

# GLOSSARY OF RISK TERMS AND DEFINITIONS

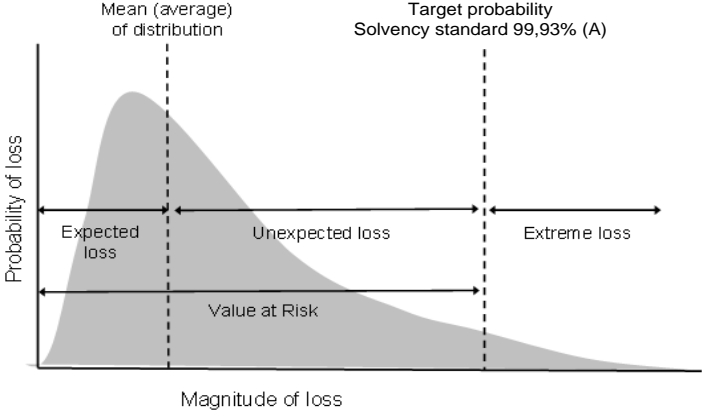
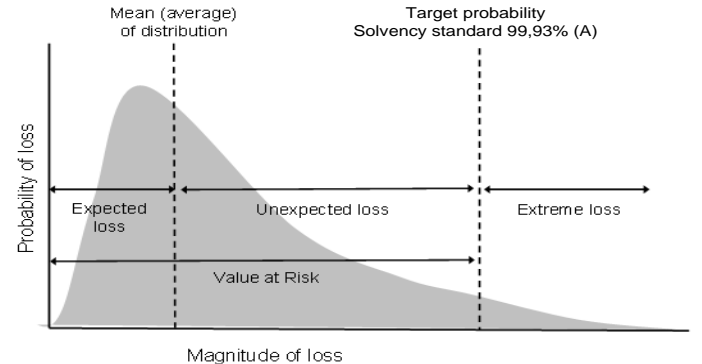
TERM	DEFINITION
<p>Accounting and taxation risk (since accounting and taxation risk is an operational risk, for economic capital purposes accounting and taxation loss events are categorised in terms of one of the subrisks of operational risk)</p>	<p>The risk that the integrity of the financial statements and related information cannot be upheld.</p> <p>This risk has two subrisks: accounting risk and taxation risk.</p>
<p>Accounting risk (subrisk of accounting and taxation risk)</p> <p>(Since accounting risk is an operational risk, for economic capital purposes accounting loss events are categorised in terms of one of the subrisks of operational risk)</p>	<p>The risk that:</p> <ul style="list-style-type: none"> <li>• inappropriate accounting information causes suboptimal decisions to be made, due to inappropriate policy, faulty interpretation of policy, or plain error;</li> <li>• the financial statements and other statutory and regulatory reporting do not accord with International Financial Reporting Standards (IFRS) and/or other relevant statutory requirements are not based on appropriate accounting policies and do not incorporate required disclosures; and</li> <li>• internal financial and operational controls of accounting and administration do not provide reasonable assurance that transactions are executed and recorded in accordance with generally accepted business practices and the group's policies and procedures, and that assets are safeguarded.</li> </ul>
<p>Advanced approaches</p>	<p>Methods available to banks to calculate their regulatory capital requirements based on own risk estimates. These include the Foundation and Advanced Internal Ratings-based (AIRB) approach for credit risk, the Advance Measurement Approach (AMA) for operational risk, and the Internal Models Approach (IMA) for market risk.</p>
<p>Asset liability management (ALM)</p>	<p>Asset liability management is the ongoing process of formulating, implementing, monitoring and revising strategies related to banking book assets and liabilities in an attempt to:</p> <ul style="list-style-type: none"> <li>• maximise the interest margin; and</li> <li>• manage the risk to earnings and capital arising from changes in financial market rates and the group's mix of assets and liabilities.</li> </ul> <p>ALM encompasses the management of liquidity risk, interest rate risk and exchange rate risk in the banking book through the use of both on- and off-balance-sheet instruments and strategies.</p>
<p>ALM risk</p>	<p>ALM risk is a composite risk category that includes interest rate and foreign exchange risks in the banking book as well as liquidity risk. Foreign exchange risk in the banking book encompasses:</p> <ul style="list-style-type: none"> <li>• foreign exchange translation risk; and</li> <li>• foreign exchange transaction risk, which includes <ul style="list-style-type: none"> <li>– known or ascertainable currency cashflow commitments and receivables (termed residual foreign exchange risk),</li> <li>– foreign funding mismatch (the Group Asset and Liability Committee has approved a foreign funding mismatch position for the group, which is managed by the Centralised Funding Desk in Treasury, Nedbank Capital) and</li> </ul> </li> </ul>

