CAPITAL MANAGEMENT IN THE NEDBANK GROUP

Presentation to the Merrill Lynch Investor Lunch

(*Booklet*)

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CAPITAL MANAGEMENT IN THE NEDBANK GROUP

AGENDA

NEW RULES TO THE GAME OF BANKING

NEW RULES TO THE GAME OF BANKING

ARISING MAINLY FROM

- Basel 2 as the catalyst to risk based capital requirements:
  - comprehensive and sensitive risk measurement, which in turn drives capital requirements
  - capital requirements varied between banks with different risk profiles
  - convergence of economic capital and regulatory capital
- Low inflationary environment
- Increased competition

THEREFORE

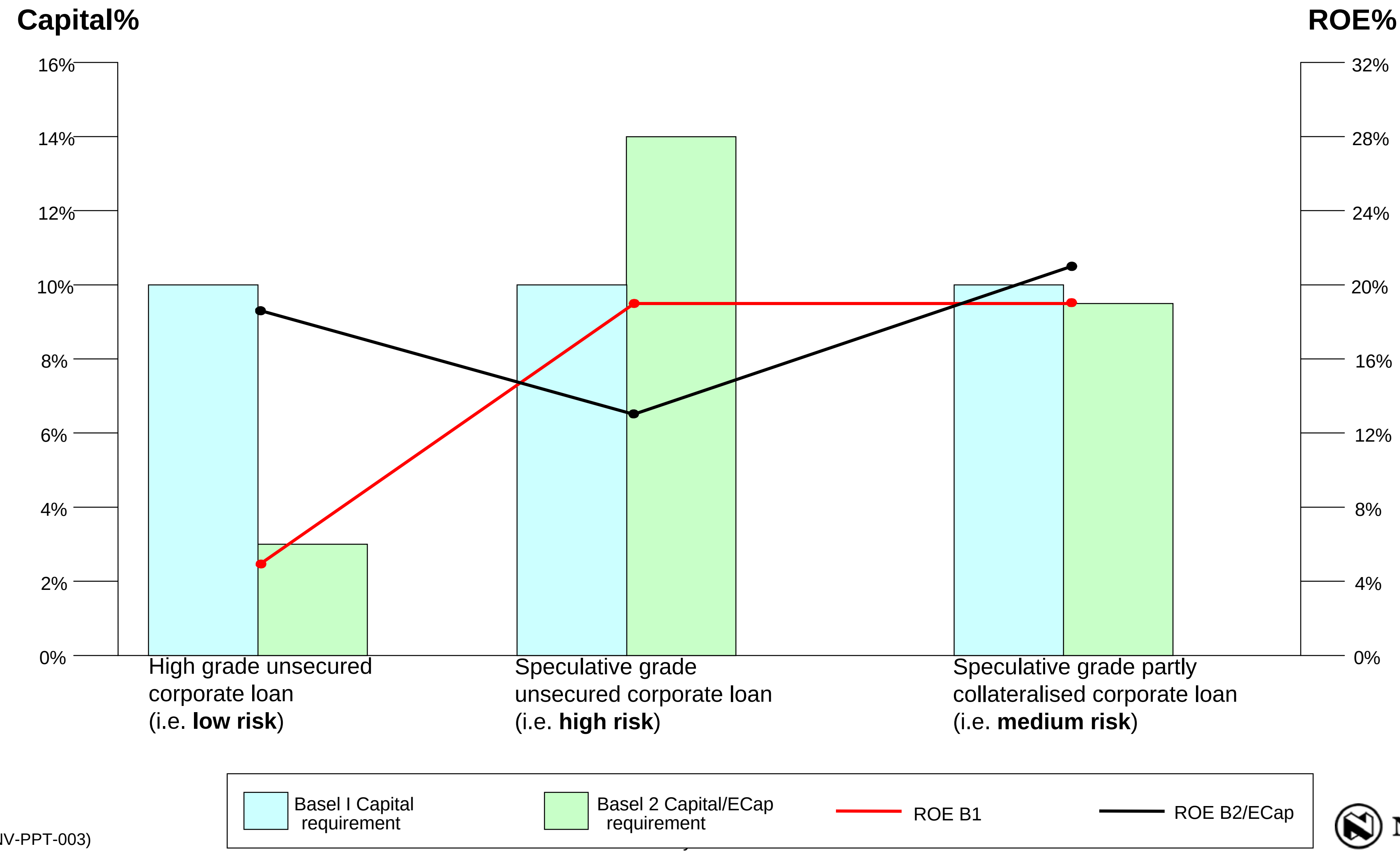
The **rules to the game of banking are changing** requiring:

- Optimising the risk profile of the balance sheet
- Optimising capital levels
- Integrating risk, capital and strategy
- Value Based Management

BALANCE SHEET OPTIMISATION ~ INDUCED BY BASEL 2

Illustrative

Balance sheet profitability impact analysis (Basel 2 / Economic Capital vs. Basel 1)



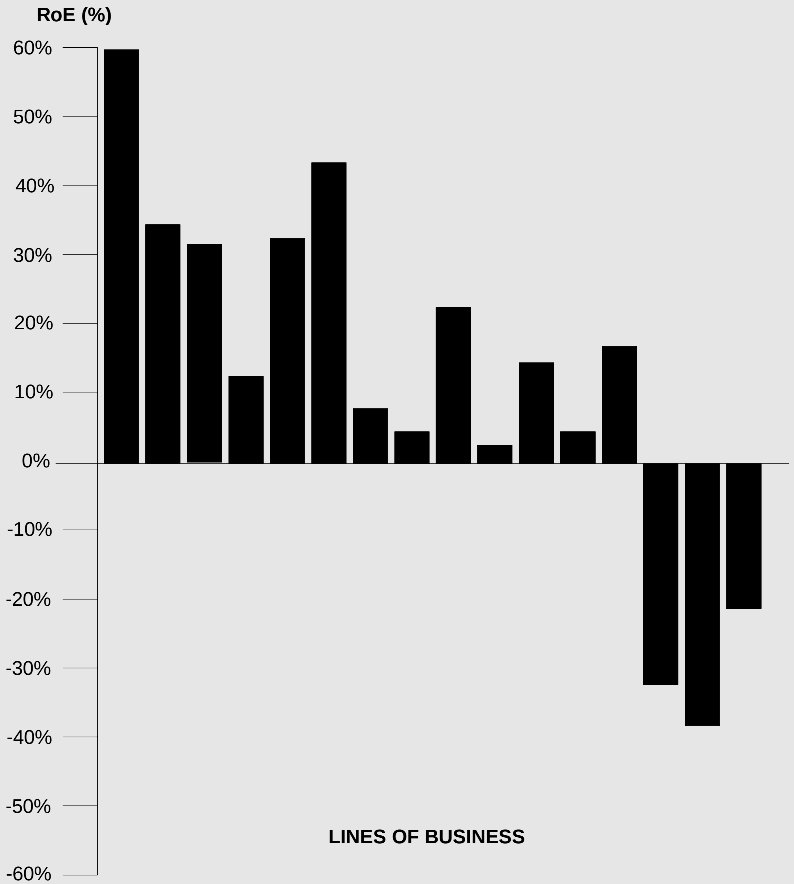
NEDBANK GROUP

DIFFERENCES BETWEEN RISK-ADJUSTED AND UNADJUSTED MEASURES

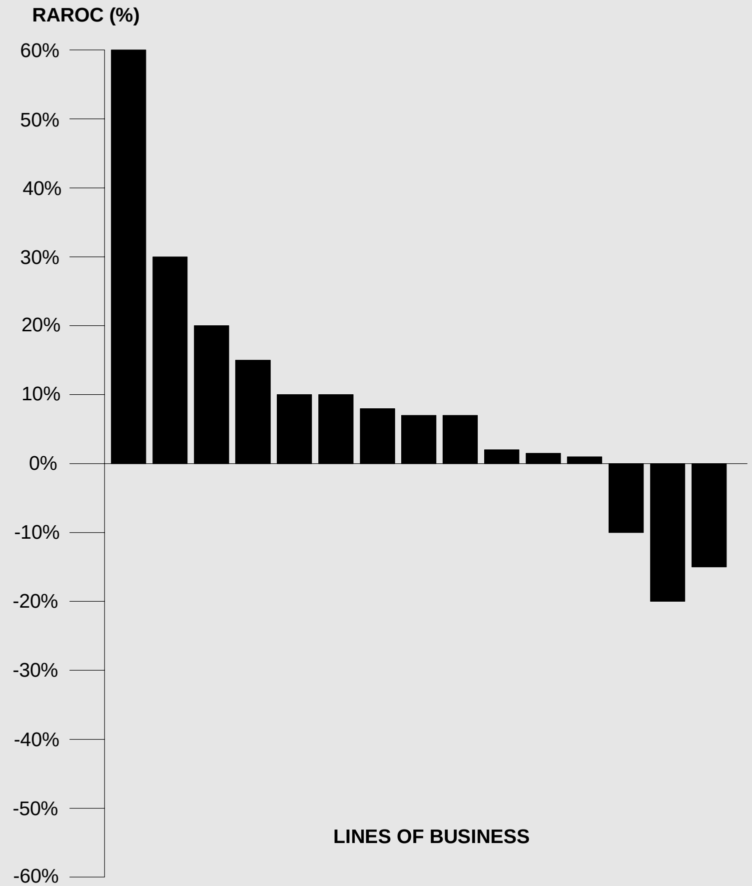
RISK ADJUSTED MEASURES MUCH BETTER HIGHLIGHT SHAREHOLDER VALUE CREATION OR DESTRUCTION

ILLUSTRATIVE

Return on a Non-Risk based Capital Measure (e.g. Basel 1), as is currently the case



Risk-Adjusted-Performance-Measurement (Economic Capital / BASEL 2)



PRELIMINARY RESULTS AT NEDBANK GROUP HAVE CONFIRMED THIS EXPERIENCE

BASEL 2 IMPLEMENTATION ~ APPROACH

BACKGROUND

Nedbank began preparations for Basel 2 from a zero base in Q1 2003. This included the establishment of a Basel 2 Programme Office, headed by Trevor Adams. Trevor reports directly to Philip Wessels (CRO) for Basel 2 and Mike Brown (CFO) for Group Capital Management, both of whom sit on the Group Executive Committee.

A detailed gap analysis was completed and a master implementation plan developed in Q2 2003. This reflected that Nedbank was generally significantly behind in risk measurement, risk management and capital management capabilities compared to best practice.

Following this a strategic-based approach to Basel 2 implementation, to not only achieve Basel 2 compliance for Nedbank but to elevate its risk management, capital management and performance measurement to world class standards, was approved by the Group EXCO and endorsed by the Board of Directors.

This approach involves building advanced risk and capital management capabilities, and also facilitates the comprehensive implementation of “enterprise-wide risk management” in Nedbank.

Implementation has been “fast-tracked” with extensive use made of leading international risk and capital management consultants, Mercer Oliver Wyman. This was partly to avoid pitfalls experienced by other banks, and to facilitate a timely quantum-leap in risk and capital management. Knowledge transfer/education from the consultants to Nedbank staff has been a major focus throughout their engagement.

Accordingly, Nedbank has made very significant progress over the past 2 years and all material business models, frameworks and methodological development work will be completed by the middle of 2005. All major Data and IT systems development work has progressed and is mostly due for completion by end 2005.

Nedbank’s Basel 2 Programme has been aligned and integrated with the 3 year recovery programme, ending 2007.

