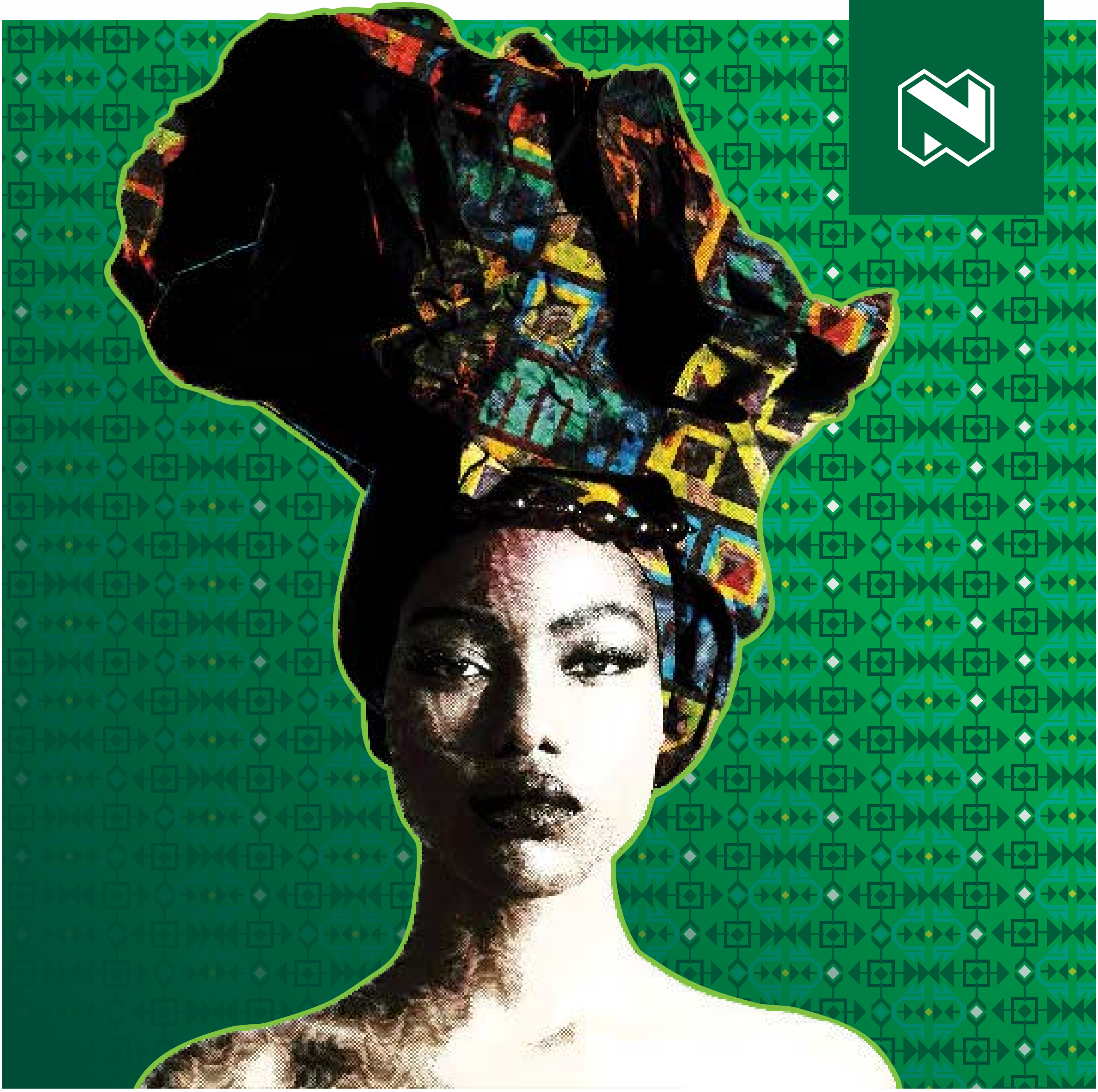

IR Integrated Report 2016

FOR THE YEAR ENDED 31 DECEMBER

'Using our financial expertise to do good'

see money differently

NEDBANK

A Member of the OLDMUTUAL Group

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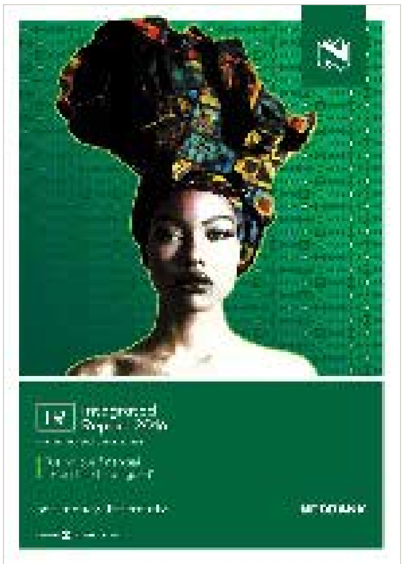

Find out the story behind our cover image by reading about our brand refresh on page 50.

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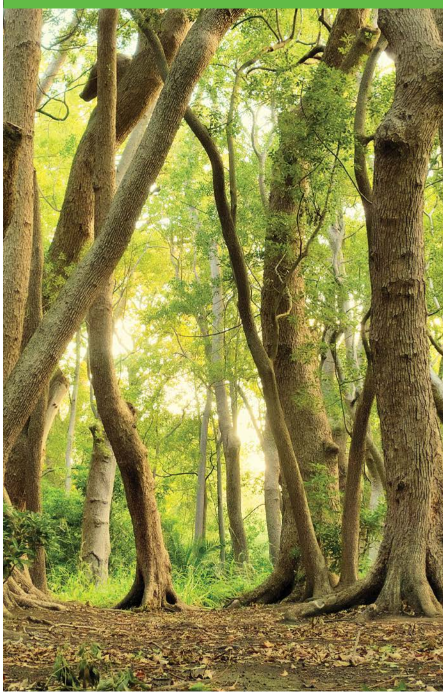


How to read this report

Our Integrated Report provides information that enables Nedbank Group stakeholders to make an informed assessment of our ability to create sustainable value. The aim of this Integrated Report is to clearly and concisely tell the story of Nedbank, who we are, what we do, and how we create value. This report documents our strategy, opportunities and risks, our business model and governance, and the performance against our strategic objectives in a way that gives stakeholders a holistic view of Nedbank Group and our future prospects. We present our report in four sections, each of which focuses on a specific element of value.

Being positioned for value creation provides an overview of the group, including our purpose, vision, values, targets, aspirations and leadership, and explains how we create stakeholder value through our business model.

Creating value in a sustainable manner through our strategy describes the context in which we operate and how it is likely to change over the next few years, the needs and expectations of our stakeholders and the resulting material matters that add or detract value. These, along with resultant opportunities and risks, inform our strategy for the next five years.

Delivering value describes how value was created in 2016 through our financial performance, primarily for our investors, but also for all our stakeholders. We also show how remuneration correlated with our performance, and provide an outlook for 2017 and the medium to long term.

Ensuring and protecting value reflects on how the group is governed, including key deliberations of our board and board committees.

Additional information for our stakeholders

Our Integrated Report is supplemented by our full suite of online publications, which caters for the diverse needs of our broad stakeholder base as part of our comprehensive integrated reporting. These can be accessed on our group website: nedbankgroup.co.za.

FINANCIAL AND RISK MANAGEMENT REPORTING

- Results Booklet and presentation
- Nedbank Group Annual Financial Statements
- Nedbank Limited Annual Report
- Pillar 3 Risk and Capital Management Report

SHAREHOLDER INFORMATION

- Notice of the 50th annual general meeting
- Form of proxy
- Shareholding profile

GOVERNANCE REPORTING

- Governance and Ethics Review
- Director and executive profiles
- Register of directors' attendance
- Remuneration Report
- King III Principles
- Key policies

SUSTAINABILITY REPORTING

- Transformation Report
- Sustainability Review
- Global Reporting Initiative G4

To view a short video that provides an overview of Nedbank and our strategy, scan the QR code or go to the Integrated Reporting section of our website.

We welcome feedback on this report. Please address any questions, comments or suggestions to nedbankgroupir@nedbank.co.za.

About our Integrated Report

Nedbank Group is committed to the principles of Integrated Reporting. Our thinking and our approach to long-term value creation are aligned with these principles, which allow us to tell a clear and comprehensive story about how we deliver on our purpose to use our financial expertise to do good for individuals, families, businesses and society.

Scope and boundary of reporting

REPORTING PERIOD
The Nedbank Group Integrated Report is produced and published annually. The 2016 report covers the period 1 January to 31 December 2016 and builds on the 2015 report. Any material events after this date and up to the board approval date on 17 March 2017 have also been included. The report also contains Nedbank Group's outlook, targets and objectives for the short (2017) and medium to long term (2018 to 2020 and beyond). Our integrated thinking is reflected in our targets and key performance indicators that cover financial and non-financial performance as well as strategy, risks and how we deliver value to stakeholders.

OPERATING BUSINESSES
The report covers the primary activities of the group, our business clusters, key support areas and subsidiaries in our African and international operations. Detailed information on investments in which the group holds only a minority stake is not included.

FINANCIAL AND NON-FINANCIAL REPORTING
The report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes attributable to or associated with our key stakeholders, which have a significant influence on our ability to create value.

TARGETED READERS
This is our primary report to stakeholders and is intended to address the information requirements of long-term investors (our equity and preference shareholders, bondholders and prospective investors). We also present information relevant to the way we create value for other key stakeholders, including our staff, clients, regulators and communities.

BENCHMARKING
We benchmark our performance against our peers based on publically available information. While consistent benchmarks are not always readily available, we have included these where relevant so that readers can gauge Nedbank Group's relative performance.

KEY CONCEPTS

DEFINING VALUE
Value creation is the consequence of how we apply and leverage our capitals in delivering financial performance (outcomes) and value (outcomes and outputs) for all stakeholders while making tradeoffs. Our value creation process is embedded in our purpose (page 12), described as part of our business model on pages 20 and 21 and integrated into the way we think and make decisions. Through 'case in point' illustrations we provide examples of how value is created through strategy and delivered to our stakeholders.

MATERIALITY AND MATERIAL MATTERS
We apply the principle of materiality in assessing which information is to be included in our Integrated Report. This report focuses particularly on those issues, opportunities and challenges that impact materially on Nedbank Group and its ability to be a sustainable business that consistently delivers value to shareholders, prospective investors and our key stakeholders. Our material matters, as described on pages 34 to 39, influence our group's strategy and inform the content in this report.

THE CAPITALS
Our relevance as a bank today and in the future, and our ability to create long-term value is interrelated and fundamentally dependent on the forms of capital available to us (inputs), how we use them (value-adding activities), our impact on them and the value we deliver (outputs and outcomes), as shown on pages 20 and 21. Our capitals and an explanation of what they represent to us, are provided below:

Financial
Our shareholders' equity and funding from investors and clients that are used to support our business and operational activities, including credit extension (advances).

Human
Our people, investing in their development and our collective knowledge, skills and experience to enable innovative and competitive solutions for our clients.

Manufactured
Our business structure and operational processes, including our physical and digital infrastructure, our products, as well as our information technology that provides the framework and mechanics of how we do business and make money.

Intellectual
Our brand and franchise value, research and development, innovation capacity, reputation and strategic partnerships.

Social and relationships
Our citizenship and strong stakeholder relationships, including the communities we operate in, as we recognise that banks play an important role in building a strong and thriving society.

Natural
Our positive and negative impact on natural resources through our operations and business activity.

NAVIGATION ICONS

STAKEHOLDERS

- Staff
- Clients
- Shareholders
- Regulators
- Communities

STRATEGIC FOCUS AREAS

- Delivering innovative market-leading client experiences
- Growing our transactional banking franchise faster than the market
- Being operationally excellent in all we do
- Managing scarce resources to optimise economic outcomes
- Providing our clients with access to the best financial services network in Africa

MATERIAL MATTERS

- Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality
- Disruptive technologies, disintermediation and increased competition
- Increased demands on governance, regulation and risk management
- Managing growth opportunities vs risks in rest of Africa
- Transformation of society within environmental constraints
- Scarce- and evolving-skills requirements
- Changing relationships between business, government, labour and civil society

ASSURANCE INDICATORS

- LA External limited assurance
- FS Extracted from the 2016 Nedbank Group Limited Audited Annual Financial Statements
- MO Management and board oversight
- IN External sources, eg independent surveys
- OV Independent oversight by regulatory bodies

Reporting frameworks and combined assurance

Our Integrated Reporting process, as well as the contents of this report, is guided by the principles and requirements of the International Integrated Reporting Framework (IIRC) and the King Code of Governance Principles for SA (King III), and is in accordance with the 'core' level of the Global Reporting Initiative (GRI) G4. As an SA bank and a company listed on JSE Ltd (the JSE), we align to the JSE Listings Requirements, the SA Companies Act, 71 of 2008 (as amended), and the Banks Act, 94 of 1990.

We employ a combined assurance model to assess and assure various aspects of the business operations, including elements of external reporting.

These assurances are provided by management and the board, internal audit and independent external service providers, including KPMG Inc and Deloitte & Touche, our external auditors and providers of limited assurance on selected sustainability information, and SizweNtsalubaGobodo Inc, providers of limited assurance on our application of the Financial Sector Code (FSC) and the group's broad-based black economic empowerment (BBBEE) status.

For further information on the scope of the services provided by our external assurance providers refer to the Nedbank Group Annual Financial Statements, the Nedbank Ltd Annual Report, the Nedbank Ltd and subsidiaries BBBEE certificate, and the Independent Assurance Providers' Limited Assurance Report on Selected Sustainability Information, which are available on our group website at nedbankgroup.co.za.

Forward-looking statements

This announcement contains certain forward-looking statements with respect to the financial condition and results of operations of Nedbank Group and its group companies that, by their nature, involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Factors that could cause actual results to differ materially from those in the forward-looking statements include global, national and regional economic conditions; levels of securities markets; interest rates; exchange rates; credit or other risks of lending and investment activities; as well as competitive and regulatory factors. Consequently, all forward-looking statements have not been reviewed or reported on by the group's auditors.

Responsibility of the board

This report was approved by the board of directors of Nedbank Group on 17 March 2017.

STATEMENT OF THE BOARD OF DIRECTORS OF NEDBANK GROUP

The board acknowledges its responsibility to ensure the integrity of this Integrated Report, which in the board's opinion addresses all material issues and presents fairly the integrated performance of Nedbank Group.

As signed off by the board:
Vassi Naidoo
Mike Brown
David Adomakoh
Tom Boardman
Brian Dames
Ian Gladman
Bruce Hemphill
Errol Kruger
Rob Leith
Mpho Makwana
Mantsika Matooane
Nomavuso Mnxasana
Raisibe Morathi
Joel Netshitenzhe
Mfundo Nkuhlu
Stanley Subramoney
Malcolm Wyman

Reflections from our Chairman

It gives me great satisfaction to share the Nedbank story of value creation with all our stakeholders.

The year 2016 has been one in which companies around the globe operated in a growth environment that is volatile, uncertain and constrained, and it has been no different for us at Nedbank. I am therefore tremendously proud that this report demonstrates the value that we create by generating sustainable financial returns while playing a meaningful role in society through active corporate citizenship. Value is created through sound strategy and execution, robust risk management and the work of both a skilled leadership team and the committed people who work for Nedbank.

Vassi Naidoo
Chairman

WE LIVE IN RAPIDLY CHANGING TIMES

In reflecting on developments in 2016 and the macroeconomic context in which banks operate, it is clear that the winds of change have swept across the globe. We have witnessed recent global events, such as Brexit and the election of the 45th president of the US, and are analysing the impact of these changes on the fabric of our societies and of new, more nationalist policies on a globalised and increasingly connected world.

Significant change has also taken place in SA and on the rest of the African continent. A challenging SA political and economic environment created a climate of uncertainty and market volatility as international ratings agencies reviewed their position on SA as an investment destination. Other African countries have also been experiencing varying levels of complexity due to political and economic challenges largely driven by the drop in global commodity prices and social changes at play.

In 2016 SA maintained its investment grade status and this is testimony to what SA has achieved with businesses working together with government and labour through the CEO Initiative to restore investor confidence in the country and focus on creating higher levels of inclusive growth in the economy. Importantly, Nedbank's participation in the CEO Initiative is an expression of our confidence in and commitment to SA and the rest of the African continent.

In this volatile sociopolitical environment the banking and broader financial services industry has undergone and continues to experience unprecedented levels of change. The competitive environment has shifted substantially and only those organisations that remain focused on digital innovation, competitive use of data and excellence in client service are likely to survive.

The fast-changing pace of technology, which is in part driving different client needs, has revolutionised the face of banking. Digitisation is a key element in fulfilling client experiences and presents significant opportunities for operating efficiencies and safety enhancements in respect of banking platforms. Data and analytical capability, together with fast turnaround times to market, will be required to remain relevant.

This level of change, while disruptive, brings opportunities. The environment is requiring stronger inclusive growth, diversification of economies from the traditional to the new, innovation and agility to ensure that the Africa Rising narrative is not overshadowed by global politics.

NEDBANK TOO IS CHANGING

Nedbank Group is very well positioned to weather the current economic challenges and help our clients, stakeholders and country do the same. Despite this, we interrogated our role as an organisation across every level as a result of the changing landscape. I am excited to highlight some of the changes that we have undertaken to ensure that we continue to be a sustainable and thriving business into the future.

Our corporate purpose, '**to use our financial expertise to do good for individuals, families, businesses and society**', goes to the heart of the way we do business at the bank. Making this positive difference is where we will need to focus much of our attention in the coming years.

Clients have always been at the heart of our business and we continue to cement this commitment by adding a client-centred value to our set of corporate values. We know that our clients and their needs and expectations of us are changing, and we are adapting our business model accordingly. This does require alignment with our values and the requisite behavioural shifts to ensure we are able to achieve the desired client outcomes.

As part of the change we are acutely aware that we need to be agile and innovative. I am incredibly encouraged by the vigour and culture of innovation that I see emerging across the organisation.

Nedbank is galvanised by work designed to transform our culture, evolving our brand essence and our business model with the intention of ensuring that we are well positioned for what is needed to remain relevant in a changing world.

Skilled people are at the heart of our business and are the source of our sustainability. Nedbankers are people who care about our clients, one another, our company and the society in which we live. They make Nedbank a great place to bank and work.

A WELL-GOVERNED BANK

During 2016 we once again engaged with our major shareholders through our governance roadshows. Consistent feedback on our risk and governance practices confirms that Nedbank is a well-governed bank with a strong risk management culture. Both the Nedbank board and the Nedbank executive, as the leaders of this great company, agree that building on this position is a great way to deliver on our promises to our millions of existing and future clients.

The board still has work ahead as we deliberate intensely on key issues such as ensuring that we remain well positioned in a tough macroeconomic environment. Our commitment to Africa and our confidence in a positive future for the continent go to the heart of our deliberations in our strategic alliance with Ecobank Transnational Incorporated (ETI). Although ETI did not perform to expectations, it represents 3,4% of our market capitalisation. Notwithstanding, our board and executive are acutely focused on ETI and the potential of extracting appropriate levels of value over the medium to long term.

As a board we are meaningfully engaged on the topic of executive remuneration, mindful of the public discourse on the matter, and already refocusing on the principles in this regard.

I am also pleased to report that the Old Mutual managed separation, as detailed in the Chief Executive review on page 26, is proceeding smoothly. Nedbank as an investment offers good growth and return prospects, which will continue to be attractive for new and existing investors after the managed separation.

RESPONSIVE AND RESPONSIBLE LEADERSHIP

SA's banking industry is still firmly within the top global rankings, thanks to its sound and secure banking and regulatory systems. This is not something we should take for granted and we must continue to work tirelessly to maintain this global confidence in our financial services systems and structures.

We are therefore concerned about an ongoing negative narrative about key institutions, including banks, in our society. At Nedbank we do not shy away from this debate. An integral part of our business strategy is focused on active corporate citizenship and proactive involvement in our communities.

We will continue publicly to highlight the important role that key institutions, including banks, play in creating an environment that is conducive to higher levels of inclusive growth. We also continue to take cognisance of the importance of banking regulation in ensuring that banks play their part in the domestic and global fight against corruption.

We are keenly aware that millions of SA citizens lack access to decent education, formal-employment opportunities, sufficient food, clean water and sanitation, safe and affordable transportation, suitable housing, modern healthcare and financial services. The magnitude and complexity of these structural inequalities in our society have resulted in increasing discontent, and at Nedbank we will continue to play a leading role in working with our social partners in finding solutions to these challenges so that we create a better life for all South Africans.

Responsive leadership requires a concerted and collaborative effort from all stakeholders in our country. In this regard the silver lining to the negative events that we have seen in SA in recent months is that they have served as a catalyst for real collective positive action by SA businesses, labour and government organisations, individuals and communities. Initiatives such as the collective R1,5bn SME Fund and other programmes of its kind will start to show tangible results in the area of inclusive growth. This kind of leadership also requires that we make space for diverse voices – especially of the youth and the marginalised – to be heard and understood.

Nedbank's commitment to remaining relevant in a transforming society is a business imperative and goes beyond regulatory compliance. By focusing on the economic empowerment of our staff, clients, business partners and suppliers from designated groups we have retained our level 2 broad-based black economic empowerment (BBBEE) rating for the eighth consecutive year. While we recognise that there is more to be done, Nedbank was recognised as the most empowered company in the Financial Services Sector in terms of the JSE Top 10 Most Empowered Companies Empowerdex Survey.

Our empowerment financing model encompasses a holistic approach to delivering economic opportunities and ranges from the provision of funding for transformational infrastructure projects to affordable housing, black agriculture and black small and medium enterprises and BBBEE transaction financing.

In 2016 Nedbank was honoured as a Legend of Empowerment and Transformation at the 15th Annual Oliver Empowerment Awards. The award recognises our outstanding achievement as a top empowered company in the financial services sector for fostering the spirit of empowerment and becoming a leader of transformational change in SA.

APPRECIATION

I would like to express my gratitude to our Chief Executive, Mike Brown, and his executive team, my fellow boardmembers and the 32 401 Nedbank staffmembers for their commitment to building a bank that is future-fit, competitive and a formidable force for good.

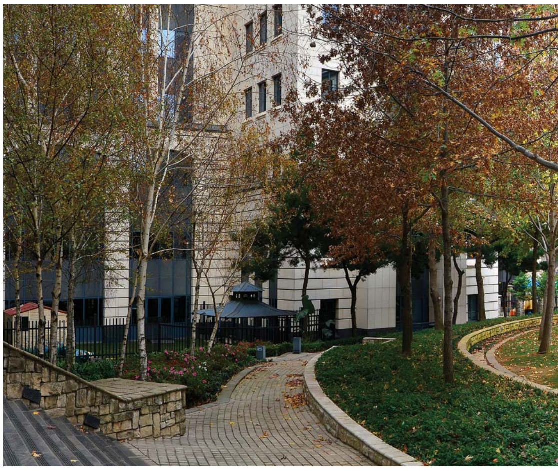
In conclusion, Minister Pravin Gordhan in his 2017 budget speech said: 'Transformation must unleash growth, establish a new economic direction, mobilise investment, empower the masses and create new resources for social change.'

We, as Nedbank, are well positioned for this challenge and to play our part in fostering radical social and economic transformation of this kind for the benefit of all in our society.

VASSI NAIDOO
Chairman

Overview of Nedbank Group

Nedbank Group is one of Africa's largest banking groups. We are a diversified financial services provider offering a wide range of wholesale and retail banking services as well as insurance, asset management and wealth management solutions.



SA is our primary market and we are expanding across the rest of Africa. Outside of SA, we operate in six countries in the Southern African Development Community (SADC) and East Africa region, through subsidiaries and banks in Lesotho, Malawi, Mozambique, Namibia, Swaziland and Zimbabwe, and we have representative offices in Angola and Kenya.

In West and Central Africa we have a strategic alliance and a shareholding of 21,2% in ETI.

Outside Africa we have a presence in key global financial centres to provide international financial services for SA-based multinational and high-net-worth clients in Guernsey, Isle of Man, Jersey and London and we have a representative office in Dubai.

Old Mutual Group: **54,6% shareholding** in Nedbank Group

Nedbank Limited – our principal banking subsidiary

Market capitalisation **R118bn**

Headline earnings **R11,5bn**

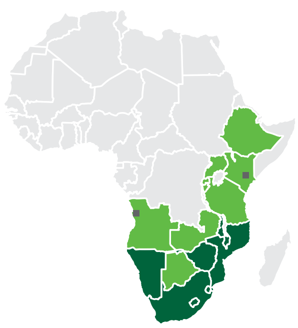
Employees **32 401**

Staffed outlets **786**

ATMs: **4 052**

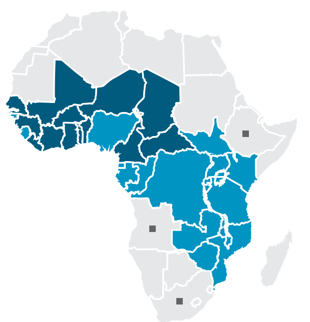
Board is comprised of **59% independent directors**

Access to the largest banking network in Africa: **39 countries** (through our strategic investment in ETI)



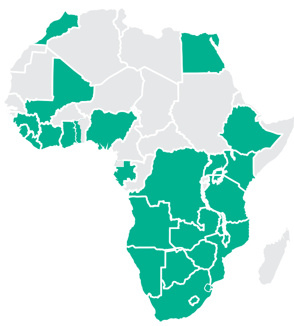
NEDBANK

- Nedbank existing presence
- Expansion opportunities
- Nedbank representative offices



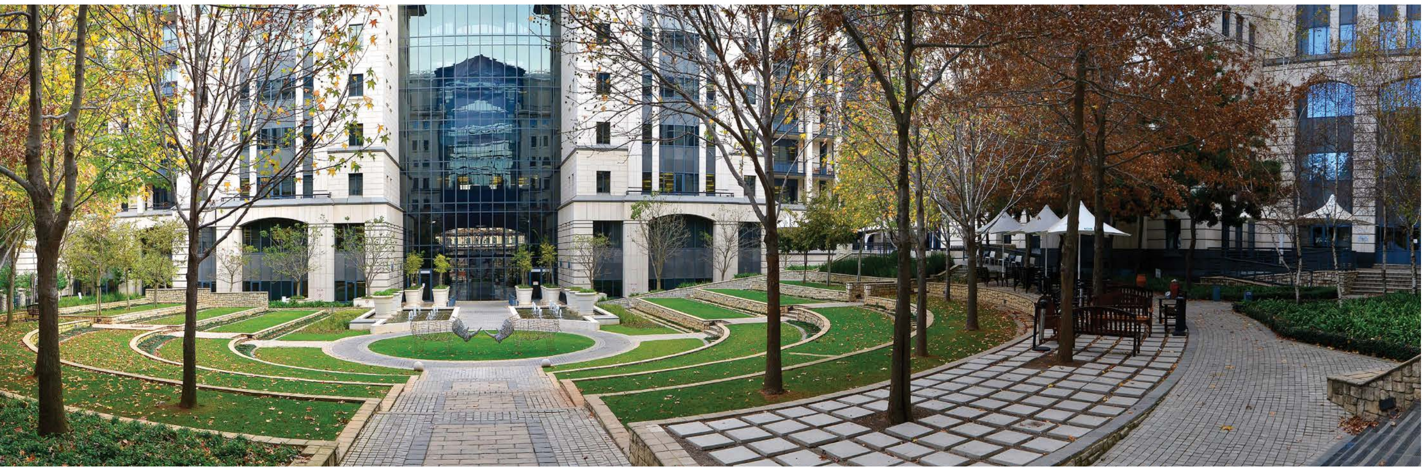
ECOBANK

- Ecobank top three in country
- Ecobank other
- Ecobank representative offices

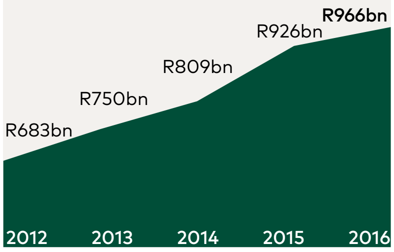


NEDBANK CIB

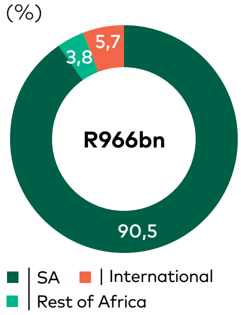
- Investment banking deals



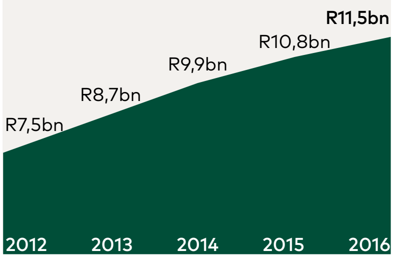
Assets
R966bn



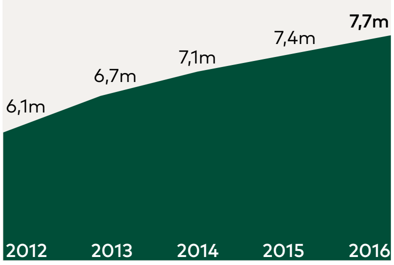
Assets by geographical area
(%)



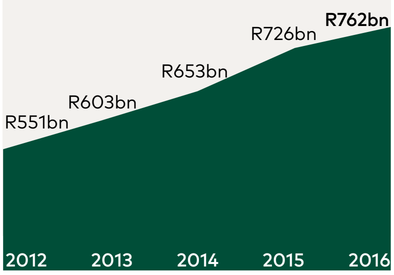
Headline earnings
R11,5bn



Clients
7,7m



Deposits
R762bn



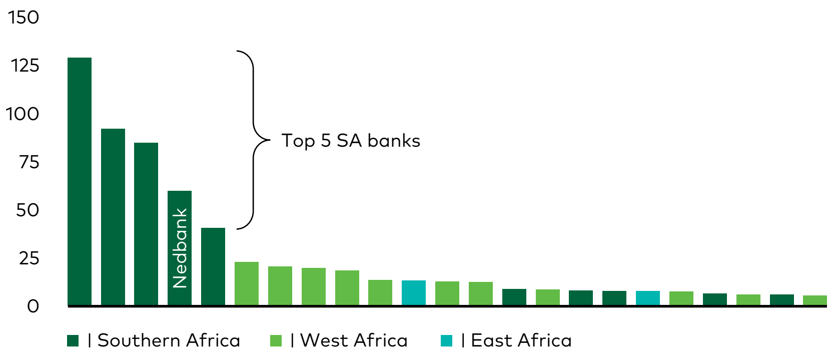
Tier 1 capital ratio
13,0%

CET1 capital ratio
12,1%

Nedbank Group in context

Banks in Africa collectively hold US$785bn in assets and $59bn in tier 1 capital (*The Banker* magazine), with SA banks ranked among the top five in Africa. Overall banking penetration in Africa is low at 17% compared with 50% in other emerging markets and 77% for SA, with a ratio of credit to gross domestic product (GDP) of 34% for Africa, compared with 211% for Organisation for Economic Cooperation and Development (OECD) countries (AfricInvest) and 74% for SA. This presents a significant future growth opportunity.

Top 25 banks in sub-Saharan Africa by total assets
(US$bn, 2015)



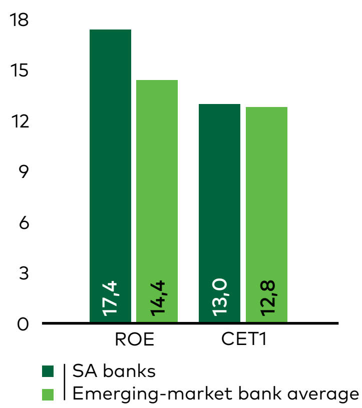
Source: The Africa Report, September 2016 | Top 5 African banks include Standard Bank, Barclays Africa, FirstRand, Nedbank Group and Investec.

SA has strong institutions and democratic principles, which are attractive to investors, to guide us while we are collectively working together to address the challenges we face as a country. In the 2016/7 World Economic Forum Global Competitiveness Index, SA was ranked as follows out of 138 countries:

Strength of auditing and reporting standards	1st
Protection of minority interests	1st
Financing through the equity market	1st
Soundness of banks	2nd
Financial services meeting business needs	2nd
Regulation of security exchanges	3rd
Efficacy of corporate boards	3rd
Ease of access to loans	12th
Quality of management schools	21st
Affordability of financial services	27th
Quality of electricity supply	112th
Business costs of crime and violence	133rd
Quality of the education system	134th

The structure and characteristics of the SA banking system are similar to those of Canada and Australia, with four large diversified banks. Banking regulators in SA have ensured stability, assisted by the closed-loop funding system and early adoption of regulations, such as Basel III and the Consumer Protection Act. Compared to other emerging markets ROEs are attractive and capital levels are strong.

SA banks compared to emerging-market peers
(%)



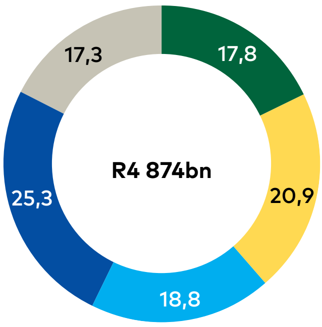
Source: Bloomberg (SA banks represent the big four SA banks; emerging-market banks include banks in Brazil, Turkey and Russia. Based on consensus forecasts to 31 December 2016).

Our positioning in SA

Nedbank Group has a 17,8% market share of assets in SA, which currently represents 90% of our total assets.

The SA banking industry has approximately R4 874bn in assets and approximately R3 489bn in deposits.*

SA assets market share*
(%)



- Nedbank
- FirstRand
- Barclays Africa
- Standard Bank
- Other

Market share of key lending and deposit-taking activities in SA*
(%, yoy trend)

	Nedbank	FirstRand	Barclays Africa	Standard Bank	Other
Home loans	**14,4** —	20,0	24,5	34,4	6,7
Vehicle finance	**33,7** ↑	34,0	18,9	12,0	1,4
Credit cards	**13,7** ↑	22,1	29,1	27,4	7,7
Personal loans	**10,9** —	21,6	10,5	17,9	39,1
Core corporate loans[1]	**22,3** ↑	20,9	18,5	21,5	16,8
Commercial mortgage loans	**40,8** ↑	5,9	11,9	20,4	21,0
Household deposits	**18,7** ↑	21,2	22,4	19,2	18,5
Commercial deposits	**17,4** ↑	24,5	19,0	27,0	12,1

* *Source: SARB BA900 at 31 December 2016.*

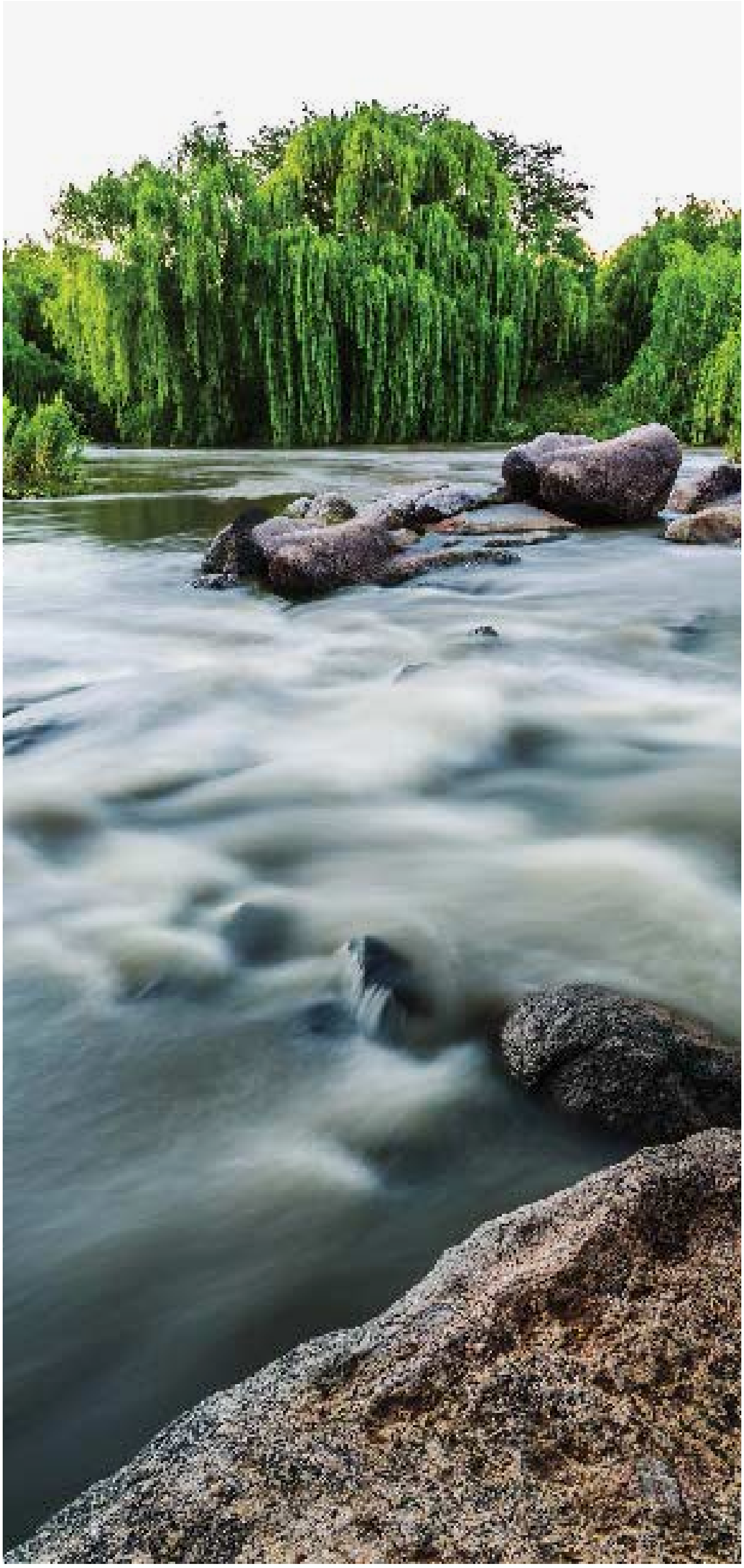
[1] *Core corporate loans comprise commercial mortgages, corporate overdrafts, corporate credit cards, corporate instalment credit, foreign sector loans, public sector loans, preference shares, factoring accounts and other corporate loans.*

↑ Increase in market share ↓ Decrease in market share — Flat

What makes Nedbank unique and differentiated?

- Investment in our staff and **unique corporate culture** support a highly motivated workforce.
- **One of the most experienced management teams**.
- Our **wholesale-biased business model** is a key differentiator relative to peer banks that have a higher weighting towards retail – this positions us well in a tough macro environment.
- We have **leadership positions** in renewable-energy finance, corporate and commercial property lending, household vehicle finance, card acquiring, asset management and wealth management.
- Selective origination and good risk management have enabled us to deliver a **credit loss ratio that is the lowest in the industry**.
- Selective deployment of our capital and funding bases to **optimise economic outcomes**.
- **Growing our main-banked client market share** represents a significant ongoing opportunity for revenue growth. Although our market share has increased to early double-digit levels over the past few years, it remains below our market share of advances and deposits.
- We have **managed our expenses wisely** over time and despite ongoing investment in the franchise to sustain future growth, we continue to look for cost optimisation opportunities.
- In addition, Nedbank has a strong legacy position as a bank that is committed to doing business in a manner that positively builds society at large. We have been **a constituent of the Dow Jones Sustainability Index** for 11 years and **carbon-neutral** for six. Furthermore, we have been **acknowledged as SA's most transformed bank**, and we are recognised for **excellence in governance, transparency and corporate reporting**.
- Access to the **largest banking network in Africa** through our strategic alliance with ETI: 39 countries.

Our purpose, vision and values



Our purpose

To use our financial expertise to do good for individuals, families, businesses and society.

Our vision

To be the most admired financial services provider in Africa by our staff, clients, shareholders, regulators and communities.

Our values

- **INTEGRITY**
  Being honest, trustworthy, consistent and transparent in all our actions and decisions.
- **RESPECT**
  Recognising the inherent worth of every individual and treating everyone with dignity.
- **ACCOUNTABILITY**
  Being prepared to take ownership of and be held accountable for our commitments and actions.
- **PEOPLE-CENTRED**
  Investing in our people and creating an environment that empowers our people to perform distinctively and to excel.
- **CLIENT-DRIVEN**
  Creating value and delightful experiences for our clients that exceed their expectations.

YOU MAY BE INTERESTED IN

Investing in our staff on page 71.

Delivering value by delivering our purpose

Banks play an important role in facilitating economic growth. Being a diversified financial services provider, our purpose is to use our expertise to facilitate the movement of capital and flow of money from where it is to where it is required for the benefit of our clients, other stakeholders and society at large. It is through the considered meeting of societal needs that we do good to enable a thriving society, create long-term value and ensure confidence in the banking system and our brand.

Staff

Our staff are key to making Nedbank a great place to bank and work. Motivated and skilled staff, together with efficient and value-creating solutions, services and operations, offer value to our clients. Staff as part of society, contribute materially to the communities in which they live and work.

Value is created through ...

- Employing citizens in the jurisdictions in which we operate.
- Rewarding staff for the value they add.
- Creating job opportunities as we grow.
- Developing our staff to further their careers and improve our services and products.
- Transforming to an inclusive society through employment equity and gender equality.
- Motivating and energising our workforce.

A strong and profitable business enables continued investment in our staff and operations, which in turn creates value for our clients and society at large. Trust is core to our relationships with all our stakeholders and to creating value.

Clients

Clients remain the largest source of our deposits, which enable us to fund lending activities. Gaining more clients results in greater revenue growth, while sustainable banking practices and worldclass risk management mitigate against bad debts.

Value is created through ...

- Safeguarding deposits, investments and wealth, while growing returns.
- Providing credit that enables wealth creation, economic development and job creation.
- Facilitating transactions that are the backbone of economic value exchange.
- Enabling financial inclusion by providing access to affordable products to the previously unbanked.
- Providing financial education and advice.
- Developing innovative solutions that meet our clients' specific needs.

Nedbank Group

Value is created through ...

- Generating sustainable financial returns (while respecting environmental limits), enabled by growing revenues, managing risks within an acceptable risk appetite and managing our expenses wisely, while optimising our cost base.
- Maintaining a strong balance sheet, which contributes to a safe and stable banking system that instils confidence and protects against downside risk.

Shareholders and our broader stakeholder base

Value is created through ...

- Delivering value to our shareholders by increasing net asset value, dividends, share price and earnings.
- Contributing meaningfully to government budgets through our own corporate taxes, staff paying personal taxes and participation in buying government and public sector bonds.
- Embracing sustainable banking practices and regulatory compliance that enable a safe and stable banking system and a thriving society.
- Playing a meaningful part in the broader society as a procurer of goods and services, making a difference through our corporate social investment activities and positively transforming economies and society through our activities and our lending.

YOU MAY BE INTERESTED IN

Value-added statement on page 70.

Delivering value to stakeholders on pages 70 to 79.

Our Long-term Goals, medium-to-long-term targets and Deep Green aspirations

Long-term Goals

To remain successful in banking over the long term, the socioeconomic context in which we operate, matters enormously. We understand that our future business prospects are greatly improved in a flourishing society. However, human needs must be served within the biophysical constraints imposed by our finite planet.

Nedbank's eight Long-term Goals for 2030 act as a useful strategic orientation tool, as well as an opportunity lens to identify unmet client needs and guide innovation. The United Nations Sustainable Development Goals (SDGs), adopted in September 2015, now provide for a universal agreement on development priorities. The SDGs and their associated targets and indicators remove much of the subjectivity that previously hampered the sustainability discourse, offering a much-needed objective assessment of the global development agenda, and a shared platform on which stakeholders may exchange ideas and create solutions. We believe that our Long-term Goals are compatible with the SDGs, and represent a useful subset to which we, as a financial services provider, can deliver a winning strategic response.

Our Fair Share 2030 strategy is designed to ensure that, over time, we use our financial expertise to contribute positively towards meeting the future growth and development needs of individuals, businesses and society. Going forward we will use the SDGs as the guiding framework for Fair Share 2030, as depicted in the figure below:

Source: United Nations Sustainable Development Goals.

Medium-to-long-term targets and Deep Green aspirations

We have set ourselves aspirational medium-to-long-term targets to measure the progress towards being most admired by our key stakeholders. These are underpinned by our Deep Green aspirations.

OUR DEEP GREEN ASPIRATIONS

To be the most admired financial services provider in Africa that ...

MEDIUM-TO-LONG-TERM TARGETS

STAKEHOLDERS

Staff

Driven, commercially focused, transformed and innovative staff **working collaboratively together**

GREAT PLACE TO WORK

... attracts, develops and retains a highly skilled and talented workforce ...

Investing in our staff on page 71.

Clients

Top 2 brand value among SA banking JSE peers

> 15% main-banked retail client market share

Top 2 in wholesale league tables and CIB NIR-to-advances ratio > **2,0%**

Recognised as one of SA's **top private banks and wealth managers**

Top 3 **SA asset manager** (Annual Raging Bull awards)

Improved market share and scale in SADC

Optimised deal flow from ETI

GREAT PLACE TO BANK

... exceeds client expectations to become the financial partner of choice ...

Exceeding the expectations of our clients on page 72.

Shareholders

Top 2 price-to-book ratio among SA banking JSE peers

ROE (excluding goodwill): Cost of equity **+ 5%**

Efficiency ratio: **50–53%**

GREAT PLACE TO INVEST

... grows profit sustainably to create shareholder value ...

Delivering consistently to our shareholders on pages 73 and 74.

