Creating value by using our financial expertise to do good

United Nations Global Communication of Progress

for the year ended 31 December 2018

see money differently

NEDBANK GROUP

CONTENTS

LETTER FROM OUR CHIEF EXECUTIVE

Nedbank Group – continued commitment to the United Nations Global Compact

As Chief Executive of Nedbank Group, I reaffirm our commitment to the United Nations Global Compact and the 10 principles that underpin it. In addition, as a Group, we remain a signatory to the Equator Principles and the CEO Water Mandate and we continue to support the UNEP FI Positive Impact Working Group.

These commitments, along with deliberate focus on the Sustainable Development Goals (SDGs), form an important part of our overall strategy as we align our core business to deliver on our purpose – to use our financial expertise for the good of individuals, families, businesses and society.

The SDGs represent a powerful lens to identify opportunities for business innovation and growth, and they define the 'good' in our purpose. As such, in 2018 we continued to reorient our strategic approach to focus on the most material SDG targets through our three main points of leverage – Products and Services: Sustainable Development Finance, Operations and Corporate Social Investment.

We are proud to support the work undertaken by the UNGC, cognisant of the important role that the private sector plays in this.

Yours sincerely

Mike Brown
Chief Executive Officer

31 March 2019

OVERVIEW OF NEDBANK GROUP

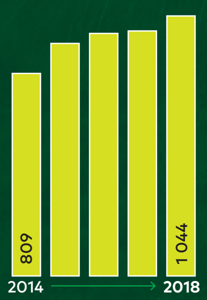
Nedbank Group is one of the largest financial services groups in Africa, offering wholesale and retail banking services as well as insurance, asset management and wealth management. In SA we have a strong franchise evidenced by a 19% deposit and 18% advances market share.

Outside SA we operate in six countries in SADC, through subsidiaries and banks in Lesotho, Malawi, Mozambique, Namibia, Eswatini (Swaziland) and Zimbabwe. In Central and West Africa we have a strategic alliance with ETI in the region and we have representative offices in Angola and Kenya.

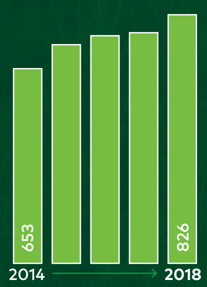
Outside Africa we have a presence in key global financial centres to provide international financial services for SA- and Africa-based multinational and high-net-worth clients in Guernsey, Isle of Man, Jersey and London, and we have a representative office in Dubai.

- Total assets above **R1 trillion** for the first time, in 2018
- Headline earnings **R13,5bn**
- Strong capital ratios: **CET1 capital ratio 11,7%**
- Market capitalisation **R136bn** at 31 December 2018
- Old Mutual strategic ownership **19,9%** (after unbundling of Nedbank Group ordinary shares to OML's shareholders on 15 October 2018)
- Employees **31 277**
- One of SA's most transformed banks – **level 1 BBBEE contributor status** (Amended FSC)
- Included in the **Dow Jones Sustainability Emerging Markets Index** since 2004

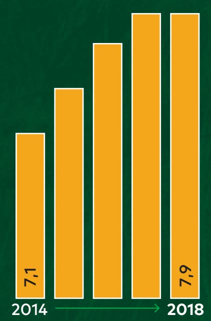
Assets
(Rbn)



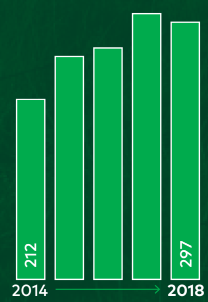
Deposits
(Rbn)



Total retail clients
(million)



Assets under management
(Rbn)



What differentiates Nedbank?

We are a purpose-led business. **Our unique corporate culture** and progress towards being more client-centred and innovative

Good governance

Experienced management teams

Leadership positions in renewable-energy finance, corporate and commercial property lending, retail vehicle finance, card acquiring, digital product ratings, asset management and wealth management

Managed Evolution and Digital Fast Lane (our IT strategies) position Nedbank to be **more digital, agile and competitive**

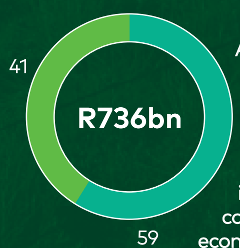
Strong and sustainable growth of main-banked client market share representing an ongoing opportunity for revenue growth

Selective origination and good risk management enabling the delivery of a **CLR that is the lowest in the industry**

Prudent management of our expenses over time and an opportunity to continue to lower our efficiency ratio

Strong position as a bank that is committed to **doing business in a manner that positively builds society at large**

Retail vs wholesale advances
(%)

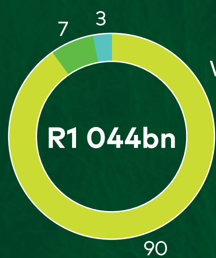


A wholesale-biased business model compared with those of peer banks positions us well to benefit from an increase in business confidence and economic growth.

- Wholesale
- Retail

Access to the largest banking network in Africa through our own operations in SADC and our strategic alliance with ETI in 39 countries.

Assets by geographical area
(%)



Well positioned to benefit from a recovery in SA economic growth.

- South Africa
- International
- RoA

REFLECTIONS FROM OUR CHAIRMAN

> As a purpose-led and values-driven bank, we play a critical role in society to safeguard depositors' money and transform the country's savings into investment opportunities and productive consumption, thereby facilitating economic growth and jobs and wealth creation. This is a key responsibility and one we do not take lightly.

It was an eventful start to 2018 with former President Jacob Zuma's exit and Cyril Ramaphosa being ushered in as the new President of South Africa. With this change came big expectations for President Ramaphosa and his Cabinet to address nine years of slow decline in economic growth, rebuild trust in a nation reeling from 'state capture', restore confidence in our public institutions, root out corruption, reverse the systemic erosion of state-owned enterprises, improve the country's fiscal position and create jobs.

The global political and macroeconomic environment is complex and volatile, with risks to growth rising and pressure on emerging markets. In SA we are operating in a mild-stress economic environment, and the sense of confidence the country experienced in the first half of 2018 has faded as policy uncertainty and recessionary-type conditions prevail.

In 2018 we saw an increase in VAT in SA, recurrent fuel hikes, land expropriation debates, and a low-growth economy. The announcement of the Stimulus Plan in September, the successful Investment Conference and Jobs Summit in October, along with the Medium Term Budget Policy Statement and 2019 Budget, saw a shift in tone from government on how it intends rebuilding the economy. But much still needs to be done to convince ratings agencies that the execution and investment plans will lead to a sustained increase in GDP growth.

The reality is we are still at the early stages of a political and institutional turnaround – the Nugent, Zondo and other commissions are a difficult but necessary part of this to restore trust and the rule of law that is a foundation for any progress. There is still a lot of much harder work ahead to resolve strategic, operational and funding challenges at SOEs, particularly at Eskom, which in the context of the South African economy is a monopoly that is too big to fail.

Growth on the African continent has shown a positive trajectory, but it remains a challenging environment to navigate. The continued instability in Zimbabwe, for example, takes place against a backdrop of worsening economic hardship for that country and indeed the region. We remain hopeful about a recovery in Zimbabwe.

As much as the forecasts speak to higher growth in Africa and a recovery in commodity prices adds to macroeconomic stability on the continent, they are insufficient to deal with the structural issues that exist. Strengthening governance and institutional frameworks will go a long way in addressing the crisis of confidence we currently face.

Purpose-led business

The lack of confidence in governance in SA has undermined the investment case for the country. The correlation between investment and sound governance is clear – you cannot have one without the other. Furthermore, without substantial new investment in our economy, we will not achieve the inclusive economic growth needed to address the country's three most important challenges: unemployment, poverty and inequality.

As a purpose-led and values-driven bank, we play a critical role in society to safeguard depositors' money and transform the country's savings into investment opportunities and productive consumption, thereby facilitating economic growth as well as job and wealth creation. This is a key responsibility and one we do not take lightly. If we falter, we lose our social licence to operate. We could lose our banking licence, but more importantly, we could lose the trust and confidence of our stakeholders, including that of depositholders.

To be sustainable over the long term we need a clear reason for our existence, and we have articulated this in our purpose statement – to use our financial expertise to do good for individuals, families, businesses and society.

The Sustainable Development Goals (SDGs) represent a common set of measurement criteria for 'doing good' or improving the state of society and the world, and were chosen to measure the delivery of 'doing good' as set out in our purpose statement.

I do believe that we need more 'purpose-led' organisations. We need boards to think about how they can make their organisations and related governance structures more responsive to the broader societal and environmental context.

The 'do good' is not defined in the narrow form of philanthropy, but rather in the philosophy of doing business responsibly, which means doing business ethically based on a trust relationship with stakeholders. Trust is created by having a sound strategy and business offering, promoted through ethical leadership and a commonly accepted and lived set of values, demonstrated through behaviour that in turn leads to effective and enabling governance, risk and compliance.

Having the appropriate governance mechanisms and pillars that support ethical behaviour are foremost in our business. Nedbank has played and continues to play a leading role in the proactive engagement between government, labour and the private sector. We were one of the founding members of the CEO Initiative in SA, which supports government with several interventions to address the most urgent problems in our economy.

We realise that businesses must participate in matters of national significance, and in this regard Nedbank was the only bank to make its own submission to the Constitutional Review Committee in Parliament looking into land expropriation without compensation.

I am also proud that Nedbank supported the legacy of Madiba by sponsoring the Global Citizen Festival: Mandela 100. I strongly believe that businesses that understand that they are truly part of helping to improve society and not merely part of some separate financial universe, will increasingly be differentiated in the eyes of staff, clients and stakeholders and, as a result, will grow faster than their peers.

If we are to continue building a truly sustainable business, we must do good for our clients. This means we must use our skills and expertise to ensure great client experiences every time they engage with us. The power has shifted; we need to listen to our clients and respond to their needs and expectations perhaps before they even know how to articulate them.

I am pleased that Nedbank has for the first time achieved a level 1 BBBEE contributor status for the full year 2018 under the Amended Financial Sector Code. This is a result of our ongoing commitment to sustainable transformation.

Digital world without boundaries

As the Fourth Industrial Revolution dawns on us, bringing innovation and disruption, we have initiated projects through our Managed Evolution (ME) and Digital Fast Lane (DFL) capabilities that will improve our response to digitisation and position us in the growing online environment.

The emergence of new players in the financial services industry has created a new digital world that can almost be described as one with no boundaries. Non-traditional players are increasingly exploring new opportunities, enabling them to challenge incumbents and continually change the state of financial services in SA. For traditional banks this changing landscape presents challenging, but exciting, opportunities that must be matched with accelerated interventions for grooming leaders who will lead through innovation and technology to disrupt the market.

The digitisation of an organisation does not happen overnight – the intricate interdependencies between people, processes, technology and data must be considered carefully. The scale, scope, and complexity of the technological revolution are going to change the way we live, learn and work, as well as how these relate to each other. To facilitate this transition we know that to remain relevant we cannot approach the shift in isolation. Our response must be integrated and comprehensive, involving all our stakeholders.

Two independently managed companies

We officially completed the managed-separation process with Old Mutual in 2018, a momentous occasion in Nedbank's history. The process, as predicted, did not affect staff, clients, the group's strategy or the daily operations at Nedbank.

The managed separation will allow the two independently governed and managed companies – Nedbank and Old Mutual Limited – to focus on their respective strategic goals and operate more effectively to the benefit of shareholders, staff, clients and society. We are excited about Nedbank's journey ahead as a truly independent company. The unbundling has led to a far more diverse emerging-market shareholding profile for Nedbank and a much larger free float including higher levels of shares available to trade. These bode well for both existing and new shareholders.

Culture of transparency and accountability

Governance within Nedbank Group implies far more than 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. The board continues to fulfil the primary governing roles and responsibilities encapsulated in King IV™.

As the Chairman of a 'purpose-led' organisation, the board and I try to ensure that our governance structures are more responsive to the broader environmental context, as this is important if we are to truly deliver on our purpose of 'doing good' for our staff, clients, shareholders, regulators and society.

State capture may have broken the trust between social partners in SA and undermined our confidence in one another. But now we must find a way to work together, because the challenges before us are too great for business, government or labour to deal with on its own. To work together productively, difficult decisions will have to be made, and success is going to require that all of us deliver on our promises – big and small – to build trust and confidence.

Appreciation

We are the sum of our parts and our strength lies in our diversity. Without the 31 277 employees who are committed to our 7,9 million clients, the bank does not exist. Thank you to our Chief Executive, Mike Brown, and the executive team for their ongoing support and commitment to delivering on our purpose.

Thank you to my fellow boardmembers for your support, and a special word of appreciation to Nomavuso Mnxasana, Bruce Hemphill and Ian Gladman who stepped off the board last year. We welcome Peter Moyo from Old Mutual Limited to the board, and I am looking forward to working with him.

In accordance with the Mandatory Audit Firm Rotation, KPMG will rotate off the Nedbank Group on conclusion of its audit responsibilities for the year ended 31 December 2018. On behalf of the board, we thank KPMG and their staff for their valuable contribution to Nedbank as they served as our external auditors for many years. We look forward to working with Ernst & Young (EY).

This year we will also have our general elections, and we will look to the newly elected government to provide leadership and much-needed clarity on policy, including a clear plan to address sustainable land reform, defend the independence of SARB and address crippling state-owned entities. It may seem to be a long road ahead, but I am positive that we can attract new investment to ensure inclusive growth to address unemployment, poverty and inequality.

Vassi Naidoo
Chairman

OUR VALUE-CREATING BUSINESS MODEL

USING OUR FINANCIAL EXPERTISE ...

Risks and opportunities in our operating environment

- SA macroeconomic environment
- Disruptive technologies and increased competition
- Demands on governance, regulation and risk management
- Transformation of society within environmental constraints

IV STRONG GOVERNANCE OVERSIGHT

- Nedbank is committed to the **highest standards of governance, ethics and integrity**.
- We embrace **worldclass banking practices and robust institutional frameworks** to ensure our banking services are secure and stable.
- Our board is **diverse in demographics, skills and experience** and **69% of the directors are independent** non-executive directors.

- Managing growth opportunities vs volatility in the rest of Africa
- Requirements for scarce and evolving skills
- Changing relationships between business, government, labour and civil society

Read more about these material matters on pages 14 to 22.

OUR CAPITALS ...

Inputs

Financial

- **R91bn** equity
- **R826bn** deposits

Intellectual

- **Ninth** most valuable SA brand
- **A leader** in wholesale banking, commercial-property finance, vehicle finance, banking apps, and asset and wealth management
- **Managed Evolution** and **Digital Fast Lane IT** capabilities
- **Strategic partnerships** with Old Mutual Limited, ETI, Bank of China and Deutsche Bank

Human

- **31 277** employees
- **Client- and people-centred** culture
- Strong **compliance and governance** culture

Manufactured

- **114** core IT systems
- **363** digitally focused outlets
- **4 242** ATMs and **702** outlets
- Market-leading **digital services and CVPs**

Social and relationships

- **7,9 million** clients
- One of SA's most **transformed banks**
- Leader in **sustainability**
- Leader in **social responsibility**

Natural

- **19 Green Star** ratings across 10 buildings
- **Carbon-neutral** operations and effectively net-zero operational water usage
- Leader in **renewable-energy** financing
- **2 800** deals/clients through our **Social and Environmental Management System**

Strategic focus areas

- Delivering innovative market-leading client experiences
- Growing our transactional banking franchise faster than the market
- Being operationally excellent in all we do
- Managing scarce resources to optimise economic outcomes
- Providing our clients with access to the best financial services network in Africa

Read more about our strategic focus areas on pages 23 to 31.

Delivering financial outcomes for Nedbank in 2018

NII ▲ **4,3% to R28,8bn** − **Credit impairments charges** ▲ **11,6% to R3,7bn** + **NIR** ▲ **7,9% to R26bn** + **Associate income** ▲ **> 100% to R528m**

… TO DO GOOD FOR INDIVIDUALS, FAMILIES, BUSINESSES AND SOCIETY

ENABLE VALUE-ADDING ACTIVITIES THAT …

Outputs

- Provide savings and investment products
- Extend credit to our clients through responsible lending practices
- Provide lending that is aligned to the SDGs
- Generate deposit yields and interest income earned on amounts advanced
- Facilitate payments and transactions
- Provide advice-based services
- Manage, protect and grow wealth through insurance, asset and wealth management solutions
- Offer global market-related services
- Generate returns on our strategic investment in ETI
- Reward performance and invest in attracting, developing and retaining our people
- Maintain, optimise and invest in our operations, including technology, marketing and infrastructure
- Pay taxes in the jurisdictions in which we operate

WHILE MANAGING KEY RISKS

Credit risk

CLR below 60–100 bps target range: 53 bps

Market risk

R1,5bn NII sensitivity for a 100 bps change in interest rates over a 12-month period

Trading value at risk R29,3m

Balance sheet risk

LCR > 2018 minimum of 90%: 109% (Q4 2018 average)

NSFR > 100% SARB requirement: 114%

CET1 within target range 10,5–12,5%: 11,7%

C-suite of risks

Increased focus on client, competitor, change, cyber-, cryptocurrency, conduct, culture, crime and compliance risks

Our top three risks

1. Strategic and execution risks
2. Cyberrisk
3. Business risk

Read more about our risks on pages 58 and 59 of the 2019 Integrated Report.

CREATE VALUE FOR OUR STAKEHOLDERS

Outcomes

Staff

- R13,4bn in salaries and benefits ▲ 4,7%
- R468m invested in training ▲ 31,8%
- 77,4% black staff
- 61,8% female representation

Clients

- R181bn new loans advanced ▲ 18,3%
- 22,1bn transactions processed ▲ 15,7%
- Convenience – application systems uptime at 99,2%
- Exciting new digital innovations
- Top-tier asset management performance

Shareholders

- Share price ▲ 7,3%, total shareholder return of 12,6%
- Full-year dividend ▲ 10,1% to 1 415 cps
- > 91% voting outcome for all resolutions at 51st AGM

Regulators

- Compliance with all regulatory requirements
- Smooth IFRS 9 implementation
- R10,3bn direct and indirect tax contributions

Society

- R124m socioeconomic spend
- Disbursed R22,8bn (2017: R18,4bn) renewable-energy deals adding a further 3 517 MW to the national grid once plants are constructed
- 175 000 adults and learners benefited from consumer education programmes
- Contribution to water security
- Positive impact through our lending and operations
- Level 1 BBBEE contributor status (Amended FSC)

− **Expenses ▲ 6,1% to R31,6bn** − **Taxes ▲ 9,6% to R5,8bn** − **Other equity holders ▲ 11,9% to R759m** = **HE ▲ 14,5% to R13,5bn; ROE excl goodwill ▲ 17,9%; Cost-to-income ratio ▼ 57,2%**

OUR PURPOSE, VISION, BRAND AND VALUES

Our purpose To use our financial expertise to do good for individuals, families, businesses and society.

Our vision To be the most admired financial services provider in Africa by our staff, clients, shareholders, regulators and society.

Our brand promise – see money differently

Nedbank Sustainable Development Framework

'For Nedbank to be sustainable over the long term we need to have a clear reason for our existence – a "North Star" that demonstrates what we do to help society to develop and grow, thereby helping enable better lives for all. This is our purpose – it is why we have been building and growing Nedbank since its origins in 1834.

'Doing good is easy to say but harder to measure, and what gets measured gets done. The SDGs represent a single common set of measurement criteria for "doing good" or improving the state of our economy and society. This power of common measurement and aggregation is why we chose the SDGs to measure the delivery of "doing good" as set out in our purpose statement.'

Mike Brown
Chief Executive

Our values

Integrity
Being honest, trustworthy, consistent and transparent in all our actions and decisions.

Respect
Recognising the inherent worth of every individual and treating everyone with dignity.

Accountability
Being prepared to take ownership of and be held accountable for our commitments and actions.

People-centred
Investing in our people and creating an environment that empowers our people to perform distinctively and to excel.

Client-driven
Creating value and delightful experiences for our clients that exceed their expectations.

I am responsible for Nedbank's delivery of ...

SDG 4: Quality Education

'Education is one of the most important investments a country can make in its future and its people. It removes barriers in the economy by allowing for greater equality of opportunity, thereby opening up access to a better life for all. Nedbank's role in contributing to this includes the professional development of our staff, the provision of learnership and graduate programmes and our education-focused CSI investments. In addition, we will continue to explore new financing solutions to complement our existing student loan offerings and investments in student accommodation.'

Anna Isaac

SDG 6: Clean Water and Sanitation

'We recognise the human right to clean water and sanitation, yet millions of people across the African continent still do not have access to these. Without sufficient clean water, economies cannot function. SA and many of the countries in which we operate are not only water- scarce countries, but have poor water infrastructure too. The role of the bank is therefore to play a meaningful role in addressing water and sanitation issues primarily through funding solutions.'

Raisibe Morathi

SDG 7: Affordable and Clean Energy

'We have an obligation and the will to play our role in growing the economy in a manner that reduces levels of poverty and inequality while driving sustainable development and job creation. The efficient use of affordable, reliable and sustainable energy is paramount to achieving these objectives. Therefore Nedbank is committed to developing integrated, sustainable energy solutions that span from utility scale to household level.'

Mike Davis

SDG 8: Decent Work and Economic Growth

'Nedbank cannot be successful if the societies in which it operates are not successful. Poverty and inequality continue to be key challenges to overcome across the continent. We must focus on creating new jobs in labour-intensive sectors that will stimulate the economy to grow in a sustainable and inclusive manner.'

Priya Naidoo

Delivering on our purpose will require the considered development and delivery of products and services that satisfy unmet societal needs, enabling a thriving society, creating long-term value, maintaining trust and ensuring the success of our brand.

The UN SDGs provide for a universal agreement on the economic, social and environmental priorities to be met by 2030. They represent a powerful lens to identify opportunities for business innovation and growth, and an objective mechanism through which Nedbank can assess and report delivery on our purpose. Thus, we focus on the most material goals and targets through our three main points of leverage: Products and Services: Sustainable Development Finance; Operations; and CSI.

Following a robust proprietary materiality exercise of the 17 SDGs, we have prioritised nine goals that we believe represent a combination of the biggest impact for society, delivery on client needs and exciting opportunities for Nedbank to develop innovative banking products and services. These nine goals are reflected in the Nedbank Sustainable Development Framework under Sustainable Development Finance. In 2018 we allocated those nine goals to nine group executives, who will own and drive Nedbank's groupwide response to their respective SDG. By doing so, the profile of sustainable development is elevated to the right level in the organisation. This will improve the alignment of purpose with culture, strategy, and brand, and drive the innovation effort that will be required to capture winning positions in new markets highlighted by the SDGs.

Our Sustainable Development Review details 2018 activities within the nine priority SDGs as well as where our operations and CSI activities help to support some of the other SDGs.

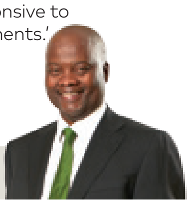
SDG 9: Industry, Innovation and Infrastructure

'Investing in infrastructure, industrialisation and innovation can be a strong catalyst of sustainable economic growth and development. As such, Nedbank is committed to unlocking new funding solutions for infrastructure opportunities such as mass transit, road and rail corridors, water treatment plants, information and communication technologies, as well as affordable housing, schools and hospitals.'

