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Renaissance Capital Treasury Day

1 December 2016

A Member of the OLDMUTUAL Group

SA banks are facing a difficult macro environment, but collective action is being taken to simulate growth & employment

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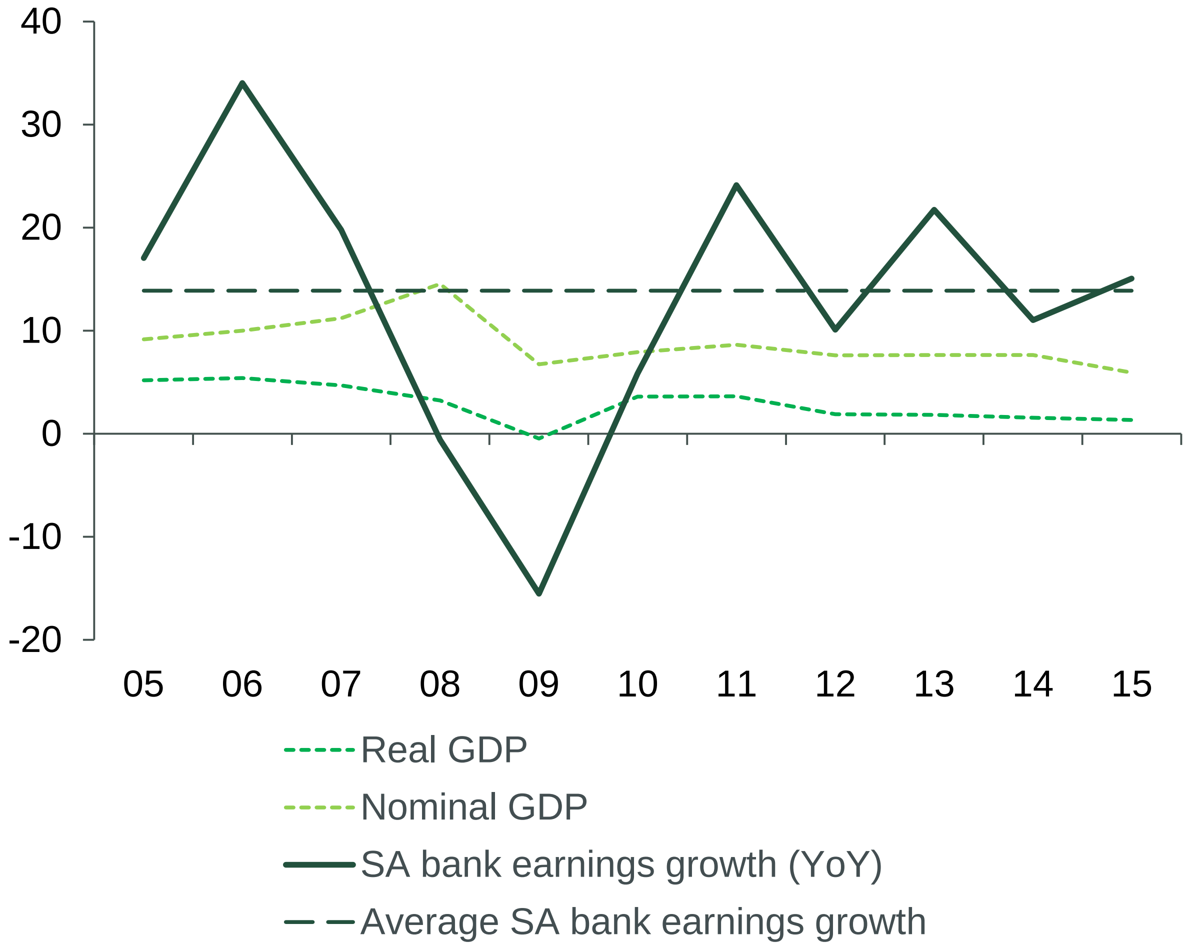
SA nominal GDP vs bank earnings growth (%)



Business, government & labour working together to stimulate growth & employment

1 Preventing a sovereign credit ratings downgrade to below investment grade

2 Catalysing the growth of SMEs

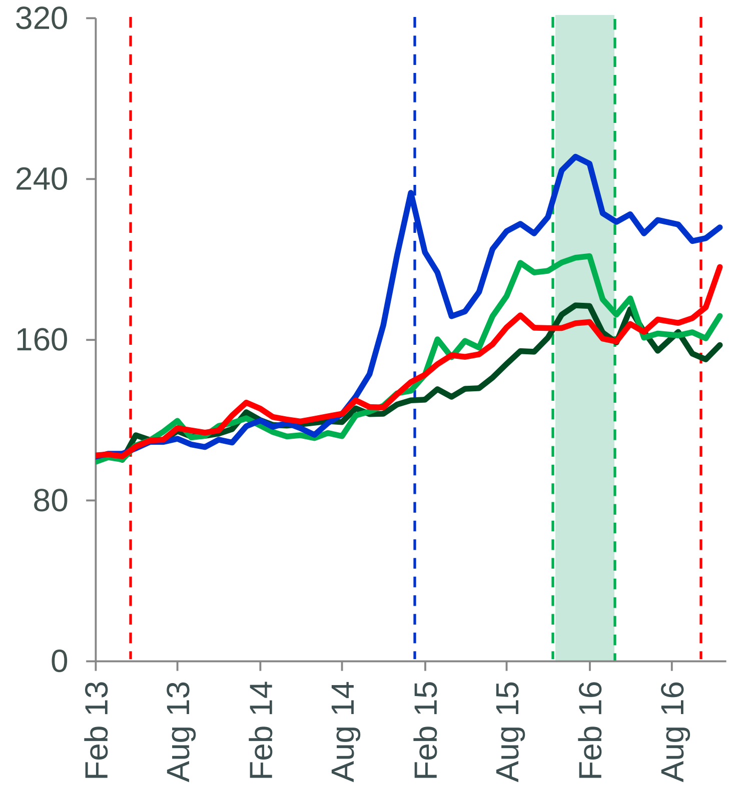
3 Identifying & highlighting sectoral investment opportunities & blockages

4 Address Youth unemployment

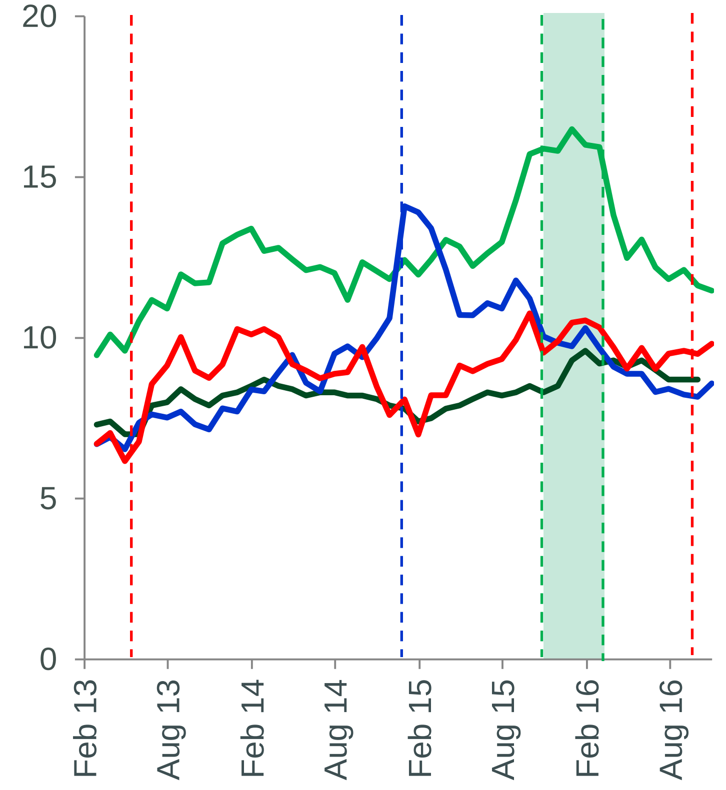
Source: Nedbank Group Economic Unit | Nedbank analysis

Volatility & uncertainty in currencies, bond yields, credit spreads reflects potential downgrade is partly discounted

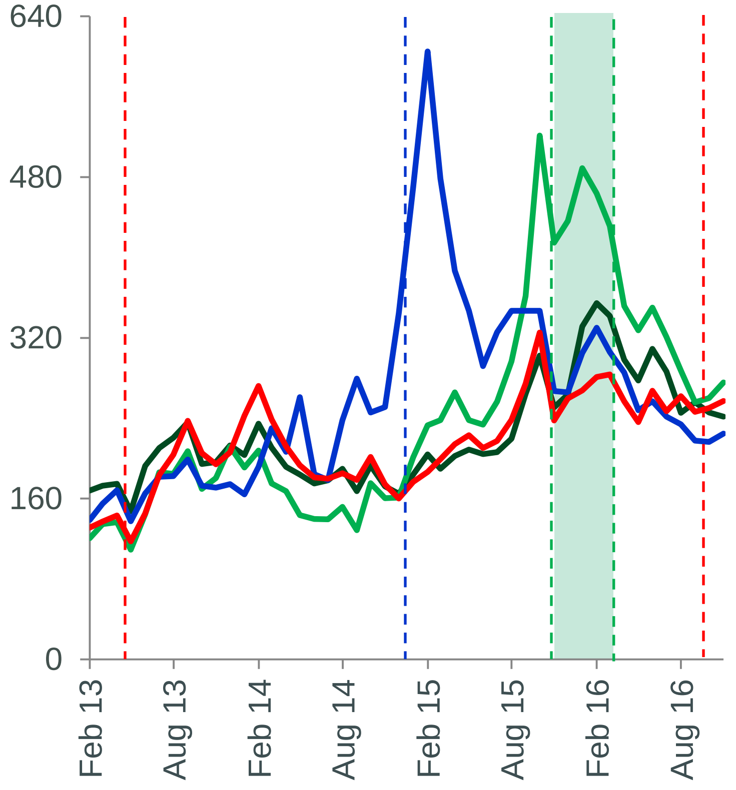
Currencies
(vs US$ based to 100)



Bond yields
(R186, %)



CDS spreads
(5-year CDS, %)



SA Brazil Russia Turkey

S&P ratings: SA: BBB- | Brazil: BB | Russia: BB+ | Turkey: BB

Date downgraded to junk: Brazil Russia Turkey

Source: Nedbank Group Economic Unit.

Implications of a potential SA sovereign downgrade

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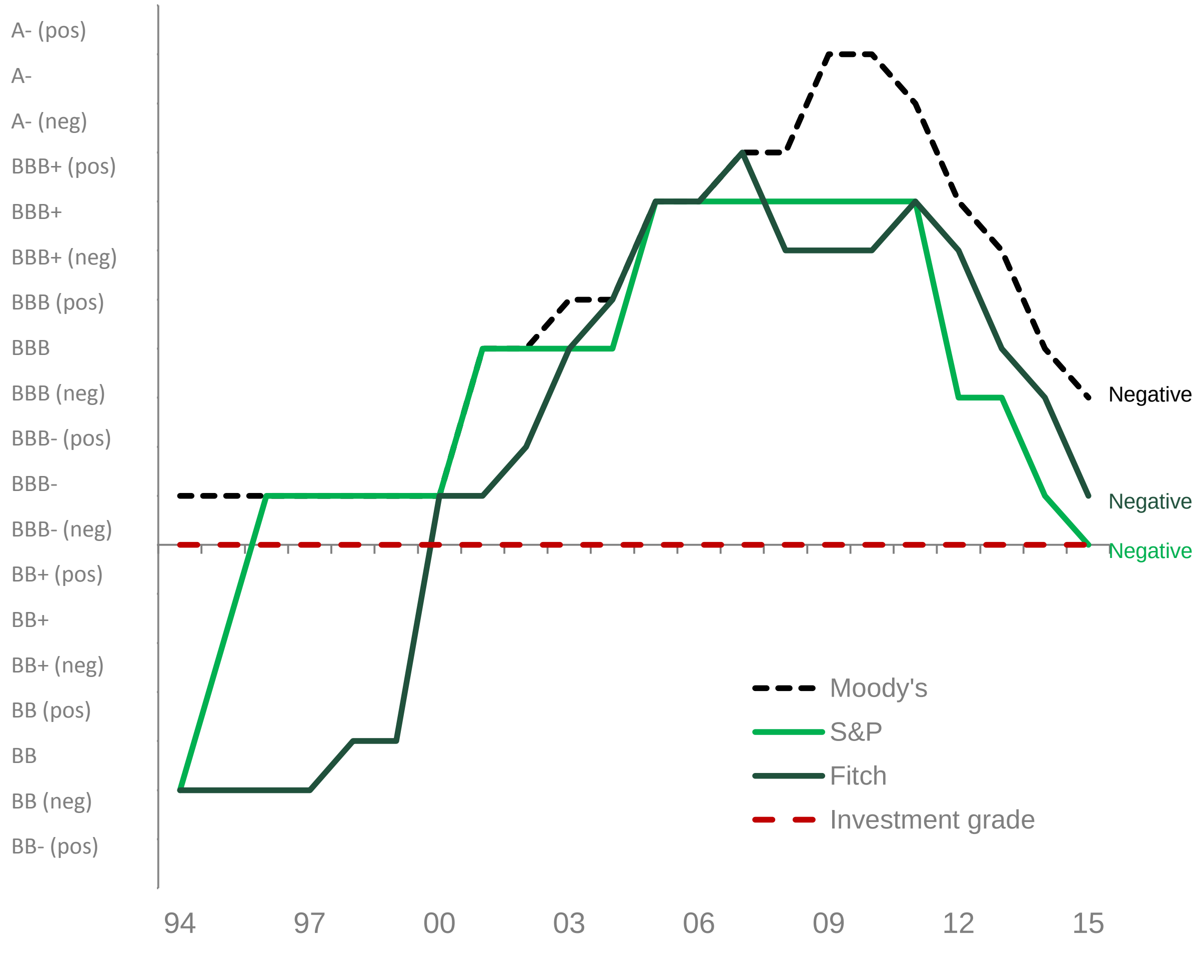
SA sovereign credit ratings



