Basel II, economic capital & performance measurement update – 25 September 2007

"It would be a mistake to conclude that the only way to succeed in banking is through ever-greater size & diversity. Indeed, better Risk Management may be the only truly necessary element of success in banking"

Alan Greenspan

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BASEL II

- Overview & status
  - Pillar 1
  - Pillar 2
  - Pillar 3 (disclosure)
- Credit quality evaluation

ECONOMIC CAPITAL

- Overview & status
- Compared to Basel II and IFRS (impairments)

CAPITAL IMPACT OF BASEL II & ECONOMIC CAPITAL

RISK, CAPITAL AND SHAREHOLDER VALUE MANAGEMENT

- End of a 5 year journey……
- New capital allocation basis (from 2008)
- Risk appetite
- Performance measurement (from 2008)

Paradigm shift in risk & capital management driven by Basel II

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	OLD THINKING	NEW THINKING & EXECUTION
Philosophical		
• Attitude to risk	Risk is bad	Risk is a bank's core business
• Evaluation of business opportunities	Minimise risk	Price for risk; client value management
• Definition of risk appetite	Qualitative	Quantitative and qualitative
Functional		
• Approach to risk measurement	Conservative	Objective & transparent (risk = capital)
• Focus of risk monitoring	Big names	Portfolio trends & concentrations
• Risk management	Minimise risk taking	Optimise risk taking & link risk with return (use risk as an enabler)
Strategic		
• Involvement in business planning & strategy	Limited (focus on downside risk)	Fully integrated, linked to performance measurement & economic value creation (shareholder value based management)

Risk & capital management – evolved to become core strategic business partners

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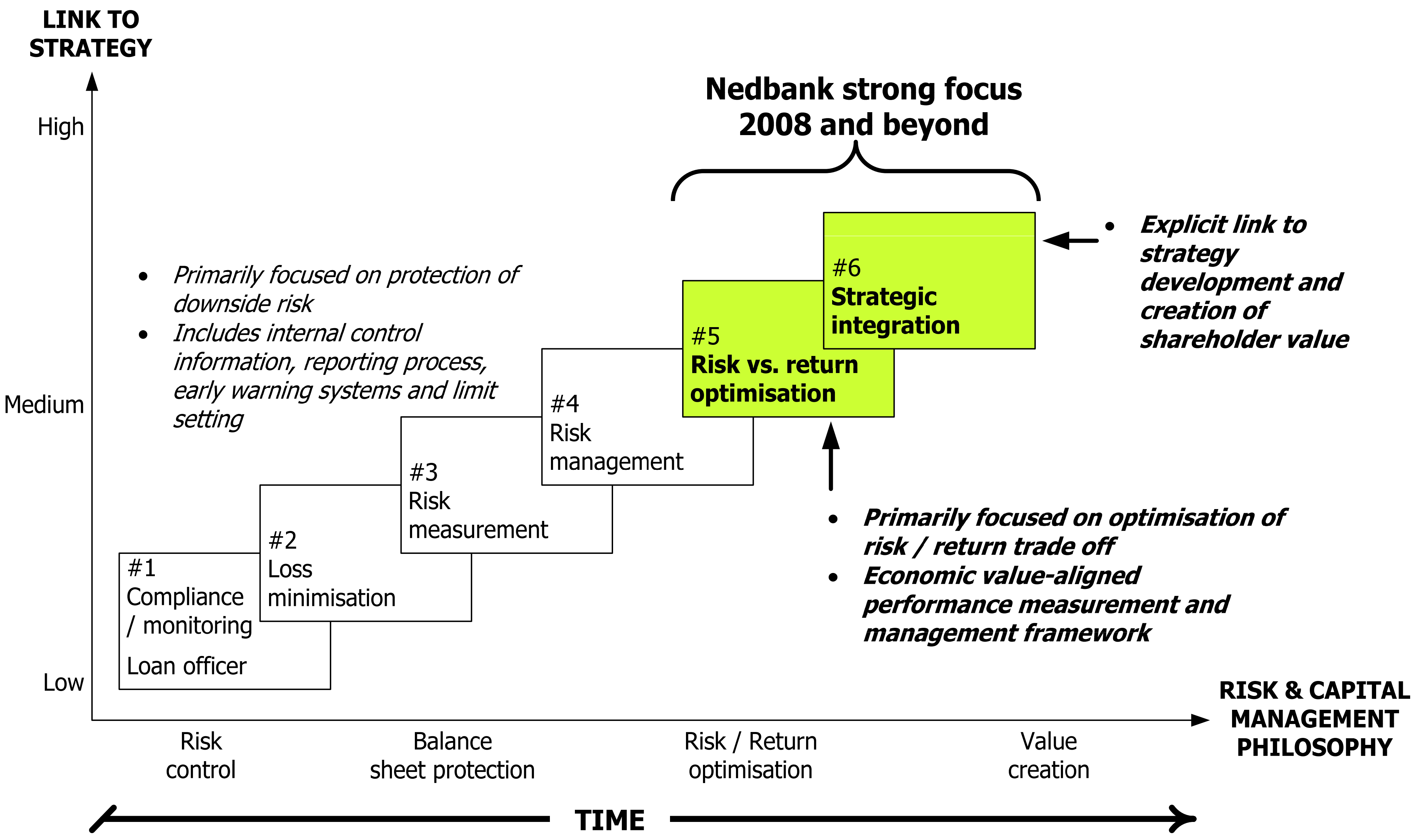

Nedbank's Basel II implementation blueprint

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2003 - 2005	2004 - 2006	2005 - 2007
RISK & CAPITAL MEASUREMENT	**RISK & CAPITAL MANAGEMENT**	**VALUE BASED MANAGEMENT**
• Credit Models & Scorecards (AIRB approach for Basel II) • Credit Portfolio Model • Market Risk Models (Trading, Investment & ALM) IMA/EPE EVE • Operational Risk Model (TSA → AMA) • Business Risk Model • Earnings Volatility Model • Other Risk Models • Capital Projection Model ▼ • Basel II Capital • Economic Capital • Risk Appetite • RAPM	• Credit Process Redesign (→ AIRB approach for Basel II) • Credit Portfolio Management (CPM) • Business Cluster Risk Labs & CMVU (centres of quant excellence) • Asset / Liability Management (ALM) • Operational Risk Management • Market Risk Management • Capital Management • Reporting • Chief Risk Officer ERM roles (Group Risk & Clusters) • Enterprise-wide Risk Management Framework (ERMF) (→ risk governance & accountability)	• Credit Process Implementation (AIRB approach) • Credit Portfolio Optimisation • Insight & value-add Management Science • Risk-based Pricing • Client Value Management • Risk-based Capital Allocation • Risk & Capital Optimisation • Risk Appetite • Risk-based Strategic Planning • RAPM (linked to STI incentives)

• **DATA MANAGEMENT** • **IT SYSTEMS, SOFTWARE & EDW** • **CHANGE MANAGEMENT**

Three pillars of Basel II

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Represent a fundamental shift in banking regulation

Basel II Capital Accord

Pillar 1 **Min Capital Requirements** **(rules based)**	**Pillar 2** **Supervisory Review Process** **(subjective)**	**Pillar 3** **Market Discipline** **(disclosure)**
• Sophisticated risk measurement for larger banks • More than ever before, risk management will be a true competitive differentiator • Pillar 1 covers: - – Credit risk (stand alone) – Equity risk – Operational risk – Market trading risk – Securitisation risk	• Significant increase in required regulatory role (esp. on-site visits) • Supervisors review & evaluate risk & capital management in detail • Regulators expected to differentiate capital 'add ons' based on quality of risk & capital management • Assessment of <u>all</u> other major risks (e.g. credit concentration risk, ALM), & comprehensive "Internal Capital Adequacy Assessment Process" (ICAAP) from banks & "Supervisory Review & Evaluation Process" by regulator	• Banks required to release much more information about risk profile • Increased disclosure of risk measurement & management practices, capital structure & capital adequacy • Debt & share markets increasingly able to differentiate banks based on quality of risk & capital management, risk vs. return optimisation, etc

Nedbank's risk & capital approaches for Basel II

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- Advanced Internal Ratings Based (AIRB) ✓ approach for **Credit Risk** ~ Pillar 1

  ('in-principle' approval received from SARB on 29 June 2007)

- Market-based Simple Risk Weight Approach for **Investment Risk** (equity exposures) ~ Pillar 1
- Standardised Approach (TSA) for **Operational Risk** but worldclass operational risk management ~ Pillar 1

  ('in-principle' approval received from SARB on 15 August 2007)

  Workstreams are far advanced for transition to the Advanced Measurement Approach (AMA) ✓ in 2009/2010 for Basel II but 2008 for Economic Capital

- Internal Model Approach (IMA) ✓ for **Market Trading risk** ~ Pillar 1
- Worldclass standards for **Credit Concentration & ALM (Interest Rate & Liquidity) risks** ✓ ~ Pillar 2
- Worldclass **Internal Capital Assessment Process** (ICAAP) ✓ & **Capital Management** ✓ ~ Pillar 2

