NEDBANK GROUP

RESILIENCE. TRANSITION. REIMAGINE.

PILLAR 3 RISK AND CAPITAL MANAGEMENT REPORT

FOR THE YEAR ENDED 31 DECEMBER

2020

see money differently

Executive Summary

In a period of unprecedented health, economic and social challenges that have impacted our staff and our clients, Nedbank Group remained profitable and resilient, underpinned by a robust balance sheet with a solid capital, liquidity and funding position aided by an enabling but prudent risk appetite, and excellence in risk management.

HIGHLIGHTS OF 2020

CREDIT LOSS RATIO	TOTAL CAPITAL ADEQUACY RATIO	LONG-TERM FUNDING RATIO[1]
161 bps	**14,9%**	**25,4%**
(2019: 79 bps)	(2019: 15,0%)	(2019: 30,2%)

[1] *Three-month average.*

POSTWRITEOFF RECOVERIES	TOTAL TIER 1 RATIO	NET STABLE FUNDING RATIO
R1 165m	**12,1%**	**112,8%**
(2019: R1 247m)	(2019: 12,8%)	(2019: 113,0%)

STAGE 3 ADVANCES AS A % OF GROSS ADVANCES	COMMON-EQUITY TIER 1 RATIO	LIQUIDITY COVERAGE RATIO
5,89%	**10,9%**	**125,7%**
(2019: 3,46%)	(2019: 11,5%)	(2019: 125,0%)

STAGE 3 COVERAGE RATIO	AVAILABLE FINANCIAL RESOURCES: ECONOMIC CAPITAL	TRADING BOOK (10-DAY VAR)
31,50%	**146%**	**R292,3m**
(2019: 37,90%)	(2019: 129%)	(2019: R140,5m)

STAGE 2 COVERAGE RATIO	IRRBB ECONOMIC VALUE OF EQUITY	IRRBB NII % ORDINARY SHAREHOLDERS' EQUITY
6,61%	**-R165m**	**1,47%**
(2019: 5,30%)	(2019: -R387m)	(2019: 1,54%)

This report complies with regulation 43 of the regulations relating to banks issued in terms of the Banks Act (Act No 94 of 1990) and the Basel Committee on Banking Supervision's (BCBS's) revised Pillar 3 disclosure requirements.

The Nedbank Group Chief Financial Officer (CFO) Mike Davis, on behalf of the board, is satisfied that information provided in this report has been prepared in accordance with board-approved internal control processes and in accordance with the Nedbank Group Public Disclosure Policy, which can be accessed at nedbank.co.za.

LETTER FROM THE CHAIR OF THE GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE (GRCMC)

'Despite the radically heightened external risk environment, the outcomes and state of risk and capital management continued to be excellent throughout 2020, confirming Nedbank's agility and effectiveness, and the strong risk culture. Nedbank has been resilient throughout Covid-19 and has pivoted its strategic focus, business operations and risk strategy successfully, in light of the significant risks in this unprecedented environment. Nedbank has focused primarily on the health and safety of its employees, and on support to, and the service of, its clients. It has managed people, operational, market, credit, capital and liquidity risks proactively, and ultimately ensured business continuity. Significant risks that continue to be monitored very closely include credit and capital risks, together with the continuing external uncertainty.'

Errol Kruger

(Chair)

Organisational resilience in 2020

- Oversaw Nedbank's Enterprisewide Risk Management Framework (ERMF), ensuring its agility during Market Crisis 2020 and the Covid-19 pandemic.
- Monitored Nedbank's risk universe heatmap, risk trends and groupwide key issues.
- Reviewed revised capital and liquidity plans and targets in response to the volatile environment.
- Focused on anti-money-laundering and combatting the financing of terrorism (AML/CFT), which was retained as a thematic.
- Ensured an end-to-end review of risk appetite, considering the impact of Covid-19.
- Oversaw cyberresilience, enabling Nedbank to respond effectively to cyberattacks. The effective management of cyberrisk ensured there were no breaches of Nedbank's own defences.

Key focus areas for 2021

- Ensure ongoing organisational resilience of Nedbank in the wake of the once in 100 years event (Covid-19 health and economic crisis).
- Monitor progress of Nedbank's strategic portfolio tilt (SPT 2.0) to ensure it translates into market share growth within risk parameters.
- Monitor thematics, which will at a minimum include capital risk, cyberrisk, conduct risk, internal control environment (ICE), strategic execution risk, AML/CFT and market risk.

LETTER FROM THE CHAIR OF THE GROUP CREDIT COMMITTEE (GCC)

'The Covid-19 pandemic is an unprecedented health, economic and social challenge that has hurt the struggling South African economy and ability of borrowers to meet debt obligations. The committee oversaw the successful implementation of a comprehensive Covid-19 credit programme by providing independent oversight of changes in the credit risk policies, procedures and credit models, and active credit risk management to ensure the credit portfolio remains resilient, optimally managed and adequately impaired.'

Errol Kruger

(Chair)

Ensuring resilience in 2020

- Tracked and monitored the implementation of SARB Directive 3/2020 pertaining to credit restructures and their classification and performance in light of Covid-19.
- Approved the Covid-19 Credit Policy to govern the treatment of restructured credit exposures in response to Covid-19, which enabled payment relief or holidays on loans of R121bn.
- Approved the implementation of the Covid-19 SME Credit Fund Policy to ensure consistent treatment of Covid-19 loans.
- Monitored the changes in macroeconomic projections and post-model adjustments to ensure that the overall portfolio was adequately impaired.
- Approved the review, adjustments and overrides of credit models to avoid undue short-term volatility and excessive procyclicality of impairments and capital requirements.
- Applied effective credit-risk mitigation strategies, including early identification of distressed portfolios and proactive management of all watch-list clients.

Focus for 2021 and beyond

- Oversee the delivery of ongoing market-leading client experiences and innovative digital solutions backed by integrated credit processes.
- Continue with early-identification strategies with regard to distressed portfolios, concentration risks and proactive management of key watch-list clients.
- Manage credit risk and maintain resilient capital and credit loss ratios while remaining on high alert for subsequent waves of Covid-19.
- Oversee the implementation of optimisation initiatives for credit risk-weighted assets.
- Review the credit risk appetite, including CLR target ranges post-Covid-19 in 2021.

LETTER FROM GROUP CHIEF RISK OFFICER

'Risk Management has demonstrated great agility and effectiveness –the extra focus on credit risk remains, albeit with a much improved outlook.'

Trevor Adams

(Group Chief Risk Officer)

There is nothing like a 1-in-100-year crisis event to stress test the agility and effectiveness of Nedbank's risk management, and it has come out in excellent shape.

Business (including geopolitical and sovereign) risks reside as number 1 on Nedbank's Top 12 risks, and are very much driven by external factors such as Covid-19 or the 'Great Lockdown Crisis' (GLC), local macro-economic and political risks, and the unprecedented level of change underpinned by the Fourth Industrial Revolution. This has heightened inherent risk across the entire risk universe, as shown in the coloured bars in the middle in the table below.

However, residual risk, or the net risk outcomes internally at Nedbank were very favourable, as summarised on the right of the table, and we ended 2020 with a much-improved outlook from what was the case at H1 2020.

2020 outcomes	Key risk category	Inherent risk	Residual risk	2021 focus
▪ Resilience	Business/Country risks			▪ Reimagine ▪ SA Inc/macro turnaround
▪ BCP successfully implemented	Operational risk			▪ Organisational resilience
▪ Best-ever IT stability	IT risk			▪ Emerging fourth IR IT/Digital risks
▪ No cyber internal breaches (#1 Bitsight ranking)	Cyberrisk			▪ Cyberresilience
▪ Market conduct & culture programme fully completed	Conduct risk			▪ Regulatory evolution/new SA conduct standards
▪ Covid-19 client support	Reputational risk			▪ Stakeholder engagement
▪ Leading as the 'green bank'	Climate risk			▪ Glide-path to 2050/Clean-energy opportunities/TCFD
▪ Excellent management of market crisis (Q2)	Liquidity and Market risks			▪ Business as usual
▪ CLR better than expected	Credit risk			▪ Covid-19 credit programme ▪ Optimise risk-adjusted returns
▪ CARs well within/above target ranges	Capital risk			▪ Capital plan/ICAAP ▪ RWA optimisation
Risk indicators High Medium Low		Dec 19 Jun 20 Dec 20	Dec 19 Jun 20 Dec 20	

Resilience in 2020

The special focus remains on credit risk. In Q2 2020 we developed a comprehensive Covid-19 credit programme. This has been well executed and the outcome has been a great success. This also addressed the additional complexity of accounting for credit risk in light of the unprecedented economic crisis and uncertainty.

- With the benefit of hindsight, I believe we struck the right balance at H1 between being forward-looking under IFRS9 and the regulatory guidance to avoid excessive procyclicality.
- Our economic forecasts at H1 2020 have largely played out as we had expected.
- We ended 2020 with impairments and coverage ratios at the top end of conservatism and prudence, appropriate in the climate and against our updated macroeconomic forecasts. That conservatism and prudence have been assured independently across the three lines of defence, including our joint external auditors.

The credit loss ratio (CLR) ended the year at 161 bps, better than was forecasted at H1 and only marginally higher than the peak of the Global Financial Crisis (GFC), despite the GLC being a dramatically worse economic event, and with an improving outlook of the H2 CLR reducing to 134 bps from 187 bps in H1 2020.

Focus for 2021

The management of emerging major risks such as cyber, conduct, corruption, change (execution) and climate risk, which are referred to as the additional major 'C-Suite' risks, has progressively matured. Nedbank's new board subcommittee dedicated to climate risk held its first meeting in 2021 and will oversee the further embedding of our climate risk management framework and strategic opportunities. While the nature of cyberrisk continues to evolve due to new challenges like working-from-home (WFH), data privacy regulation and the emergence of cryptocurrencies, Nedbank is well placed to face these with our robust Cyberresilience Programme.

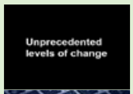
Nedbank's risk management strategy and plan is designed across five major components, as summarized below:

1 Traditional risks

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- People, process and systems (IT)
- Capital risk
- Business (including Country/sovereign) risk
  - Macroeconomic, social and geopolitical risks

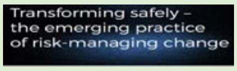
2 C-suite risk (new major but less mature risks)

- Change (execution) risk
- Cyber risk
- Conduct risk
- Climate risk
- Crime and corruption risks
- Crytocurrencies
- Compliance risk
- Cryptocurrency risk



3 New technology/digital risks

- Evolving governance, risk management and internal controls with automation, nWoW and digitisation (changing safely)
- Balance of cx/less friction versus adequacy of governance/risk management/internal controls/security
- Managing the black box of artificial intelligence (AI) and AI ethics
- Cloud computing and data migration to the cloud
- Combating weaponized misinformation
- Data loss/data risks
- Open banking versus GDPR (data privacy)
- Bolstering organisational resilience and cyberresilience



4 Abnormal regulatory change agenda (regulatory risk)

- Basel III
- AML, CFT and sanctions
- IFRS 9
- RDARR (BCBS 239)
- Market conduct (FSCA)
- Payments, open banking and digital

5 'New (ab)normal' risks and opportunities (post covid-19) ~ reimagine

- Organisational resilience

LETTER FROM THE GROUP CHIEF FINANCIAL OFFICER

'Nedbank has navigated the Covid-19 crisis well and from a financial perspective I am pleased to report that our balance sheet remains robust, and liquidity and solvency positions strong, with profitability metrics impacted by lower revenues and increased impairments, although expenses were well managed.'

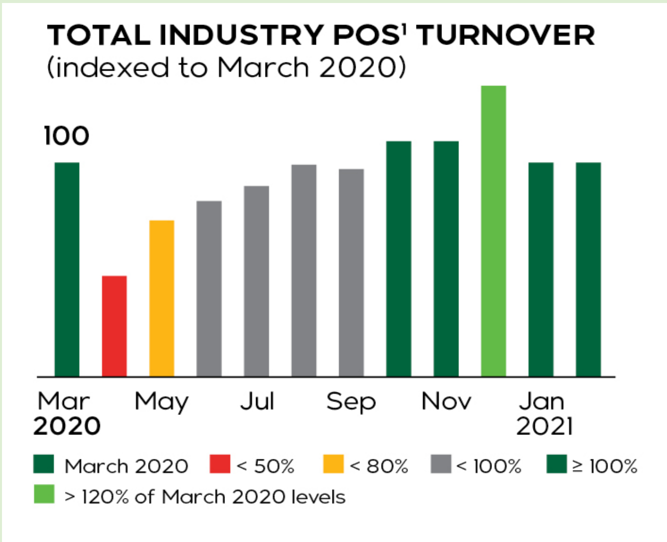
Mike Davis

(Group Chief Financial Officer)

2020 – An unprecedented year

In 2020 the Covid-19 pandemic has meant that South Africa along with many countries in the world has had to operate through an environment of unprecedented health, economic and social challenges which have materially impacted individuals, families, businesses and society in general. This crisis, colloquially known as the Great Lockdown Crisis, resulted in a period of significant market volatility, especially through March and April 2020, resulting in financial market economic losses that morphed into a systemic loss of confidence as economies locked-down and the level of economic activity plunged with devastating implications to the real economy.

While GDP for 2020 declined by 7,0%, after the Q2 2020 GDP yoy decline of around 17,8%, Nedbank along with other SA banks, entered this crisis with a more resilient balance sheet position than was the case in the Global Financial Crisis (GFC), as can be observed by the fact that loan growth going into the GLC was more prudent, impairment coverage ratios higher, funding tenor longer, liquidity buffers larger and capital levels stronger. In addition, Nedbank's overall level of preparedness to deal with the GLC has been significantly enhanced since the GFC as crisis management play-books have been developed through recovery and resolution planning and liquidity simulation exercises, all supported by extensive scenario and stress testing.



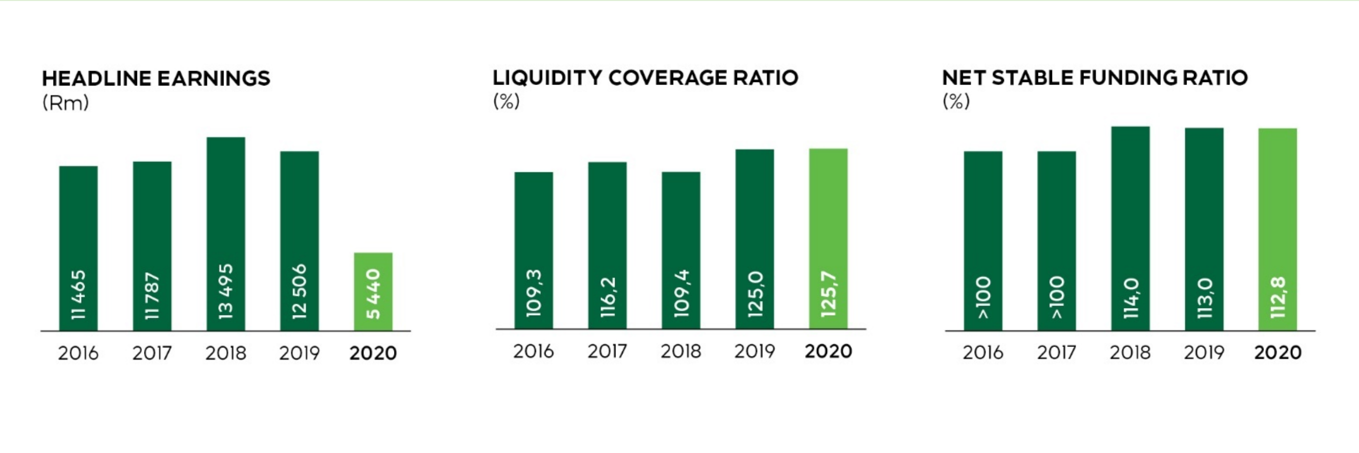
[1]Point of Sale (POS)

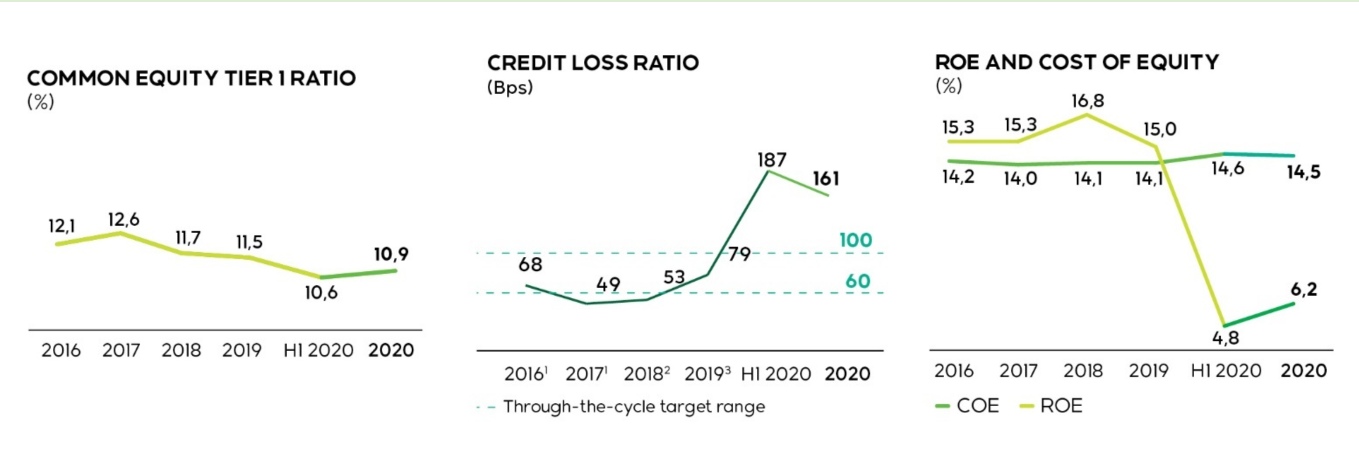
From a business perspective we have seen some recovery in H2 2020 with operational activity improving, as evident in mining and manufacturing production being above 2019 levels for the most part of the second half of the year. However, commitment to long-term fixed investment is still low as is evident in the correlation between business confidence and fixed investment. For Nedbank, while client pipelines remain robust, timing of execution is uncertain as there are many well-known structural issues that need to be addressed to improve the attractiveness of SA as an investment destination, in particular with respect to energy security.

In response to the economic crisis SARB cut interest rates by 300 bps, which proved beneficial to clients' cashflow as instalments on floating-rate loans declined, but this also resulted in lower endowment income for banks. On the back of these economic pressures, job losses increased and many clients' current and future ability to repay debt declined, resulting in materially higher levels of impairment charges, now determined under more-forward-looking IFRS 9 models and overlays. Despite these challenges, the South African banking sector and Nedbank demonstrated strong levels of resilience and was able to support our clients and the economy while remaining well capitalised, liquid and profitable, albeit at levels lower than in the prior year.

From Q3 2020 our focus shifted from managing the crisis to dealing with the implications thereof and reintegration of the business in a phased manner (in line with government lockdown levels). The focus was on mitigating downside risk, providing ongoing support to clients, managing costs and continuing to deliver world-class client experiences while remaining alert to any subsequent waves of infections and market volatility. This focus positioned us well to deal with the second wave that emerged in December 2020.

Robust balance sheet, strong liquidity and solvency positions, with profitability adversely impacted by the pandemic





Our financial performance for 2020 reflects the difficult operating environment, largely as a result of the impact of the Covid-19 pandemic and strict lockdowns in Q2 2020. Headline earnings declined by 56,5% to R5,4bn (2019: R12,5n), while headline earnings in H1 2020 declined by 69,2%. Headline earnings was impacted primarily by a significant increase in impairments (largely related to IFRS 9 forward-looking macro models and Covid-19-related judgemental overlays) resulting in the group's credit loss ratio (CLR) increasing to 161 bps. Net interest income (NII) declined marginally as muted advances growth was offset by a lower NIM as a result of the impact of lower interest rates on endowment. Non-interest revenue (NIR) declined by 7%, given lower levels of client-related transactional activity, lower equity valuations and lower insurance income on the back of Covid-19-related claims. H2 2020 earnings showed an improvement when compared to H1 as levels of additional impairments in the six months declined, NIR declined less than expected and the group's NIM improved, in part due to better asset pricing. Expenses remained well managed.

Focus for 2021

Key focus areas looking forward to 2021 include driving the strategic direction and financial performance of the group; while maintaining a strong balance sheet position aligned with board risk appetite, regulatory, rating agency, investor, analyst, and other key stakeholder requirements. We will continue our focus on driving balance sheet shape-change, through the setting of board approved Strategic Portfolio Tilts (SPT) that look to increase market share gains in key value creating portfolios that together with an obsession to cross-sell, and enabled through technology and our people will result in market share gains in transactional clients across all client segments and in turn drive market share growth in transactional deposits. Through optimal balance sheet risk mitigation our focus is on managing the asset/liability management costs associated with managing the long-term funding profile, the group's marginal funding portfolio, the cost of Basel III compliant capital instruments, the liquid asset, prudential cash reserve, surplus liquidity buffer and High Quality Liquid Assets (HQLA) portfolios, all-the-while optimally managing Nedbank's sensitivity to movements in interest rates and cyclical or systemic events, such as Covid-19.

LETTER FROM GROUP CHIEF COMPLIANCE OFFICER

'We are being held accountable on current legislation while the world is changing around us – hence we need to have an entrepreneurial spirit and find innovative ways to manage compliance.'

Anna Isaac

(Group Chief Compliance Officer)

In the 2019 Pillar 3 report I concluded by stating that in addition to fulfilling my statutory obligations in terms of the Banks Act, as a Group Executive member, my focus for 2020 and beyond was to further optimise Nedbank's compliance culture, by being more predictive in nature – little did I know that 2020 would bring unprecedented challenges and make 2019 seem like a 'walk in the park'. The year 2020 is a year we will never forget for many reasons, least of all being confronted with a pandemic. A 'mutant flu virus' was the wake-up call for the world to realise how dependent we are on one another. The compliance function showed resilience while transitioning to our Reimagine strategy ensuring that we remain ahead of the curve.

Nedbank's compliance teams realised very early in 2020 that you cannot do compliance the 'old way'. Compliance had to reassess monitoring plans to ensure relevance; manage risks associated with not restricting clients; advise business on Occupational Health and Safety (OHS) requirements; prioritise OHS risk assessments to quickly understand and address new and emerging risks; participate as a key stakeholder at the Nedbank Pandemic Steering Committee; engage our regulators, health authorities and the Department of Employment and Labour on a daily basis; and fulfil all functions required of the statutory Covid-19 compliance officer.

Our advocacy team worked tirelessly around the clock to ensure implementation of the plethora of Covid-19 related legislation. There was increased proactive involvement at the Banking Associating of South Africa (BASA) board, executive committee and other specialist committees, as well as proactive engagements with portfolio committees and ministers. We ensured continuous engagements, support and reporting to our regulators.

Our Reputational Risk and Ethics team, while dealing with the increase in Zondo Commission summonses requesting client information, also extended its ethics complaints line to deal with Covid-19 complaints. Maintaining an ethical culture continued to be prioritised. Despite the increased workload, we continued with an external Ethics Risk Assessment conducted by the Ethics Institute with positive and pleasing results.

It is unquestioned that artificial intelligence can deliver results and is now required more than ever, however, the risks also need to be recognised and catered for. We developed an Ethics in Digital Technology and Artificial Intelligence Policy in response to this, to cater for the lack of regulatory guidance.

Nels, our editorial and language unit, had to ensure digital editing was fast tracked. Our Privacy and Market Conduct teams continued to ensure that evolving client behaviour and expectations were top of mind. Ensuring good client outcomes is a key regulatory focus and one that is essential if the regulated market is to retain client confidence in the financial services industry.

Our client-facing cluster compliance teams fulfilled added compliance responsibilities brought on by: unprecedented regulatory disruption in a short period; changes to operations; and strain on systems and call centres. They had to create a compliance presence without being able to 'walk the floors' to ensure that business was still cognisant of compliance risks. I am pleased to report that our 'One Compliance' team seamlessly dealt with evolving and emerging compliance risks; fast-paced regulatory interpretation as required, and the regulatory impact of debt relief measures – all requiring a refocus of compliance priorities. As business models change, we must change the 'controls' we seek to rely on, to reflect the world in which we work.

Adequate and effective training and skills have been a topic close to the heart of our regulators. A full skills assessment was conducted and tabled at the board in this regard. We believe in the philosophy: 'Train people well enough so that they can leave, treat them well enough so that they do not want to'. We ensured that training was about imparting knowledge and changing behaviour, as opposed to a 'tick box' exercise. Horizon scanning and open dialogue are evolving (within the parameters of the law) – and in an attempt to prevent falling foul of the pitfalls experienced by other organisations, peer group meetings were encouraged.

Pleasingly, our pivoted 2020 Compliance Strategy was successfully managed in all material respects enabling Nedbank's overall positive compliance outcomes for 2020.

The 'new normal' encompasses, among other things, working from home; new OHS impact; privacy and cyber-impact beyond what was planned for; not being visible to business; and no/limited business travel. The change in transactional behaviour with new types of fraud/criminal activities, requires continual rapid and effective adaptation while maintaining safe and sustainable operations. Compliance in a remote environment has to be easy and accessible with innovative ways to maximise staff engagement and maintain productive, proactive and transparent interactions with our regulators.

While new Covid-19 related legislation has been introduced, the existing regulatory framework is largely unchanged and coupled with the shifts from discretionary self-paced digital transformation, short cuts must be prevented – hence compliance is part of decision making at Nedbank. Incident reporting has to remain in focus, as compliance violations will not decrease and owing to the current status quo, it may be more difficult to contact compliance in person. Compliance has to be conducted at the speed of business, has to consider business instincts when revising policies and procedures; and be able to deliver a business solution to a legal problem.

Among the ever-increasing new trends and emerging risks, we continue to deal with anti-money-laundering, fraud, bribery, complaints handling, conduct risk, data protection, market abuse, and conflicts of interest to name but a few. Cybersecurity is still a top concern. There can be no doubt that the world of compliance, regulation and legislation is a busy one and it will not slow down. We need to understand the vast complexities that exist, and it is pleasing that we have the full support of the Nedbank executives and the Nedbank Board who set the tone at the top, enabling compliance to effectively ensure that regulatory and supervisory risk is continuously and appropriately managed and monitored. Compliance also has to focus on a true risk-based approach and coordinated assurance to navigate the full landscape effectively. Compliance will never reach a state of 'utopia' as there will constantly be new legislation for us to analyse, manage and control: we need to be and are agile enough, skilled enough and courageous enough to take on these challenges. Finally, we will continue focusing on optimising Nedbank's compliance culture and 'client obsession'.

LETTER FROM ACTING GROUP CHIEF INTERNAL AUDITOR

'Our Group Internal Audit (GIA) purpose is to use our expertise to provide independent, objective assurance on the most significant risks, both current and emerging, that threaten the achievement of the group's strategic objectives. Providing a trusted opinion on the control environment to our internal and external stakeholders is key to our function. Where necessary, we leverage subject matter expertise to provide deeper perspectives and deliver insight, enabling Nedbank to be proactive in ensuring a robust internal control environment.
In the context of the Covid-19 pandemic, GIA played an important role in ensuring that Nedbank could maintain a strong system of internal control during this period of change and uncertainty. GIA accordingly reviewed its 2020 plan and approach in response to the crisis by supporting the group's need to deliver its services in a safe, secure and trusted way. Our 2021 plan has also been tailored to cater for some of the newer risks brought about by Covid-19.'

Anitha Dharmalingum

(Acting Group Chief Internal Auditor)

GIA's role as third line of defence

As the Acting Group Chief Internal Auditor for Nedbank, appointed effective January 2021, I continued to lead Nedbank GIA's highly skilled and experienced team of internal audit professionals. We provide independent, objective assurance to the Nedbank Group Limited Board of Directors through the Group Audit Committee (GAC).

Our GIA coverage places a key focus on corporate governance processes (including professional ethics), management of risk and systems of internal control to mitigate the most significant risks (in line with GIA Methodology). The GIA function is accountable to the Nedbank GAC Chairperson, we provide periodic assessments of the outcomes of internal audit work to appropriate governing bodies, including the GAC and GRCMC, and annually report on the overall effectiveness of the governance, risk and control framework of the group. Ensuring compliance with regulatory and corporate governance expectations of the Internal Audit function is a responsibility we take very seriously as a function.

GIA strategy

Our vision is to be a world-class, collaborative, innovative and on-point assurance provider inspiring our people and stakeholders to achieve beyond what they thought possible. The GIA refresh journey to become a 'trusted business advisor' started in 2018, following which, an independent external benchmarking assessment of Nedbank's GIA function, concluded in 2019, highlighted a noticeable improvement in GIA's performance and confirmed that the GIA transformation journey led to improved skills, agile processes and new ways of working, and the enhanced use of technology. In terms of the maturity assessment of an internal audit function, some work is still required to get GIA to the level of being a trusted business advisor which will bring it in line with other leading internal audit functions. This is consistent with Nedbank's expectations to also provide meaningful improvements, strategic advice and value-adding services.

To support the transition to becoming a trusted advisor, the following are the key 2021 focus areas:

- Emotional Intelligence (EQ).
- Leadership and judgement (including enhancements of people skills and business acumen).
- Increased visibility from the leadership team.
- Strategic and visionary ability to align the audit plan with agility.
- Relationships with a focus on increased collaboration and communication.
- Values (integrity, respect, accountability, client-driven, people-centered) and strong ethics.
- Increase in the number of consulting engagements that will bring strategic thought leadership and complement our skills base.

GIA methodology

In line with the GIA refresh aspirations to be a 'trusted business advisor', our methodology is 'forward-looking' and focuses more on risk and performance of business and management, by adopting a risk-based internal audit (RBIA) approach, while placing more emphasis on risk management, fraud prevention, corporate governance, and coordinated assurance, as well as regulatory and policy requirements. This is demonstrated through a deliberate focus on 'value improvement', while still maintaining 'value preservation'.

All of the above is achieved through a high level of compliance with the International Standards for the Professional Practice of Internal Auditing (SPPIA) of the Institute of Internal Auditors (IIA), including the IIA's 'Definition of Internal Auditing', the IIA's Code of Ethics, the ten core principles and any other standards of practice that are relevant in the South African internal audit environment, including, but not limited to, the following:

- With the move to 'Twin Peaks' (Financial Sector Regulation Model), GIA will be guided by any notices or requirements relating to internal audit from the PA and the FSCA.

- The Institute of Internal Auditors' guidance on effective internal auditing in financial services (as this is deemed to be best practice). The above mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of GIA's performance.
- The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to, to guide operations, as applicable.

2021 Annual audit plan and approach

The 2021 audit plan and focus areas are driven by GIA's independent assessment of key risks, including some of the newer risks arising from the Covid-19 pandemic, and takes into consideration the following:

- The global, African and South African macroeconomic environment.
- Nedbank's strategic priorities.
- Nedbank's Top 12 Risks – including input from the group's coordinated assurance planning session.
- Business impacts arising from Covid-19.
- Assurance on previously identified unsatisfactory / high risk areas.
- Use of Gartner benchmarking database of emerging risks.
- Changes to the organisation's legal entities and special requests from regulators, the board and management.

The 2021 audit plan was derived among other things, through a combination of GIA's independent risk assessment, coupled with robust discussions held with key stakeholders across the various lines of defence. The 2021 audit plan has increased the use of data analytics year on year thus marginally reducing the effort of traditional manual testing. In addition, more focused audits will be covered in 2021 as compared to the previous end-to-end value chain coverage.

Coordinated assurance

GIA performs a critical role in Nedbank's coordinated assurance initiatives, engaging across all three lines of defense to ensure a comprehensive coverage of key controls. GIA was able to leverage coordinated assurance synergies by relying on the second-line assurance providers. This allows Nedbank to improve coverage on key and emerging risk areas, such as cyber- and conduct risk, given the expanded risk and regulatory universe. The external auditors also placed reliance on internal audit coverage, especially with respect to IT general controls, cyber and certain internal financial controls, such as suspense and intercompany clearing accounts. Coordinated assurance with the Group Compliance Monitoring team also enabled the comprehensive and efficient coverage of the extensive anti-money-laundering (AML) coverage required during 2020. These initiatives will continue during 2021, with additional focus on other risk areas, such as credit operational processes.

GIA key risk focus areas

- Increased coverage of credit risk in SA and Nedbank Africa Regions (NAR) subsidiaries, as a result of the aftermath from Covid-19 and debt relief measures imposed by the regulators during 2020. Monitoring of impairments (CIB and MFC), credit granting in Wealth SA and International, and CIB Property Finance Valuations will also be focussed on.
- Cyberrisk, due to an increased number of cyber-attacks resulting from work-from-home practices, will also receive enhanced focus, as will the coverage of cyber and network security, web and mobile applications (Loyalty and Rewards and Avo) and cloud migration. Coverage includes SA, London and NAR subsidiaries.
- Internal financial controls (IFC) in SA and NAR subsidiaries, in terms of the revised JSE Listings Requirements stipulated in section 3.84(k) will be embedded. The review of group policies, frameworks and methodologies, adequacy and effectiveness of IFCs and consideration of monitoring and oversight performed by the second LoD will also receive attention.
- Programme assurance on Nedbank Strategic Initiatives including IFRS 17, Core banking modernisation, Eclipse juristic onboarding and servicing, and strategic payments will continue to receive focus.
- Other focus areas for 2021 include compliance with the Operational Risk Management Framework (ORMF), card payments and shared services and regulatory compliance (AML, anti-bribery and corruption).

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RISK MANAGEMENT OVERVIEW

Nedbank has a sound risk culture, an appropriate and enabling risk appetite and a well-tested, robust Enterprisewide Risk Management Framework (ERMF). In 2020 the world was impacted by what some refer to as the biggest adverse event since World War II, the Coronavirus (Covid-19) pandemic. To date, we have been resilient throughout the pandemic and have pivoted our strategic focus and risk strategy successfully. However, very significant risks continue to prevail, particularly those relating to people (health/wellness) and credit, together with the continuing economic and social uncertainty. The overall state of our risk management, balance sheet management, internal control environment and risk culture remains sound and robust and has prevailed throughout this 'black swan' event and will continue to serve us well through these unprecedented times.

The impact of the Covid-19 pandemic has necessitated a tilting or repositioning of the group's strategic focus areas. Initially, our primary focus was on **'Resilience'**, as we managed the group through the most restrictive phases of the lockdown and the extreme volatility that played out in financial markets. Next, our focus was on **'Transition'** as we re-established our full suite of financial services. From the end of 2020 our focus has been on **'Reimagine'**, as we strategise and position the group to emerge stronger, more agile, sustainable and more client-focused in the post-Covid-19 world.

- **Resilience (Manage the crisis)**
  Our key focus throughout the pandemic has been on ensuring the health, safety and wellbeing of our stakeholders, including our employees and clients. We invoked business continuity plans (BCPs) and enabled remote working across the enterprise as we continued to deliver essential banking services. Additionally, we focused on ensuring our IT systems were stable and available, reviewed stress-testing scenarios and modelling of potential economic outcomes, educated clients and employees regarding digital solutions and capabilities available to them, provided debt relief to support qualifying clients, launched new digital solutions such as Avo (our repurposed platform solution for essential services) and enabled clients to transact through digital channels. From a financial perspective, our focus was on managing liquidity, capital, market, operational and credit risk, and at the same time managing discretionary costs, with less focus on profitability other than as an initial buffer against capital.
- **Transition (Enable recovery)**
  From Q3 our focus shifted from managing the crisis to dealing with its implications and the reintegration of the business in a phased manner (in line with revisions to government lockdown levels). Our focus was on mitigating downside risk, providing ongoing support to clients, managing costs and continuing to deliver world-class client experiences while remaining alert to new waves of infections and market volatility. This held us in good stead as the second wave emerged in December 2020. Pleasingly, the focus on managing credit risk and discretionary costs, together with a macroeconomic recovery from the low Q2 2020 base, supported a stronger second-half financial performance.
- **Reimagine (Strategise for value creation in a new environment)**
  The environment for our employees, clients and other stakeholders, as well as the world of financial services and banking, is likely to be materially different after the Covid-19 pandemic. As part of our business planning in H2 2020 we identified opportunities to create new revenue streams, enhance operations and optimise the structure of our businesses. Key value unlocks for the future include delivering market-leading client solutions, growing in value-creating areas (including in line with the Strategic Portfolio Tilt 2.0 as we leverage our balance sheet to grow transactional revenue and deposits while increasing cross-sell), continuing our disruptive market activities (underpinned by digital leadership), driving efficient execution (including in line with the Target Operating Model 2.0, through which we are optimising our branch infrastructure in the context of an increasingly digital world, shifting our RBB structure to be more client-centred, as well as optimising shared services across the group), and leading sustainably (caring for our employees, clients, society and the environment). These value unlocks support our revised medium-term targets, and by 2023 we aim to have achieved DHEPS greater than the 2019 level (2 565 cents), ROE greater than the 2019 levels (ROE 2019: 15,0%), a cost-to-income ratio lower than 54% (2019: 56,5%) and the number one ranking in the NPS (2019: 3), having improved to number two among all South African banks in 2020 in the recently released Consulta survey.

RISK CULTURE

Risk culture is a principle of enterprisewide risk management that deals with the thinking, norms of behaviour and actions around risk and risk management that shape our ability to identify, understand, openly discuss, escalate and act on the bank's current and future challenges and risks. Risk culture creates an awareness, recognition and understanding of the value of risk and its identification, measurement, management, monitoring and reporting as part of daily business activities. It is embedded within people's thoughts, beliefs and values, which in turn influence their behaviours and actions. We have developed a risk culture guideline document to communicate and expand on the key elements of risk culture. In 2020, a risk and compliance culture survey was conducted across the group to assess the prevailing risk culture within Nedbank. The survey considered the four key elements of risk culture outlined below:

- Drivers – our board-approved policies and the Nedbank Code of Ethics and Conduct help promote a sound risk culture.
- Mindsets – influenced by values and attitudes formed by internalised knowledge, processes, and practices.
- Behaviours – that reflect the values in practice and indicate the level of risk skills among our employees.
- Outcomes – as displayed by risk awareness in appropriate behaviours and judgements.

The results of the Nedbank risk culture survey indicate that the group values a proactive approach to risk culture with mindset and behaviour elements rated relatively highest. To create risk awareness and inspire risk centric behaviour, risk culture initiatives planned for 2021 include training, awareness campaigns and monitoring initiatives.

RISK GOVERNANCE

The board of directors has ultimate responsibility for the group's business strategy, financial soundness, governance, risk management and compliance and have allocated oversight of risk governance to the Group Risk and Capital Management Committee (GRCMC). The group's sound governance and risk management are underpinned by the three lines of defence (LoD) risk governance model, based on 'function' rather than 'location' in the organisation.

Three lines of defence

The LoD model forms an important part of the ERMF, which underpins and provides the structure in which the group operates. Failure to take the appropriate risks and effectively manage and control risks taken, can prevent the group from achieving its strategic objectives. The roles and responsibilities of the three LoD provide a structure to consider risk and control, to ensure that they are appropriate and managed effectively. The three LoD provides guidance as to the appropriate organisational structure to be implemented, assigning roles and responsibilities to parties that will increase the effective management of risk and controls. Nedbank applies the three LoD Risk Governance Model, which incorporates the following principles:

First LoD – Risk-taking and risk ownership.

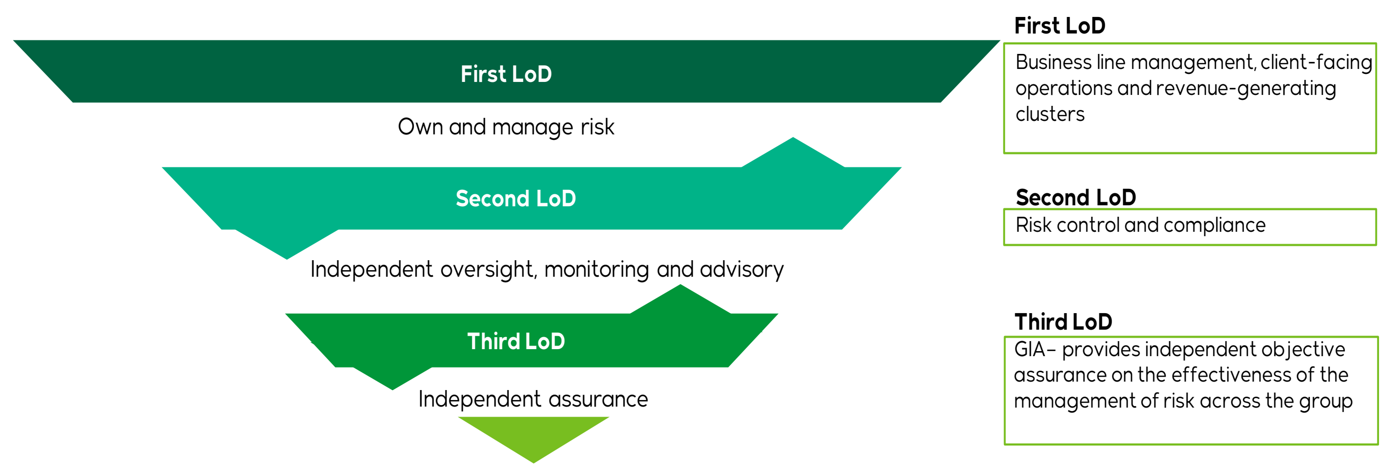
- Business line management/client-facing operations/revenue-generation activities (business clusters).
- Some central functions that provide first-line support to generate revenue and manage risk and compliance.

Second LoD – Independent risk and compliance oversight, monitoring and advisory.

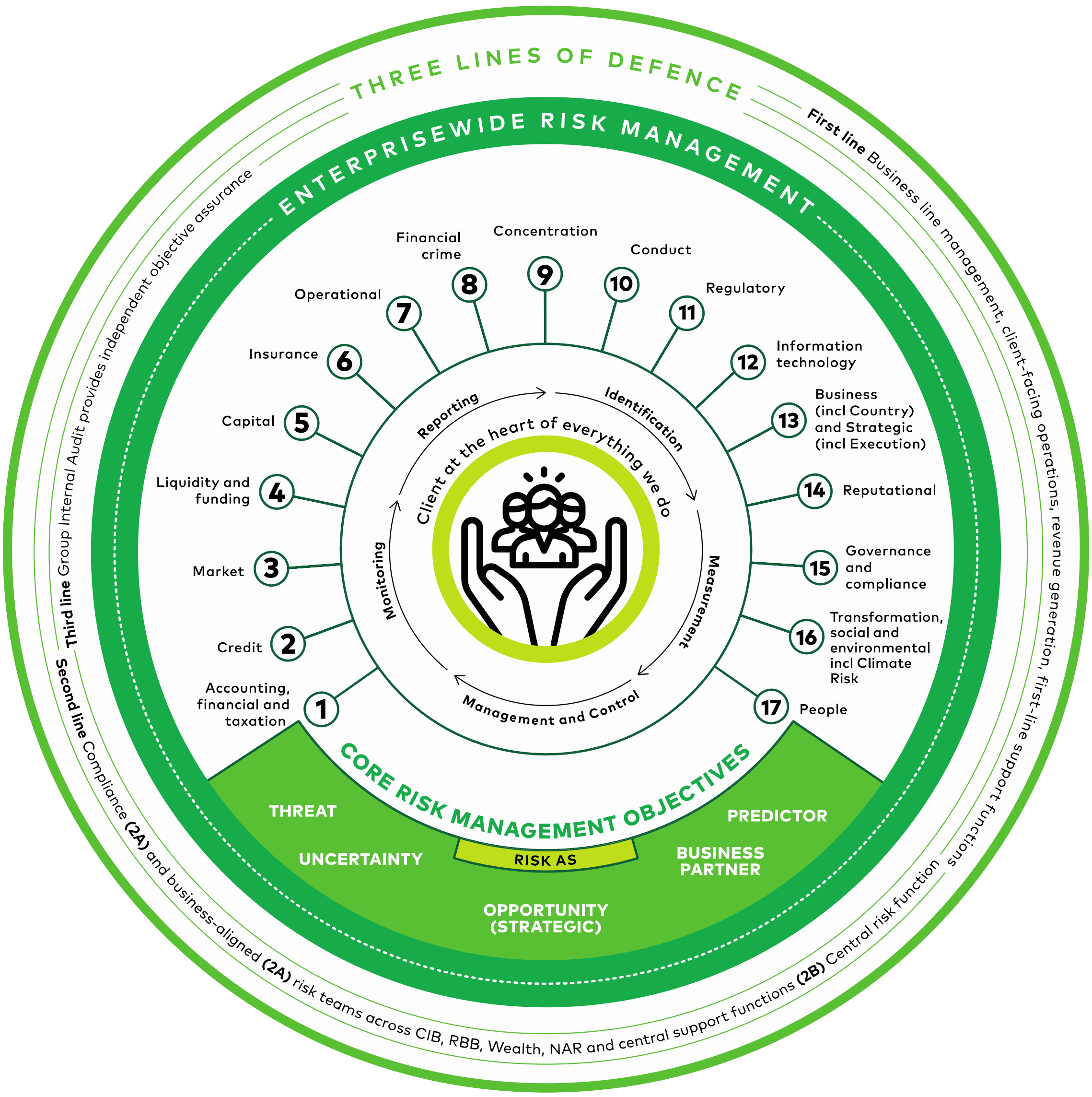
- Risk is delineated into the following:
  - 2A – Business and shared services clusters and other regulated/statutory entities/offshore operations risk functions.
  - 2B – Group Risk
    - Some central functions (eg Balance Sheet Management) perform second LoD oversight, monitoring and advisory roles, in addition to their first LoD support roles.
- Group Compliance operates as a second LoD across all group and cluster functions and does not differentiate between line 2A and 2B.

Third LoD – Independent assurance, ie Group Internal Audit (GIA).

Three lines of defence



Risk governance overview



The ERMF enables the group to identify, measure, manage, price and control its risks and risk appetite, and relate these to capital requirements to assist in ensuring its capital adequacy and sustainability, and thus promotes sound business behaviour by linking these with performance measurement and remuneration practices. The fully embedded ERMF covers the group's risk universe and major risk classifications, with board and executive responsibility assigned to each. The risk universe has been allocated to the respective board committees.

Enterprisewide Risk Management Framework

Risk universe	Accounting, financial and taxation risks	Credit risk	Operational risk	Financial crime risk	Liquidity and funding risk	Capital risk	Insurance risk including non-banking risks	Market risk: Trading book	Market risk: Banking book	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

Strategy, Performance, Risk Management and Risk Appetite

Focused and informed involvement by the board and Group Exco, accountability and responsibility of business management and Group Finance, all supported by appropriate internal controls, risk management and governance structures and processes.

Board committees

Nedbank Board of Directors

- Group Audit Committee (GAC)
- Group Credit Committee (GCC)
  - Large-exposures Approval Committee (LEAC)
- Group Risk and Capital Management Committee (GRCMC)
  - Including ad hoc GRCMC AML
- Group Information Technology Committee (GITCO)
- Related-party Transactions Committee (RPTC)
- Directors' Affairs Committee (DAC)
- Group Remuneration Committee (REMCO)
- Group Climate Resilience Committee (GCRC)
- Group Transformation, Social and Ethics Committee (GTSEC)

Chief Executive (CE)

Group executive committees

Nedbank Group Executive Committee (Exco)

- Group Alco and Executive Risk Management Committee (Group Alco)
- Group Operational Risk Committee (GORC)
- Executive Information Technology Committee (EITCO)
- Brand, Client and Conduct Committee (BCCC)
- Financial Crime Committee (FCC)
- Transformation Human Resources Committee (TRAHRCO)
- Group Reputational Risk Committee (GRRC)
- Climate Risk Committee (CRC)
- Executive Credit Committee (ECC)

Group Operational Committee (Opcom)

Group executive committees and forums

- Cluster Credit Committees(CCC)
- Coordinated Assurance Forum (Internal and External)
- Model Risk Committee (MRC)
- Group Transformation Forum
- Mergers and Acquisitions Forum
- Nedbank Employee Equity Forum
- Regulatory Risk and Compliance Forum
- Transactional Balance Sheet Forum
- Finance Forum

Enterprisewide Risk Committees (Ercos)

Shared services

Chief Operating Officer (COO)

- Group Marketing and Corporate Affairs (GMCA)
- Nedbank Africa Regions (NAR): Investments, Alliances and Strategic Subsidiaries
- Group Strategy and Communications
- Group Human Resources (GHR)
- Group Technology (GT)

Chief Financial Officer (CFO)

- Group Finance
  - Balance Sheet Management (BSM)
  - Group Business Services (GBS)
  - Group Taxation
  - Group Secretariat

First-line of defence (First LoD)

Client-facing clusters: Nedbank Corporate and Investment Banking (CIB) | Nedbank Retail and Business Banking (RBB) | Nedbank Wealth | Nedbank Africa Regions (NAR)

First-line functions: Business line managers | Some central functions (Group Risk/BSM), eg Forensics, Legal, Security Services, etc.

Second-line of defence (Second LoD: 2A and 2B)

Risk oversight, monitoring and advisory

2A Client-facing clusters

Nedbank Corporate and Investment Banking (CIB) | Nedbank Retail and Business Banking (RBB) | Nedbank Wealth | Nedbank Africa Regions (NAR)

- CIB and RBB: Cluster Executive Head: Risk; Business Unit Risk Officers
- Nedbank Wealth and NAR: Cluster Executive Head: Governance and Compliance; Business Unit Compliance Officers
- Other statutory-/regulatory-appointed officers

2B Group risk and compliance functions

Group Risk

The Chief Risk Officer, who reports directly to the Chief Executive, provides:

- *strategic risk management leadership*
- *group independent risk oversight*
- *key support to various risk committees*
- *interacts closely with the business units*
- *is responsible for championing effective ERMF*
- *independent model validation*
- *some first-line functions, eg forensics and physical security*

Group Chief Risk Officer (GCRO)

- Group Credit Risk (GCR)
- Group Risk Analytics (GRA)
- Group Market Risk (GMR)
- Group Operational Risk (GOR)
- Group Strategic Risk (GSR)
- Group Financial Crime, Forensics and Security (GFCFS)
- Group AML, CFT and Sanctions Office (GAML) and Exchange Control
- Group Conduct Risk
- Group Legal
  - Corporate Insurance

Group Compliance

The Group Chief Compliance Officer, who reports directly to the Chief Executive, provides continuous strategic compliance risk management leadership, independent compliance risk monitoring (of compliance monitoring in the first-line), sets the group compliance framework and works closely with the cluster compliance functions on compliance matters.

Group Chief Compliance Officer (GCCO)

- Monitoring
- Compliance Services and Oversight
- Advocacy, Policy and New Regulatory Requirements
- Nedbank Editorial and Language Services
- Regulatory Reporting and Strategic Reporting
- Reputational Risk and Ethics

Third-line of defence (Third LoD)

Independent assurance

Third-line of defence: Group Internal Audit

The board provides leadership and vision to the group that should enhance shareholder value and provide entrepreneurial leadership within a framework of prudent and effective controls, which enables risk to be assessed and managed to ensure long-term sustainable development and growth. The board has established the following committees to oversee the management of the group.

Board committees

Board committees	Responsibilities	Allocated key risks
Group Audit Committee	• Assists the board in its evaluation of the integrity of our financial statements through evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the group in the day-to-day management of its business. • Manages the relationship with the external auditors, assesses their independence and effectiveness, and recommends the appointment of the external auditors. • Facilitates and promotes communication between the board, executive management, the external auditors and the Chief Internal Auditor (CIA). • Monitors the effectiveness of the internal audit function, in terms of its scope, plans, coverage, independence, skills, staffing, overall performance and position within the organisation. • Oversees the processes to enhance the credibility and objectivity of financial statements and reports prepared with reference to the affairs of the group.	• Accounting, financial and taxation risks
Group Credit Committee and Large-exposures Approval Committee	Approve the following: • Credit risk appetite. • Credit risk policies, mandate and limits (including the Advanced Internal Ratings Based (AIRB) system and impairment policies). • New models and material changes to the AIRB system. • The adequacy of impairments (including overlays) and the group IFRS 9 impairment figures, together with the macroeconomic forecasts used to calculate them. • Large-exposure approvals. The committee monitors and promotes the sound credit practice areas across the group to ensure the: • establishment and maintenance of an appropriate credit risk management environment; • establishment of best risk practices, standards and adequate controls for the effective and efficient management of credit risk; • proper assessment of asset quality and adequate disclosure of credit risk; • implementation of appropriate reporting systems and processes; and • proper analysis of current and future capital requirements in relation to the strategic lending objective.	• Credit risk • Credit concentration risk
Group Climate Resilience Committee	• The GCRC is focused on the oversight of climate resilience, including climate risk and opportunities. Climate risk is a risk with several elements including credit, market, operational, strategic and compliance. Through physical, transitional and liability risk events, climate risk may give rise to several risks contained in the group's risk universe. The GCRC will monitor the oversight of the integration of the other board subcommittees. • Monitoring the implementation and ongoing maintenance of the Climate Risk Management Framework (CRMF), and the adoption of global best practice including, among other things, the Taskforce on Climate-related Financial Disclosure (TCFD), climate-related risk management to ensure risks are properly identified, evaluated/measured, managed, and monitored on an ongoing basis. • Regarding the identification, assessment and management of risks and opportunities, the GCRC will monitor in-scope risks as described in the CRMF as follows:	• Climate risk

Board committees	Responsibilities	Allocated key risks
	• Strategy (climate risk and opportunities, linking into the branding and marketing positioning and strategic and financial plans) » Ensuring independent oversight to unlock these opportunities requires an understanding of our clients' and suppliers' exposures, geographical distribution and accompanying climate-related risks and/or challenges within these areas. Availability of information and data quality in relation to sectoral exposures will have an impact on assessing our exposure to climate-related risk in identified high-risk sectors. » Ensuring that these identified climate opportunities are integrated into the strategy and the group business plan. » Climate-related risks and opportunities, and the governance thereof. » Risk management and the integration of climate-related risks into our risk universe to ensure that climate-related risk management is effective (including physical risk, transition risk and liability risk). » Climate-related risks and opportunities, metrics and targets. » Alignment of the Social and Environmental Policy and social and environmental management system (SEMS) to assess all high-impact industry transactions against compliance requirements and internal targets. » Monitor liability risk: potential for damages sought by those most impacted by climate change against those held accountable for contributing to carbon emissions. » Identification of any build-up and concentration of the various risks, including emerging risks, to which the group, banking, insurance, and asset management entities are actually or potentially exposed.	
Group Risk and Capital Management Committee	• Identification, assessment, control, management, reporting and remediation of all categories of the risks allocated. • Adherence to internal risk management policies, procedures, processes and practices. • The GRCMC role includes the independent oversight of the adequacy and effectiveness of the ERMF, which will include key risks, key performance indicators and operational risks. **Oversight and overall risk management** • Monitoring the implementation and ongoing maintenance of the group's ERMF, including effective consolidated and conglomerate supervision across the group, and the adoption of best practice in risk management to ensure risk is properly identified, evaluated/measured, managed and monitored on an ongoing basis. • Identifying any build-up and concentration of the various risks, including emerging risks, to which the group is actually or potentially exposed to. • Developing a risk mitigation strategy, to ensure that the group manages the risks in an optimal manner. • Ensuring that a formal risk assessment is undertaken at least annually and monitoring that the enterprisewide risk management and operational risk assessment methodology is implemented, maintained and reported effectively throughout the group. • Identifying and regularly monitoring all key risks to ensure that the decision-making capabilities and accuracy of its reporting is maintained at a high level. • Arranging training of members of the board in the different risk areas that the group and banking entities are exposed to. **Policy and communication** • Review and approve group level risk policies and methodologies. • Introduce measures that in the committee's opinion serve to enhance the adequacy, efficiency and effectiveness of the risk management policies, procedures, practices and controls applied within the group. • Facilitate and promote communication of risk-related matters between the board and executive management of the group.	• Financial crime risk (including AML and CFT) • Operational risk • Liquidity and funding risks • Capital risk • Market risk • Regulatory risk • Conduct risk • Insurance risk • Other risk concentrations

Board committees	Responsibilities	Allocated key risks
	Capital management and related risks Ensuring the group maintains an Internal Capital Adequacy Assessment Process (ICAAP) whereby: • policies and procedures exist to ensure that the bank and controlling company identifies, measures and reports all material risks; • a comprehensive process is in place that: » relates capital to risk; » sets capital adequacy goals with respect to risk, taking account of our strategic focus and business plans; » ensures that our insurance entities establish and maintain a risk-based Own-risk and Solvency Assessment (ORSA), as contained in the Prudential Standards promulgated under the Insurance Act; » ensures that the bank maintains an Internal Liquidity Adequacy Assessment Process (ILAAP); » monitors the adequacy of the asset and liability management, capital management processes in the group, trading market risks, derivatives (including over-the-counter derivatives) and investments; and » reviews and recommends to the board, group level risk appetite, limits and authority levels. **Management information and reporting** Monitors that adequate and reliable risk management information is furnished, which enables the committee to: • ensure that a strong risk culture is maintained in the bank and the risk management function is independent; • understand all the risks listed in the risk universe, including compliance with risk appetite, limits and authority levels and the strategy to deal with abnormal events/issues; • manage risk in the group effectively, to formulate an opinion thereon and to understand the issues involved adequately; • review and make recommendations to the board and other committees on all risk-related matters; • consider corrective steps taken by management to address risk issues and the implementation of risk management enhancements; • review the relevant items from the group's Key Issues Control Log Report (KICL) and ensure effective and timely action is taken by management; and • coordinate the monitoring of risk management on a groupwide basis.	
Group Information Technology Committee	• Ensure alignment, prioritisation and quantum of Information Technology (IT) development spend. • Alignment with overall group strategy and direction, and report to the board. • Oversee the ongoing maintenance of adequate IT systems. • Monitor, review and proactively manage the maturity and development of digital talent across the group. • Monitor the implementation of the board's approved IT strategy and achievement of key IT objectives. • Review and monitor that appropriate frameworks, procedures, structures and governance are in place for the consolidation, monitoring, management and reporting of IT risks and exposures on a groupwide basis. • Review and approve strategic programmes and projects. • Review strategic programmes, projects and programme elements, which may have deviated from their approved cost, scope, anticipated benefits, and agreed timing.	• Information technology risk

<table>
<tr><th>Board committees</th><th>Responsibilities</th><th>Allocated key risks</th></tr>
<tr><td>Directors' Affairs Committee</td><td>Monitors progress of the implementation and achievement of the board's corporate governance objectives (by applying King IV principles and practices) and determines and evaluates the adequacy, efficiency and appropriateness of the corporate governance structure and practices of the group.
Assesses the conduct and competence of directors and board committees regularly and assists the board in determining whether the services of any director should be terminated.
Assists the board in ensuring that the group is at all times in compliance with all applicable laws, regulations, codes of conduct and practices.
Makes recommendations on the appointment of new directors and board composition in general and on the diversity of the board.
Manages the succession plans for the chair of the board, Lead Independent Director, the CE and executive directors.
Ensures the group maintains an independent and effective compliance function as part of its risk management framework.
Oversees the activities of the Group Reputational Risk Committee (GRRC).
Oversees the adoption of best practice in compliance risk management to ensure that compliance risk is properly identified, evaluated/measured, managed and monitored on an ongoing basis.</td><td>Business (including country) and strategic execution risks
Governance risk
Compliance risk
Reputational risk</td></tr>
<tr><td>Related-party Transactions Committee</td><td>Considers the business purpose, timing, rationale and benefits of the related-party transactions or relationship.
Ensures that the monetary value of the related-party's interest in the transaction is ascertained accurately.
Ensures the appropriateness of the method used to determine the value of the transaction and the value of counterparties.
Ensures that there is full information about any provisions or limitations that may result or be imposed on the group as a result of concluding the transaction.
Ascertains whether the proposed transaction includes any potential or actual reputational risk issues that may arise as a result of, or in connection with, the transaction.
Determines the extent to which, if at all, the transaction is likely to affect or compromise a director's independence and fiduciary duties and the extent to which any related-party transaction or relationship is likely to present or create an improper conflict of interest.</td><td>Reputational risk</td></tr>
<tr><td>Group Remuneration Committee</td><td>Oversees the remuneration system's design and operation.
Ensures that performance measures are based principally on the achievement of the board-approved objectives of the group.
Ensures that the group's remuneration policy, processes and procedures comply with the relevant legislation and regulations, any further requirements specified in writing by the PA, and any corporate governance principles to which the group subscribes.
Recommends to the board for approval, all elements of remuneration on an individual basis for the CE, executive directors, prescribed officers and other members of Group Exco.
Appoints an independent committee to consider and make a recommendation on chairman and non-executive directors' fees to the Nedbank Group Board for approval by shareholders at the annual general meeting (AGM).
Reviews and evaluates practices by which remuneration for potential future revenues in respect of which the timing and likelihood of realisation remain uncertain, is paid.
Ensures that the group remunerates in a manner that is fair, responsible and transparent.</td><td>People risk</td></tr>
</table>

Board committees	Responsibilities	Allocated key risks
	• Works closely with the group risk and capital management committee in the evaluation of the remuneration incentives, and whether the group's remuneration practices have stayed within the risk appetite of the group. • Ensure that the remuneration of employees in the risk control and compliance functions is determined independently of all relevant business areas and is appropriate to attract qualified and experienced employees.	
Group Transformation, Social and Ethics Committee	• Monitors the matters set out in Regulation 43(5) of the Companies Act, 71 of 2008, oversees and advises on the role of the bank in its pursuit to deliver on its purpose 'to use our financial expertise to do good for individuals, families, businesses and society' including sustainable development finance opportunities as guided by the Nedbank Sustainable Development Framework. • Takes responsibility for the group's activities in the field of transformation through monitoring progress in terms of the transformation agenda for the group, human capital development, enhancing the culture of ethics and ethical leadership in the group, including ethical remuneration, human rights in business, stakeholder engagement according to the King Report on Corporate Governance (King IV), sustainable development, including the management of non-financial issues, and climate resilience as listed and defined in the group's ERMF and corporate social investment. • Recognises that the attraction, retention and growth of talent, the building of an organisational culture that supports the group's business strategy, and developing the skills that are aligned to business requirements are a key focus for the organisation.	• Transformation, social and environmental risks • Reputational risk • People risk

Coordinated Assurance

- Coordinated Assurance (CA) integrates and aligns risk, audit and compliance functions and assurance activities. This enables an effective internal control environment across the group with assurance focused on critical risk exposures supporting the integrity of information used in internal decision-making (to governance forums) and reporting to external stakeholders.
- The CA internal forum [Group Risk (GR), Group Compliance (GC) and GIA executive teams] is where CA plans are shared, discussed and challenged and the CA external forum [the Chief Risk Officer (CRO), the Group Chief Compliance Officer (GCCO), the Chief Internal Auditor (CIA) together with the Chief Financial Officer (CFO) and the External Auditors] provide a platform for enhanced assurance planning, information exchange and collaboration ensuring an optimal level of governance and oversight over the organisation's risk and internal control environment.
- Nedbank's organisational resilience is more critical than ever in these unprecedented times of uncertainty and volatility, exacerbated by the Covid-19 pandemic and resultant global market crisis.
- CA remains an important tool to help coordinate, align and integrate assurance activities and ensure adequate independent assurance coverage of the expansive risk universe.
- To ensure that the group maintained a strong system of internal control during this period, the CA 2020 plan was revised.
  - » The revision enabled greater collaboration across GIA, GC and GR assurance coverage during H2 2020, taking into consideration the capacity constraints to deliver on assurance commitments, inclusion of our expanded top 12 risks and the additional Covid-19 regulatory requirements.

TOP 12 RISKS FOR 2020

In recent years our risk universe expanded greatly to include emerging risks like cybersecurity, data loss and privacy, climate change as well as increasingly stringent regulatory requirements. In 2020 Covid-19 brought about an economic, health and social crisis that by all accounts exceeded the 2008–2010 Global Financial Crisis (GFC) in scope and impact. Credit and capital risk were once again key focus areas during this crisis. In addition, the unprecedented level of change increased our strategic execution risk and socioeconomic risk.

The overall state of our risk management, balance sheet management, internal control environment and risk culture remains sound and robust. We strive for agile but responsible, accountable, and effective governance and risk management.

Although the uncertainty and volatility brought on by Covid-19 is unprecedented, we have demonstrated organisational resilience and management of abnormal risks.

Our top 12 risks have been reassessed as we move from Covid-19 'Resilience' to 'Reimagine' in 2021, as outlined below.

NEDBANK'S 2021 TOP 12 RISKS AND TREND

	2021 Risks	Covid-19 Resilience versus 2020	
1	**Business risk (including geopolitical and country/sovereign risks)** [Financial Markets Crisis 2020 and Covid-19 pandemic (future waves); SA and NAR country risks including macroeconomic (U/V/W/L recovery?), political/government/state failure and corruption, critical infrastructure failure (Eskom), unemployment levels and social instability risks (South African sovereign ratings = 'junk'); sovereign risks (debt: GP-next crisis?) and geopolitical risks/cyber/infectious diseases, and USA elections; competitor/Fourth Industrial Revolution/commercialisation of and return on technology investment spend and financial performance risks.]	1	►
2	**Credit risk** (Financial Markets Crisis 2020 and Covid-19 pandemic, 1-in-100-year event, adverse macro economy and above country risks in SA and NAR, Covid-19 payment holidays/restructuring/operational capacity, coverage ratios and CIB watchlist.)	4	▲
3	**Strategic execution risk** [Unprecedented level of change and impacted by Financial Markets Crisis 2020 and Covid-19 pandemic, therefore 'pivot' to strategy; are we changing safely in the Fourth Industrial Revolution/unprecedented level of change? Timely strategic execution in Fourth Industrial Revolution/competitive pressure, including ME/Eclipse/FICAA/DFL/data commercialisation, Strategic Portfolio Tilt 2.0, TOM 2.0 and ROI on/commercialisation of technology innovation (ME) spend, NAR 'Go To Green' and ETI.]	11	▲
4	**Capital risk** [Capital adequacy heightened by the Financial Markets Crisis 2020 and Covid-19 pandemic (future waves), and consequently materially reduced organic capital generation/headline earnings (impairments impact) as well as impact on Risk Weighted Assets; capital intensive balance sheet loan book versus peers, and subscale short-term advances and transactional deposits.]	5	▲
5	**Cyberrisk** [Covid-19-induced heightened vulnerability and BCP/WFH staff, Fourth Industrial Revolution/digitalisation, Digital Fast Lane (DFL), data loss protection (DLP)/data security and third parties' cyberrisks.]	7	▲
6	**Operational risks** [Covid-19 pandemic (second wave), health risks and business continuity/BCP/WFH; people, process, systems, third parties and external events amid unprecedented levels of change, the Fourth Industrial Revolution and adverse country risks in above business risk.] • Organisational resilience • People risk (Employees). • Changing safely in the Fourth Industrial Revolution and pace of technology/digital change/nWoW. • IT risks, amidst unprecedented technology change. • Digital risks (risks of digitally enabled banks.	2	▼
7	**Liquidity risk and funding** (Financial Markets Crisis 2020 and Covid-19 pandemic; overreliance on wholesale funding versus peers and subscale transactional deposits market share both retail and commercial.)	3	▼
8	**Market risks** [Financial Markets Crisis 2020 and Covid-19 pandemic (future waves) and potential further market volatility, equity and property valuation risks, heightened IRRBB focus (NII sensitivity versus peers) and market conduct]	6	▼
9	**Reputational (and association) risk** (State capture/Zondo commission, South African corruption, AML/CFT, conduct risk, unemployment/inequality, Fourth Industrial Revolution, climate change, Covid-19 and social media).	9	►
10	**Climate risks** (Physical, transition, liability and reputational risks – stakeholder activism, and strategic opportunity/brand and market positioning.)	12	▲
11	**Conduct risk** [Covid-19, consumerism and market conduct evolution/acceleration, FSCA/Conduct Standard for Banks (new), CBA/Royal Commission, social media and corporate responsibility.]	10	▼
12	**Regulatory and compliance risks** [Government policy (Fiscal, Monetary and Macro-Prudential) responses to Covid-19 impacts and measures to ensure safety/soundness of banks (including IFRS 9, LCR and Capital/RWA treatment), FSCA/Conduct Regulations, AML/CFT esp FICAA, data privacy, IT/cyber, DebiCheck, NCA, EXCON, Financial Conglomerate Supervision and Covid-19 regulatory compliance]	8	▼

▼ *Moved down in position.*
► *Stable or no change in position.*
▲ *Moved up in position.*

Business (including geopolitical and sovereign) risk (Top 12 risk: #1)

The escalation of Covid-19 infections disrupted the global economic recovery somewhat in the final quarter of 2020. A potential double-dip global recession has, however, been reduced by adjustments to the new ways of working, while the rollout of vaccines has increased the chances of a stronger recovery as economic activity normalises. As such, the International Monetary Fund (IMF) expects global economic growth of 5,5% in 2021, following a contraction of 3,5% in 2020, with China, the US and European areas expected to post growth rates of 8,1%, 5,1% and 4,2% respectively.

Nevertheless, risks exist given the uncertainty about the pandemic's path, delays in vaccine rollouts and vaccine efficacy challenges given the increasing number of virus mutations. The major economies will continue to lead the global recovery, with China remaining the fastest-growing economy among them. Merchandise trade volumes are edging higher, but trade in services will still be depressed beyond 2021, unless the roll out of vaccines eradicates the pandemic quicker than anticipated.

The return to pre-Covid global output levels is unlikely in the foreseeable future due to the inherent loss of some production capacity. Stimulatory measures on the monetary and fiscal fronts will be key determinants of the pace of rebound across economies.

The South African economy fared better in H2 2020, supported by the relaxation of Covid-19 containment measures. The relief, however was short-lived, with a resurgence of new infections forcing a return to an 'adjusted-level three' lockdown, although the country has subsequently been returned to a lower level of lockdown, another wave of infections could derail the fragile recovery. Even without the risk of repeated restrictions, the recovery is likely to be slow and uneven, impacted by ongoing power outages, weak government finances and the enormous hit inflicted by the pandemic on household and corporate earnings. Eskom's load-shedding poses the biggest idiosyncratic risk to the overall economic activity such that even if the global economy recovers, domestic production could still be constrained. The economy is forecast to grow by around 3,4% in 2021, after shrinking by an estimated 7,0% in 2020.

The Reserve Bank's Monetary Policy Committee (MPC) left the repo rate unchanged at 3,5% at the first meeting of 2021, motivated by the subdued inflation outlook and sluggish growth prospects. The MPC forecasts headline inflation to average 4% in 2021, 4,5% in 2022 and 4,6% in 2023. The economy is anticipated to emerge from recession over the same period, with GDP forecast to recover at a pace of 3,4% over 2021. The risks to the growth outlook are broadly balanced. The Quarterly Projection Model now suggests two rate hikes of 25 bps each in the second and third quarters of this year, compared with the previous indication, with hikes anticipated in the third and final quarters. Annual consumer price inflation was 3,2% in January 2021, up from 3,1% in December 2020. Pressure on inflation is expected on the back of an increase in food prices and miscellaneous goods and services, a 15% increase in electricity prices, and increasing oil prices compared to 2020.

The rand fared remarkably well towards the end of 2020, gaining 11,6% on a trade-weighted basis and 13,6% against the US dollar over the final quarter. Improved emerging risk appetite was the main driver of the appreciation, reinforced by SA's relatively high real yields. However, the rally in the fourth quarter was not enough to recover all the losses experienced earlier in the year, with the rand ending the year 7,9% and 4% weaker against the trade-weighted basket of currencies and the US dollar, respectively. The local currency is expected to hold on to most of its recent gains in 2021, but it will remain vulnerable to the changing global risk sentiment, SA's worsening fiscal position and threat of further ratings downgrades. As a result of the above factors, the banking sector, which is highly interlinked with economic activity, has also been adversely affected. The JAWS ratio in the South African banking sector continues to be a focus area, with good cost management in 2020, however, total income growth was under pressure in 2020.

The Nedbank Group Alco closely monitors developments and implications of adverse macroeconomic factors on a regular basis. The internal stress-testing process is also constantly refined to determine the impact of a number of relevant stress scenarios. These include dynamic rolling forecasts and business planning, and a robust ICAAP that informs decision-making at various levels in the group. These measures enable business clusters to be appropriately positioned to adapt to the fast-paced regulatory and other changes resulting from geopolitical risks, including political and policy changes and increased competition.

Credit risk (Top 12 risk: #2)

Credit governance and processes across the bank remained efficiently and effectively managed. The immediate focus in 2020 was on measures to manage the additional risks emanating from Covid-19. In H1 2020, we established a Credit Covid-19 Committee to address credit-related matters that arose as a result of the pandemic. The committee consisted of senior risk and business executives across the bank. The primary focus of the committee was to support our clients, in addition to monitoring the implementation of PA's Directive 3/2020 and Guidance Note 3/2020 and other regulatory guidance provided, and to consider the impact of Covid-19 on IFRS 9 expected credit losses (ECL), RWA and regulatory capital. During H2 2020, this committee was converted to the Executive Credit Committee (ECC), appointed by the Group Exco, consisting of the Nedbank Group Chief Executive (CE), CRO (chairperson), CCO, CFO, COO, , the business managing executives, and business cluster executive heads of risk and heads of credit. This committee is mandated to provide support and direction regarding credit risk and meets monthly.