Regulators

Effectively delivered compliance with regulatory change

Tier 1 capital ratio	**> 12%**
LCR	**> 100%**
NSFR	**> 100%**

WORLDCLASS AT MANAGING RISK

... while effectively managing risk ...

Ensuring sustainable banking with our regulators on page 75.

Communities

Recognised as leader in promoting socioeconomic transformation, financing solutions to environmental challenges, enabling economic inclusion and enhancing financial wellbeing.

GREEN AND CARING BANK

... and building sustainable communities.

Delivering value through a commitment to our communities and the environment on pages 76 and 77.

CIB *Corporate and Investment Banking*
NIR *Non-interest revenue*
ROE *Return on equity*
LCR *Liquidity coverage ratio*
NSFR *Net stable funding ratio*

Our progress on these targets can be found on pages 61, 46 and 47, and 78 and 79.

Established leadership teams

Board of directors

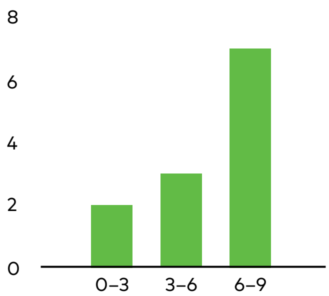
The Nedbank Group Board is diverse in demographics, skills and experience and consists of 59% independent non-executive directors and 18% executive directors.

Board demographics

White male | ACI female
ACI male | Non-SA

ACI: African, Coloured and Indian

Non-executive directors' tenure remaining
(Yrs)



For the board's skills and expertise refer to page 93.

EXECUTIVE DIRECTORS

MIKE BROWN [50]
Chief Executive

RAISIBE MORATHI [47]
Chief Financial Officer

MFUNDO NKUHLU [50]
Chief Operating Officer

NON-EXECUTIVE DIRECTORS

VASSI NAIDOO [62]
Chairman

IAN GLADMAN [52]

BRUCE HEMPHILL [53]

ROB LEITH [54*]

INDEPENDENT NON-EXECUTIVE DIRECTORS

MALCOLM WYMAN [70]
Lead Independent Director

DAVID ADOMAKOH [51***]

TOM BOARDMAN [67***]

BRIAN DAMES [51]

ERROL KRUGER [59**]

MPHO MAKWANA [46]

MANTSIKA MATOOANE [41]

NOMAVUSO MNXASANA [60]

JOEL NETSHITENZHE [60]

STANLEY SUBRAMONEY [58]

* *Appointed in October 2016*
** *Appointed in August 2016*
*** *As a result of increasing time constraints from their respective overseas and local business commitments, Tom Boardman and David Adomakoh have notified the boards of their intention to resign as independent non-executive directors with effect from the close of Nedbank Group Limited's annual general meeting on Thursday, 18 May 2017.*

Group executive committee

The Nedbank Group Executive Committee is an experienced management team that comprises the Chief Executive, Chief Operating Officer, Chief Financial Officer and 10 other members of senior management.

MIKE BROWN [50]
Chief Executive

RAISIBE MORATHI [47]
Chief Financial Officer

MFUNDO NKUHLU [50]
Chief Operating Officer

BRIAN KENNEDY [56]
Group Managing Executive: Nedbank Corporate and Investment Banking

IOLANDA RUGGIERO [46]
Group Managing Executive: Nedbank Wealth

CIKO THOMAS [48*]
Group Managing Executive: Nedbank Retail and Business Banking

Black female membership
▲ **15,38%** in 2016 (13,33% in 2015)

Combined **178 years'** service

Average service **14 years**

Black membership of Group Exco
▲ **53,85%** in 2016 (53,33% in 2015)

* *Appointed Managing Executive: Retail and Business Banking, effective 1 April 2016.*

TREVOR ADAMS [54]
Chief Risk Officer

MIKE DAVIS [45]
Group Executive: Balance Sheet Management

THABANI JALI [58]
Group Executive: Enterprise Governance and Compliance; Group Company Secretary

PRIYA NAIDOO [43]
Group Executive: Strategy and Economics

THULANI SIBEKO [45]
Group Executive: Group Marketing, Communications and Corporate Affairs

FRED SWANEPOEL [53]
Chief Information Officer

ABE THEBYANE [56]
Group Executive: Group Human Resources

Group Exco demographics

White male | ACI male
White female | ACI female

ACI: African, Coloured and Indian

The leadership team CVs are available online.

Our organisational structure, products and services

We deliver our products and services through four main business clusters.

Old Mutual plc
owns 54,6%* of ...

** Ownership held through Old Mutual plc's SA subsidiaries.*

Nedbank Group Limited

BUSINESS CLUSTERS

	OUR CLIENTS
Nedbank Corporate and Investment Banking	SA corporates, institutions and parastatals with an annual turnover of over R750m. > 600 large corporate clients.
Nedbank Retail and Business Banking	Individual clients, as well as businesses with an annual turnover of less than R750m a year. > 7,4m retail and small-business clients (typically businesses with an annual turnover of less than R10m). > 22 000 business banking client groups.
Nedbank Wealth	High-net-worth individuals as well as other retail, business and corporate clients. > 15 500 high-net-worth clients locally and internationally.
Rest of Africa	Retail, small and medium enterprises (SMEs), and business and corporate clients across the countries we operate in. > 295 000 retail clients.

Our frontline clusters are enabled by well-managed and efficient shared-services clusters.

SHARED-SERVICES CLUSTERS

Group Finance	Group Risk	Enterprise Governance and Compliance

OUR PRODUCTS AND SERVICES (OUTPUTS)	OUR AREAS OF STRENGTH AND DIFFERENTIATION	KEY METRICS

Nedbank Corporate and Investment Banking

Full suite of wholesale banking solutions, including investment banking and lending, global markets and treasury, commercial property finance, deposit-taking, and transactional banking.

- Leading industry expertise in infrastructure, mining and resources, oil and gas, telecoms and energy.
- Market leadership in commercial-property finance and renewable-energy financing.
- Strong corporate banking relationships.
- Ranked first in 2016 JSE Spire Awards in the following categories: Best Interest Rate Derivatives House; Best Market Making Team – Government Bonds; Best Sales Team – Bonds; Best Sales Team – Interest Rate Derivatives; and Best Research Team – Technical Analysis (FX, IRD, Bonds).

Assets	R491bn
HE	R6 014m
ROE	21,1%

Advances	HE contribution
52,4%	52,5%

Nedbank Retail and Business Banking

Full range of services, including transactional banking, card solutions, lending solutions, deposit-taking, risk management, investment products and card-acquiring services for business.

- Leader in business banking, underpinned by an accountable, empowered, decentralised business service model.
- Leader in Corporate Saver deposits and debtor management.
- Strong positioning in household motor finance, household deposits and card acquiring.
- Received the Best African Retail Bank of the Year Award at the 2016 Global Retail Banking Awards Ceremony.
- Highly competitive relationship banking offering for affluent clients (professional banking).

Assets	R305bn
HE	R4 960m
ROE	18,9%

Advances	HE contribution
41,0%	43,3%

Nedbank Wealth

Wide range of financial services, including high-net-worth banking and wealth management solutions, as well as asset management and insurance offerings.

- Integrated international high-net-worth proposition.
- Nedbank Private Wealth – Best UK International Wealth Management Provider and Best non-UK International Banking Service Provider, as well as ranked first in the entrepreneur category in the 2016 Intellidex Top Private Banks and Wealth Managers Survey. In the annual Euromoney Private Banking and Wealth Management Survey the business won first place for philanthropic advice.
- Unique Best of Breed™ Asset Management Model. Nedgroup Investments won Offshore Asset Manager of the Year for the second consecutive year and achieved third place in the SA Management Company of the Year at the 21st Annual Raging Bull Awards. This is the eighth consecutive year that Nedgroup Investments has been placed in the top three domestic management companies.

AUM	R273bn
HE	R1 192m
ROE	35,2%

Advances	HE contribution
4,0%	10,4%

Rest of Africa

Full range of banking services, including transactional, lending, deposit-taking and card products.

- The Ecobank–Nedbank Alliance: Footprint across 39 countries; the largest in Africa.
- Banco Único: Best Bank in Mozambique award by the Euromoney Awards for Excellence in 2016 and 2015; Best Consumer Digital Bank by *Global Finance*, 2015 and 2016; *The Banker* 2016 Bank of the Year Award for Mozambique.
- Malawi: Best Customer Service Bank 2016 award by *Global Banking and Finance Review*.
- Lesotho: Best Internet Bank 2016 Award by *Global Banking and Finance Review*.

Assets	R36bn
HE	R(287)m
ROE	(3,6)%

Advances	HE contribution
2,8%	(2,5)%

HE: Heading earnings
ROE: Return on equity
AUM: Assets under management

Group Human Resources	Group Marketing, Communications and Corporate Affairs	Group Technology	Balance Sheet Management	Strategy and Economics

Our value-creating business model

Value added by Nedbank

OUR CAPITALS (INPUTS)	ENABLE VALUE-ADDING ACTIVITIES (OUTPUTS)	WHILE MANAGING KEY RISKS

Financial capital

R81,7bn total equity

R762bn deposits

We provide savings and investment products.

We extend credit to our clients, in line with their risk profile, our risk appetite and capital availability.

We manage shareholder funds and debt holder liabilities.

Intellectual capital

Eighth most valuable SA brand

Market leader in wholesale banking, commercial-property finance, vehicle finance and asset management

Strategic partnerships with Old Mutual, Ecobank, Bank of China

Our deposits generate a yield for our clients and other funders.

Our loans generate risk-adjusted interest income.

Our shareholder funds generate endowment income.

Human capital

32 401 employees

Unique client and people-centred culture

Strong levels of compliance and governance

We facilitate payments and transactions.

We provide advice-based services.

We manage, protect and grow our clients' wealth by offering insurance, asset and wealth management solutions.

We offer global market-related services.

Manufactured capital

145 core IT systems

786 staffed outlets

4 052 ATMs

Market-leading digital channels and products

We seek to generate an acceptable return from our strategic investment in ETI.

Social and relationship capital

SA's most **transformed** bank

Leader in **sustainability**

Leader in **social responsibility**

We reward performance and invest in attracting, developing and retaining our people.

Natural capital

7 Green Star-rated buildings

Reduced lending to carbon-intensive industries

Reduced carbon intensity of our operations

Leadership in **renewable-energy financing**

We maintain, optimise and invest in our operations, including technology, marketing and infrastructure.

We pay direct and indirect taxes in various jurisdictions where we operate.

Revitalising our brand on page 50.

Key risks

CREDIT RISK
Credit loss ratio within our target range of 60–100 bps: 68 bps

INTEREST RATE RISK
R1,4bn endowment benefit for 100 bps change in interest rates over 12-month period

LIQUIDITY AND FUNDING RISK
Liquidity coverage ratio above 2016 minimum of 70%: 109,3% (Q4 2016 average)

CAPITAL RISK
Tier 1 capital ratio above target of > 12%: 13,0%

MARKET RISK
Trading value at risk: R25,5m

INSURANCE RISK

OPERATIONAL AND LEGAL RISK

REGULATORY AND COMPLIANCE RISK

STRATEGIC, BUSINESS AND FINANCIAL RISK

EXECUTION RISK

How we manage our risks pages 54 to 55.

Value created for Nedbank and our stakeholders

DELIVERING FINANCIAL OUTCOMES FOR NEDBANK

DEPOSITS
4,9% to R761,5bn

ADVANCES
3,7% to R707,1bn

LONG-TERM DEBT
15,8% to R52,1bn

SHARE CAPITAL
0,2% to R478m

produces

NET INTEREST INCOME
10,6% to R26,4bn

less

CREDIT IMPAIRMENTS CHARGES
4,9% to R4 554m

equals

INCOME FROM LENDING ACTIVITIES
14,5% to R21,9bn

NON-INTEREST REVENUE
8,1% to R23,5bn

including

Commission and fees
R16,7bn

Insurance income
R1 727m

Trading income
R3 761m

less

ASSOCIATE LOSS
> 100% to (R105m)

less

EXPENSES
8,6% to R28,4bn

TAXES

Direct tax
12,3% to R3 985m

Indirect tax
18,4% to R927m

equals

HEADLINE EARNINGS
5,9% to R11,5bn

ROE EXCLUDING GOODWILL
16,5%

Our financial performance on pages 68 to 69.

VALUE CREATED FOR OUR STAKEHOLDERS

STAFF

- Created **1 089** new permanent job opportunities.
- Paid **R15,5bn** in salaries and benefits.
- Invested **R413m** in training and development.
- Transformed our workforce, increasing black staff representation to **78,3%** and female to **62,7%**.

CLIENTS

- Extended **R162bn** in new loans of which **R81bn** in new loans to clients of RBB, including **R25,7bn** to SMEs.
- Recorded over **R50bn** of infrastructure financing drawn or committed.
- Processed **15bn** transactions to facilitate economic activity.
- Launched various innovative solutions that address the needs of our clients.
- Rolled out more efficient channels.
- Maintained **IT security and 'uptime'** at industry-leading levels (infrastructure availability).
- Maintained **competitive pricing**.
- Experienced **top-tier performance** in asset management.

SHAREHOLDERS

- Posted strong financial results – headline earnings from managed operations up **16,2%**.
- Increased share price by **26,3%** (price-to-book ratio remains attractive at the lower end of the peer group).
- Increased full-year dividend by **8,4%** to **1 200** cents.
- Experienced **good voting outcomes** at 49th annual general meeting (all resolutions passed by more than 90%).
- Maintained transparent, timeous and relevant investor communication and reporting.

REGULATORS

- **Complied with regulation** to mitigate against systemic risk.
- Adhered to sustainable banking practices to **protect our clients**.
- Made **R8,7bn tax contribution** (direct, indirect, PAYE).
- Invested more than **R100bn** in government and public sector bonds to support funding needs of government.
- Maintained **level 2 BBBEE** rating for the **eighth consecutive year**.

COMMUNITIES

- Nedbank Mogale Empowerment Trust **R100m investment.**
- Played a key role in **CEO initiative**, with business working closely with government and labour.
- Spent **R141m** on socioeconomic causes.
- Granted **R14bn** of lending for empowerment financing.
- Committed **R35bn** overall to renewable-energy finance, with **R13bn** of lending provided in 2016.
- Empowered **180 000** people through consumer education.
- Embarked on **carbon-neutral** operations.

Value created for our stakeholders on pages 70 to 79.

bps: basis points
BBBEE: Broad-based black economic empowerment
PAYE: pay as you earn

Reflections from our Chief Executive

'The economic and geopolitical environment deteriorated in 2016 and the outlook for 2017, although improving, remains uncertain. While much of the external environment is not in our control, operationally we have remained focused on those issues we can control.'

Nedbank Group's managed operations produced excellent headline earnings growth of 16,2%, offset by a disappointing performance from our strategic investment in Ecobank Transnational Incorporated (ETI), which diluted the overall growth in headline earnings to 5,9%. We have also strengthened our balance sheet, with our tier 1 capital adequacy ratio improving to 13,0% from 12,0% in 2015, our liquidity coverage ratio at 109,3%, above the South African Reserve Bank requirement of 70% for 2016, and our net stable funding ratio above 100% on a pro forma basis.

Mike Brown
Chief Executive

A CHALLENGING AND VOLATILE MACRO ENVIRONMENT

The rise of antiglobalisation in many developed countries, demonstrated by the UK's departure from the European Union (Brexit) and the outcome of the US presidential elections, has increased global economic risk and will create further uncertainty in financial markets.

In SA a number of factors contributed to a difficult operating environment characterised by low levels of economic growth and higher interest rates, placing businesses and consumers alike under increasing financial pressure. Added to this, currency and market volatility, stubbornly high inflation and low credit growth made it a particularly challenging environment for banks. The outlook for 2017 does, however, look more promising as GDP growth is expected to pick up slightly, interest rates are at or close to their peak and inflation is expected to decline.

Public discourse was dominated by the Fees Must Fall campaign, the release of the Public Protector's report on allegations of state capture and the charges that were first brought, and then dropped, against Finance Minister Pravin Gordhan. Nedbank has always been a proud corporate citizen and we actively supported the growing calls for good governance, constitutional democracy, inclusive economic growth and social justice. Our 2016 Integrated Report shows the meaningful role we as a bank play in society. I am also proud of Nedbank's role in bringing together our country's leaders from government, business and labour to work together and address issues of inequality and poverty by creating a platform for higher levels of inclusive growth. The progress we have made by working together, including successfully averting a sovereign-credit-rating downgrade to below investment grade, was undoubtedly a highlight for me in 2016, and I look forward to continuing this work in 2017.

Elsewhere in Africa operating conditions remained challenging, particularly in Nigeria where the country is experiencing its worst economic recession in 25 years, liquidity pressures and a sharp devaluation of the naira. These challenges are significant and will take some time to be resolved. It is therefore anticipated that conditions will again be difficult in 2017 before improving from 2018 onwards.

The Fourth Industrial Revolution and rapid advances in technology offer exciting opportunities and will require adeptness and agility of banks to remain competitive. The SA banking industry has built a banking system recognised for its safety and soundness, but must leverage the fintech revolution to stay at the forefront of client experiences. The winners of digitisation and mobile banking will be those that can integrate the new technologies and have the right people with the necessary knowledge and entrepreneurial skills. Our Digital Fast Lane strategy will ensure that we are at the forefront of innovation as we improve our existing businesses and disrupt them at the same time.

After many years of global bankers being very cautious and concerned about the economy and increasing regulation, it is refreshing that some of the largest banks in Europe and the US are talking positively about the year ahead and seeing a pause in the rate of increase in new regulatory obligations.

REFINING AND ADAPTING OUR STRATEGY TO MEET OUR 2020 ASPIRATIONS

To ensure that we meet our 2020 aspirations in a rapidly changing and increasingly challenging environment we must transform our business and become more client-centred, competitive, agile and digital. Our 2016 strategic review produced exciting plans to accelerate our business transformation.

'Responsive and responsible leadership', a key theme at Davos 2017, affirmed our focus on stakeholders and sustainability, which is encapsulated in our purpose statement of using our financial expertise to do good for individuals, families, businesses and society. Our strategy represents how we achieve our purpose of helping to create a thriving bank and society through innovative financial services products.

To be truly successful we must understand our clients, respond to their needs and requirements, and ultimately create exceptional client experiences in all that we do – better than any other financial services provider. Creating value and delightful experiences for our clients that exceed their expectations is encompassed in our value to be client-driven, which we believe will be a key enabler in delivering on our purpose.

The refinement of our strategic focus areas and introduction of strategic enablers, as described from page 48 of this report, will ensure we deliver on our 2020 aspirations and achieve our medium-to-long-term financial goals of increasing our return on equity (ROE) (excluding goodwill) closer to our target of cost of equity plus 5% (currently estimated around 19%) and reducing our cost-to-income ratio from 56,9% to within our target of 50% to 53%.

A brief reflection on the progress we have made in implementing our strategy in 2016 and the prospects ahead include:

- As far as 'Delivering innovative market-leading client experiences' is concerned, we are streamlining processes and strengthening our culture of innovation. In 2016 digitally active clients increased 73,6%. We will accelerate digital implementation in the years ahead, with exciting market-leading innovations planned for 2017, including improvements to our loyalty programme and the release of a bundled personal loan and transactional product.
- Our strategy of 'Growing our transactional banking franchise faster than the market' led to the number of main-banked clients increasing across all our businesses, translating into non-interest revenue (NIR) growth of 8,1%. Retail main-banked clients grew by 3,0% and the attractive middle market, which has been a focus of ours, grew by 6,3%. This contributed to strong retail deposit growth and an increase in household deposit market share to 18,7% from 18,4%. Pleasingly, our ROE in Retail and Business Banking (RBB) increased from 16,6% to 18,9%. On the wholesale side of our business we are realising the benefits of an integrated Corporate and Investment Banking (CIB) cluster, including better client coverage and deeper client penetration, as we leverage our strong position in wholesale lending to increase NIR. Growing our transactional banking franchise faster than the market remains our primary focus and, despite a tougher macro environment, we believe we are in a good position to continue to gain share of main-banked clients.
- 'Being operationally excellent in all we do' embraces simplifying, rationalising and continuously improving our processes and operations to allow us to save costs and invest in our franchise to unlock new growth opportunities. Unlocking efficiencies is an imperative in a tougher and more competitive environment, but operational excellence also provides benefits to clients as client experiences are enhanced through simplification and optimisation. We will continue to extract synergies by working closely with Old Mutual Emerging Markets (OMEM) and, notwithstanding the managed separation, our joint R1bn target in 2017 remains intact all on arm's length commercial terms and ensuring that the standalone nature of the entities is never compromised.
- 'Managing scarce resources to optimise economic outcomes' has enabled us to improve pricing models and our deliberately conservative credit growth strategies over the past few years have resulted in our credit loss ratio decreasing to the low end of the peer group. Having derisked our home loan and personal-loan books over the past few years, along with leveraging our leadership in areas such as finance for secondhand vehicles, commercial property and corporate lending, we can now shift our focus to slightly higher asset growth rates in more cyclical asset classes at the top of the interest rate cycle. Our business model bias towards the wholesale market (61% of advances) positions us well in a tough consumer environment, while our expertise in key sectors and strong pipelines should enable us to continue to grow in the year ahead.
- 'Providing our clients with access to the best financial services network in Africa' ensures that we are well positioned to participate in the longer-term growth prospects of financial services on the continent. We are investing in our own operations in the Southern African Development Community (SADC) and during 2016 we moved to acquiring a controlling stake in Banco Único in Mozambique. While our investment in ETI has been impaired by R1,0bn as a result of weaker economic conditions in West Africa and currency weakness, particularly in Nigeria, it remains an important long-term strategic investment for our SA clients operating in these geographies and requiring banking services, as well as for our shareholders through exposure to the long-term growth in financial services in these markets. We currently expect the main markets in which ETI operates to remain difficult in 2017 before improving in 2018 and beyond.

As part of our strategic planning in 2016 we introduced strategic enablers that will underpin delivery in respect of our strategic focus areas, goals and targets by changing the way we operate. These initiatives should serve as catalysts in achieving our 2020 aspirations and include:

- People 2020 – aimed at transforming our leadership, culture and talent capability to enable delivery of our strategy through our people.
- Brand 2020 – building a distinctive and compelling brand that will disrupt, give us greater personality and enhance the belief our stakeholders have in Nedbank.
- Managed Evolution and Digital Fast Lane – an innovative technology transformation creating an agile digital platform.
- Governance and regulatory change – leveraging risk management to be a strategic and competitive differentiator.
- Fair Share 2030 – guiding the creation of financial solutions that deliver on our purpose and making a real difference in society.
- Leading Transformation – actively promoting a globally competitive financial sector while creating a more equitable society and enabling economic transformation.

Underpinning our strategy, we initiated an operating-model review in the latter part of 2016, which we will start implementing in 2017. This will enable us to develop greater agility with a view to innovating quicker and responding to disruptive threats faster, optimally addressing new-client requirements and providing best-in-class client experiences, and creating an enterprise capability with the client at the centre of all we do.

In addition, we aim to organise ourselves, our data and data analytics and information technology to enable differentiation in our clients' universe, respond more effectively to regulatory change and improve our ability to execute our strategy more effectively. Collectively these activities are currently expected to generate approximately R1,0bn of pretax benefits by 2019 and will support our ability to meet our medium-to-long-term targeted cost-to-income ratio of 50–53%.

Underpinning our strategy, we initiated an operating-model review in the latter part of 2016, which we will start implementing in 2017. This will enable us to develop greater agility with a view to innovating quicker and responding to disruptive threats faster, optimally addressing new-client requirements and providing best-in-class client experiences, and creating an enterprise capability with the client at the centre of all we do.

OLD MUTUAL RELATIONSHIP

The boards of directors and management teams of Old Mutual and Nedbank continue to work closely together on the managed separation strategy that was announced by Old Mutual in 2016. This is a shareholding transaction, which essentially means that shareholders in the OMEM business to be listed on JSE Limited (the JSE), will receive Nedbank shares by way of an orderly distribution at an appropriate time. OMEM will retain a strategic minority stake in Nedbank to underpin our ongoing commercial relationship.

From a strategic and operational perspective it is business as usual for Nedbank and the managed separation will have no impact on our staff or clients. It is important to note that we have not integrated our systems or brands with those of Old Mutual and, as we have always been an independent listed entity, no complicated untangling is required. We will continue to work together with Old Mutual South Africa on an arm's length commercial basis where there are synergies.

We are confident that Nedbank as an investment offers good prospects for sustainable growth and improving returns, and as such will continue to be an attractive investment opportunity for new and existing investors after the managed separation. In addition, after the managed separation Nedbank's free float will increase, which should increase liquidity and attract additional buyers to the stock.

LOOKING FORWARD

As I look towards 2017, our people, our strong balance sheet, the progress we have made in 2016 and our strategic enablers will underpin our ability to deliver on our strategy and ensure we continue to generate appropriate returns for stakeholders.

- In CIB our aim is to deliver the benefits of an integrated CIB model, leverage our strong lending position to grow NIR and sustain an efficient business model and a high-quality loan book.
- We aim to grow our RBB transactional franchise faster than the market, accelerate the digital journey to drive operational efficiencies and improved client experiences and continue to outperform peers on the cost of risk – these should continue to be beneficial to our ROE expansion over the next few years.
- Our Wealth franchise aims to bring new products to market and deepen cross-selling in our Nedbank client base, leveraging asset management, wealth management and insurance solutions.
- In the rest of Africa we aim to scale up our own SADC operations on the new core banking platform, optimise our cost base and increase cross-business flows between SA and our rest of Africa subsidiaries. In Central and West Africa we need to continue to support the ETI board and management teams to ensure ETI's ROE exceeds its cost of equity (COE), acknowledging that 2017 is likely to be another challenging year.

Finally, we need to extract efficiencies across all our businesses – to fund future investment and to enable improvements in efficiency ratios and ROEs so that we can continue to deliver value to shareholders and meet our medium-to-long-term targets.

APPRECIATION

To the Chairman, the board and my fellow executive team, thank you for helping to shape the group strategy as we set out to achieve our 2020 aspirations, deliver on our purpose and realise our vision of being the most admired financial services provider in Africa. I would also like to express my appreciation to all Nedbankers for their hard work, commitment and dedication in driving our performance this year. Your efforts are the foundation of our success.

In closing, a big thank you to the 7,7m clients who choose to bank with Nedbank, and to our shareholders and other stakeholders for their support in 2016.

MIKE BROWN
Chief Executive

Our strategic drivers

Our strategy represents our commitment to do good for individuals, families, businesses and society through our financial expertise, thereby realising our vision of being Africa's most admired financial services provider by our stakeholders.

Our Deep Green aspirations, targets and Long-term Goals are achieved through the effective execution of our strategy. At the same time our strategy aims to mitigate the risks (that could diminish value) and exploit the opportunities (that present value) that are presented by our material matters.

Our material matters as described on pages 34 to 39 are shaped primarily through proactive engagement with external and internal stakeholders, the assessment of our competitive positioning, our unique strategic context and our operating environment.

OUR STRATEGIC DRIVERS EMBRACE VALUE CREATION

Our purpose

Creating value by using our financial expertise to do good for individuals, families, businesses and society

Our vision

Creating value by becoming Africa's most admired financial services provider

Our Long-term Goals, targets and Deep Green aspirations

Creating value by achieving our targets and aspirations

Our values

Creating value through the way we behave

Our strategic focus areas

Creating value by delivering on our strategies

Our strategic enablers

Creating value through key enablers that support the delivery of our strategy

The needs and expectations of our stakeholders

Our competitive positioning and unique strategic context

Major macro trends

Material matters

(including risks and opportunities)

- Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality
- Disruptive technologies, disintermediation and increased competition
- Increased demands on governance, regulation and risk management
- Managing growth opportunities vs risks in the rest of Africa
- Transformation of society within environmental constraints
- Scarce- and evolving-skills requirements
- Changing relationships between business, government, labour and civil society

Strategic focus areas

- Delivering innovative market-leading client experiences
- Growing our transactional banking franchise faster than the market
- Being operationally excellent in all we do
- Managing scarce resources to optimise economic outcomes
- Providing our clients with access to the best financial services network in Africa

Optimising the way we operate

Strategic enablers

- People 2020
- Brand 2020
- Fair Share 2030
- Leading transformation
- Governance and regulatory change
- Managed Evolution and Digital Fast Lane

Our Long-term Goals, targets and Deep Green aspirations

Refer page 14.

Our purpose, vision and values

Refer page 12.

The needs and expectations of our stakeholders

Delivering on the needs and expectations of our stakeholders creates value for both them and Nedbank. This interdependent relationship is recognised in our purpose and in our value-creating business model as shown on pages 20 to 21.

Staff

32 401 staffmembers

62,7% female, **37,3%** male

21,7% white, **78,3%** black

21,9% aged below **29**

24,8% have a tenure of more than 10 years

Staff turnover of **9,6%,** which is **below the industry benchmark.**

Clients

All individuals in SA, the SADC and East Africa – from **children** to **seniors** and from **entry-level clients** to **high-net-worth** individuals.

Various **legal entities**, such as trusts, non-governmental entities and associations, small businesses, **large corporates** and the **public sector**.

Main-banked clients are those that do their everyday banking with Nedbank. We take into account regular deposits and levels of activity, such as payments and debit orders, depending on the segment.

Shareholders

21 372 ordinary shareholders

Asset management and retirement funds in **SA** and increasingly in **international markets** that invest in Nedbank equity and preference shares and funding instruments.

Retail investors.

15 sell-side analysts.

Two credit-rating agencies: **Moody's** and **Standard & Poor's**.

Regulators

SARB – responsible for banking regulation and supervision in SA. Other: **the South African Revenue Services (SARS)**; **the Financial Services Board (FSB)**; **the National Credit Regulator (NCR)**; various government departments and chapter 9-institutions, including the **Department of Trade and Industry (dti)**, **the Department of Labour, National Treasury**, **the Financial Intelligence Centre (FIC)** and **JSE Ltd**. We also comply with various regulatory bodies outside SA, including central banks and local financial services regulators of countries in which we have representation or operations.

Communities

Communities represent broader society and include:

- **Citizens of the countries in which we operate**, including individual members of society, non-governmental organisations and suppliers.
- **The environment** on which those citizens depend for their wellbeing.

THEIR NEEDS AND EXPECTATIONS	WHY IS THIS IMPORTANT TO NEDBANK?
■ Competitive remuneration, effective performance management and recognition. ■ Challenging work, as well as career development and advancement opportunities. ■ A people brand that translates into our reputation as a good employer. ■ Progress on the transformation of the Nedbank staff profile, promoting and enabling diversity and inclusivity. ■ A safe, positive and inspiring work environment. ■ Opportunities to make a difference.	■ Skilled, motivated and energised staff create value by providing our clients with services and solutions that are increasingly more competitive, which differentiates us in the marketplace. ■ Our culture motivates delivery of our strategy through appropriate behaviours and actions.
■ Innovative solutions and services across multiple financial needs – lending, deposit-taking, transactional and advisory services, global markets, wealth management, asset management and insurance. ■ Convenient access to banking across Africa, less complexity and improved flexibility (channel of choice), increasingly through digital channels. ■ Excellence in client service. ■ Value-for-money banking that is competitive and transparent in pricing. ■ Responsible banking services and solutions, and a trusted financial partner.	■ More clients banking and doing more of their business with us at an appropriate risk profile drives value creation for our shareholders through revenue growth, strong asset quality and efficiency benefits from economies of scale. ■ The potential for reputational risk is reduced.
■ Shareholder value creation through share price appreciation and an attractive and sustainable dividend stream, enabled by: □ growth in net asset value; □ appropriate financial returns, with return on equity exceeding cost of equity; □ attractive and sustainable growth strategy; □ sound balance sheet to protect against downside risk; □ strong and experienced management; □ transparent reporting and disclosure; and □ sound governance.	■ The financial capital we source from our equity and debt investors and our retained earnings are key in running and growing our businesses and making strategic investments. ■ The extent to which we can efficiently leverage our financial strength, raise the necessary capital and funding at the best possible rates, and produce a sustainable return on equity creates value for our shareholders. This in turn enables a good working environment for staffmembers who provide innovative and competitive banking solutions for clients and ensures that we are well within or above regulatory capital and funding requirements.
■ Compliance with all legal and regulatory requirements. ■ Tax compliance and being a responsible taxpayer. ■ Compliance with the Labour Relations Act. ■ Embracing transformation through delivery in line with BBBEE legislation. ■ Active participation in and contribution to industry and regulatory working groups.	■ Regulation ensures a sound and stable banking system, which reduces systemic risk and promotes healthy functioning of an economy in which all stakeholders prosper. ■ Client confidence in Nedbank is ensured and the potential for reputational risk is reduced. ■ We have adopted a zero-tolerance approach towards compliance risk.
■ Access to expert advice, products and solutions that help to achieve desired outcomes for themselves, their families, their businesses and their communities. ■ Nedbank to partner with them on common social and environmental issues. ■ Nedbank to use its resources to promote social, environmental and other common agendas for the good of greater society.	■ We share a codependency with our communities for our mutual success and that of the countries in which we operate. ■ We embrace our role as an active contributor to building a thriving society and do this with engaged and values-aligned communities only. ■ Our successful delivery elevates our brand profile within our communities.

How we delivered value to our stakeholders on pages 70 to 79.

Key trends – the environment in which we operate

Unprecedented and accelerated change has resulted in uncertainty and volatility on the political, economic, social, technological and digital, environmental and regulatory fronts.

Political and macroeconomic drivers

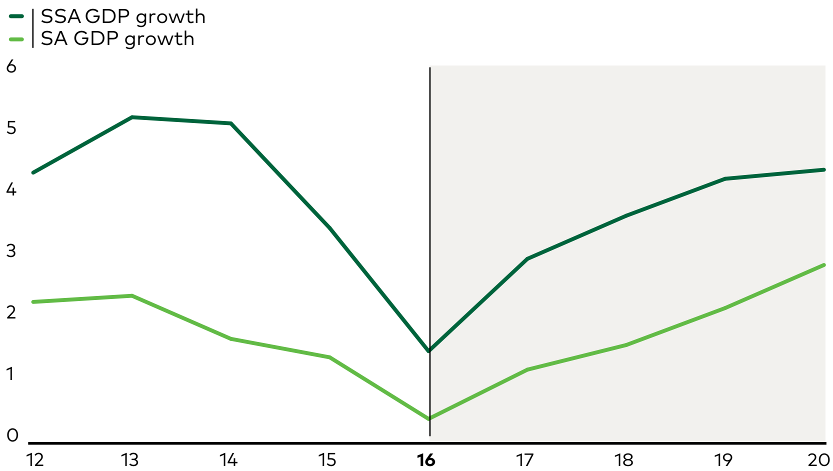
Global growth outlook remains lacklustre, with a slowing Chinese economy and nationalistic elements on the rise as evident in Brexit and the outcome of the US presidential elections.

Growth in SA economic output remains weak and confidence low. Political developments and lack of progress on policy reform have led to the ongoing risk of a sovereign-credit-rating downgrade. The rand remains volatile, increasing SA's risk premium.

In the rest of Africa most economies are still struggling to address the structural and fiscal implications of lower commodity prices and accompanying lower growth. In the short term we expect continued pressure and volatility, particularly for those countries that are less diversified and overreliant on oil and resource-linked revenues. The timeframe of the 'Africa rising' narrative has become less certain, with varied schools of thought on how soon these economies could recover. In the longer term economic growth in the rest of Africa is estimated to be on a sustainable basis between three to five times that of SA.

GDP in SA is forecast to increase off a low base to 2,8% growth by 2020. This remains well below SA's growth potential to drive job creation and a favourable climate for investment. The International Monetary Fund (IMF) forecasts GDP growth in sub-Saharan Africa to be ahead of that of SA, but risks will remain in oil-exporting countries.

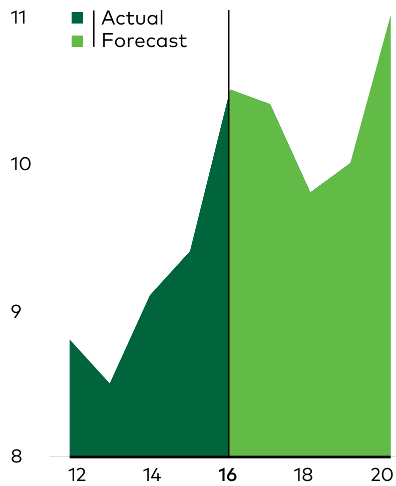
Economic growth in sub-Saharan Africa ahead of SA 2012–2020
(%)



SSA: sub-Saharan Africa

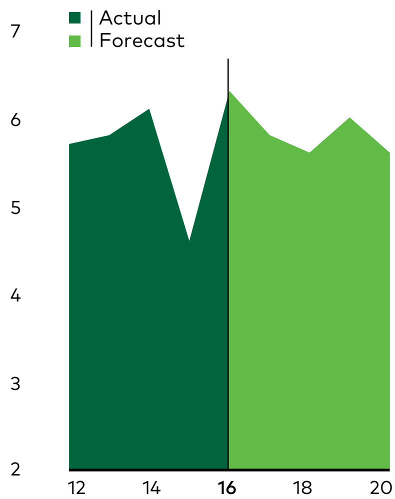
Interest rates in SA are at or close to their peak, and although the US will likely tighten monetary policy, we forecast a decline in domestic interest rates from the second half of 2017. This should benefit consumers.

SA interest rates still relatively benign



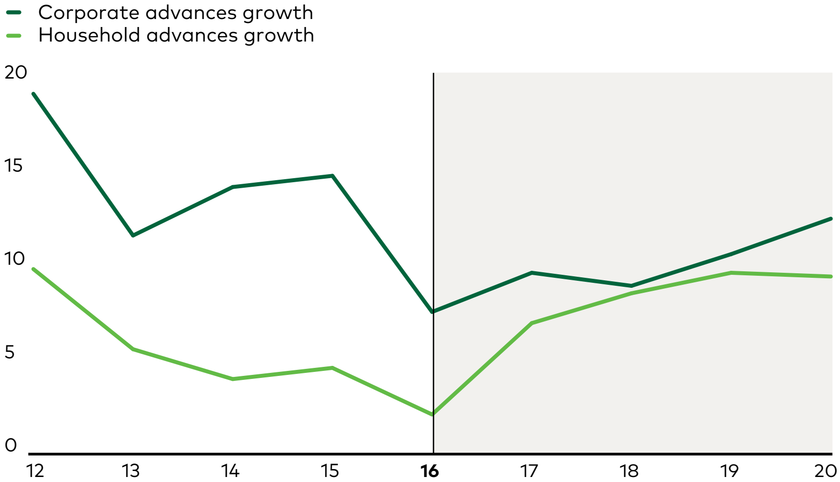
Inflation in SA remains at the top-end of the SARB target band of 3–6%, but should normalise into range in 2017.

Average SA CPI remains high



Growth in corporate advances is forecast to remain ahead of household advances growth. As interest rates decline, we expect an increase in the demand for retail advances from 2018 onwards.

Forecast corporate advances growth to remain ahead of household advances growth



Social drivers

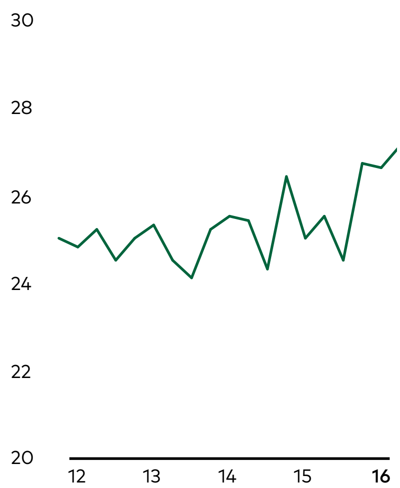
Despite decades of growth and rising income per capita in Africa, social, environmental and economic challenges, such as poverty, inequality, resource constraints and climate change, have persisted.

In sub-Saharan Africa, in particular, many of these issues are growing in both urgency and gravity.

- Millions of citizens lack access to formal employment opportunities, sufficient food, clean water and sanitation, safe and affordable transportation, suitable housing, basic healthcare, education and financial services.
- Skills shortages attributable to the poor outcomes of SA's educational system are a serious threat to economic progress. Skills retention and development are therefore crucial to improving our global competitiveness.
- The Fees Must Fall campaign reflects the financial pressure students face in financing their education. Many students lack financial support and cannot afford to continue with tertiary education, resulting in the large number of low-skilled workers in SA.

The transformation imperative and continued progress to a more equitable representation of the SA economy and workforce remain top of the agenda. To date, transformation has led to a broader and growing middle-market segment and increasing uptake of financial services and products.

SA unemployment rate
(%)



Competitive drivers

Competition continues to intensify among financial services providers as both established and new entrants target the same client base. In addition, new entrants from other industries, such as telecommunications and financial technology (fintech), are entering the market.

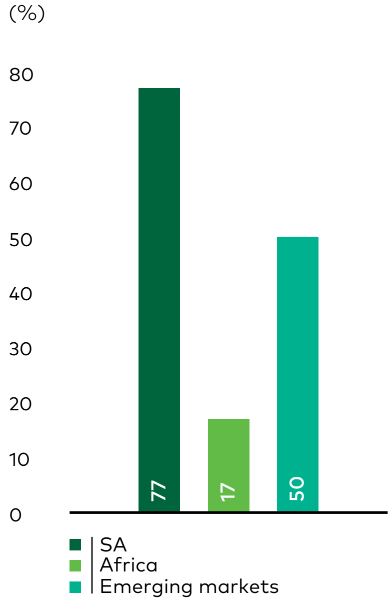
- Technological advances have enabled the entry of non-traditional players as they aim to cross-sell financial services to existing client bases. New entrants include online banks and payment facilitators, medical and insurance providers, microloan providers and virtual-payment and mobile-telephony providers, all offering an increasing array of financial products and services to the consumer.
- Competition is particularly evident in transactional banking across all client segments and in wholesale lending.
- International banks, which face regulatory pressures in their home markets, have been committing less balance-sheet-creating opportunities for SA wholesale banks.

Technological drivers

The Fourth Industrial Revolution is driving an exponential advancement of technology, forcing financial institutions to rethink the way they do business and choose to compete.

- New digital technologies are in the process of reshaping the value proposition of existing financial products and services and how these are delivered to and consumed by clients. Personalisation, convenience and security are top of mind as digital adoption outpaces prediction. It is estimated that over 90% of retail transactions in sub-Saharan Africa are cash-based, creating a significant opportunity for growth in digital banking in years to come.
- Megatrends, innovations and disruptive technologies include the integrated digital ecosystem (mobile-everything and 'always' online), the rise of fintechs, cloud computing, internet of things (IoT), big data and advanced analytics/machine learning, blockchain technology, artificial intelligence and biometrics, to name a few.
- Africa's relative underdevelopment in digital innovation enables the leveraging of technological development in banking.

Retail banking penetration



Source: Finscope.

Nedbank interactive ATM – a first for Africa.

Regulatory drivers

The global financial crisis brought the onset of increased regulation to ensure the soundness of banks and protect consumers, the most prominent of which are the Basel III regulations on capital adequacy, liquidity and risk data aggregation, anti-money-laundering (AML) regulations, the Retail Distribution Review (RDR), the National Credit Act and International Financial Reporting Standard (IFRS 9): Financial Instruments.

- Greater regulatory requirements have increased the cost of banking and led to a slowdown in loan growth, in turn affecting fixed-capital investment and economic expansion.
- Regulatory burden has resulted in global systemically important banks reducing their capital commitments and exposure to emerging markets.

KEY IMPLEMENTATION DATES FOR KEY REGULATION FROM 2016 TO 2020

Development (drafts to be released)

- Twin Peaks
- Treating-Customers-Fairly (TCF) and conduct risk
- Retail Distribution Review (RDR)

Calibration (workstreams/parallel runs)

- IFRS 9
- Net stable funding ratio (NSFR) (funding)
- Total loss-absorbing capital (TLAC) (capital)
- Risk-weighted assets (RWA) consistency/capital floors
- Foreign Account Tax Compliance Act (FATCA) and common reporting standards
- Anti-money-laundering (AML), combating the financing of terrorism (CFT) and sanctions
- Lighthouse privacy, [Protection of Personal Information (POPI)]
- Solvency 2

Implemented (phase-in basis)

- Basel III capital ratios (2013–2019)
- Basel III liquidity coverage ratio (2015–2019)
- Basel III net stable funding ratio (2018)
- Enterprise Data Programme (EDP) [Risk Data Aggregation and Risk Reporting (RDARR)] – Basel Committee on Banking Supervision (BCBS) 239 (2015–2019)

Environmental drivers

Protecting the environment and contributing to the development of sustainable food and energy resources are imperative. Without them we would compromise the ability of future generations to meet their needs.

- Globally, 2016 was the hottest year on record and the third successive year that a new record was established, causing devastating floods in some places and record-breaking droughts in others. The drought also negatively impacted the food and agriculture sectors, with a decade-low maize harvest leading to excessive prices and pushing up food inflation.
- The rapidly falling costs of new clean technologies in both the energy and transport sectors signal the start of one of the greatest industrial endeavours ever undertaken, given the implied rate and scale of change needed to meet global climate commitments, with billions of dollars being invested in this by governments and leading companies in the private sector.
- There is great contestation over SA's energy future. The draft Integrated Energy Plan (IEP) and Integrated Resource Plan (IRP) published towards the end of 2016 are intended to provide the road map for energy investments up to 2040. Experts have indicated, however, that the IRP base case is neither the lowest-cost option, nor is it compatible with the country's international climate change commitments. In addition, concerns have been expressed around the affordability of nuclear energy, especially as the country must show fiscal responsibility to retain its investment-grade credit rating.

