Nedbank Retail
Provisioning & Credit Policy

12th September 2008

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A Member of the OLD MUTUAL Group

Contents

Provisioning Methodology

Credit Risk Management Framework

Credit Policy Changes 2006-2008

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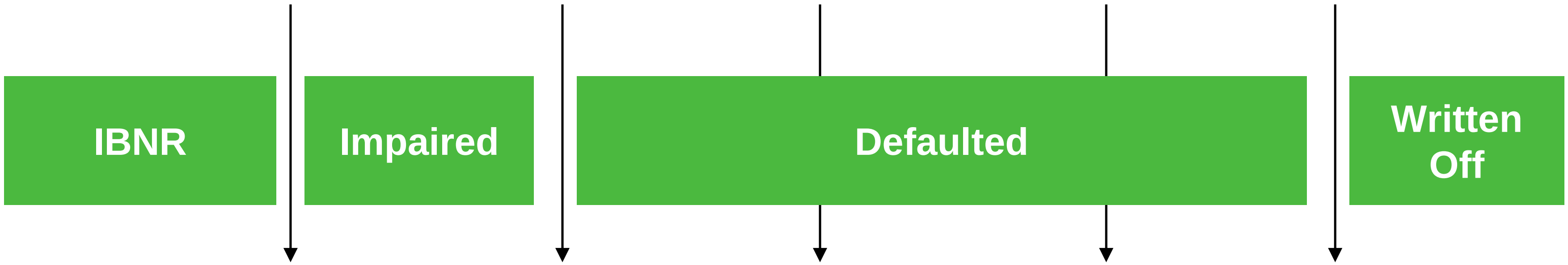
Products move through defined delinquency states