✓ = *best practice*

Nedbank's AIRB credit system

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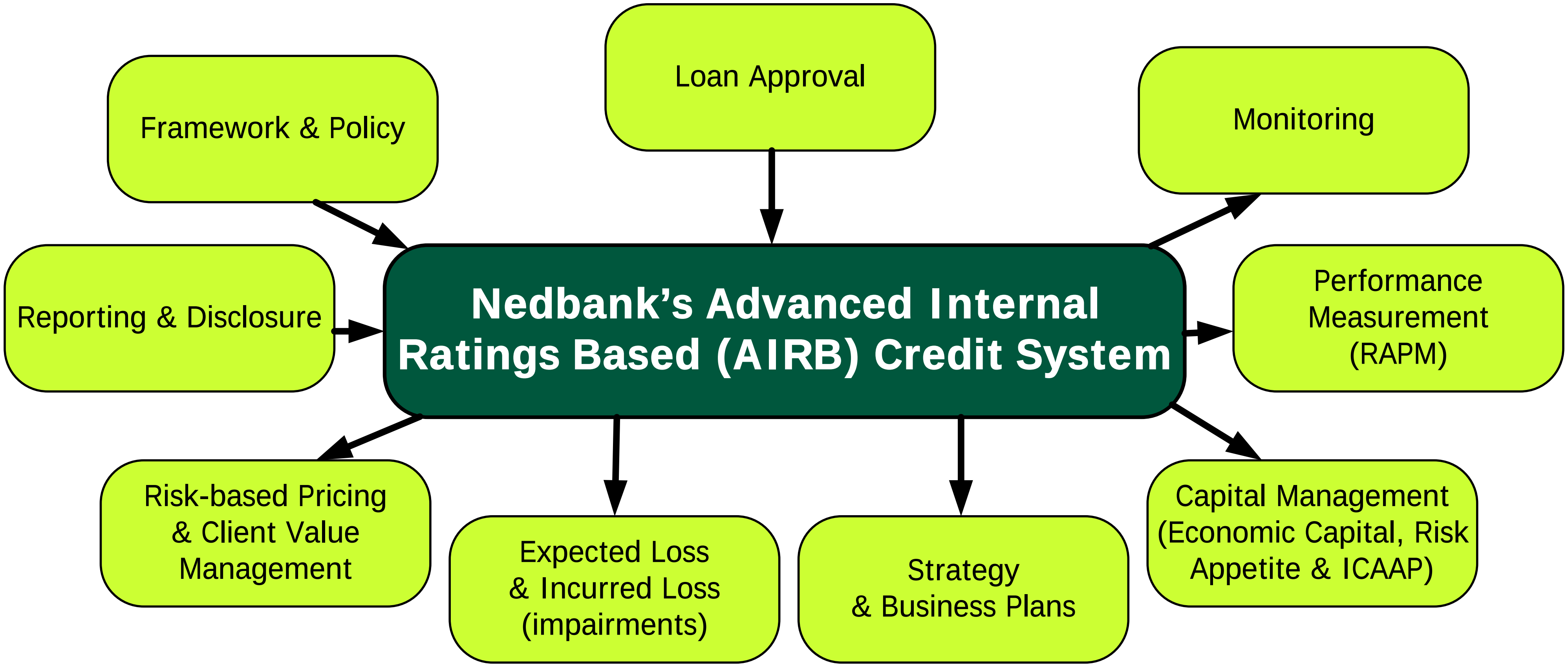
Quantum leap across Nedbank to world class practice in credit risk measurement & management



Work commenced in 2003, AIRB credit system rollout in 2005, refined in 2006/7

Pillar 2 obligations under requirement for risk & capital assessment (ICAAP)

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ICAAP 1
Every bank should have an ICAAP

ICAAP 2
Responsibility for bank's ICAAP

ICAAP 3
Written record of ICAAP

ICAAP 4
Integral part of management & decision-making culture of a bank

ICAAP 5
Proportionality

ICAAP 6
Regular independent review

REQUIRED BY NEDBANK

REQUIREMENTS OF THE BANKS

Principle 1
- Banks to have an Internal Capital Adequacy Assessment Process (ICAAP) and strategy linked to their capital levels and planning.

Principle 3
- Banks expected to hold capital in excess of the regulatory minimum.
- Regulators with power to enforce.

REQUIRED BY SARB

REQUIREMENTS OF THE REGULATOR

Principle 2
- Regulators to review and evaluate bank's ICAAP.
- Regulators able to take action if not satisfied.

Principle 4
- Regulators to intervene early to prevent capital falling below required minimum levels.

SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

ICAAP 7
Forward-looking

ICAAP 8
Risk-based

ICAAP 8
Stress tests & scenario analysis

ICAAP 10
Diversification & concentration risk

ICAAP 11
Credit concentration risk

ICAAP 12
Capital models

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Board and management oversight
- Understand nature and level of all material risks
- Set risk appetite and tolerance
- Assess and ensure capital adequacy
- Decide overall business strategy with regards to capital
- Set policies

Sound capital assessment
- Identification, measurement and reporting of all material risks
- Relate capital to risk
- Integrate capital with risk and business plans
- Capital management

Comprehensive risk assessment and management process
- Credit risk
- Market risk
- Operational risk
- Interest Rate risk
- Liquidity risk
- Reputational risk
- Strategic risk
- Concentration risk
- Procyclicality risk

⇓

Economic Capital*

(although the term economic capital is not expressly used in the Basel II Accord, most leading banks have implemented it and this will comprise a fundamental component of their ICAAP, as is the case for Nedbank Group)*

Monitoring and reporting
- Evaluate level and trend of material risks
- Sensitivity analysis of key assumptions
- Corporate governance
- Produce reports for management and board

Internal control Review
- Internal and external audit reviews
- Monitor compliance
- Stress testing
- Identification and management of concentrations
- Documentation

Nedbank's ICAAP framework (Pillar 2)

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QUANTITATIVE RISK AND CAPITAL MEASUREMENT AND ASSESSMENT

Pillar 1 risks

- Credit risk (AIRB)
- Market risk (IMA)
- Operational risk (TSA → AMA)

Pillar 2 risks

- Concentration risk
- Interest rate risk
- Liquidity risk
- Business risk
- Strategic and Reputation risks
- Securitisation risk
- Settlement risk
- Residual risk

External factors

- Stress tests and scenario analysis
- Macro-economic risks

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

- Risk Appetite (tolerance)
- Capital planning (long run) and Capital Buffer Management

INTEGRATION OF RISK AND CAPITAL MANAGEMENT INTO STRATEGY, BUSINESS PLANS AND REWARD

Strategic Capital Planning

↕

Group Strategic Planning Process (3 year business plans)

↓

Risk-based Capital Allocation and Risk Adjusted Performance Measurement (RAPM)

↓

Incentives (STI)

GOVERNANCE, QUALITATIVE ASPECTS AND SUPPORTING INFRASTRUCTURE

Clearly defined roles and responsibilities for: -

- Business Clusters (incl. Cluster financial risk labs)
- Group Finance and Group Capital Management
- Group Strategy
- Investor Relations
- Group Risk
- Group Internal Audit
- Group Exco
- Board of Directors

Involving: -

- Identification of risk (risk governance, risk universe)
- Control, management and monitoring of risk
- Setting and managing risk appetite
- Optimisation of risk and capital and return
- Key involvement in business planning and strategy
- Risk reporting, communications and disclosure
- Risk management infrastructure
- Championing enterprise-wide risk management

- AIRB Credit Framework
- Group Credit Portfolio Management
- Market Risk Framework
- ALM Framework
- Group Operational Risk Framework
- Economic Capital Framework

- Stress & Scenario Testing Framework (including macro-economic factor model)
- Risk Appetite Framework
- Capital Adequacy Projection Model
- Capital Buffer Management Framework
- Capital Management Framework

Risk Adjusted Performance Measurement Framework (RAPM)

↑

Economic Capital Framework

Strategic Capital Plan

↕

Group's 3 year Business Plans

- Enterprise-wide Risk Management Framework (ERMF)
- Capital Management Framework

EDW and Data Governance Framework

= How Nedbank Group addresses the Basel II Pillar 2 ICAAP requirements

Public disclosure from 2008 (Pillar 3)

Regulation 43 of the new Basel II Regulations relating to Banks: -

"...bank shall disclose in its annual financial statements and other disclosure (e.g. quarterly / semi-annually) to the public, reliable, relevant and timely qualitative and quantitative information that enable users of that information, amongst other things, to make an accurate assessment of the bank's financial condition, including its capital-adequacy position, financial performance, business activities, risk profile and risk-management practices..."

