
NEDBANK GROUP LIMITED

# INTEGRATED REPORT 2017

FOR THE YEAR ENDED 31 DECEMBER

see money differently

NEDBANK

A Member of the OLDMUTUAL Group

# NEDBANK GROUP – AN ATTRACTIVE INVESTMENT

## OUR **PURPOSE**

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

SA has strong institutions and democratic principles supporting banks that operate in a well-regulated and stable banking system.

nedbankgroup.co.za

### FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to Nedbank Group's financial position, results, operations and businesses. These statements and forecasts involve risk and uncertainty as they relate to events and depend on circumstances that occur in the future. There are various factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Consequently, all forward-looking statements have not been reviewed or reported on by the group's auditors.

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## BUILDING A MORE DIGITAL, AGILE AND COMPETITIVE NEDBANK

### AN IMPROVING **MACROECONOMIC ENVIRONMENT**

- Supportive **global environment**
- **RoA GDP** growth ahead of SA
- **Cyclical improvement in SA GDP** growth as confidence levels improve with **structural changes now more likely**

### STRONG **GOVERNANCE AND ENTERPRISEWIDE RISK MANAGEMENT**

underpinned by an experienced, independent and diverse board of directors

**61%** independent directors

### Attractive growth strategies, exciting innovations and KPIs that support **SHAREHOLDER VALUE CREATION**

| **DHEPS growth** | **ROE, excluding goodwill** | **Efficiency ratio** |
|---|---|---|
| 2,4% to ≥ CPI +GDP growth + 5% in 2018 | 16,4% to ≥ 18% by 2020 | 58,6% to ≤ 53% by 2020 |

### A STRONG **BALANCE SHEET**

conservatively provided, liquid and well capitalised

- **Coverage levels** portfolio coverage 0,7% specific coverage 36,2%
- **LCR** 116,2% and **NSFR pro forma** compliant
- **CET1 ratio 12,6%** above SARB minimum of **7,25%**

### LEADING IN **SUSTAINABILITY**

- One of **SA's most transformed** financial services providers
- Africa's first and only **carbon-neutral bank**
- Constituent of the **Dow Jones World Sustainability Index** for 12 years

### ATTRACTIVE **VALUATION METRICS**

- Nedbank price to book of **1,5 times** at 31 December 2017
- Nedbank dividend yield of **4,8%** at 31 December 2017

**Improved free float after unbundling**, with any overhang reduced during transition of Old Mutual Limited (OML) shareholder base after OML listing and before Nedbank unbundling. No impact on strategy, IT systems, brand, staff or clients.

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IBC Company details


Our integrated report is supplemented by our full suite of online publications, which caters for the diverse needs of our broad stakeholder base as part of our comprehensive integrated reporting. These can be accessed on our group website at nedbankgroup.co.za.

### ir 2017 Integrated Report


### fs Financial and risk management reporting

- Results booklet and presentation
- Nedbank Group Annual Financial Statements
- Pillar 3 Risk and Capital Management Report

### gv Governance reporting

- Governance and Ethics Review
- Director and executive profiles
- Register of directors' attendance
- Remuneration Report
- King IV™ principles
- Key policies

### sd Sustainable development reporting

- Transformation Report and BBBEE certificate
- Sustainable Development Review
- Global Reporting Initiative Standards

### si Shareholder information

- Notice of 51st AGM
- Form of proxy
- Shareholding profile

# ABOUT OUR INTEGRATED REPORT

This report is prepared in accordance with the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework and provides our stakeholders with a concise and transparent assessment of our ability to use our financial expertise to do good and create sustainable value.

## SCOPE AND BOUNDARY OF REPORTING

### Reporting period

The Nedbank Group Integrated Report is produced and published annually. This report provides material information relating to our strategy and business model, operating context, material risks, stakeholder interests, performance, prospects and governance, covering the year 1 January 2017 to 31 December 2017, and builds on the 2016 report. Any material events after this date and up to the board approval date of 22 March 2018 have also been included.

### Operating businesses

The report covers the primary activities of the group, our business clusters, key support areas and subsidiaries in our African and international operations. Detailed information on investments in which the group holds only a minority stake is not included.

### Financial and non-financial reporting

The report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes attributable to or associated with our key stakeholders, which have a significant influence on our ability to create value.

### Targeted readers

This report is primarily intended to address the information requirements of long-term investors (our equity and preference shareholders, bondholders and prospective investors). We also present information relevant to the way we create value for other key stakeholders, including our staff, clients, regulators and society.

## KEY CONCEPTS

### Defining value

Value creation is the consequence of how we apply and leverage our capitals in delivering financial performance (outcomes) and value (outcomes and outputs) for all stakeholders while making tradeoffs.
Our value-creation process is embedded in our purpose (page 14), described as part of our business model on pages 20 and 21, and integrated into the way we think and make decisions.

### Materiality and material matters

We apply the principle of materiality in assessing what information is to be included in our integrated report. This report focuses particularly on those issues, opportunities and challenges that impact materially on Nedbank Group and its ability to be a sustainable business that consistently delivers value to shareholders and our key stakeholders. Our material matters, as described on pages 28 to 35, influence our group's strategy and inform the content in this report.

## REPORTING FRAMEWORKS AND COMBINED ASSURANCE

Our integrated reporting process, as well as the contents of this report, is guided by the principles and requirements of the International Integrated Reporting Framework, IFRS and the King Code of Governance Principles for SA (King IV™), and is in accordance with the 'core' option of the Global Reporting Initiative (GRI) Standards. As an SA bank and a company listed on the JSE, we align to the JSE Listings Requirements, the SA Companies Act, 71 of 2008, and the Banks Act, 94 of 1990.

We employ a combined assurance model to assess and assure various aspects of the business operations, including elements of external reporting. These assurances are provided by management and the board, internal audit and independent external service providers, including KPMG and Deloitte & Touche, our external auditors and providers of limited assurance on selected sustainability information, and Mosela Rating Agency and SizweNtsalubaGobodo Rating Agency, providers of limited assurance on our application of the Amended FSC and the group's BBBEE status.

For further information on the scope of the services performed by our external assurance providers refer to the Nedbank Group Annual Financial Statements, the Nedbank Limited Annual Financial Statements, the Nedbank Limited and subsidiaries BBBEE certificate, and the Independent Assurance Providers' Limited Assurance Report on Selected Sustainability Information, which are available on our group website at nedbankgroup.co.za.

## Navigation icons

### Our capitals

Our relevance as a bank today and in the future and our ability to create long-term value are interrelated and fundamentally dependent on the forms of capital available to us (inputs), how we use them (value-adding activities), our impact on them and the value we deliver (outputs and outcomes).

**Financial**
Our shareholders' equity and funding from investors and clients that are used to support our business and operational activities, including credit extension.

**Human**
Our culture and our people, investing in their development and our collective knowledge, skills and experience to enable innovative and competitive solutions for our clients.

**Manufactured**
Our business structure and operational processes, including our physical and digital infrastructure, our products, as well as our information technology that provides the framework and mechanics of how we do business and create value.

**Intellectual**
Our brand and franchise value, research and development, innovation capacity, reputation and strategic partnerships.

**Social and relationships**
Our citizenship and strong stakeholder relationships, including the communities in which we operate, as we recognise the role that banks play in building a strong and thriving society as well as financial ecosystem.

**Natural**
Our impact on natural resources through our operations and business activity.

### 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

### Stakeholders

- Staff
- Clients
- Shareholders
- Regulators
- Society

## APPROVAL BY THE BOARD

The board acknowledges its responsibility of ensuring the integrity of this integrated report, which in the board's opinion addresses all the issues that are material to the group's ability to create value and presents the integrated performance of Nedbank Group fairly. This report was approved by the board of directors of Nedbank Group on 22 March 2018.

| | | |
|---|---|---|
| Vassi Naidoo *(Chairman)* | Mike Brown *(Chief Executive)* | Hubert Brody |
| Brian Dames | Neo Dongwana | Ian Gladman |
| Bruce Hemphill | Errol Kruger | Rob Leith |
| Mpho Makwana | Mantsika Matooane | Linda Manzini |
| Nomavuso Mnxasana | Raisibe Morathi | Joel Netshitenzhe |
| Mfundo Nkuhlu | Stanley Subramoney | Malcolm Wyman *(Lead Independent Director)* |

# REFLECTIONS FROM OUR CHAIRMAN

This challenging and uncertain South African macroeconomic environment has made me think harder about the role Nedbank should play in building the country. We aspire to be the most admired financial services provider in Africa by our staff, clients, shareholders, regulators and society. The banking system is critical to driving investment and economic growth, channelling capital from savers to those who can use it productively.

**Vassi Naidoo**
*Chairman*

2017 was difficult for SA, principally because business found itself at odds with some of our political leaders. Usually, I think, business people and politicians want the same thing: a thriving country that provides good lives for all its citizens. We may disagree about the best way to get there, but seldom is that objective in question. Last year, though, I lost that faith.

There were several issues that contributed to this. After the dismissal of Nhlanhla Nene as Finance Minister in late 2015 (subsequently reappointed in February 2018) there were significant concerns among business leaders about the impact on international and domestic confidence. I remember attending the World Economic Forum in Davos in February 2016, where the usual international interest shown by the world's leaders in SA had evaporated. We then decided to form the CEO Initiative in SA – with other business leaders and alongside organised labour – to support government with several interventions to address the most urgent problems in our economy, including unemployment and the dire fiscal position of several state-owned enterprises. Together we worked with National Treasury under then Finance Minister Pravin Gordhan (appointed as Public Enterprises Minister in February 2018) to create the right interventions. Those efforts were paying dividends, as evidenced by international rating agencies holding off on downgrading SA's debt to subinvestment grade.

One of the most important ingredients in a successful economy is trust. It is an invisible form of capital that runs throughout a country and ensures we can work together rather than waste energy by working at cross purposes. It enables us to rely on the bona fides of others. But when Minister Gordhan was recalled from an international roadshow and dismissed, a great deal of that social capital was obliterated. It was only one act, but it had a profound effect, wiping out trust that had been built between business, labour and government.

Since the election of Cyril Ramaphosa as the President of the ANC in December 2017 and subsequently as President of SA, the good news is that we have seen a remarkable turnaround in confidence and the willingness of key groups in our society to pull together. In his State of the Nation Address (SONA) to Parliament on 16 February 2018, President Ramaphosa emphasised partnerships and called on business to work with government, organised labour and civil society. He spoke of the CEO Initiative programmes and government's renewed commitment to them. This has galvanised us at Nedbank, and other business leaders I have engaged with, to redouble our efforts to find solutions to our employment and growth challenges. Prospects for SA have brightened as a result.

In 2017, however, we planned on the basis that downgrades of the country's debt were quite possible. As a result, we front-loaded our own debt issuance at the beginning of the year, so the downgrades we experienced last year did not affect us immediately. We also braced for a difficult economic environment, recognising that policy uncertainty as well as global economic factors was constraining economic growth in SA. It is a credit to the executive team that we produced a year of reasonable earnings growth in very difficult economic circumstances.

The economy was very weak, growing slower than the population, meaning that on average, South Africans were getting poorer. Every measure of confidence

Overview of the group, as well as our businesses, market position, purpose, vision, values and targets, with an explanation of how we create stakeholder value through strong leadership, good governance and our business model.

trended downwards through most of the year. The weak growth led to a deterioration in government's revenue collection, exacerbating government's budget deficit. Facing this stark reality, continued talk of an extremely expensive nuclear build programme, while several state-owned enterprises faced financial calamity requiring government bailouts, was reckless.

The parlous state of the government balance sheet had been made clear by then Finance Minister Malusi Gigaba in the Medium Term Budget Policy Statement in October 2017, but this did not seem to drive the needed response from our political leadership. The dire state of Eskom, particularly, has the potential to cause serious damage to the overall financial health of government, while weak economic growth will result in a revenue shortfall. Eskom is a critical institution in our economy, not only as a supplier of electricity to us all, but also as a major issuer of bonds and other debt held by financial institutions. As I write this, critical interventions have been made at Eskom, including the appointment of a capable board. But the confidence in our country has suffered due to the time it has taken to reach this point.

A darker hue was cast over this picture by the constant stories of corruption emerging through the media. Our vibrant media, alongside our judiciary, have been very important in holding the ground of our overall constitutional framework. While the hard facts of the country's worsening outlook, with growing unemployment, a widening budget deficit and near-zero economic growth, are clear indicators of things going wrong, the corruption has made this even more infuriating. There have been personal goals, scored brazenly by individuals in pursuit of narrow self-interest at the expense of the country, using the state for personal enrichment.

The centre has held, and we can rebuild institutions that have suffered during this period, including those of the criminal justice system that the country will rely on to pursue justice against those who have been involved in corruption.

President Ramaphosa's call in the SONA for business to work with other partners in society has been heard and received well at Nedbank. Now is the time for action. All South Africans need to pull together not only to repair the damage done to our institutions and levels of trust in our society, but also to build a new platform from which we can jointly work to realise the country's potential. That can be done, and I'm eager to engage with partners on how to do it. We can make ourselves proud to be South Africans again.

## The role of the bank in society

This challenging and uncertain macroeconomic environment has made me think harder about the role Nedbank should play in building the country. We aspire to be the most admired financial services provider in Africa by our staff, clients, shareholders, regulators and society. The banking system is critical to driving investment and economic growth, channelling capital from savers to those who can use it productively. But a bank such as ours is also a major employer, taxpayer, skills provider and facilitator of economic growth. As a business, we can help grow the economy in many ways, from providing investment opportunities to employment and skills. We can also indirectly support investor confidence and job creation more broadly, as well as the upliftment of people out of poverty. How we think about our purpose to do good can be narrow or wide. We are bankers, and our role in society is to manage risk, savings and investment, and protect the financial ecosystem of the country. But our expertise can lend itself to several other contributions to our society, engaging with partners to stimulate the development of small businesses and jobs, as we are doing with the CEO Initiative. We have also led the way on black economic empowerment, with Nedbank being rated the most transformed financial services company in SA in the Independent Top Empowerment Companies survey during the year.

Since the election of the new leadership of the African National Congress in December, a new sense of optimism has begun to unfold. There are encouraging signs that corruption is being tackled and the clearest threats to the government's financial wellbeing are being addressed, including the appointment of new leadership at state-owned enterprises Eskom and South African Airways. We are hopeful that the moves will be enough to convince those credit rating agencies that still consider our government's debt as investment grade to maintain their view. But we have much work to do in delivering robust economic growth and restoring the trust of investors.

## A culture of ethics

Corporate behaviour is another issue that grabbed headlines during the year, contributing to weakening trust. The acts of corruption exposed by journalists included several private sector players, including suppliers to Nedbank. Towards the end of the year the withdrawal of Steinhoff's audited financial results revealed another dramatic failure of governance, further damaging trust in business.

Nedbank has zero tolerance for corruption. We actively promote our whistleblowing lines to staff and have acted decisively where we have identified wrongdoing. This ethos carries through to our client and supplier relationships. We spent significant resources on reviewing our client relationships and terminated more than 3 000 accounts where we deemed the risk to be too high.

Some of our suppliers that were implicated in cases of corruption against the state are systemically important to our business. One of our joint auditors, KPMG, faced several allegations regarding the work it undertook on behalf of its clients implicated in state capture. The chairman of the Group Audit Committee deals with this matter in his report on page 92. In addition, SAP and McKinsey were accused of being associated with state capture while busy with several engagements in our business. I was disappointed that these firms were implicated and together with our management introduced several risk mitigation measures. We engaged with their leadership to obtain explanations about these activities and the steps taken to address them. We have ongoing engagements and I am working to ensure that we resolve the issues in the interest of the country as well as Nedbank.

Such governance failures weaken public trust in all companies. It is up to us as the leadership of businesses like Nedbank to earn that trust, and we are taking that seriously. Another change that I have seen during my chairmanship is the evolution of regulatory compliance to a risk-based culture that permeates the institution. Every employee shares a responsibility to ensure we behave ethically at all times, while we strive to ensure our related regulatory compliance systems are capable of detecting any misuse. That means being alert to potential wrongdoing and detecting not just clear instances of misuse, but situations that pose a risk that should be escalated. As a board we have ultimate responsibility to oversee the actions of management and we robustly engage in doing that. The trust of our stakeholders takes time to build, but it can be lost in an instant. We are all focused on demonstrating that we are a business that truly lives an ethical culture.

## The global context

The International Monetary Fund expects global growth to be 3,9% in 2018. This is a strong recovery from the growth rate in the past few years and, although SA will lag because of our missteps, it provides a source of positive momentum for managing our own recovery. Yet, around the world, there are echoes of the same debates that SA engaged in. Despite the significant reduction in poverty worldwide in the past several decades, there has been an acceleration in inequality, driven by structural changes in the global economy, particularly in favour of highly skilled and capital-intensive forms of economic activity. In part that has contributed to debates over executive pay. We have participated in these debates and these, along with the views of our shareholders and several governance and regulatory codes, have affected our remuneration policy.

Technology is another major contributor to global change. It is sobering to remember that the iPhone turned 10 in 2017. Facebook and Twitter are a few years older. Social media and smartphones have been with us for only a decade, yet the impact has been dramatic. We are still only at the beginning of the consequences of these technologies for consumer behaviour and the kind of business we do. And, the pace of change is accelerating, driven by artificial intelligence and data analytics. Our bank has to embrace this change and use it to galvanise our business. Digital change is not just something we must adapt to; it is something we must lead as a key source of competitiveness. We are instilling a culture of digital innovation across the bank. This is starting to pay off. We've launched several new digital services for our clients, including award-winning apps and robotic processes that improve reliability and reduce costs, driving profitability. We've invested heavily in new systems to detect and act against financial crime. Many other initiatives are being developed. There is no end to the possibilities of how data analytics and other technology can be used to help our clients and the broader society. The global economy is navigating the fourth industrial revolution in which digital technology will integrate with our physical lives in unprecedented ways. Nedbank is on course to be at the forefront of this revolution.

## Investing in Africa

Nedbank is also a distinctly African bank. Compared with the other big SA banks, we have lagged in expanding into the rest of Africa. That is changing. We have been investing significantly in the six markets where we own and manage banks in southern Africa, upgrading systems and improving their capacity to expand. In Central and West Africa we have partnered with ETI, through our

21,2% strategic shareholding. We have, along with other major shareholders, worked hard to develop ETI's strategy and governance. In 2017 ETI returned to profitability and I am confident it will be a good performer in the year ahead. Our relationship with ETI means we can offer our clients a seamless banking service in most of the major markets on the continent, while participating in their growth.

## Managed separation

Our 53,4% controlling shareholder, Old Mutual, announced in March 2016 that it was unbundling its business to unlock value for its shareholders. During the course of 2017 Old Mutual plc announced that the strategic minority shareholding to be retained in Nedbank Group by Old Mutual Limited (OML) to underpin the ongoing commercial relationship between the companies has been agreed at 19,9% of the total Nedbank Group ordinary shares in issue, as held by shareholder funds. The 19,9% shareholding will be held by OML, which will have a primary listing on the JSE and a secondary listing on the London Stock Exchange. OML will be listed at the earliest opportunity in 2018, following the publication of Old Mutual plc's 2017 full-year results.

The decrease in OML's shareholding in Nedbank Group will be achieved through the unbundling of Nedbank Group ordinary shares to OML's shareholders. This will result in OML, immediately after the implementation of unbundling, having a 19,9% strategic minority shareholding in Nedbank Group. The unbundling will occur at an appropriate time and in an orderly manner, after the listing of OML and allowing suitable time for the transition of the OML shareholder register to an investor base with an SA and emerging-market focus and mandate.

Nedbank has always operated independently and has its own systems and governance, therefore the managed separation will have no impact on the day-to-day operations of Nedbank. Nedbank and Old Mutual have expressly recognised the benefits of the arm's-length commercial arrangements between them and undertake to continue to retain such commercial arrangements, which will be underpinned by a new agreement that will govern the terms of this relationship. The unbundling will result in a far more diverse and distinctly SA and emerging-market shareholding profile for Nedbank, resulting in a much larger free float, which will be good for Nedbank as well as its existing and potential new shareholders. Nedbank is a great business for our current and potential new shareholders to be invested in and we aim to continue to deliver value.

## Appreciation

This bank exists because of the 31 887 employees who work every day to add value to our 7,9 million clients. I am grateful for their ongoing commitment to embracing change, ensuring Nedbank leads the competition while living a strongly ethical culture.

I would also like to express my gratitude to our Chief Executive, Mike Brown, and his executive team for their ongoing commitment to delivering on our strategy every day. I also thank my fellow boardmembers for their contributions to guiding the bank and wise counsel.

We have entered 2018 with a more positive outlook and I am excited by the opportunities we have to contribute to putting SA back onto a strong growth track and to help improve the lives of all our citizens. We look forward to working with our new political leadership in acting and behaving in a way that improves confidence in SA. That excitement extends to the rest of the African continent, where a positive momentum is also taking hold. I look forward to working alongside my colleagues to ensure Nedbank plays an important part in accelerating that momentum.

**Vassi Naidoo**
*Chairman*

This bank exists because of the 31 887 employees who work every day to add value to our 7,9 million clients.

# 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% deposits and advances market share.

Outside SA, we operate in six countries in the SADC, through subsidiaries and banks in Lesotho, Malawi, Mozambique, Namibia, Swaziland and Zimbabwe, 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.

Old Mutual ownership **53,4%** expected to decrease to 19,9% after managed separation[1]

Market capitalisation **R128bn** as at 31 December 2017

One of **SA's most transformed banks** – level 2 BBBEE rating (Amended FSC)

Employees **31 887**

CET1 capital ratio **12,6%**

Headline earnings **R11,8bn** and dividend per share **1 285 cents**

Only African-based bank to be included in the **Dow Jones World Sustainability Index**

Access to the **largest banking network in Africa** through our strategic alliance with ETI: 39 countries.

[1] *The decrease in OML's shareholding in Nedbank Group will be achieved through the unbundling of Nedbank Group ordinary shares to OML's shareholders. This will result in OML, immediately after the implementation of unbundling, having a 19,9% strategic minority shareholding in Nedbank Group. The unbundling will occur at an appropriate time and in an orderly manner, after the listing of OML and allowing suitable time for the transition of the OML shareholder register to an investor base with an SA and emerging-market focus and mandate.*

Assets **R983bn**


Deposits **R772bn**


Total clients **7,9m**

## What differentiates Nedbank?

**Unique corporate culture** supporting a highly motivated workforce.

**Experienced management teams**.

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

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

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

**Growth of main-banked client market share** representing an opportunity for revenue growth.

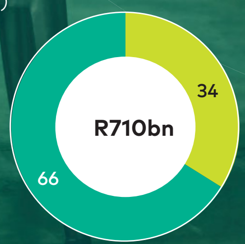
**Prudent management of our expenses** over time and an opportunity to continue to lower our efficiency ratio.

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

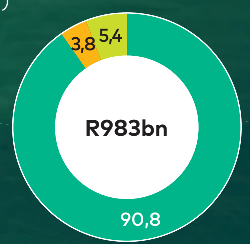
- Investment in SA's water source areas to balance our operational water usage.
- **Constituent of the Dow Jones World Sustainability Index** for 12 years.
- On the **A-list for the Carbon Disclosure Project** – among the top 5% companies globally.
- **Carbon neutral** for seven years.
- **Acknowledgment as one of SA's most transformed banks.**
- Recognition for **excellence in governance, transparency and corporate reporting.**

A **wholesale-biased business model** compared with those of peer banks

**Retail vs wholesale advances**
(%)




**Assets by geographical area**
(%)



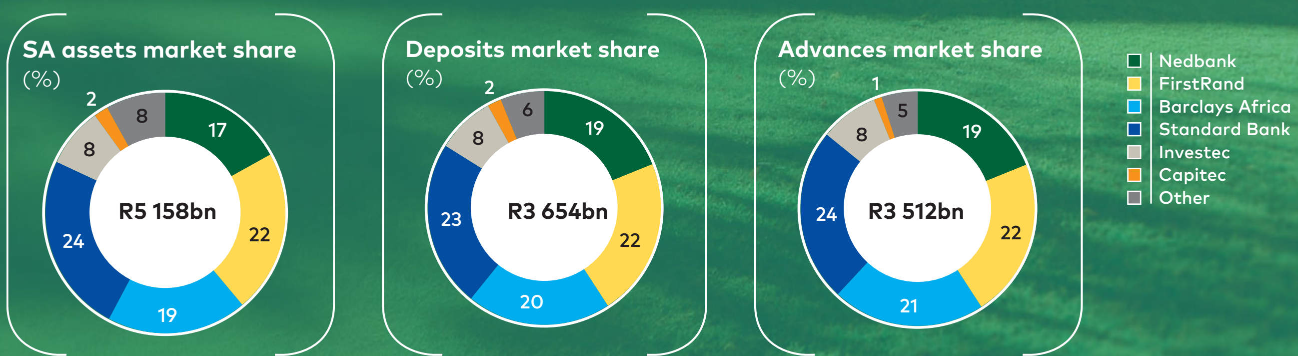
# NEDBANK GROUP IN CONTEXT

The four large SA banks are the largest in Africa, as measured by assets and tier 1 capital.

**The SA banking sector has approximately R3 512bn in advances, of which Nedbank has a 19% share.** We also have a 19% share of the R3 654bn SA deposit market, an important indicator of franchise strength.

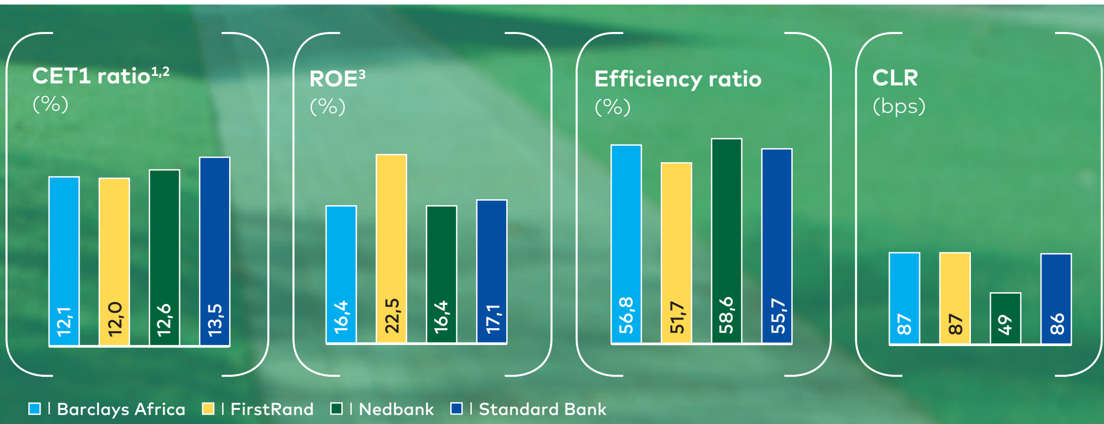
**Largest banks in Africa[1] by tier 1 capital**
(US $bn, 2015)


[1] *The Banker Magazine (July 2017).*



SA banks are well capitalised and generate good returns (ROE) ahead of COE (around 14%), notwithstanding efficiency ratios above 50%. Credit extension has been prudent, as reflected in low CLR. Nedbank benchmarks in line with industry averages and we aim to improve our ROE (excluding goodwill) and efficiency ratios by delivering on our strategy.

Refer to our 2020 targets on pages 44 and 45.




[1] *FirstRand reported post-Aldermore CET1 of 12%.*

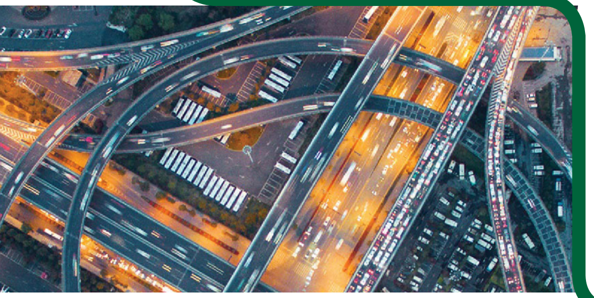
[2] *Nedbank has estimated IFRS 9 impact as less than 20 bps. Standard Bank estimated at less than 70 bps and Barclays Africa at less than 35 bps.*

[3] *Nedbank reports ROE on a headline earnings basis, excluding goodwill. Barclays Africa and FirstRand report ROE on a normalised basis. Barclays Africa normalises for the consequences of its separation from Barclays plc. In particular, the R12,1bn contribution received from Barclays plc. FirstRand normalises certain IFRS remeasurement.*

# OUR ORGANISATIONAL STRUCTURE, PRODUCTS AND SERVICES

We deliver our products and services through four main business clusters.

**OUR CLIENTS**



## Nedbank Corporate and Investment Banking

**Corporates, institutions and state-owned companies with a turnover of more than R750m per annum.**

> 600 large corporate clients.

## Nedbank Retail and Business Banking

**Individual clients, as well as businesses.**

> 7,5 million individuals.

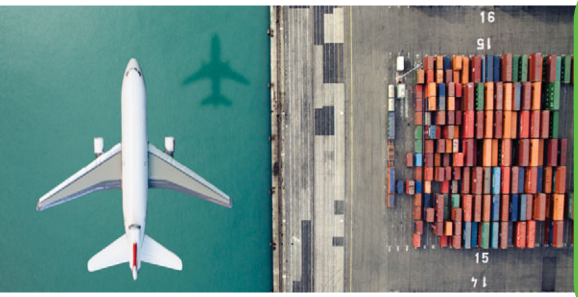
> 255 000 small and medium enterprises (typically businesses with an annual turnover of less than R10m).

> 22 400 business-banking client groups with an annual turnover of less than R750m per annum.

## Nedbank Wealth

**High-net-worth individuals as well as other retail, business and corporate clients.**

> 16 400 high-net-worth clients locally and internationally.



## Nedbank Rest of Africa

**Retail, small and medium enterprises, and business and corporate clients across the countries we operate in.**

> 335 000 clients.

| OUR PRODUCTS AND SERVICES | OUR AREAS OF STRENGTH AND DIFFERENTIATION |
|---|---|
| **NEDBANK CORPORATE AND INVESTMENT BANKING**<br>Full suite of wholesale banking solutions, including investment banking and lending, global markets and treasury, commercial-property finance, deposit-taking, and transactional banking. | ■ Strong franchise providing good returns (ROE > 20%).<br>■ Market leader with strong expertise and relationships in commercial-property finance, corporate advances and renewable-energy financing.<br>■ Leading industry expertise in mining and resources, infrastructure, oil and gas and telecoms.<br>■ Solid advances pipeline (growth opportunities when business confidence improves).<br>■ Integrated model delivering improved client service and better coverage/deeper client penetration, and attracting and retaining high-quality intellectual capital.<br>■ Efficient franchise (best efficiency ratio) and high-quality portfolio (low CLR). |
| **NEDBANK RETAIL AND BUSINESS BANKING**<br>Full range of services, including transactional banking, card solutions, lending solutions, deposit-taking, risk management, investment products, and card-acquiring services for business. | ■ Investments delivering benefits as earnings grow and ROE continues to increase.<br>■ Strong market position in deposit-taking (19%), vehicle finance (34%), business banking (19%) and card acquiring (> 20%).<br>■ Track record of solid NIR growth.<br>■ Historic selective origination and quality portfolio continue enabling relative CLR outperformance.<br>■ Digitisation and backoffice optimisation to drive transactional client growth and efficiency ratio to ≤ 58% by 2020. |
| **NEDBANK WEALTH**<br>Wide range of financial services, including high-net-worth banking and wealth management solutions, as well as asset management and insurance offerings. | ■ Integrated local and international high-net-worth franchise:<br>□ Rich heritage and strong client base.<br>□ Market-leading digital innovations.<br>■ A top SA asset manager:<br>□ Ranked top offshore asset manager in SA.<br>□ Solid long-term performance with net flows of R28,5bn.<br>□ R312,3bn AUM – fourth-largest unit trust manager in SA and third-largest offshore unit trust manager in SA.<br>■ Growing insurance business:<br>□ Opportunities for greater penetration and collaboration within Nedbank.<br>□ Innovative digital solutions. |
| **REST OF AFRICA**<br>Full range of banking services, including transactional, lending, deposit-taking and card products, as well as selected wealth management offerings. | ■ SADC (own operations):<br>□ Investment into technology and digital to enhance CVPs and create scale (Flexcube core banking and mobile implemented in four countries).<br>■ Central and West Africa (ETI alliance):<br>□ The Nedbank–Ecobank Alliance: footprint across 39 countries, the largest in Africa.<br>□ Increased dealflow by leveraging ETI's local presence and knowledge and Nedbank's structuring expertise and balance sheet.<br>□ Transactional banking > 80 Nedbank wholesale clients. |

# OUR PURPOSE, VISION, VALUES, TARGETS AND BRAND

## OUR **PURPOSE**

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

## OUR **VISION**

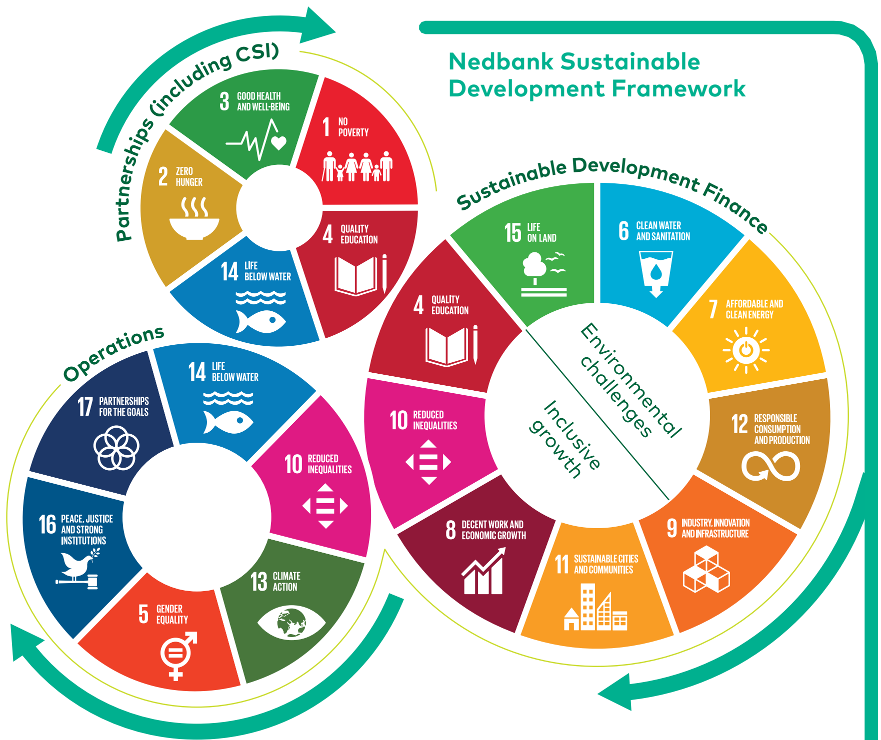
To be the most admired financial services provider in Africa by our staff, clients, shareholders, regulators and society.

## **DELIVERING VALUE** BY DELIVERING ON OUR PURPOSE

We understand that our success depends on the degree to which we deliver value to society. It is therefore important to understand our role in society and how society can be different because Nedbank is a part of it. Banks play a crucial role in facilitating economic activity and enabling sustainable growth and development by moving capital from where it is to where it is required. A deep understanding of one's purpose helps to guide strategy and decisionmaking in this regard and should result in an optimal balance between long-term value creation and short-term results.

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 United Nations (UN) Sustainable Development Goals (SDGs) provide for a universal agreement on economic, social and environmental priorities to be met by 2030. They represent a powerful lens to identify opportunities for business innovation and growth and they define the 'good' in our purpose. With this in mind, we have reoriented our approach to focus on the most material SDG targets through our three main points of leverage: Products and Services (Sustainable Development Finance), Operations, and Partnerships (including CSI).




## 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.

## IN ORDER TO ACHIEVE OUR VISION **WE AIM TO ...**

... attract, develop and retain a highly skilled and talented workforce ...

... exceed client expectations to become the financial partner of choice ...

... grow profit sustainably to create shareholder value ...

... effectively manage risk ...

... and create shared value.

## 2020 **TARGETS**

### STAFF

Commercially focused, transformed and innovative staff who **collaborate to serve our clients**

### CLIENTS

**Top 2 brand value among SA banking peers**
**> 16,5% commercial transactional deposit market share**

**RBB**
**> 15% main-banked retail** client market share

**CIB**
**Top 2** in wholesale league tables
NIR-to-advances ratio **> 2,0%**

**Wealth**
**Number 1** in Intellidex's Top Private Banks and Wealth Managers survey
**Top 3** SA asset manager (annual Raging Bull Awards)

**RoA**
**Grow profitability** ahead of market in the subsidiary countries
Increased **dealflow from ETI** network and **appropriate returns on capital invested**

### SHAREHOLDERS

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

### REGULATORS

Effectively delivered **compliance** with **regulatory change**

### SOCIETY

Recognised as a leader in the financing of our fair share of the SDGs, thereby **promoting socioeconomic transformation** through enabling economic inclusion, job creation and poverty alleviation.


## OUR **BRAND PROMISE**

In 2017 we repositioned our brand and introduced a new purpose statement, 'see money differently', which now drives our behaviour as an organisation. The duality of financial expertise and doing good for our clients and society is true to who we are and what we do at Nedbank. Our value drivers are to deliver best-in-class financial expertise to demonstrate our serious approach to our clients' money. We also aim to cultivate meaningful and mutually beneficial partnerships that add value and inspire sustainable financial behaviours and practices. And, finally, to harness insights into client pain points and behaviours to discover relevant opportunities for potential future innovations.

# HIGH STANDARDS OF GOOD GOVERNANCE

The Nedbank Group board is diverse in demographics, skills and experience and **61% of the directors are independent non-executive directors.**

## OUR GOVERNANCE PHILOSOPHY

Nedbank is committed to high standards of governance, ethics and integrity.

We embrace worldclass banking practices and robust institutional frameworks to ensure our banking services are secure and stable. We are constantly reviewing these practices to ensure that we consistently act in the best interests of our stakeholders. Banks are expected to adapt to regulatory changes quickly, which means we have to entrench good governance practices, while retaining the flexibility to respond proactively to the fast-changing regulatory environment. Nedbank's corporate governance philosophy, approach, standards, policies and practices support achievement of each of the King IV™ principles and enable the board and management to conclude that we are currently achieving the King IV™ governance outcomes.

We believe that good governance can contribute to living our values through enhanced accountability, strong risk and performance management, transparency and effective leadership.

**Board and board committee attendance of 95%,** illustrating high levels of engagement.

The full board and board committee attendance is available at our group website at nedbankgroup.co.za.

