RISK AND CAPITAL MANAGEMENT REPORT

For the six months ended 30 June 2008

Pillar 3 (of Basel II) Public Disclosure Report, as contained in regulation 43 of the revised South African banking regulations

RISK AND CAPITAL MANAGEMENT REPORT

BACKGROUND AND EXECUTIVE SUMMARY

BACKGROUND TO ENHANCED PUBLIC DISCLOSURE

Regulation 43 of the revised regulations relating to banks and banking groups requires disclosure to the public of reliable, relevant and timely qualitative and quantitative information that enables users of that information, amongst other things, to make an accurate assessment of a bank and banking group's financial condition, including its capital adequacy position, financial performance, business activities, risk profile and risk management practices.

The requirements of regulation 43 are aligned with International Financial Reporting Standards (IFRS) but significantly extend the public disclosure requirements, in terms of both content and frequency, relating to a bank and banking group's risk profile, risk management and capital management. This extension of disclosure is embodied in what is commonly known as 'Pillar 3' of the Basel II Accord.

Basel II and the revised regulations were effective in South Africa from 1 January 2008.

Regulation 43 also requires that the group shall have in place a formal, board approved policy relating to public disclosure, and specifies minimum requirements that are to be incorporated in its content.

The primary objective of the public disclosure policy of Nedbank Group is to assist in the achievement of the group's vision 'To become southern Africa's most highly rated and respected bank ... by our staff, clients, shareholders, regulators and communities', by providing information and disclosure to our external stakeholders on an international best-practice basis.

Accordingly this report provides extended disclosure, specifically covering risk and capital management, beyond that contained in the interim results disclosure already provided for the half year ended 30 June 2008.

A glossary of terms and definitions is provided at the end of this report (Annexure A).

HIGHLIGHTS AND EXECUTIVE SUMMARY

NEDBANK GROUP	30 JUNE 2008					31 DECEMBER 2007				
	Rm		%			Rm		%		
	MCR[b]	QC+R[c]	Minimum	Target	Actual	MCR[b]	QC+R[c]	Minimum	Target	Actual
Basel I[e]										
Total	**N/A[e]**	**N/A**	**N/A**	**N/A**	**N/A**	33 669	40 893	10%	12%	12,2%
Tier 1			**N/A**	**N/A**	**N/A**			5%	8%	8,3%
Basel II[d]										
Total[a]	**34 201**	**41 072**	**9,75%**	**11 – 12%**	**11,7%**	32 650	37 421	9,75%	11 – 12%	11,2%
Tier 1			**7,0 %**	**8 – 9%**	**8,7%**			7,0 %	8 – 9%	8,0%
Internal capital assessment (economic capital)	**27 959**	**34 893**	**A- target debt rating plus 10% buffer**	**A- target debt rating plus 10% buffer**	**R6,9bn surplus @ A- rating and after 10% buffer**	26 973	32 744	A- target debt rating plus 10% buffer	A- target debt rating plus 10% buffer	R5,8bn surplus @ A- rating and after 10% buffer

Notes:

(a) Basel II minimum capital total requirements/ratio = 8% Pillar 1 + 1,5% Pillar 2a + 0,25% Pillar 2b.
(b) MCR = minimum capital requirements.
(c) QC+R = qualifying capital and reserves (or capital resources)
(d) Basel II at 31 December 2007 is on a pro forma basis
(e) Basel I is no longer effective from 1 January 2008.
N/A = not applicable.

NEDBANK LIMITED	30 JUNE 2008					31 DECEMBER 2007				
	Rm		%			Rm		%		
	MCR[b]	QC+R[c]	Minimum	Target	Actual	MCR[b]	QC+R[c]	Minimum	Target	Actual
Basel I[e]										
Total	**N/A[e]**	**N/A**	**N/A**	**N/A**	**N/A**	28 864	33 647	10%	12%	11,7%
Tier 1			**N/A**	**N/A**	**N/A**			5%	8%	7,6%
Basel II[d]										
Total[a]	**29 041**	**35 037**	**9,75%**	**11 – 12%**	**11,8%**	26 790	30 806	9,75%	11 – 12%	11,2%
Tier 1			**7,0 %**	**8 – 9%**	**8,6%**			7,0 %	8 – 9%	7,7%
Internal capital assessment (economic capital)	**25 102**	**27 646**	**A- target debt rating plus 10% buffer**	**A- target debt rating plus 10% buffer**	**R2,5bn surplus @ A- rating and after 10% buffer**	24 291	25 778	A- target debt rating plus 10% buffer	A- target debt rating plus 10% buffer	R1,5bn surplus @ A- rating and after 10% buffer

The board of directors is satisfied that these capital levels are appropriate and believe both Nedbank Group (the group) and Nedbank Limited (Nedbank) are adequately capitalised relative to our business activities, strategy, risk profile and the external environment in which we operate. This conclusion is reached for the following main reasons:

- **Insulated from the direct effects of the current global financial crisis**
  - Nedbank Group has no direct exposure to US sub-prime credit assets, nor involvement in any related credit derivative transactions or structures.
  - We have been shielded from the crisis for a number of reasons including not having increased leverage like some foreign banks have done, our markets never developed the extent of “the originate and sell mentality” that happened overseas and the effects of exchange control. Additionally, we have a strong, well diversified deposit base with a low reliance on offshore funding, well diversified earnings streams and sound capital levels.
  - We have also benefited from Basel II as it has focused the bank far more on optimizing economic profit, in other words doing business in areas which give appropriate returns for the risks taken.
  - We see this period in South Africa as more the “tough part of a normal banking cycle” compared to the unprecedented international storms. We currently forecast that South African interest rates have peaked and will begin moving back down in 2009 with the benefits of this being felt in reduced impairments and improved consumer balance sheets in 2010. Our short term focus will continue to include a strong emphasis on internal matters such as managing and increasing liquidity buffers, raising capital levels, improving collections and discipline in cost management, and focusing on growing assets with appropriate economic returns.
  - We do, however, think that the regulatory burden is going to increase. Our regulator in South Africa has done an excellent job and this has also helped prevent any local fall out from the international crisis, but we operate in a globally regulated market and as a result we expect that international regulation is likely to increase with a knock on effect in South Africa.
- **Profitability and successful turnaround of the group**
  - The profitability and successful turnaround of the group has generated sufficient capital and appropriately positioned us to weather the challenges prevailing in the current external environment.

    We delivered our two key financial targets for 2007 (ie 20% ROE; 55% cost-to-income ratio). Sound financial performance has continued in 2008, but with growth rates slowing in line with expectations amidst more difficult markets. Our capital adequacy has continued to strengthen not withstanding the deteriorating retail credit environment.
- **Ongoing strengthening of capital levels and capital ratios**
  - Basel I has been in effect and relied upon for the past 20 years, and actual capital levels remain well above those that would have been required under Basel I. The impact of moving to Basel II in 2008 was a decrease in Nedbank’s minimum regulatory capital requirements, however qualifying capital and reserves decreased to a greater extent due to certain reserves such as share-based payment reserves and foreign currency translation reserves no longer qualifying as regulatory capital. These currently amount to approximately R1,5 billion at group level.

- There is an excess of R6,9 billion (group) and R6,0 billion (Nedbank) of Basel II regulatory capital resources over the minimum capital requirements.
- Basel II regulatory capital ratios are within the upper half of our board-approved target ranges for Tier 1 and total capital adequacy, and on track to be at or about the top end of those ranges later in 2008.
- We believe our target capital adequacy ranges are adequate and appropriate in view of:
  - results of our stress and scenario testing;
  - not holding excess capital for acquisitions;
  - these being well in excess of regulatory capital and economic capital minimums, and well within our risk appetite targets;
  - our upgraded external ratings awarded in 2007 (and reaffirmed by Fitch in July 2008); and
  - our being a 52% subsidiary of Old Mutual Life Assurance Company (South Africa) Limited, which is itself a well capitalised major South African life assurance group.
- We are satisfied with the composition of our Tier 1 capital as reflected on pages 90 and 91 of the report, and our intention is to operate within the regulatory limits for non-core Tier 1 capital (ie perpetual preference shares and hybrid debt capital). We recognise that internationally, following the sub-prime crisis in the USA and Europe, much greater focus is now being given to the core Tier 1 and leverage ratios. The actual core Tier 1 ratios are 7,4% (group) and 7,1% (Nedbank) at 30 June 2008, and our leverage ratios were 16,6 times and 17,3 times , respectively.

  The group's dividend cover policy range is 2,25 to 2,75 times headline earnings per share.

  What has been pleasing, and reinforces the sentiment towards and reputation of Nedbank, has been the inaugural hybrid debt capital (non-core Tier 1) issue in South Africa by Nedbank. This R900 million issue on 15 May 2008 in challenging market conditions not only represents another important milestone for Nedbank, but also demonstrates continued investor appetite for Nedbank paper. Subsequent to the issue, an additional R287 million in tap issues increased this issue to a total of R1, 2 billion at 30 June 2008.
- At 30 June 2008 Basel II regulatory capital minimum requirements are higher by R6,2 billion (group) and R3,9 billion (Nedbank) than our internally determined economic capital requirements.

  Nedbank's internally determined capital requirements (ie economic capital) are based on a sophisticated, best-practice framework and are comprehensively used across the group for capital allocation, performance measurement and remuneration, as well as risk-based pricing and client value management in our business.
- Our internal capital assessment (ie economic capital) reflects a surplus of available financial resources over economic capital requirements of R6,9 billion (group) and R2,5 billion (Nedbank) based on our target solvency standard (A- or 99,9% confidence level; currently same as Basel II), including a buffer of 10% applied to the economic capital minimum requirement.

- **Worldclass risk and capital management frameworks embedded bankwide**
  - Strong risk and capital management is in place at Nedbank Group based on a best-practice Enterprise-wide Risk Management Framework (ERMF) and Capital Management Framework, built on rigorous governance, challenge and debate. These frameworks are supported by a strong level of expert and experienced human resources, for which succession plans are in place and these are regularly monitored and updated.

    The principles of prudence and conservatism prevail in our frameworks and economic capital numbers. Basel II has even higher levels of conservatism, including for example downturn loss-given-default credit risk parameters (dLGDs), the Pillar 2a add-on (unique to South Africa) and does not recognise inter-risk diversification in the Pillar 1 minimum regulatory capital requirements.
  - Our economic capital outcome and process are comprehensively in use across the group, including within businesses on a day-to-day basis, and in performance measurement and reward schemes that are now primarily based on economic profit, using risk-based economic capital allocation.

- Nedbank was granted approval, effective 1 January 2008, by the South African Reserve bank (SARB) for use of the Advanced Internal Ratings Based (AIRB) approach for credit risk for the bank's entire credit portfolio.
  Nedbank's AIRB credit system forms the basis for its measurement and management of credit risk across the bank. The Group Credit Portfolio Management unit in the Group Capital Management division measures, manages and strives to optimise the group's credit portfolios and credit concentration risk. For this purpose the group uses a tailored Credit Portfolio Model (CPM) run on KMV Portfolio Manager software.

  Nedbank's credit economic capital (which comprises approximately 70% of total economic capital) is separately derived by integrating the key Basel II AIRB credit risk parameters with Nedbank's sophisticated CPM. The CPM also takes credit portfolio concentrations and intra-risk diversifications into account.

  Nedbank is a well-diversified banking group in the context of SA markets, split across its three major business clusters.

  Our 'top 20' individual exposure analysis, in particular the '% of total Nedbank Group credit economic capital by individual borrower', indicates that Nedbank does not have undue single-name credit concentration risk. Nedbank's CPM model incorporates the asset size of obligors/borrowers into its measurement and calculation of credit economic capital. In our stress and scenario testing, and arriving at conclusions on the adequacy of our capital buffers, we also include stress testing of single-name large exposures and their potential impact on capital ratios.

  Geographically, almost all credit exposures of the group originate in South Africa (non-South African exposure is approximately 6%). This geographical and industry concentration risk is also built into Nedbank's CPM.

- Overall we believe that our internal capital assessment (ie economic capital) is much closer to a true economic requirement, and is more balanced, aligned with best-practice and appropriate than Basel II, albeit that it also incorporates Basel II to a large degree. We complement our internal capital assessment with a comprehensive and sophisticated stress and scenario testing framework.

  Nedbank has made a significant investment (in excess of R300 million in external costs alone) to implement best-practice economic capital modelling and an Internal Capital Adequacy Assessment Process (ICAAP), and scores highly in the 'use test' across the bank, which demonstrates our commitment to this and a belief in our economic capital numbers.

- **Comprehensive business planning integrated with active capital management resulting in a sound capital base driven off internal capital generation across a well-diversified banking group.**

  - The group's financial performance is characterised by diversified, sound and stable capital generation. Over 80% of the group's headline earnings was generated by business portfolios servicing traditional wholesale and retail banking, and specialised finance. Compared with our peers in South Africa, Nedbank has a smaller retail operation. At 30 June 2008 Nedbank Retail comprised 35% of total advances and 24,7% of headline earnings. Imperial Bank, which is predominantly a retail bank, comprised 7,8% of total assets and 3% of headline earnings. More volatile business lines such as investment banking activities contributed 20% to total group earnings.

  - Our current expected (base case) three-year projections to 31 December 2010 reflect sound capital adequacy and are in line with the target capital ranges at both the group and bank level, both for internal economic capital adequacy and regulatory capital. The group currently projects capital levels around 9% (Tier 1) and 12% (total) for 31 December 2008, and significant economic capital surpluses above the 10% buffer.

  - Nedbank's internal capital generation meets the capital demand for up to approximately 15% of organic growth (per the three-year business plans). Excess capital is not currently held in anticipation of potential acquisitions. At the projected top end of the target capital ranges the group will be able to exploit unforeseen opportunities as they arise.

  - The quality and diversification of Nedbank's capital base is sound, as reflected by our Tier 1 and Tier 2 composition. This includes the replacement over the past two years of the concentrated NED1 (R2 billion) and NED2 (R4 billion) subordinated debt with a smooth, less concentrated, maturity profile with eight sub-debt issues totalling R7 billion and their maturity relatively evenly spread over seven years (2011 to 2017).

- A sound capital management and capital planning process is applied continuously in Nedbank, in which procyclicality and stressed scenarios are comprehensively addressed, confirming the adequacy of our target (and actual) regulatory capital ratios and economic capital buffer levels.

- **A comprehensive stress and scenario testing framework that is used to stress our base case projections, and so assess and conclude upon the adequacy of our capital buffers and target capital ratios.**
  - Our strategic planning process, rolling forecasts and integrated capital planning include three-year projections of expected (base case) financial performance, Basel II and economic capital risk parameters and requirements, which are compared to projected available capital resources and our risk appetite metrics. The three-year projections and base case capital planning are derived from the group's three-year business plans that are updated quarterly during the year and revised on a full bottom-up basis annually.
  - The group is not currently holding any excess capital for acquisitions. It is currently focused on growing organically, mainly within South Africa, and concentrates on small but consistent market share gains based on value (ie strong economic profit focus) rather than volume.
  - The main objective of our stress testing is to assess the effect of possible unexpected events on our base case projections, including our capital requirements, resources and the adequacy of capital buffers for both regulatory and economic capital. In addition, stress testing is an important tool for analysing Nedbank's risk profile and risk appetite.

    Our strategy is to comprehensively cover stress and scenario testing, both for regulatory and economic capital purposes, at three levels, namely:
    - Specific risk-type stress testing and AIRB credit procyclicality testing (using our macro-economic Factor Model (MEFM) to calculate forward-looking, stressed PDs and LGDs, which also then feeds the items below)
    - Macro-economic factor modelling (stress testing of capital levels) covering the following four economic scenarios based on conditions at 30 June 2008:
      - mild stress (1 in 4 year scenario)
      - high stress (1 in 10 year scenario)
      - severe stress (1 in 25 year scenario)
      - positive scenario (1 in 4 year scenario)
    - Specific event(s) scenario analysis (eg property crash; liquidity crisis).
  - Nedbank's capital planning and base case projected regulatory and economic capital levels, ratios, targets and buffers, incorporating the results and impacts of the stress and scenario testing applied, are confirmed as being sound and currently do not require adjustment.

- **Various contingency options exist should the need arise.**
  - Tightening of credit limits and/or active management of RWA growth, using our risk-based economic capital allocation to our businesses and 'manage for value' (using an economic profit lens) approach to achieve this most optimally.
  - Capacity to raise capital externally if required, despite the current market turmoil, as evidenced by our R1,2 billion hybrid capital issues to 30 June 2008.
  - A strong, well capitalised parent company Old Mutual Life Assurance Company (South Africa) Limited.

In conclusion, and cognisant of the risks and volatility currently inherent in global financial markets, the board of directors believes that both the Nedbank Group and Nedbank are adequately and appropriately capitalised, and is satisfied with the overall effectiveness of the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy.

RISK AND CAPITAL MANAGEMENT REPORT

FULL REPORT

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NEDBANK HAS A STRONG RISK AND CAPITAL MANAGEMENT CULTURE AND A CLEAR STRATEGIC VISION

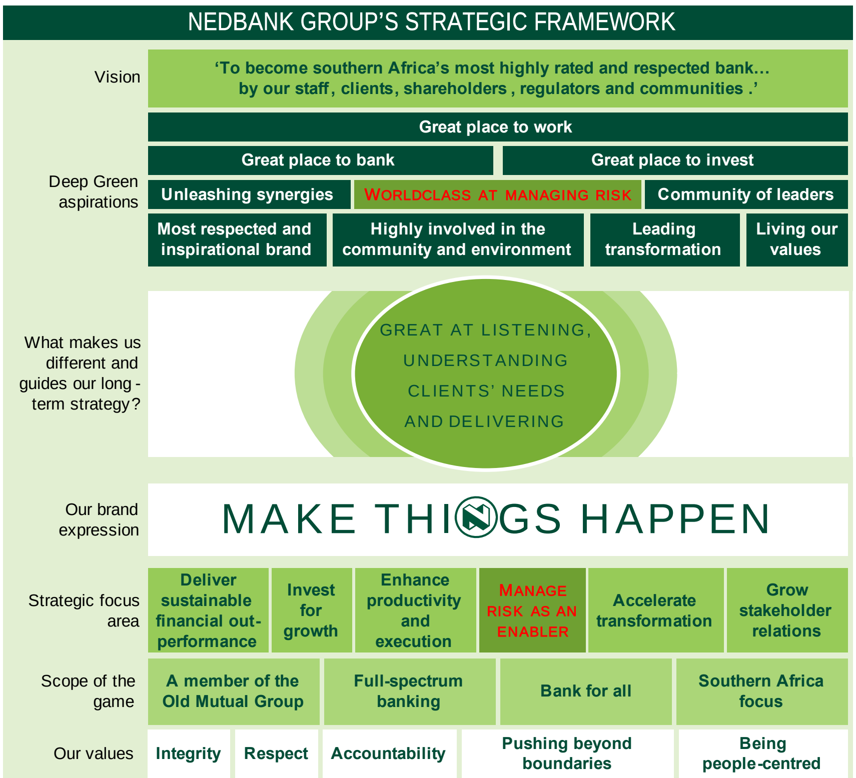
Nedbank has successfully implemented Basel II. This is in line with the revisions to the Banks Act and the revised Basel II based banking regulations introduced by SARB that were effective from 1 January 2008. The main purpose of Basel II is to promote significant enhancement and sophistication of risk and capital measurement and management, thereby elevating the safety and soundness of the banking industry.

Aligned with the successful recovery and turnaround of the Nedbank Group, we followed a strategic approach to our Basel II implementation, not only to comply with Basel II, but also to elevate the group's risk management, capital management and performance measurement to worldclass standards. This has involved implementing, inter alia, best-practice enterprise-wide risk management (ERM) across the group.

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

The end of 2007 was an important milestone for Nedbank, not only for having achieved the financial targets committed to in 2004, but also for the significant progress made in our vision to become 'Worldclass at managing risk'. We have invested significantly in advanced risk and capital management capabilities, as well as human resources and systems, and have transformed these using our comprehensive Basel II Programme as the main catalyst.

The Nedbank vision is 'to become southern Africa's most highly rated and respected bank ... by our staff, clients, shareholders, regulators and communities'. The vision is supported by our group's 10 deep green aspirations (long-term objectives), which include becoming 'Worldclass at managing risk'. This is illustrated in our Strategic Framework below.

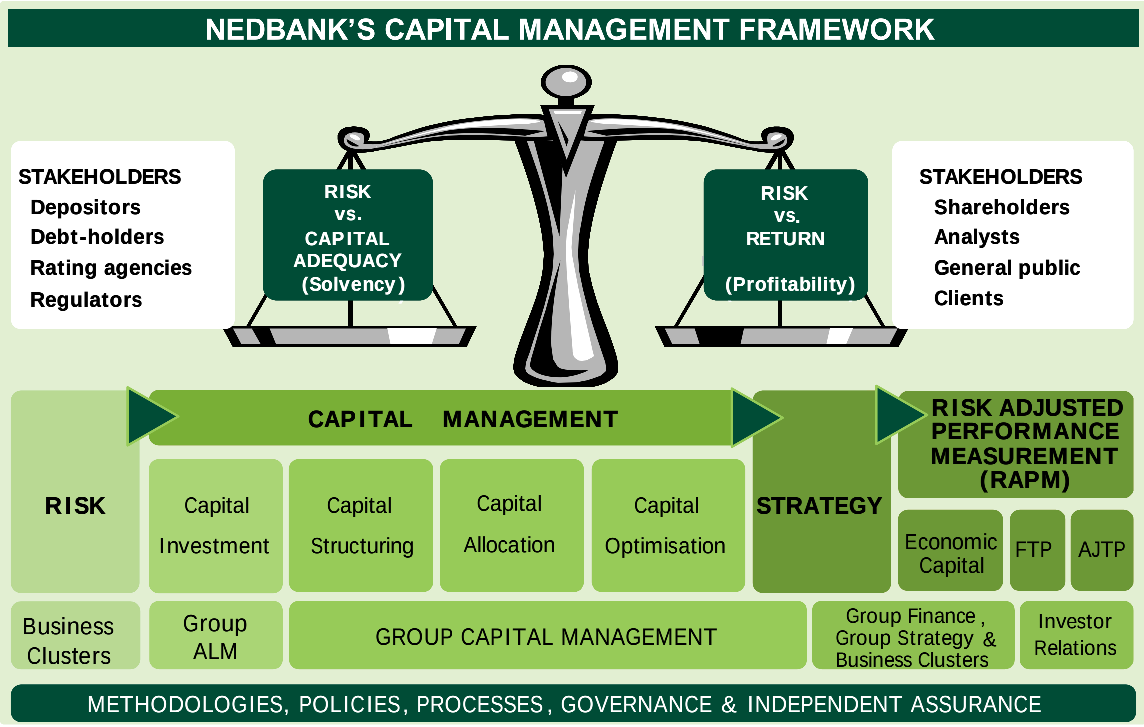


In Nedbank to be 'Worldclass at managing risk' means that:

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

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

Consistent with our risk philosophy and strong risk culture engrained in our Enterprise-wide Risk Management Framework (ERMF) is capital management.



Nedbank's Capital Management Framework reflects the integration of risk, capital, strategy and performance measurement (and reward) across the group. This contributes significantly to successful enterprise-wide risk management. The framework is based on best-practice risk and capital management in all material respects.

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

The key objectives contained within our Capital Management Framework are as follows:

- Capital adequacy to be based on the greater of economic capital and regulatory capital at all times, and also providing an appropriate capital buffer
- Best-practice risk and capital analytics, strategic capital management, resources, systems and processes, which are to be integrated effectively to facilitate the optimisation of economic-value creation (and so shareholder value-add) through value-based management (VBM) principles and practices
- Risk portfolios and capital levels, mix and structure to be optimised within the group's risk appetite
- The group's cost of capital to be optimised
- A best-practice Internal Capital Adequacy Assessment Process (ICAAP) to be maintained at all times.

Nedbank's risk and capital management positioning now provides the group with sophisticated management science and capabilities for active capital management and economic-value-based management to optimise the risk/return performance and growth of our various businesses, aligned with the established risk appetite of the group.

Nedbank recognises that to become 'Worldclass at managing risk' (and so capital management too) is a journey, not a destination. We believe we have made significant progress over the past five years and that our overall ICAAP is generally closely aligned with best-practice internationally.

Nevertheless, we are currently focused on various key enhancements which include:

- Ongoing focus on liquidity risk management in the current external market turmoil and volatility
- Ongoing data quality and data governance enhancements
- Embedding and cascading the group level risk appetite metrics (eg earnings-at-risk) down to business unit level
- Embedding economic profit (based on economic capital allocation) and 'managing for value' principles in updated three-year business plans for 2009 – 2011 and day-to-day management
- Risk methodology and modelling enhancements:
  - Operational risk transition from Standardised Approach (SA) to Advanced Measurement Approach (AMA); and
  - Market trading risk to satisfy SARB requirements for Internal Model Approach (IMA) approval
- Implementation of QRM software for our ALM process
- Ongoing refinement and enhancement of Nedbank's AIRB credit system and related credit modelling.

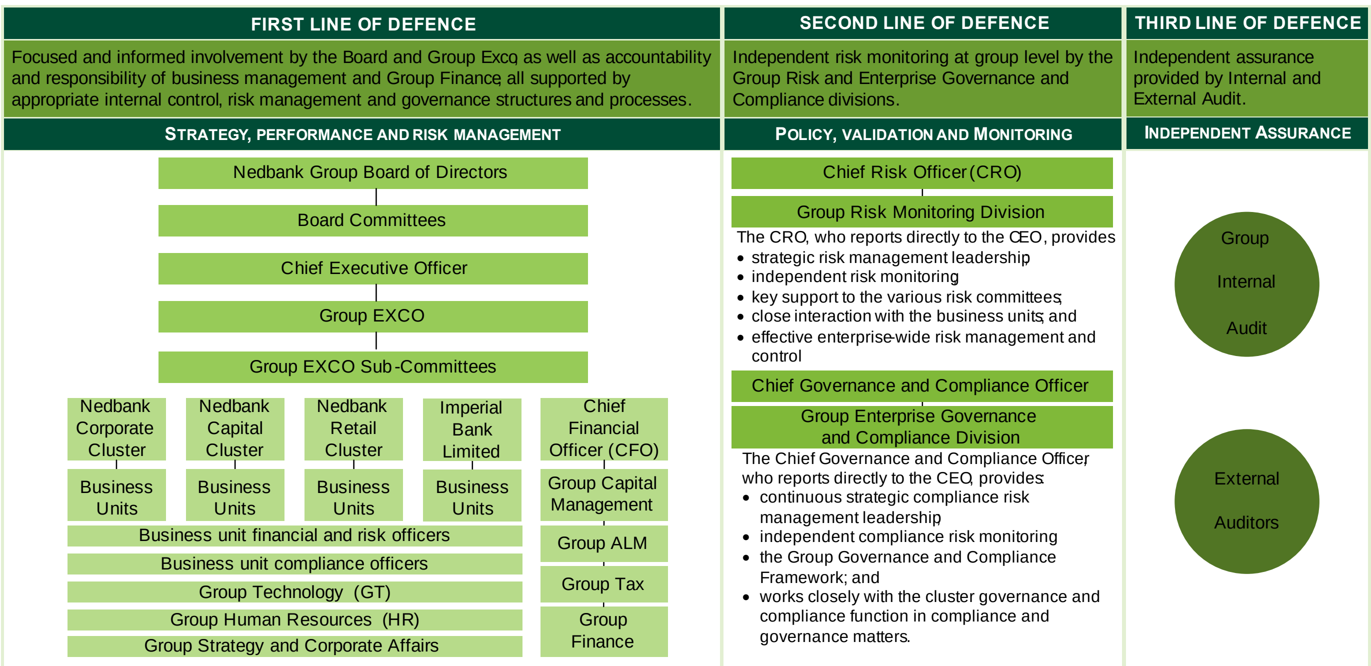
AT THE HEART OF NEDBANK'S BUSINESS AND MANAGEMENT PROCESSES ARE WORLDCLASS RISK AND CAPITAL MANAGEMENT FRAMEWORKS

Nedbank's risk universe, governance and ERMF

Nedbank sees strong risk governance applied pragmatically and consistently as the foundation for successful risk and capital management.

The high focus on risk governance is based on a 'three lines of defence' concept, which is the backbone of the group's ERMF. The ERMF places a strong emphasis on accountability, responsibility, independence, reporting, communications and transparency, both internally and with all our key external stakeholders.

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



The 17 key risks that comprise Nedbank's risk universe and their materiality is re-assessed, reviewed and challenged on a regular basis (ie at least quarterly). The ERMF specifically allocates the 17 key risks (which individually also include various sub-risks) at each of three levels, namely:

- board committees;
- executive management committees (at Group Exco level and those within business clusters); and
- individual functions, roles and responsibilities (at group level and across all business clusters, as relevant).

In these various committees the 17 key risks are contained in formal terms of reference (or 'charters') and linked to the agendas of meetings. Comprehensive reporting on the universe of risks thus occurs at least quarterly, where their status, materiality and effective management are assessed, reviewed and challenged.

This process originates within the business clusters, proceeds based on materiality up to the group executive level and then to the non-executive board level. The process is overlaid by our three lines of defence governance model set out above, so the assessment, review and challenge not only happens by management and the board but also by Group Risk and Group Compliance, and Group Internal Audit and External Audit in the second and third lines of defence.

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

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

Annually the process of corporate governance, including the risk management process as contemplated in regulation 38, is assessed against the existing internal control environment as required by regulation 39(4). Similarly, an assessment of whether the bank can continue as a going concern, as required in terms of regulation 39(4) (b), is carried out with due regard to governance, risk management and long-term planning of the bank. As from 1 January 2008 the requirements of the new Basel II banking regulations have been applied.

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

The ERMF thus facilitates effective challenge and debate at executive management and board levels, and strong interaction across the group between the businesses and central group services. This includes an ongoing process of risk identification, review and assessment, including formal documentation of this, which is subjected to review by External Audit.

A formal process is in place to, at least annually, review the full set of risk policies, limits and various frameworks which comprise the ERMF.

An overview of Nedbank Group's ERMF, including the 17 key risks that comprise the group's risk universe and the risk governance structures, is provided on the next page.

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

RISK UNIVERSE	ACCOUNTING AND TAXATION RISKS	OPERATIONAL RISK	INSURANCE AND ASSURANCE RISKS	NEW BUSINESS RISK	LIQUIDITY RISK	CAPITAL RISK	MARKET RISKS: Trading Book	MARKET RISKS: Banking Book	INVESTMENT RISK	INFORMATION TECHNOLOGY RISKS	CREDIT RISK	COMPLIANCE RISK	STRATEGIC RISK	REPUTATIONAL RISK	TRANSFORMATION RISK	SOCIAL AND ENVIRONMENTAL RISKS	PEOPLE RISK

FIRST LINE OF DEFENCE

BOARD OF DIRECTORS

BOARD COMMITTEES

- GROUP AUDIT COMMITTEE
- GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE
- BOARD STRATEGIC INNOVATION COMMITTEE
- GROUP CREDIT COMMITTEE
- DIRECTORS' AFFAIRS COMMITTEE
- GROUP TRANSFORMATION AND SUSTAINABILITY COMMITTEE
- REMUNERATION COMMITTEE

GROUP EXCO COMMITTEES

GROUP EXECUTIVE COMMITTEE (GROUP EXCO)

- GROUP OPERATIONAL COMMITTEE
  - EXECUTIVE TAXATION COMMITTEE
  - BRAND COMMITTEE
- BUSINESS RISK MANAGEMENT FORUM
- ALCO AND EXECUTIVE RISK COMMITTEE
  - BASEL II STEERING COMMITTEE
  - PROPERTY STRATEGY COMMITTEE
- EXECUTIVE STRATEGIC INNOVATION MANAGEMENT COMMITTEE
- AIRB CREDIT EXCO
- GROUP OPERATIONAL COMMITTEE
- BUSINESS RISK MANAGEMENT FORUM
- GROUP OPERATIONAL COMMITTEE
- TRANSFORMATION AND HUMAN RESOURCES EXECUTIVE COMMITTEE

BUSINESS CLUSTERS' RISK GOVERNANCE

NEDBANK CORPORATE, NEDBANK CAPITAL, NEDBANK RETAIL AND GROUP TECHNOLOGY

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

CENTRAL FINANCIAL, RISK AND CAPITAL MANAGEMENT

GROUP FINANCE DIVISION (CHIEF FINANCIAL OFFICER)

- GROUP CAPITAL MANAGEMENT AND BASEL II
- GROUP ALM
- GROUP TAX
- FINANCIAL AND MANAGEMENT ACCOUNTING
- REGULATORY REPORTING AND CENTRAL ACCOUNTING
- STRATEGIC PLANNING
- SARB RELATIONS AND SUPPORT
- INVESTOR RELATIONS
- RISK COMPLIANCE AND SARB

SECOND LINE OF DEFENCE

GROUP RISK DIVISION (CHIEF RISK OFFICER)

INDEPENDENT FUNCTIONS FOR GROUP POLICY, RISK MONITORING, MODEL VALIDATION AND CHALLENGE

- GROUP RISK SERVICES
- GROUP LEGAL
- ENTERPRISE-WIDE RISK MANAGEMENT FRAMEWORK
- GROUP OPERATIONAL RISK MONITORING
- GROUP CREDIT RISK MONITORING
- GROUP MARKET RISK MONITORING

CHIEF ENTERPRISE GOVERNANCE AND COMPLIANCE OFFICER

THIRD LINE OF DEFENCE

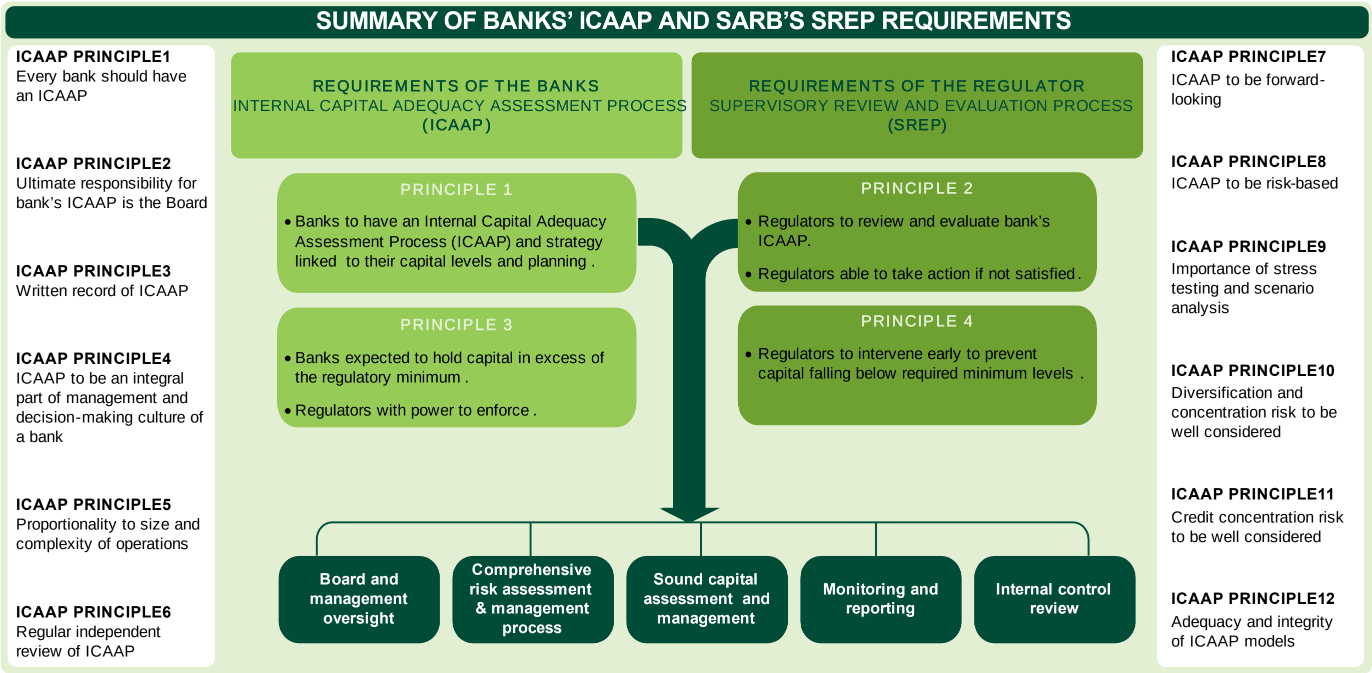
INTERNAL AUDIT AND EXTERNAL AUDIT

INDEPENDENT ASSURANCE

- GROUP INTERNAL AUDIT
- DELOITTE AND KPMG

Overview of the Internal Capital Adequacy Assessment Process (ICAAP)

In line with the four key principles contained in Pillar 2 of Basel II, the revised regulations relating to banks set out in regulation 39 the Internal Capital Adequacy Assessment Process (ICAAP) requirements of banks and related Supervisory Review and Evaluation Process (SREP) requirements of the SARB. A summary of this is depicted below.



Nedbank's approach, assessment and management of risk and capital from an **internal** perspective, and their comprehensive integration and use in running the business, over and above the minimum regulatory rules and capital requirements of Basel II, is driven by ICAAP.

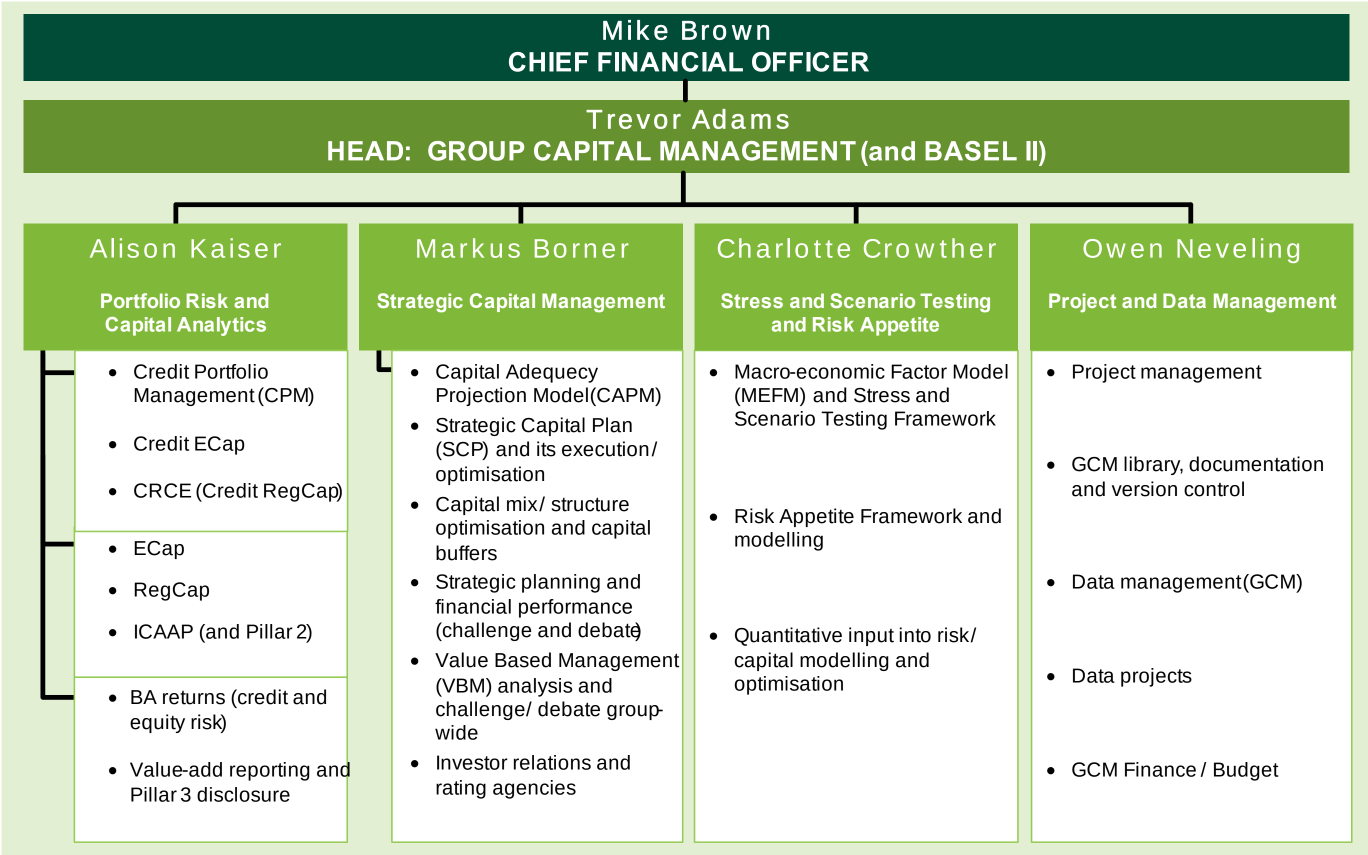
Separate ICAAPs are required for each banking legal entity and for the consolidated Nedbank Group. Size and materiality play a major role in the extent of each bank's ICAAP.

SARB will use the ICAAP reports as major components of their Supervisory Review and Evaluation Process (SREP) and in deciding on, inter alia, what Nedbank's Pillar 2b capital add-on (ie over and above the minimum capital requirements of Pillar 1 and Pillar 2a) will be going forward in 2009.

Nedbank's ICAAP has been embedded within our Capital Management Framework since it was first approved by the board of Directors in February 2006. This, in turn, is an integral and comprehensive component of the group's ERMF. The foundations of Nedbank's ICAAP, Capital Management Framework and ERMF are a strong and rigorous governance structure and process as discussed earlier. The ERMF is actively maintained, updated and regularly reported on up to board level, co-ordinated by the ERMF division in Group Risk.

This same governance process is followed for Nedbank's ICAAP and involves key participants from business, Finance, Risk, Capital Management and Internal Audit, as well as the relevant exco committees, board committees and the board.

Group Capital Management division reports directly to the Chief Financial Officer and is mandated to champion the successful implementation of the Capital Management Framework and ICAAP across the group. Also reporting to the CFO are the heads of Group ALM and Regulatory Reporting, Budgeting and Central Accounting, who are also key central roleplayers in the group's integrated capital management.