Minister of Finance anticipated to sign new Basel II regulations into law by end October 2007 (for effect 1 January 2008)

New credit risk BA returns
- Basel II AIRB approach

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- **Summary of selected credit risk related information**

  - Total advances ✓
  - Impaired advances ✓
  - Assets bought-in ✓
  - Total credit impairments ✓
    - Specific credit impairments ✓
    - Portfolio credit impairments ✓
  - Credit losses charge to income statement ✓
  - Total credit extended ✓

  IFRS (accounting-based)

  - Exposure at default (EAD) ✗
  - Average probability of default (PD, EAD weighted) ✗
  - Average loss given default (LGD, EAD weighted) ✗
  - Total expected loss (EL) ✓
  - Best estimate of expected loss (BEEL) ✗
  - Net excess / (deficit) of total credit impairments compared to expected loss ✗

  Basel II (risk-based)

✓ = 2006 Annual Report ✗ = Disclosure in 2008

New credit risk BA returns
- Basel II AIRB approach *(continued)*

- **Credit risk exposure & capital requirement – analysed by Basel II asset class**
  - Corporate exposure
    - Corporate
    - Specialised lending - high volatility commercial real estate (prop development)
    - Specialised lending - income producing real estate
    - Specialised lending - object finance
    - Specialised lending - commodities finance
    - Specialised lending - project finance
    - SME corporate
  - Purchased receivables - corporate
  - Public sector entities
  - Local government & municipalities
  - Sovereign (including central government & central bank)
  - Banks
  - Securities firms
  - Retail exposure
    - Retail mortgages
    - Retail revolving credit
    - Retail Other
    - SME retail
    - Purchased receivables - retail
  - Securitisation exposure

New credit risk BA returns
- Basel II AIRB approach *(continued)*

- **Analysis of credit exposure, that is EAD analysed by PD band (NGR) per master rating scale; EAD weighted average LGD (%); expected loss (EL)**
  - Performing book in total & by PD band (NGR), & by asset class ✓
  - Non-performing book / book "in default" ✗
- **EAD & credit conversion factors; Average effective maturity (EAD weighted); Analysis of expected loss & credit impairments**
  - By asset class ✗
- **Reconciliation of credit impairments**
  - By balance sheet & income statement (opening to closing balance) ✗
- **Analysis of past due exposures**
  - By asset class & by days overdue (0-30 days, 31-61 days, 61-90 days & >90 days) ✓

    Note: Basel II definition of default = more than 90 days overdue
- **Counterparty credit risk**
  - Various analysis, including over-the-counter (OTC) & securities financing transactions (SFT) ✗
- **Credit risk mitigation**
  - By asset class and by type of credit risk mitigation ✗
- **Restructured credit exposure ("distressed renegotiations" per IFRS 7)** ✗
- **Credit concentration risk** ✗

Other AIRB credit disclosure

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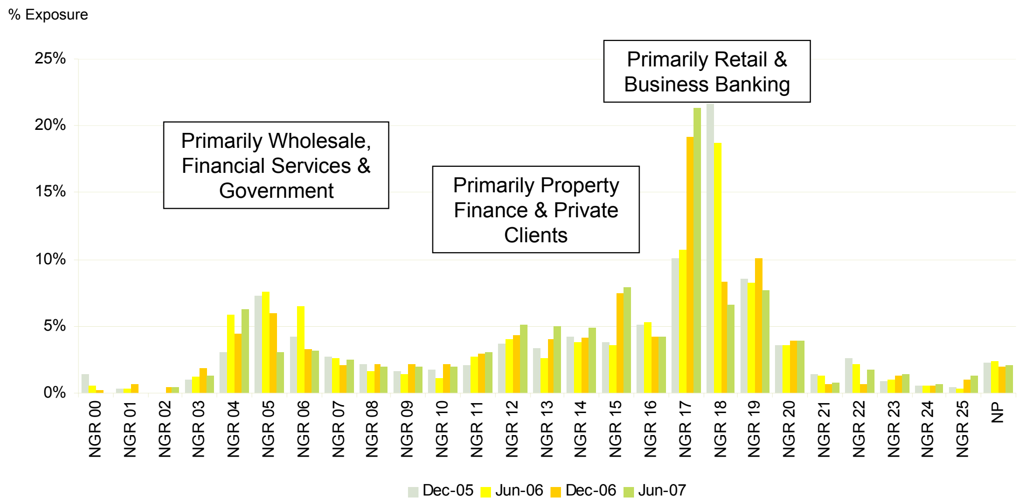
- Risk profile by NGR (PD) & NTR (EL) grades across credit portfolios / segments
- Migration across grades
- Portfolio migration (trends)
- Regulatory & economic capital by credit portfolio, asset class, business, etc
- Back testing of default rates (PDs), LGDs & EADs
- Stress test results (pillar 1 [risk] & pillar 2 [capital])
- Overall performance of AIRB system including results of validation, changes, etc

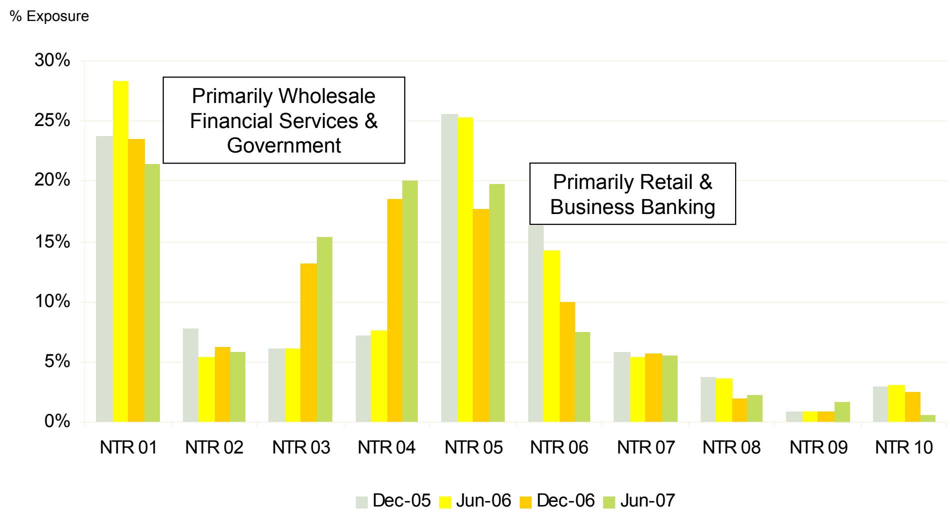
Nedbank's master rating scales are the new common language of credit risk

Credit risk profile – as at 30 June 2007

Exposure per PD – NGR rating scale
(excludes CRM / collateral)



Exposure per EL – NTR rating scale
(includes CRM / collateral)



The NGR & NTR master rating scales are comprehensively used for:

- Credit approval (individual loan applications)
- Credit risk management
- Risk-based pricing & client value management
- Management and board reporting on credit risk
- Regulatory reporting & peer group comparison by SARB (from 2008)
- External reporting (Pillar 3) (started in 2005 - see annual report)

New basis for credit quality assessment arising from Basel II

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- Definition of Default – for IRB banks
  - New fundamental basis for asset quality evaluation across banking industry (large banks)
  - Obligor overdue for more than 90 days & / or when bank is of opinion that obligor is unlikely to pay obligations in full without any recourse by bank to actions (minimum matters are specified in the new regulations – Reg 65)
  - Can apply for permanent condonation to use 3 monthly instalments (i.e. as = 90 days)
- Current DI 500 "Credit Risk Classification System" is retained for Standardised Approach banks only to supplement Basel II standardised approach risk weightings & requirements (for IRB banks this system is superseded by new IRB credit methodology)
- Concept of "minimum regulatory provisions" now obsolete. For IRB banks replaced by Expected Loss (EL) methodology & a requirement that EL be compared with accounting impairments under IFRS. The difference impacts qualifying capital
- Past Due Analysis up to 90 days for IRB Banks included as one supplement for credit quality analysis (0-30 days; 31-60 days; 60-90 days; >90 days – all based on EAD)

Levels of capital

REGULATORY CAPITAL	ECONOMIC CAPITAL	AVAILABLE CAPITAL (BOOK EQUITY)
• Amount of capital required to protect bank against regulatory insolvency	• Amount of capital required to protect group against economic insolvency, tailored to Nedbank Group	• Net asset value, takes account of the two measures of required capital
• Designed primarily to protect depositors & creditors	• Also used as a tool for many risk vs. return management applications such as risk-based pricing, client value management, RAPM, etc	• Compared to regulatory capital & economic capital to ensure solvency of both
MINIMUM CAPITAL YOU ARE TOLD TO HAVE	**CAPITAL YOU ACTUALLY NEED**	**CAPITAL YOU HAVE**

Economic capital vs. Basel II

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Basel II Capital Accord

Pillar 1
Minimum Capital Requirements (rules based)

- Sophisticated risk measurement for larger banks
- More than ever before, risk management will be a true competitive differentiator
- Pillar 1 covers: -
  - Credit risk (stand alone)
  - Equity risk
  - Operational risk
  - Market trading risk
  - Securitisation risk

Pillar 2
ICAAP and Supervisory Review Process (subjective)

- Significant increase in required regulatory role (esp. on-site)
- Supervisors review & evaluate risk and capital management
- Regulators expected to differentiate capital 'add ons' based on quality of risk & capital management
- Assessment of all other major risks (e.g. credit portfolio concentration risk, ALM) & a comprehensive **Internal Capital Adequacy Assessment Process** (ICAAP), including link to risk appetite & bank's strategic planning.