Brian Kennedy

SDG 15: Life on Land

'Land is both the origin and sustenance of life. It provides habitats for millions of people and animal species, is the source of our food supply, clean air and water, and is crucial for combating climate change. Given our history of division and strife, land, and its use, is an emotive subject in SA and in many other places on the African continent. Nedbank is therefore committed to using finance, where possible, to address the imperatives of SDG 15 in a manner that is relevant and responsive to domestic requirements.'



Mfundo Nkhulu

SDG 12: Responsible Consumption and Production

'As individuals and consumers we have the gift of being able to make choices, and this gift gives us great responsibility. We know that as a bank, Nedbank is not directly involved in the production of physical goods but many of our clients are. As such, we can be a powerful catalyst for positive change and transformation, by using finance to support and enable more responsible and sustainable ways of producing and consuming goods.'

Khensani Nobanda

SDG 11: Sustainable Cities and Communities

'Cities are melting pots in which the interplay between physical constraints and human needs works itself out daily. With 3,5 billion people already living in cities worldwide, the success of our future economies will depend on sustainable development solutions being found within the built environment. Banks can play a vital role in this. While lending in the residential sector underpins powerful change, investment in safe and sustainable transport solutions, as well as resilient building technologies, is equally as important.'

Ciko Thomas

SDG 10: Reduced Inequalities

'Inequality undermines trust, which is a precondition for long-term economic success. Reducing inequality is especially important in the African context because of the long history of disparity on much of our continent. Therefore we need to practice what we preach by promoting fairness and equality, not only in the day-to-day running of our business, but also through the products we design and market. In so doing, we will begin to reverse the growing divide.'

Iolanda Ruggiero

REFLECTIONS FROM OUR CHIEF EXECUTIVE

2018 was year of achievement across a broad front. I am pleased to report to our shareholders and stakeholders that, in addition to the seamless conclusion of the managed-separation process from Old Mutual, Nedbank Group delivered a resilient financial performance in 2018, boosted by the ongoing turnaround in our associate income from ETI.

HE increased 14,5% to R13,5bn and ROE (excluding goodwill) improved from 16,4% to 17,9% – well ahead of our COE of 14,1%. This performance assisted Nedbank to end the year as the best-performing SA bank share on the JSE in 2018, with its share price up 7,3%, and the fourth-best-performing company in the JSE Top 40. Our dividend of 1 415 cents increased 10,1%, providing shareholders with a TSR of 12,6% during 2018.

After accounting for the full IFRS day 1 impact and the cost of the odd-lot offer, we ended the year with a strong capital position, reflected in our fully phased-in CET1 capital ratio of 11,7%. This is above the midpoint of our target range and well above the SARB minimum requirement. In 2018 we reached a key milestone, as total assets for the group exceeded R1 trillion for the first time.

2018 – another difficult year for SA banks

For banks in SA and in Africa 2018 was not an easy year. Although conditions were slightly better than in 2017, we had to navigate a recession in SA in the first half of the year; strategic, operational and funding challenges at key SOEs; ongoing policy uncertainty, particularly around land expropriation; and a VAT increase, all of which resulted in clients remaining under financial pressure, being risk averse, transacting less, borrowing less and investing in cash rather than equities.

The year started on a positive note with the change in our political leadership when Cyril Ramaphosa was elected as the new President of SA. This was followed by a significant improvement in investor sentiment. Business and consumer confidence soon evaporated as the domestic challenges faced by SA became more apparent through the revelations of various commissions of inquiry highlighting the extent of state capture, a VAT hike in April and key economic indicators worsening at a time when the external backdrop was less positive for emerging-market assets.

Economic conditions improved slightly off a low base in the second half of the year, with GDP growth finishing the year at 0,8%. In our business we have seen steady growth in application volumes and loan payouts in RBB and, after a slow first half, loan volumes picked up in CIB in the second half. Our NIR continues to grow strongly, underpinned by a good performance in global markets and growth in main-banked clients across all our businesses. Our credit quality remains excellent as evidenced by a CLR of 53 bps, and we continue to manage costs wisely and extract operational efficiencies as we aim to reduce our cost-to-income ratio over time.

Delivering on our purpose

I firmly believe that any business that sees itself as separate to the society in which it operates will not be successful and sustainable over time. Simply put, it is very difficult to operate a successful business in an unsuccessful society. In this context we developed our purpose statement in 2017 and embedded it throughout Nedbank in 2018. Our purpose – to use our financial expertise to do good for individuals, families, businesses and society – is what Nedbank is all about and what we do to help society prosper. It is in our DNA and what we have been doing successfully since 1834, and it has kept us sustainable and successful over that time.

I am proud of the commitments we have made to bring our purpose truly to life. We have embraced the SDGs, a set of goals by the United Nations to create a better world and society. For the first time the world has a set of common goals to guide our company in what we need to do to contribute to the world and to SA. We will use the SDGs to guide us and to measure the progress we are making in delivering on our purpose. Leading from the top, nine of the SDGs have been individually adopted by our executive team, who will drive groupwide adoption, awareness and delivery.

We have also made a commitment to the YES initiative to address youth unemployment. From the first quarter in 2019 we will be investing approximately 1,5% of the three-year average SA net profit after tax per annum to give employment opportunities to about 3 000 youth, either through placements internally or sponsored placements with implementation partners. This follows the R20m we are investing in the CEO Initiative R1,5bn SME Fund.

Our purpose is also fundamentally linked to our clients. Doing good for clients means satisfaction levels should improve, leading to more clients doing more of their banking with us and in turn leading to a more sustainable and valuable Nedbank business. We bring our purpose to market through our brand essence of being money experts who do good and our payoff line of 'see money differently'. When you manage money well, you can make a real difference in people's lives.

As a responsible corporate citizen, we also continue to play an active role in constructively using our voice on challenges facing society. This year we were the only bank to present to Parliament our position on the land reform debate, where we argued against any changes to section 25 of the Constitution, and in September I appeared before the Zondo Commission of Inquiry into State Capture on our closure of the Gupta accounts.

To remain relevant in a transforming society it is vital that Nedbank continues to be transformed. I am particularly pleased that in 2018 we were able to achieve level 1 BBBEE contributor status under the new Amended Financial Sector Code.

An obsession with client experiences

Sustainable and successful banks are those that can consistently deliver great client experiences by leveraging technology and digital innovation alongside human interactions. Those banks that do not consistently invest and refresh their IT platforms, products and culture will find it hard to compete against incumbents, big tech, new entrants, emerging platforms and fintechs.

In 2010 we embarked on a journey to rationalise, simplify and standardise (RSS) our core systems from 250 to 60 by 2020, with 136 core systems rationalised by end of 2018. Our best-of-breed Managed Evolution journey, started in 2014, has enabled us to digitise our IT landscape further and to become more agile. Our research on core banking replacements, which has included visiting and learning from banks across the world, has convinced us that our Managed Evolution approach will enable us to achieve a worldclass technology platform in a cost-efficient and risk-mitigated manner without a full core banking replacement. As part of the Managed Evolution, we have invested in and largely completed a number of key foundational IT programs that enable us to launch products and services to market at a much faster pace and lower cost than before. I am excited about the products and services we plan to launch off this platform in 2019 and 2020, and believe they will have a significant positive impact on client satisfaction levels.

In addition, we introduced Digital Fast Lane capability, using agile development methodologies and new Ways of Work (nWoW), and adopting the global gold standard in user experience wherever possible. We launched various market-leading innovations such as the Stokvel Account (a safe and cost-effective savings solution for the stokvel community), the Karri app (a convenient mobile payment app that allows parents to make instant online school-related payments), MobiMoney (a mobile-based account that anyone with a valid SA identity number can open anywhere in seconds), various new services on the Nedbank Money and Private Wealth apps, a crossborder remittance product, robo-advisors and chatbots.

Our successes in 2018 have been acknowledged by our clients as well as independent surveys. The Nedbank Money app™ recorded the highest client ratings among SA peers on the iOS platform, our Nedbank Private Wealth app was rated second best globally by Cutter Associate International Research and our retail Net Promoter Score increased the most among that of all SA banks. Digitally active retail clients grew to 1,5 million and 1,4 million digital-service requests have been performed by transactional clients on the Nedbank Money app™. We also won the *International Banker* award for Best Innovation in Retail Banking SA 2018 as well as *the Banker Africa*'s awards for Best Corporate Bank in SA and best Fintech Partnership for our satellite and drone imagery analytics experimentation. CIB was also placed first in the Bloomberg fixed-income league table rankings: SA bonds and number one in the primary dealer rankings as measured by SARB. Nedgroup Investments was named Offshore Management Company of the Year for the fourth consecutive year at the Raging Bull Awards.

Momentum is building and I am particularly excited about innovations we will bring to market in 2019, after piloting some of these in 2018. These innovations, which will further enhance client experience, include simplified digital client onboarding capability (no paper and no need to visit a branch, and quick), enhanced value propositions such as end-to-end digital applications for personal loans and transactional accounts, as well as a worldclass loyalty and rewards programme that will embrace our purpose of using our financial expertise to do good. In the past two years we have firmly established ourselves as a leader in delivering innovative market-leading client experiences, while ensuring that we remain at the forefront of cyberresilience. By 2020 we aim to have our top 10 products and 180 services available digitally. These innovations, along with many others, will position us well to grow our revenues and compete against existing competitors as well as new entrants coming to the market in 2019.

As we digitise services that were previously offered only inbranch, we should benefit from efficiencies as the cost to onboard and serve our clients will decrease significantly, as more and more transactions will be performed seamlessly and from end to end without human intervention.

Sustainable banks also deliver great client experiences through their people, and at Nedbank we focus specifically on leadership, culture and values. The world of work is changing and we embraced nWoW to ready us for the Fourth Industrial Revolution. nWoW continues to teach us about how we need to change and work in teams, as well as the skills and capabilities needed to be more innovative, digital, agile and competitive.

Making progress in Rest of Africa

Operating in the rest of Africa remains volatile and challenging, and our success in this area needs to be measured over the long term. We believe our Nedbank franchise has a competitive advantage in SADC and East Africa, and we have a strategic alliance with ETI in Central and West Africa. The continent provides a compelling long-term growth opportunity for Nedbank as our SA clients expand and gives our shareholders access to the faster GDP growth rate economies in sub-Saharan Africa.

In 2018 we saw strong growth off a low base from our subsidiaries in the rest of Africa and our associate income as ETI returned to profitability. The ongoing turnaround in ETI continues, but risks still remain, especially in Nigeria. We monitor these risks continuously as active participants on the ETI board. Collaboration efforts with ETI are increasing, as seen in more than 105 of our corporate clients using ETI for banking in countries where Nedbank is not present, the recent launch of a digital crossborder remittance solution together with ETI as part of the Nedbank Money app™, ongoing efforts to build the Nedbank Private Wealth subbrand and offering in the rest of Africa, and leveraging off ETI's ground presence in more than 30 countries to provide rich insight. In addition, we concluded two financing deals with ETI on the back of our investment banking expertise and balance sheet.

Successful completion of managed separation and subsequent odd-lot offer

Nedbank Group started 2018 as a subsidiary of Old Mutual plc and ended with Old Mutual Limited as a strategic 19,9% shareholder. The managed separation was successfully completed on 15 October 2018 and was the largest corporate transaction that Nedbank has ever been involved in – R43bn of Nedbank shares were distributed to OML shareholders. The outcome is positive for Nedbank shareholders as our free float improved from 45% to 80% and we broadened our emerging-market shareholder base. Despite some concerns around a potential overhang of Nedbank shares, the Nedbank share, as mentioned before, was the best-performing SA bank share on the JSE in 2018. For Nedbank and OML it is business as usual, and we continue our arm's-length collaboration, now underpinned by a new relationship agreement.

Looking ahead

SA is in the early stages of a political and economic turnaround. While we have seen positive changes after the ANC elective conference in December 2017, we are still faced with uncertainty as we head towards a general election that will see President Ramaphosa seeking to cement his leadership position in the ANC in order to secure a stronger mandate for making the changes required to drive stronger economic growth and to root out state capture.

Our forecast is for economic growth in 2019 to improve off a low base to around 1,3%. While this is lower than we previously expected, we call this 'Ramareality', and you can read more about it and other scenarios in the detail of the report. In the first part of the year we expect many investors to focus on the outcome of the May 2019 general elections, after which it is hoped more policy certainty will emerge. It will be vital to restructure Eskom to secure a dependable supply of affordable electricity, and the need to find clearly understood solutions to expropriation without compensation that do not impact on economic growth or food security are front of mind. In this slowly improving economic and policy environment our guidance for DHEPS growth in 2019 is to be equal to or greater than our current forecast of nominal GDP growth of approximately 6,0%. If we have a more positive economic outcome, Nedbank is well positioned for faster growth, given our strong CIB franchise and wholesale bias, as we expect that any accelerated recovery is likely to be more wholesale-led considering the pressures faced by SA consumers and the SA fiscus.

Looking towards the medium term, we reiterate our commitment to our 2020 targets of an ROE (excluding goodwill) of greater than or equal to 18% and a cost-to-income ratio of lower than or equal to 53% as a pathway to ongoing and sustainable improvements in the key metrics that support shareholder value creation. Given resilient earnings growth and the impact of IFRS changes and the odd-lot offer, which reduced equity in 2018, we are currently more confident that we will meet our 2020 ROE (excluding goodwill) target on a sustainable basis. While we remain committed to our 2020 cost-to-income ratio target, it has become more challenging to achieve. This is the result of a combination of weaker-than-anticipated economic growth, primarily resulting in slower wholesale advance growth and slower retail transactional activity as well as lower-than-expected interest rates; IFRS changes impacting the shape of the income statement and negatively impacting the cost-to-income ratio; new costs relating to the Youth Employment Service, deposit insurance and Twin Peaks (not previously known); as well as a decision to increase our investments in platform-related activities in RBB as we continually evolve our business model to underpin future growth.

Appreciation

This year we celebrate the 25th anniversary of our freedom as a country. Despite our challenges, we have a good story to tell, and 2018 has marked the start of a turnaround in governance at many key institutions. We can be proud that we, as Nedbank, have made a significant contribution to society in fulfilment of our purpose – to use our financial expertise to do good. Looking ahead, I am filled with renewed hope about the future as we have entered 2019 with slightly stronger economic prospects, strengthening democratic institutions and increased transparency. At Nedbank we embrace these positive changes as we focus on accelerating our client-centred and digital journey.

Our achievements are only made possible by our people. I would like to thank the Chairman, the board and my fellow executive team for their continued guidance and support, and particularly Thabani Jali, now on his retirement. Thank you also to all the dedicated Nedbankers for your commitment and hard work in tough conditions – we appreciate the value you deliver to our clients at every touchpoint as you help to transform our bank into a more agile, innovative, digital, client-focused and competitive Nedbank. We thank our more than 7,9 million retail and wholesale clients for choosing to bank with Nedbank every single day. We appreciate the support of our existing and new shareholders after the managed separation as well as all other stakeholders. As Nedbank we will continue to play our role in society as we recognise that our success depends on the degree to which we deliver value to society.

Mike Brown
Chief Executive

31 March 2019

CASE IN POINT – Nedbank sponsorship of #VaxTheNation and Global Citizen

3 GOOD HEALTH AND WELL-BEING

Nedbank supports the UN Sustainable Development Goal 3 — ensuring healthy lives and the wellbeing of all people. In line with SDG 3, Nedbank launched #VaxTheNation, a campaign that aims to shine a light on the importance of immunisation and providing life-saving vaccines from the time a child is born, and funds the work of community healthcare workers.

In a continued drive to encourage and build a better society, in 2018 Nedbank entered into a partnership as a major partner with international advocacy organisation Global Citizen to bring the concert-style Global Citizen Festival to the African continent for the first time. The concert was aptly named Global Citizen Festival: Mandela 100 in celebration of the centenary year of Nelson Mandela. Global Citizen has grown into one of the largest activist platforms for people around the world to call on world leaders to honour their responsibilities in achieving the UN's Sustainable Development Goals and ending extreme poverty by 2030.

RISKS AND OPPORTUNITIES IN OUR OPERATING ENVIRONMENT (MATERIAL MATTERS)

Our material matters are reflected in our key risks and opportunities and represent the issues that have the most impact on our ability to create sustainable value for our stakeholders. While these issues change over time as new trends and developments shape the macro environment and our stakeholders' needs evolve, the broad themes remain consistent. Our material matters are: a challenging SA macroeconomic environment; disruptive technologies and increased competition; demands on governance, regulation and risk management; transformation of society within environmental constraints; managing growth opportunities vs volatility in the rest of Africa; requirements for scarce and evolving skills; and changing relationships between business, government and civil society.

SA macroeconomic environment

As a financial services provider, we are highly connected to and interdependent on the macroeconomic environment, especially in SA where we currently generate more than 90% of our earnings. Our ability to create value is dependent on key economic drivers, our response to them and their impact on our stakeholders.

During our engagements with investors in 2018 a key recurring topic was the subdued level of economic growth in SA and Nedbank's outlook for the macroeconomic environment given the political developments from December 2017. Rather than an instantaneous acceleration in economic growth, the turnaround story for SA is that we are in the early stages of a political and institutional turnaround. To build both business and consumer confidence, and to attract local and foreign investment, which would support higher levels of inclusive growth, SA needs policy certainty and structural reforms to be implemented. These are dependent on the progress we make on the political and institutional turnaround that is currently underway and the extent to which we, as a country, manage various risks and uncertainties. The endgame is higher levels of inclusive growth, which will support job creation and reduced levels of unemployment, poverty and inequality.

To move forward we need more certainty on Eskom, land EWC and general election outcomes

Early stages of political and institutional turnaround in SA

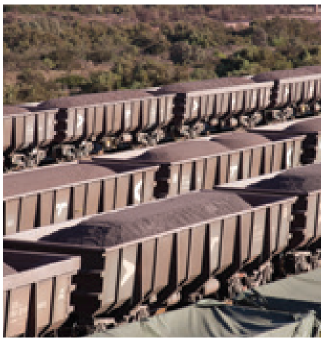
Structural reforms and policy certainty

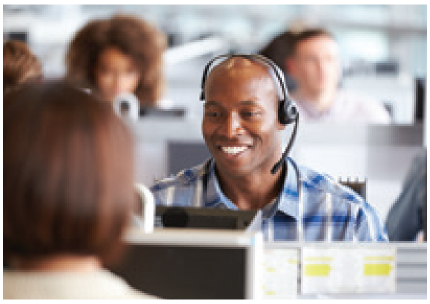
Improved levels of business and consumer confidence

Increased levels of local and foreign investment

Increased levels of inclusive economic growth

Job creation and reduced:
- unemployment
- poverty
- inequality




- **Early stages of political and institutional turnaround in SA** – In December 2017 Cyril Ramaphosa was elected as the new leader of the ruling African National Congress (ANC) following a narrow win and subsequently became President of the Republic of SA after the resignation of President Jacob Zuma in February 2018. At his maiden State of the Nation Address (SONA), he promised that a new dawn was upon us as he injected a new confidence in SA, evidenced by a strengthening of the rand and our averting a Moody's sovereign-credit-rating downgrade in March 2018. With the new dawn came big expectations that the new ANC leadership would root out corruption, deal with state capture at SOEs, restore fiscal sustainability and bring about meaningful improvements in the political, policy and economic environment. Progress has been slow but effective, as evidenced by the final report from the Nugent Commission into SARS and submissions made to the Zondo Commission into state capture. Ahead of the 2019 general elections, investors will be focused on whether President Ramaphosa can consolidate his power within the ANC in order to appoint the right people and fully implement the proposed stimulus and investment programmes that will bring about meaningful recovery in the SA economy.
- **Structural reforms and policy certainty** – In 2018 SA has made some progress on structural reforms, as we have seen in governance and leadership changes at SOEs and revisions to the mining charter. However, the business models and funding challenges at SOEs still need to be resolved. Eskom, in particular, remains the biggest risk to the SA economy, both from a funding and operational perspective. President Ramaphosa's announcement that Eskom will be unbundled into three entities, ie generation, transmission and distribution, is a welcome first step. The new mining charter is a vast improvement on the previous one and has helped bring about change in mining companies' attitudes towards investing in SA. A key outstanding policy issue is land reform and explicit clarification on expropriation without compensation (EWC), as it creates uncertainty and thereby hampers investor sentiment.
- **Business and consumer confidence** – A surge in both the RMB/BER Business Confidence Index (BCI) and the FNB/BER Consumer Confidence Index (CCI) in the first quarter of 2018 was short-lived, with the reality of still subdued economic activity, a VAT hike, rising fuel prices, a technical recession in the first half of the year, a substantial drop in share prices on the JSE and the ongoing land expropriation debate having weighed down on confidence levels as the year progressed. Many corporates remain reluctant to invest in SA as they await clarity on land reform, Eskom's challenges to be resolved and the outcome of the 2019 general elections.
- **Local and foreign investment** – In April 2018 President Ramaphosa announced a USD100bn investment drive over the next five years, supported by an Investment Summit where both local and foreign companies made investment pledges worth R290bn to the SA economy. Most of the investments announced during the conference originated from SA corporates and multinationals based in the country, signalling renewed investor confidence in and commitment to SA. The drive also attracted investments from China, the United Arab Emirates, the United Kingdom and Saudi Arabia. These investments help promote SA as an investment destination and have the potential to create new job opportunities.
- **Inclusive growth and job creation** – In the fourth quarter of 2018 the SA unemployment rate edged up to 27,1%. Job prospects remain limited as economic activity remains lacklustre. SA needs increased levels of inclusive economic growth to tackle high unemployment, persistent inequality and poverty. This can only happen with increased levels of investment.

Three scenarios for the short to medium term

In context of an uncertain political and difficult macroeconomic environment we have created three scenarios that represent the underlying assumptions for our three-year planning, stress testing and communication to the investment community. These scenarios embody our base case (Ramareality), a positive scenario (Ramaphoria) and a downside scenario (Ramaphobia).

Ramareality

Reflects our base case scenario and the key assumptions around our financial guidance for 2019 and our 2020 targets. Under this scenario the ruling ANC party secures an improved outcome in the 2019 general elections. As a result, President Ramaphosa secures an improved mandate to improve political leadership and to make decisive policy changes needed for a stronger economic turnaround. GDP growth improves off a low 2018 base, but remains muted over the next three years. We forecast a moderate increase in credit growth to upper-single-digit levels by 2021 as confidence improves slightly. Interest rate increases are benign given inflation levels that remain well controlled within the SARB target range of 3–6%, which should be positive for indebted consumers and bank credit loss ratios. We believe the likelihood of this scenario playing out is around 70%.

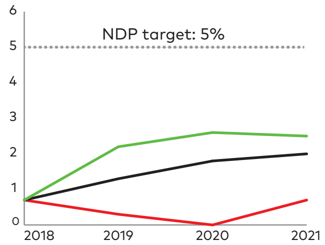
Ramaphoria

Under a Ramaphoria scenario we assume that the ANC obtains an improved majority in the 2019 general elections, giving President Ramaphosa a strong mandate and the ability to capitalise on his political support to push through faster on the reforms SA needs to improve confidence. As a result, economic growth improves to around 2,5% from 2021, although still well below the 5% targeted in the NDP. Under this scenario we are likely to see close to double-digit credit growth. We believe the likelihood of this scenario playing out is around 20%.