TERM	DEFINITION
	<ul style="list-style-type: none"> <li>– any other transaction extending credit or making an investment that attracts foreign exchange risk.</li> </ul>
Backtesting	The validation of a model by feeding it historical data and comparing the model's results with historic reality. The process of comparing model predictions with actual experience.
Banking book	Group assets, liabilities and off-balance-sheet items that are not in the trading book.
Basel	Basel Committee on Banking Supervision housed at the Bank for International Settlements.
Brand-positioning risk (a subrisk of reputational risk)	Failure to manage the group and subsidiary brands properly, which significantly impacts the fundamentals underpinning the objective of the group/subsidiary. Damage to the group's brand may expose it to loss of client brand awareness, clients, profits and competitiveness.
Business disruption and system failure risk (a subrisk of operational risk)	<p>The risk of losses arising from disruption of business or system failures.</p> <p>Business continuity is included in this subrisk and is defined as business disruption and non-continuous service to clients (both internal and external to the group) due to the physical site, human resources, systems or information being unavailable.</p> <p>Included in business continuity is disaster recovery, namely the ability of the group's information technology system(s) to recover timeously, or respond with an acceptable alternative temporary solution, system or site following a disaster impacting the group, which might result in financial loss or reputational damage.</p>
Capital at risk (CAR)	The capital required to absorb unexpected losses, ie economic capital.
Capital management	<p>Capital management is the single coherent set of processes that:</p> <ul style="list-style-type: none"> <li>• ensures the group's capital is in line with the requirements of the regulators, internal assessment of the level of risk being taken by the group, the expectations of the rating agencies and debtholders as well as the returns expected by shareholders;</li> <li>• takes advantage of the range of capital instruments and activities to optimise the financial efficiency of the capital base; and</li> <li>• manages capital risk.</li> </ul>
Capital risk	<p>The risk that the group will become unable to absorb losses, maintain public confidence and support the competitive growth of the business.</p> <p>Capital risk includes failure of the group's entities to maintain the minimum regulatory capital requirements laid down by the Registrar of Banks, Registrar of Securities Services, Registrar of Collective Investment Schemes, Registrars of Long-term and Short-term Insurance and JSE Limited.</p>
Clients, products and business practices (subrisk of operational risk)	<p>The risk of losses arising from unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.</p> <p>This subrisk includes money laundering.</p>
Collateral risk (subrisk of credit risk)	The potential financial loss due to the inability to realise the full expected value of collateral due to unforeseen legal or adverse market conditions (eg property market slump), which causes the value of certain specific collateral types to deteriorate.

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<p>Compliance risk (Since compliance risk is an operational risk, for economic capital purposes compliance loss events are categorised in terms of one of the subrisks of operational risk)</p>	<p>The risk of legal or regulatory sanctions, material financial loss, or loss of reputation the group may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking and other activities. (Basel)</p> <p>Compliance risk is the current and prospective risk of damage to the organisation's business model or objectives, reputation and financial soundness arising from non-adherence to regulatory requirements and expectations of key stakeholders such as clients, employees and society as a whole. It exposes the organisation to fines, civil claims, loss of authorisation to operate and an inability to enforce contracts. (CISA)</p>
<p>Concentration risk (subrisk of credit risk, market risk in the trading book and liquidity risk)</p>	<p>Risk resulting from:</p> <ul style="list-style-type: none"> <li>• in terms of market risk in the trading book and credit risk: <ul style="list-style-type: none"> <li>– an excessive concentration of exposure to a single client or group of related clients, specific financial instrument(s), an individual transaction, a specific industry sector or geographical location; and</li> <li>– the degree of positive correlation between clients and groups of clients as well as between financial instruments/markets under stressed economic conditions; and</li> </ul> </li> <li>• in terms of liquidity risk: <ul style="list-style-type: none"> <li>– reliance on funding or liquidity from a depositor or small group of depositors.</li> </ul> </li> </ul>
<p>Corporate governance</p>	<p>Corporate governance is the structures, systems, processes, procedures and controls within an organisation, at both board of directors level and within the management structure, that are designed to ensure the group achieves its business objectives effectively, efficiently, ethically and within prudent risk management parameters.</p> <p>Good governance requires that there is an effective risk management process that can ensure the risks to which the group is exposed are addressed effectively.</p>
<p>Counterparty credit risk (subrisk of credit risk)</p>	<p>The risk that a counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing financial loss.</p>
<p>Country risk (subrisk of credit risk)</p>	<p>Country risk includes:</p> <ul style="list-style-type: none"> <li>• the risk that a borrower will be unable to obtain the necessary foreign currency to repay its obligations, even if it has the necessary local currency (referred to as transfer risk);</li> <li>• the risk of the group's assets in the country being appropriated; and</li> <li>• the work of default by the government on its obligations (referred to as Sovereign risk).</li> </ul>
<p>Credit rating</p>	<p>A credit rating is an assessment as to the borrower's ability to meet future payment obligations, ie it is the probability of default of the borrower.</p> <p>The group's credit ratings are based on statistical probabilities, derived from a range of bespoke rating models that measure the likely probability of default of individual borrowers.</p>
<p>Credit risk</p>	<p>The risk arising from the probability of borrowers and/or counterparties failing to meet their repayment commitments (including accumulated interest).</p> <p>Credit risk has the following subrisks:</p> <ul style="list-style-type: none"> <li>• collateral risk;</li> </ul>