Pillar 3
Market Discipline (disclosure)

- Banks required to release much more information about their risk profile
- Improved disclosure of risk measurement & management practices, capital structure & capital adequacy
- Debt & share markets increasingly able to differentiate banks based on quality of risk & capital management, risk vs. return optimisation, etc

NEDBANK'S ECONOMIC CAPITAL

Nedbank's Economic Capital (substantially) = Basel II pillar 1+ pillar 2

Economic capital vs. Basel II *(continued)*

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BASEL II		ECONOMIC CAPITAL (ECAP)
PILLAR 1	PILLAR 2	
Credit Risk (stand alone) AIRB credit approach **1**	**Credit Concentration Risk** **?** Nedbank's Credit Portfolio Model (using KMV software) **2**	**Credit Economic Capital** = **1** & **2**
Market Trading Risk Internal Model Approach (and CEM* for counterparty credit risk) **3**	N/A	**Market Trading Risk Economic Capital** = **3**
N/A	**ALM Risks** **?** - **Interest risk rate in banking book** (Nedbank models this using IPS Sendero and on an Economic Value of Equity (EVE) basis) **4**	**ALM Economic Capital** = **4**
N/A	- **Liquidity risk** **?**	N/A (not practical to hold capital for this – rely entirely on ALM / ALCO process)
N/A	- **Currency Translation Risk** (rand volatility measure) **5** **?**	= **5**

* will implement advanced internal model methodology in 2008 / 9

Economic capital vs. Basel II *(continued)*

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BASEL II		ECONOMIC CAPITAL (ECAP)
PILLAR 1	PILLAR 2	
Equity Risks (investment and property risks) Simple risk weight approach (300 / 400% vs 100% Basel 1) **6***	**N/A**	**Equity Risk ECap** (using simple volatility measures in 2007; will align to Basel II for 2008) = **6***
Operational Risk Standardised Approach **7****	N/A	**Oprisk Economic Capital** = **7****
N/A	**Strategic, reputational and other risks** **?**	**Business Risk ECap** (earnings volatility approach)
Other Assets (100% risk weight) **8**	**N/A**	**Other Assets ECap** = **8** (from 2008)

* will implement advanced internal model methodology in 2008 / 9

**will implement advanced measurement approach (AMA) in 2008 for ECap and 2009 / 2010 for Basel II

Economic capital vs. Basel II *(continued)*

FACTOR	BASEL II	ECONOMIC CAPITAL
Measurement period (time horizon)	1 year (forward looking)	1 year (forward looking)
Confidence interval (solvency standard)	99,9% (1 in 1 000 years) or A-	99,9% (1 in 1 000 years) or A- **(Nedbank's current choice)**
Diversification benefits		
• Intra-risk (**within** a risk type, especially credit)	• 'Basel II capital formula calibrated to a large, well diversified international bank'	• Nedbank's CPM measures portfolio correlations & thus accounts for concentrations & intra-risk diversification
• Inter-risk (**between** risk types)	• ? (simple aggregation of all risks' capital) (part of ICAAP / SREP)	• Inter-risk correlation matrix
AIRB credit methodology		
• 6% scaling factor	✓	X
• Downturn LGD (dLGD)	✓	Through-the-cycle LGD

Economic capital vs Basel II – available capital resources

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CAPITAL SOURCES	BASEL I	BASEL II	ECONOMIC CAPITAL
	Tier 1	**Tier 1**	**AFR**
Core			
- Share capital and reserves	✓	✓	✓
- Minority interest	✓	✓ (to apply to SARB)	✓
Non-core	(limit 20% of tier 1)	(limit 25% of tier 1)	(no limit)
- Preference share capital	✓	✓	✓
- Hybrid debt / capital instruments	-	✓(limit 15% of tier 1)	✓(no limit)
Goodwill & impairments	(x)	(x)	(x)
Other regulatory vs. accounting (IFRS) differences & unappropriated profits	(x)	(x)	(x) ✓ for unapp. profits
Impairments vs. EL: 100% of net diff for ECap if +ve or –ve	-	-	✓ or (x)
Impairments vs. EL - Basel II (dLGD) - ECap (TTC lgd): 50% for Basel II if -ve (other 50% in Tier 2)	-	(x)	-
Next year's pre-tax profit per business plan	-	-	✓ (50% taken)

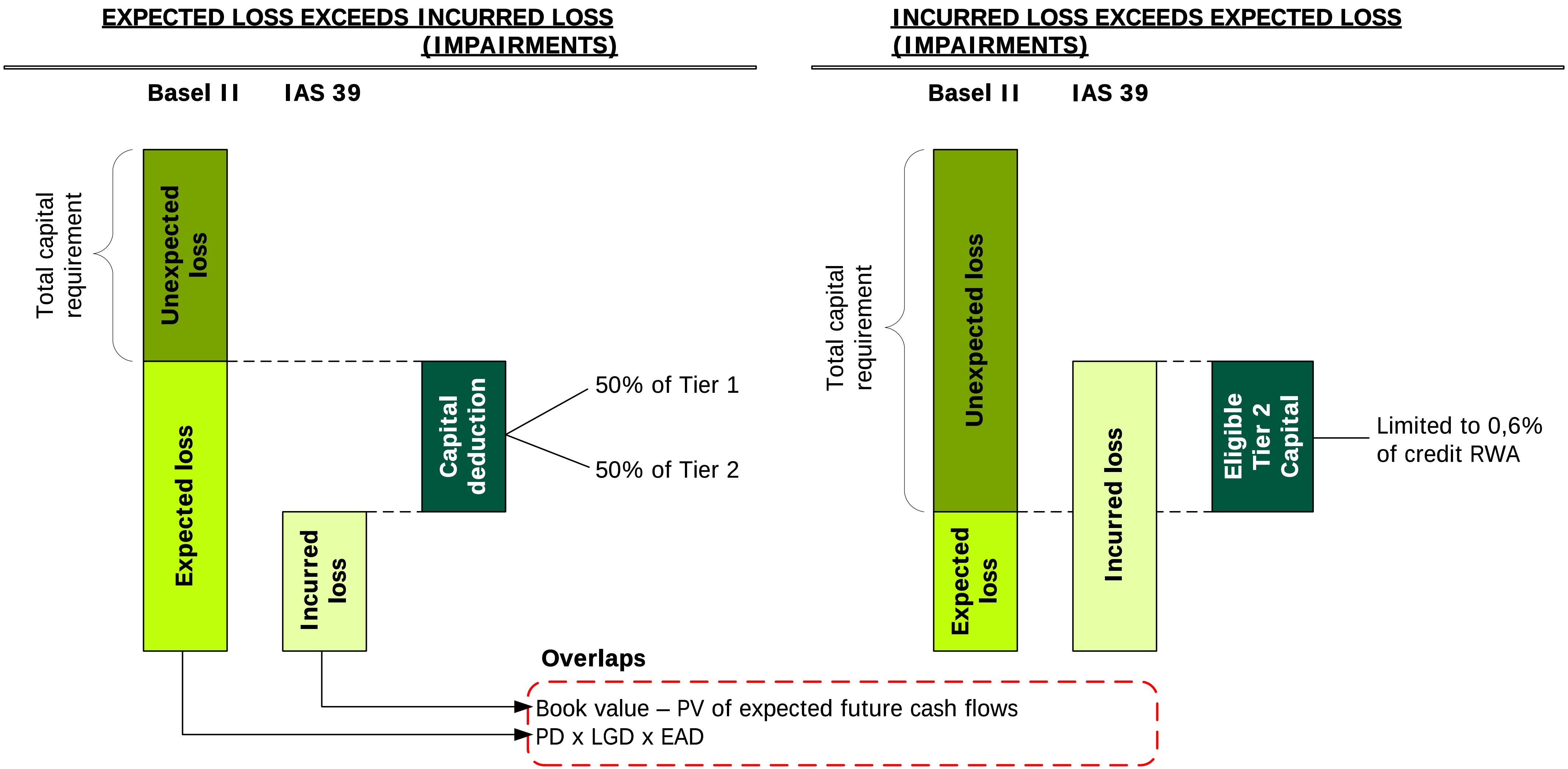
(x) = deduction

Economic capital vs Basel II – available capital resources

CAPITAL SOURCE	BASEL I	BASEL II	ECONOMIC CAPITAL
	Tier 2	**Tier 2**	**AFR**
Excess of tier 1 non-core capital	✓ (limited to tier 2 total being 100% of tier 1)	✓ (limited to tier 2 total being 100% of tier 1)	No limit, all included in core capital (i.e. AFR)
Subordinated debt	✓(limited to 50% of tier 1)	✓(limited to 50% of tier 1)	- (N/A)
General credit risk provision	✓	-	-
Impairments vs. EL - Basel II (dLGD): 100% if +ve (limit to 0,6% of credit RWAs)	-	✓ OR	-
Impairments vs. EL - Basel II (dLGD): 50% if –ve (other 50% in Tier 1)	-	(x)	-
TOTAL	XXX	XXX	XXX

(x) = deduction

Basel II (expected loss) vs. IFRS (incurred loss)



Basel II (expected loss) vs. IFRS (incurred loss) *(continued)*

	BASEL II	IAS 39
PDs		
Intention of estimate	• Conservative estimate of probability of default within next 12 months	• Best estimate of likelihood & timing of credit losses over life of loan
Period of measurement	• Long run historical average over whole economic cycle – "through-the-cycle"	• Should reflect current economic conditions – "point-in-time"
LGDs		
Intention of estimate	• Conservative estimate is discounted value of post-default recoveries	• Conservative estimate of discounted value of post-default recoveries
Treatment of collection costs	• Recoveries net of direct & 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 – "point-in-time"
EL		
Basis of exposure	• Based on Exposure-at-Default (EAD), which includes unutilised facilities	• Based on actual exposure (on & off – balance sheet)

For Nedbank's credit economic capital, through-the-cycle LGDs are utilised as opposed to downturn LGDs for Basel II

Nedbank's economic capital model & position at 30 June 2007

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CREDIT RISK
(including concentration risk)

Basel II AIRB credit methodology and sophisticated credit portfolio modelling, taking concentration risk and inter-risk diversification into account.

+

MARKET RISK

Trading risk	ALM risk	Property risk	Investment risk
VaR scaled to one year, taking into account management interventions.	A stochastic interest rate model applied to earnings at risk.	Multiple of exposure, based on volatility measures.	Multiple of exposure, based on volatility measures.