All provision states are defined on an account level basis

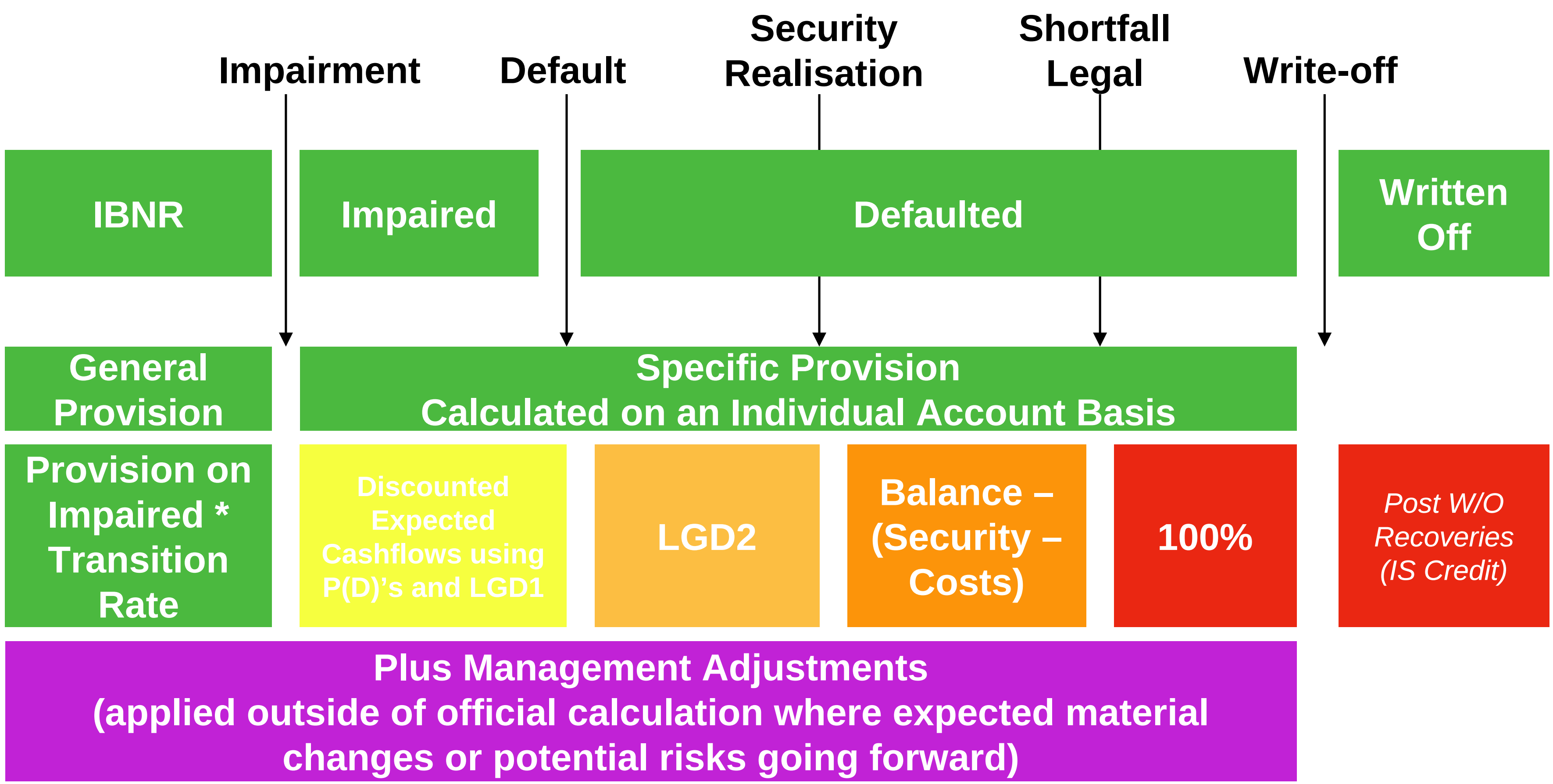


	Impairment	Default	Security Realisation	Shortfall Legal	Write-off
Home Loans	**60 days***	**90 days**	**Typical 9-12m**	**Post Realisation**	**Realisation + 6m**
VAF	**60 days***	**90 days**	**Typical 5-7m**	**Post Realisation**	**Post Realisation**
Credit Card	**30 days**	**90 days**	**N/A**	**Average 105 days**	**Legal + 6m & 3 cons miss pay**
Personal Loan	**30 days**	**90 days**	**N/A**	**N/A**	**6 cons miss pay**
Current A/C	**60 days***	**90 days**	**N/A**	**N/A**	**Legal + 6m typical**

* Under advise of External Auditors, Deloitte's, Nedbank Retail is considering moving all Impairment Event points to 30 days. A 30-60 day adjustment figure is maintained in the provisions to enable change without Income Statement impact

States are aligned with provisioning categories

Calculation as either specific or general provision (IBNR)



Realisation Period is when fully taken max loss

I.e. 100% provision (actually 6-25% will still come back)

	Impairment	Default	Security Realisation	Shortfall Legal	Write-off
Provision on Impaired * Transition Rate	Discounted Expected Cashflows using P(D) and LGD1	LGD2	Balance – (Security – Costs)	100%	*Post W/O Recoveries (IS Credit)*

Home Loans	**60 days***	**90 days**	**Typical 9-12m**	**Post Realisation**	**Realisation + 6m**
VAF	**60 days***	**90 days**	**Typical 5-7m**	**Post Realisation**	**Post Realisation**
Credit Card	**30 days**	**90 days**	**N/A**	**Average 105 days**	**Legal + 6m & 3 cons miss pay**
Personal Loan	**30 days**	**90 days**	**N/A**	**N/A**	**Typical 180 days**
Current A/C	**60 days***	**90 days**	**N/A**	**Average 120 days**	

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* Under advise of External Auditors, Deloitte's, Nedbank Retail is considering moving all Impairment Event points to 30 days. A 30-60 day adjustment figure is maintained in the provisions to enable change without Income Statement impact

Components of Provisioning Explained

100%, Security & Costs

Provision on Impaired * Transition Rate	Discounted Expected Cash Flows using P(D) and LGD1	LGD2	Balance – (Security – Costs)	100%	*Post W/O Recoveries (IS Credit)*

	Security	Costs
Home Loans	Last Valuation (When enters this is at purchase, changes as re-valuation driven by SIE process)	15% of valuation
VAF	Based on experience on % of capital recovered (M&M valuation as % of capital * % of trade recovered)	

Simple!
100% of outstanding balance,

No assumptions on
-Recoveries
-Recovery costs
-Future draw downs

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Components of Provisioning Explained

P(D), LGD1 and PV Discount

Provision on Impaired * Transition Rate	Discounted Expected Cash Flows using P(D) and LGD1	LGD2	Balance – (Security – Costs)	100%	*Post W/O Recoveries (IS Credit)*