TERM	DEFINITION
	<ul style="list-style-type: none"> <li>• concentration risk;</li> <li>• counterparty risk;</li> <li>• country risk;</li> <li>• issuer risk;</li> <li>• industry risk;</li> <li>• settlement risk; and</li> <li>• sovereign risk.</li> </ul>
Credit scoring	A method used by a bank to calculate the statistical probability that a loan granted will be repaid. The score is usually a single quantitative measure that represents the borrower's probable future repayment performance.
Credit spread	<p>The difference in yield between two debt issues of similar maturity and duration. The credit spread is often quoted as a spread to a benchmark floating-rate index such as LIBOR or JIBAR or as a spread to highly rated reference securities such as a government bond.</p> <p>The credit spread is often used as a measure of relative creditworthiness, with a reduction in the credit spread reflecting an improvement in the borrower's perceived creditworthiness.</p>
Currency	Referred to as foreign exchange.
Damage to physical assets (subrisk of operational risk)	The risk of losses arising from loss of or damage to physical assets from natural disasters or other events.
Default	<p>Default occurs with respect to a particular obligor when:</p> <ul style="list-style-type: none"> <li>• the bank considers that the obligor is unlikely to pay its credit obligations to the bank in full without recourse by the bank to activities such as the release of collateral (if held); or</li> <li>• the obligor is past due more than 90 days on any material credit obligation to the bank. Overdrafts will be considered as being past due once the client has breached an advised limit or has been advised of a limit smaller than the current outstanding amount.</li> </ul>
Derivative financial instruments risk	<p>The risk of financial loss and reputational damage to the group resulting from unauthorised and/or improper use and/or incorrect understanding, application and management of derivative instruments, whether used for internal or client purposes.</p> <p>Derivatives find application in credit risk, market risk in the trading book, market risk in the banking book and investment risk.</p>
EAD	See exposure at default.
ECap	See economic capital.
Economic capital (ECap)	<p>Economic capital is the capital that the group holds and allocates internally as a result of its own assessment of risk. It differs from regulatory capital, which is determined by regulators.</p> <p>It represents the amount of economic losses the group could withstand and still remain solvent with a target level of confidence (solvency standard or default probability) over a one-year time horizon.</p>

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Employment practices and workplace safety risk (subrisk of operational risk)	The risk of losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal-injury claims, or from diversity/discrimination events.
Enterprise-wide risk	<p>Composite of risk types and categories (called the risk universe) across all business lines, functions, geographical locations and legal entities of the group.</p> <p>There are 17 risk types (ERMF risks): accounting and taxation risk; capital risk; compliance risk; credit risk; information technology risk; insurance and assurance risk; investment risk; liquidity risk; market risk in the banking book; market risk in the trading book; new-business risk; operational risk; people risk; reputation risk; social and environmental risk; strategic risk and transformation risk.</p>
Enterprise-wide risk management	Enterprise-wide risk management is a structured and disciplined approach aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the opportunities, uncertainties and threats the group faces as it creates value. It involves integrating risk management effectively across an organisation's risk universe, business units and operating divisions, geographical locations and legal entities.
Enterprise-wide Risk Management Framework (ERMF)	The risk framework developed by the group and applied to all of its divisions in order to identify, assess or measure, manage, monitor and report risk. The ERMF contains the group's risk universe, which lists 17 risk categories (the ERMF risks).
Equity risk in the banking book (also termed investment risk) (subrisk of investment risk)	<p>The risk of decline in the net realisable value of equity exposures in the banking book. These include:</p> <ul style="list-style-type: none"> <li>investment in securities (listed and unlisted equity holdings, whether direct or indirect, and includes private equity); and</li> <li>investment in associate companies and joint ventures.</li> </ul>
Environmental risk (subrisk of social and environmental risk)	<p>The risk that that an activity or process in the group will degrade, devalue or destabilise the environment in such a way as to:</p> <ul style="list-style-type: none"> <li>damage the environment itself and lead to further damage as a result;</li> <li>harm employees of the bank;</li> </ul>

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	<ul style="list-style-type: none"> <li>• harm other people in the community/society; and</li> <li>• damage the long-term prospects of the bank.</li> </ul> <p>It includes the risk of association with or financing of environment-unfriendly companies or projects.</p>
ERMF	See Enterprise-wide Risk Management Framework.
ERMF risks	The 17 risks listed in the ERMF.
Execution, delivery and process management risk (subrisk of operational risk)	The risk of losses arising from failed transaction processing or process management and relations with trade counterparties and vendors.
Expected loss (EL)	<p>Losses that a bank expects to bear over a certain period (generally one year). These losses are a consequence of doing business, namely the bank's role as financial intermediary. Generally impairments should cover expected losses with respect to credit risk and losses relating to operational risk should be budgeted for.</p> 
Expected shortfall	Expected average loss for losses greater than value at risk (VAR).
External fraud (subrisk of operational risk)	The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent the law by a third party.
Extreme loss	<p>The loss arising from a loss event of catastrophic magnitude. Such an event often leads to the failure of a bank.</p> 
Exposure at default (EAD)	Quantification of the exposure at risk in case of a credit default.