+

OPERATIONAL RISK

Basel II standardised approach
(moving to AMA in 2008)

+

BUSINESS RISK

Earnings-at-risk model

=

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

+

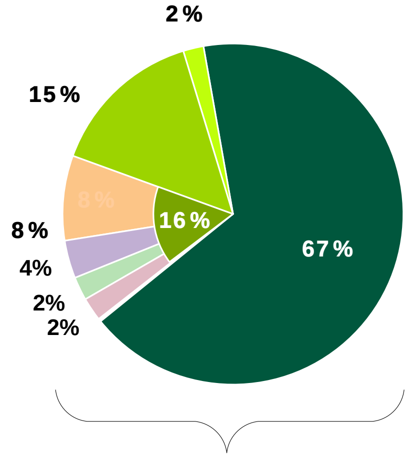
CAPITAL BUFFER
(10% buffer for procyclicality, stressed scenarios, etc)

=

TOTAL ECONOMIC CAPITAL REQUIREMENT

Measurement period / time horizon: one year (same as Basel II)
Confidence interval (solvency standard): 99.9% (A-) (same as Basel II)

	Rm
Credit risk	15 070
Market risk	3 782
Trading risk	416
ALM risk	554
Property risk	906
Investment risk	1 873
Forex risk	33
Operational risk	464
Business risk	3 522
Minimum ECap	**22 838**



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Minimum Economic Capital

R22 838m

Capital Buffer
R2 284m

Economic Capital Requirement
R25 122m

vs.

Available Financial Resources
R30 040m

Basel II regulatory capital requirements

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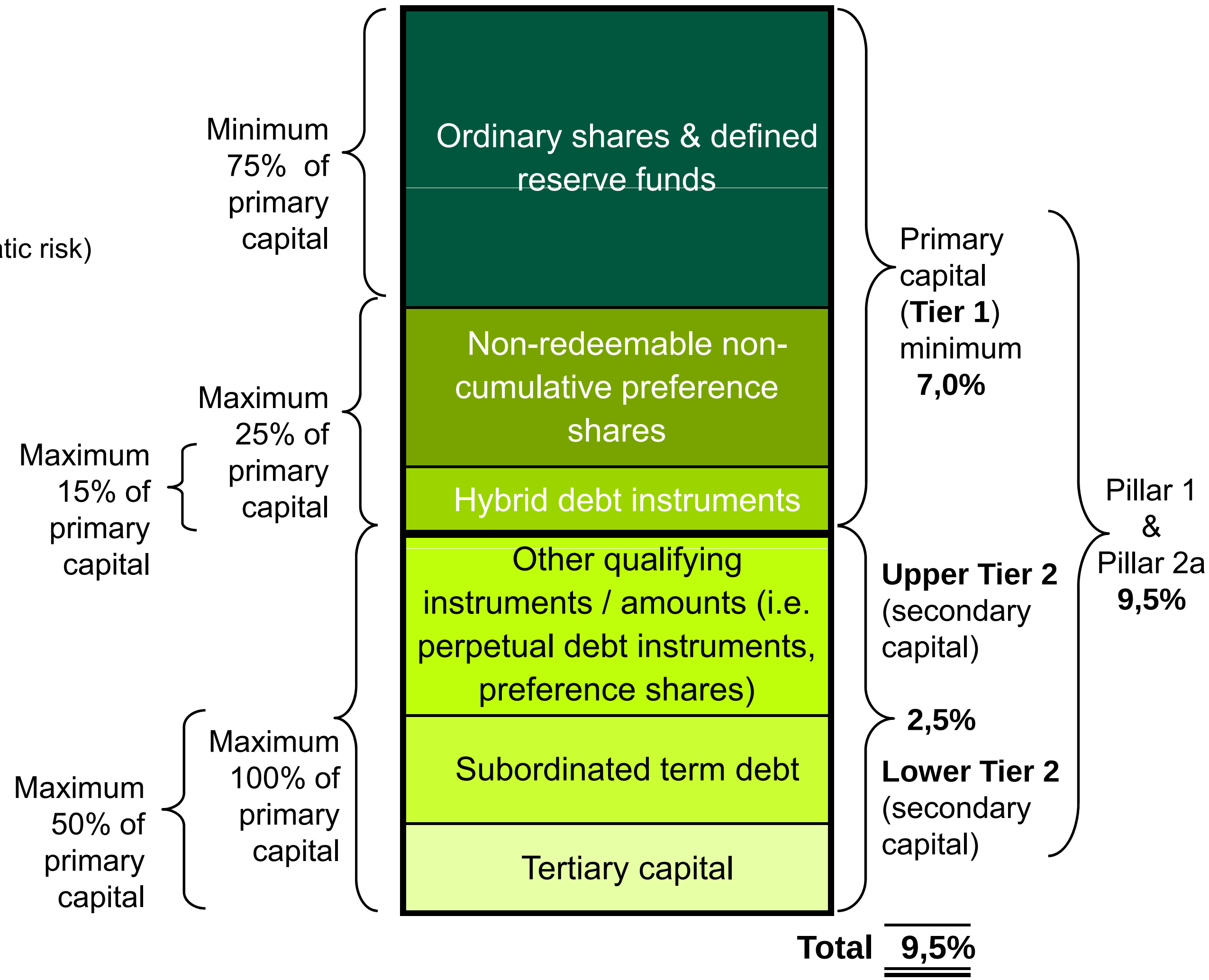
REGULATORY MINIMUM CAPITAL REQUIREMENTS

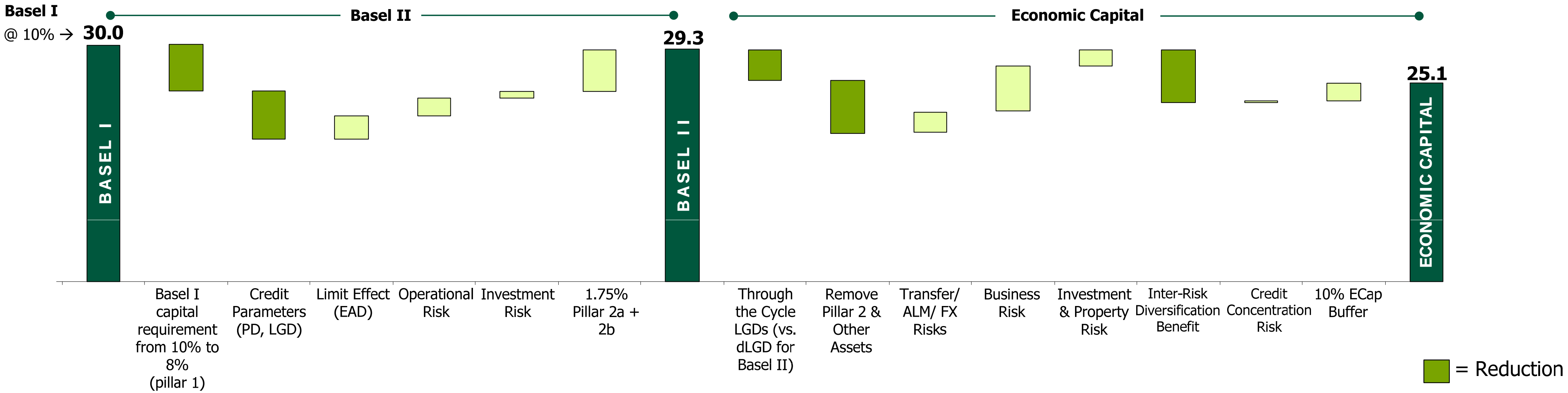
Pillar 1	8,00%	
+ Pillar 2a	1,50%	(RSA systemic risk)
	9,50%	
+ Pillar 2b	0,25%	(may vary - idiosyncratic risk)
Minimum required capital ratio	**9,75%**	
+ buffer	X%	(board decision)
(principle 3, Pillar 2)		

REGULATORY MINIMUM CAPITAL STRUCTURE

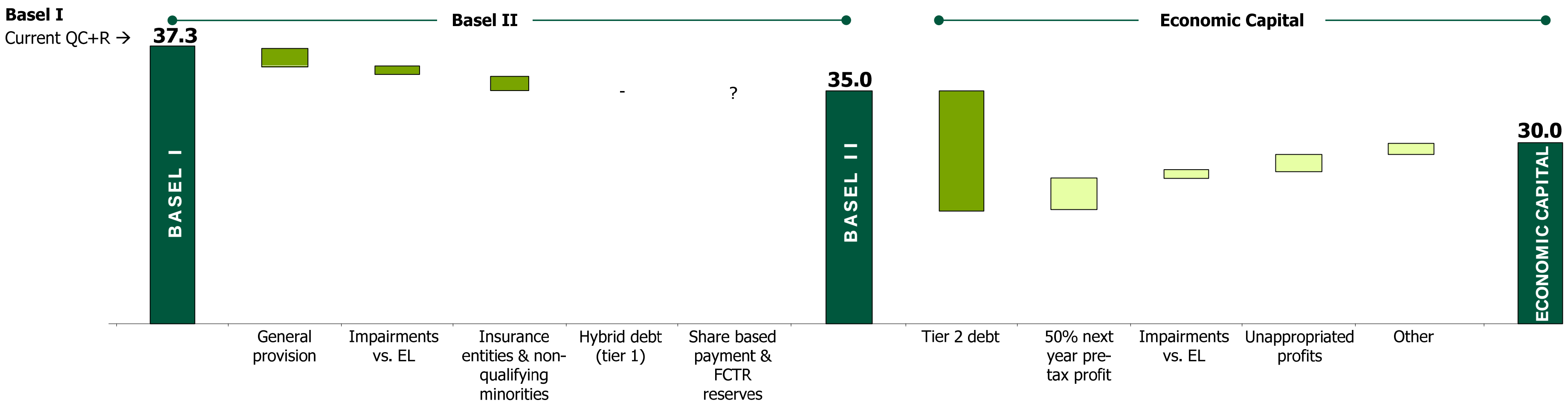


Impact of Basel II & economic capital as at 30 June 2007

CAPITAL REQUIREMENT (in Rbn)



