital targets and target debt rating for economic capital adequacy, Ecap allocations to business clusters, dividend policy, target credit impairment ratios, derisking the balance sheet of non-core assets, etc).
- Policies, procedures and controls.
- Zero-tolerance statements.

NEDBANK'S GROUP LEVEL 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-year event (ie 90% confidence level) and pretax earnings	EaR less than 100%	✓
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 10 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-x-year chance 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	✓

Our Risk Appetite Framework and modelling of the group level metrics are integrated with our 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.

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

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 subprime credit assets nor associated credit derivative transactions.
- Conservative credit underwriting practices that have culminated in a high-quality well-collateralised wholesale book and further tightening of our retail book since 2007 in anticipation of the economic downturn and introduction of the National Credit Act.
- Reasonable credit concentration risk levels:
  - Large individual or single-name exposure risk is low. Refer to page 82 for details.
  - Geographic exposure risk is high (refer to page 83 that highlights that 94% of the group's loans and advances originate in South Africa), but in reality this concentration has been positive for Nedbank Group, given the global international crisis, and reflects focus on an area of core competence.
  - Industry exposure risk is reasonably well-diversified. Refer to page 84 for details.
  - At first sight our property exposure appears high, but this is in line with our domestic peer group and most banks worldwide. As a result of this perceived risk, we undertook a more detailed analysis, assisted by international risk consultants, of our commercial property exposures.

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

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

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

    The analysis has been useful not only from the business perspective of shaping our commercial property loan origination and deal-pricing approach for the future, but also from the credit risk management perspective of providing us with additional relevant benchmarks against which to monitor our commercial property exposures and of highlighting risky exposures on which to focus increased risk management.
- Counterparty credit risk almost exclusively restricted mainly 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 restricted mainly to single-name trades of SA exposures. Refer to page 80 for further details on our relatively low counterparty credit risk exposure.
- A strong, well-diversified funding deposit base and a low reliance on offshore funding. Additionally, Nedbank Group's reliance on its top 10 depositors is not unduly concentrated.

  Refer to page 109 onwards for our analysis in support of this and our prudent liquidity risk management.

- Low level of securitisation exposure.

  Refer page 84 for summary detail on this exposure.

- Low leverage ratio (total assets to shareholders' equity) of 14,4 times (16,2 times: 2008), 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) accounting.

  – *Banking Book*

    In terms of IAS 39, an entity has the option to designate a financial instrument at fair value provided that certain criteria are met, which Nedbank 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 and Executive Risk Committee (Group ALCO).

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

    It is important to note that these profits and losses will not be realised and will merely unwind over time as the various financial instruments mature (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 improvement in the credit markets in 2009 have impacted on the South African sovereign credit spreads and resulted in a positive impact on the value of certain assets within the trading portfolio. Nedbank Group's risk appetite for holding of foreign assets in the trading portfolio continues to be low and consequently the portfolio was and remains relatively small with mainly shorter-dated assets with a bias to financial institutions and large corporate exposures.

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

- Small market trading (proprietary) risk in relation to total bank operations (economic capital held is only 1,8% 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 in 2009 was sound, an indication that the impacts from the credit crunch in 2008 was successfully navigated and that the risk systems are sound. In addition, over the past year Nedbank Capital proactively managed and reduced the risk pertaining to single-stock futures and contracts for difference, and the forfaiting business was closed in 2008 with the existing exposure being managed over the maturity of the book.

Refer to page 89 for more details.

- Low interest rate risk in the banking book, as reflected by the sensitivity analysis provided on page 119.
- Low equity (investment) risk, including private equity, exposure. The total equity risk exposure, including our private equity business, is R3,9 billion, comprising only 0,7% of total assets. Further, within this a wide range of individual investments exist and many are linked to a wider client relationship.

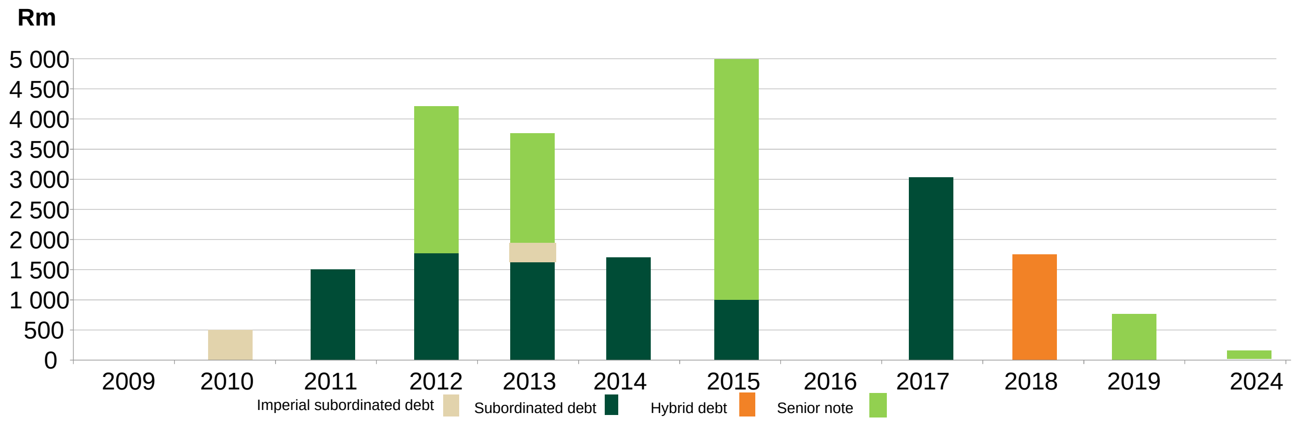
Refer to page 94 for further details.

- 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.

Refer to page 119 for more details.

- Well-diversified earnings streams. Most of the group's earnings are generated by traditional, vanilla, annuity-based income in wholesale and retail banking, and specialised finance.
- Well-diversified subordinated debt and non-core Tier 1 profile. Despite the difficult international markets, Nedbank Group successfully raised Tier 2 subordinated debt in March 2009 in the amount of US$100 million and at acceptable pricing levels (ie LIBOR + 150 basis points).

NEDBANK'S SUBORDINATED DEBT, NON-CORE TIER 1 AND SENIOR NOTES MATURITY PROFILE



Note: The subordinated debt is based on call dates not maturity.

- Comprehensive stress and scenario testing to confirm the adequacy and robustness of our capital ratios and accompanying capital buffers.
- A proactive response to the global financial crisis, with a strong focus on and great success with strengthening our capital ratios since the beginning of 2008 and through 2009 (as covered on page 122).

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.

RISK APPETITE – ENHANCED SUITE OF METRICS FINALISED IN 2009	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%
PIPs: Loans and advances (%)	< 0,1%
Average PD (%) – performing book (TTC)	< 3%
Average LGD (%) – performing book (TTC)	18% – 22%
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 (%)	< 0,4%
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 (%)	18% (tolerable deviation +7%)
Long-term (> 180 days) funding: Total funding (%)	24% (tolerable deviation -7%)
Contractual maturity mismatch (0 to 31 days): Total funding (%)	38% (tolerable deviation +5%)
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: Equity (%)	< 5%
ALM RISK PROFILE – FCTR	
Currency equity: Total equity	< 5%
GROUP RISK APPETITE METRICS	
Earnings at risk	< 100%
Chance of a loss (1 in x years)	> 10
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	
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%
ABBREVIATIONS	
RWA	Risk-weighted assets
PiPs	Properties in possession
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

One of the risk appetite metrics that we are currently in excess of due to the retail asset classes and the current economic environment, and which is in line with our peer group, is the group's target credit loss ratio range, details of which may be found on page 55. We currently expect to remain outside the target range in 2010, but addressing this is a key component of the 2010 – 2012 business plans. The reversal of provisions in the balance sheet is expected to take longer as defaulted advances continue to increase, albeit at a slower rate. The group remains cautious about impairments.

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.

CAPITAL ADEQUACY

Further to Nedbank Group's prudent risk appetite discussed above, set out below is an overview of the group's capital adequacy profile. Further details are contained in the Balance Sheet Management section from page 105.

Actual regulatory capital ratios *		Nedbank Group		Nedbank Limited	
		Basel II		Basel II	
%	Target (revised in 2009)	**2009**	2008	**2009**	2008
Core Tier 1	7,5-9,0	**9,9**	8,2	**9,6**	8,0
Tier 1	8,5-10,0	**11,5**	9,6	**11,7**	9,8
Total	11,5-13,0	**14,9**	12,4	**15,6**	13,1

** Includes unappropriated profits*

Leverage ratio		**14,4 times**	16,2 times

Nedbank Group Limited has further strengthened its regulatory capital ratios significantly, with a Tier 1 capital adequacy ratio of 11,5% (2008: 9,6%) and a total capital adequacy ratio of 14,9% (2008: 12,4%). The core Tier 1 capital adequacy ratio was 9,9% (2008: 8,2%).

A surplus of R13,5 billion (including Basel II capital floor) and R16,8 billion (excluding Basel II capital floor) over the total regulatory capital adequacy requirements exists at 2009.The group currently holds a surplus of R16,1 billion (2008: R9,6 billion) against its internally calculated economic capital requirements calibrated to the previous A- or 99,9% solvency standard, or a surplus of R11,8 billion on the new solvency standard of A or 99,93%.

Nedbank Limited has also significantly strengthened regulatory and economic capital ratios, as summarised in the table above.

All capital adequacy ratios are now above the group's new regulatory target ranges, including core Tier 1. They include unappropriated profits at the year-end to the extent that these are not expected to be reversed, and are expected to be appropriated subsequent to the year-end.

Nedbank's capital adequacy ratios increased significantly over the past two years due to a strong focus on the optimisation of risk-weighted assets, enabled by enhancing data quality and more selective asset growth using our economic profit based managing for value philosophy, the retention of earnings, the profits made on the disposal of Visa shares in 2008 and the issuing of some non-core Tier 1 capital.

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

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

Our current expected (base case) three-year projections to 31 December 2012 reflect further strengthening of capital adequacy and are well above the revised target regulatory 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 our core Tier 1, Tier 1 and Tier 2 composition (refer page 127 for details). This includes a smooth, well-diversified debt maturity profile with nine sub-debt issues totalling a nominal value of approximately R10,8 billion and their maturity appropriately spread over 2011 to 2017. Imperial Bank provides an additional R650 million of sub-debt, of which R500 million matures in 2010.

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

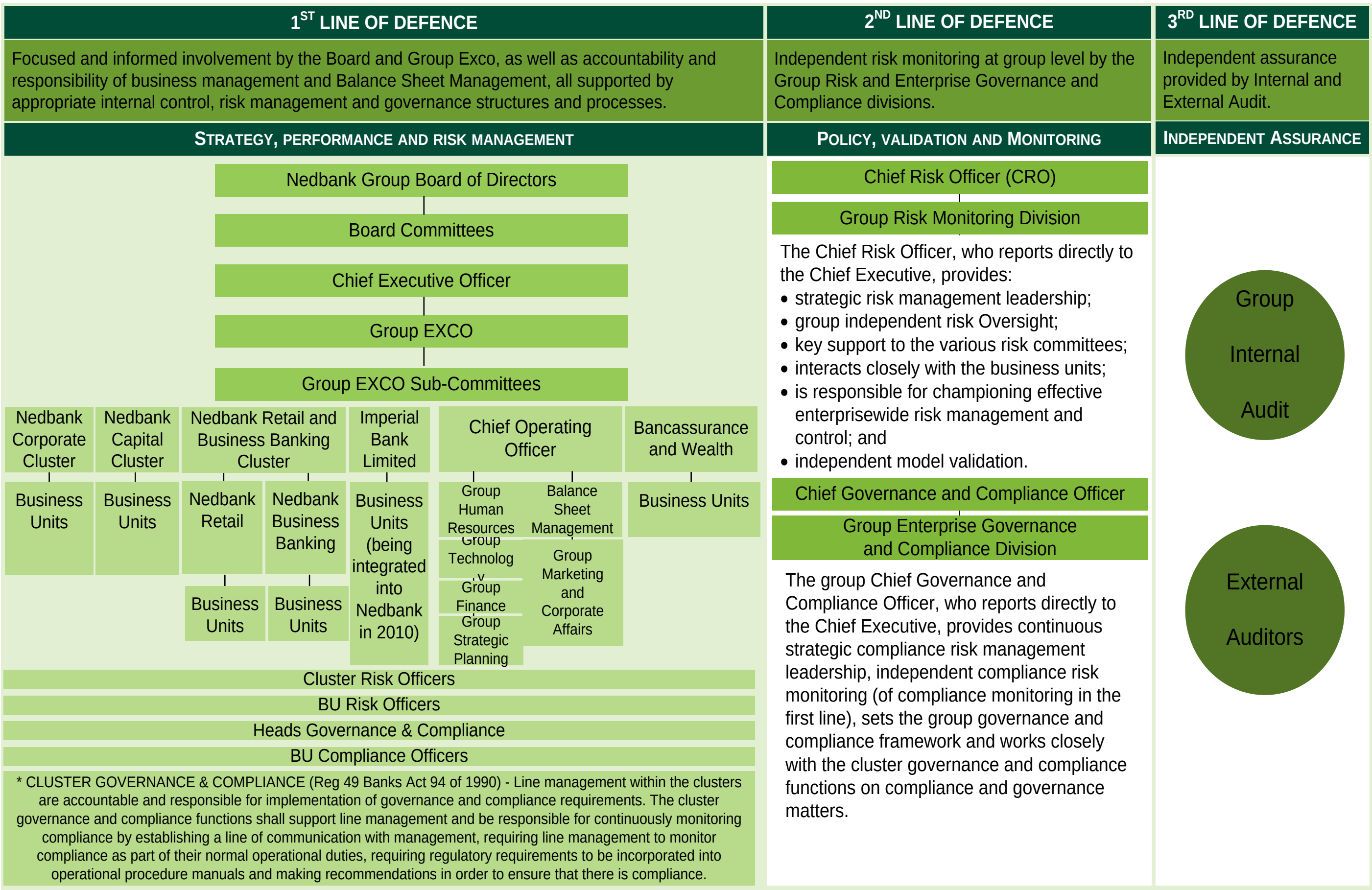
RISK AND INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS GOVERNANCE

The business of banking is fundamentally about managing risk. As discussed earlier, Nedbank Group actively strives to attain worldclass risk and capital management as integrated core competencies critical to the success and sustainability of our 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 a three lines of defence concept, which is the backbone of the group's Enterprisewide Risk Management Framework (ERMF). The ERMF places a strong emphasis on accountability, responsibility, independence, reporting, communication, and transparency, both internally and with regard to our key external stakeholders.

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



AT THE HEART OF NEDBANK'S BUSINESS AND MANAGEMENT PROCESSES ARE INTEGRATED WORLDCLASS RISK, CAPITAL AND GOVERNANCE FRAMEWORKS

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

Internal Capital Adequacy Assessment Process (ICAAP) and engrained in Nedbank's risk culture and day-to-day business use and reporting

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 our three lines of defence governance model set out above, so that the assessment, review and challenge not only happens by management and the board, but also by Group Risk and Group Compliance, and Group Internal Audit and the external auditors in the second and third lines of defence.

Within this recurring ERM process, and additionally via the strategic/business planning process, new and/or emerging risks are identified, captured and addressed within the ERMF and its associated process.

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

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

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

Further details on the group's governance and various key committees are contained in the group's annual report under the section Enterprise Governance and Compliance.

OVERVIEW OF NEDBANK GROUP'S ENTERPRISEWIDE RISK MANAGEMENT FRAMEWORK (ERMF) (as at December 2009)

Risk Universe

Accounting and Taxation Risks | Operational Risk | Insurance and Assurance Risk | 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 & 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 eleven subcommittees.
- The Chief Risk Officer reports to the Chief Executive, who has ultimate individual accountability for risk.
- Group Risk Division is independent of the operational business units
- Strong emphasis in the ERMF is placed on individual accountability and not on undue reliance on committees.
- Primary responsibility and accountability for the risks originating in the businesses are clearly assigned to the respective business cluster leaders and executives.
- Risk management frameworks and risk officers are in place across all the businesses and GT and for all major risk types.

1st Line of Defence

Board of Directors

Board Committees

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

Group Executive Committee (Group Exco)

Group Exco Committees

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

Business Clusters' Risk Governance

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

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

Support Areas

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

Central Financial Risk and Balance Sheet Management

Group Finance Division

Chief Financial Officer – Raisibe Morathi

- GROUP TAX – Dave Hammond
- GROUP FINANCIAL CONTROL – Darryl McMullen
- GROUP SHARED SERVICES CENTRE – Ian Fuller
- GROUP PLANNING AND ALIGNMENT – Wayne McAdam
- INVESTOR RELATIONS – Don Bowden
- RISK, COMPLIANCE & SARB RELATIONS – Lionel Diakanyo
- PLANNING, MEASUREMENT AND CONTROL – Luigi Bianco

Balance Sheet Management

Group Executive - Trevor Adams

- GROUP CREDIT, RISK & VALUE ANALYTICS – Alison Kaiser
- GROUP ASSET, LIABILITY & CAPITAL MANAGEMENT – Mike Davis
- GROUP REGULATORY REPORTING – Willie Pretorius
- STRATEGIC PROJECT & EXECUTION – Alan Faber

2nd 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 'worldclass at managing risk'

Group Risk Division

Chief Risk Officer – Philip Wessels

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

GROUP ENTERPRISE GOVERNANCE AND COMPLIANCE

CHIEF GOVERNANCE AND COMPLIANCE OFFICER – Selby Baqwa

3rd Line of Defence

Internal and External Audit

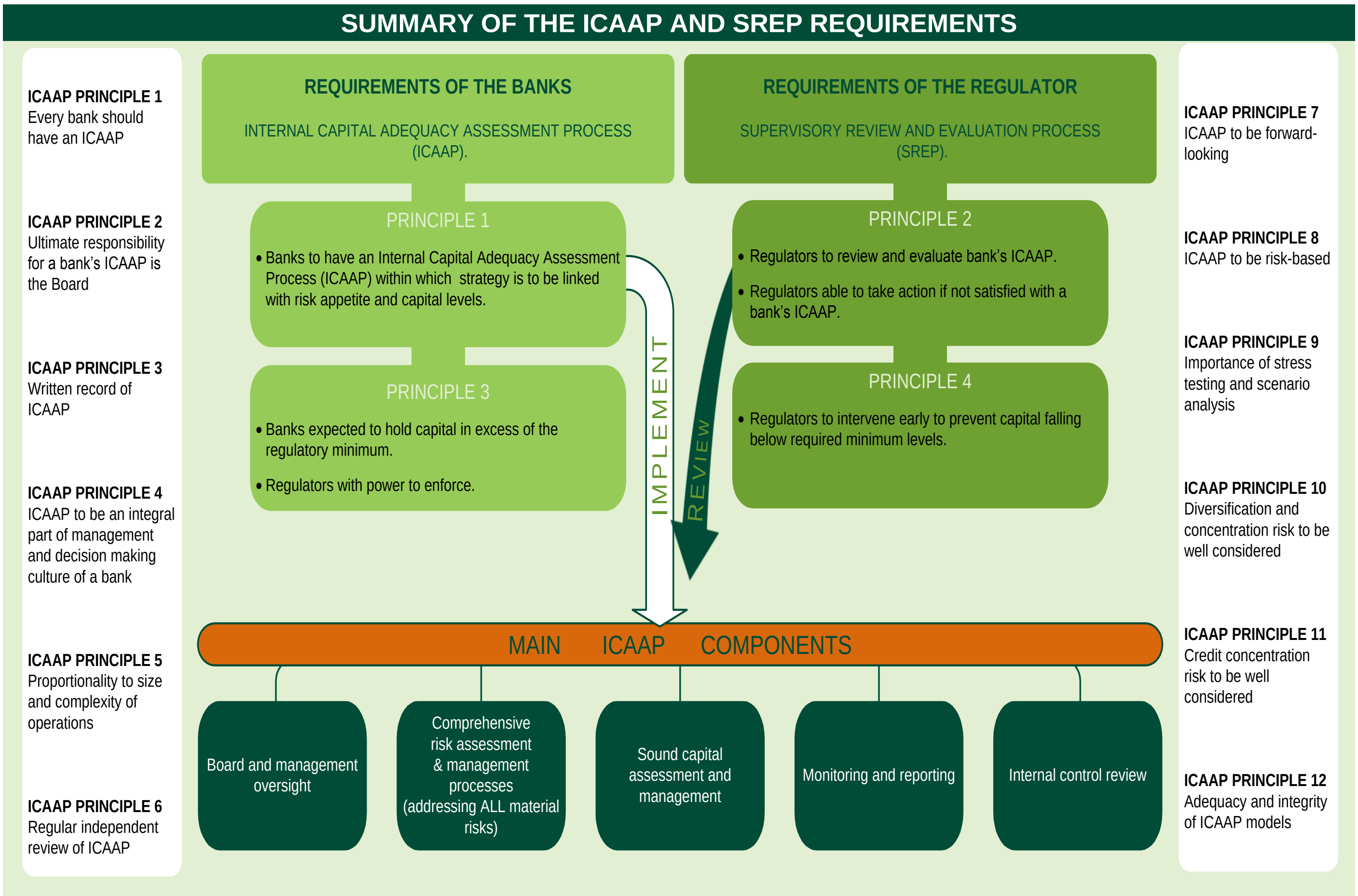
Independent Assurance

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

OVERVIEW OF THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

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 SA Reserve Bank (SARB). A summary of this is depicted below.

In addition, SARB have provided further guidance on the 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.

ICAAPs have first been completed in South Africa in 2008, are 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's ICAAP).
- Rating agencies capital (their expectations of capital levels).
- Buffer capital (level of capital buffers to carry above minimum requirements).
- Actual book or statutory capital (based on greater of Basel II and economic capital requirements).
- Qualifying capital and reserves (to cover regulatory capital requirements).
- Available financial resources (to cover economic capital requirements).

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

SUMMARY BACKGROUND TO THE DIFFERENT CAPITAL LEVELS TO BE MANAGED

MEASURES OF BANK'S RISKINESS (capital requirements)		**ACTUAL BOOK CAPITAL (capital resources)**
Basel II Regulatory Capital	**Economic Capital**	**Available Book Capital** (statutory)
▪ Amount of capital required to protect the bank against **regulatory insolvency** over a one year timeframe ▪ Determined base on regulatory rules (ie Basel Accord, Banks Act and Regulations) ▪ Designed mainly to protect depositors and creditors ▪ Pillar 1 is rules based and acts as the minimum capital requirements, which triggers action by the regulators as necessary under Pillar 2 ▪ Pillar 2 then creates the bank specific, internal link to ICAAP and the regulator's SREP	▪ Amount of capital required to protect the group against **economic insolvency** over a one year timeframe ▪ Based on a desired level of confidence/ target debt rating set internally ▪ A comprehensive internal capital assessment that aligns more closely with Rating Agency requirements ▪ Designed to provide a level of confidence as to the bank's economic solvency to depositors, creditors, **debt holders** and shareholders ▪ Used for many applications such as risk-based capital allocation, risk-based pricing, Client Value Management, and the bank's ICAAP.	▪ Net asset value, adjusted to be consistent with the two measures of required capital (regulatory and economic) to arrive at 'Available Financial Resources' for economic capital and 'Qualifying Capital and Reserves' for regulatory capital. ▪ Compared to regulatory capital and economic capital to ensure solvency in each case ▪ Book capital is strongly influenced by the use of accounting methods (accrual or book value, market or fair value) and the impact of IFRS rules ▪ The book capital will be the highest of the two other types of capital as it incorporates the need for a predetermined 'capital buffer'
Minimum capital you are told to have by regulators	**Internal capital assessment**	**Capital you actually have** Qualifying capital (Regcap) / Available Financial Resources (Ecap)

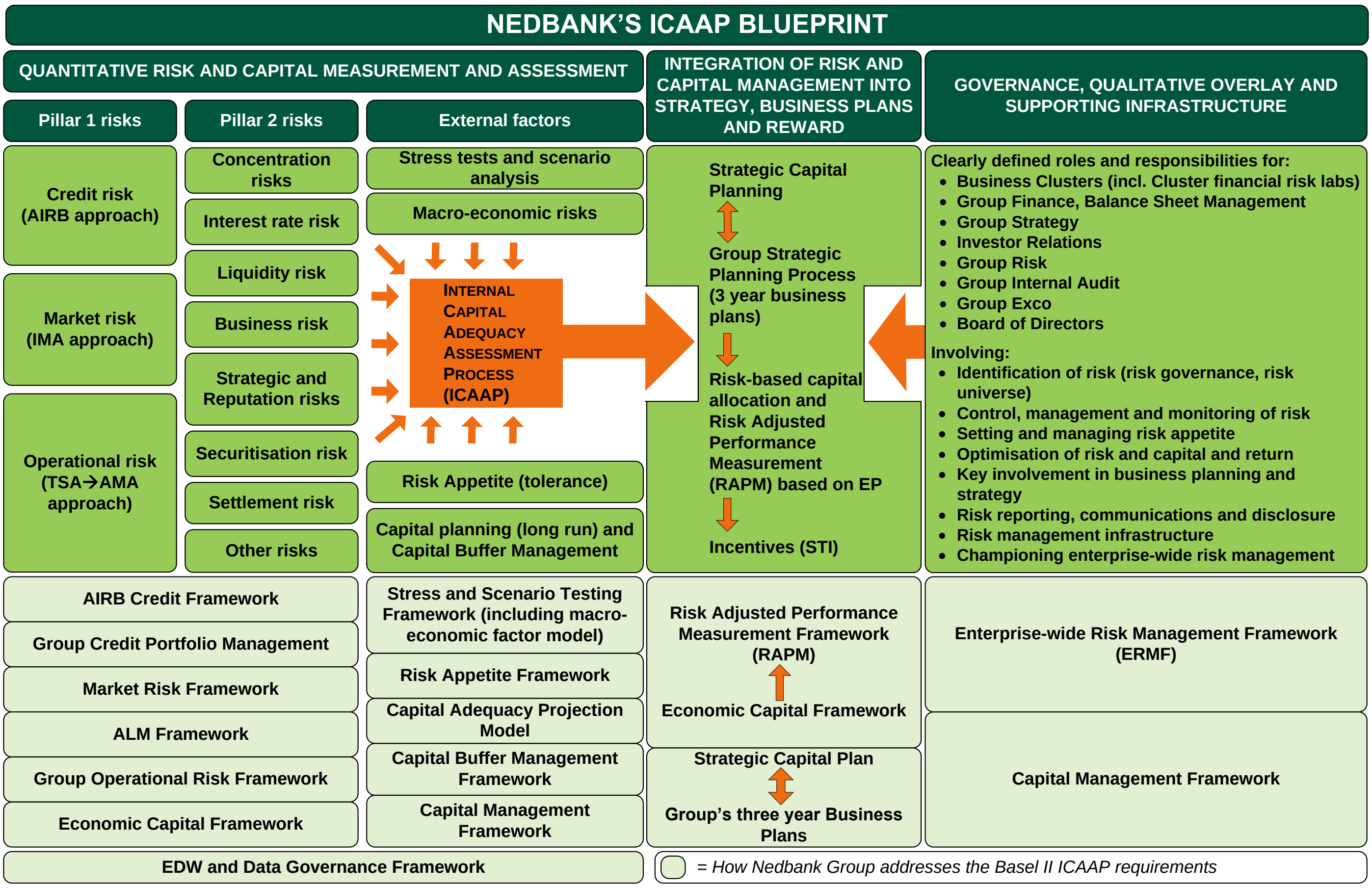
INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

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

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

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

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



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

Further details of the group's capital management is covered from page 120.

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 ALCO and Executive Risk Committee (Group ALCO) respectively.

Group ALCO, in turn, is assisted by the Balance Sheet Management cluster (see page 105) and the Balance Sheet Management Committee (subcommittee of Group ALCO).

SUMMARY OF NEDBANK'S ICAAP GOVERNANCE AND REPORTING PROCESS

BOARD OF DIRECTORS

Provides direction and approves overall strategy proposed by management.

Approves the group risk appetite based on a clear regard for the integration, and an understanding of, capital and risk.

Monitors management's performance against approved business plans / strategy and in line with the agreed risk appetite.

GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE
(Board committee)

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

GROUP REMUNERATION COMMITTEE
(Board committee)

Approves, on behalf of the board, the remuneration strategy for performance and aligning this with shareholder interests and optimising shareholders value creation.

GROUP EXCO
CEO: Mike Brown

Sets, for approval by the Board, the group's strategy and business plans on the basis of, inter alia, a comprehensive internal assessment of risk and capital (economic capital) and investment in quality growth through optimising economic capital allocation and capital utilisation by linking risk to capital requirements, aligning this with the bank's risk appetite and integrating this with return and performance measurement (via RAPM).

Performance measurement is formalised in performance scorecards linked to incentives (remuneration).

GROUP ALCO & EXECUTIVE RISK COMMITTEE
(Group EXCO committee)

Chairman: Graham Dempster (COO)
Oversees and directs, on behalf of Group Exco, the capital management key functions of capital investment, capital structuring, capital allocation and capital optimisation (ie over and above ALM strategy, market and liquidity risk management).

GROUP OPCOM
(Group EXCO committee)

Chairman: Mike Brown (CEO)
Oversees, on behalf of Group Exco, cluster / business unit and the Group performance against the approved strategy / business plans.

TRANSFORMATION AND HR EXECUTIVE COMMITTEE
(Group EXCO committee)

Chairman: Shirley Zinn (Head: Group HR)
Recommends to Group Exco, and then Group Remco for approval, the remunerations strategy and incentives linked to performance based on agreed performance scorecards directly linked to approved strategy / three year business plans.

BALANCE SHEET MANAGEMENT COMMITTEE
Chair: Trevor Adams

BUSINESS CLUSTERS

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

STRATEGIC PLANNING PROCESS (SPP)

(3 year plan)

Formal annual strategic planning process (3 year business plan), championed and co-ordinated by the Group Strategy Division and Group Finance, reporting direct into Group EXCO.

STRATEGIC PLANNING DIVISION

Head: John Bestbier
Strategy champion: Alfred Visagie

GROUP FINANCE DIVISION
CFO: Raisibe Morathi

BALANCE SHEET MANAGEMENT
Group Executive: Trevor Adams

INVESTOR RELATIONS
Head: Don Bowden

BUSINESS CLUSTERS

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

CLUSTER CFOs AND CROs

FINANCIAL RISK LABS

GROUP RISK

CRO: Philip Wessels

COMMUNICATIONS WITH KEY EXTERNAL STAKEHOLDERS (including Pillar 3 public disclosure)

Shareholders, Analysts, Regulators (SARB, FSA, Other), Rating agencies, Debt-holders and Clients

GROUP INTERNAL AUDIT AND EXTERNAL AUDIT

REGULATORS

RISK MANAGEMENT

Nedbank's ERMF enables us to identify, measure, manage, price and control our material risks and risk appetite, and then relate these to capital requirements to help ensure our capital adequacy and sustainability, and so promote sound business behaviour by then linking these with performance measurement and remuneration practices.

Summary of perspectives on Nedbank Group's risk profile and risk strategy

The key highlights for 2009 are as follows:

- Risk management systems
  - Continuously proving effective.
  - Enterprisewide Risk Management Framework (ERMF) remains sound and well embedded.
- Competition Commission inquiry into banks
  - Await National Treasury response to the commission's recommendations.
- Group structure
  - Board/Management structures
    - New board members, Chief Executive Officer, Group Executive Committee (Exco) and business clusters' Excos have been finalised.
  - Management of Old Mutual/Nedbank Group strategy is ongoing.
- Risk appetite
  - Prudent risk appetite prevails.
  - In Retail, increased appetite for unsecured lending while secured, asset-backed lending now has a much stronger emphasis on managing for value.
- Profitability
  - Resilient performance in challenging environment.
  - Earnings volatility too high in secured lending businesses in Retail; being addressed.
  - Wholesale risk profile remains sound.
    - Successful stress-testing strategy implemented in Business Banking in 2008.
    - Black economic empowerment (BEE) exposure contained and regularly stress-tested.
  - Consistent, well-managed earnings growth in Nedbank Capital (the investment bank).
  - Non-interest revenue subscale bankwide (and this impacts earnings volatility of group); key strategic focus area.
- Market risk
  - Risk appetite remained largely unchanged over the past two years; low proprietary trading risk.
  - Focused on the domestic market with a bias towards local interest rate and equity products.
  - Risk appetite for complex equity derivatives significantly curtailed in 2007.
  - Equity trading risk
    - Mainly in Nedbank Group's securities companies.
    - Risk appetite and limits remain low.
    - Low exposure to illiquid instruments.

- Overall performance of the trading business has been sound.
  - Proactively managed and reduced the risk pertaining to single-stock futures and contracts for difference, and closed the forfait book.
  - Significant investment in risk management systems continues.

- Credit risk
  - Strong credit risk management framework.
  - Strengthening risk management in Retail.
  - Worsening group credit loss ratio from 1,17% (2008) to 1,47% (2009), on the back of retail impairments that remain challenging.
  - No large corporate defaults, but credit risk remains relatively high amid local recession.
  - Business Banking particularly resilient.
- Operational risk
  - Advanced Measurement Approach (AMA) application submitted to SA Reserve Bank (SARB) in January 2010; to be adopted for economic capital in 2010.
- Imperial Bank
  - Nedbank has received section 37 approval from SARB for the acquisition of the minority shareholding in Imperial Bank, and its full integration into Nedbank Group will be a key focus in 2010.

The salient features of the group's 2010 risk strategy are as follows:

- Continuing tight credit risk management (and of credit loss ratios).
- Enhance Retail's risk management and review strategy.
- Embed new risk appetite metrics and enhance stress testing at business unit level.
- Enhance loss forecasting capabilities and plan for new IAS39 credit provisioning methodology.
- Focus on risk-weighted asset (RWA) (risk and capital) and deposit growth optimisation.
- Further liquidity risk management enhancements (and further lengthen funding profile).
- Finalise plan to close any gaps vs new Basel 3 requirements and proposals.
- Remain alert to increased risk profile in growing non-interest revenue (NIR).
- Incorporate joint ventures acquired and new Bancassurance and Wealth cluster into ERMF; management of Imperial Bank integration into Nedbank Group.
- Continue close support of African subsidiaries.
- Retain strong relationship with regulators.
- Plan for Protection of Personal Information Act introduction.
- Various key SMART Programme items:
  - AMA (operational risk) approval from SARB.
  - Business intelligence programme and group data project.
  - Boost analytical human resources.
  - Enhance client value management analytics.

An overview of the risk-related Balance Sheet Management profile and 2010 strategy is covered from page 105.

Nedbank Group's risk universe

Nedbank Group's risk universe is defined, actively managed and monitored in terms of our 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 ICAAP) framework.

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

Major risk categories	ERMF'S 17 key risk types	Economic capital (ICAAP) risk types (see page 98)
Capital risk	**Capital risk**	Is the aggregation of all risk types below (refer page 120)
Credit risks	**Credit risk**	✓
	Underwriting (lending) risk	✓ (integrated in 'credit risk')
	Transfer (sovereign) risk	✓
	Counterparty credit risk	✓ (integrated in 'credit risk')
	Securitisation risk	✓ (integrated in 'credit risk')
Liquidity risk	**Liquidity risk**	n/a (refer page 109)
Market risks	**Market risk** in the **trading book**	✓
	Market risk in the **banking book**	✓
	Interest rate risk in the banking book	✓
	Foreign currency translation risk in the banking book	✓
	Investment risk	✓
	Equity risk in the banking book	✓
	Property risk	✓
Operational risks	**Operational risk**	✓
	Accounting and Taxation risks	✓ (covered by operational risk)
	Compliance risk	✓ (covered by operational risk)
	Insurance and assurance risks	✓ (covered by operational risk)
	People risk	✓ (covered by operational risk)
	Information technology risk	✓ (covered by operational risk)
Business risks	**Transformation risk**	✓ (covered by business risk)
	New business risk	✓ (covered by business risk)
	Reputational risk	n/a (refer page 97)
	Social and environmental risks	✓ (covered by business risk)
	Strategic risk	✓ (covered by business risk)
	People risk	✓ (also covered by business risk)
	Information technology risk	✓ (also covered by business risk)

n/a = not applicable to economic capital
✓ = included in Nedbank Group's economic capital framework

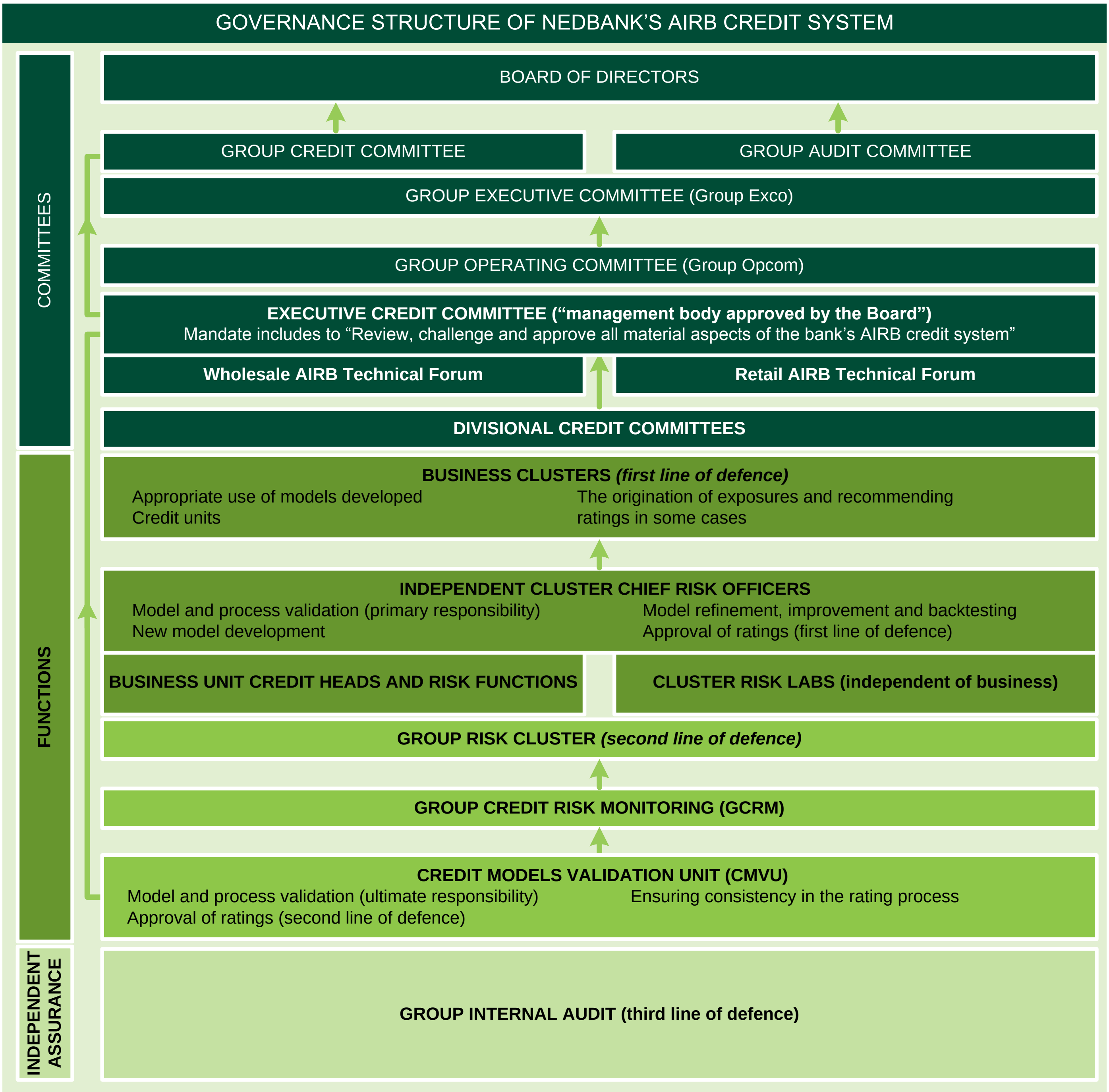
Credit risk

Credit risk governance structures and strategy

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 56% of the group's economic capital requirement and 75% of regulatory capital.

One of Nedbank Group's major investments in risk in recent years has been to elevate its credit risk management to best practice. This, together with our strong client service focus, not only positioned Nedbank Group to achieve appropriate growth and returns, but also to obtain approval from SARB for the Advanced Internal Ratings-based Approach for credit risk, the most advanced approach offered by Basel II and the new South African banking regulations.

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

The ECC is the designated committee appointed by the Group Credit Committee (GCC) to monitor, challenge and ultimately approve all material aspects of the bank's AIRB credit rating and risk estimation processes. The SARB requires that the ECC is chaired by a non-executive director however the ECC also serves as the executive credit oversight forum for the bank. The ECC reports into the GCC which has overall responsibility for the bank's AIRB credit rating system. 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 bank's credit risk monitoring unit, Group Credit Risk Monitoring including the Credit Models Validation Unit (CMVU) and the effective functioning of the ECC.

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

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

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

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

In each of the four business clusters credit risk management functions operate independently of credit origination, reporting into the cluster head of risk, who in turn reports to the cluster managing director. In line with the Basel II AIRB methodology each cluster has implemented economic capital quantification and economic profit performance measurement. Each cluster also has 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 validation by CMVU. Nedbank Bancassurance and Wealth has historically been a part of Nedbank Retail, but from August 2009 Bancassurance and Wealth commenced operating as a separate business cluster. Bancassurance and Wealth currently has its own risk management framework, and the business cluster will be reported separately from June 2010.

Nedbank Group's credit risk measurement and methodology

Nedbank'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; and
- unexpected loss (UL), which is the annualised volatility of expected losses for credit risk.

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

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

The IFRS 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 monthly 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.

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

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

The IASB released an exposure draft on impairments in November 2009. The comment period on the draft closes on 30 June 2010. The new requirements will be finalised in 2010 with expected implementation for 2013 or later. The IASB is proposing to move away from the incurred-loss methodology towards an expected-loss methodology of calculating impairments. The objective of the expected-loss methodology is to create funds gradually over the life of the asset, which can be used against future losses. The proposed changes would have a significant operational impact due to additional data requirements and system changes needed.

As shown in the table above, IFRS 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, portfolio impairments estimated using the PIT methodology are based on emergence periods that are 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/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 provide for any possible losses. Where the downturn LGD exceeds BEEL it is considered a 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 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 (%) Lower bound (PD>)	PD band (%) Upper bound (PD≤)	Mapping to Standard and Poor's grades
Performing	NGR 01	0,010	0,000	0,012	AAA
	NGR 02	0,014	0,012	0,017	AA+
	NGR 03	0,020	0,017	0,024	AA
	NGR 04	0,028	0,024	0,034	AA-
	NGR 05	0,040	0,034	0,048	A+
	NGR 06	0,057	0,048	0,067	A+ to A
	NGR 07	0,080	0,067	0,095	A to A-
	NGR 08	0,113	0,095	0,135	A- to BBB+
	NGR 09	0,160	0,135	0,190	BBB+
	NGR 10	0,226	0,190	0,269	BBB+ to BBB
	NGR 11	0,320	0,269	0,381	BBB to BBB-
	NGR 12	0,453	0,381	0,538	BBB-
	NGR 13	0,640	0,538	0,761	BBB- to BB+
	NGR 14	0,905	0,761	1,076	BB+ to BB
	NGR 15	1,280	1,076	1,522	BB
	NGR 16	1,810	1,522	2,153	BB to BB-
	NGR 17	2,560	2,153	3,044	BB- to B+
	NGR 18	3,620	3,044	4,305	B+
	NGR 19	5,120	4,305	6,089	B+ to B
	NGR 20	7,241	6,089	8,611	B to B-
	NGR 21	10,240	8,611	12,177	B to B-
	NGR 22	14,482	12,177	17,222	B- to CCC
	NGR 23	20,480	17,222	24,355	CCC
	NGR 24	28,963	24,355	34,443	CCC to C
	NGR 25	40,960	34,443	100	CCC to C
Non-performing	NP 1	100	100	100	D
(defaulted)	NP 2	100	100	100	D
	NP 3	100	100	100	D

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

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

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

- Being an emerging market, there are times when local banks would be willing to take on this level of risk, while pricing appropriately.
- There may be times when the consequences of not lending may be more severe than lending – for example, a marginal going concern with existing loans but a strong business plan.
- 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.

The Basel default definition is taken into account when assigning the PD.

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 Nedbank transaction rating (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 EL TRANSACTION RATING SCALE (NTR)

	EL as a % of EAD	
Rating class	**Lower bound (EL>)**	**Upper bound (EL≤)**
NTR01	0,00	0,05
NTR02	0,05	0,10
NTR03	0,10	0,20
NTR04	0,20	0,40
NTR05	0,40	0,80
NTR06	0,80	1,60
NTR07	1,60	3,20
NTR08	3,20	6,40
NTR09	6,40	12,80
NTR10	12,80	100,00

The NTR scale measures the total or overall credit risk (ie 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 bank is, to a large extent, based on the twin rating scales discussed above. Business units report on the distribution of their credit exposures across the various rating scales and explain any changes in such distribution, including the migration of exposures between rating grades and underlying reasons therefore.

The development of credit rating models

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 major operating 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 Group Risk, namely the Credit Model Validation Unit, is responsible for the independent validation of all the models while Nedbank Group's Internal Audit Division has also developed a specialised audit team in this field.

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

MODEL TYPE

MODEL CHARACTERISTICS

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

Low — **COMPLEXITY AND DATA REQUIREMENTS** — **High**

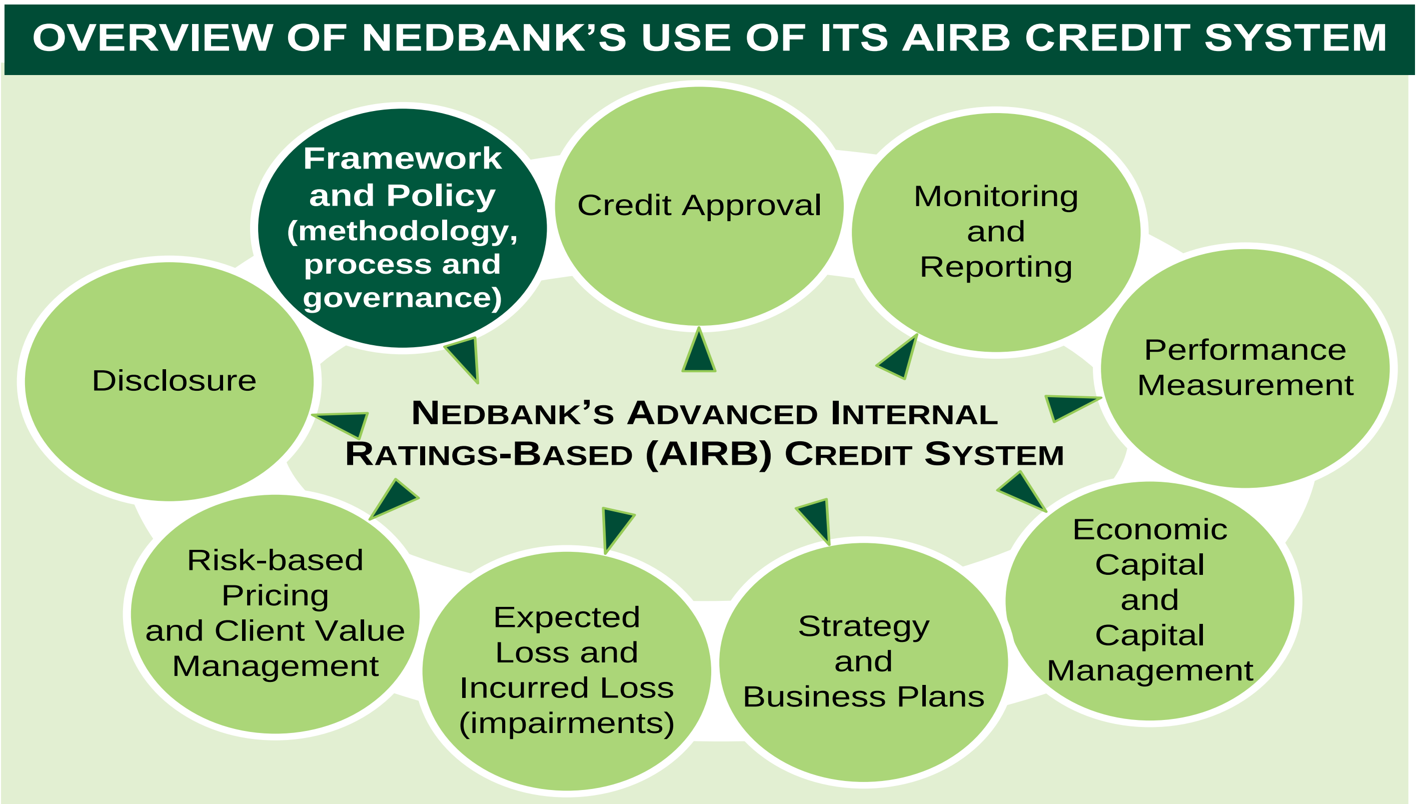
An overview of the rating approaches adopted across the various asset classes is as follows:

NATURE OF RATING SYSTEM

WHOLESALE RATING SYSTEM		RETAIL RATING SYSTEM	
Asset classes	**Modelling approaches adopted**	**Asset classes**	**Modelling approaches adopted**
• Corporates • SME-Corporate • Banks • Sovereign • Specialised lending, comprising: - Project finance - Commodity finance - Income-producing commercial real estate - High-volatility commercial real estate	• A range of modelling approaches is adopted across Nedbank's wholesale portfolios. • Hybrid models are typically used to measure PD while structural EAD and workout LGD models are in place for most portfolios. • Models are typically developed using internal data although external data has been used for the bank portfolio in view of the low number of defaults experienced in that portfolio. • A structural cash flow simulation model has been developed for the Project Finance portfolio that provides estimates of PD, EAD and LGD. • The supervisory slotting approach is still in use for the high-volatility commercial real estate (property development loans) portfolio, although it is anticipated that this will be replaced with a bespoke internal model during the course of 2010.	• 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 our own default experience.

All models are calibrated to long-term default and loss rates, thus ensuring that capital estimates are appropriate. 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 develop its own downturn estimates during 2010, based on data collected during the economic downturn of 2009/10.

The risk estimates generated from Nedbank Group's internal models are utilised across the credit process, as indicted in the following diagram:



Group credit policy not only incorporates the minimum requirements stipulated in the revised South African banking regulations, but also documents Nedbank Group's aspiration to best-practice credit risk management. This policy is implemented across the group with detailed and documented policies and procedures, suitably adapted for use by the various business units, 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

While Nedbank Group has adopted the AIRB Approach for all exposures across Nedbank Limited, the Standardised Approach has been adopted across the other subsidiaries.