P(D) AIRB Model built using statistical regression or statistical pooling from historical data
Calibrated for IFRS on 6 monthly basis to historical outcome
12 month outcome period (all products)
Uses weighted historical data (previous month worth 95% of current)

LGD1 AIRB Model built using statistical workout method
Discount rate is contractual (HL around Prime, but PL can be Prime + 25%!)
Recovery period based on examining when recoveries become immaterial.
HL: 30m, VAF: 36m, CC: 36m, PL:24m-48m varies by product
Extrapolations used where data allows to utilise recent immature tranches

PV Discount at contractual rate. Impact is most significant on high interest rate portfolio's; I.e.PL
Discount increases impairment charge

Components of Provisioning Explained

IBNR & LGD2

Provision on Impaired * Transition Rate	Discounted Expected Cash Flows using P(D) and LGD1	LGD2	Balance – (Security – Costs)	100%	*Post W/O Recoveries (IS Credit)*

Transition rate is the probability you become impaired in 1 or 2 months time.

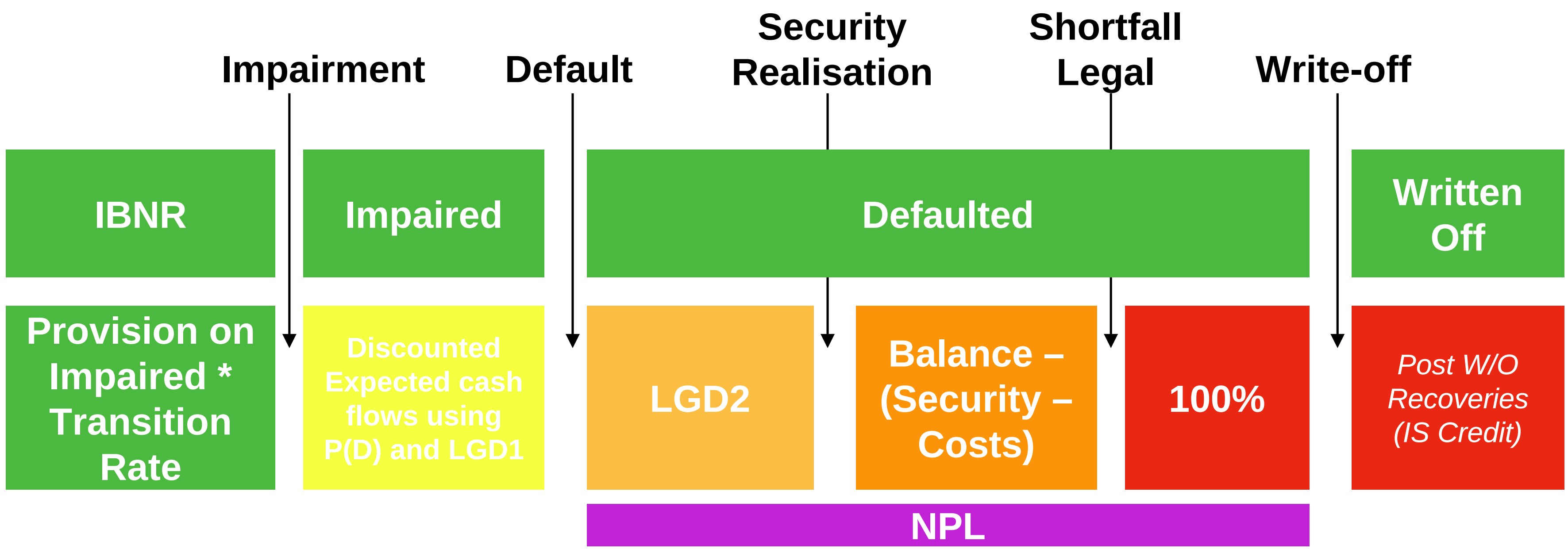
Multiplied by provision % of balance at portfolio level held on impaired classified accounts.