Implications of a SA sovereign downgrade

- Bond, CDS yields & foreign funding costs increase (but recover within 12 months)
- Property prices & JSE contract
- Rand weakens leading to inflationary pressures
- SARB responds through interest rate increases & interest servicing costs increase
- GDP declines (+0,2% currently forecast for 2016)
- Exports improve from weaker Rand, but demand remains weak
- Business working with government & labour to restore fiscal credibility

Developments during 2008/9 crisis

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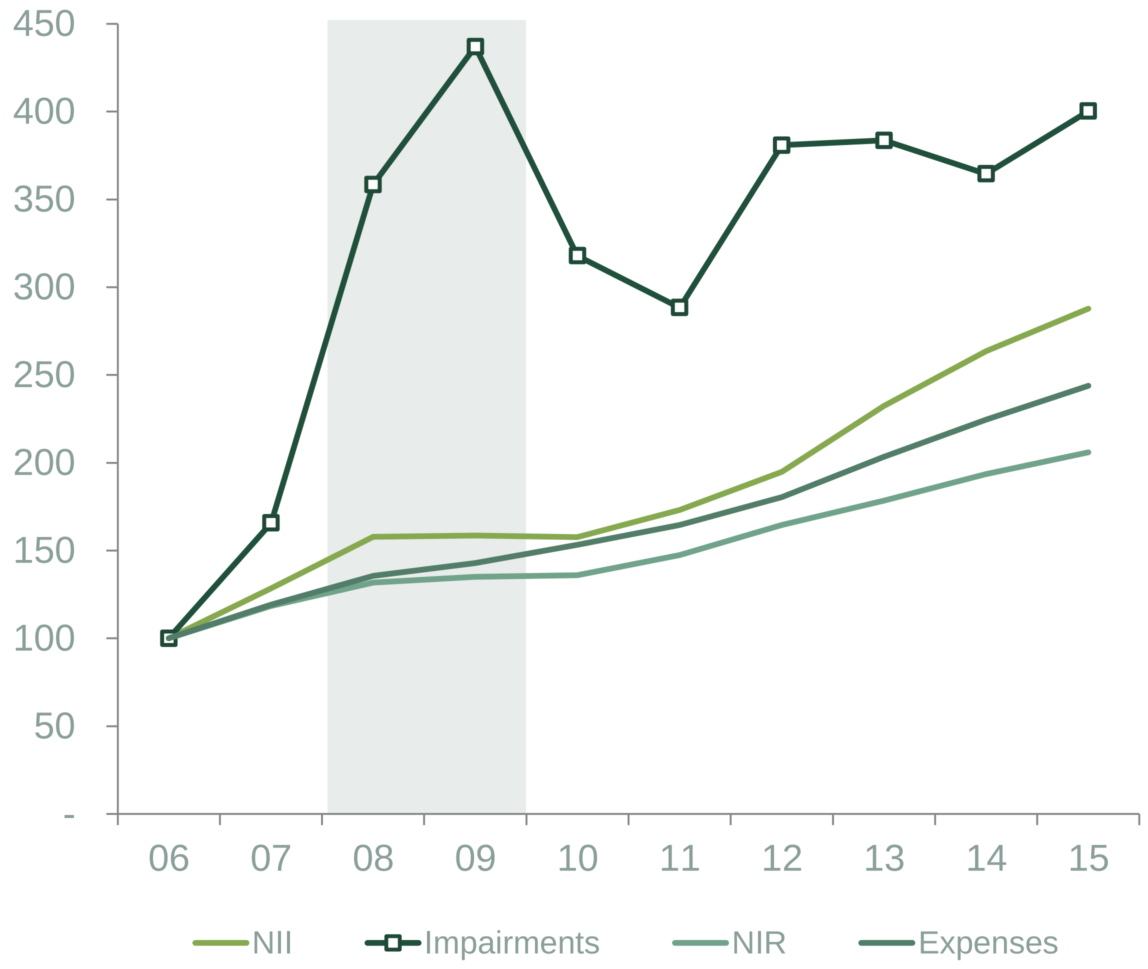
Key SA Bank profit drivers indexed to 100 (2006)



What happened in the 2008/9 crisis?

Impairments spiked (mostly driven by home loans) but recovered in Y+2

Initial endowment benefit, eroded by slower advances growth

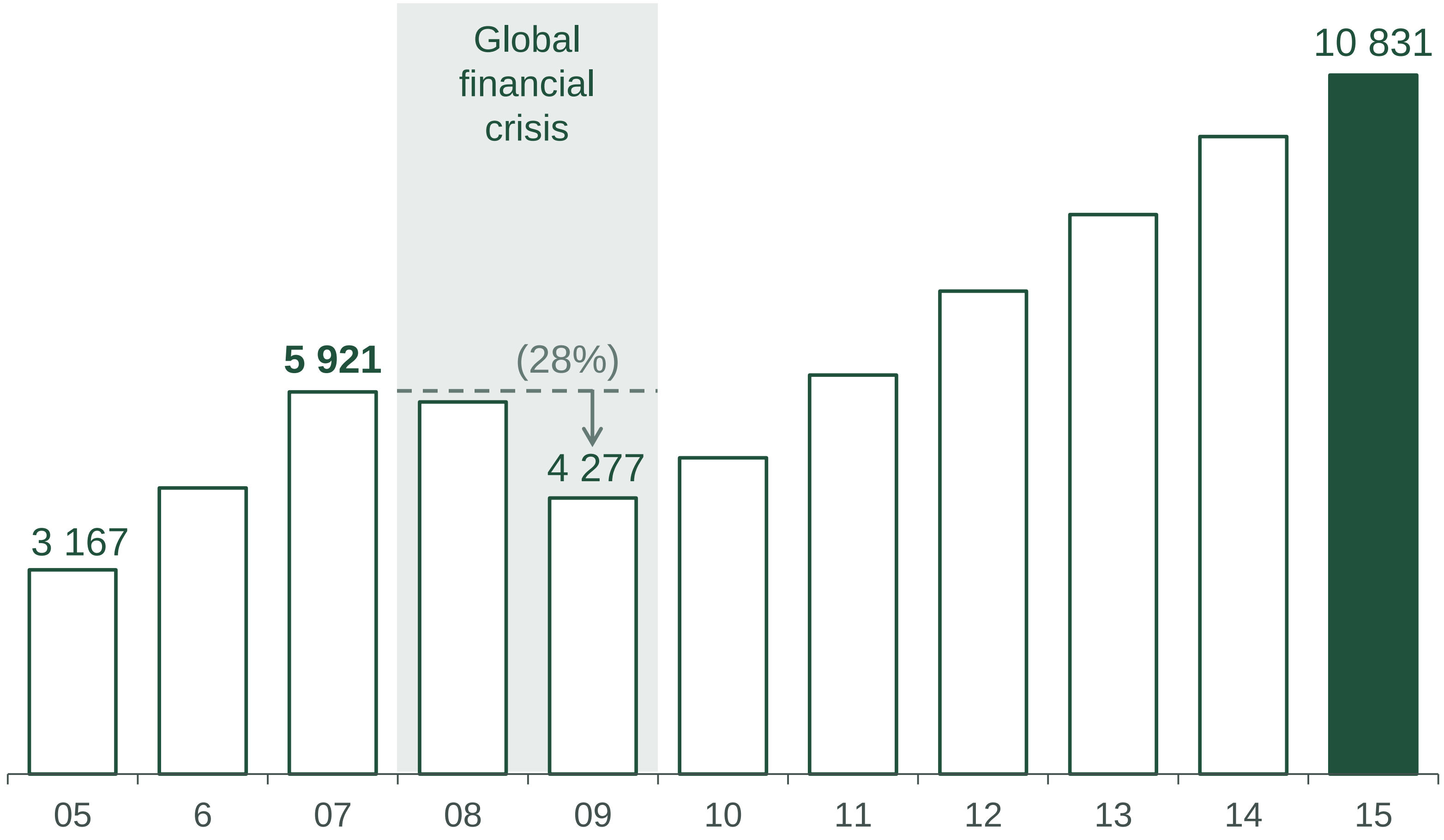
Expense growth slowed to c50% of pre-stress levels

Revenue growth declined to almost 0%

RWA growth slowed from weak credit growth, assisting CET 1

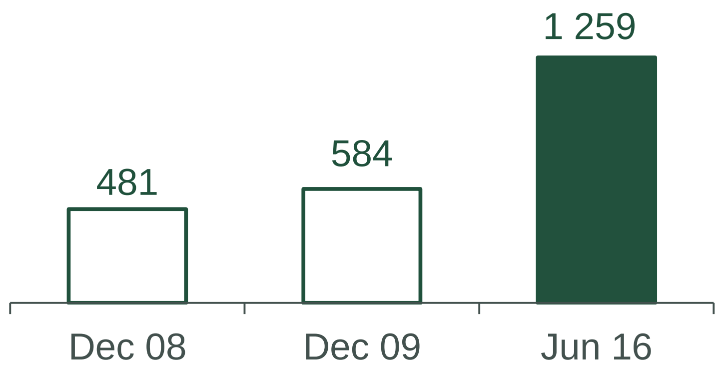
Nedbank Group in a strong position

Headline earnings (Rm)



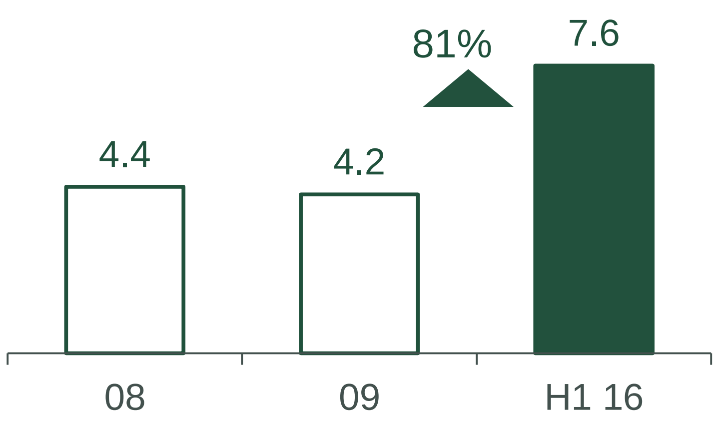
Loan growth (CAGR %)

Endowment benefit for 1% change in interest rates (Rm)

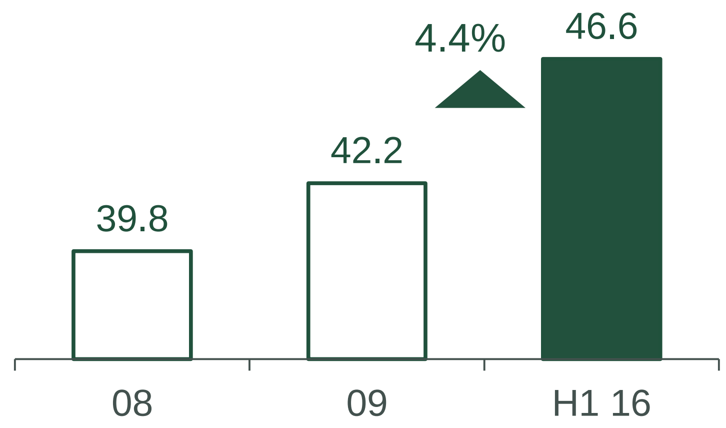


Nedbank Group in a strong position

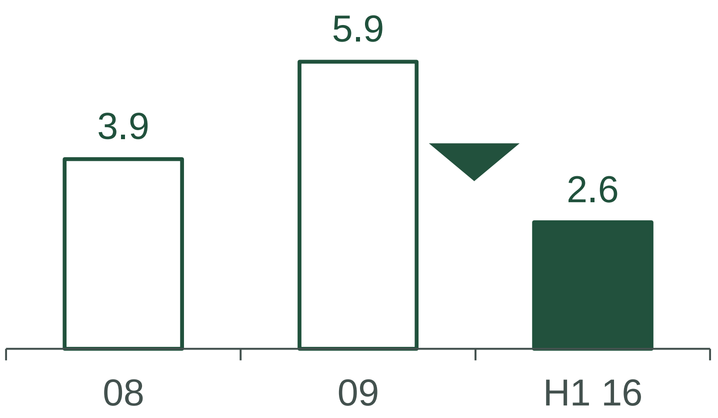
Number of clients (m)