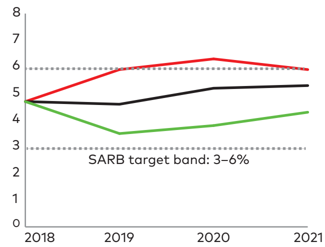
Ramaphobia

Represents a downside scenario where the ANC either does not achieve an outright majority during the 2019 general elections or achieves a weaker than expected performance resulting in President Ramaphosa losing internal support within his party. As a result, the key reforms needed to drive economic growth are delayed or not implemented as populist policies regain favour. A coalition government could compel the ANC to cooperate with other political parties in various structures (SA coalitions at local government level have proven relatively difficult to manage given the divergent policy positions between political parties). This scenario is likely to impact confidence levels negatively, with credit growth slowing to low single digits, potential further sovereign-credit-rating downgrades are almost certain and an increase in interest rates is likely. We believe the likelihood of this scenario is around 10%.

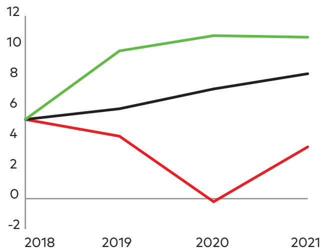
GDP SA (%)



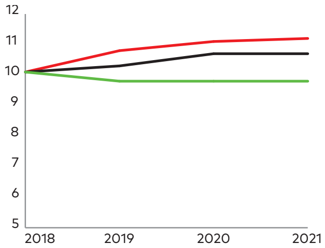
Inflation (CPI, %)



Industry credit growth (%)



Average prime interest rate (%)



* *Forecasts at 22 February 2019.*

Ramareality Ramaphoria Ramaphobia

The opportunity, given Nedbank's differentiation

Economic recovery – The anticipated improvement in socioeconomic conditions, under both Ramareality and Ramaphoria scenarios, supports banks. Opportunities include sentiment and confidence driving corporate and consumer spending and investment, pockets of growth in infrastructure and the rest of Africa, an increase in mergers and acquisitions activity, and potentially less stress for consumers as interest rates rise slowly or even plateau. Given Nedbank's wholesale banking bias, we are well positioned in CIB to grow strongly when business confidence returns, while RBB will gain from improved consumer confidence and Nedbank Wealth will benefit as equity markets recover.

- Growing our transactional banking franchise faster than the market
- Managing scarce resources to optimise economic outcomes

Key risks and mitigating actions

Economic recovery – For banks an ongoing uncertain economic environment has a negative impact on earnings growth potential, particularly in a Ramaphobia scenario and the likely sovereign downgrade that would ensue. Key risks are ongoing weak advances growth, particularly muted retail lending and corporates not investing, slower transactional volumes that impact revenue growth and higher bad debts driven by job losses or large corporate defaults. Managing costs wisely is an imperative as we discuss on page 46.

Land expropriation without compensation – EWC has created significant uncertainty. In 2018 we presented our position in Parliament, noting that, while land reform is necessary, it does not require section 25 of the Constitution to be amended. We maintain that a sensible outcome will prevail, with areas of risk such as vacant land being less than 0,5% of our advances portfolio. A positive outcome of EWC could result in more South Africans receiving title deeds to their property, which should drive greater levels of financial inclusion and credit growth.

Exposure to SOEs – Our exposure to SOEs is limited and largely guaranteed by government.

3 Business risk
9 Market risk
7 Reputational risk

Disruptive technologies and increased competition

As the world becomes increasingly digitised, all industries are feeling the impact of the pervasiveness of technology. Financial institutions have seen leading indicators of this revolution as it changes all aspects of providing financial services and creates new opportunities – from digitisation of financial services, enhanced client experiences and new products and channels, to evolving organisational structures and internal processes, as well as new staffing and skills requirements. New digital technologies are reshaping the value proposition of existing financial products and services and how these are delivered to and consumed by clients.

Digital and disruptive technologies – The digitisation of banks includes embracing and leveraging mobile technology, fintech partnerships, cloud computing, big data, advanced analytics, machine learning, blockchain technology, artificial intelligence, robotics and biometrics in the optimisation of legacy IT infrastructure as well as in the pursuit of new revenue channels and opportunities. Banks (which have both the scale and position of trust with clients) are increasingly partnering with fintechs, enabling faster delivery to market of new innovations. The adoption and application of modern tooling enable more rapid software engineering development and scaling of delivery, which allow for faster innovation and digitisation.

New banking entrants – Competitors in the banking sector have evolved to include new entrants, fintech disruptors and big tech disruptors. These disruptors are revolutionising the banking experience for clients. While many fintech players have found it hard to scale and are increasingly partnering with traditional banks, big tech disruptors such as Google, Amazon, Facebook, Apple and Microsoft (GAFAM), Alibaba and Tencent have the financial muscle as well as the ability to scale and are therefore arguably a greater threat to traditional banks. While these are global trends, they are likely to transform the SA banking landscape in the future.

2019 will see the launch of value propositions by various new entrants in the SA banking system. SARB has granted banking licences to Discovery, Tyme Digital, Post Bank and Bank Zero. These new entrants are likely to focus on transactional services and deposits and they will challenge existing banks with innovative digital solutions.

The opportunity, given Nedbank's differentiation

Revenue growth and cost optimisation – Opportunities for Nedbank include gaining client transactional volumes and revenue by continuing to respond to the digital challenge in an agile and client-centred manner, improving efficiency through technology (lower cost to serve) and bringing new digital offerings to market quicker. Our approach to innovation delivery through our aligned ME and DFL strategies (discussed in more detail on page 50) adopts global gold standards and has enabled us to commercialise swiftly market-leading and innovative new products and enhancements, as shown on pages 43 and 44.

- Delivering innovative market-leading client experiences
- Growing our transactional banking franchise faster than the market
- Being operationally excellent in all we do

Cyberrisks – The dark side of the global technology revolution is that financial crime has increased dramatically, evidenced by the increase in the number, intensity and sophistication of high-profile cyberattacks. These attacks are usually aimed at accessing, changing or destroying sensitive information, extorting money from users or interrupting normal business processes. Banks have become attractive targets for cyberattacks because of their key role in payment and settlement systems, the volume of sensitive client information they hold and the potential adverse impact of interfering with the smooth functioning of banking services. In 2018 a large SA financial services company became the victim of a cyberattack, with an external party claiming to have seized data and demanding payment. A survey conducted by the World Economic Forum (WEF) has recently indicated that, globally, cyberattacks are among the top five risks expected to increase in 2019, while our Internal Risk and Governance Framework similarly includes cyberrisk as one of our top three risks.

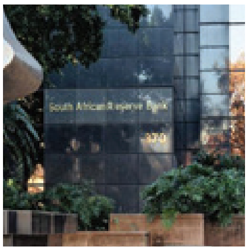
Key risks and mitigating actions

Pressure on revenues and costs – Loss of relevance with clients, loss of market share and loss of revenue are key risks should our digital offerings not remain competitive, digital banking become a commodity and not a differentiator, or new competitors capture a significant share of revenues. In addition, if we are not able to offset the higher-expense burden of investing in IT and digital innovation with efficiencies and cost optimisation initiatives, we risk not meeting our 2020 cost-to-income ratio target. We are responding to these risks by bringing various new innovations to market, as shown on pages 43 and 44, as well as our cost optimisation initiatives on page 46.

Cyberrisk – Cyberrisk has been identified and listed as a Nedbank top 10 risk. To offer protection cybersecurity capabilities are continually being enhanced, even though Nedbank is currently leading in cyberresilience statistics in the market (eg lowest in industry with regard to cyberlosses and successful phishing attacks). Our various assessments have identified the top 11 cyberpriority areas. These have been included in our Cyberresilience Programme and are receiving accelerated focus to address gaps and mitigate risks. One of the most effective forms of preventing cyberattacks is through training and awareness. Nedbank has rolled out cyberrisk e-learning and all employees and contractors are required to complete this course. Our Nedbank Group Insurance Programme includes substantial standalone cyberinsurance cover in line with local and global trends.

1 Strategic and execution risks
4 Operational risk
2 Cyberrisk

Demands on governance, regulation and risk management



The financial services industry worldwide has seen an exponential increase in regulations since the global financial crisis. These regulations have placed new demands on banks, resulting in increased cost of banking. We support the intention of increased global regulations to protect our stakeholders by preventing a similar financial crisis from reoccuring in the future, hence regulatory compliance and alignment to emerging risk management practices are our key strategic imperatives.

Looking forward, the focus of SA regulations is to shift the culture and behaviours within the industry, to reinforce financial stability and to maintain the soundness of financial institutions while protecting clients. The Financial Sector Regulation Act was signed into law in August 2017 and became effective from 1 April 2018. This piece of legislation brings about a major transformation of the SA financial services regulatory and risk management framework, including the move to a Twin Peaks approach to regulation.

Twin Peaks – The Twin Peaks Regulatory Framework, through the passing into law of the Financial Sector Regulation Act, has introduced two new regulatory bodies for the supervision of financial institutions. The Prudential Authority (contained within SARB) is now responsible for ensuring the stability of the financial system and the Financial Sector Conduct Authority is in charge of regulating all market-conduct-related matters in respect of financial institutions.

Deposit Insurance Scheme – In September 2018 the National Treasury and SARB released an updated version of the Financial Sector Laws Amendment Bill. This bill, once promulgated, will effectively give rise to the Resolution Framework, of which a key component is the Deposit Insurance Scheme (DIS). In anticipation of the DIS, an implementation project team has been established, with a primary responsibility to work towards the full operationalisation of the DIS by the end of 2019. Based on this timeline, it is possible that banks may have to pay deposit insurance premiums and levies on qualifying 'covered deposits' from 2020 onwards. The definition of 'covered deposits' has not changed from that in the original draft Resolution Framework and the coverage limit of R100 000 on retail deposits remains the same. We await further clarification in terms of the timelines during 2019.

The opportunity, given Nedbank's differentiation

Leverage strengths – A key opportunity for Nedbank is implementing regulatory requirements, such as AML, in a client-centred, integrated and synergistic manner in our new client signoff (onboarding) processes. By having strong bank balance sheets we are well positioned to weather an economic downturn, but also well positioned for growth as the economy improves.

- Managing scarce resources to optimise economic outcomes
- Being operationally excellent in all we do

Basel III reforms – Basel III reforms announced in December 2017 include: placing a floor on certain model inputs for portfolios subject to the AIRB Approach; introducing new credit RWA calculation rules for portfolios subject to The Standardised Approach; using a new standardised approach for the calculation of credit valuation adjustment and operational RWAs; and setting a floor on the group RWAs equal to 72,5% of RWAs calculated on a revised standardised approach. All changes will be effective 1 January 2022, with a five-year phasing-in of the 72,5% floor, beginning at 50% in 2022. As these Basel III reforms have yet to be converted into national law, there is still uncertainty regarding the interpretation of some of the rules, such that reliable impact estimates in SA are not yet available.

Amended FSC – The release of the Amended FSC, which sets higher thresholds and targets when compared with the previous FSC, symbolises a new beginning in the reorientation of the transformation policy to address the issue of fronting, with a bigger focus on productive BBBEE. The Amended FSC commits its participants to promoting a transformed, vibrant and globally competitive financial sector that reflects the demographics of SA, and continuing to contribute to the establishment of an equitable society by effectively providing accessible financial services to black people and directing investment into targeted sectors of the economy.

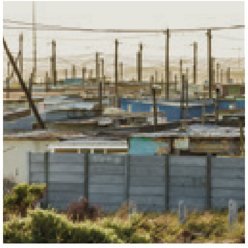
Key risks and mitigating actions

Regulatory sanction and fines – Fines relating to market conduct and non-adherence to legislation have increased significantly as seen across the USA, Europe and Australia, where a fine of AUS $700m to NAB illustrates that regulators are increasing pressure on banks to comply with various regulations and treat clients fairly. While Nedbank has made good progress with regard to AML, combating the financing of terrorism and sanctions requirements, a fine was received in Mozambique. Corrective remedial actions in mitigating identified risks have been initiated to ensure upliftment to the AML, combating the financing of terrorism and sanctions control environment.

5 Conduct and culture risks

8 Regulatory and compliance risks

Transformation of society within environmental constraints



The massive economic, social and environmental challenges we are facing globally continued to intensify in 2018 as the collective desire to address these challenges seemed to wane in an increasingly polarised world. The latest WEF Global Risks Report singles out the geopolitical and geoeconomic tensions, along with domestic political strains in many countries, as key hurdles to collaboratively address the most urgent global risks. In many cases it is the lack of progress in addressing these risks that exacerbates them and drives sociopolitical tensions.

The environment – Environmental risks continued to dominate the WEF Global Risks Report, accounting for three of the top five risks by likelihood and four by impact. These included extreme weather, natural disasters, water crises and failure of climate-change mitigation and adaption. It is, of course, the deep interconnectedness of these risks with human wellbeing that sees them posing systemic challenges to citizens, corporations and governments alike. The recent drought in the Western Cape drove home how heavily we rely on the environment, as losses were felt across all sectors of the economy and societal strata.

Unless the fundamental interdependence of human development and environmental wellbeing is properly appreciated, our modern economies will remain under threat. According to the latest WWF Living Planet Report the results of climate in action and global change are becoming increasingly apparent, with an abundance of species down 60% since 1970. This loss of biodiversity has had an impact on human health and wellbeing. Other, less obvious, impacts of climate change relate to the impact of atmospheric carbon dioxide (CO_2) on nutrition. Recent research by the Harvard TH Chan School of Public Health suggests that by 2050 billions of people will experience zinc, protein and iron deficiencies due to the impact of CO_2 on nutritional staple crops.

Inequality and transformation – Global inequality may have reduced over recent years, but in many countries, including SA with its stubbornly high unemployment rate of 27%, it has continued to rise. So, while the latest International Monetary Fund (IMF) forecasts point to a gradual slowdown in the global economy, the drive to address inequality, unemployment and poverty on the African continent, which is Nedbank's primary market, cannot slow down. The transformation imperative and continued progress to a more equitable representation of the SA economy and workforce remain top of the agenda. To date transformation has led to a broader and growing middle-market segment and increasing uptake of financial products and services.

Sustainable Development Goals (SDGs) – The SDGs, African Union's Agenda 2063 and SA's National Development Plan (NDP) offer complementary road maps for the transformation of society and highlight investment opportunities that will meaningfully address these challenges. However, this will require courageous leadership with a focus on long-term value creation and cooperation rather than a narrow pursuit of short-term private gain and competitiveness.

The opportunity, given Nedbank's differentiation

SDGs – The use of innovative financial solutions to meet clients' needs as they relate to meeting the SDGs represents a significant opportunity. Globally it is estimated that delivery on the SDGs will offer new revenue streams and cost savings in excess of USD12 trillion annually by 2030. This level of redirected investment will have a profound impact on the structure of the global economy and result in significant job creation and poverty reduction. As such, we are positioning delivery on the SDGs at the heart of our strategy, using this to create an enduring competitive advantage.

Managing scarce resources to optimise economic outcomes

Key risks and mitigating actions

Climate change – The impacts of climate change include: more natural disasters and increased costs to rebuild (or retrofit) infrastructure where required; increased energy costs, water shortages and quality issues; and increased food prices and shortages. Extreme weather events impact clients, and ultimately insurers through higher claims. The imperative to protect essential ecosystem services provided by our environment, amid growing social and political pressure, lead to certain industries becoming less viable, resulting in potential job losses.

3 Business risk

7 Reputational risk

Managing growth opportunities vs volatility in the rest of Africa

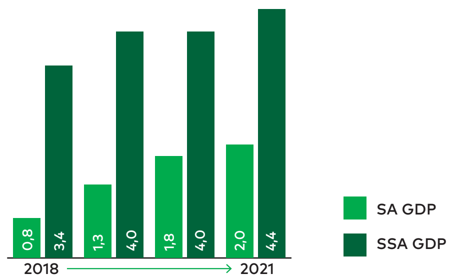
Sub-Saharan Africa (SSA) is considered to be an attractive long-term investment region fuelled by its strong economic growth potential, estimated to grow on a sustainable basis between two to four times faster than SA. The UN estimates that Africa will see the largest relative increase in population over the coming years leading to 2030. The strong population growth, rise in middle-class population, urbanisation trends, increasing technology usage and abundant natural resources are key drivers for investments in SSA. African governments are driving efforts to tackle infrastructure bottlenecks and improve the regulatory environment to attract foreign direct investment.

As a result, deal activity in the region has been rising due to the improving business environment and the potential of investment returns. Banking penetration still remains relatively low in many African countries, creating an opportunity for established banks from well-developed financial markets to grow. Mobile and digital technologies driven largely by fintech companies are gradually boosting financial inclusion in sub-Saharan Africa.

Our growing African client base and our SA clients entering the rest of Africa seek to benefit from one-stop financial services solutions. Shareholders seek exposure to this higher-growth region through investment in well-managed SA banks that follow a risk-mitigated, capital-efficient approach. With Nedbank having strong, specialised skills and our complementary strategic partnerships through Ecobank, QNB, Bank of China and Old Mutual Limited, we are in a strong position to play a key role in funding and structuring infrastructure and capital-intensive projects, as well as leveraging incountry and crossborder banking opportunities.

However, we have to participate cautiously, as the environment remains uncertain in the short to medium term and is likely to be volatile over time. Economic growth in Africa should continue to improve, particularly in the key markets in which ETI operates, such as Nigeria, Ghana and Côte d'Ivoire. In SADC the economies of Zimbabwe, Malawi and Mozambique remain challenged. During 2019 elections will be held across 17 countries on the African continent – this could create additional volatility and policy change that may lead to either positive or negative economic outcomes.

SA GDP vs SSA GDP growth (excl SA)
(%)



Source: Nedbank and International Monetary Fund.
** Forecast at 22 February 2019.*

The opportunity, given Nedbank's differentiation

Expansion into rest of Africa – The ongoing opportunity for us is to support our SA clients who continue to expand into faster-growing markets in the rest of Africa, leveraging SA's position as the gateway to Africa and using the unique expertise of our partners in operating in emerging markets.

- Much of the SA skills base in infrastructure, telecommunications, resources, retail, construction and renewable energy is transportable and can be applied to business opportunities in the rest of Africa.
- Our investment in our own businesses in SADC will continue to provide an opportunity for client gains and, as a result, new revenue growth opportunities particularly those driven by digital solutions. One example out of RBB is our integrated crossborder money transfer solution launched in conjunction with Ecobank towards the end of 2018.

Managing scarce resources to optimise economic outcomes
Providing our clients with access to the best financial services network in Africa

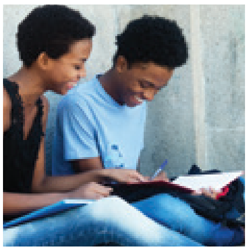
Key risks and mitigating actions

Zimbabwe – While our Zimbabwean operations remain small in group context, we are conscious of the challenging environment and its impact on our staff, clients and operations. The difficult environment in Zimbabwe resulted in a negative FCTR adjustment to the group's capital of R0,8bn before minorities (R0,5bn after minorities). We continue to monitor developments in Zimbabwe brought about by currency shortages and pressure on the fiscus.

ETI (sustainability of earnings) – Risks around our strategic partner, Ecobank, which is more directly exposed to Nigeria, remain top of mind, although the outlook has improved and ETI has delivered seven consecutive quarters of profit. In December 2018 the ETI board resolved to adopt the NAFEX exchange rate as the rate to be used for the translation of the operations in Nigeria. Accounting for associate income, together with Nedbank's share of ETI's other comprehensive income and movements in Nedbank's FCTR and our share of ETI's own IFRS 9 transitional adjustment, resulted in the carrying value of the group's strategic investment in ETI decreasing from R3,3bn at 31 December 2017 to R3,2bn at 31 December 2018. This amount includes a R361m credit adjustment to account for the anticipated impact of ETI changing from the official Central Bank of Nigeria (CBN) exchange rate to the NAFEX exchange rate.

1 **Strategic and execution risks** 7 **Reputational risk**
3 **Business risk**

Requirements for scarce and evolving skills



The pace of change in banking is accelerating, and digitisation is at the forefront of the change in the industry, with strong competition to deliver superior client experiences and pressure to remain competitive. Global banking industry trends indicate an impact on the workforce as a result of digitisation relating to skill sets and a reduction in organisation sizes. Consumer behaviours and uptake of the digital offerings will influence roles and skill sets required for banks to grow their businesses. As a responsible employer in a competitive environment, the financial services industry needs to identify impacted roles and skills proactively and set plans in motion to upskill employees for new roles and capabilities.

Readying the workforce for the future – The emergence of fintechs, cryptocurrencies, digital interaction, artificial intelligence and agile work environments prompted a shift in focus to understanding the key skills financial services will require in the future. In SA technology jobs were the most sought-after positions in 2018, with developer skills (Java, PHP, web, .Net, etc) in highest demand. The new world of work is rapidly becoming a reality and entails a difficult transition for thousands of workers and companies in SA and around the world. New roles are emerging and require capabilities and skills that are scarce and critical to the future success of businesses. Existing roles will change and therefore the need for proactive investment is required to develop new capabilities and skilled talent globally within organisations and at graduate levels. The reality is that SA has approximately 3,3 million youth (15–24 years) that are unemployed or in education or training. Nedbank is committed to its role in the broader SA society and is now one of many companies, as agreed between leading CEOs and the government, that is participating and carrying the costs of employment opportunities to previously unemployed youth as part of the Youth Employment Service (YES) initiative.

Reskilling and upskilling – As skills retention and development are crucial to improving our global competitiveness, it is critical that we take an active role in supporting the existing workforce through reskilling and upskilling. Although Nedbank provides an enabling environment, individuals need to adopt a proactive approach to their own learning. In addition, innovative partnerships must be explored with non-financial-services sectors to absorb reskilled individuals in their respective sectors. External partnerships and funding opportunities with BANKSETA are some of the avenues banks are already leveraging to aid in the reskilling and outskilling of the workforce. Leaders need to be equipped to embrace and lead the change, despite constant ambiguity and uncertainty, to instil a culture of learning. Organisations should recognise the risk that skill shortages pose to delivery on their business strategies and need to continue to invest in the development of skills. Nedbank is cognisant of the societal impact of reskilling and upskilling the existing workforce. Together with the development of scarce and evolving skills, wellbeing programmes aim to build resilience and provide holistic support to employees.

The opportunity, given Nedbank's differentiation

Investing to retain, develop and attract the best skills – At Nedbank we continue to focus our attention on the attraction of the best skills, providing proactive training and development of staff and skills to cater for a changing world and future skills. We are exploring partnerships with non-financial-services industry players to build skills for the greater good of the country. We will continue to support business and government initiatives, such as the SME Fund, and educational programmes, such as Partners for Possibility and the YES initiative, and in so doing help build Nedbank's brand, communities and our country.