IBNR Provision

LGD2
-As per LGD1 but calculated on and applied to only those accounts in default already.
-Age in default impacts values applied
-**Recovery period** based on examining when recoveries become immaterial
-HL: 50m from now, VAF: 36m from now, CC: 36m from original, PL:24m-48m varies by product from now
-Extrapolations used where data allows to utilise recent immature tranches
-Recent changes in House Prices have required R140M provision adjustment

NPL is aligned with default definition by account

CIS and dedupe assigns secondary customer status



- accounts are then linked through customer information system (Hogan CIS) and further deduped with an ID/name match
- **Under DI500 in 2007** the worst status of any account linked is that classified as customer level status and cascaded back to all accounts (I.e. each account now has 2 statuses, account status and a customer status but critically only has one provision calculation derived from the account status)
- Account NPL status and Customer NPL status simply caused a reclassification of the account in reporting

Impact of discounted cash flow losses

Is not used to modify either the NII or the Impairments Line

	Provision on Impaired * Transition Rate	Discounted expected cash flows using P(D) and LGD1	LGD2	Balance – (Security – Costs)	100%
			NPL	NPL	NPL
Discounted	**YES (Indirectly)**	**YES**	**YES**	**NO**	**NO**

The effect of discounting is taken as the difference between the actual provisions calculation and the one whereby interest rates are set to zero.

This reduces impairment charge on 3 categories of provision calculation. Only 1 of these is classified as NPL and only 2 as specific provision. The difference is then reported as a break-out of the NPL provision – but does not all originate from NPL's.

This number is solely a stand-alone reporting optic. The impairment charge % reported includes the impact of discounting recoveries and no modification to either the NII line or the impairments line is made on the basis of the impact of discounting displayed in the reporting.

If a modification was made (I.e. calculation did not discount future recoveries) then the impairment charge would decrease from reported

Contents

Credit Lifecycle Management has many decision points

Aim to optimise profit-loss trade-off at each point

Prospecting	Application Decisioning	Account Management	Collections	Recoveries
• Product Design • List Selection • Pre-screen • Channel • Selection	• Approve / Decline / Refer • Affordability • Exposure set • Price set • Fraud queue • Verification queue	• Limit Management • Payment Processing • Retention • Transaction Fraud • Upsell / Downsell / X-sell	• Penetration • Contact strategy • Payment strategy • Asset reclamation and disposal • Legal process	• Attorney management • Write-off

Aim to evaluate marginal decisions with revenue, marginal costs and risk (plus buffer) at ROE / RAROC target

Increases in risk have tended for re-evaluation of the trade-off to involve reductions in approval rate and exposure granted (I.e. tightening bias)

A number of dimensions can be used to tighten…

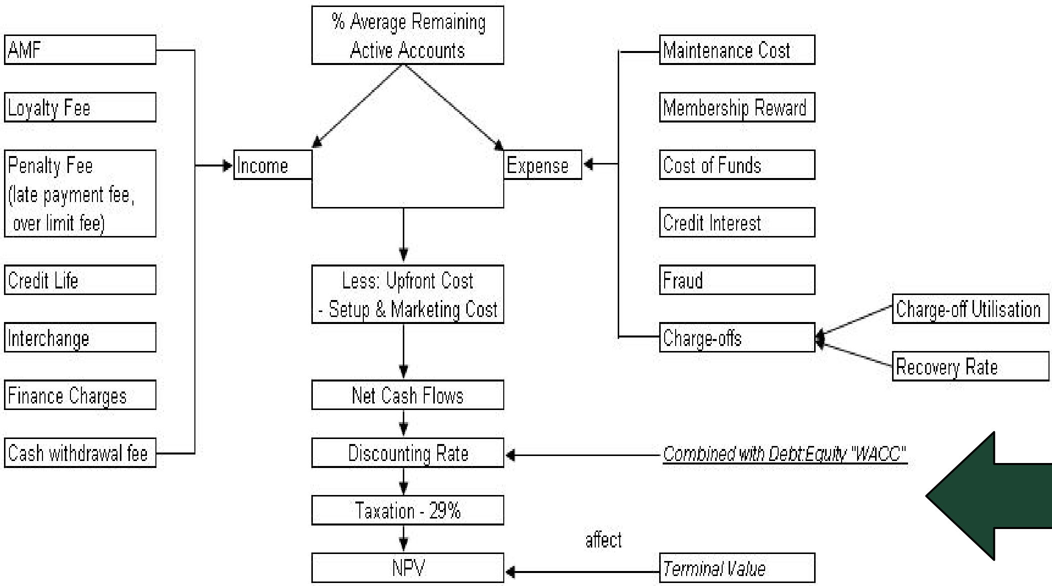
e.g. scorecards, business rules, affordability