## OUR BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

**MIKE BROWN** [51]
Chief Executive

**RAISIBE MORATHI** [48]
Chief Financial Officer

**MFUNDO NKUHLU** [51]
Chief Operating Officer

### NON-EXECUTIVE DIRECTORS

**VASSI NAIDOO** [63]
Chairman

**IAN GLADMAN** [53]

**BRUCE HEMPHILL** [54]

**ROB LEITH** [55]

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**MALCOLM WYMAN** [71]
Lead Independent Director

**HUBERT BRODY** [53*]

**BRIAN DAMES** [52]

**NEO DONGWANA** [45**]

**ERROL KRUGER** [60]

**MPHO MAKWANA** [47]

**LINDA MANZINI** [49**]

**MANTSIKA MATOOANE** [42]

**NOMAVUSO MNXASANA** [61]

**JOEL NETSHITENZHE** [61]

**STANLEY SUBRAMONEY** [59]

* *Appointed in July 2017.*
** *Appointed in June 2017.*

## Policy on the promotion of diversity at board level

At 31 December 2017 our results against our targets were as follows:

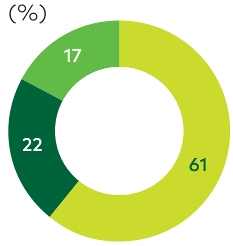
| Category | Target | Current achievement | Outcome |
|---|---|---|---|
| Voting rights of black boardmembers (%) | 50 | 61,11 | Exceeded |
| Voting rights of black women boardmembers (%) | 25 | 27,77 | Exceeded |
| Black executive members of the board (% of all executive members of the board) | 50 | 66,67 | Exceeded |
| Black women executive members of the board (% of all executive members of the board) | 25 | 33,33 | Exceeded |
| Black independent non-executive boardmembers (% of all independent non-executive boardmembers) | 40 | 72,73 | Exceeded |

**Board demographics**


White male
Black male
Black female
Non-SA

relevant in a **transforming society**

**Independence**
(%)




Independent non-executive directors
Non-executive directors
Executive directors

protecting the **interests of all shareholders**

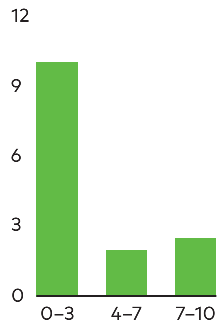
### Independence

The majority of Nedbank's boardmembers are independent directors, which is in compliance with King IV™ requirements and ensures that the interests of the minority shareholders are protected.
We strengthened board independence from 59% independent directors in 2016 to 61% in 2017.
An independent board committee, the Group Related-party Transactions Committee, chaired by our Lead Independent Director (LID), is in place to consider, review, evaluate and provide oversight over related-party transactions to ensure the transactions are fair and in the best interests of Nedbank.

### Conflict of interest

A director or prescribed officer is prohibited from using his or her position, or confidential and price-sensitive information, to benefit himself or herself or any related third-party, whether financially or otherwise. Directors and officers are also required to inform the board timeously of conflicts, or potential conflicts, of interests that they may have in relation to particular items of business or other directorships. Comprehensive registers of individual directors' interests in and outside the company are maintained and updated and signed by the directors, with details noted by the board at each board meeting.

**Non-executive directors: time on board** (years)




a blend of **experience and new insight**

Refer to pages 92 to 99 for the skills and expertise of the committee members.

### Our approach to compliance

Nedbank's existing governance framework and culture provide a solid foundation for the implementation of King IV™. Adopting King IV™ is a commitment to stakeholder inclusivity, corporate citizenship and protecting the value that we create. By approaching the shift from King III to King IV™ in an inclusive and integrated manner, we ensure that principles and practices are applied with a focus on achieving the four corporate governance outcomes, ie ethical culture, good performance, effective control and legitimacy.

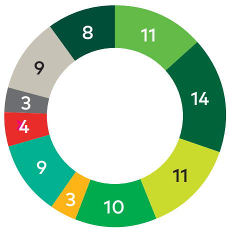
Read more about our response to King IV™ on pages 86 to 89.

## Values and culture

Governance is supported by the tone at the top, the example that the board and management set and the values and behaviours embraced by all employees in the organisation. Our 2017 staff survey shows that 'accountability', 'performance-driven', 'client-driven', 'team work', 'client satisfaction' and 'brand reputation' represent six of the highest-scoring values currently present in the organisation.

As part of our culture journey, we are revisiting our required culture in the context of our strategy, the new world of work and the digital transformation of financial services. The Group Executive Committee (Group Exco) is driving and enabling the new leadership mindsets and capabilities required to manage and thrive in an agile, digital, fast-paced, client-centred and competitive environment.

### Skills and experience




- Retail Banking
- Investment Banking
- Financial services/Insurance/Asset management
- Large corporate/Industrial
- Mining and resources/Infrastructure
- Accounting and auditing
- Economics/Public/Macropolicy
- Innovation/IT/Digital
- HR/Strategic planning/Stakeholder management
- Doing business in Africa/India

**well diversified** to add value to several aspects of Nedbank Group

## Fair and responsible remuneration

The board is committed to ensuring that remuneration of executive management is fair and responsible in the context of overall employee remuneration. The Group Exco holds management accountable for ensuring total remuneration is distributed fairly, while the board, through Group Remco, is committed to ensuring that the remuneration of executive management is fair and responsible in the context of overall employee remuneration.

The high-level outcomes for 2017 are shown on pages 74 to 82, with more details in our remuneration policy at nedbankgroup.co.za.

## Engaging with investors on governance

We continually engage with shareholders on governance and strategic matters, thereby contributing to the multiple factors that inform our strategy and the way in which we manage the organisation. The engagement also enables our board to exercise constructive influence as and when appropriate, and to protect the interests of our minority shareholders.

Nedbank Group's fourth governance roadshow in April 2017 was hosted by Vassi Naidoo (Chairman) and Malcolm Wyman (LID), with a followup roadshow in January 2018. The overall response from shareholders was that Nedbank Group is highly regarded for its approach to governance. In 2017 the following key topics were discussed: the Old Mutual managed separation; positioning for a possible sovereign-credit-rating downgrade; ETI's financial performance; and components of the Nedbank remuneration policy.

Read more on pages 67 and 68.

## Engaging with the business on strategic matters

Although the board maintains its independence, it is important for it to have a deep understanding of the business by investigating, monitoring and engaging with management on multiple levels:

- In addition to the three executive boardmembers, the other 10 Group Exco members, with the board, serve on various board committees and engage in strategy sessions and other specific matters such as results presentations.
- Following the annual strategy session between the board and the Group Exco, the board debates and approves the Strategy Framework, group business plan and relevant risk appetites. In 2017 a key focus was setting 2020 targets that embody the outcome of our strategies and enablers.
- The board conducts onsite visits to various bank operations and business units, and attends operational meetings from time to time, while one-on-one meetings may be requested by individual directors.
- A monthly CEO Report provides the board with comprehensive feedback on the performance of the business across various disciplines, including finance, client activities, risk management and staff performance.
- There is increased interaction between the board and our stakeholders (for example, boardmembers are invited to selected client functions).

## OUR GROUP EXECUTIVE COMMITTEE

The Nedbank Group Executive Committee is a **diverse and experienced management team** that comprises the Chief Executive, Chief Operating Officer, Chief Financial Officer and 10* other members of top management.

**MIKE BROWN** 51
Chief Executive

**RAISIBE MORATHI** 48
Chief Financial Officer

**MFUNDO NKUHLU** 51
Chief Operating Officer

**BRIAN KENNEDY** 57
Group Managing Executive: Nedbank Corporate and Investment Banking

**IOLANDA RUGGIERO** 47
Group Managing Executive: Nedbank Wealth

**CIKO THOMAS** 49
Group Managing Executive: Nedbank Retail and Business Banking

**TREVOR ADAMS** 55
Chief Risk Officer

**MIKE DAVIS** 46
Group Executive: Balance Sheet Management

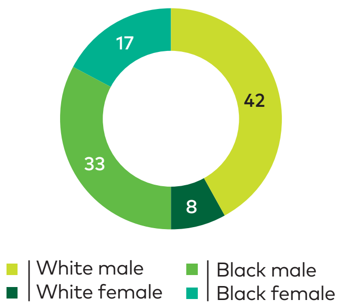
**THABANI JALI** 59
Group Executive: Enterprise Governance and Compliance; Group Company Secretary

**PRIYA NAIDOO** 44
Group Executive: Strategy and Economics

**FRED SWANEPOEL** 54
Chief Information Officer

**ABE THEBYANE** 57#
Group Executive: Group Human Resources

**Group Exco demographics (%)**




**transforming** from the top

**Combined 184 years' service (average 16 years' service)** – experienced, with a strong track record

**Highly regarded by investors**

* *The portfolio of Group Executive, Group Marketing, Communications and Corporate Affairs, is currently vacant. Mfundo Nkuhlu is overseeing this portfolio until a permanent replacement is announced.*

\# *In October 2017 we announced the early retirement of Abe Thebyane (57) after more than six years as Group Executive, Group Human Resources, and a member of the Group Exco. Abe has decided to take early retirement in terms of the rules of the bank's retirement policy. The effective date of his early retirement will be announced on the appointment of a suitable successor to ensure a seamless handover of responsibilities.*

# OUR VALUE-CREATING BUSINESS MODEL

## OUR CAPITALS
inputs

**FINANCIAL**
**R89bn** equity
**R772bn** deposits

**INTELLECTUAL**
**10th** most valuable SA brand
**A leader in** wholesale banking, commercial-property finance, vehicle finance, and asset and wealth management
**Strategic partnerships** with Old Mutual, ETI, Bank of China and Deutsche Bank

**HUMAN**
**31 887 employees**
**Client and people-centred** culture
Strong **compliance and governance** culture

**MANUFACTURED**
**129** core IT systems
**336** new digitally focused outlets
**3 948 ATMs and 613 outlets**
**Market-leading digital CVPs**

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

**NATURAL**
**14 Green star** ratings across seven buildings
**Carbon-neutral** operations
Leader in **renewable-energy** financing
Balance **operational water usage** by releasing the equivalent amount back into water system

## ENABLE VALUE-ADDING ACTIVITIES
outputs

- Provide savings and investment products
- Generate returns on our strategic investment in ETI
- Extend credit to our clients through responsible lending practices
- Reward performance and invest in attracting, developing and retaining our people
- 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

## SUPPORTED BY STRONG GOVERNANCE AND ETHICS

Nedbank is committed to the **highest standards of governance, ethics and integrity**.

We therefore embrace **worldclass banking practices and robust institutional frameworks** to ensure our banking services are secure and stable, and we are constantly reviewing these practices to ensure that we consistently act in the best interest of our shareholders.

## Delivering financial outcomes for Nedbank in 2017

| NII | | Credit impairments charges | | NIR | | Associated loss | | Expenses | | Taxes |
|---|---|---|---|---|---|---|---|---|---|---|
| ▲ 4,5% to R27,6bn | − | ▼ (27,4%) to R3,3bn | + | ▲ 2,4% to R24bn | − | ▲ >(100%) to R838m | − | ▲ 5,1% to R29,8bn | − | ▲ 6,7% to R5,2bn |

Maintain, optimise and invest in our operations, including technology, marketing and infrastructure

Pay taxes in the jurisdictions in which we operate

## Using our financial expertise to do good for individuals, families, businesses and society

## ... WHILE MANAGING KEY RISKS

**Credit risk**
CLR below **60–100 bps** target range: **49 bps**

**Market risk**
**R1,4bn** NII sensitivity for a 100 bps change in interest rates over a 12-month period

Trading value at risk **R23,0m**

**Balance sheet risk**
LCR > 2017 minimum of **80%**: **116%** (Q4 2017 average)

CET1 CAR **> 10,5–12,5%: 12,6%**

**Across all activities**
Operational risk
Strategic and execution risk
Business risk
Cyberrisk
Regulatory and compliance risk
Reputational risk
Conduct and culture risk

Read more about our risks on pages 48 to 50.

**Other equity holders** ▲ 28,7% to **R678m**

**Headline earnings** ▲ **2,8% to R11,8bn**

**ROE excl goodwill** ▼ **16,4%**

## CREATING VALUE FOR OUR STAKEHOLDERS
### outcomes

**STAFF**
**R12,8bn** in salaries and benefits
**R355m** invested in training
**78,5% black** staff
**62,1% female** representation

**CLIENTS**
**R153bn** new loans advanced
**19,1 billion** transactions processed
**Convenience** – application systems uptime at 99,99%
Exciting new **digital innovations**
Top-tier **asset management** performance

**SHAREHOLDERS**
Share price **+ 7,5%**
Full-year dividend **+ 7,1%** to **1 285 bps**
**> 90%** voting outcome for all resolutions at **50th AGM**

**REGULATORS**
Compliance with all **regulatory requirements**
**IFRS 9** smooth implementation
**R9,8bn** tax contributions

**SOCIETY**
**R168,4m** socioeconomic spend
**R3,8bn** granted for empowerment financing
Disbursed **R18,4bn** (2016: R15,2bn) for renewable-energy deals adding a further **2 100 MW** to the national grid
**200 000** adults and learners benefited from consumer education programmes
Contribution to **water security**
BBBEE rating: **level 2** (Amended FSC)

Read more about value to stakeholders on pages 26 to 35.

# REFLECTIONS FROM OUR CHIEF EXECUTIVE

We anticipated many of the challenges that presented themselves in 2017 and we were well prepared. We have to accept that the environment in which we operate is constantly evolving. To be both a successful and sustainable financial services provider we need to keep pace with economic, social, environmental, regulatory, technological and industry changes.

**Mike Brown**
*Chief Executive*

During 2017 Nedbank continued to create value for all our stakeholders in a challenging political and economic environment. Our headline earnings of R11,8bn, up 2,8%, reflect a good performance from our managed operations, with headline earnings growth of 7,8% and an attractive ROE (excluding goodwill) of 18,1%. Slower revenue growth was more than offset by reduced impairments and good cost management, and our share of the loss from our associate ETI, following its Q4 2016 results, decreased in the second half of the year as the ETI business returned to profitability.

## Operating environment

2017 was challenging – two cabinet reshuffles, the downgrade of SA's local and foreign currency credit rating by two rating agencies, political changes and corporate surprises led to volatility in the equity, foreign exchange and debt markets. Nedbank navigated these well and demonstrated strong risk management skills.

Levels of growth in the financial services industry were also impacted by weaker business and consumer confidence following a prolonged period of political uncertainty combined with the lack of progress with resolving the structural challenges facing the SA economy, including infrastructure shortfalls, high levels of unemployment, policy deficits, a high government wage bill and fiscal pressures, the unsustainable debt position of some state-owned entities, tax pressures, as well as the erosion of the strength of key institutions, including the prosecutions authority. Consequently, asset growth and transactional activity slowed as clients delayed projects, awaiting more political and policy certainty after the ANC's elective conference in December. This was particularly evident in the wholesale and wealth businesses.

Almost daily we were confronted by news of the corruption in key state institutions, with attendant reputational challenges for all businesses. At Nedbank we have conducted detailed reviews of our business where these issues have touched on either supplier or client relationships. We have closed over 3 000 client accounts and reported over 12 000 suspicious transactions to the Financial Intelligence Centre. We implemented a robust supplier review mechanism and engaged suppliers that were implicated in wrongdoing, insisting that they take clear steps to deal with the issues and regularly report back to us on progress.

We anticipated many of the challenges that presented themselves in 2017 and we were well prepared. We have to accept that the environment in which we operate is constantly evolving. To be both a successful and sustainable financial services provider we need to keep pace with economic, social, regulatory, technological and industry changes.

Overview of the needs and expectations of our stakeholders, the context in which we operate and how it is likely to change over the next few years. These inform our strategic responses and the tradeoffs necessary to ensure ongoing value creation and management of risks.

## Delivering on our strategy

The past few years have provided us with a solid base, and we continue to deliver on the capabilities that will enable us on our journey to become a more digital, a more competitive and a more agile bank. The best way to grow our business in a tough economic climate with increasing levels of competition is to provide excellent client experiences and service. This means listening more to our clients, accelerating our digital efforts, transforming the way we work and deliver to our clients, being more innovative and upping our game to provide the gold standard in client experiences, whatever the channel.

The new Nedbank Private Wealth™ app, rated among the best in the world, and the new Nedbank Money app, which has received excellent client feedback, are just two examples of how the foundations we have laid in our Managed Evolution technology journey are increasingly enabling us to lead in digital innovation. We are continuing our ongoing investment in technology, from mobile solutions, to automation and robotics, to artificial intelligence. We want to keep ahead of the curve and lead in responding to the changing needs of consumers using agile design and development methods, at the same time improving operational efficiencies. We are doing this through our Managed Evolution and Digital Fast Lane programmes and embracing New Ways of Work. The executive team and I experienced this new way of working in the last quarter of 2017 by participating in programming that simulated 'agile' in practice. This exercise was very useful and further highlighted the merits of working in 'squads' and 'tribes' to be more client-focused, more agile, more competitive and more digital. We currently have about 500 people across the bank working in this new fashion and we aim to increase this to over 4 000 during 2018.

In 2018 Nedbank will bring more exciting innovations to market to deliver market-leading client experiences, grow our share of revenue, respond to the threat of new entrants and lower our cost of serving our clients. Some of these innovations include a refreshed internet banking experience in line with our new mobile banking apps; an unsecured loan bundled with a transactional account; simplified client onboarding through convenient, FICA-compliant account opening from the comfort of your couch; a new and exciting loyalty and rewards solution; and further rollout of chatbots, robo-advisors and software robots (robotic process automation).

Growing our transactional banking franchise faster than the market continues to be a major focus for us. Nedbank's retail franchise grew its total client base 1,6% to 7,5 million, with 6,0 million having a transactional account and 2,8 million classified under our definition of main-banked clients, supporting good retail transactional NIR growth of 6,0%. Pleasingly, and using a similar methodology, the newly launched Consulta survey estimates Nedbank's share of main-banked clients at 12,7%, up from the previous 10,1% recorded through the 2015 AMPS survey (there was no 2016 survey), as we aim to reach a share of more than 15% by 2020. Our integrated model in CIB enabled deeper client penetration and increased cross-sell, resulting in 26 primary-bank client wins in 2017.

Cost discipline, through our strategic focus area of 'being operationally excellent in all we do', remains an imperative in an environment of slower revenue growth. We have ongoing initiatives such as reducing our core systems from 251 in 2010 to the current 129 – well on our way to reaching 60 by 2020 – as well as decreasing the floor space in RBB by more than 30 000 m² by 2020, 24 485 m² of which has been achieved to date. Good progress was also made with our Target Operating Model initiatives, aimed at generating R1,0bn pretax benefits for Nedbank by 2019 (and R1,2bn by 2020) and forming part of our corporate performance targets in our long-term incentive scheme. Most cost initiatives have been identified in RBB and, as part of this, we decreased our headcount by 859, closed 52 Pick n Pay kiosks and 32 personal-loan outlets (while maintaining our coverage of the bankable population at 84%), reduced duplication and simplified our backoffice processes. We have implemented 50 software robots (robotic process automation) to enhance efficiencies and reduce processing errors in administratively intense processes, with more than 200 robots planned for rollout in 2018.

We maintained our focus on growing activities that generate higher levels of economic profit, such as growing transactional deposits and transactional banking revenues. Our selective origination of personal loans, home loans and commercial-property finance has proactively limited downside credit risk in this challenging operating climate, enabling a CLR of 49 bps, below the bottom end of our TTC target range and leading the industry, and reflective of a high-quality advances book. At the same time our balance sheet metrics remain strong and we continue to deliver dividend growth above the rate of HEPS growth as our levels of capital have enabled us easily to offset the negative effects of our share of ETI's 2016 losses on our dividend trajectory.

In Central and West Africa ETI remains a strategic investment for Nedbank, providing our clients with access to a pan-African transactional banking network across 39 countries and Nedbank with access to dealflow in Central and West Africa. We have made good progress in working with ETI's board and other institutional shareholders to strengthen its board and management. Risk management practices are being enhanced and the release of ETI's final results for December 2017 including a fourth quarter profit of US $16,5 million, provides further comfort. Collaboration is increasing and we recently have integrated our payments solutions into Ecobank's market-leading remittance product that has been launched in more than 30 countries. This provides Nedbank with an opportunity to provide a low-cost, fast and convenient solution to 2,7 million African migrants and capture a share of the total remittance market estimated to be between R14bn and R19bn. We remain supportive of ETI's endeavours of delivering an ROE in excess of its COE over time and, while risk remains, economic conditions in Nigeria and other economies in West Africa are improving, and ETI should provide a strong underpin to Nedbank Group's earnings growth in 2018.

In SADC we continue to build scale and optimise costs. Our core banking system, Flexcube, has been successfully implemented in four countries to date and we plan to roll it out in Zimbabwe during 2018, alongside the rebranding of MBCA to Nedbank Zimbabwe. We also launched a number of new digital products and we continue to grow our distribution footprint. As a result, clients increased 14% and online digital activations were up 22%. The 2016 acquisition of a majority stake in Banco Único in Mozambique continued to deliver value and positions Nedbank well to leverage off expected higher economic growth in that country.

## 2018 the year of managed separation

The managed separation process will really gain momentum in 2018 and should be materially complete by the end of the year. I have communicated previously that Old Mutual Limited (OML) is planning to be listed on the JSE, with a secondary listing on the London Stock Exchange. This is likely to happen at the earliest opportunity in 2018, following the publication of Old Mutual plc's 2017 full-year results, and essentially means that Old Mutual is returning home from London. At an appropriate time after this listing, OML will decrease its shareholding in Nedbank Group through the unbundling of Nedbank Group shares to OML's shareholders. This will result in OML, immediately after implementation of the unbundling, holding a 19,9% shareholding in Nedbank Group.

We have been working with Old Mutual to ensure an effective outcome for all our stakeholders. Old Mutual will continue to be an important partner for Nedbank, and the managed separation will have no impact on our strategy, clients, staff or operations.

After the unbundling our free float should improve from approximately 45% to approximately 80%. This will result in higher index tracker weightings and be attractive for large institutional shareholders. We will also be getting many new shareholders who, for the first time, will hold Nedbank shares directly. This provides an opportunity to restate why the Nedbank share is a great investment opportunity.

## Looking ahead

We started 2018 with positive changes to our political and socioeconomic landscape and renewed hope for higher levels of inclusive growth. Nedbank is acutely aware of the increased responsibility that we, and indeed all businesses in SA, have to ensure we play our part in improving the lives of all South Africans.

I am proud of the leading role Nedbank continues to play in supporting the economy and enhancing governance through bodies such as the CEO Initiative in SA. Through this initiative, we have worked with others in setting up the Youth Employment Scheme (YES Initiative) aimed at getting 1 million youths into internship programmes over three years and contributed to the R1,5bn SME fund to drive job creation. These are just some of the ways we can support our social partners in accelerating economic growth. But the country also needs clearer policies from government, structural reforms and renewed faith in the governance of state-owned companies to restore consumer and business confidence. In particular, we have been vocal on governance issues at Eskom, which – given its importance in the economy – is simply 'too big to fail', to use a term usually reserved for systemically important banks. We welcome the appointment of the new Minister of Public Enterprises and the new Eskom Board.

I am confident that Nedbank is well positioned to take advantage of the greater levels of consumer and business confidence that have emerged in early 2018. With the ETI Q4 2016 loss behind us and having exciting strategies and plans in place, we believe that earnings growth should be stronger in 2018 than in 2017, and DHEPS growth is expected to be in line with our medium-to-long-term target of greater than or equal to GDP plus the CPI plus 5%.

The year ahead will no doubt bring many more surprises and challenges, but it has started on a positive note with President Ramaphosa outlining a strong growth and transformation agenda in the State of the Nation Address. Importantly, the prosecution authorities have finally begun to act against the cancer of state capture.

As I look forward, I am encouraged by the prospects of Nedbank, particularly around digital innovations that will significantly improve our clients' experience and enhance cost-efficiencies as we progress on our plan to increase our ROE (excluding goodwill) to be equal to or greater than 18% and our efficiency ratio to be equal to or less than 53% by 2020.

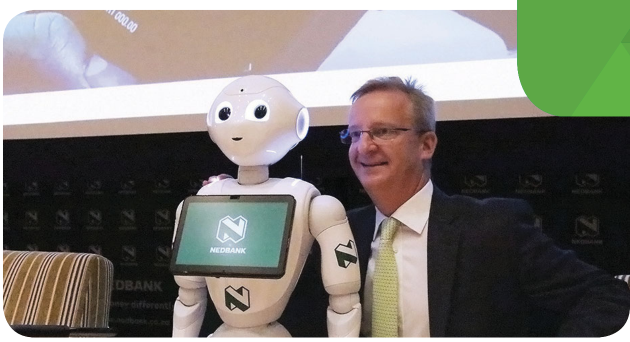
## Appreciation

To the Chairman, the board and my fellow executive team, thank you for your guidance and support as we set out to achieve our 2020 targets.

To our 7,9 million clients who choose to bank with Nedbank and to our shareholders and other stakeholders, we thank you for your support in 2017.

None of our achievements would have been possible without the hard work, commitment and dedication of all Nedbankers – thank you for contributing to a successful and rewarding year in a difficult environment. I am proud that we, as Nedbank, remain a cornerstone of society and that we are real and relevant, and continue to fulfil our core purpose of using our financial expertise to do good for individuals, families, businesses and society.

**Mike Brown**
*Chief Executive*



We started 2018 with positive changes to our political and socioeconomic landscape and renewed hope for higher levels of inclusive growth. Nedbank is acutely aware of the increased responsibility that we, and indeed all businesses in SA, have to ensure we play our part in improving the lives of all South Africans.

# THE NEEDS AND EXPECTATIONS OF OUR STAKEHOLDERS

As a financial services provider we are deeply connected to the environment we operate in and the societies we serve. Our ability to deliver value is dependent on our relationships and the contributions and activities of our stakeholders. By providing for their needs and meeting their expectations, we create value for both our stakeholders and Nedbank.

For more details on how we delivered value to our stakeholders refer to pages 63 to 73.

## STAFF

**31 887** employees.

**29 085** employees in SA businesses.
**2 802** employees in non-SA businesses.

**62,1%** female, **37,9%** male.

**78,5%** black, **21,5%** white.

**24,1%** under **29 years of age**.

**27,2%** with a tenure of more than 10 years.

Staff turnover of **10,6%**.

## CLIENTS

**7,9 million** clients.

Individuals from **children** to **seniors** and from **entry-level** clients to **high-net-worth** individuals.

Various **legal entities**, such as trusts, non-governmental entities and associations, small businesses, **large corporates** and the **public sector**.

## SHAREHOLDERS

**Ordinary and preference shareholders**, bondholders and prospective investors.

**Retail investors, asset management and retirement funds** in SA and increasingly in international markets that invest in Nedbank equity and preference shares as well as funding instruments.

Two credit rating agencies: **Moody's** and **Standard & Poor's**

**13 sell-side** analysts.

## REGULATORS

**SARB** – responsible for banking regulation and supervision in SA.

**FSB** – responsible for overseeing the SA non-banking financial services industry.

**NCR** – responsible for the regulation for the SA credit industry.

**Other:** SARS, foreign revenue authorities, various government departments and Chapter 9 institutions, including the Department of Trade and Industry (the dti), Department of Labour, National Treasury, Financial Intelligence Centre (FIC) and the JSE.

**We also comply with various regulatory bodies outside SA, including** central banks and local financial services regulators of countries in which we have representation or operations.

## SOCIETY

Society represents:

**Citizens of the countries in which we operate,** comprising individual members of society, non-governmental organisations and suppliers.

**The environment** on which these citizens depend for their wellbeing.

| Their needs and expectations | Creating value for our stakeholders |
|---|---|
| ■ Competitive remuneration, effective performance management and recognition.<br>■ Challenging work with opportunities to make a difference.<br>■ Career development and advancement opportunities.<br>■ Employment at a company with a strong brand that is recognised as a good employer.<br>■ An empowering, diverse and enabling environment that embraces diversity and inclusivity. | **Our staff are key to making Nedbank a great place to bank and work. Motivated and skilled staff, together with efficient and value-creating solutions, services and operations, offer value to our clients. Staff, as part of society, contribute materially to the communities in which they live and work.**<br>**Value is created through**<br>■ Employing citizens in the jurisdictions in which we operate.<br>■ Rewarding staff for the value they add.<br>■ Creating job opportunities as we grow.<br>■ Developing our staff to embrace technological changes, further their careers and improve our services and products.<br>■ Transforming to an inclusive society through employment equity and gender equality.<br>■ Motivating and energising our workforce. |
| ■ Innovative solutions and services, including lending, deposit-taking, transactional and advisory services, global markets, wealth management, asset management and insurance.<br>■ Convenient access to banking (channel of choice), increasingly through digital channels.<br>■ Excellence in client service.<br>■ Value-for-money banking that is competitive and transparent in pricing.<br>■ Responsible banking services and solutions, and a trusted financial partner. | **Clients remain our largest source of deposits, which enable us to fund lending activities. Gaining more clients results in greater revenue growth, while sustainable banking practices and worldclass risk management mitigate against bad debts.**<br>**Value is created through**<br>■ Safeguarding deposits, investments and wealth, while growing returns.<br>■ Providing credit that enables wealth creation, sustainable development and job creation.<br>■ Facilitating transactions that are the backbone of economic-value exchange.<br>■ Enabling financial inclusion by providing the previously unbanked with access to affordable products.<br>■ Providing financial education and advice.<br>■ Developing innovative solutions that meet our clients' specific needs. |
| ■ Shareholder value creation through share price appreciation and an attractive and sustainable dividend stream, enabled by:<br>□ Growth in net asset value.<br>□ Sustainable financial returns, with ROE exceeding COE.<br>□ Attractive and sustainable growth strategy.<br>□ Sound balance sheet to protect against downside risk.<br>□ Strong and experienced management.<br>□ Transparent reporting and disclosure.<br>□ Sound governance. | **The financial capital we source from our equity and debt investors and our retained earnings enable business continuity and growth, including strategic investments.**<br>**Value is created through**<br>■ Increasing net asset value, returns, dividends and share price.<br>■ Maintaining a strong balance sheet to protect against downside risk. |
| ■ Compliance with all legal and regulatory requirements.<br>■ Being a responsible taxpayer in all jurisdictions where we conduct business.<br>■ Active participation and contribution to industry and regulatory working groups. | **Regulation ensures a sound and stable banking system, which reduces systemic risk and promotes healthy functioning of an economy in which all stakeholders prosper. Good governance and compliance support client confidence in Nedbank and reduce potential for reputational risk. We realise that the tax we pay is an imperative for the economic and social development of the countries in which we operate. We have a responsibility to comply fully with the regulations of the countries in which we operate.**<br>**Value is created through**<br>■ Embracing sustainable banking practices and regulatory compliance that enable a safe and stable banking system and a thriving society.<br>■ Participation in buying government and public sector bonds.<br>■ Contributing meaningfully to government budgets through our own tax contributions and taxes collected on behalf of SARS and foreign revenue authorities. |
| ■ Nedbank providing access to expert advice, products and solutions that help to achieve desired outcomes for individuals, their families, their businesses and their communities.<br>■ Nedbank partnering on common social and environmental issues.<br>■ Nedbank using its resources to promote social, environmental and other common agendas to build a thriving society.<br>■ Embracing transformation through delivery in line with BBBEE legislation. | **We embrace our role in society as an active contributor to building a thriving society and can only do this with engaged communities that have similar values.**<br>**Value is created through**<br>■ Transforming economies and society positively through our lending and transactional activities, which are increasingly aligned with the SDGs.<br>■ Playing a meaningful role in the broader society as a procurer of goods and services.<br>■ Making a difference through our partnerships and CSI activities. |

# RISK AND OPPORTUNITIES IN OUR OPERATING ENVIRONMENT

Our material matters are evident in our key risks and opportunities and represent the issues that have the most impact on our ability to create value. These change over time as new trends and developments shape the macro environment and our stakeholders' needs evolve. We determine our material matters through the following process:

### IDENTIFY

Identify all issues that have the potential to impact our earnings sustainability and the ability to create value for our stakeholders. The process of identifying potential material matters is a groupwide responsibility requiring input from all business units and divisions, and taking into account input and feedback from all our stakeholders. Areas of potential impact that are assessed, include financial, environmental, social, strategic, competitive, legislative, reputational and regulatory matters (including political and policy matters).

### RANK

Rank the issues identified according to greatest relevance in the current operating context and highest potential to impact significantly on the viability of our business and relationships with stakeholders. While this is a collaborative effort, our Group Executive Committee assumes responsibility for approval of the material matters before their endorsement by the Group Transformation, Social and Ethics Committee, and finally, the Nedbank Group Limited board.

### APPLY AND VALIDATE

Apply the material matters lens to inform our long-term business strategies and targets as well as short-to-medium-term business plans. This is done primarily through the execution of our strategy.

### ASSESS

Assess the material matters continuously to ensure that our strategy remains relevant.

## OUR MATERIAL MATTERS

Material matter

### Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality

As a financial services provider, we are deeply connected to and interdependent on the macroeconomic environment. Our ability to create value is dependent on key economic drivers, our response to them and their impact on our stakeholders. Our current forecast is for SA, where we currently generate more than 90% of our earnings, to remain in a mild-stress environment although the outlook is more positive than for the previous year as a result of improved levels of consumer and business confidence.

#### POLITICAL AND POLICY DEVELOPMENTS

The African National Congress (ANC) has elected Mr Cyril Ramaphosa as its new leader and he has subsequently been elected as President of the Republic of SA. Business and investors will be looking for decisive action to improve political leadership and accountability, to tackle corruption, to improve governance at state-owned enterprises, to restore fiscal sustainability through the least growth-sapping combination of tax and expenditure measures, and finally, to address economic policy and legislative uncertainties. Greater clarity on government's current and future economic policies should enable private companies to price risk more accurately, thereby facilitating some recovery in fixed-investment activity. This normally leads to increased transactional activity and stronger corporate credit growth, which will benefit Nedbank in view of our wholesale-biased model. Business and consumer confidence should also improve from the very weak levels experienced in 2017.

#### GDP GROWTH

Our economic forecasts suggest that SA's recovery will be modest and gradual over the next three years. Faster growth is forecast for the rest of Africa, driving the development of financial markets in the medium to long term. Stronger economic growth is normally associated with employment gains and rising household incomes, which increase consumer spending and therefore grow retail banking. Sustained economic growth eventually exhausts existing capacity, prompting both the private and public sector to add new production capacity through increased investment, which results in increased bank lending activity.

Material matter

## Volatile and uncertain socioeconomic environment characterised by slower growth and rising inequality (continued)

### INTEREST RATES

We currently forecast that SA interest rates will reduce by 25 bps in the first half of 2018 and then remain flat over the next year and a half. Our NII and NIM guidance for 2018, provided at the time of our results, assumed flat interest rates, and although this has since changed, our NII and NIM guidance remains unchanged. Changes in interest rates affect bank margins and are positively correlated to endowment income. Lower interest rates result in lower endowment income, but higher demand for credit. At Nedbank endowment is viewed as a natural economic hedge against movement in interest rates, whereby a reduction in endowment income is partially offset by the impact of higher credit demand and lower bad debts that occur later in the cycle. For a change of one percentage point in interest rates over a 12-month period NII at Nedbank changes by approximately R1,4bn.

### CURRENCY

The rand was volatile throughout 2017, hurt by domestic politics and sovereign-credit-rating downgrades. Despite these fluctuations, the rand nonetheless managed to end the year 2,5% stronger against the trade-weighted basket of currencies. This was mainly due to a strong rally near year-end fuelled by hopes that the new ANC leadership will bring about meaningful improvements in the political, policy and economic environment. The impact of currency fluctuations for Nedbank is limited given the small size of our foreign operations.

### EMPLOYMENT

Rising unemployment, along with interest rate hikes, is the key driver of bad debts. At this stage, economic growth is too slow to translate into meaningful growth in fixed investment and job creation.

### INFLATION

Inflation is a key driver of costs and sets the base for wage inflation. Lower food inflation has brought inflation within the SARB target range of 3% to 6% in 2017, and inflation is forecast to remain below 6% over the next three years.

### LOCAL CURRENCY DOWNGRADE

In November 2017, Fitch affirmed the country's BB+ rating with a stable outlook, Moody's placed SA's Baa3 foreign and local currency ratings on review for a downgrade, but S&P Global downgraded SA's local currency rating to BB+ (one notch below investment grade) and our foreign currency rating to BB (two notches below investment grade), while changing the rating outlook to stable. Moody's, the only major agency that currently rates SA's local currency debt at investment grade, has put SA on review for downgrade and should the agency follow through with a downgrade, our government bonds will be excluded from major international bond indices, potentially leading to significant selling. Universal subinvestment-grade status will increase the cost of funding for the entire economy, including government, companies and households. Government will therefore have to pay more to borrow, diverting funds from other priorities such as housing, education and social grants. However, Nedbank is well positioned to deal with a higher-stress environment, with a downgrade of SA bank credit ratings (banks can't be rated higher than the sovereign) 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 discussed on page 60.

### ECONOMIC GROWTH*

| | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| GDP SA (%) | **1,3** | 1,6 | 1,8 | 2,4 |
| GDP SSA (%) | **2,4** | 3,2 | 3,5 | 3,5 |
| Inflation (CPI %) | **5,3** | 5,1 | 5,5 | 5,5 |
| Industry credit growth (%) | **5,0** | 6,5 | 7,9 | 10,1 |
| Average prime rate (%) | **10,4** | 10,3 | 10,3 | 10,7 |
| Average rand: US $ | **13,3** | 13,3 | 14,0 | 14,5 |
| Average naira: US $ | **330** | 363 | 369 | 373 |

*Source: Nedbank and International Monetary Fund.*
** Forecast at 15 February 2018.*

**Economic growth in sub-Saharan Africa ahead of that in SA** (2017–2020)

**Opportunities** The anticipated improvement in socioeconomic conditions supports banks. Opportunities include improved sentiment and confidence driving corporate and consumer spending and investment, targeted lending meeting the SDGs, pockets of growth in infrastructure and the rest of Africa, mergers and acquisitions activity, and a peak in the interest rate cycle delivering an endowment benefit and potentially less stress for consumers as interest rates remain stable.

- Growing our transactional banking franchise faster than the market
- Managing scarce resources to optimise economic outcomes
- Providing our clients with access to the best financial services network in Africa

**Risks** For banks an ongoing uncertain economic environment also has a negative impact on earnings growth potential. 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. A sovereign-credit-rating downgrade could accelerate impairments and reduce revenue growth.

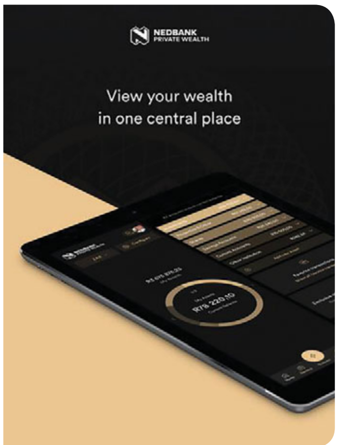
1 Business risk 4 Reputational risk 9 Market risk

For more details on our top 10 risks refer to page 50.