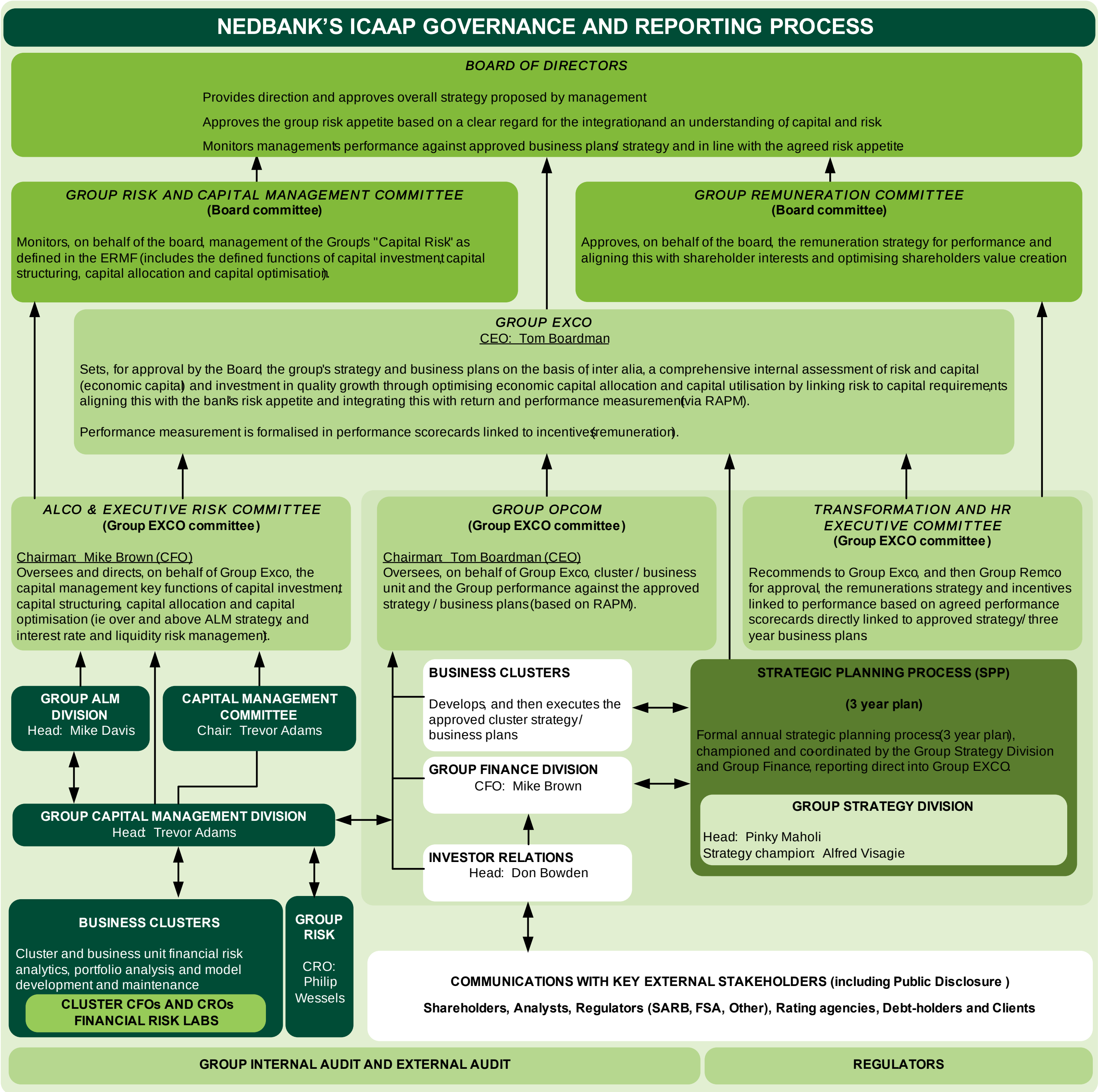


Nedbank's four key functions for successful capital management are set out below:-

❶	❷	❸	❹
CAPITAL INVESTMENT	**CAPITAL STRUCTURING**	**CAPITAL ALLOCATION**	**CAPITAL OPTIMISATION**
Managing the processes whereby the cash raised through the issue of capital and/or the internal generation of capital (ie retention of profits) is physically invested, and integrated within the overall ALM (ALCO) process of the group. Investment of the capital buffers and maturity structures for capital.	Managing processes to ensure the amount of regulatory, economic and statutory capital available is consistent with the group and bank's current and planned (over at least three years) levels of activity, risk appetite and required/desired level of capital adequacy (including its target debt rating). Long-run capital planning is of primary importance. Also involves selecting the most appropriate and cost-effective mix and structure of capital instruments.	Managing the deployment of an optimal level of capital 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 in any individual business unit, asset class, strategic transaction, investment or legal entity.	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 (VBM) principles, risk-based strategic planning, capital planning, allocation and optimisation, and sound management of the capital buffer.
GROUP ALM DIVISION	**GROUP CAPITAL MANAGEMENT DIVISION**		

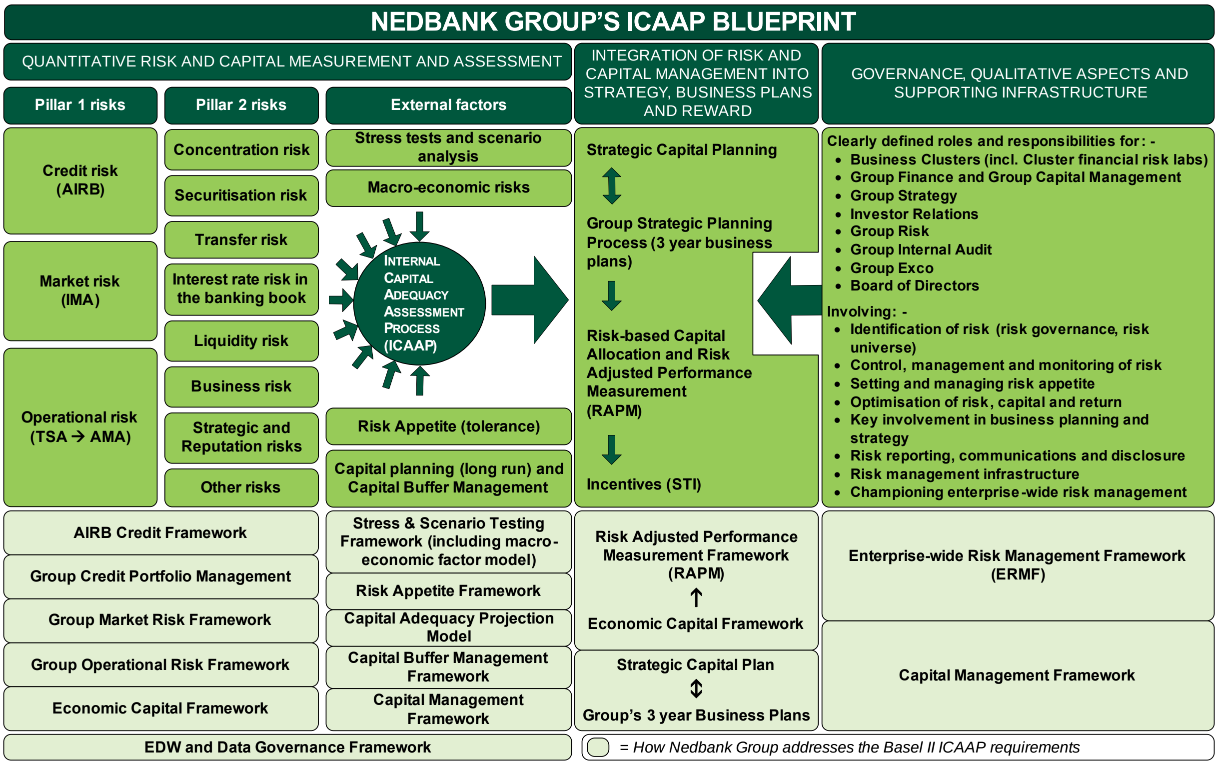
The risk and capital management responsibilities of the board and Group Exco are incorporated in their respective terms of reference (charters) contained in the ERMF. They are assisted in this regard, and in overseeing the group's capital risk (defined in the ERMF), by the board's Group Risk and Capital Management Committee and the ALCO and Executive Risk Committee (Group ALCO) respectively.

Group ALCO, in turn, is assisted by the Group Capital Management and Group ALM divisions, and the Capital Management Committee (subcommittee of Group ALCO).



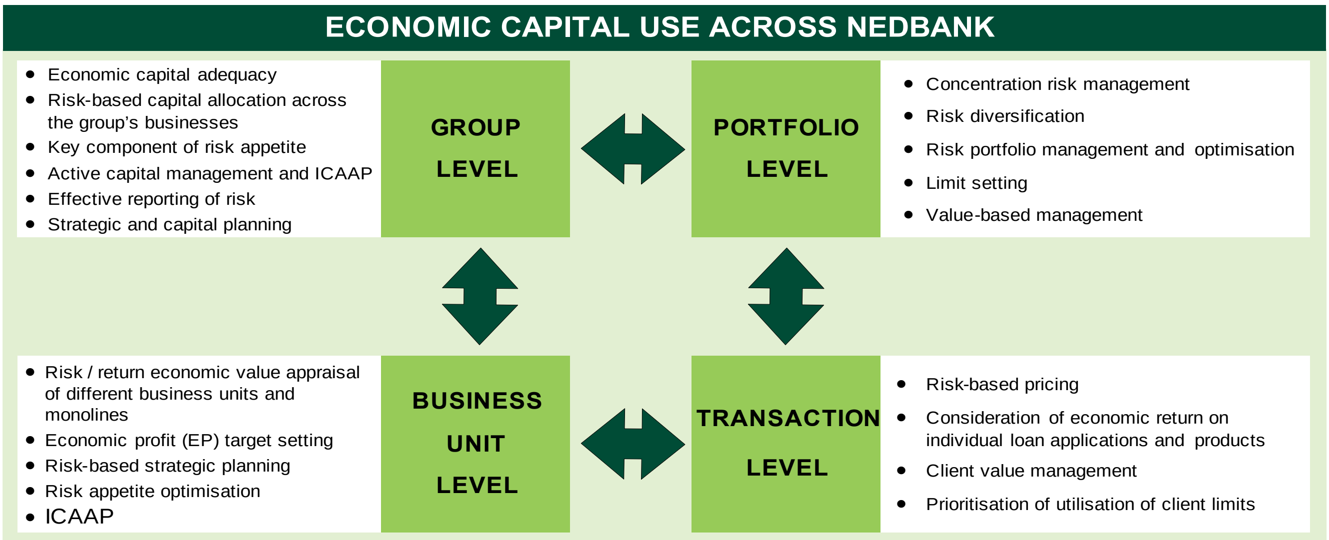
The ultimate responsibility for the ICAAP rests with the board of directors.

Nedbank's ICAAP blueprint below sets out the ICAAP building blocks and overall process, and the various frameworks underpinning this.



Economic capital and economic profit use in Nedbank Group

Our risk and capital management, and so economic capital, are embedded in the grain of the organisation and the way the business is managed. This is illustrated and summarised below.



Economic capital is a sophisticated, consistent measurement and comparison of risk across business units, risk types and individual products or transactions. This enables a focus on both downside risk (risk protection) and upside potential (earnings growth). Nedbank assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital within nine quantifiable risk categories, as summarised from page 77.

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

Economic capital not only facilitates an apples-to-apples measurement and comparison of risk across businesses but, by incorporating it into performance measurement, we are able to measure and compare the performance of each business' on an absolute basis [economic profit (EP)] and relative percentage return basis (RAROC percentage) by comparing these measures against the group's cost of capital.

EP = IFRS earnings (or risk-adjusted profit) - hurdle rate x economic capital	**RAROC** = $\dfrac{\text{Risk-adjusted Profit + Capital Benefit}}{\text{Economic Capital}}$
• Value is created if EP >0 • EP is a core metric for shareholder value-add • If capital is unconstrained, all business with EP > 0 should be grown subject to established hurdle ranges • No information on the marginal percentage return on economic capital which RAROC provides	• Value is created if RAROC > hurdle rate • If capital is scarce, businesses with the highest RAROC (ie highest marginal return per rand of economic capital) should be prioritised • No information on magnitude of value being created for shareholders which EP provides

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

Economic capital, economic profit, RAROC and other important metrics are included in performance scorecards across the group. The key financial performance indicator (KPI) is economic profit, while measures such as ROE and RAROC are used as important secondary measures.

NEDBANK'S RISK AND CAPITAL MANAGEMENT FRAMEWORKS ENABLE US TO IDENTIFY, MEASURE, MANAGE AND CONTROL OUR MATERIAL RISKS AND RISK APPETITE, AND THEN RELATE THESE TO CAPITAL REQUIREMENTS AND ENSURE OUR CAPITAL ADEQUACY

Nedbank's risk universe is defined, actively managed and monitored in terms of our ERMF, in conjunction with the Capital Management Framework and its subframeworks, including economic capital, as mentioned earlier.

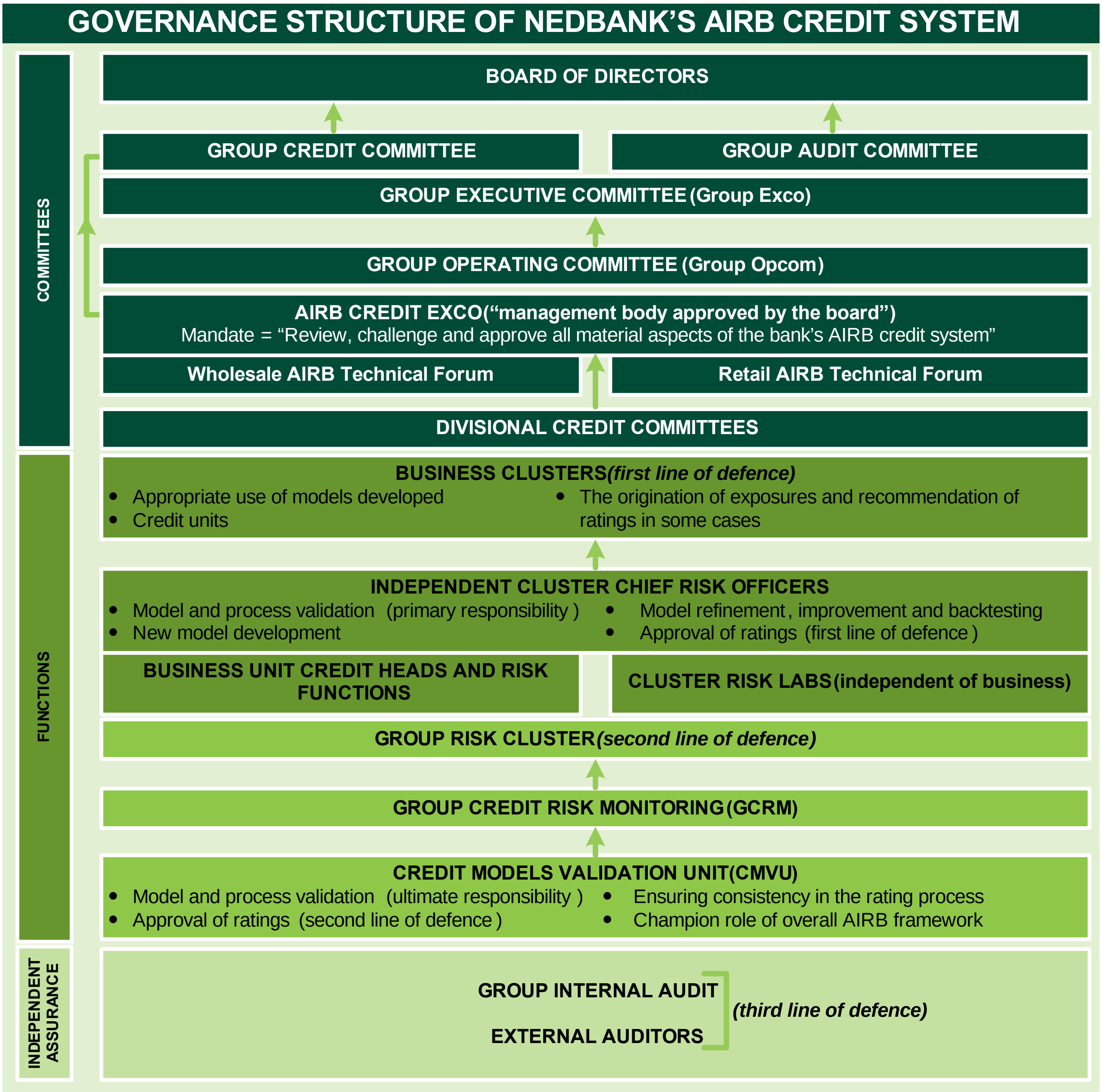
Overview of the major risks impacting Nedbank Group

Credit risk

Credit risk strategy, governance structures and processes

Credit risk arises from lending and other financing activities that constitute the group's core business. It is by far the most significant risk type and accounts for approximately 70% of the group's economic capital requirement.

One of the major investments by Nedbank in risk in recent years has been to elevate its credit risk management to best practice. This, together with our strong client service focus, not only positioned Nedbank to achieve appropriate growth and returns, but also to obtain approval from SARB for the AIRB approach for credit risk.



Credit risk is managed across the group in terms of its board-approved Group Credit Risk Management Framework (GCRF), which encompasses comprehensive credit policy, mandate limits and governance structures. It is a key component of the group's ERMF and the Economic Capital and Risk Appetite Frameworks discussed earlier.

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

The AIRB Credit Exco is the designated committee appointed by the board to monitor, challenge and ultimately approve all material aspects of the bank's AIRB credit rating and risk estimation processes.

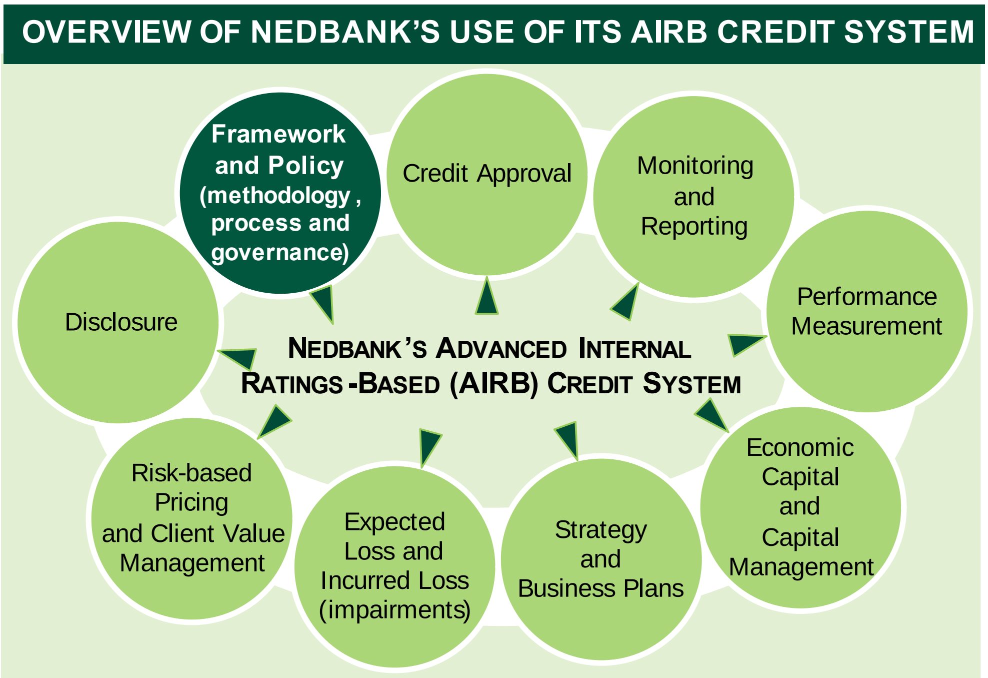
In this regard the board and its Group Credit Committee (GCC) are required by the Basel II regulations to have a general understanding of the AIRB credit system and the related reports generated. They also need to ensure the independence of the bank's credit risk control unit, the Credit Models Validation Unit (CMVU) and the effective functioning of the AIRB Exco.

The technical understanding required of senior management is greater than that required at board level. Management must have a detailed understanding of the AIRB credit system and the reports it generates. Management needs to ensure the effective operation of the AIRB credit system assisted by the independent credit risk control units. Divisional credit committees (DCCs), with chairpersons independent of the business units, operate for all major business units across the group. The DCCs are responsible for approving and recommending credit and credit policy, as well as reviewing divisional-level credit portfolios, parameters, impairments, expected loss and credit capital levels.

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

In each of the three business clusters credit risk management functions operate independently of credit origination, reporting into the cluster head of risk, who in turn reports to the cluster managing director. In line with the Basel II AIRB methodology each cluster has implemented economic capital quantification and economic profit performance measurement. Each cluster also has cluster credit labs that are responsible for the ongoing expert design, implementation, validation and performance of their business cluster's internal rating systems, with input and oversight by the CMVU.

The AIRB credit system is used for the following major aspects of Nedbank's business and risk management:



Credit risk policies and measurement approaches

Group credit policy incorporates the relevant credit risk principles stipulated in the revised regulations related to banks as well as best practice. This policy is implemented across the group with detailed and documented policies and procedures, suitably adopted for either the retail, commercial or corporate business units, and forms the cornerstone for sound credit risk management as it provides a firm framework for credit granting as well as the subsequent monitoring of credit risk exposures.

In respect of credit approvals, knowing the client, identifying and understanding risks and having an adequate free cashflow to service the loan remain key drivers in granting good credit. Following credit approval, all facilities/portfolios are subject to an ongoing credit risk management process, which is reviewed annually. In terms of this process credit exposures are identified, classified, measured, managed, controlled and monitored on a continuous basis and regularly reported on. There is considerable emphasis on the early identification of high-risk loans which, together with a pro-active intervention and work out approach, ensures an acceptable cure rate of such loans. In addition, renewed focus on the risk/reward relationship and the resultant pricing for risk ensure that credit risk is managed within the predetermined credit risk appetite for the group.

Nedbank assesses the adequacy of impairments on a monthly basis. Specific impairments are created in respect of non-performing advances where there is objective evidence that all amounts due will not be collected. Portfolio impairments are created in respect of performing advances based on historical evidence and trends of losses in each component of the performing portfolio, in line with IFRS. Careful consideration is given to the AIRB credit rating system, NGRs and NTRs ratings, as well as rating migrations. Best estimate of expected loss for the impaired portfolios is compared with specific impairments on a monthly basis to ensure alignment.

The ratings and associated PDs are applied for different conventions. Point-in-time (PIT) PDs are used to estimate the default expectations under the current economic cycle, as required for determining IFRS impairments, whereas through-the-cycle (TTC) PDs reflect a one-year forward estimate based on a long-term average through an economic cycle and are used for the group's regulatory and economic capital calculations.

Expected loss (EL) is a forward-looking measure, on a through-the-cycle basis (ie the long-run average) of the statistically estimated credit losses on the performing portfolios for the forthcoming 12 months. For Nedbank's active portfolio, portfolio impairment and specific impairment for impaired advances estimated using the point-in-time methodology are based on emergence periods that are 12 months or less. Specific impairments are estimated for the impaired portfolio and added to portfolio impairments which then constitute the total impairments for the credit portfolio. The total EL and the total impairments are compared and should the total EL for the AIRB credit portfolio be higher than the total impairments the difference is subtracted from qualifying capital. Should the portfolio impairment be higher than the EL the difference is added to qualifying capital up to a maximum of 0,6% of credit RWAs.

In the case of the defaulted portfolio a best estimate of expected loss (BEEL) is calculated and generally is the specific impairment for that exposure. The BEEL/specific impairment takes the current economic and business conditions into regard as well as the counterparty's current circumstances. It is typically a point-in-time estimate. LGD estimation for defaulted exposures is updated and this is compared to the BEEL. Normally no capital is held for defaulted exposures due to the specific impairment that should provide for any possible losses. Where LGD exceeds BEEL it is considered an unexpected loss and the difference is then the required capital for the defaulted portfolio.

Nedbank Group's long-run average EL (on an EAD weighted basis) for its credit portfolio is estimated at 0,7%, consistent with the long-run average EL reported at 31 December 2007.

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

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

Credit risk mitigation (including collateral management)

The provision of collateral is usually negotiated to protect the group against the effect of unforeseen circumstances. It needs to be stressed, though, that the primary consideration in the assessment of any lending opportunity remains the borrower's financial position and ability to repay from its own resources and cashflow. Collateral mitigates the overall risk of an exposure and it affects pricing due to the fact that collateral provided will decrease the LGD of an exposure.

Collateral obtained to mitigate credit risk is contracted, documented and safely stored. This information is loaded in Nedbank's electronic collateral management system that is integrated with our exposure management system and linked to borrower facilities. The borrower rating data together with exposure, facility and collateral data is used in our Credit Risk Calculation Engine (CRCE) to calculate all the relevant credit risk parameters used for calculating regulatory and economic capital requirements. The typical collateral loaded in the collateral system is sureties, guarantees, mortgage bonds, fixed deposits, moveable assets, etc. It may also include derivative instruments especially for counterparty credit risk (CCR) in the market risk environment.

Other forms of credit risk mitigation that take place are on- and off-balance sheet netting and set-off. Off-balance sheet netting usually occurs in the over-the-counter (OTC) environment whilst set-off and on-balance sheet netting takes place in the banking book.

Other policies and principles well articulated in the Group Credit Policy are the definitions of past due, default, impaired advances specific and IBNR portfolio impairments. The next few paragraphs will discuss these.

Definition of 'past due'

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

Definition of 'default'

A default is deemed to have occurred when an advance or group of advances has triggered the relevant definition of default criteria for that portfolio, which is in line with the amended regulations relating to banks. At a minimum, a default is deemed to have occurred where, for example, a specific impairment is raised against a credit exposure due to a significant perceived decline in the credit quality, a material obligation is past due for more than 90 days or an obligor exceeded an advised limit for more than 90 days. For retail portfolios it is product-centric and therefore a default would be specific to an account (specific advance). For wholesale portfolios it is client or borrower centric meaning that in the event of any transaction within a borrowing group defaults, then all transactions within the borrowing group would be defaulted. This is in accordance with the Banks Act regulations.

Definition of 'impaired advances and specific impairments'

Impaired advances are defined as advances in respect of which the bank has raised a specific impairment (accounting context). A specific impairment is raised in respect of an asset that has triggered a loss event (IAS39) where the collateral held against the advance is insufficient to cover the total expected losses. Such a loss event may be, for example, significant financial difficulty of the issuer or obligor, a breach of contract, such as a default or delinquency in interest or principal payments, with ageing arrears or excess as the primary driver.

The specific impairment is calculated by considering recovery from collateral and other cashflow receipts, as well as the period it will take for these flows to realise. These cashflow receipts are discounted at the contract rate to estimate the present value of all expected flows. This present value is then subtracted from the outstanding balance of the advance, which then represents the specific impairment for that asset. In the case of the retail portfolio statistical models are used to estimate the loss including when the loss event is triggered.

Definition of 'portfolio impairment (IBNR – incurred but not reported)'

The standard portfolio represents all the advances that have not been impaired. They have not yet individually evidenced a loss event, but advances exist in the general standard portfolio that have impairment without the bank being aware of it. A period of time will elapse between the occurrence of an impairment event and objective evidence of the impairment becoming evident. This period is generally known as the emergence period. For each standard portfolio an emergence period is estimated as well as the probability of the loss trigger event and the loss-given event occurring. These estimates are then applied to the exposures of the standard portfolio to calculate the portfolio impairment. The bank refers to its portfolio impairment as impairment incurred but not reported (IBNR).

Credit risk measurement approaches group-wide

For credit risk, the following Basel II regulatory approaches have been fully adopted by Nedbank Group, in the various subsidiaries:

SUBSIDIARY	APPROACH	DESCRIPTION OF BANKING ACTIVITY	TOTAL CREDIT EXTENDED (size relative to total group) %
Nedbank Limited	Advanced IRB (AIRB)	Full commercial banking (wholesale and retail)	86
Imperial Bank Limited	Standardised	Commercial and retail banking	11
Nedbank Namibia Limited	Standardised	Commercial and retail banking	1
Nedbank (Swaziland) Limited	Standardised	Commercial and retail banking	<1
Nedbank (Lesotho) Limited	Standardised	Commercial and retail banking	<1
Nedbank (Malawi) Limited	Standardised	Commercial and retail banking	<1
Fairbairn Private Bank (IOM) Limited	Standardised	Private banking	<1
Fairbairn Private Bank Limited	Standardised	Private banking	<1
			100

All credit exposure and asset classes in Nedbank Limited are covered by the AIRB approach. All the other subsidiaries are under the Standardised Approach and there is currently no intention to migrate them to AIRB in the near future.

The above Basel II regulatory approaches all carry the formal approval of SARB.

Nedbank Group's credit economic capital is separately derived by integrating the same key Basel II AIRB credit risk parameters with Nedbank's sophisticated CPM. The CPM takes portfolio concentrations and diversifications into account. Further detail on Nedbank's Credit Economic Capital methodology is provided on page 77. We use economic capital across the entire group applying conservative AIRB credit parameter benchmarks for subsidiaries other than Nedbank Limited where actual derived estimates are used.

Credit risk measurement and reporting systems

Nedbank's Basel II AIRB credit methodology is fully implemented across all its credit portfolios.

Under this methodology credit risk is essentially measured by two key components, namely:

- expected loss (EL), which is a 12-month estimate based on the long-run annual average level of credit losses through a full credit cycle based on time series data history; and
- unexpected loss (UL), which is the annualised volatility of expected losses for credit risk.

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

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

Nedbank uses two master rating scales for measuring credit risk. The first measures borrower risk without the effect of collateral and any credit risk mitigation (ie PD only), while the second measures transaction risk (ie EL), which incorporates the effect of collateral, any other credit risk mitigation and recovery rates.

All credit applications are required to carry the borrower PD rating [from the Nedbank Group rating (NGR) master rating scale], estimate of LGD and overall transaction rating [from the Nedbank transaction rating (NTR) master rating scale].

NEDBANK'S PD MASTER RATING SCALE (NGR RATINGS) – INTERNATIONAL SCALE

Rating category	Rating class	Geometric mean (%)	PD band (%)		Mapping to Standard and Poor's grades
			Lower bound (PD>)	Upper bound (PD≤)	
Performing	NGR 00	0,000	0,000	0,000	
	NGR 01	0,010	0,000	0,012	AAA
	NGR 02	0,014	0,012	0,017	AA+
	NGR 03	0,020	0,017	0,024	AA
	NGR 04	0,028	0,024	0,034	AA-
	NGR 05	0,040	0,034	0,048	A+
	NGR 06	0,057	0,048	0,067	A+ to A
	NGR 07	0,080	0,067	0,095	A to A-
	NGR 08	0,113	0,095	0,135	A- to BBB+
	NGR 09	0,160	0,135	0,190	BBB+
	NGR 10	0,226	0,190	0,269	BBB+ to BBB
	NGR 11	0,320	0,269	0,381	BBB to BBB-
	NGR 12	0,453	0,381	0,538	BBB-
	NGR 13	0,640	0,538	0,761	BBB- to BB+
	NGR 14	0,905	0,761	1,076	BB+ to BB
	NGR 15	1,280	1,076	1,522	BB
	NGR 16	1,810	1,522	2,153	BB to BB-
	NGR 17	2,560	2,153	3,044	BB- to B+
	NGR 18	3,620	3,044	4,305	B+
	NGR 19	5,120	4,305	6,089	B+ to B
	NGR 20	7,241	6,089	8,611	B to B-
Watch list	NGR 21	10,240	8,611	12,177	B to B-
	NGR 22	14,482	12,177	17,222	B- to CCC
	NGR 23	20,480	17,222	24,355	CCC
	NGR 24	28,963	24,355	34,443	CCC to C
	NGR 25	40,960	34,443	100	CCC to C
Non-performing	NP 1	100	100	100	D
	NP 2	100	100	100	D
	NP 3	100	100	100	D

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

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

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

- Being an emerging market, there are times when local banks would be willing to take on this level of risk, while pricing appropriately.
- There may be times when the consequences of not lending may be more severe than lending – for example, a marginal going concern with existing loans but a strong business plan.
- It caters for borrowers that were healthy but have migrated down the rating scale to the point of being near default.
- From time to time the bank may grant facilities to very risky borrowers on the basis of significant collateral offered. This particular rating scale measures only the likelihood of the borrower defaulting and does not recognise that a very high level of default risk may well have been successfully mitigated with collateral.

The final ratings on the scale represent those borrowers that have defaulted. NP1 applies to recent defaults, NP2 represents those accounts in respect of which the bank is proceeding to legal recovery of moneys owing and NP3 is for long term legal cases, exceeding a period of 12 months.

Basel II specifically requires that AIRB banks maintain two ratings, one measuring the probability of the borrower defaulting and the second considering facility characteristics. The NTR table below reflects EL as a percentage of EAD and contains 10 rating bands – the first three bands representing facilities of very low risk, the next three bands being for facilities of average or acceptable risk and the final four bands indicating facilities of high or very high risk.

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

The NTR scale measures the total or overall credit risk (ie expected loss) in individual exposures, thereby allowing credit officers to consider the mitigating effect of collateral, other credit risk mitigation and recovery rates on borrower risk. This reflects the true or complete measurement of credit risk, incorporating not only PD but, importantly, also LGD.

Both rating scales are based on the requirements of Basel II, namely that defaults that are 90 days or more past due date be consistently recognised across the group as exposures, unless there are other qualitative considerations that render default classification prior to that point. All estimates are also based on a through-the-cycle (TTC) view of risk. Basel II requires banks to base their LGD estimates for regulatory capital requirements on a downturn scenario (ie downturn LGD), rather than an average TTC loss estimate. Downturn LGD thus represents what could be expected in downturn economic conditions in the trough of a business cycle.

Our approach is also consistent with the Basel II requirement that risk estimates be based on a bank's long-run default history. Nedbank also calculates 'point in time' (PIT) measures, based on current economic conditions. These are incorporated in business decision making as well as in determining appropriate levels of impairment in accordance with the requirements of IFRS as discussed earlier.

The new methodologies, afforded Nedbank Group as a result of its AIRB credit system and other significant investments in CPM and economic capital, contribute significantly to considerable risk intelligence for use in pricing, loan approval and client value management.

Credit risk reporting across the bank is, to a large extent, based on the twin rating scales discussed above. Business units report on the distribution of their credit exposures across the various rating scales and explain any changes in such distribution, including the migration of exposures between rating grades and underlying reasons therefore.

The level of reporting, based on the new AIRB rating system, is comprehensive and consistent, and provides significant insight into credit risk across the businesses and the group, and has allowed Nedbank to make significant strides in the field of credit risk management in line with international best practice.

The bank's credit reporting systems generate reports on many different reporting categories that are uniform across the bank. The following main categories of reporting are covered:

- Credit risk asset growth and quality that include tables, graphs, and text that discuss trends and other observations.
- Impaired and defaulted advances, including security values.

- Credit risk mitigation.
- Adequacy of impairments.
- Maturity analysis of the credit portfolio and how the observed trends will affect it visa versa.
- Expected loss and impairment comparisons.
- Actual write-offs in comparison with expected loss projections.
- Distressed restructures.
- Arrears, excesses, large exposures and watch list summaries.
- Peer group comparisons.
- Exceptions to credit policy.
- Securitisation activities.
- Distribution and migration across the NGR and NTR buckets.
- Concentration risk.
- Stress testing results.
- Risk appetite – credit portfolio limits.

Each of the above reporting categories has coinciding reporting templates and more detail is added to the reporting down the hierarchy of credit risk reporting forums (eg Group Credit Committee to Divisional Credit Committee). These templates have been embedded in semi-automated fashion with the objective of having the regularly generated reports automated. The system is also designed to allow drill down and data mining for proper analysis of trends and causes at almost any level in the organisation.

Credit risk portfolio review at 30 June 2008

The South African economic environment continued to deteriorate during the first half of 2008. Supply-side inflationary pressures led to further interest rate increases in April and June, adding to the credit stress levels of consumers. The resultant slowdown in economic growth is reflected in lower retail sales, vehicle sales and growth in house prices. Credit provisioning levels have increased in Nedbank Retail and Imperial Bank. The group's wholesale banking bias has provided support within the current environment. Corporate advances growth remained resilient, boosted by the downstream activity from increasing fixed investment. Overall, advances increased by 18,3% (annualised) to R408 billion.

The group's wholesale businesses increased headline earnings, benefiting from favourable trading conditions and good client volumes. However, the group's financial performance was negatively impacted by retail impairment levels rising above the group's through-the-cycle expectations. In addition, market movements in the equity and property markets have negatively impacted private equity valuations. Basic earnings benefited from an after-tax profit of R637 million on the disposal of the group's shares in Visa.

The impairment charge to the income statement increased by 86,4% to R1 894 million (June 2007: R1 016 million), resulting in the credit loss ratio increasing from 0,62% in June 2007 to 0,96%. While the credit loss ratios in both Nedbank Corporate and Nedbank Capital remained within through-the-cycle levels, Nedbank Retail and Imperial Bank's credit loss ratios deteriorated further as a result of the rise in interest rates and the increased levels of consumer indebtedness, and are now above expected through-the-cycle ranges.

The following tables summarise Nedbank Group's credit portfolio quality and level of impairments at 30 June 2008 (further segmental detail can be found in results released on 6 August 2008, including the operational reviews of the three business clusters and Imperial Bank).

SUMMARY OF CREDIT ADVANCES			
Rm	**Annualised % change**	**Jun 2008**	**Dec 2007**
Home loans	17,1	**134 535**	123 980
Commercial mortgages	16,9	**65 076**	60 045
Properties in possession	>100	**575**	308
Term loans	30,1	**45 789**	39 835
Credit cards	10,7	**7 486**	7 109
Overnight loans	0,2	**18 355**	18 336
Overdrafts	20,4	**13 781**	12 514
Other loans to clients	18,6	**52 737**	48 280
Leases and instalment sales	17,9	**57 237**	52 568
Preference shares and debentures	58,7	**12 112**	9 377
Trade and other bills	30,0	**2 118**	1 843
Reverse repurchase agreements	(23,0)	**5 172**	5 839
Impairment of advances	27,3	**(6 902)**	(6 078)
Gross credit advances	18,3	**414 973**	380 034
Net credit advances	18,4	**408 071**	373 956

SUMMARY OF IMPAIRMENT CHARGE			
Rm – six months ended	**% of average advances**	**Jun 2008**	**June 2007**
Impairment charge		**1 894**	1 016
As % of NII		**23,8**	15,5
As % of average advances	100,0	**0,96**	0,62
Nedbank Capital	14,5	**0,12**	(0,09)
Nedbank Corporate	40,4	**0,15**	0,11
Nedbank Retail	35,4	**2,00**	1,35
Imperial Bank	9,7	**1,75**	1,18

BALANCE SHEET EXPOSURE PER BASEL II ASSET CLASS AND BUSINESS CLUSTER

Rm	Nedbank Corporate	Nedbank Capital	Nedbank Retail	Imperial Bank	Central management	Total
Regulated						
Advanced Internal Rating-Based approach (AIRB)	**206 258**	**74 556**	**135 801**	**-**	**13**	**416 628**
Banks	778	24 439				25 217
Corporate	107 603	14 661	5		13	122 282
Local government and municipalities	1 095	245				1 340
Public sector entities	5 788	3 151				8 939
Retail other	4 290		17 378			21 668
Retail mortgages	5 188		108 017			113 205
Retail revolving credit			6 946			6 946
Security firms	124	1 367				1 491
Securitisation exposure		268				268
SME corporate	22 484	600				23 084
SME retail	18 898		3 455			22 353
Sovereign		27 760				27 760
Specialised lending – high volatility commercial real estate	7 656					7 656
Specialised lending – income-producing real estate	32 190	17				32 207
Specialised lending – object finance		463				463
Specialised lending – project finance	164	1 585				1 749
Standardised approach	**-**	**-**	**-**	**42 097**	**-**	**42 097**
Banks				53		53
Corporate				441		441
Retail other				21 992		21 992
Retail mortgages				2 182		2 182
Securitisation exposure				300		300
SME corporate				10 735		10 735
SME retail				2 911		2 911
Other				3 483		3 483
Other regulated entities	9 103	3 793	5 710			18 606
Properties in possession	24		551			575
Non-regulated	**841**	**25 089**	**4 997**		**249**	**31 176**
On balance sheet exposure (Basel II)	**216 226**	**103 438**	**147 059**	**42 097**	**262**	**509 082**
Less assets included in Basel II asset classes						(43 508)
Cash on call and deposits with monetary institutions[1]						(3 915)
Government stock and other dated securities[2]						(26 095)
Short-term securities[1]						(6 543)
Foreign inter-branch assets						(3 219)
Other asset classes net of fair value adjustments						(3 736)
Set-off of accounts within IFRS total gross advances[3]						(50 601)
Total gross advances						**414 973**

1. Mainly included in ‘Banks’ asset class within Nedbank Capital cluster
2. Mainly included in ‘Sovereign and Public sector entity’ assets classes within Nedbank Capital cluster
3. The set-off mainly relates to the ‘Corporate’ asset class within Nedbank Corporate cluster for cash management accounts

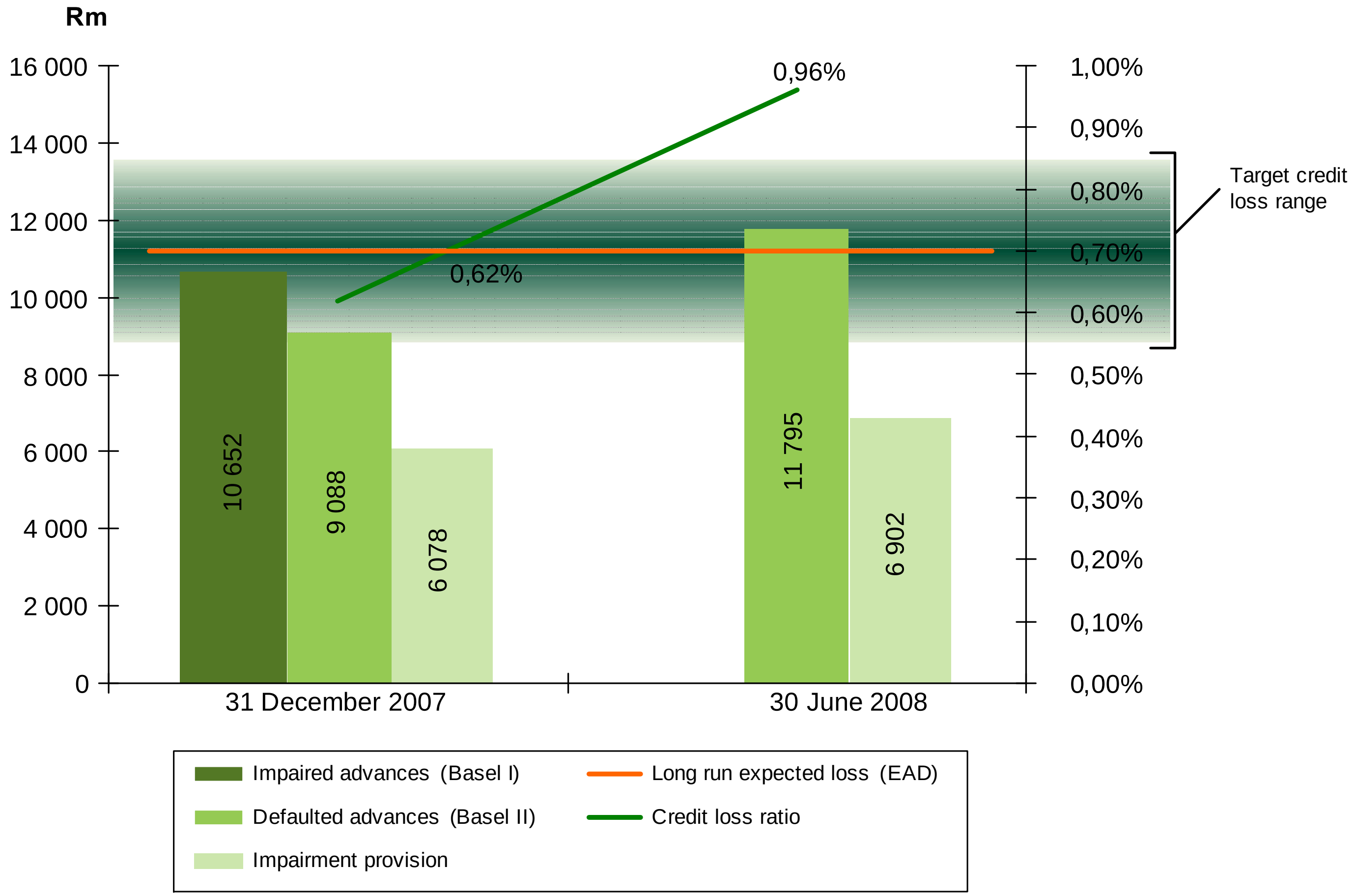
SUMMARY OF ADVANCED INTERNAL RATING-BASED APPROACH (AIRB) BASEL II EXPOSURES BY BUSINESS AND ASSET CLASS

Rm	AIRB on balance sheet exposure	Total credit extended*	Exposure at default (EAD)	Downturn expected loss – performing	Downturn expected loss – non-performing
Nedbank Corporate	**206 258**	**295 999**	**222 736**	**1 336**	**690**
Banks	778	3 986	986	4	
Corporate	107 603	166 025	96 566	344	1
Local government and municipalities	1 095	1 608	1 589		
Public sector entities	5 788	11 998	9 290	1	
Retail other	4 290	5 315	5 464	101	
Retail mortgages	5 188	6 831	6 848	67	
Security firms	124	306	259		
SME corporate	22 484	30 063	29 578	261	140
SME retail	18 898	25 669	25 913	257	479
Specialised lending – high volatility commercial real estate	7 656	9 475	9 715	136	2
Specialised lending – income-producing real estate	32 190	34 559	36 354	165	68
Specialised lending – project finance	164	164	174		
Nedbank Capital	**74 556**	**99 939**	**100 122**	**151**	**28**
Banks	24 439	36 720	39 358	7	
Corporate	14 661	17 791	18 514	131	28
Local government and municipalities	245	559	590		
Public sector entities	3 151	3 214	2 792		
Retail other		2	7		
Retail mortgages		-	1		
Security firms	1 367	1 823	587		
Securitisation exposure	268	9 322	7 849	1	
SME corporate	600	647	454	1	
SME retail	-	35	50	1	
Sovereign	27 760	27 761	27 762	1	
Specialised lending – high volatility commercial real estate	17	17	18		
Specialised lending – income-producing real estate	463	463	480	8	
Specialised lending – project finance	1 585	1 585	1 660	1	
Nedbank Retail	**135 801**	**175 929**	**151 505**	**2 467**	**2 269**
Corporate	5	70	38	1	
Retail other	17 378	22 178	22 775	789	1 158
Retail mortgages	108 017	122 212	112 948	1 175	599
Retail revolving credit	6 946	26 760	10 615	397	375
SME retail	3 455	4 709	5 129	105	137
Central Management	**13**	**13**	**15**	**15**	
Total	**416 628**	**571 880**	**474 378**	**3 969**	**2 987**

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

Downturn expected loss (AIRB approach)	6 956
IFRS impairment on loans and advances	5 328
Excess of expected loss over eligible provisions	**1 628**

SUMMARY OF IMPAIRMENT VS DEFAULTED ADVANCES – NEDBANK GROUP



SUMMARY OF IMPAIRMENTS AND DEFAULTED ADVANCES – NEDBANK GROUP								
Rm	**Nedbank Corporate 2008**	**Nedbank Capital 2008**	**Nedbank Retail 2008**	**Imperial Bank 2008**	**Central management 2008**	**30 June 2008**	**30 June 2007**	**31 December 2007**
Opening balance	1 837	384	2 933	903	21	6 078	5 184	5 184
Specific impairment	820	362	2 383	752	24	4 341	3 787	3 787
IBNR	1 017	22	550	151	(3)	1 737	1 397	1 397
Income statement impairment charge	119	35	1 414	341	(15)	1 894	1 016	2 164
Specific impairment	32	25	1 441	294	(15)	1 777	919	1 843
IBNR	87	10	(27)	47		117	97	321
Bad debts recovered	36		105	5		146	144	418
Amounts written off/other transfers	(17)	(1)	(937)	(261)		(1 216)	(815)	(1 688)
Total impairments	1 975	418	3 515	988	6	6 902	5 529	6 078
Specific impairment	871	386	2 990	790	9	5 046	4 045	4 341
IBNR	1 104	32	525	198	(3)	1 856	1 484	1 737
Analysis of impairments								
Specific impairments	871	386	2 990	790	9	5 045		4 341
Specific impairment on defaulted advances	677	*71	1 994	790	-	3 532		2 869
Specific impairment for discounted cashflow losses	187		678			865		833
Total specific impairment on defaulted advances	864	*71	2 672	790	-	4 397		3 702
Specific impairment on non-defaulted loans (including discounted cashflow losses)	7	*315	318		9	649		639
Incurred but not reported (IBNR)	1 104	32	525	198	(3)	1 856		1 737
Total impairments	**1 975**	**418**	**3 515**	988	**6**	**6 902**		**6 078**
Total advances	**169 280**	**56 361**	**146 988**	**42 097**	**247**	**414 973**	**344 436**	**380 034**
Total average advances	**162 418**	**53 989**	**141 707**	**39 160**	**231**	**397 505**	**329 092**	**346 892**
Defaulted advances and related security and impairments								
Mortgage advances	913		5 536	145		6 594		4 637
Lease and instalment debtors	559		509	812		1 880		1 446
Credit card balances	2		535			537		408
Personal loans	23		1 067			1 090		1 040
Properties in possession	24		551			575		308
Other loans and advances	296	169	537	117		1 119		1 249
Total defaulted advances	1 817	169	8 735	1 074	-	11 795		9 088
Less: security and expected recoveries	953	*98	6 063	284		7 398		5 386
Net uncovered position after discounting	**864**	***71**	**2 672**	**790**	**-**	**4 397**		**3 702**
Specific impairments	864	*71	2 672	790	-	4 397		3 702
Specific impairments on defaulted advances	677	*71	1 994	790		3 532		2 869
Specific impairments for discounted cashflow losses	187		678			865		833
Value at risk/(excess impairment raised)	**-**	**-**	**-**	**-**	**-**	**-**		**-**

** There has been a correction with reclassification of R43 million between specific impairment on defaulted exposure and specific impairment on non-defaulted exposure compared to numbers disclosed in the analyst booklet.*

SUMMARY OF IMPAIRMENTS AND DEFAULTED ADVANCES – NEDBANK GROUP – (CONTINUED)

Rm	Nedbank Corporate 2008	Nedbank Capital 2008	Nedbank Retail 2008	Imperial Bank 2008	Central management 2008	30 June 2008	30 June 2007	31 December 2007
Ratios								
Impairments to total advances (%)	1,17	0,74	2,39	2,35		1,66	1,61	1,60
Credit loss ratio (%)	0,15	0,13	2,01	1,75		0,96	0,62	0,62
Properties in possession to total advances (%)	0,01		0,37			0,14	0,04	0,08
Defaulted advances to total advances (%)	1,07	0,30	5,94	2,55		2,84		2,39
Properties in possession (PIPs)								
Balance at beginning of period	30		278			308	131	131
Disposal/write-downs/revaluations	(10)		(65)			(75)	(53)	(107)
PIPs acquired during the period	4		338			342	72	284
Balance at end of period	24	-	551	-	-	575	150	308
Unsold	20		419			439	82	199
Sold awaiting transfer	4		132			136	68	109

Product analysis (30 June 2008)	**Mortgage advances**	**Lease and instalment debtors**	**Credit card balances**	**Personal loans**	**Other loans and advances**	**30 June 2008**
Defaulted advances	**6 594**	**1 880**	**537**	**1 090**	**1 694**	**11 795**
Security and expected recoveries	**5 341**	**427**	**41**	**563**	**1 069**	**7 441**
Net uncovered position after discounting	**1 253**	**1 453**	**496**	**527**	**625**	**4 354**
Specific impairments	**1 253**	**1 453**	**496**	**527**	**625**	**4 354**
Specific impairments on defaulted advances	**890**	**1 366**	**430**	**205**	**598**	**3 489**
Specific impairments for discounted cashflow losses	**363**	**87**	**66**	**322**	**27**	**865**
Value at risk/(excess impairment raised)	**-**	**-**	**-**	**-**	**-**	**-**

Product analysis (31 December 2007)	Mortgage advances	Lease and instalment debtors	Credit card balances	Personal loans	Other loans and advances	31 Dec 2007
Defaulted advances	4 637	1 446	408	1 040	1 557	9 088
Security and expected recoveries	3 777	353	41	515	700	5 386
Net uncovered position after discounting	860	1 093	367	525	857	3 702
Specific impairments	860	1 093	367	525	857	3 702
Specific impairments on defaulted advances	568	1 043	302	135	821	2 869
Specific impairments for discounted cashflow losses	292	50	65	390	36	833
Value at risk/(excess impairment raised)	-	-	-	-	-	-
31 December 2007 disclosure						
Impaired advances – based on Basel I principles						10 652
Impaired advances – based on Basel II principles						9 088
Effect for change in methodology						1 564

Defaulted advance

Any advance or group of advances that has triggered the relevant definition of default criteria for that portfolio, which is in line with the amended regulations. For retail portfolios it is product-centric and therefore a default would be specific to an account (specific advance). For wholesale portfolios it is client- or borrower- centric meaning that should any transaction within a borrowing group default, then all transactions within the borrowing group would default.