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<p>Foreign exchange transaction risk (in the banking book) (subrisk of market risk in the banking book)</p>	<p>The risk that known or ascertainable currency cashflow commitments and receivables are uncovered and as a result have an adverse impact on the financial results and/or financial position of the group due to movements in exchange rates.</p> <p>Foreign exchange transaction risk in the banking book includes:</p> <ul style="list-style-type: none"> <li>• known or ascertainable currency cashflow commitments and receivables (termed residual foreign exchange risk);</li> <li>• foreign funding mismatch (Group Asset and Liability Committee has approved a foreign funding mismatch position for the group, which is run by the Centralised Funding Desk in Treasury, Nedbank Capital); and</li> <li>• any other transaction extending credit or making an investment that attracts foreign exchange risk.</li> </ul>
<p>Foreign exchange translation risk (subrisk of market risk in the banking book)</p>	<p>The risk to earnings or capital arising from converting the group's offshore banking book assets or liabilities or commitments or earnings from foreign currency to local or functional currency.</p>
<p>Gross risk</p>	<p>See inherent risk.</p>
<p>Hedge</p>	<p>A risk management technique used to reduce the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates arising from normal banking operations. Most often, the hedge involves the use of a financial instrument or derivative such as a forward, future, option or swap.</p> <p>Hedging may prove to be ineffective in reducing the possibility of loss as a result of, inter alia, breakdowns in observed correlations between instruments, or markets or currencies and other market rates.</p>
<p>Hedging</p>	<p>Action taken by the group to reduce or eliminate the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates.</p>
<p>ICAAP</p>	<p>See Internal Capital Adequacy Assessment Process.</p>
<p>Industry risk (subrisk of credit risk)</p>	<p>The risk that defaults will arise in an industry because of factors specifically affecting that industry.</p>
<p>Information technology (IT) risk</p>	<p>The risk associated with information technology has a strategic and an operational component. Information technology risk encompasses the strategic component, while the operational component is included in operational risk.</p> <p>The risk resulting from system-inadequate or system-inappropriate information technology investment, development, implementation, support or capacity, with a concomitant negative impact on the achievement of strategic group objectives.</p> <p>This includes the risk of an uncoordinated, inefficient and/or under-resourced information technology strategy, as a result of which the group becomes progressively less competitive.</p>
<p>Inherent risk</p>	<p>Inherent risk is the product of the impact of the risk on the objective(s) and the likelihood of the risk occurring should no management actions/controls be in place to mitigate the risk.</p> <p>Inherent risk is also known as gross risk.</p> <p>An ERMF risk, if applicable with respect to the achievement of the objective(s), is an</p>

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	inherently high (or red) risk.
Insurance and assurance risk (Since insurance and assurance risk is an operational risk, for economic capital purposes insurance and assurance loss events are categorised in terms of one of the subrisks of operational risk)	<p>The risk that the underwriting process permits clients to enter risk pools with a higher level of risk than priced for, resulting in a loss to the business unit or group.</p> <ul style="list-style-type: none"> <li>Actuarial and statistical methodologies are used to price insurance risk (eg morbidity, mortality, theft, storm). Underwriters align clients with this pricing basis and respond to any anti-selection by placing clients in substandard risk pools and price these risks with an additional risk premium and/or exclude certain claims, events or causes, or exclude clients from entering pools at all.</li> <li>The failure to reinsure with acceptable quality reinsurers, beyond the level of risk appetite (excessive risk) mandated by the board of directors, risks underwritten by the short-term insurance and/or life assurance activities of the group, including catastrophe insurance (ie more than one insurance claim on the group arising from the same event), leading to disproportionate losses to the group. (Reinsurance risk)</li> <li>The risk of no or inadequate insurance cover for insurable business risks. (Insurance risk)</li> </ul> <p>Insurance underwriting risk in the group arises in the following areas:</p> <ul style="list-style-type: none"> <li>Short-term insurance underwriting risk arises exclusively from Nedgroup Insurance Company Limited, a business unit in the Nedbank Wealth Cluster.</li> <li>Long-term insurance underwriting risk arises from the Nedgroup Life Assurance Company Limited, a business unit in Nedbank Wealth Cluster.</li> </ul>
Interest rate risk in the banking book (subrisk of market risk in the banking book)	<p>Interest rate risk in the banking book is the risk that the group's earnings or economic value will decline as a result of changes in interest rates. The sources of interest rate risk in the banking book are:</p> <ul style="list-style-type: none"> <li>repricing risk (mismatch risk) [timing differences in the maturity (for fixed-rate) and repricing (for floating-rate) of bank assets, liabilities and off-balance-sheet positions];</li> <li>basis risk (imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics);</li> <li>yield curve risk (changes in the shape and slope of the yield curve); and</li> <li>embedded options risk (the risk pertaining to interest-related options embedded in bank products).</li> </ul>
Internal Capital Adequacy Assessment Process (ICAAP)	<p>The process by which banks demonstrate that chosen internal capital targets are well founded and that these targets are consistent with their overall risk profile and current operating environment. The five main features of a rigorous process are:</p> <ul style="list-style-type: none"> <li>board and senior management oversight;</li> <li>sound capital assessment;</li> <li>comprehensive assessment of risks;</li> <li>monitoring and reporting; and</li> <li>internal control review.</li> </ul>
Internal control system	<p>An internal control system comprises the policies, procedures and activities within the group designed to:</p> <ul style="list-style-type: none"> <li>ensure that risks are contained within the risk tolerances established by the risk management process; and</li> </ul>

