NEDBANK LIMITED

ANNUAL REPORT

for the year ended 31 December 2011

MAKE THINGS HAPPEN

NEDBANK

A Member of the OLD MUTUAL Group

THE STORY BEHIND THE PICTURE

It is the young generation of today that will one day harvest the fruits of the seeds we sow now.

Nedbank Limited understands the delicate interaction between all the aspects of sustainability, as well as the importance of these for the enduring appeal of the business.

Nedbank Limited's objective of building an organisation that optimises returns to stakeholders and creates a sustainable future is enabled by an integrated approach to all the relevant elements of sustainability.

Nedbank Limited's strategies and operations are therefore focused on entrenching its economic, environmental, social and cultural sustainability to enhance its long-term performance and investment appeal.

The cover of this Nedbank Limited Annual Report 2011 depicts the fundamental interaction between two major interdependent components; the generation of the future and the crucial sustainability elements.

This highlights the interaction of the four sustainability pillars of Nedbank Limited, and the constant influence on each other to ensure the successful and enduring appeal of the business.

The picture shows the four children working together on the same model to create a sustainable future, and is supported by images representing the four sustainability elements:

- Economic – a piggy bank representing the importance of saving for the future.
- Environmental – a watering can – water is a significant environmental issue and represents Nedbank's newly launched water stewardship programme.
- Cultural – a paper cut-out of people representing diversity.
- Social – a toy fork lift representing our commitment to social upliftment.

The children form a circle around the display highlighting the nurturing aspect of our environment.

DISTRIBUTION POLICY

All reports are available in English and can be downloaded at: www.nedbankgroup.co.za.

In line with Nedbank Limited's initiatives on sustainability, we have condensed our printed financial results. The comprehensive Nedbank Limited Annual Report is on the CD attached.

Shareholders, the public and investors may request a printed copy of this version via email at investor.relations@nedbank.co.za.

INVESTOR RELATIONS

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Head of Investor Relations
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Email: nedbankgroupir@nedbank.co.za

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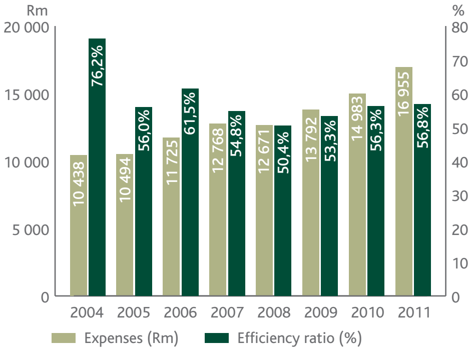
FINANCIAL HIGHLIGHTS

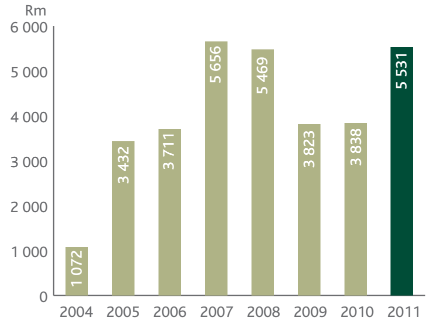
FOR THE YEAR ENDED 31 DECEMBER

		2011	2010
Headline earnings reconciliation			
Profit attributable to equity holders of the parent	Rm	5 483	3 737
Non-headline earnings items	Rm	(48)	(101)
Non-trading and capital items	Rm	(48)	(103)
Taxation on non-trading and capital items	Rm		2
Headline earnings	Rm	5 531	3 838
Key ratios			
Net interest income to average interest-earning banking assets	%	3,21	3,15
Credit loss ratio	%	1,18	1,38
Non-interest revenue to total income	%	42,1	40,4
Efficiency ratio	%	56,8	56,3
Total equity attributable to equity holders of the parent	Rm	39 305	34 730
Return on ordinary shareholders' equity	%	10,9	8,3
Average interest-earning banking assets	Rm	538 064	503 231
Total assets	Rm	613 540	576 490
Return on total assets	%	0,87	0,65
Total risk-weighted assets	Rm	292 619	288 336
Bank capital adequacy ratios: Basel II (including unappropriated profits):			
– Core Tier 1	%	10,7	9,2
– Tier 1	%	12,5	11,1
– Total	%	15,8	14,9
Share statistics			
Number of shares in issue:			
Ordinary shares	m	27,2	27,2
Preference shares	m	358,3	358,3
Weighted average number of ordinary shares	m	27,2	27,2
Headline earnings per ordinary share	cents	20 305	14 090
Dividends per preference share:			
Declared per share	cents	67,500	74,260
Interim		33,47260	38,05479
Final		34,02740	36,20548
Paid per share	cents	69,67808	78,20547
Preference share traded price			
– Closing	cents	1 095	1 070
– High	cents	1 105	1 120
– Low	cents	1 000	1 000
Number of preference shares traded		53,9	43,9

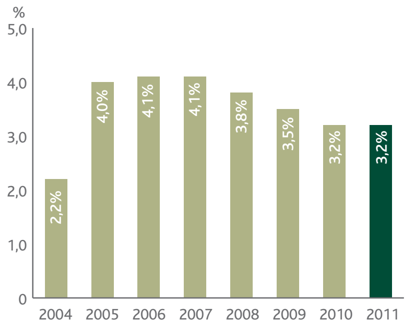
EXPENSES AND EFFICIENCY RATIO



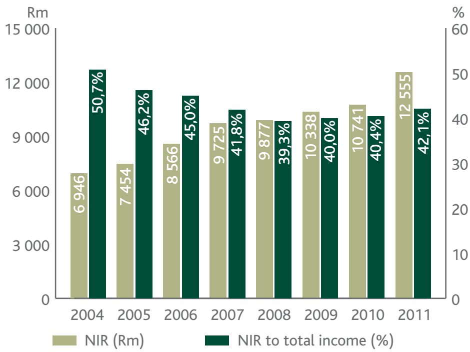
HEADLINE EARNINGS (RM)



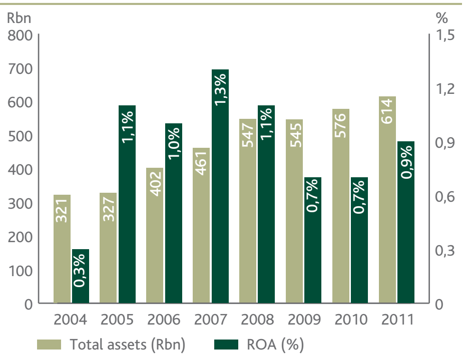
NET INTEREST INCOME TO AVERAGE INTEREST EARNING BANKING ASSETS



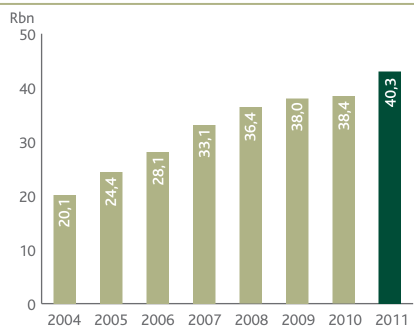
NON-INTEREST REVENUE TO TOTAL INCOME



TOTAL ASSETS AND RETURN ON TOTAL ASSETS



TOTAL EQUITY (Rbn)



EIGHT-YEAR REVIEW: STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

Rm	2011	2010	2009	2008	2007	2006	2005	2004
Interest and similar income	41 417	43 421	49 332	55 154	40 185	27 089	22 574	22 252
Interest expense and similar charges	24 119	27 556	33 795	39 874	26 631	16 600	13 878	15 498
Net interest income	17 298	15 865	15 537	15 280	13 554	10 489	8 696	6 754
Impairments charge on loans and advances	5 321	6 360	6 659	4 755	2 115	1 465	987	1 358
Income from lending activities	11 977	9 505	8 878	10 525	11 439	9 024	7 709	5 396
Non-interest revenue	12 555	10 741	10 338	9 877	9 725	8 566	7 454	6 946
Operating income	24 532	20 246	19 216	20 402	21 164	17 590	15 163	12 342
Total operating expenses	16 955	14 983	13 792	12 671	12 768	11 725	10 494	10 438
Operating expenses	16 876	14 838	13 674	12 484	12 633	11 581	10 195	9 813
Merger and recovery programme expenses							121	625
Black economic empowerment transaction expenses	79	145	118	187	135	144	178	
Indirect taxation	413	387	402	356	298	334	213	459
Profit from operations before non-trading and capital items	7 164	4 876	5 022	7 375	8 098	5 531	4 456	1 445
Non-trading and capital items	(48)	(103)	(32)	745	25	183	833	(47)
Profit from operations before direct taxation	7 116	4 773	4 990	8 120	8 123	5 714	5 289	1 398
Direct taxation	1 610	983	960	1 791	2 185	1 669	935	377
Profit for the year	5 506	3 790	4 030	6 329	5 938	4 045	4 354	1 021
Profit attributable to:								
– Ordinary and preference equity holders	5 483	3 737	3 791	6 097	5 627	3 870	4 161	904
– Non-controlling interest – ordinary shareholders	23	53	224	217	298	243	193	117
– preference shareholders			15	15	13			
	5 506	3 790	4 030	6 329	5 938	4 113	4 354	1 021
Headline earnings	5 531	3 838	3 823	5 469	5 656	3 711	3 432	951

EIGHT-YEAR REVIEW: STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER

Rm	2011	2010	2009	2008	2007	2006	2005	2004
ASSETS								
Cash and cash equivalents	**11 514**	7 469	6 823	7 638	9 545	11 165	10 586	4 163
Other short-term securities	**31 715**	21 955	14 408	10 411	11 775	13 855	9 496	13 426
Derivative financial instruments	**14 314**	14 077	12 871	23 114	9 924	10 314	12 534	23 886
Government and other securities	**29 991**	31 667	35 754	41 834	29 271	22 031	22 505	26 035
Loans and advances	**490 176**	469 527	444 403	433 422	373 185	319 180	249 162	230 609
Other assets	**3 989**	3 613	3 917	4 731	4 920	5 120	5 088	5 512
Clients' indebtedness for acceptances	**2 931**	1 920	2 025	2 998	2 236	2 544	1 248	1 509
Current taxation receivable	**629**	440	580	314	29	138	119	182
Investment securities	**3 549**	2 999	3 012	2 743	2 739	2 385	2 419	2 614
Non-current assets held for sale	**8**	5	12	10		41	66	48
Investments in associate companies and joint ventures	**565**	933	922	913	735	690	397	437
Deferred taxation asset	**66**	48	36	71	65	48	626	1 220
Investment property	**488**	82	102	104	75	66	87	119
Property and equipment	**6 082**	5 394	4 754	4 124	3 757	3 323	3 039	2 767
Long-term employee benefit assets	**2 027**	1 965	1 783	1 667	1 305	1 357	1 225	1 184
Mandatory reserve deposits with central banks	**11 862**	11 068	10 437	10 061	8 351	7 026	5 732	5 419
Intangible assets	**3 634**	3 328	3 151	2 977	2 715	2 605	2 651	1 924
Total assets	**613 540**	576 490	544 990	547 132	460 627	401 888	326 980	321 054
EQUITY AND LIABILITIES								
Ordinary share capital	**27**	27	27	27	27	27	27	27
Ordinary share premium	**14 422**	14 422	14 422	14 422	14 422	14 422	14 422	13 945
Reserves	**24 856**	20 281	18 174	16 927	13 954	9 583	6 263	2 578
Total equity attributable to equity holders of the parent	**39 305**	34 730	32 623	31 376	28 403	24 032	20 712	16 550
Preference share capital and premium	**3 561**	3 560	3 483	3 122	3 122	2 770	2 770	2 770
Non-controlling interest attributable to:								
– ordinary shareholders	**121**	110	1 796	1 644	1 307	955	872	558
– preference shareholders			91	300	300	300		245
Total equity	**42 987**	38 400	37 993	36 442	33 132	28 057	24 354	20 123
Derivative financial instruments	**13 791**	11 930	10 799	23 077	10 336	11 549	15 463	25 979
Amounts owed to depositors	**513 609**	489 118	465 899	461 084	389 290	339 164	271 244	258 801
Provisions and other liabilities	**8 286**	6 179	5 218	6 145	10 419	9 098	5 224	5 158
Liabilities under acceptances	**2 931**	1 920	2 025	2 998	2 236	2 544	1 248	1 509
Current taxation liabilities	**27**	76	162	117	275	338	333	119
Deferred taxation liabilities	**997**	1 358	1 514	1 982	1 470	1 410	774	954
Long-term employee benefit liabilities	**1 473**	1 408	1 298	1 227	1 145	1 210	1 067	1 103
Long-term debt instruments	**29 439**	26 101	20 082	14 060	12 324	8 518	7 273	7 308
Total liabilities	**570 553**	538 090	506 997	510 690	427 495	373 831	302 626	300 931
Total equity and liabilities	**613 540**	576 490	544 990	547 132	460 627	401 888	326 980	321 054
Guarantees on behalf of clients	**27 763**	29 185	27 827	25 154	20 564	15 235	11 064	10 770

SHAREHOLDERS' ANALYSIS – PREFERENCE SHARES

Register date: 31 December 2011
Authorised share capital: 1 000 000 000 shares
Issued share capital: 358 277 491 shares

Shareholder spread	Number of shareholdings	%	Number of shares	%
1 – 1 000 shares	216	3,01	137 156	0,04
1 001 – 10 000 shares	2 790	38,93	17 998 577	5,02
10 001 – 100 000 shares	3 634	50,70	121 606 498	33,94
100 001 – 1 000 000 shares	490	6,84	113 277 822	31,62
1 000 001 shares and over	37	0,52	105 257 438	29,38
Total	7 167	100,00	358 277 491	100,00
Distribution of shareholders				
Banks	4	0,06	104 465	0,03
Close corporations	69	0,96	3 420 356	0,95
Endowment funds	49	0,68	4 660 993	1,30
Individuals	4 669	65,15	129 854 933	36,24
Insurance companies	28	0,39	37 314 505	10,41
Investment companies	6	0,08	21 934 304	6,12
Medical aid schemes	3	0,04	656 930	0,18
Mutual funds	46	0,64	31 175 090	8,70
Nominees and trusts	2 022	28,21	87 537 070	24,43
Other corporations	47	0,66	1 204 778	0,34
Private companies	195	2,72	27 866 592	7,78
Public companies	5	0,07	2 355 766	0,66
Retirement funds	24	0,33	10 191 709	2,84
Total	7 167	100,00	358 277 491	100,00
Public/Non-public shareholders				
Non-public shareholders	10	0,14	24 230 309	6,76
Directors and associates of the company	2	0,03	229 300	0,06
Old Mutual Life Assurance Company (South Africa) Limited and associates	4	0,06	4 854 277	1,35
Nedbank Group Limited and associates	4	0,06	19 146 732	5,34
Public shareholders	7 157	99,86	334 047 182	93,24
Total	7 167	100,00	358 277 491	100,00

There are no beneficial shareholders holding 5% or more.

Major managers	Number of shares	December 2011 % holding	December 2010 % holding
Investec Securities (Pty) Limited (SA)	25 436 641	7,10	7,14
Sanlam Investment Management (SA)	25 381 763	7,08	6,95
Coronation Fund Managers (SA)	18 200 016	5,08	4,43
BoE Private Clients Investment Management (SA)	17 145 445	4,79	5,16
Prescient Investment Management (SA)	15 898 704	4,44	2,93
RMB Private Bank (SA)	10 253 327	2,86	2,51
STANLIB Asset Management (SA)	8 636 644	2,41	2,37
PSG Konsult (SA)	8 026 349	2,24	2,35
Outsurance Insurance Company Limited (SA)	7 586 720	2,12	2,12
Nedgroup Securities (Pty) Ltd	6 903 740	1,93	2,00
Sasfin Frankel Pollak Securities (SA)	6 533 787	1,82	1,45

DIRECTORS' RESPONSIBILITY

FOR THE YEAR ENDED 31 DECEMBER

The directors are responsible for the preparation and fair presentation of the group annual financial statements of Nedbank Limited comprising the statement of financial position at 31 December 2011; the statement of comprehensive income, the statement of changes in equity and statement of cashflows for the year then ended; the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes; and the directors' report in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), the AC 500 standards as issued by the Accounting Practices Board, and the requirements of the Companies Act, 71 of 2008 (as amended).

The directors' responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements so as to be free from material misstatement, whether owing to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as preparing the supplementary schedules included in these financial statements.

The directors have made an assessment of the group's ability to continue as a going concern and there is no reason to believe that the group will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the group annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The group annual financial statements of Nedbank Limited, as identified in the first paragraph, were approved by the Nedbank Board of Directors on 28 February 2012 and are signed on its behalf by:

Dr RJ Khoza
Chairman

MWT Brown
Chief Executive

Sandown
28 February 2012

COMPANY SECRETARY'S CERTIFICATION

In terms of section 88(2)(e) of the Companies Act, 71 of 2008 (as amended), I certify that, to the best of my knowledge and belief, Nedbank Limited has lodged with the Commissioner all such returns and notices as are required by the Companies Act, 71 of 2008 (as amended), and that all such returns and notices are true, correct and up to date.

GS Nienaber
Company Secretary

Sandown
28 February 2012

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF NEDBANK LIMITED

We have audited the accompanying group annual financial statements of Nedbank Limited which comprise the directors' report, the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cashflows for the year then ended, a summary of significant accounting policies and other explanatory notes, and the Remuneration Report as set out on pages 11 to 157 and the sections indicated as audited in the Risk and Balance Sheet Management Review set out on pages 160 to 205.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of Nedbank Limited as at 31 December 2011, and of its financial performance and cashflows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

KPMG Inc

KPMG Inc
Per H Berrange
Chartered Accountant (SA)
Registered Auditor
Director

KPMG Crescent
85 Empire Road, Parktown
Johannesburg
2193

Policy board:
Chief Executive: RM Kgosana
Executive Directors: DC Duffield, A Hari, AM Mokgabudi, D van Heerden
Other directors: LP Fourie, N Fubu, T Fubu, TH Hoole, A Jaffer, M Letsitsi, E Magondo, A Masemola, JS McIntosh, CAT Smit, Y Suleman (Chairman of the Board), A Thunström

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

Sandown
28 February 2012

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per D Shipp
Partner

Building 8, Deloitte Place
The Woodlands, Woodlands Drive
Woodmead, Sandton
2128

National Executive:
GG Gelink (Chief Executive), AE Swiegers (Chief Operating Officer), GM Pinnock (Audit), DL Kennedy (Risk Advisory), NB Kader (Tax), L Geeringh (Consulting), L Bam (Corporate Finance and Legal Services), JK Mazzocco (Human Resources), CR Beukman (Finance), TJ Brown (Chairman of the Board), MJ Comber (Deputy Chairman of the Board)

A full list of partners and directors is available on request.

AUDIT COMMITTEE REPORT

The legal responsibilities of the Nedbank Group Audit Committee ('the committee') are set out in the Companies Act, 71 of 2008 (as amended), and the Banks Act, 94 of 1990 (as amended). These responsibilities, and compliance with appropriate governance and international best practice, are incorporated in the committee's charter which is reviewed annually and approved by the board.

COMPOSITION OF THE COMMITTEE

All independent non-executive directors, with the exception of the Chairman of the board, are eligible to serve on the committee. The Group Directors' Affairs Committee recommends to the board any appointments to or removals from the board, which in turn is responsible for the composition of the committee. The committee has three or more members, all of whom are financially literate, with three members forming a quorum. Access to training is provided on an ongoing basis to assist members in discharging their duties.

The committee comprised the following members during the year and to the date of this report, except where noted otherwise:

- MI Wyman (Chairman) (appointed Chairman 6 May 2011)
- CJW Ball (retired 6 May 2011)
- TCP Chikane
- NP Mnxasana
- Prof B de L Figaji (appointed 18 February 2011)
- WE Lucas-Bull (appointed 24 February 2012)

Biographical details of the current members of the committee are set out on pages 206 to 209. Members' fees are included in the table of directors' remuneration on pages 36 to 38.

The Chief Executive, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Chief Internal Auditor, Chief Governance and Compliance Officer and representatives of the external auditors are invited to attend the committee meetings. The external auditors attend all committee meetings and separate meetings are held to afford them the opportunity to meet with the committee without the presence of management or internal auditors. The internal auditors attend all committee meetings and are similarly afforded the opportunity of separate meetings with the committee.

INTERNAL AUDIT

Internal audit is an independent assurance function, forming part of the third-line of defence as set out in the Enterprisewide Risk Management Framework (ERMF) on pages 160 and 161 of the annual report. The Chief Internal Auditor has a functional reporting line to the committee chairperson and an operational reporting line to the Chief Executive Officer. Further details on the internal audit function are contained in the Enterprise Governance and Compliance Review on pages 424 to 433 of the Nedbank Group Limited Integrated Report.

EXTERNAL AUDIT

The group's external auditors are Deloitte & Touche and KPMG Inc. Fees paid to the auditors are disclosed in note 15 to the annual financial statements on page 96. Further details are contained in the Enterprise Governance and Compliance Review on pages 424 to 433 of the Nedbank Group Limited Integrated Report.

KEY FUNCTIONS AND RESPONSIBILITIES OF THE COMMITTEE

The key functions and responsibilities of the committee as outlined in the charter are to:

- assist the board of directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the group in the day-to-day management of its business;
- facilitate and promote communication on issues that are the responsibility of the committee between the board; management, the external auditors and the Chief Internal Auditor;
- introduce such measures that in the committee's opinion may serve to enhance the credibility and objectivity of financial statements and reports prepared with reference to the affairs of the group;
- nominate for appointment as external auditors of the company registered auditors who, in the opinion of the committee, are independent of the group;
- determine the fees to be paid to the external auditors and the auditors' terms of engagement;
- ensure that the appointment of the external auditors complies with the Companies Act, 71 of 2008 (as amended), and any other legislation relating to the appointment of auditors;
- determine the nature and extent of any non-audit services to the group;
- receive and deal appropriately with any complaints (whether from within or outside the group) relating either to the accounting practices and internal audit of the group or to the contents or auditing of its financial statements, or any other related matters thereto; and
- perform such further functions as may be prescribed.

The committee reports that it has adopted appropriate formal terms of reference to discharge its responsibilities, has regulated its affairs in compliance with its charter and has discharged all of its responsibilities as contained therein.

EFFECTIVENESS OF INTERNAL CONTROL

The committee monitors the group's internal controls for effectiveness and adherence to the ERMF for pragmatic and consistent application, as these form the foundation of successful risk management.

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

The functions of the three lines of defence, as well as the principal responsibilities that extend across the group, are set out in the Risk and Balance Sheet Management Review on pages 160 and 161.

Specific responsibilities of the committee include the following:

INTERNAL CONTROL

- Monitoring management's success at creating and maintaining an effective internal control environment throughout the group and at demonstrating and stimulating the necessary respect for this control environment.
- Monitoring the identification and correction of weaknesses and breakdowns of systems and internal controls.

FINANCIAL CONTROL, ACCOUNTING AND REPORTING

- Monitoring the adequacy and reliability of management information and the efficiency of management information systems.
- Delegating to the Group Information Technology Committee the monitoring of the adequacy and efficiency of the group's information systems and receiving reports thereon.
- Satisfying itself of the expertise, resources and experience of the finance function.
- Reviewing quarterly, interim and final financial results and statements and reporting for proper and complete disclosure of timely, reliable and consistent information.

AUDIT COMMITTEE REPORT ... CONTINUED

- Evaluating on an ongoing basis the appropriateness, adequacy and efficiency of accounting policies and procedures, compliance with International Financial Reporting Standards and overall accounting standards as well as any changes thereto.
- Discussing and resolving any significant or unusual accounting issues.
- Reviewing and monitoring capital expenditure throughout the group for adequate control, monitoring and reporting.
- Reviewing reports from the Group Credit Committee regarding the effectiveness and efficiency of the credit-monitoring process, exposures and related impairments and adequacy of impairment provisions to discharge its board and Banks Act obligations satisfactorily.
- Reviewing and monitoring the effectiveness and efficiency and the management and reporting of tax-related matters.
- Monitoring the management and effectiveness of the accounting and taxation risks as set out in the group's ERMF.
- Reviewing and monitoring all key performance indicators to ensure the appropriate high-level decisionmaking capabilities are maintained at industry levels.
- Reporting annually to the board on the effectiveness of the group's internal financial reporting controls.

INTERNAL AUDIT

- Ensuring direct reporting by the Chief Internal Auditor to the Chairman of the committee.
- Reviewing and approving the Annual Internal Audit Plan.
- Monitoring the effectiveness of the internal audit function in terms of its scope, execution of its plan, coverage, independence, skills, staffing, overall performance and position within the organisation.
- Monitoring and challenging, where appropriate, action taken by management with regard to adverse internal audit findings.
- Forming a view on the adequacy and effectiveness of the control environment.
- Monitoring the bank's compliance with the Basel II Accord.

EXTERNAL AUDIT

- Recommending to the board the selection of the external auditors and approving their audit fees.
- Approving the external auditor's annual plan and related scope of work.
- Monitoring the effectiveness of the external auditors in terms of their skills, independence, execution of audit plan, reporting and overall performance.
- Approving non-audit services to be rendered by the external auditors and monitoring potential conflicts of interest.
- Considering whether the extent of reliance placed on internal audit by the external auditors is appropriate and whether there are any significant gaps between the internal and external audits.
- Obtaining assurance from the external auditors that their independence has not been impaired.

REGULATORY REPORTING

- Reviewing the adequacy of the regulatory reporting processes, including the quality of the Banks Act reporting and the adequacy of systems and people to perform these functions.
- Considering the findings of any audited regulatory reports as relates to the key responsibility of the committee and the monitoring of management actions to resolve any issues identified.
- Performing such other functions as are prescribed in the regulations relating to the Banks Act.

Having considered, analysed, reviewed and debated information provided by management, internal audit and external audit, the committee confirmed that:

- the internal controls of the group have been effective in all material aspects throughout the year under review;
- these controls have ensured that the group's assets have been safeguarded;
- proper accounting records have been maintained;
- resources have been utilised efficiently; and
- the skills, independence, audit plan, reporting and overall performance of the external auditors are acceptable and it recommends their reappointment in 2012.

COMPANIES ACT REQUIREMENTS

In terms of the Companies Act, 71 of 2008 (as amended), the committee is responsible, as set out above, for all subsidiary companies without their own audit committees, which responsibilities include:

- reviewing the formalised process used for performing functions on behalf of subsidiaries; and
- ratifying annually the list of subsidiaries for which responsibility is assumed.

APPROPRIATENESS OF THE EXPERTISE AND EXPERIENCE OF THE CHIEF FINANCIAL OFFICER

In terms of the JSE Listings Requirements, the Audit Committee had, at its meeting held on 20 January 2012, satisfied itself as to the appropriateness of the expertise and experience of the Chief Financial Officer.

ANNUAL REPORT

The committee has overseen the annual reporting process, reviewed the report and has recommended the approval thereof to the board. The board has subsequently approved the annual report.

ANNUAL FINANCIAL STATEMENTS

The committee has:

- Reviewed and discussed the audited annual financial statements included in the integrated report with the external auditors, the Chief Executive and the Chief Financial Officer;
- Reviewed the external auditors' management letter and management's response thereto;
- Reviewed significant adjustments resulting from external audit queries and accepted any unadjusted audit differences; and
- Received and considered reports from the internal auditors.

The committee concurs with and accepts the external auditors' report on the annual financial statements and has recommended the approval thereof to the board. The board has subsequently approved the financial statements, which will be open for discussion at the forthcoming annual general meeting.

MI Wyman
Group Audit Committee Chairman

28 February 2012

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER

ANNUAL FINANCIAL STATEMENTS

Full details of the financial results are set out on pages 14 to 157 of these annual financial statements which have been prepared under the supervision of the Nedbank Chief Financial Officer, Mrs RK Morathi, and audited in compliance with the International Financial Reporting Standards as issued by the International Accounting Standards Board, the AC 500 standards as issued by the Accounting Practices Board, and the requirements of the Companies Act, 71 of 2008 (as amended).

NATURE OF BUSINESS

Nedbank Limited ('Nedbank' or 'the company') is a registered bank that, through its subsidiaries, provides a wide range of banking and financial services. Nedbank maintains a primary listing of its non-redeemable, non-cumulative, non-participating preference share under 'Preference Shares' on JSE Limited (the JSE).

YEAR UNDER REVIEW

The year under review is fully covered in the Chairman's Statement, Chief Executive's Report, operational reviews, Chief Operational Officer's Report and the Financial Report, which are set out in the Nedbank Group Limited Integrated Report.

SHARE CAPITAL

Details of the authorised and issued shares appear in note 38 to the annual financial statements.

OWNERSHIP

The holding company of Nedbank is Nedbank Group Limited whose holding company is Old Mutual Life Assurance Company (South Africa) Limited and associates. Nedbank Group Limited holds 100% of the issued ordinary shares of the company. The ultimate holding company is Old Mutual plc, incorporated in England and Wales. Details of preference shareholders appear on page 6.

DIVIDENDS

Details of the dividends appear on pages 99 and 100 in note 20 to the annual financial statements.

DIRECTORS

Biographical details of the current directors appear on pages 206 to 209. Details of directors' and prescribed officers' remuneration and Nedbank Group Limited ordinary shares and Nedbank Limited non-redeemable, non-cumulative, non-participating preference share issued to directors and prescribed officers appear on pages 26 to 39.

During the period under review and also subsequent to year-end, the following changes occurred to the Nedbank board:

- Mr CJW Ball retired as senior independent director (6 May 2011);
- Mr MI Wyman was appointed as senior independent director (6 May 2011);
- Mr PM Makwana was appointed as an independent non-executive director (17 November 2011); and
- Mr A de VC Knott-Craig resigned as an independent non-executive director (24 February 2012).

The directors who, in terms of the memorandum of incorporation, are required to seek re-election at the annual general meeting are Mesdames TCP Chikane, NP Mnxasana and GT Serobe, and Mr DI Hope and Dr RJ Khoza. Being eligible, they make themselves available for re-election.

The board appointed Mr PM Makwana as director during 2011. In terms of the memorandum of incorporation his appointment terminates at the close of the annual general meeting. He is available for election and a separate resolution to seek his election as a director will be submitted for approval at the annual general meeting to be held on 4 May 2012.

In terms of Nedbank Group Limited policy, as applied by Nedbank, non-executive directors of Nedbank who have served on the board for a period longer than nine years are required to retire from the board. Prof B de L Figaji reached the nine-year limit on 25 November 2011 and retires as a director at the close of the Nedbank Group Limited annual general meeting on 4 May 2012.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER ... CONTINUED

Details of the members of the board who served during the year are given below:

Name	Position as director	Date appointed as director	Date resigned/retired as director (where applicable)
CJW Ball	Non-executive director	1 November 2002	6 May 2011 (resigned)
TA Boardman	Non-executive director	1 November 2002 (1 March 2010 as non-executive)	
MWT Brown	Chief Executive	17 June 2004	
TCP Chikane	Non-executive director	1 November 2006	
A de VC Knott-Craig	Non-executive director	1 January 2009	24 February 2012 (resigned)
GW Dempster	Chief Operating Officer and executive director	5 August 2009	
MA Enus-Brey	Non-executive director	16 August 2005	
B de L Figaji	Non-executive director	25 November 2002	
DI Hope (New Zealand)	Non-executive director	1 December 2009	
RJ Khoza (Dr)	Chairman and non-executive director	16 August 2005	
WE Lucas-Bull	Non-executive director	1 August 2009	
PM Makwana	Non-executive director	17 November 2011	
NP Mnxasana	Non-executive director	1 October 2008	
RK Morathi	Chief Financial Officer and executive director	1 September 2009	
JK Netshitenzhe	Non-executive director	5 August 2010	
JVF Roberts *(British)*	Non-executive director	1 December 2009	
GT Serobe	Non-executive director	16 August 2005	
MI Wyman *(British)*	Non-executive director	1 August 2009	

DIRECTORS' INTERESTS
Nedbank Group Limited holds the issued ordinary shares.

The directors' interests in ordinary shares in Nedbank Group and non-redeemable, non-cumulative non-participating preference shares in Nedbank Limited at 31 December 2011 are set out in the Remuneration Report on page 39.

AUDIT COMMITTEE
The Audit Committee Report appears on pages 9 and 10.

COMPANY SECRETARY AND REGISTERED OFFICE
The Company Secretary is Mr GS Nienaber and his addresses and the registered office are as follows:

BUSINESS ADDRESS
Nedbank Limited
Nedbank Sandton
135 Rivonia Road
Sandown, Sandton, 2196
SA

REGISTERED ADDRESS
135 Rivonia Road
Sandown, Sandton
2196

POSTAL ADDRESS
Nedbank Limited
PO Box 1144
Johannesburg, 2000
SA

PROPERTY AND EQUIPMENT

There was no material change in the nature of the fixed assets of Nedbank or its subsidiaries or in the policy regarding their use during the year.

CONTRACTS

Details of contracts material to the affairs of Nedbank are discussed in the operational review included in the Nedbank Group Limited Integrated Report 2011.

CONTRACTS AND MATTERS IN WHICH DIRECTORS AND OFFICERS OF THE COMPANY HAVE AN INTEREST

No contracts in which directors and officers of the company had an interest and that significantly affected the affairs or business of the company or any of its subsidiaries were entered into during the year.

In 2005 the Wiphold Consortium and the Brimstone Consortium were chosen as active black business partners to assist in growing and repositioning the Nedbank Group business and driving its internal transformation. Aka Capital (Pty) Limited ('Aka Capital') fulfilled the role of business development partner. Consequently, performance agreements were entered into between Nedbank Group and the aforementioned parties which govern, inter alia, the setting of the performance criteria, their evaluation and the resultant performance fees in respect of the black business partners. Dr RJ Khoza is a director and 27% shareholder of Aka Capital. Mrs GT Serobe is founder, executive director and 10% shareholder of Women Investment Portfolio Holdings Limited (WIPHOLD) and Chief Executive of Wipcapital (Pty) Limited, a wholly owned subsidiary of WIPHOLD. Mr MA Enus-Brey is Chief Executive and 8,53% shareholder of Brimstone Investment Corporation Limited and a director of various Brimstone subsidiary companies.

The AKA–Nedbank Eyethu Trust matured on 1 January 2011.

DIRECTORS' AND PRESCRIBED OFFICERS' SERVICE CONTRACTS

There are no service contracts with the directors of the company, other than for the Chairman and executive directors as set out below. The directors who entered into these service contracts remain subject to retirement by rotation in terms of the Nedbank memorandum of incorporation.

The key responsibilities relating to Dr RJ Khoza's position as Chairman of Nedbank are encapsulated in a contract which also addresses, inter alia, his remuneration and term for occupying the position as Chairman.

Service contracts have been entered into for Messrs MWT Brown and GW Dempster, and Ms RK Morathi. These service contracts are effective until the executive directors reach the normal retirement age and stipulate a maximum notice period of six months (12 months for Mr Brown) under most circumstances.

Details relating to the service contracts of prescribed officers are incorporated in the Remuneration Report on page 27.

INSURANCE

The group has placed cover in the London traditional insurance market of up to R1,85bn for losses in excess of R50m. Group captive insurers provide cover for losses that may occur below the R50m level, retaining R100m. Selected insurance covers are placed with the Old Mutual Group.

SUBSIDIARY COMPANIES

Details of principal subsidiary companies are reflected on page 155 of the annual financial statements.

SPECIAL RESOLUTIONS BY SUBSIDIARIES

- 10 March 2011 for the change of name of Imperial Bank Limited to IBL Asset Finance and Services Limited, and on 11 April 2011 for the conversion of perpetual preference shares to redeemable preference shares.
- 30 March 2011 by TP Hentiq 6373 (Proprietary) Limited for the adoption of a new memorandum of incorporation.
- 30 June 2011 by Investage 91 (Proprietary) Limited for the approval of financial assistance in terms of section 45 of the Companies Act.
- 4 July 2011 by BDI Corporate Finance (Proprietary) Limited for the disposal of assets.
- 14 and 19 October and 12 December 2011 by Depfin Investments (Proprietary) Limited for the issue of shares to a related company.

ACQUISITION OF SHARES

Nedbank neither acquired any of its issued shares nor did it acquire any shares issued by a subsidiary company, and no subsidiary company acquired any ordinary shares issued by Nedbank.

EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any other material events that have occurred between the reporting date and 28 February 2012.

REMUNERATION REPORT

STATEMENT FROM THE CHAIRMAN OF THE GROUP REMUNERATION COMMITTEE

It gives me pleasure to report on the Nedbank Group Limited ('the group') performance and related remuneration matters in the 2011 financial year. During 2011 remuneration practices in financial services remained in the global spotlight with ongoing comments and input from shareholders, regulators, governments, organised labour, staff and industry commentators. The Group Remuneration Committee (Group Remco) dealt with a number of remuneration issues, including a thorough review of remuneration policies and practices measured against the Financial Stability Board (FSB) principles, Basel Pillar 3 remuneration disclosure requirements and a review of long-term incentive arrangements.

The overall performance of the group is described in the annual financial statements. A summary of certain key financial and non-financial inputs that are relevant in the context of the group's variable remuneration schemes is provided below:

		2011	2010	Year-on-year change
Headline earnings	(Rm)	**6 184**	4 900	26,2%
Economic profit/(loss)	(Rm)	**924**	(289)	Improvement of R1,2bn
Return on equity (excluding goodwill)	(%)	**15,3**	13,4	Improvement of 190 percentage points
Year-end share price	(cents)	**14 500**	13 035	11,2%
Fini 15 Index		**8 363**	8 171	2,4%
Nedbank staff survey	(%)	**74,4**	75,9	Reduction of 150 percentage points
Barrett staff survey	(%)	**11,0**	13,0	Improvement of 200 percentage points

The Nedbank Group Remuneration Policy aims to ensure that total remuneration is appropriately conservative, structured to attract and retain staff, and aligned with the interests of all our stakeholders in a manner that does not encourage excessive risk-taking.

The group has kept its remuneration policy and principles virtually unchanged since 2007, with additional criteria introduced in 2009 that provided for a significant portion of larger short-term incentive (STI) awards to be deferred and released over time and which include forfeiture rights. Practical implementation of the remuneration policy has led to appropriate reductions in STI pool awards in the group in 2008 and 2009 when the performance of the group deteriorated. This also resulted in zero vesting for all participants of both the 2008 and 2009 performance-based share allocations with corporate performance targets (CPTs). Early indications are that only a partial vesting of the 2010 allocations will occur in 2013.

The performance of the group has improved significantly in both 2010 and 2011 and this is reflected in the increased STI pool awards in both years and an improvement in the anticipated vesting of 2010 and 2011 performance-based share allocations. Careful consideration, detailed evaluation and challenging discussions at Group Remco meetings have contributed to a consistent implementation of a largely unchanged policy. The consistent implementation of the remuneration policy, since 2007, through both good and bad times has resulted in all forms of variable pay decreasing or increasing in a manner that is appropriate for, and aligned with, the changing performance of the group since 2007.

In my 2010 statement I highlighted certain key matters to be considered in 2011. The following table lists the group's actions on these matters during 2011:

Matter for consideration in 2011	Action taken during 2011
In the context of evolving best practice, ensuring that the quantum and construct of total remuneration remains market-related and enables the group to attract key staff in the industry.	Group Remco assessed the current status of all elements of remuneration for the group in relation to market benchmarks at every meeting. Group Remco is satisfied that the group is able to attract and retain key staff.
Ensuring that the demand for remuneration adjustments is realistically related to the SA inflation environment.	During the 2011 annual remuneration review process the group ensured that it maintained a prudent approach to remuneration increases relative to the financial services peer group. Group Remco is satisfied that the group's approach, as a responsible employer, is sufficiently prudent given the nature of labour negotiations in SA.
Continuously assessing the Nedbank Performance Management Framework to ensure that targets set are relevant, appropriate and are driving the desired behaviour within an acceptable risk framework.	The process of formulating performance scorecards for the Group Executive Committee (Group Exco) members was streamlined by reducing the number of elements and focusing more on the risk-related metrics. Group Remco is satisfied that the scorecards appropriately capture the mix of desired performance metrics applicable to Nedbank Group.
Ensuring that the implementation of total remuneration within the group is based on an approach that incorporates a formulaic approach as well as a measure of discretion in an open and transparent process.	The group continued to use a combination of a formulaic and discretionary approach, where all elements of remuneration across the group are open and transparent at the appropriate levels in the organisation. Group Remco is satisfied that this combination approach is appropriate and contains the correct checks and balances.
Conducting a total review of all the employee long-term incentive (LTI) schemes.	Shareholders voted in favour of a revised 2005 Nedbank Employee Share Scheme in May 2011 and Group Remco approved changes to the cash-based scheme for international employees to align with the approved 2005 scheme.

Some of the key challenges Group Remco will be required to consider in 2012 are:

- Ensuring that the group remains compliant with the latest principles of good remuneration governance and practice, including the FSB principles and Basel Pillar 3 disclosure requirements.
- Continuing to have a strong relationship between Group Remco and the Group Risk and Capital Management Committee (GRCMC) and for Group Remco to react appropriately to any concerns or issues raised by the GRCMC.
- Reevaluating the group's approach to variable remuneration within the context of prudent risk-taking and evolving best practice.
- Managing the demand for remuneration adjustments while maintaining job security within a tough economic outlook for 2012.
- Arranging for an independent review of the implementation of the Group Remuneration Policy.

I wish to express my most sincere thanks to my fellow Group Remco members during my tenure as Group Remco Chairman and congratulate them on their efforts to ensure that sound and principled remuneration practices are adhered to in the group. Ms TCP Chikane joined the Group Remco on 24 February 2012 as Chairman designate and will work alongside me until my retirement on 4 May 2012. We were honoured to receive the SA Reward Association Award for the best remuneration report in SA in 2011.

Prof Brian de Lacy Figaji
28 February 2012

REMUNERATION POLICY

Shareholders are requested to vote on the following remuneration policy by means of a non-binding advisory resolution.

There are no material changes to the remuneration policy approved in May 2011, other than certain linguistic and grammatical adjustments.

The Nedbank Group Remuneration Policy for 2012 is quoted below.

OBJECTIVE AND PHILOSOPHY

The purpose and philosophy of the total remuneration approach is to:

- attract, retain, motivate and reward employees appropriately;
- encourage sustainable long-term performance of the group; and
- align performance with the strategic direction and specific value drivers of the business and the interests of stakeholders in a manner that does not encourage excessive risk-taking.

Total reward is a combination of all types of rewards, including financial and non-financial, indirect and direct, intrinsic and extrinsic rewards, and the total remuneration policy forms part of total reward and supports the Nedbank employee value proposition (EVP).

The group's market position is to pay for performance, while ensuring that there is a distribution of remuneration around the market median when performance is on par with predetermined financial and non-financial targets. To this end, all employees have balanced scorecards in place, which are a key input into determining individual remuneration.

In designing the remuneration policy, the group takes cognisance of best practice, the applicable statutory legislation as well as adherence to codes of good remuneration and governance practices.

SCOPE

This policy reflects the board's vision of how remuneration should be managed, namely that it must:

- be a board-approved policy implemented by management;
- describe how total remuneration is to be managed in its various businesses;
- form part of the group's operating philosophy, policies and standards;
- apply to all group companies, including international subsidiaries, subject to local regulatory requirements, and excludes companies in which the group has a private equity investment; and
- be supported by detailed operating policies, procedures, processes and practices at local and business unit level.

TERMINOLOGY

INTERPRETATION AND DEFINITIONS

For the purposes of this policy:

- the masculine gender includes the other genders, and vice versa, and the plural includes the singular, and vice versa;
- the terms 'must,' 'is/are to', 'is/are required to', 'needs/need to' and 'has/have to' are used interchangeably and have the same degree of obligation;
- 'group' means Nedbank Group Limited;
- 'board' means the boards of Nedbank Group Limited and Nedbank Limited;
- 'Group Remco' means the Group Remuneration Committee, a board committee that has ultimate responsibility and accountability for all remuneration-related matters in the group;
- 'GRCMC' means the Group Risk and Capital Management Committee, a board committee established in accordance with the Banks Act, 94 of 1990, and Companies Act, 71 of 2008;
- 'CE' means Chief Executive;
- 'Group Exco' means the Group Executive Committee;
- 'EVP' means employee value proposition;
- 'remuneration' means all moneys received by an employee for services rendered and includes any short-term incentive, long-term incentive and other monetary rewards, but excludes any amounts paid to employees as a reimbursement for expenses incurred in the course of executing duties;
- 'GP' means guaranteed package;
- 'LTI' means long-term incentive, being any award or grant from the group's share-based incentive schemes;
- 'CPT' means corporate performance targets;
- 'STI' means short-term incentive, being all bonuses, annual incentive awards and other cash incentive arrangements; and
- 'regulation', 'regulations' or 'regulatory' means any statute, legislation, subordinate legislation, regulation, code, guideline, guidance note, supervisory requirement or regulatory directive with which the group must by law comply or to which it adheres for the purposes of ensuring good corporate governance.

REMUNERATION PRINCIPLES

- The governance and management of remuneration in the group are undertaken by Group Remco, the Group Exco and management to ensure compliance with applicable regulatory requirements and alignment with codes of good remuneration practice.
- In support of the EVP, the group uses and implements an appropriate mix of total reward for its various employee groups that is designed to attract, motivate and retain talented employees, and that stimulates employee satisfaction and engagement.
- Group Remco has the authority to consult independent remuneration consultants, who provide independent advice to ensure that remuneration in the group is in line with current market practices and complies with legislation.
- The management of remuneration must support and reinforce the group's culture and values.

- The group's remuneration policy must be transparent and communicated to all employees.
- All employees' personal remuneration information must be treated as confidential, be respected and always be dealt with in terms of regulatory requirements.
- All remuneration practices will be aligned with the principles of equity and equality, and implemented on the basis of differentiation in respect of performance.
- In the management of remuneration, internal and external equity are key considerations.
- To achieve internal equity all employees must be rewarded fairly and consistently according to their roles, individual worth and experience, taking cognisance of the group, business unit and individual performance.
- To achieve external equity the group must monitor the relevant job markets continuously to ensure a competitive total reward positioning within the parameters of affordability.
- In terms of labour regulation the group annually assesses its remuneration distribution to ensure fair application and employment practices.
- Premiums for race, gender, specialist skills and other market drivers should be accommodated within broad remuneration ranges.
- Performance management is applied and serves as input into the management of individual employee remuneration.
- The group will provide employees and their dependants with an appropriate level of employee benefits within legislative requirements.

TOTAL REMUNERATION

GUARANTEED PACKAGE

- All employees based in SA, including executive directors, are remunerated on a total-cost-to-company approach. The group has implemented this approach, subject to labour regulations and remuneration practices, in all SA-based operations and certain non-SA entities. The remaining non-SA entities will remain on a salary plus benefit approach.
- The group annually determines the GP earning ranges applicable to all positions. Earnings ranges are benchmarked against market median information, allowing a reasonable range to accommodate different levels of competence, experience, performance and applicable market drivers.
- The group's remuneration position is to pay for performance, while ensuring appropriate distribution around the market median, reflecting the demand for skills.
- Employees can structure their GP within the framework of applicable policies, practices and regulatory requirements.
- Adjustments, as defined in the appropriate relationship agreement, will be agreed annually with the relevant recognised unions (for members of the bargaining unit).
- Group Remco is responsible for approving the overall mandate for the annual remuneration review.
- Adjustments for the members of the Group Exco and the Company Secretary are recommended by the CE to Group Remco and approved by the board.
- The CE's adjustment is recommended by Group Remco and approved by the board and ratified at the agreed holding company level.
- Remuneration adjustments outside the annual remuneration review exercise may be considered under exceptional circumstances and will be subject to the agreed authorisation.

JOB EVALUATION AND MARKET BENCHMARKING

The principles applicable to job evaluation and benchmarking are that all:

- jobs must be sized or benchmarked, using the appropriate methodologies, and matched to the respective market job and earnings ranges;
- job evaluations and market benchmarks must be managed by the appointed job family committees, which are mandated with specific charters;
- job profile changes must be proposed by the line manager and approved by the appropriate job family committee; and
- employees are entitled to see their market match and earnings range.

EMPLOYEE BENEFITS

- All fulltime employees have access to the same employee benefits, subject to regulatory requirements, subsidiary policies and local practices.
- Employees have access to the following benefits:
  - leave;
  - retirement funding;
  - healthcare;
  - disability cover; and
  - death cover.
- Depending on the requirements of a role, the group may allow for certain job-specific structures and/or allowances.
- The service contracts of executive directors are aligned with those of general staff and do not include any golden-parachute arrangements.

SHORT-TERM INCENTIVE SCHEMES

- STIs are designed to reward financial and non-financial performance, desired behaviours and deliverables within an agreed risk framework.
- Group Remco has full and final discretion in respect of all the group STI schemes and arrangements.
- The group operates a Compulsory STI Deferral Scheme, the participation and forfeiture rules of which are annually determined by Group Remco.

- The group operates a Voluntary STI Deferral Scheme, which allows eligible participants to receive additional matched shares on selecting participation and meeting certain criteria.
- A signon bonus scheme is used as a recruitment tool to aid in the acquisition of potential candidates.
- Group Remco approves STI pools on an annual basis.
- Group Remco recommends the STI for the CE and members of the Group Exco to the board for approval. Group Remco approves the STI for the Company Secretary.
- Group Remco approves all individual STIs in excess of 200% of GP.

LONG-TERM INCENTIVE SCHEMES

- LTIs are designed to retain key employees and to align their long-term performance with the interests of shareholders.
- Group Remco considers and approves all LTI scheme arrangements.
- The relevant legal and governance processes are followed in each jurisdiction to approve each scheme.
- The group operates an option and a restricted-share scheme as the approved share-based LTIs.
- LTI awards are allocated in the form of performance shares and retention shares.
- Group Remco approves the corporate performance targets (CPTs) applicable to performance shares.
- Group Remco approves the total LTI pool for the year.
- Group Remco approves on an individual basis all share-based long-term incentive allocations in excess of a defined limit.
- The group operates a Deferred Short-term Incentive (DSTI) Scheme, which is a cash-based LTI scheme.
- In countries where the group is not listed a cash-settled phantom arrangement is used as the LTI vehicle. The terms are designed to mirror the restricted-share scheme, save for cash settlement.
- Group Remco recommends the LTI for the CE and members of the Group Exco to the board for approval. Group Remco approves the LTI for the Company Secretary.

OWNERSHIP SCHEMES

As part of the broader black economic empowerment (BEE) initiative, SA or incountry BEE schemes may also apply, subject to shareholder and regulatory approval.

TOTAL REMUNERATION: NON-EXECUTIVE DIRECTORS

The fees of non-executive directors are reviewed annually, in terms of corporate governance regulations, and approved by shareholders at the annual general meeting (AGM) in advance of implementation on 1 July of each year.

ROLES AND RESPONSIBILITIES

THE BOARD

The board is responsible for the financial reporting and soundness of the group, including the remuneration policy. The board delegates responsibility for this policy to Group Remco.

THE GROUP REMUNERATION COMMITTEE

Group Remco is delegated by the board and is responsible for reviewing and approving the remuneration policy and the strategy related to all reward-related matters for the group.

THE GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE

The GRCMC will, on an annual basis, receive feedback from Group Remco to ensure that the remuneration requirements and practices of the group comply with relevant codes of conduct and best practice, thereby ensuring alignment with the risk appetite and business plan of the group and not encouraging excessive risk-taking.

THE GROUP EXECUTIVE COMMITTEE

The Group Exco is responsible for the proposal and implementation of remuneration strategies, policies and practices for the group.

GROUP REWARDS DEPARTMENT

The Group Rewards Department provides supporting frameworks, guidelines and tools to facilitate the process of remuneration management across the group, including providing cluster human resource managers with ongoing support and assistance.

MANAGEMENT

Management is required to:

- conduct open and honest discussions with employees around individual remuneration;
- ensure fair and equitable remuneration practices;
- consult with Human Resources or the Group Rewards Department should guidance on remuneration practice be required; and
- treat all remuneration data with a high level of confidentiality.

CLUSTER HUMAN RESOURCES

Cluster Human Resources managers:

- are responsible for the remuneration practices at a business level, and support line managers appropriately to ensure that the group provides a place where our people can thrive, and that remuneration principles are applied in a fair and equitable manner;
- must work with line managers to manage remuneration expectations and plan for future strategic business growth; and
- must upskill themselves and line managers to manage remuneration competently by having meaningful conversations with employees.

REMUNERATION REPORT

The Nedbank Group Remuneration Policy is a generic policy that is supported by specific Group Remco decisions as well as internal rules, procedures and processes. This report sets out the consistent implementation of the Nedbank Group Remuneration Policy within the group during 2011, as well as subsequent events in 2012 where applicable.

GROUP REMUNERATION COMMITTEE MEMBERSHIP AND CHARTER

In 2011 Group Remco initially comprised four independent non-executive directors, namely Prof B de L Figaji (Chairman), Mr CJW Ball, Mr MI Wyman and Ms NP Mnxasana and one non-independent non-executive director, namely Mr DI Hope. On 6 May 2011, following the retirement from the board of Mr CJW Ball, Mr MA Enus-Brey was appointed as a non-independent non-executive member of Group Remco. Group Remco met five times during 2011.

On 30 January 2012 Mr PM Makwana was appointed as an independent non-executive member of Group Remco.

Prof B de L Figaji will retire from the board on 4 May 2012 and the board has appointed Ms TCP Chikane to succeed him as Chairman of Group Remco when he retires.

The CE, Chief Operating Officer and Group Executive: Human Resources are permanent invitees to Group Remco meetings and recuse themselves from discussions on their own remuneration.

All members of Group Remco act as trustees of the Nedcor Group (1994) Employee Share Purchase Trust and Nedbank Group (2005) Employee Share Trust, and two members of Group Remco act as trustees of the Nedcor Investment Bank Holdings Trust. Trustee meetings for these schemes were held on 29 November 2011.

The trustees of the Nedcor Investment Bank Holdings Trust resolved that all obligations under the trust had been discharged and that the trust will now be deregistered.

Group Remco functions according to a charter approved by the board of directors of the group. The board delegates responsibility to Group Remco for the investigation and benchmarking of remuneration practices and for considering and approving, according to rules set out in the Group Remco charter, all proposals made on remuneration practices that have a direct or indirect financial impact in the group.

Group Remco's responsibilities, as defined in the Group Remco charter, are to:

- evaluate remuneration proposals and practices for the group to ensure alignment with best practice and the latest governance principles;
- manage the overall financial liability related to all elements of remuneration for the entire group;
- recommend to the board for approval all elements of remuneration on an individual basis for the CE, executive directors and other members of the Group Exco and to approve the above for the Company Secretary;
- review and approve the annual performance scorecards of the CE, executive directors and other members of the Group Exco;
- approve the CPTs related to the vesting of performance-based LTI allocations and matched shares;
- approve overall remuneration increases for all staff;
- approve proposed STI awards to individuals in excess of a defined limit;
- approve, on an individual basis, all share-based LTI allocations in excess of a defined limit;
- review the material terms and conditions of service of all staff of the group (where appropriate) to ensure that they are fair and competitive;
- make recommendations to the board on the remuneration of the Chairman of the board;
- review and comment on proposals for non-executive directors' fees and to submit comments to an independent committee for consideration;
- define the appropriate peer group against which the group remuneration will be evaluated;
- review any issues raised by the GRCMC that are related to remuneration;
- make use of independent external advice when necessary;
- prepare an annual remuneration report for the board for publication in the group's integrated report; and
- report back to the board after each meeting and more frequently if required.

Group Remco applies the guiding principles of the remuneration policy as far as is feasible, but both the board and Group Remco retain the right to use their discretion to deviate from this policy in exceptional circumstances.

As in previous years, a self-assessment of Group Remco was conducted in July 2011 to evaluate Group Remco's effectiveness against the objectives of Group Remco's charter. High-level feedback confirmed the following:

- Group Remco performs its responsibilities according to its charter and has met all of the objectives that have been set.
- There is good interaction between the board and Group Remco.
- Group Remco meetings are productive and well facilitated, with appropriately robust discussions and debate.
- The remuneration of executives is well researched, with good benchmark information against industry standards.

ADVICE TO GROUP REMCO

Group Remco has full access to independent executive remuneration consultants, and has utilised the services of Vasdex Associates (Pty) Ltd in this regard during 2011.

The Old Mutual plc Remuneration Unit also provided Group Remco with advice, specifically around international remuneration practices and trends and the remuneration of the CE.

Group Remco is informed of market-related remuneration information based on a number of independent remuneration surveys in which the group participates. These include PwC Remchannel surveys, the Global Remuneration Solutions Top Executive Remuneration Survey, the LMO Executive Remuneration Survey and a number of smaller niche remuneration surveys. Specialists within the Group Rewards Department collate and analyse the information sourced from external service providers.

EDUCATION OF GROUP REMCO MEMBERS

As part of the ongoing education of directors, Vasdex Associates conducted a training session for all boardmembers regarding the latest principles of good remuneration governance in financial services in July 2011.

REMUNERATION GOVERNANCE

Group Remco is delegated by the board to discharge its corporate governance duties related to remuneration strategy, policy and practices. The board ensures that Group Remco is:

- constituted in a way that enables it to exercise competent and independent judgement on remuneration policy and practices, while also considering the management of risk, capital and liquidity;
- independently engaged by the GRCMC for specific risk-related decisions;
- functioning in compliance with statutory requirements, codes of relevant best remuneration practice as well as applicable regulatory requirements; and
- continuously evolving in terms of risk-adjusted remuneration practices.

In terms of remuneration governance the key roles of Group Remco are:

- actively to oversee the remuneration policy and practices, independently from the Group Exco;
- to ensure that the remuneration policy and practices operate as agreed;
- regularly to review remuneration outcomes, risk and performance measurements and risk outcomes to ensure consistency with intentions;
- actively to oversee all components of remuneration on an individual basis for executive directors and members of the Group Exco; and
- to approve the group's overall STI and LTI pools.

During 2011 the group, along with all other major banking institutions in SA, was requested by the South African Reserve Bank (SARB) to respond to the second FSB thematic peer review of compensation practices questionnaire. During this process the group compiled a self-assessment against the FSB principles and the results of this self-assessment are indicated in the table below.

Item	Weighted average %
Overview of the compensation policies	100
Effective governance of compensation	88
Pay structure and effective alignment of compensation with prudent risk-taking	98
Disclosure	88
Other features of compensation systems	100
Overall result of self-assessment	96

These results were presented to the SARB during an annual visit during September 2011 and the presentation was well received by the SARB. The process further identified areas where some improvement is required and the group undertook to address these issues by April 2012. The following are the four areas identified where the group's self-assessment delivered a 'partial compliance' result.

FSB question/statement	Action to be taken
2.6 What is the role of the risk and compliance functions in setting out compensations policies, and in their implementation? Are the employees of risk and compliance functions compensated in a manner that is independent of the business areas they oversee? Are their performance measures based principally on the achievement of the objectives of their function?	• Both the Group Exco and Group Remco have satisfied themselves that sufficient checks and balances are in place to ensure appropriate STI awards to risk and compliance function employees at senior levels. Group Remco will continue to enhance the independent management of risk and compliance remuneration at all levels.
2.8 Who conducts the annual review of your firm's implementation of the compensations policy, including financial outcomes (eg compensation governing body, internal audit, externally contracted)? What is the role of the firm's governing body in overseeing this review process?	• Group Remco takes independent advice in terms of its remuneration policy and has agreed to an independent review of the implementation of the remuneration policy in 2012.
3.12 How is the group of material risk takers, as defined above, divided into subgroups or categories (eg members of the executive board, other senior executives, the most highly paid employees)?	• Group Remco already approves all STI awards in excess of 200% of the guaranteed package (GP). The group is seeking to refine the definition of material risk-takers into appropriate subgroups or categories.
4.4 For senior executive officers and employees whose actions have a material impact on the risk exposure of the firm, does or will the annual report disclose for each of the two groups, the amount of remuneration for the financial year; amount and form of variable compensation; amount of deferred compensation; new sign-on and severance payments made during the financial year; and the amount of severance payments awarded during the financial year?	• The group does not disclose any remuneration for the category of employee classed as 'employees whose actions have a material impact on the risk exposure of the firm', as this is not currently a disclosure requirement in SA. Group Remco and the Nedbank Group Limited Board reevaluated the disclosure applicable, particularly in the light of the recent changes to the Companies Act, 71 of 2008 (as amended), and will extend the disclosure of remuneration to include both directors and prescribed officers.

The submission further required a pro forma Pillar 3 remuneration disclosure based on the 'Pillar 3 disclosure requirements for remuneration' issued by the Basel committee in July 2011. The group is confident that it will fully comply with all the Pillar 3 remuneration disclosure requirements, as implemented from 1 January 2012.

REMUNERATION ELEMENTS

The group defines total reward as a combination of all types of rewards, including financial and non-financial, indirect and direct, and intrinsic and extrinsic rewards, and its total remuneration policy forms part of total reward and supports the group's EVP.

GUARANTEED PACKAGE

All staffmembers in the group are remunerated on a total-cost-to-company basis or GP, which includes a basic salary, a 13th cheque (if selected), allowances and contributions to benefit funds, except for staffmembers employed in some non-SA countries where the practice is still to pay a basic salary plus benefits.

Contributions from GP can be made to the Nedgroup Medical Aid Scheme, a postretirement medical aid fund, a retirement fund (compulsory), a disability fund and a death benefit scheme. A car allowance/company car contribution may be structured into the package if the employee is required to travel on group business, subject to the requirements of the relevant tax authorities.

Annual increases in guaranteed remuneration are performance- and market-related, based on the local rate of inflation, increases awarded by the relevant peer group, individual performance and affordability. To maintain appropriate remuneration competitiveness relative to the labour market individual remuneration is reviewed regularly and annual increases take effect on 1 April.

For SA, certain staffmembers are covered under a collective bargaining agreement with the South African Society for Banking Officials (SASBO) and the Insurance Banking Staff Association (IBSA) respectively. A total of 16 808 (69,1%) staffmembers constituted the bargaining unit at 31 March 2011. In April 2011 the bargaining unit remuneration bill was increased by 6,5% and non-bargaining unit and executive remuneration bill by 5,5%. In 2010 the bargaining unit remuneration bill was increased by 8,5% and the non-bargaining unit and executive remuneration bill by 6,5% and 5% respectively.

RETIREMENT SCHEMES

The majority of staffmembers as well as all appointees since 1 January 1994 are members of the Nedgroup Defined-contribution Pension or Provident Fund, with a flexible contribution and investment choice. At 31 December 2011 a total of 7 670 staffmembers were members of the Defined-contribution Pension Fund and 17 490 staffmembers were members of the Defined-contribution Provident Fund.

The group also has the closed defined-benefit Nedgroup Pension Fund with 338 active members and 2 898 pensioners at 31 December 2011. The Nedgroup Pension Fund is fully funded with an actuarial surplus.

SIGNON BONUSES

In February 2011 Group Remco approved a signon bonus pool from which the CE could allocate bonuses, at his discretion and on recommendation of the responsible Group Exco member, to prospective staffmembers who meet specific eligibility criteria. The intention of a signon bonus is to act as a recruitment incentive to aid in talent attraction and compensate for potential loss of benefits from the previous employer. For the financial year ended 31 December 2011 R6,8m was allocated to 14 employees, with such allocations having been reviewed and ratified by Group Remco. In 2010 an amount of R5,4m was allocated to 10 employees.

SHORT-TERM INCENTIVE SCHEMES

STIs are intended to encourage particular behaviours and obtain desired results within the agreed risk appetite framework. In the group's environment the STI scheme is also referred to as the annual performance bonus. The group's STI schemes are structured to support collaborative work across different clusters. Group Remco has agreed a set of principles and all group and cluster incentive schemes are designed according to those principles.

Performance is measured at a group, cluster and business unit level against agreed targets after the finalisation of the audited year-end results. The incentive pools for all central clusters are based on a combination of performance relative to the targets in respect of economic profit (EP), headline earnings and cluster-specific non-financial performance scorecards.

In the line income-generating clusters incentive pools are structured with a weighting linked to the group, cluster and, where appropriate, divisional performance. The five line income-generating clusters within the group (Capital, Corporate, Business Banking, Retail and Wealth) are measured against a combination of performance targets, namely EP, headline earnings and non-financial targets. As in previous years, Group Remco continues to institute a control limit whereby there may be no more than a 10% variance between the group topdown performance calculation and the independent bottomup cluster performance calculations.

Distribution of these STI pools is on a discretionary basis, is aligned with market practice and utilises individual performance relative to the agreed deliverables in the performance management process. To take full cognisance of long-term sustainability of performance a portion of the STI earned above a threshold is deferred and remains at risk over a future settlement period.

The overall STI process is illustrated as follows:

Group Remco approves the overall target STI pool, based on criteria to be achieved over the financial year.

Group Remco approves the final STI pool following the audited financial results and assessment of non-financial metrics.

The distribution of the final STI pool to each cluster is approved by the Group Exco and is determined by the overall group, cluster financial and non-financial performance.

Cluster pools are distributed to business units and individual employees based on individual performance.

Final approval and payout is subject to:

- board approval for CE, executive directors and Group Exco payments; and
- individual approval of all STIs in excess of 200% of GP by Group Remco.

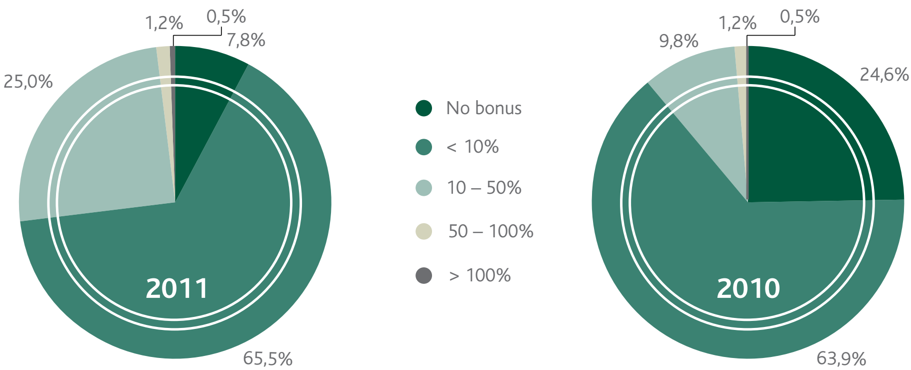
The change in the STI pool is broadly aligned with the change in headline earnings. The scheme incorporates non-financial metrics and thus the 2011 pool has an element of additional reward as a result of the outperformance of the group relative to its non-financial targets.

		2011	2010	Year-on-year change
Headline earnings	(Rm)	6 184	4 900	Improvement of 26,2%
Economic profit/(loss)	(Rm)	924	(289)	Improvement of R1,2bn
STI	(Rm)	1 332	981	Improvement of 35,8%

All individual STI payments in excess of 200% of GP are individually motivated by the respective Group Exco members and individually signed off by Group Remco. For the 2011 financial year Group Remco approved six STI payments in excess of 200% of GP (payable March 2012). In 2010 Group Remco approved 11 STI payments in excess of 200% of GP.

The graphs below illustrate the distribution of the STI/GP ratio for all permanent SA staffmembers for the financial years 2010 and 2011.

NEDBANK GROUP 2010/2011 DISTRIBUTION OF THE STI/GP RATIO



SHORT-TERM INCENTIVE DEFERRAL SCHEME

From financial year 2010 the group implemented a scheme for the compulsory deferral of STIs earned in excess of R1m. In 2010 employees were offered a choice of a share-based or a cash deferral scheme. From 2011 onwards (applicable to STIs paid in March 2012) only a share-based deferral is applicable, which will be determined as 50% of any STI award in excess of R1m.

The release from potential forfeiture of the amount deferred occurs equally in trances after 6, 18 and 30 months. The release is subject to board approval and to no material irregularities having come to light during the period.

A cash-settled compulsory STI deferral is used for all staffmembers employed in the UK who earned an STI in excess of £150 000. No UK staffmembers earned STIs in excess of the threshold for financial year 2011 (payable in 2012).

The deferred amount will be forfeited should the employee resign before the end of the release of outstanding forfeiture obligations as well as in cases where, in the sole opinion of the board, material irregularities in or misrepresentation of financial results come to light during the deferral period. The board will have absolute discretion as to the nature of any action to be taken against the individual, or group of individuals, who may be affected by the transgression. The deferral policy will be reviewed annually.

DEFERRED SHORT-TERM INCENTIVE

The CE is granted a pool by Group Remco for the financial year, within which he may make discretionary deferred short-term incentives (DSTI) allocations to specific individuals. All DSTI payments are individually motivated by the responsible Group Exco member and individually approved by the CE. All allocations are ratified by Group Remco.

The CE and members of the Group Exco are excluded from participating in the scheme, except in circumstances where they received an allocation prior to their appointment as a Group Exco committee member.

During 2011 a total of R27m was allocated and partially paid to 41 staffmembers. In 2010 an amount of R23,7m was allocated and partially paid to 23 staffmembers.

Participants leaving the service of the group before the termination date of the agreed deferral period are required to reimburse the gross initial amount awarded and will forfeit any outstanding balance.

LONG-TERM INCENTIVES

LTIs are awarded with the primary aim of retaining key staffmembers and aligning performance with the interests of shareholders. Criteria and the quantum of allocations are benchmarked annually against market practices. Furthermore, scheme rules and the application thereof are annually evaluated to ensure compliance with legislative and regulatory requirements. The allocation of LTIs is discretionary and based on the following key eligibility criteria:

All LTI allocations are motivated by the Group Exco and approved by Group Remco as trustees of the 2005 Nedbank Employee Share Scheme.

The various LTI schemes are indicated below. The rules of the international Long-term Incentive Plan (LTIP) have been brought in line with the Nedbank SA LTIP, but on a phantom basis.

Name of scheme	Participants and parameters	2011 allocations
1994 Nedcor Group Employee Incentive Scheme	The scheme is closed for new participants and will be terminated when all outstanding options have been exercised.	At 31 December 2011 there were no participants and nil Nedbank Group share options were outstanding. The group is in the process of deregistering the scheme.
2005 Nedbank Employee Share Scheme		
The Option Scheme	At 31 December 2011 there were no participants and nil Nedbank Group share options outstanding.	No allocations were made since 2007.
Restricted Share Scheme: Annual allocations	Group Remco issued restricted shares to eligible participants on the following basis: • 50% performance shares: restricted shares with CPTs • 50% retention shares: restricted shares without CPTs	Annual allocations were made to 1 275 staffmembers on 7 and 8 March 2011. During 2010 annual allocations were made to 1 625 staffmembers. All restricted shares are issued in terms of the approved rules of the scheme at no cost and participants are entitled to receive dividends. In 2011 a total of 3 895 462 restricted shares were issued.
Restricted Share Scheme: On-appointment allocations	On-appointment, restricted-share allocations are offered at the discretion of Group Remco to new senior managers and also to staffmembers who have been appointed to more senior positions and have been recommended for an allocation by the Group Exco. On-appointment allocations take place biannually (and by exception on the date of appointment with specific approval), three trading days after the announcement of the annual and interim financial results. Allocations were made on the following basis: • 50% performance shares: restricted shares with CPTs • 50% retention shares: restricted shares without CPTs	On-appointment allocations were made to a total of 42 staffmembers on 7 and 8 March 2011, 65 staffmembers on 4 and 5 August 2011 and one staffmember on 17 and 18 October 2011. During 2010 on-appointment allocations were made to a total of 114 staffmembers. All restricted shares are issued in terms of the approved rules of the scheme at no cost and participants are entitled to receive dividends. In 2011 a total of 564 102 restricted shares were issued.
Matched Share Scheme	The Matched Share Scheme is used both for the compulsory deferral of certain STI payments as well as the voluntary deferral of a certain amount of the STI granted. Staffmembers have an opportunity to allocate up to 50% of their after-tax STI towards the acquisition of Nedbank Group shares or to deposit Nedbank Group shares to the equivalent value into the trust that administers this scheme. The incentive to do so is a matching of this investment to the equivalent value on a one-for-one basis. The scheme's obligation to deliver or procure the delivery of the matched shares rests on two conditions, namely that: • staffmembers are still in the service of the group on the vesting date (three years after allocation under the Matched Share Scheme) for 50% of the matched shares; and • the group has met an agreed performance target over a three-year period for the remaining 50% of the matched shares.	During 2011 a total of 118 604 shares were allocated to participants of the Matched Share Scheme as only the time-based vesting criteria in respect of participations made in 2008 had been met. During 2010 a total of 67 127 shares were allocated to participants in the Matched Share Scheme.
Phantom Cash-settled Restricted Share Plan	During 2007 Group Remco approved the Phantom Cash-settled Restricted Share Plan for key staffmembers in the UK. The design principles and rules mirror the 2005 Nedbank Employee Share Scheme.	A total of 22 UK staffmembers participated in the scheme during 2011 and 72 608 phantom shares were allocated during this period. During 2010 altogether 19 UK staffmembers participated in the scheme and 67 076 phantom shares were allocated.
Nedbank Africa subsidiary schemes	Approved schemes in Nedbank Namibia and Nedbank Swaziland.	No allocations were made in 2010 and 2011.