Impaired advance (old definition in line with previous regulation to 31/12/2007 included for comparative purposes – Basel I)
Any group of advances (per person definition) where any one of the transactions is more than 90 days in arrears/excess (including retail portfolios). In order to monitor trends from the old DI regulatory reporting to the new Basel II regulatory reporting one should compare 'Impaired Advances (old DI regulations)' with 'Defaulted Advances', but with one adjustment for retail portfolios. The 'Impaired Advances' (old DI regulations) for retail portfolios need to be adjusted from client centric to product centric. This has caused impaired advances for the previous reporting period to decrease because transactions within a borrowing group that have not yet exceeded the 90 days arrears/excess trigger were excluded from the aggregation of the adjusted impaired advances number.

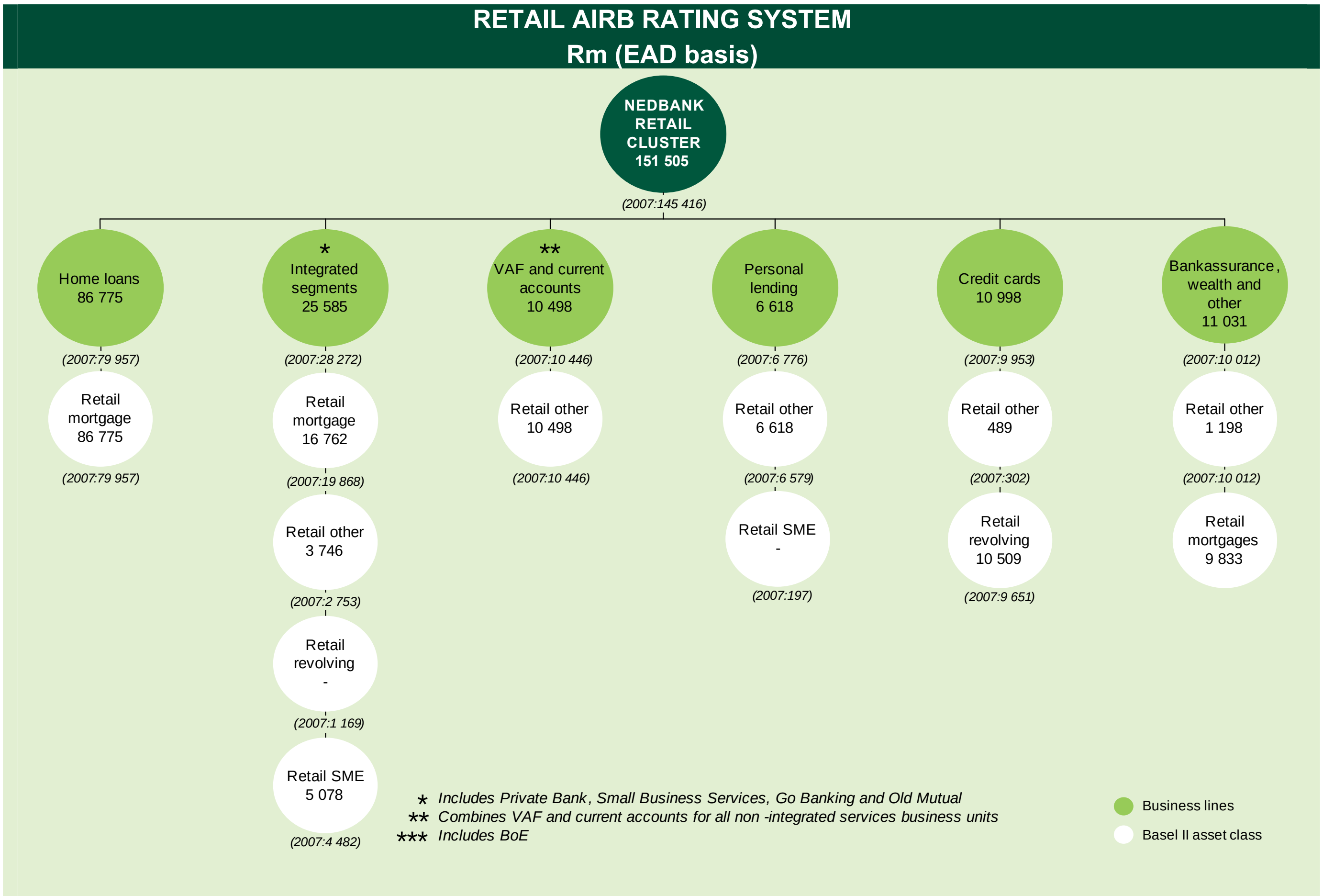
DEFAULTED ADVANCES AND RELATED SECURITY AND IMPAIRMENTS BY ASSET CLASS
SEGMENTAL ANALYSIS BY BASEL II ASSETS CLASS

Rm	Nedbank Corporate 2008	Nedbank Capital 2008	Nedbank Retail 2008	Imperial Bank 2008	Central management 2008	30June 2008
Regulated						
Advanced internal ratings-based approach (AIRB)	1 649	109	8 005	-	-	9 763
Corporate	13	28				41
Retail other	39		1 866			1 905
Retail mortgages	16		5 357			5 373
Retail revolving credit			533			533
SME corporate	470					470
SME retail	897		249			1 146
Sovereign		81				81
Specialised lending – high volatility commercial real estate	35					35
Specialised lending – income-producing real estate	179					179
Standardised approach	-	-	-	1 074	-	1 074
Corporate				124		124
Retail exposure				833		833
Other				117		117
Other regulated entities	144					144
Properties in possession	24		551			575
Non-regulated		60	179			239
Total defaulted advances	1 817	169	8 735	1 074	-	11 795
Less: security and expected recoveries	953	*98	6 063	284		7 398
Net uncovered position after discounting	864	*71	2 672	790	-	4 397
Specific impairments	864	*71	2 672	790		4 397
Specific impairments on defaulted advances	677	*71	1 994	790	-	3 532
Specific impairments for discounted cashflow losses	187		678			865
Value at risk/(excess impairment raised)	-	-	-	-	-	-

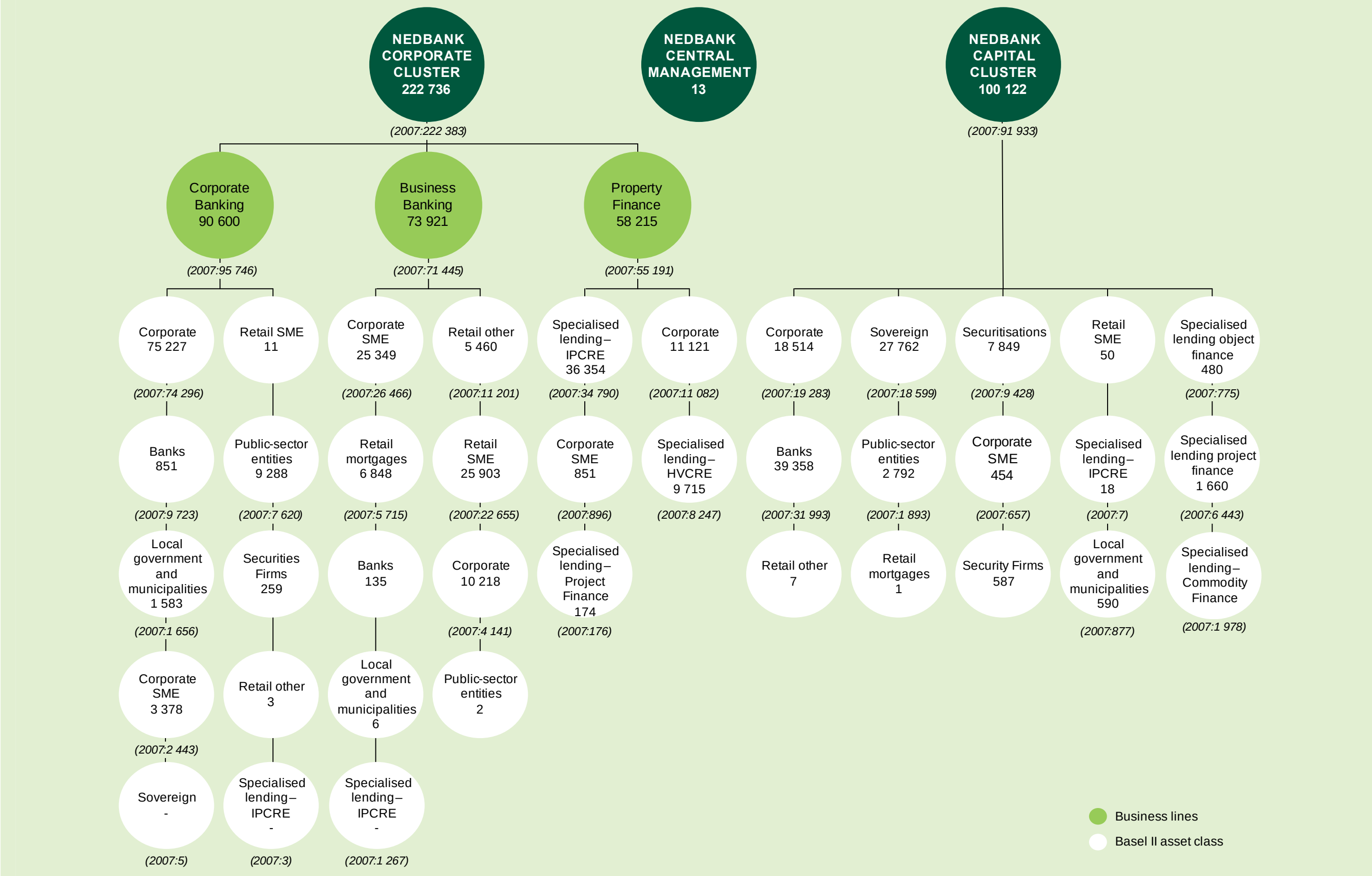
** There has been a correction with reclassification of R43 million between specific impairment on defaulted exposure and specific impairment on non-defaulted exposure compared to numbers disclosed in the analyst booklet.*

Roadmap of Nedbank's credit rating systems

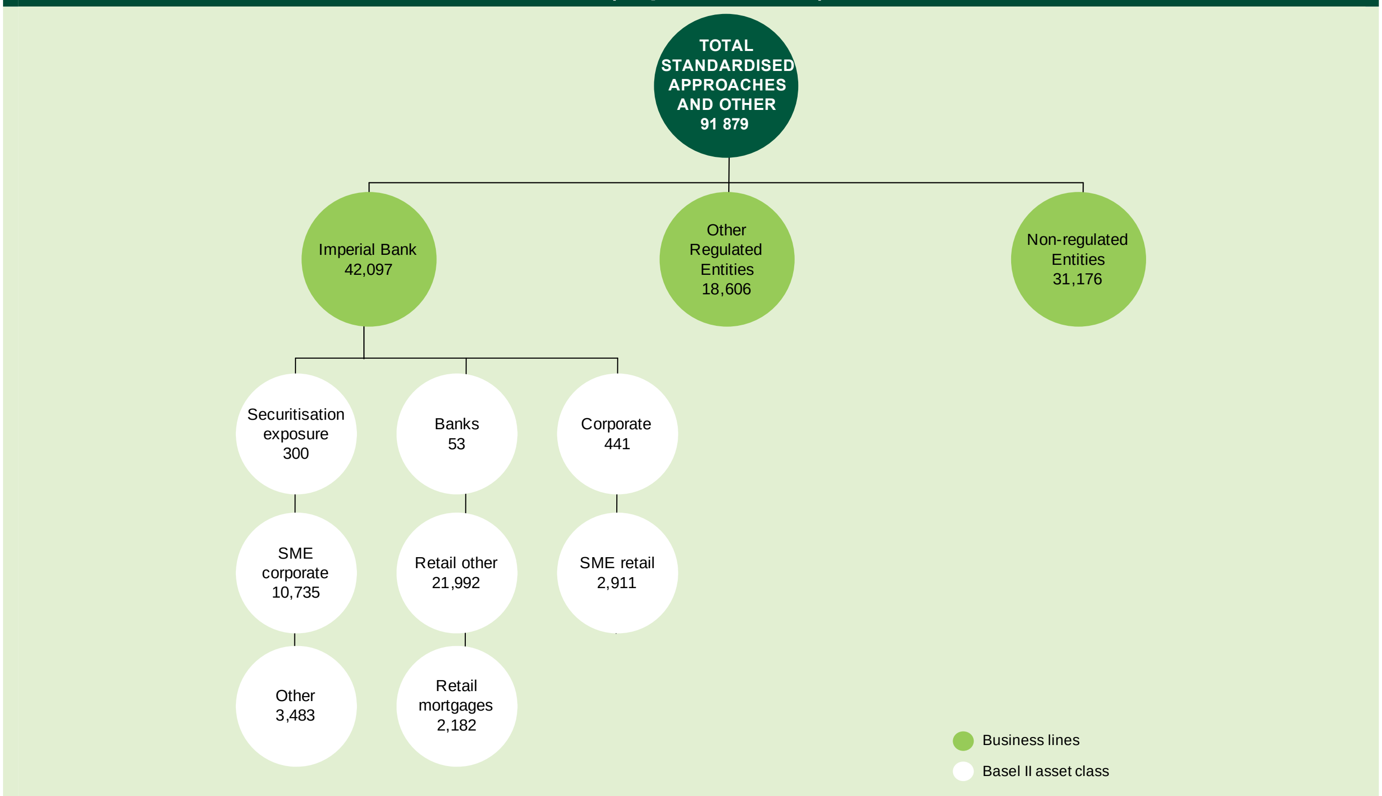
Nedbank's AIRB credit rating system provides an overview of the bank's credit risk profile by business line (note: the tables below includes Imperial Bank and the non-South African portfolios that are under the Standardised Approach separately) and major Basel II asset class. Basel II credit exposure is reported on the basis of EAD, in terms of which the tables below are set out including values at 30 June 2008 and 31 December 2007.



WHOLESALE AIRB RATING SYSTEM
Rm (EAD basis)



STANDARDISED RATING SYSTEM
Rm (Exposure Basis)



Nedbank has implemented robust processes to rate its various credit portfolios. These processes have been designed to ensure the integrity and accuracy of the AIRB rating process and are subjected to regular audits by the group's Internal Audit Department. Except in isolated cases, Nedbank does not specifically rely on external ratings except for benchmarking purposes.

An overview of the principal AIRB rating processes is as follows:

Corporate (including SMEs, specialised lending and purchased corporate receivables), Sovereign and Bank

Nedbank's corporate lending portfolio includes a number of sub-portfolios, including:

- Large corporates
- Large private firms
- SMEs
- Commercial property finance
- Property development finance
- Project finance
- Leveraged buyouts and BEE finance
- Commodity finance
- Exposures to sovereigns
- Exposures to other banks

A range of bespoke rating models have been developed to rate these various sub-portfolios and to produce estimates of PD, LGD and EAD. All models are developed in accordance with international best-practice and are, wherever possible, based on Nedbank's own internal data and long run default experience. For certain low default portfolios, such as exposures to other banks, Nedbank simply does not have sufficient default experience to allow robust statistical modelling. In these instances suitable data has been sourced from appropriate data bureaux and the models developed thereon. When external data is used to develop the models great care is taken to ensure that this data is both appropriate and relevant.

When utilising models to rate corporate exposures a pure statistical approach is not always the best option. While Nedbank's models include both financial and qualitative factors it is not always possible or even appropriate to include all relevant qualitative information in model inputs. For this reason all corporate ratings are subject to review by suitable experts, who have the authority to override model-based ratings within well defined authority and reporting levels. This is in accordance with Basel II that states that '*Sufficient human judgement and human oversight is necessary to ensure that all relevant and material information, including that which is outside the scope of the model, is also taken into consideration, and that the model is used appropriately'* (para 417). The override process is also subjected to regular audits by the bank's Internal Audit Department, to ensure that overrides are appropriate and take place within authority levels.

For one sub-portfolio (property development finance, R4 861 million) Nedbank makes use of the supervisory slotting approach to map internal ratings to five standard supervisory categories, each of which is associated with a specific risk weight. A rating model is under development for the property development finance (high-volatility commercial real estate) portfolio that will allow Nedbank to utilise its own estimates of PD for this portfolio.

Equities

Nedbank utilises the market-based Simple Risk Weight approach for equity exposures that are held in its banking book, other than in respect of investments in property holding and development companies where the PD/LGD approach is utilised. These equity exposures typically originate when the bank takes an equity stake in a property company over and above normal lending exposure to such entity and both the equity and lending exposures are accorded the same PD, although the prescribed supervisory LGD of 90% is utilised for the equity exposure.

Retail

Nedbank's retail portfolio comprises a number of sub-portfolios, including the following:

- Residential mortgages
- Vehicle and asset finance
- Credit cards
- Personal loans
- Retail SMEs
- Overdrafts

All applications are rated at the time of application by way of a number of bespoke rating scorecards tailored to the various segments that make up the portfolio. These scorecards have been internally developed and are based on Nedbank's own default experience for these portfolios and developed in terms of internal data, relevant credit bureau data or a suitable combination thereof.

The existing sub-portfolios are re-rated monthly via a range of bespoke behavioural scorecards that have been developed in terms of Nedbank's own internal data and experience of the portfolios.

Given the volumes of default data that exist in respect of retail portfolios a statistical approach has been followed in respect of all rating models, including PD, LGD and EAD. As the large data volumes used to develop these models mean that the likelihood of statistical anomalies is considerably reduced rating overrides are not permitted on retail exposures.

Nedbank has implemented processes within its AIRB Framework to conduct back testing and so actively monitor the performance of all models, including analysing model predictions against actual outcomes. A direct comparison is not appropriate as models are calibrated to cycle neutral default rates but we are able to neutralise the impact of changes in the economic cycle when doing such comparisons. Formal back testing of the models takes place at least annually and the models are also monitored on an ongoing basis to ensure that they remain predictive.

Distribution and migration of Nedbank's credit risk profile

The graphs below are derived from our AIRB credit system and provide a means of comparative analysis across Nedbank's portfolios. Long run average or through-the-cycle LGDs are used for the derivation of expected loss for the Nedbank Group graphs in line with internal economic capital use instead of downturn LGDs used for Basel II regulatory capital. Thereafter, Nedbank Limited is presented on an asset class basis for regulatory purposes using downturn LGD (dLGD) and thus downturn EL (dEL). Thus the NTR bands for Nedbank Group's business unit distributions are based on through-the-cycle EL (EL) whereas the NTR bands for Nedbank Limited's asset class distributions are based on downturn EL (dEL). The graphs below are based on both the performing and non-performing portfolio. Both the average performing PD, LGD and EL% as well as the total PD, LGD and EL% (which includes performing and non-performing) are shown below.

The trends in the graphs can mainly be attributed to three factors, namely the change in the economic cycle, methodological changes, and data improvements ahead of final Basel II implementation on 1 January 2008 and our switch to risk-based economic capital allocation for 2008 performance measurement.

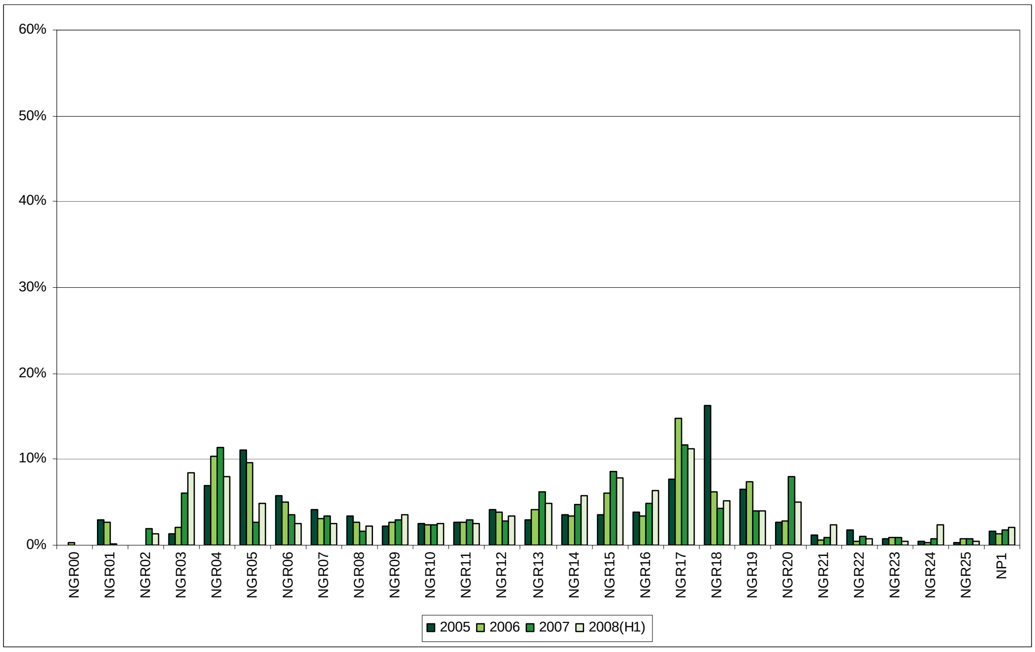
The economy has moved from a benign economic cycle with a low base of credit defaults into a worsening credit environment. The effects of the interest rate increases are evident in the trends in Nedbank Retail, however appropriate risk management in Nedbank Retail should assist in managing the credit pressures in 2008. The increase in credit defaults is noticeable when looking at the non-performing loans that have increased in the Nedbank Retail Cluster as well as across all the Retail asset classes to June 2008.

Methodological changes are also responsible for some of the movements since 2006. In Nedbank Capital, a more sophisticated approach was introduced for the treatment of bank LGDs in December 2007, which rendered an overall reduction in LGDs for this portfolio. In the Corporate Banking portfolio, further refinement of the Corporate PD model resulted in lower PDs for this portfolio. In June 2008, a refinement to the LGD model that is used in the Business Banking business line resulted in a decrease in their through-the-cycle and downturn LGDs. The results of the implementation of this model change are visible in the improvement in NTR ratings in both the Corporate SME and Retail SME asset classes. For the income producing real estate asset class, the updated central tendency calculation has resulted in an improved NGR distribution for June 2008.

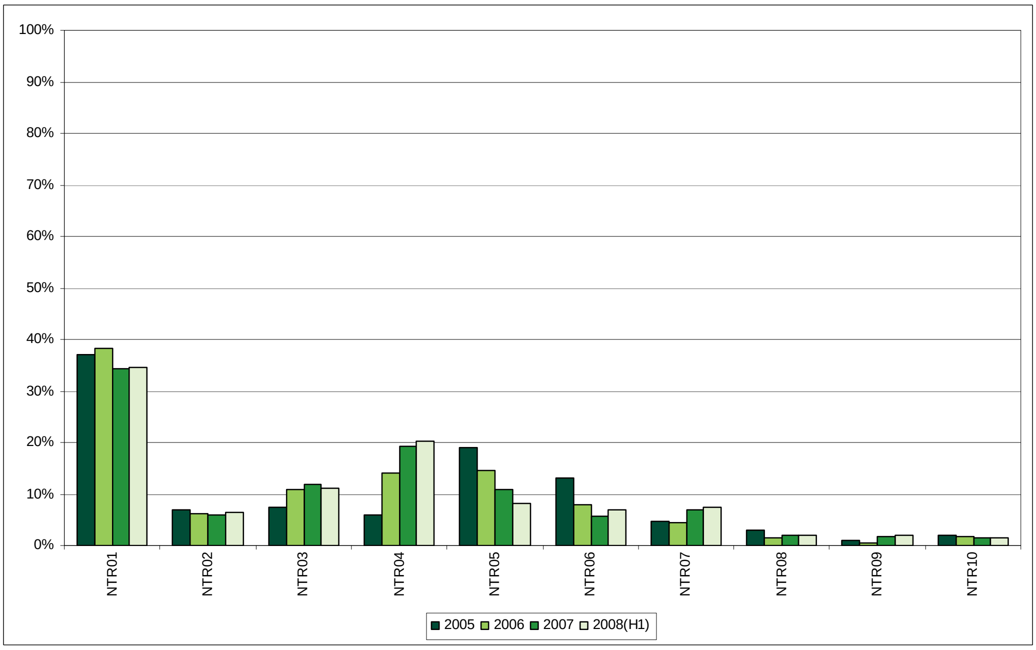
During our Basel II implementation we applied extra conservatism in deriving some credit risk parameter estimates. With refinement and enhancements overtime we increasingly have been in a position to remove this extra conservatism, reducing risk weighted assets and so to some extent offsetting the impact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

DISTRIBUTION OF TOTAL EAD OF NEDBANK GROUP*

Based on master credit rating scale (ie PD only)
NGR Scale



Based on master transaction rating scale (ie EL)
NTR scale



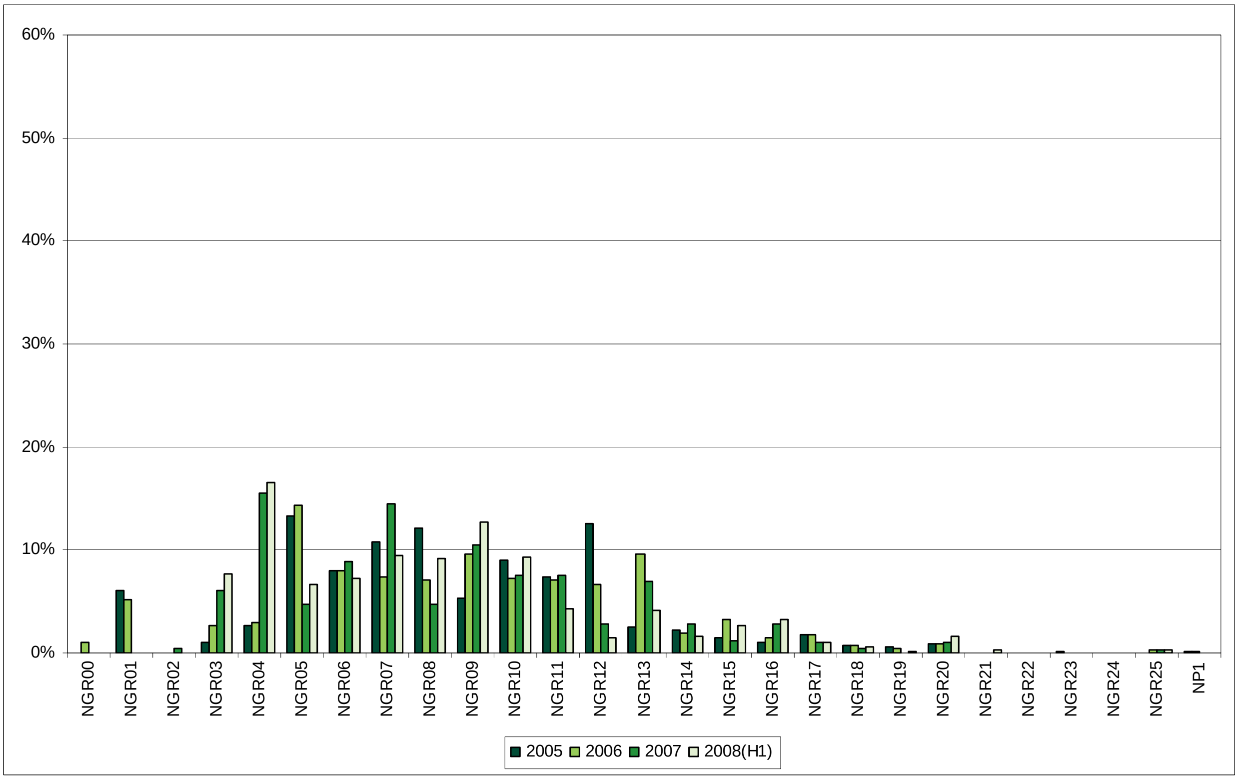
•Average Performing EAD-weighted PD 2,74% Average Total EAD – weighted PD 4,70%	•Average Performing EAD-Weighted LGD 24,25% Average Total EAD –Weighted LGD 24,29%	•Average Performing EAD-weighted EL 0,66% Average Total EAD – Weighted EL 1,17%

* *For reporting group results, AIRB benchmarks based on expert judgement are applied to Imperial Bank and the small group subsidiaries under the Standardised Approach. Nedbank Limited operates fully under the AIRB approach, and this accounts for 86% of total group credit exposure.*

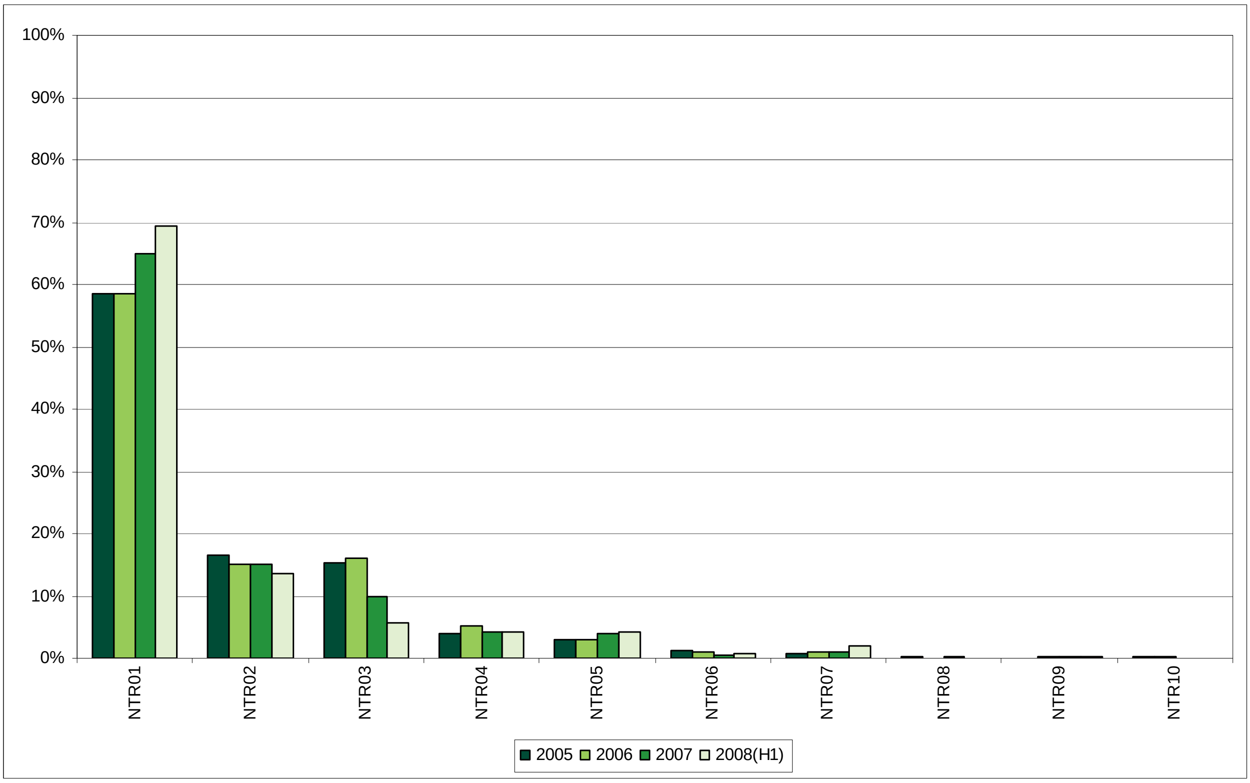
DISTRIBUTION OF NEDBANK GROUP'S TOTAL EAD BY MAJOR BUSINESS LINE

Nedbank Corporate Cluster: Corporate Banking

Based on master credit rating scale (ie PD only)
NGR Scale



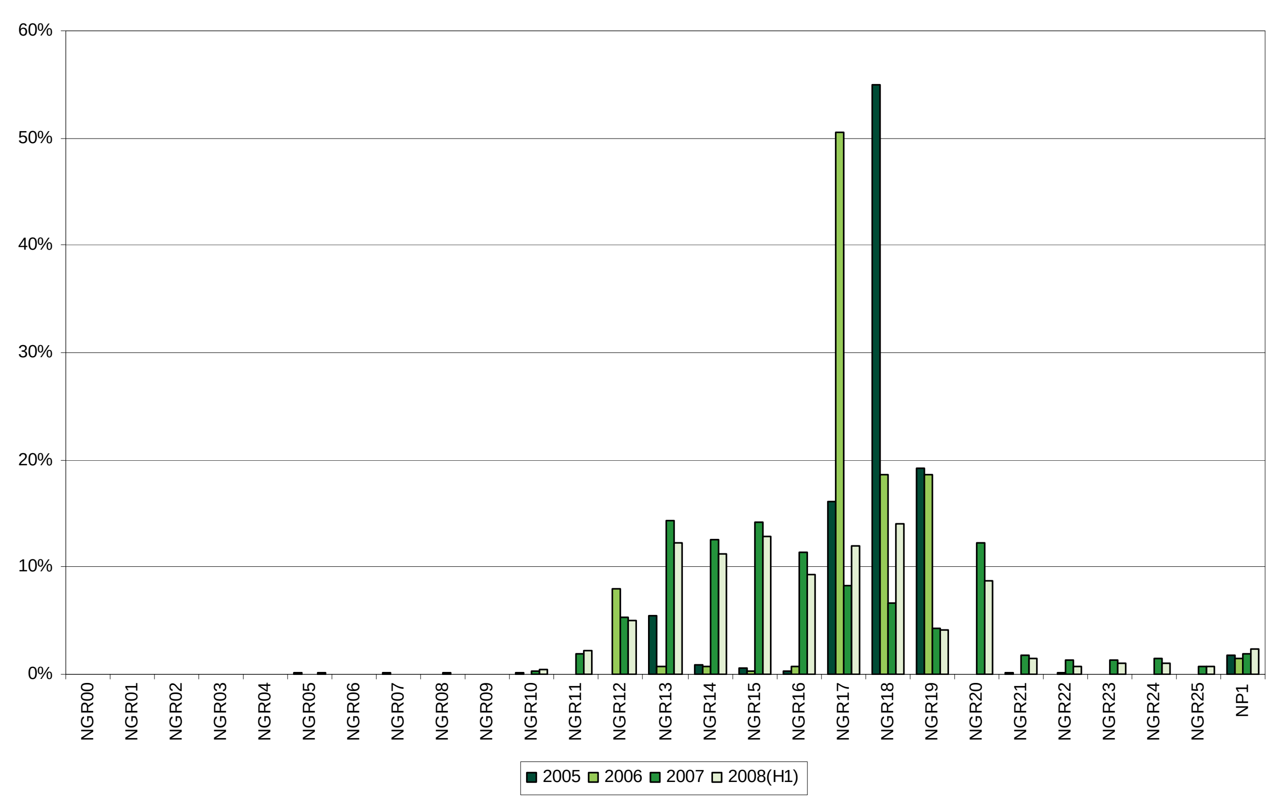
Based on master transaction rating scale (ie EL)
NTR scale



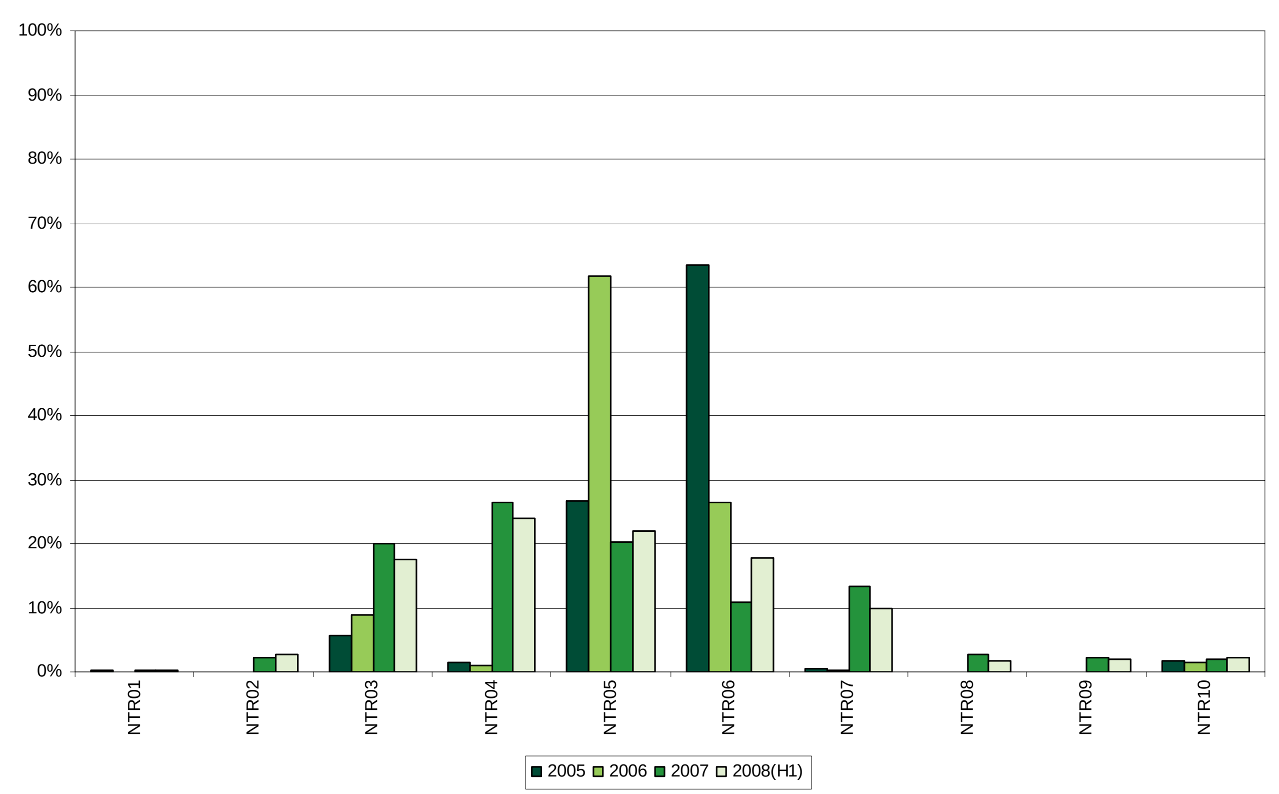
•Average Performing EAD-weighted PD 0,55% Average Total EAD-weighted PD 0,58%	•Average Performing EAD-Weighted LGD 25,60% Average Total EAD Weighted LGD 25,60%	•Average Performing EAD-weighted EL 0,15% Average Total EAD-weighted EL 0,16%

