# NEDCOR

### **Old Mutual SA Businesses Day**

#### 28 May 2003

Richard Laubscher Chief Executive

#### Programme

- The marketplace
- Nedcor's position
- Strategic framework / SWOT
- Key drivers / issues
- Bancassurance
- Conclusion



## NEDCOR



#### The marketplace

#### The Big 4: their models

- Nedcor (R266bn) / Old Mutual
  - Alliance / JV strategy with parent
  - Combined assets: R500bn
- Absa (R253bn) / Sanlam
  - Loose distribution arrangement with major shareholder
  - Combined assets: R440bn
- FirstRand (FNB (R295bn) & Momentum)
  - Integrated bancassurance group
  - Combined assets: R388bn
- Standard Bank (R304bn) / Liberty Life
  - Bank holding company
  - Integrated fund management: Stanlib
  - Combined assets: R390bn

#### Note: Bank assets in brackets



#### **Ranking the Big 4**

Measure	Nedcor	Absa	FirstRand	Standard Bank
SA-based loans & advances **	1	2	4	3
Mortgage lending **	2	1	4	3
Other private sector loans **	1	2	4	3
Instalment credit **	4	2	1	3
SA-based 3 <sup>rd</sup> party lending **	2	1	4	3
Deposits **	2	1	4	3
Total bank assets *	3	4	2	1
Market capitalisation	3	4	2	1

\* Source: Last annual/interim report

**\*\*** Source: March DI 900 returns

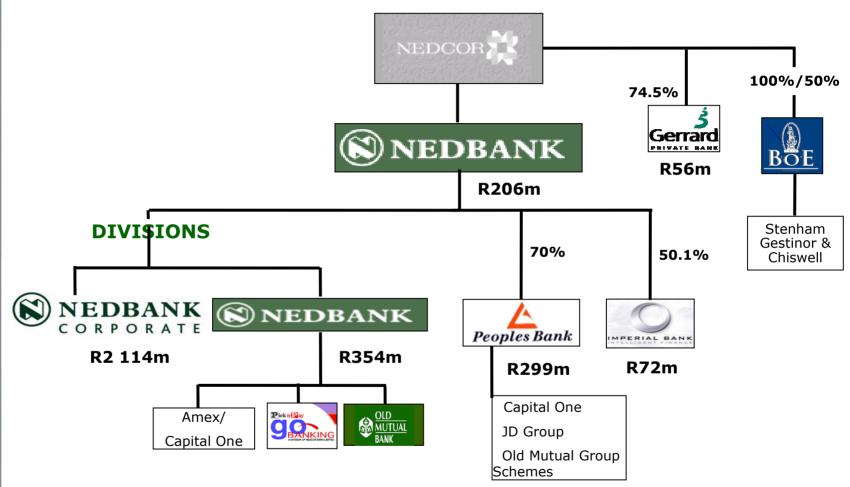


### NEDCOR



#### **Nedcor's position**





Contributions to F2002 core earnings shown above

**BoE contributed R265m in its standalone form** 



#### The Big 4: Retail vs Corporate Banking

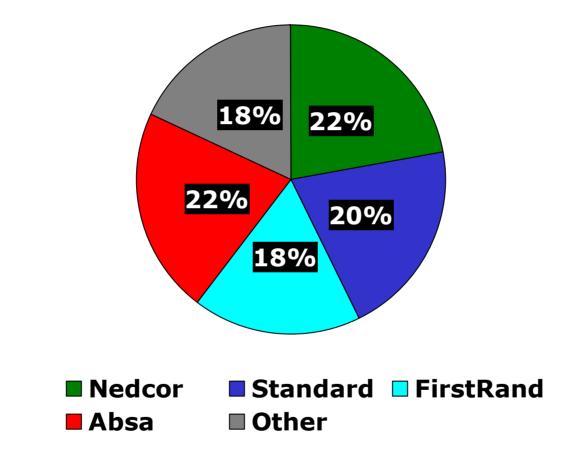
	Total bank assets		Total bank earnings		Banc- assurance contribution	
	Retail (%)	Corporate (%)	Retail (%)	Corporate (%)	Rm	
Absa	78	22	68	32	550	
FirstRand	55	45	67	33	114	
Nedcor	23	77	19	81	110	
Standard Bank	25	75	36	64	350	
Big 4 (weighted)	45	55	47	53		