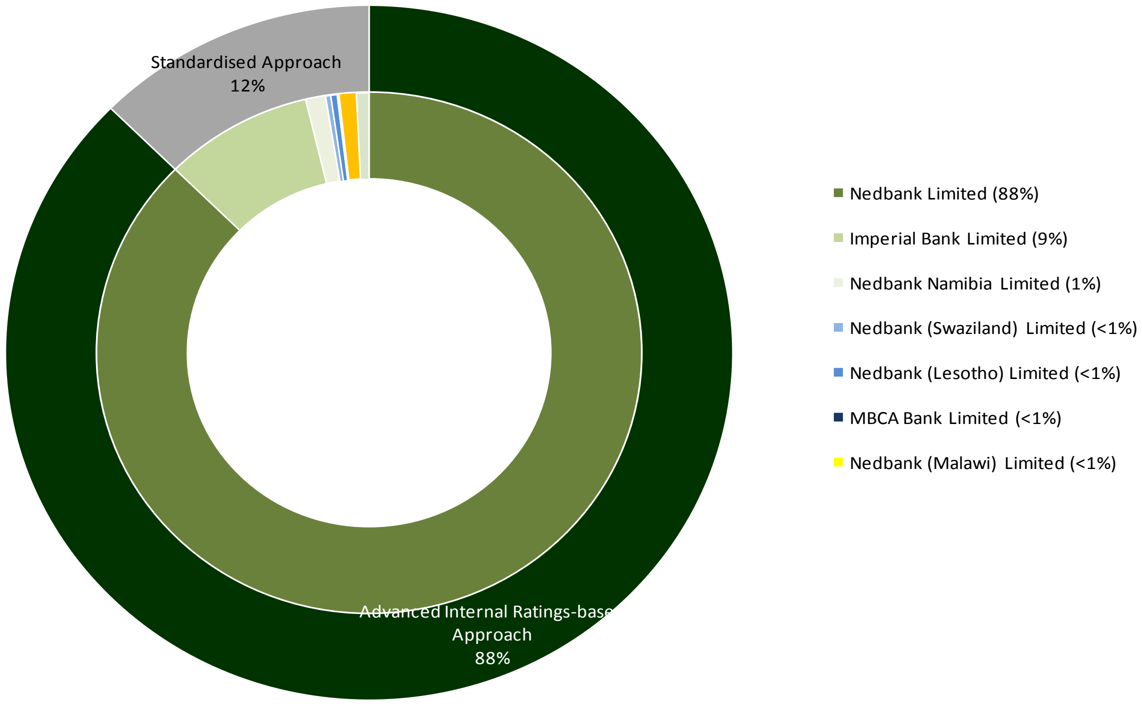
The use of internal rating models within these subsidiaries is encouraged as it is anticipated that a number of them will migrate to the AIRB Approach once they have developed the data history required to adopt the approach for the estimation of regulatory capital.

For the purpose of estimating internal economic capital, conservative AIRB credit benchmarks are applied for the subsidiaries that are still utilising the Standardised Approach.

The distribution of approaches across Nedbank Group is reflected in the following diagram. These regulatory approaches all carry formal approval from SARB:

NEDBANK GROUP

Credit risk approach (by total credit extended)



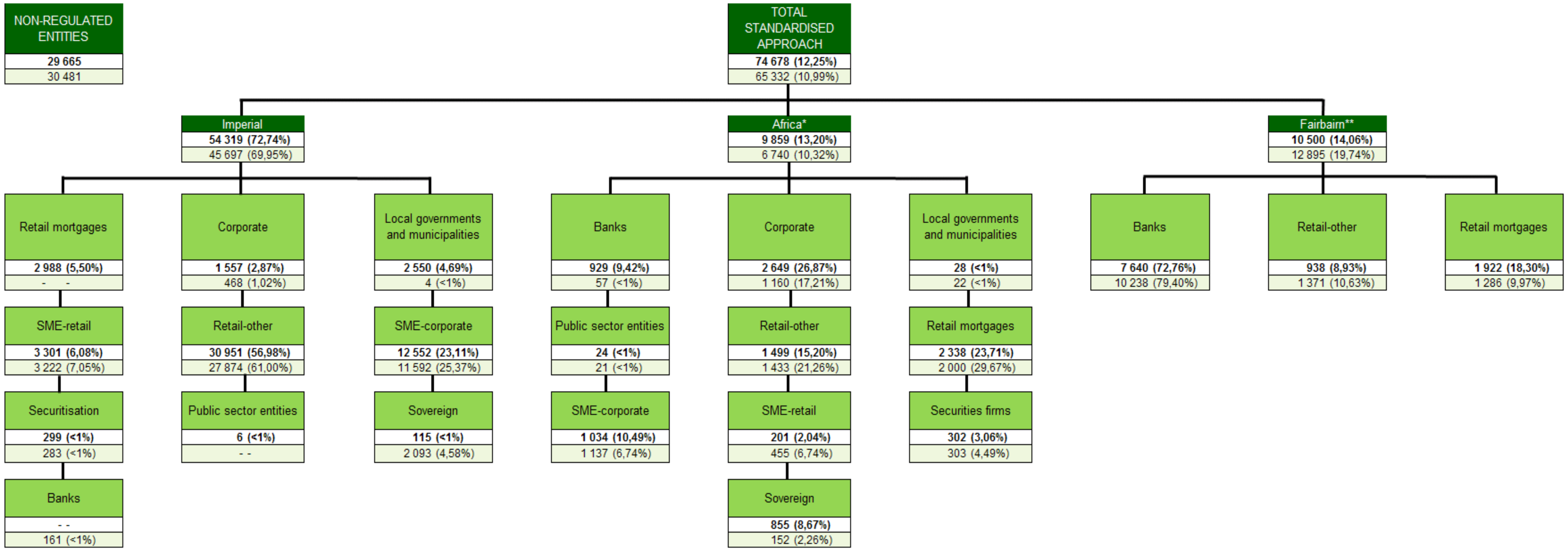
Roadmap of Nedbank Group's credit rating systems

The following diagrams provide an overview of the bank's credit risk profile by business line and major Basel II asset class.

The distribution of exposures across the various subsidiaries that are utilising the Standardised Approach is reflected in the diagram below:

STANDARDISED RATING SYSTEM AND NON-REGULATED ENTITIES

Rm (exposure basis at 31 December 2009)



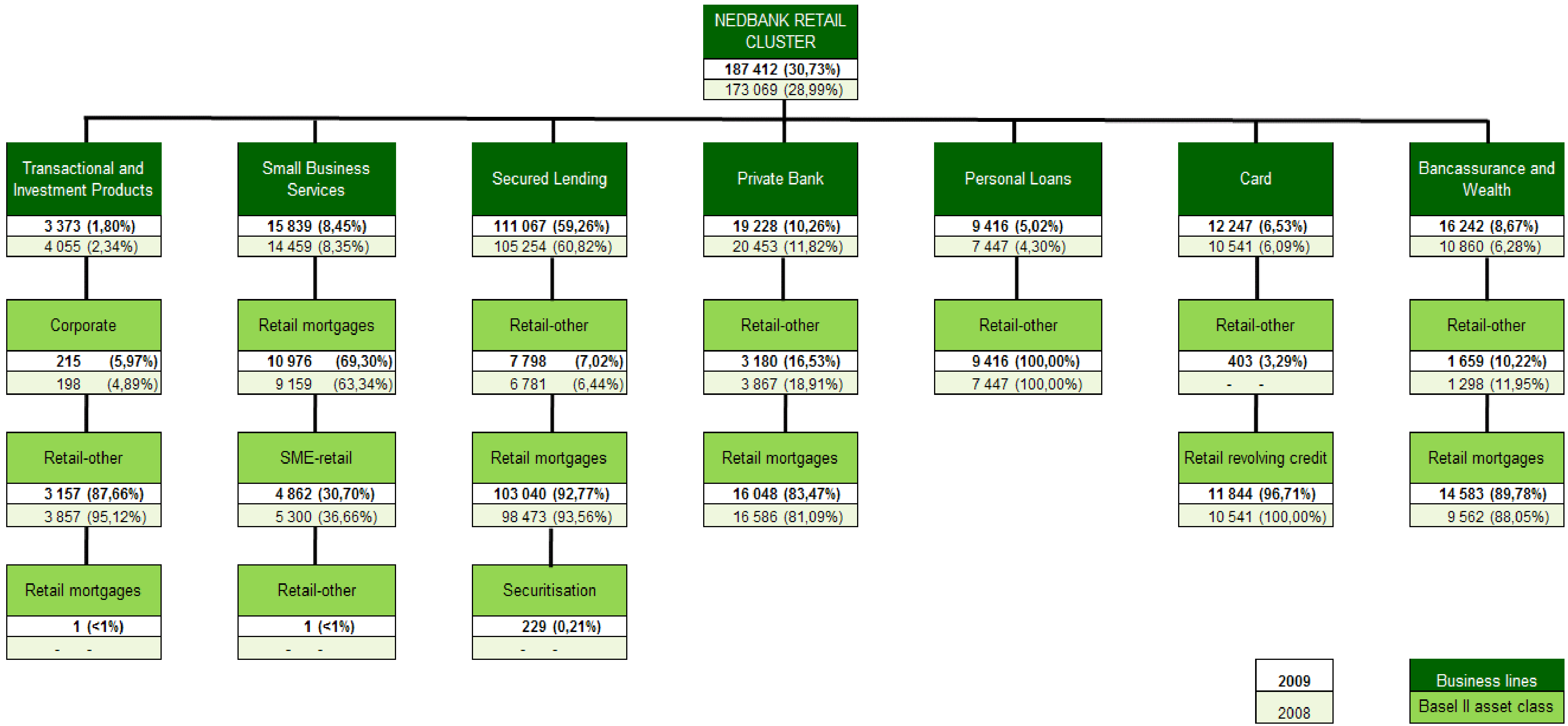
* Includes Namibia, Swaziland, Lesotho and Malawi
** Includes Isle of Man and Jersey

2009	Business lines
2008	Basel II asset class

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

RETAIL AIRB RATING SYSTEM

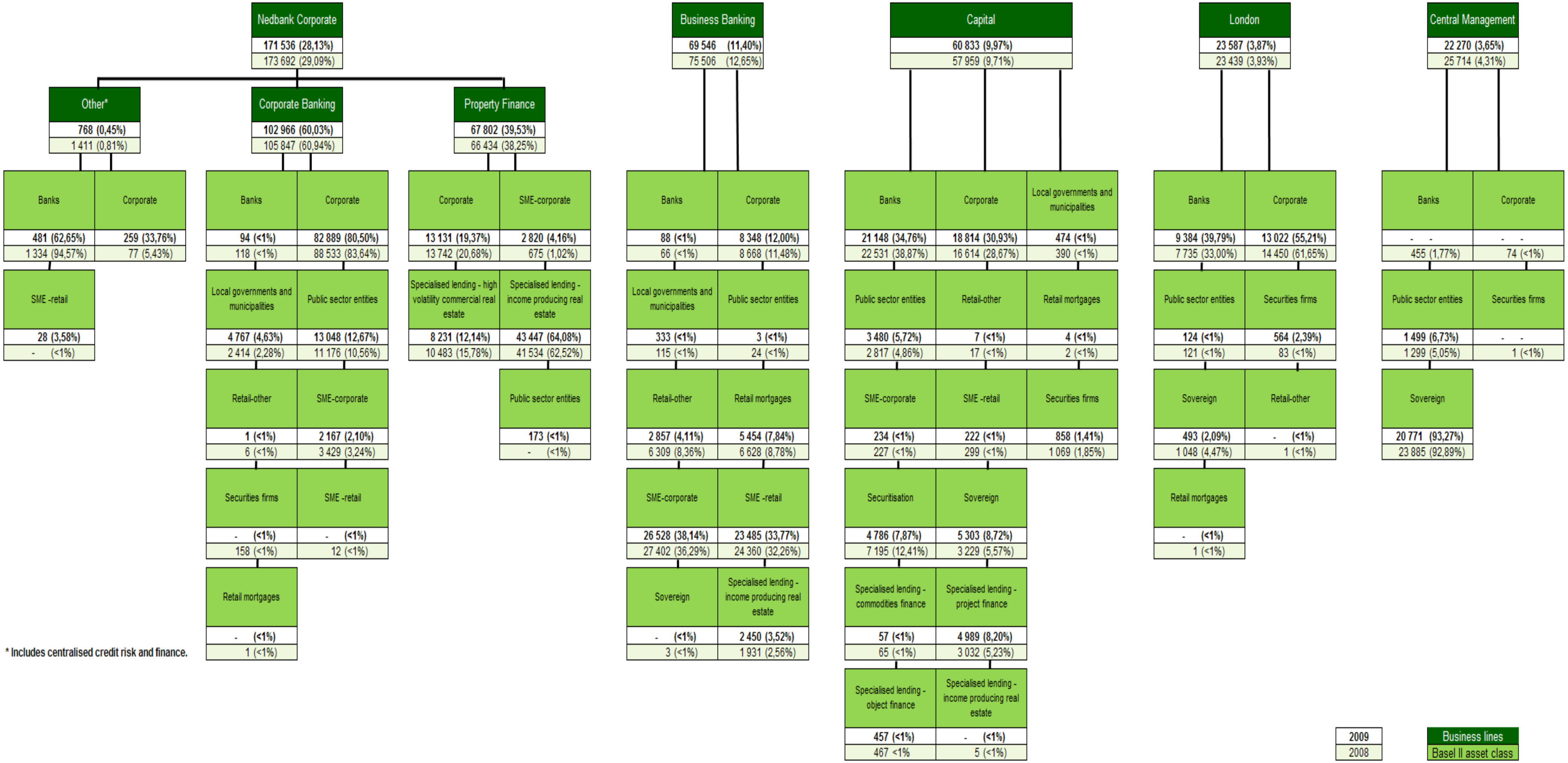
Rm (EAD basis at 31 December 2009)



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 31 December 2009)



* Includes centralised credit risk and finance.

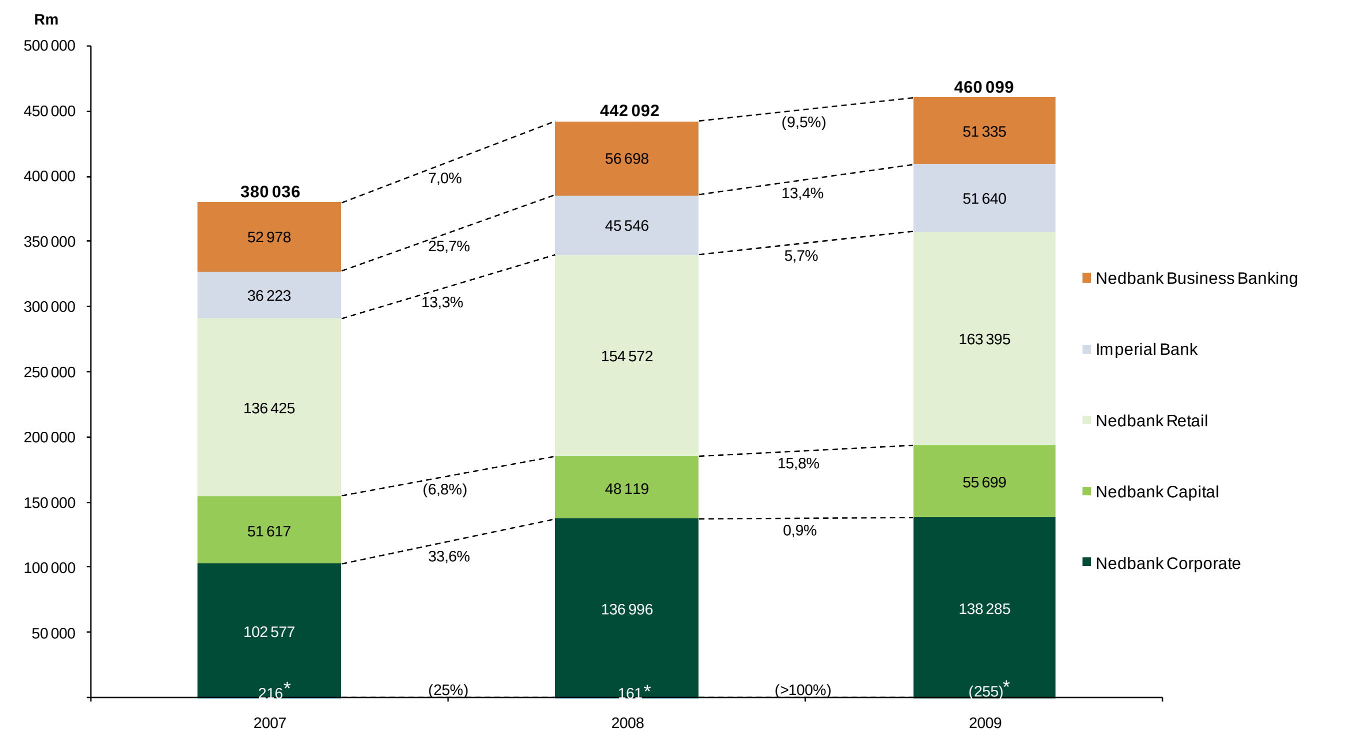
Loans and advances and Basel II exposure

Demand for credit grew at historically low rates and retail impairments increased dramatically as consumers came under severe pressure from falling income, job losses, declining asset prices and record high debt burdens. By the end of 2009 growth in asset-based finance had slowed to 1,0% year-on-year. Interest rates were reduced by 450 basis points to cushion the effects of a rapidly slowing economy and increasing unemployment.

Corporate demand for credit initially held up but lost momentum due to weak global and local demand, which eroded corporate profits through weaker pricing power, lower commodity prices and a strong rand. Support came from construction projects and increased government spending, boosted primarily by the public sector's infrastructure drive and preparations for the 2010 FIFA World Cup.

Net loans and advances after impairments are R450 billion, 3,7% up on the previous year. Gross loans and advances increased by 4,1% to R460 billion. The gross loans and advances by business cluster are as follows:

GROSS LOANS AND ADVANCES BY BUSINESS CLUSTER



* *These relate to eliminations passed through Central Management*

The 4,1% increase in gross loans and advances reflects:

- Ongoing growth in Nedbank Capital and Imperial Bank.
- Slower growth in Nedbank Corporate and Nedbank Retail.
- Reduced advances in Nedbank Business Banking due to a slowdown in client demand for credit and a reduction of single-product loans in line with the drive to reduce higher risk exposures and focus on primary clients.

Growth in advances took place across a number of products, including personal loans, mortgage loans, preference shares, deposits placed under reverse repurchase agreements and other loans, offset by an ongoing decrease in overnight loans.

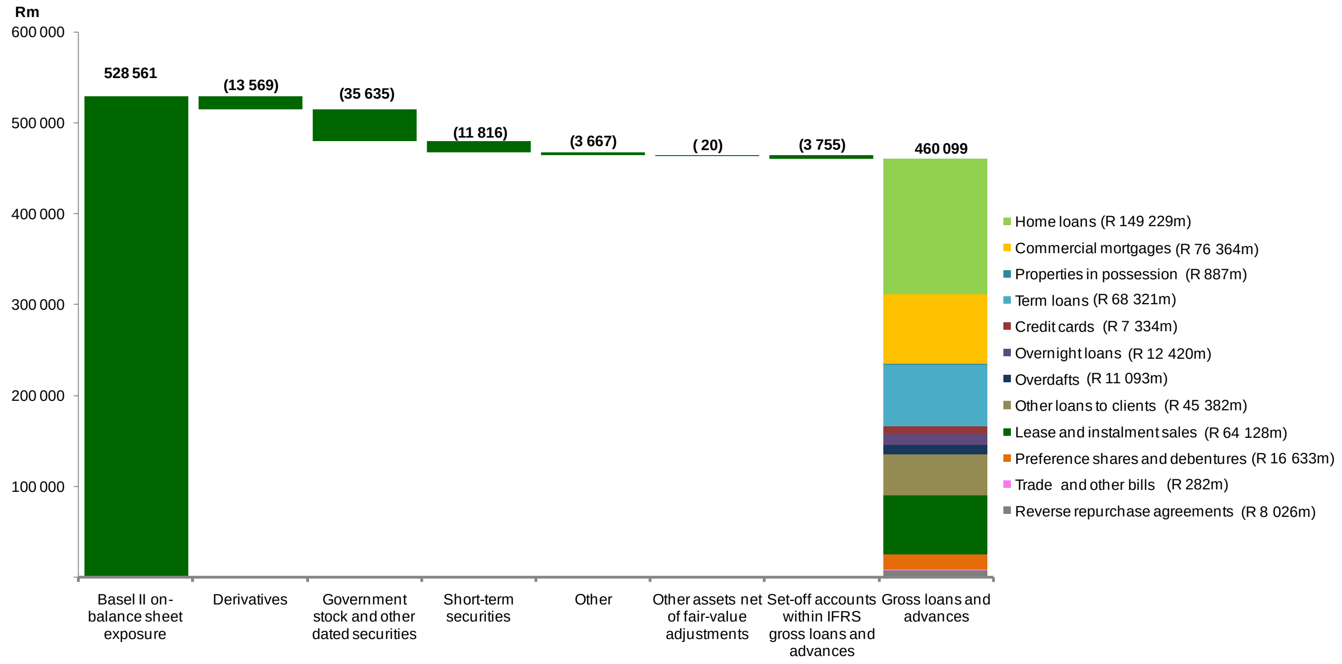
The group has focused on selective asset growth while improving margins, resulting in banking advances growth and lower levels of advances in the trading portfolio. Details of advances growth by division are as follows:

LOANS AND ADVANCES BY BUSINESS CLUSTER			
Rm	**% change**	**2009**	2008
Nedbank Capital	16,0	**55 315**	47 686
Nedbank Corporate	0,7	**137 173**	136 222
Nedbank Business Banking	(9,4)	**50 115**	55 321
Nedbank Retail	4,9	**157 500**	150 107
Imperial Bank	12,8	**50 451**	44 734
Other	(>100,0)	**(253)**	163
Net loans and advances	3,7	**450 301**	434 233

SUMMARY OF LOANS AND ADVANCES BY PRODUCT			
Rm	**% change**	**2009**	2008
Home loans	4,1	**149 229**	143 342
Commercial mortgages	4,6	**76 364**	73 031
Properties in possession	12,1	**887**	791
Term loans	6,5	**68 321**	64 144
Credit cards	1,2	**7 334**	7 248
Overnight loans	(21,2)	**12 420**	15 760
Overdrafts	(11,0)	**11 093**	12 461
Other loans to clients	1,8	**45 382**	44 581
Leases and instalment sales	4,5	**64 128**	61 362
Preference shares and debentures	6,2	**16 633**	15 667
Trade and other bills	(73,8)	**282**	1 075
Reverse repurchase agreements	>100	**8 026**	2 630
Gross loans and advances	4,1	**460 099**	442 092
Impairment of loans and advances	24,7	**(9 798)**	(7 859)
Net loans and advances	3,7	**450 301**	434 233

Basel II on-balance-sheet exposure at December 2009 is R528,6 billion. The reconciliation of the Basel II exposure to the gross loans and advances of R460,1 billion is shown below.

RECONCILIATION OF ON-BALANCE-SHEET EXPOSURE TO GROSS LOANS AND ADVANCES



BALANCE SHEET CREDIT EXPOSURE[3] BY BASEL II ASSET CLASS AND BUSINESS CLUSTER

Rm	Nedbank Business Banking	Nedbank Corporate[2]	Nedbank Capital[2]	Nedbank Retail[2]	Imperial Bank	Central Management	2009	2008
Advanced Internal Ratings-based Approach	**52 013**	**129 510**	**69 124**	**150 414**	**-**	**22 270**	**423 331**	**469 860**
Corporate	6 303	62 565	22 656	1			91 525	136 101
Specialised lending – high-volatility commercial real estate		7 442					7 442	8 301
Specialised lending – income-producing real estate	2 211	39 998					42 209	38 507
Specialised lending – object finance			439				439	449
Specialised lending – commodities finance			55				55	62
Specialised lending – project finance			4 811				4 811	2 897
SME – corporate	19 390	4 096	186				23 672	23 798
Public sector entities	2	10 642	3 262			1 499	15 405	12 705
Local governments and municipalities	298	4 357	516				5 171	2 444
Sovereign			5 795			20 771	26 566	27 653
Banks	1	377	30 338				30 716	43 326
Securities firms		5	866				871	2 091
Retail mortgages	4 314		4	119 293			123 611	119 853
Retail revolving credit				7 028			7 028	6 832
Retail – other	2 580	1	6	20 654			23 241	23 520
SME – retail	16 914	27	190	3 209			20 340	21 091
Securitisation exposure				229			229	230
Standardised Approach	**-**	**9 859**	**-**	**10 500**	**54 319**	**-**	**74 678**	**67 692**
Corporate		2 649			1 557		4 206	1 628
SME – corporate		1 034			12 552		13 586	12 729
Public sector entities		24			6		30	21
Local government and municipalities		28			2 550		2 578	26
Sovereign		855			115		970	2 245
Banks		929		7 640			8 569	10 456
Securities firms		302					302	303
Retail mortgages		2 338		1 922	2 988		7 248	3 286
Retail – other		1 499		938	30 951		33 388	30 678
SME – retail		201			3 301		3 502	3 677
Securitisation exposure					299		299	283
Other								2 360
Properties in possession	**9**	**2**	**-**	**876**	**-**	**-**	**887**	**791**
Non-regulated entities	**68**	**8 411**	**14 894**	**6 156**	**-**	**136**	**29 665**	**30 481**

BALANCE SHEET CREDIT EXPOSURE[3] BY BASEL II ASSET CLASS AND BUSINESS CLUSTER (CONTINUED)								
Rm	Nedbank Business Banking	Nedbank Corporate[2]	Nedbank Capital[2]	Nedbank Retail[2]	Imperial Bank	Central Management	2009	2008
On-balance-sheet exposure (Basel II)	**52 090**	**147 782**	**84 018**	**167 946**	**54 319**	**22 406**	**528 561**	**568 824**
Less assets included in Basel II asset classes	(281)	(6 217)	(28 319)	(4 550)	(2 679)	(22 661)	**(64 707)**	**(87 224)**
Derivatives		(79)	(13 222)	(141)	(127)		(13 569)	(25 218)
Government stock and other dated securities		(3 701)	(7 114)		(2 550)	(22 270)	(35 635)	(34 105)
Short-term securities		(949)	(7 842)	(3 025)			(11 816)	(13 969)
Call money		4	(648)	(291)			(935)	(1 524)
Deposits with monetary institutions		(620)	(2 220)				(2 840)	(2 232)
Remittances in transit	1	76		31			108	207
Other assets net of fair-value adjustments	(282)	(948)	2 727	(1 124)	(2)	(391)	(20)	(10 383)
Setoff of accounts within IFRS total gross loans and advances[1]	(475)	(3 280)					**(3 755)**	**(39 508)**
Gross loans and advances	51 334	138 285	55 699	163 396	51 640	(255)	**460 099**	**442 092**

1 The setoff as shown for December 2008 mainly relates to the corporate asset class within Nedbank Corporate in respect of cash management accounts. This was changed in 2009 to incorporate cash management setoff within the gross on-balance-sheet exposure. This change has caused the decrease in Advanced Internal Ratings-based Approach corporate asset class exposure and the decrease in the 'setoff of account within International Financial Reporting Standards (IFRS) total gross loans and advances'.

2 Nedbank Corporate, Capital and Retail include London branch exposure (Advanced Internal Ratings-based Approach).

3 Balance sheet exposure includes on-balance-sheet exposure and derivatives.

Advanced Internal Ratings-based Approach for Nedbank Limited

All credit exposure and asset classes in Nedbank Limited are covered by the Basel II Advanced Internal Ratings-based Approach.

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

2009 Rm	AIRB on-balance-sheet exposure	AIRB off-balance-sheet exposure	Repurchase and resale exposure	Derivative exposure	Total credit extended*	Exposure at default	Downturn expected loss (performing)	Best estimate of expected loss (non-performing)
Nedbank Business Banking	**52 013**	**19 201**	**-**	**-**	**71 214**	**69 546**	**454**	**819**
Corporate	6 303	2 784			9 087	8 348	67	4
Specialised lending – income-producing real estate	2 211	189			2 400	2 450	8	7
SME – corporate	19 390	7 805			27 195	26 528	154	202
Public sector entities	2	3			5	3		
Local government and municipalities	298	25			323	333	1	
Banks	1	88			89	88		
Retail mortgages	4 314	1 272			5 586	5 454	35	99
Retail – other	2 580	227			2 807	2 857	34	162
SME – retail	16 914	6 808			23 722	23 485	155	345
Nedbank Corporate	**129 191**	**58 907**	**-**	**-**	**188 098**	**171 536**	**394**	**417**
Corporate	62 251	49 564			111 815	96 279	204	75
Specialised lending – high-volatility commercial real estate	7 442	629			8 071	8 231	58	61
Specialised lending – income-producing real estate	39 998	2 080			42 078	43 447	103	259
SME – corporate	4 096	995			5 091	4 987	25	22
Public sector entities	10 642	3 377			14 019	13 221	2	
Local government and municipalities	4 357	322			4 679	4 767	1	
Banks	377	1 940			2 317	575		
Retail – other	1				1	1		
SME – retail	27				27	28	1	
Nedbank Capital	**46 657**	**7 783**	**8 026**	**12 976**	**75 441**	**60 833**	**140**	**29**
Corporate	14 753	316	875	3 326	19 270	18 814	123	20
Specialised lending – object finance	439				439	457	2	
Specialised lending – commodities finance	55				55	57		
Specialised lending – project finance	4 811				4 811	4 989	9	
SME – corporate		2		186	188	234	1	
Public sector entities	2 561		467	702	3 729	3 480		
Local government and municipalities	417		451	99	967	474		
Sovereign	5 302				5 302	5 303		9
Banks	18 283	98	6 198	7 646	32 225	21 148	4	
Securities firms			35	854	889	858		
Retail mortgages				4	4	4		
Retail – other				6	6	7		
SME – retail	36			153	189	222	1	
Securitisation exposure		7 367			7 367	4 786		
Nedbank Retail	**150 414**	**43 219**	**-**	**-**	**193 633**	**187 412**	**2 421**	**4 970**
Corporate	1	214			215	215	5	9
Retail mortgages	119 293	20 062			139 355	144 648	1 046	2 754
Retail revolving credit	7 028	17 189			24 217	11 844	457	479
Retail – other	20 654	4 517			25 171	25 614	816	1 371
SME – retail	3 209	1 237			4 446	4 862	97	357
Securitisation exposure	229				229	229		
Central Management	**22 270**	**-**	**-**	**-**	**22 270**	**22 270**	**1**	
Public sector entities	1 499				1 499	1 499		
Sovereign	20 771				20 771	20 771	1	
Intercompany	**73 935**	**6 265**	**-**	**206**	**80 406**	**75 075**	**80**	**-**
Total	**474 480**	**135 375**	**8 026**	**13 182**	**631 062**	**586 672**	**3 490**	**6 235**

** Total credit extended is AIRB on-balance-sheet exposure, derivatives and off-balance-sheet exposures (includes unutilised facilities).*
*** Nedbank Limited refers to the SA reporting entity in terms of Regulation 38 (BA700) of the SA banking regulations.*

Downturn expected loss (Advanced Internal Ratings-based Approach)	9 725
IFRS impairment on loans and advances	8 003
Excess of downturn expected loss over eligible provisions	1 722

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

PD bands (NGR)	Exposure (EAD)	EAD weighted average PD	EAD weighted average LGD	dEL	EAD weighted average risk weight
2009	**(Rm)**	**(%)**	**(%)**	**(%)**	**(%)**
NGR 01*	-	-	-	-	-
NGR 02*	-	-	-	-	-
NGR 03	43 860	0,020	13,5	0,00	4
NGR 04	29 928	0,028	29,8	0,01	9
NGR 05	41 080	0,040	20,5	0,01	6
NGR 06	14 646	0,057	28,2	0,02	11
NGR 07	63 377	0,080	46,5	0,04	4
NGR 08	22 640	0,113	38,4	0,04	21
NGR 09	12 352	0,160	36,1	0,06	34
NGR 10	9 784	0,226	29,3	0,07	24
NGR 11	13 416	0,320	27,0	0,09	29
NGR 12	24 568	0,453	23,9	0,11	30
NGR 13	35 589	0,640	22,9	0,15	33
NGR 14	44 994	0,905	22,7	0,21	32
NGR 15	46 571	1, 280	20,6	0,26	33
NGR 16	41 953	1, 810	21,1	0,38	40
NGR 17	14 585	2, 560	28,5	0,73	53
NGR 18	25 059	3, 620	22,3	0,81	48
NGR 19	8 873	5, 120	37,7	1,93	68
NGR 20	31 636	7, 241	26,8	1,95	75
NGR 21	6 516	10, 240	29,6	3,03	89
NGR 22	8 005	14, 482	26,6	3,85	89
NGR 23	4 497	20, 480	30,2	6,18	109
NGR 24	6 196	28, 963	23,3	6,76	99
NGR 25	6 386	40, 960	25,1	10,26	109
DEFAULT	21 848	100	24,2	28,54	38
Sub-total	578 359	6,11	26,7	1,68	31
Supervisory slotting exposures**	3 298				
Securitisation**	5 015				
Total EAD	586 672				
Intercompany balances	75 075				
EAD net of intercompany	511 597				

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

** *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.*

Impairments and defaulted loans and advances

Credit quality deteriorated further in 2009, with Nedbank Retail's impairments worsening significantly, although the rate of deterioration of new defaults slowed in the second half, while the business banking and wholesale-banking impairments ended the year at better levels than originally anticipated. Although the SA economy emerged from recession in the third quarter of 2009 and has begun to recover, some segments of the economy are still under significant strain. In the short term the recovery is expected to be hampered by high unemployment and high household debt levels.

The group's credit loss ratio of 1,47% for 2009 (2008: 1,17%) showed signs of improvement after peaking at 1,67% at 31 March 2009. Defaulted advances increased by 56,3% from R17 301 million to R27 045 million and total impairment provisions increased by 24,7% from R7 859 million to R9 798 million over the past year.

The impact of the credit cycle has to date largely impacted consumers and smaller businesses as reflected in the continued deterioration of retail credit loss ratios. High levels of unemployment, lower collateral values due to weak house and vehicle markets, and delays in recoveries resulting from debt counselling have all played a part in the increase in defaulted advances in retail secured loans. However, the 450 basis point interest rate cuts in 2009 have reduced the financial pressure on consumers, as reflected in a slightly slower rate at which retail impairments are increasing as well as the improvement in early-stage arrears for seven consecutive months during the year.

Wholesale banking has performed resiliently, even at the peak of the interest rate cycle, and credit loss ratios have improved since June 2009, remaining at better-than-anticipated levels for the current economic cycle. On the whole credit quality in the books of Capital, Corporate and Business Banking has remained within acceptable levels, although in this volatile economic environment the risk of corporate default remains high. Imperial Bank's impairments improved during the second half of the year as reflected in its lower credit loss ratio of 1,97% (June 2009: 2,50%). This was largely due to the improvement in recoveries and accounts in arrears in Motor Finance Corporation (MFC).

Management has maintained a strong focus on risk management and improving asset quality, particularly in retail home loans. In addition, increased attention has been given to improving the collection processes in Retail. In 2010 retail advances growth is expected to be flat to lower single digits, with wholesale advances growing at a similar rate to that of 2009.

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

The tables below and 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 section 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 [International Accounting Standard (IAS) 39 definition].

- *Specific impairment*

  A specific impairment is raised in respect of an asset that has triggered a loss event where the discounted collateral held against the advance is insufficient to cover the total expected losses. Such a loss event may be, for example, significant financial difficulty of the issuer or obligor, a breach of contract, such as a default or delinquency in interest or principal payments, with ageing arrears as the primary driver.

- *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 an 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, DEFAULTED LOANS AND ADVANCES AND CREDIT LOSS RATIOS

%	Nedbank Business Banking	Nedbank Corporate	Nedbank Capital	Nedbank Retail	Imperial Bank	2009	2008
Impairments to gross loans and advances	2,38	0,80	0,69	3,61	2,30	**2,13**	1,78
Specific impairments	1,59	0,43	0,56	3,18	1,78	**1,70**	1,26
Portfolio impairments	0,79	0,37	0,13	0,43	0,52	**0,43**	0,52
Impairment charge as a % of NII	10,48	11,02	12,69	70,20	47,07	**40,68**	29,82
Credit loss ratio	0,52	0,24	0,26	3,08	1,97	**1,47**	1,17
Credit loss ratio – specific	0,82	0,29	0,22	3,17	1,93	**1,54**	1,09
Credit loss ratio – portfolio	(0,30)	(0,05)	0,04	(0,09)	0,04	**(0,07)**	0,08
Defaulted loans and advances to gross loans and advances	5,45	2,19	1,41	11,51	3,14	**5,88**	3,91
Properties in possession to gross loans and advances	0,02	-	-	0,54	-	**0,19**	0,18

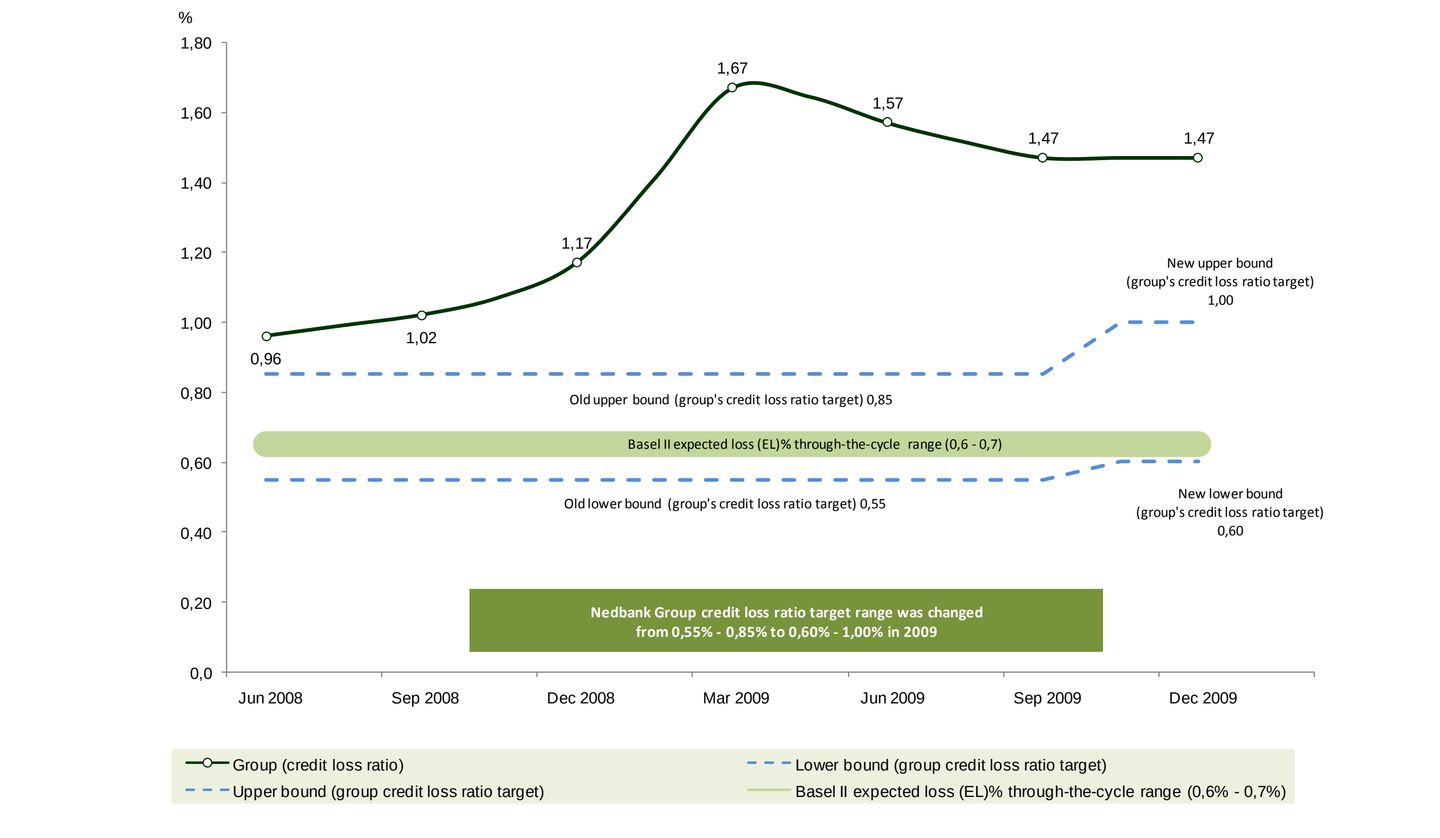
As discussed previously, 2009 saw Nedbank Group enhance the consolidation, focus and reporting of key financial risk appetite metrics. Business-cluster-specific credit loss ratio targets were formalised for the first time in 2009, after taking into account historic, through-the-cycle, sustainable performance as well as desired risk appetite. In addition to this, the group's credit loss ratio target was reviewed separately but in conjunction with the consolidated business cluster targets.

Following this, and integrated with the group's 2010 – 2012 business plans, the targeted credit loss ratio was increased from 0,55% – 0,85% to 0,60% – 1,00%. The decision to increase the target range was largely due to the projected change in mix between secured and unsecured products in Retail. This will help to lessen the volatility of Retail's financial performance, which is generally associated with the current concentration of secured lending in its portfolio, particularly residential mortgages. As the unsecured Retail products tend to have higher credit loss ratios, this results in an increase in Nedbank Group's target credit loss ratio range.

Nedbank Group also intends to update its methodology for calculating the credit loss ratio in H1 2010, appropriately removing the 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. This is not expected to have a material impact on Nedbank Group's credit loss ratio.

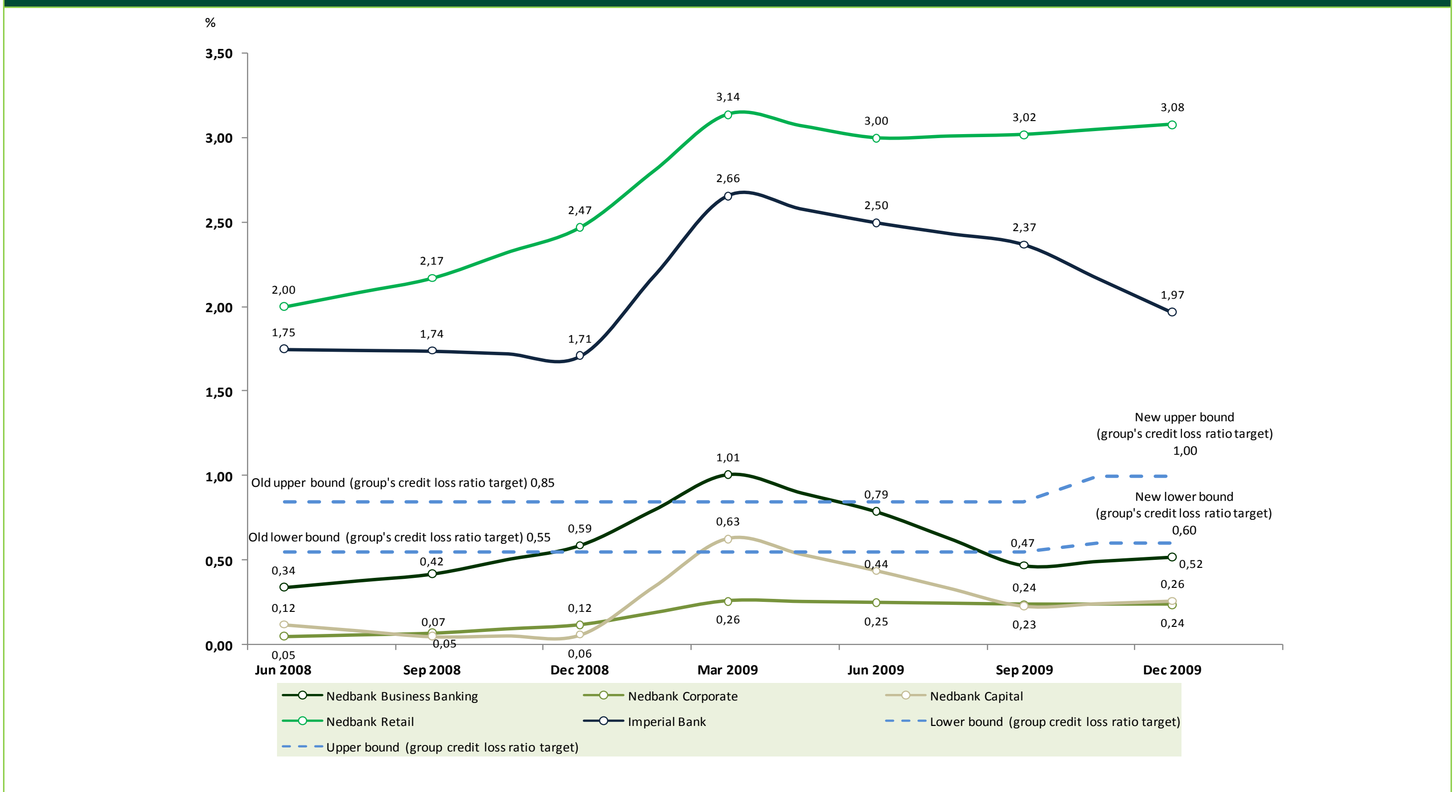
Nedbank Group's current credit loss ratio, at 1,47%, is outside the targeted credit loss ratio range of 0,6% – 1,0%, and addressing this is a key component of Retail's 2010 – 2012 business plans. The reversals of provisions in the balance sheet is expected to take longer as defaulted advances continue to increase, albeit at a slower rate. The group remains cautious about impairments.

Credit loss ratio vs target range



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

Business clusters credit loss ratio trends

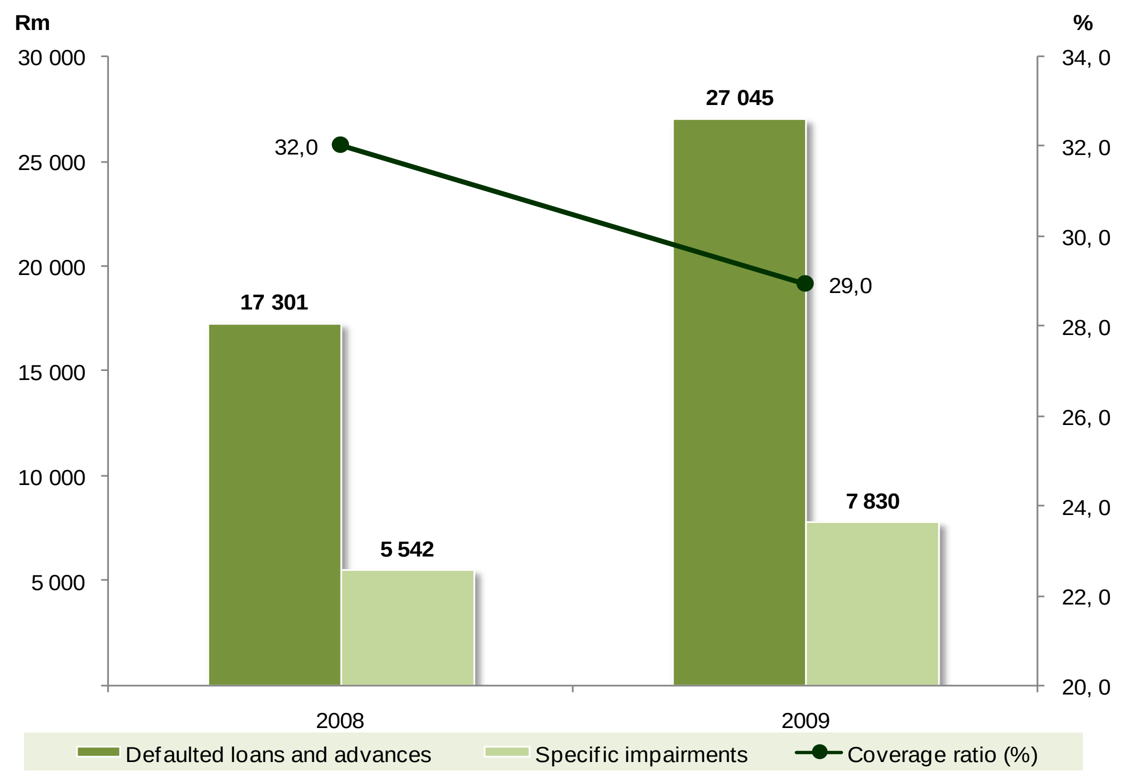


A summary of the impairments movements over the past year is shown below.

SUMMARY OF IMPAIRMENTS								
Rm	**Nedbank Business Banking**	**Nedbank Corporate**	**Nedbank Capital**	**Nedbank Retail**	**Imperial Bank**	**Central Management**	**2009**	2008
Opening balance	1 377	774	433	4 465	812	(2)	**7 859**	6 078
Specific impairment	791	191	381	3 614	565		**5 542**	4 063
Specific impairment, excluding discounts	595	105	381	3 013	472		**4 566**	3 384
Specific impairment for discounted cashflow losses	196	86		601	93		**976**	679
Portfolio impairment	586	583	52	851	247	(2)	**2 317**	2 015
Income statement impairment charge (net of recoveries)	284	327	141	4 925	957		**6 634**	4 822
Specific impairment	398	289	113	5 054	944		**6 798**	4 209
Net increase/decrease in impairment for discounted cashflow losses	48	107	4	14	(9)		**164**	297
Portfolio impairment	(162)	(69)	24	(143)	22		**(328)**	316
Recoveries	40	38		328	51		**457**	379
Amounts written off/other transfers	(481)	(27)	(190)	(3 823)	(631)		**(5 152)**	(3 420)
Specific impairments	(463)	(33)	(188)	(3 816)	(631)		**(5 131)**	(3 406)
Portfolio impairment	(18)	6	(2)	(7)			**(21)**	(14)
Total impairments	1 220	1 112	384	5 895	1 189	(2)	**9 798**	7 859
Specific impairment	814	592	310	5 194	920		**7 830**	5 542
Specific impairment, excluding discounts	570	399	306	4 579	836		**6 690**	4 566
Specific impairment for discounted cashflow losses	244	193	4	615	84		**1 140**	976
Portfolio impairment	406	520	74	701	269	(2)	**1 968**	2 317
Total loans and advances	51 335	138 285	55 699	163 395	51 640	(255)	**460 099**	442 092
Total average loans and advances	54 187	136 676	53 498	160 034	48 593	(243)	**451 096**	411 063

Defaulted loans and advances increased by 56,3% to R27 045 million, while specific impairments increased to R7 830 million for the same period. This resulted in a decrease in the coverage ratio from 32,0% in 2008 to 29,0% in 2009 as shown below.