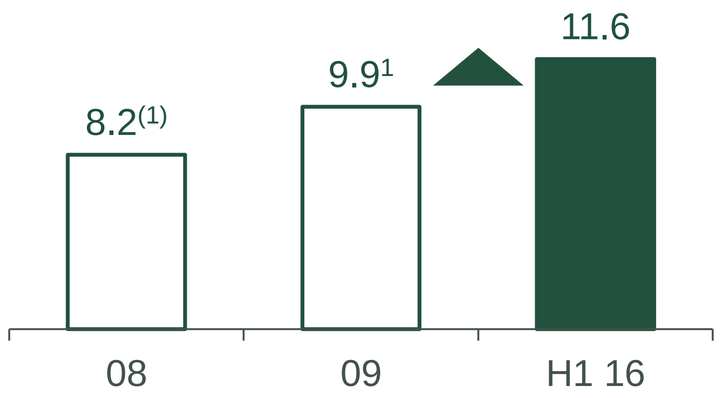
NIR income contribution (%)



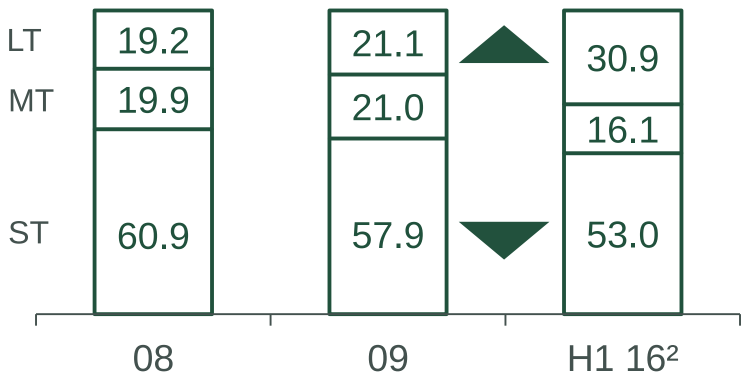
Defaulted advances (%)



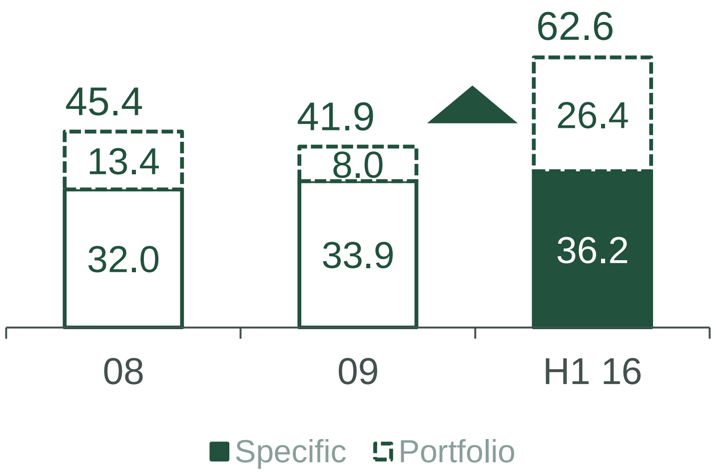
CET 1 ratio (%)



Funding tenor (%)



Coverage (%)



1 Core equity tier 1
2 Funding tenor: Average for second quarter 2016

Well capitalised – expecting limited negative impact on CET1 if SA was to be downgraded to sub-investment grade

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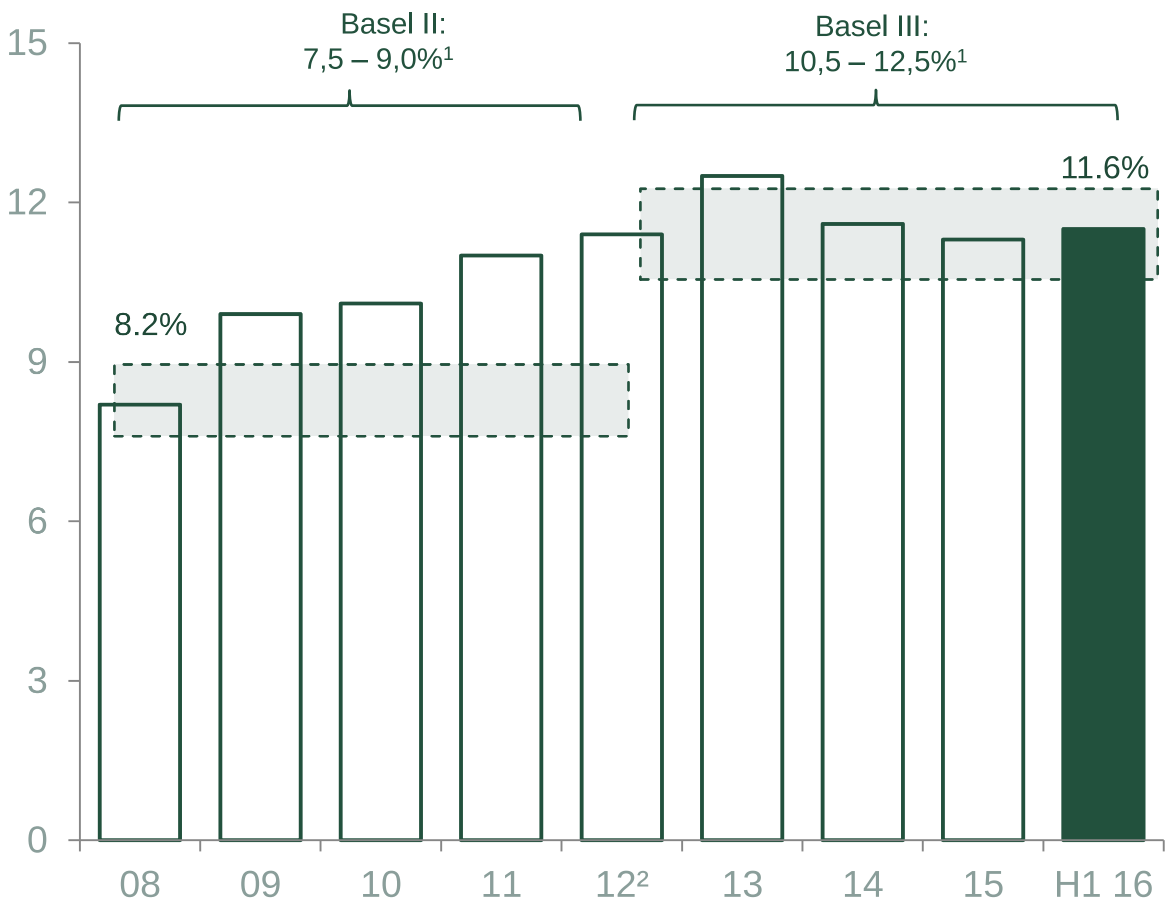
Common equity tier 1 ratios (%)



Key potential industry stress points

- CARs improve initially driven by lower credit growth resulting in lower RWA & higher endowment income
- Later on, reduced headline earnings impact CARs adversely
- Ratings migration if PDs & dLGDs increase more than offset the impact of lower credit growth
- Capital issuances likely to price up
- Cost of equity increases in line with long bond yields & equity risk premium

Positioning & actions taken

- Extensive stress testing reflect all CARs remain above regulatory minima in stress scenarios
- CARs strengthened from 8.2% in 2008 to 11.6% at June 2016
- Optimisation of RWA, though limited
- Well diversified capital structure taking into account all available capital instruments

1: Internal target ranges
2. Basel II.5 common equity tier 1

Funding position – Impact of a SA sovereign downgrade to sub-investment grade manageable

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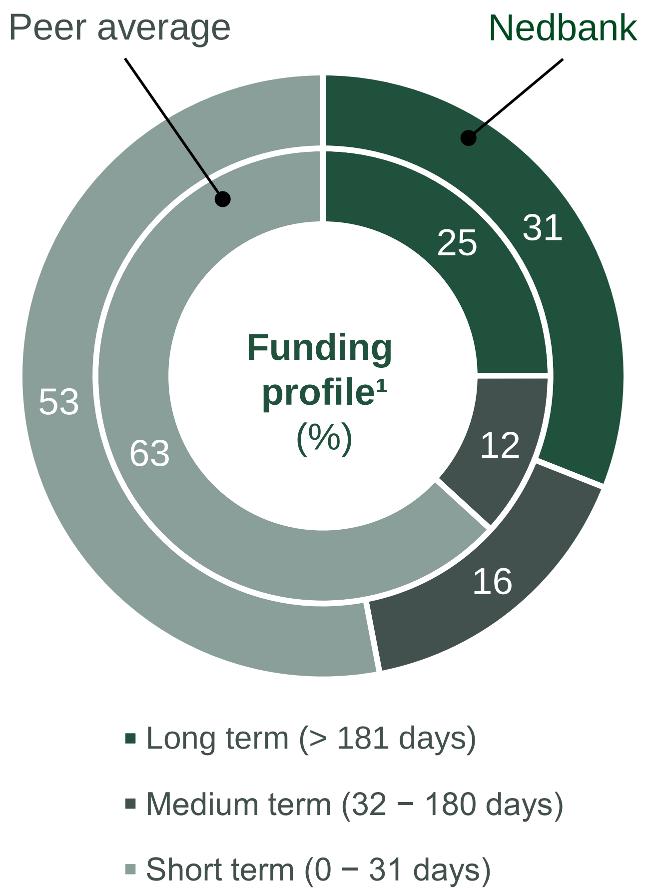
Funding contribution & downgrade impact
funding mix (%)

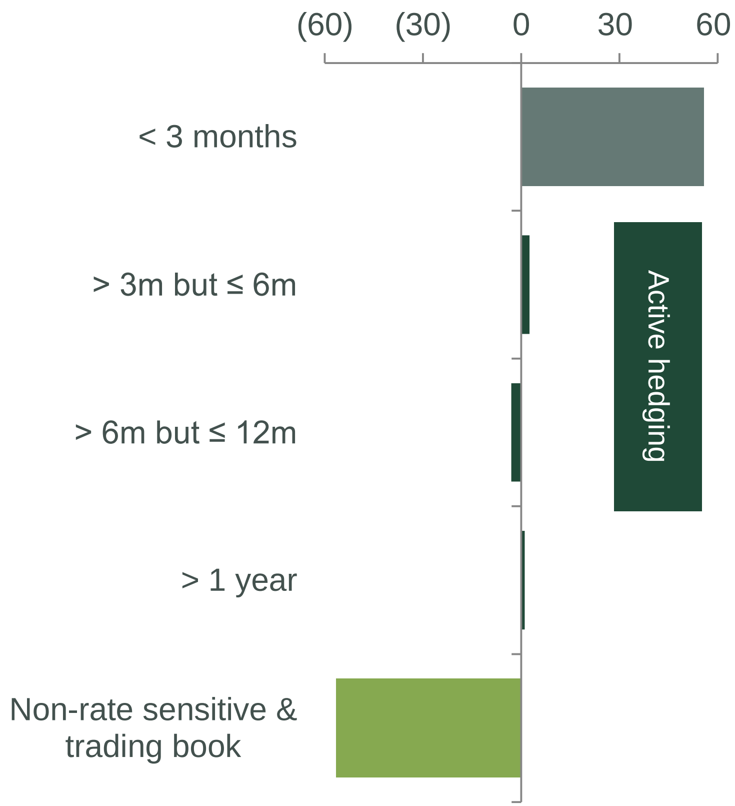
Funding Sources	Funding Base Mix	
Households	19%	Limited impact - closed domestic market
Commercial	26%	
Wholesale	39%	Reprice marginally
Capital Markets	8%	Reprice on new issuances
Foreign – asset matched	7%	Matched to US$ lending – no material impact
Foreign – general funding pool	1%	Reprice on contractual repricing date
Volume weighted Total	**100%**	

Funding duration > industry average
(%)



Interest rate sensitivity
(Rbn)

R1,2bn NII impact from 1% change in interest rates over 12-months



Interest Earning Assets as at 30 June 2016: R777bn
Total Funding (Deposits + Long-term debt) as at 30 June 2016: R793bn
FCTR: Foreign currency translation reserves | QC& R: Qualifying Capital & Reserves
Funding profile: Average for second quarter 2016