Source: JP Morgan

**Annual / Interim Reports** 



#### Market share – 31 March 2003 Loans & advances

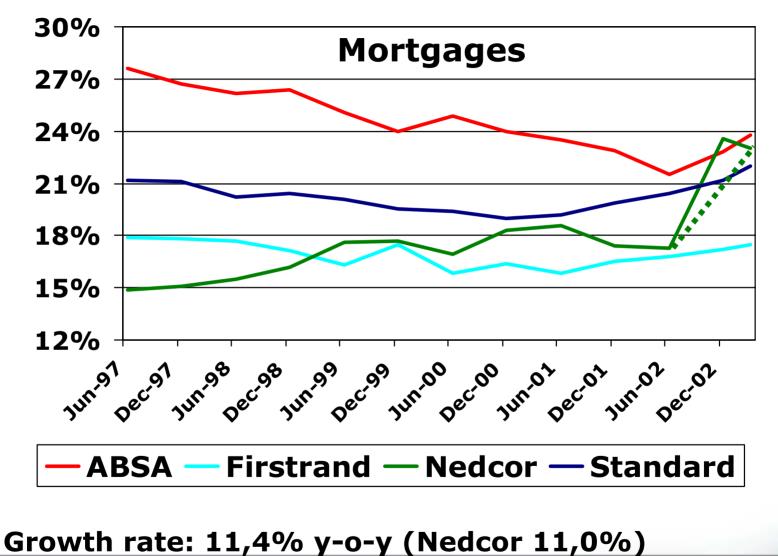


**Overall credit growth rate y-o-y: 7,1% (Nedcor: 7,1%)** 

**Source: SARB DI 900 returns** 



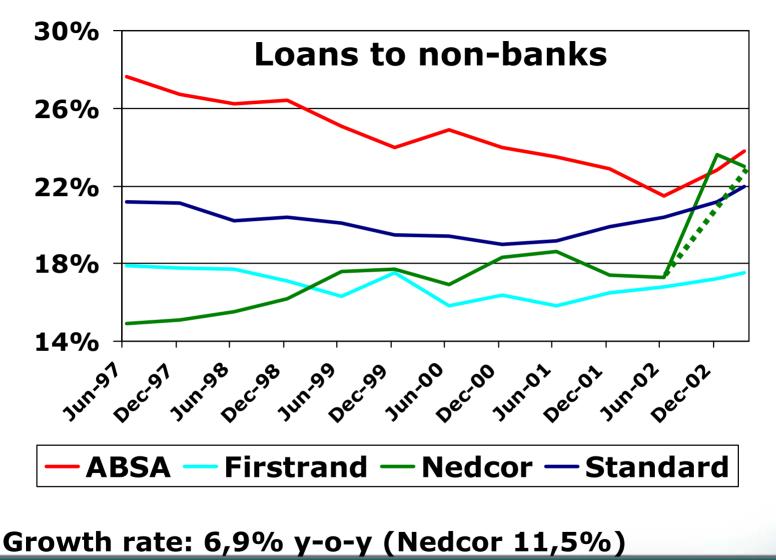
#### Market share – 31 March 2003



Source: SARB DI 900 returns