CAPITAL RESOURCES (in Rbn)



CAPITAL RATIOS	Basel I	Basel II	Economic Capital
Tier 1	8.3%	7.9%	R4.9bn surplus
Total	12.4%	11.6%	(i.e. after 10% buffer)

Strategic capital management

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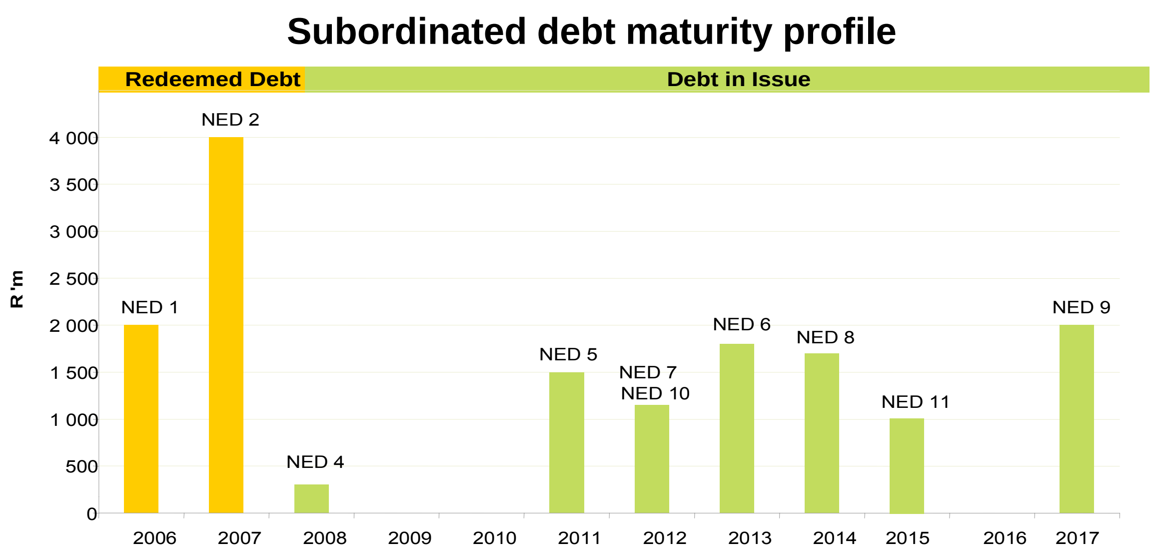
- Nedbank will be capitalised at greater of Basel II & Economic Capital:

Confirmed using macro-economic factor model to stress-test (ALCO & Board approved)

Target range for Basel II Total ratio: 11% - 12% (min 9.75%)
Target range for Basel II Tier 1 ratio: 8% - 9% (min 7%)

Target Economic Capital = A- debt rating + 10% buffer

- Plans are advanced to issue hybrid debt capital in Q4 2007 (qualifying as Tier 1 on 01/01/2008)
- Management actions executed over past 3 years have removed excess risk on B/S & aligned risk profile with Board's risk appetite
- Strategic capital planning & dynamic capital management in place since 2005, for example



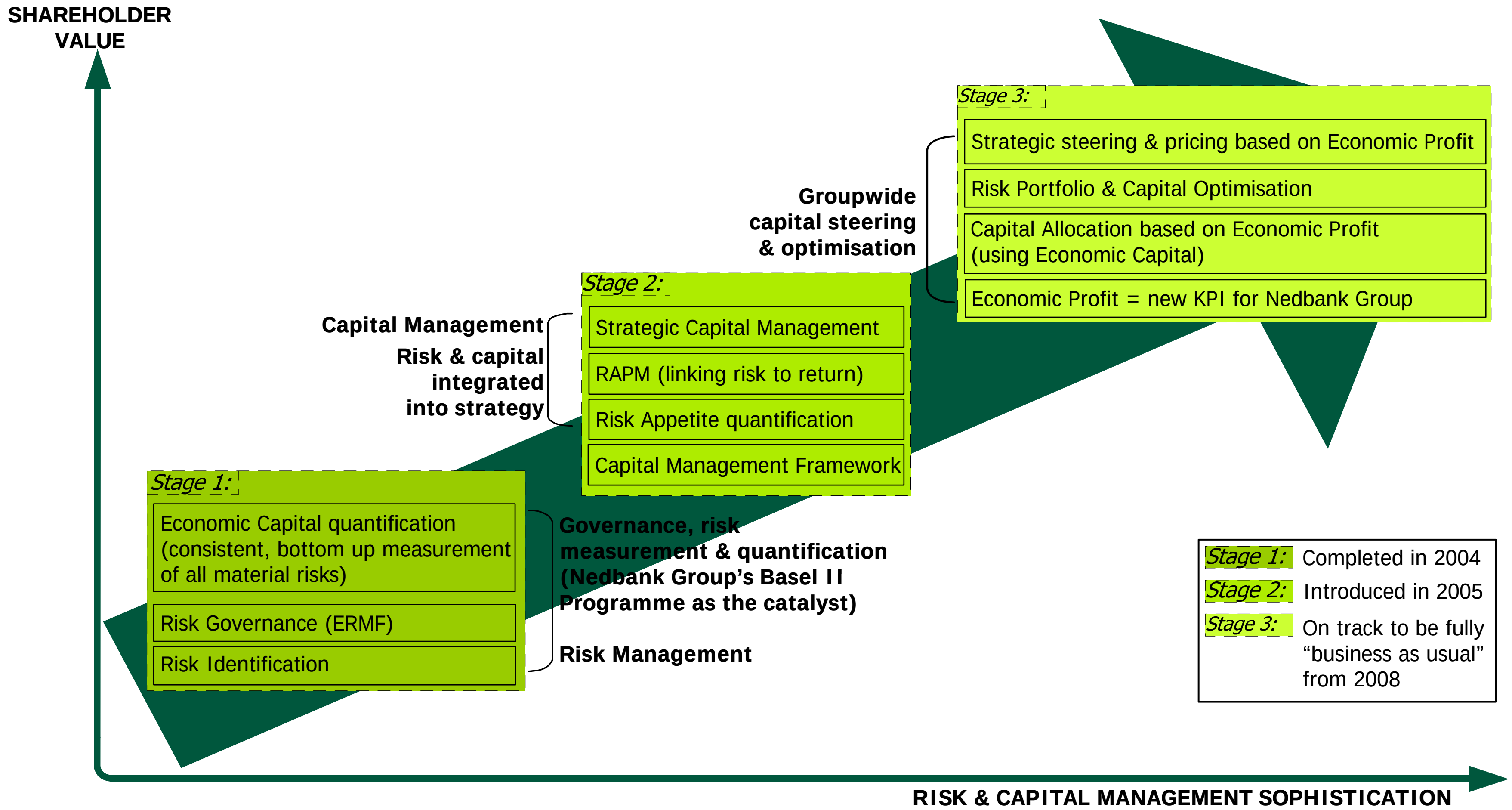
Creating a Nedbank yield curve & diversifying internationally