Defaulted loans and advances, specific impairments and 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:

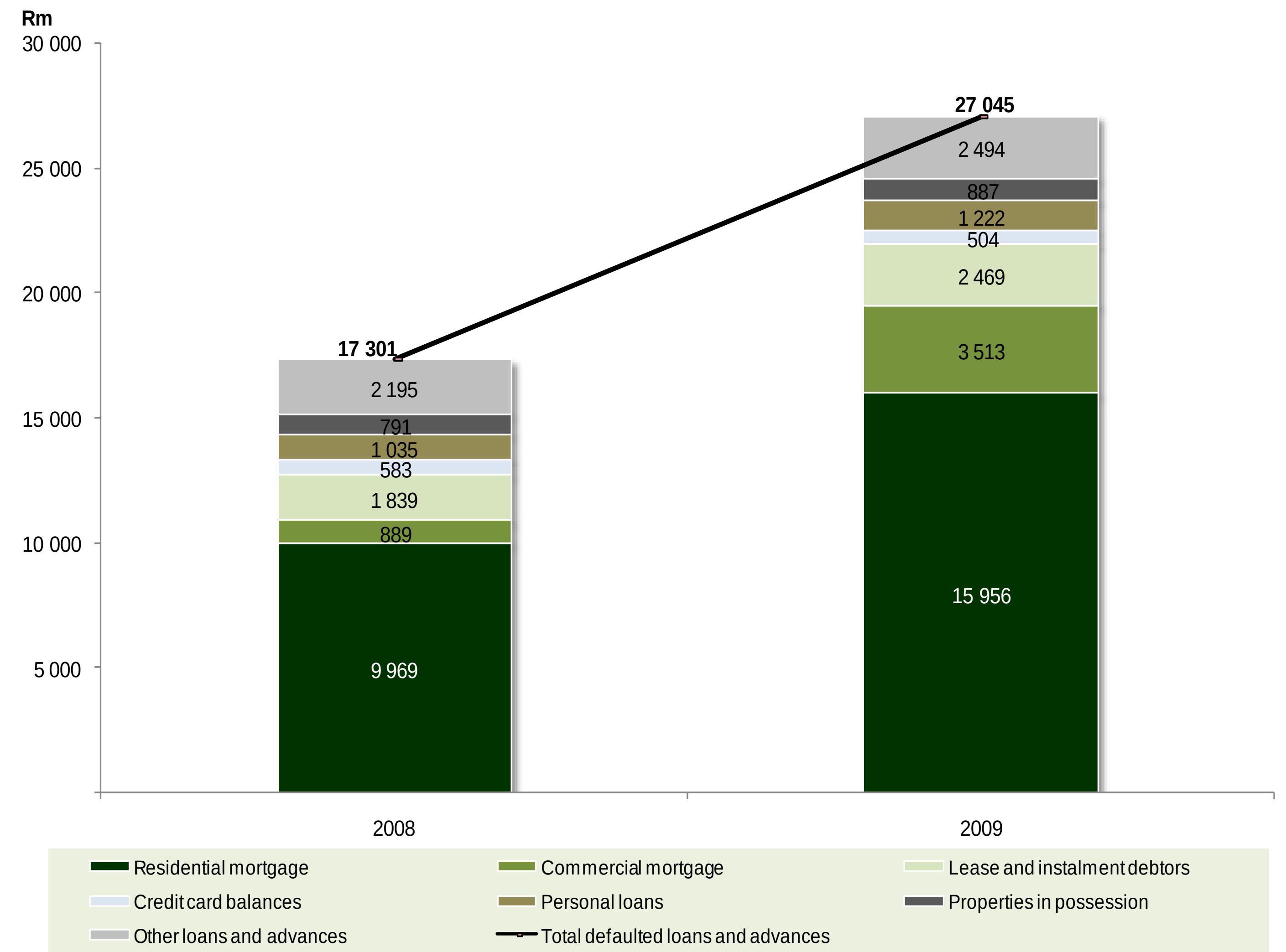
- Expected recoveries improving due to higher recoveries being realised in the loss given default (LGD) calculation.
- A change in the defaulted product mix, with a greater percentage of products that have a higher security value (and therefore a lower specific impairment), such as secured products (home 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 writeoff policy, such as extending the period prior to writing off a deal that will result in a longer period in which recoveries can be realised.

The decrease in the group's coverage ratio is due largely to the change in the defaulted-product mix arising from the high amount of residential mortgage defaults in Nedbank Retail, as well as a higher amount of commercial mortgage and development loan defaults in Nedbank Property Finance.

The total defaulted loans and advances increased by R9,7 billion from 2008 to 2009. Residential mortgages account for 61% of this increase. Defaulted residential mortgages contributed 57,6% to the total defaulted loans and advances in 2008 and this increased to 59,0% in 2009. Residential mortgages have lower coverage ratios than most other asset classes due to the high amount of security generally held and therefore higher expected recoveries.

Similarly, defaulted commercial mortgages and development loans increased by R2,6 billion from 2008 to 2009 and contributed 5,1% of the total defaulted loans and advances in 2008, increasing to 13,0% in 2009. The majority of the exposures that defaulted were fully secured and therefore specific impairments increased by only R216 million from 2008 to 2009.

Defaulted loans and advances by product



DEFAULTED LOANS AND ADVANCES AND RELATED SECURITY AND IMPAIRMENTS BY BUSINESS CLUSTER AND ASSET CLASS							
Rm	Nedbank Business Banking	Nedbank Corporate	Nedbank Capital	Nedbank Retail	Imperial Bank	2009	2008
Advanced Internal Ratings-based Approach	2 787	2 781	305	17 873	-	**23 746**	14 710
Corporate	23	184	261			**468**	263
Specialised lending – high-volatility commercial real estate		1 647				**1 647**	202
Specialised lending – income-producing real estate	56	906				**962**	335
SME – corporate	897	43				**940**	468
Sovereign			44			**44**	
Retail mortgages	406			14 731		**15 137**	8 573
Retail revolving credit				483		**483**	427
Retail – other	421	1		2 216		**2 638**	2 343
SME – retail	984			443		**1 427**	2 099
Standardised Approach	**-**	**-**	**-**	**-**	1 623	**1 623**	918
Corporate					42	**42**	
SME – corporate					595	**595**	142
Retail mortgages					65	**65**	36
Retail other					789	**789**	632
SME – retail					132	**132**	108
Other regulated entities		152				**152**	225
Properties in possession	9	2		876		**887**	791
Non-regulated entities		97	478	62		**637**	657
Total defaulted loans and advances	2 796	3 032	783	18 811	1 623	**27 045**	17 301

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

SUMMARY OF IMPAIRMENTS AND DETAULTED LOANS AND ADVANCES - NEDBANK GROUP

2009	Defaulted loans and advances Rm	Defaulted loans and advances as a % of total %	Expected recoveries Rm	Net uncovered position after discounting Rm	Total specific impairments Rm	Specific impairments on defaulted loans and advances Rm	Specific impairments for discounted cashflow losses Rm	Coverage ratio %	Expected recovery ratio %
Nedbank Business Banking	**2 796**	**10,3**	**1 982**	**814**	**814**	**570**	**244**	**29,1**	**70,9**
Residential mortgages	1 165	4,3	916	249	249	164	85	21,4	78,6
Commercial mortgages	399	1,5	329	70	70	6	64	17,5	82,5
Lease and instalment debtors	573	2,1	358	215	215	179	36	37,5	62,5
Credit card balances	4	0,0	1	3	3	2	1	75,0	25,0
Properties in possession	9	0,0	9					0,0	100,0
Other loans and advances	646	2,4	369	277	277	219	58	42,9	57,1
Nedbank Corporate	**3 032**	**11,2**	**2 440**	**592**	**592**	**399**	**193**	**19,5**	**80,5**
Residential mortgages	44	0,2	27	17	17	16	1	38,6	61,4
Commercial mortgages	2 551	9,4	2 177	374	374	236	138	14,7	85,3
Lease and instalment debtors	40	0,1	32	8	8	4	4	20,0	80,0
Personal loans	25	0,1	12	13	13	12	1	52,0	48,0
Properties in possession	2	0,0	2					0,0	100,0
Other loans and advances	370	1,4	190	180	180	131	49	48,6	51,4
Nedbank Capital	**783**	**2,9**	**473**	**310**	**310**	**306**	**4**	**39,6**	**60,4**
Other loans and advances	783	2,9	473	310	310	306	4	39,6	60,4
Nedbank Retail	**18 811**	**69,6**	**13 617**	**5 194**	**5 194**	**4 579**	**615**	**27,6**	**72,4**
Residential mortgages	14 677	54,3	11 962	2 715	2 715	2 435	280	18,5	81,5
Commercial mortgages	54	0,2	23	31	31	28	3	57,4	42,6
Lease and instalment debtors	840	3,1	320	520	520	491	29	61,9	38,1
Credit card balances	500	1,8		500	500	497	3	100,0	0,0
Personal loans	1 169	4,3	514	655	655	360	295	56,0	44,0
Properties in possession	876	3,2	708	168	168	168		19,2	80,8
Other loans and advances	695	2,6	90	605	605	600	5	87,1	12,9
Imperial Bank	**1 623**	**6,0**	**703**	**920**	**920**	**836**	**84**	**56,7**	**43,3**
Residential mortgages	70	0,3	46	24	24	12	12	34,3	65,7
Commercial mortgages	509	1,9	435	74	74	64	10	14,5	85,5
Lease and instalment debtors	1 016	3,8	205	811	811	749	62	79,8	20,2
Personal loans	28	0,1	17	11	11	11		39,3	60,7
Group	**27 045**	**100,0**	**19 215**	**7 830**	**7 830**	**6 690**	**1 140**	**29,0**	**71,0**
Residential mortgages	15 956	59,0	12 951	3 005	3 005	2 627	378	18,8	81,2
Commercial mortgages	3 513	13,0	2 964	549	549	334	215	15,6	84,4
Lease and instalment debtors	2 469	9,1	915	1 554	1 554	1 423	131	62,9	37,1
Credit card balances	504	1,9	1	503	503	499	4	99,8	0,2
Personal loans	1 222	4,5	543	679	679	383	296	55,6	44,4
Properties in possession	887	3,3	719	168	168	168		18,9	81,1
Other loans and advances	2 494	9,2	1 122	1 372	1 372	1 256	116	55,0	45,0

SUMMARY OF IMPAIRMENTS AND DETAULTED LOANS AND ADVANCES - NEDBANK GROUP (CONTINUED)									
2008	Defaulted loans and advances Rm	Defaulted loans and advances as a % of total %	Expected recoveries Rm	Net uncovered position after discounting Rm	Total specific impairments Rm	Specific impairments on defaulted loans and advances Rm	Specific impairments for discounted cashflow losses Rm	Coverage ratio %	Expected recovery ratio %
Group	**17 301**	**100,0**	**11 759**	**5 542**	**5 542**	**4 566**	**976**	**32,0**	**68,0**
Residential mortgages	9 969	57,6	8 220	1 749	1 749	1 300	449	17,5	82,5
Commercial mortgages	889	5,1	556	333	333	240	93	37,5	62,5
Lease and instalment debtors	1 839	10,6	770	1 069	1 069	924	145	58,1	41,9
Credit card balances	583	3,4	38	545	545	541	4	93,5	6,5
Personal loans	1 035	6,0	422	613	613	411	202	59,2	40,8
Properties in possession	791	4,6	664	127	127	127		16,1	83,9
Other loans and advances	2 195	12,7	1 089	1 106	1 106	1 023	83	50,4	49,6

PROPERTIES IN POSSESSION								
Rm	Nedbank Business Banking	Nedbank Corporate	Nedbank Capital	Nedbank Retail	Imperial Bank	Central Management	2009	2008
Balance at the beginning of the period	18	3		770			**791**	308
Disposal/writedowns/revaluations	(13)	(1)		(566)			**(580)**	(76)
Properties in possession acquired during the period	4			672			**676**	559
Balance at the end of the period	9	2	-	876	-	-	**887**	791
Unsold	3	2		560			**565**	655
Sold awaiting transfer	6			316			**322**	136

Distribution and quality of Nedbank Group's credit risk profile

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

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

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

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

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

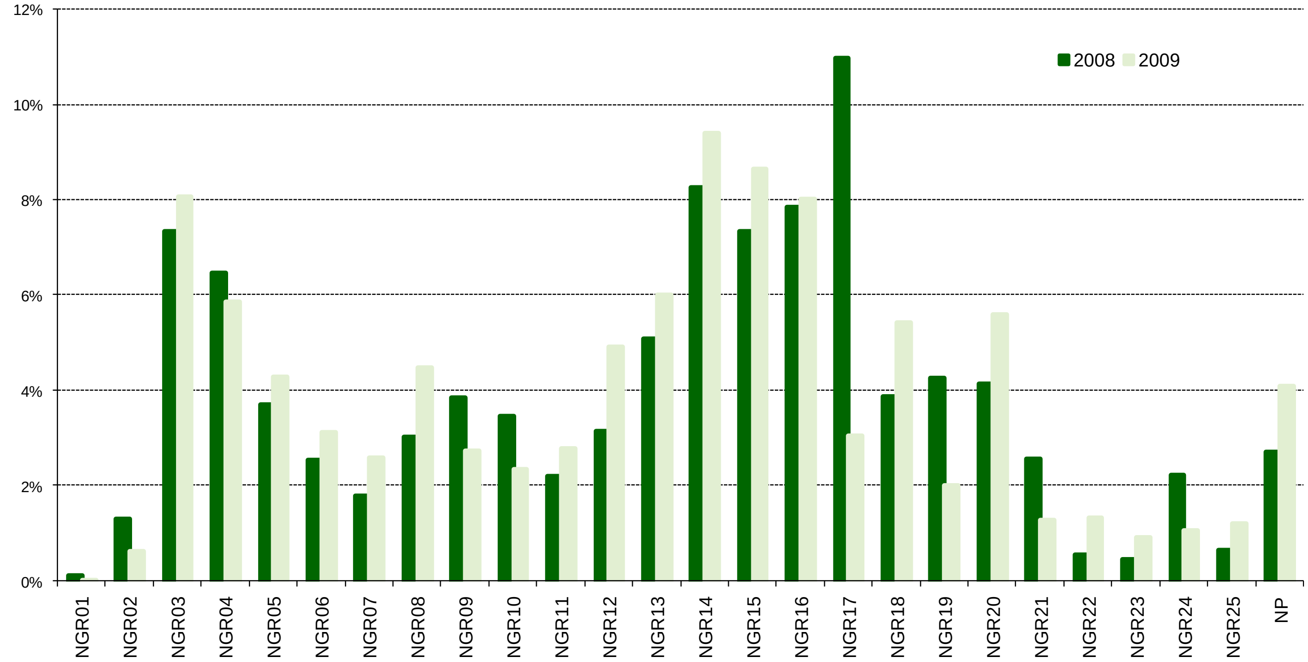
Despite the downgrading of clients as a result of the worsening cycle, the performing PD and expected loss parameters in a number of portfolios have shown a slight improvement compared with December 2008. This can be explained by the low Basel II credit model cyclicality as well as the change in the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

Methodological changes are also responsible for some of the movements since 2007. For the income-producing real estate asset class (which resides mainly in Nedbank Property Finance's portfolio), the updated central tendency calculation has resulted in an improved NGR distribution since June 2008. The change in distribution that is evident in Business Banking as well as the Retail other and Retail SME asset classes is a result of new behavioural models that were implemented in September 2008. In January 2009 the review and updating of the Africa PD and LGD parameters has resulted in the improved NGR distributions for the Africa portfolio and the lower LGD parameters. The new PD and LGD models implemented in March 2009 in the 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.

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

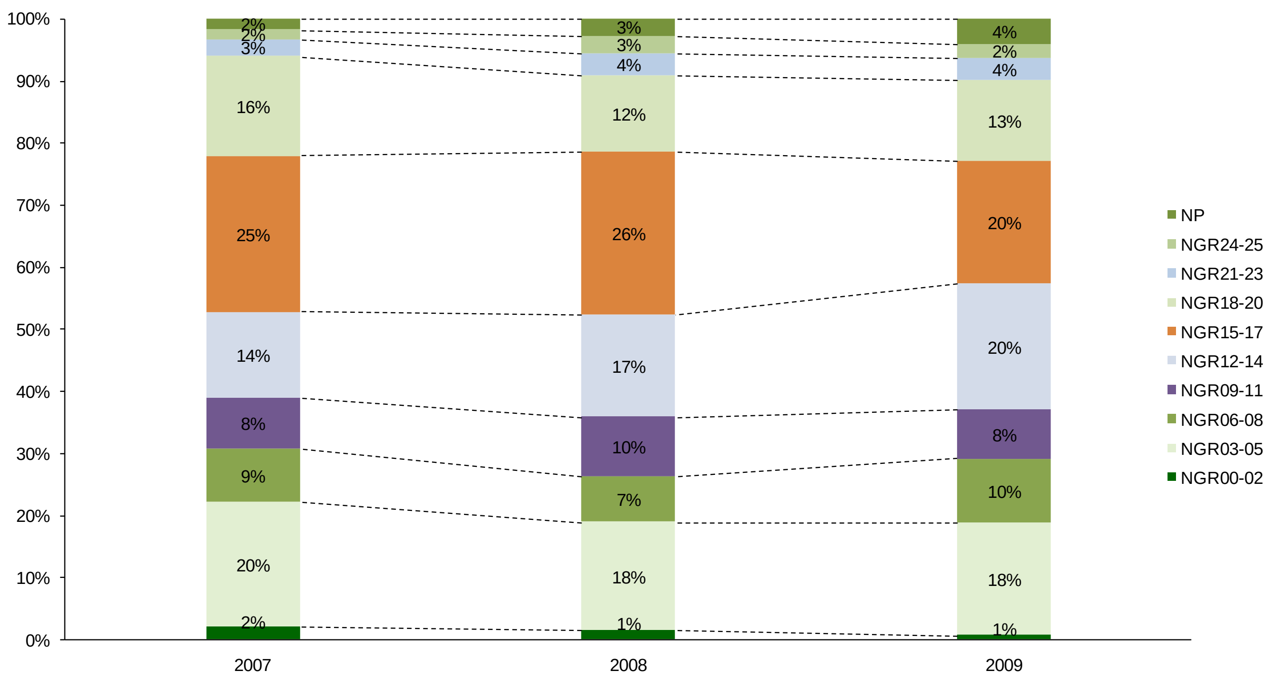
DISTRIBUTION OF TOTAL EAD OF NEDBANK GROUP*

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD 2,64%	**Average performing book EAD–weighted LGD 21,03%**	**Average performing book EAD–weighted EL 0,55%**
Average total book EAD–weighted PD 6,62%	**Average total book EAD–weighted LGD 20,97%**	**Average total book EAD–weighted EL 1,33%**

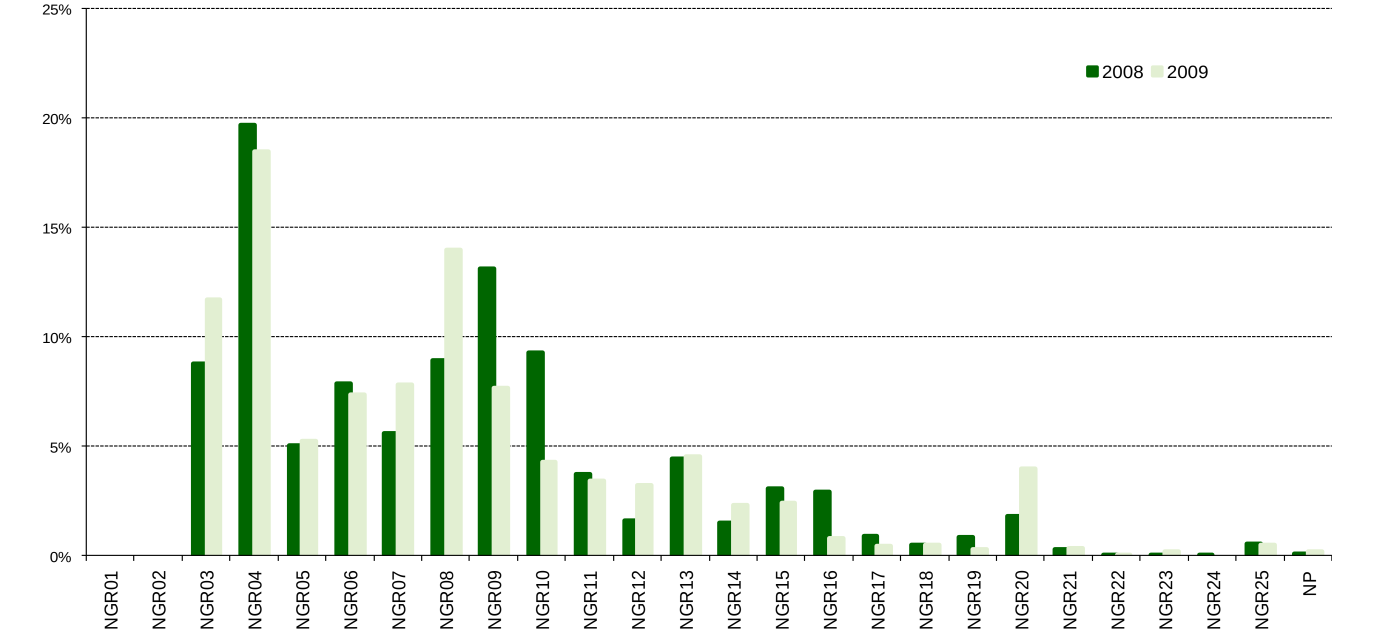
EAD % distribution by bucketed NGR bands over time (ie PD only)



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

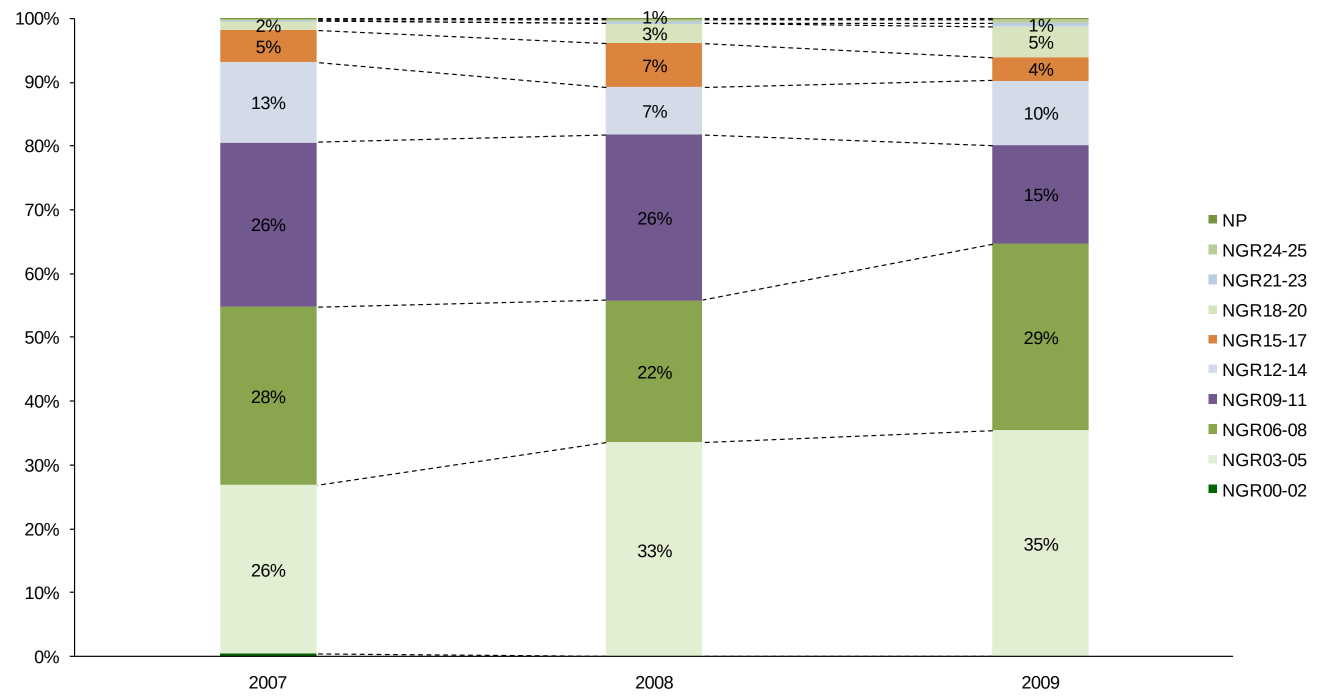
DISTRIBUTION OF NEDBANK GROUP'S TOTAL EAD BY MAJOR BUSINESS LINE
NEDBANK CORPORATE CLUSTER: CORPORATE BANKING

EAD distribution by NGR (ie PD only)



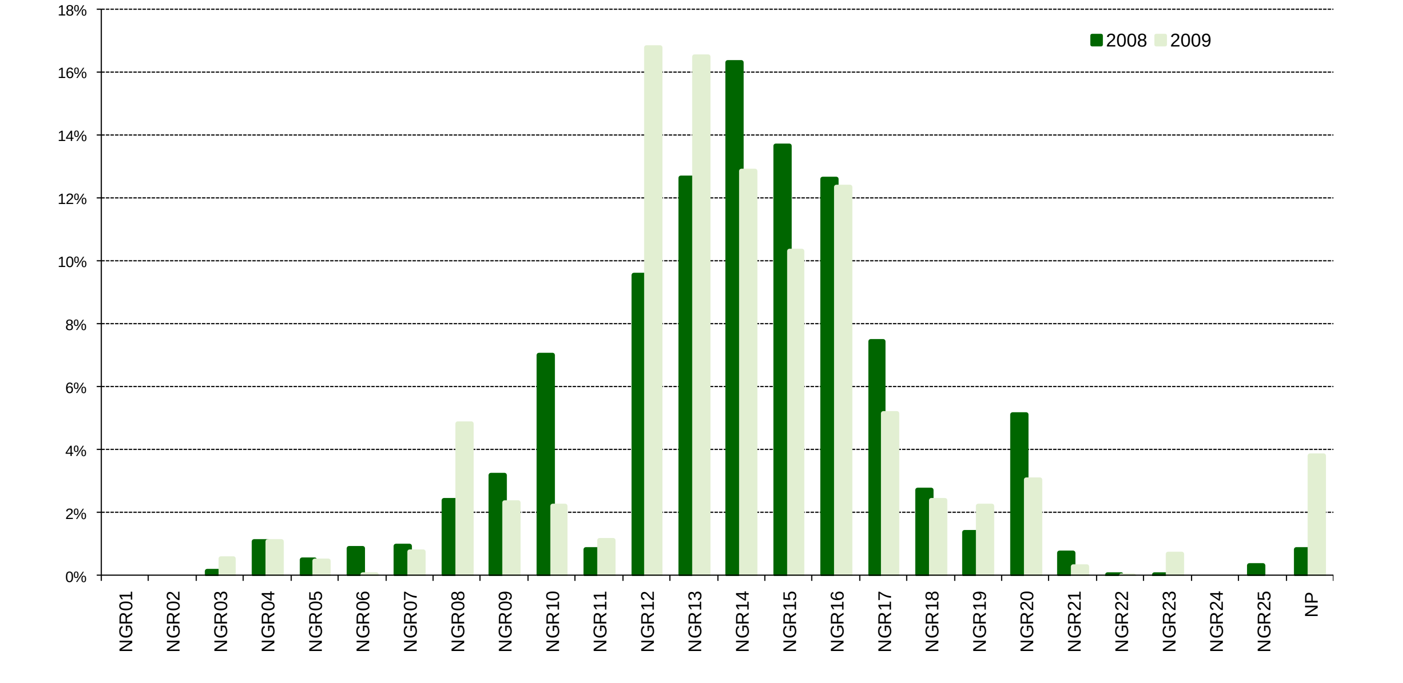
Average performing book EAD–weighted PD 0,81%	**Average performing book EAD–weighted LGD 23,39%**	**Average performing book EAD–weighted EL 0,18%**
Average total book EAD–weighted PD 1,02%	**Average total book EAD–weighted LGD 23,40%**	**Average total book EAD–weighted EL 0,24%**

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



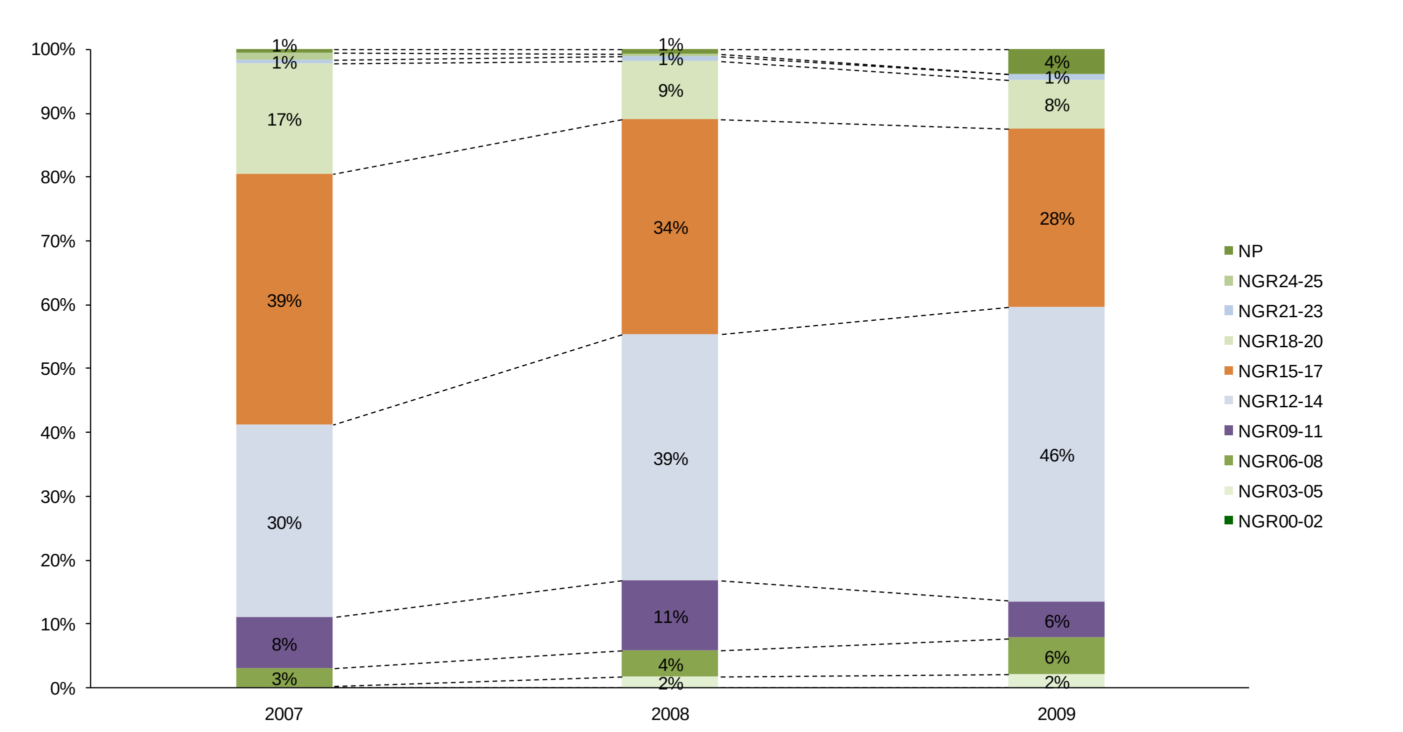
NEDBANK CORPORATE CLUSTER: PROPERTY FINANCE

EAD distribution by NGR (ie PD only)



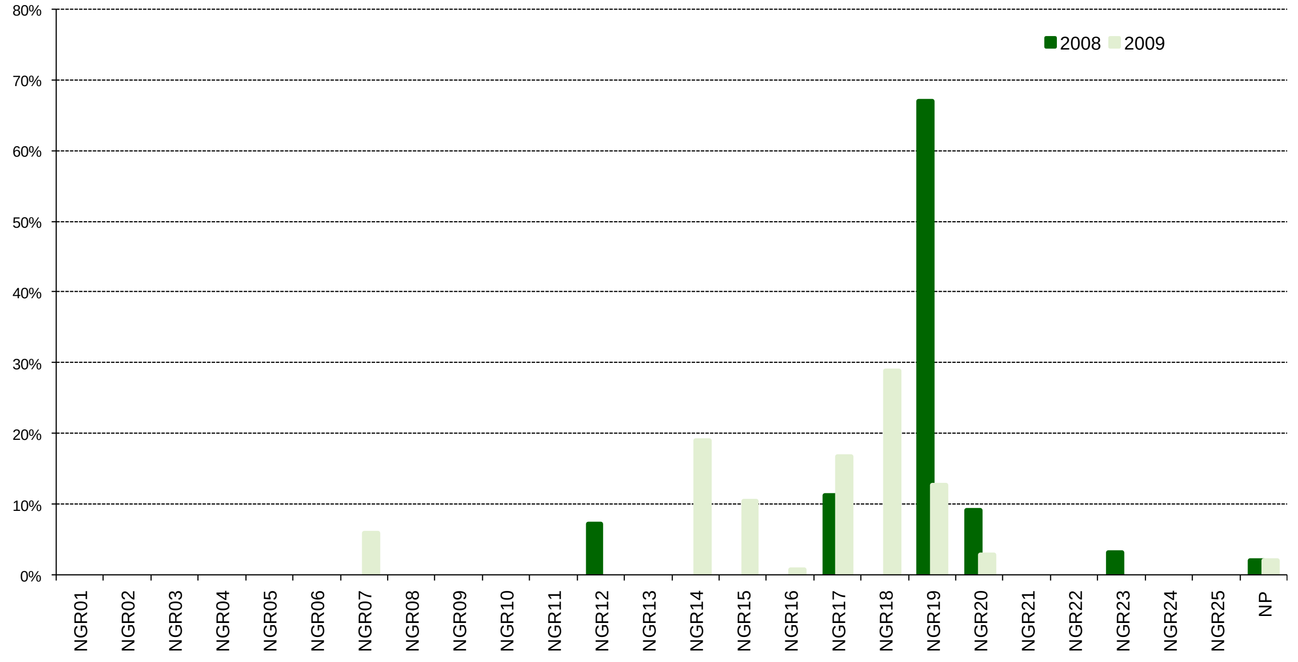
Average performing book EAD–weighted PD 1,46%	**Average performing book EAD–weighted LGD 12,96%**	**Average performing book EAD–weighted EL 0,18%**
Average total book EAD–weighted PD 5,24%	**Average total book EAD–weighted LGD 13,16%**	**Average total book EAD–weighted EL 0,87%**

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



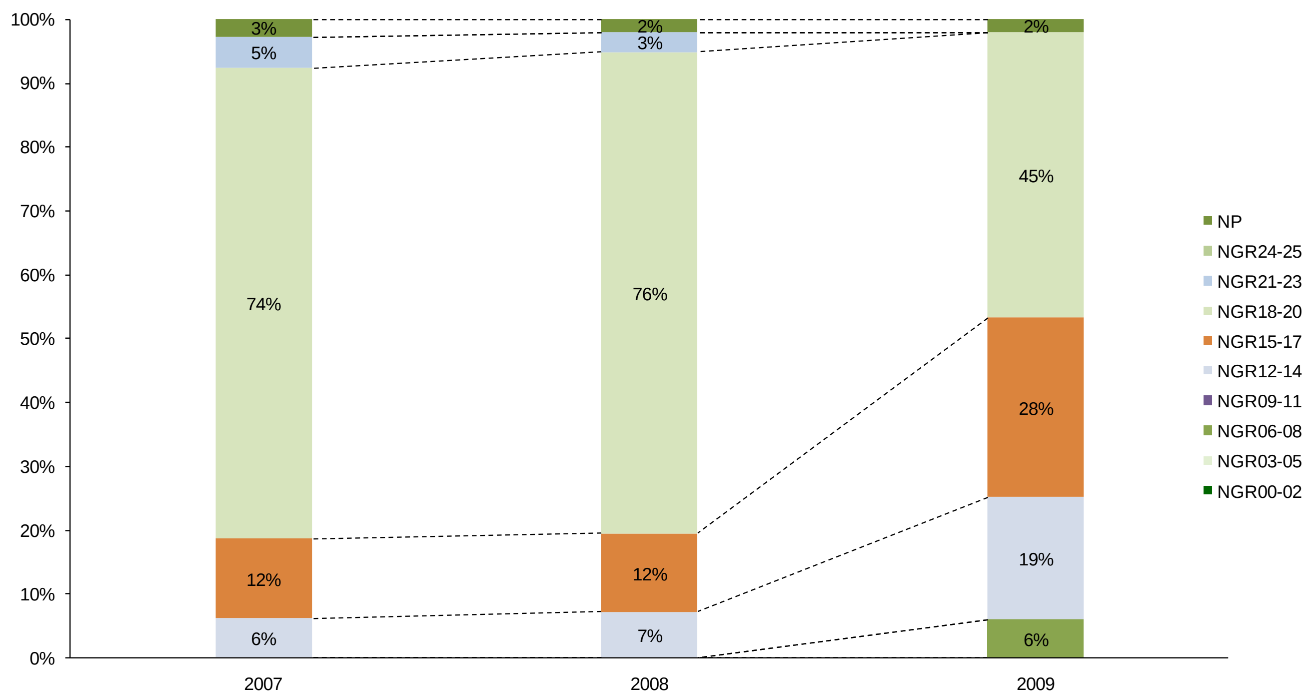
NEDBANK CORPORATE CLUSTER: NEDBANK AFRICA

EAD distribution by NGR (ie PD only)



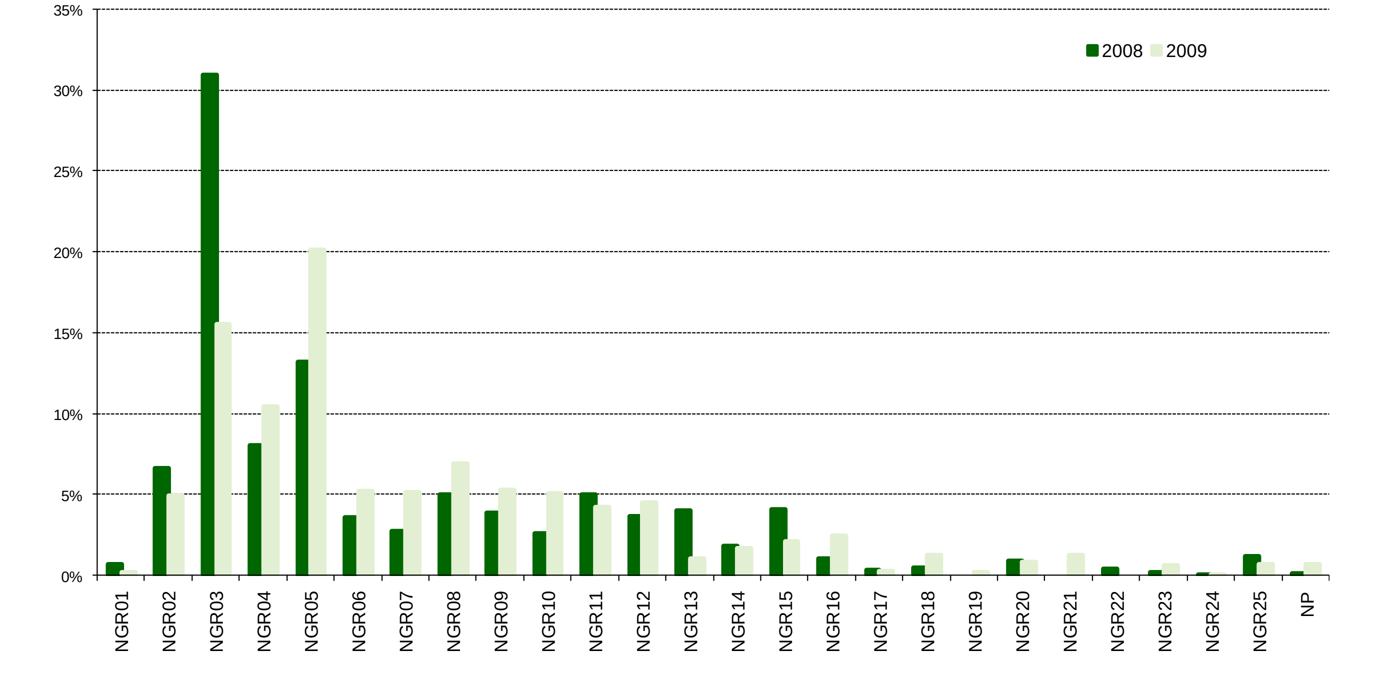
Average performing book EAD–weighted PD 2,73%	**Average performing book EAD–weighted LGD 33,10%**	**Average performing book EAD–weighted EL 0,92%**
Average total book EAD–weighted PD 4,75%	**Average total book EAD–weighted LGD 33,02%**	**Average total book EAD–weighted EL 1,51%**

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



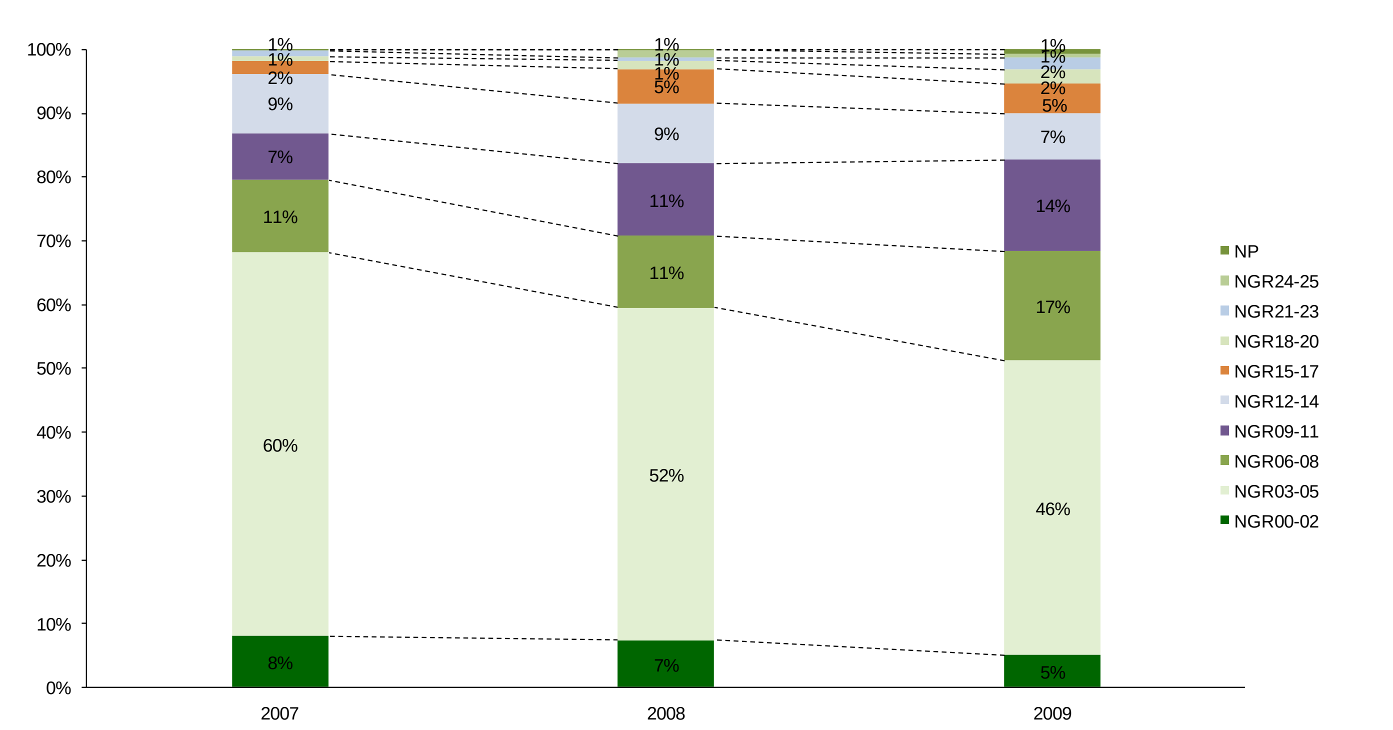
NEDBANK CAPITAL CLUSTER

EAD distribution by NGR (ie PD only)



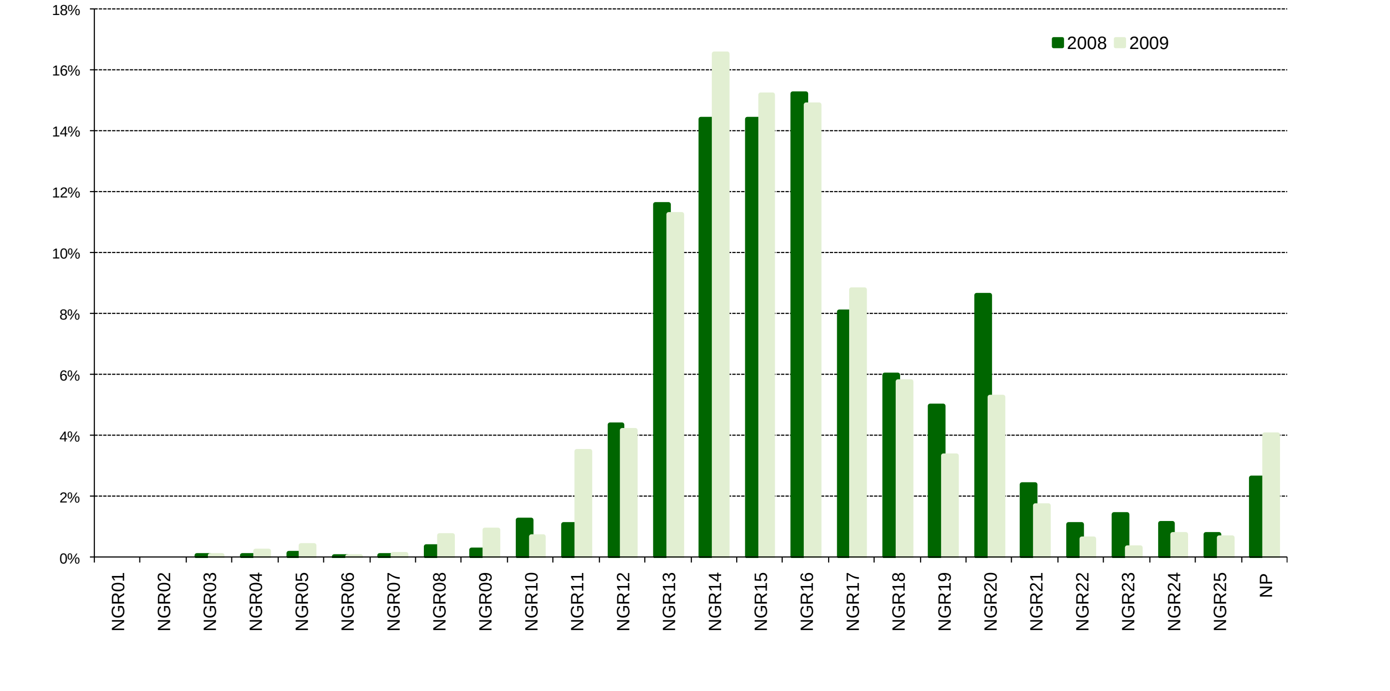
Average performing book EAD–weighted PD 0,83%	**Average performing book EAD–weighted LGD 27,15%**	**Average performing book EAD–weighted EL 0,20%**
Average total book EAD–weighted PD 1,48%	**Average total book EAD–weighted LGD 27,31%**	**Average total book EAD–weighted EL 0,54%**

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



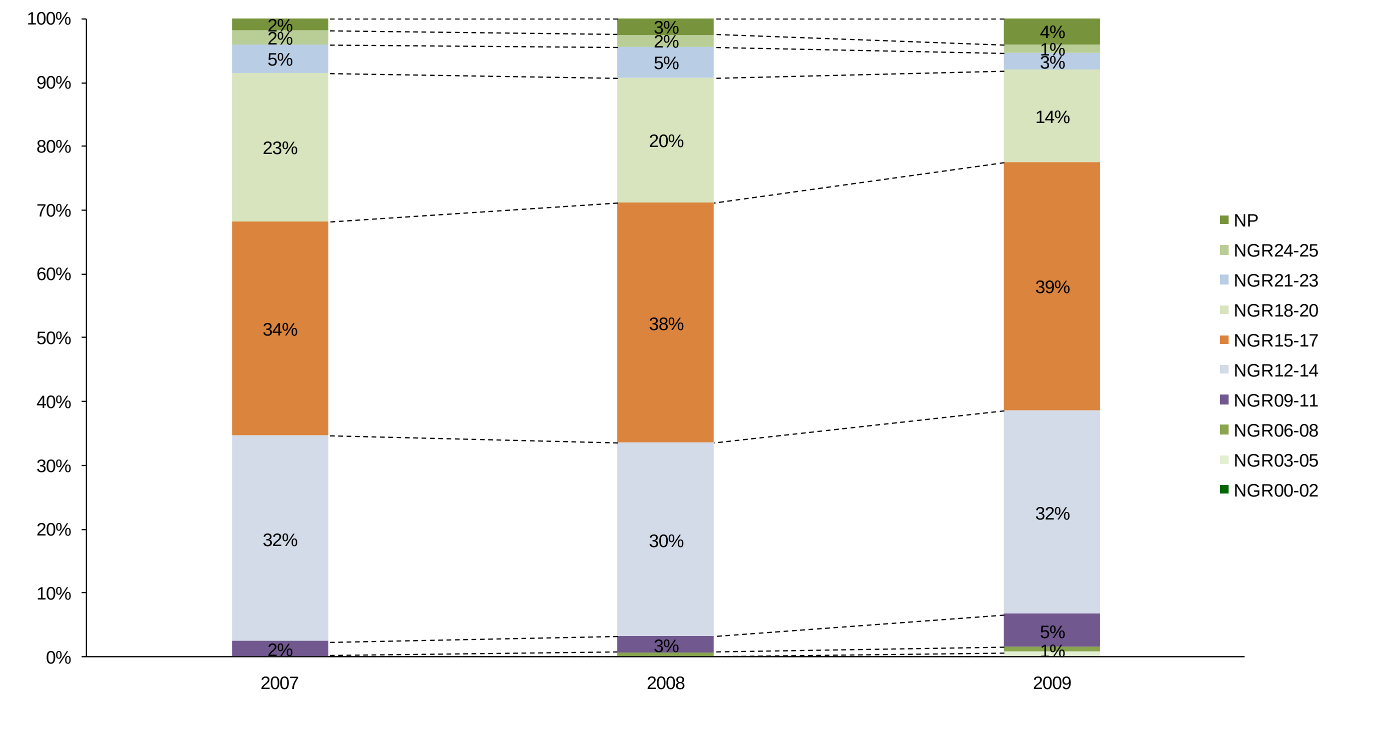
NEDBANK BUSINESS BANKING CLUSTER

EAD distribution by NGR (ie PD only)