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	<ul style="list-style-type: none"> <li>provide reasonable assurance of reliable and accurate information, ensure compliance with policies, procedures and laws, use resources efficiently, protect assets and achieve operational objectives.</li> </ul> <p>Internal control is a 'process' effected by the board of directors, senior management and all levels of staff in the group. The objectives of the internal control process are to provide reasonable assurance of:</p> <ul style="list-style-type: none"> <li>efficiency and effectiveness of activities (performance objectives);</li> <li>reliability, completeness and timeliness of financial and management information (information objectives); and</li> <li>compliance with applicable laws and regulations (compliance objectives).</li> </ul>
Internal fraud (subrisk of operational risk)	<p>The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party.</p> <p>Internal fraud includes insider trading.</p>
Investment risk	<p>The risk of a decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself (eg reputation and the quality of management). Market prices are independent variables, which include interest rates, property values, exchange rates, and equity and commodity prices.</p> <p>Investment risk has the following subrisks:</p> <ul style="list-style-type: none"> <li>equity risk in the banking book (also termed investment risk); and</li> <li>property market risk (also termed property risk).</li> </ul>
Issuer risk (subrisk of credit risk)	<p>The risk that a particular principal payment or set of payments due from an issuer or a listed instrument (eg corporate bond) will not be forthcoming as scheduled.</p>
Issue versus risk	<p>An issue (or event) has materialised or is in the process of doing so, while a risk has not yet materialised.</p>
Key risk indicator (KRI)	<p>A management information indicator that provides continuous insight into the level of risk in the group/business. KRIs enable management to manage and monitor risk proactively on an ongoing basis.</p> <p>KRIs may be leading, concurrent or lagging indicators. (Note: It is preferable to focus on leading indicators proactively to prevent a risk from materialising).</p>
King III	<p>The King Report on Governance for South Africa 2010.</p>
Legal risk (subrisk of operational risk) (For economic capital purposes legal risk is a subcategory of operational risk's subrisk clients, products and business practices)	<p>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. It is the possibility that a failure to meet these legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.</p> <p>It includes risk arising from inadequate documentation, legal or regulatory incapacity, insufficient authority of a counterparty and uncertainty about the validity or enforceability of an obligation in counterparty insolvency.</p> <p>It comprises contravention, failure to prevent, detect or promptly correct violations of the terms and provisions of contractual agreements and related documents entered into with clients, counterparties, suppliers and other parties, including common-law and other applicable statutory liabilities.</p>

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LGD	See loss given default.
Likelihood	An assessment of how likely it is that a risk will occur. A similar term is probability.
Liquidity risk	<p>Liquidity is the ability of the group to fund increases in assets and meet obligations as they become due, without incurring unacceptable losses.</p> <p>There are two types of liquidity risk: market liquidity risk and funding liquidity risk.</p> <p>Market liquidity risk is the risk that the bank cannot easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption.</p> <p>Funding liquidity risk is the risk that the bank will not be able to efficiently meet both expected and unexpected current and future cashflow and collateral needs without affecting either daily operations or the financial condition of the bank.</p> <p>For purposes of the Enterprise Risk Management Framework, liquidity risk is funding liquidity risk. Market liquidity risk is managed within the market risk in the trading book risk management framework.</p> <p>Concentration risk is a subrisk of liquidity risk.</p>
Loss given default (LGD)	This is an estimate of the amount of the exposure at default that will not be recovered. It also includes other economic costs such as legal costs.
Market risk in the banking book	<p>The risk of loss in the banking book as a result of unfavourable changes in foreign exchange rates and interest rates.</p> <p>The subrisks of market risk in the banking book are:</p> <ul style="list-style-type: none"> <li>• interest rate risk in the banking book;</li> <li>• foreign exchange translation risk; and</li> <li>• foreign exchange transaction risk in the banking book.</li> </ul>
Market risk in the trading book	<p>The risk of loss as a result of unfavourable changes in market prices such as foreign exchange rates, interest rates, equity prices, credit spreads and commodity prices.</p> <p>There is trading market risk within the group's proprietary trading activities (trading on the group's own account).</p> <p>Concentration risk is a subrisk of market risk.</p>
<p>Model risk (a subrisk of operational risk)</p> <p>(For economic capital purposes model risk is a subcategory of operational risk's subrisk clients, products and business practices)</p>	The risk that business decisions are made using model results that are incorrect. This includes the possibility of losing perspective of the limitations of models in general and the pitfalls associated with their use.
Net risk	See residual risk.
New-business risk	The risk that new product and business lines do not generate anticipated revenue or cost savings to the group. This could be as a result of providing to clients or potential clients inappropriate products and business lines that fail to meet clients' or potential clients' requirements or otherwise fail to impress, compete with competitor products or