Journey to worldclass risk & capital management

NEDBANK GROUP

BASEL II · CAPITAL MANAGEMENT · ECONOMIC CAPITAL · RISK APPETITE · RAPM · INCENTIVES

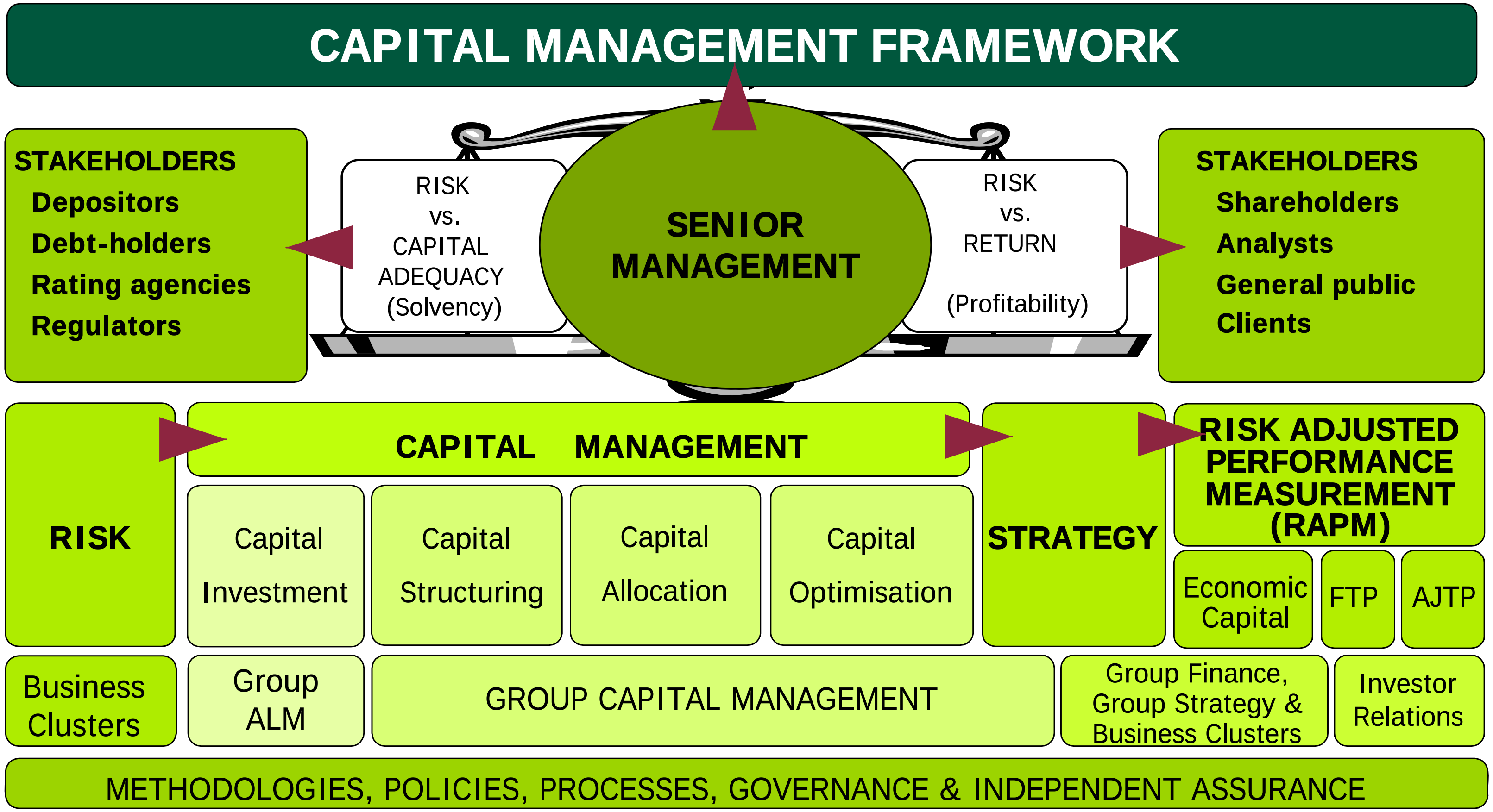
2003 / 2004	2005	2006	2007	2008
BUILD RISK AND CAPITAL CAPABILITIES & INTRODUCE THE NEW CONCEPTS	EDUCATE, USE, SHADOW REPORTING, REFINE & INTEGRATE INTO 3-YEAR STRATEGIC PLANNING (FIRST TIME)	FINE TUNE, FULL REPORTING & REWARD (FIRST TIME)	FINALISE (100%) READY FOR 2008 FULL APPLICATION	FULL PERFORMANCE MEASUREMENT & CAPITAL ALLOCATION ON RISK ADJUSTED (RAPM) BASIS



ALIGNED WITH THE END OF NEDBANK'S 3 YEAR STRATEGIC RECOVERY AND THE IMPLEMENTATION OF BASEL II IN SOUTH AFRICA

Capital management framework – rolled out in 2005

NEDBANK GROUP



ENTERPRISE-WIDE RISK MANAGEMENT OBJECTIVES

Optimise business opportunities	Protect against unforeseen losses	Ensure earnings stability
RISK = OPPORTUNITY	**RISK = THREAT**	**RISK = UNCERTAINTY**

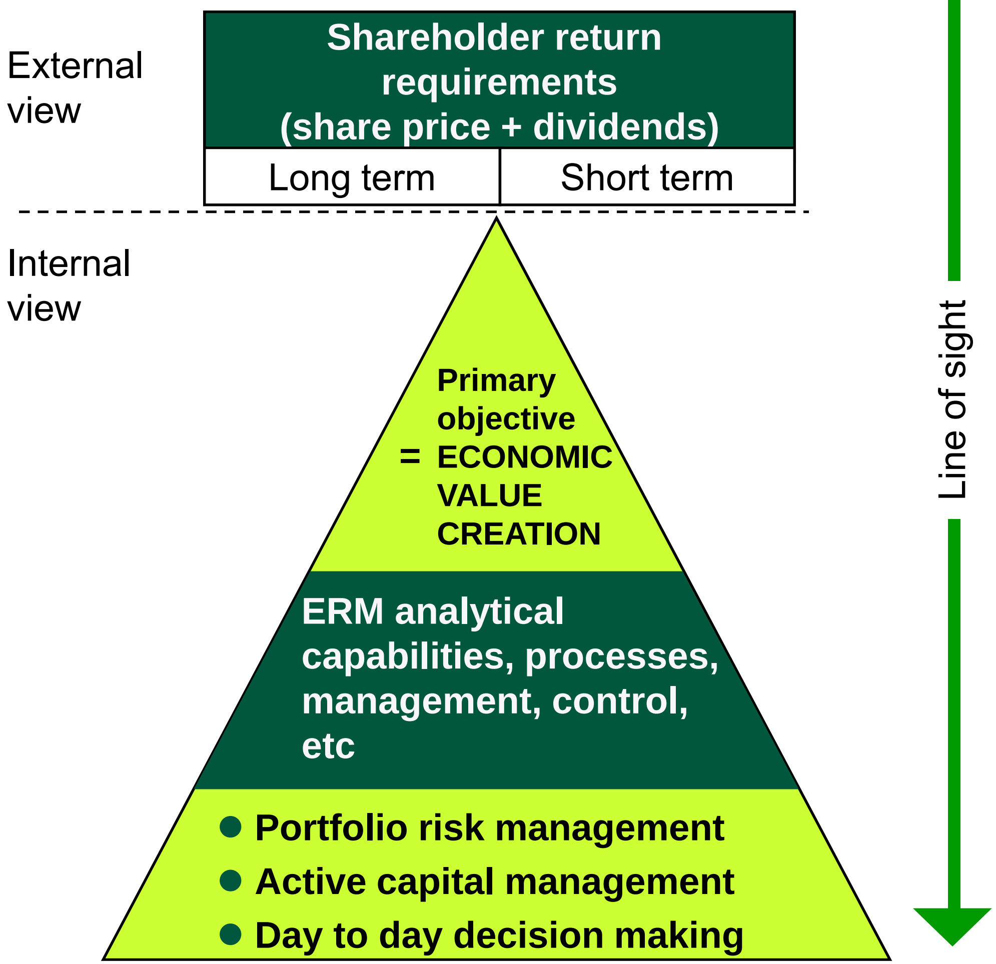
We believe we now have worldclass enterprise-wide risk and capital management in place

Shareholder value creation

NEDBANK GROUP

A vital aspect of our focus on value based management is the clear line of sight between creating value for shareholders, portfolio risk management at the centre & day to day decisions in our businesses

Shareholder value based management



Delivering shareholder value based management

- Establish performance expectations of shareholders

- Define consistent internal view of economic value measurement, creation & reward across Nedbank based on concept of economic profit (EP)
- Risk based capital allocation & RAPM (using ECap)
- Risk appetite setting
- Effective reporting & communication of risk using Economic Capital (ECap)
- Align Nedbank's ERM management processes & metrics (EP & ECap) with Group's primary strategic objectives and business planning process

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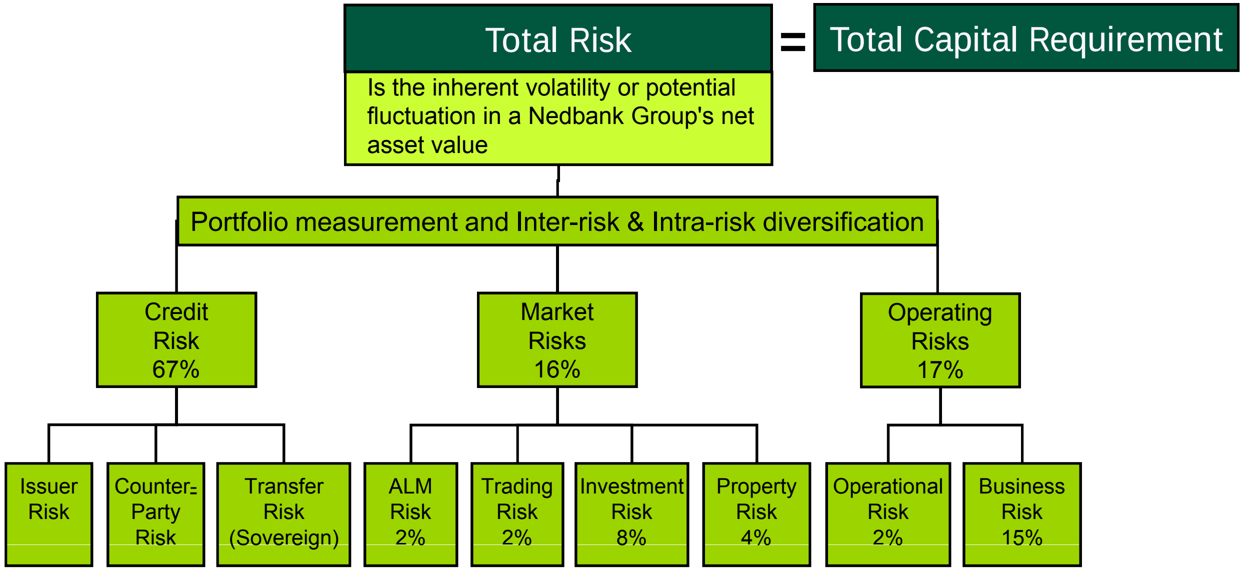
- Create culture of considering economic value creation / destruction when taking decisions at all levels (e.g. proper risk-based pricing & client value management)
- Economic-based performance measurement (using RAPM) & reward accordingly