The vesting profiles are indicated as follows:

	Issue date	Vesting 2008 2009 2010 2011 2012 2013 2014	Applicable CPTs	Status
2005 Nedbank Employee Share Scheme: – Restricted Share Scheme	04/03/2008		2008 matrix	Zero vesting
	10/08/2008		2008 matrix	Zero vesting
	03/03/2009		2009 matrix	Zero vesting
	04/03/2009		None	Vested
	11/08/2009		None	–
	02/03/2010		ROE and Fini 15	–
	03/03/2010		None	–
	05/08/2010		ROE and Fini 15	–
	06/08/2010		None	–
	07/03/2011		ROE and Fini 15	–
	08/03/2011		None	–
	04/08/2011		ROE and Fini 15	–
	05/08/2011		None	–
2005 Nedbank Employee Share Scheme: – Matched Share Scheme: Compulsory Bonus Share Scheme	01/04/2010	1/3 @6 months, 1/3 @18 months, 1/3 @30 months	Return on equity (ROE) (excluding goodwill) of Nedbank Group Limited of greater than or equal to the cost of equity (COE) (to be determined annually) + 2% over three financial years.	–
	01/04/2011	1/3 @6 months, 1/3 @18 months, 1/3 @30 months		–
– Matched Share Scheme: Voluntary Bonus Share Scheme	01/04/2008			0,5 to 1 share match (Only time-based vesting criteria have been met.)
	01/04/2009			
	01/04/2010			–
	01/04/2011			–

Issue   Vested   Released from forfeiture

CORPORATE PERFORMANCE TARGETS

Group Remco approved the use of a combination of equally weighted internal absolute and external relative CPTs for the performance shares awarded in 2011, which were unchanged from the targets set in 2010. The details of these targets are as follows:

RETURN ON EQUITY RELATIVE TO COST OF EQUITY

Return on equity (ROE) is measured as the simple-average published ROE (excluding goodwill) over a three-year period compared with the simple-average cost of equity (COE) over the same period. Vesting occurs according to the following sliding scale:

Vesting ratios (for 50% of the allocation) based on ROE (excluding goodwill)							
COE + 0% or worse	COE + 1,25%	COE + 2,5%	COE + 3,75%	COE + 5%	COE + 6%	COE + 7%	COE + 8% or better
0%	25%	50%	75%	100%	110%	120%	130%

The target of COE + 5% is aligned to the published group medium-to-long-term performance targets.

SHARE PRICE RELATIVE TO FINI 15

The three-year performance of relative share price movement against movement in the Fini 15 is used as the relative external measure. The Fini 15 calculation is based on a 30-day volume-weighted average price (VWAP) approach for the Nedbank Group closing price and a 30-day simple average for the Fini 15 index. Vesting occurs according to the following sliding scale:

Vesting ratios (for 50% of the allocation) based on share price relative to Fini 15							
Fini 15 - 20% or worse	Fini 15 - 15%	Fini 15 - 10%	Fini 15 - 5%	Fini 15	Fini 15 + 10%	Fini 15 + 20%	Fini 15 + 30% or better
0%	25%	50%	75%	100%	110%	120%	130%

Current best practice regarding good governance of remuneration indicates that CPTs may not be altered once they have been set.

NEDBANK EYETHU EMPLOYEE SCHEMES

The group implemented its black economic empowerment (BEE) staff schemes in August 2005. The following schemes were approved at the time:

- the Black Executive Trust;
- the Black Management Scheme;
- the Broad-based Scheme (fully vested on 27 July 2010); and
- the Evergreen Trust.

Share and share option allocations have been made to new and internally appointed staffmembers since the inception of the schemes, in accordance with the scheme rules and the respective trust deeds.

In 2011 five black staffmembers, compared with two in 2010, were selected as new participants of the Black Executive Trust. These participants, who are in senior management positions with groupwide impact, were identified by the Group Exco and approved by Group Remco. At 31 December 2011 the scheme had a total of 43 black participants.

In 2011 altogether 238 black staffmembers in management positions were identified by the Group Exco and approved by Group Remco as participants of the Black Management Scheme. At 31 December 2011 the scheme had a total of 1 455 participants.

The Evergreen Trust was created with the specific purpose of improving the living standards and personal circumstances of black permanent staffmembers at the lower income levels by providing grants and/or benefits to qualifying employees. During 2011 altogether 15 staffmembers benefited from the trust.

NEDBANK AFRICA EMPOWERMENT SCHEMES

No allocations were made under the Nedbank Swaziland Sinakekelwe Employee Share Scheme and the Nedbank Namibia Ofifiya Black Management Scheme in 2011.

EMPLOYEE DIRECTORSHIPS

In all instances where employees are members of external boards all fees earned accrue to the group.

EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS

PRESCRIBED OFFICERS

The board, as part of evolving best practice, has considered the definition of prescribed officers and resolved that the managing executives of the four line income-generating clusters will be identified as prescribed officers.

INCREASES IN GUARANTEED PACKAGE

The remuneration for the Chief Executive, executive directors and the prescribed officers were adjusted with effect from 1 April 2011. Increases for executive directors and prescribed officers took into account an annual increase in line with the consumer price index (cpi), as well as a market adjustment based on performance and remuneration levels relative to peers, and also considered remuneration data obtained from a number of surveys. The GPs of the CE and other executive directors were considered and recommended by Group Remco, with a further ratification required by Old Mutual plc for the CE.

	GP at April 2012 (R000)	GP at April 2011 (R000)	2011 – 2012 % change	GP at April 2010 (R000)	2010 – 2011 % change
Executive directors					
MWT Brown	6 330	6 000	5,5	5 750	4,3
GW Dempster	4 225	4 000	5,6	3 675	8,8
RK Morathi	3 400	3 150	7,9	2 850	10,5
Prescribed officers					
IG Johnson	4 000	3 600	11,1	3 150	14,3
B Kennedy	3 600	3 400	5,9	3 250	4,6
D Macready	3 000	2 800	7,1	2 400	16,7
MC Nkuhlu	3 325	3 150	5,6	3 000	5,0

RETIREMENT SCHEMES

All executive directors and prescribed officers are members of the Nedgroup Defined-contribution Pension or Provident Fund. There are no defined-benefit liabilities in respect of the executive directors and prescribed officers. Contributions to the retirement funds form part of the GP.

SERVICE CONTRACTS

Service contracts are aligned with the general conditions of service applicable to all group staffmembers, except for specific termination provisions.

Service contracts are subject to the following conditions:

	Termination clause	Retirement age
Chief Executive	12 months	60
Executive directors	six months	60
Prescribed officers	one to three months	60

TERMINATION ARRANGEMENTS

In the event of their services being terminated as a no-fault termination, executive directors and prescribed officers will be entitled to a severance pay equal to two weeks' GP per completed year of service.

No executive director, prescribed officer or staffmember has any additional severance agreements in place. Entitlements for previous LTI grants on termination are dealt with under the relevant scheme rules.

SHORT-TERM INCENTIVE SCHEMES TARGETS

For all executive directors and prescribed officers the STI amounts paid for 2011 were based on a combination of performance against target in respect of the level of group EP, group headline earnings and performance against their individual balanced scorecards.

The dimensions used to measure individual performance are financial, clients, internal processes, transformation and organisational learning.

The broad objectives for each of these dimensions were as follows:

Financial	Delivering sustainable financial outperformance.
Clients	Investing for growth by expanding into the entry-level and middle markets, the public sector and business banking, and implementing the four-tiered African strategy; improving the group's client relations by empowering its clients through delivery of affordable banking; and leading as a corporate citizen.
Internal processes	Enhancing productivity and execution; managing risk as an enabler; growing regulatory and government relationships; and growing stakeholder relations.
Transformation	Accelerating transformation in support of achieving the group's transformation targets, objectives and behaviours.
Organisational learning	Building an innovative and differentiated culture and becoming an employer of choice by creating a great place to work.

The following table presents the way in which the STI awards have been determined based on the assessment of the group headline earnings and EP performance as well as the performance of each executive director and prescribed officer against his or her agreed individual balanced scorecard:

	On-target STI % of GP	Maximum target STI % of GP	% of GP achieved for group and cluster financial measures	% of GP achieved for individual performance and discretion	Final STI as % of GP	Final STI as % of on-target STI
	A		B	C	D = B+C	E = D/A
Executive directors						
MWT Brown	150	250	145	17	162	108
GW Dempster	150	250	145	30	175	117
RK Morathi	150	250	145	7	152	102
Prescribed officers						
IG Johnson	150	250	167	27	194	130
B Kennedy	250	400	135	5	140	56
D Macready	150	250	143	27	170	113
MC Nkuhlu	150	250	141	18	159	106

REMUNERATION REPORT ... CONTINUED

Group Remco is pleased with the performance levels achieved during a challenging year.

TOTAL REMUNERATION

The remuneration of executive directors and prescribed officers for the year ended 31 December 2011 was as follows:

	Basic salary and other benefits[1] (R000)	Defined-contribution Retirement Fund (R000)	Guaranteed remuneration (R000)	STI for FY2011[2] (R000)	Total (R000)	2011 – 2010 % change
Executive directors						
MWT Brown	5 256	727	5 983	9 700	15 683	26
GW Dempster	3 376	590	3 966	7 000	10 966	35
RK Morathi	2 653	377	3 030	4 800	7 830	25
Prescribed officers						
IG Johnson	2 985	525	3 510	7 000	10 510	38
B Kennedy	3 148	235	3 383	4 750	8 133	15
D Macready	2 357	406	2 763	4 750	7 513	23
MC Nkuhlu	2 778	381	3 159	5 000	8 159	18

[1] *This salary includes contributions to the medical aid, postretirement medical aid subsidy, disability insurance and car allowance/company car benefits structured into the package. No additional benefits are offered to executive directors.*
[2] *STI relates to performance in 2011, where 50% of STIs earned in excess of R1m will be deferred in terms of the STI deferral scheme.*

The King III Code requires that the remuneration of the top three earners who are not executive directors be disclosed. The disclosed prescribed officers include the top three earners, and therefore no further disclosure is required.

The remuneration of executive directors and prescribed officers for the year ended 31 December 2010 was as follows:

	Basic salary and other benefits[1] (R000)	Defined-contribution Retirement Fund (R000)	Guaranteed remuneration (R000)	STI for FY2010[5] (R000)	Total (R000)	2010 – 2009 % change[4]
Executive directors						
TA Boardman[2]	1 267	61	1 328		1 328	(91)
MWT Brown	4 790	669	5 459	7 000	12 459	63
GW Dempster[3]	3 090	547	3 637	4 500	8 137	160
RK Morathi	2 446	341	2 787	3 500	6 287	237
Prescribed officers						
IG Johnson	2 644	468	3 112	4 500	7 612	20
B Kennedy	2 964	223	3 187	3 900	7 087	(23)
D Macready	2 003	356	2 359	3 750	6 109	14
MC Nkuhlu	2 545	355	2 900	4 000	6 900	40

[1] *This salary includes contributions to the medical aid, postretirement medical aid subsidy, disability insurance and car allowance/company car benefits structured into the package. No additional benefits are offered to executive directors.*
[2] *Retired on 28 February 2010, as part of the retirement policy, TA Boardman encashed all available leave.*
[3] *A dependent family member of GW Dempster received a study grant of R8 000.*
[4] *The year-on-year % increases reflect the appointment of MWT Brown as Chief Executive designate in July 2009 as well as his appointment as CE on 1 March 2010. GW Dempster was appointed as Chief Operating Officer in September 2009 and RK Morathi as Chief Financial Officer in September 2009. Their respective bonuses reflect a full 12-month performance in 2010 and for 2009 a pro rata period from their dates for appointment as executive directors.*
[5] *STI relates to performance in 2010, where 25% of STIs earned between R1m and R3m and 50% of STIs earned above R3m were deferred in terms of the STI deferral scheme.*

SHARE-BASED ALLOCATIONS

The table below indicates the share-based allocations awarded in March 2012 to the executive directors and prescribed officers:

	LTI allocation with CPTs (number of shares)	LTI allocation without CPTs (number of shares)	Total value at 2012 allocation date (R000)	Total value at 2011 allocation date (R000)	2012 – 2011 % change
Executive directors					
MWT Brown	32 431	32 431	10 500	6 000	75,0
GW Dempster	27 798	27 798	9 000	4 000	125,0
RK Morathi	13 899	13 899	4 500	4 000	12,5
Prescribed officers					
IG Johnson	24 709	24 709	8 000	5 000	60,0
B Kennedy	18 532	18 532	6 000	4 000	50,0
D Macready	15 443	15 443	5 000	4 000	25,0
MC Nkuhlu	15 443	15 443	5 000	5 000	

The table below indicates the share-based allocations awarded in April 2011 to the executive directors and prescribed officers:

	LTI allocation with CPTs (number of shares)	LTI allocation without CPTs (number of shares)	Total value at 2011 allocation date (R000)	Total value at 2010 allocation date (R000)	2011 – 2010 % change
Executive directors					
MWT Brown	23 357	23 357	6 000	10 500	(42,9)
GW Dempster	15 571	15 571	4 000	5 000	(20,0)
RK Morathi	15 571	15 571	4 000	8 600	(53,5)
Prescribed officers					
IG Johnson	19 464	19 464	5 000	6 000	(16,7)
B Kennedy	15 571	15 571	4 000	6 000	(33,3)
D Macready	15 571	15 571	4 000	4 000	
MC Nkuhlu	19 464	19 464	5 000	6 000	(16,7)

RESTRICTED SHAREHOLDING

Nedbank Group issued restricted shares in 2009, with vesting thereof linked to the group meeting certain performance conditions. The SENS announcement of 3 March 2012 relating to executive directors and the Company Secretary confirmed that these conditions were not met and in terms of the rules of the scheme the restricted shares issued by the group lapsed, including those issued to prescribed officers, who are not executive directors.

	Opening balance at 2010				Restricted shares issued during 2011			
	Number of restricted shares	Date of issue	Issue price (R)	Vesting date	Number of restricted shares	Date of issue	Issue price (R)	Vesting date
Executive directors								
MWT Brown	38 613	03/03/2008	120,62	04/03/2011				
	52 812	03/03/2009	75,74	04/03/2012				
	66 015[1]	04/03/2009	75,74	05/03/2012				
	73 766[1]	11/08/2009	108,45	12/08/2012				
	43 360	02/03/2010	121,08	03/03/2013				
	43 360[1]	03/03/2010	121,08	04/03/2013				
					23 357[2]	07/03/2011	128,44	08/03/2014
					23 357[3]	08/03/2011	128,44	09/03/2014
	317 926				46 714			
GW Dempster	33 577	03/03/2008	120,62	04/03/2011				
	52 812	03/03/2009	75,74	04/03/2012				
	52 812[1]	04/03/2009	75,74	05/03/2012				
	27 662[1]	11/08/2009	108,45	12/08/2012				
	20 647	02/03/2010	121,08	03/03/2013				
	20 647[1]	03/03/2010	121,08	04/03/2013				
					15 571[2]	07/03/2011	128,44	08/03/2014
					15 571[3]	08/03/2011	128,44	09/03/2014
	208 157				31 142			
RK Morathi	35 736	02/03/2010	121,08	03/03/2013				
	35 736[1]	03/03/2010	121,08	04/03/2013				
					15 571[2]	07/03/2011	128,44	08/03/2014
					15 571[3]	08/03/2011	128,44	09/03/2014
	71 472				31 142			
Prescribed officers								
IG Johnson	20 146	03/03/2008	120,62	04/03/2011				
	68 115	03/03/2009	75,74	04/03/2012				
	25 357[1]	11/08/2009	108,45	12/08/2012				
	24 777	02/03/2010	121,08	03/03/2013				
	24 777[1]	03/03/2010	121,08	04/03/2013				
					19 464[2]	07/03/2011	128,44	08/03/2014
					19 464[3]	08/03/2011	128,44	09/03/2014
	163 172				38 928			
B Kennedy	33 577	03/03/2008	120,62	04/03/2011				
	52 812	03/03/2009	75,74	04/03/2012				
	52 812[1]	04/03/2009	75,74	05/03/2012				
	24 777	02/03/2010	121,08	03/03/2013				
	24 777[1]	03/03/2010	121,08	04/03/2013				
					15 571[2]	07/03/2011	128,44	08/03/2014
					15 571[3]	08/03/2011	128,44	09/03/2014
	188 755				31 142			
D Macready	8 954	03/03/2008	120,62	04/03/2011				
	19 805	03/03/2009	75,74	04/03/2012				
	20 747[1]	11/08/2009	108,45	12/08/2012				
	16 518	02/03/2010	121,08	03/03/2013				
	16 518[1]	03/03/2010	121,08	04/03/2013				
					15 571[2]	07/03/2011	128,44	08/03/2014
					15 571[3]	08/03/2011	128,44	09/03/2014
	82 542				31 142			
MC Nkuhlu	20 146	03/03/2008	120,62	04/03/2011				
	53 142	03/03/2009	75,74	04/03/2012				
	23 974[1]	11/08/2009	108,45	12/08/2012				
	24 777	02/03/2010	121,08	03/03/2013				
	24 777[1]	03/03/2010	121,08	04/03/2013				
					19 464[2]	07/03/2011	128,44	08/03/2014
					19 464[3]	08/03/2011	128,44	09/03/2014
	146 816				38 928			

[1] *Restricted shares issued with time-based vesting criteria only.*
[2] *Restricted shares were issued on 7 March 2011 with CPTs in terms of the Nedbank Group (2005) Share Option, Matched and Restricted Share Scheme.*
[3] *Restricted shares were issued on 8 March 2011 without CPTs in terms of the Nedbank Group (2005) Share Option, Matched and Restricted Share Scheme.*
[4] *Lapsed on 4 March 2012 due to non-achievement of CPTs.*

Restricted shares vested/lapsed during 2011				**Closing balance at December 2011**			
Number of restricted shares	Date of issue	Issue price (R)	Vesting date	**Number of restricted shares**	**Date of issue**	**Issue price (R)**	**Vesting date**
38 613	03/03/2008	120,62	Lapsed				
				52 812[4]	03/03/2009	75,74	04/03/2012
				66 015[1]	04/03/2009	75,74	05/03/2012
				73 766[1]	11/08/2009	108,45	12/08/2012
				43 360	02/03/2010	121,08	03/03/2013
				43 360[1]	03/03/2010	121,08	04/03/2013
				23 357[2]	07/03/2011	128,44	08/03/2014
				23 357[3]	08/03/2011	128,44	09/03/2014
38 613				326 027			
33 577	03/03/2008	120,62	Lapsed				
				52 812[4]	03/03/2009	75,74	04/03/2012
				52 812[1]	04/03/2009	75,74	05/03/2012
				27 662[1]	11/08/2009	108,45	12/08/2012
				20 647	02/03/2010	121,08	03/03/2013
				20 647[1]	03/03/2010	121,08	04/03/2013
				15 571[2]	07/03/2011	128,44	08/03/2014
				15 571[3]	08/03/2011	128,44	09/03/2014
33 577				205 722			
				35 736	02/03/2010	121,08	03/03/2013
				35 736[1]	03/03/2010	121,08	04/03/2013
				15 571[2]	07/03/2011	128,44	08/03/2014
				15 571[3]	08/03/2011	128,44	09/03/2014
				102 614			
20 146	03/03/2008	120,62	Lapsed				
				68 115[4]	03/03/2009	75,74	04/03/2012
				25 357[1]	11/08/2009	108,45	12/08/2012
				24 777	02/03/2010	121,08	03/03/2013
				24 777[1]	03/03/2010	121,08	04/03/2013
				19 464[2]	07/03/2011	128,44	08/03/2014
				19 464[3]	08/03/2011	128,44	09/03/2014
20 146				181 954			
33 577	03/03/2008	120,62	Lapsed				
				52 812[4]	03/03/2009	75,74	04/03/2012
				52 812[1]	04/03/2009	75,74	05/03/2012
				24 777	02/03/2010	121,08	03/03/2013
				24 777[1]	03/03/2010	121,08	04/03/2013
				15 571[2]	07/03/2011	128,44	08/03/2014
				15 571[3]	08/03/2011	128,44	09/03/2014
33 577				186 320			
8 954	03/03/2008	120,62	Lapsed				
				19 805[4]	03/03/2009	75,74	04/03/2012
				20 747[1]	11/08/2009	108,45	12/08/2012
				16 518	02/03/2010	121,08	03/03/2013
				16 518[1]	03/03/2010	121,08	04/03/2013
				15 571[2]	07/03/2011	128,44	08/03/2014
				15 571[3]	08/03/2011	128,44	09/03/2014
8 954				104 730			
20 146	03/03/2008	120,62	Lapsed				
				53 142[4]	03/03/2009	75,74	04/03/2012
				23 974[1]	11/08/2009	108,45	12/08/2012
				24 777	02/03/2010	121,08	03/03/2013
				24 777[1]	03/03/2010	121,08	04/03/2013
				19 464[2]	07/03/2011	128,44	08/03/2014
				19 464[3]	08/03/2011	128,44	09/03/2014
20 146				165 598			

EYETHU RESTRICTED SHAREHOLDING

	Opening balance at 2010				Restricted shares issued during 2011			
	Number of restricted shares	Date of issue	Issue price (R)	Vesting date	Number of restricted shares	Date of issue	Issue price (R)	Vesting date
Executive director								
RK Morathi	6 600	03/03/2010	121,08	04/03/2017				
	6 600	03/03/2010	121,08	04/03/2017				
	6 800	03/03/2010	121,08	04/03/2017				
	20 000							
Prescribed officer								
MC Nkuhlu	2 720	08/08/2005	74,75	09/08/2011				
	3 960	03/03/2009	75,74	04/03/2013				
	3 960	03/03/2009	75,74	04/03/2014				
	4 080	03/03/2009	75,74	04/03/2015				
	14 720							

EYETHU RESTRICTED OPTION HOLDING

	Opening balance at January 2011				Restricted options issued during 2011			
	Number of options	Date of issue	Issue price (R)	Expiry date	Number of options	Date of issue	Issue price (R)	Expiry date
Executive director								
RK Morathi	19 800	03/03/2010	121,08	04/03/2017				
	19 800	03/03/2010	121,08	04/03/2017				
	20 400	03/03/2010	121,08	04/03/2017				
	60 000							
Prescribed officer								
MC Nkuhlu	8 160	08/08/2005	74,75	09/08/2011				
	11 880	03/03/2009	75,74	04/03/2013				
	11 880	03/03/2009	75,74	04/03/2014				
	12 240	03/03/2009	75,74	04/03/2015				
	44 160							

Restricted shares vested/lapsed during 2011				Closing balance at December 2011			
Number of restricted shares	Date of issue	Issue price (R)	Vesting date	**Number of restricted shares**	**Date of issue**	**Issue price (R)**	**Vesting date**
				6 600	03/03/2010	121,08	04/03/2017
				6 600	03/03/2010	121,08	04/03/2017
				6 800	03/03/2010	121,08	04/03/2017
				20 000			
2 720	08/08/2005	74,75	09/08/2011				
				3 960	03/03/2009	75,74	04/03/2013
				3 960	03/03/2009	75,74	04/03/2014
				4 080	03/03/2009	75,74	04/03/2015
2 720				12 000			

Exercised during 2011				Closing balance at December 2011			
Number of options	Date of exercise/ cancellation	Exercise price (R)	Gain on options exercised (R)	**Number of options**	**Date of issue**	**Issue price (R)**	**Expiry date**
				19 800	03/03/2010	121,08	04/03/2017
				19 800	03/03/2010	121,08	04/03/2017
				20 400	03/03/2010	121,08	04/03/2017
				60 000			
8 160	25/10/2011	141,93	548 190,43				
				11 880	03/03/2009	75,74	04/03/2013
				11 880	03/03/2009	75,74	04/03/2014
				12 240	03/03/2009	75,74	04/03/2015
8 160				36 000			

DSTI AWARDS

In 2008, prior to their appointment to Group Exco, certain prescribed officers received a DSTI award. The table below reflects the final 60% payment made in November 2011.

	DSTI (R000)
Prescribed officers	
IG Johnson	1 500
B Kennedy	
D Macready	750
MC Nkuhlu	1 200

SHARES PURCHASED/COMMITTED UNDER THE MATCHED SHARE SCHEME 2009 – 2011

	Number of shares	Date of inception	Issue price (R)
Executive directors			
MWT Brown	6 578[1]	31/03/2008	117,83
	11 051	31/03/2009	85,28
	4 351[3]	31/03/2010	137,88
	4 895[2]	31/03/2010	137,88
	4 233[3]	31/03/2011	141,72
	10 584[2]	31/03/2011	141,72
	41 692		
GW Dempster	5 941[1]	31/03/2008	117,83
	2 721[3]	31/03/2010	137,88
	4 351[2]	31/03/2010	137,88
	4 233[3]	31/03/2011	141,72
	5 292[2]	31/03/2011	141,72
	22 538		
RK Morathi	2 175[3]	31/03/2010	137,88
	4 233[3]	31/03/2011	141,72
	3 175[2]	31/03/2011	141,72
	9 583		

SHARES PURCHASED/COMMITTED UNDER THE MATCHED SHARE SCHEME 2009 – 2011 CONTINUED

	Number of shares	Date of inception	Issue price (R)
Prescribed officers			
IG Johnson	3 713[1]	31/03/2008	117,83
	3 807[2]	31/03/2010	137,88
	4 233[3]	31/03/2011	141,72
	5 292[2]	31/03/2011	141,72
	17 045		
B Kennedy	2 122[1]	31/03/2008	117,83
	2 931	31/03/2009	85,28
	4 786[2]	31/03/2010	137,88
	4 233[3]	31/03/2011	141,72
	4 022[2]	31/03/2011	141,72
	18 094		
D Macready	1 485[1]	31/03/2008	117,83
	1 172	31/03/2009	85,28
	1 218[2]	31/03/2010	137,88
	3 704[2]	31/03/2011	141,72
	7 579		
MC Nkuhlu	3 807[2]	31/03/2010	137,88
	3 807		

[1] *50% of the ordinary shares was matched on 31 March 2011 in terms of the rules of the Nedbank Group (2005) Matched Share Scheme.*
[2] *Participated in the Compulsory Bonus Share Scheme.*
[3] *Participated in the Voluntary Bonus Share Scheme.*

NON-EXECUTIVE DIRECTORS

The terms of engagement of the non-executive directors (excluding the Chairman) cover a period of three years, as determined by the rotation requirements of the group's memorandum of incorporation. A non-executive director is required to retire at age 70, unless the board determines otherwise. Any non-executive director serving for a period in excess of nine years is required to retire from the board.

The Chairman's appointment was effective from 4 May 2006. In terms of the memorandum of incorporation the chairman is reelected annually by the board.

Following Mr CJW Ball's retirement from the board, Mr MI Wyman was appointed as the senior independent director on 6 May 2011. Mr PM Makwana was appointed as an independent non-executive director on 17 November 2011.

REMUNERATION

Group Remco and the board debated the King III principle of splitting non-executive director fees to reflect a retention and attendance fee. The board is of the view that, irrespective of the attendance of meetings, directors are accountable for decisions taken and would do the necessary board preparation. As a result the board agreed to retain a single fee for non-executive directors.

Board and board committee meeting attendance is recorded in the Enterprise Governance and Compliance Review on pages 424 to 433 of the Nedbank Group Limited Integrated Report.

Non-executive directors' remuneration for the years ended 31 December 2011 and 31 December 2010 was as follows:

	Appointment date	Termination date	Note	Board meeting fees (R000)	Committee meeting fees (R000)	2011 (R000)	2010 (R000)
CJW Ball		May 2011	1, a	137	245	382	1 222
TA Boardman	March 2010		2, c	430	369	799	519
TCP Chikane			d	288	430	718	616
A de VC Knott-Craig		February 2012		288	281	569	528
MA Enus-Brey			1, e	288	476	764	687
B de L Figaji			f	288	471	759	595
RM Head		February 2010	3	–	–	–	58
DI Hope			3, g	288	207	495	475
RJ Khoza			4			3 677	3 439
WE Lucas-Bull			h	288	466	754	740
PM Makwana	November 2011			11	–	11	–
PJ Moleketi		March 2010		–	–	–	81
NP Mnxasana			1	288	308	596	643
JK Netshitenzhe	August 2010		i	288	108	396	151
JVF Roberts			3	288	51	339	344
GT Serobe			2, j	288	159	447	785
MI Wyman			b	358	348	706	448
Total				3 816	3 919	11 412	11 331

1 Includes fees for board, subsidiary board and committee memberships (including Imperial Bank) for the year 2010.
2 Includes fees for board and committee memberships (including Mutual & Federal) for the years 2010 and 2011.
3 Fees for RM Head, JVF Roberts and DI Hope are paid to Old Mutual (SA) Limited for 2010 and 2011.
4 Excludes £66 000 as fees earned for board and committee memberships for Old Mutual for 2011.
a CJW Ball retired from the board on 6 May 2011.
b MI Wyman was appointed as the senior independent director on 6 May 2011, and appointed as a member of the GRCMC on 14 November 2011.
c TA Boardman was appointed as a member of the Group Transformation and Sustainability Committee on 6 May 2011 and appointed as Chairman of the Group IT Committee and a member of the Group Finance and Oversight Committee on 24 February 2012.
d TCP Chikane was appointed as a member of the Group Credit Committee on 6 May 2011, and appointed as Chairman designate of Group Remco on 24 February 2012. TCP Chikane resigned as Chairman of the Group Transformation, Social and Ethics Committee, but remained a member from 24 February 2012.
e MA Enus-Brey was appointed as a member of Group Remco on 6 May 2011.
f Prof B de L Figaji was appointed as a member of the Audit Committee on 18 February 2011.
g DI Hope was appointed as a member of the Group Finance and Oversight Committee as well as Group Remco on 19 February 2010.
h WE Lucas-Bull was appointed as a member of the Group IT Committee on 6 May 2011, as Chairman of the Group Credit Committee on 1 July 2011 and as a member of the Group Audit Committee on 24 February 2012.
i JK Netshitenzhe was appointed as a non-executive director to Nedbank Limited and Nedbank Group on 5 August 2011.
j GT Serobe was appointed as Chairman of the Group Transformation, Social and Ethics Committee on 24 February 2012.

NON-EXECUTIVE DIRECTORS' FEES

The group has consolidated the previous Executive Credit Committee and Group Credit Committee into a newly constituted Group Credit Committee, which includes the Large-exposures Approval Committee. This consolidation represents an overall saving in cost on a like-for-like basis.

An independent subcommittee, consisting of Messrs MWT Brown, GW Dempster and DI Hope, has evaluated the respective committee fees from a number of perspectives, including peer group comparisons, effective rates per committee and year-on-year increases. They have proposed increases to certain committees where these committee fees are either lagging market comparisons or where the growing importance and responsibility of the committee were deemed to warrant a larger increase.

The board and committee fees for non-executive directors for committee membership are as follows:

	2011 (R)	2012[3] (R)	% change[2]
Boards			
Chairman of the board[1]	**3 775 000**	4 000 000	6,0
Senior independent director[4]	**118 400**	126 000	6,4
Nedbank Group Limited	**161 000**	171 500	6,5
Nedbank Limited	**135 000**	143 500	6,3
Committees			
Group Audit Committee	**126 000**	145 000	15,1
Group Finance and Oversight Committee	**22 000**	23 500	6,8
Group Remco	**80 000**	85 000	6,3
GRCMC	**110 000**	122 000	10,9
Group Credit Committee[5]	**178 000**	145 000	(18,5)
Group Directors' Affairs Committee	**52 000**	55 000	5,8
Group IT Committee	**52 000**	75 000	44,2
Group Transformation, Social and Ethics Committee	**73 000**	75 000	2,7

[1] *The Nedbank Group Chairman's fees include his fees for board, subsidiary board and committee memberships.*
[2] *Based on 2011 fees, the increase (%) is applied to align the board fees with local market practices.*
[3] *Subject to shareholders' approval at the AGM on 4 May 2012.*
[4] *An additional fee of 40% of the Nedbank Group and Nedbank Limited Board member fees is paid to the senior independent director.*
[5] *The Group Credit Committee and Executive Credit Committee were combined into one committee with effect from 1 July 2011. The annual fee for 2011 illustrates the combined fee for both committees, while the 2012 fee illustrates the fee for the combined committee.*

The overall increase on a like-for-like basis has been determined as 6,1%.

Committee chairmen (other than the Chairman of the Nedbank Group Directors' Affairs Committee) receive double the member fees. Fees payable to the non-executive directors and the Nedbank Group Chairman are reviewed annually and adjustments are considered by an independent subcommittee of Group Remco.

The Group Chairman's fees are reviewed annually and adjustments are considered by an independent subcommittee appointed by Group Remco. The above increases are effective from 1 July 2012, subject to shareholders' approval at the 4 May 2012 AGM. As the proposed fees will be applicable from 1 July 2012 to 30 June 2013, the committee members will be paid the 2011 fees from 1 January 2012 to 30 June 2012, until the increase is approved by the shareholders.

NEDBANK EYETHU SCHEMES FOR NON-EXECUTIVE DIRECTORS

In 2005 shareholders approved the Nedbank Eyethu schemes, which included two trusts in which non-executive directors were direct or indirect beneficiaries. A feature of the trusts was that the Nedbank Group ordinary shares held by the trusts were locked in until 1 January 2011. The schemes included a right by Nedbank Group to repurchase shares from the trusts at a nominal value within a short period from the expiry of the lock-in dates. Nedbank Group exercised its rights and repurchased the shares on 6 January 2011.

THE AKA–NEDBANK EYETHU TRUST

The trust held 2 130 822 Nedbank Group ordinary shares at 31 December 2010. It was announced on 6 January 2011 that Nedbank Group had exercised its call option and repurchased 1 321 260 shares held by the trust. Further announcements were made on 15 April 2011 and 18 April 2011 advising that the remaining 809 562 shares had been sold by the trust and that the trust no longer holds any Nedbank Group shares. Aka Capital (Pty) Ltd is the sole beneficiary of the trust and Dr RJ Khoza, non-executive Chairman of Nedbank Group Ltd, has an indirect beneficial interest in the Aka–Nedbank Eyethu Trust as he is a director and 27% shareholder of Aka Capital (Pty) Ltd.

THE NEDBANK EYETHU NON-EXECUTIVE DIRECTORS' TRUST

The trust held 984 640 Nedbank Group ordinary shares at 31 December 2010. It was announced on 6 January 2011 that Nedbank Group had exercised its call option and repurchased 621 898 shares held by the trust.

A reconciliation of the movement of shares held by the trust is shown below:

	Shares held at 31 Dec 2010	Shares repurchased	Net shares vested in terms of the scheme
Previous non-executive directors			
ML Ndlovu	248 806	(158 120)	90 686
ME Mkwanazi	124 403	(79 060)	45 343
JB Magwaza	124 403	(79 060)	45 343
Current non-executive directors			
B de L Figaji	124 403	(79 060)	45 343
TCP Chikane	95 319	(57 711)	37 608
NP Mnxasana	51 242	(29 765)	21 477
	768 576	(482 776)	285 800
Unallocated	216 064	(139 122)	76 942
	984 640	(621 898)	362 742

During the year the trust has sold shares on behalf of the beneficiaries to satisfy the related income tax liabilities of the participants and has sold further shares on behalf of, or distributed shares to, some of the beneficiaries. The trust is in the process of being dissolved.

DIRECTORS' INTERESTS

At 31 December 2011 the directors' interests in ordinary shares in the group were as follows:

	Beneficial direct		Beneficial indirect	
Number of shares	**2011**	2010	**2011**	2010
TA Boardman	**55 662**	65 662	**191 548**	251 715
MWT Brown	**65 190**	54 379	**346 115**	327 430
TCP Chikane			**24 326**	95 319
A de VC Knott-Craig				
GW Dempster	**17 822**	11 881	**218 086**	215 229
MA Enus-Brey[5]			**2 113**	2 113
B de L Figaji			**30 278**	125 933
DI Hope				
RJ Khoza[3]	**1 800**		**1 374**	1 374
WE Lucas-Bull				
PM Makwana[1]				
NP Mnxasana			**11 620**	51 242
RK Morathi	**4 233**		**127 964**	93 647[2]
JK Netshitenzhe				
JVF Roberts				
GT Serobe[4]				1 296
MI Wyman				
Total	**144 707**	131 922	**953 424**	1 165 298

[1] *Appointed to the board during 2011.*
[2] *Correction relating to SENS announcement of 12.04.2010: 2 175 shares allocated to Matched Share Scheme were a new issue, not allocation of existing shares.*
[3] *Excludes 2 130 822 and nil shares held by the Aka–Nedbank Eyethu Trust in 2010 and 2011 respectively.*
[4] *Excludes 5 233 594 and 5 475 322 shares held by the Wiphold Financial Services Number Two Trust in 2010 and 2011 respectively.*
[5] *Excludes 5 202 795 and 5 443 324 shares held by the Brimstone-Mtha Financial Services Trust in 2010 and 2011 respectively.*

At 31 December 2011 the directors' interests in the non-redeemable non-cumulative preference shares of R0,001 each in Nedbank Limited were as follows:

	Beneficial direct		Beneficial indirect	
Number of shares	**2011**	2010	**2011**	2010
TA Boardman			**85 000**	85 000
MWT Brown				
TCP Chikane				
A de VC Knott-Craig				
GW Dempster				
MA Enus-Brey				
B de L Figaji				
DI Hope				
RJ Khoza				
WE Lucas-Bull				
PM Makwana				
NP Mnxasana				
RK Morathi				
JK Netshitenzhe				
JVF Roberts				
GT Serobe				
MI Wyman				
Total			**85 000**	85 000

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Note	2011 Rm	2010 Rm
Interest and similar income	12	41 417	43 421
Interest expense and similar charges	13	24 119	27 556
Net interest income		17 298	15 865
Impairments charge on loans and advances	27.1	5 321	6 360
Income from lending activities		11 977	9 505
Non-interest revenue	14	12 555	10 741
Operating income		24 532	20 246
Total operating expenses		16 955	14 983
Operating expenses	15	16 876	14 838
Black economic empowerment transaction expenses	15.1	79	145
Indirect taxation	16	413	387
Profit from operations before non-trading and capital items		7 164	4 876
Non-trading and capital items	17	(48)	(103)
Profit from operations before direct taxation		7 116	4 773
Direct taxation	18.1	1 610	983
Profit for the year		5 506	3 790
Other comprehensive income net of taxation		267	118
Exchange differences on translating foreign operations		48	(15)
Fair value adjustments on available-for-sale assets		(27)	(31)
Gains on property revaluations		246	164
Total comprehensive income for the year		5 773	3 908
Profit attributable to:			
– Ordinary and preference equity holders		5 483	3 737
– Non-controlling interest – ordinary shareholders		23	53
		5 506	3 790
Total comprehensive income attributable to:			
– Ordinary and preference equity holders		5 750	3 855
– Non-controlling interest – ordinary shareholders		23	53
Total comprehensive income for the year		5 773	3 908

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER

	Note	2011 Rm	2010 Rm
ASSETS			
Cash and cash equivalents	21	11 514	7 469
Other short-term securities	22	31 715	21 955
Derivative financial instruments	23	14 314	14 077
Government and other securities	25	29 991	31 667
Loans and advances*	26	490 176	469 527
Other assets	28	3 989	3 613
Clients' indebtedness for acceptances		2 931	1 920
Current taxation receivable		629	440
Investment securities	29	3 549	2 999
Non-current assets held for sale	31	8	5
Investments in associate companies and joint ventures	30	565	933
Deferred taxation asset	32	66	48
Investment property	33	488	82
Property and equipment	34	6 082	5 394
Long-term employee benefit assets	35	2 027	1 965
Mandatory reserve deposits with central banks	21	11 862	11 068
Intangible assets	36	3 634	3 328
Total assets		613 540	576 490
EQUITY AND LIABILITIES			
Ordinary share capital	38.1	27	27
Ordinary share premium		14 422	14 422
Reserves		24 856	20 281
Total equity attributable to equity holders of the parent		39 305	34 730
Preference share capital and premium	38.2	3 561	3 560
Non-controlling interest attributable to ordinary shareholders		121	110
Total equity		42 987	38 400
Derivative financial instruments	23	13 791	11 930
Amounts owed to depositors**	39	513 609	489 118
Provisions and other liabilities	40	8 286	6 179
Liabilities under acceptances		2 931	1 920
Current taxation liabilities		27	76
Deferred taxation liabilities	32	997	1 358
Long-term employee benefit liabilities	35	1 473	1 408
Long-term debt instruments	41	29 439	26 101
Total liabilities		570 553	538 090
Total equity and liabilities		613 540	576 490
Guarantees on behalf of clients	42	27 763	29 185

* *Included in loans and advances are loans to fellow subsidiaries amounting to R14,9bn (2010: R11,6bn).*
** *Included in amounts owed to depositors are deposits from fellow subsidiaries amounting to R11,0bn (2010: R15,2bn).*

CONSOLIDATED CURRENCY-ADJUSTED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

Millions	2011 ZAR	2010 ZAR
Interest and similar income	41 417	43 421
Interest expense and similar charges	24 119	27 556
Net interest income	17 298	15 865
Impairments charge on loans and advances	5 321	6 360
Income from lending activities	11 977	9 505
Non-interest revenue	12 555	10 741
Operating income	24 532	20 246
Total operating expenses	16 955	14 983
Operating expenses	16 876	14 838
Black economic empowerment transaction expenses	79	145
Indirect taxation	413	387
Profit from operations before non-trading and capital items	7 164	4 876
Non-trading and capital items	(48)	(103)
Profit from operations before direct taxation	7 116	4 773
Direct taxation	1 610	983
Profit for the year	5 506	3 790
Non-controlling interest attributable to ordinary shareholders	23	53
Profit attributable to equity holders of the parent	5 483	3 737
Less: non-trading and capital items	(48)	(101)
Non-trading and capital items	(48)	(103)
Tax on non-trading and capital items		2
Headline earnings	5 531	3 838
Average exchange rate at 31 December for R1 (note 46)	1	1

2011 USD	2010 USD	2011 GBP	2010 GBP	2011 EUR	2010 EUR
5 711	5 936	3 558	3 851	4 088	4 494
3 325	3 767	2 072	2 444	2 381	2 852
2 386	2 169	1 486	1 407	1 707	1 642
734	869	457	564	525	658
1 652	1 300	1 029	843	1 182	984
1 731	1 468	1 078	953	1 239	1 112
3 383	2 768	2 107	1 796	2 421	2 096
2 338	2 048	1 457	1 329	1 673	1 551
2 327	2 028	1 450	1 316	1 665	1 536
11	20	7	13	8	15
57	53	35	34	41	40
988	667	615	433	707	505
(7)	(14)	(4)	(9)	(5)	(11)
981	653	611	424	702	494
222	135	138	88	159	103
759	518	473	336	543	391
3	7	2	5	2	5
756	511	471	331	541	386
(7)	(14)	(4)	(9)	(5)	(11)
(7)	(14)	(4)	(9)	(5)	(11)
763	525	475	340	546	397
0,1379	0,1367	0,0859	0,0887	0,0987	0,1035

CONSOLIDATED CURRENCY-ADJUSTED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER

Millions	2011 ZAR	2010 ZAR
ASSETS		
Cash and cash equivalents	11 514	7 469
Other short-term securities	31 715	21 955
Derivative financial instruments	14 314	14 077
Government and other securities	29 991	31 667
Loans and advances	490 176	469 527
Other assets	3 989	3 613
Clients' indebtedness for acceptances	2 931	1 920
Current taxation receivable	629	440
Investment securities	3 549	2 999
Non-current assets held for sale	8	5
Investments in associate companies and joint ventures	565	933
Deferred taxation asset	66	48
Investment property	488	82
Property and equipment	6 082	5 394
Long-term employee benefit assets	2 027	1 965
Mandatory reserve deposits with central banks	11 862	11 068
Intangible assets	3 634	3 328
Total assets	613 540	576 490
EQUITY AND LIABILITIES		
Ordinary share capital	27	27
Ordinary share premium	14 422	14 422
Reserves	24 856	20 281
Total equity attributable to equity holders of the parent	39 305	34 730
Preference share capital and premium	3 561	3 560
Non-controlling interest attributable to ordinary shareholders	121	110
Total equity	42 987	38 400
Derivative financial instruments	13 791	11 930
Amounts owed to depositors	513 609	489 118
Provisions and other liabilities	8 286	6 179
Liabilities under acceptances	2 931	1 920
Current taxation liabilities	27	76
Deferred taxation liabilities	997	1 358
Long-term employee benefit liabilities	1 473	1 408
Long-term debt instruments	29 439	26 101
Total liabilities	570 553	538 090
Total equity and liabilities	613 540	576 490
Guarantees on behalf of clients	27 763	29 185
Exchange rate at 31 December for R1 (note 46)	1	1

2011 USD	2010 USD	2011 GBP	2010 GBP	2011 EUR	2010 EUR
1 420	1 123	919	724	1 097	840
3 910	3 300	2 531	2 127	3 023	2 470
1 765	2 116	1 142	1 364	1 364	1 584
3 698	4 760	2 393	3 069	2 858	3 563
60 439	70 570	39 116	45 497	46 714	52 822
492	541	318	351	380	406
361	289	234	186	279	216
77	66	50	43	60	50
438	451	283	291	338	337
1	1	1		1	1
70	140	45	90	54	105
8	7	5	5	6	5
60	12	39	8	47	9
750	811	485	523	580	607
250	295	162	190	193	221
1 462	1 664	947	1 072	1 130	1 245
448	500	290	322	346	374
75 649	86 646	48 960	55 862	58 470	64 855
3	4	2	3	3	3
1 778	2 168	1 151	1 397	1 374	1 622
3 065	3 048	1 984	1 965	2 369	2 282
4 846	5 220	3 137	3 365	3 746	3 907
439	535	284	345	339	401
15	17	10	11	12	12
5 300	5 772	3 431	3 721	4 097	4 320
1 700	1 793	1 100	1 156	1 314	1 342
63 328	73 514	40 986	47 396	48 947	55 026
1 022	928	661	599	790	695
361	289	234	186	279	216
3	11	2	7	3	9
123	204	80	132	95	153
182	212	117	136	140	158
3 630	3 923	2 349	2 529	2 805	2 936
70 349	80 874	45 529	52 141	54 373	60 535
75 649	86 646	48 960	55 862	58 470	64 855
3 423	4 387	2 215	2 828	2 646	3 283
0,1233	0,1503	0,0798	0,0969	0,0953	0,1125

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

Rm	Number of ordinary shares	Ordinary share capital	Ordinary share premium	Reserves: Foreign currency translation reserve *	Reserves: Property revaluation reserve **
Balance at 31 December 2009	27 240 023	27	14 422	19	974
Preference shares issued					
Dilution of shareholding in subsidiary					
Preference share dividend					
Preference share cumulative dividend					
Dividend to shareholders					
Total comprehensive income for the year				(15)	164
Transfer to/(from) reserves					(26)
Share-based payments reserve movement					
Regulatory risk reserve provision					
Buyout of non-controlling interests					
Other movements					
Balance at 31 December 2010	**27 240 023**	**27**	**14 422**	**4**	**1 112**
Preference share dividend					
Acquisition of subsidiary					
Dividend to shareholders					
Total comprehensive income for the year				**48**	**246**
Transfer to/(from) reserves					**(25)**
Share-based payments reserve movement					
Regulatory risk reserve provision					
Dilution of non-controlling interests					
Other movements					
Balance at 31 December 2011	**27 240 023**	**27**	**14 422**	**52**	**1 333**

* *This represents the cumulative foreign exchange differences that arise on the translation of an entity with a different functional currency compared with that of the parent company. The cumulative reserve relating to a subsidiary that is disposed of is included in the determination of profit/loss on disposal of the subsidiary.*

** *This represents the cumulative amounts that have been recognised on the revaluation of group properties net of deferred taxation. When the property is disposed of, the cumulative revaluation surplus is transferred directly to retained income.*

*** *All share-based payment expenses are recognised in the statement of comprehensive income with the corresponding amount recognised in share-based payment reserves. Any excess tax benefit over the relative tax on the share-based payments expense is recognised directly in this reserve. On the expiry or exercise of a share-based instrument, the cumulative amount recognised in this respect is transferred directly to other distributable reserves. The negative share-based payment reserve arises from the grants paid by Nedbank Limited to various share schemes to acquire Nedbank Group Limited shares, which is recognised directly in equity. The reconciliation shown in this note is the cumulative share-based payment charge for all share schemes.*

**** *Represents other non-distributable revaluation surplus on capital items and non-distributable reserves transferred from other distributable reserves in order to comply with various banking regulations.*

***** *This comprises all fair-value adjustments, net of the related tax on all financial assets that have been classified as available for sale. On the disposal and impairment of available-for-sale financial assets, the cumulative gains and the associated tax recognised on these instruments are recognised in profit and loss for the period and are not included in the determination of headline earnings per share.*

****** *Represents the accumulated profits after distributions to shareholders and appropriation of retained earnings to other non-distributable earnings.*

All movements are reflected net of taxation.

Reserves								
Share-based payments reserve ***	Other non-distributable reserves ****	Available-for-sale reserve *****	Other distributable reserves ******	Total equity attributable to equity holders of the parent	Preference share capital and premium	Non-controlling interest attributable to ordinary shareholders	Non-controlling interest attributable to preference shareholders	Total equity
(205)	119	256	17 011	32 623	3 483	1 796	91	37 993
				–	91			91
			(13)	(13)		13		–
			(270)	(270)				(270)
				–	(14)			(14)
			(996)	(996)		(7)		(1 003)
		(31)	3 737	3 855		53		3 908
7	(64)		83	–				–
(358)				(358)				(358)
	(2)			(2)				(2)
			(108)	(108)		(1 745)	(91)	(1 944)
			(1)	(1)				(1)
(556)	53	225	19 443	34 730	3 560	110		38 400
			(281)	(281)				(281)
				–		7		7
			(1 025)	(1 025)		(8)		(1 033)
		(27)	5 483	5 750		23		5 773
(377)	11		391	–				–
111				111				111
	1			1				1
			11	11	1	(11)		1
			8	8				8
(822)	65	198	24 030	39 305	3 561	121		42 987

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Note	2011 Rm	2010 Rm
Cash generated by operations	47.1	14 800	13 329
Cash received from clients	47.2	53 547	53 905
Cash paid to clients, employees and suppliers	47.3	(39 796)	(41 383)
Dividends received on investments		415	246
Recoveries on loans previously written off		634	561
Change in funds for operating activities		(7 171)	(11 705)
Increase in operating assets	47.4	(35 529)	(36 593)
Increase in operating liabilities	47.5	28 358	24 888
Net cash from operating activities before taxation		7 629	1 624
Taxation paid	47.6	(2 949)	(1 592)
Cashflows from operating activities		4 680	32
Cashflows utilised by investing activities		(1 873)	(3 508)
Acquisition of property and equipment, computer software and development costs and investment property		(1 633)	(1 504)
Disposal of property and equipment, computer software and development costs and investment property		32	(96)
Net movement in non-current assets		(3)	7
Disposal of investment banking assets		10	11
Acquisition of associate companies		(71)	(149)
Disposal of associate companies		373	138
Acquisition of other investments		(665)	(233)
Disposal of other investments		84	171
Acquisition of investments in subsidiary companies net of cash	47.7		(1 853)
Cashflows from financing activities		2 032	4 753
Issue of long-term debt instruments		4 901	6 512
Redemption of long-term debt instruments		(1 563)	(493)
Dividends paid to ordinary shareholders	47.8	(1 025)	(996)
Preference share dividends paid		(281)	(270)
Effects of exchange rate changes on opening cash and cash equivalents (excluding foreign borrowings)		*	*
Net increase in cash and cash equivalents		4 839	1 277
Cash and cash equivalents at the beginning of the year**		18 537	17 260
Cash and cash equivalents at the end of the year**	21	23 376	18 537

* *Represents amounts less than R1m.*
** *Including mandatory reserve deposits with central banks.*

SEGMENTAL REPORTING

FOR THE YEAR ENDED 31 DECEMBER

The group's identification of its segments and the measurement of segment results are based on the group's internal management reporting as used for day-to-day decisionmaking and as reviewed by the chief operating decisionmaker, which in Nedbank Limited's case is the Group Executive Committee. The segments have been identified according to the nature of their respective products and services and their related target markets.

NEDBANK CAPITAL

Nedbank Capital comprises the group's investment banking businesses that together manage the structuring, lending, underwriting and trading businesses. Nedbank Capital seeks to provide seamless specialist advice, debt and equity raising and execution and trading capabilities in all the major SA business sectors.

NEDBANK CORPORATE

Nedbank Corporate comprises the client-focused businesses of Corporate Banking, Property Finance, Nedbank Africa and the specialist businesses of Transactional Banking and Shared Services. These businesses focus mainly on providing lending, deposit-taking and transactional banking solutions and execution services to the wholesale banking client base of Nedbank Limited. Corporate Banking services companies with an annual turnover in excess of R400m as well as black economic empowerment (BEE) and public sector clients. Property Finance specialises in commercial and industrial property finance in the middle to large corporate market and also invests in property equities and in large property developments in partnership with selected clients. Nedbank Africa has banking operations in Lesotho, Malawi, Namibia, Swaziland and Zimbabwe. Nedbank Africa operates in the retail and wholesale banking segments in each country.

NEDBANK RETAIL

Nedbank Retail serves the financial needs of all individuals (excluding high-net-worth individuals) and small businesses with a turnover of up to R7,5m to whom it offers a full spectrum of banking and assurance products and services. The Nedbank Retail product portfolio includes transactional accounts, home loans, vehicle and asset finance [including Motor Finance Corporation] (MFC), card (both card-issuing and merchant-acquiring services), personal loans and investments.

NEDBANK BUSINESS BANKING

Nedbank Business Banking offers the full spectrum of commercial banking products and related services to companies with an annual turnover of up to R400m.

NEDBANK WEALTH

Nedbank Wealth provides services across retail banking, business and corporate banking as well as the high-net-worth segment and independent financial adviser market. The businesses within Nedbank Wealth encompass life assurance, short-term insurance, financial planning, stockbroking, insurance brokerage, private banking, fiduciary services and asset management.

SHARED SERVICES

Shared Services, which is an aggregation of business operations that provide various support services to Nedbank Limited, includes the following clusters: Group Technology, Group Strategy and Corporate Affairs, Human Resources, Enterprise Governance and Compliance, Group Risk and Group Finance.

CENTRAL MANAGEMENT

Includes group capital instruments together with certain group overheads not recoverable from business segments, mainly within the Balance Sheet Management Division.

SEGMENTAL REPORTING

FOR THE YEAR ENDED 31 DECEMBER ... CONTINUED

	Nedbank Limited		Fellow subsidiaries		Nedbank Capital		Nedbank Corporate	
	2011	2010	2011	2010	2011	2010	2011	2010
STATEMENT OF FINANCIAL POSITION (Rm)								
Cash and cash equivalents	23 376	18 537	(2 033)	(1 208)	4 474	2 732	3 615	1 868
Other short-term securities	31 715	21 955	(4 271)	(5 089)	31 329	20 792	1 130	1 357
Derivative financial instruments	14 314	14 077	1 474	195	12 755	13 790	(74)	(65)
Government and other securities	29 991	31 667	(185)	(157)	13 044	12 083	5 011	4 314
Loans and advances	490 176	469 527	(5 872)	(5 746)	68 510	62 328	164 754	157 703
Other assets	23 968	20 727	(23 700)	(20 223)	10 048	7 578	6 513	5 097
Intergroup assets					62 464	95 886		
Total assets	613 540	576 490	(34 587)	(32 228)	202 624	215 189	180 949	170 274
Equity and liabilities								
Total equity	42 987	38 400	(9 698)	(9 414)	5 335	5 116	6 696	7 603
Derivative financial instruments	13 791	11 930	(62)	(122)	13 824	12 006	16	20
Amounts owed to depositors	513 609	489 118	(7 546)	(1 322)	174 043	184 201	157 601	131 194
Provisions and other liabilities	13 714	10 941	(17 278)	(21 367)	8 610	13 200	4 806	3 570
Long-term debt instruments	29 439	26 101	(3)	(3)	812	666	3	2
Intergroup liabilities							11 827	27 885
Total equity and liabilities	613 540	576 490	(34 587)	(32 228)	202 624	215 189	180 949	170 274
STATEMENT OF COMPREHENSIVE INCOME (Rm)								
Net interest income	17 298	15 865	(736)	(743)	1 180	1 201	3 570	3 306
Impairments charge on loans and advances	5 321	6 360	(10)	172	549	535	458	307
Income from lending activities	11 977	9 505	(726)	(915)	631	666	3 112	2 999
Non-interest revenue	12 555	10 741	(2 857)	(2 474)	2 454	2 264	1 771	1 566
Operating income	24 532	20 246	(3 583)	(3 389)	3 085	2 930	4 883	4 565
Total operating expenses	16 955	14 983	(1 964)	(1 615)	1 737	1 561	2 609	2 496
Operating expenses	16 876	14 838	(1 849)	(1 612)	1 726	1 506	2 592	2 455
Black economic empowerment transaction (BEE) expenses	79	145	(115)	(3)	11	55	17	41
Indirect taxation	413	387	(92)	(60)	51	23	39	41
Profit/(Loss) from operations	7 164	4 876	(1 527)	(1 714)	1 297	1 346	2 235	2 028
Share of (losses)/profits of associates and joint ventures				(1)				1
Profit/(Loss) before direct taxation	7 164	4 876	(1 527)	(1 715)	1 297	1 346	2 235	2 029
Direct taxation	1 610	985	(584)	(381)	72	139	531	504
Profit/(Loss) after direct taxation	5 554	3 891	(943)	(1 334)	1 225	1 207	1 704	1 525
Profit attributable to non-controlling interest:								
– ordinary shareholders	23	53	(9)	(6)		5	32	29
– preference shareholders			(281)	(266)				
Headline earnings/(loss)	5 531	3 838	(653)	(1 062)	1 225	1 202	1 672	1 496
SELECTED RATIOS*								
Average interest-earning banking assets (Rm)	538 064	503 231	16 915	7 301	156 188	156 864	166 814	158 943
Return on assets (%)	0,9	0,7			0,6	0,6	1,0	0,9
Return on equity (%)	10,9	8,3			23,0	23,5	25,0	19,7
Net interest income to average interest-earning banking assets (%)	3,21	3,15			0,76	0,77	2,14	2,08
Non-interest revenue to total income (%)	42,1	40,4			67,5	65,3	33,2	32,1
Non-interest revenue to total operating expenses (%)	74,0	71,7			141,3	145,0	67,9	62,8
Credit loss ratio – banking advances (%)	1,18	1,38			1,23	1,27	0,29	0,20
Efficiency ratio (%)	56,8	56,3			47,8	45,1	48,9	51,2
Efficiency ratio (excluding BEE transaction expenses) (%)	56,5	55,8			47,5	43,5	48,5	50,4
Effective taxation rate (%)	25,4	21,6			5,6	10,4	23,8	24,8
Contribution to group economic profit	602	(748)	(322)	(459)	531	477	801	421
Number of employees	26 922	26 035	(1 572)	(1 490)	721	699	3 546	3 611

* *These ratios (unless otherwise stated) were calculated using amounts to Rm.*

Nedbank Wealth		Total Nedbank Retail and Nedbank Business Banking		Nedbank Retail		Nedbank Business Banking		Shared Services		Central Management		Eliminations	
2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
602	327	1 852	1 494	1 852	1 494			168	154	14 698	13 170		
3 279	4 200		(1)		(1)					248	696		
2										157	157		
										12 121	15 427		
19 625	16 869	241 935	238 099	183 663	187 334	58 272	50 765	20	(6)	1 204	280		
14 252	12 524	5 576	5 263	4 884	4 567	692	696	7 126	6 643	4 153	3 845		
		29 591	28 364			29 591	28 364			12 901	3 747	(104 956)	(127 997)
37 760	33 920	278 954	273 219	190 399	193 394	88 555	79 825	7 314	6 791	45 482	37 322	(104 956)	(127 997)
1 614	1 445	20 659	19 683	16 963	16 560	3 696	3 123	1 485	1 362	16 896	12 605		
										13	26		
13 713	11 356	175 139	162 973	91 404	87 204	83 735	75 769	408	370	251	346		
11 375	9 794	4 571	3 357	3 447	2 424	1 124	933	418	1 718	1 212	669		
		1 517	1 760	1 517	1 760					27 110	23 676		
11 058	11 325	77 068	85 446	77 068	85 446			5 003	3 341			(104 956)	(127 997)
37 760	33 920	278 954	273 219	190 399	193 394	88 555	79 825	7 314	6 791	45 482	37 322	(104 956)	(127 997)
441	405	12 467	11 611	9 655	9 181	2 812	2 430	(244)	(156)	620	241		
45	25	4 053	5 320	3 729	5 110	324	210		1	226			
396	380	8 414	6 291	5 926	4 071	2 488	2 220	(244)	(157)	394	241		
2 252	1 958	8 538	7 353	7 052	6 011	1 486	1 342	494	401	(55)	(246)	(42)	(81)
2 648	2 338	16 952	13 644	12 978	10 082	3 974	3 562	250	244	339	(5)	(42)	(81)
1 703	1 471	12 612	11 110	9 889	8 770	2 723	2 340	187	113	71	(153)		
1 701	1 469	12 597	11 090	9 878	8 761	2 719	2 329	147	73	(38)	(143)		
2	2	15	20	11	9	4	11	40	40	109	(10)		
68	53	210	232	185	210	25	22	132	94	5	4		
877	814	4 130	2 302	2 904	1 102	1 226	1 200	(69)	37	263	144	(42)	(81)
877	814	4 130	2 302	2 904	1 102	1 226	1 200	(69)	37	263	144	(42)	(81)
252	222	1 245	717	871	342	374	375	(58)	(218)	152	2		
625	592	2 885	1 585	2 033	760	852	825	(11)	255	111	142	(42)	(81)
											25		
		31		31						250	266		
625	592	2 854	1 585	2 002	760	852	825	(11)	255	(139)	(149)	(42)	(81)
22 159	21 471	267 364	264 010	180 794	183 756	86 570	80 254	14	117	25 267	22 748	(116 657)	(128 223)
1,8	1,7	1,0	0,6	1,1	0,4	1,0	1,0						
38,7	41,0	13,8	8,1	11,8	4,6	23,1	26,4						
1,99	1,89	4,66	4,40	5,34	5,00	3,25	3,03						
83,6	82,9	40,7	38,8	42,2	39,6	34,6	35,6						
132,2	133,1	67,7	66,2	71,3	68,5	54,6	57,4						
0,25	0,15	1,63	2,18	1,98	2,67	0,54	0,40						
63,3	62,2	60,1	58,6	59,2	57,7	63,3	62,0						
63,2	62,2	60,0	58,5	59,1	57,7	63,2	61,7						
28,8	27,3	30,1	31,2	30,0	31,0	30,5	31,3						
415	388	169	(1 201)	(203)	(1 583)	372	382	(203)	62	(789)	(436)		
1 991	1 896	18 668	17 863	16 323	15 473	2 345	2 390	3 479	3 381	89	75		

Depreciation costs of R755m (2010: R681m) and amortisation costs of R523m (2010: R475m) for property, equipment, computer software and capitalised development are charged on an activity-justified transfer pricing methodology by the segment owning the assets to the segment utilising the benefits thereof.

GEOGRAPHICAL SEGMENTAL REPORTING

FOR THE YEAR ENDED 31 DECEMBER

	Nedbank Limited		Fellow subsidiaries	
STATEMENT OF FINANCIAL POSITION (RM)	**2011**	2010	**2011**	2010
ASSETS				
Cash and cash equivalents	**23 376**	18 537	**(2 033)**	(1 208)
Other short-term securities	**31 715**	21 955	**(4 271)**	(5 089)
Derivative financial instruments	**14 314**	14 077	**1 474**	195
Government and other securities	**29 991**	31 667	**(185)**	(157)
Loans and advances	**490 176**	469 527	**(5 872)**	(5 746)
Other assets	**23 968**	20 727	**(23 700)**	(20 223)
Intergroup assets	**–**	–		
Total assets	**613 540**	576 490	**(34 587)**	(32 228)
EQUITY AND LIABILITIES				
Total equity	**42 987**	38 400	**(9 698)**	(9 414)
Derivative financial instruments	**13 791**	11 930	**(62)**	(122)
Amounts owed to depositors	**513 609**	489 118	**(7 546)**	(1 322)
Provisions and other liabilities	**13 714**	10 941	**(17 278)**	(21 367)
Long-term debt instruments	**29 439**	26 101	**(3)**	(3)
Intergroup liabilities	**–**	–		
Total equity and liabilities	**613 540**	576 490	**(34 587)**	(32 228)
Contribution to total assets (%)	**100**	100	**(5)**	(6)
STATEMENT OF COMPREHENSIVE INCOME (RM)				
Net interest income	**17 298**	15 865	**(736)**	(743)
Impairments charge on loans and advances	**5 321**	6 360	**(10)**	172
Income from lending activities	**11 977**	9 505	**(726)**	(915)
Non-interest revenue	**12 555**	10 741	**(2 857)**	(2 474)
Operating income	**24 532**	20 246	**(3 583)**	(3 389)
Total operating expenses	**16 955**	14 983	**(1 964)**	(1 615)
Operating expenses	**16 876**	14 838	**(1 849)**	(1 612)
Black economic empowerment transaction expenses	**79**	145	**(115)**	(3)
Indirect taxation	**413**	387	**(92)**	(60)
Profit from operations	**7 164**	4 876	**(1 527)**	(1 714)
Share of profits of associates and joint ventures	**–**	–		(1)
Profit before direct taxation	**7 164**	4 876	**(1 527)**	(1 715)
Direct taxation	**1 610**	985	**(584)**	(381)
Profit after direct taxation	**5 554**	3 891	**(943)**	(1 334)
Profit attributable to non-controlling interest:	**–**		**–**	
– ordinary shareholders	**23**	53	**(9)**	(6)
– preference shareholders	**–**	–	**(281)**	(266)
Headline earnings	**5 531**	3 838	**(653)**	(1 062)
Contribution to headline earnings (%)	**100**	100	**(12)**	(28)

* *Includes all group eliminations.*

SA* 2011	SA* 2010	Rest of Africa 2011	Rest of Africa 2010	Rest of world 2011	Rest of world 2010
21 547	16 488	1 949	1 285	1 913	1 972
31 577	20 488	1 130	1 357	3 279	5 199
12 549	13 349	16	28	275	505
26 855	29 532	78	50	3 243	2 242
465 043	453 187	9 812	8 843	21 193	13 243
43 862	37 848	960	771	2 846	2 331
(11 434)	(6 676)	1 320	2 266	10 114	4 410
589 999	564 216	15 265	14 600	42 863	29 902
46 007	42 350	1 954	1 665	4 724	3 799
13 405	11 506	16	20	432	526
490 740	462 379	11 341	11 419	19 074	16 642
29 995	31 469	654	521	343	318
29 439	26 102	3	2		
(19 587)	(9 590)	1 297	973	18 290	8 617
589 999	564 216	15 265	14 600	42 863	29 902
96	98	2	3	7	5
17 081	15 702	613	606	340	300
5 200	6 372	19	33	112	(217)
11 881	9 330	594	573	228	517
14 347	12 248	507	461	558	506
26 228	21 578	1 101	1 034	786	1 023
17 702	15 499	709	657	508	442
17 512	15 354	705	654	508	442
190	145	4	3		
491	431	10	12	4	4
8 035	5 648	382	365	274	577
			1		
8 035	5 648	382	366	274	577
2 059	1 191	104	104	31	71
5 976	4 457	278	262	243	506
	29	32	30		
281	266				
5 695	4 162	246	232	243	506
103	109	5	6	4	13

1 PRINCIPAL ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently in dealing with items that are considered material in relation to the Nedbank Limited consolidated financial statements.

1.1 BASIS OF PREPARATION

The financial statements have been prepared on a going-concern basis and have been prepared on a consistent basis with the prior year, except as detailed in note 3.

The group and company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the AC 500 standards as issued by the Accounting Practices Board, and the requirements of the Companies Act, 71 of 2008 (as amended).

The financial statements are presented in SA rand, the functional currency of Nedbank Limited, and are rounded to the nearest million rands. The statements are prepared on the accrual and historical cost basis of accounting, except for:

- non-current assets and disposal groups held for sale, which are all stated at the lower of the carrying amount and the fair value less costs to sell;
- employee benefit liabilities, valued using the projected-unit credit method, less the net total fair value of the plan assets, plus unrecognised actuarial gains or losses, less unrecognised past service cost; and
- the following assets and liabilities which are stated at their fair value:
  - financial assets and financial liabilities classified as at fair value through profit or loss;
  - financial assets classified as available for sale; and
  - investment properties and owner-occupied properties.

1.2 ACCOUNTING POLICY ELECTIONS

The following accounting policy elections have been made by the group:

Property and equipment	• Property and equipment are stated at revalued amounts. • Revaluation surpluses are recognised directly in equity.
Long-term employee benefits	• Unrecognised actuarial gains or losses on postemployment benefits are not recognised immediately, but in profit or loss over a period not exceeding the expected average remaining working life of active employees.
Investment in venture capital divisions	• In venture capital divisions the group has elected to carry associate and joint-venture entities at fair value through profit and loss.
Financial instruments	• The group has elected to designate certain fixed-rate financial assets and liabilities at fair value through profit and loss to reduce the accounting mismatch. • 'Regular way' purchases or sales of financial assets are recognised and derecognised using trade date accounting. • The group does not apply hedge accounting.
Investment properties	• The group has elected to recognise all investment properties at fair value, with changes in fair value being recognised in profit and loss for the period.
Joint ventures	• Jointly controlled entities are accounted for using the equity method.

1.3 GROUP ACCOUNTING

The financial information disclosed in the consolidated financial statements comprises that of the parent company, Nedbank Limited, together with its subsidiaries, including certain special-purpose entities (SPEs) and associates, presented as a single entity.