Managing scarce resources to optimise economic outcomes

Key risks and mitigating actions

Skill shortages – Shortages and competition for critical skills are rising globally, and this is also true for SA and the African continent. Our workforce, coupled with our digitisation journey, is at the centre of a changing and uncertain world. There are many organisational changes that employees have to navigate. The macro environment, with challenges of higher levels of unemployment, growing social inequality, political instability and rising costs of living, increases the pressure on our employees. These challenges are presenting high levels of stress among the workforce and can place the execution of our business strategy at risk. In line with our people-centred commitment, at Nedbank our Employee Wellbeing Programme offers confidential (outsourced) counselling services to staff facing stress at work and in their personal lives. We are upskilling the organisation to enable our digital strategy and we are bringing in young and skilled talent to infuse creativity and innovation beyond what we have created thus far. To address skill shortages we continuously invest in skills development and learnership programmes, with digital learning platforms being introduced to reskill and upskill our staff and enable a future-fit workforce.

1 Strategic and execution risks

4 Operational risk

Changing relationships between business, government, labour and civil society

Government, business, labour and civil society all understand the imperative to address weak economic conditions and high levels of unemployment, avert further sovereign-credit-rating downgrades and increase levels of inclusive growth to ensure a better life for all. Working together towards a common goal will assist the SA economy in reaching its full potential and reducing inequality and poverty.

CEO Initiative and other areas of focus

The value-adding outcomes to date include, among others:

- R1,5bn committed by the private sector for investment in small enterprises to drive job creation.
- Companies to offer employment opportunities to one million young work-seekers over the next three years (YES initiative) and support commitments made at the Jobs Summit.
- Considerable investment in the REIPPPP that has led to 3 517 MW of energy generation.
- Improvement of governance in some SOEs and working on a resolution to address operational and funding challenges at Eskom.
- Regular meetings to update credit rating agencies on the progress made to avert further sovereign-credit-rating downgrades. To this end all major credit rating agencies currently have their outlook on SA as 'stable' (revised from negative).
- The launch of a USD100bn investment drive over the next five years, supported by an investment summit.

In the spirit of nation building, Nedbank was mandated by SARB to facilitate payment to more than 17 000 small retail clients of VBS Mutual Bank, which was put into curatorship.

Constructive national dialogue

- At Nedbank we have deliberately taken a more active stance on some key issues facing our country. As a purpose-led organisation that uses 'our financial expertise to do good', we added our voice to the land reform debate by making an oral and written submission to Parliament's Constitutional Review Committee, arguing why section 25 of the Constitution, as it relates to expropriation without compensation (EWC), should not be amended as it already allows for EWC. This follows our presentation to Parliament in 2017 on transformation, for which Nedbank received acknowledgement for the progress it had made on this matter.
- We are actively fighting financial crime, and as part of this, our Chief Executive, Mike Brown, appeared before the Zondo Commission of inquiry into state capture on the closure of the Gupta accounts. We realise that business cannot afford to sit back and watch what happens on matters of national significance. As South Africans, we have a constitutional duty and obligation to recognise and redress the injustices and inequalities of the past, while working to build a society based on the rule of law that aims to improve the quality of life of all citizens.

State capture and corruption – the need for ethical behaviour

State capture and corruption, as apparent in the evidence brought before the Zondo and Nugent commissions of inquiry, as well as corporate scandals have broken the trust between social partners in SA and undermined our confidence in each other. Government and private sector companies, through their boards, executive management, staff and stakeholders, need to ensure that the focus on good governance, integrity and ethics increases.

The opportunity, given Nedbank's differentiation

Playing a leading role in society – Opportunities for Nedbank include initiatives that drive inclusive and sustainable economic growth. This should place SA in a stronger position over the medium to long term and create a supportive environment for banks to improve returns and growth. We will continue to contribute to important debates on key issues, work closely with government and labour to ensure positive outcomes for our citizens and contribute our fair share through the SDGs and other initiatives such as YES and the SME Fund. To this end Nedbank contributed R20m to the SA SME Fund and will participate in YES at a cost of approximately 1,5% of the three-year average SA net profit after tax per annum from 2019.

Managing scarce resources to optimise economic outcomes

Key risks and mitigating actions

Sovereign-credit-rating downgrade – Nedbank is well positioned to deal with a higher-stress environment, such as any Moody's downgrade of SA's sovereign and therefore bank credit ratings having a limited direct impact. Our improved readiness to deal with any potential shocks, compared with our readiness during the 2007/08 global financial crisis (a prior high-risk event), is shown on page 70 of the Nedbank Group Integrated Report.

Reputational risk – Nedbank Group's Reputational Risk Committee continues to manage and mitigate efficiently reputational risk exposure arising from association risk related to allegations around state capture and corruption in the broader context.

3 Business risk 7 Reputational risk

OUR STRATEGIC FOCUS AREAS

In response to the rapidly changing operating environment and needs and expectations of our stakeholders, we developed five strategic focus areas that drive the activities in our value-creating business model. These strategic focus areas are underpinned by strategic enablers, which are catalysts for delivering our strategy and achieving our 2020 targets.

Delivering innovative market-leading client experiences

Growing our transactional banking franchise faster than the market	Being operationally excellent in all we do	Managing scarce resources to optimise economic outcomes	Providing our clients with access to the best financial services network in Africa

Create great client experiences and grow clients

Enabled by ...

Technology
Managed Evolution and Digital Fast Lane

+

People/Talent
Culture/Brand

Delivered through ...

Target Operating Model (TOM)
Largely by new Ways of Work

Leading to ...

Client growth and client satisfaction

Operating efficiencies

Resulting in ...

Revenue growth

Cost savings

ROE (excluding goodwill) ≥ 18%
Cost-to-income ratio ≤ 53%

Delivering innovative market-leading client experiences

Financial services providers that respond best to the digital challenge in a client-centred manner will continue to gain a disproportionate share of client revenues. In addition, technological developments provide opportunities for improving efficiency, thereby bringing new digital offerings to market quicker, and lowering the cost to serve as well as optimising the overall cost base through the reduction of branch sizes and ancillary costs.

Reflecting on 2018 and looking ahead

- Through our ME and DFL technology strategies, we have launched various market-leading solutions during the year such as the new Stokvel Account, Karri app (integrated digital payment solution for the school ecosystem), Unlocked.Me (a new CVP for the youth segment), MobiMoney (allows clients to receive and send money, buy airtime and electricity from a cellphone and withdraw money, all without a formal bank account) and a crossborder remittance product.
- We increased the number of new self-service functions (previously only available inbranch or through staffed channels) on the Nedbank Money app™ and the new Nedbank online banking site, taking the total services to 70. As a result, app transaction volumes through the Nedbank Money app™ increased 82% during the year. By 2020 we aim to have 180 services available to clients. Similarly, we added various new services to the Nedbank Private Wealth app. The benefits are evident in higher levels of client satisfaction, increased digital penetration and various independent industry awards.
- In RBB we have proactively enabled 5,9 million clients to do their banking on our digital channels and are now focusing on increasing active usage (currently 1,5 million clients) as we enhance functionality and ease of use.
- As far as our integrated channels are concerned, we have to date converted 60% of our outlets to new-image digital branches, and our investment in distribution channels over the next three years (until 2021) will result in 79% of our retail clients being exposed to the new digitally focused branch formats and self-service offerings. Benefits of increasing the number of self-service devices are illustrated in the increasing volumes of cash being handled by our Intelligent Depositor devices, now at 61% from 20% in 2015. We increased our Intelligent Depositor devices by 7%, video bankers by 8% and self-service kiosks by 4%. Along with the increased services available on the app, these investments enabled us to reduce teller activity by 16%.
- In Nedbank Wealth, our market-recognised digital advice innovation has seen encouraging uptake, as evident in 77% of investors using the Extraordinary Life™ platform, which is new to Nedgroup Investments. Nedbank Insurance was the first-to-market insurer in SA to have chatbot functionality and we have made significant strides in remaining ahead through delivering live-agent service functionality and funeral-quoting capabilities.
- CIB won *The Banker* magazine's 2018 fintech partnership award for our partnership with Aerobotics (Pty) Ltd.
- In 2019 we will bring further exciting digital innovations to market to enhance client experiences and drive efficiencies. We piloted simplified client onboarding with a convenient, FICA-compliant account-opening process and the fully digital account-opening process for two of our products, personal loans and transactional accounts, in 10 branches in 2018. These will be launched to our clients in the first half of 2019. By 2020 we aim to have digitised the sales journeys of our top 10 retail products.
- Other innovations in the pipeline include a refreshed internet banking experience in line with our mobile banking apps, a new and exciting loyalty and rewards solution, and further rollout of chatbots, robo-advisors and software robots (robotic process automation).
- Investment into platform related activities as we continually evolve our business model to underpin future growth.

Key risks in implementing the strategy

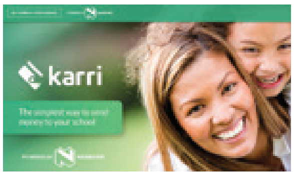
Innovations do not deliver market-leading client experiences – Client satisfaction measures, such as the Net Promoter Score and app ratings in 2018, indicate that recent product releases are highly rated. Nedbank's approach to adopt international gold standards (the best globally) and involve clients in the product development processes (design thinking) mitigates the risk to some extent. We are continuously adding new value-adding services to ensure that products and services evolve as clients' needs change.

Innovations delivered in 2018

Innovations and CVPs | Value for our clients | Value for Nedbank

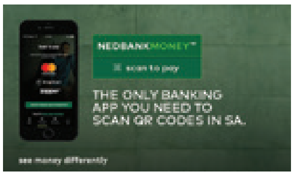
Stokvel – A safe, easy and effective solution with no transactional fees that allows groups of individuals to manage group savings better, with added benefits such as best-in-market burial cover and up to 15% discount vouchers for selected stores for each member.

Value for Nedbank: Market penetration into segments where Nedbank did not have a strong presence.



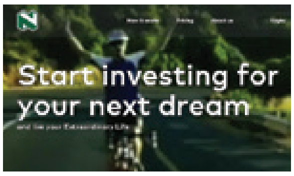
Karri app – An integrated payment collections and reconciliation capability enabling parents to make school-related payments within seconds, at the same time relieving schools from the burden of cash payments and management and eliminating the need for kids to carry cash.

Value for Nedbank: A good starting point to accelerate our ecosystem-based solution for schools, thereby solidifying our relationships with schools to expand our offering across the ecosystem.



Nedbank Money app™ – An easy, simplified, convenient and cost-effective way of banking for clients. Digitisation of key services saves clients time and enables them to manage their money and financial life remotely, removing the need to go to a physical branch. This includes innovative capabilities such as QR code-based payments through scan to pay, changing limits and freezing cards.

Value for Nedbank: Reduced traffic through Nedbank's physical channels enabling cost savings, and introduction of new revenue streams through value-added services such as electricity payments.

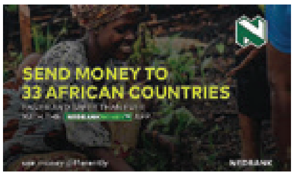


Extraordinary Life chatbot – A faster investment process (end to end in as little as 10 minutes), no paperwork (100% digital) and tailored, personalised guidance suggesting the best combination of products to maximise an individual's savings.

Value for Nedbank: Reduced account-opening costs and a new channel as a source of additional revenue.

Unlocked.Me – Clients can digitally onboard themselves on our first-in-market banking account with zero monthly fee charges and value-added benefits relevant to them. We provide them with tangible opportunities such as equipping them for the job market and addressing youth unemployment. The curated lifestyle pillar hosts exclusive offers and discounts for clients.

Value for Nedbank: Our first exploration into platforms, aimed at growing our youth market share, changing the perception about Nedbank and creating new revenue streams with beyond-banking offerings.



Ecobank–Nedbank crossborder remittance solution – Low-cost, fast and convenient solution to 2,7 million African migrants, allowing them to send money to friends and families in 33 countries across the continent at affordable rates. Nedbank clients do not have to go through the hassle of going into a branch to make transfers, saving them time.

Value for Nedbank: New source of revenue in a market segment where Nedbank did not have a presence.

CASE IN POINT
Stokvel

8 DECENT WORK AND ECONOMIC GROWTH

It is estimated that 800 000 stokvels in SA are regularly used as a trusted, social-savings mechanism by approximately 76% of black households. Despite SA being seen as a low-savings country, more than R50bn is saved within both the banked and unbanked stokvels market. Our Stokvel Account provides a safe, easy and effective way for groups of individuals to pool their savings and grow their money collectively. In line with our purpose of using our financial expertise to do good, we embarked on a journey to create a market-leading stokvel proposition.

- ***Use our financial expertise*** – Using our DFL capability, we established a crossfunctional stokvel squad, comprising staff from different areas within the bank. We created a holistic single-account solution, offering insurance, rewards and discounts for school supplies.
- ***Do good for clients*** – Our Stokvel Account offers competitive returns, no monthly maintenance fees, dedicated support and financial education to members, as well as a best-in-market burial benefit of R10 000 for just R15 per member per month. This ensures stokvels do not need to pay out of their banked capital to bury their members with dignity. Stokvels are also rewarded for reaching their savings goals through tangible rewards from partners they trust. We have negotiated discounts with various retail partners such that members receive up to 10% discount on bulk groceries and school supplies, as well as discount vouchers of up to 15% per member from the Edcon Group. Stokvels with a balance of more than R10 000 by year-end are also eligible for discount vouchers of up to 10% per member from selected partners. New functionality to be introduced in 2019 should further enhance the client experience.

Innovations and CVPs to be launched in 2019

	Key dates/Targets
Simplified client onboarding – convenient FICA-compliant account opening digitally from your couch, and branch rollout.	H1 2019
Ability **for clients to obtain an unsecured loan, bundled with a transactional account, on the web**.	H1 2019
Digitising the sales journeys of our top 10 products end to end.	Top 10 by 2020
New loyalty and **rewards programme.**	H2 2019
Digitising more services on app, web and self-service kiosks, making it easy, convenient and cheaper for clients.	> 180 services by 2020
Further rollout of **software robots, artificial intelligence, robo-advisors, chatbots and data analytics capabilities.**	Ongoing

Ensuring and protecting value – Group Information Technology Committee (GITCO)

Mantsika Matooane
(Chair)

'Through 2018 we continued to leverage our credible IT capabilities and core foundational platforms, optimise IT operating costs and embrace modern technologies and, most of all, we have pivoted to put our clients at the heart of everything that we do.'

Ensuring and protecting value in 2018

- Significant focus on operational stability and security continued to yield improvements in service availability for our clients and limit business impact of any downtime.
- Monitored execution of Managed Evolution strategy, which remains the bank's digital transformation enabler. The foundational programmes within Managed Evolution have now largely been completed.
- Oversaw the introduction of several innovative services in 2018, including: Pay Me (Nedbank clients send request for payment), balance peek (for ease of checking balances) and scan to pay.

Focus for 2019 and beyond

- Maintaining industry-leading levels of system availability and stability as a core foundation of strength.
- Staying ahead of the curve on cybersecurity matters.
- Delivering the Managed Evolution IT strategy in a way that creates competitive advantage.
- Continuing with first-to-market innovative digital products, increasing the use of digital channels and increasing sales.
- Disrupting and commercialising digital assets (reuse or new) at scale by shifting the perspective beyond SA to unlock our digital vision; and solving clients' needs and scaling value propositions across Africa at pace.

Stakeholders

Staff
Clients
Shareholders
Regulators

Top 10 risks

1 **Strategic and execution risks**
2 **Cyberrisk**
8 **Regulatory and compliance risks**

A comprehensive GITCO report is available online in our 2018 Governance and Ethics Review on our group website at nedbankgroup.co.za.

Growing our transactional-banking franchise faster than the market

Our transactional-banking strategy starts by creating market-leading client experiences that will lead to growing and retaining our clients, and deepening our share of wallet as we convert new and existing clients into main-banked and transactional-banking clients. Growing our transactional-banking franchise faster than the market improves our ROE, as deposits and transactional revenue consume less capital and add to our funding pool. At the same time, earnings volatility is reduced as more stable sources of income are increased and our brand value grows.

Reflecting on 2018 and looking ahead

- Growing our transactional-banking franchise remains a major focus in RBB. Over the past five years we have succeeded in consistently growing our client base despite increasing competition and new entrants. Looking forward, market research suggests that the number of banked consumers in SA will grow to 28 million by 2020, and we expect to increase our share of this.
- Of our 7,5 million retail clients in SA, 5,9 million have some form of transactional product with Nedbank. Only 28% have another product – this means there is still significant opportunity for cross-sell.
  - Under our strict definition of retail main-banked clients we have 3 million clients who regularly bank with us, increasing 6,9% in 2018. This increase was largely underpinned by growth in the entry-level, middle-market, professional and small-business-client segments, which supported retail transactional NIR growth of 8,1% (excluding IFRS adjustments). While we remain a bank for all, we will continue to focus on the youth and ELB, leveraging digital while ensuring effective migration to a rising middle market, where we focus on retention and on deepening our relationship through cross-sell. The rising middle market has the highest economic potential, greater propensity to switch and the highest growth rate among the retail segments. Our market-leading client innovations supported growth in client numbers and the exciting innovations in the pipeline should support ongoing client growth.
  - The Consulta survey, measuring main-banked market share, recorded Nedbank's share in 2018 at 13,1% – this is up from 12,7% in 2017 and 9,6% in 2014 (under the discontinued AMPS survey). We are targeting to increase our main-banked market share to more than 15% by 2020 – more in line with our retail advances market share. This should continue to support NIR growth.
  - Business Banking's market share increased from 19% in 2017 to 22% in 2018 – the highest market share gain across all banks as measured by the KPI Research Business Electronic Banking and Tracking Study 2018.
  - Disappointingly, notwithstanding strong retail advances growth of 7,1%, we lost market share of household deposits from 18,9% in 2017 to 18,0% in 2018 due to aggressive competitor pricing.
- In CIB we have won major transactional accounts during 2018, including major private sector and municipal transactional-banking accounts. We gained 30 primary clients in 2018 and more than 20 every year since 2014, which provide a valuable underpin to ongoing NIR growth.
  - We intend to grow our transactional banking share by improving client coverage and achieving deeper client penetration.
  - Our CIB NIR-to-advances ratio, a key indicator of cross-sell and the ability to leverage our strong balance sheet to grow NIR, increased to 2,4%, with a sustainable target of > 2,0% given a forecast of stronger wholesale growth if economic growth improves over the next few years.
  - Along with Business Banking, CIB contributed to corporate (non-transactional) deposit market share increasing to 17,3% on the back of 30 primary client wins.

Key risks in implementing the strategy

New entrants – New entrants are likely to position themselves to capture a share of transactional-banking revenues. We welcome competition as it drives us to focus even more on our clients, their needs and delivering innovative solutions. The new innovations we will be launching in 2019, as shown on pages 43 and 44, should ensure that Nedbank remains highly competitive. For more information on new innovations in 2019, refer to page 43 and 44 on our 2019 Integrated Report, available on nedbank.co.za

Being operationally excellent in all we do

Our strategic approach to cost management is to invest sustainably in the franchise to unlock future growth potential, at the same time managing our expenses by delivering synergies and efficiencies to reduce our cost-to-income ratio over time. Over the past few years we have invested significantly in the franchise to support long-term growth, and by extracting efficiencies we have been able to maintain expenses growth in line with that of our peers. Some of the investments we have made include completing key foundation projects as part of the Managed Evolution and investing in digital and core systems as well as in regulatory compliance.

Reflecting on 2018 and looking ahead

- We have identified key business areas for reducing our cost-to-income ratios, namely RBB and Rest of Africa, to assist the group in meeting its ≤ 53% target by 2020. In RBB and Nedbank Wealth it has become more difficult to achieve our cluster targets, given economic pressures, accounting charges and additional costs.
- We reduced headcount by 610 (mainly through natural attrition) and optimised our staffed points of presence by closing 18 points of presence and opening four new branches and five inretailer outlets, resulting in the net reduction of nine physical points of presence (while maintaining our coverage of the bankable population at 84%). We are evolving our physical distribution to become more digitally and technology-focused, while optimising our footprint. Our number of physical points are declining as digital adoption increases, and we have reduced overlap in some geographic areas and where previously standalone outlets have been integrated into our branch network, such as personal-loans branches.
- The new self-servicing functions released on our apps have enabled us to reduce related call centre volumes by 15 000 interactions a month, while freeing up capacity in our branches and staffed channels.
- Branch floor space has been reduced by more than 32 971 m² to date and we plan to achieve more than 45 000 m² by 2020 (a revision of our initial 2020 target of 30 000 m²).
- We implemented 51 software robots to date (robotic process automation) to enhance efficiencies and reduce processing errors in administratively intense processes. These exclude the temporary software robots that were used to onboard the more than 17 000 VBS clients.
- Good progress was made with our Target Operating Model initiatives, which aim at generating R1,2bn pretax benefits for Nedbank by 2020 and are linked to our long-term incentive scheme. Most cost initiatives in 2018 have been identified in RBB, and to date we have delivered cumulative savings of R680m.

Key risks in implementing the strategy

IT investments do not deliver expected returns and/or cost more than planned – IT investments and product innovations could fall short of expected revenue growth and efficiencies, while increasing expenses growth (IT amortisation costs). Nedbank follows a rigorous process in the approval of business cases to ensure they are net present value (NPV) positive unless they are purely regulatory-related. We anticipate that annual IT cashflow spend will peak in 2019 at levels similar to those in 2017 and 2018, before declining thereafter. Our ME and DFL approaches mitigate excessive IT costs, particularly as the investments relating to our foundational programmes and the regulatory costs are mostly behind us.

Managing scarce resources to optimise economic outcomes

Through managing scarce resources to optimise economic outcomes we leverage our areas of strength, while reducing downside risk in higher-risk products or businesses. Maintaining a strong balance sheet ensures that we remain resilient in tough times and are able to leverage new growth opportunities. This strategic focus area centres on managing scarce resources, such as capital, long-dated liquidity and costs, to optimise economic outcomes and thereby increase our economic profit, being the excess of ROE above COE. Internally this is referred to as portfolio tilt.

Reflecting on 2018 and looking ahead

- On the previous pages we illustrated our primary focus on growing our transactional revenues and how this has supported market share gains in transactional banking. We expect this growth to continue.
- We have tilted our portfolio to grow selectively in key advances categories. After having derisked our home loan and personal-loan books in previous years, we are now growing in line with the market in home loans and ahead of the market in personal loans. We are also growing our vehicle finance market share, where we have a competitive advantage, and our card market share, which is closely linked to transactional-client growth. Looking forward, we will continue to tilt our portfolio to grow in lower-risk segments of home loans and personal loans, while leveraging our unique positioning in vehicle finance where we lead in the secondhand and lower-value vehicle segments.
- Corporate credit growth has slowed, particularly driven by unscheduled early repayments in the first half of 2018, although pipelines remained solid. In the second half of 2018 we have seen some improvement in loan payouts. As business confidence improves, we should see stronger growth in years to come. Our levels of exposure to stressed industries such as SOEs, cement, construction and retail remain limited and we are currently adequately provided for. In 2018 Nedbank reported the lowest credit loss ratio among peers at 53 bps.
- The adoption of the SDGs provides opportunities to grow and contribute to a greater purpose. The progress we have made in 2018 is discussed in more detail in our Sustainable Development Review at nedbankgroup.co.za.
- The ultimate measure of optimisation of economic outcomes is our ROE (excluding goodwill), which increased to 17,9% as ETI returned to profitability (accounted for a quarter in arrear). Given our focus on revenue growth drivers and cost optimisation initiatives, we expect to see continued ROE improvement towards 2020.