For more details on our strategic focus areas and strategic enablers refer to pages 36 to 45.

Material matter

## Disruptive technologies, disintermediation and increased competition




The fourth industrial revolution is driving an exponential advancement of technology – changing all aspects of financial institutions, from client expectations and new products and channels, to organisational structure and processes, as well as 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. It is estimated that over 90% of retail transactions in sub-Saharan Africa are cash-based, creating a significant opportunity for growth in digital banking in years to come. Africa's relative underdevelopment in digital innovation enables the leveraging of technological development in banking.

The digitisation of banks means that technological developments take centre stage in banking. This includes embracing and leveraging mobile technology, fintech partnerships, cloud computing, big data, advanced analytics or machine learning, blockchain technology, artificial intelligence, robotics and biometrics. Banks (which have scale) are increasingly partnering with fintechs, enabling faster delivery of new innovations to market. In an 'always online' society cybersecurity is paramount. The dark side of the global technology revolution is that financial crime has increased dramatically and cybercriminals and hackers have become more sophisticated.

### NEW ENTRANTS

Technological advances have enabled the entry of non-traditional players as they aim to cross-sell financial services to new or existing client bases. New and disruptive entrants include online banks and payment facilitators (eg TymeDigital), medical and insurance providers (eg Discovery, microloan providers (eg Capitec) and virtual-payment and mobile-telephony providers (eg MTN), all offering an increasing array of financial products and services to the consumer.

### CHANGING CONSUMER BEHAVIOURS

Consumer behaviour is also changing. Clients are increasingly multibanked with technologically sophisticated banking requirements as a result of an increased awareness of the various bank offerings, quality of service and pricing.

### CYBERRISKS

To offer protection against cyberrisks, which continue to increase due to ongoing sophistication of threat actors, cybersecurity capabilities must be enhanced continually, even though Nedbank has experienced no significant loss to date. The augmentation of our digital strategy will result in an increased inherent exposure to cyberrisk. The key to ensuring that we deliver securely is for cyberrisk to be integrally part of all new developments on this journey, while maintaining and enhancing current defences.

**Opportunities** Opportunities include gaining client revenue by responding 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.

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

For more details on our strategic focus areas and strategic enablers refer to pages 36 to 45.

**Risks** Risks include loss of market share and revenue should our digital offerings not remain competitive, digital banking increasingly becoming a commodity and not a differentiator, a higher-expense burden of investing in innovation and the franchise, and the risk of cyberattacks continuing to increase.

**3 Cyberrisk** **2 Strategic and execution risks**
**7 Operational risk**

For more details on our top 10 risks refer to page 50.

Material matter

## Demands on governance, regulation and risk management

Since the global financial crisis, and with increasing financial crime and terrorism globally, financial institutions have seen an increase in new regulations aiming to ensure the soundness of banks and to protect consumers. While we understand the need for this regulation to protect our stakeholders and support its intent, it has resulted in increased cost of banking, and slower loan growth, ultimately affecting fixed-capital investments and economic expansion. Globally, systemically important banks have reduced their capital commitments as well as exposure to emerging markets in response.

SA's implementation of the Twin Peaks Regulatory Framework (planned for 2018) and increased focus on consumer protection will continue to place new demands on financial services organisations. The caps on credit life pricing, lower caps on lending rates, limiting of interchange fees on card transactions, introduction of the LCR, evolving capital requirements and NSFR are examples of regulatory changes that have been implemented and continue to impact the business. In 2018 and beyond, Twin Peaks, deposit insurance, the Amended FSC and new Basel III requirements are some of the major new requirements that banks have to comply with.

### TWIN PEAKS

The market conduct function is addressing gaps in the existing consumer protection framework and how financial institutions conduct their business. Nedbank plans to adopt leading practice, with execution starting Q1 2018.

The implementation date of the financial sector regulations is still to be determined.

### DEPOSIT INSURANCE

A draft resolution framework was released, which includes the establishment of a Deposit Insurance Scheme in SA. No details are available and we await further clarification in 2018, but expect this to increase costs for large banks.

### 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 gradual phasing-in of the 72,5% floor, beginning at 50% in 2022. As these Basel III reforms has 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 and focuses more 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 continues to contribute to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy.

**Opportunities** Opportunities include implementing the regulatory requirements in a client-centred, integrated and synergistic manner to ensure these are important differentiators, having stronger bank balance sheets for weathering an economic downturn and being well positioned for growth as the economy improves.

Managing scarce resources to optimise economic outcomes

Being operationally excellent in all we do

For more details on our strategic focus areas and strategic enablers refer to pages 36 to 45.

**Risks** Risks include increasing regulatory demands impacting revenues, costs and capital, as well as the shape of bank balance sheets, additional compliance requirements and charges affecting clients, as banks attempt to recover some of the costs, a slowdown of loan growth across the industry due to pricing caps on personal loans, stricter credit scoring, resulting in certain clients no longer qualifying for loans, the implementation of new or amended governance, regulation and risk management adding to costs and employees' existing workloads and the Amended FSC placing increased and urgent pressure on the financial services sector to transform.

5 Regulatory and compliance risks 6 Conduct and culture risks

For more details on our top 10 risks refer to page 50.

Material matter

## Transformation of society within environmental constraints

**Globally we are facing massive economic, social and environmental challenges. Following a year in which drought, heatwaves, wildfires and floods were commonplace, it is not surprising that environmental risks, such as extreme weather, biodiversity loss and ecosystem collapse, major natural disasters, man-made environmental disasters, and failure of climate-change mitigation and adaptation, were ranked highly in terms of likelihood and impact in the latest World Economic Forum (WEF) Risk Report. It is, of course, the deep interconnectedness of these risks with human wellbeing that sees them posing systemic challenges to citizens across the world.**

Global trade has boosted growth and prosperity, but has also led to a concentration of wealth and degradation of the planet. The economy is a subset of the living world and we need to operate within planetary boundaries. Today we need 1,7 planets to meet human needs, and we have only one. The top 1% of individuals hold 50% of the world's wealth and the eight richest people have the same combined wealth as the poorest 50% in the world.

### TRANSFORMATION

Given this, the transformation imperative and continued progress to a more equitable representation of the SA economy and workforce remain top of the agenda in line with the National Development Plan. To date, transformation has led to a broader and growing middle-market segment and increasing uptake of financial products and services. However, not everyone has benefited, with unemployment rates remaining stubbornly high and inequality gaps being highlighted in 2017 by continued 'service-delivery protests'.

The 2018 WEF Risk Report suggests that the prospect of stronger economic growth in 2018 presents world leaders with a golden opportunity to address signs of severe weakness in many of the complex systems that underpin our world. However, this will require courageous leadership with a focus on creating long-term value creation and cooperation rather than a narrow pursuit of short-term results and competitiveness.

### SUSTAINABLE DEVELOPMENT GOALS

The UN SDGs represent an unprecedented roadmap for the transformation of society within environmental constraints. They set a common direction and ambition level for leaders with the objective of creating a thriving, more equitable society. The expectation is that business, alongside governments and civil society, will make a significant contribution towards achieving the goals. The SDGs also help to create a common platform for dialogue and cooperation between governments, business and other stakeholders.

For Nedbank the SDGs help to define the 'good' in our purpose, representing a crowd-sourced purchase order from the future, by which to orientate our strategy and identify how we can use our financial expertise to contribute positively to addressing the needs of individuals, businesses and society.

**Opportunities** It was estimated by the 2016 UN World Investment Report that the SDGs will offer new revenue streams and cost savings in excess of US $12 trillion annually by 2030. For developing countries this means investment opportunities of about US $2,5 trillion annually over and above the amount currently being invested as well as significant job creation. These opportunities largely exist within four critical subsystems: food and agriculture, cities, energy and materials, and health and wellbeing. Enlightened companies are putting the SDGs at the heart of their business growth strategies and using this to create an enduring competitive advantage.

Being operationally excellent in all we do

Managing scarce resources to optimise economic outcomes

**Risks** Risks encompass the impacts of climate change, which include more natural disasters and related costs to rebuild (or retrofit) infrastructures where required, increased energy costs, water shortage 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 will, amid growing social and political pressure, lead to certain industries becoming less viable, potentially resulting in job losses.

1 Business risk 4 Reputational risk

For more details on our top 10 risks refer to page 50.

For more details on our strategic focus areas and strategic enablers refer to pages 36 to 45.

Material matter

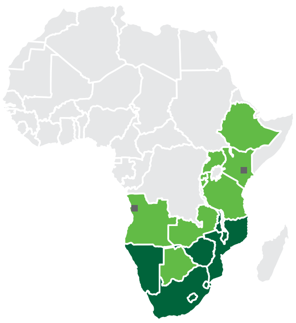
## Managing growth opportunities vs risks in the rest of Africa

**As GDP growth in SA remains muted, the rest of Africa provides a longer-term growth opportunity for Nedbank, albeit at a higher cost of capital and cost of risk, and requiring upfront investment. Our growing African client base and our SA clients entering the rest of Africa seek to benefit from one-stop financial services solutions.**

Shareholders, on the other hand, seek exposure to this higher-growth region through investment in well-managed SA banks that follow a risk-mitigated, capital-efficient approach.

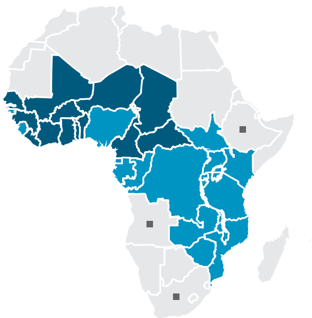
With Nedbank having strong, specialised skills and our complementary strategic partnerships through Ecobank, Deutsche Bank, Bank of China and Old Mutual, we are in a strong position to play a key role in funding and structuring infrastructure and capital-intensive projects, as well as leveraging incountry 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.

In the short to medium term banks operating in West Africa remain exposed to fragile, though improving economic conditions, particularly in Nigeria. For Nedbank this was evident in the financial performance of ETI as we reported our share of their losses in our 2016 and 2017 financial results. Looking forward, economic growth in Africa should improve, particularly in the key markets in which ETI operates, such as Nigeria, Ghana and Côte d'Ivoire.



**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

**Opportunities** The ongoing opportunity for us is to support our SA clients who continue to expand into faster-growing markets in the rest of Africa, by 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. For example, the integrated crossborder transfer solution recently launched through our Nedbank–Ecobank collaboration.

**Managing scarce resources to optimise economic outcomes**

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

**Risks** Risks include currency volatility, credit risk, market risk and economic challenges in some countries dampening the financial prospects of banks operating in Africa in the short to medium term, especially those in oil-exporting countries. Risks around our strategic partner, Ecobank, which is more directly exposed, remain top of mind, primarily as a result of the Nigerian economy just recovering from recession, although the outlook has improved.

**1 Business risk  2 Strategic and execution risks**

**4 Reputational risk**

For more details on our top 10 risks refer to page 50.

For more details on our strategic focus areas and strategic enablers refer to pages 36 to 45.

Material matter

## Scarce- and evolving-skills requirements

Banks are large employers in the financial services sector and we require highly skilled employees to deliver the services our clients expect. With these employees becoming more expensive to recruit, banks are increasingly recruiting and training staff from a broader talent pool and retaining them in new ways. We therefore need to invest in attracting, retaining and developing the skills we need to grow our businesses.

We are also acutely aware of the importance of a well-educated labour force for the country's success. SA's economy is plagued by very high levels of unemployment and, with only a relatively small percentage of people successfully completing their tertiary studies, we continue to struggle to produce graduates from a high proportion of secondary-level students. The pressure on the higher-education sector is being compounded by affordability concerns, which have led to mass protests on campuses throughout 2016 and 2017. Nedbank is committed to playing a positive role in addressing these problems and a groupwide task team was created in 2016 with the aim of developing a strategy for funding tertiary education through combining external and internal funding with innovative products and processes, such as crowd funding, securitisation and blended lending.

### SKILLS SHORTAGES

Skills shortages attributable to the poor outcomes of SA's educational system are a serious threat to economic progress. Skills retention and development are therefore crucial to improving our global competitiveness.

Playing our role in providing affordable financing, bursaries and education support through the Nedbank Foundation remains top of mind for us. We have a leadership position in transformation and we continue to place this high on our agenda, given our goal to stay at the forefront of transformation.

### SKILL REQUIREMENTS

The emergence of fintechs, cryptocurrencies, digital interaction, artificial intelligence and agile work environments has prompted a shift in focus to understanding the key skills financial services will require in the future to transform business. The world is rapidly moving towards digitally enabled products and services, with the increasing prominence of robotics, artificial intelligence and process automation, and it is anticipated that a number of skills currently required will evolve, new skills will emerge and some skills will completely disappear. Key future skills identified for financial services include skills in robotics process automation, user interface design (UI), user-experience design (UX), social media client services, digital innovation, cyber- or digital security, data security, data mining, predictive risk analytics and client experience management.

Our staff and corporate culture are key competitive advantages and differentiators. We measure staff entropy to understand the level of engagement within the group, while seeking to create a closer fit between the existing and ideal culture.

Expectations for large corporates, such as Nedbank, to offer and bare the costs of internships to previously unemployed youth as part of the Youth Employment Scheme (YES Initiative), agreed between leading CEOs and the government, are increasing with incentives to encourage this participation.

**Opportunities** Opportunities include continuing to attract the best skills, providing ongoing training and development of staff and skills to cater for a changing world, and support for business initiatives such as the SME Fund and educational programmes such as Partners for Possibility, to help build communities and Nedbank's brand.

Managing scarce resources to optimise economic outcomes

**Risks** Risks include high costs and the increasing disparity between the levels of skills available and those required for employment in financial services, along with higher levels of unemployment, growing social inequality and political instability driving loss of skills as people with high-quality skills emigrate.

2 Strategic and execution risks 7 Operational risk

For more details on our top 10 risks refer to page 50.

For more details on our strategic focus areas and strategic enablers refer to pages 36 to 45.

Material matter

## Changing relationships between business, government, labour and civil society


**Ongoing weak economic conditions, high levels of unemployment and events around the dismissal of Nhlanhla Nene late in 2015 spurred business, government, labour and civil society to work together to avert sovereign-credit-rating downgrades and increase levels of inclusive growth. Government, business and labour all understand the imperative to address these to ensure a better life for all.**

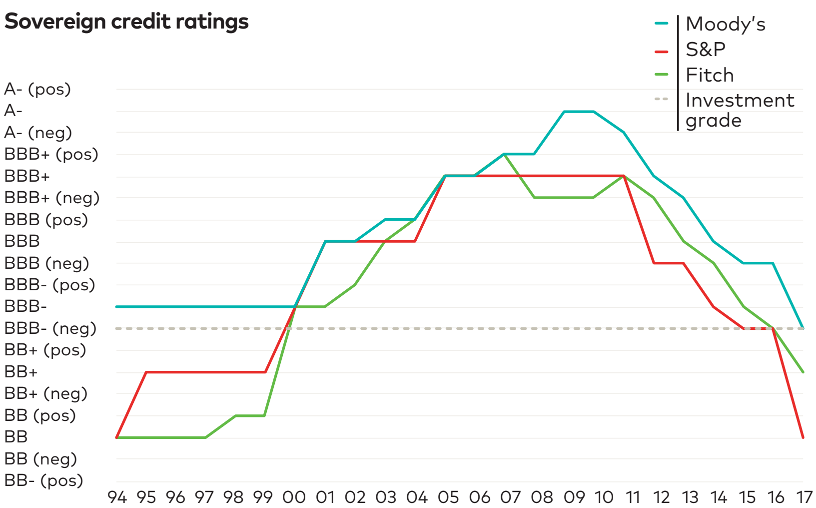
A knockon impact of further local sovereign-credit-rating downgrades will be felt most by the poor as inflation increases on the back of a weaker currency.

Working together towards a common goal, though, will assist the SA economy in reaching its full potential and reducing inequality and poverty.

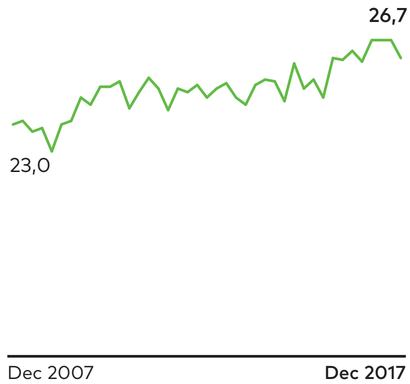
The value-adding outcomes to date include R1,5bn committed by the private sector for investment in small enterprises, a pledge by companies to offer internships to one million young work seekers, considerable investment in the Renewable Energy Independent Power Producer Procurement Programme that has led to 2 500 MW of energy generation, and the improvement of governance in some state-owned enterprises. Nedbank contributed R20m to the SA SME Fund and will participate in the youth employment scheme.

In addition, government has budgeted over R987bn for infrastructure development in terms of the medium-term expenditure framework.

**Sovereign credit ratings**




**SA unemployment rate**
(%)




**Opportunities** Opportunities include initiatives undertaken that drive inclusive and sustainable economic growth and 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.

Managing scarce resources to optimise economic outcomes

**Risks** Risks include positive momentum fading as political and policy uncertainty stifles collaboration efforts and possibly triggers another sovereign-credit-rating downgrade.

1 Business risk 2 Strategic and execution risks

4 Reputational risk 5 Regulatory and compliance risks

For more details on our top 10 risks refer to page 50.

For more details on our strategic focus areas and strategic enablers refer to pages 36 to 45.

# OUR STRATEGIC FOCUS AREAS AND ENABLERS

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 and delivery on our 2020 targets. These strategic focus areas are underpinned by strategic enablers, which are catalysts for achieving our 2020 targets.

**DELIVERING INNOVATIVE MARKET-LEADING CLIENT EXPERIENCES**

| | | | |
|---|---|---|---|
| MANAGING SCARCE RESOURCES TO OPTIMISE ECONOMIC OUTCOMES | PROVIDING OUR CLIENTS WITH ACCESS TO THE BEST FINANCIAL SERVICES NETWORK IN AFRICA | GROWING OUR TRANSACTIONAL BANKING FRANCHISE FASTER THAN THE MARKET | BEING OPERATIONALLY EXCELLENT IN ALL WE DO |

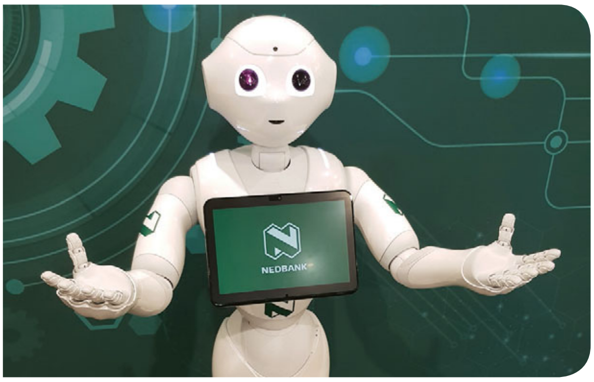
### OUR STRATEGIC ENABLERS

- **Target Operating Model** – Creating a future-fit organisation by evolving our business model and capabilities, as well as delivering benefits of R1bn by 2019 and R1,2bn by 2020.
- **People 2020** – Transforming our leadership, culture and talent capability to become more commercially savvy, agile, productive and innovative.
- **Brand 2020** – Building a distinctive brand to support our strategic initiatives.
- **Managed Evolution and Digital Fast Lane** – Driving innovative technology transformation, thereby creating an agile digital platform to become more competitive.
- **Governance and regulatory change** – Leveraging risk management to be a strategic and competitive differentiator.
- **Fair Share 2030** – Guiding the creation of financial solutions that deliver on Nedbank's purpose.
- **Leading transformation** – Actively promoting a globally competitive financial sector while creating a more equitable society.

Our strategy is primarily aimed at creating value for all our stakeholders and is defined by our five key strategic focus areas of:

**Strategic focus area**

## 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, bringing new digital offerings quicker to market, and lowering the cost to serve as well as the overall cost base by reducing branch sizes and ancillary costs.

Our strategy is to become a more digital, more competitive and more agile bank. In 2010 we embarked on what we termed a Managed Evolution approach to transform and digitise our core IT systems over time. This is core to delivering innovative, market-leading client experiences while ensuring we remain at the forefront of cyberresilience. We have studied many banks across the world and concluded that this is the most cost-effective and efficient approach to core systems replacement.

In this approach we select the applications best suited for a given purpose and connect them using service-oriented architecture, as we do not believe that any one vendor can provide worldclass solutions across all products and applications.

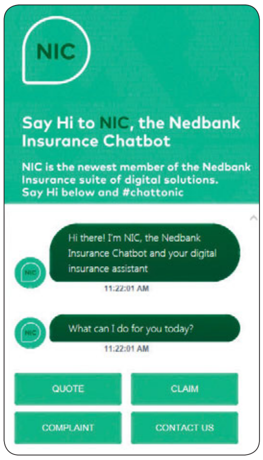
In addition to the foundations of Managed Evolution, we have launched a Digital Fast Lane (DFL) capability to accelerate the launch of innovative products.

**Reflecting on 2017 and looking ahead**

- As part of our Managed Evolution journey, we continue to rationalise, standardise and simplify our large IT systems and have reduced our core systems from 251 in 2010 to 129 with the aim of having fewer than 60 by 2020. The emphasis in 2017 was on integrating the foundational capabilities built in 2015 and 2016 into our onboarding and servicing programmes, while continuing to meet the prevailing regulatory challenges through the enhancement of our payment, anti-money-laundering and data capabilities.
- The DFL is infusing innovation capability into our existing DNA by providing us with increased speed to market, high-velocity client feedback and improved commercialisation capability. Some of the innovations launched through this capability are discussed on the following page as well as on page 65. Looking forward, we will continue to focus on disruptive new-to-market innovations, embracing new technologies and new ways of working with new partners, and novel go-to-market strategies.
- We have proactively enabled 5,8 million clients to do their banking on our digital channels and are now focusing on increasing active use (currently 890 539 clients) as we enhance functionality and ease of use. Benefits of increasing self-service devices are illustrated in the increasing volumes of cash being handled by Intelligent Depositor devices, now at 48% from 23% in 2015.
- We remain focused on transforming our clients' digital experience and processes, and aim to have digitised the top 10 retail products by 2020. Our outlets are also becoming more digital, with 55% converted to the new format and an aim to have converted 73% by 2020. NZone, our first digital-only self-service outlet, was launched in Sandton during the second half of 2017.
- In early 2017 we relaunched our brand. Our 'see money differently' brand positioning has already reaped rewards and the road ahead promises to deliver more.

Strategic focus area

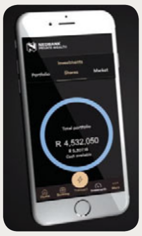
# Delivering innovative market-leading client experiences (continued)




## RECENT VALUE-ENHANCING INNOVATIONS

### Enhancing client access through digital offerings

#### NEDBANK PRIVATE WEALTH APP



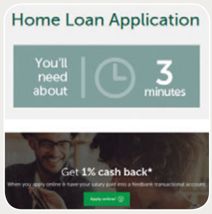
**Rated one of the best high-net-worth apps globally**

- Best-in-class client experience and full financial suite of digital services.
- Independently rated top SA high-net-worth banking app and sixth best globally.[1]
- Providing international and local consolidated view of assets and liabilities.

[1] *Rated sixth out of 34 apps globally in the Mobile Apps for Wealth Management 2017 survey.*

#### CHATBOTS

- NIC, a pioneering digital insurance assistant.
- EVA, asset management chatbot that allows simple transactions 24/7.




#### ONLINE HOME LOAN APPLICATION PROCESS

**Unique in market**

- End-to-end process at leading industry turnaround times.
- Quick quote in three minutes and bond quote in three hours.
- 12% of all new applications.
- Unique 1% cashback (up to R15 000).

### Value for clients through unique CVPs

#### MARKET EDGE

**Unique in market**

- Leveraging big data for client benefit.
- Best Analytics Product in Africa award.
- Inclusion in MIT best-practice case study.

Nedbank MARKETEDGE™

#### SOLAR TURTLE BRANCHES

**Unique in market**

- Energy-efficient e-banking services.
- Rural-community access to cashless banking, personal loans and digital-payment solutions.
- Community upliftment by mobile service provider owned by the community.
- Economic upliftment through access to cash and banking services.

#### DIGITAL BRANCH

**Leading in digital outlets**

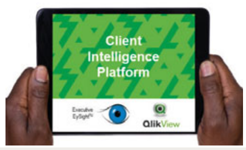
- Launch of first digital, entirely self-service branch at Gautrain station (September 2017).
- Offering Intelligent Depositor device, video banking, quick-chat banking, self-service kiosks, virtual reality, grab-and-learn wall and facial recognition.

#### UNLOCKED.ME

**A banking first**


- A platform allowing consumers to unlock their lifestyle, potential and money.
- Our first lifestyle marketplace, designed with our clients in mind, presenting unique experiences sure to thrill our youth target audience.

### Improved decisionmaking and operational efficiencies




#### ROBOTICS AND ARTIFICIAL INTELLIGENCE

**First implementations delivering benefits**

- Implementation of 50 software robots to date, with error rates reduced by up to 96%.
- Implementation of more than 200 software robots by the end of 2018.
- Nedgroup Investments launched a market-leading robo-advisor.

#### EXECUTIVE EYSIGHT™

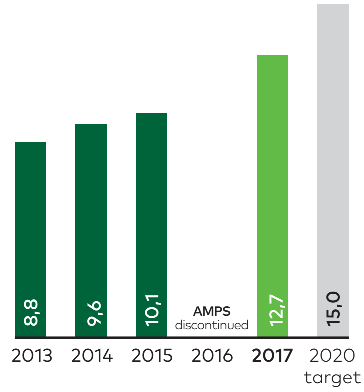
**Cross-sell and client-servicing benefits**

- Real-time CIB client and management information insight, including:
  - Client cross- and up-sell opportunities.
  - Client and business profitability.
  - Continuous enhancements lending to management insights and predictive analytics.
- Launch of similar capability in RBB through the Epic™ tool.

Strategic focus area

## Growing our transactional banking franchise faster than the market

Nedbank retail main-banked market share (%)




### 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 increases. Our strategy starts by growing and retaining our clients, and deepening our share of wallet by converting new and existing clients into main-banked and transactional banking clients. This is why creating market-leading client experiences is so important. Nedbank has built a track record of delivering on this strategic focus area, growing NIR at or above the SA industry average over an extended period. The exception was in 2014, when we deliberately kept our bank fees at 2013 levels and reduced fees for small and medium enterprises as well as business banking clients.

**Reflecting on 2017 and looking ahead**

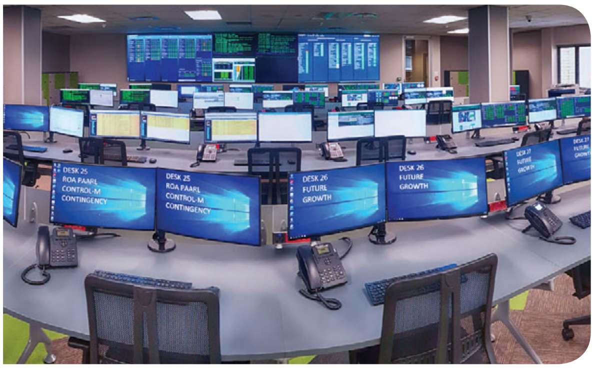
- In our retail business growing our transactional banking franchise is a major focus. Over the past five years we have succeeded in consistently growing our client base despite increasing competition and new entrants. Looking forward, market research suggests that the number of banked consumers in SA 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, 6,0 million have some form of transactional product with Nedbank. Of these only 27% have another product, which means there is still significant opportunity for cross-sell. In terms of our strict definition of main-banked clients we have 2,8 million clients who regularly bank with us. This is flat on 2016 as some clients fell out of our main-banked definition given lower transactional activity as a result of economic pressures. We believe that our market-leading client innovations will continue to support client growth. The new Consulta survey measuring main-banked clients, estimates our share of main-banked clients to be 12,7%, up from the previous 9% recorded in the 2013 AMPS survey. We are targeting an increase in our main-banked market share to more than 15% by 2020.
- While we remain a bank for all, we will continue to focus on the youth and entry-level banking (ELB) segments, which we aim to target leveraging digital while ensuring effective migration to a rising middle market, where we focus on retention and on deepening the relationship through cross-sell. The rising middle market has the highest economic potential, greater propensity to switch and the fastest growth rate among the retail segments.
- In CIB we have won major transactional accounts over the past few years, including major private sector and municipal transactional banking accounts. CIB has gained 26 new primary clients in 2017 – these provide a valuable underpin to ongoing NIR growth. We intend to grow our transactional banking share by improving client coverage and deeper client penetration, enabled by improved client data and business analytics, an integrated corporate and investment bank and our strategic partnerships with Ecobank, Deutsche Bank and the Bank of China. In 2017 we concluded a cooperation agreement with Deutsche Bank as our preferred partner in equity and debt capital markets. The cooperation is intended to combine Deutsche Bank's leading SA equities and global capital markets distribution platform with Nedbank CIB's leading local primary markets expertise and strong client franchise in both the corporate and public sectors in SA and, in time, select markets in sub-Saharan Africa. In CIB our NIR-to-advances ratio, a key indicator of cross-sell and ability to leverage our strong balance sheet to grow NIR, decreased from a high base in 2016 to 2,0%, due to macroeconomic headwinds which negatively impacted NIR, with a target of > 2,0%, which provides scope for further growth.

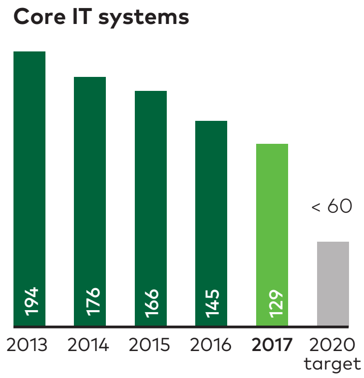
For more details on how Nedbank created value for clients refer to page 65.

See our performance and targets on pages 44 and 45.

Strategic focus area

## Being operationally excellent in all we do






'Being operationally excellent in all we do' ensures that we invest sustainably in the franchise to unlock future growth potential while managing our cost base through the delivery of synergies and efficiencies.

Over the past few years we have invested significantly in the franchise to support long-term growth. However, through ongoing efficiencies we have been able to maintain expenses growth in line with that of our peers. Some of the investments we have made over the past five years include investment in our distribution channels, completing key foundation projects as part of the Managed Evolution strategy and investing in digital and core systems as well as in regulatory compliance.

We are evolving our physical distribution to become more technology and digitally focused, while we are optimising our footprint. Our number of physical points of presence compares well with those of our peers and we have reduced overlap in some geographic areas and where previous standalone outlets have been integrated into our branch network, such as personal-loan branches.

**Reflecting on 2017 and looking ahead**

- In an increasingly tough economic environment we focus on optimising cost savings and have identified key business areas for reducing our efficiency ratios, namely RBB and RoA (targets shown on pages 46 and 47), to assist the group in meeting its ≤ 53% target by 2020.
- Good progress has also been made with our Target Operating Model (TOM) initiatives, which aim to generate R1,0bn pretax benefits for Nedbank by 2019 (and R1,2bn by 2020) and are linked to our long-term incentive scheme. Most cost-scaling initiatives in 2017 were identified in RBB and we delivered savings of R621m, of which TOM-related run-rate savings were R238m. These initiatives are linked to the investment we are making on the RBB digital journey and include credit process optimisation and simplification, sales and service optimisation in our outlets, the use of more digital channels, optimisation of our middle office and self-service and video banking. Some highlights include:
  - We reduced headcount by 859 (mostly through natural attrition), optimised our staffed points of presence by closing 52 Pick n Pay kiosks and 32 personal-loan outlets (while maintaining our coverage of the bankable population at 84%) and achieved efficiencies by recycling cash through our increased footprint of Intelligent Depositor devices during the year.
  - Four client-servicing functions, previously accessible only through branches, were launched together with the new Nedbank Money app during Q4 2017 and a total of 33 are planned for deployment across our digital channels in the first half of 2018.
  - We implemented 50 software robots (robotic process automation) to enhance efficiencies and reduce processing errors in administrative-intense processes, with more than 200 planned to be rolled out in 2018.
  - We continued to roll out our new-format outlets and reduced floor space, with a targeted reduction of more than 30 000 $m^2$ by 2020, in addition to optimising processes that require less human intervention. To date we have reduced floor space by just over 24 000 $m^2$.
- We worked with our sister companies in the Old Mutual Group to deliver synergies just in excess of R1bn, of which R393m accrued to Nedbank.

For more details on how Nedbank created value for clients refer to page 65.

See our performance and targets on pages 44 and 45.

Strategic focus area

## 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 and internally referred to as economic profit.

### Reflecting on 2017 and looking ahead

- On the previous pages we illustrated our primary focus of growing our transactional revenues and how this has supported market share gains in key deposit categories. 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, we are now growing in line with the market, while growing vehicle finance, where we have a competitive advantage, and card, 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 second-hand and lower-value vehicle segments.
- Corporate credit growth has slowed, given the external environment, but pipelines remain solid. As business confidence improves, we should see stronger growth in years to come.
- Notwithstanding our share of the Q4 2016 loss from ETI, our ROE (excluding goodwill) remained broadly flat and we should see continued ROE improvement towards 2020.

### MARKET SHARE OF KEY LENDING AND DEPOSIT-TAKING ACTIVITIES IN SA*

(%, yoy trend)

| | Nedbank | | FirstRand | | Barclays Africa | | Standard Bank | | Other |
|---|---|---|---|---|---|---|---|---|---|
| Home loans | **14,5** | — | 20,2 | ↑ | 23,7 | ↓ | 34,3 | ↓ | 7,2 |
| Vehicle finance | **34,7** | ↑ | 33,4 | ↓ | 18,7 | ↓ | 11,6 | ↓ | 1,6 |
| Credit cards | **14,0** | ↑ | 23,8 | ↑ | 27,1 | ↓ | 27,3 | ↓ | 7,8 |
| Personal loans | **10,3** | — | 21,7 | ↓ | 10,7 | ↑ | 17,7 | ↓ | 39,6 |
| Core corporate loans[1] | **21,0** | ↓ | 21,4 | ↑ | 19,6 | ↑ | 20,7 | ↓ | 17,3 |
| Commercial mortgage loans | **40,5** | ↓ | 6,1 | ↑ | 12,6 | ↑ | 18,7 | ↓ | 22,2 |
| Household deposits | **18,9** | ↑ | 21,2 | — | 21,3 | ↓ | 19,5 | ↑ | 19,1 |
| Non-financial corporate deposits[2] | **16,5** | ↑ | 23,6 | ↑ | 16,7 | ↓ | 29,1 | ↓ | 14,1 |

* *Source: SARB BA900 at 31 December 2017.*

[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

| | |
|---|---|
| **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

For more details on how Nedbank created value for clients refer to page 65.

See our performance and targets on pages 44 and 45.

# OUR STRATEGIC FOCUS AREAS AND ENABLERS
(continued)

Strategic focus area

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

'Providing our clients with access to the best financial services network in Africa' aims to drive 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 two-pronged strategy for growth in the rest of Africa.

- In the SADC and East Africa – countries more integrated with SA – we want to own, manage and control banks. We now have a presence in six countries after acquiring a controlling stake in Banco Único that operates in Mozambique.
- In Central and West Africa – countries further away from SA where we do not have a competitive advantage as Nedbank – we have an alliance with Ecobank, which provides our clients with access to markets in which we do not have a presence, particularly in Central and West Africa where Ecobank has a top-3 position in 14 countries. Our alliance is underpinned by a commercial relationship in terms of which we are actively working to unlock cross-border transactions and build a deal pipeline by leveraging our individual strengths.

### Reflecting on 2017 and looking ahead

- In the SADC we continue to build scale and optimise costs. Our core banking system, Flexcube, was successfully rolled out in Namibia in 2016 and was also rolled out in Lesotho, Malawi and Swaziland in 2017, and we plan to implement in Zimbabwe during 2018. In addition, we have launched a number of new digital products whilst limiting growth in our physical footprint as we invest in our digital offering. As a result, clients increased 14% and online digital activations were up 22%. The acquisition of a majority stake in Banco Único in 2016 continued to deliver value and positioned Nedbank well to leverage off higher economic growth in Mozambique. In 2018 we will rebrand MBCA in Zimbabwe to Nedbank at the same time as we complete the last of our core banking system implementations in our subsidiaries.
- Ecobank has been through a challenging period over the past two years following depressed oil prices, the naira devaluation and the recession in Nigeria. Pleasingly, while risks remain, it does appear as if the worst is now behind the bank, and we note that its 2017 interim results have been audited, which should give investors comfort that the risk of another fourth-quarter loss has decreased. We are working very closely with ETI's management and board to improve returns. The share price of ETI was up 65% in 2017, albeit in thinly traded markets.
- Collaboration is increasing and we have recently integrated our payment solutions into Ecobank's market-leading remittance product that has been launched in over 30 countries. This enables Nedbank to provide a low-cost, fast and convenient solution to 2,7 million African migrants and capture a share of the R14bn–R19bn remittance market.
- We have also increased our representation on the ETI board with Mfundo Nkuhlu our Chief Operating Officer newly appointed as Chair of the Risk Committee, now complemented by Brian Kennedy, Managing Executive for CIB, who has joined the Audit and Remuneration Committees.
- After a disappointing start, we believe our investment in ETI will be a meaningful contributor to Nedbank's growth over the next few years.

Case in point

### Collaborating with ETI

**OPPORTUNITY** → **ACCESS AND DISTRIBUTION** → **DIFFERENTIATION[1]**

**OPPORTUNITY**

**2,7 million**
African migrants

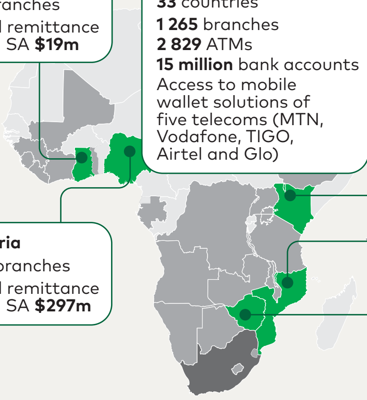
**R14–19bn**
Market size: Remittance value SA – RoA

**25%**
Mobile/Digital channels internationally

**60%**
International cash transfers

**5%**
Traditional banking channels internationally

**ACCESS AND DISTRIBUTION**



**Ghana**
**77** branches
Total remittance from SA **$19m**

**Ecobank**
**33** countries
**1 265** branches
**2 829** ATMs
**15 million** bank accounts
Access to mobile wallet solutions of five telecoms (MTN, Vodafone, TIGO, Airtel and Glo)

**Kenya**
**21** branches
Total remittance from SA **$45m**

**Mozambique**
**14** branches
Total remittance from SA **$187m**

**Nigeria**
**410** branches
Total remittance from SA **$297m**

**Zimbabwe**
**9** branches
Total remittance from SA **$788m**

**DIFFERENTIATION[1]**

**Cheap**
Lowest cost to client in the industry (no third parties).

**Quick**
Instant cross-border transfer – subject to regulatory and compliance checks (other solutions 10 min to two days).