SUBSIDIARY UNDERTAKINGS AND SPECIAL-PURPOSE ENTITIES

Subsidiary undertakings are those entities, including unincorporated entities such as trusts and partnerships that are controlled by the group. The group financial statements include the assets, liabilities and results of the company plus subsidiaries, including SPEs controlled by the group from the date of acquisition until the date the group ceases to control the subsidiary. Subsidiary undertakings are consolidated when they are considered to be material to the financial statements of the group.

Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the group owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity, unless, in exceptional circumstances, it can clearly be demonstrated that such ownership does not constitute control. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are taken into account when assessing whether the group has control.

Subsidiaries include SPEs that are created to accomplish a narrow and well-defined objective, which may take the form of a company, corporation, trust, partnership or other unincorporated entity. The assessment of whether control exists over SPEs is based on the substance of the relationship between the group and the SPE. SPEs in which the group holds half or less of the voting rights, but which are controlled by the group by retaining the majority of risks or benefits, are consolidated in the group financial statements.

Intragroup balances, transactions, income and expenses, and profits and losses are eliminated in preparation of the group financial statements. Unrealised losses are not eliminated to the extent that they provide objective evidence of impairment.

The group reassesses the consolidation requirements on a continuous basis and any changes in the group structure are considered as they occur.

ASSOCIATES

An associate is an entity, including an unincorporated entity, over which the group has the ability to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investment (that is neither a subsidiary nor an investment in a joint venture). This is generally demonstrated by the group holding in excess of 20%, but no more than 50%, of the voting rights.

The profit or loss of the associate and assets and liabilities, including goodwill identified on acquisition, net of any accumulated impairment losses, are included in the group financial statements using the equity method of accounting from the date significant influence commences until the date significant influence ceases. Where an associate has a reporting period that is different from that of the group, the results of the associate are adjusted to reflect a reporting period consistent with the group's reporting period. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments. When the group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil, inclusive of any long-term debt outstanding. The recognition of further losses is discontinued, except to the extent that the group has incurred or guaranteed obligations in respect of the associate.

Where an entity within the group transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the associate.

At each reporting date the group determines whether there is objective evidence that the investments in associates are impaired. The carrying amounts of such investments are then reduced to recognise any impairment by applying the impairment methodology described in 1.12.

Investments in associates that are held with the intention of disposing thereof within 12 months are accounted for and classified as non-current assets held for sale in accordance with the methodology described in 1.11.

JOINT VENTURES

Joint ventures are those entities over which the group has joint control in terms of a contractual agreement. Jointly controlled entities are incorporated into the group financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments by applying the impairment methodology described in 1.12.

Where an entity within the group transacts with a joint venture of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the joint venture. When the group's share of losses exceeds the carrying amount of the joint venture, the carrying amount is reduced to nil. The recognition of further losses is discontinued, except to the extent that the group has incurred or guaranteed obligations in respect of the joint venture.

Investments in joint ventures that are held with the intention of disposing thereof within 12 months are accounted for and classified as non-current assets held for sale in accordance with the methodology described in 1.11.

COMPANY

Investments in group companies are accounted for at cost less impairment losses in the company financial statements. The carrying amounts of these investments are reviewed annually and impaired when necessary by applying the impairment methodology described in 1.12.

INVESTMENTS HELD BY VENTURE CAPITAL DIVISIONS

Where the group has an investment in an associate or joint-venture company held by a venture capital division, whose primary business is to purchase and dispose of minority stakes in entities, the investment is classified as designated at fair value through profit or loss, as the divisions are managed on a fair-value basis. Changes in the fair value of these investments are recognised in non-interest revenue in profit or loss in the period in which they occur.

ACQUISITIONS AND DISPOSALS OF STAKES IN GROUP COMPANIES

Acquisitions of subsidiaries (entities acquired) and businesses (assets and liabilities acquired) are accounted for using the acquisition method. The cost of a business combination is measured as the aggregate of the fair values (at the acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. For all transactions subsequent to 31 December 2008 acquisition-related costs are recognised in profit or loss as incurred. Prior to this date all acquisition-related costs were capitalised to the cost of the acquisition.

Where the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, that asset or liability is measured at the acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of a contingent consideration classified as an asset or liability are accounted for in accordance with the relevant IFRSs. Changes in the fair value of a contingent consideration that has been classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the date of acquisition, except:

- deferred tax assets or liabilities, which are recognised and measured in accordance with International Accounting Standard (IAS)12 Income Taxes, and liabilities or assets related to employee benefit arrangements, which are recognised and measured in accordance with IAS 19 Employee Benefits;
- liabilities or equity instruments that relate to the replacement, by the group, of an acquiree's share-based payment awards, which are measured in accordance with IFRS 2 Share-based Payments; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Where provisional amounts were reported, these are adjusted during the measurement period (see below). Additional assets or liabilities are recognised to reflect any new information obtained about the facts and circumstances that existed at the date of acquisition, which, if known, would have affected the amounts recognised on that date.

1 PRINCIPAL ACCOUNTING POLICIES ... CONTINUED

ACQUISITIONS AND DISPOSALS OF STAKES IN GROUP COMPANIES ... CONTINUED

The measurement period is the period from the date of acquisition to the date the group receives complete information about the facts and circumstances that existed at the acquisition date. This measurement period is subject to a maximum of one year after the acquisition date.

Where a business combination is achieved in stages, the group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date on the date the group attains control and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income (OCI) are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. The interest of non-controlling shareholders is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to the acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

The difference between the proceeds from the disposal of a subsidiary, the fair value of any retained investment and its carrying amount at the date of disposal, including the cumulative amount of any exchange differences recognised in the statement of changes in equity that relate to the subsidiary, is recognised as a gain or loss on the disposal of the subsidiary in the group profit or loss for the period.

All changes in the group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interests are increased or decreased and the fair value of the consideration paid or received is recognised directly in equity and attributed to the group.

This accounting policy has been adopted for all transactions subsequent to 1 January 2009. The accounting treatment for prior-period transactions has not been restated.

GOODWILL

Goodwill arising on the acquisition of a subsidiary is recognised as an asset on the date that control is acquired, being the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net fair value of the identifiable net assets recognised. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred plus the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any), this excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised, but is tested for impairment at least once a year. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary the goodwill attributable to the subsidiary is included in the determination of the profit or loss on disposal.

1.4 FOREIGN CURRENCY TRANSLATION

FOREIGN CURRENCY TRANSACTIONS

Individual entities within the group may use a different functional currency than that of the group, being the currency of the primary economic environment in which the respective entities operate. Transactions in foreign currencies are translated into the functional currency of the individual entities in the group at the date of the transaction by applying the spot exchange rate ruling at the transaction date to the foreign currency amounts.

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the respective entities of the group at the spot exchange rate ruling at the reporting date.

Exchange differences that arise on the settlement or translation of monetary items at rates that are different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period that they arise.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the respective functional currencies of the group entities using the foreign exchange rates ruling at the dates when the fair values were determined.

Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are converted into the functional currency of the respective group entities at the rate of exchange ruling at the date of the transaction and are not subsequently retranslated.

Exchange differences on non-monetary items are recognised consistently with the gains and losses that arise on such items. For example, exchange differences relating to an item for which gains and losses are recognised directly in equity are generally recognised in equity. Conversely, exchange differences for non-monetary items for which gains and losses are recognised in profit or loss are recognised in profit or loss in the period in which they arise.

INVESTMENTS IN FOREIGN OPERATIONS

Nedbank Limited's presentation currency is SA rand.

The assets and liabilities, including goodwill, of those entities that have functional currencies other than that of the group (SA rand) are translated at the closing exchange rate. Income and expenses are translated using the average exchange rate for the period. The differences that arise on translation of these entities are recognised in OCI in the statement of comprehensive income. The cumulative exchange differences are recognised as a separate component of equity and are represented by the balance in the foreign currency translation reserve.

On disposal of a foreign operation the cumulative amount in the foreign currency translation reserve related to that operation is transferred to profit or loss for the period when the gain or loss on the disposal of the foreign operation is recognised.

The primary and major determinants for non-rand functional currencies are the economic factors that determine the sales price for goods and services as well as costs. Additional supplementary factors to be considered are funding, autonomy and cashflows.

1.5 FINANCIAL INSTRUMENTS

Financial instruments, as recognised on the statement of financial position, include all financial assets and financial liabilities, including derivative instruments, but exclude investments in subsidiaries, associate companies and joint ventures (other than investments held by venture capital divisions) and employee benefit plans. Financial instruments are accounted for under IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures.

The group does not currently apply hedge accounting. This accounting policy should be read in conjunction with the group's categorised statement of financial position, the group's risk management policies and note 6.1 'Valuation of financial instruments'.

INITIAL RECOGNITION

Financial instruments are recognised on the statement of financial position when the group becomes a party to the contractual provisions of a financial instrument. All purchases of financial assets that require delivery within the timeframe established by regulation or market convention ('regular way' purchases) are recognised at the trade date, which is the date on which the group commits to purchase the financial asset. The liability to pay for 'regular way' purchases of financial assets is recognised on the trade date, which is when the group becomes a party to the contractual provisions of the financial instrument.

Contracts that require or permit net settlement of the change in the value of the contract are not considered 'regular way' contracts and are treated as derivatives between the trade and settlement dates of the contract.

INITIAL MEASUREMENT

Financial instruments that are categorised and designated at initial recognition as being at fair value through profit or loss are recognised at fair value. Transaction costs, which are directly attributable to the acquisition or on issue of these financial instruments, are recognised immediately in profit and loss.

Financial instruments that are not carried at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique, the variables of which include only data from observable markets, the group defers such differences (day-one gains or losses). Day-one gains or losses are amortised on a straight-line basis over the life of the financial instrument. To the extent that the inputs determining the fair value of the instrument become observable, or on derecognition of the instrument, day-one gains or losses are recognised immediately in profit or loss.

CATEGORIES OF FINANCIAL INSTRUMENTS

Subsequent to initial recognition, financial instruments are measured at fair value or amortised cost, depending on their classification and whether fair value can be measured reliably:

- Financial instruments at fair value through profit or loss
  Financial instruments at fair value through profit or loss consist of instruments that are held for trading and instruments that the group has designated, at the initial recognition date, as at fair value through profit or loss.

  The group classifies instruments as held for trading if they have been acquired or incurred principally for the purpose of sale or repurchase in the near term, they are part of a portfolio of identified financial instruments for which there is evidence of a recent actual pattern of short-term profittaking or they are derivatives. The group's derivative transactions include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options (both written and purchased).

  Financial instruments that the group has elected, at the initial recognition date, to designate as at fair value through profit or loss are those that meet any one of the following conditions:
  - the fair value through profit or loss designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on assets and liabilities on different bases;
  - the instrument forms part of a group of financial instruments that is managed and its performance is evaluated on a fair-value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel, using a fair-value basis; or
  - a contract contains one or more embedded derivatives that require separation from the host contract or a derivative that significantly modifies the cashflows of the host contract.

  Gains or losses on financial instruments at fair value through profit or loss (excluding interest income and interest expense calculated on the amortised cost basis relating to interest-bearing instruments that have been designated as at fair value through profit or loss) are reported in non-interest revenue in the period in which they arise. Interest income and interest expense calculated in accordance with the effective-interest-rate method are reported in interest income and expense, except for interest income and interest expense on instruments held for trading, which are recognised in non-interest revenue.

- Non-trading financial liabilities
  All financial liabilities, other than those at fair value through profit or loss, are classified as non-trading financial liabilities and are measured at amortised cost. The interest expense is recorded in interest expense and similar charges.

- Held-to-maturity financial assets
  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the group has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables or those that were designated as at fair value through profit or loss or available for sale. Held-to-maturity financial assets are measured at amortised cost, with interest income recognised in interest and similar income. Gains or losses arising on disposal of held-to-maturity financial assets are recognised in non-interest revenue.

- Loans and receivables
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those financial assets classified by the group on initial recognition as at fair value through profit or loss, available for sale or loans and receivables that are held for trading.

  Financial assets that are classified as loans and receivables are carried at amortised cost, with interest income recognised in interest and similar income. Gains or losses arising on disposal are recognised in non-interest revenue. The majority of the group's advances are included in the loans and receivables category.

- Available-for-sale financial assets
  Available-for-sale financial assets are non-derivative financial assets that the group has designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets as at fair value through profit or loss.

1 PRINCIPAL ACCOUNTING POLICIES ... CONTINUED

CATEGORIES OF FINANCIAL INSTRUMENTS ... CONTINUED

Available-for-sale financial assets are measured at fair value, with fair-value gains or losses recognised directly in equity, in OCI. Foreign currency translation gains or losses on monetary items, impairment losses or interest income, calculated by using the effective-interest-rate method, is reported in profit or loss.

EMBEDDED DERIVATIVES

Derivatives in a host contract that is a financial or non-financial instrument, such as an equity conversion option in a convertible bond, are separated from the host contract when all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.
- The combined contract is not measured at fair value, with changes in fair value recognised in profit or loss.

The host contract is accounted for:

- under IAS 39 if it is a financial instrument; and
- in accordance with other appropriate accounting standards if it is not a financial instrument.

MEASUREMENT BASIS OF FINANCIAL INSTRUMENTS

There are two bases of measurement:

- Amortised cost
  The amortised cost of a financial instrument is the amount at which the financial instrument is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective-interest-rate method of any difference between the initial contractual amount and the maturity amount, less any cumulative impairment losses.

  The effective-interest-rate method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income and expense over the relevant period. The effective-interest-rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective-interest-rate, cashflows are estimated considering all contractual terms of the financial instrument, but future credit losses are not considered. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective-interest-rate, transaction costs, and all other premiums or discounts.
- Fair value
  The fair value of a financial instrument is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties other than in a forced or liquidation sale.

  The fair value of instruments that are quoted in an active market is determined using quoted prices where they represent those at which regularly and recently occurring transactions take place.

  The group uses valuation techniques to establish the fair value of instruments where quoted prices in active markets are not available.

  For a detailed discussion of the fair value of financial instruments refer to note 6.1 'Valuation of financial instruments' on pages 74 to 77 of the annual financial statements.

IMPAIRMENT OF FINANCIAL ASSETS

The group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has (or events have) an impact on the estimated future cashflows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cashflows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.
- Assets carried at amortised cost
  If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity financial assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cashflows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective-interest-rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

  The group first assesses whether or not there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that there is no objective evidence of impairment for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

  If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal may not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date on which the impairment is reversed. The amount of the reversal is recognised in profit or loss for the period.

- Available-for-sale financial assets
  When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity, in the statement of comprehensive income, and there is objective evidence that the asset is impaired, the cumulative loss that has been recognised directly in equity, in the statement of comprehensive income, is removed from equity and recognised in profit or loss. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

  If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss for the period.

- Maximum credit risk
  Credit risk arises principally from loans and advances to clients, investment securities, derivatives and irrevocable commitments to provide facilities. The maximum credit risk is typically the gross carrying amount, net of any amounts offset and impairment losses. The maximum credit exposure for loan commitments is the full amount of the commitment if the loan cannot be settled net in cash or using another financial asset.

DERECOGNITION

The group derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial assets) when and only when:

- the contractual rights to the cashflows arising from the financial asset have expired; or
- it transfers the financial asset, including substantially all the risks and rewards of ownership of the asset; or
- it transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retaining control of the asset.

A financial liability (or part of a financial liability) is derecognised when and only when the liability is extinguished, ie when the obligation specified in the contract is discharged, cancelled or has expired.

The difference between the carrying amount of a financial asset or financial liability (or part thereof) that is derecognised and the consideration paid or received, including any non-cash assets transferred or liabilities assumed, is recognised in non-interest revenue for the period.

SECURITISATIONS

The group securitises various consumer and commercial financial assets, generally resulting in the sale of these assets to SPEs, which in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are primarily recorded in available-for-sale investment securities and carried at fair value.

Gains or losses on securitisation, if the financial assets or liabilities are derecognised, depend in part on the carrying amount of the transferred financial assets allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of transfer. Gains or losses on securitisation are recorded in other operating income for the period.

OFFSETTING FINANCIAL INSTRUMENTS AND RELATED INCOME

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when the group has a legally enforceable right to set off the financial asset and financial liability and the group has an intention of settling the asset and liability on a net basis or realising the asset and settling the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

COLLATERAL

Financial and non-financial assets are held as collateral in respect of recognised financial assets. Such collateral, except cash collateral, is not recognised by the group, as the group does not retain the risks and rewards of ownership, and is obliged to return such collateral to counterparties on settlement of the related obligations. Should a counterparty be unable to settle its obligations, the group takes possession of collateral or calls on other credit enhancements as full or part settlement of such amounts. These assets are recognised when the applicable recognition criteria under IFRS are met, and the group's accounting policies are applied from the date of recognition.

Cash collateral is recognised when the group receives the cash and is reported as amounts received from depositors. Collateral is also given to counterparties under certain financial arrangements, but such assets are not derecognised where the group retains the risks and rewards of ownership. Such assets are at risk to the extent that the group is unable to fulfil its obligations to counterparties.

For a detailed discussion on collateral see note 44 'Collateral' on page 138 of the annual financial statements.

SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

Securities sold subject to linked repurchase agreements are retained in the financial statements, as the group retains all risks and rewards of ownership of the securities. The securities are recorded as trading or investment securities and the counterparty liability is included in amounts owed to other depositors, deposits from other banks or other money market deposits, as appropriate. Securities purchased under agreements to resell are recorded as loans and advances to other banks or clients, as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the duration of the agreements using the effective-interest-rate method. Securities lent to counterparties are also retained in the financial statements and any interest earned is recognised in profit or loss using the effective-interest-rate method.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in non-interest revenue. The obligation to return them is recorded at fair value as a trading liability.

ACCEPTANCES

Acceptances comprise undertakings by the group to pay bills of exchange drawn on clients. The group expects most acceptances to be settled simultaneously with the reimbursement from clients. Acceptances are disclosed as liabilities, with the corresponding asset recorded in the statement of financial position.

1 PRINCIPAL ACCOUNTING POLICIES ... CONTINUED

FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Issued financial guarantee contracts are recognised as insurance contracts and are measured at the best estimate of the expenditure required to settle any financial obligation as of the reporting date. Liability adequacy testing is performed to ensure that the carrying amount of the liability for issued financial guarantee contracts is sufficient. Any increase in the liability relating to guarantees is recognised in profit or loss.

1.6 TAXATION

Taxation expense, recognised in the statement of comprehensive income, comprises current and deferred taxation. Current or deferred taxation is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it too is recognised in equity, and to the extent that it relates to items recognised in OCI, in which case it too is recognised in OCI.

CURRENT TAXATION

Current taxation is the expected tax payable on the taxable income for the year, using taxation rates enacted or substantively enacted at the reporting date, and any adjustment to taxation payable in respect of previous years (prior-period tax paid).

Secondary tax on companies (STC) arises from the distribution of dividends. STC is recognised at the same time as the liability to pay the related dividend, being the date of the declaration of the dividend.

DEFERRED TAXATION

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective taxation bases. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is measured at the taxation rates (enacted or substantively enacted at the reporting date) that are expected to be applied to the temporary differences when they reverse.

Deferred taxation is recognised in profit or loss for the period, except to the extent that it relates to a transaction that is recognised directly in equity or in OCI or a business combination that is accounted for as an acquisition. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss for the period, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred taxation is not recognised for the following temporary differences:

- the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries and jointly controlled entities to the extent that they will not reverse in the foreseeable future.

Deferred taxation assets are recognised to the extent that it is probable that future taxable income will be available against which the unutilised taxation losses and deductible temporary differences can be used. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefits will be realised.

Deferred taxation assets are recognised for STC credits received based on the expected utilisation of these credits by group companies in the declaration of future dividends.

Deferred taxation assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities against current taxation assets, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxation entities, but they intend to settle current taxation liabilities and assets on a net basis or their taxation assets and liabilities will be realised simultaneously.

Deferred taxation assets and liabilities are not discounted.

1.7 GOODWILL AND INTANGIBLE ASSETS

GOODWILL AND GOODWILL IMPAIRMENT

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures. Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investments the carrying amount of goodwill is included in the carrying amount of the investment.

Goodwill is allocated to one or more cash-generating units (CGUs), being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is allocated to the CGUs in which the synergies from the business combinations are expected. Each CGU containing goodwill is annually tested for impairment. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses that are recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to a CGU and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis. However, the carrying amount of these other assets may not be reduced below the highest of its fair value less costs to sell, its value in use and zero.

GOODWILL IMPAIRMENT TESTING PROCEDURES

The recoverable amount of a CGU is the higher of its fair value less cost to sell and its value in use. The fair value less cost to sell is determined by ascertaining the current market value of an asset (or the CGU) and deducting any costs related to the realisation of the asset.

In assessing value in use the expected future pretax cashflows from the CGU are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the particular CGU.

Impairment losses relating to goodwill are not reversed and all impairment losses are recognised in capital and non-trading items for the period.

COMPUTER SOFTWARE AND CAPITALISED DEVELOPMENT COSTS

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, and expenditure on internally generated goodwill and brands are recognised as an expense in profit or loss for the period.

If costs can be reliably measured and future economic benefits are available, expenditure on computer software and other development activities, whereby set procedures and processes are applied to a project for the production of new or substantially improved products and processes, is capitalised if the computer software and other developed products or processes are technically and commercially feasible, and the group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials and directly attributable employee and other direct costs. Computer development expenditure is amortised only once the relevant software is available for use in the manner intended by management. Capitalised software is stated at cost less accumulated amortisation and impairment losses. Expenditure for the development of computers that are not yet available for use is not amortised and is stated at cost less impairment losses.

Amortisation of computer software and development costs is charged to profit or loss on a straight-line basis over the estimated useful lives of these assets, which do not exceed five years and are reviewed annually. Subsequent expenditure relating to computer software is capitalised only when it increases the future economic benefits embodied in the specific asset, in its current condition, to which it relates. All other subsequent expenditure is recognised as an expense in the period in which it is incurred. The profit or loss on the disposal of computer software is recognised in non-trading and capital items (in profit or loss). The profit or loss on disposal is the difference between the net proceeds received and the carrying amount of the asset.

The amortisation methods and residual values of these intangible assets are reviewed on an annual basis.

CONTRACTUAL CLIENT RELATIONSHIPS

Contractual client relationships, including the present value of in-force business in insurance businesses, acquired in a business combination, are recognised at fair value at the date of acquisition. The contractual client relationships have a finite useful life and are carried at cost less accumulated amortisation. The useful lives of these client relationships are reviewed on an annual basis. Amortisation is calculated using the straight-line method over the expected life of the client relationship.

1.8 EMPLOYEE BENEFITS

Defined-benefit and defined-contribution plans have been established for eligible employees of the group, with assets held in separate trustee-administered funds.

DEFINED-BENEFIT PLANS

Pension obligations are accounted for in accordance with IAS 19 Employee Benefits. The projected-unit credit method is used to determine the defined-benefit obligations based on actuarial assumptions, which incorporate not only the pension obligations known on the reporting date, but also information relevant to their expected future development. The discount rates used are determined based on the yields for government bonds that have maturity dates approximating the terms of the group's obligations.

Actuarial gains and losses are accounted for using the corridor method and are not recognised in the statement of changes in equity. The portion of actuarial gains and losses that are recognised for each defined-benefit plan is the excess of the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period over the greater of 10% of the present value of the defined-benefit obligation at that date, before deducting plan assets, and 10% of the fair value of any plan assets at that date. This is then divided by the expected average remaining working lives of the employees participating in that plan.

Where the calculation results in a benefit to the group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately the expense is recognised immediately in profit or loss.

Plan assets are only offset against plan liabilities where they are assets held by long-term employee benefit funds or qualifying insurance policies. Qualifying insurance policies exclude any insurance policies held by the group's holding or subsidiary companies.

DEFINED-CONTRIBUTION PLANS

Contributions in respect of defined-contribution benefits are recognised as an expense in profit or loss in the statement of comprehensive income as incurred.

POSTEMPLOYMENT BENEFIT PLANS

Certain entities within the group provide postretirement medical benefits and disability cover to eligible employees. Non-pension postemployment benefits are accounted for according to their nature, either as defined-contribution or defined-benefit plans. The expected costs of postretirement benefits that are defined-benefit plans in nature are accounted for in the same manner as in the case of defined-benefit pension plans.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefit obligations are measured in the statement of financial position on an undiscounted basis and are expensed as the related service is provided.

1.9 PROPERTY AND EQUIPMENT

Items of property and equipment are initially recognised at cost if it is probable that any future economic benefits associated with the items will flow to the group and they have a cost that can be measured reliably. Certain items of property and equipment that had been revalued to fair value on 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Subsequent expenditure is capitalised to the carrying amount of items of property and equipment if it is measurable and it is probable that it increases the future economic benefits associated with the asset. All other expenses are recognised in profit or loss as an expense when incurred.

Subsequent to initial recognition, computer equipment, vehicles and furniture and other equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Land and buildings, the fair values of which can be reliably measured, are carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation increases are credited directly to equity in 'Other comprehensive income' under the heading 'Revaluation reserve'. However, revaluation increases are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss. Revaluation decreases are recognised in profit or loss. However, decreases are debited directly to equity to the extent of any credit balance existing in the revaluation surplus in respect of the same asset. Land and buildings are revalued on the same basis as investment properties.

1 PRINCIPAL ACCOUNTING POLICIES ... CONTINUED

DEPRECIATION

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Items of property and equipment that are classified as held for sale in terms of IFRS 5 are not depreciated. The depreciable amounts of property and equipment are recognised in profit or loss on a straight-line basis over the estimated useful lives of the items of property and equipment, unless they are included in the carrying amount of another asset. The useful lives, residual values and depreciation methods for property and equipment are assessed and adjusted (where required) on an annual basis.

On revaluation any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the item concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount and residual values.

Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred net of any related deferred taxation between the revaluation reserve and retained earnings as the property is utilised. Land is not depreciated. The maximum initial estimated useful lives are as follows:

Computer equipment	5 years
Motor vehicles	6 years
Fixtures and furniture	10 years
Leasehold property	20 years
Significant leasehold property components	10 years
Freehold property	50 years
Significant freehold property components	5 years

DERECOGNITION

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. On derecognition any surplus in the revaluation reserve in respect of an individual item of property and equipment is transferred directly to retained earnings in the statement of changes in equity.

Compensation from third parties for items of property and equipment that were impaired, lost or given up is included in profit or loss when the compensation becomes receivable.

1.10 INVESTMENT PROPERTIES

Investment properties comprise real estate held for earning rentals and/or for capital appreciation. This does not include real estate held for use in the supply of services or for administrative purposes. Investment properties are initially measured at cost plus any directly attributable expenses.

Investment properties are stated at fair value. Internal professional valuers perform valuations annually. For practical reasons valuations are carried out over a cyclical basis over a 12-month period due to the large number of investment properties involved. External valuations are obtained once every three years on a rotational basis. In the event of a material change in market conditions between the valuation date and reporting date an internal valuation is performed and adjustments made to reflect any material changes in value.

The valuation methodology applied is dependent on the nature of the property. Income-generating assets are valued using discounted cashflows. Vacant land, land holdings and residential flats are valued according to sales of comparable properties. Near-vacant properties are valued at land value less the estimated cost of demolition.

Surpluses and deficits arising from changes in fair value are recognised in profit or loss for the period in the statement of comprehensive income.

For properties reclassified during the year from property and equipment to investment properties any revaluation gain arising is initially recognised in profit or loss to the extent of previously charged impairment losses. Any residual excess is taken to the revaluation reserve. Revaluation deficits are recognised in the revaluation reserve to the extent of previously recognised gains and any residual deficit is accounted for in profit or loss for the period.

Investment properties that are reclassified to owner-occupied property are revalued at the date of transfer, with any difference being taken to profit or loss.

1.11 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets (or disposal groups) are classified as held or sale when their carrying amount will be recovered principally through sale rather than use.

The asset or disposal group must be available for immediate sale in its present condition and the sale should be highly probable with an active programme to find a buyer and the appropriate level of management approving the sale.

Immediately before classification as held for sale, all assets and liabilities are remeasured in accordance with the group's accounting policies. Non-current assets (or disposal groups) held for sale are measured at the lower of carrying amount and fair value less incremental directly attributable cost to sell (excluding taxation and finance charges) and are not depreciated.

Gains or losses recognised on initial classification as held for sale and subsequent remeasurement is recognised in profit or loss, regardless of whether the assets were previously measured at revalued amounts. The maximum gains that can be recognised are the cumulative impairment losses previously recognised in profit or loss. A disposal group continues to be consolidated while classified as held for sale. Income and expenses continue to be recognised in profit or loss.

Non-current assets (or disposal groups) are reclassified from held for sale to held for use if they no longer meet the held for sale criteria. On reclassification the non-current asset (or disposal group) is remeasured at the lower of its recoverable amount and the carrying amount that would have been recognised had the asset (or disposal group) never been classified as held for sale. Any gains or losses are recognised in profit or loss, unless the asset was carried at a revalued amount prior to classification as held for sale.

A discontinued operation is a clearly distinguishable component of the group's business that has been disposed of or is held for sale, which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

1.12 IMPAIRMENT (ALL ASSETS OTHER THAN GOODWILL AND FINANCIAL ASSETS)

The group assesses all assets (other than financial instruments and goodwill) for indications of impairment or the reversal of a previously recognised impairment at each reporting date. These impairments (where the carrying amount of an asset exceeds its recoverable amount) or the reversal of a previously recognised impairment is recognised in profit or loss for the period. Intangible assets not yet available for use are tested on a minimum of an annual basis for impairment.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. The fair value less cost to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset.

In assessing value in use the expected future pretax cashflows from the asset are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset, the cashflows of which are largely dependent on those of other assets, the recoverable amount is determined for the CGU to which the asset belongs.

A previously recognised impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised in prior periods.

1.13 OTHER PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, in respect of which it is probable that an outflow of economic benefits will occur and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the reasonable estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of discounting is material, the provision is discounted. The discount rate reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Gains from the expected disposal of assets are not taken into account in measuring provisions. Provisions are reviewed at each reporting date and adjusted to reflect the current reasonable estimate. If it is no longer probable that an outflow of resources will be required to settle the obligation, the provision is reversed.

REIMBURSEMENTS

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by a party outside the group, the reimbursement is recognised when it is virtually certain that it will be received if the group settles the obligation. The reimbursement is recorded as a separate asset at an amount not exceeding the related provision. The expense for the provision is presented net of the reimbursement in profit or loss. Specific policies include:

- Onerous contracts
  A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.
- Restructuring
  A provision for restructuring is recognised when the group has a detailed formal plan for restructuring and has raised a valid expectation, among those parties directly affected, that the plan will be carried out either by having begun implementation or by publicly announcing the plan's main features. Restructuring provisions include only those costs that arise directly from restructuring that is not associated with the ongoing activities of the group.

Future operating costs or losses are not provided for.

1.14 SHARE-BASED PAYMENTS

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS WITH EMPLOYEES

The services received in an equity-settled share-based payment transaction with employees are measured at the fair value of the equity instruments granted. The fair value of the equity instruments is measured at the grant date and is not subsequently remeasured.

If the equity instruments granted vest immediately and an employee is not required to complete a specified period of service before becoming unconditionally entitled to the instruments, the services received are recognised in profit or loss for the period in full on the grant date with a corresponding increase in equity.

Where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for the equity instruments, will be received in the future during the vesting period. The services are accounted for in profit or loss in the statement of comprehensive income as they are rendered during the vesting period with a corresponding increase in equity. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Where the equity instruments are no longer outstanding, the accumulated share-based payment reserve in respect of those equity instruments is transferred to retained earnings.

MEASUREMENT OF FAIR VALUE OF EQUITY INSTRUMENTS GRANTED

The equity instruments granted by the group are measured at fair value at the measurement date using standard option pricing valuation models. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments. Vesting conditions, other than market conditions, are not taken into account in determining fair value. Vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount.

SHARE-BASED PAYMENT TRANSACTIONS WITH PERSONS OR ENTITIES OTHER THAN EMPLOYEES

Transactions in which equity instruments are issued to historically disadvantaged individuals and organisations in SA for less than fair value are accounted for as share-based payments. Where the group has issued such instruments and expects to receive services in return for equity instruments, the share-based payments charge is spread over the related vesting (ie service) period. In instances where such goods and services could not be identified the cost has been expensed with immediate effect. The valuation techniques are consistent with those mentioned above.

1 PRINCIPAL ACCOUNTING POLICIES ... CONTINUED

1.15 SHARE CAPITAL

Ordinary share capital, preference share capital or any financial instrument issued by the group is classified as equity when:

- payment of cash, in the form of a dividend or redemption, is at the discretion of the group;
- the instrument does not provide for the exchange of financial instruments under conditions that are potentially unfavourable to the group;
- settlement in the group's own equity instruments is for a fixed number of equity instruments at a fixed price; and
- the instrument represents a residual interest in the assets of the group after deducting all of its liabilities.

Consideration paid or received for equity instruments is recognised directly in equity. Equity instruments are initially measured at the proceeds received, less incremental directly attributable issue costs, net of any related income tax benefits. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's equity instruments.

When the group issues a compound instrument (ie an instrument that contains a liability and an equity component), the equity component is initially measured at the residual amount after deducting from the fair value of the compound instrument the amount separately determined for the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

Distributions to holders of equity instruments are recognised as distributions in the statement of changes in equity in the period in which they are payable. Dividends for the year that are declared after the reporting date are disclosed in the notes to the financial statements.

1.16 TREASURY SHARES

When the group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related taxation benefit, is recognised as a change in equity. Shares repurchased by the issuing entity are cancelled. Shares repurchased by group entities are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

1.17 INVESTMENT CONTRACTS

INVESTMENT CONTRACT LIABILITIES

Liabilities for unit-linked and market-linked contracts are reported at fair value. For unit-linked contracts the fair value is calculated as the account value of the units, ie the number of units held multiplied by the bid price value of the assets in the underlying fund (adjusted for taxation). For market-linked contracts the fair value of the liability is determined with reference to the fair value of the underlying assets. This fair value is calculated in accordance with the financial soundness valuation basis, except that negative rand reserves arising from the capitalisation of future margins are not permitted. The fair value of the liability, at a minimum, reflects the initial deposit of the client, which is repayable on demand.

Investment contract liabilities (other than unit-linked and market-linked contracts) are measured at amortised cost.

Embedded derivatives included in investment contracts are separated out and measured at fair value. The host contract liability is measured on an amortised-cost basis.

REVENUE ON INVESTMENT MANAGEMENT CONTRACTS

Fees charged for investment management services in conjunction with investment management contracts are recognised as revenue as the services are provided. Initial fees that exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the projected period over which services will be provided.

CONTRIBUTION INCOME RELATING TO INVESTMENT CONTRACTS

Contribution income includes lump sums received in respect of linked businesses with retirement funds and are accounted for when due. The contribution income is set off directly against the liability under investment contracts.

BENEFITS RELATING TO INVESTMENT CONTRACTS

Policyholder benefits are accounted for when claims are intimated directly against the liability under investment contracts.

1.18 INSURANCE CONTRACTS

Contracts under which the scheme accepts insurance risk from another party by agreeing to compensate such party or other beneficiaries if a specified uncertain future event adversely affects the party or other beneficiaries are classified as insurance contracts.

POLICY LIABILITIES

The policy liabilities under unmatured policies, including unintimated claims, are computed at the reporting date by PA Vergeest, the statutory actuary, according to the financial soundness valuation method as set out in the guidelines issued by the Actuarial Society of SA in Professional Guidance Note 104. Claims intimated but not paid are provided for. The actuarial balance sheet is included as a separate item in the group's annual financial statements. The group performs a liability adequacy test on its liabilities in line with IFRS 4 Insurance Contracts.

LINKED PRODUCTS

Linked products are investment-related products where the risk and reward of the underlying investment portfolio accrues to the policyholder. Linked products, which provide for returns based on the change in the value of the underlying instruments and market indicators, are initially recorded at cost. These products are revalued at year-end using discounted-cashflow analysis, closing market values and index values based on the observation dates stated in the underlying investment agreements. Valuations are adjusted for the effects of changes in foreign exchange rates. Actuarial liabilities of these linked products are stated at the same value as the underlying investments.

1.19 LEASES

THE GROUP AS LESSEE

Leases in respect of which the group bears substantially all risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the lease property and the present value of the minimum lease payments. Directly attributable costs, such as commission paid, incurred by the group are added to the carrying amount of the asset. Each lease payment is allocated between the liability and finance charges to achieve a constant periodic rate of interest on the balance outstanding. Contingent rentals are expensed in the period they are incurred. The depreciation policy for leased assets is consistent with that of depreciable assets owned. If the group does not have reasonable certainty that it will obtain ownership of the leased asset by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Leases that are not classified as finance leases are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

THE GROUP AS LESSOR

Where assets are leased out under a finance lease arrangement, the present value of the lease payments is recognised as a receivable and included under loans and advances in the statement of financial position. Initial direct costs are included in the initial measurement of the receivable. The difference between the gross receivable and unearned finance income is recognised under loans and advances in the statement of financial position. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases.

Assets leased out under operating leases are included under property and equipment in the statement of financial position. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income. Leased assets are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income, net of any incentives given to lessees, is recognised on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

RECOGNITION OF LEASE OF LAND

Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets.

However, when a single lease covers both land and a building, the minimum lease payments at the inception of the lease (including any upfront payments) are allocated between the land and the building in proportion to the relative fair values of the respective leasehold interests. Any upfront premium allocated to the land element that is normally classified as an operating lease represents prepaid lease payments. These payments are amortised over the lease term in accordance with the time pattern of benefits provided. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases.

1.20 BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction and production of qualifying assets are capitalised as part of the costs of these assets. Qualifying assets are assets that necessarily take a substantial period of time to prepare for their intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

All other borrowing costs are expensed in the period in which they are incurred.

Borrowing costs capitalised are disclosed in the notes by asset category and are calculated at the group's average funding cost, except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

1.21 GOVERNMENT GRANTS

Government grants are recognised when there is reasonable assurance that they will be received and that the group will comply with the conditions attached to them. Grants that compensate the group for expenses or losses already incurred or for purposes of giving immediate financial support to the entity with no future-related costs are recognised as income in the period it becomes receivable. Grants that compensate the group for expenses to be incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses will be incurred. Grants that compensate the group for the cost of an asset are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

1.22 CLIENT LOYALTY

When a cardholder makes a purchase that is regarded as eligible spend, the person/company will be granted points that can be redeemed at a later date for goods or services. Points do not expire, unless a client is delinquent or dormant, in which case the points accrued are forfeited as stated in the terms and conditions.

The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The award credits are recognised as deferred revenue until the entity fulfils its obligations to deliver awards to clients.

The consideration allocated to the award credits will be measured by reference to the fair value thereof (ie the amount for which the award credits could be sold separately and the expected manner by which the points will be utilised). Adjustments are made for the expected utilisation and non-utilisation of the points awarded.

1.23 REVENUE AND EXPENDITURE

INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in profit or loss using the effective-interest-rate method taking into account the expected timing and amount of cashflows. The effective-interest-rate method is a method of calculating the amortised cost of a financial asset or financial liability and/or group of financial assets or financial liabilities and of allocating the interest income or interest expense over the relevant period. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing financial instrument and its amount at maturity calculated on an effective-interest-rate basis.

NON-INTEREST REVENUE

- Fees and commissions
  The group earns fees and commissions from a range of services it provides to clients and these are accounted for as follows:
  - Income earned on the execution of a significant act is recognised when the significant act has been performed.
  - Income earned from the provision of services is recognised as the service is rendered by reference to the stage of completion of the service.
  - Income that forms an integral part of the effective-interest-rate of a financial instrument is recognised as an adjustment to the effective-interest-rate and recorded in interest income.
- Dividend income
  Dividend income is recognised when the right to receive payment is established on the ex dividend date for equity instruments and is included in dividend income under non-interest revenue.
- Net trading income
  Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest, expense, costs and

dividends. Interest earned while holding trading securities and interest incurred on trading liabilities are reported within non-interest revenue.

- Income from investment contracts
  Refer to 1.17 for non-interest revenue arising on investment management contracts.
- Other
  Exchange and securities trading income, from investments and net gains on the sale of investment banking assets, is recognised in profit or loss when the amount of revenue from the transaction or service can be measured reliably, it is probable that the economic benefits of the transaction or service will flow to the group and the costs associated with the transaction or service can be measured reliably.

  Fair-value gains or losses on financial instruments at fair value through profit or loss, including derivatives, are included in non-interest revenue. These fair-value gains or losses are determined after deducting the interest component, which is recognised separately in interest income and expense.

  Gains or losses on derecognition of any financial assets or financial liabilities are included in non-interest revenue.

1.24 SEGMENTAL REPORTING

An operating segment is a component of an entity that engages in business activities from which it may earn revenues, the operating results of which component are regularly reviewed by management to make decisions about resources to be allocated and to assess its performance, and for which financial information is available.

The group's identification of its segments and the measurement of segment results are based on the group's internal reporting to management. The segments have been identified according to the nature of their respective products and services and their related target markets, the detail of which can be found in the 'Segmental reporting' section on pages 49 to 51 of the annual report.

The segments identified are complemented by 'Shared Services' and 'Central Management', which provide support in the areas of finance, human resources, governance and compliance, risk management and information technology.

Additional information relating to geographic areas, major clients and other performance measures is provided.

The group accounts for intersegment revenues and transfers as if the transactions were with third parties at current market prices.

1.25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balances with a maturity of less than 90 days from the date of acquisition, including cash and balances with central banks that are not mandatory, other eligible bills and amounts due from other banks.

2 STANDARDS AND INTERPRETATIONS

The International Accounting Standards Board (IASB) is in the process of amending existing standards and issuing new standards. The group is involved in the process of reviewing exposure drafts and providing comments thereon, assessing the impact of standards and interpretations issued by the IASB on the group financial statements.

2.1 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

NEW STANDARDS

The following new standards have not been early-adopted by the group:

- IFRS 9 Financial Instruments
  The IASB has issued IFRS 9 Financial Instruments, which is the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The project has three main phases:
  - Phase I: Classification and measurement of financial instruments;
  - Phase II: Amortised cost and impairment of financial assets; and
  - Phase III: Hedge accounting.

  IFRS 9, as currently issued, includes requirements for the classification and measurement of financial assets and liabilities, derecognition requirements and additional disclosure requirements. The main requirements include the following:
  - Financial assets are to be classified and measured based on the business model for managing the financial asset and the cashflow characteristics of the financial asset. There are two measurement approaches, namely fair value and amortised cost. The financial asset is carried at amortised cost if it is the business model of the entity to hold that asset for the purpose of collecting contractual cashflow and if those cashflows comprise principal repayments and interest. All other financial assets are carried at fair value.
  - A financial asset that would otherwise be at amortised cost may only be designated as at fair value through profit or loss if such a designation reduces an accounting mismatch.
  - The classification and measurement of financial liabilities include requirements similar to those contained in the existing standard IAS 39 Financial Instruments: Recognition and Measurement.
  - For financial liabilities designated as at fair value through profit or loss a further requirement is that all changes in the fair value of financial liabilities attributable to credit risk be transferred to 'Other Comprehensive Income' with no recycling through profit or loss on disposal.
  - The requirements for derecognition are similar to those contained in the existing standard IAS 39 Financial Instruments: Recognition and Measurement, with certain additional disclosure requirements. Management does not anticipate these requirements to have a significant impact on the group's financial statements.

  IFRS 9 is effective for the group for the year commencing 1 January 2015. However, the IASB adopted a phased approach for the release of IFRS 9, with the requirements for the classification and measurement of financial assets having been released in 2009 and the requirements for the classification and measurement of financial liabilities and derecognition having been released in 2010. The requirements released in 2010 cannot be early-adopted without the simultaneous adoption of the 2009 requirements, but the requirements released in 2009 may be separately early-adopted.

  The IASB intends to expand IFRS 9 in 2012 to address the requirements for the impairment of financial assets carried at amortised cost, hedge accounting and macro (portfolio) hedge accounting.

  The implementation of IFRS 9 is anticipated to have a significant impact on the preparation of the group's financial statements. The group is continually evaluating the impact of the standard and is unlikely to adopt portions of the standard until the complete standard on financial instruments has been issued.
- Consolidation suite of standards
  The IASB released the suite of consolidation standards in 2011. The suite of standards is IFRS 10 Consolidated Financial

Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (2011) and IAS 28 Investments in Associates and Joint Ventures (2011). This suite of standards will need to be adopted simultaneously by the group, with an effective date for the reporting year commencing 1 January 2013.

- IFRS 10 Consolidated Financial Statements

  The standard requires a parent company to present consolidated financial statements as a single economic entity, replacing the requirements previously contained in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation: Special-purpose Entities.

  The standard identifies the principles of control, determines how to identify whether an investor controls an investee, and therefore the requirement to consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

  The standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (ie whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in SPEs interpretation). Under IFRS 10 control is based on whether an investor has:

  - power over the investee;
  - exposure, or rights, to variable returns from its involvement with the investee; and
  - the ability to use its power over the investee to affect the amount of the returns.

- IFRS 11 Joint Arrangements

  IFRS 11 replaces IAS 31 Interests in Joint Ventures. It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

  Joint arrangements are either joint operations or joint ventures. These types of entities are defined as follows:

  - A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets and obligations for the liabilities relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to their interest in a joint operation (including their share of any such items arising jointly).
  - A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures (2011). Unlike IAS 31 requirements, the use of 'proportionate consolidation' to account for a joint venture is not permitted.

- IFRS 12 Disclosure of Interests in Other Entities

  This standard requires extended disclosure of information that will enable users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on an entity's financial position, financial performance and cashflows.

  In high-level terms the required disclosures are grouped into the following broad categories:

  - Significant judgements and assumptions, such as how control, joint control and significant influence have been determined.
  - Interests in subsidiaries, including details of the structure of the group, risks associated with structured entities and changes in control.
  - Interests in joint arrangements and associates, such as the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information).
  - Interests in unconsolidated structured entities, including information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with interests in unconsolidated structured entities.

  IFRS 12 gives guidance on the extensive disclosures required and lists specific examples of additional disclosures and expands on each of these disclosure objectives.

  Entities are encouraged to provide the information required by IFRS 12 voluntarily prior to the adoption thereof. The group has performed a preliminary assessment of the impact of this standard on the group financial statements and the further disclosure that will be required in terms of the standard.

- IFRS 13 Fair-value Measurement

  This standard replaces the guidance on fair-value measurement in the various existing IFRS accounting conceptual framework, standards and interpretations with a single standard.

  IFRS 13 defines fair value, provides guidance on how to determine fair value and the required disclosures of fair-value measurements. However, IFRS 13 does not change the requirements regarding which assets and liabilities should be measured or disclosed at fair value.

  IFRS 13 applies when another standard or interpretation requires or permits fair-value measurements or disclosures of fair-value measurements. With certain exceptions, the standard requires entities to classify these measurements into a 'fair-value hierarchy' based on the nature of the inputs:

  - Level 1 – quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
  - Level 2 – inputs other than quoted market prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
  - Level 3 – unobservable inputs for the asset or liability.

  The group is required to make various disclosures depending on the nature of the fair-value measurement (eg whether it is recognised in the financial statements or merely disclosed) and the level at which it is classified. It is not anticipated that the adoption of this standard will result in further disclosure in the group financial statements.

REVISED STANDARDS

The following revisions to IFRS have not been early-adopted by the group:

- IFRS 7 Financial Instruments: Disclosures

  The following amendments were made to IFRS 7 during 2011:

  - Clarification of certain qualitative and quantitative disclosures relating to the nature and extent of risks. The amendment is effective for the group for the year commencing 1 January 2011 and has been met with past disclosure practises.
  - Additional disclosure requirements relating to the transfer of financial assets. This amendment is effective for the group for the year commencing 1 January 2012.

  These amendments address disclosure in the annual financial statements and do therefore not affect the financial position of the group.

2 STANDARDS AND INTERPRETATIONS ... CONTINUED

2.1 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE ... CONTINUED

REVISED STANDARDS ... CONTINUED

- IAS 1 Presentation of Financial Statements

  The following amendments are required:

  - Items presented in OCI are to be grouped, based on whether such items are potentially reclassifiable to profit or loss subsequently, ie those that might be reclassified and those that will not be reclassified.
  - Tax associated with items presented before tax is to be disclosed separately for each of the two groups of OCI items (without changing the option to present such items of OCI either before tax or net of tax).

  The revised standard is effective for the group for the financial year commencing 1 January 2013. The revised portion of the standard does not have any effect on profit and loss, but rather affects the disclosure thereof.

- IAS 19 Employee Benefits (2011)

  An amended version of IAS 19 has been issued, with revised requirements for pensions and other postretirement benefits, termination benefits and other changes.

  The key amendments include:

  - Requiring the recognition of changes in the net defined-benefit liability (asset), including immediate recognition of defined-benefit cost, disaggregation of defined-benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the 'corridor approach' permitted by the existing IAS 19).
  - Introducing enhanced disclosures about defined-benefit plans.
  - Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment, which affects the recognition and measurement of termination benefits.
  - Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs, and risk-sharing and conditional indexation features.
  - Incorporating other matters submitted to the IFRS Interpretations Committee.

  The revised standard is effective for the group for the financial year commencing 1 January 2013. The group is evaluating the impact of this standard on the group financial statements.

- IAS 27 Separate Financial Statements (2011)

  The amended version of IAS 27 deals with the requirements for separate financial statements. The standard requires that, when an entity prepares separate financial statements, investments in subsidiaries, associates and jointly controlled entities are accounted for either at cost or in accordance with IFRS 9 Financial Instruments.

  The standard also deals with the recognition of dividends and certain group reorganisations, and includes related disclosure requirements.

  The amendment to this standard is required to be adopted in conjunction with the consolidation suite of standards noted in 2.1.1.

- IAS 28 Investments in Associates and Joint Ventures (2011)

  This standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

  The standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied and also prescribes how investments in associates and joint ventures be tested for impairment.

  The revised standard is effective for the group for the financial year commencing 1 January 2013. The group is in the process of evaluating the impact of this standard on the group financial statements.

  - IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosure.

    The amendment of IAS 32 Financial Instruments: Presentation of Financial Assets and Financial Liabilities clarifies certain aspects in view of diversity in the application of the requirements on offsetting and focuses on four main areas:

  - The meaning of 'currently has a legally enforceable right of setoff'.
  - The application of simultaneous realisation and settlement.
  - The offsetting of collateral amounts.
  - The unit of account for applying the offsetting requirements.

  The amendment of IFRS 7 requires disclosure of amounts set off in the financial statements and requires disclosure of information about recognised financial instruments, subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32.

  The revised standard is effective for the group for the financial year commencing 1 January 2013. The group is in the process of evaluating the impact of this standard on the group financial statements.

- IASB annual improvement project

  As part of its fourth annual improvement project the IASB has issued its 2011 edition of improvements. The annual improvement project aims to clarify and improve the current accounting standards.

  The improvements include items involving terminology or editorial changes, with minimal effect on recognition and measurement.

  There are no significant changes from the improvement project for the current year that will affect the group. The 2011 improvements are effective for the group commencing 1 January 2012.

2.2 STANDARDS AND INTERPRETATIONS ADOPTED IN THE CURRENT YEAR

REVISED STANDARDS

The following revisions to IFRS have been adopted by the group:

- IFRS 3 Business Combinations

  This amendment clarifies the measurement of non-controlling interests and provides additional guidance on unreplaced and voluntarily replaced share-based payment awards.

  The amendment to the standard did not have a material impact on the financial statements of the group.

- IAS 12 Income Taxes

  The amendment provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair-value model in IAS 40 Investment Property.

The amendment of the standard did not have a material impact on the financial statements of the group.

- IAS 24 Related-party Disclosures
  The amendment provides exemptions from certain disclosure requirements in respect of government-related entities and clarifies the definition of a related party.

  This amendment addresses disclosure in the annual financial statements and will therefore not affect the financial position of the group.

  The revision of the standard did not have a material impact on the disclosure provided in the financial statements.

- Annual improvement project
  As part of its second annual improvement project, the IASB issued its 2010 edition of annual improvements. The aim of the annual improvement project was to clarify and improve the accounting standards.

  These improvements included those involving terminology or editorial changes, with minimal effect on recognition and measurement.

  No significant changes were made to the group financial statements in respect of the revisions that were effective for the year commencing 1 January 2011.

INTERPRETATIONS

The following interpretations of existing standards have been adopted by the group:

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
  The interpretation addresses divergent accounting by entities issuing equity instruments to extinguish all or part of a financial liability (often referred to as 'debt for equity swaps'). The interpretation concludes that the issue of equity instruments to extinguish an obligation constitutes consideration paid.

  The consideration should be measured at the fair value of the equity instruments issued, unless that fair value is not readily determinable, in which case the equity instruments should be measured at the fair value of the obligation extinguished. Any difference between the fair value of the equity instruments issued and the carrying value of the liability extinguished is recognised in profit or loss.

  If the issue of equity instruments is to settle a portion of a financial liability, the entity should assess whether a part of the consideration relates to a renegotiation of the portion of the liability that remains outstanding.

  The adoption of this standard did not have a material impact on the group's annual financial statements.

3 KEY ASSUMPTIONS CONCERNING THE FUTURE AND KEY SOURCES OF ESTIMATION

The group's accounting policies are set out on pages 54 to 66. Certain of these policies, as well as estimates made by management, are considered to be important to an understanding of the group's financial condition since they require management to make difficult, complex or subjective judgements and estimates, some of which may relate to matters that are inherently uncertain. The following accounting policies include estimates that are particularly sensitive in terms of judgements and the extent to which estimates are used. Other accounting policies involve significant amounts of judgements and estimates, but the total amounts involved are not significant to the financial statements. Management has discussed the accounting policies and critical accounting estimates with the board and Nedbank Group Audit Committee.

3.1 ALLOWANCES FOR LOAN IMPAIRMENT AND OTHER CREDIT RISK PROVISIONS

Allowances for loan impairment represent management's estimate of the losses incurred in the loan portfolios at the reporting date.

The group assesses its loan portfolios for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cashflows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Within portfolios, which comprise large numbers of small homogeneous assets with similar risk characteristics where credit-scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on the portfolio, based on historical recovery rates and assumed emergence periods. These statistical analyses use as primary inputs the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line of business or client category.

Judgement and knowledge are needed in selecting the statistical methods to use when the models are developed or revised. The impairment allowance reflected in the financial statements for these portfolios is therefore considered to be reasonable and supportable.

For larger exposures impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cashflows are taken into account, for example the business prospects for the client, the realisable value of collateral, the group's position relative to other claimants, the reliability of client information and the likely cost and duration of the workout process. The level of the impairment allowance is the difference between the value of the discounted expected future cashflows (discounted at the loan's original effective-interest-rate) and its carrying amount. Subjective judgements are made in the calculation of future cashflows. Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairments charge.

3.2 FAIR VALUE OF FINANCIAL INSTRUMENTS

Some of the group's financial instruments are carried at fair value through profit or loss, such as those held for trading, designated by management under the fair-value option and non-cashflow hedging derivatives.

3 KEY ASSUMPTIONS CONCERNING THE FUTURE AND KEY SOURCES OF ESTIMATION ... CONTINUED

3.2 FAIR VALUE OF FINANCIAL INSTRUMENTS ... CONTINUED

Other non-derivative financial assets may be designated as available for sale. Available-for-sale financial investments are initially recognised at fair value and are subsequently held at fair value. Gains and losses arising from changes in fair value of such assets are included as a separate component of equity.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. Financial instruments entered into as trading transactions, together with any associated hedging, are measured at fair value and the resultant profits and losses are included in net trading income, along with interest and dividends arising from long and short positions and funding costs relating to trading activities. Assets and liabilities resulting from gains and losses on financial instruments held for trading are reported gross in trading portfolio assets and liabilities or derivative financial instruments, reduced by the effects of netting agreements where there is an intention to settle net with counterparties.

Details of the processes, procedures and assumptions used in the determination of fair value are discussed in note 6.1 to the financial statements, as set out on pages 74 to 77.

3.3 DERECOGNITION, SECURITISATIONS AND SPECIAL-PURPOSE ENTITIES

The group enters into transactions that may result in the derecognition of certain financial instruments. Judgement is applied as to whether these financial instruments are derecognised from the group's statement of financial position.

The group sponsors the formation of SPEs primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions, for asset financing and for buying or selling credit protection. The group consolidates SPEs it controls in terms of IFRS guidance. Where it is difficult to determine whether the group controls an SPE, the group makes judgements, in terms of IFRS guidance, about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In arriving at judgements, these factors are considered both jointly and separately. Further information in respect of those securitisations, consolidated into the group financial statements, can be found in note 45 to the financial statements.

3.4 GOODWILL

Management considers at least annually whether the current carrying value of goodwill is to be impaired. The first step of the impairment review process requires the identification of independent CGUs by segmenting the group business into as many largely independent income streams as is reasonably practicable. The goodwill is then allocated to these independent units. The first element of this allocation is based on the areas of the business expected to benefit from the synergies derived from the acquisition. The second element reflects the allocation of the net assets acquired and the difference between the consideration paid for those net assets and their fair value. This allocation is reviewed following business reorganisation. The carrying value of the unit, including the allocated goodwill, is compared with its fair value to determine whether any impairment exists. If the recoverable amount of a unit is less than its carrying value, goodwill will be impaired.

Detailed calculations may need to be carried out, taking into consideration changes in the market in which a business operates (eg competitive activity and regulatory change). In the absence of readily available market price data this calculation is based on discounting expected pretax cashflows at a risk-adjusted interest rate appropriate to the operating unit, the determination of both of which requires the exercise of judgement. The estimation of pretax cashflows is sensitive to the periods for which detailed forecasts are available and to assumptions regarding the long-term sustainable cashflows. While forecasts are compared with actual performance and external economic data, expected cashflows naturally reflect management's view of future performance.

The most significant amount of goodwill relates to Nedbank Limited. The goodwill impairment testing performed in 2011 indicated that none of the goodwill was impaired in the year under review. Management believes that reasonable changes in key assumptions used to determine the recoverable amount of Nedbank Limited's goodwill would not result in impairment.

Further information in respect of goodwill recognised in the statement of financial position can be found in note 36 to the financial statements.

3.5 INTANGIBLE ASSETS

An internally generated intangible asset, specifically internally developed software generated during the development phase, is recognised as an asset if certain conditions are met. These conditions include technical feasibility, intention to complete the development, ability to use the asset under development and demonstration of how the asset will generate probable future economic benefits.

The cost of a recognised internally generated intangible asset comprises all costs directly attributable to making the asset capable of being used as intended by management. Conversely, all expenditures arising during the research phase are expensed as incurred.

The decision to recognise internally generated intangible assets requires significant judgement, particularly in the following areas:

- Evaluation of whether or not activities should be considered research activities or development activities.
- Assumptions about future market conditions, client demand and other developments.
- Assessment of whether completing an asset is technically feasible. The term 'technical feasibility' is not defined in the accounting standards, and therefore requires a group-specific and necessarily judgemental approach.
- Evaluation of the future ability to use or sell the intangible asset arising from the development and the assessment of probability of future benefits from sale or use.
- Evaluation of whether or not a cost is directly or indirectly attributable to an intangible asset and whether or not a cost is necessary for completing a development.

All intangible assets of the group have finite useful lives. Consequently, the depreciable amount of the intangible assets is allocated on a systematic basis over their useful lives. Judgement is applied to the following:

- Determining the useful life of an intangible asset, based on estimates regarding the period over which the intangible asset is expected to produce economic benefits to the group.
- Determining the appropriate amortisation method. Accounting standards require that the straight-line method be used, unless management can reliably determine the pattern in which the future economic benefits of the asset are expected to be consumed by the group.

Both the amortisation period and the amortisation method have an impact on the amortisation expenses recorded in each period.

In making impairment assessments for the group's intangible assets, management uses certain complex assumptions and estimates about future cashflows, which require significant judgement and assumptions about future developments. These assumptions are affected by various factors, including changes in the group's business strategy, internal forecasts and estimation of the group's weighted-average cost of capital. Due to these factors, actual cashflows and values could vary significantly from the forecast future cashflows and related values derived using the discounted-cashflow method.

3.6 EMPLOYEE BENEFITS

The group provides pension plans for employees in most parts of the world. Arrangements for staff retirement benefits vary from country to country and are made in accordance with local regulations and custom.

For defined-benefit schemes, including postretirement medical aid schemes, actuarial valuation of each of the scheme's obligations using the projected-unit credit method and the fair valuation of each of the scheme's assets are performed annually in accordance with the requirements of IAS 19.

The actuarial valuation is dependent on a series of assumptions, the key ones being interest rates, mortality, investment returns and inflation. Mortality estimates are based on standard industry and national mortality tables, adjusted where appropriate to reflect the group's own experience.

The returns on fixed-interest investments are set to market yields at the valuation date (less an allowance for risk) to ensure consistency with the asset valuation. The returns on equities are based on the long-term outlook for global equities at the calculation date, having regard to current market yields and dividend growth expectations. The inflation assumption reflects long-term expectations of both earnings and retail price inflation.

The group's IAS 19 pension surplus across all pension and postretirement schemes at 31 December 2011 was a surplus of R924m (2010: R991m). This comprises net recognised assets of R950m (2010: R869m) and unrecognised actuarial gains of R26m (2010: R122m). The group's IAS 19 pension asset in respect of its main SA scheme at 31 December 2011 was R952m (2010: R853m surplus).

If the group had increased/decreased the assumption relating to the discount rate by 1% in respect of the significant postretirement and pension funds, the result would have been a decrease/increase of R26m (2010: R47m) in the net funded position of the relevant funds. If the group had increased/decreased the assumption relating to the expected return on plan assets by 1% in respect of the significant postretirement and pension funds, the result would have been an increase of R49m (2010: R46m) of the net pension cost.

The group's IAS 19 postretirement medical aid obligation across all schemes at 31 December 2011 was a deficit of R652m (2010: R412m). This comprises recognised liabilities of R396m (2010: R312m) and unrecognised actuarial losses of R256m (2010: R100m).

If the group had increased/decreased the assumption relating to the medical cost trend rate by 1% in respect of the postretirement medical aid schemes, the result would have been an increase/decrease of R204m and R169m respectively (2010 an increase/decrease of R175m and R143m respectively) in the net unfunded position of the relevant funds. It would have increased/decreased the postretirement medical aid expense by an equal amount of R28m and R22m respectively (2010 an increase/decrease of R26m and R20m respectively).

Further information on employee benefit obligations, including assumptions, is set out in note 35 to the financial statements.

3.7 INCOME TAXES

The group is subject to direct taxation in a number of jurisdictions in which it operates. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The group recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred taxation provisions in the period in which such determination is made through profit and loss for that period.

3.8 FINANCIAL RISK MANAGEMENT

The group's risk management policies and procedures are disclosed in the Risk and Balance Sheet Management Review on pages 160 to 205. These risk management procedures include, but are not limited to, credit risk, securitisation risk, liquidity risk, interest rate risk in the banking book and market risk.

4. CAPITAL MANAGEMENT

Nedbank Group's Capital Management Framework reflects the integration of risk, capital, strategy and performance measurement across the group and contributes significantly to the Enterprisewide Risk Management Framework (ERMF).

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

The Group Capital Management Division reports to the Chief Operating Officer and is mandated with the implementation of the Capital Management Framework and the Internal Capital Adequacy Assessment Process (ICAAP) across the group. The capital management (incorporating ICAAP) responsibilities of the board and management are incorporated in their respective terms of reference as contained in the ERMF and are assisted by the board's Group Risk and Capital Management Committee, and Group Asset and Liability Committee (Group ALCO) respectively.

CAPITAL, RESERVES AND LONG-TERM DEBT INSTRUMENTS

The group's capital management framework, policies and processes cover the group's capital and reserves as per the group statement of changes in equity on pages 46 to 47 as well as the long-term debt instruments per note 41 on pages 134 and 135.

Further details on the ERMF, capital management and regulatory requirements are disclosed in the Risk and Balance Sheet Management Review on pages 160 to 205, which is unaudited, unless stated otherwise.

5 CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CATEGORIES OF FINANCIAL INSTRUMENTS

			At fair value through profit or loss						
2011	Note	Total Rm	Held for trading Rm	Designated* Rm	Available-for-sale financial assets Rm	Held-to-maturity investments Rm	Loans and receivables Rm	Financial liabilities at amortised cost Rm	Non-financial assets, liabilities and equity Rm
ASSETS									
Cash and cash equivalents	21	11 514					11 514		
Other short-term securities	22	31 715	8 287	23 428					
Derivative financial instruments	23	14 314	14 314						
Government and other securities	25	29 991	4 511	12 187	1 503	7 880	3 910		
Loans and advances	26	490 176	17 482	48 957			423 737		
Other assets	28	3 989		873			3 116		
Clients' indebtedness for acceptances		2 931							2 931
Current taxation receivable		629							629
Investment securities	29	3 549	693	2 358	498				
Non-current assets held for sale	31	8							8
Investments in associate companies and joint ventures	30	565		545					20
Deferred taxation asset	32	66							66
Investment property	33	488							488
Property and equipment	34	6 082							6 082
Long-term employee benefit assets	35	2 027							2 027
Mandatory reserve deposits with central banks	21	11 862					11 862		
Intangible assets	36	3 634							3 634
Total assets		613 540	45 287	88 348	2 001	7 880	454 139	–	15 885
EQUITY AND LIABILITIES									
Ordinary share capital	38.1	27							27
Ordinary share premium		14 422							14 422
Reserves		24 856							24 856
Total equity attributable to equity holders of the parent		39 305	–	–	–	–	–	–	39 305
Preference share capital and premium	38.2	3 561							3 561
Non-controlling interest attributable to:									
– ordinary shareholders		121							121
Total equity		42 987	–	–	–	–	–	–	42 987
Derivative financial instruments	23	13 791	13 791						
Amounts owed to depositors	39	513 609	38 279	85 912				389 418	
Provisions and other liabilities	40	8 286	2 401					5 885	
Liabilities under acceptances		2 931							2 931
Current taxation liabilities		27							27
Deferred taxation liabilities	32	997							997
Long-term employee benefit liabilities	35	1 473							1 473
Long-term debt instruments	41	29 439		6 332				23 107	
Total liabilities		570 553	54 471	92 244	–	–	–	418 410	5 428
Total equity and liabilities		613 540	54 471	92 244	–	–	–	418 410	48 415

2010	Note	Total Rm	At fair value through profit or loss: Held for trading Rm	At fair value through profit or loss: Designated* Rm	Available-for-sale financial assets Rm	Held-to-maturity investments Rm	Loans and receivables Rm	Financial liabilities at amortised cost Rm	Non-financial assets, liabilities and equity Rm
ASSETS									
Cash and cash equivalents	21	7 469					7 469		
Other short-term securities	22	21 955	9 598	12 357					
Derivative financial instruments	23	14 077	14 077						
Government and other securities**	25	31 667	3 475	13 961	827	10 113	3 291		
Loans and advances	26	469 527	19 180	42 078			408 269		
Other assets	28	3 613		880			2 733		
Clients' indebtedness for acceptances		1 920							1 920
Current taxation receivable		440							440
Investment securities	29	2 999	314	2 077	608				
Non-current assets held for sale	31	5							5
Investments in associate companies and joint ventures	30	933		912					21
Deferred taxation asset	32	48							48
Investment property	33	82							82
Property and equipment	34	5 394							5 394
Long-term employee benefit assets	35	1 965							1 965
Mandatory reserve deposits with central banks	21	11 068					11 068		
Intangible assets	36	3 328							3 328
Total assets		576 490	46 644	72 265	1 435	10 113	432 830	–	13 203
EQUITY AND LIABILITIES									
Ordinary share capital	38.1	27							27
Ordinary share premium		14 422							14 422
Reserves		20 281							20 281
Total equity attributable to equity holders of the parent		34 730	–	–	–	–	–	–	34 730
Preference share capital and premium	38.2	3 560							3 560
Non-controlling interest attributable to:									
– ordinary shareholders		110							110
Total equity		38 400	–	–	–	–	–	–	38 400
Derivative financial instruments	23	11 930	11 930						
Amounts owed to depositors	39	489 118	35 259	89 531				364 328	
Provisions and other liabilities	40	6 179	1 726					4 453	
Liabilities under acceptances		1 920							1 920
Current taxation liabilities		76							76
Deferred taxation liabilities	32	1 358							1 358
Long-term employee benefit liabilities	35	1 408							1 408
Long-term debt instruments	41	26 101		7 774				18 327	
Total liabilities		538 090	48 915	97 305	–	–	–	387 108	4 762
Total equity and liabilities		576 490	48 915	97 305	–	–	–	387 108	43 162

* *Refer to note 24 in respect of financial instruments designated as at fair value through profit or loss.*

** *The group has made the decision to change the presentation of government securities held internally between the trading and banking books. 2010 comparatives have been restated accordingly.*

6 FAIR-VALUE MEASUREMENT

6.1 VALUATION OF FINANCIAL INSTRUMENTS

BACKGROUND

Information obtained from the valuation of financial instruments is used by the group to assess the performance of the business and, in particular, provide assurance that the risk and return measures that the business has taken are accurate and complete. It is important that the valuation of financial instruments accurately represents the financial position of the group while complying with the requirements of the applicable accounting standards.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties. Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.

CONTROL ENVIRONMENT

- Validation and approval

  The business unit entering into the transaction is responsible for the initial determination and recording of the fair value of the transaction. There are formalised review protocols for the independent review and validation of fair values separate from the business unit entering into the transaction. These include, but are not limited to:

  - daily controls over the profit or loss recorded by trading and treasury frontoffice traders;
  - specific controls to ensure consistent pricing policies and procedures are adhered to;
  - independent valuation of structures, products and trades; and
  - periodic review of all elements of the modelling process.

  The validation of pricing and valuation methodologies is verified by a specialist team that is part of the group's risk management function and that is independent of all the business units. A specific area of focus is the marking-to-model of illiquid and/or complex financial instruments.

  The review of the modelling process includes approval of model revisions, vetting of model inputs, review of model results and more specifically the verification of risk calculations. All valuation techniques are validated and reviewed by qualified senior staff and are calibrated and back-tested for validity by using prices from any observable current market transaction in the same instrument (ie without modification or repackaging) or based on any observable market data. The group obtains market data consistently in the same market where the instrument was originated or purchased.

  If the fair-value calculation deviates from the quoted market value due to inaccurate observed market data, these deviations in the valuation are documented and presented at a review committee, which is independent of both the business unit and the specialist team, for approval. The committee will need to consider both the regulatory and accounting requirements in arriving at an opinion on whether the deviation is acceptable.

  The group refines and modifies its valuation techniques as markets and products develop and as the pricing for individual products becomes more or less readily available. While the group believes its valuation techniques are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions may result in different estimates of fair value at the different reporting dates.

- Stress testing and sensitivity measures

  Comprehensive stress testing is conducted by the group, in which the following, at a minimum, are considered:

  - anticipated future projected trading positions;
  - historical events;
  - scenario testing to evaluate plausible future events; and
  - specific testing to supplement the value at risk (VaR) methodology (ie one-day holding period and 99% confidence interval).

  For further discussion in respect of stress testing and sensitivity measures refer to note 6.6 of the annual financial statements on page 86.

VALUATION METHODOLOGIES

- Quoted price

  A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held or a liability to be issued is usually the current bid price and, for an asset to be acquired or a liability held, the asking price.

  The objective of determining fair value is to arrive at the transaction price of an instrument on the measurement date (ie without modifying or repackaging the instrument) in the most advantageous active market to which the business has immediate access.