NEDBANK'S STRATEGIC APPROACH TO BASEL 2

2003 - 2004	2003 - 2005	2004 - 2006	2005 - 2007
Comprehensive ***PLANNING***	**Enhancement and/or development of *RISK MEASUREMENT* methodologies, systems & tools**	**Enhancement to *RISK AND CAPITAL MANAGEMENT* processes**	**Resulting in best practice *VALUE BASED MANAGEMENT* leading to *OPTIMISATION OF SHAREHOLDER VALUE***
• Central Basel 2 Programme office set up • Expert consultants appointed to assist with programme (Mercer Oliver Wyman) • **Business requirements identification and gap analysis** • Initial strategic, tactical and operational implications identified • Detailing of requirements and solutions to fill business gaps and meet requirements (detail business planning) and **high level Data Management / IT requirements** • **Master Implementation Plan** • Prepare and finalise Data, Data Management and IT specifications (and detail plan) • Budgeting • **Detailed Scope of Work** (including all detail requirements as well as SARB's)	• **Credit Rating tools and scoring models** - Best practice risk ratings - Probability of Default (PD) parameter • **Risk profiling tools and framework** - Loss Given Default (LGD) parameter - Exposure at Default (EAD) parameter • **Credit Portfolio Model** - Portfolio concentrations, correlations and diversification benefits • **Credit Policies/procedures** - Group credit methodology - Credit Portfolio methodology • **Market Risk** (Trading, ALM, Investments) - Internal model (V@R) for trading risk - Internal model for investment risk - Best practice ALM measurement • **Operational Risk** - Workstreams for standardised approach and AMA approach • **IT Systems** - High level systems and data gap analysis - Rating tools IT platform and credit process automation - Exposure management (single view of client) - Collateral management - Data management and IT architecture (including reporting) • Reading of **Economic and Basel 2 Capital** - Group economic capital allocation by business unit, asset class and risk type	• **Capital Management** - Economic capital framework - Capital planning / forecasting / scenario testing - Linked to Risk Appetite Framework - Earnings volatility model • **Credit Portfolio Management** - Identification of risk "hot spots" - Concentration risks in portfolios - Credit portfolio optimisation - Portfolio 'inflow' control • **Credit Process Redesign** - Redesign/optimisation of credit processes from origination to recovery • **Risk-based Pricing** - Understand pricing for economic risks - Customer relationship pricing - Identification of value creating / destroying clients • **Asset and Liability Management (ALM)** - Optimising B/S management • **Reporting and Risk MIS** - Quality risk and economic capital reporting framework • **Enterprise-wide Risk Management** - Risk appetite framework - Limit Management - Consistent risk measurement - Common risk language and definitions - Centralised risk reporting capabilities - Group-wide policies - Integrated risk framework (ERMF) • **Operational Risk Management** - Best practice operational risk management framework	• **Capital Optimisation** - Actively manage capital and earnings in line with best practice Economic Capital Management Framework - Institute economic capital caps in value destroying clients, products, businesses • **Customer Value Management** - Risk adjusted customer profitability - Risk adjusted pricing • **Managing Portfolio Distributions** - Change business mix as appropriate - Synthetically securitise highly concentrated portfolios - Address portfolio hot spots attracting high capital requirement • **Integrated Strategic Planning** - Risk-based targeting and planning, and integration of risk based capital resulting in optimal growth of loan book, enhancement of overall book quality and sustainability of earnings • **Credit Process Implementation** - More efficient and risk based - Quicker client turnaround - Better risk management • **Risk Adjusted Performance Measurement (RAPM)** - Economic Capital allocation - Risk Appetite allocation - Economic Profit / RAROC by cluster business unit, major portfolio & asset class. - Align group strategy and growth with ability to create economic value, and reward accordingly (value based incentives and compensation)

DATA MANAGEMENT, IT AUTOMATION, EDUCATION / TRAINING AND CHANGE MANAGEMENT

WE HAVE STRUCTURED NEDBANK'S BASEL 2 PROGRAMME BASED ON WORLD CLASS PRACTICES

Risk Measurement Efforts

- Credit risk
  - Rating tools and scoring models
  - PD calibration
  - LGD/EAD estimation
  - Credit Portfolio Modelling
- VaR/market risk
- ALM (ALCO) risks
- Operational Risk
- Business Risk
- Investment Risk

Tactical Improvements (Examples)

- Credit Process Re-design
  - Align time spent on credit applications according to risk/cost
- Customer Value Management
  - Optimise risk-adjusted profitability at the individual client level
- Loan Pricing
  - Price loans according to risk, market, and internal top quartile

Strategic Improvements (Examples)

- RAPM
  - Risk Adjusted Performance Measurement (Economic Capital)
- Value Based Management
  - Align strategic planning according to risk and value generation, and exploit profitability skews
- Capital Management
  - Economic capital allocation and tools to evaluate increases/decreases in capital
  - Strategic capital planning

NEDBANK GROUP IS MAKING A QUANTUM LEAP IN RISK AND CAPITAL MANAGEMENT TO WORLD CLASS STANDARDS BY 2007

A SYSTEMATIC PROCESS TO REVIEW AND MANAGE THE RISK / RETURN OF NEDBANK'S BALANCE SHEET AT FOUR DISTINCT LEVELS

BALANCE SHEET LEVEL	EXAMPLES OF INITIATIVES
PORTFOLIO	• Group Credit Portfolio Model • Review overall risks in portfolio • Determine risk 'hot spots' taking into account concentrations and correlations • Incorporate diversification benefits into lending decisions • Financial Risk Aggregation, Analysis and Portfolio Management
BUSINESS UNIT LEVEL	• Economic Capital allocation • Risk Adjusted Performance Measurement (RAPM) • Review Economic Profit of all BU's and asset classes • Review quality of planned growth on risk-adjusted basis • Strategic and Tactical Responses to Basel 2 impacts
SEGMENT LEVEL (ASSET CLASS)	• Build risk rating models on a best practice basis (Basel 2 compliant) • Cluster Financial Risk Labs established for financial risk analytics • Review segment level economics and determine main drivers
TRANSACTION/ CUSTOMER LEVEL	• Build transaction/customer level tools that help integrate risk measures into pricing and evaluation of customer relationship profitability ("Client Value Management" / Risk-Based Pricing) • Identify high risk, value destroying, capital expensive clients and consider alternative strategies and options

HOW THIS LINKS TO NEDBANK'S KEY RISK MANAGEMENT OBJECTIVES

Nedbank's Broad Risk Management Objectives (as laid out in our ERMF)

Optimise business opportunities	Protect against unforeseen losses	Ensure Earnings Stability
Risk = Opportunity	**Risk = Threat**	**Risk = Uncertainty**

Enhanced **Value Based Management** and Stakeholder Protection

Enhanced Shareholder Value

Risk arises as much from the likelihood that something good will not happen as it does frorm the threat that something bad will happen

Risk management is not risk avoidance - it is maximizing the risk / return relationship - it is about taking risks knowingly not unwittingly

Key initiatives in the Basel 2 Programme which also facilitate achievement of above key objectives

INITIATIVE	B2 Pr No
- *Risk Adjusted Performance Measurement (RAPM)*	12
- *Credit Portfolio Modeling (CPM)*	7
- *Credit Process Redesign (CPR)*	6
- *Customer Value Management (CVM) and risk based pricing*	17
- *Asset & Liability Management / Funds Transfer Pricing (ALM / FTP)*	10
- *Strategic and Tactical response to Basel 2 implications*	18
- *Risk-based strategic planning*	18
- *Active Capital Management*	12
Best practice MIS science and economics into the way of doing business a much enhanced client selection and cherry-picking	

INITIATIVE	B2 Pr No
- *Significant enhancements to risk management, facilitated by best practice risk measurement:*	
- *rating models*	2
- *LGD / EAD tools*	4
- *avoid adverse selection by clients*	18
- *operational risk management framework*	9
- *market risk management framework*	11
- *enterprise-wide model validation (and back testing) framework*	16&8
- *Enterprise-wide Risk Management Framework (ERMF)*	16

INITIATIVE	B2 Pr No
- *Economic Capital Framework (comprehensive, common measurement of risk)*	12
- *Earnings Volatility Modeling (Risk Appetite)*	12
- *ALM / FTP*	10
- *Market Risk closure of outstanding gaps*	11
- *Credit Portfolio Management (CPM)*	9
- *Active Capital Mangement*	12
- *2004 risk reduction initiatives*	-

TARGETED BASEL 2 APPROACHES

The targeted approaches for day one implementation of Basel 2 on 1 January 2008:-

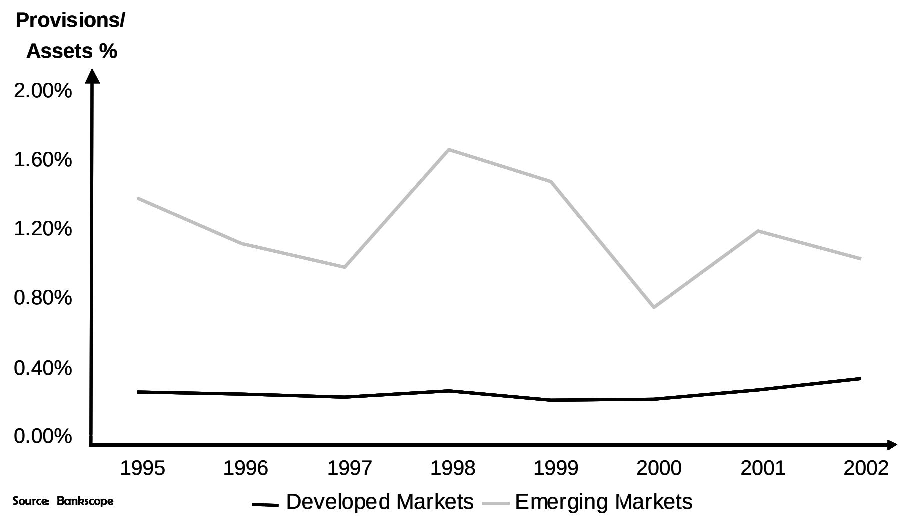
- Advanced IRB Approach for Credit Risk
- Standardised Approach / Alternative Standardised Approach for Operational Risk (workstreams underway for Advanced Measurement Approach (AMA), but target is 2010) but with world class operational risk management
- Internal Model approach for Market Risk
- World class standards for ALM (in respect of Pillar 2)
- World class Standards for Capital Management (including Economic Capital, Risk Adjusted Performance Measurement, Risk Appetite, Group Portfolio Management and Group Capital Management Division) – in respect of Pillar 2 (i.e. world class standards)

