



## Nedbank Group

“The turning point”

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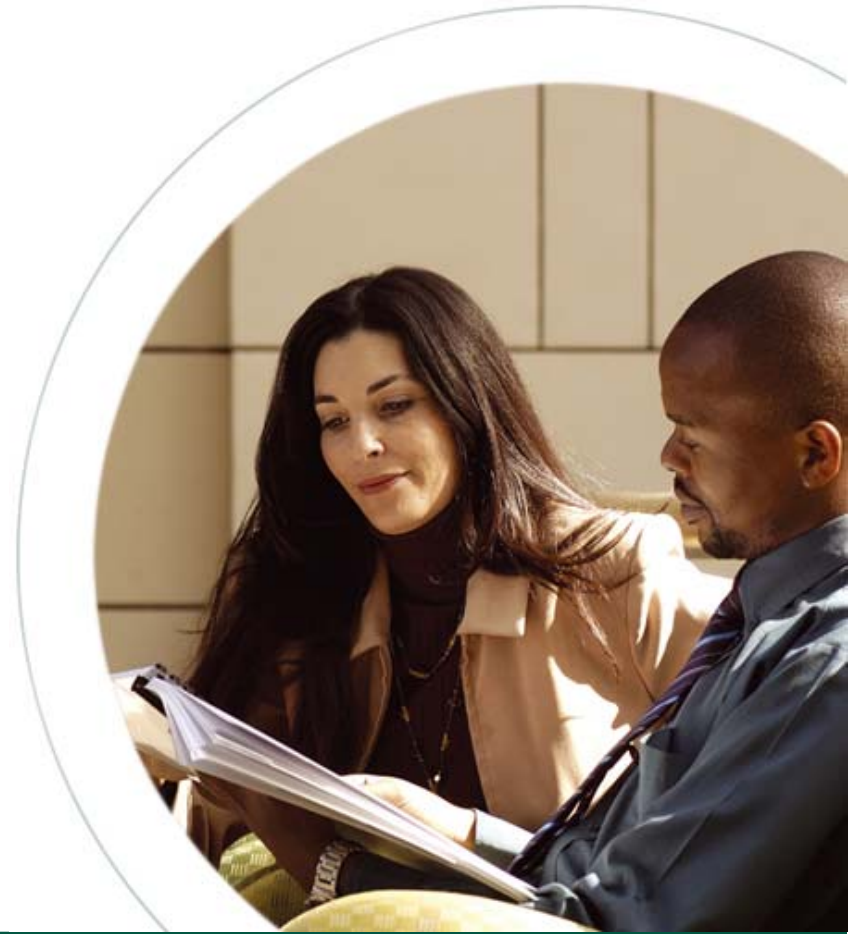


# Agenda

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- External environment
- Internal factors
- Summary





## External environment

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# External environment

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- Macro banking environment
- Pressure on bank charges
- Increased regulatory pressure
- Increased competition
- Growth of black / emerging market / BEE
- Potential growth in infrastructure spend