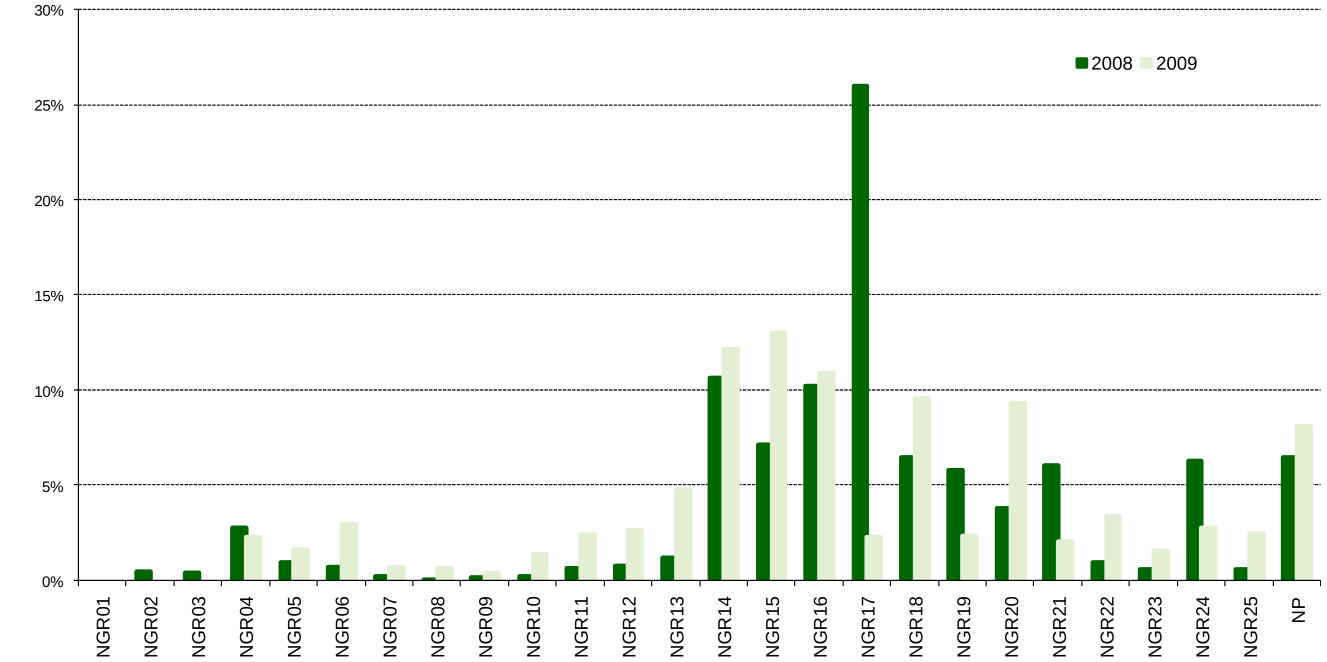
Average performing book EAD–weighted PD 2,63%	**Average performing book EAD–weighted LGD 18,47%**	**Average performing book EAD–weighted EL 0,50%**
Average total book EAD–weighted PD 6,55%	**Average total book EAD–weighted LGD 18,71%**	**Average total book EAD–weighted EL 1,47%**

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



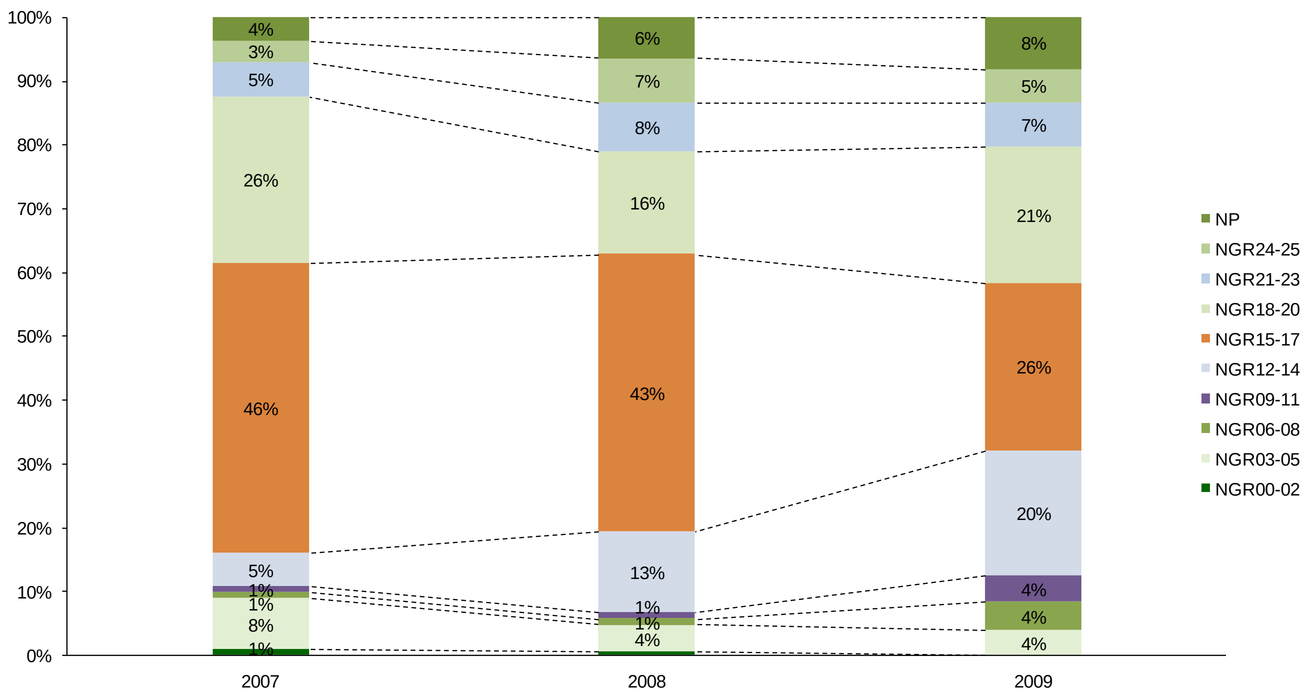
NEDBANK RETAIL CLUSTER

EAD distribution by NGR (ie PD only)



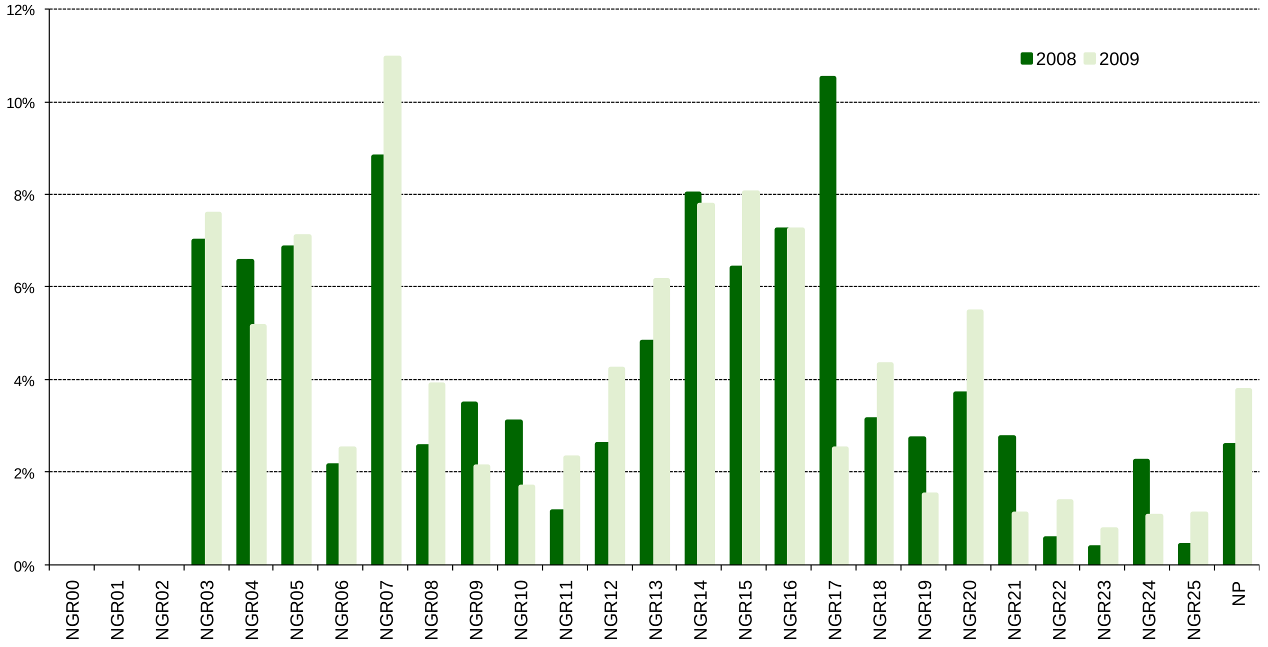
Average performing book EAD–weighted PD 4,99%	**Average performing book EAD–weighted LGD 20,11%**	**Average performing book EAD–weighted EL 0,97%**
Average total book EAD–weighted PD 12,69%	**Average total book EAD–weighted LGD 19,74%**	**Average total book EAD–weighted EL 2,15%**

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



DISTRIBUTION OF TOTAL EAD OF NEDBANK LIMITED

EAD distribution by NGR (ie PD only)

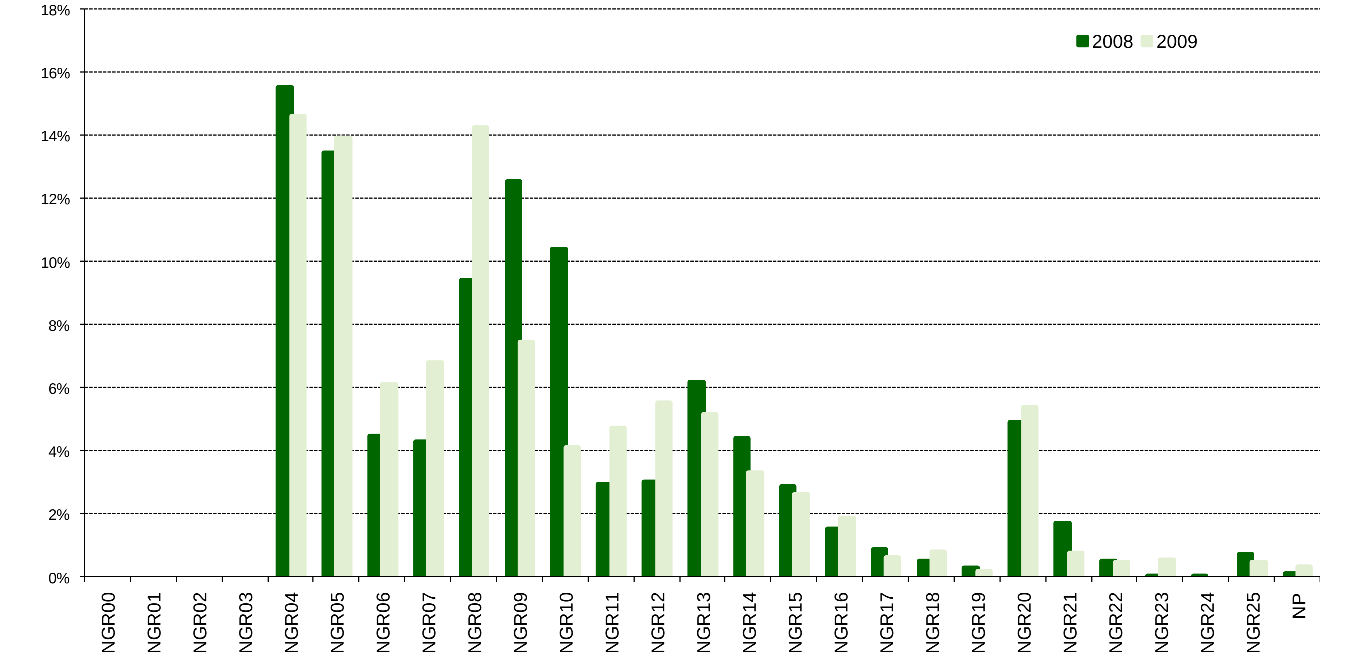


Average performing book EAD–weighted PD 2,43%	**Average performing book EAD–weighted dLGD 26,80%**	**Average performing book EAD–weighted dEL 0,62%**
Average total book EAD–weighted PD 6,11%	**Average total book EAD–weighted dLGD 26,71%**	**Average total book EAD–weighted dEL 1,68%**

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

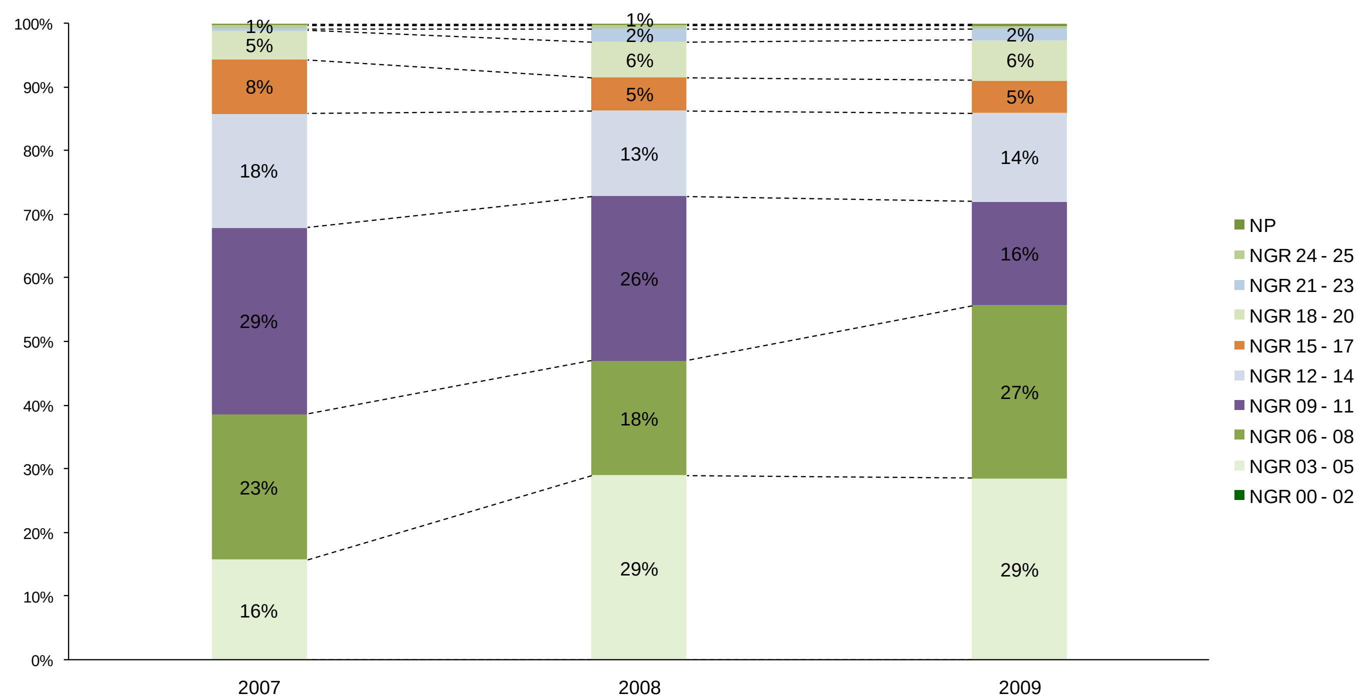
DISTRIBUTION OF NEDBANK LIMITED'S EAD BY SELECTED MAJOR BASELL II ASSET CLASS
ASSET CLASS: CORPORATE

EAD distribution by NGR (ie PD only)



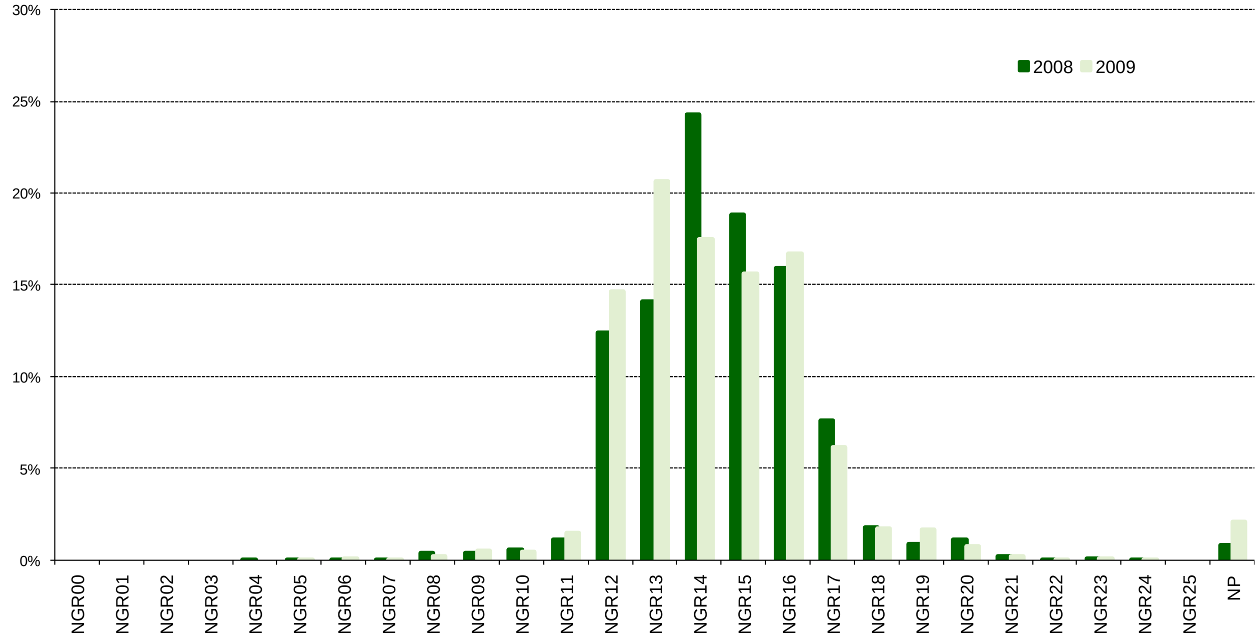
Average performing book EAD–weighted PD 1,13%	**Average performing book EAD–weighted dLGD 29,76%**	**Average performing book EAD–weighted dEL0,31%**
Average total book EAD–weighted PD 1,46%	**Average total book EAD–weighted dLGD 29,81%**	**Average total book–weighted dEL 0,39%**

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



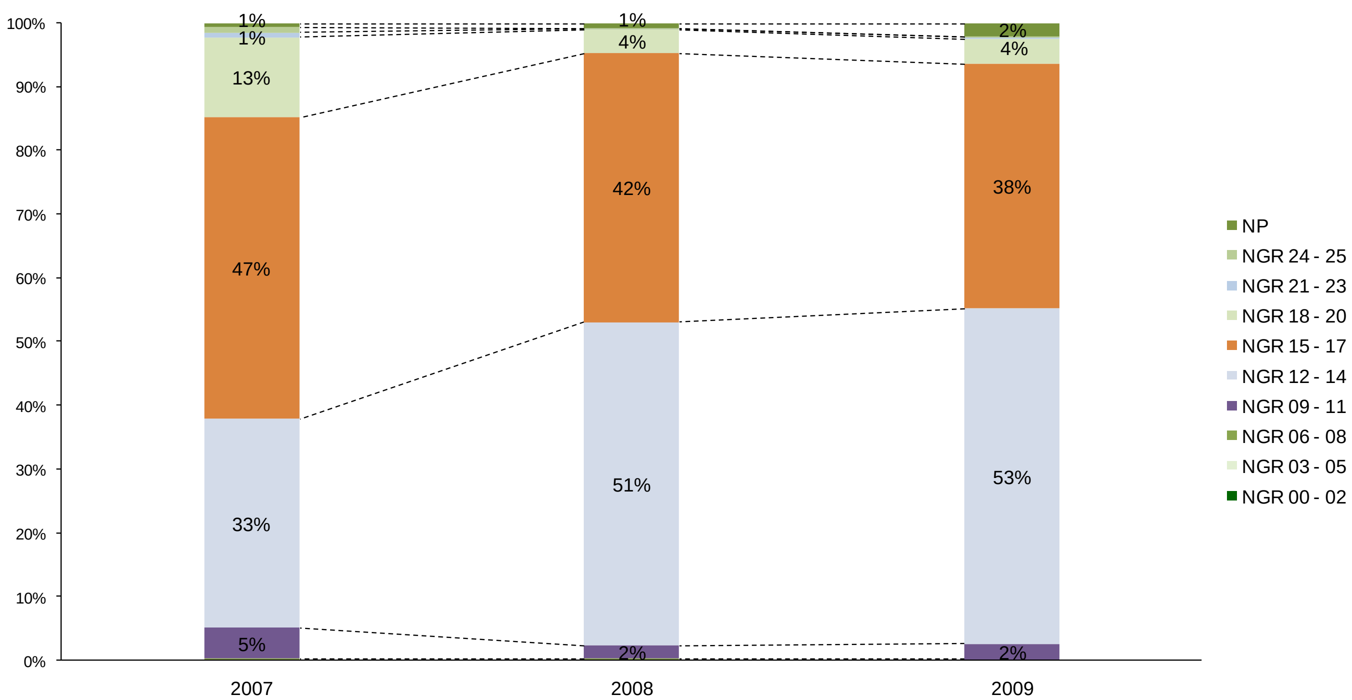
ASSET CLASS: SPECIALISED LENDING – INCOME PRODUCING REAL ESTATE

EAD distribution by NGR (ie PD only)



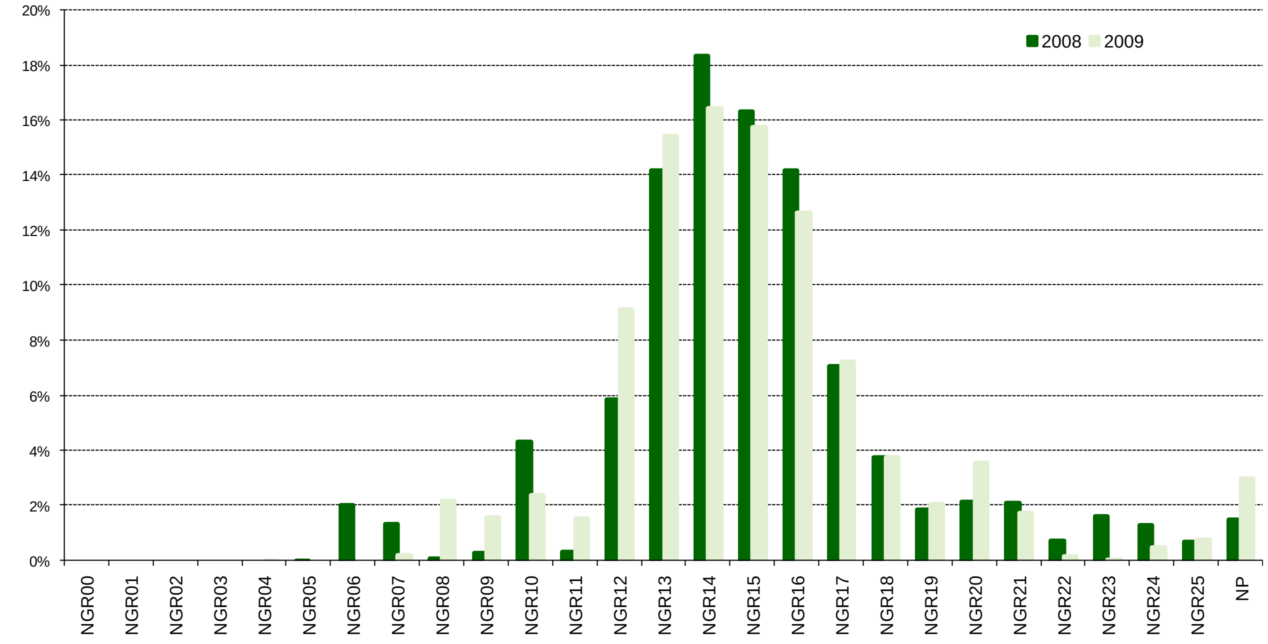
Average performing book EAD–weighted PD 1,29%	**Average performing book EAD–weighted dLGD 19,15%**	**Average performing book EAD–weighted dEL 0,25%**
Average total book EAD–weighted PD 3,35%	**Average total book EAD–weighted dLGD 19,31%**	**Average total book EAD–weighted dEL 0,82%**

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



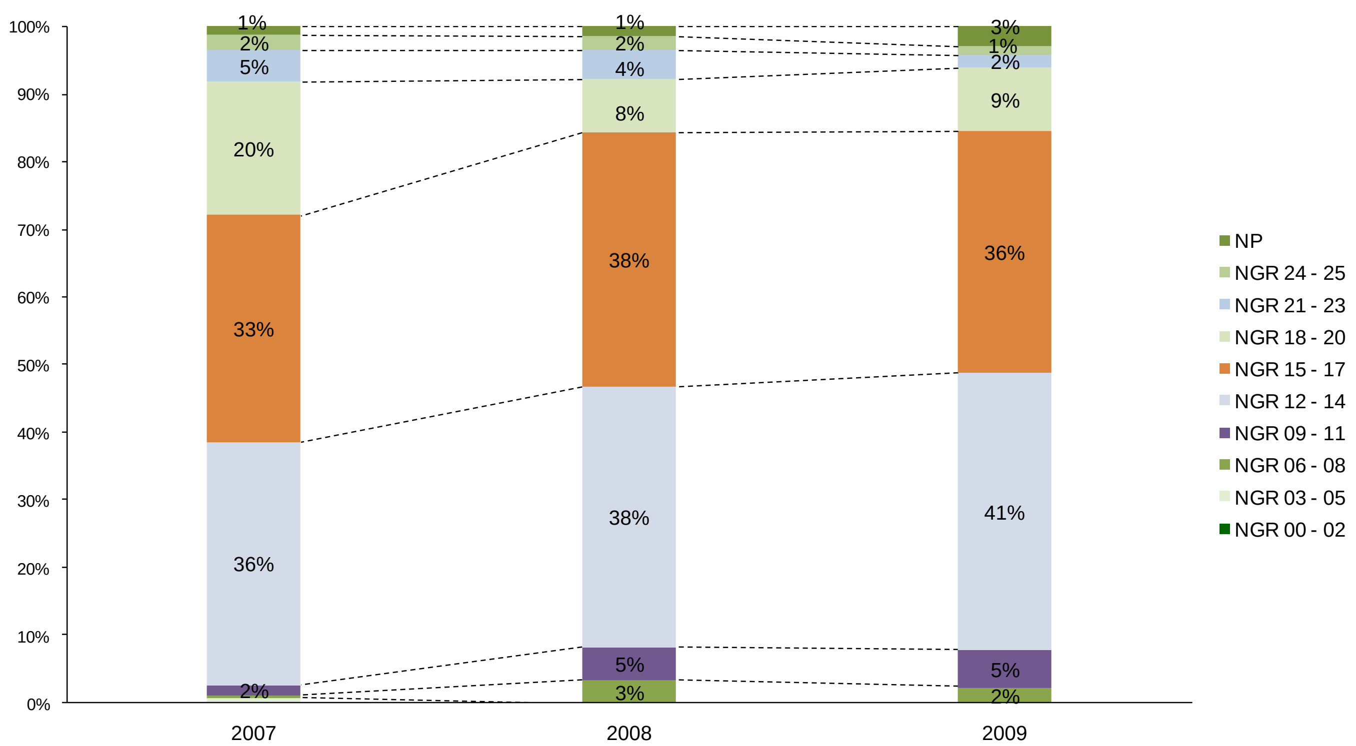
ASSET CLASS: SME - CORPORATE

EAD distribution by NGR (ie PD only)



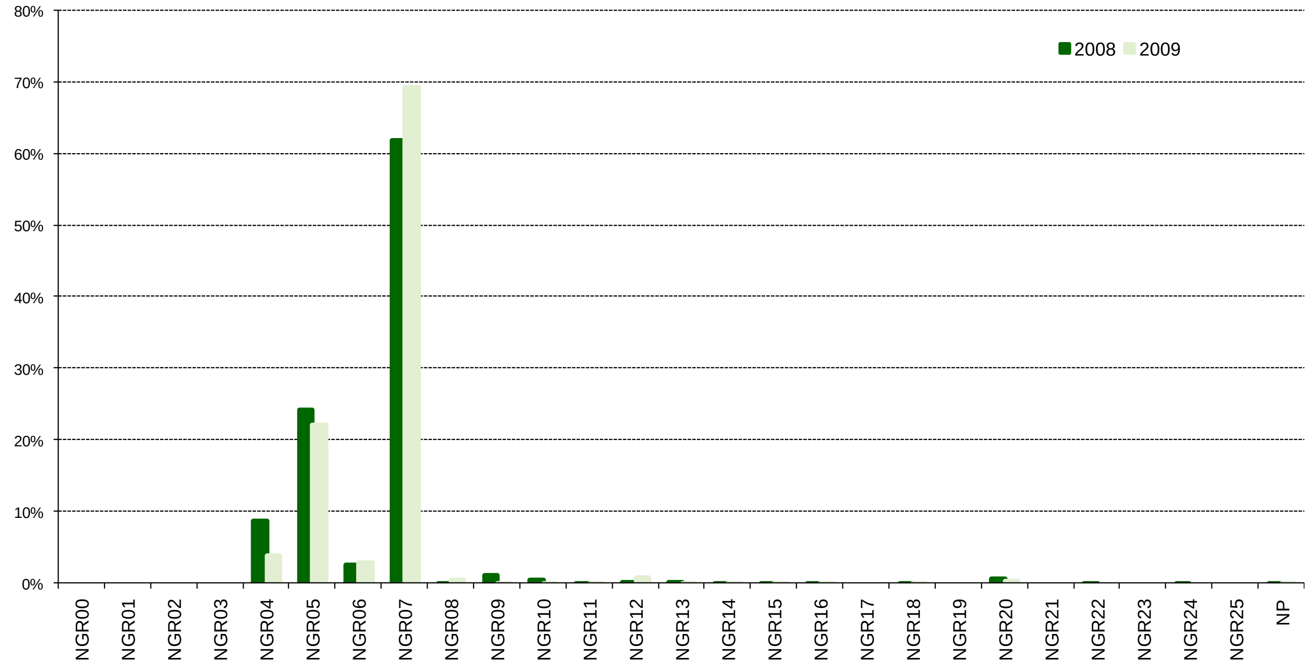
Average performing book EAD–weighted PD 2,14%	**Average performing book EAD–weighted dLGD 26,94%**	**Average performing book EAD–weighted dEL 0,58%**
Average total book EAD–weighted PD 5,07%	**Average total book EAD–weighted dLGD 27,09%**	**Average total book EAD–weighted dEL 1,27%**

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



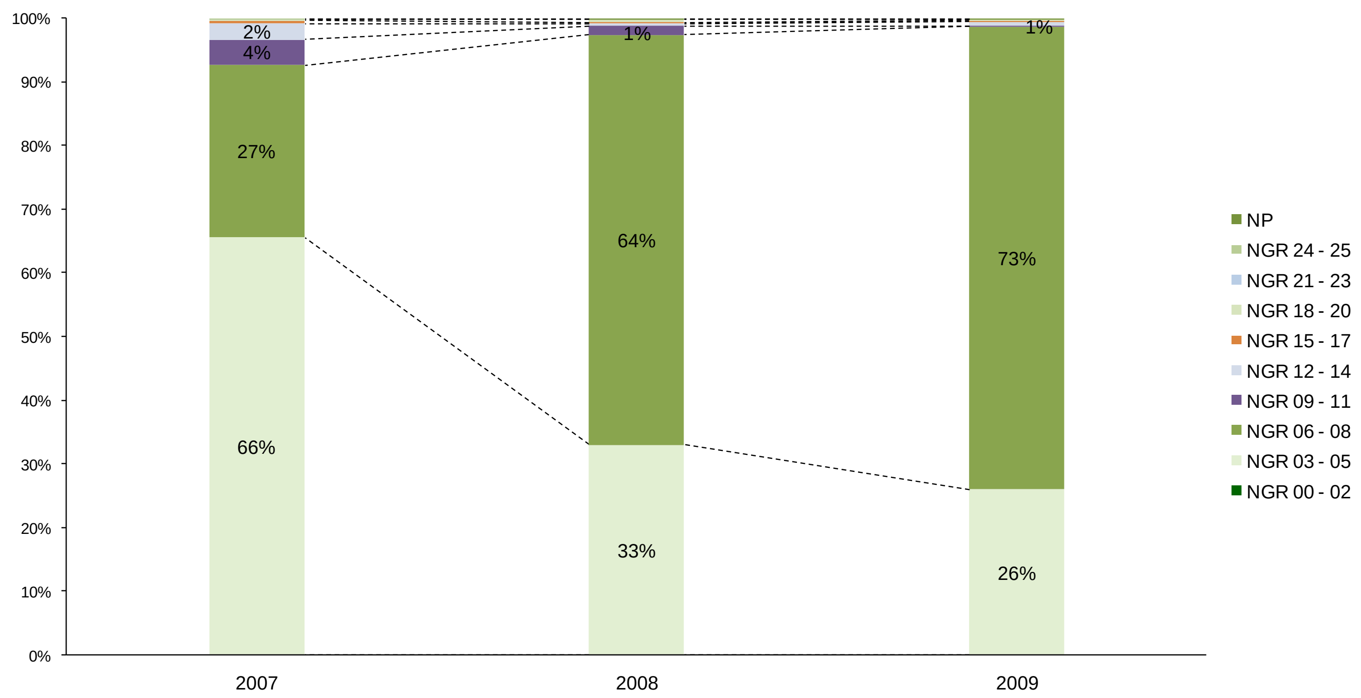
ASSET CLASS: BANKS

EAD distribution by NGR (ie PD only)



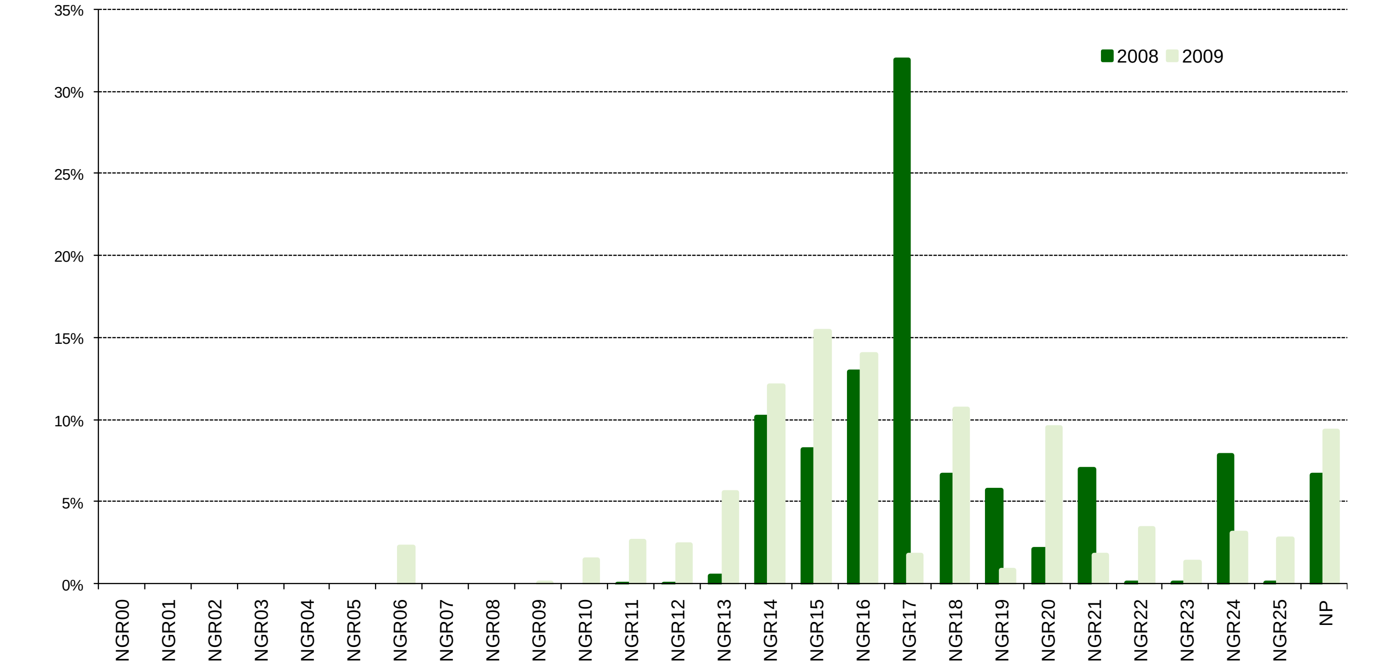
Average performing book EAD–weighted PD 0,09%	**Average performing book EAD–weighted dLGD 41,64%**	**Average performing book EAD–weighted dEL 0,04%**
Average total book EAD–weighted PD 0,09%	**Average total book EAD–weighted dLGD 41,64%**	**Average Total book EAD–weighted dEL 0,04%**

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



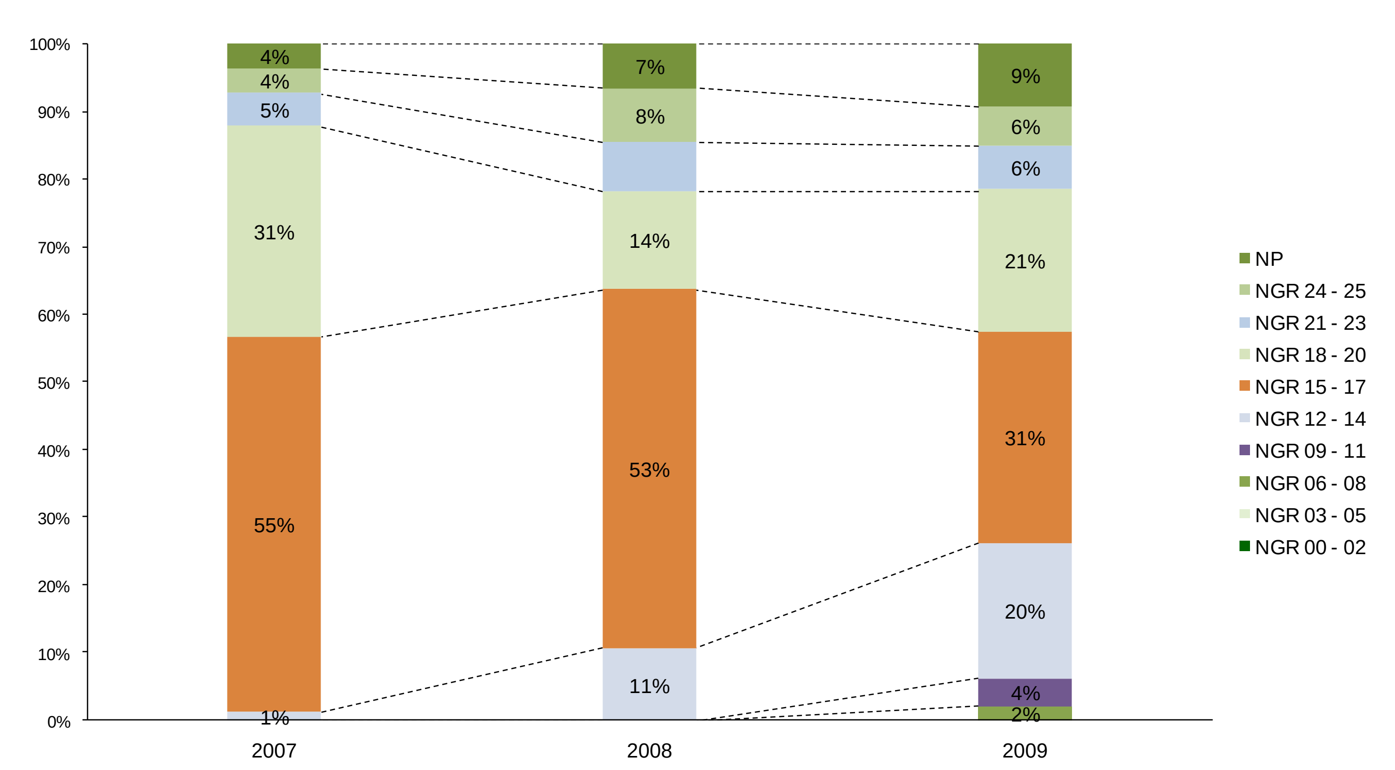
ASSET CLASS: RETAIL MORTGAGES

EAD distribution by NGR (ie PD only)



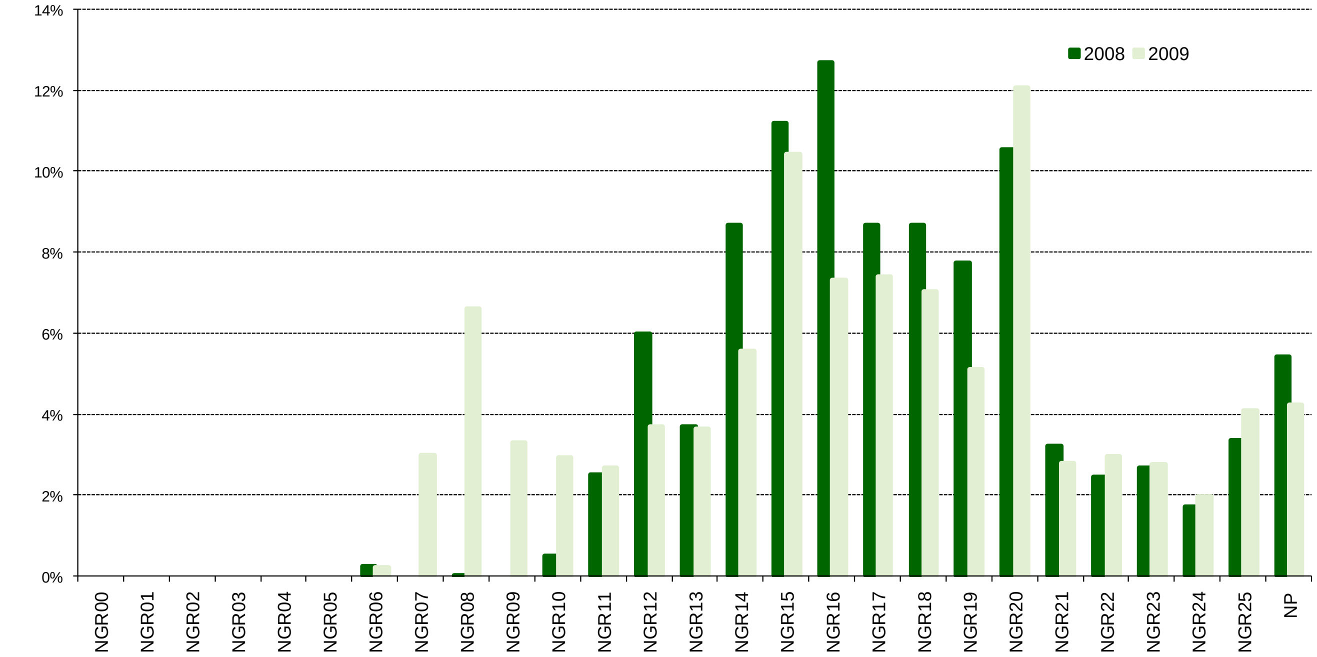
Average performing book EAD–weighted PD 5,23%	**Average performing book EAD–weighted dLGD 15,54%**	**Average performing book EAD–weighted dEL 0,79%**
Average total book EAD–weighted PD 14,02%	**Average total book EAD–weighted dLGD 15,54%**	**Average total book EAD–weighted dEL 2,62%**

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



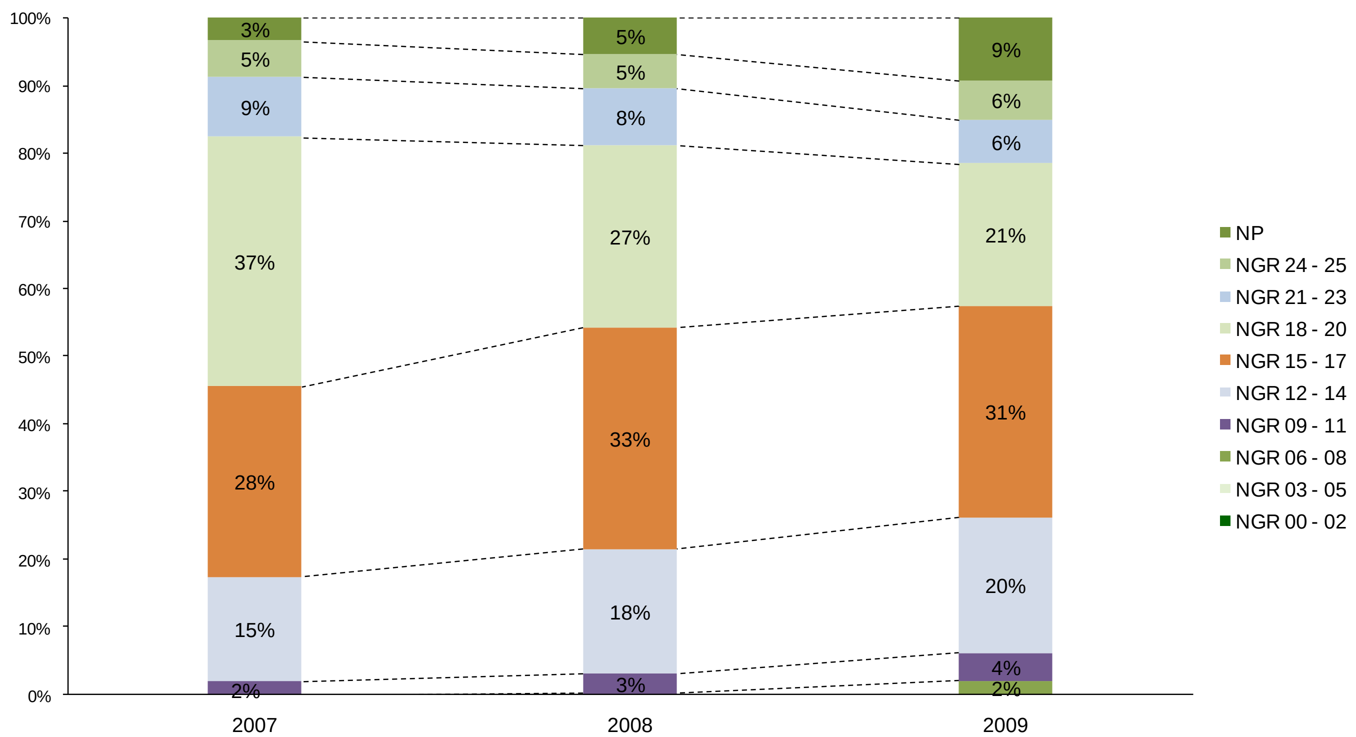
ASSET CLASS: RETAIL REVOLVING CREDIT

EAD distribution by NGR (ie PD only)



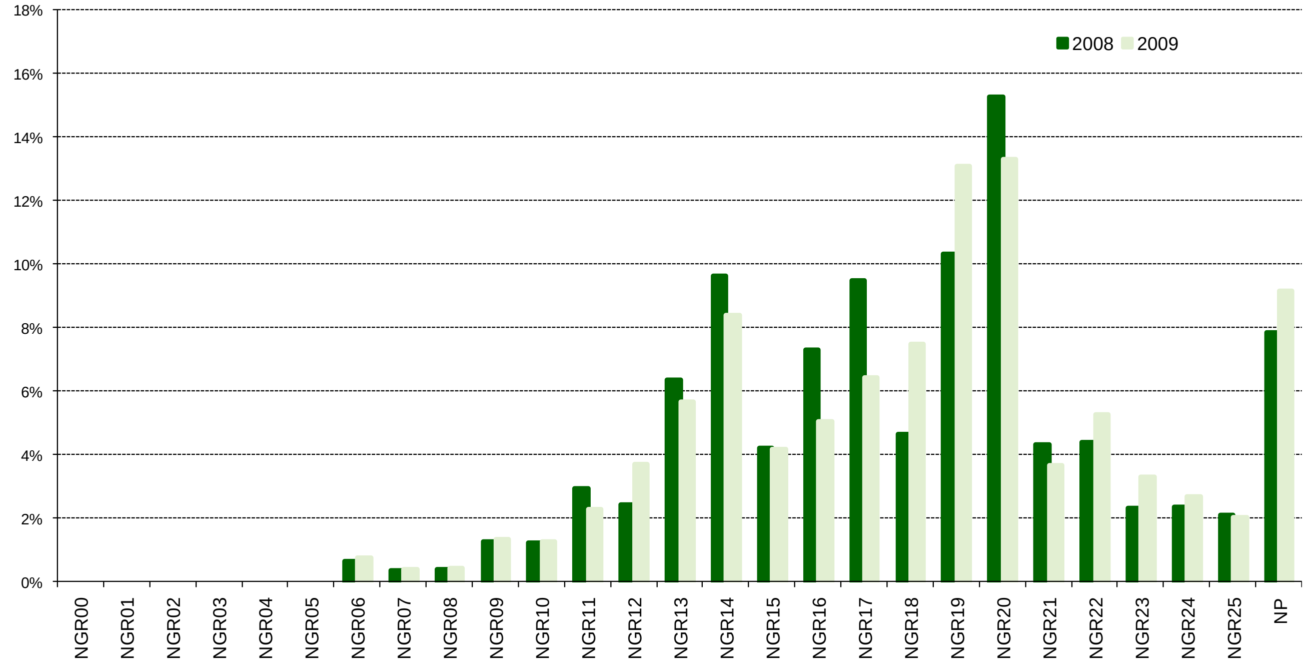
Average performing book EAD–weighted PD 5,76%	**Average performing book EAD–weighted dLGD 68,32%**	**Average performing book EAD–weighted dEL 4,02%**
Average total book EAD–weighted PD 9,75%	**Average total book EAD–weighted dLGD 68,72%**	**Average total book EAD–weighted dEL 7,90%**

