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GROUP

SUPPLEMENTARY REPORT  
TO THE NEDBANK GROUP INTEGRATED REPORT

# 2015 GOVERNANCE AND ETHICS REVIEW

for the year ended 31 December 2015

# NEDBANK GROUP GOVERNANCE AND ETHICS REVIEW

For Nedbank, corporate governance means more than a set of frameworks, principles, policies and rules. It means abiding by principles and structures that enable us to facilitate and foster good relationships between the board, shareholders, stakeholders and employees. We facilitate collaboration between our clients and their business partners. Good corporate governance is our vehicle to business integrity, successful business relationships and value for our stakeholders.



The application of best banking practices enables us to act in our clients' best interest and in our country's welfare. Our robust institutional frameworks allow us to bank in other countries and make 'financial stability' happen for our fellow Africans. We inspire trust and confidence when we implement processes that prohibit syndicates from laundering money through our clients' accounts.

Our good governance means that you, our client, can rely on systems that notify you of banking transactions and money transfers, can help save our most important resources and contribute to saving the rhino.

Governance within Nedbank Group implies far more than just compliance with relevant legislation and best-practice principles. Rather, it involves a deep-rooted culture of accountability, transparency, respect, efficiency, ethical thought and action, and a values-driven approach to everything we do.

As banking laws become more rigorous and onerous, banks are expected to be able to adapt to regulatory changes in a very short space of time. This means that good governance practices in Nedbank need to be deeply entrenched providing us with the flexibility to proactively respond to this regulatory tsunami. Governance in Nedbank Group incorporates a culture committed to sound processes and procedures, which goes beyond legal compliance and ensures sustainability long after a law and its iterations have been implemented. We are constantly reviewing our practices to ensure that we apply what is fair and right for our regulators, stakeholders and clients.

## ROLE OF THE NEDBANK GROUP BOARD

The Nedbank Group board provides entrepreneurial leadership and vision to the group to enhance shareholder value within a framework of prudent and effective controls, which enables risks to be assessed and managed to ensure long-term sustainable development and growth. The board has ultimate accountability and responsibility for the performance and affairs of the company. It is responsible for:

- ensuring the group adheres to high standards of ethical and corporate behaviour;
- annually reviewing the group strategy and continually monitoring management's performance and implementation of such strategy;
- ensuring the necessary financial and capital resources are in place for the group to meet its strategic objectives;
- reviewing the adequacy of the group's systems of governance, risk and compliance controls; and
- ensuring that the group has appropriate systems, including frameworks and policies, to identify, measure, control and report on all key risk areas and key performance indicators of the business.

## BOARD CONTINUITY PROGRAMME

The group's board continuity programme addresses the skills, experience and other qualities required for the effective functioning of its board. It also sets out the processes relevant to their selection and appointment of directors, their induction and ongoing training, and evaluation of their performance and succession planning.

Boardmembers are appointed by the board as a whole through a formal and transparent process in line with the Board Appointment Policy. Appointments to the board are made with due cognisance of the need to ensure that the board comprises a diverse range of skills, knowledge and expertise, and has the requisite independence and appropriate demographic representation necessary to meet our strategic objectives. Non-executive directors are given no fixed term of appointment, but all directors are subject to retirement by rotation in terms of the company's memorandum of incorporation. An executive director is required to retire from the board at age 60, while a non-executive director is required to retire at age 70. Non-executive directors and independent non-executive directors (INE) who have served on the board for longer than nine years are required to retire from the board. Executive directors are subject to six-month notice periods. This excludes the chief executive, who is subject to a 12-month notice period. Executive directors are discouraged from holding significant directorships outside the group.

The board underwent significant changes during 2015:

- Mfundo Nkuhlu was appointed as an executive director and Chief Operating Officer (COO) on 1 January 2015;
- Vassi Naidoo was appointed as non-executive director on 1 May 2015 and Chairman on 11 May 2015;
- Reuel Khoza, Mustaq Enus-Brey and Gloria Serobe retired as non-executive directors on 11 May 2015, having been on the board for nine years in a non-executive capacity;
- Graham Dempster retired as an executive director on 11 May 2015, having reached retirement age;
- Stanley Subramoney was appointed as an independent non-executive director on 23 September 2015;

- Julian Roberts resigned as a non-executive director on 31 October 2015;
- Bruce Hemphill was appointed as a non-executive director on 25 November 2015; and
- Paul Hanratty resigned as a non-executive director on 12 March 2016.

At 31 December 2015 the Nedbank Group board comprised a total of 16 directors: nine independent, four non-independent non-executive, and three executive directors. While the board believes it has sufficient professional and industry knowledge and a strong level of independence, another non-executive director with previous executive banking experience is sought.

We have a formal induction programme for new non-executive directors, which enables new appointees to familiarise themselves with the group's operations, financial affairs and strategic position. This programme includes sessions with the heads of each of the group's major businesses, functional heads and the company's internal and external auditors.

The procedures for dealing with directors' conflicts of interest continued to operate effectively during 2015 and no director had a material interest in any significant contract with the company or any of its subsidiaries during the year.

## BOARD FOCUS AREAS IN 2015

- Strategic oversight of the group in a deteriorating macroeconomic environment with an escalating regulatory agenda.
- Growing the transactional banking franchise and associated transactional deposit base.
- Expansion into the rest of Africa, and in particular the strategic alliance and 20% investment in ETI.
- Board and Group Executive Committee succession planning.
- Relationships and collaboration with the Old Mutual plc Group.
- AML Remediation Programme following the fine received in 2014.
- Stress testing.

## GOVERNANCE ROADSHOWS

Nedbank Group's second governance roadshow in April 2015 was hosted by Dr Reuel Khoza (our past Chairman), Malcolm Wyman [Lead Independent Director (LID)] and Vassi Naidoo (Chairman). Our governance roadshow provides a forum for the group's board to engage with minority shareholders and strengthen key relationships. Through our engagement we gain a deeper understanding of investor needs and expectations relating to governance and strategic matters contributing to the multiple factors that inform our strategy and how we manage the bank. Due to Dr Reuel Khoza's retirement in May 2015 after a successful nine-year term as Chairman of the group, the roadshow provided an opportunity to introduce Vassi as Chairman designate. Major shareholders in attendance included Coronation, Public Investment Corporation, OMIGSA, Momentum Asset Management, Stanlib, Allan Gray, Sanlam, Abax, Kagiso, Investec Asset Management, Nedbank Private Wealth, Prudential, PSG, Foord and Argon. Once again our boardmembers were well received. Many appreciated the time afforded to them by the board to focus on governance topics and the response from shareholders was that Nedbank Group is highly regarded for its approach to governance.