# Generally positive banking environment

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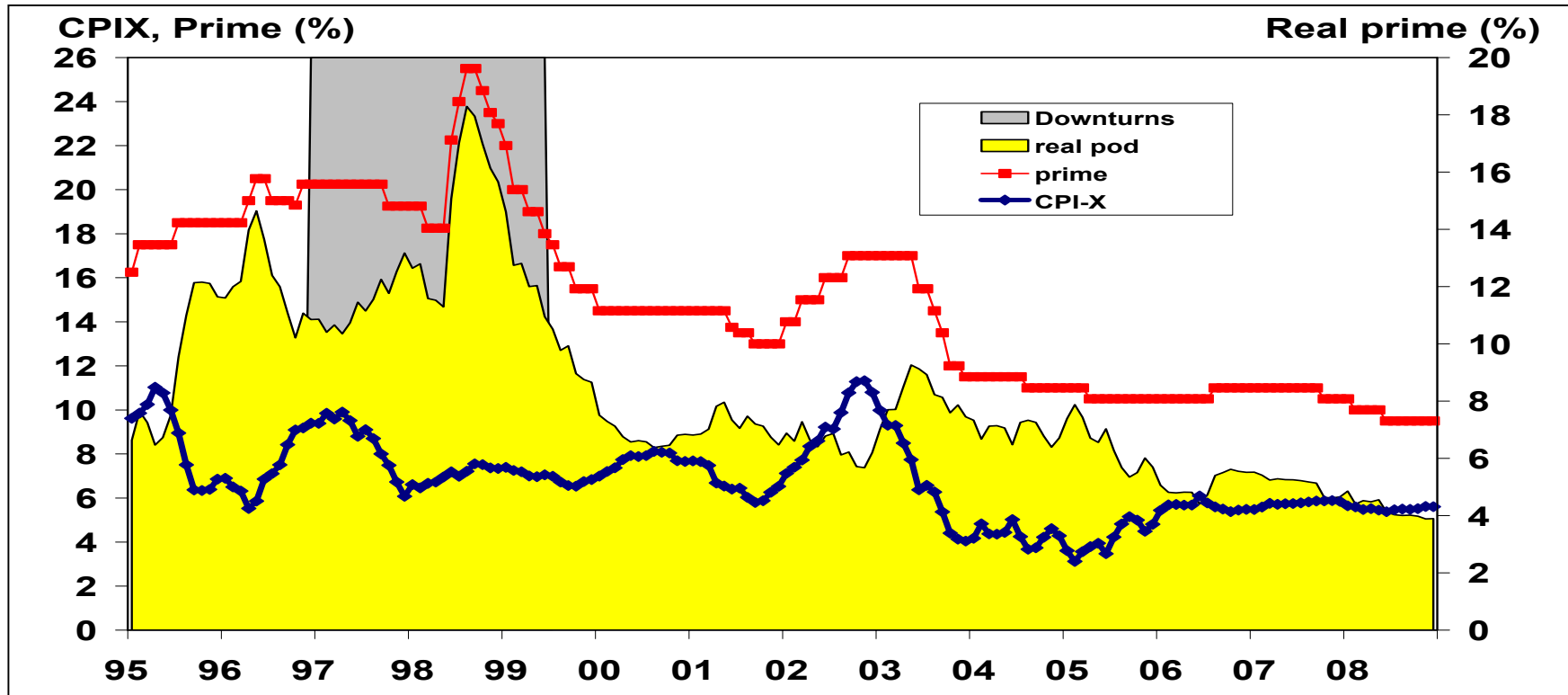


- Low interest rates, low inflation & more stable Rand
- Consumer spending remains robust
  - Strong retail asset backed advances growth
  - Emerging black middle class
- Significant estimated infrastructure spend