RISK MEASUREMENT METHODOLOGIES OF THE DEVELOPED WORLD MUST BE TAILORED FOR EMERGING MARKETS

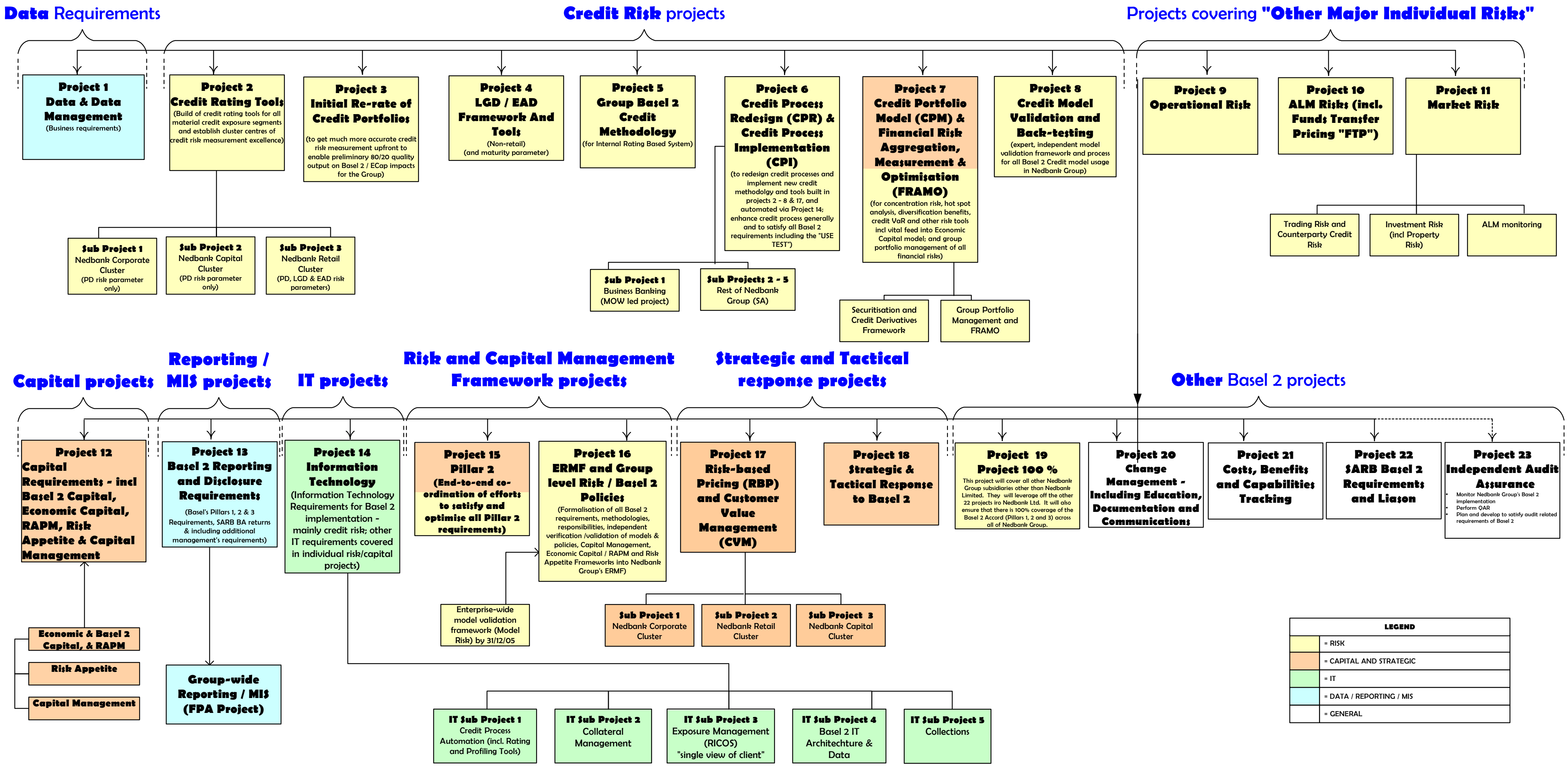
Risk Characteristics of Emerging Markets:

- Higher default rates
- Higher volatility in market variables
- Higher correlation between industries
- Higher levels of collateral taken in corporate cluster lending
- More aggressive LTVs in retail lending (including some >100% LTV lending)
- Lower levels of liquidity in credit and other financial markets

Comparison of Aggregate Provisions – Developed and Emerging Markets:



NEDBANK'S 23 PROJECTS COMPRISING ITS BASEL 2 PROGRAMME

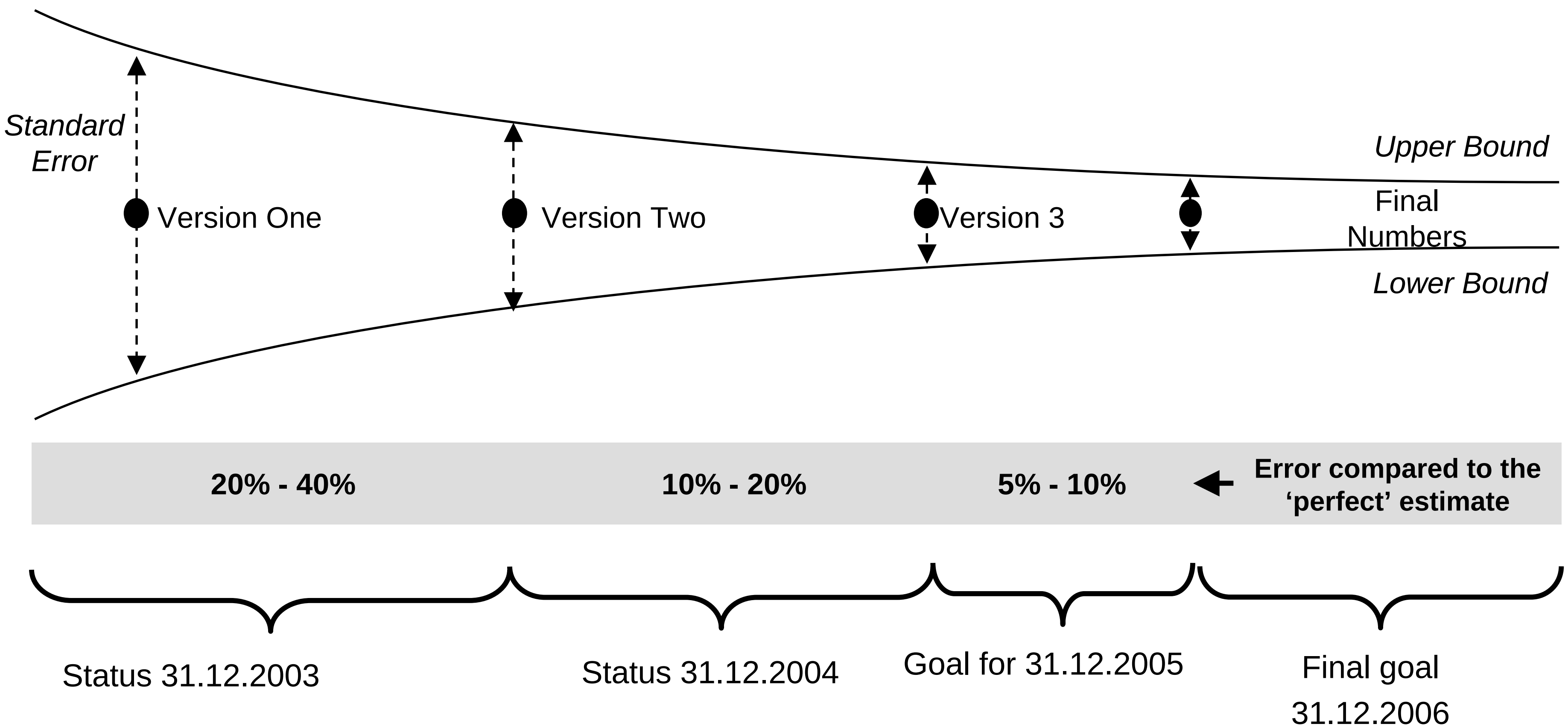


BASEL 2 IMPLEMENTATION ~ STATUS

NEDBANK'S BASEL 2 IMPLEMENTATION PHILOSOPHY

Our Basel 2 implementation philosophy has been to: **Design, Prototype, Pilot, Roll-Out, Refine – then Automate**.

This has allowed for significant progress to be made, 80/20 output to be obtained, some benefits to be realised early and valuable lessons gained to improve on the original design while data enhancement continues. This is depicted below.



SUMMARY OF KEY BASEL 2 DELIVERABLES

DELIVERED AS AT 30 JUNE 2005

Project 1
Data & Data Management
(Business Requiremens)

- Significant data collection effort
- Data systems gap analysis (SAS/IBM used)
- All data and data management business requirements defined (provided to IT)

Project 2
Credit Rating Tools
(Build of credit rating tools for all material credit exposure segments and establish cluster centres of credit risk measurement excellence)

- 8 of 9 new credit rating (PD) models for coporate exposures built and in use (Corporate Banking Model, Midle Market Model, Commercial Real Estate Model (Investor), Project Finance Model, Prastatal Model (governance group logic), Property Development Loans Model, Banking Model (for local and international banks), Sovereign Model and Property Finance Behavioural Model); remaining one on track for 15/07/05 delivery (Banks model)
- 35 Retail PD, LGD and EAD models built and in use; remaining minor work on track for 31/07/05 delivery.
- Business Cluster Financial Risk Labs established and resourced (centres of excellence for financial risk analytics and optimisation)

Project 3
Initial Re-rate of Credit Portfolios
(to get much more accurate credit risk measurement upfront to enable preliminary 80/20 quality output on Basel 2 / ECap impacts for the Group)

- > 80% of credit portfolios re-rated using new PD rating models (credit risk accounts for ± 80% of risk capital requirements).

SUMMARY OF KEY BASEL 2 DELIVERABLES

DELIVERED AS AT 30 JUNE 2005

Project 4
LGD / EAD Framework and Tools

- LGD/EAD tools and framework for corporate exposures built and in use (needed for AIRB approach)

Project 5
Group Basel 2 Credit Methodology
(for Internal Rating Based System)

- New Group Credit Methodology based on world class credit standards, aligned with AIRB under Basel 2, completed
- New Nedbank Group Master Rating Scale developed and in use
- New methodology already in partial use (phase – in approach); fully effective from 31/03/06

Project 6
Credit Process Redesign (CPR) & Credit Process Imiplementation (CPI)
(to redesign credit processes and implement new credit methodology and tools built in projects 2 - 8 & 17, and automated via Project 14; enhance credit process generally and to satisfy all Basel 2 requirements including the "USE TEST")

- Completed major (7 month) CPR project in Business Banking
- Strong focus on credit process enhancement, Basel 2's "Use Test" and full implementation / integration of new credit tools

SUMMARY OF KEY BASEL 2 DELIVERABLES

DELIVERED AS AT 30 JUNE 2005

Project 7 **Credit Portfolio Model (CPM) & Financial Risk Aggregation** (for concentration risk, hot spot analysis, diversification benefits, credit VaR and other risk tools incl vital feed into Economic Capital model; and group portfolio management of all financial risks)	▪ Group Credit Portfolio Model (CPM) built (5 month project using KMV) and in use ▪ Established new Group CPM unit (part of new Group Capital Management Division)
Project 8 **Credit Model Validation and Back-testing** (expert, independent model validation framework and process for all Basel 2 Credit Model usage in Nedbank Group)	▪ Independent Group Credit Ratings, Methodology and Validation Unit set up ▪ Back testing processes formalised for new models ▪ Credit Model Validation Framework developed (Version 1)
Project 9 **Operational Risk**	▪ Standardised Approach requirements in Basel 2 completed ▪ AMA planning underway (PWC consulting) ▪ Data collection process in place

SUMMARY OF KEY BASEL 2 DELIVERABLES

DELIVERED AS AT 30 JUNE 2005

Project 10 **ALM Risk** **(incl. Funds Transfer Pricing ("FTP")**	▪ Significantly improved ALCO process ▪ Strong ALM management in place (Group ALM division reports to CFO) ▪ FTP implemented
Project 11 **Market Risk**	▪ Internal model (VaR) for Trading Risk (SARB approval pending) ▪ Investment Risk universe defined and measurement (version 1) completed
Project 12 **Capital Requirements** **(incl. Basel 2, Economic Capital, RAPM, Risk Appetite & Capital Management)**	▪ Refer slides 32 -34
Project 13 **Basel 2 Reporting & Disclosure Requirements** (Basel's Pillars 1, 2 & 3 Requirements, SARB BA returns & including additional management's requirements)	▪ Scoping done (includes all risk and capital MIS requirements) ▪ Integrated with Group's Financial Processing Architecture project