Key risks in implementing the strategy

- **Weaker macroeconomic environment leading to slower revenue growth and an increase in bad debts** – A key mitigant in a challenging macroeconomic environment is Nedbank's high-quality portfolio (as evident in a low CLR), prudent provisioning (coverage levels have increased after the adoption of IFRS 9), selective origination in portfolios (such as home loans, personal loans and high-stressed sectors) and building a strong transactional-banking and deposit franchise to enable a more sustainable revenue stream in difficult times.
- **Exposure to SOEs** – Our exposure to SOEs is less than R18bn, or less than 2% of advances, most of which have a government underpin. Through collaborative engagement across the industry we are supporting SOEs where good governance, and clear strategies are in place.

Market share of key lending and deposit-taking activities in SA

(%, yoy trend)

Market share %	Nedbank	FirstRand	Standard Bank	Absa	Other
Home loans	— 14,5	20,7	34,2	23,0	7,6
Vehicle and asset finance – household	↑ 35,7	30,4	12,7	19,6	1,6
Credit cards	↓ 13,7	26,0	26,1	26,3	7,9
Personal loans	↑ 10,4	23,1	16,6	10,6	39,3
Core corporate loans[1]	↓ 20,6	22,7	19,3	20,5	17,0
Commercial-mortgage loans	↓ 39,1	6,5	17,0	14,8	22,6
Household deposits	↓ 18,0	21,7	19,4	21,7	19,2
Non-financial corporate deposits[2]	↑ 16,9	23,6	27,2	17,9	14,4

Source: SARB BA900 at 31 December 2018.

[1] *Core corporate loans comprise commercial mortgages, corporate overdrafts, corporate credit cards, corporate instalment credit, foreign sector loans, public sector loans, preference shares, factoring accounts and other corporate loans.*

[2] *Includes 'private non-financial corporate sector deposits', 'unincorporated businesses' and 'non-profit and charities' as per the SARB BA900 return.*

↑ Increase in market share ↓ Decrease in market share — Flat

Portfolio tilt strategy - looking ahead

Advances	
Retail	
Home loans	
Backbook	▼
Frontbook	▲
Vehicle finance	—
Personal loans	
< R5 000/month segment	▼
Entry-level banking segment	▲
Middle market	▲
Wholesale	
Property finance	
Domestic lending	—
Property partners	—
Rest of Africa	—
Investment banking	—
Client coverage	▲
Global markets	▲
Wealth	—
NIR-related	
Wholesale and retail transactional/primary clients	▲
Global markets (trading)	▲
Insurance	▲
Private-equity-related	—
Deposits	
Household	—
Non-financial corporate	▲
Capital market	—
Short-term wholesale funding	▼
Foreign currency liabilities	▲

▼ Slower than market growth
▲ Faster than market growth
— In line with market

Ensuring and protecting value – Group Credit Committee (GCC)

Errol Kruger
(Chair)

'An inherent part of credit risk takes into account geopolitical as well as reputational risks. The committee has incorporated these risk components and enhanced current policies to incorporate these aspects to ensure an agile credit risk governance framework. Implementation deadlines for IFRS 9 were met, with independent analysis of impairments and credit model validation being effective for 2018. The committee prioritised the assistance of clients who had been identified as being in distress, which aligned with Nedbank's purpose statement that focuses on a client-centred outlook.'

Key focus areas in 2018 to ensure and protect value

- Tracked and monitored progress with the implementation of IFRS 9.
- Undertook concentration risk deep dives into, among others, the commercial-property portfolio, the renewable-energy portfolio, the MFC portfolio, key watchlist clients and state-owned enterprises exposure, satisfying ourselves that the concentration risk was well managed and aligned with risk appetite.
- Continuously managed distressed portfolios, key watchlist clients and industry-specific concentration risks.
- Satisfied ourselves with the independent and effective validation of regulatory capital models.

Focus for 2019 and beyond

- Focusing more on strategic credit risks ('Strategic Portfolio Tilt'), ensuring as far as possible than an optimal balance of credit risk versus return/reward is attained.
- Continuing to focus on the alignment and combined effectiveness of Risk, Audit and Compliance.
- Continuing to monitor the bank's policies to ensure they evolve with the amendments in legislation and current trends regarding the use of scenarios on climate change in risk assessments and the sustainable finance of state-owned enterprises.
- Proactive risk management of distressed portfolios, key watchlist clients and industry-specific concentration risks.
- Continuing to monitor the bank's position and readiness to deal with a potential Moody's downgrade of SA's sovereign credit rating.

Stakeholders

Clients
Regulators
Shareholders
Staff

Top 10 risks

3 **Business risk**
8 **Regulatory and compliance risks**
6 **Credit risk**

A comprehensive GCC report is available online in our 2018 Governance and Ethics Review on our group website at nedbankgroup.co.za.

Providing our clients with access to the best financial services network in Africa

This strategic focus area aims to drive a greater earnings contribution from faster growth in the economies of the rest of Africa over the longer term, while providing geographic diversification benefits and enabling our clients to access the largest banking network in Africa.

Nedbank has a three-pronged strategy for growth in the rest of Africa

- In SADC and East Africa – which contain countries more integrated with the SA economy – we want to own, manage and control banks. We now have a physical presence in six countries, including Lesotho, Malawi, Mozambique, Namibia, Eswatini (Swaziland) and Zimbabwe.
- In Central and West Africa – which contain countries further away from SA and where Nedbank does not have a competitive advantage – we have an alliance with Ecobank that provides our clients with access to markets in which we do not have a presence. Ecobank has a top-three position in 14 countries. Our alliance is underpinned by a commercial relationship in terms of which we are actively working to unlock crossborder transactions and build a deal pipeline by leveraging our individual strengths.
- Through our CIB franchise we leverage our industry sector expertise and actively participate in deals on the continent.

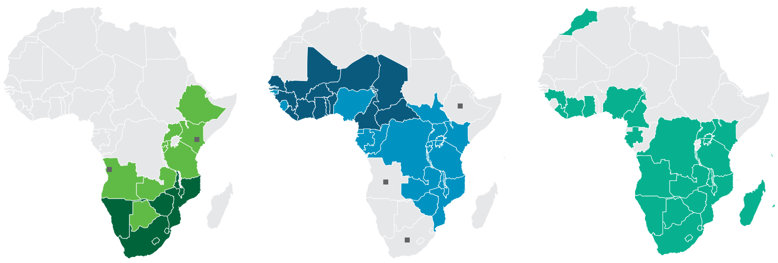
Reflecting on 2018 and looking ahead

- In SADC we continued to build scale and optimise costs. The implementation of our core banking system, Flexcube, was finalised with the successful implementation thereof in Zimbabwe during 2018. We have launched a number of new digital products and we continue to grow our distribution footprint. As a result, clients increased 4,8% to 352 921.
- Ecobank has been through a challenging period over the past two years following depressed oil prices, the naira

devaluation and recession in Nigeria. In December 2018 ETI announced that it would move to using the new NAFEX exchange rate instead of the official CBN rate in its Nigerian operations. We are working very closely with ETI's management and board to improve returns in order to meet their medium-to-long-term return on tangible equity (ROTE) target of cost of equity + 5% (cost of equity estimated at 17%).

- Through our board representation in ETI we work with like-minded shareholders who have a common purpose of strengthening the Ecobank franchise. Mfundo Nkuhlu, our Chief Operating Officer, is Chair of the Risk Committee and Brian Kennedy, Managing Executive for CIB, has joined the Audit and Remuneration Committees. In addition, Anel Bosman, Managing Executive for CIB Markets, has joined the board of Ecobank Nigeria to ensure risk oversight and drive increased levels of collaboration.
- Collaboration with ETI is increasing and during 2018 we:
  - integrated our payment solutions into Ecobank's market-leading remittance product that has been launched in over 30 countries, which enables us to provide a low-cost, fast and convenient solution to 2,7 million African migrants and capture a share of the R25bn remittance market;
  - increased the number of our clients doing their transactional banking with ETI by more than 100; and
  - concluded two deals as regular meetings with Ecobank and QNB resulted in an increase in our deal pipeline.

Nedbank, ETI and CIB presence



NEDBANK
- Nedbank existing presence
- Expansion opportunities
- Nedbank representative offices

ECOBANK
- Ecobank top three in country
- Ecobank other
- Ecobank representative offices

NEDBANK CIB
- Investment banking deals

Key risks in implementing the strategy

Volatility and uncertainty in African economies – While our Zimbabwean operations remain small in the group context, we are conscious of the challenging environment and its impact on our staff and clients. The difficult environment in Zimbabwe resulted in a negative FCTR adjustment to the group's capital of R0,8bn before minorities (R0,5bn after minorities). We continue to monitor developments in Zimbabwe brought about by currency shortages and pressure on the fiscus. The turnaround in ETI continues, but risks remain – especially in ETI's Nigerian portfolio. We closely monitor these risks on an ongoing basis as active members on the ETI board.

CASE IN POINT
Crossborder remittance platform

10 REDUCED INEQUALITIES

Every year people living within the borders of SA transfer an estimated R25bn to families and friends living in the rest of Africa. The remittance market is growing fast, fuelled by the diaspora, and it is increasingly going digital with a quarter of remittance transfers taking place over digital channels. Current solutions in the market are expensive. Nedbank offers a crossborder remittance platform that supports financial inclusion and provides the most affordable, lowest cost, most convenient and instant crossborder payment service on both the Nedbank Money app™ and secure website. As Nedbank we are creating value by delivering on our purpose of using our financial expertise to do good through our crossborder remittance platform.

- ***Use our financial expertise*** – The CVP we developed is disruptive and innovative, and has taken Nedbank from having no crossborder transfer capability to creating a solution that facilitates low-value account-to-account payments. Through our DFL capability we developed the solution within six weeks, followed by extensive SARB testing, and officially launched it to market in November 2018. We have also leveraged our internal treasury function and associated real-time systems that contribute to our market-leading pricing proposition for clients.
- ***Do good for clients*** – Nedbank enables accountholders to send money cost-effectively, conveniently, safely and instantly to 33 countries in Africa, leveraging Ecobank's on-the-ground presence, while remaining compliant with regulatory requirements. Once an individual has become a client, no further documentation is required to send money and there is also no need to visit a branch, retailer or kiosk in order to initiate or complete a payment. Further to this, no data costs are incurred for the sender given the Money app's zero-rated status.

RECOGNITION AND RATINGS

Nedbank received several awards that recognise our efforts in managing our business sustainably in 2018. While our sustainability efforts are not undertaken with the aim of winning awards, the external recognition we received serves to affirm that our efforts are well directed.

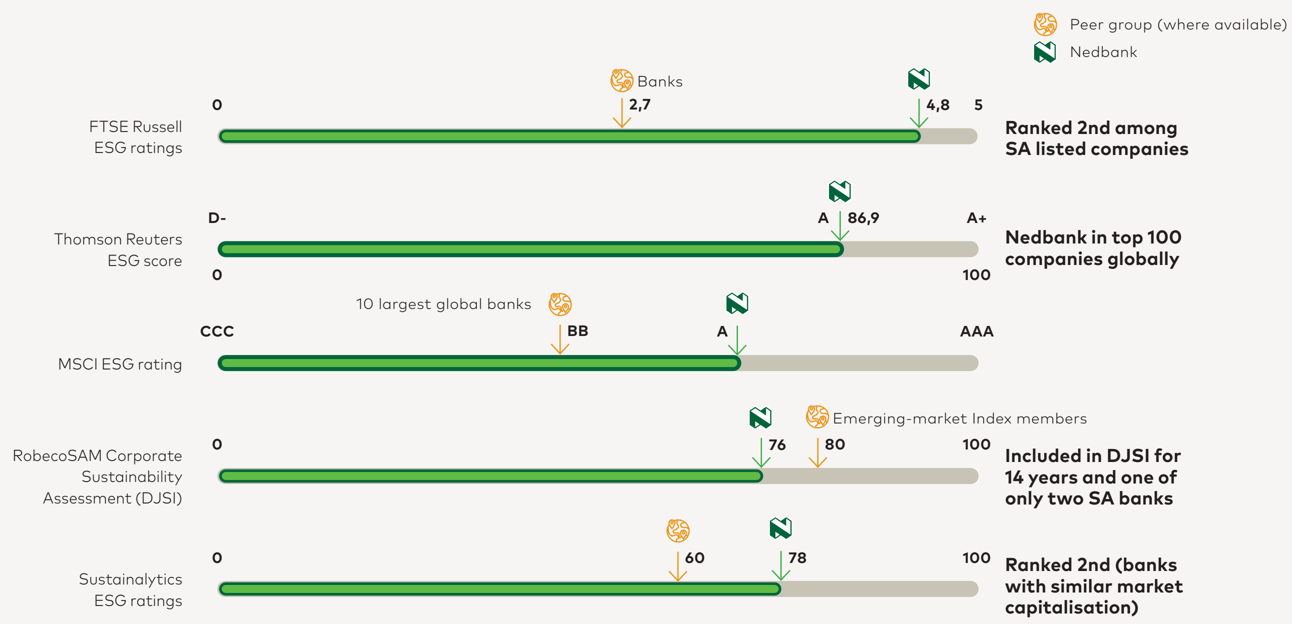
Awards include:

- **2018 EY Excellence in Integrated Reporting** – Won first place among leading companies in SA in the top 10 category.
- **2018 *Sunday Times* Top Brands** – Winner of Community Upliftment Award in business category and runnerup for the Business Green Award.
- **2018 *International Banker* Awards** – Best Banking CEO and Best Innovation in Retail Banking.
- **2018 *Banker Africa*: Southern Africa Awards** – Rated the Best Corporate Bank in SA.
- **2018 Investment Analyst Society** – Acknowledged as leader in corporate reporting in the banking sector.
- **2018 SA Board for People Practices Employment Equity, Diversity and Transformation Awards** –Employment Equity, Diversity and Transformation award.
- **2019 Euromoney Private Banking and Wealth Management Survey** – Nedbank Private Wealth named Top Private Bank and Wealth Manager in SA for Super Affluent Clients (USD1m to USD5m) and Top Private Bank and Wealth Manager in SA for ESG/Social Impact Investing.
- **2019 Raging Bull Awards** – Offshore Management Company of the Year: Nedgroup Investments; Best SA Global Multi-Asset Low-Equity Fund on a Risk-Adjusted Basis: Nedgroup Investments; and Best SA Global Multi-Asset Low-Equity Fund on a Risk-Adjusted Basis.
- **2018 Global Finance magazine** – Best Consumer Digital Bank in Mozambique – Banco Único.
- **2018 *The Banker* Magazine** – Bank of the Year Award in Mozambique: Banco Único and Bank of the Year Award in Swaziland: Nedbank Swaziland.

Our sustainability credentials include:

- **Carbon-neutral status** – Africa's first carbon-neutral financial organisation. Carbon-neutral since 2010.
- **FTSE4Good Index** – A global responsible-investment index for companies that demonstrate strong environmental, social and governance practices. **Included in 2018.**
- **FTSE/JSE Responsible Investment Top 30 Index** – Constituent of the index.
- **Dow Jones Sustainability Emerging Markets Index 2018** – A global performance benchmark for companies in terms of corporate sustainability. Included since 2004. Inclusion helps to attract investment to the company.
- **SA Carbon Disclosure Project Index 2018** – Scored a 'A -' for performance. One of 11 companies to be awarded this score in SA. Score recognises our corporate environmental action on climate change.
- **WWF-SA Water Balance Programme** – Invested R14m in national water security. The programme helps to increase water supply and delivers economic and social benefits through job creation.
- **WWF Nedbank Green Trust partnership** – Invested R264m since the trust's inception in support of over 200 environmental projects throughout SA.
- **WWF-SA Sustainable Agriculture Programme** – Invested R18m as official sponsor. Partnership helps to promote and support national sustainable agricultural production practices.
- **Green buildings** – Nedbank occupies 10 Green Star-rated buildings.

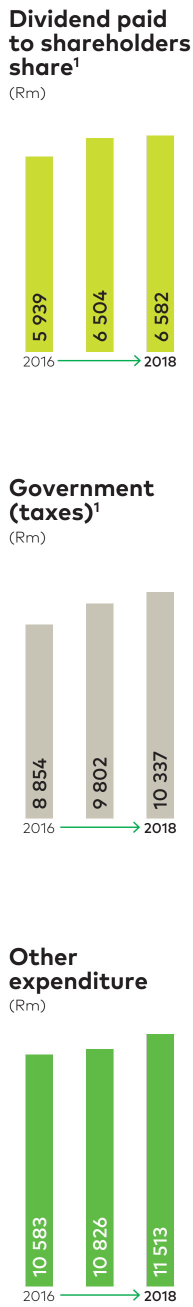
Independent ESG ratings – Nedbank is highly rated among its global peer group

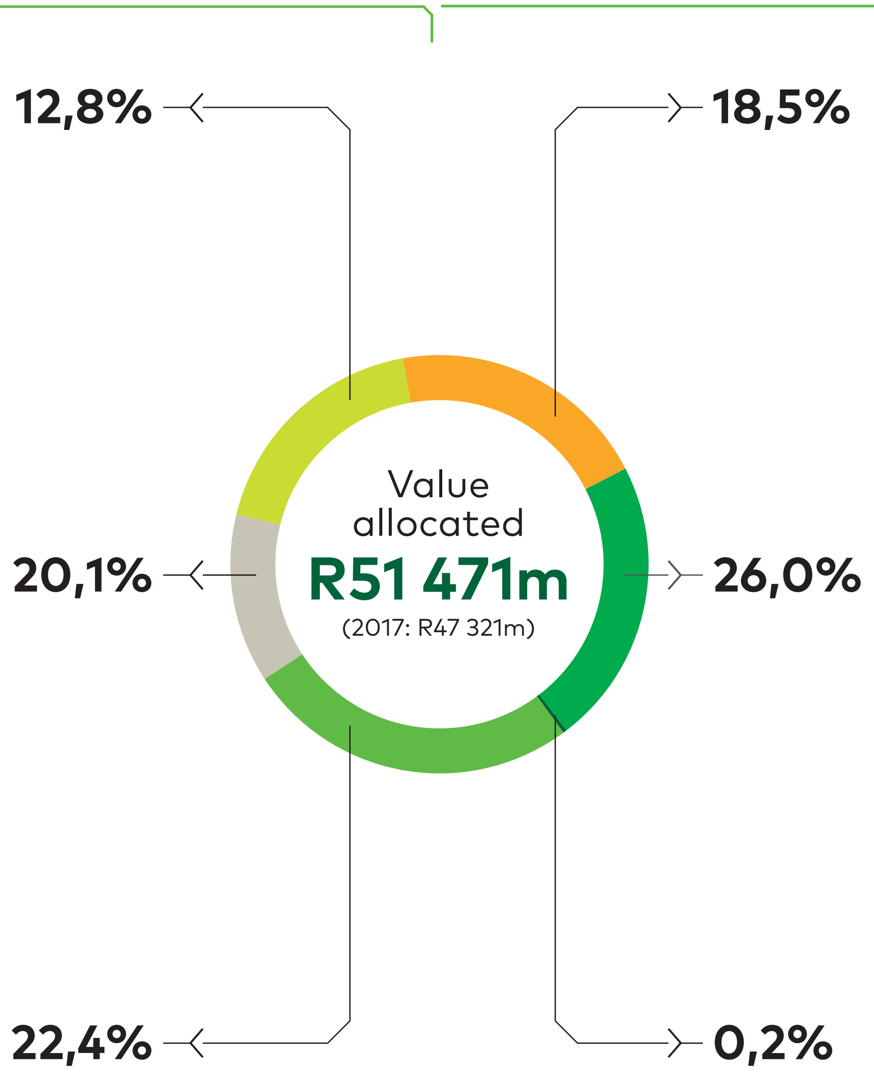


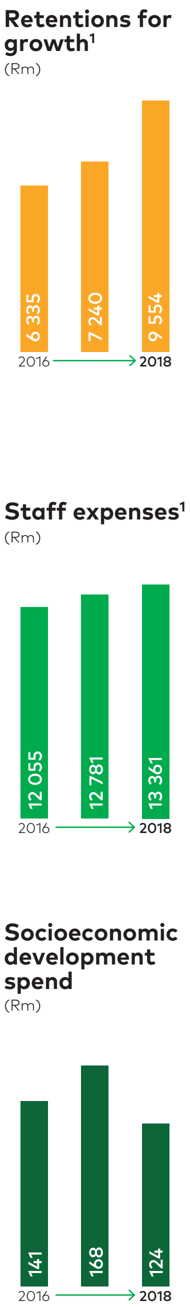
VALUE FOR STAKEHOLDERS

Nedbank is part of a greater socioeconomic ecosystem and we recognise that we are dependent on robust relationships with all other stakeholders. We appreciate the role played by all of our stakeholders and are committed to nurturing impactful relationships that deliver mutual benefits.

NII		Impairment losses on loans and advances		Other banking income		Value added
R28 819m	−	**R3 688m**	+	**R26 340m**	=	**R51 471m**







Our stakeholder engagement framework

While the Group Exco has ultimate responsibility for our group's stakeholder engagement efforts, the process of engaging with stakeholders is decentralised to form part of the operations of our various clusters and business areas. Cluster-based stakeholder engagement is governed by a comprehensive group stakeholder engagement framework and policy, which include our corporate identity and communication guidelines. Each business area is required to report regularly on its stakeholder engagements through the Group Exco.

The following pages provide an overview of how we delivered value to our stakeholders in 2018 and prospects for future value creation.

[1] *Value for government (taxes) includes direct taxes, dividend withholding tax and cash payments made to SARS in respect of value-added tax. As a result, the amounts for the dividend paid to shareholders, staff expenses and retentions for growth may not agree with the amounts disclosed for the group's annual financial statements.*

Staff: Investing in our staff

CASE IN POINT
Digital learning

Digital learning is a digital platform solution that allows for self-directed learning. As the need for ongoing reskilling of staffmembers increases exponentially, digital learning gives staff the opportunity to determine the pace of their own learning and, if required, learn in small modules. As Nedbank we are creating value by delivering on our purpose:

- **Use our financial expertise** – Between October 2017 and September 2018 Nedbank collaborated with various digital partners and ran digital learning pilots in key environments. LinkedIn Learning was piloted in Retail and Business Banking and Group Technology. A total of 3 218 licences were issued in 2018 and 32 316 hours were spent on learning content that covered a wide variety of subjects. The 95% uptake of this offering lead to Nedbank receiving an international award from LinkedIn Learning for the 'Best learning culture in SA'. We have now invested in 30 000 licences to enable the entire organisation to participate in this learning experience and more focus will be placed on innovative ways of learning to acquire the skills of the future.
- **Do good for staff** – Digital learning is core to enabling a future-fit workforce, as it gives staff easier access to training. Staffmembers are now using digital learning to reskill for the future, as they learn where and when it suits them, in a focused way and with less time in the classroom. Since the digital learning platforms have been made available to our staffmembers, we have seen the average hours of classroom learning drop and more people being trained through a blended learning approach.