- Strong growth in SME sector to continue
- Buoyant equity markets
- Continued strong deal flow in investment markets

*However corporate debt appetite remains muted*

**... environment stimulating growth**

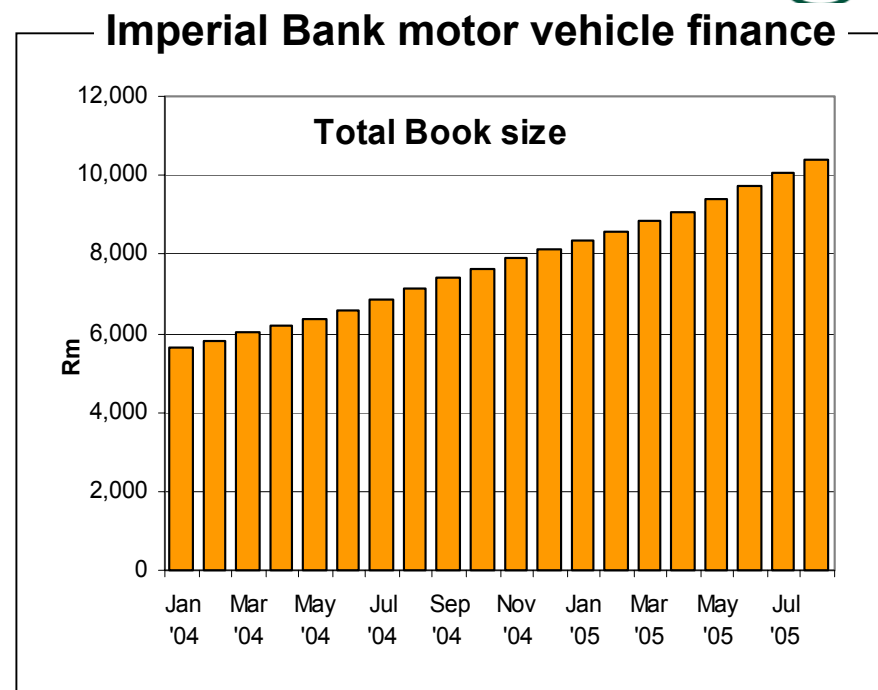
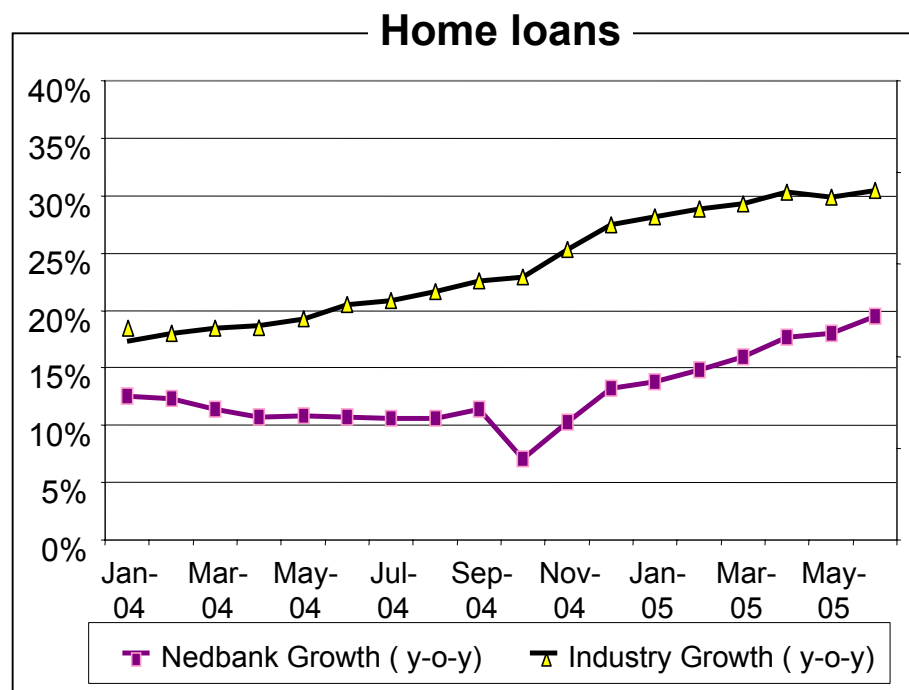
# Low interest rate / inflationary environment