Strong deposit & funding growth in Basel III – friendly categories

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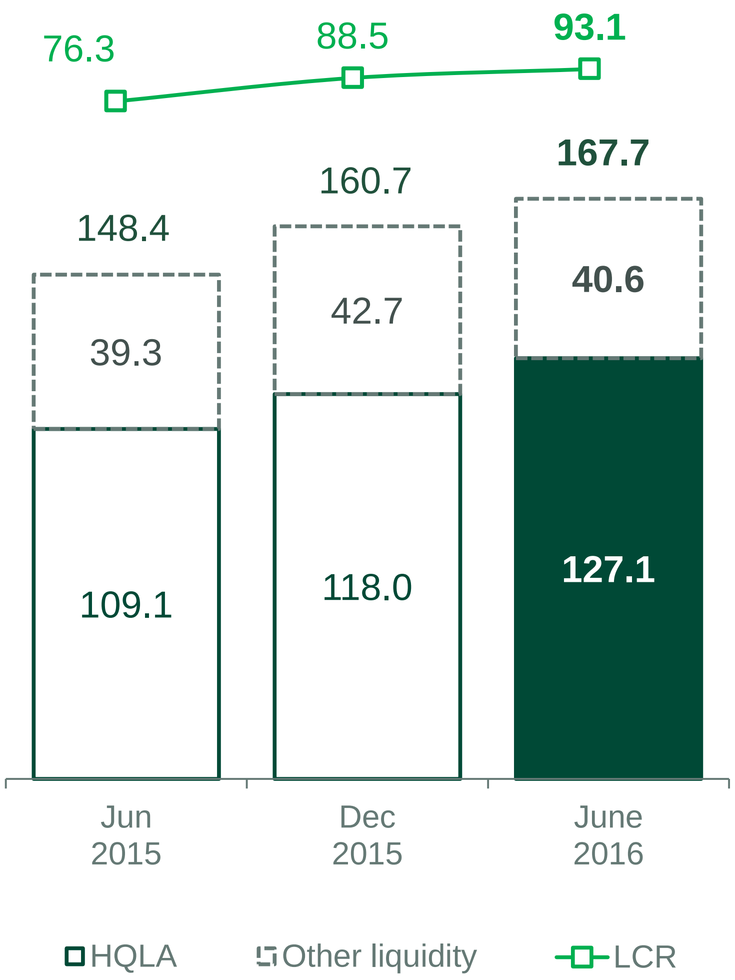
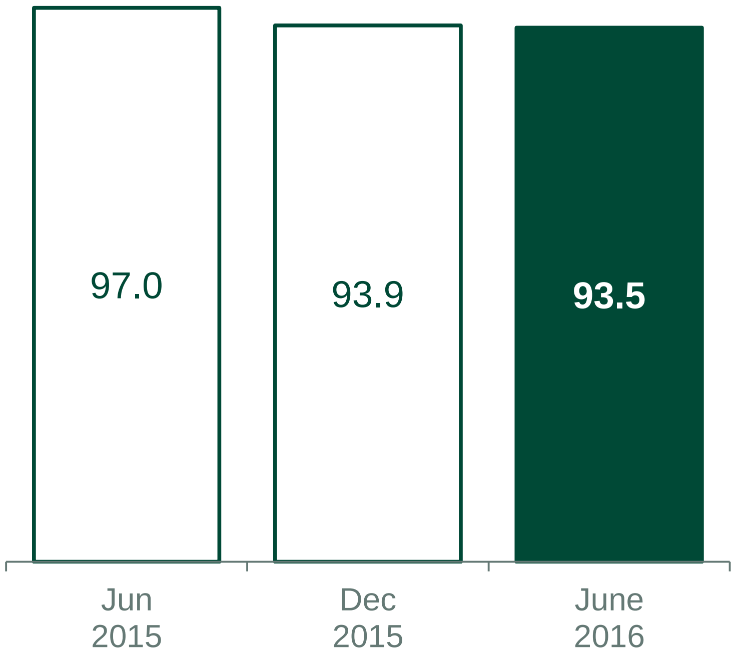
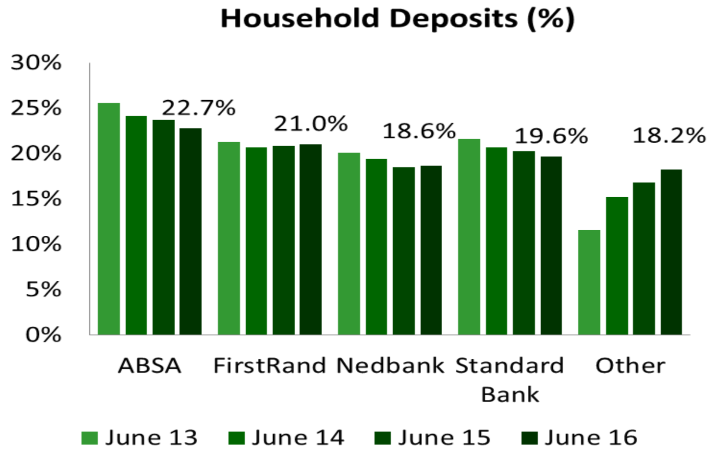
Total sources of quick liquidity, Total HQLA[2] (Rbn) & LCR (%)

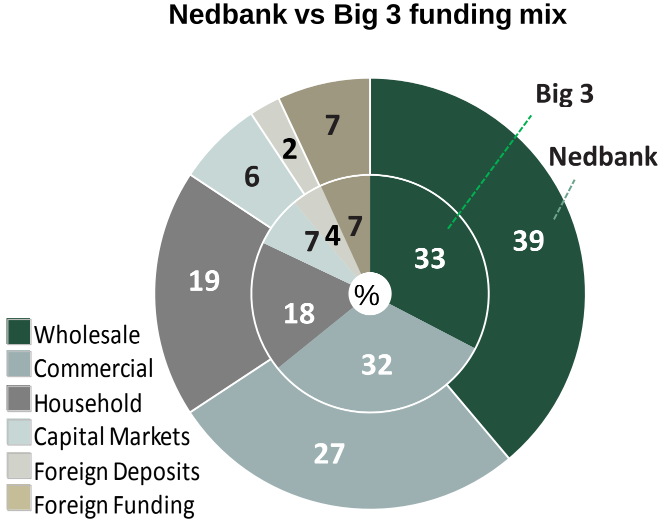


Loan-to-deposit ratio (%)



BA 900 market share & funding mix (%)





Net interest margin driven by asset mix change & endowment over time with increasing impact from Basel III requirements

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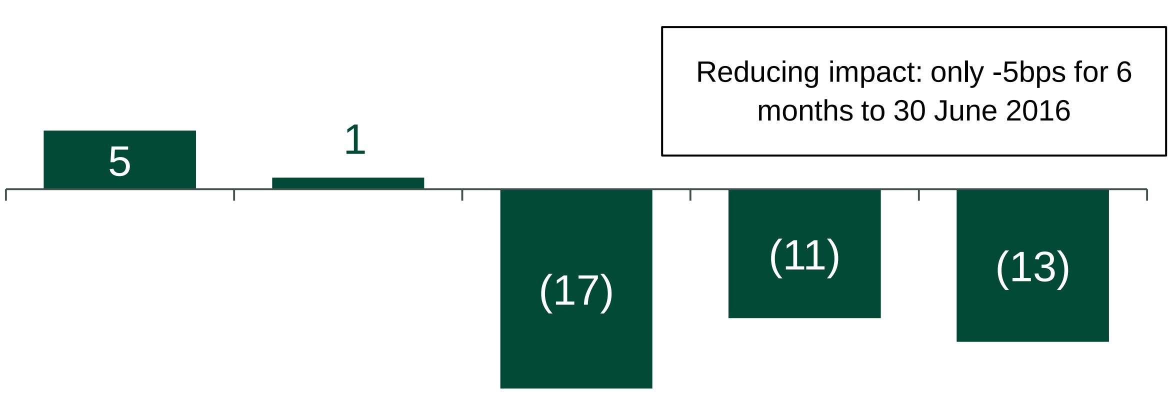
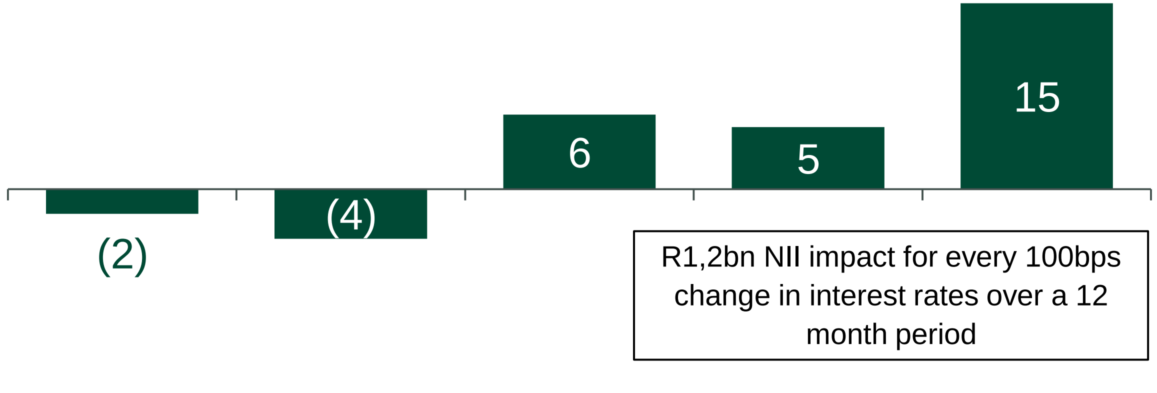
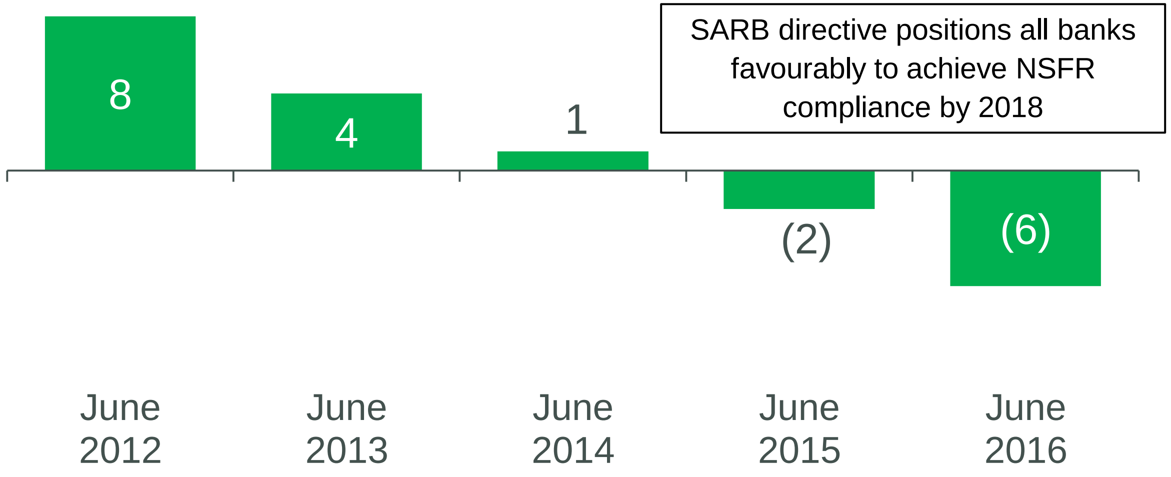
Mix change (bps)



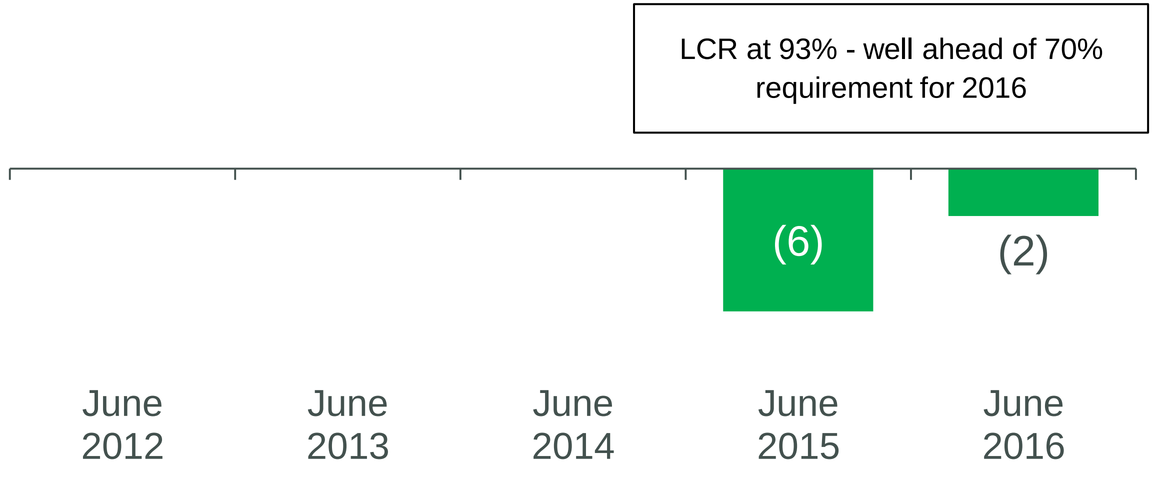
Endowment (bps)



Funding costs (bps)