The following key issues were consistently raised at all meetings and accounted for the majority of discussion time: Leadership changes, Old Mutual relationship, Ecobank influence and the Nedbank long-term incentive (LTI) share scheme.

KEY ISSUES RAISED AT GOVERNANCE ROADSHOWS

Topic of discussion	KEY ISSUES RAISED	Our response and action
<b>Leadership changes</b>	Shareholders were concerned about the loss of key members of our executive team in 2014 and 2015. Specifically the movements to Old Mutual were raised and whether this was a trend and what the potential impact of this would be on Nedbank's business.	Nedbank's smooth succession process and depth of leadership, as all appointments since the roadshow were internal, addressed these concerns. The new executives have engaged with investors on numerous occasions and feedback has been positive. The handover of the various portfolios have been seamless and we have continued to see good progress made on our strategy, with the added benefit of a fresh pair of eyes making positive enhancements to both strategy and the execution thereof. Appointments were in accordance with our existing succession plans and bench strength.  Read more about Nedbank's executive team on page 84 to 87 and their summarised resumes at <a href="http://nedbankgroup.co.za">nedbankgroup.co.za</a> .
<b>Old Mutual relationship and minority shareholder protection</b>	The appointment of a new Old Mutual Chief Executive Officer raised questions in the minds of investors around the potential implications for Nedbank, particularly if there would be a change in working relationship, strategy and structure. Minority shareholders are concerned about the potential impact on them.	The Nedbank board is confident of the processes put in place to protect minority shareholders, the use of an independent board sub-committee to resolve issues of conflict and the role of the lead independent director to ensure independent decisionmaking and minority shareholder protection.
<b>Ecobank influence</b>	Questions were asked about Nedbank's ability to exercise strategic influence in Ecobank and manage risks in the absence of a controlling shareholder interest (> 50% ownership), along with the potential implications of Qatar National Bank as a large shareholder in ETI with deep pockets.	The board is satisfied that Nedbank Group's 20% ownership in ETI is adequate given macroeconomic and regulatory risks and costs in Africa. In addition, Nedbank continues to build a strong relationship with our strategic partner through our board representation, strategic and technical banking alliance and joint working group on deal origination in the rest of Africa.
<b>Long-term incentive scheme</b>	The relevance of the FINI 15 index as an appropriate measure for our LTI scheme has been questioned. The concern is that the constituents of the FINI 15, in addition to banks, also represent insurance, property and investment holding companies, which may perform vastly different than the banks, resulting in the LTI not accurately reflecting the bank's relative performance.	The matter continues to receive attention from the Remuneration Committee (Group Remco). The existing structure will apply for the awards made in 2016, following a review and decision in this regard by the Remco.  Should any changes be contemplated in the future, the appropriate engagement process with shareholders will be followed.  More information on Nedbank's LTI schemes can be found on page 116 of the online Remuneration Report.

The feedback from our minority shareholders is extremely valuable to us and we discuss this 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 2016 governance roadshow.



## BOARD COMMITTEES

The board committees assist the board in the discharge of its duties and responsibilities. Each board committee has formal written terms of reference that are reviewed annually and effectively delegated in respect of certain of the board's responsibilities. Copies of these terms of reference can be accessed at nedbankgroup.co.za. The board monitors these responsibilities to ensure effective coverage of, and control over, the operations of the group.

During 2015 the following board committees operated within Nedbank Group:

**The Group Audit Committee (GAC)**, which assists the board in its evaluation and review of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within Nedbank Group. It also highlights measures to enhance the credibility and objectivity of financial statements and reports.

**The Group Risk and Capital Management Committee (GRCMC)**, which assists the board in evaluating the adequacy and efficiency of risk policies procedures, practices and controls.

**The Group Remuneration Committee (Group Remco)**, which is authorised to approve aggregate adjustments to the remuneration of employees below executive director and managing executive levels. The committee also recommends adjustments to the total remuneration of members of the Group Executive Committee (Group Exco). The board, following recommendations made by the Group Remco, approves each Group Exco member's total remuneration. This committee is also charged with the supervision of the Nedbank Group Employee Incentive Scheme.

**The Group Credit Committee (GCC)**, which approves our credit philosophy and policies, sets credit limits and guidelines, confirms procedures to manage, control and price credit risk, approves the adequacy of interim and year-end provision impairments and monitors credit risk information, processes and disclosure. Apart from the GCC, the Large-exposure Approval Committee also approves large credit exposures as required by banking legislation.

**The Group Directors' Affairs Committee (DAC)**, which considers, monitors and reports to the board on reputational and compliance risk, compliance with King III and the corporate governance provisions of the Banks Act. It also acts as the nominations committee for board appointments.

**The Group Information Technology Committee (GITCO)**, which monitors all issues pertaining to information

technology (IT), both operational and strategic, and aims to ensure that IT development spend and investment are aligned with overall group strategy and direction and that the IT systems are efficient and effective.

**The Group Transformation, Social and Ethics Committee (GTSEC)**, which monitors integrated sustainability with a specific focus on social and economic development, good corporate citizenship, ethical behaviour of staffmembers/suppliers, environmental concerns, health and public safety, stakeholder engagement, labour and employment.

**The Group Related Party Transactions Committee (RPTC)**, which ensures that the board and other committees fulfil their responsibilities to strengthen corporate governance and practices with regard to all related-party transactions.

Other executive committees vital to the application of sound governance principles are:

**The Executive Information Technology Committee**, which helps the Group Exco ensure that we have a well-coordinated, efficient, effective and properly resourced IT strategy that enables us to remain highly competitive.

**The Group Asset and Liability and Executive Risk Committee**, which ensures effective management of:

- liquidity risk
- capital management risk
- interest rate risk, both local and foreign
- investment risk
- market risk, including:
  - currency translation risk and
  - trading market risk and financial instruments used for purposes other than trading (eg balance sheet hedges and investments).

**The Mergers and Acquisitions Steering Committee**, which ensures proper corporate governance oversight and control of corporate actions.

**The Executive Transformation and Human Resources Committee (TRAHRCO)**, which is tasked with:

- statutory compliance in respect of labour legislation;
- monitoring transformation progress and the implementation of the BBBEE Codes and meeting Department of Trade and Industry requirements; and
- employee recruitment, selection, remuneration, performance management, maintenance, training, development and, where necessary, termination.

**The Executive Taxation Committee**, which monitors tax compliance and tax policy

and ensures that the management of tax risk throughout the group is in accordance with our tax policy.

**The Nedbank Capital Investment Committee**, which considers private equity and mezzanine equity investments and the underwriting of share issues, including initial approval, periodic reviews and any material changes.

**The Nedbank Corporate Property Investment Committee**, which considers private equity investments in client-driven property ventures, and strategic investments in the listed-property sector and allied service companies, including initial approval, periodic reviews and any material changes.