Gross banking loans and advances decreased by 1,6% yoy to R797bn, driven primarily by a reduction in CIB banking advances in the second half of the year. The group's LAA were restated to include listed corporate bonds, in line with industry practice. The restatement related to Nedbank Group and CIB only. CIB gross banking loans and advances (LAA) declined by 8,1% yoy to R361bn. Increased levels of client drawdowns during the crisis in H1 2020 was offset by early repayments, active sell-downs, selective participation and portfolio optimisation, predominantly in H2 2020. RBB banking LAA increased by 3,3% yoy to R375bn. After a negative impact as a result of the closure of the deeds office and motor dealerships in April 2020, payouts increased in H2 2020 as clients who were in good financial standing took advantage of the 300 bps decline in interest rates. BB advances declined by 2,7% as new-loan payouts remained muted, given the lower business activity levels, and were not sufficient to replace the book rundown. MFC (vehicle finance) loans increased by 4,6% due to a combination of increases in average payout per deal, as well as a slowdown in rundown or attrition. Unsecured lending grew by 10,3% as a result of product and process enhancements, mostly through digital and call centre channels, driving increased take-up rates of approved loans. Card advances decreased by 2,0%, challenged by the impact of Covid-19 and clients' reduced ability to spend during the period. Residential mortgage loans grew by 4,8%, slightly ahead of the industry average.

The group's impairments increased significantly, driven by the impact of Covid-19 on consumers and businesses and the difficult South African macroeconomic environment. The group's impairment charge increased by 114% to R13,1bn, this included R3,9bn of Covid-19-related overlays and judgemental estimates. The group's CLR increased from 79 bps in 2019 to 161 bps in 2020, an outcome that was just below the mid-point of our full-year 2020 guidance range of between 150 bps and 185 bps. The restatement of LAA to include listed corporate bonds reduced the group CLR by 3 bps and 6 bps in 2019 and 2020 respectively. During the year the group's central provision was increased by R500m to R750m to account for emerging risks not yet reflected in the data, impairment models or macroeconomic forecasts.

Overall coverage increased from 2,26% of total loans and advances at December 2019 to 3,25% at December 2020 due to clients' migrating to stages 2 and 3 and additional overlays raised for Covid-19-related risks. The stage 1 coverage ratio increased to 0,65% (YE 2019: 0,48%), driven by Covid-19-related overlays. The stage 2 coverage ratio increased to 6,61% (YE 2019: 5,30%), primarily as a result of the increased levels of Covid-19-related overlays, our classification of the majority of D3 loans as stage 2 and an increase in watchlist clients. In line with guidance from the Basel Committee, we do not use the low-risk exemption available under IFRS 9. The stage 3 coverage ratio decreased to 31,5% (YE 2019: 37,9%) given the mix impact of CIB stage 3 loans increasing faster than that of RBB stage 3 loans, an increase in the number of stage 3 clients in CIB with high levels of collateral, and an increase in Directive 7/2015 restructures in Retail (so-called performing restructures or technical cures), which attract a lower coverage than the remaining stage 3 population.

Large exposures and key concentrations are monitored regularly to ensure that the exposures remain within acceptable ranges and that impairment levels are adequate. Key movements in the group watchlist are reported monthly to the Group Opcom and ECC and at the quarterly Group Credit Committee (GCC) meetings.

Nedbank Group's AIRB credit system is well managed and monitored in accordance with the requirements of the Banks Act, 94 of 1990, and the BCBS guidelines. Credit RWA (including counterparty credit risk and credit valuation adjustment) increased to R476,3bn as at YE 2020, details of which can be found on page 14.

Strategic execution risk (Top 12 risk: #3) ▲

Strategic execution risk remained elevated throughout 2020 given the 'unprecedented level of change' underway across Nedbank, critical in response to the Fourth Industrial Revolution, the abnormal regulatory change agenda and to deliver on 2020 strategic objectives, and beyond. The Covid-19 outbreak in March 2020, and the market crisis it precipitated, has complicated an already challenging execution landscape.

Execution against financial targets has been particularly challenging, given the profound impact of the Covid-19 pandemic on the already weak economy, the elevated level of country risk and the increasing complexity of the competitive landscape (with aggressive growth initiatives among traditional peers and new digital banks as well the expanding of non-bank players such as insurers, retailers, mobile networks and big techs/fintechs entering into banking services).

The current crisis has also heightened the urgency for delivery of technology capabilities and transformation initiatives, given the new realities of social distancing and lockdown restrictions, remote working, new and heightened cybersecurity threats, and the accelerated shift towards digital channels.

Despite the complex and challenging environment, significant strategic execution progress was made in 2020 on key strategic initiatives; notably Managed Evolution (ME), a key technology enabler that is now materially completed (as at 31 December 2020), and the successful launch of the Avo (digital platform) app. Timely execution on Digital Fast Lane (DFL), as well as the successful commercialisation of the significant investment in technology and digital, remains critical, particularly due to the accelerated move away from the branch network to digital channels during the current Covid-19 pandemic. Successful execution of the group's strategy in this context requires a balanced approach with sustained focus on three key elements: people, process and technology.

An overview of technological change and its impact on strategic execution risk is covered on page 25 under 'Change (execution) risk (C-Suite risk)'.

Capital risk (Top 12 risk: #4) ▲

The group remains capitalised at levels within board targets, well above the minimum regulatory requirements and above the levels during the GFC, with a tier 1 ratio of 12,1% (H1 2020: 11,7%) and a CET1 ratio of 10,9% (H1 2020: 10,6%). The CET1 ratio was achieved after absorbing the final 2019 ordinary-dividend distribution of R3,5bn, the impairment of the group's investment and goodwill in ETI, further investment in software development as part of the ME programme, and an increase in credit RWA, driven by credit migration and the effect of volatility in market risk RWA.

In H1 2020 the PA supported the banking industry through Directive 2/2020 (capital directive) and Directive 3/2020 (credit directive), which were designed to provide temporary relief. Directive 2/2020 provided capital relief through the temporary relaxation of the Pillar 2A capital requirements to nil, thereby reducing the minimum requirements for the CET1, tier 1 and total capital ratios by 50 bps, 75 bps and 100 bps, respectively. The PA also issued Guidance Note 4/2020, which encouraged banks to preserve capital and not distribute ordinary dividends out of 2020 earnings.

The intervention by the PA allowed the capital ratios of banks to absorb movements in the balance sheet, driven by increased drawdowns and a change in repayment patterns by clients, adverse backbook migration and the impact of illiquid and dislocated markets, which recovered in H2 2020. Earnings generation improved in H2 2020 and balance sheet growth slowed, which together with RWA optimisation initiatives resulted in stronger capital ratios for the full year 2020.

In February 2021 the PA published Guidance Note 3/2021, which replaced Guidance Note 4/2020. The guidance note encourages boards of banks to be prudent when making decisions relating to distributions of dividends on ordinary shares and the payment of cash bonuses to executive officers and material-risktakers in 2021. Despite our strong capital and liquidity position at 31 December 2020, having considered the spirit of Guidance Notes 4/2020 and 3/2021 and noting growth opportunities and our responsibility to support clients and the economy, the current uncertainty about the progression of the virus, a possible third wave of infections, and the national vaccine rollout and its effectiveness, the group decided not to declare a final dividend for 2020. Based on our current forecasts, the group expects to resume dividend payments when reporting interim results in 2021.

The group's total RWA/total assets density improved marginally from 55,0% in 2019 to 54,9% in 2020, driven by an increase of 7,2% in RWA relative to a change in total assets of 7,4%. The increase in total RWA is attributable mainly to the following:

- Credit risk migration, driven by the impact of the Covid-19 pandemic and asset growth, resulted in a credit RWA increase of R17,5bn (4,2%) for the year, offset by strategic optimisation initiatives.
- Counterparty credit risk and credit valuation adjustment RWA increased by R6,9bn (71,0%) and R5,8bn (35,2%) respectively, due to higher deal volumes and an adjustment in the fair value of hedges, which was driven by currency volatility against major currencies.
- Trading market RWA increased by R18,7bn (84,3%), driven mainly by the stressed conditions affecting both global and local financial markets that were characterised by a sharp increase in March 2020 on the back of unprecedented volatility. This volatility, observed in the foreign exchange and the interest-rate markets to which the bank is primarily exposed, resulted in a direct increase in the bank's value at risk (VaR) used for the regulatory capital model. Nedbank's derivatives valuation adjustment optimisation initiative in H2 2020 resulted in a reduction of the overall increase in trading market RWA, to close the year at R40,9bn (June 2020: R48,9bn), this reduction is expected to continue into 2021.
- Other RWA decreased by R4,0bn, due to a combination of balance sheet changes supported by optimisation initiatives.

The tier 1 ratio was impacted by the further grandfathering of old-style preference shares (R531m) in January 2020 in line with the Basel III transitional arrangements, as well as the issuance of additional tier 1 instruments of R972m. The total CAR included the redemption of R2,3bn tier 2 capital and the issuance of new-style tier 2 capital of R4,1bn, in line with the group's capital plan.

Nedbank manages capital levels within the board-approved risk appetite, expectations of the rating agencies, the requirements of the regulators and the returns expected by shareholders. Nedbank further seeks to ensure that its capital structure makes use of the full range of capital instruments and capital management activities available to optimise the financial efficiency and loss absorption capacity of its capital base.

Nedbank continues to perform extensive and comprehensive stress-testing in order to conclude that the group remains well capitalised relative to its business activities, the board's strategic plans, risk appetite, risk profile and the external environment in which the group operates.

Balance Sheet Management (BSM) provides strategic direction, insight and motivation in managing capital risk to Group Alco and Executive Risk Committee (Group Alco) through appropriate risk reporting and analytics and by providing strategic input within the group's defined risk appetite.

Cyberrisk (Top 12 risk: #5) (C-Suite risk) ▲

The group understands that the increase in financial crime is due to the challenging macro and political environments and the increased prevalence and complexity of digital online activity. Nedbank's most important cyberrisks include loss of money and client data (at Nedbank or a third party) as well as system downtime to the extent that transactions cannot be processed. The group strives to be cyberresilient, protecting the group's 'crown jewels', ie information assets of greatest value that would cause a major business impact if compromised, such as personal and client data, critical systems, platforms and infrastructures.

Escalating cyberrisk exposure on the back of the Fourth Industrial Revolution and accelerated advances in technology, digital landscapes and global interconnectedness have prompted a radically elevated focus on cyberrisk management fast-tracking us from cybersecurity to cyberresilience. The cyberrisk environment is dynamic and fast-changing, a situation that is compounded by the DFL programme and other cross-group change initiatives.

The evolving threat landscape presents significant challenges in how cyberthreats and vulnerabilities across complex operational frameworks are managed. Cybercriminals are constantly improving their techniques to compromise networks, forcing us to adopt an adaptive defence stance in line with evolving threats so that we can mitigate material negative effects should a cyberevent occur. For example, threat actors target users with Covid-19-pandemic-themed social engineering attacks (eg phishing, vishing and smishing) as well as exploiting remote working vulnerabilities. The most likely avenues for a successful cyberattack are analysed through threat modelling and resilience testing through attack-path-mapping and red-team testing. Resilience testing is a crucial step in understanding the severity of consequences associated with cyberattacks and in continuously building on the experience of successfully responding to threats. The independent red-team testing programme managed by the Chief Information Security Officer's office, provides assurance on the capability of the first and second line of defence to detect and respond to cyberthreats. In addition, independent cyberrisk management benchmarks by global experts are also performed to assess our progress compared to global and local peer groups.

We invest continuously in IT security, to detect and respond to cyberattacks effectively and the assumption is that these attacks will increase unabated across the industry. We apply a variety of strong technical controls, such as patching of systems against vulnerabilities, network security controls, perimeter controls, password management controls and software development controls. This is augmented with non-technical controls, such as a comprehensive staff security awareness programme. We apply various measures to counter cybercrime and fraud, including client awareness campaigns, state-of-the-art technology and digital forensic capability to detect and monitor suspicious activity, and providing communication facilities where clients can report suspicious activity. We continue to work closely with industry bodies, eg the South African Banking Risk Information Centre, peers and law enforcement agents, to combat cybercrime and fraud. We have established an internal Computer Security Incident Response Team and a Cyber Crisis Management Team (CCMT) to effectively respond to and, if needed, recover from cyberincidents and cybercrime.

Cyberrisk is continuously receiving the required focus by the board, management and the Nedbank security community to address known and newly identified gaps through various initiatives that will enhance cyberresilience and reduce residual operational risk. An advanced cybermanagement information system has been implemented to produce metrics that inform the board and management whether or not cyberrisk remains within risk appetite. There is continued implementation of the various components of the Cyberresilience Risk Management Framework (CRRMF) through the cyberresilience programme. The CRRMF has been operationalised and since its implementation, significant improvements have been made in the cybersecurity capability at Nedbank, as well as alignment with leading practices. The Nedbank cyberresilience programme activities are prioritised and agreed to by a cyberleadership group and tracked at a detailed level. The prioritisation is influenced by a focus on 'crown jewels' and threat modelling input from an external, internal and third-party perspective.

The progress of the cyberresilience programme is reported at several board and executive level committees as well as cluster risk committees. New initiatives are added, as and when threats are identified, and in line with changes in the cyberrisk environment. Our external security (eg internet footprint) is rated at an advanced level of maturity by an independent security rating vendor. We have specific cybersecurity-related insurance.

Operational risks (Top 12 risk: #6) ▼

The exposure to operational risk is elevated and increasing across the group, as the organisation deals with business-as-usual activities, crisis measures being implemented to limit the impact of Covid-19 and the ongoing intermittent electricity supply interruptions. Our operational risk (residual) remained well managed and monitored overall across the group. In addition, operational risk losses were well contained within the board-approved risk appetite limits, on a net basis.

There is pressure on the IT environment as the demand for IT enablement in providing banking services has significantly increased due to Covid-19 and the new normal working arrangements. There is heightened attention on monitoring and support of the IT operations vis-à-vis maintaining system stability, IT resilience capability, controlling the cadence of innovation changes, defending against cyberattacks and online fraud.

Given the extensive use of and reliance on vendors and third parties, and since vendor/third-party risk exposure is heightened across the group due to Covid-19, maturing and embedding our third-party risk management remains a key focus area.

Talent management remains a key focus area as competition for scarce and evolving skills increases. Therefore, the ongoing but radical reskilling of our workforce will not only be a talent strategy but a business-critical strategy for survival and competitiveness. Three themes/root causes of people risk still remain:

- **Skills deficiency** – A shifting demand for new skillsets relevant for the future, which accelerates the demand for reskilling solutions and talent attraction and retention strategies to sustain business operations. Exacerbating the root cause of skills shortages, is the increased uncertainty created by Covid-19 and the unprecedented levels of required change in the bank and at a country level.
- **Transformation** – If Nedbank does not meet the required employment equity targets, this could have punitive consequences and can negatively impact the group's reputation and the strategic goal to lead transformation.

- **Uncertainty** – Covid-19 and the resultant national lockdown, coupled with volatile socioeconomic and political uncertainty, accelerated the need for operational and process change in the bank and allow for a more agile organisational design to speed up execution and reduce the cost to serve.

Globally, the Covid-19 pandemic became a catalyst for change in the way we work and live. The people strategy responds to the updated context, to manage risks as well as harness unique opportunities to enable our business strategy. We are well positioned to execute our people agenda and position ourselves as an employer of choice (our people vision). Our value is in the connected experience across client, business, talent and society for a sustainable and viable business – people experts who do good and create a great place to bank and work.

Employee wellbeing remains a key focus area as it supports organisational performance. As more information regarding Covid-19 becomes available, the necessity of reviewing HR and workplace wellbeing practice guidelines and the focus on moving towards a work from home (WFH) digital workplace employee value proposition (EVP), continues to become ever more relevant and important.

Legal risk remains well contained and managed, despite the challenging external environment.

Risk transfer by insurance is a key component of the bank's risk management strategy. We successfully renewed our groupwide insurance programme for the period 1 June 2020 to 31 May 2021 and maintain broad form insurance cover across our crime, civil liability, cyber and directors' and officers' policies, despite continued hardened insurance market conditions. Nedbank's insurance programme is structured to drive a high standard of risk management within the group. The group's insurable operational risk is not simply transferred to third-party insurers, but a significant interest in the financial impact of losses for certain classes of insurance is retained in the group's captive insurance company, namely Nedbank Group Insurance Company Limited.

We continue to invest in strengthening our people, technology, processes, policies and related controls to ensure that they are robust and that appropriate controls are in place to minimise any impact, and that recovery from any major incidents, including pandemics, is timeous.

Financial crime (C-Suite risk – criminality)

Financial crime risk management is integral to our purpose of using our financial expertise to do good. In recognition of the ever-present and ever-growing threat posed by financial crime to the financial services industry, we elevated the risk of financial crime to a key risk in our risk universe, governed at an executive level by the Financial Crime Committee (FCC) and at board level by the GRCMC. Aligned with the FCC's Charter, various subcommittees have been established to provide oversight, make recommendations and take decisions at a more granular and focused level for specific financial crime types.

Financial crime, as defined by Nedbank, includes cybercrime, commercial and violent crime (ie fraud, corruption and violent crime), money laundering, terrorist financing and sanctions contraventions, exchange control violations, market abuse, tax evasion and privacy breaches. Financial crime is often committed through a combination of these different financial crime types, thus having an integrated view of financial crime risk management enables us to more progressively and holistically identify, assess, mitigate, monitor and manage the risk posed by financial crime. Through the application of our Integrated Financial Crime Risk Management (IFCRM) Framework and Strategy, with support of the relevant governance forums, these financial crime types are managed on a more integrated basis. IFCRM is the combined and holistic identification and measurement of financial crime risk, and the responding limitation, control, reporting and mitigation of the identified risks on the objectives of the group.

State capture

Within nine months of his presidency, President Cyril Ramaphosa set up four commissions of inquiry, all related to corruption and the 'capture' of state resources in SA. These commissions sought to investigate the breakdown of good governance and systemic corruption at key South African institutions.

Given the significance and complexity of evidence provided through witness testimony, both the Judicial Commission of Inquiry into Allegations of State Capture and the Commission of Inquiry into Allegations of Impropriety at the Public Investment Corporation (PIC), become key considerations for us in the management of financial crime and reputational risk, due to the fact that fighting corruption requires coordination from a range of stakeholders, including, but not limited to, government, businesses, banks and non-governmental organisations.

Well-established Nedbank investigative specialists ensure that we stay abreast of exposure to subjects implicated at the commissions of inquiry. Through enhanced media monitoring, robust investigations and collaboration across the Nedbank Group, exposure is determined and timeously escalated to the relevant stakeholders. Forensic report outcomes assess the applicability and impact of exposure to the implicated subjects, providing our business managers with recommendations to consider in reviewing client and supplier risk and relationships, while ensuring compliance with the relevant statutory and regulatory reporting obligations. Through this process, there is ongoing provision of advisory services to ensure sustained commitment to our high standards of governance, ethics and integrity.

Our continued monitoring of both the financial crime risk environment and subsequent actions by local law enforcement agencies, remains a critical component of the group's ability to ensure adequate risk management, while remaining adaptable in proportionate responses to an ever-evolving reputational risk landscape.

Commercial and violent-crime

Although commercial and violent crime risk remains an ever-present business reality, there is a noticeable increase in its prevalence and impact on organisations, with corruption remaining at unacceptable levels in SA. Individuals from within or outside organisations, as well as extremely well-organised criminal syndicates, perpetrate fraud and launch violent crime attacks, especially against financial institutions. Given the above drivers and considering that fraud and violent crime, such as robberies and automated teller machine (ATM) attacks, will remain a business reality as long as financial institutions hold funds or act as intermediaries, we have implemented a robust commercial and violent crime risk management strategy and programme, which is regularly reviewed to ensure it remains relevant. Processes, procedures and controls are put in place to deter, detect and respond to commercial and violent crime incidents committed by internal and external parties. These components and governance form the basis of our commercial and violent crime risk management programme.

The strategy for commercial and violent crime risk management is underpinned by the legislative and regulatory framework within which we must operate, applying appropriate policies and risk appetite statements. Nedbank is subject to the United Kingdom Bribery Act 2010 (UK Bribery Act) by virtue of our representative office in London, and Wealth businesses in the Channel Islands. To ensure compliance with the requirements of the UK Bribery Act, corruption risk is managed through a formal corruption risk implementation plan. The corruption risk implementation plan aims to meet the requirements for a defence of 'adequate procedures' against a criminal prosecution in terms of section 7 of the UK Bribery Act. Progress against the plan is tracked through the relevant management and executive committee.

We have zero tolerance for crime in which we feature as the perpetrator or instrumentality, while the extent to which we are the victim of crime is determined by our fraud, corruption and violent crime risk appetite in respect of systems, processes and products. We will take all reasonable steps to mitigate fraud and manage the consequence thereof, when it occurs.

The top-level management of the group is committed to ethical behaviour and acting with integrity. In this culture, fraud, corruption or non-adherence to principles and standards in any form is not tolerated. The preamble to the Code of Ethics and Conduct contains a personal commitment by the CE that the group will adhere to ethical business standards in its day-to-day operations.

All policies related to the management of criminality in Nedbank are approved by a group executive committee and noted or approved by the board. The sustainability of the group's operations is ensured by practising sound governance. The three LoD model is used as the primary means to demonstrate and structure accountabilities, roles and responsibilities for control, decision-making and risk to achieve effective risk management and assurance.

Due to the current hybrid model for fraud risk management, several areas are involved in the management of fraud risk, which include internal fraud (including corruption where employees are involved) and external fraud (which includes violent crime) as a first LoD. Internal fraud and most of the external fraud risk types are investigated by our Group Financial Crime, Forensics and Security (GFCFS) division in GR. External fraud in respect of card payments and vehicle finance fraud are investigated by separate teams in RBB. RBB also has several teams that are responsible for the verification of applications to detect and prevent fraud.

Anti-money laundering, combatting the financing of terrorism and sanctions

AML, CFT and sanctions resourcing continues to be bolstered across the group in ensuring the adequacy, effectiveness and oversight of the control environment. This includes support across the ERMF and specific focus at board level.

CA across the three LoD continues to be enhanced, with AML, CFT and sanctions being a main theme and management actions continue to be implemented inclusive of mitigants to close identified gaps, where relevant.

Nedbank has implemented the Financial Intelligence Centre Amendment Act (FICAA) through the deployment of some tactical workarounds/interim and sustainable solutions where the strategic long-term solutions were not available/ready to meet the PA's implementation date of 2 April 2019. Delivery of strategic FICAA compliance requirements has continued and is managed through dynamic programme management and governed by an AML, CFT and Sanctions Programme Executive Steering Committee. The PA conducted an AML/CFT onsite inspection from 27 May 2019 to 14 June 2019. We responded to the PA draft report by 15 July 2020 and are awaiting feedback.

Liquidity risk and funding (Top 12 risk: #7) ▼

Maintaining a strong liquidity position remains a priority for the group during the crisis. The group's December 2020 average LCR of 125,7% (H1 2020: 114,5%) exceeded the LRC minimum regulatory requirement, with the group maintaining appropriate operational buffers designed to absorb seasonal, cyclical and systemic volatility observed in the LCR in 2020. On 31 March 2020 the PA issued Directive 1/2020, reducing the minimum LCR requirement from 100% to 80%, with effect from 1 April 2020.The reduction in the LCR minimum requirement was in direct response to financial market volatility brought on by the Covid-19 pandemic, and the resulting lockdown, which caused financial and non-financial corporates to tilt towards increased holdings of short-term deposits during March 2020 and April 2020, when financial market volatility was at its highest.

Our portfolio of LCR-compliant HQLA increased by 16,3% to a December 2020 quarterly average of R207bn in support of the higher quarterly arithmetic average in the LCR net cash outflows driven by increased financial market volatility introduced by the Covid-19 pandemic. We managed our HQLA liquidity buffers proactively, resulting in a marginal yoy increase in the LCR. The HQLA portfolio, together with our portfolio of other sources of quick liquidity, equated to total available sources of quick liquidity of R254,4bn, representing 20,7% of total assets.

We exceeded the minimum NSFR regulatory requirement of 100% effective from 1 January 2018 and reported a December 2020 ratio of 112,8% (December 2019: 113,0%). The structural liquidity position of the group remained relatively the same yoy as a result of well-managed balance sheet growth. The key focus in terms of the NSFR is to achieve ongoing compliance in the context of balance sheet optimisation.

Balance Sheet Management (BSM) provides strategic direction, insight and motivation in managing liquidity risk and funding to Group Alco and Executive Risk Committee (Group Alco) through appropriate risk reporting and analytics and by providing strategic input within the group's defined risk appetite.

Market risk (Top 12 risk: #8) ▼

We have well-established market risk management frameworks, policies and committee structures that have proved effective over 2020. Market risk and all its subrisk components remained well managed and within board-approved risk limits, albeit with approved temporary increases, during 2020.

The Covid-19 pandemic has caused an unprecedented impact on both local and global financial markets. The speed and severity of market price movements were faster and deeper than those experienced during the 2008 global financial crisis. During the peak of the Covid-19 pandemic, market conditions deteriorated, liquidity tightened and forced selling dominated with assets being sold at levels that were not justified by fundamentals. This resulted in a dislocation of financial markets, particularly in bond/swap basis. Dislocations occur when markets operating under stressful conditions cease to price assets correctly. The SARB responded to the dysfunctionality in the market by deploying measures to stabilise the markets, which included a bond purchase programme, cumulative cuts in the repo rate and the relaxation of the LCR and capital buffers. Financial markets remained weak for the remainder of the year, driven by economic news related to the Covid-19 pandemic and prospects of the vaccine rollout.

The market volatility and dislocation tested the effectiveness of the Trading Market Risk Management Framework, as the risk measures increased despite no commensurate increase in risk-taking. This was due to the risk measurement model calibration to increased volatility. Higher risk measures translated into increased market risk capital charges, but this was managed effectively within capital projections. Proactive monitoring of the escalating market risk ensured that the board remained abreast of any potential issues that facilitated the speedy approval of additional governance sanctions, market risk appetite and related limits.

The interest rate asset class represents the most significant traded market risk exposure in Nedbank, and the dislocation had an extensive impact on traded market risk as well as the HQLA managed in the trading book. The exposure was managed proactively and reduced where possible and trading opportunities identified and executed.

Nedbank, like most sophisticated banks in the global market, employs a dedicated trading desk to manage its risk relating to valuation adjustments (collectively referred to as xVA). A valuation adjustment referred to as the funding valuation adjustment (FVA) which accounts for the cost of funding derivative transactions, is explicitly priced for by the bank's xVA management desk and recorded in the bank's earnings. While our previous FVA provisions were at moderate levels, the market volatility and dislocations provided an opportunity to realise a net positive FVA.

We remained within board-approved interest rate risk in the banking book (IRRBB) metrics, which are based on various analytical techniques to measure interest rate sensitivity on an earnings and economic-value basis. Net interest margin declined following the impact of the cumulative 300 bps cut in interest rates on endowment and the narrowing of the prime/Johannesburg Interbank Average Rate (JIBAR) spread. However, the widening bond/swap gap presented opportunities to reduce the net interest income (NII) sensitivity by purchasing government bonds. Endowment risk remains the biggest driver of IRRBB, with the natural hedging relations between endowment and impairments deteriorating as a result of unfavourable economic conditions. Economic value of equity remains at a low level as a result of risk management strategies implemented.

The board approves the overall risk appetite and strategy for equity investment risk with specialist investment committees responsible for portfolio objectives and investment strategies. Distressed debt-to-equity conversions took place by exception and is aligned with our strategy of socially responsible, through-the-cycle banking. The private-equity portfolio was impacted by negative unrealised equity revaluations, similar to that experienced across the JSE and challenges in exiting investments due to depressed levels of uptake and limited investment realisations.

SA's deteriorating fundamentals, increasing government debt, low interest rates and the eventual withdrawal of central bank liquidity pose new challenges going forward. However, we will continue to identify and exploit opportunities, including buying opportunities from depressed valuation of good quality assets.

We will continue to participate in initiatives to reform local interest rate benchmarks. Implementation of the local JIBAR reforms [in line with offshore interbank offer rate (IBOR) changes] will change the fundamental structure of local interest rate derivative pricing, risk management, governance and related conduct risk.

The BCBS review of the trading book regulations and proposed amendments to the IRRBB regulations remain focus areas and we will continue to work with the banking industry and regulator to implement the impending regulations.

Reputational risk (and association risk) (Top 12 risk: #9)

The reputation of the Nedbank Group reflects how Nedbank is perceived by various stakeholders, including but not limited to, the media, investors, clients, employees, competitors and regulators. The resilience of Nedbank's reputation continues to be a priority of the CE, Group Exco and the Nedbank Board. Nedbank has a dedicated GRRC, which is a Group Exco subcommittee, reporting into the Nedbank Board through its Directors' Affairs Committee (DAC).

Reputational risk for banks continues to be heightened by the increased expectations on banks from clients, employees, regulators and other stakeholders, including those relevant to Covid-19. In addition, greater attention to reputational risk has resulted due to the continued focus by investigative journalists and the public on the role of banks in the fight against corruption – including the Zondo Commission of Inquiry. The Fourth Industrial Revolution associated cyber and people risks also contribute to the ongoing focus on reputational risk. Lastly, conduct standards for banks, heightened scrutiny by regulators on treating clients fairly and the increased focus on climate change and banks' role in mitigating climate risk also contribute to the augmented focus on reputational risk.

Reputational risk, for Nedbank in particular, specifically peaked in the week of 8 February 2021 with the publication of an article by amBhungane titled '*State capture: The case against Nedbank*', accusing Nedbank of enabling state capture in relation to transactions in which Regiments was involved. Nedbank's immediate press release and subsequent responses, overseen by the GRRC and the board, were informed by a holistic approach to managing both legal and reputational risk in the short, medium, and longer term.

We continue to explore and implement innovative ways to manage reputational risk, through effective and intelligent use of data, thereby appropriately managing reputational risk and maintaining stakeholder trust.

We have implemented a robust and practical governance structure that appropriately incorporates the board, business cluster executives, and support clusters, to effectively and proactively manage all reputational risk issues. The structure includes: High-Risk Committees (HRC) in each of our client-facing clusters (RBB, CIB, Wealth, and NAR); a supplier HRC in Group Procurement; the GRRC, which is managed and administered by GC, within the Reputational Risks and Ethics portfolio, and the DAC.

- HRCs are responsible for assessing and managing risks that could have a material impact on our reputation, as HRCs have the necessary knowledge of their respective clients, suppliers, deals, and transactions. HRCs escalate matters to the GRRC for noting or decision in terms of a four-tiered framework. The four-tiered framework provides the mandate in respect of the decisions taken at each tier, being tier 1: Business unit; tier 2: HRC; tier 3: GRRC; and tier 4: DAC.
- The scope of the GRRC includes considering, deciding on, and overseeing material reputational risks for Nedbank and any associated risks or issues that may potentially or actually pose a material reputational risk and extend to all categories, types, and classes of risk.
- In line with the board's commitment to reputational risk management, the DAC receives quarterly reports from the GRRC on key decisions and deliberations of the GRRC and outcomes of internal investigations. In addition, decisions of the GRRC (where appropriate) are escalated to the DAC for approval in terms of the four-tiered framework.
- The existing governance structure also allows for a 'top-down' approach in terms of which matters can be referred by the DAC to the GRRC, by the GRRC to HRCs, and by HRCs to business units (BU).
- Notwithstanding the above, urgent matters can be decided on a round-robin basis and the GCCO has direct access to the CE, the DAC and the Chairman of the board on urgent matters or on any matter the GCCO deems necessary to escalate as appropriate.

Group AML, CFT, and Sanctions and Exchange Control (Group AML) plays an active role in, among others, the establishment and maintenance of the organisational requirements for reputational risk management, and in conjunction with GFCFS, which investigate matters of concern from a reputational risk and business risk point of view, provides invaluable input and advice to the HRCs and to the GRRC. Group Legal provides legal support to the GRRC.

The participation and involvement in the GRRC by, among others, the business clusters, Group Finance: Procurement, GC, Group Legal, GFCFS, Group AML, and Group Strategic Communications, ensure that a holistic approach to reputational risk and risk-mitigating measures, are adopted and aligned with applicable legislation/regulations, our internal procedures, and stakeholders' expectations. It also assists in ensuring timely and detailed reporting and frequent updates of reputational-risk-related matters to regulators, where necessary.

We have implemented and continue to enhance mechanisms to manage reputational risk exposure proactively, including, but not limited to:

- ongoing adverse media monitoring;
- assessing testimony and outcomes of the various commissions of inquiry;
- assessing credible publications;
- considering the outcomes of investigations in the public domain, where relevant;
- integrating and enhancing reputational risk considerations in client and supplier due-diligence processes;
- ongoing assessment of management information through the tracking of key risk indicators (KRI);
- monitoring our brand sentiment;

- assessing key data sets across the reputational risk landscape, for conducting trend analysis and benchmarking to enable intelligence in respect of this risk type;
- crises management and communication strategies;
- timeous investigations; and
- implementation of an effective Reputational Risk Management Framework.

Reputational risk, though heightened, continues to be well managed through a well-established and robust governance process as well as the focus of senior management and the Nedbank Board. Reputational risk exposure that may arise from other risk types, including, but not limited to, cyberrisk, climate risk, people risk and regulatory risk are on management's radar along with reputational risk that may arise through association with third parties, as well as our ability to respond to crises such as Covid-19. The framework documents are assessed every six months in order to include lessons learnt on reputational risk decisions, risk mitigation measures and outcomes.

Climate risks (Top 12 risk: #10) (C-Suite risk) ▲

Climate change is one of the most defining issues of this century, along with poverty and inequality. It requires urgent and unprecedented cooperation and action from all stakeholders. Globally, focus on climate-related risks is increasing with stakeholders requesting more action and disclosure around banks' climate-related risk management. Nedbank became the first South African company to have climate-related resolutions tabled by itself and passed by its shareholders at the 22 May 2020 AGM. This was met with widespread support on social media, contributing towards a lift in positive sentiment.

Climate change impacts are currently in the form of more frequent extreme weather events. Drought, declines in agricultural productivity and loss of biodiversity are already impacting economic and financial outcomes and projections point to increasingly severe and unpredictable ecological changes. The Covid-19 pandemic presents an opportunity to recalibrate priorities, reconsider possibilities and reconfigure economies to deliver a net-zero climate-resilient future. International regulators and central banks have started to elaborate on how climate change impacts their core objectives around monetary policy, financial stability, financial regulation and supervision, community and consumer affairs, and payments and have described efforts to build capacity to assess these risks. Locally, the Banking Association South Africa (BASA)'s Sustainable Finance Committee established a Climate Risk Committee informed by the TCFD. We have demonstrated our active involvement, investment and commitment to climate-related change. However, we recognise that new approaches, risk tools and disclosures need to be developed to strengthen our offering to internal and external stakeholders.

Climate change from the perspective of risk management, and the development of new risks associated with climate change, is beginning to change the practice of risk management at financial institutions in terms of strategy, governance, risk identification and management, scenario analysis and measuring.

Climate-related risks are accompanied by high levels of uncertainty, and the precise timing and magnitude of these risks should they materialise, can create opportunities and challenges for our business, strategy and financial performance. Unlocking these opportunities require an understanding of our clients' and suppliers' exposures, geographical distribution and accompanying climate-related risks. Availability of information and data quality in relation to sectoral exposures will have an impact in assessing our exposure to climate-related risk, in identified high-risk sectors.

The increased focus on climate change and risk management has introduced a new taxonomy for risk discussions**. Physical risk** is the potential for losses as climate-related changes disrupt business operations, destroy capital and interrupt economic activity. **Transition risk** is the potential for loss resulting from a shift towards a lower-carbon economy as policy, consumer sentiment and technological innovations impact the value of certain assets and liabilities. **Liability risk** is the potential for damages sought by those most impacted by climate change against those held accountable for contributing to carbon emissions. These effects will be felt across business sectors and asset classes, strategies and operations, and through the balance sheets and income statements of financial firms.

At a practical level, risk managers at financial institutions need to integrate and develop the appropriate techniques to identify, assess, monitor and manage these risks. Physical and transition risks will likely introduce new strategic risks associated with the challenges and opportunities of sectoral reallocations of economic activity, new production patterns and evolving industry exposures.

Climate change introduces challenges for supervisors, globally, related to time horizon, data limitations, and inherent complexity. Some investors consider an assessment of sustainability to be integral to their fiduciary responsibilities, this is key to building capacity in these climate-related risk areas, as such banks, financial firms, and supervisors need to understand and assess these changes. It is imperative for risk management to consider the direct implications for safety and soundness.

Given the complexity of the problem, the industry needs time to collect data and build models and intellectual capacity to address risks as they arise in the future. It took the better part of a decade to approach a steady-state in central bank stress-testing capabilities for more familiar and arguably less-complex risks like credit card losses or shocks to asset values from interest rate spikes. The economics of climate change are more complex with feedback effects, non-linearities and massive uncertainty that will require substantial investments to understand. Furthermore, financial markets and institutions face the potential for a 'Minsky moment' related to climate change – an abrupt repricing of assets in response to a catastrophic event or change in investor perceptions. Financial firms and supervisors need to consider the potential impact of this type of a sudden event.

We will disclose our approach to measuring, assessing and disclosing its financial exposure to climate-related risks by 22 April 2021. This will inform shareholders of the group's journey in assessing its lending, investment practices and own operations to climate-related risks and opportunities over time as standards, guidelines and principles on climate risk mature, including appropriate alignment to global best practices including, among others, the TCFD.

The TCFD report establishes recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change. The adoption of TCFD's recommendations by Nedbank ensure that the effects of climate change become routinely considered in business and investment decisions. Leading to smarter and more efficient allocation of capital, and assist the transition to a more sustainable, low-carbon economy.

The TCFD recommends four pillars that represent core elements: governance, strategy, risk management, metrics and targets. In response to the resolutions we will publish our first standalone TCFD report on 22 April 2021. The updated Energy Policy will also be made available at this time.

Governance

The Nedbank Board has oversight of climate-related risks and opportunities. Historically climate change was housed within the governance structure of the Group Transformation, Social and Ethics Committee (GTSEC). With the global focus on climate change, a decision was made that the DAC would oversee climate-related risks and opportunities during 2020 on a temporary basis. A standalone committee of the board, namely; the Group Climate Resilience Committee (GCRC) was established on 1 October 2020 that will purely focus on climate-related risks and opportunities. The first GCRC meeting was held on 3 March 2021, chaired by an independent, non-executive director, Brian Dames and will meet on a quarterly basis. The GCRC has monitoring, steering and decision-making responsibilities informed by the GCRC charter. The GCRC provides oversight and steering of overall climate risk management and opportunities including monitoring the progress against goals and targets. The mandate includes functions to adopt additional measures in the light of a changing business (including the three-year group business planning), regulatory, strategic, risk amongst other functions. As climate-related risks and opportunities span across various risks, it remains incorporated across the various board committees to ensure effective and efficient governance.

Nedbank Exco established the Nedbank Climate Task Group and the Climate Risk Committee (CRC) in 2019, which is coordinated by the Group CRO. The CRC will manage and drive the climate transformation across Nedbank to assess impacts of climate risk and report to the Group Exco and board committee(s) in line with the CRC Charter. The role of the Nedbank Climate Task Group is to identify, measure, monitor, manage and report on how climate-related risk translates into the Strategic Portfolio Tilt (SPT) of Nedbank's income statement and balance sheet.

Strategy

We acknowledge that both physical and transition risks impact the short-, medium- and long-term horizon and the materiality of these impacts should be considered in the groupwide strategy. Likewise, the groupwide strategy will continue to consider climate-related opportunities across various sectors, financial products and geographies.

We offer clients various products and services to assist in this regard. These are comprehensively covered in the 2020 Sustainable Development Review, which can be accessed at www.nedbankgroup.co.za.

Risk management

Climate change creates physical risks (eg more frequent and more severe floods, storms, droughts, and heatwaves) and the move to a low-carbon economy creates transition risks (eg policy and technology changes, leading to asset revaluations and potentially stranded assets), these risks manifesting among others as credit, market and operational risks.

A climate-related risk gap assessment was completed and was used to identify and understand risks relating to climate change for Nedbank. The risk assessment consists of the identification, assessment and analysis of potential threats and vulnerabilities. The required mitigating actions were put into place to manage the gaps identified. Below is a list of some of the gaps identified with mitigating actions:

- The integration of climate risk into existing social and environmental risk. Climate risk is systemic to the risk universe and will be integrated into the ERMF risk universe.
- The expansion of the board subcommittees' roles and responsibilities to ensure board's oversight of climate-related risks and opportunities.
- A data and systems working group was established to ensure the provisioning of the required climate-related data and systems.
- A training working group was established to ensure 'fit for purpose' training will be provided to all employees across the three LoD.

The board-approved CRMF (October 2020) was developed with the purpose of representing an approach towards enhancing transparency and engagement with our stakeholders, including various approaches to evaluate climate-related risks and opportunities. This will assist the Nedbank Board and management in identifying the climate-related opportunities and effectively managing the high carbon-related assets in the Nedbank portfolio to lower carbon assets. The climate risk management processes include components to identify, assess, implement and review the group's approach to managing climate-related risks by ensuring the following:

- Outline processes to identify, assess, implement, monitor, and review the group's approach to measuring, managing, reporting and monitoring climate-related risks and opportunities.
- Ensure alignment with our purpose and strategic goals, supporting the business goals linked to the Sustainable Development Goals (SDGs).
- Steer the execution of climate resilience in alignment with the group's risk appetite.
- Guide appropriate communication, both internally and externally, to avert, minimise or address possible reputational risks related to the climate, and enable optimal stakeholder management.
- Ensure that climate activities are managed in line with the three LoD risk governance model.
- Address the process to deliver key metrics, targets and data-gathering requirements regarding threats, vulnerabilities, existing controls and processes, opportunities and the existing climate standards.
- Ensure the timely production of data and management information required to support strategic, tactical and operational management of the climate-related risks, and appropriate public disclosure.
- Apply BCBS 239 (risk data aggregation and risk reporting) principles in sourcing data for management reporting and decision-making purposes in the climate risk dashboard and the various climate-related reports across the enterprise.
- Maintain and enhance confidence from the perspective of shareholders, depositors, rating agencies, regulators and other key stakeholders.

Climate scenario analysis

We undertake to perform scenario analyses on climate-sensitive sectors identified as part of the ongoing ICAAP. In this regard we partnered with 2 Degrees Investing Initiative (2DII), a non-profit organisation that developed the Paris Agreement Capital Transition Assessment (PACTA) model, which measures the exposure to and alignment with a series of decarbonisation scenarios. The purpose of the collaboration is to measure the exposure of our corporate loan book to different carbon technologies across several climate relevant sectors, and to assess the alignment of the production plans of Nedbank's clients with a scenario in line with the Paris Agreement.

The use of scenario analysis to assess potential implications of climate change is still at an early stage. We will continue to grow our capacity in this field to assess possible climate-related outcomes. Scenario analysis can assist us to better frame the strategic impact; assess the range of potential management actions; engage more productively in strategy; and identify indicators to monitor the external environment.

Metrics and targets

Our climate change journey is now informed by our Energy Policy, which consists of financing fossil-fuel-related activities, encompassing thermal coal, upstream oil and upstream gas, fossil-fuelled power generation, and non-fossil energy solutions (ie renewable energy and embedded energy). Climate-related metrics and targets are disclosed in our TCFD report. We will over time further, develop metrics and targets in relation to our lending and investing practices to align with the objectives of the Paris Agreement.

Conduct risk (Top 12 risk: #11) (C-Suite risk)

Once we implemented the Treating Clients Fairly (TCF) principles, we sought to enhance and mature the business environment by benchmarking against market conduct international best practice, while anticipating the outcomes of local conduct-related legislation being finalised. A detailed diagnostic exercise was conducted to assess gaps to attain international best practise and alignment to the South African market and future Conduct Regulatory Framework.

This culminated into a Market Conduct and Culture (MCCP) programme that started in 2017, led and implemented by our senior business stakeholders integrating conduct principles and standards in all areas of our business. This initiative was formally implemented by end 2020 through the delivery of the MCCP. One of the key success factors of MCCP was the fact that this was a business-led programme and meant that each cluster owned and drove the delivery of the milestones underpinning the fair and positive client outcomes we committed to achieve in all our interactions with stakeholders.

The key objective of the project was to ensure and drive the concept that the client is at the heart of our strategy and support our vision and brand promise 'to be money experts who do good'. To manage conduct risk, we defined what conduct risk means for us and developed a market conduct risk appetite statement. The risk appetite and associated metrics are composed of a combination of qualitative and quantitative measures. All these aspects are formalised in a governing policy and framework which includes guiding principles and a set of minimum standards for the key conduct pillars within our organisation, underpinning the implementation of requirements as appropriate within individual business divisions.

Through this project we have also matured our conduct risk management, developing and embedding a Conduct Risk Management Framework, which formalises the organisation's approach to identify, assess, monitor, manage and mitigate risk that give rise to client detriment. Coupled with this, are well defined roles and responsibilities across the three LoD. Conduct risk is classified as a primary risk within our ERMF.

We have a well-established market conduct risk universe, which has been developed and consolidated both bottom-up and top-down, taking into account all potential risks which may arise internally (eg business activities, distribution channels, products, processes, controls) and externally (eg change in local or global regulations/legislation, 'read across' of issues from other sectors or jurisdictions, legal decisions).

We have established a formal market conduct risk governance structure, with dedicated committees within business, to senior executive management committees and ultimately reporting to the board that consider market conduct risk and are complementary and coordinated, resulting in coherent and comprehensive oversight.

Consumerism

We have been enabled in various ways to deliver on fair and positive client outcomes, among others, these include the following:

Client financial literacy

Our financial client literacy drives financial inclusion through a range of initiatives aimed at driving basic financial knowledge and skills to empower individuals to better manage their money and to make more informed decisions, particularly within the under-served and under-banked market. Aligned with our purpose as money experts doing good, our initiatives are focused on addressing the specific financial literacy needs and pain points of the audience in communities across the country.

Financial inclusion

We drive financial inclusion through the process of creating value within the under-served and under-banked market by delivering value propositions that speak to the insights, pain points and needs of the market. This is delivered through a client-led process that aims to understand the current challenges of the entry-level banking (ELB) client, including their challenges with financial inclusion from an educational, language and price view.

Commitment to fair pricing

We ensure that fair pricing is set for all products and services through formal pricing governance structures that are in place to ensure appropriate decision-making processes are followed in terms of pricing our products and services. Further to this, communication of all pricing to our clients undergoes a stringent review to ensure it is aligned with the principles of fairness and transparency prior to launch.

Voice of client – action-driven insights

We capture appropriate information on complaints and disputes and follows a fair, transparent client-facing process to resolve them, including redress in cases where products and services have caused financial distress. The business performs root cause analysis on all complaints regularly to determine what is causing client detriment and why. Where potentially systemic issues are identified, these issues are investigated, solutions developed, implemented and monitored for effectiveness.

Our sources of client complaints include branches, the client complaints helpline, our specialised complaints team via clientfeedback@nedbank.co.za, as well as social media platforms. This ensures that we capture all instances of client dissatisfaction regardless of the platforms used.

Client support provided by Nedbank during the pandemic

The 2020 financial year saw SA go through unprecedented times as a result of the Covid-19 pandemic, which adversely impacted our clients, communities and the economy in which we operate.

We recognised the difficult circumstances in which South Africans found themselves and our key objectives were to ensure our clients were treated fairly and positively despite the difficulties being faced.

- We worked on various measures to ensure our clients were kept informed and their changing needs were continually met where reasonably possible. All measures implemented by the bank were accompanied by clear and centrally coordinated communication plans to ensure our clients understood the support available to them as well as the key information that would enable them to understand and make informed financial decisions. This included notifications of branch closures on our website to ensure clients were aware of the mechanisms in place to ensure the delivery of our ongoing support and service to them.

Culture that embodies market conduct

- We adopted a holistic approach to shaping our culture. The intent was to drive a culture that embodies the market conduct principles and ensure optimal client outcomes.
- We have implemented a new leadership framework that includes six behavioural statements describing the role of the leader. Leaders will be measured on these behaviours by means of a leadership, values and culture (LVC) goal, which will be included in the goal commitment contracts of selected leaders. The LVC goal is linked to final performance outcomes, demonstrating our commitment to the fact that how we deliver, is as important as what we deliver.

- In addition, we have translated the new competencies, behaviours and skills (both hard and soft) required in particular with regard to the delivery of good client outcomes into internal training programmes and made available to employees who will need this training.

To access the full report, please refer to the market conduct chapter in the Governance Report at nedbankgroup.co.za.

Regulatory, accounting and compliance risks (Top 12 risk: #12)

As a 'black swan' event, the scale of the Covid-19 pandemic took everyone by surprise. The regulatory environment was thrown into an unprecedented and unpredictable storm, as regulators and governments across the world looked to introduce emergency regulations and policies in order to manage the impact of the pandemic on lives and livelihoods. As governments across the world grappled to quickly introduce financial stimulus packages arising as a result of total or partial economic shutdowns, the roles of central banks in assisting with regulatory relief was essential. This in turn enabled financial institutions to provide financial relief to their individual and business clients. In SA, the SARB responded with appropriate urgency to the financial crisis in a series of regulatory interventions, including the reduction of the policy rate by 100 bps in March 2020, 100 bps in April 2020, 50 bps in May 2020, and 25 bps to 3,5% in July 2020. Additionally, on 20 March 2020, SARB announced measures to ease liquidity conditions by (i) increasing the number of daily repo auctions to two in order to provide intraday liquidity support to clearing banks at the policy rate. This was later switched back to one repo auction per day in May 2020; (ii) reducing the upper and lower limits of the standing facility to lend at the repo rate and borrow at 200 bps below the repo rate; and (iii) raising the size of the main weekly refinancing operations as needed. On 28 March 2020, SARB announced temporary relief on bank capital requirements and reduced the liquidity coverage ratio from 100% to 80%. On 6 April 2020, SARB issued guidance on dividend and cash bonuses distribution to ensure bank capital is preserved. On 3 August 2020, SARB announced that macro-prudential policy easing would be extended until further notice. On 19 August 2020, as liquidity conditions normalised, SARB reverted to standard standing facility borrowing rates (the repo rate less 100 bps). On 3 February 2021, SARB reverted to discretionary end of day supplementary repurchase operations at the repo rate.

As a result of the various interventions, and the strong liquidity and capital positions of South African banks in general, the South African financial services industry proved to be more resilient than during the global financial crisis of 2008. Other notable relief came from the following:

- The South African Competition Commission, which provided an exemption to banks and insurance companies to allow for discussions and agreement on relief measures to their clients.
- The Financial Sector Conduct Authority (FSCA), which postponed the implementation of at least four regulatory requirements and published two exemptions to enable all financial institutions to be able to focus on providing relief measures to their clients.

Central banks in NAR also introduced regulatory relief measures, including the following:

- The Central Bank of eSwatini, which reduced the discount rate by a cumulative 275 bps to 3,75% and kept it unchanged during its meeting in March 2021; reduced the reserve requirement from 6% to 5%, and reduced the liquidity requirement from 25% to 20% for commercial banks and from 22% to 18% for the development bank.
- The Central Bank of Namibia announced, on 26 March 2020, changes in the financial sector and its regulatory setting, including allowing banks to grant loan payment moratoriums, and regulatory and policy relief changes, such as relaxing the determination on liquidity risk management, reducing the capital conservation buffer rate to 0% for at least 24 months.
- The Central Bank of Mozambique introduced a number of measures including a foreign currency credit line for institutions participating in the interbank foreign exchange market.
- The Bank of Botswana introduced a number of measures including reducing the capital adequacy ratio for banks from 15% to 12,5%, and regulatory forbearance for non-performing loans.
- The Central Bank of Lesotho also introduced a number of regulatory measures, including an increase of the NIR target floor from US$630m to US$660m and a reduction of the CBL policy rate by 100 bps from 6,25% to 5,25%.

Although the regulatory relief that was extended by some regulators was welcomed, the promulgation of various regulations by government, which impacted our operations, clients and communities proved to be challenging, as we had to ensure that the regulations were implemented in a short space of time, often overnight.

Regulators, after the initial reprieve, quickly went back into operational mode towards the middle of 2020. This also coincided with the reopening of parliament, especially in the South African context.

The increased focus on digitisation by financial institutions also brought about regulatory focus in this area, which saw the publication of various position papers, outlining intended regulatory approaches. As increased digitisation reshapes financial services, regulatory risk and compliance strategies must continue to evolve. Concepts such as open banking and open finance are on the regulatory list of top priorities. We demonstrate resilience and agility by proactive engagements to assess and mitigate regulatory risk. Through our formalised new regulatory affairs process, regulatory developments are analysed to determine the applicability and impact to the business. This process ensures that we address any impact proactively and participate effectively in the regulatory consultation processes either through industry associations, or directly with government, regulators and policymakers. As part of our regulatory risk management, we are a member of various industry associations, including among others, the Payments Association of South Africa, South African Insurance Association, Association for Savings and Investment South Africa, South African Banking Risk Information Centre and BASA. BASA, in particular, is mandated to represent the banking sector and addresses issues through lobbying, advocacy and policy influence.

GC also provides the group with a central point of engagement, representation and coordination in respect of relevant regulatory and public policy related matters at a strategic level. This office is also responsible for the management and administration of the Regulatory Risk and Compliance Forum chaired by the GCCO. This forum is a Group Exco forum that promotes, provides strategic direction, oversees and makes decisions regarding the group's proactive approach to proposed regulatory changes and regulatory requirements that will impact the group, including regulatory change resulting from the Fourth Industrial Revolution. This ensures that senior management executives are aware of key developments relating to public policy, legislation and regulation pertinent to the group's business activities. Additionally, GC supports the group's directors and executives to proactively identify and discuss emerging policy and regulatory issues which may require attention and risk mitigation from a group perspective. This office achieves its objectives by, among other things, establishing and maintaining relationships with regulatory stakeholders in SA and other countries in which the group has a footprint.

GC is headed by the GCCO, who maintains a close working relationship with the CRO and business units.

Risk-based approach

In terms of the Nedbank compliance risk appetite statement, the group ensures that adequate controls are in place to enable compliance with applicable regulatory requirements. Regulatory requirements collectively refer to statutory, regulatory and supervisory requirements including industry codes, with which the group must by law comply or which it voluntarily adheres to. The group follows a risk-based compliance approach, which allows appropriate focus on the areas that pose the greatest risk, in the highly regulated environments that it operates in. The risk-based approach is followed throughout the compliance process of identifying, assessing, managing and monitoring compliance risks (including market conduct related regulatory requirements). This approach has been entrenched into the Nedbank Compliance Framework and methodology, which is applied across the group.

In line with the Banks Act requirements, as well as the Prudential Standard GOI 3 (Governance and Operational Standards for Insurers) (Risk Management and Internal Controls for Insurers), the group established, as part of its risk management framework and governance structure, a decentralised and independent compliance function. The compliance function ensures that the bank continuously manages its compliance risk, assists the board of directors in overseeing and monitoring regulatory and supervisory obligations and promotes and sustains a sound compliance culture. In line with the recommendations of the King IV Code, the compliance function ensures continuous monitoring of the changing regulatory environment and the operationalisation of applicable regulatory requirements.

We remain committed to the highest regulatory and compliance standards, particularly in light of the increasing complexity of laws and regulations under which the group operates.

Key programmes currently underway include the following:

- ME (systems and data), focusing on enterprise client onboarding and the roll out of further commercial releases across individual and juristic project components with focus on EveryDay Banking.
- Regulatory programmes including AML, FICAA integrated with the ME client onboarding and maintenance journey, Risk Intelligence Centre and Foreign Account Tax Compliance Act (FATCA).
- Loyalty and rewards programme.
- Strategic security including NedbankID Gold Standard, design and development work and Nedbank ID user experience flows.
- Core banking transformation and legacy middleware decommissioning.
- Product lifecycle management.
- Enterprise payments enablement.

C-SUITE RISKS

Our risk universe has grown exponentially in recent years, beyond the traditional yet ever-important risks, such as credit risk, market risk, operational risk, business (country or geopolitical) risk, capital risk and liquidity risk. The expanded risk universe has evolved to include major (but less mature) 'C-Suite' risks such as cyber, conduct, crime, change (execution risk), climate, and client risks. Our focus has been broadened to encompass these critical emerging risks to ensure that we continue to 'change safely' in order to deliver operational excellence and achieve positive outcomes for our clients. The following C-Suite risks do not form part of the Top 12 risks.

Change (execution) (C-Suite risk)

Geopolitical change

Global optimism has increased as the rollout of the Covid-19 vaccines gains momentum amid potentially eased lockdown restrictions in 2021. The rebound in economic growth is likely to be more notable in H2 2021. However, there remains a high degree of uncertainty about the pace and durability of the economic recovery in both advanced and emerging economies. As such, the recovery is expected to be uneven across the globe as access to the vaccine and the policy response has varied. In addition, geopolitical tensions, trade disputes as well as the future path of Covid-19 are key risks that could hamper global economic recovery.

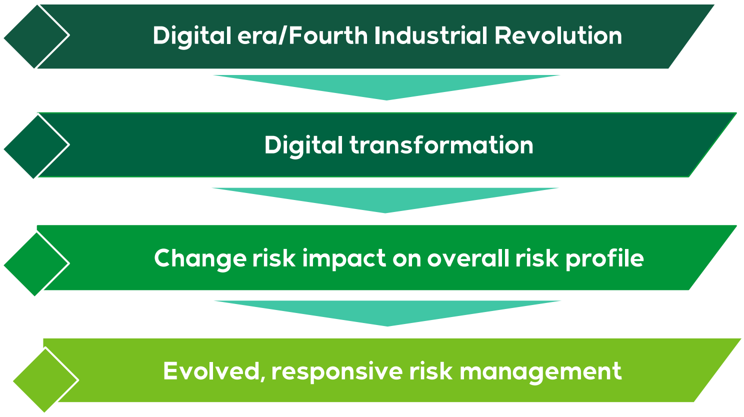
The Covid-19 pandemic is likely to exacerbate SA's economic growth challenges, with weak fixed-investment expenditure, constrained income growth and continued load-shedding, suggesting that a sustainable rebound in economic growth would be muted. With the banking sector highly interlinked to economic activity, the sector has continued to witness a rise in impairments amid the challenging operating environment as a result of constrained household income and rising unemployment. The financial performance of South African banks as such dropped. Despite this, Nedbank remained resilient as liquidity and capital buffers remained well within board targets and above regulatory required levels.

Technological change: Digital Era/Fourth Industrial Revolution and data

The Fourth Industrial Revolution and its accompanying disruptive forces continue to have wide-ranging impacts on the banking sector, both globally and locally. The resulting shifts in market dynamics, the competitive landscape and changing client expectations have created the imperative to adapt fast to meet the challenge of emerging digitally enabled non-bank players (insurers, retailers, mobile networks and big techs/fintechs) capturing more of the banking value chain. Current social distancing and lockdown measures necessitated by the Covid-19 pandemic have further intensified focus on accelerating digital transformation given the need to bolster digital channels and the increased reliance on technology. These pressures contribute to a naturally elevated level of strategy execution risk.

In response to these external forces, significant organisational change was intentionally introduced into the group through various large-scale strategic initiatives, with a focus on data-driven client centredness, rapid automation of processes, new digital platforms, new operating models and new Ways of Working. The scope and scale of these changes have resulted in exposure to new and emerging 'risks attached to digitally enabled banks–digital risks'.

Changing safely in the digital era



Risks from cyberincidents, data leaks and related reputational risk remained high in 2020 and are escalating due to accelerated advances in technology and digital landscapes, in the context of greater levels of interconnectedness. Nedbank's Cyberresilience Programme is coordinating the group's actions to continuously mature Nedbank's cyberresilience in the face of new and emerging risks (including third-party cyber and privacy risk and data loss prevention). The overall cyberresilience maturity level of the group has significantly increased since 2016.

In addition to the direct impact of technological changes themselves, changes are expected to also arise from the regulatory response to new technological realities and the further changes on the horizon (such as the Open Banking regulation). Our risk management efforts are therefore focused on evolving our governance and internal controls alongside the ongoing automation and digitisation implementation across our operations to ensure that we continue to 'change safely'. In 2020 we broadened our coverage of the group's expanded, holistic data risk universe in response to the increased level of threat to the group's information assets and broader data risks.

As part of our EDP efforts in 2019, we achieved regulatory compliance in December 2019 with the requirements of the Basel Committee on Banking Supervision's *Principles for Effective Risk Data Aggregation and Risk Reporting* (BCBS 239) standard as prescribed by the PA, which is aimed at enhancing risk data management and risk-decision making processes. While we are compliant as it relates to the initial six major risk types identified as part of the December 2019 scope, the RDARR principles are required as part of business-as-usual (BaU) activities and have now been extended to other risk types as well as optimisation of all data processes across the enterprise.

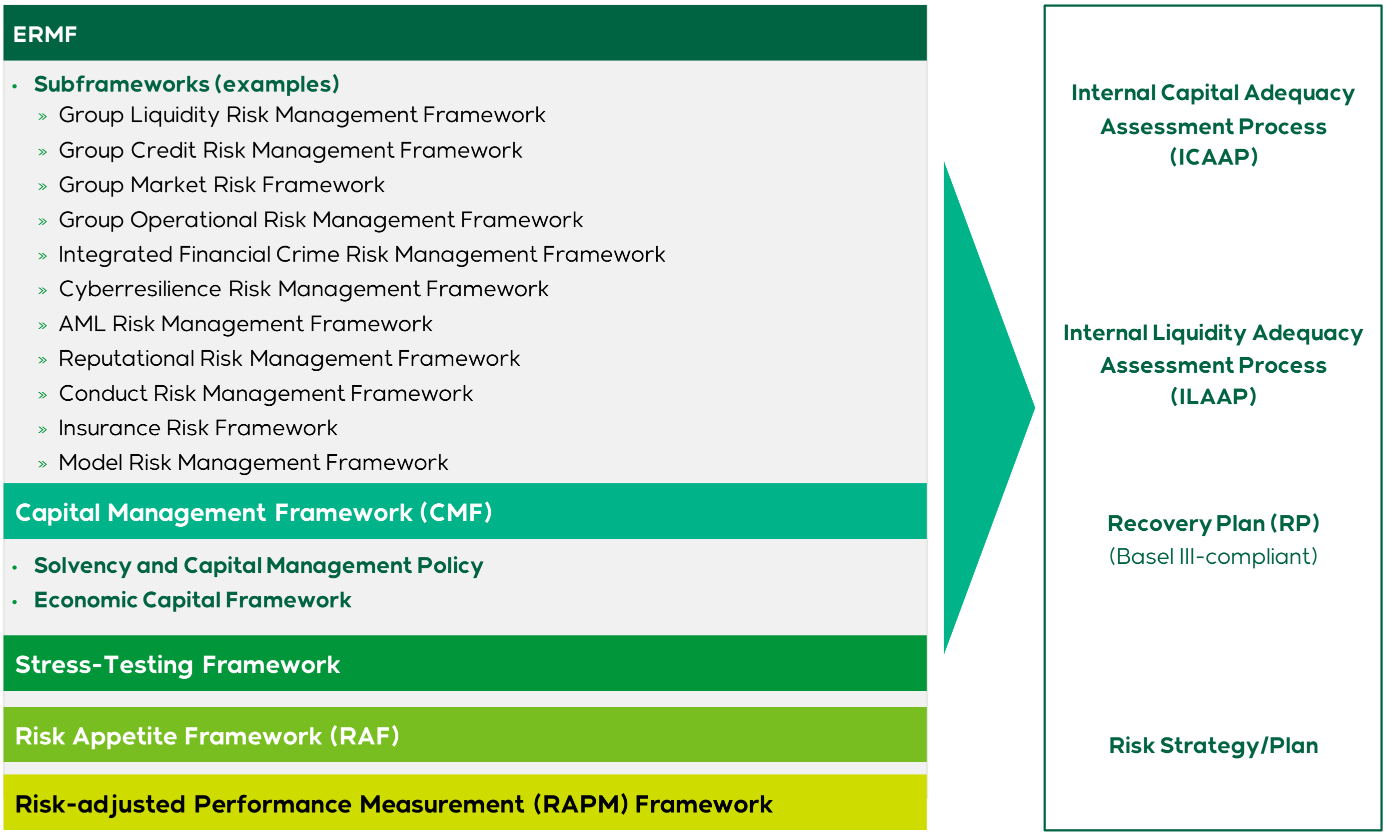
Among the key risk management initiatives in response to the demands of the Fourth Industrial Revolution is our Digitising of Risk, Audit and Compliance across the Enterprise (Digi-RACE) programme aimed at bringing risk management into the digital era. The Digi-RACE programme, which was initiated in 2018, has gained considerable traction and will continue into 2021 and beyond. The programme is focused on four areas:

- Enhance/optimise client experience impacted by risk and compliance.
- Win and maintain the client's trust, protect both the bank's and clients' interests by leveraging new technologies, automation and analytics.
- Deliver more efficient and effective risk, audit and compliance functions to support digitisation.
- Manage risks of digitally enabled banks.

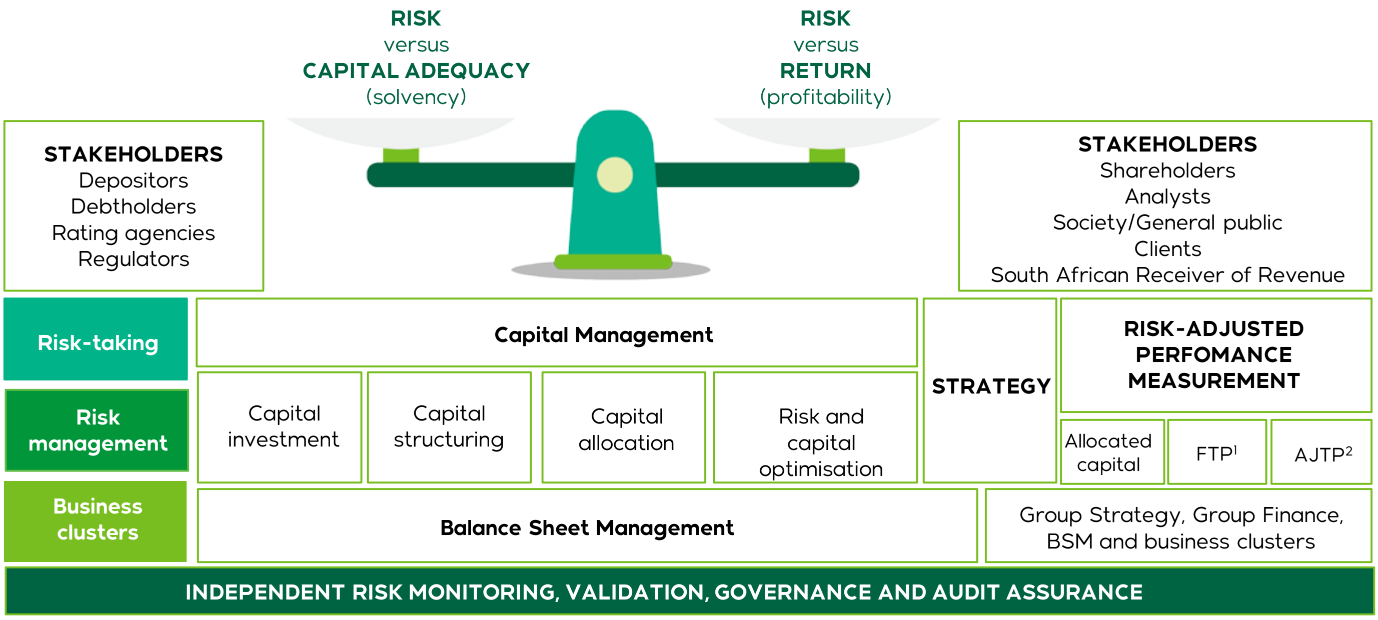
APPROACH TO RISK AND BALANCE SHEET MANAGEMENT

The group approaches our strategy development, business activities, risk appetite, risk and balance sheet management in a fully integrated manner. At the heart of our business and management processes are integrated world-class risk and balance sheet management frameworks and operational practices.

Nedbank Group's risk and balance sheet management frameworks



Nedbank Group's Capital Management Framework



[1] *Funds transfer pricing (FTP).*
[2] *Activity-justified transfer pricing (AJTP).*

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

All of Nedbank Group's quantifiable risks across the 17 key risks of the ERMF are also captured in our Economic Capital Framework, where they are appropriately quantified and capitalised. Economic capital is a sophisticated, consistent measurement and comparison of risk across BUs, risk types and individual products or transactions, enabling a focus on both downside risk (risk protection), upside potential (earnings growth) and shareholder value-add.

Nedbank Group assesses the internal requirements for capital using its proprietary economic capital methodology, which models and assigns economic capital within 12 quantifiable risk categories. Nedbank Group regularly enhances its economic capital methodology and benchmarks the output to external reference points.

All of these quantifiable risks, as measured by the higher of regulatory or economic capital, are then allocated back to the businesses in the form of a capital allocation, to where the assets or risk positions reside or originate.

Economic capital is embedded in the organisation and the way the business is managed. This is summarised below.

Economic capital use across Nedbank Group

GROUP LEVEL	BUSINESS LEVEL	PORTFOLIO LEVEL	TRANSACTION LEVEL
• Economic capital adequacy • Risk-based capital allocation across the group's businesses • Key component of risk appetite • Active capital management and ICAAP • Effective reporting of risk (Pillar 3) • Strategic and capital planning	• Risk/return economic value of appraisal of different BUs and monolines • Economic profit (EP) target setting • Risk-based strategic planning • Risk appetite optimisation • ICAAP	• Concentration risk management • Risk diversification • Risk portfolio management and optimisation • Limit setting • Portfolio tilt	• Risk-based pricing • Consideration of economic return on individual loan applications and products • Client value management • Prioritisation of utilisation of client limits

The Nedbank Group's economic capital and ICAAP methodology is constantly reviewed and updated, taking cognisance of all regulatory developments, such as Basel III and Solvency II/SAM.

Economic capital not only facilitates a like-for-like measurement and comparison of risk across businesses but, by incorporating the allocation of the higher of economic or regulatory capital into performance measurement, the performance of each business can be measured and compared on an absolute basis by using Economic Profit (EP) and a relative percentage return basis, namely return on equity (ROE), whereby the higher of economic capital and regulatory capital is considered, by comparing these measures against the group's cost of capital.

EP is one of Nedbank's primary financial performance metrics, as it aligns closest with shareholder value creation and incorporates risk (through capital allocation)

EP = CAPITAL x (ROE – cost of capital)

Robust measure of risk, based on Basel III → **Economic ROE[1]** → **Shareholder requirements**

[1] *Based on higher of economic and regulatory capital.*

EP is a combination of familiar metrics that enables trade-off between:

- risk and return;
- growth and profitability; and
- shareholder value creation.

Currently EP and ROE are used interchangeably as the primary measure for performance within Nedbank Group. In the calculation of ROE, IFRS earnings are used, divided by capital, allocated at the higher of risk-adjusted economic capital and regulatory capital.

EP R = IFRS EARNINGS (OR ALTERNATIVELY RISK ADJUSTED PROFIT) – HURDLE RATE X ALLOCATED CAPITAL

- Value is created if EP > 0.
- EP is a core metric for shareholder value-add.
- If capital is unconstrained, all business with EP > 0 should be grown subject to established hurdle ranges.
- No information on the marginal percentage return on economic capital, which is provided by ROE.

ROE % = HE ÷ ALLOCATED CAPITAL

- Value is created if ROE > hurdle rate.
- If capital is scarce, businesses with the highest ROE (ie highest marginal return per rand of allocated capital) should be prioritised.
- No information on magnitude of value being created for shareholders, which is provided by EP.

In line with Basel III and the Banks Act, 94 of 1990, a best-practice ICAAP is embedded in Nedbank Group. It is an integral component of the group's ERMF, CMF (see page 27), strategy and business planning process, balance sheet management, remuneration and reward mechanisms, day-to-day business operations, pricing and lending decisions, and client value management. Nedbank Group scores highly on the 'use test', because the group's risk culture is based on the understanding that the business of banking is fundamentally about managing risk, and risk drives capital and liquidity requirements, against which return is measured and rewarded.

Liquidity Risk Management Framework

Embedded within the Liquidity Risk Management Framework is Nedbank Group's ILAAP. The ILAAP involves an ongoing and rigorous assessment of Nedbank Group's liquidity self-sufficiency under a continuum of stress liquidity scenarios, taking into consideration the board-approved risk appetite. The ILAAP also involves an ongoing review and assessment of all components that collectively make up and/or support the Liquidity Risk Management Framework. The objective of this review and assessment is to ensure that the framework remains sound in terms of measuring, monitoring, managing and mitigating liquidity risk, taking cognisance of best-practice and regulatory developments. In view of the significance of liquidity risk in banking, the ILAAP is conducted from both a group and bank perspective. Further detail regarding the framework is provided in the 'Liquidity risk and funding' section.

Recovery Plan and stress-testing

The Nedbank Recovery Plan (RP) establishes a framework for the bank to act quickly and decisively during a severe crisis to ensure that it is able to recover. The plan describes integration with existing contingency planning and possible recovery options, including a detailed assessment of their likely effectiveness and the defined points at which they would be invoked. The RP addresses stresses invoked by shortfalls in liquidity and capital, as well as significant operational failures that may jeopardise our ability to continue normal business operations. The RP also covers the various options considered by senior management to mitigate stresses encountered by Nedbank. The RP fits into and aligns with our ERMF and complements the existing capital, liquidity and stress-testing policies and procedures of the group.

Our RPs have been enhanced over the recent years and we recognise the importance of ensuring that RPs dovetail seamlessly into the SARB's resolution plans where maintaining critical functions, critical shared services, protecting depositors and reducing the effects of contagion and financial market disruption will represent the golden thread across both the recovery and resolution plans. The National Treasury released a media statement on 11 June 2020, indicating that Cabinet had approved the tabling of the Financial Sector Laws Amendment Bill (FSLAB) in Parliament. The Bill, once promulgated (possibly in H2 2021), will give rise to the Resolution Regime and the establishment of the Deposit Insurance and bail-in first loss after capital (FLAC) instruments. Further information is provided in the 'Recovery Plan overview' section.