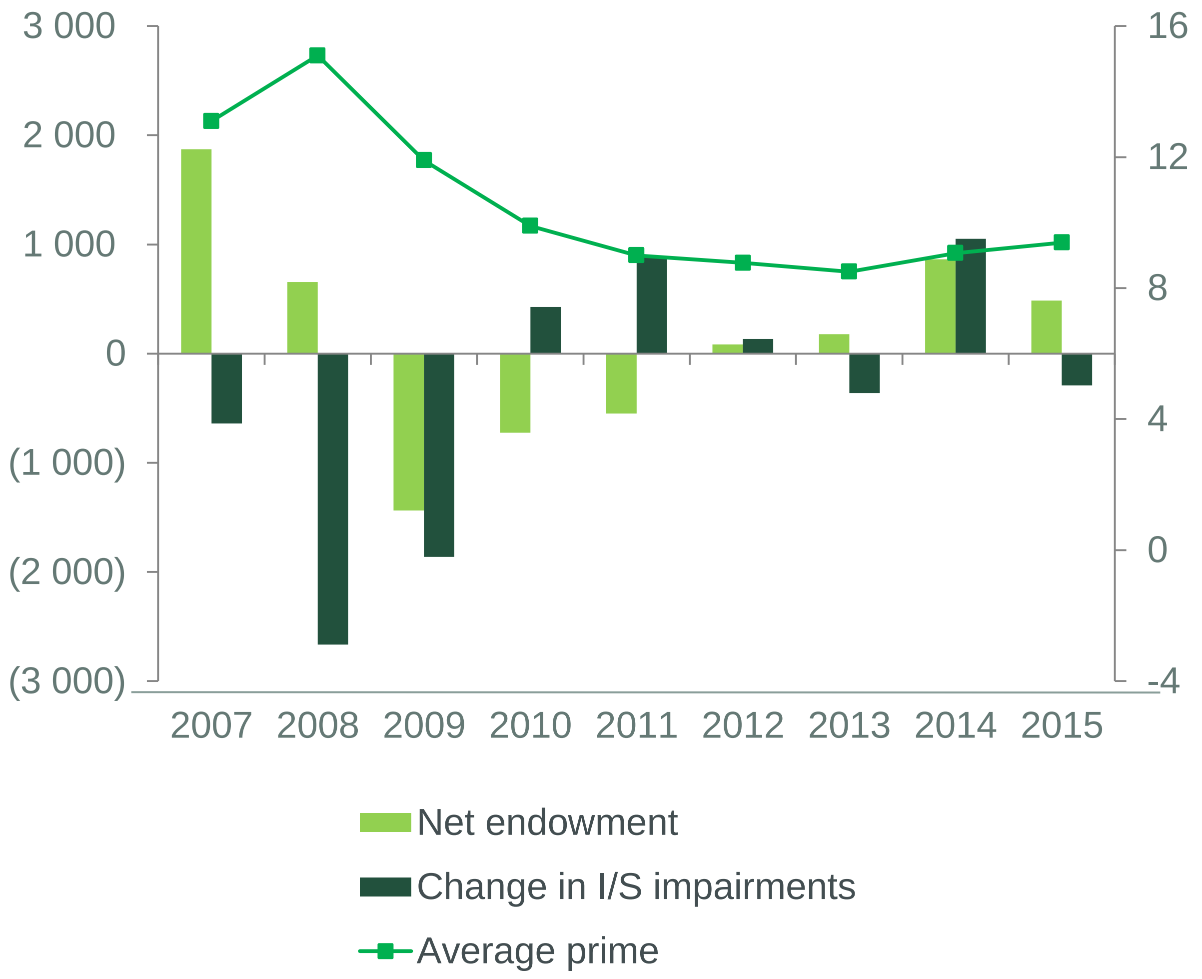


HQLA (bps)



Endowment, a natural hedge to impairments

Endowment vs impairments (Rm)



Managing interest rate risk

- Natural net income hedge between endowment & impairment sensitivity
  - Impairments lag interest rate movements & reviewed on an ongoing basis
  - Continue to monitor net income hedge & will respond accordingly
- Balance-sheet strategies, including hedging activities employed to align repricing of assets & liabilities across the curve
- Residual risk after hedging consists of net endowment position & short-term reprice risk between Prime & JIBAR resets

Improved asset quality through selective origination

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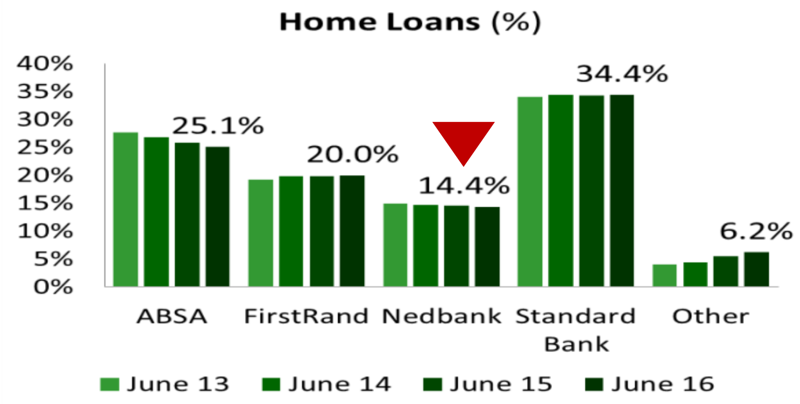
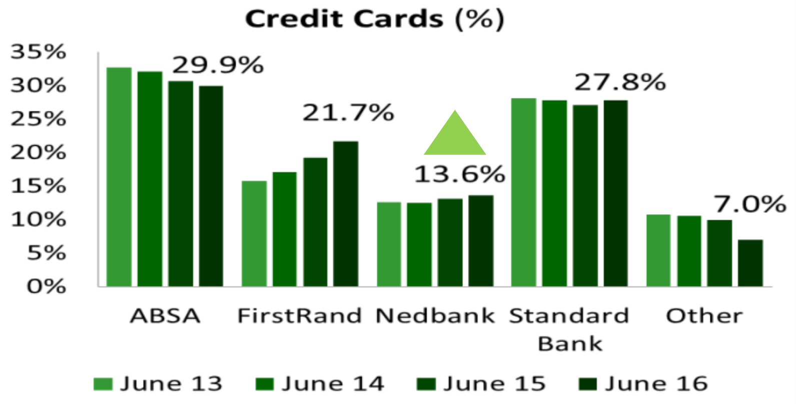
BA 900 market share

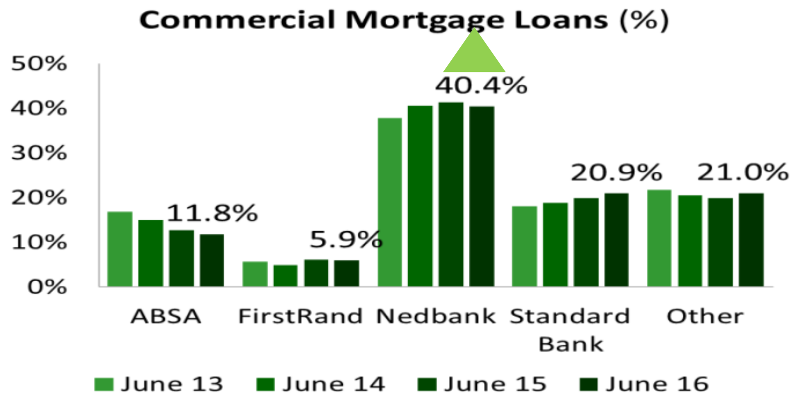
%

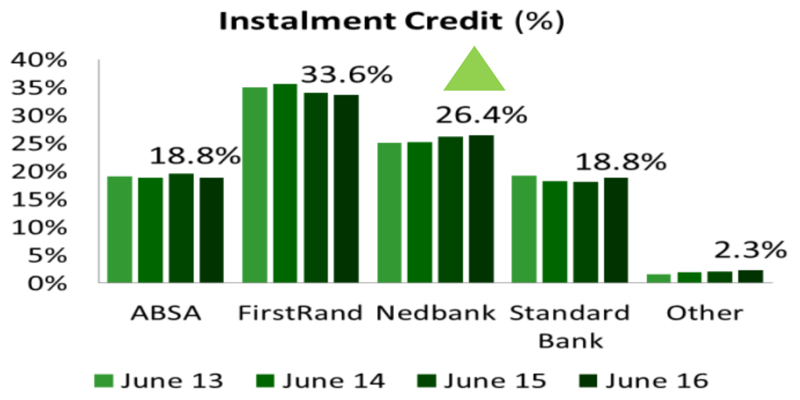
Retail 16.8%

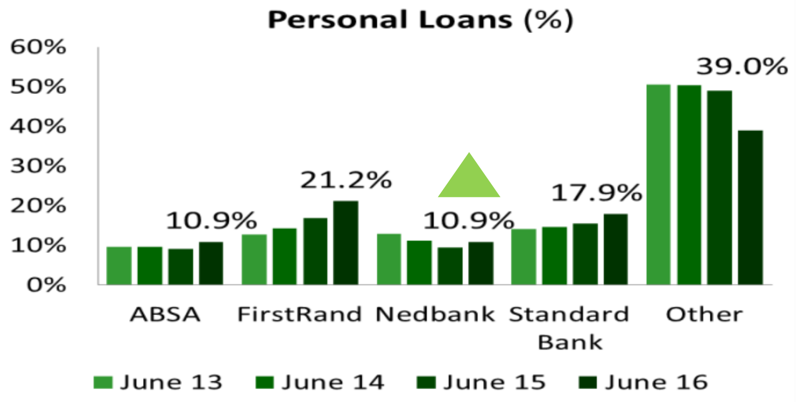
Wholesale 21.0%

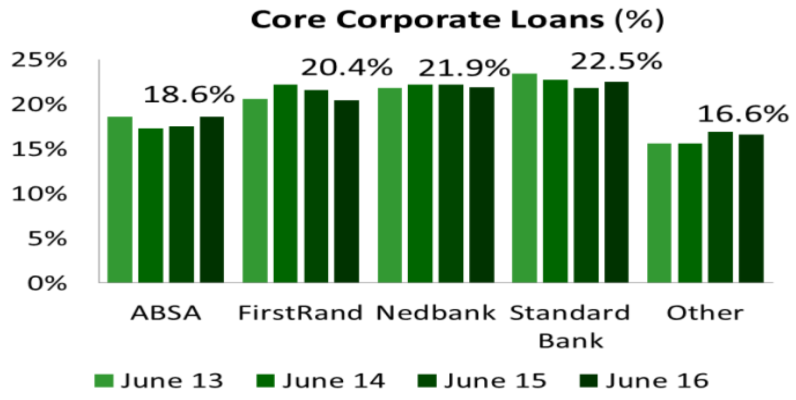












1. BA 900 market share

Improved asset quality driving lower cost of risk

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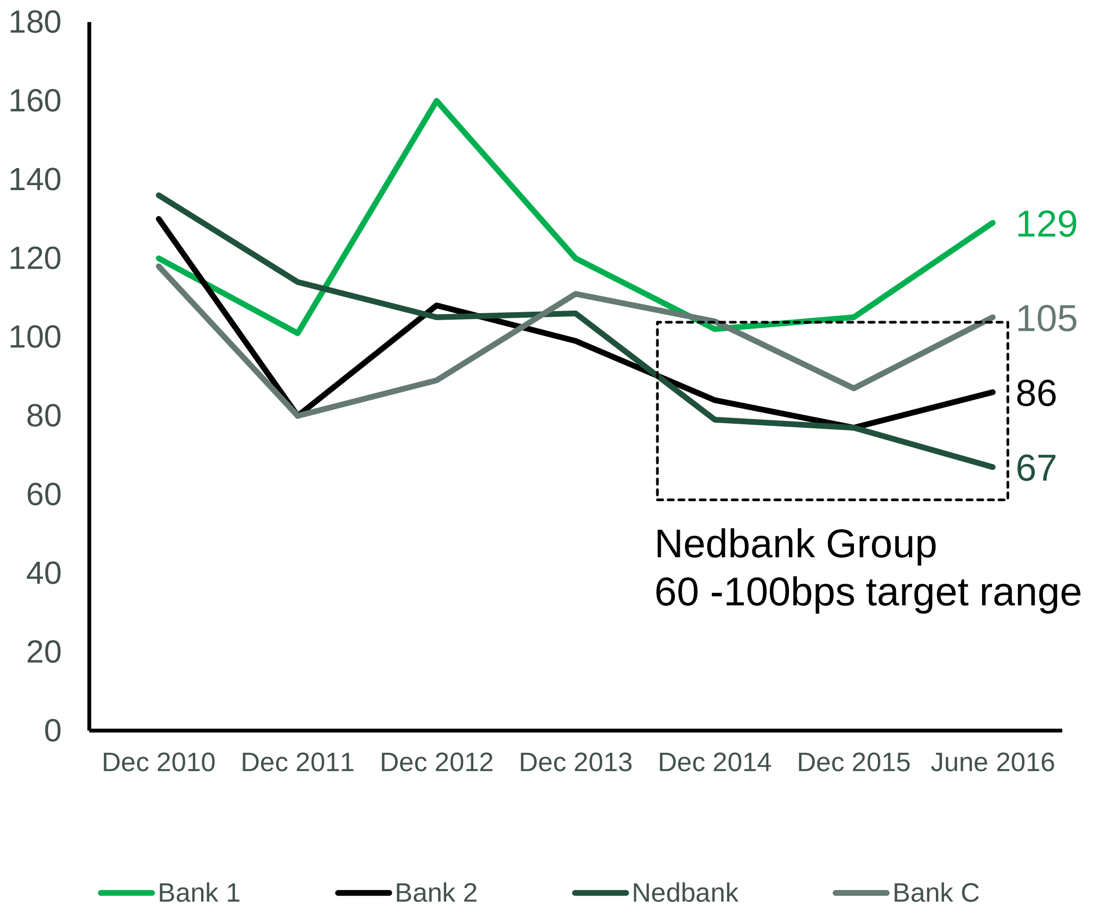
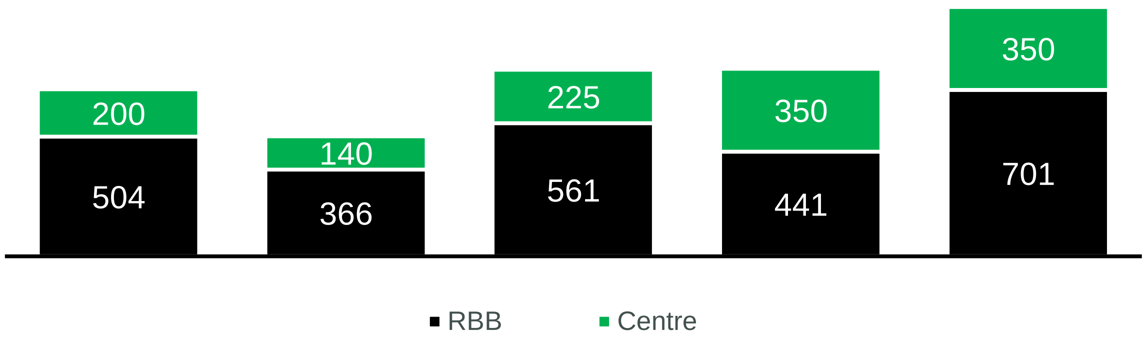
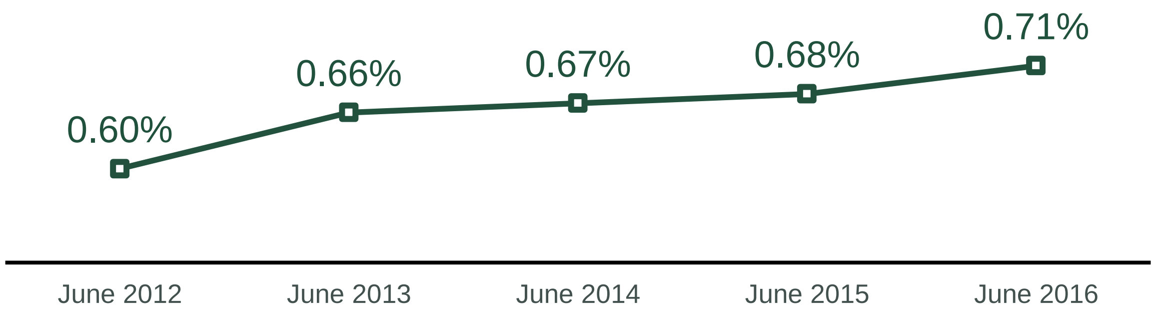
Credit loss ratio
bps