SUMMARY OF KEY BASEL 2 DELIVERABLES

DELIVERED AS AT 30 JUNE 2005

Project 14
Information Technology
(Information Technology Requirements for Basel 2 implementation)

- Credit process automation (25% complete)
- Exposure Management System (RICOS) delivered
- Data systems gap closure-plan
- Data systems / data warehousing requirements (50% complete)
- Basel 2 IT Architecture-plan

Project 15
Pillar 2
(End-to-end co-ordination of efforts to satisfy and optimise all Pillar 2 requirements)

- Pillar 2 requirements substantially covered by:
  - Project 7 (CPM) – concentration risk
  - Project 8 (validation and stress testing)
  - Project 10 (ALM risk) – interest rate and liquidity risks
  - Project 12 (Capital Requirements) – Capital Management
  - Project 16 (ERMF) – Governance & Policies

Project 16
ERMF and Group level Risk / Basel 2 Policies
(Formalisation of all Basel 2 requirements, methodologies, responsibilities, independent verification /validation of models & policies, Capital Management, Economic Capital / RAPM and Risk Appetite Frameworks into Nedbank Group's ERMF)

- ERMF designed and approved in 2003
- ERMF updated and fully implemented / rolled-out in 2004, including comprehensive group-level risk policies

SUMMARY OF KEY BASEL 2 DELIVERABLES

DELIVERED AS AT 30 JUNE 2005

Project 17
Risk Based Pricing (RBP) & Customer Value Management (CVM)

- RBP / CVM projects underway in all 3 business clusters

Project 18
Strategic & Tactical Response to Basel 2

- Basel 2 / Economic Capital impact assesment done and ongoing
- Quick wins identified, initial planning done and management action underway
- Comprehensive Basel 2 briefing document (strategic emphasis) distributed to all management and education provided
- Fully fledgeld Risk Based Strategic Planning on track (Q3 2005)

Project 19
Project 100%

This project will cover all other Nedbank Group subsidiaries other than Nedbank Limited. They will leverage off the other 22 projects iro Nedbank Ltd. It will also ensure that there is 100% coverage of the Basel 2 Accord (Pillars 1, 2 and 3) across all of Nedbank Group.

- Planning done
- Work commenced at Imperial Bank and Nedbank Namibia
- New CEO, CFO and CRO appointed at Imperial Bank

SUMMARY OF KEY BASEL 2 DELIVERABLES

DELIVERED AS AT 30 JUNE 2005

Project 20
Change Management -Including Education, Documentation and Communications

- Extension education / knowledge transfer programme underway (since 2004) at all levels (incl. Non-Executive directors)
- Communication and Documentation well advanced

Project 21
Costs, Benefits and Capabilities Tracking

- Cost / Benefits analysis ongoing

SUMMARY OF KEY BASEL 2 DELIVERABLES

DELIVERED AS AT 30 JUNE 2005

Project 22
SARB Basel 2 Requirements and Liaison

- SARB Basel 2 Gap Analysis
- Quantitative Impact Study 4
- Planning (comprehensive Scope of Work document, signed by all relevant senior management and the Board of Directors).

Project 23
Independent Audit Assurance

- Monitor Nedbank Group's Basel 2 implementation
- Perform QAR
- Plan and develop to satisfy audit related requirements of Basel 2

- Quality Assurance Review plan done

SUMMARY OF KEY BASEL 2 DELIVERABLES

REMAINING KEY DELIVERABLES

Project 1 Data & Data Management (Business Requiremens)	▪ Data Governance Framework (by 15/12/05)
Project 6 Credit process Redesign (CPR) & Credit Process Implementation (CPI) (to redesign credit processes and implement new credit methodology and tools built in projects 2 - 8 & 17, and automated via Project 14; enhance credit process generally and to satisfy all Basel 2 requirements including the "USE TEST")	▪ Complete CPR for rest of Bank (by 30/09/05) ▪ Complete CPI (by 31/03/06)
Project 7 Credit Portfolio Model (CPM) & Financial Risk Aggregation (for concentration risk, hot spot analysis, diversification benefits, credit VaR and other risk tools incl vital feed into Economic Capital model; and Group portfolio management of all financial risks)	▪ Group Portfolio Management beyond Credit Risk (by 30/06/06) ▪ <u>Cluster</u> credit portfolio management (by 31/03/06)

SUMMARY OF KEY BASEL 2 DELIVERABLES

REMAINING KEY DELIVERABLES

Project 8
Credit Model Validation and Back-testing
(expert, independent model validation framework and process for all Basel 2 Credit model usage in Nedbank Group)

- Final Credit Model Validation Framework (by 31/03/06)
- Fully effective (30/06/06)

Project 10
ALM Risks
(incl. Funds Transfer Pricing "FTP")

- ALM measurement capabilities / modelling to world class standards (by 31/12/05)

Project 11
Market Risks

- Final Investment Risk methodology (by 30/09/06)
- Investment Risk methodology implemented (by 30/06/06)

Project 12
Capital Requirements
(incl Basel 2, Economic Capital, RAPM, Risk Appetite & Capital Management)

- See slides on pages 32 to 34

SUMMARY OF KEY BASEL 2 DELIVERABLES

REMAINING KEY DELIVERABLES

Project 14 Information Technology (Information Technology Requirements for Basel 2 implementation)	▪ Credit Process Automation (100%) (by 31/12/05) ▪ Collateral Management System (by 30/09/05) ▪ Data Management System (interim by 30/09/05; final by 30/09/07) ▪ Collection Management System (by 30/06/06) ▪ Basel 2 IT Architecture and workflows (by 30/06/06)
Project 15 Pillar 2 (End-to-end co-ordination of efforts to s atisfy and optimise all Pillar 2 requirements)	▪ Complete outstanding pillar 2 work (by 31/03/06)
Project 16 ERMF and Group level Risk / Basel 2 Policies (Formalisation of all Basel 2 requirements, methodologies, responsibilities, Independent verification / validation of models & policies, Capital Management, Economic Capital / RAPM and Risk Appetite Frameworks into Nedbank Group's ERMF)	▪ Formalise Basel 2 into Nedbank Group's Enterprise-wide Risk Management Framework (by 30/06/06)

SUMMARY OF KEY BASEL 2 DELIVERABLES

REMAINING KEY DELIVERABLES

Project 17
Risk-based Pricing (RBP) and Customer Value Management (CVM)

- Complete RBP / CVM projects in all 3 business clusters (by 31/03/06)

Project 18
Strategic & Tactical Response to Basel 2

- Integrate Basel 2, Economic Capital and Capital Management into 2005 Strategic Planning Process (by 31/10/05)
- Execute agreed management actions (by 2005 / 2006 / 2007)

Project 19
Project 100 %

This project will cover all other Nedbank Group subsidiaries other than Nedbank Limited. They will leverage off the other 22 projects iro Nedbank Ltd. It will also ensure that there is 100% coverage of the Basel 2 Accord (Pillars 1, 2 and 3) across all of Nedbank Group.

- Complete Basel 2 work at smaller subsidiaries (by 30/06/06)

SUMMARY OF KEY BASEL 2 DELIVERABLES

REMAINING KEY DELIVERABLES

Project 20 Change Management -Incl Education, Documentation and Communications	▪ Ongoing Change Management ▪ Ongoing upskilling and resourcing ▪ Ongoing education and training ▪ Ongoing communications
Project 21 Costs, Benefits and Capabilities Tracking	▪ Ongoing costs / benefits / capabilities tracking

SUMMARY OF KEY BASEL 2 DELIVERABLES

REMAINING KEY DELIVERABLES

Project 22
SARB Basel 2 Requirements and Liason

- SARB requirements
  - Final plan review (2005)
  - Model approval (2005)
  - AIRB approach approval (2005)
  - Pilot test runs (2006)
  - Parallel runs (2007)

Project 23
Independent Audit Assurance

- Monitor Nedbank Group's Basel 2 implementation
- Perform QAR
- Plan and develop to satisfy audit related requirements of Basel 2

- Complete QAR and report (by 30/11/05)

PROJECT 12: CAPITAL REQUIREMENTS – INCLUDING BASEL 2, ECONOMIC CAPITAL, RAPM, RISK APPETITE AND CAPITAL MANAGEMENT

2004

The Basel 2, Economic Capital, RAPM and Risk Appetite Project INVOLVING Mercer Oliver Wyman (MOW) delivered successfully in December 2004, as follows:-

Economic Capital	-	Methodology finalised
	-	Bottom-up calculations for (Version 1) all material business units, risk types and consolidated
	-	Economic Capital Model built
Risk Adjusted Performance Measurement (RAPM)	-	Design of RAPM format, content, structure and piloting (measurement based on Economic Capital)
	-	Detailed discussions of Q3 2004 results with management of every major business unit
Risk Appetite (Quantitative& Qualitative)	-	Methodology finalised
	-	Earnings Volatility Model built
	-	Assessment of current risk appetite
	-	Design of risk dashboard *(note: the above is for quantitative measurement. Comprehensive group-level risk policies finalised and Board approved in November 2004)*
Capital Management	-	Capital Management blue print developed
	-	Capital Projection Model built (ECap and RegCap), including stress / scenario testing

PROJECT 12: CAPITAL REQUIREMENTS – INCLUDING BASEL 2, ECONOMIC CAPITAL, RAPM, RISK APPETITE AND CAPITAL MANAGEMENT

2005

In 2005, following the new models / capabilities built in 2004, the key deliverables are:-

All comprehensively feeding into the 2005 3 year strategic planning Process (Q3 2005)

Economic Capital and RAPM	-	Introduce ECap / RAPM SHADOW-BASED reporting into monthly Group OPCOMs (to commence Q1 2005)
	-	Fine tune and complete minor outstanding work (by 30/09/05)
	-	Formalise the Economic Capital and RAPM Frameworks (by 31/10/05) (Dependent on timely FTP roll out in 2005 by Group ALM)
Risk Appetite	-	Finalise the Group's target risk appetite (by 31/10/05)
	-	Build Limit Allocation Framework (across all businesses, clearly factoring in different risk appetites for different business activities) (by 30/09/05)
	-	Finalise Risk Appetite Framework (by 30/10/05)
Capital Management	-	New, dedicated Group Capital Management function (by 31/03/05)
	-	Capital Management Framework (by 31/05/05)
	-	Strategic Capital Plan (v1 by 30/06/05; final by 30/09/05)
	-	Education on " risk-based" Strategic Planning for the Group (Q2 2005)
	-	Integration of Capital into Strategic Planning (Q3 2005)