  The existence of published price quotations in an active market is the best evidence of fair value and, when they exist, they are used to measure the financial asset or financial liability. A market is considered to be active if transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

  These quoted prices would generally be classified as level 1 in terms of the fair-value hierarchy prescribed by IFRS 7 Financial Instruments: Disclosure.

- Valuation techniques

  If the market for a financial instrument is not active, the group establishes fair value by using various valuation techniques. These valuation techniques may include:

  - using recent arm's length market transactions between knowledgeable, willing parties;
  - reference to the current fair value of another instrument that is substantially the same in nature;
  - reference to the value of the net asset of the underlying business;
  - earnings multiples;
  - discounted-cashflow analysis; and
  - various option pricing models.

  If there is a valuation technique that is commonly used by market participants to price the financial instrument and that technique has been demonstrated to provide reasonable estimates of prices obtained in actual market transactions, the group will use that technique.

  The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange and motivated by normal business considerations. In applying valuation techniques, the group uses estimates and assumptions that are consistent with available information about the estimates and assumptions that market participants would use in setting a price for the financial instrument.

Fair value is therefore estimated on the basis of the results of a valuation technique that makes maximum use of market inputs and relies as little as possible on entity-specific inputs. A valuation technique would be expected to arrive at a realistic estimate of the fair value if:

- it reasonably reflects how the market could be expected to price the instrument; and
- the inputs to the valuation technique reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Therefore, a valuation technique:

a) will incorporate all relevant factors that market participants would consider in determining a price; and
b) is consistent with accepted economic methodologies for pricing financial instruments.

If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the various component parts.

If a rate (rather than a price) is quoted in an active market, the group uses that market-quoted rate as an input into a valuation technique to determine fair value. If the market-quoted rate does not include credit risk or other factors that market participants would include in valuing the instrument, the group adjusts for these factors.

Valuation techniques applied by the group would generally be classified as level 2 or level 3 in terms of the fair-value hierarchy prescribed by IFRS 7 Financial Instruments: Disclosure. The determination of whether an instrument is classified as level 2 or level 3 is dependent on the significance of observable inputs versus unobservable inputs in relation to the fair value of the instrument.

OBSERVABLE MARKETS

Quoted market prices in active markets are the best evidence of fair value and are used as the basis of measurement, if available.

A determination of what constitutes 'observable market data' will necessitate significant judgement. It is the group's belief that 'observable market data' comprises, in the following hierarchical order:

- prices or quotes from an exchange or listed markets in which there are sufficient liquidity and activity;
- proxy observable market data that is proven to be highly correlated and has a logical, economic relationship with the instrument that is being valued; and
- other direct and indirect market inputs that are observable in the marketplace.

Data is considered by the group to be 'observable' if the data is:

- verifiable;
- readily available;
- regularly distributed;
- from multiple independent sources;
- transparent; and
- not proprietary.

Data is considered by the group to be 'market-based' if the data is:

- reliable;
- based on consensus within reasonable narrow, observable ranges;
- provided by sources that are actively involved in the relevant market; and
- supported by actual market transactions.

It is not intended to imply that all of the above characteristics must be present to conclude that the evidence qualifies as observable market data. Judgement is applied based on the strength and quality of the available evidence.

INPUTS TO VALUATION TECHNIQUES

A suitable valuation technique for estimating the fair value of a particular financial instrument would incorporate observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The principal inputs to these valuation techniques include the following:

- Discount rate: Where discounted-cashflow techniques are used, estimated future cashflows are based on management's best estimates and the discount rate used is a market rate at the reporting date for an instrument with similar terms and conditions.
- The time value of money: The business may use well-accepted and readily observable general interest rates, such as the Johannesburg Interbank Agreed Rate (SA), London Interbank Offered Rate (UK) or an appropriate swap rate as the benchmark rate to derive the present value of a future cashflow.
- Credit risk: Credit risk is the risk of loss associated with a counterparty's failure or inability to fulfil its contractual obligations. The valuation of the relevant financial instrument takes into account the effect of credit risk on fair value by including an appropriate adjustment for the risk taken.
- Foreign currency exchange prices: Active currency exchange markets exist for most major currencies, and prices are quoted daily on various trading platforms and in financial publications.
- Commodity prices: Observable market prices are available for those commodities that are actively traded on exchanges in SA, London, New York, Chicago and other commercial exchanges.
- Equity prices: Prices (and indices of prices) of traded equity instruments are readily observable on JSE Limited or any other recognised international exchange. Present value techniques may be used to estimate the current market price of equity instruments for which there are no observable prices.
- Volatility: Measures of the volatility of actively traded items can be reasonably estimated by the implied volatility in current market prices. The shape and skew of the volatility curve is derived from a combination of observed trades and doubles in the market. In the absence of an active market, a methodology to derive these volatilities from observable market data will be developed and utilised.
- Recovery rates/Loss given default: These are used as an input to valuation models as an indicator of the severity of losses on default. Recovery rates are primarily sourced from market data providers or inferred from observable credit spreads.
- Prepayment risk and surrender risk: Expected repayment patterns for financial assets and expected surrender patterns for financial liabilities can be estimated on the basis of historical data.
- Servicing costs: If the cost of servicing a financial asset or financial liability is significant and other market participants would face comparable costs, the issuer would consider them in determining the fair value of that financial asset or financial liability.

6 FAIR-VALUE MEASUREMENT ... CONTINUED

INPUTS TO VALUATION TECHNIQUES ... CONTINUED

- Dividends: Consistent consensus dividend forecasts adjusted for internal investment analysts' projections can be applied to each share. Forecasts are usually available for the current year plus one additional year. Thereafter, a constant growth rate would be applied to the specific dates into the future for each individual share.
- Inception profit (day-one gain or loss): The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique, the variables of which include data from observable markets only.

VALUATION ADJUSTMENTS

To determine a reliable fair value, where appropriate, the group applies certain valuation adjustments to the pricing information derived from the above sources. In making appropriate adjustments, the group considers certain adjustments to the modelled price that market participants would make when pricing that instrument. Factors that would be considered include the following:

- Own credit on financial liabilities: The carrying amount of financial liabilities held at fair value is adjusted to reflect the effect of changes in the group's own credit spreads. As a result, the carrying value of issued bonds and subordinated-debt instruments that have been designated at fair value through profit or loss is adjusted by reference to the movement in the appropriate spreads. The resulting gain or loss is recognised in profit and loss in the statement of other comprehensive income.
- Counterparty credit spreads: Adjustments are made to market prices when the creditworthiness of the counterparty differs from that of the assumed counterparty in the market price (or parameter).

VALUATION TECHNIQUES BY INSTRUMENT

- Other short-term securities and government and other securities
  The fair value of these instruments is based on quoted market prices from an exchange dealer, broker, industry group or pricing service, when available. When they are unavailable, the fair value is determined by reference to quoted market prices for similar instruments, adjusted as appropriate for the specific circumstances of the instruments.

  Where these instruments include corporate bonds, the bonds are valued using observable active quoted prices or recently executed transactions, except where observable price quotations are not available. Where price quotations are not available, the fair value is determined based on cashflow models, where significant inputs may include yield curves and bond or single-name credit default swap spreads.
- Derivative financial instruments
  Derivative contracts can either be traded via an exchange or over the counter (OTC) and are valued using market standard models and quoted parameter inputs. Parameter inputs are obtained from pricing services, consensus pricing services and recently occurring transactions in active markets, whenever possible. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Some inputs are not observable, but can generally be estimated from historical data or other sources.
- Loans and advances
  Loans and advances include mortgage loans (home loans and commercial mortgages), other asset-based loans, including collaterised debt obligations, and other secured and unsecured loans.

  In the absence of an observable market for these instruments, the fair value is determined by using internally developed models that are specific to the instrument and that incorporate all available observable inputs. These models involve discounting the contractual cashflows by using a credit-adjusted zero-coupon curve.
- Investment securities
  Investment securities include private equity investments, listed investments and unlisted investments.

  The fair value of listed investments is determined with reference to quoted bid prices at the close of business on the relevant securities exchange.

  Where private equity investments are involved, the exercise of judgement is required because of uncertainties inherent in estimating the fair value. The fair value of private equity is determined using appropriate valuation methodologies that, dependent on the nature of the investment, may include an analysis of the investee's financial position and results, risk profiles and prospects, discounted-cashflow analysis, enterprise value comparisons with similar companies, price/earnings comparisons and earnings multiples. For each investment the relevant methodology is applied consistently over time and may be adjusted for changes in market conditions relative to that instrument.

  The fair value of unlisted investments is determined using appropriate valuation techniques that may include, but are not limited to, discounted-cashflow analysis, net asset value calculations and directors' valuations.
- Other assets
  Short positions or long positions in equities arise in trading activities where equity shares, not owned by the group, are sold in the market to third parties. The fair value of these instruments is determined by reference to the gross short/long position valued at the offer rate.

  Investments in instruments that do not have a quoted market price in an active market and the fair value of which cannot be reliably measured, as well as derivatives that are linked to and have to be settled by delivery of such unquoted equity instruments, are measured at fair value, utilising models considered to be appropriate by management.
- Amounts owed to depositors
  Amounts owed to depositors include deposits under repurchase agreements, negotiable certificates of deposit and other deposits.

  These instruments incorporate all market risk factors, including a measure of the group's credit risk relevant for that financial liability when designated at fair value through profit or loss. The fair value of these financial liabilities is determined by discounting the contractual cashflows using a Nedbank Limited-specific credit-adjusted yield curve that reflects the level at which the group would issue similar instruments at the reporting date. The market risk parameters are valued consistently to similar instruments held as assets.

  The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. When the fair value of a financial liability cannot be reliably determined, the liability is recorded at the amount due.

Fair value is considered reliably measurable if:

- the variability in the range of reasonable fair-value estimates is not significant for that instrument; or
- the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

- Investment contract liabilities
  The fair value of investment contract liabilities is determined by reference to the fair value of the underlying assets.
- Long-term debt instruments
  The fair value of long-term debt instruments is determined by reference to published market values on the relevant exchange.
- Complex instruments
  These instruments are valued by using internally developed models that are specific to the instrument and that have been calibrated to market prices. In less active markets data is obtained from less frequent market transactions, broker quotes and through extrapolation and interpolation techniques. Where observable prices or inputs are not available, other relevant sources of information such as historical data, fundamental analysis of the economics of the transaction and proxy information from similar transactions are used. These models are continually reviewed and assessed to ensure that the best available data is being utilised in the determination of fair value.
- Other liabilities
  Short positions or long positions in equities arise in trading activities where equity shares, not owned by the group, are sold in the market to third parties. The fair value of these instruments is determined by reference to the gross short/long position valued at the offer rate.

  Where the group has assets and liabilities with offsetting market risks, it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position, as appropriate.

6 FAIR-VALUE MEASUREMENT ... CONTINUED

6.2 FAIR-VALUE HIERARCHY

6.2.1 FINANCIAL ASSETS

Rm	Note	Total financial assets	Total financial assets recognised at amortised cost	Total financial assets recognised at fair value
2011		**597 655**	**462 019**	**135 636**
Cash and cash equivalents	21	**23 376**	**23 376**	**–**
Other short-term securities	22	**31 715**		**31 715**
Derivative financial instruments	23	**14 314**		**14 314**
Government and other securities	25	**29 991**	**11 790**	**18 201**
Loans and advances	26	**490 176**	**423 737**	**66 439**
Other assets	28	**3 989**	**3 116**	**873**
Investments in associate companies and joint ventures	30	**545**		**545**
Investment securities	29	**3 549**		**3 549**
2010		563 287	442 943	120 344
Cash and cash equivalents	21	18 537	18 537	–
Other short-term securities	22	21 955		21 955
Derivative financial instruments	23	14 077		14 077
Government and other securities *	25	31 667	13 404	18 263
Loans and advances	26	469 527	408 269	61 258
Other assets	28	3 613	2 733	880
Investments in associate companies and joint ventures	30	912		912
Investment securities	29	2 999		2 999

Summary of fair-value hierarchies

Rm	Total financial assets recognised at fair value 2011	2010
Other short-term securities	**31 715**	21 955
Derivative financial instruments	**14 314**	14 077
Government and other securities	**18 201**	18 263
Loans and advances	**66 439**	61 258
Other assets	**873**	880
Investments in associate companies and joint ventures	**545**	912
Investment securities	**3 549**	2 999
	135 636	120 344

Reconciliation to categorised statement of financial position

Rm	Held for trading 2011	2010
Level 1	**2 447**	2 712
Level 2	**42 781**	43 535
Level 3	**59**	397
	45 287	46 644

Reconciliation to statement of financial position

Rm	Note	2011	2010
Total financial assets	5	**597 655**	563 287
Total non-financial assets	5	**15 885**	13 203
Total assets		**613 540**	576 490

* *2010 comparative information has been restated. Refer to note 5.*

Held for trading			Designated at fair value through profit			Available for sale		
Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
2 447	42 781	59	10 984	75 406	1 958	1 573	428	–
	8 287		436	22 992				
1	14 284	29						
2 446	2 065		9 505	2 682		1 092	411	
	17 479	3		48 869	88			
			252	621				
					545			
	666	27	791	242	1 325	481	17	
2 712	43 535	397	12 698	57 392	2 175	1 023	412	–
728	8 870		1 335	11 022				
1	14 076							
1 983	1 445	47	10 571	3 390		432	395	
	19 144	36	1	42 077				
			260	620				
					912			
		314	531	283	1 263	591	17	

Total financial assets classified at level 1		Total financial assets classified at level 2		Total financial assets classified at level 3	
2011	2010	2011	2010	2011	2010
436	2 063	31 279	19 892		
1	1	14 284	14 076	29	
13 043	12 986	5 158	5 230		47
	1	66 348	61 221	91	36
252	260	621	620		
				545	912
1 272	1 122	925	300	1 352	1 577
15 004	16 433	118 615	101 339	2 017	2 572

Designated at fair value through profit or loss		Available for sale	
2011	2010	2011	2010
10 984	12 698	1 573	1 023
75 406	57 392	428	412
1 958	2 175		
88 348	72 265	2 001	1 435

6 FAIR-VALUE MEASUREMENT ... CONTINUED

6.2 FAIR-VALUE HIERARCHY ... CONTINUED

6.2.2 FINANCIAL LIABILITIES

Rm	Note	Total financial liabilities	Total financial liabilities recognised at amortised cost	Total financial liabilities recognised at fair value
2011		565 125	418 410	146 715
Derivative financial instruments	23	13 791		13 791
Amounts owed to depositors	39	513 609	389 418	124 191
Provisions and other liabilities	40	8 286	5 885	2 401
Long-term debt instruments	41	29 439	23 107	6 332
2010		533 328	387 108	146 220
Derivative financial instruments	23	11 930		11 930
Amounts owed to depositors	39	489 118	364 328	124 790
Provisions and other liabilities	40	6 179	4 453	1 726
Long-term debt instruments	41	26 101	18 327	7 774

Summary of fair-value hierarchies Rm	Total financial liabilities recognised at fair value 2011	2010
Derivative financial instruments	13 791	11 930
Amounts owed to depositors	124 191	124 790
Provisions and other liabilities	2 401	1 726
Long-term debt instruments	6 332	7 774
	146 715	146 220

Reconciliation to categorised statement of financial position	Held for trading		Designated at fair value	
Rm	2011	2010	2011	2010
Level 1	2 350	1 480	6 156	7 774
Level 2	52 116	47 425	86 088	89 531
Level 3	5	10		
	54 471	48 915	92 244	97 305

Reconciliation to statement of financial position Rm	Note	2011	2010
Total financial liabilities	5	565 125	533 328
Total equity and non-financial liabilities	5	48 415	43 162
Total equity and liabilities		613 540	576 490

The financial instruments recognised at fair value have been categorised under the three levels of the IFRS 7 Financial Instruments: Disclosures as follows:

Level 1: Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

Level 2: Valuation techniques using market-observable inputs. Various factors influence the availability of observable inputs and these may vary from product to product and change over time. Factors include, for example, the depth of activity in the relevant market, the type of product, whether the product is new and not widely traded in the market, the maturity of market modelling and the nature of the transaction (bespoke or generic).

Level 3: Valuation techniques that include significant inputs that are not observable. To the extent that a valuation is based on inputs that are not market-observable the determination of the fair value can be more subjective, dependent on the significance of the unobservable inputs to the overall valuation. Unobservable inputs are determined based on the best information available and may include reference to similar instruments, similar maturities, appropriate proxies or other analytical techniques.

6.3 DETAILS OF CHANGES IN VALUATION TECHNIQUES

There have been no significant changes in valuation techniques during the year under review.

6.4 SIGNIFICANT TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

There have been no significant transfers between level 1 and level 2 during the year under review.

	Held for trading			Designated at fair value through profit or loss		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	2 350	52 116	5	6 156	86 088	–
	6	13 780	5			
		38 279			85 912	
	2 344	57				
				6 156	176	
	1 480	47 425	10	7 774	89 531	
	6	11 914	10			
		35 259			89 531	
	1 474	252				
				7 774		

	Total financial liabilities classified at level 1		Total financial liabilities classified at level 2		Total financial liabilities classified at level 3	
	2011	2010	2011	2010	2011	2010
	6	6	13 780	11 914	5	10
			124 191	124 790		
	2 344	1 474	57	252		
	6 156	7 774	176			
	8 506	9 254	138 204	136 956	5	10

6 FAIR-VALUE MEASUREMENT ... CONTINUED

6.5 LEVEL 3 RECONCILIATION

ASSETS

Rm	Opening balance at 1 January	Gains/(Losses) in profit for the year*	Gains/(Losses) in other comprehensive income for the year
2011			
Held for trading	397	43	10
Derivative financial instruments	–	29	
Government and other securities	47		6
Loans and advances	36		3
Investment securities	314	14	1
Designated as at fair value	2 175	(86)	–
Investments in associate companies and joint ventures	912	(150)	
Loans and advances	–	12	
Investment securities	1 263	52	
Available-for-sale financial assets	–	–	–
Investment securities	–		
Total financial assets classified at level 3	**2 572**	**(43)**	**10**

** Gains and losses include, but are not limited to, fair-value gains or losses, translation gains or losses, trading gains or losses and, where applicable, dividend and interest income.*

*** Transfers out represent financial assets that have been moved to the level 2 category where valuation techniques have changed as more observable and relevant market information became available.*

**** Transfers in represent financial assets that have been moved to the level 3 category where observable inputs and relevant market information became less available.*

Rm	Opening balance at 1 January	Gains/(Losses) in profit for the year*	Gains/(Losses) in other comprehensive income for the year
2010			
Held for trading	426	25	–
Derivative financial instruments	16		
Government and other securities	55	(8)	
Loans and advances	82	(7)	
Investment securities	273	40	
Designated as at fair value	2 433	53	–
Investments in associate companies and joint ventures	908	(4)	
Investment securities	1 525	57	
Available-for-sale financial assets	17	–	–
Investment securities	17		
Total financial assets classified at level 3	2 876	78	–

** Gains and losses include, but are not limited to, fair-value gains or losses, translation gains or losses, trading gains or losses and, where applicable, dividend and interest income.*

*** Transfers out represent financial assets that have been moved to the level 2 category where more observable and relevant market information became available.*

Purchases and issues	Sales and settlements	Transfers in***	Transfers out**	Closing balance at 31 December
11	(89)	–	(313)	59
				29
	(53)			–
	(36)			3
11	–		(313)	27
279	(486)	76		1 958
105	(322)			545
		76		88
174	(164)			1 325
–	–	–	–	–
				–
290	(575)	76	(313)	2 017

Purchases and issues	Sales and settlements	Transfers in	Transfers out**	Closing balance at 31 December
–	(40)	1	(15)	397
	(1)		(15)	
				47
	(39)			36
		1		314
50	(61)	–	(300)	2 175
8				912
42	(61)		(300)	1 263
–	–	–	(17)	–
			(17)	–
50	(101)	1	(332)	2 572

6 FAIR-VALUE MEASUREMENT ... CONTINUED

6.5 LEVEL 3 RECONCILIATION ... CONTINUED

LIABILITIES

Rm	Opening balance at 1 January	Gains/(Losses) in profit for the year*	Gains/(Losses) in other comprehensive income for the year
2011			
Held for trading	10	(13)	13
Derivative financial instruments	10	(13)	13
Total financial liabilities classified at level 3	10	(13)	13

* *Gains and losses include, but are not limited to, fair-value gains or losses, translation gains or losses, trading gains or losses and, where applicable, dividend and interest expense.*

Rm	Opening balance at 1 January	Gains/(Losses) in profit for the year**	Gains/(Losses) in other comprehensive income for the year
2010			
Held for trading	53	(18)	*
Derivative financial instruments	53	(18)	*
Total financial liabilities classified at level 3	53	(18)	*

* *Represents amounts less than R1m.*

** *Gains and losses include, but are not limited to, fair-value gains or losses, translation gains or losses, trading gains or losses and, where applicable, dividend and interest expense.*

*** *Transfers out represent financial liabilities that have been moved to the level 2 category where more observable and relevant market information became available.*

Purchases and issues	Sales and settlements	Transfers in	Transfers out	Closing balance at 31 December
–	(5)	–	–	5
	(5)			5
–	(5)	–	–	5

Purchases and issues	Sales and settlements	Transfers in	Transfers out***	Closing balance at 31 December
9	–	–	(34)	10
9		–	(34)	10
9	–	–	(34)	10

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER ... CONTINUED

6 FAIR-VALUE MEASUREMENT ... CONTINUED

6.6 EFFECT OF CHANGES IN SIGNIFICANT UNOBSERVABLE ASSUMPTIONS TO REASONABLE POSSIBLE ALTERNATIVES

As discussed above, the fair-value measurement of financial instruments are, in certain circumstances, measured using valuation techniques that include assumptions that are not market-observable. Where these scenarios apply, the group performs stress testing on the fair value of the relevant instruments. In performing the stress testing, appropriate levels for the unobservable input parameters are chosen so that they are consistent with prevailing market evidence and in line with the group's approach to valuation control.

In accordance with IFRS 7 Financial Instruments: Disclosure, the following information is intended to illustrate the potential impact of the relative uncertainty in the fair value of financial instruments for which valuation is dependent on unobservable input parameters. However, it is unlikely in practice that all unobservable parameters would simultaneously be at the extremes of their ranges of reasonably possible alternatives. Furthermore, the disclosure is neither predictive nor indicative of future movements in fair value.

The following table shows the effect on fair value of changes in unobservable input parameters to reasonably possible alternative assumptions:

2011	Principal assumption stressed	Stress parameters %	Statement of financial position value Rm	Favourable change in value due to stress test Rm	Unfavourable change in value due to stress test Rm
ASSETS					
Derivative assets	Confidence levels, income volatilities and spot rates	between (13) and 13	29	3	(4)
Loans and advances	Credit spreads	between (25) and 25	91	9	(11)
Investments in associate companies and joint ventures	Valuation multiples	between (10) and 10	545	52	(52)
Investment securities	Correlations, volatilities and credit spreads	between (20) and 20	1 352	115	(145)
Total financial assets classified at level 3			2 017	179	(212)
LIABILITIES					
Derivative financial instruments	Correlations, volatilities and credit spreads	between (33) and 33	5	*	*
2010					
ASSETS					
Government and other securities	Credit spreads	between (25) and 25	47	1	(1)
Loans and advances	Credit spreads	between (25) and 25	36	*	*
Investments in associate companies and joint ventures	Valuation multiples	between (10) and 10	912	88	(88)
Investment securities	Correlations, volatilities and credit spreads	between (20) and 20	1 577	243	(268)
Total financial assets classified at level 3			2 572	332	(357)
LIABILITIES					
Derivative financial instruments	Correlations, volatilities and credit spreads	between (33) and 33	10	3	(3)

* *Represents amounts less than R1m.*

6.7 FAIR-VALUE APPROXIMATES CARRYING VALUE

Certain financial instruments of the group are not carried at fair value, including those categorised as held to maturity, loans and receivables, and other financial assets and financial liabilities at amortised cost. The calculation of the fair value of these financial instruments incorporates the group's best estimate of the value at which these financial assets could be exchanged, or financial liabilities settled, between knowledgeable, willing parties in an arm's length transaction. The group's estimate of what fair value is does not necessarily represent what it would be able to sell the asset for in a sale situation or settle the respective financial liability.

Fair values at the reporting date of these respective financial instruments detailed below are estimated only for the purpose of IFRS disclosure, as follows:

LOANS AND ADVANCES

Loans and advances, recognised in note 26, that are not recognised at fair value, principally comprise variable-rate financial assets. The interest rates on these variable-rate financial assets are adjusted when the applicable benchmark interest rate changes.

Loans and advances are not actively traded in most markets and it is therefore not possible to determine the fair value of these loans and advances using observable market prices and market inputs. Due to the unique characteristics of the loans and advances portfolio and the fact that there have been no recent transactions involving the disposals of such loans and advances, there is no basis to determine a price that could be negotiated between a willing buyer and seller. The group is not currently in the position of a forced sale of such underlying loans and advances and it would therefore be inappropriate to value the loans and advances on a forced-sale basis.

For specifically impaired loans and advances, the carrying value as determined after consideration of the group's IAS 39 credit impairments, is considered the best estimate of fair value.

The group has developed a methodology and model to determine the fair value of the gross exposures for the performing loans and advances measured at amortised cost. This model incorporates the use of average interest rates and projected monthly cashflows per product type. Future cashflows are discounted using interest rates at which similar loans would be granted to borrowers with similar credit ratings and maturities. Methodologies and models are updated on a continuous basis for changes in assumptions, forecasts and modelling techniques. Future forecasts of the group's probability of default (PD) and loss given defaults (LGDs) for periods 2012 to 2014 (2010 – for periods 2011 to 2013) are based on the latest available internal data and are applied to the first three years' projected cashflows. Thereafter, PD and LGDs are gradually reverted to their long-run averages and are applied to the remaining projected cashflows. Inputs into the model include various assumptions utilised in the pricing of loans and advances. The determination of such inputs is highly subjective and therefore any change to one or more of the assumptions may result in a significant change in the determination of the fair value of loans and advances.

6 FAIR-VALUE MEASUREMENT ... CONTINUED

6.7 FAIR-VALUE APPROXIMATES CARRYING VALUE ... CONTINUED

The results of these fair-value calculations are summarised below:

	2011	2010
Positive scenario (%)	(0,72)	0,36
Base scenario (%)	(1,14)	0,16
Mild-risk scenario (%)	(1,75)	(0,81)

The table above indicates the differential between the fair value of performing loans and advances and the carrying value thereof. The scenarios are based on the group's assessment of future economic developments. Positive percentages (without brackets) indicate that the fair value of the performing loans and advances is greater than the carrying value. Similarly, negative percentages (included in brackets) indicate that the fair value of the performing loans and advances is less than its carrying value.

In the current year under review, the current carrying value of the loans and advances is greater than the calculated fair value. Loans and advances granted in prior periods, which are still performing, were priced at lower contractual interest rates compared with the higher pricing that loans and advances are currently contracted at within current circumstances. The estimated cashflows on the prior period underlying loans and advances are thus discounted at a higher rate to determine the fair value, compared to the lower contractual rate at inception date, resulting in a lower fair value than the current carrying value.

The group is of the opinion that the carrying value of loans and advances approximates fair value.

GOVERNMENT AND OTHER SECURITIES

The fair value of government and other securities are determined based on available market prices and directors' valuations where appropriate. See note 25.3 for further details.

OTHER FINANCIAL ASSETS (EXCLUDING GOVERNMENT AND OTHER SECURITIES AND LOANS AND ADVANCES) AND FINANCIAL LIABILITIES (EXCLUDING AMOUNTS OWED TO DEPOSITORS AND LONG-TERM DEBT INSTRUMENTS)

The carrying values of cash and cash equivalents, other assets, mandatory deposits with central banks and provisions and other liabilities are considered a reasonable approximation of their respective fair values, as they are either short term in nature or are repriced to current market rates at frequent intervals.

AMOUNTS OWED TO DEPOSITORS

The group is of the opinion that the carrying value of variable-rate amounts owed to depositors approximates fair value.

LONG-TERM DEBT INSTRUMENTS

The group is of the opinion that the carrying value of variable-rate long-term debt instruments approximates fair value.

7 LIQUIDITY GAP

Rm	< 3 months	> 3 months < 6 months	> 6 months < 1 year	> 1 year < 5 years	> 5 years	Non-determined	Total
2011							
Cash and cash equivalents (including mandatory reserve deposits with central banks)	23 376						23 376
Other short-term securities	14 623	7 213	7 024	2 855			31 715
Derivative financial instruments	2 536	891	2 858	3 907	4 122		14 314
Government and other securities	1 314	796	1 006	17 439	9 436		29 991
Loans and advances	92 874	21 107	34 534	177 785	163 876		490 176
Other assets	2 931					21 037	23 968
	137 654	30 007	45 422	201 986	177 434	21 037	613 540
Total equity						42 987	42 987
Derivative financial instruments	1 703	775	1 084	4 209	6 020		13 791
Amounts owed to depositors	375 656	39 597	48 210	46 368	3 778		513 609
Provisions and other liabilities	2 931					10 783	13 714
Long-term debt instruments	671		3 789	18 861	6 118		29 439
	380 961	40 372	53 083	69 438	15 916	53 770	613 540
Net liquidity gap	(243 307)	(10 365)	(7 661)	132 548	161 518	(32 733)	–
2010							
Cash and cash equivalents (including mandatory reserve deposits with central banks)	18 314					223	18 537
Other short-term securities	16 700	2 392	2 271	592			21 955
Derivative financial instruments	3 701	1 122	1 472	4 936	2 846		14 077
Government and other securities	352	1 248	5 633	18 266	6 168		31 667
Loans and advances	84 987	18 108	29 639	176 418	160 375		469 527
Other assets	1 920					18 807	20 727
	125 974	22 870	39 015	200 212	169 389	19 030	576 490
Total equity						38 400	38 400
Derivative financial instruments	1 295	512	1 019	4 839	4 265		11 930
Amounts owed to depositors	341 648	49 777	56 611	38 790	2 292		489 118
Provisions and other liabilities	1 920					9 021	10 941
Long-term debt instruments	289	1 674		18 101	6 037		26 101
	345 152	51 963	57 630	61 730	12 594	47 421	576 490
Net liquidity gap	(219 178)	(29 093)	(18 615)	138 482	156 795	(28 391)	–

* *Comparative information has been restated to include certain other asset categories in 'Non-determined'.*

This note has been prepared on a contractual maturity basis.

8 CONTRACTUAL MATURITY ANALYSIS FOR FINANCIAL LIABILITIES

Rm	Statement of financial position amount	< 3 months	> 3 months < 6 months	> 6 months < 1 year	> 1 year < 5 years	> 5 years	Non-determinable maturity	Total
2011								
Long-term debt instruments	29 439	1 342	265	4 806	24 262	6 962		37 637
Amounts owed to depositors	513 609	379 320	41 816	50 874	50 294	3 886		526 190
Current accounts	49 298	49 299						49 299
Savings deposits	8 996	8 996						8 996
Other deposits and loan accounts	334 839	265 096	21 188	19 490	30 694	3 872		340 340
Foreign currency liabilities	8 931	8 931						8 931
Negotiable certificates of deposit	96 523	31 973	20 628	31 384	19 600	14		103 599
Deposits received under repurchase agreements	15 022	15 025						15 025
Derivative financial instruments – liabilities	13 791	1 703	775	1 084	4 209	6 020		13 791
Provisions and other liabilities	13 714	2 931					10 783	13 714
	570 553	385 296	42 856	56 764	78 765	16 868	10 783	591 332
Guarantees on behalf of clients	27 763	27 763						27 763
Confirmed letters of credit and discounting transactions	2 389	2 389						2 389
Unutilised facilities and other	76 347	76 347						76 347
	106 499	106 499	–	–	–	–	–	106 499
2010								
Long-term debt instruments	26 101	673	1 883	773	22 332	7 447		33 108
Amounts owed to depositors	489 118	345 580	52 015	59 344	42 471	2 292		501 702
Current accounts	45 655	45 658						45 658
Savings deposits	8 758	8 758						8 758
Other deposits and loan accounts	302 220	241 640	21 009	23 994	18 681	2 279		307 603
Foreign currency liabilities	9 168	9 168						9 168
Negotiable certificates of deposit	109 137	26 175	31 006	35 350	23 790	13		116 334
Deposits received under repurchase agreements	14 180	14 181						14 181
Derivative financial instruments – liabilities	11 930	1 295	512	1 019	4 839	4 265		11 930
Provisions and other liabilities	10 941	1 920					9 020	10 940
	538 090	349 468	54 410	61 136	69 642	14 004	9 020	557 680
Guarantees on behalf of clients	29 185	29 185						29 185
Confirmed letters of credit and discounting transactions	2 114	2 114						2 114
Unutilised facilities and other	76 182	76 182						76 182
	107 481	107 481	–	–	–	–	–	107 481

Derivatives are not profiled on an undiscounted basis.

Provisions and other liabilities are included in this table to provide a reconciliation with the statement of financial position.

9 HISTORICAL VALUE AT RISK (99%, ONE-DAY) BY RISK TYPE

Rm	2011 Average	2011 Minimum	2011 Maximum	2011 Year-end	2010 Average	2010 Minimum	2010 Maximum	2010 Year-end
Foreign exchange	3,5	0,7	13,6	3,9	2,2	0,6	6,7	3,9
Interest rate	9,0	5,1	14,6	5,1	8,8	3,8	14,6	6,2
Equity products					0,1		1,0	
Credit	2,7	1,3	4,0	2,3	2,8	0,8	4,0	4,0
Commodity	0,3		1,1	0,8	0,7		1,5	0,2
Diversification	(4,5)			(4,6)	(4,2)			(4,6)
Total VAR exposure	11,0	5,5	19,3	7,5	10,4	5,6	17,7	9,7

See pages 197 to 199 of the risk and balance sheet management review for information on the group trading book value at risk and the comparison of trading value at risk.

10 INTEREST RATE REPRICING GAP

Rm	< 3 months	> 3 months < 6 months	> 6 months < 1 year	> 1 year < 5 years	> 5 years	Trading non-rate and foreign	Total
2011							
Total assets	468 572	8 581	6 254	35 771	14 853	79 509	613 540
Total equity and liabilities	397 125	29 283	24 459	18 920	1 931	141 822	613 540
Interest rate hedging activities	(2 970)	18 795	13 612	(16 780)	(12 657)		–
Repricing profile	68 477	(1 907)	(4 593)	71	265	(62 313)	–
Cumulative repricing profile	68 477	66 570	61 977	62 048	62 313		
Expressed as a percentage of total assets	11,2	10,9	10,1	10,1	10,2		
2010							
Total assets	426 551	11 553	10 165	28 207	20 707	79 307	576 490
Total equity and liabilities	368 299	38 828	30 760	17 376	1 931	119 296	576 490
Interest rate hedging activities	(27 825)	27 590	21 934	(3 420)	(18 279)		–
Repricing profile	30 427	315	1 339	7 411	497	(39 989)	–
Cumulative repricing profile	30 427	30 742	32 081	39 492	39 989		
Expressed as a percentage of total assets	5,3	5,3	5,6	6,9	6,9		

Refer to pages 179 to 181 of the risk and balance sheet management review for information on interest rate risk in the banking book.

11 CREDIT ANALYSIS OF OTHER SHORT-TERM SECURITIES, AND GOVERNMENT AND OTHER SECURITIES

	Investment grade		Subinvestment grade		Not rated		Total	
Credit ratings	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm
Other short-term securities	**31 391**	21 584	**202**	269	**122**	102	**31 715**	21 955
Negotiable certificates of deposit	**7 103**	9 187					**7 103**	9 187
Treasury bills and other	**24 288**	12 397	**202**	269	**122**	102	**24 612**	12 768
Government and other securities	**29 294**	31 189	**697**	478	**–**	–	**29 991**	31 667
Government and government-guaranteed securities	**17 890**	20 371	**17**	1			**17 907**	20 372
Other dated securities	**11 404**	10 818	**680**	477			**12 084**	11 295
	60 685	52 773	**899**	747	**122**	102	**61 706**	53 622

All debt securities that are purchased by the group are rated using an internal rating system, being the Nedbank Group Rating (NGR) scale. The group requires that all investments be rated using the NGR scale to ensure that credit risk is measured consistently and accurately across the group. This ensures compliance with the group's policy surrounding the rating of investments. The NGR scale has been mapped to Standard & Poor's credit rating system. According to the NGR scale, investment grade can be equated to a Standard & Poor's rating of above BBB-. All government and other short-term securities are current and not impaired. Investment grade includes credit ratings from NGR01 to NGR11 and subinvestment grade includes credit ratings from NGR12 to NGR25.

12 INTEREST AND SIMILAR INCOME

	2011 Rm	2010 Rm
Home loans (including properties in possession)	10 610	11 724
Commercial mortgages	7 486	7 679
Finance lease and instalment debtors	7 001	7 222
Credit cards	1 165	1 106
Bills and acceptances	6	20
Overdrafts	1 048	1 138
Term loans and other	9 960	10 981
Government and other securities	3 064	2 922
Short-term funds and securities	1 077	629
	41 417	43 421
Interest and similar income may be analysed as follows:		
– Interest and similar income from financial instruments not at fair value through profit and loss*	35 401	38 086
– Interest and similar income from financial instruments at fair value through profit or loss*	6 016	5 335
	41 417	43 421

* *2010 comparative information has been restated. Refer to note 5.*

13 INTEREST EXPENSE AND SIMILAR CHARGES

	2011 Rm	2010 Rm
Deposit and loan accounts	12 719	13 783
Current and savings accounts	607	752
Negotiable certificates of deposit	7 065	8 226
Other liabilities	1 297	2 307
Long-term debt instruments	2 431	2 488
	24 119	27 556
Interest expense and similar charges may be analysed as follows:		
– Interest expense and similar charges from financial instruments not at fair value through profit and loss*	18 902	21 497
– Interest expense and similar charges from financial instruments at fair value through profit or loss*	5 217	6 059
	24 119	27 556

* *2010 comparative information has been restated. Refer to note 5.*

An unaudited margin analysis of the interest income and interest expense by asset and liability category is presented as additional financial information on page 165 of the Nedbank Group Limited Integrated Report.

14 NON-INTEREST REVENUE

	2011 Rm	2010 Rm
Commission and fee income**	10 030	8 560
Administration fees	492	273
Cash-handling fees	672	590
Insurance commission	708	522
Exchange commission	315	255
Fees	539	443
Guarantees	130	118
Card income	2 231	2 008
Service charges	2 993	2 662
Other commission	1 950	1 689
Insurance income	(57)	16
Fair-value adjustments (note 14.1)	(25)	(264)
Fair-value adjustments	24	(51)
Fair-value adjustments – own debt	(49)	(213)
Net trading income***	2 088	1 909
Foreign exchange	1 062	997
Debt securities	646	774
Equities	347	138
Commodities	33	
Private equity income****	307	233
Securities dealing – realised	97	5
Securities dealing – unrealised	(190)	4
Dividends received from unlisted investments	400	224
Investment income	25	33
Long-term-asset sales	10	11
Dividends received from unlisted investments	15	22
Sundry income	187	254
Rents received	11	20
Rental income from properties in possession	1	2
Other sundry income	175	232
Foreign currency translation losses	*	*
	12 555	10 741

Disclosure has been expanded in the current reporting period. 2010 comparative information has been reclassified accordingly.

* *Represents amounts less than R1m.*

** *Commission and fee income includes an amount of Rnil (2010: R11m) received for trust and fiduciary fees.*

*** *These amounts relate to gains and losses on financial assets and liabilities held for trading.*

**** *Includes revenue relating to certain investments presented as designated as 'at fair value through profit and loss' in terms of IFRS 7 Financial Instruments: Disclosures.*

14.1 ANALYSIS OF FAIR-VALUE ADJUSTMENTS

	2011 Rm	2010 Rm
Fair-value adjustments can be analysed as follows:		
– Held for trading	**(427)**	(1 097)
– Designated as at fair value through profit or loss	**402**	833
	(25)	(264)

14.2 GOVERNMENT GRANTS

The group advances home loans for affordable housing. The group receives various government grants from the SA and foreign governments. The government grants take a variety of forms, including interest rate subsidies on loans advanced to clients and payment in respect of previously writtenoff advances in respect of qualifying deceased estates. The government grants that are received by the group in respect of affordable housing are recognised when the conditions of the government grant have been fulfilled and the grant is due to the group.

Certain government assistance is directed towards the group's clients, including grants made to clients as first-time homeowners. Although the group may assist the client in obtaining the grant, these grants do not qualify as government grants as envisaged by the accounting standard.

The group receives certain SA government grants in the form of refunds for skills development levies and they pertain to prior training that has been facilitated by the group on behalf of its employees.

No assistance has been received by the group from any government or government organisation in respect of any troubled asset or financial-crisis-related programme.

15 OPERATING EXPENSES

	2011 Rm	2010 Rm
Staff costs	9 343	8 014
Remuneration and other staff costs	7 841	7 072
Short-term incentives	1 216	869
Long-term employee benefits (note 35.2)*	26	(47)
Share-based payments expense – employees**	260	120
Computer processing	2 161	1 932
Depreciation for computer equipment	337	326
Amortisation of computer software	523	475
Operating lease charges for computer equipment	177	167
Other computer processing expenses	1 124	964
Communication and travel	716	620
Depreciation for vehicles	2	3
Other communication and travel	714	617
Occupation and accommodation	1 271	1 293
Depreciation for owner-occupied land and buildings	126	102
Operating lease charges for land and buildings	530	489
Other occupation and accommodation expenses	615	702
Marketing and public relations	1 039	973
Fees and insurances	1 519	1 344
Auditors' remuneration	102	89
Statutory audit – current year	79	74
– prior year	1	1
Non-audit services – other services	22	14
Other fees and insurance costs	1 417	1 255
Furniture, office equipment and consumables	484	454
Depreciation for furniture and other equipment	290	250
Operating lease charge for furniture and other equipment	8	11
Other office equipment and consumables	186	193
Other sundries	343	208
	16 876	14 838

* *Includes contributions to defined-benefit and defined-contribution pension funds and postretirement medical aid funding and any adjustments for defined-benefit obligations together with any fair-value adjustments of plan assets held. See note 35.*

** *Excludes amounts related to the group's BEE schemes per note 15.1.*

Certain expenses incurred by the company on behalf of subsidiary companies are recovered from subsidiary companies. Refer to pages 26 to 38 of the Remuneration Report for a detailed breakdown of directors' and prescribed officers' remuneration.

15.1 BEE TRANSACTION EXPENSES

	2011 Rm	2010 Rm
BEE share-based payments expenses	66	140
Fees	13	5
	79	145

See note 49 for a description of the BEE schemes.

16 INDIRECT TAXATION

	2011 Rm	2010 Rm
Value-added taxation	342	326
Revenue stamps		1
Other transaction taxes	71	60
	413	387

Value-added taxation comprises the portion that is irrecoverable as a result of the interest earned in the SA financial services sector.

17 NON-TRADING AND CAPITAL ITEMS

	2011 Rm	2010 Rm
Loss on sale of subsidiaries and investments		(27)
Profit on sale of property and equipment		10
Impairment of investments		(12)
Impairment of property and equipment, and capitalised development costs	(48)	(74)
	(48)	(103)

* *Represents amounts less than R1m.*

18 DIRECT TAXATION

18.1 CHARGE FOR THE YEAR

	2011 Rm	2010 Rm
SA normal taxation:		
– Current charge	1 979	1 158
– Capital gains taxation – deferred	30	23
– Deferred taxation	(452)	(274)
Foreign taxation	65	57
Current and deferred taxation on income	1 622	964
Prior-year overprovision/(underprovision) – current taxation	103	(38)
Prior-year (underprovision)/overprovision – deferred taxation	(112)	48
Total taxation on income	1 613	974
STC	(3)	11
Taxation on non-trading and capital items		(2)
	1 610	983

18 DIRECT TAXATION ... CONTINUED

18.2 TAXATION RATE RECONCILIATION

	2011 Rm	2010 Rm
Standard rate of SA normal taxation	28,0	28,0
Non-taxable dividend income	(4,9)	(6,4)
Capital items	(0,6)	(0,8)
Structured deals	(0,3)	(0,3)
Other	0,3	(0,3)
Effective taxation rate	22,5	20,2

• *Represents amounts less than R1m.*

18.3 INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

	Gross	Taxation	Net of taxation
2011			
Exchange differences on translating foreign operations	48		48
Fair-value adjustments on available-for-sale assets	(27)		(27)
Gains on property revaluations	332	(86)	246
2010			
Exchange differences on translating foreign operations	(15)		(15)
Fair-value adjustments on available-for-sale assets	(31)		(31)
Gains on property revaluations	211	(47)	164

18.4 FUTURE TAXATION RELIEF

The group has estimated taxation losses of R425m (2010: R353m) that can be set off against future taxable income, of which R256m (2010: R204m) has been applied to the deferred taxation balance. Furthermore, the group has accumulated STC credits amounting to R607m at the year-end (2010: R640m), which have arisen as a result of dividends received exceeding dividends paid. A deferred taxation asset of R61m (2010: R64m) has been raised on these STC credits.

19 EARNINGS

Headline earnings reconciliations	2011		2010	
Rm	Gross	Net of taxation	Gross	Net of taxation
Profit attributable to ordinary and preference equity holders		5 483		3 737
Less: non-trading and capital items	(48)	(48)	(103)	(101)
Loss on sale of subsidiaries, investments and property and equipment		-	(17)	(15)
Net impairment of investments, property and equipment and capitalised development costs	(48)	(48)	(86)	(86)
Headline earnings attributable to ordinary and preference equity holders		5 531		3 838

20 DIVIDENDS

20.1 ORDINARY SHARES

	Millions of shares	Cents per share	Rm
2011			
Final declared for 2010 – paid 2011	27	2 130	575
Interim declared for 2011	27	1 667*	450
Ordinary dividends paid 2011		3 797	1 025
2010			
Final declared for 2009 – paid 2010	27	3 170	856
Interim declared for 2010	27	519**	140
Ordinary dividends paid 2010		3 689	996
Final ordinary dividend declared for 2010		2 130**	

* *Total dividend declared for 2011 was 1 667 cents per share. The final ordinary dividend for 2011 had not yet been declared at the date of approval of these financial statements.*

** *Total dividend declared for 2010 was 2 649 cents per share.*

STC on dividends equals 10% of the amount declared, which will be partially offset by STC credits.

20.2 PREFERENCE SHARES

Dividends paid calculations	Number of shares	Cents per share	Amount (Rm)
2011			
Nedbank Limited – Final declared for 2010 – paid March 2011	358 277 491	36,20548	130
Nedbank Limited – Interim declared for 2011 – paid 29 August 2011	358 277 491	33,47260	120
			250
Nedbank Limited – Final declared for 2011 – payable March 2012	358 277 491	34,02740	122

Dividends declared calculations	Days	Rate	Amount (Rm)
2011			
Nedbank Limited			
1 July 2011 – 31 December 2011	184	6,750%	121,9
Total declared			121,9
2010			
Nedbank Limited – Final declared for 2009 – paid March 2010	358 277 491	40,15068	144
Imperial Bank Limited – Final declared for 2009 – paid March 2010	3 000 000	374,73973	11
Nedbank Limited – Interim declared for 2010 – paid September 2010	358 277 491	38,05479	136
			291

20 DIVIDENDS ... CONTINUED

20.2 PREFERENCE SHARES ... CONTINUED

Dividends paid calculations	Days	Rate %	Amount (Rm)
2011 (Paid March 2011)			
Nedbank Limited			
1 July 2010 – 31 December 2010	184		129,7
1 July 2010 – 9 September 2010	71	7,500	52,3
10 September 2010 –18 November 2010	70	7,125	48,9
19 November 2010 – 31 December 2010	43	6,750	28,5
2011 (Paid August 2011)			
Nedbank Limited			
1 January 2011 – 30 June 2011	181		119,9
1 January 2011 – 30 June 2011	181	6,750	119,9
2011 Nedbank Limited (Motor Finance Corporation) Participating preference shares			31,7
Profit attributable to preference shareholders			**281,3**
2010 (Paid March 2010)			
Nedbank Limited			
1 July 2009 – 31 December 2009	184		143,8
1 July 2009 – 13 August 2009	44	8,250	35,6
14 August 2009 – 31 December 2009	140	7,875	108,2
Imperial Bank Limited			
1 July 2009 – 31 December 2009	184		11,2
1 July 2009 – 13 August 2009	44	7,700	2,8
14 August 2009 – 31 December 2009	140	7,350	8,4
2010 (Paid September 2010)			
Nedbank Limited			
1 January 2010 – 30 June 2010	181		136,3
1 January 2010 – 25 March 2010	84	7,875	64,9
26 March 2010 – 30 June 2010	97	7,500	71,4
Total paid			291,3
Less: Cumulative dividend paid			14,2
Less: Profit share dividend			4,8
Less: Dividend paid to group entities			2,8
Profit attributable to preference shareholders			269,5

21 CASH AND CASH EQUIVALENTS

	2011 Rm	2010 Rm
Coins and banknotes	3 593	2 131
Money at call and short notice	4 829	3 141
Balances with central banks – other than mandatory reserve deposits	3 092	2 197
Cash and cash equivalents excluding mandatory reserve deposits with central banks	11 514	7 469
Mandatory reserve deposits with central banks	11 862	11 068
	23 376	18 537

Money at call and short notice constitutes amounts withdrawable in 32 days or less. Mandatory reserve deposits are not available for use in the group's day-to-day operations. Cash on hand and mandatory reserve deposits are non-interest-bearing. Other money market placements are floating-interest-rate assets.

22 OTHER SHORT-TERM SECURITIES

22.1 ANALYSIS

	2011 Rm	2010 Rm
Negotiable certificates of deposit	7 103	9 187
Treasury bills and other bonds	24 612	12 768
	31 715	21 955

22.2 SECTORAL ANALYSIS*

Banks	8 238	9 823
Government and public sector	23 135	11 995
Other services	342	137
	31 715	21 955

* *The sectoral analysis for other short-term securities has been enhanced to provide a more detailed analysis. 2010 comparative information has been restated accordingly.*

23 DERIVATIVE FINANCIAL INSTRUMENTS

These transactions have been entered into in the normal course of business and are carried at fair value. The principal types of derivative contracts into which the group enters are described below.

SWAPS

These are OTC agreements between two parties to exchange periodic payments of interest or payments for the change in value of a commodity or related index over a set period based on notional principal amounts. The group enters into swap transactions in several markets. Interest rate swaps exchange fixed rates for floating rates of interest based on notional amounts. Basis swaps exchange floating or fixed interest calculated using different bases. Cross-currency swaps are the exchange of interest based on notional values of different currencies.

OPTIONS

Options confer the right, but not the obligation, on the buyer to receive or pay a specific quantity of an asset or financial instrument for a specific price on or before a specified date. Options may be exchange-traded or OTC agreements. The group principally buys and sells currency, interest rate and equity options.

FUTURES AND FORWARDS

Short-term interest rate futures, bond futures, financial and commodity futures and forward foreign exchange contracts are all agreements to deliver, or take delivery of, a specified amount of an asset or financial instrument based on a specified rate, price or index applied against the underlying asset or financial instrument at a specified date. Futures are exchange-traded at standardised amounts of the underlying asset or financial instrument. Forward contracts are OTC agreements and are principally dealt in by the group, in interest rates as forward rate agreements and in currency as forward foreign exchange contracts.

COLLATERAL

The group may require collateral in respect of the credit risk present in derivative transactions. The amount of credit risk is principally the positive fair value of the contract. Collateral may be in the form of cash or in the form of a lien over a client's assets, entitling the group to make a claim for current and future liabilities.

23 DERIVATIVE FINANCIAL INSTRUMENTS ... CONTINUED

23.1 TOTAL CARRYING AMOUNT OF DERIVATIVE FINANCIAL INSTRUMENTS

	2011 Rm	2010 Rm
Gross carrying amount of assets	14 314	14 077
Gross carrying amount of liabilities	(13 791)	(11 930)
Net carrying amount	523	2 147

A detailed breakdown of the carrying amount (fair value) and notional principal of the various types of derivative financial instruments held by the group is presented in the following tables in notes 23.2 to 23.4.

23.2 NOTIONAL PRINCIPAL OF DERIVATIVE FINANCIAL INSTRUMENTS

This represents the gross notional amounts of all outstanding contracts at year-end. This gross notional amount is the sum of the absolute amount of all purchases and sales of derivative instruments. The notional amounts do not represent amounts exchanged by the parties and therefore represent only the measure of involvement by the group in derivative contracts and not its exposure to market or credit risks arising from such contracts. The amounts actually exchanged are calculated on the basis of the notional amounts and other terms of the derivative, which relate to interest rates, exchange rates, securities or commodity prices or financial and other indices.

	2011			2010		
Rm	Notional principal	Positive value	Negative value	Notional principal	Positive value	Negative value
Equity derivatives	5 155	2 523	2 632	11 759	5 881	5 878
Options written	1 807		1 807	4 806		4 806
Options purchased	2 352	2 352		4 809	4 809	
Futures*	996	171	825	2 144	1 072	1 072
Commodity derivatives	1 271	259	1 012	7 283	3 547	3 736
Options written	–			–		
Caps and floors	55		55	1 142	544	598
Swaps	139	106	33	6 104	3 003	3 101
Futures	1 077	153	924	37		37
Exchange rate derivatives	248 105	127 018	121 087	152 957	78 717	74 240
Forwards	225 895	115 658	110 237	132 782	66 822	65 960
Futures	2		2	6	6	
Currency swaps	14 682	7 873	6 809	13 457	8 457	5 000
Options purchased	3 487	3 487		3 432	3 432	
Options written	4 039		4 039	3 280		3 280
Interest rate derivatives	822 783	382 125	440 658	523 695	275 320	248 375
Interest rate swaps	339 986	162 739	177 247	288 746	153 865	134 881
Forward rate agreements	461 601	210 522	251 079	211 536	113 499	98 037
Options purchased	500	500		1 903	1 903	
Options written	600		600	2 567		2 567
Futures	3 378	1 019	2 359	6 800	2 812	3 988
Caps	298		298	1 039		1 039
Floors	4 200	2 200	2 000	2 200	200	2 000
Credit default swaps	12 220	5 145	7 075	8 904	3 041	5 863
Total notional principal	1 077 314	511 925	565 389	695 694	363 465	332 229

* *Includes contracts for difference with positive notionals of R165m (2010: R133m) and negative notionals of R819m (2010: R543m).*

23.3 CARRYING AMOUNT OF DERIVATIVE FINANCIAL INSTRUMENTS

The amounts disclosed represent the fair value of all derivative instruments held at year-end. The fair value of a derivative financial instrument is the amount at which it could be exchanged in a current transaction between willing parties, other than a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted-cashflow models and market-accepted option-pricing models.

Rm	2011 Net carrying value	2011 Carrying amount of assets	2011 Carrying amount of liabilities	2010 Net carrying amount	2010 Carrying amount of assets	2010 Carrying amount of liabilities
Equity derivatives	1 455	1 793	338	(6)	600	606
Options written	(329)		329	(592)		592
Options purchased	1 754	1 754		586	586	
Futures**	30	39	9	–	14	14
Commodity derivatives	1	7	6	40	1 110	1 070
Caps and floors	–			–	90	90
Swaps	1	6	5	44	1 020	976
Futures	*	1	1	(4)		4
Exchange rate derivatives	1 442	5 110	3 668	3 500	6 367	2 867
Forwards	889	3 913	3 024	2 982	5 055	2 073
Futures	(3)		3	*	*	*
Currency swaps	521	1 063	542	467	1 155	688
Options purchased	134	134		157	157	
Options written	(99)		99	(106)		106
Interest rate derivatives	(2 375)	7 404	9 779	(1 387)	6 000	7 387
Interest rate swaps	(2 379)	6 844	9 223	(1 453)	5 755	7 208
Forward rate agreements	4	315	311	30	182	152
Options purchased	9	9		1	1	
Options written	(4)		4	*		*
Futures	(3)	*	3	(2)	*	2
Caps	*		*	*		*
Floors	1	1	*	6	6	
Credit default swaps	(3)	235	238	31	56	25
Total carrying amount	523	14 314	13 791	2 147	14 077	11 930

* *Represents amounts less than R1m.*

** *Includes contracts for difference and an equity forward agreement for 2011. The fair value of the contracts for difference is zero, as the variation margin is settled at the end of every day. The equity forward agreement is an asset with a fair value of R29m.*

23 DERIVATIVE FINANCIAL INSTRUMENTS ... CONTINUED

23.4 ANALYSIS OF DERIVATIVE FINANCIAL INSTRUMENTS

Rm	Equity derivatives	Commodity derivatives	Exchange rate derivatives	Interest rate derivatives	Total
Derivative assets					
2011					
Maturity analysis					
Under one year	1 501	7	4 348	429	6 285
One to five years	292		389	3 226	3 907
Over five years			373	3 749	4 122
	1 793	7	5 110	7 404	14 314
2010					
Maturity analysis					
Under one year	264	180	5 156	695	6 295
One to five years	336	930	855	2 815	4 936
Over five years			356	2 490	2 846
	600	1 110	6 367	6 000	14 077
Derivative liabilities					
2011					
Maturity analysis					
Under one year	46	6	3 005	505	3 562
One to five years	292		349	3 568	4 209
Over five years			314	5 706	6 020
	338	6	3 668	9 779	13 791
2010					
Maturity analysis					
Under one year	270	178	1 872	506	2 826
One to five years	336	892	702	2 909	4 839
Over five years			293	3 972	4 265
	606	1 070	2 867	7 387	11 930
Notional principal of derivatives					
2011					
Maturity analysis					
Under one year	2 525	1 271	231 679	414 475	649 950
One to five years	2 630		10 951	300 389	313 970
Over five years			5 475	107 919	113 394
	5 155	1 271	248 105	822 783	1 077 314
2010					
Maturity analysis					
Under one year	8 292	1 063	139 075	244 440	392 870
One to five years	3 467	6 220	9 973	199 469	219 129
Over five years			3 909	79 786	83 695
	11 759	7 283	152 957	523 695	695 694

24 FINANCIAL INSTRUMENTS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

The group has satisfied the criteria for designation of financial instruments as at fair value through profit or loss in terms of the accounting policies.

Various fixed-rate advances and liabilities are entered into by the group. The overall interest rate risk of the group is economically hedged by way of interest rate swaps and managed by the Group ALCO. The interest rate risk is then traded to the market through the central trading desk.

The swaps and frontdesk trading instruments meet the definition of 'derivatives', and are measured at fair value in terms of IAS 39. Fixed-rate advances and liabilities, however, do not meet this definition. Therefore, to avoid any accounting mismatch of holding the advances at amortised cost and the hedging instruments at fair value, the advances and liabilities are designated as at fair value through profit or loss and are held at fair value.

Various instruments are designated as at fair value through profit or loss, which is consistent with the group's documented risk management or investment strategy. The fair value of the instruments is managed and reviewed on a regular basis by the risk/investment functions of the group. The risk of the portfolio is measured and monitored on a fair-value basis.

24.1 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

Nedbank Limited has estimated the change in credit risk as being the amount arising from the change in fair value of the financial instrument that is not attributable to changes in market conditions that give rise to market risk. Individual credit spreads for loans or receivables that have been designated as at fair value through profit or loss are determined at inception of the deal. The credit spread is calculated as the difference between the benchmark interest rate and the interest rate charged to the client. Subsequent changes in the benchmark interest rate and the credit spread give rise to changes in fair value in the financial instrument. Loans and advances are reviewed for observable changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. No credit derivatives are used to hedge the credit risk on any of the financial assets designated as at fair value through profit or loss.

There were no changes in fair value due to changes in credit risk in the current reporting period (2010: R1m).

A breakdown of the financial assets that are designated as at fair value through profit or loss can be found in note 5. A detailed explanation of how each financial asset is valued can be found in note 6.1.

			Change in fair value due to change in credit risk	
Rm	Fair value	Contractually payable at maturity	Current period*	Cumulative
2011				
Long-term debt instruments	**6 332**	**6 107**	**(49)**	**5**
Call and term deposits	**32 140**	**32 141**	**3**	**33**
Fixed deposits	**557**	**560**		
Foreign currency liabilities	**4 734**	**4 734**		
Negotiable certificates of deposit	**48 481**	**48 339**	**(37)**	**42**
	92 244	**91 881**	**(83)**	**80**
2010				
Long-term debt instruments	7 774	7 614	(213)	54
Call and term deposits	33 676	33 620	(41)	30
Fixed deposits	112	115		
Promissory notes and other liabilities	7	7		
Foreign currency liabilities	5 834	5 834		
Negotiable certificates of deposit	49 902	49 595	(69)	79
	97 305	96 785	(323)	163

* *Positive amounts represent a profit and negative amounts a loss.*

The change in fair value due to credit risk has been determined as the difference between fair values determined using a credit-adjusted liability curve and a risk-free liability curve.

The curves are constructed using a standard 'bootstrapping' process to derive a zero-coupon yield curve. The credit-adjusted curve was based on offer rates of negotiable certificates of deposit and promissory notes with maturity periods of up to five years, and thereafter the offer rates of issued Nedbank Limited bonds are applied.

25 GOVERNMENT AND OTHER SECURITIES

25.1 ANALYSIS

	2011 Rm	2010 Rm
Government and government-guaranteed securities	17 907	20 372
Other dated securities*	12 084	11 295
	29 991	31 667

25.2 SECTORAL ANALYSIS

	2011 Rm	2010 Rm
Financial services, insurance and real estate	2 462	2 089
Banks	3 036	3 545
Manufacturing	1 915	1 312
Transport, storage and communication	168	171
Government and public sector	20 975	22 915
Other sectors	1 435	1 635
	29 991	31 667

25.3 VALUATION

	2011 Rm	2010 Rm
Listed securities:		
– Carrying amount	27 959	31 600
– Market value	28 797	32 356
Unlisted securities:		
– Carrying amount	2 032	67
– Directors' valuation	2 032	67
Total market/directors' valuation	30 829	32 423

* *Includes securitised assets. See note 44.*

26 LOANS AND ADVANCES

The group extends advances to individuals and to the corporate, commercial and public sectors. Advances made to individuals are mostly in the form of mortgages, instalment credit, overdrafts, personal loans and credit card borrowings. The group's main activity is in the corporate and commercial sector, where advances are made to a large cross-section of businesses, predominantly in the finance and service area, and manufacturing and building and property finance sectors.

This note should be read in conjunction with note 27 'Impairment of loans and advances', as this represents the gross exposure before any impairment provision. Specific impairments have been raised against those loans identified as impaired, and the analysis per product type can be found in note 27.2. Portfolio impairments are recognised against loans and advances classified as 'Neither past due nor impaired' or 'Past due'.

26.1 CATEGORIES OF LOANS AND ADVANCES

	2011 Rm	2010 Rm
Mortgage loans	226 977	227 601
Home loans*	137 776	141 767
Commercial mortgages*	89 201	85 834
Net finance lease and instalment debtors (note 26.4)	70 294	67 029
Gross investment	73 358	70 734
Unearned finance charges	(3 064)	(3 705)
Credit cards	8 641	7 890
Other loans and advances	195 686	178 111
Properties in possession	619	661
Overdrafts	11 162	11 322
Term loans	76 467	73 126
Personal loans	17 415	12 629
Other term loans	59 052	60 497
Overnight loans	19 104	12 552
Other loans to clients	53 726	45 846
Foreign client lending	9 283	6 424
Remittances in transit	108	13
Other loans*	44 335	39 409
Preference shares and debentures	17 842	20 413
Factoring accounts	3 822	3 202
Deposits placed under reverse repurchase agreements	12 911	10 849
Trade, other bills and bankers' acceptances	33	140
	501 598	480 631
Impairment of loans and advances (note 27)	(11 422)	(11 104)
	490 176	469 527
Comprises:		
Loans and advances to customers	486 497	465 119
Loans and advances to banks	15 101	15 512
	501 598	480 631

* *Represents mainly loans relating to Treasury and Investment Banking within the Nedbank Capital segment and loans within the other operating segments of the group.*

26 LOANS AND ADVANCES

26.2 SECTORAL ANALYSIS

	2011 Rm	2010 Rm
Individuals	193 959	185 978
Financial services, insurance and real estate	131 848	128 075
Banks	15 101	15 512
Manufacturing	35 115	30 605
Building and property development	8 789	11 616
Transport, storage and communication	26 980	29 441
Retailers, catering and accommodation	11 634	7 488
Wholesale and trade	6 772	7 246
Mining and quarrying	17 614	16 243
Agriculture, forestry and fishing	4 393	4 871
Government and public sector	14 338	7 428
Other services	35 055	36 128
	501 598	480 631

26.3 GEOGRAPHICAL ANALYSIS

	2011 Rm	2010 Rm
SA	479 178	463 134
Other African countries	7 856	5 680
Europe	9 390	9 670
Asia	3 029	992
US	686	622
Other	1 459	533
	501 598	480 631

26.4 NET FINANCE LEASE AND INSTALMENT DEBTORS

	2011			2010		
Rm	Gross	Unearned finance charges	Net	Gross	Unearned finance charges	Net
No later than one year	10 220	(1 232)	8 988	10 095	(687)	9 408
Later than one year and no later than five years	63 039	(1 821)	61 218	59 827	(2 328)	57 499
Later than five years	99	(11)	88	812	(690)	122
	73 358	(3 064)	70 294	70 734	(3 705)	67 029

26.5 CLASSIFICATION OF LOANS AND ADVANCES

Rm	Total 2011	Total 2010	Neither past due nor impaired 2011	Neither past due nor impaired 2010	Past due but not impaired 2011	Past due but not impaired 2010	Defaulted* 2011	Defaulted* 2010
Mortgage loans	226 977	227 601	194 973	195 013	17 363	14 854	14 641	17 734
Net finance lease and instalment debtors	70 294	67 029	58 330	54 915	9 122	9 094	2 842	3 020
Credit cards	8 641	7 890	7 426	6 799	697	573	518	518
Properties in possession	619	661					619	661
Overdrafts	11 162	11 322	9 916	9 580	511	605	735	1 137
Term loans	76 467	73 126	60 436	61 712	13 958	9 626	2 073	1 788
Overnight loans	19 104	12 552	19 099	12 552	5			
Other loans to clients	53 726	45 846	52 081	43 948	331	481	1 314	1 417
Preference shares and debentures	17 842	20 413	17 805	19 556	4	784	33	73
Factoring accounts	3 822	3 202	3 644	3 165	157		21	37
Deposits placed under reverse repurchase agreements	12 911	10 849	12 911	10 849				
Trade, other bills and bankers' acceptances	33	140	33	140				
	501 598	480 631	436 654	418 229	42 148	36 017	22 796	26 385

	2011	2010
Loans and advances defaulted – not impaired	963	1 008
– impaired	21 833	25 377
	22 796	26 385

* *Loans and advances previously termed as 'Impaired' have been disclosed as 'Defaulted' and further classification made of defaulted loans and advances between 'Loans and advances defaulted – not impaired' and 'Loans and advances defaulted – impaired'.*

26 LOANS AND ADVANCES ... CONTINUED

26.6 AGE ANALYSIS OF LOANS AND ADVANCES

	Total		< 1 month	
Rm	2011	2010	2011	2010
Neither past due nor impaired	436 654	418 229	436 654	418 229
Mortgage loans	194 973	195 013	194 973	195 013
Net finance lease and instalment debtors	58 330	54 915	58 330	54 915
Credit cards	7 426	6 799	7 426	6 799
Overdrafts	9 916	9 580	9 916	9 580
Term loans	60 436	61 712	60 436	61 712
Overnight loans	19 099	12 552	19 099	12 552
Other loans to clients	52 081	43 948	52 081	43 948
Preference shares and debentures	17 805	19 556	17 805	19 556
Factoring accounts	3 644	3 165	3 644	3 165
Deposits placed under reverse repurchase agreements	12 911	10 849	12 911	10 849
Trade, other bills and bankers' acceptances	33	140	33	140
Past due but not impaired	42 148	36 017	35 886	30 237
Mortgage loans	17 363	14 854	14 151	11 902
Net finance lease and instalment debtors	9 122	9 094	7 346	8 188
Credit cards	697	573	506	421
Overdrafts	511	605	446	506
Term loans	13 958	9 626	13 012	8 996
Overnight loans	5	–	5	
Other loans to clients	331	481	268	222
Preference shares and debentures	4	784		2
Factoring accounts	157	–	152	
Subtotal	478 802	454 246	472 540	448 466
Defaulted	22 796	26 385		
Mortgage loans	14 641	17 734		
Net finance lease and instalment debtors	2 842	3 020		
Credit cards	518	518		
Properties in possession	619	661		
Overdrafts	735	1 137		
Term loans	2 073	1 788		
Other loans to clients	1 314	1 417		
Preference shares and debentures	33	73		
Factoring accounts	21	37		
Total loans and advances	501 598	480 631		

> 1 month < 3 months		> 3 months < 6 months		> 6 months < 12 months		> 12 months	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
–	–	**–**	–	**–**	–		
6 126	4 732	**14**	748	**5**	47	**117**	253
3 193	2 919		33			**19**	
1 727	890	**2**	16			**47**	
191	152						
51	49	**12**	50	**2**			
940	630					**6**	
15	20		2	**3**		**45**	237
4	72		647		47		16
5							
6 126	4 732	**14**	748	**5**	47	**117**	253

26 LOANS AND ADVANCES ... CONTINUED

26.7 CREDIT QUALITY OF LOANS AND ADVANCES

	Total		NGR 1 – 12	
Rm	**2011**	2010	**2011**	2010
Neither past due nor impaired	436 654	418 229	159 427	149 618
Mortgage loans	194 973	195 013	34 357	29 605
Net finance lease and instalment debtors	58 330	54 915	4 218	7 438
Credit cards	7 426	6 799	1 374	1 228
Overdrafts	9 916	9 580	1 978	2 665
Term loans	60 436	61 712	49 695	52 648
Overnight loans	19 099	12 552	15 009	8 536
Other loans to clients	52 081	43 948	24 728	22 751
Preference shares and debentures	17 805	19 556	15 182	14 128
Factoring accounts	3 644	3 165	(8)	
Deposits placed under reverse repurchase agreements	12 911	10 849	12 870	10 559
Trade, other bills and bankers' acceptances	33	140	24	60
Past due but not impaired	42 148	36 017	924	1 602
Mortgage loans	17 363	14 854	322	285
Net finance lease and instalment debtors	9 122	9 094	600	663
Credit cards	697	573	2	7
Overdrafts	511	605		
Term loans	13 958	9 626		4
Overnight loans	5			
Other loans to clients	331	481		
Preference shares and debentures	4	784		643
Factoring accounts	157			
Defaulted	22 796	26 385		
Mortgage loans	14 641	17 734		
Net finance lease and instalment debtors	2 842	3 020		
Credit cards	518	518		
Properties in possession	619	661		
Overdrafts	735	1 137		
Term loans	2 073	1 788		
Other loans to clients	1 314	1 417		
Preference shares and debentures	33	73		
Factoring accounts	21	37		
Total loans and advances	**501 598**	480 631	**160 351**	151 220

The group uses a master rating scale for measuring credit risk, which measures borrower risk excluding the effect of collateral and any credit mitigation (ie probability of default only). The comprehensive probability of a default rating scale, which is mapped to default probabilities and external rating agency scales, enables the group to measure credit risk consistently and accurately across its entire portfolio. A brief explanation of the scale follows:

NGR 1 – 12: Represents borrowers who demonstrate a strong capacity to meet financial obligations, and who have a negligible or low probability of default. This category comprises, but is not limited to, the group's large corporate clients, including financial institutions, parastatals and other government-related institutions.