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



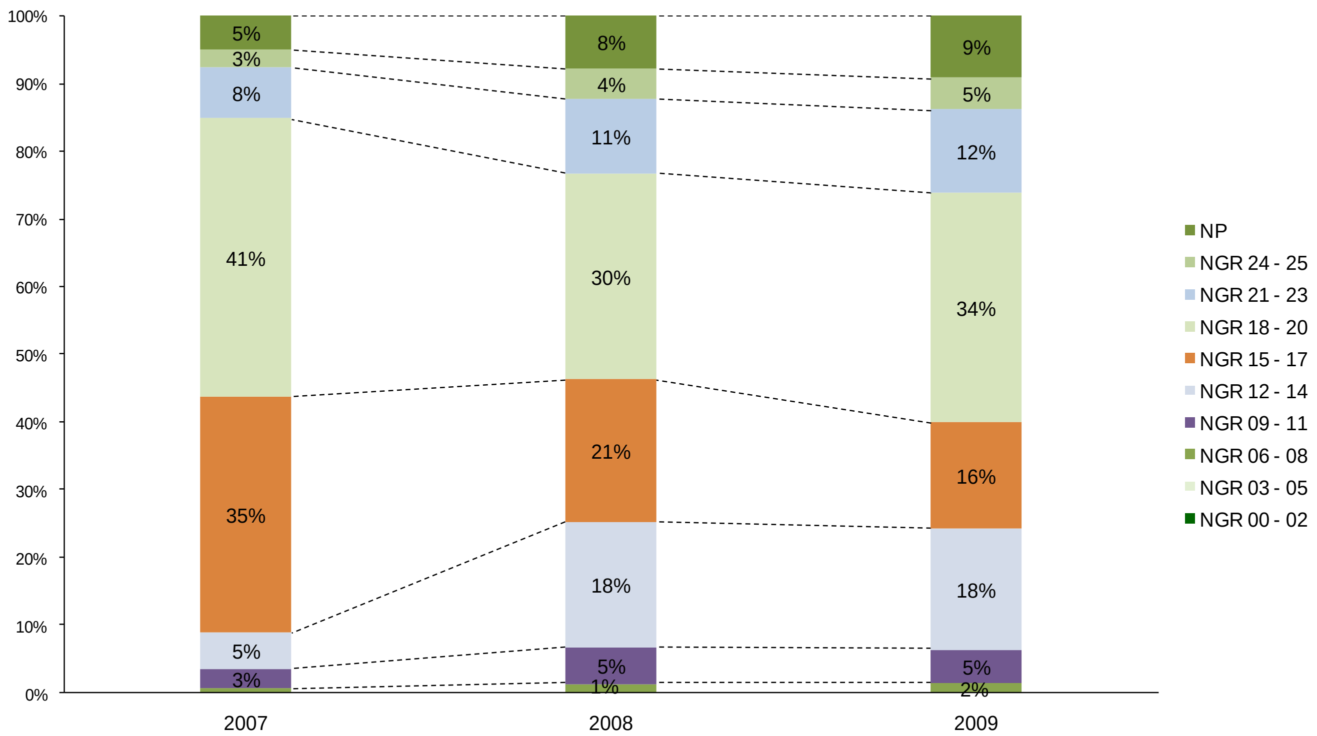
ASSET CLASS: RETAIL - OTHER

EAD distribution by NGR (ie PD only)



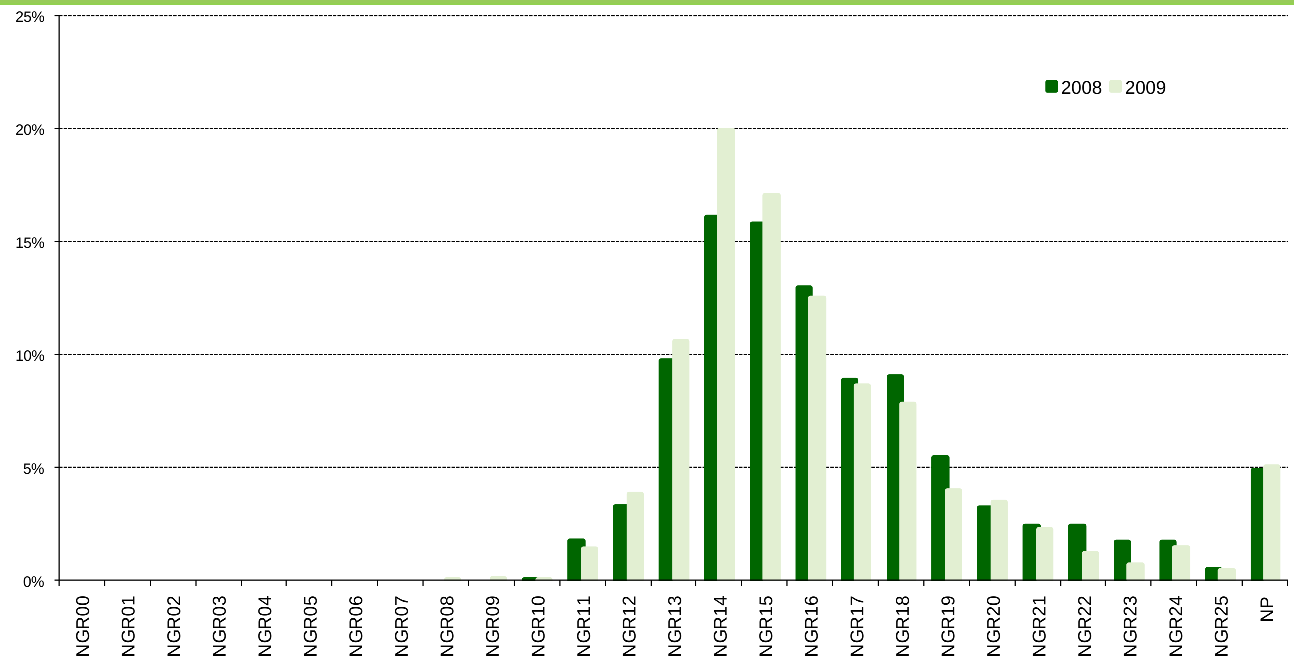
Average performing book EAD–weighted PD 6,38%	**Average performing book EAD–weighted dLGD 47,61%**	**Average performing book EAD–weighted dEL 3,29%**
Average total book EAD–weighted PD 14,97%	**Average total book EAD–weighted dLGD 47,43%**	**Average total book EAD–weighted dEL 8,37%**

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



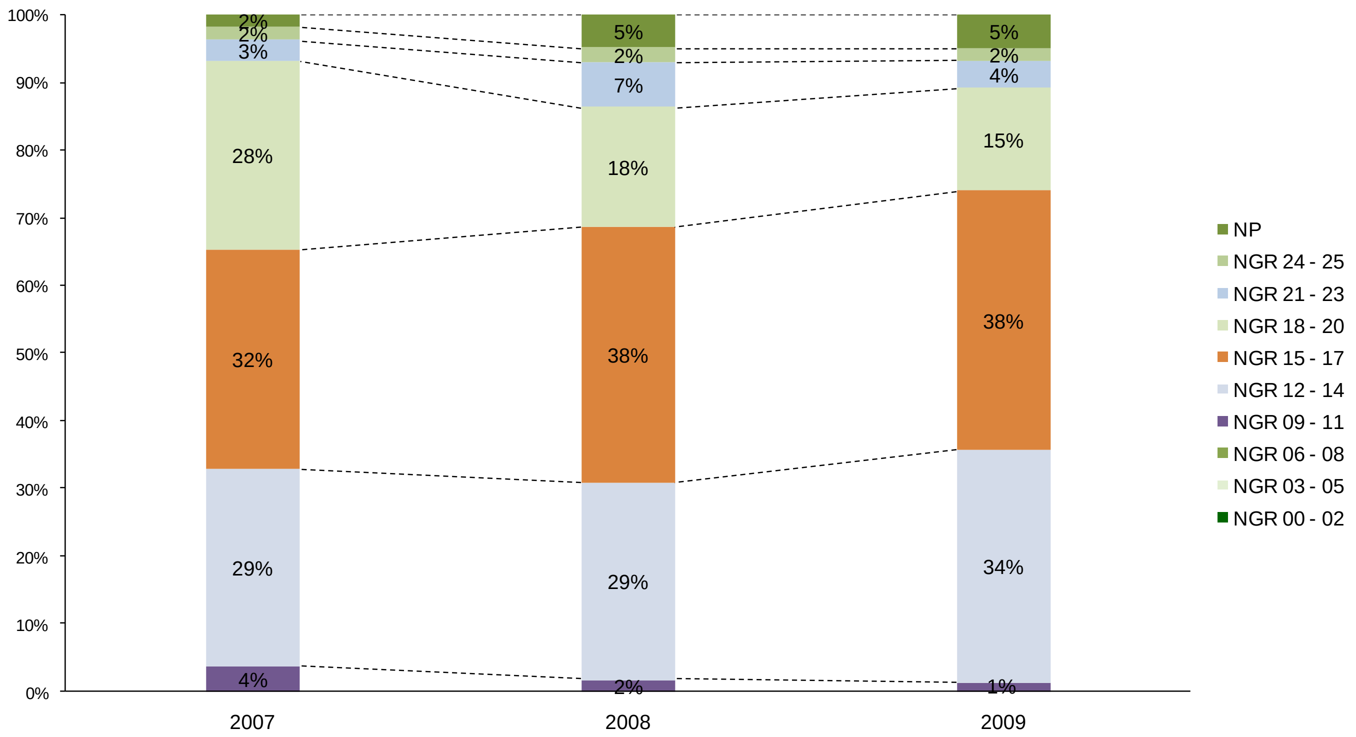
ASSET CLASS: SME - RETAIL

EAD distribution by NGR (ie PD only)



Average performing book EAD–weighted PD 2,92%	**Average performing book EAD–weighted dLGD 29,08%**	**Average performing book EAD–weighted dEL 0,93%**
Average total book EAD–weighted PD 7,81%	**Average total book EAD–weighted dLGD 29,46%**	**Average total book EAD–weighted dEL 3,34%**

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



Counterparty credit risk

Counterparty credit limits are set at an individual counterparty level and approved within the Group Credit Risk Management Framework. Counterparty credit exposures are reported and monitored at 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 our 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 Basel II Current Exposure Method (CEM) for counterparty credit risk. Economic capital calculations also currently utilise the Basel II CEM results as input in the determination of credit economic capital.

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

OTC derivative products	Notional value	Gross positive fair value	Notional value	Gross positive fair value
Rm	**2009**		2008	
Credit default swaps	**2 272**	**8**	2 104	2
Equities		**1 155**	4 497	778
Forex and gold	**189 601**	**6 437**	215 724	14 807
Interest rates	**358 738**	**5 470**	324 480	8 598
Other commodities	**45**	**302**	13	599
Precious metals except gold	**2**	**56**	4	36
Total	**550 658**	**13 428**	546 822	24 820

OTC derivative products	Gross positive fair value	Current netting benefits	Netted current credit exposure (pre-mitigation)	Collateral amount	Netted current credit exposure (post-mitigation)	EAD value	Risk-weighted exposure
Rm							
2009	**13 428**	**7 028**	**6 963**	**779**	**6 443**	**9 566**	**3 018**
2008	24 820	13 272	10 581	1 796	8 996	12 861	3 138

OTC derivatives per NGR (PD) band	Notional value	Gross positive fair value	EAD value	Notional value	Gross positive fair value	EAD value
Rm		**2009**			2008	
NGR 03*	**16 774**	**718**	**922**	12 741	241	236
NGR 04	**76 202**	**1 377**	**1 735**	187 234	8 198	2 187
NGR 05	**217 937**	**4 792**	**2 261**	239 191	10 601	5 114
NGR 06	**106 964**	**2 011**	**585**	33 544	1 885	990
NGR 07	**51 229**	**1 406**	**611**	23 213	896	968
NGR 08	**19 377**	**297**	**316**	2 846	123	142
NGR 09	**8 464**	**610**	**645**	4 216	163	181
NGR 10	**3 859**	**100**	**158**	10 093	909	994
NGR 11	**5 953**	**137**	**162**	4 154	162	178
NGR 12	**8 141**	**152**	**201**	1 878	108	121
NGR 13	**3 003**	**94**	**127**	2 561	145	116
NGR 14	**2 283**	**100**	**117**	2 955	142	168
NGR 15	**10 320**	**296**	**372**	3 566	123	143
NGR 16	**1 087**	**195**	**124**	5 861	109	201
NGR 17	**930**	**31**	**38**	1 546	58	74
NGR 18	**875**	**67**	**35**	797	15	19
NGR 19	**192**	**8**	**10**	135	6	7
NGR 20	**16 460**	**306**	**434**	9 506	367	444
NGR 21	**264**	**596**	**599**	144	3	5
NGR 22	**29**	**1**	**1**	72	539	539
NGR 23	**148**	**6**	**7**	190	15	17
NGR 24	**1**			319	2	6
NGR 25		**123**	**99**	2		
NP	**166**	**5**	**7**	58	10	11
Total	**550 658**	**13 428**	**9 566**	546 822	24 820	12 861

** Nedbank rating scale is from NGR01 to NGR25. Currently there are no NGR01 and NGR02 exposures.*

Securities financing transactions (SFTS) for Nedbank Limited and London branch

SFTs 2009	Gross positive fair value	Collateral value after haircut	Netted current credit exposure (post-mitigation)	EAD value	Risk-weighted exposure
Rm					
Repurchase agreements	**8 026**	**7 557**	**469**	**469**	**40**
Securities lending	**8 567**	**9 208**	**415**	**415**	**27**
Total	**16 593**	**16 765**	**884**	**884**	**67**

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

SFTs per NGR (PD) band	Gross exposure	EAD value	Gross exposure	EAD value
Rm	2009		2008	
NGR03	**467**	**36**	725	27
NGR04	**1 831**	**213**	185	6
NGR05	**9 182**	**293**	5 155	41
NGR06	**2 261**	**145**	729	21
NGR07	**1 157**	**96**	430	13
NGR08	**1 656**	**98**	10	
NGR11	**35**	**2**	82	7
NGR20	**4**	**1**		
Total	**16 593**	**884**	7 316	115

Credit concentration risk

Single-name credit concentration

Our top 20 exposure analysis, in particular the percentage of total group credit economic capital, confirms that Nedbank Group does not have undue single-name credit concentration risk. Nedbank 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.

In the calculation of credit economic capital, the additional capital contributed due to the name concentration is incorporated and therefore explicitly measured within the credit portfolio model. This results in a higher capital charge as a percentage of exposure, if the single exposure adds concentration to the portfolio.

Nedbank Group also conducts stress testing of single-name large exposures, and their potential impact on capital ratios, in our stress and scenario testing in assessing the capital adequacy buffers.

TOP 20 NEDBANK GROUP EXPOSURES (excluding banks and government exposure)			
2009	Internal NGR (PD) Rating	EAD	% of total group credit Ecap
No		Rm	(%)
1	NGR04	4 871	0,02
2	NGR04	4 396	0,17
3	NGR03	3 896	0,02
4	NGR08	3 383	0,23
5	NGR04	3 148	0,10
6	NGR09	3 245	0,24
7	NGR03	3 125	0,02
8	NGR04	2 701	0,01
9	NGR16	2 646	0,35
10	NGR03	2 628	0,00
11	NGR04	2 389	0,02
12	NGR07	2 368	0,08
13	NGR03	2 293	0,01
14	NGR08	2 280	0,14
15	NGR15	2 258	0,64
16	NGR06	2 239	0,10
17	NGR10	2 119	0,05
18	NGR12	2 058	0,28
19	NGR14	2 042	0,59
20	NGR08	1 797	0,12
Total of top 20 exposures		**55 882**	**3,19**
Total group		**597 411**	

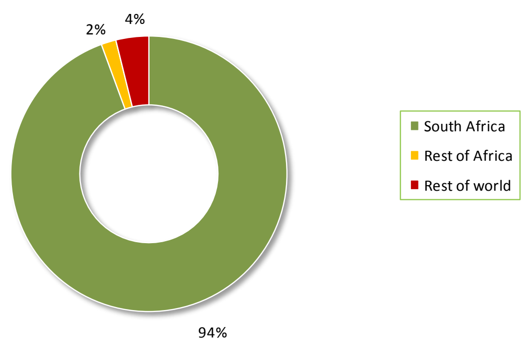
TOP 20 NEDBANK GROUP EXPOSURES (banks only)			
2009	**Internal NGR (PD) rating**	**EAD**	**% of total group credit Ecap**
No		**Rm**	**(%)**
1	NGR05	5 606	0,10
2	NGR05	3 868	0,07
3	NGR05	3 777	0,07
4	NGR05	1 872	0,07
5	NGR04	1 185	0,04
6	NGR05	1 005	0,04
7	NGR06	975	0,05
8	NGR05	917	0,04
9	NGR05	709	0,03
10	NGR05	629	0,02
11	NGR04	627	0,02
12	NGR06	607	0,03
13	NGR06	565	0,03
14	NGR06	556	0,03
15	NGR07	512	0,04
16	NGR07	512	0,04
17	NGR04	512	0,02
18	NGR08	506	0,05
19	NGR04	398	0,02
20	NGR04	392	0,02
Total of top 20 exposures		**25 730**	**0,83**
Total group		**597 411**	

Geographic concentration risk

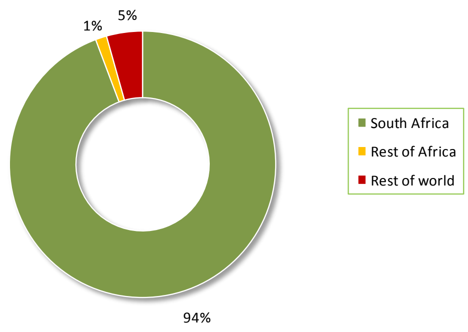
Geographically, almost all of Nedbank Group's credit exposure originates in South Africa (non-SA exposure is approximately 6%).

GEOGRAPHICAL SPLIT OF LOANS AND ADVANCES

2009

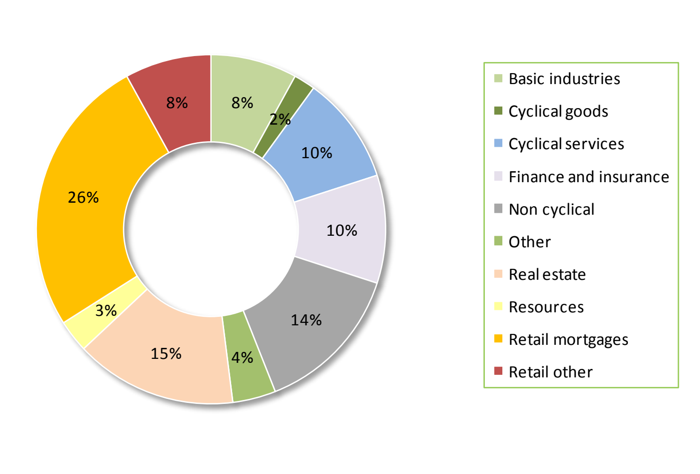
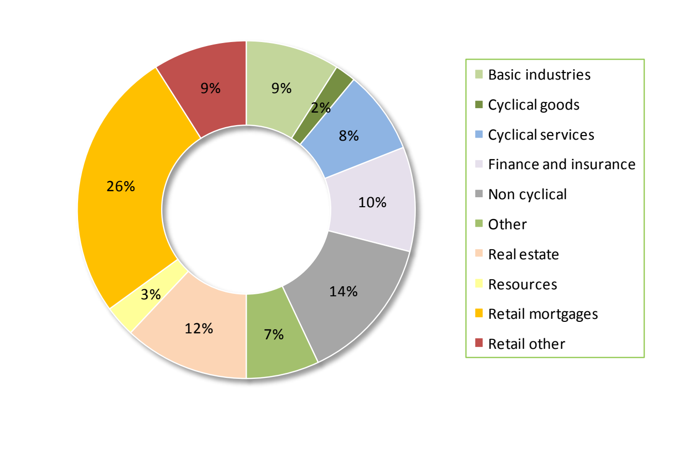


2008



Industry concentration risk

INDUSTRY SPLIT BY EXPOSURE

2009	2008
	

Our credit portfolio modelling combines the industry segmentation of the portfolio and, as part of its calculation of the credit economic capital, accounts for any sectoral concentration inherent in the portfolio.

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

Securitisation risk

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

Nedbank Group has used securitisation primarily as a funding diversification tool and has an established inhouse securitisation team within Nedbank Capital.

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

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 IRB approach for securitisation exposures, thereby ensuring alignment with the methodology adopted across the wider Nedbank Group.

Octane is a securitisation programme of auto loans advanced by Imperial Bank Limited. The inaugural transaction under Octane entailed the securitisation of R2 billion of motor vehicle loans under Octane Series 1. 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 Series 1 has been assigned credit ratings by Fitch and is listed on BESA. The assets of Octane continue to be recognised on the balance sheet of Nedbank Group in terms of IFRS and Octane is consolidated under Nedbank Group.

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

The contraction in the local and international securitisation markets experienced in 2008 continued in 2009. As a result the group did not implement new securitisations as an alternative source of funding over this period. Amidst the difficult external environment, although credit quality deteriorated, all securitisation vehicles continued to perform well and the ratings of the various transactions have been affirmed by the rating agencies and remain stable.

During the last quarter of 2009 arrears levels in GreenHouse exceeded the arrears trigger as a result of the deterioration in underlying asset performance. In the event that the arrears levels continue to exceed the arrears trigger at the first determination date in 2010, no further home loans (other than servicing redraws – ie access facilities on existing GreenHouse loans) can be acquired for as long as the arrears level remains above the arrears trigger level, and all capital repayments will be directed to the noteholders. However, Nedbank Group decided, in the interest of the noteholders, to exercise its discretion and not make further loans available for purchase by GreenHouse from December 2009, rather than waiting until the first determining date in 2010.

With regard to Octane, the transaction has started to repay investors in the normal course, as envisaged in the transaction documents.

The group's securitisation initiatives are overseen by the Group ALCO and the Executive Risk Committee. All securitisation transactions are also subject to the stringent SA Regulatory Securitisation Framework.

From an IFRS accounting perspective the assets transferred to GreenHouse and Octane vehicles continue to be recognised and consolidated in the balance sheet of the group.

On-balance-sheet securitisation exposure

Transaction	Year initiated	Rating agency	Transaction type	Asset type	Assets securitised	Assets outstanding	Amount retained/ purchased	Assets securitised	Assets outstanding	Amount retained/ purchased
Rm						2009			2008	
GreenHouse	2007	Moody's and Fitch	Traditional securitisation	Retail mortgages	**2 000**	**1 973**	**226**	2 000	1 972	226
Octane	2007	Fitch	Traditional securitisation	Auto loans	**1 852**	**1 454**	**312**	2 000	1 781	312
Total					**3 852**	**3 427**	**538**	4 000	3 753	538

Off-balance-sheet securitisation exposure

Transaction	Transaction type	Exposure type	Exposure	
Rm			**2009**	2008
Own transactions				
Synthesis	ABCP conduit	Liquidity facility	**5 824**	7 806
Third parties				
Private Residential Mortgages (Pty) Limited	Securitisation	Liquidity facility	**100**	100
Private Mortgages 2 (Pty) Limited	Securitisation	Liquidity facility	**40**	40
Private Mortgages 2 (Pty) Limited	Securitisation	Redraw facility	**428**	436
Total			**6 392**	8 382

The table below contains a summary of Synthesis.

Transaction	Year initiated	Rating agency	Transaction type	Asset type	Programme size	Conduit size	
Rm						**2009**	2008
Synthesis	2004	Moody's and Fitch	ABCP conduit	Asset-backed securities, corporate term loans and bonds	**15 000**	**5 820**	7 801
Total					**15 000**	**5 820**	7 801

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

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

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

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

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 ALM section that follows on page 116.

Market risk strategy, governance and policy

A 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 and Executive Risk Committee (Group ALCO), which is responsible for ensuring that the impact of market risks is being effectively managed and reported on throughout 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. The committee is held monthly and is chaired by the Head of Group Market Risk Monitoring (GMRM). Attendees include the Chief Risk Officer, the Chief Financial Officer, risk managers from the cluster, the

cluster's Managing Executive and Executive Head of Risk as well as representatives from Group Market Risk Monitoring.

- 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 Chief Risk Officer, Chief Financial Officer, Managing Executive and Executive Head of Risk of the relevant business cluster as well as a representative from GMRM.

The board ultimately approves the market risk appetite and related limits for both the banking book (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 formally approved securities and derivative products. Products and product strategies that are new to the business undergo a new-product review and approval process to ensure that their market risk characteristics are understood and can be properly incorporated into the risk management process. The process is designed to ensure that all risks, including market, credit (counterparty), operational, legal, tax 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 is adequately capitalised. In terms of our economic capital, the capital requirement is based on value-at-risk (VaR) trading limits, which is a conservative approach as limit utilisation is generally moderate. From a regulatory capital perspective the standardised approach is used, which is more conservative as it does not take any diversification into account. In addition to VaR, stress testing is applied on a daily basis to identify exposure to extreme market moves.

Trading 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 worldclass risk management environment. During 2010 Nedbank Group intends to apply to the SA Reserve Bank (SARB) for approval to use the Internal Model Approach for regulatory market risk measurement.

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 policy 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, currency rates and credit spreads. A description of each market risk factor category is set out below:

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

Most of Nedbank Group's trading activity is executed from Nedbank Capital. During 2009 it included market-making and 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, senior management uses a number of quantitative measures to manage the exposure to market risk. These measures include:

- risk limits based on a portfolio measure of market risk exposure referred to as value at risk (VaR), including expected tail loss; and
- scenario analyses, stress tests and other analytical tools that measure the potential effects on the trading revenue of various market events.

The material risks identified by these processes are summarised in reports produced by the Market Risk Department and which 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 one-day 99% 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 historical data to estimate VaR. One year of historical data is used in the calculation. Some of the considerations that should be taken into account when reviewing the VaR numbers are the following:

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

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

Trading market risk profile

The tables below reflect the VaR statistics for the Nedbank Group trading book activities for 2008 and 2009.

GROUP TRADING BOOK VAR FOR 2009(i)

Rm	Historical VaR (99%, one-day) by risk type			
Risk categories	**Average**	**Minimum(ii)**	**Maximum(ii)**	**Year-end**
Foreign exchange	4,1	1,0	10,3	3,7
Interest rate	16,9	7,2	28,7	7,4
Equity	6,3	2,5	13,3	3,8
Credit	6,0	2,5	10,9	3,2
Commodity	0,5		2,4	1,2
Diversification (iii)	(12,5)			(6,0)
Total VaR exposure	**21,3**	**9,9**	**33,1**	**13,3**

GROUP TRADING BOOK VAR FOR 2008(i)

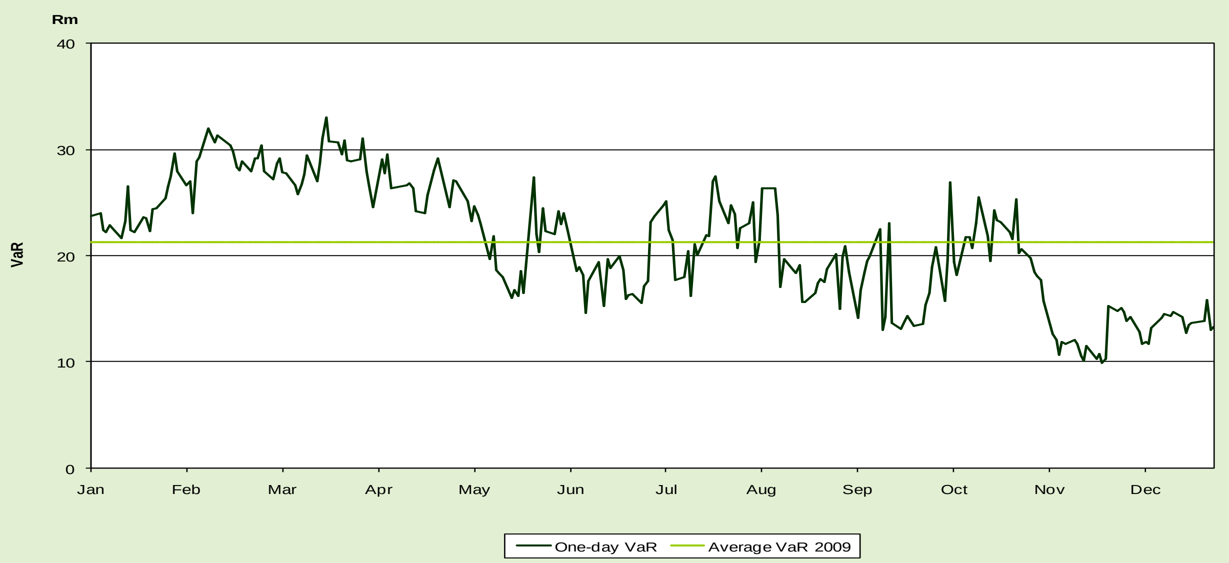
Rm	Historical VaR (99%, one-day) by risk type			
Risk categories	**Average**	**Minimum(ii)**	**Maximum(ii)**	**Year-end**
Foreign exchange	6,1	2,3	20,1	3,4
Interest rate	13,8	7,4	25,0	19,3
Equity	7,8	3,3	21,2	6,5
Credit	6,2	3,4	8,7	6,6
Diversification (iii)	(14,2)			(11,8)
Total VaR exposure	**19,7**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

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

Nedbank Group's trading market risk exposure expressed as average daily VaR increased by 8,1% from R19,7 million to R21,3 million. The increase was mainly due to an increase in exposure to the interest rate markets in 2009.

The graph below illustrates the daily VaR for the period 1 January 2009 to 31 December 2009. Nedbank Group remained within the approved risk appetite and the VaR limits allocated by the board. The daily VaR for the second half of 2009 decreased as the financial markets stabilised.

VAR UTILISATION FOR 2009
(99%, ONE-DAY VAR)

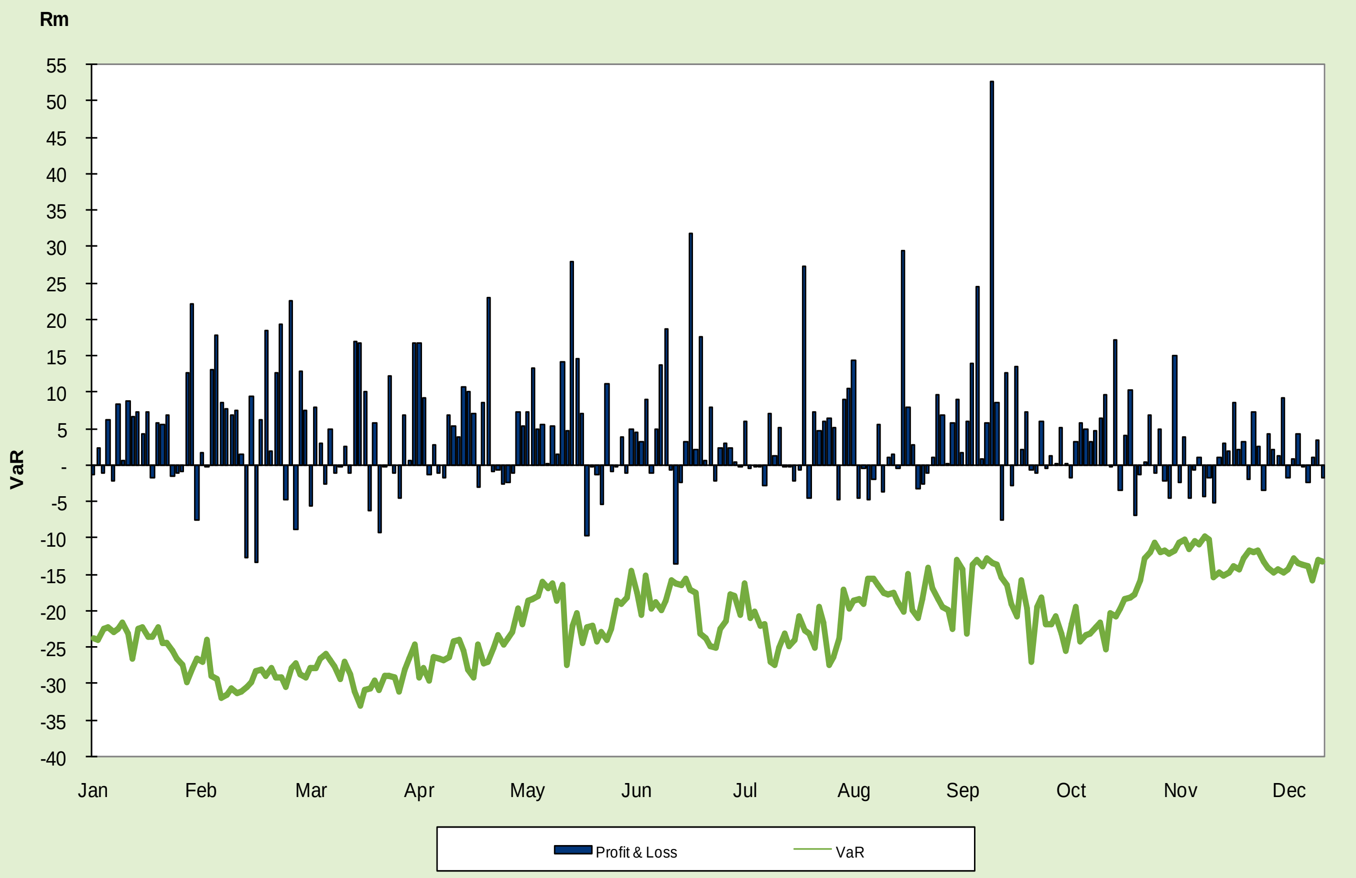


The risk appetite within all the risk factors remained largely unchanged, with foreign exchange and interest rate activities again producing consistent revenue.

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

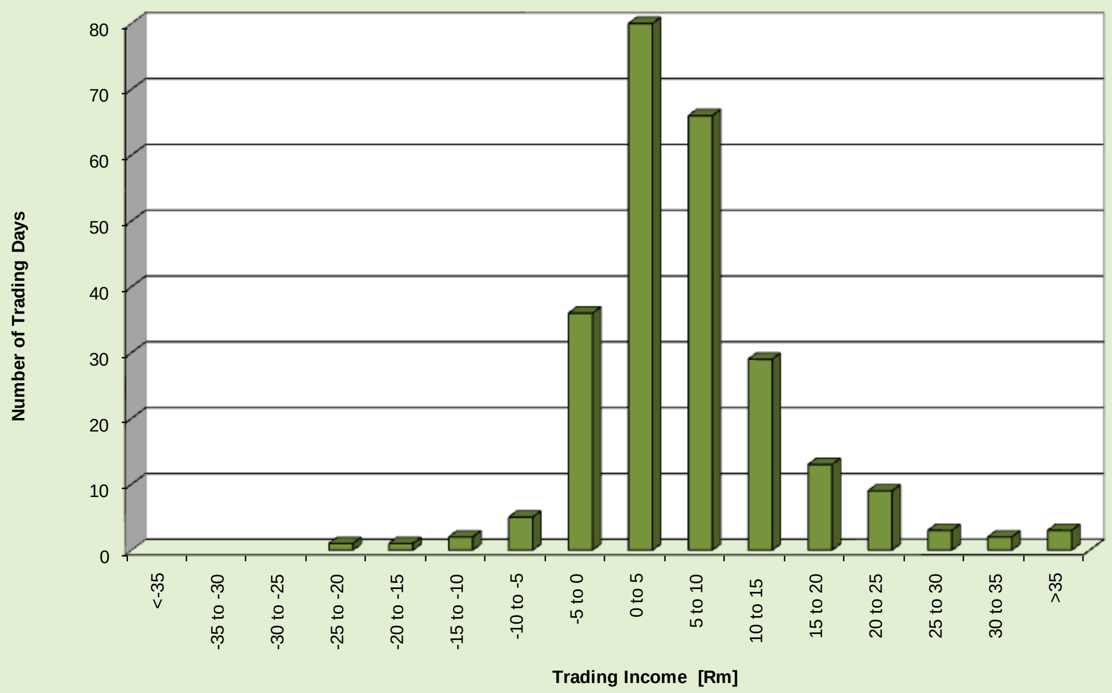
Nedbank Group used a holding period of one day with a confidence level of 99%, and had no backtesting exceptions for 2009. This suggests that VaR, as currently implemented, has been a conservative measure of the potential net revenue variability on the daily trading activities.

VAR PROFIT AND LOSS FOR 2009



The following histogram illustrates the distribution of daily revenue during 2009 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 205 days out of a total of 250 days in the trading businesses. The average daily trading revenue generated for 2009 was R6,7 million.

ANALYSIS OF TRADING REVENUE FOR 2009



Trading market risk stress testing

Nedbank Capital uses a number of stress scenarios to measure the impact on portfolio values of extreme moves in markets, based on historical experience as well as hypothetical scenarios. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk, reflecting the decreased liquidity that frequently accompanies market shocks. In the case where certain positions are illiquid and VaR may not be the most appropriate measure of risk, stress tests are used to supplement VaR and more rigorous stress tests are used to calculate the potential exposure. Stress test results are reported daily to senior management and monthly to the Trading Risk Committee and Group ALCO.

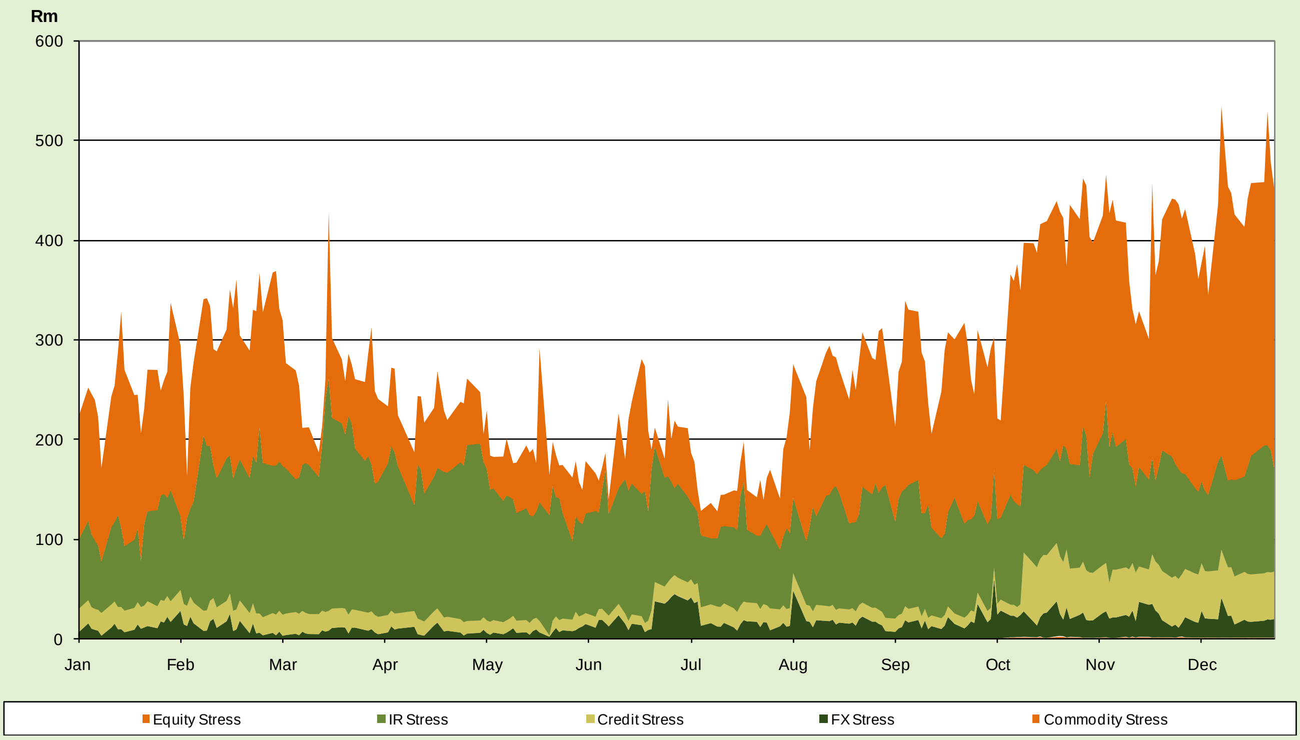
RISK FACTORS

Rm	Average	High	Low	Year-end
Foreign exchange stress	15	60	2	**19**
Interest rate stress	113	233	46	**104**
Equity position stress	129	351	15	**281**
Credit spread stress	24	59	2	**48**
Commodity stress	1	2		**1**
Overall	282	535	128	**453**

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

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 individual trader level right through to a group level view.

RISK FACTORS FOR 2009



Revisions to the Basel II Framework

In the Revisions to the Basel II Framework published by the Basel Committee in July 2009, 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 used 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 table below is the comparison of VaR, using three different calculations at 31 December 2009. The three different calculations are historical VaR, extreme tail loss (measures the expected losses in the tail of the distribution) and stressed VaR, using a volatile historical data period. A 99% confidence level and one-day holding period was used for all the calculations.

COMPARISON OF TRADING VAR

2009	Historical VaR 99% (one-day) Rm	Extreme tail loss 99% (one-day) Rm	Stress VaR 99% (one-day) Rm
Foreign exchange	3,7	4,2	4,5
Interest rates	7,4	12,1	12,5
Equities	3,8	5,7	6,5
Credit	3,2	3,7	3,8
Commodities	1,2	1,3	1,6
Diversification	(6,0)	(10,8)	(9,5)
Total VaR exposure	**13,3**	**16,2**	**19,4**

Trading market risk under the Standardised Approach for regulatory capital

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

TRADING CAPITAL REQUIREMENT BY RISK FACTOR FOR 2009 DOMESTIC AND FOREIGN OPERATIONS

Rm	Average	High	Low	Year-end
Interest rate risk	**354**	**382**	**323**	**333**
Equity position risk	**32**	**54**	**9**	**11**
Foreign exchange risk	**15**	**33**	**7**	**26**
Commodities risk	**29**	**45**	**23**	**28**
Capital requirement	**430**	**486**	**380**	**398**

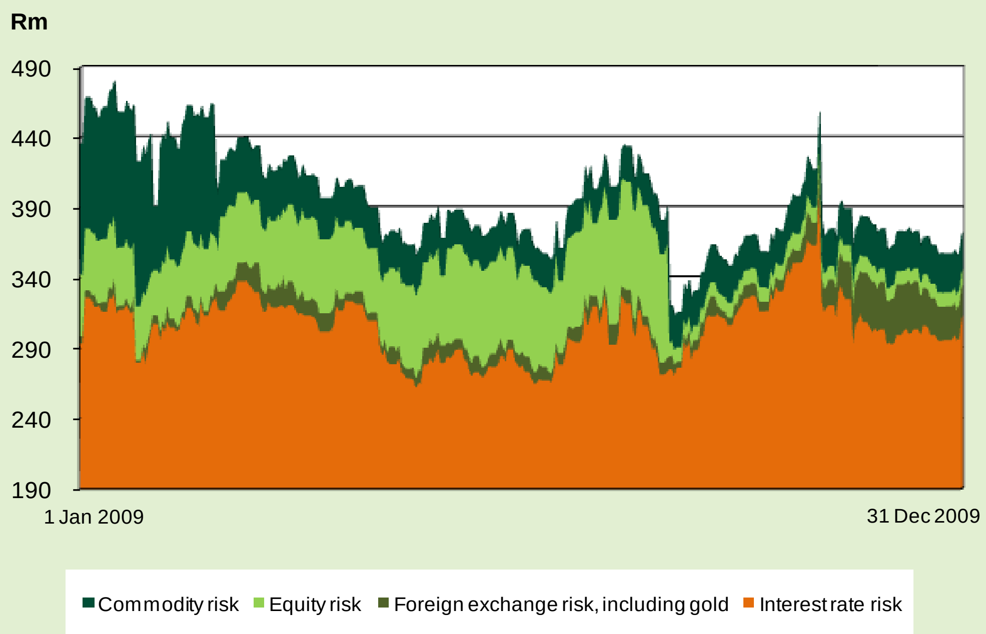
TRADING CAPITAL REQUIREMENT BY RISK FACTOR FOR 2008 DOMESTIC AND FOREIGN OPERATIONS

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

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

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

DOMESTIC TRADING CAPITAL REQUIREMENT BY RISK FACTOR FOR 2009



Equity risk (investment risk) in the banking book

The total equity portfolio for investment risk is R3 901 million (2008: R3 779 million). R2 947 million (2008: R2 716 million) is held for capital gain, while the rest is mainly strategic investments.

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

Investments	Publicly listed		Privately held		Total	
Rm	**2009**	2008	**2009**	2008	**2009**	2008
Fair value disclosed in balance sheet (excluding associates and joint ventures)	**485**	525	**2 491**	2 087	**2 976**	2 612
Fair value disclosed in balance sheet (including associates and joint ventures)	**485**	525	**3 416**	3 254	**3 901**	3 779

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

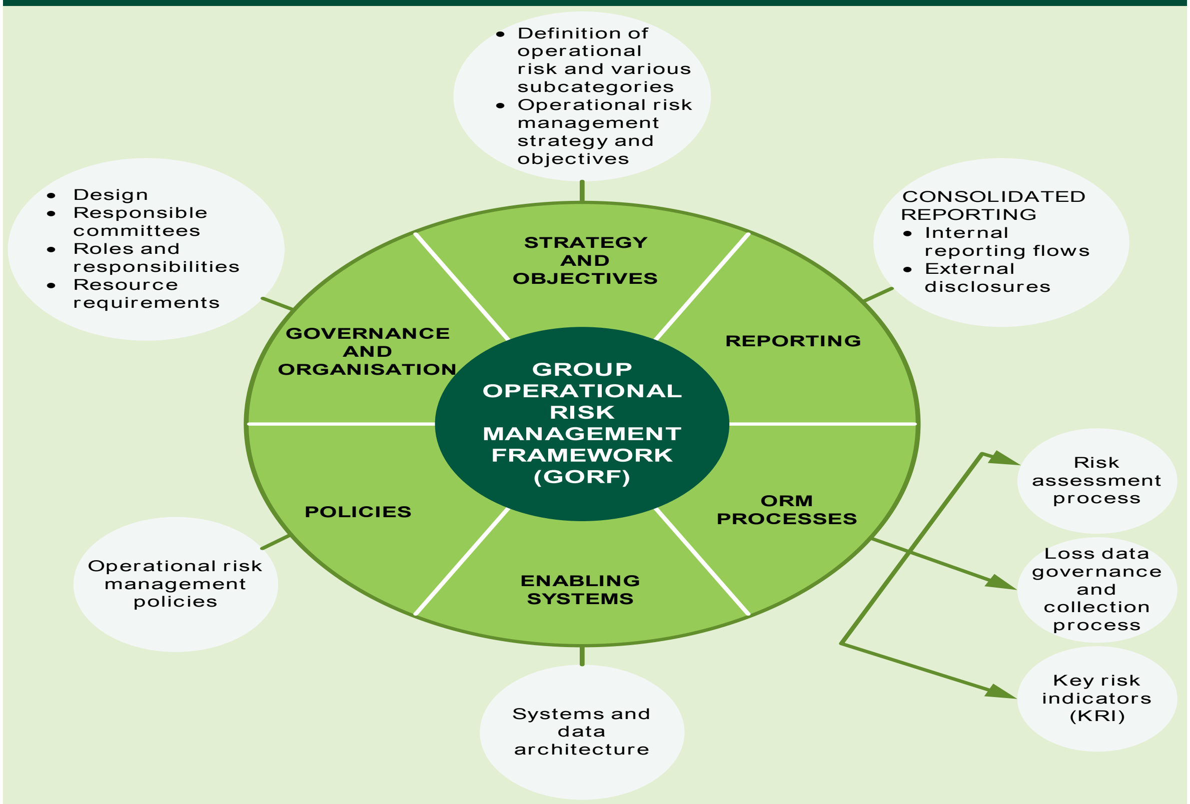
Operational risk

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

Operational risk strategy, governance and policy

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

OVERVIEW OF NEDBANK GROUP'S OPERATIONAL RISK MANAGEMENT FRAMEWORK



Business management is responsible for the identification, management, monitoring and reporting of operational risk. Operational risk is reported and monitored at the divisional enterprisewide risk committees (ERCOs) and significant operational risks are reported to the board's Group Risk and Capital Management Committee. Operational risk officers, who are tasked with coordinating the implementation and maintenance of the operational risk management processes and GORF in the business, support management in the execution of its duties.

Group Operational Risk Management (GORM) Division, which is a central operational risk management function within the Group Risk cluster, executes its function in line with the Three Lines of Defence Risk Management Model. 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. GORM also champions the implementation of the Basel II requirements and international best practices for operational risk.

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

The specialist operational risk functions include the following:

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

Nedbank Group considers financial crime to be a major operational risk that leads to significant losses. For this reason the group pursues a vigorous policy of mitigating this risk through the following measures:

- pursuance of a zero-tolerance policy in respect of staff dishonesty;
- proactive identification and prevention of criminal acts against the group;
- effective and comprehensive investigation and recovery of losses; and
- cooperation with government and industry roleplayers to ensure the successful apprehension and conviction of the perpetrators of financial crime.

Group Internal Audit (the third line of defence) and Enterprise Governance and Compliance provide assurance to the board that GORF is sound and that the policies and processes related to operational risk management are adhered to. The board annually reviews and approves the group-level risk policies.

Operational risk measurement, processes and reporting systems

The three primary operational risk management processes in the group are risk and control assessments, loss data collection and the tracking of key risk indicators (KRIs), which are designed to function in a mutually reinforcing manner. The additional related processes include the consistent consideration of the business environment and consistent review of internal control factors, as well as the analysis of operational risk causes. Management is responsible for developing and maintaining control environments to mitigate operational risks inherent in the business. Specific mitigating action is reported at the ERCOs.

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

These processes result in the enhancement of the internal control environment, with the ultimate aim of reducing losses incurred, improving process efficiency and reducing earnings volatility. Risk profiles, loss trends and risk mitigation actions are reported to and monitored by the risk governance structures of the group.

As part of the Nedbank's implementation of the Advanced Measurement Approach (AMA) an operational risk incentive and capital allocation mechanism has been developed and is currently being implemented as part of AMA rollout. The capital allocation mechanism will satisfy regulatory expectations and support a continuous improvement of Nedbank's operational risk environment. AMA will be used for economic capital calculations for 2010.

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.

Nedbank Group actively manages business risk through the various management structures, as set out in the Enterprisewide Risk Management Framework (ERMF), and within Balance Sheet Management (BSM) 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 102 for further details.

Accounting and taxation risks

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

Taxation risk has been high in recent years 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 two 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 accounting and tax risks. These are all subject to rigorous external audit, and challenge/review by the Group Audit Committee and the board.

Technology risk

The use of information technology (IT), and so the associated IT risk, is pervasive in a large bank such as Nedbank 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 groupwide service-oriented architecture and technology strategy.
- One of the board committees, the Board Strategic Innovation Committee, specifically focuses on IT risks and IT innovation spend.
- One of Group Exco subcommittees is the Executive Strategic Innovation Management Committee.
- As with the other business clusters, a Head of Risk sits on the GT Cluster Exco and reports directly to the managing executive of GT.

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

As in the case of IT risk, reputational, strategic, social and environmental, and compliance risks are also potentially pervasive in a banking group, and each are separately identified and addressed as key risks in our Enterprisewide Risk Management Framework (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 Executive Committee (Group Exco) has the Group Operational, Brand, Transformation and Human Resources Committees and the Business Risk Management Forum assisting it.
- Reputational risk is, to a large degree, mitigated by adequately managing the other 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 groupwide.
- 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 2009 annual report and in the separate sustainability report.
- 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 our targets, details of which appear in the 2009 annual report.
- 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 Department of Trade and Industry (dti) 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 is distinctly different from its competitors.
- Enterprise Governance and Compliance is responsible for the monitoring of regulatory and reputational risk and the setting of related policies. It also manages the Enterprisewide Governance and Compliance Framework (EGCF). Nedbank Group's governance strategy, objectives and structures have been designed to ensure that the group complies with legislation and a myriad of codes, while at the same time moving beyond conformance to governance performance.