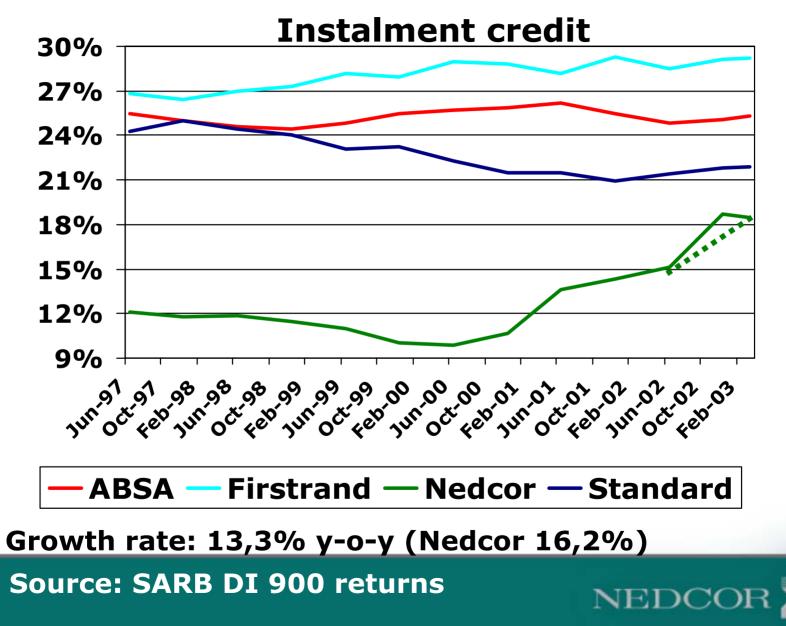


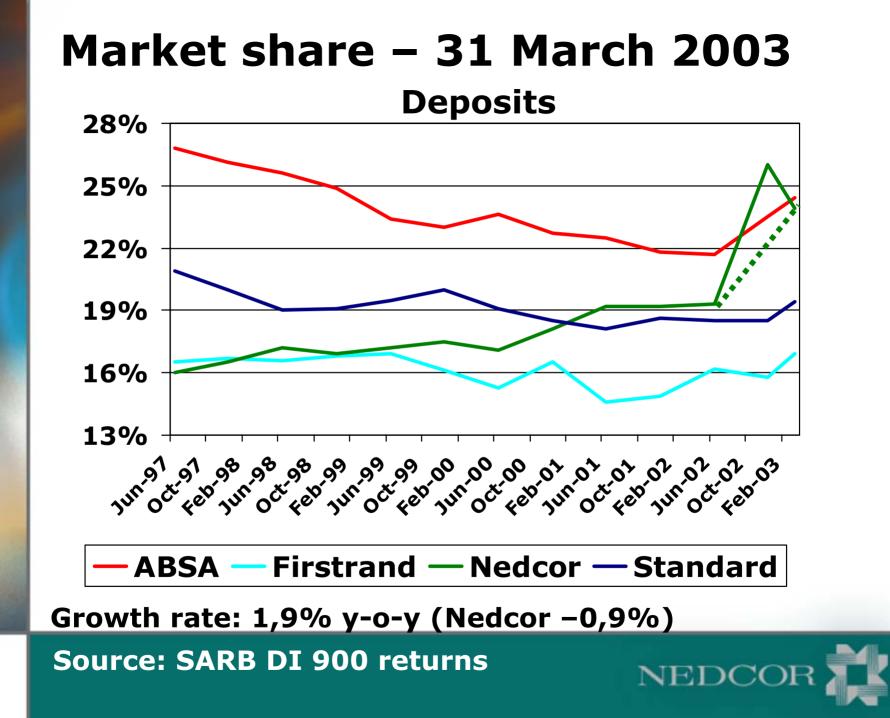
#### Market share – 31 March 2003



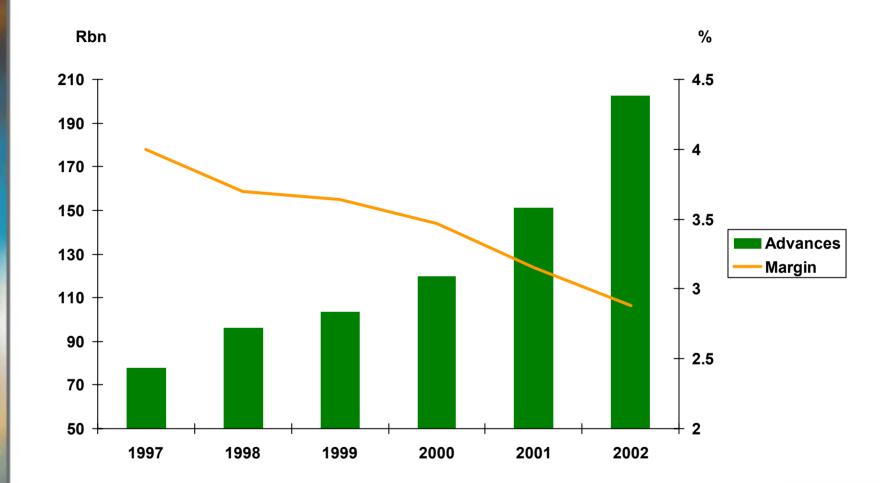
**Source: SARB DI 900 returns** 

#### Market share – 31 March 2003





#### Net interest margin



Growth rate: 103% y-o-y (Nedcor 217%)