**The Business Risk Management Forum (BRMF)**, which provides leadership in assessing the impact of any new regulatory requirements and legislation across Nedbank Group and promotes, directs and oversees the successful implementation thereof.

**The Nedbank Client and Brand Committee**, which assists the Group Exco in:

- monitoring and reporting on brand health and repositioning the Nedbank brand;
- revising and amending the master brand repositioning plan in the context of group strategy;
- approving strategies for key brand-building campaigns, programmes and initiatives;
- performing strategic reviews of competitor positioning and marketing initiatives;
- ensuring alignment and coordination of groupwide marketing activities in respect of business and brand strategy;
- optimising groupwide marketing spend, including monitoring and reporting on investment and making strategic recommendations on optimal investment; and
- ensuring consistency in the application of marketing policies and processes.

**The Group Operational Risk Committee (GORC)**, which has as its main aims:

- providing a group executive governance structure for the oversight of the implementation of the Operational Risk Management Framework; and
- recommending any changes for approval to the GRCMC:
  - ensuring senior management oversight for any changes to operational risk capital requirements and recommending any changes to the Group Exco and to the GRCMC for approval.

<b>NEDBANK GROUP LIMITED</b> <b>BOARD OF DIRECTORS</b> <b>QUORUM: MAJORITY</b>			
<b>GROUP IT COMMITTEE</b> CHAIR: Mantsika Matookane QUORUM: three members	<b>GROUP TRANSFORMATION, SOCIAL AND ETHICS COMMITTEE</b> CHAIR: Nomavuso Mnxasana QUORUM: three members	<b>GROUP REMUNERATION COMMITTEE</b> CHAIR: Mpho Makwana QUORUM: three members (one independent)	<b>GROUP CREDIT COMMITTEE</b> CHAIR: Tom Boardman QUORUM: five members (of which three are non-executive)
Joel Netshitenzhe Brian Dames Mpho Makwana	Paul Hanratty Mpho Makwana Stanley Subramoney	Bruce Hemphill Nomavuso Mnxasana Malcolm Wyman	Paul Hanratty Ian Gladman CFO: Raisibe Morathi CEO: Mike Brown COO: Mfundo Nkuhlu Brian Dames David Adomakoh Stanley Subramoney
<b>GROUP AUDIT COMMITTEE</b> CHAIR: Malcolm Wyman QUORUM: three members	<b>GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE</b> CHAIR: Tom Boardman QUORUM: three non-executive members (one independent)	<b>GROUP DIRECTORS' AFFAIRS COMMITTEE</b> CHAIR: Malcolm Wyman QUORUM: three members	<b>LARGE EXPOSURE APPROVAL COMMITTEE</b> CHAIR: Tom Boardman ALTERNATIVE CHAIR: Any non-executive member
Tom Boardman Mpho Makwana Nomavuso Mnxasana Stanley Subramoney	Chief Executive: Mike Brown Ian Gladman Nomavuso Mnxasana Joel Netshitenzhe Malcolm Wyman	GRCCM and GCC Chair: Tom Boardman Remco Chair: Mpho Makwana OM plc: Bruce Hemphill Board Chairman: Vassi Naidoo GTSEC Chair: Nomavuso Mnxasana GITCo Chair: Mantsika Matookane	Any three non-executive GCC members Chief Executive: Mike Brown Chief Risk Officer: Trevor Adams Chief Financial Officer: Raisibe Morathi Chief Credit Officer: Johan Theron
<b>GROUP RELATED PARTY TRANSACTION COMMITTEE</b> CHAIR: Malcolm Wyman QUORUM: three members			
Joel Netshitenzhe Tom Boardman Mpho Makwana David Adomakoh			

BOARD COMMITTEES (continued)

Attendance at board and board committee meetings by directors and professional consultants

	Nedbank Group Ltd Board	Nedbank Ltd Board	Nedbank Group Directors' Affairs Committee	Nedbank Group Remuneration Committee	Nedbank Group Remuneration prescheduled	Nedbank Group Remuneration ad hoc	Nedbank Group Audit Committee	Nedbank Group IT Committee	Nedbank Group Credit Committee	Large Exposure Approval Committee	Nedbank Group Risk and Capital Management Committee	Nedbank Group Risk and Capital Management Committee prescheduled	Nedbank Group Risk and Capital Management Committee ad hoc	Nedbank Group Transformation, Social & Ethics Committee	Nedbank Group Finance and Oversight Committee	Nedbank Group Related Party Transactions Committee
Number of meetings	8	8	4	7	5	2	6*	4	7	11	6	5	1	4	1	2
<b>DIRECTORS</b>																
David Adomakoh	8/8	8/8							2/2	2/2				3/3		2/2
Tom Boardman	8/8	8/8	4/4				6/6	1/1	7/7	10/11	5/5	4/4	1/1		1/1	1/2
Mike Brown	8/8	8/8							7/7	11/11	6/6	5/5	1/1			
Brian Dames	8/8	8/8						3/4	7/7	10/11						
Graham Dempster	2/2	2/2							1/3							
Mustaq Enus-Brey	2/2	2/2							3/3	5/5	2/2	2/2	0/0		1/1	
Ian Gladman	8/8	8/8							7/7	6/11	5/6	5/5	0/1		1/1	
Paul Hanratty	7/8	7/8							3/4	4/6				2/4		
Bruce Hemphill	1/1	1/1														
Reuel Khoza	2/2	2/2	2/2													
Mpho Makwana	7/8	7/8	4/4	7/7	5/5	2/2	6/6	4/4						4/4		1/2
Mantsika Matookane	8/8	8/8	2/3					4/4								
Nomavuso Mnxasana	8/8	8/8	3/3	6/7	4/5	2/2	6/6				6/6	5/5	1/1	3/3		
Raisibe Morathi	8/8	8/8							7/7	11/11						
Vassi Naidoo	6/6	6/6	2/2													
Joel Netshitenzhe	8/8	8/8						4/4			6/6	5/5	1/1			2/2
Mfundo Nkuhlu	8/8	8/8							5/7							
Julian Roberts	7/7	7/7	4/4	6/6	4/4	2/2										
Gloria Serobe	2/2	2/2							0/3	3/5				1/2		
Stanley Subramoney	2/2	2/2							2/2	1/1						
Malcolm Wyman	8/8	8/8	4/4	7/7	5/5	2/2	6/6				6/6	5/5	1/1		1/1	2/2
Brendan Olivier**				7/7	5/5	2/2										

\* Includes annual meeting with SARB.

\*\* Professional Consultant from Vasdex Associates.

Dates of appointments to, and resignations from, the Nedbank and Nedbank Group boards and board committees that were effected during 2015 are provided on page 132 of the Nedbank Group Integrated Report.