**Easy**
Usage across all channels – initially account to account, mobile app and website. Moving to wallet, USSD, ATM, branches, etc.

**Available in 33 countries**

**24 hours** – initially business operating hours, moving to 24/7.

[1] *Key competing products include Mukuru, hello (PAISA), Western Union (BGA), MoneyGram (FNB and Standard Bank).*

# OUR STRATEGIC ENABLERS

Our strategic enablers, introduced as part of our strategic planning in 2016, are enterprise initiatives that enable us to deliver on our strategic focus areas, goals and targets by changing the way we operate. Many of these are closely related to the capitals defined by the International Integrated Reporting Council (IIRC). The following enterprise initiatives have become catalysts in achieving our stretch targets. During 2017 the following progress was made:

## TARGET OPERATING MODEL

We are creating a future-fit organisation by evolving our business model and capabilities to be more competitive, agile and digital. Key achievements include landing our first innovations through the DFL and implementing New Ways of Work. We also made progress by achieving R238m of efficiencies in the first year of implementation as we target to unlock R1bn of benefits by 2019 and R1,2bn by 2020.

**People 2020** has been set in motion to enable and empower Nedbank employees by facilitating culture, leadership and talent shifts. Through these efforts our employee experience and people practices are evolving. In 2017 we launched New Ways of Work. We currently have about 500 people across the bank working in this new fashion and aim to scale this to more than 4 000 during 2018.

**Managed Evolution and Digital Fast Lane** saw significant progress as we bedded down the core thrusts of the Managed Evolution and DFL technology strategies. We integrated the foundational capabilities built in 2015 and 2016 into our onboarding and servicing programmes which enabled the launch of the Nedbank Money app, robotics process automation going live across multiple divisions as well as the delivery and launch of the first deep-rural branch (Solar Turtle).

**Leading transformation** supports both our national strategic priorities and our own purpose of using financial expertise to do good for all stakeholders in SA. Our goal is to build a bank that contributes meaningfully to a better life for all South Africans. March 2017 marked an important milestone as the Standing Committee on Finance and the Portfolio Committee on Trade and Industry held joint public hearings on the transformation of the financial sector, with the focus on the deracialisation of the sector and progress with the implementation of the FSC. Nedbank welcomed the opportunity to engage on this matter of national importance. On 23 March 2017 Mike Brown, Group Chief Executive, led a Nedbank team to Parliament and presented the Nedbank transformation journey to these committees.

**Brand 2020** saw the launch of Nedbank's new brand positioning, 'see money differently'. This paved the way for more innovative work as demonstrated by the award-winning campaign that was created to launch it. Our journey of reinvention and rediscovery was further brought to life by our thought-provoking CIB campaign that captured people's imaginations. We then upped the ante with our new retail repositioning campaign, which beautifully illustrated how people don't live for money, but know that it gets them the things that they love. Our 'see money differently' brand positioning has already reaped rewards and the road ahead promises to deliver more.

**Governance and regulatory change** adopts a business-led approach that creates a competitive advantage by placing the client at the heart of the extensive regulatory change and governance agenda. The client is made a strategic focus area through the introduction of new systems, processes, people and practices, as well as mind-set and culture changes. This ensures a streamlined delivery of regulatory programmes to achieve compliance with requirements and alignment with business and strategy.

**Fair Share 2030**, launched in 2015 as a key enabler, has enjoyed initial success in guiding our product development and innovation, by ensuring that we focus on identifying and capitalising on finance opportunities that may have a positive and deliberate economic, social and environmental impact.

This success was evidenced by the R5,3bn of lending that was undertaken from 2015 to 2017, providing much-needed student accommodation across the country and supporting the rollout of additional embedded energy installations. Moving into 2018 our approach has shifted to focus on the most material SDGs and related targets to guide our sustainable development activities. To enable this shift a sustainable development baseline assessment was done that gives a comprehensive view of our business activities aligned with the SDGs. Going forward we will be setting ambitious new targets for Sustainable Development Finance. This will ensure that we leverage the experience gained through Fair Share 2030 to innovate and capture winning positions in new markets and drive sustainable business growth and value for all stakeholders by contributing our fair share to support the delivery of the SDGs and the fulfilment of our purpose.

## STRATEGIC FOCUS AREA KEY PERFORMANCE INDICATORS – PROGRESS AND OUTLOOK

| Key performance indicators | How does it link to value creation? | Year-on-year change |
|---|---|---|
| **Delivering innovative market-leading client experiences** | | |
| Digitally enabled clients[2] | Giving clients access to convenient digital channels and products. | ▲ |
| Digitally active clients[2] | Enabling more entrenched clients and more cost-efficient channels. | ▲ |
| Core IT systems | Reducing complexity and enabling digitisation of IT systems in a risk-mitigated and cost-efficient manner. | ▼ |
| New-format outlets (branches) as % of total | Greater efficiency of innovative, technology-enabled outlets. | ▲ |
| Brand value ranking in SA (rank #) | Enhancing client awareness, association and loyalty. | ▼ |
| **Growing our transactional banking franchise faster than the market** | | |
| Retail main-banked clients | Driver of revenue growth. | ► |
| Market share | | ▲ |
| Household deposit market share | An attractive source of funding in a Basel III world. | ▲ |
| Non-financial corporate deposits market share | | ▲ |
| CIB NIR-to-advances ratio | Leveraging our strong position in lending to grow NIR. | ▼ |
| NIR-to-expenses ratio | Extent to which NIR covers expenses. | ▼ |
| **Being operationally excellent in all we do** | | |
| Branch floor space optimisation | Cost savings through smaller, more efficient branches. | ▲ |
| OM collaboration savings | Synergies through arm's-length commercial benefits. | ▲ |
| Target Operating Model | Improved efficiencies. | ▲ |
| Efficiency ratio | Key driver of ongoing sustainable profitability. | ▲ |
| **Managing scarce resources to optimise economic outcomes** | | |
| Economic profit | Profit generated after adjusting for the expected returns from investors (cost of capital). | ▲ |
| ROE, excluding goodwill | Returns shareholders receive on their capital (adjusted for goodwill for comparability with peers who wrote off goodwill before IFRS changes). | ▼ |
| **Providing our clients with access to the best financial services network in Africa** | | |
| *SADC and East Africa* | | |
| Number of clients | Client gains support revenue growth. | ▲ |
| Country presence (subsidiaries, representative offices and through ETI) | Client access to jurisdictions across Africa. | ► |
| *Central and West Africa* | | |
| Corporate and Business Banking clients doing their transactional banking with Ecobank | Servicing and protecting our client relationships. | ▲ |
| Financing deals with ETI | Financing opportunities with Ecobank involvement. | ► |

*[1] Peer average consists of the simple average of Barclays Africa, FirstRand and Standard Bank.*

*[2] Digitally enabled and active clients have been restated to include number of unique 'open status' retail clients that have used (or at least logged in to) a digital channel [online, Intelligent Depositor devices, app, unstructured supplementary service data (USSD) and SST] within the past three months.*

*[3] Nedbank's peers report ROE on a normalised basis.*

**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.*

FS — *Financial information extracted from the 2017 Nedbank Group Limited Audited Annual Financial Statements.*

| | 2017 | 2016 | 2015 | Benchmark/ Peer average[1] | Outlook/Target | Assurance |
|---|---|---|---|---|---|---|
| | **5,78 million** | 5,34 million | 3,35 million | N/A | Continue to increase digital enablement actively | MO LA |
| | **891 000** | 852 000 | 823 000 | N/A | Continued strong growth as digitally enabled clients start using new innovative digital products | MO LA |
| | **129** | 145 | 166 | N/A | Reduce to < 60 by 2020 | MO |
| | **55%** | 44% | 36% | N/A | 73% of total outlets converted by 2020 | MO |
| | **10th** | 8th | 8th | 3rd to 9th overall | Top 2 bank brand by 2020 | IN (Source: Brand Finance) |
| | **2,8 million** | 2,8 million | 2,7 million | N/A | Increase in line with our market share | MO |
| | **12,7%** | AMPS not done in 2016 | 10% | 18,3 | > 15% by 2020 | MO LA IN (Source: AMPS 2015, Consulta 2017) |
| | **19,0%** | 18,7% | 18,4% | 20,2 (peer average) | > 19% by 2020 | IN (Source: SARB BA900) |
| | **16,5%** | 16,3% | 16,2% | 21,5 (peer average) | > 18% by 2020 | IN (Source: SARB BA900) |
| | **2,0%** | 2,1% | 2,0% | N/A | > 2% in the medium to long term | MO |
| | **80,7%** | 82,9% | 83,3% | 77,81% (peer average) | > 85% in the medium to long term | FS |
| | **24 485 $m^2$** | 18 743 $m^2$ | 13 695 $m^2$ | N/A | Reduction of > 30 000 $m^2$ by 2020 | MO |
| | **R393m** | R276m | R112m | N/A | Initiative completed in 2017, but synergies remain. | MO |
| | **R238m** | N/A | N/A | N/A | R1,0bn by 2019 and R1,2bn by 2020 | MO |
| | **58,6%** | 56,9% | 56,1% | 54,73% (peer average) | ≤ 53% by 2020 | MO |
| | **R1 695m** | R1 565m | R2 525m | N/A | Positive economic profit growth | MO |
| | **16,4%** | 16,5% | 17,0% | 18,67% (peer average)[3] | ≥ 18% by 2020 | MO |
| | **> 335 000** | 295 000 | 275 000 | N/A | Increase over time | MO |
| | **8 (39 through ETI across Africa)** | 8 | 7 | 12 across Africa (peer average) | Increase over time to 10 | MO |
| | **85** | 82 | 74 | N/A | Increase over time | MO |
| | 0 | 0 | 3 | N/A | Increase over time | MO |

# DELIVERING OUR STRATEGY THROUGH OUR BUSINESS CLUSTERS

Key strategies aligned to group strategic focus areas

## Nedbank Corporate and Investment Banking

Continuing to provide attractive returns through targeted growth opportunities as we leverage our integrated CIB model, underpinned by a low-cost model and sound risk profile:

## Nedbank Retail and Business Banking

Increasing ROE through a digitally transformed business that delivers delightful client experiences, simpler processes and cost-effective operations, enabled by:

## Nedbank Wealth

High growth potential, high-ROE business, contributing significantly to group economic profit. Leverage growth opportunities through:

## Rest of Africa

Capitalising on opportunities in higher-growth markets through a sensible expansion approach (risk-mitigated, capital-efficient) and improving returns to above COE, and 20% in the longer term:

In order to meet our group targets, our business clusters have set the following targets. For more details about our group targets refer to page 15.

- **Renewed optimism** in the country hopefully leading to an increase in SA corporate investment.
- **Good pipeline** that is expected to convert as business confidence improves.
- Leveraging off **strategic partners** to benefit clients on the continent and globally.
- **Continued focus on people** with a shift towards digital talent.
- Committed R35bn overall to **renewable-energy finance**, with R18,4bn disbursed to date.

**2020 targets**

**ROE ≥ 20%** – maintain strong returns.

**Efficiency ratio ≤ 40%** – leverage technology to retain industry-leading efficiency ratio.

- Growing transactional clients faster than the market through a focus on acquisition, retention and cross-sell, enabled by:
  - **Digital First, First in Digital** – accelerate digitisation of key client journeys and services to make it simple and easy for clients to transact with us.
  - **Disruptive CVPs** – accelerate financial inclusivity of our banking propositions, and find ways to reduce transacting costs for our clients and tap into ecosystem-based propositions.
  - **Sales and service excellence** – continue to innovate and roll out digital branches to enable clients to migrate to digital channels and empower our staff with digital tools to serve clients.
  - **Loyalty and rewards** – deliver new differentiated loyalty and rewards programmes.

**2020 targets**

**ROE ≥ 20%** – ongoing improvement, underpinned by lower efficiency ratio and relative CLR outperformance through the cycle.

**Efficiency ratio ≤ 58%** – enabled by improved client experience, transactional market share gains, continued quality origination and operational efficiencies.

- **Enhancing CVPs** through accelerated digital innovation, investment in systems and brand positioning.
- **Delivering long-term investment performance** and driving market share growth.
- **Exploring new opportunities for growth** and deepening group collaboration.

**2020 targets**

**ROE ≥ 30%** – benefiting from high economic profit businesses.

**Efficiency ratio ≤ 60%** – driven by stronger revenue growth.

**SADC**

- Create shared value from investments and reposition the business for the digital age through improved client experience and data analytics; work with partners to accelerate digital capabilities; and implement a regional talent management programme and enhanced risk management.

**ETI**

- Shareholders are supportive of the strategic agenda to increase ETI's ROE to greater than its COE.
- **Leveraging the investment in ETI** by capitalising on:
  - improved growth prospects across the region, especially West Africa; and
  - opportunities for greater collaboration.

**2020 targets**

**ROE ≥ COE[1]** – ongoing improvements supported by investment in digital solutions and leveraging our investment in ETI.

**Efficiency ratio ≤ 60%** – creating scale from investments and cost optimisation.

[1] *COE approximately 16% .*

# MANAGING RISK STRATEGICALLY

Nedbank recognises that a more strategic approach to business and risk management is essential in an environment in which the impact and speed of change are unprecedented.

Risk management is fundamental to Nedbank's strategy and the business of banking. In 2017 the continued evolution of risk management into smarter, practical, digitised and efficient practices gave us a relevant and competitive business advantage in an ever-shifting internal and external environment. Our top 10 risks, risk strategy and risk appetite are integrated in the bank's business strategy, processes and operations.

A major component of vision and strategy is becoming more agile. Nedbank's strategy has undergone various amendments in response to the shifting environment, with risk management also strategically geared towards enhanced digitisation and agility in a way that aims to differentiate the group from competitors.

Nedbank's risk management practise is informed by, among others, the new operating context as discussed in our material matters on pages 28 to 35.

## RISK APPETITE

A prudent and conservative risk appetite focused on the core activities of banking has matured well over a number of years. Our Risk Appetite Framework (RAF) ensures that the risk profile of the bank is known and assessed against established targets and limits.

## RISK STRATEGY

Risk management in Nedbank is aligned with Nedbank's DFL adopting a two-pronged approach towards digitisation in risk management:

- **Risk management and compliance requirements affecting clients are being digitised, ensuring smoother and more efficient experiences for clients.**
- **Our day-to-day risk, compliance and internal audit management processes are also being digitised, ensuring smarter, more agile and intelligence-driven outputs.**

By leveraging the regulatory change agenda, we are transforming risk management across Nedbank to differentiate ourselves from competitors.

## RISK CULTURE

Risk management is ingrained in the Nedbank culture. Proactive and well-established risk management practices ensure that appropriate levels of capital and resources are allocated, with appropriate levels of focus.

As risk managers our focus is shifting from a historical monitoring role to playing an enhanced strategic/advisory role, ensuring smarter business balanced by appropriate governance and risk tolerance, which is in line with the bank's People 2020 initiative.

## ENTERPRISEWIDE RISK MANAGEMENT FRAMEWORK

Risk management across Nedbank remains dynamic through the escalation of risks and issues through our Enterprisewide Risk Management Framework (ERMF). Our ERMF remains robust, resilient and agile to respond to the current operating environment appropriately.

In line with the evolution of the bank's journey Nedbank's RAF was refreshed in 2017, with enhancements to address non-financial risk types (eg financial crime, AML, cyber- and reputational risks), ensuring further proactive risk management in this new playing field. All core risk appetite metrics are currently within risk appetite and are forecast to stay within risk appetite over the 2018–2020 planning period.

**Active management and update of our Key Issues Control Log (KICL) promote a sound risk culture and facilitate timely identification and escalation of risks and issues to appropriate levels.**

### TRADITIONAL RISKS

The traditional risk types associated with a bank are mature and embedded, with risk management in excellent shape:

- Credit risk
- Operational risk
- Market risk
- Liquidity risk
- Capital risk

## EVOLUTION IN TIMES OF unprecedented change

### NEW C-SUITE RISKS

The newer C-suite risks require us to be on high alert, and an extraordinary level of effort and focus to mature these to the levels of the traditional risks.

- **Client/ Competitor risk** (competition from non-traditional sources)
- **Change risk** (due to the unprecedented rate and level of change, including climate risk, geopolitical risk and the fourth industrial revolution)
- **Cyberrisk** (cyberrisk is on the increase globally)
- **Conduct and culture risk** (moving beyond compliance)
- **Criminality risk** (increasingly sophisticated)

| | Nedbank's top 10 risks | Yoy change |
|---|---|---|
| 1 | Business risk | ▼ |
| 2 | Strategic and execution risks | ► |
| 3 | Cyberrisk | ▲ |
| 4 | Reputational risk | ► |
| 5 | Regulatory and compliance risks | ► |
| 6 | Conduct and culture risks | ► |
| 7 | Operational risk (IT, legal, financial crime and people) | ▲ |
| 8 | Credit risk | ▼ |
| 9 | Market risk | ▼ |
| 10 | Balance sheet risk | ▼ |

▲ Increasing
► Stable
▼ Improving

Nedbank cannot merely concentrate on those risks traditionally associated with the business of banking. In response to a constantly changing risk environment, the bank now adopts a much broader and more flexible approach to the management of risk, going well beyond the terms of reference prescribed by regulation, as reflected by our inclusion of the new C-suite risks as part of our risk management.

Nedbank deems its risk management practices to be in good shape and also fully acknowledges the rapidly changing world and our need to be agile, smarter, and more effective, proactive and forward-looking, at the same time being appropriately responsive.

### Major ERMF enhancement in 2017

**Three-lines-of-defence refresh**
Provides clearer accountability and responsibility within the organisation.

**Coordinated assurance**
Enables integration across all lines of defence, which streamlines the process of risk management and improves reporting used for decisionmaking.

# NEDBANK'S TOP 10 RISKS

The overall state of Nedbank's risk, internal control, regulatory and balance sheet profile, as well as risk outcomes across the enterprise remained sound and strong throughout 2017, despite the challenging external macro and political environments, increasing risks, abnormal regulatory change agenda and the unprecedented level of change.

**Nedbank actively manages its top 10 risks, in addition to its broader risk universe. These are identified for emphasis and prioritising focus and resources.**

The top 10 risks the organisation will face in 2018 have been identified as:

1 **Business risk –** *SA country risk/state capture/SA policy uncertainty, politics and macroeconomic environments, and global geopolitical risks*

While we cannot mitigate political and economic risks, our proactive risk management practices seek to understand and prepare for the impacts of alternative outcomes on our business. Nedbank's strong risk culture, refreshed fit-for-purpose ERMF and extensive stress and scenario testing, particularly in proactive preparation for any SA sovereign-credit-rating downgrade(s), placed us in good stead in 2017. We continue closely reviewing the key triggers.

Nedbank's risk appetite (refreshed in 2017) and provisioning are prudent and appropriately conservative, but remain enabling for our businesses, promoting competitive but appropriate growth and returns.

Our business planning process is mature and advanced to respond to the adverse environment with a heightened focus on discretionary spend (costs), while not compromising investment in growing the franchise.

Following the recent change in the ANC and state presidency, the trend against business risk has changed to a much improving one.

2 **Strategic and execution risks –** *Risks associated with the unprecedented levels of change in the organisation*

Nedbank's strategy process is robust and mature, and places a strong focus on execution risk in view of the 'unprecedented level of change' in our 2018–2020 strategy.

The Target Operating Model (TOM) Review and People 2020 Programme (covering leadership, culture and talent) have the core objectives of addressing the high execution risk and enabling delivery of the strategy. This is in addition to other tactical interventions at an operational level.

A Strategic (Execution) Risk Management Framework (SERF) has been rolled out across the group. Outcomes and expectations are monitored through our strong governance framework.

3 **Cyberrisk –** *Cyberrisks and threats heightened by the digital revolution in line with global trends, and Nedbank's DFL*

Cyberrisk continues to escalate exponentially in line with local and global trends, which has led us to separate it in isolation from the range of financial-crime risks and place it as our organisation's third-highest-rated risk. This is aligned with our radically elevated focus on cyberrisk management, led by the Chief Risk Officer and the Chief Information Officer, which fast-tracks Nedbank from being cybersecure to cyberresilient.

4 **Reputational risk –** *Globally and in SA, eg related to state capture*

We significantly increased our reputational risk management in 2017, mainly as a consequence of state capture, the SA political landscape and the allegations of state capture extending into certain private sector suppliers, and social media.
This includes an effectively functioning Exco Group Reputational Risk Committee (GRRC) at group level and high-risk committees at business cluster level, with appropriate board-level involvement.

Nedbank has zero tolerance for corruption, and enforces this in a practical way in all we do.

5 **Regulatory and compliance risks –** *Abnormal regulatory change agenda*

The pervasive, abnormal regulatory change agenda continues unabated with additional scrutiny on banks by regulators, and a plethora of new and amended regulation dominating time, resource and budget. The cost of implementation of the changing regulation is high.

Our strategic response to the high execution risk and vast regulatory change agenda comprises of a comprehensive Regulatory Change Programme (RCP), which has required an approximate R3,2bn regulatory change budget.

Implementation of requirements are maximised to enjoy benefits of the spirit of what is intended via regulation. Nedbank's RCP seeks to leverage off compliance requirements as a competitive differentiator, by approaching it in a strategic manner, with an emphasis on the client (eg Know Your Client in the AML FICA regulations).

6 **Conduct and culture risks –** *Impact of consumerism and pending Twin Peaks regulation in SA*

SA has not been exempt from the global shift in increasing consumer protection legislation.

In the SA context, treating customers fairly (TCF) has evolved as increased focus was placed on market conduct risk with the advent of the market conduct framework for SA (Twin Peaks).

Nedbank holds itself and its stakeholders to high ethical standards and therefore rates conduct and culture risk as a top 10 risk, beyond just compliance requirements.

Our Market Conduct and Culture programme continues to progress well, striving to be a market leader.

7 **Operational risks –** *IT, legal, financial crime and people risks*

Operational risk management in Nedbank remains well embedded and mature, with operational losses well contained within risk appetite in 2017 and over the past five years, underpinned by a sound internal control environment.

The inherent operational risk profile remains high due to geopolitical global and local SA risks, unprecedented levels of change, abnormal regulatory pressures, macroeconomic and social shifts.

In line with the rollout of Nedbank's Managed Evolution systems as well as our DFL strategy, and given the vast number of changes being introduced, an increased level of IT disruption and impact to systems availability is anticipated. We continue to invest in strengthening our people, systems, policies, processes and related controls to ensure that they are robust and that sufficient measures are in place to minimise the impact and recover swiftly from any major incidents, with all three lines of defence focused on IT risk management.

8 **Credit risk –** *Credit extension and book quality*

Nedbank Group's credit portfolio and key credit metrics are in a favourable shape and remain resilient amid the unfavourable macroeconomic and political environment, illustrating the success of strategic portfolio tilt, strong and proactive credit risk management, watch list management, and conservative provisioning.

The credit process and credit governance across the bank are managed efficiently and effectively, with an enabling risk appetite.

Successful implementation of Nedbank's IFRS 9 programme, with go-live set for Q1 2018.

9 **Market risk –** *Volatile, uncertain, complex and ambiguous external environment*

Market risk and all its subrisk components remain well managed and monitored, with favourable outcomes and within risk limits.

10 **Balance sheet risk –** *Concentration, capital, funding and liquidity risks*

Sound management of the balance sheet in 2017, resulted in a robust, fortress group balance sheet positively positioning Nedbank for 2018–2020. This includes the strengthening of capital ratio's [CET1 12,6% (2016: 12,1%)], and strong liquidity ratios (NSFR above 100% on a pro forma basis, and an average fourth-quarter LCR at 116,2%).

# MAKING TRADEOFFS

We continue to allocate our capital and resources efficiently to our five strategic focus areas to create long-term value for shareholders. This requires making tradeoffs, balancing the short and the long term and making tough decisions. Below are the primary tradeoffs we made and the rationale behind our decisions.

| STRATEGIC FOCUS AREA | TRADEOFF | STAKEHOLDERS |
|---|---|---|
| Delivering innovative market-leading client experiences | **Investing in innovative market-leading client experiences versus regulatory compliance**<br>Regulatory demands have led to an ever-increasing portion of our innovation budgets being redirected towards regulatory compliance. At the same time we are investing in our core IT systems through our Managed Evolution strategy, integrated banking channels, simplified client onboarding and many other initiatives that contribute to our intellectual capital. Tradeoffs are made in the allocation of our IT cashflow spend against the strategic objective of improving client experience. The creation of a DFL capability has fast-tracked client innovations, but we have also increased our IT cashflow spend to more than R2,3bn per annum (2016: R2,0bn), which is significantly more than any new entrant into the market. | Clients<br>Regulators<br>Shareholders |
| Growing our transactional banking franchise faster than the market | **Growing in profitable versus less profitable client segments**<br>We continued to grow across most client segments, including entry-level and youth segments (up 28% and 26% respectively, since 2010 ), which have lower levels of profitability. We decided to include and build strong enduring relationships in these segments as, over time, they will migrate to the middle-market segment. We are now seeing the middle market growing faster than the entry-level and youth segments. | Clients<br>Shareholders |
| Being operationally excellent in all we do | **Short- versus long-term profitability and meeting client needs**<br>The tradeoff between short-term profit growth and investing for the longer term to ensure a sustainable franchise continues, which is particularly evident in the investment we have made in digital channels and products. This tradeoff is mitigated to some extent by extracting cost optimisation opportunities in the short-to-medium term, and we plan to accelerate our cost optimisation efforts in the coming years, leveraging technology and digital. Though client preference for using digital banking channels is increasing, there is still a need for branch-based interaction. As transactional fees charged for digital banking are lower than those for branch- and cash-related transactional fees; therefore, until transactional volumes reach economies of scale, the imperative to adjust our cost base structurally through digitisation and lower cost-to-serve models has increased. | Clients<br>Shareholders<br>Staff |
| Managing scarce resources to optimise economic outcomes | **Various business and product opportunities**<br>Strategic portfolio tilt, in the context of scarce capital and liquidity, is a conscious tradeoff between business and product opportunities that are highly capital and liquidity consuming with low economic profit and those that are less consumptive and more economic profit generative. We are tilting our portfolio in areas that will optimise returns, as illustrated on page 41.<br>We continue with our strategy of supporting the diversification of Africa's electricity supply. Currently, 2,08% (2016: 1,81%; 2015: 2,25%) of our total group lending and finance commitments relate to renewable-energy generation. This compares very favourably with the 0,56% (2016: 0,58%; 2015: 0,66%) of total funding of coal- and fossil-fuel-based energy generation (including our direct facilities to Eskom). In addition, as from 2018, and excluding our existing commitments to round 1 of SAs coal baseload programme*, the bank has undertaken 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.<br>** The fundamentals of these commitments are being assessed and must be in compliance with our Social and Environmental Management System, which aligns to all relevant legislation, regulation and best-practice principles.* | Clients<br>Shareholders<br>Society |
| Providing our clients with access to the best financial services network in Africa | **Minority shareholding in ETI versus control**<br>Our approximate 20% shareholding in ETI has been a conscious decision by the board given the onerous capital and other implications of a controlling stake. Through our increased board representation in ETI we work with like-minded shareholders who have a common purpose of strengthening the Ecobank franchise. A minority shareholding offers a beneficial capital-efficient structure as the capital and regulatory burden increases dramatically when banks in the rest of Africa migrate towards Basel III from Basel I and II and are consolidated into the SA reporting regime. Similarly, AML requirements become stricter under a controlling interest. A 20% shareholding also mitigates, to some degree, the impact of a challenging macro environment, given lower commodity prices and exchange rate volatility as experienced in 2016 and 2017. | Clients<br>Regulators<br>Shareholders |

Pillar 3 disclosures provide additional information and is available online at nedbankgroup.co.za.

# DELIVERING AND REWARDING FOR VALUE CREATION

## REFLECTIONS FROM OUR CHIEF FINANCIAL OFFICER

Good performance from managed operations in a challenging macroeconomic environment

**Raisibe Morathi**
*Chief Financial Officer*

**Headline earnings** of **R11,8bn ▲ 2,8%** (managed operations ▲ 7,8%)

**CLR ▼ 19 bps to 49 bps**

**Strong capital levels ▲ CET1 12,6%**

**Dividend ▲ 7,1% at 1,91 times cover**

**ROE** (excl goodwill) **▼ 16,4%**

### THE IMPACT OF CHALLENGING DOMESTIC MACROECONOMIC ENVIRONMENT

For the SA economy 2017 was a difficult year. Political uncertainty combined with structural challenges in the economy resulted in continued lower levels of economic growth. Business and consumer confidence levels declined and had the most direct impact on our business in the form of lower levels of client activity in our wholesale and wealth businesses, resulting in slower revenue growth. It was also a year of unprecedented domestic challenges around numerous ratings and corporate events in SA, which translated into volatility in currency, equity and debt markets. Our businesses navigated all of these particularly well, testament to a mature Enterprisewide Risk Management Framework (ERMF).

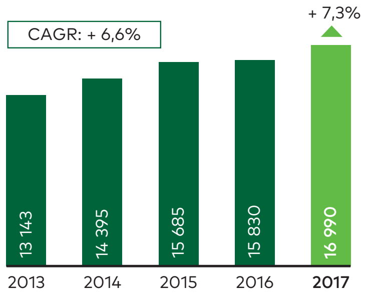
### GOOD PERFORMANCE BY OUR MANAGED OPERATIONS

Despite these challenges, during 2017 Nedbank continued to create value for all our stakeholders. Headline earnings, increased by 2,8% to R11,8bn, which translated into an increase in DHEPS of 2,4% to 2 406 cents. Pleasingly, our managed operations had a stronger performance, with headline earnings growth of 7,8%, absorbing a loss of R975m, including funding costs of R321m from ETI. As in prior periods, we highlight our results both including and excluding ETI to provide a better understanding of the operational performance of the business given the volatility in ETI's results in 2016 and 2017. We will revert to group level reporting in 2019 when ETI is expected to have normalised.

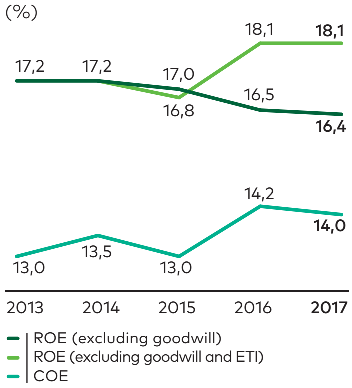
### ONGOING VALUE CREATION FOR SHAREHOLDERS

Through our financial performance we demonstrate our commitment to delivering long-term value for our shareholders. Over the past five years we increased our net asset value per share at a CAGR of 7,3%. ROE (excluding goodwill) remained largely flat year on year, with the impact of equity accounting our share of the losses from ETI evident in both 2016 and 2017. A slight reduction in the COE following the reduction in bond rates late in 2017, resulted in economic profit (being the delta between ROE and COE) increasing 8,3%. The strength of our balance sheet and our growth in headline earnings enabled us to

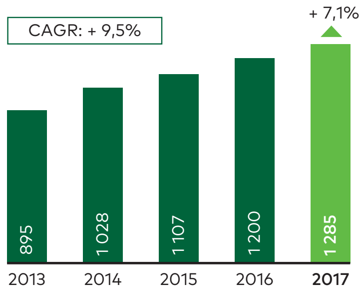
**Net asset value per share**
(cents)




**ROE and COE**
(%)




**Dividend per share**
(cents)



Assessment of how value was created through our financial performance, for shareholders and also for all our stakeholders. It also provides an outlook for 2018 as well as the medium to long term. Lastly, we show how remuneration outcomes correlated with our performance.

increase the full-year dividend by 7,1%, ahead of growth in HEPS of 2,2%.

## ENVIRONMENT OF SLOW REVENUE GROWTH

Revenue growth of 3,2% reflects the impact of macroeconomic conditions on our clients.

- NII growth, ahead of average interest-earning banking asset growth of 2%, was supported by an expanding NIM. CIB advances decreased, impacted by large repayments and delays in pipeline drawdowns. Commercial property continued to grow strongly at 6,5% as we leveraged our market-leading position. In RBB we grew market share in vehicle finance and cards, supported by growth in homeloans and personal loans, which were in line with the industry and our strategy of managing scarce resources to optimise economic outcomes. As confidence levels improve, we expect to see advances growth improve in 2018.
- Our modest growth in NIR was slower than expected. CIB was negatively impacted by lower transactional activity and a high base in private equity, notwithstanding new client gains. Trading income increased slightly given muted activity levels, particularly in the second half of the year. Pleasingly, RBB maintained solid growth in transactional NIR achieving growth of 6%, in line with our strategy to grow our transactional franchise. Insurance income was impacted by increased weather-related claims that occurred in both the first and second half, while private-equity income declined off the high base in the prior year. NIR growth is expected to improve in 2018 as the economy recovers off a low base.

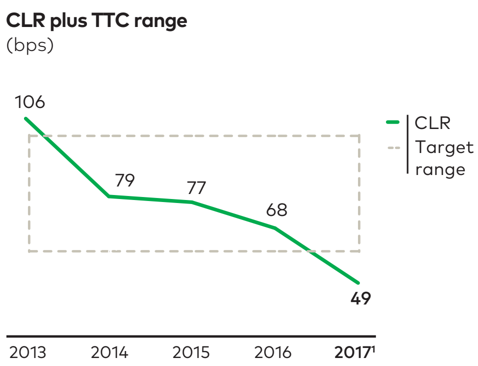
## SOLID RISK MANAGEMENT

Our historic selective origination of personal loans, home loans and commercial-property finance, along with a quality portfolio across all businesses, proactively limited downside risk in this challenging operating climate, enabling a CLR of 49 bps, below the bottom end of our TTC target range 60 to 100 bps. This is evident of consistent delivery on our strategy of managing scarce resources to optimise economic outcomes. Prudent coverage levels were maintained against defaulted advances. While impairments should increase in 2018, we expect the CLR to remain below the mid-point of our target range.

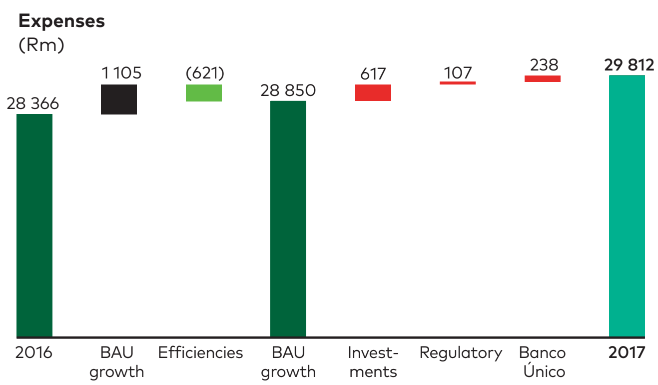
## GOOD EXPENSE MANAGEMENT

In 2017 we increased our focus on cost management in an environment of slower revenue growth in line with our strategy of being operationally excellent in all we do. All our frontline clusters reduced expense growth, with the exception of RoA due to our investment in building scale in our subsidiaries and the base effect of accounting for Banco Único, with consolidation for only three months of 2016. Excluding RoA, expense growth was below inflation levels at 4,3%, still inclusive of investments in new revenue opportunities and efficiency strategies. The efficiencies gained created investment capacity, enabling continued investment for growth largely in digitisation and technology.

Good progress has been made with various initiatives aimed at reducing our efficiency ratio over the next three years. During the year we reduced headcount by 859, primarily through natural attrition. We are reducing manual and ineffective business processes through the use of automation and robotics, and we continue to optimise our branch footprint, including a reduction in floor space. This will help to bring the RBB efficiency ratio closer to 58% and is a key enabler of reducing the group's efficiency ratio to our 2020 target of below 53%. Our SAP Enterprise Resource Planning (ERP) implementation has enabled us to unlock benefits through procurement by, among others, the use of live auctions and better demand management. Through Managed Evolution (ME), our IT strategy to rationalise, simplify and standardise core systems, we have decommissioned 122 systems to date and are on target for a further 69 decommissions planned for the next three years. This enabled savings in support, maintenance and licencing costs. Our Target Operating Model (TOM) initiative unlocked R238m of savings in 2017 and we expect to deliver R1bn of pretax cost savings by 2019 and R1,2bn by 2020.




[1] Nedbank TTC target range: 60–100 bps.



## IMPROVING PROSPECTS AT ETI

The loss of R838m in earnings from associates was attributed largely to ETI's loss of R1 203m in the fourth quarter of 2016 on the back of challenges in the Nigerian economy as a result of the lag effect of the oil price crash in 2016 and high impairments as management resolved the legacy book. This was partly offset by the profit of R459m reported by ETI for the nine months to 30 September 2017, in line with our policy of accounting for ETI earnings a quarter in arrear. Consequently, as a result of our policy of accounting a quarter in arrears, the total effect of ETI on the group's headline earnings was a loss of R975m, including R321m of funding costs.

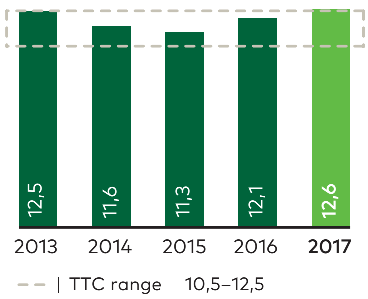
## A RESPONSIBLE TAXPAYER

The tax we pay is important to the economic and social development of the countries in which we operate and we therefore have a responsibility to comply fully with local regulations. Our total 2017 cash tax contribution was R9,8bn (2016: R8,9bn), comprising Nedbank's direct and indirect taxes, as well as taxes paid on behalf of our staff (eg pay as you earn) and shareholders (eg dividend withholding tax).

## A STRONG BALANCE SHEET ENABLED AN ATTRACTIVE DIVIDEND PAYMENT

Our CET1 and tier 1 capital ratios of 12,6% and 13,4% respectively, an average LCR for the fourth quarter of 116,2% and an NSFR of above 100%, on a pro forma basis, are all Basel III-compliant and are a reflection of a strong balance sheet. On the back of solid earnings growth in managed operations and a strong capital position, a final dividend of 1 285 cents was declared, increasing by 7,1%. Our full-year dividend cover was 1,91 times, near the middle of our board-approved target range of 1,75 to 2,25 times.