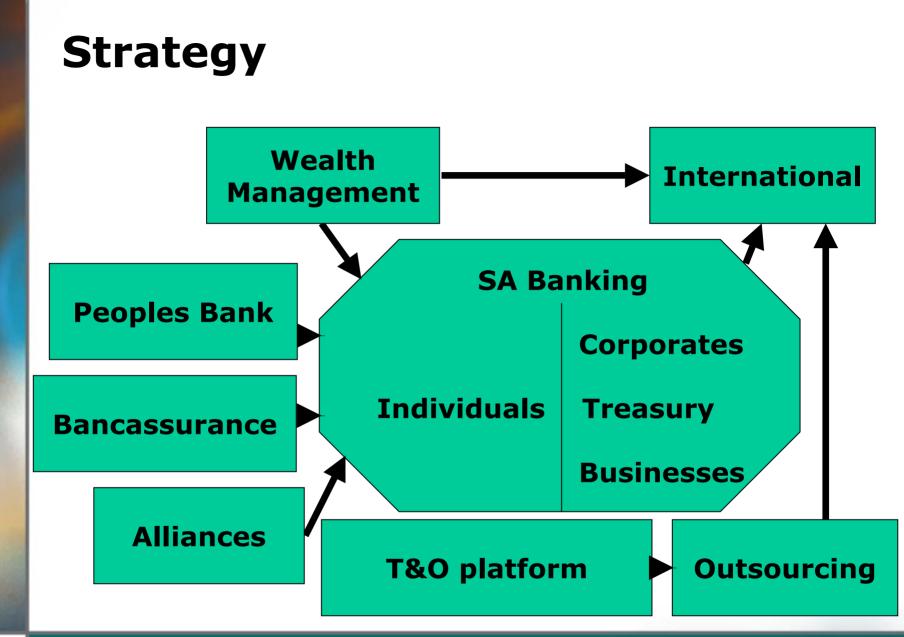
#### Summary

- Volumes and market share achieved in all areas except retail
- Opportunities in retail and bancassurance to take market share to 23%
- Opportunities in margin normalisation
- Focus on holding/gaining market share while realising merger synergies



# NEDCOR

#### **Strategic framework / SWOT**





#### Strategic scorecard

<u>Acquisitions</u>	
<b>BoE (primarily Commercial)</b>	$\checkmark$
Imperial (Retail & Commercial)	$\checkmark$
Gerrard Private Bank (Retail WM)	$\checkmark$
FBC Fidelity (Retail)	$\checkmark$
ENF (Corporate & Commercial)	$\checkmark$
Didata (IT)	X
<u>Alliances</u>	
Old Mutual Bank/Bancassurance (Retail)	$\checkmark$
Pick 'n Pay Go Banking (Retail)	$\checkmark$
JD/Capital One microlending market	
(Peoples)	x
Amex/Capital One (Retail)	X
<u>Outsourcing</u> (IT)	$\checkmark$



#### Strengths

- Brand aspirational
- Enterprise-wide Risk Management
- Corporate & Commercial banking
- Treasury operations (diversified operational focus)
- Middle to high income retail
- Competitive advantage in cost-efficient operations resulting from drive to develop strong technology-based delivery systems
- Better handle on costs
- Innovation
- Optimised capital position and good return on equity



#### Weaknesses

- Brand Not strong in middle and lower end
- Media and domestic investor perception
- Equity exposure to Didata
- Limited international & African franchise
- Earnings uncertainty
- Material in-market consolidation over
- SME
- Microlending



#### **Opportunities**

- Retail
- Gearing on operational platform
- BEE charter
- Insourcing of card processing
- Increased low-cost reach (points of presence) through alliances
- Alternative delivery smart cards
- International private banking in alliance with Old Mutual
- Bancassurance and other cross-selling
- Cost-cutting in merged base



#### Threats

- Foreign entrants
- Prescribed lending and regulatory issues
  - Community Reinvestment Act
  - BEE
- AIDS
- Managing alliances without complete control
- Internationalisation of information technology processing is an unproven strategy
- Mortgage originators and integrators



#### Summary

- Middle and underserved market segments require further focus
- Limit international expansion, but focus on wealth management, Asian trade finance and insourcing
- Extraneous factors, regulatory and accounting issues to be managed



# NEDCOR



#### **Key drivers / issues**

#### Macro issues

- A challenging and volatile operating climate
  - Rand strength beyond expectations
  - High interest rate with drops on hold
  - Margin squeeze
  - Credit demand constrained
  - Weak equity markets globally and domestically
  - 2,3 % GDP growth in 2003; 3,0% in 2004
  - 8,6% average CPI in 2003; 4,0% in 2004
- Community Reinvestment Act & Financial Charter in progress
- AC133
- Basle II / Enterprise-wide Risk Management