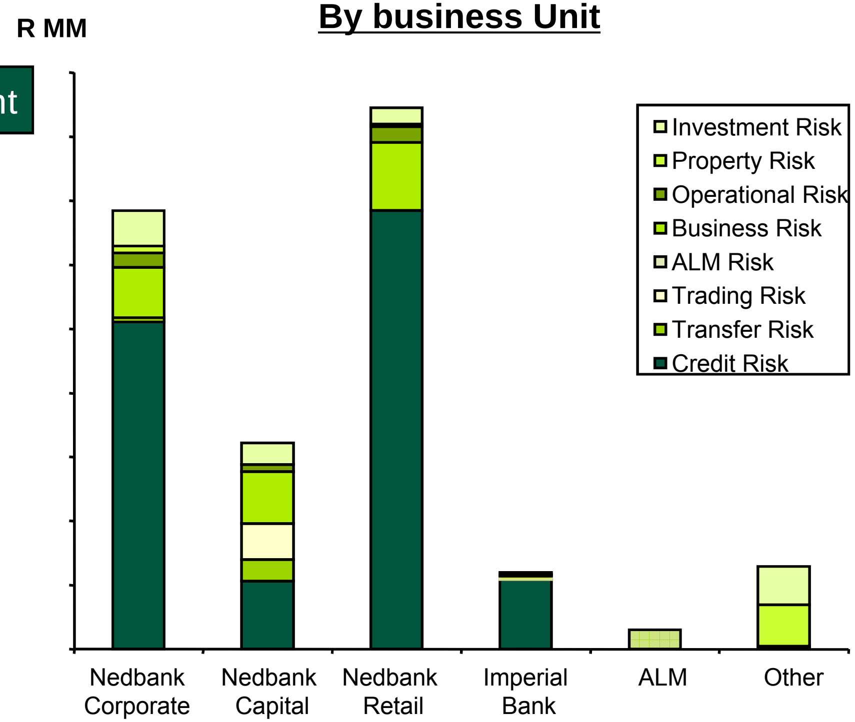
Economic (& Basel II) capital a sophisticated quantitative enterprise-wide measurement of risk

NEDBANK GROUP

By major risk type



By business Unit



Economic Capital provides a scientific apples-to-apples quantification / measurement & comparison of risk across all businesses & major risk types in Nedbank Group. This also enables 'capital' to be allocated to the various business units & their return measured on a proper 'risk vs. return' basis (i.e. RAPM), & a focus on both downside risk & upside potential

New 2008 risk based capital allocation methodology

NEDBANK GROUP

TO END 2007	2008 ONWARDS
Capital allocated using 10% of Basel I RWAs	**Economic Capital allocated, aligned to Group's ord shareholders' equity (i.e. core Tier 1 capital)**
• Non-core tier 1 (prefs) not allocated	• Excess cost of prefs, hybrids and sub-debt allocated to clusters
• Tier 2 (debt) not allocated	• Goodwill not allocated

	Basel I Capital Rbn*	Economic Capital Rbn*
Nedbank Capital	4 013	4 080
Nedbank Corporate	14 184	9 783
Nedbank Retail	7 658	8 471
Imperial (50,1%)	888	1 223
Operating Units	**26 743**	**23 557**
NEDBANK GROUP BOOK EQUITY		
Excluding goodwill	23 274	23 274
Including goodwill	26 979	26 979

* *Based on current estimates*

2007 year end results will be reported on both the old & the new basis

Risk appetite

NEDBANK GROUP

Risk appetite is an articulation of risk capacity or quantum of risk Nedbank Group is willing to accept in pursuit of its strategy, duly set & monitored by the board, & integrated into strategy & business plans

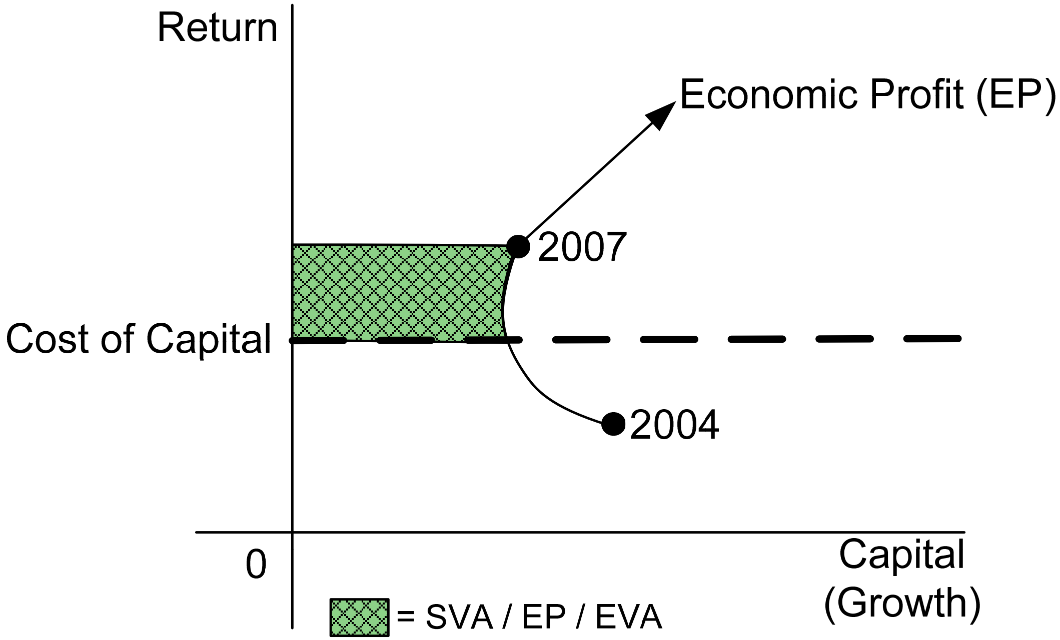
NEDBANK'S GROUP-LEVEL RISK APPETITE METRICS				
Group metrics	**Definition**	**Measurement methodology**	**Targets***	**Within targets**
Earnings at risk (EAR)	Pre-tax economic earnings potentially lost over a one year period	Measured as a 1-in-10 year event (i.e. 90% confidence level)	Less than 100%	✓
Chance of regulatory insolvency	Event in which losses would result in Nedbank being undercapitalised relative to minimum regulatory capital ratios (both Tier 1 & Total capital ratios)	Utilises earnings at risk, & compares to capital buffer above regulatory minimum - a 1-in-x years chance of regulatory insolvency	Better than 1 in 20 years	✓
Chance of experiencing a loss	Event in which Nedbank Group experiences an annual loss (on an economic basis)	Utilises Earning at Risk by comparing to expected profit over the next year	Basel II basis: 1 in 20-30 years by 2007, thereafter 1 in 30–50 years	✓
Economic capital adequacy	Nedbank adequately capitalised on an economic basis to its current target debt rating	Measured by comparing available capital to Economic Capital requirement	Equivalent rating of A- or better	✓

* Set in 2004, will be revised in Q4 2007 for 2008 – 2010 business plans

Performance measurement from 2008

Communicated since 2005 that RAPM will be applied (i.e. for remuneration ~ STI) from 2008 onwards, following the end of Nedbank's 3 year recovery & Basel II going live in RSA

- Primary focus of performance measurement at Group & Business Unit level will switch to an absolute shareholder value add (SVA) measure from the current relative measure (i.e. from % RoE to Rv Economic Profit (EP), & specifically delta EP (ΔEP)
- RoE is fine during a recovery period but:
  - RoEs (or RAROCs) can be achieved by clusters shrinking the business or lower growth (& $\therefore$ lower capital usage) while destroying EP for the Group
  - Out-performance profitable growth at same or slightly lower RoE is not rewarded



Performance measurement from 2008 *(continued)*

NEDBANK GROUP

- Strongest correlation of Total Shareholder Return (TSR) is with Δ EP growth

Indicator for TSR:	Compare
ROE vs. TSR	R^2= 3%
ΔROE vs. TSR	R^2= 29%
EP vs. TSR	R^2= 33%
ΔEP vs. TSR	R^2= 73%

Source: Oliver Wyman

(TSR = value created for shareholders through share price appreciation & dividends)

- At GROUP level, IFRS earnings & average book equity will be the basis for ΔEP performance measurement

- At BUSINESS CLUSTER level this will be ΔEP using:
  - IFRS earnings (not "risk-adjusted" earnings but will report / monitor both bases)
  - Allocated excess costs of non-core equity (i.e. prefs / hybrids / tier 2 debt)
  - Allocated group capital endowment benefit in clusters' ECap % ratios
  - Unallocated goodwill funding costs (i.e. goodwill held at the centre)
  - Target average economic capital allocation (per business plans)
  - Group diversification benefits are allocated / incorporated in economic capital allocation
  - Target capital buffer % allocation (only as necessary to align total economic capital allocation with the Group's book equity; otherwise buffer capital held at the centre)

Performance measurement from 2008 *(continued)*

- Business clusters target RoE %s used in setting hurdle rates (i.e. differentiated by cluster)
- Reforecasts / revisions to targets: -
  - Quarterly reforecasting process already in place
  - Capital Management Committee underpins Group Opcom and ALCO
  - Agreement with business clusters to ‘take back’ or ‘allocate more’ capital depends on whether their request is EP enhancing to the Group
  - Clusters’ must manage target economic capital as requested per business plan, no longer conveniently based on actual, fluctuating usage
  - Overs / unders to Group’s target capital not allocated (Group Capital Management’s responsibility to manage)

Thank you