Nedbank's holistic groupwide stress-testing capability is supported by a comprehensive Stress-testing Framework. The Stress-testing Framework and processes are adhered to in order to stress the base-case projections, and so assess and ultimately conclude on the adequacy of Nedbank Group's capital buffers and target CARs. The group's strategic planning process, rolling forecasts and integrated capital planning include three-year projections of expected (base-case) financial performance, regulatory (Basel III) and economic capital risk parameters and capital requirements, which are compared with projected available financial resources (AFR) and the board-approved risk appetite metrics. The three-year projections and base-case capital planning are derived from the group's three-year business plans, which are updated on a quarterly basis during the year.

Risk Appetite Framework

Nedbank's comprehensive Risk Appetite Framework (RAF) continues to be an integral component of the group's ERMF and is embedded in the group's strategy and business plans. Further information is provided in the 'Risk appetite' section.

Risk-adjusted performance measurement, management and reward

Economic capital, EP and ROE, as well as other important metrics, such as return on assets (ROA), CLR, non-interest revenue (NIR) to expenses and the efficiency ratio, are included in performance scorecards across the group. Economic capital and EP are comprehensively in use across the group, embedded in businesses on a day-to-day basis and in performance measurement and reward schemes. RAPM has been applied across the group for many years and helps ensure that excessive risk-taking is mitigated and managed appropriately within the group.

To align the group's current short-term incentive (STI) scheme with shareholder value drivers, the STI scheme has been designed to incentivise a combination of profitable returns, risk and growth appropriately. It is driven from an EP and headline earnings (HE) basis, using the higher of risk-based economic and regulatory capital allocation. Risk is therefore an integral component of capital allocation and performance measurement (and reward) in Nedbank. The group's remuneration practices and public disclosures are compliant with the evolving principles, practices and governance codes released for the South African financial services industry. For this detail please refer to the group's 2020 Remuneration Report and the 'Remuneration' section in the 2020 Integrated Report, which can be found at nedbankgroup.co.za. Nedbank Group continues to monitor the evolving governance environment to ensure appropriate compliance of the group's risk-adjusted remuneration practices with the relevant regulatory and/or statutory requirements.

CONCLUSION

The Covid-19 pandemic has had a dramatic impact on Africa, the banking industry and Nedbank's risk profile. However, there were no significant adverse changes to risk management, governance, compliance and the internal control environment, and known risks across the business were identified, assessed, documented, managed, reported and reviewed during the period in accordance with Nedbank's ERMF and governance processes, in all material respects. The most significant risks known to be facing our businesses were identified and are being managed appropriately.

Significant risks continue to prevail, particularly business/country, strategic execution, people (health/wellness), credit risk, together with continuing uncertainty looking forward. The overall state of Nedbank's risk management, balance sheet management, internal control environment and risk culture remains sound and robust, and has stood the test of time, including over the 'black swan' 1-in-100 years Covid-19 event to date.

Adequate and effective corporate governance, risk management, compliance and systems of internal control have been maintained across the Nedbank Group in all material respects.

The most significant risks and key issues have been appropriately communicated through the Group Risk and Capital Management Committee (GRCMC), Group Credit Committee (GCC), Audit and Finance (Group Audit Committee), IT (Group Information Technology Committee) and Compliance (DAC) reporting governance processes in accordance with the Nedbank ERMF, the KICL and the Group Internal Audit 'Unsatisfactory' audit and critical 'Open' internal audit findings.

Nedbank has embedded a prudent and conservative risk appetite focused on the basic and core activities of banking and associated financial services. Risk appetite remains enabling for our businesses, promoting competitive but appropriate growth and returns. All core risk appetite metrics are currently tracking within approved net limits, except for the CLR which, as expected, is well above the upper-end of the through-the-cycle target range mainly driven by additional judgemental overlays and macro forward-looking adjustments in anticipation of future defaults. The Earnings at Risk metric also tracks above the target range due to earnings being impacted negatively due to the Covid-19 pandemic. Risk management continues to be a fundamental component of our strategy and operations, and continues to evolve into more agile, smarter, practical and efficient practices that remain relevant and competitive in an ever-evolving internal and external environment.

RISK APPETITE

Risk appetite is integrated into the group's strategic and business planning process, is approved by the board and monitored by varying levels of senior management, with ongoing oversight and coordination by Group Risk. Risk appetite is guided by the group's RAF, which sets the principles for decision-making and risk-taking that are aligned to strategic focus areas.

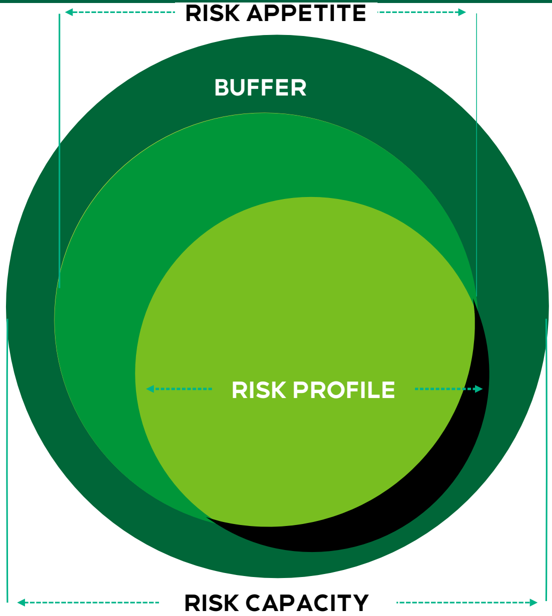
The RAF establishes the overall approach through which Nedbank practises commercially prudent risk-taking throughout the group. It outlines and guides the process of developing Risk Appetite Statements (RAS), including cascading governance, monitoring and reporting across the group. The RAF has served the group well over the years and continues to support underlying businesses, ensuring that risk profiles are known and assessed against established risk appetite targets and limits.

The following definitions are adopted and used across the group:

- Risk appetite is defined as an aggregate level and type of risk the group is prepared to assume within its risk capacity to achieve its strategic objectives and business plan. It is expressed quantitatively as risk measures and qualitatively in terms of policies and controls.
- Risk capacity is the maximum level of risk that the group can assume, given its current level of resources before breaching constraints determined by regulatory capital and liquidity needs, the operational environment (eg technical infrastructure, risk management capabilities and expertise) and obligations, also from a conduct perspective, to depositors, policyholders, shareholders, investors, as well as other clients and stakeholders.
- Risk profile is the point-in-time assessment of the group's gross and, as appropriate, net risk exposures (after considering mitigants) aggregated within and across each relevant risk category, based on forward-looking assumptions.

The graphic below depicts the group's schematic view of the relationship between risk appetite, risk capacity and the assessed risk profile. There is a buffer between risk capacity and risk appetite, to allow for management actions in cases where there is a change in risk profile. The black area represents a point-in-time/through-the-cycle breach in risk appetite.

Relationship between risk appetite, risk capacity and assessed risk profile



Key risk appetite achievements in 2020 included an end-to-end review of risk appetite, taking into account the macroeconomic impact of Covid-19, which included stress-testing of the group's tier 1 and tier 2 metrics based on the expected and adverse scenarios; expanding the group's risk appetite programme through the introduction of climate risk appetite statements; and enhancing the AML, CFT and sanctions risk appetite statements. The adequacy of risk appetite to support strategic initiatives of the group has also been brought into the RAF to assess the impact of new initiatives on risk appetite levels in place. Due to capital ratios having both capital demand and supply components, the impacts of capital target ranges and the translation of these ranges into risk-weighted assets is an integral part of the risk appetite forecasting process. The impact assessment linking risk appetite and RWA has been included as part of the RAF to assess the effect of changes in risk appetite targets/limits on RWA.

The group continues to monitor its risk appetite against the operating environment to ensure it remains appropriate and enables the group to meet its strategic objectives and will continue to invest in maturing the current risk management processes for all key emerging risks, including the Covid-19 pandemic, AML, reputational, climate and environmental and conduct risks.

GOVERNANCE

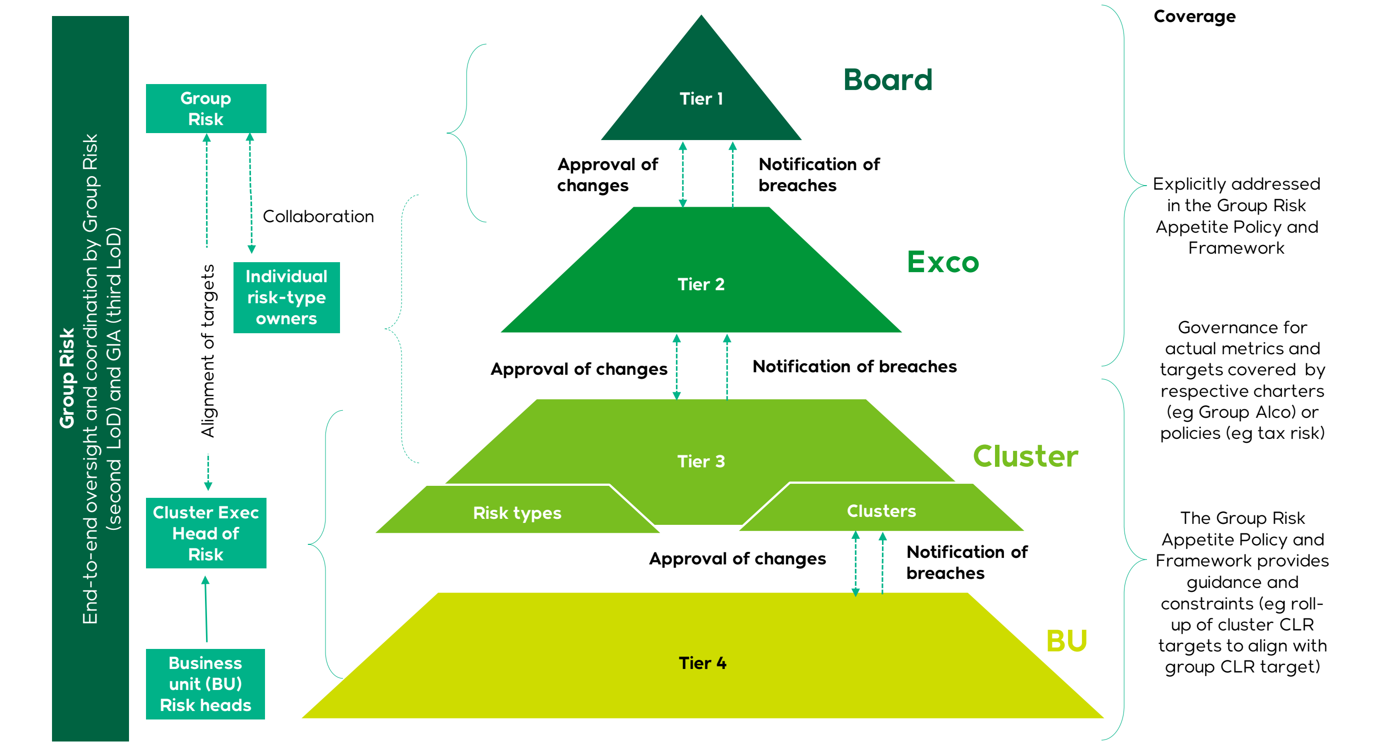
The group has cultivated a strong risk culture and embedded a prudent and appropriate risk appetite focused on core activities of banking and associated financial services. The risk appetite is enabling for our businesses, promoting competitive but appropriate growth and returns. The group also expresses risk appetite qualitatively in terms of policies, processes, procedures, statements and controls meant to manage risks that may or may not be quantifiable. Policies, processes and procedures relating to governance, effective risk management and adequate capital and internal controls, have board and senior management oversight and are governed by the group's three LoD model. The board has ultimate responsibility for the group's business strategy and financial soundness, key personnel decisions, internal organisation and governance structure and practices, and risk management including risk appetite.

The group's risk appetite governance is segmented into a tiered structure according to ownership and oversight.

- The tiered approach sets an appropriate core RAS to be approved and reviewed by the board, while allocating oversight of other key RAS to the varying levels of senior management in the group.
- The balance of the RAS is monitored, managed and approved at senior management level.
- The tiered approach enables the board and senior management to discharge their responsibilities and facilitates effective decision-making and appropriate governance, by focusing on key and material risk items.

The tiered approach enables appropriate governance and escalation of breaches of risk appetite targets to the tier above for management action where required (eg a breach in risk appetite at tier 2 level will be reported at both tier 1 and tier 2 levels).

Nedbank's tiered approach to risk appetite



RISK APPETITE STATEMENT

The group's RAS is guided by the RAF, which sets the principles for decision-making and risk-taking that are aligned with strategic focus areas. The RAF is defined as the articulation in written form of risk appetite, which includes qualitative statements and quantitative measures expressed relative to earnings, capital, risk measures, liquidity and other appropriate measures. It is developed in collaboration with senior management and approved by the board, ensuring that it remains consistent with, among others, the group's strategy, risk capacity as well as the remuneration strategy.

The group's overarching RAS provides guiding principles and facilitates decision-making that is aligned with the key strategic focus areas, providing autonomy within agreed boundaries. The risk appetite, risk profile and risk exposures are reported regularly to the board and senior management through various governance committees and reviewed annually as part of the three-year group business plan (GBP).

Nedbank Group's risk appetite outcomes for FY 2020 were characterised by the impact of the Covid-19 pandemic, adverse macroeconomic and political environments, unprecedented level of change, heightened country risks and cyberrisks. The PA provided temporary relief, in light of the Covid-19 pandemic, and issued Directive 2/2020, which reduces the Pillar 2A capital requirements to nil, thereby reducing the minimum capital requirements by 50 bps, 75 bps and 100 bps for CET1, tier 1 and total capital respectively. As a result, the board targets were also adjusted in line with the lower new regulatory minimum requirements across all three capital tiers. All market risk appetite metrics operated within the board-approved target ranges regardless of an ongoing year of external market volatility and uncertainty.

In addition to the core risk appetite metrics, a large variety of alternative risk appetite metrics are operated within the board-approved risk appetite targets. The full suite of risk appetite metrics and qualitative statements is defined at each level of tiered governance for different risk types and monitored regularly by relevant oversight risk committees and the board, where appropriate. Cyberrisk management remains a key focus area, with increased cyberexposures due to the upsurge of digital activity brought about by the Covid-19 pandemic. Cyberresilience, which is the ability to respond to incidents, was demonstrated successfully in 2020.

Despite the radically heightened external risk environment, the group continued to operate within the board-approved risk appetite targets for all core risk appetite metrics with the exception of the CLR which, as expected, is well above the upper-end of the through-the-cycle target range and the EaR, which is also tracking above the target range due to earnings and impairments being negatively impacted by the Covid-19 pandemic.

Nedbank Group's tier 1 risk appetite metrics are defined in the table below.

NEDBANK GROUP CORE RISK APPETITE METRICS

Group core metrics	Definition	Group target	Within risk appetite at 31 December 2020
Credit risk			
CLR	Level of actual credit losses in Nedbank Group's credit portfolios.	60–100 bps	✗
Capital and earnings risk			
Earnings at risk (EaR)	Percentage pre-tax earnings potentially lost over a one-year period.	EaR less than 80%	✗
Economic capital adequacy	Nedbank Group adequately capitalised on an economic basis to its current international foreign currency target debt rating.	> 130%	✓
CET1 ratio	Nedbank Group adequately capitalised from a regulatory perspective.	10,0–12,0%	✓
Total RWA to total assets	The average risk profile (risk-weight) of Nedbank Group's assets.	50–59%	✓
Leverage ratio (Basel III)	The extent to which Nedbank Group is leveraged in terms of assets, including off-balance-sheet assets, per unit of qualifying tier 1 regulatory capital.	Less than 20 times	✓
Liquidity risk			
LCR	The extent to which high-quality liquid assets (HQLA) cover total net cash outflows (NCOF) over a 30-day period.	> 80%	✓
NSFR	Assessment of whether there is sufficient stable funding (equity, deposits, long-term wholesale) for the bank's lending profile (higher requirements for long-term assets).	> 100%	✓
Liquidity stress event – regulatory	Survival period in a stressed liquidity event based on regulatory assumptions.	> 30 days	✓
Tax risk			
Effective accounting tax rate	Tax that the group incurs and is liable to revenue services.	22–26%	✓
Interest rate risk			
NII sensitivity	Sensitivity of Nedbank Group's Net Interest Income due to changes in market interest rates.	< 2,25%	✓
Market risk			
Trading value at risk (VaR)	Potential market value losses in the trading book over a three-day period. (only to be exceeded once every 100 days).	< R240m	✓
Stress trigger	Potential trading book loss during periods of extreme volatility.	< R2 184m	✓
Equity Investment Risk Profile	Measures the group's investment exposure.	< 28 470m	✓
Insurance risk			
Capital at risk	Regulatory view of capital adequacy.	> 1,5	✓
Operational risk profile			
Operational risk losses to gross operating income	Level of actual financial losses due to operational risk events (eg fraud) in relation to the gross operating income.	< 1,75%	✓

The group continues to monitor its risk appetite against the operating environment to ensure it remains appropriate and enables the group to meet its strategic objectives and will continue to invest in maturing the current risk management processes for all key emerging risks, including the Covid-19 pandemic, AML, reputational, climate and environmental and conduct risks.

STRESS AND SCENARIO TESTING

Stress-testing is a component of enabling Nedbank's aspiration to be 'world-class at managing risk', and is an evolving process, incorporating the latest international methodologies and standards.

NEDBANK GROUP STRESS-TESTING FRAMEWORK

Nedbank Group's stress-testing objectives have been defined as follows:

Nedbank Group's Stress-Testing Framework main objectives

Provide and maintain a robust, credible and readily accessible projections capability, which is leveraged with confidence across the group to support enhanced:

- strategic business planning;
- risk appetite setting and monitoring;
- risk management practices;
- pricing, portfolio tilt decisions, risk adjusted performance measurement;
- capital planning; and
- liquidity and funding risk assessment and planning.

Embed streamlined projection processes that minimise the burden of execution and allow for enhanced focus on the analysis and use of the results.

Align with leading practices as informed by international regulatory expectations to ensure that Nedbank remains at the forefront of best-practice stress-testing and world-class risk management.

Assess the effect of possible unexpected events on Nedbank's base case projections (stress-testing), including:

- balance sheet changes, such as growth and portfolio mix;
- earnings growth, specifically topline revenue growth (volumes, fees, margins) and impairments, which constitute the cost of risk;
- capital requirements, capital resources and adequacy of capital buffers for both regulatory and economic capital as part of the Internal Capital Adequacy Assessment Process (ICAAP); and
- liquidity requirements, liquidity resources and adequacy of liquidity buffers for board-approved risk appetite and the Internal Liquidity Adequacy Assessment Process (ILAAP).

Decision on capital levels and buffers based on overall assessment, including probability of the scenario, strategic measures etc,

(ICAAP)
Decision on strategic business planning.

Decision on liquidity levels and buffers.

Decision on risk appetite targets and measures.

Consideration of strategic management actions.

Implementation of contingency plans.

Decision on risk management practices.

The key features of the framework are as follows:

- A holistic view of Nedbank Group and Nedbank Limited is considered.
- The Pillar 2 top-down stress-testing model [Macroeconomic Factor Model (MEFM)] allows for quick turnaround times, what-if analysis and analysis on the impact of management actions.
- Event-type or risk-type stress-tests are further designed to probe for portfolio-specific weaknesses, incorporating all risk factors affecting a specific portfolio, including obligor-specific, industry and macroeconomic factors.
- Senior management has active knowledge of, and where appropriate, involvement in the design of stress-testing scenarios, and in drawing up contingency plans for remedial action. Such participation helps to ensure that any remedial actions based on contingency plans drawn up in response to approved stress-tests will be implemented.
- Market risk stress-testing is performed daily and utilises a full portfolio revaluation technique.
- Extensive liquidity stress-testing is performed, at both a bank and industry level, to appropriately determine the bank's liquidity profile, including the sizing of the liquidity buffer portfolio in the most optimal manner for seasonal, cyclical and/or stress events.
- Pillar 1 stress-testing is performed by each BU and is approved by the respective BUCC or Cluster Credit Committee (CCC).

As part of Nedbank's evolving stress-testing process and in response to the Covid-19 pandemic, significant enhancements were made to the balance sheet, specifically client loans, advances and deposits, NII, NIR, credit RWA and impairments (ECL) stress-testing methodologies. These enhancements to Nedbank's modelling and risk management tools allow the bank to stay ahead and respond to a crisis, such as the Covid-19 pandemic, appropriately. More specifically, it enables the bank to make informed strategic decisions in these unprecedented times through:

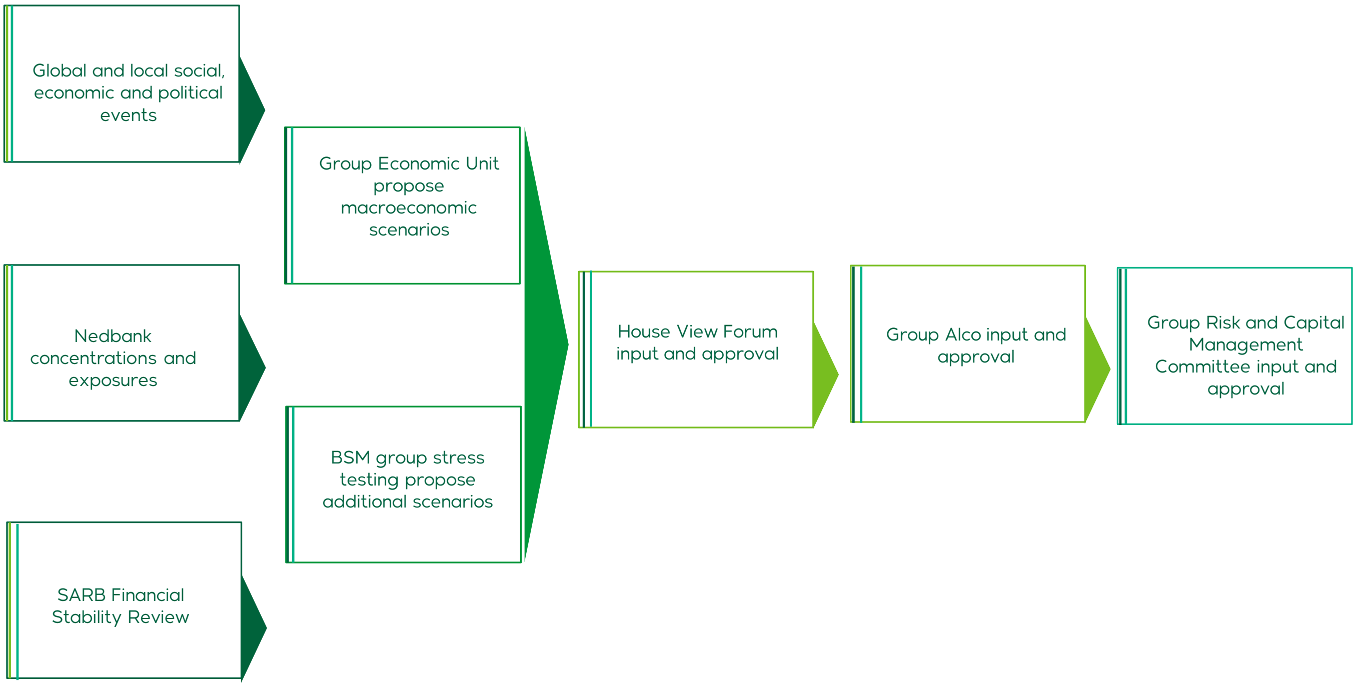
- delivering analysis and insights to enable well-informed decision-making;
- updating stress-testing models in a tightly-controlled manner to ensure they are reflective of the new reality;
- upgrading forecasting tools and management information to facilitate management response; and
- facilitating production of future financials such that outcomes are as accurate as possible and without undue pro-cyclicality.

SCENARIO GENERATION PROCESS AND GOVERNANCE

The overall Pillar 2 stress-test results and effects on earnings, regulatory capital, economic capital, available capital resources and, therefore, CARs are reported to the Group Alco and the board's GRCMC on a regular basis (at least quarterly). The forward-looking capability of the stress-testing model ensures that management action can be taken in advance, when necessary.

In addition to the quarterly stress-testing process, a comprehensive set of relevant and plausible scenarios are also considered and presented during the annual ICAAP.

Scenario generation process and approval



Due to the Covid-19 pandemic and the government's reactive lockdown measures to contain the spread of the virus, the submission date of the 2020 ICAAP to the PA was moved out to the second half of 2020. This decision was made against the backdrop of rapidly deteriorating macroeconomic conditions, increased market volatility and the bank's subsequent prioritisation of its clients' financial wellbeing as the country went into level 5 lockdown during March 2020.

Nedbank's stress-testing strategy, the severity of the stressed macroeconomic scenarios and the additional stress scenarios were challenged, debated and discussed before being finalised at an executive management level by Nedbank's House View Forum and Group Alco and at non-executive management level by the GRCMC before being finalised for the annual ICAAP submission to the PA.

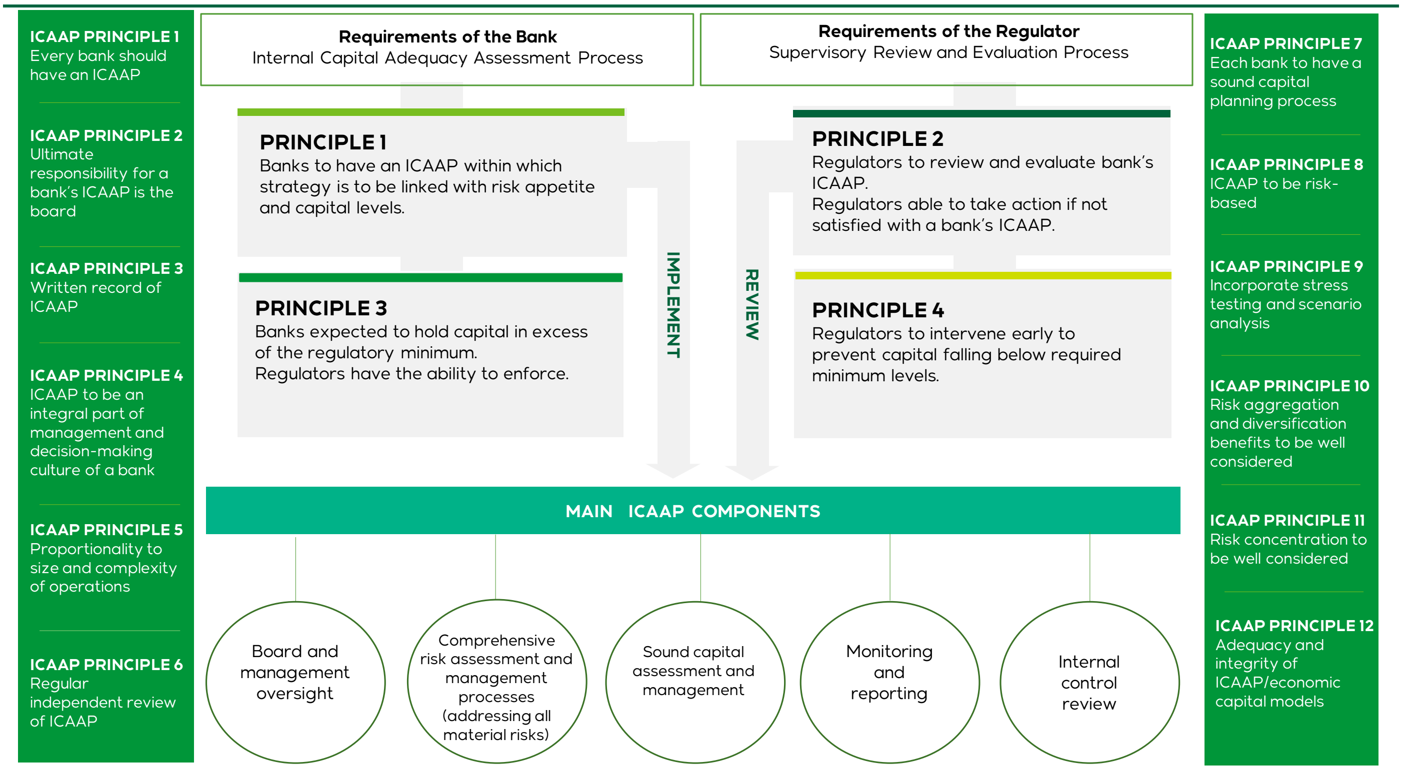
The following was considered in finalising the proposed scenarios for the 2020 ICAAP:

- The prevailing macroeconomic environment was a stress scenario and the expected/base scenario, characterised by a U-shaped recession followed by stagnation, was the focus of the ICAAP.
- The adverse and severely adverse stress scenarios assumed a deep and long U-shaped recession and a L-shaped recession, respectively.
- Reverse stress-testing (a break-the-bank scenario).
- A specific event-type scenario, such as a sudden operational risk loss event in the form of a cyberattack.
- Reputational risk.
- Climate-related scenario analysis and the impact thereof on specific climate sensitive portfolios.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) OVERVIEW

A summary of the four key principles contained in Pillar 2 of Basel III, Regulation 39 of the regulations relating to banks issued in terms of the Banks Act, 94 of 1990, (including guidance provided by the PA in Guidance Note 4/2015), the ICAAP requirements of banks and related Supervisory Review and Evaluation Process (SREP) requirements of the PA are depicted below.

Summary of the ICAAP and SREP requirements



The ICAAP is concerned primarily with Nedbank's comprehensive approach, measurement and management of risk and capital from an internal perspective, that is over and above the minimum regulatory rules and requirements of Basel III. To this end it is important to highlight that Nedbank Group has several levels of capital and other components, as depicted in the table below, to be measured and managed simultaneously.

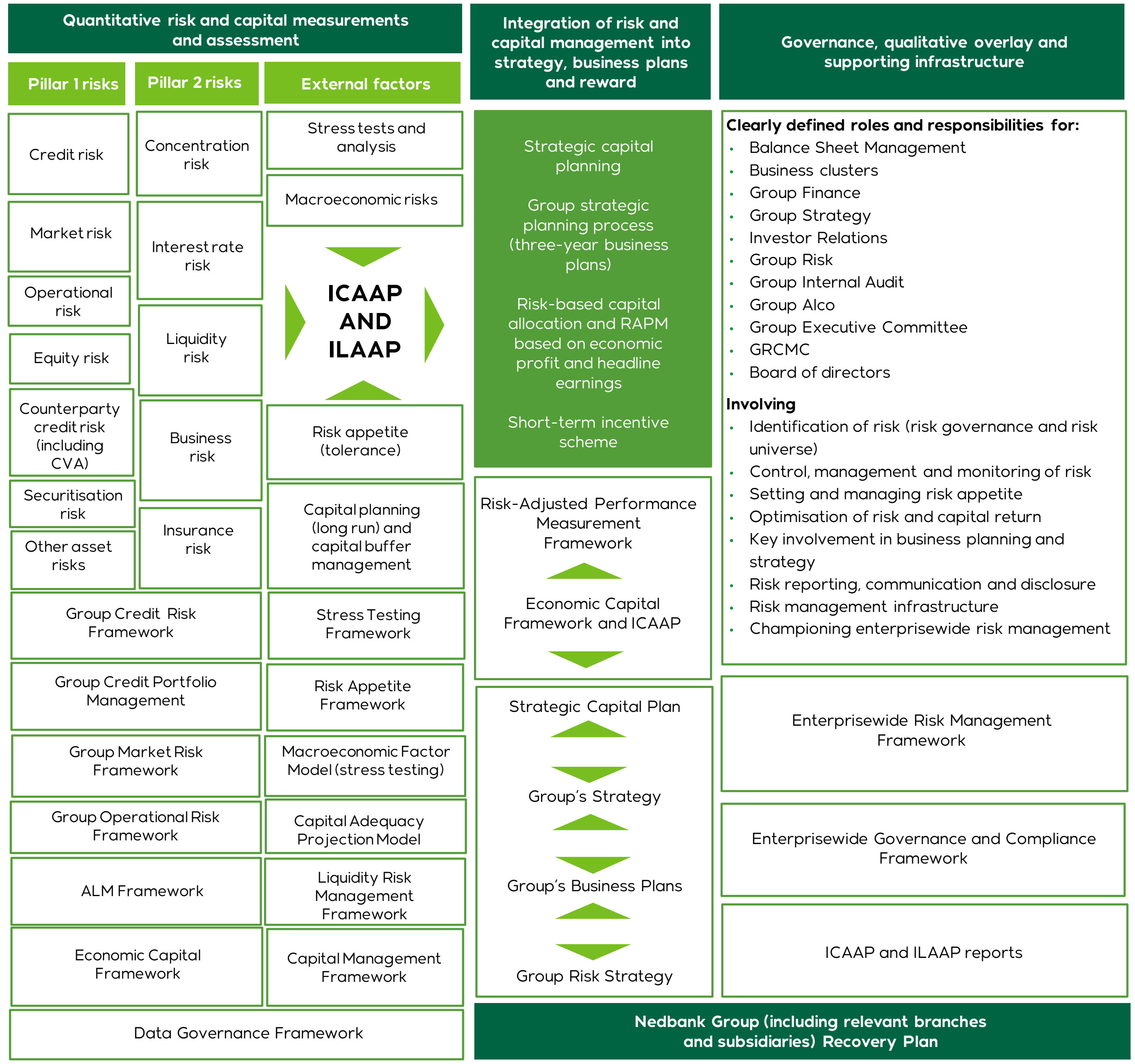
Summary background to the different capital levels to be managed

MEASURES OF THE GROUP'S RISK PROFILE (capital requirements)		**ACTUAL BOOK CAPITAL** (capital resources)	
Regulatory capital	**Economic capital**	**Available book capital (statutory)**	
• Amount of capital required to protect the bank against **regulatory insolvency** over a one-year time frame. • Determined based on regulatory rules ie Basel Accord and Banks Act, 94 of 1990. • Designed mainly to protect depositors and creditors. • Pillar 1 is rules-based and acts as the minimum capital requirement, which triggers action by the regulators as necessary under Pillar 2. • Pillar 2 then creates the bank-specific, internal link to the ICAAP and regulator's SREP.	• Amount of capital required to protect the group against **economic insolvency** over a one-year time frame. • Based on a desired level of confidence/target debt rating set internally (currently 99,93%). • A comprehensive internal capital assessment that aligns more closely with rating agency requirements. • Designed to provide a level of confidence as to the bank's economic solvency to depositors, creditors, debtholders and shareholders. • Used as a base for various purposes such as risk-based capital allocation, risk-based pricing, client value management and the bank's ICAAP.	• Net asset value adjusted to be consistent with the two measures of required capital (regulatory and economic) to arrive at AFR for economic capital and 'qualifying capital and reserves' for regulatory capital. • Compared with regulatory capital and economic capital requirement to ensure solvency in each case. • Book capital is strongly influenced by the use of accounting methods (accrual or book value, market or fair value) and the impact of IFRS rules. • The book capital will be the highest of the two other types of capital as it incorporates the need for a predetermined capital buffer.	
		Capital you actually have	
Minimum capital you are told to hold by regulators	**Internal capital assessment of total capital you need**	Qualifying capital (regulatory capital)	Available financial resources (economic capital)

A separate ICAAP is required for each material banking legal entity and for the consolidated Nedbank Group. Size and materiality play a major role in the extent of each bank's ICAAP.

Nedbank Group's ICAAP is embedded within the group's CMF and a blueprint thereof (see below) sets out the ICAAP building blocks and overall process, and the various frameworks underpinning this. This process is repeated regularly, which facilitates the continuous assessment, management and monitoring of Nedbank Group's capital adequacy in relation to its risk profile.

Nedbank Group's ICAAP blueprint, incorporating ILAAP blueprint



The foundations of Nedbank Group's ICAAP, incorporating the ILAAP, CMF and ERMF, are strong and include rigorous governance structures and processes, as discussed earlier. The ERMF is actively maintained, updated and regularly reported on up to board level, and is coordinated by the GSR Division in Group Risk. The same governance process is followed for Nedbank Group and each banking legal entity ICAAP and involves key participants from the business, finance, risk, capital management and internal-audit areas, as well as the relevant executive committees, board committees and the board.

Further detail of the group's capital management is covered from page 51.

The ultimate responsibility for the ICAAP, incorporating the ILAAP rests with the Nedbank Group board of directors. The risk and capital management responsibilities of the board and Nedbank Group Exco are incorporated in their respective terms of reference (charters) contained in the ERMF. They are assisted in this regard, and in overseeing the group's capital risk (defined in the ERMF), by the board's GRCMC and the Group Alco respectively. Group Alco, in turn, is assisted by the BSM division.

RECOVERY PLAN OVERVIEW

Since the Global Financial Crisis in 2008/09 changes in regulation, mainly in the form of Basel III, have focused on three key themes, being capital, liquidity and risk coverage. An integral part of these regulatory reforms has included recovery and resolution plans (RRPs) designed to:

- reduce the risk of banks failing (RPs);
- reduce the impact of failure (resolution plans); and
- ringfencing the state or taxpayers from any implicit support to the banking sector (ie mitigate against resolution with bailout).

At a high level the RRP initiative is sponsored by the G20 and Financial Stability Board, with national regulators required to develop resolution plans. As a member of the G20, SA has committed to developing robust and credible RRPs in line with Basel III. RRPs, while at an advanced stage internationally [in respect of global systemically important banks (G-SIBs)], are at a relatively progressive stage in SA, with South African banks having established RPs for the first time in 2013. National Treasury, together with the PA, released a resolution white paper titled *Strengthening SA's Resolution Framework for Financial Institutions* in August 2015. During 2018 and 2019 the National Treasury and the PA drafted the Financial Sector Laws Amendment Bill and on 11 June 2020 released a media statement indicating that Cabinet had approved the tabling of the Financial Sector Laws Amendment Bill in Parliament. The Bill is part of the Twin Peaks reform of the financial regulatory system applicable to the financial sector, which will, once promulgated, give rise to the Resolution Regime and will include the introduction of deposit insurance and bail-in FLAC instruments.

Based on feedback received from the PA and National Treasury, representatives of the Resolution Authority (RA) and Corporation for Deposit Insurance (CODI) are in the process of drafting the resolution strategy or blueprint that will set out how both the RA and CODI will operationalise the Resolution Framework once the Financial Sector Laws Amendment Bill is promulgated. As part of this process in July 2019, the PA released a discussion document titled *Ending too big to fail – South Africa's intended approach to bank resolution*. This discussion paper outlined the key components required to formulate credible resolution plans, including the ability to recapitalise a bank at short notice while ensuring access to funding and liquidity, maintaining critical functions and services and mitigating against financial market instability. The discussion paper provides details relating to the RA's approach to resolution covering the following topics:

- Resolution objectives.
- Resolution scope.
- The process to enter resolution.
- Cooperation between the resolution authority and regulators.
- Resolution planning.
- Resolution powers.
- Resolution safeguards.
- Open and closed resolution strategies.
- Resolution phases.
- Role of a resolution controller.

In addition, the document specifically focuses on the intended approach to dealing with systemically important financial institutions (SIFIs), setting out regulatory capital and FLAC details, the RA's approach to funding financial institutions in resolution, crossborder cooperation in resolution and other details relating to resolution planning.

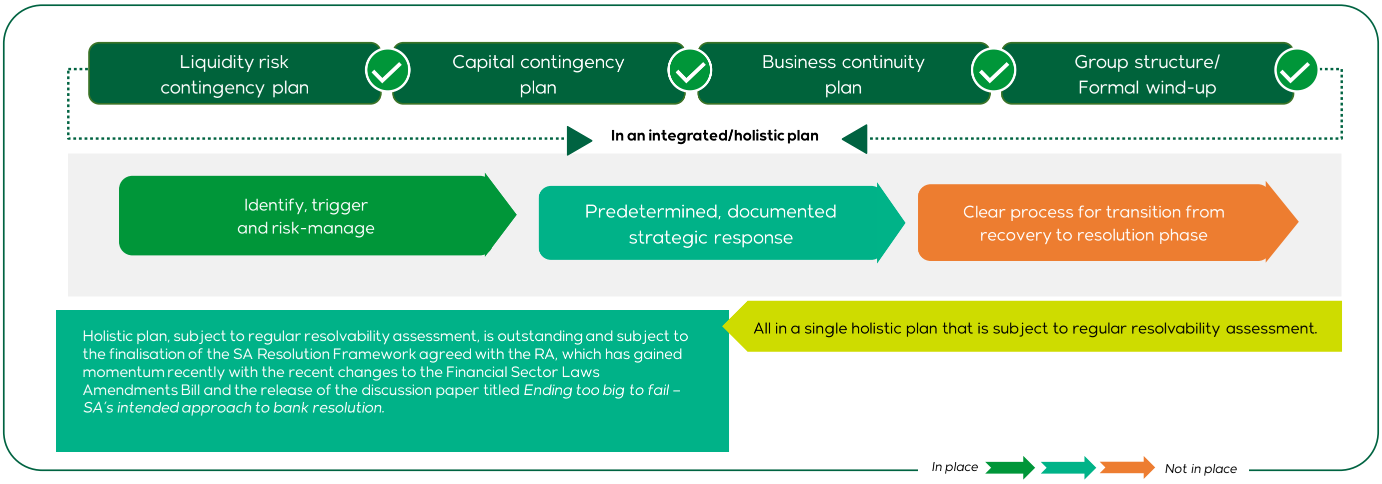
While the industry continues to engage the PA regarding the practicalities of implementing some of the proposals contained in the discussion document, the Financial Sector Laws Amendment Bill, read together with the discussion document on SA's intended approach to bank resolution, confirms the following:

- SARB will be the RA and have resolution powers over designated institutions (banks, systemically important FIs, holding companies of banks).
- The RA itself cannot put a designated institution into resolution but may recommend to the Minister of Finance that he/she puts the institution into resolution. Should an institution be put into resolution, the RA will, in terms of the proposed Resolution Framework, be able to recover all resolution costs reasonably incurred in terms of performing its resolution function.
- A Deposit Insurance Scheme (DIS) will be created with the establishment of the CODI, which will collect deposit insurance levies and deposit insurance premiums and be mandated to manage the Deposit Insurance Fund.
- The concept of bail-in will be applied.
  - » Bail-in, which is defined as any process outside liquidation that has the effect of allocating losses to shareholders and liability holders for the purpose of increasing the capital ratio of the institution, is envisaged to take place through either contractual or statutory bail-in, depending on the circumstances.
- The establishment of the no-creditor-worse-off (NCWO) rule.
  - » The NCWO rule aims to ensure that no creditor is worse off in resolution than it would be in normal liquidation.
  - » To adhere to the NCWO rule, the sequence in which creditors are bailed-in should be respected and be in line with the hierarchy of creditor claims in liquidation.
- The introduction of the total loss-absorbing capacity (TLAC) principle.
  - » The regulatory framework requires regulated institutions to hold loss-absorbing capital (LAC), such as regulatory capital, as well as FLAC, which collectively makes up TLAC.

Taking cognisance of the above updates and the key Basel III features of effective resolution regimes, used as a benchmark, Nedbank is well positioned in terms of the four key components of an RP as outlined below:

- Liquidity ✓
  - Liquidity Risk Contingency Plan (LRCP) is established and embedded.
  - The LRCP and RP were rigorously tested in March 2011, March 2015 and August 2018 through a liquidity simulation that involved all relevant internal and external participants. These simulations were managed independently by one of the large audit firms and form part of the group's overall approach to stress-testing. The group performed well during these exercises and improvements identified were implemented following these simulations. These simulations are typically conducted every three or four years, with the next simulation scheduled for 2022.
  - The ILAAP has been fully embedded.
  - Through the development of the LRCP, RP and ILAAP, as tested through liquidity simulations and ongoing stress-testing and scenario planning, Nedbank was able to successfully navigate its way through the financial market shock in March and April 2020 brought about by the effects of the Covid-19 economic lockdown.
- Capital ✓
  - Best-practice ICAAP is fully entrenched in the group and has positioned us well in managing solvency given slowing front book revenue growth, materially higher impairments and pockets of backbook migration.
  - Existing hybrid debt, preference share capital and subordinated debt issued before 2013 have either been redeemed on optional redemption dates or are being phased out until it is redeemed/called and/or replaced.
  - Nedbank issued R4,1bn of new-style tier 2 and R972m of new-style additional tier 1 capital instruments in 2020, and redeemed new-style tier 2 capital instruments of R2,3bn in line with the group's capital plan.
  - Bail-in of debt was established through the changes in the Banks Amendment Bill to support the resolution of African Bank.
- Business continuity ✓
  - Nedbank has a robust BCM programme in place that is aimed at ensuring resilient group business activities in emergencies and disasters. This programme is regularly tested and validated and has positioned Nedbank to manage the adverse impact of the current Covid-19 pandemic.
- Group structure (formalised, ie the ability to wind up while being 'open for business') ✓
  - This is part of the ERMF.
  - Nedbank Group has a relatively simple group structure.
  - The entities within the group are reviewed regularly and rationalised, where possible.
  - The big South African banks are not complex compared with international banks.

Nedbank Group Recovery Plan process



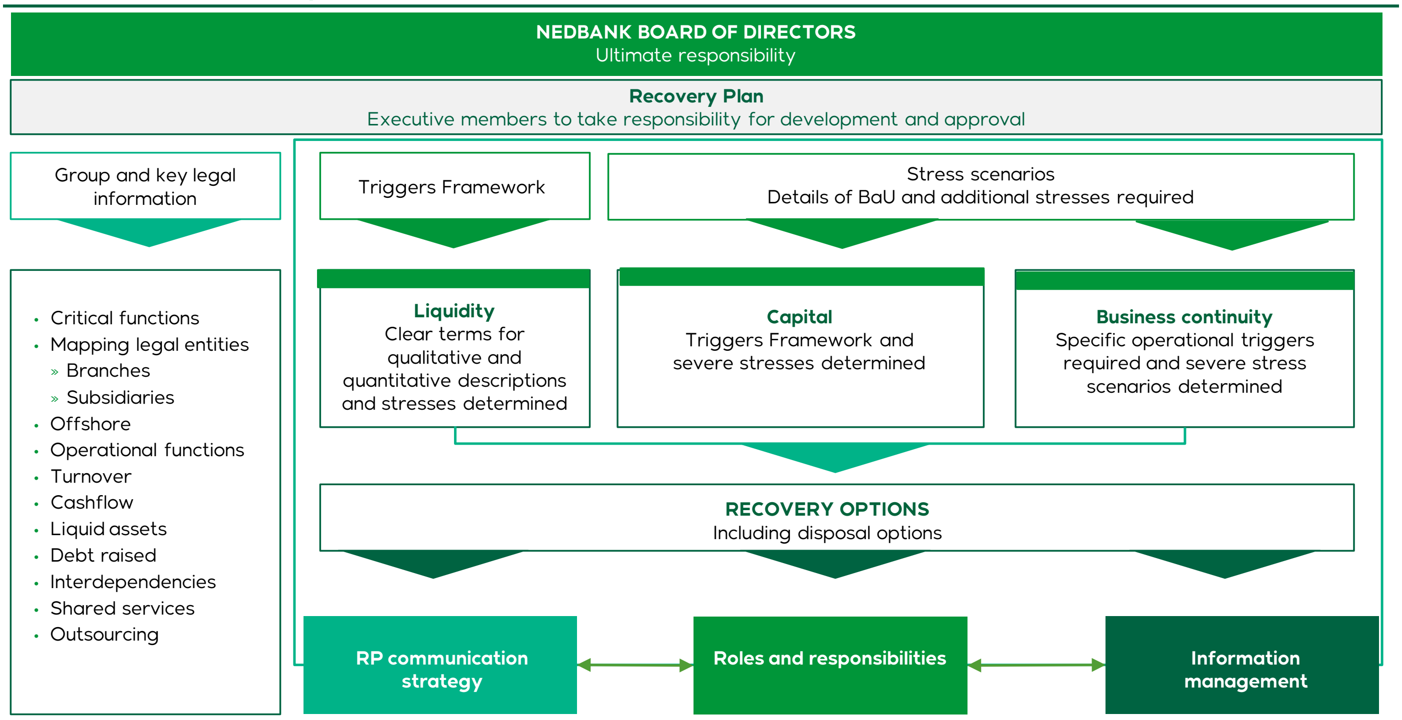
Overall, Nedbank Group believes it currently has the ability to identify, trigger and manage a recovery state caused typically by a solvency or liquidity event, but needs to evolve continuously and test this plan with strategic responses for various scenarios. Furthermore, closing the gap between the bank's RP and the regulator's resolution plan is required as part of strengthening SA's resolution regime based on the finalisation of the Resolution Framework, taking into account the discussion document *Ending too big to fail – SA's intended approach to bank resolution.*

The RP element of RRP aims to set a clearer framework for Nedbank to take the most severe actions (such as sale of a business and significant asset sales) during a crisis, to ensure that the bank is able to recover, including the ability to act quickly and decisively. Nedbank's RP sets out the circumstances under which the group may need to activate recovery actions as well as options available for addressing extreme stress scenarios caused by either idiosyncratic events or systemwide market failures. The RP also describes the integration with existing contingency planning and the possible recovery options, including a detailed assessment of their likely effectiveness and the defined points at which they would be invoked. The RP addresses stresses invoked by severe shortfalls in liquidity and capital, as well as significant operational failures that may jeopardise Nedbank's ability to continue business operations. In addition, the RP addresses the various options considered by senior management to mitigate stresses encountered by Nedbank.

The Nedbank Group RP applies to all subsidiaries, divisions and branches in the group and in all the geographic locations where they operate. The RP relates to all entities in the group, including associates and joint ventures. The inclusion of entities not controlled by the group is required, as the potential impact of a non-controlled entity may still have a systemic or reputational impact, causing a stress of sufficient magnitude to invoke the RP.

Additionally, the inclusion of associates and joint ventures is required to assess whether the disposal of such an investment may assist in the recovery of the group in a particular crisis scenario. The subsidiary and branch RPs have all been developed using the group RP blueprint to ensure consistency and alignment across all entities.

Nedbank Group's Recovery Plan blueprint

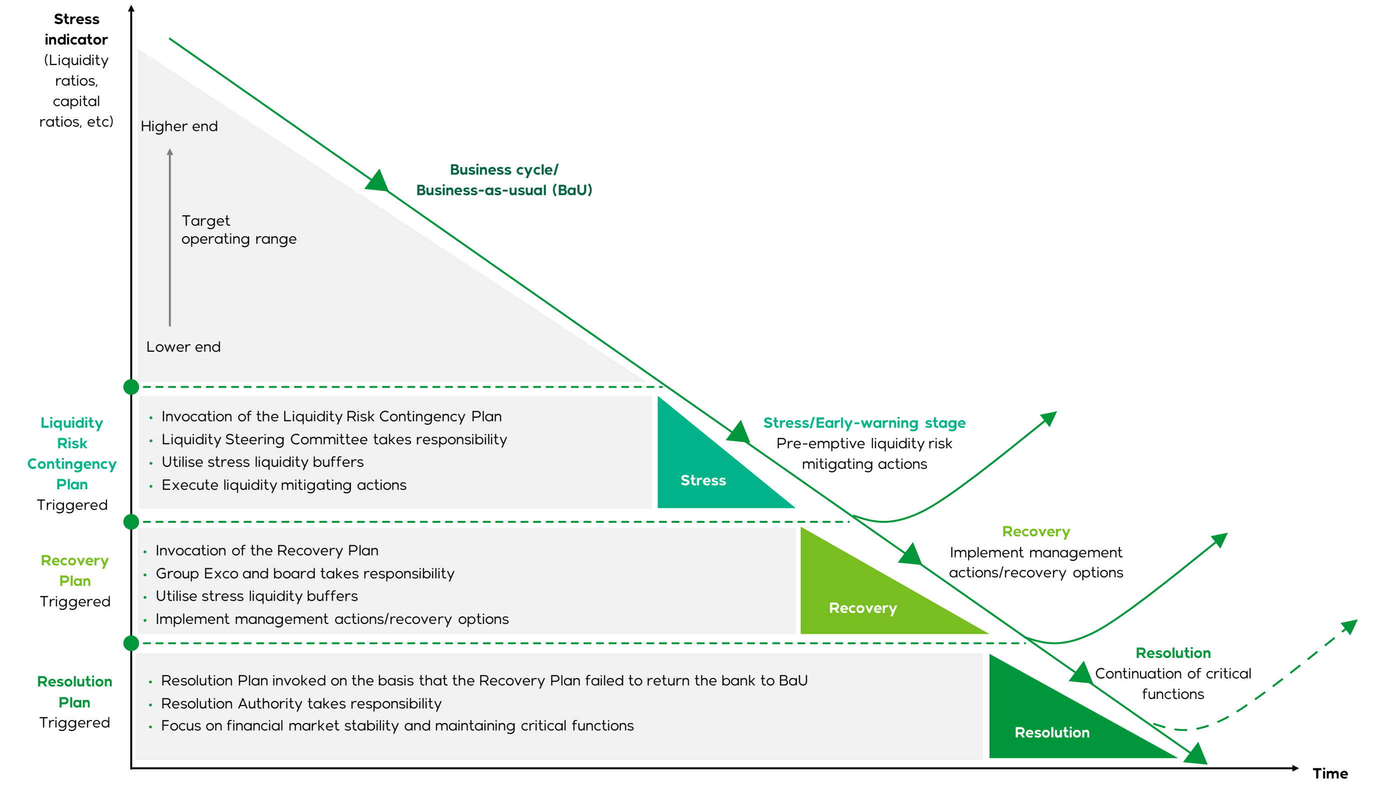


The RP fits into Nedbank Group's ERMF and has been developed and updated annually with input by BSM, Group Risk, BCP and the business clusters, and approved by Nedbank Group Exco and the board. The RP complements the existing capital, liquidity and stress-testing policies and procedures of the group. The updated Nedbank Group RPs, which incorporate Nedbank London, were approved by the board in February 2020. The promulgation of the Financial Sector Laws Amendment Bill (FSLAB) will give rise to the Resolution Regime where Nedbank's recovery plans will be required to dovetail into the Resolution Plans. The promulgation of FSLAB and insights from various discussion papers to be released by SARB will be a key part of the updates of the various recovery plans. In addition, the RPs are normally updated annually after the update and approval of the ICAAP/ILAAP, where the next update of Nedbank's RP is planned for Q4 2021.

The RP includes levels of 'low to severe stress', whereby 'recovery' and 'resolution' levels represent escalating degrees of stress that the group may encounter. As levels progress, management actions will become more severe and far-reaching in nature, with the aim of restoring the financial viability of the group under recovery and thereby avoiding resolution. Under this plan early-warning indicators (EWI) have been identified that would be initiated at level one during a low-to-moderate stress event, while the RP would be initiated at level three and the resolution plan instigated by the authorities at level six. The establishment of these ordered levels and EWI are designed to increase Nedbank's ability to effectively manage any potential crisis and prepare itself for recovery.

This is consistent with the Nedbank ERMF. These crisis levels allow Nedbank to assess the levels of stress appropriately and implement necessary responses. Nedbank's response to crises will include identifying and executing appropriate recovery options, proper escalation and communication within the organisation and appropriate communication to external stakeholders (eg regulators, investors, rating agencies and the media). The last PA RP onsite review took place in February 2018, where the PA formally noted the detailed and comprehensive nature of the RPs, raising no material issues.

Theoretical path from BaU, to recovery, to resolution



BASIS OF PILLAR 3 DISCLOSURE

The group's comprehensive Pillar 3 and public disclosure complies with Regulation 43 of the Regulations relating to Banks issued in terms of the Banks Act, 94 of 1990, and the Basel Committee on Banking Supervision's (BCBS's) revised Pillar 3 disclosure requirements. Consistent with the principle of proportionality (or materiality) contained in the regulations, this Pillar 3 Report covers Nedbank Group Limited and Nedbank Limited. The other banking subsidiaries are not in themselves material enough to warrant individual Pillar 3 reporting.

Insurance risk is managed in terms of the Enterprisewide Risk Management Framework (ERMF), details of which can be found on page 5. However, the insurance businesses are outside the scope of Pillar 3 consolidation, and investments in insurance entities are included only in the calculation of the group's capital adequacy ratio (CAR) through the application of the threshold deduction method, as explained below.

CONSOLIDATED SUPERVISION

There are some differences in the basis of consolidation for accounting and regulatory purposes. Accounting consolidation is based on IFRS, while the Regulations relating to Banks issued in terms of the Banks Act, 94 of 1990, prescribe regulatory consolidation and list specific exclusions. These differences include the treatment of accounting reserves (eg the profits not formally appropriated by the board of directors by way of resolution to constitute retained earnings for the bank or the controlling company), as well as the investments in insurance entities, which are included only in the calculation of the group's CAR through the application of the threshold deduction method. Refer to the table 'Summary of regulatory qualifying capital and reserves' on page 54 for differences in the basis of consolidation for accounting and regulatory purposes. The definition of capital includes foreign currency translation reserves (FCTR), share-based payment (SBP) reserves, property revaluation reserves, fair-value reserves and other non-distributable reserves as common-equity tier 1 (CET1) capital under Basel III.

Summary of the treatment followed for Basel III consolidation

<table>
<tr><th></th><th colspan="6">Percentage holding</th></tr>
<tr><th></th><th colspan="2">Minority interest</th><th colspan="4">Controlling/Majority interest</th></tr>
<tr><td rowspan="2">Type of entity</td><td rowspan="2">≤ 20%</td><td>20% and ≤ 50%</td><td colspan="3">20% and ≤ 50%</td><td rowspan="2">> 50%</td></tr>
<tr><td>Other significant shareholder.</td><td>No other significant shareholder.</td><td>Aggregate of investment ≤ 10% of the banks or controlling company's CET1.</td><td>Aggregate of investment > 10% of the bank's or controlling company's CET1.</td></tr>
<tr><td>Banking, securities and other financial entities[1,2]</td><td>300%/400% risk-weight [Internal Ratings-based (IRB), Market-based – Simple Risk-Weight Approach (SRWA)].</td><td>Proportionately consolidate.</td><td>Apply deduction method.</td><td>Risk-weight at the appropriate risk weighting based on nature of holding of instrument and measurement approach.</td><td>Risk-weight at the appropriate risk weighting based on nature of holding of instrument and measurement approach up to 10% of the bank's or controlling company's CET1. Deduct the amount in excess of 10% of CET1 against the corresponding component of capital.</td><td>Full consolidation or apply the deduction method for financial entities with specific limitations.</td></tr>
<tr><td>Insurance entities</td><td>As above.</td><td colspan="5">Risk-weight at 250% up to 10% of the bank's or controlling company's CET1 capital.
Deduct the amount in excess of 10% of CET1 against the corresponding component of capital.</td></tr>
<tr><td rowspan="4">Commercial entities</td><td colspan="2" rowspan="4">300%/400% risk-weight (IRB Market-based – SRWA).</td><td colspan="2">Standardised Approach</td><td colspan="2">Advanced Approach</td></tr>
<tr><td colspan="2">Individual investment up to 15% of CET1. Additional tier 1 and tier 2 are to be risk-weighted at no less than 100%.</td><td colspan="2" rowspan="2">Individual investment up to 15% of CET1. Additional tier 1 and tier 2 are to be risk-weighted in accordance with one of the available equity risk approaches [Market SRWA or Internal Model, or PD/ LGD approach].</td></tr>
<tr><td colspan="2">Individual investment in excess of 15% of CET1. Additional tier 1 and tier 2 are to be risk-weighted at 1 250%.</td></tr>
<tr><td colspan="2">Aggregate of investment in excess of 60% of CET1. Additional tier 1 and tier 2 exceeding 60% are to be risk-weighted at 1 250%.</td><td colspan="2">Individual investment in excess of 15% of CET1. Additional tier 1 and tier 2 are to be risk-weighted at 1 250% or the risk-weighted assets (RWA) equivalent.</td></tr>
</table>

1 Includes regulated and unregulated entities.

2 Types of activity that financial entities may be involved in include financial leasing, issuing of credit cards, portfolio management, investment advisory, custodial and safekeeping services, and other similar activities that are ancillary to the business of banking.

BASEL III RWA CALCULATION APPROACHES

The following approaches have been adopted by Nedbank Group for the calculation of RWA.

Nedbank Group Limited

	Nedbank Limited					
Risk type	Nedbank Limited (Solo)[1]	Local subsidiaries	Foreign subsidiaries	Foreign subsidiaries	Trusts and securities entities	Other insurance entities[2]
Credit risk	AIRB/TSA[3]	AIRB	AIRB	TSA	TSA	N/A
Counterparty credit risk (CCR)						
Exposure approach[4]	CEM	N/A	CEM	CEM	N/A	N/A
Credit risk	AIRB	N/A	AIRB	TSA	N/A	N/A
Credit valuation adjustment (CVA)	TSA	N/A	TSA	TSA	N/A	N/A
Securitisation risk	IRB	N/A	N/A	N/A	N/A	N/A
Market risk[5]	IMA	TSA	TSA	TSA	TSA	N/A
Equity risk	SRWA	SRWA	SRWA	SRWA	SRWA	N/A
Operational risk[6]	AMA/TSA	AMA	TSA	TSA	AMA	N/A
Other assets	AIRB	AIRB	TSA	TSA	TSA	N/A

[1] Approaches followed by Nedbank Limited (Solo) also apply to Nedbank London. Nedbank Limited (Solo) is in line with the regulatory specifications for the bank entity.

[2] In terms of Regulation 36(7)(a)(iii) and 36(10)(c)(ii) of the regulations relating to banks issued in terms of the Banks Act, 94 of 1990, investments in insurance entities are included only in the calculation of the group's CARs through the application of the threshold deduction method and risk-weighted at 250%.

[3] The remaining portion of the legacy Imperial Bank book [ie in Retail and Business Banking (RBB)] remains on TSA and makes up 0,02% of total Nedbank Limited (Solo) gross loans and advances.

[4] Current Exposure Method (CEM) is applicable for London as well as Swaziland and Namibia.

[5] The Internal Model Approach (IMA) portion is 96% and TSA portion is 4% in Nedbank Limited (Solo).

[6] The Advanced Measurement Approach (AMA) coverage is 90% and TSA is 10%.

LIA: EXPLANATIONS OF DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY EXPOSURE AMOUNTS

Credit risk

Trading book advances are included under the market risk scope and balances relating to securitisation vehicles are not included in the Credit Risk Framework. Gross loans and advances adjustments due to the IFRS 9 modification loss are included in the Credit Risk Framework.

Counterparty credit risk

Exposure at default (EAD) accounts for off-balance-sheet securities lending exposure, application of netting on securities financing transactions (SFT), inclusion of potential future exposure add-on as well as collateral for over-the-counter (OTC) derivatives.

Securitisation

Cash and balances with the central bank, short-term negotiable securities, loans and advances as well as derivative financial instruments are excluded in the Securitisation Framework. Included in the scope are RWA and capital that are measured from the notes exposures to the group.

Market risk

Items held to maturity in the banking book are excluded from the Market Risk Framework. Derivative financial instruments, commodity instruments, items held for trading and designated fair-value instruments are included in the market risk regulatory exposure amounts.

Equity risk

Exposure to investment risk arising from listed and unlisted equity positions, other relevant investments and instruments held in the banking book.

Deductions from capital

Goodwill, intangible assets other than goodwill, defined-benefit pension fund assets, and deferred-tax assets (excluding temporary differences), as well as other prescribed regulatory adjustments.

LI1: DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION AND MAPPING OF FINANCIAL STATEMENT CATEGORIES WITH REGULATORY RISK CATEGORIES

			Carrying values of items subject to[1]:						
2020 Rm	**Statement of financial position**	**Regulatory consolidation scope[1]**	**Credit Risk Framework**	**Counterparty Credit Risk Framework**	**Securitisation Framework**	**Market Risk Framework**	**Equity risk in the banking book**	**Other assets[1]**	**Not subject to capital requirements or subject to deduction from capital**
Assets									
Cash and cash equivalents	14 891	14 630	5 791					8 839	
Other short-term securities	52 605	51 392	28 130			24 403			
Derivative financial instruments	80 325	80 325		80 325		79 792			
Government and other securities	132 221	132 221	77 963		339	54 114			
Loans and advances	843 303	835 551	789 943	48 415		64 766			
Other assets	16 802	16 404						16 404	
Current taxation assets	164	150	150						
Investment securities	26 425	9 159					9 016	143	
Non-current assets held for sale	69	69						69	
Investments in associate companies	3 322	3 322					751	2 571	
Deferred taxation assets	656	656						597	59
Investment property									
Property and equipment	11 334	11 147						11 147	
Long-term employee benefit assets	5 777	5 777						3 444	2 333
Mandatory reserve deposits with central banks	26 491	26 491	1 789					24 702	
Intangible assets	13 751	13 349							13 751
Total assets	**1 228 136**	**1 200 643**	**903 766**	**128 740**	**339**	**223 075**	**9 768**	**67 916**	**16 143**
Liabilities									
Derivative financial instruments	65 130	65 130		65 130		64 450			
Amounts owed to depositors	953 715	953 715							953 715
Provisions and other liabilities	23 704	21 695							21 695
Current taxation liabilities	590	592							592
Non-current liabilities held for sale									
Deferred taxation liabilities	390	274							274
Long-term employee benefit liabilities	2 604	2 604							2 604
Investment contract liabilities	20 868								
Insurance contract liabilities	922								
Long-term debt instruments	59 770	59 770							59 770
Total liabilities	**1 127 693**	**1 103 780**		**65 130**		**64 450**			**1 038 650**
Total equity	**100 443**	**96 863**							

[1] *The regulatory consolidation scope excludes the carrying values of the group's insurance entities as encapsulated in the capital adequacy calculations (BA600 and BA700).*

LI2: MAIN SOURCES OF DIFFERENCES BETWEEN REGULATORY EXPOSURE AMOUNTS AND CARRYING VALUES IN FINANCIAL STATEMENTS

		Items subject to:					
2020 Rm	**Total**	**Credit Risk Framework**	**Counterparty Credit Risk Framework**	**Securitisation Framework**	**Market Risk Framework**	**Equity risk in the banking book**	**Other assets[1]**
Asset carrying value amount under scope of regulatory consolidation (per table LI1)	1 200 643	903 766	128 740	339	223 075	9 768	67 916
Liabilities carrying value amount under regulatory scope of consolidation (per table LI1)	1 103 780				64 450		
Total net amount under regulatory scope of consolidation	96 863	903 766	128 740	339	158 625	9 768	67 916
Off-balance-sheet amounts	227 041	220 409	6 632				
Differences in valuations	(76 253)	(40 828)	(35 425)				
Differences due to different netting rule other than those already included in row 2	(586)		(312)				(274)
Differences due to consideration of provisions	(14 272)	(14 272)					
Differences due to prudential filters							
Exposure amounts considered for regulatory purposes	232 793	1 069 075	99 635	339	158 625	9 768	67 642

[1] *Subject to other assets/risks not risk-weighted elsewhere.*

RISK MANAGEMENT

Nedbank Group's ERMF enables the group to identify, measure, manage, price and control its risks and risk appetite, and relate these to capital requirements to help ensure capital adequacy and sustainability, thereby promoting sound business behaviour by linking these aspects with performance measurement and remuneration practice.

RISK UNIVERSE

Nedbank Group's risk universe is defined, actively managed and monitored in terms of the ERMF, in conjunction with the CMF and its subframeworks, including the Economic Capital Framework. A summary table of the key risk types impacting the group is provided below and highlights the mapping of the 17 key ERMF risk types to the 12 quantitative risk types of the Economic Capital (and ICAAP) Framework. An overview of the key risks impacting Nedbank Group follows thereafter. Refer to page 5 for details on Nedbank Group's ERMF.

Risk universe			Economic capital
1	Accounting, financial and taxation risks	Accounting Financial Taxation	N/A N/A Operational risk (9)
2	Credit risk		Credit risk (1), counterparty credit risk (including CVA) (3) and securitisation risk (4)
3	Market risk	Trading book Equity risk in the banking book (ERBB) Interest rate risk in the banking book (IRRBB) Property risk	Trading risk (5) Equity (investment) risk (7) IRRBB (6) Property risk (8)
4	Liquidity and funding risks		Liquidity risk is mitigated through the ILAAP, liquidity profile target and limits, and the holding of surplus liquidity buffers as opposed to holding economic capital.
5	Capital risk		The aggregation of all risk types = economic capital
6	Insurance risk		Insurance underwriting risk (10)
7	Operational risk	Operational risk excluding IT risk Legal	Operational risk Operational risk
8	Financial crime risk	Cybercrime AML, CFT and sanctions Exchange control Fraud and corruption Privacy breaches Violent crime	Operational risk Operational risk N/A Operational risk Operational risk Operational risk
9	Concentration risks	Credit concentration Other risk concentrations	Credit concentration risk (2) N/A
10	Conduct risk		N/A
11	Regulatory risk	AML, CFT and sanctions Other (RDARR, MCCP, BASEL III, IFRS 9, etc)	N/A N/A
12	Information technology risk		Operational risk
13	Business (including country) and strategic execution risks		Business risk (excluding strategic execution risk) (11)
14	Reputational risk		N/A
15	Governance and compliance risks	Governance Compliance (excluding AML/CFT)	N/A N/A
16	Transformation, social and environmental risks	Transformation Social Environmental (Including climate risk)	N/A N/A N/A
17	People risk		Operational risk
			Other assets[1] (12)

[1] *The 12th quantitative economic capital risk type relates to other assets, which include other assets not specifically mentioned above.*

The following table provides an overview of the group's prudential regulatory metrics.

KM1: KEY METRICS

			Nedbank Group				
			Dec 2020	Sep 2020	Jun 2020	Mar 2020	Dec 2019
Available capital[1]							
1	CET1	Rm	**73 056**	72 371	71 996	72 444	71 420
2	Tier 1	Rm	**81 380**	80 297	79 424	80 071	79 315
3	Total capital	Rm	**99 954**	98 434	96 704	93 837	93 155
RWA							
4	Total RWA	Rm	**673 688**	683 757	677 877	672 371	628 725
Risk-based capital ratios as a percentage of RWA[1]							
5	CET1 ratio	%	**10,9**	10,6	10,6	10,8	11,4
6	Tier 1 ratio	%	**12,1**	11,7	11,7	11,9	12,6
7	Total capital ratio	%	**14,9**	14,4	14,3	14,0	14,8
Additional CET1 buffer requirements as a percentage of RWA							
8	Capital conservation buffer requirement	%	**2,50**	2,50	2,50	2,50	2,50
9	Countercyclical buffer requirement	%	**0,00**	0,00	0,00	0,00	0,02
10	D-SIB additional requirement[2]	%	**0,50**	0,50	0,50		
11	Total of bank CET1 specific buffer requirements (row 8 + row 9 + row 10)	%	**3,00**	3,00	3,00	2,50	2,52
12	CET1 available after meeting the bank's minimum capital requirements	%	**3,34**	3,10	3,10	3,30	3,88
Basel III leverage ratio							
13	Total Basel III leverage ratio exposure measure	Rm	**1 256 539**	1 248 294	1 258 021	1 280 685	1 205 877
14	Basel III leverage ratio[1] (row 2/row 13)	%	**6,5**	6,4	6,3	6,3	6,6
LCR							
15	Total HQLA	Rm	**206 943**	209 835	187 012	177 894	177 985
16	Total NCOF	Rm	**164 583**	167 095	163 273	161 628	142 421
17	LCR	%	**125,7**	125,6	114,5	110,1	125,0
NSFR							
18	Total ASF	Rm	**749 691**	749 544	740 457	728 884	709 694
19	Total RSF	Rm	**664 463**	662 294	649 770	663 517	628 303
20	NSFR	%	**112,8**	113,2	114,0	109,9	113,0

[1] *Excluding unappropriated profits.*

[2] *According to PA Communication 3 of 2020, the D-SIB add-on must be disclosed after 1 September 2020.*

MODEL RISK

Year under review

- The Covid-19 pandemic presented an extraordinary challenge for the modelling environment and highlighted new and emerging risks. In response to the crisis, the group developed efficient short-term remedial actions while also instituting a long-term plan to improve model resilience.
- The group's model risk framework provided an effective platform to manage the model risks, stemming from the Covid-19 crisis. Principles were communicated to first and second LoD teams to ensure consistency in model risk management decisions during the Covid-19 pandemic.
- The model inventory was used to identify the group's most material models on which an assessment of the model's procyclicality could be performed. The model tiering has been critical to effectively control the increased model risk management workload and to concentrate on the most material models.
- The need for out-of-model adjustments for the group's IFRS 9 models, highlighted areas of improvement in model development, validation and governance. This will be an ongoing focus area in 2021.
- In the first half of 2020, the group established the Model Risk Committee, an executive and senior management level committee chaired by the Group Chief Risk Officer (GCRO), with the mandate to drive and approve model risk-related strategies across the group.
- The group further optimised the model landscape by successfully reducing its total number of models to improve operational and governance efficiencies, while also reducing the level of model risk the group is exposed to.
- A policy to ensure compliance to the laws and regulations governing the design, development and use of digital technology and AI was approved by the group.
- The group quantified the economic capital held for model risk on a pro forma basis, by applying a top-down approach at an aggregate level.
- A phased rollout of the model risk management digital solution to consolidate all model-related information into an enterprisewide platform, was adopted during 2020. The solution provides a platform in which model governance and validations can be managed through an automated workflow system allowing for a better understanding of the model ecosystem across all risk types.
- No losses from model-risk-related events were experienced by the group in 2020.

Focus for 2021

- The group's model risk management framework will be enhanced considering the learnings and insights obtained from the Covid-19 crisis. Key focus areas include refinements to the existing model risk vocabulary, improving management information and reporting.
- The Covid-19 crisis has had a significant impact on the group's IFRS 9 models. A key focus area for 2021 will be the refinement of these models to ensure robust, well-performing and stable models in a post-Covid-19 environment.
- A focus area in 2021 will be in incorporating Covid-19-related data into the group's model development processes to ensure robust and sustainable solutions.
- The quantification and allocation of model risk economic capital will be further embedded into the group's capital management and planning processes.
- The rollout of the digital solution for managing model risk will be completed and migrated to a cloud-based platform.
- The group will continue to strategically review the model inventory to identify opportunities to unlock business and client value opportunities.
- At Nedbank we are financial experts who do good – we will continue to ensure that our models are aligned to best practice, and that we continue to develop mitigating measures to guard against potential reputational and regulatory risks stemming from bias in model inputs or outcomes.

