PRE-CLOSE CALL | 10 December 2018

Alfred Visagie:

Good afternoon ladies and gentlemen. Welcome to the Nedbank Group pre-close call and thank you for joining us. At the outset I want to remind everyone that our conversations will be limited to broad operational trends and we will not be disclosing any detailed financial numbers. Our 2018 full year results will be announced on 5 March 2019 at 7am SA Time on the JSE Stock Exchange News Service, followed by our management presentation at 4pm SA time.

I will now hand over to Raisibe Morathi, Nedbank Group CFO, who will provide a broad operational and business update and take questions.

Raisibe Morathi:

Thank you Alfred and welcome to everyone who has dialled in.

The operating environment improved slightly in the third quarter of the year, with GDP growth of 2.2%, following the contraction in the first half. GDP growth for the year as a whole is likely to be modest at around 0.6%. Although retail activity has improved, consumers remain under pressure due to relatively high debt levels and weak employment conditions. Fixed investment activity remains modest as businesses generally have sufficient existing capacity and many plans are being delayed ahead of the 2019 general election. For 2019 and 2020 we forecast stronger GDP growth of 1,6% and 2,0% respectively.

A slightly firmer rand, weak pass-through effects, modest demand conditions and lower energy prices have reduced near term inflationary pressures. The MPC has however started tightening monetary policy by increasing the repo rate by 25bps in November, but further increases are only expected to be gradual due to the weak levels of economic activity.

Business confidence levels in Q4 2018 remained weak as evidenced by the RMB / BER Business Confidence Index reducing to 31 points, impacted by weaker confidence levels amongst new vehicle dealers and the building and construction segments, with improvements seen in manufacturing, retail and wholesale trade. Consumer confidence declined from its 2nd quarter peak.

Business performance

Looking at key lines on our income statement, NII continued to grow at a modest pace in the second half of the year, although growth has increased from H1 2018. Retail advances growth momentum has been maintained while banking advances in CIB grew in H2 after recording a decline in the first half of the year.

In Retail and Business Banking (RBB) levels of loan payouts and volumes of credit applications in key product lines have improved on the prior year, and reasonable loan growth continued into the second half of the year. Momentum continued in vehicle finance, card and personal loans while home loan growth remains muted.

In CIB in the first half of 2018, we recorded solid loan payouts but we experienced high levels of unscheduled repayments which impacted overall advances growth. In the third quarter we saw an improvement in CIB loan growth. More reforms and policy certainty, particularly around land expropriation without compensation and Eskom is needed to enable corporate South Africa to invest more meaningfully. Round 4 of the renewable energy deals reached financial close in July and August, resulting in the commencement of drawdowns that for Nedbank will total approximate R12bn over the next 2 to 3 years.

In the last few months BA 900 regulatory disclosures have shown market share increases for Nedbank across key retail advances categories, and an increase in wholesale lending market share. We have continued to grow deposits ahead of advances, although giving up a small amount of market share in household deposits as pricing increased, driven by recent peer campaigns.

As expected and in line with guidance, our NIM contracted slightly from the H1 2018 level of 367bps but remains ahead of 2017 levels of 362bps. This was driven primarily by the mix impact from the increase in CIB asset growth and the impact of the 25bps interest rate decrease in March 2018.

Impairment trends remain benign and our credit loss ratio remains below the bottom end of our TTC range of 60 to 100 bps. The impact of a growing retail book and IFRS9 new business strain was offset by stable NPL ratios and IFRS9 reallocations between impairments and NII relating to suspended interest. The RBB credit loss ratio remains better than our expectations and below RBB's TTC target range of 130 to 180 bps. Similarly, the CIB credit loss ratio is reflective of a high quality book, a stable watchlist and better than expected collections. The CLR for CIB remains below its TTC target range of 15 to 45bps. The impacts from IFRS9 and IFRS15 on NII, NIR and the CLR continue to be in line with our expectations.