  The Chief Governance and Compliance Officer, Selby Baqwa SC, is a member of Group Exco, reports directly to the Chief Executive and attends the board committee meetings by invitation. He also has direct access to the Chairman of Nedbank Group and other Nedbank Limited boards.

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

  Nedbank Group's Enterprise Governance Framework incorporates a full range of governance objectives, a delineation of responsibilities at board committee, Group Exco and management level, and the identification of champions and key functions for corporate governance integration into all operations.

  Key features 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.

Readers requiring more details on Nedbank Group's Enterprise Governance and Compliance should refer to the group's 2009 annual report.

Human resources (or people) risk

People and transformation risks [also key risks in our Enterprisewide Risk Management Framework (ERMF)] are afforded a focus similar to that given to the above risks, with acknowledgement of the current 'war on talent' in the marketplace. The head of Enterprisewide Human Resources is a member of the Group Executive Committee.

At board level the Group Remuneration Committee is underpinned, at executive level, by the Transformation and Human Resources Executive Committee. There are human resources functions in all clusters groupwide.

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

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

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

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

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

The group's ERMF, Internal Capital Adequacy Assessment Process (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. We believe that our current status and the extent of such skills are sound. However, we recognise this has to be actively managed and monitored on an ongoing basis.

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

Major concentration risks and off-balance-sheet risks

Credit concentration risk is addressed on page 82. Property concentration risk was discussed on page 20, in particular the 'deep dive' into the Property Finance Division in 2008, and is incorporated in the quantification of credit economic capital.

The one other potential major concentration risk in Nedbank Group is liquidity risk. The management of this, including diversification of the funding base, contingency planning of sources of funding, related governance, etc is covered on page 109.

Concentration risk is also a key feature of Nedbank Group's Group Market Risk Framework. However, undue concentration risk is not considered to prevail in the group's trading, 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 132), nor in assets and liabilities, subject to mark-to-market fair-value accounting.

As regard off-balance-sheet risks, there are only three 'plain vanilla' securitisation transactions, which have funding diversification rather than risk transfer objectives, as well as no 'exotic' credit derivative instruments or any risky off-balance-sheet special-purpose vehicles.

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 nine quantifiable risk categories.

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

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

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

CREDIT RISKS

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

+

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

Similar to AIRB credit methodology but dependent on the probability and extent of a transfer event (ie sovereign default).

+

MARKET RISKS

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

+

OPERATIONAL RISK

Basel II Standardised Approach used

+

BUSINESS RISK

Earnings-at-risk methodology used

+

OTHER ASSETS
(100% risk weighting)

=

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

+

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

=

TOTAL ECONOMIC CAPITAL REQUIREMENT

MEASUREMENT PERIOD / TIME HORIZON: one year (same as Basel II)

CONFIDENCE INTERVAL (SOLVENCY STANDARD): 99,93% (A) (ie more conservative than Basel II at 99,90%)

vs.

AVAILABLE FINANCIAL RESOURCES (AFR)

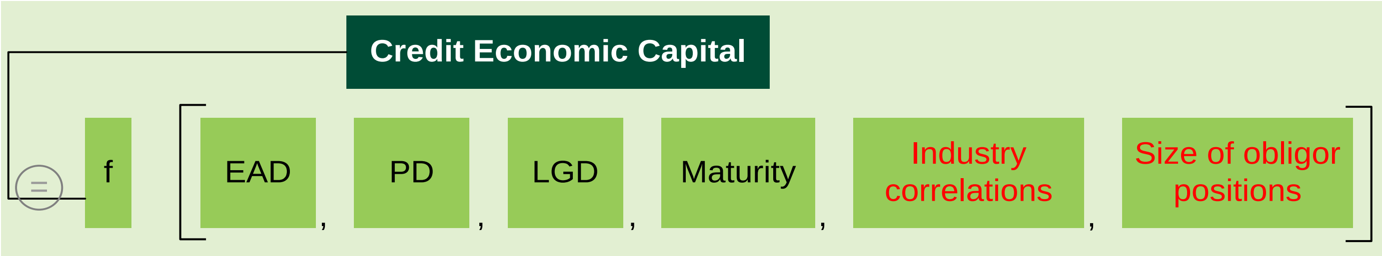
Comprises
Tier A = core Tier 1 regulatory capital and qualifying reserves
Tier B = perpetual preference shares and hybrid debt capital

Credit risk capital

The Advanced Internal Ratings-based (AIRB) Approach is used for Nedbank Limited and Standardised Approach for all other subsidiaries for regulatory capital purposes, as discussed earlier.

Our 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 intrarisk diversification into account.

It is important to recognise that our 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.

Securitisation risk capital

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

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)]; and
- 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.

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 99% confidence interval, three-day VaR limit is transformed to a 99,93% confidence interval, one-year economic capital number by using a Monte Carlo simulation methodology incorporating a management intervention framework.

For regulatory capital the Standardised Approach is currently used, which is more conservative because it does not take diversification into account. In addition to VaR, stress testing is applied on a daily basis to identify exposure to extreme market moves.

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

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

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

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

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. 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 we are working on the introduction of a charge for economic capital based on stress testing of the incremental increase in the cost of funding (liquidity) arising from a stressed event.

A sophisticated and well-resourced Group asset and liability (ALM) function and Group ALCO process have been implemented in Nedbank Group to manage and mitigate liquidity risk. This is summarised in detail from page 109 to 116.

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

Property risk capital

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

Property risk is the risk a bank faces due to the fluctuation of property values. In the case of Nedbank 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 we use the Simple Risk Weight Approach for the bulk of the portfolio, the exception being in Property Finance Division, where a PD/LGD approach has been adopted.

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

Foreign currency translation risk in the banking book capital

Foreign currency translation risk (FCTR) is the risk that the bank's exposures to foreign capital will lose value as a result of shifts in the exchange rate. As Nedbank Group is a rand reporting entity our risk is in a strengthening of the rand. The current methodology at Nedbank Group uses a simple VaR methodology scaled to a one-year, 99,3% confidence interval to calculate standalone economic capital for foreign currency translation risk, based on exchange rate volatility. FCTR is not required for Basel II Pillar 1 regulatory capital.

Business risk capital

Business risk is not specified for Basel II Pillar 1 regulatory capital. It is, however, measured in Nedbank 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 increasingly more about earnings-at-risk across business units within the bank.

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 has applied to SARB in January 2010 for the use of the Advanced Measurement Approach (AMA). The AMA Operational Risk Management Framework was approved by the board's Group Risk and Capital Management Committee in April 2009. The AMA methodologies are already rolled out in the businesses, and Nedbank Group will change to using AMA for economic capital purposes for 2010.

Other assets

For economic capital (ICAAP) purposes the same approach as for regulatory capital requirements is followed, namely 100% risk weighting in line with regulation 23 and the BA200 return.

Interrisk 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 interrisk diversification benefits.

Nedbank Group's interrisk diversification matrix was first developed in 2004, mainly using Oliver Wyman benchmarks. However, in 2006, with the building of various macromodels as part of Nedbank Group's overall Macroeconomic Factor Model (MEFM) and its Stress and Scenario Testing Framework, we revised the correlation matrix using empirical estimation and data, and the use of Nedbank Group-specific factors. The interrisk diversification matrix was independently validated in 2009 by Group Market Risk Monitoring with a favourable outcome.

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

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

Qualitative risks that cannot be mitigated by capital

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

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

Sensitivity analysis, conservatism, data and model risk

For Basel II and our internal capital assessment (ie economic capital) it is necessary to develop models and estimate parameters in order to measure the capital requirements. Consequently, 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, we apply 'extra' conservatism to more than compensate. This results, if anything, in overstated capital requirements.

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

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

NEDBANK'S DATA GOVERNANCE FRAMEWORK

Data Accessibility | Data Availability | Data Quality | Data Consistency | Data Security | Data Auditability

Standards
- Data Definitions and taxonomies
- Master / reference Data
- Enterprise Data Model
- Technology and Tools Standards

Policies and Processes
- Data Definition
- Monitoring and Measurement
- Data Access and Delivery
- Data Change Management

Organisation
- Roles and Responsibilities
- Training and Education
- Planning and Prioritisation
- Change Management

Data Integration Infrastructure

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

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

The following are some examples of high conservatism evident in our internal capital assessment (ie economic capital):

- In contrast to some other banks, we capitalise for business risk, which at group level is a significant amount of over R4,3 billion.
- In our stress testing and assessment of the adequacy of capital buffers we are very conservative in including business risk, because this risk already measures the potential volatility in earnings, for which we are holding capital.
- We capitalise property risk at a 400% risk weighting as opposed to 100% under the Basel regulations for 'Other Assets'. This amounts to an extra R1 billion in economic capital compared with Basel II regulatory capital.
- We capitalise for transfer risk in addition to credit risk in respect of any non-SA exposure.

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 our 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 our capital levels and buffers. We believe this risk is mitigated by the comprehensive Stress and Scenario Testing Framework and related processes covered in detail later in this report.

The last source of uncertainty is model risk and that the models may not accurately measure the risk. The validation around Nedbank 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 on page 37.

However, for our other major quantitative risk models, validation requirements are not set out in regulations and so a process and timetable for independent validation 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 our 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.

BALANCE SHEET MANAGEMENT

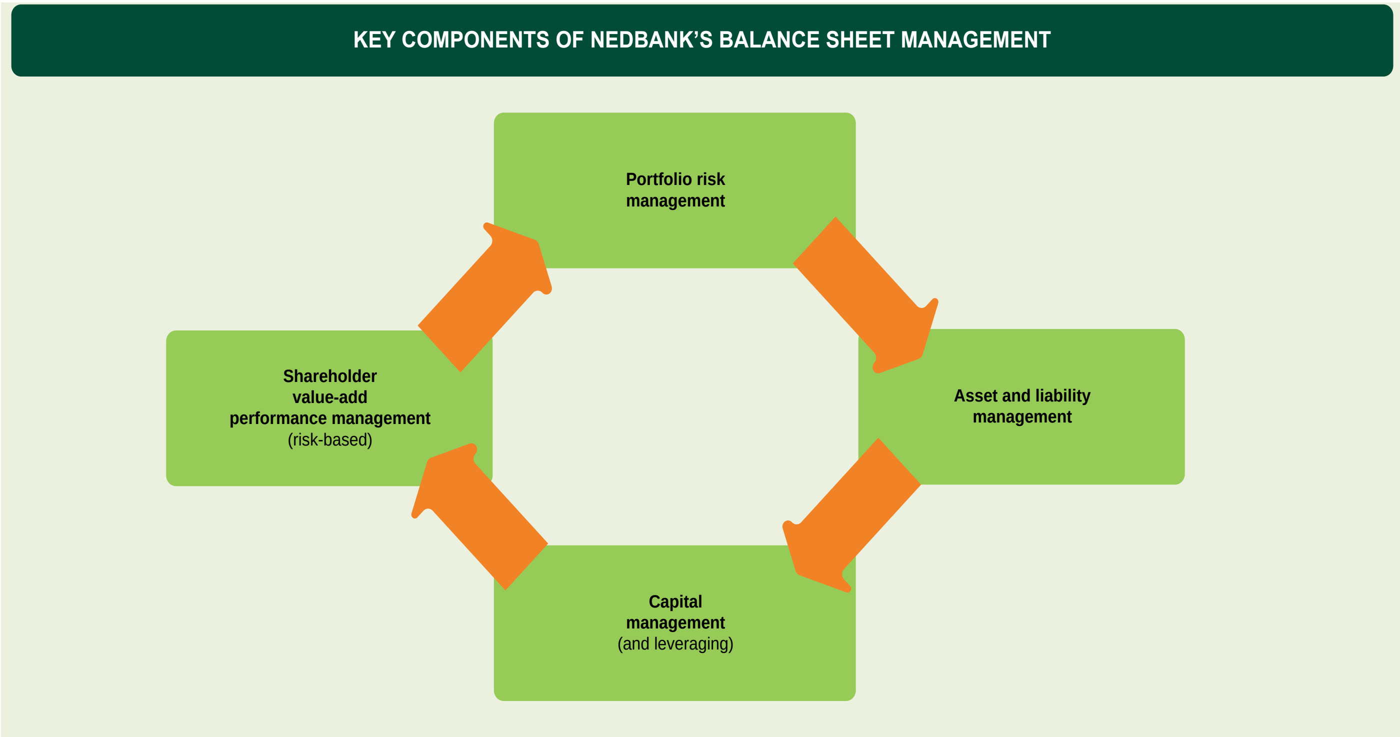
Established as a separate cluster in 2009, the Balance Sheet Management (BSM) cluster helps to optimise the financial performance, strategy and sustainability of Nedbank Group through proactive management of all material components of the balance sheet.

Since the business of banking is fundamentally about managing and optimising risk, BSM, in addition to supporting the vision of making Nedbank Group a great place to invest, also champions the group's Deep Green aspiration to be worldclass at managing risk and its three core objectives for successful enterprisewide risk management, namely management of:

- Risk as a THREAT
  (ie to minimise and protect against downside risk, protect against material unforeseen losses and maximise long-run sustainability)
- Risk as UNCERTAINTY
  (ie to eliminate excessive earnings volatility and minimise material negative surprises)
- Risk as OPPORTUNITY
  (ie to maximise financial and share price performance upside via application of superior business intelligence, management science and shareholder value-add economics, while optimising business opportunities, risk, capital and liquidity ultimately to differentiate against competitors).

A core objective within BSM's role is thus leadership in the application, groupwide, of best practice and integrated risk, capital, funding, asset and liability management, capital and shareholder value-based management, within an acceptable risk appetite and with a strong qualitative overlay of experience and common sense.

The BSM cluster is the central consolidation point of risk, capital and liquidity across the group, and therefore its role includes group portfolio risk management, recognising that optimising risk, funding, capital, financial performance and sustainability of the group is not just about a simple aggregation of the client-facing business clusters.



All business clusters, as part of their business activities and their execution of approved strategies, have the following roles with respect to balance sheet management:

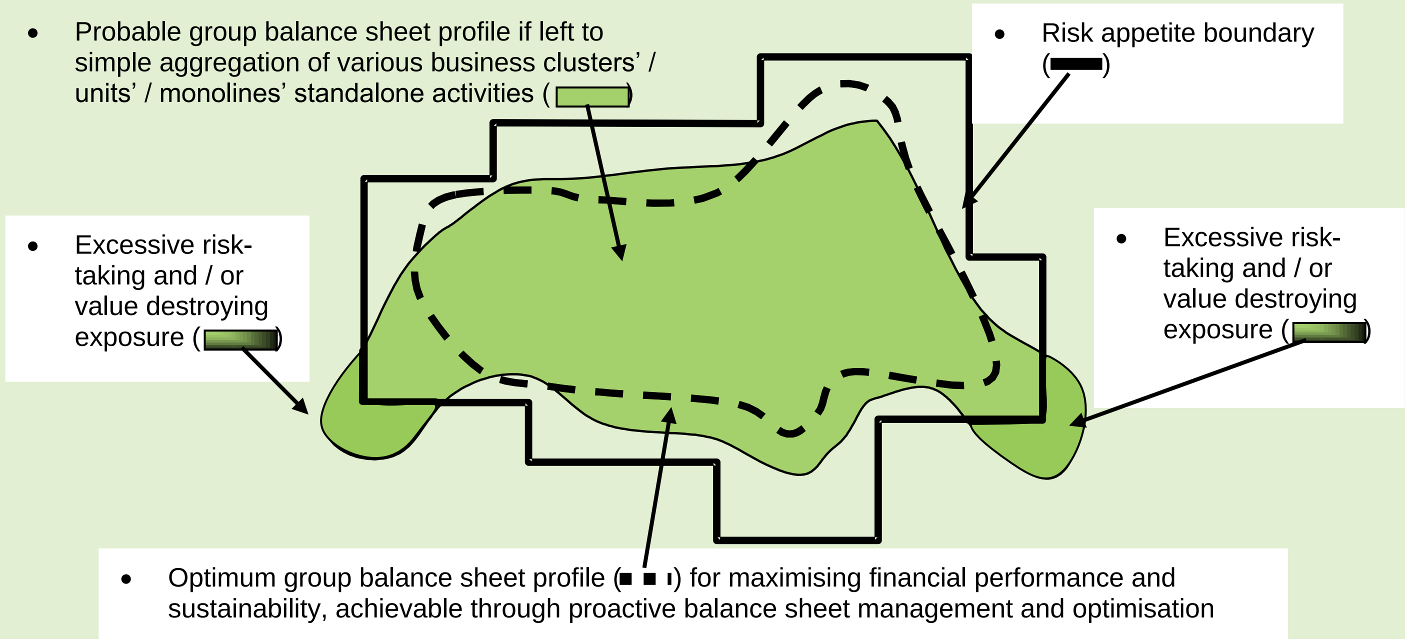
- collaborate with the BSM cluster in performing its role set out above to help achieve the most optimal outcome for the benefit of the group; and
- formally apply a balance sheet management focus at cluster, business unit and/or monoline level by following the same principles and key components of the BSM cluster as are relevant and appropriate at cluster, business unit and/or monoline portfolio level.

The role of the Balance Sheet Management Committee is to provide a forum in which the BSM cluster, business clusters and other stakeholders in the group may present, consider and deliberate on proposals, strategies, issues and actions to assist in successful balance sheet management.

The Balance Sheet Management Committee is a formally established subcommittee of the Group Asset and Liability Committee (Group ALCO), and forms part of the Enterprisewide Risk Management Framework (ERMF).

The BSM cluster is the central aggregation point of risk (and therefore capital and liquidity) across the group. The creation of this new cluster is also acknowledgement that portfolio optimisation is an essential component of optimising the financial returns and long-term sustainability of the group and that it is more than just the simple aggregation of all the clusters' returns.

BALANCE SHEET MANAGEMENT (in a nutshell)



Summary of perspectives on Nedbank Group's balance sheet profile

The key highlights are as follows:

Capital adequacy overall

- Best-practice internal capital adequacy assessment process (ICAAP) in place since 2008.
- Major focus over past 24 months, resulting in significantly strengthened capital levels, well above top end of the target ranges (in view of current external environment).
  - Successful execution of Risk-weighted Asset (RWA) Capital Optimisation Programme.

Regulatory capital adequacy (including unappropriated profits)

	Target (revised January 2009)	Nedbank Group	Nedbank Limited
Core Tier 1	7,5% to 9,0%	7,2% (Dec 2007) to 8,2% (Dec 2008) to 9,9% (Dec 2009)	6,8% (Dec 2007) to 8,0% (Dec 2008) to 9,6% (Dec 2009)
Tier 1	8,5% to 10,0%	8,2% (Dec 2007) to 9,6% (Dec 2008) to 11,5% (Dec 2009)	7,9% (Dec 2007) to 9,8% (Dec 2008) to 11,7% (Dec 2009)
Total	11,5% to 13,0%	11,4% (Dec 2007) to 12,4% (Dec 2008) to 14,9% (Dec 2009)	11,4% (Dec 2007) to 13,1% (Dec 2008) to 15,6% (Dec 2009)

Economic capital adequacy (used for ICAAP)

- In 2009 Nedbank Group increased (ie made more conservative) the group's target solvency standard from A- (99,9%) to A (99,93%), while also introducing a more conservative definition of available financial resources (AFR), which covers the economic capital requirement.
- AFR surplus (after 10% capital buffer):
  - R16,1 billion for group; R13,5 billion for bank (based on old, less conservative basis).
  - R11,8 billion for group; R8,3 billion for bank (based on new, more conservative basis).

Stress and scenario testing

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

Leverage ratio is low at 14,4 times, compared with international levels

Concentration risk is well-contained

- Large individual (single-name) credit exposure risk is low.
  - The credit economic capital of the top 20 exposures (excluding banks and SA government exposure) makes up only 3,19% of total group economic capital.
- Concerning geographic exposure, the significant focus on South Africa has been positive for Nedbank Group through the global financial crisis.
- Industry/Sector exposure is appropriately well-diversified.
- Property exposure is high but in line with our peer group and most large banks internationally.
  - 'Deep dive' done of commercial property exposure and home loans.
- Counterparty credit risk is almost exclusively restricted to non-complex, low-risk banking transactions.
- Strong and well-diversified funding deposit base exists and low reliance is placed on offshore funding.
- Low level of securitisation exposure and off-balance-sheet activities.
- Low risk of assets and liabilities exposed to the volatility of International Financial Reporting Standards (IFRS) fair-value mark-to-market accounting.
- Low equity (investment) risk exposure (0,7% of total assets), including private equity.
- Non-core asset disposal strategy successfully executed by 2007.
- Low foreign currency translation risk to the rand's volatility.
- Well-diversified earnings streams across five major business clusters.
- Well-diversified subordinated-debt profile.

Liquidity risk

- Overall remains sound and has been a major focus over past two years through the global financial crisis.
  - Successfully lengthened the funding profile during 2009, including the successful (largest ever in South Africa) R5,4 billion issue of senior unsecured debt in September 2009.
- The R5,4 billion debt issue also positively contributed to diversify the funding base further.
- Nedbank Group's funding mix remains sound (ie retail vs wholesale deposits reliance).
- Nedbank Group continues to maintain a strong market share in household deposits.

- All liquidity risk measurement and management assumptions, principles and methodologies have been independently reviewed and align with best practice.
- Key areas of focus for 2010 – 2012:
  - Continue to lengthen the funding profile.
  - Continue to diversify Nedbank Group's funding base in order to reduce reliance on wholesale funding.
    - Expanding domestic and international capital market issuance programmes, subject to price and appetite.
    - Continuing aggressively to pursue strong growth in retail and commercial deposits.
  - Work with government, the SA Reserve Bank (SARB) and the banking industry to address the financial services structural issues around funding and liquidity to facilitate positively positioning South Africa around the new Basel III liquidity proposals.

Interest rate risk in the banking book (IRRBB)

- The main components of IRRBB include endowment on equity and non-repricing transactional deposits, offset by the fixed-rate liquid asset hedge and working capital plus reset (basis) risk.

  Reset risk is caused by advances pricing immediately for rate changes, due to being prime-rate-linked, versus term deposits repricing to the three-month Johannesburg Interbank Agreed Rate (JIBAR), following the hedging of these long term deposits.
- Banking book interest rate sensitivity is currently 1,30% of total equity or R584 million (for a 1% move in rates).
- This is within the board-approved IRRBB limit of 2,5% of capital, with no limit breaches having been experienced in 2009.
- The strategic attention of the Group Asset and Liability Committee (ALCO) has shifted to positioning the balance sheet for the anticipated bottoming of the current interest rate cycle.

Asset and liability management

Asset and liability management (ALM) addresses two of the 17 key risk types in the group's Enterprisewide Risk Management Framework (ERMF), namely liquidity risk and market risk in the banking book, which in turn includes 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, namely 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 the 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 Management 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 (CFD) within Group Treasury. Within the context of the board-approved Liquidity Risk Management Framework, BSM and the CFD are responsible for proactively managing liquidity risk at an operational, tactical and strategic level.

KEY AREAS OF FOCUS

Operational Liquidity

Daily

CFD Focus: Operational and Tactical

- **Projected daily liquidity requirements**
- **Liquid assets and cash reserve requirements**
- **Daily clearing and settlement**
- **Participation in shortage and interbank reliance**
- **Operation within approved liquidity risk limits and guidelines**
- **Managing and maintaining market access**

Tactical and Strategic Liquidity

Weekly monthly, quarterly and annual

BSM Focus: Strategic

- **Tactically manage seasonal and cyclical liquidity requirements**
- **Liquidity risk appetite and strategy**
- **Balance sheet optimisation**
- **Funding base diversification**
- **Liquidity buffers and internal assessment of liquidity self sufficiency for stress scenarios**
- **Pricing for liquidity risk through the funds transfer pricing process**
- **Enhancing structural liquidity**
- **Best international practice**

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

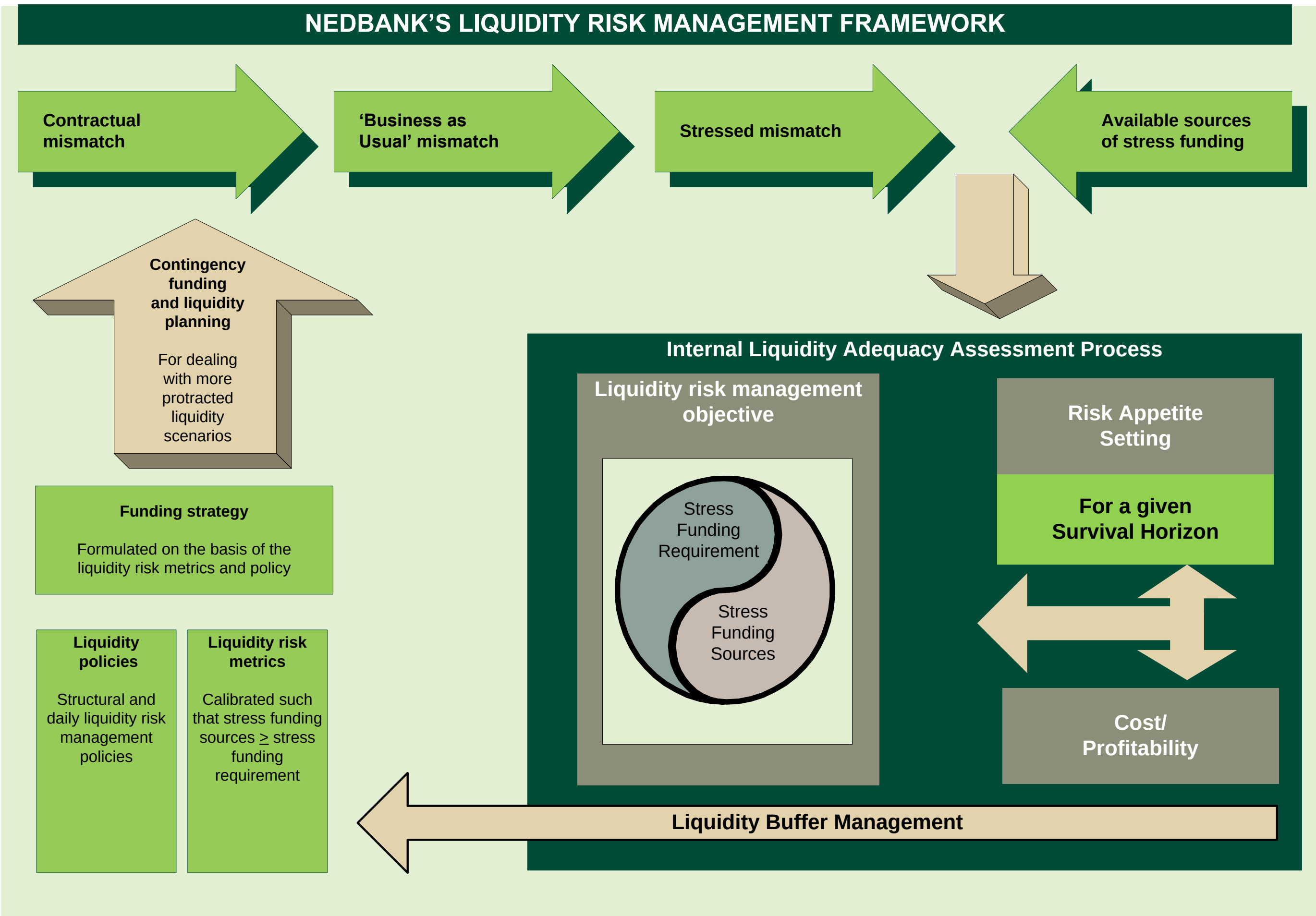
In the case of Nedbank Group's subsidiaries and foreign branch, liquidity risk is managed through the individual ALCO's established in each of these businesses. These businesses are required to have appropriate governance structures, processes and practices designed to identify, measure, manage and mitigate 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 is geared towards a continuous process of internal liquidity self-assessment referred to as the Internal Liquidity Adequacy Assessment Process (ILAAP).

ILAAP, which takes into account all sources and uses of liquidity (on and off balance sheet), seeks to optimise the balance sheet in terms of balancing the trade-off between liquidity risk on the one hand and cost or profitability on the other. This optimisation process (as depicted below) is managed by taking cognisance of:

- Nedbank Group's contractual maturity mismatch between assets and liabilities;
- the business-as-usual 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.

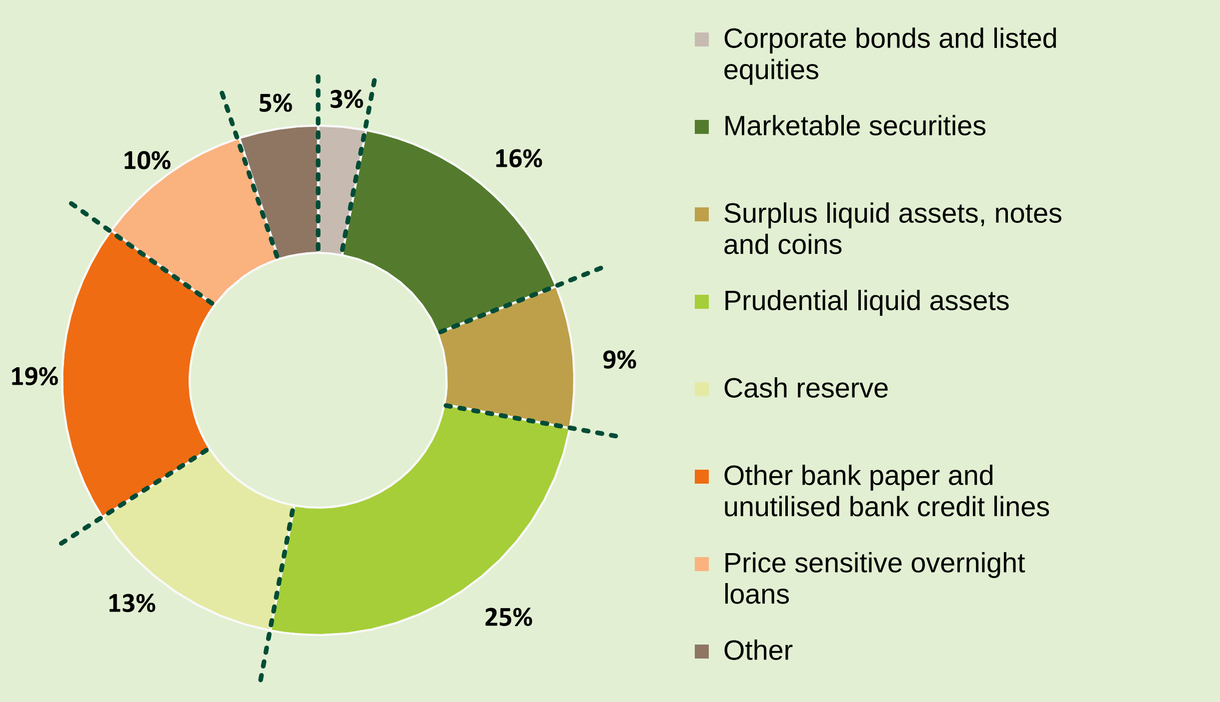


Through robust analysis and ongoing assessment BSM seeks to maintain an appropriate liquidity buffer while continually reviewing the appropriateness of the liquidity risk metrics, the liquidity policy, the funding strategy and the contingency funding and liquidity plan. These individual components of the liquidity risk framework should at all times support the board approved risk appetite, which is to ensure that stress funding sources are sufficient to meet stress funding requirements for a given time horizon. Based on the Basel Committee's consultative document 'International framework for liquidity risk measurement, standards and monitoring (December 2009)' indications are that the minimum time horizon may be set at 30 days, but this will only be finalised during 2010.

The liquidity risk framework is further 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 banks larger depositors in order to manage their cash flow requirements and the consequential impact on the banks intraday liquidity position.

NEDBANK'S SOURCES OF QUICK LIQUIDITY



Portfolio of marketable liquid assets and collateral: A portfolio of marketable and highly liquid assets is maintained, which could be liquidated to meet unforeseen or unexpected funding requirements. 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 R80,8 billion at 31 December 2009. The above graph reflects the composition of this portfolio.

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:

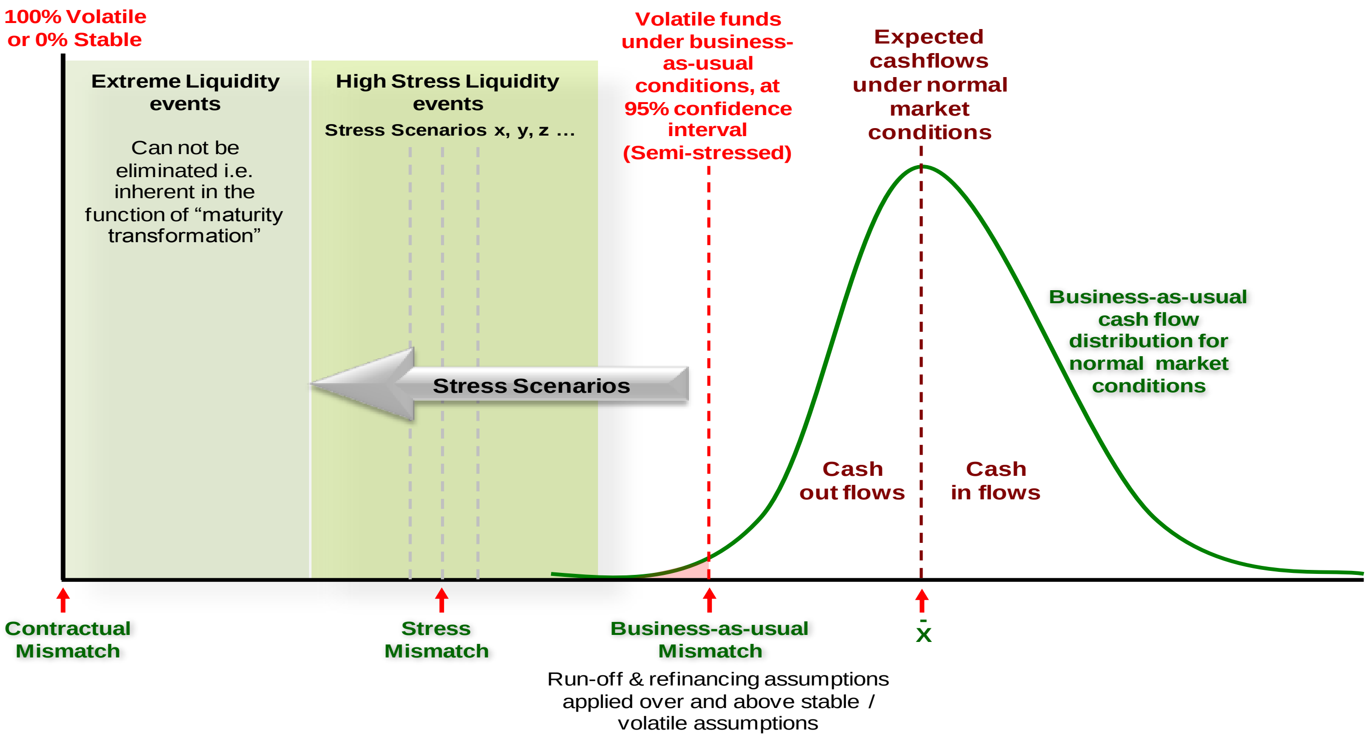
- Continue to diversify the funding base to achieve an optimal mix between wholesale, commercial and retail funding.
- Lengthen the funding profile to achieve the targeted contractual and business-as-usual maturity mismatch.
- Achieve the lowest weighted average funding cost within the context of the 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 is able to achieve the following:

- Evaluate the impact of various scenarios on the group.
- Set limits and guidelines designed to position the group better for a stress liquidity event.
- Formulate appropriate actions designed to reduce the severity of a liquidity crisis.
- Determine appropriate funding strategies and initiatives designed to support liquidity risk mitigation.

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

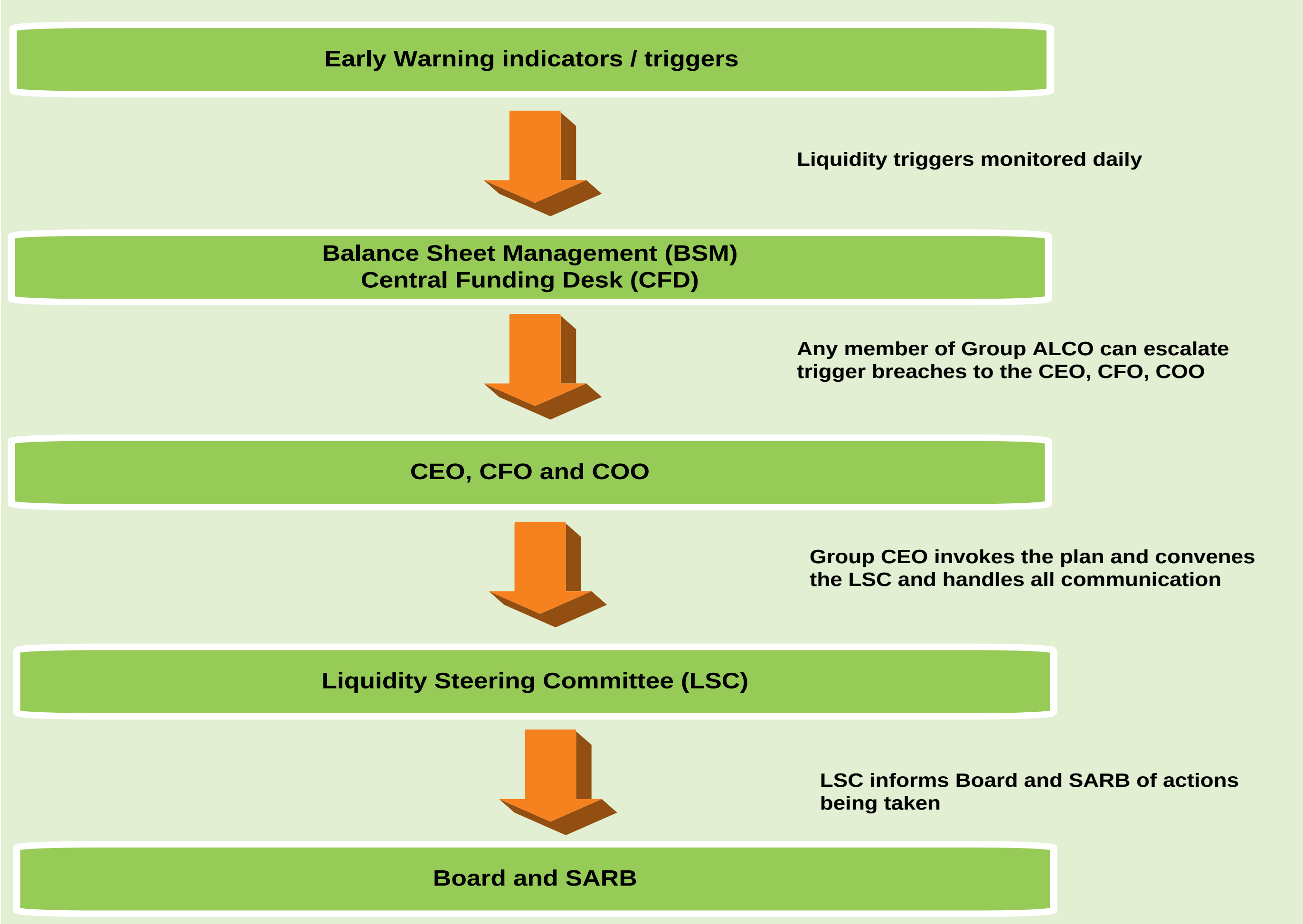
CONTRACTUAL VS BUSINESS-AS-USUAL VS STRESS MATURITY MISMATCH



Stress testing is increasingly being used as a key risk management process that complements sound liquidity risk management and contingency planning. It is also recommended and required by regulators and has gained significant focus in light of the global credit crisis.

Contingency funding and liquidity planning: Nedbank Group's Liquidity Risk Contingency Plan (LRCP) sets out the Liquidity Risk Management Framework designed to protect depositors, creditors and shareholders under adverse liquidity situations. The LRCP has been formulated on 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.

INVOKING THE CONTINGENCY FUNDING AND LIQUIDITY PLAN



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 AT YEAR-END

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)	16 382			65		1 928	18 375
Other short-term securities	13 715	1 261	1 501	2 073			18 550
Derivative financial instruments	3 569	834	2 070	3 792	2 445		12 710
Government and other securities	537	2 020	7 607	18 660	7 159		35 983
Loans and advances	83 758	16 463	31 070	153 354	165 656		450 301
Other assets	2 261					32 523	34 784
Assets	**120 222**	**20 578**	**42 248**	**177 944**	**175 260**	**34 451**	**570 703**
Total equity						44 984	44 984
Derivative financial instruments	2 917	898	1 103	3 037	3 596		11 551
Amounts owed to depositors	338 632	50 084	57 810	19 888	2 941		469 355
Other liabilities	8 780					15 949	24 729
Long-term debt instruments			500	9 184	10 400		20 084
Liabilities and equity	**350 329**	**50 982**	**59 413**	**32 109**	**16 937**	**60 933**	**570 703**
Net liquidity gap	**(230 107)**	**(30 404)**	**(17 165)**	**145 835**	**158 323**	**(26 482)**	

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 AT YEAR-END

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)					18 375		18 375
Other short-term securities	13 715	1 261	1 501	2 073			18 550
Derivative financial instruments	3 569	834	2 070	3 792	2 445		12 710
Government and other securities					35 983		35 983
Loans and advances	35 575	23 867	45 677	296 872	48 310		450 301
Other assets						34 784	34 784
Assets	**52 859**	**25 962**	**49 248**	**302 737**	**105 113**	**34 784**	**570 703**
Total equity						44 984	44 984
Derivative financial instruments	2 917	898	1 103	3 037	3 596		11 551
Amounts owed to depositors	87 915	64 499	79 712	235 676	1 553		469 355
Other liabilities						24 729	24 729
Long-term debt instruments			500	9 401	10 183		20 084
Liabilities and equity	**90 832**	**65 397**	**81 315**	**248 114**	**15 332**	**69 713**	**570 703**
Net liquidity gap	**(37 973)**	**(39 435)**	**(32 067)**	**54 623**	**89 781**	**(34 929)**	

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 additional disclosure below depicts the contractual and 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 in excess of 83% of the total deposit base is stable in nature.

NEDBANK LIMITED* CONTRACTUAL BALANCE SHEET MISMATCH AT YEAR-END

Rm	Total	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months
Contractual maturity of assets	**509 150**	**47 759**	**5 921**	**31 156**	**11 496**
Loans and advances	398 899	29 810	2 445	18 590	6 682
Trading, hedging and other investment instruments	71 295	4 930	3 243	11 011	4 542
Other assets	38 956	13 019	233	1 555	272
Contractual maturity of liabilities	**509 150**	**161 943**	**19 629**	**74 292**	**29 018**
Stable deposits	348 378	139 898	10 470	55 617	22 474
Volatile deposits	72 197	14 982	1 537	9 236	5 575
Trading and hedging instruments	50 240	7 063	7 622	9 439	969
Other liabilities	38 335				
On-balance-sheet contractual mismatch		**(114 184)**	**(13 708)**	**(43 136)**	**(17 522)**
Cumulative on-balance-sheet contractual mismatch		**(114 184)**	**(127 892)**	**(171 028)**	**(188 550)**

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 AT YEAR-END

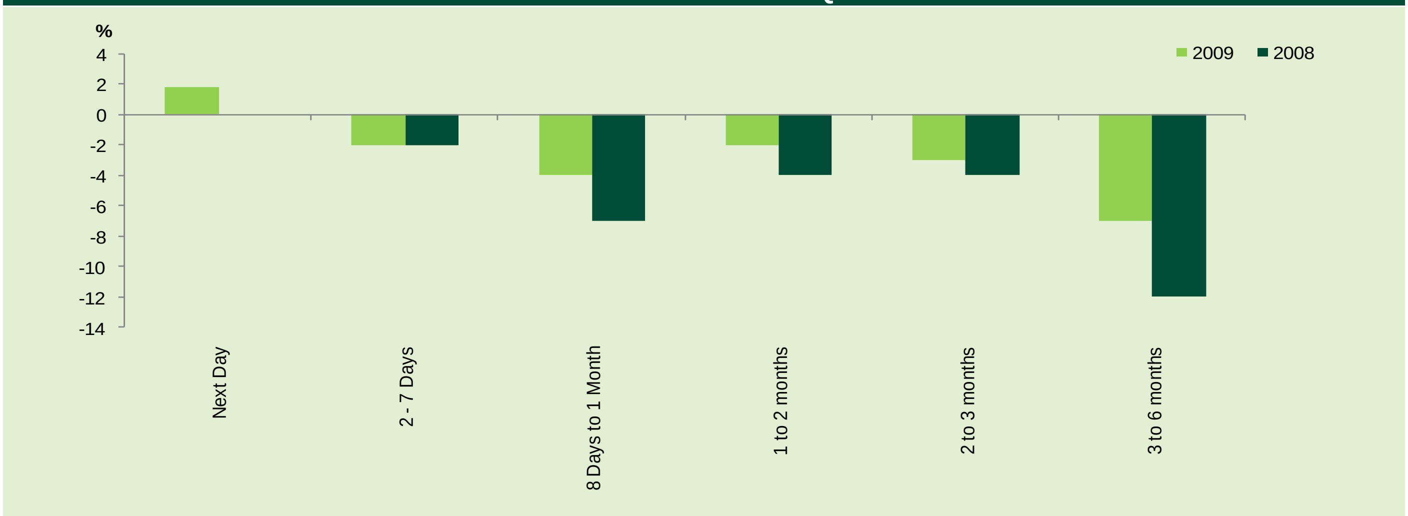
Rm	Total	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months
BaU maturity of assets	**509 150**	**27 358**	**2 667**	**14 263**	**10 031**
Loans and advances	398 899	6 861	2 327	9 299	8 365
Trading, hedging and other investment instruments	71 295	20 497	340	3 410	1 394
Other assets	38 956			1 554	272
BaU maturity of liabilities	**509 150**	**17 788**	**10 813**	**31 567**	**20 900**
Stable deposits	348 378	444	1 158	7 989	14 356
Volatile deposits	72 197	1 705	5 030	19 083	5 575
Trading and hedging instruments	50 240	15 639	4 625	4 495	969
Other liabilities	38 335				
On-balance-sheet BaU mismatch		**9 570**	**(8 146)**	**(17 304)**	**(10 869)**
Cumulative on-balance-sheet BaU mismatch		**9 570**	**1 424**	**(15 880)**	**(26 749)**

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

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

As per the graph below the improved BaU maturity mismatch in 2009, when compared with 2008, can be attributed to the following: Previously Nedbank Limited adopted a very conservative approach when estimating the BaU mismatch, which means that Nedbank Limited previously assumed that no term deposits were refinanced and that they resulted in a cash outflow on maturity of the deposit. As this does not reflect reality under normal market conditions, refinancing assumptions (having been statistically derived) have now been applied to term funding, thus yielding a more realistic BaU mismatch.

NEDBANK LIMITED BEHAVIOURAL LIQUIDITY MISMATCH



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

Note: The improvement in the 2009 profile is mainly due to refinements to the refinancing assumptions as detailed above.

Interest rate risk in the banking book

Nedbank Group is exposed to interest rate risk in the banking book (IRRBB) primarily because:

- 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 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; and
- the bank has a mismatch in net non-rate-sensitive balances, including shareholders' funds that do not reprice for interest rate changes.

This is clearly evident when reflecting on the Group's balance sheet repricing profile before hedging (tabled below), 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 1 year and fixed rate advances some time after that as they mature, with a net non-rate sensitive credit position remaining that comprises equity, 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; and
- embedded optionality – the risk pertaining to interest-related options embedded in bank products.

IRRBB strategy, governance, policy and processes

Interest rate risk in the banking book is managed within Nedbank Group's Enterprisewide Risk Management Framework (ERMF) under market risk. The Group ALCO and Executive Risk Committee (Group ALCO), a subcommittee of the board's Group Risk and Capital Management Committee, proactively manages IRRBB. Balance Sheet Management (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, 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, new 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, align and manage IRRBB with the likely change in impairments for similar interest rate changes. This relationship between interest rate sensitivity and impairments, which is seen as a natural net income hedge, is a key focus of the Group ALCO in managing IRRBB. This analysis includes an assessment of the lag in impairment changes and the increasing change in impairment charges for consecutive interest rate changes. Due to the complexity in determining the extent of this natural net income hedge, 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 better to align interest rate sensitivity with impairment sensitivity or better the position the balance sheet 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 accordingly is extracted from these units via an established funds transfer-pricing solution. This solution removes reprice 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 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.

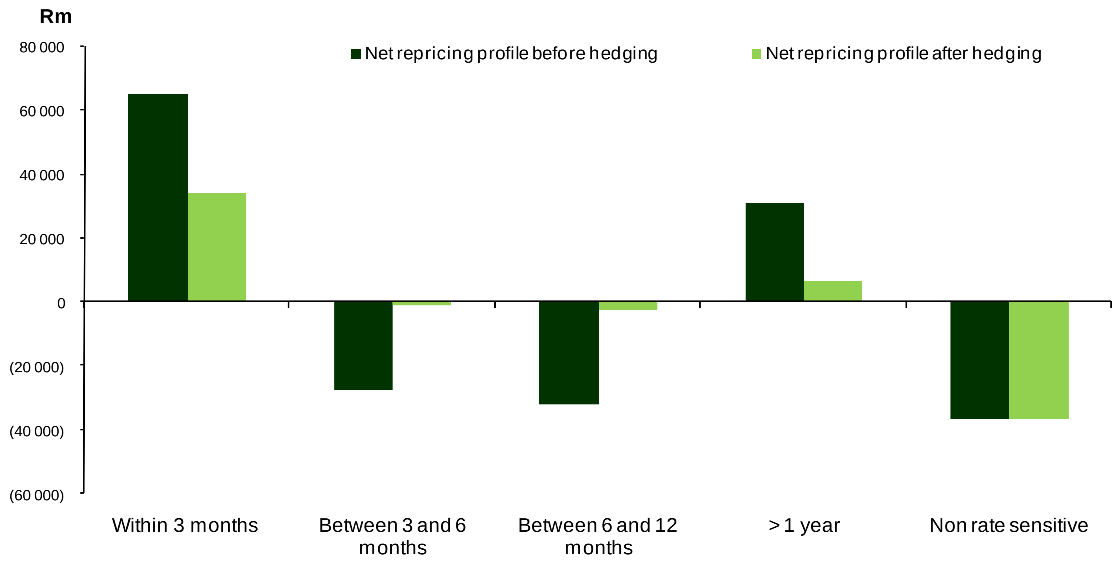
Economic capital is allocated to IRRBB under Nedbank Group's ICAAP and is based on a simulated modelling of the bank's net interest income exposure to changes in interest rates as represented by a stochastic interest rate shock.