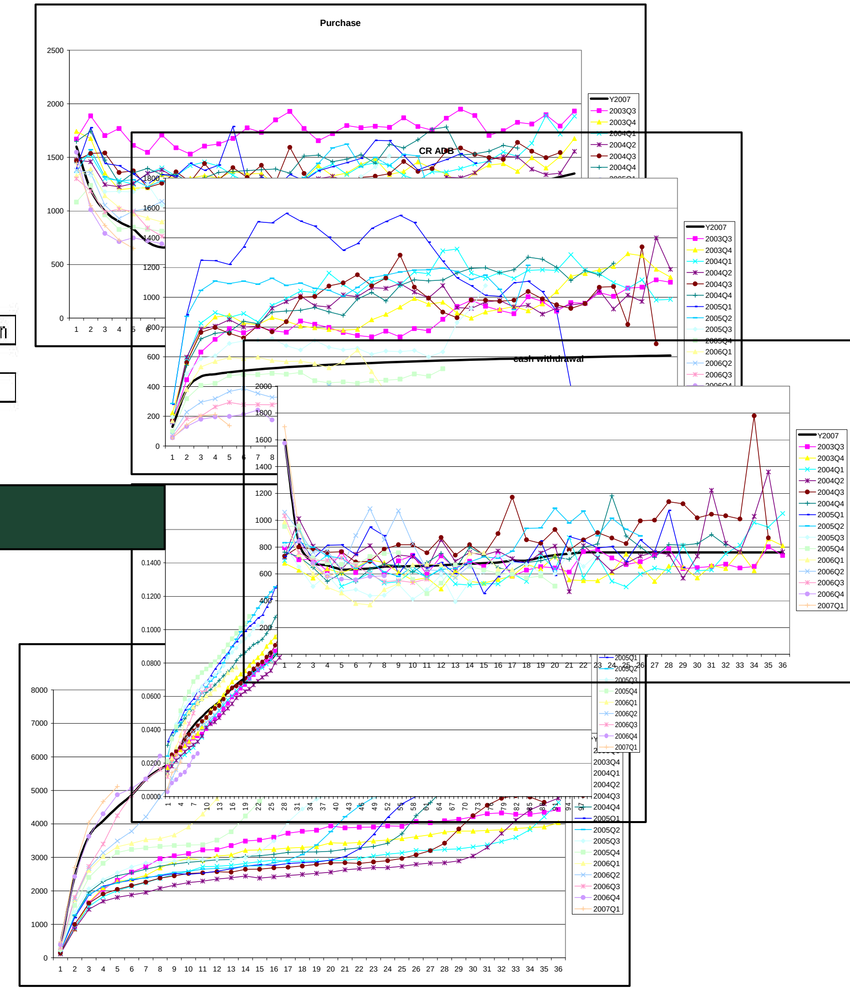
- When an applicant applies for a loan, he is assessed according to a product appropriate credit policy.

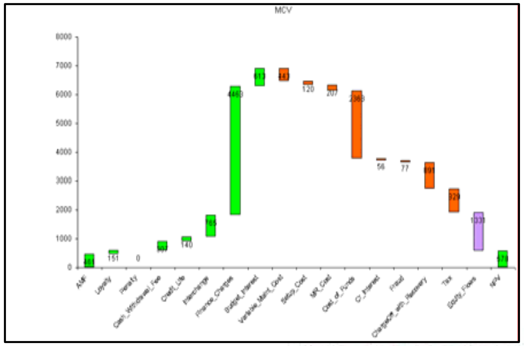
- This entails going through:
  - business rules,
  - a scorecard and
  - affordability checks.

- We are able to implement certain credit policy changes (to either tighten or loosen Credit Policy) by changing either
  - a business rule
  - an affordability rule
  - scorecard cut-offs or variables.

