





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

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<p>Long-term incentive (LTI) share scheme</p> <p> Read more about our long-term incentive schemes on pages 115 to 117.</p>	<p>The introduction of <i>malus</i> and clawback in 2015 was well received. Most investors acknowledged that Nedbank has one of the best remuneration schemes of the big four SA banks and that discussions around the LTI should be seen in this context. The discussions reflected mixed views on the merits of the FINI 15 or an equivalent benchmark as an LTI CPT.</p> <p>The new <i>malus</i> and clawback provisions in respect of our LTI share scheme are now in effect for all awards made from March 2016 onwards.</p> <p>The ROE (excluding goodwill) and share price performance targets will remain unchanged from 2016. Two new strategic initiatives, with equal weighting of 10% each, replace the African Collaboration synergy target since this initiative only has one more year to run.</p> <ul style="list-style-type: none"> ■ The two new strategic initiatives will be: <ul style="list-style-type: none"> ▣ benefits from the Target Operating Model (TOM); and ▣ growing the transactional banking franchise, where this comprises two underlying metrics: <ul style="list-style-type: none"> — grow household transactional accounts by client numbers — grow commercial transactional deposits by value <p> For further details on the vesting ratios and targets for these two new strategic initiatives refer to page 116.</p>

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