**CET1 ratio**
(%)




## OUR FINANCIAL PERFORMANCE

### Consolidated statement of comprehensive income

| Rm | % change | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Net interest income | 4,5 | **27 624** | 26 426 | 23 885 |
| Impairments charge on loans and advances | (27,4) | **(3 304)** | (4 554) | (4 789) |
| Income from lending activities | 11,2 | **24 320** | 21 872 | 19 096 |
| Non-interest revenue | 2,4 | **24 063** | 23 503 | 21 748 |
| Total operating expenses | 5,1 | **(29 812)** | (28 366) | (26 110) |
| Indirect taxation | 8,0 | **(1 001)** | (927) | (783) |
| Share of profits of associate companies and joint arrangements | > (100) | **(838)** | (105) | 871 |
| Headline profit before direct taxation | 4,7 | **16 732** | 15 977 | 14 822 |
| Direct taxation | 7,1 | **(4 267)** | (3 985) | (3 550) |
| Non-controlling interest | 28,7 | **(678)** | (527) | (441) |
| **Headline earnings** | 2,8 | **11 787** | 11 465 | 10 831 |
| Diluted headline earnings per share (cents) | 2,4 | **2 406** | 2 350 | 2 242 |
| Dividend declared per share (cents) | 7,1 | **1 285** | 1 200 | 1 107 |
| – Dividend cover (times) | (4,5) | **1,91** | 2,00 | 2,06 |

## NET INTEREST INCOME

**key drivers** NII increased 4,5%, ahead of average interest-earning banking asset growth of 2,2%. NIM expansion of 8 bps to 3,62% was largely driven by an endowment benefit and improved asset mix changes for a combined 13 bps. This was partially offset by asset pricing pressure in part due to the NCA interest rate caps, the narrowing of the prime–JIBAR spread and the increased cost associated with enhancing the funding profile.

**2018 outlook**

Average interest-earning banking assets to grow in line with nominal GDP.

NIM to be slightly above the 2017 level of 3,62%.

## IMPAIRMENTS CHARGE

**key drivers** Impairments decreased 27,4% and the CLR declined 0,19% to 0,49%, driven by lower specific impairments, mostly from resolutions and settlements in CIB. The decrease in impairments reflects a quality portfolio across all our businesses.

**2018 outlook**

CLR to increase into the bottom half of our target range of 60–100 bps (under IFRS 9).

## NON-INTEREST REVENUE

**key drivers** NIR growth of 2,4% reflects the impact of weak business and consumer confidence levels.

Commission and fee income, which contributed 72% of NIR, grew 4,0% supported by good transactional NIR growth in RBB of 6% due to an increasing number of clients, even though they are transacting within fixed-rate bundles and spending less. This was offset by lower transactional activity off a high base in the challenging environment in CIB.

Insurance income decreased 9,3% impacted by several catastrophic weather events resulting in higher claims, together with lower volumes in traditional bancassurance products and higher lapses in funeral policies.

Private-equity income reduced 23,7% relative to the high base in the comparative period.

**2018 outlook**

NIR to grow above mid-single digits.

## TOTAL OPERATING EXPENSES

**key drivers** Expense growth of 5,1% was below inflation and in line with the guidance we provided for the full 2017 year (being growth of mid-single digits), demonstrating disciplined and careful management of discretionary expenses in an environment of slow revenue growth. Staff-related costs increased at a slower rate driven by an average annual salary increase of 6,5%, a staff reduction of 859 since December 2016 and a 0,1% decrease in short-term incentives.

Good progress was also made with our TOM initiatives, which aim to generate more than R1bn pretax benefits by 2019 and are linked to our long-term incentive schemes. The majority of the cost initiatives have been identified in RBB and we delivered R621m savings in 2017, of which TOM savings were R238m.

**2018 outlook**

Expenses to increase by mid-single-digit levels.

## SHARE OF PROFITS OF ASSOCIATE COMPANIES AND JOINT ARRANGEMENTS

**key drivers** The loss of R838m in earnings from associates was attributable mostly due to ETI's large impairments reported in Nedbank's H1 results, partly offset by the profit of R459m reported by ETI for the nine months to 30 September 2017, in line with our policy of accounting for ETI earnings a quarter in arrear.

**2018 outlook**

Associate income to be positive (ETI associate income reported quarterly in arrear).

## DILUTED HEADLINE EARNINGS PER SHARE

**key drivers** Headline earnings increased 2,8% to R11,8bn, which translated into an increase in DHEPS of 2,4% to 2 406 cents. Our managed operations had a stronger performance, with headline earnings growth of 7,8%, absorbing a loss of R975m, including funding costs of R321m from ETI.

**2018 outlook**

DHEPS growth for the full 2018 year to be in line with our medium-to-long-term target of greater than or equal to GDP + CPI + 5%.

## DIVIDEND DECLARED PER SHARE

Solid earnings growth in managed operations and a strong capital position supported a final dividend of 1 285 cents. Our full-year dividend cover was 1,91 times, in the middle of our board-approved target range of 1,75 to 2,25 times.

**2018 outlook**

Maintain cover between 1,75–2,25 times.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Rm | % change | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Cash and securities | 5,0 | **188 820** | 179 744 | 172 002 |
| Loans and advances | 0,5 | **710 329** | 707 077 | 681 632 |
| Other assets | 6,3 | **84 165** | 79 201 | 72 092 |
| **Total assets** | 1,8 | **983 314** | 966 022 | 925 726 |
| Total equity attributable to equity holders of the parent | 8,0 | **81 823** | 75 733 | 74 754 |
| Non-controlling interest | 12,3 | **6 716** | 5 978 | 3 997 |
| Amounts owed to depositors | 1,3 | **771 584** | 761 542 | 725 851 |
| Provisions and other liabilities | 1,3 | **71 615** | 70 693 | 76 142 |
| Long-term debt instruments | (1,0) | **51 576** | 52 076 | 44 982 |
| **Total equity and liabilities** | 1,8 | **983 314** | 966 022 | 925 726 |
| Assets under management | 14,3 | **312 313** | 273 327 | 257 295 |
| **Key ratios (%)** | | | | |
| ROE | | **15,3** | 15,3 | 15,7 |
| ROE (excluding goodwill) | | **16,4** | 16,5 | 17,0 |
| Return on assets | | **1,22** | 1,23 | 1,25 |
| NIM | | **3,62** | 3,41 | 3,30 |
| CLR | | **0,49** | 0,68 | 0,77 |
| Efficiency ratio | | **58,6** | 56,9 | 56,1 |
| JAWS ratio | | **(3,0)** | (1,5) | 0,6 |
| CET1 ratio | | **12,6** | 12,1 | 11,3 |

## LOANS AND ADVANCES

**key drivers** Loans and advances increased 0,5%, driven by solid growth in RBB and offset by a decline in term and other loans in CIB.

RBB grew loans and advances 5,3% to R305,2bn, with the MFC contribution increasing 8,6% as new-business volumes improved despite the contracting vehicle sales market. This growth was achieved across all asset classes by increasing the contribution from lower-risk clients in line with risk appetite and prudent origination strategies.

**2018 outlook**

Average interest earning banking assets to grow in line with nominal GDP.

CIB loans and advances decreased 3,8% due to a combination of unexpected early repayments and managed selldowns, which allowed for the diversification of risk and weak demand for new loans as a result of muted capital expenditure in the subdued economic climate and a competitive market.

## AMOUNTS OWED TO DEPOSITORS

**key drivers** Deposits grew 1,3%. Through the active management of the RBB franchise, deposits grew by 8,5%, resulting in household deposits market share gains. Through the growth in current accounts, savings and fixed and other structured deposits we successfully reduced the proportion of funding from negotiable certificates of deposit (NCD) as well as more expensive foreign currency funding used in the general SA funding pool.

## ASSETS UNDER MANAGEMENT

**key drivers** AUM increased 14% as we maintained our top-tier performance and as a result we are now the fourth-largest unit trust manager and third-largest offshore unit trust manager in SA.

## RETURN ON EQUITY (EXCLUDING GOODWILL)

**key drivers** ROE (excluding goodwill) remained largely flat year on year, with the impact of equity-accounting our share of the losses from ETI evident in both 2016 and 2017. A slight reduction in the COE following the reduction in bond rates late in 2017 resulted in economic profit (being the delta between ROE and COE) increasing 8,3%.

**2018 outlook**

Improves, but remains below our 2020 target of ≥ COE + 5% (≥ 18%).

## EFFICIENCY AND JAWS RATIOS

**key drivers** The group's growth in expenses exceeded total revenue growth (including associate loss) of 2,1% (3,2% in managed operations), resulting in a negative JAWS ratio of 3,0% and an efficiency ratio of 58,6%, compared with 56,9% in 2016. Excluding associate income, our efficiency ratio was 57,8%.

**2018 outlook**

Efficiency ratio improves, but remains above our 2020 target of ≤ 53%.

Positive JAWS ratio

## CET1 RATIO

**key drivers** We continued to strengthen our capital position with our CET1 ratio at 12,6%, now above the top-end of our internal target range of 10,5–12,5%, following organic capital generation through earnings growth, lower asset growth and some RWA optimisation.

**2018 outlook**

Within our target range of 10,5% to 12,5%.

### FINANCIAL PERFORMANCE OF OUR BUSINESS CLUSTERS AND OUTLOOK

We deliver our products and services through four main business clusters.

**2017 PERFORMANCE**

### Nedbank Corporate and Investment Banking

- CIB maintained an attractive ROE and produced solid results, driven by lower credit losses and good expense management.
- Revenue lines were affected by slowing economic activity as clients postponed projects and borrowed and transacted less.
- Early repayments and managed settlements, together with slower drawdowns, resulted in weaker advances growth although the pipelines remained stable.
- Credit quality remained strong through proactive risk management as we continue to monitor stressed sectors of the economy closely.

### Nedbank Retail and Business Banking

- RBB delivered an improved ROE and good headline earnings growth, underpinned by solid transactional NIR growth, lower impairments and expense growth, and achieved PPOP growth of 4,0%.
- NII was underpinned by solid growth, in advances and strong growth in deposits.
- Lower expense growth reflects the initial impact of optimising processes and operations, including headcount reductions.

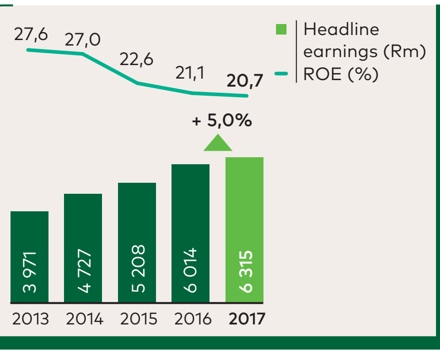
### Nedbank Wealth

- Nedbank Wealth maintained an attractive ROE.
- Headline earnings were impacted by subdued markets and negative investor sentiment, an increase in weather-related claims as well as strengthening of the rand. In addition, prior-year results include the once-off income from the sale of a share held by Nedbank Private Wealth as a principal member of Visa Europe.

### Nedbank Rest of Africa

- RoA's headline earnings were negatively impacted by ETI losses from large impairments at the backend of Nigerian economic challenges in 2016. The loss was reported on in our interim results and has been followed by subsequent quarterly profits from ETI up to 30 September 2017.
- Our subsidiaries grew headline earnings off a low base, supported by the consolidation of Banco Único (included for three months in 2016), notwithstanding continued investment in infrastructure, systems and skills.

## 2018 OUTLOOK AND 2020 TARGETS



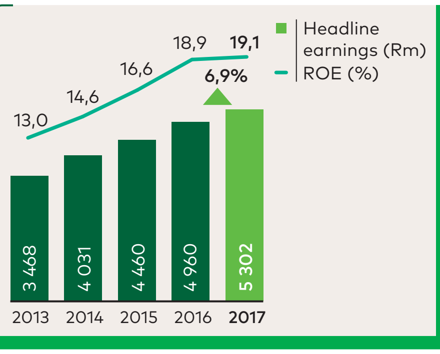

**2018 outlook**

Headline earnings growth in line with nominal GDP growth.

**2020 targets**

**ROE ≥ 20%** – maintain strong returns.

**Efficiency ratio ≤ 40%** – leverage technology to retain industry-leading efficiency ratio.



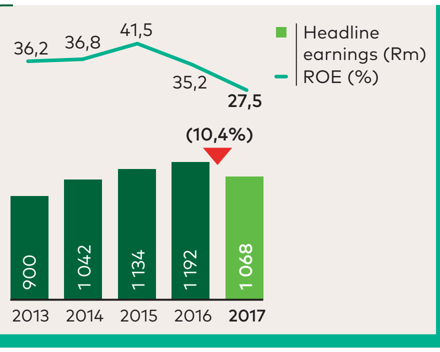

**2018 outlook**

Headline earnings growth in line with nominal GDP (H1 2018 growth likely to be lower than H2 2018 growth).

**2020 targets**

**ROE ≥ 20%** – ongoing improvement, underpinned by lower efficiency ratio and relative CLR outperformance.

**Efficiency ratio ≤ 58%** – enabled by improved client experience, transactional market share gains, continued quality origination and operational efficiencies.



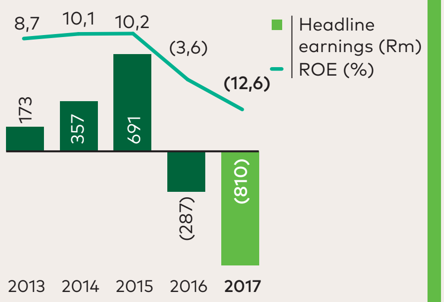

**2018 outlook**

Headline earnings growth in line with nominal GDP, benefiting from expected movement in market and investor sentiment .

**2020 targets**

**ROE ≥ 30%** – benefiting from high economic profit businesses.

**Efficiency ratio ≤ 60%** – driven by stronger revenue growth.




**2018 outlook**

From a headline earnings loss in 2017 to a profit in 2018 – expect to be the largest contributor to the Nedbank Group's earnings growth rate in the year ahead.

**2020 targets**

**ROE ≥ COE**[1] – ongoing movement supported by investment in digital solutions and leveraging our investment in ETI.

**Efficiency ratio ≤ 60%** – creating scale from investments and cost optimisation.

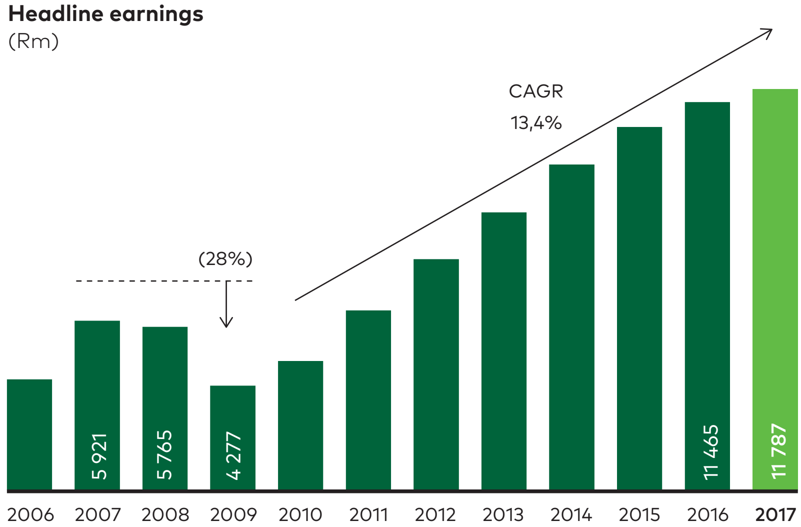
[1] *COE approximately 16%.*

# REFLECTIONS FROM OUR CHIEF FINANCIAL OFFICER
(continued)

## NEDBANK GROUP IN A STRONG POSITION

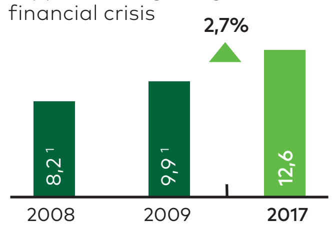
Nedbank Group is in a strong position to manage any stress events and, more importantly, has a solid platform for growth into the future.

**Headline earnings**
(Rm)




**CET1 ratio**
(%)

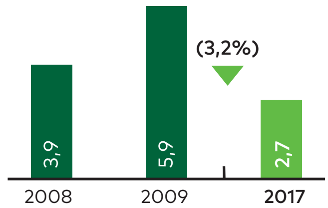
Stronger capital position without needing shareholder support during the global financial crisis




[1] *Core equity tier 1.*

**Defaulted advances**
(%)

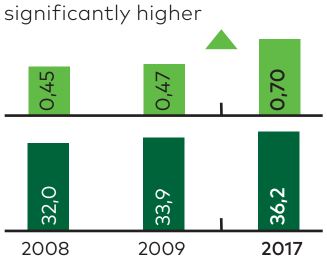
Reflecting a quality portfolio




**Coverage**
(%)

Portfolio
Specific

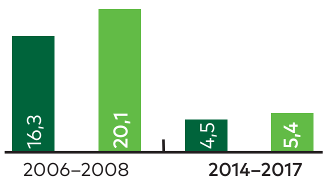
Coverage levels are significantly higher




**Loan growth**
(CAGR %)

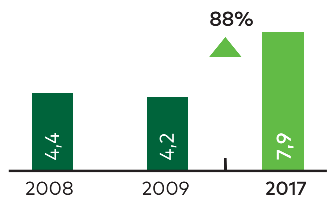
Wholesale
Retail

More prudent and selective credit extension



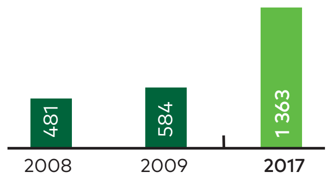

**Number of clients**
(million)

More clients doing more of their banking with Nedbank




**NII sensitivity for a 1% change in interest rates**
(Rm)

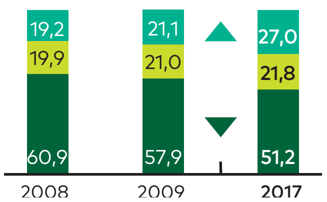
Greater endowment benefit when interest rates increase




**Funding tenor**
(%)

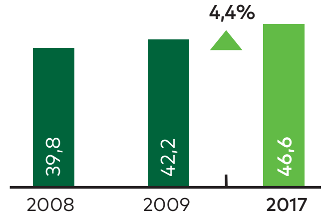
LT
MT
ST

Longer funding tenor ensures strong liquidity profile




**NIR income contribution**
(%)

Greater contribution from stable income source



## SAP ERP IMPLEMENTATION CONCLUDED

The SAP ERP system transformation across the group's finance, procurement and HR systems was completed in July 2017, after several staged implementations, within scope and budget. The benefits of rationalising over 43 legacy disparate systems into one ERP installation includes improved use of resources and an enhanced TOM that incorporates Group Business Services, providing central, consistent and accurate business services across the group as a cost reducer and value provider. We are seeing benefits from centralising sourcing, procurement, recruitment and talent management as well as from reduced IT maintenance and support costs.

## ACCOUNTING CHANGES

The group is required to adopt IFRS 9 and IFRS 15 from 1 January 2018. The impact on the group is as follows:

- The implementation of the IFRS 9 classification and measurement changes decreased reserves at 1 January 2018 by approximately R200m.
- The implementation of the IFRS 9 ECL model requires increases in balance sheet impairments at 1 January 2018 of approximately R3,2bn, with reserves decreasing by approximately R2,3bn on an after-tax basis.
- IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with clients, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments. Reserves at 1 January 2018 decreased by approximately R216m on an after-tax basis.
- The estimated impact on the group's CET1 ratio at 1 January 2018 of IFRS 9 and IFRS 15 is less than 20 bps.

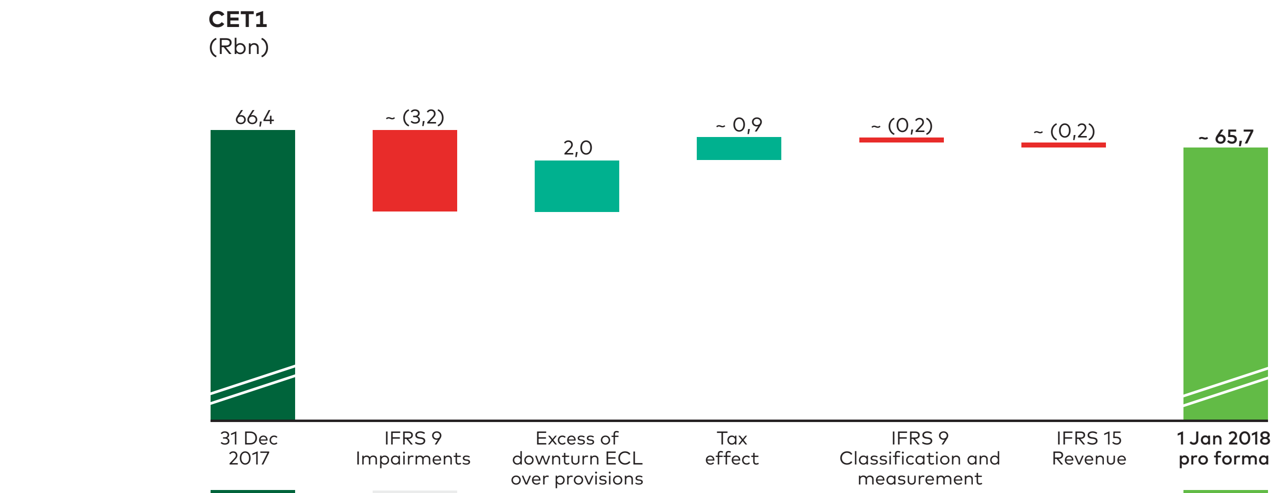
## MANDATORY AUDIT FIRM ROTATION

Mandatory Audit Firm Rotation (MAFR) is a new rule issued by the Independent Regulatory Board for Auditors (IRBA) through a board notice in terms of the Auditing Profession Act, 26 of 2005, to address auditor independence and reporting of irregularities. IRBA revised its view to address the single objective of strengthening independence. The objectives of competition and transformation remains important to the IRBA Board, but will be addressed by complementary initiatives. The IRBA Board notice was gazetted in June 2017 and will become effective for financial years on or after 1 April 2023. This means that, for Nedbank, it will be effective from 1 January 2024 for one audit firm and 1 January 2026 for the second audit firm. The rule states that an audit firm may not serve as an auditor of a public-interest entity (such as Nedbank) for 10 or more consecutive years.

Nedbank is considering its options in implementing this new rule, given several practical challenges:

- Large banks must be audited by two audit firms in terms of SA banking regulatory guidance. This creates a challenge with regard to the availability of alternative audit firms, especially given the complexity and depth of skills required in auditing banks.
- Section 90(2) of the Companies Act, 71 of 2008, prohibits an audit firm from being appointed as an auditor if it habitually or regularly performs the duties of accountant or bookkeeper, or performs related secretarial work, for the company, ie advisory work that could be construed as 'doing the work of management' for financial reporting. Nedbank can only appoint an audit firm after a five-year cooling-off period in terms of section 90(2).

## IFRS 9 AND IFRS 15 ACCOUNTING STANDARDS DAY 1 IMPACT – STRENGTHENED BALANCE SHEET COVERAGE WITH IMMATERIAL IMPACT ON CET1




| | 31 Dec 2017 | IFRS 9 Impairments | Excess of downturn ECL over provisions | Tax effect | IFRS 9 Classification and measurement | IFRS 15 Revenue | 1 Jan 2018 pro forma |
|---|---|---|---|---|---|---|---|
| Portfolio coverage: | 0,70% | ~ 0,35% | | | | | ~ 1,05% |
| CET1: | 12,6% | < 0,1% | | | < 0,1% | | > 12,4% |

- Nedbank's parent company, Old Mutual plc, is completing its strategy of managed separation. Nedbank and Old Mutual plc have KPMG as a common auditor. In view of this, it would not be in the interest of stakeholders to change auditors in the middle of this process.

Nedbank has started preparatory work for the implementation of MAFR, since both our external auditors have reached the 10-year limit, and will engage stakeholders in due course. Based on the above and in the best interests of its stakeholders, the board approved the reappointment of Deloitte and KPMG for the 2018 audit. KPMG and Deloitte are both level 1 BBBEE-accredited firms. Nedbank is pleased with its broad network of audit firms including a number of tier 2 empowered audit firms, that provide various services to Nedbank.

## FINANCIAL OUTLOOK OVER THE MEDIUM TO LONG TERM

Over the medium to long term sustained higher levels of growth in SA will depend on the new leadership in government addressing difficult structural impediments. In the short term there is evidence that confidence levels are improving and GDP growth for 2018 has been revised upwards. As a result, client activity across a broad front should improve, leading to higher levels of asset growth and revenue generation. Interest rates are currently expected to decline 25 bps in March 2018, and the impairment cycle is likely to be benign. The recovery in sub-Saharan Africa is expected to gather momentum in 2018, underpinned by the ongoing global commodity price upswing as well as improved government finances and structural reforms in some African countries.

Reflecting on the impact on the group of an improving economic outlook, ongoing delivery on our strategy and the importance of ETI returning to sustained levels of profitability, our guidance for growth in diluted headline earnings per share for 2018 is that it will be in line with our medium-to-long-term target of greater than or equal to GDP plus CPI plus 5%.

The outlook for our medium-to-long-term targets in 2018 and our guidance for these by 2020 are set out below and serve as a pathway to ongoing and sustainable improvements in these key metrics in support of shareholder value creation.

Stakeholders are advised that these forecasts are based on organic earnings and our latest macroeconomic outlook, and have not been reviewed or reported on by the group's auditors.

| Metric | 2017 performance | Full-year 2018 outlook | Medium-to-long-term targets |
|---|---|---|---|
| ROE (excluding goodwill) | **16,4** | **Improves, but remains below target** | 5% above COE[1] (≥ 18% by 2020) |
| Growth in DHEPS | **2,4** | **≥ CPI + GDP growth + 5%, supported by ETI recovery** | ≥ CPI + GDP growth + 5% |
| CLR | **0,49** | **Increases into the bottom half of our target range (under IFRS 9)** | Between 0,6% and 1,0% of average banking advances |
| NIR-to-expense ratio | **80,7** | **Improves, but remains below target** | > 85% |
| Efficiency ratio (including associate income) | **58,6** | **Improves, but remains below target** | 50–53% ≤ 53% by 2020 |
| CET1 capital adequacy ratio (Basel III) | **12,6** | **Within target range** | 10,5–12,5% |
| Dividend cover | **1,91 times** | **Within target range** | 1,75–2,25 times |

[1] *The COE is currently forecast at 13,5% in 2018.*

## APPRECIATION

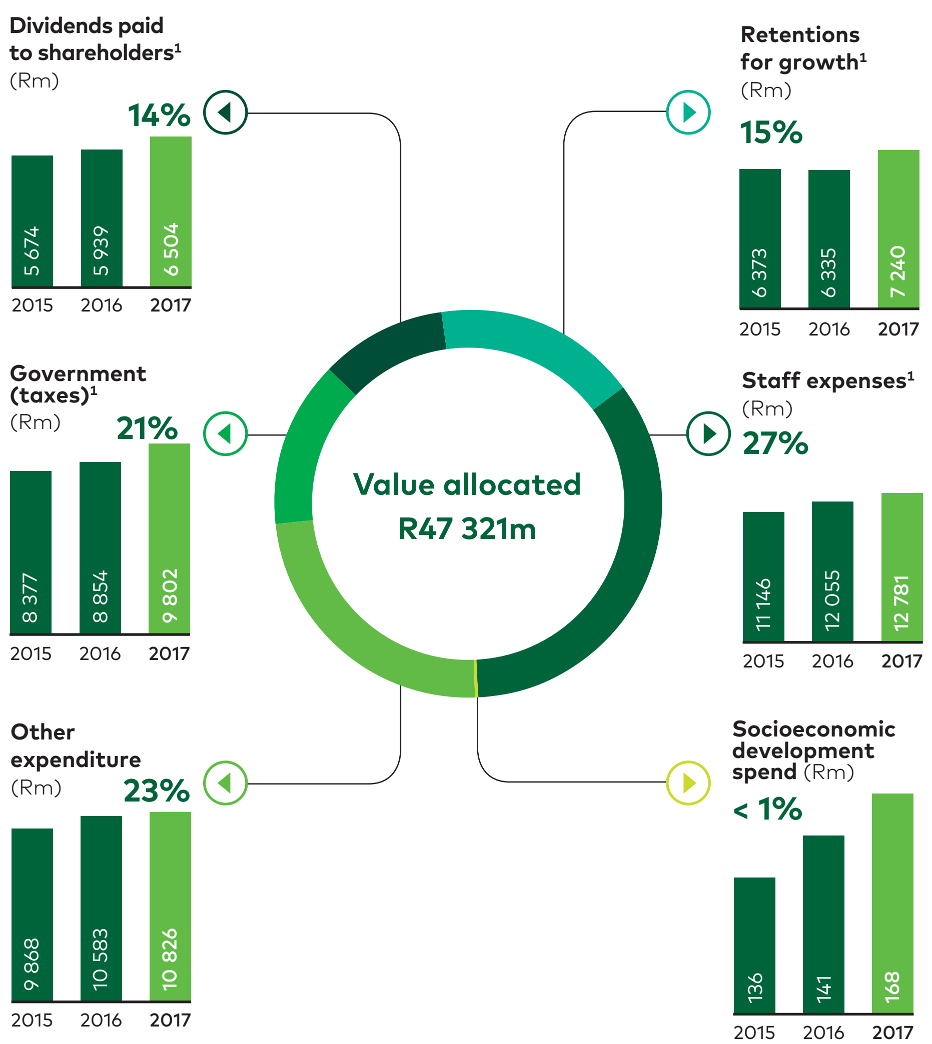
I would like to thank my colleagues on the board and the group executive team for their wise counsel and excellent leadership during this challenging year. I also wish to express my appreciation for the dedication and hard work of our finance teams across the group. Finally, I would like to thank our shareholders for their interest and investment in Nedbank Group.

**Raisibe Morathi**
*Chief Financial Officer*

# 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 **R27 624m** - Impairment losses on loans and advances **R3 304m** + Other banking income **R23 001m** = Value added **R47 321m**




[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 amount 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.*

## OUR STAKEHOLDER ENGAGEMENT FRAMEWORK

While the Nedbank Group Executive Committee (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 2017 and prospects for future value creation.

## STAFF
INVESTING IN OUR STAFF

**Case in point**

### Aligning leadership development with our strategy

Executive education has been identified as a key driver in equipping Nedbank leadership with the capabilities required to align behind the group's strategy, brand and culture. The Executive Business Transformation Programme was designed in partnership with Duke, a worldclass, leading academic faculty, centred on the key development and learning themes of client centredness, innovation and digital astuteness, while transforming our business through our people to become more competitive and a commercial savvy organisation.

We exposed 50 delegates from across the group to global thought leaders, from top management at successful disruptive companies or leading academics, while being immersed in learning experiences in Silicon Cape (SA), Silicon Savannah (Kenya) and Silicon Valley (USA). As part of the eight-month programme the delegates were tasked by Chief Executive Mike Brown to solve specific organisational challenges and capitalise on opportunities, one such challenge being the implementation of an integrated enterprisewide change agenda focused on both clients and employees.

From the feedback to Group Exco it was clear this programme had significantly changed the mindsets of the participating executives and will certainly accelerate the way we lead change, solve problems and design solutions, ensuring that we are client-centred and catalysts for business transformation. The programme and shared experience have galvanised this group of executives and enabled them to collaborate and network extensively across the organisation, drive enhanced client experiences in agile ways, and balance risk and innovation practices, while optimising individual, team and organisational outcomes.

The programme will continue with a new intake of executive leaders in 2018.

### Delivering value to our staff in 2017

- As a large employer we paid R12,8bn in remuneration and benefits, net of taxes, to our 31 887 employees. To reduce the wealth gap we deliberately provided for average salary increases at 8,0% and 5,0%, for our unionised staff and higher management respectively.
- Training spend declined in 2017 to R355m as we aligned our training programmes to our strategic intent. A new Duke programme was launched in alignment with the digital capabilities we require, underpinned and supported by a CEO challenge (refer to the case in point alongside for further details).
- Staff attrition increased to 10,6% as our staff numbers decreased by 859, but this still 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 by actively using a redeployment pool. During the year we developed a broader redeployment framework, which is a more proactive focused solution, where individuals can leverage opportunities to further their employability, both internally and externally, for the greater benefit of SA. A pilot is underway in partnership with one of our corporate clients in the franchise market who requires financial skills, which Nedbank can provide while our clients grow their business.
- Notwithstanding the headcount reductions, staff morale remained high. A new organisational diagnostic, Nedbank Compass, which focuses on the new behavioural and cultural requirements to make Nedbank more competitive, replaced the Nedbank Staff Survey. In 2017 approximately 20 000 employees completed the survey, identifying the areas for improvement and strength. There is a need to maintain the current level of staff engagement and to continue to drive alignment and high performance across the group, while increasing our focus on innovation and client needs.
- In response to the changing needs of business and the trends disrupting human resources, we adopted New Ways of Work (agile transformation, a key component of our TOM review). We are focusing on the following to the benefit of both Nedbank and staffmembers:
  - Multiskilled and mobile resources who are commercially and digitally savvy.
  - Leadership that inspires and enables individuals and teams to thrive in the Nedbank of the future.
  - Culture shifts towards a more client-driven and innovative workforce.
  - Working in squads and tribes to achieve the required cultural shifts and business outcomes. We currently have about 500 people across the bank working in this new fashion and aim to scale this to over 4 000 during 2018.
- A refreshed performance management approach was piloted with Group Exco and close to 150 senior leaders within the group. 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, competitive, innovative and client-centred. Our executive scorecards on pages 77 to 82 embraced this new approach.
- Transformation remained a key focus for the group as we continued to increase our black staff component, now at 78,5%, to more closely reflect the demographics of society.

**Looking ahead**

- In 2018 we will continue to build new capabilities around client-centred innovation, design thinking and change leadership.
- Our new operating model will revitalise the way work is organised and how we work together to deliver on our strategic focus areas. We are bedding down the new people practices and revitalised out people brand, which will attract talent into the organisation.
- We are also looking to provide greater performance and reward differentiation for our employees, which will drive a high-performance culture.

### 2020 **TARGETS**

**Commercially focused, transformed and innovative staff who collaborate to serve our clients.**

# CLIENTS

## EXCEEDING THE EXPECTATIONS OF OUR CLIENTS

**Case in point**

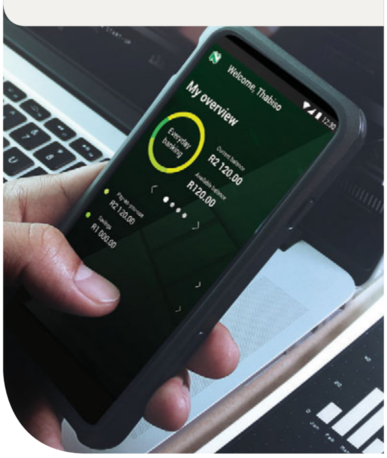
### Nedbank Money app

Nedbank's focus on digital, emphasised by the 'Digital First, First in Digital' strategic intent, culminated in the launch of the new Nedbank Money app in November 2017. The new Nedbank Money app was built in just three months with the help of global design and development partners, and has already created a ripple in the market, with over 500 000 downloads by early March 2018. The above-the-line campaign supporting the launch made an immediate impact and has won awards in a short period, including:

- The TV ad was picked by France AdForum as one of the top two ads of the week globally.
- The campaign received an Orchid Award for 'Banking out of the ordinary' from the *Citizen*.

The Nedbank Money app has at its core a fresh design, centred on creating great client experiences, with new innovative features such as the first-to-market Quick Pay. It also supported Nedbank's move towards enabling self-service through new features such as setting your ATM limits, blocking and reordering cards and disputing debit orders.

The Nedbank Money app is on a positive trajectory, with fantastic new functionality to be launched in the first half of 2018, ranging from an additional 30 services, including forex and remittances to investments and mobile payments. The Nedbank Money app is set to become a leading app globally, with the web version going to market in the first half of 2018.




### Delivering value to our clients in 2017

- We made new loan payouts of R153bn to enable clients to finance their homes, vehicles and education, and grow their businesses.
- 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 one of the first products delivered through our DFL capability and ranked sixth in the global Mobile Apps for Wealth Management 2017 survey, was recognised at the 2017 MTN Business app of the Year Awards that evaluated over 600 entries, being awarded third place in the Best Enterprise Solution category.
  - The Nedbank Money app, our new retail app that makes banking more convenient for our clients, has seen more than 500 000 downloads by early March 2018.
  - We launched UNLOCKED.ME, an exclusive e-commerce marketplace for millennials.
  - 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 100 schools across the country.
  - We piloted geyser telemetry, an innovative smart home solution that reduces electricity consumption.
  - From an integrated-channels perspective, to date 55% of our outlets have been converted to new-image branches and our investment in distribution channels over the next three years (to 2020) will result in 73% of our retail clients being exposed to the new-image branch format and self-service offerings.
  - We launched Africa's first solar-powered branch to enable banking in deep rural communities, as well as NZone, our digital self-service branch at the Sandton Gautrain Station.
  - The introduction of chatbots and robo-advisors enhanced client experiences through our contact centre and web-servicing capabilities and will continue to do so.
- System uptime continues to lead the market with the second-highest level achieved in 2017 when looking at the past 10 years, notwithstanding significant changes to IT systems and new digital applications.
- Locally Nedbank Private Wealth ranked third overall in the 2017 Intellidex Top Private Banks and Wealth Managers survey and achieved first place in both the Wealth Executive and Up-and-coming Professional categories.
- Nedgroup Investments for the third consecutive year maintained its first position in the offshore category at the 2018 Raging Bull Awards.

**Looking ahead**

- The foundations put in place through Managed Evolution (our core systems and technology platform transformation), digital enhancements and New Ways of Work will lead to incremental digital benefits and enhanced client service.
- In 2018 Nedbank will bring exciting digital innovations to market to enhance client experiences and drive efficiencies. Some of these include a refreshed internet banking experience in line with our mobile banking apps, the ability to sell an unsecured loan bundled with a transactional account, simplified client onboarding by way of convenient, FICA-compliant account opening from your couch, a new and exciting loyalty and rewards solution, and further rollout of chatbots, robo-advisors and software robots (robotic process automation).
- The client experience has therefore been enhanced as more time is spent on servicing them and less time is spent on administrative tasks.