#### **Nedcor's experience**

- Core banking business resilient
  - Nedbank Retail, Peoples Bank ,Nedbank
     Corporate (including Commercial & Treasury)
- Investment Banking and Wealth Management well below target
- International earnings down more than 20% due to strong Rand
- Organic advances' growth in line with domestic market
- Margins maintained



#### Nedcor's experience (cont.)

- Non-interest revenue well below expectations
  - Private equity, investment banking assets, advisory fees and trading profits
  - One-off items in NIB in F2002
- Credit quality satisfactory and provisions stable
- Expense growth in line with expectations
  - Additional expense reduction drive due to subdued income
- Taxation increased significantly



#### Nedcor's experience (cont.)

- Translation losses
- AC133 impact not accounted for
- Capital adequacy expected to remain sound
- Group integration on track
  - Synergy estimates unchanged from R110m in F2003 growing to R905m in F2006



#### **Capital adequacy**

	2002		2001	
	Rbn	%*	Rbn	%*
– Ordinary capital				
& reserves	12,5	6,0	14,1	8,6
<ul> <li>Preference capital</li> </ul>	2,0	1,0	_	
Tier 1	14,5	7,0	14,1	8,6
<ul> <li>Callable notes</li> </ul>	6,0	2,6	2,0	1,2
– Other	2,5	1,4	2,6	1,6
Tier 2	8,5	4,0	4,6	2,8
Total	23,0	11,0	18,7	11,4

\*Percentage of risk-weighted assets



# AC 133 (IAS 39) – recognition and measurement of financial instruments

- Deviation from standard IAS approach
- Applicable on year-ends commencing 1 July 2002 (IAS only in 2005)
  - Complex, rule-based
  - Components approach
  - Form over substance
  - Inconsistent measurement bases
  - Increased use of fair value
  - Geared to sophisticated financial environment and data



# **Core earnings to headline earnings**

	% change	Dec 2002 Rm	Dec 2001 Rm
Core earnings	9	3 366	3 093
Translation gains/(losses)		(1 011)	1 096
General risk provision		400	(400)
Merger costs		(170)	_
Headline earnings	-32	2 585	3 789
Headline eps	-35	1 022	1 574



#### **Translation gains / losses**

31 Dec 2002Offshore capital of USD 200m= R1 720m(Closing exchange rate = 8.60)

31 Dec 2003Offshore capital of USD 200m= R1 600m(Closing exchange rate = 8.00)

If an "integrated operation" as defined: Translation loss recognised in income statement = R 120m

#### **The Financial Services Charter**

- Ownership
  - Peoples Bank = 30%
  - Quaystone Asset Management = 50%
  - Nedcor = 17% +
- Banking services to PDIs
  - Peoples Bank
  - JD
  - Aplitec
  - Pick 'n Pay Go Banking



# The Financial Services Charter (continued)

- Employment Equity
  - AIC = 49% of total staff
  - 20% of management
  - Females = 63% of total staff
  - Female = 35% of management
- Empowerment alliances
- Empowerment financing
  - Southern Sun/Tsogo Sun
  - African Legend/Caltex
  - Harmony/Armgold
  - Shell/Thebe
  - Total/Tosaco
  - MTN



# The Financial Services Charter (continued)

- Procurement
- Awards

### -2001

- Enterprise Development Forum (EDF), Black Business Executive Circle and Black Business Council - Empowerment Company of the Year
- Business Map Empowerment Deal of the Year

### -2002

- Black Management Forum Most Progressive Company of the Year
- Black Business Quarterly Financier of the Year Award



#### Summary

- Environment remains challenging requiring additonal focus on cost optimisation
- Accounting issues leading to volatility in earnings but aimed at fair value balance sheet representation
- Well positioned as regards Financial Services Charter