Nedbank Corporate Cluster: Business Banking

Based on master credit rating scale (ie PD only)
NGR Scale



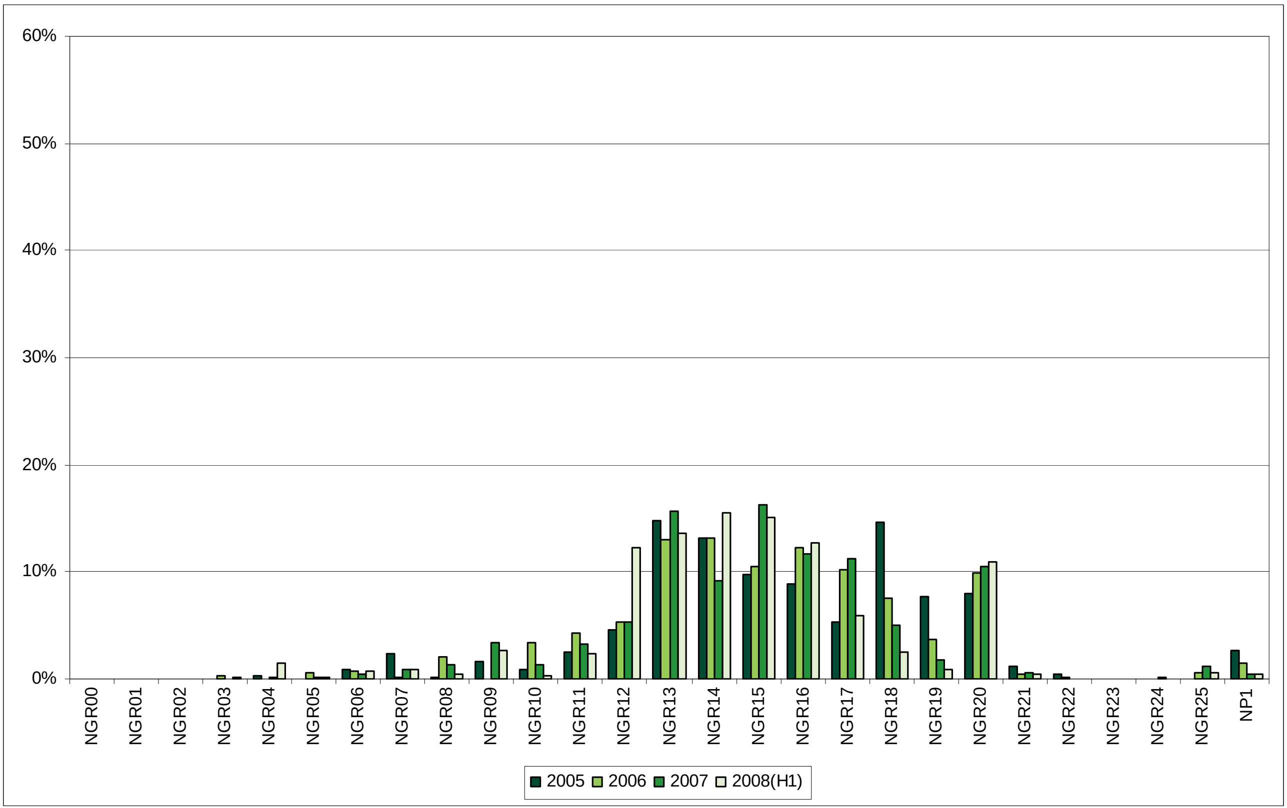
Based on master transaction rating scale (ie EL)
NTR scale



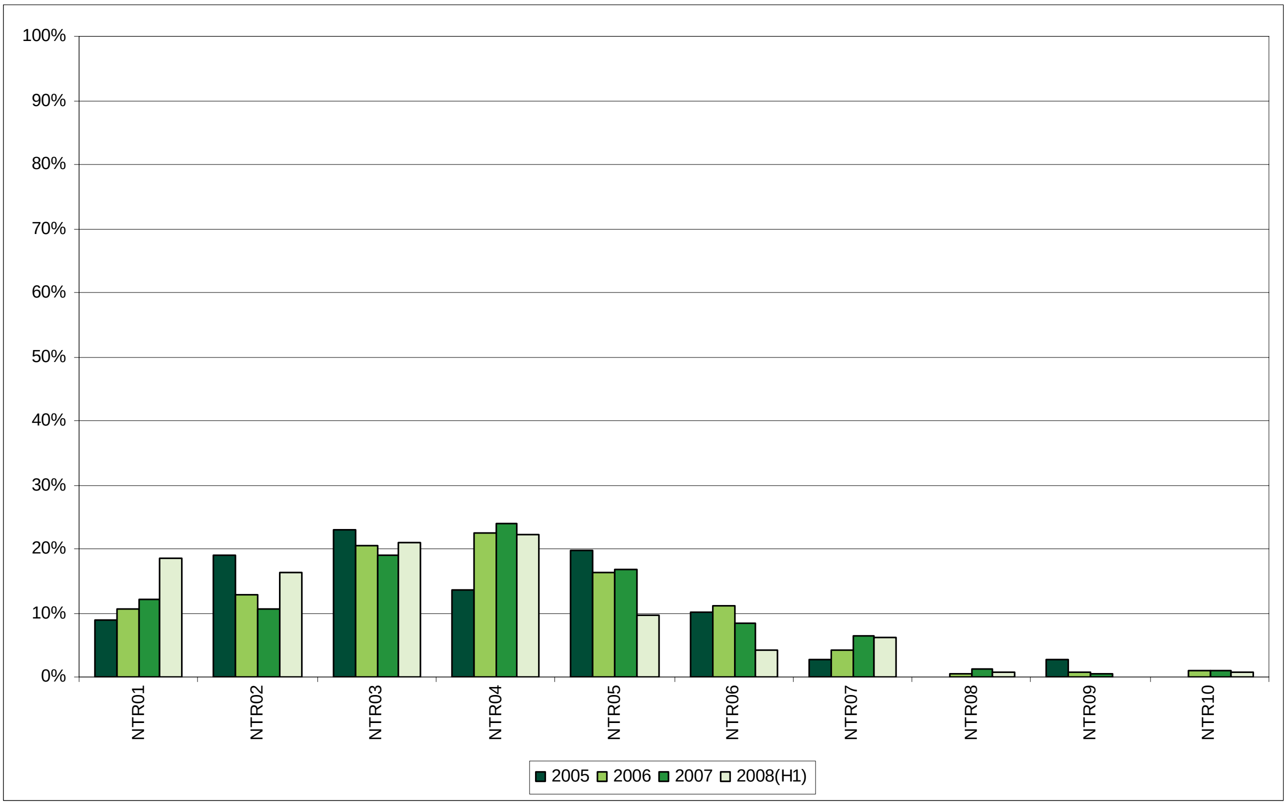
•Average Performing EAD-weighted PD 3,40% Average Total EAD-weighted PD 5,64%	•Average Performing EAD-Weighted LGD 30,03% Average Total EAD-weighted LGD 30,04%	•Average Performing EAD-weighted EL 1,02% Average Total EAD-weighted EL 1,70%

Nedbank Corporate Cluster: Property Finance

Based on master credit rating scale (ie PD only)
NGR Scale



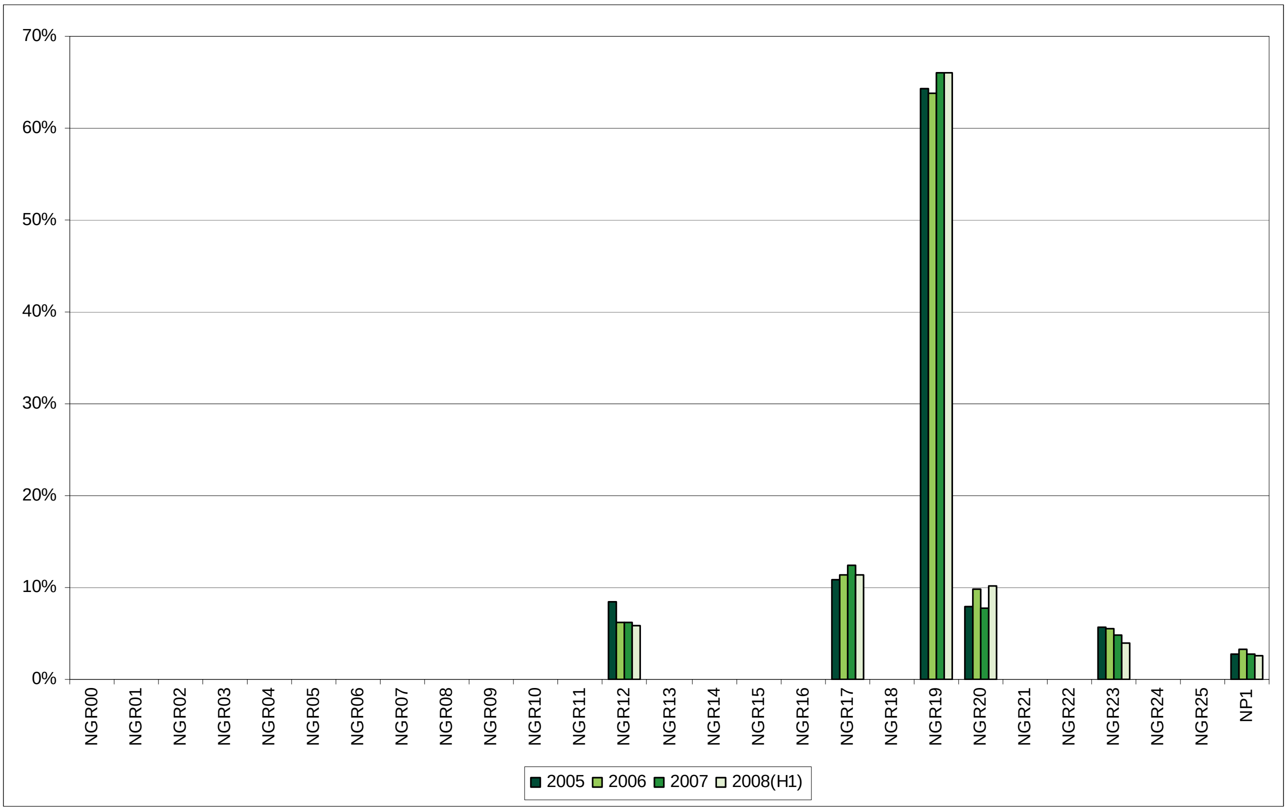
Based on master transaction rating scale (ie EL)
NTR scale



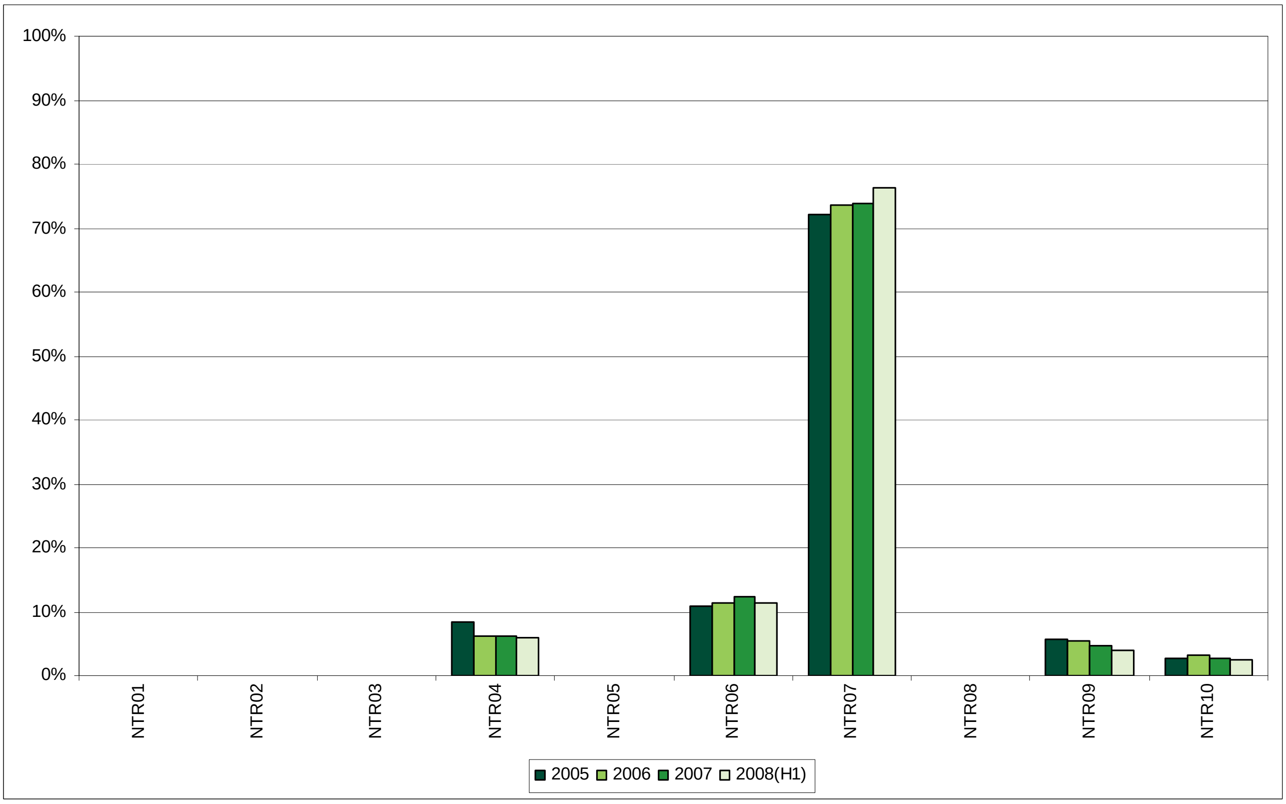
•Average Performing EAD-weighted PD 2,12% Average Total EAD-weighted PD 2,48%	•Average Performing EAD-Weighted LGD 19,41% Average Total EAD-weighted LGD 19,45%	•Average Performing EAD-weighted EL 0,46% Average Total EAD-weighted EL 0,56%

Nedbank Corporate Cluster: Nedbank Africa

Based on master credit rating scale (ie PD only)
NGR Scale



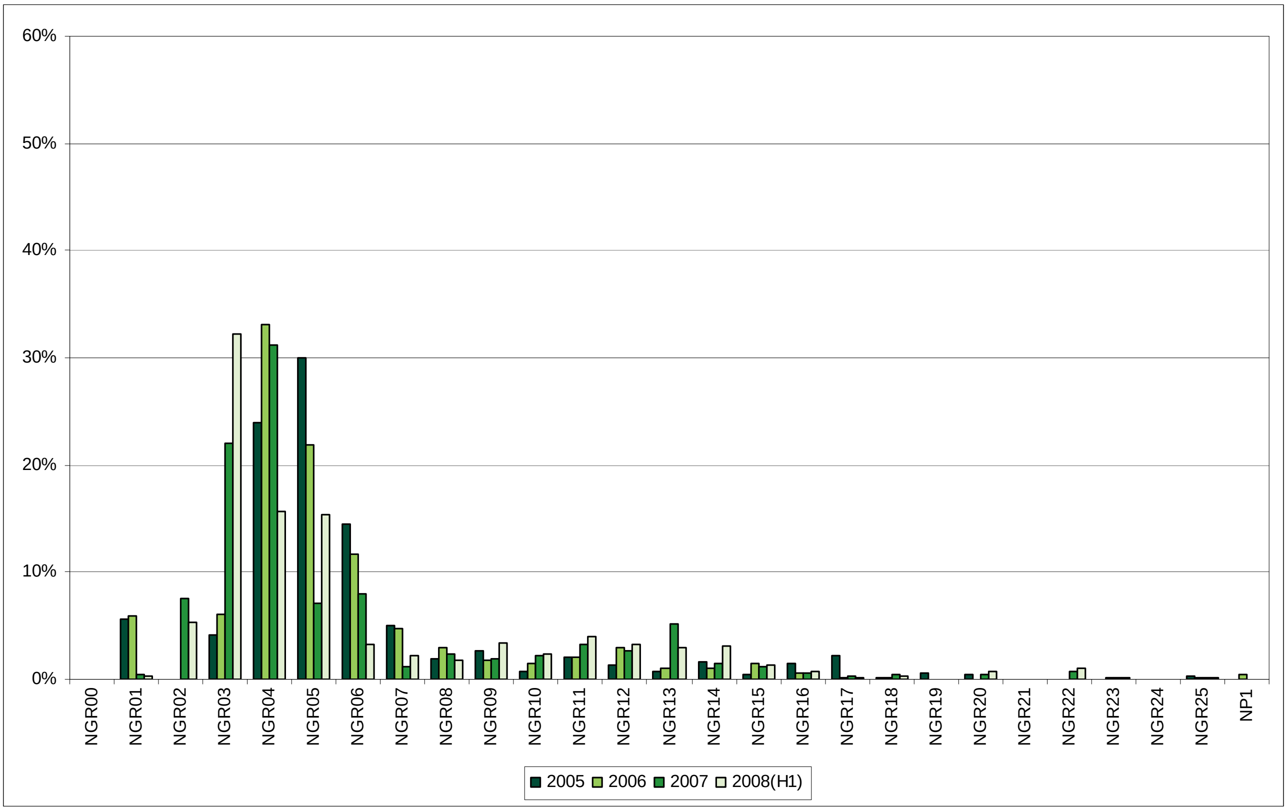
Based on master transaction rating scale (ie EL)
NTR scale



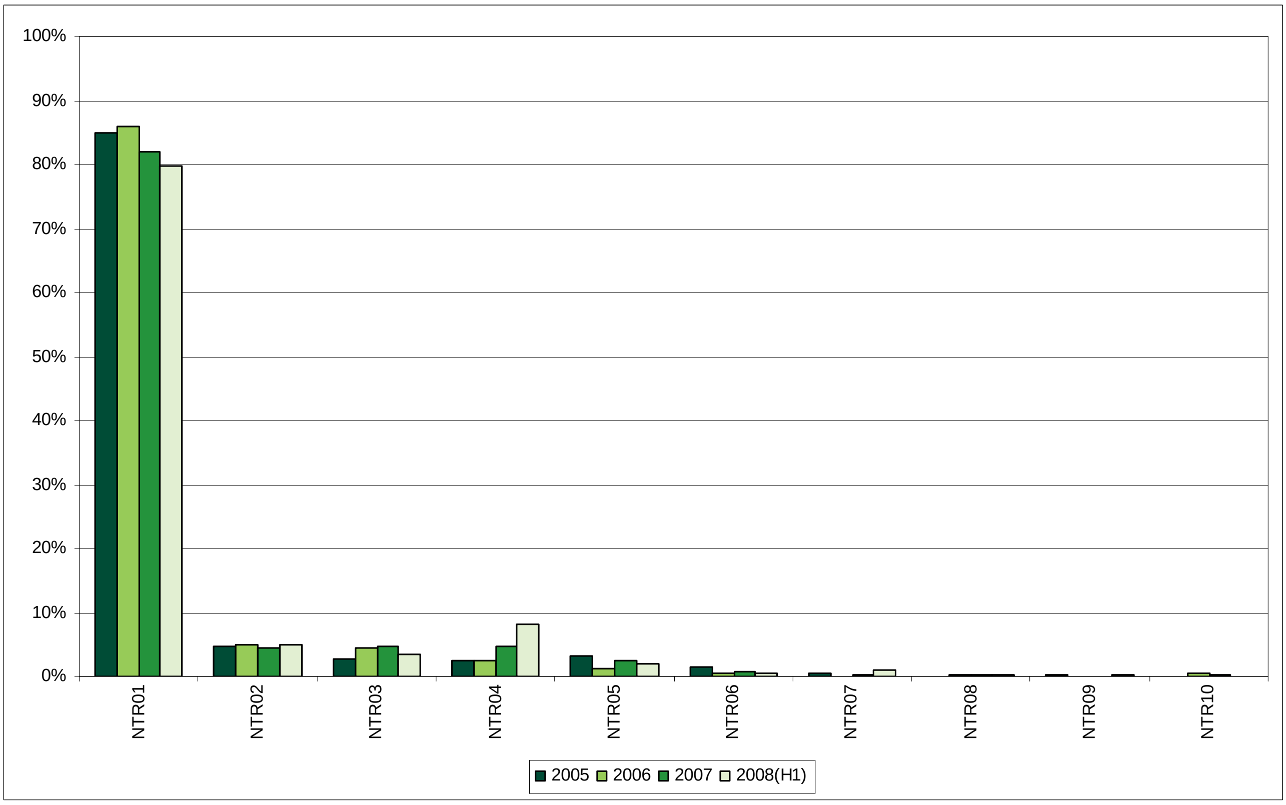
•Average Performing EAD-weighted PD 5,38% Average Total EAD-weighted PD 7,76%	•Average Performing EAD-Weighted LGD 41,41% Average Total EAD-weighted LGD 41,43%	•Average Performing EAD-weighted EL 2,32% Average Total EAD-weighted EL 3,33%

Nedbank Capital Cluster

Based on master credit rating scale (ie PD only)
NGR Scale



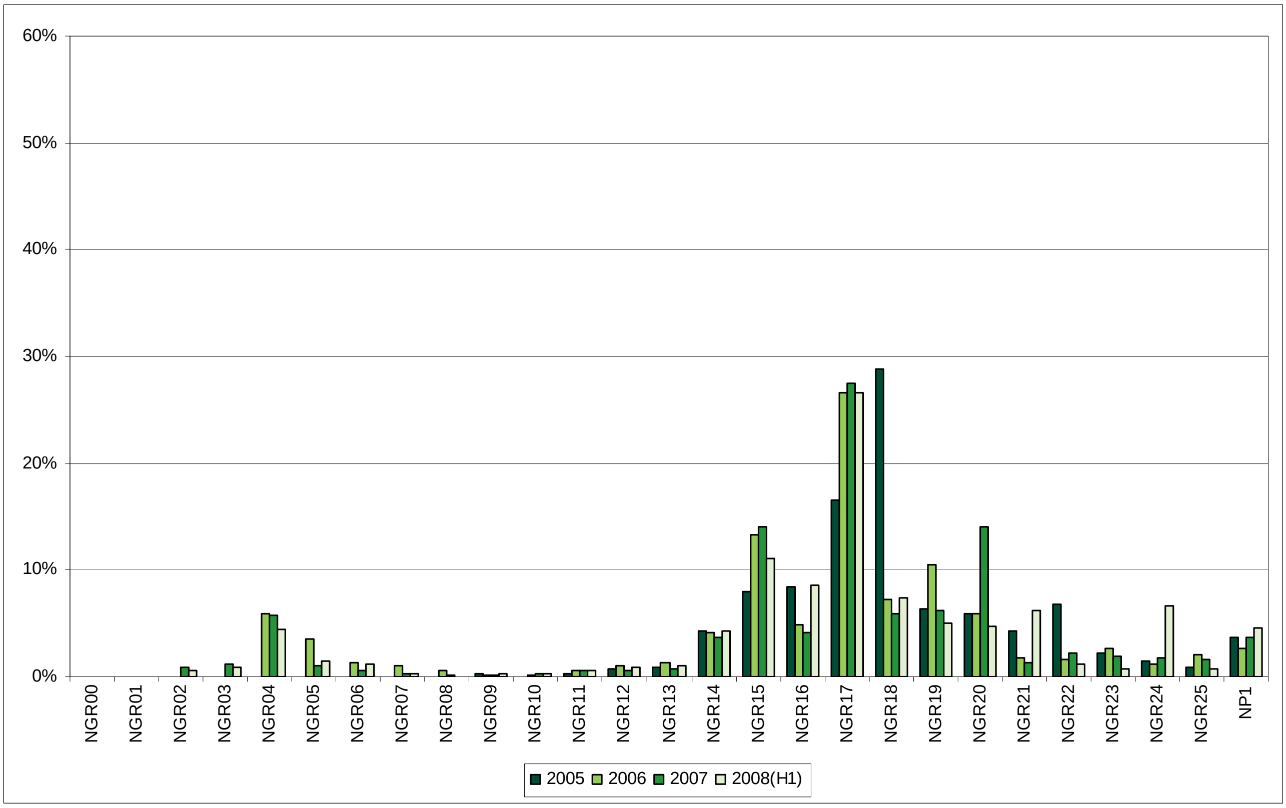
Based on master transaction rating scale (ie EL)
NTR scale



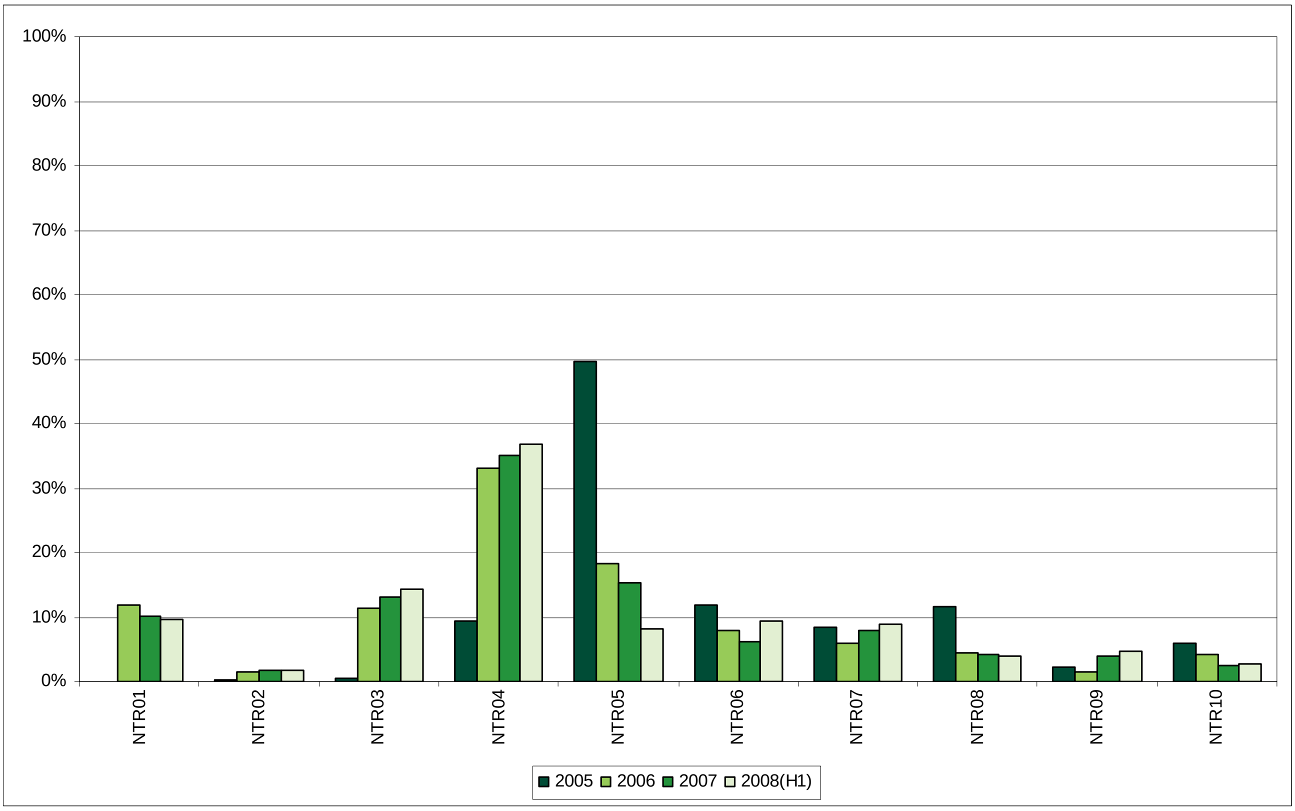
•Average Performing EAD-weighted PD 0,45% Average Total EAD-weighted PD 0,47%	•Average Performing EAD-Weighted LGD 21,81% Average Total EAD-weighted LGD 21,82%	•Average Performing EAD-weighted EL 0,10% Average Total EAD – weighted EL 0,11%

Nedbank Retail Cluster

Based on master credit rating scale (ie PD only)
NGR Scale



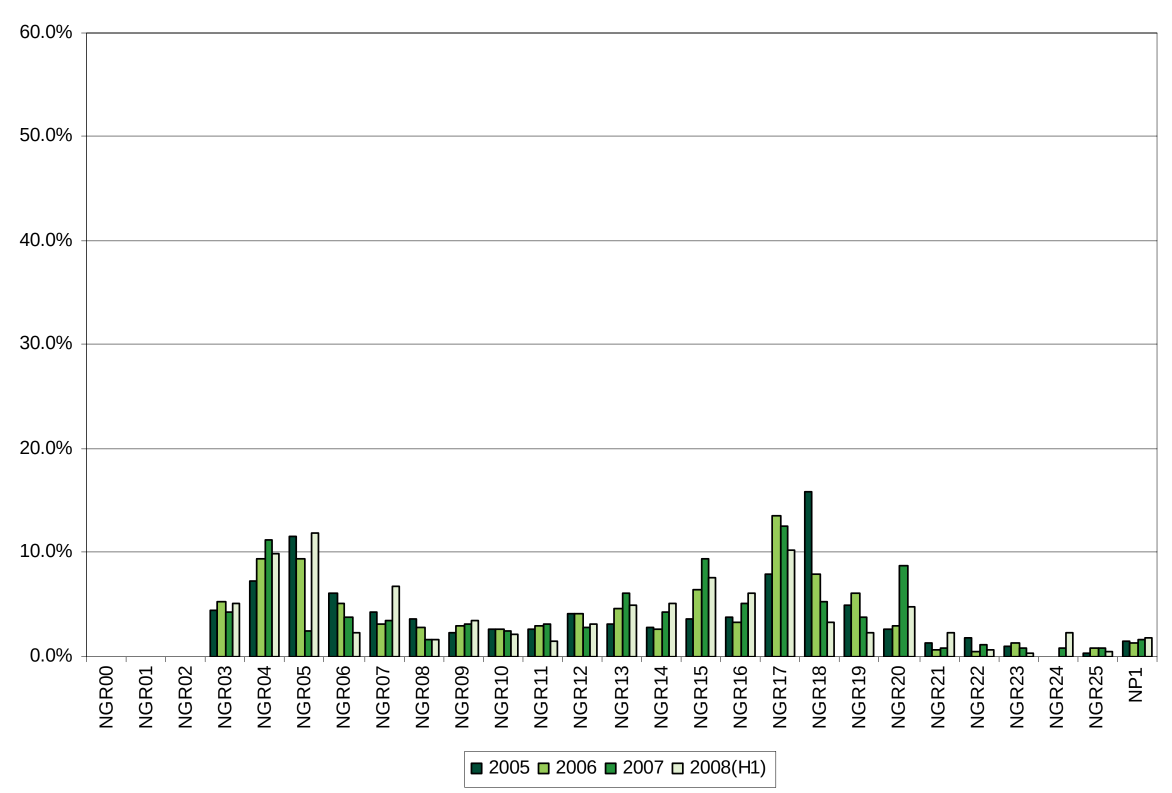
Based on master transaction rating scale (ie EL)
NTR scale



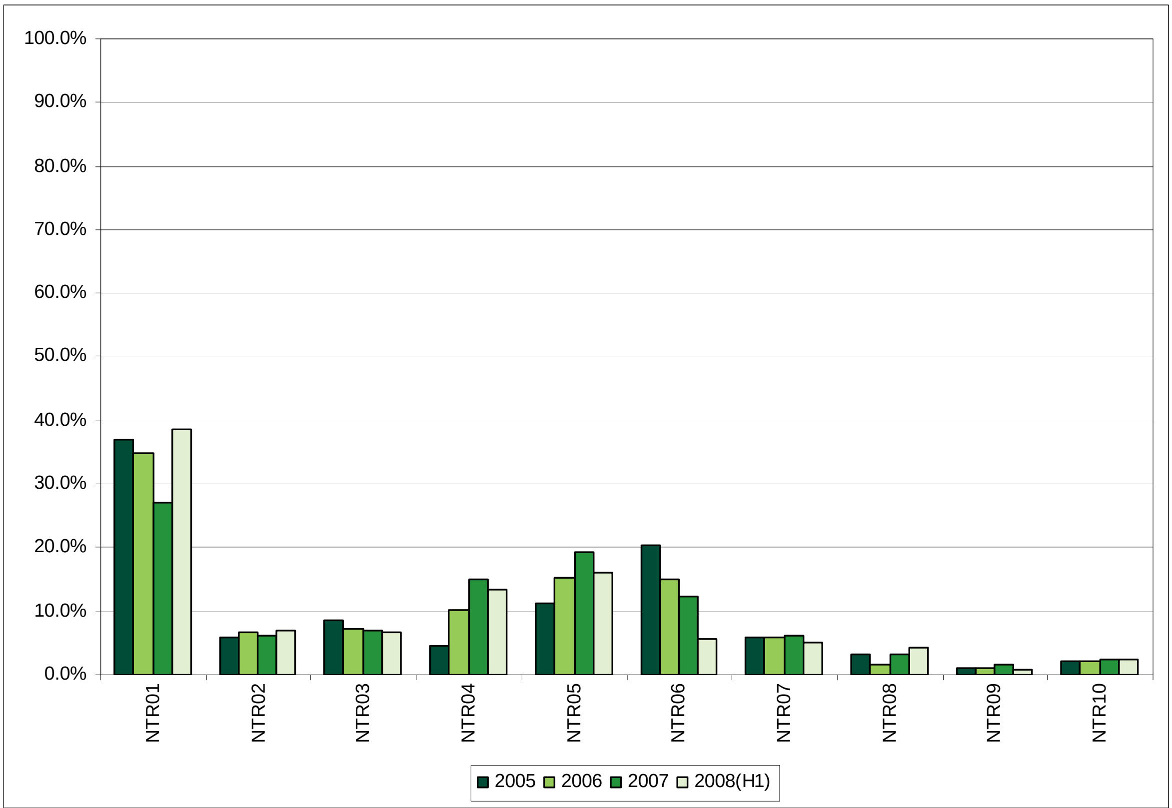
•Average Performing EAD-weighted PD 5,37% Average Total EAD weighted PD 9,76%	•Average Performing EAD-Weighted LGD 22,55% Average Total EAD-weighted LGD 22,60%	•Average Performing EAD-weighted EL 1,13% Average Total EAD-weighted EL 2,17%

DISTRIBUTION OF TOTAL EAD OF NEDBANK LIMITED

Based on master credit rating scale (ie PD only)
NGR Scale



Based on master transaction rating scale (ie dEL)
NTR scale

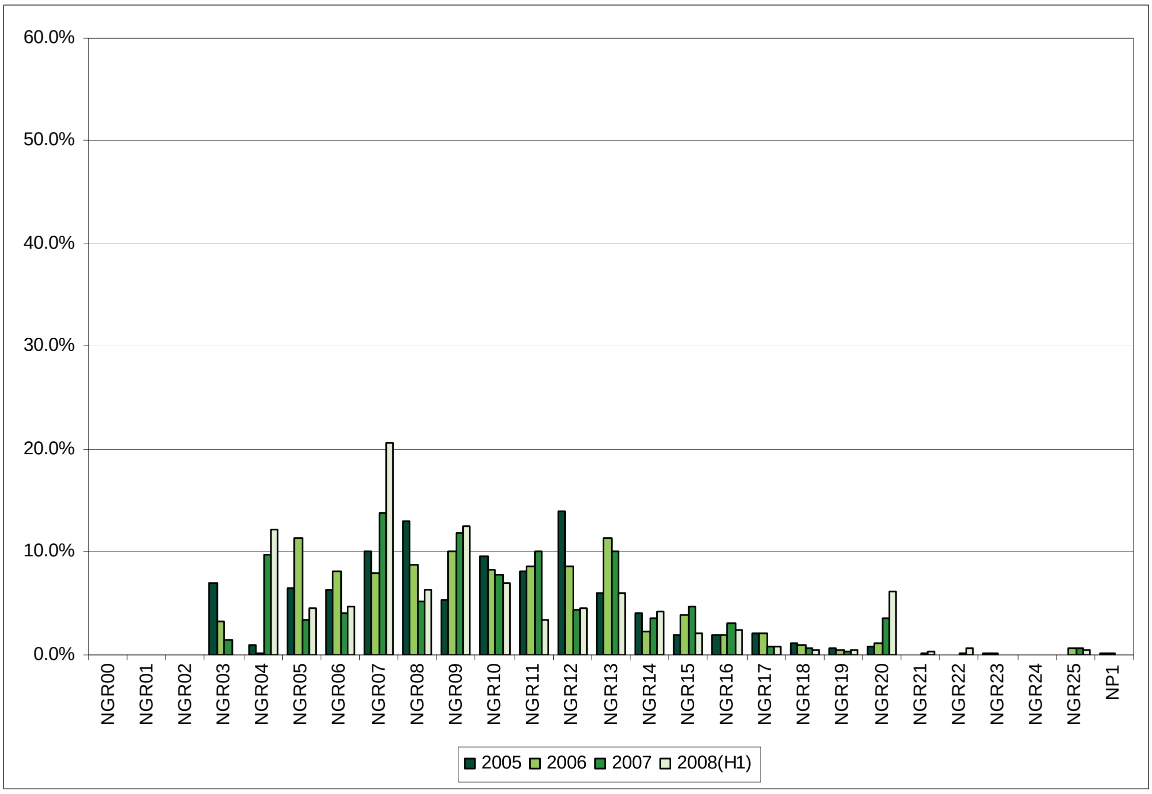


•Average Performing EAD-weighted PD 2,50% Average Total EAD weighted PD 4,26%	•Average Performing EAD -Weighted dLGD 20,16% Average Total EAD weighted dLGD 28,05%	•Average Performing EAD-weighted dEL 0,75% Average Total EAD Weighted dEL 1,28%

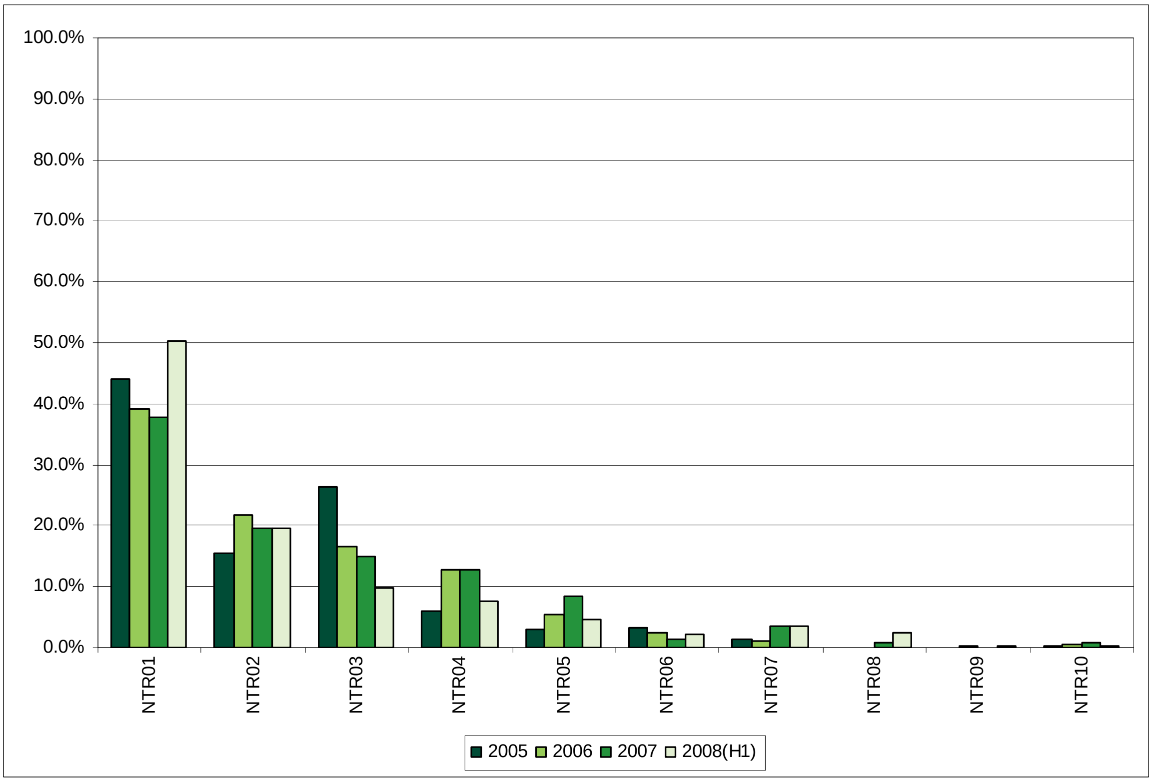
DISTRIBUTION OF NEDBANK LIMITED'S EAD BY SELECTED MAJOR BASEL II ASSET CLASSES

Asset class - Corporate

Based on master credit rating scale (ie PD only)
NGR Scale



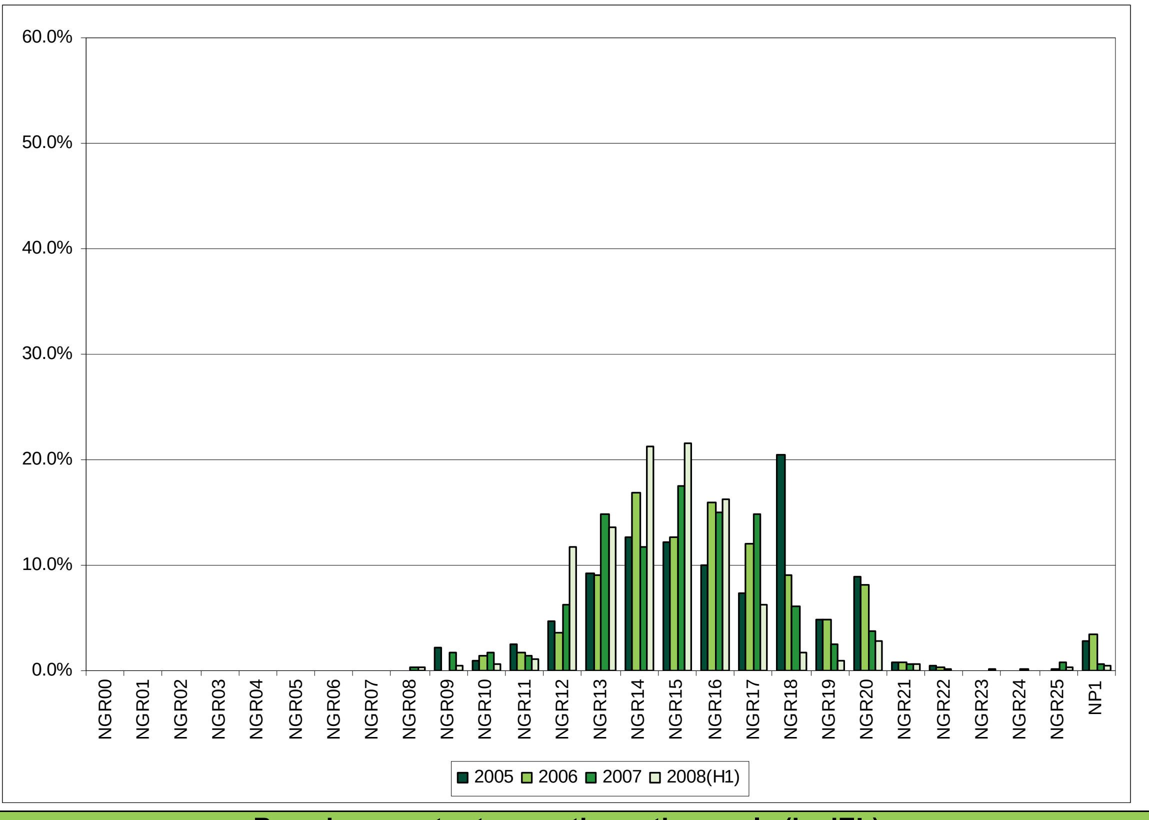
Based on master transaction rating scale (ie dEL)
NTR scale