Our material matters

Our material matters represent the issues that have the most impact on our ability to create value. These change over time as new trends and developments shape the macro environment and our stakeholders' needs evolve. We determine our material matters through the following process:

This process prioritised six material matters that are interrelated and inform our strategic focus areas. As a financial services organisation, our impact on the economy, society and the environment through the financial solutions we provide is material and is included within the boundaries of our reporting.

Refinement in 2016

In 2016 we refined our material matters in line with changes in the macro environment and the needs of our stakeholders. 'The changing relationship between business, government, labour and civil society' was added as an additional focus for 2016 and beyond.

Identify

Identify all issues that have the potential to impact our earnings sustainability and the ability to create value for our stakeholders. The process of identifying potential material matters is a groupwide responsibility requiring input from all business units and divisions, and taking into account input and feedback from all our stakeholders. Areas of potential impact that are assessed include financial, environmental, social, strategic, competitive, legislative, reputational and regulatory matters (including policy matters).

Rank

Rank the issues identified according to greatest relevance and highest potential to impact significantly on the viability of our business and relationships with stakeholders. While this is a collaborative effort, our Group Executive Committee assumes responsibility for approval of the material matters prior to their endorsement by the Group Transformation, Social and Ethics Committee, a board committee of the board, and finally the Nedbank Group Limited Board.

Apply

Apply the material matters lens to inform our long-term business strategies and targets as well as short-to-medium-term business plans.

Assess the material matters continuously to ensure that our strategy remains relevant.

Assess

Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality

As a universal bank, we are deeply connected to and interdependent on the macroeconomic environment. Our ability to create value is dependent on key economic drivers, our response to them and their impact on our stakeholders.

GDP growth – Forecasts suggest muted growth for SA, with upside in the rest of Africa in the medium to long term. This drives consumer spending (retail banking) and public and private sector investment (wholesale banking), which make banks ideally placed to act as facilitator.

Interest rates – Changes in interest rates affect bank margins and are correlated to endowment income, which increases as interest rates rise and decreases as they fall. At Nedbank endowment is viewed as a natural economic hedge against rising interest rates, whereby an increase in endowment income partially offsets the impact of an increase in bad debts that occurs later in the cycle.

Inflation – An increase in inflation driven by rand weakness, the effect of drought on food shortages and higher administrative costs, among others, impact the disposable income of consumers and the growth of business operating expenses.

Employment – Along with interest rate increases, unemployment is the primary threat to bad debts, while job creation drives economic growth and greater financial inclusion. Unless GDP growth picks up to > 3%, we are unlikely to see meaningful job creation.

THE IMPACT ON VALUE CREATION

- The tough economic environment increases financial pressure on our clients, leading to lower levels of credit demand and transactional banking activity – this is particularly prominent in the retail and small-business segments of the market. Retail clients have remained highly indebted since the financial crisis of 2008, compounded by the recent increase in interest rates, higher inflation and administrative costs, as well as high unemployment levels. Lower oil prices, feeding into lower inflation, proved beneficial to consumers in 2016, although transactional activity is slowing, particularly in the entry-level segments.
- In our wholesale business, our clients experience lower demand, delays in infrastructure investment, lower resource prices and electricity constraints, while the longer-term investment appetite in SA remains muted. Pockets of growth in infrastructure, the rest of Africa and merger and acquisition activity are ongoing opportunities.
- For banks this uncertain economic environment has a negative effect on earnings growth potential and capital generation, while increasing the risk of higher levels of bad debts and the cost of funding.
- Transformation of the energy sector globally offers large opportunities for industry, manufacturing, infrastructure and finance.

Disruptive technologies, disintermediation and increased competition

Increased competition for transactional clients and share-of-wallet means that banks must invest more to defend their competitive advantages while providing 24/7 client service, innovating more rapidly and pricing more competitively – this is relevant across retail and wholesale clients. Consumer behaviour has changed, accentuated by the tough economic environment. In addition, a high unemployment rate shrinks the economically active client pool that everyone is competing for. Clients are often multibanked with technologically sophisticated banking requirements as a result of an increased awareness of the various bank offerings, quality of service and pricing.

The digitisation of banks means that technological developments feature centre stage in banking, including embracing and leveraging mobile technology, fintech partnerships, cloud computing, big data, advanced analytics/machine learning, blockchain technology, artificial intelligence, robotics and biometrics.

THE IMPACT ON VALUE CREATION

- Competition and disintermediation erode revenues. However, they force companies to continue to innovate to remain relevant and competitive, especially in the digital age, and this will be beneficial to clients.
- New technologies provide opportunities to disrupt the market by creating new revenue streams, lowering the cost to serve and delivering general cost efficiencies.
- Banks (who have scale) are increasingly partnering with fintechs, who enable faster delivery to market of new innovations.

Increased demands on governance, regulation and risk management

Given trends in international financial markets, **the risk of potential penalties and fines due to non-compliance has increased** in SA and elsewhere in Africa.

Recent investigation into alleged collusion in currency trading activities highlighted the increased focus on this material matter, with Nedbank being one of the two large SA banks not implicated.

SA's implementation of the Twin Peaks regulatory framework and increased focus on consumer protection will continue to place new demands on financial services organisations. The caps on credit life pricing, lower caps on lending rates, limiting of interchange fees on card transactions, introduction of the liquidity coverage ratio, evolving capital requirements and net stable funding ratios are examples of regulatory changes being adopted.

THE IMPACT ON VALUE CREATION

- Increased regulation has created greater complexity and higher compliance costs for financial services providers. The increase in cost of funding, the NIR decrease and the spend on staff and IT capability to implement and mange the regulatory requirements increase the time to deliver innovative and competitive products.
- We continue to support governance and regulatory frameworks, as these ensure that value in the systems is protected. The frameworks have also made it possible for SA's banking sector to be rated among the top 10 globally in the latest World Economic Forum Global Competitiveness Survey. Our governance and compliance track record is sound and reasonable, and we fully support sustainable banking practices.

Managing growth opportunities vs risks in rest of Africa

The rest of Africa presents longer-term growth opportunities for Nedbank, albeit at a higher cost of capital and cost of risk, and requiring upfront investment. As GDP growth in SA remains muted, the rest of Africa provides a longer-term growth opportunity. Our growing African client base and our SA clients entering the rest of Africa seek to benefit from one-stop financial services solutions.

Shareholders, on the other hand, seek exposure to this higher-growth region through investment in well-managed SA banks that follow a risk-mitigated, capital-efficient approach.

THE IMPACT ON VALUE CREATION

- With Nedbank having strong, specialised skills and our complementary strategic partnerships through Ecobank, Bank of China and Old Mutual, we are in a strong position to play a key role in funding and structuring infrastructure and capital-intensive projects, as well as leveraging incountry and crossborder banking opportunities. However, we have to participate cautiously, as the environment remains uncertain in the short to medium term and is likely to be volatile over time.
- In the short to medium term banks operating in West Africa will be impacted by weak economic conditions and currency weakness, particularly in Nigeria. This will be evident in revenue pressures and higher bad debts. For Nedbank this is evident in the financial performance of ETI.

Transformation of society within environmental constraints

Our planet faces massive economic, social and environmental challenges. These include climate change, income inequality, unemployment, growing disease burdens and food security concerns. The effects of these are increasingly being felt through natural disasters, volatility in commodity prices, social upheaval and governments responding with increasing regulations.

THE IMPACT ON VALUE CREATION

- The UN Sustainable Development Goals (SDGs) represent an unprecedented road map for the transformation of society within environmental constraints. As reflected in our Long-term Goals, they represent a framework to orientate our strategy and identify how we can use our financial expertise to contribute positively in addressing the needs of individuals, businesses and society.
- The SDGs also help to create a common platform for dialogue and cooperation between governments, business and civil society stakeholders.

Scarce and evolving skills requirements

Banks are large employers within the financial services sector and we require highly skilled employees to deliver the services our clients expect. With highly skilled employees becoming increasingly expensive to recruit and with little evidence that pay correlates with performance, banks are increasingly recruiting and training staff from a broader talent pool and retaining them in new ways. We therefore need to invest in attracting, retaining and developing the skills we need to grow our businesses, because the right people with the right skills are essential for the delivery of our strategy.

We are also acutely aware of the importance of a well-educated labour force for the country's success. SA's economy is plagued by very high levels of unemployment and we continue to struggle to produce graduates from a high proportion of secondary-level students. The challenges in higher education are even greater, with only a relatively small number successfully completing tertiary studies. The pressure on the higher-education sector is being compounded by affordability concerns, which have led to mass protests on campuses throughout 2016. Nedbank is committed to playing a positive role in addressing these problems and a groupwide task team was created in 2016 with the aim of developing a tertiary-funding strategy that combines external and internal funding with innovative products and processes, such as crowd funding, securitisation and blended lending.

THE IMPACT ON VALUE CREATION

- Playing our role in providing affordable financing, bursaries and education support through our foundation remains top of mind for Nedbank. Nedbank has taken a leadership position in transformation and we continue to place this high on our agenda, given our goal to stay at the forefront of transformation.
- Our staff and corporate culture are key competitive advantages and differentiators. We measure staff entropy to understand the level of engagement within the group, while seeking to create a closer fit between the existing and ideal culture.
- There will be an increased expectation on large corporates, such as Nedbank, to offer internships to previously unemployed youth as part of the Youth Employment Scheme (YES initiative) agreed between leading CEOs and the government. Part of the YES initiative will be a package of incentives to enable this takeup.

Changing relationships between business, government, labour and civil society

The ongoing weak economic conditions, high levels of unemployment and events around Nenegate have spurred **business, government, labour and civil society to work together to avert a sovereign-credit-rating downgrade**. Government, business and labour all understand the imperative to reduce these to ensure a better life for all.

THE IMPACT ON VALUE CREATION

- The knock-on impact of a sovereign-credit-rating downgrade will be felt most by the poor as inflation increases on the back of a weaker currency.
- Working together towards a common goal, though, will assist the SA economy in reaching its full potential and reducing inequality and poverty.
- The value-adding outcomes to date include: R1,5bn committed by the private sector for investment in small enterprises; a pledge by companies to offer internships to one million young workseekers; considerable investment in the Renewable Energy Independent Power Producer Procurement programme that has led to 2 500 MW of energy generation; and the improvement of some state-owned enterprises' governance.
- In addition, government has budgeted over R987bn for infrastructure development in terms of the medium-term expenditure framework.

The risks and opportunities from our material matters

While our material matters have remained fairly constant, the underlying drivers and their relative materiality to the group continue to evolve. In 2016 there was an ongoing increase in the risks and challenges associated with many of these.

MATERIAL MATTERS	THE OPPORTUNITIES FOR VALUE CREATION
Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality	■ There are opportunities to finance infrastructure development needs, although these needs remain few and far between. ■ MFC secondhand vehicle finance niche is countercyclical and performs better than the industry in a downturn. ■ A peak in the interest rate cycle delivers an endowment benefit and less potential stress for consumers as rates decline thereafter. ■ Growth in the rest of Africa exceeds that of SA over the longer term.
Disruptive technologies, disintermediation and increased competition	■ Financial services providers that respond best to the digital challenge in a client-centred manner will continue to gain a disproportionate share of client revenue. ■ Technology developments provide opportunities for improving efficiency, bringing new digital offerings quicker to market, and lowering the cost to serve as well as the overall cost base by reducing the number of branches and staff and branch sizes.
Increased demands on governance, regulation and risk management	■ Implementing the myriad of regulatory requirements in a client-centred, integrated and synergistic manner can be an important differentiator in the financial services industry. ■ The recent SARB directive has resulted in regulations such as NSFR compliance becoming easier to achieve. Refer to page 55 for further information. ■ Bank balance sheets are stronger to weather an economic downturn and well positioned for growth as the economy improves.
Managing growth opportunities vs risks in rest of Africa	■ SA companies continue to expand into faster-growing markets in the rest of Africa, leveraging SA's position as the gateway to Africa and using their unique expertise in operating in emerging markets. ■ Much of the SA skills base in infrastructure, telecommunications, resources, retail, construction and renewable energy is transportable and can be applied to business opportunities in the rest of Africa.
Transformation of society within environmental constraints	■ Through technology and innovation new alternative energy sources, such as renewable energy, are being produced. These have a reduced environmental impact while creating jobs in new fields of industry, thereby improving social conditions and offering substantial new revenue streams. ■ New energy-efficient buildings and vehicles are being developed, creating opportunities for innovative businesses.
Scarce and evolving skills requirements	■ Employers of choice will continue to attract the best skills. ■ Support for business initiatives such as the SME Fund and educational programmes such as 'Partners for Possibility', as well as Fair Share 2030 and other initiatives help build communities and Nedbank's brand.
Changing relationships between business, government, labour and civil society	■ Initiatives undertaken drive inclusive and sustainable economic growth, which should place SA in a stronger position over the medium to long term.

OPPORTUNITIES			RISKS	
SHORT TERM	MEDIUM TO LONG TERM	FACTORS THAT DETRACT FROM CREATING VALUE	SHORT TERM	MEDIUM TO LONG TERM
↑	↑	■ Weak advances growth, particularly retail lending and corporates investing in SA. ■ Slowing transactional volume growth that decreases revenue growth. ■ Higher inflation leading to cost pressures. ■ Higher bad debts, driven by job losses, a spike in interest rates or large corporate defaults. A sovereign-credit-rating downgrade could accelerate impairments.	↑	↑
↑	↑	■ Loss of market share and revenue should Nedbank's digital offering not remain competitive. ■ Risk of digital banking becoming a commodity and not a differentiator. ■ Legacy systems leading to slower implementation of new technology. ■ Higher expense burden of investing in innovation and the franchise.	↑	↑
↑	↑	■ Increasing regulatory demands impacting revenues and costs, as well as the shape of bank balance sheets. ■ Additional compliance requirements and charges affecting clients, as banks attempt to recover some of the costs. ■ Slowdown of loan growth across the industry due to pricing caps on personal loans and stricter credit scoring, resulting in certain clients possibly no longer qualifying for loans. ■ The implementation of new or amended governance, regulation and risk management being reliant on employees with existing workloads.	↑	↑
↓	—	■ Currency volatility, lower economic growth and lower commodity prices dampening the financial prospects of banks operating in Africa in the short to medium term, especially those in oil-exporting countries. ■ The challenge that regulations pose to many SA corporates operating in the rest of Africa, with the risk of fines and penalties having increased. ■ Risks around our strategic partner, Ecobank, which remain top of mind primarily as a result of the Nigerian economy being in recession.	↑	—
↑	—	■ The impact of climate change, ie more natural disasters and related costs to rebuild (or improve) infrastructures where required; increased energy costs; water shortage and quality issues; and increased food prices and shortages. Extreme weather events impacting clients, and ultimately insurers, through higher claims. ■ The higher costs of protecting the environment and social and political pressure leading to certain industries, such as mining, becoming less viable and leading to job losses.	↑	↑
↑	↑	■ Increasing disparity between levels of skills available and required for employment in financial services, along with higher levels of unemployment and growing social inequality. ■ Political instability driving loss of skills as high-quality skills emigrate.	—	—
↑	↑	■ Positive momentum fades as political uncertainty stifles collaboration efforts and possibly triggers a sovereign-credit-rating downgrade.	↑	↑

↑ *Opportunity increased since 2015* ↑ *Risk increased since 2015*

↓ *Opportunity decreased since 2015* ↓ *Risk decreased since 2015* — *Risk/opportunity stayed broadly the same since 2015*

Our strategic focus areas

Our strategy is primarily aimed at creating value for all our stakeholders and is defined by our five key strategic focus areas of:

- Delivering innovative market-leading client experiences
- Growing our transactional banking franchise faster than the market
- Being operationally excellent in all we do
- Managing scarce resources to optimise economic outcomes
- Providing our clients with access to the best financial services network in Africa

DURING THE YEAR WE REFINED OUR STRATEGY IN LINE WITH THE CHANGE IN MATERIAL MATTERS

The table below highlights the areas and levels of correlation between material matters and our strategic responses (to the risks and opportunities). The material matter 'Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality' has one of the highest correlations to almost all our strategic responses, as a bank's performance is strongly linked to the environment in which it operates.

	Delivering innovative market-leading client experiences	Growing our transactional banking franchise faster than the market	Being operationally excellent in all we do	Managing scarce resources to optimise economic outcomes	Providing our clients with access to the best financial services network in Africa
Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality	M	H	H	H	H
Disruptive technologies, disintermediation and increased competition	H	H	H	M	H
Increased demands on governance, regulation and risk management	H	M	H	H	H
Managing growth opportunities vs risks in the rest of Africa	H	M	H	H	H
Transformation of society within environmental constraints	M	M	M	H	M
Scarce- and evolving-skills requirements	H	M	H	H	H
Changing relationships between business, government, labour and civil society	M	M	M	H	M

H High M Medium

Value is created for Nedbank through revenue enhancement, cost optimisation, risk mitigation and balance sheet optimisation. Below we illustrate the key value driver of each of our strategic focus areas:

	Delivering innovative market-leading client experiences	Growing our transactional banking franchise faster than the market	Being operationally excellent in all we do	Managing scarce resources to optimise economic outcomes	Providing our clients with access to the best financial services network in Africa
Revenue enhancement	■	■		■	■
Cost optimisation	■		■	■	■
Risk mitigation		■	■	■	■
Balance sheet optimisation		■		■	■

Read more about our performance and outlook, including targets on pages 46 and 47.

Delivering innovative market-leading client experiences

We acknowledge that client preferences are unique and fast evolving and continue to challenge us to use our financial expertise to do good and see money differently. To be relevant there is a continuous need for us to understand, anticipate and timeously deliver client experiences that exceed expectations. This is central to all our strategic focus areas, because innovation – whether technology is a driver or not – is a key to retaining existing and attracting new clients, which drives revenue growth. This is a strategic focus area primarily in response to the material matter 'Disruptive technologies, disintermediation and increased competition'.

HOW DOES IT MAKE US DIFFERENT?

The evolution of the banking landscape and technology has resulted in the refinement of our digital strategy. Initiatives are focused on innovative solutions and client education using leading user experience design.

We are recognised for our market-leading digital innovations, such as GAP Access™ (a cash advance solution for merchants based on their point-of-sale device turnover), CIPC Online (an integrated business registration and account-opening service available through nedbank.co.za), Nedbank Masterpass™ (a mobile payment solution), MyPocket (a savings pocket that can be linked to a client's transactional account, allowing the client to manage spending and saving more easily) and NetBank Business mobile enhancements, with Nedbank being the only local bank offering a business banking application on both tablet and smartphone devices. Other innovations include further enhancements to Masterpass™, which is now enabled to transact over SnapScan QR codes, as well as our market-leading Instant Bond Indicator, which allows potential home loan applicants an almost immediate response on their home loan request. Digital client experience was enhanced through introducing contracts for difference (CFDs) on our online stockbroking platform. Nedgroup Investments launched a new online 'Invest with us' tool, which allows investors to follow a simple six-step process to open a new account at their convenience. Other digital enhancements include allowing existing investors to update personal details, open accounts, transact, perform switches and facilitate withdrawals through their secure online profiles. Nedbank Insurance's QuoteMe functionality was introduced for funeral and personal-accident solutions on both the web and mobile channels.

Internally, innovation is increasing the efficiency and cost-effectiveness of our structures, systems and processes, which ultimately benefit our clients.

REFLECTING ON 2016 AND LOOKING AHEAD

- We have made good progress on all aspects of client-centred innovation and service, enabled by streamlined processes and a strong emerging culture of innovation, although much more needs to be done. This is evident in the quantum of digitally active new clients increasing 73,6 % to 1,4m. The launch of the Digital Fast Lane as an enabler (described on page 49) will accelerate delivery of market-leading digital experiences.
- Our strategy aims to deliver delightful client experiences. We continue to focus on simplifying banking interactions to ensure easy, consistent and satisfying client experiences across all channels. We are paying special attention to identifying and removing client 'pain points' and elevating the client experience through innovation, enhanced self-service and new value-added functionalities. Our approach has been enabled by our accelerated progress in leveraging digital capabilities.
- There is an ongoing rollout of new format outlets that are more effective sales and servicing channels due to technologies such as video banking and internet kiosks, which will create further capacity to manage our increasing client base and has reached 44% of all outlets. We target to convert 82% of our outlets by 2020.
- Our being one of SA's most respected brands and our being ranked eighth in SA by Brand Finance (fourth among all banks) was supported by a BrandsEye study that, through analysis of social media activity relating to SA's big five banks, found that Nedbank drew the least amount of negative sentiment and second-most positive feedback (ahead of all the large SA banks). The launch of a new Nedbank brand identity in 2017 is described in more detail on page 50 as part of Brand 2020 – a key strategic enabler.
- Through our Fair Share 2030 strategy we enabled R2,3bn of lending to clients in the areas of embedded renewable energy and student accommodation.
- To enhance our digital client experience in the rest of Africa we implemented mobile banking in Namibia and Swaziland and further increased our mobile value-added services in Namibia.

For more detail on how Nedbank created value for clients, refer to page 72.

See our performance and targets on pages 46 and 47.

CASE IN POINT

Nedbank interactive ATMs

Value for clients: The Nedbank interactive ATM, which is the first of its kind in Africa, adds value for our clients by using video capability to link a client to a teller, who is located in a contact centre, to perform transactions. This allows transactions to be processed after traditional banking hours. The interactive ATM also extends the Nedbank self-service offering, enabling the seamless completion of transactions without clients having to visit a branch. Some examples include instances where clients complete large withdrawals and deposits and require their ATM limits to be increased, or when clients wish to complete cash withdrawals without having their cards present.

A further benefit revolves around active staff assistance to clients who may be battling to navigate a transaction. Interactive ATM transactions are simple and easy. Client authentication is done electronically and requires no 'paper' intervention. The interactive ATM will give clients access to a range of broader banking services at an extended number of locations across SA.

Value for Nedbank: There are numerous benefits, including the ability to extend self-service functionality to our clients, which in turn shifts basic services from our branches to self-service devices, resulting in a reduced cost to serve and improved efficiencies (eg more banker time available to spend on value-adding activities with our clients). When fully implemented, the functionality will also assist in reducing the need for physical staffing in remote areas. The interactive ATM can also extend Nedbank's reach into areas previously not served.

Growing our transactional banking franchise faster than the market

Our strategy to grow our transactional banking franchise faster than the market is driven by increasing our main-banked market share and deepening our share of wallet with new and existing clients. There is significant room to grow our approximately 11% retail main-banked market share to more than 15%, and similarly our share in wholesale businesses, although this is more difficult to measure against peers given the absence of independent industry benchmarks.

This is to be achieved in RBB by playing a leading role in a fully digitally transformed RBB that delivers delightful client experiences, simpler processes and cost-effective operational excellence. The rising middle market is our key target market, showing the highest economic potential, greater propensity to switch and the fastest growth rate. We will be driving this strategy through our focused four levers for 'Winning in Transactional' by 2020, namely Digital First, First in Digital, disruptive client value propositions (CVPs); loyalty and rewards and sales and service excellence.

In the wholesale market we are focusing on continuing to improve client coverage and further deepen client penetration, enabled by improved client insights through data integration, and greater collaboration between business units after the integration of Nedbank Corporate and Nedbank Capital into CIB.

HOW DOES IT MAKE US DIFFERENT?

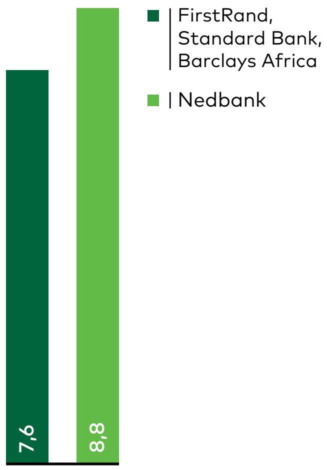
Nedbank has built a track record of delivering on this strategic focus area, growing NIR at or above the SA industry average over an extended period. The exception was in 2014, when we deliberately kept our bank fees at 2013 levels and reduced fees for SME and business banking clients.

We have increased our focus on the retail middle market and our historical focus of growing youth and entry-level clients will benefit us in future as they migrate into the middle-market segment. In the wholesale bank the integrated CIB enables better client coverage, while we leverage our strong position in wholesale lending to increase opportunities for cross-sell. Across our businesses we are adopting a more focused and urgent approach to full digital transformation, supported by our new strategic enablers described on pages 48 to 49.

REFLECTING ON 2016 AND LOOKING AHEAD

- Retail main-banked clients grew 3,0% in 2016, with a 6,3% increase in middle-market clients. Growth in retail deposits remains a key focus area and we were pleased with our increase in household deposit market share to 18,7%, which is enhancing economic profit and is beneficial for NSFR compliance.
- Nedbank Private Wealth onboarded more than 1 200 local and international new high-net-worth clients and CIB gained 39 new primary clients.
- In CIB our NIR-to-advances ratio – a key indicator of cross-sell and ability to leverage our strong balance sheet to grow NIR – increased to 2,1% from 2,0% in 2015, above our target of > 2,0%.
- Growing our transactional banking franchise faster than the market will remain our primary focus going forward, and, despite a tougher macro environment, we believe we are in a good position to gain share of main-banked clients. Our NIR-to-expense target of > 85% therefore remains achievable over the medium to long term.

Nedbank NIR five-year CAGR vs peers



Being operationally excellent in all we do

Simplifying, rationalising and continuously improving our processes and operations save costs and allow us to invest in our franchise and unlock new growth opportunities. Saving costs becomes more important in a tougher macroeconomic and more competitive environment, but operational excellence also provides benefits to clients, as client experiences are enhanced through simplification and optimisation. Our IT system stability is an example of differentiation enabled by operational excellence to ensure client satisfaction.

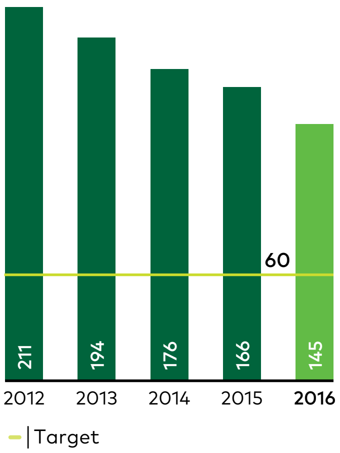
HOW DOES IT MAKE US DIFFERENT?

Our ability to manage our cost base through the years has been an outstanding feature and is acknowledged by the investment community. Our Managed Evolution IT strategy reduces the risk relating to large-scale system implementation and provides systems stability while enabling better control over our expenses. Digitisation of the bank and the revision of our operating model will assist in unlocking efficiencies and providing a more integrated client experience over time.

REFLECTING ON 2016 AND LOOKING AHEAD

- We have done well to unlock synergies in an environment of revenue pressure. In 2016 we reduced branch floor space by 5 000 m² (with a cumulative target of > 30 000 m² by 2020) and unlocked benefits for Nedbank of more than R250m from our arms' length collaboration programme with Old Mutual South Africa and Mutual and Federal.
- We reduced core systems by 106 from 251 systems since inception and are well on our way to reach 60 over the next few years. This will enable reduced licence fees, maintenance and complexity, although upfront investment is required. IT cashflow spend of R2,0bn in 2016 was well controlled.
- These initiatives, along with revenue growth strategies, will help us to improve our cost-to-income ratio from 56,9% to our medium-to-long-term target of 50% to 53%.
- Through various cost optimisations we realised R599m of efficiency savings.
- Our operating-model review, described on page 48, is currently expected to generate pretax benefits of approximately R1,0bn by 2019.

Core IT systems



CASE IN POINT

Operational excellence adding value to our clients

Nedbank provides relationship banking services to our 100 000 affluent clients (also termed 'professionals') and 247 000 small businesses and business owners through the Retail Relationship Banking (RRB) business. As part of our value proposition, clients have access to a dedicated banker who can facilitate their needs across the bank and ensure that they benefit from tailored credit decisioning while enjoying preferential rates on both investments and loans.

To deliver this value proposition consistently it is critical for bankers to have a full view of their clients' dealings with Nedbank, to keep track of the clients' interactions and requests, as well as to store relevant insights into the relationship for reuse in future engagements.

In 2016 a new client relationship management tool, EPIC, was developed with this in mind. The tool leverages deep financial data analytics already developed for Retail (also referred to as the '4-cubed' model, given its four lenses of client, channel, product and geography), collates data from almost every product system in the bank and provides additional functionality for bankers to view their portfolio, to capture information and to action work queue items.

Key to the design of EPIC is a user experience that is intuitive, is quick to navigate so that information can be accessed in the moment, and has the functionality to talk to current pain points of our staff (and indirectly of our clients). Evidence of these principles having been delivered successfully is the quick adoption rate by bankers (all bankers using the system within the first month of its launch), positive feedback received from users (90% likes), and the fact that no system training had to be provided.

With EPIC, relationship bankers are freed up to spend more time on client matters, and line managers are now fully equipped to understand the content and the quality of engagements that take place, including the level of proactiveness from Nedbank in engaging with our clients.

With more functionality to be released in 2017 on this platform, Nedbank is well equipped to continue its growth trajectory in this highly competitive market and to deliver even better experiences for clients and staff alike.

Performance and targets on pages 46 and 47.

Managing scarce resources to optimise economic outcomes

We seek to optimise our through-the-cycle ROE using proactive portfolio decisions such as judiciously managing groupwide allocation of scarce resources, including capital and liquidity for strategic and optimal financial outcomes.

HOW DOES IT MAKE US DIFFERENT?

Nedbank is widely acknowledged for taking early action in anticipation of industry challenges. This was particularly evident with regard to home loans and personal loans, which we grew selectively, improving asset quality and pricing. We believe that we have significantly reduced the risk in these books and expect that growth in the future will be within our accepted risk profile and will be driven by increased efficiency and innovation in the application process. This should also enable us to outperform the industry on credit loss ratio.

Our business model bias towards the wholesale market (> 60% of advances) positions us well in a tough consumer environment, and expertise in key sectors has enabled us to grow strongly in renewable-energy and infrastructure projects, commercial property and vehicle finance.

REFLECTING ON 2016 AND LOOKING AHEAD

- Strategic portfolio tilt, a focus of the group for a number of years, has delivered excellent results, particularly in the wholesale portfolios where Nedbank has gained share of market in funding initiatives, such as renewable energy and in vehicle finance where Nedbank, through MFC, has a unique positioning in secondhand lower-value vehicles. Our pipelines in our wholesale businesses remain strong. Nedbank grew market share across Basel III-friendly household and commercial deposits in line with our strategic objective.
- Derisking the home loan and personal-loan portfolios has been successful. These actions place the group in a strong position as we head into a more challenging environment, and have already contributed to the group's credit loss ratio outperformance. We anticipate growing more in line with the market going forward.
- Our financial performance as described from page 62 onward reflects the impact of ETI's loss and higher levels of cost of capital after bond yields spiked after Nenegate, offset by strong performance of our managed businesses.

PORTFOLIO TILT STRATEGY

Advances	
Retail	
Home loans	
Backbook	▼
Frontbook	▲
Vehicle finance	▲
Personal loans	
< R5k/month segment	▼
Entry-level banking segment	–
Middle market	▲
Wholesale	
Property finance	
Domestic lending	–
Rest of Africa	▲
Investment banking	–
Corporate banking	▲
Wealth	▲
NIR related	
Wholesale and retail transactional/primary clients	▲
Global markets (trading)	▲
Insurance	▲
Private-equity related	–
Deposits	
Household	▲
Commercial	▲
Capital market	–
Short-term wholesale funding	▼
Foreign currency liabilities	–

▼ Slower than market growth

▲ Faster than market growth

– In line with market

Providing our clients with access to the best financial services network in Africa

We are positioned to give our clients access to a wide sub-Saharan African geographical financial services network and a compelling value proposition through investing in and expanding on our own Nedbank operations in the SADC and East Africa, and taking a partnership approach, through our 21,2% shareholding in ETI, in Central and West Africa. This approach will give our shareholders access to the faster GDP growth rates in the rest of Africa through a longer-term capital-efficient and risk-mitigated approach.

We have a strategy that is tailored for each region:

- SADC and East Africa – We want to own, manage and control banks. Our network presence in the SADC and East Africa now comprises banks in six countries and two representative offices in Kenya and Angola.
- Central and West Africa – We follow a partnership approach with Ecobank, in which we acquired a shareholding of 20,0% in 2014. Ecobank is the number-one bank in Ghana, is a systemically important bank in Nigeria and is ranked as a top-three bank by assets in 14 countries in Africa.
- Investment banking deals – We are leveraging our strategic relationships, expertise, skills and resources to build a rich deal pipeline in countries across the rest of Africa.

HOW DOES IT MAKE US DIFFERENT?

Our clients benefit from a bank with the largest banking network in sub-Saharan Africa, which is intended to provide them with a seamless banking experience. In addition, we are able to leverage off Ecobank's deep incountry knowledge. We have approached our expansion in a risk-mitigated manner by spreading risk across various countries, as evidenced in the portfolio.

In the context of a changing global regulatory landscape with more stringent regulatory requirements, banks in Africa are expected to comply with Basel III and AML requirements, among others. Nedbank Group's partnership approach with a minority shareholding in ETI mitigates risk from a regulatory compliance perspective. A 21,2% shareholding also mitigates, to some extent, the challenging macro environment given lower commodity prices and exchange rate volatility.

REFLECTING ON 2016 AND LOOKING AHEAD

- Our Africa strategy is expected to take time to deliver and is aimed at building sustainable returns for shareholders over the longer term.
- Operating in the rest of Africa has been challenging over the past 12 months and our financial performance has been a key disappointment, given the impact of equity accounting for our share of ETI's fourth quarter 2015 losses in the first quarter of 2016. In addition we raised a R1,0bn impairment provision against the carrying value of our investment in ETI.
- In the SADC we successfully implemented our core banking system in Lesotho and Swaziland, and on the back of that we are rolling out our mobile offering. On 1 October 2016 we increased our holding in Banco Único to 50% plus one share and have shareholding control. We increased our outlets by four branches and our ATMs by 14 during the year.
- Our market share in key SADC countries remains static and below our target. We expect this to increase on the back of our investments we would anticipate this to increase over time.
- Since the establishment of the alliance 198 accounts have been opened in 25 countries for 82 South African Corporates. We concluded three joint financing deals since inception of the alliance, however due to the tough macroeconomic environment in the rest of Africa there have been no new deals in 2016.
- Risks in the environment, driven by lower commodity prices and currencies, remain a key focus. We will continue to follow a disciplined approach to the allocation of financial resources to optimise portfolio returns and manage risks.
- Despite challenging marcoeconomic conditions, which we currently expect to remain 2017 before improving in 2018 and beyond, the long-term growth potential of financial services in the rest of Africa cannot be overlooked. We therefore remain committed to our strategy and investments in the rest of Africa and continue to support ETI as our partner in Central and West Africa.

CASE IN POINT

Flexcube implementation

Value for clients

The Flexcube core banking platform is highly configurable and flexible. We are building on this platform to offer our clients mobile solutions and enhance the wholesale electronic platform to be best in class. This will assist clients to take advantage of richer bundled products and services with simplified pricing structures. It will also allow for enhanced convenient digital banking providing convenient solutions such as prepaid electricity and airtime purchases and bills payment.

Value for Nedbank

The new system ensures the standardisation of the core banking platform among our subsidiaries to drive operational efficiencies and provide the added benefit of a faster time to market on innovations.

Implementation of Flexcube has resulted in the automation of many processes that were previously manual, eg bank-to-bank transfers.

Strategic focus area key performance indicators – progress and outlook

Key performance indicators	How does it link to value creation?	Yoy change
Delivering innovative market-leading client experiences		
Digitally active clients (000)	Enablement of more entrenched clients and more cost-efficient channels	↑
New-format outlets (% of total)	Greater efficiency of innovative, technology-enabled outlets	↑
Brand value ranking in SA (rank #)	Enhancement of client awareness, association and loyalty	–
Growing our transactional banking franchise faster than the market		
Retail main-banked clients (m)	Driver of revenue growth	↑
Market share		
Household deposit market share	Attractive source of funding in a Basel III world	↑
CIB NIR-to-advances ratio	Leveraging our strong position in lending to growth of NIR	↑
NIR-to-expenses ratio	Extent to which NIR covers expenses	↓
Being operationally excellent in what we do		
Core IT systems (#)	Reducing complexity and enabling digitisation of IT systems in a risk-mitigated and cost-efficient manner	↓
Branch floor space optimisation (m^2)	Cost savings through smaller, more efficient branches	↑
OM collaboration savings (Rm)[4]	Synergies through arms-length commercial benefits	↑
Efficiency ratio	Key driver of ongoing sustainable profitability	↑
Managing scarce resources to optimise economic outcomes		
Economic profit (Rm)	Profit generated after adjusting for the expected returns from investors (cost of capital)	↓
ROE, excluding goodwill	Returns shareholders receive on their capital (adjusted for goodwill for comparability to peers who wrote off goodwill prior to IFRS changes)	↓
Providing clients with access to best financial services network in Africa		
SADC and East Africa		
Country presence (subsidiaries, representation offices and through ETI)	Client access to jurisdictions across Africa	↑
Central and West Africa		
Corporate and Business Banking clients doing their transactional banking with ETI	Servicing and protecting our client relationships	↑
Financing deals with ETI	Financing opportunities with Ecobank involvement	↓

[1] *Digitally enabled and active clients have been restated to include all digital channels and to allow for only the last 90 days of recent activity.*
[2] *In terms of the collaboration agreement, Nedbank's savings are subject to verification by Group Internal Audit.*
[3] *Growing household transactional deposits market share by client numbers from 10% to 17%.*

Refer to outcomes of Basel III compliance on page 75 (Stakeholder: Regulators).

Assurance indicators

- LA – *External limited assurance on selected sustainability information and the application of the FSC and the group's BBBEE status.*
- MO – *Management and board oversight through rigorous internal reporting governed by the group's ERMF.*
- FS – *Financial information extracted from the 2016 Nedbank Group Limited Audited Annual Financial Statements.*
- IN – *Information sourced from external sources, eg independent surveys.*
- OV – *Independent oversight by regulatory bodies including the SARB, FSB, and various financial sector ombudsman offices.*

	2016	2015	2014	Benchmark/ Peer average[6]	Outlook/Target	Assurance
	1 429	823[1]	804[1]	N/A	Continued strong growth	MO LA
	44%	36%	22%	N/A	82% of total outlets converted by 2020	MO
	8th (4th bank)	8th	6th	4th to 8th overall	Top-2 bank brand by 2020	IO (Source: Brand Finance)
	2,8	2,7	2,0	N/A[5]	> 15% by 2020	MO LA IN (Source: AMPS)
	ND	10%	10%			
	18,7%	18,4%	18,7%	20,4% (peer average)	> 20% by 2020[3]	IN (Source: SARB BA900)
	2,1%	2,0%	1,8%	N/A	> 2% in the medium to long term	MO
	82,9%	83,3%	82,8%	78,8% (peer average)	> 85% in the medium to long term	FS
	145	166	176	N/A	Reduce to 60 by 2020	MO
	18 743	13 695	7 273	N/A	Reduction of > 30 000m^2 by 2020	MO
	> 250	112	–	N/A	Generate 30% of the R1bn combined Old Mutual Emerging Markets target by 2017[2]	MO
	56,9%	56,1%	56,5%	54,9% (peer average)	50% to 53% medium to long term	MO FS
	1 565	2 525	2 112	N/A	Positive economic profit growth	MO
	16,5%	17,0%	17,2%	18,1% (peer average)	COE + 5% medium-to-long-term	MO
	8 (39 through ETI across Africa)	7	7	12 across Africa (peer average)	Increase over time to 10	MO
	82	74	N/A	N/A	Increase over time	MO
	0	3	–	N/A	Increase over time	MO

[4] *Refer to page 116 of the remuneration review for the new corporate performance targets.*
[5] *This percentage is not being calculated as AMPS is no longer available. Alternative measures are currently being investigated.*
[6] *Peer average consists of the simple average of the four largest SA banks using latest year-end financial results.*
[ND] *Not disclosed.*

Strategic enablers

Our strategic enablers, introduced as part of our strategic planning in 2016, are initiatives that will enable us to deliver on our strategic focus areas, goals and targets by changing the way we operate. Many of these are closely related to the capitals defined by the IIRC. We believe that the following enterprise initiatives should serve as catalysts in achieving our stretch targets:

Operating-model review

Underpinning our strategy and embracing our strategic enablers as key foundations, we simultaneously initiated an operating-model review in 2016. The implementation of the revised model is expected to begin in 2017 and progress will be reported on in the subsequent reporting periods. It will enable us to develop greater agility, with a view to innovating quicker and responding to disruptive threats faster, optimally addressing new-client requirements and providing best-in-class client experiences, and creating an enterprise capability with the client at the centre of all we do. We will also be able to organise ourselves, our data, our data analytics and IT to respond to regulatory change, to create differentiation in our clients' universe and to improve our ability to execute our strategy more effectively. These activities are currently expected to generate R1,0bn of pretax benefits by 2019.

People 2020

People 2020 is a groupwide programme aimed at transforming and aligning our leadership, culture and talent (human capitals) to our strategic objectives. The intent is to shift our organisation to the required culture to ensure that we have the desired leadership that embodies the Nedbank persona and that we attract and develop the appropriate skills needed to deliver on our strategy and to become more competitive. This programme will be rolled out in a phased approach over the next three years.

HOW WILL PEOPLE 2020 ENABLE OUR STRATEGY AND DELIVER VALUE?

- Aligning – Aligning our people will be crucial to delivering on our strategies. It will motivate, enable, empower and incentivise the appropriate skills and behaviours. People 2020 defines an employee value proposition that resonates with and excites our staff, ultimately ensuring that all staff become brand ambassadors.
- Leadership – Creating awareness of the required behavioural changes to bring about cultural and leadership shifts as input to leadership development processes and plans.
- Culture – Aiming to retain core elements of our culture journey that made Nedbank an employer of choice, but increasing our focus on agility, innovation, commercialism and change management. This will be done through the introduction of the Competing Values Framework as our new culture lens to enable us to achieve both mission and structural alignment.
- Talent management – Combining the right processes, programmes and culture elements to ensure that we are a leader in attracting, developing, mobilising, optimising, engaging and retaining the best people in financial services.
- Performance management – Revising the practice of performance management that sets and evaluates goals on a different basis, requiring ongoing performance feedback that is focused on learning and future development. This will ensure that appropriate steps are taken to enhance performance and assist employees to grow their careers.
- People brand – Building a brand partnership among employees who will consistently advocate for Nedbank as a great place to work, bank and invest.

Brand 2020

Brand 2020 encompasses the development and launch of a new, distinctive Nedbank brand (intellectual capital) that embraces our purpose and enables our strategy to come to life. It aims to build a distinctive and compelling brand that will disrupt, give us personality and enhance the belief our stakeholders have in Nedbank. The brand essence is embedded in our purpose statement – 'To use our financial expertise to do good for individuals, families, businesses and society'. A formal launch in the first quarter of 2017 aligns with the delivery of new client propositions across our business to ensure clients both see and experience the new brand essence.

HOW WILL BRAND 2020 ENABLE OUR STRATEGY AND DELIVER VALUE?

- Greater resonance with our brand creates opportunities for gaining new clients and a deeper share of wallet, driving transactional market share growth.
- Aligning our brand promise and our products, services and solutions will ensure that we deliver on our purpose, and add value for our clients.

Leading transformation

As the BBBEE environment is progressively more demanding, leading transformation remains a key priority. We will continue to build on our leading position to create a more equitable and thriving society. We acknowledge that stricter legislation will lead to an industry change with lower BBBEE levels projected going forward, pending the dti gazetting of the draft amended FSC, including the technical assistance guidelines. We will continue to proactively explore various solutions, especially around the priority elements.

HOW WILL LEADING TRANSFORMATION ENABLE OUR STRATEGY AND DELIVER VALUE?

- We strive continually to be relevant to our clients and this means that we have a responsibility to build a healthier and more sound economy without separating ourselves from our transformation journey as a nation. Establishing a path towards a sustainable future hinges on correcting past injustices as much as it does on building a sound foundation for the future transformation of our society.
- As a significant employer and a responsible corporate citizen, we can make a significant contribution to promoting social cohesion in a divided society by addressing race and gender inequalities.

Managed Evolution and Digital Fast Lane

We seek to transform and digitise our technology landscape (Managed Evolution) while striving to innovate and accelerate the creation of an agile digital platform (Digital Fast Lane).

MANAGED EVOLUTION

The 'hollowing out the core' strategy that has been in place as part of Managed Evolution (ME) since 2012 and is transforming our digital architecture as we reduce our core systems to deliver client-centred innovation through a planned and prioritised approach. It also allows us to balance business value delivery with technology renewal and digitisation, while catering for massive regulatory change.

DIGITAL FAST LANE

The exponential advancement of technology is forcing financial institutions to rethink the way that they do business and choose to compete. Nedbank's strategic response to the rapid disintermediation of banking services through changes in client preferences and technology disruption has been to formalise the constitution of a Digital Fast Lane (DFL) capability.

HOW WILL ME AND DFL ENABLE OUR STRATEGY AND DELIVER VALUE?

- Through these initiatives we are accelerating digital delivery and embedding agile methodologies, equipping us to deliver and ultimately win in digital.
- ME will enable a simplified, rationalised, standardised and stable platform that is critical to future performance and designed to enable (and support) new innovation capabilities required to compete effectively in the future marketplace and competitive digital ecosystems.
- The newly launched DFL is based on speed-to-market, with a focus on execution. This new approach covers the full life cycle, from idea generation and business development to innovation integration, and ultimately commercialisation of solutions developed to create incremental revenue. We believe that DFL will enhance the way we work and get us to market quicker. It will initially focus on rapidly commercialising step-change innovation as follows:
  - enhancing existing digital assets to speed up step-change client adoption;
  - leveraging financial technology (fintech) opportunities, including action learning across commercial partnering, revenue share models, and fast and affordable scale and equity positions; and
  - embracing emerging-technology disruptors such as blockchain, cognitive computing, artificial intelligence (AI) and machine learning.