Overlays & central provision
Rm



Portfolio coverage
Rm



Basel III areas of reform & impact

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Specific areas of reform

1. Definition of capital — *Increasing quality, consistency & transparency of capital base*
2. Countercyclical & capital conservation buffers — *Making banks more resilient across cycles & periods of stress*
3. Enhanced credit risk coverage — *Strengthening capitalisation & management requirements of CCR*
4. Leverage ratio
5. Liquidity standards
6. General risk guidelines
7. Revised IRRBB principles[3]

Improving banks ability to absorb shocks

Impact on balance sheets

Liquidity

NSFR
Required[1]: 100%
Nedbank: >100%

LCR
Required[1]: 100%
Nedbank: 93%

Leverage
Required[1]: 25 times
Nedbank: 15.7 times

Capital

Capital floors
Required[1]: SA WIP

TLAC= LAC + FLAC
Required[1]: SA WIP

CET1
Required[1]: 7.5%[2]
Nedbank: 11.6%

1: End state SARB Basel III requirement | 2: Excludes the D-SIB & Individual Capital Requirement | 3. Effective 1 January 2018

Balance sheet shape change to end state Basel 3 compliance

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KEY REGULATORY CHANGES IMPACTING THE BALANCE SHEET TO CLOSE THE GAP

LCR ✔[1]

$\frac{\text{STOCK OF HQLA}}{\text{NET CASH OUTFLOWS OVER A 30 DAY TIME PERIOD}} \geq 100\%$

NSFR ✔[1]

$\frac{\text{AVAILABLE STABLE FUNDING}}{\text{REQUIRED STABLE FUNDING}} \geq 100\%$

LEVERAGE ✔[2]

BASEL III ≥ 3%
SARB ≥ 4%

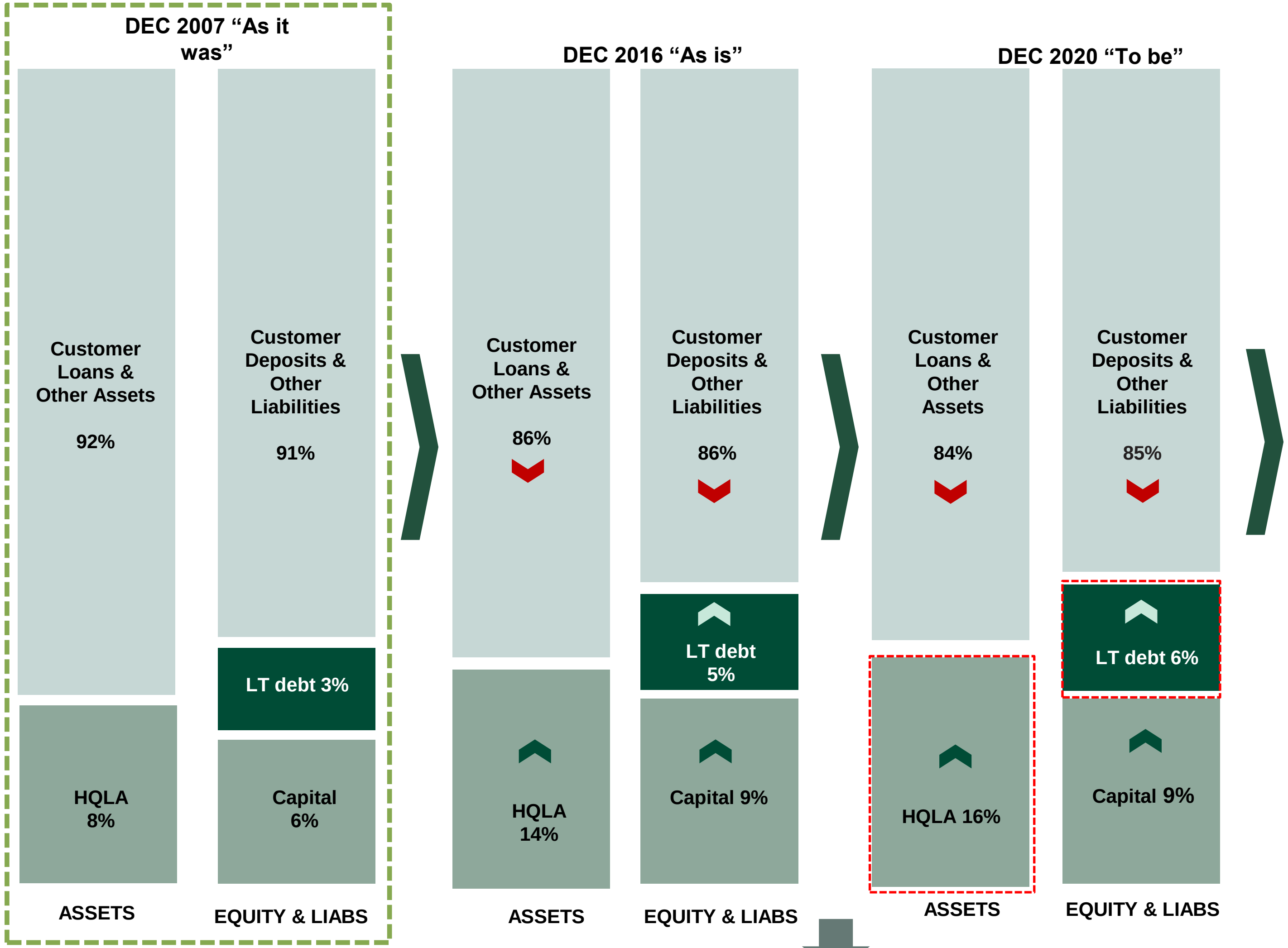
CAPITAL ✔

$\frac{\text{CET 1 CAPITAL}}{\text{RWA}}$

TLAC (SA – FLAC) ✔

INCREASED LONG TERM LOSS ABSORBING DEBT
TLAC: 18% - 22% in Europe

CAPITAL FLOORS ?



~5% to 7% reduction in lending and deposits

133% increase in long term debt

50% increase in capital

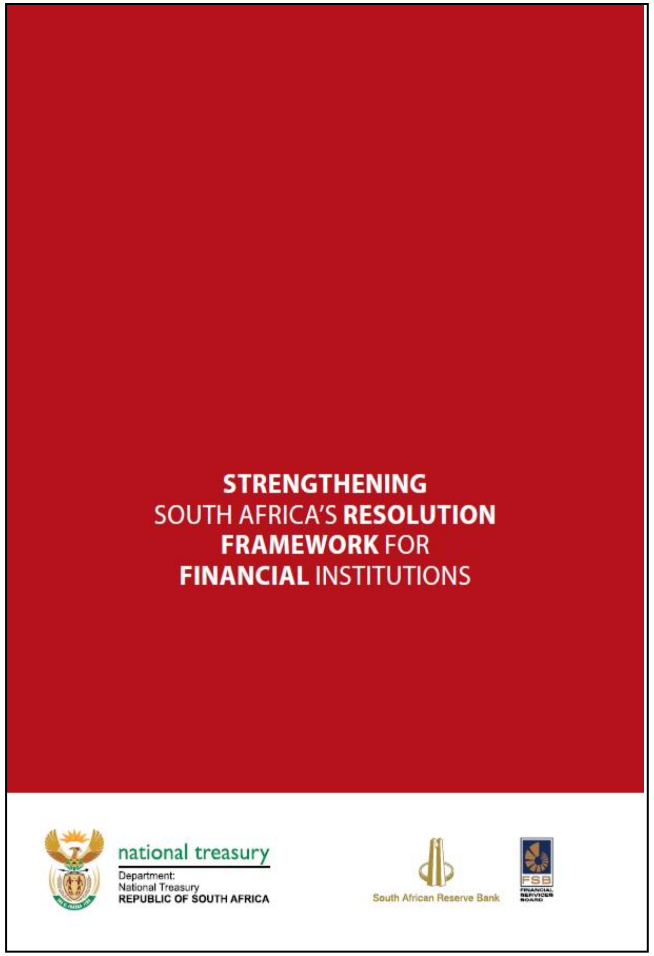
~100% increase in HQLA

LOWER ABSOLUTE RETURNS BUT NOT NECESSARILY ON A RISK ADJUSTED BASIS!

[1] *Currently compliant*
[2] *Above SARB minimum levels currently*

South Africa’s Proposed Resolution Framework Released for Comment

- NT/ SARB / FSB released white paper on **“Strengthening South Africa’s Resolution Framework for Financial Institutions”** in August 2015.
- Draft **Special Resolution Bill** expected to be released late 2016 / early 2017 with a finalised bill being enacted in 2017.
- Resolution framework for financial institutions has introduced & / or confirmed the following:
  - Establishment of a **Resolution Authority** (SARB) specifically responsible for managing the resolution of a financial institution
  - The creation of a **Deposit Guarantee Scheme (DGS)**
    - Detailed DGS paper scheduled for release late 2016 / early 2017
  - The introduction of the **Bail-in-Concept**
    - Bail-in defined as any process outside liquidation that has the effect of allocating losses to liability holders & shareholders, 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 circumstances
  - Establishment of the **No-Creditor-Worse-Off (NCWO) rule**
    - The NCWO rule aims to ensure that no creditor is worse of in resolution than in normal liquidation
    - To adhere to NCWO rule, the sequence in which creditors are bailed-in should respect the hierarchy of creditor claims in liquidation
  - The possible 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 first loss after capital (FLAC), which collectively makes up TLAC.