	NGR 13 – 20		NGR 21 – 25		NP 1 – 3*		Unrated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	257 142	249 895	**11 597**	17 266			**8 488**	1 450
	151 667	157 299	**4 238**	7 832			**4 711**	277
	47 880	42 352	**3 787**	4 820			**2 445**	305
	4 557	4 158	**1 495**	1 413				
	7 410	6 375	**300**	405			**228**	135
	9 332	7 985	**1 144**	933			**265**	146
	3 506	2 952	**584**	1 064				
	26 626	19 964	**46**	764			**681**	469
	2 506	5 310					**117**	118
	3 652	3 136		29				
		290					**41**	
	6	74	**3**	6				
	22 505	20 781	**18 278**	12 976	**297**	576	**144**	82
	8 395	6 379	**8 601**	8 035		138	**45**	17
	6 655	6 426	**1 541**	1 680	**263**	304	**63**	21
	120	163	**575**	395		8		
	179	182	**329**	408	**1**	12	**2**	3
	6 989	7 288	**6 961**	2 302		27	**8**	5
			5					
	167	202	**105**	156	**33**	87	**26**	36
		141	**4**					
			157					
	–	3	**–**	879	**20 806**	24 836	**1 990**	667
					13 574	17 734	**1 067**	
					2 615	3 018	**227**	2
					518	518		
							619	661
					733	1 134	**2**	3
				167	**1 999**	1 621	**74**	
				712	**1 313**	704	**1**	1
		3			**33**	70		
					21	37		
	279 647	270 679	**29 875**	31 121	**21 103**	25 412	**10 622**	2 199

NGR 13 – 20: Represents borrowers who demonstrate a satisfactory ability to make payments and who have a low or moderate probability of default. This category comprises, but is not limited to, small and medium businesses, medium-sized corporate clients and individuals.

NGR 21 – 25: Represents borrowers who are of higher-risk. This category comprises higher-risk individuals or small businesses, as well as borrowers that were rated higher on inception but have since migrated down the rating scale as a result of poor financial performance. However, the borrower has not defaulted and is continuing to make repayments.

* Non-performing (NP) 1 – 3: Represents clients who have defaulted. Where this rating appears in the 'Past due but not impaired' category, the borrowers are continuing to make repayments against their obligation and are being closely monitored.

27 IMPAIRMENT OF LOANS AND ADVANCES

27.1 IMPAIRMENT OF LOANS AND ADVANCES

	Total impairment		Specific impairment		Portfolio impairment	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Impairment of loans and advances						
Balance at beginning of year	11 104	9 618	8 982	7 683	2 122	1 935
Impairment charge/(release)	5 955	6 921	5 375	6 728	580	193
Statement of comprehensive income charge net of recoveries:	5 321	6 360	4 741	6 167	580	193
– Loans and advances	5 321	6 359	4 741	6 166	580	193
– Advances designated as at fair value through profit or loss (see note 24.1)	–	1		1		
Recoveries	634	561	634	561		
Amounts written off against the impairment/ other transfers	(5 637)	(5 435)	(5 651)	(5 429)	14	(6)
Impairment of loans and advances	11 422	11 104	8 706	8 982	2 716	2 122

27.2 IMPAIRMENTS OF LOANS AND ADVANCES BY CLASSIFICATION

	Balance at the beginning of the year Rm	Impairment charge/ (release) Rm	Amounts written off against the impairment/ other transfers Rm	Total Rm
Total impairment				
2011				
Home loans	3 851	1 437	(1 479)	3 809
Commercial mortgages	1 176	389	(392)	1 173
Properties in possession	62	18	(52)	28
Credit cards	566	433	(405)	594
Overdrafts	917	221	(489)	649
Other loans to clients	2 154	2 408	(1 805)	2 757
Net finance lease and instalment debtors	2 357	1 050	(1 013)	2 394
Preference shares and debentures	20	(1)	(2)	17
Trade, other bills and bankers' acceptances	1			1
Impairment of loans and advances	11 104	5 955	(5 637)	11 422
2010				
Home loans	3 658	2 838	(2 645)	3 851
Commercial mortgages	907	382	(113)	1 176
Properties in possession	168	44	(150)	62
Credit cards	565	426	(425)	566
Overdrafts	943	241	(267)	917
Other loans to clients	1 520	1 751	(1 117)	2 154
Net finance lease and instalment debtors	1 810	1 265	(718)	2 357
Preference shares and debentures	45	(25)		20
Trade, other bills and bankers' acceptances	2	(1)		1
Impairment of loans and advances	9 618	6 921	(5 435)	11 104

	Balance at the beginning of the year Rm	Impairments charge/ (release) Rm	Amounts written off against the impairment/ other transfers Rm	Total Rm
Specific impairment				
2011				
Home loans	3 278	1 327	(1 486)	3 119
Commercial mortgages	927	376	(393)	910
Properties in possession	62	18	(52)	28
Credit cards	502	423	(405)	520
Overdrafts	743	218	(490)	471
Other loans to clients	1 697	2 082	(1 812)	1 967
Net finance lease and instalment debtors	1 755	931	(1 012)	1 674
Preference shares and debentures	18		(1)	17
Specific impairment of loans and advances	8 982	5 375	(5 651)	8 706
2010				
Home loans	3 210	2 703	(2 635)	3 278
Commercial mortgages	588	454	(115)	927
Properties in possession	168	44	(150)	62
Credit cards	501	426	(425)	502
Overdrafts	739	299	(295)	743
Other loans to clients	1 053	1 721	(1 077)	1 697
Net finance lease and instalment debtors	1 380	1 107	(732)	1 755
Preference shares and debentures	44	(26)		18
Specific impairment of loans and advances	7 683	6 728	(5 429)	8 982
Portfolio impairment				
2011				
Home loans	573	110	7	690
Commercial mortgages	249	13	1	263
Credit cards	64	10		74
Overdrafts	174	3	1	178
Other loans to clients	457	326	7	790
Net finance lease and instalment debtors	602	119	(1)	720
Preference shares and debentures	2	(1)	(1)	
Trade, other bills and bankers' acceptances	1			1
Portfolio impairment of loans and advances	2 122	580	14	2 716
2010				
Home loans	448	135	(10)	573
Commercial mortgages	319	(72)	2	249
Credit cards	64			64
Overdrafts	204	(58)	28	174
Other loans to clients	467	30	(40)	457
Net finance lease and instalment debtors	430	158	14	602
Preference shares and debentures	1	1		2
Trade, other bills and bankers' acceptances	2	(1)		1
Portfolio impairment of loans and advances	1 935	193	(6)	2 122

27 IMPAIRMENT OF LOANS AND ADVANCES ... CONTINUED

27.3 SECTORAL ANALYSIS

	Total impairment		Specific impairment		Portfolio impairment	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Individuals	7 306	6 702	5 675	5 473	1 631	1 229
Financial services, insurance and real estate	1 341	1 460	1 058	1 187	283	273
Manufacturing	241	243	137	125	104	118
Building and property development	165	150	122	111	43	39
Transport, storage and communication	428	272	347	175	81	97
Retailers, catering and accommodation	50	40	9	9	41	31
Wholesale and trade	593	820	558	771	35	49
Mining and quarrying	177	68	137	19	40	49
Agriculture, forestry and fishing	46	52	30	31	16	21
Government and public sector	59	49	28	27	31	22
Other services	1 016	1 248	605	1 054	411	194
	11 422	11 104	8 706	8 982	2 716	2 122

27.4 GEOGRAPHICAL ANALYSIS

	Total impairment 2011 Rm	Total impairment 2010 Rm	Specific impairment 2011 Rm	Specific impairment 2010 Rm	Portfolio impairment 2011 Rm	Portfolio impairment 2010 Rm
SA	11 163	11 033	8 483	8 940	2 680	2 093
Other African countries	88	45	74	31	14	14
Europe	94	12	83		11	12
Asia	5	1			5	1
US	63	13	62	11	1	2
Other	9	–	4		5	
	11 422	11 104	8 706	8 982	2 716	2 122

27.5 RATIO OF IMPAIRMENTS

	2011 Rm	2010 Rm
Impairment of advances at end of year	11 422	11 104
Total advances	501 598	480 631
Ratio (%)	2,28	2,31

27.6 INTEREST ON SPECIFICALLY IMPAIRED LOANS AND ADVANCES

	2011 Rm	2010 Rm
	1 394	1 688

Interest on specifically impaired loans and advances is determined for the period for which the loan and advance were classified as specifically impaired.

The amount is calculated by multiplying the discounted expected recovery by the effective-interest-rate for the specifically impaired loan and advance. The interest on specifically impaired loans and advances reflects the unwinding of the time value of money for the expected discounted recovery.

Interest on specifically impaired loans and advances does not represent the contractual interest that has been earned on the outstanding balance of a loan and advance.

28 OTHER ASSETS

	2011 Rm	2010 Rm
Sundry debtors and other accounts	3 989	3 613

29 INVESTMENT SECURITIES

	2011 Rm	2010 Rm
Listed investments at market value	997	754
Private equity portfolio	791	532
Other	206	222
Unlisted investments at directors' valuation	2 552	2 245
Morning Tide Investments 168 (Pty) Limited	222	105
Strate Limited	36	36
Private equity portfolio	1 160	1 119
Other	1 134	985
Total listed and unlisted investments	3 549	2 999

30 INVESTMENTS IN ASSOCIATE COMPANIES AND JOINT VENTURES

30.1 MOVEMENT IN CARRYING AMOUNT

	2011 Rm	2010 Rm
Carrying amount at the beginning of the year	933	922
Net movement of associate companies and joint ventures at carrying value	(155)	10
Fair-value movements	(213)	1
Carrying amount at the end of the year	565	933

All investments in associate companies and joint ventures are unlisted. No income has been recognised on an equity-accounted basis during the current and prior reporting periods.

30.2 ANALYSIS OF CARRYING AMOUNT

	2011 Rm	2010 Rm
Associate investments – on acquisition: Net asset value	370	547
Share of retained earnings since acquisition	101	101
Fair-value movements	94	285
	565	933

30.3 VALUATION

	2011 Rm	2010 Rm
Unlisted at directors' valuation	565	933
	565	933

30.4 SUMMARISED FINANCIAL INFORMATION OF INVESTMENTS IN ASSOCIATE COMPANIES

	2011 Rm	2010 Rm
Total assets	4 102	5 518
Total liabilities	3 584	4 714
Operating results	223	280
Total revenues	1 464	1 520

Information relating to investments in associate companies appears on pages 156 and 157.

31 NON-CURRENT ASSETS HELD FOR SALE

	Previously included in:	2011 Rm	2010 Rm
Properties sold not yet transferred	Property and equipment	8	5
		8	5

Commitments for the sale of properties had been entered into at year-end by the group. Transfer of the properties had not been effected at year-end, but is expected to take place during the following year.

32 DEFERRED TAXATION

32.1 RECONCILIATION OF DEFERRED TAXATION BALANCE

	2011 Rm	2010 Rm
Deferred taxation asset		
Balance at the beginning of the year	48	36
Current year temporary differences recognised in the statement of comprehensive income	7	(66)
Impairment of loans and advances	2	(41)
Other income and capital items	5	(25)
Other movements	11	78
Balance at the end of the year	66	48
Deferred taxation liability		
Balance at the beginning of the year	1 358	1 514
Acquisition of businesses		6
Disposal of businesses		(6)
Current year temporary differences recognised in the statement of comprehensive income	(526)	(271)
Capital gains taxation	(6)	48
Client credit agreements	(99)	
Deferred acquisition costs	(22)	(23)
Deferred fee income	(13)	(10)
Depreciation	(18)	17
Fair-value adjustments of financial instruments	4	(44)
Impairment of loans and advances	(470)	(44)
Other income and expense items	78	(308)
Property revaluations	(3)	(3)
Share-based payments	17	93
Taxation losses recognised	6	3
Other movements	165	115
Balance at the end of the year	997	1 358

32.2 ANALYSIS OF DEFERRED TAXATION

	2011 Rm	2010 Rm
Deferred taxation asset		
Impairment of loans and advances	9	7
Other income and capital items	57	41
	66	48
Deferred taxation liability		
Capital gains taxation	227	295
Client credit agreements	462	542
Deferred acquisition costs	329	351
Deferred fee income	(186)	(173)
Depreciation	242	260
Fair-value adjustments of financial instruments	(54)	(1)
Impairment of loans and advances	(962)	(492)
Other income and expense items	464	219
Property revaluations	414	353
STC	(29)	(61)
Share-based payments	141	122
Taxation losses	(51)	(57)
	997	1 358

33 INVESTMENT PROPERTY

33.1 FAIR-VALUE

	2011 Rm	2010 Rm
Fair-value at the beginning of the year	82	102
Acquisitions	406	
Net loss from fair-value adjustments		(20)
Fair-value at the end of the year	488	82

33.2 FAIR-VALUE OF INVESTMENT PROPERTY

Investment properties are freehold and are either held to earn rentals or for capital appreciation. Internal professional valuers perform valuations on an annual basis. External valuers are obtained once every three years on a rotational basis in accordance with the group's policies for the valuation of properties. The internal and external valuers are all members or associates of the Institute of Valuers (SA).

The carrying amount of these properties is the fair value of the property as determined by registered independent valuers who have recent experience in the location and category of the property being valued. In determining the fair value of properties the assumed discount rate applied for future income streams is between 9,5 and 11,0% (2010: 10,59%) and takes into account the type of property and the location of the property.

	2011 Rm	2010 Rm
Valuations determined by reference to existing market conditions	488	82
	488	82

33.3 RENTAL INCOME AND OPERATING EXPENSES FROM INVESTMENT PROPERTY

	2011 Rm	2010 Rm
Rental income from investment property	163	10
Direct operating expense arising from investment property that generated rental income	62	8

33.4 MINIMUM CONTRACTUAL LEASE RENTAL INCOME FROM INVESTMENT PROPERTY

	2011 Rm	2010 Rm
2011		10
2012	165	10
2013	186	11
	351	20

34 PROPERTY AND EQUIPMENT

	Land		Buildings	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Gross carrying amount				
Balance at 1 January	743	646	3 386	2 938
Acquisitions		59	267	340
Increases arising from revaluations	42	59	277	165
Transfers to non-current assets held for sale		(1)	(3)	(4)
Impairments		(20)		
Disposals			(224)	(2)
Writeoff of accumulated depreciation on revaluations			(59)	(51)
Effect of movements in foreign exchange rates and other movements				
Balance at 31 December	785	743	3 644	3 386
Accumulated depreciation and impairment losses				
Balance at 1 January			488	389
Depreciation charge for the year			126	102
Acquisitions				47
Writeoff of accumulated depreciation on revaluations			(59)	(51)
Disposals			(216)	
Effect of movements in foreign exchange rates and other movements			1	1
Balance at 31 December	–	–	340	488
Carrying amount				
At 1 January	743	646	2 898	2 549
At 31 December	785	743	3 304	2 898

Equipment (principally computer equipment, motor vehicles, fixtures and furniture) is stated at cost less accumulated depreciation and impairment losses. Property is recognised at the revalued amount, which is based on external valuations obtained every three years on a rotation basis for all properties in accordance with the group's accounting policy. The valuers are all members or associates of the Institute of Valuers (SA). An annual internal review is also done of those properties not subject to external valuation. The carrying amount of properties is the fair value as determined by the valuers less subsequent accumulated depreciation and impairment losses. Adjustments in the valuation of the properties are recorded in the revaluation reserve, which is amortised over the remaining useful life of the property.

In respect of certain properties there are restrictions of title in terms of regulatory restrictions such as servitudes. This does not have a material effect on the ability of the group to transfer these properties. No material plant and equipment have been pledged as security for liabilities.

In determining the fair value of properties the assumed discount rates applied for future income streams range between 8,5% and 12,5% (2010: 8,5% and 12,5%) and take into account the type of property and the location of the property.

If land and buildings were carried under the cost and not the revaluation model, the carrying amount would have been R2 331m (2010: R2 186m).

Computer equipment		Furniture and other equipment		Vehicles		Total	
2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm	2011 Rm	2010 Rm
2 722	2 708	2 297	1 901	22	20	9 170	8 213
408	408	952	476	6	4	1 633	1 287
						319	224
						(3)	(5)
						–	(20)
(712)	(395)	(471)	(79)	(7)	(2)	(1 414)	(478)
						(59)	(51)
2	1	1	(1)	(1)		2	–
2 420	2 722	2 779	2 297	20	22	9 648	9 170
2 006	2 056	1 269	1 001	13	13	3 776	3 459
337	326	290	250	2	3	755	681
	17	61	83	2	(2)	63	145
						(59)	(51)
(578)	(394)	(172)	(63)	(5)	(1)	(971)	(458)
(9)	1	10	(2)			2	–
1 756	2 006	1 458	1 269	12	13	3 566	3 776
716	652	1 028	900	9	7	5 394	4 754
664	716	1 321	1 028	8	9	6 082	5 394

35 LONG-TERM EMPLOYEE BENEFITS

The group has a number of defined-benefit and defined-contribution plans in terms of which it provides pension, postretirement medical aid and long-term disability benefits to employees and their dependants on retirement, death or disability. All eligible employees and former employees are members of trustee-administered or underwritten schemes within the group, financed by company and employee contributions. All SA retirement plans are governed by the Pension Funds Act of 1956. The defined-benefit funds are actuarially valued using the projected-unit credit method. Any deficits are funded to ensure the ongoing financial soundness of the funds.

The benefits provided by the defined-benefit schemes are based on years of membership and/or salary levels. These benefits are provided from contributions by employees and the group, and income from the assets of these schemes. The benefits provided by the defined-contribution schemes are determined by the accumulated contributions and investment earnings.

At the dates of the latest valuations the defined-benefit plans were in a sound financial position in terms of section 16 of the Pension Funds Act. During 1998 active members in the Nedgroup Pension Fund (defined-benefit) were granted a further option to transfer to one of the defined-contribution funds and approximately three quarters of the then valuation surplus was allocated to members and pensioners.

The funds that constitute the assets and liabilities that the group has recognised in the statement of financial position in respect of its defined-benefit plans are listed below. The latest actuarial valuations were performed at 31 December 2011.

POSTEMPLOYMENT BENEFITS

DEFINED-BENEFIT PENSION FUNDS

- Nedgroup Pension Fund (including the Optiplus policy).
- BoE Funds, which consist of BoE Limited Pension Fund (1969), Pension Fund of BoE Bank: Business Division.
- Nedbank UK Pension Fund.
- Other funds consisting of Nedbank Swaziland Limited Pension Fund and Nedbank Lesotho Pension Fund.

DEFINED-BENEFIT MEDICAL AID SCHEMES

- Nedgroup Medical Aid Scheme for Nedbank employees and pensioners.
- Nedgroup Medical Aid Scheme for past BoE employees and pensioners.

OTHER LONG-TERM EMPLOYEE BENEFITS

DISABILITY FUND

- Nedbank Group Disability Fund [including the Old Mutual Alternative Risk Transfer Fund (OMART) policy].

INSURANCE POLICIES HELD WITH RELATED PARTIES

- Optiplus (Nedgroup Pension Fund) and OMART (Nedbank Group Disability Fund) are insurance policies, the proceeds of which can only be used to pay or fund the employee benefits under the specific funds. However, these policies are not qualifying insurance policies in terms of IAS 19 Employee Benefits since they are held with related parties. These rights to reimbursement are therefore recognised as separate assets and in all other respects are treated in the same way as other plan assets.

35.1 ANALYSIS OF LONG-TERM EMPLOYEE BENEFITS ASSETS AND LIABILITIES

Rm	Assets	Liabilities	Net asset
2011			
Postemployment benefits	1 743	(1 189)	554
Other long-term employee benefits – disability fund	284	(284)	
	2 027	(1 473)	554
2010			
Postemployment benefits	1 676	(1 119)	557
Other long-term employee benefits – disability fund	289	(289)	
	1 965	(1 408)	557

The group's defined-benefit obligation in terms of the Nedbank Group Disability Fund is recognised together with an equal reimbursement right that arises as a result of the insurance policy that the group's parent company has with OMART.

35.2 POSTEMPLOYMENT BENEFITS

Rm	Present value of obligation	Fair value of plan asset	Surplus/ (Deficit)	Unrecognised actuarial (gains)/losses and assets	Net asset/ (liability)
Analysis of postemployment benefit assets and liabilities					
2011					
Pension funds	4 191	5 115	924	26	950
Nedgroup Fund	3 404	4 350	946	6	952
BoE Funds	386	418	32	(32)	–
Nedbank UK Fund	251	214	(37)	43	6
Other funds	150	133	(17)	9	(8)
Medical aid funds	1 482	830	(652)	256	(396)
Nedgroup scheme for Nedbank employees	1 360	830	(530)	256	(274)
Nedgroup scheme for BoE employees	122		(122)		(122)
Total	5 673	5 945	272	282	554
2010					
Pension funds	3 917	4 908	991	(122)	869
Nedgroup Fund	3 276	4 208	932	(79)	853
BoE Funds	316	417	101	(101)	
Nedbank UK Fund	181	162	(19)	35	16
Other funds	144	121	(23)	23	
Medical aid funds	1 222	810	(412)	100	(312)
Nedgroup scheme for Nedbank employees	1 111	810	(301)	105	(196)
Nedgroup scheme for BoE employees	111		(111)	(5)	(116)
Total	5 139	5 718	579	(22)	557

35 LONG-TERM EMPLOYEE BENEFITS ... CONTINUED

35.2 POSTEMPLOYMENT BENEFITS ... CONTINUED

Rm	Pension and provident funds	Medical aid funds	Total
Present value of defined-benefit obligation			
2011			
Balance at the beginning of the year	3 917	1 222	5 139
Current service cost	27	51	78
Interest cost	321	107	428
Contributions by plan participants	9		9
Actuarial gains	146	152	298
Benefits paid	(271)	(50)	(321)
Effect of foreign exchange rate changes	42		42
Balance at the end of the year	4 191	1 482	5 673
2010			
Balance at the beginning of the year	3 432	1 085	4 517
Current service cost	26	44	70
Interest cost	309	101	410
Contributions by plan participants	9		9
Actuarial gains	456	38	494
Benefits paid	(288)	(46)	(334)
Effect of foreign exchange rate changes	(27)		(27)
Balance at the end of the year	3 917	1 222	5 139
Fair value of plan assets			
2011			
Balance at the beginning of the year	4 908	810	5 718
Expected return on plan assets	440	67	507
Actuarial losses	(30)	(2)	(32)
Contributions by the employer	16		16
Contributions by plan participants	13		13
Benefits paid	(269)	(45)	(314)
Effect of foreign exchange rate changes	37		37
Balance at the end of the year	5 115	830	5 945
2010			
Balance at the beginning of the year	4 633	790	5 423
Expected return on plan assets	463	71	534
Actuarial gains/(losses)	95	(10)	85
Contributions by the employer	20		20
Contributions by plan participants	9		9
Benefits paid	(288)	(41)	(329)
Effect of foreign exchange rate changes	(24)		(24)
Balance at the end of the year	4 908	810	5 718

Rm	Pension and provident funds	Medical aid funds	Total
Net asset/(liability) recognised			
2011			
Present value of defined-benefit obligation	(4 191)	(1 482)	(5 673)
Fair value of plan assets	5 115	830	5 945
Funded status	924	(652)	272
Unrecognised net actuarial gains	68		68
Unrecognised asset due to asset ceiling	(39)	253	214
	953	(399)	554
Asset	1 743		1 743
Liability	(790)	(399)	(1 189)
2010			
Present value of defined-benefit obligation	(3 917)	(1 222)	(5 139)
Fair value of plan assets	4 908	810	5 718
Funded status	991	(412)	579
Unrecognised net actuarial gains	(16)		(16)
Unrecognised asset due to asset ceiling	(106)	100	(6)
	869	(312)	557
Asset	1 676		1 676
Liability	(807)	(312)	(1 119)
Net (income)/expense recognised			
2011			
Current service cost	27	51	78
Interest cost	321	107	428
Expected return on plan assets	(440)	(67)	(507)
Amortisation of unrecognised actuarial gains	27		27
	(65)	91	26
2010			
Current service cost	26	44	70
Interest cost	309	101	410
Expected return on plan assets	(463)	(71)	(534)
Amortisation of unrecognised actuarial gains	7		7
	(121)	74	(47)
Movements in net asset/(liability) recognised			
2011			
Balance at the beginning of the year	869	(312)	557
Net income/(expense) recognised in the statement of comprehensive income	65	(91)	(26)
Contributions paid by the employer	16	7	23
Balance at the end of the year	950	(396)	554
2010			
Balance at the beginning of the year	728	(243)	485
Net income/(expense) recognised in the statement of comprehensive income	121	(74)	47
Contributions paid by the employer	20	5	25
Balance at the end of the year	869	(312)	557

35 LONG-TERM EMPLOYEE BENEFITS ... CONTINUED

35.2 POSTEMPLOYMENT BENEFITS ... CONTINUED

Rm	Pension and provident funds	Medical aid funds	Total
Distribution of plan assets			
2011			
Equity instruments	**35,03**	**25,00**	**33,63**
Debt instruments	**36,12**	**17,00**	**33,45**
Property	**5,50**		**4,73**
Cash	**2,62**	**43,00**	**8,26**
International	**20,73**	**15,00**	**19,93**
	100,00	**100,00**	**100,00**
2010			
Equity instruments	37,01	27,00	35,60
Debt instruments	40,30	6,00	35,44
Property	5,57		4,78
Cash	1,73	53,00	8,99
International	15,39	14,00	15,19
	100,00	100,00	100,00
Actual return on plan assets (Rm)			
2011	410	65	475
2010	558	61	619

	Range	Used in valuation
Principal acturial assumptions (%)		
2011		
Discount rates	**4,70 – 8,90**	**8,5**
Expected rates of return on plan assets	**4,10 – 10,50**	**8,5**
Inflation rate	**3,00 – 6,50**	**6,1**
Expected rates of salary increases	**6,0 – 6,5**	**7,1**
Pension increase allowance	**2,30 – 5,50**	
Annual increase to medical aid subsidy		**7,1**
Average expected retirement age (years)	**63**	**60**
2010		
Discount rates	5,50 – 8,50	7,0
Expected rates of return on plan assets	5,40 – 10,20	7,0
Inflation rate	3,20 – 6,20	5,3
Expected rates of salary increases	6 – 6,25	5,0
Pension increase allowance	2,20 – 5,25	
Annual increase to medical aid subsidy		5,0
Average expected retirement age (years)	63	60

PENSION FUNDS

The expected long-term return is a function of the expected long-term returns on equities, cash and bonds. In setting these assumptions the asset splits at the latest available date were used and adjustments were made to reflect the effect of expenses.

Weighted average assumptions:	2011 %	2010 %
– Discount rate	**8,11**	8,40
– Expected return on plan assets	**8,98**	9,14
– Future salary increases	**5,95**	5,14
– Future pension increases	**5,30**	4,46

MEDICAL AID FUNDS

The overall expected long-term rate of return on plan assets is 7,3%. The expected rate of return is based on market expectations, at the beginning of the period, for returns over the entire life of the related obligation. The expected rate of return is based on the expected performance of the entire portfolio.

Rm	Pension and provident funds	Medical aid funds	Total
Experience adjustments on present value of defined-benefit obligation for past five years			
2011	**(106)**	**(153)**	**(259)**
2010	30	(48)	(18)
2009	192	(98)	94
2008	(70)	33	(37)
2007	(17)	(64)	(81)
2006	84	43	127
Experience adjustments on fair value of plan assets for past five years			
2011	**(30)**	**(2)**	**(32)**
2010	95	(10)	85
2009	185	27	212
2008	(473)	(39)	(512)
2007	432	22	454
2006	433	47	480
Estimate of future contributions			
Contributions expected for ensuing year	22		22

Rm	Present value of obligation	Fair value of plan asset	Surplus/ (Deficit)
Fund surplus/(deficit) for past five years			
Pension funds			
2011	**4 191**	**5 115**	**924**
2010	3 917	4 908	991
2009	3 432	4 633	1 201
2008	3 248	4 389	1 141
2007	2 870	4 648	1 778
2006	2 919	4 199	1 280
Medical aid funds			
2011	**1 482**	**830**	**(652)**
2010	1 222	810	(412)
2009	1 085	790	(295)
2008	911	743	(168)
2007	807	749	(58)
2006	810	700	(110)

	2011	2010
Effect of 1% change in assumed medical cost trend rates (Rm)		
1% increase – effect on current service cost and interest cost	**28**	26
1% increase – effect on accumulated benefit obligation	**204**	175
1% decrease – effect on current service cost and interest cost	**(22)**	(20)
1% decrease – effect on accumulated benefit obligation	**(169)**	(143)

36 INTANGIBLE ASSETS

Rm	Goodwill	Software	Software development costs	Other – Intangibles	Total
2011					
Cost					
Balance at the beginning of the year	1 614	4 584	980		7 178
Acquisitions		263	609	84	956
Development costs commissioned to software		792	(792)		–
Impairment losses		(27)	(22)		(49)
Disposals and retirements		(78)			(78)
Foreign currency translation and other movements		(2)	36		34
Balance at the end of the year	1 614	5 532	811	84	8 041
Accumulated amortisation					
Balance at the beginning of the year	224	3 489	137		3 850
Amortisation charge		523			523
Foreign currency translation and other movements		(4)	38		34
Balance at the end of the year	224	4 008	175	–	4 407
Carrying amount					
At the beginning of the year	1 390	1 095	843	–	3 328
At the end of the year	1 390	1 524	636	84	3 634
2010					
Cost					
Balance at the beginning of the year	1 614	4 103	933		6 650
Acquisitions		132	570		702
Development costs commissioned to software		384	(384)		–
Impairment losses			(54)		(54)
Disposals and retirements		(4)			(4)
Grossdown of carrying value/amortisation		(34)	(85)		(119)
Foreign currency translation and other movements		3			3
Balance at the end of the year	1 614	4 584	980	–	7 178
Accumulated amortisation					
Balance at the beginning of the year	224	3 053	222		3 499
Amortisation charge		475			475
Disposals and retirements		(4)			(4)
Grossdown of carrying value/amortisation		(34)	(85)		(119)
Foreign currency translation and other movements		(1)			(1)
Balance at the end of the year	224	3 489	137	–	3 850
Carrying amount					
At the beginning of the year	1 390	1 050	711	–	3 151
At the end of the year	1 390	1 095	843	–	3 328

36.1 ANALYSIS OF GOODWILL

Rm	2011 Cost	2011 Accumulated impairment losses	2011 Carrying amount	2010 Cost	2010 Accumulated impairment losses	2010 Carrying amount
Peoples Mortgage Limited	**198**	**(198)**	**–**	198	(198)	–
IBL Asset Finance and Services Limited	**285**	**(25)**	**260**	285	(25)	260
Old Mutual Bank	**206**		**206**	206		206
Capital One	**82**		**82**	82		82
American Express	**81**		**81**	81		81
Nedbank Limited – BoE Limited	**757**		**757**	757		757
Other	**5**	**(1)**	**4**	5	(1)	4
	1 614	**(224)**	**1 390**	1 614	(224)	1 390

Goodwill is allocated to individual cash-generating units (CGUs) based on business activity. Impairment testing is done on a regular basis by comparing the net carrying value of the CGUs with the estimated value in use. The value in use is determined by discounting estimated future cashflows of each CGU. The discounted cashflow calculations have been performed using Nedbank Limited's cost of equity, which is calculated using the Capital Asset Pricing Model. No impairments resulting from impairment testing have been effected for the reporting periods presented. Management regards the useful lives of all CGUs to be indefinite. See note 3 for key assumptions used when assessing goodwill impairment.

The value in use of the various CGUs were based on the following assumptions:

	2011	2010
Risk-free rate (%)	**8,47**	7,22
Beta range	**0,50 – 0,91**	0,50 – 0,96
Equity risk premium (%)	**6,00**	5,00
Terminal growth rate range (%)	**0,00 – 5,00**	0,00 – 4,00
Cashflow projection (years)	**3**	3
Discount rate range (%)	**9,77 – 13,93**	9,23 – 12,02

Rm	2011	2010
Goodwill on a geographical basis relates to Africa in total and is as follows:		
Carrying amount	**1 390**	1 390
Estimated value in use	**83 750**	96 247
Net estimated recoverable amounts	**82 360**	94 857

37 ACQUISITIONS

The group acquired stakes in the following entities as a result of these entities defaulting on their loan obligations:

Acquiree	Shareholding at the beginning of the year %	Shares acquired %	Shareholding at the end of the year %	Date of control
Capegate Crescent Development (Pty) Limited ('Capegate')	35	65	100	1 January 2011
Chamber Lane Properties 11 (Pty) Ltd ('Chamber Lane')		100	100	1 January 2011
Emergent Investments (Pty) Limited ('Emergent')	48,98	34,15	83,13	30 September 2011

These entities were previously accounted for as associate companies and recognised as at fair value. The carrying value of these entities prior to these acquisitions was R117m. The group had a gross exposure of R170m to these entities, with an impairment provision of R53m recognised against its properties prior to the acquisitions. There were no contingent consideration arrangements and indemnification assets recognised on the acquisition of these entities. No contingent liabilities have been recognised by the group as a result of these acquisitions. The receivables recognised by the group are included in other assets and represent their fair value due to their short-term nature. Management is of the opinion that gross contractual cashflows receivable are not materially different to the fair value of the receivables recognised. The majority of the assets in the acquired entities are properties which are classified as investment properties. The majority of the liabilities are made up of previous funding from the group. The fair value of the investment properties was determined to be final at acquisition.

The acquired entities are involved in property development and the principal reason for the acquisition of these entities was to exercise the group's rights to the underlying assets as a result of the defaults on the mortgage loans. No goodwill was recognised as a result of these transactions as it related to the acquisition of construction development stock. There was no effect on the group's profit for the period as a result of the acquisitions. Legal costs for the execution of the securities are included in operating expenses. Capegate and Chamber Lane contributed a loss of R11m to the group's non-interest revenue and a loss of R17m to the group's profit for the year. The total revenue recognised by Emergent for the year ended 31 December 2011 was R54m, of which R16m was recognised in the group's non-interest revenue. Emergent recognised a profit of R7m for the year ended 31 December 2011, of which R2m was recognised in the group's statement of comprehensive income.

Assets and liabilities acquired:

Rm	Acquirees' carrying amount	Provisional fair value
Other assets	169	169
Deferred taxation asset	21	21
Investment property	403	403
Intangible assets	85	85
Provisions and other liabilities	(42)	(42)
Deferred taxation liabilities	(11)	(11)

38 SHARE CAPITAL.

38.1 ORDINARY SHARE CAPITAL

	2011 Rm	2010 Rm
Authorised		
30 000 000 (2010: 30 000 000) ordinary shares of R1 each	30	30
Issued		
27 240 023 (2010: 27 240 023) fully paid ordinary shares of R1 each	27	27
No ordinary shares were issued during the 2011 and 2010 financial years.		
	27	27

Subject to the restrictions imposed by the Companies Act, 71 of 2008 (as amended), the unissued shares are under the control of the directors until the forthcoming annual general meeting.

38.2 PREFERENCE SHARE CAPITAL AND PREMIUM

Nedbank Limited preference share capital and premium

	2011 Rm	2010 Rm
Authorised		
1 000 000 000 (2010: 1 000 000 000) non-redeemable non-cumulative preference shares of R0,001 each	1	1
Issued		
358 277 491 (2010: 358 277 491) non-redeemable non-cumulative preference shares of R0,001 each	*	*
Preference share premium	3 561	3 560
	3 561	3 560

38.3 NON-CONTROLLING INTEREST ATTRIBUTABLE TO PREFERENCE SHAREHOLDERS

Imperial Bank Limited preference share capital and premium

	2011 Rm	2010 Rm
Authorised		
0 (2010: 8 000 000) non-redeemable non-cumulative non-participating preference shares of R0,0005 each		*
Issued		
0 (2010: 3 000 000) non-redeemable non-cumulative non-participating preference shares of R0,0005 each		*
	–	–
Total preference share capital and premium	3 561	3 560

* *Represents amounts less than R1m.*

38 SHARE CAPITAL ... CONTINUED

38.3 NON-CONTROLLING INTEREST ATTRIBUTABLE TO PREFERENCE SHAREHOLDERS ... CONTINUED

Preference shares are classified as equity instruments by Nedbank Limited ('the entity').

Each preference share confers on the holder the right to capital of the company in the form of a cash dividend prior to payment of dividends to any other class of shareholder. The rate is limited to 75% of the prevailing prime rate on a deemed value of R10 and is never compounded. The dividends, if declared, accrue half-yearly on 30 June and 31 December and are payable within 120 days of these dates respectively.

If a preference dividend is not declared, the dividend will not accumulate and will never become payable by the entity, whether in preference to payments to any other class of share or otherwise.

If, due to any amendment of the Income Tax Act 58 of 1962, the dividends become taxable in the hands of the shareholders and the payment of the preference share dividends becomes a deductible expense for the entity, then the 75% of prevailing prime rate will be increased to the extent that the entity incurs a savings on servicing the preference shares. If such an amendment does not result in a saving for the entity, but a decrease in the returns on the preference share investment, no amendment to the rate is envisaged.

Each preference share confers on the holder the right to a return of capital on the winding-up of the entity prior to any payment to the holders of any other class of share, but holders are not entitled to any further participation in the profits, assets or any surplus assets of the entity in such circumstances.

The holders of this class of share are not entitled to be present or vote (even by proxy) at any meeting of the entity except when a declared dividend or part thereof remains in arrears and unpaid after six months from the due date or a resolution is proposed that directly affects the rights attached to the preference share or the interests of the holder, including resolutions to wind up the entity or to reduce of its share capital.

At every general meeting where the preference shareholder is entitled to vote, the voting rights are restricted to the holder's nominal value in proportion to the total nominal value of all shares issued by the entity.

No shares in the capital of the entity, in priority to the preference shares, can be created or issued without prior sanction of the holders of preference shares by way of a resolution passed at a separate class meeting properly constituted in terms of the provisions set out in the memorandum of incorporation of the holders of preference shares.

39 AMOUNTS OWED TO DEPOSITORS

39.1 CLASSIFICATIONS

	2011 Rm	2010 Rm
Current accounts	49 298	45 655
Savings deposits	8 996	8 758
Other deposits and loan accounts	334 839	302 220
Call and term deposits	191 626	161 757
Fixed deposits	29 104	26 277
Cash management deposits	52 252	45 700
Other deposits and loan accounts	61 857	68 486
Foreign currency liabilities	8 931	9 168
Negotiable certificates of deposit	96 523	109 137
Deposits received under repurchase agreements*	15 022	14 180
	513 609	489 118
Comprises:		
– Amounts owed to depositors	477 417	452 829
– Amounts owed to banks	36 192	36 289
	513 609	489 118

* *Government and other securities (note 25) and negotiable certificates of deposit (note 22) amounting to R15 022m (2010: R14 180m) have been pledged as collateral for deposits received under repurchase agreements. These amounts represent assets that have been transferred but that do not qualify for derecognition under IAS 39.*

Deposit products include current accounts, savings accounts, call and notice deposits, fixed deposits and negotiable certificates of deposit. Term deposits vary from six months to five years in both the wholesale and retail markets.

Foreign currency liabilities are either matched by advances to clients or hedged against exchange rate fluctuations.

39.2 SECTORAL ANALYSIS

	2011 Rm	2010 Rm
Banks	36 192	36 289
Government and public sector	49 867	20 265
Individuals	123 802	149 395
Business sector	303 748	283 169
	513 609	489 118

39.3 GEOGRAPHICAL ANALYSIS

	2011 Rm	2010 Rm
SA	502 827	478 671
Other African countries	4 326	4 820
Europe	4 747	5 505
Asia	168	120
US	1 541	2
	513 609	489 118

40 PROVISIONS AND OTHER LIABILITIES

	2011 Rm	2010 Rm
Creditors and other accounts	5 354	4 150
Short-trading securities and spot positions	2 344	1 474
Leave pay accrual (note 40.1)	588	555
	8 286	6 179

40.1 LEAVE PAY ACCRUAL

	2011 Rm	2010 Rm
Balance at the beginning of the year	555	526
Recognised in profit or loss	375	331
Utilised during the year	(342)	(302)
Balance at the end of the year	588	555

40.2 DAY-ONE GAINS AND LOSSES

The group enters into transactions where the fair value of the financial instruments are determined using valuation models for which certain inputs are not based on market-observable prices or rates. Such financial instruments are initially recognised at the transaction price which is the best indicator of fair value. The transaction price may differ from the valuation amount obtained, giving rise to a day-one profit or loss.

The difference between the transaction price and the valuation amount, commonly referred to as 'day-one profit or loss', is deferred and either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market-observable inputs or realised when the financial instrument is derecognised.

	2011 Rm	2010 Rm
Balance at the beginning of the year	23	35
Recognised in the statement of comprehensive income – amortisation	(16)	(12)
Balance at the end of the year	7	23

41 LONG-TERM DEBT INSTRUMENTS

	Nominal value	Instrument terms	2011 Rm	2010 Rm
SUBORDINATED DEBT			9 614	10 935
Rand-denominated	**(Rm)**		8 802	10 269
Callable bonds repayable on 4 December 2013 (IPB3) (a)	300	JIBAR + 2,5% per annum**	151	151
Callable notes repayable on 24 April 2016 (NED5) (b) +	1,500	7,85% per annum*		1 525
Callable notes repayable on 20 September 2018 (NED6) (c)	1,800	9,84% per annum*	1 917	1 915
Callable notes repayable on 8 February 2017 (NED7) (b)	650	9,03% per annum*	675	682
Callable notes repayable on 8 February 2019 (NED8) (c)	1,700	8,90% per annum*	1 813	1 759
Callable notes repayable on 6 July 2022 (NED9) (e)	2,000	JIBAR + 0,47% per annum**	2 029	2 031
Callable notes repayable on 15 August 2017 (NED10) (b)	500	JIBAR + 0,45% per annum**	504	504
Callable notes repayable on 17 September 2020 (NED11) (d)	1,000	10,54% per annum*	1 088	1 076
Callable notes repayable on 14 December 2017 (NED12A) (b)	500	JIBAR + 0,70% per annum**	502	502
Callable notes repayable on 14 December 2017 (NED12B) (b)	120	10,38% per annum*	123	124
US dollar-denominated	**(US$m)**		812	666
Callable notes repayable on 3 March 2022 (EMTN01) (h)	100	Three month US dollar LIBOR**	812	666
HYBRID SUBORDINATED DEBT			1 817	1 807
Rand-denominated	**(Rm)**		1 817	1 807
Callable notes repayable on 20 November 2018 (NEDH1A) (f)	487	15,05% per annum*	538	528
Callable notes repayable on 20 November 2018 (NEDH1B) (f)	1,265	JIBAR + 4,75% per annum**	1 279	1 279
SECURITISED LIABILITIES			973	1 154
Rand-denominated	**(Rm)**		973	1 154
Callable notes repayable on 18 November 2039 (GRN1A1) (g) ++	291	JIBAR + 0,25% per annum**		38
Callable notes repayable on 18 November 2039 (GR1A2A) (g)	1,407	JIBAR + 0,60% per annum**	848	991
Callable notes repayable on 18 November 2039 (GRN1B) (g)	98	JIBAR + 0,85% per annum**	74	74
Callable notes repayable on 18 November 2039 (GRN1C) (g)	76	JIBAR + 1,1% per annum**	51	51

	Nominal value	Instrument terms	2011 Rm	2010 Rm
SENIOR UNSECURED DEBT			17 026	12 197
Rand-denominated	**(Rm)**		17 026	12 197
Senior unsecured notes repayable on 9 September 2012 (NBK1B)	1,690	JIBAR + 1,50% per annum**	1 500	1 697
Senior unsecured notes repayable on 15 September 2015 (NBK2A)	3,244	10,55% per annum*	3 347	3 347
Senior unsecured notes repayable on 15 September 2015 (NBK2B)	1,044	JIBAR + 2,20% per annum**	1 054	1 054
Senior unsecured notes repayable on 9 September 2019 (NBK3A)	762	11,39% per annum*	788	788
Senior unsecured notes repayable on 31 March 2013 (NBKI1)	1,750	3,9% real-yield base CPI ref 106,70667*	1 980	1 859
Senior unsecured notes repayable on 28 October 2024 (NBK4)	660	Zero coupon	177	164
Senior unsecured notes repayable on 31 March 2013 (NBKI1U)	98	3,8% real-yield base CPI ref 108,68065*	109	102
Senior unsecured notes repayable on 19 April 2013 (NBK5B)	1,552	JIBAR + 1,48% per annum**	1 574	1 575
Senior unsecured notes repayable on 19 April 2015 (NBK6A)	478	R157 + 1,75% per annum*	487	487
Senior unsecured notes repayable on 19 April 2015 (NBK6B)	1,027	JIBAR + 1,75% per annum**	1 042	1 043
Senior unsecured notes repayable on 19 April 2020 (NBK7B)	80	JIBAR + 2,15% per annum**	81	81
Senior unsecured notes repayable on 24 March 2014 (NBK8A)	450	R206 + 1,28% per annum*	460	
Senior unsecured notes repayable on 24 March 2014 (NBK8B)	988	JIBAR + 1,05% per annum**	989	
Senior unsecured notes repayable on 23 March 2016 (NBK9A)	1,137	R157 + 1,50% per annum*	1 166	
Senior unsecured notes repayable on 23 March 2016 (NBK9B)	677	JIBAR + 1,25% per annum**	678	
Senior unsecured notes repayable on 21 April 2014 (NBK10B)	500	JIBAR + 1,00% per annum**	506	
Senior unsecured notes repayable on 27 October 2014 (NBK11B)	1,075	JIBAR + 0,94% per annum**	1 088	
OTHER			9	8
Rand-denominated	**(Rm)**		9	8
Unsecured debentures repayable on 30 November 2029	200	Zero coupon	9	8
Total long-term debt instruments in issue			29 439	26 101

During the year there were no defaults or breaches of principal, interest or any other terms and conditions of long-term debt instruments. Coupon holders are entitled, in the event of interest default, to put the coupon covering such interest payments to Nedbank Group Limited. The US dollar subordinated-debt instruments are either matched by advances to clients or covered against exchange rate fluctuations. In accordance with the group's memorandum of incorporation the borrowing powers of the group are unlimited.

* *Interest on these notes is payable biannually.*

** *Interest on these notes is payable quarterly.*

\+ *The debt instrument was redeemed on its call date 24 April 2011.*

++ *The debt instrument was redeemed on 18 February 2011.*

(a) *Callable by Nedbank Limited (previously by IBL Asset Finance and Services Ltd), after five years from the date of issue, being 4 December 2008 (ie 4 December 2013) at which time the interest converts to a floating three-month JIBAR rate, plus a spread of 3,75%.*

(b) *Callable by the issuer, Nedbank Limited, after five years from the date of issue, being 8 February 2007, 15 August 2007, 14 December 2007 and 14 December 2007 (ie 8 February 2012, 15 August 2012, 14 December 2012 and 14 December 2012), at which time the interest converts to a floating three-month JIBAR rate, plus a spread of 1,95%, 1,45%, 1,70% and 1,70% respectively.*

(c) *Callable by the issuer, Nedbank Limited, after seven years from the date of issue, being 20 September 2006 and 8 February 2007 (ie 20 September 2013 and 8 February 2014), at which time the interest converts to a floating three-month JIBAR rate, plus a spread of 2,05% and 2,17% respectively.*

(d) *Callable by the issuer, Nedbank Limited, after eight years from the date of issue, being 17 September 2007 (ie 17 September 2015), at which time the interest converts to a floating three-month JIBAR rate, plus a spread of 2,85%.*

(e) *Callable by the issuer, Nedbank Limited, after 10 years from the date of issue, being 6 July 2007 (ie 6 July 2017), at which time the interest will step up by 1,00% to a floating three-month JIBAR rate, plus a spread of 1,47%.*

(f) *Callable by the issuer, Nedbank Limited, after ten and a half years from the date of issue, being 20 May 2008 (ie 20 November 2018), at which the interest converts to a floating three-month JIBAR rate, plus 712,5 basis points in perpetuity, unless called.*

(g) *Callable by the issuer, GreenHouse Funding (Pty) Limited, after approximately five years from the date of issue, being 10 December 2007 (ie 18 November 2012), at which time the interest rate on the notes (GR1A2A, GRN1B, GRN1C) will step up to a three-month JIBAR rate, plus a spread of 0,80%, 1,10% and 1,35% respectively.*

(h) *Callable by the issuer, Nedbank Limited, after eight years from the date of issue, being 3 March 2009 (ie 3 March 2017), at which time the interest rate converts to a floating three-month US dollar LIBOR rate, plus a spread of 3,00%.*

42 CONTINGENT LIABILITIES AND UNDRAWN FACILITIES

	2011 Rm	2010 Rm
Guarantees on behalf of clients	27 763	29 185
Confirmed letters of credit and discounting transactions	2 389	2 114
Irrevocable unutilised facilities and other	76 347	76 182
	106 499	107 481

The group in the ordinary course of business enters into transactions that expose the group to tax, legal and business risks. Provisions are made for known liabilities that are expected to materialise. Possible obligations and known liabilities where no reliable estimate can be made or it is considered improbable that an outflow would result are reported as contingent liabilities. This is in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

There are a number of legal or potential claims against Nedbank Group Limited and its subsidiary companies, the outcome of which cannot at present be foreseen.

As disclosed in the group's 2009 annual financial statements, the largest of these potential actions is a claim in the High Court against Nedbank Limited by certain shareholders in Pinnacle Point Group Limited, alleging that Nedbank Limited had a legal duty of care to them arising from a share swap transaction. During 2011 further actions were instituted against Nedbank Limited by other stakeholders relating to this same issue. Nedbank Limited and its legal advisers remain of the opinion that the claims are ambitious, and that the claimants will have great difficulty succeeding.

Historically, a number of group companies entered into structured finance transactions with third parties using their tax bases. In the majority of these transactions, the underlying third party has contractually agreed to accept the risk of any tax being imposed by the South African Revenue Service (SARS), although the obligation to pay rested in the first instance with the group companies. It would only be in limited cases, for example, where the credit quality of a client became doubtful, or where the client specifically contracted out of the repricing of additional taxes, that the recovery from a client could be less than the liability arising on assessment, in which case provisions would be raised.

43 COMMITMENTS

43.1 CAPITAL EXPENDITURE APPROVED BY DIRECTORS

	2011 Rm	2010 Rm
Contracted	313	518
Not yet contracted	824	520
	1 137	1 038

Funds to meet capital expenditure commitments will be provided from group resources. In addition, capital expenditure is incurred in the normal course of business throughout the year.

43.2 OPERATING LEASE COMMITMENTS

Companies in the group have entered into leases over fixed property, furniture and other equipment for varying periods. The group is a major lessor of properties, which are subject to individual contracts that specify the group's option to renew leases, escalation clauses and purchase options, if applicable. Due to the large number of lease agreements entered into by the group, this information has not been provided in the annual financial statements, but is available from the group on request. The following are the minimum lease payments under non-cancellable leases:

2011	2012 Rm	2012 – 2016 Rm	Beyond 2016 Rm
Land and buildings*	570	996	296
Furniture and equipment	197	859	241
	767	1 855	537

2010	2011 Rm	2011 – 2015 Rm	Beyond 2015 Rm
Land and buildings*	548	1 069	300
Furniture and equipment	162	690	195
	710	1 759	495

* *The group may from time to time enter into sub-leases of properties where it is the lessee. These sub-leases are considered to be immaterial in the context of the group's overall leasing arrangements.*

The terms of renewal and escalation clauses are as follows:

The majority of material leases entered into by the group include an option to renew the lease. If the rental for the renewal period has not been agreed on or determined by the commencement date of the renewal period, the tenant must continue to pay the existing monthly rental. Once the rental is determined, cumulative adjustments will be made to the amount payable for the following month. Escalation clauses for major leases entered into by the group range between 6% and 12% per annum. For all major lease agreements entered into, there is no requirement to pay contingent rent or purchase options.

43.3 COMMITMENTS UNDER DERIVATIVE INSTRUMENTS

The group enters into option contracts, financial futures contracts, forward rate and interest rate swap agreements and other financial agreements in the normal course of business (note 23).

44 COLLATERAL

44.1 COLLATERAL PLEDGED

The group has pledged government and other securities (note 25) and negotiable certificates of deposit (note 22) amounting to R15 022m (2010: R14 180m) as collateral for deposits received under repurchase agreements. These amounts represent assets that have been transferred, but that do not qualify for derecognition under IAS 39.

These transactions are entered into under terms and conditions that are standard industry practice to securities borrowing and lending activities.

44.2 COLLATERAL HELD

The group segregates collateral received into the following two types:

- **Financial collateral**
  The group takes financial collateral to support credit exposures in the trading book. This includes cash and debt securities in respect of derivative transactions.

  These transactions are entered into under terms and conditions that are standard industry practice to securities borrowing and lending activities.

- **Non-financial collateral**
  In secured financial transactions, the group takes other physical collateral to recover outstanding exposure in the event of the borrower being unable or unwilling to fulfil its obligations. This includes mortgages over property (both residential and commercial), liens over business assets (including, but not limited to, plant, vehicles, aircraft, inventories and trade debtors) and guarantees from parties other than the borrower.

  Should a counterparty be unable to settle its obligations, the group takes possession of collateral as full or part settlement of such amounts. In general, the group seeks to dispose of such property and other assets that are not readily convertible into cash as rapidly as the market for the relevant asset permits.

44.3 COLLATERAL TAKEN POSSESSION OF AND RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

During the year under review, the group recognised collateral in the amount of R593m (2010 – R464m) in the statement of financial position. These amounts have been included in loans and advances (note 26) as properties in possession.

45 SECURITISATIONS

Nedbank Limited uses securitisation primarily as a funding diversification tool and to add flexibility in mitigating structural liquidity risk. The group currently has two active traditional securitisation transactions:

- Synthesis Funding Limited (Synthesis), an asset-backed commercial paper (ABCP) programme launched in 2004; and
- GreenHouse Funding (Pty) Limited, Series 1 (GreenHouse), a residential mortgage-backed securitisation programme launched in December 2007.

During October 2011 Octane ABS 1 (Pty) Limited (Octane), a securitisation of motor vehicle loans launched in 2007, exercised its call option. The remaining portfolio of securitised motor vehicle loans were acquired by the group at fair value and the proceeds used by Octane for the full redemption of all outstanding notes.

Synthesis primarily invests in long-term-rated bonds and offers capital market funding to SA corporates. 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 Fitch, and is listed on the JSE Limited.

Within GreenHouse Series 1, R2bn of residential mortgages originated by Nedbank Retail was securitised. The commercial paper issued by GreenHouse has been assigned credit ratings by both Fitch and Moody's and is listed on the JSE Limited. Fitch placed the GreenHouse commercial paper on rating watch negative as a result of changes it is effecting to its rating criteria for SA RMBS transactions and this process is ongoing. As the GreenHouse transaction was undertaken for funding and liquidity purposes, only the senior notes were placed with third party investors and the junior notes and subordinated loans to an SPE and were retained by the group. The assets transferred to the SPE have continued to be recognised as financial assets. GreenHouse continues to direct all capital repayments it receives on the residential mortgage portfolio to noteholders as a result of the stop purchase activated by a breach of the arrear trigger in 2010. The GreenHouse commercial paper is scheduled to be redeemed in November 2012.

The following table shows the carrying amount of securitised assets, stated at the amount of the group's continuing involvement where appropriate, together with the associated liabilities, for each category of asset in the statement of financial position*:

	2011		2010	
Rm	Carrying amount of assets	Associated liabilities	Carrying amount of assets	Associated liabilities
Loans and advances to clients				
– Residential mortgage loans	1 459	1 517	1 699	1 760
– Motor vehicle financing			607	800
Other financial assets				
– Corporate and bank paper	1 452		1 596	
– Other securities	2 498		3 358	
– Commercial paper		4 022		4 979
Total	5 409	5 539	7 260	7 539

* *The value of any derivative instruments taken out to hedge any financial asset or liability is adjusted against such instrument in this disclosure.*

This table presents the gross balances within the securitisation schemes and does not reflect any eliminations of intercompany and cash balances held by the various securitisation vehicles.

46 FOREIGN CURRENCY CONVERSION GUIDE

Monetary figures in these financial statements are expressed in SA rand to the nearest million. The approximate value of the SA rand as at 31 December against the following currencies was:

	2011 Actual	2010 Actual	2011 Average	2010 Average
US dollar	0,1233	0,1503	0,1379	0,1367
Pound sterling	0,0798	0,0969	0,0859	0,0887
Euro	0,0953	0,1125	0,0987	0,1035

47 CASHFLOW INFORMATION

47.1 RECONCILIATION OF PROFIT FROM OPERATIONS TO CASH GENERATED BY OPERATIONS

	2011 Rm	2010 Rm
Profit from operations	7 116	4 773
Adjusted for:		
– Depreciation (note 15)	755	681
– Amortisation: computer software (note 15)	523	475
– Movement in impairment of loans and advances	5 955	6 921
– Profit on disposal of property and equipment		(10)
– Net income on investment banking assets	(10)	(11)
– Impairment losses on investments, property and equipment, and capitalised development costs (note 17)	48	86
– Loss on sale of subsidiaries, investments and property and equipment (note 17)		27
– Indirect taxation (note 16)	413	387
Cash generated by operations	14 800	13 329

47.2 CASH RECEIVED FROM CLIENTS

	2011 Rm	2010 Rm
Interest and similar income (note 12)	41 417	43 421
Commission and fees (note 14)	10 030	8 560
Net trading income (note 14)	2 088	1 909
Other income	12	15
	53 547	53 905

47.3 CASH PAID TO CLIENTS, EMPLOYEES AND SUPPLIERS

	2011 Rm	2010 Rm
Interest expense and similar charges (note 13)	(24 119)	(27 556)
Staff costs (note 15)	(9 343)	(8 014)
Other operating expenses	(6 334)	(5 813)
	(39 796)	(41 383)

47.4 INCREASE IN OPERATING ASSETS

	2011 Rm	2010 Rm
Other short-term securities	(9 760)	(7 547)
Government and other securities	1 676	4 087
Loans and advances and other operating assets	(27 445)	(33 133)
	(35 529)	(36 593)

47.5 INCREASE IN OPERATING LIABILITIES

	2011 Rm	2010 Rm
Current and savings accounts	3 881	2 948
Other deposits, loan accounts and foreign currency liabilities	32 382	14 267
Negotiable certificates of deposit	(12 614)	6 760
Deposits received under repurchase agreements	842	(756)
Creditors and other liabilities	3 867	1 669
	28 358	24 888

	2011 Rm	2010 Rm
47.6 TAXATION PAID		
Amounts receivable at the beginning of the year	364	418
Statement of comprehensive income charge (excluding deferred taxation)	(2 144)	(1 187)
Total indirect taxation (note 16)	(413)	(387)
Portion of transaction taxation on property and equipment acquired to be depreciated in future years	(154)	(72)
Amounts receivable at the end of the year	(602)	(364)
	(2 949)	(1 592)
47.7 ACQUISITION OF INVESTMENTS IN SUBSIDIARY COMPANIES NET OF CASH		
Loans and advances	(475)	
Other assets	92	
Investments in associate companies and joint ventures	(66)	
Deferred taxation asset	21	
Investment property	403	
Intangible assets	85	
Provisions and other liabilities	(42)	
Deferred taxation liabilities	(11)	
Net assets acquired	7	–
Non-controlling interest	(7)	(1 745)
Other reserves		(108)
Consideration paid	–	(1 853)
47.8 DIVIDENDS PAID		
Recognised in the group statement of changes in total shareholders' equity	(1 025)	(996)

48 MANAGED FUNDS

48.1 FAIR VALUE OF FUNDS UNDER MANAGEMENT

	2011 Rm	2010 Rm
SA unit trusts	61 158	55 510
	61 158	55 510

48.2 RECONCILIATION OF MOVEMENT IN FUNDS UNDER MANAGEMENT

	SA Unit trusts Rm
Balance at 31 December 2009	43 247
Inflows	29 615
Outflows	(21 063)
Mark-to-market value adjustment	3 711
Balance at 31 December 2010	55 510
Inflows	27 718
Outflows	(23 857)
Mark-to-market value adjustment	1 787
Balance at 31 December 2011	61 158

The group, through a number of subsidiaries, operates unit trusts. Commissions and fees earned in respect of trust and management activities performed are included in the consolidated statement of comprehensive income as non-interest revenue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER ... CONTINUED

49 SHARE-BASED PAYMENTS

Nedbank Group Limited shares, share options over Nedbank Group Limited shares and equity instruments in respect of Nedbank Group Limited shares are granted to employees as part of their remuneration package as services are rendered, as well as to clients, business partners and affinity groups as an incentive to retain business and develop growth within the group. The following are the share and share option schemes that have been in place during the year. All schemes are equity-settled at group level except the UK long-term incentive scheme which is cash-settled.

As the group cannot estimate reliably the fair value of services received nor the value of additional business received, the group rebuts the presumption that such services and business can be measured reliably. The group therefore measures their fair value by reference to the fair value of the shares, share options or equity instruments granted, in line with the group's accounting policy. The fair value of such shares, share options and equity instruments is measured at the grant date utilising the Black-Scholes valuation model.

49.1 DESCRIPTION OF ARRANGEMENTS

Scheme	Trust/Special-purpose vehicle (SPV)	Description
TRADITIONAL EMPLOYEE SCHEMES		
Nedbank Group (1994) Share Option Scheme	Nedbank Employee Share Trust	Share options were granted to key personnel to motivate senior employees to remain with the group. The granting of share options was based on job level, merit and performance, and was entirely at the discretion of the trustees acting on recommendations of executive management. Grants were made twice a year for new appointments and annually for existing staff, on a date determined by the trustees. The scheme is now closed to new participants and no further shares will be granted.
Nedbank Group (2005) Share Option and Restricted Share Scheme	Nedbank Group (2005) Share Scheme Trust	Share options are granted to key personnel to motivate senior employees to remain with the group. The granting of share options is based on job level, merit and performance, and is entirely at the discretion of the trustees acting on recommendations of executive management. Grants are made twice a year for new appointments and annually for existing staff, on a date determined by the trustees.
Nedbank Group (2005) Matched Share Scheme	Nedbank Group (2005) Share Scheme Trust	All employees of the group are eligible to participate in the scheme. An amount of not more than 50% of their after-tax bonus can be invested which will be matched by the group with shares.
Nedbank UK Long-term Incentive Plan (LTIP)	Nedbank Group (2005) Share Scheme Trust amended to accommodate the UK participants	Employees who perform services in the UK on behalf of the group will be considered for participation in the UK LTIP. Selected employees will be granted share appreciation rights (SARs). SARs are similar to options in that SARs are granted at a predetermined exercised price and vesting and expiry date. When the participant elects to exercise SARs, the employer settles the difference between the current market price and the exercise price in cash.
NEDBANK EYETHU BEE SCHEMES – EMPLOYEES		
Black Executive Scheme	Nedbank Eyethu Black Executive Trust	Restricted shares and share options were granted to certain black employees on a senior management level. The beneficial ownership of the shares resides with the participants, including the voting and dividend rights.
Black Management Scheme	Nedbank Eyethu Black Management Trust	Restricted shares and share options were granted to certain black employees on a middle and senior management level. The beneficial ownership of the shares resides with the participants, including the voting and dividend rights.
Broad-based Employee Scheme*	Nedbank Eyethu Broad-based Employee Trust	Restricted shares were granted to all qualifying employees who do not participate in any other share incentive scheme operating in the group. The beneficial ownership of the shares resides with the participants, including the voting and dividend rights. However, the participants are not entitled to deal in the shares for a period of five years.

* *The Eyethu Broad-based Employee Scheme shares vested on 27 July 2010 and the expiry date to elect an option to sell or transfer these shares expired on 27 September 2010. All the shares residing in the trust were sold.*

Vesting requirements	Maximum term
Share options granted on appointment were time-based, of which 50% vested after three years and the remaining 50% after four years. Annual allocations to existing staff are linked to the achievement of predetermined targets for growth in headline earnings over the performance period of three and four years.	6 years
2008 and 2009 grants: Completion of three years' service plus predetermined target for average return on equity, average fully dilutive headline earnings per share growth and average-cost-to-income-ratio. 2010 and 2011 grants: Three years' service and achievement of performance targets based on average return on equity and Nedbank Group Limited share price performance against the financial index. Where the performance target is not met, 50% will vest, provided that the three years' service has been achieved.	5 years
Three years' service and achievement of Nedbank Group Limited performance target. Where this performance target is not met, 50% will vest provided that the three years' service has been achieved.	3 years
Completion of three or five years' service from grant date, subject to corporate performance targets being met.	5 years
Participants must remain in service for four, five and six years, after each of which 1/3 of the shares become unrestricted and 1/3 of the options vest.	7 years
Participants must remain in service for four, five and six years, after each of which 1/3 of the shares become unrestricted and 1/3 of the options vest.	7 years
n/a	5 years

49 SHARE-BASED PAYMENTS ... CONTINUED

49.1 DESCRIPTION OF ARRANGEMENTS ... CONTINUED

Scheme	Trust/Special-purpose vehicle (SPV)	Description
NEDBANK EYETHU BEE SCHEMES – CLIENTS AND BUSINESS PARTNERS		
Black Business Partner Scheme	Wiphold Financial Services Number Two Trust and Brimstone-Mtha Financial Services Trust	Each trust was issued an equal number of restricted shares at R1,87 per share, with notional funding over a period of 10 years. The beneficial ownership of the shares resides with the participants, including the voting and dividend rights.
Retail Scheme	Nedbank Eyethu Retail Trust	For every three shares acquired participants qualify for an additional bonus share after a three-year period. The participants could elect to settle the payment for the shares in a once-off lump sum payment or by a monthly debit order over 36 months. Should there have been any contractual breach by the participants they would cease to qualify for the bonus shares. The scheme is now closed to new participants and no further shares will be granted.
Corporate Scheme	Nedbank Eyethu Corporate Scheme Trust and Aka–Nedbank Eyethu Trust	Restricted shares were allocated to existing black corporate clients and to Aka Capital (Pty) Limited, a key corporate client that has the role of the black development partner in the scheme, at par value, with notional funding over a period of six years. The beneficial ownership of the shares resided with the participants, including the voting and dividend rights. Should there have been any contractual breach by the participants, they would cease to qualify for these shares. No new grants are being made in terms of the scheme.
NEDBANK SWAZILAND SINAKEKELWE SCHEMES – BEE AND LTIP		
Swaziland Broad-based Employee Scheme	Nedbank Sinakekelwe Trust Broad-based Employee Scheme	Restricted shares were granted to qualifying non-managerial employees who do not participate in any other incentive schemes within the group. The beneficial ownership of the shares lies with the participants, including dividend rights.
Swaziland Management Scheme	Nedbank Sinakekelwe Trust Management Scheme	Restricted shares and share options were granted to key management personnel as an incentive to remain within the group. Grants are allocated on the basis of job level, performance, potential and skills and competencies portrayed by the employee, entirely at the discretion of the trustees and are allocated under recommendation of the group's executive management team. The beneficial ownership of the shares lie with the participants, including dividend rights.
Swaziland Trust Long-term Incentive Scheme	Sinakekelwe Trust Long-term Incentive Scheme	Restricted shares and share options to be granted to key management personnel as an incentive to remain within the group. Grants will be allocated on the basis of job level, performance, potential and skills and competencies portrayed by the employee, entirely at the discretion of the group's executive management team. The beneficial ownership of the shares will lie with the participants, including dividend rights. Grants to staff have yet to be made.

No numerical information has been included in either the share-based payment expense or reserve in respect of these schemes, as the cumulative amount is less than R1m.