## OUR APPROACH TO COMPLIANCE RISK

Our board-approved Nedbank Risk Appetite Policy is founded on a zero-tolerance approach to compliance risk. This policy mandates compliance with all regulatory requirements and monitors and measures such compliance through the Group DAC, a board committee established in terms of the Banks Act, 94 of 1990.

## COMPLIANCE WITH KING III

For any business to run efficiently there needs to be a clear commitment to sound corporate governance. In our case, this requires that processes must be effective and make it easier for clients to bank with us, and that boardmembers are independent and skilled enough to make the right decisions to ensure a sustainable and profitable business.

We endeavour at all times to apply the principles of King III in such a way that these requirements are met. King III is applied in all the group operations, which include our African subsidiaries Lesotho, Swaziland, Namibia, Malawi and Zimbabwe. During the period under review the board indicated that it was satisfied with the way in which the group applied the recommendations of King III, or put alternative measures in place where necessary.

Two instances of non-compliance with King III during 2015 are as follows:

- The Nedbank Group Chairman, Vassi Naidoo, is not independent as defined by the governance codes as he serves on the board of the group's parent company, Old Mutual plc. The position of LID was created in 2007 and is currently held by Malcolm Wyman.
- Non-executive directors' fees do not comprise a base fee and an attendance fee per meeting. Non-executive directors are accountable for decisions made regardless of attendance at meetings. Non-executive directors are also required, as a matter of course, to represent stakeholders and to make the necessary preparations for meetings and other engagements. The Group Remco is satisfied that the fee structure applied in respect of non-executive directors remains appropriate.

In terms of the JSE Ltd ('the JSE') Listings Requirements we are required to provide an explanation of how the King III principles were applied during the 2015 financial year and, should these not have been applied, to provide reasons and an indication of alternative measures taken. To assess such compliance we use the Governance Assessment Instrument (GAI) as developed by the Institute of Directors (IOD). The tool facilitates a self-evaluation of Nedbank's implementation of their governance structures and processes as recommended in King III.

There are 75 governance principles within King III that apply to our business, and a comprehensive illustration indicating our level of compliance to each is included in the table below.

The instrument is a survey-type questionnaire and covers King III principles, JSE Listing Requirements as well as the SA Companies Act.

The GAI has classified the questions according to the categories reflected on the application meter shown in the table below.

The areas with the highest weightings are:

- board role and duties (largest weighting to risk, ethical leadership, and internal audit);
- accountability (comprising integrated reporting disclosure and stakeholder relations);
- board committees (Audit, Risk, Remuneration, Nomination and Social and Ethics Committees); and
- governance office bearers (role of CEO receives the bulk of the focus, followed by that of the Chairman and Company Secretary).

The board is rated AAA, which is the highest scoring you can achieve through this system. There are areas that we do not apply and areas where an explanation is made regarding alternative processes implemented.

## Nedbank Group Ltd - 1966/010630/06

### OVERALL SCORE

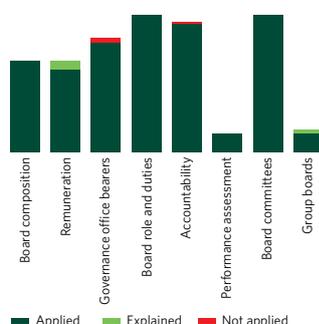


### COMPLETENESS METER

100%



### WEIGHTING GRAPHIC



### APPLICATION METER

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

### SCORING KEY

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

## COMPLIANCE WITH OTHER BANKING CODES

### The UK Code of Corporate Governance

While Nedbank Group is listed on the JSE and the Namibian Stock Exchange, we also comply with codes and practices applicable to our parent company, Old Mutual plc, which subscribes to the UK Code of Corporate Governance. The only area of non-compliance with this code is the fact that the group chairman is a non-executive director, but not independent. To address this in line with the recommendations of the UK Code of Corporate Governance, the position of LID was created in 2007.

### Code of Banking Practice

We subscribe to the Code of Banking Practice of The Banking Association SA, which governs all relationships with authorities, clients, competitors, employees, shareholders, local communities and other primary stakeholders. Appropriate procedures and mechanisms are in place to ensure full adherence to the code and we work with the Banking Ombudsman's Office to ensure that client complaints are resolved appropriately and timeously.

## ENSURING GOOD GOVERNANCE THROUGH ONGOING EVALUATION

### Nedbank Group board and board committee evaluations

In 2015 the Group DAC reviewed its board evaluation methodology to align it with Old Mutual plc's refreshed approach and best survey techniques. One of the reasons for this review was to ensure the focus was specifically on any areas that had been identified for improvement in previous self-evaluations. The result is that the new board questionnaire is shorter and streamlined, and allows for quantification and tracking of key measures, while providing deeper richness to emerge from the qualitative feedback.

Meaningful conversations as a result of collective feedback allow for more actionable insights to be derived.

The 2015 survey measured the effectiveness of the Nedbank Group board and its board committees during November and December 2015. This survey was conducted online and sent to all the boardmembers, except Stanley Subramoney and Bruce Hemphill, who joined the board only recently. Responses

were based on a five-point Likert Agreement scale, reported as percentage agreement. Feedback was received on the following four key areas:

- Board role and the responsibilities of directors in terms of composition, monitoring, governance and compliance, including evaluation of the chair and chief governance and compliance officer.
- Relationships and interactions between the board, group exco and other key stakeholders.
- Efficient and adequate meeting administration to enable decisionmaking.
- Board committees' responsibilities and their role in enhancing overall board effectiveness, as well as short evaluations per board committee percentage agreement.

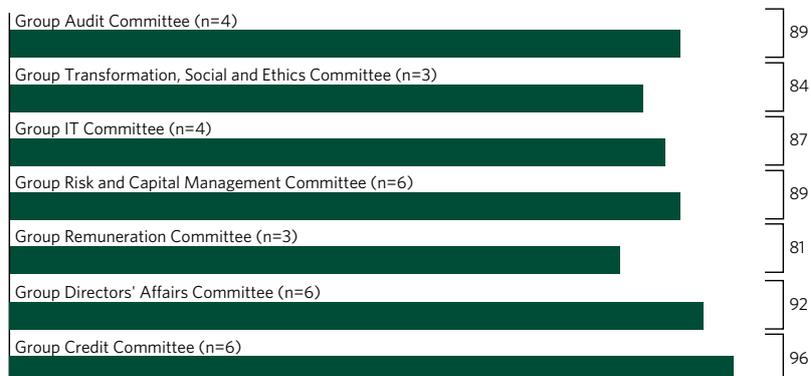
### NEDBANK OVERALL BOARD EFFECTIVENESS DASHBOARD ASSESSMENT RESULTS FOR 2015

(%)



### NEDBANK BOARD COMMITTEES EFFECTIVENESS ASSESSMENT RESULTS FOR 2015

(%)



Some of the themes that emerged, were:

- 1 More banking skills are required on the board.
- 2 More interaction with management is needed.  
Greater understanding is required with respect to new banking regulations, proposed regulations for insurance industry, banking in Africa and associated risk, future of technology in banking, and the bank's roles in economic transformation in the country.