Investors are reminded that, at Nedbank, contractual interest earned on loans and advances that cure from stage three is presented within credit impairments. This treatment already aligns with the recently announced IFRS Interpretations Committee's decision on suspended interest.

Subject to final approvals through our internal governance processes, we have implemented revised write-off definitions under IFRS9 which will increase both defaulted advances and stage 3 coverage in RBB. This change will be fully disclosed in our year end results and is expected to have no impact on the income statement.

NIR growth to date is in line with our guidance of growth above mid-single-digit levels. Commission and fee growth reflects the benefits from finalisation of the renewable energy (REFIT) transactions and good gains in main-banked clients across our retail and wholesale businesses. This growth was partially offset by ongoing subdued levels of client transactional activity as well as the accounting impact from the implementation of IFRS changes. Trading income grew strongly supported by growth in equities and debt trading and finalisation of the renewable energy deals, including hedging activities.

Expenses remain well controlled. Due to the remaining execution risk, an additional credit from Post Retirement Medial Aid (PRMA), which we previously expected in H2 2018, is now only likely to occur in 2019. Excluding the PRMA credit, expense growth is currently slightly ahead of guidance (being growth of below mid-single digits), reflecting an increase in computer processing costs, partially offset by benefits from our cost optimisation initiatives and an ongoing reduction in headcount.

With ETI having publically reported its Q3 2018 results during October 2018, we expect the related associate income for Nedbank in Q4 2018 to be around R190m, subject to final 4th quarter exchange rates, bringing full year associate income from ETI to approximately R600m. As we noted before, the ETI turnaround will be a meaningful driver of overall headline earnings growth for Nedbank in the full 2018 year, although to a lesser extent than in the first half.

JAWS, including associate income, is expected to remain positive for the year.

Our full year guidance for growth in diluted headline earnings per share for 2018 remains unchanged – being in line with our medium-to-long-term target of greater than or equal to GDP plus CPI plus 5%.

From a balance sheet perspective we noted in our Pillar 3 disclosures at 30 September 2018 that our CET1 ratio remained strong at 11.8%, being above the middle of our internal target range, after accounting for the impact of the payment of the interim dividend and having absorbed the full impacts of IFRS 9 & 15 on day 1 as previously reported. Our balance sheet remains robust and includes appropriate levels of provisioning, a strong capital base and an

appropriate funding and liquidity risk profile that positions the group well to leverage future growth opportunities.

Managed separation

The unbundling of Nedbank shares by Old Mutual Limited took place on 15 October 2018, completing the Managed Separation process. Old Mutual Limited is now a strategic minority shareholder of 19,9% based on the terms of the new relationship agreement.

As a result of the Old Mutual unbundling, Nedbank Group, currently, has a significantly larger number of shareholders - increasing from approximately 20 000 to approximately 500 000 shareholders. The vast majority of these shareholders hold less than 100 Nedbank Group ordinary shares (referred to as odd-lot holders) and represent approximately 1.5% of the shareholder base.

The Nedbank Group board of directors has resolved to proceed with the implementation of an odd-lot offer to repurchase these shares from odd-lot holders. The odd-lot offer was approved by shareholders at a General Meeting on the 22 November 2018 and the offer opened on 23 November 2018 and will close on 14 December 2018 (the record date of the odd-lot offer). The price of the odd-lot offer has been set at R276.47672 per share based on a 5% premium to the 10 day VWAP to 3 December 2018.

The odd-lot offer will provide eligible holders with the ability to dispose of their shares on an efficient basis, and will provide liquidity for those shareholders who elect to sell their holdings or who make no election. For Nedbank Group it will reduce the complexity and ongoing administration costs associated with a significantly larger shareholder base including a sizeable number of odd-lot holders. We estimate the impact on our CET1 ratio should all odd-lot holders accept the offer to be approximately 35bps.

Thank you and we open the line for questions.

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