Vesting requirements	Maximum term
No dealing in the shares during the 10-year notional funding period.	10 years
Participants were required to operate and maintain a primary transaction account with Nedbank Limited for three years.	3 years
Participants were required to use Nedbank Limited as their primary banker for six years.	6 years
No dealing in these shares during the restricted period of 5 years.	5 years
Participants must remain in service for three, four and five years, after each of which 1/3 of the shares become unrestricted and 1/3 of the options vest.	5 years
Participants must remain in service for three, four and five years, after each of which 1/3 of the shares become unrestricted and 1/3 of the options vest.	5 years

49 SHARE-BASED PAYMENTS ... CONTINUED

49.2 EFFECT ON PROFIT AND FINANCIAL POSITION

	Share-based payments expense		Share-based payments reserve/liability	
	2011 Rm	2010 Rm	2011 Rm	2010 Rm
Traditional employee schemes	260	120	439	193
Nedbank Group (1994) Share Option Scheme	*	*		1
Nedbank Group (2005) Share Option Scheme	251	114	415	166
Nedbank Group (2005) Matched Share Scheme	9	6	24	26
Nedbank UK Long-term Incentive Plan	*	*	*	*
Nedbank Eyethu BEE schemes	66	140	115	446
Black Business Partner Scheme**	11	10		
Retail Scheme	*	*		*
Corporate Scheme	17	101		334
Black Executive Scheme	9	7	24	24
Black Management Scheme	29	22	91	88
	326	260	554	639

* *Represents amounts less than R1m.*

** *The share-based payments expense relating to the Nedbank Eyethu BEE black business partners relates to the annual performance fee paid to them, calculated in terms of the trust deed.*

49.3 MOVEMENTS IN NUMBER OF INSTRUMENTS

	2011		2010	
	Number of instruments	Weighted average exercise price R	Number of instruments	Weighted average exercise price R
Nedbank Group (1994) Share Option Scheme				
Outstanding at the beginning of the year	43 500	74,40	628 280	62,17
Exercised	(25 100)	74,40	(550 330)	61,33
Expired	(18 400)	74,40	(34 450)	60,01
Outstanding at the end of the year	–		43 500	74,40
Exercisable at the end of the year	–	–	43 500	74,40
Weighted average share price for options exercised (R)		140,81		132,82
Nedbank Group (2005) Share Option Scheme				
Outstanding at the beginning of the year	10 977 682	110,79	17 521 060	74,23
Granted	4 405 737		4 358 878	
Forfeited	(2 539 595)		(6 132 658)	126,06
Exercised	(705 372)	102,28	(4 582 881)	100,69
Expired	(54 375)	117,65	(186 717)	141,19
Outstanding at the end of the year	12 084 077		10 977 682	110,79
Exercisable at the end of the year	–	–	708 979	110,79
Weighted average share price for options exercised (R)		130,55		130,79

	2011 Number of instruments	Weighted average exercise price R	2010 Number of instruments	Weighted average exercise price R
Nedbank Group (2005) Matched Share Scheme				
Outstanding at the beginning of the year	649 447		583 048	
Granted	279 831		222 362	
Forfeited	(44 045)		(88 836)	
Exercised	(237 056)		(67 127)	
Outstanding at the end of the year	648 177		649 447	
Exercisable at the end of the year	–	–	–	–
Weighted average share price for options exercised (R)		141,47		138,67
Nedbank UK Long-term Incentive Plan				
Outstanding at the beginning of the year	169 292	17,85	124 904	24,19
Granted			44 388	
Outstanding at the end of the year	169 292	17,85	169 292	17,85
Exercisable at the end of the year	53 274	56,70		
Weighted average share price for options exercised (R)		–		–
Retail Scheme				
Outstanding at the beginning of the year	27		1 398	
Exercised			(1 298)	
Adjusted for anticipated number of shares to be granted			(73)	
Outstanding at the end of the year	27		27	
Exercisable at the end of the year				
Weighted average share price for options exercised (R)				122,65
Corporate Scheme				
Outstanding at the beginning of the year	10 272 919	101,47	9 930 425	108,06
Exercised	(10 272 919)	101,47	(30 506)	107,12
Forfeited			(30 506)	107,12
Other movements			373 000	101,47
Outstanding at the end of the year			10 272 919	101,47
Exercisable at the end of the year				
Weighted average share price for options exercised (R)		129,03		
Black Executive Scheme				
Outstanding at the beginning of the year	868 199	74,57	1 037 537	71,44
Granted	269 781	92,84	237 340	83,81
Forfeited	(29 512)	68,71	(145 452)	77,93
Exercised	(181 588)	61,08	(261 226)	68,67
Outstanding at the end of the year	926 880	82,72	868 199	74,57
Exercisable at the end of the year	56 806	118,99	37 200	102,56
Weighted average share price for options exercised (R)		139,75		133,81
Black Management Scheme				
Outstanding at the beginning of the year	5 759 686	95,08	6 495 351	89,69
Granted	868 849	120,63	1 026 544	114,68
Forfeited	(508 336)	105,33	(1 114 938)	93,89
Exercised	(680 712)	69,70	(647 271)	74,15
Expired	(4 746)	108,10		
Outstanding at the end of the year	5 434 741	101,37	5 759 686	95,08
Exercisable at the end of the year	757 623	95,80	470 084	77,25
Weighted average share price for options exercised (R)		136,95		130,94

49 SHARE-BASED PAYMENTS ... CONTINUED

49.4 INSTRUMENTS OUTSTANDING AT THE END OF THE YEAR BY EXERCISE PRICE

	2011		2010	
	Number of instruments	Weighted average remaining contractual life (years)	Number of instruments	Weighted average remaining contractual life (years)
Nedbank Group (1994) Share Option Scheme				
74,40			43 500	0,3
			43 500	0,3
Nedbank Group (2005) Share Option Scheme				
0,00	12 084 077	1,2	10 268 703	1,4
107,03			137 800	0,6
110,98			556 279	0,2
134,30			8 900	
144,30			6 000	
	12 084 077	1,2	10 977 682	1,6
Nedbank Group (2005) Matched Share Scheme				
0,00	648 177	1,4	649 447	1,2
	648 177		649 447	1,2
Nedbank UK Long-term Incentive Plan				
0,00	146 792	1,6	146 796	2,7
134,30	22 500	1,7	22 500	2,6
	169 292	1,7	169 296	2 7
Retail Scheme				
0,00			27	0,2
			27	0,2
Corporate Scheme				
101,47			10 272 919	0,1
			10 272 919	0,1

	2011		2010	
	Number of instruments	Weighted average remaining contractual life (years)	Number of instruments	Weighted average remaining contractual life (years)
Black Executive Scheme				
0,00	277 416	2,6	274 781	2,4
74,75	16 080	0,6	93 600	1,6
75,74	57 715	4,2	57 715	5,2
104,51	89 707	3,6	89 707	4,6
107,03	13 054	1,6	25 724	2,6
110,98	4 427	1,2	8 724	2,2
120,62	49 006	3,2	65 818	4,2
121,08	189 445	5,2	153 445	6,2
128,44	84 182	6,2		
132,18	11 163	5,6		
134,30	48 000	2,6	48 000	3,6
140,00	60 000	4,6		
144,30	26 685	2,2	50 685	3,2
	926 880	3,8	868 199	3,6
Black Management Scheme				
0,00	395 303	2,3	471 636	2,5
74,75	456 706	0,6	925 666	1,6
75,74	1 003 490	4,2	1 048 445	5,2
104,51	574 170	3,6	650 128	4,6
107,03	132 318	1,6	171 398	2,6
108,45	213 399	4,6	262 330	5,6
110,98	98 915	1,2	141 831	2,2
120,62	533 015	3,2	583 125	4,2
134,30	307 857	2,6	369 150	3,6
144,30	278 135	2,2	282 988	3,2
121,08	381 666	5,2	445 395	6,2
132,18	354 596	5,6	407 594	6,6
128,44	461 201	6,2		
139,69	243 970	4,6		
	5 434 741	3,6	5 759 686	4,0

49 SHARE-BASED PAYMENTS ... CONTINUED

49.5 INSTRUMENTS GRANTED DURING THE YEAR

The weighted average fair value of instruments granted during the year has been calculated using the Black-Scholes option pricing model, using the following inputs and assumptions.

	Nedbank Group (2005) Share Option Scheme	Nedbank Group (2005) Matched Share Scheme	Nedbank UK long-term incentive plan	Black Executive Scheme	Black Management Scheme
2011					
Number of instruments granted	**4 405 737**	**279 831**		**269 781**	**868 312**
Weighted average fair value per instrument ranted (R)***	**127**	**121**		**61**	**40**
Weighted average share price (R)	**134**	**142**		**132**	**133**
Weighted average exercise price (R)				**93**	**121**
Weighted average expected volatility (%)*	**26**	**26**		**27**	**28**
Weighted average life (years)	**3**	**3**		**5**	**6**
Weighted average expected dividends (%)**		**5**		**4**	**5**
Weighted average risk-free interest rate (%)	**7**	**7**		**8**	**8**
Number of participants	**1 319**	**300**		**8**	**473**
Weighted average vesting period (years)	**3**	**3**		**5**	**5**
Possibility of not vesting (%)	**14**	**7**		**5**	**12**
Expectation of meeting performance criteria (%)	**86**	**93**		**95**	**88**
2010					
Number of instruments granted	4 358 878	222 362	44 388	237 340	1 026 544
Weighted average fair value per instrument granted (R)***	125,10	121,46	108,32	60,05	38,89
Weighted average share price (R)	125,10	140,00	124,85	125,00	126,42
Weighted average exercise price (R)				83,81	114,68
Weighted average expected volatility (%)*	24,6	24,5	24,5	24,5	25,8
Weighted average life (years)	3,0	3,0	3,0	5,7	5,9
Weighted average expected dividends (%)**		4,8	4,8	3,4	4,5
Weighted average risk-free interest rate (%)	7,7	7,7	7,7	8,4	8,0
Number of participants	1 109	263	10	7	398
Weighted average vesting period (years)	3,0	3,0	3,0	5,0	5,0
Possibility of not vesting (%)	34	7	10	5	12
Expectation of meeting performance criteria (%)	66	93	90	95	88

* *Expected volatility is determined based on the historical average volatility for shares over their vesting periods. Volatility is determined using expected volatility for all shares listed on the JSE.*
** *The dividend yield used for grants made has been based on forecast dividends.*
*** *Fair Value per instrument has been recalculated in line with a change in the valuation methodology for shares linked to the financial index.*

50 RELATED PARTIES

50.1 RELATIONSHIP WITH PARENT, ULTIMATE CONTROLLING PARTY AND INVESTEES

Nedbank's parent company is Nedbank Group Limited, which holds 100% (2010: 100%) of Nedbank Limited's ordinary shares. The ultimate controlling party is Old Mutual plc, incorporated in the UK.

Material subsidiaries of the group are identified on page 155 and associates and joint ventures of the group are identified on pages 156 and 157.

50.2 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, including all directors of the company and its parent, as well as members of the Executive Committee who are not directors, as well as close members of the family of any of these individuals.

Details of the compensation paid to the board of directors and prescribed officers are disclosed in the Remuneration Report on pages 26 to 38 and details of their shareholdings in the company are disclosed on pages 38 and 39 Compensation paid to the board of directors and compensation paid to other key management personnel, as well as the number of share options and instruments held, are shown below:

	Directors	Key management personnel	Total
Compensation (Rm)			
2011			
Directors' fees	11		11
Remuneration – paid by subsidiaries	35	81	116
Short-term employee benefits	34	81	115
Gain on exercise of options	1		1
	46	81	127
2010			
Directors' fees	11		11
Remuneration – paid by subsidiaries	40	72	112
Short-term employee benefits	28	65	93
Gain on exercise of options	12	7	19
	51	72	123
Number of share options and instruments			
2011			
Outstanding at the beginning of the year	1 737 362	1 247 244	2 984 606
Granted	140 748	622 486	763 234
Forfeited	(132 357)	(135 819)	(268 176)
Exercised	(736 779)	(75 678)	(812 457)
Expired			
Transferred		65 813	65 813
Outstanding at the end of the year	1 008 974	1 724 046	2 733 020
2010			
Outstanding at the beginning of the year	1 601 613	2 181 290	3 782 903
Granted	318 648	436 816	755 464
Forfeited	(4 439)	(262 679)	(267 118)
Exercised	(339 439)	(523 939)	(863 378)
Expired	(152 765)	(270 500)	(423 265)
Transferred	313 744	(313 744)	
Outstanding at the end of the year	1 737 362	1 247 244	2 984 606

50 RELATED PARTIES ... CONTINUED

50.3 RELATED PARTY TRANSACTIONS

Transactions between Nedbank Limited and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between Nedbank Limited and its other related parties are disclosed below. All of these transactions were entered into in the normal course of business.

	Due from/(Owing to)	
Outstanding balances (Rm)	**2011**	**2010**
Parent/Ultimate controlling party		
Deposits owing to Old Mutual Life Assurance Company (SA) Limited	(81)	(13)
Loan due from Old Mutual plc	1 515	1 226
Bank balances due from Old Mutual Life Assurance Company (SA) Limited	(4 194)	(3 587)
Bank accounts owing to Nedbank Group Limited	(805)	(1 680)
Account payable owing to Old Mutual plc	(9)	(8)
Fellow subsidiaries		
Loan due from Old Mutual Asset Managers (SA) (Pty) Limited	708	704
Loans due from Nedgroup Securities (Pty) Limited	3 983	3 552
Loans owing to Nedbank Malawi Limited	(42)	(13)
Loans due from/(owing to) other fellow subsidiaries	184	(7 074)
Deposits owing to Old Mutual Asset Managers (SA) (Pty) Limited	(120)	(77)
Bank balances owing to Old Mutual Asset Managers (SA) (Pty) Limited	(8)	(15)
Bank balances due from Nedgroup Securities (Pty) Limited	472	514
Bank balances owing to Syfrets Securities Limited		(48)
Deposits owing to Syfrets Securities Limited	(1 745)	(1 382)
Deposits due owing to other fellow subsidiaries	(505)	5 784
Bank balances owing to other fellow subsidiaries	(854)	(9 879)
Equity derivatives with fellow subsidiaries	(18)	243
Forward exchange rate contracts with various fellow subsidiaries		3
Interest rate contracts with various fellow subsidiaries	8	17
Associates		
Loans due from associates	377	675
Deposits owing to associates		(57)
Bank balances owing to associates	(8)	(7)

Outstanding balances (Rm)	Due from/(Owing to) 2011	2010
Key management personnel		
Mortgage bonds due from key management personnel	32	18
Deposits owing to key management personnel	(32)	(11)
Deposits owing to entities under the influence of key management personnel	(560)	(795)
Bank balances due from key management personnel	20	39
Bank balances owing to key management personnel	(21)	(6)
Bank balances due from entities under the influence of key management personnel	2	20
Bank balances owing to entities under the influence of key management personnel	(169)	(110)
The Wiphold and Brimstone consortia and Aka Capital (Pty) Limited are related parties since certain key management personnel of the company have significant influence over these entities. These entities are participants in the Nedbank Eyethu BEE schemes, and the share-based payments reserve recognised in respect of these entities and key management personnel is detailed below:		
Wiphold consortium	(108)	(108)
Brimstone consortium	(107)	(107)
Aka Capital (Pty) Limited		(51)
Key management personnel – directors	(40)	(51)
– other	(50)	(20)
Share-based payments reserve	(305)	(337)
Performance fees are also paid to the Wiphold and Brimstone consortia in terms of the Nedbank Eyethu BEE scheme:		
– Wiphold consortium	(6)	(5)
– Brimstone consortium	(5)	(5)
Performance fee liability at year-end	(11)	(10)
Long-term employee benefit plans		
Bank balances owing to Nedgroup Medical Aid Fund	(7)	(5)
Bank balances owing to Nedgroup Pension Fund	(245)	(86)
Bank balances and deposits owing to other funds	(285)	(41)

Transactions (Rm)	Income/(Expense) 2011	2010
Parent/Ultimate controlling party		
Dividend declared to Nedbank Group Limited	(1 025)	(996)
Interest income from Old Mutual plc	110	102
Interest expense to Old Mutual Life Assurance Company (SA) Limited	(339)	(247)
Fellow subsidiaries		
Interest income from Old Mutual Asset Managers (Pty) Limited	49	19
Interest income from fellow subsidiaries	460	1 169
Interest income from Syfrets Securities Limited	55	10
Interest income from Nedgroup Securities (Pty) Limited	239	117
Interest expense to Syfrets Securities Limited	(573)	(526)
Interest expense to other fellow subsidiaries	(88)	(446)
Interest expense to Old Mutual Asset Managers (Pty) Limited	(7)	(8)
Interest expense to Nedgroup Securities (Pty) Limited	(271)	(211)
Management fee income from fellow subsidiaries	48	17

50 RELATED PARTIES ... CONTINUED

50.3 RELATED PARTY TRANSACTIONS ... CONTINUED

Transactions (Rm)	Income/(Expense) 2011	2010
Associates		
Interest income from associates	2	4
Interest expense to associates	(3)	(4)
Key management personnel		
Interest income from key management personnel	1	
Interest income from entities under the influence of key management personnel	111	11
Interest expense to key management personnel	(3)	(4)
Interest expense to entities under the influence of key management personnel	(54)	(39)
The share-based payments charge in respect of the entities that are participants in the Nedbank Eyethu BEE schemes and key management personnel is detailed below:		
Aka Capital (Pty) Limited	(2)	(14)
Key management personnel – other		(1)
Share-based payments expense (included in BEE transaction expenses)	(2)	(15)
Key management personnel – directors	(14)	(24)
– other	(33)	(7)
Share-based payments expense (included in staff costs)	(47)	(31)
Performance fees are also paid to the Wiphold and Brimstone consortiums in terms of the Nedbank Eyethu BEE scheme.		
– Wiphold consortium	(14)	(11)
– Brimstone consortium	(12)	(11)
Performance fee expense	(26)	(22)
Long-term employee benefit plans		
Interest expense to Nedgroup Pension Fund	(5)	(7)
Interest expense to Nedgroup Medical Aid Fund		(1)
Interest expense to other funds	(3)	(3)
The Nedbank Group Pension Fund has an insurance policy (Optiplus policy) with a fellow subsidiary, Old Mutual Life Assurance Company (SA) Limited, in respect of its pension plan obligations. The group has an interest in the OMART cell captive within a fellow subsidiary in respect of its disability-plan obligations. The value of this policy and this interest are shown as reimbursement rights, with a corresponding liability. In the case of the interest in the cell captive, the group recognises the surplus in the cell captive. The amounts included in the financial statements in respect of this policy and this interest are as follows:		
– Optiplus policy reimbursement right	785	806
– OMART policy reimbursement right (note 35.1)	371	373
Included in long-term employee benefit assets	1 156	1 179
Optiplus policy obligation	(785)	(806)
Disability obligation	(284)	(289)
Included in long-term employee benefit liabilities	(1 069)	(1 095)

Where necessary, comparative information has been enhanced to provide a more detailed analysis.

ANALYSIS OF INVESTMENTS IN SUBSIDIARIES

AT 31 DECEMBER

	Group			
	Issued capital		Effective holding	
	2011 Rm	2010 Rm	**2011 Rm**	2010 Rm
Banking**				
Nedbank (Lesotho) Limited	**20**	20	**100**	100
Nedbank (Swaziland) Limited	**12**	13	**65.0**	60.5
Other companies***				
BoE Management Limited	*	*	**100**	100
Nedgroup Investment 102 Limited	**6**	6	**100**	100
Nedcor Investments Limited	**28**	28	**100**	100
Depfin Investments (Pty) Limited	*	*	**100**	100
Peoples Mortgage Limited	**45**	45	**100**	100
BoE Holdings Limited	**2**	2	**100**	100
Nedcor Trade Services Limited (Mauritius)	**2**	2	**100**	100

* *Represents amounts less than R1m.*

** *The banking subsidiary companies are restricted in terms of Basel regulations and prudential requirements with regard to the distributions of funds to their holding company.*

*** *These entities are free of any restrictions imposed on the distribution of funds, save for compliance with any local regulations*

Unless otherwise stated, all entities are domiciled in the Republic of SA.

Headline earnings from subsidiaries (after eliminating intercompany transactions):

	2011 Rm	2010 Rm
Aggregate earnings	**5 592**	3 902
Aggregate losses	**62**	64

General information required in terms of the Companies Act, 71 of 2008 (as amended), is detailed in respect of only those subsidiaries where the financial position or results are material to the group. It is considered that the disclosure in these statements of such information in respect of the remaining subsidiaries would entail expenses out of proportion to the value to members. Other subsidiaries consist of nominees, property-owning and financial holding companies acquired in the course of lending activities.

Nedbank Group Limited will ensure that, except in the case of political risk and unless specifically excluded by public notice in a country where a subsidiary is domiciled, its banking subsidiaries and its principal non-banking subsidiaries are able to meet their contractual liabilities.

ANALYSIS OF INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

AT 31 DECEMBER

	Percentage holding			
	2011 %	2010 %	Acquisition date	Year-end
Unlisted associates				
Ballywood Properties 1 (Pty) Limited**		49	Nov 05	Feb
Bond Choice (Pty) Limited****	29	29	Jun 02	Feb
Capricorn Business and Technology Park (Pty) Limited	41	41	Nov 98	Sept
Century City JV	50	50	Dec 10	Dec
Clidet No 683 (Pty) Limited**		49	Aug 06	Feb
Consep Developments (Pty) Limited	31	31	Dec 07	Feb
Emergent Investments (Pty) Limited***		49	Jul 07	Feb
Erf 7 Sandown (Pty) Limited	35	35	Oct 06	Feb
Falcon Forest Trading 85 (Pty) Limited	30	30	Mar 05	Feb
Firefly Investments 74 (Pty) Limited	35	35	Oct 06	Feb
Friedshelf 113 (Pty) Limited	20	20	Aug 02	Feb
Hazeldean Retreat (Pty) Limited	20	20	Mar 07	Feb
Masingita Property Investment Holdings (Pty) Limited	35	35	Aug 05	Feb
Mooirivier Mall (Pty) Limited**		30	Nov 06	Feb
Nedglen Property Developments (Pty) Limited	35	35	Nov 04	Jun
Newmarket Property Developments JV	40	40	Aug 06	Dec
Odyssey Developments (Pty) Limited	49	49	Nov 07	Jun
Oukraal Developments (Pty) Limited	30	30	Jan 08	Jun
SafDev Tanganani (Pty) Limited	25	25	Oct 08	Jun
TBA Genomineerdes (Pty) Limited	30	30	Jan 03	Jun
The Waterbuck Trust	40	40	Oct 07	Feb
Visigro Investments (Pty) Limited	30	30	Jun 06	Feb
Whirlprops 33 (Pty) Limited****	49	49	Sept 06	Feb
XDV Investments (Pty) Limited	25	25	Nov 06	Jun
Other				

* *Represents amounts less than R1m.*
** *Disposed of during 2011.*
*** *Associate has been consolidated as a subsidiary from October 2011.*
**** *These associates are equity-accounted.*

These associate companies are all property-related companies. There are no regulatory constraints, apart from the provisions of the Companies Act, 71 of 2008 (as amended), that restrict the distribution of funds to the shareholders. Distribution of funds may, however, be restricted by loan agreements that the entities have entered into.

Date to which equity income accounted for	Carrying amount		Market value/ Directors' valuation		Net indebtedness of loans to/(from) associates	
	2011 Rm	2010 Rm	**2011 Rm**	2010 Rm	**2011 Rm**	2010 Rm
		14		14		1
Dec 11	**25**	25	**25**	25		
	11	11	**11**	11	**9**	9
	55	55	**55**	55		
		303		303		166
	*****	16	*****	16	**17**	16
		79		79		66
	38	25	**38**	25	**5**	5
	30	23	**30**	23	**1**	*
	*****	16	*****	16	**7**	7
	58	14	**58**	14	**43**	
	13	12	**13**	12	**9**	9
	56	40	**56**	40	**24**	12
		13		13		83
	15	13	**15**	13		
	*****	10	*****	10	**34**	14
	100	105	**100**	105	**34**	34
	26	27	**26**	27	**15**	15
	12	13	**12**	13		
	7	8	**7**	8	**3**	3
	12	15	**12**	15	**20**	18
	78	83	**78**	83	**(22)**	(20)
Dec 11	*****	*	*****	*		
	*****	*	*****	*		
	29	13	**29**	13	**178**	237
	565	933	**565**	933	**377**	675

NEDBANK GROUP LIMITED COMPLIANCE WITH IFRS* – ANNUAL FINANCIAL STATEMENT NOTES

Note number	Note description	IFRS required
1	PRINCIPAL ACCOUNTING POLICIES	IAS**1
2	STANDARDS AND INTERPRETATIONS	IAS 1
3	KEY ASSUMPTIONS CONCERNING THE FUTURE AND KEY SOURCES OF ESTIMATION	IAS 1
4	CAPITAL MANAGEMENT	IAS 1
5	CONSOLIDATED STATEMENT OF FINANCIAL POSITION - CATEGORIES OF FINANCIAL INSTRUMENTS	IFRS 7
6	FAIR-VALUE MEASUREMENT	IFRS 7
7	LIQUIDITY GAP	IFRS 7
8	CONTRACTUAL MATURITY FOR FINANCIAL LIABILITIES	IFRS 7
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* *International Financial Reporting Standards (IFRS).*

** *International Accounting Standards (IAS).*

*** *International Financial Reporting Interpretations Committee (IFRIC).*

NOTES

RISK AND BALANCE SHEET MANAGEMENT REVIEW

Nedbank Group has a strong risk culture and follows worldclass enterprisewide risk management, which aligns strategy, policies, people, processes, technology and business intelligence in order to evaluate, manage and optimise the opportunities, threats and uncertainties the group may face in its ongoing efforts to maximise sustainable shareholder value. Nedbank Group's vision of building Africa's most admired bank by staff, clients, shareholders, regulators and communities continues to be supported by its long-term objectives, which are referred to internally as Deep Green aspirations.

BACKGROUND TO RISK AND BALANCE SHEET MANAGEMENT IN NEDBANK*

Enterprisewide Risk Management (ERM) integrates risk, finance and balance sheet management across the group's risk universe, including business units and operating divisions, geographical locations and legal entities.

Against this backdrop, all risks – including those associated with sustainability – are managed according to a 'three lines of defence' governance model. It is Nedbank Group's view that a strong risk governance process is the foundation for successful risk management and balance sheet management, which is why this model represents the core of the business's Enterprisewide Risk Management Framework (ERMF). The ERMF places emphasis on accountability, responsibility, independence, reporting, communications and transparency, and comprises 17 key risk categories that are managed, monitored, measured and reported on by the first, second and third line-of-defence functions across the group.

NEDBANK GROUP'S RISK UNIVERSE

NEDBANK GROUP'S RISK TYPES

Accounting and taxation risks	Capital risk	Compliance risk	Credit risk
Information technology risk	Insurance and assurance risk (Underwriting insurance risk; Insurance risk)	Investment risk	Liquidity risk
Market risk (Trading book; Banking book)	New-business risk	Operational risk	People risk
Reputational risk	Social and environmental risk	Strategic risk	Transformation risk

RESPONSIBILITIES OF THE THREE LINES OF DEFENCE

FIRST LINE	The board and management of Nedbank Group are responsible for the implementation and management of risk.
SECOND LINE	Group Risk and Enterprise Governance and Compliance perform a policy-setting and monitoring role to ensure implementation of risk management principles and adherence to regulation and legislation.
THIRD LINE	Group internal audit, external auditors and independent actuaries provide additional assurance on the effectiveness of risk management in the organisation.

* *Audited.*

The 17 key risks that comprise Nedbank Group's risk universe and their materiality are reassessed, reviewed and challenged on a regular basis. The ERMF, in turn, specifically allocates the 17 key risks at each of three levels of responsibility, namely:

- board (non-executive directors) committees;
- executive management committees [at Group Executive Committee (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 risk universe thus occurs regularly, where their status, materiality and effectiveness of management are assessed, reviewed and challenged.

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

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

A residual heat map is used and supports the iterative reassessment of the 17 key risks. Escalation criteria have been formalised and 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.

The ERMF, fully embedded in or business and central functions across Nedbank Group, is supplemented by individual frameworks such as those for risk appetite, credit risk, market risks, 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 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, operational and asset, liability and capital management responsibilities by 11 subcommittees.

Nedbank Group has also developed individual risk frameworks for the effective management of social, environmental and transformation risks. These frameworks serve as best-practice guidelines for the management of risks associated with these pillars of sustainability within the organisation, offering clear governance structures (eg committees, charters and policies) to deal with risks associated with the group's sustainability objectives.

The ERMF thus facilitates effective challenge and debate at executive management and board levels, and strong interaction across the group between the businesses and the independent central group functions.

OUTLOOK FOR 2012

To build on Nedbank Group's solid risk culture, looking forward the strategic emphasis will be placed on the following:

- Becoming client-driven – a key focus for 2012 will be on making Nedbank Group an 'easy place to bank', maintaining a businesslike approach to compliance, with a strong focus on client value management.
- Primary clients and cross-sell – sound risk principles will be maintained, focusing on non-interest revenue (NIR) and primary-client growth, providing assistance to identify cross-selling opportunities, facilitate solutions for new products and services, and align these with risk appetite.
- Risk as an enabler – continue to ensure risk versus reward optimisation. Embedding worldclass risk and balance sheet management will continue as plans are finalised and implemented, with a strategic emphasis to meet the new Basel III requirements.
- Productivity and execution – simplifying policies, charters, and procedures, streamlining internal approval processes, thereby reducing volumes of paper and creating efficiency through consistency.
- Unique and innovative culture – reengineering processes to demonstrate consistent and proactive responses to business needs and offer relevant risk and balance sheet management guidance. Agility and proportionate response to regulation, risk and balance sheet management, and strategy will continue.
- Transformation – embedding transformation, achieving transformation targets, ensuring visible, accessible leadership and strengthening the black talent pipeline will continue as high priorities.
- Green and caring bank – support of the group's carbon-neutral and water balance strategy, ensuring a safe and secure environment for staff and clients, and the further integration of social and environmental risk management in market, credit and operational risk all contribute to engraining the green strategy proactively.

RISK STRATEGY*

A comprehensive risk strategy is in place and forms an integrated component of the group's 2012 to 2014 business plan. The salient features include evolving the strong risk culture and a particular focus on:

- deposits;
- Basel III and Solvency II implementation;
- strategic response of clusters to the Basel III impacts, especially on return on equity and deposits;
- strategic portfolio management via portfolio tilt;
- managing for value, not volume, and delta economic profit growth;
- client value management and exploiting value skews within credit portfolios;
- judicious use, optimisation and allocation of capital, funding and liquidity, information technology spend and expenses;
- credit loss ratios, especially collections and recoveries in home loans and Nedbank Capital;
- risk appetite;
- superior business intelligence and data quality;
- maintaining strong relationships with regulators and other stakeholders; and
- sustainability.

COMPREHENSIVE BASEL II PUBLIC DISCLOSURE REPORT (PILLAR 3)*

The review in this integrated report is merely a summary, focusing mainly on the key risks and balance sheet management components of the group. For the group's comprehensive disclosure on risk and balance sheet management in line with Regulation 43 of the regulations relating to banks in SA based on Basel II, kindly refer to the group's updated Pillar 3 Report that will be released on the group's website at www.nedbankgroup.co.za by 1 April 2012.

HIGHLIGHTS

BALANCE SHEET

CAPITAL ADEQUACY (*Strengthened further due to ongoing risk and capital optimisation, strong earnings and strategic portfolio management.*)

Regulatory capital (RegCap)[1]*		2011 Actual	2011 Pro forma Basel II.5[4]	2011 Pro forma Basel III[5]	2010 Actual
Core Tier 1 capital ratio	(%)	11,0	10,5	10,5	10,1
Total capital ratio[2]	(%)	15,3	14,6	15,0	15,0
Surplus capital over regulatory minimum[3]	(Rm)	19 356			17 662
Dividend cover (2,25 – 2,75 times target range)		2,26x			2,30x

[1] *Including unappropriated profits.*
[2] *R1,5bn of Tier 2 debt capital redeemed and was not replaced in 2011.*
[3] *Based on the South African Reserve Bank (SARB) total minimum required capital ratio (9,5%).*
[4] *Basel II.5 is effective from 1 January 2012.*
[5] *Basel III is effective from 1 January 2013 but the new requirements are phased in over several years.*

Economic capital (ECap)*		2011	2010[7]
Available financial resources (AFR): ECap[6] ratio	(%)	141	147
Surplus AFR over minimum ECap[6] requirements	(Rm)	13 705	13 901

[6] *Includes a 10% capital buffer, based on the group's comprehensive stress testing framework. In line with Basel III investment in insurance entities is no longer deducted from AFR.*
[7] *Restated.*

Internal Capital Adequacy Assessment Process (ICAAP)

- ECap is the group's comprehensive internal measurement of risk and related capital requirements, and forms the basis of the annual ICAAP, signed off by the board. The SARB's Supervisory Review and Evaluation Process (SREP) of Nedbank Group's ICAAP was concluded favourably in Q4 2011 with no issues raised.
- A best-practice stress and scenario testing framework and governance processes are followed to confirm the robustness of the group's capital adequacy position.

Risk-weighted assets (RWA)*		2011	2010
Total RWA	(Rm)	331 980	323 681
RWA: Total assets	(%)	51	53

The integrity and conservatism inherent in the measurement of the group's RWA are confirmed by:

- backtesting of the Basel II risk parameters that determine RWA;
- comprehensive internal governance processes, including independent validation by the Group Risk function;
- regular independent onsite reviews by the SARB and long-form audits by the external auditors; and
- comprehensive use of the Basel risk parameters in running the business of the bank.

The SARB is highly rated internationally as a regulator, especially following SA's successful navigation through the global financial crisis. The World Economic Forum's competitiveness report of 2011 ranked SA as number two in the world in the category Soundness of Banks, and number one in Strength of Auditing and Reporting Standards.

Leverage ratio

- This remains at an appropriate level of 13,7 times (2010: 14,3 times).
- Under Basel III, which includes off-balance-sheet exposure, the ratio would increase to 18,0 times against a group target < 20 times. The Basel III limit is 33,3 times.

* *Audited.*

LIQUIDITY AND FUNDING (*Strengthened and lengthened further in preparation for Basel III.*)

		2011	2010
Total sources of quick liquidity	(Rm)	103 571	78 656
Surplus liquid assets	(Rm)	23 736	6 300
Statutory liquid assets and cash reserves (prudential minimum)	(Rm)	37 751	35 154
Other sources of quick liquidity	(Rm)	42 084	37 202
As a % of total assets	(%)	16,0	12,9
Long-term funding ratio (Q4 average)	(%)	25	24
Senior unsecured debt	(Rm)	17 026	12 197
Retail savings bond	(Rm)	3 994	–
Loan: Deposit ratio	(%)	95,2	96,9
Reliance on negotiable certificates of deposit (original maturity < 12 months)[8]	(%)	13	16
Reliance on interbank funding and foreign markets[8]	(%)	5	4

[8] *As a % of total funding.*

The 2011 Internal Liquidity Adequacy Assessment Process (ILAAP) was successfully completed with the ICAAP, also without any concerns raised by the SARB.

ASSET QUALITY AND BALANCE SHEET IMPAIRMENTS (*Strengthened, increased portfolio impairments and reduced defaulted advances.*)

The asset quality of the group has been enhanced through portfolio tilt, selective origination, proper risk-based pricing, the group's 'manage for value' strategic focus and effective risk management.

		2011	2010
Portfolio impairments (strengthened)	(Rm)	2 748	2 154
As % of performing advances	(%)	0,6	0,5
Specific impairments (improved)*	(Rm)	8 749	9 072
Defaulted advances	(Rm)	23 073	26 765
Coverage ratio	(%)	37,9	33,9
Defaulted advances to gross loans and advances	(%)	4,5	5,5

The increased level of portfolio impairments includes R159m relating to lengthened emergence-period assumptions and R200m in the centre for unknown events that may have already occurred, but which will only be evident in the future.

NET INTEREST MARGIN (*Improved on the back of strong margin management by 11 basis points (bps) in a tough economic environment.*)

	Change in NIM on prior period (bps)	
Net interest margin (NIM) improved from 3,35% to 3,46%	**2011**	2010
Total year-on-year change	11	(4)
Pricing assets fully to reflect risk (including both credit and liquidity risks, enhanced funds transfer pricing, risk-based capital allocation and charging liquidity premiums)	4	5
Benefit in asset mix changes, in line with the portfolio tilt strategy	4	7
Liability pricing and mix change – change in marginal cost of funds	9	2
Prime/Johannesburg Interbank Agreed Rate (JIBAR) reset risk	2	5
Other	2	2
In 2011 the above more than offset the negative effect of:		
• Net endowment	(3)	(19)
• In preparation for Basel III the cost of lengthening the bank's funding profile and carrying higher levels of lower-yielding liquid assets	(7)	(6)

* *Audited.*

RISK AND BALANCE SHEET MANAGEMENT REVIEW
... CONTINUED

CREDIT RISK (*Sound profile, strong credit risk management and conservative risk appetite.*)

SUMMARY OF CREDIT PROFILE

		2011	2010
New loans advanced to clients[9]	(Rm)	116 156	111 631
Gross loans and advances*	(Rm)	507 545	486 499
Net loans and advances (closing year-end balance)*	(Rm)	496 048	475 273

[9] *Substantially offset by early repayments as clients continue to deleverage and the writeoff of defaulted advances.*

		2011	2010
Credit loss ratio (improved 22 bps while strengthening portfolio impairments)	(%)	1,14	1,36
Portfolio	(%)	0,12	0,04
Specific	(%)	1,02	1,32

- Total credit loss ratio (CLR) improved to 1,14%, but remains above the group's 0,6% – 1,0% through-the-cycle (TTC) target range.
- CLR relating to specific impairments improved substantially as defaulted advances decreased by 13,8%, reflecting writeoffs, improved collections processes, ongoing restructuring and other initiatives in home loans.
- Nedbank Retail's CLR of 1,98% (2010: 2,67%) is now within the cluster's TTC target range of 1,5% – 2,2%. Nedbank Capital's CLR of 1,23% remained elevated at levels similar to those of 2010, mainly due to impairment charges on increased non-performing loans.
- CLRs in all other clusters remained within or better than the respective clusters' TTC target ranges.

SOVEREIGN EXPOSURE (The *sovereign debt crisis in the Eurozone remains unresolved, but Nedbank Group's exposure remains very low.*)

	2011		2010	
	Rm	%	Rm	%
Exposure to banks in the Eurozone[10]	9 737	100,0	10 006	100,0
Exposure to banks in the PIIGS[11]	261	2,7	2 487	24,9
Other Eurozone countries	9 476	97,3	7 519	75,1
As a % of balance sheet credit exposure		1,6		1,8

[10] *Includes the 17 European union member states that have adopted the euro as their common currency.*
[11] *PIIGS = Portugal, Ireland, Italy, Greece, Spain.*

	2011		2010	
	Rm	%	Rm	%
Sovereign exposure	49 613	100,0	34 543	100,0
SA government[12]	47 685	96,1	31 754	91,9
Other countries	1 928	3,9	2 789	8,1
Non-SA government exposure as a % of balance sheet credit exposure		0,3		0,5

[12] *Predominantly comprising statutory liquid asset requirements.*

* *Audited.*

MARKET RISKS *(Sound profile, strong market risk management and a low risk appetite.)*

SUMMARY OF MARKET RISKS PROFILE

		2011	2010
Trading (proprietary) market risk (very low)			
% of total group ECap	(%)	1,5	1,6
Total value at risk (VaR) (99%, one-day VaR) exposure (average)*	(Rm)	12	11
Total stressed VaR exposure (year-end) as per Basel II.5	(Rm)	33	22
Equity risk in the banking book (very low)			
Total equity portfolio	(Rm)	4 385	3 919
% of total assets	(%)	0,7	0,6
% of total group ECap	(%)	5,1	5,3
Exposure to hedge funds (zero)	(Rm)	–	–
Interest rate risk in the banking book (positioned for forecast interest rate cycle)			
Net interest income (NII) sensitivity to 1% decline in interest rates (equal and opposite positive NII impact for an increase in interest rates)	(Rm)	(843)	(660)
% of ordinary shareholders' equity (board limit: 2,5%)	(%)	1,7	1,5
Foreign currency translation risk (very low)			
Impact on group's total regulatory capital ratio for 10% change in the value of the rand[13]	(%)	0,07	0,06

[13] *Due to foreign currency translation reserves being currently excluded from qualifying regulatory capital.*

OPERATIONAL RISK *(Sound profile, strong operational risk management and low risk tolerance.)*

		2011	2010
Total operational risk losses	(Rm)	238[14]	240[14]
% change year-on-year	(%)	(0,01)	(0,28)
As a % of gross operating income	(%)	0,73	0,80

[14] *The majority of losses relate to credit card fraud.*

A low level of operational risk loss experience to gross operating income was maintained. Material events were limited. The group managed all losses within the board-approved group operational risk appetite.

SECURITISATION RISK *(Plain vanilla and low risk.)*

		2011	2010
Total assets securitised	(Rm)	2 000[15]	4 000
Total assets outstanding (all performing)	(Rm)	1 462	2 306
As % of total assets	(%)	0,23	0,38
Liquidity facilities provided	(Rm)	4 047	5 009

[15] *Octane ABS 1 (Pty) Limited, a securitisation of motor vehicle loans launched in July 2007, successfully repaid all investors in October 2011.*

INSURANCE RISK *(Sound, low risk appetite.)*

		2011	2010
As % of total group ECap	(%)	0,6	0,7

* *Audited.*

RISK AND BALANCE SHEET MANAGEMENT

(*A strong risk culture prevails throughout the group.*)

ENTERPRISEWIDE RISK MANAGEMENT FRAMEWORK

The group's worldclass ERMF is embedded groupwide and continued to be resilient in 2011, encompassing strong and effective risk management, governance and compliance, fully aligned with the latest international Basel requirements.

Some 2011 salient features include:

- Approval of using the Advanced Measurement Approach (AMA) for operational risk and Internal Model Approach (IMA) for market trading risk was attained from the SARB, effective December 2010 and January 2011 respectively.
- Comprehensive risk appetite framework maintained, with group metrics cascaded down to all business units.
- Risk-based remuneration practices applied since 2008, aligning in all material respects with best practice.
- Significant steps taken to enhance risk management in Nedbank Retail.
- Successful Imperial Bank integration into Nedbank Limited.
- Effective operational and security risk management, containing impact of crime.
- Risks to sustainability, such as environmental and transformation risks, continued to be well managed.
- In respect of the Acc-Ross/Pinnacle Point matter Nedbank Group confirms it has received a summons that alleges that the group, as a marketmaker participant in the single-stock futures (SSF) market, owed the clearing member bearing the risk a legal duty of care to ensure that he/she does not unnecessarily suffer a loss.
  - Nedbank Group does not believe that the claim has merit. On 17 August 2010 the Securities Regulation Panel (SRP) ruled that Nedbank Group's SSF activity in Acc-Ross was not for the purposes of acquiring control.
  - The full details of the ruling and the reasons thereof can be obtained from the SRP website at www.srpanel.co.za, under Publications.
  - The group remains of the view that it cannot be held responsible for any alleged loss suffered that is based on a sharp decline in the Pinnacle Point Group share price either directly or indirectly. Nedbank Group will continue to take all the necessary steps to defend the actions instituted.

BALANCE SHEET MANAGEMENT

Over the past five years or so, and after the global financial crisis, the landscape of banking has changed fundamentally, together with very significant regulatory developments (eg Basel II and now Basel III).

Accordingly, Nedbank Group has embedded worldclass balance sheet management (BSM), fully integrated within the BSM Cluster across the following five core functions:

- Risk management.
- Funding and liquidity management.
- Capital management.
- Margin management.
- Strategic portfolio management (eg portfolio tilt).

REGULATORY UPDATE

(*Significant developments and strategic impact.*)

BASEL III

The majority of the Basel III proposals were finalised by the Financial Stability Board of the Bank of International Settlements in December 2010, although some significant aspects remain outstanding, namely:

- once the observation periods are completed, finalisation of the two new liquidity ratios [ie liquidity coverage ratio (LCR) and net stable funding ratio (NSFR)];
- surcharges for systematically important financial institutions (SIFIs);
- recovery and resolution plans;
- counterparty credit risk capital requirements;
- review of the trading book;
- role of rating agencies;
- large exposures;
- shadow banking;
- principles of banking supervision;
- expectations for capital planning;
- over-the-counter derivatives; and
- review of banks' RWA calculations.

In SA the details of exactly how Basel III will be adopted will be determined by the SARB and, according to their circular 2/2012, draft one of the proposed amended regulations will be issued for comment by the end of March 2012. Draft one is expected to deal with the minimum requirements contained in the Basel III framework, which will be phased in from 1 January 2013. The SARB will continue to issue circulars, directives and guidance notices as and when further decisions are taken.

The strategic impact of Basel III internationally is very significant, changing business models and potentially reducing return on equity (ROE) extensively. SA is well placed, but there is much to do, and the strategic impact will also be significant locally, especially driven by the new liquidity requirements and higher capital levels.

For Nedbank Group the impact of the new capital requirements is expected to be easily manageable, given existing strong capital ratios and the high quality of core Tier 1 equity.

On a Basel III pro forma basis for 31 December 2011 the group is well positioned to absorb the capital implications, with all capital ratios remaining well above the top end of current internal target ranges and the core Tier 1 ratio currently estimated to be unchanged after the Basel II.5 impact mentioned below, mainly due to certain reserves and the portion of investment in insurance entities, which now qualify as regulatory capital, largely offsetting the new capital deductions and risk coverage. This is illustrative of the group's existing high-quality core Tier 1 capital.

- Once Basel III has been finalised by the SARB, Nedbank Group will review and advise of any revisions to its target capital ratios. For now the group continues to operate well above its current Basel II target capital ratios.
- The new Basel II.5 requirements, effective 1 January 2012, have been successfully implemented by Nedbank Group, with a 50 bps decline in the core Tier 1 ratio, mainly due to the additional 6% Advanced Internal Ratings-based (AIRB) credit RWA scaling factor introduced and the switch to stress VaR for market trading risk.
- The main capital-related work relates to the conversion or replacement of the existing non-core Tier 1 and Tier 2 capital instruments in line with the new Basel III full loss absorbency and other requirements (eg no 'stepups' or incentives to redeem), as existing instruments will be phased out over 10 years from 1 January 2013.

- Additional RWA optimisation opportunities still remain (eg full benefit of AMA for operational risk and AIRB credit approach for the MFC book) and are excluded from the 2011 pro forma Basel II.5 and Basel III capital ratios disclosed in this report.

The main challenge of Basel III is in respect of the two proposed liquidity ratios, namely the LCR for implementation in 2015 and the NSFR for implementation in 2018.

- The group together with the industry has remained focused on how best to comply with the LCR, given that banks would need to be compliant ahead of 2015. The building of surplus liquid buffers is an initial, proactive response.
- The impact of NSFR compliance by SA and most banking industries worldwide would be punitive if implemented as the draft requirements currently stand, significantly impacting in a negative way on economic growth and job creation.
- The structural constraints within the SA financial markets add to the local challenge of complying with the LCR and NSFR ratios. However, this is being proactively tackled by the SARB and National Treasury in conjunction with the financial services industry.
- The group anticipates that, following the observation period that commences in 2012, the NSFR requirement will be appropriately adjusted and a pragmatic approach to this issue resolved prior to the implementation in 2018.

SOLVENCY II/SOLVENCY ASSESSMENT AND MEASUREMENT)

Solvency Assessment and Measurement (SAM) is the local Financial Services Board's (FSB)'s new economic risk-based solvency regime for SA insurers, which closely follows international regulatory trends, in particular Solvency II. SAM affects the Nedbank Wealth Cluster and implementation, which is set for 1 January 2014, is on track, with an immaterial impact on existing solvency or capital levels.

PORTFOLIO TILT

Portfolio tilt and maximising economic profit (EP) form part of the four key strategic focus areas of Nedbank Group, a carefully structured, integral and holistic component of the group's 'manage for value' emphasis, involving strategic portfolio management and client value management. In the group's three-year business plan granular targets have been formalised across the balance sheet and income statement, and cascaded down to each business unit.

The targets are for the medium to long term and have to be achieved over the next three to five years, depending on macroeconomic factors. They are intended to be somewhat aspirational and directional, aligned with the agreed portfolio tilts. Clearly to the extent that the market is not growing and/or is behaving irrationally, this will impact the timing by when the targeted tilts, and optional balance sheet shape and mix, are achieved.

KEY OBJECTIVES OF PORTFOLIO TILT

- Target an optimal balance sheet and income statement shape and mix.
- Maximise EP and ROE via optimising EP-rich activities.
- Optimise the strategic impact of Basel III.
- Further strengthen the group's balance sheet and long-term sustainability.
- Reduce TTC earnings volatility.
- Optimise the risk profile versus return of the group, aligned with the approved risk appetite.
- Embed a culture of client value management in all businesses (and exploit the value skews within portfolios, pursuing selective origination where appropriate).
- Optimise to invest [capital, liquidity, information technology (IT) innovation spend and expenses reallocated to strategic priorities].

KEY CONSIDERATIONS WHEN SETTING PORTFOLIO TILT

- Delta EP growth, being the primary driver of shareholder value-add.
- Growth of market share by economic value or EP more important than volume or asset size.
- Strategic impact of Basel III on the various businesses, portfolios, products and transactions across the group.
- Emphasising capital and liquidity 'light' areas, and being judicious in the allocation of capital and funding.
- Differentiated, selective growth strategies within portfolios and products, eg home loans.
- Differentiation between frontbook versus back-book economics within portfolios.
- Client and transactional emphasis over a product-based approach.
- Cross-sell opportunity between businesses and products.
- Risk appetite, including concentration risk.
- Overlay of current and forecast economic cycles.
- Non-financial strategic considerations, eg 'green advances' and sustainability.
- Investing for the future to grow the franchise.

UNDERLYING BASIS OF TARGETED TILT

DEPOSITS

- Focus on transactional (primary clients) deposits, linking with NIR growth strategy.
- Enhance the deposits mix and reduce wholesale funding reliance.
- Increase corporate and business bank deposits to relative market share.
- Retain strong retail household deposit market share position.

LOANS AND ADVANCES

Differentiated origination by growing higher/in line/below (ie selectively) versus market, by credit portfolio.

Revised if risk versus return profile changes, and with consideration of the forecast economic cycle.

NON-BANKING

Targeting high growth in Nedbank Wealth, especially insurance and asset management.

NIR TO NII MIX

- Significant NIR growth in all businesses.
- Positive shift overall in the group's NII/NIR mix and NIR/expenses ratio.
- 'Manage for value', properly pricing for risk (eg credit and liquidity), funds transfer pricing and risk-based ECap allocation to optimise NII.

CAPITAL AND LIQUIDITY ALLOCATION

- Proactive preparation for and strategic optimisation of Basel III.
- Risk versus return enhancement – generally a shift to higher-EP-generating businesses.

RISK AND BALANCE SHEET MANAGEMENT REVIEW
... CONTINUED

- Nedbank Retail from negative to positive EP, on a sustainable basis.
- Shift towards lower capital/liquidity-demanding businesses, eg Nedbank Wealth and Nedbank Capital.
- Reduce earnings volatility risk, balance sheet duration and areas of undue concentration risk.
- Grow core Tier 1 capital ratio, reduce Tier 2 capital ratio.
- Lengthen funding profile.

PRIORITISATION AND EFFICIENCY

- IT simplification, rationalisation and innovation spend prioritisation.
- Cost optimisation for reinvestment in strategic priorities.

SEVERAL PORTFOLIO TILT SUCCESSES TO DATE

Achieving portfolio tilt in the current economic environment is challenging and likely to take three to five years to attain the desired balance sheet mix, while awaiting Basel III finalisation.

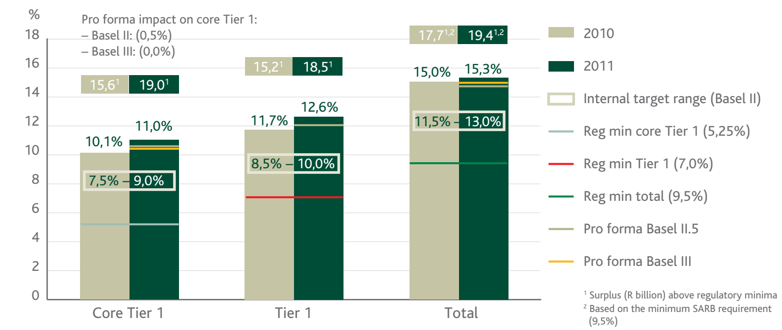
However, several successes have been achieved to date, since the group's focus on portfolio tilt began two years ago:

	CAGR[1] %	2011 Rm	2010 Rm	2009 Rm
Examples of high-growth areas				
NIR	13,8	15 412*	13 215*	11 906
Wealth				
Value of new business (insurance)	47,9	409	295	187
Embedded value[2] (insurance)	38,4	1 522	1 031	795
Assets under management (asset management)	13,4	112 231	102 570	87 204
Assets				
Leases and instalment debtors[3,4]	5,3	71 168	67 881	64 128
Personal loans	37,0	17 847	13 001	9 508
Card	8,7	8 666	7 910	7 334
Surplus liquid assets		23 736	6 300	7 556
Deposits				
Retail Savings Bond		3 945		
Long-term funding ratio		25%	24%	21%
Retail cluster delta EP	>100	1 380	634	(1 925)
Core Tier 1 capital ratio		11,0	10,1	9,9
Examples of selective origination				
Advances				
Home loans (in Retail)	(1,1)	91 018	92 009	93 052
Pre-2009	(13,2)	64 606	73 947	85 662
2009 – 2011	89,1	26 412	18 062	7 390
Commercial mortgages[5]	5,3	89 488	86 100	80 672

[1] Capital adequacy growth rate.
[2] After dividends paid out.
[3] 31% market share.
[4] Assets of Imperial Bank fully consolidated historically, but 100% of the earnings only since 2010 upon acquisition of remaining 50% of the business.
[5] 37% market share.

Additionally, the portfolio tilt success to date has further strengthened Nedbank Group's balance sheet, risk profile, preparation for Basel III and long-term sustainability.

NEDBANK GROUP REGULATORY CAPITAL ADEQUACY



CAPITAL ADEQUACY

REGULATORY CAPITAL ADEQUACY

Capital adequacy ratios

%	Current SARB minimum	Current target ranges	Nedbank Group actual 2011	Nedbank Group actual 2010	Nedbank Group Pro forma Basel II.5 2011	Nedbank Group Pro forma Basel III 2011	Nedbank Limited actual 2011	Nedbank Limited actual 2010
Including unappropriated profits								
Core Tier 1		7,5 – 9,0	11,0	10,1	10,5	10,5	10,7	9,3
Tier 1		8,5 – 10,0	12,6	11,7	12,0	12,0	12,5	11,1
Total		11,5 – 13,0	15,3	15,0	14,6	15,0	15,8	14,9
Excluding unappropriated profits								
Core Tier 1	5,25		10,3	9,8			10,1	9,0
Tier 1	7,00		11,9	11,4			11,9	10,8
Total	9,50		14,7	14,6			15,1	14,6

Nedbank Group's capital adequacy ratios (CARs) strengthened again in 2011, mainly due to a R418m increase in ordinary share capital from the vesting of shares under the black economic empowerment (BEE) and management share schemes, and additional capital supply of R4,5bn following further strong organic earnings, risk and capital optimisation, including a R3,6bn reduction in market risk RWA with the adoption from January 2011 of the IMA approved by the SARB and the strategic focus on 'managing for value' and portfolio tilt strategies. Total CARs were, however, impacted by the redemption of the Nedbank Limited Tier 2 bond (Ned 5) of R1,5bn.

The group's CARs remain well above the regulator's minimum Basel II requirements and group's internal targets in preparation for Basel III.

Given the predominant focus on the core Tier 1 ratio by Basel III and new requirements to ensure all classes of capital instruments fully absorb losses, all of which will be phased in from January 2013 onwards, as well as in consideration of Nedbank Group's high total CAR of 15,3%, the Ned 5 was called in April 2011 without being replaced.

Nedbank Limited's CARs have also strengthened consistent with those of the group.

The group has successfully implemented Basel II.5, effective 1 January 2012. The impact of the new Basel III capital requirements is expected to be easily manageable, given existing strong capital ratios and the high quality of core Tier 1 equity. On a Basel II.5 (50 bps negative impact) and Basel III (neutral impact after Basel II.5 impact) pro forma basis for 31 December 2011 the group is in a position to absorb the Basel II.5 and III capital implications comfortably, with all capital ratios remaining well above the top end of current internal target ranges, as illustrated above.

By the end of 2013 the CARs should improve further from projected earnings and be well positioned within the anticipated revised Basel III target ranges, even before considering the effects of the group's portfolio tilt strategy and further RWA optimisation opportunities.

Once Basel III has been finalised by the SARB Nedbank Group will finalise and communicate its revised target capital ratios. For now Nedbank continues to operate well above its current Basel II target CARs.

Consolidation of entities for regulatory purposes is performed in accordance with the requirements of Basel II, the Banks Act and accompanying regulations. There are some differences in the basis of consolidation for accounting and regulatory purposes. These include the exclusion of certain accounting reserves [eg the foreign currency translation (FCT) reserve, share-based payments (SBP) reserve and available-for-sale (AFS) reserve], the deduction of the investment in insurance entities and the exclusion of trusts that are consolidated in terms of International Financial Reporting Standards (IFRS) but are not currently subject to regulatory consolidation. However, in accordance with the SARB circular 2/2012 these reserves will qualify as regulatory capital under Basel III from 1 January 2013.

The FCT, SBP and AFS reserves that arise in the consolidation of entities in terms of IFRS amounted to R1,5bn (2010: R1,0bn) and are currently excluded from qualifying regulatory capital.

Restrictions on the transfer of funds and regulatory capital within the group are not a material factor. These restrictions mainly relate to those entities that operate in countries other than SA where there are exchange control restrictions in place.

* *Audited.*

SUMMARY OF RWA, MINIMUM REQUIRED CAPITAL AND SURPLUS CAPITAL ADEQUACY POSITION

	NEDBANK GROUP		
Risk type	2011		
Rm	RWA	Mix (%)	MRC[1]
Credit risk	249 960	75	23 746
Advanced Internal Ratings-based (AIRB) Approach	192 167	58	18 256
Corporate, sovereign, bank, SME[4]	107 379	32	10 201
Residential mortgages	41 618	13	3 954
Qualifying revolving retail	8 957	3	851
Other retail	34 213	10	3 250
Standardised Approach	57 793	17	5 490
Corporate, sovereign, bank, SME[4]	17 061	5	1 621
Retail exposures	40 732	12	3 870
Counterparty credit risk	2 352	1	223
Current exposure method			
Securitisation risk	800	<1	76
AIRB Approach			
Equity risk	14 451	5	1 373
Market-based Simple Risk Weight Approach			
Listed (300% risk weighting)	2 387	1	227
Unlisted (400% risk weighting)	12 064	4	1 146
Market risk	3 775	1	359
Internal Model Approach			
Operational risk	46 251	14	4 394
Advanced Measurement Approach			
Other assets	14 391	4	1 367
100% risk weighting			
Total RWA	331 980	100	
Total MRC (9,5%)			31 538
Pillar 1 MRC (8,0%)			26 558
Pillar 2a MRC (1,5%)			4 980
Total qualifying capital and reserves[2]			50 894
Total surplus capital over MRC			19 356
Analysis of total surplus capital[2]			
Core Tier 1			18 975
Tier 1			18 478
Total			19 356

[1] *Minimum required capital (MRC) is measured at 9,5% in line with SARB regulations and circular 5/2011. 2010 numbers have been restated by R7m.*
[2] *Includes unappropriated profits.*
[3] *Nedbank Limited refers to the SA reporting entity in terms of Regulation 38 (BA700) of the SA banking regulations.*
[4] *SME = small and medium-sized enterprises.*

Credit RWA increased in line with the loans and advances growth, offset to a limited degree by the impact of RWA optimisation.

Counterparty credit risk RWA decreased primarily due to additional netting benefits derived from International Swaps and Derivatives Association (ISDA) agreements and collateral taken in terms of margining agreements.

Market risk RWA decreased following the adoption of the IMA from January 2011.

Operational RWA increased in line with the AMA gross operating income threshold as approved by the SARB.

NEDBANK GROUP			NEDBANK LIMITED[3]					
2010			2011			2010		
RWA	Mix (%)	MRC[1]	RWA	Mix (%)	MRC[1]	RWA	Mix (%)	MRC[1]
241 381	76	22 931	224 822	77	21 358	220 374	76	20 936
188 610	59	17 918	179 023	61	17 007	176 680	61	16 785
106 312	33	10 100	95 019	32	9 027	95 545	33	9 077
46 305	14	4 399	40 833	14	3 879	45 141	16	4 288
8 489	3	806	8 957	3	851	8 490	3	807
27 504	9	2 613	34 214	12	3 250	27 504	9	2 613
52 771	17	5 013	45 799	16	4 351	43 694	15	4 151
17 645	6	1 676	9 339	3	887	12 111	4	1 151
35 126	11	3 337	36 460	13	3 464	31 583	11	3 000
4 543	1	432	2 282	1	217	4 476	2	425
869	<1	83	800	<1	76	869	<1	83
13 273	4	1 261	12 886	4	1 224	10 829	4	1 029
1 605		152	2 373	1	225	1 596	1	152
11 668	4	1 108	10 513	3	999	9 233	3	877
7 339	2	697	2 458	1	234	6 373	2	605
43 415	13	4 124	38 567	13	3 664	35 693	12	3 391
12 861	4	1 222	10 804	4	1 026	9 721	4	923
323 681	100		292 619	100		288 335	100	
		30 750			27 799			27 392
		25 894			23 410			23 067
		4 855			4 389			4 325
		48 412			46 233			42 860
		17 662			18 434			15 468
		15 596			16 018			11 571
		15 243			16 210			11 838
		17 662			18 434			15 468

SUMMARY OF QUALIFYING CAPITAL AND RESERVES

Including unappropriated profits	NEDBANK GROUP		NEDBANK LIMITED	
Rm	2011	2010[1]	2011	2010
Total Tier 1 capital (primary)	41 717	37 901	36 693	32 021
Core Tier 1 capital	36 404	32 589	31 380	26 709
Ordinary share capital and premium*	16 389	15 971	14 461	14 461
Minority interest: ordinary shareholders*	178	153		
Reserves*	32 558	28 130	21 913	17 605
Deductions	(12 721)	(11 665)	(4 994)	(5 357)
Impairments	(263)	(10)	(444)	(720)
Goodwill*	(4 996)	(4 945)	(1 410)	(1 410)
Capitalised software development costs*	(2 211)	(1 998)	(2 157)	(1 936)
Other intangibles*	(571)	(551)[1]		
Excess of downturn expected loss over eligible provisions (50%)	(729)	(866)	(802)	(869)
Available-for-sale reserves*	(77)	(98)	(9)	(9)
Foreign currency translation reserves*	(441)	20	(9)	(9)
Share-based payments reserves*	(975)	(949)	823	557
Property revaluation reserves*	(1 370)	(1 146)	(969)	(747)
Capital held in insurance entities (50%)	(669)	(562)		
Other regulatory differences	(419)	(560)	(17)	(214)
Non-core Tier 1 capital	5 313	5 312	5 313	5 312
Preference share capital and premium*	3 561	3 560	3 561	3 560
Hybrid debt capital instruments	1 752	1 752	1 752	1 752
Tier 2 capital (secondary)	9 177	10 511	9 540	10 839
Long-term debt instruments	9 502	11 000	9 500	10 998
Property revaluation reserves (50%)	685	573	485	374
Deductions	(1 010)	(1 062)	(445)	(533)
Capital held in insurance entities (50%)	(669)	(562)		
Excess of downturn expected loss over eligible provisions (50%)	(729)	(866)	(802)	(869)
General allowance for credit impairments	401	410	370	380
Other regulatory differences	(13)	(44)	(13)	(44)
Total qualifying capital and reserves	50 894	48 412	46 233	42 860
Excluding unappropriated profits				
Core Tier 1 capital	34 206	31 542	29 440	25 937
Total Tier 1 capital (primary)	39 519	36 854	34 753	31 249
Total qualifying capital and reserves	48 696	47 365	44 293	42 088

[1] *2010 has been restated by R7m.*

The Nedbank Group total qualifying capital and reserves increased by R2,5bn due to strong organic earnings for 2011 and after profit distributions (ordinary and preference dividend payments), an increase in regulatory deductions such as the FCT reserve and higher capitalised software development costs, and the redemption of the Nedbank Limited Ned 5 (R1,5bn) on 27 April 2011 without being replaced.

The group has a dividend cover policy range of 2,25 to 2,75 times cover by headline earnings per share, with an average dividend cover of 2,26 times for 2011.

SUMMARY OF REGULATORY CAPITAL ADEQUACY OF ALL BANKING SUBSIDIARIES

A summary of all other banking subsidiaries' regulatory capital positions is provided below, reported based on their host country requirements.

Excluding unappropriated profits*	2011[3]			2010[3]		
Bank[1]	RWA Rm	Core Tier 1 ratio %	Total capital ratio %	RWA Rm	Core Tier 1 ratio %	Total capital ratio %
Nedbank Namibia Limited	5 590	11,4	14,3	5 067	10,4	13,5
Fairbairn Private Bank (IOM) Limited	2 451	15,1	15,4	1 729	17,6	18,2
Fairbairn Private Bank Limited	1 484	16,7	17,3	1 400	13,6	14,7
Nedbank (Swaziland) Limited[2]	1 907		16,3	1 290		20,2
MBCA Bank Limited[2]	1 076		15,5	761		15,3
Nedbank (Lesotho) Limited[2]	961		24,2	984		20,6
Nedbank (Malawi) Limited[2]	212		31,8	232		22,8

[1] *Nedbank Limited has been separately disclosed on previous pages.*
[2] *Core Tier 1 ratios are not calculated/included in the host country capital adequacy returns being submitted in the respective jurisdictions.*
[3] *2011 capital adequacy positions are based on host countries capital requirements, while 2010 capital positions are based on Basel II requirements.*

The capitalisation of all above banking entities is deemed adequate, all have conservative risk profiles and risk appetites, and are managed, monitored and integrated within the group's ERMF and ICAAP.

SUMMARY OF SOLVENCY OF INSURANCE SUBSIDIARIES

Solvency ratios	Regulatory minimum	Target range[1]	**2011**	2010
Long-term insurance (Nedgroup Life)	1,00x	> 1,50x	**4,10x**	4,00x
Short-term insurance (Nedgroup Insurance Company)	1,25x	> 1,50x	**1,41x**	1,38x

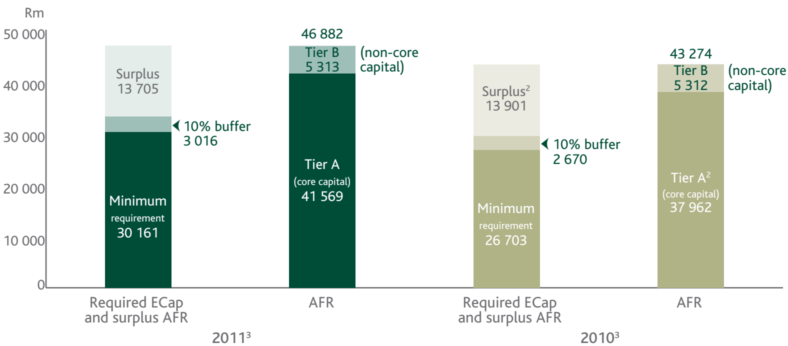
[1] *Management target range is based on the greater of regulatory and economic capital.*

The long-term insurance ratio is well above the regulatory minimum limit and management target ratio. It is higher due to higher shareholder assets being retained within the company. This is because of strong profit flows during the last quarter of 2011 and because of management's requirement to hold economic capital, which is higher than the regulatory capital requirement.

The short-term insurance ratio improved from 1,38 times to 1,41 times. However, the ratio is below the group target ratio of 1,5 times. In terms of the current FSB solvency and the proposed interim measures effective from 1 January 2012, the company is well capitalised and exceeds the minimum requirements under both methodologies. Management's mitigating plan of action to achieve the target of 1,5 times is to not declare dividends and to continue accumulating surpluses until the desired level is achieved.

ECONOMIC CAPITAL ADEQUACY AND ICAAP

NEDBANK GROUP ECONOMIC CAPITAL ADEQUACY



[1] *Including unappropriated profits.*
[2] *Restated Tier A after a R7m correction of 'other intangibles" in 2010.*
[3] *Tier A capital no longer includes as a deduction of capital held in insurance entities in line with Basel III.*

Nedbank Group's ICAAP confirms that the group and Nedbank Limited are capitalised above its current 'A' or 99,93% target debt rating (solvency standard) in terms of its proprietary economic capital methodology. This includes a 10% capital buffer.

The annual group ICAAP review was completed and signed off by the board on 27 July 2011. Best-practice stress and scenario testing was performed to confirm the robustness of the group's capital adequacy and appropriateness of the 10% capital buffer, details of which are set out in the group's Pillar 3 Report.

The board's conclusion on the ICAAP submitted to the SARB is that it remains satisfied that the capital (both regulatory capital and economic capital) and liquidity levels are appropriate, and that both Nedbank Group and Nedbank Limited are strongly capitalised relative to their business activities, strategy, risk appetite, risk profile and the external environment in which the group operates, and that their liquidity profile is sound (a separate ILAAP Report supports this view).

The SARB's SREP of the ICAAP and ILAAP during the fourth quarter of 2011 was favourable and no concerns were raised.

Enhancements made to the group's economic capital methodology in 2011, which impact the capital allocated to the business clusters, include:

- Full tail risk' allocation for credit risk economic capital, which aligns with the Basel III developments. The group previously applied a '1/3 body and 2/3 tail' weighting.
- Credit portfolio modelling correlations update, which is done annually.
- Instead of applying a flat average loss given default (LGD) for all home loans, using LGD parameters depending on the respective loan-to-value bands (significantly more conservative, with the home loans cap rate increasing from 3,1% to 5,2%).
- Using simpler capital buffer allocation methodology directly related to the clusters' minimum economic capital requirements.
- Refining and updating parameters used in the business risk methodology using more recent data.

In line with Basel III capital held in insurance entities is no longer deducted from AFR.

Definitions and details of Nedbank Group's risk types and economic capital methodology are contained in the group's Pillar 3 Report.

NEDBANK GROUP ECAP REQUIREMENTS AND AFR

	2011		2010	
	Rm	Mix (%)	Rm	Mix (%)
Credit risk	19 031	63	15 396	58
Counterparty credit risk	55	0	92	0
Securitisation risk	13	0	18	0
Transfer risk	118	0	89	0
Market risk	3 499	12	3 340	12
Trading risk	447	2	424	2
Interest rate risk in the banking book (IRRBB)	22	0	27	0
Property risk	1 430	5	1 436	5
Equity investment risk	1 533	5	1 421	5
Foreign currency translation (FCT) risk	67	0	32	0
Business risk	4 664	15	4 715	18
Operational risk	1 966	7	1 997	8
Insurance risk	188	1	192	1
Other assets risk	627	2	864	3
Minimum ECap requirement	30 161	100	26 703	100
Capital buffer (10%)	3 016		2 670	
Total ECap requirement	33 177		29 373	
AFR	46 882	100	43 274	100
Tier A capital (core Tier 1-type capital)	41 569	88	37 962[1]	87
Tier B capital (non-core Tier 1-type capital; excludes Tier 2 capital)	5 313	12	5 312	13
Total surplus AFR	13 705		13 901	

[1] *2010 has been restated by R7m.*

* *Audited.*

Total ECap requirements (including a 10% buffer) increased by R3,8bn in 2011, largely due to the impact of the more conservative credit risk methodology change applied to the Home Loans portfolio within the Retail Cluster.

AFR increased by R3,6bn due to similar reasons as for regulatory qualifying capital and reserves discussed earlier.

NEDBANK GROUP AFR ANALYSIS

Rm	2011	2010
Tier A capital	41 569	37 962[1]
Ordinary share capital and premium*	16 389	15 971
Minority interest: ordinary shareholders*	178	153
Reserves*	32 548	28 130
Retained income*	29 559	25 833
Non-distributable reserves*	126	124
AFS reserves*	77	98
FCT reserves*	441	(20)
SBP reserves*	975	949
Property revaluation reserves*	1 370	1 146
Deductions	(8 463)	(8 108)
Impairments	(263)	(10)
Goodwill*	(4 996)	(4 945)
Capitalised software development costs*	(2 211)	(1 998)
Other intangibles*	(571)	(551)[1]
Capital held in insurance entities[2]*		
Other adjustments	(422)	(604)
Excess of IFRS provisions over TTC expected loss	927	1 816
Tier B capital	5 313	5 312
Preference shares*	3 561	3 560
Hybrid debt capital instruments	1 752	1 752
Total AFR	46 882	43 274

[1] *2010 has been restated by R7m.*
[2] *In line with Basel III capital held in insurance entities is no longer deducted from AFR.*

The R889m decrease in 'Excess of IFRS provisions over TTC expected loss' is due to the more conservative credit risk economic capital methodology introduced in 2011, especially in home loans.

STRESS TESTING

Nedbank Group has a comprehensive stress and scenario testing framework which is used, inter alia, to stress its base case projections in order to assess the adequacy of Nedbank Group's capital levels, buffers and target ratios. The framework has been in place since 2006 and is an integral part of the group's ICAAP.

The group's stress and scenario testing recognises and estimates the potential volatility of the capital requirements and base case (expected) three-year business plan projections, including the key assumptions and sensitivities contained therein, which themselves are subject to fluctuation. Stress and scenario testing is performed and reported quarterly or more regularly if called upon.

The process includes benchmarking to the international stress testing exercises that have been conducted post the global financial crisis as part of the group's stress and scenario testing framework. In the European Banking Association stress testing exercise Nedbank Group compared favourably by being in the top 10% of the European banks that participated. The results of the Irish Central Bank and the recent US Federal Reserve stress testing exercise also show that Nedbank Group's stressed capital ratios are far above regulatory minima. These stress testing scenarios, together with Nedbank Group's comprehensive internal stress testing scenarios, support and confirm Nedbank Group's strong capital adequacy.

This is further supported by the SARB's recent onsite review of Nedbank Group's ICAAP in Q4 2011, which was concluded favourably with no issues raised.