Governance and regulatory change

The rollout of our Regulatory Change Programme is largely on track across the multiple programmes, with anti-money-laundering (AML) and combating the financing of terrorism (CFT), IFRS9, EDP/risk data aggregation and market conduct programmes currently being our particular areas of focus. We continue to prioritise these programmes to ensure compliance with regulatory requirements. Current Basel IV proposals will have a profound impact on bank capital levels, but global and local pushback on these proposals have increased, so they are not yet quantifiable.

Regulation will continue to have an ongoing impact on our strategy and profitability in the coming years. We are, however, well positioned for these requirements. We continue to manage proactively the transitional LCR requirements at levels in excess of regulatory minima and have further continued the finalisation of the NSFR calculation through data cleanup, addressing interpretational issues and enhanced data cubes, and are NSFR compliant at the end of 2016 on a pro forma basis. Capital (conservation and counter-cyclical) buffers are currently being phased in at 0,625% a year. Current capital levels are sufficient for the next few years and are expected to be well within and or above our internal range and minimum levels.

HOW WILL OUR GOVERNANCE AND REGULATORY CHANGE PROGRAMME ENABLE OUR STRATEGY AND DELIVER VALUE?

- Our intention remains to go beyond mere compliance and leverage the technology and resources that have been invested in compliance to provide a source of competitive differentiation.

Fair Share 2030

Fair Share 2030 is a strategic enabler that gives tangible expression to our purpose of using financial expertise to do good. It informs how we can compete more distinctively by identifying, innovating, and scaling up financial solutions for the most pressing economic, social and environmental challenges. It entails a carefully calculated flow of money allocated each year to investing in future-proofing the environment and society. Fair Share 2030 guides our lending activities and product development, ensuring that we focus on identifying and investing in finance opportunities that have the potential to impact social, environmental and economic development positively. It also informs our operational and corporate social investment (CSI) activities.

HOW WILL FAIR SHARE 2030 ENABLE OUR STRATEGY AND DELIVER VALUE?

- Apart from maintaining and building on Nedbank's proud track record of operational sustainability excellence, Fair Share 2030 signals a marked increase in our ambition around sustainable development. In the coming years this will be evident through our ongoing leadership of SA's utility-scale renewable-energy programme, our sustained support for affordable-housing projects, our continued growth in funding of student accommodation, and our relentless pursuit of opportunities to enhance critical infrastructure – in energy, water, transportation and telecommunications – to support sustainable economic development across the African continent.
- Fair Share 2030 enables delivery of Nedbank's purpose by allocating sufficient human and financial resources to unlock innovative and scalable financial solutions that remain out of reach under business-as-usual operating parameters. Put simply, the array of unmet needs expressed by the SDGs will translate into substantial and growing business opportunities. As a financial services provider committed to using our financial expertise to do good, it is both incumbent on us and in our own commercial interest to innovate and promote attractive financing solutions that address these socioeconomic and environmental concerns.

Revitalising our brand

Through the revitalisation of the Nedbank brand we aim to position ourselves in the hearts and minds of society as the bank that uses its core expertise in financial services to do good and secure positive outcomes for individuals, families, businesses and society.

After extensive research to interrogate what makes Nedbank unique, we know that using our financial expertise to do good is deeply embedded in our DNA. It may be a brand-new campaign, but it is not a new concept for us. We challenge and inspire our clients to See Money Differently.

Whether it is our new-format outlets, innovative digital offerings, the integration of Nedbank CIB to serve corporate clients holistically or Nedgroup Investments being ranked as one of the top-three asset managers in SA for the past eight years, these demonstrate financial expertise and doing good for clients. Nedbank's history and commitment to community development add to our credentials of doing good for society. The duality of financial expertise and doing good for clients and the community are true to who we are and what we do as a business.

In summary

How our strategic focus areas and strategic enablers will influence our business model into the future

By delivering innovative market-leading client experiences we develop new innovative income streams and protect existing ones, while attracting and retaining clients.

By growing our transactional banking franchise faster than the market we increase our ROE, as deposits and transactional revenue consume less capital and add to our funding pool. At the same time our earnings volatility is reduced as the contribution from more stable sources of income is increased and our brand value increases.

By being operationally excellent in all we do we ensures that we invest sustainably in the franchise (manufactured capital) to unlock future growth opportunities, while managing our cost base by unlocking synergies and efficiencies. These are supported by the changes being brought about through our strategic enablers and operating-model review.

By managing scarce resources to optimise economic outcomes we aim to leverage our strong wholesale banking position, while reducing downside risk in higher-risk products and businesses. We aim to maintain a strong balance sheet in tough and uncertain times to provide protection against unforeseen events and leverage new opportunities that are brought into focus as we use our financial expertise for the good of individuals, families, business and greater society.

By providing our clients with access to the best financial services network in Africa we aim to drive a greater earnings contribution from faster growth in the economies of the rest of Africa over the longer term, while providing geographic diversification benefits and enabling our clients to access the largest banking network in Africa.

Making tradeoffs

We continue to allocate our capital and resources efficiently to our five strategic focus areas to create long-term value for shareholders. This requires making tradeoffs and taking tough decisions. Below are the primary tradeoffs made in 2016 and the rationale behind our decisions to do so.

STRATEGIC FOCUS AREA	TRADEOFF	CAPITALS
Delivering innovative market-leading client experiences	**Tradeoff between investing in innovative market-leading client experiences and regulatory compliance** Regulatory demands have led to an ever-increasing portion of our innovation budgets being redirected towards regulatory compliance. At the same time we are investing in our manufactured capital, including core IT systems, through our ME strategy, our integrated banking channels, simplified client onboarding and many other initiatives that contribute to our intellectual capital, such as brand franchise and intellectual property. Tradeoffs are made in the allocation of our IT innovation cashflow spend against the strategic objective of improving client experience. The creation of a DFL capability, as a mitigant, will fast-track client innovations, but we have also increased our IT cashflow spend to R2,0bn per annum (2015: R1,2bn)	
Growing our transactional banking franchise faster than the market	**Tradeoff between growing in profitable and less profitable client segments** In our retail business we continued to grow across all client segments, including entry-level and the youth segments (up 8,4% and 8,8% respectively, since 2010), which have lower levels of profitability. We decided to include and build strong enduring relationships in these segments as, over time, they will migrate to the middle-market segment. Financial capital, impacted by growth in less-profitable segments is offset against social and relationship capital and financial capital in the longer term.	
Being operationally excellent in all we do	**Tradeoff between short- and long-term profitability** The tradeoff between short-term profit growth (financial capital) and investing for the longer term to ensure a sustainable franchise (manufactured capital) is ongoing – as is particularly evident in the investment we have made in physical and digital channels and products. This tradeoff is mitigated to some extent by extracting cost optimisation opportunities in the short-to-medium term (human capital and manufactured capital). We plan to accelerate our cost optimisation efforts in the coming years, leveraging technology and digital.	
Managing scarce resources to optimise economic outcomes	**Tradeoff between various business and product opportunities** Strategic portfolio tilt, in the context of scarce capital and liquidity (financial capital), is a conscious tradeoff between business and product opportunities that are highly capital- and liquidity-consuming with low economic profit, and those that are less consumptive and more economic profit generative. Overall, we have grown wholesale advances ahead of retail advances by growing strongly in specific sectors, such as renewable energy (natural capital benefit), and historically reducing our exposure to personal loans by supporting responsible lending practices (social and relationship capital). This has negatively impacted our net interest margins but is beneficial from a credit loss ratio perspective, resulting in a change of shape in the income statement. Good progress was made against our funding strategy, with increases in market share of household and commercial deposits in 2016 to 18,7% and 17,4% respectively. Going forward, we are again tilting our portfolio in areas that will optimise returns, as illustrated on pages 46 – 47. We are deliberately tilting our lending portfolio to support an optimal energy mix for SA. We are cognisant that the pace of this tilt may not meet the needs of all stakeholders. However, currently 1,81% (2015: 2,25%) of our total group lending and finance commitment relates to renewable-energy generation. This compares favourably with the 0,58% (2015: 0,66%) of total funding that is going to coal- and fuel-based energy generation, including our direct facilities to Eskom.	
Providing our clients with access to the best financial services network in Africa	**Tradeoff between minority shareholding and control** Our approximate 20% shareholding in ETI, instead of a controlling interest (> 50%) that we aspire to in SADC and East Africa, has been a conscious decision by the board. Through our board representation in ETI we work with like-minded shareholders who have a common purpose of strengthening the Ecobank franchise. A minority shareholding offers a beneficial capital-efficient structure, as the capital and regulatory burden increases dramatically when banks in the rest of Africa migrate towards Basel III from Basel I and II and are consolidated into the SA reporting regime. Similarly, AML requirements become stricter under a controlling interest. A 20% shareholding also mitigates, to some degree, against the impact of a challenging macro environment, given lower commodity prices and exchange rate volatility such as we experienced in 2016.	

Delivering our strategy through our business clusters

Our clusters work together to deliver the Nedbank Group strategy, applied contextually to each of the various market segments and our unique positioning:

Nedbank Corporate and Investment Banking

- Enabling revenue generation through stronger client relationships, deeper client penetration and transactional banking gains.
- Ramping up our originate-and-distribute model, growing transactional/ commercial deposits faster than the market, and ensuring that internal capital generation is appropriate.
- Maintaining healthy ROEs.
- Continued commitment to expanding our Africa presence in key selected sectors.
- Achieving controlled and sustainable expense growth in a slow-growing economy.

Nedbank Retail and Business Banking

- Growing transactional clients faster than the market to achieve a market share of > 15% in 2020 through focus on acquisition, retention and cross-sell through our four levers:
  - Digital First, First in Digital
  - Disruptive client value propositions
  - Loyalty and rewards
  - Sales and service excellence
- Continued selective origination to drive relative CLR outperformance through the cycle.
- Ongoing focus on expenses, with optimisation initiatives and acceleration of the digital journey to drive operational efficiency.
- Increasing ROE.

Nedbank Wealth

- Maintaining a strong ROE > 35%.
- Continued enhancements in value propositions, systems and digital capabilities.
- Investment in profiling of Nedbank Private Wealth, Nedgroup Investments and Nedbank Insurance brands.
- Ongoing focus on maintaining an outstanding investment performance track record.
- Deepening collaboration and pursuing new opportunities for growth.

Rest of Africa

SADC and East Africa

- Continuing to roll out Flexcube as the basis to build scale and introduce mobile products.
- Reviewing our operating model to drive value to clients, revenue growth and cost optimisation.
- Remaining alert for inorganic opportunities in East Africa, which may require capital issuance that might be complicated in the short term as a result of the managed separation programme.

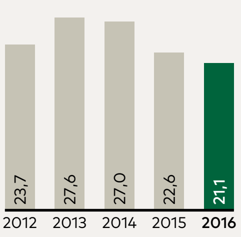
West and Central Africa

- Working with ETI to ensure a credible base investment case and that we supplement this with operational flows accessed from our ETI relationship.

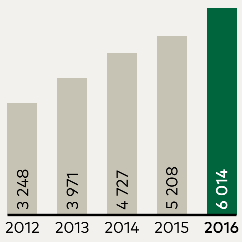
Overall

- Increasing ROE to above cost of equity.

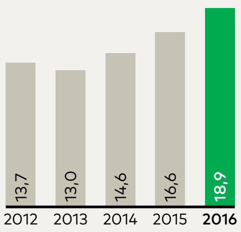
Return on equity
(%)



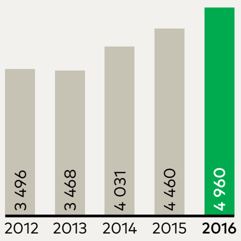
Headline earnings
(Rm)



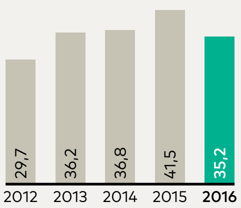
Return on equity
(%)



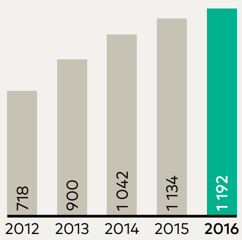
Headline earnings
(Rm)



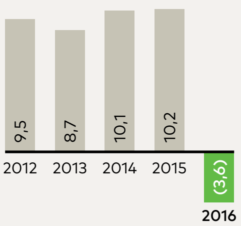
Return on equity
(%)



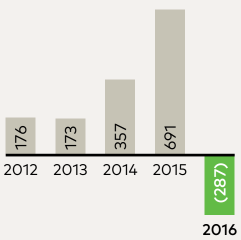
Headline earnings
(Rm)



Return on equity
(%)



Headline earnings
(Rm)



CASE IN POINT

Working together across all our businesses to provide innovative solutions for our clients – the MTN Zakhele Futhi BBBEE deal

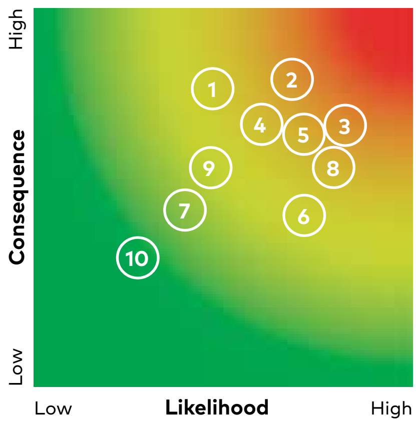
The MTN Zahkele Futhi BBBEE deal is a good example of how business from across the group can work together when they have a common strategic goal to deliver innovative solutions to our clients.

- In keeping with our Deep Green aspiration to be at the forefront of transformation, launching our own BBBEE deal in 2005 and building on our long-standing relationship with MTN Group, we were successful in leading an integrated, bespoke solution to facilitate the implementation of MTN's new R9,9bn BBBEE scheme, MTN Zakhele Futhi.
- The formation of an integrated CIB enabled us to provide better coverage for our client, which led to us providing an integrated, bespoke solution. Various specialised areas throughout Nedbank worked together in a truly collaborative way. Corporate Finance secured the mandate, developed and negotiated the transaction structure and was responsible for the overall execution. Leverage Finance developed a funding solution and acted as bookrunner, in addition to being the largest funder.
- Outside CIB the MTN Zakhele Futhi scheme will be administered by our Share Scheme Administration team during its eight-year term and we will provide custodial services. We were also appointed as distribution agent, which involves distributing the prospectus and processing the applications, including taking care of the FICA verification process through Nedbank Retail branches. This ensured the scheme was accessible to all South Africans across the country. Group Technology developed a customised online information portal and data-capturing function that was supplemented by a dedicated unit in the Nedbank Contact Centre to assist applicants.
- Through our involvement the transaction was concluded on 24 November 2016, with more than 89 000 shareholders now invested in MTN Zakhele Futhi. Despite challenging equity market conditions during the offer period, in excess of R1,9bn was raised from reinvesting MTN Zakhele shareholders and the qualifying public.
- This integrated solution demonstrates our ability to advise on, structure, manage, fund and distribute highly complex solutions for our clients, and has further strengthened our partnership with MTN. Nedbank is proud to have been a part of this landmark followon BBBEE transaction and will continue to act as a key enabler and supporter of BEE principles.

Our key risks and mitigation actions

Given the persistent volatile, uncertain, complex and ambiguous macroeconomic and geopolitical environments, exacerbated risk both locally and globally, as well as fierce competition from traditional and non-traditional competitors, we continue to actively manage our top 10 risks and regularly revise with any developments. Our top 10 risks form the cornerstone of Nedbank's Risk Plan and are tabled at various board and group exco committees ensuring that the organisation has a comprehensive and consolidated view of the risks affecting it.

RESIDUAL RISK MAP (POST-CONTROL)



RISK	MITIGATING ACTIONS
1 STRATEGIC AND EXECUTION RISK Fundamental shifts in both the financial services landscape and technology mean that banks are now, more than ever, expected to be innovative, agile and mobile. There is a high execution risk in an attempt to shift complex operations fundamentally to ensure we remain relevant and continuously adapt to the operational environment. There is also a risk in respect of our capacity to execute the cultural change required and the timelines within which to achieve our desired strategy. **INHERENT RATING** H **RESIDUAL RATING** M	■ A comprehensive 2017–2020 Group Business Plan, including a Risk Plan, ensures that our strategy is adopted, taking full account of both upside and downside risk. ■ Execution is tracked monthly through internal reporting and exco will ensure focus on the myriad of changes being implemented. ■ Our strategic enablers, described on page 48, aim to mitigate implementation risks by ensuring that appropriate actions are put in place.
2 BUSINESS (MACRO, MARKET AND GEOPOLITICAL) RISK The operating environment has become exceedingly challenging, both locally and internationally, with the possibility of a sovereign-credit-rating downgrade for SA. Conditions in the rest of Africa are likely to remain challenging, particularly in Nigeria. Although our exposure is relatively small, we continue to monitor the risks around our shareholding in ETI and the implications for us. **INHERENT RATING** H **RESIDUAL RATING** M	■ We have taken proactive steps in positioning for adverse business conditions in our business plans in case of an SA sovereign-credit-rating downgrade. ■ In addition, existing risk management structures such as our ERMF, described on pages 122 – 123, recovery plan and stress and scenario testing are constantly reviewed and enhanced to ensure that current and potential business environments are considered. ■ Our strong balance sheet, reflected in capital, liquidity and provisioning, provides a significant buffer against downside risk, while judicious lending has lowered our risk profile.
3 REPUTATIONAL AND ASSOCIATION RISK Reputational risk spilling over from the various other risk categories has increased. The general sentiment towards the financial industry has deteriorated in recent times. This, together with factors such as heightened consumerism, the political environment, conduct risk and social media, has elevated the need to focus more on reputational-risk management. **INHERENT RATING** H **RESIDUAL RATING** M	■ Reputation-risk focus has been elevated in our risk plans. The Reputational Risk Committee and the governance of reputational risk were refreshed in 2016. In addition, Nedbank has a dedicated social media team that monitors and manages its social media presence. ■ We have experienced Investor Relations and communications teams that proactively engage with the investment community and financial media.
4 REGULATORY AND COMPLIANCE RISKS Regulatory and compliance requirements applicable to banks are increasing, including the regulations noted on page 33. The implementation and tight timelines for compliance are seen as a top-10 risk. **INHERENT RATING** H **RESIDUAL RATING** M	■ Our response to the increasing regulatory and compliance requirements is a formal R3bn Regulatory Change Programme that seeks to leverage the implementation of regulatory and compliance requirements as a competitive differentiator by ensuring that the business case and client experience are incorporated efficiently in the fulfilment of regulatory requirements.

RISK	MITIGATING ACTIONS
5 FINANCIAL CRIME RISK Financial crime has increased due to the challenging macro and political environments and the complexity of monitoring digital activity. Heightened cyber-risks/exposure and information security risks are exacerbated by the digital revolution. In addition, the Financial Intelligence Centre Amendment Act will ensure that AML, CFT and sanctions shift from pure compliance to a risk-based approach. INHERENT RATING (H) RESIDUAL RATING (M)	■ Financial-crime risk management has been elevated in Nedbank's ERMF, especially AML, CFT and sanctions and cyber-risk. Fraud, bribery and corruption frameworks have also been developed and an integrated financial-crime risk management strategy is currently being led by the Chief Risk Officer and overseen by the board. ■ 2016 witnessed a significant enhancement in Nedbank's journey from cybersecurity to cyber-resilience. This commenced with a gap analysis and closure exercise, the development of a board-approved Cyber-resilience Risk Management Framework, risk assessment exercises across the organisation and increased cybersecurity awareness and education for staff across the organisation. ■ In addition, Nedbank has commenced with the development of a Risk Intelligence Centre, which will provide an enterprise-wide repository for risk-adverse information that will act as an early-warning risk intelligence system to the organisation.
6 CONDUCT AND CULTURE RISKS SA has not been exempt from the global shift in increasing consumer protection legislation after the global financial crisis. The demand for increased consumer protection in financial services follows the market abuse cases and fines levied against several large, notable institutions in the world. In the SA context, Treating Customers Fairly (TCF) has evolved and is now treated as a full-blown Conduct Risk with the advent of the market conduct framework for SA (Twin Peaks). INHERENT RATING (M) RESIDUAL RATING (M)	■ Nedbank has a formal conduct programme in place, with the first phase, focused on TCF to be closed out in early-2017. Accountabilities for the oversight of TCF are allocated to senior management and the board, the Brand, Client and Conduct Committee and the Transformation, Social and Ethics Committee, given their focus on client- and conduct-related matters. ■ The second phase of the market conduct project includes increased focus on culture, conduct risk assessments within business models, and a review of strategies, incentives and remuneration against market conduct principles.
7 CREDIT RISK Credit risk is heightened as a natural reaction to the challenging macroeconomic, political and high-inflation environment as well as the unemployment/job situation, given the historically low credit loss ratios, particularly in our retail secured-lending portfolios. This risk is increased by the effect of a potential sovereign-credit-rating downgrade. INHERENT RATING (M) RESIDUAL RATING (L)	■ Nedbank has displayed excellent credit risk management throughout the global financial crisis and continues to do so with strategic portfolio tilt as a key strategic principle. Historically we have low credit loss ratios, particularly in our retail secured-lending and commercial property finance portfolios. ■ Strategic tilting of the various credit portfolios is impacting positively on the sound credit book profile. ■ The impact of IFRS 9 is expected to result in a transitional increase in balance sheet provisions in line with the requirements of the standard – this is not anticipated to have a significant impact on our capital adequacy levels.
8 MARKET RISK Heightened volatility currently exists in financial markets following events such as Brexit, the USA presidential elections and SA political instability. As a result, market liquidity risk is heightened, with demand outweighing supply and market structure/participant uncertainty and/or possible disruption. INHERENT RATING (H) RESIDUAL RATING (M)	■ The business and risk plans have adopted a heightened focus on strengthening the trading markets environment, and we continue to assess the impact of the Fundamental Review of the Trading Book (FRTB) on the bank's trading business. ■ We continue to manage our trading portfolio actively against the backdrop of a volatile local and international trading environment within the risk appetite of the bank. ■ At the request of the board, Nedbank has conducted periodic stress tests throughout 2016 in preparation for potential SA credit-ratings downgrade risk and is in a resilient position to manage and successfully navigate a sovereign-credit-ratin downgrade, should this arise.
9 OPERATIONAL RISK, INCLUDING IT AND DATA RISK Basic operational risk has heightened due to the pervasive challenging macro environment, with the technological revolution, increase in IT risk and the advent of big data. INHERENT RATING (H) RESIDUAL RATING (M)	■ Operationally, Nedbank has embarked on a Managed Evolution programme to streamline data, systems and operations. ■ Our IT system stability was maintained at 99,89%. ■ Operational losses remained well within operational risk appetite ratios, considering that the operating environment consists of 32 401 employees, 992 software applications, 14 000 business processes, 100 outsourcing service providers and 322 critical third-party service providers. ■ An operating-model review is also underway to ensure organisational structures cater effectively and efficiently for the constantly changing environment.
10 BALANCE SHEET RISKS – STRUCTURE AND GROWTH In an uncertain world regulators require banks to maintain healthy capital levels. Our target is to maintain our tier 1 capital ratio well above our medium-to-long-term target of > 12% (tier 1 ratio in 2016: 13,0%). The net stable funding ratio requires 100% compliance by 2018 and the liquidity coverage ratio 100% by 2019. Credit and operational risk methodology changes and proposed 'capital floors' based on standardised approaches significantly increase risk-weighted assets (RWA) and capital requirements – albeit that there is significant pushback by the authorities. Additionally, the Basel IV implications appear adverse if the BCBS proposals are finalised as they stand. INHERENT RATING (H) RESIDUAL RATING (L)	■ We plan to increase our capital ratios over time as a result of an expectation that frontline businesses will organically generate capital over this period and as we explore further RWA optimisation opportunities. In addition, anticipated capital issuances will also ensure that target levels are met. ■ We had an average long-term funding ratio of 29,6% and an average LCR ratio of 109,3% in the fourth quarter, exceeding the 2016 requirement of 70%. ■ Taking cognisance of the finalised BCBS NSFR standard and the directive issued by SARB, Nedbank is already compliant with the minimum regulatory requirement that becomes effective on 1 January 2018. The key focus areas relating to the NSFR now centre on finalising a number of small interpretational matters and ensuring that compliance is achieved within the context of ongoing balance sheet optimisation.

Reflections from our Chief Financial Officer

'Nedbank Group delivered a solid set of results underpinned by positive momentum across all our managed operations. We further strengthened our balance sheet, reduced risk exposure and grew transactional revenue, while extracting operational efficiencies.'

Raisibe Morathi
Chief Financial Officer

Solid headline earnings growth of 5,9% and 16,2%, excluding ETI

Good revenue growth, with net interest income up by **10,6%** and non-interest revenue up by **8,1%**

Strong credit risk – management improving our CLR to **68 bps**

Continued investment for growth supported by cost-efficiencies

Strong balance sheet – improved tier 1 capital ratio **13,0%**, LCR 109,3% and pro forma NSFR **above 100%**

Nedbank Group delivered a solid performance despite the tough environment. We have responded to external headwinds by further strengthening our balance sheet, reducing risk exposure and growing transactional revenue, while extracting operational efficiencies. These actions have positioned us well for the challenging environment and have ensured that we remain competitive.

Our results were a tale of two parts. The first relates to the excellent performance from our managed operations. Headline earnings grew 16,2% and ROE (excluding goodwill) improved to 18,1%, driven by strong revenue generation and good credit risk management. The second part relates to the loss in attributable earnings from our associate ETI, which resulted in the group's headline earnings growing 5,9%.

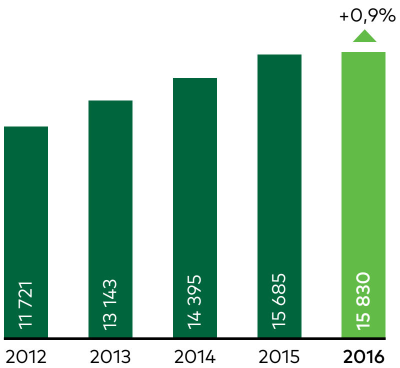
We have a well-capitalised and diversified balance sheet with a strong capital and liquidity position that is fully compliant with Basel III requirements. Our CET1 and tier 1 capital ratios improved to 12,1% and 13,0% respectively as a result of strong organic capital generation, the issue of R2,0bn of additional tier 1 capital and risk-weighted asset optimisation initiatives. Our International Financial Reporting Standard (IFRS) 9 implementation programme is on track and is not anticipated to have a significant impact on our capital adequacy levels.

In addition, we achieved an LCR of 109,3%, above the minimum regulatory requirement of 70% in 2016 and 80% from 1 January 2017, while our long-term funding ratio improved to 29,6% for the fourth quarter of 2016. This was supported by market share gains in household and commercial deposits and the successful issue of R10,8bn in senior unsecured debt. On a pro forma basis our NSFR is above 100%.

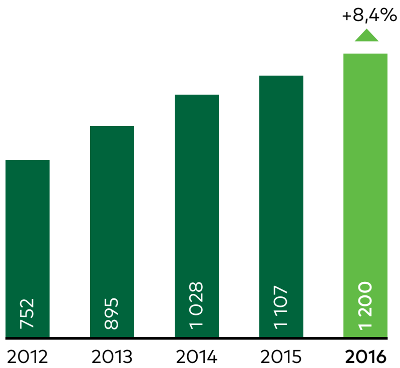
Through our financial performance we demonstrate our commitment to delivering long-term value to our shareholders. Since 2012, we increased our net asset value at a four year CAGR of 7,8%. Growth in 2016 was impacted by the loss from ETI. Our ROE, excluding goodwill, remained ahead of our cost of equity. The strength of our balance sheet and our delivery of 4,8% growth in diluted headline earnings per share enabled growth of the full-year dividend by 8,4%.

DELIVERING VALUE TO STAKEHOLDERS

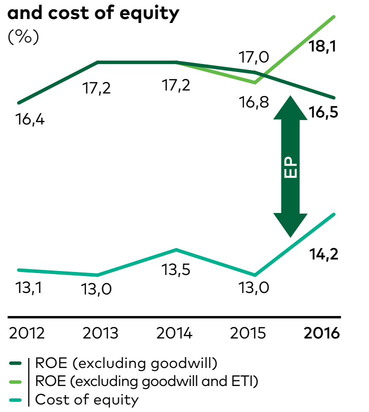
Net asset value per share
(cents)



Full-year dividend per share
(cents)



Return on equity (excluding goodwill) and cost of equity
(%)



KEY PERFORMANCE DRIVERS

Clear strategies and focused execution

During our three-year planning process we refined our five strategic focus areas to ensure that we factor in the fast-changing environment and the needs of our clients. We also introduced strategic enablers to provide further support to strategic delivery and the achievement of our targets by changing the way in which we operate (more details on page 48). Towards the end of 2016 we began reviewing our operating model and we expect to begin implementing it during 2017. This will enable us to develop greater agility with a view to innovating quicker and responding to disruptive threats faster, optimally addressing new client requirements and providing best-in-class client experiences, with an enterprisewide capability placing the client at the centre of all we do.

Investing for growth and extracting efficiencies

We continued to invest in a number of initiatives with the intention of improving cost-efficiencies and growing our earnings. Our Managed Evolution programme aims to rationalise, standardise and simplify while replacing or enhancing existing systems, and is progressing well. We have reduced the number of operating systems to date from 251 to 145, ensuring a simplified platform for the transformational phase of our programme. We also established our Digital Fast Lane, focused on bringing technology to market faster and at a lower cost. A number of new digital offerings were launched in 2016 and the reformatted outlets, which incorporates more digital functionality, contributed to main-banked client acquisitions and commission and fee income growth.

In 2016 we extracted efficiencies of R599m to fund our investments in the franchise. An example includes cumulative 18 743 m² since 2014 of floor space saved in our Branch of the Future outlets and interactive teller devices, which offer clients easier and more convenient ways to do basic queries themselves or with the help of a video teller. We also remained on track for delivery by the Old Mutual Group of the full target of R1,0bn of pretax run rate synergies in 2017, of which approximately 30% should accrue to Nedbank. To date this has amounted to over R250m for Nedbank, driven largely by procurement and technology services. In addition, we are organising ourselves, our data and data analytics and IT to enable differentiation in our clients' universe, to respond more effectively to regulatory change to execute our strategy more effectively. Collectively these activities are currently expected to generate approximately R1,0bn of pretax benefits by 2019 and will support our ability to meet our medium-to-long-term targeted cost-to-income ratio of 50% to 53%.

Diversified business model

Nedbank delivers value through four business clusters, which operate at various levels of growth maturity. Our two largest clusters, Corporate and Investment Banking (CIB), our wholesale business, and Retail and Business Banking (RBB), our retail and business bank cluster, contribute 86% of earnings, with our Wealth and Rest of Africa business clusters accounting for the balance.

Our wholesale bias has positioned us well over the past few years in an environment of low consumer credit growth. Faster growth in wholesale advances has contributed to a lower group CLR as SA corporates have strong balance sheets and wholesale advances are generally secured by good-quality collateral, including deep security pools held against our commercial-property-finance portfolio. As interest rates decline and economic growth supports employment growth, retail advances are expected to grow faster than wholesale advances.

Pleasingly, the ROE of RBB increased from 16,6% to 18,9%. In addition, Wealth is a low-capital- and low-liquidity-consuming cluster and offers a diversified income stream.

From a geographic perspective we have three primary areas: the SA business which,contributes to 92% of total profit, the rest of Africa and the rest of the world. This diversification has ensured that stronger performance in SA and the rest of the world offset the loss in the rest of Africa as weaker markets in Central and West Africa impacted ETI's performance.

Strong credit risk management and improved profitability

Proactive derisking of our RBB home loan and personal-loan portfolios through selective advances growth strengthened the asset quality in both portfolios. Our personal-loan CLR continued to improve from the peak of 12,2% in 2013 to 6,9% in 2016, while home loans recorded a CLR of 0,07%, well below the peak of 2,57% in 2009. As a result our CLR continued to outperform that of our peers. Overall impairments improved since 2015 due to improved commodity prices, maintained overlays of R1,2bn and coverage ratios that remained high.

Our financial performance in 2016 and outlook

OUR PERFORMANCE DRIVERS

The operating environment and the material matters identified on pages 34 to 39 are the macro drivers and the context in which we operate. Our response to these dynamics, including how we utilise our six capitals in the execution of our strategic focus areas (pages 40 to 47), determines the outcomes that we achieve and underpins the delivery of our medium-to-long-term targets.

The table below links the material matters and strategic focus areas to our KPIs, which are measured against our MTL targets and the outlook for 2017. The group's KPIs reflect an improving trend in margins, revenue and cost of risk despite lower associate income and a slowdown in advances growth.

			KPIs		
KPIs	Material matters	Strategic focus areas	2016	2015	2014
Average interest-earning banking assets growth (%)			**7,0%**	11,0%	9,7%
Deposit growth			**4,9%**	11,1%	8,4%
Liquidity coverage ratio			**109,3%**	88,5%	66,4%
Net interest margin			**341 bps**	330 bps	352 bps
Credit loss ratio			**68 bps**	77 bps	79 bps
Non-interest revenue growth (excluding fair-value adjustments)			**8,1%**	7,1%	4,9%
Operating expenses growth			**8,6%**	6,4%	9,4%
Return on equity (excluding goodwill)			**16,5%**	17,0%	17,2%
Diluted headline earnings per share			**4,8%**	8,5%	13,0%
Efficiency ratio			**56,9%**	56,1%	56,5%
Tier 1 capital adequacy ratio			**13,0%**	12,0%	12,5%
Dividend cover			**2,00 times**	2,06 times	2,07 times

[1] *Peer average consists of the simple average of the four largest SA banks using latest year-end financial results.*

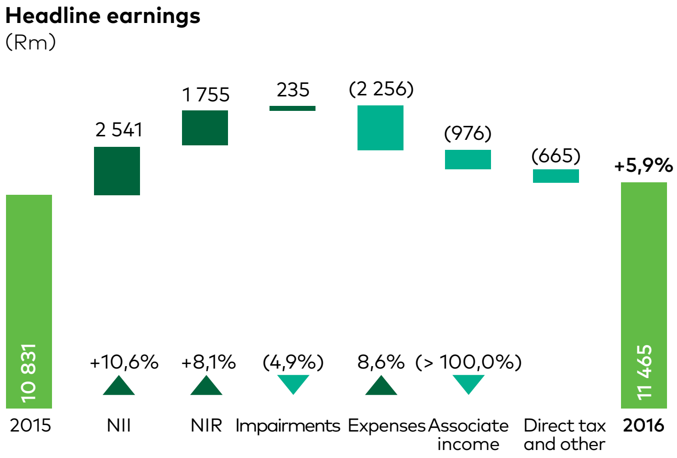
Performance against 2016 guidance	Medium-to-long-term targets	Outlook for 2017	Benchmark/Peer average[1]
In line	No guidance	Slightly ahead of nominal GDP	Nedbank credit growth above the industry average in 2016 as per BA900 reporting
No guidance	No guidance	No guidance	N/A
No guidance	100% by January 2019	Above the 80% regulatory requirement	> 100% by 2019 per SARB
Exceeded	No guidance	Increase slightly from rebased level of 3,54%	4,27% (peer average)
In line, not exceeded	Between 60–100 bps of average banking advances	Increase but remain below mid-point of target range	87 bps (peer average)
Exceeded	NIR-to-expense ratio: > 85%	NIR, excluding fair value adjustments, to grow at upper single digits	NIR to expenses ratio: 78,8% (peer average)
In line		Mid- to upper-single-digit growth	
In line	5% above cost of ordinary shareholders' equity (to be reviewed during 2016)	Below target	Return on equity: 18,1% (peer average)
In line	≥ consumer price index + GDP growth + 5%	≥ consumer price index + GDP growth	N/A
In line	50,0% to 53,0%	Above target	Peer average: 54,9%
In line	> 12%	Above internal minimum target	SARB 2017 minimum: 8,75%
In line	1,75 to 2,25 times	Within target range	Peer average: 1,85 times

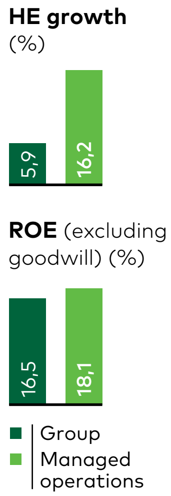
ANALYSIS OF FINANCIAL PERFORMANCE

The following analysis of the group's financial performance is driven by our strategic focus areas and should be read in conjunction with these on pages 40 – 47 of this report. Further information is available in the group's 2016 Results Booklet and Annual Financial Statements on the group's website at nedbankgroup.co.za.

Solid headline earnings growth supported by strong revenue growth from managed operations

Solid headline earnings growth of 16,2% offset the loss in our earnings from our associate ETI. Growth was supported by strong revenue generation and good credit risk management. The performance of ETI is consistent with the weaker economic conditions in the markets within which it operates.





Good revenue growth from net interest income and non-interest revenue

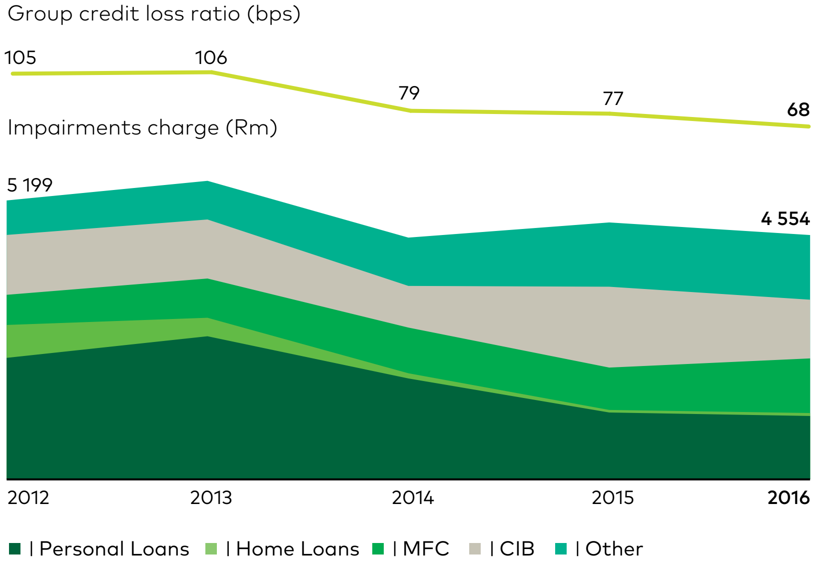
Growth from NII and NIR was strong, increasing 9,4% in comparison with 5,4% in 2015. NII growth was underpinned by average interest-earning banking assets increasing 7,0% and the NIM widening to 3,41%. The margin benefited from endowment income of 18 bps as average interest rates increased 102 bps in 2016. This was offset by asset pricing and mix changes, as well as Basel III-related liquidity funding costs. The margin effects of both are, however, slowing down as personal loans have started to grow, and Basel III costs will decrease as our LCR is ahead of 2017 requirements and our pro forma NSFR exceeds 100%.

NIR grew by 8,1% to R23 503m and was predominantly driven by growth in commission and fee income and trading income. Commission and fee income increased 6,8% to R16 686m, following client gains in the middle-market segment, along with improved client coverage in CIB as the integration continued to deliver revenue benefits. Trading income grew 18,8% to R3 761m due to a good trading performance as a result of increased market volatility, good client flows and deeper client penetration in CIB, while insurance income decreased 5,6% as a result of higher weather-related claims.

Credit loss ratio – improvement underpinned by quality portfolio

Impairments decreased by 4,9% to R4 554m and the CLR improved to 0,68%. This reflects improvements in CIB's impairments, supported by the increase in oil and other commodity prices and the settlement or successful restructuring of certain counters during the year. In addition, RBB's CLR improved to below the lower end of its TTC target range, underpinned by lower impairments in Personal Loans and Business Banking. Postwriteoff recoveries remained stable at R1 157m.

Credit loss ratio – reflective of quality portfolio

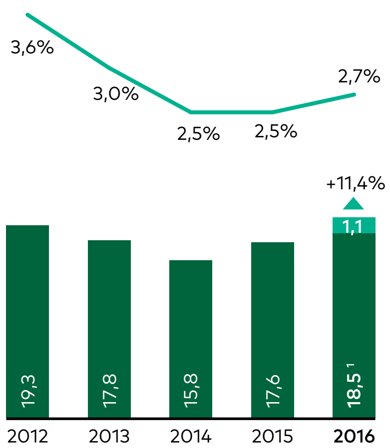


Other includes the rest of RBB, Wealth, Rest of Africa and Centre.

Total defaulted advances increased to R19 553m, representing 2,72% of advances. The increase was largely due to the SARB-driven implementation of the new curing definition, which resulted in cured defaulted accounts having been kept in defaulted status for six months after curing. Excluding this, defaulted advances increased 5,0% to R18 445m. The residual increase is primarily attributable to cyclical increases in RBB's secured-lending and card portfolios, and the small increase in CIB's defaulted advances due to stress in new sectors following the settlement or successful restructuring of certain counters.

The total coverage ratio of 62,2% reflects the lower specific coverage of 37,4% due to the effect of the new curing definition in RBB. CIB's specific coverage increased as balance sheet provisions were further strengthened. The portfolio coverage on the performing book of 0,69% reflects provisions in the central portfolio of R500m and additional overlays in RBB of R654m.

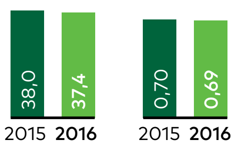
Defaulted advances
(Rbn, %)



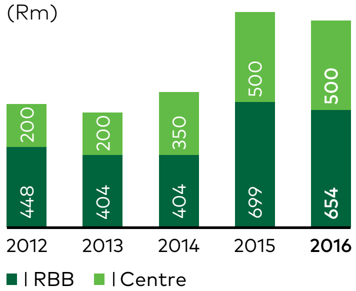
[1] *Excluding the new curing definition changes (SARB-driven), like-for-like defaulted advances increased 5,0%.*

Specific coverage
(%)

Portfolio coverage
(%)

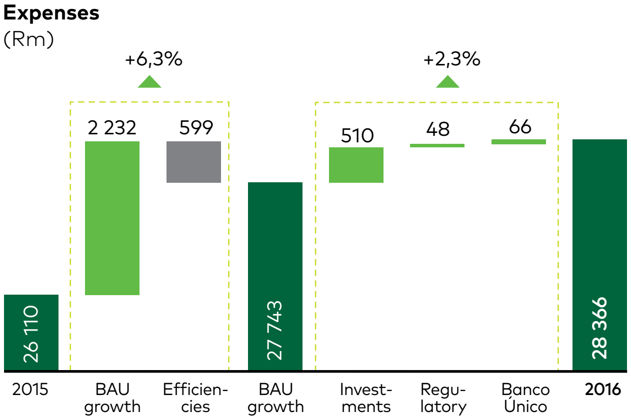


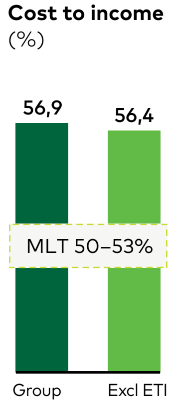
Overlays and central provision
(Rm)



Expenses – ongoing investment for growth and increasing emphasis on efficiencies

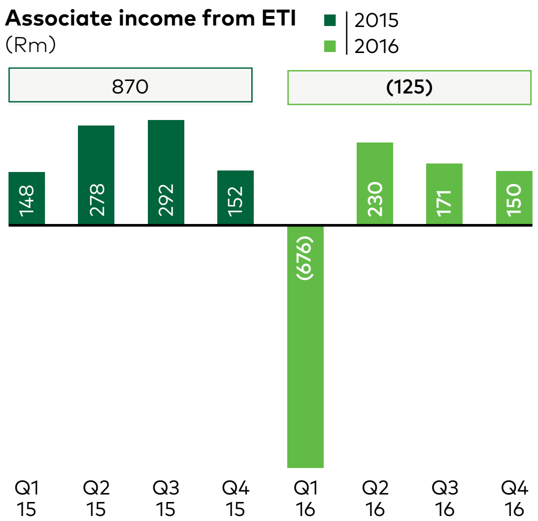
Expenses increased 8,6% and included 6,3% growth in business-as-usual expenses and cost savings from efficiencies. These cost savings assist us in investing for growth and absorb the cost of regulatory compliance and the consolidation of Banco Único from October 2016. Business-as-usual expenses include costs related to staff, computer processing, including amortisation costs, and fees and insurance, which are driven by revenue-generating activities. Investing for growth largely reflects our digital innovation and Branch of the Future costs, while efficiencies are mostly comprised of R358m of costs savings in RBB. We continue to target a medium-to-long-term cost-to-income ratio of 50% – 53%. During 2016 we initiated an operating-model review and the revised model, which we expect to begin implementing in 2017, includes various initiatives (refer to pages 48 – 49) that will support our ability to meet our target.

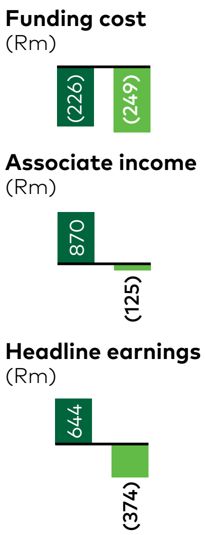




Earnings from associates – ETI performance reflective of tough environment, particularly in Nigeria

Our earnings in associates decreased to a loss of R105m, mainly from our share of ETI's loss. The total headline earnings impact of ETI in the period was a negative R374m, including R249m of funding costs.