### 2020 **TARGETS**

**Top 2** brand value among SA banking peers

**> 16,5% commercial transactional** deposit market share

RBB

**> 15% main-banked retail** client market share

CIB

**Top 2** in wholesale league tables

NIR-to-advances ratio **> 2,0%**

Wealth

**Number 1** in Intellidex's top private banks and wealth managers survey

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

RoA

**Grow profitability** ahead of market in the subsidiary countries

Increased **dealflow from ETI** network

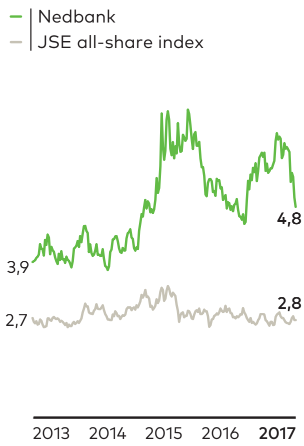
# SHAREHOLDERS

## DELIVERING CONSISTENTLY TO OUR SHAREHOLDERS

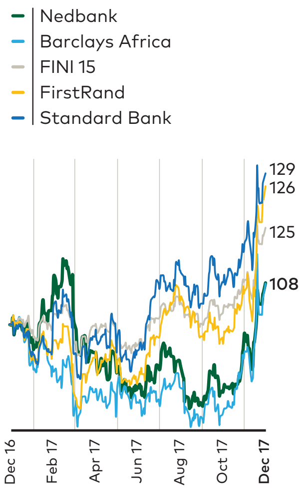
### Delivering value to our shareholders in 2017

- Solid business and financial performance by our managed operations in a difficult environment offset by the associate loss from ETI.
- Share price up 7,5%.
- Total dividend per share up 7,1%, ahead of HEPS growth of 2,2%.
- Price to earnings: 10,4 times.
- Price to book: 1,5 times.
- Sound corporate governance and good relationships with the investment community, underpinned by regular engagements and transparent reporting, acknowledged through a number of industry awards.
- 2017 AGM resolutions passed – approvals all above 90%.
- Various engagements with our shareholders on environment, social and government (ESG) matters.

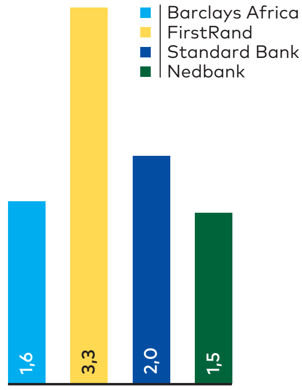
**Dividend yield**




**Share price performance**




**Price-to-book ratios**
at 31 December 2017




### Our top shareholders

Ahead of managed separation, Old Mutual holds a 53,4% share in Nedbank Group, which it will decrease to 19,9% after unbundling. Many Nedbank shareholders who are underweight in terms of their Nedbank holding are also holders of Old Mutual shares and will become holders of a more equal weight after unbundling. In addition, a greater free float should increase index holdings from a current 9,6%, to a percentage closer to that of our peers who have index type holdings at 13–18%.

| Major shareholders/Managers | Number of shares | % holding 2017 | % holding 2016 | Peer holdings % |
|---|---|---|---|---|
| Old Mutual Life Assurance Company (SA) Ltd and associates | **266 156 545** | **53,4** | 54,6 | |
| Nedbank Group | **16 540 026** | **3,3** | 3,5 | |
| Public Investment Corporation | **30 644 866** | **6,2** | 6,2 | |
| Coronation Fund Managers (SA) | **28 519 315** | **5,7** | 5,9 | |
| Lazard Asset Management (International) | **16 152 780** | **3,2** | 3,3 | |
| Allan Gray Investment Council (SA) | **11 753 787** | **2,4** | 1,8 | |
| BlackRock Inc (International) | **9 171 648** | **1,8** | 2,2 | |
| GIC Asset Management (Pty) Ltd | **8 382 090** | **1,7** | 1,4 | |
| The Vanguard Group Inc | **7 980 744** | **1,6** | 1,4 | |
| Dimensional Fund Advisors (US, UK and AU) | **7 422 012** | **1,5** | 1,5 | |
| Index classified shareholders | **47 569 401** | **9,6** | 9,6 | 13–18 |
| International shareholding | **90 157 713** | **18,1** | 18,5 | 30–36 |

**Looking ahead**

- Given our strong capital position, we will continue to pay dividends around the mid-point of our board-approved target range of 1,75 to 2,25 times cover or 50% payout ratio.
- Our financial guidance on pages 55, 57 and 62 and delivery on our targets point to improved financial performance.
- Unbundling of Nedbank shares to Old Mutual Limited shareholders as part of the managed separation would improve the free float of the Nedbank share (from 45% to approximately 80%), which will be attractive for shareholders.
- We aim to broaden our international shareholder base through sustained engagements in new geographic regions. In 2017 our number of engagements increased by 12% to 404 as a result of expanded geographic coverage and deepened investor targeting.

2020 **TARGETS**

**Top 2** price-to-book ratio among SA peers

ROE (excluding goodwill): **≥ 18%** by 2020

Efficiency ratio: **≤ 53%** by 2020

Case in point

## 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 the year:

| Key topics discussed | Our response and action |
|---|---|
| **Old Mutual managed separation** – Investors continue to look for guidance on the impact, progress and timelines of our managed separation. Some investors are concerned about a potential share overhang after unbundling. | Nedbank is a separately listed entity with an independent board. Our business is not integrated into Old Mutual and the managed separation will therefore not have a material effect on our strategy, staff and clients, or our financial performance and prospects. We will continue to collaborate with Old Mutual on the managed separation and synergies from our arm's-length collaboration initiatives.<br><br>On 1 November 2017 Old Mutual plc announced that the strategic minority shareholding to be retained in Nedbank Group by Old Mutual Limited (OML) to underpin the ongoing commercial relationship between the companies has been agreed at 19,9% of the total Nedbank Group ordinary shares in issue, as held by shareholder funds.<br><br>The 19,9% shareholding will be held by OML, which will have a primary listing on the JSE and a secondary listing on the London Stock Exchange. OML will be listed at the earliest opportunity in 2018, following the publication of Old Mutual plc's 2017 full-year results.<br><br>The decrease in OML's shareholding in Nedbank Group will be achieved through the unbundling of Nedbank Group ordinary shares to OML shareholders. This will result in OML, immediately after the implementation of unbundling, holding a 19,9% strategic minority shareholding in Nedbank Group. The unbundling will occur at an appropriate time and in an orderly manner after the listing of OML, allowing suitable time for the transition of the OML shareholder register to an investor base with an SA and emerging-market focus and mandate. |
| **Positioning for a sovereign-credit-rating downgrade** – Shareholders want to understand the impact of a credit-rating downgrade on the business (initially foreign currency and lately a local currency downgrade), as well as the trajectory of political and economic policy direction. As a result, as revenue growth slows, the focus on expense management increases. | We performed extensive stress-testing on our balance sheet and income statement to assess the potential impacts of high- and severe-stress events. Relative to the period before the global financial crisis as shown on page 60, we are in a much stronger financial and capital position today to weather any potential downturn. We have previously shown that a credit-rating downgrade will have an insignificant direct impact on the bank, although we remain concerned about the impact of a deteriorating macroeconomic environment and, therefore, have prepared well for this possibility. |
| **Performance of the group and dividend outlook** – Shareholders want to determine the extent to which the weak economic environment introduced forecast risk to our financial performance and dividend payout. | We have a strong balance sheet and capacity to generate organic earnings and capital. This, combined with lower credit RWA growth, enabled dividend growth ahead of HEPS growth. The lower 2017 earnings base due to ETI's loss supports stronger earnings growth in 2018 and our ability to maintain our dividend payout ratio around 2,0. Refer to page 55, 57 and 62 for our 2018 financial guidance. |
| **ETI's financial performance** – Many shareholders were unpleasantly surprised by ETI's fourth-quarter 2016 loss. Investors are trying to get a sense of whether we are comfortable with the risk and outlook for ETI, and whether we have insight, influence and control with a shareholding of only 21,2%. | ETI is making good progress in an improving environment and has attractive medium-to-long term targets. Although these targets are a stretch from the current position, ETI will be a strong contributor to our expected growth in earnings, particularly in 2018 and beyond, if these are achieved.<br><br>ETI's share price has increased 65% in 2017, in line with the rebound in the Nigerian banks' share prices on the back of signs of early improvement in that economy. As a result, the market value of our 21,2% share in ETI, as well as our share of ETI's NAV, is now ahead of our carrying value.<br><br>As Nedbank we take some comfort from actions taken in ETI's turnaround and remain optimistic of the long-term prospects of this strategic investment. For more insight on the strategic progress with ETI refer to page 42. |

## SHAREHOLDERS (continued)

### DELIVERING CONSISTENTLY TO OUR SHAREHOLDERS (continued)

| Key topics discussed | Our response and action |
|---|---|
| **Competitive landscape** – Shareholders noted the increased levels of competition in the banking industry, particularly the threat from new entrants. | Our strategy in RBB is to grow transactional banking faster than the market through being first in digital, having disruptive CVPs, sales and service excellence, and robust loyalty and reward programme. We have increased the pace of digitisation through DFL and innovations are gaining traction. Innovations shown on pages 37 and 38 position Nedbank well to meet these challenges head on. |
| **Appointment of auditors** – Shareholders asked whether we would retain KPMG as one of the auditors that jointly audits the group. | We indicated that the Group Audit Committee (GAC) had challenged, and engaged with, executives and boardmembers from KPMG regarding the allegations of corruption against the audit firm. Several engagements with the board and stakeholders have taken place to discuss the KPMG developments and assess the impact on Nedbank, considering, among others regulatory requirements, business continuity, and reputational and systemic risk. KPMG SA provided assurance regarding the integrity of its audit processes and further assurance was provided by KPMG International, which agreed, at the request of Nedbank, to provide additional comfort in respect of its support of KPMG SA.<br><br>The results of the independent enquiries into KPMG SA to assess whether any further action or response is required are awaited. |
| **Remuneration** – Shareholders noted that although Nedbank had arguably the best remuneration schemes among banks, with good disclosure, some enhancements can be considered, including revising the use of the FINI 15 as a corporate performance target (CPT). | Nedbank engaged with shareholders on the proposals for our 2018 remuneration scheme as shown on page 76, and received strong support for all these changes. The key change relates to replacing the FINI 15 with DHEPS growth as a CPT. |

### Voting outcomes of the 50th annual general meeting

All Nedbank Group resolutions were passed, with more than 90% approval.

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

| | For % |
|---|---|
| Ordinary resolutions 1.1 and 1.2: Election as a director of Mr EM Kruger and Mr RAG Leith, appointed as directors since the previous AGM of shareholders | 99,75 |
| Ordinary resolutions 2.1 to 2.4: Reelection as a director of Mr MWT Brown, Mr BA Dames, Dr MA Matooane and Mr JK Netshitenzhe, who are retiring by rotation | 99,75 |

Other noteworthy resolutions include the following:

| Resolution | For % | |
|---|---|---|
| Ordinary resolution 4: Placing of unissued ordinary shares under the control of the directors | 99,13 | Shareholders are reminded that shares granted under this authority are limited to 5% of the shares in issue and restricted to existing contractual obligations to issue the shares |
| Ordinary resolution 5: Placing of unissued preference shares under the control of the directors | 95,87 | Shareholders are reminded that shares granted under this authority will be limited to 5% of the shares in issue and restricted to existing contractual obligations to issue the shares |
| Advisory endorsement on a non-binding basis of our Remuneration Policy | 90,21 | Our Remuneration Policy remains a focus and we will continue to engage with our shareholders proactively. Refer to page 76 for further information. |
| Special resolution 4: Amendment to clause 10 of the Memorandum of Incorporation in relation to the treatment of fractions | 100 | This resolution aligned the treatment of fractions with the latest amendments to the JSE Listings Requirements |

Proxy forms for voting at the 51st AGM to be held on 10 May 2018 are available at nedbankgroup.co.za.

# REGULATORS

## ENSURING SUSTAINABLE BANKING WITH OUR REGULATORS

### Delivering value to our regulators in 2017

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.

- We complied with all key aspects of Basel III requirements, with a CET1 ratio of 12,6%, above the SARB requirements of 7,25% and now above our target range of 10,5–12,5%.
- With regard to the LCR we have achieved 116,2%, above the 2017 SARB minimum target requirement of 80%, maintained the NSFR at above 100% on a pro forma basis, and we are compliant with the minimum regulatory requirement, effective from 1 January 2018.
- Our focus remained on compliance with the requirements of multiple regulators, and significant work continued on AML, CFT and Sanctions. Nedbank has met the deadline for the SA remediation plan in all material respects, following various successful transformations of our remediation strategy and approach, including, most recently, the implementation of a new risk-based approach to replace the old rules-based regulations. Some minor spillover into 2018 was expected and is being completed, including independent assurance by end Q1 2018. SARB has been extensively engaged, and is supportive and aligned with Nedbank.
- The complex IFRS 9 programme successfully met the Q1 2018 'go-live' deadline, within scope and budget.
- The EDP/RDARR (BCBS 239) programme progressed well on all streams as Nedbank continues leveraging off regulatory requirements to build a superior data universe and environment, under the slogan that 'Data is the fuel to winning in 2020 and beyond'.
- During 2017 we received one regulatory fine of R1m. However, we continue to strive for zero regulatory fines or penalties through enhanced and robust controls to mitigate the related risk.
- We paid R9,8bn in direct, indirect and staff taxes to support the governments and societies of the countries 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 consider the fair treatment of clients at all stages of their relationship with us of critical importance. As such, we have fully embraced the Treating Customers Fairly (TCF) regulations and continue working towards ensuring that our clients benefit from consistent delivery on all six TCF outcomes. These TCF outcomes connect closely to our client-centred ethos and our Code of Conduct. TCF is an integral part of our culture, the way we design, market and promote our products, and the way in which we communicate with and service our clients. In 2018 we will continue to embark on operationalising TCF and focus on conduct requirements to ensure that industry guidelines and best practices are embedded in our business.
- We achieved a level 2 BBBEE contributor status for the ninth consecutive year, now measured under the new Amended FSC – a culmination of our ongoing commitment to sustainable transformation. This contributed to various wholesale client wins over the past few years and a favourable profile in the market.
- The international tax landscape has changed dramatically in recent years as a result of economic challenges, and new standards have been developed to enable countries to protect their revenue bases. Our guiding principle is that all intragroup transactions must be at arm's length, ie the transfer prices relating to that intragroup transaction must equal the transfer price that would have applied between unrelated parties, all other factors being equal.

**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 AIRB 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, implementation of the Fundamental Review of the Trading Book and setting a floor on the group RWA equal to 72,5% of RWA calculated on 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.
- 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 2018.
- We continue to monitor the impact of the Amended FSC.
- We will maintain our status as a responsible taxpayer in all the jurisdictions in which we operate.

### 2020 **TARGETS**

Effectively delivered on the **regulatory change programme**.

# SOCIETY

## CONTRIBUTING TO A THRIVING SOCIETY WHILE RESPECTING ENVIRONMENTAL LIMITS

### Doing good for society

We understand that our success is contingent on the degree to which we deliver value to society. As such it is important to understand our role in society and how society can be different because Nedbank is a part of it. To this end we have defined our purpose as 'using our financial expertise to do good for individuals, families, businesses and society'. In 2017 we began the process of aligning our reporting with the United Nations (UN) SDGs as they define the 'good' that we strive for in our purpose and structured our reporting in line with our three key areas of leverage: products and services; sustainable development finance; and operations and partnerships, which include CSI.

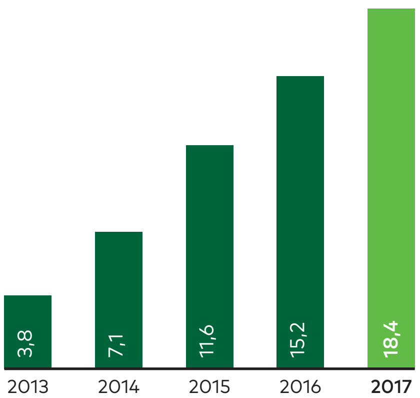
#### PRODUCTS AND SERVICES: SUSTAINABLE DEVELOPMENT FINANCE

The most effective way to deliver on our purpose is by using innovative products and services to help meet the SDG targets, thereby enabling our clients to achieve the positive outcomes they desire.

Progress in this regard includes:

- **Utility-scale renewable-energy finance** – In 2017 we disbursed more than R18,4bn for renewable deals with 28 projects reaching commercial operation date across rounds 1, 2 and 3 of the Renewable Energy Independent Power Procurement Programme. These projects add a further 2 100 MW to the national grid.

**Renewable-energy disbursements**
(Rbn)




- **Solar power for business and homes** – Our Smart Living Solutions is a product addressing clients' energy concerns by educating them and giving them access to NedRevolve or Readvance facilities for financing energy solutions for their homes.
- **Green buildings** – we provided a further R1,3bn funding for the construction of buildings that conform to green building standards. This brings our total investment in green buildings to R8,7bn and well over 400 000 m$^2$ of floor space.
- **Nedbank Green Savings Bond** – Since its inception, more than R25,2bn has been invested in the Nedbank Green Savings Bond, with R10,1bn having been invested in 2017.
- **Empowerment financing** – Nedbank embraces the role it plays in helping to create real economic opportunities for black businesses in SA, and partnering with them to ensure their success. In 2017 we invested a further of R3,8bn into empowerment financing.
- **Affordable housing** – We provided finance for the provision of more than 2 100 affordable housing units. We also provided R816m in loans to clients in the affordable-housing space.
- **Student accommodation** – Student accommodation construction loans with a total value of R1,1bn were finalised. This lending activity translated to approximately 5 700 beds.
- **Student Loans** – Over the past three years we have provided approximately 4 000 students with student loans to the value of R189m, R44m of which was lent in 2017. We have also been closely involved with the development of the Ikusasa Student Financial Aid Programme (ISFAP) that mobilises a range of funding sources to provide loans to students who do not qualify for government funding, but cannot access other forms of loans.

#### OUR OPERATIONS

While the direct impact of our operations is relatively small, we still strive to minimise the negative impacts of our operations on society while maximising the positive effect.

- **Responsible lending** – We manage the impact of our lending through a stringent governance process and a social and environmental management system. In the 2017 financial year all new applications and credit risk reviews of high-risk clients in Investment Banking and Client Coverage Divisions were included in the SEMS assessment process. In total 632 deals were assessed in 2017. A further 2 000 business banking clients involved in high-impact industries were assessed.
- **Carbon footprint** – Our 2017 carbon footprint was 205 569 $tCO_2e$. This equates to a GHG emission decrease of 1,16% from 2016 to 2017. The carbon emissions per FTE decreased by 2,5% year on year to 6,37 $tCO_2e$ and emissions per square metre of office space decreased by 9,0% to 0,28 $tCO_2e$ a year.
- **Reduction targets** – We continue to set reduction targets to limit the impact of our operations on the environment.
  - Water – Our consumption level of 15,05 kℓ per FTE, represents a good decrease from the 15,78 kℓ per FTE.
  - Paper – Our consumption of 1 306 tonnes in 2017 represents a 23,2% decrease year on year.
  - Waste to landfill – Decreased from 294 tonnes in 2016 to 220 tonnes in 2017, reflecting a 25,1% reduction.
  - Recycling – Increased from 620 tonnes to 689 tonnes or 11,09%.

**Case in point**

### Contributing to the upskilling of early-childhood development practitioners

The communities in the Gauteng townships of Diepsloot and Rhenosterspruit have hundreds of small daycare centres or crèche facilities that provide much-needed early-childhood development (ECD) services and an income for residents. However, they are often run by people with little or no ECD qualification. In 2017 the Nedbank Foundation contributed R300 000 to the Heronbridge Training and Resource Centre (HTRC) to fund the national qualifications framework (NQF) level 5 training of 37 ECD practitioners from 25 preschools. Over 1 750 preschoolers are now benefiting from greatly improved standards of care and a far stronger foundation from which to enter the schooling system.

### PARTNERSHIPS

We place a priority on partnering with people, organisations and communities that share our passion for sustainable development.

- **Socioeconomic development** – The total value of CSI delivered across our group was R168m split across the group's key social investment focus areas of education, skills development, health and community development.
- **Nedbank Affinity programmes** – Since the inception of the programme in 1990, it has contributed more than R430m in support of more than 1 200 projects in the areas of child welfare, arts, sports and environmental protection. In 2017 donations equated to R43m.
- **Supporting quality education outcomes** – Support for education remains a priority. We increased the amount invested in quality education outcomes from R72m in 2016 to over R94m in 2017. This is in addition to the learnerships and graduate programmes that are run each year at Nedbank, benefiting almost 1 500 individuals and helping to address SA's skills shortages.
- **Partnering with our suppliers**
  Total procurement spend across Nedbank Group amounted to R12bn. Our total supplier base has a transformation status that counts towards Nedbank's BBBEE procurement spend scorecard and 75% of our procurement is local.
- **Working with WWF–SA**
  - The WWF–SA Water Balance Programme – As part of our water stewardship commitment, Nedbank has invested a total of R12m in support of the removal of alien invasive trees to release precious water back into the ecosystem and the creation of jobs for local communities. The programme also focuses on the maintenance and restoration of land already cleared.
  - The WWF–SA Sustainable Agriculture Programme – The programme promotes innovation to solve key natural-resource challenges, be it for water, energy or soil, and to maintain healthy natural ecosystems that farmlands depend on. Total investment in programme is in excess of R18m.
- **Using knowledge to unlock collective action** – We regularly invest in research for and publication of sustainability guides that are made freely available to individuals and businesses to encourage sustainable behaviour change. Guides include: *Carbon Footprinting Guide; Smart Living Guide;* and *Guide to Biodiversity in your Garden.*

**Looking ahead**

- We will set lending targets for SDF in 2018 that ensure more deliberate focus on our delivery in meeting the SDGs.
- We will enhance our three-year Enterprise Supplier Development Mentorship Programme to make an even stronger contribution to the sustainable business outcomes of attendees.
- As from 2018, excluding our existing commitments to Round 1 of SA's coal baseload programme*, the bank has undertaken 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.

* *The fundamentals of these commitments are currently being assessed and must be in compliance with our Social and Environmental Management System, which aligns with all relevant legislation, regulation and best-practice principles.*

### 2020 **TARGETS**

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

**Case in point**

## Committed to good water stewardship

Nedbank takes its responsibility for good water stewardship seriously. Our strategy addresses water quality, quantity and access through our products and services, operations and partnerships with others. Activities in this regard are as follows:

### PRODUCTS AND SERVICES

- We are working with public and private sector stakeholders on both the demand and supply side to develop funding solutions to alleviate water shortages across the country. Infrastructure investments in 2017 outside SA include financing a desalination plant in Ghana.
- We are proactively working with our drought-impacted clients to ensure their resilience during this difficult period. Assistance includes restructuring of debt and provision of working capital where required.
- We funded 630 low-income units at Belhar Gardens that are currently benefiting from the energy- and water-saving features in the development. The City of Cape Town identified the development as a new benchmark for social housing.

### OUR OPERATIONS

- Our net operational water usage is zero, attained through investment in strategic water source areas as part of the WWF Water Balance Programme.
- Annual water usage per FTE continues to decrease, with a new target set for a further 15% reduction. The drought has required an additional focus on how we operate within severe water restrictions, particularly in Cape Town. Plans that address cooling, sanitation and general health and wellbeing of our staff and clients have been implemented to varying degrees across the country.

### PARTNERSHIPS

- In addition to being a partner in the WWF-SA Water Balance Programme, we also assisted with the rollout of 50 grey water community gardens in Paarl.
- We sponsored the Interlact Dairy Water Stewardship Award showcasing dairy farmers leading the way in terms of maximising water efficiency on their farms, while minimising their impact on freshwater resources.
- Nedbank's investment in the Lifestraw Filtration Project enabled the distribution of 300 000 water filtration services in the Kakemega Province in Kenya in 2017.

# STAKEHOLDER VALUE CREATION – PROGRESS AND OUTLOOK

| 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 turnover | Ability to retain and rotate skills | ▲ |
| Staff engagement/morale (entropy score) | Reduction in entropy driving levels of staff morale higher | ▶ |
| Transformation – black staff | Transformation of Nedbank staff profile in line with demographics of society | ▲ |
| Transformation – female staff | Progressing female diversity | ▼ |
| Loan payouts | New loan payouts to clients | ▼ |
| Digital – App Suite transactions | Uptake of more convenient and affordable channels | ▲ |
| Consumer – NPS | Quality of service experience reflected in reputational NPS | ▶ |
| Service – Operational score for service (complaints handling) | Quality of service experience through effective complaints handling | ▲ |
| 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 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 | ▲ |
| Basel III compliance – LCR | Strength of liquidity position | ▲ |
| Basel III compliance – NSFR | Strength of stable funding | ▶ |
| Regulatory fines or penalties | Indicator of adherence to regulatory requirements | ▶ |
| Direct, indirect and staff taxes | Contribution to government coffers | ▲ |
| BBBEE level as per the Amended FSC | Reflection of corporate transformation | ▶ |
| Consumer finance education (no of participants) | Value through education | ▲ |
| Total socioeconomic spend | Contribution to society | ▲ |
| Local procurement spend as percentage of total | Supporting local suppliers | ▶ |
| Renewable-energy lending | Commitments to renewable-energy deals | ▲ |
| Annual Fair Share lending | Lending with deliberate social and environmental outcomes | ▼ |
| Carbon footprint offset to neutral | The impact of our business on the environment | ▼ |
| Carbon footprint per FTE | The impact of our business on the environment | ▼ |

### 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.*

FS — *Financial information extracted from the 2017 Nedbank Group Limited Audited Annual Financial Statements.*

IN — *Information sourced from external sources, eg independent surveys.*

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

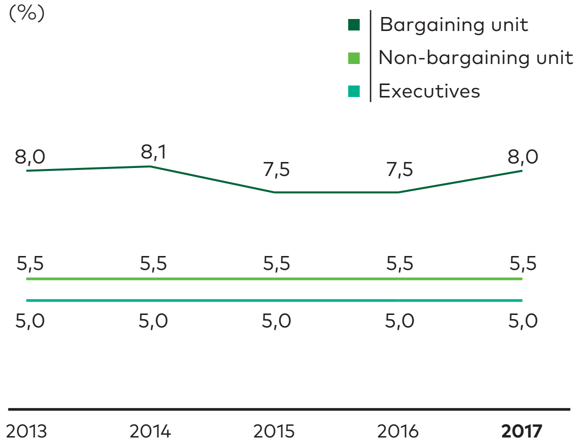
| 2017 | 2016 | 2015 | Benchmark/Peer average[1] | Outlook/Target | Assurance |
|---|---|---|---|---|---|
| **R16 530bn** | R15 524bn | R14 296bn | N/A | Maintain competitive remuneration | MO FS |
| **8,0%** | 8,0% | 7,5% | N/A | Above the increase for management | MO |
| **R355m** | R413m | R370m | N/A | Continue to invest in staff | LA |
| **10,6%** | 9,6% | 9,9% | 11–13% *(industry benchmark)* | Maintain despite organisational change | MO LA |
| **12%** (survey conducted every two years) | | 13% | 10% *(worldclass levels)* | Improve | IN (Source: Barrett Survey) |
| **78,5%** | 78,3% | 76,9% | *Not publicly available* | Continue driving transformation | LA |
| **62,1%** | 62,7% | 62,2% | *Not publicly available* | Continue driving transformation | LA |
| **R153bn** | R162bn | R185bn | N/A | Continue to extend credit responsibly | MO |
| **R41bn** | R25bn | R16bn | N/A | Continue to drive digital adoption over time | MO |
| **26** | 26 | 25 | 27 *(Industry average)* | Improve | IN LA (Source: Consulta) |
| **73** | 69 | Not reported on | N/A | Continue to improve and exceed target of 75 | LA |
| **99,99%** | 99,99% | 99,94% | Nedbank: Top performer | No 1 in industry | LA |
| **Below inflation** | Below inflation | Below inflation | N/A | Below inflationary increases | MO |
| **55%** | 44% | 36% | N/A | 82% of total outlets by 2020 | MO |
| **3rd** | 3rd | 3rd | No 1: Standard Bank Private Banking | No 1 in the industry 2020 TARGET | IN (Source: Intellindex's Top Private Banks and Wealth Managers Survey) |
| **Top offshore manager in SA** | Top 3 | Top 3 | No 1: Allan Gray<br>No 2: PSG<br>No 3: Coronation | Rating among top 3 2020 TARGET | IN (Source: Raging Bull awards) |
| **7,5%** | 26,3% | (24,3%) | 18,5% (FINI 15) | Perform above peers | IN (Source: the JSE) |
| **1 285c** | 1 200c | 1 107c | N/A | Within our 1,75 times to 2,25 times target range | MO FS |
| **1,91 times** | 2,0 times | 2,06 times | | | |
| **1,5 times** | 1,5 times | 1,2 times | 2,3 times *(peer average)* | No 2 bank by 2020 2020 TARGET | IN (Source: the JSE) |
| **12,6%** | 12,1% | 11,3% | SARB: > 7,25% | 10,5–12,5% | MO OV |
| **116,2%** | 109,3% | 88,5% | SARB: > 80% for 2017 | Continue to phase in to > 100% by 2019 | MO OV |
| **Pro forma compliant** | Pro forma compliant | Not disclosed | SARB: 100% for 2018 | > 100% by 2018 | MO OV |
| **R1m** | R1m | 0 | N/A | Zero, although risk of fines has increased | MO OV |
| **R9,8bn** | R8,7bn | R8,2bn | N/A | Responsible taxpayer | OV |
| **2** | 2 | 2 | Nedbank: No 1 bank | Leading transformation | MO OV |
| **200 000** | 180 000 | 260 000 | N/A | Maximum aligned impact with strategy | MO LA |
| **R168m** | R141m | R136m | Nedbank top performer in Trialogue CSI handbook | Spend greater than R100m | MO LA |
| **> 75%** | > 75% | > 75% | As per FSC | > 75% | MO LA |
| **R18,4bn** | R15,2bn | R11,6bn | Nedbank: No 1 bank | R35bn committed, with drawdowns over next five years | MO |
| **R1,1bn** | R2,3bn | R1,8bn | N/A | Sustainable development finance lending targets per SDG to be set during 2018 | MO |
| **205 569 $tCO_2e$** | 207 975 $tCO_2e$ | 214 967 $tCO_2e$ | Nedbank a leader, only carbon-neutral bank in Africa | Maintain carbon-neutrality | MO LA |
| **6,37 $tCO_2e$** | 6,54 $tCO_2e$ | 6,97 $tCO_2e$ | Leader in performance on the Carbon Disclosure Project | Continue to reduce our impact on the environment through the resetting of reduction targets in 2017 | MO LA |

[1] *Peer average consists of the simple average of Barclays Africa, FirstRand and Standard Bank.*

# REMUNERATION OUTCOMES AND CHANGES FOR 2018

The board, through Group Remco, is committed to ensuring that remuneration of executive management is fair and responsible in the context of overall employee remuneration. Group Exco holds management accountable for ensuring that total remuneration is distributed fairly. The high-level outcomes for 2017 are shown on pages 77 to 82 and more details are reflected in our Remuneration Report at nedbankgroup.co.za.

**Guaranteed remuneration increases**
(%)




## Guaranteed remuneration increases

The Group Remco continues to be mindful of income differentials. In order to address this deliberate steps were taken to differentiate the guaranteed package increases in favour of staff in the bargaining unit over the past five years, as evidenced in the graph alongside. This is to ensure greater upward mobility of more junior-level salaries.

At 31 December 2017, 72,4% of our employees were covered under collective bargaining agreements with Sasbo: The Finance Union. In April 2017 a total pool of 8% of the guaranteed remuneration for employees in the bargaining unit was made available for annual increases, compared with 5,5% and 5,0% for the non-bargaining unit and executives respectively.

The minimum guaranteed package (GP) for permanent FTEs in SA was increased to R142 000 per annum, which is at the higher end for financial services and significantly higher than the minimum wage in SA.

There are also collective bargaining arrangements in our subsidiaries in Lesotho, Namibia, Swaziland and Zimbabwe. Care is taken to ensure that salary increase settlements are appropriate within the context of local market and economic conditions. We accordingly continue to remunerate our employees in the bargaining unit appropriately relative to the industry and continue to seek measures to reduce any unjustified pay differentials.

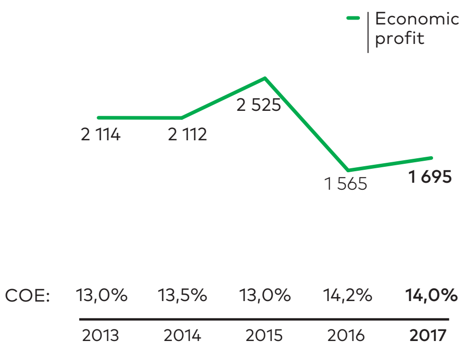
## Short-term incentives

The short-term incentives (STI) scheme is designed to incentivise a combination of profitable returns, appropriate risk-taking and growth. It is driven by economic profit and headline earnings growth versus targets, using risk-based capital allocation as set out in the Risk and Balance Sheet Review available online.

The total STI's approved by Group Remco in respect of the 2017 financial year was R2 384m, compared with R2 392m in 2016. In accordance with its charter, Group Remco also approved 22 individual STI payments in excess of 200% of GP, compared with 34 in 2016.

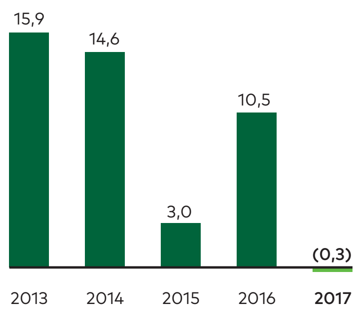
STI awards for 2017 were based on a combination of actual performance against preagreed targets in respect of the level of group and respective cluster economic profit, headline earnings and performance against individual performance scorecards, incorporating financial and non-financial measures.

**Economic profit**
(Rm)

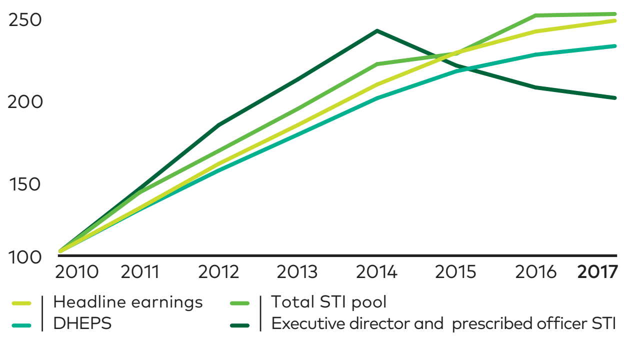



**Headline earnings growth**
(%)


**Change in STI pool**
(%)



**STI and headline earnings performance**




Nedbank's overall performance, with headline earnings growing 2,8% in total and 7,8% in managed operations, funded a short-term incentive (STI) pool of R2 384m, which is a 0,3% decrease from 2016. This STI spend represents 12,7% of headline earnings from managed operations, prebonus and pretax, compared with 13,1% in 2016. Consistent with previous years, the STI pool is funded more closely, but not exclusively, by the performance of the managed operations, which was in line with targets set for the year. The group's lower headline earnings growth and underperformance from ETI have resulted in a further decline in the Group Exco sharing of the total STI pool from 4,2% to 4,0%, with the STI awarded to the Chief Executive (Mike Brown) down 5,2%, compared with that in 2016.

The following table represents the way in which STI awards have been determined, based on the assessment of the group and cluster headline earnings and economic profit performance versus targets, as well as the performance of the executive director and prescribed officer against his or her agreed individual goal commitment contract in 2017:

| | Ontarget STI % of GP A | Maximum target STI % of GP | % of GP achieved for group and cluster financial measures B | % of GP achieved for individual performance and discretion C | Final STI as % of GP D = B + C | Final STI as % of ontarget STI E = D/A |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| Mike Brown | 150 | 250 | 149 | 17 | 166 | 111 |
| Mfundo Nkuhlu | 150 | 250 | 149 | (4)* | 145 | 97 |
| Raisibe Morathi | 150 | 250 | 149 | 16 | 165 | 110 |
| **Prescribed officers** | | | | | | |
| Brian Kennedy | 250 | 400 | 204 | 158 | 362 | 145 |
| Ciko Thomas | 150 | 250 | 155 | 23 | 178 | 119 |
| Iolanda Ruggiero | 150 | 250 | 121 | 19 | 140 | 93 |

** The strong performance by managed operations was offset by the lower-than-expected results from RoA. Therefore, Group Remco exercised a downward discretionary adjustment.*

## Long-term incentives

A key consideration regarding our long-term incentive (LTI) scheme is the continued application of appropriate corporate performance conditions on a substantial portion of the total award.

To avoid the consequences of inappropriate performance conditions, which include extended periods in which no LTI vesting takes place, awards made from 2010 onwards are subject to at least 50% performance conditions and the balance to a time-based vesting arrangement. Specifically, for members of the Group Exco and cluster excos, this percentage is 60%, and for executive directors the full award is subject to performance conditions.

After engagement with our large shareholders, the published DHEPS growth target has replaced the FINI 15 metric for 2018 awards onwards as it improves alignment with the group's published medium-to-long-term targets. DHEPS growth, together with ROE (excluding goodwill) performance above COE, delivers economic profit growth, which in turn enhances shareholder value.

**LTI vesting percentages**
(%)

## Areas of change

Engagement with a broad base of our shareholders in respect of remuneration proposals is important. This engagement took place in January 2018 and was a proactive initiative to engage with a significant pool of our shareholders on changes we plan to introduce to our long-term incentives. The proposals were developed to improve the alignment of remuneration with our strategic objectives and after consideration of shareholder views expressed in April 2017 as part of our annual governance roadshow. These proposals are:

| | |
|---|---|
| 1 | To replace the three-year FINI 15 CPT metric with a three-year average DHEPS growth metric aligned with the group's medium-to-long-term target (DHEPS growth > CPI + GDP growth + 5%). This will apply from the March 2018 LTI awards onwards. |
| 2 | To extend the performance condition of the Matched-share Scheme (MSS) to 100% (currently 50%) for all members of Group Exco. This is subject to shareholder approval at the May 2018 AGM for revising the share scheme rules to this effect, and will apply to the March 2018 awards onwards. |
| 3 | To amend the share scheme rules in order to reduce the number of shares available for use in the schemes from 10% to 5%. This amendment will be subject to shareholder approval at the May 2018 AGM. |
| 4 | To adopt a flexible approach to the share buyback or share issuance decision for LTI awards each year, taking into account a number of factors such as the tradeoff between the dilutionary impact on shareholders, the consumption of CET1 and the potential impact on growth and dividends. |

All these proposals received overwhelming support at the shareholder engagement in January 2018. Furthermore, the Group Remco has agreed to the following changes and clarifications, which were raised by our shareholders at the January 2018 engagement:

- The ROE (excluding goodwill) vs the COE corporate performance target for the LTI scheme will be amended to exclude goodwill only up to 31 December 2017. Any new goodwill arising from any acquisitions after 31 December 2017 will therefore not be excluded from the CPT and suitable adjustments will be made to this CPT.
- The DHEPS growth CPT for the LTI scheme will be amended so that the GDP and CPI targets will be reviewed annually to take account appropriately of the GDP and CPI of other countries in the event that material acquisitions take place outside SA.