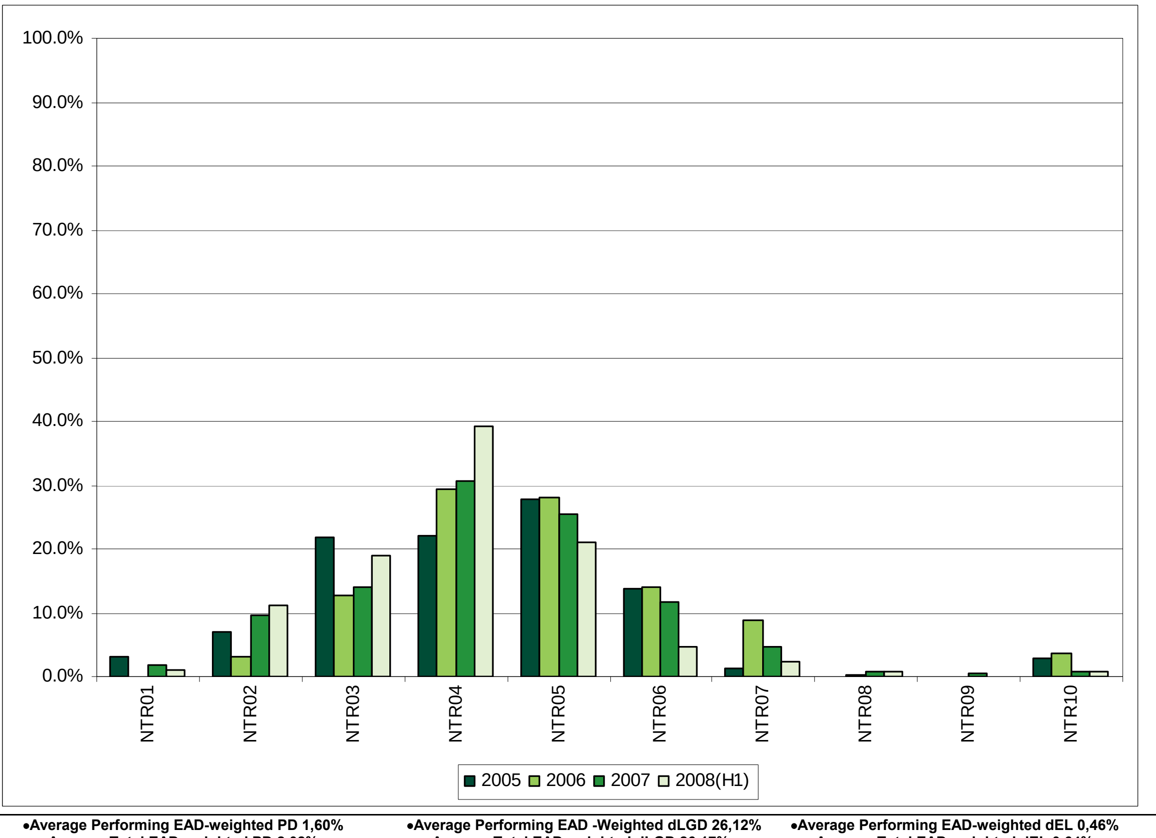
•Average Performing EAD-weighted PD 1,13% Average Total EAD-weighted PD 1,16%	•Average Performing EAD -Weighted dLGD 31,93% Average Total EAD -weighted dLGD 31,94%	•Average Performing EAD-weighted dEL 0,36% Average Total EAD –weighted dEL 0,38%

Asset class - Specialised Lending (income-producing real estate)

Based on master credit rating scale (ie PD only) NGR Scale



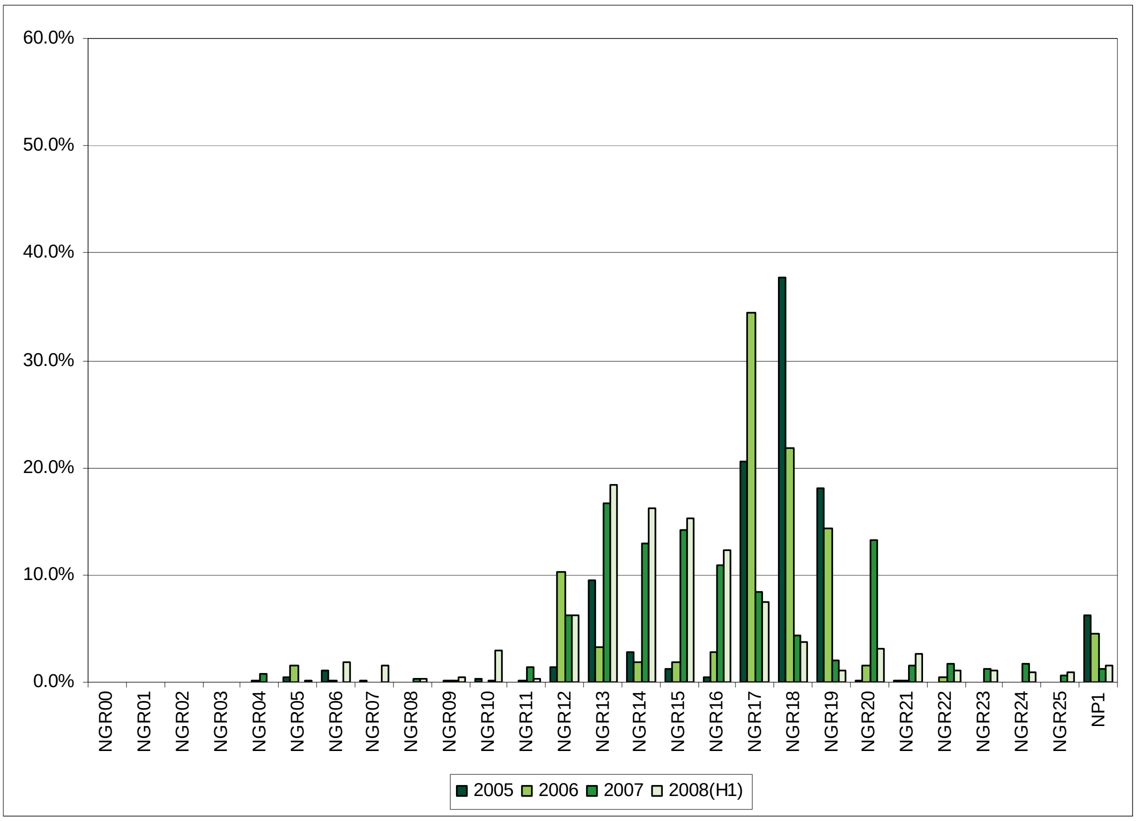
Based on master transaction rating scale (ie dEL) NTR scale



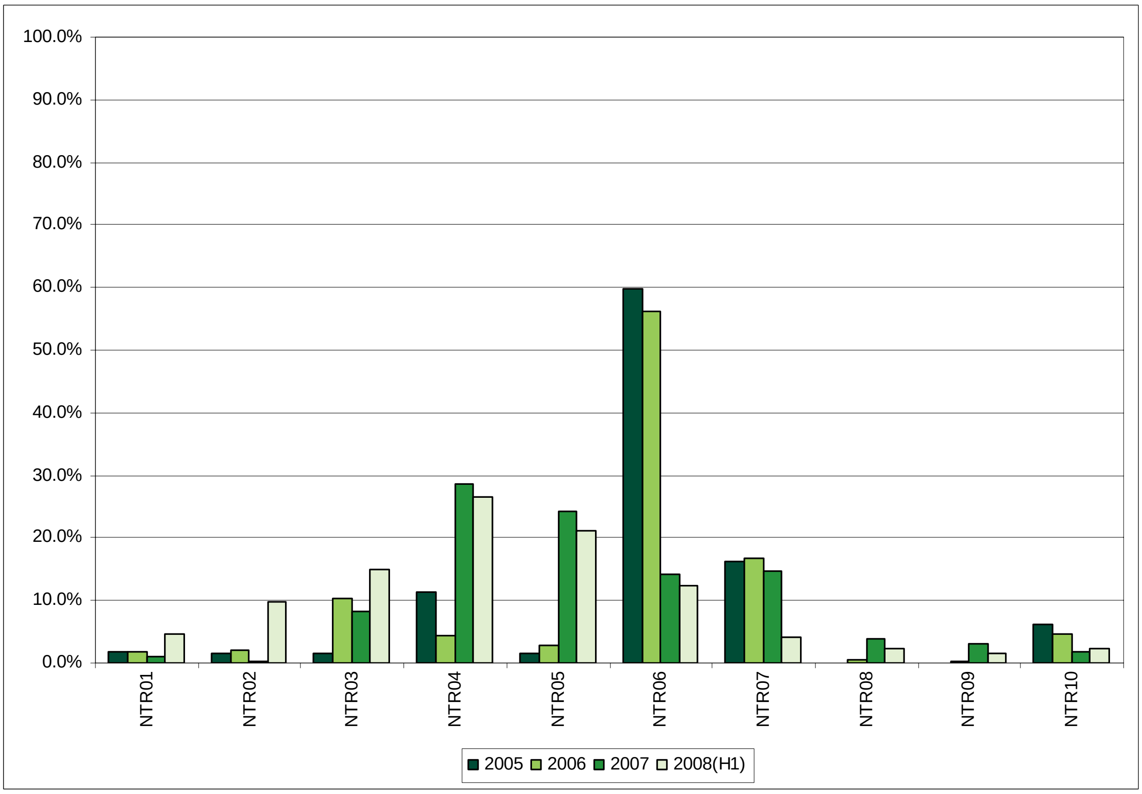
•Average Performing EAD-weighted PD 1,60% Average Total EAD-weighted PD 2,08%	•Average Performing EAD -Weighted dLGD 26,12% Average Total EAD weighted dLGD 26,17%	•Average Performing EAD-weighted dEL 0,46% Average Total EAD-weighted dEL 0,64%

Asset class - Corporate SME

Based on master credit rating scale (ie PD only)
NGR Scale



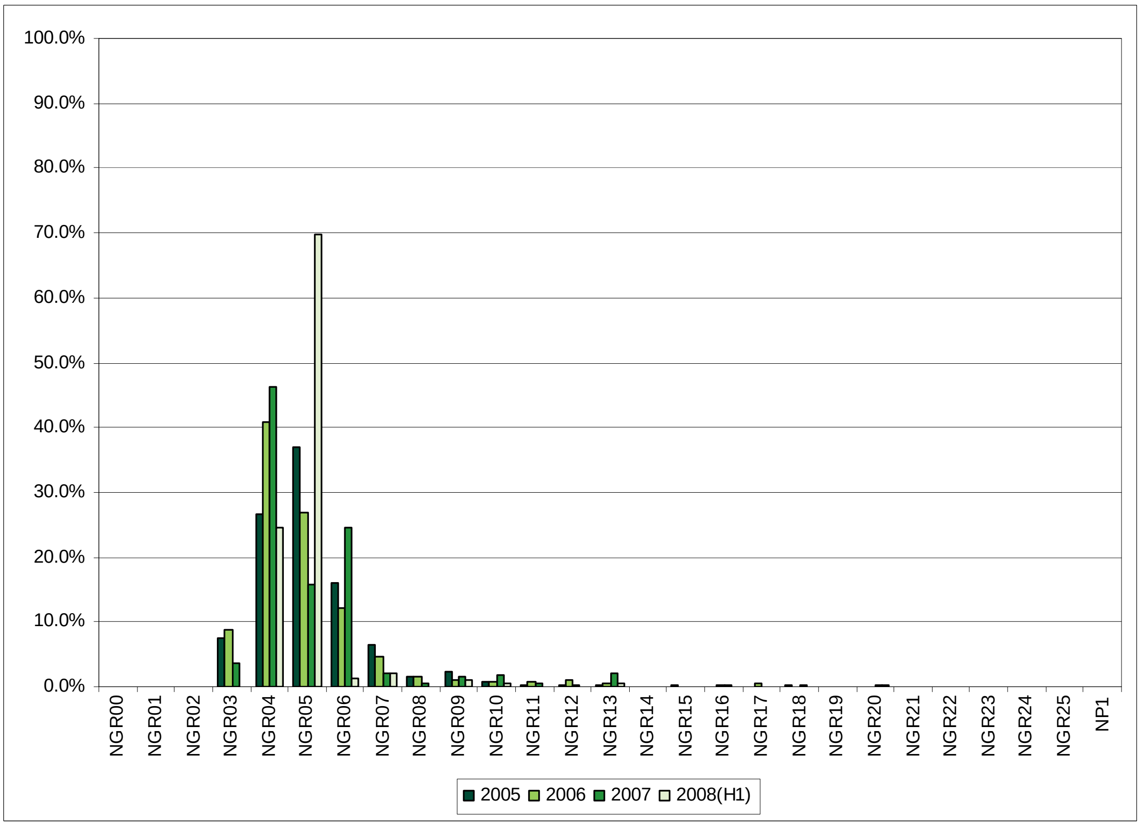
Based on master transaction rating scale (ie dEL)
NTR scale



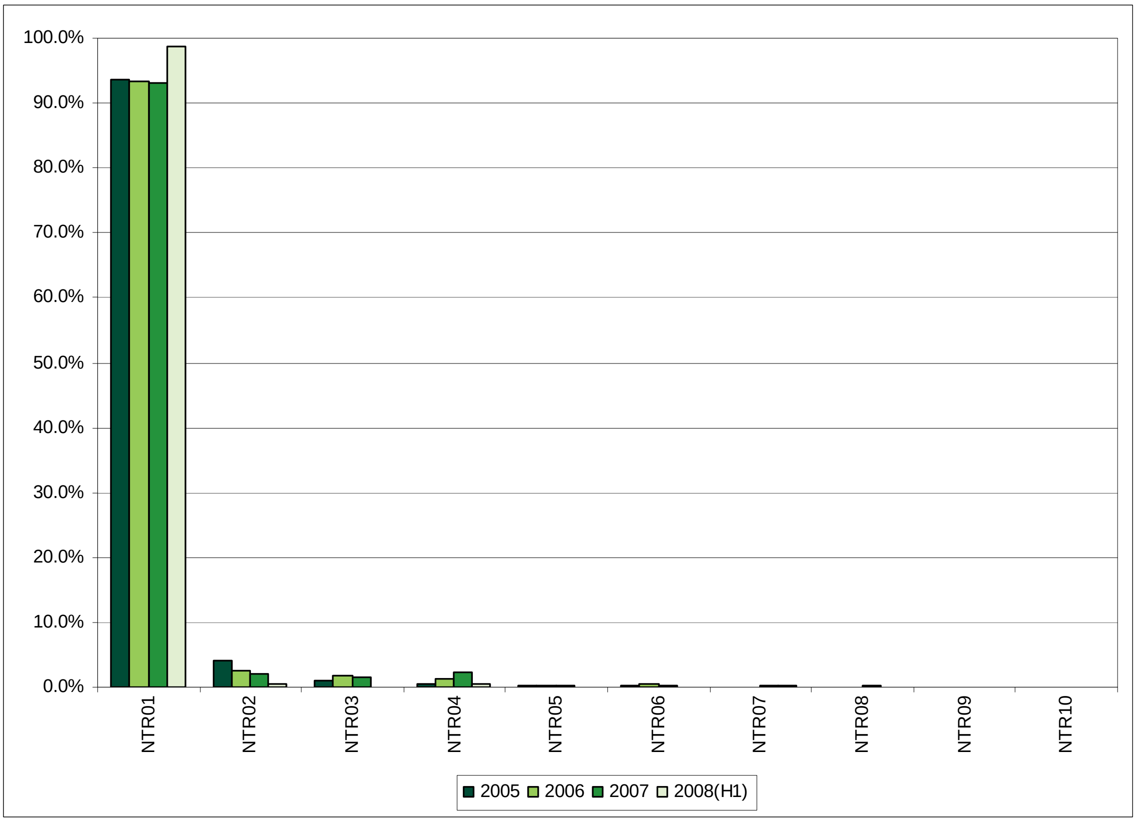
•Average Performing EAD-weighted PD 2,70% Average Total EAD-weighted PD 4,24%	•Average Performing EAD -Weighted dLGD 34,95% Average Total EAD -Weighted dLGD 35,09%	•Average Performing EAD-weighted dEL 0,88% Average Total EAD-weighted dEL 1,34%

Asset class - Banks

Based on master credit rating scale (ie PD only)
NGR Scale



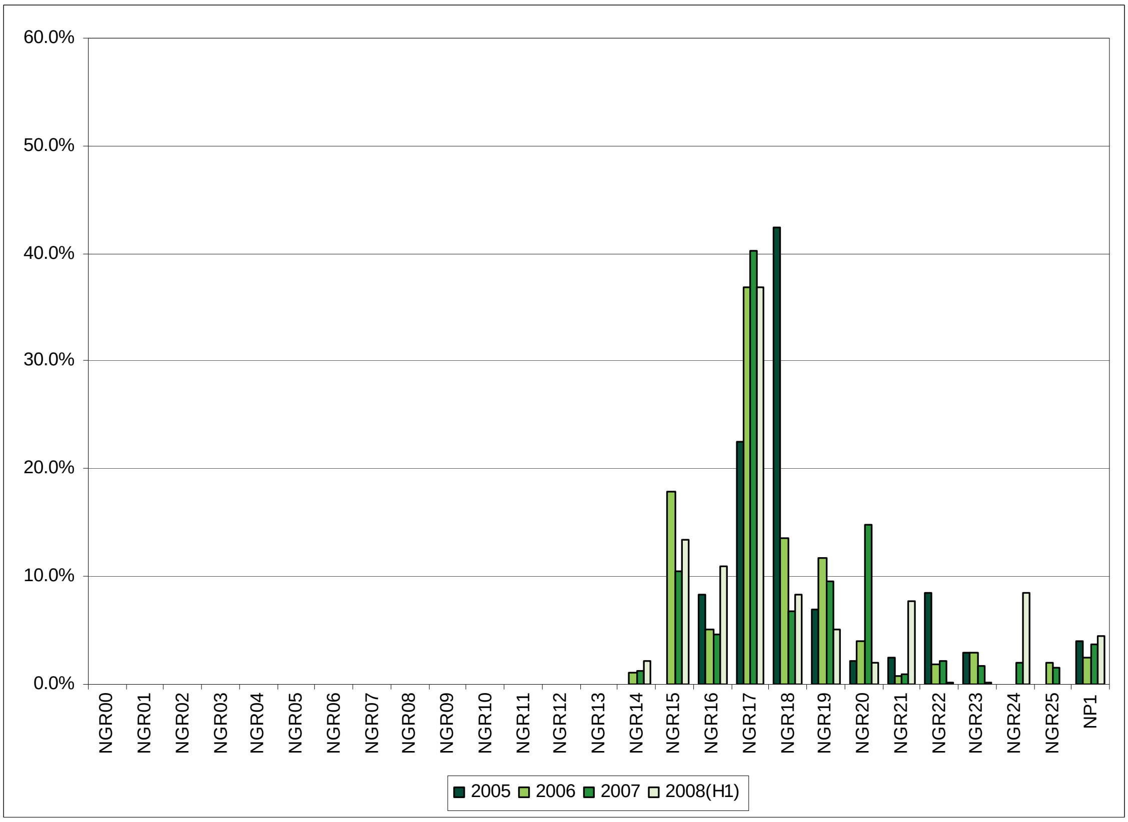
Based on master transaction rating scale (ie dEL)
NTR scale



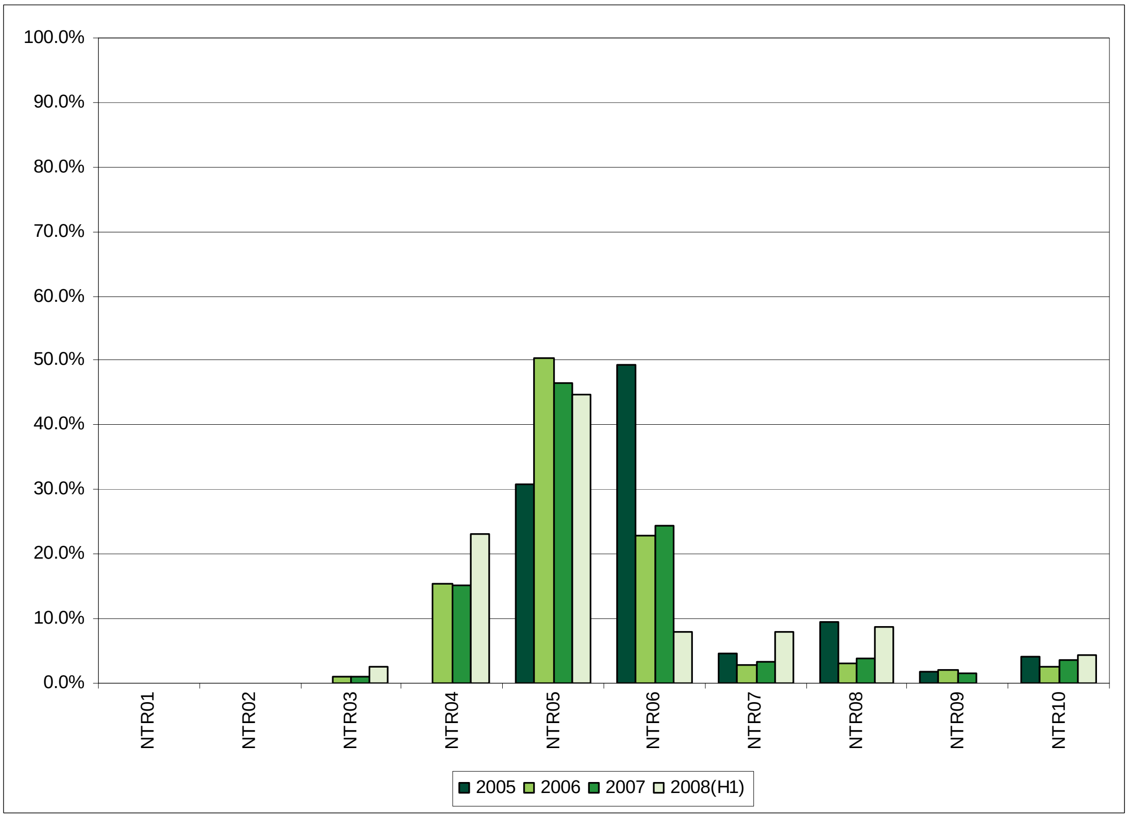
•Average Performing EAD-weighted PD 0,08% Average Total EAD-weighted PD 0,08%	•Average Performing EAD-Weighted dLGD 26,59% Average Total EAD -Weighted dLGD 26,59%	•Average Performing EAD-weighted dEL 0,02% Average Total EAD-weighted dEL 0,02%

Asset class - Retail Mortgages

Based on master credit rating scale (ie PD only)
NGR Scale



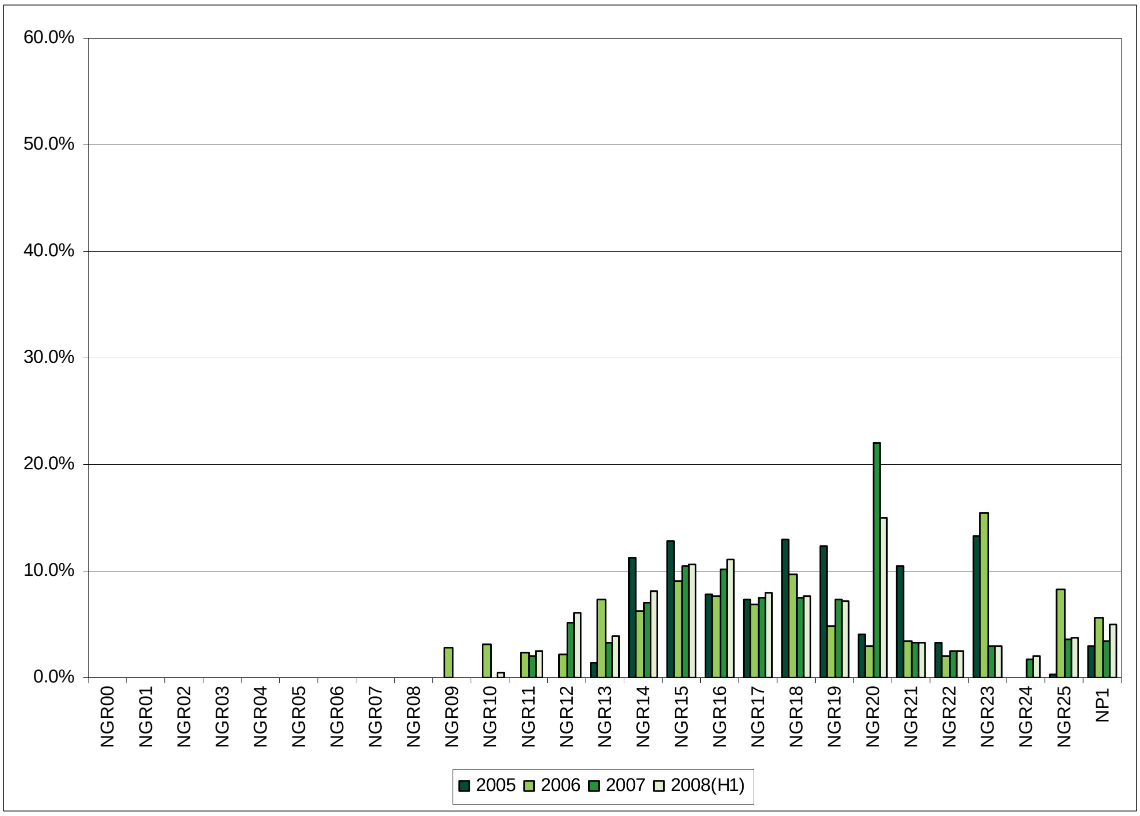
Based on master transaction rating scale (ie dEL)
NTR scale



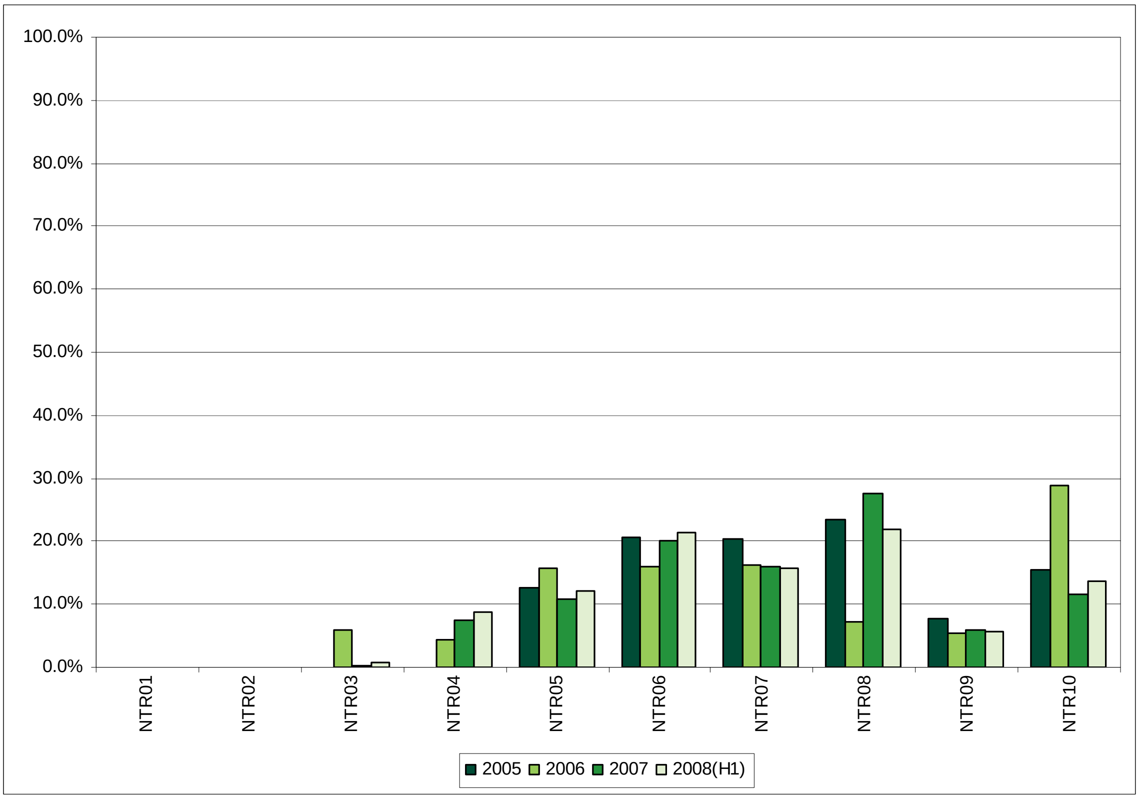
•Average Performing EAD-weighted PD 5,59% Average Total EAD-weighted PD 9,82%	•Average Performing EAD -Weighted dLGD 19,77% Average Total EAD -Weighted dLGD 19,74%	•Average Performing EAD-weighted dEL 1,09% Average Total EAD-weighted dEL 1,54%

Asset class - Retail Revolving Credit

Based on master credit rating scale (ie PD only)
NGR Scale



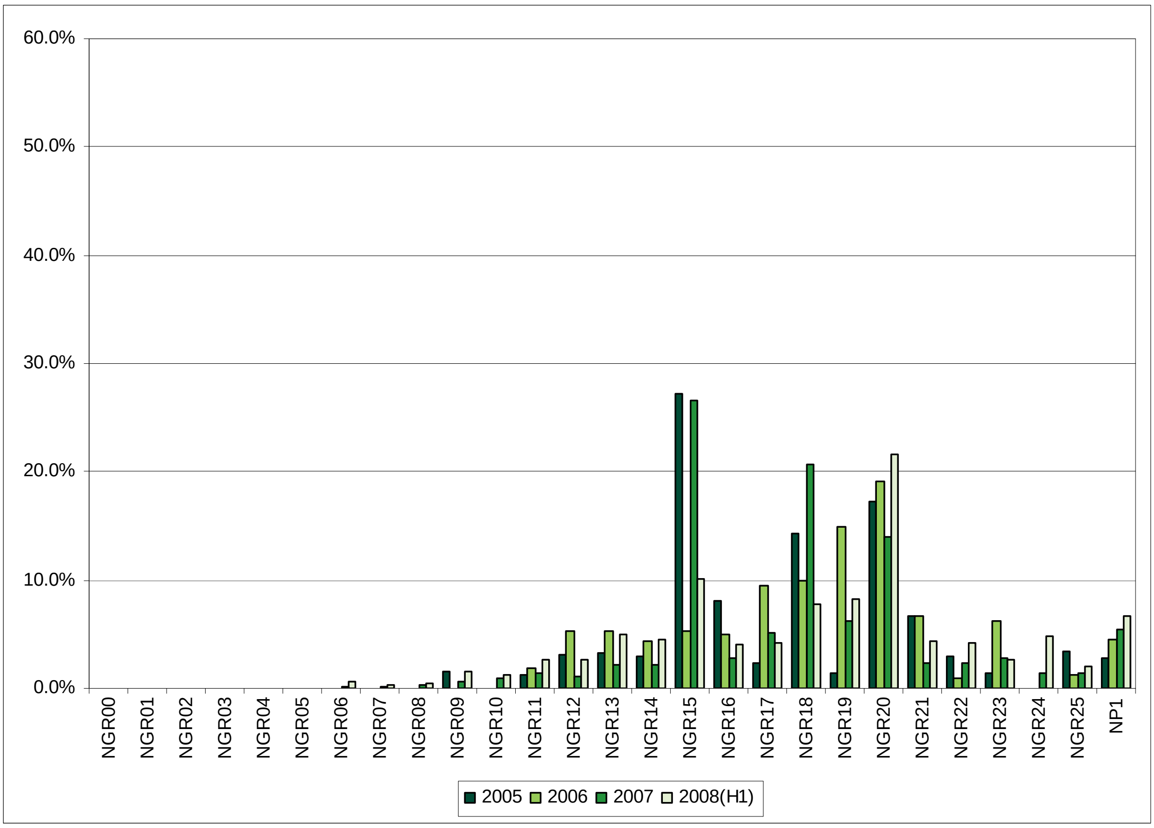
Based on master transaction rating scale (ie dEL)
NTR scale



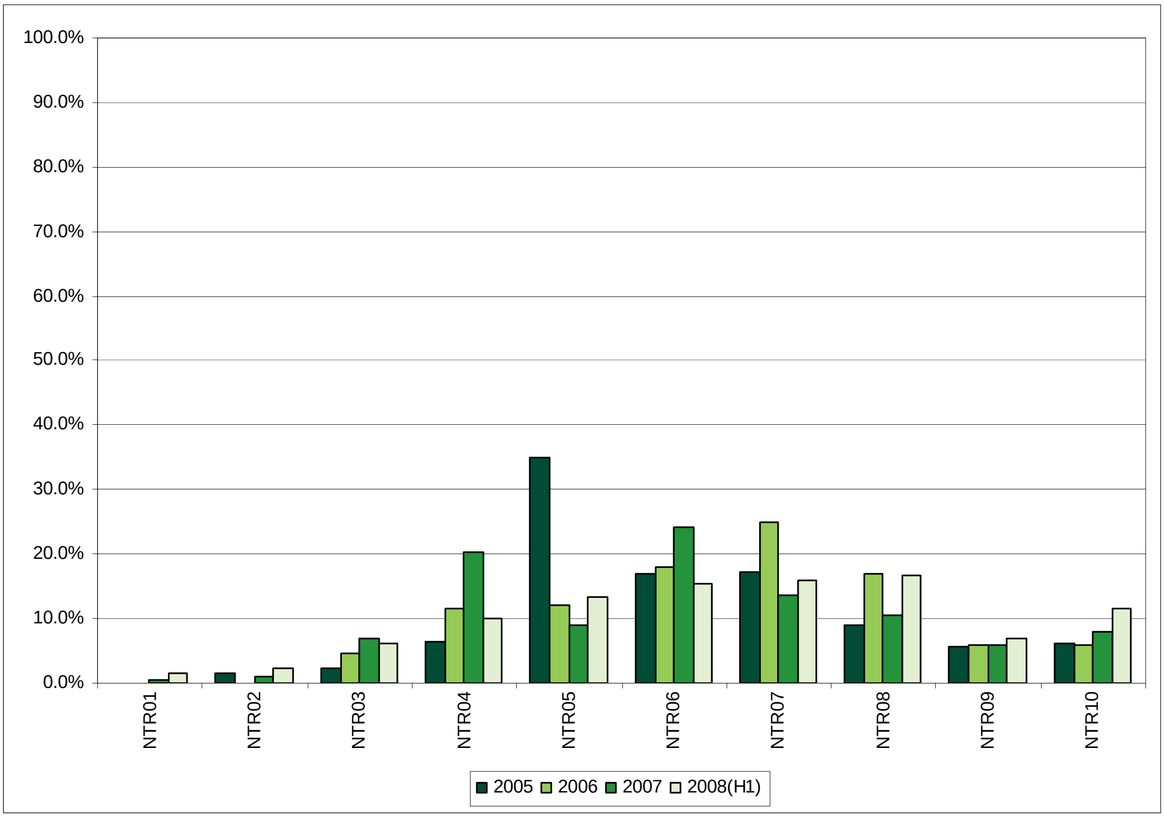
•Average Performing EAD-weighted PD 6,13% Average Total EAD-weighted PD 10,85%	•Average Performing EAD-Weighted dLGD 63,49% Average Total EAD-Weighted dLGD 63,93%	•Average Performing EAD-weighted dEL 3,94% Average Total EAD-weighted dEL 7,27%

Asset class - Retail Other

Based on master credit rating scale (ie PD only)
NGR Scale



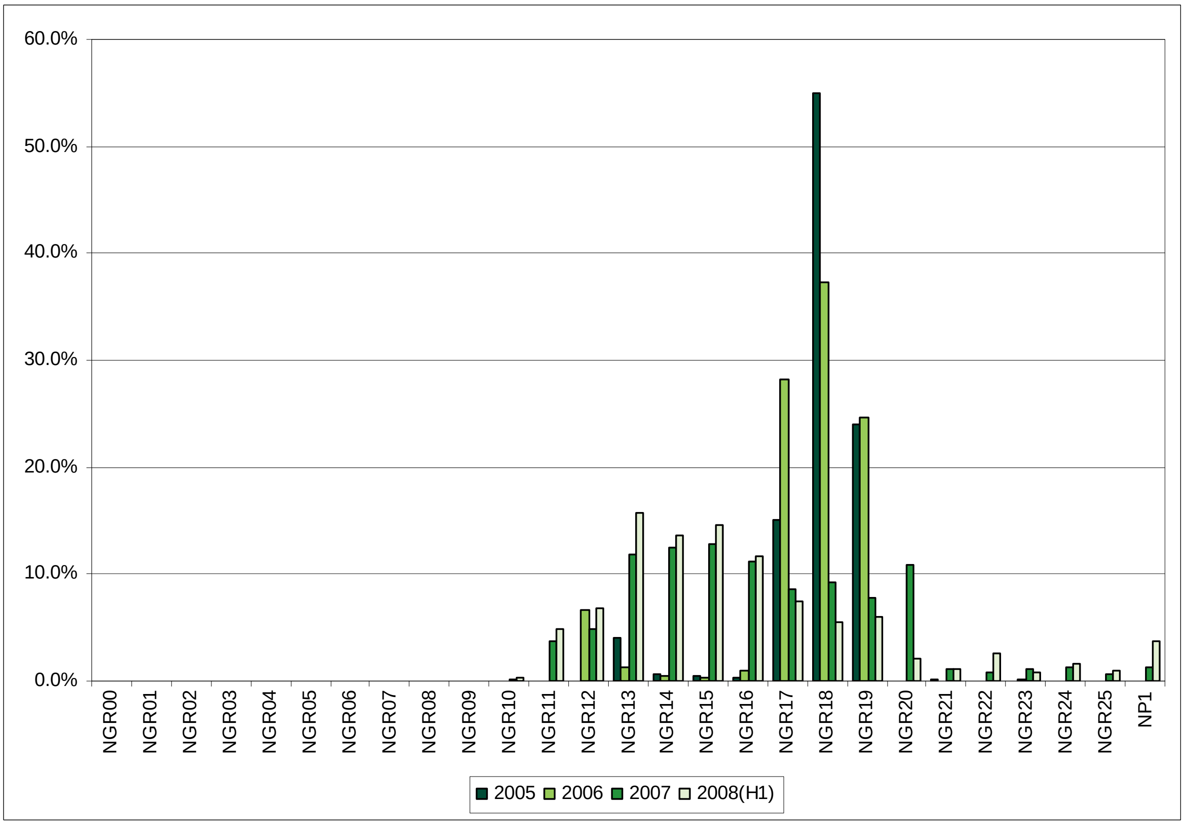
Based on master transaction rating scale (ie dEL)
NTR scale



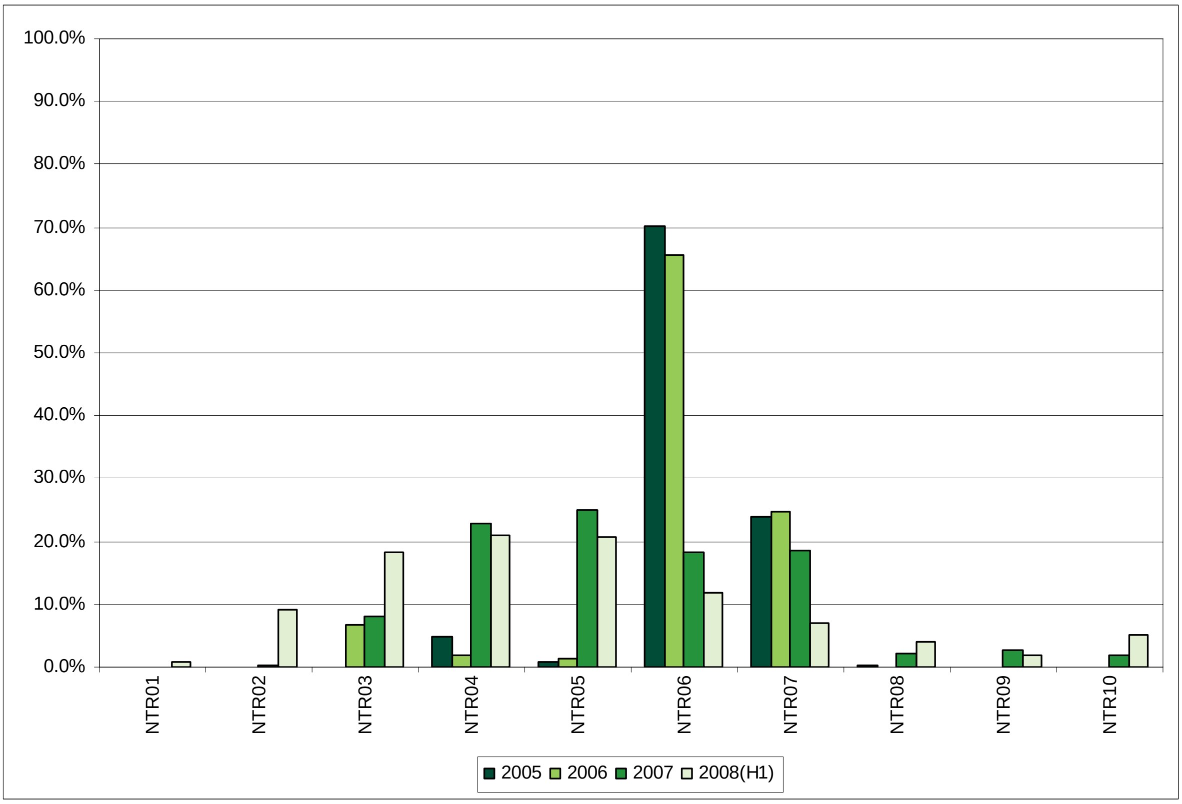
•Average Performing EAD-weighted PD 6,97% Average EAD-weighted Total PD 13,24%	•Average Performing EAD-Weighted dLGD 44,50% Average Total EAD-Weighted dLGD 44,92%	•Average Performing EAD-weighted dEL 3,38% Average Total EAD-weighted dEL 7,25%

Asset class - Retail SME

Based on master credit rating scale (ie PD only)
NGR Scale



Based on master transaction rating scale (ie dEL)
NTR scale



- **Average Performing EAD-weighted PD 3,22%** **Average Total EAD-weighted PD 6,89%**
- **Average Performing EAD-Weighted dLGD 34,73%** **Average Total EAD-Weighted dLGD 35,12%**
- **Average Performing EAD-weighted dEL 1,21%** **Average Total EAD-weighted dEL 3,14%**

SUMMARY DISTRIBUTION BY VALUE OF NEDBANK LIMITED'S KEY CREDIT RISK PARAMETERS					
PD bands (NGR)	Exposure (EAD)	EAD weighted average PD	EAD weighted average LGD	dEL	EAD weighted average risk weight
30 June 2008	**(Rm)**	**(%)**	**(%)**	**(%)**	**(%)**
NGR 00	0	0,0%	0,0%	N/A	N/A
NGR 01	0	0,0%	0,0%	N/A	N/A
NGR 02	0	0,0%	0,0%	N/A	N/A
NGR 03	27 630	0,0%	11,7%	0,002%	2,2%
NGR 04	53 613	0,0%	26,6%	0,008%	7,1%
NGR 05	23 465	0,0%	25,4%	0,01%	8,5%
NGR 06	12 174	0,1%	26,4%	0,015%	12,3%
NGR 07	78 189	0,1%	28,1%	0,022%	9,1%
NGR 08	8 903	0,1%	32,4%	0,037%	18,3%
NGR 09	18 360	0,2%	36,0%	0,058%	32,9%
NGR 10	11 346	0,2%	31,5%	0,071%	27,1%
NGR 11	7 790	0,3%	33,9%	0,109%	32,7%
NGR 12	16 801	0,5%	31,6%	0,186%	47,2%
NGR 13	26 851	0,6%	34,8%	0,223%	56,2%
NGR 14	27 363	0,9%	30,1%	0,273%	47,1%
NGR 15	40 856	1,3%	29,0%	0,371%	51,8%
NGR 16	33 206	1,8%	27,4%	0,495%	56,4%
NGR 17	55 367	2,6%	22,4%	0,573%	50,0%
NGR 18	17 608	3,6%	28,3%	1,025%	63,4%
NGR 19	12 547	5,1%	31,2%	1,6%	68,5%
NGR 20	26 353	7,2%	36,0%	2,6%	104,6%
NGR 21	12 699	10,2%	24,8%	2,5%	90,2%
NGR 22	3 570	14,5%	41,9%	6,1%	114,6%
NGR 23	1 980	20,5%	47,1%	9,6%	141,3%
NGR 24	12 513	29,0%	24,2%	7,0%	114,7%
NGR 25	2 462	41,3%	42,7%	17,8%	154,3%
DEFAULT	9 801	1,0%	33,2%	30,5%	99,0%
SUB-TOTAL	**541 444**	**4,3%**	**28,1%**	**1,3%**	**41,6%**
INTERCOMPANY BALANCES	(67 066)				
EAD net of Intercompany	**474 378**				

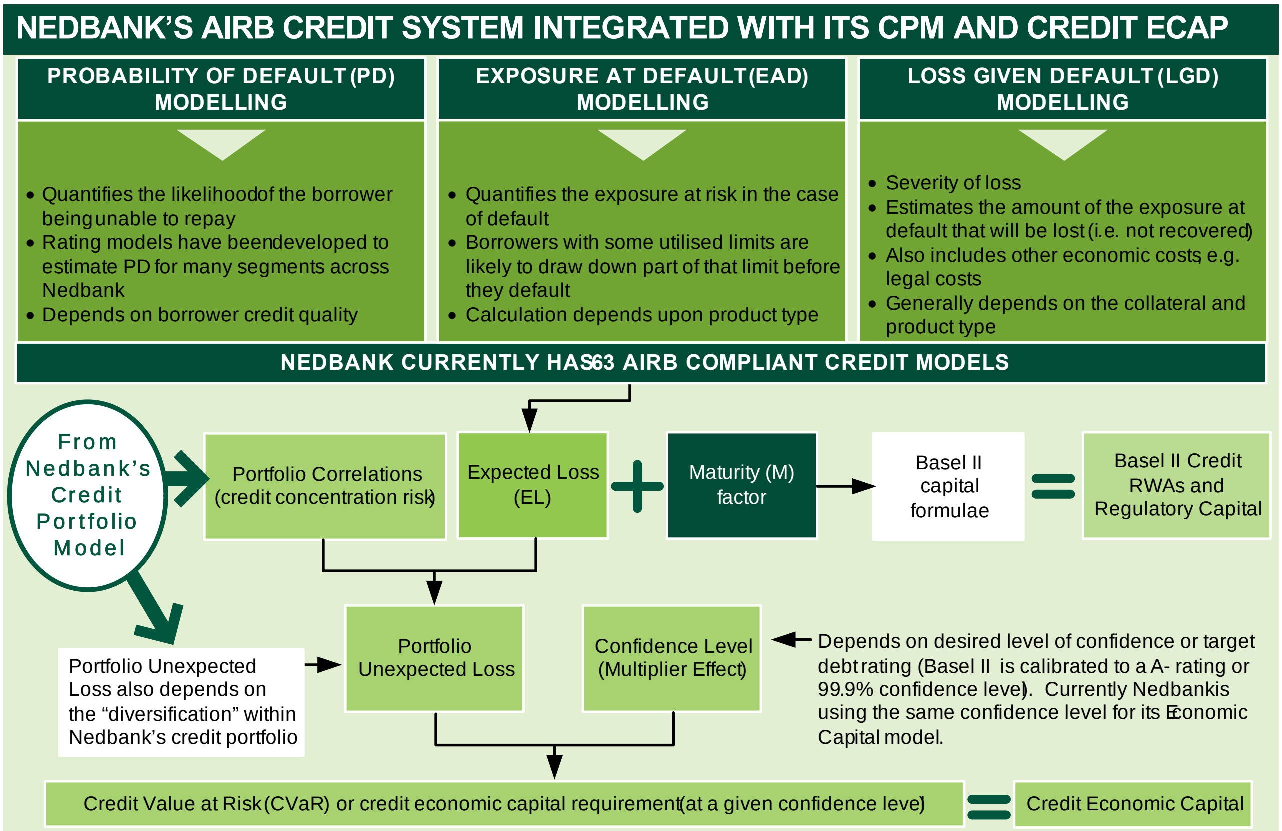
Credit concentration risk

Nedbank's AIRB credit system forms the basis of its measurement and management of credit risk across the bank. The bank requires that ratings be performed for all transactions, not only to achieve Basel II regulatory compliance, but more importantly to allow the bank to measure credit risk consistently and accurately across its entire portfolio. The Group Credit Portfolio Management unit in the Group Capital Management division measures, manages and strives to optimise the group's credit portfolios and credit concentration risk. For this purpose the group uses a tailored Credit Portfolio Model (CPM) run on KMV Portfolio Manager software.