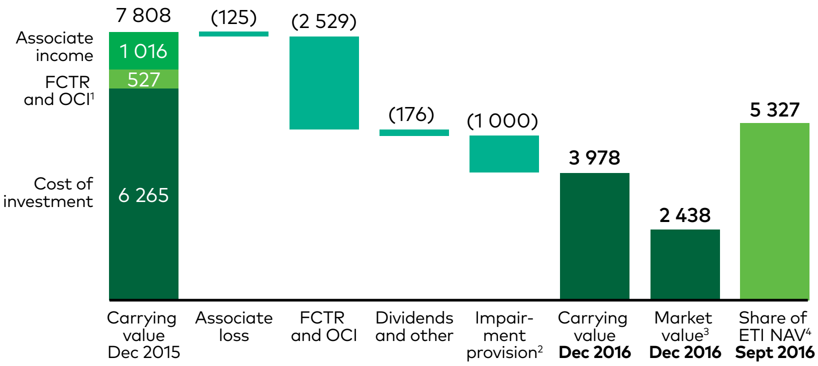
The carrying value decreased to R4,0bn at year-end, largely as a result of currency movements – a naira devaluation in June 2016 and the rand strengthening against the US dollar – and also included an impairment provision of R1,0bn based on the value-in-use calculation performed in terms of International Financial Reporting Standards. Our investment met key criteria for impairment-testing due to its prolonged and large delta between carrying value and trading price, even though we take full cognisance of the illiquidity of the share and the stock market.

The value-in-use computation is subject to significant judgements as it is based on, inter alia, economic estimates, macro assumptions, and the discounting of future cashflow estimates. This is particularly complicated in the current economic environment in many jurisdictions in which ETI operates and with limited public information available. Based on these, management determined that an impairment provision of R1,0bn is appropriate, reducing our carrying value to R4,0bn on the reporting date.

This calculation is required to be revisited each reporting period and could lead to the release of the impairment provision if qualified to do so. This impairment doesn't impact headline earnings and regulatory capital.

ETI remains an important long-term investment for Nedbank, providing our clients with a pan-African transactional banking network across 39 countries and access to dealflow in Central and West Africa since its acquisition in 2014. We remain supportive of ETI's endeavours of delivering an ROE in excess of its COE in due course.

Carrying value and market value
(Rm)



1 *Cumulative FCTR and OCI made up of FCTR of R2 042m gain and OCI loss at R1 515m.*

2 *Value-in-use calculation is performed in terms of IFRS and based on a number of scenarios by taking into account publically available information. Management determined that an impairment provision of R1bn was appropriate. Headline earnings, regulatory capital and the dividend were not impacted.*

3 *The ETI share trades in low volumes, given its low free float, while also being listed in an illiquid market.*

4 *Calculated as Nedbank's 21,2% share of ETI's NAV at 30 September 2016 and a rand-dollar exchange rate of US$13,77 at 31 December 2016.*

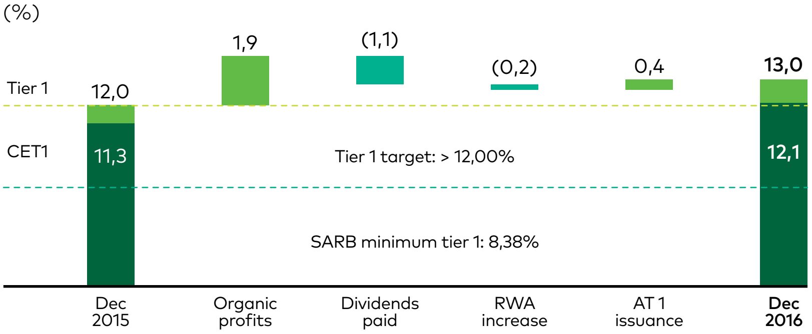
STRONG BALANCE SHEET

Capital – well positioned for Basel III regulatory environment

We continued to strengthen our capital position and operated well within and/ or above our internal capital adequacy targets. Our tier 1 capital ratio improved to 13,0% as a result of strong organic capital generation and the issue of R2,0bn of additional tier 1 capital. Initiatives for risk-weighted asset optimisation in certain retail portfolios provided further support, while our total capital ratio was further strengthened with the successful issuance of R2,0bn of tier 2 capital instruments.

Our strong capital base supports our dividend cover of two times, which recognises our capacity to generate internal capital in the economic environment projected in our business plans and takes into account that our approximate 20% share of associate earnings or losses from ETI does not impact regulatory capital. While we expect a transitional increase in balance sheet provisions in line with the requirements of IFRS 9, this is not anticipated to have a significant impact on our capital adequacy levels.

Tier 1 capital ratio
(%)



Funding and liquidity

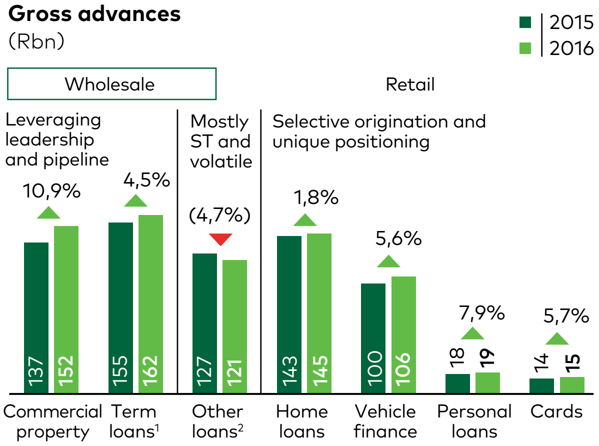
Optimising our funding profile and maintaining a strong liquidity position remain a priority. Our three-month average long-term funding ratio improved to 29,6% for the fourth quarter of 2016, supported by growth in Nedbank Retail Savings Bonds of R4,7bn to R19,2bn and the successful issuance of R10,8bn in senior unsecured debt. Our funding profile benefited from our market share in the medium-to-longer-term wholesale funding buckets, which also reduced our LCR HQLA requirements and, consequently, the all-in total cost of wholesale funding.

The group's quarterly average LCR of 109,3%, up from 88,5% in 2015, exceeded the minimum regulatory requirements, with buffers maintained to absorb seasonal and cyclical volatility in this ratio. Our NSFR increased to above 100% on a pro forma basis at 31 December 2016. This follows SARB increasing the available stable funding factor applicable to wholesale deposits in the 0-6-month bucket, from 0% to 35%, to better reflect the actual stability of these deposits in the SA context.

Advances up 3,7% – solid growth and market share gains across key categories

Wholesale banking continued to grow faster than retail advances, albeit at a slower rate of growth. CIB's growth was mostly from commercial-property advances increasing by 12,1% and term loans by 10,5% on the back of a good deal pipeline. Our leading market share of 40,8% in commercial mortgages continues to be underpinned by a strong client base and a large, secure asset pool. Advances growth in RBB is reflective of market share gains in vehicle finance and cards, while home loans and personal loans have started to grow at market levels in line with our strategy of increasing cross-sell activities and doing more business with our clients, while not relaxing credit criteria.

Gross advances
(Rbn)



	Market share[3]	Trend
Commercial property	40,8	^
Core corporate[4]	22,3	^
Home loans	14,4	–
Vehicle finance	33,7	^
Personal loans	10,9	–
Cards	13,7	^

[1] *Terms loans and other longer-dated loans in CIB.*

[2] *Other loans include overdrafts, overnight loans, preference shares, deposits placed under reverse repurchase agreements and other smaller corporate loans.*

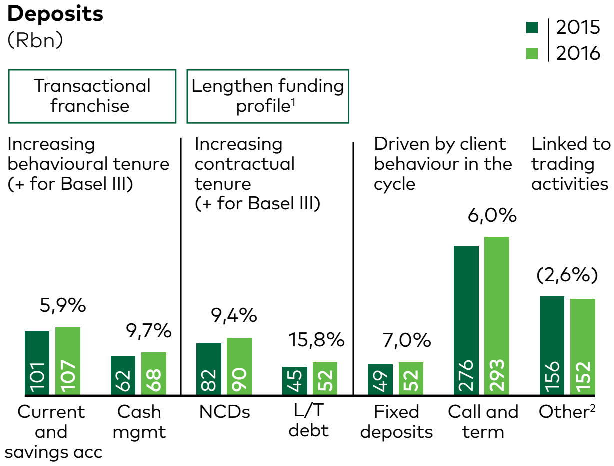
[3] *BA900 – December 2016.*

[4] *Core corporate loans comprise commercial mortgages, corporate overdrafts, corporate credit cards, corporate instalment credit, foreign-sector loans, public-sector loans, preference shares, factoring accounts and other corporate loans (other loans and advances, excluding household personal loans).*

Deposits up 4,9% – good transactional and Basel III deposit growth

Growth in deposits relative to advances resulted in our loan-to-deposit ratio improving to 92,8%. We continued to enhance our deposit and transactional banking franchise actively through innovative and competitive products. Our focus remained on growing household and commercial deposits within the structure of the SA banking sector, which creates a large proportion of institutional funding in the system. Good progress was made, with RBB deposits up 9,7% to R272,2bn and our household deposit market share increasing to 18,7%, supported by market share gains in current accounts to 19,3%. Growth took place across most transactional-deposit categories. This growth, together with that of negotiable certificates of deposit and other structured deposits, reduced the proportion of more expensive foreign currency funding.

Deposits
(Rbn)



	Share[3]	Trend
Wholesale	22,3	^
Commercial	17,4	^
Household	18,7	^
Foreign currency	12,6	v

[1] *Nedbank's market share of medium- and long-term private institutional deposits is 31% and 26% respectively. The favourable Basel III treatment of longer-term funding reduces the need to hold HQLA, thereby reducing the all-in marginal cost of longer-term wholesale funding vs short-term wholesale funds, including NCDs with a tenure of > 30 days.*

[2] *Includes foreign currency liabilities, deposits received under repurchase agreements and other.*

[3] *BA900 – December 2016.*

MANDATORY AUDIT FIRM ROTATION

We continue to monitor the developments and reports from the Independent Regulatory Board of Auditors (IRBA) in connection with mandatory audit firm rotation, and have made written submissions via the CFO Forum of the JSE and the Banking Association of South African (BASA) to provide our input.

TRANSFORMATION OF ASSURANCE PROVIDERS

Nedbank's external auditors (KPMG Inc and Deloitte & Touche) are level 2 BBBEE suppliers, and the assurance provider for our BEE scorecard (SizweNtsalubaGobodo Inc) is a level 2 BBBEE supplier. In addition, we have also involved other black-owned audit firms to perform certain assurance roles.

OUTLOOK FOR 2017

Our key strategic focus areas, supported by our strategic enablers (reviewed in detail on pages 48 – 49), will continue to drive performance and shape our future while our balance sheet remains strong, enabling efficient capital allocation to our businesses and activities that create long-term value for our shareholders.

During 2017 the finance and risk teams will focus on the implementation of IFRS 9 and they are well positioned for a parallel run starting in March 2017 to ensure that we are ready for implementation on 1 January 2018. The main objective of the new impairment requirements is to replace the backward-looking 'incurred loss' model under IAS 39 with a more forward-looking 'expected credit loss (ECL)' model to address concerns raised during the Global Financial Crisis that banks raised too little impairments, too late. While we expect a transitional increase in balance sheet provisions in line with the requirements of the standard – this is not anticipated to have a significant impact on our capital adequacy levels.

Our financial performance guidance and medium-to-long-term targets for 2017 on pages 60 to 61 are based on our outlook. Currently, economic headwinds remain a risk for 2017, particularly for emerging markets (as described in our operating environment and material matters on page 34). Our financial guidance is for growth in diluted HEPS for the full 2017 year to be greater than growth in nominal GDP (consumer price index plus GDP growth).

Our guidance on financial performance for the full year 2017 is as follows:

- Average interest-earning banking assets to increase slightly ahead of nominal GDP growth.
- NIM to be slightly above the 2016 rebased level of 3,54% as we continue to benefit from endowment income and anticipate less pressure from asset mix and Basel III costs.
- CLR to increase, but to remain below the mid-point of our target range of 60–100 bps, supported by asset quality and the benefit of mix change.
- NIR, excluding fair-value adjustments, to grow at upper single digits as we continue to gain main-banked clients and increase transactional activity.
- Associate income, including ETI's earnings, likely to remain volatile and uncertain (reported quarterly in arrear).
- Expenses to increase by mid-to-upper single digits due to ongoing investments, partly offset by efficiency gains.

APPRECIATION

I would like to thank my colleagues on the board and the executive team for their wise counsel and excellent leadership during this challenging year. I also wish to express my appreciation for the dedication and hard work from our finance teams across the group and, finally, I would like to thank our shareholders for your interest and your investment in Nedbank Group.

RAISIBE MORATHI
Chief Financial Officer

Our summarised five-year track record

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Rm	Five-year CAGR[1] %	2016	2015
Net interest income	7,9	**26 426**	23 885
Impairments charge on loans and advances	(3,1)	**(4 554)**	(4 789)
Income from lending activities	11,5	**21 872**	19 096
Non-interest revenue	8,8	**23 503**	21 748
Total operating expenses	8,4	**(28 366)**	(26 110)
Indirect taxation	12,9	**(927)**	(783)
Share of profits of associate companies and joint arrangements		**(105)**	871
Headline profit before direct taxation	12,9	**15 977**	14 822
Direct taxation	12,7	**(3 985)**	(3 550)
Non-controlling interest	7,5	**(527)**	(441)
Headline earnings	13,1	**11 465**	10 831
Economic profit (Rm)		**1 565**	2 525
Share statistics			
Earnings per share:			
– Headline (cents)	11,9	**2 400**	2 284
– Diluted headline (cents)	11,9	**2 350**	2 242
Dividends/distributions:			
– Declared per share (cents)	14,7	**1 200**	1 107
– Dividend/distribution cover (times)	(2,4)	**2,00**	2,06

[1] *Compound annual growth rate.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

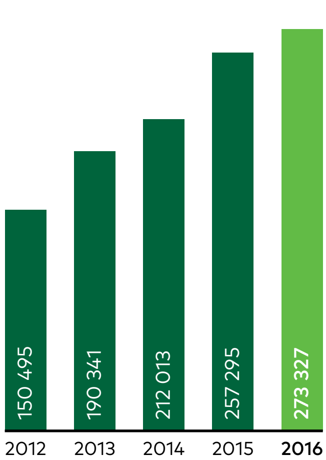
Rm	Five-year CAGR[1] %	2016	2015
Cash and securities	14,2	**179 744**	172 002
Loans and advances	7,2	**707 077**	681 632
Other assets	6,9	**79 201**	72 092
Total assets	8,3	**966 022**	925 726
Total equity attributable to equity holders of the parent	9,1	**75 733**	74 754
Non-controlling interest	9,8	**5 978**	3 997
Amounts owed to depositors	7,8	**761 542**	725 851
Provisions and other liabilities	11,0	**70 693**	76 142
Long-term debt instruments	12,1	**52 076**	44 982
	8,3	**966 022**	925 726
Assets:			
– Assets under management	19,5	**273 327**	257 295
– Total assets administered by the group	10,3	**1 239 349**	1 183 021
Net asset value per share (cents)	8,0	**15 830**	15 685
Tangible net asset value per share (cents)	8,7	**13 723**	13 794
Key ratios (%)			
Return on equity		**15,3**	15,7
Return on equity (excluding goodwill)		**16,5**	17,0
Return on total assets		**1,23**	1,25
Net interest income to interest-earning banking assets		**3,41**	3,30
Credit loss ratio – banking advances		**0,68**	0,77
Non-interest revenue to total operating expenses		**82,9**	83,3
Efficiency ratio		**56,9**	56,1
Effective taxation rate		**24,9**	24,0

[1] *Compound annual growth rate.*

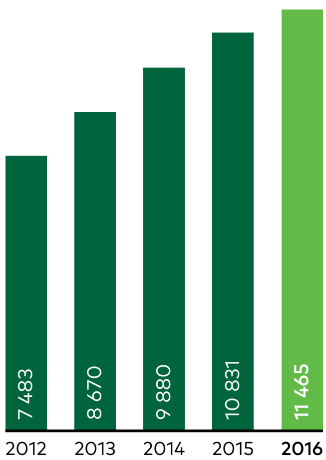
2014	2013	2012
22 961	21 220	19 680
(4 506)	(5 565)	(5 199)
18 455	15 655	14 481
20 312	19 361	17 324
(24 534)	(22 419)	(20 563)
(635)	(601)	(561)
161	27	
13 759	12 023	10 681
(3 487)	(3 033)	(2 860)
(392)	(320)	(338)
9 880	8 670	7 483
2 112	2 114	1 521
2 127	1 884	1 640
2 066	1 829	1 590
1 028	895	752
2,07	2,11	2,18

2014	2013	2012
123 323	108 774	98 467
613 021	579 372	527 166
72 969	61 448	57 325
809 313	749 594	682 958
67 024	60 617	53 601
3 887	3 719	3 774
653 450	602 952	550 878
49 314	49 038	44 407
35 638	33 268	30 298
809 313	749 594	682 958
212 013	190 341	150 495
1 021 326	939 935	833 453
14 395	13 143	11 721
12 553	11 346	9 989
15,8	15,6	14,8
17,2	17,2	16,4
1,27	1,23	1,13
3,52	3,57	3,53
0,79	1,06	1,05
82,8	86,4	84,2
56,5	55,2	55,6
25,3	25,2	26,8

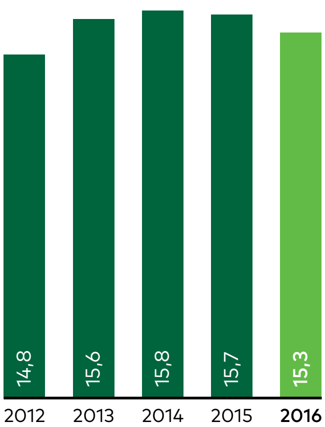
Assets under management
(Rm)



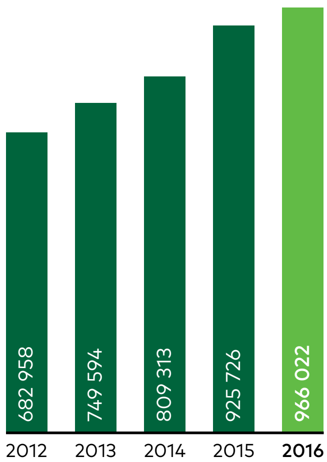
Headline earnings
(Rm)



Return on equity
(%)



Total assets
(Rm)

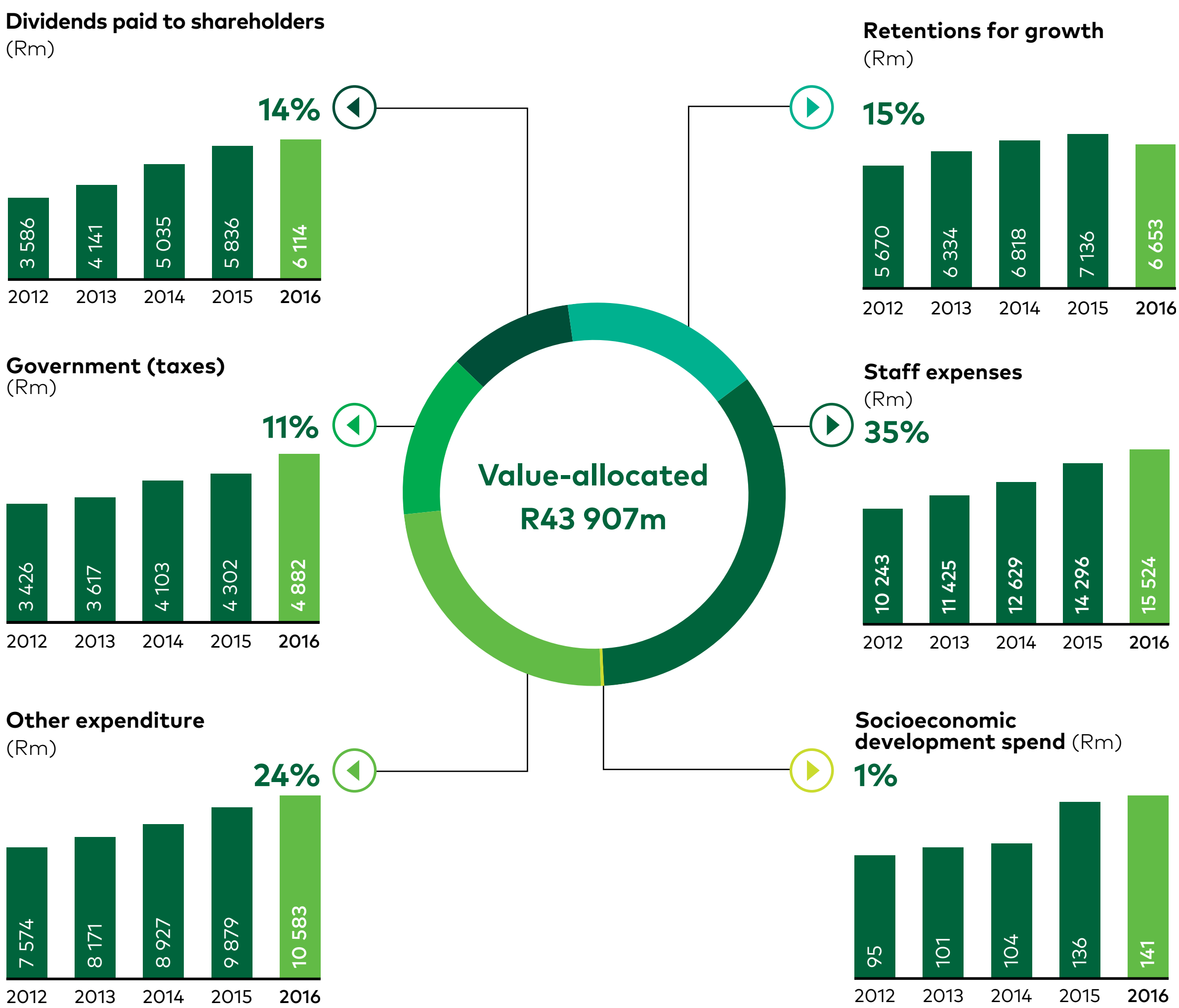


For more information on key judgements: Associates, Impairment of loans and advances, Valuation of financial instruments held at fair value, Taxation exposures and related provisions, refer to the Nedbank Group Annual Financial Statements.

Value for stakeholders

Nedbank is part of a greater socioeconomic ecosystem and we recognise that we are dependent on robust relationships with all other stakeholders. We appreciate the role of our stakeholders and are committed to nurturing impactful relationships that deliver mutual benefits.

Net interest income R26 426m - Impairment losses on loans and advances (R4 554m) + Other banking income R22 035m = Value added R43 907m



OUR STAKEHOLDER ENGAGEMENT FRAMEWORK

While the Nedbank Group Executive Committee (Group Exco) has ultimate responsibility for our group's stakeholder engagement efforts, the process of engaging with stakeholders is decentralised to form part of the operations of our various clusters and business areas.

Cluster-based stakeholder engagement is governed by a comprehensive group stakeholder engagement framework and policy, which include our corporate identity and communication guidelines. Each business area is required to report regularly on its stakeholder engagements through the Group Exco.

The following pages provide an overview of how we delivered value to our stakeholders in 2016 and prospects for value creation going forward.

CASE IN POINT

Engaging with staff

Group HR together with Group Exco called for a Leadership Lekgotla in March 2016 to deliberate, discuss and decide on the type of leaders needed to drive the people strategy with a focus on engagement and dialogue, so that we could lead Nedbank to the desired culture while living the Nedbank Brand.

In March 2016 Nedbank hosted its first Leadership Lekgotla with 400 leaders from across the various businesses. This was preceded by focus groups attended by employees at all levels and from the various business entities. The lekgotla created the opportunity for Nedbank's leaders to discuss and decide on the type of leaders the bank needs to deliver successfully on its strategy.

The Leadership Lekgotla considered both the internal and external changes in the business environment and created tremendous momentum for the leadership of Nedbank to reposition itself. The lekgotla was designed around three key leadership conversations: strategy, brand and culture. Robust conversations led to the identification of the leadership behaviours and capabilities required to realise Nedbank's strategy. A new leadership persona was developed – a refreshed view of the Nedbank leadership development landscape.

The idea is that if an individual starts practising a different mind-set, qualities, behaviours and skills, these behaviours would become habits and new capabilities, creating a new person. It is an effective way of working through complex personal change.

The evolving Nedbank leadership persona provides a holistic, aspirational view of leaders at Nedbank and embodies the core qualities needed. This engagement process is currently being cascaded across the organisation to ensure that the engagement with staff is consistent and results in the success of Nedbank. The Leadership Legkotla approach has become a benchmark for employee engagement.

Engaging with our staff

We engage with our staff on an ongoing basis at all levels. Feedback and input from our staffmembers assist us in understanding and responding to their needs and concerns, and improving their working environment experience. This ultimately improves the performance of the bank. Regular communication also takes place to provide staff with strategic direction and to keep them informed about group activities.

In addition to the regular, direct communication between managers, teams and individuals, specific employee engagements in 2016 included the following:

- Group Exco communication sessions.
- The Barrett Culture Survey and the Nedbank Staff Survey (NSS).
- Nedbank results presentations.
- Chief Executive and cluster head staff roadshows across SA and at the SADC offices.
- 2016 Leadership Lekgotla.
- Regular electronic and printed newsletters.
- Cluster and group recognition functions, which culminated in an international trip for top achievers.
- The annual Employment Equity Summit.

Delivering value to our staff in 2016

- Staff costs, including benefits, increased 8,6% in 2016 to R15,5bn, underpinned by an average salary increase of 6,3% (unionised salary increases were 8,0%) and ongoing job creation (1 089 new permanent staffmembers).
- Training spend increased to R413m, supporting 19 600 staff-learning interventions, bursaries and other types of training.
- Our staff, as our clients, are impacted by a challenging environment and we assist them through difficult times. We assisted 2 379 staff with their children's school and tertiary-fee commitments of R6,7m and 1 127 staff with R4m of medical costs not covered by medical aid or gap cover.
- Staff turnover of 9,6% was again below the industry benchmark of between 11% and 13%. This was supported by high levels of staff morale, as reflected in cultural entropy reducing to 12% (from 13% in 2015).
- Black staff representation increased to 78,3% as we focused on progressing employment equity and meeting our employment equity (EE) targets, although more progress is required at senior management level.
- Female staff representation increased to 62,7%.
- Millennials make up 86,1% of the Nedbank population, which positions us well for the digital transformation that we have embarked on.

Looking ahead

The achievement of our purpose and vision is wholly dependent on the people of Nedbank. That is why we are focused on optimising the way we operate through our People 2020 strategy. This strategy is a key enabler and will be the major focus for the next three years. We have based this strategy on the following key expectations of Nedbank employees:

- Competitive remuneration, effective performance management and recognition.
- Career development and advancement opportunities.
- Challenging and rewarding work in a safe, positive and inspiring work environment.
- A strong brand that resonates with them and is demonstrated through Nedbank's reputation as a good employer.
- Ongoing progress around the transformation of the Nedbank staff profile and the continued promotion of diversity and inclusivity.
- The opportunity to make a difference to the business and our stakeholders.

Clients
Exceeding the expectations of our clients

Engaging with our clients

In the fast-changing and competitive environment we operate in, truly understanding our clients' needs and expectations, and delivering value to them are central to all that we do. We are committed to delivering great client experiences with simpler, convenient and efficient service, innovative products, and competitively priced products through our client-centred innovation strategies.

To continuously understand what is important to our clients we engage with them through various mechanisms, including client forums and events, face-to-face personal interviews for Nedbank Brand Tracker and other client surveys. We also utilise the Net Promoter Score (NPS)® to measure our service levels and review client feedback from our bankers and financial advisors, service resolution teams, social media centre and website.

Delivering value to our clients in 2016

- Loan payouts of R162bn reflect Nedbank's continued support for our clients, although this is down from 2015 as a result of weak credit demand.
- We processed Nedbank App Suite™ transactions to the value of R25bn, up 60%, enabling our clients to transact through more efficient and cost-effective channels. We expect this growth trend to continue as we enhance our digital offerings further. Digitally enabled and active clients have been restated to include all digital channels and to allow for only the last 90 days of recent activity. Digitally enabled clients increased by 59% to 5,3m, underpinned by the ongoing trend of digital and mobile adoption.
- Our Net Promoter Score of 21%, reflecting client satisfaction in our retail businesses, improved by 1% when benchmarked against the industry average. Of special note was a continued improvement in the ratings in the entry-level banking segment (2016: 45%; 2015: 38%; 2014: 36%).
- We performed especially well in service resolution, with the number of client complaints decreasing by 5%. We also won the 2016 Ombudsman for Banking Service award based on quality, fairness and efficiency of complaint resolution. Part of this success can be ascribed to an improvement in systems uptime as well as solid progress in implementing our Treating Clients Fairly programme. Overall Nedbank once again made good headway towards a leading position in the industry, and being recognised by clients for superior service. However, we acknowledge that more needs to be done in the coming years, and innovative and robust plans are in place to drive this.
- System uptime remained at very high levels of 99,9% and at the top end of the industry, limiting inconvenience to clients by ensuring that they can always transact on our systems and access their funds.
- An average annual bank fee increase of 4,2% in 2016 was again well below inflation and has ensured that Nedbank remains competitive.
- We increased our new-style staffed outlets by 49, making branch engagements more convenient and consistent, while providing self-service enablement through internet kiosks, cash-accepting ATMs and video banking. We migrated in excess of 900 000 transactions a month from teller counters to our network of 769 intelligent depositor devices. Cash-recycling capabilities were also landed during the year. These have facilitated an improvement in cash and device availability to clients.
- Investment performance in our asset management business again ranked among the top three in the industry. This is the eighth consecutive year that Nedgroup Investments has received this ranking and is testimony to our commitment to creating value for clients choosing to invest their money with us.
- In CIB we continued to innovate for our clients and this was evident in numerous awards – Nedbank won nine of the 32 Spire Awards for excellence across the commodity derivatives, currency derivatives, fixed-income derivatives and bond markets.
- New products innovations in the retail space include interactive tellers, GAP Access, CIPC Online, Zero rate App, Investments online and Nedbank Masterpass.
- We are acutely aware of the growing threat of cybercrime to the banking industry and its clients. We counter these risks by implementing comprehensive fraud detection systems as well as client-end security software (Trusteer) and transaction notification services. Gross losses for Nedbank and its clients accounted for only 0,8% of the industry gross losses.
- Our focus on responsible finance continued with the bank further implementing principles for responsible investment and ensuring the social and environmental concerns are considered in our lending decisions.

Looking ahead

- Despite a challenging environment we are well positioned to continue to gain clients and extend credit in line with our portfolio tilt strategy described on page 44.
- We aim to improve client satisfaction and experience by building our capabilities in advanced analytics, user experience design, effective campaign management and a more assertive marketing and commercialisation approach. We are encouraged by the progress of our client onboarding and servicing programme.
- The launch of Digital Fast Lane is also expected to unlock some new technology such as enablement of our single client portal (the new Nedbank app), which we plan to launch in 2017.
- Progress with internet banking refactoring will allow us to have a pipeline of new offerings to take to market, presenting an opportunity to deliver innovative client solutions that are in step with changing needs.
- Bank fees increased on average 5,2% on 1 January 2017, well below inflation.

Shareholders

Delivering consistently to our shareholders

Engaging with the investment community

We proactively communicate our strategy and activities to shareholders through a planned investor relations programme:

- Twice a year at the reporting of our annual and interim results – we have ceased quarterly reporting in line with the global trend of focussing on long-term value.
- More than 350 meetings with investment analysts, investors and the media during non-closed periods.
- Seven broker-hosted conferences and non-deal roadshows.
- Two Nedbank-initiated investor days, including our governance roadshow.
- Nedbank AGM held annually in May.
- On an ad hoc basis with financial media.
- Biannually with our credit-rating agencies.
- Through relevant information on our website at nedbankgroup.co.za.
- Regular engagement with Old Mutual plc to align our financial reporting and communications, ensuring that we have a holistic group message and that arm's length collaboration opportunities are maximised.

Delivering value to our shareholders in 2016

- An excellent business and financial performance from our managed operations offset the associate loss from ETI. Excluding ETI, our ROE increased to 18,1% and cost to income declined to 56,4%, showing progress towards our medium-to-long-term targets.
- Our share price increased 26,3%, the second highest growth among the peer group, and dividend per share rose 8,4%. This resulted in a total shareholder return of 32,3%.
- We continued to practise sound corporate governance and maintained good relationships with the investment community, underpinned by regular engagements and transparent reporting, which was acknowledged through a number of industry awards.
- Resolutions at our 2016 AGM were all passed, with approvals well above 90%.

Looking ahead

- Over the past five years we have returned R22,7bn in dividends to our shareholders, maintaining an average dividend cover of 2,1 times, while our share price has risen 64,2% over the same period. Our guidance on pages 60 – 61 and delivery on our targets point to our underlying performance remaining strong.
- We will continue to engage with the investment community to communicate our investment case and the delivery of our strategic focus areas.
- Managed separation would improve the free float of the Nedbank share, which will be attractive for shareholders.
- We aim to broaden our international shareholder base, despite having reached an all-time high of 17,8% in 2016, through sustained engagements in new geographic regions.

CASE IN POINT

Delivering value by optimising staffed outlets through technology enhancement

During 2016 we launched the 'interactive teller', that provides clients with extended teller functionality through a video link. A new client relationship management capability was introduced in 2016, further enhancing the contact centre experience as we strive to maintain the 'Top Contact Centre' accolade awarded to our contact centre in 2015. Our contact centre volumes, including voice- and non-voice-based interactions, have increased by 8% year on year, as clients' preference for alternative communication methods increases.

The above innovations are complementary to our inbranch network of 342 internet and 219 video banking stations. The video banking solution includes servicing options for clients in five South African official languages, as well as advice on global trade. We have a clearly articulated strategy for developing self-service banking enablement across our mobile and digital channels, which will create further capacity to manage our increasing client base.

Investment in physical distribution focuses primarily on the reformatting of our branches and outlets to ensure a consistent client experience and to enable and educate clients to adopt and use our self-service devices. Altogether 45 branches and outlets were reformatted, resulting in 44% of our physical footprint in the new design at 31 December 2016. Investment in new distribution continues in high growth micro markets, with an additional six branches and four inretailer outlets being built in 2016. Smaller, cost-effective formats are being explored in remote towns through distribution agreements with Hinterland and Boxer stores. Our distribution investment was offset by 22 branch closures and a reduction of 5 000 m^2 of floor space, as we continue to optimise our distribution network.

Refer to Nedbank interactive ATMs on page 41.

Shareholders (continued)
Delivering consistently to our shareholders

CASE IN POINT

At Nedbank we engage regularly with the investment community

At Nedbank we engage regularly with the investment community. The following were the main topics discussed during the year:

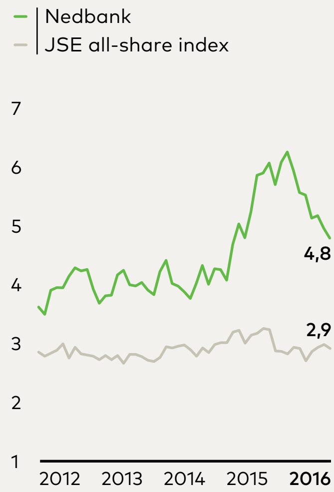
- The impact of a sovereign-credit-rating downgrade: This was a popular topic raised in almost all meetings and the main focus of the RMB Morgan Stanley conference covering the risks to impairments and other key cyclical challenges, as well as the Renaissance Capital Treasury Day. We reiterated that we performed extensive stress-testing on our balance sheet and income statement to test the impacts of high- and severe-stress events. Relative to the period before the global financial crisis, we are in a much stronger position today to weather any potential downturn.
- Old Mutual managed separation: Old Mutual announced its managed separation strategy in 2016 and the key issue for investors is what the implications are for Nedbank from a strategy and business perspective. We have always been a separately listed entity with an independent board. Our business is not integrated into Old Mutual and managed separation will therefore not have a material effect on our strategy, staff and clients, or financial performance and prospects. We will continue to work collaboratively with Old Mutual and Old Mutual Emerging Markets on the managed separation and synergies from our arms' length collaboration initiatives.
- ETI outlook, possible capital raising and impairment of investment value: Our Africa strategy is expected to take time to deliver and is aimed at building sustainable returns for shareholders over the longer term. Refer to page 58 of the CFO review for more information. We will continue to follow a disciplined approach to the allocation of financial resources, such that portfolio returns and risks are optimised.
- Information technology strategy: We shared our Managed Evolution strategy, as described on page 49, at the 19th UBS Financial Services Conference. Investors noted our cost-efficient and risk-mitigating approach.
- Governance matters ahead of our AGM: During our annual governance roadshow we provide shareholders with the opportunity to engage with our Chairman and Lead Independent Director on governance matters. On page 99 we provide feedback on the key topics of discussion and the voting outcomes at our AGM.

Presentations on the abovementioned topics are available at nedbankgroup.co.za.

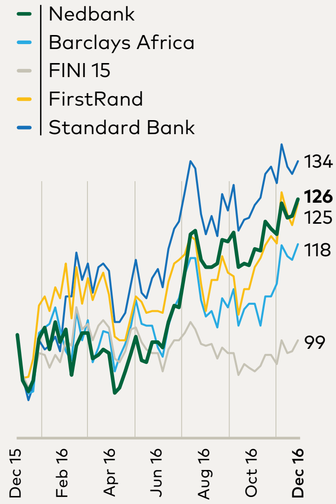
OUR TOP 10 SHAREHOLDERS

Major shareholders/Managers	Number of shares	% holding 2016	% holding 2015
Old Mutual Life Assurance Company (SA) Ltd and associates	**270 790 980**	**54,61**	54,11
Nedbank Group treasury shares	**17 477 014**	**3,52**	3,61
Public Investment Corporation (SA)	**30 675 529**	**6,19**	6,24
Coronation Fund Managers (SA)	**29 448 206**	**5,94**	7,57
Lazard Asset Management (US and UK)	**15 307 808**	**3,09**	2,64
BlackRock Inc (US and UK)	**10 744 457**	**2,17**	1,56
Allan Gray Investment Council (SA)	**8 930 970**	**1,80**	2,35
Dimensional Fund Advisors (US, UK and AU)	**7 502 781**	**1,51**	1,59
Investec Asset Management (SA and UK)	**7 217 177**	**1,46**	0,14
The Vanguard Group (US)	**6 979 289**	**1,41**	1,26

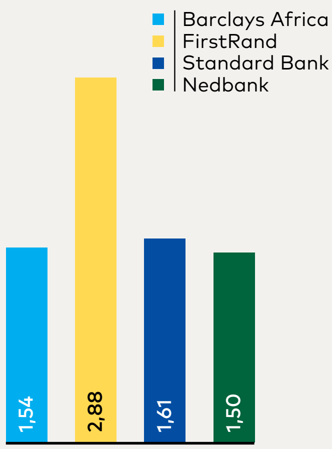
Dividend yield



Share price performance



Price to book ratios



See pages 124 and 125 for our investment case.

Regulators
Ensuring sustainable banking with our regulators

Engaging with our regulators

In line with international and local trends, Nedbank observed an increase in regulatory scrutiny and inspections. Regulatory reviews were attended to with significant attention to detail, professionalism and prompt reaction to matters raised.

- With regard to legislative developments, Nedbank has been involved in engaging with regulators through various industry associations.
- We maintain a close and transparent working relationship with the FIC and the Bank Supervision Department of SARB. We attend quarterly meetings with the regulator and supervisor to ensure compliance with their requirements and to obtain clarification where necessary.
- We participated in industry meetings on the Regulatory Consistency Assessment Programme undertaken by the Bank for International Settlements in Basel.
- We attended a trilateral meeting in London between SARB, the Financial Conduct Authority and the Prudential Regulatory Authority.
- We participated in a Regulatory Supervisory College held at SARB, where we presented to the majority of regulators in the rest of Africa where we have a presence and we were commended by the regulators.
- We maintained resilient business continuity management processes and successfully conducted a liquidity simulation test with SARB in attendance.

Delivering value to our regulators in 2016

- We complied with or made progress on all key aspects of Basel III requirements, with a tier 1 ratio of 13,0%, above the SARB requirements of 8,375% and well above our target of > 12%. With regard to the liquidity coverage ratio we have achieved 109,3% – above the 2016 SARB minimum requirement target of 70% and remain well on track to achieve 100% NSFR compliance by 2018.
- Our focus has been on regulatory compliance across multiple regulators and significant work done on AML, CFT and sanctions. We did not incur any regulatory fines or penalties in 2016.
- We consider the fair treatment of clients at all stages of their relationship with us of critical importance. As such, we have fully embraced and adopted the TCF regulations and continue working towards ensuring that our clients benefit from the consistent delivery of all six TCF outcomes. These TCF outcomes connect very closely to our existing client-centred ethos and our Code of Conduct. As such, TCF is already an integral part of our culture, the way we design, market and promote our products, and the way we communicate with and service our clients. In 2017 we will continue to embark on operationalising TCF and focus on conduct requirements to ensure that industry guidelines and best practices are embedded in our business.
- In 2016 there was an increased focus on the closure of high-risk accounts across the industry.
- The required FATCA submissions were successfully delivered to SARS on 31 May 2016. The Rest of Africa Cluster, who submit directly to the Internal Revenue Service of the US, also met the registration and reporting requirements. External validation of the status of implementation was achieved through the appointment of an external consultant.
- We increased awareness of and protection against cybercrime.
- We paid R8,7bn in direct, indirect and staff taxes to support the governments and societies of the countries in which we operate. We are committed to maintaining our integrity all of our tax obligations and strive to be a responsible corporate citizen by ensuring that we pay and or collect the appropriate amount of tax in all the jurisdictions in which we operate.
- We achieved a BBBEE level 2 for the eighth consecutive year. This resulted in a culmination of our ongoing commitment to sustainable transformation and maintaining our position as SA's most transformed financial services provider. This contributed to various wholesale client wins over the past few years and a favourable profile in the market.

Looking ahead

- We will continue to meet all Basel III requirements and gain clarity on Basel IV proposals, which appear to be softening.
- We will implement the myriad of regulatory and compliance requirements, noted on page 33, on time through greater focus, IT spend and coordination across the Regulatory Change Programme.
- We will maintain our status as a responsible tax payer in all the jurisdictions in which we operate.

CASE IN POINT

CEO initiative

Nedbank is mindful that it is incumbent on all businesses in SA to do whatever they can to be a part of the economic growth solutions our country needs. This by no means implies political interference, but simply requires a commitment by the private sector and other concerned parties to help ensure that the outcomes of the country meet the expectations of its citizens and those who have the power to invest in its future growth.

To this end Nedbank is a member of the CEO Initiative, which sees government, business and labour coming together to help bring about economic stability in the country. Mike Brown (CE), Mfundo Nkuhlu (COO) and Vassi Naidoo (Chairman) have also been involved in various other projects such as attendance of the SA Tomorrow Conference in New York.

One of the key outcomes of the CEO Initiative in 2016 was the creation of the R1,5bn SA SME Fund with the vision of stimulating and supporting much-needed growth in SA's small-and-medium-enterprise sector, which is central to sustainable economic development and employment creation. In addition the CEO Initiative plans to introduce one million youth into the business sector through an internship programme. Nedbank contributed R20m to the SA SME Fund.

Communities

Contributing to a thriving society while respecting environmental limits

Communities represent broader society and include citizens of the countries within which we operate, including individual members of society, NGOs and suppliers, as well as the environment on which those citizens depend for their wellbeing.

Nedbank recognises that it has a responsibility not only to be good with money, but more importantly to do good with it. Our core purpose as a bank is therefore to use our financial expertise and leverage our lending capabilities to do good for individuals, businesses and society across our country and continent and, indeed, anywhere in the world where we can deliver a positive impact. By seeing money differently in this way, we are confident that we will achieve our vision to be Africa's most admired financial services provider.

As part of Nedbank's response to contributing to a thriving society, Fair Share 2030 is our strategy to integrate sustainability across our business activities. It enables delivery on the bank's purpose. It guides our lending activities and product development, ensuring that we focus on identifying and investing in finance opportunities that have the potential to impact social, environmental and economic development positively. It also informs our operational and corporate social investment activities.

Engaging with our communities

In delivering on our purpose, we work with:

- special-interest groups, relevant industry bodies (Business Unity SA, The Banking Association SA, the National Business Initiative and renewable-energy associations, etc), academic institutions and thought leaders. We do this to explore areas of mutual interest to understand how we can use our core business of financial services in a manner that creates long-term value for the bank and our stakeholders; and
- various NGOs, including those with whom we engage through the Nedbank Foundation and environmentally focused NGOs with whom we engage through our sustainability team. Our primary stakeholders include education NGOs, schools, tertiary institutions, WWF-SA, Wildlands and the Endangered Wildlife Trust.

Delivering value to our communities in 2016

When integrating sustainability across the Nedbank business we focus on products and service development to promote a positive impact, collaboration and partnership (including advocacy), and on the management of our operational impact. A summary of our 2016 activity follows. Further details on these and Nedbank's other sustainability actions and investments are contained in the 2016 Sustainability Review at nedbankgroup.co.za.