PROJECT 12: CAPITAL REQUIREMENTS – INCLUDING BASEL 2, ECONOMIC CAPITAL, RAPM, RISK APPETITE AND CAPITAL MANAGEMENT

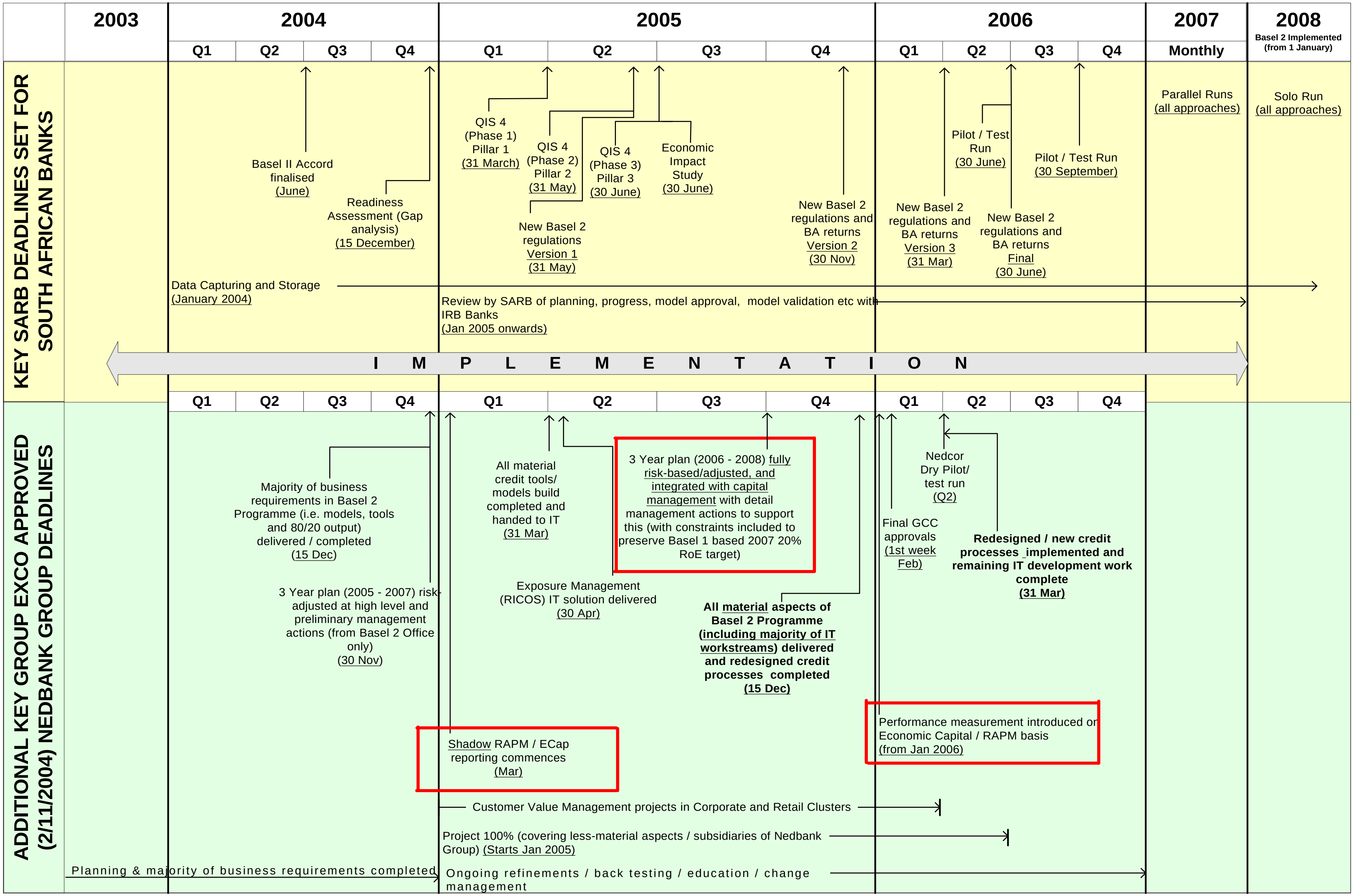
2006

In 2006 the key deliverables are:-

- Implementation of Economic Capital, RAPM and Risk Appetite Frameworks
- Systems (IT) automation of related processes
- Performance measurement and incentives, aligned on a RAPM basis, effective from the 2006 financial year

KEY TIMELINES ~ SUMMARY

KEY TIMELINES SUMMARY



BASEL 2 IMPACTS AND ESTIMATED COSTS

BASEL 2 IMPACTS

Broadly speaking, Nedbank Group will be well positioned for Basel 2 and its resultant capital requirements (assuming AIRB accreditation for credit risk).

We consider it inappropriate for any bank to, at this stage, make public its Basel 2 impact position(s) due to a number of outstanding areas of national discretion in the hands of the SARB, namely:-

1. 8% vs. 10% RWA pillar 1 charge?

   - In view of the greater systemic risk as an emerging market, South Africa increased the minimum total capital ratio in 2001 from 8% (international norm) to 10%. This needs to be revisited under Basel 2 as the higher risk inherent in an emerging market economy is (or should be) captured within the PD estimates emanating from the (to be) IRB compliant credit rating models.

     South African banks will be competitively disadvantaged, and carry excess capital relative to their economic risk, if SARB maintain a 10% capital requirement of RWAs for Pillar 1 and then still have a buffer to add-on for Pillar 2.

     If Pillar 1 alone carried a 10% capital requirement in South Africa, one could expect a local bank with a foreign parent to book deals offshore in an 8% regulatory environment.

     Nedbank believes it is appropriate to apply an 8% RWA Pillar 1 charge for IRB banks and maintain a 10% RWA charge for Standardised banks.

BASEL 2 IMPACTS

2. FIRB vs. AIRB approach accreditation?

   - LGD% under FIRB is based on first world experience (penal for South African corporate lending which is generally well collateralised)

3. Standardised approach risk weightings?

   - Residential mortgages at 35% (currently 50%) is based on first world experience (does not reflect higher retail risk and loss experiences in South Africa)

   - Para 73 of the Accord states “Supervisors may increase these risk weights depending on default experience in their jurisdiction”.

4. Point-in-time vs. long-run “through-the-cycle” data usage for retail exposures?

5. IRB approaches for equity exposures are penal

6. Definition of limits for unutilised facilities?

7. Alternative Standardised Approach vs. Standard Approach for Operational Risk?

8. Pillar 2 buffer % levels?

9. Results of SARB’s QIS4 (QIS3 was meaningless for South Africa!)

10. Final Basel 2 calibration

BASEL 2 ESTIMATED COSTS

TOTAL ESTIMATED COSTS	**Rm**	
Non-IT	100	
IT*	150	
	250	
SPLIT AS FOLLOWS:		
2003	39	(16%)
2004	84	(34%)
2005	90	(36%)
2006	37	(14%)
	250	**(100%)**

* Some integration with other major business process improvement initiatives, namely:
  - Financial Process Architecture Project
  - Enterprise-Wide Data Warehouse Project

IMPACT OF IFRS (IAS 39) ON CAPITAL

DOES IAS 39 IMPACT ON CAPITAL?

- Current regulations and statutory capital: YES
  - DI returns are based on GAAP unless specific guidance given
  - Changes due to IAS 39 affect reserves and asset carrying values
  - These affect regulatory capital adequacy
- Basel II: ?

TWO POSSIBLE APPROACHES

- No change
  - Nothing has changed economically, thus returns and capital levels should not be affected
  - Reverse accounting adjustments
  - Need a recon from new accounting rules to regulatory returns

OR

- Accept the change
  - Accept new accounts and capital levels as basis for regulatory returns
  - Ability to manipulate regulatory capital, incomparability of banks

CHANGES TO CAPITAL

- Fair value adjustments
- Hedge accounting
  - Cash flow hedging
  - Fair value hedging
- Impairment

WHAT COULD GO WRONG?

- Capital instability
- Comparability problems
- Asymmetric treatment of +ve and –ve adjustments
- Accounting decisions driven by regulatory treatment (eg. Hedge accounting)

BASEL 2 vs. IFRS - CREDIT

Basel 2

- Evaluations are basically “model driven”
- Conservative estimates
- Intention of regulation – Stability of the banking sector
- Consider entire life of portfolio – including future losses
- Basel has alternative approaches for credit (and operational) risk, which impact similarities and differences depending on which approach is adopted

IAS 39

- Evaluations are basically “market driven”
- Realistic case estimate – “Central” estimate
- Intention of regulation – performance report to shareholders on current period through to reporting date
- Consider state of portfolio today – future losses are not taken into consideration
- IFRS financial statements are focused on the current financial position, cash flows and financial performance

NEW CAPITAL MANAGEMENT FRAMEWORK

CAPITAL MANAGEMENT FRAMEWORK

BOARD OF DIRECTORS

STAKEHOLDERS

- Clients
- Debt-holders
- Rating Agencies
- Regulators:
  - SARB
  - FSB
  - FSA
  - Africa

RISK vs. CAPITAL ADEQUACY

(Solvency)

GROUP EXECUTIVE COMMITTEE ("GROUP EXCO")

RISK vs. RETURN

(Profitability)

STAKEHOLDERS

- Shareholders
- Analysts
- General public

RISK

CAPITAL MANAGEMENT

- **Capital Investment**
- **Capital Structuring**
- **Capital Allocation**
- **Capital Optimisation**

STRATEGY

PERFORMANCE MEASUREMENT (RISK ADJUSTED)

- **Economic Capital**
- **Funds Transfer Pricing (FTP)**
- **Activity Justified Transfer Pricing (AJTP)**

Business Clusters	Group ALM	GROUP CAPITAL MANAGEMENT DIVISION	Group Strategy and Business Clusters	Investor Relations

METHODOLOGIES, POLICIES AND PROCESSES

GOVERNANCE AND INDEPENDENT ASSURANCE

KEY OBJECTIVES OF CAPITAL MANAGEMENT FRAMEWORK

- Integrate enterprise-wide risk management with capital management, and where risk is managed according to 3 broad objectives:
  - Risk as OPPORTUNITY (maximise earnings potential, exploit profitability skews)
  - Risk as UNCERTAINTY (minimise earnings volatility)
  - Risk as THREAT (protect against unexpected losses)
- Optimise and formally link risk with return
- Cost-efficient capital structure while ensuring capital adequacy at all times
- Optimise capital levels including efficient usage (allocation)
- Integrate capital management with strategy
- Align shareholder interests and shareholder value creation with management performance and reward

KEY CAPITAL MANAGEMENT FUNCTIONS IN NEDBANK

The key Capital Management functions established are:

- **Capital Investment**

  Managing the process whereby the cash raised through the issue of capital and / or the internal generation of capital (i.e. retention of profits) is physically invested, and integrated within the overall ALM (ALCO) process of the Group.

  Investment of the capital buffer and maturity structures for capital are of particular importance here.

- **Capital Structuring**

  Managing whereby the amount of regulatory, economic and statutory capital available is consistent with the Group and Nedbank's current and planned (over at least 3 years) levels of activity, risk appetite and required / desired level of capital adequacy (including its target debt rating). Long-run capital planning is of particular importance here.

  Selecting the appropriate, most cost-effective mix of capital instruments.

- **Capital Allocation**

  Managing whereby capital is employed efficiently across the Group based on an economic capital allocation model and risk-adjusted-performance-measurement (RAPM).

  Analysing and recommending on whether capital be deployed / increased or withdrawn / decreased in any individual business unit, asset class, strategic transaction, investment or legal entity.

KEY CAPITAL MANAGEMENT FUNCTIONS IN NEDBANK (CONTINUED)

- **Capital Optimisation**

  Seeking an optimal level of capital for the Group and its subsidiaries by facilitating the optimisation of the risk profile of the balance sheet through portfolio and value-based management principles, risk based strategic planning, capital planning, allocation and optimisation, and sound management of the capital buffer.

- **Integration of Capital, Strategy and Performance Measurement**

  Integrating capital into group strategy and aligning shareholder' interests with performance measurement of management through the established governance and management structures (embedded in Nedbank Group's ERMF), and the formalised strategic planning process.

