



NEDBANK GROUP LIMITED



PILLAR 3 RISK AND CAPITAL MANAGEMENT REPORT

FOR THE QUARTER ENDED 30 SEPTEMBER

2018

Basel III Public Disclosure Report

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NEDBANK

PILLAR 3 BASEL III CAPITAL ADEQUACY, LEVERAGE AND LIQUIDITY RATIOS AT 30 SEPTEMBER 2018

This quarterly Pillar 3 disclosure covers the operations of Nedbank Group Limited (group) as well as Nedbank Limited (bank) and complies with the Basel Committee on Banking Supervision's (BCBS) revised Pillar 3 disclosure requirements and the Prudential Authority (PA) Directive 1/2018.

KM1: KEY METRICS

		Nedbank Group				
		Sep 2018 ¹	Jun 2018 ¹	Mar 2018 ¹	Dec 2017	Sep 2017
Available capital						
1	CET1	(Rm) 64 205	61 517	59 438	60 313	60 772
2	Tier 1	(Rm) 68 552	65 670	63 623	64 737	65 200
3	Total capital	(Rm) 82 205	79 083	77 046	75 920	76 384
RWA						
4	Total RWA	(Rm) 581 286	552 623	542 314	528 206	522 810
Risk-based capital ratios as a percentage of RWA						
5	CET1 ratio	(%) 11,0	11,1	11,0	11,4	11,6
6	Tier 1 ratio	(%) 11,8	11,9	11,7	12,3	12,5
7	Total capital ratio	(%) 14,1	14,3	14,2	14,4	14,6
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement	(%) 1,875	1,875	1,875	1,25	1,25
9	Countercyclical buffer requirement	(%)				
10	Bank G-SIB and/or D-SIB additional requirements	(%)				
11	Total of bank CET1 specific buffer requirements (row 8 + row 9 + row 10)	(%) 1,875	1,875	1,875	1,25	1,25
12	CET1 available after meeting the bank's minimum capital requirements	(%) 3,7	3,8	3,6	4,2	4,4
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	(Rm) 1 108 579	1 086 437	1 019 589	1 009 172	1 013 565
14	Basel III leverage ratio (row 2/row 13)	(%) 6,2	6,0	6,2	6,4	6,4
LCR						
15	Total HQLA	(Rm) 155 766	148 675	139 476	138 180	151 314
16	Total NCOF	(Rm) 142 242	139 043	132 001	118 956	125 652
17	LCR	(%) 109,5	106,9	105,7	116,2	120,4

¹ On 1 January 2018 the group adopted IFRS 9 – Financial Instruments (IFRS 9) and the capital disclosure since then is based on the fully-loaded expected credit loss (ECL) accounting model.

Basel III capital adequacy

Both the group and bank remain well capitalised at levels significantly above the minimum regulatory requirements. The common-equity tier 1 (CET1) ratios, including unappropriated profits of 11,8% (June 2018: 12,4%) and 11,5% (June 2018: 12,1%), respectively are reflective of organic capital generation after accounting for the impact of dividends paid and growth in risk-weighted assets (RWA) during the period and the full impact of the implementation of IFRS 9 on 1 January 2018. The total tier 1 and total capital adequacy ratios were adversely impacted by further grandfathering of preference shares (R531m) in January 2018, in line with the Basel III transitional arrangements. The total CARs were positively impacted by the issuance of tier 2 capital of R2bn in March 2018 and R1,5bn in July 2018, offset by a redemption of R1,8bn in July 2018, in line with the groups capital plan.

The following table sets out the capital ratios including unappropriated profits at 30 September 2018:

%	Nedbank Group	Nedbank Limited
Including unappropriated profits		
CET1 capital	11,8	11,5
Tier 1 capital	12,5	12,5
Total capital	14,9	15,5