Products and services

- **Empowerment finance –** Since 2009 we have invested a total of R64,4bn in empowerment financing, including R14,1bn in 2016 (2015:5,9bn).
- **Renewable energy –** We enabled 1 162 MW (2015: 796 MW) of renewable energy in SA through R13bn (2015:R11bn) of lending.
- **Embedded Generation Unit –** This is a new unit set up to facilitate the scale-up of lending into rooftop solar.
- **Continued focus on responsible finance –** We looked after the needs of our clients and greater society, including the environment, though a stringent governance process and social and environmental management system (SEMS). In addition to the four equator principle deals that drew down in 2016, all investment banking and client coverage credit risk reviews and new applications included the screening of high-risk clients through SEMS, both of which received external limited assurance. Through the SEMS assessment, 435 deals were screened (2015: 512), of which 194 were SEMS applicable.
- **Nedbank Green Saving Bonds –** Nedbank offered SA's first green bond to retail clients. It is unique in that it allows regular investors to contribute to socioeconomic and environmental conditions because the funds they invest are earmarked for the support of renewable-energy projects in SA. Since inception R17,5bn has been invested in the Nedbank Green Savings Bond, of which R5,6bn flowed during 2016 (2015:R4bn).
- **Bursaries for black students and enterprise development –** Nedbank has created the Nedbank Mogale Empowerment Trust for the benefit of black students and enterprise development. It is an additional intervention to support issues around the Fees Must Fall initiative. The initial investment of R100m made by the trust is in the MTN Zakhele Futhi scheme. The trust will distribute the dividends earned on investments to the defined beneficiaries based on a ratio of 33,% and 66,7% to black students and enterprise development respectively. This type of support will enhance Nedbank's empowerment credentials and it is envisioned that the trust would invest in further transactions for the benefit of black beneficiaries to come.
- **Student accommodation –** More than 5 000 student beds were made available through the new Fair Share 2030 property finance lending of R2,3bn (2015: R1,3bn).

CASE IN POINT

Partnering to deliver drought relief

In 2016 Nedbank donated R1,25m towards various drought relief and water provision initiatives. The donations were made either directly or in partnership with organisations such as Gift of the Givers. Our donations contributed to the installation of boreholes in the driest regions of the country, namely the Free State, North West Province and Northern Cape. We contributed towards the installation of 17 boreholes, three water storage reservoirs and 20 storage tanks. The boreholes provide 700 000 ℓ of water daily, equating to 21 million litres per month. We have also provided 200 tonnes of animal feed aid and humanitarian assistance in the form of food and hygiene aid, as well as thousands of litres of bottled water through a staff collection campaign. This work augmented the debt restructuring and provision of an additional R100m of working capital that was provided to assist clients in the agricultural sector affected by the drought.

Partnerships and collaboration (including advocacy)

- **Fees Must Fall –** In 2016 we awarded Nedbank bursaries to 104 undergraduate students (2015: 111) across 16 SA public universities and universities of technology. The total investment amounted to R11m (2015: R11,2m), of which R9m went to undergraduates and R2m towards helping students with student debt in their final year.
- **Socioeconomic activities –** R141m (2015: R136m) was invested primarily through the Nedbank Foundation.
- **Drought support –** Over R100m was provided for drought support, including working capital for clients, donations for boreholes, animal feed and bottled water.
- **Affinity programme –** Since the inception of the programme in 1990 the four affinities (Green, Children's, Sports and Arts and Culture) have contributed more than R350m to more than 1 200 projects across their social and environmental development focus areas. For 2016 the value of donations made through the Nedbank Affinity Programme grew by 3,1% to R39m (2015: R37,8m).

Managing our own impact

Our commitment to combatting climate change is evident in the following areas:

- **Carbon neutrality –** Since 2013 our total carbon footprint decreased by 6,05 % and our carbon footprint per FTE (tCO2e) decreased by 14,09 %.
- **Water –** We reduced our operational water usage by 1,1% and invested R1m in invasive alien removal and ecosystem restoration through the WWF Water Balance Programme.

CASE IN POINT

Nedbank scoops the Best Supplier and Enterprise Development Project Award

Competing against peer banks, manufacturers and other multinational corporates across Africa, Nedbank was announced as the winner in the pan-African region for the Best Supplier and Enterprise Development Project. This was external validation of the success of our Enterprise and Supplier Development programmes, which started only in 2015. Suitable suppliers are identified for participation in the formalised business growth and support programmes, and are given access to markets through the Nedbank supply chain. One of the biggest success stories is Monabo, a black-woman-owned cleaning and hygiene company. Monabo's annual turnover has grown from a mere R300 000 a year before signing its first contract with Nedbank in 2012 to over R10m a year for the financial year ending February 2015.

Looking ahead

- Aligned with our purpose, a broader approach is being adopted for Fair Share 2030. One of the key changes is that the R6bn annual target will be replaced by a larger cumulative target for sustainable- development finance up to 2020.
- A home loan product will be introduced that will allow our clients to add solar installations to their homes as part of their mortgage bond agreement.
- Product development will be aligned to support the delivery of the Sustainable Development Goals.
- Our support for issues around the Fees Must Fall initiative will be expanded through our core business.

CASE IN POINT

Partners for Possibility

Partners for Possibility (PfP) is the flagship programme of Symphonia for South Africa, a national non-profit organisation with a bold vision to deliver quality education for all children in SA by 2025. PfP has been an ideal vehicle for Nedbank's value proposition to staff as it provides staff with an opportunity to make a difference in our communities.

The PfP programme provides our staff with this invaluable opportunity by establishing a partnership between a business leader and a school principal from an under-resourced school. Together, the business leader and school principal complete a tailored leadership development course, which aims to facilitate the design of a school improvement plan that addresses the school's specific challenges. The partners then collaborate to bring the whole community together to become involved in the education of their youth, and help one another address and overcome the various challenges faced by the school and the community.

PfP allows Nedbank leaders to learn and apply key leadership skills outside the usual classroom environment. The programme equips our leaders to deal with ambiguity and complexity and to develop a better understanding of colleagues and clients who come from diverse communities.

One of the schools that were part of the programme earned a 100% pass rate for the first time since being formed in 1995. The Kwena Molapo High School, situated in the densely populated township of Diepsloot, credits their partnership with Nedbank through the PfP initiatives for their success. In total, 80 students wrote exams, with 41 qualifying for study towards a bachelors degree.

Nedbank has supported PfP since 2010 through a total investment of R3,4m and with 35 employees committing many hours each year to work with the school principals they are assigned to (2016: R1m investment and 13 employees).

Stakeholder value creation – progress and outlook

Key performance indicators	How does it link to value creation?	Yoy change
Staff costs (Rbn)	Remuneration and benefits to staff	↑
Annual unionised salary increase	Salary increases for bargaining unit	↑
Training spend (Rm)	Investment in staff development	↑
Staff turnover	Ability to retain and rotate skills	↓
Staff engagement/morale (entropy score)	Reduction in entropy drives levels of staff morale higher	↓
Transformation – black staff	Transformation of Nedbank staff profile in line with demographics	↑
Transformation – female staff	Progressing female diversity	↑
Loan payouts (Rbn)	New loan payouts to clients	↓
Digital – App Suite transactions (Rbn)	Uptake of more convenient and affordable channels	↑
Service – NPS	Quality of service experience reflected in reputational Net Promotor Score	–
Service – client complaint resolution (days)	Resolution of escalated complaints to retain clients	–
Service – Nedbank systems availability	Systems uptime to enable uninterrupted financial processing	–
Pricing – average annual price increase	Value-for-money banking	↑
Convenience – new-style staffed outlets (% converted)	Technology-enabled outlets providing an improved client experience	↑
Investment performance in asset management business	Raging Bull awards illustrative of investment performance for clients	↑
Digitally enabled clients (m)	Enable clients to have access to convenient digital channels/products	↑
Total shareholder return	Total return for shareholders per annum	↑
Share price performance	Share price appreciation	↑
Full-year dividend per share (cents) and cover (times)	Dividends for shareholders	↑
Basel III compliance – tier 1 ratio	Strength of capital position	↑
Basel III compliance – LCR ratio	Strength of liquidity position	↑
Basel III compliance – NSFR ratio	Strength of stable funding	↑
Regulatory fines or penalties (Rm)	Indicator of adherence to regulatory requirements	–
Direct, indirect and staff taxes (Rbn)	Contribution to government coffers	↑
dti level as per the FSC scorecard	Reflection of corporate transformation	–
Consumer finance education (no of participants)	Value through education	↓
Total socioeconomic spend (Rm)	Contribution to society	↑
Local procurement spend as percentage of total	Supporting local suppliers	–
Renewable-energy lending (Rbn)	Commitments to renewable-energy deals	↑
Annual Fair Share lending (Rbn)	Lending with deliberate social and environmental outcomes	↑
Carbon footprint (tCO_2e) offset to neutral	The impact of our business on the environment	↓
Carbon footprint per FTE (tCO_2e)	The impact of our business on the environment	↓

[1] *Digitally enabled and active clients have been restated to include all digital channels and to allow for only the past 90 days of recent activity.*
[2] *Peer average consists of the simple average of the four largest SA banks using latest year-end financial results, except for transformation numbers which were sourced from prior year's integrated reports.*

Assurance indicators

LA	*External limited assurance on selected sustainability information and the application of the FSC and the group's BBBEE status.*	IN	*Information sourced from external sources, eg independent surveys.*
MO	*Management and board oversight through rigorous internal reporting governed by the group's ERMF.*	OV	*Independent oversight by regulatory bodies, including SARB, FSB and various financial sector ombudsman offices.*
FS	*Financial information extracted from the 2016 Nedbank Group Limited Audited Annual Financial Statements.*		

2016	2015	2014	Benchmark/Peer average[2]	Outlook/Target	Assurance
15 524	14 296	13 838	N/A	Maintain competitive remuneration	MO FS
8,0%	7,5%	8,2%	N/A	Above the increase for management	MO
413	370	491	N/A	Continue to invest in staff	LA
9,6%	9,9%	8,0%	11% – 13% *(industry benchmark)*	Maintain despite organisational change	MO LA
12%	13%	12%	10% *(worldclass levels)*	Improve	IN (Source: Barrett Survey)
78,3%	76,9%	75,9%	68% *(peer average)*	Continue driving transformation	LA
62,7%	62,2%	62,7%	61% *(peer average)*	Continue driving transformation	LA
162	185	167	N/A	Continue to extend credit responsibly	MO
25	16	9	N/A	Continue to drive digital adoption over time	MO
21%	21%	15%	20% *(peer average)*	Improve	IN LA
8	8	7	21 *(industry average)*	Continue to improve and remain below target of < 10	MO
99,99%	99,94%	99,95%	Nedbank: Top performer	No 1 in industry	IN LA
Below inflation	Below inflation	Flat fees	N/A	Below inflationary increases	MO
44%	36%	22%	N/A	82% of total outlets by 2020	MO
Top 3	Top 3	Top 3	No 1: Allan Gray No 2: PSG Asset Management No 3: Nedgroup Investments	Remain among top three	IN (Source: Raging Bull awards)
5,34	3,35[1]	2,44[1]	N/A	Continue to increase digital enablement actively	MO LA
32,3%	(19,8)%	23,2%	31,9% *(peer average)*	Perform above peers	IN (Source: JSE)
26,3%	(24,3)%	18,6%	(1%) *(FINI 15)*	Perform above peers	IN (Source: JSE)
1 200 **2,0**	1 107 2,06	1 028 2,07	N/A	Within our 1,75 times to 2,25 times target range	MO FS
13,0%	12,0%	12,5%	SARB: > 8,375%	> 12%	MO OV
109,3%	88,5%	66,4%	SARB: 70% for 2016	Continue to phase in to > 100% by 2019	MO OV
Pro forma compliant	ND	ND	SARB: 100% for 2018	> 100% by 2018	MO OV
1	0	25	N/A	Zero, although risk of fines has increased	MO OV
8,7	8,2	8,0	N/A	Responsible tax payer	OV
2	2	2	Nedbank: No 1 bank	Top tier bank, but dti level to be impacted by new codes	MO LA
180 000	260 000	400 000	N/A	Maximum aligned impact to strategy	MO LA
141	136	112	Top performer in *Trialogue CSI Handbook*	Spend greater than R100m	MO LA
75%	75%	80%	As per FSC charter	> 75%	MO LA
13,3	11,0	3,5	Nedbank: No 1 bank	R35bn committed, with drawdowns over next few years	MO
2,3	1,8	0,5	N/A	Longer-term annual target of > R6bn	MO
207 975	214 967	213 133	Nedbank: a leader, only carbon-neutral bank in Africa	Maintain carbon-neutrality	MO LA
6,54	6,97	7,08	Leader in performance on the Carbon Disclosure Project	Continue to reduce our impact on the environment through the resetting of reduction targets in 2017	MO LA

ND – Not disclosed

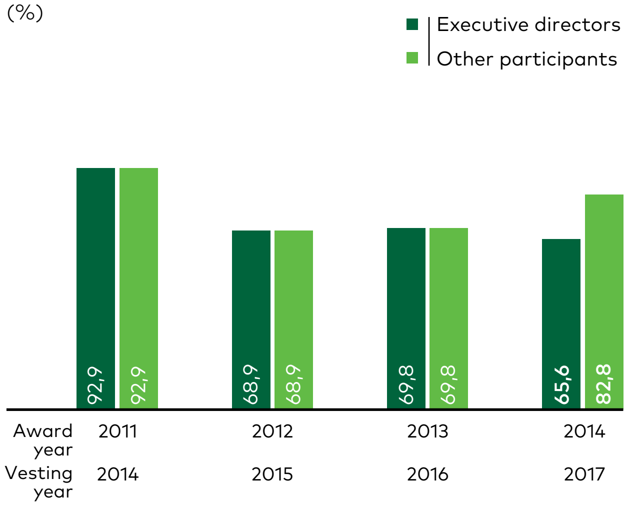
Remuneration outcomes

Our remuneration outcomes are aligned to the value we create. A summary of the Remuneration Policy is set out on pages 111 to 119. Our comprehensive remuneration report is available online at nedbankgroup.co.za.

Despite the background of low economic growth in 2016, Nedbank had an excellent performance from managed operations with growth of 16,2% in headline earnings. Taking into account the lower-than-expected equity-accounted performance from ETI, this overall performance funded a short-term incentive (STI) pool of R2 381m, which is a 10% increase over 2015. This STI pool represents 12,6% of headline earnings from managed operations, pre bonus pre tax, compared with 13,2% in 2015. In 2015, when ETI made a positive contribution, the STI pool increased by only 3% despite the growth in total headline earnings of 9,6%. This year, when ETI made a negative contribution, the STI pool grew by 10% although the total headline earnings grew by 5,9%. In other words, consistent with previous years, the STI pool is funded more closely, but not exclusively, by the performance of the managed operations. Whilst ETI's performance is important, it funds the STI pool at a lower participation rate as it lies beyond the direct control of our executives.

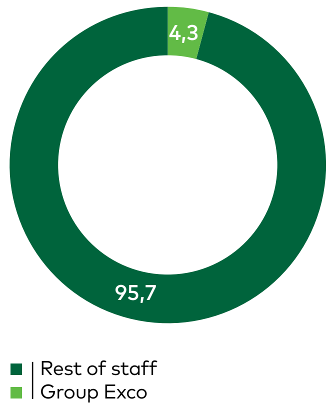
Consistent with our pay-for-performance principle, long-term incentive (LTI) awards are subject to demanding performance conditions. The 2014 awards, vesting in 2017, are subject to 100% performance conditions for executive directors and equal proportions of time and performance conditions for other participants. The 2017 vesting will take place as shown in the chart below, with the historical vesting over the period 2013 to 2017 included for comparison.

Overall vesting outcomes
(%)



The 2016 total variable pay award to the CE is flat on 2015. The Group Exco share of the total 2016 STI pool is down from 5,3% to 4,3%.

Share of STI pool
(%)



Guaranteed package

Increases to guaranteed packages in 2016 were higher at the bargaining unit level, at 7,5%, compared with 5,5% and 5% for the non-bargaining unit and executives respectively. In 2016 the minimum guaranteed remuneration for permanent, full-time employees in SA was R133 500 per annum, which is significantly higher than the minimum wage in SA.

The dimensions used to measure performance during 2016 were:

Theme	Broad objectives	Linkage to strategic focus areas of 2016	Outcomes achieved in 2016
Financial and business	Delivering sustainable financial outperformance.	■ Optimise to invest. ■ Strategic portfolio tilt. ■ Pan-African banking network.	Solid performance driven by strong revenue growth as well as excellent credit risk management. Group performance impacted by a challenging macro environment and the loss from ETI. Excluding ETI, headline earnings increased 16,2% – a good performance by Nedbank's managed operations. Including ETI, headline earnings increased 5,9%. The impairment provision of R1,0bn raised against the carrying value of ETI was also appropriately considered.
Clients and relationships	Investing for growth by expanding into the entry-level and middle markets, the public sector and business banking, and implementing the rest of Africa strategy. Improving our client relations by empowering our clients through delivery of affordable banking. Leading as a corporate citizen.	■ Client-centred innovation. ■ Growing transactional banking franchise. ■ Pan-African banking network.	Successfully grew the transactional banking franchise. Main-banked client gains across all businesses and strong growth in transactional non-interest revenue. A number of new digital solutions as well as innovative products and services delivered.
Management and internal processes	Enhancing productivity and execution. Managing risk as an enabler. Growing regulatory and government relationships. Growing stakeholder relations.	■ Strategic portfolio tilt.	The Regulatory Change Programme (including AML) ended 2016 in good shape. Managed credit risks well, despite a difficult economic environment and commodity cycle. Focus and commitment to capital and liquidity management ensured that Nedbank's balance sheet strengthened.
Organisational learning, leadership and transformation	Accelerating transformation in support of achieving our transformation targets, objectives and behaviours. Building an innovative and differentiated culture and becoming an employer of choice by creating a great place to work.	■ Optimise to invest.	The Nedbank leadership continues to be a highly regarded, effective team with high levels of employee engagement. Transformation remains top of mind as Nedbank maintained level 2 under FSC codes

Provided below are the individual key performance dimensions for each of our executive directors and prescribed officers, and how they performed in relation to each. Further disclosed below is the total remuneration for each one for 2016.

MIKE BROWN

Chief Executive

Performance dimensions	Outcome achieved in 2016
Financial and business	■ Solid performance driven by strong revenue growth as well as excellent credit risk management. Group performance impacted by a challenging macro environment and the loss from ETI. Excluding ETI, headline earnings increased 16,2% – a good performance by Nedbank's managed operations. The impairment provision of R1,0bn raised against the carrying value of ETI was also appropriately considered. ■ Continued to build strong stakeholder relations and in particular the significant personal effort on work with government, business and labour to avert a sovereign-credit-rating downgrade. ■ Much work also undertaken on managed separation and keeping Nedbank delivery unaffected.
Client and relationship	■ Effectively led the strategy to grow the transactional banking franchise. ■ Main-banked clients gains across all businesses. ■ Number of new digital solutions as well as innovative products and services delivered.
Management and internal process	■ Ensured that the Regulatory Change Programme (including AML) ended 2016 in good shape. ■ Managed credit risks well, despite a difficult economic environment and commodity cycle. ■ Focus on and commitment to capital and liquidity management ensured that Nedbank's balance sheet strengthened.
Organisational learning, leadership and transformation	■ Demonstrated strong, committed and principled leadership. ■ Built a highly regarded, effective team and maintained high levels of employee engagement. ■ Transformation remains top of mind as Nedbank maintained level 2 under FSC codes and continues to be the most empowered big bank in the country under this measure.

Mike Brown	2016 R000	2015 R000	%
Cash portion of package	**6 680**	6 374	
Other benefits	**148**	141	
Defined-contribution retirement fund	**953**	910	
Guaranteed remuneration	**7 781**	7 425	**4,8**
Cash performance incentive	**7 750**	8 250	
Cash performance incentive (delivered in shares)[1]	**6 750**	7 250	
Total STI	**14 500**	15 500	**(6,5)**
Total remuneration	**22 281**	22 925	**(2,8)**

Increase in guaranteed package	Guaranteed package: New GP effective April 2017 R000	Guaranteed package: GP at April 2016 R000	Guaranteed package: GP at April 2015 R000	Year-on-year movement: 2016–2017 %	Year-on-year movement: 2015–2016 %
	8 275	7 875	7 500	**5,1**	5,0

LTI Award (face value at award)[2]	2016 R000	2015 R000	%
	14 500	13 500	**7,4**

Details of share awards to executive directors and prescribed officers are included on pages 23 to 26 of our Remuneration Report.

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs, and the amount remaining invested in the scheme for 36 months.*

[2] *This is the value of share-based awards made in the following financial year.*

MFUNDO NKUHLU
Chief Operating Officer

Performance dimensions	Outcome achieved in 2016
Financial and business	■ Managed the shared services clusters that contributed to the delivery of the group's financial performance. Even though a number of new IT projects were delivered, expenses were judiciously managed and growth contained below forecast figures. ■ Despite the negative impact of ETI, played a key role in driving growth in the rest of Africa subsidiaries, which grew headline earnings strongly off a low base. The impairment provision of R1,0bn raised against the carrying value of ETI was also appropriately considered.
Client and relationship	■ Expanded our footprint, rolled out new products and implemented the Flexcube core banking systems in subsidiaries. Mobile banking was launched in Namibia, Swaziland and Lesotho. ■ Finalised the additional acquisition in Banco Único, which increases our holding to 50% plus one share in the last quarter of the year. ■ Despite the negative impact of the impairment and losses in ETI, continued to build strong relations to ensure that Nedbank leverages this relationship to enhance future earnings.
Management and internal process	■ Ensured that the Regulatory Change Programme (including AML) in RoA was aligned across all subsidiaries and that SA knowledge and insights were shared for maximum effectiveness. ■ Achieved good traction in driving the group's new operating model. ■ Focus on and commitment to capital and liquidity management ensured that Nedbank's balance sheet strengthened.
Organisational learning, leadership and transformation	■ Demonstrated strong, committed and principled leadership. ■ Built a highly regarded, effective team and maintained high levels of employee engagement. ■ Transformation remains top of mind as Nedbank maintained level 2 under FSC codes and continues to be the most empowered big bank in the country under this measure.

Mfundo Nkuhlu	2016 Rm	2015 Rm	%
Cash portion of package	**4 415**	4 258	
Other benefits	**137**	130	
Defined-contribution retirement fund	**635**	613	
Guaranteed remuneration	**5 187**	5 000	**3,7**
Cash performance incentive	**4 625**	4 750	
Cash performance incentive (delivered in shares)[1]	**3 625**	3 750	
Total STI	**8 250**	8 500	**(2,9)**
Total remuneration	**13 437**	13 500	**(0,5)**

	Guaranteed package			Year-on-year movement	
Increase in guaranteed package	New GP effective April 2017 R000	GP at April 2016 R000	GP at April 2015 R000	2016–2017 %	2015–2016 %
	5 520	5 250	5 000	**5,1**	5,0

LTI Award (face value at award)[2]	2016 R000	2015 R000	%
	9 250	8 750	**5,7**

Details of share awards to executive directors and prescribed officers are included on pages 23 to 26 of our Remuneration Report.

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs, and the amount remaining invested in the scheme for 36 months.*

[2] *This is the value of share-based awards made in the following financial year.*

RAISIBE MORATHI
Chief Financial Officer

Performance dimensions	Outcome achieved in 2016
Financial and business	■ Played a key role in the delivery of the group's financial performance. ■ The Group Finance Cluster is a worldclass reporting, investor relations and financial control centre, evidenced by Nedbank regularly being recognised for leadership in reporting. Nedbank is the only SA company to have won across all four reporting awards in 2016.
Client and relationship	■ Managed the implementation of SAP ERP across the group's finance, procurement and HR systems, with the project having won second prize for Business Transformation (SAP EMEA Quality Awards). Nedbank remains disciplined in monitoring and tracking the benefits and to date ERP benefits realised exceed the business case predictions, doing well against the R1bn target by 2019.
Management and internal process	■ Instrumental in driving cost savings, managing scarce resources and improving efficiencies across the group. ■ Group Business Services (a business unit within the Group Finance Cluster) delivered significant savings from the group's Property Portfolio and Procurement Centre.
Organisational learning, leadership and transformation	■ Demonstrated strong, committed and principled leadership. ■ Leads a highly skilled, effective team and maintains high levels of employee engagement. ■ Transformation remains top of mind as Nedbank maintained level 2 under FSC codes and continues to be the most empowered big bank in the country under this measure.

Raisibe Morathi	2016 Rm	2015 Rm	%
Cash portion of package	**3 654**	3 405	
Other benefits	**105**	100	
Defined-contribution retirement fund	**666**	621	
Guaranteed remuneration	**4 425**	4 125	**7,3**
Cash performance incentive	**4 625**	4 500	
Cash performance incentive (delivered in shares)[1]	**3 625**	3 500	
Total STI	**8 250**	8 000	**3,1**
Total remuneration	**12 675**	12 125	**4,5**

Increase in guaranteed package	Guaranteed package			Year-on-year movement	
	New GP effective April 2017 R000	GP at April 2016 R000	GP at April 2015 R000	2016–2017[2] %	2015–2016[2] %
	5 000	4 500	4 200	**11,1**	7,1

LTI Award (face value at award)[3]	2016 R000	2015 R000	%
	8 000	7 500	**6,7**

Details of share awards to executive directors and prescribed officers are included on pages 23 to 26 of our Remuneration Report.

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs, and the amount remaining invested in the scheme for 36 months.*

[2] *Adjustment to guaranteed remuneration made to address gap with peer group based on market benchmarks.*

[3] *This is the value of share-based awards made in the following financial year.*

BRIAN KENNEDY

Managing Executive: Nedbank Corporate and Investment Banking

Performance dimensions	Outcome achieved in 2016
Financial and business	■ CIB Cluster delivered headline earnings growth of 15,5% at an ROE of 21,1%, benefiting from strong NIR growth and a market-leading efficiency ratio of 39%.
Client and relationship	■ Successfully led the implementation of an integrated CIB, which has delivered significant value through client-centred and collaborative efforts. ■ A number of new projects were delivered in 2016 enhancing the client experience and making it easier for clients to do business with Nedbank. ■ Won nine of 32 awards at the Spire Awards for excellence in various investment banking categories.
Management and internal process	■ CIB's CLR improved and is within its target range, indicative of strong leadership in risk management in a challenging economic environment. ■ Participation in centres of excellence for cash and global trade resulted in significant savings. ■ Continuous improvements in producing accurate groupwide information enabled key strategic decisions around pricing, product development and cost management.
Organisational learning, leadership and transformation	■ Demonstrated strong, committed and principled leadership. ■ Built a highly regarded, effective team, evidenced by the strong financial results produced for the year. ■ Transformation remains top of mind, including accepting 30 graduates for the CIB Graduate Programme (80% EE graduates).

Brian Kennedy	2016 Rm	2015 Rm	%
Cash portion of package	**3 819**	3 620	
Other benefits	**233**	239	
Defined-contribution retirement fund	**305**	291	
Guaranteed remuneration	**4 357**	4 150	**5,0**
Cash performance incentive	**9 320**	8 625	
Cash performance incentive (delivered in shares)[1]	**8 320**	7 625	
Total STI	**17 640**	16 250	**8,6**
Total remuneration	**21 997**	20 400	**7,8**

	Guaranteed package			Year-on-year movement	
Increase in guaranteed package	**New GP effective April 2017 R000**	GP at April 2016 R000	GP at April 2015 R000	**2016–2017 %**	2015–2016 %
	4 625	4 410	4 200	**4,9**	5,0

LTI Award (face value at award)[2]	2016 R000	2015 R000	%
	8 500	7 500	**13,3**

Details of share awards to executive directors and prescribed officers are included on pages 23 to 26 of our Remuneration Report.

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs, and the amount remaining invested in the scheme for 36 months.*

[2] *This is the value of share-based awards made in the following financial year.*

CIKO THOMAS

Managing Executive: Nedbank Retail and Business Banking

Performance dimensions	Outcome achieved in 2016
Financial and business	■ Notwithstanding Ciko's appointment to the role halfway through the year, he led the RBB Cluster to deliver a strong set of financial results, growing headline earnings by 11,2% and generating an improved ROE of 18,9%.
Client and relationship	■ Demonstrated strong leadership in effectively growing the transactional banking franchise. ■ As RBB continued to gain traction in its distribution strategy, client numbers increased across all business areas and a number of new digital solutions as well as innovative products and services were delivered to clients in 2016.
Management and internal process	■ Continued to lead the strategy of quality selective origination across all asset classes, combined with proactive risk management, which is reflected in the CLR increasing marginally leaving RBB well positioned at the top of the interest rate cycle.
Organisational learning, leadership and transformation	■ Demonstrated strong, committed and principled leadership. ■ Continued focus on talent management and succession planning has led to a highly effective team and high levels of employee engagement. ■ Transformation in the RBB Cluster remains top of mind.

Ciko Thomas	2016 Rm
Cash portion of package	2 513
Other benefits	78
Defined-contribution retirement fund	410
Guaranteed remuneration	3 001
Cash performance incentive	4 250
Cash performance incentive (delivered in shares)[1]	3 250
Total STI	7 500
Total remuneration	10 501

	Guaranteed package			Year-on-year movement	
Increase in guaranteed package	New GP effective April 2017 R000	GP at April 2016 R000	GP at April 2015 R000	2016–2017[2] %	2015–2016[2] %
	4 625				

LTI Award (face value at award)[3]	2016 R000	2015 R000	%
	12 000[4]		

Details of share awards to executive directors and prescribed officers are included on pages 23 to 26 of our online Remuneration Report.

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs, and the amount remaining invested in the scheme for 36 months.*

[2] *Ciko Thomas was appointed as Group Managing Executive, Retail and Business Banking, effective 1 April 2016. Comparative year-on-year percentage not given for items that reflect part year service in the role.*

[3] *This is the value of share-based awards made in the following financial year.*

[4] *Award includes on-appointment award made in respect of appointment to more senior role.*

IOLANDA RUGGIERO

Managing Executive: Nedbank Wealth

Performance dimensions	Outcome achieved in 2016
Financial and business	■ Nedbank Wealth achieved headline earnings growth of 5,1% and maintained a strong ROE of 35,2% despite subdued markets impacting investor sentiment. ■ Good growth momentum experienced in Wealth and Asset Management, offset by lower Insurance income from higher weather-related claims.
Client and relationship	■ Achieved significant growth in the HNW client base and increased cross-sell penetration to Retail and Business Banking clients. ■ Good progress made towards enhancing value propositions and client experience through digital and system improvements. ■ Continued investment in profiling the Nedbank Private Wealth and Nedgroup Investments brands while deepening collaboration within the group and unlocking new value. ■ Delivered excellent long-term investment performance for clients, demonstrated by being placed among the top 3 asset managers in SA for the eighth consecutive year and rated top offshore manager for the second consecutive year. ■ Nedbank Private Wealth offering continued to be recognised as prestigious with awards achieved both locally and internationally.
Management and internal process	■ Continued to perform in a challenging and tough environment with strong risk management focus, optimal capital usage and contributing positively to deposit growth
Organisational learning, leadership and transformation	■ Demonstrated strong leadership, and commitment to talent management. Good succession planning has ensured a stable well-run business. ■ Built a highly regarded, effective team and maintained high levels of employee engagement. ■ Significant contribution towards transformation and employment equity.

Iolanda Ruggiero	2016 Rm	2015 Rm
Cash portion of package	**3 011**	1 934
Other benefits	**84**	54
Defined-contribution retirement fund	**432**	262
Guaranteed remuneration	**3 527**	2 250
Cash performance incentive	**3 550**	3 500
Cash performance incentive (delivered in shares)[1]	**2 550**	2 500
Total STI	**6 100**	6 000
Total remuneration	**9 627**	8 250

	Guaranteed package			Year-on-year movement	
Increase in guaranteed package	New GP effective April 2017 R000	GP at April 2016 R000	GP at April 2015 R000	2016–2017 %	2015–2016[2] %
	3 750	3 570		**5,0**	

LTI Award (face value at award)[3]	2016 R000	2015 R000	%
	6 500	6 000	**8,3**

Details of share awards to executive directors and prescribed officers are included on pages 23 to 26 of our online Remuneration Report.

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs, and the amount remaining invested in the scheme for 36 months.*

[2] *Comparative year-on-year percentage not given for items that reflect part year service in the role.*

[3] *This is the value of share-based awards made in the following financial year.*

Committed to good governance

Our governance philosophy

Nedbank is committed to the highest standards of governance, ethics and integrity.

We therefore embrace worldclass banking practices and robust institutional frameworks to ensure our banking services are secure and stable, and we are constantly reviewing these practices to ensure that we consistently act in the best interest of our shareholders.

Banks are expected to be able to adapt to regulatory changes in a very short space of time, which means that we have to deeply entrench good-governance practices, while at the same time retaining the flexibility to respond proactively to the fast changing regulatory environment.

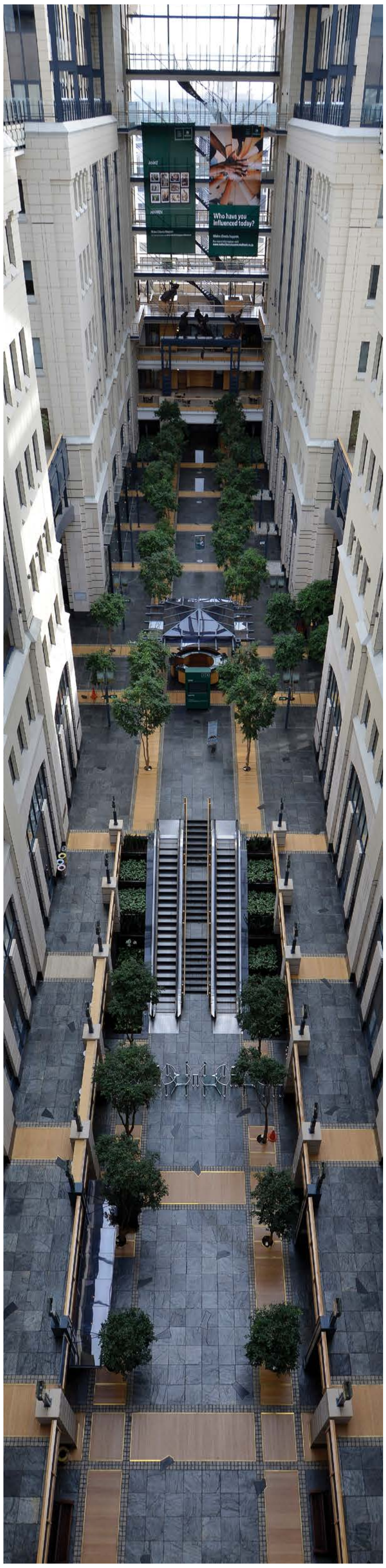
In addition, banking laws are becoming increasingly rigorous and onerous. In this regard we are seeing the King Code of Corporate Practices and Conduct (King III), according to which the bank is managed, transitioning to King IV.

However, governance within Nedbank Group represents far more than legislative compliance and best-practice principles. We believe that good governance can contribute to living our values through enhanced accountability, strong risk and performance management, transparency and effective leadership.

High standards of good governance

There are various mechanisms in place that enable us to adhere to high standards of good governance:

- OUR BOARD AND BOARD COMMITTEES
- LEADERSHIP IN ETHICS AND HUMAN RIGHTS
- ENGAGING WITH STAKEHOLDERS ON GOVERNANCE
- OUR APPROACH TO COMPLIANCE
- VALUES
- ONGOING EVALUATION



Our board and board committees

Our board of directors provides leadership and strategic guidance to safeguard shareholder value creation within a framework of prudent and effective controls. This enables risk to be assessed and managed to ensure long-term sustainable development and growth. The board has ultimate accountability and responsibility for the performance and affairs of the company and ensures that the group adheres to high standards of ethical behaviour. The board is led by our Chairman Vassi Naidoo, together with our Lead Independent Director (LID) Malcolm Wyman.

ROLE OF OUR COMMITTEES

Board committees facilitate the discharge of responsibilities and provide indepth focus on specific areas. The committees are tasked with providing oversight and guidance, and report to the board through their respective chairmen. The minutes of all committee meetings are also submitted to the board.

The following board committees have been established and are tasked with providing oversight and guidance:

NEDBANK GROUP LIMITED AND NEDBANK LIMITED

BOARD OF DIRECTORS
CHAIRMAN Vassi Naidoo

GROUP TRANSFORMATION, SOCIAL AND ETHICS COMMITTEE
CHAIR Nomavuso Mnxasana

GROUP INFORMATION TECHNOLOGY COMMITTEE
CHAIR Mantsika Matooane

GROUP RELATED-PARTY TRANSACTIONS COMMITTEE
CHAIR Malcolm Wyman

GROUP AUDIT COMMITTEE
CHAIR Malcolm Wyman

GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE
CHAIR Tom Boardman

GROUP CREDIT COMMITTEE
CHAIR Tom Boardman

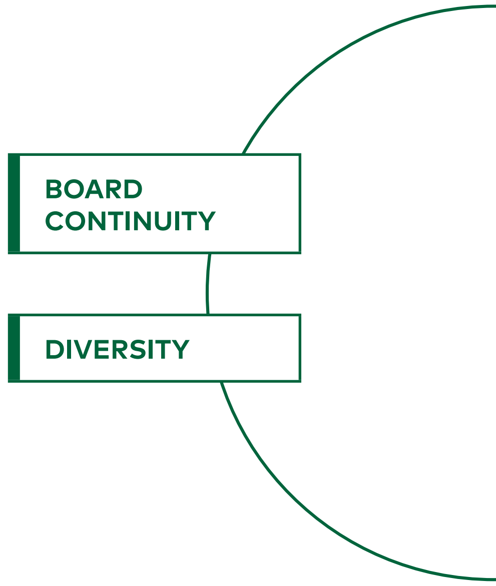
LARGE-EXPOSURE APPROVAL COMMITTEE
CHAIR Tom Boardman

GROUP REMUNERATION COMMITTEE
CHAIR Mpho Makwana

GROUP DIRECTORS' AFFAIRS COMMITTEE
CHAIR Malcolm Wyman

EXCO

A summary of each committee's key terms of reference and key focus areas for 2016 and the year ahead can be found on pages 4 and 5 and in the Governance and Ethics Review.



BOARD CONTINUITY PROGRAMME

The group's board continuity programme addresses the skills, experience and other qualities required for the effective functioning of the Nedbank Group board. It also sets out the processes relevant to the selection and appointment of directors, their induction and ongoing training, the evaluation of their performance, as well as succession planning. Over the next three years the following directors will reach the end of their nine-year tenure:

- Malcolm Wyman: August 2018
- Nomavusa Mnxasana: October 2017
- Joel Netshitenzhe: August 2019

Each boardmember reaching the end of his/her nine-year tenure will retire or, should the board so resolve, remain a boardmember, subject to an annual evaluation of his/her independence and his/her being put forward for reelection by shareholders.

During the year the following changes at group executive level took place:

- Philip Wessels – early retirement in 2016 from the position of Managing Executive, Nedbank Retail and Business Banking
- Ciko Thomas – appointment to the position of Managing Executive, Nedbank Retail and Business Banking
- Sandile Shabalala – resignation in 2016 from the position of Managing Executive Business Banking

Tom Boardman and David Adomakoh have notified the boards of their intention to resign as independent non-executive directors with effect from the close of Nedbank Group Limited's Annual General Meeting on Thursday, 18 May 2017. Errol Kruger will succeed Tom as the chair of both the Group Risk and Capital Management Committee and the Group Credit Committee at the close of the annual general meeting on Thursday, 18 May 2017.

Potential board candidates who have been identified and are currently undergoing the board and regulatory appointment process will further improve the above outcomes, particularly in respect of black female directors.

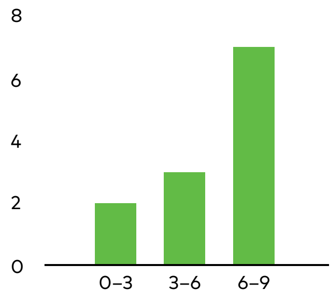
The following new directors were appointed during 2016:

Name	Type of directorship	Date of appointment	Experience/ Skills
Rob Leith	Non-executive	Oct 2016	Banking Financial services/ insurance/asset management Accounting and auditing Human Resources/ Strategic planning/ Stakeholder management
Errol Kruger	Independent non-executive	Aug 2016	Banking Financial services/ insurance/asset management Accounting and auditing

The group's policy on the promotion of gender diversity at board level has been incorporated into the board continuity programme. While it is not mandatory to set targets, we measure ourselves against the targets as contained in the Financial Sector Code. At 31 December 2016 results were as follows:

Category	Target	Current achievement	Outcome
Voting rights of black boardmembers as a percentage of voting rights of all boardmembers	**50%**	**52,94%**	**Exceeded**
Voting rights of black women boardmembers as a percentage of voting rights of all boardmembers	**25%**	**17,65%**	**Not met**
Black executive members of the board as a percentage of all executive members of the board	**50%**	**66,67%**	**Exceeded**
Black women executive members of the board as a percentage of all executive members of the board	**25%**	**33,33%**	**Exceeded**
Black independent non-executive boardmembers as a percentage of all independent non-executive boardmembers	**40%**	**60,00%**	**Exceeded**

Non-executive directors' tenure remaining
(Yrs)



INDEPENDENCE

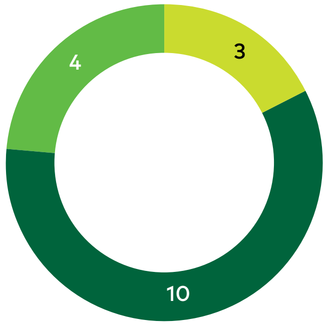
SKILLS AND EXPERTISE

CONFLICT OF INTEREST

INDEPENDENCE

Most of Nedbank's boardmembers are independent directors, which is in compliance with King requirements and ensures that the interests of minority shareholders are protected. In 2016 we strengthened board independence from 56% independent directors in 2015 to 59% in 2016. An independent board committee, chaired by our LID, is in place to resolve issues of conflict, and to provide oversight of our collaboration with Old Mutual and the managed separation.

Mix of directors



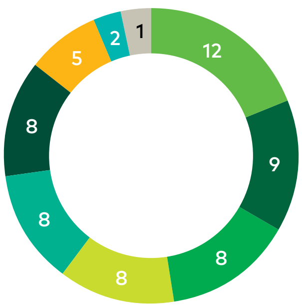
- Executive directors
- Independent non-executive directors
- Non-executive directors

CONFLICT OF INTEREST

A director or prescribed officer is prohibited from using his or her position, or confidential and price-sensitive information as a benefit for himself or herself or any related third-party, whether financial or otherwise. Directors and officers are also required timeously to inform the board of conflicts, or potential conflicts, of interest that they may have in relation to particular items of business or other directorships. Comprehensive registers are maintained of individual directors' interest in and outside the company and are updated and signed by the directors, with details noted by the board at each board meeting.

SKILLS AND EXPERTISE

Board of directors



- Banking
- Financial services/Insurance/Asset management
- HR/Stratgic planning/Stakeholder management
- Accounting and auditing
- Large corporate/Industrial
- Doing business in Africa/India
- Economics/Public policy/Macro policy
- Innovation/IT
- Mining and resources/Infrastructure

BOARD ATTENDANCE

Board attendance of 98% for 2016 was in line with our high standards of governance. Details of the attendance of board committee meetings are shown for each committee from page 104 onwards.

Board attendance 98% (2015: 98%)

Board attendance

	Nedbank Group Ltd Board	
	2016	2015
Number of meetings	**8**	8
Directors		
David Adomakoh	**8/8**	8/8
Tom Boardman	**8/8**	8/8
Mike Brown	**8/8**	8/8
Brian Dames	**8/8**	8/8
Ian Gladman	**7/8**	8/8
Paul Hanratty	**2/2**	7/8
Bruce Hemphill	**8/8**	1/1
Errol Kruger	**3/3**	
Rob Leith	**2/2**	
Mpho Makwana	**8/8**	7/8
Mantsika Matooane	**8/8**	8/8
Nomavuso Mnxasana	**7/8**	8/8
Raisibe Morathi	**8/8**	8/8
Vassi Naidoo	**8/8**	6/6
Joel Netshitenzhe	**7/8**	8/8
Mfundo Nkuhlu	**8/8**	8/8
Stanley Subramoney	**8/8**	2/2
Malcolm Wyman	**8/8**	8/8
Total	**124/127**	111/113

Our approach to compliance

COMPLIANCE WITH KING III

The board has unanimously embraced the King Code of Governance (King III), which has been embedded in our approach to governance and reporting.

The board has applied King III for the 2016 year with only two recommended practices that have not been adopted fully:

Overall score

AAA

Completeness meter

100%

Application meter

Status	Category	Score
●	Board composition	AAA
●	Remuneration	AAA
●	Governance office bearers	AAA
●	Board role and duties	AAA
●	Accountability	AAA
●	Performance assessment	AAA
●	Board committees	AAA
●	Group boards	AAA

Scoring key

AAA	Highest application
AA	High application
BB	Notable application
B	Moderate application
C	Application to be improved
L	Low application
●	Achieved

Recommended practice	Explanation
Nedbank Group Chairman Vassi Naidoo is not deemed independent as defined by the governance codes, as he serves on the board of the group's parent company, Old Mutual plc.	Accordingly, as recommended by King III, the position of LID was created in 2007 and is held by Malcolm Wyman.
Non-executive directors' fees do not comprise a base fee and an attendance fee per meeting.	Non-executive directors are accountable for decisions made regardless of attendance at meetings. Non-executive directors are also required, as a matter of course, to represent stakeholders and to make the necessary preparations for meetings and other engagements. This commitment is reflected in the excellent attendance of non-executive directors at board and board committee meetings (refer to pages 104 – 110). The Nedbank Group Remuneration Committee is satisfied that the fee structure applied in respect of non-executive directors remains appropriate.

TRANSITIONING TO KING IV

The King IV Report on Corporate Governance was published on 1 November 2016. Nedbank's existing governance framework and culture provide a solid foundation for the implementation of King IV.