A key component of Nedbank Group's strategy is being recognised as world-class at managing risk. The development, implementation and validation of models for material activities assist in enabling our strategy. A model is a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. A model also covers quantitative approaches, where inputs are partially or wholly qualitative or based on expert judgement, provided that the output is quantitative in nature. Model risk is the risk where adverse consequences can arise from the decisions made using models that are deficient, misunderstood or misused.

Nedbank recognises the need for improved model risk management given the changes in regulatory and financial reporting requirements, advances in methodology and computing technology, as well as an ever-widening scope of model usage towards non-traditional areas, such as fraud and anti-money-laundering.

The Covid-19 pandemic that emerged in SA during March 2020 has further amplified known model risks as well as highlighted new and emerging risks around the models used by financial institutions. The pandemic has forced banks to question the reliability of models used to run the business, and in particular those used in the estimation of credit risk regulatory capital requirements and impairments under IFRS 9.

In response to the pandemic, Nedbank Group has re-examined its model strategies, while developing and applying both efficient short-term actions and a long-term plan to improve model resilience. Nedbank acknowledges that model risk management should be used in a more strategic and fundamental role considering the lessons learnt from the Covid-19 pandemic. The number and complexity of models must be adjusted to reflect the 'new-normal' and the associated regulatory scrutiny, requires Nedbank to ensure that risk management practices continue to be aligned to local and international best practice.

MODEL RISK MANAGEMENT

Model risk is managed through a well-embedded risk framework. The framework is principle-based supported by a Model Risk Policy and places emphasis on creating a sustainable and systemic model risk management infrastructure, where the risks associated with models throughout its life cycle are managed effectively.

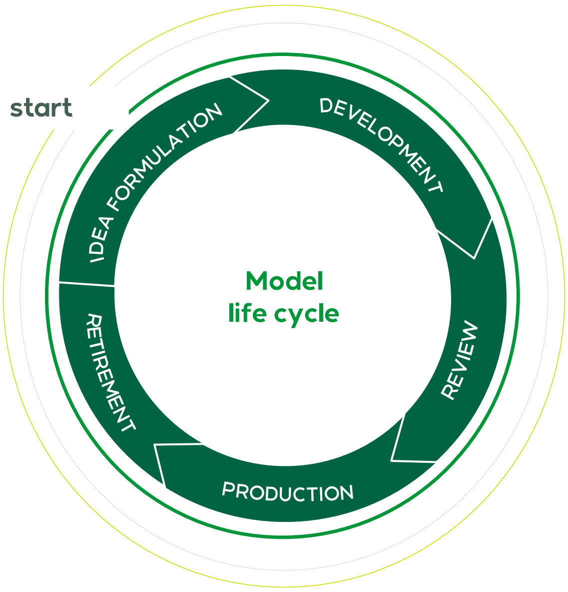
The policy prescribes groupwide, end-to-end requirements for the identification, measurement and management of model risk, covering clear and consistent definitions; model inventory management; model life cycle management; model risk scoring; model materiality; model governance; model validation; model risk appetite; and model documentation.

Key principles and activities for managing model risk

MODEL RISK IS MANAGED THROUGH A WELL-EMBEDDED RISK FRAMEWORK

- Well-developed definitions and methodologies
- Comprehensive model inventory
- Effective challenge and testing procedures
- Risk-based governance
- Periodic model risk assessment
- Clear model documentation and reporting

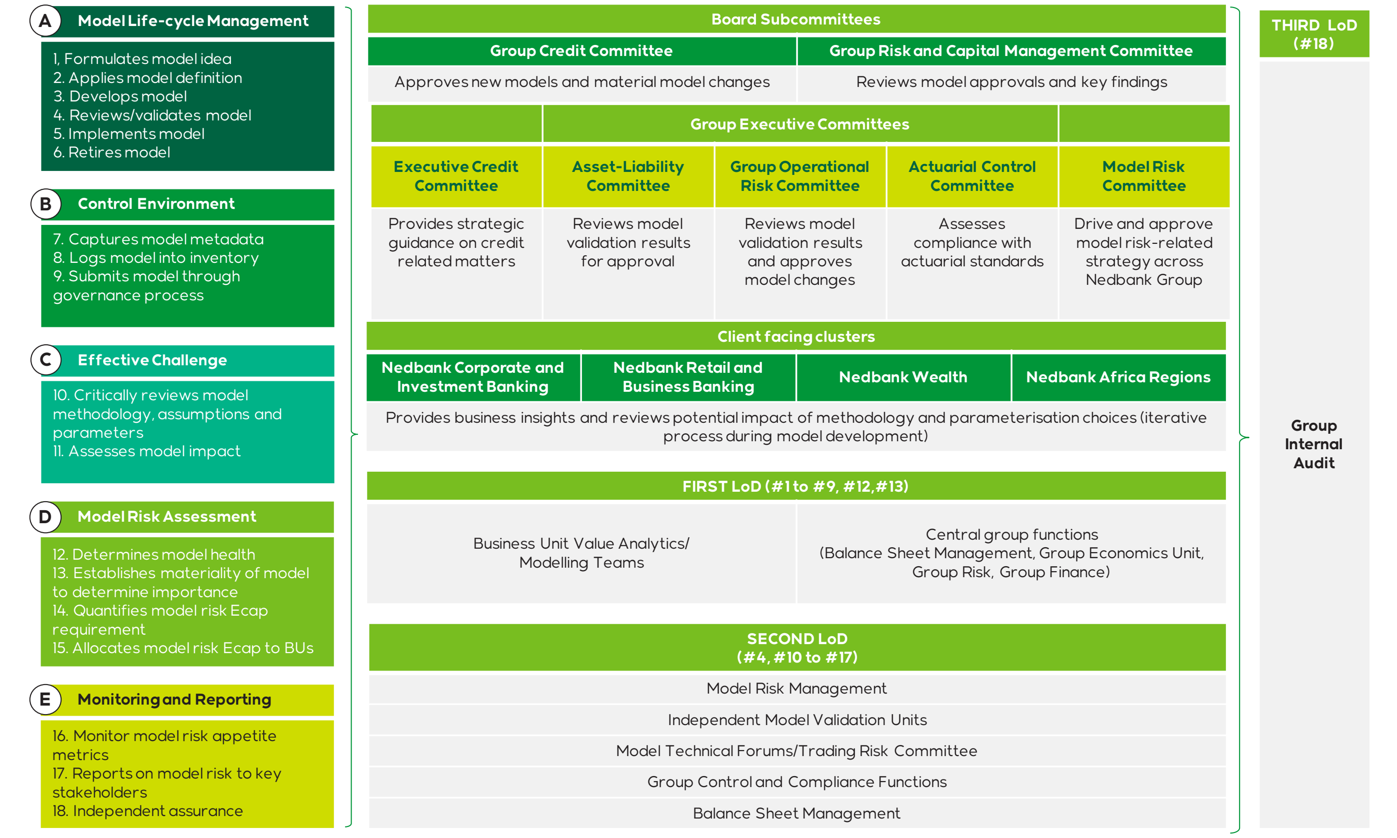
Key controls and principles have been established for each phase of the model life cycle to effectively manage model risk.



Nedbank enhances its model risk management continuously and the implementation of best-practice standards is a central objective of the group.

As displayed in the graphic on the following page, the group has embedded risk management principles to manage model risk, with key controls and activities coordinated across the group's three LoD over each phase of the model life cycle.

Model Risk Management Framework coordinated assurance activities



ORGANISATIONAL STRUCTURE AND GOVERNANCE

Risks around the use of models are managed through CA from the three LoD over each phase of the model life cycle. The group's Model Risk Policy sets out the roles and responsibilities pertaining to model risk management across each LoD. Model risk is given the necessary attention and managed in a similar manner as other risk types. A guiding principle for managing model risk is 'effective challenge' of models, including, critical analysis by independent and informed parties who identify model errors, limitations and inefficiencies and produce appropriate resolutions.

The Model Risk Policy is further supported by a dedicated Model Risk Management (MRM) function, which manages model risk through the following key activities:

- Maintaining the Group Model Inventory, which is a comprehensive set of information for models implemented for use; models currently under development; and models recently retired from use.
- Ensuring that roles and responsibilities are clearly defined across the model life cycle.
- Ensuring that models are subject to effective challenge and robust risk-based governance, commensurate with the materiality of the model.
- Validating models in accordance with a risk-based approach linked to model materiality.
- Aligning model development and validation activities to global standards and best practice.

The Model Risk Committee represents another important step to increase the visibility and understanding of the impact of model risk across the group, and an opportunity to further enhance and embed the Model Risk Management Framework in line with international best practice.

MODEL RISK ASSESSMENT AND MEASUREMENT

Model risk is assessed through a combination of model risk score and model materiality. The group has developed a scoring methodology that considers the likelihood of model risk at each stage of the model life cycle. A balanced scoring approach is followed wherein model risk scores are solicited from the model owner, model validator and the MRM unit. Model materiality is defined as the model's relevance and importance in relation to other models within the group's model landscape. Nedbank has developed a comprehensive framework for determining a model's materiality based on holistic factors related to the model's importance within the bank's ecosystem.

In 2021 the group plans to quantify model risk economic capital based on a top-down approach, which considers model risk at an aggregate level. The model risk economic capital will be allocated using a bottom-up approach considering each business unit's model risk across all model families and risk types.

Nedbank has made progress in enhancing operational efficiencies, unlocking cost savings and improving client experience by leveraging technologies, such as robotics, artificial intelligence, machine learning and data analytics.

We have a responsibility to all stakeholders to ensure that decisions made using models are mitigated for bias, in line with Nedbank's ethical standards, and can be explained across the model's value chain. As model experts who do good, we will continue to place importance on understanding new technologies and the risks associated with its adoption. In embracing new technologies and new modelling approaches, there will be a continued focus on 'Are we changing fast enough?' and 'Are we changing safely?'

COVID-19 MODEL RISK MANAGEMENT RESPONSE

The Covid-19 crisis presented an extraordinary challenge for the group's models. Model assumptions and methodologies defined at the design stage were developed in a pre-Covid-19 world. As models typically draw on historical data, greater flexibility has been required across all phases of the model life cycle to enable effective recalibration to mitigate undue short-term volatility and excessive procyclicality while ensuring that the inherent longer-term risk is reflected adequately.

Nedbank Group has enhanced existing modelling and governance processes in a manner that is well coordinated, effective and efficient. The following measures have been taken to implement the PA's guidance notes and directives effectively, and forms part of an overall group response to the Covid-19 pandemic.

- Policies and frameworks have been updated to provide the necessary guidance to ensure that regulatory directives are implemented appropriately and consistently, to allow the bank to provide client relief without any unintended consequences.
- Macroeconomic forecasts and associated probability weightings are reviewed through sound governance and industry benchmarking in an agile manner. The group continues to investigate additional macroeconomic variables, which can optimise both short and long-term projections.
- An inventory of model adjustments and models at risk is maintained to identify models that are materially impacted by Covid-19. The group tracks all model adjustments that have been applied and maps them against the identified models at risk.
- Existing data, systems and model governance processes have been enhanced to provide an effective challenge of all model adjustments and their underlying assumptions.
- Model adjustments and methodologies are applied in a consistent manner across the group. The governance process aims to ensure effective cross-checking of model adjustments and underlying assumptions, for the different types of models, to achieve consistency and to prevent contradictory outcomes and decisions.
- Model adjustments and model redevelopment needs are prioritised according to the materiality of the model. The group has formulated both short- and long-term model adjustment and redevelopment plans.
- Robust and dynamic stress-testing and scenario analyses are performed to project the future behaviour of key financial metrics – including impairments and RWA – under a set of Covid-19 scenarios.
- IFRS 9 models are validated using a risk-based approach linked to model materiality, level of procyclicality and extent of out-of-model adjustments.

We continue to work closely with our regulators, external auditors and industry working groups to manage emerging risks arising from Covid-19 and to facilitate a consistent interpretation of the subsequent regulatory response across the South African banking system.

Elevated model risk and model issues are not confined to IFRS 9 and regulatory capital models but have emerged in other areas of the group's operations. The key drivers of the group's origination and pricing models are under review and adjustments will be applied, where required.

CAPITAL MANAGEMENT

Year under review

- Nedbank Group maintained a robust capital adequacy position, with the capital ratios absorbing the payment of the 2019 final ordinary dividend, a further impairment of the group's investment in ETI, increased investment in software development, as part of the ME programme, and an increase in RWA, driven by balance sheet growth and credit migration in some CIB portfolios, as well as the effect of significant market volatility, which resulted in higher market RWA. Capital ratios were supported by capital optimisation across the balance sheet.
- The group capital ratio was supported by profitability albeit lower than last year, further grandfathering of the Preference shares of R531m in line with Basel III transitional arrangements. Issuances of R972m of AT1 and R4.1bn of tier 2 were offset by the redemption of R2,3bn of tier 2.
- RWA density of 54,9% (RWA/total assets) compared favourably with local and international peers.

Focus for 2021

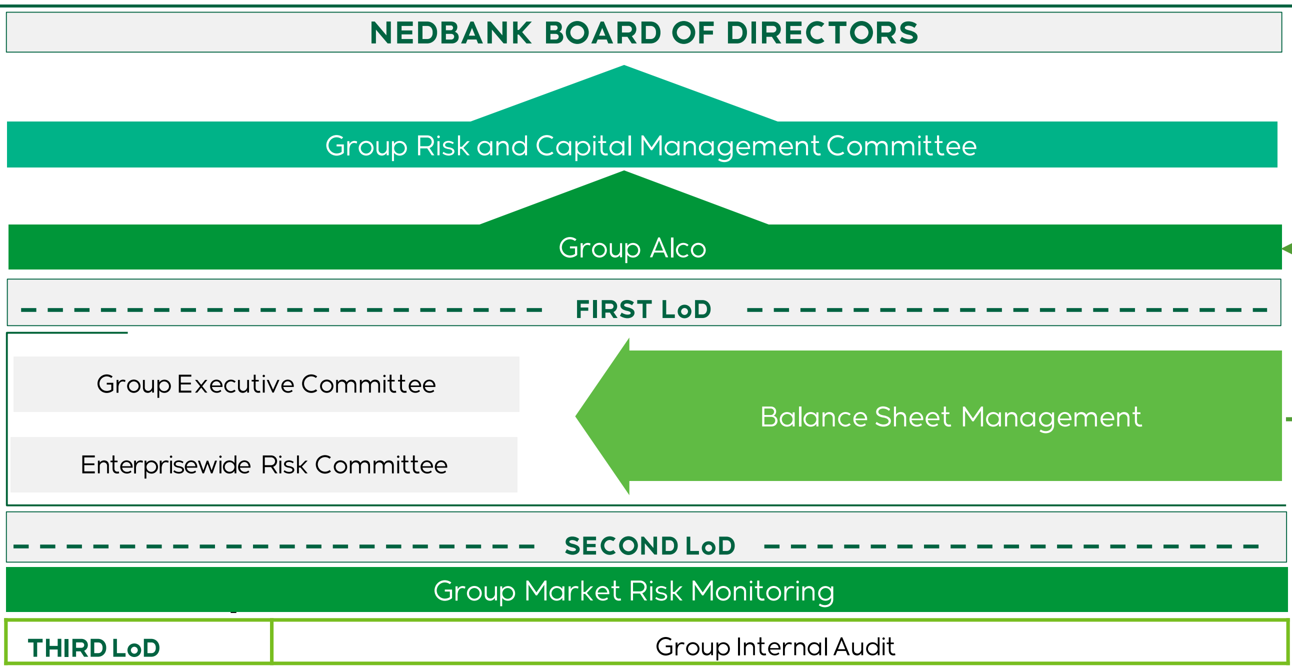
- Manage the groups capital position and its subsidiaries within board approved targets.
- Ensure the group's capital structure remains optimal through the generation of organic earnings and implementation of sustainable dividend streams that observe the requirements of Guidance Note 3/2021. In addition, ensure that it is well supported by the continued issuance of high-quality Basel III compliant AT 1 and Tier 2 instruments that support the group's business plan.
- Monitor and ensure compliance with regulatory developments that may affect the capital position of the group, including:
  - PA directives on the reinstatement of Pillar 2A and any other proposed amendments to the SA banking regulations.
  - Large exposure, TLAC holdings and Securitisation framework changes.
  - Ensure the group capital plans remain dynamic to deal with the uncertainties relating to Covid-19.

GOVERNANCE

The group subscribes to a defence model that has various layers in respect of managing capital risk. BSM acts as the first LoD, Group Risk acts as the second and Internal Audit the third. The group relies on a set of policies and overarching framework, in conjunction with the ERMF, to manage and govern capital risk.

The capital risk policies and frameworks outline a minimum set of standards and processes that need to be maintained including continuous assessment of the capital plans, the setting and reviewing of board targets, stress testing and recovery planning. The group has a governance structure that supports the execution of the capital mandate through BSM on behalf of Group Alco, that reports to the GRCMC, a subcommittee of the Nedbank Group Board.

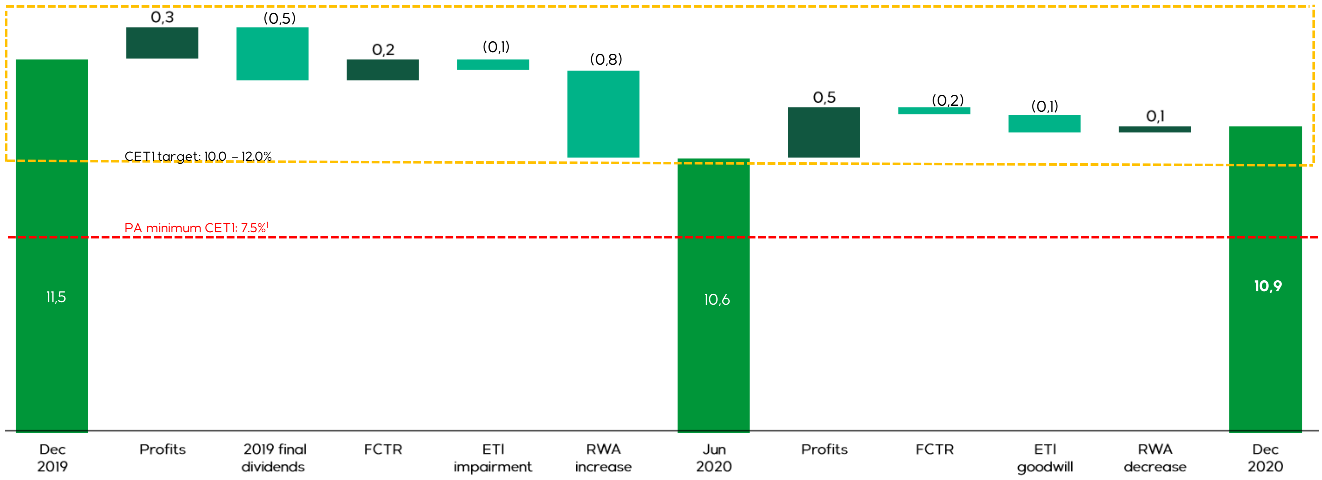
Capital management governance structure



REGULATORY CAPITAL ADEQUACY AND LEVERAGE

CET1 capital ratio trend analysis

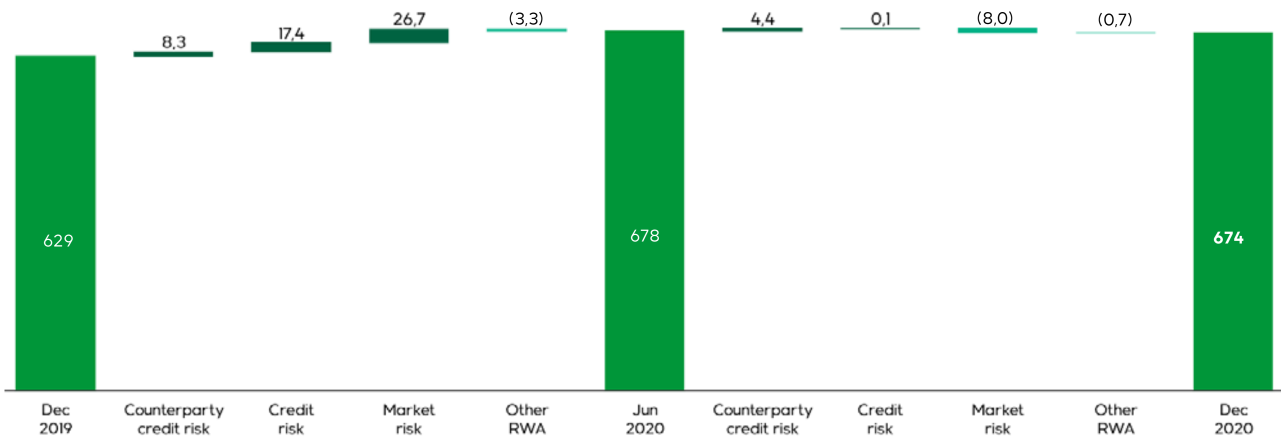
(%)



[1] *PA minimum at December 2019 excludes idiosyncratic buffer and D-SIB capital requirements. PA minimum at December 2020 excludes idiosyncratic buffer, and includes D-SIB capital requirements, with the Pillar 2A revised to nil.*

Risk-weighted assets

(Rbn)



Nedbank Group maintained a robust capital adequacy position, with the capital ratios absorbing the payment of the 2019 final ordinary dividend of R3,5bn, a further impairment of the group's investment in ETI of R750m, increased investment in software development as part of the ME programme and an increase in RWA, driven by balance sheet growth and credit migration in some CIB portfolios, as well as the effect of significant market volatility, which resulted in higher market RWA. Capital ratios were supported by capital optimisation across the balance sheet.

Following the Covid-19 pandemic, the capital ratios were impacted by balance sheet growth, lower earnings, adverse backbook migration, illiquid markets and market dislocations. In response to the pandemic, the PA issued Directives 2/2020 and 3/2020 in support of the banking industry, providing temporary capital relief. D2/2020 provides temporary capital relief through the temporary relaxation of the Pillar 2A capital requirements to nil, thereby reducing the minimum requirements for the CET1, tier 1 and total capital ratios by 50 bps, 75 bps and 100 bps, respectively. The directives were supported by Guidance Note 4/2020 from the PA encouraging banks to retain capital and not pay dividends for the 2020 financial year, with the exception of dividends that had already been declared by the time the guidance was issued. Despite the group's strong capital and liquidity position at 31 December 2020, having considered the spirit of Guidance Notes 4/2020 and 3/2021 and noting growth opportunities and our responsibility to support clients and the economy, in the midst of the current uncertainty about the progression of the virus, possible third waves, and the vaccine rollout and its effectiveness, the group has decided not to declare a final dividend for 2020. The board will give due consideration to this guidance note in future dividend cycles.

Nedbank manages capital levels within the board-approved risk appetite, expectations of the rating agencies, the requirements of the regulators and the returns expected by shareholders. Nedbank further seeks to ensure that its capital structure makes use of the full range of capital instruments and capital management activities available to optimise the financial efficiency and loss absorption capacity of its capital base.

Nedbank continues to perform extensive and comprehensive stress testing in order to ensure that the group remains well capitalised relative to its business activities, the board's strategic plans, risk appetite, risk profile and the external environment in which the group operates.

SUMMARY CAPITAL RATIOS

		PA minimum[1]	Internal targets	2020	2019
Nedbank Group					
Including unappropriated profits					
Total CAR	%		> 13,00	14,9	15,0
Total tier 1	%		> 11,25	12,1	12,8
CET1	%		10,00–12,00	10,9	11,5
Surplus tier 1 capital	Rm			19 462	22 245
Leverage	times	< 25	< 20	15,4	15,0
Dividend cover	times		1,75–2,25	N/A	1,84
Cost of equity	%			14,5	14,1
Excluding unappropriated profits					
Total CAR	%	11,50		14,8	14,8
Total tier 1	%	9,25		12,1	12,6
CET1	%	7,50		10,8	11,4
Nedbank Limited					
Including unappropriated profits					
Total CAR	%		> 13,00	15,3	15,5
Total tier 1	%		> 11,25	12,0	12,8
CET1	%		10,00–12,00	10,4	11,2
Surplus tier 1 capital	Rm			15 219	18 202
Excluding unappropriated profits					
Total	%	11,50		15,0	15,1
Total tier 1	%	9,25		11,8	12,4
CET1	%	7,50		10,1	10,8

[1] PA minimum requirements are disclosed excluding bank-specific Pillar 2b and D-SIB capital requirements. The PA issued Directive 2/2020 in April 2020 providing capital relief to banks in light of the Covid-19 pandemic, temporarily relaxing the Pillar 2A capital requirement to nil, resulting in regulatory minimum requirements decreasing CET1 by 50 bps, tier 1 by 75 bps and total CAR by 100 bps.

OV1: OVERVIEW OF RISK-WEIGHTED ASSETS

		Nedbank Group			Nedbank Limited[1]		
		2020		2019	2020		2019
		RWA	MRC[2]	RWA	RWA	MRC[2]	RWA
1	**Credit risk**	436 948	50 249	419 286	364 557	41 924	348 376
2	Standardised Approach (TSA)[3]	36 951	4 249	35 052	134	15	133
4	Supervisory Slotting Approach	7 287	838	10 234	6 375	733	9 290
5	Advanced Internal Ratings-based Approach	392 710	45 162	374 000	358 048	41 176	338 953
6	**Counterparty credit risk**	16 613	1 910	9 713	14 898	1 713	9 456
9	Current-exposure method	16 613	1 910	9 713	14 898	1 713	9 456
10	**Credit valuation adjustment**	22 279	2 562	16 476	21 620	2 486	15 668
11	**Equity positions under simple risk weight approach**	42 291	4 863	41 021	25 841	2 972	26 534
16	**Securitisation exposures in banking book**	445	51	589	445	51	589
17	Internal Ratings-based Approach	91	10	285	91	10	285
18	External ratings-based approach, including internal assessment approach	354	41	304	354	41	304
20	**Market risk**	40 916	4 706	22 199	39 322	4 522	20 971
21	Standardised Approach	3 024	348	1 487	1 624	187	699
22	Internal Model Approach	37 892	4 358	20 712	37 698	4 335	20 272
24	**Operational risk**	73 665	8 472	74 139	61 818	7 109	62 795
	Standardised Approach	7 318	842	7 208	1		1
	Advanced Measurement Approach (AMA)	63 973	7 357	63 539	59 848	6 883	60 059
26	Floor adjustment	2 374	273	3 392	1 969	226	2 735
25	**Amounts below the thresholds for deduction (subject to 250% risk weighting)**	13 989	1 609	15 228	1 633	188	1 633
	Other assets (100% risk weighting)	26 542	3 052	30 074	20 514	2 360	24 867
27	**Total**	673 688	77 474	628 725	550 648	63 325	510 889

[1] Nedbank Limited refers to the SA reporting entity in terms of Regulation 38 (BA700) of the regulations relating to banks, issued in terms of the Banks Act, 94 of 1990.
[2] Total MRC is measured at 11,5%, in line with the transitional requirements, and excludes bank-specific Pillar 2b, and D-SIB capital requirements.
[3] Other assets RWA for entities on TSA was previously included in credit RWA, in line with reporting in CR4. Other assets RWA is now consistently reported in the other assets risk total, and therefore accounts for the difference in credit RWA on TSA to the total reported in CR4.

The group's total RWA/total assets density improved marginally from 55,0% in 2019 to 54,9% in 2020, driven by an increase of 7,2% in RWA relative to a change in total assets of 7,4%. The increase in total RWA is attributable mainly to the following:

- Credit risk migration, driven by the impact of the Covid-19 pandemic and asset growth, resulted in a credit RWA increase of R17,5bn (4,2%) for the year, offset by strategic optimisation initiatives.

- Counterparty credit risk and credit valuation adjustment RWA increased by R6,9bn (71,0%) and R5,8bn (35,2%) respectively, due to increased deal volume and an adjustment in the fair value of hedges, which was driven by currency volatility against major currencies.
- Trading market RWA increased by R18,7bn (84,3%), driven mainly by the stressed conditions affecting both global and local financial markets that were characterised by a sharp increase in March 2020 on the back of unprecedented volatility. This volatility, observed in the FX and the interest-rate markets to which the bank is primarily exposed, resulted in a direct increase in the bank's value at risk (VaR) used for the regulatory capital model. Nedbank's derivatives valuation adjustment optimisation initiative in H2 2020 resulted in a reduction in the overall increase in trading market RWA, which closed the year at R40,9bn (June 2020: R48,9bn). This reduction is expected to continue into 2021.
- Other RWA decreased by R4,0bn, due to a combination of balance sheet changes supported by optimisation initiatives.

NEDBANK GROUP – RETURN ON RISK-WEIGHTED ASSETS AS AT 31 DECEMBER 2020

%	2020	2019
Group	**0,8**	2,0
CIB	**1,1**	2,0
RBB	**0,7**	2,5
Wealth	**2,3**	4,0
NAR	**0,0**	1,0
Centre	**(1,2)**	(1,1)

SUMMARY OF REGULATORY QUALIFYING CAPITAL AND RESERVES[1]

	Nedbank Group		Nedbank Limited	
Rm	**2020**	2019	**2020**	2019
Including unappropriated profits				
Total tier 1 capital	**81 779**	80 401	**66 154**	65 459
CET1	**73 455**	72 506	**57 269**	57 015
Share capital and premium	**19 067**	18 577	**20 111**	19 221
Reserves	**69 925**	68 534	**49 771**	50 521
Minority interest: Ordinary shareholders	**463**	848		
Deductions	**(16 000)**	(15 453)	**(12 613)**	(12 727)
Additional tier 1 capital	**8 324**	7 895	**8 885**	8 444
Preference share capital and premium	**1 063**	1 594	**1 063**	1 594
Perpetual subordinated debt instruments	**7 822**	6 850	**7 822**	6 850
Regulatory adjustments	**(561)**	(549)		
Tier 2 capital	**18 574**	13 840	**18 014**	13 812
Subordinated debt instruments	**15 604**	13 810	**15 604**	13 810
Excess of downturn expected loss over eligible provisions	**2 626**		**2 408**	
General allowance for credit impairment	**391**	300	**2**	2
Regulatory adjustments	**(47)**	(270)		
Total capital	**100 353**	94 241	**84 168**	79 271
Excluding unappropriated profits				
Tier 1 capital	**81 380**	79 315	**64 769**	63 532
CET1 capital	**73 056**	71 420	**55 884**	55 088
Total capital	**99 954**	93 155	**82 783**	77 344

[1] *For comprehensive 'composition of capital' and 'capital instruments main features' disclosure, please refer to https://www.nedbank.co.za/content/nedbank/desktop/gt/en/investor-relations/information-hub/capital-and-risk-management-reports.html.*

Nedbank Group remains well capitalised, with CET1 capital absorbing the 2019 final ordinary dividend of R3,4bn, a further impairment of the group's investment in ETI and increased investment in software development as part of the ME programme being made. The CET1 capital was supported by an appropriate dividend policy and capital optimisation across the balance sheet.

The group's tier 1 capital position was impacted positively by the issuance of new-style additional tier 1 instruments of R972m in 2020, offset by a further grandfathering of preference shares in January 2020, in line with the Basel III transitional arrangements.

The group's total capital was further impacted by the redemption of new-style tier 2 capital instruments of R2,3bn and the issuance of new-style tier 2 capital instruments of R4,1bn during 2020, in line with the group's capital plan.

The focus remains on issuing fully loss-absorbent capital, with Basel III fully compliant capital making up 99% of the group's total capital structure. The group has issued R15,6bn in new-style tier 2 capital and R7,8bn of new-style additional tier 1 capital since the implementation of Basel III in 2013.

Nedbank Group's gearing (including unappropriated profits) remains below the Regulatory Leverage Ratio Framework requirement of less than 25 times, at 15,4 times.

Regulated banking subsidiaries

Nedbank Group banking subsidiaries are well capitalised for the environments in which they operate, with CARs well in excess of respective host regulators' minimum requirements.

	2020			2019	
	Total capital requirement (host country) %	RWA Rm	Total capital ratio %	RWA Rm	Total capital ratio %
African Regions					
Banco Único	**12,0**	**3 697**	**17,4**	3 863	16,7
Nedbank Namibia Limited	**11,0**	**14 419**	**13,1**	13 047	15,0
Nedbank (Swaziland) Limited	**8,0**	**5 549**	**14,8**	4 966	17,3
Nedbank (Lesotho) Limited	**8,0**	**2 033**	**28,1**	2 051	26,4
Nedbank (Zimbabwe) Limited	**12,0**	**1 184**	**21,1**	1 042	21,3
Isle of Man					
Nedbank Private Wealth (IOM) Limited	**13,0**	**8 986**	**16,2**	7 627	15,7

The following table provides an overview of the geographical distribution of private sector credit exposures relevant to the calculation of the countercyclical buffer. In 2018 the PA confirmed the South African countercyclical buffer at zero percent. SA banks are, however, expected to calculate the required countercyclical buffer by allocating exposures to the relevant jurisdictions, based on materiality thresholds. When the bank's RWA relating to private sector credit exposures to a foreign jurisdiction that has implemented a non-zero countercyclical buffer amounts to 2% or more of the total RWA relating to private sector credit exposures of the bank, then those exposures are treated as foreign exposures and are allocated to that specific foreign jurisdiction when the bank calculates its countercyclical buffer.

The materiality threshold is also applicable when the aggregate amount of all RWA on private sector credit exposures to foreign jurisdictions, individually amounting to less than 2% of total RWA relating to private sector credit exposures, is 10% or more of the total RWA relating to private sector credit exposures of the bank. Private sector exposures to foreign jurisdictions that are individually less than 2% and in aggregate less than 10% are considered insignificant and allocated to the home jurisdiction.

The CCYB add-on reduction from 0,02% to 0% is a result of the United Kingdom reducing its CCyB rate from 1,00% to 0% in response to the economic shock from Covid-19.

CCyB1: NEDBANK GROUP – GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES USED IN THE COUNTERCYCLICAL CAPITAL BUFFER

Geographical breakdown	Countercyclical capital buffer rate (%)	Exposure values and/or RWA used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate (%)	Countercyclical buffer amount (R000)
		Exposure (R000)	RWA (R000)		
2020					
United Kingdom	**0,00**	**17 839 313**	**9 667 462**		
Norway	**1,00**	**954 703**	**613 008**		
Luxembourg	**0,50**	**1 569 967**	**390 653**		
Hong Kong SAR	**1,00**	**61 782**	**44 007**		
Sum		**20 425 765**	**10 715 130**		
Total		**920 248 414**	**421 889 517**		

ECONOMIC CAPITAL ADEQUACY

Economic capital is the group's comprehensive internal measurement of risk and related capital requirements and forms the basis of the group's ICAAP. Nedbank's ICAAP confirms that both Nedbank Group and Nedbank Limited are well capitalised above their current 'A' or 99,93% target debt rating (solvency standard) in terms of the group's proprietary economic capital methodology.

- Nedbank Group's and Nedbank Limited's ICAAP reflect surplus AFR of R33,2bn and R32,9bn respectively after a 10% capital buffer has been added. This is determined in accordance with the group's comprehensive Stress and Scenario Testing Framework.

ECONOMIC CAPITAL REQUIREMENT VERSUS AVAILABLE FINANCIAL RESOURCES

	Nedbank Group				Nedbank Limited			
	2020		2019		**2020**		2019	
	Rm	**Mix %**	Rm	Mix %	**Rm**	**Mix %**	Rm	Mix %
Credit risk	**45 101**	**69**	43 847	64	**37 902**	**74**	36 762	71
Market risk	**5 852**	**9**	8 088	12	**4 147**	**8**	5 490	11
Business risk	**6 601**	**10**	7 960	12	**3 844**	**8**	3 844	7
Operational risk	**4 020**	**6**	4 770	7	**3 058**	**6**	3 345	7
Insurance risk	**505**	**< 1**	472	< 1				
Other assets risk	**3 301**	**5**	3 166	5	**2 182**	**4**	2 133	4
Minimum economic capital requirement	**65 380**	**100**	68 303	100	**51 133**	**100**	51 574	100
Add: Stress-tested capital buffer (10%)	**6 538**		6 830		**5 113**		5 157	
Total economic capital requirement	**71 918**		75 133		**56 246**		56 731	
AFR	**105 111**	**100**	97 184	100	**89 136**	**100**	83 007	100
Tier A capital	**80 669**	**77**	74 977	77	**64 694**	**73**	60 800	73
Tier B capital	**24 442**	**23**	22 207	23	**24 442**	**27**	22 207	27
Total surplus AFR	**33 193**		22 051		**32 890**		26 276	
AFR: Total economic capital requirement (%)	**146**		129		**158**		146	

Nedbank Group's through-the-cycle minimum economic capital requirement decreased by R2,9bn during the year, due primarily to the following:

- The annual model parameter updates, which were carried out before Covid-19, resulted in a decrease of R2,2bn, R1,4bn and R750m in market risk economic capital, business risk economic capital and operational risk economic capital respectively.
- The decrease was offset by a R1,3bn increase in credit risk economic capital, due largely to increased drawdowns on unutilised facilities, a weaker rand impacting US dollar-denominated facilities in the CIB portfolio and lower growth in the RBB portfolio as a result of the impact of the lockdown regulations.

Nedbank Group's AFR increased by R7,9bn in 2020, mainly as a result of the following:

- A R5,7bn increase in tier A capital and a R2,2bn increase in tier B capital following the issuance of R972m new-style additional tier 1 capital and R4,1bn of new-style tier 2 capital instruments, which was offset by the grandfathering of old-style preference shares of R531m and the redemption of new-style tier 2 capital instruments of R2,3bn, in line with the group's capital plan.

Nedbank's Limited's minimum economic capital requirement decreased by R601m during 2020, due mainly to decreases in market risk economic capital and operational risk economic capital, for the same reasons as stated above for the group.

Nedbank Limited's total AFR increased by R6,1bn during the year for the same reasons as stated above for the group. Surplus capital increased by R6,6bn in the same period under review, driven mainly by the increase in AFR on the back of a decrease in the through-the-cycle minimum capital requirement.

EXTERNAL CREDIT RATINGS

	Standard & Poor's		Moody's Investors Service	
	Nedbank Limited	Sovereign rating SA	Nedbank Limited	Sovereign rating SA
	Jul 2020	Nov 2020	Nov 2020	Nov 2020
Outlook	Stable	Stable	Negative	Negative
Foreign currency deposit ratings				
Long-term	BB-	BB-	Ba2	Ba2
Short-term	B	B	Not prime	Not prime
Local currency deposit ratings				
Long-term	BB	BB	Ba2	Ba2
Short-term	B	B	Not prime	N/A
National scale rating				
Long-term deposits	zaAA	zaAAA	Aa1/NP	
Short-term deposits	zaA-1+	zaA-1+	P-1.za	

External rating agencies still view the SA banking sector as resilient, with stable core earnings, sophisticated risk management and good levels of capitalisation and liquidity.

CREDIT RISK

Year under review

- Tracked and monitored the implementation of PA Directive 3/2020 pertaining to credit restructures, their classification and performance in light of Covid-19.
- Implementation of the Covid-19 Credit Policy to govern the treatment of restructured credit exposures in response to Covid-19-enabled payment holidays on more than R120bn in loans.
- Implementation of the Covid-19 SME Credit Fund Policy to facilitate Covid-19 loans for small and medium business.
- Implemented the Covid-19 Credit Programme in April 2020, in response to the Covid-19 economic crisis, which was successfully delivered by YE 2020.
- Monitored the changes in macroeconomic projections and post-model adjustments to ensure that the overall portfolio was adequately impaired.
- Review and overrides of credit models to avoid undue short-term volatility and excessive procyclicality of impairments and capital requirements.
- Continued to apply effective credit-risk mitigation strategies, including early identification of distressed portfolios and proactive management of all watch list clients.

Focus for 2021

- Oversee ongoing active credit risk management across all businesses to optimise the outcome of the cost of credit and the CLR in 2021 and beyond.
- Focus on the implementation of the enhanced Strategic Portfolio Tilt initiatives for 2021–2023 in line with the Group Business Plan.
- Review Covid-19 overlays and adjustments to ensure impairment estimates remain appropriate under the prevailing macroeconomic environment.
- Continue to focus on the management of single-obligor credit concentration risk and watch list clients.
- Continue to focus on early-identification strategies with regard to distressed portfolios, industry-specific concentration risks and proactive key-watchlist clients management.
- Review the credit risk appetite, including CLR target ranges, in the post-Covid-19 environment and growth in target markets in line with the business strategy (SPT 2.0).
- Ensure that climate risk developments are embedded in credit strategy, risk appetite and policies.
- Oversee the implementation of initiatives to optimise credit risk-weighted assets.
- Ensure best practice continues to be embedded in the management of model risk in the credit portfolio.
- Embrace changes brought about by new technology and big data to enhance the credit operating model.

CREDIT STRATEGY OVERVIEW

A long-term credit strategy is required to support the overall business strategy of the group and to provide a framework to maintain the necessary balance between preserving and optimising capital through the following:

- Identifying target markets in line with business strategy (Strategic Portfolio Tilt).
- Identifying products appropriate to those markets.
- Setting the group's credit risk appetite and credit portfolio limits within targeted sectors and at consolidated level.
- Determining credit portfolio limits at group and BU levels.
- Planning and executing on the required credit infrastructure (people, processes and systems) to achieve goals.
- Communicating strategy, goals and objectives to appropriate governance structures.
- Establishing credit policy, guidelines, standards and ratings methodologies.
- Measuring credit risk consistently and accurately.
- Building independent monitoring capabilities.

Credit risk arises from an obligor's failure to meet the terms of a credit agreement. It is identified as a principle risk within the bank's ERMF and is one of the core risks assumed as part of achieving the bank's business objectives. It accounts for 69,0% of the bank's economic capital and 70,7% of the bank's regulatory capital requirements. The aim of credit risk management is to deliver an earnings profile that will perform within acceptable levels of earnings volatility, determined by the bank's overall credit risk appetite, while maximising the bank's economic profit.

GOVERNANCE STRUCTURES

Credit risk is managed in accordance with the bank's three LoD. The first LoD is represented by the client-facing business. The second LoD consists of the risk functions within business and Group Risk, which is independent of business. The Group Credit Risk (GCR) function within Group Risk provides independent oversight of credit risk across the bank and reports to the GCRO. The third LoD is represented by GIA. The credit governance structure is illustrated in the diagram below.

Governance structure of Nedbank's AIRB credit system

NEDBANK BOARD OF DIRECTORS

FIRST LoD

Group Credit Committee

GCC is a subcommittee of the board, which monitors credit risk and compliance with the relevant legislation, ensures sound risk management and appropriate corporate governance. GCC reviews the adequacy of impairments and approves material changes to the AIRB credit models.

Large-exposure Approval Committee

LEAC is a board subcommittee with the primary mandate of approving advances in excess of the large-exposure threshold imposed by the Banks Act,94 of 1990).

Executive

Group Executive Committee (Group Exco) – ensures that credit risk is managed effectively in the group and oversees the performance of the bank's AIRB credit system and processes.

Executive Credit Committee (ECC) – provides strategic support and direction regarding credit risk. The ECC was originally referred to as the 'Credit Covid-19 Committee', established to address credit-related matters that arose as a result of the Covid-19 pandemic.

Business

Cluster credit committees (CCC)
Business unit credit committees (BUCCs)
Credit Risk Management Committee (CRAM)

2A SECOND LoD

Business cluster chief risk officers

- Model and process development and validation
- Credit approval and mandates
- Adequacy of impairments
- Model refinement
- Oversight of the rating process
- Monitoring and reporting of credit portfolios
- Ongoing credit management

Executive heads of business risk/Heads of credit

Monitoring of credit risk, independent from business taking the risk.

Cluster risk labs

Independent model development and peer review (excludes model development).

2B SECOND LoD

Group Risk

Wholesale AIRB Technical Forum | Retail AIRB Technical Forum | Ad hoc Rating Committee | RBB Credit Policy Forum (CPF) | Model Risk Committee (MRC)

GROUP CREDIT RISK (GCR)
- Independent oversight of credit risk management, impairment adequacy and Group Credit Policy.
- Monitors the bank's credit portfolio at a cluster and BU level, against established credit risk appetite metrics.
- Ensuring the implementation of the Credit Risk Management Framework across the group.
- Consolidated group credit risk reporting.

CREDIT MODEL VALIDATION UNIT (CMVU)
- Independent risk control unit, which validate the bank's regulatory credit capital AIRB models (full coverage) and IFRS 9 impairment models (risk-based coverage).
- Ensuring consistency in rating methodologies across the group, relating to AIRB and IFRS 9 impairment models.

MODEL RISK MANAGEMENT (MRM)
- MRM ensures that model risk is optimised and effectively managed across the bank.
- MRM adopts a risk-based approach to validating non-regulatory models. Review of non-regulatory capital credit models (risk-based coverage).
- Participation in model technical forums/committees.
- Evaluating model standards across the group through methodology enhancements, standard definitions and documentation requirements.

CREDIT RISK STRATEGY AND CREDIT RISK APPETITE
- Review and challenge the BU credit strategies.
- Monitor credit risk appetite.
- Perform external reporting of group credit risk.
- Perform credit reporting to the GCC and ECC.
- Maintain the group level 1 credit risk policies.

GROUP STRATEGIC RISK (GSR)
- Performs independent risk oversight and monitors compliance with the ERMF.
- Ensures groupwide implementation of the ERMF.

GROUP CREDIT EXECUTIVES
- Independent chair of CCC meetings.
- Independent oversight of credit approvals.

GROUP RISK ANALYTICS (GRA)
- Calculates and consolidates credit economic and regulatory capital.
- Complete the credit BA returns submitted to the PA.
- Maintains and enhances the inhouse-developed Credit Portfolio Model (CPM) system and the credit risk calculation engine system.
- Tests and implements all credit regulatory model updates.
- Calculations and consolidates the IFRS 9 ECL calculations across the bank.
- Performs credit risk analytics and credit stress/scenario testing for the group.

THIRD LoD

Group Internal Audit

Provides independent and objective assurance on the effectiveness of the credit and model risk-based approach.

Credit risk, including counterparty credit risk and credit concentration risk, is managed across the group in terms of the board-approved Group Credit Policy and Group Credit Risk Management Framework (GCRMF), which incorporates the requirements from the banking regulations and outlines the credit risk governance process which establishes credit risk appetite and the authorisation and delegation of credit risk activities. These include the process of granting credit, monitoring exposures, calculating impairments and managing high risk clients.

The Group Credit Policy and GCRMF establish the credit approval mandates for the various credit sanctioning authorities within the BUs. Where a request for credit facilities exceeds the mandate, the credit request is submitted to a higher mandated authority.

The final authority for the approval of credit applications that exceed the large-exposure threshold imposed by the Banks Act, 94 of 1990, is the Large-exposure Approval Committee (LEAC).

The Nedbank Board has executive involvement and non-executive oversight to monitor and manage credit risk, including counterparty credit risk. Regular training is provided to the board to ensure they remain informed about the latest developments regarding regulatory changes and industry trends. The Nedbank Board sets the bank's credit risk appetite, which is cascaded down to clusters and BUs. The credit risk appetite targets include several quantitative measures relating to the bank's desired credit risk profile, which allows for the continuous monitoring of exposures to avoid undue concentrations.

The GCC is a subcommittee of the board designated to oversee material aspects of credit risk. Membership includes both non-executive and executive directors, who have a general understanding of the AIRB credit system and related regulatory reports. The GCC provides independent oversight of the credit risk policies, procedures, processes and practices and ensures the credit portfolio is adequately impaired and maintained in line with IFRS 9. The GCC challenges and ultimately approves all material aspects of the bank's AIRB systems and processes. The GCC also approves IFRS 9 expected credit losses (ECL) models. The GCC also monitors climate-related risks within the lending book, in accordance with the Climate Risk Management Framework.

The GCC delegates the duty to monitor credit risk within business to the CCC. There are CCCs for CIB, RBB, Wealth and NAR. The CCCs are responsible for implementing cluster level credit policy and credit mandates as well as reviewing cluster level credit portfolios, compliance with credit policies, credit risk appetite parameters, IFRS 9 macroeconomic forecasts and adequacy of impairments, expected loss (EL) and credit capital levels. CCC chairs are provided by GCR function in Group Risk and are independent of business, to provide independent oversight of the credit monitoring process, as well as to ensure the consistency of the credit-rating processes across the bank. The CCC reports to the GCC quarterly, and on an ad hoc basis should the need arise, to provide an overview of the credit portfolio, highlight key concerns identified, and discuss remedial actions.

GCR independently monitors the bank's credit portfolio at a cluster and BU level against established credit risk appetite limits. GCR also maintains the credit risk policies and procedures, credit committee charters, as well as the GCRMF. The following areas reside within GCR:

- The Credit Model Validation Unit (CMVU), the bank's independent risk control unit required by the banking regulations, validates the bank's regulatory credit capital models and IFRS 9 impairment models based on a risk-based approach.
- MRM, which ensures that model risk is optimised and managed effectively across the bank. MRM adopts a risk-based approach to validating non-regulatory models, including credit pricing models, credit application models, ALM models and the macroeconomic forecast models used for IFRS 9 purposes. MRM also serves as the group's independent validation function for the operational risk AMA model.

Group Risk Analytics (GRA) calculates and consolidates credit economic and regulatory capital and completes the credit BA returns submitted to the PA. GRA maintains and enhances the inhouse-developed Credit Portfolio Model (CPM) system, the credit risk calculation engine system, and tests and implements all credit regulatory model updates. GRA also calculates and consolidates the IFRS 9 ECL calculations across the bank and performs credit risk analytics for the group. GRA resides within Group Risk.

The Executive Credit Committee (ECC) is a subcommittee of Group Executive Committee (Group Exco) and provides strategic support and direction at an executive level regarding credit risk. Its mandate includes:

- Overseeing emerging credit risks.
- Considering and recommending credit policy changes required based on new and changing regulations.
- Debating and challenging credit strategy, credit risk appetite limits, new products, new markets and other credit related matters.
- Providing guidance on the latest industry trends regarding impairments and regulatory credit capital; discussing structural and staffing related matters.
- Ensuring a consistent enterprise approach is applied groupwide for credit risk.
- Overseeing the timely resolution of key credit issues.
- Ensuring the bankwide digitisation of models and promoting the responsible use of artificial intelligence and machine learning for more effective and predictive credit risk management.
- Overseeing the alignment between financial and regulatory reporting.

The ECC was originally established as the Credit Covid-19 Committee to address credit-related matters that arose as a result of the pandemic. The committee consisted of senior risk and business executives across the bank. The primary focus of the committee was to monitor the implementation of PA Directive 3/2020 and Guidance Note 3/2020 and other regulatory guidance provided to support our clients and to consider the impact of Covid-19 on IFRS 9 ECL and RWA (regulatory capital). During H2 2020, this committee was converted to the ECC, appointed by the Group Exco, consisting of the Group Chief Executive, GCRO (chairperson), Group Chief Credit Officer (GCCO) (alternate chairperson), Group Chief Financial Officer (GCFO), Group Chief Operating Officer, Group Chief Compliance Officer, the business managing executives, business cluster Executive Heads: Risk and Heads of Credit.

CREDIT RISK APPROACHES ACROSS NEDBANK

Credit rating systems are in place for both the AIRB and TSA, to calculate credit RWA under Basel III, together with sound governance processes to ensure that credit ratings are applied consistently across the bank.

Nedbank's AIRB credit rating system governance processes are well established across the bank. Nedbank, including Nedbank London branch, make up 93,9% of the total credit extended by the bank and are on the AIRB approach. The risk estimates generated from Nedbank's internal models are used across the credit process in running the business.

The TSA is applied for Private Wealth International and NAR subsidiaries credit portfolios. Conservative AIRB credit benchmarks are used to estimate internal economic capital for portfolios on TSA. The bank does not use ratings from external credit assessment institutions (ECAIs) or export credit agencies (ECA).

The group's credit risk economic capital (or credit VaR) is more sophisticated than the AIRB approach and is calculated using credit portfolio modelling based on the volatility of UL. This estimated UL is measured from the key AIRB approach credit risk parameters, which include the PD, EAD and LGD parameters, as well as taking LGD volatility, PD/LGD correlation, portfolio concentrations and intrarisk diversification into account.

KEY CREDIT RISK APPETITE METRICS

Credit risk appetite targets are set for the group and are cascaded down to the cluster or BU level. Group level risk appetite targets applicable to credit risk both include various quantitative measures relating to the credit risk profile and counterparty credit risk profile, as well as entail the continuous monitoring of concentrations and correlations. All credit risk appetite metrics are stress-tested at both the group, BU and cluster level. Stress testing is performed and reported on a quarterly basis. The most prominent key credit risk appetite metric is the credit loss ratio (CLR), which is disclosed per cluster in the Nedbank Group Results Booklet.

CREDIT RISK ASSESSMENT

On an annual basis, the bank undergoes a bankwide risk assessment that identifies the material risks faced by the bank for the Internal Capital Adequacy and Assessment Process (ICAAP) and the determination of internal capital. This process evaluates the risks and determines the pervasiveness of the risk across multiple business lines, the significance of the risk to a specific business line, the likelihood and potential impact of the risk and whether the risk may cause unexpected losses in income and, therefore would be mitigated by internal capital. The process also reviews other evolving and emerging risks and include qualitative considerations, such as strategic, economic and environmental risk factors. The identified risks are ascribed a rating of how probable and impactful they may be and are used as an important input in the ICAAP and the determination of internal capital.

NEDBANK'S CREDIT RISK MEASUREMENT AND METHODOLOGY

The bank's AIRB credit methodology is fully implemented across all major credit portfolios. Under this methodology credit risk is essentially measured by several components:

- Probability of Default (PD), measures the likelihood of a client defaulting on credit obligations within the next 12 months.
- Loss Given Default (LGD), is the economic loss the bank expects to incur on a facility should the client default. Basel III requires that banks use downturn LGD (dLGD) estimates in regulatory capital calculations, as PD and LGD may be correlated. dLGD measures the losses expected during economic downturn conditions.
- Exposure at Default (EAD), quantifies the expected exposure on a facility at the time of default. EAD models consider the likelihood that a client would draw down against available facilities in the period leading up to default.
- Expected loss (EL) is a 12-month estimate based on the long-run annual average level of credit losses through a full credit cycle based on historical data. dLGD is calculated using data during the downturn period, whereas the PD is determined using TTC data.
- The credit risk parameters, together with the relevant Basel III capital requirement formulas per asset class and the effective maturity calculation where required, culminate in the minimum regulatory capital requirements for credit risk. The regulatory credit risk models for PD, EAD and LGD form the cornerstone of Nedbank's internal rating and economic capital systems and are subject to the established model governance structure and processes.

Retail models are developed using a statistical scorecard-based methodology whereas the wholesale models use a combination of statistical scorecard-based, expert judgement and structural cashflow simulation methodologies. Whenever possible, PD and LGD models are calibrated to long-term default and loss rates, ensuring that capital estimates meet regulatory requirements. Where suitably robust default or loss rates are not available, for example in the case of low-default portfolios, external data sources are included to ensure appropriate calibration.

Nedbank applies relevant regulatory floors, where relevant, such as the 0,03% regulatory PD floor, the 10% LGD floor for residential mortgages, and floors the EAD at the current exposure. Additionally, Nedbank has incorporated the 0,05% Basel III PD floor that will be applicable from 2023 into its large Corporate PD estimation.

The PA issued Guidance Note G3/2020, G6/2020 and Directive D3/2020, for banks to consider in their classification and measurement of exposures and expected credit loss (ECL) provisioning when providing relief to clients during the Covid-19 pandemic, such as payment holidays. Banks should avoid procyclical assumptions in their macroeconomic scenarios to avoid short-term volatility. Nedbank has adopted the guidance notes and directive and is in the process of implementing it within their macroeconomic forecast and other models, where applicable.

The table below provides an overview of the rating approaches adopted across the various portfolios:

Portfolios	Number of models	Model type	Modelling approaches adopted
Corporate Portfolios	6	PD	• Scorecard-based models incorporating internal data, market-related information, and expert judgement.
		LGD	• LGDs are estimated by considering the losses incurred on defaulted exposures in combination with the amount recovered on collateral. • Recovery rates are determined using internal historical data, and expert judgement.
		EAD	• EADs are estimated by considering the loan's current outstanding amount, interest that may be accrued prior to default, and future drawdowns of available credit measured through a credit conversion factor.
Specialised Lending	7	PD	• Structural cashflow simulation PD models have been developed for the project finance, leveraged buyout and IPRE portfolios.
		LGD	• PD models are calibrated to long-term average default rates.
		EAD	• LGDs are estimated by considering the losses incurred on defaulted exposures in combination with the amount recovered on collateral.
			• Recovery rates are determined using internal historical data, and expert judgement.
Banks and Sovereign	9	PD	• Scorecard-based models incorporating internal and external data, expert judgement and external rating agency ratings.
		LGD	• LGDs are estimated based on expert judgement compared to benchmarks. • External data and expert judgement are used to determine model inputs.
		EAD	• EAD estimates are derived for each product by considering the loan's current outstanding amount, interest that may be accrued prior to default, and future drawdowns of available credit measured through a credit conversion factor.
SMEs (Corporate and Retail)	5	PD	SME Corporate • Scorecard-based models is used incorporating financial statement information, as well as other counterparty-specific characteristics and risk drivers. • PD models are calibrated to long-term average default rates. SME Retail • Statistical scoring models are developed for each product/portfolio. The models consider counterparty-specific information such as borrower, transactional and delinquency characteristics as inputs and produce estimated account-specific risk scores as outputs. • PD models are calibrated to long-term average default rates.
		LGD	• LGDs are estimated by considering the losses incurred on defaulted exposures in combination with the amount recovered on collateral. • Recovery rates are determined using internal historical data.
		EAD	• EADs are estimated by considering the loan's current outstanding amount, interest that may be accrued prior to default, and future drawdowns of available credit measured through a credit conversion factor. • Credit conversion factors are estimated for each product using internal historical data.
Retail Mortgages	7	PD	• Statistical scoring models are developed for homogenous risk pools. The models consider information such as borrower, transactional and delinquency characteristics as inputs and produce account-specific risk scores as outputs. • PD models are calibrated to long-term average default rates for each homogenous risk pool.
		LGD	• LGDs are estimated by discounting the recovered cash flows, including costs. The loss is then measured as a percentage of the exposure at default.
		EAD	• EADs are estimated by considering the loan's current outstanding amount, interest that may be accrued prior to default, and future drawdowns of available credit measured through a credit conversion factor. • The estimation of EAD is based on long-term historical data and segmented appropriately.
Retail Revolving Credit	9	PD	• Statistical scoring models are developed for homogenous risk pools. The models consider account-specific information such as borrower, transactional and delinquency characteristics as inputs and produce account-specific risk scores as outputs. • PD models are calibrated to long-term average default rates for each homogenous risk pool.
		LGD	• LGDs are estimated by discounting the recovered cash flows, including costs. The loss is then measured as a percentage of the exposure at default.
		EAD	• EADs are estimated using a combination of the amount currently drawn and an estimate of the loan's credit conversion factor, that is, future drawdowns of available but unutilised credit. • The estimation of credit conversion factors is based on long-term historical data and segmented appropriately.
Retail Other	7	PD	• Statistical scoring models are developed for homogenous risk pools. The models consider account-specific information such as borrower, transactional and delinquency characteristics as inputs and produce account-specific risk scores as outputs. • PD models are calibrated to long-term average default rates for each homogenous risk pool.
		LGD	• LGDs are estimated by discounting the recovered cash flows, including costs. The loss is then measured as a percentage of the exposure at default.
		EAD	• EADs are estimated with the consideration of the loans amortisation and interest that may be accrued prior to default prior to default. • The estimation of EAD is based on long-term historical data and segmented appropriately.

IFRS 9 methodology

Impairments are raised for credit exposures in accordance with IFRS 9 and require the recognition of credit losses based on forward-looking ECL: either 12-month or lifetime ECL, dependent on whether the financial instrument has shown a significant increase in credit risk (SICR), since initial recognition. When measuring expected credit loss, the bank considers the maximum contractual period over which the bank is exposed to credit risk. For certain revolving credit facilities, such as credit cards, the expected life is estimated based on the period over which the bank is exposed to credit risk and how the credit losses are mitigated by management actions.

The IFRS 9 standard outlines three stages of ECL, based on changes in credit quality since initial recognition:

- Stage 1: Credit exposures for which a SICR has not occurred since initial recognition and for which the ECL is calculated as the 12-month ECL.
- Stage 2: Credit exposures for which a SICR has occurred since initial recognition but are not yet classified as 'credit-impaired' or 'in default' and for which the ECL is calculated as the lifetime ECL.
- Stage 3: Lifetime ECL for credit exposures that have defaulted.

In March 2020 the PA issued Guidance Note 3/2020 on the measurement of ECL under IFRS 9 and in May 2020 further guidance was provided in Guidance Note 6/2020. A directive on the treatment of restructured credit exposures, in response to the Covid-19 pandemic was issued on 6 April 2020 as Directive 3/2020. The Nedbank Group Credit Policy was amended to include guidance relating to Nedbank's interpretation of Directive 3/2020. The PA recognised that initiatives taken by SA banks to provide relief to consumers during the pandemic may have unintended consequences such as higher capital requirements and ECL for banks that is not reflective of the true underlying credit risks. Since August 2020, we pro-actively discouraged further /new payment holidays to enable a risk-read on this population by year end. Subsequent relief was classified as a distressed restructure under Directive 7/2015.

Default definition

Loans and advances are deemed to have defaulted when the SA banking regulations definition of default criteria is triggered, which is in line with the Basel III requirements. For retail and specialised lending portfolios, this is product-centred, and a default would therefore be specific to borrower account (a specific advance). The remaining portfolios are client or borrower-centred, meaning that should any transaction within a borrowing group default, all transactions within the borrowing group would be treated as having defaulted.

Defaulted loans and advances will be classified as stage 3 and an appropriate ECL will be measured as the difference between the asset's gross carrying amount and the present value of the estimated future cashflows discounted at the asset's effective interest rate.

Default occurs in respect of a client in the following instances:

Quantitative criteria

- The client has exceeded its advised credit limit or is past due for more than 90 days on any material credit obligation to the group.

Qualitative criteria

- The group considers that the client is unlikely to meet its credit obligations to the group in full without the group having recourse to actions such as realising security (if held).
- The group has consented to a distressed restructuring of the credit obligation, in accordance with PA Directive 7/2015, that is likely to result in a reduced financial obligation.
- The group has applied for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation.
- The client is placed under business rescue in terms of the Companies Act, 71 of 2008, and when the client requests a restructure of its facilities due to financial distress.

Restructures

The bank distinguishes between restructures that take place in the normal course of business and those that take place as a result of financial distress on the part of the borrower. A normal course of business restructure is an agreement concluded where an advance has not shown any financial distress, but the client wishes to renegotiate the terms of the loan anyhow. Borrowers who from time to time request increased or amended facilities from the bank as part of a prudent approach to their cashflow management, such as an increase in working capital to meet seasonal demands or to cater for anticipated growth in their business, are not treated as distressed restructures.

Distressed restructured credit exposures (D7/2015) include any loan, advance or facility in respect of which the bank has granted a concession to the obligor owing to a deterioration in its financial condition, that is, owing to a financial distress situation of the relevant obligor:

- which financial distress situation results or is likely to result in the obligor no longer being able to meet the terms or conditions originally agreed;
- which restructuring agreement may include a modification of terms or conditions such as, for example:
  - a reduction in the interest rate from that originally agreed;
  - a reduction in the relevant interest amount due;
  - a reduction in the relevant principal due;

  - any amendment to the originally agreed contractual maturity or payment frequency;
  - any forgiveness, deferral or postponement of a principal amount, interest amount or fee due; or
  - any subsequent increase in the relevant level of working capital or revolving facility.
- which restructuring agreement may include the transfer from the obligor to the bank of real estate, receivables from third parties, other assets or an equity interest in the obligor in full or partial satisfaction of the loan, advance or facility; and
- which restructuring agreement may include the substitution or addition of a new debtor for the original obligor.

NEDBANK D7/2015 RESTRUCTURES BY CLUSTER AS AT 31 DECEMBER 2020

	D7/2015 restructures			GLAA held at amortised cost (Stage 1, 2 and 3)	D7/2015 restructures as % of cluster/business unit GLAA
	Total number	Exposure (Rm)	Impairments (Rm)	Exposure (Rm)	%
2020					
Corporate and Investment Banking	24	2 061	516	331 769	0,62
CIB excluding Property Finance	6	1 792	433	166 127	1,08
Property Finance	18	269	83	165 642	0,16
Retail and Business Banking	59 073	10 540	2 196	375 385	2,81
Business Banking	257	448	51	76 868	0,58
Retail	58 816	10 092	2 145	298 517	3,38
Wealth	73	249	14	30 566	0,81
Nedbank Africa Regions	143	144	34	24 186	0,60
Centre				376	
Group	59 313	12 994	2 760	762 282	1,70

Impact of Covid-19

The Covid-19 pandemic had a significant impact on the macroeconomic environment, therefore, the ability of borrowers to meet their obligations. The PA supported Covid-19 related relief initiatives, such as payment holidays offered by banks, to support the local economy. Consequently, the PA issued Directive 3/2020 to enable banks to continue to extend credit to the real economy during the period of financial stress without the need for inappropriate higher capital requirements. The intention of the PA is to reinstate the requirements of Directive 7/2015 in full after the impact of Covid-19 has subsided.

The group adopted a strict interpretation of Directive 3/2020. For any loan restructured after 29 February 2020 where the below conditions were met, the loan was classified as a 'Covid-19 loan restructure' or 'D3/2020 restructure'. The D3/2020 restructures remained in their respective stage classification (ie stage 1 or stage 2), instead of being identified as a distressed restructure, in accordance with Directive 7/2015, and consequently classified as credit-impaired (in default). The following conditions were applied:

- the loan was up-to-date (with zero arrears) at 29 February 2020;
- the restructure was due to Covid-19 related factors, based on all reasonable and verifiable information available at the date of restructuring the loan; and
- the loan is expected to remain in an up-to-date status subsequent to the relief period, all other factors remaining constant. If an account was unlikely to stay up-to-date once the restructure period ended, the account was not considered a D3/2020 restructure and treated as a distressed restructure, ie classified as credit-impaired (in default).

The use of a payment holiday itself has not been judged to indicate a SICR, where applicable, with the underlying long-term credit risk deemed to be driven by economic factors and captured using a combination of forward-looking models and temporary post model adjustments. The group considers these to continue to perform adequately under the current economic environment, which was impacted by the Covid-19 pandemic as well as payment holidays. These models and post model adjustments capture the anticipated increased credit risk and future defaults and are therefore an appropriate assessment of staging and ECL. By the end of 2020, the majority of these loans had either reverted to performing (ie stage 1 or stage 2) or were classified as stage 3, with R28bn remaining in the D3/2020 restructures portfolio. If there were adverse changes in the actual or expected circumstances during or after the relief period and the changes were not expected to be temporary in nature over and above the relief provided, such circumstances were deemed to be indicators of distress, the D3/2020 loan would be reclassified as a distressed restructured loan, ie credit-impaired (in default) (D7/2015). Nedbank discouraged the granting of D3/2020 renewals on a business-as-usual basis in August 2020 with renewals granted on an exceptional basis only. There have been no changes made to the quantitative or qualitative triggers used as at YE 2020, except for minor enhancements in certain retail portfolios and the treatment of D3/2020 restructures as follows:

- Where retail clients had requested an extension to their D3/2020 restructure beyond the initial period of the payment holiday/restructure, these exposures were classified as stage 2, ie the request for an extension was considered a SICR trigger.
- Wholesale clients were assessed on an individual exposure basis, to determine the appropriate stage allocation for D3/2020 relief extensions.

As at YE 2020, the majority of these loans had either reverted to performing (ie stage 1 or stage 2) or were classified as stage 3, with R28bn remaining in the D3/2020 restructures portfolio. The R28bn mainly relates to R25bn of loan restructures in CIB, with approximately 60% maturing in the first half of 2021, with the remaining R2bn in RBB. At YE 2020, 97% of RBB's payment holidays had matured. The D3/2020 restructures portfolio continues to be monitored by the respective credit governance structures.

NEDBANK D3/2020 PAYMENT HOLIDAYS RESTRUCTURES BY CLUSTER AS AT 31 DECEMBER 2020

	D3/2020 restructures			GLAA held at amortised cost (Stage 1, 2 and 3)	D3/2020 restructures as % of cluster/business unit GLAA
	Total number	Exposure (Rm)	Impairments (Rm)	Exposure (Rm)	%
2020					
Corporate and Investment Banking	**53**	**25 355**	**281**	**331 769**	**7,64**
CIB excluding Property Finance	19	18 160	250	166 127	10,93
Property Finance	34	7 195	31	165 642	4,34
Retail and Business Banking	**15 241**	**2 051**	**189**	**375 385**	**0,55**
Business Banking	61	179	4	76 868	0,23
Retail	15 180	1 872	185	298 517	0,63
Wealth	**1**	**4**		**30 566**	**0,01**
Nedbank Africa Regions	**138**	**333**	**3**	**24 186**	**1,38**
Centre				**376**	
Group	**15 433**	**27 743**	**473**	**762 282**	**3,64**

Forward-looking information incorporated in the ECL models

To account for forward-looking information (FLI), the ECL input parameters (PD, LGD and EAD) are modelled on a segment level considering macroeconomic drivers. Most portfolios are linked to macroeconomic drivers such as the prime rate, GDP growth, household debt-to-income and credit growth.

The incorporation of FLI into the ECL models allows for a range of possible macroeconomic outcomes to capture any non-linearities. The parameter inputs used to estimate the ECL are modelled on four macroeconomic scenarios; base (expected), positive, mild stress and high stress. Scenarios are provided by the Nedbank Group Economic Unit and incorporate historical trends, statistical models and expert judgement. The macroeconomic scenarios are updated quarterly, with the option of an out-of-cycle update based on significant macroeconomic events impacting macroeconomic forecasts. There is a robust internal governance process to review and approve the forecast macroeconomic factors, which include approval by a board subcommittee.

The ECL under each macroeconomic scenario is the product of the PD, LGD and EAD for that specific scenario. The final estimate for the ECL at each future reporting date is calculated to reflect an unbiased and probability-weighted amount, with the scenario weights estimated based on the likelihood of occurrence. The probability-weighted PD, as applied in the calculation of ECL at reporting date, is also used in the assessment of SICR.

The PA issued G3/2020 and G6/2020: Matters relating to the application of IFRS 9 in response to Covid-19. The guidance notes provide that it is considered to be in the best interest of the industry and financial stability to avoid undue short-term volatility in the reporting of ECL. As such, the PA is of the view that banks should avoid excessively procyclical assumptions in their IFRS 9 modelling during this time. In response to this, the bank adopted these guidance notes and implemented the following: In wholesale, macroeconomic models for both CIB and Business Banking were redeveloped in 2020. The in-model ECL was then supplemented by bottom-up industry overrides to specific clients, in the most vulnerable industries, as a portfolio-level macroeconomic model is not equipped to cater for inherent risk in different industries. Sector-specific overlays were also raised to cater for anticipated rating migration in 2021. There was also increased focus on specific watchlist clients and industries in distress.

In Retail additional overlays were raised to cater for FLI and the longer-term economic impacts of Covid-19.

Nedbank's master credit rating scale

Basel III requires that AIRB banks maintain two ratings for exposures. These two ratings are PD and LGD. PD measures borrower default risk without the effect of collateral and any credit risk mitigation (CRM), whereas LGD is calculated based on the unique characteristics of the facility. All credit applications are required to carry the borrower PD rating [from the Nedbank Group Rating (NGR) master rating scale] and an estimate of LGD.

PD MASTER RATING (NGR) SCALE – INTERNATIONAL SCALE

Rating category	Rating grade	Geometric mean (%)	PD band (%) Lower bound (PD >)	PD band (%) Upper bound (PD ≤)	Mapping to Standard & Poor's grades	Mapping to
Performing	NGR01	0,010	0,000	0,012	AAA	
	NGR02	0,014	0,012	0,017		
	NGR03	0,020	0,017	0,024	AA+	
	NGR04	0,028	0,024	0,034	AA	
	NGR05	0,040	0,034	0,048	AA-	
	NGR06	0,057	0,048	0,067	A+	
	NGR07	0,080	0,067	0,095	A	
	NGR08	0,113	0,095	0,135	A-	0,00 to < 0,15
	NGR09	0,160	0,135	0,190	BBB+	
	NGR10	0,226	0,190	0,269	BBB	0,15 to < 0,25
	NGR11	0,320	0,269	0,381	BBB-	
	NGR12	0,453	0,381	0,538	BB+	0,25 to < 0,50
	NGR13	0,640	0,538	0,761	BB+	
	NGR14	0,905	0,761	1,076	BB	0,50 to < 0,75
	NGR15	1,280	1,076	1,522	BB-	
	NGR16	1,810	1,522	2,153	BB-	0,75 to < 2,50
	NGR17	2,560	2,153	3,044	B+	
	NGR18	3,620	3,044	4,305	B+	
	NGR19	5,120	4,305	6,089	B	
	NGR20	7,241	6,089	8,611	B	2,50 to < 10,00
	NGR21	10,240	8,611	12,177	B-	
	NGR22	14,482	12,177	17,222	B-	
	NGR23	20,480	17,222	24,355	B-	
	NGR24	28,963	24,355	34,443	CCC	
	NGR25	40,960	34,443	99,999	CC	10,00 to < 100,00
Non-performing (defaulted)	NP1	100	100	100	D	
	NP2	100			D	
	NP3	100			D	100,00 (Default)

The comprehensive PD rating scale, which is mapped to default probabilities, enables the bank to rate all borrowers on a single scale, whether they are lower-risk corporate or higher-risk retail borrowers. The principal benefit thereof is that comparisons can be made between the riskiness of borrowers making up various portfolios. NP1 applies to recent defaults, NP2 represents those accounts in respect of which the bank is proceeding with legal recovery of money owing and NP3 is for long-term legal cases exceeding a period of 12 months.