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	<p>provide Nedbank Group with a leading edge in product development and delivery.</p> <p>Management of this risk requires that new products and business development do not reach the client distribution channel without the appropriate signoff for compliance with the risk management requirements for all 17 risks in the Enterprise Risk Management Framework.</p>
Objective	It is a goal that management has set for the entity (group or business) to achieve.
Operational risk	<p>The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.</p> <p>The subrisks of operational risk are:</p> <ul style="list-style-type: none"> <li>• business disruption and system failures;</li> <li>• clients, products and business practices;</li> <li>• damage to physical assets;</li> <li>• employment practices and workplace safety;</li> <li>• execution, delivery and process management;</li> <li>• external fraud;</li> <li>• internal fraud;</li> <li>• legal risk (legal risk is a subcategory of the subrisk clients, products and business practices); and</li> <li>• model risk (for economic capital purposes, model risk is a subcategory of the subrisk clients, products and business practices).</li> </ul>
PD	See probability of default.
People risk	<p>The risk associated with people has a strategic and operational component. People risk encompasses the strategic component, while the operational component is included in operational risk.</p> <p>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 a concomitant negative impact on the achievement of strategic group objectives.</p> <p>It includes:</p> <ul style="list-style-type: none"> <li>• the risk that effective risk-adjusted performance measurement and indicators are not implemented in the group, resulting in incorrect reward allocation, failure to optimise the use/allocation of the group's capital and wrong corporate behaviour resulting in suboptimal returns;</li> <li>• the risk that the group fails to motivate staff through the use of inappropriate incentive schemes, or the poor administration of incentive schemes; and</li> <li>• the risk that the group does not ensure that skills and experience are developed, consistently and methodically retained (or capitalised) and enhanced to create value for the group (for example, in the form of innovative product designs, developed systems, methods and procedures).</li> </ul>
Point-in-time rating	<p>A credit rating based on point-in-time risk measures. Point-in-time measures assume the financial condition of the borrower will remain as it currently is.</p> <p>Compare with through-the-cycle rating, which the group uses.</p>

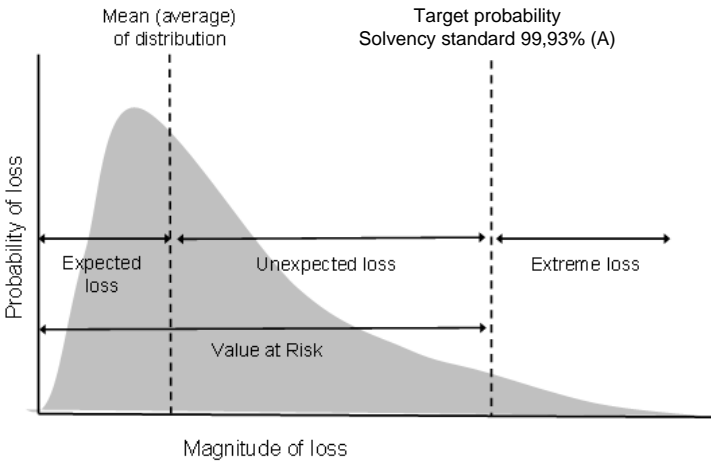
TERM	DEFINITION
Primary (Tier 1) capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other specified regulatory deductions.
Probability	An assessment of how probable it is that a risk will occur. A similar term is likelihood.
Probability of default (PD)	Quantification of the likelihood of a borrower being unable to repay during a specific time horizon, usually 12 months.
Property market risk (subrisk of investment risk)	Property market risk is the risk of decline in the net realisable value of property arising from adverse movements in property prices or factors specific to the property itself (eg location). Property comprises business premises, property acquired for future expansion and properties in possession (PIPs).
Regulatory capital	The total of primary, secondary and tertiary capital.
Regulation 39	A regulation issued in terms of the Banks Act titled 'Process of corporate governance'. The regulation states that 'the conduct of the business of a bank entails the management of risks, which may include, amongst others, the following types of risk: capital risk; compliance risk; concentration risk; counterparty risk; credit risk; currency risk; equity risk arising from positions held in the bank's banking book; interest rate risk; liquidity risk; market risk (position risk) in respect of positions held in the bank's trading book; operational risk; reputational risk; risk relating to procyclicality; solvency risk; technological risk; translation risk; any other risk regarded as material by the bank. '
Reputational risk	The risk of impairment of the group's image in the community or the long-term trust placed in the group by its shareholders as a result of a variety of factors, such as the group's performance, strategy execution, ability to create shareholder value, or an activity, action or stance taken by the group. This may result in loss of business and/or legal action.
Residual risk	Residual risk is the product of the impact of the risk on the objective(s) and the likelihood of the risk occurring taking into consideration current management actions/controls in place to mitigate the risk. Residual risk is also known as net risk.
Risk	Risk is anything that may prevent the bank from achieving its objectives or otherwise may have an adverse impact on the bank.
Risk acceptance	Risk acceptance is used in risk management to describe an informed decision to accept the consequences and likelihood of a particular risk. In terms of best practice, risk can only be accepted if it can be illustrated that the risk is within set risk appetite limits.
Risk avoidance	Risk avoidance is used in risk management to describe an informed decision not to become involved in activities that lead to the possibility of the risk being realised.
Risk Mitigation	Risk mitigation is used in risk management to describe steps taken to control or prevent an issue or event hazard from causing harm and to reduce risk to a tolerable or acceptable level and within risk appetite levels.