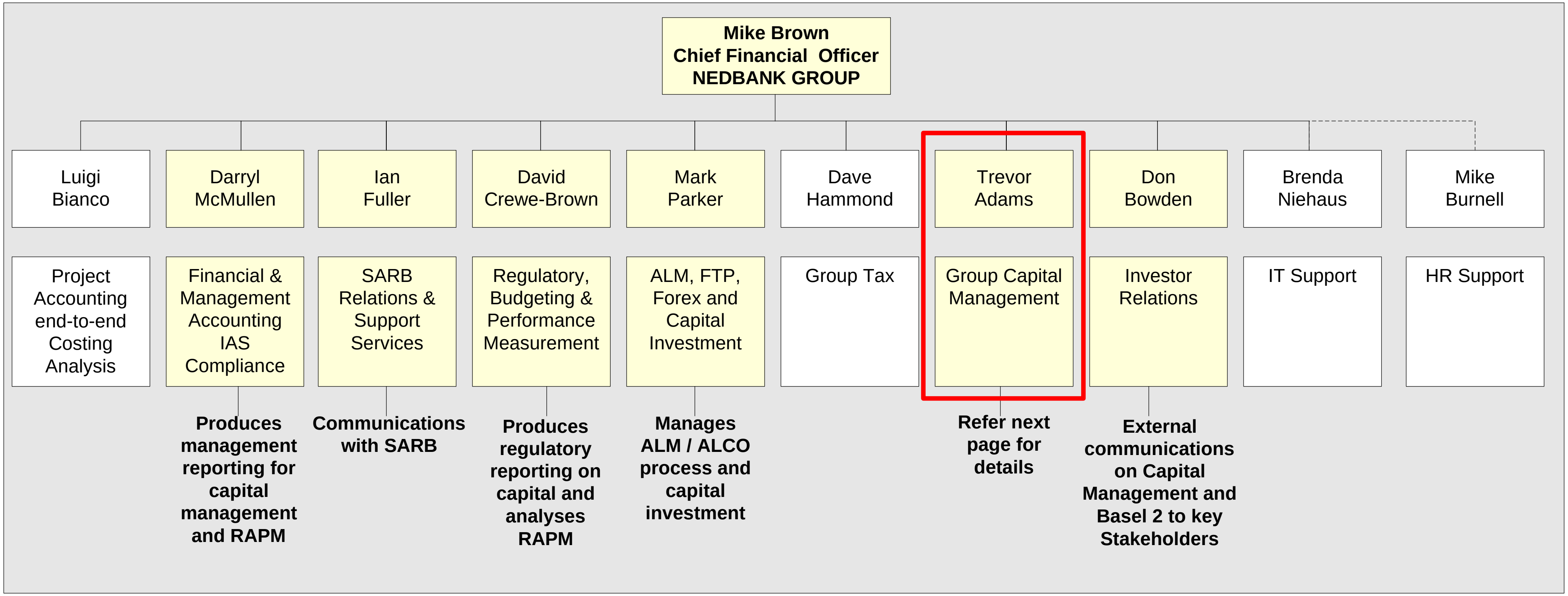
  Seeking to optimise shareholder value through application of value based management principles and practices.

These functions are integrated into the Group's strategic planning process and risk-adjusted-performance-measurement (RAPM) framework.

The new Group Capital Management Division (established 1 February 2005) is mandated to champion, across the Nedbank Group, the successful achievement of these important objectives and functions.

ORGANISATIONAL STRUCTURES AND RESPONSIBILITIES

GROUP FINANCE CLUSTER



ORGANISATIONAL STRUCTURES AND RESPONSIBILITIES

GROUP CAPITAL MANAGEMENT DIVISION

Mike Brown
Chief Financial Officer

Trevor Adams
Head: Group Capital Management (and Basel 2 Programme)

Markus Borner
Strategic Capital Management

- Economic Capital Allocation & Risk Appetite Limit Setting

  Economic Capital & Risk Appetite Profile (Challenge & Debate) with Businesses
- Strategic:
  - Risk-based Strategic Planning
  - Strategic initiatives
  - B/S optimisation
- Capital Optimisation
  - Mix / structure
  - Buffer Mgt
  - Available Finanial Recourses
  - Capital Raising
  - Foreign Capital
- Stakeholder Reporting / Comms
  - Clusters / BUs
  - Investor Relations
  - EXCO / Board
  - Plc

Alistair Swanepoel
Capital Measurement, Planning and Quantitative Business Analysis

- Economic Capital

  Cost of Capital

  Regulatory Capital (Basel 1 and Basel 2)

  Statutory Capital
- Risk Appetite

  (Earnings Volatility modelling)
- Capital Projection and Planning

  Capital Adequacy

  Stress Scenario Testing (Capital)

  Procyclicality
- Basel 2 Support

  Quantitative Business Analysis for Capital Optimisation opportunities

James Bernstein
Group Portfolio Management

- Aggregation and analysis of all Financial Risks
- Stress and Scenario Testing (Risk)
- Group Credit Portfolio Management (CPM)
- Group Portfolio Modelling (Portfolio modelling of all financial risks)

<u>Investment of capital</u>, and management of the Group's foreign currency translation risk arising on its foreign capital, is the responsibility of the Group Asset and Liability (ALM) function.

ORGANISATIONAL STRUCTURES AND RESPONSIBILITIES

GROUP CAPITAL MANAGEMENT DIVISION ("GCMD") (continued)

The mandate of the GCMD, which reports directly to the Chief Financial Officer, is as follows:

Capital Structuring (including **Capital Adequacy**) - ensuring that the amount of regulatory, economic* and statutory capital available is consistent with the Group and bank's current and planned levels of activity, risk appetite* and desired level of capital adequacy (including its target debt rating*) (* i.e. once these levels are initially achieved; in the interim to champion efforts group-wide to achieve these levels). Long-run capital planning is of particular importance here.

Selecting the appropriate, most cost-effective mix of capital instruments;

Capital Allocation - ensuring that capital is employed efficiently across the Group based on an economic capital allocation model and risk-adjusted-performance-measurement (RAPM).

Recommending to ALCO and Executive Risk Committee ("ALCO"), after review by the Capital Management Committee, whether capital be deployed / increased or withdrawn / decreased in any individual business unit, asset class strategic transaction, investment or legal entity; and

Capital Optimisation - seeking an optimal level of capital for the Group and its subsidiaries by facilitating the optimisation of the risk profile of the balance sheet through portfolio and value-based management principles, capital planning, allocation and optimisation, and sound management of the capital buffer.

ORGANISATIONAL STRUCTURES AND RESPONSIBILITIES

BUSINESS CLUSTERS
(Nedbank Corporate, Nedbank Capital and Nedbank Retail)

The business clusters are responsible for:-

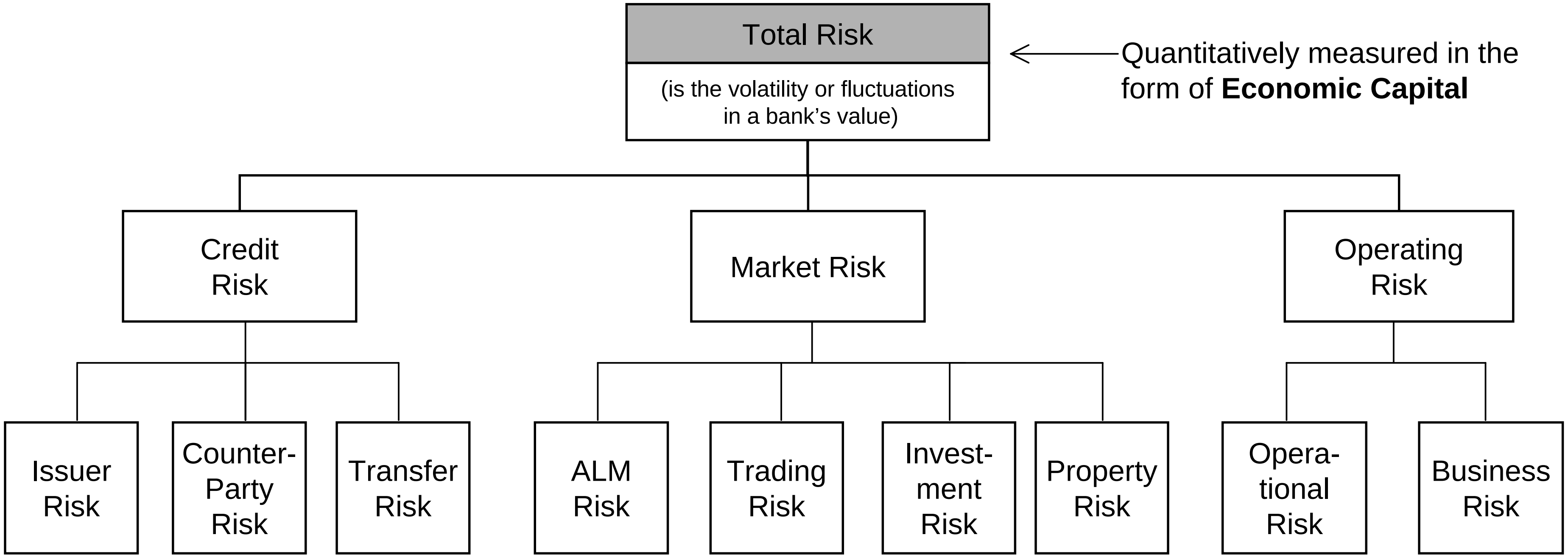
- efficiently employing economic capital across their businesses;
- actively pursuing an optimal risk profile across each of their businesses;
- applying value based management principles, including client value management, risk based pricing and portfolio management; and
- seeking to optimise their and the group's capital requirements in collaboration with the Group Capital Management Division.