NEDBANK GROUP BALANCE SHEET EXPECTED CREDIT LOSS (ECL) IMPAIRMENTS BY BUSINESS CLUSTER[1]

Rm	2020	2019[2]
Group	**24 804**	17 541
CIB	**3 539**	2 224
CIB, excluding Property Finance	**1 982**	1 526
Property Finance	**1 557**	698
RBB	**19 113**	14 075
Business Banking	**2 008**	1 335
Retail	**17 105**	12 740
Wealth	**434**	229
NAR	**953**	749
Centre	**765**	264

[1] *ECL relating to loans and advances only.*

NEDBANK GROUP COVERAGE RATIO BY BUSINESS CLUSTER[1]

%	2020	2019
Group	**3,25**	2,26
CIB	**1,07**	0,61
CIB, excluding Property Finance	**1,19**	0,75
Property Finance	**0,94**	0,44
RBB	**5,09**	3,87
Business Banking	**2,61**	1,68
Retail	**5,73**	4,48
Home Loans	**2,02**	1,47
VAF	**5,29**	4,09
Personal Loans	**20,04**	16,83
Card	**17,57**	13,18
Other	**11,16**	12,61
Wealth	**1,42**	0,74
NAR	**3,94**	3,34

[1] *Coverage (%) is calculated as on-balance-sheet ECL divided by gross banking book loans and advances. Coverage excludes ECLs on off-balance-sheet amounts, as well as ECL and gross banking loans and advances associated with products held at fair value through other comprehensive income (FVOCI).*

CR1: CREDIT QUALITY OF ASSETS

Rm	Gross carrying values of			Of which ECL accounting provisions for credit losses on SA exposures			
	Defaulted exposures	Non-defaulted exposures	Allowances/ Impairments[1]	Allocated in regulatory category of Specific	Allocated in regulatory category of General	Of which ECL accounting provisions for credit losses on IRB exposures	Net values
2020							
1 Loans	**45 243**	**751 613**	**24 140**	**565**	**700**	**22 875**	**772 716**
2 Debt securities		**94 203**					**94 203**
3 Off-balance-sheet exposures		**220 013**	**664**	**29**		**635**	**219 349**
4 Total	**45 243**	**1 065 829**	**24 804**	**594**	**700**	**23 510**	**1 086 268**
2019							
1 Loans	27 589	786 778	17 263	460	301	16 502	797 104
2 Debt securities		102 257					102 257
3 Off-balance-sheet exposures		209 728	271	15	(2)	258	209 457
4 Total	27 589	1 098 763	17 534	475	299	16 760	1 108 818

[1] *Allowances/Impairments – refers to impairments on loans and advances measured at amortised cost.*
[2] *Off-balance sheet exposures restated to exclude intercompany exposures.*

The size of off-balance-sheet credit is monitored through the inclusion of the metric EAD: Exposure in the suite of credit risk appetite metrics. The quantification of credit RWA using EAD ensures capital requirements include off-balance-sheet exposure. Clients that approach us to draw down on committed long term facilities to bolster liquidity are considered on an individual basis. A process has been implemented to review these requests with input from business, legal and credit. Contractual terms and conditions are considered prior to any release of funding. A breakdown of the size of off-balance-sheet credit, together with a breakdown of the contribution of each cluster is disclosed below.

NEDBANK GROUP OFF-BALANCE-SHEET EXPOSURE PER BUSINESS CLUSTER

Rm	CIB	CIB, excluding Property Finance	Property Finance	Total RBB	Business Banking	Retail	Wealth	NAR	Group
2020									
Guarantees on behalf of clients	**23 961**	**23 694**	**267**	**3 917**	**2 617**	**1 300**	**108**	**1 784**	**29 770**
Letters of credit	**7 453**	**7 453**		**368**	**366**	**2**		**204**	**8 025**
Undrawn facilities, of which:	**103 164**	**96 613**	**6 551**	**71 099**	**29 478**	**41 621**	**5 187**	**2 768**	**182 218**
irrevocable commitments	**94 787**	**88 236**	**6 551**	**49 568**	**29 478**	**20 090**	**4 906**	**2 629**	**151 890**
Revocable[1]	**8 377**	**8 377**		**21 531**		**21 531**	**281**	**139**	**30 328**
Credit-derivative instruments	**9 807**	**9 807**							**9 807**
Total off-balance-sheet activities	**144 385**	**137 567**	**6 818**	**75 384**	**32 461**	**42 923**	**5 295**	**4 756**	**229 820**
2019									
Guarantees on behalf of clients	19 844	19 523	321	3 234	2 481	753	113	1 827	25 018
Letters of credit	6 395	6 395		306	271	35		446	7 147
Undrawn facilities, of which:	104 970	100 035	4 935	64 464	23 495	40 969	5 448	2 681	177 563
irrevocable commitments	97 021	92 086	4 935	42 958	23 495	19 463	5 149	2 343	147 471
Revocable[1]	7 949	7 949		21 506		21 506	299	338	30 092
Credit-derivative instruments	8 521	8 521							8 521
Total off-balance-sheet activities	139 730	134 474	5 256	68 004	26 247	41 757	5 561	4 954	218 249

[1] *Includes other contingent liabilities.*

CR2: CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

Rm	2020	2019
1 Defaulted loans and debt securities at the end of the previous reporting period	**27 594**	25 231
2 Loans and debt securities defaulted since the last reporting period[1]	**34 699**	11 579
3 Returned to non-defaulted status	**(9 872)**	(3 336)
4 Amounts written off	**(7 419)**	(5 765)
5 Other changes	**241**	(115)
6 Defaulted loans and debt securities at end of the reporting period	**45 243**	27 594

[1] *The increase in loans and debt securities defaulted since the last reporting period is mainly due to the weakened economic environment placing additional stress on specific wholesale counters.*

BASEL III AIRB ON-BALANCE-SHEET EXPOSURE BY RESIDUAL CONTRACTUAL MATURITY

Rm	Less than 1 year	1 to 5 years	Greater than 5 years	Total
2020				
Corporate[1]	**96 515**	**209 739**	**85 240**	**391 494**
PSEs	**5 176**	**3 218**	**6 453**	**14 847**
Local governments and municipalities	**83**	**2 213**	**9 847**	**12 143**
Sovereign	**4 941**	**9 236**	**68 971**	**83 148**
Banks	**2 631**	**143**		**2 774**
Retail exposure	**5 256**	**121 062**	**208 381**	**334 699**
Retail mortgage	**389**	**2 786**	**141 564**	**144 739**
Retail revolving credit		**16 854**		**16 854**
Retail – other	**3 709**	**84 229**	**50 474**	**138 412**
SME – retail	**1 158**	**17 193**	**16 343**	**34 694**
Securitisation exposure		**341**		**341**
Total	**114 602**	**345 952**	**378 892**	**839 446**
2019				
Corporate[1]	101 786	218 483	88 814	409 083
PSEs	4 448	1 695	7 222	13 365
Local governments and municipalities	336	2 084	9 721	12 141
Sovereign	18 751	14 613	50 068	83 432
Banks	7 093	1 370	37	8 500
Retail exposure	4 882	116 391	198 836	320 109
Retail mortgage	194	2 398	136 893	139 485
Retail revolving credit		17 079		17 079
Retail – other	3 562	80 655	45 512	129 729
SME – retail	1 126	16 259	16 431	33 816
Securitisation exposure		168	469	637
Total	137 296	354 804	355 167	847 267

[1] *Includes corporate, SME – corporate and specialised lending asset classes.*

BASEL III TSA ON-BALANCE-SHEET EXPOSURE BY RESIDUAL CONTRACTUAL MATURITY

Rm	Less than 1 year	1 to 5 years	Greater than 5 years	Total
2020				
Corporate[1]	**3 622**	**5 697**	**828**	**10 147**
PSEs	**209**	**223**	**104**	**536**
Local governments and municipalities	**1**	**25**		**26**
Sovereign	**3 096**	**11 447**	**83**	**14 626**
Banks	**8 677**	**1 224**		**9 901**
Retail exposure	**383**	**12 997**	**7 823**	**21 203**
Retail mortgage	**8**	**6 577**	**6 904**	**13 489**
Retail revolving credit	**1**	**313**	**11**	**325**
Retail – other	**298**	**4 084**	**269**	**4 651**
SME – retail	**76**	**2 023**	**639**	**2 738**
Total	**15 988**	**31 613**	**8 838**	**56 439**
2019				
Corporate[1]	3 200	5 012	771	8 983
PSEs	14	609	104	727
Local governments and municipalities	1	29		30
Sovereign	8 858	6 003		14 861
Banks	3 651	5 440		9 091
Retail exposure	6 911	6 510	7 734	21 155
Retail mortgage	5 827	223	6 719	12 769
Retail revolving credit	2	352	13	367
Retail – other	938	3 885	354	5 177
SME – retail	144	2 050	648	2 842
Total	22 635	23 603	8 609	54 847

[1] *Includes corporate and SME – corporate and specialised lending asset classes.*

CREDIT RISK MITIGATION TECHNIQUES

Credit risk mitigation (CRM) refers to the actions taken by a bank to manage its exposure to credit risk, to align exposure to its risk appetite. Actions can be proactive or reactive and the level of mitigation may be influenced by external factors, such as the economic cycle, or internal factors, such as a change in risk appetite. CRM normally focuses on the collection and management of collateral, but there are other methods used to mitigate credit risk.

The Nedbank Group Credit Policy acknowledges the role of CRM to manage credit risk but emphasises that collateral on its own is not a justification for lending. The primary consideration for any lending opportunity should be the borrower's financial position and ability to repay the facility from their own resources and cashflow.

The AIRB Approach allows banks to use the collateral value in their estimates of LGD, which directly influence RWA. TSA for credit risk allows the use of certain categories of collateral to reduce exposures before the risk-weighting thereof, subject to suitable haircuts. The bank monitors the concentration risk that may arise from collateral to ensure that it is adequately diversified, irrespective of whether exposures are on the AIRB Approach or TSA.

Collateral, credit derivatives, netting agreements, put and call options, hedging and guarantees are all commonly used to mitigate risk. The amount and type of CRM is dependent on the client, product and/or portfolio. Credit derivatives are transacted with margined counterparties, or through the issue of credit-linked notes. The following collateral types are common in the marketplace:

- Retail portfolio
  - Mortgage lending secured by mortgage bonds over residential property.
  - Instalment credit transactions secured by the assets financed.
  - Overdrafts either unsecured or secured by guarantees, suretyships or pledged securities.
- Wholesale portfolio
  - Commercial properties supported by the property financed and a cession of the leases.
  - Instalment-credit-type transactions secured by the assets financed.
  - Working capital facilities being secured, usually by either a claim on specific assets (fixed assets, inventory and debtors) or other collateral such as guarantees.
  - Term and structured lending, relying on guarantees or credit derivatives (where only internationally recognised and enforceable agreements are used).
  - Credit exposure to other banks with risks commonly being mitigated by using financial collateral and netting agreements.

COLLATERAL VALUATION AND MANAGEMENT

The valuation and management of collateral across all BUs of the bank are governed by the Group Credit Policy. In the performing retail portfolio, collateral valuations are performed for mortgages using statistical indexing models and for vehicles using data published by the service providers. Physical valuations are performed for approximately 50% of new credit applications, while the remainder are valued using desktop valuations that are regularly back-tested against physical valuations. For assets that default in the retail portfolio, collateral is immediately revalued and physically inspected, and impairments are recalculated and updated, where required. Physical valuations are performed biannually on the defaulted book.

In the wholesale portfolio, collateral is valued at the inception of a transaction and reviewed at least annually during the life of the transaction. The review is performed to ensure that the security structure, established covenants and title deeds ceded to the bank are appropriate to rely on the collateral should it become necessary to execute the CRM techniques. Physical valuations occur, where appropriate.

For all new commercial property transactions and new property collateral, physical inspections and valuations are performed at inception. Valuations of property collateral are updated on an ongoing basis with physical inspections conducted, as required. For transactions rated as NP inspections are performed every six months and valuations are updated accordingly.

In the corporate sector, reliance is often placed on a third-party guarantor, which may be a parent company or a related party to the borrower, a major shareholder or another bank. Further, credit derivative transactions are sometimes used to hedge specific parts of any single name risk in the wholesale portfolio. For these transactions, updated collateral values are available from the issuer banks, non-bank financial institutions, large corporates and/or governments.

CR3: AIRB AND TSA CREDIT RISK MITIGATION TECHNIQUES – OVERVIEW

Rm		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
2020								
1	Loans	**282 545**	**490 171**	**470 008**	**4 948**	**3 670**		
2	Debt securities	**85 655**	**8 548**	**3 670**				
3	**Total**	**368 200**	**498 719**	**473 678**	**4 948**	**3 670**		
4	of which defaulted	**16 447**	**26 794**	**24 206**	**18**	**18**		
2019								
1	Loans	311 001	486 103	481 620	8 640	6 016		
2	Debt securities	93 617	8 640	6 016				
3	**Total**	404 618	494 743	487 636	8 640	6 016		
4	of which defaulted	16 078	10 854	10 794	6	6		

DEBT COUNSELLING

The portfolio balance increased by 4,75% to R10 896m (2019: R10 402m) and the number of accounts in debt counselling decreased by (5,18%) to 117 942 (2019: 124 416).

The analysis below shows the Retail debt-counselling portfolio, including new applications and portfolio balance.

NEDBANK RETAIL SUMMARY OF THE DEBT-COUNSELLING PORTFOLIO

	New applications				Portfolio balance			
	2020		2019		2020		2019	
Product	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm	Number of accounts	Exposure Rm
Mortgages	**1 606**	**791**	1 603	811	**6 635**	**2 771**	6 677	2 767
Vehicle and asset finance	**11 299**	**2 105**	11 868[1]	2 083	**39 584**	**5 713**	36 669	5 170
Unsecured lending	**17 092**	**1 007**	20 780	988	**36 677**	**1 808**	41 966	1 820
Card	**18 014**	**343**	20 430	359	**32 296**	**588**	36 079	626
Overdrafts	**4 543**	**12**	4 083	13	**2 750**	**16**	3 025	19
Total	**52 554**	**4 258**	58 764	4 254	**117 942**	**10 896**	124 416	10 402

[1] 2019 restated to correct an error.

EXPOSURE FOLLOWING THE STANDARDISED APPROACH

CR4: STANDARDISED APPROACH – CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION EFFECTS

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA[1] and RWA density	
Asset classes	On-balance-sheet amount Rm	Off-balance-sheet amount Rm	On-balance-sheet amount Rm	Off-balance-sheet amount Rm	RWA Rm	RWA density[2] %
2020						
1 Sovereigns and their central banks	**14 626**	**21**	**14 626**	**10**	**8 024**	**54,82**
2 Non-central government PSEs	**562**	**79**	**562**	**41**	**605**	**100,33**
3 Multilateral development banks	**2 634**		**2 634**			
4 Banks	**7 267**	**21**	**7 267**	**21**	**4 756**	**65,26**
5 Securities firms						
6 Corporates	**10 147**	**2 751**	**9 227**	**1 724**	**11 836**	**108,08**
7 Regulatory retail portfolios	**7 537**	**1 665**	**7 178**	**850**	**6 031**	**75,12**
8 Secured by residential property	**13 489**	**446**	**13 497**	**147**	**5 526**	**40,50**
9 Secured by commercial real estate	**64**		**64**		**64**	**100,00**
10 Equity						
11 Past-due loans	**113**		**104**		**109**	**104,81**
12 Higher-risk categories						
13 Other assets	**2 369**		**2 369**		**1 204**	**50,82**
14 Total	**58 808**	**4 983**	**57 528**	**2 793**	**38 155**	**63,25**
2019						
1 Sovereigns and their central banks	12 040	20	12 040		9 096	75,55
2 Non-central government PSEs	757	85	728	51	593	76,12
3 Multilateral development banks	2 821		2 821			
4 Banks	9 091	91	9 091	80	3 978	43,38
5 Securities firms						
6 Corporates	8 983	2 951	7 887	695	9 483	110,50
7 Regulatory retail portfolios	8 323	2 397	7 504	1 521	6 590	73,02
8 Secured by residential property	12 682	168	12 683	168	5 155	40,11
9 Secured by commercial real estate	63		63		63	100,00
10 Equity						
11 Past-due loans	87		87		94	108,05
12 Higher-risk categories						
13 Other assets	2 149		2 148		1 212	56,42
14 Total	56 996	5 712	55 052	2 515	36 264	62,99

[1] Total RWA excludes CCR RWA.
[2] RWA density is total RWA to EAD post-CRM and post-Credit Conversion Factor (CCF).

CR5: STANDARDISED APPROACH – EXPOSURES BY ASSET CLASS AND RISK-WEIGHTS

Asset classes Rm		RISK-WEIGHT 0%	10%	20%	35%	50%	75%	100%	150%	Total credit exposures amount (post-CCF and post-CRM)
2020										
1	Sovereigns and their central banks	**7 988**				**10**		**3 878**	**2 760**	**14 636**
2	Non-central government PSEs					**9**		**581**	**13**	**603**
3	Multilateral development banks	**2 634**								**2 634**
4	Banks	**1 096**					**5 745**	**447**		**7 288**
5	Securities firms									
6	Corporates					**174**		**8 834**	**1 943**	**10 951**
7	Regulatory retail portfolios	**145**			**104**		**7 137**	**642**		**8 028**
8	Secured by residential property	**8**			**10 412**	**2 685**		**539**		**13 644**
9	Secured by commercial real estate							**64**		**64**
10	Equity									
11	Past-due loans	**1**						**89**	**14**	**104**
12	Higher-risk categories									
13	Other assets	**705**		**288**	**353**			**1 023**		**2 369**
14	**Total**	**12 577**		**288**	**10 869**	**2 878**	**12 882**	**16 097**	**4 730**	**60 321**
2019										
1	Sovereigns and their central banks	4 593						4 150	3 297	12 040
2	Non-central government PSEs					371		408		779
3	Multilateral development banks	2 821								2 821
4	Banks	2 819	1 473	985			1 040	2 854		9 171
5	Securities firms									
6	Corporates			479	1			5 533	2 569	8 582
7	Regulatory retail portfolios	93		73	205	3	8 597	54		9 025
8	Secured by residential property				11 730		283	838		12 851
9	Secured by commercial real estate							63		63
10	Equity									
11	Past-due loans							74	13	87
12	Higher-risk categories									
13	Other assets		525			519	822	282		2 148
14	**Total**	10 326	1 998	1 537	11 936	893	10 742	14 256	5 879	57 567

EXPOSURE FOLLOWING THE IRB APPROACH

CR6: AIRB – CREDIT RISK EXPOSURE BY PORTFOLIO AND PD RANGE

93,9% of the total credit extended by Nedbank Group is subject to the AIRB Approach. Private Wealth International and the non-SA subsidiaries credit portfolios and some of the legacy Imperial Bank portfolio in RBB remain on TSA.

2020 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity years[2]	RWA Rm	RWA density %	EL Rm	Provisions Rm
Corporate												
0,00 to < 0,15	24 795	19 517	62,13	43 784	0,10	69	12,42	2,10	5 573	12,73	9	
0,15 to < 0,25	45 760	41 022	60,29	85 802	0,20	366	14,11	2,18	20 000	23,31	43	
0,25 to < 0,50	37 969	29 474	68,20	65 780	0,37	576	15,78	1,97	23 506	35,73	67	
0,50 to < 0,75	11 668	9 747	74,98	21 415	0,64	211	10,96	2,33	10 917	50,98	48	
0,75 to < 2,50	30 813	14 179	68,17	44 809	1,27	555	16,51	1,99	28 964	64,64	183	
2,50 to < 10,00	13 369	5 122	68,01	18 543	6,62	4 756	21,96	2,84	20 919	112,81	311	
10,00 to < 100,00	14 159	1 440	73,01	15 595	16,24	74	19,77	1,68	14 479	92,84	819	
100,00 (default)	6 559	533	83,71	7 092	100,00	116	106,06	1,72	9 063	127,79	1 030	
	185 092	121 034	65,21	302 820	15,68	6 723	27,20	2,10	133 421	44,06	2 510	3 255
SME – corporate												
0,00 to < 0,15	17	23	106,60	40	0,07	7	23,11	3,14	6	15,00		
0,15 to < 0,25	2 786	1 945	86,55	4 731	0,20	573	23,40	2,11	1 099	23,23	3	
0,25 to < 0,50	6 954	3 228	94,18	10 178	0,40	893	20,18	2,02	2 906	28,55	11	
0,50 to < 0,75	6 284	1 820	91,02	8 099	0,64	736	18,89	1,86	3 363	41,52	15	
0,75 to < 2,50	16 078	4 218	90,55	20 296	1,22	1 800	20,83	1,88	9 884	48,70	69	
2,50 to < 10,00	6 026	929	95,10	6 955	3,37	372	23,25	2,43	4 694	67,49	66	
10,00 to < 100,00	1 444	274	86,18	1 718	17,61	130	22,26	1,93	1 876	109,20	69	
100,00 (default)	1 667	73	14,48	1 740	100,00	334	9,90	2,03	1 715	98,56	418	
	41 256	12 510	90,76	53 757	15,44	4 845	20,23	2,18	25 543	47,52	651	1 005
Specialised lending[1]												
0,00 to < 0,15	14 836	300	344,04	15 135	0,07	424	8,32	3,08	1 826	12,06	2	
0,15 to < 0,25	29 045	2 680	100,48	31 725	0,21	311	16,36	2,62	7 441	23,45	12	
0,25 to < 0,50	44 318	2 972	75,89	47 290	0,38	456	10,23	2,79	12 780	27,02	30	
0,50 to < 0,75	22 216	1 211	124,08	23 426	0,64	438	17,55	2,75	10 241	43,72	36	
0,75 to < 2,50	33 221	2 241	60,44	35 461	1,44	854	13,49	3,58	15 456	43,59	79	
2,50 to < 10,00	9 856	684	118,27	10 540	6,65	924	3,65	4,49	7 136	67,70	90	
10,00 to < 100,00	1 452	23	146,41	1 475	17,68	23	10,27	2,00	1 436	97,36	61	
100,00 (default)	3 922	13	178,09	3 935	100,00	83	15,25	3,33	5 106	129,76	572	
	158 866	10 124	95,83	168 987	15,76	3 513	12,00	3,15	61 422	36,35	882	896

2020 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity years[2]	RWA Rm	RWA density %	EL Rm	Provisions Rm
Public sector entities												
0,00 to < 0,15	4 032	613	69,35	4 645	0,09	8	21,66	3,36	476	10,25	1	
0,15 to < 0,25	2 610	2 406	64,44	5 016	0,17	8	16,42	3,19	939	18,72	2	
0,25 to < 0,50	4 601	3 100	60,77	7 701	0,45	2	18,41	1,32	3 017	39,18	10	
0,50 to < 0,75												
0,75 to < 2,50	2 142			2 142	1,14	5	17,83	2,71	1 041	48,60	5	
2,50 to < 10,00		11	100,00	11	7,24	1	17,75	1,00	10	90,91		
10,00 to < 100,00	42	225	3,09	268	15,00	5	19,17	2,66	63	23,51	52	
100,00 (default)	1 420	590	78,78	2 009	100,00	6	3,02	2,12	2 779	138,33	207	
	14 847	6 945	63,66	21 792	17,73	35	16,32	2,34	8 325	38,20	277	275
Local government and municipalities												
0,00 to < 0,15	3 695	130	213,48	3 825	0,08	9	12,99	3,53	679	17,75	1	
0,15 to < 0,25	4 996	407	154,45	5 403	0,23	11	11,70	1,65	1 458	26,99	2	
0,25 to < 0,50	537	6	283,78	543	0,41	8	18,55	3,63	226	41,62		
0,50 to < 0,75	2 549	35	221,17	2 582	0,64	6	15,95	2,23	1 078	41,75	4	
0,75 to < 2,50	87	6	93,32	93	1,08	10	19,84	3,07	65	69,89		
2,50 to < 10,00	3	6	87,41	10	3,39	6	19,17	2,20	6	60,00		
10,00 to < 100,00	34			34	14,48	2	20,03	3,16	48	141,18	1	
100,00 (default)	242			242	100,00	2	20,03	3,00	847	350,00		
	12 143	590	171,55	12 732	15,04	54	17,28	2,81	4 407	34,61	8	103
Sovereign												
0,00 to < 0,15	82 274	595	29,17	82 868	0,03	26	9,96	4,34	8 242	9,95	5	
0,15 to < 0,25												
0,25 to < 0,50					0,45	1	37,71	1,00				
0,50 to < 0,75	269			269	0,64	2	35,44	2,36	202	75,09	1	
0,75 to < 2,50	395			395	0,91	1	62,50	4,41	697	176,46	2	
2,50 to < 10,00	152	472	0,65	624	6,04	10	33,44	2,10	334	53,53	6	
10,00 to < 100,00	39	219	3,74	259	10,24	1	62,50	4,09	137	52,90	3	
100,00 (default)	19	31	1,01	50	100,00	2	105,17	3,29	17	34,00	16	
	83 148	1 317	14,49	84 465	16,90	43	49,53	3,08	9 629	11,40	33	50

2020 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity years[2]	RWA Rm	RWA density %	EL Rm	Provisions Rm
Banks												
0,00 to < 0,15	2 269	210	229,60	2 479	0,07	75	24,84	2,60	460	18,56		
0,15 to < 0,25	278	83	100,26	360	0,17	27	18,98	2,77	165	45,83		
0,25 to < 0,50		86	100,00	87	0,44	18	41,86	2,81	34	39,08		
0,50 to < 0,75	5	1	100,00	6	0,64	3	25,68	2,88	3	50,00		
0,75 to < 2,50	17	7	102,01	24	1,17	13	31,31	2,42	42	175,00		
2,50 to < 10,00	164	610	100,00	774	6,67	41	33,58	0,97	1 340	173,13	25	
10,00 to < 100,00	41	298	100,00	340	11,57	13	53,57	1,17	775	227,94	23	
100,00 (default)					100,00	1		1,00				
	2 774	1 295	121,03	4 070	15,09	191	28,73	2,08	2 819	69,26	48	12
Retail – mortgages												
0,00 to < 0,15	3 792	6 612	102,00	10 404	0,08	25 770	43,35	12,52	260	2,50	1	
0,15 to < 0,25	12 385	4 958	106,55	17 343	0,20	24 992	28,21	14,66	922	5,32	4	
0,25 to < 0,50	14 243	5 942	108,37	20 184	0,39	22 495	12,30	15,00	1 794	8,89	10	
0,50 to < 0,75	9 294	2 228	119,21	11 522	0,64	15 248	14,41	15,33	1 458	12,65	10	
0,75 to < 2,50	41 481	3 435	136,01	44 916	1,25	64 811	11,48	16,29	9 061	20,17	74	
2,50 to < 10,00	39 656	2 228	97,03	41 884	3,99	62 486	14,43	17,87	18 499	44,17	241	
10,00 to < 100,00	13 645	283	196,29	13 927	19,59	23 601	14,51	18,06	11 672	83,81	406	
100,00 (default)	10 243	398	9,18	10 640	100,00	16 487	14,75	15,96	1 659	15,59	1 947	
	144 739	26 084	109,45	170 820	15,77	255 890	19,18	16,18	45 325	26,53	2 693	2 711
Retail – revolving credit												
0,00 to < 0,15												
0,15 to < 0,25	335	2 197	28,77	2 532	0,20	53 693	45,07		52	2,05	1	
0,25 to < 0,50	405	2 167	26,36	2 572	0,43	54 545	46,21		104	4,04	2	
0,50 to < 0,75	520	1 576	42,39	2 095	0,64	83 740	54,13		187	8,93	4	
0,75 to < 2,50	3 880	4 984	26,17	8 864	1,49	223 789	49,81		1 462	16,49	40	
2,50 to < 10,00	5 165	3 648	52,41	8 812	5,89	647 554	77,62		4 649	52,76	184	
10,00 to < 100,00	4 167	741	88,03	4 908	21,54	446 618	79,15		6 754	137,61	558	
100,00 (default)	2 382			2 382	100,00	2 251 666	77,31		810	34,01	1 619	
	16 854	15 313	37,48	32 165	18,60	3 761 605	61,33		14 018	43,58	2 408	3 836

2020 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity years[2]	RWA Rm	RWA density %	EL Rm	Provisions Rm
SME – retail												
0,00 to < 0,15	85	130	101,83	216	0,09	595	57,78	3,41	7	3,24		
0,15 to < 0,25	374	699	77,57	1 073	0,22	4 323	30,75	1,87	89	8,29		
0,25 to < 0,50	874	2 041	77,98	2 915	0,42	10 282	26,69	2,18	381	13,07	2	
0,50 to < 0,75	1 418	1 428	79,16	2 847	0,64	7 510	26,12	2,45	534	18,76	5	
0,75 to < 2,50	10 391	4 331	94,55	14 722	1,30	21 587	23,69	2,42	4 584	31,14	54	
2,50 to < 10,00	16 345	4 269	86,04	20 613	6,08	85 824	37,79	2,43	10 430	50,60	333	
10,00 to < 100,00	2 209	423	47,99	2 632	22,46	5 647	29,34	2,15	1 408	53,50	121	
100,00 (default)	2 998	278	5,59	3 276	100,00	17 652	28,93	2,19	2 327	71,03	928	
	34 694	13 599	83,71	48 294	16,40	153 420	32,64	2,39	19 760	40,92	1 443	1 287
Retail – other												
0,00 to < 0,15	6	42	101,23	48	0,08	481	50,97		4	8,33		
0,15 to < 0,25	4	29	71,15	34	0,19	185	52,81	3,45	4	11,76		
0,25 to < 0,50	56	130	83,73	185	0,45	587	35,18	4,40	42	22,70		
0,50 to < 0,75	663	34	52,19	697	0,64	5 059	30,86	3,10	179	25,68	1	
0,75 to < 2,50	8 359	109	83,39	8 468	1,71	88 624	29,96	3,90	3 062	36,16	40	
2,50 to < 10,00	88 153	84	327,36	88 237	4,05	536 664	31,14	4,49	41 196	46,69	1 104	
10,00 to < 100,00	26 630	6	2 069,23	26 637	22,34	250 374	42,02	3,00	22 598	84,84	2 243	
100,00 (default)	14 541	1	1 152,80	14 542	100,00	275 021	68,55	4,60	956	6,57	6 837	
	138 412	435	159,89	138 848	16,18	1 156 995	42,69	3,85	68 041	49,00	10 225	11 160
Group												
0,00 to < 0,15	135 801	28 172	76,44	163 444	0,08	27 464	38,11	3,08	17 533	10,73	19	
0,15 to < 0,25	98 573	56 426	67,19	154 019	0,20	84 489	37,52	2,48	32 169	20,89	67	
0,25 to < 0,50	109 957	49 146	73,63	157 435	0,42	89 863	33,02	2,36	44 790	28,45	132	
0,50 to < 0,75	54 886	18 080	83,06	72 958	0,64	112 953	43,24	2,38	28 162	38,60	124	
0,75 to < 2,50	146 864	33 510	74,93	180 190	1,47	402 049	36,94	2,39	74 318	41,24	546	
2,50 to < 10,00	178 889	18 063	76,52	197 003	5,10	1 338 638	53,07	2,73	109 213	55,44	2 360	
10,00 to < 100,00	63 862	3 932	80,86	67 793	21,75	726 488	63,64	2,19	61 246	90,34	4 356	
100,00 (default)	43 993	1 917	52,40	45 908	100,00	2 561 370	75,53	2,39	25 279	55,06	13 574	
Total group	832 825	209 246	73,51	1 038 750	16,21	5 343 314	47,63	2,50	392 710	37,81	21 178	24 590
Slotting exposure	6 280	295		6 544					7 287		148	53
Total including slotting	839 105	209 541		1 045 294					399 997		21 326	24 643

2019 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity years[2]	RWA Rm	RWA density %	EL Rm	Provisions Rm
Corporate												
0,00 to < 0,15	40 456	27 131	73,60	58 602	0,09	204	26,75	1,46	7 653	13,06	15	
0,15 to < 0,25	47 760	35 285	77,32	74 215	0,20	150	33,80	1,87	22 528	30,36	50	
0,25 to < 0,50	48 100	28 193	61,40	65 268	0,37	219	35,97	1,54	26 434	40,50	82	
0,50 to < 0,75	13 102	6 493	77,15	17 371	0,64	109	43,38	1,61	8 577	49,38	33	
0,75 to < 2,50	30 793	10 346	67,91	37 600	1,29	384	43,18	1,51	24 947	66,35	151	
2,50 to < 10,00	10 746	5 041	58,00	13 651	4,81	1 206	46,52	1,67	15 825	115,93	235	
10,00 to < 100,00	15 073	1 306	117,79	16 557	18,14	48	17,60	1,08	14 327	86,53	543	
100,00 (default)	3 614	794	69,21	4 134	100,00	52	47,16	1,13	5 716	138,27	868	
	209 644	114 589	71,07	287 398	3,08	2 372	34,52	1,58	126 007	43,84	1 977	2 035
SME – corporate												
0,00 to < 0,15	1	7	99,67	8		3	16,25	4,16	1	12,50		
0,15 to < 0,25	1 277	866	100,29	2 136	0,19	300	28,70	2,42	482	22,57	1	
0,25 to < 0,50	5 121	2 026	94,02	7 016	0,41	576	24,91	2,22	1 981	28,24	7	
0,50 to < 0,75	4 288	1 441	101,87	5 755	0,64	416	29,25	1,98	2 287	39,74	11	
0,75 to < 2,50	16 314	5 324	71,09	20 064	1,34	1 620	27,48	2,25	10 416	51,91	74	
2,50 to < 10,00	7 627	1 262	89,09	8 751	3,43	846	29,27	2,56	6 215	71,02	89	
10,00 to < 100,00	1 195	162	110,32	1 373	16,02	103	24,73	2,05	1 361	99,13	56	
100,00 (default)	918	54	1,14	918	100,00	253	22,61	3,00	558	60,78	289	
	36 741	11 142	83,83	46 021	3,86	4 117	27,53	2,29	23 301	50,63	527	603
Specialised lending[1]												
0,00 to < 0,15	17 395	450	388,07	18 926	0,07	446	15,65	3,62	2 245	11,86	2	
0,15 to < 0,25	35 979	4 244	86,14	39 556	0,20	226	39,93	3,33	10 775	27,24	16	
0,25 to < 0,50	38 757	2 555	110,36	41 450	0,40	332	25,41	3,42	13 364	32,24	30	
0,50 to < 0,75	18 596	1 111	144,66	20 133	0,64	369	19,78	3,53	8 569	42,56	26	
0,75 to < 2,50	26 255	908	221,95	28 085	1,33	773	17,05	3,29	12 651	45,05	64	
2,50 to < 10,00	13 356	526	254,28	14 590	4,36	855	20,76	3,61	11 421	78,28	146	
10,00 to < 100,00	2 996	22	815,41	3 096	26,81	35	23,55	2,46	3 986	128,75	179	
100,00 (default)	754	1	130,16	752	100,00	50	19,27	3,72	1 150	152,93	88	
	154 088	9 817	133,40	166 588	1,79	3 086	25,19	3,41	64 161	38,51	551	498
Public sector entities												
0,00 to < 0,15	5 952	2 422	55,33	7 274	0,04	565	57,89	1,95	1 009	13,87	1	
0,15 to < 0,25	4 193	2 107	63,68	5 520	0,22	70	24,34	3,30	1 732	31,38	13	
0,25 to < 0,50	2 702	257	131,37	3 020	0,33	13	35,31	4,69	1 999	66,19	26	
0,50 to < 0,75												
0,75 to < 2,50	291	11	113,69	302	1,32	144	28,94	4,43	255	84,44	1	
2,50 to < 10,00	135		100,00	134	7,46	2	27,15	3,00	153	114,18	3	
10,00 to < 100,00	92	612	75,78	556	38,31	312	26,98	1,14	803	144,42	73	
100,00 (default)												
	13 365	5 409	64,49	16 806	1,50	1 106	41,02	2,91	5 951	35,41	117	26

2019 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity years[2]	RWA Rm	RWA density %	EL Rm	Provisions Rm
Local government and municipalities												
0,00 to < 0,15	5 134	148	589,57	5 311	0,09	162	18,79	4,68	1 040	19,58	1	
0,15 to < 0,25	6 019	70	59,52	6 061	0,23	27	17,62	4,27	1 644	27,12	2	
0,25 to < 0,50	606	2	(486,33)	597	0,34	11	16,90	4,80	193	32,33		
0,50 to < 0,75	71	4	51,09	73		12	23,09	4,74	42	57,53		
0,75 to < 2,50	35	2	54,19	36		20	26,22	3,71	27	75,00		
2,50 to < 10,00	37	6	113,43	42	7,14	13	19,25	2,71	33	78,57	1	
10,00 to < 100,00	17	5	91,94	22	13,64	3	26,43	2,73	30	136,36	1	
100,00 (default)	222			217	100,00	2	19,50	4,74	574	264,52	15	
	12 141	237	184,24	12 359	1,97	250	18,20	4,47	3 583	28,99	20	19
Sovereign												
0,00 to < 0,15	82 240	216	96,23	80 789	0,02	22	19,26	3,66	6 444	7,98	4	
0,15 to < 0,25	468	27	(6,27)	467	0,21	4	44,95	1,87	204	43,68		
0,25 to < 0,50	53	7	(13,20)	60		1	42,69	0,07	24	40,00		
0,50 to < 0,75												
0,75 to < 2,50	431		50,51	426	0,94	3	72,40	5,00	896	210,33	3	
2,50 to < 10,00	188	344	56,57	382	3,93	7	47,41	1,89	579	151,57	7	
10,00 to < 100,00	52		(664,26)	56	10,71	1	72,40	2,16	184	328,57	5	
100,00 (default)												
	83 432	594	103,99	82 180	0,05	38	19,87	3,65	8 331	10,14	19	
Banks												
0,00 to < 0,15	4 861	557	86,45	4 283	0,07	147	25,98	2,37	730	17,04	1	
0,15 to < 0,25	5	43	107,48	48		18	26,89	1,25	12	25,00		
0,25 to < 0,50		71	100,00	71		15	26,74	0,58	28	39,44		
0,50 to < 0,75	1 401	250	163,15	1 158	0,60	4	27,15	2,96	883	76,25	2	
0,75 to < 2,50	51	2	90,19	40		17	20,60	3,11	21	52,50		
2,50 to < 10,00	2 018	303	15,85	1 746	4,93	58	42,91	0,42	2 461	140,95	42	
10,00 to < 100,00	164	201	382,81	318	11,32	7	53,76	0,59	254	79,87	21	
100,00 (default)												
	8 500	1 427	34,91	7 664	1,74	266	31,15	1,92	4 389	57,27	66	2
Retail – mortgages												
0,00 to < 0,15	3 364	6 401	101,89	9 886	0,08	23 907	11,40	12,34	244	2,47	1	
0,15 to < 0,25	11 339	4 243	107,89	15 916	0,21	19 663	11,69	14,70	811	5,10	4	
0,25 to < 0,50	14 146	6 135	108,38	20 795	0,39	32 370	12,16	14,94	1 769	8,51	10	
0,50 to < 0,75	8 907	2 438	115,15	11 714	0,64	28 946	12,15	15,23	1 397	11,93	9	
0,75 to < 2,50	44 253	3 648	138,12	49 291	1,26	71 230	12,65	16,06	9 583	19,44	79	
2,50 to < 10,00	37 140	1 680	121,04	39 174	3,76	62 445	14,32	17,34	16 448	41,99	212	
10,00 to < 100,00	13 525	203	223,23	13 979	19,93	27 316	14,23	17,79	10 976	78,52	391	
100,00 (default)	6 811	426	6,31	6 838	100,00	9 111	15,15	16,01	895	13,09	1 348	
	139 485	25 174	111,66	167 593	7,11	274 988	13,01	15,95	42 123	25,13	2 054	2 115

2019 Basel asset class	Original on-balance-sheet gross exposure Rm	Off-balance-sheet exposures pre-CCF Rm	Average CCF %	EAD post-CRM and post-CCF Rm	Average PD %	Number of obligors	Average LGD %	Average maturity years[2]	RWA Rm	RWA density %	EL Rm	Provisions Rm
Retail – revolving credit												
0,00 to < 0,15		1	81,12	1		8	24,27					
0,15 to < 0,25	361	2 206	30,61	1 036	0,19	79 290	44,83		55	5,31	1	
0,25 to < 0,50	555	2 360	27,73	1 210	0,33	68 855	49,96		112	9,26	2	
0,50 to < 0,75	896	1 691	42,71	1 619	0,62	55 761	53,03		247	15,26	5	
0,75 to < 2,50	3 957	4 836	29,81	5 398	1,44	180 608	50,10		1 435	26,58	39	
2,50 to < 10,00	5 146	3 710	53,34	7 125	5,15	1 247 145	51,93		4 809	67,49	194	
10,00 to < 100,00	4 228	873	71,83	4 855	20,80	294 516	52,57		6 587	135,67	534	
100,00 (default)	1 936			1 936	100,00	2 357 489	54,82		1 142	58,99	1 318	
	17 079	15 677	38,91	23 180	14,70	4 283 672	51,53		14 387	62,07	2 093	2 597
SME – retail												
0,00 to < 0,15	72	111	74,46	155		1 587	13,61	0,41	5	3,23		
0,15 to < 0,25	566	920	83,22	1 332	0,23	8 129	24,89	2,36	142	10,66	1	
0,25 to < 0,50	1 099	1 655	66,95	2 207	0,41	13 788	24,07	2,57	360	16,31	2	
0,50 to < 0,75	1 250	1 168	77,65	2 153	0,65	11 544	24,55	2,92	461	21,41	3	
0,75 to < 2,50	9 026	3 824	98,94	12 807	1,43	30 209	23,49	3,23	3 671	28,66	43	
2,50 to < 10,00	17 576	3 815	88,78	20 961	4,35	154 941	31,70	2,43	10 264	48,97	318	
10,00 to < 100,00	2 057	490	48,28	2 293	20,02	6 544	26,89	2,35	1 382	60,27	126	
100,00 (default)	2 170	219	3,08	2 176	100,00	18 879	26,79	2,70	1 461	67,14	753	
	33 816	12 202	84,22	44 084	8,52	245 621	27,82	2,69	17 746	40,25	1 246	855
Retail – other												
0,00 to < 0,15	27	50	101,33	78		555	34,73		6	7,69		
0,15 to < 0,25	16	63	92,52	74		222	29,15	1,49	9	12,16		
0,25 to < 0,50	78	126	88,34	190	0,53	522	35,27	0,52	47	24,74		
0,50 to < 0,75	527	41	68,70	555	0,72	8 089	29,46	0,06	143	25,77	1	
0,75 to < 2,50	8 752	111	101,17	8 865	1,70	161 321	27,03	0,02	3 096	34,92	40	
2,50 to < 10,00	85 888	103	265,20	86 162	3,84	451 439	30,09		39 307	45,62	1 048	
10,00 to < 100,00	24 365	12	1 060,35	24 492	24,08	307 254	36,37		20 577	84,02	2 041	
100,00 (default)	10 076		97,44	10 076	100,00	174 545	38,87		836	8,30	5 182	
	129 729	506	150,34	130 492	14,90	1 103 947	31,74		64 021	49,06	8 312	8 408
Group												
0,00 to < 0,15	159 502	37 494	81,01	185 313	0,06	27 606	22,50	2,69	19 377	10,46	25	
0,15 to < 0,25	107 983	50 074	78,76	146 361	0,20	108 099	31,98	2,29	38 394	26,23	88	
0,25 to < 0,50	111 217	43 387	71,40	141 884	0,38	116 702	28,69	2,12	46 311	32,64	159	
0,50 to < 0,75	49 038	14 637	86,92	60 531	0,64	105 250	27,27	2,17	22 606	37,35	90	
0,75 to < 2,50	140 158	29 012	79,77	162 914	1,33	446 329	25,35	1,66	66 998	41,12	494	
2,50 to < 10,00	179 857	16 790	87,53	192 718	4,03	1 918 957	28,43	0,89	107 515	55,79	2 295	
10,00 to < 100,00	63 764	3 886	104,51	67 597	21,40	636 139	27,24	0,54	60 467	89,45	3 970	
100,00 (default)	26 501	1 494	37,90	27 047	100,00	2 560 381	33,06	0,82	12 332	45,59	9 861	
Total group	838 020	196 774	79,07	984 365	5,36	5 919 463	27,34	1,80	374 000	37,99	16 982	17 158
Slotting exposure	8 610	433		9 031					10 234		279	200
Total including slotting	846 630	197 207		993 396					384 234		17 261	17 358

[1] *RWA excludes specialised lending – HVCRE, which is included under the Slotting Approach.*

[2] *Average maturity refers to the EAD-weighted effective maturity applied in the credit risk RWA calculation.*

CR7: AIRB – EFFECT ON RWA OF CREDIT RISK DERIVATIVES USED AS CRM TECHNIQUES[1]

Rm		2020 Pre-credit derivatives RWA[2]	2020 Actual RWA[2]	2019 Pre-credit derivatives RWA[2]	2019 Actual RWA[2]
1	Sovereign – Foundation Internal Ratings-based (FIRB)				
2	Sovereign – AIRB	**9 629**	**9 629**	8 331	8 331
3	Banks – FIRB				
4	Banks – AIRB	**2 819**	**2 819**	4 389	4 389
5	Corporate – FIRB				
6	Corporate – AIRB	**133 421**	**133 421**	126 007	126 007
7	Specialised lending – FIRB				
8	Specialised lending – AIRB	**61 422**	**61 422**	64 161	64 161
9	Retail – qualifying revolving	**14 018**	**14 018**	14 387	14 387
10	Retail – residential-mortgage exposures	**45 325**	**45 325**	42 123	42 123
11	Retail –SME	**19 760**	**19 760**	17 746	17 746
12	Other retail exposures	**68 041**	**68 041**	64 021	64 021
13	Equity – FIRB				
14	SME Corporate AIRB	**25 543**	**25 543**	23 301	23 301
15	Purchased receivables – FIRB				
16	Purchased receivables – AIRB				
	PSEs – AIRB	**8 325**	**8 325**	5 951	5 951
	Local government and municipalities – AIRB	**4 407**	**4 407**	3 583	3 583
17	**Total**	**392 710**	**392 710**	374 000	374 000
	Slotting exposure	**7 287**	**7 287**	10 234	10 234
	Total including slotting exposure	**399 997**	**399 997**	384 234	384 234

[1] *No credit derivatives were applied as CRM during the year.*
[2] *RWA excludes specialised lending – HVCRE, which is included under the Slotting Approach.*

CR8: RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER IRB

The RWA flow statement below outlines the major drivers of changes in credit risk RWA between each reporting period. Please note this statement does not include changes applicable to counterparty credit risk.

Rm		2020 RWA[1]	2019 RWA[1]
1	**RWA at the end of the previous reporting period**	**384 234**	352 090
2	Asset size	**2 909**	24 383
3	Asset quality	**19 393**	7 739
4	Model updates		180
5	Methodology and policy		
6	Acquisitions and disposals		
7	Foreign exchange movements	**(6 539)**	(158)
8	Other		
9	**RWA at the end of the reporting period**	**399 997**	384 234

[1] *RWA includes specialised lending – HVCRE.*

CR10: AIRB SPECIALISED LENDING

The majority of Nedbank Group's specialised lending exposure on the Slotting Approach relates to the HVCRE asset class (84,9%), with a small portion of the IPRE portfolio subject to the Slotting Approach. The remaining specialised lending exposure is subject to the AIRB Approach.

		Specialised lending other than HVCRE									
					Exposure amount						
Regulatory categories Rm	**Remaining maturity**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RW %**	**Project finance**	**Object finance**	**Commodities finance**	**IPRE**	**Total**	**RWA**	**Expected losses**
2020											
Strong	Less than 2,5 years			**50**							
	Equal to or more than 2,5 years			**70**							
Good	Less than 2,5 years			**70**							
	Equal to or more than 2,5 years			**90**							
Satisfactory		**784**	**149**	**115**				**902**		**1 100**	**34**
Weak				**250**							
Default											
Total		**784**	**149**					**902**		**1 100**	**34**

Regulatory categories Rm	Remaining maturity	Specialised lending other than HVCRE									
		On-balance-sheet amount	Off-balance-sheet amount	RW %	Exposure amount					RWA	Expected losses
					Project finance	Object finance	Commodities finance	IPRE	Total		
2019											
Strong	Less than 2,5 years			50							
	Equal to or more than 2,5 years			70							
Good	Less than 2,5 years			70							
	Equal to or more than 2,5 years			90							
Satisfactory		465	95	115				548		668	21
Weak				250							
Default											
Total		465	95					548		668	21

Regulatory categories Rm	Remaining maturity	Specialised lending – HVCRE					
		On-balance-sheet amount	Off-balance-sheet amount	RW %	Exposure amount	RWA	Expected losses
2020							
Strong	Less than 2,5 years			**70**			
	Equal to or more than 2,5 years	**1 034**		**95**	**1 034**	**1 048**	**5**
Good	Less than 2,5 years	**2 399**	**93**	**95**	**2 492**	**2 509**	**14**
	Equal to or more than 2,5 years	**1 104**	**29**	**120**	**1 133**	**1 441**	**6**
Satisfactory		**570**	**9**	**140**	**579**	**859**	**22**
Weak		**125**		**250**	**125**	**330**	**14**
Default		**264**	**15**		**279**		**53**
Total		**5 496**	**146**		**5 642**	**6 187**	**114**
2019							
Strong	Less than 2,5 years			70			
	Equal to or more than 2,5 years	961	19	95	980	987	5
Good	Less than 2,5 years	3 962	138	95	4 100	4 129	22
	Equal to or more than 2,5 years	1 082	11	120	1 093	1 390	6
Satisfactory		1 410	144	140	1 554	2 306	59
Weak		279	6	250	285	754	32
Default		451	20		471		132
Total		8 145	338		8 483	9 566	256

Categories Rm	Equities under the SRWA				
	On-balance-sheet amount	Off-balance-sheet amount	RW %	Exposure amount	RWA
2020					
Exchange-traded equity exposures	**136**		300	**136**	**432**
Private-equity exposures	**2 970**		400	**2 970**	**12 593**
Other equity exposures	**6 902**		400	**6 902**	**29 266**
Total	**10 008**			**10 008**	**42 291**
2019					
Exchange-traded equity exposures	896		300	896	2 849
Private-equity exposures	2 783		400	2 783	11 800
Other equity exposures	6 220		400	6 220	26 372
Total	9 899			9 899	41 021

BACKTESTING OF PD PER PORTFOLIO

Nedbank applies the AIRB approach for most of its credit portfolios. The corresponding PD parameters are long-run averages and associated models are subject to annual validation, which includes a backtesting exercise to compare the estimates to the actual outcomes over time. The PA regulations require banks to compare the regulatory AIRB PD parameters to the actual observed average historical annual default rates. The regulations prescribe that a breakdown of key statistics by PD range be tabulated for each major AIRB asset class. These key statistics include the following:

- Weighted average PD – this has been calculated on an EAD-weighted basis.
- Arithmetic average PD by obligors – a simple average of PDs among obligors within the PD range.
- Number of obligors – the number of obligors within the PD range at the beginning and end of the observation period.
- Defaulted obligors in the year – the total number of obligors in default at any point within the observation period.
- New obligors defaulted in the year – the number of obligors that were new during the observation period and went into default within the observation period.
- Average historical annual default rate – an average of the previous five years' annual default rates.

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO – WHOLESALE ASSET CLASSES

		2020						
				Number of obligors				
PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	End of prior year	End of the year	Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
Corporate								
0,00 to < 0,15	AAA, AA, A	0,10	0,11	204	69	2	2	0,21
0,15 to < 0,25	A-, BBB+	0,19	0,19	150	366	2		0,08
0,25 to < 0,50	BBB	0,37	0,38	219	576	3	2	0,19
0,50 to < 0,75	BB	0,64	0,64	109	211	1	1	0,45
0,75 to < 2,50	BB-	1,23	1,24	384	555	8		2,94
2,50 to < 10,00	B+, B	4,64	6,57	1 206	4 756	163	53	4,98
10,00 to < 100,00	B- and below	23,84	17,11	48	74	19	7	16,46
100,00 (Default)	Defaulted	100,00	100,00	52	116	25	25	
Total		1,90	3,18	2 372	6 723	223	90	1,67
SME – corporate								
0,00 to < 0,15	AAA, AA, A	0,08	0,08	3	7			0,21
0,15 to < 0,25	A-, BBB+	0,20	0,19	300	573			0,13
0,25 to < 0,50	BBB	0,41	0,39	576	893	3		0,21
0,50 to < 0,75	BB	0,64	0,64	416	736	2		0,31
0,75 to < 2,50	BB-	1,35	1,25	1 620	1 800	35		1,21
2,50 to < 10,00	B+, B	3,55	3,30	846	372	22	3	2,53
10,00 to < 100,00	B- and below	14,68	17,19	103	130	69	4	9,55
100,00 (Default)	Defaulted	100,00	100,00	253	334	21	21	
Total		1,89	1,72	4 117	4 845	152	28	1,41
Corporate – specialised lending project finance								
0,00 to < 0,15	AAA, AA, A	0,08	0,07	11	12			0,13
0,15 to < 0,25	A-, BBB+	0,20	0,20	23	20			6,24
0,25 to < 0,50	BBB	0,40	0,37	20	25			0,16
0,50 to < 0,75	BB	0,64	0,64	6	16			0,26
0,75 to < 2,50	BB-	1,58	1,63	11	6			0,56
2,50 to < 10,00	B+, B	5,90	7,14	6	13			2,09
10,00 to < 100,00	B- and below	18,48	19,68	3		3		6,79
100,00 (Default)	Defaulted	100,00	100,00	1	4	1	1	
Total		1,08	3,51	81	96	4	1	0,52
Corporate – specialised lending IPRE								
0,00 to < 0,15	AAA, AA, A	0,08	0,07	424	412	1	1	0,07
0,15 to < 0,25	A-, BBB+	0,21	0,20	222	291	1		0,09
0,25 to < 0,50	BBB	0,39	0,39	331	431			0,24
0,50 to < 0,75	BB	0,64	0,64	369	422	1		0,47
0,75 to < 2,50	BB-	1,24	1,27	770	848	5		1,22
2,50 to < 10,00	B+, B	3,94	5,83	848	911	5	1	2,15
10,00 to < 100,00	B- and below	22,46	18,29	34	23	27		19,91
100,00 (Default)	Defaulted	100,00	100,00	50	79	75	75	
Total		1,03	2,15	3 048	3 417	115	77	1,00

PD range	External rating equivalent	2020						
		Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of prior year	Number of obligors: End of the year	Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
Sovereign								
0,00 to < 0,15	**AAA, AA, A**	**0,03**	**0,03**	**22**	**26**	**1**		
0,15 to < 0,25	**A-, BBB+**	**0,23**	**0,23**	**4**				
0,25 to < 0,50	**BBB**	**0,36**	**0,43**	**1**	**1**			
0,50 to < 0,75	**BB**	**0,64**	**0,64**		**2**			
0,75 to < 2,50	**BB-**	**0,91**	**0,91**	**3**	**1**			
2,50 to < 10,00	**B+, B**	**4,12**	**6,12**	**7**	**10**			
10,00 to < 100,00	**B- and below**	**10,42**	**10,41**	**1**	**1**	**1**	**1**	
100,00 (Default)	**Defaulted**				**2**			
Total		**0,06**	**0,80**	**38**	**43**	**2**	**1**	
Banks								
0,00 to < 0,15	**AAA, AA, A**	**0,11**	**0,11**	**147**	**75**			
0,15 to < 0,25	**A-, BBB+**	**0,16**	**0,17**	**18**	**27**			
0,25 to < 0,50	**BBB**	**0,45**	**0,41**	**15**	**18**			
0,50 to < 0,75	**BB**	**0,64**	**0,64**	**4**	**3**			
0,75 to < 2,50	**BB-**	**1,48**	**1,15**	**17**	**13**	**2**		
2,50 to < 10,00	**B+, B**	**5,34**	**5,83**	**58**	**41**			
10,00 to < 100,00	**B- and below**	**10,97**	**11,74**	**7**	**13**	**2**		
100,00 (Default)	**Defaulted**				**1**		**2**	
Total		**0,42**	**0,37**	**266**	**191**	**4**	**2**	

PD range	External rating equivalent	2019						
		Weighted average PD	Arithmetic average PD by obligors	Number of obligors: End of prior year	Number of obligors: End of the year	Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
Corporate								
0,00 to < 0,15	AAA, AA, A	0,09	0,10	171	204			0,30
0,15 to < 0,25	A-, BBB+	0,20	0,20	146	150			0,04
0,25 to < 0,50	BBB	0,38	0,39	179	219			0,17
0,50 to < 0,75	BB	0,64	0,64	116	109			0,32
0,75 to < 2,50	BB-	1,22	1,27	357	384			2,70
2,50 to < 10,00	B+, B	6,35	7,15	916	1 206	14	13	4,22
10,00 to < 100,00	B- and below	19,53	21,64	30	48	1		11,70
100,00 (Default)	Defaulted	100,00	100,00	26	52	57	20	
Total		2,69	4,48	1 941	2 372	72	33	1,36
SME – corporate								
0,00 to < 0,15	AAA, AA, A	0,11	0,09	10	3			0,21
0,15 to < 0,25	A-, BBB+	0,20	0,19	312	300	1		0,09
0,25 to < 0,50	BBB	0,42	0,41	541	576	1	5	0,13
0,50 to < 0,75	BB	0,64	0,64	421	416	4		0,29
0,75 to < 2,50	BB-	1,24	1,30	1 557	1 620	18	2	1,05
2,50 to < 10,00	B+, B	3,46	3,35	756	846	13	2	2,33
10,00 to < 100,00	B- and below	19,74	19,99	135	103	20	4	7,09
100,00 (Default)	Defaulted	100,00	100,00	190	253	303	25	
Total		1,63	2,16	3 922	4 117	360	38	1,26

PD range	External rating equivalent	2019 Weighted average PD	Arithmetic average PD by obligors	Number of obligors End of prior year	Number of obligors End of the year	Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
Corporate – specialised lending project finance								
0,00 to < 0,15	AAA, AA, A	0,08	0,08	13	11			0,12
0,15 to < 0,25	A-, BBB+	0,21	0,21	15	23			6,20
0,25 to < 0,50	BBB	0,40	0,40	9	20			6,42
0,50 to < 0,75	BB	0,64	0,64	7	6			0,43
0,75 to < 2,50	BB-	1,22	1,22	6	11			0,24
2,50 to < 10,00	B+, B	4,54	5,30	8	6			13,62
10,00 to < 100,00	B- and below	12,25	12,36	2	3			17,75
100,00 (Default)	Defaulted	100,00	100,00		1	1	1	
Total		1,03	1,57	60	81	1	1	2,41
Corporate – specialised lending IPRE								
0,00 to < 0,15	AAA, AA, A	0,07	0,06	556	424	1		0,13
0,15 to < 0,25	A-, BBB+	0,19	0,20	208	222			0,17
0,25 to < 0,50	BBB	0,38	0,40	347	331	3		0,16
0,50 to < 0,75	BB	0,64	0,64	347	369	2		0,39
0,75 to < 2,50	BB-	1,36	1,29	924	770	3		0,99
2,50 to < 10,00	B+, B	4,02	5,84	513	848	4	2	1,55
10,00 to < 100,00	B- and below	19,33	18,63	56	34	6		15,93
100,00 (Default)	Defaulted	100,00	100,00	33	50	61	35	
Total		1,07	2,51	2 984	3 048	80	37	0,87
Sovereign								
0,00 to < 0,15	AAA, AA, A	0,02	0,03	18	22			
0,15 to < 0,25	A-, BBB+	0,21	0,21	1	4			
0,25 to < 0,50	BBB	0,45	0,45		1			
0,50 to < 0,75	BB							
0,75 to < 2,50	BB-	0,91	0,91	1	3			
2,50 to < 10,00	B+, B	3,86	5,50	5	7			
10,00 to < 100,00	B- and below	10,24	10,24	1	1			
100,00 (Default)	Defaulted							
Total		0,05	2,89	26	38			
Banks								
0,00 to < 0,15	AAA, AA, A	0,10	0,08	109	147			
0,15 to < 0,25	A-, BBB+	0,16	0,19	18	18			
0,25 to < 0,50	BBB	0,41	0,41	17	15			
0,50 to < 0,75	BB	0,64	0,64	9	4			
0,75 to < 2,50	BB-	0,93	1,02	13	17			
2,50 to < 10,00	B+, B	5,40	6,21	39	58			
10,00 to < 100,00	B- and below	15,28	17,05	8	7			
100,00 (Default)	Defaulted							
Total		0,55	2,14	213	266			

CR9: AIRB – BACKTESTING OF PD PER PORTFOLIO – RETAIL ASSET CLASSES

		2020						
				Number of obligors				
PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
Retail – mortgages								
0,00 to < 0,15	AAA, AA, A	0,08	0,08	23 907	25 770	2	1	0,23
0,15 to < 0,25	A-, BBB+	0,21	0,20	19 663	24 992	40		0,15
0,25 to < 0,50	BBB	0,40	0,39	32 370	22 495	86		0,28
0,50 to < 0,75	BB	0,64	0,64	28 946	15 248	67	2	0,63
0,75 to < 2,50	BB-	1,26	1,26	71 230	64 811	667	5	1,21
2,50 to < 10,00	B+, B	3,80	3,99	62 445	62 486	1 732	41	3,15
10,00 to < 100,00	B- and below	19,61	19,84	27 316	23 601	10 924	127	17,71
100,00 (Default)	Defaulted	100,00	100,00	9 111	16 487	184	163	
Total		3,19	3,44	274 988	255 890	13 702	339	3,31
Qualifying revolving retail								
0,00 to < 0,15	AAA, AA, A	0,06	0,10	8				0,03
0,15 to < 0,25	A-, BBB+	0,20	0,21	79 290	53 693	150	3	0,20
0,25 to < 0,50	BBB	0,40	0,40	68 855	54 545	214		0,48
0,50 to < 0,75	BB	0,64	0,64	55 761	83 740	343	8	0,89
0,75 to < 2,50	BB-	1,48	1,49	180 608	223 789	1 999	59	2,02
2,50 to < 10,00	B+, B	5,15	6,04	1 247 145	647 554	46 945	7 538	5,44
10,00 to < 100,00	B- and below	20,90	21,85	294 516	446 618	112 635	9 779	21,06
100,00 (Default)	Defaulted	100,00	100,00	2 357 489	2 251 666	639 817	567 075	
Total		7,34	8,92	4 283 672	3 761 605	802 103	584 462	7,40
Other – retail								
0,00 to < 0,15	AAA, AA, A	0,08	0,09	555	481	49		1,21
0,15 to < 0,25	A-, BBB+	0,20	0,19	222	185			0,48
0,25 to < 0,50	BBB	0,45	0,45	522	587	3		0,17
0,50 to < 0,75	BB	0,64	0,64	8 089	5 059	44	11	0,62
0,75 to < 2,50	BB-	1,70	1,71	161 321	88 624	1 113	51	1,58
2,50 to < 10,00	B+, B	3,85	4,02	451 439	536 664	15 733	1 117	3,62
10,00 to < 100,00	B- and below	23,39	22,09	307 254	250 374	128 436	5 788	18,86
100,00 (Default)	Defaulted	100,00	100,00	174 545	275 021	139 172	127 300	
Total		7,90	8,93	1 103 947	1 156 995	284 550	134 267	6,87
SME – retail								
0,00 to < 0,15	AAA, AA, A	0,07	0,10	1 587	595			0,04
0,15 to < 0,25	A-, BBB+	0,20	0,20	8 129	4 323	32	4	0,33
0,25 to < 0,50	BBB	0,41	0,40	13 788	10 282	23	2	0,42
0,50 to < 0,75	BB	0,64	0,64	11 544	7 510	17	1	0,88
0,75 to < 2,50	BB-	1,42	1,36	30 209	21 587	278	4	1,26
2,50 to < 10,00	B+, B	4,27	6,06	154 941	85 824	4 664	1 900	3,26
10,00 to < 100,00	B- and below	18,86	22,80	6 544	5 647	4 724	319	18,43
100,00 (Default)	Defaulted	100,00	100,00	18 879	17 652	11 044	10 053	
Total		3,68	5,13	245 621	153 420	20 782	12 283	3,81

		2019						
				Number of obligors				
PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	End of previous year	End of the year	Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
Retail°– mortgages								
0,00 to < 0,15	AAA, AA, A	0,08	0.,7	27 639	23 907	15		0,08
0,15 to < 0,25	A-, BBB+	0,20	0,19	22 020	19 663	29		0,15
0,25 to < 0,50	BBB	0,40	0,39	34 336	32 370	103	2	0,29
0,50 to < 0,75	BB	0,64	0,64	28 477	28 946	163	1	0,56
0,75 to < 2,50	BB-	1,28	1,29	71 452	71 230	753	27	1,19
2,50 to < 10,00	B+, B	3,77	4,28	57 039	62 445	1 615	72	3,06
10,00 to < 100,00	B- and below	19,43	21,02	24 627	27 316	3 321	71	17,13
100,00 (Default)	Defaulted	100,00	100,00	10 546	9 111	6 422	589	
Total		3,26	3,63	276 136	274 988	12 421	762	3,26

PD range	External rating equivalent	2019						
		Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which: new obligors defaulted in the year	Average historical annual default rate
				End of previous year	End of the year			
Qualifying revolving retail								
0,00 to < 0,15	AAA, AA, A	0,09	0,10	17	8			0,03
0,15 to < 0,25	A-, BBB+	0,21	0,22	85 424	79 290	2 296	14	0,24
0,25 to < 0,50	BBB	0,39	0,38	110 631	68 855	2 126	30	0,54
0,50 to < 0,75	BB	0,64	0,64	70 031	55 761	1 471	201	0,92
0,75 to < 2,50	BB-	1,40	1,41	251 801	180 608	7 085	560	1,98
2,50 to < 10,00	B+, B	5,16	6,62	705 349	1 247 145	54 943	12 492	5,15
10,00 to < 100,00	B- and below	21,32	21,44	373 549	294 516	55 691	5 388	19,55
100,00 (Default)	Defaulted	100,00	100,00	2 450 196	2 357 489	830 016	672 553	
Total		7,57	8,37	4 046 998	4 283 672	953 628	691 238	7,51
Other – retail								
0,00 to < 0,15	AAA, AA, A	0,07	0,08	632	555	13		1,97
0,15 to < 0,25	A-, BBB+	0,21	0,19	268	222	3		0,07
0,25 to < 0,50	BBB	0,36	0,33	706	522	1		0,13
0,50 to < 0,75	BB	0,64	0,64	7 091	8 089	111	2 684	0,49
0,75 to < 2,50	BB-	1,60	1,62	228 932	161 321	3 881	18	1,17
2,50 to < 10,00	B+, B	4,83	4,96	469 903	451 439	26 837	314	3,63
10,00 to < 100,00	B- and below	21,19	20,20	268 596	307 254	49 324	7 277	17,69
100,00 (Default)	Defaulted	100,00	100,00	216 702	174 545	98 350	58 958	
Total		7,35	9,10	1 192 830	1 103 947	178 520	69 251	6,77
SME – retail								
0,00 to < 0,15	AAA, AA, A	0,09	0,09	1 622	1 587	2		0,04
0,15 to < 0,25	A-, BBB+	0,20	0,19	9 095	8 129	19	3	0,43
0,25 to < 0,50	BBB	0,41	0,39	14 946	13 788	40	9	0,50
0,50 to < 0,75	BB	0,64	0,64	12 182	11 544	70	23	1,10
0,75 to < 2,50	BB-	1,43	1,48	38 958	30 209	419	80	1,34
2,50 to < 10,00	B+, B	4,96	6,91	128 412	154 941	2 155	530	3,24
10,00 to < 100,00	B- and below	22,21	24,32	8 519	6 544	1 388	118	17,58
100,00 (Default)	Defaulted	100,00	100,00	20 903	18 879	19 840	12 417	
Total		4,56	6,49	234 637	245 621	23 933	13 180	3,91

[1] *The implementation of new rating models in the Business Banking portfolio in Q4 2018 had some impact on asset classification, particularly the SME – retail asset class.*

CREDIT CONCENTRATION RISK

Nedbank Group's holistic groupwide concentration risk measurement is a key feature of its Risk Appetite Policy and RAF.

All economic capital (ICAAP) and ERMF risk types are analysed by appropriate segmentation for possible concentrations. Segmentations considered are single name, industry, geographic, product, collateral and BU.

Credit risk is the most material risk type, as can be seen in its 69% contribution to the group's total economic capital. A liquidity crisis, however, is plausible due to the fact that banks transform short-term liquidity into long-dated funding, which exposes banks to liquidity mismatches, the most common cause of bank failures. Therefore, liquidity risk and credit risk are considered the two concentration risk focus areas for Nedbank, with this also being aligned with the lessons learnt from the 2008 GFC as well as those being learnt during the current credit crisis driven by the Covid-19 pandemic. Other potential areas of concentration risk in Nedbank include property risk and IRRBB.

Concentration risk appetite targets are set in areas where Nedbank Group is materially exposed to concentration risk, as well as in areas of under concentration, to unlock opportunities. The targets are agreed by senior management and approved by the board.

Concentration risk is also a key feature of Nedbank Group's Market Risk Framework. However, undue concentration risk is not considered to prevail in the group's trading, forex and equity risk in the banking book portfolios (evident in the low percentage contributions to total economic capital). These concentrations are monitored continuously by the Group Alco and the board's GRCMC.

Within Nedbank Group, credit concentration risk is actively managed, measured and ultimately capitalised through the group's economic capital and ICAAP. Unmanaged risk concentrations are potentially a cause of major risk in banks and are therefore considered separately as part of Nedbank's RAF.

Single-name credit concentration risk

The group's credit concentration risk measurement incorporates the asset size of obligors or borrowers into its calculation of credit economic capital. Single-name credit concentration, including the applicable regulatory and economic capital per exposure, is monitored at all credit committees within the group's ERMF.

The table below illustrates that Nedbank Group does not have excessive single-name concentration, as credit economic capital attributable to these exposures remains relatively low as a percentage of total economic capital, at 9,2% (2019: 10,1%). The decrease in credit economic capital attributable to the top 20 exposures as a percentage of total economic capital from 10,1% in December 2019 is driven mainly by the downgrade of a single client to NGR25. The exposure is well collateralised with an LTV of 87%.

TOP 20 NEDBANK GROUP EXPOSURES

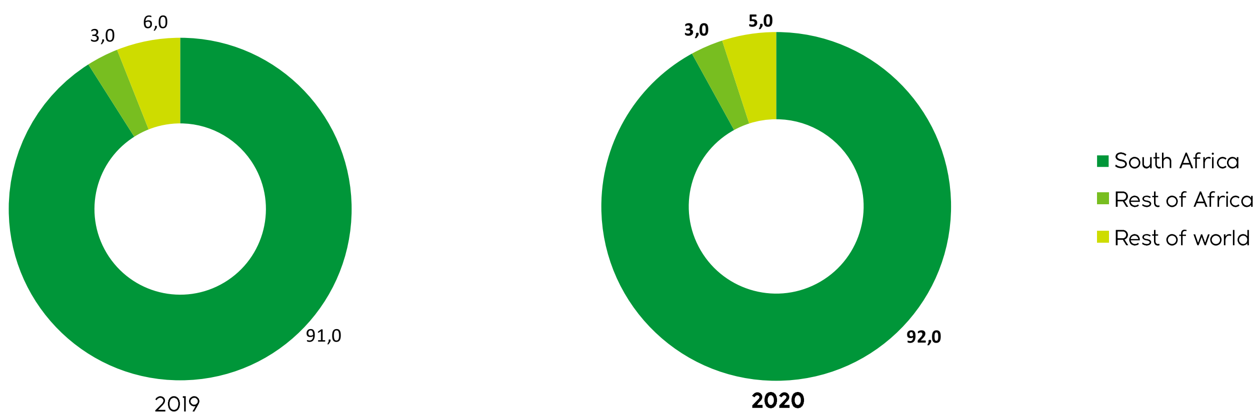
	Excluding banks and government exposure		
Number	**Internal NGR[1] (PD) rating**	**Exposure (Rm)**	**Percentage of total group credit economic capital**
2020			
1	NGR13	16 470	0,68
2	NGR16	9 196	0,97
3	NGR07	8 599	0,29
4	NGR12	8 491	0,62
5	NGR25	8 218	1,20
6	NGR11	7 659	0,53
7	NGR13	7 546	0,47
8	NGR08	7 160	0,24
9	NGR11	7 153	0,37
10	NGR20	6 505	0,46
11	NGR12	6 279	0,51
12	NGR09	5 538	0,47
13	NGR08	5 173	0,19
14	NGR10	4 805	0,23
15	NGR10	4 658	0,22
16	NGR19	4 567	0,62
17	NGR12	4 232	0,71
18	NGR09	4 065	0,06
19	NGR09	4 000	0,22
20	NGR08	3 950	0,10
Total of top 20 exposures	**NGR18**	**134 264**	**9,15**
Total group[2]		**1 037 189**	

[1] *Nedbank Group Rating.*
[2] *Total group EAD includes all Nedbank Group subsidiaries.*

Geographic concentration risk

Geographic concentration risk in South Africa has increased slightly to 92,0% (2019: 91,0%). Practically, however, this high concentration to South Africa is a direct consequence of Nedbank's strong footprint in the domestic banking market. As Nedbank has strong retail and wholesale operations in SA, in line with its universal bank business model, there is no undue concentration risk from a geographic perspective.