OV1: OVERVIEW OF RISK-WEIGHTED ASSETS

	Nedbank Group			Nedbank Limited ¹		
	Sep 2018		Jun 2018	Sep 2018		Jun2018
	RWA	MRC ²	RWA	RWA	MRC ²	RWA
1 Credit risk	391 218	43 523	372 717	321 072	35 719	309 245
2 Standardised Approach	43 509	4 840	40 530	150	17	423
3 AIRB Approach	347 709	38 683	332 187	320 922	35 702	308 822
4 Counterparty credit risk	16 707	1 859	15 819	15 925	1 772	15 033
5 Current Exposure Method	16 707	1 859	15 819	15 925	1 772	15 033
7 Equity positions in banking book under Market-based Approach	32 389	3 603	31 393	22 539	2 508	22 651
12 Securitisation exposures in banking book	517	58	526	517	58	526
13 IRB Ratings-based Approach	203	23	206	203	23	206
14 IRB Supervisory Formula Approach	314	35	320	314	35	320
16 Market risk	30 733	3 419	23 243	27 221	3 028	20 092
17 Standardised Approach	4 050	451	3 798	935	104	1 205
18 Internal Model Approach	26 683	2 968	19 445	26 286	2 924	18 887
19 Operational risk	68 460	7 616	68 460	59 503	6 620	59 503
21 Standardised Approach	6 373	709	6 373	12	1	12
22 Advanced Measurement Approach	53 783	5 983	53 783	51 620	5 743	51 620
24 Floor adjustment	8 304	924	8 304	7 871	876	7 871
23 Amounts below the thresholds for deduction (subject to 250% risk weighting)	14 950	1 663	14 190	2 277	253	2 280
25 Other assets (100% risk weighting)	26 312	2 927	26 275	20 982	2 334	21 702
26 Total	581 286	64 668	552 623	470 036	52 292	451 032

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 (Act No 94 of 1990).

² Total minimum required capital (MRC) is measured at 11,125% in line with the transitional requirements and excludes bank-specific Pillar 2b and D-SIB capital requirements.

Credit RWA

Nedbank Limited's lending portfolios make up approximately 94% of the total credit extended by the group and utilise the Advanced Internal Ratings Based (AIRB) Approach. The lending portfolios of Nedbank Private Wealth International, the Rest of Africa subsidiaries and some of the legacy Imperial Bank portfolio remain on The Standardised Approach (TSA).

CR8: RWA FLOW STATEMENTS OF CREDIT RISK EXPOSURES UNDER AIRB

Rm	RWA
1 RWA at 30 June 2018	332 187
2 Asset size	11 273
3 Asset quality	534
4 Model updates	3 500
7 Foreign exchange movements	215
9 RWA at 30 September 2018	347 709

Market RWA

Trading activity in Nedbank Corporate and Investment Banking (CIB) 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. There were no incremental or comprehensive risk capital charges.

MR2: RWA FLOW STATEMENT OF MARKET RISK EXPOSURES UNDER IMA

Rm	VaR	Stressed VaR	Total RWA
1 RWA at 30 June 2018	6 001	13 444	19 445
2 Movement in risk levels	732	4 126	4 858
6 Foreign exchange movements	704	1 676	2 379
8 RWA at 30 September 2018	7 437	19 246	26 683

Leverage ratio

The leverage ratio is a supplementary measure to risk-based capital requirements. The leverage ratios of both the group and bank are well above minimum regulatory requirements.

LR1: SUMMARY COMPARISON OF ACCOUNTING ASSETS VERSUS LEVERAGE RATIO EXPOSURE MEASURE

Item	Sep 2018
1 Total consolidated assets as per financial statements	1 050 436
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4 Adjustments for derivative financial instruments	11 770
5 Adjustment for securities financing transactions (ie repos and similar secured lending)	(5 571)
6 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	61 570
7 Other adjustments	(9 626)
8 Leverage ratio exposure	1 108 579

LR2: LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE

Item	Sep 2018	Jun 2018
On-balance sheet exposures		
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1 020 474	985 996
2 Asset amounts deducted in determining Basel III Tier 1 capital	(14 564)	(13 336)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	1 005 910	972 660
Derivative exposures		
4 Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	41 028	22 435
5 Add-on amounts for PFE associated with all derivatives transactions	16 939	15 463
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	2 164	2 342
7 Deductions of receivables assets for cash variation margin provided in derivatives transactions		(82)
8 Exempted CCP leg of client-cleared trade exposures	(12 189)	(11 140)
9 Adjusted effective notional amount of written credit derivatives	(4 871)	(2 955)
10 Credit derivatives (protection bought) (same reference name with equal to or greater remaining maturity)	(3 203)	(3 382)
11 Total derivative exposures (sum of lines 4 to 10)	39 868	22 681
Securities financing transaction exposures		
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	6 887	12 032
13 Netted amounts of cash payables and cash receivables of gross SFT assets	(6 536)	(11 296)
14 CCR exposure for SFT assets	351	735
15 Agent transaction exposures	529	49
16 Total securities financing transaction exposures (sum of lines 12 to 15)	1 231	1 520
Other off-balance sheet exposures		
17 Off-balance sheet exposure at gross notional amount	208 051	205 826
18 Adjustments for conversion to credit equivalent amounts	(146 481)	(116 250)
19 Off-balance sheet items (sum of lines 17 and 18)	61 570	89 576
Capital and total exposures		
20 Tier 1 capital	68 552	65 670
21 Total exposures (sum of lines 3, 11, 16 and 19)	1 108 579	1 086 437
Leverage ratio¹		
22 Basel III leverage ratio (%)	6,2	6,0

¹ Basis of preparation for the leverage ratio is quarterly averaging.