Delivering value to our staff in 2018

- As a large employer we paid R13,4bn in remuneration and benefits, net of taxes, to our 31 277 employees. To reduce the wealth gap we deliberately provided for average salary increases at 7,0% for our unionised staff, higher than the 5,0% for management.
- Training spend increased 32% in 2018 (2017: 38,2%) to R468m as we aligned our training programmes with our strategic intent. We refreshed our executive management programmes to be more digitally focused, with more than 70 senior leaders having participated in immersive learning experiences (the Executive Business Transformation Programme) over the past two years, with exposure to Silicon Cape, Silicon Savannah (Kenya) and Silicon Valley.
- Staff attrition declined slightly to 10,1% (2017: 10,6%), while staff numbers decreased by 610. The attrition rate remains below the industry benchmark of 11–13%. We have not implemented any material retrenchment programmes over the past several years, as we have honoured our staff practice of limiting redundancies wherever possible for the greater benefit of SA, by actively using a redeployment pool.
- Given the large-scale change in the organisation as we implement nWoW and embrace the Fourth Industrial Revolution, our cultural entropy increased to 20% (2016: 12%). This is an indication of an organisation in transition and reflects the challenges our staffmembers face in the macro environment (work and personal lives, social economic pressures, etc). We have taken note of the feedback from staff and are responding at both an enterprise and cluster level.
- We implemented nWoW practices with more than 1 500 staffmembers working according to this new approach. We aim to increase this number incrementally to support an optimal agile scaling framework over the 2019 period.
- A refreshed performance management approach was implemented focusing on goal commitments. This new approach enables the organisation to have more frequent and robust conversations around running and changing the business, in alignment with us becoming more agile, client-focused, digital and competitive. Our executive goal commitment contracts on pages 88 to page 90 of the 2019 Integrated Report embraced this new approach.
- Transformation remains a key focus for the group as we continued to increase our workforce with AIC groups now at 77,4%, to more closely reflect the demographics of society. Similarly, on gender diversity, female representation is now at 61,8% of the Nedbank permanent workforce.

Looking ahead

- In 2019 we will continue to build capabilities around client-centredness and design thinking while adding several additional leadership capabilities.
- Our new operating model will continue to revitalise the organisation of work and how we work together to deliver on our strategic focus areas. Given the significant impact of digitisation in financial services, our challenge in anticipating the required future skills of the workforce and readying our people for the future will receive significant focus.
- We continue to focus on our cultural journey by deploying levers such as the Leadership, Values and Culture assessment tool as well as other levers to embed the required change.
- We will continue our efforts to lead in transformation while focusing on a right-fit culture and leadership to align with Nedbank's strategic intent.

Long-term targets

- A culture that is commercially focused, client-centred and innovative.
- A diverse and inclusive staff profile.

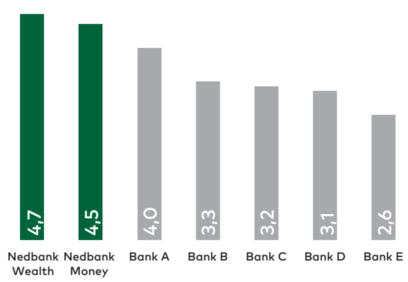
Clients: Creating great client experiences

CASE IN POINT
Extraordinary Life

'Extraordinary Life' is a digital, automated savings platform that delivers a cutting-edge user experience by using a chatbot to collect data, automated application program interface(API)-driven advice, chatbot access to investment expertise and a fully digitised purchasing experience. Nedbank won *The Banker* magazine's 2018 (Artificial Intelligence and Robotics) global award for this innovation. At Nedbank we are creating value by delivering on our purpose:

- **Use our financial expertise** – We brought together four different expert teams across four different countries (England, India, the Czech Republic and SA) with the aim of building the best robo-advice platform in SA. For Nedbank the platform helps attain market leadership in the field of automated investment platforms through a collective intimacy strategy, leveraging the algorithms built to develop a unique digital relationship with our clients. The platform has integrated new onboarding services and reduced the associated investment account opening cost by almost 90%, increasing the profitability of the new channel. The project also introduced the use of new technologies into Nedbank by integrating artificial intelligence, chatbot, investment algorithms, web and API development, thereby exponentially increasing our skill and expertise in these areas.
- **Do good for clients** – Extraordinary Life provides expert online advice and relieves four major client pain points when it comes to investing:
  - **Time:** Extraordinary Life reduces a five-to-ten-day paper process to just 10 minutes.
  - **Hassle:** Extraordinary Life is completely digital. No paperwork, no telephone calls.
  - **Complexity:** Based on the client's answers, Extraordinary Life recommends the best investment and combination of products to maximise the client's savings and tax.
  - **Transparency:** Costs and relevant details are always available throughout the platform journey so that clients know what we are doing and why it is best for them.

Client app rating – iOS app store



Delivering value to our clients in 2018

- We made new-loan payouts of R181bn to enable clients to finance their homes, vehicles and education, and grow their businesses. This increased 18% on the previous year.
- We launched various innovative solutions to make banking more convenient and meet the needs of our clients. Below are a few examples:
  - The Nedbank Private Wealth app was further enhanced through our DFL capability and was ranked second best globally by Cutter Associates International Research, an improvement from seventh in 2017.
  - The Nedbank Money app™, our retail app that makes banking more convenient for our clients, has seen more than 1,6 million downloads and is rated well above peer banks on the iOS platform. With new market-leading innovative services that underpin these ratings clients can scan to pay (first in market), freeze and unfreeze cards (first in market) and stop unauthorised debit orders.
  - We launched Unlocked.Me, our first platform play solution to enhance our youth and middle-market propositions, offering banking and lifestyle solutions and delivering curated experiences.
  - Karri, our mobile payment app that allows users to make cash-free payments for school activities quickly, safely and hassle-free, has been rolled out to more than 200 schools across the country.
  - As far as our integrated channels are concerned, we have to date converted 60% of our outlets to new image digital branches, and our investment in distribution channels over the next three years (until 2021) will result in 79% of our retail clients being exposed to the new digitally focused branch formats and self-service offerings.
  - We extended the use of chatbots and robo-advisors to enhance client experiences through our contact centre and web-servicing capabilities and will continue to do so. In 2018 Nedgroup Investments won The Financial Times' *The Banker* magazine Technology Project award in the global Artificial Intelligence and Robotics category for our robo-advice solution.
  - For our wholesale clients we partnered with Aerobotics, a fintech, that uses satellites and drones to capture multispectral images of orchards to help farmers optimise yields and manage costs. This innovative solution received *The Banker*'s global award for a fintech partnership.
  - In the rest of Africa we continue to launch various new products and CVPs on the back of our core banking implementation.
- System uptime continues to be above our acceptable level of tolerance (> 99,1%), notwithstanding significant changes to IT systems and new digital applications.
- We recorded a significant improvement in our NPS score from 26% to 37%, the largest increase among all banks in 2018. Similarly, we have seen our brand value increase, moving us up one position higher to ninth in SA, and from fifth to fourth among SA banking peers.
- CIB received *The Banker Africa's* award for Best Corporate Bank in SA, was placed first in the Bloomberg Fixed Income league table rankings: SA bonds and was number one in the primary dealer rankings as measured by SARB.
- Nedgroup Investments was named offshore management company of the year for the fourth consecutive year at the Raging Bull Awards.

Looking ahead

- The foundations put in place through ME (our core systems and technology platform transformation), digital enhancements through DFL and nWoW are enabling incremental digital benefits and enhanced client service. In 2019 we plan to launch exciting innovative solutions as shown on pages 43 and 44 of the 2018 Integrated Report and we expect to continue to see improvements in our client satisfaction scores and, as a result, growth in client numbers.

2020 targets

Top 2 brand value among SA banking peers

RBB
Top 2 Net Promoter Score

CIB
Top 2 in wholesale league tables

Wealth
Top 3 SA asset manager (annual Raging Bull Awards)

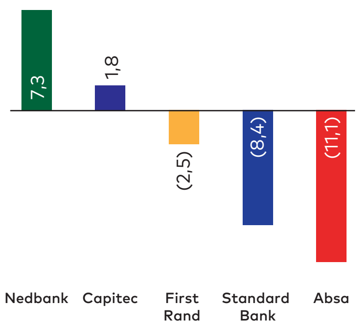
RoA
Grow profitability ahead of market in the subsidiary countries and increased dealflow from ETI network

Shareholders: Delivering consistently to our shareholders

Delivering value to our shareholders in 2018

- Solid business and financial performance in a difficult environment.
- Share price up 7,3% (best-performing large SA bank share).
- Successful conclusion of odd-lot offer, creating value for odd-lot holders, with offer price 5% above VWAP to 3 December 2018.
- Total dividend per share up 10,1%.
- Valuation metrics remain attractive – price to book: 1,6 times.
- Improved free float after Old Mutual Limited unbundling (from 45% to 80%), with number of shares traded per day increasing from 1,1 million to 2,0 million.
- Sound corporate governance and good relationships with the investment community, underpinned by regular engagements and transparent reporting, acknowledged through a number of industry awards.
- 2018 AGM resolutions passed – approvals all above 91%.
- Various engagements with shareholders on ESG matters.
- Invested in our investor relations capabilities (people, technology, etc) to ensure worldclass service to the investment community in a post-MIFID world.

2018 share performance
(%)



Key shareholding changes

As a result of managed separation, Old Mutual Limited's shareholding in Nedbank Group decreased to 19,9% (excluding funds managed by Old Mutual Limited on behalf of other beneficial owners). Many shareholders that were underweight received Nedbank Group shares as part of the unbundling on 15 October 2018. A greater free float resulted in index holdings increasing from 11,4% to 19,4%. Nedbank Group has also become a more attractive investment for international funds who increased their holdings from 18,1% to 29,3%.

Key issues we engaged on

Topical discussions with the investment community

Our management meets regularly with the investment community. In addition, we provide shareholders with the opportunity to engage with our Chairman and Lead Independent Director on governance matters during our governance roadshow and other engagements. The following were the main topics discussed during more than 400 investor meetings in 2018:

Main topic	Our response and action
Old Mutual managed separation – guidance on the impact, progress and timelines for the managed separation and addressing concerns around a potential share overhang.	Managed separation had no impact on Nedbank's operations, staff, clients or strategy. We continue to collaborate with Old Mutual Limited in line with the relationship agreement signed in 2018. Managed separation was successfully concluded with limited impact as the Nedbank share ended the year as the best-performing bank share, up 7,3%. Index classified shareholding increased meaningfully as Nedbank's weighting in the MSCI Emerging Market and JSE Satrix indices increased significantly. A key benefit for shareholders is improved free float, increasing the daily number of shares traded from 1,1 million prior to unbundling to almost 2 million. Subsequent to the managed separation, Nedbank concluded an odd-lot offer to reduce the cost burden of managing a large shareholder base. This enjoyed strong shareholder support and resulted in qualifying shareholders receiving cash at a 5% premium to the 10-day VWAP and the benefit of no trading fees.
The impact of political and economic changes – excitement around a SA political and economic turnaround in Q1 2018 were short-lived as the realities of state capture prompted investors to question the impact and timing of better economic outcomes.	The political and economic scenarios for SA provide for more optimistic outcomes (Ramareality and Ramaphoria), with Nedbank well positioned to weather a negative Ramaphobia scenario as discussed on page page 43 of the 2018 Integrated Report. An economic recovery will see Nedbank benefit from our wholesale-banking strength and bias (> 60% wholesale advances), while RBB continues to gain clients and focus on initiatives to lower its cost-to-income ratio.
New and increased competition – the impact of new banks being launched in 2019 and some peers being more aggressive around their lending practices.	We welcome competition as it drives continued focus on innovation, client satisfaction and competitive pricing. Nedbank is well positioned to compete, given the significant progress made in IT investments and the launch of various new innovations.
Sustainability of ETI turnaround – while investors increasingly acknowledge that ETI has turned the corner, there is still ongoing concerns around sustainability of profit growth and exposure to difficult economies such as Nigeria.	ETI has delivered seven consecutive quarters of profits to 30 September 2018, underpinned by improved governance, delivering on its transactional-banking strategy and an improvement in credit quality.

Key issues we engaged on

Main topic	Our response and action
Nedbank's long-term financial outlook – drivers of higher ROEs and lower cost-to-income ratios for SA banks and Nedbank are key to an attractive investment.	We reiterate our commitment to our 2020 target of ROE (excluding goodwill) of ≥ 18% and cost-to-income ratio of ≤ 53%. This will be driven by ongoing economic recovery, gaining share of revenues and reducing our cost-to-serve and cost optimisation initiatives. Our financial guidance is shown on pages 68 and 69 of the 2018 Integrated Report and includes a discussion on external challenges in meeting these.
Mandatory audit firm rotation – concerns around the appointment of KPMG for the 2018 audit.	KPMG, Nedbank and Old Mutual Limited's common auditor, was retained along with Deloitte to complete the 2018 audit. Shareholders approved KPMG as auditors for 2018 at Nedbank's 51st AGM, with a 98,4% vote of approval. Following a comprehensive tender process, EY has been recommended to be appointed as Nedbank's and Nedbank Group's new joint external auditors effective 8 and 10 May 2019 respectively. These appointments are subject to shareholder approval at the companies' AGMs and will commence from the financial year ending 31 December 2019.
Remuneration – ongoing enhancements to the Nedbank remuneration scheme	On the back of continued engagements with our shareholders, both at our January 2018 remuneration roadshow and April 2017/2018 governance roadshows, we made numerous enhancements to our Remuneration Policy, which received 99,3% approval at the 51st Nedbank Group AGM. The enhancements are noted on page 85 of the 2018 Integrated Report .

Ensuring and protecting value – Group Related-Party Transactions Committee (GRPTC)

Malcolm Wyman
(Chair)

'Managed separation saw Nedbank move from having a controlling shareholder to becoming an independent company, with its free float increasing from approximately 40% to approximately 80%. The GRPTC oversaw the arrangements and agreements between Old Mutual and Nedbank to implement this transaction in the interest of minority shareholders. This was the key focus for the GRPTC in 2018.'

Ensuring and protecting value in 2018

- The GRPTC oversaw the execution of the Old Mutual plc MS strategy as it impacted Nedbank, in particular ensuring an orderly distribution of Nedbank shares and monitoring the progress of the transaction for completion in 2018.
- Together with an independent board committee, the GRPTC oversaw the effective implementation of an odd-lot offer that saw approximately 430 000 shareholders unlock value in their odd-lot Nedbank holdings, at a premium and with no cost, by buying back approximately 7 million shares at a total value of about R2bn, which created annual savings for Nedbank.
- The GRPTC monitored the conclusion of the collaboration programme between Nedbank and Old Mutual Group, which had delivered R1bn in synergies by the end of 2017, and reviewed the ongoing sustainable synergies for the 2018 year.
- The board ensured accurate disclosure of on-balance-sheet transactions in the annual financial report in terms of IAS 24: Related-party Disclosures.

Focus for 2019 and beyond

- Monitoring and reviewing all related-party transactions, including transactions with the 19,9% shareholder, Old Mutual Limited.
- Monitoring and reviewing the Relationship Oversight Committee, which governs the commercial relationship between Nedbank and Old Mutual Limited.

Stakeholders

- Shareholders
- Regulators

Top 10 risks

1 **Strategic and execution risks**
5 **Conduct and culture risks**
7 **Reputational risk**
8 **Regulatory and compliance risks**

A comprehensive GRPTC report is available online in our 2018 Governance and Ethics Review on our group website at nedbankgroup.co.za.

Key shareholding changes

As a result of managed separation, Old Mutual Limited's shareholding in Nedbank Group decreased to 19,9% (excluding funds managed by Old Mutual Limited on behalf of other beneficial owners). Many shareholders that were underweight received Nedbank Group shares as part of the unbundling on 15 October 2018. A greater free float resulted in index holdings increasing from 11,4% to 19,4%. Nedbank Group has also become a more attractive investment for international funds that increased their holdings from 18,1% to 29,3%.

Major shareholders/Managers	% holding 2018	% holding 2017
Old Mutual Life Assurance Company and Associates[1]	**24,5**	53,4
Public Investment Corporation	**9,4**	6,2
Coronation Fund Managers (SA)	**7,3**	5,7
Allan Gray Investment Council	**5,1**	2,4
BlackRock Inc (International)	**3,7**	1,8
Lazard Asset Management (International)	**3,0**	3,2
The Vanguard Group Inc	**2,9**	1,6
GIC Asset Management (Pty) Ltd	**2,7**	1,7
Nedbank Group	**3,3**	3,3
Sanlam Investment Management	**1,9**	0,9
Index classified shareholders	**19,4**	11,4
International shareholders	**29,3**	18,1

[1] *Old Mutual Limited retains a strategic minority shareholding of 19,9% in Nedbank Group, held through its shareholder funds, under the terms of the relationship agreement. The above shareholding is inclusive of funds held on behalf other beneficial owners.*

Voting outcomes of the 51st AGM and general meeting to approve the odd-lot offer

All the resolutions at the AGM were passed with more than 91% approval and the odd-lot offer received 98,6% approval at the general meeting of Nedbank Group held on Thursday, 22 November 2018.

The following resolutions with respect to the election and reelection of directors were passed:

2018 resolutions

Ordinary resolutions 1.1, 1.2 and 1.3: Election as a director of Mr HR Brody, Ms NP Dongwana and Ms L Manzini, who were appointed as directors since the previous and general meeting of shareholders.
Ordinary resolution 2.1, 2.2 and 2.3: Reelection of Mr PM Makwana, Mrs RK Morathi and Mr MC Nkuhlu, who were retiring by rotation, as directors.

Other noteworthy resolutions included the following:

2018 resolutions	For %	Important considerations for 52nd AGM	
Ordinary resolutions 3.1 and 3.2: Reappointment of Deloitte and KPMG as external auditors.	98,4%	Shareholders will be asked to approve EY and Deloitte as Nedbank's auditors for 2019.	**Your vote is needed on appointment of auditors**
Ordinary resolution 4: Placing the authorised but unissued ordinary shares under the control of the directors.	91,6%	Shares granted under this authority are limited to 2,5% of the shares in issue and restricted to existing contractual obligations to issue the shares.	**Your vote is needed on unissued shares**
Advisory endorsement on a non-binding basis, of the Nedbank Group Remuneration Policy and the Nedbank Group Remuneration Implementation Report.	99,3%	Our remuneration policy remains a focus and we will continue to engage proactively with our shareholders.	**Your vote is needed on the remuneration policy**

General meeting to approve the odd-lot offer:

Odd-lot offer resolutions	For %
Special resolution 1: Specific authority to repurchase Nedbank Group ordinary shares from the odd-lot holders.	**98,6%**
Ordinary resolution 1: Authority to make and implement the odd-lot offer.	**98,6%**

Looking ahead

- Given our strong capital position, we will continue to pay dividends around the midpoint of our board-approved target range of 1,75 to 2,25 times cover or 50% payout ratio.
- Our financial guidance available on pages 63, 65 and 69 of the 2018 Integrated Report and delivery on our targets point to improved financial performance.

2020 targets

Top 2 price-to-book ratio among SA peers
ROE (excluding goodwill): **≥ 18%** by 2020
Efficiency ratio: **≤ 53%** by 2020

Regulators: Ensuring sustainable banking with our regulators

Delivering on our regulatory commitments in 2018

In line with international and local trends Nedbank observed an increase in regulatory scrutiny and inspections. Regulatory reviews were attended to with significant attention to detail, professionalism and prompt reaction to matters raised.

The pervasive and abnormal regulatory-change agenda continues unabated, with banks subject to additional scrutiny by regulators and a plethora of new and amended regulations dominating time and resources. Nedbank's strategic response to the high execution risk and regulatory-change agenda comprises a comprehensive Regulatory Change Programme (RCP) under the leadership of the Chief Risk Officer (CRO). The RCP is facilitating the evolution from short-term to long-term sustainable solutions, with regulatory risks being managed through various steering committees, RCPs, excos and board committees. Regular engagements take place and regulators are apprised continually, particularly where action plans are in place to meet agreed timelines, as in the case of AML.

- We complied with all key aspects of Basel III requirements, with a CET1 ratio of 11,7%, which is above the SARB requirements of 7,375% and above the midpoint of our target range of 10,5–12,5%.
- With regard to the LCR we have achieved 109%, above the 2017 SARB minimum target requirement of 90%, and maintained the NSFR at 114% above the 100% minimum requirement.
- The complex IFRS 9 programme successfully met the 'go live' deadline, within scope and budget.
- We paid R10,3bn in direct, indirect and staff taxes to support the governments and societies in which we operate. We are committed to maintaining our integrity with regard to all our tax obligations and strive to be a responsible corporate citizen by ensuring that we pay and/or collect the appropriate amount of tax in all the jurisdictions in which we operate.
- We continued to work closely with all our regulators to ensure delivery of the various regulatory programmes, including completion of POPI/privacy requirements and finalisation of the SA remediation and thematic sanctions review within AML, combating the financing of terrorism and sanctions legislation.
- We increased our BBBEE contributor status to level 1, measured under the Amended FSC as gazetted in terms of section 9(1) of the BBBEE Act, 53 of 2003 with us now having maintained level 2 or higher for 10 consecutive years.
- Banco Único paid an AML fine of R6,4m (October 2017), which is currently on appeal, as well as a second fine of R8,7m (August 2018). However, we continue to strive for zero regulatory fines or penalties through enhanced and robust controls to mitigate the related risk.

Looking ahead

- The Basel III reforms announced in December 2017 include the placing of a floor on certain model inputs for portfolios subject to the AIR approach, introducing credit risk RWA calculation rules for portfolios subject to The Standardised Approach, the use of a new standardised approach for the calculation of credit valuation adjustment and operational RWA, the implementation of the Fundamental Review of the Trading Book and setting a floor on the group RWA equal to 72,5% of RWA calculated according to a revised standardised approach. All changes will be effective 1 January 2022, with a five-year gradual phasing-in of the 72,5% floor, beginning at 50% in 2022. As Basel III still needs to be converted into national law, there is uncertainty regarding the interpretation of some of the rules, which means that reliable impact estimates are not yet available.
- We continue to work on our client onboarding solutions scheduled for release in H1 2019 as the foundation for compliance with the FIC Amendment Act due in Q2 2019.
- A draft SARB resolution was released in January 2018, which includes the establishment of a deposit insurance scheme in SA. No details were provided and we await further clarification in 2019.
- We will maintain our status as a responsible taxpayer in all the jurisdictions in which we operate.
- There will be a continued focus on the implementation of regulatory programmes, eg risk data aggregation and risk reporting principles.

2020 targets

Effective delivery on the **regulatory change programme**.

Society: Contributing to a thriving society

The greatest contribution a bank can make to the sustainable development of society is through its commercial offering. We strive to do this by creating innovative finance and investment solutions that enable our clients to achieve the lifestyle and business outcomes they desire and that see us starting to deliver against the UN SDGs. In 2018 we continued with the process of aligning our lending with the SDGs as per our Sustainable Development Framework (see page 14 of the 2018 Integrated Report). A summary of these efforts is structured below in line with our three key areas of leverage: products and services: sustainable development finance, operations and CSI.

For full details, please refer to the Sustainable Development Review available on our group website at nedbankgroup.co.za.