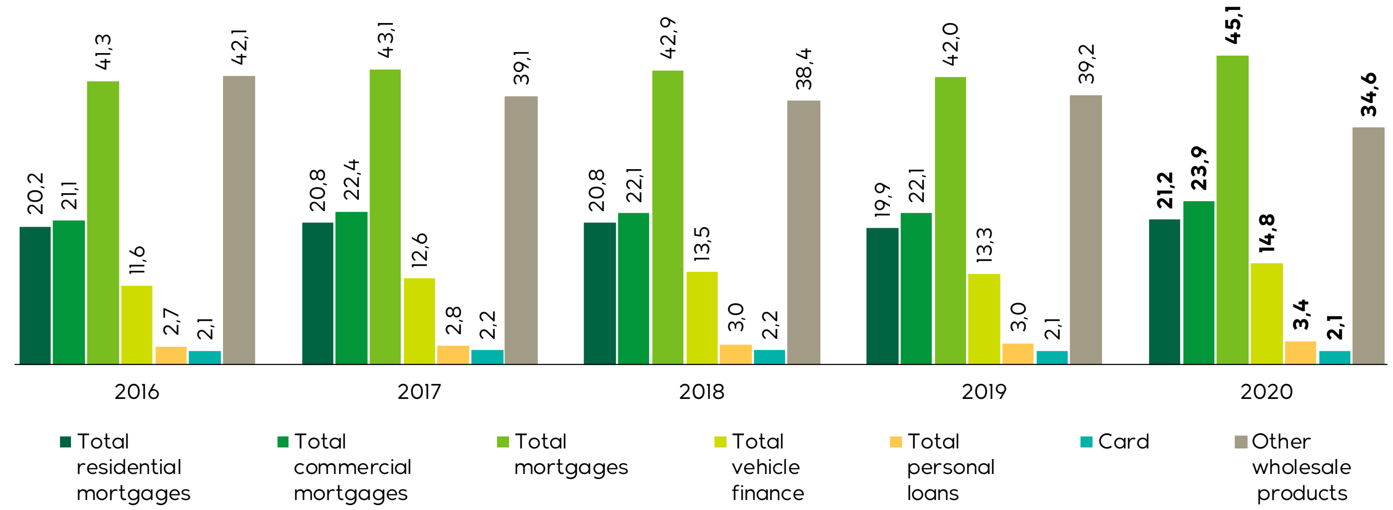
Geographic concentration risk



[1] *The rest of Africa geographical segment consists of the SADC banking subsidiaries. It includes neither transactions concluded with clients resident in the rest of Africa by other group entities within CIB, nor significant transactional banking revenues.*

Product concentration risk

Percentage of total gross loans and advances by major credit portfolio



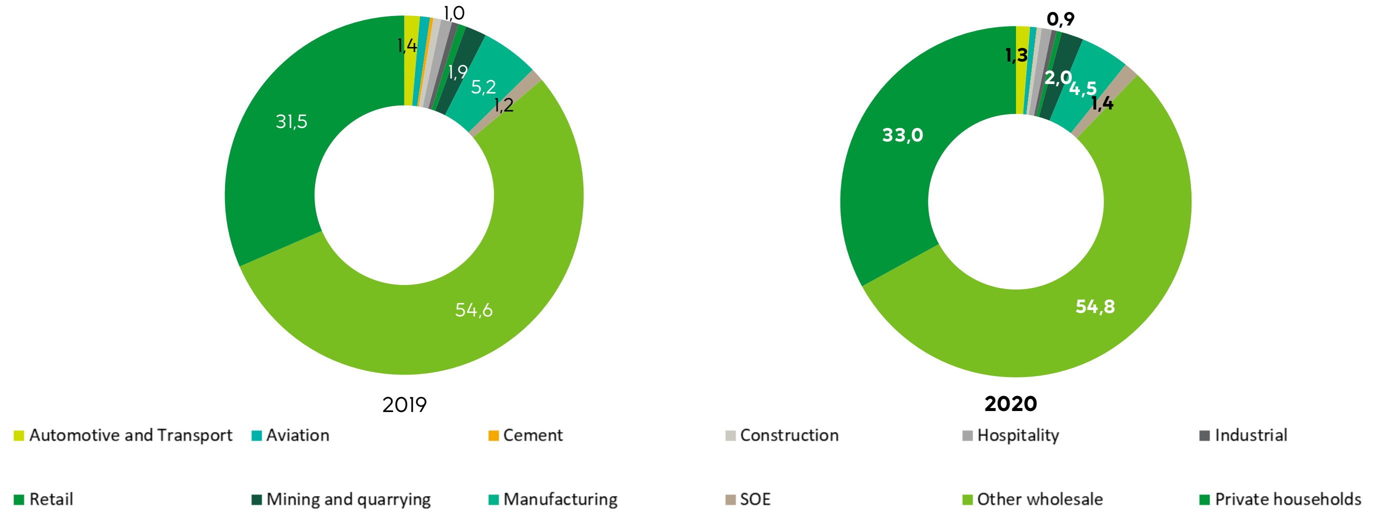
Nedbank's approach to managing its mortgages (or property portfolio) is to take a holistic approach across both residential and commercial mortgages, preferring a leading market share in commercial mortgages, given the better risk-based economics and returns.

- Commercial-mortgage lending has increased since 2016 from 21,1% to 23,9% (2019: 22,1%) of gross loans and advances (GLAA), and consequently Nedbank Group has maintained its leading position in local-market share, currently at 38,5%. This potentially high concentration is mitigated by good-quality assets, high levels of collateral, a low average LTV ratio (approximately 50,5%), the underpinning of corporate leases, and a highly experienced management team considered to be the leader in property finance in SA.
- While Nedbank Group has the smallest residential-mortgage portfolio among the local peer group at 14,4% market share, the contribution of these advances as a percentage of total GLAA is still substantial at 21,2% in 2020 (2019: 19,9%). However, this level of contribution to the balance sheet is lower than that of the peer group.
  - The focus in Home Loans since 2009 has been lending through our own channels (including branch, own sales force and more recently Nedbank's online home loan application) and to a far lesser degree, compared with the industry, through mortgage originators. This enables a better-quality risk profile, more appropriate risk-based pricing and therefore more appropriate returns, with a client-centred approach.
- When including commercial and residential mortgages, Nedbank's total mortgage market share is 21,9% – higher than Absa at 20,7% and FirstRand's at 16,1%, albeit lower than Standard Bank's at 29,0%.
- Total vehicle finance exposure in Nedbank Group increased slightly to 14,8% (2019: 13,3%) of GLAA. Current market share is approximately 36,5%, which is first among the big four banks in SA. Market share gains against other banks as reported in the BA 900 are not a true reflection due to the strong presence of non-bank financiers.
- Personal-loan advances have remained stable since 2016 at 3,4% of GLAA. Personal-loan GLAA increased slightly to 3,4% from 3% in 2019.
- As a percentage of total GLAA, card loans and advances have remained stable at 2,1% since 2016 (2019: 2,1%; 2020: 2,1%).

Industry concentration risk

- In recent years the agriculture, construction, mining, oil and gas, retail trade, and steel industries have experienced stresses due to changes in the macroeconomic environment. All impacted portfolios are closely monitored by Nedbank, and the quality thereof is assessed on an ongoing basis, to ensure that the levels of credit impairments on these portfolios are adequate. Comprehensive deep dives and sensitivity analyses have been performed on these portfolios to obtain deeper insights into the changes experienced in the client base as well as to quantify the impact of further potential economic stresses.
- Nedbank's concentration in the oil-and-gas industry remained constant at 1,03% of total advances.
- The group has low concentration risk to the agriculture sector as well as those portfolios impacted by commodity prices that have stabilised at higher levels. These industries are a small component of the overall portfolio, representing 5,6% of the group's on-balance-sheet exposure, marginally down from 5,8% in December 2019.

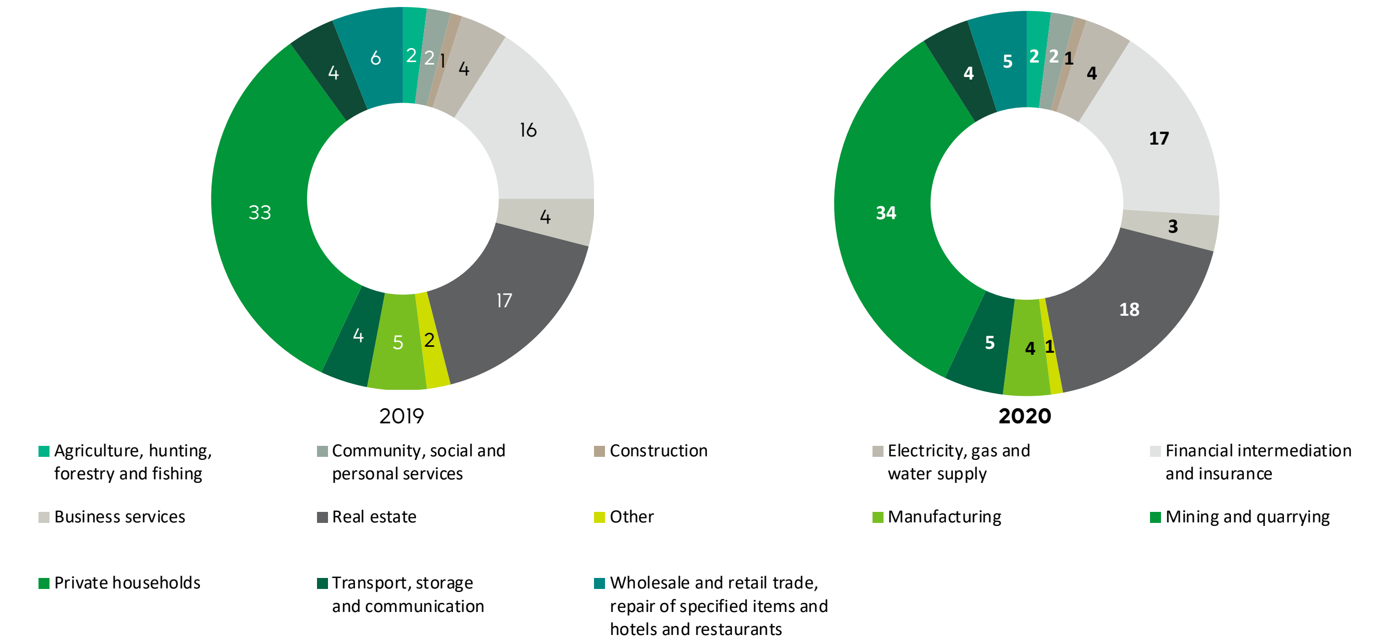
Percentage of Nedbank Group on-balance-sheet exposure highlighting Covid-19-impacted sectors[1]



[1] *Nedbank Group on-balance-sheet exposure of R896bn (December 2019: R902bn).*

%	2020	2019
Automotive and Transport	**1,3**	1,4
Aviation	**0,6**	0,9
Cement	**0,1**	0,3
Construction	**0,4**	0,7
Hospitality	**0,9**	1,0
Industrial	**0,5**	0,6
Retail	**0,5**	0,7
Mining and quarrying	**2,0**	1,9
Manufacturing	**4,5**	5,2
SOE	**1,4**	1,2
Other wholesale	**54,8**	54,6
Private households	**33,0**	31,5
	100,0	100,0

Nedbank Group industry exposure[1]



[1] *Nedbank Group's credit exposure, which includes all credit exposure with the exception of unutilised committed facilities.*

%	2020	2019
Agriculture, hunting, forestry and fishing	**2**	2
Community, social and personal services	**2**	2
Construction	**1**	1
Electricity, gas and water supply	**4**	4
Financial intermediation and insurance	**17**	16
Business services	**3**	4
Real estate	**18**	17
Other	**1**	2
Manufacturing	**4**	5
Mining and quarrying	**5**	4
Private households	**34**	33
Transport, storage and communication	**4**	4
Wholesale and retail trade, repair of specified items, and hotels and restaurants	**5**	6
	100	100

The group concludes that credit concentration risk is adequately measured, managed, controlled and ultimately capitalised. There is no undue single-name concentration and any sector concentrations that do exist are well managed, as indicated above. While there is a concentration of Nedbank Group GLAA in SA, this is a function of its domestic footprint and universal-bank business model.

COUNTERPARTY CREDIT RISK

CCR is the risk that a counterparty to a derivative transaction could default before final settlement. An economic loss would occur if a transaction or portfolio of transactions with a given counterparty has a positive economic value at the time of default. Counterparty credit limits are set at individual-counterparty level and approved within the GCRMF. CCR exposures are reported and monitored at both BU and group level. There is continued emphasis on the use of CRM strategies, such as netting and collateralisation of exposures.

Nedbank Group and its large bank counterparties have International Swaps and Derivatives Association (ISDA), International Securities Market Association and International Securities Lending Association master agreements as well as credit support (collateral) agreements in place to support netting and the bilateral margining of exposures. Netting is applied to underlying exposures only where supportive legal opinion has been obtained as to the enforceability of the relevant netting agreement in the particular jurisdiction.

Nedbank Group applies the CEM for Basel III CCR. The CEM results are also used as input into the economic capital calculations to determine credit economic capital. The Basel III regulatory standards for CCR provide for a standalone CVA capital charge for potential loss due to deterioration in the credit quality of the OTC derivative counterparties.

The fluctuations in replacement cost observed for OTC derivatives were primarily driven by fluctuations in the relative strength of the ZAR, impacting client hedge products.

CCR1: ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

Rm		Replacement cost	Potential future exposure	EAD post CRM	RWA[1]
2020					
1	CEM CCR (for derivatives)	**23 737**	**12 805**	**33 022**	**14 507**
4	Comprehensive Approach for CRM (for SFT)			**4 496**	**2 045**
6	**Total**	**23 737**	**12 805**	**37 518**	**16 552**
2019					
1	CEM CCR (for derivatives)	10 111	10 062	18 417	8 649
4	Comprehensive Approach for CRM (for SFT)			3 176	1 000
6	**Total**	10 111	10 062	21 593	9 649

[1] CCR RWA, excluding CVA capital charge (refer to CCR2) and CCP-related RWA (refer to CCR8).
Rows two, three and five are excluded from the CCR1 disclosure as the Internal Model Method (IMM) (for derivatives and SFT), the Simple Approach for CRM (for SFT) and VaR for SFT are not applicable to the group.

Nedbank continues with the management of earnings volatility due to its revaluation risk of CVA exposure from its trading activities to ensure this class of risk is managed within the bank's defined risk appetite. The CVA RWA increased from R16,5bn in 2019 to R22,3bn in 2020, driven by an increasing volume of trades, as well as the impact of fluctuations in the ZAR exchange rate to major currencies over the period.

CCR2: CREDIT VALUATION ADJUSTMENT CAPITAL CHARGE[1]

		2020		2019	
Rm		EAD post-CRM	RWA	EAD post-CRM	RWA
3	All portfolios subject to the Standardised CVA capital charge	**33 022**	**22 279**	18 417	16 476
4	**Total subject to the CVA capital charge**	**33 022**	**22 279**	18 417	16 476

[1] Rows one and two are excluded from the CCR2 disclosure as the group does not apply the Advanced Approach for the CVA charge.

OTC derivative hedges executed in Nedbank non-SA banking entities in Africa and Nedbank Private Wealth (UK) operations are covered by TSA.

CCR3: STANDARDISED APPROACH – CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK-WEIGHTS

	Risk-weights					
Regulatory portfolio Rm	**0%**	**20%**	**50%**	**100%**	**150%**	**Total credit exposure**
2020						
Sovereign					1 044	1 044
Banks	52					52
Corporates				61		61
Regulatory retail portfolios						
Total	52			61	1 044	1 157
2019						
Corporates			17	81		98
Regulatory retail portfolios				15		15
Total			17	96		113

There were no exposures in the 10%, 20% and 75% risk-weighted buckets at 31 December 2020 and no exposures to non-central government PSEs, multilateral development banks, securities firms and other assets at 31 December 2020.

The tables that follow include a breakdown of the group's OTC derivative CCR exposure by entity type (corporate, sovereign and banks).

CCR4: AIRB – CCR EXPOSURES BY PORTFOLIO AND PD SCALE

PD scale	EAD post CRM Rm	Average PD %	Number of obligors	Average LGD %	Average maturity Years	RWA Rm	RWA density %
2020							
Corporate							
0,00 to < 0,15	1 420	0,08	141	21,41	2,57	183	12,89
0,15 to < 0,25	9 941	0,15	3 731	31,92	3,73	2 514	25,29
0,25 to < 0,50	3 199	0,37	1 825	21,92	2,70	1 056	33,01
0,50 to < 0,75	2 322	0,64	2 058	32,02	2,09	1 362	58,66
0,75 to < 2,50	2 710	1,35	4 009	32,04	2,39	1 998	73,73
2,50 to < 10,00	1 844	4,43	2 244	34,99	2,48	2 029	110,03
10,00 to < 100,0	163	27,16	333	27,17	1,31	225	138,04
100,0 (default)	38	100,00	65	8,00	2,52	57	150,00
	21 637	1,34	14 406	29,66	2,82	9 424	43,56
Sovereign[1]							
0,00 to < 0,15	2 194	0,03	7	9,50	1,01	62	2,83
0,15 to < 0,25	51	0,16	12	28,46	3,85	11	21,57
0,25 to < 0,50	2 194	0,45	25	17,75		1 163	53,01
0,50 to < 0,75	26	0,64	5	10,43	5,00	10	38,46
0,75 to < 2,50	17	0,90	7	17,75	1,24	7	41,18
2,50 to < 10,00					1,00		
10,00 to < 100,0	1 893	11,05	63	19,12	2,91	1 988	105,02
100,0 (default)	43	100,00	24		1,00	64	148,84
	6 418	1,13	143	10,30	3,43	3 305	51,50
Banks							
0,00 to < 0,15	2 964	0,06	2 166	26,56	1,54	508	17,14
0,15 to < 0,25	4 048	0,16	5 106	11,01	1,94	712	17,59
0,25 to < 0,50	141	0,32	158	25,59	1,00	74	52,48
0,50 to < 0,75	543	0,64	375	25,59	2,32	398	73,30
0,75 to < 2,50	607	0,96	670	28,52	1,76	497	81,88
2,50 to < 10,00	2	7,21	4	61,09	1,00	5	250,00
10,00 to < 100,0			4	62,59		1	
100,0 (default)							
	8 305	0,44	8 483	24,09	1,62	2 195	26,43
Group							
0,00 to < 0,15	6 578	0,09	2 314	26,43	1,79	753	11,45
0,15 to < 0,25	14 040	0,20	8 849	27,86	3,68	3 237	23,06
0,25 to < 0,50	5 534	0,38	2 008	27,80	2,69	2 293	41,43
0,50 to < 0,75	2 891	0,64	2 438	31,26	2,15	1 770	61,22
0,75 to < 2,50	3 334	1,19	4 686	32,25	2,15	2 502	75,04
2,50 to < 10,00	1 846	5,38	2 248	36,39	2,48	2 034	110,18
10,00 to < 100,0	2 056	14,95	400	28,26	2,00	2 214	107,68
100,0 (default)	81	100,00	89	8,08	1,99	121	149,38
Total group	36 360	1,14	23 032	28,83	2,53	14 924	41,05

PD scale	EAD post CRM Rm	Average PD %	Number of obligors	Average LGD %	Average maturity Years	RWA Rm	RWA density %
2019							
Corporate							
0,00 to < 0,15	1 005	0,09	21	30,73	2,98	213	21,19
0,15 to < 0,25	3 469	0,21	66	30,54	2,38	1 444	41,63
0,25 to < 0,50	2 169	0,39	46	25,34	3,20	727	33,52
0,50 to < 0,75	921	0,64	23	33,85	1,74	432	46,91
0,75 to < 2,50	1 274	1,46	53	29,87	2,57	763	59,89
2,50 to < 10,00	966	5,36	61	37,51	2,70	1 127	116,67
10,00 to < 100,0	90	18,11	10	28,65	1,92	121	134,44
100,0 (default)	0	100,00	1	54,30	1,00	2	0,0
	9 894	1,11	281	30,30	2,61	4 829	48,81
Sovereign[1]							
0,00 to < 0,15	118	0,07	6	26,53	2,98	13	11,02
0,15 to < 0,25	1 361	0,23	3	24,20	2,38	547	40,19
0,25 to < 0,50		0,00			3,20		
0,50 to < 0,75		0,00			1,74		
0,75 to < 2,50		0,00			2,57		
2,50 to < 10,00		0,00			2,70		
10,00 to < 100,0	1 892	10,35	4	24,34	1,92	2 065	109,14
100,0 (default)							
	3 371	5,90	13	24,36	2,61	2 625	77,87
Banks							
0,00 to < 0,15	6 617	0,09	50	25,16	1,51	994	15,02
0,15 to < 0,25	567	0,23	5	32,02	1,57	216	38,10
0,25 to < 0,50	8	0,45	2	39,54	1,0	5	62,50
0,50 to < 0,75	280	0,64	3	31,38	2,91	222	79,29
0,75 to < 2,50	738	0,91	14	35,32	2,02	647	87,67
2,50 to < 10,00	5	3,74	2	49,90	1,00	7	140,00
10,00 to < 100,0		10,24	1	57,84	1,00		
100,0 (default)							
	8 215	0,19	77	26,79	1,61	2 091	25,45
Group							
0,00 to < 0,15	7 740	0,09	77	25,90	1,70	1 220	15,76
0,15 to < 0,25	5 397	0,21	74	29,10	2,95	2 207	40,89
0,25 to < 0,50	2 177	0,39	48	25,39	3,19	732	33,62
0,50 to < 0,75	1 201	0,64	26	33,27	2,01	654	54,45
0,75 to < 2,50	2 012	1,26	67	31,87	2,37	1 410	70,08
2,50 to < 10,00	971	5,35	63	37,57	2,70	1 134	116,79
10,00 to < 100,0	1 982	10,70	15	24,54	2,54	2 186	110,29
100,0 (default)		100,00	1	54,30	1,00	2	
Total group	21 480	1,51	371	28,03	2,37	9 545	44,44

[1] *Sovereign entities include PSE and local governments and municipalities asset classes.*

Wrong-way risk is identified and monitored in line with internal risk processes. Wrong-way risk exposure is not excessive within Nedbank Group and is monitored by stress-testing, which is conducted on both portfolio and counterparty level. Wrong-way risk is currently mitigated through the following mechanisms:

- The predominant use of cash collateralisation to mitigate CCR.
- The low- or zero-margin thresholds with counterparties.

Potential collateral calls or postings are monitored with our various counterparties under a range of market movements and stress scenarios to provide senior management with a forward-looking view of future collateral requirements that may be incurred or imply liquidity risk for the bank.

CCR5: COMPOSITION OF COLLATERAL FOR CCR EXPOSURE

	Collateral used in derivative transactions				Collateral used in SFT	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
Rm	Segregated	Unsegregated	Segregated	Unsegregated		
2020						
Cash – domestic currency		**3 754**		**15 296**	**2 764**	**502**
Domestic sovereign debt		**62**			**52 498**	**7 491**
Government agency debt					**3**	
Corporate bonds					**30**	
Equity securities					**6 163**	
Total		**3 816**		**15 296**	**61 458**	**7 993**

Rm	Collateral used in derivative transactions				Collateral used in SFT	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
2019						
Cash – domestic currency		1 694		6 626	2 348	643
Domestic sovereign debt		61			22 368	12 782
Government agency debt					3	
Corporate bonds					28	
Equity securities					5 778	
Total		1 755		6 626	30 525	13 425

The notional values for single-name credit default swaps are made up of credit default swaps embedded in credit-linked notes, through which protection of R9 686m is bought and R630m is sold. The remainder of the notional values for single-name credit default swaps relates to trading positions in respect of third-party transactions through the purchase (R7 731m) and sale (R9 606m) of credit protection.

CCR6: CREDIT DERIVATIVES EXPOSURE

Rm	2020		2019	
	Protection bought	Protection sold	Protection bought	Protection sold
Notional				
Single-name credit default swaps	**17 417**	**10 236**	7 344	7 621
Embedded derivatives	**9 686**	**630**	1 215	403
Third-party	**7 731**	**9 606**	6 129	7 218
Index credit default swaps	**3 034**	**1 590**		
Total notional	**20 451**	**11 826**	7 344	7 621
Fair values				
Positive fair value (asset)	**351**	**3**	207	13
Negative fair value (liability)		**(495)**	(452)	

Nedbank Group exposure to qualifying CCPs relates to exchange-traded derivatives.

CCR8: EXPOSURES TO CENTRAL COUNTERPARTIES

Rm	2020		2019	
	EAD post-CRM	RWA	EAD post-CRM	RWA
1 **Exposures to qualifying CCPs**	**11 803**	**61**	11 359	64
2 Exposures for trades at qualifying CCPs (excluding initial margin and default fund contributions), of which:	**2 959**	**59**	3 068	62
3 (i) OTC derivatives				
4 (ii) Exchange-traded derivatives	**2 959**	**59**	3 068	62
5 (iii) SFT				
6 (iv) Netting sets where crossproduct netting has been approved				
7 Segregated initial margin	**8 767**		8 197	
8 Non-segregated initial margin				
9 Prefunded default fund contributions	**77**	**2**	94	2
10 Unfunded default fund contributions				

Rows 11 to 20 are excluded from CCR8 disclosure, as there are no exposures to non-qualifying CCPs for the year.

In December 2017 the BCBS published the paper *Basel III: Finalising post-crisis reforms*, which, among other changes, introduced the following in the determination of RWA for CCR:

- The Basic Approach and the new Standardised Approach for the measurement of CVA RWA.
- The application of the Foundation IRB Approach for financial institution and large corporate counters.
- The PD and LGD parameter floors for the Advanced IRB Approach.

Nedbank participates in the semiannual Basel Quantitative Impact Studies issued by the BCBS. These include items for monitoring the impact of reforms.

In April 2014 the BCBS published a revision to the paper *The Standardised Approach for measuring CCR exposures*, which outlines the new Standardised Approach for calculating EAD in respect of OTC derivatives. The Standardised Approach for counterparty credit risk (SA-CCR) will replace both the CEM and the Standardised Method. Nedbank is well positioned to implement the new requirements and continues to monitor the impact of the new measurement of EAD for CCR. The implementation of the new standard is 1 January 2021.

LIQUIDITY RISK AND FUNDING (ILAAP)

Year under review

- Maintaining a strong liquidity position remained a priority for the group during the crisis and the group remains well funded with a strong liquidity position, underpinned by a significant quantum of long-term funding, an appropriately sized surplus liquid-asset buffer, a strong loan-to-deposit ratio consistently below 100%, as well as a low reliance on interbank and foreign currency funding.
- The strong liquidity and funding position can be evidenced by the group's LCR of 125,7%, the NSFR of 112,8%, a three-month average long-term funding ratio of 25,4%, and a loan-to-deposit ratio of 88,4%.
- From a foreign currency mismatch perspective, Nedbank's cumulative foreign currency mismatch is small given the highly matched asset and liability profile.

Focus for 2021

- The Nedbank franchise is well positioned for growth, as reflected in our Reimagine strategy, which includes delivering market-leading client solutions and unlocking value through our Strategic Portfolio Tilt 2.0 as we leverage our balance sheet to grow transactional revenue and deposits while increasing cross-sell, ie growing our transactional-banking franchise.
- We will continue to manage the HQLA portfolio within risk appetite targets, taking balance sheet growth into account while maintaining appropriately sized surplus liquid-asset buffers based on market conditions.
- The key focus in terms of the Nedbank structural liquidity position is to achieve ongoing compliance within the context of balance sheet optimisation.

The primary role of a bank in terms of financial intermediation is to transform short-term deposits into longer-term loans. By fulfilling this role, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks. Through the robust Liquidity Risk Management Framework, Nedbank Group manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the Liquidity Risk Management Framework include maintaining financial market confidence at all times, protecting key stakeholder interests and meeting regulatory liquidity requirements.

In terms of measuring, managing and mitigating liquidity mismatches, Nedbank focuses on two types of liquidity risk, namely funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that Nedbank Group is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals or the inability to roll over maturing debt or meet contractual commitments to lend. Market liquidity risk is the risk that the group will be unable to sell assets, without incurring an unacceptable loss, in order to generate cash required to meet payment obligations under a stress liquidity event.

Liquidity risk management is a vital risk management function in all entities across all jurisdictions and currencies and is a key focus for Nedbank Group.

LIQUIDITY RISK GOVERNANCE AND POLICY

The board of directors retains ultimate responsibility for the effective management of liquidity risk. Through the GRCMC (a board subcommittee), the board has delegated its responsibility for the management of liquidity risk to the Group Alco.

Nedbank Group's Liquidity Risk Management Framework articulates the board-approved risk appetite in the form of limits and guidelines, and sets out the responsibilities, processes, reporting and assurance required to support the management of liquidity risk. The Liquidity Risk Management Framework is reviewed annually by Group Alco and approved by the GRCMC.

Within Nedbank Group's BSM cluster, a dedicated funding and liquidity function is responsible for the strategic management of funding and liquidity across the group. The group's daily liquidity requirements are managed by the experienced Central Funding Desk (CFD) within Group Treasury. In the context of the board-approved Liquidity Risk Management Framework, BSM and the CFD are responsible for managing liquidity risk proactively at an operational, tactical and strategic level.

Key areas of focus

Operational liquidity Daily	CFD focus: Operational and tactical	• Projected daily liquidity requirements • Intraday liquidity risk management • Daily clearing and settlement • Liquid assets and cash reserve requirements • Participation in the money market shortage and interbank reliance • Operation within approved liquidity risk limits and guidelines • Management and maintenance of market access
Tactical and strategic liquidity Daily, weekly, monthly, quarterly and annually	BSM focus: Strategic and tactical	• Tactical management of seasonal and cyclical liquidity requirements • Liquidity risk appetite and strategy • Balance sheet optimisation • Funding base diversification • Liquidity buffers and internal assessment of liquidity self-sufficiency for stress scenarios • Pricing for liquidity risk through the FTP process • Enhancement of structural liquidity • Best international practice

In terms of the overall liquidity risk management process, independent oversight and assurance are provided by Group Market Risk (GMR) and Group Internal Audit (GIA), which conduct independent reviews.

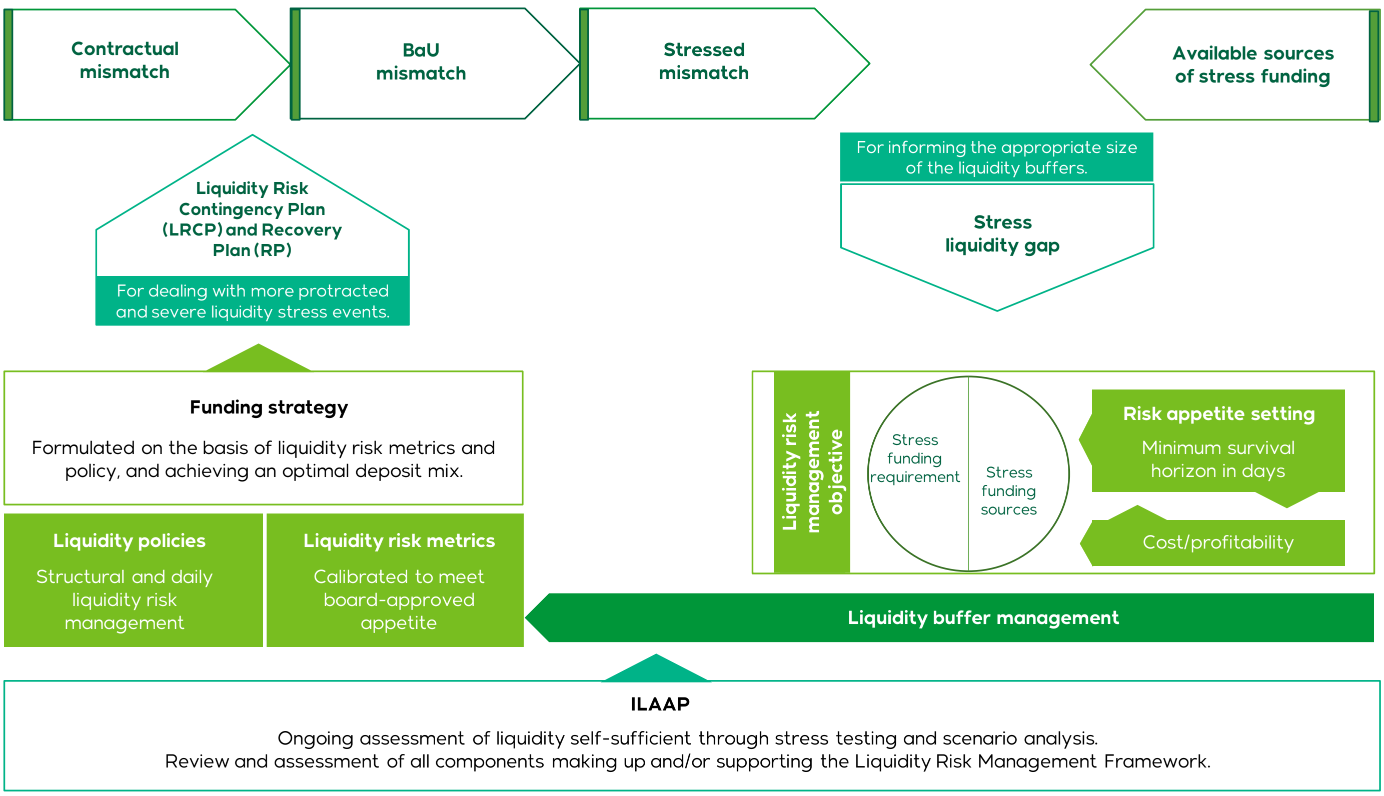
In the case of Nedbank Group's subsidiaries and foreign branches, liquidity risk is managed through the individual Alcos established in each of these businesses. These businesses are required to have appropriate governance structures, processes and practices designed to identify, measure, manage and mitigate liquidity risk in accordance with the group's Liquidity Risk Management Framework. These businesses are required to report into the Group Alco on a monthly basis.

LIQUIDITY RISK MANAGEMENT FRAMEWORK AND MANAGEMENT PROCESSES

Based on the BCBS principles for sound liquidity risk management and other best-practice principles, Nedbank Group's Liquidity Risk Management Framework takes into account all sources and uses of liquidity and seeks to optimise the balance sheet by balancing the trade-off between liquidity risk on the one hand and cost or profitability on the other. This optimisation process (as depicted below) is managed by taking cognisance of the following:

- » Nedbank Group's contractual maturity mismatch between assets and liabilities.
- » The BaU mismatch arising from normal market conditions.
- » The stress mismatch or stress funding requirement likely to arise from a continuum of plausible stress liquidity scenarios.
- » The quantum of stress funding sources available to meet a scenario-specific stress funding requirement.
- » Regulatory requirements.

Nedbank's Liquidity Risk Management Framework



Embedded within the Liquidity Risk Management Framework is Nedbank Group's ILAAP. Through the ILAAP, BSM seeks to maintain appropriate liquidity buffers while continually reviewing the appropriateness of the liquidity risk metrics, the liquidity policy, the funding strategy and the contingency funding and liquidity plan. These individual components of the Liquidity Risk Management Framework should at all times support the board-approved risk appetite, which is to ensure that stress funding sources are sufficient to meet stress funding requirements for a given time horizon.

The ILAAP has therefore been formulated on the basis of ensuring that the framework remains sound in terms of measuring, monitoring, managing and mitigating liquidity risk, taking cognisance of best-practice and regulatory developments.

Based on the most recent internal review process, it is evident that Nedbank Group is compliant with both the Basel Principles for Sound Liquidity Risk Management and the principles embedded in the Basel III liquidity standards, which have in turn been encapsulated in the Liquidity Risk Management Framework and ILAAP. Nedbank Group's internal review and assessment process, which is designed to ensure that all components making up the Liquidity Risk Management Framework remain robust, is depicted in the graphic below.

Nedbank's internal review and assessment process of the Liquidity Risk Management Framework

Annually	Semiannually/Quarterly	Monthly	Daily
• Liquidity risk policies. • Liquidity Risk Contingency Plan (LRCP) and Recovery Plan (RP). • Liquidity risk appetite, limits, guidelines and buffers. • Liquidity model assumptions, principles and methodologies. • Principles and methodologies applied to pricing assets and liabilities for liquidity risk. • Annual funding strategy (designed to support liquidity objectives and balance sheet optimisation). • Independent review of liquidity risk management in subsidiaries and branches.	• Liquidity risk premium and charges applied through the Funds Transfer Pricing Framework. • Appropriateness of the continuum of liquidity stress-testing scenarios. • Off-balance-sheet liquidity risk (loan covenants, securitisation vehicles, derivative positions, revocable and irrevocable commitments, etc). • Liquidity early-warning indicators.	**Monthly funding and liquidity review** (as reported to Group Alco) **Key areas of focus:** • Compliance with limits, guidelines and buffers. • Prevailing market conditions from a funding and market liquidity risk perspective. • Actual asset or liability growth versus funding plan – impact on liquidity risk management objectives. • Liquidity adequacy based on stress-testing and scenario analysis. • Depositor concentration risk • Rollout of liquidity risk-mitigating strategies. • Liquidity risk within subsidiaries and branches.	**Daily funding and liquidity review** **Tactical management** **Key areas of focus:** • Projected liquidity requirements. • Compliance with limits, guidelines and buffers. • Cash reserves and liquid assets. • Participation in the money market shortage (MMS). • Settlement and clearing • Access to market. **Strategic management** **Key areas of focus:** • Compliance with limits, guidelines and buffers. • Compliance with regulatory requirements. • Liquidity coverage ratio trends. and forecasts, taking deposit roll down risk into account. • Funding ratios and deposit client type trends. • Mismatch limits. • Depositor concentration risk. • Alternative funding sources. • Liquidity early-warning indicators and liquidity triggers.

As presented on above, the Liquidity Risk Management Framework is supported by a number of management processes designed to manage and mitigate liquidity risk under normal and stressed market conditions. The key management processes and activities are summarised below:

- **Intraday liquidity risk management**
  The need to manage and control intraday liquidity in real time is recognised by the group as a critical process. The CFD is responsible for ensuring that the bank always has sufficient intraday liquidity to meet any obligations it may have in the clearing and settlement systems. In addition, net daily funding requirements are forecast by estimating daily rollovers and withdrawals and managing the funding pipeline of new deals. The CFD is responsible for maintaining close interaction with the bank's larger depositors to manage their cashflow requirements and the consequential impact on the bank's intraday liquidity position.
- **Liquidity buffer portfolio management**
  A portfolio of marketable and highly liquid assets, which could be liquidated to meet unforeseen or unexpected funding requirements, is maintained. The market liquidity by asset type (and for a continuum of plausible stress scenarios) is considered as part of the internal stress-testing and scenario analysis process. While BSM is responsible for the strategic and tactical management of seasonal and cyclical HQLA requirements, CFD is responsible for the operational execution of BSM and Group Alco strategy.

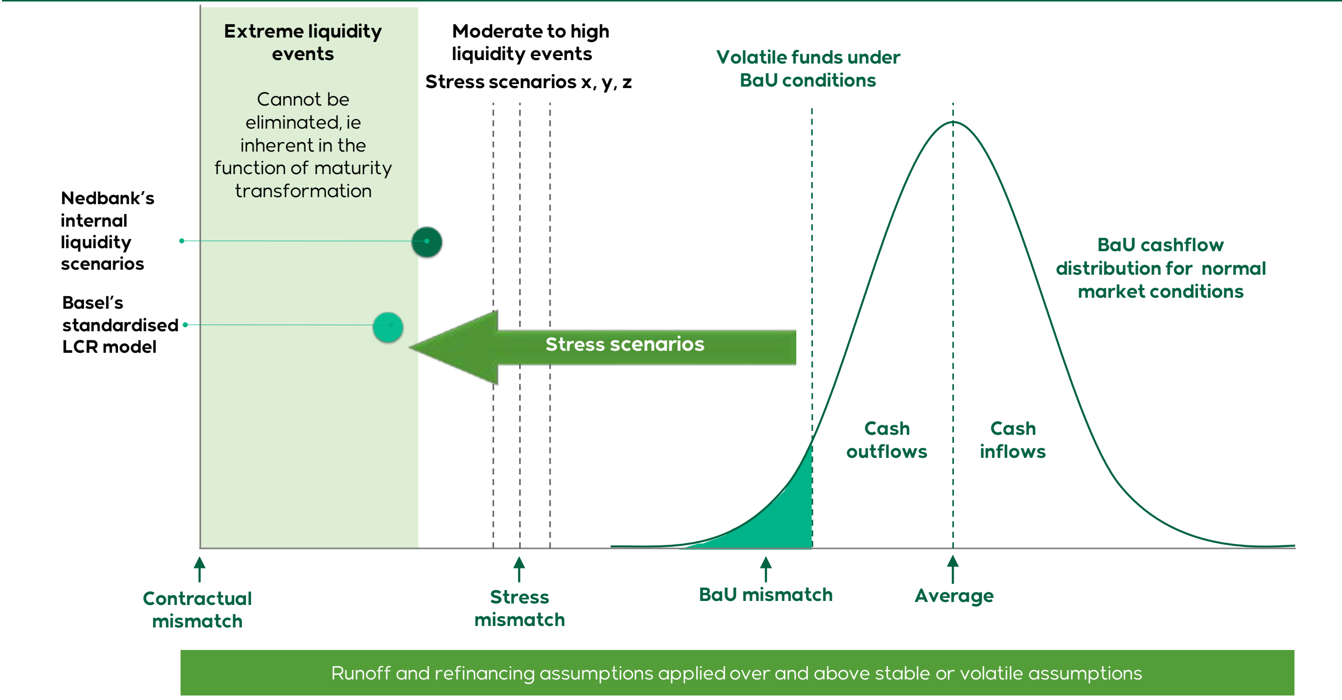
- **Liquidity stress-testing and scenario analysis**

  To ensure regulatory compliance and the ability to meet future liquidity requirements, BSM performs extensive stress-testing and scenario analysis, at both a bank and industry level, to appropriately size the liquidity buffer portfolio in the most optimal manner for seasonal, cyclical and/or stress events. Stress-testing and scenario analysis focus on estimating if, and when, the liquidity buffer could be significantly eroded beyond some tolerable level to pre-emptively facilitate the formulation of mitigating actions designed to ensure that the size of the liquidity buffer will always remain appropriate for future forecast liquidity requirements. Based on the scenario analysis and stress-testing described above, which also include periodic liquidity simulations, BSM is able to do the following:

  » Evaluate the impact of various scenarios on the group's liquidity.
  » Set limits and guidelines designed to position the group better for a stress liquidity event.
  » Formulate appropriate actions designed to reduce the severity of a liquidity crisis.
  » Determine appropriate funding strategies and initiatives designed to support liquidity risk mitigation.
  » Right-size the surplus liquidity buffer portfolio to meet stress funding requirements.

  The objective of scenario analysis and stress-testing is to identify potential weaknesses or vulnerabilities, thereby enabling the group to formulate appropriate strategies designed to mitigate potential weaknesses. Nedbank Group's approach to estimating the stress maturity mismatch in relation to the BaU and contractual maturity mismatch is depicted graphically on the below.

Contractual versus BaU versus stress maturity mismatch



In terms of assessing the bank's liquidity risk through stress-testing and scenario analysis, Nedbank uses both its own internally based liquidity risk models and the outputs of the Basel III LCR; Nedbank exceeded the minimum regulatory requirement of 80% (temporarily reduced from 100%, effective 1 April 2020), with the group maintaining appropriate operational buffers designed to absorb seasonal and cyclical volatility in the LCR. While the Basel III LCR liquidity scenario assumes more extreme levels of stress, Nedbank recognises, in terms of the internally based liquidity risk models, that various structurally favourable factors contributing positively towards liquidity risk mitigation in South Africa are not taken into account in the LCR approach. These include, for example, the closed nature of South Africa's money markets, which is a result of exchange controls and the mechanics of the domestic settlement and clearing system; the higher proportion of LAC when South Africa is compared with many international jurisdictions; and Nedbank's low foreign currency funding reliance and hence low refinancing risk associated with external markets.

Stress and scenario testing is a key risk management process that complements sound liquidity risk management and contingency planning.

- **Funding strategy formulation and execution**

  In terms of achieving the board-approved liquidity risk appetite, BSM formulates a detailed funding strategy on an annual basis, which is approved by Group Alco. The execution of the annual funding plan is then monitored monthly through the Transactional Balance Sheet Forum and Group Alco. In accordance with the current funding strategy, the key objectives can be summarised as follows:

  » Portfolio tilt towards an optimal mix of wholesale, commercial and household deposits, with a specific focus on growing transactional-deposits market share.
  » Targeting a funding profile designed to achieve a contractual and BaU maturity mismatch aligned with the board-approved liquidity risk appetite.

  - Diversifying the funding base through capital market issuance using medium-term notes and securitisation programmes, bilateral and syndicated loans and structured note offerings, taking into account domestic and international investor demand and pricing spreads.
  - Achieving the lowest weighted-average cost of funding within the context of the targeted liquidity risk profile.

- **Contingency funding and liquidity planning**

  Nedbank Group's LRCP, as set out in the Liquidity Risk Management Framework, is designed to protect depositors, creditors and shareholders under adverse liquidity situations. Nedbank's liquidity risk policies and LRCP are reviewed annually in accordance with the annual review process.

  The LRCP has been formulated in the belief that early detection, advance preparations and prompt responses can contribute to liquidity crisis avoidance or minimisation, and that accurate, timely and coordinated communication both internally and externally is essential for managing a crisis situation. The LRCP establishes guidelines for managing a liquidity crisis, identifying early-warning signs of a possible liquidity event, and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure.

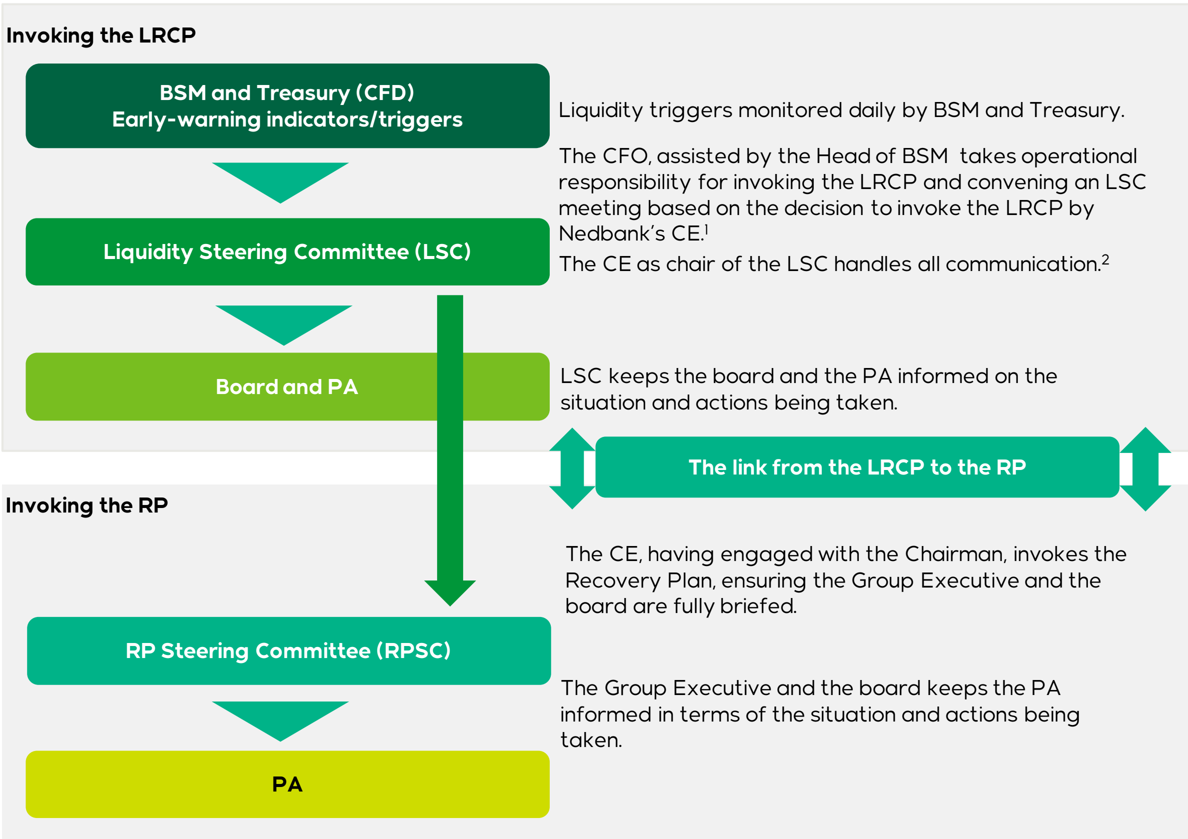
  In addition, the LRCP identifies the individuals responsible for formulating and executing Nedbank Group's response to a liquidity event through the Liquidity Steering Committee (LSC).

  Nedbank has also developed detailed RPs that establish Nedbank's framework for dealing with crises emanating from a capital, liquidity and business continuity or operational event. These plans were approved by the board during Q1 2020, and in line with business-as-usual processes, will be updated in 2021.

  In terms of Nedbank's Liquidity Risk Management Policy, it is a requirement that the LRCP and the RP be tested periodically to ensure their effectiveness and operational feasibility. The LRCP and RP were rigorously tested in August 2018 through a liquidity simulation that involved all relevant internal and external participants. The simulation was facilitated by PwC and forms part of the group's overall approach to stress-testing. The group performed well during this liquidity risk simulation and areas for improvement identified in the final PwC simulation report have been addressed as appropriate, noting that no material areas for improvement were identified. On 27 July 2020 the PA released a proposed directive that indicated that banks should conduct externally facilitated liquidity stress simulations at least every four years. Having conducted a liquidity simulation in August 2018, the next scheduled simulation would be required to take place before August 2022.

  The process for invoking the LRCP, and potentially the RP, is depicted graphically below.

Liquidity Risk Contingency Plan and Recovery Plan



[1] *In the event that Nedbank's CE is unavailable in terms of the decision to invoke the LRCP, the decision would be taken by Nedbank's CRO or CFO.*
[2] *If the CE is unavailable to chair the LSC and handle the communication, the responsibility will fall onto the CRO, CFO and GE: BSM (in that order).*

Nedbank has developed an early-warning indicator or triggers report that is produced daily to identify any signs that a liquidity event may be prevailing or is about to occur, as evidenced by internal and/or external events. Any member of Group Alco can escalate trigger breaches to the CE, CRO, CFO as part of the LRCP invocation process presented in the graphic above.

LIQUIDITY RISK PORTFOLIO REVIEW

SUMMARY OF NEDBANK GROUP LIQUIDITY RISK AND FUNDING PROFILE

		2020	2019
Total sources of quick liquidity	Rm	**254 400**	227 713
Total HQLA	Rm	**206 943**	177 985
Other sources of quick liquidity	Rm	**47 457**	49 728
Total sources of quick liquidity (as a percentage of total assets)	%	**20,7**	19,9
Long-term funding ratio (three-month average)	%	**25,4**	30,2
Senior unsecured debt, including green bonds	Rm	**41 649**	42 295
-Green bonds	Rm	**2 628**	2 644
Total capital market issuance (excluding additional tier 1 capital)	Rm	**59 770**	59 713
Reliance on NCDs (as a percentage of total deposits)	%	**10,5**	13,2
Reliance on foreign currency deposits (as a percentage of total deposits)	%	**2,2**	2,8
Loan-to-deposit ratio	%	**88,4**	91,2
Basel III liquidity ratios			
LCR[1]	%	**125,7**	125,0
Minimum regulatory LCR requirement[2]	%	**80,0**	100,0
NSFR[3]	%	**112,8**	113,0
Minimum regulatory NSFR requirement	%	**100,0**	100,0

[1] *Only banking and/or deposit-taking entities are included in the group LCR. The group ratio represents an aggregation of the relevant individual net cash outflows (NCOF) and the individual HQLA portfolios across all banking and/or deposit-taking entities, where surplus HQLA holdings in excess of the minimum requirement of 100% have been excluded from the aggregated HQLA number in the case of all non-SA banking entities. The above figures reflect the simple average of daily observations over the quarter ending December 2020 for Nedbank Limited and the simple average of the month-end values at 31 October 2020, 30 November 2020 and 31 December 2020 for all non-SA banking entities.*

[2] *On 31 March 2020 the PA issued Directive 1/2020, reducing the minimum LCR requirement from 100% to 80% with effect from 1 April 2020. The revised minimum LCR requirement will remain in force until financial markets normalise.*

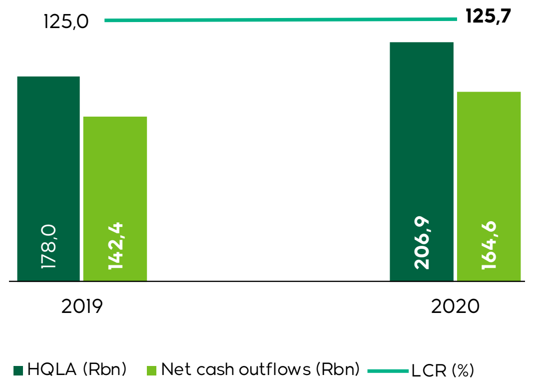
[3] *Only banking and/or deposit-taking entities are included in the group NSFR and the group data represents a consolidation of the relevant individual assets, liabilities and off-balance-sheet items.*

Nedbank Group remains well funded with a strong liquidity position, underpinned by a significant quantum of long-term funding, an appropriately sized surplus liquid-asset buffer, a strong loan-to-deposit ratio consistently below 100%, and a low reliance on interbank and foreign currency funding.

The group's quarterly average LCR exceeded the revised minimum regulatory requirement of 80%, applicable from 1 April 2020, with the group maintaining appropriate operational buffers designed to absorb seasonal, cyclical and systemic volatility observed in the LCR in 2020. On 31 March 2020 the PA issued Directive 1/2020 reducing the minimum LCR requirement from 100% to 80% with effect from 1 April 2020. The reduction in the LCR minimum requirement was in direct response to financial market volatility brought on by the Covid-19 pandemic and the resulting national lockdown, which caused financial and non-financial corporates to tilt towards increased holdings of short-term deposits during March 2020 and April 2020, when financial market volatility was at its highest.

- The LCR (calculated using the simple average of daily observations over the quarter ending December 2020 for Nedbank Limited and the simple average of the month-end values at 31 October 2020, 30 November 2020 and 31 December 2020 for all non-SA banking entities) was 125,7%.
  - Nedbank's portfolio of LCR-compliant HQLA (mainly comprising government bonds and treasury bills) increased to a quarterly average of R206,9bn, up from 2019, when the portfolio amounted to R178,0bn.
  - Despite the higher quarterly arithmetic average in the LCR net cashflows, driven by increased financial market volatility introduced by the Covid-19 pandemic, Nedbank proactively managed its HQLA liquidity buffers, resulting in a year-on-year increase in the LCR.
  - Nedbank will continue to manage the HQLA portfolio within risk appetite targets, taking into account balance sheet growth while maintaining appropriately sized surplus liquid-asset buffers based on market conditions.

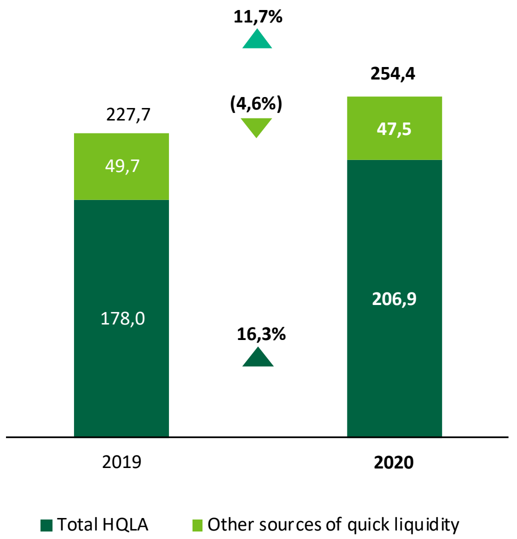
Nedbank Group LCR exceeds minimum regulatory requirements



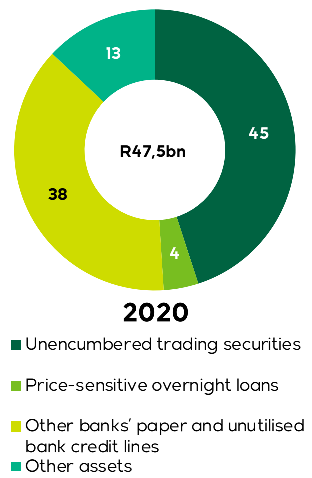
In addition to the HQLA portfolio maintained for LCR purposes, Nedbank also identifies other sources of quick liquidity, which can be accessed in times of stress. Nedbank Group has significant sources of quick liquidity, as is evident in the combined portfolio of HQLA and other sources of quick liquidity, collectively amounting to R254,4bn at December 2020 and representing 20,7% of total assets.

Nedbank Group has significant sources of quick liquidity

Total sources of quick liquidity (Rbn)

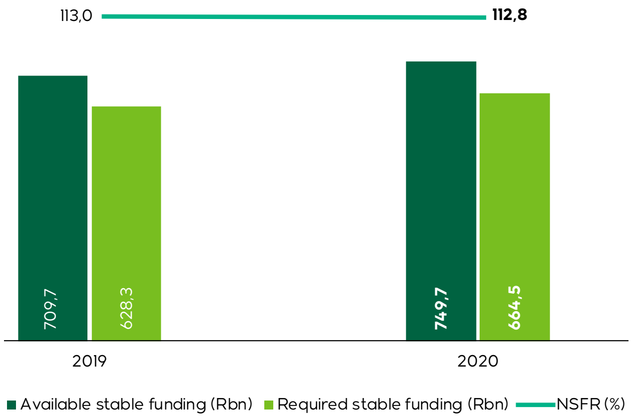


Other sources of quick liquidity contribution (%)



Nedbank exceeded the minimum NSFR regulatory requirement of 100%, effective from 1 January 2018, with a December 2020 ratio of 112,8% (December 2019: 113,0%). The structural liquidity position of Nedbank remained relatively the same as a result of well-managed balance sheet growth. The key focus in terms of the NSFR is to achieve ongoing compliance within the context of balance sheet optimisation.

Nedbank Group NSFR exceeds minimum regulatory requirements

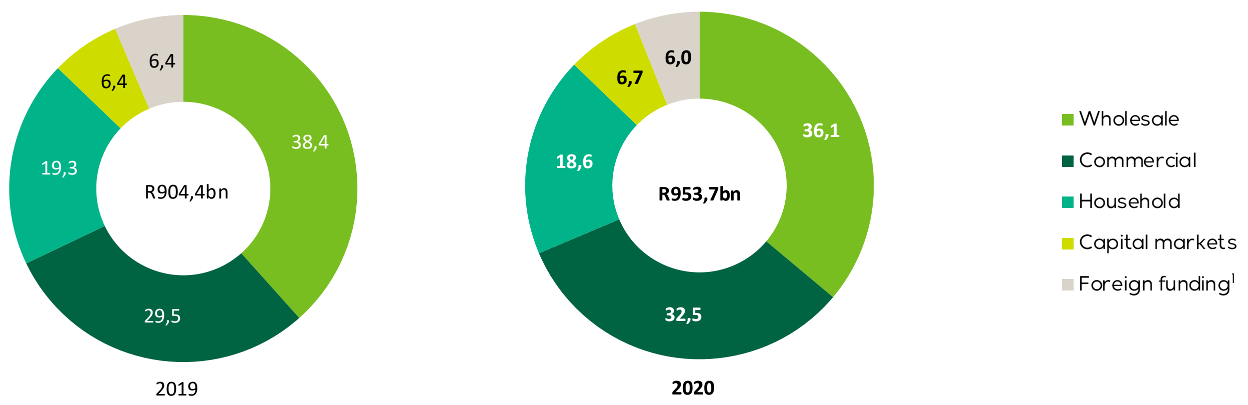


In 2020 Nedbank's funding mix tilted towards decreased funding contributions from wholesale deposits, household deposits and foreign funding, where foreign funding comprises deposits denominated in foreign currency, foreign currency funding and the foreign sector. Nedbank's funding mix tipped towards increased funding contributions from commercial deposits and capital markets funding. Nedbank's quarterly average long-term funding ratio of 25,4% compared favourably with the industry average of 22,0% in an environment of increased financial market volatility as a result of the Covid-19 pandemic.

Nedbank currently sources 36,1% of total funding from wholesale deposits, and this has decreased by 2,3% when compared with that in December 2019. The overall objective is to reduce wholesale- funding reliance through increases in retail and commercial deposits, while wholesale deposits are typically a source of long-term funding, playing an important part in managing the overall term funding profile and reducing reliance on short-term contractual funding.

Nedbank remains focused on growing retail and commercial deposits, with a focus on providing competitive and innovative transactional and investment products, as well as an ongoing emphasis on meeting client needs through product, pricing, innovation and digital client experiences.

Nedbank Group's positively tilting deposit mix

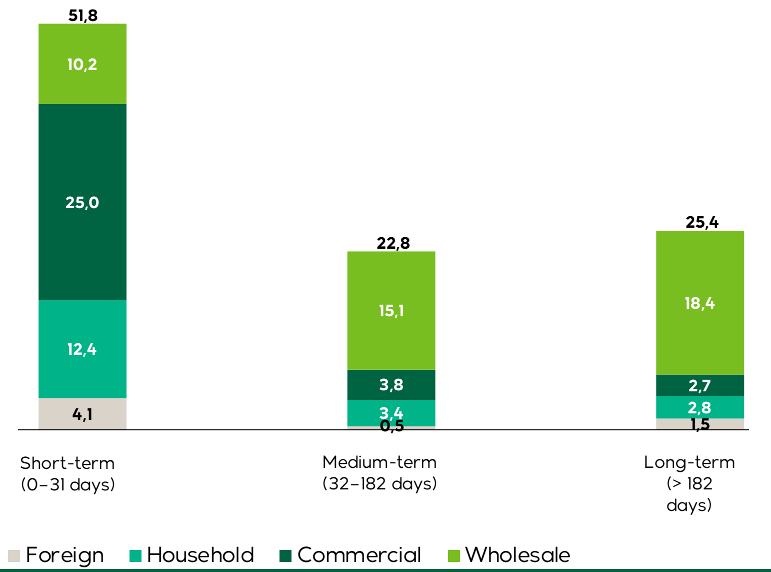


[1]*Foreign funding comprises of deposits denominated in foreign currency, foreign currency funding and the foreign sector.*

As presented below, wholesale funding contributes positively to managing the contractual funding profile, given that wholesale depositors have the greatest appetite for longer-term funding, which is Basel III-positive.

Nedbank Limited funding profile by client-type

(%)



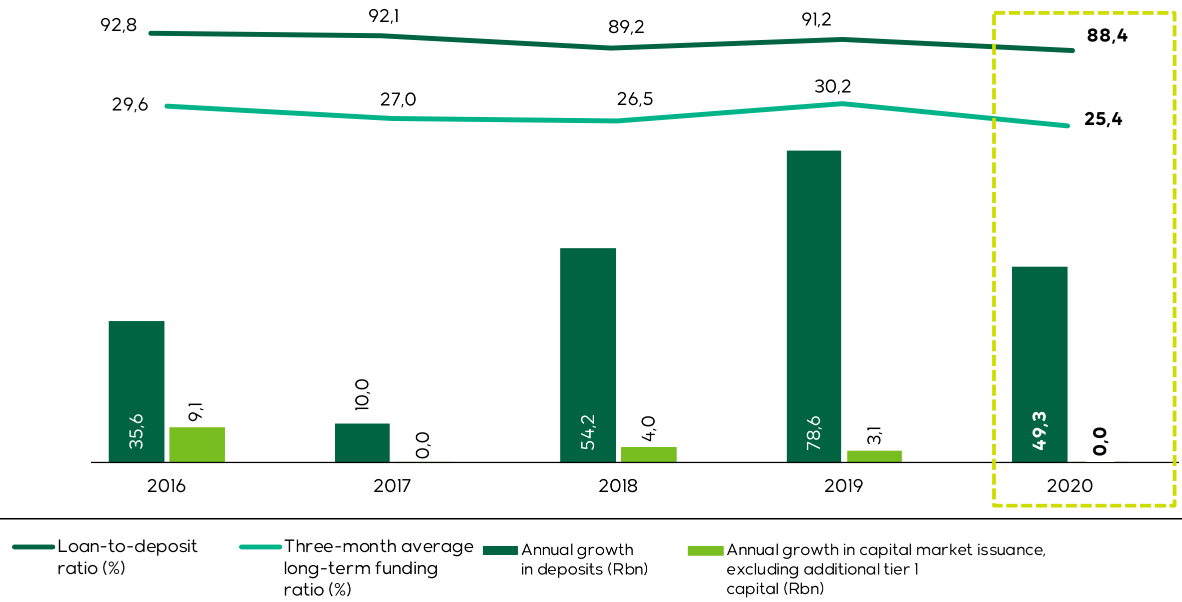
A strong funding profile was maintained in 2020, and Nedbank recorded a three-month average long-term funding ratio of 25,4% in the last quarter of the year. The focus on proactively managing Nedbank's long-term funding profile contributed to a strong balance sheet position and sound liquidity risk metrics. Nedbank has continued to run a more prudent long-term funding profile when compared with the industry average of 22,0%.

- Nedbank successfully issued R3,1bn in senior unsecured debt, while R3,6bn matured during the year.
- Nedbank issued tier 2 capital instruments of R4,1bn and redeemed R2,3bn during the year, in line with the group's capital plan.

While foreign currency funding reliance remains small, at 2,2% of total deposits, Nedbank continues to focus on growing this funding source in support of funding base diversification where the proceeds can be applied to meet funding requirements for foreign advances growth at attractive interest rates.

The group's 2020 ICAAP and ILAAP reports were approved by the board and submitted to the PA during Q4 2020. The update of the group's Recovery Plan in 2021 will incorporate key learnings from the Covid-19 crisis as well as requirements emanating from the "to be" Financial Sector Laws Amendment Bill (FSLAB), which is expected to be promulgated in 2021. FSLAB will give rise to the Resolution Regime, where Nedbank's recovery plans will be required to dovetail into the Resolution plans.

Nedbank Group funding and liquidity profile is underpinned by strong liquidity risk metrics



SUPPLEMENTARY LIQUIDITY RISK INFORMATION

In accordance with the provisions of section 6(6) of the Banks Act (Act No 94 of 1990), banks are directed to comply with the relevant LCR disclosure requirements, as set out in Directive 6/2014, Directive 11/2014 and Directive 1/2020.

The following table sets out Nedbank's LCR at an aggregated group and bank solo level. The aggregated LCR consists of only banking and/or deposit-taking entities and represents an aggregation of the relevant individual NCOF and the individual HQLA portfolios, with surplus HQLA holdings in excess of the minimum requirement of 100% excluded from the aggregated HQLA number in the case of all non-SA banking entities. The disclosure reflects the simple average of daily observations over the quarter ending 31 December 2020 for Nedbank and the simple average of the month-end values at 31 October 2020, 30 November 2020 and 31 December 2020 for all non-SA banking entities.

LIQ1: LIQUIDITY COVERAGE RATIO

		Nedbank Group Limited		Nedbank Limited	
Rm		Total unweighted[1] value (average)	Total weighted[2] value (average)	Total unweighted[1] value (average)	Total weighted[2] value (average)
2020					
1	**Total HQLA**		**206 943**		**200 132**
Cash outflows					
2	**Retail deposits and deposits from small-business clients of which:**	**219 854**	**21 780**	**196 462**	**19 646**
3	stable deposits	**4 116**	**206**		
4	less stable deposits	**215 738**	**21 574**	**196 462**	**19 646**
5	**Unsecured wholesale funding of which:**	**356 760**	**171 154**	**311 522**	**149 918**
6	operational deposits (all counterparties) and deposits in institutional networks of cooperative banks	**181 587**	**45 397**	**158 093**	**39 523**
7	non-operational deposits (all counterparties)	**174 306**	**124 890**	**152 563**	**109 529**
8	unsecured debt	**867**	**867**	**866**	**866**
9	**Secured wholesale funding**	**11 978**	**4**	**11 978**	**4**
10	**Additional requirements of which:**	**150 368**	**22 488**	**136 626**	**20 806**
11	outflows related to derivative exposures and other collateral requirements	**4 205**	**4 205**	**4186**	**4 186**
12	outflows related to loss of funding on debt products				
13	credit and liquidity facilities	**146 163**	**18 283**	**132 440**	**16 620**
14	**Other contractual funding obligations**				
15	**Other contingent funding obligations**	**183 205**	**8 688**	**173 669**	**8 217**
16	**Total cash outflows**	**922 165**	**224 114**	**830 257**	**198 591**
Cash inflows					
17	**Secured lending**	**3 559**	**3 557**	**3 559**	**3 557**
18	**Inflows from fully performing exposures**	**79 377**	**65 722**	**51 605**	**38 578**
19	**Other cash inflows**	**6 881**	**6 881**	**617**	**617**
20	**Total cash inflows**	**89 817**	**76 160**	**55 781**	**42 752**
21	**Total HQLA**		**206 943**		**200 132**
22	**Total NCOF[3]**		**164 583**		**155 839**
23	**LCR (%)**		**125,7**		**128,4**

[1] Unweighted values are calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).
[2] Weighted values are calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).
[3] Total cash outflows less total cash inflows may not be equal to total NCOF, to the extent that regulatory caps have been applied to cash inflows as specified by the regulations.

In line with Basel Pillar 3 disclosure requirements, Nedbank's NSFR for the consolidated banking and/or deposit-taking entities as well as at a bank solo level are reflected in the respective tables below.

LIQ2: NEDBANK GROUP NET STABLE FUNDING RATIO

		Unweighted value by residual maturity				
	Rm	No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
December 2020						
ASF item						
1	Capital	89 812			13 716	103 528
2	Regulatory capital	85 992			12 920	98 912
3	Other capital instruments	3 820			796	4 616
4	Retail deposits and deposits from small-business clients	74 701	186 490	11 479	15 619	261 216
5	Stable deposits		3 833			3 642
6	Less stable deposits	74 701	182 657	11 479	15 619	257 574
7	Wholesale funding	126 986	397 383	75 088	130 942	382 390
8	Operational deposits	123 422	76 266			99 844
9	Other wholesale funding	3 564	321 117	75 088	130 942	282 546
10	Liabilities with matching interdependent assets					
11	Other liabilities	11 372	14 689	745	20 448	2 557
12	NSFR derivative liabilities				18 264	
13	All other liabilities and equity not included in the above categories	11 372	14 689	745	2 184	2 557
14	**Total ASF**					**749 691**
RSF item						
15	Total NSFR HQLA					16 989
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities		207 909	70 758	560 989	554 173
18	Performing loans to financial institutions secured by level 1 HQLA		29 050			2 905
19	Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions		71 354	4 036	19 820	32 542
20	Performing loans to non-financial corporate clients, loans to retail and small-business clients and loans to sovereigns, central banks and PSEs, of which:		96 325	62 458	393 120	410 942
21	with a risk-weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				13 009	8 456
22	Performing residential mortgages, of which:		3 589	4 047	142 203	98 911
23	with a risk-weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		3 589	4 047	128 901	87 604
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities		7 591	217	5 846	8 873
25	Assets with matching interdependent liabilities					
26	**Other assets**	30 670	229		86 070	82 048
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties		22			18
29	NSFR derivative assets				42 956	24 692
30	NSFR derivative liabilities before deduction of variation margin posted				18 273	1 827
31	All other assets not included in the above categories	30 670	207		24 841	55 511
32	Off-balance-sheet items				314 733	11 253
33	**Total RSF**					**664 463**
34	**NSFR (%)**					**112,8**

Rm		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
September 2020						
ASF item						
1	Capital	100 886				100 886
2	Regulatory capital	100 573				100 573
3	Other capital instruments	313				313
4	Retail deposits and deposits from small-business clients	73 466	179 711	15 179	17 228	258 952
5	Stable deposits		4 083			3 879
6	Less stable deposits	73 466	175 628	15 179	17 228	255 073
7	Wholesale funding	103 231	384 352	113 898	131 674	385 999
8	Operational deposits	99 258	79 456			89 357
9	Other wholesale funding	3 973	304 896	113 898	131 674	296 642
10	Liabilities with matching interdependent assets					
11	Other liabilities	11 576	9 458	581	19 856	3 707
12	NSFR derivative liabilities				16 440	
13	All other liabilities and equity not included in the above categories	11 576	9 458	581	3 416	3 707
14	**Total ASF**					749 544
RSF item						
15	Total NSFR HQLA					18 329
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities		199 036	62 271	566 176	554 163
18	Performing loans to financial institutions secured by level 1 HQLA		37 723			3 772
19	Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions		54 538	3 428	21 115	31 009
20	Performing loans to non-financial corporate clients, loans to retail and small-business clients and loans to sovereigns, central banks and PSEs, of which:		97 623	54 888	403 987	416 887
21	with a risk-weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				13 788	8 962
22	Performing residential mortgages, of which:		3 431	3 603	134 134	93 560
23	with a risk-weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		3 431	3 603	119 855	81 422
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities		5 721	352	6 940	8 935
25	Assets with matching interdependent liabilities					
26	**Other assets**	25 415	492		84 347	78 596
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties		93			79
29	NSFR derivative assets				35 230	18 790
30	NSFR derivative liabilities before deduction of variation margin posted				16 450	1 645
31	All other assets not included in the above categories	25 415	399		32 667	58 082
32	Off-balance-sheet items				330 852	11 206
33	**Total RSF**					662 294
34	**NSFR (%)**					113,2

LIQ2: NEDBANK LIMITED NET STABLE FUNDING RATIO

	Rm	Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
December 2020						
ASF item						
1	Capital	81 206			13 716	94 922
2	Regulatory capital	77 704			12 920	90 624
3	Other capital instruments	3 502			796	4 298
4	Retail deposits and deposits from small-business clients	74 701	162 413	11 186	15 347	238 817
5	Stable deposits					
6	Less stable deposits	74 701	162 413	11 186	15 347	238 817
7	Wholesale funding	126 986	374 958	70 634	114 811	346 160
8	Operational deposits	123 422	52 836			88 129
9	Other wholesale funding	3 564	322 122	70 634	114 811	258 031
10	Liabilities with matching interdependent assets					
11	Other liabilities	11 372	13 014	714	1 527	1 884
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in the above categories	11 372	13 014	714	1 527	1 884
14	**Total ASF**					681 783
RSF item						
15	Total NSFR HQLA					16 109
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities		188 259	68 424	527 005	519 647
18	Performing loans to financial institutions secured by level 1 HQLA		29 050			2 905
19	Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions		64 343	5 169	25 046	37 282
20	Performing loans to non-financial corporate clients, loans to retail and small-business clients and loans to sovereigns, central banks and PSEs, of which:		84 843	60 047	364 087	379 416
21	with a risk-weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				12 516	8 135
22	Performing residential mortgages, of which:		2 821	2 992	132 118	91 443
23	with a risk-weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		2 821	2 992	118 815	80 137
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities		7 202	216	5 754	8 601
25	Assets with matching interdependent liabilities					
26	**Other assets**	30 670	229		81 271	77 677
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties		22			18
29	NSFR derivative assets				42 762	24 662
30	NSFR derivative liabilities before deduction of variation margin posted				18 109	1 811
31	All other assets not included in the above categories	30 670	207		20 400	51 186
32	Off-balance-sheet items				297 804	10 407
33	**Total RSF**					623 840
34	**NSFR (%)**					109,3

	Rm	Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
	September 2020					
	ASF item					
1	Capital	91 868				91 868
2	Regulatory capital	91 868				91 868
3	Other capital instruments					
4	Retail deposits and deposits from small-business clients	73 466	156 834	14 728	17 006	237 530
5	Stable deposits					
6	Less stable deposits	73 466	156 834	14 728	17 006	237 530
7	Wholesale funding	103 231	367 046	106 556	112 053	344 134
8	Operational deposits	99 258	55 614			77 436
9	Other wholesale funding	3 973	311 432	106 556	112 053	266 698
10	Liabilities with matching interdependent assets					
11	Other liabilities	11 576	7 098	534	19 038	3 073
12	NSFR derivative liabilities				16 232	
13	All other liabilities and equity not included in the above categories	11 576	7 098	534	2 806	3 073
14	**Total ASF**					676 605
	RSF item					
15	Total NSFR HQLA					17 414
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities		180 922	60 866	531 150	519 608
18	Performing loans to financial institutions secured by level 1 HQLA		37 723			3 772
19	Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions		49 282	5 397	27 515	37 605
20	Performing loans to non-financial corporate clients, loans to retail and small-business clients and loans to sovereigns, central banks and PSEs, of which:		85 650	52 728	372 539	383 272
21	with a risk-weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk				12 875	8 369
22	Performing residential mortgages, of which:		2 679	2 741	124 165	86 274
23	with a risk-weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		2 679	2 741	109 886	74 136
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities		5 588		6 931	8 685
25	Assets with matching interdependent liabilities					
26	**Other assets**	25 415	492		77 714	72 357
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties		93			79
29	NSFR derivative assets				34 791	18 559
30	NSFR derivative liabilities before deduction of variation margin posted				16 243	1 624
31	All other assets not included in the above categories	25 415	399		26 680	52 095
32	Off-balance-sheet items				311 913	10 259
33	**Total RSF**					619 638
34	**NSFR (%)**					109,2

The contractual and BaU liquidity mismatches of Nedbank Group are presented below.