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 (tabled 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 within the three-month repricing area – clearly depicted graphically before and after hedging.

NEDBANK GROUP INTEREST RATE REPRICING PROFILE AT YEAR-END

Rm	Within 3 months	Between 3 and 6 months	Between 6 and 12 months	> 1 year	Non-rate-sensitive
Net repricing profile before hedging	65 358	(27 622)	(32 210)	31 335	(36 861)
Net repricing profile after hedging	33 999	(1 017)	(2 726)	6 605	(36 861)
Cumulative repricing gap after hedging	33 999	32 982	30 256	36 861	

INTEREST RATE REPRICING PROFILE



At year end 2009 the group's earnings-at-risk (EaR) sensitivity of the banking book for a 1% parallel reduction in interest rates was 1,30% of total group equity (2008: 1,25%), well within the approved risk limit of 2,5%. This exposes the group to a decrease in net interest income (NII) of R584 million should interest rates fall by 1%, measured over a 12-month period, which translates into an approximate 12 basis points reduction in margin or an absolute reduction of approximately 3,6% of this year's NII.

The group's level of interest rate sensitivity is managed in conjunction with credit impairment sensitivity 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 R225 million (2008: gain of R155 million).

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

2009 Rm	Note	Nedbank Limited	Other Group Companies	Nedbank Group
Net interest income sensitivity	1			
1% instantaneous decline in interest rates		(444)	(140)	(584)
2% instantaneous decline in interest rates		(887)	(281)	(1 168)
Linear path space	2			
Lognormal interest rate sensitivity		(273)		
Basis interest rate risk sensitivity	3			
0,25% narrowing of prime/call differential		(168)	(51)	(219)
Economic value of equity sensitivity	4			
1% instantaneous decline in interest rates		(225)		
2% instantaneous decline in interest rates		(461)		
Stress testing				
Net interest income sensitivity				
Instantaneous stress shock	5	(1 996)		
Linear path space	2			
Absolute-return interest rate sensitivity		(1 386)		

Notes

1 **Net interest income sensitivity**, as currently modelled, exhibits very little convexity. In certain cases the comparative figures have been estimated assuming a linear risk relationship to the interest rate moves.

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

3 **Basis interest rate risk sensitivity** is quantified using a narrowing in the prime / call interest rate differential of 0,25% and is an indication of the sensitivity of the margin to a squeeze in short-term interest rates.

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

5 **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.

Foreign currency translation risk in the banking book

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

Foreign currency translation risk remains relatively low and currently aligns with an appropriate offshore capital structure. Risk limits are based on the expected level of currency-sensitive foreign capital and the exposure was approximately US$241 million at year-end.

Offshore capital split by functional currency					
$m	US dollar equivalent ($ millions)			2009	2008
	Equity	Forex-sensitive	Non-forex sensitive	Total	Total
US dollar	108	108		**108**	88
Pound sterling	113	113		**113**	94
Swiss franc	13	13		**13**	6
Malawi kwatcha	7	7		**7**	5
Other			436	**436**	391
Total	**241**	**241**	**436**	**677**	**584**

Forex-sensitive portion of offshore capital	
$m	2009
Forex-sensitive portion of offshore capital	**241**
Limit	**250**

The effective average capitalisation rate of the foreign-denominated business is 26% (2008: 25%). The total foreign risk-weighted assets (RWA) as a percentage of the Nedbank Group total is low at 2% (R5,7 billion out of the total group RWA of R326 billion). Therefore, any foreign exchange rate movement will have a minimal effect on Nedbank Group's capital adequacy ratio.

High rand volatility has a minimal effect on capital adequacy as a 10% depreciation in the rand, for example, will only impact capital adequacy by 0,02%.

Capital management

The BSM cluster is mandated to champion the successful development and implementation of the Capital Management Framework and ICAAP across the group. The capital management responsibilities (incorporating ICAAP) of the board and Group Exco are incorporated in their respective terms of reference (charters) contained in the Enterprise Risk Management Framework (ERMF).

Group ALCO, in turn, is assisted by the Balance Sheet Management Committee (subcommittee of Group ALCO), chaired by the Group Executive of BSM.

BSM'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.

Our 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 our Capital Adequacy Projection Model (CAPM). CAPM is fully integrated with the group's three-year business and strategic plans, together with the economic capital, Basel II, IFRS and other important parameters and financial data.

CAPM projects Basel II and economic capital requirements for the current year-end and the next three years. This also covers capital requirements, available capital resources, capital buffers, target capital ratios, earnings, impairments, dividend plan, any constraints or limits, risk appetite metrics and details 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 136. The outcome of this stress and scenario testing is the key factor in assessing and deciding on Nedbank'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 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 2010 onwards, any shortfall vs group regulatory capital will be addressed via allocation of a capital buffer to the businesses
• Preference shares and hybrid debt capital (Non-core Tier 1)	Allocated as part of funding costs, impacting businesses' earnings
Tier 2 capital	
• Subordinated debt	Allocated as part of funding costs, impacting businesses' earnings

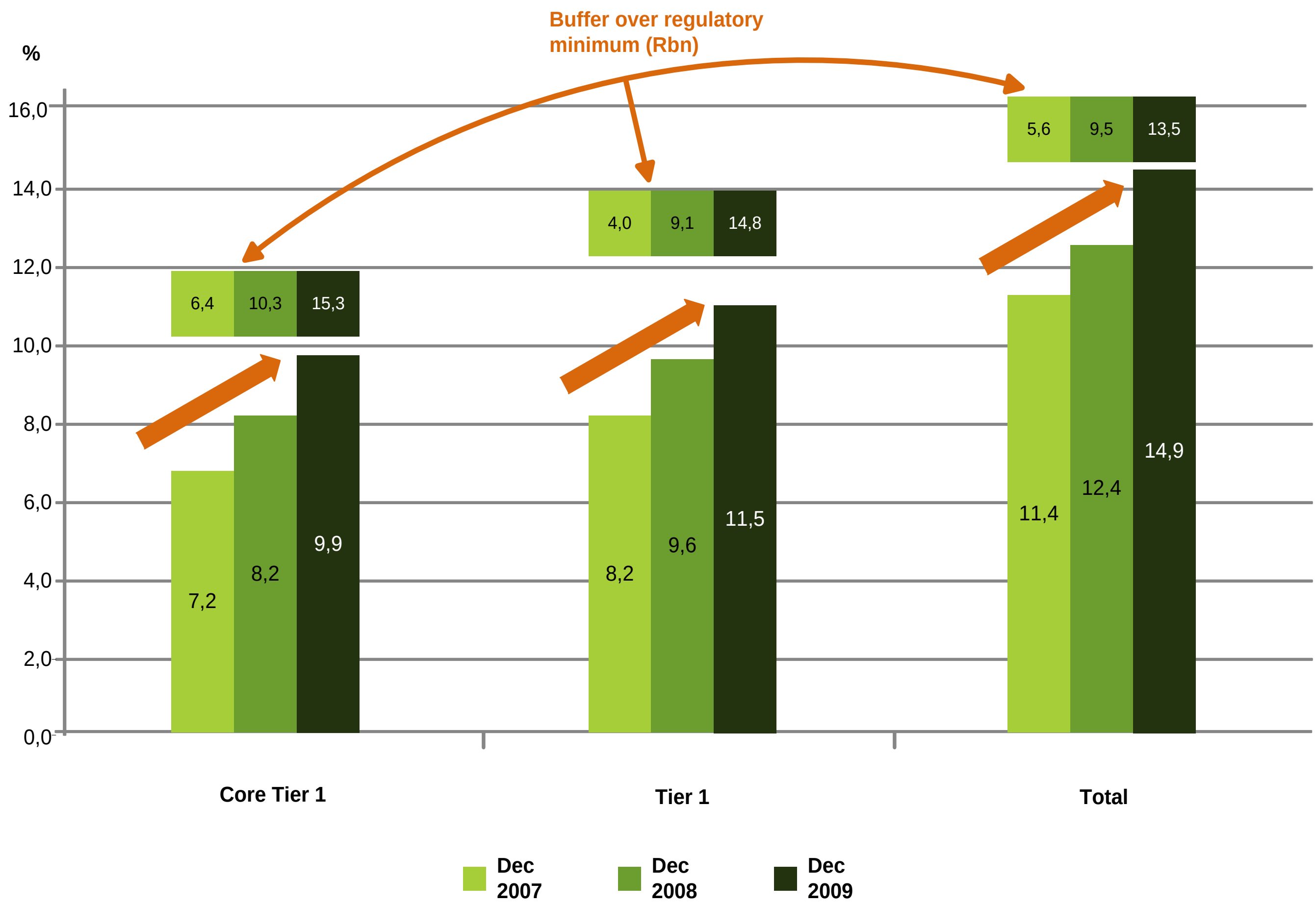
Capital optimisation (including risk optimisation and credit portfolio management)

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.

Capital Adequacy

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

THE NEDBANK GROUP RATIOS STRENGTHENED FURTHER IN 2009, A CONSISTENT TREND SINCE END 2007



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

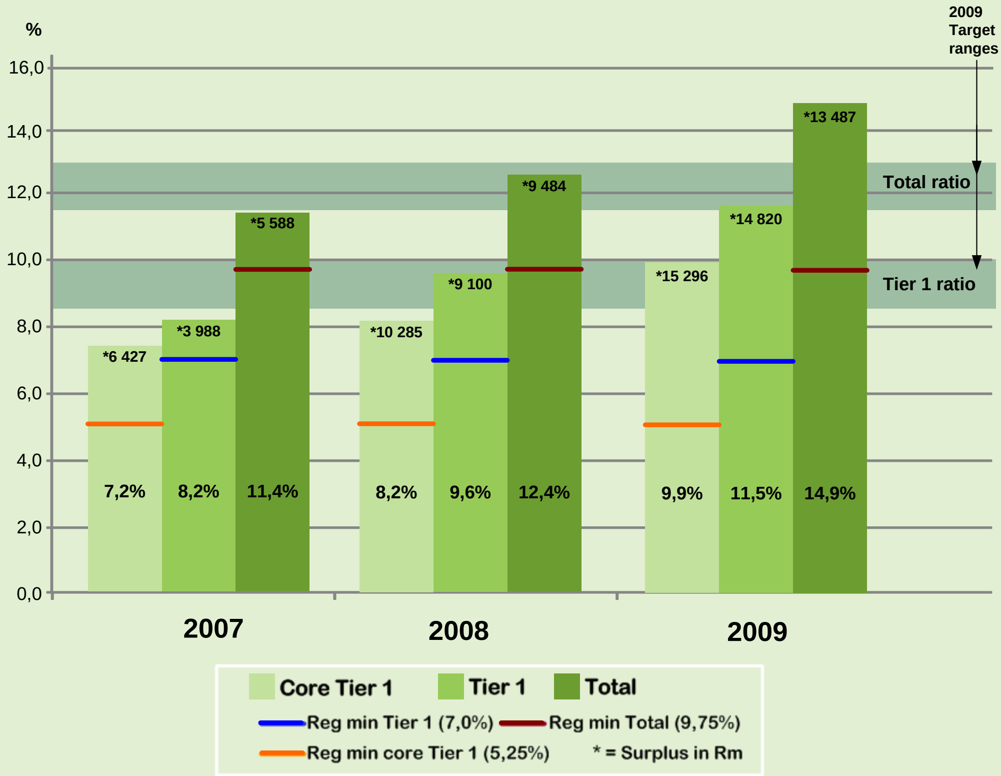
The board-approved 'Solvency and Capital Management' policy document requires Nedbank Group to be capitalised at the greater of Basel II regulatory capital and economic capital.

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

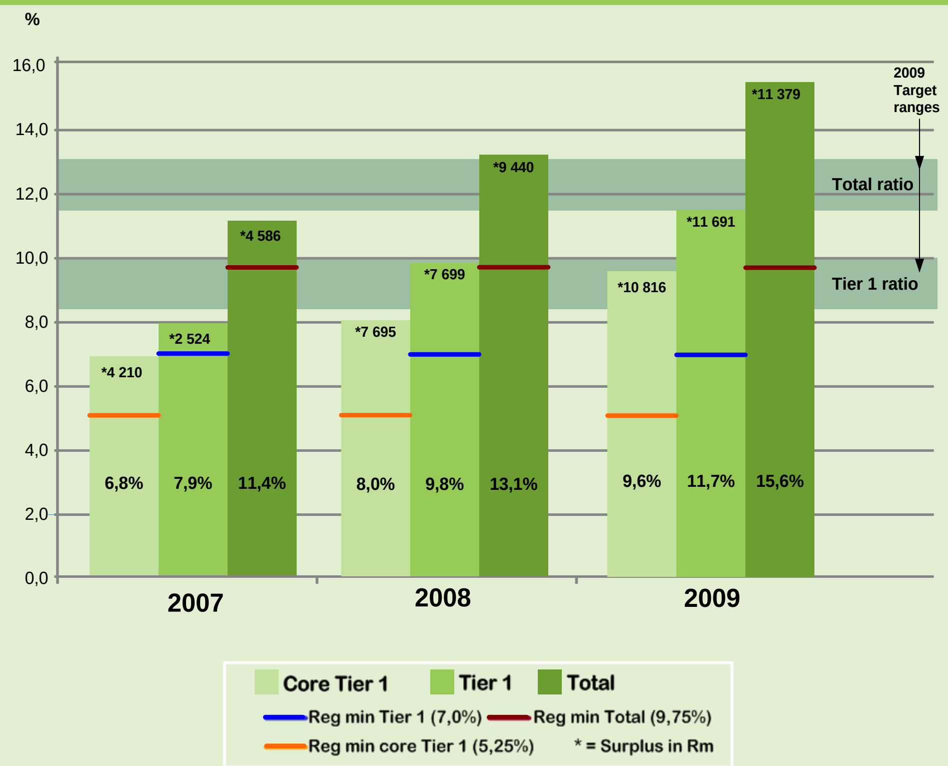
Regulatory capital adequacy

Basel II regulatory capital adequacy **

Nedbank Group



Nedbank Limited



**includes unappropriated profits

Nedbank Group Limited has again strengthened its regulatory capital ratios in 2009, with a Tier 1 capital adequacy ratio of 11,5% (2008: 9,6%) and a total capital adequacy ratio of 14,9% (2008: 12,4%). The core Tier 1 capital adequacy ratio was 9,9% (2008: 8,2%).

Nedbank Limited has also strengthened regulatory capital ratios, with a Tier 1 capital adequacy ratio of 11,7% (2008: 9,8%) and a total capital adequacy ratio of 15,6% (2008: 13,1%). The core Tier 1 capital adequacy ratio was 9,6% (2008: 8,0%).

All capital adequacy ratios are now well above the group's target ranges, including core Tier 1. They include unappropriated profits at the year-end to the extent that these are not expected to reverse and are expected to be appropriated subsequent to the year-end.

Nedbank Group's capital adequacy ratios increased significantly over the past two years due to a strong focus on the optimisation of risk-weighted assets (capital), enabled by enhancing data quality and more selective asset growth using our economic-profit-based philosophy of managing for value, the retention of earnings, the profits made on the disposal of Visa shares in 2008 and the issuing of some non-core Tier 1 capital instruments.

The group's leverage ratio (total assets to ordinary shareholders' equity, excluding off-balance-sheet items) at 14,4 times is also conservative by international standards and in line with the local peer group.

The capital base of the group provides the foundation for lending, off-balance-sheet transactions and other banking activities. Capital adequacy is measured in terms of the Banks Act, 94 of 1990, in terms of which the group must maintain a minimum level of capital based on risk-adjusted assets, off-balance-sheet exposures and other banking risks.

The SA and UK registered banks within the group have been subject to regulatory capital adequacy requirements under Basel ll since 1 January 2008. The Basel II Capital Accord also applies to Nedbank Group Limited, being the banking group.

Consolidation of entities for regulatory purposes is performed in accordance with the requirements of Basel II, the Banks Act and accompanying regulations. Some differences exist in the basis of consolidation for accounting and regulatory purposes. These include the exclusion of certain accounting reserves [eg 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 IFRS but are not subject to regulatory consolidation.

The FCT, SBP and AFS reserves that arise in the consolidation of entities in terms of IFRS amounted to R1,2 billion at year-end and are excluded from qualifying regulatory capital. Restrictions on the transfer of funds and regulatory capital within the group are not a material factor. These restrictions mainly relate to those entities that operate in countries other than South Africa where there are exchange control restrictions in place.

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

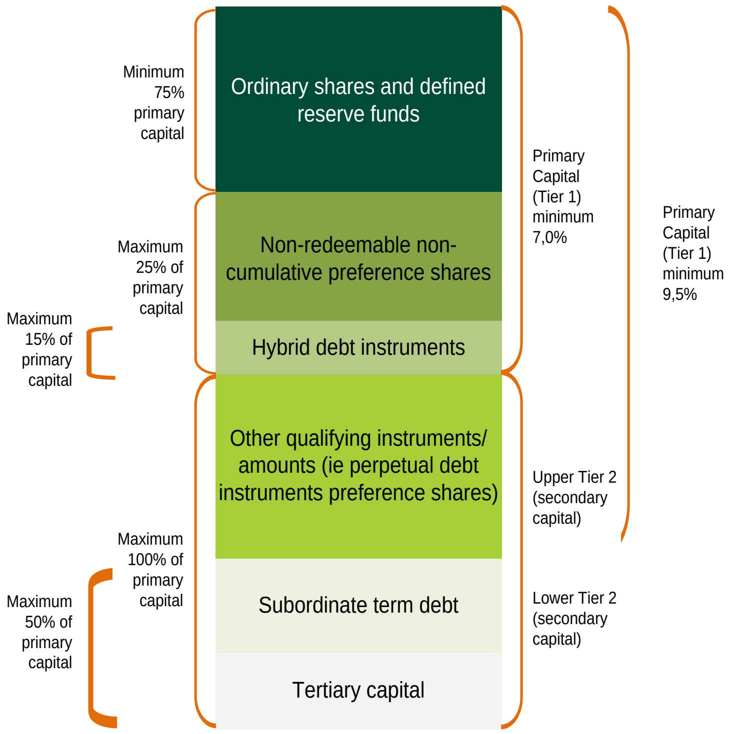
In line with a specific provision of the Banks Act regulations, profits do not qualify as regulatory capital, unless formally appropriated by the board. Accordingly, we show below our capital ratios, excluding unappropriated profits, noting that these profits could be appropriated at any time if needed.

Actual capital ratios (excluding unappropriated profits)	**Nedbank Group**		**Nedbank Limited**	
%	**2009**	2008	**2009**	2008
Core Tier 1	**9,6**	8,0	**9,4**	8,0
Tier 1	**11,2**	9,4	**11,5**	9,7
Total	**14,6**	12,3	**15,4**	13,1

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

QUALIFYING REGULATORY CAPITAL AND RESERVES | **REGULATORY MINIMUM CAPITAL STRUCTURE**

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



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

	2009	Mix	2008	Mix
	Rm	%	Rm	%
Credit risk	**246 099**	**75,4**	285 457	80,4
Nedbank Corporate	**67 427**	**20,7**	75 887*	21,4
Nedbank Business Banking	**33 616**	**10,3**	44 467	12,4
Nedbank Capital	**25 389**	**7,8**	34 672*	9,8
Nedbank Retail (including Bancassurance and Wealth)	**78 958**	**24,2**	94 138*	26,5
Imperial Bank	**39 914**	**12,2**	35 377	10,0
Central Management and Shared Services	**795**	**0,2**	916*	0,3
Equity risk	**13 396**	**4,1**	13 035	3,7
Market risk	**5 718**	**1,8**	7 049	2,0
Operational risk	**47 222**	**14,4**	36 497	10,2
Other assets	**14 031**	**4,3**	13 197	3,7
Total risk-weighted assets	**326 466**	**100**	355 235	100

** 2008 restated to include Africa and the United Kingdom in appropriate business clusters and to separate Nedbank Business Banking from the Nedbank Corporate cluster.*

Total risk-weighted assets decreased by R28,8 billion during 2009. The decrease was largely due to credit risk, which decreased by R39,4 billion as a result of the optimisation of risk-weighted assets, enabled by data quality enhancements and the reduction of excess conservatism, and selective asset growth under the group's managing for value strategic theme.

These decreases were offset by an increase in operational-risk-weighted assets of R8 billion due to the inclusion of the 'most recent year of gross income' data in the calculation under the Standardised Approach (TSA).

Summary of risk-weighted assets (by risk type) and capital adequacy position

	Nedbank Group		Nedbank Limited***	
Risk type	**2009**	2008	**2009**	2008
	Rm	Rm	**Rm**	Rm
Credit risk	**246 099**	285 457	**184 472**	221 969
Credit portfolios subject to Advanced Internal Ratings-based Approach (ie Nedbank Limited)	**192 842**	238 480	**180 968**	218 142
Corporate, sovereign, bank (including SME)	**105 669**	131 955	**95 274**	114 050
Residential mortgage	**51 023**	70 401	**49 543**	67 968
Qualifying revolving retail	**7 385**	6 554	**7 386**	6 554
Other retail	**28 765**	29 570	**28 765**	29 570
Credit portfolios subject to Standardised Approach	**49 344**	42 829		
Corporate, sovereign, bank	**19 534**	16 849		
Retail exposures	**29 810**	25 980		
Counterparty credit risk	**3 057**	3 169	**2 908**	3 109
Securitisation exposures (Internal Ratings-based Approach)	**856**	979	**596**	718
Equity risk (market-based Simple Risk Weight Approach)	**13 396**	13 035	**10 781**	10 190
– Listed (300% risk weighting)	**1 447**	1 574	**1 447**	1 471
– Unlisted (400% risk weighting)	**11 949**	11 461	**9 334**	8 719
Market risk (Standardised Approach)	**5 718**	7 049	**4 455**	5 445
Operational risk (Standardised Approach)	**47 222**	36 497	**39 025**	30 559
Other assets (100% risk weighting)	**14 031**	13 197	**10 429**	10 170
Total risk-weighted assets	**326 466**	355 235	**249 162**	278 333
Total minimum regulatory capital requirements*	**35 097**	34 635	**27 560**	27 137
Qualifying capital and reserves **	**48 584**	44 119	**38 939**	36 577
Total surplus capital over minimum requirements	**13 487**	9 484	**11 379**	9 440
Analysis of total surplus capital				
Core Tier 1 capital	**15 296**	10 285	**10 816**	7 695
Tier 1 capital	**14 820**	9 100	**11 691**	7 699
Total capital	**13 487**	9 484	**11 379**	9 440

* *Includes Basel II capital floor since February 2009.*

** *Includes unappropriated profits.*

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

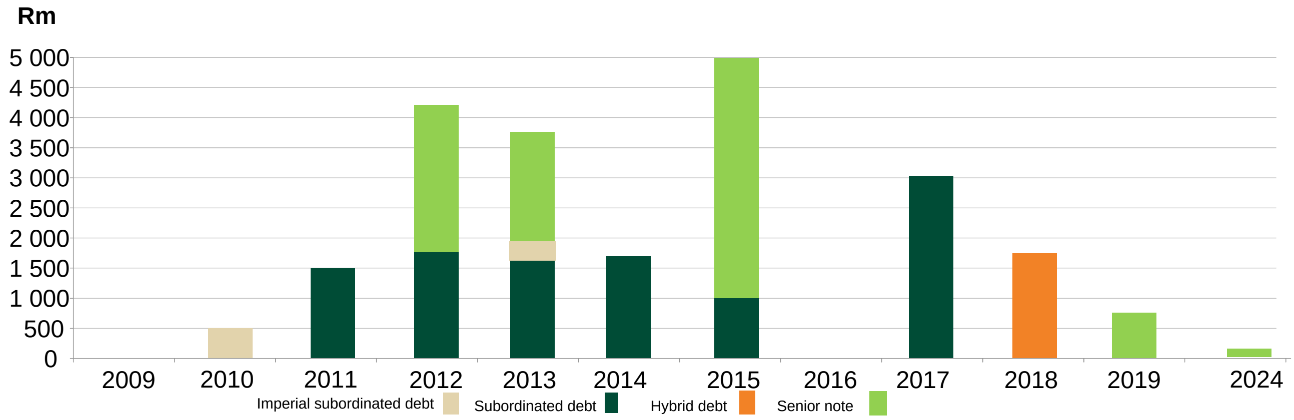
Summary of qualifying capital and reserves

Excluding unappropriated profits	Nedbank Group		Nedbank Limited	
Rm	**2009**	2008	**2009**	2008
Tier 1 capital (primary)	**36 627**	33 458	**28 600**	27 031
Core Tier 1 capital	**31 389**	28 427	**23 365**	22 156
Ordinary share capital	**436**	410	**27**	27
Ordinary share premium	**13 728**	11 370	**14 434**	14 434
Reserves	**25 485**	23 133	**15 610**	14 298
Minority interest: ordinary shareholders	**1 849**	1 881		
Deductions	**(10 109)**	(8 367)	**(6 706)**	(6 602)
Impairments	***(8)***	*(6)*	***(3 430)***	*(3 608)*
Goodwill	***(4 981)***	*(3 894)*	***(1 126)***	*(1 126)*
Excess of expected loss over eligible provisions (50%)	***(780)***	*(588)*	***(861)***	*(588)*
Unappropriated profits	***(1 312)***	*(658)*	***(798)***	*(300)*
Foreign currency translation reserves	***(223)***	*(545)*	***(9)***	*(9)*
Share-based payment reserves	***(875)***	*(949)*	***206***	*(281)*
Property revaluation reserves	***(1002)***	*(951)*	***(666)***	*(668)*
Surplus capital held in insurance entities (50%)	***(489)***	*(387)*		
Other regulatory differences	***(439)***	*(389)*	***(22)***	*(22)*
Non-core Tier 1 capital	**5 238**	5 031	**5 235**	4 874
Preference share capital and premium	**3 486**	3 279	**3 483**	3 122
Hybrid debt capital instruments	**1 752**	1 752	**1 752**	1 752
Tier 2 capital (secondary)	**10 911**	10 153	**9 807**	9 395
Long-term debt instruments	**11 500**	10 464	**10 848**	9 812
Revaluation reserves (50%)	**501**	476	**333**	334
Deductions	**(1 090)**	(787)	**(1 374)**	(751)
Surplus capital held in insurance and financial entities (50%)	***(489)***	*(387)*		
Excess of expected loss over eligible provisions (50%)	***(780)***	*(588)*	***(861)***	*(588)*
General allowance for credit impairment	***212***	*212*		
Other regulatory differences	***(33)***	*(24)*	***(513)***	*(163)*
Tier 3 capital (tertiary)	**-**	-	**-**	-
Total	**47 538**	43 611	**38 407**	36 426

Including unappropriated profits	Nedbank Group		Nedbank Limited	
Rm	**2009**	2008	**2009**	2008
Core Tier 1 capital	**32 435**	28 935	**23 897**	22 307
Tier 1 capital	**37 673**	33 966	**29 132**	27 182
Total capital	**48 584**	44 119	**38 939**	36 577

The quality and diversification of Nedbank Limited's capital base is sound, as reflected by our core Tier 1, Tier 1 and Tier 2 composition. This includes a smooth, well-diversified debt maturity profile with nine sub-debt issues totalling a nominal value of approximately R10,8 billion and their maturity appropriately spread over 2011 to 2017. Imperial Bank provides an additional R650 million of sub-debt, of which R500 million matures in 2010.

NEDBANK'S SUBORDINATED DEBT, NON-CORE TIER 1 AND SENIOR NOTES MATURITY PROFILE



Note: The subordinated debt is based on call dates not maturity.

Dividend cover

The group has a dividend cover policy range of 2,25 to 2,75, covered by headline earnings per share. Historically the effective cover has been higher as a result of takeup under a scrip dividend alternative and also the reinvestment of dividend proceeds by black economic empowerment (BEE) shareholder trusts.

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

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

	Risk-weighted assets	Basel II capital ratio	Risk-weighted assets	Basel II capital ratio
Bank	**2009**		2008	
	Rm	**%**	Rm	%
Nedbank Limited	**249 162**	**15,6***	278 333	13,1*
Imperial Bank Limited	**43 887**	**11,2**	38 074	11,1
Nedbank (Namibia) Limited	**3 864**	**14,6**	3 264	13,9
Fairbairn Private Bank (IOM) Limited	**2 327**	**15,9**	2 526	16,1
Fairbairn Private Bank Limited	**1 697**	**14,2**	1 722	14,5
Nedbank (Swaziland) Limited	**1 374**	**15,7**	619	17,4
Nedbank (Lesotho) Limited	**905**	**18,8**	320	23,3
Nedbank (Malawi) Limited	**98**	**50,1**	80	23,0

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

**Includes unappropriated profit.*

We conclude that the capitalisation of all these banking entities is adequate, all with conservative risk profiles and being well-managed and monitored within the group's Enterprisewide Risk Management and the Internal Capital Adequacy Process (ICAAP). Nedbank Group has approval to acquire 100% of Imperial Bank's shares and plans to integrate it fully into Nedbank Group in 2010, subject only to regulatory approval in terms of section 54.

Capital impact of Nedbank Group's outright purchase of joint ventures with Old Mutual and pending 100% Imperial Bank Limited buyout

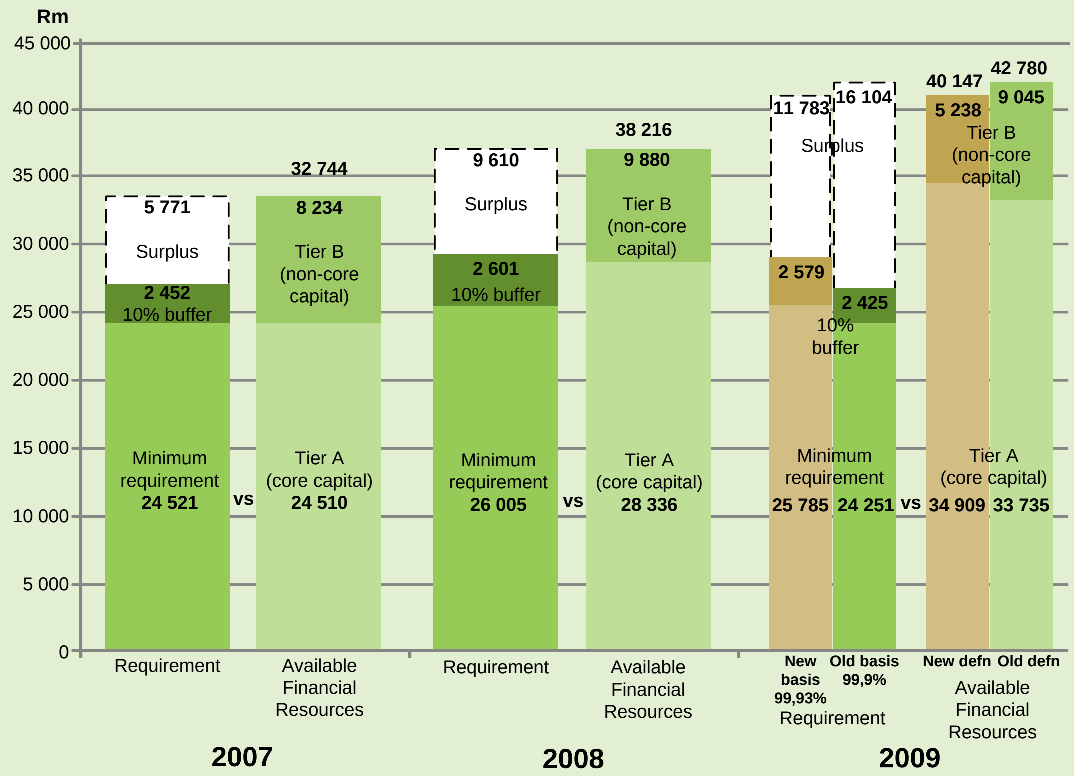
The capital impact on Nedbank Group of these transactions is negligible. The transaction with Old Mutual was 1 June 2009 and is included in these results. The transaction with Imperial Holdings was still pending at 31 December 2009. During February 2010 final regulatory approvals were received and Nedbank Limited acquired 100% of the ordinary and preference shares in Imperial Bank.

Economic capital adequacy

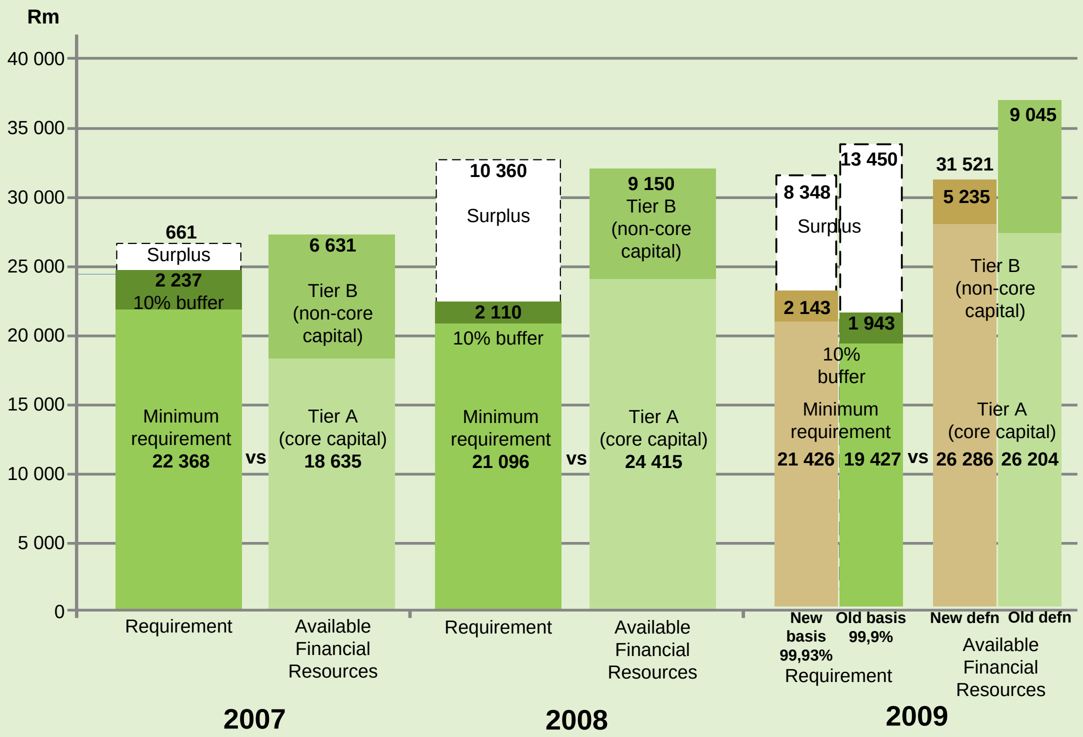
Nedbank Group's economic capital methodology has been summarised on page 99. Set out below is a summary of the group's economic capital adequacy and capital allocation to the business clusters:

NEDBANK GROUP

SUMMARY OF ECONOMIC CAPITAL ADEQUACY



NEDBANK LIMITED



The following changes were made to the group's 2008 economic capital model (used for ICAAP), which introduce even more conservatism around the group's target solvency standard:

- Increased the target debt solvency standard from A- (99,9%) (same as Basel II) to A (99,93%).
- Exclude '50% of next year's earnings' from the definition of AFR (even though business risk economic capital is still included).
- Created a Tier A and Tier B category for AFR, with Tier A having to cover at least the minimum economic capital requirement at an A rating.

> Definitions:
>
> Tier A = core Tier 1 regulatory capital and qualifying reserves*
>
> Tier B = perpetual preference shares and hybrid debt capital
>
> *(* In Tier A we include SBP, FCT and AFS reserves, as we deem this as correct and appropriate)*

The effect of the changes on required economic capital and AFR for 2009 is shown by comparing it with the required and available capital prior to and after these changes.

The impact of these changes at 2009 (with pro forma data) is highlighted in the tables below:

AVAILABLE SURPLUS AT YEAR-END		
Rm	**New basis (99,93%)**	**Old basis (99,90%)**
Economic capital requirement	25 785	24 251
10% capital buffer	2 579	2 425
Economic capital requirement including capital buffer	28 364	26 676
AFR	40 147	42 780
Available surplus (after 10% capital buffer)	**11 783**	**16 104**

ECONOMIC CAPITAL BY RISK TYPE AT YEAR-END		
Rm	**New basis (99,93%)**	**Old basis (99,90%)**
Credit risk	14 515	13 541
Transfer risk	142	134
Trading risk	442	428
IRRBB risk	39	39
Business risk	4 254	4 133
Operational risk	2 855	2 548
Property risk	1 158	1 121
Investment risk	1 734	1 679
Forex translation risk	33	33
Other assets risk	613	595
Total economic capital requirement	**25 785**	**24 251**
10% capital buffer	2 579	2 425
Economic capital requirement including 10% capital buffer	**28 364**	**26 676**

ECONOMIC CAPITAL AVAILABLE FINANCIAL RESOURCES AT YEAR-END		
Rm	**New definitions**	**Old definitions**
Tier A capital	**34 909**	**33 735**
Ordinary share capital and premium	14 164	14 164
Minority interest: ordinary shareholders	1 849	1 849
Reserves	25 485	24 311
Retained income (excluding unappropriated profits)	14 130	14 130
Unappropriated profits	1 309	1 309
Distributable reserves	7 697	7 697
Non-distributable reserves	173	173
Foreign currency translation (FCT) reserves	223	Not In
Share based payment (SBP) reserves	875	Not In
Available for sale (AFS) reserves	76	Not In
Property revaluation reserves	1 002	1 002
Deductions	(7 827)	(7 827)
Impairments	(8)	(8)
Goodwill	(4 981)	(4 981)
Subordinated-debt portion of unappropriated profits	(266)	(266)
First loss credit enhancement iro securitisation scheme (50%)	(33)	(33)
Surplus capital held in insurance entities (50%)	(489)	(489)
Holsboer and Chairman's Fund	(330)	(330)
Minority interest in Imperial Bank	(1 720)	(1 720)
Excess of IFRS provisions over expected loss (100%)	1 238	1 238
Tier B capital*	**5 238**	**9 045**
Total AFR	**40 147**	**42 780**

**Includes preference shares, hybrid debt capital instruments and other.*

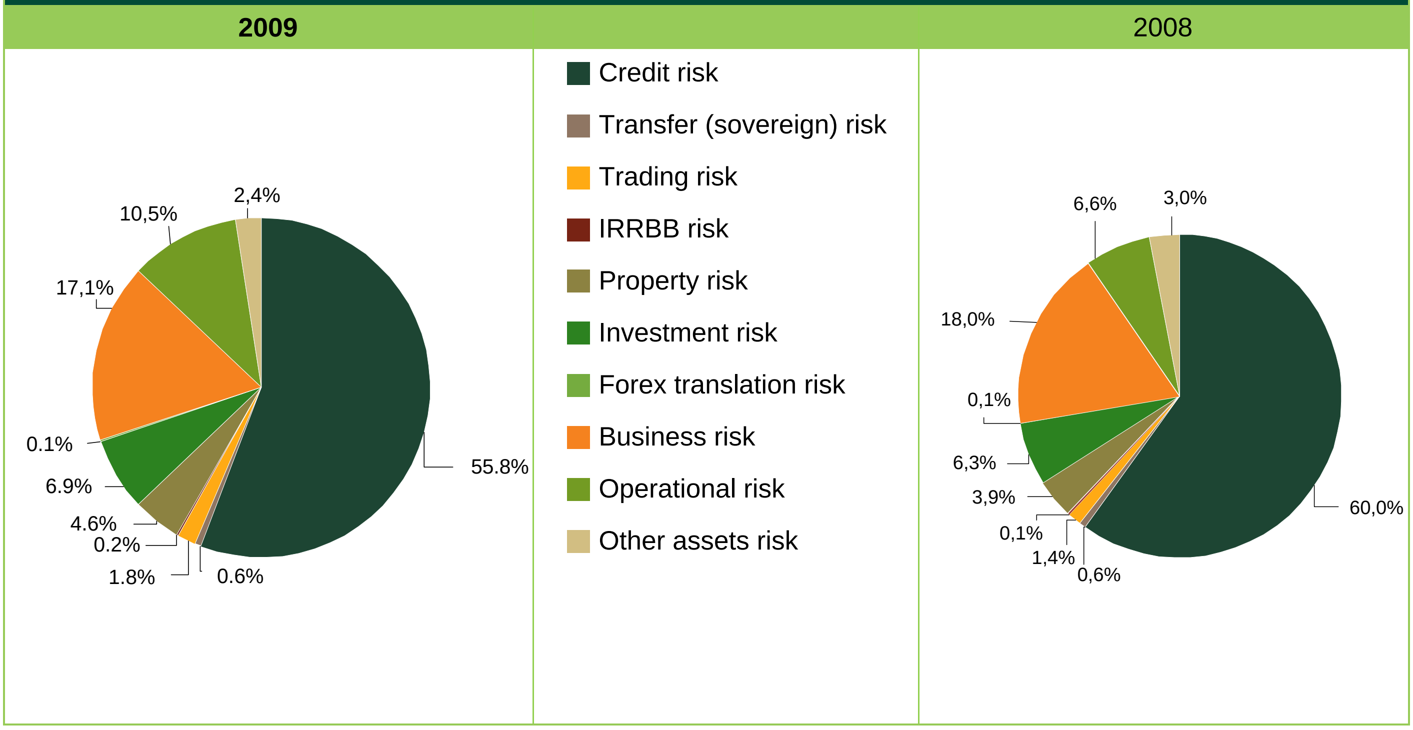
Nedbank Group's ICAAP confirms that the group is capitalised above its new, more conservative A or 99,93% target debt rating (solvency standard) in terms of its proprietary economic capital methodology set out on page 99. This includes a 10% capital buffer, the incorporation of the group's risk appetite approved by the board and the application of comprehensive stress and scenario testing.

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

Rm	2009		2008
	New basis	**Old basis**	Old basis
Credit risk*	14 515	13 541	15 605
Transfer risk	142	134	166
Market risk	3 406	3 300	3 066
Trading risk	442	428	352
IRRBB risk	39	39	33
Property risk	1 158	1 121	1 019
Investment risk	1 734	1 679	1 635
Forex translation risk	33	33	27
Operational risk	2 855	2 548	1 682
Business risk	4 254	4 133	4 798
Other assets risk	613	595	689
Minimum economic capital requirement	**25 785**	**24 251**	**26 005**
+ Capital buffer (10%)	2 579	2 425	2 601
= Total economic capital requirement	**28 364**	**26 676**	**28 606**
vs AFR	40 147	42 780	38 216
Tier A capital (shareholders equity)	*34 909*	*33 735*	*28 336*
Tier B capital (non-core Tier 1-type capital)	*5 238*	*9 045*	*9 880*
= Surplus available after capital buffer	**11 783**	**16 104**	**9 610**

**Credit risk economic capital incorporates counterparty credit risk and securitisation risk*
***New basis includes the new solvency standard (99,93%) and the new definition of AFR*

ECONOMIC CAPITAL REQUIREMENTS (BY RISK TYPE)



The total economic capital (including 10% buffer) decreased by R1,9 billion from R28,6 billion in 2008 to R26,7 billion in 2009 (old basis), owing mainly to a decrease in credit risk economic capital and business risk economic capital. The decrease in business risk is as a result of parameter updates as well as the lower projected growth, compared with the previous year.

Credit risk economic capital decreased from R15,6 billion to R13,5 billion (old basis) over the period. Both credit risk economic and regulatory capital decreased as a result of the optimisation of risk-weighted assets.

These decreases were offset by increases in property and operational risk. Property risk has increased as a result of the increase in properties in possession due to the worsening economic conditions. Operational risk increased due to the inclusion of the 'most recent year of gross income' data in the calculation under TSA.

In conclusion, Nedbank Group's economic capital adequacy is strong at its new A (99,93%) target debt rating (solvency standard), with surpluses at group level of R11,8 billion (R16,1 billion on the old basis at an A- target rating). This is after providing for a 10% economic capital buffer, which is subject to sophisticated stress testing.

Capital allocation (risk-based) to business clusters

A summary of economic capital requirement at year-end by business cluster (on the old basis)* is presented below:

Risk type	Nedbank Group		Nedbank Corporate		Nedbank Business Banking		Nedbank Capital		Nedbank Retail		Imperial Bank		BSM/other	
Rm	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Credit risk	**13 541**	15 605	**3 472**	3 897	**1 780**	3 182	**816**	934	**5 925**	6 122	**1 536**	1 450	**12**	20
Transfer (sovereign) risk	**134**	166	**39**	64			**95**	102						
Market risk	**3 300**	3 066	**601**	520	**3**	6	**1 281**	1 216	**450**	399	**32**	13	**933**	912
Trading risk	**428**	352					**428**	352						
IRRBB risk	**39**	33											**39**	33
Property risk	**1 121**	1 019	**37**	34	**3**	5			**257**	212	**32**	13	**792**	755
Investment risk	**1 679**	1 635	**560**	484		1	**841**	853	**178**	174			**100**	123
Forex translation risk	**33**	27	**4**	2			**12**	11	**15**	13			**2**	1
Operational risk	**2 548**	1 682	**438**	284	**407**	275	**299**	251	**1 279**	803	**101**	51	**24**	18
Business risk	**4 133**	4 798	**702**	745	**616**	676	**627**	1 241	**2 031**	2 009	**157**	127		
Other assets risk	**595**	689	**44**	176		35	**19**	21	**177**	174	**25**	1	**330**	282
Total	**24 251**	26 005	**5 296**	5 686	**2 806**	4 174	**3 137**	3 765	**9 862**	9 507	**1 851**	1 642	**1 299**	1 232

**On old economic capital basis, as the new basis is effective for capital allocation purposes only from 2010.*

The target debt solvency change will be effective for risk-adjusted performance measurement (RAPM) from 2010 and, as a result, is not effective in the business cluster results above. In addition, there are a number of economic capital allocation methodology enhancements that will be implemented for 2010, which are expected to have a significant impact on the allocation of capital across the group's business clusters. The impact of the changes by business cluster will be disclosed with the 2010 interim results. The following is a summary of the key enhancements being implemented for 2010:

- Full alignment of the group's actual book capital, which is used in the RoE calculation, with the aggregate amount allocated to the various business clusters using bottomup economic capital.
- Updating of the credit portfolio modelling correlations and revising the credit economic capital allocation methodology based on recent global developments (including downturn years) and the new regulatory thinking in line with the new Basel III proposals discussed earlier.
- Measurement of operational risk for economic capital purposes using the Advanced Measurement Approach (AMA) instead of the Standardised Approach (TSA).

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 up to 14,15% at the beginning of 2010. The main driver of the increase in the cost of equity was an increase in the 10-year risk-free rate, which resulted from a change in expectations for the 10-year RSA government yield on the back of global and local economic developments. The cost-of-equity figure of 14,15% is roughly in line with analyst expectations and peer group comparatives.

Capital Asset Pricing Model	Risk-free rate (R157)	Beta	Equity risk premium	After-tax cost of ordinary shares
	%		%	%
2007	7,73	1,02	5,30	13,14
2008	8,43	1,00	5,44	13,87
2009	7,75	1,00	5,50	13,25
2010	**9,17**	**0,90**	**5,50**	**14,15**

External credit ratings

External credit ratings across the banking industry were moved downwards, reflecting the effect of the global financial crisis on the banking sector. Notwithstanding strengthened capital and liquidity positions, and the much less significant impact of the global financial crisis on South Africa, local banks were all generally downgraded by the rating agencies.

Moody's Investors Service

In November 2009 Moody's Investors Service (Moody's) took a number of rating actions on the major SA banks, including the ratings of Nedbank Limited, the 100%-owned subsidiary of Nedbank Group Limited (Nedbank Group). According to Moody's these rating actions were triggered by the following factors:

- The deteriorating operating and macroeconomic conditions and the resultant challenges for the SA banking sector that has led to Moody's downgrading the bank financial strength rating (BFSR) by one notch to C-, while changing the outlook on the BFSR from negative to stable.
- At the same time the Global Local Currency (GLC) deposit rating was also downgraded one notch to A2, with an associated change in outlook from negative to stable.

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

Nedbank Limited
The foreign currency deposit ratings: remain unchanged at A3/P-2.
Nedbank Limited's (EMTN) programme: rating for senior unsecured debt downgraded to A2 (stable outlook) from A1 (negative outlook) and rating for subordinated notes downgraded to A3 (stable outlook) from A2 (negative outlook).
Nedbank Limited's BFSR rating: downgraded to C-; outlook revised from negative to stable.
Nedbank Limited's GLC deposit rating: downgraded 1 notch to A2; outlook changed from negative to stable.
Nedbank Limited's national scale debt ratings (relating to the domestic medium-term note (DMTN) programme): downgraded to Aa2.za (stable outlook) from Aa1.za for senior unsecured debt and to Aa3.za (stable outlook) from Aa2.za for subordinated notes.
Nedbank Limited's national scale rating: downgraded to Aa2.za; outlook revised from negative to stable.

Moody's current ratings for Nedbank Limited after the ratings actions:

MOODY'S INVESTORS SERVICE	NEDBANK LIMITED
	2009
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 current 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.

Fitch Ratings

Fitch Ratings (Fitch) also revised its ratings for Nedbank Group in July 2009.

Fitch affirmed Nedbank Group's long-term foreign and local currency Issuer Default Rating (IDR) at BBB and national long-term rating at AA-(zaf) respectively. The short-term foreign currency IDR was upgraded to F2 from F3. The outlook for all three ratings was revised to stable from negative.

Fitch downgraded Nedbank Limited's long-term foreign and local currency IDR to BBB from BBB+, and the national long-term rating to AA-(zaf) from AA(zaf) respectively. The outlook for the three ratings was revised upward to stable from negative.

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

The rating actions are summarised as follows:

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

Latest Fitch ratings for Nedbank Group companies:

FITCH RATINGS	NEDBANK GROUP	NEDBANK LIMITED	IMPERIAL BANK LIMITED
	Dec 2009	Dec 2009	Dec 2009
Individual	C	C	
Support	2	2	2
Foreign currency			
Short-term	F2	F2	
Long-term	BBB	BBB	
Long-term rating outlook	Stable	Stable	
Local currency			
Long-term senior	BBB	BBB	
Long-term rating outlook	Stable	Stable	
National			
Short-term	F1+ (zaf)	F1+ (zaf)	F1 (zaf)
Long-term	AA- (zaf	AA- (zaf)	A+ (zaf)
Long-term rating outlook	Stable	Stable	Positive

Definitions:

Individual and support

C = An adequate bank 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.

Stress and scenario testing

Comprehensive stress and scenario testing is used to stress our base case projections and so assess the adequacy of our 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. Recent international developments, including BIS enhancements to the Basel II framework (July 2009), are incorporated in our Stress- and Scenario-testing Framework and process.