1 PRODUCTS AND SERVICES: SUSTAINABLE DEVELOPMENT FINANCE

We desire that, over time, the percentage of our lending that delivers a deliberate positive impact will increase and our lending will not undermine the achievement of the SDGs. This year saw an encouraging level of activity in utility-scale renewable energy, several lending innovations in the rural development and agriculture space, as well as digital innovations that enhanced financial access and dropped the cost of a range of transactions.

SDG 4: Quality Education

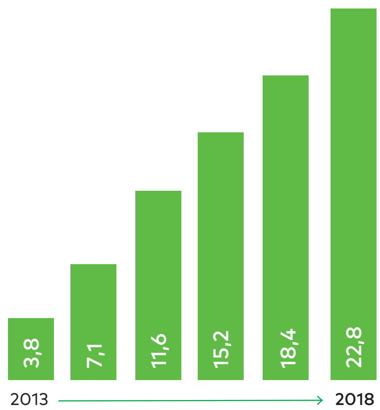
- We provided student accommodation funding of R446m towards an additional 3 750 student beds (2017: 5 700). The decline in lending in 2018 was due primarily to delays in land being made available for development in some provinces.
- Over three years we have provided approximately 3 000 students with student loans worth R149m, of which R44m was dispersed in 2018.
- We continue our involvement with the Ikusasa Student Financial Aid Programme (ISFAP), which is working to mobilise a range of funding sources.

SDG 6: Clean Water and Sanitation

- We continue to provide assistance, advisory services and finance to address the water challenges in the country.
- We co-invested with the Multiply Group to form Wellspring Group Proprietary Limited, which acquired a 67,2% shareholding in a supplier of water storage tanks.

CASE IN POINT – Nedbank's SDG initiatives

Renewable-energy disbursements
(Rbn)



SDG 7: Affordable and Clean Energy

We closed a further 12 renewable-energy project deals, worth R13bn, under round 4 of the Department of Energy's REIPPPP. In all REIPPPP rounds completed to date Nedbank has arranged and funded a total of 42 transactions, with a total of R40bn underwritten and R22,8bn disbursed for renewable-energy deals.

- In 2018 almost R1bn of our property finance lending incorporated the installation of solar power.
- More than R29bn has been invested in the Nedbank Retail Green Savings Bond since its inception in 2012, of which R5,3bn was invested in 2018.

SDG 8: Decent Work and Economic Growth

- We continued to develop inclusive banking solutions, including a new digital wallet-based solution, Nedbank MobiMoney, and our Nedbank Stokvel Account.
- We took proactive steps to assist our clients with R345m of debt rehabilitation.
- Our enterprise development programmes offer flexible financial, mentorship and training programmes. In 2018 we were actively involved in 24 Extended Public Works Programme projects, supporting 554 learner contractors and providing R2,7m in mentorship funding.

SDG 9: Industry, Innovation and Infrastructure

- Projects that respond to this SDG included the construction and rehabilitation of a 900 km railway line in Mozambique and Malawi, and a new export terminal located at Nacala on the east coast of Mozambique (USD50m in debt funding).

SDG 10: Reduced Inequalities

- In partnership with Ecobank we introduced a crossborder remittance solution that allows instant transfer of money to people in 33 countries across Africa.
- In the past five years we have reached over one million individuals through our consumer financial education programme (2018: 175 000).

SDG 11: Sustainable Cities and Communities

- We disbursed R1,2bn towards 2 860 new affordable-housing units (2017: 2 100 units) and provided capital for more than 2 700 social-housing units.
- We provided R943m in home loans to clients in the affordable-housing market, a 7% increase from 2017.
- Funding of R4,8bn (2017: R1,3bn) was provided for the construction of buildings that conform to green building standards.

SDG 12: Responsible Consumption and Production

- We provided an R800m facility to the Humansdorp Cooperative, part of which will promote sustainable farming practices.
- We provided a R15m rural livestock borrowing base facility to the KwaDrabo Trust (KDT) to support the development of the Centane community in the Eastern Cape.

SDG 15: Life on Land

- We have provided support for the WWF-SA Water Balance and WWF-SA Sustainable Agriculture programmes over the past eight and six years respectively. Highlights include the clearing of invasive alien vegetation from over 450 ha of densely infested land, keeping one billion litres of water annually in vital water catchments, as well as the creation of industrywide best-practice standards in five priority agriculture sectors: fruit, wine, dairy, beef and sugar farming.

2 OPERATIONS

We have been carbon-neutral since 2010, following a 'reduce first, then offset' approach. With a total carbon footprint of 196 992 tCO_2e for the year, our overall reported greenhouse gas emissions decreased by 4,17% in absolute terms from 2017 to 2018. We continue to set reduction targets to limit the impact of our operations on the environment.

For more information on our operational footprint refer to our website https://www.nedbank.co.za/content/nedbank/desktop/gt/en/aboutus/green-and-caring/our-operational-footprint0.html.

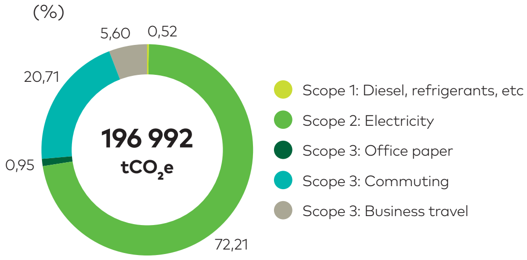
- **Responsible lending**
  - We manage the impact of our lending through a stringent governance process and a social and environmental management system (SEMS).
  - In the Investment Banking and Client Coverage Divisions all new applications and credit risk reviews of high-risk transactions were included in the SEMS assessment process and externally assured.
  - In total 688 deals were assessed. This represents an increase from the 632 assessments completed in 2017. A further 1 125 business banking clients involved in high-impact industries were assessed.
  - A total of 15 Equator Principles deals equating to approximately USD538m had their first drawdown in 2018.

3 CORPORATE SOCIAL INVESTMENT

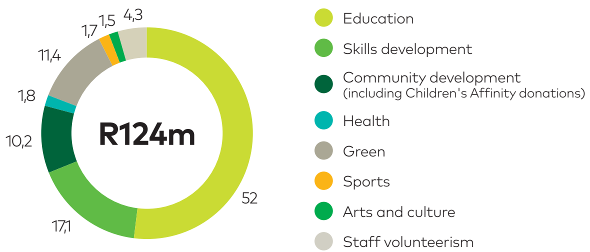
Our CSI programme is facilitated primarily by the Nedbank Foundation and extends beyond the financial contribution made to deserving causes – it is designed to deliver maximum positive social impact through long-term targeted investment in flagship projects that align with our Sustainable Development Framework.

In 2018 the total value of CSI delivered across our group was R124m (2017: R168m), split predominantly across education and skills development, as well as ongoing investment in staff volunteerism, health, community development, environmental development and the highly effective giving partnerships we have with our clients through our four Nedbank affinities. The decline in contributions year on year relates to a once-off donation of R20m made through our Eyethu Community Trust to support various university professorships in 2017, as well as a change in contributions to the WWF Nedbank Green Trust.

Nedbank Group 2018 carbon footprint*
(%)



Total CSI
(%)



* *Resource consumption not reflected above includes water consumption of 284 053kℓ (2017: 317 580kℓ) 195 tonnes (2017: 220 tonnes) of waste sent to landfill and 723 tonnes (2017: 689 tonnes) of waste recycled.*

CASE IN POINT – Nedbank says 'Yes' to YES

The Youth Employment Service (YES) was launched by President Cyril Ramaphosa as a joint initiative between government, business, labour and civil society in March 2018. It aims to reduce the youth unemployment rate in the country through the creation of one million work opportunities for youth over three years.

From the first quarter in 2019 we will be investing approximately 1,5% of the three-year average SA net profit after tax per annum based on Gazette 41866 from the Department of Trade and Industry. This will provide employment opportunities for over 3 000 youth either through placements internally or sponsored placements with implementation partners. In addition to this investment, in 2018 Nedbank invested R5,9m in the Green Engine YES hub at Tembisa, which is set to deliver massive community benefits and create employment opportunities for young people.

The hubs are new high-tech urban aquaponics farming facilities. At full capacity, each will deliver about 43 000 fresh lettuce heads and 1 200 kg of fish per year. They have been designed to catalyse local urban farmers and youth to prepare them to work in, or start their own, aquaponics and hydroponics businesses that can deliver quality vegetable and fish produce, supplementing the nutritional needs of their local communities.

'Nedbank has a critical role to play in building a nation that is inclusive and thriving – meaningful job opportunities and reducing youth unemployment are vital to this. As such, we are proud to support YES and equip young people with the skills they need to be successful entrepreneurs and contributing citizens.' *Mfundo Nkuhlu, Nedbank Group Chief Operating Officer.*

Key issues we engaged on

Main topic	Our response and action
Fighting climate change	The most significant action taken by the bank in 2018 was its undertaking not to provide project financing or other forms of asset-specific financing where the proceeds will be used to develop a new coal-fired power plant, regardless of country or technology. This commitment now includes round 1 of SA's coal baseload procurement programme.
Water security	In addition to our participation in the WWF Water Balance Programme and our support through lending and advisory outlined above, we implemented water-saving technology such as air flush toilets similar to those used in aeroplanes in our offices and encouraged changes in staff water usage behaviours achieving average water savings of 16,5% per fulltime employee across our operations.

Ensuring and protecting value – Group Transformation, Social and Ethics Committee (GTSEC)

Mpho Makwana
*(Chair)**

'At Nedbank we are financial experts who do good – we are committed to authentic organisational transformation by creating an empowering culture, delivering innovative, market-leading client experiences. Our aspiration is to contribute our fair share towards sustainable economic outcomes that create wealth and meaningful opportunities for all South Africans, especially Black African South Africans.'

Ensuring and protecting value in 2018

- Monitored progress of Employment Equity Plans and oversaw a diagnostic exercise that highlighted barriers to progress toward achieving greater African representation in the workplace.
- Provided oversight on the development of a wellbeing strategy, emphasising the holistic wellbeing of our people.
- Continued to provide critical challenge in respect of the bank's progress in delivering value through its purpose, namely 'to use our financial expertise to do good for individuals, families, businesses and society'.
- Provided guidance and monitored progress in terms of delivering on the SDGs as measures of delivery on the bank's purpose. To this end the bank has prioritised nine material SDGs and 33 related targets and has allocated them to nine group executives, who will own and drive Nedbank's groupwide response to their respective SDG.
- Monitored relevant regulatory developments, including the impact of the Amended FSC, and specifically improved skills development and enterprise and supplier development, thereby achieving a level 1 BBBEE contributor status.
- Reviewed BBBEE scorecard, ethics and sustainability reporting.

Focus for 2019 and beyond

- Overseeing progress towards improving African representation at middle and senior management levels as a critical focus towards building a culture of inclusivity.
- Overseeing the implementation and monitoring of plans in support of the wellbeing of our people, with an emphasis on preventative health management and resilience and stress management.
- Continuing to provide oversight and guidance of progress made on the bank's Sustainable Development Finance offer in line with the nine priority SDGs and 33 related targets identified as material to delivering on our purpose.
- Managing the impact of the Amended FSC with specific focus on executing against new targets that will be set by BASA for access to financial services and empowerment financing, possibly impacting relative competitor positioning.
- Focusing on implementing the Youth Employment Service (YES) initiative, which will support the employment of 3 345 young South Africans through either placements in the measured entity or sponsored placements.
- Increasing our focus on working with key stakeholders and industry bodies to deliver better outcomes for society and inform the industry view through events such as the Nedlac summit.

Stakeholders

Staff
Clients
Shareholders
Regulators
Society

Top 10 risks

1 **Strategic and execution risks**
5 **Conduct and culture risks**
7 **Reputational risk**
8 **Regulatory and compliance risks**

* *Appointed chair with effect from 10 May 2018.*

A comprehensive GTSEC report is available online in our 2018 Governance and Ethics Reviewon our group website at nedbankgroup.co.za.

Looking ahead

- We will set lending targets in 2019 to ensure more deliberate focus on our delivery in meeting the SDGs.
- 2019 will see the establishment of a new R25m conservation partnership with WWF-SA supporting water security, reducing land degradation and improving local economic opportunities for rural communities.
- In 2019 Nedbank will pilot the United Nations Environment Programme Finance Initiative (UNEP FI) recommendations and methodologies for how banks should report climate change risks as per the Taskforce on Climate-related Financial Disclosures.

2020 targets

Recognised as a leader in the financing of the SDGs, thereby promoting socioeconomic transformation through enabling economic inclusion.

STAKEHOLDER VALUE CREATION – KEY PERFORMANCE INDICATORS

Key performance indicators	How does it link to value creation?	Year-on-year change
Staff costs	Remuneration and benefits to staff	▲
Annual unionised salary increase	Salary increases for bargaining unit	▼
Training spend	Investment in staff development	▲
Staff attrition	Ability to retain and rotate skills	▼
Staff engagement/morale (entropy score)	Reduction in entropy driving levels of staff morale higher	▲
Transformation – black staff[2]	Transformation of Nedbank staff profile in line with demographics of society	▲
Transformation – female staff[2]	Progressing female diversity	▼
Loan payouts	New loan payouts to clients	▲
Consumer – Net Promoter Score (NPS)	Quality of service experience reflected in reputational NPS	▲
Value of digital transactions	Convenient access to banking and enhanced client experiences	▲
Service – Nedbank system availability	System uptime to enable uninterrupted financial processing	▼
Pricing – average annual price increase	Value-for-money banking	▶
Convenience – new-style staffed outlets (% converted)	Technology-enabled outlets providing an improved client experience	▲
Service – high-net-worth ranking	Quality of service to high-net-worth individual clients based on Intellidex Survey ranking in the industry	▲
Investment performance in asset management business	Raging Bull awards illustrative of investment performance for clients	▶
Share price performance	Share price appreciation	▲
Full-year dividend per share (cents) and cover (times)	Dividends for shareholders	▲
Price-to-book ratio	Valuation indicator of the Nedbank share	▲
Basel III compliance – CET1 ratio	Strength of capital position (after full IFRS day 1 impact and odd-lot offer)	▼
Basel III compliance – LCR ratio	Strength of liquidity position	▼
Basel III compliance – NSFR ratio	Strength of stable funding	▲
Regulatory fines or penalties	Indicator of adherence to regulatory requirements	▲
Direct, indirect and staff taxes	Contribution to government coffers	▲
dti levels as per the FSC scorecard	Reflection of corporate transformation	▼
Consumer finance education (number of participants)	Value through education	▼
Total socioeconomic spend	Contribution to society	▼
Local procurement spend as percentage of total	Supporting local suppliers	▶
Renewable-energy lending	Commitment to renewable-energy deals	▲
Carbon footprint (tCO_2e) offset to neutral	The impact of our business on the environment	▼
Social and environmental management system (SEMS) (number of CIB deals reviewed)	The impact of our business on the environment and society	▲
Finance assessed under Equator Principles (USDm)	The impact of our business on the environment and society	▲
Carbon footprint per FTE	The impact of our business on the environment	▼

[1] *Peer average consists of the simple average of Absa, FirstRand and Standard Bank.*
[2] *Restated due to change in methodology.*

Assurance indicators

LA External limited assurance on selected sustainability information and the application of the FSC and the group's BBBEE status. Related opinions are available at nedbankgroup.co.za.

MO Management and board oversight through rigorous internal reporting governed by the group's ERMF.

IN Information sourced from external sources, eg independent surveys.

OV Independent oversight by regulatory bodies, including SARB, FSCA and various financial sector ombudsman offices.

FS Financial information extracted from the 2018 Nedbank Group Limited Audited Annual Financial Statements.

2018	2017	2016	Benchmark/Peer average[1]	Outlook/Target	Assurance
R17 450	R16 530bn	R15 524bn	N/A	Maintain competitive remuneration	MO FS
7,0%	8,0%	8,0%	N/A	Above the increase for management	MO
R468m	R355m	R413m	N/A	Continue to invest in staff	LA
10,1%	10,6%	9,6%	11–13% (*industry benchmark*)	Maintain despite organisational change	MO LA
20%	12% (survey conducted every two years)		10% *(worldclass levels)*	Improve	IN (Source: Barrett Survey)
77,4%	76,9%[2]	77,1%[2]	*Not publicly available for all peers*	Continue driving transformation	LA
61,8%	62,1%[2]	62,2%[2]	*Not publicly available for all peers*	Continue driving transformation	LA
R181bn	R153bn	R162bn	N/A	Continue to extend credit responsibly	MO
37%	26%	26%	27 *(industry average)*	Improve	IN LA *(Source: Consulta)*
R543,6bn	R495,7bn	Not disclosed	N/A	Increase as we further digitise our service offerings	LA
99,2%[6]	99,3%	99,3%	N/A	> 99,1% (designated acceptable level of tolerance)	LA
At inflation	Below inflation	Below inflation	N/A	Below inflationary increases	MO
60%	55%	44%	N/A	82% of total outlets by 2020	MO
4th	3rd	3rd	No 1: Standard Bank Private Banking	No 1 in the industry	IN (Source: Intellindex's Top Private Banks and Wealth Managers Survey)
Top offshore manager in SA	Top offshore manager in SA	Top 3	No 1: Allan Gray No 2: PSG No 3: Mi-Plan	Rating among top 3	IN (Source: Raging Bull awards)
7,3%	7,5%	26,3%	-8,4% (FINI 15)	Perform above peers	IN (Source: *the JSE)*
1 415c	1 285c	1 200c	N/A	Within our 1,75 times to 2,25 times target range	MO FS
1,97 times	1,91 times	2,0 times			
1,6 times	1,5 times	1,5 times	2,1 times *(peer average)*	No 2 bank by 2020	IN (Source: *the JSE)*
11,7%	12,6%	12,1%	SARB: > 7,375%	10,5–12,5%	MO OV
109,4%	116,2%	109,3%	SARB: > 90% for 2018	Continue to phase in to > 100% by 2019	MO OV
114,0%	Pro forma compliant	Pro forma compliant	SARB: 100% for 2018	> SARB minimum of 100%	MO OV
R8,7m	R1m	R1m	N/A	Zero, although risk of fines has increased	MO OV
R10,3bn	R9,8bn	R8,7bn	N/A	Responsible taxpayer	OV
1	2	2	Nedbank: No 1 bank	Top-tier bank, but dti level impacted by new codes	MO OV
175 000	200 000	180 000	N/A	Maximum aligned impact with strategy	MO LA
R124m	R168m	R141m	Nedbank top performer in Trialogue CSI handbook	Spend greater than R100m	MO LA
> 75%	> 75%	> 75%	As per FSC	> 75%	MO LA
R22,8bn	R18,4bn	R15,2bn	Nedbank: No 1 bank	R40bn committed	MO
196 992	205 569	207 975	Nedbank a leader, only carbon-neutral bank in Africa	Maintain carbon-neutrality	LA[3]
688	632	435	Leader in disclosure	Enhance SEMS integration	MO LA[4]
538 (15 deals)	75 (one deal)	306 (four deals)	Leader in disclosure	Enhance Equator Principles integration	MO LA[5]
6,30 tCO_2e	6,37 tCO_2e	6,54 tCO_2e	Leader in performance on the Carbon Disclosure Project	Continue to reduce our impact through reduction targets	MO LA[6]

[3] *External limited assurance provided on the Total Carbon Footprint (tCO_2e).*

[4] *External limited assurance provided on the following statement: 'All Investment Banking and Client Coverage credit risk reviews and new applications included the screening of high risk transactions and EP relevant deals via the Social and Environmental Management System (SEMS)'.*

[5] *External limited assurance provided on the number of Equator Principle deals that had their first draw down within the financial year.*

[6] *External limited assurance provided on the Total Carbon Footprint (tCO_2e).*

TEN-YEAR REVIEW

Nedbank Group Limited: Statistics and ratios

for the year ended 31 December

		2018
Share statistics		
Earnings per share:		
– Headline	cents	**2 793**
– Diluted headline	cents	**2 736**
– Basic	cents	**2 768**
– Diluted basic	cents	**2 712**
Dividends/Distributions:		
– Declared per share	cents	**1 415**
– Paid/Capitalised per share	cents	**1 370**
– Dividend/Distribution cover	times	**1,97**
Net asset value per share	cents	**17 560**
Tangible net asset value per share	cents	**14 917**
Shares:		
– Gross number in issue	m	**493**
– Treasury shares	m	**(16)**
– Net number in issue	m	**477**
– Weighted-average number	m	**483**
– Fully diluted weighted average	m	**493**
Share price and related statistics		
Nedbank Group traded price:		
– Closing	cents	**27 472**
– High	cents	**31 300**
– Low	cents	**22 711**
JSE banks index – closing		**9 162**
JSE all-share index – closing		**52 737**
Market capitalisation	Rbn	**135,5**
Number of shares traded	m	**339,7**
Number traded to weighted-average number of shares	%	**70,3**
Value of shares traded	Rm	**86 932**
Value traded to market capitalisation	%	**64,2**
Price/earnings ratio	historical	**9,8**
Price to book	times	**1,6**
Dividend yield[1]	%	**5,2**
Earnings yield	%	**10,2**
Closing price/Tangible net asset value	times	**1,8**

	2017	2016	2015	2014	2013	2012	2011	2010	2009
	2 452	2 400	2 284	2 127	1 884	1 640	1 365	1 104	1 010
	2 406	2 350	2 242	2 066	1 829	1 590	1 340	1 069	983
	2 417	2 121	2 261	2 109	1 877	1 632	1 367	1 084	1 140
	2 372	2 077	2 219	2 049	1 822	1 583	1 341	1 050	1 109
	1 285	1 200	1 107	1 028	895	752	605	480	440
	1 240	1 140	1 105	965	802	680	533	442	520
	1,91	2,00	2,06	2,07	2,11	2,18	2,26	2,30	2,30
	16 990	15 830	15 685	14 395	13 143	11 721	10 753	9 831	9 100
	14 626	13 723	13 794	12 553	11 346	9 989	9 044	8 160	7 398
	498	496	494	499	510	508	507	515	499
	(16)	(17)	(17)	(33)	(49)	(50)	(52)	(66)	(63)
	482	478	477	466	461	457	455	449	436
	481	478	474	464	460	456	453	444	423
	490	488	483	478	474	471	462	458	435
	25 610	23 813	18 861	24 900	21 000	18 800	14 500	13 035	12 405
	26 797	23 900	27 102	25 115	21 925	18 881	15 445	15 000	12 900
	20 000	16 575	16 900	19 087	16 540	18 501	12 360	11 725	6 492
	9 619	7 755	6 107	7 300	5 775	5 336	4 118	4 099	3 668
	59 505	50 654	50 694	49 771	46 256	39 250	31 985	32 119	27 666
	127,6	118,1	93,2	124,3	107,2	95,4	73,6	67,1	61,9
	306,0	294,7	195,8	213,5	220,5	149,8	206,1	265,2	272,7
	63,6	61,7	41,3	46,0	47,9	32,9	45,5	59,7	64,5
	66 009	58 800	45 545	47 670	41 690	32 527	28 578	35 379	27 512
	51,7	49,8	48,9	38,4	38,9	34,1	38,8	52,7	44,5
	10,4	9,9	8,3	11,7	11,1	11,5	10,6	11,8	12,3
	1,5	1,5	1,2	1,7	1,6	1,6	1,3	1,3	1,4
	5,0	5,0	5,9	4,1	4,3	4,0	4,2	3,7	3,5
	9,6	10,1	12,1	8,5	9,0	8,7	9,4	8,5	8,1
	1,8	1,7	1,4	2,0	1,9	1,9	1,6	1,6	1,7