### Evaluation of the Nedbank Group entities

As part of the ongoing process to align the subsidiary corporate governance process to that of Nedbank Group (including best practice and King III), all five subsidiaries performed a self-assessment on their corporate governance processes using the GAI. The self-assessment was conducted by the Company Secretary in four of the subsidiaries, and by the head of governance and compliance in MBCA.

### Application of King III in African subsidiaries

All five subsidiaries have committed to implementing the principles, bearing in mind their need to adhere to local legislation and local corporate governance codes as well.

The results of the self-assessment were as follows:

#### Nedbank Lesotho

Nedbank Lesotho has implemented the majority of the principles. Areas of development are the principles not applied by them relating mainly to integrated reporting disclosures, which they have not implemented yet.

#### Nedbank Malawi

Nedbank Malawi needs to place greater focus on integrated reporting and disclosure, including the governing of stakeholder relationship, to fully apply the principles.

#### Nedbank Namibia

Nedbank Namibia's area of development is linked to principles relating to integrated reporting and disclosure, including stakeholder relationship management, which have not been fully applied.

#### Nedbank Swaziland

Nedbank Swaziland is lagging in the accountability category as it does not publish an integrated report, and needs to refine processes around stakeholder relationship management. By focusing on addressing the gaps highlighted by the assessment tool, they could achieve a higher level of application in the short term.

#### Nedbank Zimbabwe

Nedbank Zimbabwe's (MBCA's) needs to focus on implementing King III practices around integrated reporting and disclosure will ensure that they will be fully compliant in the near future.

This is a successful completion of phase one in the process to align subsidiary governance practices to those of Nedbank Group.

The commitment shown in implementing corporate governance best practice over the past three years has streamlined board processes, including:

- board evaluations; and
- board size and composition (see table).

## SUBSIDIARY BOARD EVALUATIONS

Nedbank Group also conducted the annual board evaluation for the five subsidiary boards electronically. The directors are provided with a link they use to access and complete the online survey.

Overall, the boards appear to be performing effectively.

Common themes arising in the 2015 evaluation were:

- Shareholder relationships
  - succession planning at board level;
  - the board's perception of the public opinion of the organisation; and
  - stakeholder communications;
- Skills needed at the board
  - three of the five subsidiaries rated 'IT skill' as the one they needed on the board, while the other two rated 'Anticipating crises and potential threats' as a needed skill; and
- visible corporate governance
  - sustainability (triple bottomline reporting).

The company secretary of each subsidiary presents the evaluation results to the chairman, who discusses it with the board. Issues raised are tracked to ensure that actions decided upon are implemented in order to ensure the resolution of these issues.

The results of the evaluations were considered when new talent for the boards were identified during the process to standardise the subsidiaries in terms of composition and size.

### Composition of subsidiary boards

During the past 18 to 24 months, Nedbank Group has worked with the five subsidiaries to enhance the efficiency of the boards by analysing and modifying board size and composition.

In some cases boards had grown larger over the years and certain members with special skills had exceeded the nine-year tenure period that is standard in the Nedbank Group.

The following were considered when standardising the boards:

- alignment to Nedbank Group and Old Mutual policy;
- alignment to King III principles;
- compliance with local legislation; and

## BOARD SIZE AND COMPOSITION BEFORE CHANGES

Subsidiary	Non-executive			Comments
	Executive	Non-executive	Independent non-executive	
Nedbank Lesotho	1	3	5	Composition included three Nedbank employees (non-executive directors) and the managing director (MD).
Nedbank Malawi	1	3	4	Composition included three Nedbank employees (non-executive directors) and the MD.
Nedbank Namibia	2	4	5	Composition included four Nedbank employees (non-executive directors) and the MD.
Nedbank Swaziland	2	2	4	Composition included two Nedbank employees (non-executive directors) and the MD.
MBCA	2	1	7	Composition included the MD and one employee from Nedbank Group (non-executive director).

MD = Managing Director

CURRENT BOARD SIZE AND COMPOSITION

Subsidiary	Executive	Non-executive	Independent non-executive	Comments
Nedbank Lesotho	1	3	4	Composition includes three Nedbank employees (non-executive directors)
Nedbank Malawi	2	2	4	Local legislation requires a majority of independent non-executive directors. Composition includes two Nedbank employees (non-executive directors). A vacancy exists for an INE as an INE retired in September 2015.
Nedbank Namibia	1	2	5	Composition includes two Nedbank employees (non-executive directors).
Nedbank Swaziland	2	3	3	Local legislation requires a total of 50% of the board comprises Swazi nationals. Composition includes three Nedbank employees (non-executive directors). A vacancy exists for an INE as an INE retired in September 2015.
MBCA	2	2	6	Composition includes two Nedbank employees (non-executive directors).

- skills required on the board (new candidates were selected for specific skills, resulting in a blend of entrepreneurship and human resources (HR), IT, audit, legal, banking and business skills).

All the subsidiaries have at least:

- one to two directors from Nedbank Group (depending on requirements), considered non-executive;
- an appropriate number of INE directors to meet local regulatory as well as group requirements.

**Effect of the change in board size and composition**

Generally, the Rest of Africa executive believes the changes have improved board efficacy. There has been a growing awareness of the importance of sound governance and how the group and subsidiary governance and risk structures support and feed into the subsidiaries and boards.

Adding new INEs has brought a fresh perspective and new strategic insights to the overall process of governance. In particular, the new INE and Chair of the Audit Committee in Nedbank Namibia has revitalised the approach to the Audit Committee and board. Similarly, the new Chair of the Risk Committee in MBCA, Dr Suku Naik (INE), has improved efficacy of the committee with a change in approach.

**LEADERSHIP THROUGH ETHICS AND HUMAN RIGHTS**

'It is unwise to be too sure of one's own wisdom. It is healthy to be reminded that the strongest might weaken and the wisest might err.' - Mahatma Gandhi

As corporate governance scandals continued to emerge during 2015, the lack of ethical leadership was identified in all instances as a contributing factor in business failure. Therefore, we decided we need a new focus on ethical leadership to continue with our good governance and responsible business drive.

Ethical leaders are considered role models and extend their behaviour into society, obtaining the respect of not only the stakeholders of the organisation, but also business at large.