Adopting King IV is a commitment to the philosophy of stakeholder inclusivity, corporate citizenship and protecting the value that we create, which is aligned to Nedbank's strategy. By approaching the shift from King III to King IV in an inclusive and integrated manner, we will ensure that principles and practices are applied with a focus on achievement of the four corporate governance outcomes, namely ethical culture, good performance, effective control and legitimacy.

Based on the level of King III application and compliance of the group, and considering the major changes emerging in the transition to King IV, we anticipate the following impact in each area of change:

King IV: Areas of change	Nedbank's initial response
Approach and application of the code	As set out above, Nedbank will continue to apply a holistic approach to compliance with the King IV principles.
Remuneration Policy: implementation and disclosure	Currently shareholders cast a non-binding vote with respect to the Nedbank Remuneration Policy. Nedbank will continue to ensure that its remuneration policies facilitate ongoing dialogue with shareholders (while updating its policies and disclosure). The full Remuneration Policy (as opposed to a summary/extract) is disclosed in the Remuneration Report, in which the implementation of the policy is set out. Shareholders therefore currently have an opportunity to consider the policy against how it has been implemented.
Deliberate separation of technology and information	Through our strategic enabler, Managed Evolution and Digital Fast Lane, Nedbank will ensure that information has the necessary governance structures, separate from those in place for technology, and will carry out a formal review of the adequacy and effectiveness of the organisation's technology and information function.
Social and ethics committee as a prescribed board committee	GTSEC ensures, monitors and reports with respect to company ethics, responsible corporate citizenship, sustainable development and stakeholder inclusivity, as envisaged by King IV.
Stakeholder responsibilities	Nedbank continues to act in terms of the stakeholder-inclusive model, in terms of which the needs, expectations and interests of stakeholders are not subject to or dependent on shareholder interests. The Nedbank board will continue to consider the legitimate and reasonable needs, interests and expectations of our stakeholders.
Risk	Nedbank's current approach to risk management is to view risk as a threat, an uncertainty or an opportunity. This will ensure Nedbank is aligned with risk management guidance contained in King IV.
Auditor independence and the audit committee	The GAC continues to oversee auditor independence and the approval of non-audit services. Furthermore, the GAC discloses any significant audit matters considered and how the matters have been addressed by the GAC. The additional disclosure has been included in the 2016 Audit Report, which is included in the Annual Financial Statements.
Group governance	The Nedbank board is responsible for group governance and for oversight of the implementation of the Group Governance Framework, which is approved and adopted by each subsidiary.
Combined assurance model	Nedbank will continue to adopt a practical approach to combined assurance, embedding activities to demonstrate assurance work undertaken across all lines of defence. The combined assurance plan has been presented to the GMCRC and the GAC.
Definition of independent directors	Nedbank regards the duty of independence of directors (whether executive, non-executive or independent) as exceptionally important and seeks to ensure that the board and committees have the necessary skills and experience to discharge their duties fully. The board and board committees are assessed annually to ensure that there is adherence to this requirement.
Strategy and performance	Strategy and performance are regarded as primary responsibilities of the board and every effort is made to ensure (as required by King IV) that strategy, opportunities, performance, business model and sustainable development are essential to the value creation process. Nedbank follows the principles of disclosure set out in King III and will apply the principle of 'apply and explain' as contained in King IV. Nedbank will continue its practice of high levels of disclosure.
Integrated thinking and the Integrated Report	Nedbank will continue to incorporate the philosophy of integrated thinking in operations and reporting. While the Nedbank Integrated Report is not audited, it includes information from various sources, on which assurance has been provided. The GAC will continue to consider the appropriateness of the assurance provided for information contained in the Integrated Report.

Once the impacts have been identified and analysed, changes required will be made by September 2017 for us to report on the application of King IV by 31 December 2017. Nedbank strives to achieve a high level of application of good-governance principles and practices, which are continually improved, to ensure the achievement of the governance outcomes.

Values

Governance is supported by the tone at the top, the example that the board and management set and the values and behaviours embraced by all employees in the organisation. Our Top 10 values that we measure through the bi-annual Barret survey show that 'accountability','performance-driven', 'client-driven', 'team work', 'client satisfaction' and 'brand reputation' represent six of the values currently present in the organisation.

Engaging with stakeholders on governance

We continually engage with stakeholders on governance and strategic matters contributing to the multiple factors that inform our strategy and the way in which we manage the bank. The engagement also enables our board to exercise constructive influence as and when appropriate, and to protect the interests of our shareholders.

Nedbank Group's third governance roadshow in April 2016 was hosted by Vassi Naidoo (Chairman) and Malcolm Wyman (Lead Independent Director). The overall response from shareholders was that Nedbank Group is highly regarded for its approach to governance. Investors were complimentary of the progress made on the issues raised during the 2015 governance roadshow, being: board independence/composition, leadership losses to Old Mutual, Ecobank Transactional Incorporated (ETI) shareholding-related issues and corporate performance targets (CPTs) in long-term incentive (LTI) schemes, as discussed in our 2015 Integrated Report.

In 2016 the following were the key issues discussed: the Old Mutual managed separation, positioning for a possible sovereign-credit-rating downgrade, ETI's financial performance, the Nedbank LTI share scheme and leadership bench strength.

The staff entropy is measured to assess the level of engagement within the group while aiming to create a closer fit between the existing and ideal structure. A reduction in cultural entropy seen in 2016 indicates high levels of staff morale and an increase since 2015. In addition 2016 saw an **increase in current-to-desired culture value match to 6** (2015:5).

Top-10 current culture values

Accountability
Performance-driven
Client-driven
Teamwork
Client satisfaction
Brand reputation
Integrity
Employee recognition
People-centred
Organisational growth

Entropy

▼ 12%

Healthy culture
(2015: 13%)

Current-to-desired culture value matches

▲ 6

Healthy match
(2015: 5)

Key deliberations		Our response and action
Old Mutual managed separation Read more about our investment case on pages 124 to 125.	The implications for staff, clients and Nedbank's strategy, the strategic shareholding to be maintained by Old Mutual, a potential share flowback or overhang, and the timeframe to conclude the orderly distribution of Nedbank shares.	The managed separation process is overseen by an independent board committee, chaired by the lead independent director with its primary role to ensure independence and protect the interests of minority shareholders. The managed separation is a transaction at shareholding level, with no impact strategically or operationally for Nedbank – it is business as usual at Nedbank with no complicated untangling of the businesses required. The distribution of Nedbank shares in an orderly manner and at an appropriate time to an Old Mutual emerging-market business that will be listed on the JSE with an emerging-market shareholder base will limit flowback or share overhang, with the benefit of an increased free float. We will continue to evidence strong progress with our strategy and the attractiveness of Nedbank as an investment. Old Mutual South Africa will continue to hold a strategic minority stake in Nedbank Group to underpin ongoing arm's length commercial collaboration.
Positioning for a sovereign-credit-rating downgrade Read more about how much stronger Nedbank is to weather a tougher environment on page 124.	Concerns around the impact on Nedbank of a possible SA sovereign-credit-rating downgrade to a subinvestment grade by globally recognised rating agencies.	We have planned for a tough and uncertain environment and over the past few years have been prudent in our lending and the transactions in which we have participated. Our business remains well positioned, with strong capital and liquidity levels. These precautions will ensure our ability to withstand the negative consequences of a possible rating downgrade. In addition, comprehensive stress-testing was performed and the resultant risk mitigation plan, 'Management's response to the risk of a severe stress event in SA', received board approval.
Operating conditions in Nigeria and ETI's financial performance Read more about our rest of Africa strategy on page 36.	ETI made a loss of $200m in the fourth quarter of 2015 and our share of this loss was accounted for a quarter in arrear in Nedbank's results for the first quarter of 2016. Additionally, ongoing macroeconomic challenges in oil-exporting countries, and the devaluation of the naira and currency shortages in Nigeria imply that Nedbank may have to impair its investment and ETI may have to raise capital.	The board is satisfied that Nedbank Group's rest of Africa strategy in Central and West Africa remains appropriate, notwithstanding the macroeconomic and regulatory risks and costs associated with banking in the rest of Africa. The appointment of the new CEO of ETI and concurrent change in the group's auditors at a time of economic stress in oil-exporting countries contributed towards higher impairments in the fourth quarter of 2015. Since then ETI has returned to profitability, albeit at lower levels given continued challenges in the Nigerian economy that we currently expect to persist into 2017 before improving in 2018 and beyond. Nedbank Group raised an impairment of R1bn against the carrying value of its investment in ETI in December 2016, reducing the carrying value to R4bn. Our strategic investment in ETI remains appropriate, as this enables participation in the long-term growth opportunities for financial services in Central and West Africa, in a risk-mitigated manner, while servicing our clients.
Leadership bench strength Read more about our leadership team on pages 16 and 17.	Shareholders were concerned about the loss of key members of our executive team and the potential impact of this on the execution of our strategy and overall performance. In 2016 Ciko Thomas replaced Philip Wessels as Head of Retail and Business Banking. Ciko Thomas has been on the Retail and Business Banking Executive Committee (Exco) for six years. Sandile Shabalala, Head of Business Banking, resigned to take up an opportunity outside the group. He has been replaced by Goolam Kader, but this role is no longer a Group Exco position and he reports to Ciko Thomas.	Nedbank's smooth succession process and depth of leadership while delivering a strong financial performance addressed investor concerns. Ciko Thomas has engaged with investors on numerous occasions and has received positive feedback. The handover of the various portfolios has been seamless and we have continued to see good progress with our retail strategy, as is evidenced by the performance of Retail and Business Banking in 2016, with the added benefit of a fresh pair of eyes making positive enhancements to both the strategy and the execution thereof. Appointments were made in accordance with our existing succession plans and bench strength. Overall, Nedbank's management is highly regarded and the strength of our management team is viewed as a strong factor for outperformance in this challenging macroeconomic environment.

Key deliberations		Our response and action
Long-term incentive (LTI) share scheme Read more about our long-term incentive schemes on pages 115 to 117.	The introduction of *malus* and clawback in 2015 was well received. Most investors acknowledged that Nedbank has one of the best remuneration schemes of the big four SA banks and that discussions around the LTI should be seen in this context. The discussions reflected mixed views on the merits of the FINI 15 or an equivalent benchmark as an LTI CPT.	The new *malus* and clawback provisions in respect of our LTI share scheme are now in effect for all awards made from March 2016 onwards. The ROE (excluding goodwill) and share price performance targets will remain unchanged from 2016. Two new strategic initiatives, with equal weighting of 10% each, replace the African Collaboration synergy target since this initiative only has one more year to run. ■ The two new strategic initiatives will be: □ benefits from the Target Operating Model (TOM); and □ growing the transactional banking franchise, where this comprises two underlying metrics: — grow household transactional accounts by client numbers — grow commercial transactional deposits by value For further details on the vesting ratios and targets for these two new strategic initiatives refer to page 116.

Feedback from our minority shareholders is extremely valuable and this input features extensively in our board deliberations. We will continue to build on our previous engagements with minority shareholders and look forward to good conversations again at our 2017 Governance Roadshow.

VOTING OUTCOMES OF THE 49TH ANNUAL GENERAL MEETING

All Nedbank Group resolutions were passed, exceeding 90% approval.

The following resolutions with respect to the election and reelection of directors were passed:

Resolution	For %
Ordinary resolution 1, item 3.1: Election as a director of Mr JB Hemphill, who was appointed as a director since the previous annual general meeting of shareholders	**99,76**
Ordinary resolution 1, item 3.2: Election as a director of Mr S Subramoney, who was appointed as a director since the previous annual general meeting of shareholders	**99,78**
Ordinary resolution 2, item 4.1: Reelection as a director of Mr DKT Adomakoh, who is retiring by rotation	**99,80**
Ordinary resolution 2, item 4.2: Reelection as a director of Mr ID Gladman, who is retiring by rotation	**99,78**
Ordinary resolution 2, item 4.3: Reelection as a director of Mr MI Wyman, who is retiring by rotation	**99,76**

Other noteworthy resolutions include the following:

Resolution	For %	
Ordinary resolution 4, item 6: Placing of unissued ordinary shares under the control of the directors	**93,74**	Shareholders are reminded that shares granted under this authority will be limited to 5% of the shares in issue and restricted to exiting contractual obligations to issue the shares.
Ordinary resolution 5, item 7: Placing of unissued preference shares under the control of the directors	**91,60**	Shareholders are reminded that shares granted under this authority will be limited to 5% of the shares in issue and restricted to exiting contractual obligations to issue the shares.
Item 8: Advisory endorsement on a non-binding basis of our Remuneration Policy	**94,12**	Our Remuneration Policy is receiving ongoing focus and we will continue to proactively engage with our shareholders.

Proxy voting for the 50th annual general meeting to be held on 18 May 2017 is available.

HOW THE BOARD ENGAGES WITH BUSINESS

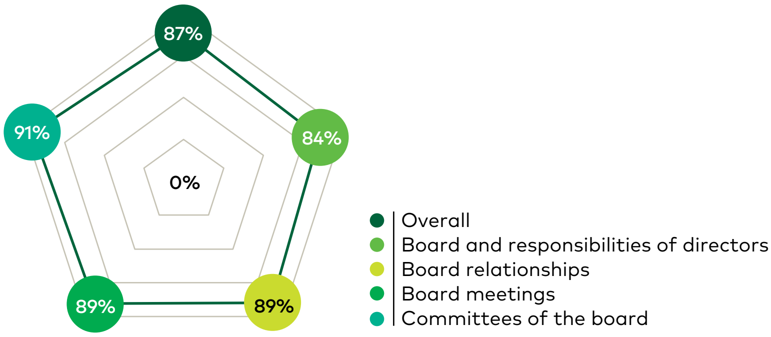
- Executive Directors Mike Brown, Mfundo Nkuhlu and Raisibe Morathi participate in all board meetings. Other members of management are invited to present and talk to their relevant businesses. Management are recused from closed meeting sessions. The Chief Risk Officer and Chief Governance and Compliance Officer attend all board and board committee meetings.
- Following an annual strategy session between the board and the Group Executives, the board interrogates and approves the Business Strategic Framework, multiyear strategy and relevant risk appetites. The board conducts onsite visits to various bank operations and business units, while one-on-one meetings may be requested by individual directors.
- A monthly CEO report provides comprehensive feedback to the board.
- There is increased interaction between the board and our stakeholders (for example, boardmembers are invited to client functions).

Ongoing evaluation

Through our governance structures and committees, decisions are made and innovative ideas are generated in the best interest of the bank and its stakeholders. Our committees are monitored annually for effectiveness and transparency. Decisions are reviewed for the value that they add to the bank and our clients.

The board and the board committees have been evaluated for 2016 and the results are as follows:

Nedbank overall board effectiveness dashboard assessment results for 2016



The Nedbank board and committee evaluations commenced in January 2017 and results were finalised during February 2017. The results were compiled by Pure Survey and submitted to the board and the various committees for tabling and discussion. Overall the results reflect that the boardmembers are in agreement that the board and committees are in operational compliance with their charters and that the committees are effective and efficient. Members have taken the time to provide valuable comments around the workings of the board and committees, developmental needs that committees might have and the value that individual members add to the committees. Any concerns or developments raised by members are followed up and action items will be implemented to address concerns and comments.

BOARD GOVERNANCE OBJECTIVES FOR 2016

The Nedbank board reviewed its governance objectives for 2016:

Key deliberations / How value was added in 2016	Self-assessment results in 2016
1 Maximisation of efficiency and profitability within acceptable risk parameters Annual strategy, risk and business planning sessions provide all business heads with the opportunity to incorporate key strategic issues. The board is involved in the planning sessions and has insight into and understanding of the interplay of risk, performance and sustainability. The group's strategy was refined and MLT targets were confirmed. Risks were all within board-agreed parameters.	Achieved
2 Implementation of the group's strategy within defined compliance requirements The Nedbank Risk Appetite Policy makes provision for zero tolerance for compliance risk and addresses all 17 risks. The board-approved Compliance Policy takes this further and mandates compliance with all regulatory requirements. All these are considered when strategy and business planning is taking place. Refer to pages 54 – 55 for further details on these risks.	Achieved
3 Adherence to correct and proper corporate behaviours and providing ethical leadership to the group The board sets the tone for the Executive Committee (Exco) and staff to act ethically. The board and Exco sign a board ethics statement annually. GTSEC are tasked with the oversight of ethical practices. Nedbank is very active in implementing an ethics framework in all clusters and subsidiaries. Last year there was continued adherence to ethical practices at all levels within the organisation and a total of 120 matters were investigated and resolved.	Achieved
4 Balancing the interests of shareholders and other stakeholders who may be affected by the conduct of directors or executives of the group within a framework of effective accountability The board has a clear understanding of its responsibility to internal and external stakeholders. Reputational-risk matters fall within the ambit of the DAC and are also discussed at board meetings where necessary. The group has a dedicated Stakeholder Engagement Policy and Reputational Risk Policy, which provide guidelines to staffmembers. The Governance Roadshow (refer to page 96) was conducted by the Group Chairman and LID in April 2016 to discuss important issues raised by minority shareholders.	Achieved

Key deliberations	How value was added in 2016	Self-assessment results in 2016
5 Minimisation or avoidance of conflict of interest between the business interests of the group and personal interests of directors or executives		
We have a Code of Conduct that applies to all directors and addresses outside interests and conflicts of interest within the bank. The conduct of each director is stipulated in the Appointment Policy and the letter of appointment of each director. The annual peer review relating to 2016 was conducted in January 2017 and the Chairman engaged with boardmembers to discuss individual results. At each board meeting in 2016 directors were given an opportunity to disclose outside interests and possible conflicts of interests.		Achieved
6 Timeous and accurate disclosure of matters that are material to the business of the group or the interests of stakeholders		
Mechanisms and processes are in place for constructive communication with investors, analysts and potential investors. Investor Relations works closely with Group Communications to manage media releases. The board continued to receive reports on management engagement with the investment community. Members of the board attended the annual general meeting where shareholders and stakeholders were present.		Achieved
7 Appropriate balance between conformance with governance requirements and an entrepreneurial spirit		
We have dedicated divisions such as Group Risk and Enterprise Governance and Compliance (EGC) to implement, monitor and report on regulatory programmes and various supervisory codes. Annual strategy and business planning sessions provide all business heads, including the board, with the opportunity to incorporate key strategic issues. The Chief Risk Officer (CRO) and Chief Governance and Compliance Officer (CGCO) are always present at these meetings. During 2016 over 30 new employees were appointed in Compliance. The implementation of the market conduct programme was finalised. Compliance officers ensure that all banking laws are adhered to in the development of new products.		Achieved
8 Achievement of balanced and integrated economic, social, environmental and cultural performance and the implementation of integrated sustainability across the business		
As our strategic response, Fair Share 2030 harnesses the full suite of our business and investment capabilities to help meet the future societal needs of SA and is a deliberate effort to enable sustainability through our products and services. Nedbank has a year-on-year focus to maintain its status as the 'green bank'. The Energy Efficiency Guide aimed at supporting clients in their decisions with respect to embedded generation technology and financing options was developed. A R350m term sheet has been issued for the financing of Kigeni's installation of a rooftop solar photovoltaic (PV) system for the Remgro Group.		Ongoing commitment
9 Efficient and effective functioning of the Enterprisewide Risk Management Framework (ERMF)		
The ERMF establishes formal governance, procedures and processes for all risks, both known and unknown. This framework is reviewed regularly by the GRCMC. The ERMF was refreshed during 2016 to ensure that it is responsive to both the internal, external and regulatory environment in which banks operate. The board is advised of all developments and approves changes to the ERMF.		Ongoing commitment
10 Compliance in substance, not just in form, with the provisions of the Code of Corporate Practices and Conduct of the King III Report on Corporate Governance 2010, as well as the main acts and regulations affecting the financial services industry		
In all instances we endeavour to apply the principles and recommendations of King III fully. When it cannot be done, alternative measures are applied and explained. The EGC Framework makes provision for our compliance risk management procedure. This procedure deals with the identification, assessment, management, control, monitoring and reporting of compliance risk through the various governance structures, including the Group Opcom, the Enterprisewide Risk Committee (Erco) processes, the DAC and the board.		Ongoing commitment

BOARD GOVERNANCE OBJECTIVES FOR 2017

In view of the board recommendation that the current objectives be reviewed as they have served their purpose. New governance objectives have been developed and approved by the board:

1 Ethical and effective leadership

Setting the tone at the top and leading the group ethically and effectively. This means that, in their decisionmaking, individual boardmembers should act with independence, inclusivity, competence, diligence, courage and with the necessary insight, information and challenge.

2 Leadership for sustainable growth and corporate citizenship

Providing leadership and vision to the group that will ensure sustainable growth and appropriate corporate citizenship for the benefit of all group stakeholders.

3 Effective controls facilitating risk vs opportunity analysis

Ensuring that there is a framework of prudent and effective controls, which enables risk and opportunity to be assessed and managed effectively but with the necessary entrepreneurial mindset.

4 Responsibility and accountability for the group's performance

Being ultimately responsible and accountable for the performance of the group and supporting the group in setting its purpose and vision and achieving its strategic objectives. These responsibilities include:

- delegating management of the group to a competent executive management;
- providing input and oversight regarding succession planning for key management roles;
- governing technology;
- governing information;
- ensuring compliance with appropriate legislation, including regulations, supervisory codes and appropriate best practices;
- governing disclosures so that stakeholders can effectively assess the performance of the group;
- safeguarding the interests of the group's stakeholders;
- ensuring fair, responsible and transparent people practices; and
- having oversight of the risk appetite and adequacy and effectiveness of the Enterprisewide Risk Management Framework, which will include key risks, key performance indicators, as well as strategic, business and operational risks arising from the execution of Nedbank business strategies, decisionmaking practices and/or processes.

5 Responsibility for sound corporate governance

Being responsible for sound corporate governance in the group and for governance at board and board committee level. The board is responsible for the board and its committees' performance, including:

- evaluating the effectiveness and composition of the board and its committees to improve their performance;
- disclosing all outside interests or possible conflicts;
- providing oversight and guidance with regard to succession planning;
- creating governance structures to ensure the effective discharge of responsibilities; and
- taking responsibility for the group's remuneration practices, which should be aligned to best market practices but also consider the sociopolitical environment in which the group operates.

Leadership through ethics and human rights

GOVERNANCE OF ETHICS

The board assumes ultimate responsibility for the company's ethics performance. This is done through the following:

- Driving the ethical **AWARENESS** of the following stakeholders –
  - **Staffmembers:** They are required to attend awareness training and complete acknowledgement of policies, such as the Code of Conduct and Code of Ethics.
  - **Suppliers:** The Ethics Office was involved in eight high-risk/high-value tender processes, covering assessments done on all participating suppliers, as well as in introductory training provided to SME clients.
  - **Clients:** The Ethics Office continued with a series of training and governance products as part of our client value proposition within our Retail Relationship Banking (RRB) and Business Banking areas.

Staff acknowledgement of the Code of Conduct and Code of Ethics

▲ **98,1%**

(2015: 97,8%)

- Ensuring that stakeholder ethical **ENGAGEMENT** is possible through mechanisms such as the Nedbank Group Risk Reporting Line.

This responsibility is delegated to executive management, which uses various management frameworks to fulfil this mandate, including:

Board Ethics Statement
Ethical leadership and effective leadership should complement and reinforce each other. In line with this requirement, our boardmembers, our subsidiaries, group executives and cluster executives are required to acknowledge and sign the statement every year.

African subsidiary implementation
Because expansion into the rest of Africa is a key component of our strategy and vision, our Ethics Office has implemented the full Nedbank Group ethics programme within our African subsidiaries. There has been considerable engagement with Nedbank Namibia and Swaziland, with further implementation of the ethics programme, awareness training and monitoring of gifts and outside interests.

Appointment of ethics officers in all business clusters
Most of the established ethics officers have completed the first half of the ethics officer internship supported by EthicsSA. The value that the business ethics officers add, was evident from the number of reports to the Ethics Office increasing substantially during 2016.

We have also developed an ethics internship and are in the process of accrediting the internship through the University of Stellenbosch Business School with the assistance of the Ethics Institute. This is a first in SA.

Independent assurance of high-risk/high-value tenders
This process, which started in 2014, still continues to assist business in a cost-effective but high-quality process to maintain the highest governance standards during tenders.

COMMITTED TO UPHOLDING HUMAN RIGHTS

We embrace and uphold the protection of human rights as enshrined in the SA Constitution and, specifically, the Bill of Rights. We also adhere to the 10 principles of the United Nations Global Compact (UNGC) and have shown significant progress in implementing the requirements of the John Ruggie Report, which was commissioned by the UNGC.

Highlights of 2016

All **human rights-related policies** have been approved by the board during 2016 and the requirements addressed with line managers in the **managers toolkit training**.

Comprehensive reports on compliance with the **Equator Principles** and the data generated by our **social and environmental management system** are compiled.

The **Ethics Responsibility Index (ERI)** is implemented across all high-risk/high-value tender processes, and includes a detailed section on **human rights** as a component of our business partnership requirements.

Our **Supplier Code of Conduct** forms part of the contracts with our **vendors and suppliers**.

Continued investment in raising stakeholder awareness of and compliance with **human rights principles**.

On 10 May 2016 a multistakeholder meeting was held at Nedbank on a new initiative calling on companies to put an end to the sexual exploitation of children in SA. The meeting was hosted by Nedbank, the National Business Initiative and the Corporate Responsibility to Eliminate the Sale of Children (CRES). The initiative focuses on mobilising the private sector, who has the capacity to play a major role in permanently disrupting one of the worst crimes against children of today. As an initial step CRES asked the private sector to take a stand by joining a common pledge of support. Nedbank was the first corporate member to take a stand with CRES.

The Nedbank Children's Rights Pledge was launched on 8 November 2016 at the 'Building Partnerships for the Protection of Children' conference hosted by Nedbank, the National Business Initiative, CRES, the Sale of Children, the Global Child Forum and the UN Global Compact. A working group was formed to address the requirements of the pledge for Business SA. The SA Police Service, the Financial Intelligence Centre, Interpol, Child Welfare and representatives from financial institutions make up the membership of the group. The other high-level stakeholders include the JSE and the Banking Association of SA. More than 80 corporates and children's rights organisations attended the conference.

Board committee feedback

Group Information Technology Committee (GITCO)

MANTSIKA MATOOANE
Chair

'I am delighted with the progress made in advancing and executing on the bank's enterprisewide IT strategy in 2016. The committee oversaw renewed commitment and focus on delivery, with the execution of the group's Managed Evolution strategy and the advent of the Digital Fast Lane being the most notable examples of this commitment and focus.'

Members	Committee member since	Board status	Meeting attendance
MA Matooane (Chair)	15 May 2014	Independent non-executive	4/4
PM Makwana	4 May 2012	Independent non-executive	3/4
JK Netshitenzhe	17 January 2014	Independent non-executive	3/4
BA Dames	30 July 2014	Independent non-executive	4/4

Mandate

The primary focus of the committee is to review and approve our IT strategy and to ensure that there is good governance throughout the IT ecosystem by ensuring the effectiveness and efficiency of our information systems from a strategic alignment and risk perspective, as required by the Banks Act and in support of the requirements of the Group Audit Committee.

Ensuring and protecting value in 2016

- Production stability – The improving production stability trend continued during 2016 with fewer hours lost than in previous years. The increasing risk of cyberattacks was well managed, with minimal downtime and no financial losses.
- The Managed Evolution strategy – The key objectives of the Managed Evolution strategy are to embrace 'digital' in our operating platforms and to place the client at the centre of the journey, positioning us to meet our aspirational targets over the next 12 to 24 months, being the Enterprise Client Onboarding and Servicing, Payments and Ecommerce, Loyalty, Regulatory Change and Rest of Africa.
- Digital Fast Lane – In an ever-changing operating landscape, the importance of the intersection of financial services, technology and the client is becoming increasingly apparent, as evidenced by the global megatrends that 'technology will change everything' and that 'social and behavioural change' is driving the evolution of the banking landscape. Disruption of the financial sector is clearly underway. Our strategic response to the rapid disintermediation of banking services through changes in client preferences and technology disruption has been to formalise the constitution of a Digital Fast Lane (DFL) capability. Good progress has been made following board approval during July 2016 to establish the role of a Chief Digital Officer and a DFL capability for the group. The DFL operating model has been confirmed with domain capability build and 2017 delivery roadmap in progress.
- Data as an asset – In response to our need to focus on new technologies and new ways of working in the data and analytics space, with effect from 1 October 2016 a Chief Data Officer with enterprisewide mandate has been appointed to establish, advance and manage the following capabilities across the enterprise: enterprise data architecture, enterprise data governance, information life cycle management, big data and advanced analytics, data science and data analysis.
- Our response to the Financial Technology (Fintech) Revolution with a specific focus on blockchain as a potentially disruptive emerging technology saw the setting up of a groupwide work group to coordinate blockchain initiatives and identify cases across the group where its use is relevant. The blockchain programme will include contributions from stakeholders across the group and local industry (where relevant) and allow us to experiment with the technology, build expertise and capability, and land an operationalised use case into our business environment.
- Leveraging mobile and digital ecosystems for workforce productivity and enhanced client experiences led to numerous projects and initiatives being implemented. These include: Great Digital Place to Work (GDPW) and Microsoft Office 365 as part of a comprehensive cloud strategy. In support of client-centred innovation, a range of innovative capabilities, propositions and practises such as Branch of the Future, the Webtickets app, Send-iMali™, the Nedbank App Suite™ Ecosystem, Approve-it™, and the Nedbank.co.za website has been developed.

Focus for 2017 and beyond

- Deliver the Managed Evolution IT strategy in a manner that creates competitive advantage.
- Coordinate and implement the Regulatory Change Programme in a way that creates a strategic competitive advantage.
- Place client-centred simplification and digitisation at the heart of everything we do.
- Create data- and analytics-driven platforms.
- Focus on digital innovation and leveraging new technologies.
- Stay ahead of the curve in all matters pertaining to cybersecurity.
- The Group IT Committee will continue its proactive participation and leadership in the consideration of new ways of working and the adoption of new technologies.

MATERIAL MATTERS

- Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality.
- Increased demands on governance, regulation and risk management
- Management of growth opportunities vs risks in Rest of Africa
- Scarce- and evolving-skills requirements

STAKEHOLDERS

- Clients
- Shareholders
- Regulators
- Staff

Group Audit Committee (GAC)

MALCOLM WYMAN
Chair

'The Audit Committee continues to play an essential role in ensuring the integrity and transparency of corporate reporting and this year the committee paid specific attention to the key accounting issues and key audit matters, including the scheduling of two additional ad hoc meetings.'

Members	Committee member since	Board status	Meeting attendance
MI Wyman (Chair)	19 November 2009	Lead Independent Non-executive	8/8
TA Boardman	13 May 2014	Independent non-executive	8/8
PM Makwana	2 September 2013	Independent non-executive	5/8
NP Mnxasana	1 October 2008	Independent non-executive	8/8
S Subramoney	23 October 2015	Independent non-executive	8/8

Mandate

- Assist the board in its evaluation of the integrity of our financial statements through evaluation of the adequacy and efficiency of our internal control systems, accounting practices, information systems and internal auditing processes applied in the day-to-day management of our business.
- Manage the relationship with the external auditors and assess their independence and effectiveness.
- Facilitate and promote communication between the board, executive management, the external auditors and the Chief Internal Auditor.
- Introduce measures to enhance the credibility and objectivity of financial statements and reports prepared with reference to the financial affairs of the group.

Ensuring and protecting value in 2016

- Considered, analysed, reviewed and debated information, key judgements and significant matters raised by management, internal audit and the external auditors to ensure that the results of the group and the balance sheet position at the end of the year are appropriate.
- Reviewed and discussed information from management, internal audit and external auditors and considered that the internal controls of the group had been effective in all material respects throughout the year under review.
- Reviewed and discussed the audited annual financial statements (AFS) and related disclosures with the CFO, the CE, the CRO, internal audit and the external auditors, and recommended the AFS to the board for approval.
- Reviewed and approved the external auditors' annual plan and related scope of work, monitored the effectiveness of the external auditors in terms of their audit quality, expertise and independence, and considered the key audit matters reported in the external audit annual report. As part of our transformation commitment and the development of the auditing profession, we identified a number of smaller statutory audits, which were put out to tender and awarded to a mid-tier black-owned accounting firm.
- Ensured that internal audit performs an independent assurance function and monitored 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. Monitored and challenged, where appropriate, action taken by management with regard to adverse internal audit findings.
- Assessed compliance with all other statutory duties in terms of section 94(7) of the Companies Act of 2008, King III and King IV and JSE Listing Requirements and any other applicable regulatory requirements.

Focus for 2017 and beyond

- Review and consider management's plans in respect of future changes to IFRS and other regulations, most notably:
  - IFRS 9: Financial Instruments – including review of the outcome of parallel reporting during 2017 and review and assessment of the key judgements.
  - IFRS 15: Revenue – including review of the final implementation assessment of impact on systems, processes and disclosure.
  - King IV – assessment of the updated requirements to be complied with.
- Continued focus on ensuring that the group's financial systems, processes and controls are operating effectively, are consistent with our complexity and are responsive to changes in the environment and industry.
- Monitor the developments and reports from the Independent Regulatory Board of Auditors (IRBA) in connection with mandatory audit firm rotation.

Refer to the Annual Financial Statements available online.

MATERIAL MATTERS

- Disruptive technologies, disintermediation and increased competition.
- Increased demands on governance, regulation and risk management.
- Management of growth opportunities vs risks in Rest of Africa.
- Scarce- and evolving-skills requirements.

STAKEHOLDERS

- Clients
- Shareholders
- Regulators
- Communities and environment

Group Transformation, Social and Ethics Committee (GTSEC)

NOMAVUSO MNXASANA
Chair

'The Group Transformation, Social and Ethics Committee appreciates that the duty of care has become more complex, and comprehends the increasing need to be aware of and respond to the changing world in which Nedbank operates. Over the year the committee has strived to ensure that Nedbank's business activities and outputs have had positive societal impacts, while protecting the environment on which societal success depends. Focused decisionmaking and related business judgement calls in this regard have served to enhance Nedbank's value-creation ability.'

Members	Committee member since	Board status	Meeting attendance
NP Mnxasana (Chair)	20 February 2015	Independent non-executive	3/3
DKT Adomakoh	28 October 2016	Independent non-executive	–
PB Hanratty	23 October 2014 *(resigned 12 March 2016)*	Non-executive	0/1
PM Makwana	30 January 2012	Independent non-executive	3/3
S Subramoney	23 October 2015	Independent non-executive	3/3

Mandate

To advise, oversee and monitor our activities with regard to social and economic development, ethics, transformation, sustainability, corporate citizenship, the environment, health, public safety, stakeholder relationships, labour and employment matters. To comply with recommended practices as outlined in King III in executing its mandate.

The composition of the GTSEC complies with the requirements of the Companies Act, 71 of 2008 (as amended).

Ensuring and protecting value in 2016

- Requested that Nedbank understand its role in helping to address the Fees Must Fall issue. This has resulted in the establishment of an ad hoc committee, which is coordinating our response.
- Assessed the culture workstream to reshape our target operating model and the impact that digitisation would have on headcount, processes, costs and skills.
- Requested that members of Group Exco liaise with black business forums to highlight our leadership in transformation.
- Monitored regulatory developments and accordingly reviewed the transformation strategy and achievement against identified targets. The committee is satisfied with our target-setting methodology.
  Supplier development has been a focus area. At 31 December 2016 the group achieved a level 2 BBBEE score.
- Monitored progress of the upscaling of Fair Share 2030. The committee is satisfied with the progress achieved to date.
- Monitored activities relating to socioeconomic development (including external skills development), access to finance, lending to enable healthcare, housing and education, enterprise development, community upliftment, economic empowerment and preferential procurement. The committee is satisfied with the progress to date.

Focus for 2017 and beyond

- Provide critical challenge of delivery against our new purpose statement.
- Manage the impact of the realigned Financial Sector Code, with emphasis on the priority elements of skills development, supplier development, enterprise development and preferential procurement. Drive our transformation agenda, including the impact of regulatory requirements and targets, and building a culture of inclusion.
- Understand the impact of long-term macro trends on the business and our response.
- Review the Fair Share 2030 Impact Dashboard to assess progress of Fair Share 2030 as a strategic enabler.
- Monitor how best practice regarding ethics management is implemented in the group, benchmarked against ongoing research on international standards and collaboration with relevant stakeholders such as EthicsSA.

MATERIAL MATTERS

- Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality.
- Increased demands on governance, regulation and risk management.
- Management of growth opportunities vs risks in the rest of Africa
- Transformation of society within environmental constraints.
- Scarce- and evolving- skills requirements.
- Changing relationships between business, government, labour and civil society.

PRIMARY STAKEHOLDERS

- Clients
- Staff
- Regulators
- Communities and the environment

More information can be found online in the Group Sustainable Development Report.

Group Remuneration Committee (REMCO)

MPHO MAKWANA
Chair

The governance of executive remuneration has remained a key feature of the corporate governance landscape in 2016. Achieving fair and responsible remuneration outcomes is a continuous focus, and one that the members of Group Remco has applied its mind to. Nedbank continues to monitor and address pay differentials, ensuring they are fair and defensible. In line with our Remuneration Policy, variable pay must be funded from sustainable performance. Furthermore, the distribution of variable pay between the different job levels must be fair and in line with our pay-for-performance principle, while showing consideration for restraint at the top end.

Members	Committee member since	Board status	Meeting attendance
PM Makwana (Chair)	30 January 2012	Independent non-executive	6/6
JB Hemphill	25 November 2015	Non-executive	4/6
NP Mnxasana	31 July 2009	Independent non-executive	5/6
MI Wyman	1 March 2010	Lead independent director	6/6

Mandate

To enable the board to achieve its responsibilities in relation to the group's Remuneration Policy, processes and procedures and specifically to enable the group:

- to meet the requirements of section 64C of the Banks Act;
- to operate remuneration structures that are aligned with best market practice;
- to conform to the latest thinking regarding good corporate governance on executive remuneration; and
- to align the behaviour of executives correctly with the strategic objectives of the group.

Ensuring and protecting value in 2016

- Continued engagement with our shareholders on the group's Remuneration Policy. We received a 94,12% approval of our policy at the AGM held in May 2016.
- Monitoring of income differentials in our endeavour to ensure fair and defensible remuneration.
- Implemented the previously announced changes to the LTI arrangements relating to *malus* and clawback.
- Commissioned externally facilitated training on 'Effective Interactions' between Remco and the Risk Committee.
- Reviewed the remuneration processes for employees in the risk and control function to ensure adequate governance and independence.
- Ongoing review of key employee benefits, including the Nedgroup Medical Aid Scheme, the Postretirement Medical Aid and Risk Cover portfolios.
- Continued the refresh of our performance management approach, the aim of which is to improve support of the bank's strategic objectives.

Focus for 2017 and beyond

- Roll out our refreshed performance management approach at senior levels with the intention of a full rollout in 2018.
- Continue engaging with our shareholders on our Remuneration Policy, ensuring the appropriateness of our reward arrangements.
- Introduce new strategic initiatives as corporate performance targets for the 2017 LTI awards to replace the Africa Collaboration Synergy target, which has only one more year to run. The new targets will be the following:
  - Achieve benefits from the target operating model (TOM).
  - Grow the transactional banking franchise.
  - Grow the commercial transactional market share.
- Review our remuneration practices, ensuring they continue to comply with the changing legislative and regulatory requirements, including King IV and the JSE Listings Requirements.

MATERIAL MATTERS

- Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality.
- Increased demands on governance, regulation and risk management.
- Scarce- and evolving-skills requirements.

PRIMARY STAKEHOLDERS

- Staff
- Shareholders
- Regulators

More information can be found online in the Remuneration Report and on pages 80 to 87 and 111 to 119.

Group Credit Committee (GCC)

TOM BOARDMAN
Chair

'In 2016 the SA operating environment was volatile, characterised by the uncertainty around the possible sovereign-credit-rating downgrade, drought negatively affecting the agricultural sector and the Fees Must Fall campaign. The quality of Nedbank's credit portfolio remained resilient and the level of impairments are adequate amid the continued challenging operating conditions. Nedbank continues to monitor portfolios prudently, underpinned by sound credit risk management processes.'

Members	Committee member since	Board status	Meeting attendance
TA Boardman (Chair)	1 July 2011	Independent non-executive	7/8
DKT Adomakoh	1 September 2015 (resigned from the committee 1 August 2016)	Independent non-executive	4/5
MWT Brown	1 July 2011	Chief executive	8/8
BA Dames	30 July 2014	Independent non-executive	8/8
ID Gladman	27 July 2012	Non-executive	8/8
PB Hanratty	11 May 2015 (resigned 12 March 2016)	Non-executive	0/2
EM Kruger	1 August 2016	Independent non-executive	3/3
RAG Leith	13 October 2016	Non-executive	2/2
RK Morathi	1 July 2011	Chief financial officer	7/8
MC Nkuhlu	1 January 2015	Chief operating officer	6/8
S Subramoney	23 October 2015	Independent non-executive	8/8

Mandate

The GCC assists the board in fulfilling its credit risk oversight responsibilities, particularly with regard to the evaluation of credit mandates and governance, policies and credit risk appetite. It is responsible for confirming the adequacy and efficiency of credit impairments and ongoing monitoring of the overall credit portfolio.

The GCC also acts as the designated committee appointed by the board to monitor, challenge and ultimately approve all material aspects of the group's Advanced Internal Rating Based (AIRB) credit rating and risk estimation systems and processes. SARB requires that the GCC is chaired by a non-executive director. The current membership includes four independent non-executive directors, two non-executive directors and three executive directors.

Ensuring and protecting value in 2016

- The committee is satisfied that impairments were adequately provisioned, the risk is priced appropriately and monitored on an ongoing basis. This, together with our strategic portfolio tilt initiatives, which included a selective growth strategy in Personal Loans, Home Loans and Commercial Property Finance, has proactively limited downside risk in the challenging operating environment, enabling a group CLR of 0,68%, which is at the bottom end of the through-the-cycle target range of 0,60% – 1,00%.
- The committee is satisfied with the implementation of additional regulatory requirements:
  - SARB Circular 5/2015 dealing with the removal of implicit support in the absence of a formal guarantee when rating SA government-owned entities.
  - Revised curing definition whereby we now hold an account in default for at least six months after it has cured before moving it back into performing.
- There were concentration risk deep dives into, among others, the commercial real estate, resources (including oil, gas, commodities and agricultural portfolios) as well as the impact of a possible sovereign-credit-rating downgrade. The committee is satisfied that the concentration risk was well managed and in line with risk appetite. The direct sensitivity to a sovereign-credit-rating downgrade is minimal on the group portfolio.
- The IFRS 9 Programme is on track and the committee is satisfied that Nedbank is well positioned for a parallel run in 2017, with go live date 1 January 2018.

Focus for 2017 and beyond

- Monitoring movements in impairments in the volatile macroeconomic environment to ensure their adequacy.
- Perform risk management of distressed portfolios, key watchlist clients and industry-specific concentration risk.
- Focus on prevalent regulatory change in the context of the global increase in regulation and the impact thereof on the Nedbank credit risk profile.
- Continue to monitor and determine credit and concentration risk appetite and the impact thereof on origination strategies.
- Continued focus will be placed on the preparations for the implementation of IFRS 9 effective 1 January 2018, and the related strategic impacts will be considered.

MATERIAL MATTERS

- Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality.
- Increased demands on governance, regulation and risk management.
- Managing risks in rest of Africa.
- Scarce- and evolving-skills requirements.

PRIMARY STAKEHOLDERS

- Clients
- Shareholders
- Regulators

Refer to Nedbank's Pillar 3 Risk Disclosure Report and Analyst Booklet for Risk and Capital.

Group Risk and Capital Management Committee (GRCMC)

TOM BOARDMAN
Chair

'The world is rapidly evolving with the emergence of new technology, shifting political, economic and regulatory change, all heralding corresponding risk. Risk management is fundamentally about pricing and provisioning properly, especially when indications of stress appear. The GRCMC ensures proactive risk management appropriately catering for this complex environment.'

Members	Committee member since	Board status	Meeting attendance
TA Boardman (Chair)	20 February 2015	Independent non-executive	6/6
MWT Brown	23 October 2015	Chief executive	4/6
ID Gladman	27 July 2012	Non-executive director	5/6
EM Kruger	1 August 2016	Independent non-executive	2/2
RAG Leith	13 October 2016	Non-executive director	1/1
NP Mnxasana	19 November 2009	Independent non-executive	5/6
JK Netshitenzhe	21 October 2010	Independent non-executive	5/6
MI Wyman	14 November 2011	Independent non-executive	6/6

Mandate

The role of the GRCMC is primarily to set and own the risk strategy of Nedbank, taking into account all variables (known and unknown) and to ensure that both risks and opportunities are appropriately identified, monitored, managed, priced and/or appropriately provisioned within Nedbank's defined risk appetite.

The committee monitors risk across Nedbank's ERMF (refer to pages 120 to 123), with certain risk types being delegated to specialist committees for specific focus and attention – these include accounting and taxation risks, information technology risks, credit risk, compliance and corporate governance risk, reputational, social and environmental risks, and people risk.

In terms of the committee's mandate, it oversees the development of a risk strategy and the group risk plan, approves the group's risk appetite, approves and reviews risk policy for Nedbank, ensures the development and maintenance of an ICAAP, monitors ALM processes and maintains the group's ERMF.