* *Audited.*

RISK-BASED CAPITAL ALLOCATION TO BUSINESS CLUSTERS

Summary of ECap allocation and economic profit (by business cluster)[1]

Rm	Nedbank Capital	Nedbank Corporate	Nedbank Business Banking	Nedbank Retail	Nedbank Wealth	Central Management	Nedbank Group
2011							
Credit risk	1 579	3 405	2 000	10 427	641	65	18 117
Counterparty credit risk	41	16	10				67
Securitisation risk	13						13
Transfer risk	66	28				14	108
Market risk	1 243	542	5	168	138	1 379	3 475
Trading risk	423	23			2		448
IRRBB risk	2	4	2	13	1		22
Property risk		41	3	150	6	1 232	1 432
Investment risk	790	466		5	111	141	1 513
FCT risk	28	8			18	6	60
Business risk	713	702	483	2 278	293	1	4 470
Operational risk	530	515	419	407	50	61	1 982
Insurance risk					201		201
Other assets risk	37	89	7	150	43	267	593
Minimum ECap requirement	4 222	5 297	2 924	13 430	1 366	1 787	29 026
Capital buffer[2]	1 113	1 399	772	3 533	248	12 856	19 921
Total capital allocated	5 335	6 696	3 696	16 963	1 614	14 643	48 947
Economic profit	531	801	372	(203)	415	(992)	924
2010							
Credit risk	1 113	3 486	1 635	8 657	547	14	15 452
Counterparty credit risk	43	28	3				74
Securitisation risk	13						13
Transfer risk	86	34					120
Market risk	1 262	579	6	262	75	1 114	3 298
Trading risk	426						426
IRRBB risk	2	7	3	16	1		29
Property risk		38	3	241	9	1 011	1 302
Investment risk	819	529		5	50	101	1 504
FCT risk	15	5			15	2	37
Business risk	726	806	469	1 999	213		4 213
Operational risk	540	499	200	595	85	63	1 982
Insurance risk					178		178
Other assets risk	34	83	6	173	63	389	748
Minimum ECap requirement	3 817	5 515	2 319	11 686	1 161	1 580	26 078
Capital buffer[2]	1 299	2 088	804	4 874	284	8 674	18 023
Total capital allocated	5 116	7 603	3 123	16 560	1 445	10 254	44 101
Economic profit	477	421	382	(1 583)	388	(374)	(289)

[1] *Economic capital allocated is based on average year-to-date numbers.*
[2] *The unallocated capital buffer included in Central Management comprises of capital held against goodwill, intangibles and excess capital over and above the 2011 10% core Tier 1 capital allocation cap.*

Risk-based economic capital allocation to the business clusters has been in place since 2008 for risk-adjusted performance measurement and remuneration purposes. It is a fundamental component in the measurement of the businesses' contributions to EP, return on risk-adjusted capital (RORAC) and risk-adjusted return on capital (RAROC). The difference between RORAC and RAROC is simply that the former uses IFRS impairments and the latter TTC expected loss.

As discussed earlier, enhancements have been made in 2011 to the group's ECap methodology and to allocating capital to it businesses. The impact of the methodology changes on the capital allocated to the business clusters was not material expect in the Retail Cluster due to the significant increased economic capital allocation to the Home Loans portfolio.

Changes in total year-on-year average capital allocated to each cluster are as follows:

- Nedbank Capital: increase of R219m mainly due to increases in credit exposures for Investment Banking and the new full-tail credit allocation that resulted in more capital being allocated to lumpier portfolios.
- Nedbank Corporate: decrease of R907m mainly due to low growth, enhanced asset quality and RWA optimisation.
- Nedbank Business Banking: increase of R573m mainly due to the migration of ex-Imperial Bank portfolios, Supplier Asset Finance and Professional Finance from Nedbank Retail.
- Nedbank Retail: increase of R403m mainly due to the more conservative credit risk LGD parameters applied to the Home Loans portfolio.
- Nedbank Wealth: increase of R169m mainly due to an increase in the credit and investment exposures.
- Central Management: increase of R4,4bn mainly due to increases in the value of the group's owned buildings (R207m) and ordinary shareholders equity (R4,2bn).

COST OF EQUITY

NEDBANK GROUP

Year	Cost of equity
2010	14,15%
2011	13,00%
2012	13,10%

Nedbank Group has applied a cost of equity (COE) of 13,00% in 2011 (2010: 14,15%) and revised its COE for 2012 to 13,10% following a review of the components (risk-free rate, beta, and equity risk premium), calculated based on the Capital Asset Pricing Model and management judgement, applied in conjunction with the group's parent company, Old Mutual plc.

The risk-free rate has declined as a result of an expectation of lower growth and lower levels of inflation as a result of the ongoing slower global recovery.

EXTERNAL CREDIT RATINGS

In January 2012 Fitch revised SA's outlook on the long-term issuer default ratings from stable to negative. As a result local banks' outlooks have been similarly revised from stable to negative.

Fitch ratings	Nedbank Group	Nedbank Limited
Foreign currency		
Short-term	F2	F2
Long-term	BBB	BBB
Long-term rating outlook	Negative	Negative
Local currency		
Long-term senior	BBB	BBB
Long-term rating outlook	Stable	Stable

In November 2011 Moody's Investors Service (Moody's) changed the outlook of SA's A3 local- and foreign-currency government debt ratings to negative from stable. As a result, the large SA banks' ratings have been placed on review for possible downgrade.

Moody's investors service	Nedbank Limited
Bank financial-strength rating	C-
Outlook – financial-strength rating	Stable
Global local currency – long-term deposits	A2
Global local currency – short-term deposits	Prime-1
Foreign currency – long-term bank deposits	A3
Foreign currency – short-term bank deposits	Prime-2
Outlook – foreign currency deposit rating	Stable

LIQUIDITY RISK

Nedbank Group's liquidity position was further strengthened with the **long-term funding ratio** increasing from 22,6% to 24,2% at 31 December 2011 (the Q4 average of 25% also strengthened when compared with 24% in 2010). The successful issuance of R4,8bn **senior unsecured debt** in the capital markets and the launch of SA's first bank-originated **retail savings bond** (R4,0bn issued) contributed positively to lengthening the funding profile.

The **surplus liquidity buffer** (a ringfenced pool of government bonds, treasury bills, highly rated public sector bonds and other parked liquidity in excess of prudential liquid asset requirements) was significantly further strengthened from R6bn to R24bn as part of positioning Nedbank Group to meet the anticipated Basel III LCR by January 2015. This contributed positively to the increase in the group's total sources of quick liquidity available for stress funding requirements, which amounted to R103,6bn at 2011 (2010: R78,6bn). The graph below reflects the composition of this portfolio in 2011.

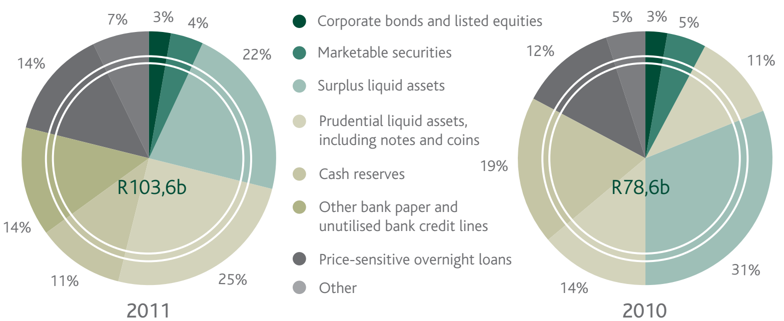
The funding and liquidity position is further supported by Nedbank Group's strong household and commercial deposit franchise, low reliance on interbank and foreign markets and an improved loan-to-deposit ratio of 95,2% in 2011 (2010: 96,9%).

In terms of the Basel III liquidity standards many of the key principles are already encapsulated in Nedbank Group's Liquidity Risk Management Framework and ILAAP. From the perspective of meeting the LCR requirements at an industry level, building significant surplus liquidity buffers may adversely impact credit extension with unintended economic consequences, meaning that national discretions, permissible under the Basel III liquidity framework, need to be carefully considered in terms of finalising local regulations.

RISK AND BALANCE SHEET MANAGEMENT REVIEW
... CONTINUED

Based on industry estimates compliance with the NSFR appears to be structurally challenging and consequently SA banks are working closely with the SARB and National Treasury, while being mindful of the fact that the Basel Committee will most likely change the specifications in the NSFR ahead of its targeted implementation date of January 2018.

NEDBANK GROUP'S SOURCES OF QUICK LIQUIDITY



The contractual and business-as-usual liquidity mismatches of the group are presented below. Based on client behavioural attributes, it is estimated that 81% of the amounts owed to depositors are stable.

NEDBANK GROUP CONTRACTUAL LIQUIDITY GAP

2011 Rm	Next day	2 – 7 days	8 days – 1 month	1 – 2 months	2 – 3 months	3 – 6 months*	6 – 12 months*	>12 months*	Total*
Cash and cash equivalents	24 950	39	379					41	25 409
Other short-term securities	18	933	5 199	6 112	4 688	8 105	7 424	3 507	35 986
Derivative financial instruments	30	169	647	844	844	889	1 430	7 987	12 840
Government and other securities	852	27	151	63	227	799	1 022	27 035	30 176
Loans and advances	33 760	4 116	28 051	11 764	8 467	21 849	35 422	352 619	496 048
Other assets	2 975							44 693	47 668
Total assets	62 585	5 284	34 427	18 783	14 226	31 642	45 298	435 882	648 127
Total equity								52 685	52 685
Derivative financial instruments	22	118	453	591	591	775	1 083	10 220	13 853
Amounts owed to depositors	242 163	18 077	52 819	49 113	20 712	39 642	48 884	49 745	521 155
Provisions and other liabilities	11 212							19 780	30 992
Long-term debt instruments				671			3 789	24 982	29 442
Total equity and liabilities	253 397	18 195	53 272	50 375	21 303	40 417	53 756	157 412	648 127
Net liquidity gap	(190 812)	(12 911)	(18 845)	(31 592)	(7 077)	(8 775)	(8 458)	278 470	

* *Audited.*

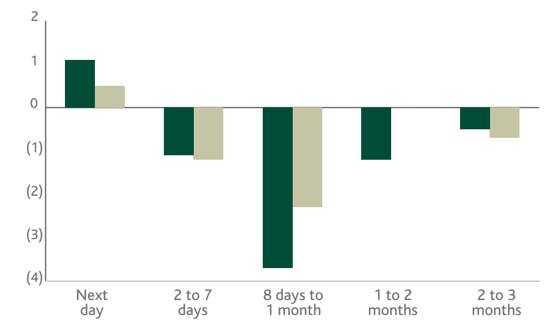
NEDBANK GROUP BUSINESS-AS-USUAL LIQUIDITY GAP

2011 Rm	Next day	2 – 7 days	8 days – 1 month	1 – 2 months	2 – 3 months	3 – 6 months	6 – 12 months	>12 months	Total*
Cash and cash equivalents								25 409	25 409
Other short-term securities	18	933	5 199	6 112	4 688	8 105	7 424	3 507	35 986
Derivative financial instruments	30	169	647	844	844	889	1 430	7 987	12 840
Government and other securities								30 176	30 176
Loans and advances	8 578	2 091	17 522	9 962	11 204	26 147	53 087	367 457	496 048
Other assets								47 668	47 668
Total assets	8 626	3 193	23 368	16 918	16 736	35 141	61 941	482 204	648 127
Total equity								52 685	52 685
Derivative financial instruments	22	118	453	591	591	775	1 083	10 220	13 853
Amounts owed to depositors	1 423	9 984	47 013	23 298	19 677	51 273	74 499	293 988	521 155
Provisions and other liabilities								30 992	30 992
Long-term debt instruments				671			3 789	24 982	29 442
Total equity and liabilities	1 445	10 102	47 466	24 560	20 268	52 048	79 371	412 867	648 127
Net liquidity gap	7 181	(6 909)	(24 098)	(7 642)	(3 532)	(16 907)	(17 430)	69 337	

The business-as-usual table above shows the expected liquidity mismatch under normal market conditions after taking into account the behavioural attributes of stable deposits, savings and investment products, rollover assumptions associated with term deals, but excluding business-as-usual management actions. The next-day cumulative business-as-usual liquidity mismatch is positive with cash inflows exceeding outflows.

As illustrated below, Nedbank Group's overnight to one-week liquidity position improved in 2011, compared with 2010 based, on the business-as-usual liquidity mismatch. This has been achieved through a strategy of lengthening the funding profile and managing the asset/liability composition from a behavioural perspective.

NEDBANK GROUP'S BEHAVIOURAL LIQUIDITY MISMATCH[1]



[1] Expressed on total assets and based on maturity assumptions before rollovers and risk management.

INTEREST RATE RISK IN THE BANKING BOOK

Nedbank Group is exposed to IRRBB primarily due to the following*:

- The bank writes a large quantum of prime-linked advances.
- To lengthen the funding profile of the bank term funding is raised across the curve at fixed-term deposit rates that reprice only on maturity.
- Three-month repricing swaps and forward rate agreements are typically used in the risk management of term deposits and fixed-rate advances.

* *Audited.*

- Short-term demand funding products reprice to different short-end base rates.
- Certain non-repricing transactional deposit accounts are non-rate-sensitive.
- The bank has a mismatch in net non-rate-sensitive balances, including shareholders' funds that do not reprice for interest rate changes.

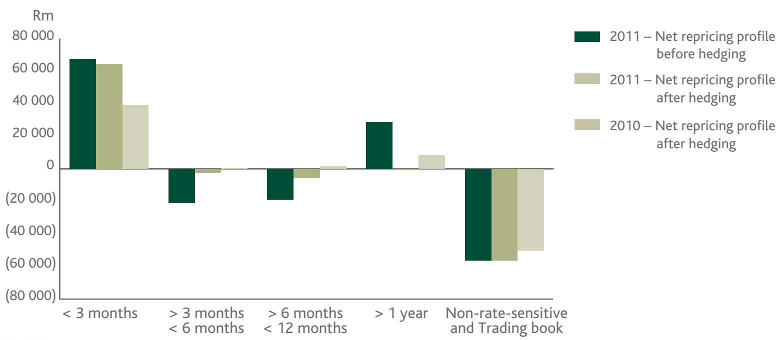
IRRBB comprises:

- Repricing risk (mismatch risk) – timing difference in the maturity (for fixed rate) and repricing (for floating rate) of bank assets, liabilities and off-balance-sheet positions.
- Reset or basis risk – imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.
- Yield curve risk – changes in the shape and slope of the yield curve.
- Embedded optionality – the risk pertaining to interest-related options embedded in bank products.

NEDBANK GROUP – INTEREST RATE REPRICING GAP

Rm	< 3 months	> 3 months < 6 months	> 6 months < 12 months	> 1 year	Non-rate-sensitive and trading book
2011					
Net repricing profile before hedging	**67 431**	**(20 943)**	**(18 976)**	**28 717**	**(56 229)**
Net repricing profile after hedging*	**64 461**	**(2 148)**	**(5 364)**	**(720)**	**(56 229)**
Cumulative repricing profile after hedging*	**64 461**	**62 313**	**56 949**	**56 229**	**–**
2010					
Net repricing profile before hedging	67 201	(26 844)	(19 982)	29 879	(50 254)
Net repricing profile after hedging*	39 376	746	1 952	8 180	(50 254)
Cumulative repricing profile after hedging*	39 376	40 122	42 074	50 254	–

NEDBANK GROUP – INTEREST RATE REPRICING PROFILE



NEDBANK GROUP – EXPOSURE TO IRRBB RISK

	Nedbank Limited		Other companies		Nedbank Group	
Rm	**2011**	2010	**2011**	2010	**2011**	2010
NII sensitivity						
1% instantaneous decline in interest rates	**(715)**	(562)	**(128)**	(98)	**(843)**	(660)
2% instantaneous decline in interest rates	**(1 419)**	(1 119)	**(257)**	(200)	**(1 676)**	(1 319)

* *Audited.*

At year-end the NII sensitivity of the group's banking book for a 1% parallel reduction in interest rates was 1,72% of total group ordinary shareholders' equity (2010: 1,50%), which is well within the board's approved risk limit of 2,5%. This exposes the group to a decrease in NII of approximately R843m before tax should interest rates fall by 1%, measured over a 12-month period. NII sensitivity, as currently modelled, exhibits very little convexity and results in an increase in pretax NII of approximately the same quantum should rates increase by 1%.

During 2011 the group's NII sensitivity has been increased through higher levels of endowment, as a result of strong earnings, and the strategic positioning of the asset and liability sensitivities to position the group better for the forecast interest rate cycle.

IRRBB strategies are evaluated regularly to align with interest rate views and defined risk appetite. This ensures that optimal on- and off-balance-sheet strategies are applied, either positioning the balance sheet or protecting interest income through different interest rate cycles, while aligning IRRBB sensitivity with TCC impairment sensitivity, which is seen as a natural economic net income hedge, but is subject to a time lag differential across financial reporting periods.

Nedbank Limited's economic value of equity, measured for a 1% parallel decrease in interest rates, is a reduction in value of R325m at 2011 (2010: R441m).

FOREIGN CURRENCY TRANSLATION RISK IN THE BANKING BOOK

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

NEDBANK GROUP – OFFSHORE CAPITAL SPLIT BY FUNCTIONAL CURRENCY

			2011			
$m (US dollar equivalent)	**2011 Equity**	2010 Equity	**Forex-sensitive**	**Non-forex-sensitive**	**Total**	2010 Total
US dollar	**138**	121	**138**		**138**	121
Pound sterling	**130**	122	**130**		**130**	122
Swiss franc	**17**	16	**17**		**17**	16
Malawi kwacha	**8**	8	**8**		**8**	8
Other				**539**	**539**	543
Total	**293**	267	**293**	**539**	**832**	810
Limit	**350**	325				

FCT risk remains relatively low and is aligned with the appropriate offshore capital structure of the group.

- The total RWA for the group's foreign entities of R9,8bn is very low at 3% of the group.
- The average capitalisation rate of the group's foreign denominated business is 24%.

Any foreign exchange rate movement will therefore have a small effect on Nedbank Group's capital adequacy.

CREDIT RISK

SUMMARY OF LOANS AND ADVANCES BY BUSINESS CLUSTER

2011 Rm	Gross	Mix %	Total impairments	Net	Mix %
Nedbank Capital*	69 331	14	(821)	68 510	14
Trading book	19 952	4		19 952	4
Banking book	49 379	10	(821)	48 558	10
Nedbank Corporate*	166 041	33	(1 287)	164 754	33
Total Nedbank RBB[1]*	251 042	49	(9 107)	241 935	49
Nedbank Retail	191 262	37	(7 599)	183 663	37
Nedbank Business Banking	59 780	12	(1 508)	58 272	12
Nedbank Wealth*	19 702	4	(77)	19 625	4
Other*	1 429		(205)	1 224	
Total	507 545	100	(11 497)	496 048	100

2010 Rm	Gross	Mix %	Total impairments	Net	Mix %
Nedbank Capital*	63 251	13	(923)	62 328	13
Trading book	19 679	4		19 679	4
Banking book	43 572	9	(923)	42 649	9
Nedbank Corporate*	159 072	33	(1 369)	157 703	33
Total Nedbank RBB[1]*	246 927	51	(8 828)	238 099	50
Nedbank Retail	194 906	40	(7 572)	187 334	39
Nedbank Business Banking	52 021	11	(1 256)	50 765	11
Nedbank Wealth*	16 976	3	(107)	16 869	4
Other*	273		1	274	
Total	486 499	100	(11 226)	475 273	100

[1] *RBB = Retail and Business Banking.*

Gross loans and advances grew 4,3% to R508bn (2010: R487bn) with growth increasing, particularly in the wholesale portfolios, during the fourth quarter.

Advances totalling R9bn were transferred from Nedbank Retail to Nedbank Business Banking in 2011 to leverage its strong client and risk practices. On a like-for-like basis the growth in Nedbank Retail was 2,7%, while Nedbank Business Banking's advances, excluding the full impact of the Imperial Bank transfer and other client moves, remained flat.

The global economic environment deteriorated in 2011 as the European sovereign-debt crisis continued to unfold, leading to a loss of economic growth momentum in both developed and emerging markets. For SA GDP growth is expected to end at 3,2% for the 2011 year and interest rates remained unchanged at 37-year lows.

Household demand for credit remained stable and transactional demand continued to strengthen, supported by real wage increases. Business confidence remained at low levels for most of 2011, with corporate credit demand gaining some traction towards the end of the year as both private and public sector fixed-investment activity increased off a low base.

SA's GDP is currently forecast to grow by 2,7% in 2012, but remains dependent on international developments, particularly in Europe. Given that confidence is anticipated to remain fragile, private sector fixed-investment activity is expected to remain modest. However, government and public corporations are forecast to escalate infrastructure spending, which should contribute to improved wholesale advances growth.

Consumer spending is anticipated to moderate as concerns on inflation, house prices and job security prevail. Transactional demand should remain robust, while credit demand is likely to improve slowly off a low base as consumer balance sheets strengthen and debt levels decline.

* *Audited.*

SUMMARY OF LOANS AND ADVANCES BY PRODUCT*

Rm	Annual change %	2011 Rm	Mix %	2010 Rm	Mix %
Home loans	(1,9)	143 154	28,2	145 895	30,0
Commercial mortgages	3,9	89 488	17,6	86 100	17,7
Leases and instalment debtors	4,8	71 168	14,0	67 881	14,0
Credit cards	9,6	8 666	1,7	7 910	1,6
Overdrafts	(1,2)	13 152	2,6	13 307	2,7
Personal loans	37,3	17 847	3,5	13 001	2,7
Properties in possession	(6,5)	619	0,1	662	0,1
Other term loans	(2,4)	60 133	11,9	61 604	12,7
Overnight loans	52,2	19 104	3,8	12 552	2,6
Other loans to clients	15,4	49 488	9,8	42 897	8,8
Preference shares and debentures	(12,4)	17 960	3,5	20 499	4,2
Factoring accounts	19,4	3 822	0,8	3 202	0,7
Deposits placed under reverse repurchase agreements	19,0	12 911	2,5	10 849	2,2
Trade, other bills and bankers' acceptances	(76,4)	33	<0,01	140	<0,01
Gross loans and advances	4,3	507 545	100,0	486 499	100,0
Total impairments	2,4	(11 497)		(11 226)	
Net loans and advances	4,4	496 048		475 273	

The group advanced R116bn of new loans during the period. However, this was largely offset by early repayments as clients continued to deleverage.

In view of the ongoing uncertainty and concerns in the Eurozone, a summary of Nedbank Group's exposure to that region, and specifically to banks in PIIGS, is provided below.

SUMMARY OF EXPOSURE TO BANKS IN THE EUROZONE

Country (Rm)[1]	2011	Exposure as a % of balance sheet credit exposure	2010	Exposure as a % of balance sheet credit exposure
Total exposure to banks in PIIGS	261	0,04	2 487	0,44
Portugal	14	<0,01	21	<0,01
Italy	201	0,03	2 437	0,43
Ireland			21	<0,01
Greece				
Spain	46	0,01	8	<0,01
France	4 813	0,81	1 316	0,23
Other	4 663	0,79	6 203	1,09
Total	9 737	1,63	10 006	1,76

[1] *Includes the 17 European union member states that have adopted the Euro as their common currency.*

The sovereign-debt crisis in the Eurozone remains unresolved. Nedbank Group has significantly reduced its exposure to banks in the PIIGS countries to R261m (2010: R2 487m) and the extent of the total Eurozone exposure is low, being only 1,63% of balance sheet credit exposure.

* *Audited.*

BALANCE SHEET CREDIT EXPOSURE ANALYSIS

SUMMARY OF TOTAL BALANCE SHEET CREDIT EXPOSURE[2] BY BASEL II ASSET CLASS AND BUSINESS CLUSTER, RECONCILED TO GROSS LOANS AND ADVANCES

Rm	Nedbank Capital[1]	Nedbank Corporate[1]	Nedbank Wealth	Total Nedbank RBB
Advanced Internal Rating-based Approach	110 247	148 752	12 938	194 807
Corporate	26 420	76 433		8 439
Specialised lending – high-volatility commercial real estate (HVCRE)		6 123		
Specialised lending – income-producing real estate (IPRE)	8	45 014		2 933
Specialised lending – commodities finance	143			
Specialised lending – project finance	2 270			
SME – corporate	383	4 354		15 103
Public sector entities	6 212	10 132		14
Local governments and municipalities	513	5 631		1 105
Sovereign	34 384	132		
Banks	39 223	931		
Securities firms	36			
Retail mortgages			9 159	110 026
Retail revolving credit			64	9 391
Retail – other	1		717	24 800
SME – retail	61	2	2 998	22 768
Securitisation exposure	593			228
The Standardised Approach (TSA)[3]		19 336	9 879	52 923
Corporate		3 485	1	36
SME – corporate		8 419		2 150
Public sector entities		48		
Local government and municipalities		32		1
Sovereign		925	479	
Banks		1 332	5 711	
Securities firms				
Retail mortgages		3 220	2 777	3 548
Retail – other		1 660	911	43 985
SME – retail		215		3 203
Securitisation exposure				
Properties in possession		186	23	410
Non-regulated entities	19 803	11 636	380	2 478
Total Basel II balance sheet exposure[2]	130 050	179 910	23 220	250 618
Less: assets included in Basel II asset classes	(60 702)	(10 750)	(3 518)	881
Derivatives	(13 106)	(74)	(2)	
Government stock and other dated securities	(10 905)	(4 572)		(9)
Short-term securities	(29 874)	(1 130)	(3 279)	
Call money	(3 020)	(127)	(603)	155
Deposits with monetary institutions	(1 442)	(1 090)	(10)	
Remittances in transit	3	167		33
Fair-value adjustments	(515)	(1 795)		(133)
Other assets net of fair-value adjustments on assets	(1 843)	(2 129)	376	835
Setoff of accounts within IFRS total gross loans and advances	(17)	(3 119)		(457)
Total gross loans and advances	69 331	166 041	19 702	251 042

[1] Nedbank Corporate and Nedbank Capital include London Branch (AIRB Approach).
[2] Balance sheet credit exposure includes on-balance-sheet, repurchase and resale agreements, and derivative exposure (refer next page for details).
[3] The legacy Imperial Bank book, Fairbairn Private Bank (UK) and the non-SA banking entities in Africa are covered by TSA.

	Nedbank Retail	Nedbank Business Banking	Central Management	2011 Total	2011 Mix (%)	Annual change (%)	2010 Total	2010 Mix (%)
	141 724	53 083	16 034	482 778	80,7	6,9	451 766	79,4
		8 439	17	111 309	18,6	9,5	101 652	17,9
				6 123	1,0	(9,2)	6 740	1,2
		2 933		47 955	8,1	9,2	43 936	7,7
				143	0,0	113,4	67	0,0
				2 270	0,4	8,3	2 097	0,4
		15 103	1	19 841	3,3	(28,0)	27 576	4,8
		14		16 358	2,7	(4,7)	17 158	3,0
		1 105		7 249	1,2	(1,3)	7 343	1,3
			13 693	48 209	8,1	51,3	31 854	5,6
			2 323	42 477	7,1	13,2	37 515	6,6
				36	0,0	(68,4)	114	0,0
	105 307	4 719		119 185	19,9	(4,6)	124 883	22,0
	9 391			9 455	1,6	6,6	8 866	1,6
	24 508	292		25 518	4,3	2,9	24 803	4,4
	2 290	20 478		25 829	4,3	57,7	16 376	2,9
	228			821	0,1	4,5	786	0,1
	46 115	6 808	117	82 255	13,8	3,3	79 623	14,0
	2	34	117	3 639	0,6	13,0	3 220	0,6
	310	1 840		10 569	1,8	(19,0)	13 054	2,3
				48	0,0	50,0	32	0,0
		1		33	0,0	57,1	21	0,0
				1 404	0,2	(47,8)	2 689	0,5
				7 043	1,2	(13,4)	8 132	1,4
						(100,0)	313	0,1
		3 548		9 545	1,6	13,3	8 424	1,5
	43 284	701		46 556	7,8	16,5	39 971	7,0
	2 519	684		3 418	0,6	(0,8)	3 446	0,6
						(100,0)	321	0,1
	398	12		619	0,1	(6,5)	662	0,1
	1 832	646	(1 865)	32 432	5,4	(11,7)	36 735	6,5
	190 069	60 549	14 286	598 084	100,0	5,2	568 786	100,0
	1 193	(312)	(12 857)	(86 946)		10,0	(79 033)	
			(156)	(13 338)		(8,2)	(14 526)	
	(9)		(13 447)	(28 933)		0,4	(28 818)	
			(247)	(34 530)		34,0	(25 764)	
	155		3	(3 592)		184,4	(1 263)	
			12	(2 530)		62,6	(1 556)	
	31	2		203		78,1	114	
	(43)	(90)		(2 443)		6,0	(2 305)	
	1 059	(224)	978	(1 783)		(63,7)	(4 915)	
		(457)		(3 593)		10,4	(3 254)	
	191 262	59 780	1 429	507 545		4,3	486 499	

Nedbank Limited and the Nedbank London Branch make up 88% of the total credit extended by Nedbank Group and are covered by the Basel II AIRB approach, with the legacy Imperial Bank, Fairbairn Private Bank (UK) and the non-SA Nedbank African subsidiaries' credit portfolios covered by TSA. Nedbank intends to apply to the SARB in 2012 for approval to use the AIRB approach for the legacy Imperial Bank book.

SUMMARY OF THE COMPONENTS OF THE TOTAL BASEL II BALANCE SHEET CREDIT EXPOSURE BY BUSINESS CLUSTER AND ASSET CLASS

	2011	On-balance-sheet exposure		Off-balance-sheet exposure		Repurchase and resale exposure
	Rm	AIRB	TSA	AIRB	TSA	AIRB
BY CLUSTER	Nedbank Capital	84 505		10 985		12 910
	Nedbank Corporate	148 752	19 320	56 624	99	
	Total Nedbank RBB	194 807	52 923	58 086	717	
	Nedbank Retail	141 724	46 115	37 887	259	
	Nedbank Business Banking	53 083	6 808	20 199	458	
	Nedbank Wealth	12 938	9 879	3 329		
	Central Management	16 032	117			
	Nedbank Group[4]	457 034	82 239	129 024	816	12 910
BY BASEL II ASSET CLASS	Corporate	108 629	3 623	55 858	5	928
	Specialised lending – HVCRE	6 123		394		
	Specialised lending – IPRE	47 947		1 491		
	Specialised lending – commodities finance	143				
	Specialised lending – project finance	2 270		25		
	SME – corporate	19 505	10 569	8 128	211	
	Public sector entities	15 429	48	2 275		24
	Local governments and municipalities	6 932	33	57		
	Sovereign	42 232	1 404	12		5 973
	Banks	27 077	7 043	4 664		5 949
	Securities firms			1 048		36
	Retail revolving credit	9 455		16 459		
	Retail mortgages	119 185	9 545	22 559	363	
	Retail – other	25 518	46 556	2 143	195	
	SME – retail	25 768	3 418	8 793	42	
	Securitisation exposure	821		5 118		
	Downturn expected loss (AIRB Approach)					
	IFRS impairments on AIRB loans and advances					
	Excess of downturn expected loss over eligible impairments					

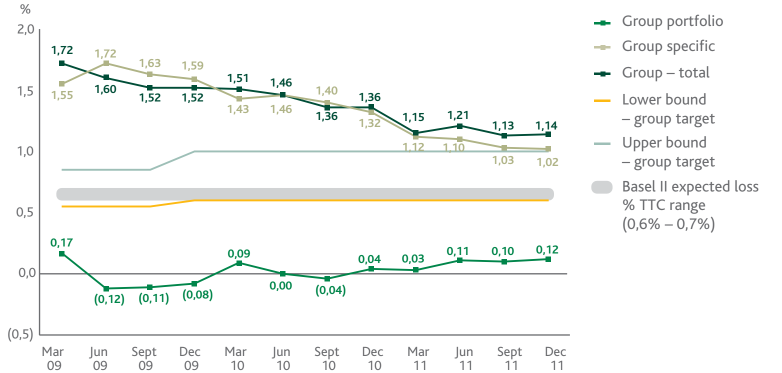
[1] Total credit extended includes on-balance-sheet, off-balance-sheet, repurchase and resale agreements and derivative exposures (includes unutilised facilities).
[2] Downturn expected loss is in relation to performing loans and advances.
[3] Best estimate of expected loss (BEEL) is in relation to non-performing loans and advances.
[4] Total Nedbank Group excluding intercompany, PiPs and non-regulated entities.

Derivative exposure		Total credit extended[1]		Nedbank Group[4]		Exposure at default (EAD)	Downturn expected loss[2]	BEEL[3]
AIRB	TSA	AIRB	TSA	AIRB	TSA	AIRB	AIRB	AIRB
12 832		121 232		110 247		100 831	116	557
	16	205 376	19 435	148 752	19 336	188 579	345	572
		252 893	53 640	194 807	52 923	244 252	3 063	6 013
		179 611	46 374	141 724	46 115	172 423	2 610	5 083
		73 282	7 266	53 083	6 808	71 829	453	930
		16 267	9 879	12 938	9 879	17 826	40	51
2		16 034	117	16 034	117	16 311	59	46
12 834	16	611 802	83 071	482 778	82 255	567 799	3 623	7 239
1 752	16	167 167	3 644	111 309	3 639	150 431	337	751
		6 517		6 123		6 517	42	380
8		49 446		47 955		50 854	108	88
		143		143		148	1	
		2 295		2 270		2 362	13	
336		27 969	10 780	19 841	10 569	27 763	145	212
905		18 633	48	16 358	48	18 137	1	42
317		7 306	33	7 249	33	7 252	2	
4		48 221	1 404	48 209	1 404	42 663	1	
9 451		47 141	7 043	42 477	7 043	32 683	68	
		1 084		36		177		
		25 914		9 455		18 204	560	667
		141 744	9 908	119 185	9 545	144 264	710	2 922
		27 661	46 751	25 518	46 556	26 145	1 340	1 463
61		34 622	3 460	25 829	3 418	35 131	295	714
		5 939		821		5 068		
								10 862
								9 404
								1 458

RISK AND BALANCE SHEET MANAGEMENT REVIEW
... CONTINUED

SUMMARY OF CREDIT LOSS RATIO, IMPAIRMENTS AND DEFAULTED ADVANCES

NEDBANK GROUP – TREND OF CREDIT LOSS RATIO VERSUS TARGET RANGE



%	Nedbank Capital	Nedbank Corporate	Nedbank Wealth	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Total
2011							
Impairments to gross loans and advances*	1,18	0,77	0,39	3,63	3,98	2,53	2,27
Specific impairments*	1,04	0,54	0,27	2,82	3,09	1,98	1,73
Portfolio impairments*	0,14	0,23	0,12	0,81	0,89	0,55	0,54
Impairments charge as a % of NII	46,53	12,83	10,20	32,51	38,62	11,52	29,56
Credit loss ratio	1,23	0,29	0,25	1,63	1,98	0,54	1,14
Specific	1,27	0,33	0,26	1,45	1,77	0,47	1,02
Portfolio	(0,04)	(0,04)	(0,01)	0,18	0,21	0,07	0,12
Credit loss ratio target range	0,10 – 0,35	0,20 – 0,35	0,20 – 0,40		1,50 – 2,20	0,55 – 0,75	0,60 – 1,00
Defaulted advances to gross loans and advances	2,10	2,34	2,25	6,89	7,43	5,15	4,55
Properties in possession to gross loans and advances	–	0,11	0,12	0,16	0,21	0,02	0,12

* *Audited.*

%	Nedbank Capital	Nedbank Corporate	Nedbank Wealth	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Total
2010							
Impairments to gross loans and advances*	1,45	0,86	0,63	3,58	3,88	2,42	2,30
Specific impairments*	1,27	0,59	0,48	2,94	3,20	1,95	1,86
Portfolio impairments*	0,18	0,27	0,15	0,64	0,68	0,47	0,44
Impairments charge as a % of NII	44,55	9,29	6,17	45,82	55,66	8,64	37,26
Credit loss ratio	1,27	0,20	0,15	2,18	2,67	0,40	1,36
Specific	1,17	0,27	0,16	2,08	2,46	0,71	1,32
Portfolio	0,10	(0,07)	(0,01)	0,10	0,21	(0,31)	0,04
Defaulted loans and advances to gross loans and advances	2,03	2,58	2,16	8,51	9,09	6,31	5,50
Properties in possession to gross loans and advances	–	–	0,11	0,26	0,32	0,02	0,14

The CLR improved to 1,14% for the year (2010: 1,36%), while further strengthening the portfolio impairment provision.

The CLR relating to specific impairments improved substantially to 1,02% for the year (2010: 1,32%) as defaulted advances continued tracking downwards to R23 073m (2010: R26 765m).

Nedbank Retail's CLR of 1,98% (2010: 2,67%) is now within the cluster's TTC target range of 1,50% to 2,20%. Nedbank Capital's CLR remained elevated at levels similar to those of 2010, mainly due to impairment charges on increased non-performing loans. CLRs in Nedbank Corporate, Nedbank Business Banking and Nedbank Wealth remained within or better than the respective clusters' TTC target ranges.

The increased level of portfolio impairments includes R159m relating to lengthened emergence-period assumptions and R200m in the centre for unknown events that may have already occurred, but which will only be evident in the future.

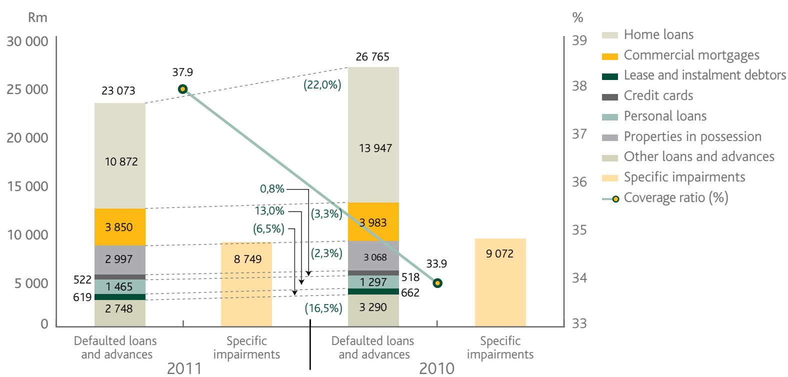
* *Audited.*

RISK AND BALANCE SHEET MANAGEMENT REVIEW
... CONTINUED

RECONCILIATION OF IMPAIRMENTS BY BUSINESS CLUSTER*

Rm	Nedbank Capital	Nedbank Corporate	Nedbank Wealth
Opening balance	923	1 369	107
Specific impairments	806	932	82
Specific impairments, excluding discounts	782	555	17
Specific impairments for discounted cashflow losses	24	377	65
Portfolio impairments	117	437	25
Income statement impairments charge (net of recoveries)	549	458	45
Specific impairments	545	636	61
Net increase/decrease in impairments for discounted cashflow losses	23	(117)	(15)
Portfolio impairments	(19)	(61)	(1)
Recoveries	1	18	1
Amounts written off/other transfers	(652)	(558)	(76)
Specific impairments	(653)	(566)	(76)
Portfolio impairments	1	8	
Closing balance	821	1 287	77
Specific impairments	722	903	53
Specific impairments, excluding discounts	675	643	3
Specific impairments for discounted cashflow losses	47	260	50
Portfolio impairments	99	384	24
Total gross loans and advances	69 331	166 041	19 702
Total average gross banking book loans and advances	44 835	158 396	18 155
Total average gross loans and advances	67 088	158 396	18 155

DEFAULTED LOANS AND ADVANCES, SPECIFIC IMPAIRMENTS AND COVERAGE RATIO



* *Audited.*

Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Central Management	2011	Annual change (%)	2010
8 828	7 572	1 256	(1)	11 226	14,6	9 798
7 251	6 237	1 014	1	9 072	15,9	7 830
6 385	5 588	797	1	7 740	15,7	6 690
866	649	217		1 332	16,8	1 140
1 577	1 335	242	(2)	2 154	9,5	1 968
4 053	3 729	324	226	5 331	(13,8)	6 188
3 559	3 254	305	3	4 804	(17,2)	5 802
58	80	(22)		(51)	(>100)	192
436	395	41	223	578	>100	194
624	598	26	(3)	641	(16,0)	763
(4 398)	(4 300)	(98)	(17)	(5 701)	3,2	(5 523)
(4 405)	(4 263)	(142)	(17)	(5 717)	3,7	(5 515)
7	(37)	44		16	>100	(8)
9 107	7 599	1 508	205	11 497	2,4	11 226
7 087	5 906	1 181	(16)	8 749	(3,6)	9 072
6 163	5 177	986	(16)	7 468	(3,5)	7 740
924	729	195		1 281	(3,8)	1 332
2 020	1 693	327	221	2 748	27,6	2 154
251 042	191 262	59 780	1 429	507 545	4,3	486 499
248 880	188 473	60 407	(2 350)	467 916	3,0	454 105
248 880	188 473	60 407	(479)	494 041	3,4	477 767

Asset quality trends improved for the sixth consecutive quarter.

- Defaulted advances decreased by 13,8% to R23 073m (2010: R26 765m).
- Residential mortgages were the main contributor, with defaulted advances dropping significantly by 22,0%. Improved client affordability, stabilising house prices and restructure initiatives contributed largely to the improvement.
- Restructure initiatives have kept over 13 900 families in their homes since 2009.
- Credit card default percentage reduced slightly year-on-year from 6,5% in 2010 to 6,0% in 2011.

The coverage ratio is the amount of specific impairments that have been raised for the total defaulted loans and advances. This is effectively the inverse of the expected recoveries ratio. The expected recoveries are equal to the defaulted loans and advances less the specific impairments, as specific impairments are raised for any shortfall that would arise after all recoveries are taken into account.

The expected recoveries of defaulted loans and advances include recoveries as a result of liquidation of security or collateral as well as recoveries as a result of a client curing or partial client repayments.

The absolute value of expected recoveries of defaulted accounts (which includes security values) will increase as the number of defaults increase. The expected recovery amount will in most instances be less than the total defaulted exposure, as it is seldom the case that 100% of the defaulted loan would be written off.

A decrease in the coverage ratio (or increase in the expected recoveries ratio) may arise as a result of the following:

- Expected recoveries improving due to higher recoveries being realised in the LGD calculation.
- A change in curing levels.
- A change in the defaulted product mix, with a greater percentage of products that have a higher security value and therefore a lower specific impairment, such as secured products (home loans and commercial real estate).
- An increase in the collateral value, which is an input into the LGD calculation and would result in a decrease in the LGD and decrease in specific impairments.
- A change in the mix of new versus older defaults, as in most products the recoveries expected from defaulted clients decrease over time.
- A change in the writeoff policy, such as extending the period prior to writing off a deal that will result in a longer period in which recoveries can be realised.

RISK AND BALANCE SHEET MANAGEMENT REVIEW
... CONTINUED

SUMMARY OF DEFAULTED LOANS AND ADVANCES, SPECIFIC IMPAIRMENTS AND COVERAGE RATIO BY BUSINESS CLUSTER

Rm	Defaulted loans and advances	Defaulted loans and advances as % of total	Expected recoveries	Net uncovered position after discounting
2011				
Nedbank Capital	1 454	6,3	732	722
Other loans and advances	1 454	6,3	732	722
Nedbank Corporate	3 882	16,9	2 979	903
Home loans	93	0,4	67	26
Commercial mortgages	3 347	14,5	2 590	757
Leases and instalment debtors	39	0,2	24	15
Personal loans	17	0,1	7	10
Properties in possession	186	0,8	183	3
Other loans and advances	200	0,9	108	92
Nedbank Retail	14 213	61,6	8 307	5 906
Home loans	9 201	39,8	6 465	2 736
Commercial mortgages	34	0,1	15	19
Leases and instalment debtors	2 252	9,8	977	1 275
Credit cards	519	2,3		519
Personal loans	1 448	6,3	471	977
Properties in possession	398	1,7	354	44
Other loans and advances	361	1,6	25	336
Nedbank Business Banking	3 081	13,3	1 900	1 181
Home loans	1 232	5,3	945	287
Commercial mortgages	412	1,8	329	83
Leases and instalment debtors	701	3,0	264	437
Credit cards	3	0,0	3	
Personal loans				
Properties in possession	12	0,1	12	
Other loans and advances	721	3,1	347	374
Nedbank Wealth	443	1,9	390	53
Home loans	346	1,5	304	42
Commercial mortgages	57	0,2	57	
Leases and instalment debtors	5	0,0	2	3
Properties in possession	23	0,1	22	1
Other loans and advances	12	0,1	5	7
Central Management	–	–	16	(16)
Other loans and advances			16	(16)
Group	23 073	100,0	14 324	8 749
Home loans	10 872	47,1	7 781	3 091
Commercial mortgages	3 850	16,7	2 991	859
Leases and instalment debtors	2 997	13,0	1 267	1 730
Credit cards	522	2,3	3	519
Personal loans	1 465	6,3	478	987
Properties in possession	619	2,7	571	48
Other loans and advances	2 748	11,9	1 233	1 515
2010				
Group	26 765	100,0	17 693	9 072
Home loans	13 947	52,1	10 834	3 113
Commercial mortgages	3 983	14,9	3 120	863
Leases and instalment debtors	3 068	11,5	1 209	1 859
Credit cards	518	1,9	16	502
Personal loans	1 297	4,8	498	799
Properties in possession	662	2,5	598	64
Other loans and advances	3 290	12,3	1 418	1 872

Specific impairments	Specific impairments on defaulted loans and advances	Specific impairments for discounted cashflow losses	Coverage ratio (%) 2011	Coverage ratio (%) 2010	Expected recovery ratio (%) 2011	Expected recovery ratio (%) 2010
722	675	47	49,7	62,6	50,3	37,4
722	675	47	49,7	62,6	50,3	37,4
903	643	260	23,3	22,7	76,7	77,3
26	21	5	28,0	28,9	72,0	71,1
757	532	225	22,6	21,5	77,4	78,5
15	11	4	38,5	48,3	61,5	51,7
10	8	2	58,8	57,9	41,2	42,1
3	2	1	1,6		98,4	100,0
92	69	23	46,0	27,1	54,0	72,9
5 906	5 177	729	41,6	35,2	58,4	64,8
2 736	2 520	216	29,7	22,8	70,3	77,2
19	17	2	55,9	46,0	44,1	54,0
1 275	1 103	172	56,6	64,8	43,4	35,2
519	516	3	100,0	97,3	0,0	2,7
977	643	334	67,5	61,7	32,5	38,3
44	44		11,1	9,4	88,9	90,6
336	334	2	93,1	88,5	6,9	11,5
1 181	986	195	38,3	30,9	61,7	69,1
287	213	74	23,3	18,2	76,7	81,8
83	19	64	20,1	16,0	79,9	84,0
437	415	22	62,3	46,4	37,7	53,6
			0,0	50,0	100,0	50,0
			0,0		100,0	100,0
374	339	35	51,9	46,1	48,1	53,9
53	3	50	12,0	22,3	88,0	77,7
42	(8)	50	12,1	21,4	87,9	78,6
			0,0		100,0	
3	3		60,0		40,0	100,0
1	1		4,3	27,8	95,7	72,2
7	7		58,3	100,0	41,7	
(16)	(16)	–	–	–	100,0	100,0
(16)	(16)				100,0	100,0
8 749	7 468	1 281	37,9	33,9	62,1	66,1
3 091	2 746	345	28,4	22,3	71,6	77,7
859	568	291	22,3	21,7	77,7	78,3
1 730	1 532	198	57,7	60,6	42,3	39,4
519	516	3	99,4	96,9	0,6	3,1
987	651	336	67,4	61,6	32,6	38,4
48	47	1	7,8	9,7	92,2	90,3
1 515	1 408	107	55,1	56,9	44,9	43,1

9 072	7 740	1 332
3 113	2 684	429
863	467	396
1 859	1 758	101
502	500	2
799	505	294
64	64	
1 872	1 762	110

RISK AND BALANCE SHEET MANAGEMENT REVIEW

... CONTINUED

PROPERTIES IN POSSESSION

Rm	Nedbank Capital	Nedbank Corporate	Nedbank Wealth	Total Nedbank RBB	Nedbank Retail	Nedbank Business Banking	Central Management	2011	2010
Opening balance		5	18	639	631	8		662	887
Disposal/Writedowns/Revaluations		(125)	(8)	(503)	(495)	(8)		(636)	(627)
Property in possession acquired		306	13	274	262	12		593	402
Closing balance		186	23	410	398	12		619	662
Unsold		48	5	318	309	9		371	490
Sold awaiting transfer		138	18	92	89	3		248	172

Properties in possession have decreased from R662m in 2010 to R619m in 2011, driven largely by both reduced buy-ins and increased sales in the Nedbank Retail portfolio, where properties in possession decreased by 37%.

DEBT COUNSELLING

The analysis below is Nedbank Group's debt counselling book within the Retail Cluster, which shows both new applications in the year and the portfolio balance.

	New applications				Portfolio balance			
	2011		2010		2011		2010	
Product	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm
Card	9 584	102	12 458	127	16 118	173	16 280	175
Personal loans	12 643	363	14 673	369	18 273	531	15 591	397
Mortgages	1 825	822	3 665	1 760	4 222	1 762	5 759	2 672
Overdrafts	4 406	21	5 003	41	5 359	39	5 867	46
Vehicle and asset finance	5 230	485	9 614	607	11 948	1 151	13 621	1 286
Total	33 688	1 793	45 413	2 904	55 920	3 656	57 118	4 576

The total portfolio in terms of rand value showed a positive decline over the last year in line with what is being experienced in the industry.

Nedbank Group's total exposure is now under R4bn, with the rand value decline trend seen in the secured portfolios, while the unsecured portfolio remained relatively stable.

CREDIT CONCENTRATION RISK

Within Nedbank Group the credit concentration risk is actively managed, measured and ultimately provided for in the group's economic capital and ICAAP.

SINGLE-NAME EXPOSURE

Of total group credit economic capital, only 2,9% is attributable to the top 20 largest exposures, excluding bank and government exposure, and 3,7% to the top 20 banks' largest exposures, highlighting that Nedbank Group does not have undue single-name credit concentration risk.

The group's credit concentration risk measurement incorporates the asset size of obligors/borrowers into its calculation of credit economic capital. Single-name concentration is monitored at all credit committees within the group's ERMF, which includes the applicable regulatory and economic capital per exposure.

INDUSTRY EXPOSURE

Given that total mortgages comprise 46% of total gross loans and advances, total real estate exposure is high, but in line with the peer group.

While commercial mortgage lending comprises only 18% of the gross loans and advances, Nedbank Group currently has a dominant market share position in this area of lending. This risk is mitigated by high levels of collateral, low average loan to values (approximately 50%) across the portfolio and the existence of an experienced management team. This portfolio has performed very well TTC.

Although residential mortgage exposure comprises 28% of gross loans and advances, Nedbank Group has the smallest portfolio when compared with its peers. This portfolio is a focus area of a differentiated, selective origination growth strategy within portfolio tilt.

Retail motor vehicle finance exposure within Nedbank Group is only 11,3% of gross loans and advances, while market share is dominant at approximately 31%. This portfolio has been built by an experienced management team and their application of sound 'manage for value' principles and risk-based pricing generating in excess of R1bn in headline earnings during 2011.

GEOGRAPHIC

Given that 94% of the group's loans and advances originate in SA, local geographic exposure is high. Practically, however, this concentration has proven positive for Nedbank Group, given the global financial crisis, and reflects its focus on its area of core competence.

The direct exposure of Nedbank Group to the banking sectors of PIIGS is R261m, while total euro exposure is R9 476m, is being monitored on an ongoing basis and is not material, as highlighted earlier. The group holds no sovereign bonds issued by these countries. Direct lines to banks in Italy and Spain are restricted to systemically important banks.

COUNTERPARTY CREDIT RISK

Nedbank Group sets counterparty limits at a counterparty level, utilising margining agreements for risk mitigation. The transaction approval process considers the underlying products, together with Nedbank Group's ability to value the transaction and manage the associated risk.

Nedbank Group applies the Current Exposure Method (CEM) for Basel II counterparty credit risk and in the determination of credit economic capital.

OVER-THE-COUNTER DERIVATIVES

Over-the-counter derivative products	2011		2010	
Rm	Notional value	Gross positive fair value	Notional value	Gross positive fair value
Credit default swaps	12 220	248	8 338	56
Embedded derivatives	2 308[1]	2	3 720	2
Proprietary trading	9 912[2]	246	4 618	54
Equities	1 305	1 976	11 740	569
Foreign exchange and gold	241 164	4 356	346 824	6 212
Interest rates	628 780	8 735	419 210	7 234
Other commodities	147	19	4 172	147
Precious metals except gold			6 487	105
Total	883 616	15 334	796 771	14 323

[1] *Credit default swaps embedded in credit-linked notes (CLNs) issued by Nedbank Group, whereby credit protection of R2 260m is purchased on CLNs and credit protection of R48m is sold.*

[2] *Proprietary trading positions at the end of the respective period where Nedbank Group is the purchaser (R5 295m) and seller (R4 617m) of credit protection.*

Over-the-counter derivative netting Rm	Gross positive fair value	Current netting benefits	Netted exposure (before mitigation)	Collateral	Netted exposure (after mitigation)	Exposure at default	RWA
2011	15 335	8 806	6 299	900	5 542	9 437	2 353
2010	14 323	6 983	9 052	368	8 766	11 718	4 428

SECURITIES FINANCING TRANSACTIONS

Securities financing transactions

Rm	Gross positive fair value	Collateral value after haircut	Netted current credit exposure (after mitigation)	Exposure at default	RWA
2011					
Repurchase agreements	12 911	12 572	339	339	12
Securities lending	7 216	13 350	940	940	103
Total	**20 127**	**25 922**	**1 279**	**1 279**	**115**
2010					
Repurchase agreements	10 849	10 343	506	506	26
Securities lending	8 738	9 715	1 237	1 237	89
Total	19 587	20 058	1 743	1 743	115

SECURITISATION RISK

Nedbank Group uses securitisation exclusively as a funding diversification tool and to add flexibility in mitigating structural liquidity risk. The group currently has two traditional securitisation transactions:

- GreenHouse Funding (Pty) Limited, Series 1 (GreenHouse), a residential mortgage-backed securitisation programme launched in December 2007.
- Synthesis Funding Limited (Synthesis), an asset-backed commercial paper (ABCP) programme launched during 2004.

Octane ABS 1 (Pty) Limited, a securitisation of motor vehicle loans launched in July 2007, successfully repaid all investors in October 2011.

ASSETS SECURITISED AND RETAINED SECURITISATION EXPOSURE

Transaction					Assets securitised		Assets outstanding		Amount retained/ purchased[1]	
Rm	Year initiated	Rating agency	Transaction type	Asset type	2011	2010	2011	2010	2011	2010
GreenHouse	2007	Moody's and Fitch	Traditional securitisation	Retail mortgages	2 000	2 000	1 462	1 699	218	226
Octane	2007	Fitch	Traditional securitisation	Auto loans		2 000		607		312
Total					2 000	4 000	1 462	2 306	218	538

[1] *This is the nominal amount of exposure and excludes accrued interest.*

LIQUIDITY FACILITIES PROVIDED TO NEDBANK GROUP'S ASSET-BACKED COMMERCIAL PAPER PROGRAMME

Transaction						Assets outstanding		Liquidity facilities	
Rm	Year initiated	Rating agency	Transaction type	Asset type	Programme size	2011	2010	2011	2010
Synthesis	2004	Fitch	ABCP programme	Asset-backed securities, corporate term loans and bonds	15 000	4 044*	5 006	4 047	5 009

Nedbank Group has not engaged in any new securitisation transactions of its own assets in the period under review. There have been no downgrades of any of the commercial paper issued in Nedbank Group's securitisation transactions and the performance of the underlying portfolios of assets remains acceptable.

Nedbank Group also fulfils a number of secondary roles as liquidity facility provider, swap provider and investor in third-party securitisation transactions. All securitisation transactions entered into thus far have involved the sale of the underlying assets to the special-purpose vehicles. Nedbank Group has not originated or participated in synthetic securitisations.

Nedbank Group complies with IFRS in recognising and accounting for securitisation transactions. In particular, the assets transferred to the GreenHouse securitisation vehicle continue to be recognised and consolidated in the balance sheet of the group and the securitisation vehicle is consolidated under Nedbank Group for financial reporting purposes, as is Synthesis. Securitisations are treated as sales transactions (rather than financing). The assets are sold to the special-purpose vehicles at carrying value and no gains or losses are recognised.

TRADING MARKET RISK

Most of Nedbank Group's trading activity is executed in Nedbank Capital. This includes marketmaking and the facilitation of client business and proprietary trading in the foreign exchange, interest rate, equity, credit, and commodity markets. Nedbank Capital primarily focuses on client activities in these markets.

NEDBANK GROUP TRADING BOOK VALUE AT RISK*

	2011				2010			
Risk type	**Historical VaR (99%, one-day VaR)**				Historical VaR (99%, one-day VaR)			
Rm	**Average**	**Minimum[1]**	**Maximum[1]**	**Year-end**	Average	Minimum[1]	Maximum[1]	Year-end
Foreign exchange	**3,5**	**0,7**	**13,6**	**3,9**	2,2	0,6	6,7	3,9
Interest rate	**8,8**	**5,1**	**14,2**	**5,1**	9,0	3,9	14,9	6,2
Equity	**4,0**	**2,2**	**10,6**	**9,2**	3,6	1,4	9,3	2,8
Credit	**2,7**	**1,3**	**4,0**	**2,3**	2,8	0,8	4,0	4,0
Commodity	**0,3**	**0,0**	**1,1**	**0,8**	0,7	0,0	1,5	0,2
Diversification[2]	**(7,3)**			**(7,4)**	(7,3)			(6,2)
Total VaR exposure	**12,0**	**5,9**	**21,0**	**13,9**	11,0	6,1	18,3	10,9

[1] The maximum and minimum VaR values reported for each of the different risk factors do not necessarily occur on the same day. As a result a diversification number for the maximum and minimum values has been omitted from the table.
[2] Diversification benefit is the difference between the aggregate VaR and the sum of VaRs for the five risk types. This benefit arises because the simulated 99%/one-day loss for each of the five primary market risk types occurs on different days.

In addition to applying business judgement, management uses a number of quantitative measures to manage the exposure to trading market risk. These measures include:

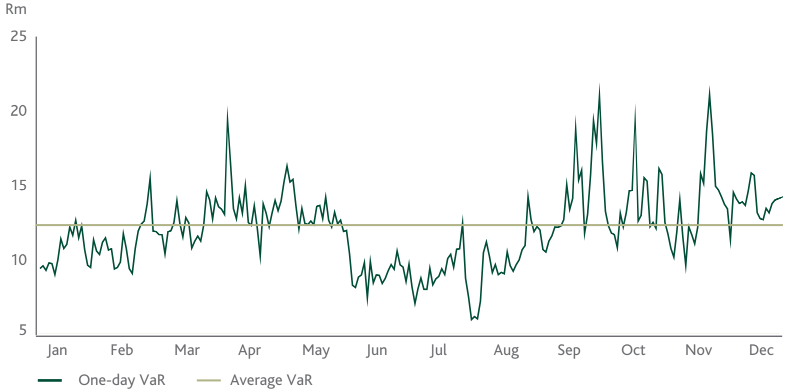
- Risk limits based on a portfolio measure of market risk exposures referred to as VaR, including expected tail loss.
- Scenario analysis, stress tests and other analytical tools that measure the potential effects on the trading revenue arising in the event of various unexpected market events.

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

Nedbank Group's trading market risk exposure expressed as average daily VaR increased in 2011 by 9% from R11m to R12m. The economic and financial outlook in 2011 was uncertain against the backdrop of a fragile global economy and the threat of sovereign default in the Eurozone. This negatively impacted the risk appetite in all the market risk categories.

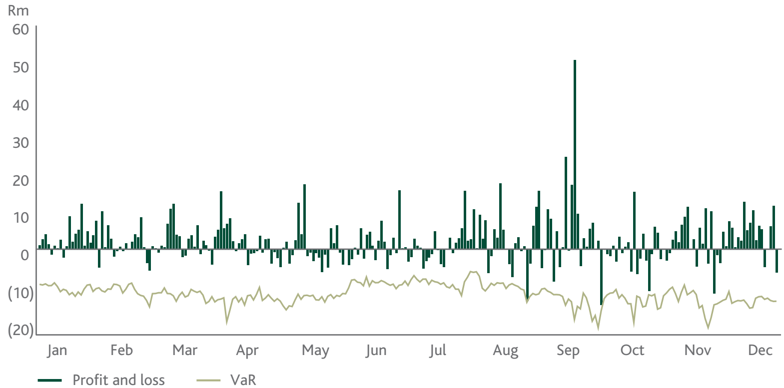
* *Audited.*

VALUE-AT-RISK UTILISATION FOR 2011 (99%, ONE-DAY VaR)



The graph above illustrates the daily VaR for the 12-month period from 1 January to 31 December 2011. Nedbank Group remained within the approved risk appetite and the VaR limits allocated by the board, which remain low, with market trading risk consuming only 1,6% and 1,2% of group economic capital and regulatory capital respectively.

VALUE-AT-RISK PROFIT AND LOSS FOR 2011



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

Nedbank Group used a holding period of one day with a confidence level of 99%, and had no backtesting exceptions for the 12-month period from 1 January to 31 December 2011.

Nedbank Group's trading businesses (including net interest, commissions and primary revenue credited to Nedbank Group's trading businesses) produced a daily revenue distribution that is skewed to the profit side, with trading revenue being realised on 209 days out of a total of 249 days in the period. The average daily trading revenue generated for the period, excluding that related to investment banking, was R6,02m (2010: R6,03m).

* *Audited.*

As part of the Basel II.5 update to the Banks Act regulations, implemented in SA on 1 January 2012, the RWA for market risk will require an add-on for stressed VaR as opposed to being based purely on normal VaR as required by Basel II. This will result in an approximate doubling of the RWA required for market risk, but will have a small impact on normal capital adequacy ratios due to Nedbank Group's risk profile having a very low market trading risk component. This is incorporated in the pro forma Basel II.5 ratios at 31 December 2011 shown elsewhere in this report.

EQUITY RISK (INVESTMENT RISK) IN THE BANKING BOOK

The total equity portfolio for investment risk is R4 385m (2010: R3 919m). R3 240m (2010: R2 897m) is held for capital gain, while the rest is mainly strategic investments.

INVESTMENTS*

	Publicly listed		Privately held		Total	
Rm	2011	2010	2011	2010	2011	2010
Fair value disclosed in balance sheet (excluding associates and joint ventures)	796	536	3 049	2 475	3 845	3 011
Fair value disclosed in balance sheet (including associates and joint ventures)	796	536	3 589	3 383	4 385	3 919

Equity risk in the banking book is a very small component of the group's balance sheet, comprising only 0,7% of the group's total assets, 5,1% of the group's total economic capital requirement and 4,4% of the group's regulatory risk capital.

EQUITY INVESTMENTS HELD FOR CAPITAL GAIN (PRIVATE EQUITY) REPORTED IN NIR

	Nedbank Group		Nedbank Capital		Nedbank Corporate	
Rm	2011	2010	2011	2010	2011	2010
Securities dealing	(79)	3	152	(46)	(231)	49
Investment income – dividends received	402	225	97	194	305	31
Total	323	228	249	148	74	80
Realised	499	230	230	214	269	16
Unrealised	(176)	(2)	19	(66)	(195)	64
Total	323	228	249	148	74	80

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

INSURANCE RISK

Insurance risk arises in the Nedbank Wealth Cluster and is covered by Nedgroup Life Assurance Company Limited (Nedgroup Life) and Nedgroup Insurance Company Limited (Nedgroup Insurance).

- Nedgroup Life offers credit life, simple-risk and savings solutions, as well as a set of differentiated underwritten individual risk life products supported by a wellness programme. A large part of the book is derived from the provision of life cover linked to Nedbank Group's lending activities.
- Nedgroup Insurance is a short-term insurer that focuses predominantly on homeowner's insurance, personal accident and limited vehicle-related value-add products for the retail market.

The Nedbank Wealth Cluster, which also provides wealth management and asset management services, is a capital and liquidity 'light' business that generates high returns off a low risk profile. Accordingly, it is a 'high growth' area in the group's portfolio tilt strategy and insurance risk consumes only 0,6% of total group economic capital. The solvency ratios are set out earlier in this report.

The FSB is introducing a revised prudential regime for insurance, the SAM regime, to ensure that regulation of the SA insurance sector remains in line with international best practice. SAM is based on Solvency II, a risk-based capital adequacy directive being implemented for European insurers and reinsurers in 2013. SAM, like Basel II, is based on three pillars and is intended to be implemented in 2014.

The group is on track to implement the regulatory requirements of SAM proactively, with a focus on the strategic intent to optimise the new regime. During 2011 the first Quantitative Impact Study was submitted to the FSB. This study was done to determine the likely capital levels, analyse the work required to ensure compliance and to design a solution in respect of the three pillars of SAM. SAM will not have a material impact on the group's capital adequacy position and the interim requirements ahead of full implementation are being met.

* *Audited.*

OPERATIONAL RISK*

In December 2010 Nedbank Group was granted approval by the SARB to use the AMA with diversification. Consequently, the group now calculates its operational risk regulatory capital requirements using partial and hybrid AMA.

This approval by the SARB confirms the existence, across the group, of sound operational risk governance practices aimed at identifying, measuring and mitigating operational risks. The group continued investing in the improvement of its operational risk measurement and management approaches in 2011.

The AMA Operational Risk Management Framework as approved by the board's Group Risk and Capital Management Committee and any subsequent amendments are tabled on an annual basis for consideration. The AMA methodologies contained therein have already been rolled out and embedded in the businesses, including those for the purposes of economic capital and the ICAAP.

OPERATIONAL RISK STRATEGY, GOVERNANCE AND POLICY

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, 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 is not typically taken in pursuit of an expected return, but exists as part of the normal course of business at all levels. The main sources of operational risk include:

LEGAL RISK

Legal risk arises from the necessity that the group conducts its activities in conformity with the business and contractual legal principles applicable in each of the jurisdictions where the group conducts its business. The possibility of a failure to meet these legal requirements may result in unenforceable contract disputes, litigation, fines, penalties or claims for damages or other adverse consequences.

COMPLIANCE AND REGULATORY RISK

Compliance and regulatory risk has become increasingly significant and there continues to be considerable demand for compliance with various new and amended regulatory requirements. Nedbank Group remains committed to the highest regulatory and compliance standards, especially due to the increasing scale and complexity of laws and regulations.

INFORMATION TECHNOLOGY RISK

Technology risk stems from risks associated with misalignment with business strategy; an uncoordinated or inefficient IT strategy; failure of projects to deliver desired change, data protection and information privacy; effects of physical disasters on information systems; IT outsourcing, IT performance and information systems governance. The Group Technology Cluster manages information and technology risk through the Technology Management Policy.

* *Audited.*

PEOPLE RISK

People risk is the risk associated with inadequacies in human capital and the management of human resources, policies and processes resulting in the inability to attract, manage, motivate, develop and retain competent resources, with concomitant negative impact on the achievement of strategic group objectives. The group vigorously manages people risk through Group Human Resources.

PERSONNEL INTEGRITY MANAGEMENT

Nedbank Group expects all its staffmembers to maintain standards of honesty, integrity and fair dealing and to act with due skill, care and diligence. Nedbank Group minimises people risk by ensuring that controls are incorporated into the recruitment and selection processes of all employees, including contractors, temporary employees and consultants. This process aims to minimise the group's vulnerability to fraud, embezzlement, theft, corruption and mismanagement of job responsibilities. It also cultivates a culture of business ethics and integrity in keeping with Nedbank Group's values, and endorses the Code of Good Banking Practice that states that 'Banks will conduct their business with uncompromising integrity and fairness so as to promote complete trust and confidence in the banking industry'.

The Financial Advisory and Intermediary Services Act, 37 of 2002, determines the 'fit and proper' requirements that are applicable to all financial service providers, key individuals, representatives and compliance officers. Nedbank Group ensures screening of these persons every 24 months to ensure the highest level of honesty and integrity. All new appointments of directors or executive directors, as required by the Banks Act, 94 of 1990, are screened to comply with the requirements of honesty and integrity. This also reduces the potential for conflicts of interest.

FINANCIAL CRIME

Nedbank Group considers financial crime to be a major operational risk that leads to significant losses, and it is for this reason that the group pursues a vigorous policy of mitigating the risk through active risk management.

FRAUD RISK MANAGEMENT

Crime not only causes financial losses, but also undermines the very fabric of society. Nedbank Group combats fraud and dishonesty in its own ranks and strives to protect its shareholders, clients and stakeholders from falling victim to unscrupulous individuals and organised crime groupings. Fraud prevention measures include internal and external whistleblowing reporting lines, anti-corruption initiatives and cybercrime combating capabilities.

INTERNAL FRAUD AND DISHONESTY

Nedbank Group maintains a policy of zero tolerance towards any dishonesty among staffmembers. In 2011 a total of 194 staffmembers were dismissed as a result of internal investigations. This is a decrease of 19,5% compared with 2010.

ASSESSMENT OF FRAUD RISK

The risk of internal and external fraud is evaluated on several levels:

- Risk control self-assessments are conducted on an ongoing basis to ensure that the appropriate controls are in place and monitored effectively.

- Fraud key risk and control indicators have been developed and are monitored, tracked and reported on in accordance with the Operational Risk Management Framework (ORMF).
- Facilitated fraud risk assessments are undertaken as outlined in the International Standards for Auditing 240 (ISA 240).
- New products, and all processes related to their use, are evaluated to ensure that all aspects of fraud risk, legal risk and regulatory risk (such as the anti-money-laundering requirements) are considered.

DUE-DILIGENCE INVESTIGATIONS

Due-diligence investigations are performed at the start of any prospective relationship with clients, partners, vendors, agents, intermediaries or joint venture partners. In addition, ongoing assessment is performed on the commercial, political, social and security environment where such business is undertaken, or likely to be undertaken. Social, economic and governmental changes in a country can create an environment that reduces security and increases the risk to the group's assets, staff, premises and information and, consequently, its ability to continue to do business. In 2011 a total of 1 020 due-diligence investigations were performed in 50 countries.

INTERNAL AND EXTERNAL WHISTLEBLOWING REPORTING LINES

Nedbank Group strives to create a safe and enabling environment where concerns, irregularities and anonymous reports of unethical conduct, including theft, fraud and corruption can be reported safely and without fear of retribution and victimisation. Various reporting channels are available to employees, vendors, service providers and clients and a new reporting website will be launched during 2012.

Security- and fraud-related incidents can be reported, around the clock, through an internal reporting line, which is supported by an external, independently managed whistleblowing hotline, available to staff and clients. The facility also extends to Nedbank Africa subsidiaries in Namibia, Swaziland, Lesotho, Malawi and Zimbabwe. An ethics panel has been established for the appropriate handling of reports of a sensitive or serious nature.

Efforts are made to educate staff around the group about the existence of the whistleblowing facility and to help them detect the signs of possible fraudulent or improper activity. In 2011 a total of 1 606 anonymous tipoffs were received (2010: 1 497).

ONLINE FRAUD

The increasing effectiveness of worldwide internal measures to mitigate fraud risk in financial institutions has led organised crime groupings to shift their attention to those environments over which financial roleplayers have less control, specifically the clients of banks. In addition to its ongoing efforts to increase public awareness of cybersafety, Nedbank Group has developed measures to prevent and detect possible online fraud attempts against its clients. This has led to a year-on-year decrease of 52% in the average loss sustained by clients who had compromised their online banking credentials through non-adherence to elementary online safety principles.

CORRUPTION

Corruption is a key cause of unsustainable businesses. As a responsible lender and corporate citizen, Nedbank Group is opposed to corruption in all its manifestations. In the fourth quarter of 2011 66% of Nedbank Group staff, including Mike Brown and the group Exco, signed an anti-corruption pledge committing themselves to take a stand against corruption and to uphold ethical and transparent business practices. In addition, Nedbank Group embarked on a programme to ensure compliance with the new UK Bribery Act. Fraud and corruption risk assessments were conducted in all subsidiaries of the group.