South Africa’s Proposed Resolution Framework

Remaining points being debated include the following:

PONV and POR:

- SARB / NT have indicated that perhaps PONV & POR must be a single point as this will address the principle of No Creditor Worse off (NCWO)
- They may retain both definitions (PONV for Basel 3 and POR for resolution) but they will amount to the same single point
- SARB / NT has not provided feedback on whether non Basel 3 compliant pref’s would qualify as regulatory capital as a result of PONV = POR

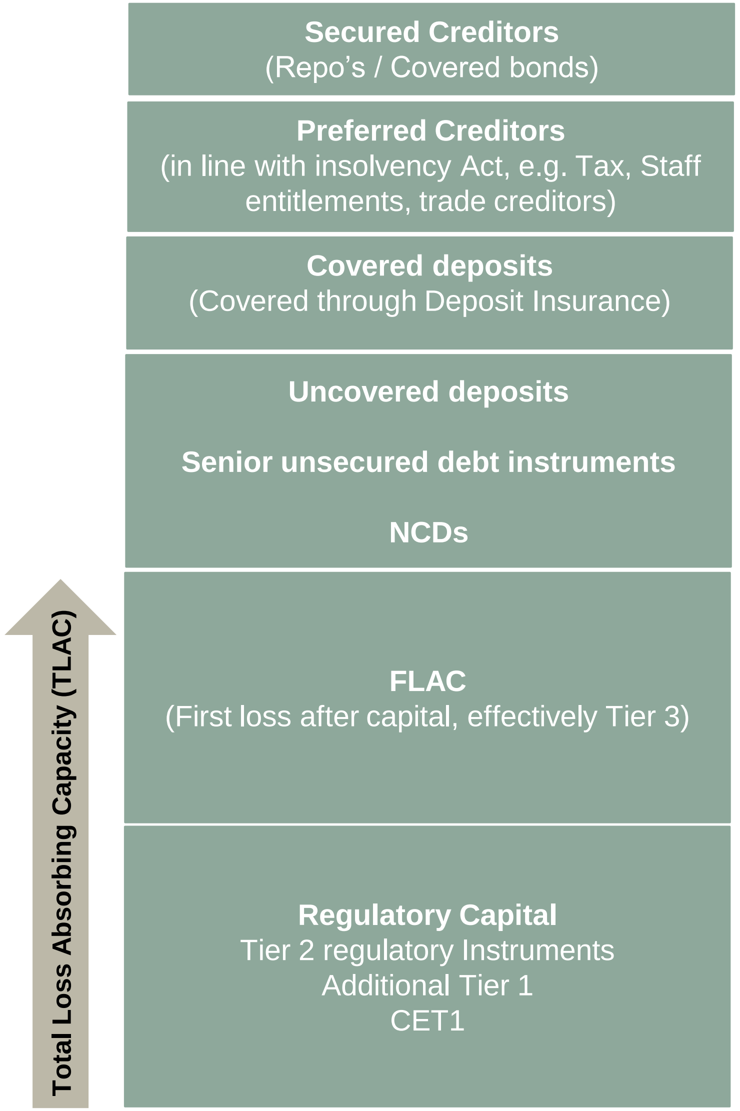
Creditor Hierarchy:

- The proposed creditor hierarchy is presented graphically on the right
- Uncovered deposits / Senior unsecured debt / NCD’s will represent 1 tranche & rank pari passu
- FLAC instruments should have a minimum initial tenor of 12 months & should not be redeemable before maturity. A bank cannot make a secondary market in its own FLAC instruments
- No details were given re size of FLAC or over what period FLAC would be phased-in
- Non B3 compliant AT1 & Tier 2 can qualify as FLAC
- The statutory creditor hierarchy will always override contractual creditor hierarchy in resolution i.e. statutory creditor hierarchy always trumps contractual creditor hierarchy if in conflict

Deposit Insurance:

- Deposits covered up to a limit of R100k
- Banks to be levied a premium
- No specifics were shared in terms of the size of the premium
- A deposit insurance document will be released shortly

Creditor Hierarchy



Regulatory risk – Basel III update on transitional work

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TLAC

- Minimum overall requirement 18% of RWA & long rollout timeframe for emerging market G-SIBs
- SARB expected to introduce First Loss After Capital (FLAC), scheduled to be enacted in 2017

RWA

- Introduction of capital floor based on standardised approach
- Implementation of new standardised approach for credit risk

Strong resistance from EU regulators against implementation

- Fundamental review of the trading book

Step-in risk

- Sets out primary & secondary indicators for identifying unconsolidated entities where significant ‘step-in-risk’ exists

Capital buffers

- Capital conservation (0.625% - 2.5%)
- Countercyclical buffer (0% - 2.5%)

Currently being phased in at 0.625% p.a. with countercyclical buffer at 0%

Overview of South Africa Regulatory Requirements

Overview

- Basel III in South Africa was implemented on 01-Jan-2013 through the Guidance Note 9/2012 and later updated by the Directive 5 /2013: Capital framework for South Africa based on the Basel III framework
- The regulations establish minimum capital requirements and the various tiers in capital including buffer requirements:
  - Minimum Capital Requirements:
    - CET1: 4.5%
    - Tier 1: 6.0%
    - Total Capital: 8.0%
  - Systemic risk add-on
    - Total Pillar 2A requirement of 1.75% for 2016; that will decrease depending on D-SIB requirement[1]
  - Bank specific Pillar 2B add-on
    - Total Pillar 2B bank specific requirement will remain the same as what it was during 2013 (not publicly disclosed) unless the regulator advises otherwise
  - D-SIB buffer: 0-2.5%[1] phased in from 1 January 2016
  - Capital Conservation Buffer: 2.5% phased in from 1 January 2016
  - Counter-cyclical Buffer: 2.5% (if imposed) phased in from 1 January 2016
- On 31-Dec-2015, the Bank for International Settlement deemed South African regulations to be compliant with all 14 components of the Basel III framework

Phasing in of Capital Requirements

	2014	2015	2016	2017	2018	2019
Minimum + Pillar 2A						
CET1	5.5%	6.5%	6.25%	6.0%	5.5%	5.0%
Tier 1	7.0%	8.0%	7.5%	7.25%	7.0%	6.750%
Total Capital	10.0%	10.0%	9.75%	9.5%	9.25%	9.0%
Buffers						
D-SIB Phase-in			25%	50%	75%	100%
Capital Conservation Buffer			0.625%	1.25%	1.875%	2.5%
Countercyclical Buffer[2]			0.625%	1.25%	1.875%	2.5%

Source: SARB

[1] From 1 January 2016 systemic risk add on adjusted for D-SIB requirements. The aggregate requirement for Pillar 2A and D-SIB will not exceed 2% for CET1, 2.5% Tier 1 and 3.5% Total Capital. Pillar 2A could range from 0.5%-2.0%.

[2] If imposed.

[3] Excluding any Pillar 2B buffer (not disclosed)

Overview of South African Tier 2 Requirements

Maturity?		▪ At least five years
Ranking?		▪ Senior to equity and AT1
Callable at the Issuer Discretion?	**When?**	▪ On year 5 (or more)
	Conditions	▪ Subject to the Registrar approval, the bank nor the controlling company shall create any expectation that such call will be exercised and the bank or the controlling company (i) replaces the called instrument with capital of similar or better quality or (ii) demonstrates to the satisfaction of the Registrar that its capital position shall be well above the relevant specified minimum capital requirements after the call option is exercised
Coupon Step-up / Increase in Credit Spread	**Allowed?**	▪ Bullet: Not applicable ▪ Callable: Not allowed
	Mechanism	▪ Bullet: Not Applicable Callable: Coupon would reset every 5 years (starting with the first call date) based on the original credit spread and the prevailing benchmark (e.g. mid swaps)
Distributions		▪ Must pay distributions ▪ No coupon deferability

Non-Viability		▪ Contractual approach:
		  ▪ At the option of the Registrar, the instrument should be either written-off or converted into the most subordinated form of equity, upon the occurrence of the Trigger Event
		  ▪ Trigger Event: the earlier of (i) a decision that a write-off, without which the bank or controlling company would become non-viable, is necessary, as determined by the Registrar or (ii) the decision to make a public section injection of capital, or equivalent support, without which the bank or controlling company would have become non-viable, as determined by the Registrar
		▪ Statutory approach: the Terms & Conditions of the instruments can state that once the statutory legislation for the South African recovery and resolution regime becomes enforceable, it then replaces the contractual terms and conditions

Going Concern Loss Absorption		▪ None

Source: SARB

Overview of South African AT1 Requirements

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Maturity?		■ Perpetual
Ranking?		■ Senior only to equity
Callable at the Issuer Discretion?	**When?**	■ On year 5 (or more)
	Conditions	■ Subject to the Registrar approval, the bank nor the controlling company shall create any expectation that such call will be exercised and the bank or the controlling company (i) replaces the called instrument with capital of similar or better quality or (ii) demonstrates to the satisfaction of the Registrar that its capital position shall be well above the relevant specified minimum capital requirements after the call option is exercised
Coupon Step-up / Increase in Credit Spread	**Allowed?**	■ Not allowed
	Mechanism	■ Coupon would reset every 5 years (starting with the first call date) based on the original credit spread and the prevailing benchmark (e.g. mid swaps)
Distributions	**Restrictions Around Coupon Payments**	■ Cancellation of a discretionary payment shall not constitute an event of default ■ The relevant bank or controlling company shall have full access to cancelled payments to meet any relevant obligation as it falls due ■ Paid out of distributable reserves, such as retained earnings ■ Subject to regulatory approval
	Dividend Stopper	■ Allowed ■ Any cancellation of a distribution or payment of dividend shall not impose any restriction on the bank or controlling company, except in relation to a distribution to holders of more deeply subordinated shares or instruments
Non-Viability		■ Contractual approach: — At the option of the Registrar, the instrument should be either written-off or converted into the most subordinated form of equity, upon the occurrence of the Trigger Event — Trigger Event: the earlier of (i) a decision that a write-off, without which the bank or controlling company would become non-viable, is necessary, as determined by the Registrar or (ii) the decision to make a public section injection of capital, or equivalent support, without which the bank or controlling company would have become non-viable, as determined by the Registrar ■ Statutory approach: the Terms & Conditions of the instruments can state that once the statutory legislation for the South African recovery and resolution regime becomes enforceable, it then replaces the contractual terms and conditions
Going Concern Loss Absorption	**Mechanism**	■ Equity accounted instruments: not required ■ Liability accounted instruments: write-down or equity conversion at the Trigger Level
	Trigger Level	■ Equity accounted instrument: not applicable ■ Liability accounted instruments: The earlier of non-viability (see above) and 5.875% CET1

Capital requirements & buffers results in increased levels, quality & cost of capital

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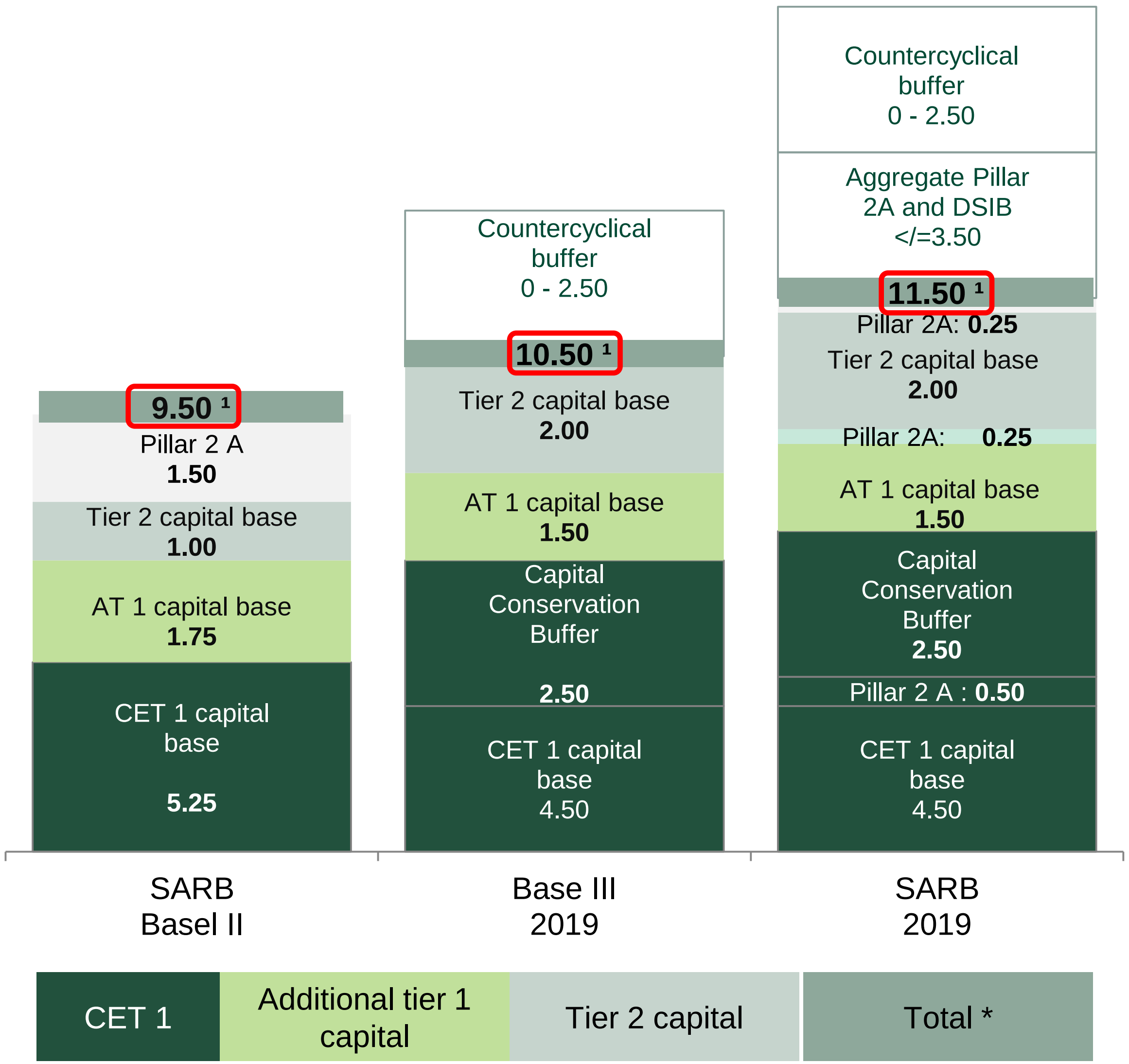

1: Excluding Pillar 2b, D-SIB & Countercyclical buffers for 2019

Implications for Capital

- Stronger focus on Common Equity Tier 1 capital, being the most loss absorbent form of capital
- Capital instruments must be loss absorbent under both going & gone concern scenarios
- Additional capital buffers introduced
- Phase-out timelines on existing capital
- Phase-in timelines for new requirements