Ensuring and protecting value in 2016

- Oversaw our AML/CFT and sanctions programme, which continued to made good progress (refer to pages 120 and 121), and transforming from a pure compliance to a risk based approach.
- Monitored our Key Issues Control Log (inclusive of the ETI impact).
- Oversaw the Regulatory Change Programme (refer to page 33).
- Regularly monitored external economic factors and incorporated these into groupwide stress and scenario testing to ensure that the committee understoods, and appropriately responded to Nedbank's earnings, liquidity and capital resilience to severe macroeconomic events.
- Undertook specific scenario testing on the possible economic impacts of an SA sovereign-credit-rating downgrade.
- With the ERMF refresh in 2015, elevated financial crime risk to a stand-alone risk category. Focused on, among others, cybercrime and the analysis of systems and mainframes to ensure that the bank was proactively bolstered against the threat of cybercrime.
- Placed our top ten risks and the CRO's top-of-mind issues as regular items on the agenda to ensure these were given the appropriate attention.

Focus for 2017 and beyond

- Continued focus on Nedbank's top 10 risks
- Continue to have a keen eye set on macroeconomic conditions and to monitor the implementation of liquidity and capital requirements as required by Basel III, the group's Regulatory Change Programme and the completion of our AML, CFT and sanctions programme.
- Focus on the alignment of TCF market conduct programme to the Twin Peaks model, which will reach its second phase in 2017.
- Continued focus on Nedbank's transformation from cybersecurity to cyber-resilience.
- Using risk management as a strategic opportunity to competitively leverage Nedbank.

MATERIAL MATTERS

- Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality.
- Disruptive technologies, disintermediation and increased competition.
- Increased demands on governance, regulation and risk management.
- Managing growth opportunities vs risks in rest of Africa.
- Transformation of society within environmental constraints.
- Scarce- and evolving-skills requirements.
- Changing relationships between business, government, labour and civil society.

PRIMARY STAKEHOLDERS

- Staff
- Clients
- Shareholders
- Regulators

Refer to Nedbank's Pillar 3 Risk Disclosure Report and Analyst Booklet for Risk and Capital.

Group Related-party Transactions Committee (RPTC)

MALCOLM WYMAN
Chair

'The RPTC, as a committee comprising only independent directors, plays an important role in protecting the interests of minority shareholders in related-party transactions'.

Members	Committee member since	Board status	Meeting attendance
MI Wyman (Chair)	11 May 2015	Lead independent director	5/5
JK Netshitenzhe	11 May 2015	Independent non-executive	4/5
TA Boardman	11 May 2015	Independent non-executive	5/5
PM Makwana	11 May 2015	Independent non-executive	5/5
DKT Adomakoh	11 May 2015	Independent non-executive	4/5

Mandate

This committee's primary objectives are to:

- consider, review, evaluate and provide oversight over related-party transactions of all types and to approve, ratify, disapprove or reject a related-party transaction;
- determine whether the related-party transaction is fair and in the best interest of Nedbank;
- review, revise, formulate and approve policies on related-party transactions; and
- conduct a review of all related-party transactions concluded throughout the group at least once a year.

Ensuring and protecting value in 2016	Focus for 2017 and beyond
■ Oversight in assessing and managing the impact of the Old Mutual managed-separation strategy on Nedbank. This includes working with Old Mutual to establish the terms on which Old Mutual will reduce its shareholding in Nedbank to a strategic minority position, as well as considering the future commercial relationship between Nedbank and the proposed SA-listed Old Mutual Topco after the orderly distribution of Nedbank's shares. ■ Continued oversight of the Mutual Collaboration Programme. ■ Disclosed IAS 39 Related-party on-balance-sheet transactions disclosed in the annual financial reporting.	■ Old Mutual plc managed separation including ongoing commercial arrangement and any future related-parties transactions.

MATERIAL MATTERS

Increased demands on governance, regulation and risk management

PRIMARY STAKEHOLDERS

Shareholders

Regulators

Remuneration review

This Integrated Report includes a summary of our Remuneration Policy and outcomes. A comprehensive report is available online at nedbankgroup.co.za.

Our governing principles

Our Remuneration Policy provides a framework for the management of total remuneration within the group, and also supports the Nedbank employee value proposition.

To ensure that we protect value we use the following guiding principles with regard to remuneration:

- To enable the attraction, motivation and retention of high calibre people, with the right mix of experience, skills and knowledge to deliver on the strategy.
- To support and reinforce our desired culture and encourage behaviour consistent with our values, thereby stimulating employee engagement.
- To create appropriate balance and alignment between the needs, expectations and risk exposures of our stakeholders, including our staffmembers, clients, shareholders, regulators and communities to ensure the creation of sustainable long-term value for each of these.
- To incentivise employees to deliver sustained high levels of performance and excellent execution of our strategic priorities, while being cognisant of the impact this delivery has on our risk profile and exposure.
- To enable appropriate transparency in the development of remuneration programmes and the allocation of individual remuneration to ensure equity and fairness based on valid and appropriate external and internal benchmarks.
- To align with the principles of good corporate and remuneration governance, ensuring an appropriate share of value for the relevant stakeholders in our business.

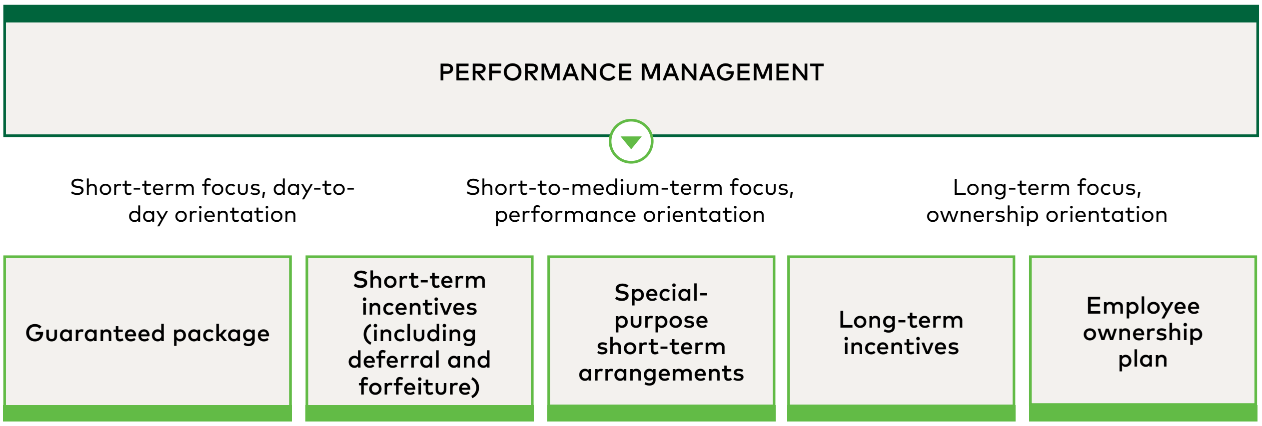
REMUNERATION COMMITTEE

Remuneration governance	Implementation of Remuneration Policy.
Regulatory issues	Remains knowledgeable through regular updates from Group Reward and Performance, external advisors and training.
Meetings	Met 6 times in 2016. Group Chairman, CE, COO and Group Executive: HR are permanent invitees, but are not present in discussions regarding their own remuneration.
Nedbank Group (2005) Share Trust	Trustees of the Nedbank Group (2005) Share Trust. Annual meeting was held on 28 November 2016.

Enabling sustainable value

ELEMENTS OF THE NEDBANK TOTAL REMUNERATION FRAMEWORK

Nedbank's remuneration framework is summarised as follows (further details are provided in the Remuneration Policy on page 1 of the Remuneration Report):



GUARANTEED REMUNERATION

Guaranteed remuneration comprises salary and employee benefits and is delivered to employees in a form determined by local market conditions. Guaranteed remuneration usually reflects the prevailing 'rate for the role' within an earnings range, with actual remuneration being distributed about the median of the range. The group conducts annual benchmarking against comparable firms in the relevant jurisdictions to assess market competitiveness

VARIABLE REMUNERATION

Short-term incentive schemes (STI)

Our STIs drive the achievement of sustainable results within an agreed risk appetite framework, and encourage behaviours that are consistent with our values and are aligned with the best interests of our stakeholders. Our STI schemes are structured to support collaborative work across different clusters. Group Remco has agreed a set of principles and all STI schemes are designed according to those principles. The 2016 short term incentive (STI) awards for executive directors and prescribed officers were based on a combination of performance against pre-agreed targets in respect of the level of group and respective cluster economic profit (EP), headline earnings (HE) and performance against their individual performance scorecards, incorporating financial and non-financial measures.

Since 2010, the group has had an arrangement of compulsory deferral into shares of STI awards paid in excess of a threshold approved by Group Remco from time to time. Such deferrals may be subject to forfeiture, at the discretion of Group Remco. From 2016 onwards, any deferred STI awards already released from forfeiture will be subject to clawback for up to three years from the original award date.

We have a comprehensive internal capital adequacy assessment process that addresses the nature and type of risk incorporated into the overall framework. The framework integrates with our STI pool arrangements and individual performance scorecard assessments, which in turn inform the distribution of STIs from the derived STI pools. The STI pools incorporate ex ante or 'before the fact' risk adjustments, which is incorporated into the pool allocation process set out below.

Total group pool

- This is approved by Group Remco relative to benchmarks. It includes targeted group pools for delivery of target headline earnings and economic profit.

Headline earnings and economic profit performance

- The allocation of the Group Remco-approved group pool to each cluster is done by the CE, with input from Group Exco.
- 50% of the cluster pools is based on year-end EP performance relative to target.
- 50% of the cluster pools is based on year-end HE performance relative to target.
- There is a 10% limit set for the bottomup cluster pools relative to the overall group pool.

Balanced scorecard

- The financially determined pools (topdown and bottomup) are adjusted by a maximum of approximately 15% based on the non-financial elements of Group Exco members' scorecards.
- Risk metrics are included in the relevant scorecards and aligned with the group five-year plan and risk frameworks.

Bonus pool adjustments

- The CE makes discretionary adjustments to quantitatively determined cluster pools based on judgments and non-quantifiable metrics.
- Group Remco makes discretionary adjustments to the group pool to effect any required corrections based on non-quantifiable metrics, including risk assessment.

Individual bonus proposals

- Individual bonus proposals are discretionary and no fixed formulaic approach is used by the bank. All cluster executive bonus proposals are analysed by Group Exco and the necessary adjustments are made to ensure appropriate consistency across the bank.
- All Group Exco bonuses are individually motivated and approved by Group Remco.
- The CE bonus requires Nedbank board approval and approval by the Old Mutual plc Remco.
- All senior functional bonuses (including risk, finance and compliance) are reviewed and ratified by the relevant Group Exco member.
- All proposed bonuses in excess of 200% of GP require motivation and Group Remco approval.

Deferral of STIs

R0 to R1m	No compulsory deferral.
Compulsory STI deferral > R1m	Fifty percent of any amount in excess of R1m is deferred over 30 months, with releases from forfeiture occurring in three equal tranches at 6, 18 and 30 months from the date of the award. Deferral is on a posttax basis.
Voluntary Bonus Share Scheme	Employees may select to defer a portion of their posttax STI voluntarily into the Matched-share Scheme, subject to the total deferral (including compulsory deferral) not exceeding 50% of the total posttax STI award.

In both the above instances of deferral, the employee must retain the shares in the scheme for a period of 36 months to be eligible for a match in accordance with our Matched-share Scheme. Refer to page 4 of the online remuneration report.

Matched-share Scheme

In terms of the approved long-term incentive (LTI) plan, the group may offer a share-matching arrangement on compulsory STI deferrals, subject to the participant's retention of the award in the plan for a minimum period of 36 months (which is longer than the maximum deferral timeframe of 30 months), and subject to the release of the awards from potential forfeiture. Additional matching is further subject to the fulfilment of a specific group performance condition.

The matched share scheme also provides a vehicle for employees to participate in the scheme by voluntary investment, subject to the fulfilment of specified conditions.

The current thresholds and conditions for matching are set out in the table below:

	STI payment	Conditions for matching	Match
Compulsory deferral	> R1m, where deferral takes place on a posttax basis on 50% of any amount exceeding R1m	In service on vesting date: Three years after the allocation date	50%
		ROE excluding goodwill > COE + 2%	50%
Voluntary bonus share scheme	≤ 50% of total posttax STI (inclusive of any compulsory deferral)	In service on vesting date: Three years after the allocation date	50%
		ROE excluding goodwill > COE + 2%	50%

Scheme governance is set out in the Remuneration Policy.

Special-purpose short-term variable remuneration

The group offers preapproved special-purpose short-term variable remuneration arrangements only in exceptional circumstances, which is typical in the context of hiring senior and key employees. The group does not, as a matter of course, award guaranteed bonuses, and therefore none has been awarded during 2016.

Scheme type	Scheme description	Number of awards
Signon bonus	Cash awards are made to prospective employees on joining the group, typically awarded to compensate for loss of certain accrued benefits or to make them whole in terms of their existing contractual obligations.	25 awards (2015: 20) totalling R12,8 (2015: R19,7m). Included in this are awards made on appointment to key revenue-generating employees.
DSTI awards	DSTI awards are cash-based awards, comprising an upfront payment (typically 40% of the award), with a deferred component (the remaining 60%) payable subject to minimum time-based and individual performance conditions.	29 awards (2015: 20) totalling R23,9m (2015: R15,7m). The increase in the number and value of awards approved is in relation to a number of senior and highly specialist appointments made in 2016, and the need to implement specific retention initiatives in certain scarce-skills environments.

Scheme governance is set out in the Remuneration Policy.

Long-term incentives (LTI)

LTI awards are awarded with the joint aim of aligning with the interests of stakeholders and retain key employees. Key considerations for LTI awards are set out on page 12 and 13 in our Remuneration Policy in the online Remuneration Report. The criteria and quantum of allocations are benchmarked to the market annually. The allocation of LTIs is discretionary and is based on the key eligibility criteria as set out in the Remuneration Policy on page 5 in the online Remuneration Report.

All LTI allocations are motivated by Group Exco and approved by Group Remco members in their capacity as trustees of the Nedbank (2005) Employee Share Scheme Trust. Specific Group Remco approval is also required for all LTI awards greater than 100% of GP.

Set out below are our various LTI Schemes. The operation of the international Long-term Incentive Plan (LTIP) has been aligned with the Nedbank Group (2005) Scheme, but operates on a phantom basis.

The following CPTs and vesting ranges were applied to awards made in 2016:

For the ROE (excluding goodwill) vs COE target, vesting was based on the simple-average published ROE (excluding goodwill) over a three-year period, compared with the simple-average COE over the same timeframe, according to the following sliding scale (ie there is a straight-line vesting arrangement based on the actual performance relative to the target).

Vesting ratios based on ROE (excluding goodwill):

ROE performance above COE	+0% or worse	+1,25%	+2,5%	+3,75%	+5%	+6%	+7%	+8% or better
Vesting ratio	0%	25%	50%	75%	100%	110%	120%	130%

For the Nedbank relative share price performance, vesting will be measured against the FINI 15 Index over the same three-year period, where the starting and end values of the Nedbank share price are calculated based on a 30-day volume-weighted average price (VWAP) and the FINI 15 Index is based on a 30-day simple average.

Vesting ratios based on share price relative to the FINI 15 Index:

Share price performance against FINI15	-20% or worse	-15%	-10%	-5%	0%	+10%	+20%	+30% or better
Vesting ratio	0%	25%	50%	75%	100%	110%	120%	130%

As with the ROE target, there is a straight-line vesting (on a basis of actual achievement along the continuum as set out in the table above) arrangement based on the actual performance relative to the target.

The strategic initiatives element in respect of 2016 awards was aligned with an African Collaboration target, which is standard across the Old Mutual Group, comprising the following:

- A single measure of the run rate on benefits realised in regard to African Collaboration. This target was selected in support of achieving a target of R1bn pretax synergies across the Old Mutual Group by the end of 2017.
- This target will be evaluated on a run rate basis at the end of 2017 as follows:

Total benefits realised	Minimum	Target	Maximum
African Collaboration synergy target (Rm)	600	1000	1200
Vesting ratio	0%	100%	130%

Straight-line vesting will apply between the points in the above table

The combined vesting percentage, based on achievement relative to the target, will be applied to awards vesting in March and August 2019. This is consistent with the evaluation time horizons of the current CPT metrics outlined above.

The evaluation of the total synergies achieved is, however, subject to a precondition that Nedbank achieves benefits of at least R170m. Should we not achieve benefits equal to or better than this threshold, this portion of the award will not vest, irrespective of the total synergies achieved.

The following CPTs and vesting ranges will be applied to awards made in 2017:

- The ROE (excluding goodwill) and share price performance targets will remain unchanged from 2016. Two new strategic initiatives, with equal weighting of 10% each, replace the African Collaboration synergy target since this initiative only has one more year to run.
- The two new strategic initiatives will be:
  - benefits from the TOM; and
  - growing the transactional banking franchise, where this comprises two underlying metrics:
    - grow household transactional accounts by client numbers
    - grow commercial transactional deposits by value

The vesting ratios and targets for these two strategic initiatives are set out below:

BENEFITS FROM CHANGES TO THE TARGET OPERATING MODEL

Net benefits (both revenue and costs) resulting from the changes to the TOM measured at 31 December 2019 relative to a baseline set for 31 December 2016	Minimum	Target	Maximum
Net benefits realised	R600m	R1,0bn	R1,2bn or more
Vesting ratio	0%	100%	130%

Straight-line vesting will apply between the points in the above table.

GROWING THE TRANSACTIONAL BANKING FRANCHISE

Grow household transactional accounts by client numbers at 31 December 2019	Minimum	Target	Maximum
Market share	13% or less	15%	17% or more
Vesting ratio	0%	100%	130%

Straight-line vesting will apply between the points in the above table.

Grow commercial transactional deposit market share by value at 31 December 2019	Minimum	Target	Maximum
Market share	15% or less	16.5%	18% or more
Vesting ratio	0%	100%	130%

Straight-line vesting will apply between the points in the above table.

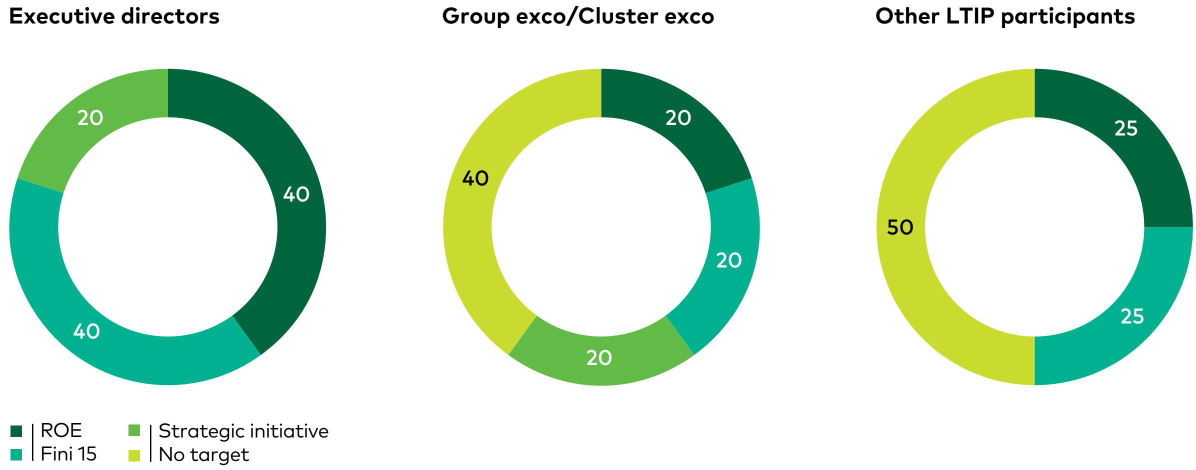
OVERVIEW OF LONG-TERM INCENTIVE ARRANGEMENTS UNDER THE NEDBANK GROUP (2005) EMPLOYEE SHARE SCHEME

Share option scheme

No awards have been made since 2007 and there are no unvested awards in this scheme.

Restricted-share Scheme: Annual allocations

Group Remco awards restricted shares (including on-appointment allocations referred to below) with a three-year vesting period to eligible participants, which vest on the following basis:



The weighting of the respective performance vesting conditions for awards made in 2017 are set out below:

LTI performance condition	Executive director %	Group and cluster exco members %	All other Nedbank LTI participants %
ROE (excluding goodwill) vs COE	40	20	25
Share price vs Fini15	40	20	25
Strategic Initiative: Benefits from Target Operating Model	10	10	–
Strategic Initiative: Growing the transactional banking franchise	10	10	–
Award issued with vesting conditions	100	60	50
Award issued without vesting conditions	–	40	50
Total	100	100	100

Details of the actual Corporate Performance Targets and vesting ranges for these performance conditions are set out on page 12 and 13 of the online remuneration report.

Phantom Cash-settled Restricted-share Plan

For our international and Rest of Africa operations, LTIs are made on a phantom basis, which schemes mirror the Nedbank (2005) Group Employee Share Scheme in design and structure. These schemes will be subject to the same *malus* and claw-back provisions as the Nedbank 2005 scheme. Details of these schemes are set out in the full online Remuneration Report.

Minimum shareholding requirements

As approved by Group Remco in 2012, members of Group Exco are subject to minimum shareholding requirements. The following minimum requirements must be reached within five years from the date of the March 2013 LTI awards or five years from the date of appointment to Group Exco, if later:

Chief Executive	2 times guaranteed package
Executive Directors and Prescribed Officers	1,5 times guaranteed package
Other members of Group Exco	1 times guaranteed package

The following members of Group Exco have already met the minimum shareholding requirements, which are required to be met by 31 March 2018 or five years from date of appointment to Group Exco if later:

- Mike Brown
- Thulani Sibeko
- Thabani Jali

Service conditions

Details of the service conditions for executive directors and prescribed officers are set out on page 14 of the online Remuneration Report. There were no material changes to these during 2016. Executive directors and prescribed officers are subject to the *malus* and clawback arrangements applicable from February 2016 onwards.

Risk and remuneration

There is cooperation between Group Remco and the GRCMC to ensure that the overall risk environment is considered when making remuneration decisions. This is implemented through formal discussion between the Group Remco Chairman with the GRCMC Chairman of the risk aspects of remuneration. This reflects our commitment to achieving a balance between the prudent management of remuneration within the context of both our risk appetite and risk profile, and the need to attract, retain and motivate key talent to enable the delivery of our strategic objectives.

Further details of our approach to risk and remuneration are available on pages 10 to 11 of the online Remuneration Report.

Regulation 43/Pillar 3 disclosures

The disclosures required in respect of Regulation 43 of the Banks Act are set out on page 18 of our online Remuneration Report.

Specific disclosures are included relating to senior managers and material risk takers, the quantum of the remuneration paid in the year, signon awards, guaranteed bonuses, severance payments and the amount of remuneration, subject to adjustment.

Non-executive directors

APPROACH FOR NON-EXECUTIVE DIRECTORS FEES

The fees of the Group Chairman and the non-executive directors reflect the specific responsibilities relating to their membership of the board and, where applicable, board committees. The Group Chairman receives a single fee for his role. Non-executive directors are paid a fixed fee for board membership and receive additional fees for their participation in the board committees. Neither the Group Chairman nor the boardmembers receive any performance-related remuneration or any employee benefits.

Non-executive directors are accountable for decisions made regardless of attendance at meetings. Non-executive directors are also required, as a matter of course, to represent stakeholders and to make the necessary preparations for meetings and other engagements. Group Remco is satisfied that the fee structure applied in respect of non-executive directors remains appropriate.

NON-EXECUTIVE DIRECTOR REMUNERATION

Non-executive directors' fees paid for the years ended 31 December 2015 and 31 December 2016 were as follows:

Non-executive director	Note	Board fees	Committee fees	2016 (R000)	2015 (R000)
David Adomakoh	1,6	428	144	**572**	514
Tom Boardman	2,6	1 194	1 238	**2 432**	2 233
Brian Dames		428	290	**718**	663
Mustaq Enus-Brey	8				273
Ian Gladman	7	428	363	**791**	732
Errol Kruger	3	188	158	**346**	
Paul Hanratty	4,7	81	56	**137**	600
Bruce Hemphill	7	428	207	**635**	59
Reuel Khoza	8				1 623
Mpho Makwana	6	428	853	**1 281**	1 140
Mantsika Matooane		428	289	**717**	623
Nomavuso Mnxasana		428	832	**1 260**	1 078
Vassi Naidoo		4 875		**4 875**	3 043
Joel Netshitenzhe	6	428	277	**705**	628
Rob Leith	5,7	98	83	**181**	
Julian Roberts	7				476
Gloria Serobe	8				235
Stanley Subramoney		428	533	**961**	205
Malcolm Wyman	6	599	1 112	**1 711**	1 481
Total		10 887	6 435	**17 322**	15 606

[1] *David Adomakoh resigned as member of the Group Credit Committee and Large exposure Approval Committee effective 1 August 2016. He was appointed as a member of Group Transformation, Social and Ethics Committee on 28 October 2016.*

[2] *Tom Boardman sits on the Board of Nedbank Private Wealth (Isle of Man). His board fees are inclusive of the Nedbank Private Wealth (Isle of Man) fees of £39 000.*

[3] *Errol Kruger appointed as a director of Nedbank Limited and Nedbank Group Limited with effect from 1 August 2016 and as a member of Group Credit Committee, Large Exposure Approval Committee and Group Risk and Capital Management Committee .*

[4] *Paul Hanratty resigned as a director of Nedbank Limited and Nedbank Group Limited and all the committees on 12 March 2016.*

[5] *Rob Leith appointed as a director of Nedbank Limited and Nedbank Group Limited and as a member of Group Credit Committee and Large Exposure Approval Committee and Group Risk and Capital Management Committee on 13 October 2016.*

[6] *Joel Netshitenzhe, Tom Boardman, Mpho Makwana, David Adomakoh and Malcolm Wyman were appointed members of Group Related Party Transactions Committee on 11 May 2015.*

[7] *Fees for Ian Gladman, Paul Hanratty, Bruce Hemphill, Rob Leith and Julian Roberts were paid to Old Mutual PLC.*

[8] *Resigned during 2015.*

NON-EXECUTIVE DIRECTORS' FEES FOR 2017

Increases to the Chairman's fee, board fees and several committees have been proposed at between 5,6% and 25%. The proposed fees for 2017 are also set out in our notice of the AGM for voting by our shareholders. Changes to fees, where approved, become applicable on 1 July of each year.

The proposed non-executive directors fees were evaluated by a board committee consisting of Mike Brown and Bruce Hemphill, with advice from independent advisors. Such evaluation was conducted from a number of perspectives, including peer group comparisons, effective rates per committee and year-on-year increases.

The proposed increases to board fees represent a total increase in the cost of operating the board of 7,6%.

Details of the individual shareholdings of the non-executive directors are included on page 22 of the online Remuneration Report.

Risk management and governance

Enterprisewide Risk Management Framework (ERMF)

At the heart of the group's business and management processes are integrated worldclass risk and balance sheet management frameworks.

The success of a bank lies in its ability to manage risk effectively, while creating value for its stakeholders. Nedbank has embedded a mature culture of risk management that understands, proactively identifies and effectively prices for risk.

This sound risk culture and robust ERMF serves us well in a world that is fundamentally changing (refer to material matters on page 34), and to achieve our vision and medium-to-long-term targets on a sustainable basis, risk management has become a competitive differentiator for Nedbank.

We approach our strategy development, business activities, risk appetite and balance sheet management in a fully integrated manner.

The origins of risk within Nedbank evolve from the entities the Group is comprised of and the nature of the business/activities and related processes/outcomes flowing from these:

- Lend = Credit risk
- Funding = Liquidity and funding risks
- Mismatch = Interest Rate Risk in Banking Book
- Trade = Market risks
- Operate = Operational and legal risks
- Solvent = Capital risks
- Regulated = Regulatory and compliance risks
- Compete = Strategic, business and financial risks
- Trusted = Reputational risk

The Volatile, Uncertain, Complex and Ambiguous (VUCA) environment as discussed in our material matters on page 34 has become the new normal operating atmosphere amidst expansive geopolitical risk. This creates the imperative for us to see risk differently and reinforces the need for us to be truly worldclass at risk management.

At Nedbank, we now also have accelerated change which contributes to accelerated risk. Top of mind in this regard is:

- Fourth industrial revolution ('The Internet of Things')
- Digital/Technology revolution
- Regulatory change agenda
- Managed separation (Old Mutual)

Putting all this risk and accelerated change into perspective, four new, additional key focus risks have been identified in the form of change, criminality, conduct and culture and client centricity. This is on top of the historical, still highly relevant key risks of credit, market, operational, capital and liquidity.

Ultimately, we strive to run risk as a business, with three core objectives for managing risk:

Risk as threat – to minimise and protect against material unforeseen losses
- Credit losses
- Cyberattack
- Card fraud

Risk as uncertainty – to eliminate excessive earnings volatility and minimise material negative surprises
- Oil price/Exchange rates
- SA political environment
- SA sovereign-credit-rating downgrade risk/ZAR volatility
- Brexit/US presidential elections/China etc

Risk as strategic/commercial (opportunity) – to maximise financial performance through the application of superior risk and business intelligence, risk-based performance measurement, managing for value, strategic portfolio management and client value management.
- The new normal 4Cs of risk (change, criminality, conduct and culture and client centricity)
- Accelerated change
  - Technological/Digital revolution
  - Regulatory change agenda
- VUCA macroeconomic and expansive geopolitical risks
- Risk intelligence/Advanced DATA (and risk) analytics
- Client value management (risk/RWA vs return) and KYC (integrated)
- Client at the heart of regulation and strategy

Our approach to manage and govern risk has been and continues to be the group's ERMF. The risk management function, as embedded across the group, is fully described therein. It sets out the group's risk universe and major risk classifications, and assigns board and executive responsibility thereto. The organisation has placed a strong reliance on this risk governance framework. In response to evolving, emerging-risk trends, a changing business environment and the significant regulatory change and developments, certain risk categories are given more or less prominence, dependent on the current risk environment.

Underpinning the ERMF, is Nedbank's:

- Three-lines-of-defence model (evolving in line with King IV)
  - Following Basel recommendations, we are is in the process of shifting from the three-lines-of-defence model to what is referred to as the four-lines-of-defence model.
  - The revised model clearly articulates responsibility and accountability based on the role that an individual or team plays as opposed to where the individual is structurally located within the organisational hierarchy.
  - Combined assurance (with an emphasis on the ERMF risk types) will also be rolled out in 2017, creating a designated risk owner per risk type within the organisation. This will ensure further accountability as well as a combined view from all lines of defence in terms of risk reporting.

- Frameworks, charters (board and exco) and policies
  - Review and development of individual risk frameworks (for existing and new risk types) with risk owners and stakeholders have progressed well in 2016 as we continue to manage the risk environment proactively.
  - Policies undergo annual reviews and are tailored to suit the environment of Nedbank, meeting the requirements of all current regulation, ensuring relevance to meet Nedbank's risk management objective.
- Dedicated board committees across our first line of defence further augment and entrench the ERMF. See ERMF diagram on pages 122 and 123.

RISK ESCALATION

Escalation criteria is in place and significant risks issues and/or limit breaches are raised and included in all relevant forum and committee meeting packs, which is a key feature of the ERMF and risk reporting across Nedbank Group. The process of corporate governance, including the risk management process, as contemplated in regulation 39 of the Banks Act, is assessed annually against the existing internal control environment. Similarly, an assessment of whether the bank can continue as a going concern, as required in terms of regulation 40, is carried out with due regard to governance, risk management and long-term planning of the banking group.

RISK PROFILES

- Within each Erco, residual-risk profiles are reflective of the risk universe applicable to the entity, taking into account various sources of risk identification, namely the annual strategy and business planning process, issues raised via management meetings and committee structures, guidance obtained from best-practice risk frameworks and issues raised by internal audit or external auditors.
  - Residual-risk profiles are also included for review by the Group Risk and Capital Management Committee (GRCMC). These provide an overall view of the residual-risk profile of the organisation.

RISK STRATEGY

A formalised group strategy and business planning process takes place annually. A component thereof is the risk strategy led by the CRO in conjunction with Balance Sheet Management and business.

Our updated 2017–2020 Risk Plan has been prepared to accelerate the transformation of risk management, compliance and regulation strategically across Nedbank, and successfully and sustainably implement the Regulatory Change Programme.

The organisation maintains a list of top-10 risks that is tabled at the board, regularly revised with any developments and included in the risk strategy and risk plan, as discussed in the risk heatmap on page 54.

REGULATORY CHANGE

We are leveraging risk management and the regulatory change agenda to be a strategic and competitive differentiator.

We are implementing an onslaught of regulatory change, underpinned by a comprehensive Regulatory Change Programme (RCP), whereby we are using the opportunity of significant change to differentiate ourselves from our peers and truly deliver a worldclass risk, compliance and regulatory environment.

We have an integrated, strategic response to the high execution risk and unprecedented regulatory change agenda, which will facilitate our differentiation goal.

The impact of regulatory change remains extensive, including costs of R3bn associated with the RCP to remedy AML and to create sustainable solutions for other key regulatory programmes.

RISK APPETITE

We have cultivated a strong risk culture and embedded a prudent and conservative risk appetite focused on the basics and core activities of banking and other financial services. While our risk appetite is prudent and appropriately conservative, it remains enabling for our businesses, promoting competitive growth and returns. This remains the case for the 2017–2020 Group Business Plan, providing our business with 'freedom within agreed and acceptable boundaries'.

There is no material change proposed to our risk appetite in the 2017 – 2020 Group Business Plan and Risk Plan. However, various enhancements have been included in the detailed risk appetite section of the Risk Plan. Enhancements of 2017 relate mainly to AML, CFT and sanctions, as well as cyber-risk.

The current and forecast business plans of the clusters to achieve the group's vision are well supported by the current Risk Appetite Framework, with additional capacity to enable further growth with corresponding risktaking and capital consumption.

REFLECTION ON 2016

Risk management and the risk profile of Nedbank remains in excellent shape and was well 'tested' for effectiveness amidst the worsened VUCA macro, Nenegate, Brexit, SA's State Capture Report, social and political environments, and high pressure/demands of the regulatory change agenda.

Nedbank is well positioned for the adverse, stressed environment, and potentially a much worse, high/severe stress scenario with reference to 'Management's response (preparation) for an SA sovereign-credit-rating downgrade and potential severe stress scenario' tabled at the board in 2016 and updated in the Group Business Plan.

Transformation of Nedbank's risk management continues to progress well with great strides made in the evolving of cybersecurity to cyber-resilience, AML remediation, escalation of financial crime in the ERMF, and elevation of the Reputational Risk Committee to a group exco board committee, amongst others.

The RCP has also made sound and solid progress despite the high execution risk with objectives and key milestones for 2016 on track, in all material respects. This includes active stakeholder management, especially SARB, FIC and NCR.

FORWARD LOOKING TO 2017

Risk management focus for the upcoming year, will be centred around maintaining the top-10 risk status quo, implementing and advancing the RCP with key deliverables of AML, IFRS9, EDP/RDARR and conduct risk. In addition, Nedbank will continue to manage its sound risk management environment/position in the adverse VUCA macro, particularly around ETI.

2017 will see the further evolution of focus on emerging risk, scenario analysis/stress testing, reputational risk, concentration risks, risk intelligence, analytics and skills and combined assurance.

Refer to Nedbank's Pillar 3 Risk Disclosure Report and Analyst Booklet for risk and capital management details.

Risk universe

- Accounting, financial and taxation risk
- Credit risk
- Operational risk
- Financial crime risk
- Liquidity and funding risk
- Capital risk
- Insurance risk (including non-banking risks)
- Market risk: Trading book; Banking book

Key features of the ERMF

1 The board of directors is ultimately responsible for all risks in the group, approval and oversight of the risk measurement and management system, and the setting of risk appetite.

2 The ERMF provides the foundation and underpins the entire risk management structure and system of Nedbank Group (implementation, monitoring, reporting and remediation).

- **a** Strong emphasis in the ERMF is placed on individual accountability and not on undue reliance on committees.
- **b** Risk management frameworks (for all major risk types), and risk officers, are in place across all businesses and Group Technology.
- **c** Provides a set of subrisks where relevant, to each main risk category.
- **d** Shows the statutory board committees (as required by the Banks and Companies Act) and their role as the final oversight and monitoring functions for the group.

FIRST LINE OF DEFENCE

Board of directors

Board committees

- Group Audit Committee
- Group Credit Committee
- Large-exposure Approval Committee
- Group Risk and Capital Management Committee

Group Executive Committee (Group Exco)

Group Operational Committee (Opcom)

Group Exco committees

Committees

- Group Operational Risk Committee
- Financial Crime Committee
- Group Asset and Liability Committee and Executive Risk Management Committee

Forums

- Finance Forum
- Executive Taxation Forum
- Cluster credit committees (CCCs)
- Transactional Deposits Forum

Business Clusters' risk governance

NEDBANK RETAIL AND BUSINESS BANKING, NEDBANK CORPORATE AND INVESTMENT BANK, NEDBANK WEALTH AND REST OF AFRICA

- The applicable cluster and business unit committee's, ie Excos, Cluster Credit Committees (CCCs), Credit Risk Approval Committee (CRAM), Trading Risk Committee (TRC), Investment Committee and Enterprisewide Risk Committees (Ercos) and other specialist committees, with representation from the relevant independent group functions.

- Finance Forum
- CCC; Credit approval meetings (CRAMs)
- TRC
- Investment Committee
- Separate Wealth Cluster ERMF

Central functions

- Group Finance
- Group Strategic Planning
- Balance Sheet Management

SECOND LINE OF DEFENCE

Group Risk

Chief Risk Officer

Independent group risk and compliance

- Group Credit Risk Monitoring
- Group Credit Portfolio Management
- Group Operational Risk and Data Management: Information security; Business continuity management
- Group AML, CFT and Sanctions Office
- Finance, Operations and Regulatory Change Programme Office

THIRD LINE OF DEFENCE

Internal and external audit

Independent assurance

- Group Internal Audit
- External audit

Concentration risk | Conduct risk | Regulatory risk | Information technology risk | Business and strategic (execution) risk | Reputational risk | Governance and compliance risk | Transformation, social and environmental risk | People risk

- **e** Shows the structure of the executive management committees and their roles/responsibilities for the proper, efficient and effective functioning of the group's business.
- **f** Reporting philosophy: provides a reporting structure from business units through to the board.

3 Three-lines-of-defence model: sets out and positions the three-lines-of-defence across the group and the role and responsibility of each within the overall framework.

- **a** Primary responsibility and accountability for the risks originating in the businesses are clearly assigned to the respective business cluster leaders and executives.

4 The CRO reports to the CE, who has ultimate individual accountability for risk.

Group Information Technology Committee

Directors' Affairs Committee

Related-party Transactions Committee

Transformation, Social and Ethics Committee

Group Remuneration Committee

Brand, Client and Conduct Committee

Executive Information Technology Committee

Reputational Risk Committee

Transformation Human Resources Committee

Regulatory Risk and Compliance Forum

Mergers and Acquisitions Forum

Regulatory Risk and Compliance Forum

Nedbank Employee Equity Forum

Group Transformation Forum

- Heads of risk and risk functions, independent of business origination, report directly to business cluster managing executives.

Brand, Client and Conduct Committee

Human Resources Forum

Group Technology | Group Human Resources | Group Marketing, Communications and Corporate Affairs

Group Enterprise Governance and Compliance

Chief Governance and Compliance Officer

Group Legal | Group Insurance | Group Market Risk Monitoring | Regulatory Change Programme Office | Enterprise Risk Management | Group Money-laundering Reporting Office (GMLRO)

Independent actuaries

Our investment case

We operate in a well-regulated and stable banking system – this provides investors with comfort and confidence, particularly in a broader emerging-market context. Nedbank offers the following characteristics that are attractive to investors:

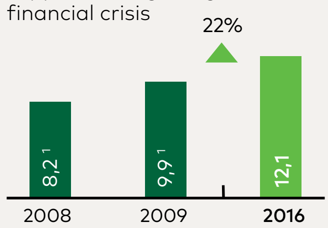
- Worldclass governance underpinned by an independent and diverse board striving to ensure value creation in a sustainable manner for all stakeholders.
- An experienced and well-respected management team.
- A strong balance sheet – conservatively provided, liquid and well capitalised.
- A differentiated, values-based culture and high levels of staff morale.
- Legacy of integrating sustainability into our operations to manage risk better, identify new business opportunities and ensure our contribution to building a thriving society.

CASE IN POINT

Our key performance indicators show that Nedbank is in a much stronger position than before the global financial crisis

CET 1 ratio
(%)

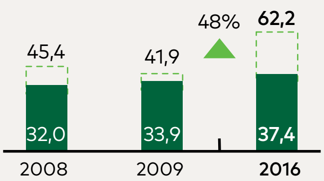
Stronger capital position without needing shareholder support during the global financial crisis



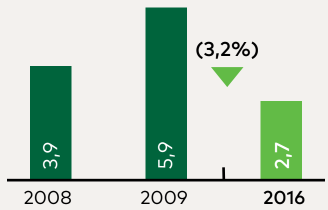
[1] *Core equity tier 1.*

Coverage
(%)

Coverage levels are significantly higher

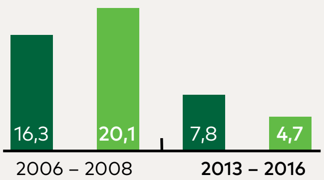


Defaulted advances
(% of total advances)



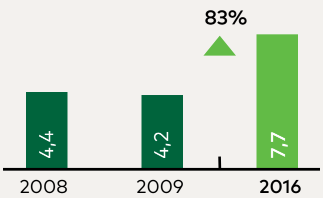
Loan growth
(CAGR %)

More prudent and selective credit extension



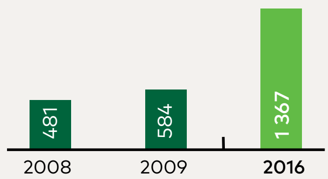
Number of clients
(million)

More clients doing their banking with Nedbank



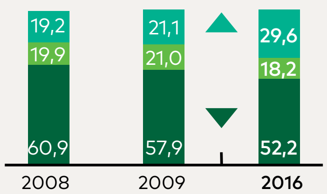
Endowment benefit for 1% change in interest rates
(Rm)

Greater endowment benefit when interest rates increase



Funding tenor
(%)

Longer funding tenor ensures strong liquidity profile



Each of our businesses contribute uniquely to the group by supporting sustainable growth and an increase in ROE over the medium to long term:

NEDBANK CORPORATE AND INVESTMENT BANKING

Attractive returns (ROE > 20%) with growth opportunities as we leverage our integrated CIB model, underpinned by a low-cost model and sound risk profile:

- Market leader with strong expertise and relationships in commercial-property finance and corporate banking.
- Strong investment banking growth prospects based on specialist skills and leadership in various segments that leverage SA infrastructure (R35bn renewables pipeline).
- Integrated model delivering improved client service and better business coverage/deeper client penetration, and leveraging our balance sheet to unlock further revenue growth opportunities (including transactional banking and markets).

NEDBANK RETAIL AND BUSINESS BANKING

Increasing ROE through a digitally transformed RBB that delivers delightful client experiences, simpler processes and cost-effective operations, enabled by:

- Digital first and second in Mobile and digital banking, disruptive client-value proposition; loyalty and rewards and sales and service excellence which will enable sustained growth into the future. This will drive continued strong main-banked client gains, transactional revenue and deposit growth faster than the market.
- Operational excellence and efficient support functions driving operational efficiencies.
- Prudent credit extension over the past few years, particularly in home loans and personal loans, which mitigated the downside risk in a tougher macroeconomic environment and should lead to relative outperformance against peers into the future.

REST OF AFRICA

Exploiting opportunities in higher-growth markets through a sensible expansion approach (risk-mitigated, capital-efficient) and improving returns to above cost of equity, and 20% in the longer term:

- The SADC and East Africa – Own, manage and control banks, and invest in subsidiaries (footprint, products, core banking system, etc) to enable scale (market share, earnings increase). Remain alert for East Africa acquisition opportunities.
- Central and West Africa – Follow a partnership approach through ETI delivering tangible benefits from our strategic alliance. Client access to largest banking network in Africa. Long-term potential of a strategic alliance with ETI.

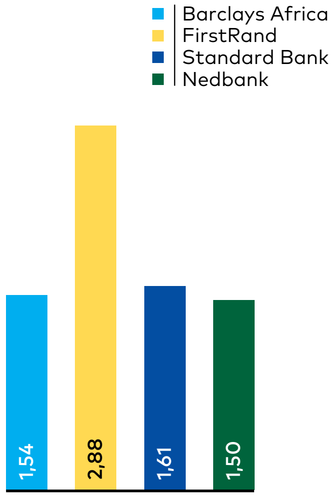
NEDBANK WEALTH

High growth potential, high ROE business (ROE > 35%), contributing significantly to group economic profit. Leverage growth opportunities through:

- Status as a top-tier, high-net-worth bank and wealth provider, with a strong track record, enviable client base and repositioned brand.
- Our unique Best-of-Breed™ offering and consistently ranking among the top three in independent asset management rankings for eight consecutive years.
- An insurance business with significant scope for increasing new-product penetration and further cross-sell into the Nedbank client base.

Attractive valuation metrics – Lowest price-to-book ratio in the peer group and attractive dividend yield, underpinned by sustainable growth and ROE increase in the medium to long term.

Price to book ratios



Company details

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Registration number 1966/010630/06

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INSTRUMENT CODES

Nedbank Group ordinary shares

JSE share code:	NED
NSX share code:	NBK
ISIN: ZAE000004875	
ADR code:	NDBKY
ADR CUSIP:	63975K104

Nedbank Limited non-redeemable non-cumulative preference shares

JSE share code:	NBKP
ISIN: ZAE000043667	

For further information send an email to Nedbank Group Investor Relations at nedbankgroupir@nedbank.co.za.