NEDBANK GROUP CONTRACTUAL LIQUIDITY GAP

Rm	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months	Total
December 2020									
Cash and cash equivalents	**38 810**	**2 040**	**97**		**53**	**130**	**55**	**197**	**41 382**
Other short-term securities	**3**	**2 392**	**7 950**	**8 869**	**7 449**	**9 891**	**13 265**	**2 786**	**52 605**
Derivative financial instruments	**147**	**883**	**3 383**	**4 413**	**4 413**	**11 162**	**8 073**	**47 851**	**80 325**
Government and other securities			**15**	**108**	**14 610**	**340**	**270**	**116 878**	**132 221**
Loans and advances	**71 467**	**18 280**	**37 762**	**18 710**	**28 225**	**34 260**	**64 490**	**570 109**	**843 303**
Other assets	**832**		**172**		**27**	**21**	**119**	**77 130**	**78 301**
Total assets	**111 259**	**23 595**	**49 379**	**32 100**	**54 777**	**55 804**	**86 272**	**814 951**	**1 228 137**
Total equity								**100 444**	**100 444**
Derivative financial instruments	**123**	**740**	**2 838**	**3 701**	**3 701**	**7 308**	**7 326**	**39 393**	**65 130**
Amounts owed to depositors	**507 252**	**21 874**	**46 081**	**76 602**	**38 812**	**81 687**	**81 672**	**99 735**	**953 715**
Provision and other liabilities	**21 759**		**888**	**162**	**240**	**305**	**978**	**24 746**	**49 078**
Long-term debt instruments				**1 723**	**920**	**2 759**	**2 755**	**51 613**	**59 770**
Total equity and liabilities	**529 134**	**22 614**	**49 807**	**82 188**	**43 673**	**92 059**	**92 731**	**315 931**	**1 228 137**
Net liquidity gap – 2020	**(417 875)**	**981**	**(428)**	**(50 088)**	**11 104**	**(36 255)**	**(6 459)**	**499 020**	
Off-balance-sheet – 2020	**(190 102)**								**(190 102)**
Net liquidity gap – 2019	(329 304)	(1 910)	(18 778)	(50 672)	(12 779)	(29 094)	(37 305)	479 842	
Off-balance-sheet – 2019	(180 265)								(180 265)

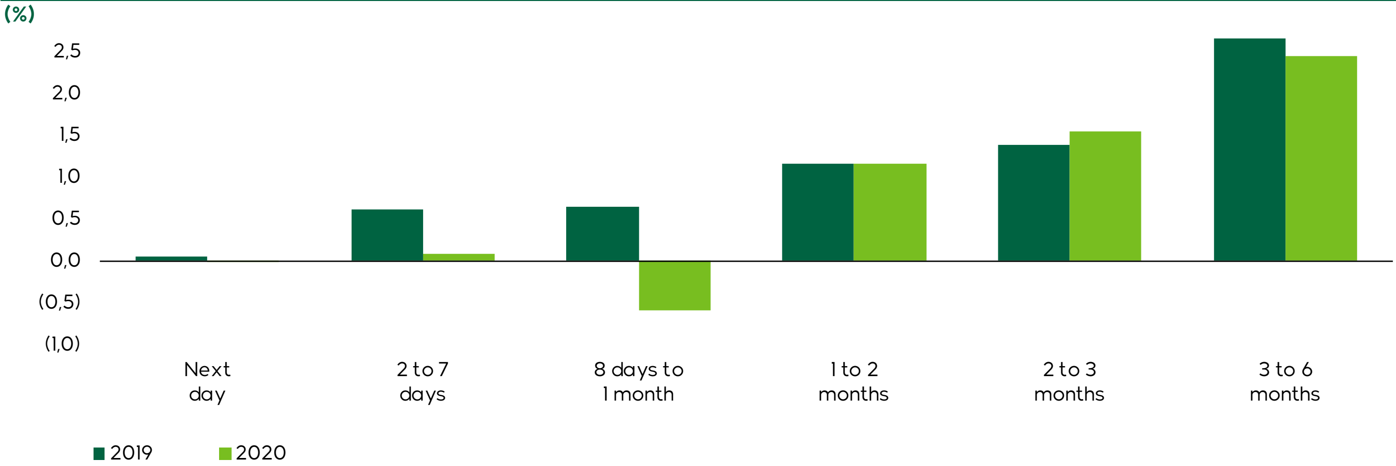
The BaU liquidity gap of Nedbank Group is presented below. The table shows the expected liquidity mismatch under normal market conditions after having taken into account the behavioural attributes of stable deposits, savings and investment products and rollover assumptions associated with term deals but excluding BaU management actions. Based on client behavioural attributes, it is estimated that 94% (2019: 95%) of the amounts owed to depositors are stable.

NEDBANK GROUP BAU LIQUIDITY GAP

Rm	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months	Total
December 2020									
Cash and cash equivalents								**41 382**	**41 382**
Other short-term securities	**3**	**2 167**	**6 419**	**5 530**	**5 006**	**2 155**	**4 503**	**26 822**	**52 605**
Derivative financial instruments	**147**	**883**	**3 383**	**4 413**	**4 413**	**11 162**	**8 073**	**47 851**	**80 325**
Government and other securities								**132 221**	**132 221**
Loans and advances	**1 676**	**8 234**	**30 152**	**22 945**	**28 199**	**67 355**	**132 257**	**552 485**	**843 303**
Other assets								**78 301**	**78 301**
Total assets	**1 826**	**11 284**	**39 954**	**32 888**	**37 618**	**80 672**	**144 833**	**879 062**	**1 228 137**
Total equity								**100 444**	**100 444**
Derivative financial instruments	**123**	**740**	**2 838**	**3 701**	**3 701**	**7 308**	**7 326**	**39 393**	**65 130**
Amounts owed to depositors	**1 655**	**9 416**	**44 317**	**13 070**	**13 969**	**40 290**	**71 176**	**759 822**	**953 715**
Provision and other liabilities	**124**			**92**	**89**	**279**	**517**	**47 977**	**49 078**
Long-term debt instruments				**1 723**	**920**	**2 759**	**2 755**	**51 613**	**59 770**
Total equity and liabilities	**1 902**	**10 156**	**47 155**	**18 586**	**18 679**	**50 636**	**81 774**	**999 249**	**1 228 137**
Net liquidity gap – 2020	**(76)**	**1 128**	**(7 201)**	**14 302**	**18 939**	**30 036**	**63 059**	**(120 187)**	
Off-balance-sheet – 2020	**(88)**	**(526)**	**(2 106)**	**(2 632)**					**(5 352)**
Net liquidity gap – 2019	546	7 067	7 364	13 208	15 936	30 603	58 682	(133 406)	
Off-balance-sheet – 2019	(87)	(525)	(2 098)						(5 333)

As illustrated below, Nedbank Group's 2020 cumulative six-month inflows exceed outflows, highlighting the strength of Nedbank's retail and commercial deposits franchise and the associated behavioural stability of these deposits.

Nedbank Group behavioural liquidity mismatch[1]



[1] *Expressed on total assets and based on maturity assumptions before rollovers and risk management.*

The tables below depict the contractual and BaU liquidity mismatches in respect of Nedbank, while also highlighting the split of total deposits into 'stable' and 'more volatile'. The liquidity profile attributable to foreign operations is relatively small, with approximately 92% of Nedbank Group's balance sheet emanating from Nedbank.

NEDBANK LIMITED CONTRACTUAL LIQUIDITY GAP

Rm	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months	Total
December 2020									
Contractual maturity of assets	**115 315**	**16 414**	**52 341**	**30 180**	**51 451**	**49 706**	**75 981**	**739 219**	**1 130 607**
Loans and advances	**35 976**	**2 083**	**27 442**	**14 683**	**25 226**	**29 313**	**55 337**	**500 155**	**690 215**
Trading, hedging and other investment instruments	**46 748**	**14 331**	**24 899**	**15 497**	**26 225**	**20 393**	**20 644**	**196 500**	**365 237**
Other assets	**32 591**							**42 564**	**75 155**
Contractual maturity of liabilities	**462 519**	**21 337**	**51 859**	**78 066**	**48 134**	**99 080**	**90 822**	**278 790**	**1 130 607**
Stable deposits	**408 100**	**15 486**	**38 213**	**53 808**	**22 811**	**57 932**	**66 971**	**104 586**	**767 907**
Volatile deposits	**32 385**	**484**	**4 036**	**1 767**	**778**	**1 877**	**2 192**	**5 621**	**49 140**
Trading and hedging instruments	**21 026**	**5 367**	**9 610**	**22 420**	**24 476**	**37 772**	**20 881**	**76 785**	**218 337**
Other liabilities	**1 008**			**71**	**69**	**1 499**	**778**	**91 798**	**95 223**
Net liquidity gap – 2020	**(347 204)**	**(4 923)**	**482**	**(47 886)**	**3 317**	**(49 374)**	**(14 841)**	**460 429**	
Off-balance-sheet –2020	**(181 017)**								**(181 017)**
Net liquidity gap – 2019	(268 654)	(3 332)	(14 690)	(47 564)	(15 794)	(30 542)	(44 702)	425 278	
Off-balance-sheet –2019	(168 337)								(168 337)

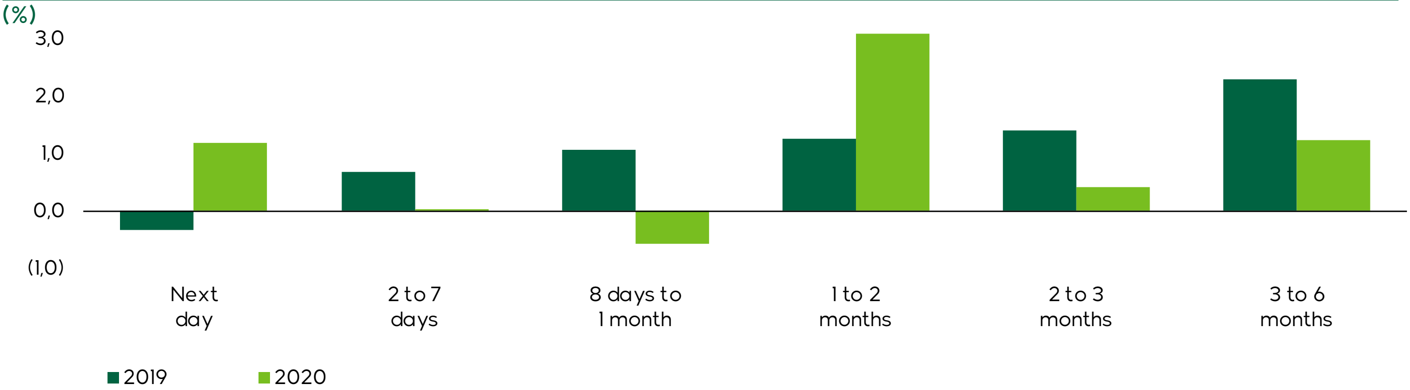
The BaU liquidity gap of Nedbank is presented below. The table shows the expected liquidity mismatch under normal market conditions after having taken into account the behavioural attributes of stable deposits, savings and investment products and rollover assumptions associated with term deals but excluding BaU management actions. Based on client behavioural attributes, it is estimated that 94% (2019: 95%) of the amounts owed to depositors are stable.

NEDBANK LIMITED BaU LIQUIDITY GAP

Rm	Next day	2 to 7 days	8 days to 1 month	1 to 2 months	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months	Total
December 2020									
BaU maturity of assets	**19 178**	**10 534**	**40 929**	**56 486**	**39 530**	**72 724**	**119 857**	**771 369**	**1 130 607**
Loans and advances	**1 372**	**6 740**	**24 679**	**18 780**	**23 080**	**55 128**	**108 248**	**452 188**	**690 215**
Trading, hedging and other investment instruments	**17 806**	**3 794**	**16 250**	**37 706**	**16 450**	**17 596**	**11 609**	**244 026**	**365 237**
Other assets								**75 155**	**75 155**
BaU maturity of liabilities	**5 835**	**10 331**	**47 396**	**21 626**	**34 687**	**58 691**	**90 271**	**861 770**	**1 130 607**
Stable deposits	**262**	**1 440**	**8 363**	**9 864**	**11 190**	**32 679**	**58 784**	**645 325**	**767 907**
Volatile deposits	**1 156**	**6 626**	**29 604**	**1 333**	**778**	**1 837**	**2 192**	**5 614**	**49 140**
Trading and hedging instruments	**4 319**	**2 265**	**9 429**	**10 358**	**22 650**	**23 958**	**28 891**	**116 467**	**218 337**
Other liabilities	**98**			**71**	**69**	**217**	**404**	**94 364**	**95 223**
Net liquidity gap – 2020	**13 343**	**203**	**(6 467)**	**34 860**	**4 843**	**14 033**	**29 586**	**(90 401)**	
Off-balance-sheet – 2020	**(84)**	**(501)**	**(2 005)**	**(2 507)**					**(5 097)**
Net liquidity gap – 2019	(3 457)	7 018	11 114	13 235	14 717	24 072	40 966	(107 665)	
Off-balance-sheet – 2019	(82)	(490)	(1 959)	(2 449)					(4 980)

As illustrated below, Nedbank's 2020 cumulative inflows exceed outflows for the cumulative one-to six-month time buckets (exception of 1 month bucket), highlighting the strength of Nedbank's retail and commercial deposits franchise and the effective management of the funding profile and asset–liability composition from a behavioural perspective. The immaterial next-day behavioural liquidity mismatch reflects Nedbank's BaU participation in the SARB money market shortage, where Nedbank, like other clearing banks in the domestic financial system, is required to fund its participation in the SARB money market shortage at the repo rate, which forms the basis of the monetary policy transmission mechanism.

Nedbank Limited behavioural liquidity mismatch[1]



[1] Expressed as total assets and based on maturity assumptions before rollovers and risk management.

SECURITISATION RISK

Year under review

- Due to the effects of the prevailing pandemic and the low balance sheet growth during the year, there was no opportunity to fund the bank balance sheet funding through securitisation.

Focus for 2021

- During 2021, if the market recovers and market appetite exists for Nedbank RMBS securitisation paper, Nedbank has the ability to fulfil that demand by issuing additional notes out of the Greenhouse 5 transaction, which has been structured to raise additional funding, during the lifetime of the vehicle.
- Nedbank will acknowledge the consequences of any further downgrades by the ratings agencies of the SA sovereign rating and its impact on the bank's securitisation vehicles.
- Close attention is being paid to the performance of the underlying borrowers in the transactions and the priority will be continuous monitoring and further understanding and mitigation of possible impacts of Covid-19 on these transactions.

Nedbank Group uses securitisation as a funding diversification tool, which also supports the management of the banks structural liquidity risk profile. The group currently has two traditional securitisation transactions. A third transaction, Greenhouse Funding III (RF) Limited, redeemed its outstanding notes on 25 February 2020.

Greenhouse III and Greenhouse Funding 5 (RF) Limited (Greenhouse 5) are securitisations of portfolios of home loans originated by Retail. The senior notes issued were placed with SA capital market investors as part of Nedbank Group's funding strategy, while the junior notes were retained by the bank. The notes issued by Greenhouse III and Greenhouse 5 have been assigned credit ratings by Moody's Investors Service (Moody's) and are listed on the Johannesburg Stock Exchange Limited (JSE). Precinct Funding 2 (RF) Limited (Precinct 2) is a securitisation of commercial-property loans originated by CIB. Precinct 2 issued its first notes in March 2017. The notes issued by Precinct 2 are rated by Moody's and listed on the JSE, with the senior notes having been placed with SA capital market investors and the junior notes retained by the bank.

ASSETS SECURITISED AND RETAINED SECURITISATION EXPOSURE

Rm	Year initiated	Rating agency	Transaction type	Asset type	Assets securitised[1]		Assets outstanding		Amount retained/ purchased		Risk-weighted assets[2]	
					2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Greenhouse III	2014	Moody's	Traditional securitisation	Home loans	**2 052**	2 052		1 092		296		215
Precinct 2	2017	Moody's	Traditional securitisation	Commercial-property loans	**1 111**	1 111	**592**	784	**168**	168	**181**	207
Greenhouse 5	2019	Moody's	Traditional securitisation	Home loans	**1 618**	1 618	**1 593**	1 036	**171**	171	**264**	167

[1] This includes all assets identified for securitisation at the transaction close.

[2] The regulatory capital held against these securitisation exposures is capped at the IRB Approach capital requirement that the bank would have held against the underlying assets had they not been securitised.

The various roles fulfilled by Nedbank Group in securitisation transactions are indicated in the table below.

Transaction	Originator	Sponsor	Investor	Servicer	Liquidity facility provider	Credit enhancement provider	Swap counterparty
Greenhouse III	✔		✔	✔		✔	✔
Precinct 2	✔		✔	✔		✔	✔
Greenhouse 5	✔		✔	✔		✔	✔

There have been no downgrades of any of the notes issued by Nedbank Group's securitisation transactions and the performance of the underlying portfolios of assets remain sound.

All securitisation transactions entered into thus far have involved the sale of the underlying assets to the special-purpose vehicles. Nedbank Group has not originated or participated in synthetic securitisations.

Nedbank Group complies with IFRS in terms of recognising and accounting for securitisation transactions.

- In particular, the assets transferred to the Greenhouse and Precinct securitisation vehicles continue to be recognised on the balance sheet of the bank and the securitisation vehicles are consolidated under Nedbank Group for financial reporting purposes.
- Securitisations are treated as sale transactions (rather than financing transactions). The assets are sold to the special-purpose vehicles at carrying value and no gains or losses are recognised.

Proposed securitisation initiatives undertaken by Nedbank Group follow a rigorous internal approval process and are reviewed for approval by Group Alco, GRCMC and the board. Retained securitisation exposures are reviewed and monitored by the relevant credit committees in the group, and changes to retained securitisation exposures (ratings, redemptions and losses) are reflected in the monthly return concerning securitisation schemes (BA 500) submitted to the PA. Nedbank Group does not employ CRM techniques to hedge credit risk on retained securitisation exposures or resecuritisation exposures.

The table below details Nedbank Group's securitisation exposures in the banking book. Nedbank Group has no securitisation exposure in the trading book.

SEC1: SECURITISATION EXPOSURES IN THE BANKING BOOK

		Traditional securitisation			
	Rm	Group acts as originator	Group acts as sponsor	Group acts as investor	Total
2020					
1	**Retail, of which:**	**171**			**171**
2	residential mortgages	**171**			**171**
6	**Wholesale, of which:**	**168**			**168**
8	commercial mortgages	**168**			**168**
Total		**339**			**339**
2019					
1	**Retail, of which:**	467			467
2	residential mortgages	467			467
6	**Wholesale, of which:**	168			168
8	commercial mortgages	168			168
Total		635			635

SEC3: SECURITISATION EXPOSURES IN THE BANKING BOOK AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS – BANK ACTING AS ORIGINATOR OR SPONSOR

		Exposure values by risk-weighted bands				Exposure values by regulatory approach		RWA by regulatory approach		Capital charge after cap	
	Rm	≤ 20%	> 20% to 50%	> 50% to 100%	> 100% to < 1 250%	IRB RBA	IRB SFA	IRB RBA	IRB SFA	IRB RBA	IRB SFA
2020											
1	**Total exposures**				**339**	**161**	**178**	**354**	**91**	**37**	**9**
3	**Securitisation, of which:**				**339**	**161**	**178**	**354**	**91**	**37**	**9**
4	retail underlying				**171**	**80**	**91**	**206**	**58**	**22**	**6**
5	wholesale				**168**	**81**	**87**	**148**	**33**	**15**	**3**
6	**Resecuritisation, of which:**										
7	senior										
8	non-senior										
2019											
1	**Total exposures**			296	339	161	474	304	285	35	33
3	**Securitisation, of which:**			296	339	161	474	304	285	35	33
4	retail underlying			296	171	80	387	139	243	16	28
5	wholesale				168	81	87	165	42	19	5
6	**Resecuritisation, of which:**										
7	senior										
8	non-senior										

There were no synthetic securitisations (rows 9 to 15) and no exposures in the < 50% risk-weighted bands at 31 December 2020.

SEC4: SECURITISATION EXPOSURES IN THE BANKING BOOK AND ASSOCIATED REGULATORY CAPITAL REQUIREMENTS – BANK ACTING AS INVESTOR

The last remaining investment matured in May 2018.

MARKET RISKS

Market risk is the risk of loss arising from movements in market variables, such as foreign exchange rates, interest rates, equity prices, commodity prices, property prices, credit spreads and implied volatilities. Market risk arises in both the banking and trading book. Trading book positions are financial instruments (primary and derivative instruments) typically held with the intention of short-term trading, market-making or to hedge other positions in the trading book and are free of trade restrictions. Any instrument not held for trading purposes is assigned to the banking book.

Market risk comprises the following:

- Trading market risk (or position risk) in the trading book, which arises predominantly in CIB.
- IRRBB, which arises from repricing and/or maturity mismatches of on- and off-balance-sheet components across the group.
- Foreign exchange risk in the banking book, which is the risk to earnings or capital arising from the translation of the group's non-trading-related offshore assets, liabilities, commitments or earnings from foreign currency to local or functional currency.
- Equity risk in the banking book, which arises in the private-equity and investment property portfolios of CIB and in other strategic investments of the group.
- Property market risk, which arises from business premises, property required for future expansion and repossessed properties.

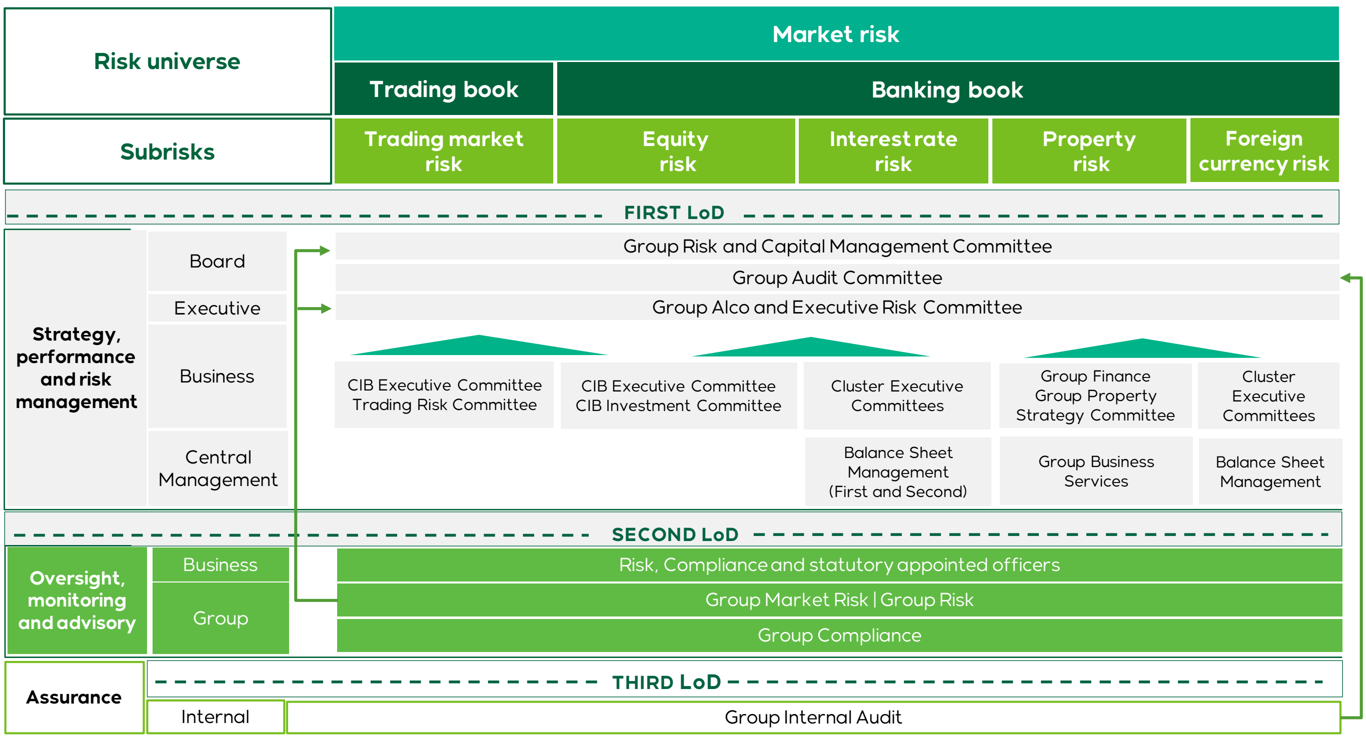
Other than IRRBB, Nedbank does not have a significant risk appetite for, or exposure to, market risk.

MARKET RISK STRATEGY, GOVERNANCE AND POLICY

The Group Market Risk Framework recognises the importance of sound market risk management and bases its Market Risk Management Framework on the approach to identify, assess, control and manage market risk. The framework is approved by the board and supported by the following:

- The board's GRCMC is accountable for the independent oversight of the adequacy and effectiveness of the Market Risk Management Framework, which includes key risks, key performance indicators as well as strategic, business and operational risks. The board ultimately approves the market risk appetite and related limits for both the banking and trading books.
- Group Alco, which is responsible for ensuring that market risks are effectively managed and reported on throughout Nedbank Group, and that all policies, risk limits and relevant market risk issues are reported to the GRCMC.
- GMR, an independent function within the Group Risk cluster, monitors market risks across Nedbank Group – this is a specialist risk area that provides independent oversight of market risk, validation of risk measurement, policy coordination and reporting. GMR reports on the market risk portfolio to the Group Alco and GRCMC and ensures that market risk limits are compatible with a level of risk acceptable to the board. No market risk is permitted outside these board-approved limits.
- Risk control units in business, which have primary responsibility for day-to-day risk management.
- Internal Audit, which provides independent and objective assurance on the overall effectiveness of internal controls.

Market risk governance structure



TRADING MARKET RISK

Year under review

- The 2020 financial year was characterised by extreme market volatility during H1 2020, followed by a general recovery of financial markets tracking the progress of the Covid-19 pandemic across all countries.
- Associated with the extreme market volatility, Nedbank observed a significant increase in its market risk capitalisation, due primarily to its regulatory capital model calibration to observed market movements in H1 2020.
- Nedbank was able to take advantage of the severe market volatility in the trading portfolio to prudently recover from initial losses across most of its individual business lines to end the year with growth in trading income.
- Focus, however, shifted onto capital optimisation initiatives for the remainder of the year to maintain and carefully manage the existing risk appetite of the bank.

Focus for 2021

- Trading regulatory capitalisation remains at elevated levels in 2021, and optimisation and trading efficiency will continue to be a key focal area for Nedbank.
- Nedbank continues its preparations for the bank's local readiness and implementation of the Fundamental Review of the Trading Book (FRTB), which seeks to completely overhaul the market risk regulatory regime, on 1 January 2023.
- Further key industry reforms such as global IBOR reform, margin requirements for uncleared derivatives, collateral optimisation as well as other initiatives remain in focus for the bank during 2021.

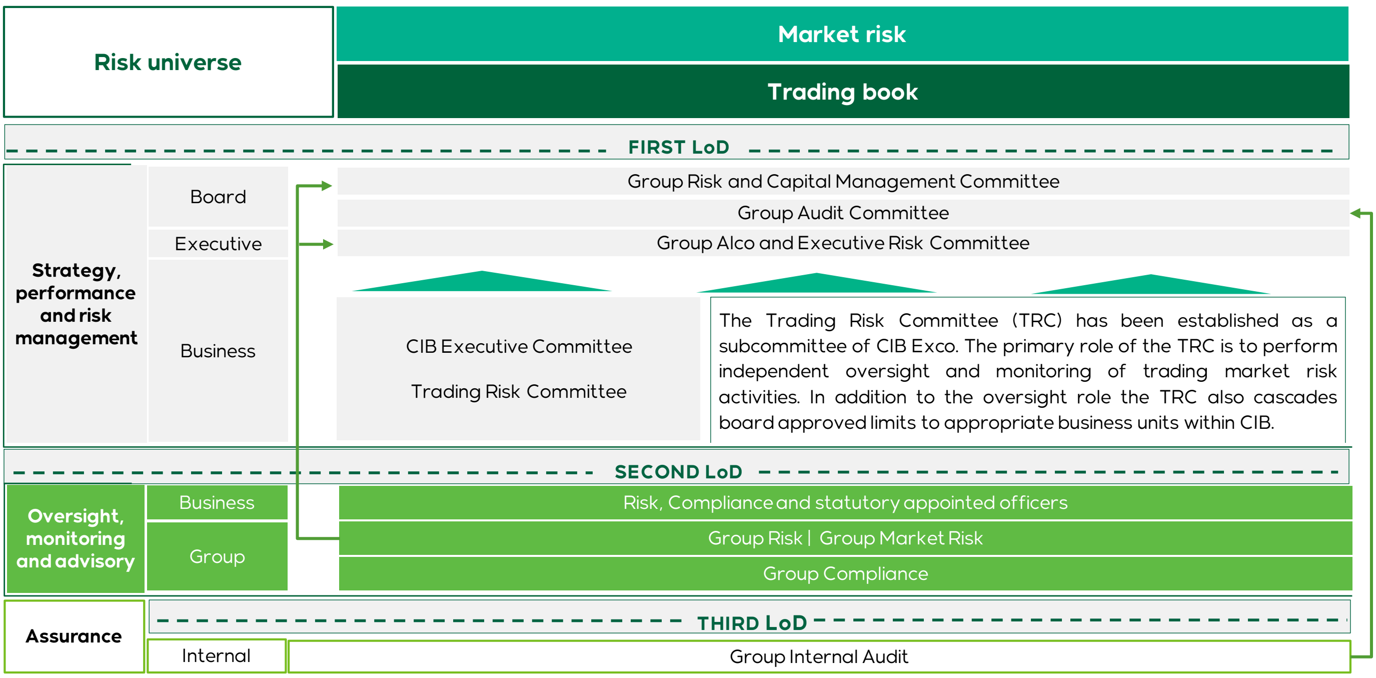
Trading market risk is the risk of loss as a result of unfavourable changes in the market value of the trading book because of changes in market risk factors, such as foreign exchange rates, interest rates, equity prices, commodity prices, credit and implied volatilities. The trading book is defined as positions in financial instruments and commodities, including derivative products and other off-balance-sheet instruments that are held with trading intent or used to hedge other elements of the trading book.

Categories of trading market risk include exposure to interest rates, equity prices, commodity prices, foreign exchange rates and credit spreads. A description of each market risk factor category is set out below:

- Interest rate risk primarily results from exposure to changes in the level, slope and curvature of the yield curve and the volatility of interest rates.
- Equity price risk results from exposure to changes in the price and volatility of individual equities and equity indices.
- Commodity price risk results from exposure to changes in spot prices, forward prices and volatilities of commodity products, such as energy, agricultural products, and precious and base metals.
- Foreign exchange rate risk results from exposure to changes in spot prices, forward prices and volatility of currencies.
- Credit spread risk results from exposure to changes in the interest rate that reflects the spread investors receive for bearing credit risk.

Trading market risk governance

Trading market risk governance structure



The trading market risk governance structure is aligned with the Group's ERMF and Group Market Risk Framework and is managed within the three LoD framework.

The first LoD comprises focused and informed involvement by the board and Group Exco, which retains ultimate responsibility for the effective management of trading market risk. Group Alco proactively manages trading market risk undertaken by the group and ensures that risk impacting the achievement of the strategic objectives of business are identified, assessed or measured, managed, monitored and reported effectively within defined risk appetites and risk strategies. Business clusters take ownership of risks arising within their areas of responsibility. CIB is the only cluster in the group that may incur trading market risk but is restricted to the formally approved securities and derivative products. The Trading Risk Committee (TRC) is responsible for the oversight and monitoring of trading market risk activities within CIB. The TRC approves appropriate trading risk limits for the individual BUs within the trading area. Committee meetings are held every second month and are independently chaired by the Executive Head of Group Market Risk. Members include the CRO, risk managers from the cluster, the cluster's managing executive and executive head of risk, as well as representatives from GMR.

The second LoD comprises business-cluster risk functions established primarily to monitor the identification, assessment, management, monitoring and reporting of risk arising within the business unit. Independent oversight is provided to the board by GMR. Included in the second LoD are specialist functions such as Group Legal and Group Compliance.

Third LoD provides independent objective assurance on the effectiveness of the management of risk across the group.

Managing trading market risk

Trading market risk is governed by board-approved policies that cover management, identification, measurement and monitoring.

Market risk limits, including VaR and stress trigger limits, are approved at board level and are reviewed periodically, but at least annually. These limits are then allocated to the trading units through a tiered limit approach by the TRC. Market risk reports are available at a variety of levels and in various degrees of detail, ranging from individual trader level to a group level view of market risk. Market risk exposures are measured and reported to management and bank executives daily. Documented policies and procedures are in place to ensure that exceptions are resolved timeously.

In addition to applying business judgement, management uses a number of quantitative measures to manage the exposure to trading market risk. These measures include the following:

- Risk limits based on a portfolio measure of market risk exposures referred to as VaR, including extreme tail loss (ETL).
- Scenario analysis, stress-testing and other analytical tools that measure the potential effects on trading revenue in the event of various unexpected market events.

The material risks identified by these measures are summarised in daily reports that are circulated to, and discussed with, senior management.

VaR is the potential loss in pretax profit due to adverse market movements over a defined holding period within a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities, as well as risk diversification, by recognising offsetting positions and correlations between products and markets. It facilitates the consistent measurement of risk across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The 99% one-day VaR number used by Nedbank Group indicates that, at a 99% confidence level, the daily loss will not exceed the reported VaR and therefore that the daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days.

Nedbank Group uses one year of historical data to estimate VaR. Some of the considerations that are taken into account when reviewing the VaR numbers are the following:

- The assumed one-day holding period will not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day.
- The historical VaR assumes that the past is a good representation of the future, which may not always be the case.
- The 99% confidence level does not indicate the potential loss beyond this interval.
- If a product or listing is new in the market, limited historical data would be available. In such cases, a proxy is chosen to act as an estimate for the historical rates of the relevant risk factor. Depending on the amount of (limited) historical rates available, regression analysis is used on the chosen proxy to refine the link between the proxy and the actual rates.

Additional risk measures are used to monitor the individual trading desks, including performance triggers, approved trading products, concentration of exposures, maximum tenor limits and market liquidity constraints. CIB also makes use of the ETL measure to overcome some of the VaR shortcomings. ETL seeks to quantify losses encountered in the tail beyond the VaR level.

All market risk models are subject to periodic independent validation in terms of the Group Market Risk Framework. A formal review of all existing valuation models is conducted at least annually. Should the review process indicate that models need to be updated, a formal independent review will take place. All new risk models developed are independently validated before implementation.

Nedbank Group's current trading activities are focused on liquid markets, which is in line with the current regulatory liquidity horizon assumption of a 10-day holding period, in line with Basel III.

Trading market risk stress-testing

While VaR captures Nedbank Group's exposure under normal market conditions, sensitivity and stress scenario analyses are used to add insight into the possible outcomes under abnormal market conditions.

- CIB uses a number of stress scenarios to measure the impact of extreme moves in markets on portfolio values, based on historical experience as well as hypothetical scenarios. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk, reflecting the decreased liquidity that frequently accompanies market shocks.
- Stress-testing results are reported daily to senior management and are also tabled at the TRC and Group Alco. Stress scenarios are periodically and at least annually reviewed for relevance in ever-changing market environments.

Trading market risk backtesting

The performance of the VaR model is regularly assessed through backtesting. This is done by comparing daily trading revenue against VaR exposure based on a 99% confidence level and a one-day holding period. Nedbank performs backtesting using actual (reported) profit and loss as well as hypothetical profit and loss (calculated income attributed to market moves and stripped of fee or flow income). This is conducted at various levels as well as against risk factors on a daily basis.

Trading market risk profile

Most of Nedbank Group's trading activity is managed in CIB and is primarily focused on client activities and flow trading. This includes market-making and the facilitation of client business in the foreign exchange, interest rate, equity, credit and commodity markets.

The RWA flow statement of market risk exposures under the IMA for the period is presented below; there were no incremental and comprehensive risk capital charges. RWA under TSA is less than 5% of the group RWA, and therefore the MR1 table has not been included in this report as it would not be meaningful nor add value for the user.

MR2: RISK-WEIGHTED ASSETS FLOW STATEMENT OF MARKET RISK EXPOSURES UNDER IMA

	Rm	VaR	Stressed VaR	Total RWA
1	RWA at 30 September 2020	13 971	34 418	48 389
2	Movement in risk levels	(262)	(9 540)	(9 802)
6	Foreign exchange movements	(213)	(482)	(695)
8	**RWA at 31 December 2020**	**13 496**	**24 396**	**37 892**

The trading market RWA decrease was due to the continued decline on the back of the credit risk methodology changes that were incorporated in the VaR model on 6 November 2020.

MR3: NEDBANK LIMITED IMA VALUES FOR TRADING PORTFOLIOS[1]

Rm	Foreign exchange	Interest rate	Credit	Commodity	Diversification[2]	Total VaR
2020						
VaR (10-day 99%)[3]						
1 Maximum value[4]	169,2	428,6	710,4	11,3		650,2
2 Average value	32,4	251,9	337,5	< 1	(313,7)	308,6
3 Minimum value[4]	7,2	100,7	29,7	< 1		119,1
4 Period-end	12,9	324,8	61,2	< 1	(106,9)	292,3
Stressed VaR (10-day 99%)[3]						
5 Maximum value[4]	320,4	822	951,6	1,8		900,2
6 Average value	71,7	522,7	539,2	< 1	(510,0)	624,0
7 Minimum value[4]	10,4	179,2	123,6	< 1		312,2
8 Period-end	34,3	354,7	143,8	< 1	(130,8)	402,2
2019						
VaR (10-day 99%)[3]						
Maximum value[4]	94,2	159,2	60,1	2,3		215,7
Average value	57,6	113,9	42,2	< 1	(56,0)	158,0
Minimum value[4]	24,7	73,1	24,2	< 1		90,1
Period-end	36,7	114,6	31,3	< 1	(42,3)	140,5
Stressed VaR (10-day 99%)[3]						
Maximum value[4]	160,7	271,9	242,5	2,2		502,5
Average value	111,6	203,5	183,1	< 1	(140,0)	358,6
Minimum value[4]	55,8	122	36,5	< 1		159,4
Period-end	96,8	201,1	222,1	< 1	(154,7)	365,6

[1] Equities are out of scope for Nedbank Limited IMA purposes and are covered under Nedbank Group.

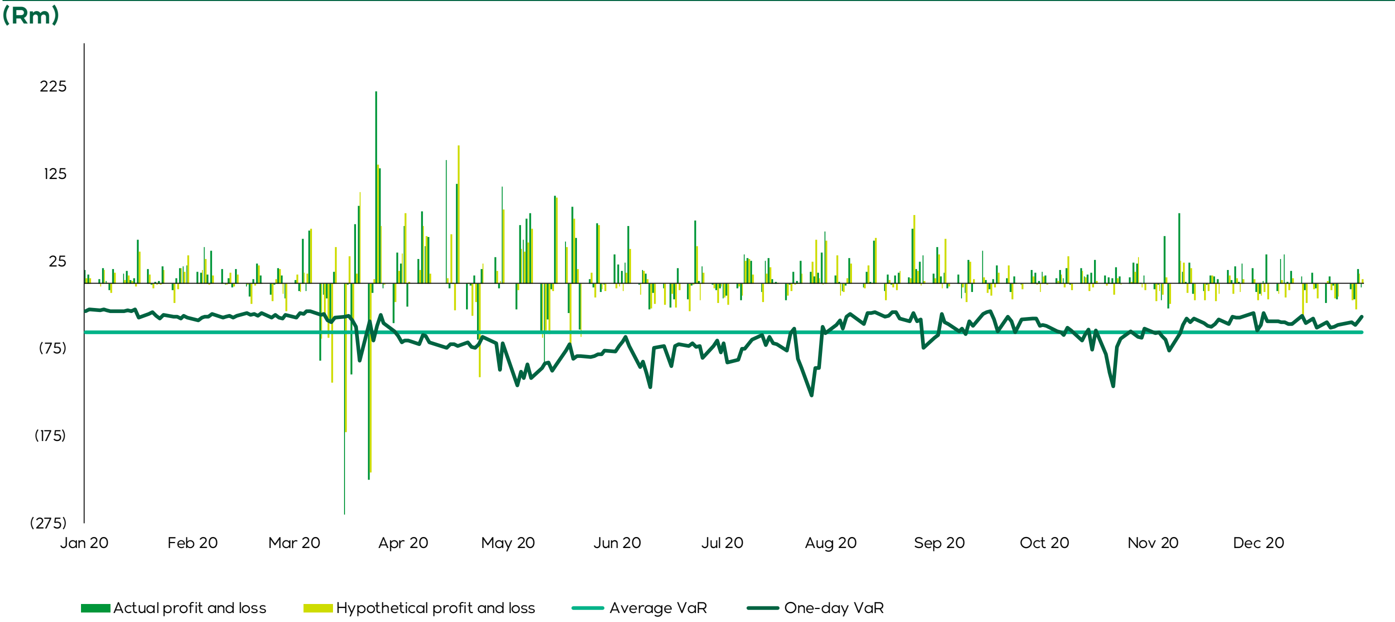
[2] Diversification benefit is the difference between the aggregate VaR and the sum of VaRs for the four risk types. This benefit arises because the simulated 99% one-day loss for each of the four primary market risk types occurs on different days.

[3] A summary of the 10-day 99% stressed VaR. Stressed VaR is calculated weekly and is included in the daily return concerning the selected risk exposure (BA325) and the monthly return concerning market risk (BA320) that are submitted to the PA. It is calculated using a 99% confidence interval for a one-day holding period and then scaled to a 10-day holding period.

[4] The minimum and maximum VaR values reported for each of the different risk factors do not necessarily occur on the same day. As a result, a diversification number for the minimum and maximum values has been omitted from the table.

Backtesting – Daily trading revenue and VaR

MR4: Nedbank Group comparison of VaR estimates with gains or losses



The graph above illustrates the daily normal VaR for the 12-month period ended December 2020.

On average, VaR increased materially during 2020 and was approximately 95% higher than in 2019.

Nedbank Group has remained within the approved risk appetite and VaR limits allocated by the board, which remain low, with trading market risk consuming only 0,60% and 6,1% of group economic capital and regulatory capital respectively.

VaR is an important measurement tool and the performance of the model is regularly assessed through backtesting. This is done by reviewing the daily VaR over a one-year period (on average 250 trading days) and comparing the actual and hypothetical daily trading revenue (including NII but excluding commissions and primary revenue) with the VaR estimate and counting the number of times the trading loss exceeds the VaR estimate.

Nedbank Group had seven actual and seven hypothetical backtesting exceptions during 2020. The reasons for the backtesting exceptions are as follows:

- Actual back-testing exceptions:
  - 9 March 2020 – Foreign investors move away from emerging markets on the back of the recent oil market shock and Covid-19 concerns.
  - 11 March 2020 – South African business confidence sinks to a 21-year low on the back of further market weakness due to Covid-19 and its impact on the local market.
  - 12 March 2020 – There is further selling of the local market by foreigners as concerns around Covid-19 spreading take hold both locally and offshore.
  - 16 March 2020 – Extreme market volatility is observed across all asset classes as the Covid-19 pandemic takes centre stage again.
  - 18 March 2020 – Further extreme market volatility is observed as financial market participants try to assess the economic impact of the Covid-19 pandemic.
  - 23 March 2020 – Covid-19 pandemic fears in the local economy are again present in financial markets as reports emerge indicating South Africa would be entering a severe economic contraction in the next few quarters.
  - 19 May 2020 – Economic statistics are released showing that the manufacturing sector and factory output had fallen by about 2,3%, with a widening of South African sovereign credit spreads.
- Hypothetical backtesting exceptions:
  - 28 February 2020 – It is revealed that South Africa's trade deficit sat at R1,9bn for January 2020.
  - 9 March 2020 – Foreign investors move away from emerging markets on the back of the recent oil market shock and Covid-19 concerns.
  - 12 March 2020 – There is further selling of the local market by foreigners as concerns around Covid-19 spreading take hold both locally and offshore.
  - 16 March 2020 – Extreme market volatility is observed across all asset classes as the Covid-19 pandemic takes centre stage again.
  - 18 March 2020 – Further extreme market volatility is observed as financial market participants try to assess the economic impact of the Covid-19 pandemic.

- 23 March 2020 – Covid-19 pandemic fears in the local economy are again present in financial markets as reports emerge indicating South Africa would be entering a severe economic contraction in the next few quarters.
- 23 April 2020 – Concerns emerge around the longer-term effects of the local lockdown strategy on all sectors of the economy.

Analysis of trading revenue

The year was characterised by a positive contribution from most business lines.

Nedbank Group's trading businesses (including NII, commissions and primary revenue credited to Nedbank Group's trading businesses) produced a daily revenue distribution that is skewed to the profit side, with trading revenue realised on 190 days out of a total of 252 days in the period.

The average daily trading revenue generated for the period, excluding revenue related to investment banking, was R15,6m (2019: R15,8m).

Nedbank Group analysis of trading revenue for the 12-months ended December 2020

Stress-testing results

The table below summarises the daily stress-testing results for December 2020 and December 2019, which represent a set of extreme market movements as applied to the trading activities.

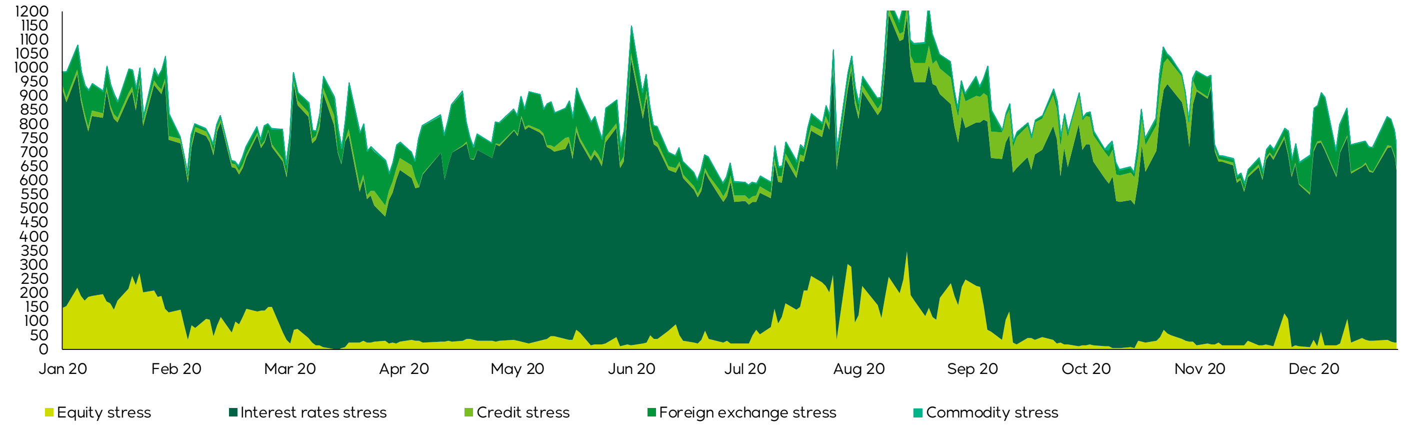
NEDBANK GROUP RISK EXPOSURES PER RISK FACTOR

Rm	Average	High[1]	Low[1]	End of period
2020				
Foreign exchange stress	**59**	**190**	**2**	**90**
Interest rate stress	**653**	**1 019**	**441**	**560**
Equity stress	**77**	**349**	**< 1**	**24**
Credit spread stress	**32**	**113**	**< 1**	**6**
Commodity stress	**2**	**17**	**< 1**	**1**
Overall	**823**	**1 312**	**584**	**681**
2019				
Foreign exchange stress	34	98	6	20
Interest rate stress	587	863	402	698
Equity stress	103	358	< 1	193
Credit spread stress	25	65	4	15
Commodity stress	2	15	< 1	2
Overall	751	1 102	455	928

[1] *The high- and low-stress values reported for each of the different risk factors do not necessarily occur on the same day. As a result, the high- and low-risk-factor stress exposures are not additive.*

Nedbank Group risk exposures for the 12- months ended December 2020

(Rm)



Nedbank Group trading book stressed VaR

As part of the Basel II.5 update to the Banks Act, 94 of 1990, regulations, stressed VaR is calculated using market data taken over a period in which the relevant market factors were experiencing stress. Nedbank Group uses historical data for the period 1 July 2008 to 30 June 2009, as that period represents significant volatility in the SA market.

The information in the table below is the comparison of the VaR using three different calculations at 31 December 2020. The three different calculations are historical VaR, ETL and stressed VaR. ETL measures the extreme loss in the tail of the distribution, and stressed VaR uses a volatile historical data period. A 99% confidence level and one-day holding period apply to all the calculations.

NEDBANK GROUP COMPARISON OF TRADING VaR

Rm	Historical VaR 99% (one-day VaR)	Stressed VaR 99% (one-day VaR)	Extreme tail loss
2020			
Foreign exchange	**9,2**	**18,4**	**9,5**
Interest rates	**90,2**	**53,4**	**112,6**
Equities	**10,7**	**9,9**	**11,7**
Credit	**16,6**	**3,9**	**16,9**
Commodities	**0,1**	**0,1**	**0,1**
Diversification	**(87,1)**	**(26,3)**	**(100,5)**
Total VaR exposure	**39,7**	**59,4**	**50,3**
2019			
Foreign exchange	2,6	4,3	2,8
Interest rates	35,4	65,7	40,5
Equities	4,6	8,4	6,7
Credit	4,7	9,4	6,6
Commodities	0,1	0,1	0,1
Diversification	(16,0)	(28,3)	(19,0)
Total VaR exposure	31,4	59,6	37,7

PV1: NEDBANK GROUP PRUDENT VALUATION ADJUSTMENTS (PVA)

Rm	Equity	Interest rates	Foreign exchange	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
2020								
1 Closeout uncertainty, of which[1]:		**(19)**		**(23)**		**(42)**	**(42)**	
2 Mid-market value								
3 Closeout cost		**(19)**		**(23)**		**(42)**	**(42)**	
4 Concentration								
5 Early termination[2]								
6 Model risk[3]								
7 Operational risk[4]								
8 Investing and funding costs[5]								
9 Unearned credit spreads[6]								
10 Future administrative costs[7]								
11 Other[8]						**(124)**		**(124)**
12 **Total adjustment**		**(19)**		**(23)**		**(166)**	**(42)**	**(124)**

Rm	Equity	Interest rates	Foreign exchange	Credit	Commo-dities	Total	Of which: In the trading book	Of which: In the banking book
2019								
1 Closeout uncertainty, of which:[1]		(16)		(30)		(46)	(46)	
2 Mid-market value								
3 Closeout cost		(16)		(30)		(46)	(46)	
4 Concentration								
5 Early termination[2]								
6 Model risk[3]								
7 Operational risk[4]								
8 Investing and funding costs[5]								
9 Unearned credit spreads[6]								
10 Future administrative costs[7]								
11 Other								(114)
12 **Total adjustment[9]**		(16)		(30)		(160)	(46)	(114)

1 Market price uncertainty in credit spread CVA, marking close-out costs.
2 This is estimated to be 0 at this point in time.
3 Currently no bespoke models are used, therefore model risk PVA = 0. Models to be reviewed on yearly basis. If more conservative industry model exists in the models, valuation will be done using conservative model and difference in valuation taken as PVA.
4 Since the bank has a defined Independent Price Verification (IPV) process that is formally audited on at least an annual basis internally and externally, the Operational Risk PVA is 0.
5 Funding Valuation Adjustment covers funding cost uncertainty. Therefore PVA = 0
6 Credit Valuation Adjustment covers unearned credit spread uncertainty. Therefore PVA=0
7 If Market price uncertainty and close out cost is calculated, this PVA = 0.
8 The simplified approach is applied to banking book PVA.
9 Approximately 52% of the credit prudent valuation adjustments (PVA) is attributable to credit spread CVA and debt valuation adjustments (DVA) marking, assuming a one notch worsening in NGR.

INTEREST RATE RISK IN THE BANKING BOOK

Year under review

- NII and EVE sensitivity remain well within the board-approved risk appetite and the hedging strategies remain highly effective.
- Off-balance sheet strategies are actively managed by BSM and Treasury and supported by an appropriate accounting solution.

Focus for 2021

- Group Alco will continue to find opportunities to manage IRRBB on-balance sheet and reduce hedging costs.
- BCBS released the revised Standards for Management and Supervision of IRRBB in April 2016. The PA in its Guidance Note 7/2020 confirmed that the implementation date for the new standards is June 2022.
- Nedbank, through its participation in BASA working groups, continues to engage the regulator on the implementation of the new Standards for the Management and Supervision of IRRBB and is well positioned to meet the June 2022 deadline.
- Nedbank is exposed to the global interbank lending rate (IBOR) reform of major currency benchmark reference rates and is currently in the process of ensuring the bank's readiness and ability to handle the spectrum of currently proposed replacement rates, as well as a range of conventions of calculation.
- Nedbank continues to stay abreast of the developments regarding the JIBAR reform and will assess its impact on the management of IRRBB and hedge accounting once finalised.

Nedbank Group is exposed to IRRBB primarily due to the following:

- The bank writes a large quantum of prime-linked advances.
- To lengthen the funding profile, term funding is raised across the curve at fixed-term deposit rates that are repriced only on maturity.
- Three-month repricing swaps and forward-rate agreements are typically used in the risk management of term deposits and fixed-rate advances.
- Short-term demand funding products are repriced to different short-end base rates.
- Certain non-repricing transactional deposit accounts are non-rate-sensitive.
- The bank has a mismatch in net non-rate-sensitive balances, including shareholders' funds that are not repriced for interest rate changes.

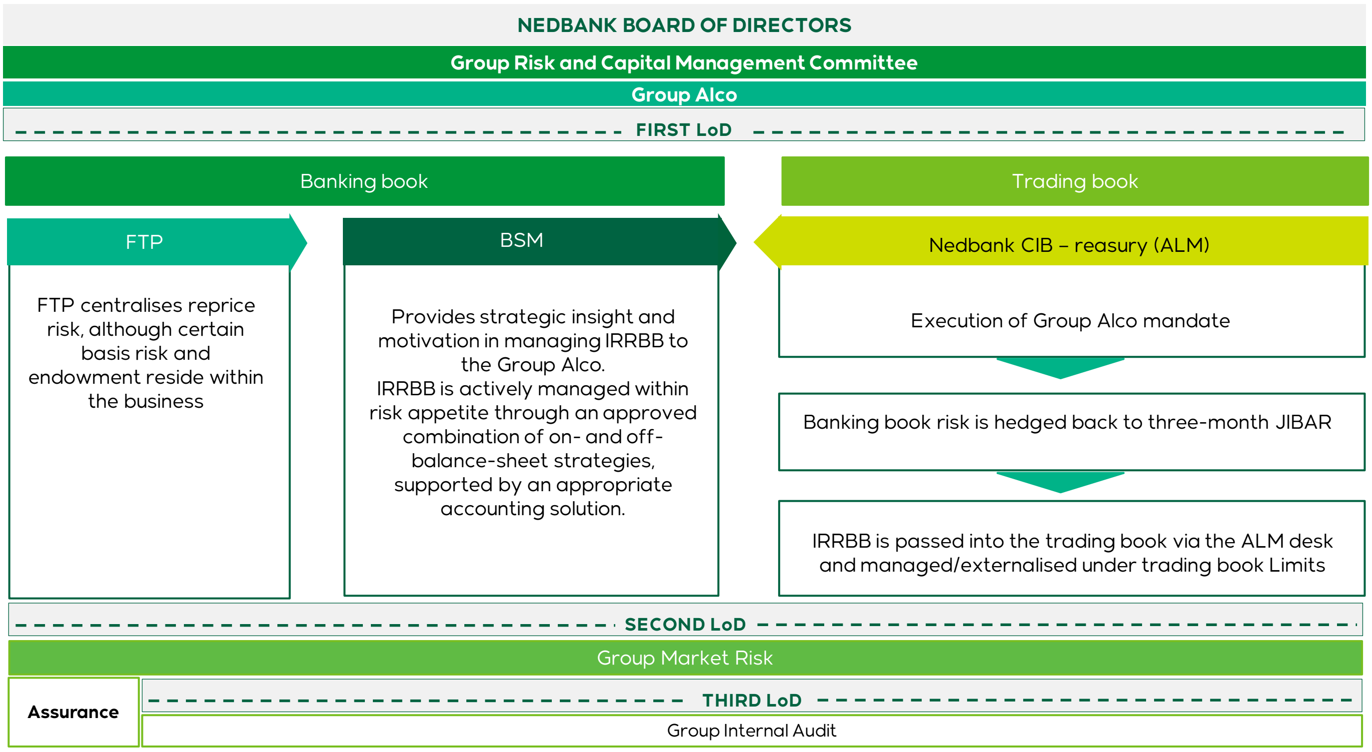
The following applies to IRRBB:

- Repricing risk (mismatch risk) – timing difference in the maturity (for fixed rate) and repricing (for floating rate) of bank assets, liabilities and off-balance-sheet positions.
- Endowment risk – the net mismatch between non-rate-sensitive assets, liabilities, capital and non-repricing transactional deposit accounts effectively invested in rate-sensitive assets.

- Reset or basis risk – imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.
- Yield curve risk – changes in the shape and slope of the yield curve.
- Embedded optionality – the risk related to interest-related options embedded in bank products.

IRRBB strategy, governance, policy and processes

Overview of the Interest Rate Risk in the Banking Book Framework



IRRBB is managed within Nedbank Group's ERMF under market risk. The board of directors retains ultimate responsibility for the effective management of IRRBB. Through the GRCMC the board has delegated its responsibility for the management of IRRBB to the Group Alco. The Group Alco proactively manages IRRBB. BSM provides strategic insight and motivation in managing IRRBB to Group Alco, through appropriate risk reporting and analytics and by providing strategic input based on the committee's interest rate views, impairment sensitivity and defined risk appetite.

The board assumes ultimate responsibility for IRRBB and has defined the group's overall risk appetite for IRRBB. Appropriate limits have been set to measure this risk for both earnings and EVE, within which this risk must be managed. Compliance with these limits is measured and reported to the Group Alco and the board.

IRRBB is actively managed through a combination of on- and off-balance-sheet strategies, including hedging activities. Hedging is typically transacted on a portfolio basis for deposits and retail advances, although larger, longer-dated deposits along with wholesale fixed-rate advances are typically individually hedged. The principal interest-rate-related contracts used include interest rate swaps and forward-rate agreements. Basis products, caps, floors and swaptions may be used to a lesser extent. The principal on-balance-sheet components used in changing the repricing profile of the balance sheet include the liquid-asset portfolio, term deposits and fixed-rate advances. IRRBB strategies are evaluated regularly for alignment with interest rate views, impairment sensitivity and defined risk appetite.

Group Alco continues to analyse and manage IRRBB, incorporating the likely change in impairments for similar interest rate changes. This relationship between interest rate sensitivity and impairment sensitivity, which is seen as a natural net income hedge, is a key focus of the Group Alco in managing IRRBB. This analysis includes an assessment of the lag in impairment changes and the increasing change in impairment charges for consecutive interest rate changes. IFRS 9 introduces a forward-looking ECL model that is directly linked to macroeconomic forecasts. This is expected to result in credit losses being accounted for much earlier, such that the aforementioned lag (ie endowment benefit realised before impairments increase in an upward-trending interest rate cycle) is likely to disappear or even change to a lead effect, with impairment impacts being realised earlier than the (partially) offsetting endowment impact. Due to the complexity in determining the extent of this natural net income hedge, particularly during interest rate peaks and troughs, the modelling of this relationship and associated risk management strategies is challenging and continues to be refined and improved. The impact of Covid-19 has created a disconnect in this net income hedge, with declining interest rates resulting in lower endowment income and impairments increasing as a result of the deteriorating macroeconomic environment.

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

The group applies macro fair-hedge accounting when fixed-rate transactions and associated interest rate hedges meet the criteria set out in IAS 39. The proprietary macro fair-value-hedge accounting solution is used to recognise fair-value changes related to interest rate risk on underlying hedged positions (hedged item), thereby reducing the profit or loss volatility that would otherwise arise from changes in the fair value of the hedging interest rate swaps (hedging instrument) alone. At the inception of a hedging relationship, the group designates and documents the relationship between the hedging instrument and the hedged item, as well as the group's risk management objective and strategy for undertaking the hedging transactions and the nature of the risk being hedged. The group also documents its assessment of whether the hedging instrument is effective in offsetting changes in fair value or cashflow of the hedged item attributable to the hedged risk. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Each hedging relationship must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on a monthly basis. Fair-value gains and losses arising on the measurement of both the hedging instrument and the hedged item are recognised in profit and loss, for so long as the hedging relationship is effective at each testing date. Any hedge ineffectiveness is recognised in profit or loss.

Hedged positions and hedging instruments are regularly measured and stress-tested for effectiveness and reported to the Group Alco on a monthly basis. These hedged positions and hedging instruments are fair-valued in line with the appropriate accounting standards and designation. The Group Alco typically has a strategic appetite out to one year and, largely as a matter of policy, eliminates reprice risk longer than one year, unless it elects to lengthen the investment profile of its equity and/or the non-repricing transactional deposit accounts, to improve the alignment of interest rate sensitivity with impairment sensitivity, or improve the balance sheet position for expected interest rate changes.

Such strategic decisions must, however, maintain NII sensitivity and EVE sensitivity within board-approved limits. Strategies regarding the reprice risk are measured and monitored separately, having been motivated by BSM and approved by the Group Alco.

IRRBB cannot be taken by BUs and is accordingly extracted from these units through an established matched maturity funds transfer pricing (MMFTP) solution. This solution removes repricing risk from the BUs, while leaving credit and funding spread in the businesses on which they are measured. However, basis risk and the endowment on free funds and non-repricing transactional deposits reside within these businesses in order for basis risk to be managed through pricing and for the endowment on these balances to naturally hedge impairment sensitivity for similar interest rate change.

IRRBB measurement

The group employs various analytical techniques to measure interest rate sensitivity monthly within the banking book on both an earnings and economic-value basis. This includes a repricing profile analysis, simulated modelling of the bank's NII and EVE for a standard interest rate shock, and stress-testing of NII and EVE for multiple stressed-interest-rate scenarios. The aforementioned analysis includes the application of both parallel and non-parallel interest rate shocks and rate ramps.

Assets, liabilities and derivative instruments are modelled and reported based on their contractual repricing or maturity characteristics. Where advances are exposed to prepayments and deposits to ambiguous repricing and early withdrawals, the Group Alco approves the use of behavioural models for the hedging, modelling and reporting of these advances and deposits.

Sensitivity analysis

At December 2020 the NII sensitivity of the group's banking book for a 1% parallel reduction in interest rates, measured over 12 months, was 1,47% of total group OSE, which is below the board's approved risk limit of < 2,25%.

This exposes the group to a decrease in NII of approximately R1 310m before tax should interest rates decrease by 1% across the yield curve when measured over a 12-month period. Nedbank London and Wealth International NII sensitivities are, however, measured at a 0,5% instantaneous decrease in interest rates. The group's NII sensitivity exhibits very little convexity and will, therefore, also result in an increase in pretax NII of approximately similar amounts should interest rates increase by 1%.

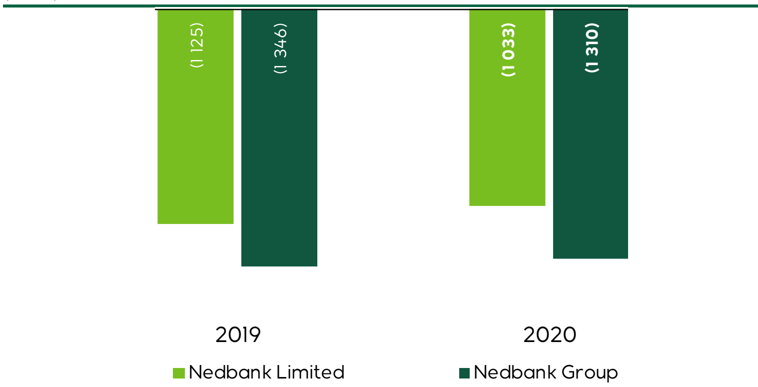
The group's NII sensitivity is actively managed through on- and off-balance-sheet interest rate risk management strategies for the group's expected interest rate view and impairment sensitivity over the cycle.

Nedbank Limited's EVE, measured for a 1% parallel decrease in interest rates, remains at a low level of 0,24% (-R165m) of total group OSE as at December 2020 (December 2019: -R387m), which is below the board's approved risk limit of 1%. The low EVE risk is as a result of the group's risk management strategies, through which assets and liabilities are typically positioned to reprice in the less than three-month repricing bucket, and net working capital largely offsets the non-rate-sensitive transactional balances from an interest rate sensitivity perspective, thereby positioning OSE to be repriced as interest rates change, resulting in the value equity remaining intact.

Exposure to interest rate risk

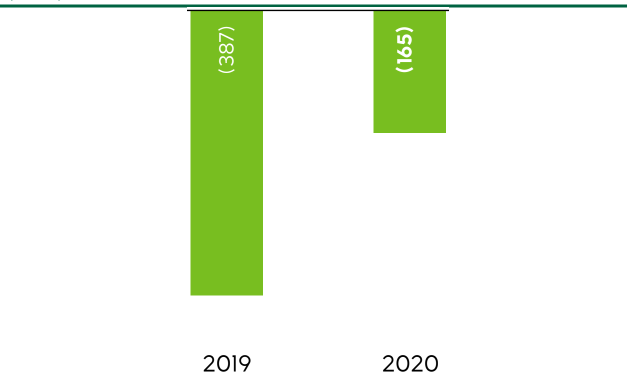
NII sensitivity – 1% instantaneous decline in interest rates[1]

(Rm)



Nedbank Limited EVE sensitivity – 1% instantaneous decline in interest rates[2]

(Rm)



[1] *Nedbank London and Nedbank Private Wealth: 0,5% instantaneous decline in interest rates.*
[2] *Excludes Nedbank London.*

Liquid-asset portfolio sensitivity

Nedbank's management of IRRBB comprehensively covers the interest rate risk associated with its prudential and buffer liquid-asset portfolios, including reprice risk and basis risk.

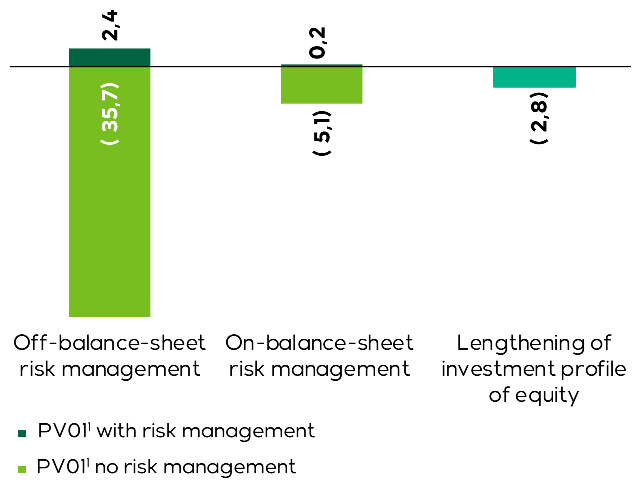
Risk strategies comprise on- and off-balance-sheet components, whereby the associated interest rate risk of the group's liquid-asset portfolios is used to reduce the reprice sensitivity associated with its fixed-rate term funding and long-term debt, to manage opposing risk on such funding and debt, or it is hedged using derivative positions to remove the associated repricing risk. Liquid-asset portfolios risk-managed with derivative positions in the banking book are designated into a macro fair-value hedge accounting solution.

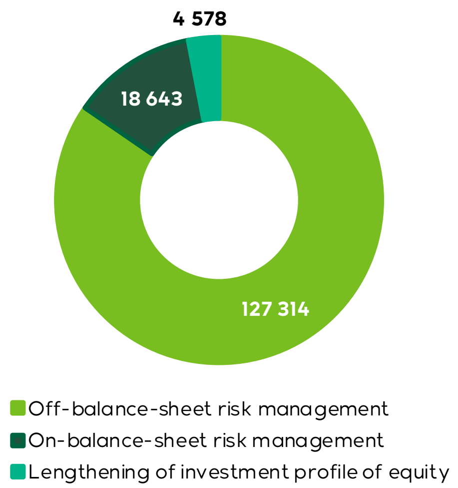
Alternatively, where liquid-asset portfolios are not risk-managed in the banking book, such risk is transferred through market risk limits into the trading book.

Sound risk management of the liquid-asset portfolios is a clear example of Nedbank's embedded interest rate risk management approach to managing risks within a clearly defined risk appetite.

Effectiveness of liquid asset portfolio risk management and strategies

(Rm)





[1] *The change in the price of an instrument if the yield curve changes by 1 bps.*

The interest rate risk sensitivity is significantly reduced through on- and off-balance-sheet risk management strategies.

Interest rate risk in the banking book – Reset/Basis risk and endowment sensitivity

Nedbank, like its local peer group, has a large quantum of assets linked to the prime rate. This portfolio is typically funded through deposits linked to short- and long-term deposit rates that are risk-managed back to the three-month repricing JIBAR. This creates short-end reprice risk that exposes the balance sheet to prime/JIBAR and prime/short-term deposit rate reprice mismatches.

Nedbank's balance sheet is also funded through a large amount of non-rate-sensitive funding raised through equity and/or transactional deposits partially offset with net working capital. These deposit balances and equity are not rate-sensitive as they bear no interest and accordingly earn a higher return when interest rates are high and a lower return when interest rates are low, given that they have been deployed into variable-rate-linked assets. This exposes the bank to endowment sensitivity, which is the main reason for exposure to IRRBB in the balance sheet (refer to page 119).