Capital champions have been appointed (i.e senior executive from each business cluster EXCO)

ECONOMIC CAPITAL AND RISK APPETITE CONCEPTS

ECONOMIC CAPITAL

A COMPREHENSIVE MEASURE OF RISK CONSISTENT ACROSS RISK TYPES AND BUSINESSES THROUGH REFERENCE TO A TARGET SOLVENCY RATING



Each risk contributes to potential fluctuations in the value of the Nedbank Group

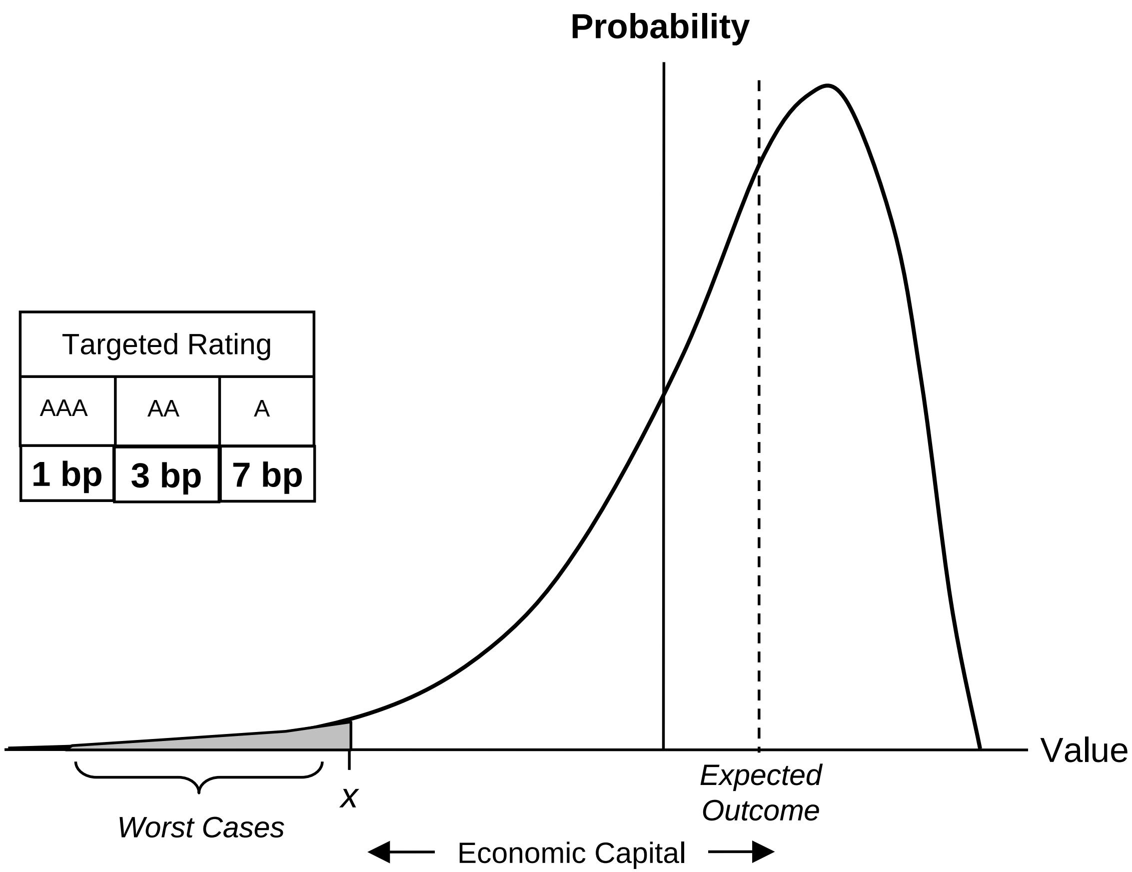
BASEL 2 vs. ECONOMIC CAPITAL METHODOLOGY

NEDBANK GROUP FRAMEWORK

BASEL 2 (based on AIRB)		ECONOMIC CAPITAL
Pillar 1	**Pillar 2**	**Comprehensive risk and capital assessment**
Rules based	**Subjective**	**Bottom-up modeling**
Minimum capital requirements for: ▪ Credit risk ▪ Trading risk ▪ Operational risk ▪ Equity Risk	Add buffer for all other material risks: ▪ Interest rate risk ▪ Concentration risk ▪ Procyclicality ▪ Liquidity risk? ▪ Strategic risk? ▪ Reputational risk? ▪ Etc. Ensure capital adequacy for all material risks Set risk tolerance (risk appetite) Link risk, capital and strategy / business plans	Internal capital assessment of risk for: ▪ Credit risk (including concentration risk) ▪ Market risks - ALM - Trading - Investment risk (Equity) ▪ Operational risk ▪ Business risk **ADJUSTED FOR:** **PORTFOLIO DIVERSIFICATION BENEFITS** **AND** **Calibrated to Group's target debt rating**

ECONOMIC CAPITAL IS THE CAPITAL REQUIRED TO PROTECT AN INSTITUTION FROM ECONOMIC INSOLVENCY AT A DESIRED LEVEL OF CONFIDENCE

Economic Capital



Targeted Rating		
AAA	AA	A
1 bp	**3 bp**	**7 bp**

Statistical Approach to Risk

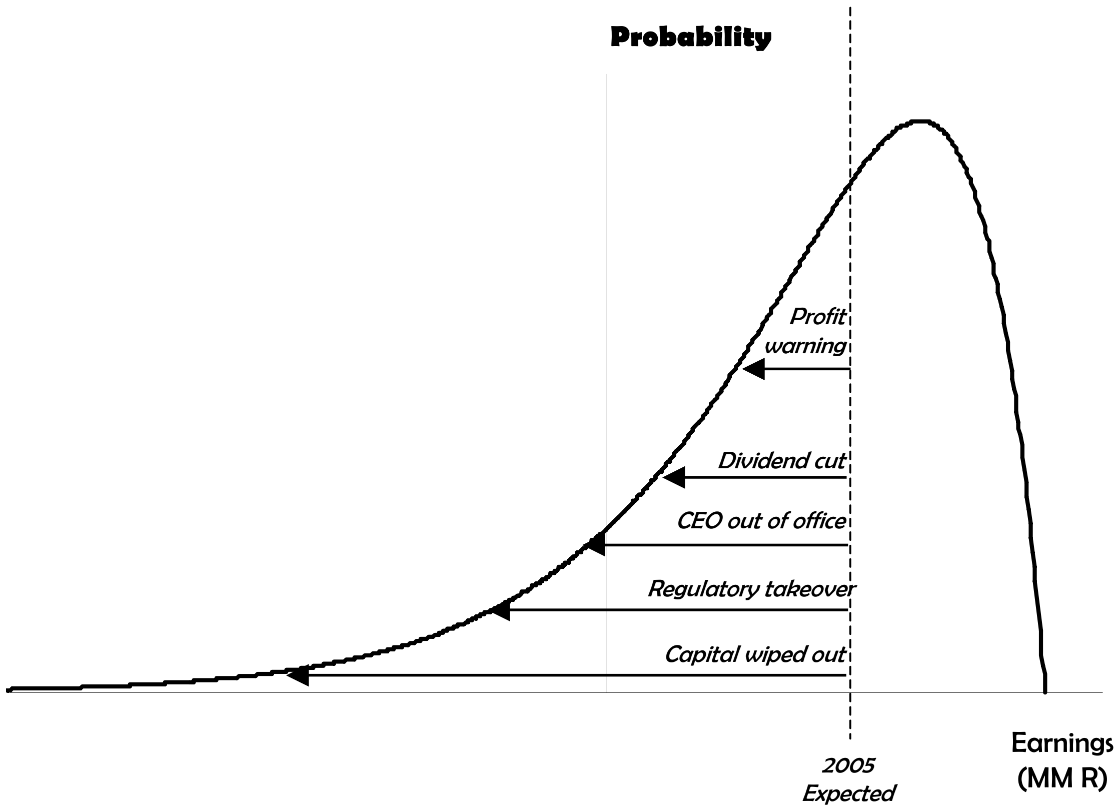
- The quantification of risks requires statistics and the concept of *probability*
- The future value (of a bank's assets) is uncertain due to the risks it faces
- This is described by the probability distribution of value
  - The Expected Outcome is close to the most likely outcome and so is charged against P&L
  - Worst cases (severe drops in value) are much less likely but not impossible
- The shaded area describes the probability for the value to drop below x (worst cases), i.e. the bank's Probability of Default, and determines the bank's internal target rating
- The Economic Capital that a bank needs to survive this worst case is given by (Expected Outcome – x)
- If a bank wants to have a better target rating (i.e. lower PD) it requires more Economic Capital as x will be lower

The Volatility in Value is Driven by the Risks that a Bank faces

RISK APPETITE

A TOOL TO EXPRESS THE GROUP'S RISK TOLERANCE IN A QUANTITATIVE WAY

Illustrative earnings distribution



- Different stakeholders have different viewpoints of risk
  - Maximum acceptable '**Earnings at Risk**' where EaR is the **shareholder** measure of earnings volatility
  - Appropriate Capital Adequacy to cover economic risks where **Economic Capital** is the **debtholder** measure of earnings volatility, calibrated to a target debt rating
- This difference arises from different perspectives of a 'bad event'
  - Shareholder/Board: dividend cut/profit warning more than 1 in 5 years
  - Debtholder: Greater than 1 in ~1,000 chance of insolvency (A-, 99.9% confidence level)

Quantitative Risk Appetite is complemented by qualitative perspectives (e.g. group-level policies)

NEDBANK GROUP'S RISK APPETITE METRICS

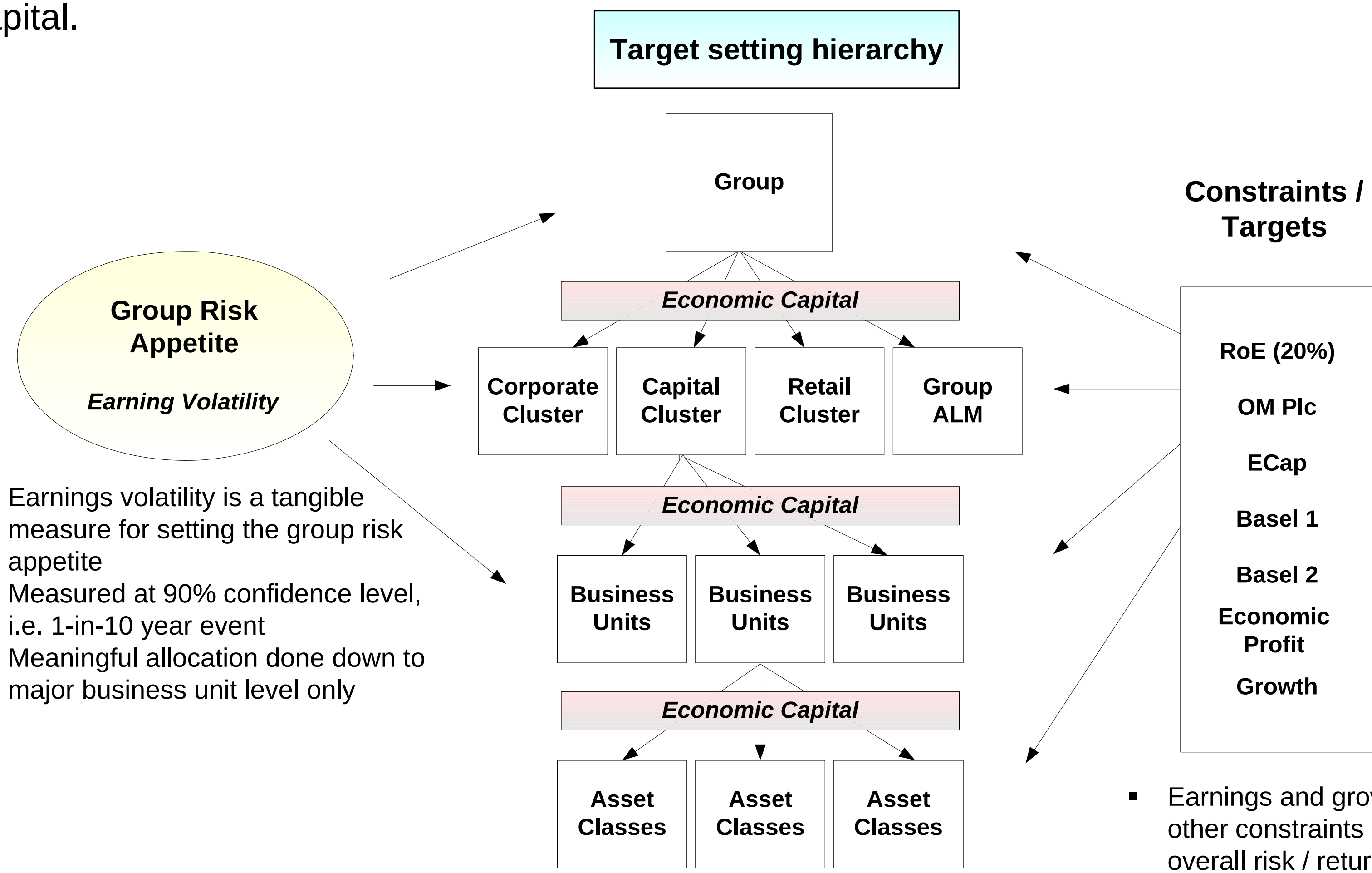
BASED ON EARNINGS VOLATILITY MODELLING
(aligned with our economic capital model)

4 Key metrics are used:

- Earnings at Risk
- Chance of regulatory insolvency
- Chance of experiencing a loss
- Economic Capital Adequacy / Implied Debt Rating

ECONOMIC CAPITAL AND RISK APPETITE CONCEPTS

Nedbank Group's risk appetite is defined in terms of earnings volatility, with risk targets subsequently allocated using economic capital.