## Goal commitment contracts

Goal commitment contracts were rolled out to our executive team in 2017 and include transactional goals (running the business in a manner that creates value for all stakeholders; delivering against operational responsibilities and targets; and maintaining, growing and improving the business) and transformational goals (actions and strategies that will transform the business to position it for sustainable outperformance). The performance outcomes for 2017 of the Chief Executive, other executive directors and prescribed officers are tabled on pages 77 to 82.

Below are the possible performance outcomes, and descriptions thereof that can be assigned as part of the performance review of the goal commitment contract.

| Performance outcome | Description |
|---|---|
| Falling short | Goal commitments are not being met, and there is no or limited evidence of application of feedback. |
| Off-standard | Some goal commitments may be met; however, there is inconsistency in quality. Some evidence of application of feedback and learning, but this is not sustainably improving the overall contribution. |
| Performing | Goal commitments are being met according to the standard of measure and there is appropriate evidence of application of feedback and learning to future contribution. |
| Exceeding | Goal commitments are being exceeded in most areas, with strong evidence of continuous improvement based on feedback and learning. |
| Excelling | Goal commitments are excellently executed – such that contribution is regarded as a role model, with strong and constant application of learning and feedback to create step changes in the level of contribution. |

## MIKE BROWN
Chief Executive

| Performance outcome |
|---|
| Exceeding |

| Goals | Commentary |
|---|---|
| **Transactional** | |
| Deliver sustainable financial performance. | Solid performance delivered by our managed operations in a difficult political and economic environment, offset by our share of ETI losses. |
| Ensure effective governance, compliance and risk management practices. | Materially completed AML remediation.<br>Risk management practices led to lower impairments and no major market or credit risk losses in a volatile environment. |
| Manage scarce resources to optimise economic outcomes. | Maintained a strong balance sheet and liquidity position. |
| Lead and drive the Nedbank aspects of the Old Mutual managed separation programme. | Ensured all MS initiatives are on track. Nedbank business operations were not impacted and we exceeded our target benefits from the joint R1bn OM collaboration programme. |
| **Transformational** | |
| Deliver innovative market-leading client experiences. | Made good progress on our digital journey as we launched market-leading innovations, with major releases on track for 2018. |
| Grow our transactional-banking franchise faster than the market. | Muted NIR growth impacted by economic conditions, offset by primary client wins in CIB and an increase in retail main-banked market share. |
| Provide our clients with access to the best financial services network in Africa. | Although financial performance from ETI was disappointing, we worked closely with ETI management and board to improve governance and risk management. In SADC subsidiaries good progress was made investing in the franchise to create scale and unlock value from our investment in Banco Único. |
| Implement people practices to become more agile, innovative, competitive and digital. | Implemented large-scale change programmes to transform our leadership and culture and embrace New Ways of Work. |
| Work with government, business and labour to create inclusive growth in SA, and a sustainably transformed Nedbank and banking sector. | Played a leading role in the CEO Initiative and recognised as a leader in transformation. |

| | Mike Brown | | |
|---|---|---|---|
| **Total remuneration R000** | **2017** | 2016 | % |
| Cash portion of package | **7 014** | 6 680 | |
| Other benefits | **160** | 148 | |
| Defined-contribution Retirement Fund | **1 001** | 953 | |
| Guaranteed remuneration (a) | **8 175** | 7 781 | 5,1 |
| Cash performance incentive | **7 875** | 7 750 | |
| Deferred performance incentive (delivered in shares) | **5 875** | 6 750 | |
| Total STI[1] (b) | **13 750** | 14 500 | (5,2) |
| LTI[2] (c) | **8 279** | 9 716 | |
| Match[3] (d) | **4 509** | 4 164 | |
| Dividends[4] (e) | **3 411** | 2 863 | |
| Total remuneration (a)+(b)+(c)+(d)+(e) | **38 124** | 39 024 | (2,3) |

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs and the amount remaining invested in the scheme for 36 months.*

[2] *Total LTI represents the total value (both performance-vested and time-vested), valued at the year-end share price of R238,13 (2016: R188,61) that will be settled in March 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[3] *Total match represents the value, valued at the year-end share price of R238,13 (2016: R188,61), of matched shares that will be settled in April 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[4] *Total dividends represent the total value of dividends received during the financial year on unvested share-based awards.*

| **Value of share-based awards made in the following financial year** | Mike Brown | | |
|---|---|---|---|
| **LTI awards R000** | **2017** | 2016 | % |
| Value of share-based awards (face value at award) | **14 500** | 14 500 | – |

# REMUNERATION OUTCOMES AND CHANGES FOR 2018
(continued)

## MFUNDO NKUHLU
Chief Operating Officer

| Performance outcome |
|---|
| Performing |

| Goals | Commentary |
|---|---|
| **Transactional** | |
| Deliver sustainable financial performance. | Solid performance delivered by our managed operations in a difficult political and economic environment. Q4 2016 loss from ETI accounted for in Nedbank's 2017 results resulted in weak financial performance in RoA, followed by three subsequent quarters of profit. In SADC subsidiary headline earnings increased off a low base, supported by initial benefits from investments and lower headoffice costs. |
| Ensure effective governance, compliance and risk management practices. | Ongoing progress was made in filling key vacancies based on enhanced governance and risk practices. |
| **Transformational** | |
| Deliver innovative market-leading client experiences. | Introduction of new mobile platforms, payment solutions and card offerings enhanced Nedbank's CVPs. |
| Grow our transactional banking franchise faster than the market. | Initiative implemented to lay foundation and grow the African businesses faster than the market, including CVPs, bundled pricing and mobile banking. |
| Be operationally excellent in all we do. | Effectively delivered on project milestones and achieved cost savings through Flexcube rollout to remaining subsidiaries.<br>Managed interdependencies between the TOM and the group's strategic enablers, including People 2020, brand 2020, etc. |
| Provide our clients with access to the best financial services network in Africa. | ETI:<br>■ Changes made to the ETI board composition and Nedbank representation on key board and board committees.<br>■ Increased levels of collaboration between Nedbank and ETI, resulting in increased crossflows of business, such as the integrated crossborder transfer solution.<br>SADC: Benefits of investments made in core banking systems, CVPs and digital innovations led to strong client growth. |
| Implement people practices to become more agile, innovative, competitive and digital. | Participated in group processes, including New Ways of Work and agile delivery. |

| | Mfundo Nkuhlu | | |
|---|---|---|---|
| **Total remuneration R000** | **2017** | 2016 | % |
| Cash portion of package | **4 635** | 4 415 | |
| Other benefits | **149** | 137 | |
| Defined-contribution Retirement Fund | **668** | 635 | |
| Guaranteed remuneration (a) | **5 452** | 5 187 | 5,1 |
| Cash performance incentive | **4 500** | 4 625 | |
| Deferred performance incentive (delivered in shares) | **3 500** | 3 625 | |
| Total STI[1] (b) | **8 000** | 8 250 | (3,0) |
| LTI[2] (c) | **7 483** | 8 019 | |
| Match[3] (d) | **2 480** | 2 402 | |
| Dividends[4] (e) | **2 326** | 2 091 | |
| Total remuneration (a)+(b)+(c)+(d)+(e) | **25 741** | 25 949 | (0,8) |

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs and the amount remaining invested in the scheme for 36 months.*

[2] *Total LTI represents the total value (both performance-vested and time-vested), valued at the year-end share price of R238,13 (2016: R188,61) that will be settled in March 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[3] *Total match represents the value, valued at the year-end share price of R238,13 (2016: R188,61), of matched shares that will be settled in April 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[4] *Total dividends represent the total value of dividends received during the financial year on unvested share-based awards.*

| **Value of share-based awards made in the following financial year** | Mfundo Nkuhlu | | |
|---|---|---|---|
| **LTI awards R000** | **2017** | 2016 | % |
| Value of share-based awards (face value at award) | **9 500** | 9 250 | 2,7 |

## RAISIBE MORATHI

Chief Financial Officer

**Performance outcome**

Exceeding

| Goals | Commentary |
|---|---|
| **Transactional** | |
| Drive sustainable financial performance through financial planning, management and reporting and provide shared services and central finance. | Solid performance delivered by our managed operations in a difficult political and economic environment supported by low-cost growth across the group and in Group Finance.<br>Efficient business planning processes and worldclass financial reporting acknowledged through multiple industry awards. |
| Ensure effective governance, compliance and risk management practices. | Successfully implemented IFRS 9 and IFRS 15 (critical changes in the accounting landscape).<br>Robust and efficient tax compliance resulted in no penalties or interest incurred for late submissions. |
| Enable a worldclass investor relations function with enhanced focus on managed separation. | Was instrumental in the delivery of key activities, successful investor engagements and delivery of Nedbank's investment case. |
| **Transformational** | |
| Manage the evolution to become an ERP frontier of excellence. | Successfully delivered several automated processes (robotics), with acknowledgement from global leaders.<br>Completed the entire SAP ERP implementation, marking a significant milestone. |
| Implement people practices to become more agile, innovative, competitive and digital. | Played a leading role in driving the transformation, with several key programme rollouts scheduled in 2018. |
| Manage key stakeholder relationships. | Timeously managed complex reputational matters relating to external parties and proactively engaged with investors.<br>Engaged with JSE, SARB, SARS and other authorities conducted with ongoing and proactive intent. |

| | Raisibe Morathi | | |
|---|---|---|---|
| **Total remuneration R000** | **2017** | 2016 | % |
| Cash portion of package | **4 184** | 3 654 | |
| Other benefits | **110** | 105 | |
| Defined-contribution Retirement Fund | **576** | 666 | |
| Guaranteed remuneration (a) | **4 870** | 4 425 | 10,1 |
| Cash performance incentive | **4 625** | 4 625 | |
| Deferred performance incentive (delivered in shares) | **3 625** | 3 625 | |
| Total STI[1] (b) | **8 250** | 8 250 | 0,0 |
| LTI[2] (c) | **4 458** | 5 232 | |
| Match[3] (d) | **2 330** | 2 210 | |
| Dividends[4] (e) | **1 851** | 1 763 | |
| Total remuneration (a)+(b)+(c)+(d)+(e) | **21 759** | 21 880 | (0,6) |

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs and the amount remaining invested in the scheme for 36 months.*

[2] *Total LTI represents the total value (both performance-vested and time-vested), valued at the year-end share price of R238,13 (2016: R188,61) that will be settled in March 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[3] *Total match represents the value, valued at the year-end share price of R238,13 (2016: R188,61), of matched shares that will be settled in April 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[4] *Total dividends represent the total value of dividends received during the financial year on unvested share-based awards.*

| **Value of share-based awards made in the following financial year** | Raisibe Morathi | | |
|---|---|---|---|
| **LTI awards R000** | **2017** | 2016 | % |
| Value of share-based awards (face value at award) | **8 750** | 8 000 | 9,4 |

## BRIAN KENNEDY

Managing Executive: Nedbank Corporate and Investment Banking

| Performance outcome |
| --- |
| Performing |

| Goals | Commentary |
| --- | --- |
| **Transactional** | |
| Deliver sustainable financial performance. | Lack of business confidence translated into revenue pressures during the year, offset by lower impairments and excellent risk management in CIB. Headline earnings increased while maintaining ROE above 20%. |
| Ensure effective governance, compliance and risk management practices. | Strong risk management, collections and high-quality portfolio led to lower CLR of 6 bps.<br>Materially completed AML remediation and IFRS 9 programme. |
| **Transformational** | |
| Deliver innovative market-leading client experiences. | Embedded client intelligence platforms enhanced our value proposition to clients. |
| Grow transactional banking and commercial deposits market share. | Won 26 primary clients during 2017. |
| Be operationally excellent in all we do. | CIB consistently generated an industry-leading efficiency ratio.<br>Robotics process automation implemented, with larger-scale rollout in 2018.<br>Continuously tested disruptive technologies to improve the way we do business. |
| Manage scarce resources to optimise economic outcomes. | Continued support of the Fair Share 2030 programme – incremental student housing deals and implementation of a water strategy. |
| Provide our clients with access to the best financial services network in Africa – increase dealflow from subsidiaries and ETI. | Good pipeline of deals expected to close in 2018.<br>Appointed to ETI board. |
| Implement people practices to become more agile, innovative, competitive and digital. | Participated in group processes.<br>20 graduates accepted offers for the 2018 CIB Graduate Programme. |

| | Brian Kennedy | | |
| --- | --- | --- | --- |
| **Total remuneration R000** | **2017** | 2016 | % |
| Cash portion of package | **4 015** | 3 819 | |
| Other benefits | **236** | 233 | |
| Defined-contribution Retirement fund | **320** | 305 | |
| Guaranteed remuneration (a) | **4 571** | 4 357 | 4,9 |
| Cash performance incentive | **8 875** | 9 320 | |
| Deferred performance incentive (delivered in shares) | **7 875** | 8 320 | |
| Total STI[1] (b) | **16 750** | 17 640 | (5,0) |
| LTI[2] (c) | **7 435** | 6 604 | |
| Match[3] (d) | **4 953** | 4 164 | |
| Dividends[4] (e) | **2 540** | 1 956 | |
| Total remuneration (a)+(b)+(c)+(d)+(e) | **36 249** | 34 721 | 4,4 |

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs and the amount remaining invested in the scheme for 36 months.*

[2] *Total LTI represents the total value (both performance-vested and time-vested), valued at the year-end share price of R238,13 (2016: R188,61) that will be settled in March 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[3] *Total match represents the value, valued at the year-end share price of R238,13 (2016: R188,61), of matched shares that will be settled in April 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[4] *Total dividends represent the total value of dividends received during the financial year on unvested share-based awards.*

| **Value of share-based awards made in the following financial year** | Brian Kennedy | | |
| --- | --- | --- | --- |
| **LTI awards R000** | **2017** | 2016 | % |
| Value of share-based awards (face value at award) | **8 500** | 8 500 | – |

## CIKO THOMAS

Managing Executive: Nedbank Retail and Business Banking

| Performance outcome |
| --- |
| Exceeding |

| Goals | Commentary |
| --- | --- |
| **Transactional** | |
| Deliver sustainable financial performance. | Solid performance across all businesses in tough economic and political environment increased headline earnings and ROE. |
| Ensure effective governance, compliance and risk management practices. | Materially completed AML remediation and implementation of IFRS9 programme.<br>Risk management practices led to lower impairments. |
| **Transformational** | |
| Deliver innovative market-leading client experiences. | Accelerated digitisation of technology and operations, showing an increase in digitally active clients.<br>New innovations and CVPs brought to market.<br>Made progress with further enhancements of loyalty and rewards programmes to be launched in 2018. |
| Grow our transactional banking franchise faster than the market. | Achieved NIR growth higher than inflation despite weak economic growth.<br>Made good progress in quality client acquisition and improved client retention, as reflected in an increased number of clients.<br>Increased retail main-banked market share, but Business Banking's market share remained steady, thus did not achieve client number targets. |
| Be operationally excellent in all we do. | Good progress made with the Target Operating Model (TOM) and cost optimisation initiatives. |
| Manage scarce resources to optimise economic outcomes. | Gained market share in key lending and deposit categories. |
| Implement people practices to become more agile, innovative, competitive and digital. | Ensured that Managed Evolution and DFL are firmly in delivery mode, creating value. |

| | Ciko Thomas | | |
| --- | --- | --- | --- |
| **Total remuneration R000** | **2017** | 2016[6] | % |
| Cash portion of package | **3 746** | 2 513 | |
| Other benefits | **113** | 78 | |
| Defined-contribution Retirement fund | **610** | 410 | |
| Guaranteed remuneration (a) | **4 469** | 3 001 | 48,9 |
| Cash performance incentive | **4 625** | 4 250 | |
| Deferred performance incentive (delivered in shares) | **3 625** | 3 250 | |
| Total STI[1] (b) | **8 250** | 7 500 | 10,0 |
| LTI[2] (c) | **3 431** | 4 057 | |
| Match[3] (d) | **381** | – | |
| Dividends[4] (e) | **1 454** | 1 101 | |
| Total remuneration (a)+(b)+(c)+(d)+(e) | **17 985** | 15 659 | 14,9 |

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs and the amount remaining invested in the scheme for 36 months.*

[2] *Total LTI represents the total value (both performance-vested and time-vested), valued at the year-end share price of R238,13 (2016: R188,61) that will be settled in March 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[3] *Total match represents the value, valued at the year-end share price of R238,13 (2016: R188,61), of matched shares that will be settled in April 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[4] *Total dividends represent the total value of dividends received during the financial year on unvested share-based awards.*

**Value of share-based awards made in the following financial year**

| | Ciko Thomas | | |
| --- | --- | --- | --- |
| **LTI awards R000** | **2017** | 2016 | % |
| Value of share-based awards (face value at award) | **8 500** | 12 000[5] | (29,2) |

[5] *Inclusive of on-appointment awards made in respect of appointment to more senior role.*

[6] *Ciko Thomas was appointed as Managing Executive: Nedbank Retail and Business Banking on 31 March 2016.*

## IOLANDA RUGGIERO

Managing Executive: Nedbank Wealth

| Performance outcome |
|---|
| Performing |

| Goals | Commentary |
|---|---|
| **Transactional** | |
| Deliver sustainable financial performance. | Financial performance negatively affected by the economic environment, impacting investor sentiment, as well as the impact of higher-than-usual levels of catastrophic insurance events. Headline earnings increased in Asset Management, but decreased in Insurance and Wealth Management. |
| Ensure effective governance, compliance and risk management practices. | Delivered solid performance against targets set for regulatory compliance, risk management and other business processes. Materially completed AML remediation and implementation of IFRS 9. |
| **Transformational** | |
| Deliver innovative market-leading client experiences. | Achieved good growth in Nedbank Private Wealth client numbers.<br>Received various awards across Wealth and Asset Management, including recognition in the Intellidex Survey as well as the annual Raging Bull Awards. |
| Manage scarce resources to optimise economic outcomes. | Achieved asset management market share gains above set targets, with excellent net client cashflows. |
| Be operationally excellent in all we do. | Retail volumes and penetration were lower than expected.<br>Successful progress towards implementing a single insurance administration platform. |

| | Iolanda Ruggiero | | |
|---|---|---|---|
| **Total remuneration R000** | **2017** | 2016 | % |
| Cash portion of package | **3 160** | 3 011 | |
| Other benefits | **91** | 84 | |
| Defined-contribution Retirement fund | **454** | 432 | |
| Guaranteed remuneration (a) | **3 705** | 3 527 | 5,0 |
| Cash performance incentive | **3 125** | 3 550 | |
| Deferred performance incentive (delivered in shares) | **2 125** | 2 550 | |
| Total STI[1] (b) | **5 250** | 6 100 | (13,9) |
| LTI[2] (c) | **1 487** | 1 651 | |
| Match[3] (d) | **1 097** | 1 038 | |
| Dividends[4] (e) | **1 313** | 958 | |
| Total remuneration (a)+(b)+(c)+(d)+(e) | **12 852** | 13 274 | (3,2) |

[1] *In terms of the rules of the Matched-share Scheme this amount may increase by up to 27,5% (before share price movement), subject to fulfilment of the CPTs and the amount remaining invested in the scheme for 36 months.*

[2] *Total LTI represents the total value (both performance-vested and time-vested), valued at the year-end share price of R238,13 (2016: R188,61) that will be settled in March 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[3] *Total match represents the value, valued at the year-end share price of R238,13 (2016: R188,61), of matched shares that will be settled in April 2018, but for which the measurement of performance conditions was concluded on 31 December 2017.*

[4] *Total dividends represent the total value of dividends received during the financial year on unvested share-based awards.*

| **Value of share-based awards made in the following financial year** | Iolanda Ruggiero | | |
|---|---|---|---|
| **LTI awards R000** | **2017** | 2016 | % |
| Value of share-based awards (face value at award) | **6 000** | 6 500 | (7,7) |

## NON-EXECUTIVE DIRECTORS

### Non-executive director remuneration

Non-executive director remuneration for the years ended 31 December 2017 and 31 December 2016 was as follows:

| Non-executive director | Note | Nedbank and Nedbank Group board fees (R000) | Committee fees (R000) | 2017 (R000) | 2016 (R000) |
|---|---|---|---|---|---|
| David Adomakoh | 1, 1a | 172 | 50 | **222** | 572 |
| Tom Boardman | 2, 2a, 2b, 2c | 836 | 505 | **1 341** | 2 432 |
| Brian Dames | | 463 | 319 | **782** | 718 |
| Ian Gladman | 9 | 463 | 391 | **854** | 791 |
| Errol Kruger | 3, 3a | 463 | 814 | **1 277** | 346 |
| Paul Hanratty | 10 | | | | 137 |
| Bruce Hemphill | 9 | 463 | 231 | **694** | 635 |
| Mpho Makwana | | 463 | 980 | **1 443** | 1 281 |
| Mantsika Matooane | | 463 | 363 | **826** | 717 |
| Nomavuso Mnxasana | | 463 | 965 | **1 428** | 1 260 |
| Vassi Naidoo | | 5 178 | | **5 178** | 4 875 |
| Joel Netshitenzhe | | 463 | 328 | **791** | 705 |
| Rob Leith | 9 | 463 | 391 | **854** | 181 |
| Stanley Subramoney | 4, 4a | 463 | 911 | **1 374** | 961 |
| Malcolm Wyman | 5, 5a | 648 | 748 | **1 396** | 1 711 |
| Linda Manzini | 6 | 275 | 194 | **469** | |
| Neo Dongwana | 7 | 275 | 251 | **526** | |
| Hubert Brody | 8 | 238 | 324 | **562** | |
| **Total** | | 12 252 | 7 765 | **20 017** | 17 322 |

1. *David Adomakoh resigned as a director of Nedbank Limited and Nedbank Group Limited on 18 May 2017.*

1a. *David Adomakoh resigned as a member of the Group Transformation, Social and Ethics Committee and the Group Related-party Transactions Committee on 18 May 2017.*

2. *Tom Boardman resigned as a director of Nedbank Limited and Nedbank Group Limited on 18 May 2017.*

2a *Tom Boardman resigned as member and Chairman of the Group Credit Committee, Large-exposure Approval Committee and Group Risk and Capital Management Committee on 18 May 2017.*

2b *Tom Boardman resigned as a member of the Group Audit Committee, Group Directors' Affairs Committee and Group Related-party Transactions Committee on 18 May 2017.*

2c *Tom Boardman sat on the board of Nedbank Private Wealth (Isle of Man). His board fees are inclusive of the Nedbank Private Wealth (Isle of Man) fees of £40 000. He resigned with effect from 20 March 2018.*

3 *Errol Kruger was appointed as the Chairman of the Group Credit Committee, Large-exposure Approval Committee and Group Risk and Capital Management Committee on 18 May 2017.*

3a *Errol Kruger was appointed as a member of the Group Directors' Affairs Committee on 18 May 2017.*

4 *Stanley Subramoney was appointed as Chairman of the Group Audit Committee on 18 May 2017.*

4a *Stanley Subramoney was appointed as a member of the Group Directors' Affairs Committee and the Group Related-party Transactions Committee on 18 May 2017.*

5 *Malcolm Wyman resigned as Chairman and member of the Group Audit Committee on 18 May 2017.*

5a *Malcolm Wyman resigned as a member of the Group Risk and Capital Management Committee on 18 May 2017.*

6 *Linda Manzini was appointed as a director of Nedbank and Nedbank Group with effect from 1 June 2017, and was appointed as a member of the Group Transformation, Social and Ethics Committee and Group Credit Committee on 1 June 2017.*

7 *Neo Dongwana was appointed as a director of Nedbank and Nedbank Group with effect from 1 June 2017, and was appointed as a member of the Group Remuneration Committee and Group Audit Committee on 1 June 2017.*

8 *Hubert Brody was appointed a director of Nedbank and Nedbank Group with effect from 1 July 2017, and was appointed a member of the Group Credit Committee, Large-exposure Approval Committee, Group Audit Committee and Group Remuneration Committee with effect from 1 July 2017.*

9 *Fees for Ian Gladman, Bruce Hemphill and Rob Leith were paid to Old Mutual plc.*

10 *Paul Hanratty resigned as a director of Nedbank Limited and Nedbank Group Limited and all the committees on 12 March 2016.*

## NON-EXECUTIVE DIRECTOR FEES FOR 2018

The non-executive director fee proposals were evaluated by an independent board committee consisting of Mike Brown and Bruce Hemphill, with advice from independent experts. This evaluation was conducted from a number of perspectives, including peer group comparisons, effective rates per committee and year-on-year increases.

Increases to the Chairman's fee, board fees and several committee fees have been proposed at a range between 6,0% and 18,4%, to improve alignment with market-related non-executive fees, with the overall increase at 7,6%.

## OUR BOARD AND BOARD COMMITTEES

Our board of directors provides leadership and strategic guidance to safeguard stakeholder value creation within a framework of prudent and effective controls. This makes it possible to assess and manage risk to ensure long-term sustainable development and growth. The board has ultimate accountability and responsibility for the performance and affairs of the company and ensures that the group adheres to high standards of ethical behaviour. The board is led by our Chairman, Vassi Naidoo, together with our Lead Independent Director (LID), Malcolm Wyman. Individual reports from the chairs of the board and board committees are presented on pages 92 to 99.

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

### The Group Audit Committee (GAC)

**CHAIR:** Stanley Subramoney

**MANDATE**

- Assist the board in its evaluation of the integrity of our financial statements through evaluation of the adequacy and efficiency of our internal control systems, accounting practices, information systems and internal auditing applied in the day-to-day management of our business.
- Manage the relationship with the external auditors and assess their independence and effectiveness.
- Facilitate and promote communication between the board, executive management, the external auditors and the Chief Internal Auditor.
- Introduce measures to enhance the credibility and objectivity of financial statements and reports.

### The Group Risk and Capital Management Committee (GRCMC)

**CHAIR:** Errol Kruger

**MANDATE**

- Ensure the identification, assessment, control, management, reporting and remediation of risks across a wide range of the organisation's Enterprisewide Risk Management Framework (ERMF).
- Set and own Nedbank's risk strategy and monitor conformance to risk management policies, procedures, regulatory and internal limits and exposures, and processes and practices. Monitor the group's Key Issues Control Log (KICL), which is paramount to GRCMC's oversight role.
- In 2017 the main board approved the creation of a separate Anti-money-laundering (AML) GRCMC to accord the relevant attention and focus to AML, combating the financing of terrorism and sanctions, and not to detract focus from other existing and new risks or issues.

### The Group Remuneration Committee (Group REMCO)

**CHAIR:** Mpho Makwana

**MANDATE**

- Enable the board to achieve its responsibilities in relation to the group's Remuneration Policy, processes and procedures and specifically to enable the group as follows:
  - Meet the requirements of section 64C of the Banks Act, 94 of 1990.
  - Operate remuneration structures that are aligned with best market practice.
  - Conform to the latest thinking regarding good corporate governance on executive remuneration.
  - Align the behaviour of executives correctly with the strategic objectives of the group.

### The Group Credit Committee (GCC)

**CHAIR:** Errol Kruger

**MANDATE**

- Assist the board in fulfilling its credit risk oversight responsibilities, particularly with regard to the evaluation of credit mandates and governance, policies and credit risk.
- Confirm the adequacy of credit impairments.
- Monitor on an ongoing basis the overall credit portfolio, including the monitoring of the implementation and approval of the transition to IFRS 9 in 2018.
- Act as the designated committee appointed by the board to monitor, challenge and ultimately approve all material aspects of the group's Advanced Internal Rating-based (AIRB) credit-rating and risk estimation systems and processes.
- Approval of large exposures.*

** Regulation 24 of the regulations relating to the Banks Act, 94 of 1990, defines a large exposure as any credit exposure of the bank to a person (as defined in the regulations), where such exposure exceeds 10% of the bank's qualifying capital and reserves.*

*In terms of the regulation large exposures require the approval of the GCC. In addition, the South African Reserve Bank (SARB) requires that the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Risk Officer (CRO) and Chief Credit Officer (CCO) of the bank should be mandatory members of GCC solely for the purpose of approving these exposures. Together with any three members of the GCC, this committee is known as the Large-exposure Approval Committee (LEAC).*

Overview of the key focus areas of the board and board committees and the outcomes of the good governance.

## NEDBANK GROUP LIMITED AND NEDBANK LIMITED

## BOARD OF DIRECTORS

Chairman Vassi Naidoo

### The Group Directors' Affairs Committee (DAC)

**CHAIR:** Malcolm Wyman

**MANDATE**

- Consider, monitor and report to the board on reputational risk and compliance risk, compliance with King IV™ and the corporate governance provisions of the Banks Act, 94 of 1990.
- Act as the nominations committee for board appointments.

### The Group Information Technology Committee (GITCO)

**CHAIR:** Mantsika Matooane

**MANDATE**

- Oversee the execution of the board's approved information technology and digital strategy.
- Ensure alignment and implementation of a well-coordinated, efficient, effective and properly resourced IT strategy that enables the organisation to remain highly competitive.
- Assume ultimate accountability for the effectiveness of all governance functions pertaining to the group's technology capability.

### The Group Transformation, Social and Ethics Committee (GTSEC)

**CHAIR:** Nomavuso Mnxasana

**MANDATE**

- Advise on, oversee and monitor Nedbank Group's activities with regard to social and economic development, ethics, transformation, sustainability, corporate citizenship, occupational health and safety, stakeholder relationships, employment matters and environmental concerns.
- Comply with recommended practices and regulation as outlined in King IV™ and the Companies Act, 71 of 2008, in executing its mandate.

### The Group Related-party Transactions Committee (RPTC)

**CHAIR:** Malcolm Wyman

**MANDATE**

- Consider, review, evaluate and oversee related-party transactions of all types, and approve, ratify, disapprove or reject these transactions.
- Determine whether the related-party transaction is fair and in the best interests of Nedbank.
- Review, revise, formulate and approve policies on related-party transactions.
- Conduct a review of all related-party transactions concluded throughout the group at least once a year.

Further details on board committees is contained in the individual chairs' reports on pages 92 to 99.

# THE BOARD'S ALIGNMENT WITH THE OUTCOMES OF KING IV™

The board has ultimate accountability and responsibility for the performance and affairs of the group.

Governance in Nedbank Group reflects a culture of commitment to sound processes and procedures, which goes beyond legal compliance, to ensure that the group adheres to high standards of ethical behaviour and good performance outcomes.

The board believes that the group's adherence to the King IV™ principles is fully integrated into its governing practices. The diagram below demonstrates how this leads to the achievement of the King IV™ outcomes.

## COLLECTIVE RESPONSIBILITIES OF OUR BOARD

The board works to fulfil the primary governing roles and responsibilities recommended in the King IV Report™, namely:

1. **To set and steer strategic direction**
2. **To approve policy and planning**
3. **To oversee and monitor**
4. **To ensure accountability**

In doing so the board has committed to fulfilling the following responsibilities:

- Delegate management of the group to a competent executive management team.
- Ensure that a robust strategy process is defined and executed by management.
- Oversee the management of technology and information as two separate elements.
- Ensure compliance with appropriate legislation (including regulations), supervisory codes and appropriate best practices.
- Govern disclosures so that stakeholders can effectively assess the performance of the group.
- Protect the interests of the group's stakeholders and ensure fair, responsible and transparent people practices.
- Oversee the risk management function and ensure that it informs management's development and implementation of the strategy.

## VALUES-DRIVEN OBJECTIVES OF OUR BOARD ROOTED IN KING IV™ PRINCIPLES

The board's decisionmaking processes and actions are guided by its commitment to its responsibilities and governing objectives. The objectives provide a mechanism to measure and evaluate performance against the King IV™ principles and outcomes.

1. **The board will set the tone and lead the group ethically and effectively.**
This means that, in decisionmaking, individual boardmembers act with independence, inclusivity, competence, diligence and courage, and with the necessary insight and information.

2. **The board will provide leadership and vision to the group.**
This ensures sustainable growth and appropriate corporate citizenship for the benefit of all stakeholders of the group.

3. **The board will ensure that there is a framework of prudent and effective controls.**
This enables risk and opportunity to be assessed and managed effectively.

4. **The board will take accountability for the performance of the group.**
In so doing the board will support the group in setting its purpose and achieving its strategic objectives.

5. **The board will take responsibility for the sound corporate governance of its performance as well as that of Nedbank Group as a whole.**

## GOVERNING PRINCIPLES AND PRACTICES OF OUR BOARD

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 King IV™ principles have guided the group's approach to good corporate governance and have provided the foundation from which to determine responsibilities and objectives.

For more details on our implementation of the King IV™ principles refer to pages 88 and 89.

## OUTCOMES OF THE EFFORTS OF OUR BOARD

Good corporate governance is our vehicle to business integrity, successful business relationships and value for our stakeholders.

As such, we strive to ensure that we meet the intended outcomes of the King IV Code™ in a way that supports the success of our strategy and allows us to meet the 2020 targets for each of our stakeholders.

**ETHICAL CULTURE**
↓
**EFFECTIVE CONTROL**
↓
**LEGITIMACY**
↓
**GOOD PERFORMANCE**
↓

### 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

↓

**2020 targets**

### STAKEHOLDERS

- Staff
- Clients
- Shareholders
- Regulators
- Society

## IMPLEMENTATION OF KING IV™

To determine the impact of King IV™ on current governance practices within Nedbank Group a diagnostic assessment was undertaken, categorising the foundational concepts of King IV™ into primary areas of accountability and residency:

| | | Our response |
|---|---|---|
| **Leadership, ethics and corporate citizenship** | **Principle 1** The governing body should lead ethically and effectively.<br>**Principle 2** The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture. | The board of directors provides leadership and strategic guidance continually aimed at safeguarding shareholder value creation. This leadership and guidance are provided within a framework of ethical and prudent controls, which supports the establishment of an ethical culture. |
| | **Principle 3** Responsible corporate citizenship. | Through our responsible lending, managing of our operations, CSI initiatives and sustainability enhancements, we aim to provide value-added services and maintain our position as a responsible corporate citizen. We have a key role to play in society as a major employer, taxpayer, skills provider and facilitator of economic growth, to name a few. |
| **Strategy, performance and reporting** | **Principle 4** The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process. | The board annually approves the strategy of Nedbank Group. The board-approved level 3 Strategy Risk Principles Policy addresses the principles to be taken into account in the development of strategy, in line with our purpose, vision, values, targets and brand. |
| | **Principle 5** The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short- medium- and long-term prospects. | A validation exercise by an independent consultancy indicated that the disclosure element in this regard meets the King IV™ objectives. Information related to the required disclosures is contained in, among others, this Integrated Report and the supplementary reports, including the King IV™ principles report, available at nedbankgroup.co.za. |
| **Governing structures and delegation** | **Principle 6** Board as custodian of good governance | The board has embraced governance practices and principles and has ultimate accountability and responsibility for the performance and affairs of the company, including good governance practices and principles. |
| | **Principle 7** Board composition | The board composition is aligned with the requirements of King IV™ regarding the number of executive versus non-executive directors. Skills, experience and tenure of boardmembers are monitored continually. Refer to the composition of the board on page 16. |
| | **Principle 8** Effective board structures and delegation of authority | We aim to ensure that board structures are effective through annual effectiveness assessments. Delegation of matters and mandates to individuals and/or ad hoc committees are managed through a formal delegation of authority process and accompanying board resolutions. |
| | **Principle 9** Board performance evaluation | For the 2017 board performance evaluation the board has engaged EY to coordinate the self-evaluation and assessment of the performance of Nedbank's board, its committees and individual boardmembers. Previously evaluations were conducted internally, in line with established governance practices. |
| | **Principle 10** Board/Management relationships | Nedbank Group continuously adheres to sound practices in respect of board continuity programmes, succession planning, board delegation processes and an annual CEO performance evaluation. |

| | | Our response |
|---|---|---|
| **Governance functional areas** | **Principle 11** Risk governance | Nedbank currently adopts a well-defined enterprisewide risk management function in the bank that fully supports good governance practices. |
| | **Principle 12** Technology and information governance | Strategies are in place for technology enhancements through both Managed Evolution execution and Digital Fast Lane, ensuring separate governance structures for information and technology. |
| | **Principle 13** Compliance governance | Nedbank continues to approach compliance risk through the implementation of proactive and robust mitigating control measures. Being ultimately accountable, the board continually provides guidance to the group on the management of compliance risk. |
| | **Principle 14** Remuneration governance | Nedbank continues to ensure that its remuneration policies facilitate ongoing dialogue with shareholders and that policies and disclosures are up to date. Work has been completed to align the bank's remuneration and ethics philosophies better in terms of fair and responsible remuneration, existing termination provisions, and the setting of non-executive director fees in the Remuneration Policy. |
| | **Principle 15** Assurance | The board provides direction as to how assurance services and functions effectively combine to enable an effective control environment and support the integrity of information for internal decisionmaking and external Nedbank reports. |
| **Stakeholder relationships** | **Principle 16** Stakeholder-inclusive approach | Nedbank Group is currently finalising enhancements for a more strategic approach to stakeholder relations management and stakeholder engagement in accordance with the proposed centralised stakeholder model in King IV™. |
| | **Principle 17** Responsible investment | The Responsible Investment Standard, approved by the board, applies to all business units involved in investment practices across the group and, as such, is embraced by Nedbank Group and its subsidiaries. |

It was established that Nedbank Group's current corporate governance practices are supportive of King IV™ principles.

## COMPLIANCE WITH OTHER BANKING CODES

### The UK Code of Corporate Governance

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

### Code of Banking Practice

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

### Basel Code of Principles

The Basel Committee on Banking Supervision published a guideline in July 2015 – Corporate Governance Principles for Banks. The governance and compliance teams are working to ensure compliance with the guideline.

# LEADERSHIP THROUGH ETHICS AND HUMAN RIGHTS

The test of character and good corporate citizenship lies in whether an organisation behaves ethically during good as well as trying times. When organisations operate in a tough economic, political and social environment that is not conducive to creating an ethical culture, they will falter more often than not but what is important is how ethical organisations deal with these faults.

As emphasised in King IV™, an organisation must fundamentally add value for stakeholders. To add true value an organisation must take a long-term view supported by a long-term strategy, and adopt a responsible business philosophy.

We have a philosophy of doing business responsibly, which means doing business ethically remembering that legal business is not always ethical business. Responsible or ethical business is based on a trust relationship with stakeholders. Trust is created by having a sound strategy and business offering, ethical leadership, and a commonly accepted set of values staffmembers live by, which in turn lead to effective governance, and risk and compliance management. And all of this will help build our reputation, brand and shareholder value.

Our aim therefore is the application of higher standards of ethical decisionmaking, taking stakeholder requirements into consideration to ensure value creation.

## Governance of ethics

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

**Board Ethics Statement**
Boardmembers, and those of our subsidiaries, are required to acknowledge and sign this statement.

**Ethics and Corporate Accountability Framework**
Our key focus areas is to develop a unique and innovative culture with ethical behaviour at its core.

**The Ethics Panel**
This panel deals with material tipoffs regarding unethical conduct and continues to ensure that independent, objective and fair courses of action are taken.