Ethical and well-governed organisations create trust with stakeholders. As an organisation we are not in the business of making money, but rather in the business of building trust. Without trust, there are no clients, investors or shareholders. Shareholders are prepared to pay a premium for shares in a well-governed company, as there is assurance that they will not suffer losses.

In view of the above, the Ethics Office started to launch and implement the Manager's Toolkit groupwide during 2015, with the important themes being the following:

- An organisation focused on good and responsible business will influence stakeholders to consider more responsible and sustainable business practices, helping them to becoming a responsible corporate citizen.
- Within the organisation, ethical leadership creates an ethical culture and climate, giving staff the mandate to exercise their rights regarding ethical conduct.
- Taking the moral high ground always gives an organisation the advantage in the long term where business sustainability is concerned.
- Ethical leadership has a ripple effect on all other leaders at all levels in an organisation, creating capacity and providing a mandate to simply do what is right.
- Ethical leadership is not only found at the top. All staff must be encouraged to be ethical leaders even if they are not in management positions. At times the informal leadership in the organisation will be of more value than

the formal structures, as informal leaders sometimes have more popular authority. This authority needs to be channelled in an ethical way to be conducive to creating an ethical culture.

- Ethical leadership encourages open and safe communication and a shared process of creating an ethical culture.

## GOVERNANCE OF ETHICS

The board assumes ultimate responsibility for the company's ethics performance. This responsibility is delegated to executive management, which utilises various management frameworks to fulfil this mandate, including:

**Ethics and Corporate Accountability Framework** - In line with our Deep Green aspiration to be a great place to work, one of our key focus areas is to develop a unique and innovative culture. We believe that ethical behaviour lies at the heart of such a culture and our clearly defined Ethics and Corporate Accountability Framework sets the standard for this. The framework is reviewed and updated as and when necessary to address new challenges.

**The Ethics Panel** - This panel deals with all material tipoffs regarding unethical conduct and now reports to the GTSEC in its continued efforts to ensure that independent, objective and fair courses of action are taken in instances of unethical behaviour or actions.

**Board Ethics Statement** - In line with the King Code of Governance Principle 1.1, which states that the board should provide effective leadership on an ethical foundation, our boardmembers, and those of our subsidiaries, are required to acknowledge and sign the Board Ethics Statement (BES) every year. This allows them to demonstrate their continued commitment to the Nedbank Group values and to the ethical conduct we embrace. During 2015 the Group Executive Ethics Statement was also signed by all our group executives and through the business ethics officers we started to implement cluster ethics statements.

**Code of Ethics** - Doing responsible business is at the heart of our approach to business. This commitment is encapsulated in the Nedbank Code of Ethics, to which all employees (including contractors and temporary employees) are required to adhere. The Code of Ethics is available on the Nedbank Group website and is also reviewed annually to

ensure its relevance in a changing business environment.

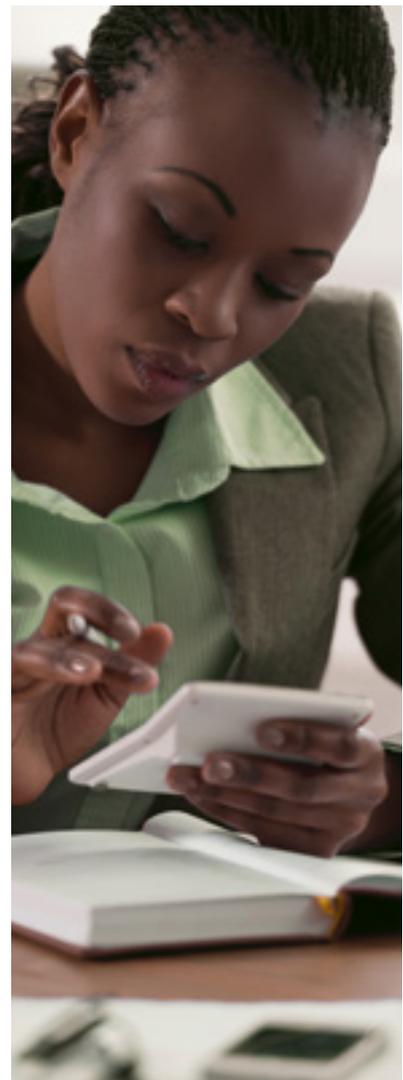
**Code of Conduct** - Our Nedbank Group Code of Conduct expands on the Code of Ethics. This operational document offers examples of ethical behaviour to help employees make ethical decisions. The Code of Conduct is posted on our intranet and acknowledged on the compliance tool. The acknowledgement includes a set of questions that must be answered to demonstrate an understanding of the policy principles. By 31 December 2015 altogether 97,1% of our employees had completed the Code of Conduct policy acknowledgement.

**Supplier Code of Conduct** - This is aligned with the Group Code of Conduct and supports the protection of human rights across our supply chain. The principles of the Supplier Code of Conduct apply to all our suppliers, consultants and contractors.

**Independent assurance of high-risk/high-value tenders** - This process was implemented during 2014 to assist business in a cost-effective but high-quality process to maintain the highest governance standards during tenders.

## African subsidiary implementation

Because expansion into the rest of Africa is a key component of our strategy and vision, our Ethics Office has implemented the full Nedbank Group ethics programme within our African subsidiaries. Business ethics officers have been appointed in all subsidiaries and are busy finalising the Ethics Officer Accreditation Programme through EthicsSA as well as the Nedbank Ethics Officer Internship.



### Appointment of ethics officers in all business clusters

The majority of the established ethics officers have completed the first half of the Ethics Officer Internship that is supported by EthicsSA. The internship covers the following modules:

- an introduction to occupational crimes, irregularities and unethical behaviour;
- why ethics officers are imperative – a legal perspective;
- mandate of the Social and Ethics Committee;
- contextualisation of the ethics officer’s role;
- reportwriting;
- ethics investigations and related industrial relations;
- policy development;
- principles of risk management;
- introduction to human rights in business;
- influential communication;
- introduction to integrated sustainability and Global Reporting Initiative (GRI) reporting; and
- ethics officer accreditation (EthicsSA).

### MEASUREMENT OF ETHICS

We use a variety of indicators, surveys and tools to ensure that ethical conduct across our group and its subsidiaries remains at the highest possible standard.

**Nedbank Ethics Indicator** – The Nedbank Ethics Indicator (NEI) is performed only every two to three years and will be undertaken again in the 2016/7 financial year.

**Nedbank Staff Survey (NSS)** – The ethics risks identified by the ethics risk assessment (ERA) and NEI are included in the annual NSS to monitor improvement, or lack thereof, in terms of the following dimensions of our corporate culture:

- Strategic direction.
- Leadership.
- Ethics.
- Management style.
- Communication.
- Change and transformation.
- Training and development.
- Organisational culture and values.
- Engagement.
- Diversity.