Nedbank's CPM provides the following output, which is well entrenched into the risk management, business processes and ICAAP of the bank:

- Drills down into the credit portfolio to identify and then help manage hotspots and portfolio concentrations;
- Provides risk-based pricing input in terms of the portfolio credit risk embedded in the individual client deals;
- Produces credit value-at-risk (CVaR) used for credit economic capital;
- Enhances credit risk reporting to senior management, DCCs, GCC and the board;
- Facilitates regulatory dialogue to help satisfy the regulators that Nedbank understands the inherent credit risks within its portfolio –Pillar 2 (ICAAP) requirements; and
- Provides information regarding credit portfolio optimisation and any buy/sell/hedge decisions.

Nedbank's credit economic capital is separately derived by integrating the same key Basel II AIRB credit risk parameters with Nedbank's sophisticated CPM. The CPM takes credit portfolio concentrations and intra-risk diversifications into account.



Key factors affecting credit risk and capital requirements

PD	EAD		LGD			Concentration	
Credit rating	Current exposure	Unutilised limits	Collateral value [loan-to-value (LTV)]	Collateral quality	Collections (recovery rates)	Client concentration	Sector concentration

Nedbank's CPM thus measures and estimates concentration risk in its credit portfolio, and intra-risk diversification, in arriving at an integrated credit economic capital requirement.

Nedbank Group's Credit Risk Framework (GCRF) includes the following salient features relevant to the management and monitoring of credit concentration risk:

- A separate board sub-committee, the Group Credit Committee (GCC);
- A 'Large Exposure Approval Committee', comprising three non-executive directors, and the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Credit Officer;
- Seven (7) executive Divisional Credit Committees (DCCs) covering all the businesses segments of the group;
- A comprehensive credit mandate structure/process; and
- Group Credit Risk Monitoring in Group Risk and the CPM Unit housed within Group Capital Management in Group Finance.

Reporting on credit concentration risk into the above governance structures includes:-

- The watch list
- Large intra-group exposures
- Large exposures (ie >10% of capital)
- Top 20 client limits, exposures, EL and economic capital
- Industry (sectoral) exposure
- Credit capitalisation rates (by business and industry segment)
- Asset class and business segment
- Top 20 combined debt and equity exposures.

Our 'top 20' exposure analysis, in particular the 'percentage of total group credit economic capital' by individual borrower, confirms that Nedbank does not have undue single-name credit concentration risk. Nedbank's CPM model incorporates the asset size of obligors/borrowers into its measurement and calculation of credit economic capital. We also include stress testing of single-name large exposures, and their potential impact on capital ratios, in our stress and scenario testing.

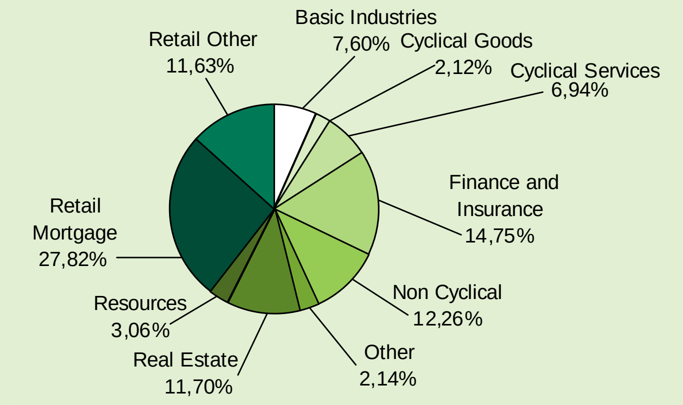
TOP 20 NEDBANK GROUP EXPOSURES (at 30 June 2008)

No.	Internal Rating	EAD (Rm)	% of total group Credit ECap (%)
1	NGR03	27 630	0,08%
2	NGR03	3 871	0,06%
3	NGR09	2 839	0,16%
4	NGR05	2 984	0,02%
5	NGR05	2 527	0,06%
6	NGR04	2 891	0,02%
7	NGR05	2 500	0,02%
8	NGR05	2 642	0,02%
9	NGR07	2 449	0,02%
10	NGR16	2 610	0,97%
11	NGR03	2 067	0,01%
12	NGR14	2 108	0,17%
13	NGR05	2 174	0,08%
14	NGR05	2 160	0,05%
15	NGR04	2 852	0,05%
16	NGR14	2 184	0,71%
17	NGR13	1 728	0,29%
18	NGR05	1 780	0,05%
19	NGR03	1 584	0,00%
20	NGR13	1 661	0,28%
TOTAL OF TOP 20 EXPOSURES		**73 238**	**3,13%**

The largest exposure (No. 1) above is to the South African government and is in respect of government bonds, treasury bills and other similar paper arising in the ordinary course of business.

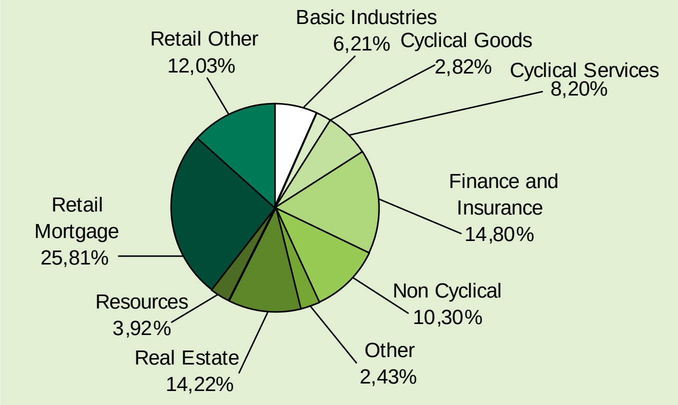
INDUSTRY SPLIT BY EXPOSURE

(at 30 June 2008)



INDUSTRY SPLIT BY EXPOSURE

(at 31 December 2007)



Geographically, almost all Nedbank Group's credit exposures originate in South Africa (non-South African exposure is approximately 6%). This geographical and industry concentration risk is built into Nedbank's CPM for economic capital purposes.

We conclude that credit concentration risk at Nedbank is adequately optimised, measured, managed, monitored, controlled, quantified (in the form of credit economic capital held) and ultimately capitalised, including the integrated intra-risk diversification. There is no undue single-name concentration. Nedbank is also a well diversified banking group in the South African context, split across its three major business clusters.

Counterparty credit risk (and settlement risk)

Nedbank applies the Basel II Current Exposure Method (CEM) for counterparty credit risk.

Economic capital calculations also currently utilise the Basel II CEM results as input in the determination of credit economic capital. In terms of active management of counterparty credit risk there is continued emphasis on the use of credit mitigation strategies, such as netting and collateralisation of exposures. These strategies have been particularly effective in situations where there has been a higher risk of default. Nedbank and its large bank counterparties have ISLA, ISMA and ISDA master agreements as well as credit support (collateral) agreements in place to support bi-lateral margining of exposures. Limits and appropriate collateral are determined on a risk-centred basis. Collateral arrangements make provision for adjustment of the collateral posted in the event of a credit rating downgrade of either Nedbank or our counterparty bank. Limits for our Corporate and Business Banking businesses favour a nominal limit to facilitate monitoring.

Prior to execution, material trading credit risk exposures within Nedbank Group are modelled to determine an estimate of total risk exposure. Monte Carlo simulations are used in this process.

The gross positive fair value and exposure-at-default for Nedbank in respect of counterparty credit exposure, incorporating over-the-counter derivative instruments and securities financing transactions, as at 30 June 2008, was R25 050 million and R22 325 million, respectively. This translates into a regulatory capital requirement of R497 million.

Credit derivatives activities have been restricted to date to single-name trades of South African exposures and biased towards providing risk mitigation. Nedbank Group has no direct exposure to US sub-prime credit assets, nor involvement in any related credit derivative transactions or structures.

Settlement risk is the risk that the group delivers an asset to a buyer or pays an account to a seller without receiving payment or the asset bought as expected. This risk is an element of credit risk if counterparties default and of operational risk if Nedbank is defrauded or transactions are disrupted due to technical or system errors.

Securitisation risk

Nedbank Group entered the securitisation market during 2004 and currently has three securitisation transactions, Synthesis Funding Limited (Synthesis), an asset-backed commercial paper programme (ABCP Programme) launched during 2004, Octane ABS 1 (Pty) Limited (Octane), a securitisation of motor vehicle loans advanced by Imperial Bank Limited through its subsidiary Motor Finance Corporation that was launched in July 2007, and GreenHouse Funding (Pty) Limited (GreenHouse), a residential mortgage-backed securitisation programme (RMBS Programme) launched in December 2007. Nedbank views securitisation primarily as a funding diversification tool and this is a Group ALCO and Executive Risk Committee initiative. Nedbank has an established in-house securitisation team within Nedbank Capital.

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

Nedbank currently fulfils a number of roles in relation to Synthesis including acting as sponsor, liquidity facility provider, credit enhancement facility provider, swap provider and investor. The exposures to Synthesis that Nedbank assumes are assessed, from a regulatory point view, using the ratings-based approach and the standardised formula approach under the IRB approach for securitisation exposures, thereby ensuring alignment with the methodology adopted across the wider Nedbank Group. Synthesis is consolidated under Nedbank in terms of IFRS.

Octane is a securitisation programme of auto loans advanced by Imperial Bank Limited established in June 2007. The inaugural transaction under Octane entailed the securitisation of R2bn of auto loans under Octane Series 1. Nedbank Group companies currently fulfil a number of roles in relation to Octane Series 1 including acting as originator, service provider, credit enhancement (subordinated loan) facility provider, swap provider and investor.

The commercial paper issued by Octane Series 1 has been assigned credit ratings by Fitch and is listed on the South African Bond Exchange. The assets of Octane continue to be recognised on the balance sheet of Nedbank Group in terms of IFRS and Octane is consolidated under Nedbank Group.

GreenHouse is a R10 billion RMBS Programme established in December 2007 to securitise Nedbank's residential mortgages. The inaugural transaction under GreenHouse entailed the securitisation of R2 billion of residential mortgages under GreenHouse Series 1. Nedbank currently fulfils a number of roles in relation to GreenHouse Series 1 including acting as originator, service provider, credit enhancement (subordinated loan) facility provider, swap provider and investor. The commercial paper issued by GreenHouse Series 1 has been assigned credit ratings by both Fitch and Moody's and is listed on the South African Bond Exchange. The assets of GreenHouse continue to be recognised on the balance sheet of Nedbank Group in terms of IFRS, and GreenHouse is consolidated under Nedbank Group.

The outstanding securitisation balances are as follows:

	30 June 2008			31 December 2007		
	Total amount securitised	Liquidity facility	Amount retained/ purchased	Total amount securitised	Liquidity facility	Amount retained/ purchased
	Rm	Rm	Rm	Rm	Rm	Rm
Synthesis	8 356	**8 463	-	9 233	**9 390	-
Octane	2 000	-	276	2 000	-	292
Greenhouse	*2 000	-	229	*2 000	-	226
Total	**12 356**	**8 463**	**505**	**13 233**	**9 390**	**518**

* *In terms of the GreenHouse Series 1 structure, Nedbank has 12 months to transfer the mortgages to GreenHouse.*
** *These amounts relate to the provision of liquidity facilities to Synthesis.*

The Basel II IRB approach is followed and the consolidated group capital charges for securitised assets are as follows:

	30 June 2008	31 December 2007
	Rm	Rm
AAA or A1/P1	4,0	-
AA	1,1	1,1
AA-	3,4	1,4
A+	-	-
A or A2/P2	-	-
A-	6,0	4,3
BBB+	-	-
BBB or A3/P3	7,5	4,2
BBB-	5,2	3,8
BB+	15,9	15,6
BB	-	-
BB-	8,9	8,9
Unrated		-
Unrated liquidity facilities to ABCP programme	47,7	55,6
Total	**95,7**	**94,9**

The Basel II IRB capital resource deductions relates to mortgage advances to the amount to R26 million (2007 : R25 million) and instalment debtors and leasing to the amount of R39 million (2007 : R43 million).

Asset and liability management (ALM)

ALM addresses three of Nedbank's major risk types, namely liquidity risk, interest rate risk in the banking book and foreign currency translation risk on foreign investments and/or foreign loans or borrowings.

Group ALM is one of three support functions of the Group ALCO, specifically facilitating this committee's responsibility regarding these three important risks. Group ALM, which reports directly to the group CFO, is supported by an established ALM desk and maintains a close interaction with the centralised funding desk, both desks are located in the Group Treasury dealing room. These desks facilitate the implementation of on- and off-balance sheet strategies by providing access to products and tools available within Group Treasury.

Liquidity risk

A bank's role in financial intermediation facilitates the transformation of short-term deposits into longer-term loans. This mismatch arises generally due to a depositor's requirement to have short to medium term access to its asset versus a borrower's requirement to service debt over the long term in order to ensure affordability. This makes banks inherently susceptible to liquidity mismatches. Accordingly, banks rely on ready access to money and capital markets to source liquidity from bank and non-bank participants with surplus liquidity. In an orderly functioning market, banks manage these mismatches with relative ease through a combination of strategic initiatives.

The recent international market turbulence that continues to affect many financial markets around the world has sharply focused attention on the crucial role liquidity plays in assuring the effective functioning of the banking sector and related markets. The significant reduction of liquidity in short-term international money markets and virtual drying-up of liquidity in the securitisation and covered bonds market coupled with problems in accessing funding in the secured financing markets, even for highly rated assets, has caused severe liquidity difficulties for many international companies in funding their on- and off-balance sheet requirements.

The current impact of these events on Nedbank has been negligible, primarily because of the group's immaterial foreign funding requirements due to its small international footprint, relatively small conduit business that has no foreign balance sheet components and because Nedbank has and continues to have no direct exposure to the US sub-prime market. We are currently positioned with a significant and well diversified deposit base.

Although the impact of recent global liquidity developments was insignificant in 2007 and H1 2008 for the Nedbank Group, Group ALCO continues to monitor these developments closely to identify any early signs of contagion within the South African market in order to manage such risk appropriately.

Liquidity risk strategy, governance, policy and processes

The group is exposed to potential liquidity risk throughout its operations because of the natural liquidity mismatches discussed above. Accordingly, liquidity management is a vital risk function in all entities across all jurisdictions and currencies and is a key focus of the Nedbank Group.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has approved an appropriate liquidity risk management framework for the management of the group's funding requirements and liquidity mismatches. This framework includes, inter alia, appropriately constituted non-executive and executive risk committees, a funding strategy forum, a centralised funding desk and divisional pricing/interest rate committees. It also includes appropriately defined charters for these forums as well as supporting policies and limits defining the risk appetite.

The group's daily liquidity requirements are managed by an experienced centralised funding team in Group Treasury. Net daily funding requirements are forecast by estimating daily rollovers and withdrawals, managing pipeline deal flow and actively managing daily settlements. The centralised funding desk maintains regular interaction with all of the group's large deposit clients to understand and manage their cashflow requirements. Close liaison with the retail banking, business banking and corporate banking deposit-raising activities, through separate direct dealing desks within this team ensures that these stable sources of funds are maximised and correctly priced. This interaction further facilitates an understanding of client roll-overs and flows that facilitates the management of their associated cashflows. The resultant net daily cashflow requirements are managed largely via the professional money market.

Medium- to long- term strategic liquidity initiatives are motivated and supported by Group ALM who interact closely with the centralised funding desk. These strategic initiatives are approved by Group ALCO before execution.

Portfolios of marketable and highly liquid assets that can be liquidated to meet unforeseen or unexpected funding requirements are held in the group in terms of the liquidity risk management framework. The bank also ensures that, on an ongoing basis, it has earmarked sufficient sources of liquidity to meet its estimated 'hot money' withdrawals by investors most likely to withdraw their funds in a stress scenario. This position is managed to ensure that those funds that have been identified as potential funds at risk, during a time of bank specific stress are adequately covered by sources of quick liquidity. Holding appropriate levels of quick liquidity is seen as imperative as liquidity risk normally occurs as a sudden unexpected event.

Not only is it important to maintain liquidity surpluses but it is imperative to have an established early warning or trigger mechanism that highlights early signals of potential liquidity distress. Nedbank has established a number of liquidity contingency triggers that are monitored regularly to facilitate such early warning. This process is recognised as an important liquidity risk management process, which is supported by an appropriate liquidity risk contingency plan and framework.

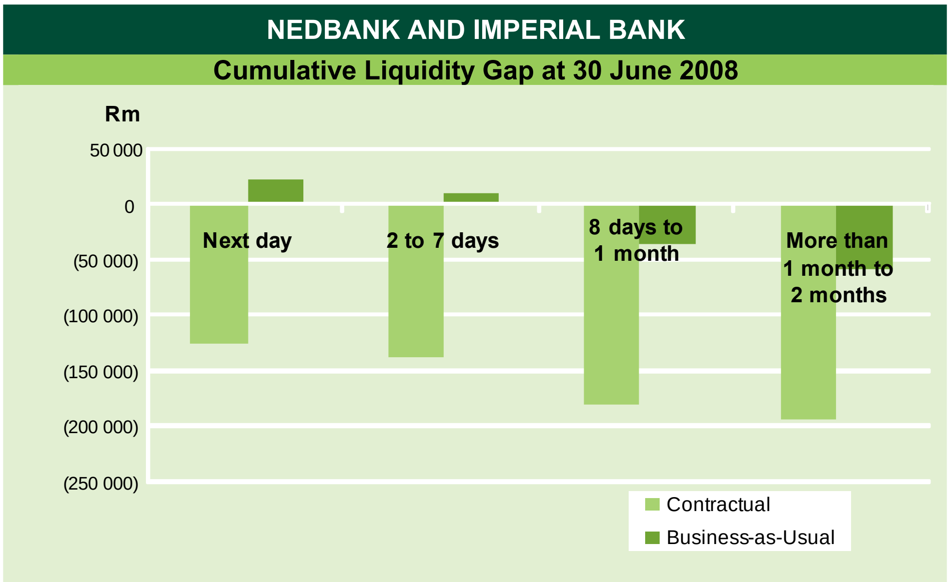
Funding mismatches are managed by currency and a focus is placed on managing short term funding maturities, daily settlements and collateral management processes. This includes the pre-planning of daily cash-flow requirements.

Liabilities are appropriately diversified including by product, market and maturity. As the bank sources its funding from a large variety of depositors representing a cross-section of South African public and private economic sectors, industries, commercial enterprises and individuals with a wide range of maturities and using a large number of investment and transactional banking products, concentration risk within the deposit base is appropriately diversified.

Group ALM and the centralised funding desk continue to look for new alternate sources of funding facilitated by peer group benchmarking, innovation and marketing. Last year new alternate sources of funding included both the issue of Nedbank's inaugural Auto Loans Securitisation Programme and Residential Mortgage Backed Securitisation Programme through which approximately R3,4 billion in new funding was raised for the group.

Liquidity risk measurement, reporting systems and portfolio review

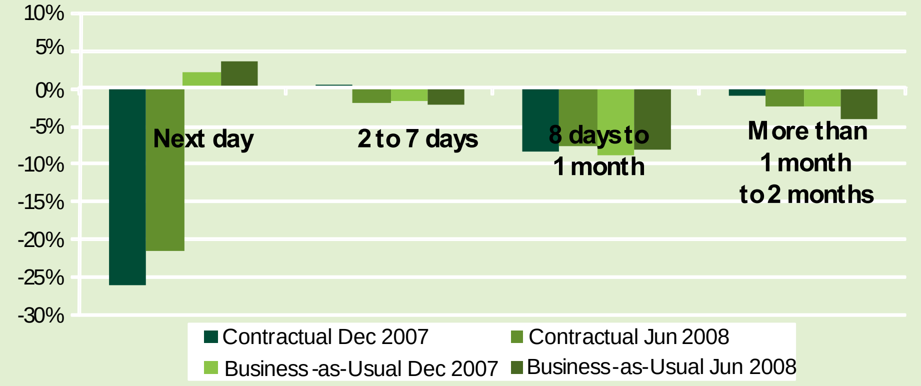
The graph to the right reflects the contractual liquidity gap and estimated business-as-usual liquidity gap for Nedbank Limited and Imperial Bank Limited. Scenario analysis is used in the management of the banks' liquidity risk, including stress scenarios. The management of liquidity risk and particularly cashflows is strongly focused on the short to medium term in order to ensure that risk management is quick to respond to the immediate cashflow requirements under different stress scenarios.



The graph to the right shows the comparative contractual and business-as-usual liquidity mismatch expressed as a percentage of total assets.

NEDBANK AND IMPERIAL BANK

Contractual and Business-as-usual Mismatch (% of total assets)

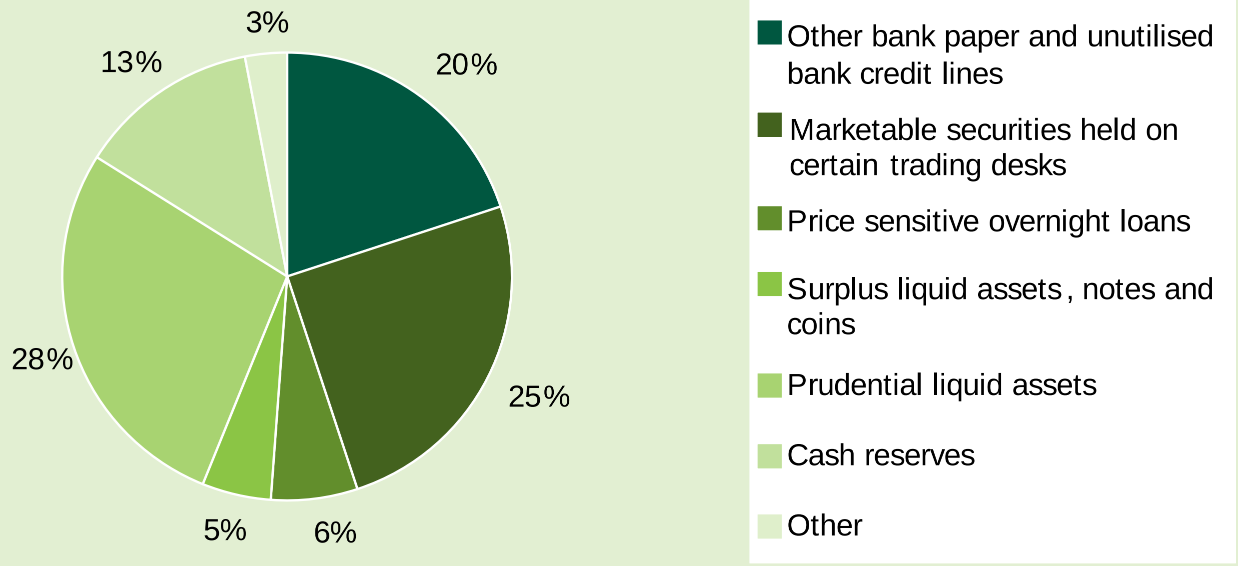


Medium and long term liquidity strategies are derived and motivated by Group ALM, approved by the Group ALCO and implemented by the business units and or Group Treasury. Group ALCO monitors all liquidity strategies to ensure compliance with the liquidity risk management framework and successful implementation.

Group ALCO's funding and liquidity management is undertaken with the support of the Group ALM function that reports and models appropriate risk-based management information. Liquidity risk dashboards provide Group ALCO and the board's Group Risk and Capital Management Committee with the appropriate timely liquidity risk reporting. This includes measures of compliance with approved policies and limits.

The Group ALCO has identified deposits that are deemed to be potential funds at risk. These funds are covered by sources of quick liquidity. Sources of quick liquidity at 30 June 2008 totalled R 66,4 billion including prudential liquidity requirements of R 27,6 billion.

SOURCES OF QUICK LIQUIDITY*



* *There has been minor corrections due to reclassifications amongst a few of the categories above compared to the percentages disclosed in the analyst booklet.*

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

NEDBANK LIMITED CONTRACTUAL LIQUIDITY GAP AT 30 JUNE 2008

Rm	<3 months	>3 months <6 months	>6 months <1 year	>1 year <5 years	>5 years	Non-determined	Total
Cash and cash equivalents (including mandatory reserve deposits with central bank)	8 163	-	-	-	-	12 876	21 039
Other short-term securities	20 143	1 436	2 128	5 628	-	-	29 335
Derivative financial instruments	2 968	1 542	1 335	7 240	3 674	-	16 759
Government and other securities	5 205	971	7 628	19 293	2 604	824	36 524
Loans and advances	94 126	15 332	19 530	113 366	165 716	-	408 071
Other assets	89	-	-	-	-	37 189	37 278
	130 694	19 281	30 621	145 527	171 995	50 889	549 007
Total equity and liabilities	-	-	-	-	-	38 098	38 098
Derivative financial instruments	2 725	1 299	1 364	7 681	4 142	-	17 212
Amounts owed to depositors	337 015	29 279	52 114	16 685	116	-	435 209
Other liabilities	3 130	-	-	-	-	42 408	45 538
Long-term debt instruments	-	519	291	3 711	8 429	-	12 950
	342 871	31 098	53 769	28 076	12 687	80 506	549 007
Net liquidity gap	(212 177)	(11 817)	(23 148)	117 451	159 308	(29 617)	

The contractual liquidity gap is adjusted for behavioural assumptions. These adjustments result largely in a lengthening of deposit cashflows, due to behavioural assumptions through which contractually maturing short term deposits have longer profiles. In addition, certain marketable securities for which there is a liquid market are reflected in this profile in the short term.

NEDBANK GROUP BUSINESS AS-USUAL LIQUIDITY GAP AT 30 JUNE 2008

Rm	<3 months	>3 months <6 months	>6 months <1 year	>1 year <5 years	>5 years	Non-determined	Total
Cash and cash equivalents (including mandatory reserve deposits with central bank)	11 648	-	-	-	-	9 391	21 039
Other short-term securities	29 335	-	-	-	-	-	29 335
Derivative financial instruments	3 189	1 542	1 335	7 018	3 674	-	16 759
Government and other securities	36 524	-	-	-	-	-	36 524
Loans and advances	79 652	23 041	40 823	141 788	122 768	-	408 071
Other assets	89	-	-	-	-	37 189	37 278
	160 437	24 583	42 158	148 806	126 442	46 580	549 007
Total equity and liabilities	-	-	-	-	-	38 098	38 098
Derivative financial instruments	2 725	1 299	1 364	7 681	4 142	-	17 212
Amounts owed to depositors	177 664	78 357	92 879	14 934	71 376	-	435 209
Other liabilities	3 130	-	-	-	-	42 408	45 538
Long-term debt instruments	-	519	291	3 711	8 429	-	12 950
	183 520	80 175	94 534	26 325	83 947	80 506	549 007
Net liquidity gap	(23 082)	(55 592)	(52 376)	122 481	42 495	(33 926)	

The additional disclosure below depicts the contractual and business-as-usual liquidity mismatches in respect of the two major banking entities within the group, Nedbank Limited and Imperial Bank Limited, and highlights the split of total deposits into stable and more volatile. Based on the behaviour of the bank's clients it is estimated that in excess of 74% of the total deposit base is stable in nature.

This information is also reported for the banks in more appropriate liquidity buckets.

CONTRACTUAL BALANCE SHEET MISMATCH AT 30 JUNE 2008

Rm	Total	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months
Contractual maturity of assets	590 828	99 139	9 021	27 525	29 356
Advances	405 090	87 880	463	6 972	9 089
Trading, hedging and other investment instruments	138 061	7 794	8 558	17 901	18 717
Other assets	47 676	3 465	-	2 652	1 550
Contractual maturity of liabilities	590 828	225 807	20 475	71 263	42 089
Stable deposits	236 147	98 726	7 043	35 473	16 525
Volatile deposits	196 585	100 225	6 429	23 921	11 808
Trading and hedging instruments	113 492	26 516	7 004	11 869	13 748
Other liabilities	44 604	340	-	-	8
On-balance sheet contractual mismatch	-	(126 668)	(11 454)	(43 738)	(12 733)
Cumulative on-balance sheet contractual mismatch	-	(126 668)	(138 122)	(181 860)	(194 593)

The business-as-usual table below shows the expected profile of the group's funding. The 'contractual' maturity profile tabled above is based on the contractual maturity of these items, whereas the business-as-usual maturity profile takes into account the expected cashflow maturities and behavioural attributes of these items.

BUSINESS-AS-USUAL (BAU) BALANCE SHEET MISMATCH AT 30 JUNE 2008

Rm	Total	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months
BaU maturity of assets	590 828	80 623	40 854	25 291	23 517
Advances	405 090	46 852	1 159	10 040	11 229
Trading, hedging and other investment instruments	138 061	26 719	39 695	12 717	10 738
Other assets	47 676	7 052	-	2 535	1 550
BaU maturity of liabilities	590 828	58 836	53 455	71 475	45 976
Stable deposits	236 147	23 164	8 363	31 004	19 392
Volatile deposits	196 585	11 699	8 241	28 703	15 394
Trading and hedging instruments	113 492	23 633	36 851	11 768	11 182
Other liabilities	44 604	340	-	-	8
On-balance sheet BaU mismatch	-	21 787	(12 601)	(46 184)	(22 459)
Cumulative on-balance sheet BaU mismatch	-	21 787	9 186	(36 997)	(59 456)

Having adjusted for behavioural assumptions, the banks have adequate cashflows in the short term. There are negative cashflows out to one month and beyond, as this excludes any management actions and any assumptions around the roll over of maturing deposits.

Liquidity risk stress testing

Behavioural modelling and stress analyses to identify business-as-usual as well as potential stress cash flow requirements are carried out regularly and are evolving as markets develop. Behavioural modelling and stress analyses need continual evolution as behaviours are difficult to predict and events are seldom similar.

Stress testing for liquidity risk enables risk managers and the management of financial firms to determine the potential future net funding requirements under varying conditions. Stress testing facilitates the bridging between conventional risk measurement and effective, adequate, and robust measurement of liquidity.

Stress testing is increasingly a key risk management process that complements sound management and contingency planning. It is also recommended and required by regulators. Stress testing makes provisions for varied but plausible situations through scenario analysis with the single goal of being prepared for potential liquidity problems. Most importantly, stress testing enables the making of appropriate liquidity management decisions to ensure the bank can withstand such events or scenarios without going bankrupt due to being illiquid. This dictates that an active management plan needs to be put in place and reviewed on an ongoing basis to ensure that the onset of potential problems is identified and the necessary actions are taken when specific signals of potential liquidity problems are triggered, the aversion of heightened liquidity strain on the bank is identified and when a liquidity event does occur, that insolvency is successfully prevented.

AVAILABLE SOURCES OF STRESS FUNDING- NEDBANKLIMITED AT 30 JUNE 2008

Rm	Total	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months
Realisable by forced sale	10 652	10 635	-	17	-
Investment securities classified as available for sale	17	-	-	17	-
Unencumbered trading securities	10 635	10 635	-	-	-
Available repo facilities	5 652	5 652	-	-	-
Ringfenced portfolio of prudential liquid securities	2 696	2 696	-	-	-
25% of liquid assets held	5 205	5 205	-	-	-
Current utilisation under Reserve Bank allotment	2 250	2 250	-	-	-
Estimated unutilised interbank funding capacity	12 250	12 250	-	-	-
Unsecured funding lines	2 000	2 000	-	-	-
Drawdown capacity in respect of call loans	4 007	-	-	4 007	-
Other funding	9 050	-	-	9 050	-
Total available liquidity	43 611	30 537	-	13 074	-

The banks hold prudential liquid assets and cash reserves to facilitate liquidity stresses detailed in the table below.

MINIMUM RESERVE BALANCE AND LIQUID ASSETS (NEDBANK AND IMPERIAL BANK)

Rm		
Average daily minimum reserve balance to be held with the Reserve Bank	9 569	Prescribed Percentage 2,5%
Average daily reserve balance	9 569	
Liquid assets required to be held	21 444	Prescribed Percentage 2,5%
Average daily amount of liquid assets held	23 034	
Reserve Bank notes and coin held during the preceding month	1 414	
Gold coin and bullion	-	
Clearing account balances held with the Reserve Bank	-	
Treasury bills of the Republic	3 664	
Securities issued by virtue of section 66 of the Public Finance Management Act, 1999, to fund the Central Government	16 139	
Securities of the Reserve Bank	1 817	
Short-term bills issued by the Land Bank	-	

Liquidity risk concentration risk

Strategically Nedbank manages its reliance on large depositors by tracking these deposits including in particular the asset manager balances. Any portion of deposits or balances that exceeds internal limits, are placed in surplus in the interbank market or invested in liquefiable paper, readily available to repay these balances should the need arise. Top 10 depositor reliance is also monitored against an internal call limit and benchmarked against the peer group. This analysis includes intercompany balances including, for example Old Mutual, Nedbank Securities and Syfrets Securities.

Nedbank's reliance on its top 10 depositors is not onerous as depicted in the tables below.

CONCENTRATION OF DEPOSIT FUNDINGAT 30 JUNE 2008

Rm	Total	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months	More than 2 month to 3 months
Funding supplied by associates of the reporting bank	38 063	10 334	308	6 615	213	696
Ten largest depositors	68 860	23 148	9 306	9 414	1 885	4 390
Ten largest financial institutions funding balances	37 565	9 000	4 818	5 806	4 536	1 500
Ten largest government and parastatals funding balances	36 944	16 597	2 707	2 988	2 013	929
Negotiable paper funding instruments	70 177	-	4 717	5 835	8 531	3 221
of which: issued for a period not exceeding twelve months	65 574	-	-	-	-	-
of which: issued for a period exceeding twelve months and not exceeding 5 years	4 603	-	-	-	-	-
of which: issued for a period exceeding five years	-	-	-	-	-	-

Interest rate risk in the banking book (IRRBB)

IRRBB strategy, governance, policy and processes

Interest rate risk in the banking book (IRRBB) is managed through a combination of on- and off-balance sheet strategies, including hedging activities. The principal interest-rate related contracts used included interest rate swaps and forward rate agreements. Basis products, caps, floors and swaptions are used to a lesser extent. IRRBB strategies are evaluated regularly to align with interest rate views and defined risk appetite, ensuring that optimal on- and off-balance-sheet strategies are applied, either positioning the balance sheet or protecting interest income through different interest rate cycles. The balance sheet was well positioned (within the agreed risk limits) for interest rate increases experienced in the first half of 2008 enhancing net interest income during this period.

Nedbank Group is exposed to interest rate risk primarily because:

- the bank writes a large quantum of prime-linked assets;
- funding is prudently raised across the curve at fixed term deposit rates that reprice only on maturity;
- short-term demand funding products reprice to different short-end base rates;
- certain ambiguous-maturity accounts are non-rate sensitive; and
- the bank has a mismatch in net non-rate sensitive balances, including shareholders' funds that do not reprice for interest rate changes.

This is not dissimilar to the peer group banks given the markets within which we operate and the clients we service.

Group ALCO has made further progress during the first half of this year in analysing, aligning and managing IRRBB with the likely change in impairments for similar interest rate changes. This relationship between interest rate sensitivity and impairments, which is seen as a natural net income hedge has become a key focus of the Group ALCO in managing IRRBB. This analysis includes an assessment of the lag in impairment changes and the increasing change in impairment charges for consecutive interest rate changes. Due to the complexity in determining the extent of this natural net income hedge, the modelling of this relationship and associated risk management strategies is challenging and continues to be refined and improved.

On-balance sheet strategies are executed through any one of the business units, depending on the chosen strategy. Changes to the structural interest rate risk profile of the banking book are achieved primarily through the use of the derivative instruments mentioned above and/or new on balance-sheet asset and liability products. Hedges are transacted through Group Treasury via the ALM desk, whereby unwanted IRRBB is passed through a market-making desk into market risk limits or into the external market.

Hedged positions and hedging instruments are measured and stress tested regularly for effectiveness. These positions are fair valued in line with the appropriate accounting standards and designation. The Group ALCO has strategic appetite out to one year and largely as a matter of policy eliminates reprice risk longer than one year, unless this committee chooses to lengthen the investment profile of its equity and or the ambiguous deposit accounts in order to better align interest rate sensitivity with impairment sensitivity based on actual and forecast interest rate changes. Such strategic decisions must maintain interest rate sensitivity and the economic value of equity within board approved limits.

IRRBB cannot be taken by business units and accordingly is extracted from these units via a funds transfer pricing solution. This solution removes reprice risk from the business units whilst leaving credit and funding spread in the businesses upon which they are measured. Certain basis risk and endowment on free funds and ambiguous deposits resides within these businesses in order for basis risk to be managed through pricing and in order for the endowment to naturally hedge impairment changes for similar interest rate changes. Strategies regarding the reprice risk are separately measured and monitored, having been motivated by Group ALM and approved by the Group ALCO.

IRRBB measurement, policies and portfolio review

The group employs various analytical techniques to measure interest rate sensitivity within the banking book. This includes a static reprice gap analysis, simulated modelling of the bank's earnings-at-risk and economic value of equity for a standard interest rate shock and stress testing earnings-at-risk and economic value of equity for a number of stressed interest rate scenarios. These analyses include the application of parallel and non-parallel interest rate shocks and rate ramps.

At 30 June 2008 the group's margin at risk sensitivity of the banking book for a 1% parallel reduction in interest rates was 1,27% of total group equity (31 December 2007: 1,65% of total group equity), well within the approved risk limit of 2,5%. This exposes the group to a decrease in NII of R483 million should interest rates fall by 1%, measured over a 12 month period. The decrease in sensitivity during 2008 was the result of specific strategies of the Group ALCO aligning with strategy, risk appetite and the committee's view on interest rates. Nedbank Limited's economic value of equity (EVE) measured for a 1% parallel decrease in interest rates is a gain of R152 million (31 December 2007 loss of R97 million).

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

Rm			Nedbank	Other group	Nedbank
30 June 2008	Note		Limited	companies	Group
Net interest income sensitivity					
1% instantaneous decline in interest rates			(412)	(71)	(483)
2% instantaneous decline in interest rates			(822)	(142)	(964)
Linear path space	2				
Lognormal interest rate sensitivity			(527)	n/a	n/a
Basis interest rate risk sensitivity	3				
0,25% narrowing of prime/call differential			(167)	(48)	(215)
Economic value of equity sensitivity	4				
1% instantaneous decline in interest rates			(152)	n/a	n/a
2% instantaneous decline in interest rates			(304)	n/a	n/a
Stress testing					
Net interest income sensitivity					
Instantaneous stress shock	5		(1 648)	n/a	n/a
Stress shock modelled as a ramp	6		(1 998)	n/a	n/a
Linear path space	2				
Absolute-return interest rate sensitivity			(2 733)	n/a	n/a

n/a: not modelled.

Notes

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

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

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

4 **Economic value of equity sensitivity** is calculated as the net present value (npv) of asset cashflows less the net present value of liability cashflows. Economic value of equity sensitivity is measured using a 1% parallel decrease in the yield curve.

5 **The instantaneous stress shock** is derived from the principles espoused in the bank for International Settlements paper 'Principles for the Management and Supervision of Interest Rate Risk'. For 2007 the shock scenario uses an instantaneous interest rate shock of a 4% (2006: 2,5%) downward shift in interest rates.

6 The **stress shock modelled as a ramp** uses the same interest rate shock as the instantaneous stress shock described above, but the rate shock is phased in over a nine-month period.

The table below shows the repricing profile of Nedbank Group's banking book balance sheet and highlights the fact that assets reprice quicker than liabilities following derivative-hedging activities.

Rm	<3 months	>3 months >6 months	>6 months >1 year	>1 year <5 years	>5 years	Trading and non-rate	Total
30 June 2008							
Total assets	365 598	3 265	10 147	30 388	14 551	125 059	549 007
Total equity and liabilities	312 605	26 523	45 977	9 159	5 845	148 897	549 007
Interest rate hedging activities	(54 367)	21 608	41 050	(4 981)	(3 311)		
Repricing profile	(1 374)	(1 650)	5 220	16 248	5 395	(23 839)	
Cumulative repricing profile	(1 374)	(3 024)	2 196	18 444	23 839		
Expressed as a percentage of total assets (%)	-0,25	-0,55	0,40	3,36	4,34		

Currency translation risk

Currency translation risk remains relatively low and currently aligns with an optimal offshore capital structure. Risk limits are based on the levels of currency-sensitive foreign capital of approximately US$266 million at 30 June 2008 (2007 : US$254 million).

OFFSHORE CAPITAL SPLIT BY FUNCTIONAL CURRENCY– 30 JUNE 2008

Rm	USD equivalent ($ millions)				
	I/S	Equity	FX Sens	Non FX Sens	Total
US Dollar	-	108	108		108
Pound Sterling	3	132	135		135
Swiss Franc		20	20		20
Malawi Kwatcha		3	3		3
Zimbabwe Dollar		-	-		-
Other		-	-	430	430
Sub-total	3	263	266	430	696

INCOME AND EARNINGS-AT-RISK

	Rm	Limit (Rm)
Earnings-at-Risk	7	50
Capital-at-Risk	515	550

As at 30 June 2008, earnings-at-risk and capital-at-risk were within approved limits.