High Level Flow Chart – Profitability Analysis







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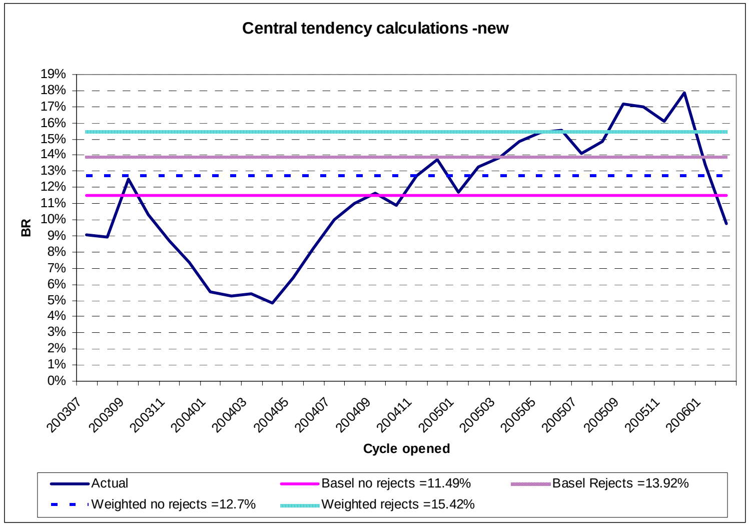
High Level Process – Cut-Off Setting

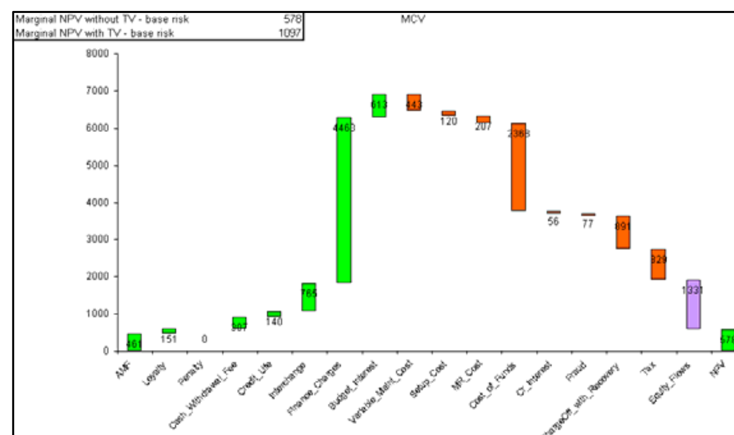


STEP1:
Central tendencies are calculated for each customer group
(MCV New to Group is shown)

BAD RATE	Non bureau SC			
Bureau SC	Low	Medium	High	Overall
1	2.63%	2.94%	3.18%	2.82%
2	4.68%	4.77%	5.01%	4.79%
3	5.53%	6.56%	7.53%	6.43%
4	8.08%	8.32%	8.52%	8.30%
5	9.21%	10.35%	11.62%	10.33%
6	9.53%	12.57%	16.42%	12.79%
7	13.99%	14.75%	15.55%	14.84%
8	14.45%	17.24%	20.06%	17.65%
9	19.19%	23.00%	27.30%	23.84%
10	49.63%	52.23%	54.82%	52.86%

STEP2:
For application data, the central tendency <u>with rejects</u> is mapped to the scorecard matrix (note first 12m bad rate higher than average)

STEP3:
The NPV model is used to determine the P(bad) at which an account is contribution positive at 150% risk
- this is used to accept/decline matrix cells
- therefore every account booked should be contribution positive even with a 50% increase in risk



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Personal Loans Policy changes

2006

- Credit policy tightening

2007

- Credit policy tightening
- More Credit policy tightening & affordability criteria
- Implement Naedos (Aug 2007)
- Dialler Implementation (Mar 2007)
- All - products – NCA policy changes

2008

- Behavioural scorecards for all repeat business
- Risk based pricing changes
- Scorecards & NPV models

Approval Rate July (month-end)

2007:	1.00
2008:	0.94

Collections

Ratio: Accounts: Collectors

2006:	1.00
2007:	1.57
2008:	2.00

Improved collections strategies have enabled the bank to increase the ratio whilst improving collections performance

R in Collections as % of book

(July 2006 month-end):	1.00
(July 2007 month-end):	1.05
(July 2008 month-end)	0.97

Accounts in Collections

(July 2006 month-end):	1.00
(July 2007 month-end):	1.50
(July 2008 month-end):	1.19