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Risk-adjusted performance measurement (RAPM)	<p>There are two main measures implemented through Nedbank Group's RAPM framework:</p> <ul style="list-style-type: none"> <li>• risk-adjusted return on capital (RAROC), which expresses the risk-adjusted profit with respect to the capital necessary to generate the revenue, giving a relative measure of performance; and</li> <li>• economic profit (EP), an absolute measure of shareholder value creation.</li> </ul>
Risk-adjusted return on capital (RAROC)	<p>The International Financial Reporting Standard's (IFRS) earnings of the business, adjusted for the difference between expected loss and impairments and divided by the economic capital consumed by that business, giving a relative measure of performance.</p>
Risk appetite	<p>The quantum of risk the group is willing to accept in pursuit of its business strategy. Risk appetite is expressed quantitatively as risk measures such as economic capital and risk limits, and qualitatively in terms of policies and controls.</p>
Risk identification	<p>The ongoing recognition and discernment of risk.</p>
Risk management and control	<p>The proactive management of risks within the risk appetite to reasonably assure the achievement of objectives. Risk management consists of taking action to align risks with the group's risk appetite and ensuring that such actions are properly executed.</p> <p>Appropriate risk management will require at least:</p> <ul style="list-style-type: none"> <li>• a system of internal controls;</li> <li>• approval processes;</li> <li>• limit systems;</li> <li>• key risk indicators;</li> <li>• reviews of enterprise-wide risk management policies, processes and procedures and their implementation; and</li> <li>• reviews of controls, approvals and limits.</li> </ul>
Risk management framework	<p>An outline for the management of a risk, more fully developed or described elsewhere.</p> <p>A risk management framework comprises:</p> <ul style="list-style-type: none"> <li>• An appropriate risk management environment <ul style="list-style-type: none"> <li>– Risk philosophy</li> <li>– Risk culture</li> <li>– Risk appetite</li> <li>– Risk governance structure</li> <li>– Policies, processes and procedures</li> <li>– Staff and other resources</li> </ul> </li> <li>• A risk strategy</li> <li>• A risk management process <ul style="list-style-type: none"> <li>– Risk identification</li> <li>– Risk measurement</li> <li>– Risk management and control</li> <li>– Risk reporting</li> <li>– Risk monitoring</li> </ul> </li> </ul>
Risk management process	<p>Risk management is the identification, assessment, and prioritisation of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative)</p>

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	followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/or impact of unfortunate events or to maximise the realisation of opportunities.
Risk management strategy	The strategies to manage risk include transferring the risk to another party, avoiding the risk, mitigating the risk by reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk (see transfer of risk, risk avoidance and risk mitigation).
Risk measurement	The evaluation of the magnitude of risk and its impact on the achievement of business objectives.
Risk monitoring	<p>The ongoing and systematic tracking and evaluating of risk management decisions and actions against strategies, risk appetite, policies, limits and key risk indicators.</p> <p>Risk monitoring incorporates a feedback loop into the other components of the risk management process, namely risk identification, measurement/assessment, management and/or reporting.</p>
Risk reporting	<p>The communication of risk information in all phases of the risk management process, namely identification, measurement, management and monitoring.</p> <p>Risk reporting includes at least the reporting of:</p> <ul style="list-style-type: none"> <li>• aggregate exposures against targets/strategies;</li> <li>• key issues for the key issues control log;</li> <li>• compliance with limit system;</li> <li>• key risk indicators; and</li> <li>• review findings.</li> </ul>
Risk strategy	<p>A risk strategy describes the fundamental direction with regard to each of the 17 risks in the Enterprise-wide Risk Management Framework risks and associated subrisks. A risk strategy is built around and supports the business strategy.</p> <p>Generic risk strategies are: avoid (or terminate), transfer, mitigate (or treat) or accept (or tolerate).</p>
Risk versus issue	A risk has not (yet) materialised, while an issue has materialised or is in the process of doing so.
Risk-weighted assets (RWA)	Risk-weighted assets 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, 94 of 1990, or by regulations in the respective countries of the other banking licences.
RORAC (return on risk-adjusted capital)	<p>RORAC is a relative performance measurement whereby capital is calculated on a risk-adjusted basis (ie economic capital)</p> $\text{RORAC} = \frac{\text{IFRS earnings} + \text{capital benefit}}{\text{Economic capital}}$
Secondary (Tier 2) capital	Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions.
Security	Security is a risk management function consisting of physical security, information

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(function of Group Risk services)	<p>security and personnel integrity.</p> <p>The objectives of physical security are to protect:</p> <ul style="list-style-type: none"> <li>• physical assets under the control of the group;</li> <li>• the wellbeing of staff, clients and the public; and</li> <li>• the group's reputation as it relates to safety and security, ie the protection of the image and reputation of the bank in providing a safe and secure, environmentally friendly business environment.</li> </ul> <p>The objectives of information security are to protect the group from breaches in the confidentiality or integrity of group information and from the unavailability of such information when required. This includes all information in the group, not only internally system-generated information.</p> <p>The objectives of personal integrity are to ensure that staffmembers do not compromise resources or allow resources to be compromised, be it on purpose, through neglect or unintentionally.</p>
Securitisation risk (sub risk of credit risk)	The creation and issuance of tradeable securities, such as bonds, that are backed by the income generated by an asset, a loan, a public works project or other revenue source.
Settlement risk (subrisk of credit risk)	<p>The risk that an organisation gives, but fails to receive, consideration from a counterparty during the settlement of a transaction. The settlement may be cash or securities.</p> <p>Foreign exchange settlement risk is the risk of loss when a bank in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought.</p>
Social and environmental risk	<p>The risk of reputational impairment and ultimately loss of business and profitability as a result of non-achievement of a balanced and integrated social and environmental performance. Together with economic performance, this is referred to as the 'triple bottom-line'.</p> <p>Social and environmental risk has two subrisks:</p> <ul style="list-style-type: none"> <li>• social risk; and</li> <li>• environmental risk.</li> </ul>
Social risk (subrisk of social and environmental risk)	The risk of reputational damage, political intervention, heightened regulatory pressure, protests, boycotts and operational stoppages – and ultimately loss of business and profitability – due to the real or perceived negative impact of group business practices on a broad range of matters related to human, societal and community welfare such as health and economic opportunity.
Sovereign risk	The risk of default by the government of the country on its obligations (also see country risk).
Strategic risk	<p>The risk of an adverse impact on capital and earnings due to business policy decisions (made or not made), changes in the economic environment, deficient or insufficient implementation of decisions, or failure to adapt to changes in the environment.</p> <p>Strategic risk is either the failure to do the right thing, doing the right thing poorly, or doing the wrong thing.</p> <p>Strategic risk includes:</p> <ul style="list-style-type: none"> <li>• the risk associated with the deployment of large chunks of capital into strategic investments that subsequently fail to meet stakeholders expectations;</li> <li>• the risk that the strategic processes to perform the environmental scan, align</li> </ul>