Market risks

Market risk in Nedbank Group arises in three main areas:

- Market risk (or position risk) in the trading book arises exclusively in Nedbank Capital
- Equity (investment) risk in the banking book arises in the private equity and property portfolios within Nedbank Capital and Nedbank Corporate clusters, respectively and in other strategic investments of the group. This risk also includes market risk in respect of business premises, property required for future expansion and properties-in-possession (PIPs)
- IRRBB that arises from repricing and/or maturity mismatches between on- and off-balance sheet components originated across all the business clusters. This is covered in the ALM section above.

Market (or position) risk strategy, governance structures and processes

A group market risk framework including governance structures is in place to achieve effective independent monitoring and management of market risk as follows:

- The board's Group Risk and Capital Management Committee
- The Group ALCO and Executive Risk Committee (Group ALCO), which is responsible for ensuring that the impact of market risks is being effectively managed and reported on throughout the Nedbank Group, and that all policy, risk limit and relevant market risk issues are reported to the Group Risk and Capital Management Committee
- The Trading Risk Committee, which is responsible for ensuring independent oversight and monitoring of the trading market risk activities of the trading areas. In addition, the Trading Risk Committee also approves new market risk activities and appropriate trading risk limits for the individual business units within the trading area
- An independent function within the Group Risk Division, namely Group Market Risk Monitoring (GMRM), which monitors market risks across the Nedbank Group – this is a specialist risk area that provides independent oversight of market risk, validation of risk measurement, policy co-ordination and reporting
- The federal model followed by the Nedbank Group in terms of which business clusters are responsible and accountable for the management of the market risks that emanate from their activities, with a separate risk function within each cluster
- Specialist investment risk committees within the business areas. Meetings are convened monthly and as required to approve acquisitions and disposals, and on a quarterly basis to review investment valuations and monitor investment risk activities. Membership includes the Chief Risk Officer, Chief Financial Officer, Managing Director and Head of Risk of relevant business cluster and a representative from Group Market Risk Monitoring.

The board approves the market risk appetite and related limits for both banking book (asset and liability management and investments) and trading book. Group Market Risk Monitoring (GMRM) reports on the market risk portfolio and is instrumental in ensuring that market risk limits are compatible with a level of risk acceptable to the board. Risk-taking in the trading activities remained within the group's market risk appetite and limits at all times during the first half of 2008. No market risk is permitted outside these board approved limits. Hedging is an integral part of managing trading book activities on a daily basis. Banking book hedges are in line with Group ALCO strategies and stress testing is performed monthly to monitor residual risk.

Market (position) risk (ie risk from taking proprietary trading positions) means the risk of loss in on-balance sheet and off-balance sheet positions arising from movements in market prices. Market risk can be exacerbated in times of illiquidity where market participants refrain from transacting in normal quantities and/or normal bid-offer spreads. The risk factors covered in the trading book are as follows:

- interest rate risk
- equity position risk
- foreign exchange risk, including gold
- commodities risk
- options risk (in each of the above risks).

Business may only take trading market risk by trading in formally approved derivative products. Products and product strategies that are new to business undergo a new product review and approval process to ensure that their market risk characteristics are understood and can be properly incorporated into the risk management process. The process is designed to ensure that all risks including market, credit (counterparty), specific, operational, legal, tax, regulatory (eg exchange control, tax and accounting issues) risks are addressed and that adequate operational procedures and risk control systems are in place.

The Group Market Risk Framework is used to ensure that market risks are identified and managed. Relevant group, bank and business level policy and methodology documentation support this framework. The documentation has been comprehensively reviewed to ensure that an appropriate management and control environment support our aspirations of a worldclass risk management environment.

A daily market risk report summarises the Nedbank Group market risk exposure against agreed limits. This report is sent to the Chief Risk Officer, Chief Financial Officer and the appropriate business unit and cluster heads.

The head of each business unit, assisted by the business risk management area, is accountable and responsible for the market risk exposure associated with the trading activities. Independent oversight is provided to the business by Group Market Risk Monitoring. The Trading Risk Committee reviews, approves and makes recommendations with regard to the trading market risk activities across the Nedbank Group. This includes governance structures, limits and exposure. The committee meets monthly and is chaired by the Head of GMRM. Attendees include the Chief Risk Officer, Chief Financial Officer, risk managers from the cluster, Managing Director and Head of Risk of Nedbank Capital cluster and representatives from GMRM.

Market (or position) risk measurement and reporting systems

Market risk exposures for trading activities are measured using value-at-risk (VaR), supplemented by sensitivity and stress-scenario analyses, and limit structures are set accordingly.

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by Nedbank Group reflects the 99% probability that the daily loss will not exceed the reported VaR. Daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days.

VaR methodologies, employed to calculate daily risk numbers, utilise the historical approach to calculate exposure.

There are a number of considerations that should be taken into account when reviewing the VaR numbers. These are the following:

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

While VaR captures Nedbank's exposure under normal market conditions, sensitivity and stress-scenario analyses (and in particular stress-testing) are used to add insight to the possible outcomes under abnormal market conditions. Nedbank Group uses a number of stress scenarios to measure the impact on portfolio values of extreme moves in markets, based on historical experience as well as hypothetical scenarios. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk, reflecting the decreased liquidity that frequently accompanies market shocks.

Market risk reports are available at a variety of levels and details ranging from individual trader level right through to a group level view of market risk. Market risk limits are approved at a board level and are reviewed periodically. The limits approved by the board are VaR and stress trigger limits. These limits are allocated to the business clusters and exposures against these limits are reported daily to management and bank executives. The market risk management environment also makes extensive use of stress and sensitivity testing to ensure that conditions which may not be highlighted by the VaR methodology utilised, are identified and appropriately managed. Documented policy and procedures are in place to ensure that exceptions are timeously resolved.

The VaR model is an important tool and the model is assessed regularly. The model is assessed using a mechanism known as back-testing. Back-testing will count the number of days when trading losses exceed the corresponding VaR figure. Using a 99% confidence level, on average there would be 3 days each year when trading losses would be expected to exceed the VaR and would therefore be reflected as a back-testing exception.

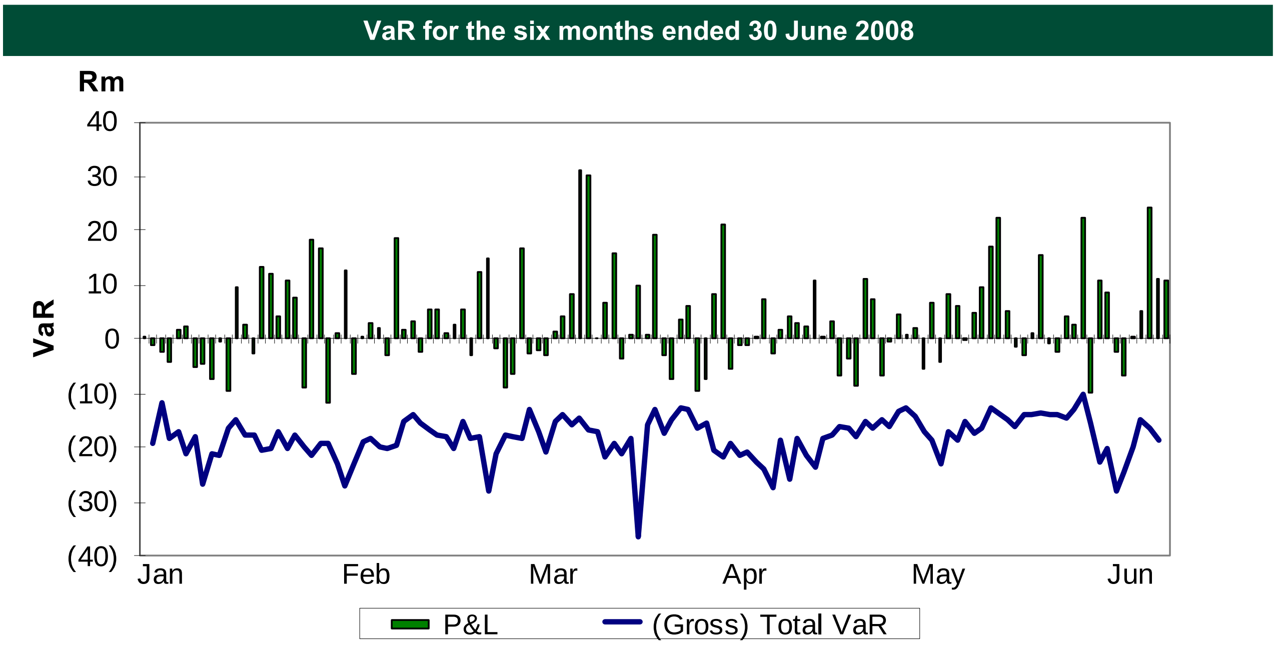
For the period 1 January 2008 to 30 June 2008 no back-testing exceptions were observed in Nedbank Capital's trading book.

Stress testing provides an indication of the potential size of the losses that could arise in extreme or abnormal conditions. The stress tests are run daily and are included in the daily risk reports that are distributed.

For economic capital we use VaR scaled to one year using approved VaR limits. This is calculated for all categories of market trading risk sensitive factors and is used to determine the relevant business' capital charges.

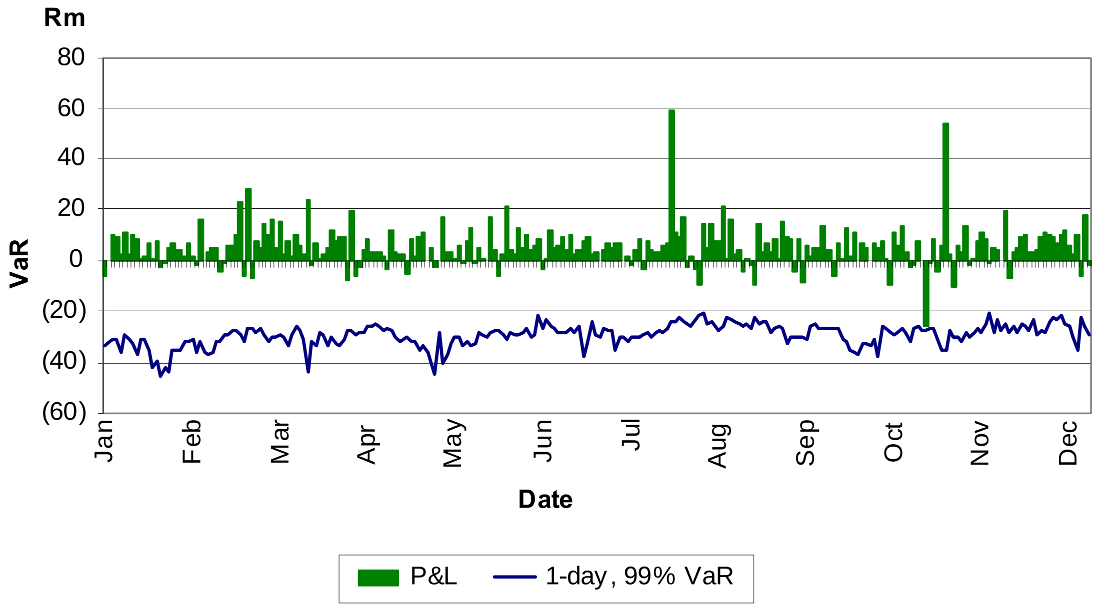
Market (or position) risk policies and portfolio review

Market risk is governed by a number of group, bank and cluster level policies which cover management, identification, measurement and monitoring. In addition, all market risk models are subject to independent validation in terms of the group market risk governance framework.



Rm	Historical VaR (99%, one-day) by risk type			
	For the six months ended 30 June 2008			
	Average	Minimum	Maximum	30 June 2008
Foreign exchange	6,5	2,2	20,1	6,6
Interest rate	11,6	7,5	21,1	12,4
Equity	8,3	3,3	20,8	5,1
Diversification	(8,3)			(7,7)
Total VaR exposure	18,1	10,3	36,5	16,4

VaR for the year ended 31 December 2007



Rm	Historical VaR (99%, one-day) by risk type For the year ended 31 December 2007			
	Average	Minimum	Maximum	Year-end
Foreign exchange	2,5	0,7	6,4	4,4
Interest rate	14,5	10,4	22,0	13,8
Equity	12,6	5,7	28,7	7,5
Diversification	(4,7)			(2,4)
Total VaR exposure	24,9	14,9	37,4	23,3

2007 daily profit and loss results were adjusted for the effects of the once-off changes to valuation of the Macquarie business alliance, as well as for the impact for the portion of the book sold. These adjustments total a loss of R305 million for the 2007 financial year.

The risk appetite within the trading business has remained largely unchanged over the past two years. Trading activities have focused on the domestic market with a bias towards local interest rate and equity products. Subsequent to exiting from the Macquarie business alliance in 2007, the risk appetite for complex equity derivatives has been significantly curtailed. Risk appetite is subject to periodic review but do not anticipate any material change in trading limits during the 2008 financial year. VaR for all significant risk factors are reported.

Nedbank Limited currently has regulatory approval for the Standardised Approach for market (position) risk and intends to apply to SARB in 2009 for approval to switch to the Internal Model Approach (IMA) which is currently used in the bank as described above.

The tables below reflect the market risk capital requirement and statistics for Nedbank Capital's trading book under the Standardised Approach.

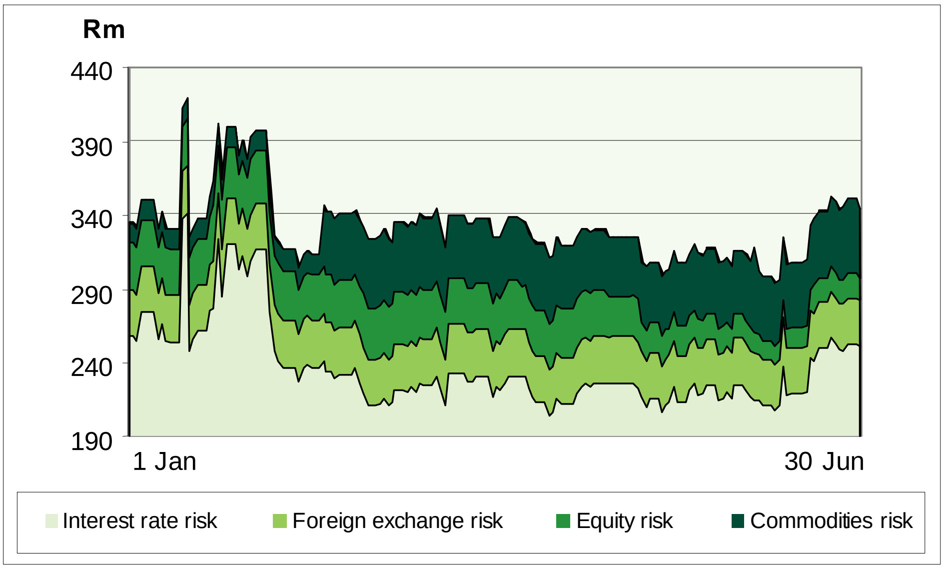
Risk factors Rm	Average	High	Low	As at 30 June 2008
Interest rate risk	288,92	349,71	240,97	349,71
Equity position risk	27,95	38,27	14,44	14,44
Foreign exchange risk	49,99	66,30	33,33	54,51
Commodities risk	38,94	46,79	14,27	46,79
Capital requirement	405,80	465,46	326,84	465,46

Risk factors Rm	Average	High	Low	As at 31 December 2007
Interest rate risk	279,68	307,50	251,86	307,50
Equity position risk	40,29	48,57	32,01	32,01
Foreign exchange risk	28,95	30,75	27,14	27,14
Commodities risk	13,29	13,32	13,26	13,32
Capital requirement	362,20	379,97	344,44	379,97

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

The graph below shows the history of Nedbank Capital's trading book on a daily basis by risk factor for the six months ended 30 June 2008.

Risk factors for the six months ended 30 June 2008



Equity risk (or investment risk) in the banking book

The total equity portfolio for investment risk is R3 577 million (December 2007 R3 450 million). Of that, R2 609 million (December 2007 R2 285 million) is held for capital gain while the rest is mainly strategic investments. The accounting policies and valuation methodologies for equity risk in the banking book are covered in the notes to the 2007 annual financial statements.

Investments Rm	Publicly listed June 2008	Publicly listed Dec 2007	Privately held June 2008	Privately held Dec 2007	Total June 2008	Total Dec 2007
Value disclosed in balance sheet (excluding Associates and JVs)	498	598	2 072	1 875	2 570	2 473
Value disclosed in balance sheet (including Associates and JVs)	498	598	3 079	2 852	3 577	3 450
Cumulative realised gains (losses) arising from sales and liquidations	52	88	(8)	211	44	299
Total unrealised gains to income statement (fair value through profit and loss)	(157)	47	17	184	(140)	231

The information on gains and losses in the above table includes only the portion of the portfolio that is actively managed and held for capital gain.

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

Operational risk

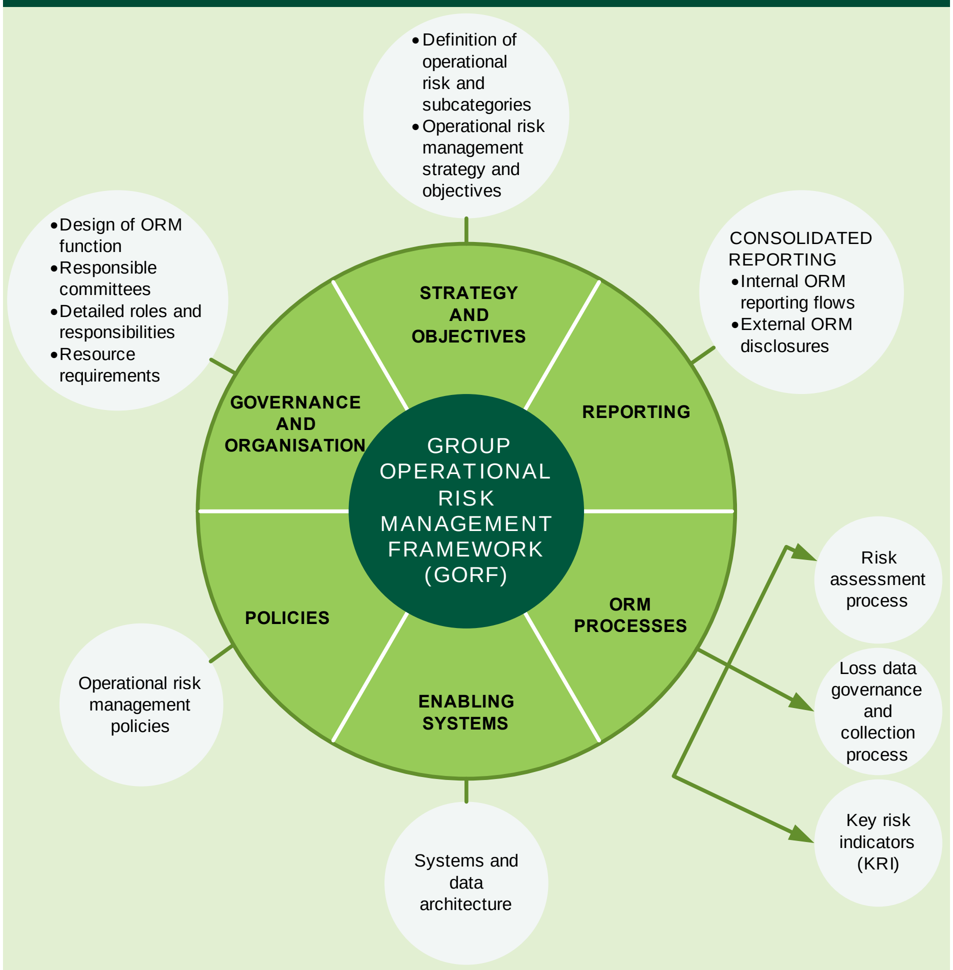
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages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

Operational risk strategy, governance, policy and processes

To minimise the exposure to operational risk that arises as a consequence of the group's financial risk-taking (credit and market) and operating activities, we have embedded a Group Operational Risk Management Framework (GORF) that facilitates a consistent and worldclass approach to operational risk management (ORM).

Operational risk is inherent in most of the group's activities and other key risk types, and there are a variety of operational risk sources. This necessitates an integrated approach to the identification, measurement, management and monitoring of operational risk.

OVERVIEW OF NEDBANK GROUP'S OPERATIONAL RISK MANAGEMENT FRAMEWORK



Nedbank Group has approval from SARB to use the Standardised Approach (TSA) for operational risk for Basel II regulatory capital from 1 January 2008. We are well advanced on our operational risk measurement journey to the Advanced Measurement Approach (AMA), having implemented worldclass operational risk management in all other respects.

Business management is responsible for the identification, management and monitoring of their operational risk. Operational risk is addressed at the divisional Enterprise-wide Risk Committees (ERCOs). Significant operational risks are escalated to the cluster operational risk committees and then, if warranted, to the board's Group Risk and Capital Management Committee. Operational risk officers, who are tasked with co-ordinating the implementation and maintenance of the operational risk management processes and GORF in the business, support management in the execution of its duties.

Group Operational Risk Monitoring (GORM) functions in the second line of defence, its primary responsibilities being to maintain and champion the Group Operational Risk Management Framework, policies and enablers to support operational risk management in the business. GORM also champions the implementation of the Basel II requirements for operational risk.

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

Group Internal Audit (the third line of defence) and Enterprise Governance and Compliance provide assurance to the board that the Group Operational Risk Management Framework is sound and that the policies and processes related to operational risk management are adhered to.

Operational risk measurement, policies and reporting systems

The three primary operational risk management processes in the group are risk assessment, loss data collection and the tracking of key risk indicators (KRIs), which are designed to function in a mutually reinforcing manner.

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

The results of the three processes are utilised to enhance the internal control environment, with the ultimate aim of reducing losses incurred, improving process efficiency and reducing earnings volatility.

Risk profiles, loss trends and risk mitigation actions are reported to and monitored by the risk governance structures of the group.

Management is responsible for developing and maintaining control environments to mitigate operational risks inherent in their business. Specific mitigating action is reported at the ERCOs.

Nedbank Group is in the process of finalising operational risk tolerance levels and incorporating these into the overall risk-adjusted performance calculations of the group that will drive performance measurement and recognition of the group. At this point the Basel II Standardised Approach capital requirements are used in Nedbank Group's economic capital model.

The board annually reviews and approves group level risk policies.

There are several other important operational risk specialist functions that assist the business in managing operational risk. These functions include but are not limited to:

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

Nedbank Group considers financial crime to be a major operational risk that leads not only to financial losses but also damages the very fabric of society. For this reason the group pursues a vigorous policy of mitigating this risk through the following measures:

- pursuance of a zero-tolerance policy in respect of staff dishonesty
- proactive identification and prevention of criminal onslaught against the group
- reactive investigation and recovery of losses
- close cooperation with government and industry role players to ensure the successful apprehension and conviction of the perpetrators of financial crime.

Business risk

Business risk is the risk of adverse outcomes resulting from a weak competitive position or from a poor choice of strategy, markets, products, activities or structures. Major potential sources of business risk include revenue volatility, owing to factors such as macro-economic conditions, inflexible cost structures, uncompetitive products or pricing, and structural inefficiencies.

Nedbank Group actively manages business risk through the various management structures, as set out in the ERMF, and within Group Capital Management using an earnings-at-risk methodology similar to the group's risk appetite metrics. It is one of the major risk types within the group's economic capital model. Please refer page 80 for further details.

Accounting and taxation risks

These key risks are actively managed within Nedbank's ERMF and in compliance with International Financial Reporting Standards (IFRS). Significant governance and controls operate effectively to manage these risks in Nedbank.

Taxation risk has been high in recent years due to the legacy structured finance book. As a result of pro-active management, the higher than normal taxation risk has been significantly reduced over the past two years.

The primary role of the Executive Taxation committee is monitoring tax compliance and tax policy and ensuring the management of tax risk throughout the group in accordance with Nedbank's tax policy. Furthermore, the committee assists the Group Audit, and Group Risk and Capital Management committees in discharging their responsibilities relative to the management and monitoring of tax risk.

Provisions are raised/held in respect of accounting and tax risks. These are all subject to rigorous external audit, and challenge/review by the Group Audit committee and the board.

Technology risk

The use of information technology (IT) and so the associated risk is pervasive in a large bank such as Nedbank.

Accordingly, IT risk is recognised as one of the seventeen key risks in Nedbank Group's risk universe and addressed appropriately as follows:

- A separate major cluster for IT ie 'Group Technology (GT)' exists. The managing director of GT is a member of the Group Exco and reports direct to the CEO
- Group Technology is Nedbank's centralised technology unit with responsibility for all components of the group's technology processing, development and systems support. The functions that operate all of the group's IT systems, databases, technology infrastructure, software development and IT projects/programme management are centrally managed to provide economies of scale and facilitate a cohesive groupwide service-oriented architecture technology strategy
- One of the board committees is the 'board Strategic Innovation Management Committee' specifically focussed on IT risks and IT innovation spend
- Likewise, one of Group Exco sub-committees is the 'Executive Strategic Innovation Management Committee'

- As with the other business clusters, a 'Head of Risk' sits on the GT Exco and reports direct to the Managing Director of GT.

Reputational, strategic, social and environmental, and compliance risks

As with IT risk, reputational, strategic, social and environmental, and compliance risks are also potentially pervasive in a banking group, and each are separately identified and addressed as key risks in our ERMF.

To this end these risks receive significant time, resources and focus on an ongoing basis. The following is an illustration of some of the highlights of this:

- At board level, the Directors' Affairs, Group Finance and Oversight, and Group Transformation and Sustainability committees operate
- The Group Exco has the Group Operational, Brand, Transformation and Human Resources executive committees, and the Business Risk Management Forum assisting it
- Reputational risk is to a large degree mitigated by adequately managing the other sixteen key risks in Nedbank's ERMF
- A comprehensive, formalised, well documented and monitored strategic planning process exists group-wide
- Sustainability is fundamental to ensuring financial prosperity and stability for investors and staff, integrating social and environmental responsibility for local communities and the countries in which the group operates, and remaining relevant and accessible to clients. Sustainability is a crucial part of the Nedbank culture, and one of the group's Deep Green aspirations remains 'to be highly involved in the community and environment'.

  Nedbank is positioned as a caring bank for **ALL** South Africans, and sustainability considerations have been integrated into business practices. During 2007 the group contributed more than R44,1 million (2006: R42 million) to a broad range of community projects through the Nedbank Foundation, the BoE trusts and payroll giving, as well as the Green, Sports and Arts & Culture Trusts and the Nelson Mandela Children's Fund.

  Sustainability, good governance, transparency and detailed reporting are integral to maintaining the group's credibility among its stakeholders. Progress in this regard was recognised when the Nedbank Group 2006 Sustainability Report was ranked third in the Ernst & Young Sustainability Reporting Awards for 2007. A further gratifying achievement was the group being acknowledged as the Emerging Markets Sustainable bank of the Year: Mid-East and Africa at the Financial Times Sustainable Banking Awards in London. During 2007 Nedbank was included for the fourth consecutive year in the local JSE Socially Responsible Investment Index and the Dow Jones World Sustainability Index
- Transformation is a business imperative in South Africa and Nedbank Group's focus and progress in this regard is sound and on track to meet our targets
- The Group Strategy and Corporate Affairs cluster plays a major role in managing the group's image and reputation. Key functions include marketing, communications and group strategy. The cluster is also responsible for the Nedbank Foundation and the Nedbank Economic Unit as well as for the delivery of the group's objectives in terms of the Financial Sector Charter and the DTI Codes of Good Practice.

  Nedbank achieved a world-first with its 'Power to the People' solar-panel billboard erected in Alexandra near Johannesburg. Solar panels on top of the billboard generate electricity for a school kitchen. This original thinking garnered the world's highest accolade in advertising – the 2007 Cannes Grand Prix. Other similar initiatives have been rolled out in other centres.

  The Nedbank brand image reflects the group's strong marketing and communication drive that has led to positive changes while retaining the aspirational elements, a distinct differentiation from its competitors.

  The director of Group Strategy and Corporate Affairs sits on the Group Exco and reports directly to the CEO
- Enterprise Governance and Compliance is responsible for the monitoring of regulatory and reputational risk and the setting of related policies. It also manages the Enterprise-wide Governance and Compliance Framework. Nedbank Group's governance strategy, objectives and structures have been designed to ensure that the group complies with legislation and a myriad of codes, while at the same time moving beyond conformance to governance performance.

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

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

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

Key features in achieving an effective governance process are the co-operation between executive management and non-executive directors and the significant emphasis, resources and structure given to executive management functions to champion corporate governance on a day-to-day basis and assist the board committees and individual non-executive directors with corporate governance and compliance responsibilities.

Readers requiring more details on Nedbank Group's Enterprise Governance and Compliance should refer to pages 76 to 94 of the group's 2007 Annual Report.

Human resources (or people) and transformation risks

A similar focus and investment in Nedbank Group as with the above risks is given to people and transformation risks (also key risks in our ERMF), and with acknowledgement of the current 'War on Talent' out in the market place. The Director of Enterprise-wide Human Resources is a member of Group Exco and reports to the CEO.

At board level, the Group Remuneration Committee operates under pinned at the executive level by the Transformation and Human Resources Executive Committee. Human Resources functions exist in all clusters group-wide.

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

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

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

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

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

The group's ERMF, ICAAP and financial performance relies heavily on the group's ability to attract and retain highly skilled individuals, and so the effective management of 'People Risk' is a critical success factor. We believe our current status and extent of such skills to be sound. However, we recognise this has to be actively managed and which we do monitored on an ongoing basis.

Accelerating transformation continues to be one of the group's key focus areas. Over the past year Nedbank has made encouraging progress, currently scoring 96,2 out of a potential 98 points as measured by the Financial Sector Charter (FSC) scorecard.

The finalisation of the Department of Trade and Industry (dti) codes of good practice in February 2007 moved the goalposts and created a challenge of conformance for financial services companies, with two scorecards applying different measurement criteria. The group is rated as a level 4 BEE contributor against the dti scorecard, with a score of 67,4. The group has set an objective of achieving at least level 2 BEE status over time.

While we continue to align the group with the dti codes, we are committed to delivering on our FSC obligations in the areas of access, empowerment financing and BEE financing, which are not covered by the dti codes.

Major concentration risks other than credit

Credit concentration has been addressed from page 53. Another potential major concentration risk in Nedbank Group is liquidity risk. The management of this, including diversification of the funding base, contingency planning of sources of funding, related governance, etc is covered from page 58.

Concentration risk is also a key feature of Nedbank Group's Group Market Risk Framework. However, undue concentration risk is not considered to prevail in the group's trading, IRRBB, forex and equity risk portfolios (evident in the low percentage contributions to group/bank economic capital). These are all monitored by Group ALCO and the board's Group Risk and Capital Management Committee.

Economic capital

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

Nedbank assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital within nine (9) quantifiable risk categories.

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

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

Our economic capital model is summarised as follows:

NEDBANK GROUP'S ECONOMIC CAPITAL MODEL

CREDIT RISKS
(incorporating counterparty credit risk, credit concentration risk and securitisation risk)
Basel II AIRB credit methodology integrated with sophisticated credit portfolio modelling, taking concentration risk and intra-risk diversification into account.

+

TRANSFER RISK
(closely related to credit risk but arises due to sovereign default and so separately modelled and quantified)
Similar to AIRB credit methodology but dependent on probability and the extent of a transfer event (i.e. sovereign default).

+

MARKET RISKS

Trading (position) risk	IRRBB risk	Equity (investment) and property risks	FX translation risks
VaR scaled to one year using VaR limits	Simulation modelling of net interest income (NII); Economic Value of Equity (EVE) also done	300 / 400% risk weighting in line with Basel II Simple Risk Weight approach for Equity Risk. ; PD / LGD approach for Property Finance	Multiple of exposure, based on rand volatility measures.

+

OPERATIONAL RISK
Basel II Standardised Approach

+

BUSINESS RISK
Earnings-at-risk methodology and modelling

+

OTHER ASSETS
(100% risk weighting)

=

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

+

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

=

TOTAL ECONOMIC CAPITAL REQUIREMENT

Measurement period / time horizon: one year (same as Basel II)
Confidence interval (solvency standard): 99,9% (A-) (currently same as Basel II)

vs.

AVAILABLE FINANCIAL RESOURCES (AFR)
Comprises regulatory tier 1 type capital only

Credit risk capital

The AIRB approach is used for Nedbank Limited and Standardised Approach for all other subsidiaries for regulatory capital purposes, as discussed earlier on page 23.

Our credit risk economic capital (or credit value-at-risk) goes further than AIRB and is calculated using credit portfolio modelling based on the volatility of expected losses and using the Merton asset price model. These estimated unexpected losses are measured from the key AIRB credit risk parameters (probability-of-default, exposure-at-default, loss-given-default and maturity) as well as taking portfolio concentrations and intra-risk diversification into account. This was illustrated previously on page 54.

It is important to recognise that our economic capital extends beyond Basel II in explicitly recognising credit concentration risks (eg single large name, industry sector). Economic capital uses through-the-cycle LGDs instead of downturn LGDs required by Basel II, as stress testing and capital buffers capture economic downturns and procyclicality.

Transfer risk capital

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

Transfer Risk is the risk that a government will be unable or unwilling to make 'hard currency' available by imposing currency controls, which limit the ability of otherwise healthy borrowers within the country from servicing their foreign currency debt, causing a transfer event. Transfer events usually only impact facilities repayable in hard currency made to clients in foreign countries but they also affect any loan denominated in a currency other than the local currency of the borrower, since the borrower needs to obtain foreign currency to repay the debt. It covers losses suffered when a client, because of circumstances in its country of domicile, is unable to obtain the foreign currency needed to meet its obligations.

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

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

In general transfer risk is modelled similarly to credit (issuer and counterparty) risk but is dependent on the following:

- The probability of a country declaring a transfer event (Probability of Transfer Event or PTE)
- The percentage of the exposure that will be lost in the event of a transfer event (Loss Given Transfer Event or LGTE)
- The exposure in the event of a transfer event (Exposure at Transfer Event or EATE)

The methodology also takes into account the correlation of transfer risk events occurring between countries.

Market trading (or position) risk capital

For trading risk, the high level VaR limit is the starting point for calculating Economic Capital. The 99% confidence interval, three-day VaR limit is transformed to a 99,9% confidence interval, one-year economic capital number by using a Monte Carlo simulation methodology incorporating a management intervention model.

For regulatory capital, the Standardised Approach is currently used. The economic and regulatory capital requirements for trading market risk are not materially different. Extra conservatism is introduced by using the total approved VaR limit rather than the actual limit utilisation.

We expect to apply to SARB for Internal Model Approach (IMA) approval for regulatory capital in 2009. The regulatory capital charge using IMA is not expected to be materially different from the current charge based on the Standardised Approach.

IRRBB risk capital

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

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

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

Nedbank's IRRBB economic capital methodology is based on simulation modelling of the bank's net interest income (NII) exposure to changes in interest rates as represented by a stochastic interest rate shock. Economic value of equity (EVE) exposure is also used as a secondary measure. The stochastic interest rate shock is quantified based on the volatility, derived from a 1 year log return of the past 5 years of money market data, applied to current interest rates. The IRRBB economic capital is defined as the difference between the 99,9% probability NII and the probability weighted mean NII of the stochastic modelling.

Property risk capital

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

Property risk is the risk a bank faces due to the fluctuation of property values. In the case of Nedbank, this includes the capital to be held against property-in-possessions (including other repossessed assets, such as airplanes in Imperial Bank, for example) as well as its fixed property.

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

Equity (or investment) risk capital

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

For the purpose of Nedbank, however, the two risks have been separated as both are material to the group and therefore deserve separate focus and quantification.

The calculations of economic capital for equity (investment) risk are based on the same principles as for Basel II, namely we use the Simple Risk Weight approach for the bulk of the portfolio, the exception being in Property Finance Division, where a PD/LGD approach has been adopted.

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

Foreign currency (FX) translation risk capital

Foreign currency translation risk (FCTR) is the risk that the bank's exposures to foreign capital will lose value as a result of shifts in the exchange rate. As Nedbank Group is a Rand reporting entity our risk is in a strengthening of the Rand. The current methodology at Nedbank uses a simple VaR methodology scaled to a one-year, 99.9% confidence interval to calculate standalone economic capital for foreign currency translation risk, based on exchange rate volatility. FCTR is not required for Basel Pillar 1 regulatory capital.

Business risk capital

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

Business risk is the risk caused by uncertainty in profits due to changes in the competitive environment that damage the franchise or operational economics of a business. In other words, it is the risk the bank faces due to fluctuations in earnings, readily observable and driven mainly by volumes, margins and fees. In the extreme case business risk can be seen as the risk of being unable to cover one's cost base should all or most of an entity's earnings fall away.

Business risk is also associated with losses due to external factors such as the market situation or government regulations. This quantified risk category also essentially addresses Nedbank Group's strategic risk.

The fluctuations in earnings captured here are those not attributable to the influence of other risk types. Business risk thus closes the circle and, together with the other risks defined in Nedbank's risk taxonomy, provides for a complete coverage of the quantifiable economic risks Nedbank faces.

Nedbank has adopted the widely accepted methodology of measuring business risk through the quantification of earnings volatility or earnings-at-risk, and has developed a sophisticated earnings volatility model.

The major driver or input used in the earnings-at-risk methodology is a time series of historical profit and loss, cleansed of the effects of other risk types. The volatility of this time series of historical profits and losses becomes the basis for the measurement of capital. The methodology is based on internal Nedbank data, which allows for analysis to increasingly understand more about earnings-at-risk across business units within the bank.

Operational risk capital

We expect the 'Advanced Measurement Approach' (AMA) as defined under Basel II to drive what will eventually become the market standard for Operational Risk quantification. As the AMA is aligned to Economic Capital, our approach is to combine the measurement of regulatory capital with operational risk economic capital.

Currently, however, our economic capital operational risk is quantified as a multiple of gross operating income and multipliers that are consistent with the Standardised Approach requirements Nedbank is applying for regulatory capital. Nedbank is at an advanced stage in its journey to transition to the Advanced Measurement Approach (AMA), expected to be ready for economic capital use in 2009 and regulatory capital in 2010.

Inter-risk diversification

Risk diversification is the 'ABC' of any prudent risk management strategy, as it is at Nedbank and in our Economic Capital measurement in the form of inter-risk diversification benefits.

Nedbank's inter-risk correlation matrix was first developed in 2004 mainly using benchmarks. However, in 2006, with the building of various macro models as part of Nedbank's overall Macro-Economic Factor Model (MEFM) and our Stress and Scenario Testing Framework, we revised the correlation matrix using empirical estimation and data, and use of Nedbank specific factors.

The group inter-risk diversification benefit at Nedbank Group level is allocated back (in the economic capital allocation) to the business units rather than being held at the centre. On this basis, allocation of capital allows business units to benefit from being part of a larger, well diversified group and can price products more appropriately and competitively.

Risks that cannot be mitigated by capital

There are a number of risks for which Nedbank does not believe it is appropriate to capitalise; the two key ones necessitating further specific comment are covered below.

Reputational risk

Reputational risk should be managed via controls and processes and not via capital allocation. By its nature this risk is difficult to quantify and almost impossible to capitalise. However, one would expect that within the Operational Risk Framework the impact of events will include the cost of reputational risk.

As with other non-quantifiable risks, reputational risk is managed within Nedbank's ERMF discussed earlier. Strategic risk is captured within Nedbank's economic capital allocation for business risk.

Liquidity risk

Liquidity risk is also difficult to quantify and at a 99,9% confidence level or similar level impractical to hold capital against. Liquidity risk is best managed by a rigorous control framework and best-practice ALCO process rather than allocation of capital. This is consistent with current international practice.

A sophisticated and well resourced Group ALM division and Group ALCO process have been implemented in Nedbank to manage, and adequately mitigate liquidity risk. This is summarised in detail from page 58.

While economic capital is not quantified for liquidity risk, the risk is a key component of Nedbank's stress testing, as well as our choice of the risk of a liquidity crisis as a key stress testing scenario.

Sensitivity analysis, conservatism, data and model risk

For Basel II and our internal capital assessment (ie economic capital) it is necessary to develop models and estimate parameters in order to measure the capital requirements. Consequently, a degree of uncertainty potentially exists in the calculated capital requirements.

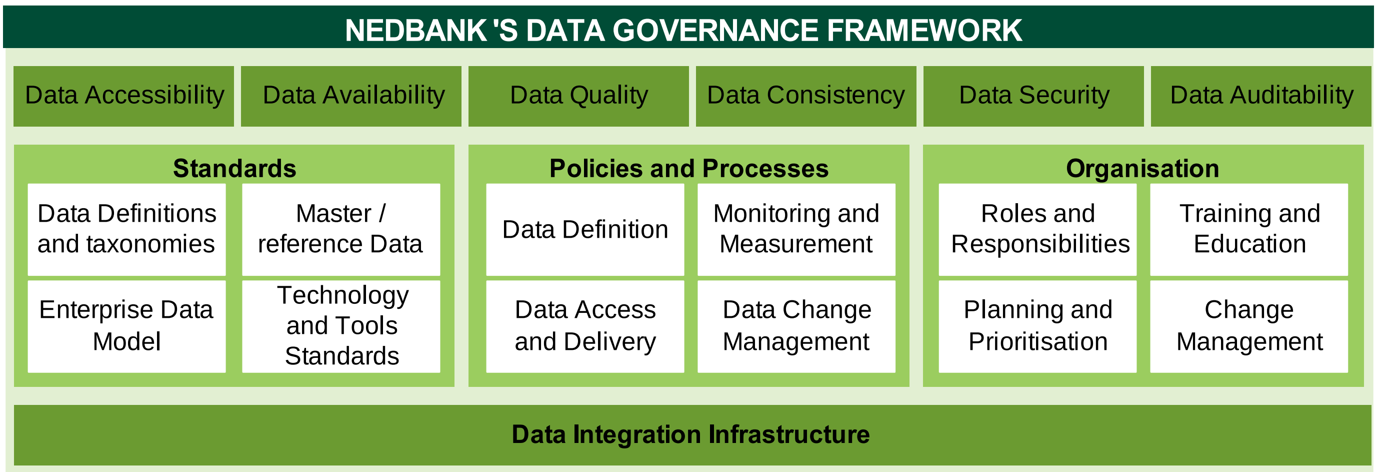
Four main sources of potential uncertainty have been identified:

- Data uncertainty
- Uncertainty on estimated risk parameters
- Future business cycle volatility
- Model risk.

The first uncertainty arises due to the fact that data may be incomplete or of poor quality, which would imply that the risk and so capital calculations may be misleading. To mitigate this risk a comprehensive governance, review and sign off process has been implemented. Also, it is important to highlight that, currently as a general rule, where we are not comfortable with the quality/availability of data that impacts Nedbank's risk and capital quantification we apply 'extra' conservatism to more than compensate. This results, if anything, in overstated capital requirements.

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

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



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

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

A summary of some examples of high conservatism evident in our internal capital assessment follows:-

- We capitalise for business risk which some bank's do not, and this is a significant amount of over R4 billion at group level
- Then in our stress testing and assessment of the adequacy of capital buffers, we are being very conservative in the inclusion of business risk because this risk is already measuring, and we are holding capital for, potential volatility in earnings
- We capitalise property risk at a 400% risk weighting as opposed to 100% under the Basel regulations for 'Other Assets'. This amounts to an extra R900 million in economic capital compared to Basel II regulatory capital
- We capitalise for transfer risk in addition to credit risk in respect of any non- South African exposure
- We exclude the Foreign Currency Translation Reserve (FCTR) and Share Based Payment Reserve (SBPR) from Available Financial Resources for economic capital adequacy, consistent with requirements of the revised South African Basel II regulations for regulatory capital.

The second source for uncertainty is that the estimated parameters used in the risk and capital calculations have been wrongly estimated. The impact of this uncertainty has been estimated to be fairly small given our robust governance, challenge and debate that is consistently present, and the AIRB credit, market, ALM and other risk frameworks and processes implemented across the bank (as part of the overall ERMF).

The third source of uncertainty on the assessment of adequate capital is the magnitude of future business cycles. This has implications for the assessment of adequate capital, as the severity of future recessions will influence the extent of our capital levels and buffers. We believe this risk is mitigated by our comprehensive Stress and Scenario Testing Framework and related processes covered in detail later on in this report.

The last source of uncertainty is model risk and that the models may not accurately measure the risk. The validation around Nedbank's Pillar 1 credit and market risk models is centred around the banking regulations for the AIRB credit and IMA market risk approaches, respectively, and is very robust. Nedbank has adopted a principle-based approach to its AIRB credit model development. The overriding principle is to consistently be on the right side of conservatism. This is enforced by the rigorous governance and approval process, culminating in the AIRB Credit Exco, as explained on page 18.