Nedbank Group Limited: Statistic and ratios continued

		2018
Performance ratios		
Net interest income to interest-earning banking assets	%	**3,65**
Non-interest revenue to total income	%	**47,4**
Credit loss ratio – banking advances	%	**0,53**
Non-interest revenue to total operating expenses	%	**82,1**
Efficiency ratio	%	**57,2**
Expenses to average assets	%	**3,12**
Effective taxation rate	%	**25,2**
Return on total assets	%	**1,33**
Return on risk-weighted assets	%	**2,4**
Return on equity	%	**16,8**
Return on equity (excluding goodwill)	%	**17,9**
Assets and related ratios		
Advances:		
– Gross advances	Rm	**751 793**
– Impairment of advances	Rm	**(15 488)**
Net advances	Rm	**736 305**
Non-performing advances to gross advances	%	**3,4**
Impairment of advances to gross advances	%	**2,1**
Assets:		
– Total assets on statement of financial position	Rm	**1 043 912**
– Assets under management	Rm	**297 338**
Total assets administered by the group	Rm	**1 341 250**
Capital and related ratios		
Total equity attributable to equity holders of the parent	Rm	**83 778**
Regulatory capital:[2]		
– Tier 1	Rm	**73 524**
– Total qualifying capital	Rm	**86 951**
Risk-weighted assets[2]	Rm	**586 626**
Group capital adequacy ratios:[2]		
– Common equity tier 1	%	**11,7**
– Tier 1	%	**12,5**
– Total	%	**14,8**
Employee statistics and ratios		
Number of employees[3]		**30 877**
Operating income per employee	R000	**1 655**
Expenses per employee	R000	**1 024**
Headline earnings per employee	R000	**437**

[1] *Dividend yield is calculated as the pretax dividend declared per share divided by the closing share price.*

[2] *Ratios and balances for 2013 to 2018 were calculated according to Basel III principles, 2012 according to Basel II.5 principles and 2009 to 2011 according to Basel II principles.*

[3] *Excludes temporary staff and agency contractors.*

	2017	2016	2015	2014	2013	2012	2011	2010	2009
	3,62	3,41	3,30	3,52	3,57	3,53	3,48	3,35	3,39
	46,6	47,1	47,7	46,9	47,7	46,8	46,1	44,3	42,2
	0,49	0,68	0,77	0,79	1,06	1,05	1,13	1,36	1,52
	80,7	82,9	83,3	82,8	86,4	84,4	81,5	79,6	78,8
	58,6	56,9	56,1	56,5	55,2	55,6	56,6	55,7	53,5
	3,06	3,00	3,01	3,15	3,13	3,09	3,01	2,81	2,65
	25,5	24,9	24,0	25,3	25,2	26,8	25,2	20,7	20,2
	1,22	1,23	1,25	1,27	1,23	1,13	0,99	0,82	0,76
	2,28	2,23	2,30	2,24	2,21	2,08	1,86	1,51	1,31
	15,3	15,3	15,7	15,8	15,6	14,8	13,6	11,8	11,8
	16,4	16,5	17,0	17,2	17,2	16,4	15,3	13,4	13,4
	722 331	719 226	693 043	624 116	590 828	538 036	510 520	488 452	462 130
	(12 002)	(12 149)	(11 411)	(11 095)	(11 456)	(10 870)	(11 497)	(11 226)	(9 798)
	710 329	707 077	681 632	613 021	579 372	527 166	499 023	477 226	452 332
	2,7	2,7	2,5	2,5	3,0	3,6	4,5	5,5	5,9
	1,7	1,7	1,6	1,8	1,9	2,0	2,3	2,3	2,1
	983 314	966 022	925 726	809 313	749 594	682 958	648 127	608 718	570 703
	312 313	273 327	257 295	212 013	190 341	150 495	112 231	102 570	87 204
	1 295 627	1 239 349	1 183 021	1 021 326	939 935	833 453	760 358	711 288	657 907
	81 823	75 733	74 754	67 024	60 617	53 601	48 946	44 101	39 649
	70 715	65 987	60 085	55 131	53 605	46 227	41 707	36 861	36 627
	81 909	77 719	70 522	64 385	61 637	53 483	50 884	47 372	47 538
	528 207	509 268	501 243	440 696	392 926	359 658	331 980	323 437	326 466
	12,6	12,1	11,3	11,6	12,5	11,4	11,0	10,1	9,9
	13,4	13,0	12,0	12,5	13,6	12,9	12,6	11,7	11,5
	15,5	15,3	14,1	14,6	15,7	14,9	15,3	15,0	14,9
	31 531	32 401	31 312	30 499	29 513	28 748	28 494	27 525	27 037
	1 534	1 400	1 304	1 271	1 186	1 106	987	859	798
	945	875	834	804	760	715	664	603	558
	374	354	346	324	294	260	217	158	158

GLOBAL REPORTING INITIATIVE STANDARDS INDEX

For the 2018 financial year we have used the Global Reporting Initiative (GRI) Standards for sustainability reporting.

Disclosure	GRI disclosure title	GRI option	Reference	UNGC Principles
Organisational profile				
102–1	Name of the organisation	Core	Nedbank Group Limited	
102–2	Activities, brands, products, and services	Core	Overview of Nedbank Group Our value-creating business model Delivering our strategy through our business clusters Sustainable development finance	1–10
102–3	Location of headquarters	Core	Nedbank 135 Rivonia Campus, 135 Rivonia Road, Sandown, Sandton, Gauteng, SA	
102–4	Location of operations	Core	Overview of Nedbank Group Company structure Reflections from our Chief Financial Officer	1–10
102–5	Ownership and legal form	Core	Overview of Nedbank Group Company structure	
102–6	Markets served	Core	Overview of Nedbank Group Our value-creating business model Delivering our strategy through our business clusters	1–10
102–7	Scale of the organisation	Core	Overview of Nedbank Group Our value-creating business model Delivering our strategy through our business clusters Reflections from our Chief Financial Officer Ten-year Review Sustainable development finance Workforce profile	1–10
102–8	Information on employees and other workers	Core	Workforce profile	1–2, 3–6
102–9	Supply chain	Core	Preferential procurement and enterprise and supplier development Governance and Ethics Review	1–10
102–10	Significant changes to the organisation and its supply chain	Core	Old Mutual separation	1–10
102–11	Precautionary principle or approach	Core	Managing social and environmental risk Governance and Ethics Review	1–10
102–12	External initiatives	Core	Ratings and recognition Governance and Ethics Review	1–10
102–13	Membership of associations	Core	Our approach to sustainable development	1–10
Strategy				
102–14	Statement from senior decisionmaker	Core	Reflections from our Chairman Reflections from our Chief Executive	1–10
102–15	Key impacts, risks, and opportunities	Core	Risks and opportunities in our operating environment Our strategic focus areas and enablers Making tradeoffs and impact on our capitals Value for stakeholders Sustainable Development Governance Framework Managing social and environmental risk Pillar 3 Risk and Capital Management Report	1–10

Disclosure	GRI disclosure title	GRI option	Reference	UNGC Principles
Ethics and integrity				
102–16	Values, principles, standards, and norms of behaviour	Core	Our purpose, vision, brand and values Governance and Ethics Review	1–10
102–17	Mechanisms for advice and concerns about ethics	Core	Governance and Ethics Review Pillar 3 Risk and Capital Management Report	1, 2, 10
Governance				
102–18	Governance structure	Core	Reflections from our Chairman Our board and board committees Sustainable Development Governance Framework Governance and Ethics Review	1–10
102–19	Delegating authority		Sustainable Development Governance Framework Governance and Ethics Review	1–10
102–20	Executive-level responsibility for economic, environmental and social topics		Sustainable Development Governance Framework Governance and Ethics Review	1–10
102–21	Consulting stakeholders on economic, environmental and social topics		Reflections from our Chairman Our board and board committees Sustainable Development Governance Framework Stakeholder Report Governance and Ethics Review	1–10
102–22	Composition of the highest governance body and its committees		Our board and board committees Governance and Ethics Review	1–10
102–23	Chair of the highest governance body		Our board and board committees Governance and Ethics Review	1–10
102–24	Nominating and selecting the highest governance body		Our board and board committees Governance and Ethics Review	1–10
102–25	Conflicts of interest		Governance and Ethics Review	1–10
102–26	Role of highest governance body in setting purpose, values, and strategy		Governance and Ethics Review	1–10
102–27	Collective knowledge of highest governance body		Our board and board committees Governance and Ethics Review	1–10
102–28	Evaluating the highest governance body's performance		Governance and Ethics Review	1–10
102–29	Identifying and managing economic, environmental and social impacts		Risks and opportunities in our operating environment Our board and board committees Sustainable Development Governance Framework Governance and Ethics Review	1–10
102–30	Effectiveness of risk management processes		Our board and board committees Risks and opportunities in our operating environment Sustainable Development Governance Framework Value for stakeholders Stakeholder Report Governance and Ethics Review Pillar 3 Risk and Capital Management Report	1–10
102–31	Review of economic, environmental and social topics		Our board and board committees Risks and opportunities in our operating environment Sustainable Development Governance Framework Value for stakeholders Stakeholder Report Governance and Ethics Review Pillar 3 Risk and Capital Management Report	1–10
102–32	Highest governance body's role in sustainability reporting		Group Transformation, Social and Ethics Committee	1–10

Disclosure	GRI disclosure title	GRI option	Reference	UNGC Principles
102–33	Communicating critical concerns		Governance and Ethics Review	1–10
102–34	Nature and total number of critical concerns		Pace of transformation, culture, employee wellbeing, procurement, ethics, environmental compliance, tax, audit, fees and findings, funding and liquidity, risk appetite, new products, regulatory change, succession planning, relationship with Old Mutual, expansion into Africa, macro economy, stress testing, state capture, investment status of the country. The number of issues is not disclosed.	1–10
102–35	Remuneration policies		Remuneration Report	1, 2, 3–6
102–36	Process for determining remuneration		Remuneration Report	3–6
102–37	Stakeholders' involvement in remuneration		Remuneration Report Board Committee Feedback: Group Remuneration Committee Notice of 52nd AGM Form of proxy	3–6
102–38	Annual total compensation ratio		Tracked and monitored internally but not reported publically Remuneration Report	3–6
102–39	Percentage increase in annual total compensation ratio		Tracked and monitored internally but not reported publically Remuneration Report	3–6
Stakeholder engagement				
102–40	List of stakeholder groups	Core	Value for stakeholders Stakeholder Report Governance and Ethics Review	1–10
102–41	Collective bargaining agreements	Core	Managing our employee relations	3
102–42	Identifying and selecting stakeholders	Core	Value for stakeholders Stakeholder Report Governance and Ethics Review	1–10
102–43	Approach to stakeholder engagement	Core	Value for stakeholders Stakeholder Report Governance and Ethics Review	1–10
102–44	Key topics and concerns raised	Core	Value for stakeholders Stakeholder Report Governance and Ethics Review	1–10
102–45	Entities included in the consolidated financial statements	Core	About our integrated report Company structure	
102–46	Defining report content and topic boundaries	Core	About our integrated report	
102–47 103–1 103–2 103–3	List of material topics	Core	These are determined from our materiality process and through our core function of being a bank Economic performance, compliance (environmental, social, product responsibility) employment, training and education, diversity and equal opportunity, human rights investment, non-discrimination, local communities, anti-corruption, product and service labelling, client privacy, product portfolio and active ownership. Risks and opportunities in our operating environment Stakeholder Engagement Policy Our strategic focus areas and enablers Stakeholder value creation – progress and outlook Ten-year Review	
102–48	Restatements of information	Core	No reclassifications and restatements were made to the group's statement of financial position and the statement of comprehensive income.	

Disclosure	GRI disclosure title	GRI option	Reference	UNGC Principles
102–49	Changes in reporting	Core	None	
102–50	Reporting period	Core	About our integrated report	
102–51	Date of most recent report	Core	About our integrated report	
102–52	Reporting cycle	Core	About our integrated report	
102–53	Contact point for questions regarding the report	Core	Contacts	
102–54, 102 55	Claims of reporting in accordance with the GRI Standards	Core	Our report is in accordance with the core requirements of the GRI Standards About our integrated report	
102–56	External assurance	Core	About our integrated report Validating our sustainability journey Report from the independent auditors	
Economic performance				
201	Management approach disclosures – Economic performance	Core	See 102–47	
201–1	Economic performance – Direct economic value generated and distributed	Core	Our value-creating business model Reflections from our Chief Financial Officer Ten-year Review Value for stakeholders Pillar 3 Risk and Capital Management Report	1–10
201–2	Economic performance – Financial implications and other risks and opportunities due to climate change		Risks and opportunities in the operation environment Making tradeoffs and impact on our capitals	7–9
201–3	Economic performance – Defined-benefit plan obligations and other retirement plans		Remuneration Report	3
201–4	Economic performance – Financial assistance received from government		No financial assistance received from government	
203–1	Indirect economic impacts – Infrastructure investments and services supported		Sustainable development finance Transformation Report	1, 2, 7–9
203–2	Indirect economic impacts – Significant indirect economic impacts		Transformation Report Sustainable Development Review Developing our workforce for the future	1–10
204–1	Procurement practices – Proportion of spending on local suppliers		Preferential procurement and enterprise and supplier development Governance and Ethics Review	1–10

Disclosure	GRI disclosure title	GRI option	Reference	UNGC Principles
Energy				
302–1	Energy – Energy consumption within the organisation		Carbon footprint measurement	1, 2, 7–9
302–3	Energy – Energy intensity		Carbon footprint measurement	1, 2, 7–9
302–4	Energy – Reduction of energy consumption		Carbon footprint measurement	1, 2, 7–9
Emissions				
305–1	Emissions – Direct (scope 1) GHG emissions		Carbon footprint measurement	1, 2, 7–9
305–2	Emissions – Energy indirect (scope 2) GHG emissions		Carbon footprint measurement	1, 2, 7–9
305–3	Emissions – Other indirect (scope 3) GHG emissions		Carbon footprint measurement	1, 2, 7–9
305–4	Emissions – GHG emissions intensity		Carbon footprint measurement	1, 2, 7–9
305–5	Emissions – Reduction of GHG emissions		Carbon footprint measurement	1, 2, 7–9
305–6	Emissions – Emissions of ozone-depleting substances (ODS)		Carbon footprint measurement	1, 2, 7–9
Compliance (environmental)				
307	Management approach disclosures – Environmental compliance	Core		
307–1	Environmental compliance – Non-compliance with environmental laws and regulations	Core	None for the period	1, 2, 7–9
FS1	Policies with specific environmental and social components applied to business lines	Core	Sustainable Development Governance Framework Managing social and environmental risk Governance and Ethics Review	1, 2, 7–9
FS2	Procedures for assessing and screening environmental and social risks in business lines	Core	Sustainable Development Governance Framework Managing social and environmental risk Committed to responsible investment Governance and Ethics Review	1–10
FS3	Processes for monitoring clients' implementation of, and compliance with, environmental and social requirements included in agreements or transactions	Core	Sustainable Development Governance Framework Managing social and environmental risk	1–9
FS4	Processes for improving staff competence to implement the environmental and social policies and procedures as applied to business lines	Core	Managing social and environmental risk Reduction targets Pillar 3 Risk and Capital Management Report Governance and Ethics Review	1–10
FS5	Interactions with clients/ investors/business partners regarding environmental and social risks and opportunities	Core	Value for stakeholders Corporate social investment Stakeholder Report Carbon offset projects	1–10
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures	Core	Assurance statement online: https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Information%20Hub/Integrated%20Report/2017/2017%20Nedbank%20Group%20Consolidated%20Annual%20Financial%20Statements.pdf	1–9

Disclosure	GRI disclosure title	GRI option	Reference	UNGC Principles
FS15	Policies for the fair design and sale of financial products and services	Core	Committed to responsible investment Managing social and environmental risks Delivering innovative market-leading client experiences Growing our transactional banking franchise faster than the market Pillar 3 Risk and Capital Management Report	1,2
Employment				
401	Management approach disclosures – Employment	Core	See 102–47	
401–1	Employment – New employee hires and employee turnover	Core	Our workforce in review	1, 2, 3–6
401–2	Employment – Benefits provided to fulltime employees that are not provided to temporary or part-time employees		Remuneration Report	1, 2, 3–6
404	Management approach disclosures – Training and education	Core	See 102–47	
404–1	Training and education – Average hours of training per year per employee	Core	Developing our workforce for the future	1–6
404–2	Training and education – Programmes for upgrading employee skills and transition assistance programmes		Developing our workforce for the future Equipping our leaders to lead Managing our talent	1–6
404–3	Training and education		Performance management	1–6
Diversity and equal opportunity				
405	Management approach disclosures – Diversity and equal opportunity	Core	See 102–47	
405–1	Diversity and equal opportunity – Diversity of governance bodies and employees	Core	Our board and board committees Our workforce in review Governance and Ethics Review	1–6
Human rights investment				
412	Management approach disclosures – Human rights investments	Core	See 102–47	
412–3	Human rights assessment – Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening		Applying the Equator Principles Governance and Ethics Review	1–10
412–2	Human rights assessment – Employee training on human rights policies or procedures human rights clauses or that underwent human rights screening	Core	Governance and Ethics Review	1–10

Disclosure	GRI disclosure title	GRI option	Reference	UNGC Principles
Non-discrimination				
406	Management approach disclosures – Non-discrimination	Core	See 102–47	
406–1	Non-discrimination – Incidents of discrimination and corrective actions taken	Core	Governance and Ethics Review	1–6
Local communities				
413	Management approach disclosures – Local communities	Core	See 102–47	
413–1	Local communities – Operations with local community engagement, impact assessments, and development programmes	Core	Applying the Equator Principles Corporate social investment Stakeholder Report Transformation Report	1–10
FS13	Access points in low-populated or economically disadvantaged areas by type	Core	Improving financial inclusion Transformation Report	1–10
FS14	Initiatives to improve access to financial services for disadvantaged people	Core	Improving financial inclusion Transformation Report	1, 2
Anti-corruption				
205	Management approach disclosures – Anti-corruption	Core		
205–1	Operations assessed for risks related to corruption	Core	Pillar 3 Risk and Capital Management Report Governance and Ethics Review	10
205–2	Communication and training about anti-corruption policies and procedures		Pillar 3 Risk and Capital Management Report Governance and Ethics Review	10
205–3	Confirmed incidents of corruption and actions taken		Pillar 3 Risk and Capital Management Report None for the period	10
415–1	Political contributions		Nedbank policy does not allow for contributions to political parties	10
Products, service and labelling				
417	Management approach disclosures – Products, service and labelling	Core		
417–1	Requirements for product and service information and labelling		Detailed product brochures that comply with all relevant legislation, such as the National Credit Act, are available for the group's clients. Relationship managers are also responsible for explaining the characteristics, benefits and implications of products to clients in accordance with the Financial Advisory and Intermediary Services Act. Product policies and procedures and product review committees are in place.	1, 2, 7–10
417–2	Incidents of non-compliance concerning product and service information and labelling	Core	A total of 105 incidents of non-compliance were reported in 2018. Incidents relating to anti-money-laundering (AML) regulatory requirements continue to represent a significant portion of these, but with no fines or warnings issued.	10
102–43	Approach to stakeholder engagement		Value to stakeholders Stakeholder Report	1–10
102–44	Key topics and concerns raised		Value to stakeholders Stakeholder Report	1–10

Disclosure	GRI disclosure title	GRI option	Reference	UNGC Principles
Customer privacy				
418	Management approach disclosures – Customer privacy	Core	See 102–47	
418–1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Core	In 2018 Nedbank received three complaints from the Information Regulator that are currently being substantiated. The nature of the complaints relates to retention periods and requests to have related data deleted. In addition, there were 45 internally reported incidents during the same period that were not material and resulted primarily from staff oversight, losses through third parties and data leakage. Where required, remediation efforts are underway and are underpinned by strong staff awareness and training programmes. In addition, new tools to enhance our ability to manage data leakage are being investigated.	1, 2, 10
Compliance (society, product and service)				
419	Management approach disclosures – Socioeconomic compliance	Core	See 102–47	
419–1	Non-compliance with laws and regulations in the social and economic area	Core	The Central Bank of Mozambique (CBM) issued a contravention notification letter to the Banco Único in 2017 relating to the management and reporting of suspicious and unusual transactions. A fine of MZN32m (R7,3m) was imposed and paid in 2018.	1–10
Product portfolio				
FS6	Percentage of the portfolio for business lines by specific region, size (eg micro/SME/ large) and by sector	Core	Overview of Nedbank Group Our value-creating business model Delivering our strategy through our business clusters Ten-year Review	
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line, broken down by purpose	Core	Applying the Equator Principles Sustainable development finance Transformation Report	1, 2, 7–10
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line, broken down by purpose	Core	Applying the Equator Principles Sustainable development finance	7–9
Active ownership				
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental and social issues	Core	Managing social and environmental risk	1–10
FS11	Percentage of assets subject to positive and negative environmental or social screening	Core	Committed to responsible investment Ten-year Review	1–10
FS12	Voting policies applied to environmental or social issues for shares over which the reporting organisation holds the right to vote shares or advises on voting	Core	Proxy voting guidelines: Responsible Investing Guidelines:	

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DISCLAIMER

Nedbank Group has acted in good faith and has made every reasonable effort to ensure the accuracy and completeness of the information contained in this document, including all information that may be defined as 'forward-looking statements' within the meaning of United States securities legislation.

Forward-looking statements may be identified by words such as 'believe', 'anticipate', 'expect', 'plan', 'estimate', 'intend', 'project', 'target', 'predict' and 'hope'.

Forward-looking statements are not statements of fact, but statements by the management of Nedbank Group based on its current estimates, projections, expectations, beliefs and assumptions regarding the group's future performance.

No assurance can be given that forward-looking statements will be correct and undue reliance should not be placed on such statements.

The risks and uncertainties inherent in the forward-looking statements contained in this document include, but are not limited to: changes to IFRS and the interpretations, applications and practices subject thereto as they apply to past, present and future periods; domestic and international business and market conditions such as exchange rate and interest rate movements; changes in the domestic and international regulatory and legislative environments; changes to domestic and international operational, social, economic and political risks; and the effects of both current and future litigation.

Nedbank Group does not undertake to update any forward-looking statements contained in this document and does not assume responsibility for any loss or damage arising as a result of the reliance by any party thereon, including, but not limited to, loss of earnings, profits, or consequential loss or damage.

Fintech partnership of the year

Aerobotics

Nedbank is proud to have won *The Banker* magazine's 2018 fintech partnership award for our 'Satellite and drone imagery analytics experimentation'. Together with Aerobotics (Pty) Ltd, a disruptive technology company that builds advanced analytics on top of aerial drone and satellite imagery, we deliver precision farming tools for our agricultural clients.

The Banker
TECH PROJECTS
AWARDS 2018

Winner

Fintech partnership