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	<p>various strategies, formulate a vision, strategies, goals and objectives and allocate resources for achieving, implementing, monitoring and measuring the strategic objectives are not properly in place or are defective; and</p> <ul style="list-style-type: none"> <li>failure adequately to review and understand the environment in which the group operates leading to underperformance of its strategic and business objectives (specific environmental components are inter alia industry, political, economic, government, competitive and regulatory factors).</li> </ul> <p>Brand positioning is a subrisk of strategic risk.</p>
Subrisk	A component of a risk covered by the Enterprise Risk Management Framework. A separate risk management framework is defined for a subrisk.
<p>Taxation risk (a subrisk of accounting and taxation risk)</p> <p>(Since taxation risk is an operational risk, for economic capital purposes taxation loss events are categorised in terms of one of the subrisks of operational risk)</p>	<p>The risk of loss (financial or otherwise) because:</p> <ul style="list-style-type: none"> <li>effective tax planning, coordination and strategy, compliance with tax laws and regulations, proactive identification and management of tax risks are not enforced; or</li> <li>a poor relationship with revenue authorities exists.</li> </ul> <p>Taxation risk is the risk of loss (financial or otherwise) as a result of:</p> <ul style="list-style-type: none"> <li>inappropriate tax planning and strategy, which will result in higher taxes being paid by the group than is legally necessary or financial loss through an overly aggressive approach to tax law;</li> <li>non-compliance with or incorrect interpretation and application of taxation legislation, ie the risk of penalties, fines and/or reputational damage due to non-compliance with tax laws, regulations and/or accepted tax practice; or</li> <li>the effect of new tax legislation on existing financial structures or products.</li> </ul>
Tertiary (Tier 3) capital	<p>Tertiary capital means:</p> <ul style="list-style-type: none"> <li>accrued current-year uncapitalised net profits derived from trading activities; and</li> <li>capital obtained by means of unsecured subordinated loans, subject to such conditions as may be prescribed.</li> </ul>
Through-the-cycle rating	<p>A credit rating based on through-the-cycle risk measures. Through-the-cycle measures evaluate the financial condition of the borrower over a longer term, incorporating a full economic (or business) cycle.</p> <p>Compare to point-in-time rating.</p> <p>The group uses through-the-cycle ratings. Therefore probability of default, loss given default and exposure at default estimates are based on long-term averages of the group's historical risk experience.</p>
Trading book	<p>This comprises positions in financial instruments and commodities, including derivative products and other off-balance-sheet instruments that are held with trading intent or to hedge other elements of the trading book. It includes financial instruments and commodities that:</p> <ul style="list-style-type: none"> <li>are held for short-term resale; or</li> <li>are held with the intention of benefiting from short-term price variations; or</li> <li>arise from broking and market making; or</li> <li>are held to hedge other elements of the trading book.</li> </ul>

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Transfer of risk	Transfer of risk is used in risk management to describe the shifting of the burden of the risk to another party. Insurance is a common example of risk transfer.
Transformation risk (Since transformation risk is an operational risk, for economic capital purposes transformation loss events are categorised in terms of one of the subrisks of operational risk)	The risk of failure by the group adequately, proactively and positively to respond to and address transformation issues such as black economic empowerment and upholding related laws such as the Employment Equity Act.
UL	See unexpected loss.
Underwriting risk	When an investment banker buys the balance or all of the new shares that a company is issuing, the risk that the price will go down before they are sold, or that investors will not want to buy them.
Unexpected loss	<p>Losses that may exceed the expected loss within a certain period (eg one year) and within a specified confidence level (ie 99,93%). Unexpected loss is the difference between value at risk and expected loss.</p> 
Use test	Requirement that the components of advanced approaches for the calculation of regulatory capital should not be used merely for the calculation of regulatory capital. Instead they should play an essential role in how a bank measures and manages risk in its business.
Value at risk (VaR)	<p>Formally, this is the probabilistic bound of losses over a given period (the holding period) expressed in terms of a specified degree of confidence (the confidence interval). Put more simply, VaR is the worst-case loss expected over the holding period within the probability set out by the confidence interval. Larger losses are possible, but with a lower probability.</p> <p>For example: If a portfolio has a VaR of R10 million over a one-day holding period with a 95% confidence interval, the portfolio would have a 5% chance of suffering a one-day loss greater than R10 million.</p>