*Strong retail volume growth, off high base, likely in short term  
Momentum likely to fade as interest rates tweak up before  
reducing in 2008*

**... stable environment = less uncertainty**

# Positive banking environment driving growth



- Strong industry growth in both home loans & motor vehicle finance
- Nedbank – reduction in month on month market share losses in home loans
- Imperial Bank MVF book up 28% year to Aug '05 (42% annualised)
- Nedbank ABF (motor vehicles) book up 12% year to Aug '05 (18% annualised)

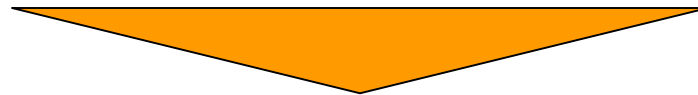
**... growth continues**

# Credit environment

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- Driven by change in interest rates & inflation
- Household debt / disposable income = 56,8% Jan '05
- Increased impairments volatility from IFRS
- Strong retail credit demand continuing
  - Potential to reduce Nedbank Retail impairments charge
  - Impairments charge / lending assets = 1,1% (June '05)
- Benign corporate environment



*Reducing impairment charge / advances  
Long-term expense control remains critical*

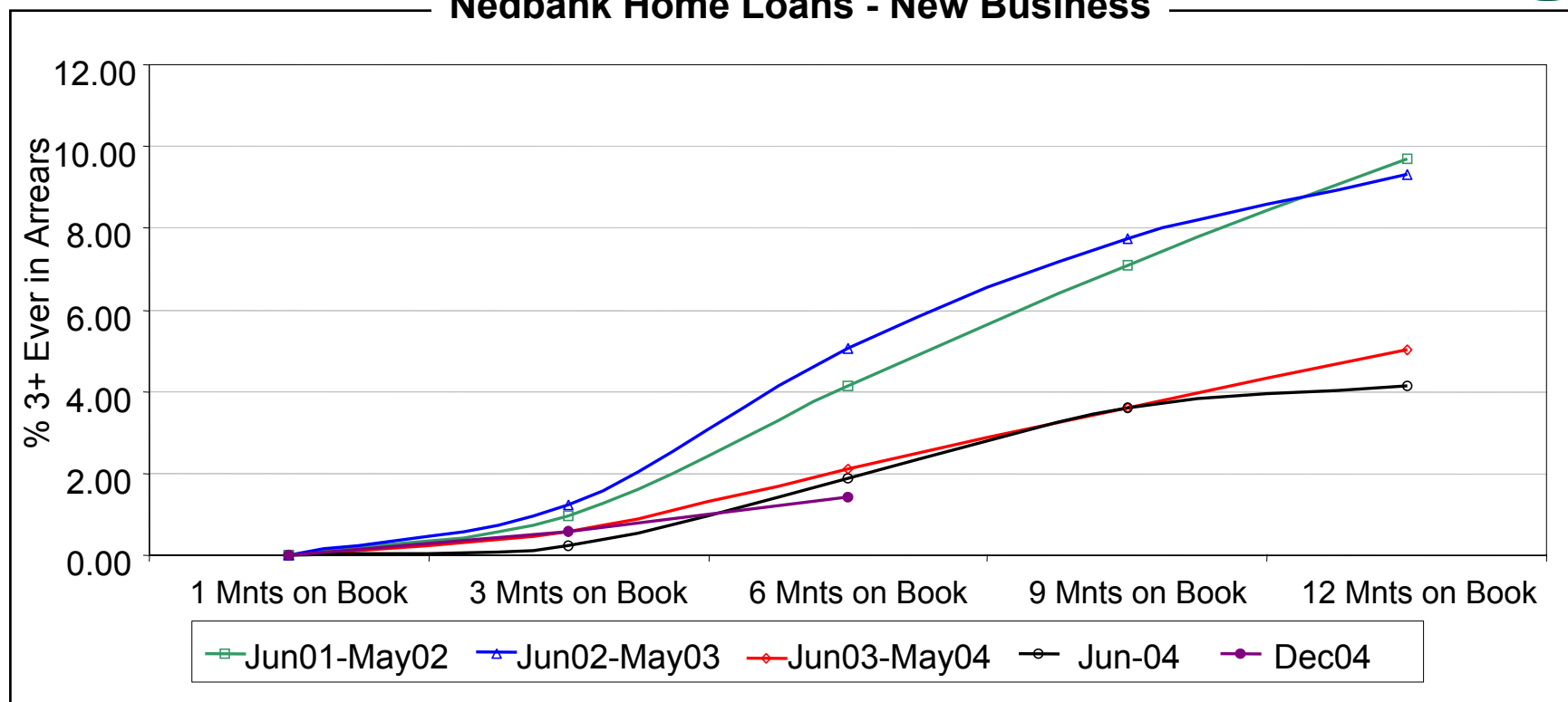
***... has there been a structural shift?***



# Quality of new business improving



Nedbank Home Loans - New Business



*Quality of newer tranches better than previous bookings  
Improvement due to enhanced credit management & benign  
economic climate*

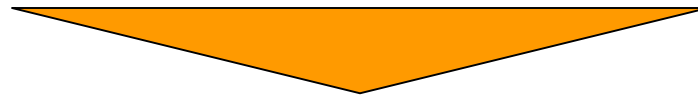
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# Pressure on bank charges

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- Competitions commission review of interchange fees driven by:
  - International trends
  - SA's apparent high fees & Falkena report
  - Consumer pressure & increasing media pressure
- Mzansi pricing
- Continued competitive pressure in corporate sector
  - Particularly government & parastatal
  - Move to electronic banking channels



*Nedbank 0% increase in most fee categories in Jul '05*

*GoBanking less than ½ fee of others*

*Peoples Bank Card account added to Nedbank's product range*

*Pick n' Pay Go Banking Credit Card to be launched shortly*

**... pressure on pricing, but increased volumes**

# Increased regulatory pressure



Regulation	Cost Implications (estimated)	Comments
FICA	In base: R 100 m 2005: R 50 m	<ul style="list-style-type: none"> <li>• 2,1 m of 2,7 m clients re-verified</li> <li>• Awareness training completed</li> <li>• Administrative challenge</li> </ul>
FAIS	In base: R 7 m 2005: R 1 m	<ul style="list-style-type: none"> <li>• 5 169 staff compliant</li> <li>• Focus on training – better client service</li> <li>• Reviewing all client complaint systems</li> </ul>
Basel 2	In base: R 123 m 2005: R 90 m	<ul style="list-style-type: none"> <li>• Targeting AIRB approach for credit</li> <li>• All key retail &amp; corporate credit rating models in place</li> <li>• &gt;80% of credit portfolios re-rated using new models</li> <li>• SARB to decide 8% or 10% pillar 1</li> </ul>
National Credit Bill	Still to be promulgated	<ul style="list-style-type: none"> <li>• Increased admin. &amp; record keeping</li> <li>• Systems changes</li> </ul>

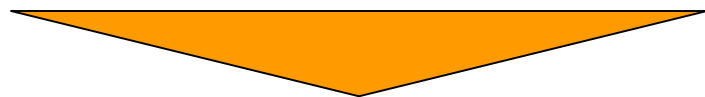
**... pressure on expenses**

# Basel 2



## WINNERS

- Banks that see Basel 2 as a means to change
  - Embrace 'best practice' management science
  - Address portfolio economics
  - Increase transparency
- Banks that bring a solution to areas that will come under credit strain (e.g. FSC)
- Banks that exploit profitability skews