Increased levels & quality of capital

Increased cost of capital

Capital well positioned for Basel III regulatory environment

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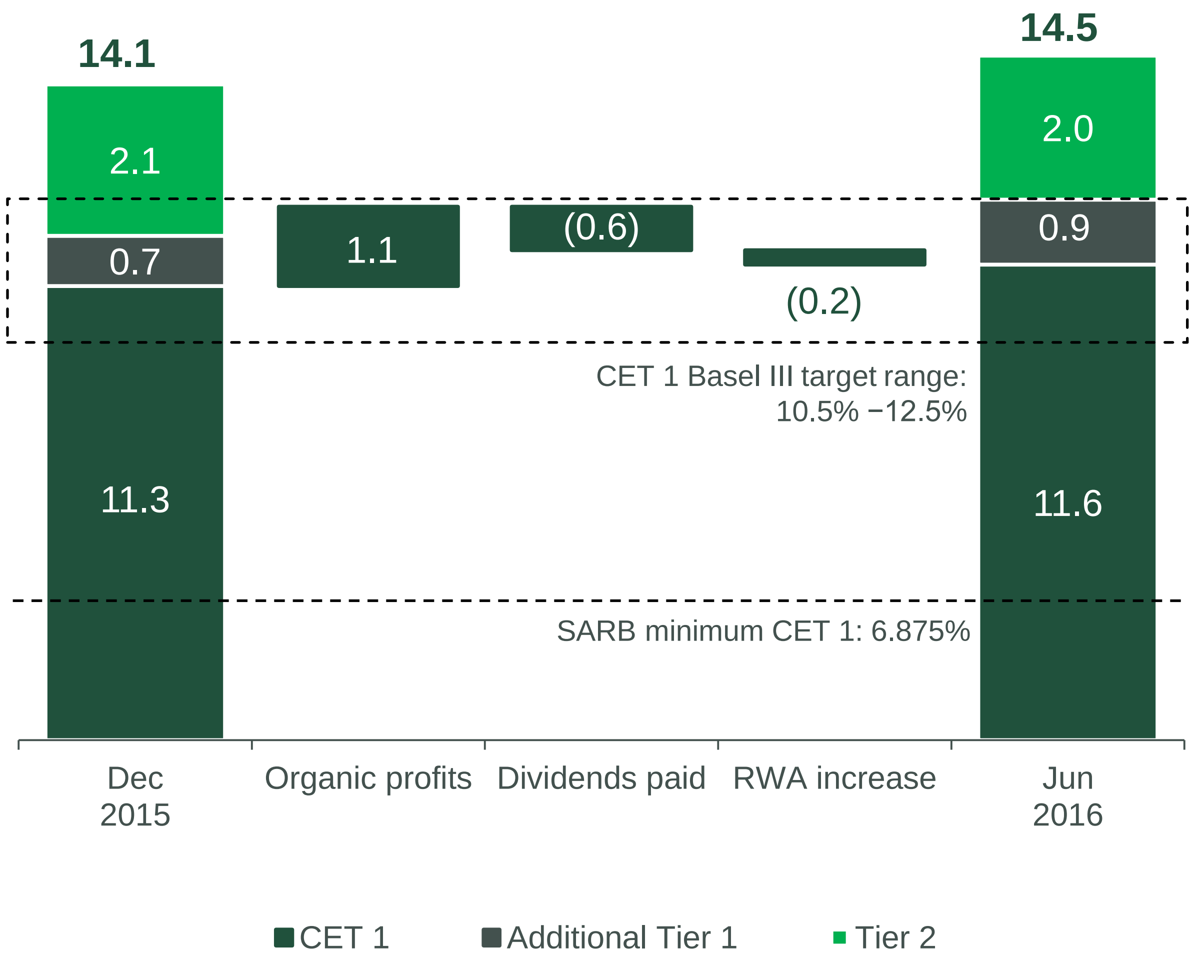
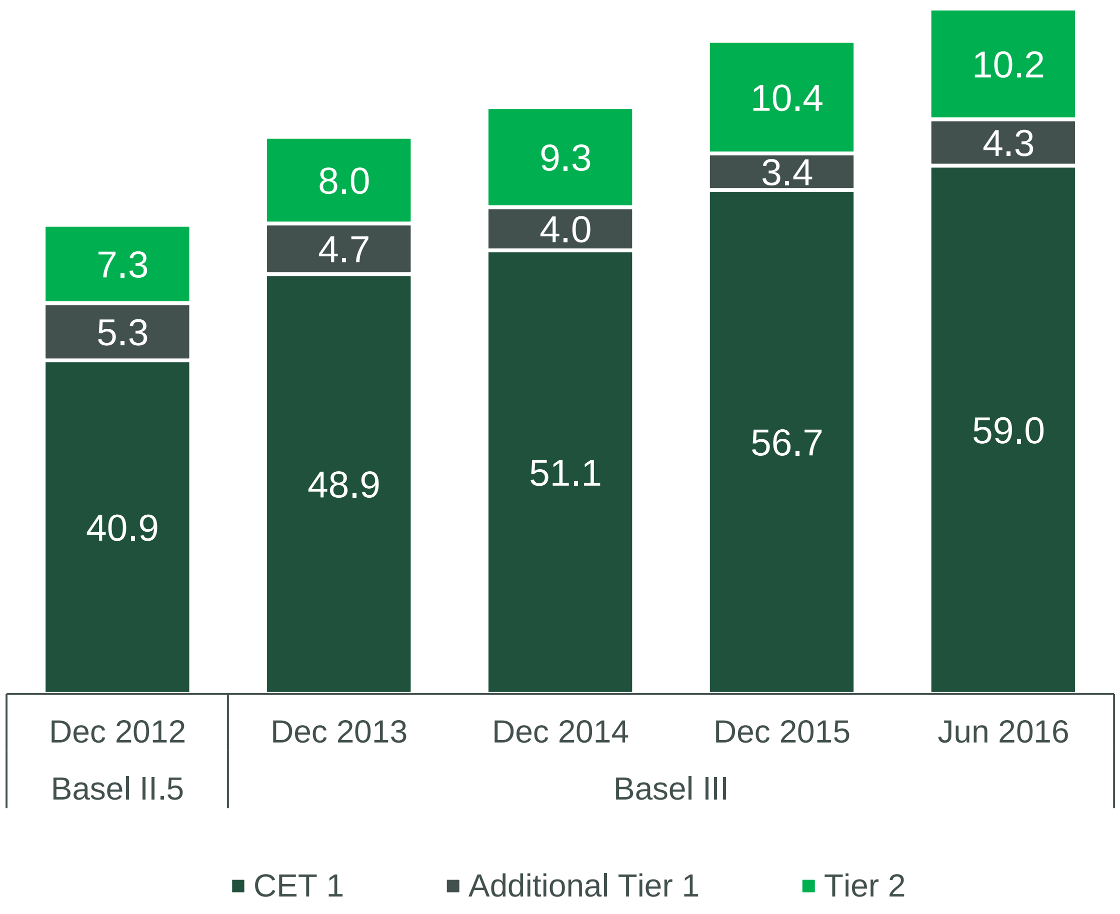
Capital ratios
(%)



Capital stack
(Rbn)



SA capital market – increasing cost of debt

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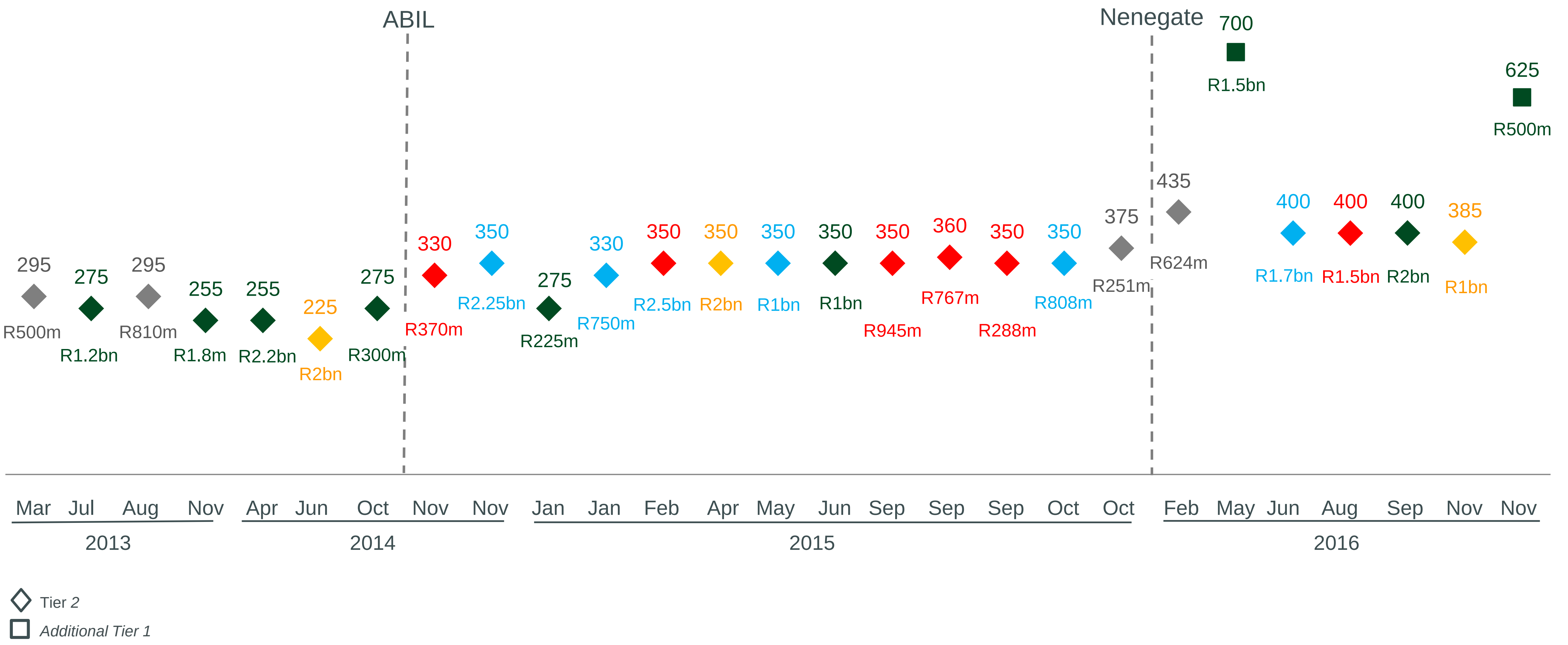
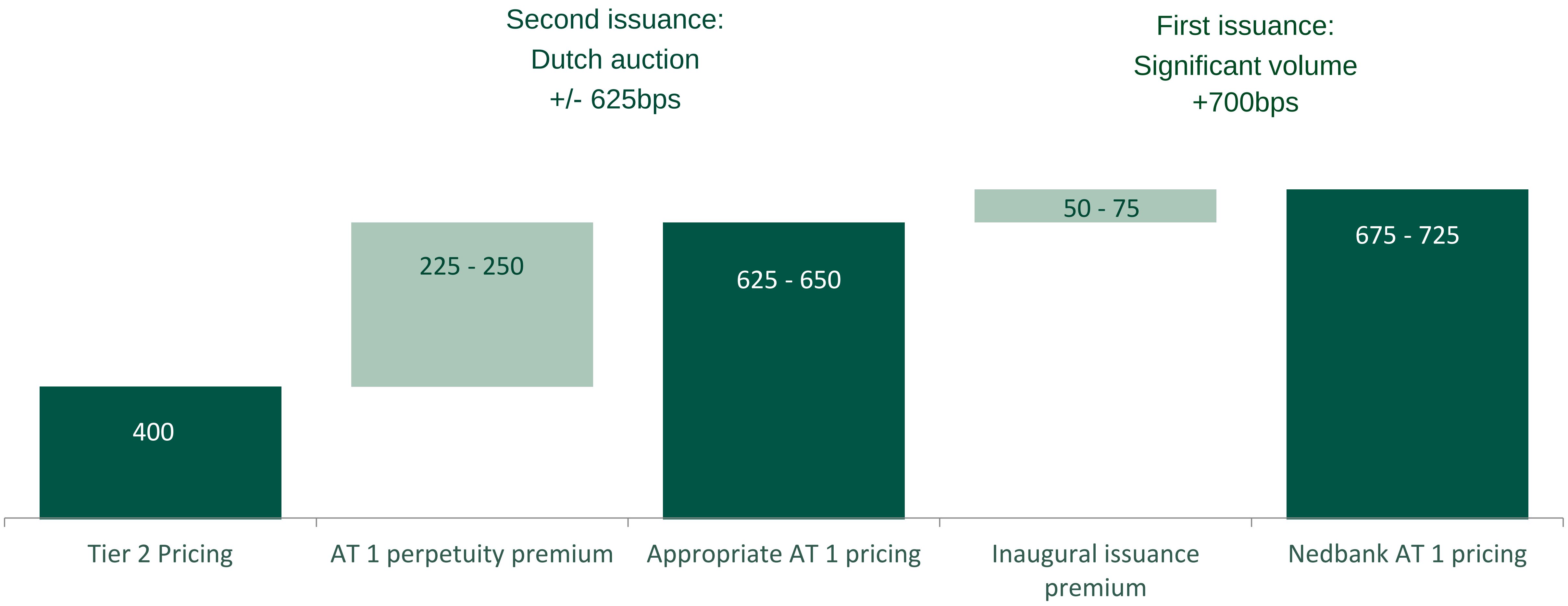
Tier 2 & Additional Tier 1 debt issuance pricing
(bps)



Nedbank Additional Tier 1 pricing reflects good demand



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