- Earnings volatility is a tangible measure for setting the group risk appetite
- Measured at 90% confidence level, i.e. 1-in-10 year event
- Meaningful allocation done down to major business unit level only

- Economic Capital is measured at a more granular level, and is thus used for allocation and target setting
- For many businesses, Economic Capital will be translated into alternate risk measures or limits, e.g. trading VaR, credit exposures / notionals

- Earnings and growth targets, and other constraints also feed into the overall risk / return target setting process

BACKGROUND ON RAPM AND COST OF CAPITAL

BACKGROUND ON RAPM

Nedbank Group will move to Risk-Adjusted-Performance-Measurement (RAPM) as a key basis for internal performance measurement with effect 1 January 2006 (<u>with shadow roll having commenced in Q1 2005</u>).

Lead by other areas

Funds Transfer Pricing (FTP) (Group ALM)

Produces net interest revenues after transfer of A/L mismatch risk to Group ALM taking into account:

- Yield curve and maturity
- Optionality and indeterminate maturities

Activity Justified Transfer Pricing (AJTP)

Allocates expenses according to true usage of resources

"New" risk-adjusted P&L

	R
Gross Income	
Net Interest Revenue	
Capital Benefit	
Other (Non Interest Revenue)	
- Expected Loss	
- Total Cost	
= Risk-adjusted Profit	
÷ Economic Capital (ECap)	
= RAROC	
x ECap - (Cost of Capital x ECap)	
= Economic Profit	

Lead by Group Capital Management Division

Capital Benefit
Notional return on economic capital allocated

Expected Loss
Substitutes for provisions

Economic Capital
Bottom-up internal measurement of risk consumed by businesses, much more accurate than current regulatory standards (Basel 1)

- Includes credit, market, business and operating risks
- Incorporates benefits of portfolio diversification
- Calibrated to target debt rating of the Group

Capital Asset Pricing Model (CAPM)

From a risk-adjustment perspective, there are two major differences between the current P&L and the future risk-adjusted P&L:

- **Expected Loss (EL)**: Instead of provisions, being largely driven by idiosyncratic one-off events and therefore quite volatile over time, the more stable measure of expected loss is used. This measures how much the bank would have expected to lose on their credit portfolio in an average year. It therefore provides a more stable and accurate picture of the long-run profitability of the business.
- **Economic Capital (ECap)**: Economic Capital enables Nedbank to express the risk consumed by different business activities in a consistent way and therefore allows for like-for-like comparison of business unit performance.

COST OF CAPITAL

As at 1 January 2005

Cost of Capital is the weighted average of the cost of the two equity components: ordinary and preference shares ("WACC")

	Weighting	Cost	WACC
Cost of ordinary shares (after tax)	83%	14.2%*	
▪ Capital Asset Pricing Model (CAPM)*			
Cost of preference shares	17%	8.25%	
▪ 75% of Nedbank prime interest rate			
			13.2%

*

Bond used	Bond yield	Beta	Risk premium	After-tax cost of ordinary shares
R153	8.525%	0.95	6.0%	14.2%

Cost of Capital is updated semi-annually.

CAPITAL LEVELS AND TARGETS

CAPITAL LEVELS AND TARGETS

- Capital levels and planning is assessed across five dimensions, as follows:

Regulatory (Basel 1)	**Regulatory (Basel 2)**	**Economic Capital**	**Statutory Capital**	**Buffer Capital**
Local (South Africa) International (small)		(Rating Agencies capital)	(basis for RoE to 2007)	

- Current regulatory (Basel 1) projections to 31/12/2005

Group		**Bank**	
Tier 1	**Total**	**Tier 1**	**Total**
>8.0%	>12%	>8%	>12%

Long run capital planning (3 year horizon) reflects sound internal capital generation.

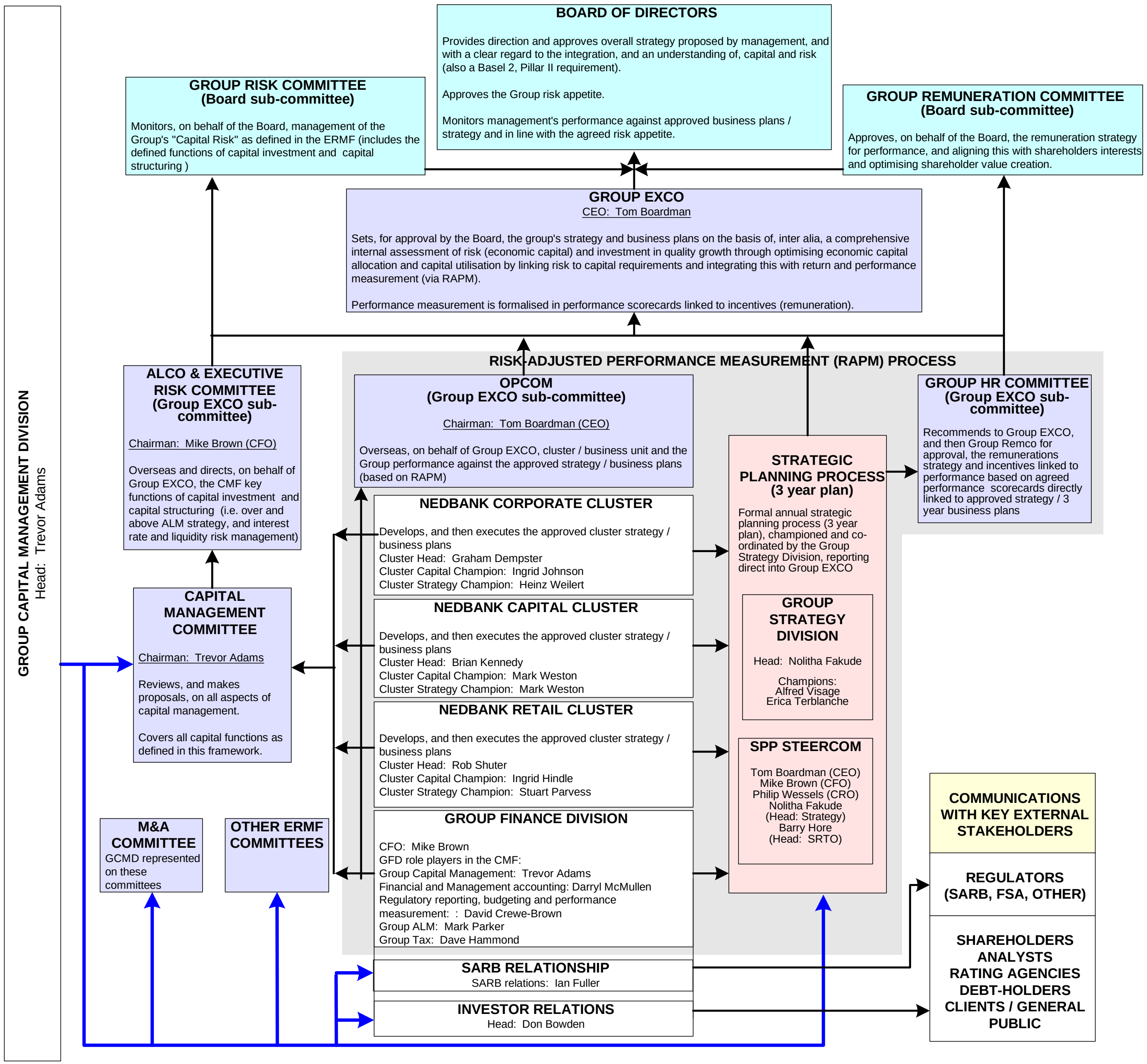
- Long run capital planning (3 year horizon) also reflects sound positioning for Basel 2 (AIRB) and Economic Capital

CAPITAL LEVELS AND TARGETS (CONTINUED)

- Foreign Capital Requirements
  - Reduced to $US 342 million equivalent
  - 2005 Strategic Planning Process will finalise offshore requirements
- Current Divident Policy is 3 – 3,5x cover on headline earnings
- Capital optimisation opportunities will receive strong focus in H2 2005 onwards
- Considering impact of low inflationary environment on growth, capital requirements and long-term strategy
- BEE deal is capital neutral

PROCESS FOR THE INTEGRATION OF CAPITAL MANAGEMENT INTO STRATEGY

PROCESS FOR THE INTEGRATION OF CAPITAL MANAGEMENT INTO STRATEGY



SUMMARY OF NEDBANK GROUP'S KEY CAPITAL AND STRATEGIC ACTIONS

SUMMARY OF NEDBANK GROUP'S KEY CAPITAL AND STRATEGIC ACTIONS

- Economic Capital allocation and RAPM
- Reduce / optimise risk profile of balance sheet
- Client selection improvement
- Collateral management improvement
- Limit management improvement
- Financial Services Charter - think "out the box" and develop innovative new products
- Risk based pricing (fully implemented)

- Client value management
- Risk based strategic planning
- Integration of risk, capital and strategy, linked to performance
- Growth, but where? Risk adjusted profitability measures show a very different picture
- Strategic capital plan (incorporating capital and B/S optimisation opportunities)
- Explore credit risk transfer / securitisation opportunities
- Consider entry of non-bank "specialists" not forced to hold Basel 2 risk based capital

SUMMARY AND CONCLUSION

SUMMARY

- Nedbank is proactively responding to “The new Rules to the Game of Banking”

- Significant progress made, and on track for, Basel 2

- Basel 2 impacts - pending SARB decisions before concluding

- Significant enhancements around Capital Management:
  - New dedicated Group Capital Management Function with advanced capabilities
  - New Capital Management Framework
  - Integration of Capital Management into Strategy underway
  - Economic Capital / RAPM in shadow roll-out

- Capital adequacy projections sound under Basel 1, Basel 2 and Economic Capital

- Significant progress on Foreign Capital position

CONCLUSION

WE SEE THE WINNERS OR LOSERS UNDER THESE "NEW RULES" AS FOLLOWS:

Winners	Losers
▪ Banks that see Basel 2 as a means to change – Embrace 'best practice' management science into way of doing business – Address their portfolio economics inherent in emerging market banks (pricing, limits, etc) – Increase transparency both internally and externally ▪ Banks that redesign their product/service offering using the new management science ▪ Banks that position themselves to take advantage of this regime change – i.e. bring a solution to areas that will come under significant credit strain (e.g. FSC lending) ▪ Banks that exploit profitability skews in their portfolios	▪ Banks who see Basel 2 as a compliance exercise – Risk not being compliant with 'Use Test' – Fail to address their portfolio economics and continue to subsidise sub-hurdle businesses – Fail to improve transparency, especially external, and find it increasingly hard to satisfy the Analysts/Rating agencies ▪ Late starters will have their portfolios cherry-picked and they might not even recognise it ▪ Banks that continue to rely on volume growth with disregard to fundamental economics implied by Basel 2