Personal Loans Policy changes

Date	Credit Policy Changes : Premier & Classic	Date	Credit Policy Changes : Auto & Home Account
Feb06	Scorecard cut-offs : Premier	Aug5	Scorecard Development : Emperica 3.0 to 3.1
Aug06	Business Rules : Age requirement Premier & Classic	Oct5	Business Rules : Various Rationalisation
Sep06	Scorecard cut-offs : Tightened Non Nedbank Premier	Dec5	Scorecard cut-offs : Tightened Auto Affordability : Tightened Auto
Sep06	Business Rules : Tightened Non-Nedbank Classic Affordability : New Net Income Requirements	Jul6	Affordability : Auto New Measures & Net Income
Mar07	Scorecard cut-offs : Tightened Nedbank Premier	Nov6	Affordability : Home New Measures
Mar07	Scorecard cut-offs : Tightened Non-Nedbank Classic	Dec6	Scorecard cut-offs : Tightened Repeats
Jun07	Affordability : NCA Requirements Business Rules : NCA Requirements	Feb7	Scorecard cut-offs : Tightened Auto
Jun07	Scorecard cut-offs : Loosened Non-Nedbank Classic	Jun7	Affordability : NCA Requirements Automated Credit Policy decisioning Business Rules : Decline Self Employed
Jul07	Business Rules : Tightened Premier Employment rules	Jul7	Affordability : New Net Income Requirements
Aug07	Business Rules : Tightened Classic & Premier reload process	Oct7	Affordability : Risk Based
Jun08	Risk-based pricing : Premier	Oct7	Debit Orders compulsory
Jul08	Business Rules : Loosened Premier Length of Employment	Dec7	Risk-based pricing : Auto
Aug08	Scorecard Development : Behavioural Reloads	Mar8	Scorecard Development : New Auto

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Credit Card Policy changes

2006

- Private Label tightening cut
- MCV Changes – Revenue up, risk up: Impact fairly neutral
- Private Label New Scorecard & Further tightening
- Collections headcount increase, lateshift introduced

2007

- Amex – new scorecard and tightening
- MCV – 2x tightening (cut: April, lines: Dec)
- All - products – NCA policy changes
- MCV – Authorisations tightening
- Collections headcount increase, lateshift expansion, trebled dialler capacity

2008

- Card – further tightened authorisation controls & expansion limits
- Collections headcount increase

Approval Rate	2006Jan	2008Aug
Private Label	1.00	0.61
Nedbank MCV	1.00	0.67
Amex	pre-screened	

Collections
Ratio: Accounts: Collectors

2006:	1.00
2007:	0.95
2008:	0.73

(August 2008 month-end)
R in Collections at 11 month low
Accounts in Collections at 19 month low

Current Account Policy changes

2006

- NPV Models

2007

- BASEL scorecards
- New behavioural models
- Student loans credit policy
- Upgrade of collections system
- All - products – NCA policy changes

2008

- Collections Focus
- Implement new applications scorecard
- Implement new applications NPV models
- Tightened expansion limits – introduction of new limit strategy
- Improved transaction reversal process

Approval Rate July (month-end)
2007: 1.00
2008: 1.00

R defaults as % of book
(July 2007 month-end): 1.00
(July 2008 month-end): 1.47

VAF Credit Policy changes

2006

- Collections focus

2007

- Decline rules
- BASEL scorecards
- Headcount in collections area
- Introduce ‘Dialer' and improve TAT
- New collections system
- All - products – NCA policy changes

2008

- Implement collections scorecard
- Improve client payment system
- Encouraging Deposit taking through better pricing
- Implementation of Restructuring Policy

Approval Rate July (month-end)	
2007:	1.00
2008:	0.90
2008(Aug):	0.78

R in Collections as % of book	
(July 2007 me):	1.00
(July 2008 me):	1.68

Home Loans Policy changes

- LTV 108% loans introduced (2004)

2006

- Introduction of Java Risk Based Pricing tool
- New version of Debt Manager

2007

- New scorecard system
- New pricing model implemented
- All - products – NCA policy changes

2008

- New valuation policy
- PIP sell-off project
- LTV tightening and increased pricing
- Implementation of Restructuring Policy
- More LTV tightening

Approval Rate July (month-end)	
2006	1.00
2007	0.73
2008	0.50

LTV – New Registrations	
2006	1.00
2007	1.07
2008	1.06

Drop in 2008 from 2 tightenings visible on approvals but not yet registrations due to lag.

Collections headcount has increased by 96% from 2005 to 2007

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