### NEDCOR



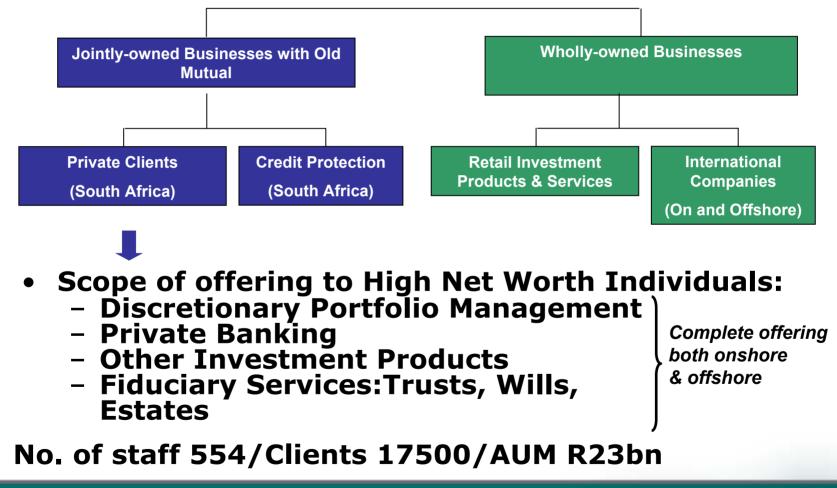
#### Bancassurance

#### **Gerrard Private Bank**

- 25,5 % interest held by Old Mutual
- Fairbairn Trust business incorporated
- A range of banking, treasury, trust and discretionary asset management products
- Target market: clients with investable assets of at least £50 000
- Based in Isle of Man and Jersey, with Rep offices in SA and Honk Kong
- 2002 Awards:
  - Best offshore banking group
  - Best offshore product range

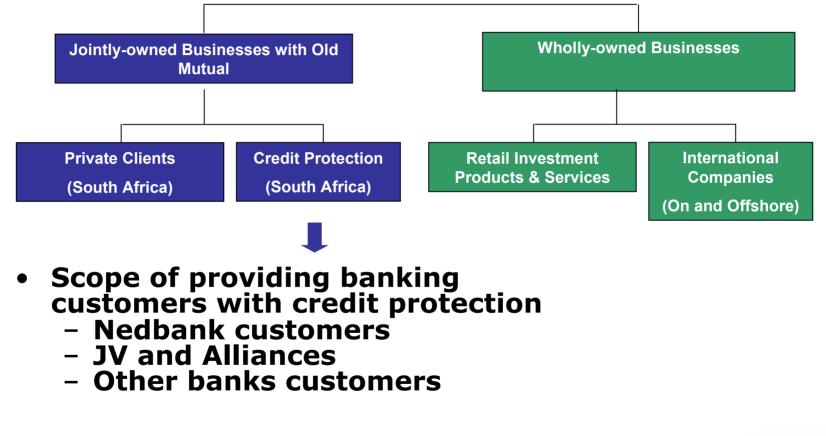


#### **Nedcor Wealth Management**





#### **Nedcor Wealth Management**



No. of staff 105 / Premium income R491m / EV R44m



#### Nedbank

- 150 Personal Financial Planners
- Branch-based insurance specialists
- 50% of overall insurance product sold is sourced from Old Mutual
- F2002 contribution of R110m provides vast scope for growth



#### **Peoples Bank**

- Old Mutual Group Schemes ("OMGS")
- Public and private sector entities targeted
- Pre-packaged insurance product provided by OMGS
  - 16 000 assurance policies sold in F2002
  - 68 000 credit life policies sold in F2002
  - 80 advisers
- Banking product provided by Peoples Bank
  - 12 000 new accounts in F2002
  - 41 dedicated OMGS staff
- Joint client education undertaken



#### **Old Mutual Bank**

- Division of Nedbank Ltd 50/50 JV
- Leverage dominant Old Mutual brand
- Banking products, systems and processes supplied by Nedcor
- Sales, marketing and channel management supplied by Old Mutual
  - 2 million OMPF customers
  - 300 000 ex-Permanent Bank customers
  - Huge intermediary network
  - Established branch distribution network
  - No need to use expensive originators for mortgages



#### Summary

- Focus on greater share of customer wallet for Old Mutual and Nedcor
- Numerous initiatives with Old Mutual aimed at premium generation and commission income
- Two-way focus on cross-selling both insurance and bank products
- Opportunities for rationalisation of product factories and leverage of distribution channels



# NEDCOR



#### Conclusion

#### **Key targets**

- RoE 25% (21,9%)
- RoA 2% (1,6%)
- Cost-to-income ratio < 50% (55,4%)</li>
- Non-interest revenue : net interest income > 50% (52,4%)
- Provisions : average advances < 0,7% (1%)
- Capital adequacy 12% (11%)

RoE and RoA must be viewed in the light of the inflation level



#### Conclusion

- Challenging environment
- Maintain/grow market share while completing merger
- Opportunity in retail, bancassurance and cost reductions
- Limited conventional offshore aspirations
- Low-cost expanded reach