WHISTLEBLOWING

The Whistleblowing Policy guarantees an environment free of victimisation, in which staff can report suspected dishonest or criminal behaviour. An independently run hotline guarantees absolute anonymity of any such whistleblowers. In 2011 a total of 895 whistleblowing reports were referred for investigation to Group Forensic Services. A total of 47 of these investigations led to disciplinary action against staffmembers.

CYBERCRIME RISK

Nedbank Group has taken note of the increasing impact of cybercrime on the banking industry and its clients and has established extensive internal digital forensic and e-discovery capabilities to deal with this risk effectively. The group also provides training and awareness in digital forensics at tertiary institutions and to the law enforcement community in SA.

The group is working with other financial institutions through the South African Bank Risk Information Centre (SABRIC) to establish a financial sector cybersecurity incident response team (CSIRT). This will be aligned with the envisaged national CSIRT in the Draft Cybersecurity Policy of South Africa issued by the Department of Communication to implement proactive measures to reduce the risks of cybercrime and cybersecurity incidents as well as to respond to such incidents when they occur.

INFORMATION SECURITY RISK

Information security risk arises from an inability to ensure the confidentiality, integrity and availability of business and client information for which the group is accountable. In 2011 all information security responsibilities for the group were consolidated under a Chief Information Security Officer. Nedbank Limited is a member of the Information Security Forum (ISF) and subscribes to the ISF's Standards of Good Practice as part of the Information Security Management Framework.

As a result of the effective cooperation in the financial sector CSIRT, the SA financial sector will be viewed as a less attractive target for both local and international fraudsters, thereby reducing security costs and contributing to a safer and more clientfriendly electronic banking environment.

PHYSICAL SECURITY RISK

The focus for security in 2011 was to maintain and improve the outstanding results achieved in 2010. This objective was achieved, however, in comparison with the financial services industry as a whole, Nedbank Limited experienced a slight increase in armed robberies. However, ATM attacks were reduced.

Focal points for 2012 will include the rollout of additional security measures for branches and ATMs and strengthening of relationships with the South African Police Service (SAPS), and National Prosecuting Authority for the banking sector through the facilitation of SABRIC.

COOPERATION WITH THE CRIMINAL JUSTICE SYSTEM

In 2011 Nedbank Group reported 497 suspicions of corruption and/or fraud in excess of R100 000 to the SAPS in terms of section 34 of the Prevention and Combating of Corrupt Activity Act. The group was also able to assist the SAPS in its investigations by responding to 3 697 subpoenas.

MONEY-LAUNDERING, TERRORIST FINANCING AND SANCTIONS RISK MANAGEMENT

Nedbank Group does not associate, in any way, with money-laundering activities or terrorist financing. Clearly defined policies and procedures ensure compliance with all statutory requirements and regulatory obligations or, in the absence of these, that agreed security standards are met. The group takes a proactive approach by endeavouring to identify any business relationships or applications for business relationships or transactions with individuals, entities and countries targeted in financial sanctions legislation.

The Business Risk Management Forum (BRMF), a Group Executive subcommittee chaired by the Chief Risk Officer, is mandated to provide strategic direction for, and monitor the effective implementation of, anti-money-laundering (AML), combating the financing of terrorists (CFT) and sanctions compliance initiatives throughout the group. The Money-laundering Control Programme (MLCP) Executive Steering Committee, a subcommittee of the BRMF, ensures the internationalisation and operational implementation of AML, CFT and sanctions compliance.

Nedbank Group Risk maintains a close and transparent working relationship with the Financial Intelligence Centre (FIC), and attends bimonthly meetings with the FIC and SARB Bank Supervision Department to ensure compliance with their requirements and obtain clarification where necessary.

2011 KEY PERFORMANCE INDICATORS

At end 2011 a total of 4 745 528 client records were reflected on Nedbank Group's Client Information System as having been verified. Of the 119 797 non-verified client records 95 464 have been restricted, with 24 333 records in the process of being restricted. The number of non-verified, not yet restricted records equates to 0,42% of the total number of records, which is below the BRMF-approved risk threshold of 0,5%. Training for AML and CFT remains a high priority. For the 24 months to 31 December 2011 a total of 85% of employees completed the awareness training for AML and CFT.

The Awareness Training for AML/CFT was updated to align with the FIC Amendment Act, which became effective 1 December 2011.

Annual directors' training programmes for money-laundering, terrorist financing and sanctions risk management were presented to the Group Risk and Capital Management Committee on 12 October 2011 in compliance with SARB, FIC and international requirements.

LOOKING FORWARD

Group Regulatory Risk Programmes continue to enjoy the full support of group, cluster, and business line executives. All key decisionmakers are active members of the MLCP Executive Steering Committee or its related governance forums and structures.

The intention going forward is to continue building on the positive interactions with the regulator and supervisory structures, thereby cementing sustainable and trusting relationships that unlock benefits for all parties involved.

Given the challenging economic climate and pressures on already scarce knowledgeable resources, Nedbank Group will continue to focus on the implementation of innovative initiatives that limit money laundering and terrorist financing and to promote sanctions compliance in the months and years ahead.

BUSINESS CONTINUITY MANAGEMENT

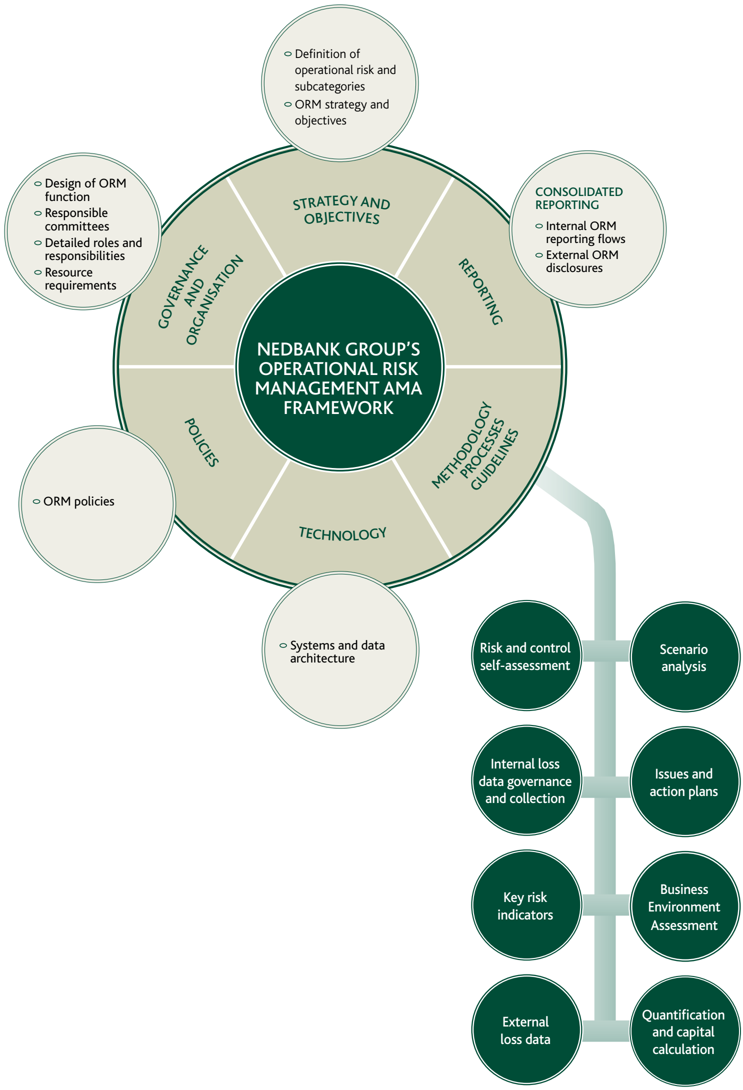
Business continuity management (BCM) is aimed at ensuring resilient group business activities in emergencies and disasters. The BCM function provides overall guidance and direction, monitors compliance with regulatory and best-practice requirements and facilitates regular review of BCM practices. Identified critical business units conduct annual business recovery tests from three regional business resumption areas, while all Payments Association of SA (PASA)-related recovery is tested in conjunction with the quarterly disaster recovery tests at the group's disaster recovery site. Business recovery tests and disaster recovery tests conducted during the course of 2011 were successful.

MANAGEMENT OF OPERATIONAL RISK

Business clusters act as the first line of defence and are responsible for the identification, management, monitoring and reporting of operational risk. Operational risk is reported and monitored through the divisional and cluster enterprisewide risk committees and overseen by the Group Operational Risk Committee (GORC) and the board's Group Risk and Capital Management Committee. The Group Operational Risk Management (GORM) Division within the Group Risk Cluster acts as the second line of defence in the Nedbank ERMF.

The primary responsibilities of GORM are to develop, maintain and champion the Group Operational Risk Management Framework, policies and enablers to support Operational Risk Management (ORM) in the business as well as the implementation of the Basel II and regulatory requirements and international best practice for ORM.

The diagram below depicts the Nedbank Group AMA ORMF elements



The internal loss data collection process and KRI tracking are backward-looking and enable the monitoring of trends and the analysing of the root causes of loss events. Operational risk losses are reported on in the Nedbank Internal

Specialist functions in Group Risk, for example Forensic Services, Business Continuity Planning, Group Legal and Corporate Insurance, also assist businesses with specialist advice, policies and standard setting. Pervasive operational risk trends are monitored and reported on to the enterprisewide risk committees and, where appropriate, to GORC and to the Board Risk and Capital Management Committee. Group Internal Audit, being the third line of defence, provides assurance to GORC.

OPERATIONAL RISK MEASUREMENT, PROCESSES AND REPORTING SYSTEMS

The primary operational risk measurement processes in the group are risk and control self-assessments, internal loss data collection processes and governance, the tracking of key risk indicators (KRIs), external loss data, scenario analysis and capital calculation, which are designed to function in an integrated and mutually reinforcing manner.

RISK AND CONTROL SELF-ASSESSMENT

Risk and control self-assessment (RCSA) is a forward-looking process through which business unit management identifies risks that could threaten the achievability of business objectives and offers a set of controls and actions to mitigate the risks.

INTERNAL LOSS DATA COLLECTION AND KEY RISK INDICATOR TRACKING

The internal loss data collection process and KRI tracking are backward-looking and enable the monitoring of trends and the analysing of the root causes of loss events. Operational risk losses are reported on in the Nedbank Internal Loss Data Collection System. 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.

BOUNDARY EVENTS

Boundary events are those losses and near misses that manifest themselves in other risk types, such as credit and market risk, but have relevance to operational risk because they emanate from operational breakdowns or failures. Boundary events are often identified by credit and market risk management, and are included in credit risk loss databases and operational risk capital calculations respectively.

Material credit risk events caused by operational failures in the credit processes are flagged separately in the Internal Loss Data Collection System. In line with the Banks Act and Basel II requirements, holding of capital related to these events remains in credit risk. These events are included as part of the ORMF to assist in the monitoring, reporting and management of the control weaknesses and causal factors within the credit process.

Material market risk events caused by operational failures in the market risk processes are also flagged separately in the Internal Loss Data Collection System. The capital holding thereof is included in operational risk capital.

EXTERNAL LOSS DATA

The purpose of using external data is to incorporate infrequent, yet relevant and potentially severe, operational risk exposures into the measurement model. The group currently incorporates the effects of external data in the operational risk capital calculation model indirectly, in conjunction with the scenario analysis process.

The group joined the Operational Riskdata eXchange Association (ORX) in January 2011 to improve the accuracy and relevancy of external loss data used in the model. In addition, the group subscribes to the SAS® OpRisk Global Database.

SCENARIO ANALYSIS

Scenario analysis is also a required element of AMA and is defined in the ORMF as one of the data sources for operational risk modelling and measurement. It serves as the main input for unexpected loss estimation. Scenario analysis is conducted in a disciplined and structured way using expert judgement to estimate the operational risk exposure of the group. Scenario analysis focuses on solvency and aims to identify the major operational risks that can negatively affect the solvency of the group.

CAPITAL MODELLING AND CAPITAL ALLOCATION

An AMA capital model is applied to determine the group's operational risk capital requirements. The model goes through review, validation and approval in accordance with group's operational risk governance processes. Operational risk capital is allocated to clusters in the form of economic capital on a risk-sensitive basis. This allocation provides an incentive to improve controls and to manage these risks within established operational risk appetite levels.

BUSINESS ENVIRONMENT AND INTERNAL CONTROL FACTORS

The group takes into account business environment and internal control factors during the conduct of risk and control self-assessments. Consideration of internal control and business environment factors enables the group to take into account any changes in the external and internal business environment, consider inherent risks as a result of any changes in the business environment and design appropriate controls.

REPORTING

A well-defined and embedded reporting process is in place. Risk profiles, loss trends and risk mitigation actions are reported to and monitored by the risk governance structures of the group.

INSURANCE OBTAINED TO MITIGATE THE BANK'S EXPOSURE TO OPERATIONAL RISK

The group has a well-structured insurance programme for its financial and non-financial risks to mitigate its operational and fraud exposures. The group has an insurance operation that reports to the Group Chief Risk Officer and is responsible for the design and management of the principle insurance programmes addressing the group operational risk exposures. This function is responsible for ensuring that the cover purchased for the group is up to date with the best coverage available within the insurance markets and relevant to the group operating environment.

Cover is reviewed annually and, wherever possible, cover is extended to align with Nedbank Group's strategy and aspirations. A recent example of this was the inclusion of a 'green clause' in the group's asset insurance, allowing additional cost cover to ensure that any buildings that are damaged or destroyed can be replaced with structures that meet the group's green standards .

The Group Insurance Division also ensures that cover is purchased where required to meet any statutory or regulatory requirements. The primary insurance policies that cover exposures to operational risk include comprehensive crime and professional indemnity.

Insurance programme highlights in 2011 included:

- A three-year reduction in premium.
- Maintenance of form in challenging market conditions.
- Maintenance of deductible levels where markets were looking to increase client retention.
- Broadening of market relationships.
- Increased participation (Lloyds syndicates, London company markets and SA markets).

- Strong lead markets representation.
- Avoidance of concentration risk by preventing an overreliance on any one specific market.
- Development of additional market capacity.
- Achievement of full retroactive cover for higher limit.
- The introduction of a green clause in assets insurance coverage – a first in SA.

COMPLIANCE RISK MANAGEMENT

The fact that Nedbank Group operates globally means it is subject to a variety of complex local and international laws, regulations and supervisory requirements. The group therefore has board-approved policies, procedures and governance structures that direct compliance risk management and associated activities and the board exercises its oversight of compliance risk via the Directors' Affairs Committee. In addition, the group has an independent enterprise governance and compliance function that forms part of the second line of defence within its risk management model.

The key activities undertaken by Enterprise Governance and Compliance in support of the directors, executive officers, management and employees in discharging their compliance responsibilities include:

- Providing continuous strategic compliance risk management leadership.
- Undertaking independent compliance risk monitoring.
- Setting the group's governance and compliance framework.
- Working closely with the various cluster governance and compliance functions to embed compliance risk management practices within their respective businesses.

The following were some of the key regulatory developments in 2011:

COMPANIES ACT

The Companies Act, 71 of 2008 (as amended,) came into effect on 1 May 2011. Nedbank Group completed an assessment of the full effect of the act on its business, and continues to monitor compliance with the act across the group, and how the courts will interpret the provisions of this new legislation. Processes have been put in place to meet the compliance requirements and to mitigate credit risks.

THE CONSUMER PROTECTION ACT

The act and regulations came into effect on 31 March 2011. Nedbank Group's processes and documentation have been amended to align with the provisions of the act.

PROTECTION OF PERSONAL INFORMATION BILL

Nedbank Group is reviewing current systems and processes to ensure compliance with this anticipated legislation. The Minister of Justice announced in Parliament that the legislation is expected to be passed in 2012.

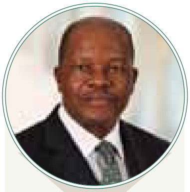
The Protection of Personal Information Bill was tabled before Parliament in August 2009 and governs all aspects of processing of the personal information of individuals and juristic persons. Nedbank Group has been highly proactive in respect of this bill and implemented a programme that included:

- An extensive staff awareness campaign.
- Enhanced reporting processes in respect of loss of information.
- Appropriate encryption and controls on all Nedbank Group computers.
- The appointment of the Information Protection Officer.
- Introduction of a regulatory programme to address the principles of privacy embodied in the bill.

OPERATIONAL RISK GOVERNANCE STRUCTURE

The diagram below depicts the operational risk governance structure within Nedbank Group.

BOARD OF DIRECTORS



Dr Reuel Jethro Khoza (62)

Non-executive Chairman

APPOINTED
August 2005 as a non-executive director and May 2006 as Chairman.

QUALIFICATIONS
BA(Hons) Psychology (University of Limpopo), MA Marketing Management (Lancaster, UK), EngD (Warwick, UK), IPBM-IMD (Lausanne, Switzerland), PMD (Harvard Business School, USA), LLD(hc) Rhodes.

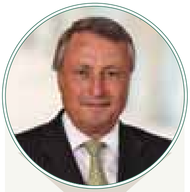
NATIONALITY
SA.

Reuel was appointed the non-executive Chairman of the group in May 2006. He is also Chairman of Aka Capital (Pty) Limited, and a non-executive director of Nampak Limited, Protea Group Limited and Old Mutual plc. He is president of the Institute of Directors and, in this capacity, served on the King II and King III Committees on corporate governance. He is a founding director of the Black Management Forum and the former Chairman of Eskom Holdings Limited. Reuel is also the Chancellor of the University of Limpopo.

COMMITTEES
Group Directors' Affairs Committee (Chairman).

SHARES
Nedbank Group Limited ordinary shares:
1 800 beneficial direct and 1 374 beneficial indirect.

Nedbank Limited preference shares: 0.



Thomas Andrew Boardman (62)

Non-executive Director

APPOINTED
November 2002 as an executive director and March 2010 as a non-executive director.

QUALIFICATIONS
BCom, CA (SA).

NATIONALITY
SA.

Tom was Chief Executive of Nedbank Group Limited from December 2003 to February 2010. He was previously Chief Executive and an executive director of BoE Limited. He was the founding shareholder and Managing Director of retail housewares chain Boardmans, which was sold to Pick n Pay Stores Limited in 2006. Prior to this he was Managing Director of Sam Newman Limited and worked for the Anglo American Corporation Limited for three years. He is a non-executive director of Nedbank Group, Woolworths Holdings Limited and Mutual & Federal Insurance Company Limited. He is a director of the World Wide Fund for Nature South Africa and The Peace Parks Foundation and Chairman of The David Rattray Foundation, and serves as a trustee on a number of other charitable foundations.

COMMITTEES
Group Information Technology Committee (Chairman with effect from 24 February 2012), Group Transformation, Social and Ethics Committee, Group Credit Committee, Large-exposure Approval Committee, Group Finance and Oversight Committee.

SHARES
Nedbank Group Limited ordinary shares:
55 662 beneficial direct and 191 548 beneficial indirect.

Nedbank Limited preference shares: 85 000 beneficial indirect.

Michael William Thomas Brown (45)

Chief Executive

APPOINTED
June 2004 as an executive director and March 2010 as Chief Executive.

QUALIFICATIONS
BCom, Dip Acc, CA (SA), AMP (Harvard Business School, USA).

NATIONALITY
SA.

Before being appointed Chief Executive of Nedbank Group in 2010, Mike was the Chief Financial Officer of the group. Prior to this he was an executive director of BoE Limited and, after the merger between Nedbank Limited, BoE Limited, Nedbank Investment Bank Limited and Cape of Good Hope Bank Limited, was appointed Head of Property Finance at Nedbank Limited.

COMMITTEES
Large-exposure Approval Committee, Group Credit Committee.

SHARES
Nedbank Group Limited ordinary shares:
65 190 beneficial direct and 346 115 beneficial indirect.
Nedbank Limited preference shares: 0.

Thenjiwe Claudia Pamela Chikane (46)

Independent Non-executive Director

APPOINTED
November 2006.

QUALIFICATIONS
CA.

NATIONALITY
SA.

Thenjiwe was previously the Chief Executive Officer of MGO Consulting and the Head of the Gauteng Department of Finance and Economic Affairs. She is a boardmember of Datacentrix Holdings Limited and the Institute of Directors and a trustee of the Africa Rice Centre. She was previously a non-executive director of the Development Bank of Southern Africa, Telkom SA Limited, The Petroleum, Oil and Gas Corporation of South Africa (SOC) Limited (PetroSA) and chairperson of the State Information Technology Agency.

COMMITTEES
Group Transformation, Social and Ethics Committee, Group Audit Committee, Group Credit Committee, Group Information Technology Committee, Group Directors' Affairs Committee, Large-exposure Approval Committee, Group Remuneration Committee (appointed 24 February 2012 as Chairman designate)

SHARES
Nedbank Group Limited ordinary shares:
24 326 beneficial indirect.

Nedbank Limited preference shares: 0.

Graham Wayne Dempster (56)

Chief Operating Officer

APPOINTED
August 2009.

QUALIFICATIONS
BCom, CTA, CA (SA), AMP (Harvard Business School, USA).

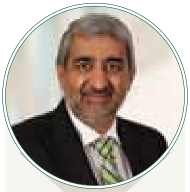
NATIONALITY
SA.

Graham joined the group in 1980 in the Corporate Finance Division of UAL Merchant Bank Limited. He was appointed General Manager in 1987 and Joint Head of the Special Finance Division in 1989. In 1992 he was transferred to Nedbank Limited, and in 1998 was appointed Head of the International Division. He assumed responsibility for the Corporate Banking Division in 1999 and was appointed Managing Director of Nedbank Corporate in 2003. Graham was appointed as the Chief Operating Officer of Nedbank Group in August 2009.

COMMITTEES
Group Credit Committee.

SHARES
Nedbank Group Limited ordinary shares:
17 822 beneficial direct and 218 086 beneficial indirect.

Nedbank Limited preference shares: 0.



Mustaq Ahmed Enus-Brey (57)

Non-executive Director

APPOINTED
August 2005.

QUALIFICATIONS
BCompt(Hons), CA (SA).

NATIONALITY
SA.

Mustaq was appointed as a Nedbank Group director in August 2005. He is also a director of Brimstone Investment Corporation Limited and Oceana Group Limited.

COMMITTEES
Group Risk and Capital Management Committee (Chairman), Group Remuneration Committee, Group Directors' Affairs Committee, Group Credit Committee, Group Finance and Oversight Committee, Large-exposure Approval Committee.

SHARES
Nedbank Group Limited ordinary shares:
2 113 beneficial indirect.

Nedbank Limited preference shares: 0.

Prof Brian De Lacy Figaji (67)

Independent Non-executive Director

APPOINTED
November 2002.

QUALIFICATIONS
BSc(Eng), Dip Tertiary Edu Med, DEd (Coventry, UK), DLitt(hc) (California State, USA).

NATIONALITY
SA.

Brian is Chairman of Irvin & Johnson Limited and MARIB Holdings (Pty) Limited. He is the former principal and vice-chancellor of the Peninsula Technikon. He is also a director of Cape Lime (Pty) Limited and the Development Fund of the Development Bank of Southern Africa. He became a Nedbank Group director in November 2002.

COMMITTEES
Group Remuneration Committee (Chairman), Group Credit Committee, Group Directors' Affairs Committee, Group Transformation, Social and Ethics Committee, Group Audit Committee, Large-exposure Approval Committee.

SHARES
Nedbank Group Limited ordinary shares:
30 278 beneficial indirect and 1 530 non-beneficial indirect.

Nedbank Limited preference shares: 0.

Donald Ian Hope (55)

Non-executive Director

APPOINTED
December 2009.

QUALIFICATIONS
Member of the Association of Corporate Treasurers, 1989.

NATIONALITY
New Zealand.

Don was appointed Head of Strategy Development at Old Mutual plc in March 2009. He joined the Old Mutual Group as Group Treasurer in May 1999 with responsibility for developing the group's international treasury function. Don is Chairman of Old Mutual (Bermuda) Limited.

COMMITTEES
Group Risk and Capital Management Committee, Group Remuneration Committee, Group Finance and Oversight Committee.

SHARES
None.

Alan De Villiers Charles Knott-Craig (59)

Independent Non-executive Director

APPOINTED
January 2009.

QUALIFICATIONS
BSc(Eng) (Elec), MBL, DBL(hc), DBA(hc).

NATIONALITY
SA.

Alan served as Managing Director of Vodacom Limited from 1993 and was Chief Executive of Vodacom Group from 1996 until his retirement at the end of September 2008. He is currently a member of the Board of the Council for Scientific and Industrial Research, an independent non-executive director of Right to Care and a Governor of the Lebone II School.

COMMITTEES
Group Information Technology Committee (Chairman), Group Finance and Oversight Committee, Group Risk and Capital Management Committee, Group Directors' Affairs Committee.

SHARES
None.

RESIGNED
After the year-end on 24 February 2012.

BOARD OF DIRECTORS ... CONTINUED

Wendy Elizabeth Lucas-Bull (58)

Independent Non-executive Director

APPOINTED
August 2009.

QUALIFICATIONS
BSc.

NATIONALITY
SA.

Wendy is a founder of empowerment investment company Peotona Group Holdings (Pty) Limited. She was previously Chief Executive of FirstRand Limited's retail business and prior to that an executive director of Rand Merchant Bank. She is currently an independent non-executive director of the Development Bank of Southern Africa and Anglo American Platinum Limited. Wendy is also a member of the President's Advisory Council on Black Economic Empowerment.

COMMITTEES
Group Information Technology Committee, Group Credit Committee (Chairman), Group Risk and Capital Management Committee, Group Directors' Affairs Committee, Group Finance and Oversight Committee, Large-exposure Approval Committee, Group Audit Committee.

SHARES
None.

Paul Mpho Makwana (41)

Independent Non-executive Director

APPOINTED
17 November 2011.

QUALIFICATIONS
BAdmin(Hons).

NATIONALITY
SA.

Immediate past Chairman of Eskom Holdings Limited.

Independent director of Adcock Ingram Limited effective 1 February 2012.

COMMITTEES
Group Remuneration Committee, Group Transformation, Social and Ethics Committee.

SHARES
None.

Nomavuso Patience Mnxasana (55)

Independent Non-executive Director

APPOINTED
October 2008.

QUALIFICATIONS
BCompt(Hons), CA (SA).

NATIONALITY
SA.

Nomavuso is a director at Winhold Limited, Optimum Coal Limited and Land and Agricultural Development Bank of SA Limited (Land Bank). She was a senior partner and member of the executive committee of SizweNtsaluba before serving as Group Audit and Risk Executive at Imperial Holdings Limited.

COMMITTEES
Group Audit Committee, Group Remuneration Committee, Group Risk and Capital Management Committee.

SHARES
Nedbank Group Limited ordinary shares:
11 620 beneficial indirect.

Raisibe Kgomaraga Morathi (42)

Chief Financial Officer

APPOINTED
September 2009.

QUALIFICATIONS
BCompt(Hons), CA (SA), H Dip Tax, AMP (INSEAD).

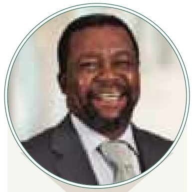
NATIONALITY
SA.

Raisibe has held senior positions in banking and insurance over the past 18 years. Prior to joining Nedbank Group she was an executive director of Sanlam Limited and a non-executive director of Santam Limited. She previously held several executive positions at the Industrial Development Corporation of SA Limited, the last position being Chief Operating Officer.

COMMITTEES
Large-exposure Approval Committee, Group Credit Committee.

SHARES
Nedbank Group Limited ordinary shares:
4 233 beneficial direct and 127 964 beneficial indirect.

Nedbank Limited preference shares: 0.



Joel Khathutshelo Netshitenzhe (55)

Independent Non-executive Director

APPOINTED
August 2010.

QUALIFICATIONS
MSc (University of London, UK).

NATIONALITY
SA.

Joel is an executive director of the Mapungubwe Institute for Strategic Reflection (MISTRA) and a member of the National Planning Commission.
He has been a member of the National Executive Committee of the African National Congress since 1991, and is a member of the African National Congress' Economic Transformation and Political Education Subcommittees.
He served as Head of Policy Coordination and Advisory Services in The Presidency from 2001 until December 2009. He was previously Chief Executive of the Government Communication and Information System and also served as Head of Communication in the President's Office. He is a non-executive director on the board of Life Healthcare Group Holdings Limited.

COMMITTEES
Group Risk and Capital Management Committee.

SHARES
None.

Julian Victor Frow Roberts (54)

Non-executive Director

APPOINTED
December 2009.

QUALIFICATIONS
Fellow of Institute of Chartered Accountants, member of Association of Corporate Treasurers, Accountancy and Business Law (University of Stirling, Scotland).

NATIONALITY
British.

Julian was appointed Group Chief Executive of Old Mutual plc in September 2008. Prior to this he was Chief Executive of the Old Mutual Group's Skandia business. Julian originally joined Old Mutual plc as Group Finance Director in August 2000. Before joining Old Mutual plc, he was Group Finance Director of Sun Life & Provincial Holdings plc (now part of AXA) and, prior to that, Chief Financial Officer of Aon UK Holdings Limited.

COMMITTEES
Group Directors' Affairs Committee.

SHARES
None.

Gloria Tomatoe Serobe (52)

Non-executive Director

APPOINTED
August 2005.

QUALIFICATIONS
BCom (Unitra), MBA (Rutgers, USA).

NATIONALITY
SA.

Gloria is the Chief Executive of Wipcapital Limited and also founder and executive director of Wiphold Limited. She was previously the Executive Director: Finance at Transnet SOC Limited. Gloria serves on several boards, including that of JSE Limited. She is also a non-executive director of Old Mutual Life Assurance Company (SA) Limited.

COMMITTEES
Group Transformation, Social and Ethics Committee (Chairman with effect from 24 February 2012), Group Credit Committee, Large-exposure Approval Committee.

SHARES
Nedbank Group Limited ordinary shares:
1 296 non-beneficial indirect.

Malcolm Ian Wyman (65)

Senior Independent Non-executive Director

APPOINTED
August 2009.

QUALIFICATIONS
CA (SA), AMP (Harvard Business School, USA).

NATIONALITY
British.

Malcolm is a non-executive director of Imperial Tobacco plc and a non-executive director of Tsogo Sun Holdings Limited. He was previously an executive director and the Chief Financial Officer of SABMiller plc, until August 2011.

COMMITTEES
Group Audit Committee (Chairman), Group Risk and Capital Management Committee, Group Directors' Affairs Committee, Group Remuneration Committee, Group Finance and Oversight Committee (Chairman).

SHARES
Nedbank Group Limited ordinary shares:
350 non-beneficial indirect.

Nedbank Limited preference shares: 0.

NOTICE OF ANNUAL GENERAL MEETING

Nedbank Limited
(Incorporated in the Republic of South Africa)
Reg No 1951/000009/06
JSE share code: NBKP ISIN: ZAE000043667
('Nedbank' or 'the company')

This notice is sent to holders of Nedbank Limited non-redeemable non-cumulative non-participating preference shares ('perpetual preference shares') and the holders of the class A and class B redeemable cumulative preference shares (collectively hereafter referred to as 'the preference shares') for information only.

In terms of article 44.8 of the memorandum of incorporation of Nedbank the holders of the perpetual preference shares will not be entitled to be present or to vote, either in person or by proxy, at any meeting of the company by virtue of or in respect of the perpetual preference shares, unless either or both of the following circumstances prevail at the date of the meeting:

- the preference dividend or any part thereof remains in arrears and unpaid after 6 (six) months from the due date thereof; and
- a resolution of the company is proposed (in which event the preference shareholders will be entitled to vote only on such resolution) that directly affects the rights attached to the preference shares or the interests of the holders thereof, including a resolution for the winding up of the company or for the reduction of its capital.

In terms of articles 45.9 and 46.9 the holders of the class A and class B redeemable cumulative preference shares ('redeemable preference shares') respectively are entitled to receive notice and attend the annual general meeting, but will not be entitled to speak or vote thereat, unless the circumstances as recorded in these articles prevail at the date of the meeting.

Notice is hereby given to the shareholders recorded in the securities register of Nedbank on Wednesday, 28 March 2012, that the annual general meeting of the shareholders of Nedbank will be held in the Executive Boardroom, Ground Floor, Block A, Nedbank Sandton, 135 Rivonia Road, Sandown, Sandton, on Thursday, 3 May 2012, at 16:30, to deal with such business as may lawfully be dealt with at the meeting and to consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008 (as amended) ('the Companies Act'), as read with the Listings Requirements of JSE Limited ('JSE Listings Requirements'), which meeting is to be participated in and voted at by shareholders recorded in the securities register of the company on the record date of Wednesday, 25 April 2012.

The quorum requirement for the ordinary and special resolutions set out below is sufficient persons being present to exercise, in aggregate, at least 25% of all voting rights that are entitled to be exercised on the resolutions, provided that at least three shareholders/holders of voting rights of the company are present at the annual general meeting. The percentage of voting rights required to pass the ordinary resolutions is at least 50% of the voting rights exercised, and the percentage of voting rights required to pass the special resolutions is at least 75% of the voting rights exercised thereon.

Kindly note that meeting participants (including proxies) will be required to provide reasonably satisfactory identification before being entitled to attend or participate in the meeting. Forms of identification include valid identity documents, driving licences and passports.

AGENDA

1 PRESENTATION OF ANNUAL FINANCIAL STATEMENTS AND REPORTS

The annual financial statements of the company, incorporating inter alia the directors' report and the auditors' report for the financial year ended 31 December 2011, have been distributed as required and will be presented to the shareholders. The complete set of the consolidated audited annual financial statements, together with the reports, are contained in the annual report.

2 ORDINARY DIVIDENDS

To note the dividends of R575 000 000 declared and paid on 7 April 2011 and R450 000 000 declared and paid on 8 September 2011 to the sole shareholder holding the issued ordinary shares for the period 1 January 2011 to 31 December 2011.

3 DIVIDENDS ON PERPETUAL PREFERENCE SHARES

To note preference dividend number 17 of 33,47260 cents per share declared for the period from 1 January 2011 to 30 June 2011, paid on Monday, 29 August 2011, to shareholders of the non-redeemable non-cumulative preference shares recorded in the books of the company at the close of business on Friday, 26 August 2011, and preference dividend number 18 of 34,0274 cents per preference share declared for the period 1 July to 31 December 2011 and paid on Monday, 26 March 2012.'

4 DIVIDENDS ON CLASS A AND CLASS B REDEEMABLE CUMULATIVE PREFERENCE SHARES

To note and confirm the preference dividend number 1 of R53 134,37 and R69 544,29 declared and paid on 14 October 2011 on the class A and class B cumulative redeemable cumulative preference shares, respectively, on allotment on 14 October 2011 in accordance with the terms of the preference share subscription and participation agreement entered into between Nedbank Limited, IBL Asset Finance and Services Limited, Imperial Holdings Limited and Associated Motor Holdings (Proprietary) Limited to the shareholders respectively holding the class A and class B redeemable preference shares.

5 ORDINARY RESOLUTION 1

REELECTION OF DIRECTORS OF THE COMPANY

'To resolve to reelect those directors that will retire by rotation in terms of the memorandum of incorporation of the company and, being eligible, make themselves available for reelection as directors of the company, each by way of a separate vote.' Biographical details of the directors to be reelected are set out on pages 206 to 209 of the annual report.

5.1 'To resolve that Ms TCP Chikane be and is hereby reelected as a director of the company.'

5.2 'To resolve that Mr DI Hope be and is hereby reelected as a director of the company.'

5.3 'To resolve that Dr RJ Khoza be and is hereby reelected as a director of the company.'

5.4 'To resolve that Ms NP Mnxasana be and is hereby reelected as a director of the company.'

5.5 'To resolve that Ms GT Serobe be and is hereby reelected as a director of the company.'

6 ORDINARY RESOLUTION 2

ELECTION OF DIRECTOR OF THE COMPANY

During the year the board of directors appointed Mr PM Makwana as a director of the company. Mr Makwana retires in terms of the memorandum of incorporation of the company and, being eligible, makes himself available for election. His biographical details are set out on page 208 of the annual report.

6.1 'To resolve that Mr PM Makwana be and he is hereby elected as a director of the company.'

7 ORDINARY RESOLUTION 3

REAPPOINTMENT OF EXTERNAL AUDITORS

'To resolve that, on recommendation of the Nedbank Group Audit Committee, the auditors, Deloitte & Touche (with the designated auditor currently being Mr D Shipp) and KPMG Inc (with the designated auditor currently being Ms H Berrange) be and are hereby reappointed as joint auditors, pursuant to the authority obtained from the Group Audit Committee, to hold office from the conclusion of this annual general meeting till the next annual general meeting of Nedbank.'

8 ORDINARY RESOLUTION 4

EXTERNAL AUDITORS' REMUNERATION

'To resolve that the Nedbank Group Audit Committee be and is hereby authorised to determine the remuneration and the terms of engagement of the auditors of the company.'

9 ORDINARY RESOLUTION 5

CONTROL OF AUTHORISED, BUT UNISSUED, SHARES

'To resolve that the authorised, but unissued, shares in the authorised share capital of Nedbank Limited be and are hereby placed under the control of the directors to issue these shares, in such numbers and on such terms and conditions and at such times and at such prices as they deem fit, subject to the provisions of the Companies Act, 71 of 2008 (as amended), the Banks Act, 94 of 1990 (as amended), and the JSE Limited Listings Requirements.'

10 ADVISORY ENDORSEMENT OF REMUNERATION POLICY

'To endorse through a non-binding advisory vote that in terms of 'The Revised King Code and Report on Governance for South Africa' ('King III'), as published in September 2009, shareholders, as required, hereby approve the remuneration policy of the company and its implementation as adopted by the Nedbank Group's Remuneration Report, a copy of which appears on pages 14 to 39 of the Nedbank Limited Annual Report.'

11 SPECIAL RESOLUTION 01/2012

REMUNERATION OF NON-EXECUTIVE DIRECTORS

'To resolve that the non-executive directors' fees for their services as directors, in accordance with the company's remuneration policy, as set out in the Remuneration Report contained in the annual financial statements, be and are hereby approved'.

12 SPECIAL RESOLUTION 02/2012

GENERAL AUTHORITY TO PROVIDE FINANCIAL ASSISTANCE TO RELATED AND INTERRELATED COMPANIES

'To resolve that, subject to the provisions of the Companies Act, 71 of 2008 (as amended) ('the Companies Act'), the shareholders of the company hereby approve, as a general approval, the company providing direct or indirect financial assistance ('financial assistance') as contemplated in sections 44 and 45 of the Companies Act, whether in the form of advances for expenses, assisting with administration of transactions, loans, loan facilities, extending credit, discharging debts, performing obligations, contractual undertakings, sureties, guarantees, guarantee facilities, mortgages, pledges, cessions, bonds, charges or otherwise, on such terms as may be authorised by the board of directors of the company having regard to the funding and commercial requirements of the Nedbank 'group of companies' as contemplated in the Companies Act (the 'Group') from time to time and in accordance with the following:

NOTICE OF ANNUAL GENERAL MEETING

... CONTINUED

1 the financial assistance can be provided to any company that is currently, or in the future, 'related' to 'interrelated' with the company (and any person 'related' to any of such companies) as contemplated by the Companies Act or any other person (a 'Recipient') (which, for the avoidance of doubt, excludes financial assistance provided to any directors or prescribed officers of the company or of any such Recipients);

2 the financial assistance may be provided for the purpose of, or in connection with, the subscription to any option, or any securities, issued or to be issued by the company or a company related to or interrelated with the company or for the purchase of any securities of the company or a company or corporation that is related to or interrelated with the company as contemplated in section 44 of the Companies Act or any other purpose regulated by section 45 of the Companies Act;

3 authorisation by the board of any financial assistance pursuant to this resolution must be provided within a period of two years following the date of the adoption of this special resolution;

4 any related corporate action must be duly authorised in compliance with the JSE Listings Requirements and the Companies Act, and the Banks Act where applicable;

5 this approval is subject to the board complying with sections 44 and 45 of the Companies Act; and

6 nothing in these terms and conditions will limit the provision by the company of the financial assistance that does not require approval by way of a special resolution of the shareholders in terms of sections 44 and 45 of the Companies Act or falls within any exemption provided in these sections.'

This resolution, if adopted, will have the effect of authorising the provision of the described financial assistance by the company to companies 'related' to and 'interrelated' with the company and persons 'related' to such companies (subject to the conditions set out in the resolution) if the board of directors decides it is desirable to do so. The effects of providing such financial assistance will depend on the nature of the financial assistance and the purpose for which it is used.

Notice to shareholders of Nedbank Group in terms of section 45(5) of the Companies Act, adopted by the Nedbank Limited board authorising the company to provide direct or indirect financial assistance:

By the time this notice of annual general meeting is delivered to shareholders, the board will have adopted a resolution ('the Section 45 Board Resolution') authorising the company to provide, at any time and from time to time during the period of two years commencing on the date on which special resolution number 2 is adopted, any direct or indirect financial assistance as contemplated in section 45 of the Companies Act to any one or more related or interrelated companies or corporations of the company and/or to any one or more persons related to any such company or corporation.

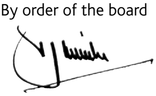
The Section 45 Board Resolution will be effective only if, and to the extent that, special resolution number 2 is adopted by the shareholders of the company, and the provision of any such direct or indirect financial assistance by the company, pursuant to such resolutions, will always be subject to the board being satisfied that, immediately after providing such financial assistance, the company will satisfy the solvency and liquidity test as referred to in section 45(3)(b)(i) of the Companies Act, and that the terms under which such financial assistance is to be given are fair and reasonable to the company as referred to in section 45(3)(b)(ii).

In as much as the Section 45 Board Resolution contemplates that such financial assistance will in the aggregate exceed one-tenth of one percent of the company's net worth at the date of adoption of such resolution, the company hereby provides notice of the Section 45 Board Resolution to shareholders of the company.

VOTING BY PROXY

The holders of voting rights/shareholders entitled to attend speak and vote at the meeting may appoint a proxy or proxies to attend, speak and vote in its/their stead. A proxy need not be a shareholder/holder of voting rights of the company. Completed proxy forms should be received at the office of the company secretary no later than 24 hours before the time appointed for the holding of the annual general meeting.

By order of the board



GS Nienaber
Company Secretary
Sandown Sandton

28 February 2012

Transfer secretaries in South Africa:
Perpetual preference shares only
Computershare Investor Services (Pty) Limited
70 Marshall Street, Johannesburg, 2001;
PO Box 61051, Marshalltown, 2107
Tel: +27 (0)11 370 5000 Fax: +27 (0)11 688 5238

FORM OF PROXY

Shareholder meeting matters
(to be used by the holders of voting rights on ordinary shares)
Nedbank Limited
(Incorporated in the Republic of South Africa)
Reg No 1951/000009/06
('the company')

I/We ____

of (address) ____

____

being the holder(s) of ______________________ ordinary shares in the company, appoint

(see note 1):

1 ____ or failing him/her

2 ____ or failing him/her

3 the chairman of the annual general meeting

as my/our proxy to act for me/us and on my/our behalf at the annual general meeting that will be held in the Executive Boardroom, Ground Floor, Block A, Nedbank Sandton, 135 Rivonia Road, Sandown, Sandton, on Thursday, 3 May 2012, at 16:30, for the purpose of considering and, if deemed fit, passing with or without modification as ordinary and/or special resolutions of the company the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against such resolutions and/or to abstain from voting in respect of the ordinary shares registered in my/our name(s), or the voting rights held by me, in accordance with the following instructions:

Resolutions *Ordinary resolutions*	**Number of votes** (on a show of hands, one vote) (on a poll, each shareholder/holder of voting rights will be entitled to that proportion of the total votes in the company that the aggregate amount of the nominal value of the shares held bears to the aggregate amount of nominal value of all shares issued and voting)		
	For	**Against**	**Abstain**
	Number of shares	Number of shares	Number of shares
To reelect the following directors of the company:			
Ms TCP Chikane			
Mr DI Hope			
Dr RJ Khoza			
Ms NP Mnxasana			
Ms GT Serobe			
To elect director: Mr PM Makwana			
To appoint external auditors Deloitte & Touche and KPMG Inc as joint auditors and nominate and appoint D Shipp and H Berrange respectively as the designated auditing partners			
To pay external auditors remuneration To authorise the Nedbank Group Audit Committee to determine the remuneration of the company's auditors and the auditors' terms of engagement			
To authorise the control of authorised unissued shares			
To approve the remuneration policy			
Special resolutions			
Special resolution 01/2012: Fees paid to non-executive directors			
Special resolution 02/2012: General authority on financial assistance section 44 and 45			

Signed at (place) ______________________ on (date) ______________________ 2012

Signature ____

Assisted by me ____
(where applicable)

Please see the notes on the reverse side hereof.

NOTES TO FORMS OF PROXY

A shareholder/holder of voting rights entitled to attend and vote at the annual general meeting is entitled to appoint one or more individuals as proxy/proxies (who need not be person(s) entitled to vote at the annual general meeting of the company) to attend, participate in, speak and vote or abstain from voting in place of that holder at the annual general meeting. On a show of hands the holders holding ordinary shares in the company will have only one vote. On a poll a holder of voting rights who is present in person or represented by proxy/proxies will be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of shares held by him/her bears to the aggregate amount of the nominal value of all the shares issued by the company and carrying the right to vote.

A proxy may not delegate his/her authority in terms of this proxy to another person.

This proxy form will lapse and cease to be of force and effect immediately after the annual general meeting of the company to be held in the Executive Boardroom, Ground Floor, Block A, Nedbank Sandton, 135 Rivonia Road, Sandown, Sandton, on Thursday, 3 May 2012, at 16:30, or any adjournment thereof, unless it is revoked earlier.

PLEASE NOTE

[1] The date has to be filled in on this form of proxy when it is signed.

[2] This proxy has to be received by:

The Company Secretary, Mr GS Nienaber, c/o Group Secretariat, Ground Floor, Block A, Nedbank Sandton, 135 Rivonia Road, Sandown, Sandton, 2196 or PO Box 1144, Johannesburg, 2000, no later than 24 hours before the commencement of the meeting (excluding Saturdays, Sundays and public holidays).

The shareholders holding non-redeemable non-cumulative non-participating preference shares and class A and class B redeemable cumulative preference shares will not be entitled to vote at the meeting. They may nominate and appoint authorised agents and representatives to attend on their behalf, but such attendees will have neither the right to speak nor the right to vote at the meeting.

DEFINITIONS

ADVANCED INTERNAL RATINGS-BASED APPROACH

Advanced Internal Ratings-Based (AIRB) Approach, which is subject to supervisory approval where a bank may use its internal developed credit risk measurement systems to calculate the capital requirements for credit risk.

ADVANCED MEASUREMENT APPROACH

The Advanced Measurement Approach (AMA) allows a bank to calculate its regulatory capital charge (using internal models) based on internal risk variables and profiles. This is the only risk-sensitive approach for operational risk allowed in Basel II.

ASSETS UNDER MANAGEMENT

Assets managed by Nedbank Group, which are beneficially owned by clients and are therefore not reported on the consolidated balance sheet. Advances that have either been fully or partially utilised by a borrower.

AUTOMATED TELLER MACHINE

Automated teller machine (ATM) is a cash machine or free-standing device dispensing cash, which may also provide other information or services to clients who have a card and a personal identification number, password or other personal identification.

BANKS

This asset class covers all exposures to counterparties treated as banks.

BASEL CAPITAL ACCORD

The new Basel Capital Accord (Basel II) of the Bank for International Settlements is an improved capital adequacy framework accomplished by closely aligning banks' capital requirements with improved modern risk management practices and sophisticated risk assessment capabilities. It further ensures the risk sensitivity of the minimum capital requirements by including supervisory reviews and market discipline through enhanced disclosure.

BASEL ASSET CLASSES (AS CATEGORISED IN THE BA 200 RETURN)

CORPORATE EXPOSURES

CORPORATE

Corporate exposures are defined as a debt obligation of a corporation, partnership or proprietorship. Banks are permitted to distinguish separately exposures to small and medium-sized enterprises.

SPECIALISED LENDING HIGH-VOLATILITY COMMERCIAL REAL ESTATE

High-volatility commercial real estate (HVCRE) lending is the financing of commercial real estate that exhibits higher loss rate volatility compared with other types of Specialised Lending.

SPECIALISED LENDING INCOME-PRODUCING REAL ESTATE

Income-producing real estate (IPRE) refers to a method of providing funding to real estate (such as, office buildings to let, retail space, multifamily residential buildings, industrial or warehouse space, and hotels) where the prospects for repayment and recovery on the exposure depend primarily on the cashflows generated by the asset. The primary source of these cashflows would generally be lease or rental payments or the sale of the asset.

SPECIALISED LENDING OBJECT FINANCE

Object finance (OF) refers to a method of funding the acquisition of physical assets (eg ships, aircraft, satellites, rolling stock, and fleets) where the repayment of the exposure is dependent on the cashflows generated by the specific assets that have been financed and pledged.

SPECIALISED LENDING COMMODITIES FINANCE

Commodities finance (CF) refers to structured short-term lending to finance reserves, inventories, or receivables of exchange-traded commodities (eg crude oil, metals or crops), where the exposure will be repaid from the proceeds of the sale of the commodity.

SPECIALISED LENDING PROJECT FINANCE

Project finance (PF) is a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure. This type of financing is usually for large, complex and expensive installations, for example power plants, chemical-processing plants, mines, etc.

SMALL AND MEDIUM ENTERPRISES CORPORATE

This asset class covers all exposures to small and medium enterprises (SME) that are classified as corporate, based on criteria prescribed by the Regulator.

PURCHASED RECEIVABLES CORPORATE

This asset class covers all receivables classified as corporate exposures which are purchased for inclusion in asset-backed securitisation structures, but banks may also use this approach, with the approval of national supervisors, for appropriate on-balance-sheet exposures that share the same features.

PUBLIC SECTOR ENTITIES

This asset class covers all exposures to enterprises that are wholly or majority owned by the central government, eg Eskom and Transnet.

LOCAL GOVERNMENTS AND MUNICIPALITIES

This asset class covers all exposures to metropolitan councils, district councils and municipalities.

SOVEREIGN (INCLUDING CENTRAL GOVERNMENT AND CENTRAL BANK)

This asset class covers all exposures to counterparties treated as central government.

SECURITIES FIRMS

This asset class covers all exposures to enterprises regulated by a recognised authority, and which trades in securities.

RETAIL EXPOSURES

RETAIL MORTGAGES (INCLUDING HOME EQUITY LINE OF CREDIT)

This asset class covers all mortgage advances or credit lines to individuals, which are fully secured by a mortgage over residential property.

RETAIL REVOLVING CREDIT

Exposures to individuals that is revolving unsecured, and committed (both contractually and in practice). In this context, revolving exposures are defined as those where clients' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay up to a limit established by the bank.

RETAIL OTHER
This asset class covers all non-revolving exposures (excluding mortgage advances) to individuals.

SMALL AND MEDIUM ENTERPRISES RETAIL
This asset class covers all exposures to small and medium enterprises (SME) that are classified as retail, based on criteria prescribed by the Regulator.

PURCHASED RECEIVABLES – RETAIL
This asset class covers all receivables classified as retail exposures, which are purchased for inclusion in asset-backed securitisation structures, but banks may also use this approach, with the approval of national supervisors, for appropriate on-balance-sheet exposures that share the same features.

BLACK ECONOMIC EMPOWERMENT TRANSACTION
Nedbank Group's black economic empowerment (BEE) transaction, which focused primarily on the issuing of shares to BEE partners for the purposes of broad-based black economic empowerment (BBBEE), equating to approximately 9,3% (43 618 748 shares) of total share capital and equating to black ownership of 11,5% of the value of Nedbank Group's South African businesses in 2005. Nedbank Namibia's BEE transaction, which focused primarily on the issuing of shares to BEE partners and affinity groups for the purposes of BEE in Namibia, equating to approximately 0,14% (665 680 shares) of total share capital of Nedbank Group Limited and equating to black ownership of 11,13% of the value of NedNamibia Holdings Limited, Nedbank Group's Namibian business in 2006.

BORROWING GROUP
A group of clients and their underlying loans and advances according to the per person definition of the 'Regulations Related to Banks'.

CAPITAL ADEQUACY RATIO
The capital adequacy of SA banks is measured in terms of the SA Banks Act requirements. The ratio is calculated by dividing the primary (Tier 1), secondary (Tier 2) and tertiary (Tier 3) capital by the risk-weighted assets.

GROUP CAPITAL ADEQUACY RATIO
Group capital adequacy is the ratio of group net qualifying capital and reserve funds to total group risk-weighted assets as calculated per the SA Banks Act requirements.

PRIMARY (TIER 1) CAPITAL
Primary capital consists of issued ordinary share capital and perpetual preference share capital, qualifying perpetual callable hybrid capital, retained earnings and reserves, less regulatory deductions.

CORE TIER 1 CAPITAL
Core Tier 1 capital is primary capital less any amount on non-core Tier 1 capital, being perpetual preference share capital and qualifying perpetual callable hybrid capital.

SECONDARY (TIER 2) CAPITAL
Secondary capital is made up of subordinated dated debt and certain types of perpetual callable debt, the excess amount in respect of eligible provisions, 50% of any revaluation surplus less regulatory deductions.

TERTIARY (TIER 3) CAPITAL
Tertiary capital consists of capital obtained by way of unsecured subordinated loans, subject to such conditions as may be prescribed.

CASHFLOW
FINANCING ACTIVITIES
Activities that result in changes to the capital structure of the group.

INVESTMENT ACTIVITIES
Activities relating to the acquisition, holding and disposal of property and equipment and long-term investments.

OPERATING ACTIVITIES
Activities that are not financing or investing activities and arise from the operations conducted by the group.

CREDIT LOSS RATIO
Credit loss ratio is the impairments charge as a percentage of average advances.

DEFAULTED ADVANCE
Any advance or group of advances that has triggered relevant definition of default criteria for that portfolio that is in line with the amended Banks Act regulations relating to banks. For retail portfolios it is transaction-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 defaulting, then all transactions within the borrowing group would be defaulted.

DEFINITION OF DEFAULT
At a minimum, a default is deemed to have occurred where a material obligation is overdue for more than 90 days or an obligor exceeds an advised limit for more than 90 days.

DEFERRED TAXATION ASSETS
Deferred taxation assets are the amounts of income taxation recoverable in future periods in respect of:

- deductible temporary differences arising due to differences between the taxation and accounting treatment of transactions; and
- the carry forward of unused taxation losses.

DEFERRED TAXATION LIABILITIES
Deferred taxation liabilities are the amounts of income taxation payable in future periods due to differences between the taxation and accounting treatment of transactions.

DIRECT TAXATION
Direct taxation includes normal taxation on income, capital gains taxation (CGT) and secondary taxation on companies (STC).

DIVIDEND/DISTRIBUTION COVER
Headline earnings per share divided by the dividend/distribution declared per share.

DIVIDEND/DISTRIBUTION DECLARED PER SHARE
Dividend/Distribution declared per share is the actual interim dividend paid/capitalisation award issued and the final dividend declared/capitalisation award declared for the period under consideration, expressed in cents.

DIVIDEND/DISTRIBUTION PAID/CAPITALISED PER SHARE
Dividend/Distribution paid/capitalised per share is the actual final dividend paid/capitalisation award issued for the prior year and the interim dividend paid/capitalisation award issued for the year under consideration, expressed in cents.

DIVIDEND YIELD
Dividend/Capitalisation award declared per ordinary share as a percentage of the closing share price of ordinary shares.

DOWNTURN EXPECTED LOSS
A stress-tested value for expected loss under downturn economic conditions that could have unfavourable effects on a bank's credit exposures.

DTI CODES
The Codes of Good Practice as promulgated on 9 February 2007 under section 9(1) of the Broad-Based Black Economic Empowerment Act, 2003 (53 of 2003), establishes the rules, targets and stipulations for the measurement of broad-based black economic empowerment (BBBEE) within South Africa based on three scorecard classifications for organisations: emerging microenterprise (EME), qualifying small enterprise (QSE), or generic enterprise. Nedbank is scored as a generic enterprise under the published codes.

EARNINGS PER SHARE
BASIC EARNINGS BASIS
Income attributable to equity holders for the period divided by the weighted average number of ordinary shares in issue (net of shares held by group entities) during the period.

HEADLINE EARNINGS BASIS
Headline earnings divided by the weighted average number of shares in issue (net of shares held by group entities) during the period.

FULLY DILUTED BASIS
The relevant earnings figure is adjusted for the assumed adjustments to income that would have been earned on the issue of shares issued from dilutive instruments. The resultant earnings are divided by the weighted average number of ordinary shares and other dilutive instruments (ie potential ordinary shares) outstanding at the period-end, assuming they had been in issue for the period.

EARNINGS YIELD
Headline earnings per share as a percentage of the closing price of ordinary shares.

ECONOMIC CAPITAL
Economic capital (ECap) is the quantification of risk and an internal assessment of the amount of capital required to protect the group against economic losses with a desired level of confidence (solvency standard or default probability) over a one-year time horizon. In other words, it is the magnitude of economic losses the group could withstand while still remaining solvent.

ECONOMIC PROFIT OR LOSS
Headline earnings after adjusting for cost of capital.

EFFECTIVE TAXATION RATE
The taxation charge in the income statement, excluding taxation relating to non-trading and capital items, as a percentage of profit before taxation.

EFFICIENCY RATIO (COST-TO-INCOME RATIO)
Total expenses as a percentage of income from normal operations (net interest income plus non-interest revenue).

EXPOSURE AT DEFAULT
Exposure at default (EAD) is an estimation of the extent to which a bank may be exposed to a counterparty in the event of, and at the time of, that counterparty's default.

EXPECTED LOSS
Expected loss (EL) is the expected value of portfolio losses due to default over a specified time horizon.

FOREIGN EXCHANGE TRANSLATION GAINS/ LOSSES
The results and assets/liabilities of all foreign entities controlled by the group that have a rand-functional currency are translated at the closing exchange rate and the differences arising are recognised in the income statement as foreign exchange translation gains/losses.

HEADLINE EARNINGS
Headline earnings is not a measure of maintainable earnings. For purposes of the definition and calculation, the guidance given on headline earnings, as issued by the South African Institute of Chartered Accountants in circular 07/02 of December 2002, has been used. Headline earnings consist of the earnings attributable to ordinary shareholders excluding non-trading and capital items.

INTERNATIONAL FINANCIAL REPORTING STANDARDS
International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB. Nedbank Group's consolidated financial results are prepared in accordance with IFRS.

IMPAIRMENTS CHARGE TO AVERAGE ADVANCES
Impairments charge on loans and advances for the year divided by average advances. Also known as the credit loss ratio or impairment ratio.

IMPAIRMENT OF LOANS AND ADVANCES
Impairment of loans and advances arises where there is objective evidence that the group will not be able to collect an amount due.

The impairment is the difference between the carrying amount and the estimated recoverable amount.

INDIRECT TAXATION
Value-added taxation (VAT) and other taxes, levies and duties paid to government, excluding direct taxation.

'JAWS' RATIO
The difference between the rate of growth in total income from normal operations and the rate of total expense growth.

JOHANNESBURG INTERBANK AGREEMENT RATE
The Johannesburg Interbank Agreement Rate (JIBAR) is the rate that SA banks charge each other for wholesale money.

KING II (THE CODE)
The King Report on Corporate Governance 2002, which sets out principles of good corporate governance for SA companies and organisations.

KING III
The revised King Code and Report on Corporate Governance for South Africa 2009, which sets out revised principles of good corporate governance for SA companies.

LONDON INTERBANK OFFERED RATE
London Interbank Offered Rate (LIBOR) is the rate that banks participating in the London money market offer each other for short-term deposits.

MARKET CAPITALISATION
The group's closing share price multiplied by the number of shares in issue including shares held by group entities.

NET ASSET VALUE PER SHARE
Total equity attributable to equity holders of the parent divided by the number of shares in issue, excluding shares held by group entities.

NET INTEREST INCOME TO AVERAGE INTEREST-EARNING ASSETS (NET INTEREST MARGIN)
Net interest income expressed as a percentage of average net interest-earning banking assets. Net interest-earning banking assets are used, as these closely resemble the quantum of assets earning income that is included in net margin.

NON-INTEREST REVENUE TO TOTAL EXPENSES
Non-interest revenue as a percentage of total expenses from normal operations.

NON-INTEREST REVENUE TO TOTAL INCOME
Non-interest revenue as a percentage of total income from normal operations.

NON-TRADING AND CAPITAL ITEMS
These comprise the following:

- surpluses and losses on disposal of long-term investments, subsidiaries, joint ventures and associates;
- impairment of goodwill arising on acquisition of subsidiaries, joint ventures and associates;
- surpluses and losses on the sale or termination of an operation;
- capital cost of fundamental reorganisation or restructuring having a material effect on the nature and focus of the operations of the reporting entities;
- impairment of investments, property and equipment, computer software and capitalised development costs; and
- other items of a capital nature.

OFF-BALANCE-SHEET ASSETS
Assets managed on behalf of third parties on a fully discretionary basis.

PRICE/EARNINGS RATIO
The closing price of ordinary shares divided by headline earnings (for the previous 12 months) per share.

PROPERTIES IN POSSESSION
Properties in possession (PIPS) acquired through payment defaults on loans secured by properties.

RETURN ON ORDINARY SHAREHOLDERS' EQUITY
Return on ordinary shareholders' equity (ROE) is headline earnings expressed as a percentage of average equity attributable to equity holders of the parent.

RETURN ON ORDINARY SHAREHOLDERS' EQUITY EXCLUDING GOODWILL
Return on ordinary shareholders' equity (ROE) excluding goodwill is headline earnings expressed as a percentage of average equity attributable to equity holders of the parent less goodwill.

RETURN ON TOTAL ASSETS
Return on total assets (ROA) is headline earnings expressed as a percentage of average total assets.

RISK-WEIGHTED ASSETS
Risk-weighted assets (RWA) are determined by applying risk weights to balance sheet assets and off-balance-sheet financial instruments according to the relative credit risk of the counterparty. The risk weighting for each balance sheet asset and off-balance-sheet financial instrument is regulated by the SA Banks Act or by regulations in the respective countries of the other banking licences.

SOUTH AFRICAN RESERVE BANK REGULATIONS RELATED TO BANKS AND THE BA RETURNS*
The regulations relating to banks were amended with effect from 01/01/2008, based on the revised Basel Capital Accord (Basel II). The new Basel Capital Accord of the Bank of International Settlements is an improved capital adequacy framework accomplished by closely aligning banks' capital requirements with improved modern risk management practices and sophisticated risk assessment capabilities.

It further ensures the risk sensitivity of the minimum capital requirements by including supervisory reviews and market discipline through enhanced disclosure.

* *The new Banks Act regulatory returns*.

SEGMENTAL REPORTING
OPERATIONAL SEGMENT
A distinguishable component of the group, based on the market on which each business area focuses, which is subject to risks and returns that are different from those of other operating segments.

GEOGRAPHICAL SEGMENT
A distinguishable component of the group that is engaged in providing services within a particular economic environment and is subject to risks and returns that are different from those of components operating in other economic environments.

SECURITISATION EXPOSURES
This asset class covers all exposures to tradable, interest-bearing commercial paper, which is secured by an underlying asset, eg mortgage loans.

SHARE-BASED PAYMENTS
Transfers of a company's equity instruments by its shareholders to parties that have supplied goods or services to the company (including employees).

SHARES HELD BY GROUP ENTITIES (TREASURY SHARES)

Ordinary shares in Nedbank Group Limited acquired/held by group companies, including ordinary shares held in share trusts as part of the black economic empowerment transaction.

SELF-SERVICE TERMINAL

A self-service terminal (SST) is similar to an ATM, but is designed for non-cash transactions.

THE STANDARDISED APPROACH

The standardised approach (TSA) is an approach to calculate regulatory credit risk requirements that sets out specific risk weights specified by the regulator in lieu of the AIRB Approach.

TANGIBLE NET ASSET VALUE PER SHARE

Total equity attributable to equity holders of the parent less goodwill, computer software and capitalised development costs, divided by the number of shares in issue, excluding shares held by group entities.

TOTAL COLLATERAL

The total monetary value of all collateral held by a bank as security for an advance(s), limited to exposure.

TOTAL CREDIT EXTENDED

The total of all advances extended by a bank, including unutilised facilities and other off-balance-sheet exposures.

TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Ordinary share capital, share premium and reserves.

WEIGHTED AVERAGE NUMBER OF SHARES

The number of shares in issue increased by shares issued during the period, weighted on a time basis for the period during which they participated in the income of the group, less shares held by group entities, weighted on a time basis for the period during which the entities held these shares.

These definitions should be read in conjunction with the group's accounting policies, which also clarify certain terms used.

ABBREVIATIONS, ACRONYMS AND INITIALISMS

While acronyms and abbreviations are tools for communicating effectively and concisely, this is only true for those who have a prior understanding of them. It is therefore better to refrain from using them or to give the explanation/definition before using them.

By nature this list is not exhaustive.

ABCP	asset-backed commercial paper
AFR	available financial resources
AFS	available for sale
AIRB	Advanced Internal Ratings-based
AMA	Advanced Measurement Approach
AML	anti-money-laundering
APE	annualised premium equivalent
ATM	automated teller machine
BASA	The Banking Association South Africa
BBBEE	broad-based black economic empowerment
BCM	business continuity management
BEE	black economic empowerment
BEEL	best estimate of expected loss
BIS	Bank for International Settlements
BPs	basis points
BRMF	Business Risk Management Forum
BSM	balance sheet management
BWO	black-women-owned
CAGR	1 capital adequacy growth rate 2 compound annual growth rate
CAR	capital adequacy ratio
CE	chief executive
CEM	Current Exposure Method
CHOC	Childhood Cancer Foundation South Africa
CLN	credit-linked note
CLR	credit loss ratio
CMAT™	Customer Management Assessment Tool™
CNHR	cost of non-hedgeable risk
COE	cost of equity
COO	chief operating officer
CPI	consumer price index
Cpix	consumer price index excluding mortgage bond interest cost
CPT	corporate performance target
CRO	chief risk officer
CSIRT	cybersecurity incident response team
CTR	cash threshold reporting
CVP	client value proposition
DSTI	deferred short-term incentive
dti	Department of Trade and Industry
EAD	exposure at default
ECap	economic capital
ED	enterprise development
EDP	Executive Development Programme
EE	employment equity
EGC	enterprise governance and compliance
EME	exempted microenterprise
EP	economic profit
EPS	earnings per share
ERM	enterprisewide risk management
ERMF	Enterprisewide Risk Management Framework
ETF	exchange-traded fund
ETI	Ecobank Transnational Incorporated
EV	embedded value
EVP	employee value proposition
Exco	Executive Committee
FAIS Act	Financial Advisory and Intermediary Services Act
FCT	foreign currency translation
FIC	Financial Intelligence Centre
FPB	Fairbairn Private Bank
FSB	1 Financial Services Board 2 Financial Stability Board
FSC	Financial Sector Charter
FSSS	Financial Services Sector Supplement
FTE	fulltime employee
FVTPL	fair value through profit and loss
FWP	flexible work practices
GAC	Group Audit Committee
GCC	Group Credit Committee
GDP	gross domestic product
GFOC	Group Finance and Oversight Committee
GIA	Group Internal Audit (department name)
GORC	Group Operational Risk Committee
GP	guaranteed package
GRC	Group Remuneration Committee
GRCMC	Group Risk and Capital Management Committee
GRI	Global Reporting Initiative
GT	Group Technology
GTSEC	Group Transformation, Social and Ethics Committee
HNW	high net worth
HR	human resources
HVCRE	high-volatility commercial real estate
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBSA	Insurance and Banking Staff Association
ICAAP	Internal Capital Adequacy Assessment Process
ICAS	Independent Counselling and Advisory Services
IFAC	International Federation of Accountants
IFC	International Finance Corporation

IFRS	International Financial Reporting Standard(s)
ILAAP	1 Internal Liquidity Adequacy Assessment Process 2 International Liquidity Adequacy Process
IMA	Internal Model Approach
IPRE	income-producing real estate
IRP	Integrated Resource Plan
IRRBB	interest rate risk in the banking book
ISA	International Standards on Auditing
ISDA	International Swaps and Derivatives Association
ISF	Information Security Forum
IT	information technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE, the	JSE Limited
KPI	key performance indicator
KRI	key risk indicator
LCA	life cycle analysis
LCR	liquidity coverage ratio
LGD	loss given default
LIBOR	London Interbank Offered Rate
LTI	long-term incentive
LTIP	Long-term Incentive Plan/long-term incentive programme
MFC	Motor Finance Corporation
MIS	management information systems
MLCP	Money-laundering Control Programme
MRC	minimum required capital
NBI	National Business Initiative
NCD	negotiable certificate of deposit
NCR	National Credit Regulator
NEEF	Nedbank Employment Equity Forum
NEI	Nedbank ethics indicator
NGO	non-government organisation
NGR	Nedbank Group Rating
NII	net interest income
NIM	net interest margin
NIR	non-interest revenue
NIS	Nedbank Investor Services (department name)
NPAT	net profit after tax
NPO	non-profit organisation
NSFR	net stable funding ratio
OCI	other comprehensive income
OMSA	Old Mutual (South Africa) Limited
ORM	operational risk management
ORMF	Operational Risk Management Framework
ORX	Operational Riskdata eXchange Association
OTC	over the counter
PASA	Payments Association of South Africa
PD	probability of default
PGN	Professional Guidance Note
PIIGS	Portugal, Ireland, Italy, Greece and Spain
POS	point of sale
PVFP	present value of future profits
PVNBP	present value of new-business premiums
QROPS	Qualifying Recognised Overseas Pension Scheme
QSE	qualifying small entity/enterprise
RAROC	risk-adjusted return on capital
RBB	Retail and Business Banking
RCSA	risk and control self-assessment
RegCap	regulatory capital
Remco	Remuneration Committee
ROA	return on (total) assets/return on assets
ROE	return on (ordinary shareholders') equity
RORAC	return on risk-adjusted capital
RWA	risk-weighed asset(s)
Saar	seasonally adjusted annual rate
SABRIC	South African Banking Risk Information Centre
SACEI	South African Corporate Ethics Indicator
SAM	Solvency Assessment and Management
SAPS	South African Police Service
SAR	share appreciation right
SARB	South African Reserve Bank
SARS	South African Revenue Service
SBP	share-based payments
SED	socioeconomic development
SENS	Securities Exchange News Service
SIFI	systematically important financial institution
SME	small and medium enterprise(s)
SMME	small, medium and microenterprises
SPE	special-purpose entity
SPV	special-purpose vehicle
SREP	Supervisory Review and Evaluation Process
SRP	Securities Regulation Panel
SSD	self-service device
SSF	single-stock futures
SST	self-service terminal
STC	secondary tax on companies
STI	short-term incentive
STR	suspicious-transaction reporting
STT	securities transfer tax
TNAV	tangible net asset value
TRAHRCO	Transformation and Human Resources Committee
TSA	The Standardised Approach
TTC	through the cycle
VaR	value at risk
VNB	value of new business
VWAP	volume-weighted average price

NOTES

CONTACT DETAILS

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NEDBANK LIMITED ANNUAL REPORT 2011
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Sponsors: Investec Bank Limited, Nedbank Capital
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ISIN: ZAE000043667

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NEDBANK

DISCLAIMER

Nedbank has acted in good faith and has made every reasonable effort to ensure the accuracy and completeness of the information contained in this document, including all information that may be defined as 'forward-looking statements' within the meaning of US securities legislation.

Forward-looking statements may be identified by words such as 'believe', 'anticipate', 'expect', 'plan', 'estimate', 'intend', 'project', 'target', 'predict' and 'hope'.

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