- Rewards, recognition and performance management.
- Relationships and trust.
- Employment equity.
- Policies and procedures.

The results of the 2015 NSS showed that ethics remains one of the most highly rated dimensions by staff, with a positive response of 79,3, a decrease compared with 80,4 in 2014. Two of the most positively rated statements in the survey come from the ethics dimension, namely:

- I am aware of Nedbank’s Code of Ethics = 97,7
- I report gifts received in the business environment in accordance with the policy = 90,7

In addition, one of the most positively rated statements in terms of improvement comes from the ethics dimension, namely:

- In Nedbank staffmembers seek advice from ethics officers about difficult ethical issues.

### DRIVING ETHICAL AWARENESS

#### Promoting ethics among our staff

**Awareness training** – As part of its ongoing efforts to raise awareness of the importance of, and need for, ethical behaviour, the Ethics Office provided awareness training to more than 2 600 staffmembers (translating into 5 200 training hours) across our group in 2015. There has been a notable increase in queries and reports to the Ethics Office by staff as a direct result of this awareness training.

**Acknowledgement of policies** – Our electronic Enterprise Governance and Compliance (EGC) Management System is integral to our ethics awareness and education efforts among staffmembers. Declarations of outside interests and gifts are also captured on the system. These declarations and acknowledgements are monitored by business ethics officers.

During 2015 the system delivered the following data on policy acknowledgements and declarations:

### POLICY ACKNOWLEDGEMENT AND DECLARATIONS

Acknowledgements	% achievement 2015	Number of staffmembers
Anti-corruption Pledge	97,8	28 063
Code of Conduct	97,9	28 104
Code of Ethics	98	28 133
Declaration of Secrecy	97,1	27 793
Employee Conduct Pledge	98,5	28 147
Ethical Leadership and Dignity Pledge (newly launched)	75,6	21 552
Get to know your Ethics Office/Officers (newly launched)	88,1	25 320
Harassment (newly launched)	91,5	25 857
Use of social media	98	28 121

Outside interests	% achievement 2015	Number of declarations
Declaration of outside interests (keeping in mind that one employee may have more than one outside interest)	13,3	3 908
Nil returns (referring to outside interests)	83,5	24 547

In addition, as part of our alignment with the requirements of GRI we have undertaken the following ethics and human rights awareness and protection initiatives:

- Awareness training has been conducted with more than 2 600 staffmembers.
- We highlight and discuss ethics dilemmas and questions in an 'agony aunt' style column in our staff publication *3Sixty*.
- Annually, we distribute awareness material with information regarding ethical behaviour and human rights to staffmembers.
- Staffmembers are encouraged to make use of the 'Talk to the Ethics Office' email and phone channels for ethics advice and guidance.
- Relevant articles aimed at highlighting ethics and growing awareness around human rights were posted on the group communication channels.
- The Nedbank Group Human Rights Statement is published on the group's intranet site, with ongoing staff awareness generated through all group communications channels.
- The appointment of business ethics officers in all business clusters (including subsidiaries) significantly adds to staff awareness and encourage engagement around ethics and human rights issues or questions.

### Promoting ethics among our suppliers

We use the Ethics Responsibility Index (ERI) to continually assess ethics, governance and human rights aspects of the vendors and suppliers who partner (or seek to partner) with us. During 2015 the Ethics Office was involved in three high-risk tender processes, covering assessments done on more than 45 vendors, as well as in introductory training to small and medium enterprise (SME) clients. In 2015 the ERI was enhanced with a number of ethics and human rights questions. We also created significant ethics awareness at our Vendor Indaba sessions, particularly around issues such as giving and receiving gifts, human rights in business, conflicts of interests and the reporting of unethical behaviour.

### Promoting ethics among our clients

Offering our business clients, particularly those operating SMEs, relevant support is vital to the sustainability of our supply chain and the creation of a robust and sustainable SA economy. In 2015 the Ethics Office continued with a series of training and governance products as part of our client value proposition within our Retail Relationship Banking and Business Banking areas. These products are provided to clients free of charge and include the following:

- ethics awareness training for staff;
- business etiquette training;
- awareness of 'human rights in business' principles;
- simplified tender submissions; and
- governance framework implementation.

Training was provided to 10 SME clients during the year.

This ethics and governance support initiative has generated a positive response from our SME clients, indicating that this level of support and training is a vital requirement in the SA market.

### Enabling engagement on ethics

A key component of a truly ethical culture is the ability of stakeholders to engage with us regarding their ethics concerns. We have implemented a variety of internal and external mechanisms for reporting actual or suspected unethical or unlawful behaviour and matters related to organisational integrity. These include:

- The Tip-offs Anonymous hotline that is available to all our stakeholders for the anonymous reporting of any unethical or unlawful behaviour.
- The 'Talk to the Ethics Office' email address to report any human-rights-related or other unethical behaviour.
- The Nedbank Group Risk Reporting Line is also available for all stakeholders to report unethical behaviour. This is not an anonymous channel.
- Any unethical behaviour or human rights violations can also be reported directly to the Ethics Office.

## COMMITTED TO UPHOLDING HUMAN RIGHTS

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

### Governance of human rights in business

Ensuring that we have an effective framework in place will help us to manage the implementation of human rights in business.

- The Framework for the Implementation of Human Rights in Nedbank has been finalised.
- The Nedbank Group Human Rights in Business Policy has been finalised and will be presented to Group Exco for approval.
- The Nedbank Conflict Mineral Statement has been developed and will be presented to Group Exco for approval.
- The National Business Initiative launched the Framework for the Implementation of Human Rights in Business during May 2015. Special mention was made of the fact that Nedbank developed this framework for dissemination to businesses in SA.

**Human rights screening** – A commitment to ongoing screening of human rights is integral to all our operations and relations with our stakeholders.

- Our group sustainability area delivers comprehensive reports on compliance with the Equator Principles and the data generated by our Social and Environmental Management System.
- The Ethics Office has developed an Ethics Responsibility Index that is implemented across all high-risk/high-value tender processes. This includes a detailed section on human rights as a component of our business partnership requirements.
- We conduct human rights training with various vendors and suppliers at our annual Vendor Indabas as well as during tender processes and business training.
- Our Supplier Code of Conduct, which includes a commitment to ethical behaviour that prizes human rights, forms part of the contract our vendors and suppliers sign with us.