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

Risk relating to procyclicality

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

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

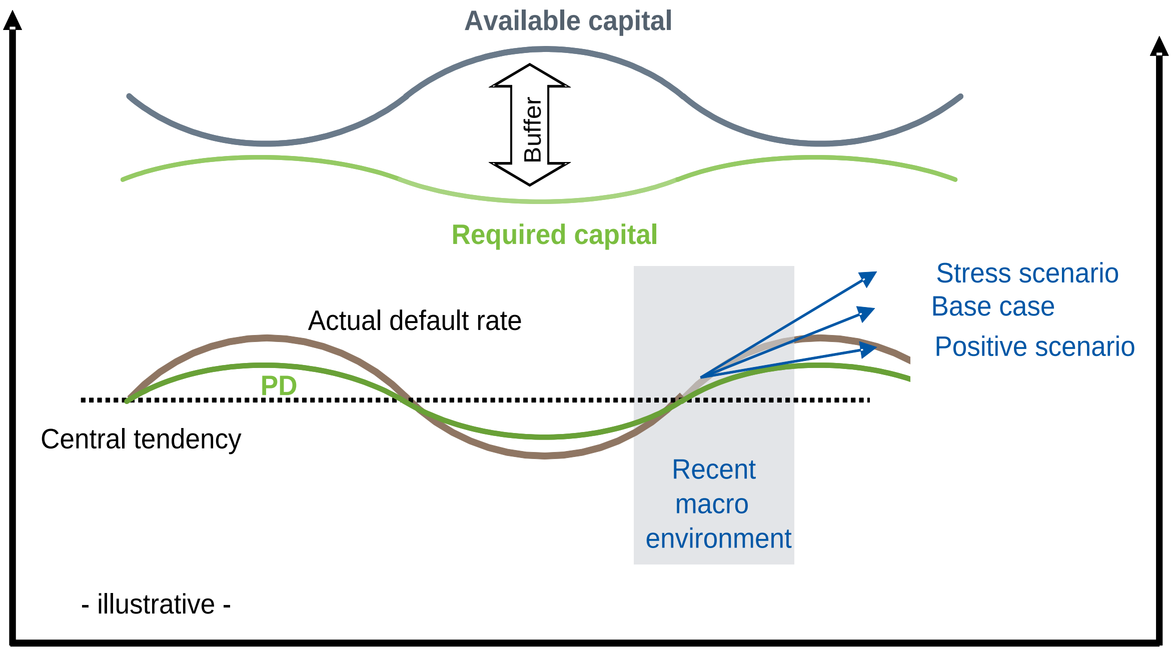
The following points explain procyclicality and how it is addressed in Nedbank Group:

- Dynamic enterprisewide risk management is tasked to identify and respond to changing economic conditions (eg tightening of credit-lending policies) and sophisticated stress and scenario testing is integrated with active capital management that includes the careful determination of capital buffers.
- Nedbank Group employs advanced credit-rating models that are used for risk management, pricing, forward-looking planning, etc and therefore are appropriately procyclical (ie ratings increase during times of macroeconomic stress).
- Credit rating models are, however, calibrated based on long-term historic average default rates (ie through-the-cycle) of at least five years for retail and seven years for wholesale, and the actual level of PDs in any given year represents a hybrid between, and are much closer to, a cycle-neutral average than the point-in-time default rates.
- These credit-rating models that are calibrated to long-term average default rates are therefore much less procyclical than the point-in-time rating models used for IFRS accounting purposes.
- Due to the fact that PDs are not fully cycle-neutral, both Basel II RWA as well as credit economic capital figures are slightly procyclical. This is considered in Pillar 1 stress testing as well as the groupwide Macroeconomic Factor Model (MEFM) stress testing. The MEFM explicitly models increases in PDs over time for different macroeconomic stress scenarios (mild, severe, etc), differentiated by the credit subportfolio.
- 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 macroeconomic stress scenarios differentiated by the credit subportfolio.
- Similarly, the MEFM forecasts the decline in available capital levels due to increased credit impairments in a macroeconomic downturn. The modelling of the credit impairments are point-in-time and thus the credit impairments are volatile in responding to the macroeconomic cycle.
- 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 macroeconomic 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 macroeconomic environment changes.

The points discussed above are illustrated in the diagram below:

PROCYCLICAL "HYBRID" PDs

IN THE ECONOMIC CYCLE AND IMPACT ON CAPITAL ADEQUECY

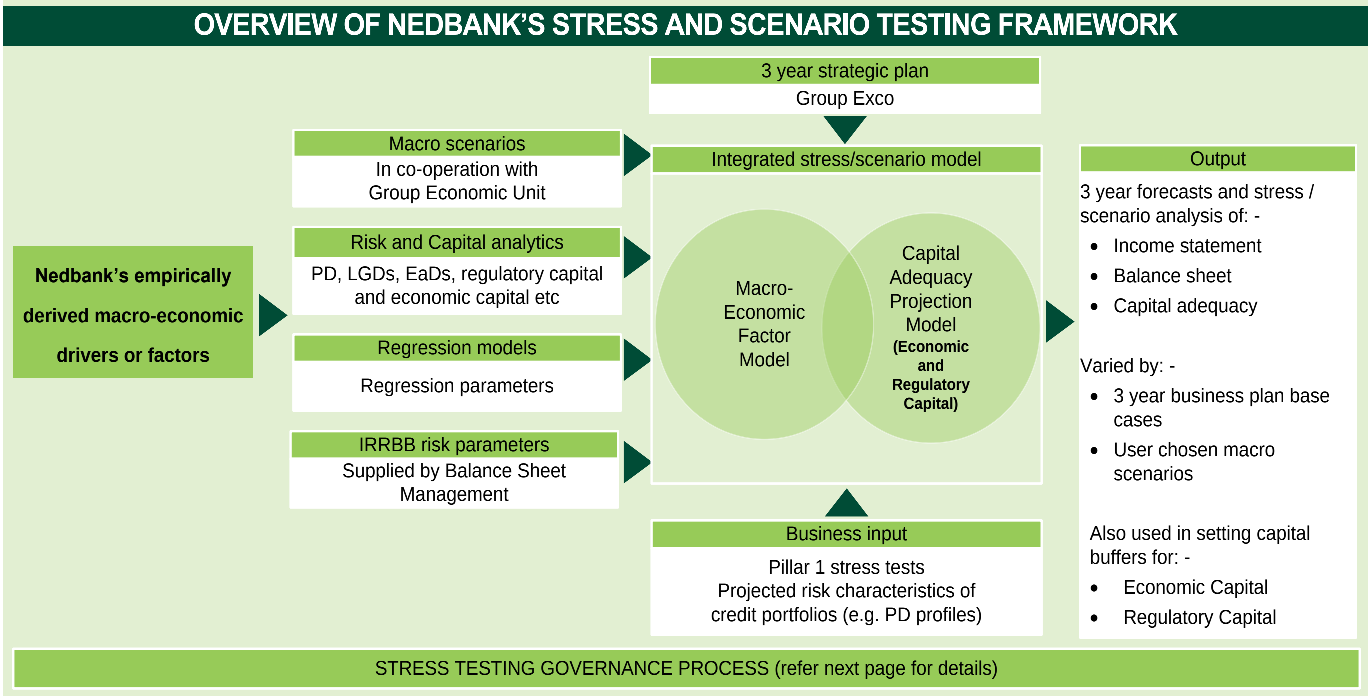


The stress testing of impacts of procyclicality are performed both for regulatory capital purposes and for economic capital purposes in setting and assessing the adequacy of the economic capital buffer. Specific risk (Pillar 1) stress tests are performed on individual major risk types in addition to 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 in 2006 with our 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 considerably enhanced during 2009 to assist in proactively derisking the bank in appropriate segments in view of the global financial crisis. The main objective of our stress testing is to assess the effect of possible unexpected events on Nedbank Group's base case projections, including our capital requirements and adequacy of capital buffers for both regulatory and economic capital (ICAAP). In addition, stress testing is an important tool for analysing Nedbank Group's risk profile and risk appetite.

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 groupwide Macroeconomic Factor Model is utilised to stress-test Basel II regulatory capital, economic capital, expected losses as well as available financial resources of the expected (base case) three-year projections for Nedbank Group and Nedbank Limited for different macroeconomic stress events.

Regression based models were developed for credit and business risks as these risk types were the most important (as measured by materiality), and credit risk in particular has proven links to the macroeconomic cycle. Structural models were developed for interest rate risk in the banking book and investment and property risks, as these risks were structurally dependent on and driven by specific macrofactors. Linked models were developed for operational and transfer risks, consistent with the Capital Adequacy Projection Model.

Several macroeconomic factors were tested in the development of the model to ensure that all possible combinations were considered. 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 exactly in the same way as for economic capital. Diversification benefits between risk types were determined by utilising Nedbank-specific correlations and the Macroeconomic Factor Model.

NEDBANK GROUP'S STRESS TESTING PROCESS AND GOVERNANCE

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

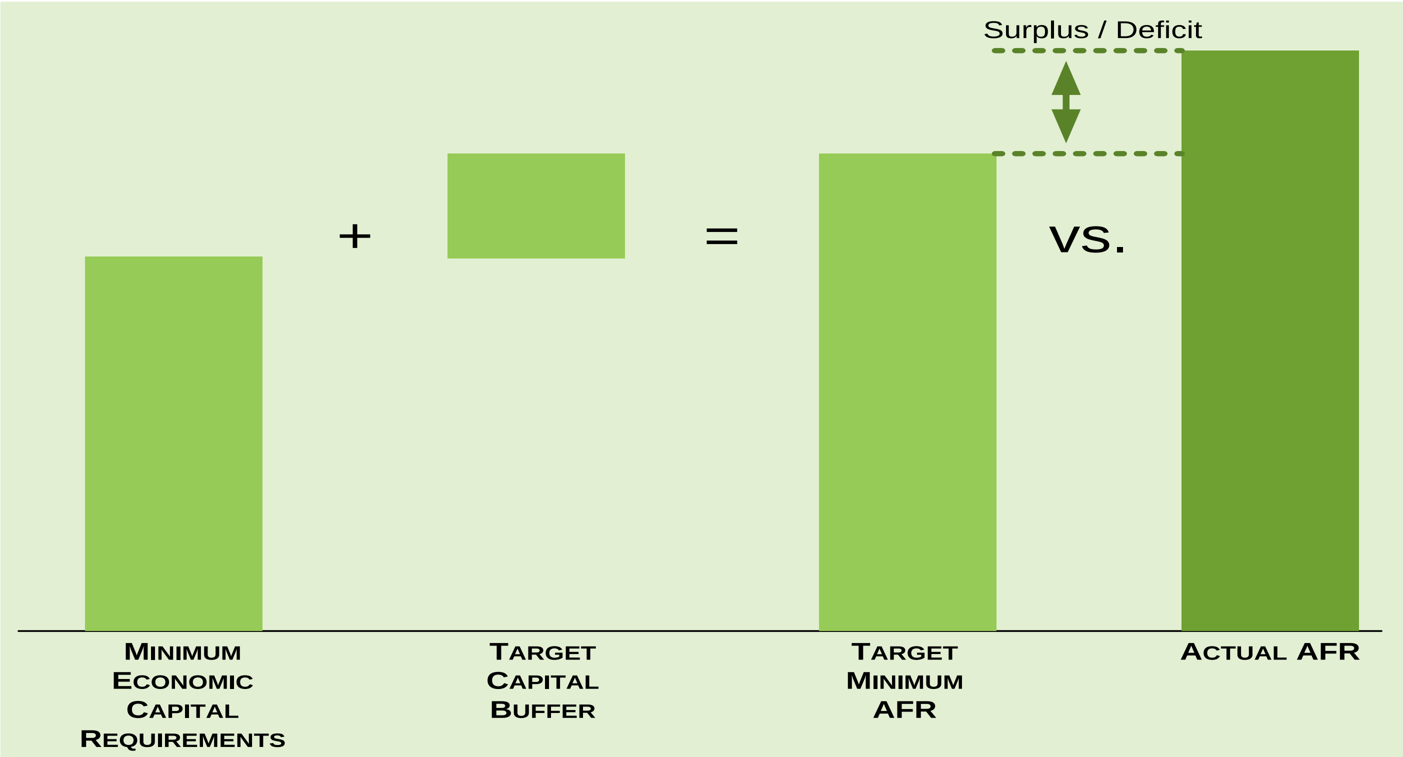
GRCMC = Group Risk and Capital Management Committee (board committee)

The key factors influencing economic capital buffer size may include:

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

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

Using the MEFM, an economic capital buffer of 10% above the minimum economic capital requirements has been set and approved. The target minimum available financial resources (AFR) to cover the economic capital requirements 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:



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

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

- **Additional scenarios**

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

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

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

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

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

- **Procyclicality tests**

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

The overall stress test results and effects on regulatory capital, economic capital, available capital resources and 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.

As part of the 2009 stress- and scenario-testing programme, an internal benchmarking exercise against international regulators was performed. The results of the benchmark against one of the regulators, namely the Bank for International Settlements, are included below.

Basel's Principles for Sound Stress-testing Practices and Supervision [May 2009]		
Principle 1	Stress testing integral part of the overall governance and risk management culture, actionable, with results from stress-testing analyses impacting decisionmaking at the appropriate management level, including strategic business decisions of the board and senior management.	✓
Principle 2	Stress-testing programme to promote risk identification and control; to provide a complementary risk perspective to other risk management tools; to improve capital and liquidity management; and to enhance internal and external communication.	✓
Principle 3	Stress-testing programme to take account of views from across the organisation and to cover a range of perspectives and techniques.	✓
Principle 4	Documented policies and procedures governing the stress-testing programme.	✓
Principle 5	Suitably robust infrastructure, sufficiently flexible to accommodate different and possibly changing stress tests at an appropriate level of granularity.	✓
Principle 6	Regularly maintain and update stress-testing framework.	✓
Principle 7	Stress tests to cover a range of risks and business areas, including at the firm-wide level, to integrate effectively across the range of its stress-testing activities to deliver a complete picture of firm-wide risk.	✓
Principle 8	Stress-testing programme to cover a range of scenarios, including forward-looking scenarios, and aim to take into account system-wide interactions and feedback effects.	✓
Principle 9	Stress tests to feature a range of severities and to determine what scenarios could challenge the viability of the bank (reverse stress tests).	✓
Principle 10	To take account of simultaneous pressures in funding and asset markets, and the impact of a reduction in market liquidity on exposure valuation.	✓
Principle 11	The effectiveness of risk mitigation techniques to be systematically challenged.	✓
Principle 12	Programme to cover complex and bespoke products such as securitised exposures.	✓ (not material at Nedbank)
Principle 13	Stress-testing programme to cover pipeline and warehousing risks.	✓ (not material at Nedbank)
Principle 14	Enhance stress-testing methodologies to capture the effect of reputational risk, and to integrate risks arising from off-balance-sheet vehicles and other related entities.	✓ (not material at Nedbank)
Principle 15	Enhance stress-testing approaches for highly leveraged counterparties.	✓ (not material at Nedbank)

Fully compliant ✓ ✗ *Non-compliant*

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's current capital planning and base-case-projected regulatory and economic capital levels, ratios, targets and buffers, incorporating the results and impacts of the stress and scenario testing applied, are sound and appropriate.

CONCLUSION

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

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

ANNEXURE A

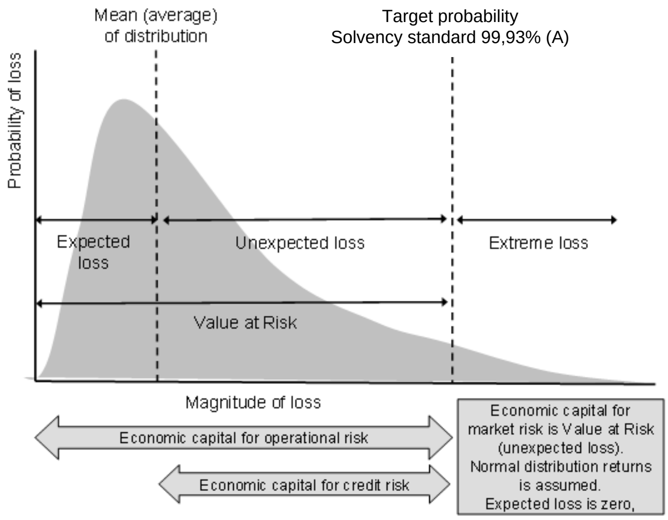
GLOSSARY OF RISK TERMS AND DEFINITIONS

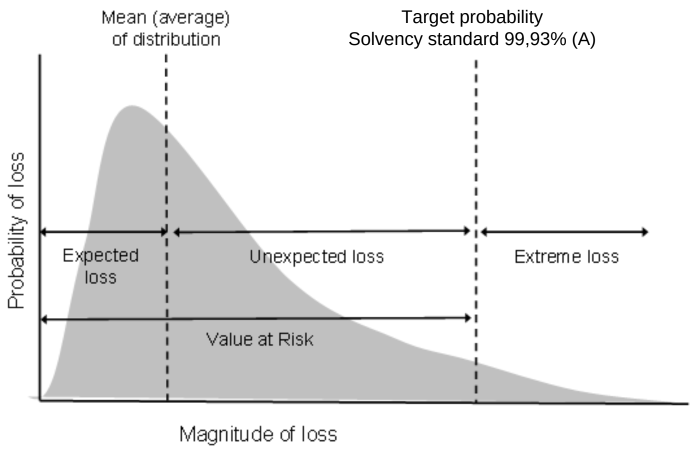
TERM	DEFINITION
Accounting and taxation risk (since accounting and taxation risk is an operational risk, for economic capital purposes accounting and taxation loss events are categorised in terms of one of the subrisks of operational risk)	The risk that the integrity of the financial statements and related information cannot be upheld. This risk has two subrisks: accounting risk and taxation risk
Accounting risk (subrisk of accounting and taxation risk) (Since accounting risk is an operational risk, for economic capital purposes accounting loss events are categorised in terms of one of the subrisks of operational risk)	The risk that: • inappropriate accounting information causes suboptimal decisions to be made, due to inappropriate policy, faulty interpretation of policy, or plain error; • the financial statements and other statutory and regulatory reporting do not accord with International Financial Standards (IFRS) and/or other relevant statutory requirements are not based on appropriate accounting policies and do not incorporate required disclosures; and • internal financial and operational controls of accounting and administration do not provide reasonable assurance that transactions are executed and recorded in accordance with generally accepted business practices and the group's policies and procedures, and that assets are safeguarded.
Advanced approaches	Methods available to banks to calculate their regulatory capital requirements based on own risk estimates. These include the Foundation and Advanced Internal Ratings-based (IRB) approach for credit risk, the Advanced Measurement Approaches (AMA) for operational risk, and the Internal Models Approach for market risk.
ALM risk	ALM risk is a composite risk category that includes interest rate and foreign exchange risks in the banking book and liquidity risk. Foreign-exchange risk in the banking book encompasses: • foreign exchange translation risk; and • foreign exchange transaction risk, which includes − known or ascertainable currency cashflow commitments and receivables (termed residual foreign exchange risk), − foreign funding mismatch (the Group ALCO has approved a foreign funding mismatch position for the group, which is managed by the Centralised Funding Desk in Treasury, Nedbank Capital) and − any other transaction extending credit or making an investment that attracts foreign exchange risk.
Asset liability management (ALM)	Asset liability management is the ongoing process of formulating, implementing, monitoring and revising strategies related to banking book assets and liabilities in an attempt to: • maximise the interest margin; and • manage the risk to earnings and capital arising from changes in financial market

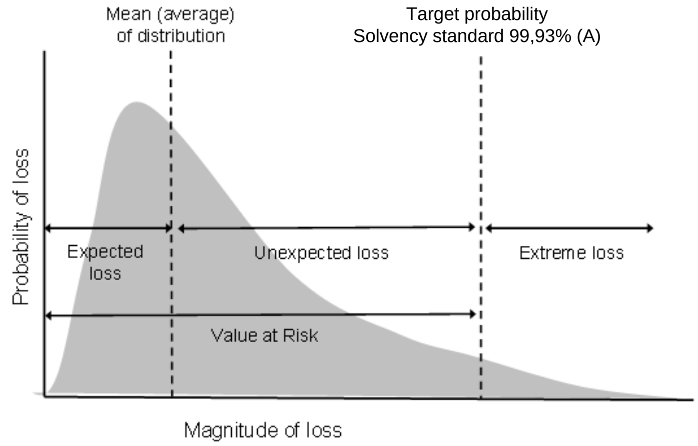
TERM	DEFINITION
	rates and the group's mix of assets and liabilities. ALM encompasses the management of liquidity risk, interest rate risk and exchange rate risk in the banking book through the use of both on- and off-balance-sheet instruments and strategies.
Backtesting	The validation of a model by feeding it historical data and comparing the model's results with historic reality.
Banking book	Group assets, liabilities and off-balance-sheet items that are not in the trading book.
Brand positioning risk (a subrisk of reputational risk)	Failure to manage the group and subsidiary brands properly, which significantly impacts the fundamentals underpinning the objective of the group/subsidiary. Damage to the group's brand may expose it to loss of client brand awareness, clients, profits and competitiveness.
Business disruption and system failure risk (a subrisk of operational risk)	The risk of losses arising from disruption of business or system failures. Business continuity is included in this subrisk and is defined as business disruption and non-continuous service to clients (both internal and external to the group) due to the physical site, human resources, systems or information being unavailable. Included in business continuity is disaster recovery, namely the ability of the group's IT system(s) to recover timeously, or respond with an acceptable alternative temporary solution, system or site following a disaster impacting the group, which might result in financial loss or reputational damage.
Capital at Risk (CaR)	The capital required to absorb unexpected losses, ie economic capital.
Capital management	Capital management is the single coherent set of processes that: • ensures the group's capital is in line with the requirements of the regulators, internal assessment of the level of risk being taken by the group, the expectations of the rating agencies and debt holders as well as the returns expected by shareholders; • takes advantage of the range of capital instruments and activities to optimise the financial efficiency of the capital base; and • manages capital risk.
Capital risk	The risk that the group will become unable to absorb losses, maintain public confidence and support the competitive growth of the business. Capital risk includes failure of the group's entities to maintain the minimum regulatory capital requirements laid down by the Registrar of Banks, Registrar of Securities Services, Registrar of Collective Investment Schemes, Registrars of Long-term and Short-term Insurance and JSE Limited.
Clients, products and business practices (subrisk of operational risk)	The risk of losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product. This subrisk includes money laundering.
Collateral risk (subrisk of credit risk)	The potential financial loss due to the inability to realise the full expected value of collateral due to unforeseen legal or adverse market conditions (eg property market slump), which causes the value of certain specific collateral types to deteriorate.

TERM	DEFINITION
Compliance risk (Since compliance risk is an operational risk, for economic capital purposes compliance loss events are categorised in terms of one of the subrisks of operational risk)	The risk of legal or regulatory sanctions, material financial loss, or loss of reputation the group may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking and other activities. (Basel.) Compliance risk is the current and prospective risk of damage to the organisation's business model or objectives, reputation and financial soundness arising from non-adherence to regulatory requirements and expectations of key stakeholders such as clients, employees and society as a whole. It exposes the organisation to fines, civil claims, loss of authorisation to operate and an inability to enforce contracts. (CISA.)
Concentration risk (subrisk of credit risk, market risk in the trading book and liquidity risk)	Risk resulting from: • in terms of market risk in the trading book and credit risk: – an excessive concentration of exposure to a single client or group of related clients, specific financial instrument(s), an individual transaction, a specific industry sector or geographical location; and – the degree of positive correlation between clients and groups of clients as well as between financial instruments/markets under stressed economic conditions; and • in terms of liquidity risk, reliance on funding or liquidity from a depositor or small group of depositors.
Corporate governance	Corporate governance is the structures, systems, processes, procedures and controls within an organisation, at both board of directors level and within the management structure, that are designed to ensure the group achieves its business objectives effectively, efficiently, ethically and within prudent risk management parameters. Good governance requires that there is an effective risk management process that can ensure the risks to which the group is exposed are addressed effectively.
Counterparty (subrisk of credit risk)	The risk that a counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing financial loss.
Country risk (subrisk of credit risk)	Country risk includes: • the risk that a borrower will be unable to obtain the necessary foreign currency to repay its obligations, even if it has the necessary local currency (referred to as transfer risk); • the risk of the group's assets in the country being appropriated; and • the risk of default by the government on its obligations (referred to as sovereign risk).
Credit rating	A credit rating is an assessment as to the borrower's ability to meet future payment obligations, ie it is the probability of default of the borrower. The group's credit ratings are based on statistical probabilities, derived from a range of bespoke rating models, that measure the likely probability of default of individual borrowers.
Credit risk	The risk arising from the probability of borrowers and/or counterparties failing to meet their repayment commitments (including accumulated interest).

TERM	DEFINITION
	Credit risk has the following subrisks: • collateral risk; • concentration risk; • counterparty risk; • country risk; • issuer risk; • industry risk; • settlement risk; and • transfer risk.
Credit scoring	A method used by a bank to calculate the statistical probability that a loan it grants will be repaid. The score is usually a single quantitative measure that represents the borrower's probable future repayment performance.
Credit spread	The difference in yield between two debt issues of similar maturity and duration. The credit spread is often quoted as a spread to a benchmark floating-rate index such as LIBOR or JIBAR or as a spread to highly rated reference securities such as a government bond. The credit spread is often used as a measure of relative creditworthiness, with a reduction in the credit spread reflecting an improvement in the borrower's perceived creditworthiness.
Currency	Referred to as foreign exchange.
Damage to physical assets (subrisk of operational risk)	The risk of losses arising from loss of or damage to physical assets from natural disaster or other events.
Default	Default occurs with respect to a particular obligor when: • the bank considers that the obligor is unlikely to pay its credit obligations to the bank in full without recourse by the bank to activities such as the release of collateral (if held); or • the obligor is past due more than 90 days on any material credit obligation to the bank.
Derivative financial instruments risk	The risk of financial loss and reputational damage to the group resulting from unauthorised and/or improper use and/or incorrect understanding, application and management of derivative instruments, whether used for internal or client purposes. Derivatives find application in credit risk, marketing risk in the trading book, market risk in the banking book and investment risk.
EAD	See exposure at default.
ECap	See economic capital.
Economic capital (Ecap)	Economic capital is the capital that the group holds and allocates internally as a result of its own assessment of risk. It differs from regulatory capital, which is determined by regulators. It represents the amount of economic losses the group could withstand and still remain solvent with a target level of confidence (solvency standard or default probability) over a

TERM	DEFINITION
	one-year time horizon. 
Employment practices and workplace safety risk (subrisk of operational risk)	The risk of losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal-injury claims, or from diversity/discrimination events.
Enterprisewide risk	Composite of risk types and categories (called the risk universe) across all business lines, functions, geographical locations and legal entities of the group. There are 17 risk types (ERMF risks): accounting and taxation risk; capital risk; compliance risk; credit risk; information technology risk; insurance and assurance risk; investment risk; liquidity risk; market risk in the banking book; market risk in the trading book; new-business risk; operational risk; people risk; reputation risk; social and environmental risk; strategic risk and transformation risk.
Enterprisewide risk management	Enterprisewide risk management is a structured and disciplined approach aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the opportunities, uncertainties and threats the group faces as it creates value. It involves integrating risk management effectively across an organisation's risk universe, business units and operating divisions, geographical locations and legal entities.
Enterprisewide Risk Management Framework (ERMF)	The risk framework developed by the group and applied to all of its divisions in order to identify, assess or measure, manage, monitor and report risk. The ERMF contains the group's risk universe, which lists 17 risk categories (the ERMF risks).
Equity in the banking book (also termed investment risk) (subrisk of investment risk)	The risk of decline in the net realisable value of equity exposures in the banking book. These include: • investment in securities (listed and unlisted equity holdings, whether direct or indirect, and includes private equity); and • investment in associate companies and joint ventures.
Environmental risk (subrisk of social and	The risk that that an activity or process in the group will degrade, devalue or destabilise the environment in such a way as to:

TERM	DEFINITION
environment risk)	• damage the environment itself and lead to further damage as a result; • harm employees of the bank; • harm other people in the community/society; and • damage the long-term prospects of the bank. It includes the risk of association with or financing of environment-unfriendly companies or projects.
ERMF	See Enterprisewide Risk Management Framework.
ERMF risks	The 17 risks listed in the ERMF.
Execution, delivery and process management risk (subrisk of operational risk)	The risk of losses arising from failed transaction processing or process management and relations with trade counterparties and vendors.
Expected loss (EL)	Losses that a bank expects to bear over a certain period (generally one year). These losses are a consequence of doing business, namely the bank's role as financial intermediary. Generally provisions should cover expected losses. 
External fraud (subrisk of operational risk)	The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent the law by a third party.
Extreme loss	The loss arising from a loss event of catastrophic magnitude. Such an event often leads to the failure of a bank.

TERM	DEFINITION
	
Exposure at default (EAD)	Quantification of the exposure at risk in case of a credit default.
Foreign exchange transaction risk (in the banking book) (subrisk of market risk in the banking book)	The risk that known or ascertainable currency cashflow commitments and receivables are uncovered and as a result have an adverse impact on the financial results and/or financial position of the group due to movements in exchange rates. Foreign exchange transaction risk in the banking book includes: • known or ascertainable currency cashflow commitments and receivables (termed residual foreign exchange risk); • foreign funding mismatch (Group ALCO has approved a foreign funding mismatch position for the group, which is run by the Centralised Funding Desk in Treasury, Nedbank Capital); and • any other transaction extending credit or making an investment that attracts foreign exchange risk.
Foreign exchange translation risk (subrisk of market risk in the banking book)	The risk to earnings or capital arising from converting the group's offshore banking book assets or liabilities or commitments or earnings from foreign currency to local or functional currency.
Gross risk	See inherent risk.
Hedge	A risk management technique used to reduce the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates arising from normal banking operations. Most often, the hedge involves the use of a financial instrument or derivative such as a forward, future, option or swap. Hedging may prove to be ineffective in reducing the possibility of loss as a result of, inter alia, breakdowns in observed correlations between instruments, or markets or currencies and other market rates.
Hedging	Action taken by the group to reduce or eliminate the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates.
ICAAP	See Internal Capital Adequacy Assessment Process.
Industry risk (subrisk of credit risk)	The risk that defaults will arise in an industry because of factors specifically affecting that industry.

TERM	DEFINITION
Information technology (IT) risk	The risk associated with information technology has a strategic and an operational component. Information technology risk encompasses the strategic component, while the operational component is included in operational risk. The risk resulting from system-inadequate or system-inappropriate information technology investment, development, implementation, support or capacity, with a concomitant negative impact on the achievement of strategic group objectives. This includes the risk of an uncoordinated, inefficient and/or underresourced information technology strategy, as a result of which the group becomes progressively less competitive.
Inherent risk	Inherent risk is the product of the impact of the risk on the objective(s) and the likelihood of the risk occurring should no management actions/controls be in place to mitigate the risk. Inherent risk is also known as gross risk. An ERMF risk, if applicable with respect to the achievement of the objective(s), is an inherently high (or red) risk.
Insurance and assurance risk (since insurance and assurance risk is an operational risk, for economic capital purposes insurance and assurance loss events are categorised in terms of one of the subrisks of operational risk)	Insurance and assurance risk comprises: • failure to reinsure with other acceptable quality insurers beyond the level of risk appetite (excessive risk) mandated by the board of directors risks underwritten by the short-term insurance and/or life assurance activities of the group, including catastrophe insurance (ie more than one insurance claim on the group arising from the same event), leading to disproportionate losses to the group (reinsurance risk); • the risk of no or inadequate insurance cover for insurable business risks (insurance risk); and • the risk of loss caused by events that result in predetermined exposures being exceeded (underwriting risk).
Interest rate risk in the banking book (subrisk of market risk in the banking book)	Interest rate risk in the banking book is the risk that the group's earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are: • repricing risk (mismatch risk) [timing differences in the maturity (for fixed-rate) and repricing (for floating-rate) of bank assets, liabilities and off-balance-sheet positions]; • basis risk (imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics); • yield curve risk (changes in the shape and slope of the yield curve); and • embedded options risk (the risk pertaining to interest-related options embedded in bank products).
Internal Capital Adequacy Assessment Process (ICAAP)	The process by which banks demonstrate that chosen internal capital targets are well founded and that these targets are consistent with their overall risk profile and current operating environment. The five main features of a rigorous process are: • board and senior management oversight; • sound capital assessment;

<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td></td><td>comprehensive assessment of risks;
monitoring and reporting; and
internal control review.</td></tr>
<tr><td>Internal control system</td><td>An internal control system comprises the policies, procedures and activities within the group designed to:
ensure that risks are contained within the risk tolerances established by the risk management process; and
provide reasonable assurance of reliable and accurate information, ensure compliance with policies, procedures and laws, use resources efficiently, protect assets and achieve operational objectives.
Internal control is a ‘process’ affected by the board of directors, senior management and all levels of staff in the group. The objectives of the internal control process are to provide reasonable assurance of:
efficiency and effectiveness of activities (performance objectives);
reliability, completeness and timeliness of financial and management information (information objectives); and
compliance with applicable laws and regulations (compliance objectives).</td></tr>
<tr><td>Internal fraud
(subrisk of operational risk)</td><td>The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party.

Internal fraud includes insider trading.</td></tr>
<tr><td>Investment risk</td><td>The risk of a decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself (eg reputation and the quality of management). Market prices are independent variables, which include interest rates, property values, exchange rates, and equity and commodity prices.

Investment risk has the following subrisks:
equity risk in the banking book (also termed investment risk); and
property market risk (also termed property risk).</td></tr>
<tr><td>Issuer risk
(subrisk of credit risk)</td><td>The risk that a particular principal payment or set of payments due from an issuer or a listed instrument (eg corporate bond) will not be forthcoming as scheduled.</td></tr>
<tr><td>Issue versus risk</td><td>An issue has materialised or is in the process of doing so, while a risk has not yet materialised.</td></tr>
<tr><td>Key risk indicator (KRI)</td><td>A management information indicator that provides continuous insight into the level of risk in the group/business. KRIs enable management to proactively manage and monitor risk on an ongoing basis.

KRIs may be leading, concurrent or lagging indicators.</td></tr>
<tr><td>Legal risk
(subrisk of operational risk)</td><td>Legal risk arises from the necessity that the group conduct its activities in conformity with the business and contractual legal principles applicable in each of the jurisdictions</td></tr>
</table>

TERM	DEFINITION
(for economic capital purposes legal risk is a subcategory of operational risk's subrisk clients, products and business practices)	where the group conducts its business. It is the possibility that a failure to meet these legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences. It includes risk arising from inadequate documentation, legal or regulatory incapacity, insufficient authority of a counterparty and uncertainty about the validity or enforceability of an obligation in counterparty insolvency. It comprises contravention, failure to prevent, detect or promptly correct violations of the terms and provisions of contractual agreements and related documents entered into with clients, counterparties, suppliers and other parties, including common-law and other applicable statutory liabilities.
LGD	See loss given default.
Likelihood	An assessment of how likely it is that a risk will occur. A similar term is probability.
Liquidity risk	Liquidity is the ability of the group to fund increases in assets and meet obligations as they become due, without incurring unacceptable losses. There are two types of liquidity risk: market liquidity risk and funding liquidity risk. Market liquidity risk is the risk that the bank cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption. Funding liquidity risk is the risk that the bank will not be able efficiently to meet both expected and unexpected current and future cashflow and collateral needs without affecting either daily operations or the financial condition of the bank. For purposes of the ERMF, liquidity risk is funding liquidity risk. Market liquidity risk is managed within the market risk in the trading book risk management framework. Concentration risk is a subrisk of liquidity risk.
Loss given default (LGD)	This is an estimate of the amount of the exposure at default that will be not be recovered. It also includes other economic costs such as legal costs.
Market risk in the banking book	The risk of loss in the banking book as a result of unfavourable changes in foreign exchange rates and interest rates. The subrisk of market risk in the banking book are: • interest rate risk in the banking book; • foreign exchange translation risk; and • foreign exchange transaction risk in the banking book.
Market risk in the trading book	The risk of loss as a result of unfavourable changes in market prices such as foreign exchange rates, interest rates, equity prices credit spreads and commodity prices. There is trading market risk within the group's proprietary trading activities (trading on the group's own account). Concentration risk is a subrisk of market risk.

TERM	DEFINITION
Model risk (a subrisk of operational risk) (for economic capital purposes, model risk is a subcategory of operational risk's subrisk clients, products and business practices)	The risk that business decisions are made using model results that are incorrect and includes the possibility of losing perspective of the limitations of models in general and the pitfalls associated with their use.
Net risk	See residual risk.
New-business risk	The risk that new product and business lines do not generate anticipated revenue or cost savings to the group. This could be as a result of providing to clients or potential clients inappropriate products and business lines that fail to meet clients' or potential clients' requirements or otherwise fail to impress, compete with competitor products or provide Nedbank Group with a leading edge in product development and delivery. Management of this risk requires that new products and business development do not reach the client distribution channel without the appropriate signoff for compliance with the risk management requirements for all 17 ERMF risks.
Objective	It is a goal that management has set for the entity (group or business) to achieve.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk. The subrisks of operational risk are: • business disruption and system failures; • clients, products and business practices; • damage to physical assets; • employment practices and workplace safety; • execution, delivery and process management; • external fraud; • internal fraud; • legal risk (for economic capital purposes, legal risk is a subcategory of the subrisk clients, products and business practices); and • Model risk (for economic capital purposes, model risk is a subcategory of the subrisk clients, products and business practices).
PD	See probability of default.
People risk	The risk associated with people has a strategic and operational component. People risk encompasses the strategic component, while the operational component is included in operational risk. People risk is the risk associated with inadequacies in human capital and the management of human resources, policies and processes, resulting in the inability to attract, manage, motivate, develop and retain competent resources, with a concomitant negative impact on the achievement of strategic Group objectives.

<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td></td><td>It includes:
the risk that effective risk-adjusted performance measurement and indicators are not implemented in the group, resulting in incorrect reward allocation, failure to optimise the use/allocation of the group's capital and wrong corporate behaviour resulting in suboptimal returns;
the risk that the group fails to motivate staff through the use of inappropriate incentive schemes, or the poor administration of incentive schemes; and
the risk that the group does not ensure that skills and experience are developed, consistently and methodically retained (or capitalised) and enhanced to create value for the group (in the form for example of innovative product designs, developed systems, methods and procedures).</td></tr>
<tr><td>Point-in-time rating</td><td>A credit rating based on point-in-time risk measures. Point-in-time measures assume the financial condition of the borrower will remain as it is currently.

Compare with through-the-cycle rating, which the group uses.</td></tr>
<tr><td>Primary (Tier 1) capital</td><td>Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other specified regulatory deductions.</td></tr>
<tr><td>Probability</td><td>An assessment of how probable it is that a risk will occur.
A similar term is likelihood.</td></tr>
<tr><td>Probability of default (PD)</td><td>Quantification of the likelihood of a borrower being unable to repay.</td></tr>
<tr><td>Property market risk
(subrisk of investment risk)</td><td>Property market risk is the risk of decline in the net realisable value of property arising from adverse movements in property prices or factors specific to the property itself (eg location).

Property comprises business premises, property acquired for future expansion and properties in possession (PIPs).</td></tr>
<tr><td>Regulatory capital</td><td>The total of primary, secondary and tertiary capital.</td></tr>
<tr><td>Regulation 39</td><td>A regulation issued in terms of the Banks Act titled 'Process of corporate governance'.

The regulation states that 'the conduct of the business of a bank entails the management of risks, which may include, amongst others, the following types of risk: capital risk; compliance risk; concentration risk; counterparty risk; credit risk; currency risk; equity risk arising from positions held in the bank's banking book; interest rate risk; liquidity risk; market risk (position risk) in respect of positions held in the bank's trading book; operational risk; reputational risk; risk relating to procyclicality; solvency risk; technological risk; translation risk; any other risk regarded as material by the bank.'</td></tr>
<tr><td>Reputational risk</td><td>The risk of impairment of the group's image in the community or the long-term trust placed in the group by its shareholders as a result of a variety of factors, such as the group's performance, strategy execution, ability to create shareholder value, or an activity, action or stance taken by the group. This may result in loss of business and/or legal action.</td></tr>
</table>

TERM	DEFINITION
Residual risk	Residual risk is the product of the impact of the risk on the objective(s) and the likelihood of the risk occurring taking into consideration current management actions/controls in place to mitigate the risk. Residual risk is also known as net risk.
Risk	Risk is anything that may prevent the bank from achieving its objectives or otherwise may have an adverse impact on the bank.
Risk-adjusted performance measurement (RAPM)	There are two main measures implemented through Nedbank Group's RAPM framework: • risk-adjusted return on capital (RAROC), which expresses the risk-adjusted profit with respect to the capital necessary to generate the revenue, giving a relative measure of performance; and • economic profit (EP), an absolute measure of shareholder value creation.
Risk-adjusted return on capital (RAROC)	The International Financial Reporting Standard's earnings of the business, adjusted for the difference between expected loss and impairments and, divided by the economic capital consumed by that business, giving a relative measure of performance.
Risk appetite	The quantum of risk the group is willing to accept in pursuit of its business strategy. Risk appetite is expressed quantitatively as risk measures such as economic capital and risk limits, and qualitatively in terms of policies and controls.
Risk identification	The ongoing recognition and discernment of risk.
Risk management and control	The proactive management of risks within the risk appetite to be reasonable assured of achieving objectives. Risk management consists of taking action to align risks with the group's risk appetite and ensuring that such actions are properly executed. Appropriate risk management will require at least: • a system of internal controls; • approval processes; • limit systems; • key risk indicators; • reviews of ERM policies, processes and procedures and their implementation; and • reviews of controls, approvals and limits.
Risk Management Framework	An outline for the management of a risk, more fully developed or described elsewhere. A risk management framework comprises: • An appropriate risk management environment − Risk philosophy − Risk culture − Risk appetite − Risk governance structure − Policies, processes and procedures − Staff and other resources • A risk strategy • A risk management process

TERM	DEFINITION
	– Risk identification – Risk measurement – Risk management and control – Risk reporting – Risk monitoring
Risk measurement	The evaluation of the magnitude of risk and its impact on the achievement of business objectives.
Risk monitoring	The ongoing and systematic tracking and evaluating of risk management decisions and actions against strategies, risk appetite, policies, limits, key risk indicators. Risk monitoring incorporates a feedback loop into the other components of the risk management process, namely risk identification, measurement/assessment, management and/or reporting.
Risk reporting	The communication of risk information in all phases of the risk management process, namely identification, measurement, management and monitoring. Risk reporting includes at least the reporting of: • aggregate exposures against targets/strategies; • key issues for the key issues control log; • compliance with limit system; • key risk indicators; and • review findings.
Risk strategy	A risk strategy describes the fundamental direction with regard to each of the 17 ERMF risks and associated subrisks. A risk strategy is built around and supports the business strategy. Generic risk strategies are: avoid (or terminate), transfer, mitigate (or treat) or accept (or tolerate).
Risk versus issue	A risk has not (yet) materialised, while an issue has materialised or is in the process of doing so.
Risk-weighted assets	Risk-weighted assets are determined by applying risk weights to balance sheet assets and off-balance-sheet financial instruments according to the relative credit risk of the counterparty. The risk-weighting for each balance sheet asset and off-balance-sheet financial instrument is regulated by the SA Banks Act, 94 of 1990, or by regulations in the respective countries of the other banking licences.
RORAC	Rorac is a relative performance measurement whereby capital is calculated on a risk adjusted basis (ie economic capital) RORAC = $\frac{\text{(IFRS earnings + capital benefit)}}{\text{Economic capital}}$
Secondary (Tier 2) capital	Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions.

<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td>Security
(function of Group Risk services)</td><td>Security is a risk management function consisting of physical security, information security and personnel integrity.

The objectives of physical security are to protect:
• physical assets under the control of the group;
• the wellbeing of the staff, clients and public; and
• the group's reputation as it relates to safety and security, ie the protection of the image and reputation of the bank in providing a safe and secure, environmentally friendly business environment.

The objectives of information security are to protect the group from breaches in the confidentiality or integrity of group information and from the unavailability of such information when required. This includes all information in the group, not only internally system-generated information.

The objectives of personal integrity are to ensure that staffmembers do not compromise resources or allow resources to be compromised, be it on purpose, through neglect or unintentionally.</td></tr>
<tr><td>Securitisation risk</td><td>The creation and issuance of tradeable securities, such as bonds, that are backed by the income generated by an asset, a loan, a public works project or other revenue source.</td></tr>
<tr><td>Settlement risk (subrisk of credit risk)</td><td>The risk that an organisation gives, but fails to receive, consideration from a counterparty during the settlement of a transaction. The settlement may be cash or securities.

Foreign exchange settlement risk is the risk of loss when a bank in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought.</td></tr>
<tr><td>Social and environmental risk</td><td>The risk of reputational impairment and ultimately loss of business and profitability as a result of non-achievement of a balanced and integrated social and environment performance. Together with economic performance, this is referred to as the 'triple bottomline'.

Social and environmental risk has two subrisks:
• social risk; and
• environmental risk.</td></tr>
<tr><td>Social risk
(subrisk of social and environmental risk)</td><td>The risk of reputation damage, political intervention, heightened regulatory pressure, protests, boycotts and operational stoppages – and ultimately loss of business and profitability – due to the real or perceived negative impact of group business practices on a broad range of matters related to human, societal and community welfare such as health and economic opportunity.</td></tr>
<tr><td>Sovereign risk</td><td>See country risk.</td></tr>
<tr><td>Strategic risk</td><td>The risk of an unattractive or adverse impact on capital and earnings due to business policy decisions (made or not made), changes in the economic environment, deficient or insufficient implementation of decisions, or failure to adapt to changes in the environment.</td></tr>
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<table>
<tr><th>TERM</th><th>DEFINITION</th></tr>
<tr><td></td><td>Strategic risk is either the failure to do the right thing, doing the right thing poorly, or doing the wrong thing.

Strategic risk includes:
• the risk associated with the deployment of large chunks of capital into strategic investments that subsequently fail to meet stakeholders expectations;
• the risk that the strategic processes to perform the environmental scan, align various strategies, formulate a vision, strategies, goals and objectives and allocate resources for achieving, implementing, monitoring and measuring the strategic objectives are not properly in place or are defective; and
• failure adequately to review and understand the environment in which the group operates leading to underperformance of its strategic and business objectives (specific environmental components are inter alia industry, political, economic, government, competitive and regulatory factors).

Brand positioning is a subrisk of strategic risk.</td></tr>
<tr><td>Subrisk</td><td>This is a component risk of an ERMF risk. A separate risk management framework is defined for a subrisk.</td></tr>
<tr><td>Taxation risk
(a subrisk of accounting and taxation risk)

(Since taxation risk is an operational risk, for economic capital purposes taxation loss events are categorised in terms of one of the subrisks of operational risk)</td><td>The risk of loss (financial or otherwise) because:
• effective tax planning, coordination and strategy, compliance with tax laws and regulations, proactive identification and management of tax risks are not enforced or
• a poor relationship with revenue authorities exists.

Taxation risk is the risk of loss (financial or otherwise) as a result of:
• inappropriate tax planning and strategy, which will result in higher taxes being paid by the group than is legally necessary or financial loss through an overly aggressive approach to tax law;
• non-compliance with or incorrect interpretation and application of taxation legislation, ie the risk of penalties, fines and/or reputational damage due to non-compliance with tax laws, regulations and/or accepted tax practice; or
• the effect of new tax legislation on existing financial structures or products.</td></tr>
<tr><td>Tertiary (Tier 3) capital</td><td>Tertiary capital means:
• accrued current-year uncapitalised net profits derived from trading activities; and
• capital obtained by means of unsecured subordinated loans, subject to such conditions as may be prescribed.</td></tr>
<tr><td>Through-the-cycle rating</td><td>Credit rating based on through-the-cycle risk measures. Through-the-cycle measures evaluate the financial condition of the borrower over a longer term, incorporating a full economic (or business) cycle.

Compare to point-in-time rating.

The group uses through-the-cycle ratings. Therefore PD, LGD and EAD estimates are based on long-term averages of the group's historical risk experience.</td></tr>
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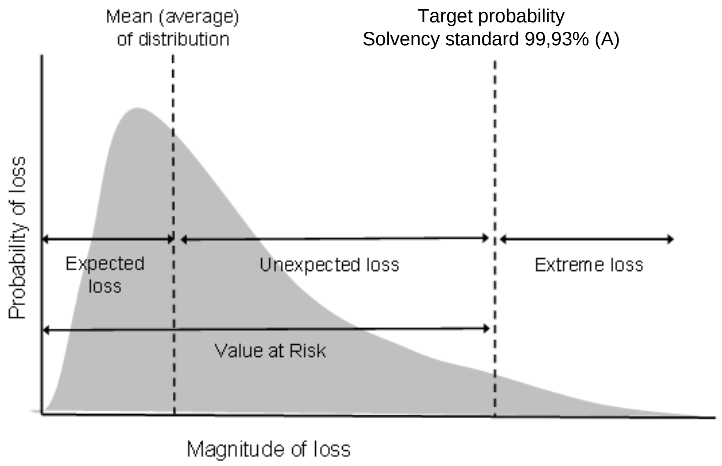
TERM	DEFINITION
Trading book	This comprises positions in financial instruments and commodities, including derivative products and other off-balance-sheet instruments that are held with trading intent or to hedge other elements of the trading book. It includes financial instruments and commodities that: • are held for short-term resale; or • are held with the intention of benefiting from short-term price variations; or • arise from broking and market making; or • are held to hedge other elements of the trading book.
Transfer risk	See country risk.
Transformation risk (Since transformation risk is an operational risk, for economic capital purposes transformation loss events are categorised in terms of one of the subrisks of operational risk)	The risk of failure by the group to adequately, proactively and positively respond to and address transformation issues such as black economic empowerment and upholding related laws such as the Employment Equity Act.
Unexpected loss	Losses that may exceed the expected loss within a certain period (eg one year) and within a specified confidence level (ie 99,3%). Unexpected loss is the difference between value at risk and expected loss. 
Use test	This is the requirement that the components of advanced approaches for the calculation of regulatory capital should not be used merely for the calculation of regulatory capital. Instead they should play an essential role in how a bank measures and manages risk in its business.
Value at risk (VaR)	Formally, this is the probabilistic bound of losses over a given period (the holding period) expressed in terms of a specified degree of confidence (the confidence interval). Put more simply, VaR is the worst-case loss expected over the holding period within the probability set out by the confidence interval. Larger losses are possible, but with a lower probability. For example: If a portfolio has a VaR of R10 million over a one-day holding period with a 95% confidence interval, the portfolio would have a 5% chance of suffering a one-day loss greater than R10 million.