EQUITY RISK IN THE BANKING BOOK

Year under review

- Equity risk in the banking book remained well managed and within the board-approved risk appetite.
- The ETI strategic investment value declined by R494m. ETI reported a solid operational performance for the nine months to end September 2020, with positive movements in other comprehensive income amounts for fair value through OCI instruments and foreign exchange movements in FCTR. However, the decline in the investment value was due to a R750m impairment in H1 and Nedbank's share of ETI's own goodwill impairment of R528m relating to Ecobank Nigeria's purchase of Oceanic Bank.
- The private equity portfolio was impacted by negative unrealised equity revaluations, similar to that experienced across the JSE.
- Distressed debt to equity conversions took place by exception and are aligned with Nedbank's strategy of socially responsible through-the-cycle banking.
- There were challenges in exiting investments due to depressed levels and there were limited investment realisations.

Focus for 2021

- Ongoing effort and management of the existing equity investment portfolio.
- Identification of buying opportunities from the depressed valuations of good quality assets.

Governance

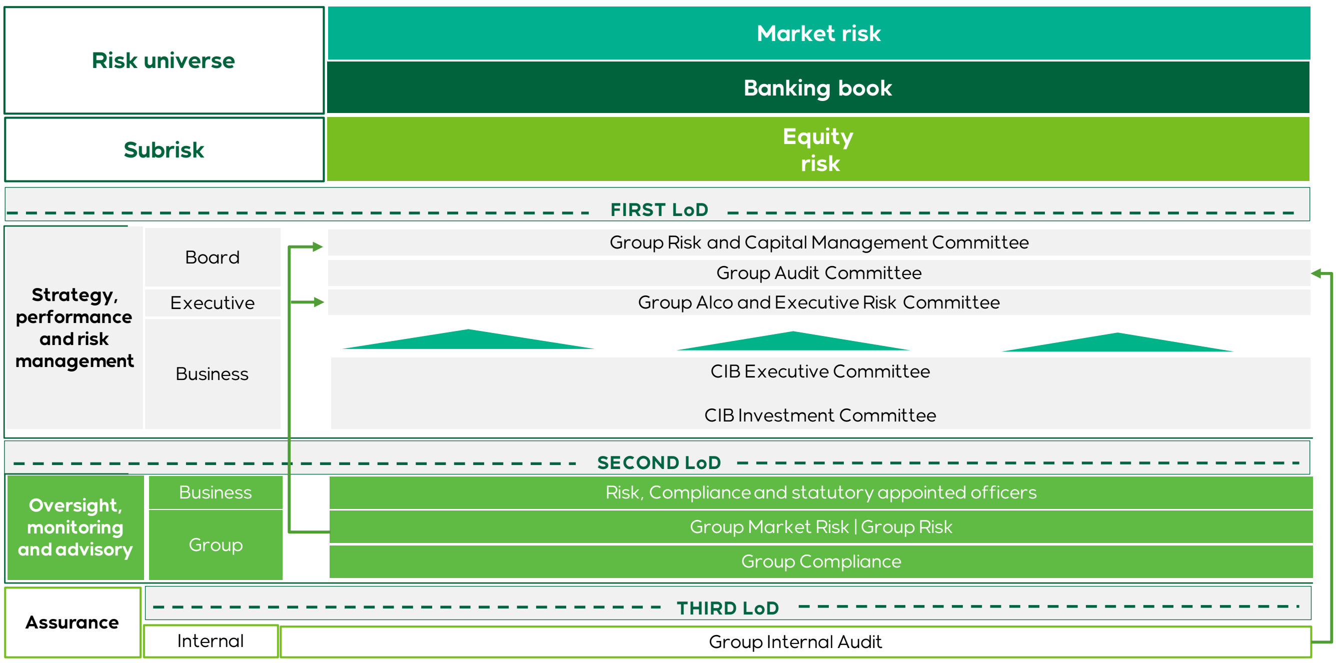
Equity investment risk is the risk of a decline in the value of investments arising from adverse movements in markets prices or factors specific to the investment itself (eg reputation, quality of management). Equity exposures in the banking book include:

- investment in securities (listed and unlisted equity holdings, whether direct or indirect, including private equity); and
- investment in associate companies and joint ventures.

Equity investment risk is managed within the Group's ERMF and Group Market Risk Framework and incorporates the three LoD. The board of directors retains ultimate responsibility for the effective management of equity investment risk. Group Alco, a subcommittee of Group Exco, proactively manages equity investment risk undertaken by the group. The board approves the overall risk appetite and strategy of the group for equity risk. Business compiles portfolio objectives and investment strategies for its investment activities, which address the types of investments, expected business returns, desired holding periods, diversification parameters and other elements of sound investment management.

Equity investments are undertaken by CIB primarily as part of its private-equity and investment property portfolios. The property strategy is mainly to leverage opportunities and synergies arising from clients on lending deals and partnering with tried and tested developers. Additional investments are undertaken as a result of operational requirements, strategic investments or debt restructuring. Specialist investment risk committee meetings are convened, as required, to approve acquisitions and disposals, review investment valuations, and monitor investment risk activities.

Equity investment risk governance structure



Assessment and measurement

Risk appetite is expressed quantitatively as risk measures, such as economic capital and risk limits, and qualitatively in terms of policies and controls. The risk appetite targets are reviewed annually during the three-year business planning process and changes to the group's risk appetite targets are ultimately approved by GRCMC.

		2020	2019
Total equity portfolio	Rm	**13 988**	14 886
Disclosed at fair value	Rm	**10 666**	10 969
Equity-accounted, including investment in ETI	Rm	**3 322**	3 917
Percentage of total assets	%	**1,1**	1,3
Percentage of group minimum economic-capital requirement	%	**4,8**	4,8

- Equity risk in the banking book is primarily assumed in CIB, which actively makes investments with clearly defined strategies.
- Additional investments are undertaken as a result of operational requirements or strategic decisions, or as part of debt restructuring.
- The ETI strategic investment is accounted for under the equity method of accounting and is therefore not carried at fair value.

OPERATIONAL RISK

Year under review

- Nedbank has been resilient in its response to the Covid-19 global pandemic and operational risk teams were pivotal in coordinating efforts across the group. In addition, the group managed to achieve its operational risk objectives in all material respects, including maintaining a strong internal control environment in a rapidly changing environment.
- Operational risk continued to be well managed and was within all major board-approved net operational risk appetite limits.
- We successfully pivoted our strategic focus, business operations and risk strategy in light of the significant risks in the unprecedented environment.
- The Covid-19 pandemic reinforced our continued focus on organisational resilience, which was highly effective and supported by well-functioning supplementary governance structures.
- All BCPs were successfully invoked by employees working from home, alternate sites, and the resumption sites.
- The wellbeing and safety of employees have been a key focus area throughout the pandemic.
- Nedbank's work-from-home strategy has been successful in reducing the spread of Covid-19, ensuring resilience of operations as well as supporting our clients in transacting digitally.
- We complied with new and rapidly changing regulations regarding the pandemic, including reporting to internal and external stakeholders.
- We heightened our IT risk management programme with enhanced focus on new IT or digital risks, outsourcing and third parties, vendor concentration, IT risk appetite, as well as cloud computing and offshoring of data.
- Cyberrisk remains well managed, with no breaches to Nedbank's defences despite the heightened level of the risk.
- Fraud risk management remained consistently well-handled despite the heightened fraud and corruption risks.
- We embarked on a journey to upgrade the operational risk management system for improved functionality, including integrating the newer C-Suite non-financial risks and reporting capabilities.

Focus for 2021

- Reimagining operational risk management for the new digital era.
- Evolving the existing approach to organisational resilience and improving the group's ability to respond to incidents, as well as continuing to deliver key services to our clients.
- Evolving our focus on new IT or digital risks faced by digitally enabled banks.
- Preparing for the imminent regulatory wave on the back of Fourth Industrial Revolution and digital transformation in banking and risks attached to digitally enabled banks.
- Continuing to invest in the improvement of the control environment, including using automation to mitigate risks related to manual processes and human error.
- Building on the strong coordinated assurance foundations.
- Deepening use of advanced analytics to gain meaningful insights into operational risk trends and enhance scenario analysis.
- Maintaining and enhancing the fraud prevention mechanisms or systems and tools to combat the increasing level of fraud. Fraud remains an industrywide threat and the group continues to work closely with external partners on various prevention initiatives.
- Continuing to improve the Operational Risk Management Framework to ensure that it is fit for purpose and in alignment with best practice and regulatory requirements, including the new Basel III requirements for operational risk.
- Continuing to focus on our top and emerging operational risks.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or technology, or from an external event. Operational risk is generated in all business and support areas and is inherent to all products, activities, processes and technology.

Operational risk is managed through existing frameworks and processes that are evaluated and enhanced to ensure that the risks associated with the group's activities are managed appropriately and are in line with regulatory developments and emerging best practice. The group is committed to adopting sound management practices and identifying and managing operational risk within acceptable levels to protect and promote a sustainable business.

TOP AND EMERGING OPERATIONAL RISK THEMES

Nedbank remains focused on the top operational risks identified, both within the group and internationally. The top 10 operational risks themes below are informed by the group's top 12 risks and the response to them, as well as global, regional and local trends. Emphasis is placed on actively managing these risks and enhancing the control environment.

Top 10 operational risk themes

People and talent risk	Organisational resilience
• The risks associated with inadequacies in human capital and the management of human resources, policies and processes, resulting in an inability to attract, manage, motivate, develop or retain competent resources, with an associated negative impact on the achievement of group strategic objectives.	• The ability of Nedbank to achieve resilience across people, process, systems, facilities and the supply chain, and to anticipate, prepare for and respond and adapt to incremental change and sudden disruptions in order to survive and prosper.
Execution risk	**Cyberrisk**
• The risk of loss due to failure in processing transactions or managing processes. • Execution risk is expected as Nedbank runs complex operations to ensure the group remains relevant and is continuously adapting to the environment in which it operates.	• The risk of loss or theft of information, data and money, or loss of accessibility of service.
IT or digital risk	**Financial crime risk**
• Risks associated with running the bank's IT operations and transforming the bank's IT environment (in order to drive more digital enablement). These include risks relating to IT infrastructure failure, third-party dependency, loss of communication as well as the decommissioning or replacement of legacy and outdated systems in the IT environment. • Increased digitisation [including through application programme interfaces (APIs), Internet of Things (IoT), Machine Learning (ML), Robotics, Artificial Intelligence (AI) and Cloud Computing] introduces additional risks due to the demand and speed of digital technology adoption.	• The risk of a wide range of illegal activities and regulatory contraventions that may result in fines and/or prosecutions and that include the following: » Cybercrime, money laundering, terrorist financing and sanctions contravention, fraud, corruption, violent crime, exchange control violations, privacy breaches, market abuse, and tax evasion.
Conduct and culture risk	**Regulatory risk**
• All risks, including financial or reputational loss, arising from the inappropriate behaviour or culture or poor judgement of the group or its employees in the execution of business activities or strategy that may result in poor or unfair outcomes to the detriment of our clients, stakeholders and the markets.	• The risk arising from regulatory change due to a failure to implement appropriate controls timeously to comply with the changes due to the dynamic nature, varied interpretation and manner of implementation of regulations that could potentially cause financial losses and, if not responded to with a strategic intention, will fail to deliver what potentially can be a competitive advantage.
Third-party, vendor or outsourcing risk	**Model risk**
• The risk arising from the use of a service provider to perform a business activity, service, function or process that could be undertaken by the bank. • Third parties include all entities that have entered a business relationship with the bank.	• The risk that adverse consequences can arise from the decisions made based on deficient, misunderstood or misused models.

Our top operational risks and net losses remained within the approved risk appetite limits.

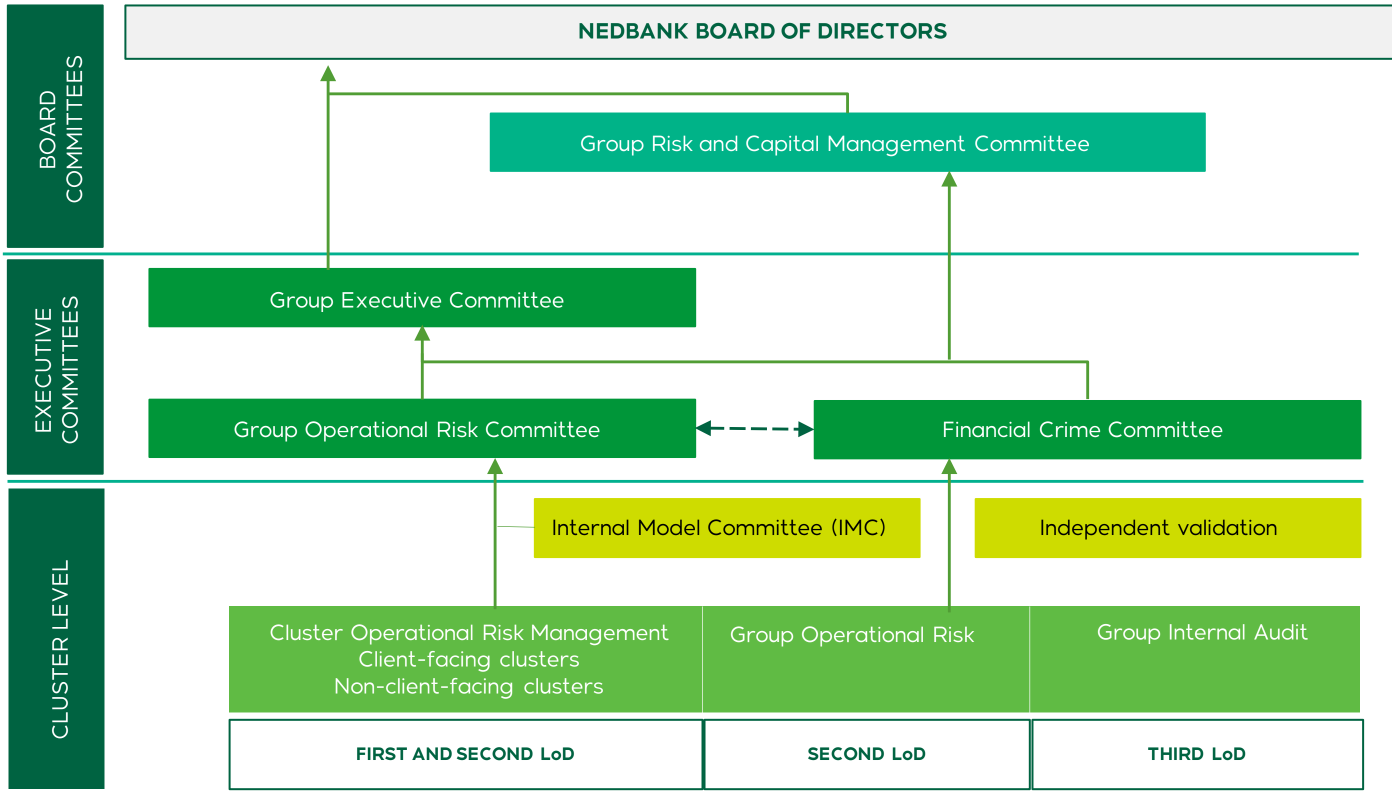
Emerging risks are those that have the potential to add to or increase a bank's current key risks in the next 18 to 36 months. Our emerging risks remained largely aligned with our top risks, although with a different focus or lens. Due to the very nature of these risks, the emerging of risks make it difficult to assess and quantify consequences that have not yet materialised. However, we continue to ensure that these risks are identified and form part of our overall operational risk profile.

OPERATIONAL RISK GOVERNANCE

The operational risk governance structure, supported by the lines-of-defence model, forms an integral part of the ORMF. Group Operational Risk (GOR) is the central operational risk function for Nedbank and is independent of business line management and forms part of the second LoD reporting directly into the CRO. The primary executive and board-level committees overseeing operational risk are the Group Operational Risk Committee (GORC) and GRCMC respectively.

Managing operational risk is key to all Nedbank's activities and is implemented using tools embedded in the bank's ORMF. The ORMF supports the identification, assessment, management, monitoring and reporting of material operational risks. We continue to manage, implement and enhance the ORMF and its sub policies and frameworks. The annual review of the ORMF ensures all policies, processes, methodologies and standards are aligned with current local and international best practice and are fit for purpose. Amendments to the ORMF are approved by the GORC and are ratified by the board's GRCMC.

Operational risk governance structure



OPERATIONAL RISK MEASUREMENT, PROCESSES AND REPORTING SYSTEMS

The management of operational risk (including conduct and climate-related risks) consists of conducting proactive regular risk assessments:

- using risk and control self-assessment (RCSA) and scenario analysis methodologies;
- monitoring the business environment and internal control factors (BEICF);
- developing appropriate metrics to provide insight into risk exposure trends and building in escalation triggers to alert and prompt action via key risk indicators (KRIs);
- recording operational risk (including climate-related risk) losses to qualify and quantify the bank's exposures through internal-loss data (ILD) management;
- integrating the loss experiences of external parties by utilising credible external-loss data (ELD) to enrich our risk profiles proactively; and
- facilitating a robust issues-and-action-plan management process to address issues swiftly as they arise.

Outputs of the above processes inform the risk measurement process and are used in the final AMA capital calculation.

Operational risk tools

Nedbank uses an integrated operational risk management (ORM) system that enables the assessment and management of operational risk and provides a holistic view of the group's operational risk profile. Operational risk is managed using the following tools:

	Key risk indicators (KRIs)	Risk and control self-assessments (RCSAs)	Business environment and internal control factors (BEICFs)
Qualitative	• KRIs are metrics that provide insight into trends in exposures to key operational risks. • They are often paired with escalation triggers that provide warning when indicators are approaching or exceeding thresholds and prompt mitigation planning.	• The main objective of the RCSA process is to enable business and risk managers to proactively identify, assess and monitor key risks within defined risk tolerance and appetite levels.	• The group considers BEICFs as part of the RCSA process. Consideration of BEICFs enables the group to regard any changes in the external and internal business environment, determine inherent risks as a result of any changes in the business environment, and design appropriate controls.

	Internal-loss data (ILD)	External-loss data (ELD)	Scenario analysis
Quantitative	• The collection and tracking process of ILD is retrospective and enables monitoring of trends and analysis of the root cause of loss events. • Boundary events are losses that manifest in other risk types, such as credit or market risk, but have relevance to operational risk because they emanate from operational breakdowns or failures. » Material credit risk events caused by operational failures in the credit processes are flagged separately in the ILD collection system. The holding of capital related to these events remains in credit risk but the events are included in the ORMF to assist with the monitoring, reporting and managing of control weaknesses and causal factors within the credit process. » Material market risk events caused by operational failures in the market risk processes are also flagged separately in the ILD collection system. The capital holding thereof is included in the operational risk capital.	• ELD is used to incorporate infrequent, relevant and potentially severe operational risk exposures in the measurement model. The effects of ELD are indirectly incorporated into the operational risk capital calculation model through the scenario analysis process. ELD is used to benchmark the internal diversification matrix. • Nedbank is a member of and actively participates in international consortiums such as the Operational Riskdata eXchange (ORX) Association, which accumulates data submitted quarterly by each of the member banks. The ORX Global consortium membership consists of more than 100 leading international banks, including the five largest local banks (Absa, Standard Bank, FirstRand, Investec and Nedbank) and insurance companies. The group also subscribes to the SAS Global Database, which contains data sourced within the public domain and media.	• Operational risk scenario analysis serves as the primary input for operational risk loss exposure estimates and is one of the data sources for operational risk modelling and measurement. Scenario analysis uses expert judgement to estimate the operational risk exposure of the group and focuses on operational risks that may impact the solvency of the bank. Nedbank uses a set of anonymous operational risk scenarios from ORX to identify trends and benchmark with international peers.

Capital modelling and capital allocation

Nedbank calculates its operational risk regulatory capital requirements using partial and hybrid AMA, with diversification having been in effect since 2010. Most of the group (90%) applies the AMA and the remainder (including operations in NAR) applies TSA.

Under the AMA, Nedbank has approval to use an internal model to determine risk-based operational risk capital requirements for all BUs using AMA. ILD and operational risk scenarios represent the main direct input into the model. The outputs of the other data elements, namely ELD and BEICFs, inform the scenarios. EL and insurance offsets are not used to reduce the regulatory operational risk capital.

The model generates a regulatory capital requirement, which is determined at a 99,9% confidence level. The final capital is then calculated by including updates for TSA entities and meeting the PA minimum requirements relating to the prescribed AMA capital floor, currently at 75%.

Operational risk capital is allocated on a risk-sensitive basis to clusters in the form of economic capital charges, providing an incentive to improve controls and to manage these risks within established operational risk appetite levels.

The second-generation AMA model was reviewed by the regulator who granted permission for its implementation in 2017. This enhanced model was first implemented across the group in 2018 and continues to be the official model version to date.

The model and outputs undergo a robust annual validation exercise by an independent model validation unit. Any issues identified are reported, tracked and addressed in accordance with Nedbank's risk governance processes.

Operational risk appetite

Nedbank has a board-approved operational RAS that is aligned with the group's RAF. The operational risk appetite combines both quantitative metrics and qualitative judgement to encapsulate financial and non-financial aspects of operational risk. The operational RAS makes explicit reference to key operational risks. The operational-risk appetite is set at a group and cluster level, enabling the group and clusters to measure and monitor operational risk profiles against approved risk appetite limits.

Insurance obtained to mitigate the bank's exposure to operational risk

Nedbank's insurance programmes are structured to drive a high standard of risk management within the group. The group's insurable operational risk is not simply transferred to third-party insurers, but a significant interest in the financial impact of losses for certain classes of insurance is retained in the group captive insurance company, namely Nedbank Group Insurance Company Limited (NGICL). As a result of the group's comprehensive self-insurance strategy, the group is always cognisant of the fact that it must mitigate insurance risk as far as possible to protect the reserves of NGICL. The group structures the insurance programmes in conjunction with underwriters, who ultimately bear the responsibility of resolving claims resulting from catastrophic, unpredictable or large events. The group manages the predictable, higher-frequency, lower-severity losses through NGICL.

The NGICL retention structure has been instrumental in controlling pay-away premiums and has assisted the group in adverse insurance market conditions, where insurance rates hardened. Recent years reflect effective control in premium spend against insurance VaR.

The group renewed its insurance policies effective 1 June 2020 as terms expired, retaining the same retention structure according to expiry through NGICL, notwithstanding still-tough insurance market conditions.

Restricted cover previously available for loss arising from business interruption linked to the Covid-19 pandemic, under the assets policy for the group, is no longer available, effective 1 June 2020. Nedbank has general liability and directors' and officers' liability cover in place to assist with regard to claims brought by aggrieved third parties.

MANAGING SUBCOMPONENTS OF OPERATIONAL RISK

Specialist functions, policies, processes and standards have been established and integrated into the main ORMF and governance processes as described under the following sections.

Cyberrisk

Cyberrisk is managed actively through the board-approved Cyberresilience Risk Management Framework (CRRMF) and supporting programme. Specific cyber-related focus areas are identified and agreed on annually. The bank performs cyberrisk assessments periodically and has adopted the Federal Financial Institutions Examination Council (FFIEC) Cybermaturity Framework for this purpose. This self-assessment is augmented through various independent assessments, including red-team testing, attack path mappings and external benchmarks. Any known or newly identified gaps are incorporated and prioritised in the Cyberresilience Programme. Nedbank has established the internal Computer Security Incident Response Team (CSIRT) as well as the Cybercrisis Management Playbook, which includes a Cybercrisis Management Team (CCMT), to respond to cyberincidents and cybercrime effectively.

Nedbank has a due-diligence process in place for third parties that includes a risk assessment, integrity checks, contracts containing the required cyber- and privacy clauses, as well as assurance Nedbank has obtained that the controls are implemented on a risk-based approach. We use a defence-in-depth (DiD) approach, using a multilayer, multivendor strategy that covers both a technology component and people, enabled by processes and associated monitoring. A cyberscenario is in place for Pillar I regulatory capital calculations.

Organisational resilience

Organisational resilience in Nedbank ensures the group business activities remain sound in emergencies and disasters. A centralised organisational resilience function provides overall guidance and direction, monitors compliance with regulatory and leading practice requirements, and facilitates regular review of organisational resilience practices.

Independent reporting and assurance of BCP activities are also provided and a focus on identifying critical processes and dependencies across the group facilitates cost-effective BCP strategies.

All recovery testing relating to the Payments Association of South Africa (PASA) is carried out with the quarterly disaster recovery tests at the group's disaster recovery site. Nedbank has its own dedicated resumption sites in Western Cape, Gauteng and KwaZulu-Natal. These sites are fully equipped with PCs, printers, telephony, office stationery, etc, to enable business during any disaster or incident. Throughout the year various businesses move part of their operations to these sites to ensure that the PCs at the site are functional and configured correctly with the correct applications available. Due to the Covid-19 pandemic, all of Nedbank's BCPs were successfully invoked by employees working from home, alternate sites, and the resumption sites.

Legal risk

The group conducts its activities in conformity with the business, contractual and regulatory requirements applicable in each of the jurisdictions in which the group conducts its business. Failure to meet these requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.

The Legal Risk Policy is in place to ensure that sound operational risk governance practices are adopted in respect of legal risk. The policy addresses key legal risk types such as incorrect legal advice in respect of legal risk; significant new or amended laws; inappropriate selection and use of external lawyers; legal documentation used in transactions that is not enforceable as intended or may be enforced against the group in an adverse way; inadequately managed litigation involving the group as either claimant or defendant; insufficient protection of the group's intellectual property; the breach of competition laws; and reputational risk.

Nedbank has a decentralised legal risk model with central coordination. The group's legal function is made up of Group Legal as well as the cluster and/or subsidiary legal advisors. Group Legal performs the legal work for all central functions (including Nedbank Africa Regions), supports the cluster legal advisors (to the extent necessary) and deals with all the group's corporate actions, intellectual property groupwide and litigation against the group and group entities (including competition-law- and labour-law-related matters). The cluster or subsidiary legal advisors perform largely transactional legal work for the cluster or business they support.

Commercial and violent-crime risk management

Nedbank largely follows a centralised approach to commercial and violent-crime risk management. Because Nedbank adheres to the principles of the Basel regulatory framework, commercial and violent crimes are classified as operational risk and particularly as fraud risk (corruption as internal fraud and violent crime as external fraud) and losses related to these risks are also reflected as operational losses.

The group ensures the sustainability of its operations by practising sound governance. Nedbank elevated the risk of financial crime to a key risk in the Nedbank risk universe, governed at an executive level by the Financial Crime Committee (FCC) and board level by the GRCMC. The FCC has the responsibility to approve the Integrated Financial Crime Risk Management Framework (IFCRMF) (and subframeworks) and related policies before they are finally approved by the GRCMC. The FCC also performs oversight of the implementation of the IFCRMF, as well as ensures senior management oversight of financial crime risk and determines Nedbank's risk appetite for financial crime (and the different financial crime types, including commercial and violent crime). The Commercial- and Violent-crime Risk Committee is a subcommittee of the FCC and responsible for governance of commercial and violent-crime risk management in the group. At a cluster level, enterprisewide risk committees are responsible for the governance of internal and external fraud risk management.

The three lines of defence model is used as the primary means of demonstrating and structuring accountabilities, roles and responsibilities for control, decision-making and risk to achieve effective risk management and assurance.

Internal fraud and most of the external fraud risk types are investigated by Nedbank's Group Financial Crime, Forensics and Security (GFCFS), a division of Group Risk. External fraud relating to card payments and vehicle finance fraud are investigated by separate teams in Retail and Business Banking (RBB). RBB also has several teams that are responsible for the verification of applications to detect and prevent fraud. Furthermore, RBB has risk practitioners that form part of both the first (in the different divisions) and second LoD (at cluster level).

As the first LoD, GFCFS also has the responsibility to ensure that employees have sufficient knowledge and understanding of both the risks related to commercial and violent crime and the group's related policies and procedures. In addition, GFCFS is responsible for the detection, prevention, investigation and escalation of commercial- and violent-crime risk to the relevant governance structures, reporting to law enforcement and tracking implementation by business of recommendations regarding disciplinary measures and actions to mitigate commercial- and violent-crime risk.

Nedbank recognises fraud detection as an important component of its first LoD to counter fraud perpetrated against it and its clients.

RBB houses several product-related teams who provide proactive verification services, focusing on the veracity of information contained in the applications and authenticity of documentation supplied in support of the various applications in an endeavour to detect and prevent fraud. The two primary areas from which automated fraud detection is managed are the Card, Payment and Transactional Fraud area within RBB and the Financial Crime, Forensics and Security Division within Group Risk.

As part of the second LoD, GFCFS owns the Fraud and Corrupt Activities Policy, Physical-security Policy and Whistleblowing Policy. It also has the responsibility of conducting fraud, security and corruption risk assessments (deep dives) on processes, products and systems with the view to identify control weaknesses that can be exploited to commit fraud (including violent crime) and corruption and to make recommendations to enhance controls.

GOR is the second LoD, responsible for the independent assessment and oversight of operational risk management within the group, including with respect to internal and external fraud. GOR's monitoring and oversight activities include providing oversight via the GORC of the operational risk specialist functions (including GFCFS) in measuring, monitoring and managing operational risk via the submission of high-level summaries on fraud risk by cluster and Exco governance forums.

As the third line of defence, GIA determines whether the group's systems of internal control, risk management and governance, as designed and operated by management, are adequate and effective.

Regulatory risk

Nedbank demonstrates resilience and agility through its proactive engagements to assess and mitigate regulatory risk. Through its formalised New Regulatory Affairs process, regulatory developments are analysed to determine the applicability and impact to the business. This process ensures that Nedbank addresses any impact proactively and participates effectively in the regulatory consultation processes, including through industry associations or directly with government, regulators and policymakers.

As part of its regulatory risk management, the group is a member of various industry associations, including among others PASA, the South African Insurance Association, Association for Savings and Investment South Africa, South African Banking Risk Information Centre, and BASA. BASA, in particular, is mandated to represent the banking sector and addresses issues through lobbying, advocacy and policy influence. Group Compliance also provides the group with a central point of engagement, representation and coordination in respect of relevant regulatory and public-policy-related matters at a strategic level.

Group Compliance supports the group's directors and executives to proactively identify and discuss emerging policy and regulatory issues that may require attention and risk mitigation from a group perspective. Group Compliance achieves its objectives by, among other things, establishing and maintaining relationships with regulatory stakeholders in South Africa and other countries in which the group has a footprint.

In 2020 the regulatory environment was thrown into an unprecedented and unpredictable storm as governments and regulators across the world looked to introduce emergency regulations and policies in order to manage the impact of the pandemic on lives and livelihoods. In order to combat the unprecedented situation, Nedbank has had to develop more robust regulatory and stakeholder management capabilities. Additionally, collaboration with other functions to reduce the risk has become key—for example, by working more closely with the businesses to ensure that regulatory change is top of mind and integrated proactively as opposed to being addressed mechanically after the fact. Through its adapted approach to regulatory change, Nedbank is leveraging the new regulatory reforms, using them to change the way it does business and achieve a competitive advantage.

Recent regulatory themes and key regulatory developments in SA

Regulatory risk themes

Set out below are some of the key regulatory focus areas for Nedbank for the period under review.

Regulatory risk theme	Description	Mitigating actions
Protection of Personal Information Act (POPIA)	On 1 July 2020 the remaining additional sections of POPIA commenced. These sections pertain to, among other things: • the conditions for the lawful processing of personal information; • the regulation of the processing of special personal information; • codes of conduct issued by the Information Regulator; • procedures for dealing with complaints; • provisions regulating direct marketing by means of unsolicited electronic communication; and • general enforcement of the act. There is a one-year grace period to be fully compliant with these sections, with full compliance required by 1 July 2021.	The Nedbank Information Privacy Office oversees the governance for the management of privacy across the group. In so doing a privacy framework has been operationalised, which is aligned to POPIA as well as international best practice. The framework ensures that the bank is adequately prepared to comply with local as well as international privacy best practice. Nedbank is committed to ensuring that stakeholder information is secure. To prevent unauthorised access or disclosure, suitable physical, electronic and managerial procedures have been put in place to safeguard and secure the information we collect. Privacy incidents are monitored and tracked on an ongoing basis and the relevant governance structures and processes have been put in place to proactively identify any relevant risks that may result in client detriment. The root causes are identified and relevant control measures implemented to mitigate the risk of reoccurrence. All relevant privacy breaches are reported to the Information Regulator. Training and awareness of employees receive ongoing attention, and privacy impact assessments of all new products and services have been embedded in business. Compliance is a key stakeholder with regard to adherence to privacy requirements, and ongoing monitoring of business controls will assist in the continuous improvement of our compliance commitments.
Market conduct	The FSCA, established in terms of the Financial Sector Regulation Act, 9 of 2017, is tasked with enhancing the integrity of financial markets in South Africa. After the formation of the regulator, there has been heightened scrutiny of the financial services industry from a conduct risk perspective. The focus has been on the fair treatment of clients and the manner in which financial institutions achieve this through their existing control environments. Furthermore, the legal framework for the regulation of the conduct of financial services industry is in the process of being finalised. The FSCA has released the second draft Conduct of Financial Institutions Bill (COFI), which has been circulated for commentary. The FSCA has also recently published the Conduct Standard for Banks, which is effective immediately but does allow for a transition of eight to 12 months. The FSCA is also continuing with the phased rollout of the Retail Distribution Review (RDR) reforms, which had been undertaken by the FSB and which have been subsumed into the FSCA.	Nedbank developed the Market Conduct Culture Programme (MCCP) proactively. The MCCP is based on international best-practice standards. It enables the bank to identify and mitigate the risk of client detriment through the execution of financial services to ensure the delivery of fair outcomes for clients. This is driven by Nedbank's interactions with clients, as well as Nedbank product and service design. The MCCP has made significant progress, with the clusters focused on the execution of prioritised milestones that include the delivery of change management initiatives to drive the required culture change in our employees that will enhance our client-focused culture, evolving our people practices, ensuring we always exhibit 'good conduct', and promoting consumerism throughout the organisation. **Conduct Standard for Banks and Conduct of Financial Institution Bill** The regulator has published the Conduct Standard for Banks, which has transitional periods for the various sections to come into effect as follows: • Sections 3 to 6 come into operation on 2 March 2021. These sections deal with culture and governance, product design, additional requirements for retail clients and advertising. • Sections 7 to 10 come into operation on 2 July 2021. These sections deal with disclosure, complaints, refusal, withdrawal, closure of financial products and services of the bank and termination, closure or switching of financial services and products by clients. The sections that became operational immediately relate to definitions and application and general obligations.

Regulatory risk theme	Description	Mitigating actions
		The requirements of the Conduct Standard are currently being implemented under the MCCP and it is anticipated that all of the requirements will be met by the dates on which they become operable. The regulator has indicated that the finalisation and implementation of the COFI Bill is still a few years off. Having regard to this, the FSCA has confirmed that they will therefore be using the Conduct Standard of Banks to regulate the conduct of financial institutions. **Retail Distribution Review** The FSCA has published the revised RDR proposals for industry consultation on 13 December 2019 and they cover: • advisor categorisation; • equivalence of reward; • intermediary activity; • investment matters; and • dispensation for saving and investment products for the low-income market (RDR Proposal TT). **RDR Proposal: E. Standards for ongoing product servicing. Sub-element Servicing by Banks: The Conduct Standard for Banks came into effect in part during July 2020, with the noted transitions periods as indicated above.** Nedbank is mindful that should these proposals be implemented through changes to existing laws, it will impact the group's MCCP deliverables as well as its operating models. Therefore, the current developments are being monitored closely and comments will be submitted to regulatory associations, including BASA and the Association for Savings and Investment SA, for onward submission to the FSCA by due dates.
AML, CFT and sanctions risk management	The group has a framework in which AML, CFT and sanctions risks are managed through adequate policies, principles, methodologies, processes, systems and training to ensure statutory duties and regulatory obligations or, in their absence, agreed standards are met.	AML, CFT and sanctions resources continue to be bolstered across the group to monitor and enhance controls, with support across the ERMF and specific focus at board level. Coordinated assurance continues to be conducted, with management actions implemented to close identified gaps, where relevant. Delivery of remaining sustainable system solutions for FICAA compliance are being managed through dynamic programme management and governed by the AML, CFT and sanctions Programme Executive Steering Committee.
Basel III	In December 2017 the BCBS published Basel III: Finalising post-crisis reforms. This sets out the committee's finalisation of the Basel III framework, which is the central element to the committee's response to the 2008 GFC. The key objective of the finalised reforms is to reduce excessive variability in RWA and restore credibility in the calculation of RWA by: • enhancing robustness and risk sensitivity of TSAs for credit and operational risk; • constraining use of internally modelled approaches; and • complementing the risk-weighted capital ratio with a finalised leverage ratio and robust capital floor. In June 2020 the PA issued Guidance Note 7/2020, which proposes that the new output floor be included in the finalised reforms package beginning in 1 January 2023.	Nedbank will leverage the IFRS 9 and Basel III implementations to elevate risk measurement and management to an even higher level and will continue to remain focused on changes to the National Credit Act (NCA), 34 of 2005, and any strategic implications. In response to Basel III, management continues to deliver, position and prepare the group optimally for these regulatory changes.

Regulatory risk theme	Description	Mitigating actions
Occupational Health and Safety (OHS) Act, 85 of 1993, and the Compensation for Occupational Injuries and Diseases (COID) Act, 130 of 1993	The OHS Act and its associated regulations ensure the health and safety of all persons on the premises of a business. The COID Act provides for compensation for employees in case of disablement or death caused by occupational injuries and diseases contracted by employees during their employment.	Nedbank ensures compliance with the OHS Act and its regulations as well as the COID Act to ensure a safe and healthy environment for all employees and stakeholders by implementing and monitoring related control measures. OHS awareness is created through compulsory OHS training by all employees, annual Nedbank Group OHS Policy acknowledgment and ongoing OHS awareness campaigns, including posters, leaflets, awareness events and presentations. In response to the global pandemic, Nedbank has developed a Covid-19 portal with related information and resources such as standard operating procedures, guidelines and policies, news updates, and frequently asked questions (FAQs) to ensure that information related to Covid-19 is available readily and can be accessed easily by all Nedbank employees. The group Covid-19 Compliance Officer and compliance officials were appointed to monitor the implementation of the Covid-19 control measures and compliance, in alignment with all relevant regulatory requirements issued in response to the pandemic. Group Compliance conducts ongoing monitoring of the controls implemented by Nedbank to ensure compliance with the Covid-19 regulatory requirements. Baseline OHS risk assessments and reassessments inclusive of all Covid-19 requirements are conducted in branches and campus sites to determine OHS risk exposures and enable the implementation of appropriate remedial and preventative measures where required. The OHS team is closely involved on the ground to assist employees with Department of Employment and Labour or Department of Health inspections as required. Management and board oversight of the Covid-19 control measures are achieved through regular reporting to the Pandemic Steering committee, Group Exco and the Nedbank Board.
Risk data aggregation and risk reporting (RDARR)	BCBS 239, Principles for effective Risk Data Aggregation and Risk reporting (RDARR), was issued in January 2013. The principles aim to strengthen banks' risk management practices by improving their RDARR practices. It is anticipated that complying with the principles will improve the ability of banks to provide rapid and comprehensive risk data by legal entity and business line. This will ultimately enhance banks' decision-making processes and improve their resolvability. This has been incorporated into local bank regulations through the PA Directive 2/2015, which requires domestic systemically important banks (D-SIBs) to comply with the principles from 1 January 2017.	Nedbank opted for a strategic approach to achieve BCBS 239 compliance requirements. Rather than focus solely on the compliance requirements, Nedbank chose to implement a more sustainable solution to address the management of enterprise data. This gave rise to the Enterprise Data Programme (EDP), which consisted of three streams, namely: • RDARR – focused on compliance with the BCBS 239 RDARR principles. • IT infrastructure – selection and implementation of appropriate hardware and software. • data management organisation (DMO) – establishment of the DMO and its related governance and data management capabilities. Nedbank is fully compliant with the RDARR principles for the material major risk types (ie credit, liquidity, IRRBB, investment, market and operational) and will focus continuously on embedding these principles.

Regulatory risk theme	Description	Mitigating actions
Foreign Account Tax Compliance Act (FATCA) and the Organisation for Economic Cooperation and Development's Common Reporting Standards (CRS)	FATCA and CRS require financial institutions to file annually both demographic and financial account information of all US persons (in terms of FATCA) and any other person that has foreign tax obligations or foreign tax residencies (in terms of CRS). For purposes of these requirements, Nedbank must perform reasonable due-diligence procedures on the self-certification provided by its clients at onboarding and when there is a change in circumstances. FATCA and CRS have been effective since July 2014 and March 2016 respectively.	The FATCA and CRS programmes continue to make progress and receive focus. The implementation of the compliance requirements is managed by the Regulatory Change Programme Office and is governed by a project steerco. Compliance risk is mitigated through the rules that have been built into Nedbank's main onboarding system (Eclipse) and are further complemented by manual processes and compensating controls that have been implemented in the business units and that will continue to be used to deliver regulatory reporting requirements. In addition to the above, employee training and awareness efforts are being rolled out, as well as a FATCA and CRS user manual and specific guidance documents to guide frontline employees. The amended CRS regulations were published in October 2020 and brought into law the suspension or closure of financial accounts for failure to provide self-certification by accountholders or controlling persons with effect from 1 June 2021. The CRS regulations also brought into law the Mandatory Disclosure Rules for CRS avoidance arrangements and opaque offshore structures. Reporting of these arrangements or structures must commence from 1 March 2023. There is currently no groupwide restrictions system. Therefore, to give effect to these restrictions we will have to implement tactical solutions across the group, along with integrating them into the current AML restrictions processes.

Key regulatory developments

While responding to the demands of Covid-19 did take up significant time and attention in 2020, government and regulators continued to attend to their law-making work programmes and supervisory priorities. In this regard, a total of 1 523 new regulatory instruments impacting financial institutions were published in 2020. This constitutes approximately a 60% increase from 2019.

Looking ahead, we anticipate that regulatory developments aimed at mitigation and relief efforts relating to the pandemic will continue at a steady pace. Additionally, we are tracking the following regulatory developments for the year 2021 and beyond, all of which will impact Nedbank.

South Africa	
Market conduct	Market conduct will continue to be a key regulatory focus area, particularly in light of the impact of Covid-19. The second draft of the COFI Bill was published in 2020 for public consultation. A revised draft of the bill will be tabled in parliament in 2021.
Company law	The draft Companies Amendment Bill, which proposes amendments to the Companies Act, 71 of 2008, may come into law. Some of these changes relate to access to information, the disclosure of the remuneration of directors and public officers, the disclosure of beneficial interests in securities, and representation of labour on boards of directors.
Environment	A number of changes in relation to the regulation and management of climate change and emissions reporting were introduced during 2020. These changes aim to enhance South Africa's ability to meet its international obligations in terms of the Paris Agreement on climate change, among other things. Additional laws and amendments to the current regulatory framework are expected during 2021. A process for the management of carbon budgets for the period 1 January 2021 to 31 December 2022 has also been proposed. It is anticipated that the Climate Change Bill will come into force in 2021 and that, once this has happened, further regulations that govern both the carbon budget system as well as mitigation plans (currently known as pollution prevention plans) will be published.
Property	Land reform will remain a topical issue. The proposed amendment to section 25 of the Constitution and the Expropriation Bill may come into force in the next few months. The Upgrading of Land Tenure Rights Amendment Bill, which provides for the application for conversion of land tenure rights to ownership, may also gain traction.
Workplace and employment	The Employment Equity Amendment Bill is expected to become law in 2021. The bill introduces several key changes to the current Employment Equity Act (EEA), 55 of 1998, which include empowering the Minister of Employment and Labour to determine sectoral numerical targets for different occupational levels, subsectors or regions within each national economic sector. Additionally, a prerequisite to securing state contracts that employers have a compliance certificate will apply.
National Health Insurance	National Health Insurance (NHI) is anticipated to gather momentum in 2021, particularly given the Covid-19 pandemic and government's strategy of moving towards universal health coverage. The NHI is a health-financing system designed to pool funds to provide access to quality affordable personal-health services for all South Africans based on their health needs, irrespective of their socioeconomic status.
Open finance and the digital economy	A number of regulators have issued research and position papers in relation to intended regulatory approaches to open finance and the digital economy. It is anticipated that regulations in relation to this will be published within the next 18 months. Additionally, the Competition Commission is launching a market inquiry into the online intermediation platform services that is likely to culminate in future regulation. We also expect greater scrutiny of crypto assets under South African financial sector regulation and AML legislation.

South Africa	
Implementation of the local JIBAR reforms (in line with offshore IBOR changes)	The Financial Conduct Authority and Bank of England have indicated that they will remove the obligation for banks to contribute to IBOR from 1 January 2022 and likely cease publication of these benchmarks. Globally, all financial market participants with transactions referencing IBOR benchmarks, including Nedbank, are migrating their systems and portfolios in preparation of the above deadline. Implementation of the JIBAR reforms (in line with offshore IBOR changes) will change the fundamental structure of local interest rate derivative pricing, risk management, governance and related conduct risk. During 2020 the SARB made its position clear: JIBAR will cease to exist at some point in the future because, like IBOR, there are shortcomings with using JIBAR as a benchmark rate. The SARB has also advised that it will follow international progress on IBOR reforms to guide its decisions on a suitable reference rate for South Africa, while taking into account idiosyncrasies relevant to the local market. It will also observe best practices to avoid causing market instability. This reform has meaningful consequences for the South African financial sector institutions, including Nedbank. The three-month JIBAR rate in particular is one of the country's most-used benchmarks. It is referenced extensively for a range of purposes, including loans, derivatives, and money market unit trusts.
Prudential	Various reforms are underway, including the following: • The Financial Sector Laws Amendment Bill, which proposes to introduce a framework for the orderly resolution of designated institutions (including banks as well as non-banks that are systemically important financial institutions) and establish a deposit insurance scheme that all banks must contribute to intended to protect vulnerable depositors as well as to ensure minimal disruptions to the financial system should a bank suffer financial stress. The bill is currently before the National Assembly. • The Financial Sector Levies Bill, which imposes levies on financial institutions for the funding of financial sector regulatory bodies so these bodies can carry out their duties. The bill is anticipated to be finalised and signed into law during the course of 2021. • The SARB Amendment Bill, which provides for the state to be the sole shareholder of the shares in the Reserve Bank, the appointment of and the making of regulations relating to the appointment of the board of directors by the Minister of Finance, and the power of said minister to appoint auditors. The bill will give rise to a constitutional debate on whether the proposed expropriation of the shares of current private shareholders (who include banks) without compensation is in line with section 25 of the Constitution. The bill is currently before the National Assembly. • Amendments to Regulation 28 of the Pension Funds Act, 24 of 1956, which seek to make it easier for retirement funds to be used to increase investment infrastructure and improve the measurement of infrastructure investment by the FSCA.

International	
United Kingdom	The Financial Services Bill 2019/21 will clarify certain aspects of the UK market abuse and money laundering regimes. The bill clarifies who is required to maintain an insider list, establishes that issuers and any person acting on their behalf or on their account are all required to maintain such a list, increases the maximum sentence for criminal market abuse from seven to 10 years, and extends the application of money-laundering regulations to overseas trustees.
Channel Islands	The Sixth European Union (EU) Money-laundering Directive (6MLD) consists of rules to strengthen measures against money laundering and contains key amendments that provide the following: • Development of a unified list of predicate offences. • Addition of aiding, abetting, attempting and inciting to commit money laundering as a criminal offence. • Increased international cooperation and tougher punishments. Member states were required to transpose the 6MLD into national law by 3 December 2020. Relevant regulations must be implemented by firms within member states by 3 June 2021. The Channel Islands are likely to adopt AML and CFT standards equivalent to those of the EU.
Lesotho	• The Financial Consumer Protection Bill establishes the rights of consumers of financial products and services and the manner of exercising and protecting these rights and related matters. • The Labour Code is aimed at repealing the existing labour laws and consolidating all laws relating to labour and employment, making provisions for ensuring compliance with the fundamental principles and rights with respect to labour according to the International Labour Organisations, and promoting the use of best labour practices in the implementation of International Labour Standards.
Namibia	The Payment Systems Management Bill revises the current Payment Systems Management Act.
Eswatini	The Electronic Communication and Transactions Bill seeks to regulate electronic communications and the use of e-government services and to provide for incidental matters. The Data Protection Bill provides for collection processing, disclosure and protection of personal data, balancing of competing values of personal information privacy and sector-specific laws and other related matters. The Computer Crime and Cybercrime Bill seeks to criminalise offences committed against and through the use of computer systems and electronic communication networks. The Consumer Credit Bill seeks to amend the current Consumer Credit Act to enable the Central Bank of Eswatini to administer the act in terms of the banking sector (and the Financial Services Regulatory Authority to administer the act with respect to non-bank financial institutions), and to align the act and bring about consistency with other legislations, eg the Financial Services Regulatory Act, Financial Institutions Act, Central Bank Order and other similar legislation.
Zimbabwe	The Cybersecurity and Data Protection Bill is aimed at consolidating cyber-related offences and providing for data protection with due regard to the Declaration of Rights under the Constitution and the public and national interest, at establishing the Cybersecurity Centre and Data Protection Authority and providing for their functions, at providing for the investigation and collection of evidence of cybercrime and unauthorised data collection and breaches, and at providing for the admissibility of electronic evidence for such offences. It aims to create a technology-driven business environment and encourage technological development and the lawful use of technology.

INSURANCE RISK

Year under review

- There had been a noticeable increase in retrenchment and death claims due to the impact of Covid-19.
- Non-life insurance claim ratios have been lower, resulting in a better underwriting margin.

Focus for 2021

- Provisions for retrenchment risk and increases in the expected claims have been reset in the budget for 2021. Demographic, expense and economic basis changes have been updated to reflect the latest assumptions for Reserving.
- A soft launch of Personal Lines happened during December 2020, with an expected slow uptake and growth expected to coincide with the more formal launch towards the end of Q1, 2021.
- The MyCover Life product will be launched during April 2021 on the Nedbank MoneyApp.

Insurance is based on the principle of pooling homogenous risks caused by low-probability events that cover, among other things, death, disability, retrenchment, property and vehicle damage. Insurance risk incorporates three principal risk components, namely:

- underwriting risk, where the client is placed into the incorrect risk pool;
- pricing risk, where the level of risk associated with a pool is mispriced; and
- non-independence, where a single event results in claims from multiple clients. When many clients are affected simultaneously, this is known as a catastrophe event.

Insurance risk also includes new business risk.

Actuarial and statistical methodologies are used to price insurance risk (eg morbidity, mortality and retrenchment). Underwriters align clients with this pricing basis and respond to any anti-selection by placing clients in substandard-risk pools, pricing this risk with an additional risk premium, excluding certain claim events or causes, or excluding clients from entering pools at all. Reinsurance is used to reduce the financial impact of claims arising from insured events, and to reduce the variability of claims and to protect against catastrophe events. The level of reinsurance used is determined by considering the risk appetite mandated by the board.

Insurance risk predominantly arises in Nedbank Insurance, which is within the Wealth Cluster.

- Nedgroup Life Assurance Company Limited (Nedgroup Life) offers credit life, risk and savings solutions.
- Nedgroup Insurance Company Limited (NedIC) is a non-life insurer offering personal lines cover (building, motor and contents), legal expenses, credit guarantee, personal accident, hospital cashback and vehicle-related value-added products for the retail market.
- Nedbank Namibia Life Assurance (NNLA) is a life assurance company operating in Namibia selling credit, life and funeral policies. NNLA is part of the NAR cluster.
- Nedgroup Structured Life (NSL) offers fund, life and sinking-fund life policies.

INSURANCE RISK STRATEGY, GOVERNANCE AND POLICY

Insurance risk is included in the ERMF, which consists of formal risk policy documentation and effective governance structures. These structures encompass management oversight to achieve independent monitoring. The insurance risk policy for the group formalises and communicates an approach to managing insurance risk by adopting industrywide principles and standards.

Although Nedbank Insurance is responsible and accountable for the management of all risks that emanate from insurance activities, underwriting risk is included in the group ERMF and rolls up into various other governance structures through its link into the Insurance Risk Framework. The framework seeks to ensure that risk characteristics are properly understood, incorporated and managed where insurance activities are undertaken. Internal and external actuaries at appropriate levels play an oversight role with respect to insurance activities, including reporting and monitoring procedures in respect of product design, pricing, valuation, reinsurance, asset liability monitoring, solvency and capital assessment, and regulatory reporting.

The approach taken by the businesses is to ensure strategic alignment of SAM by using risk management in the business decision-making framework and business planning processes through Own-Risk and Solvency Assessments, which are being embedded in the existing reporting structures.

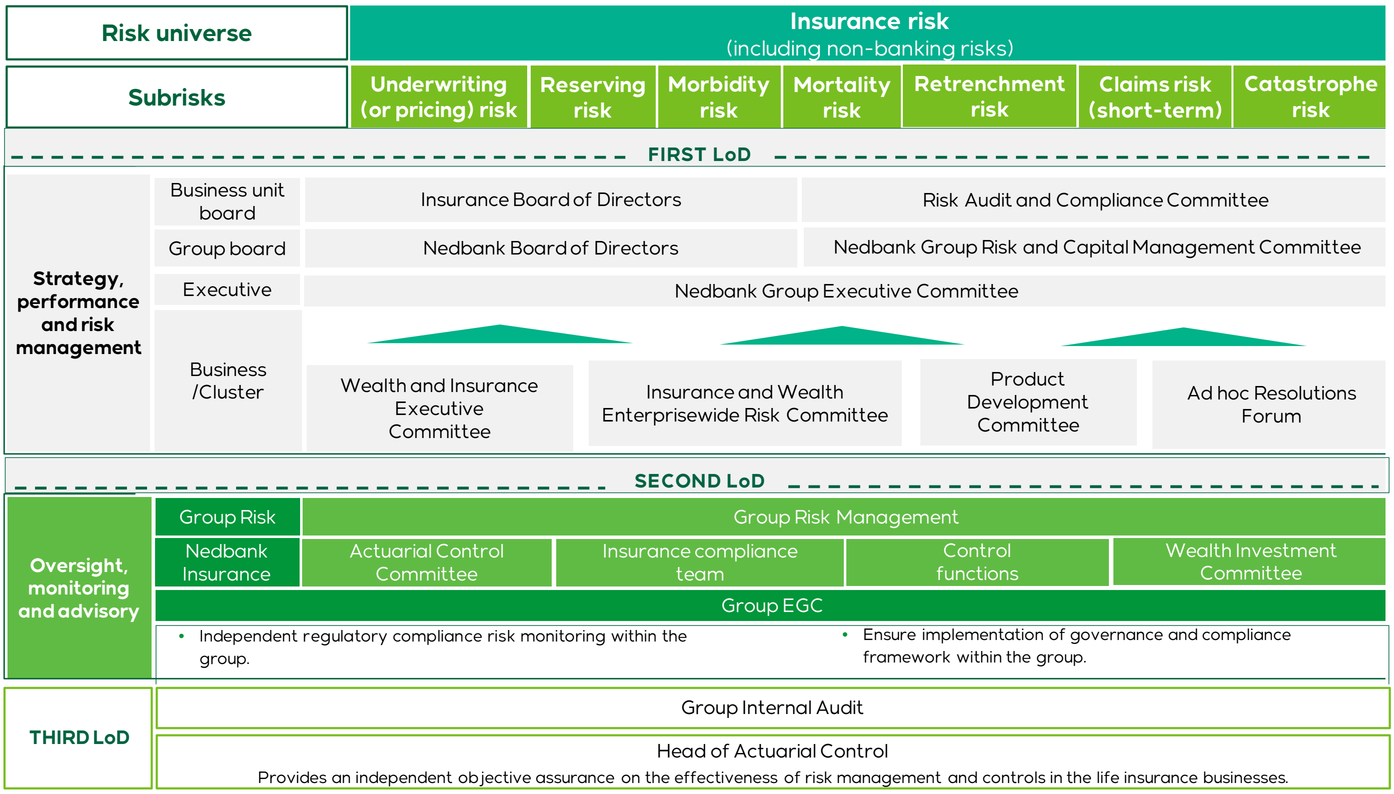
Risks associated with new or amended products in the insurance business fall under the group's formal product approval policy, which covers pricing and risk reviews by the respective heads of actuarial functions and approval at cluster executive and group executive level (where required). The risks are subsequently managed through the risk management framework outlined below.

The board of Nedbank Insurance acknowledges responsibility for risk management within its business and mandate. Management is accountable to the board and the group for designing, implementing and integrating a risk management process. This allows for optimised risk-taking that is objective and transparent and ensures that the business prices risk appropriately, linking it to return and adequately addressing insurance underwriting risks in its day-to-day activities.

Insurance risk is managed throughout the insurance management process in the following manner:

- Monitoring the concentration of exposures and changes in the environment.
- Performing profile analysis as it relates to the risk characteristics of the insured.
- Monitoring key ratios to ensure that they are in line with expectations and to identify any potential areas of concern or any changes in claims patterns.
- Regular monitoring of policy movements to identify possible changes to the pricing basis for lapses and withdrawals.
- Regular review of premiums, taking into account both past and expected claims experience.
- Monitoring the concentration of insurance risk, which includes the assessment of geographical spreads, the impact of catastrophe reinsurance, maximum losses per event and mitigations that include sufficient reassurance and reviewable pricing and exclusions.
- Rigorous assessment procedures (including forensics intervention, where required) to ensure that only valid claims are paid.
- Monitoring the effectiveness of reinsurance programmes by the board, various risk forums and external actuaries.
- Monitoring key process and risk indicators in the actuarial control committees.
- Following and applying modelling methodologies that are prescribed by the Actuarial Society of SA or, in the absence of such guidance, world-class risk management principles.

Insurance Risk Management Framework



SOLVENCY II AND SAM

The PA has introduced a revised prudential regime for insurance, the SAM regime, to ensure that regulation of the SA insurance sector remains in line with international best-practice. Implementation of the SAM regime formally commenced on 1 July 2018 and the requirements are already a core part of BaU processes and reporting. The approach taken by the businesses is to ensure strategic alignment with the SAM requirements by using risk management in the business decision-making framework and business planning processes through Own-Risk and Solvency Assessments (ORSA), which are being embedded in the existing reporting structures. SAM is also an integral component of the insurance companies' strategy, business planning and day-to-day business operations and decisions. Nedbank Insurance will continue to invest further time and effort to ensure SAM processes are appropriately streamlined and automated by optimising various governance committees and policies to cater for the new requirements in the existing BUs and oversight functions.

The Insurance Act 18 of 2017 and Governance and Operational Standards for Insurers (GOIs) came into effect in July 2018. It sets out insurer requirements for risk management and governance (Pillar 2). As the act and GOIs had an immediate effect, insurers were given an opportunity to raise any issues of non-compliance and present the regulator with a scheme of compliance. Nedbank Insurance submitted its scheme of compliance and was provided with an exemption to comply with the GOIs until end of June 2019. Through the Strategic Projects team, a standalone project was run to implement the regulatory requirements, which included ensuring that the requisite governance structure was in place and that the risk management system is embedded.

The requirements of the GOIs pertaining to the governance and risk management structure, which include the establishment and review of policies and the implementation of a governance framework, were met by the June 2019 deadline. The last step was the approval of the policies and framework by the Nedbank Insurance Board.

During 2020 the PA designated an insurance group which includes all the South Africa and Namibia insurance companies. New governance requirements relating to the group are being implemented in 2021 and 2022.

INSURANCE RISK IN NEDBANK

As discussed above, insurance risk is assumed by Nedgroup Life, NSL, NNLA and NedIC.

Nedbank Insurance consumes only 2,2% (December 2019: 2,2%) of the group's allocated capital requirement.

The solvency ratios are reflected in the following table. Figures shown reflect the new SAM regulatory regime, except for NNLA which is still based on the CAR calcuation.

SOLVENCY RATIOS

Entity	Regulatory minimum	Management target[1]	2020	2019
Long-term insurance (Nedgroup Life)	1,0	> 1,5	2,9	2,5
Long-term insurance (NSL)	1,0	> 1,5	2,0	1,7
Non-life insurance (NedIC)	1,0	> 1,5	2,7	2,4
Long-term insurance (NNLA)	N/A	> 1,5	13,6	12,6

[1] *Management target is based on the greater of regulatory and economic capital.*

The following points explain the movements in the solvency ratios from 31 December 2019 to 31 December 2020 for each entity:

- The Nedgroup Life solvency ratio increased from 2,5 to 2,9. Own funds (OF) increased from R2 410m (December 2019) to R2 945m (December 2020), driven by strong profit generation offset by provisions that were established for Covid-19 related claims; and the change in the yield curve following the changes in interest rates announced by the SARB during the year. In addition, there was a slight increase in the solvency capital requirement (SCR) from R973m (December 2019) to R1 023m (December 2020).
- The NSL solvency ratio has increased from 1,7 to 2,0 when compared to December 2019. There was an increase in OF from R82m (December 2019) to R92m (December 2020). However, there was also a decrease in SCR from R48m (December 2019) to R47m (December 2020).
- The NedIC solvency ratio increased from 2,4 to 2,7. This is due to an increase in excess assets. There was an increase in OF from R812m (December 2019) to R939m (December 2020). There was a slight increase in SCR from R342m (December 2019) to R352m (December 2020).
- The NNLA solvency ratio increased from 12,6 to 13,6. This is due to profits earned by the entity during 2020.
- Nedgroup Life and NedIC both paid out dividends during 2020, however no dividend is anticipated for 2021 H1.

ANNEXURE A: ABBREVIATIONS

Abbreviation	Definition
AFR	Available financial resources
AGM	Annual General Meeting
AIRB	Advanced internal ratings-based
AJTP	Activity-justified transfer pricing
ALM	Asset and liability management
AMA	Advanced Measurement Approach
AML	Anti-money laundering
ARC	Ad hoc Rating Committee
ASF	Available stable funding
ATM	Automatic Teller Machine
AVA	Additional valuation adjustments
BASA	Banking Association South Africa
BaU	Business as usual
BCBS	Basel Committee on Banking Supervision
BCCC	Brand, Client and Conduct Committee
BCM	Business Continuity Management
BCP	Business Continuity Plan
BEICF	Business environment and internal control factors
BEL	Best estimate liability
BSM	Balance Sheet Management
BU	Business unit(s)
BUCC	Business unit credit committee
CA	Coordinated assurance
CAR	Capital adequacy ratio
CBA	Commonwealth Bank of Australia
CBL	Central Bank Lesotho
CCC	Cluster Credit Committee
CCF	Credit conversion factor
CCMT	Cybercrisis Management Team
CCO	Chief Compliance Officer
CCP	Central clearing counterparty
CCR	Counterparty credit risk
CE	Chief Executive
CEM	Current exposure method
CEO	Chief Executive Officer
CET1	Common-equity tier 1
CFD	Centralised Funding Desk
CFO	Chief Financial Officer
CFT	Combatting the financing of terrorism
CIA	Chief Internal Auditor
CIB	Nedbank Corporate and Investment Banking
CIO	Chief Information Officer
CLR	Credit loss ratio
CMF	Capital Management Framework
CMVU	Credit Model Validation Unit
CODI	Corporation for Deposit Insurance
COE	Cost of equity
COFI	Conduct of Financial Institutions Bill
COID	Compensation for Occupational Injuries and Diseases
COO	Chief Operating Officer
CPM	Credit portfolio model

Abbreviation	Definition
CRC	Climate Risk Committee
CREIF	Capital requirements for equity investments in funds
CRLG	Climate Task Group and the Climate Risk Leadership Group
CRM	Credit risk mitigation
CRMF	Compliance Risk Management Framework
CRO	Chief Risk Officer
CRRMF	Cyberresilience Risk Management Framework
CRS	Common Reporting Standards
CSIRT	Computer Security Incident Response Team
CVA	Credit valuation adjustment
DAC	Directors' Affairs Committee
dEL	Downturn expected loss
DFL	Digital Fast Lane
DHEPS	Diluted headline earnings per share
Digi-RACE	Digitisation of risk, audit and compliance across the enterprise
DIS	Deposit Insurance Scheme
dLGD	Downturn loss given default
DLP	Data loss protection
DMO	Data management organisation
D-SIB	Domestic systemically important bank
DVA	Debt valuation adjustments
EAD	Exposure at default
EaR	Earnings at risk
ECA	Export credit agencies
ECAIs	External credit assessment institutions
ECC	Executive Credit Committee
ECL	Expected credit losses
EDP	Enterprise Data Programme
EEA	Employment Equity Act, 55 of 1998
EITCO	Executive Information Technology Committee
EL	Expected loss(es)
ELB	Entry-level banking
ELD	External loss data
EP	Economic profit
ERBB	Equity risk in the banking book
Erco	Enterprisewide Risk Committee
ERMF	Enterprisewide Risk Management Framework
ETI	Ecobank Transnational Incorporated
ETL	Extreme tail loss
EVE	Economic value of equity
EVP	Employee value proposition
EWI	Early-warning indicators
FATCA	Foreign Account Tax Compliance Act
FCC	Financial Crime Committee
FCTR	Foreign currency translation reserves
FFIEC	Federal Financial Institutions Examination Council
FICAA	Financial Intelligence Centre Amendment Act
FIRB	Foundation internal ratings-based
FLAC	First loss after capital
FLI	Forward-looking information
FRTB	Fundament Review of the Trading Book
FSB	Financial Services Board
FSCA	Financial Sector Conduct Authority

Abbreviation	Definition
FSLAB	Financial Sector Laws Amendment Bill
FSRA	Financial Sector Regulation Act
FTP	Funds transfer pricing
FVA	Funding valuation adjustment
FVOCI	Fair value through other comprehensive income
GAC	Group Audit Committee
GBP	Don't abbreviate (also means Pound)
GC	Group Compliance
GCC	Group Credit Committee
GCCO	Group Chief Compliance Officer
GCFO	Group Chief Financial Officer
GCR	Group Credit Risk
GCRC	Group Climate Resilience Committee
GCRMF	Group Credit Risk Management Framework
GCRO	Group Chief Risk Officer
GDP	Gross domestic product
GFC	Global Financial Crisis
GFCFS	Group Financial Crime, Forensics and Security
GHOS	Group of Central Bank Governors and Heads of Supervision
GIA	Group Internal Audit
GITCO	Group Information Technology Committee
GLAA	Gross loans and advances
GLC	Great Lockdown Crisis
GMR	Group Market Risk
GOI	Gross operating income
GOIs	Governance and Operational Standards for Insurers
GOR	Group Operational Risk
GORC	Group Operational Risk Committee
GRA	Group Risk Analytics
GRCMC	Group Risk and Capital Management Committee
Greenhouse I	Greenhouse Funding (RF) Limited
Greenhouse III	Greenhouse Funding III (RF) Limited
Group Alco	Group Alco and Executive Risk Management Committee
Group Exco	Group Executive Committee
GRRC	Group Reputational Risk Committee
G-SIBs	Global systemically important banks
GSR	Group Strategic Risk
GT	Group Technology
GTSEC	Group Transformation, Social and Ethics Committee
HQLA	High-quality liquid assets
HRC	High-risk Committee
HVCRE	High-volatility commercial real estate
IAS	International Accounting Standards
IBOR	Interbank lending rate
ICAAP	Internal Capital Adequacy Assessment Process
ICE	Internal control environment
IFC	Internal financial controls
IFCRM	our Integrated Financial Crime Risk Management
IFCRMF	Integrated Financial Crime Risk Management Framework
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
ILAAP	Internal Liquidity Adequacy Assessment Process
ILD	internal-loss data

Abbreviation	Definition
IMA	Internal model approach
IMF	International Monetary Fund
IMM	Internal model method
IOM	Nedbank Private Wealth
IPO	Information Privacy Office
IPRE	Income-producing real estate
IPV	Independent Price Verification
IRB	Internal ratings-based
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivatives Association
IT	Information technology
JIBAR	Johannesburg Interbank Average Rate
JSE	Johannesburg Stock Exchange Limited
KICL	Key Issues Control Log Report
KRI	key risk indicators
KRIs	Key risk indicators
KYC	Know your client
LAA	Loans and advances
LAC	Loss-absorbing capital
LCR	Liquidity coverage ratio
LEAC	Large-exposure Approval Committee
LGD	Loss given default
LoD	Lines of defence
LRC	must be LCR
LRCP	Liquidity Risk Contingency Plan
LSC	Liquidity Steering Committee
LTV	Loan-to-value
LVC	Values and culture
MCCP	Market Conduct and Culture Programme
MCRTF	Markets Conduct Risk Technical Forum
ME	Managed Evolution
MEFM	Macroeconomic Factor Model
MFC	Motor Finance Corporation
MLTFC	Money-laundering and Terrorist Financing Control
MMFTP	Matched maturity funds transfer pricing
MMS	Money-market shortage
MPC	Monetary Policy Committee
MRC	Minimum required capital
MRM	Model Risk Management
NAR	Nedbank Africa Regions
NCA	National Credit Act, 34 of 2005
NCOF	Net cash outflows
NCWO	No-creditor-worse-off
Nedgroup Life	Nedgroup Life Assurance Company Limited
NedIC	Nedgroup Insurance Company Limited
NGICL	Nedbank Group Insurance Company Limited
NGR	Nedbank Group Rating
NGRRL	Nedbank Group Risk Reporting Line
NHI	National health insurance
NII	Net interest income
NIM	Net interest margin
NIR	Non-interest revenue
NNLA	Nedbank Namibia Life Assurance

Abbreviation	Definition
NPS	Net promoter score
NSFR	Net stable funding ratio
NSL	Nedgroup Structured Life
nWoW	New Ways of Work
OCI	Other comprehensive income
ODP	Over-the-counter derivative providers
OF	Own funds
OHS	Occupational health and safety
Opcom	Group Operational Committee
ORM	Operational Risk Management
ORMF	Operational Risk Management Framework
ORSA	Own-Risk and Solvency Assessments
ORX	Operational Riskdata eXchange
OSE	Ordinary shareholders' equity
OTC	Over the counter
PA	Prudential Authority
PACTA	Paris Agreement Capital Transition Assessment
PASA	Payments Association of South Africa
PD	Probability of default
PIC	Public Investment Corporation
POPI	Protection of Personal Information
POPIA	Protection of Personal Information Act
Precinct	Precinct Funding 1 (RF) Limited
Precinct 2	Precinct Funding 2 (RF) Limited
PSDII	Payment Services Directive II
PSEs	Public sector entities
PVA	Prudent valuation adjustment
RA	Resolution authority
RACE	Risk, Audit and Compliance across the Enterprise
RAF	Risk Appetite Framework
RAPM	Risk-adjusted performance measurement
RAS	Risk appetite statements
RBA	Ratings-based approach
RBB	Nedbank Retail and Business Banking
RBIA	Risk-based internal audit
RCP	Regulatory Change Programme
RCPO	Regulatory Change Programme Office
RCSA	Risk and control self-assessment
RCSAs	Risk and control self-assessments
RDARR	Risk Data Aggregation and Risk Reporting
RDR	Retail Distribution Review
REMCO	Group Remuneration Committee
ROA	Return on assets
ROE	Return on equity
ROI	Return on investment
RP	Recovery Plan
RPTC	Related-party Transactions Committee
RRP	Recovery and Resolution Plan
RSF	Required stable funding
RWA	Risk-weighted assets
SA	South Africa
SA-CCR	Standardised approach for counterparty credit risk
SADC	Southern African Development Community

Abbreviation	Definition
SAM	Solvency assessment and management
SAR	Specialised administrative region
SARB	South African Reserve Bank
SAS	Statistics analysis system
SBP	Share-based payment
SCR	Solvency capital requirement
SEMS	Social and environmental management system
SFA	Supervisory formula approach
SFT	Securities financing transaction
SICR	Significant increase in credit risk
SME	Small and medium enterprises
SOE	State-owned enterprises
SPPIA	Standards for the Professional Practice of Internal Auditing
SPT	Strategic Portfolio Tilt
SREP	Supervisory Review and Evaluation Process
SRWA	Simple risk weight approach
SSA	Sub-Saharan Africa
STI	Short-term incentive
TCF	Treating Clients Fairly
TCFD	Taskforce on Climate-related Financial Disclosures
TLAC	Total loss-absorbing capacity
TOM	Target operating model
TRAHRCO	Transformational Human Resources Committee
TRC	Trading Risk Committee
TSA	The standardised approach
TTC	Through-the-cycle
UK	United Kingdom
UL	Unexpected losses
USD	United States dollar (currency code)
VAF	Vehicle and Asset Finance
VaR	Value at risk
VUCA	Volatile, uncertain, complex and ambiguous
WFH	Work from home
ZAR	South African rand (currency code)

Company information

NEDBANK GROUP LIMITED

Incorporated in the Republic of SA
Registration number 1966/010630/06

REGISTERED OFFICE

Nedbank Group Limited, Nedbank 135 Rivonia Campus,
135 Rivonia Road, Sandown, Sandton, 2196
PO Box 1144, Johannesburg, 2000

TRANSFER SECRETARIES IN SA

JSE Investor Services (Pty) Limited,
19 Ameshoff Street, Braamfontein, Johannesburg, 2001, SA.

PO Box 4844, Marshalltown, 2000, SA.

NAMIBIA

Transfer Secretaries (Proprietary) Limited
4 Robert Mugabe Avenue, Windhoek, Namibia
PO Box 2401, Windhoek, Namibia

INSTRUMENT CODES

Nedbank Group ordinary shares

JSE share code:	NED
NSX share code:	NBK
ISIN:	ZAE000004875
JSE alpha code:	NEDI
ADR code:	NDBKY
ADR CUSIP:	63975K104

Nedbank Limited non-redeemable non-cumulative preference shares

JSE share code:	NBKP
ISIN:	ZAE000043667
JSE alpha code:	BINBK

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This announcement is available on the group's website at nedbankgroup.co.za, together with the following additional information:

- Financial results presentation to investors.
- Link to a webcast of the presentation to investors.

For more information please contact Nedbank Group Investor Relations at NedGroupIR@nedbank.co.za.

Company Secretary: J Katzin
Sponsors in SA: Merrill Lynch SA Proprietary Limited
Nedbank CIB

Sponsor in Namibia

Old Mutual Investment Services (Namibia) (Proprietary) Limited

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