**Human rights investment** - We continue to invest in raising stakeholder awareness of, and compliance with, human rights principles. In 2015 this investment resulted in the following initiatives and outcomes:

- Awareness training was conducted with more than 2 600 staffmembers. An awareness session lasts an average of two hours, meaning that we delivered more than 5 200 training hours for ethics and human rights during 2015.
- We launched a client value proposition initiative that includes the provision of training to SMEs. This includes awareness around 'human rights in business' principles and guidelines.
- We provide ongoing publications on human rights in Nedbank on MyWorkSpace.
- The human rights officer for Nedbank is also the chair for the Group Disability Forum, which is part and parcel of human rights. Through this forum, best practices are discussed. We provide a human rights context to the forum. We are also receiving more reports of disabled employees whose needs are not addressed in business. Where this is deemed harassment, the Ethics Office recommends that grievances be logged on the human resources system and addressed as prescribed in the policy. Persons-with-disability training have been arranged in certain areas as a result of Ethics Office investigations.
- Ongoing cluster executive awareness sessions and employee awareness sessions on 'human rights in business' were held during 2015.
- A section on 'human rights in business' has been included in the Managers Toolkit developed during 2015.
- A harassment awareness campaign was launched during the second half of 2015, which created awareness of the different types of harassment and how it must be reported and addressed.
- A Children's Rights Pledge will be launched during Q1 2016 as part of the larger 'human rights in business' project.
- Nedbank partnered with the Global Child Forum through the involvement of the Ethics Office in presentations and action learning

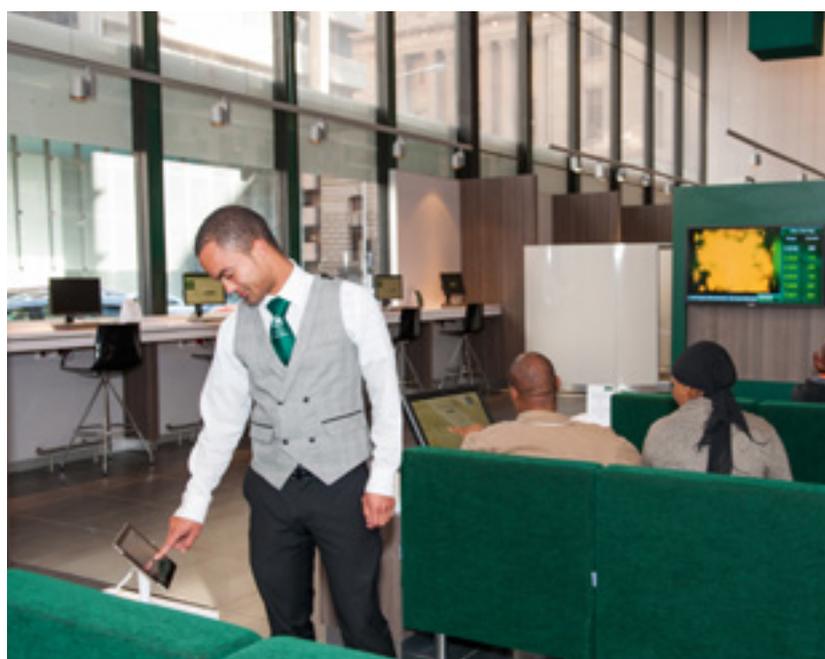
initiatives on 8 September 2015. The Global Child Forum is a royal foundation based in Stockholm, Sweden, and provides a platform for an informed top-level dialogue and knowledge sharing on children's rights by global decisionmakers from governments, corporations, civil society, multilaterals, the United Nations and academia. Its forums promote and support cooperation and action for children's rights. The regional Global Child Forum in Southern Africa took place on 8 September 2015 in Pretoria, gathering approximately 500 high-level representatives from the region. It was arranged with the UN Global Compact Network SA/

National Business Initiative and the African Child Policy Forum. Nedbank was invited to present at the forum and also launched the acceptance of the African Pledge on Children's Rights.

- The ERI has a section that focuses on human rights in business. It is an ongoing initiative to assess all the suppliers in tender processes as well as new suppliers to the group. This forms part of our due diligence for human rights in business. We have completed more than 45 assessments in 2015.
- We have trained 47 new and potential suppliers and 10 existing suppliers on human rights in business.

### INCIDENTS OF HUMAN RIGHTS MISCONDUCT

Type of incident	Total 2013		Total 2014		Total 2015		Direct to Ethics Office
	Disciplinary action	Grievances	Disciplinary action	Grievances	Disciplinary action	Grievances	
Assault		7		11		10	2
Disability (included from 2015)						2	
Discrimination		21		14		10	2
Intimidation	5		5		2	5	8
Sexual harassment	1	6	5	6	1	5	5
Victimisation	1	117	3	58	3	10	12
<b>Total</b>	<b>7</b>	<b>151</b>	<b>13</b>	<b>89</b>	<b>6</b>	<b>42</b>	<b>29</b>
		158		102			77





### Incidents of misconduct related to human rights

Six human rights-related incidents were raised by management in 2015 (2014: seven incidents), but all were successfully resolved. In addition, 71 human rights-related grievances were logged by staff (2014: 89). The status of these incidents is shown in the accompanying table. There has been a significant year-on-year decline (25%) in human rights-related incidents. While it is not possible to pinpoint the exact reasons for this positive movement, we are confident that our continued strong focus on building an ethical culture that encourages mutual respect is a contributing factor.

### Promoting ethics in SA business

We believe that we cannot be a successful business operating in a failing environment and as a corporate citizen we have a responsibility to uplift SA business. This is also why we are a member of the UNGC and share information and best practice with other businesses and stakeholders. In 2015 these included the following:

- The Nedbank Ethics Officer (NEO) was invited to Sweden by Enact, the Swedish network for business and human rights, and presented on 'Human rights, and due diligence in the value chain and how a multinational business can truly be a driver for sustainable development where human rights in business is a key driver, focusing specifically on ethical leadership principles'.
- The NEO also visited CRES, an organisation focusing on the elimination of the commercial sexual exploitation of children. Strategies supported by the financial sector were discussed as well as a partnership to implement the programme in SA business.
- The Ethics Office was invited by Arnold Smit, Director of Centre for Business in Society, USB Executive Development, to present on the implementation of ethics programmes in business at the BENAfrica conference held on 19 May 2015.
- The NEO was asked for the second year in a row to host and present to students of the Kelley School of Business on the implementation of human rights in business during May 2015.
- The NEO was interviewed by the Business Unit Private Sector Cooperation in Germany to contribute to the Global Alliance for Integrity.
- The NEO contributed to the UN Good Practice Note: 'Integrate Human Rights into Crisis Planning' developed by Anthony Ewing, Columbia Law School.
- The Communication of Progress regarding the UN Global Compact Principles has been finalised and posted on the UNGC website.
- The Ethics Office did a training session for the Government Employee Pension Fund and had a meeting with PPC on the implementation of ethics programmes in business.