**Code of Ethics**
All employees (including contractors and temporary employees) must adhere to this commitment to being responsible.

**Code of Conduct**
By the end of 2017 a total of 97,4% (2016: 97,1%) of our employees had acknowledged the Code of Conduct, which is reviewed annually.

**Supplier Code of Conduct** The code supports the protection of human rights across our supply chain. It applies to all our suppliers, consultants and contractors, and ensures that Nedbank adheres to UK and other extraterritorial legislation.

**Independent assurance of high-risk/high-value tenders**
This cost-effective, high-quality process continues to help business maintain the highest governance and ethics standards during tenders.

**Ethics programme in African subsidiaries** Business ethics officers who have finalised the Ethics Officer Accreditation Programme through The Ethics Institute have been appointed in all subsidiaries.

## Measurement of ethics

The Root Cause Analysis Framework for conduct risk was implemented and enhanced. All 2016 and 2017 investigations were analysed according to this framework and root causes were reported on.

## Driving ethical awareness

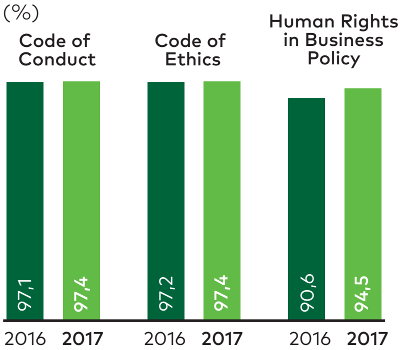
### Promoting ethics among our staff

a) Awareness training

b) Acknowledgement of policies – During 2017 the system delivered the following data on certain policy acknowledgements and declarations:

**Acknowledgements**

(%)




### Promoting ethics among our suppliers

We use the Ethics Responsibility Index (ERI) to continually assess ethics, governance and human rights aspects of our suppliers. During 2017 the Ethics Office was involved in three high-risk/high-value tender processes. The Ethics Office also performed the independent assurance of the tender process. A total of 30 suppliers were assessed. They were no adverse findings.

### Promoting ethics among our clients

The following are provided to clients free of charge:

- Ethics awareness training for their staff.
- Professional business conduct training.
- Awareness creation of human rights in business.

Training was provided to **12 SME clients** during the year

Awareness training was conducted with more than **2 300 staffmembers**

## Enabling engagement on ethics

The following internal and external mechanisms for reporting actual or suspected unethical or unlawful behaviour and matters related to organisational integrity have been implemented:

- The Tipoffs Anonymous Hotline.
- The Talk to the Ethics Office email address.
- The Nedbank Group Risk Reporting Line.
- The Ethics Office.

## Commitment to upholding human rights in business

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

### Governance of human rights in business

All human-rights-related policy requirements are addressed with line managers in the Managers Toolkit training sessions. The Nedbank Human Rights in Business Policy, The Conflict Mineral Statement and The Nedbank Children's Rights Pledge all cover human rights issues.

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

**Human rights investment** – We continue to invest in raising stakeholder awareness of, and compliance with, human rights principles. In 2017 this investment resulted, among others, in the following initiatives and outcomes:

- We launched a CVP that includes the provision of training to SMEs. This includes awareness around 'human rights in business' principles and guidelines.
- A section on 'human rights in business' has been included in the Managers Toolkit training.
- We continue to support the Corporate Responsibility to Eliminate the Sale of Children (CRES) pledge.

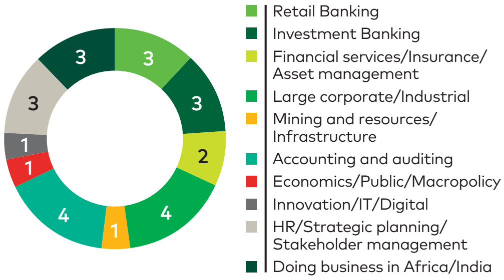
# BOARD COMMITTEE FEEDBACK

## GROUP AUDIT COMMITTEE (GAC)


'The Audit Committee continues to play an essential role in ensuring the integrity and transparency of corporate reporting, evaluating the adequacy and efficiency of our internal control, and assessing the independence and effectiveness of external audit. The GAC is satisfied that it has complied with all statutory duties as well as other duties given to it by the board under its terms of reference.'

| Members at 31 December 2017 | Member since | Board status |
|---|---|---|
| Stanley Subramoney | October 2015 | Independent non-executive |
| Mpho Makwana | September 2013 | Independent non-executive |
| Nomavuso Mnxasana | October 2008 | Independent non-executive |
| Hurbet Brody | July 2017 | Independent non-executive |
| Neo Dongwana | June 2017 | Independent non-executive |

### Skills and experience




### Ensuring and protecting value in 2017

- Considered, analysed, reviewed and debated information, key judgements and significant matters raised by management, internal audit and the external auditors to ensure the appropriateness of the year-end results.
- Reviewed and discussed information from management, Internal Audit and external auditors and considered the effectiveness of the internal controls of the group in all material respects throughout the year under review.
- Reviewed and discussed the audited AFS and related disclosures with the Chief Financial Officer, Chief Executive, Chief Risk Officer, internal audit and the external auditors, and recommended the AFS to the board for approval.
- Reviewed and approved the external auditors' annual plan and related scope of work, monitored the effectiveness of the external auditors in terms of their audit quality, expertise and independence, and considered the key audit matters reported in the external audit annual report.
- During the second half of the year, challenged and engaged with executives and boardmembers from KPMG regarding the allegations of corruption against the audit firm. At least two ad hoc GAC meetings and several separate engagements with the board and stakeholders have taken place to discuss the KPMG developments and assess the impact on Nedbank. Considered, among others, regulatory requirements, business continuity and reputational and systemic risk. KPMG SA provided assurance regarding the integrity of its audit processes and further assurance was provided by KPMG International, which agreed, at the request of Nedbank, to provide additional comfort in respect of its support of KPMG SA.
- Considered the results of the independent enquiries into KPMG SA to assess if any further action or response is required are awaited.
- Engaged senior management from Deloitte about the negative press regarding a client. The results of the Independent Regulatory Boards of Auditors (IRBA) investigation are awaited.
- Ensured that Internal Audit performs an independent assurance function and monitored the effectiveness of the Internal Audit function in terms of its scope, execution of its plan, coverage, independence, skills, staffing, overall performance and position within the organisation. Monitored and challenged, where appropriate, actions taken by management with regard to adverse internal audit findings.
- After the Chief Internal Auditor's resignation, an extensive recruitment process that involved the Chair of the GAC was followed, resulting in Prabashni Naidoo's appointment.
- Considered the independent quality assurance review of audit execution by PwC, the results of which confirmed that Internal Audit had generally conformed with the International Institute of Internal Auditors' standards for professional practice of internal auditing.
- Assessed compliance with all other statutory requirements in terms of section 94(7) of the Companies Act of 2008, King IV™, JSE Listings Requirements and any other applicable regulatory requirements.
- Monitored the implementation of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers to ensure appropriate accounting judgements and disclosure (by management), effective from 1 January 2018.

### Focus for 2018 and beyond

- Continued focus on ensuring that the group's financial systems, processes and controls are operating effectively, meet our complexity requirements and are responsive to changes in the environment and industry.
- Monitoring the developments of the Old Mutual managed separation process, including the reporting of external financial information and the additional external audit reviews required in terms of the listing requirements of the JSE and London Stock Exchange.
- Reviewing and considering management's plans in respect of IFRS 16 Leases and IFRS 17 Insurance Contracts .
- Monitoring the developments of the independent reviews of KPMG by the South African Institute of Chartered Accountants (SAICA) and IRBA assessing the impact on Nedbank.
- Considering the requirements arising from the mandatory audit firm rotation (MAFR) and initiating a project to assess and address the MAFR requirements.

### Strategic focus areas

Being operationally excellent in all we do

Managing scarce resources to optimise economic outcomes

Refer to pages 36 to 43 for more details.

### Stakeholders

Clients

Shareholders

Regulators

Refer to pages 64 to 71 for more details.

### Top 10 risks

1 Business risk
3 Cyberrisk
5 Regulatory and compliance risks
7 Operational risks
10 Balance sheet risk

Refer to page 50 for more details.

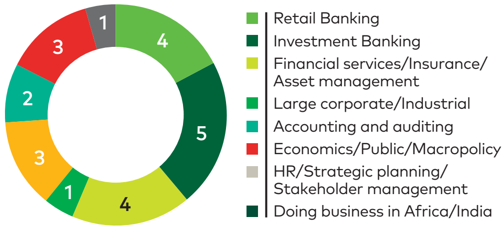
# GROUP RISK AND CAPITAL MANAGEMENT COMMITTEE (GRCMC)


'To acquit its mandate the GRCMC would be remiss if it merely concentrated on those risks traditionally associated with the business of banking. Therefore its response to these constantly changing risks, and in particular to what we refer to as the new C-suite risks, as well as reputational risk, has been to adopt a much broader and more flexible approach to the management of risk – going well beyond those terms of reference prescribed by the Banks Act and regulators. The GRCMC continues to focus on risk as a strategic opportunity, using risk management to position Nedbank advantageously, especially in the light of the positive political change in SA in 2018.'

| Members at 31 December 2017 | Member since | Board status |
|---|---|---|
| Errol Kruger | August 2016 | Independent non-executive |
| Mike Brown | October 2014 | Chief executive |
| Ian Gladman | July 2012 | Non-executive |
| Rob Leith | October 2016 | Non-executive |
| Nomavuso Mnxasana | November 2009 | Independent non-executive |
| Joel Netshitenzhe | October 2010 | Independent non-executive |

* *Appointed as Chair on 18 May 2017.*

**Skills and experience**




## Ensuring and protecting value in 2017

- Monitored the adequacy, efficiency and appropriateness of the group's risk, capital and liquidity management, and asset and liability management governance structures and processes.
- Reviewed Nedbank's risk strategy and risk appetite in an environment of unprecedented levels of change.
- Approved the refresh of Nedbank's RAF with emphasis on the inclusion of new and additional liquidity metrics, the introduction of an overarching risk appetite statement for the group, and increased risk coverage in the RAF to address non-financial risks.
- Monitored progress and delivery of the extensive regulatory change programmes to meet tight regulatory timelines.
- Actively monitored developments relating to the group's top 10 risks in 2017 as well as emerging risk in line with local and international trends.
- Digital Fast Lane (DFL) elevated significantly the focus on AML, CFT and sanctions, as well as cybercrime, including Nedbank's cyberresilience programme, given heightened cyberrisk from external environments and internally for Nedbank.
- Approved the annual Internal Capital and Liquidity Adequacy Assessments Processes as well as the Basel III Recovery Plan and considered scenarios or stress testing outcomes that demonstrated preparedness for such events.
- Continued the focus on integrated financial crime risk, supported by the creation of a dedicated AML GRCMC board committee and further development and enhancement of related frameworks for financial crime risk.
- Increased focus on reputational risk matters, especially relating to client and supplier relationships, following numerous allegations of state capture and recent global and local corporate governance failures extending into the private sector.
- Heightened the focus on operational and IT risk in the current operating environment and the significant changes brought about by, among others, Managed Evolution (ME) and digital innovation.
- Provided oversight of management actions to strengthen the internal control environment, particularly in Nedbank Namibia, following an external fraud event that affected all the larger banks in Namibia.

## Focus for 2018 and beyond

- Continued focus on micro and macro operating environments and markets, as well as local and international geopolitical risks.
- Assessing risk trends locally and internationally, and Nedbank's response.
- Continued oversight of the execution of Nedbank's risk strategy and refreshed RAF, specifically focusing on the new C-suite risks (refer to pages 48 and 49).
- Ongoing oversight of the management of reputational risk in view of the changing operating environment.
- Continued focus on fast-tracking Nedbank's journey to cyberresilience.
- Continued updating, review and monitoring of the group's top 10 risks.
- Increased focus on evolving requirements of market conduct and market conduct risk as regulations develop.
- Special focus on RoA businesses.
- Transition to the Financial Intelligence Centre Amendment Act, 1 of 2017, for AML, CFT and Sanctions by April 2019.
- Enhancement of concentration risk measurement and management across affected risk types.
- Assessing, monitoring and overseeing management of risks attached to managed separation.
- Assessing, monitoring and overseeing management of risks attached to ME and DFL.

### 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

Refer to pages 36 to 43 for more details.

### Stakeholders

- Staff
- Clients
- Shareholders
- Regulators

Refer to pages 64 to 71 for more details.

### Top 10 risks

- (5) Regulatory and compliance risks
- (6) Conduct and culture risks
- (7) Operational risks
- (9) Market risk
- (10) Balance sheet risk

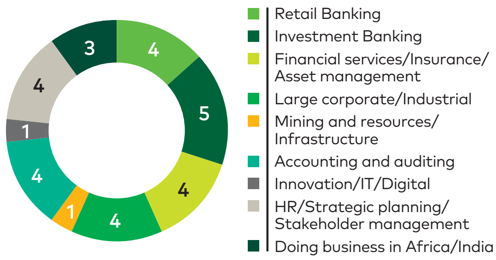
Refer to page 50 for more details.

# GROUP REMUNERATION COMMITTEE (REMCO)


'The board, through Group Remco, is committed to ensuring that remuneration of executive management is fair and responsible in the context of overall employee remuneration. The Group Exco holds management accountable for ensuring total remuneration is distributed fairly.'

| Members at 31 December 2017 | Member since | Board status |
|---|---|---|
| Mpho Makwana | January 2012 | Independent non-executive |
| Hubert Brody | July 2017 | Independent non-executive |
| Neo Dongwana | June 2017 | Independent non-executive |
| Bruce Hemphill | November 2015 | Non-executive |
| Nomavuso Mnxasana | July 2009 | Independent non-executive |
| Malcolm Wyman | March 2010 | Lead independent director |

**Skills and experience**




| Ensuring and protecting value in 2017 | Focus for 2018 and beyond |
|---|---|
| ■ Reviewed and approved the Remuneration Policy, ensuring it continues to meet changing legislative and regulatory requirements, including those under King IV™ and the amended JSE Listings Requirements. The policy was amended to include reference to the arrangements made to help ensure remuneration is fair and responsible. It was further amended to provide explicitly for shareholder engagement if 25% or more of the voting rights exercised by shareholders at an AGM are against the Remuneration Policy or the implementation report, or both.<br>■ Amended the Group Remuneration Committee Charter specifically to align with the King IV™ principle of ensuring that the group remunerates in a manner that is fair, responsible and transparent in the context of the group's overall remuneration and promotes the achievement of strategic objectives and positive outcomes.<br>■ Ensured alignment with changes in remuneration practice and applicable legislation and regulation through the independent review of the policy and its implementation by EY.<br>■ Received external training for Group Remco on ethics in remuneration as part of its annual education agenda.<br>■ Monitored income differentials with a view to ensuring fair and responsible remuneration outcomes.<br>■ Reviewed the material terms and conditions of service of all staff of the group (where appropriate) to ensure that they are fair and competitive. Key employee benefits, including the Nedgroup Medical Aid Scheme, the Postretirement Medical Aid Scheme and Risk Cover portfolios were reviewed.<br>■ Reviewed and approved the annual goal commitment contracts of the executive directors and prescribed officers.<br>■ Approved the overall remuneration increases for all staff, and remuneration proposals for the Chief Executive (CE) and Group Exco members.<br>■ Approved the annual pools to be made available for short-term incentives (STIs) and long-term incentives (LTIs).<br>■ Approved the corporate performance targets (CPTs) related to the vesting of long-term incentive allocations and matched shares.<br>■ Developed proposals for engagement with a broad base of our shareholders (refer to page 76). This engagement took place in January 2018 and was a proactive initiative to engage with a significant pool of our shareholders on changes we plan to introduce to our long-term incentives. The proposals were developed to improve the alignment of remuneration with our strategic objectives and considering shareholder views expressed in April 2017 as part of our annual governance roadshow. | ■ The continued relevance of the Remuneration Policy.<br>■ Ensuring that remuneration is implemented in accordance with the Remuneration Policy.<br>■ Aligning remuneration with Nedbank's strategic objectives, both before and after the Old Mutual managed separation, and with legitimate stakeholder views.<br>■ Meeting the requirements of its charter. |

## 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

Refer to pages 36 to 43 for more details.

## Stakeholders

- Clients
- Shareholders
- Regulators
- Staff

Refer to pages 64 to 71 for more details.

## Top 10 risks

1. Business risk
2. Strategic and execution risks
7. Operational risks

Refer to page 50 for more details.

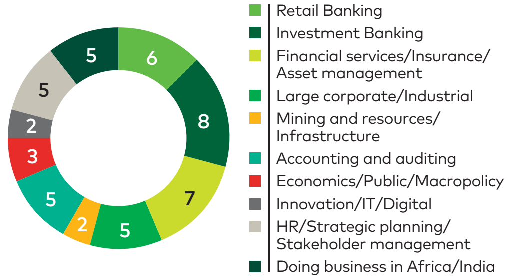
# GROUP CREDIT COMMITTEE (GCC)


'Nedbank Group's key credit metrics remained sound and resilient amid the adverse macroeconomic environment, illustrating the success of the strategic portfolio tilt initiatives, selective origination strategies, conservative provisioning and effective credit risk management. The SA economic outlook has improved, the change in the African National Congress (ANC) leadership in December 2017 has boosted confidence, driving a strong rally in the value of the SA rand, which, if sustained, could result in easier financial conditions and stronger economic growth in 2018.'

| Members at 31 December 2017 | Member since | Board status |
|---|---|---|
| Errol Kruger | August 2016 | Independent non-executive |
| Hubert Brody | July 2017 | Independent non-executive |
| Mike Brown | July 2011 | Chief executive |
| Brian Dames | July 2014 | Independent non-executive |
| Ian Gladman | July 2012 | Non-executive |
| Rob Leith | October 2016 | Non-executive |
| Linda Manzini | June 2017 | Independent non-executive |
| Raisibe Morathi | July 2011 | Chief financial officer |
| Mfundo Nkuhlu | January 2015 | Chief operating officer |
| Stanley Subramoney | October 2015 | Independent non-executive |

*Appointed as Chair on 18 May 2017.

## Skills and experience




## Ensuring and protecting value in 2017

- Satisfied itself that credit risk was well managed and impairments were adequately provisioned, and that risk was priced appropriately and monitored continuously. Proactively limited risk through the implementation of our strategic portfolio tilt initiatives, which included, among others, a selective growth strategy in Personal Loans, Home Loans and Commercial Property Finance.
- Managed credit risk of distressed portfolios proactively, resulting in positive resolutions in respect of many of the bank's high-risk watchlist clients.
- Continuously monitored and analysed sensitivity of Nedbank's exposure to state-owned entities, satisfying itself that the direct impact of the downgrade of both the domestic and foreign currency sovereign credit ratings was well managed.
- Undertook concentration risk deep dives into, among others, the commercial-property portfolio, key watchlist clients and agriculture, satisfying itself that the concentration risk was well managed and aligned with risk appetite.
- Conducted a review of the unsecured lending portfolio, amid concerns in media reports around a potential bubble in the unsecured lending sector and allegations levelled at a particular unsecured lender, satisfying itself that the Nedbank unsecured lending portfolio was sound, with conservative rules applied to consolidation, restructuring and term strategies.
- With the volatile macroeconomic environment, conducted various stress and scenario testing exercises on the portfolio, confirming that the portfolio was not unduly exposed and would remain within the risk appetite target range in a high-stress scenario, and satisfied that, based on stress testing as part of our Internal Capital Adequacy Assessment Process and group business planning for 2018 to 2020, the portfolio remained sound and within risk appetite.
- Tracked and monitored the progress on IFRS 9 impairment implementation and was comfortable with delivery in respect of methodology, systems, data, governance, disclosure and independent assurance to ensure a successful transition to the new impairment standard effective 1 January 2018, and finetuning in 2018.

## Focus for 2018 and beyond

- Maintaining a healthy credit book profile in 2018, with a sound but enabling credit risk appetite.
- Monitoring movements of impairments in an uncertain macroeconomic environment to ensure adequacy.
- Proactive risk management of distressed portfolios, key watchlist clients and industry-specific concentration risks.
- Continuous deep dives and proactive analysis, with associated stress and scenario testing across the portfolio, including in respect of state-owned entity exposures in view of state capture investigations and financial mismanagement.
- Further analysis of new opportunities associated with positive macroeconomic forecasts following the change in both the ANC's and country's leadership.
- Geopolitical risks impacting SA.
- Ensuring the appropriate credit risk appetite in SA and RoA businesses (ie appropriate balance of risk versus reward).
- Continuing dynamic monitoring and determining of credit and concentration risk appetite, and the impact on origination strategies.
- Monitoring progress with regulatory change compliance and the impact of the finalisation of the Basel III refinements on the Nedbank credit risk profile.
- Continuing the focus on model refinements and observation of local and international industry trends in respect of IFRS 9 adoption, as well as the strategic implications for the group's credit portfolio.

### Strategic focus areas

Being operationally excellent in all we do

Managing scarce resources to optimise economic outcomes

Refer to pages 36 to 43 for more details.

### Stakeholders

Clients

Shareholders

Regulators

Refer to pages 64 to 71 for more details.

### Top 10 risks

1 Business risk

5 Regulatory and compliance risks

8 Credit risk

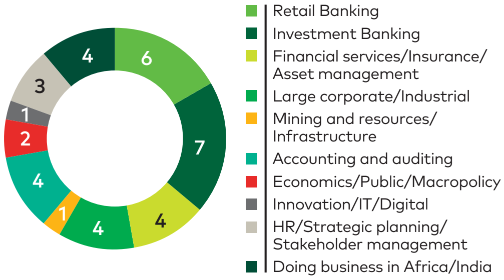
Refer to page 50 for more details.

# GROUP DIRECTORS' AFFAIRS COMMITTEE (DAC)


'The DAC continues to play an essential role in ensuring that compliance, governance, board continuity and reputational risk matters are dealt with appropriately and that these risks are at the required levels.'

| Members at 31 December 2017 | Member since | Board status |
|---|---|---|
| Malcolm Wyman | May 2011 | Lead independent director |
| Bruce Hemphill | November 2015 | Non-executive |
| Errol Kruger | May 2017 | Independent non-executive |
| Mpho Makwana | January 2014 | Independent non-executive |
| Mantsika Matooane | February 2015 | Independent non-executive |
| Nomavuso Mnxasana | February 2015 | Independent non-executive |
| Vassi Naidoo | May 2015 | Non-executive chairman |
| Stanley Subramoney | May 2017 | Independent non-executive |

**Skills and experience**




## Ensuring and protecting value in 2017

- Ensured that the bank maintained an effective and independent compliance function. Reviewed compliance monitoring findings and related trends to assess and track the level of compliance risk. Challenged, where appropriate, action taken by management with regard to remediation of adverse findings.
- Provided oversight in respect of:
  - AML, CFT and sanctions compliance levels on remediating of SARB findings and in respect of business-as-usual compliance; and
  - the implementation of the Privacy Programme that gives effect to the Protection of Personal Information Act, 4 of 2013, and the Twin Peaks model of regulation.
- Deliberated on issues of potential reputational risk to the group arising from media allegations of unethical business conduct in the private sector, adverse media allegations against state-owned entities, the State of Capture Report, Panama Papers and other publications of a similar nature.
- Facilitated an extensive internal investigation and external review into allegations contained in an article published by the Organised Crime and Corruption Reporting Project that sought to link Nedbank to having improperly benefited from transactions with Transnet.
- Engaged EY to review the alignment of Nedbank's documented practices and supporting evidence with King IV™ principles (Nedbank's compliance status in terms of King IV™ is set out in the Governance and Ethics Review).
- Provided input into the succession plans for executive directors and other senior executives.
- Provided a full review of the composition of the board and its board committees at every DAC meeting, covering the status of the independent directors, extent of diversity, experience, industry knowledge and retirement ages.

## Focus for 2018 and beyond

- A review of board committee membership, particularly taking into account anticipated changes to the Nedbank boards as a result of managed separation and other pending retirements from the boards, while ensuring the experience and tenure on the committees remain appropriate.
- Continued review of compliance findings and related trends.
- Tracking the implementation of compliance coverage plans and specifically the themes-based monitoring approach.
- Continued monitoring of the compliance levels with AML, CFT and sanctions requirements.
- Continued monitoring of the implementation of the Privacy Programme and market conduct in the group.
- Review and consideration of developments in law that may impact reputational risk management.
- Close monitoring and tracking of matters of potential reputational risk to the group.
- Continued monitoring of the application of King IV™.
- Continued monitoring of the governance methodologies across the group.

### Strategic focus areas

Being operationally excellent in all we do

Refer to pages 36 to 43 for more details.

### Stakeholders

Shareholders

Regulators

Refer to pages 64 to 71 for more details.

### Top 10 risks

(2) Strategic and execution risks

(4) Reputational risk

(5) Regulatory and compliance risks

(6) Conduct and culture risks

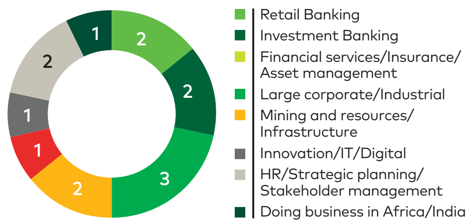
Refer to page 50 for more details.

# GROUP INFORMATION TECHNOLOGY COMMITTEE (GITCO)


'Nedbank accelerated implementation of its Managed Evolution strategy in 2017, with the main focus on client experience design, delivery of market innovation, and disruption, while maintaining industry-leading system stability and availability.'

| Members at 31 December 2017 | Member since | Board status |
|---|---|---|
| Mantsika Matooane | May 2014 | Independent non-executive |
| Mpho Makwana | May 2012 | Independent non-executive |
| Joel Netshitenzhe | January 2014 | Independent non-executive |
| Brian Dames | July 2014 | Independent non-executive |

**Skills and experience**




## Ensuring and protecting value in 2017

- Continued to gain encouraging momentum, with our cloud adoption and rollout plans recognised by global industry leaders as leading the market.
- Reviewed the bank's cyberresilience strategy and monitored enhancements with regard to defense, response to cyberincidents, phishing and cyberawareness measures.
- Through our ME programme delivered key foundational capabilities, such as enterprisewide client onboarding, which we are now in a position to operationalise in support of the rollout of all key client journeys (sales and servicing). Decommissioned nearly 80 legacy systems in 2017 (of which 16 were core to banking systems), placing us firmly in line to achieve our objective of establishing a streamlined, agile and innovative platform for growth.
- As a key focus area continued to maintain and refine the group's regulatory compliance as enabled by technology, increasingly proving to be an area of competitive advantage, as we adopt a proactive and business-orientated approach to regulation in the light of the material investment (approximately 35% of the group's FY2017 innovation project portfolio spend) in all compliance and regulatory matters.
- Designed and initiated the New Ways of Work programme, regular updates to the Nedbank Wealth app and improved delivery velocity in other projects being tangible evidence of the group's enterprisewide agility.
- Materially demonstrated the bank's digital DNA through DFL, with impressive delivery of the award-winning Nedbank Wealth app, the launch of the innovative Nedbank Money app, the introduction of robotics to key processes and internet-of-things leadership through the introduction of the geyser integrated insurance solution.

## Focus for 2018 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.
- Continuing to leverage our sizeable scale for competitive advantage.
- Delivering on the ME IT strategy in a way that creates competitive advantage.
- Unlocking the strategic value of data as a competitive advantage.
- Fostering our talent and implementing effective workforce management practices to capacitate the group's technology capability in support of the group's aspirational goals.
- Enabling the group's RoA strategy by leveraging platforms, capabilities and know-how in SA operations to support effective operations across our subsidiaries in Africa.
- Expanding the Nedbank innovation ecosystem with new partnerships and an increased pace of innovation.
- Launch of the disruptive UNLOCKED.ME platform, an example of client innovation for the youth segment.
- Accelerating the robotics programme, including the launch of the humanoid robot, Pepper.
- Continuous scanning for innovative solutions as defense against disintermediation and in positioning for growth.

### Strategic focus areas

- Delivering innovative market-leading client experiences
- 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

Refer to pages 36 to 43 for more details.

### Stakeholders

- Staff
- Clients
- Shareholders
- Regulators
- Society

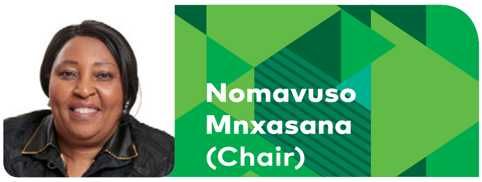
Refer to pages 64 to 71 for more details.

### Top 10 risks

- (2) Strategic and execution risks
- (3) Cyberrisk
- (5) Regulatory and compliance risks

Refer to page 50 for more details.

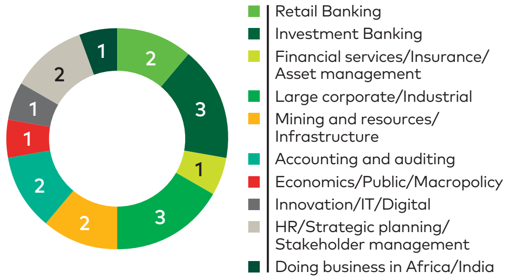
# GROUP TRANSFORMATION, SOCIAL AND ETHICS COMMITTEE (GTSEC)




'Operating with an expanded mandate based on King IV™, GTSEC remains committed to ensuring that Nedbank fulfils its responsibilities in support of transformation, sustainable development, inclusive growth, societal value creation and effective stakeholder management while protecting the reputation of the bank.'

| Members at 31 December 2017 | Member since | Board status |
|---|---|---|
| Nomavuso Mnxasana | February 2015 | Independent non-executive |
| Mpho Makwana | January 2012 | Independent non-executive |
| Linda Manzini | June 2017 | Independent non-executive |
| Stanley Subramoney | October 2015 | Independent non-executive |

**Skills and experience**




## Ensuring and protecting value in 2017

- Revised the committee charter in 2017 to ensure alignment with international best practice and the requirements of King IV™.
- Welcomed the bank's alignment with the UN SDGs, which represent an unprecedented road map for the transformation of society within environmental constraints and following the adoption of the Nedbank Sustainable Development Framework in 2017, endorsed the evolvement of Fair Share 2030 to focus on the most material SDG targets.
- Monitored relevant regulatory developments, including the gazetting of the Amended FSC, introducing priority elements, increased weightings, targets and thresholds, possibly impacting relative competitor positioning in this regard.
- Monitored the implementation of ethics across the group and considered the systemic risks associated with suppliers, the impact of state capture as well as the ethical balance of doing the right thing as part of an interconnected economy. The committee continued to balance systemic versus reputational risk for Nedbank and advised the board accordingly. Further details can be found in the Directors' Affairs Committee Report.
- Reflected on SA's regulatory, political, environmental and social landscape and its implications for the banking sector. Specifically focused on rating downgrades, the impact of extreme weather events, social instability, as well as internal matters such as retention of black talent. Conclusions from these deliberations helped to inform strategic direction and policy alignment.

## Focus for 2018 and beyond

- Considering global macro trends and critical trends emerging in SA to ensure that Nedbank is prepared or responding appropriately.
- Providing critical challenge to ensure delivery on Nedbank's stated purpose.
- Managing the impact of the Amended FSC with specific focus on the priority elements, including ownership (and Old Mutual's reduced shareholding in 2018), skills development, enterprise and enterprise supplier development (ESD), empowerment financing.
- Employment equity and specifically the representation of African people in the workplace as a percentage of the economically active population (EAP) in continuing to build a culture of inclusivity.
- Increasing 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.
- Monitoring the ambitious new lending targets set for Sustainable Development Finance, having established a comprehensive historical baseline of activities that support the SDG agenda.
- Working with the new leadership in government to rebuild the social compact and continue addressing the pressing needs facing our society and meeting the legitimate aspirations of all South Africans.
- Continuous monitoring of implementation of best-practice regarding ethics management in the group.
- Monitoring the further implementation of the UN Global Compact (UNGC) Guiding Principles regarding human rights in business and due diligence with regard to products and services.

### Strategic focus areas

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

Refer to pages 36 to 43 for more details.

### Stakeholders

- Staff
- Regulators
- Clients
- Society
- Shareholders

Refer to pages 64 to 71 for more details.

### Top 10 risks

- 2 Strategic and execution risks
- 5 Regulatory and compliance risks
- 4 Reputational risk
- 6 Conduct and culture risks

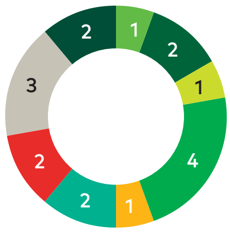
Refer to page 50 for more details.

# GROUP RELATED-PARTY TRANSACTIONS COMMITTEE (GRPTC)


'The RPTC, as a committee comprising only independent directors, plays an important role in protecting the interests of minority shareholders in related-party transactions.'

| Members at 31 December 2017 | Member since | Board status |
|---|---|---|
| Malcolm Wyman | May 2015 | Lead independent director |
| Mpho Makwana | May 2015 | Independent non-executive |
| Joel Netshitenzhe | May 2015 | Independent non-executive |
| Stanley Subramoney | May 2017 | Independent non-executive |

**Skills and experience**




- Retail Banking
- Investment Banking
- Financial services/Insurance/Asset management
- Large corporate/Industrial
- Mining and resources/Infrastructure
- Accounting and auditing
- Economics/Public/Macropolicy
- HR/Strategic planning/Stakeholder management
- Doing business in Africa/India

**Ensuring and protecting value in 2017**

- Provided oversight of the impact of the Old Mutual managed-separation strategy on Nedbank, including the review and approval of shareholding, governance and commercial arrangements between Nedbank and Old Mutual after the implementation of the managed separation and the intended Old Mutual orderly distribution of Nedbank shares. This included the monitoring and review of:
  - terms on which Old Mutual will reduce its shareholding in Nedbank to 19,9%;
  - governance arrangements appropriate to this strategic shareholding level; and
  - the future commercial relationship between Nedbank and Old Mutual Limited (the new SA holding company to have its primary listing on the JSE) following the orderly distribution of Nedbank shares.
- Reviewed the assessment of implications of the intended distribution of Nedbank shares by Old Mutual Limited.
- Monitored and reviewed the Collaboration Programme between Nedbank and Old Mutual Group to deliver R1bn in synergies by the end of 2017. This involved the review and approval of transactions, and assurance of the outcome and allocation of transaction synergy benefits.
- Ensured accurate disclosure of the IAS 24 Related-party on-balance-sheet transactions in the annual financial report.

**Focus for 2018 and beyond**

- Oversight of the Old Mutual managed separation until completion.
- Monitoring and reviewing all related-party transactions.

**Strategic focus areas**

Being operationally excellent in all we do

Refer to pages 36 to 43 for more details.

**Stakeholders**

Shareholders

Regulators

Refer to pages 64 to 71 for more details.

**Top 10 risks**

2 Strategic and execution risks
4 Reputational risk
5 Regulatory and compliance risks
6 Conduct and culture risks

Refer to page 50 for more details.

# ABBREVIATIONS AND ACRONYMS

**AGM** annual general meeting

**AML** anti-money-laundering

**AMPS** All Media and Products Survey

**ATM** automatic teller machine

**AUM** assets under management

**BBBEE** broad-based black economic empowerment

**bn** billion

**bps** basis point(s)

**CAGR** compound annual growth rate

**CE** chief executive

**CEO** chief executive officer

**CET1** common equity tier 1

**CFT** Combating the Financing of Terrorists

**CIB** Corporate and Investment Banking

**CLR** credit loss ratio

**COE** cost of equity

**CPI** consumer price index

**CSI** corporate social investment

**CVP** client value proposition

**DFL** Digital Fast Lane

**DHEPS** diluted headline earnings per share

**ECL** expected credit loss

**ETI** Ecobank Transnational Incorporated

**FSC** Financial Sector Code

**GDP** gross domestic product

**Group Exco** Nedbank Group Executive Committee

**group** Nedbank Group Limited

**HEPS** headline earnings per share

**IAS** International Accounting Standard(s)

**IBC** inside back cover

**IFC** inside front cover

**IT** information technology

**IFRS** International Financial Reporting Standard(s)

**JIBAR** Johannesburg Interbank Agreed Rate

**JSE** JSE Limited

**LCR** liquidity coverage ratio

**LID** lead independent director

**LTIs** long-term incentives

**m** million

**ME** Managed Evolution

**MFC** Motor Finance Corporation (vehicle finance lending division of Nedbank)

**MW** megawatt

**NCA** National Credit Act, 34 of 2005

**NII** net interest income

**NIM** net interest margin

**NIR** non-interest revenue

**NPS** Net Promoter Score

**NSFR** net stable funding ratio

**OM** Old Mutual

**OML** Old Mutual Limited

**plc** public listed company

**Q** quarter

**R** rand

**RBB** Retail and Business Banking

**Rbn** South African rands expressed in billions

**Rm** South African rands expressed in millions

**RoA** Rest of Africa (cluster name)

**ROE** return on equity

**RWA** risk-weighted assets

**SA** South Africa

**SADC** Southern African Development Community

**SARB** South African Reserve Bank

**SDGs** Sustainability Development Goals

**SME** small and medium enterprises

**STIs** short-term incentives

**TOM** Target Operating Model

**TTC** through the cycle

**UK** United Kingdom

**UN** United Nations

**US** United States

**WWF** World Wide Fund for Nature

**yoy** year on year

**ZAR** South African rand (currency code)

# Company details

## NEDBANK GROUP LIMITED

Incorporated in the Republic of SA
Registration number 1966/010630/06

**Registered office**
Nedbank Group Limited, Nedbank 135 Rivonia Campus,
135 Rivonia Road, Sandown, Sandton, 2196
PO Box 1144, Johannesburg, 2000

**Transfer secretaries in SA**
Computershare Investor Services Proprietary Limited
15 Biermann Avenue, Rosebank, Johannesburg, 2196
PO Box 61051, Marshalltown, 2107

**Transfer secretaries in Namibia**
Transfer Secretaries (Proprietary) Limited
Robert Mugabe Avenue No 4, Windhoek, Namibia
PO Box 2401, Windhoek, Namibia

## INSTRUMENT CODES

**Nedbank Group ordinary shares**

| | |
|---|---|
| JSE share code: | NED |
| NSX share code: | NBK |
| ISIN: | ZAE000004875 |
| ADR code: | NDBKY |
| ADR CUSIP: | 63975K104 |

**Nedbank Limited non-redeemable non-cumulative preference shares**

| | |
|---|---|
| JSE share code: | NBKP |
| ISIN: | ZAE000043667 |

## FOR MORE INFORMATION CONTACT

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This announcement is available on the group's website at nedbankgroup.co.za, together with the following additional information:

- Financial results presentation to analysts.
- Link to a webcast of the presentation to analysts.

For further information please contact Nedbank Group Investor Relations at nedgroupir@nedbank.co.za.

## 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.

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