Liquidity coverage ratio (LCR)

In accordance with the provisions of section 6(6) of the Banks Act, 1990 (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 1/2018.

The LCR aims to ensure that a bank holds an adequate stock of unencumbered high-quality liquid assets (HQLA) to cover total net cash outflows over a 30-day period under a prescribed stress scenario. Based on the final revisions announced by the Basel Committee the LCR is being phased-in by 10% each year and will reach a minimum requirement of 100% from 1 January 2019.

The figures below reflect the simple average of daily observations over the quarter ending 30 September 2018 for Nedbank Limited and the simple average of the month-end values at 31 July 2018, 31 August 2018 and 30 September 2018 for all non-SA banking entities. The figures are based on the regulatory submissions to the Prudential Authority.

LIQ1: NEDBANK GROUP AND NEDBANK LIMITED LIQUIDITY COVERAGE RATIO

Rm	Nedbank Group Limited ¹		Nedbank Limited	
	Total unweighted value ² (average)	Total weighted value ³ (average)	Total unweighted value ² (average)	Total weighted value ³ (average)
1 Total HQLA		155 766		149 522
Cash outflows				
2 Retail deposits and deposits from small-business clients, of which	181 332	17 952	163 183	16 318
3 stable deposits	3 628	181		
4 less stable deposits	177 704	17 771	163 183	16 318
5 Unsecured wholesale funding, of which	253 089	127 188	214 751	107 952
6 operational deposits (all counterparties) and deposits in institutional networks of cooperative banks	120 673	30 168	102 691	25 673
7 non-operational deposits (all counterparties)	131 687	96 291	111 641	81 860
8 unsecured debt	729	729	419	419
9 Secured wholesale funding	27 589		27 587	
10 Additional requirements, of which	134 792	26 041	122 016	22 572
11 outflows related to derivative exposures and other collateral requirements	1 949	1 949	1 860	1 860
12 outflows related to loss of funding on debt products				
13 credit and liquidity facilities	132 843	24 092	120 156	20 712
14 Other contractual funding obligations				
15 Other contingent funding obligations	161 201	8 388	152 562	7 942
16 Total cash outflows	758 003	179 569	680 099	154 784
Cash inflows				
17 Secured lending	10 414	19	10 414	19
18 Inflows from fully performing exposures	55 835	36 635	39 323	22 565
19 Other cash inflows	4 598	4 419	578	578
20 Total cash inflows	70 847	41 073	50 315	23 162
21 Total HQLA		155 766		149 522
22 Total net cash outflows⁴		142 242		131 622
23 LCR (%)		109,5		113,6

¹ Only banking and/or deposit-taking entities are included and the group data represents an aggregation of the relevant individual net cash outflows and the individual HQLA portfolios, where surplus HQLA holdings in excess of the minimum requirement of 90% for 2018 have been excluded from the aggregated HQLA number in the case of all non-SA banking entities.

² Unweighted values are calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).

³ Weighted values are calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

⁴ Note that total cash outflows less total cash inflows may not be equal to total net cash outflows to the extent that regulatory caps have been applied to cash inflows as specified by the regulations.

The group's quarterly average LCR exceeded the minimum regulatory requirement of 90% applicable in 2018, where the group maintains appropriate operational buffers designed to absorb seasonal and cyclical volatility in the LCR. Nedbank's portfolio of LCR-compliant HQLA (comprising mainly of government bonds and treasury bills) increased to a quarterly average of R155,8bn, up from June 2018 where the portfolio amounted to R148,7bn. Nedbank will continue to procure additional HQLA to support balance sheet growth and the LCR phase-in, while maintaining appropriately sized surplus liquid-asset buffers. The increased LCR observed in the current quarter (109,5%), compared with the previous quarter (106,9%), relates to business-as-usual movements as well as increased HQLA over the period.

Company details

NEDBANK GROUP LIMITED

Incorporated in the Republic of SA
Registration number 1966/010630/06

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Transfer secretaries in SA

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Namibia

Transfer Secretaries (Proprietary) Limited
Robert Mugabe Avenue No 4, Windhoek, Namibia
PO Box 2401, Windhoek, Namibia

INSTRUMENT CODES

Nedbank Group ordinary shares

JSE share code:	NED
NSX share code:	NBK
ISIN:	ZAE000004875
ADR code:	NDBKY
ADR CUSIP:	63975K104

Nedbank Limited non-redeemable non-cumulative preference shares

JSE share code:	NBKP
ISIN:	ZAE000043667

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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 analysts.
- Link to a webcast of the presentation to analysts.

For further information please contact Nedbank Group Investor Relations at nedbankgroupir@nedbank.co.za.

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