However, for our other major quantitative risk models, validation requirements are not set out in regulations and so Nedbank's 'Governance and Quality Control Framework' for quantitative models is of great importance and has been developed.

Nedbank Group's comprehensive ERMF, quantitative resources (Cluster Risk Labs, CMVU, GCM, GMRM, etc) and strong governance ensures models, their use and outputs are continuously challenged and debated at various levels, including senior management and Internal Audit (eg at ALCO, AIRB Exco meetings), and are always overlaid with common sense, business logic and management's experience.

In conclusion, there will always be a degree of uncertainty related to the accuracy of models and their correct/estimation of risk and so capital requirements. However, Nedbank Group uses a wide range of models and parameters, which have all been developed and are maintained on an individual stand alone basis following a rigorous process, including validation and reporting (ie scrutiny, challenge and debate by management experience). There is also our principle of conservatism which is routinely applied and where uncertainty exists extra-conservatism is applied which, if anything, results in an over-estimation of capital.

Risk appetite

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

Nedbank's risk appetite culture is inherently conservative. For example, we do not carry significant non-core assets or investments subject to material fluctuation due to equity or forex risk (involving volatile equity prices or exchange rates).

We measure and express risk appetite in terms of quantitative risk metrics and qualitatively. The quantitative metrics include earnings-at-risk (EaR) (or earnings volatility) and, related to this, the 'chance of regulatory insolvency', 'chance of experiencing a loss' and economic capital adequacy. These comprise our 'Group-level risk appetite metrics'. In addition, a large variety of risk limits, triggers, ratios, mandates, targets and guidelines are in place for all the financial risks (eg credit, market and ALM risks).

Earnings volatility is the level of potential deviation from expected financial performance that Nedbank is prepared to sustain at relevant points on its risk profile. It is established with reference to the strategic objectives and business plans of the group, including the achievement of financial targets, payment of dividends, funding of capital growth and maintenance of target capital ratios.

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

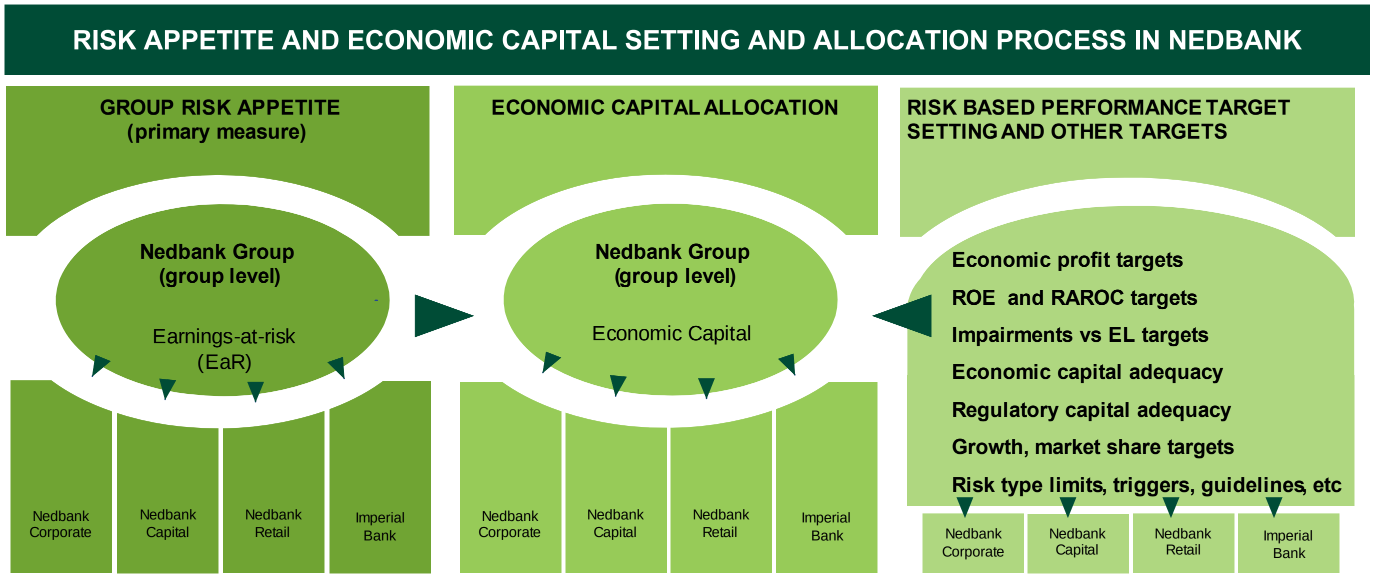
Nedbank Group's risk appetite is defined across five broad categories as set out in our board approved Risk Appetite Framework, namely:

- Group-level risk appetite metrics
- Specific risk-type limit setting (clarifying across our businesses the mandate levels that are of an appropriate scale relative to the risk and reward of the underlying activities so as to minimise concentrations and other risks that could lead to unexpected losses of a disproportionate scale)
- Stakeholder targets (such as target debt rating for economic capital adequacy and dividend policy)
- Policies, procedures and controls
- Zero-tolerance statements

NEDBANK'S 'GROUP LEVEL' RISK APPETITE METRICS				
Group metrics	**Definition**	**Measurement methodology**	**Current targets**	**30 June 2008 Target achieved**
Earnings at risk (EaR)	Pretax earnings potentially lost over a one-year period	Measured as a 1-in-10-year event (ie 90% confidence level)	EaR less than 100% of pretax accounting earnings	✓
Chance of experiencing a loss	Event in which Nedbank Group experiences an annual loss (on an economic basis)	Utilises EaR by comparing with expected profit over the next year	Better than 1 in 10 years	✓
Chance of regulatory insolvency	Event in which losses would result in Nedbank being undercapitalised relative to minimum regulatory capital ratios (both Tier 1 and total capital ratios)	Utilises EaR and compares with capital buffer above regulatory minimum – expressed as a 1-in-x-year chance of regulatory insolvency	1 in 30 to 50 years	✓
Economic capital adequacy	Nedbank adequately capitalised on an economic basis to its current international foreign currency target debt rating	Measured by comparing available financial resources with economic capital requirement	Equivalent rating of A- or better (plus 10% buffer)	✓

Our Risk Appetite Framework is integrated with our economic capital model and the ERMF. The two measures, earnings-at-risk and economic capital, are methodologically very similar and differ primarily in the confidence level used. However, earnings-at-risk is less granular in that it is more difficult to allocate accurately to more granular levels, such as individual portfolios, because of some of the assumptions used (eg assumptions about the loss distribution at the 90% confidence level).

On the other hand, economic capital is more robust than earnings-at-risk when pushed down to more granular levels and has the benefit of being a key part of Nedbank's risk-adjusted-performance-measurement system (ie for ROROC, economic profit measures).



- EaR is a tangible measure for setting the group risk appetite
- EaR is reported at the Cluster/major BU level, but is not as well suited at a detailed management/business level – cluster to tailor and cascade within the business

- Economic Capital is measured at a more granular level and is consistent with RAPM, therefore it is used for granular allocation and target setting
- For some businesses, economic capital is translated into alternate risk measures or limits, eg trading VaR, credit exposures

- Earnings and growth targets, other constraints and limits etc also play a key role in the risk/return target setting and appetite/tolerance process
- Three year strategic planning process and business plans

Nedbank has a cascading system of risk limits at all levels of the group and for all financial risks, which is a core component of the implementation of the Risk Appetite Framework. The size of the various limits is a direct reflection of the board's risk appetite, given the business cycle, market environment, business plans and strategy, and capital planning. All IRRBB and foreign currency translation risk is transferred to Group ALM who, in conjunction with ALCO, would have primary responsibility for managing/hedging the risk.

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

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

NEDBANK ASSESSES AND PROJECTS CAPITAL REQUIREMENTS USING ACTIVE CAPITAL MANAGEMENT INTEGRATED WITH OUR STRATEGY, FINANCIAL PERFORMANCE AND POSITION, RISK PROFILE AND RISK APPETITE

Capital risk and capital management

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

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

Due to very high conservatism build in across the Basel II regulations, the regulatory capital requirements at present exceed Nedbank's economic capital.

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

The Group Capital Management division reports direct to the Chief Financial Officer and are mandated to champion the successful implementation of the Capital Management Framework and ICAAP across the group. The risk and capital management (including ICAAP) responsibilities of the board and Group Exco are incorporated in their respective terms of reference (charters) contained in the ERMF. They are assisted in this regard, and in overseeing the group's capital risk (defined in the ERMF), by the board's Group Risk and Capital Management Committee, and the ALCO and Executive Risk Committee (Group ALCO), respectively.

Group ALCO, in turn, is assisted by the Group Capital Management and Group ALM divisions, and the Capital Management Committee (subcommittee of Group ALCO).

An overview of Nedbank's ICAAP governance and reporting process, and further detail on the above, was provided earlier on page 15.

Capital investment

Group ALM is responsible for managing the investment profile raised through the issue of capital and the internal generation of capital (ie retention of profits). This is integrated into the overall ALCO process of Nedbank Group. Group ALM and Group Capital Management divisions work closely together, both being part of Group Finance division reporting to the CFO.

Our macro-economic factor model provides further science behind ALCO's decisions on what extent to hedge, if at all, the group's capital against interest rate changes and hence the impact on endowment income. This is done by modelling the relationship between changes in credit extension volumes, impairment levels and the group's endowment income when the economic cycle changes and the extent to which a natural hedge exists between them.

Capital structuring, allocation and optimisation

Strategic capital planning

Group Capital Management is responsible for the Group's Strategic Capital Plan (SCP). This is a dynamic plan and process that is updated and reviewed regularly (monthly to ALCO and at least quarterly to the board's Risk and

Capital Management Committee and the full board itself – in addition, the plan is updated and accompanies all capital actions for which board approval is ultimately required).

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

CAPM projects Basel II and economic capital requirements at the current reporting date, current year end and the next three years. This also covers, inter alia, capital requirements, available capital resources, capital buffers, target capital ratios, dividend plan, any constraints or limits, risk appetite metrics and details on proposed capital actions and contingencies.

Each quarter, the group updates its financial forecasts and projected risk parameters, and so updates the projections in the SCP. This would also take into account any actual change in the business environment and/or the group's risk profile, as well as any capital actions (or proposed revisions to previous capital plans, including any new constraints).

This ensures Nedbank Group's capital management is forward looking and pro-active (not re-active), and driven off sophisticated and comprehensive long-run capital planning.

The above process provides 'base case (or expected) projections'. The base case is then stressed using various macro-economic scenarios (eg Pillar 2 stress testing), in addition to risk specific stress testing (eg Pillar 1 stress testing). The scenarios include a mild stress (negative and positive), high stress and severe stress. Detail on this is covered from page 95. The outcome of this stress and scenario testing is the key factor in assessing and deciding upon Nedbank's capital buffers – another key component of the SCP.

As with the group's strategic plan, the SCP is approved by Group Exco (monthly revisions thereto by Group ALCO, a Group Exco sub-committee), the Group Risk and Capital Management Committee and ultimately by the board (including regular revisions during the course of the year).

Capital allocation and risk-adjusted performance measurement (RAPM)

Capital optimisation in Nedbank Group is about seeking an optimal level of capital by optimising the risk profile of the balance sheet through portfolio and value-based management principles, risk-based strategic planning, economic-capital allocation and sound management of the capital buffers. This is achieved by integrating risk-based capital into the group's strategy and aligning this with management's performance measurement, through established governance and management structures, the formal strategic planning process, performance scorecards and as set out in the group's RAPM Framework.

Group Capital Management is thus also responsible for managing the efficient employment of capital across Nedbank Group's businesses, based on economic capital allocation and risk-adjusted performance measurement RAPM.

Managing for value in Nedbank

An ongoing challenge for Nedbank is to extract as much value as possible from the bank's new position as a risk and capital management front-runner from our significant Basel II investment by continuing to build the emerging 'managing for value' culture in Nedbank.

In summary, this 'managing for value' emphasis currently incorporates:

- Comprehensively embedding risk-based economic profit (EP) in the strategic planning and management processes
- Aligning expectations on what 'managing for value' is and is not, and clearly defining this for Nedbank
- More fully integrating finance, risk, capital and strategy together in the business planning process and to enable the strategic thrust of 'risk as an enabler'
- Articulating a revised group financial target fit for the new EP world, supplemented with business unit EP targets

- Quantitative and qualitative strategic position analysis at business unit level for all clusters, involving a heavy emphasis on risk-based economic profit (EP) and so also to drive much enhanced business portfolio reviews at group level, with quantified drivers for risk and growth optimisation
- Quantitative prioritisation of the business-oriented strategic thrusts through high-level EP impact analysis applied to single and appropriately grouped initiatives
- An EP based 'Business Planning Framework' and socialisation of this with the clusters to ensure smoother group-cluster interfacing, and so further embedding the integration of strategy, finance, risk and capital management
- Drill down of the Group-level Risk Appetite metrics (especially Earnings-at-Risk) to business unit level.

Aside from helping to optimise financial performance and shareholder value creation, our enhanced 'managing for value' capabilities will enable us to better operate in a much more capital and liquidity constrained market environment, including our strategic decisions on where and to what extent we choose to allocate the group's capital.

Base case plans, projected financial and capital positions, and long run capital planning

Our extensive strategic planning process, rolling forecasts and integrated capital planning include three year projections of expected (base case) financial performance, Basel II and economic capital risk parameters and requirements compared to available capital resources.

The three year projections are derived from the group's three year business plans (currently 2008 to 2010) which are updated quarterly during the year and revised on a full bottom-up basis annually. These base case plans are then stress tested as discussed later from page 95.

CAPITAL ADEQUACY RELATIVE TO OUR BUSINESS ACTIVITIES, STRATEGY, RISK PROFILE AND THE EXTERNAL ENVIRONMENT IN WHICH WE OPERATE

Regulatory capital adequacy

The capital base of the group provides the foundation for lending, off-balance sheet transactions and other activities. Capital adequacy is measured in terms of the Banks Act, no. 94 of 1990, in terms of which the group must maintain a minimum level of capital based on risk-adjusted assets and off-balance sheet exposures.

The South African and UK registered banks within the group are subject to regulatory capital adequacy requirements under Basel II from 1 January 2008. The Basel II Capital Accord also applies to Nedbank Group, being the banking group.

Consolidation of entities for regulatory purposes is performed in accordance with the requirements of Basel II and the Banks Act and regulations. Some differences exist in the basis of consolidation for accounting and regulatory purposes. These include the deduction of insurance entities and the exclusion of trusts which are consolidated in terms of IFRS but are not subject to regulatory consolidation.

Foreign currency translation reserves that arise in the consolidation of entities in terms of IFRS (June 2008: R528 million) are excluded from qualifying capital. Restrictions on the transfer of funds and regulatory capital within the group in not a material factor. These restrictions mainly relate to those entities, which operate in countries other than South Africa where there are exchange control restrictions in place.

REGULATORY CAPITAL REQUIREMENTS VS QUALIFYING CAPITAL RESOURCES (In Rm)

Risk Type	Nedbank Group		Nedbank Limited	
	June 2008	Dec 2007	June 2008	Dec 2007
Credit risk	**27 127**	26 033	**21 970**	21 657
Credit portfolios subject to AIRB approach (ie Nedbank Limited):	23 204	22 174	21 893	21 576
Corporate, sovereign, bank (incl SME)	12 713	12 130	11 656	11 533
Residential mortgage	6 756	5 724	6 502	5 724
Qualifying revolving retail	672	737	672	737
Other retail	3 063	3 582	3 063	3 582
Credit portfolios subject to standardised approach:	3 834	3 779		
Corporate, sovereign, bank	1 531	1 738		
Retail exposures	2 296	2 041		
Securitisation exposures (IRB approach)	89	81	77	81
Equity risk	**1 452**	1 671	**2 709**	1 427
Portfolios subject to the market-based simple risk weight approach:				
– Listed (300% risk weighting)	67	45	125	45
– Unlisted (400% risk weighting)	1 385	1 626	2 584	1 382
Market risk	**734**	452	**444**	338
Trading portfolios subject to standardised approach	734	452	444	338
Operational risk	**3 289**	2 775	**2 813**	2 450
Portfolios subject to the standardised approach	3 289	2 775	2 813	2 450
Other assets	**1 599**	1 719	**1 105**	918
MINIMUM REGULATORY CAPITAL REQUIREMENTS (note 1 below)	**34 201**	32 650	**29 041**	26 790
QUALIFYING CAPITAL AND RESERVES (see pages 91 and 92)	**41 072**	**37 421**	**35 037**	**30 806**
Net surplus over minimum regulatory capital requirements	**6 871**	**4 771**	**5 996**	**4 016**

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

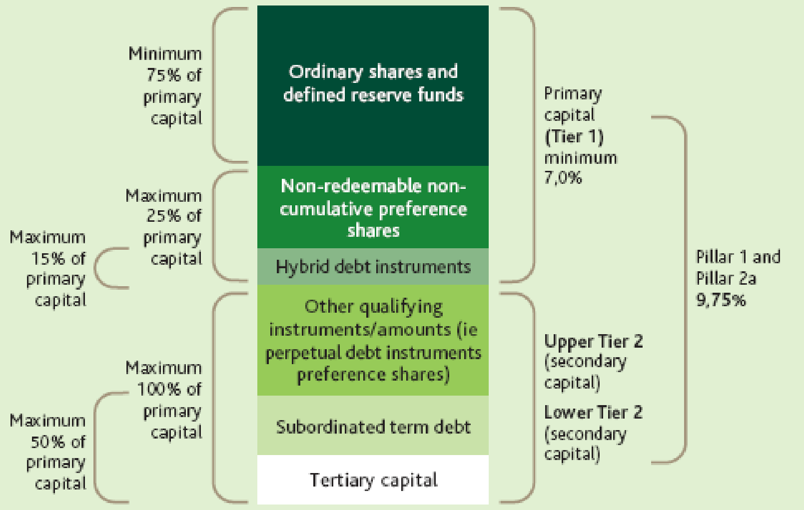
The Pillar 2, principle 3 regulatory capital buffer required to be set by the board is currently 10% above the minimum regulatory ratio set by SARB. However, other considerations (eg rating agencies, peer benchmarking, external environment, etc) are also taken into account in setting the target capital ratio ranges which for Nedbank Group and Nedbank Limited are well above the regulatory minimum levels, namely a total capital ratio target range of 11 to 12% and a Tier 1 capital target range of 8% to 9%.

Currently Nedbank is targeting the top end of these ranges, namely 12% total capital ratio and 9% for Tier 1 capital.

Qualifying regulatory capital and reserves

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

Regulatory minimum capital structure



The qualifying regulatory capital and reserves of Nedbank Group and Nedbank Limited are provided below.

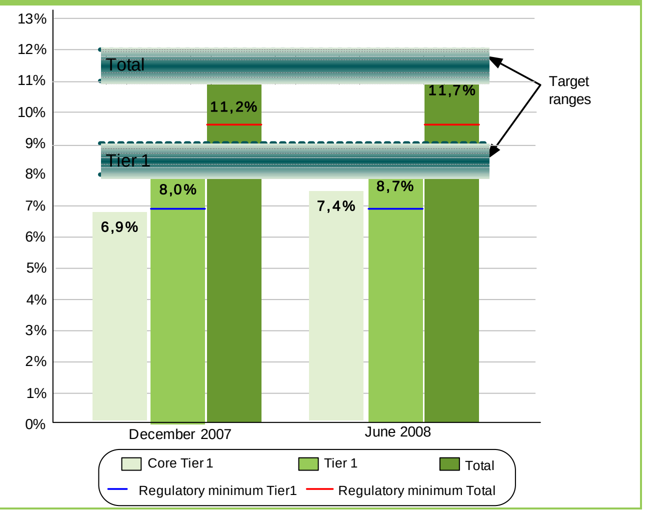
NEDBANK GROUP - QUALIFYING CAPITAL AND RESERVES				
Rm	**30 June 2008**		**Pro forma Basel II 31 December 2007**	
	Rm	**%**	**Rm**	**%**
Tier 1 capital (primary)	**30 485**	**8,7**	26 611	8,0
Core Tier 1 capital	**25 877**	**7,4**	23 190	7,0
Ordinary share capital and reserves	**33 127**		30 193	
Minority interest: ordinary shareholders	**1 550**		1 511	
Impairments	**(118)**		(8)	
Goodwill	**(3 940)**		(3 898)	
Unappropriated profits	**(852)**		(852)	
Excess of expected loss over eligible provisions (50%)	**(814)**		(854)	
First loss credit enhancement i.r.o. securitisation scheme (50%)	**(32)**		-	
Other regulatory differences and non-qualifying reserves	**(3 044)**		(2 902)	
Non-core Tier 1 capital	**4 608**	**1,3**	3 421	1,0
Minority interest: preference shareholders	**3 421**		3 421	
Subordinated Hybrid Debt Instruments	**1 187**		-	
Tier 2 capital (secondary)	**10 287**	**2,9**	10 510	3,1
Long-term debt instruments	**10 876**		10 873	
Excess of expected loss over eligible provisions (50%)	**(814)**		(854)	
General allowance for credit impairment	**192**		350	
Other regulatory differences	**33**		141	
Tier 3 capital (tertiary)	**300**	**0,1**	300	0,1
Total	**41 072**	**11,7**	37 421	11,2

NEDBANK LIMITED - QUALIFYING CAPITAL AND RESERVES				
Rm	30 June 2008		Pro forma Basel II 31 December 2007	
	Rm	%	Rm	%
Tier 1 capital (primary)	**25 457**	**8,6**	21 188	7,7
Core Tier 1 capital	**21 148**	**7,1**	18 066	6,6
Ordinary share capital and reserves	**27 519**		24 949	
Impairments	**(3 095)**		(3 498)	
Goodwill	**(1 126)**		(1 126)	
Unappropriated profits	**(419)**		(604)	
Excess of expected loss over eligible provisions (50%)	**(814)**		(793)	
Other regulatory differences and non-qualifying reserves	**(917)**		(862)	
Non-core Tier 1 capital	**4 309**	**1,5**	3 122	1,1
Preference share capital and reserves	**3 122**		3 122	
Subordinated Hybrid Debt Instruments	**(1 187)**		-	
Tier 2 capital (secondary)	**9 280**	**3,1**	9 318	3,4
Long-term debt instruments	**9 811**		9 815	
Excess of expected loss over eligible provisions (50%)	**(814)**		(793)	
Fifty percent of first loss credit enhancement provided in respect of a securitisation scheme	**(13)**		-	
Revaluation reserves (50%)	**296**		296	
Tier 3 capital (tertiary)	**300**	**0,1**	300	0,1
Total	**35 037**	**11,8**	30 806	11,2

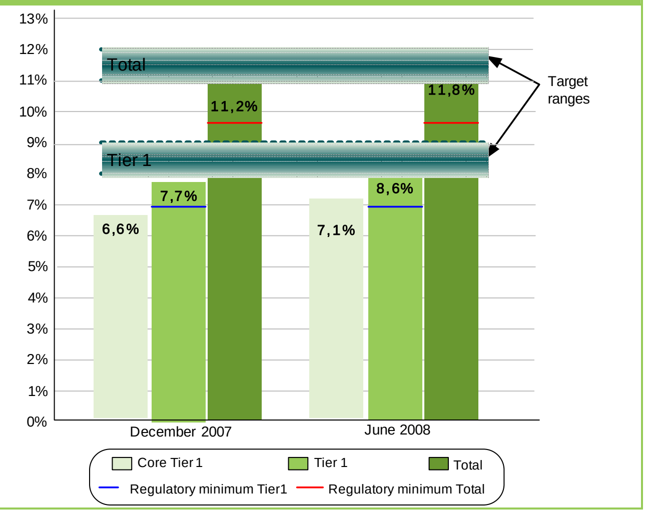
(Note: The share based payment reserve (SBP) and foreign currency translation reserve (FCTR) are excluded at the directive of SARB from Basel II qualifying capital reducing Basel II capital adequacy. These reserves total approximately R1,5 billion in Nedbank Group at 30 June 2008.)

SUMMARY OF NEDBANK'S BASEL II CAPITAL ADEQUACY RATIOS

Nedbank Group



Nedbank Limited



Our 30 June 2008 financial results reflect that the total capital ratios have strengthened to 11,7% (group) and 11,8% (Nedbank), and the Tier 1 capital ratio to 8,7% (group) and 8,6% (Nedbank). In addition, the core Tier 1 ratio has strengthened to 7,4% (group) and 7,1% (Nedbank).

The board expects Nedbank (both the group and bank) to operate within the target ranges, namely 8% to 9% Tier 1 and 11% to 12% in total. As discussed earlier, in view of the current external environment, Nedbank is actively managing up its actual capital ratios to the top end of these ranges by year end 2008.

Growth in risk weighted assets during the first half of 2008 has been 5%, despite an approximate 18% increase in credit advances. This is due to improved data quality and risk parameter enhancements. Further upside exists in reducing excessive risk weighted assets, due to data enhancements and extra-conservatism previously introduced during Basel II implementation.

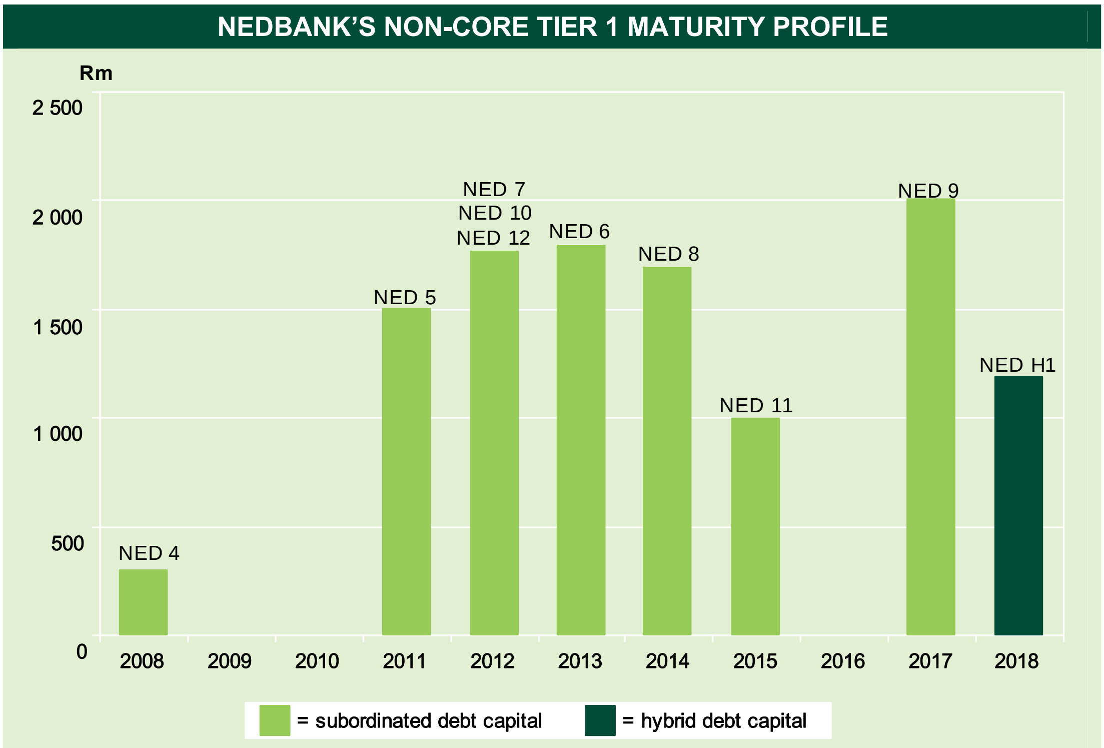
Details of capital instruments issued by Nedbank Group are listed in note 14 to the 30 June 2008 interim financial results on pages 62b and 63b. Nedbank Group's strategic capital management is focused on optimising the level, mix and structure of the capital base. The group continued with its dynamic management of capital with a view to managing Tier 1 capital and the overall capital mix most efficiently, subject to the appropriate shareholder and regulatory approvals, and in careful consideration of the new Basel II regulations.

The following is a summary of our capital management actions over the past eighteen months to 30 June 2008:

- In Q2 2008, South Africa saw its inaugural hybrid debt capital issues, which came from Nedbank (totalling R1,2 billion to 30 June 2008)
- Redeemed the NED2 R4 billion subordinated debt (July 2007)
- Concluded R6,77 billion in subordinated-debt issues. Subordinated-debt issuance was significant during the year due to refinancing of the NED2 R4 billion bond and in support of organic business growth. There are no further significant subordinated-debt redemptions planned prior to 2011
- Included in the above number is a 10-year landmark deal with the International Finance Corporation and African Development bank for R2 billion (NED 9)
- Completed a R1,7 billion Imperial Bank asset securitisation
- Completed a R1,87 billion Nedbank Retail home loan securitisation
- Issued R364 million in perpetual preference shares in April 2007
- Executed no share buybacks.

The group maintained its dividend cover policy at 2,25 to 2,75 times. For half year 2008 the dividend payout was 2,35 times (2007: 2,25 times).

Nedbank has also substantially achieved its objective of a smoothed subordinated debt maturity profile (removing the maturity concentration risk previously associated with the NED1 (R2 billion) and NED2 (R4 billion), in 2006 and 2007 respectively). Further capital issues will continue to build on this.



Our capital plans for 2008 currently include the following:

- Maintain dividend cover policy of 2,25 to 2,75 times
- Tier 1 hybrid and Tier 2 debt issues to support balance sheet growth
- Continued active management of the core Tier 1 and overall capital levels
- Optimisation of risk weighted asset levels.

Capital adequacy of all banking subsidiaries of Nedbank Group

A summary of the banking subsidiaries' regulatory capital adequacy positions at 30 June 2008 is provided below:

		30 June 2008		**31 December 2007**	
(solo supervision)	Country CARs	**Risk weighted assets (Rm)**	**Capital %**	Risk weighted assets (Rm)	Capital %
Nedbank Limited	9,75%	**297 860**	**11,8**	274 773	11,2
Imperial Bank Limited	9,75%	**34 486**	**10,9**	33 909	10,6
Nedbank (Namibia) Limited	10,00%	**3 134**	**14,3**	3 147	11,9
Fairbairn Private Bank (IOM) Limited	10,00%	**3 041**	**15,3**	2 919	12,8
Fairbairn Private Bank Limited	10,00%	**2 192**	**12,3**	1 504	14,7
Nedbank (Swaziland) Limited	8,00%	**967**	**15,6**	582	19,3
Nedbank (Lesotho) Limited	8,00%	**625**	**19,2**	453	21,2
Nedbank (Malawi) Limited	8,00%	**124**	**15,5**	97	12,8

The above entities are all incorporated in Nedbank Group's economic capital and ICAAP process discussed earlier.

Nedbank owns 50,1% of Imperial Bank Limited (IBL) in a JV with Imperial Holdings. Nedbank provides half of the capital needs of IBL but also 100% of its funding requirements. Nedbank expects IBL to operate at regulatory capital ratio targets commensurate with those of Nedbank, and its risk profile.

We conclude that the capitalisation of all these banking entities are adequate, all with conservative risk profiles and well managed and monitored as part of the group's ERMF and ICAAP.

Economic capital adequacy and allocation

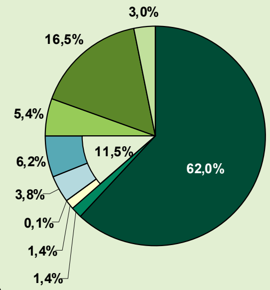
Nedbank Group's economic capital model has been discussed in detail from page 77. Set out below is Nedbank Group's economic capital adequacy.

Nedbank Group's ICAAP confirms that the group is capitalised to its A- or 99,9% target debt rating (or solvency standard) in terms of its proprietary economic capital methodology set out earlier. This includes a 10% capital buffer based on the group's risk appetite metrics and results of stress and scenario testing of the projected base case capital requirements.

NEDBANK GROUP
30 June 2008

Economic capital requirements (by risk type)

	Rm
Credit risk	**15 771**
Transfer risk	**365**
Market risk	**2 926**
Trading risk	360
IRRBB risk	33
Property risk	956
Investment risk (incl Forex risk)	1 577
Operational risk	**1 385**
Business risk	**4 202**
Other Assets risk	**768**
Minimum ECap	**25 417**



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Minimum Economic Capital Requirement
R25 417m

\+

Capital Buffer (10%)
R2 542m

=

Total Economic Capital Requirement
R27 959m

vs.

Available Financial Resources
R34 893m

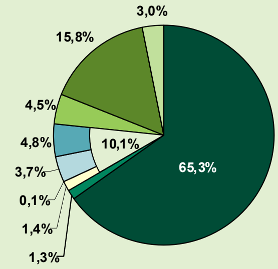
=

Surplus
R6 934m

NEDBANK GROUP
31 December 2007

Economic capital requirements (by risk type)

	Rm
Credit risk	**16 018**
Transfer risk	**317**
Market risk	**2 472**
Trading risk	353
IRRBB risk	31
Property risk	919
Investment risk (incl Forex risk)	1 169
Operational risk	**1 099**
Business risk	**3 885**
Other Assets risk	**730**
Minimum ECap	**24 521**



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Minimum Economic Capital Requirement
R24 521m

\+

Capital Buffer (10%)
R2 452m

=

Total Economic Capital Requirement
R26 973m

vs.

Available Financial Resources
R32 744m

=

Surplus
R5 771m

Overall credit risk economic capital has only increased marginally from 31 December 2007 to 30 June 2008. Although the worsening credit cycle has resulted in increases in the PDs and non-performing loans in Retail, this has been substantially offset by an increase in specific impairments, methodology refinements and the reduction of extra-conservatism built into some of the risk parameters where the underlying data was not as robust as desired and where this has now been addressed.

Property risk has increased mainly as a result of the increase in properties-in-possession due to the worsening economic conditions, while investment risk has increased due to revaluations in the book value of investment exposures. Operational risk increased due to the inclusion of the most recent year of gross income data in the calculation. The increase in business risk is also largely as a result of income growth. Growth in the balance sheet line items making up other assets has resulted in its marginal increase.

BUSINESS CLUSTER SEGMENTAL ANALYSIS (incorporating economic capital allocation)

Rm – six months ended		**Headline earnings**		**RORAC %**	
Cluster	**% change**	Jun 2008	Jun 2007	Jun 2008	Jun 2007
Nedbank Capital	20,0	**600**	500	**35,3**	36,7
Nedbank Corporate	11,8	**1 503**	1 344	**29,5**	27,7
Nedbank Retail	(18,6)	**728**	894	**15,9**	21,9
Imperial Bank	(17,8)	**88**	107	**15,5**	24,3
Operating units sub-total	2,6	**2 919**	2 845	**24,4**	26,5
Shared services		**27**	41		
Central management		**(3)**	(111)		
Total	6,1	**2 943**	2 775	**18,7**	21,2

In conclusion, Nedbank Group's economic capital adequacy remains very strong at its A- target debt rating (solvency standard), with surpluses of R6,9 billion and R2,5 billion at group and Nedbank level, respectively. This after providing for a 10% economic capital buffer. This is higher than South Africa's international foreign currency ratings of BBB+.

External ratings

Nedbank Group, Nedbank Limited and Imperial Bank Limited all received rating upgrades from Moody's and/or Fitch during 2007, (and recently re-affirmed by Fitch in July 2008). This has been very pleasing and recognises the turnaround of our banking group over the past few years.

RATING AGENCIES	Nedbank Group	Nedbank Limited	Imperial Bank Limited
FITCH			
Foreign currency			
Short-term	**F3**	**F2**	
Long-term	**BBB**	**BBB+**	
Long-term rating outlook	**Stable**	**Stable**	**Stable**
Local currency			
Long-term senior	**BBB**	**BBB+**	
Long-term rating outlook	**Stable**	**Stable**	**Stable**
National			
Short-term	**F1 + (zaf)**	**F1+ (zaf)**	**F1+ (zaf)**
Long-term	**AA- (zaf)**	**AA (zaf)**	**AA- (zaf)**
MOODY'S			
Global local currency long-term deposits		**Aa3**	**Aa3**
Global local currency short-term deposits		**Prime-1**	**Prime-1**
Foreign currency – long-term bank deposits		**Baa1**	
Foreign currency – short-term bank deposits		**Prime-2**	
Outlook – foreign currency deposit rating		**Positive**	
National scale rating – long-term bank deposits		**Aa1.za**	
National scale rating – short-term bank deposits		**Prime-1**	

COMPREHENSIVE STRESS AND SCENARIO TESTING FRAMEWORK THAT IS USED TO STRESS OUR BASE CASE PROJECTIONS AND SO ASSESS THE ADEQUACY OF OUR CAPITAL BUFFERS AND TARGET RATIOS

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

Risk relating to procyclicality

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

Nedbank explicitly addresses the issue of procyclicality by an effective capital management process, of which an integral part includes the holistic stress testing of required and available capital under various macro-economic stress scenarios.

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

- Dynamic enterprise-wide risk management is tasked to identify and respond to changing economic conditions (eg tightening of credit lending policies) and sophisticated stress and scenario testing is integrated with active capital management that includes the careful determination of capital buffers

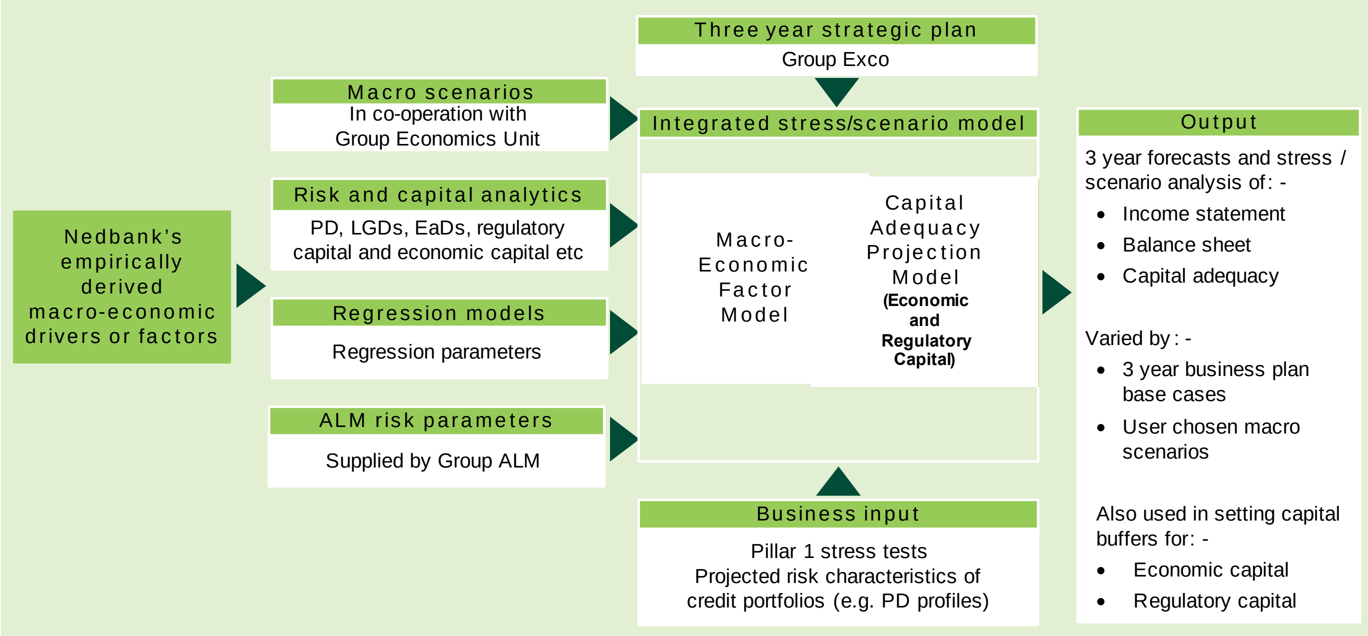
- Nedbank employs advanced credit rating models that are used for risk management, pricing, forward looking planning, etc and therefore are appropriately procyclical (ie PDs increase during times of macro- economic stress)
- Credit rating models are, however, calibrated based on long-term historic average default rates (ie through-the-cycle) of at least 5 years for retail and 7 years for wholesale, and the actual level of PDs in any given year represent a hybrid between a cycle-neutral average and point-in-time default rates
- These credit rating models that are calibrated to long-term average default rates are thus much less procyclical than point-in-time rating models that are used for IFRS accounting purposes, for example
- Due to the fact that PDs are hybrids between cycle-neutral and point-in-time default rates, both Basel II RWA as well as credit economic capital figures are pro-cyclical. This is considered in Pillar 1 stress testing as well as the group wide macro-economic factor model (MEFM) stress testing. The MEFM explicitly models increases in PDs over time for different macro-economic stress scenarios (mild, severe, etc.), differentiated by sub-portfolio
- Nedbank applies a downturn adjustment to all its LGDs used for regulatory capital requirements. Through-the-cycle LGDs, which are utilised for economic capital requirements, are stressed for worsening economic conditions but not adjusted for improved conditions. The MEFM explicitly models increases in through-the-cycle LGDs over time for different macro-economic stress scenarios differentiated by sub-portfolio
- Similarly, the MEFM forecasts the decline in available capital levels due to increased credit impairments in a macro-economic downturn
- The excess of available capital over required capital is called the 'capital buffer'. Capital buffers are employed to ensure that capital adequacy is maintained through economic cycles. Changes in the capital buffers are explicitly modelled for each macro-economic stress scenario and under consideration of appropriate capital actions
- The MEFM is forward looking over the next three-year s, and is run and reported to Group ALCO and the board quarterly. This ensures that management can act timeously as the macro-economic environment changes.

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

Nedbank's approach to macro-economic stress and scenario testing

Stress and scenario testing capabilities were significantly enhanced in 2006 with our building of a proprietary macro-economic factor model (MEFM) and completion of a comprehensive Stress and Scenario Testing Framework. This framework goes beyond the minimum Pillar 1 and Pillar 2 requirements of Basel II and has been integrated with Nedbank's existing risk appetite and capital adequacy projection models as discussed earlier. A high level depiction of the framework is provided below.

OVERVIEW OF NEDBANK'S STRESS AND SCENARIO TESTING FRAMEWORK



The group wide macro-economic factor model is utilised to stress test Basel II regulatory capital, economic capital, expected losses as well as available financial resources for the Nedbank Group and Nedbank for different macro-economic stress events.

Regression based models were developed for credit and business risk as these risk types were the most important (as measured by materiality) and credit risk in particular has proven links to the macro-economic cycle. Structural models were developed for ALM, investment and property risk as these risks were structurally dependent and driven by specific macro factors. Linked models were developed for operational and transfer risk, consistent with the capital adequacy projection model.

Several macro-economic factors were tested in the development of the model to ensure that all possible combinations were considered. The chosen macro-economic factors have undergone extensive data and validation processes, and proved to be the key drivers and best predictors contributing to losses due to the different risk types. All risk types are stressed within the model with the exception of trading and foreign exchange translation risk, which were deemed not material (which are, together with other assets on the balance sheet, less than 5% of risk contribution towards economic capital).

Diversification between risk types is included within the model exactly in the same way as for economic capital. Diversification benefits were determined by looking at diversification between risk types and considering these by looking at Nedbank specific correlations utilising the macro-economic factor model.

NEDBANK'S STRESS TESTING PROCESS AND GOVERNANCE

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

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

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

The result and impacts are provided on both a pre- and post-management intervention basis. Management intervention may include tightening of credit limits, limiting RWA growth in the credit portfolio, especially to high risk clients and so reducing average PDs, and/or raising additional capital than what was originally planned. The results of the stress testing scenarios form part of the Nedbank Group ICAAP which is submitted to the board of Directors and then SARB. The forward looking capability of the stress testing model ensures that management action can be taken in advance when necessary.

We thus are ultimately able to conclude that Nedbank's capital planning and base case projected regulatory and economic capital levels, ratios, targets and buffers, including the results and impacts of the stress and scenario testing applied, are sound and appropriate.

CONCLUSION

Nedbank recognises to become 'worldclass at managing risk' is a journey, not a destination. We believe we have made good progress over the past five years and that our overall risk and capital management (and ICAAP) generally aligns closely with best-practice internationally. Nevertheless, we are continuously enhancing our risk and capital management processes and systems.

In conclusion, and cognisant of the risks and volatility currently inherent in global financial markets, the board of directors believes that both Nedbank Group and Nedbank Limited are adequately and appropriately capitalised, and is satisfied with the overall effectiveness of the processes relating to corporate governance, internal controls, risk management, capital management and capital adequacy.