*Nedbank aiming to be in this category*

## LOSERS

- Banks who see Basel 2 as a compliance exercise
  - Fail to address portfolio economics
  - Fail to improve transparency
- Late starters will have their portfolios cherry-picked
- Banks that rely on volume growth with disregard to fundamental economics implied by Basel 2

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# National credit bill



- To govern credit agreements – estimated to be effective early 2006
- Will replace Credit Agreements Act, Usury Act & Micro-finance & Regulatory Act
- To promote & advance social & economic welfare, promote fair transparent, competitive, sustainable, responsible, efficient & accessible credit market & industry, & protect consumers

## Bill will be addressing:

- Over indebtedness & reckless credit
- Unlawful agreements & provisions
- Disclosure, form & effect of credit agreements
- Consumer liability, interest, charges & fees
- Statements of Account
- Alterations of credit agreements
- Rescissions & termination of credit agreements
- Collection & repayment of credit agreements
- Debt enforcement
- Dispute sett. other than debt enforcement

***Also applies to other credit providers***

## Potential impacts:

- Marketing – limiting cross sell opportunities & pre-approvals for credit facilities
- Assessment – Reckless lending definition & scorecard impact
- Collections – Debt counselling & process impact
- Recoveries – Prolonged collection process could impact provisioning
- Systems – Changes to accommodate the requirements of the Bill
- Language issues - Staffing in branches & call centres, redesign of correspondence, incl. application forms for credit & legal documents

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# Increased competition

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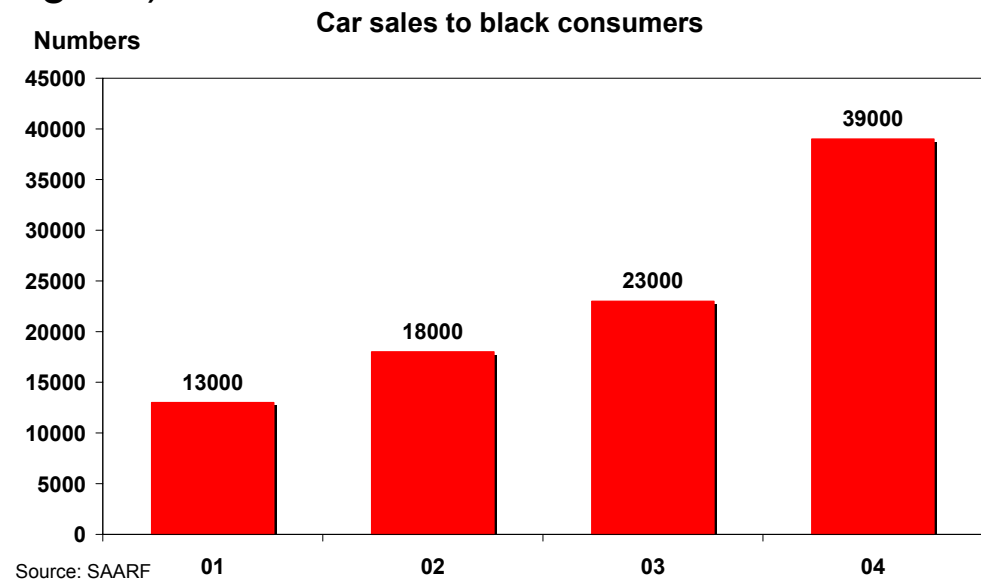
- Entry of foreign banks
  - Foreign banks have been in SA for a long time
  - ABSA/Barclays positions ABSA as stronger corporate & investment bank
  - Stronger ABSA African presence
  - Minimal impact on funding pool
- Entry of non-traditional banks
  - Post Office, retailers, cell phone companies, etc
- Disintermediation likely to increase
  - Switching from cheque to electronic channels (reduction in cheque volumes between 10 – 20 % p.a. at Nedbank)
  - Clients borrowing from secondary bond market (lending amount reduced by 15-20% in market)
  - International banks that raise funds for clients through Euro Bonds (taking out potentially R 2bn of clients assets in '05 in market)
  - Listed property securitisation

**... client service remains the main differentiator**

# Growth of black / emerging market

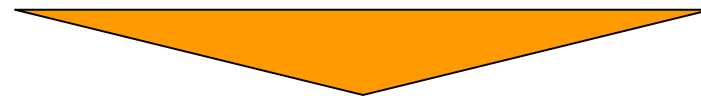
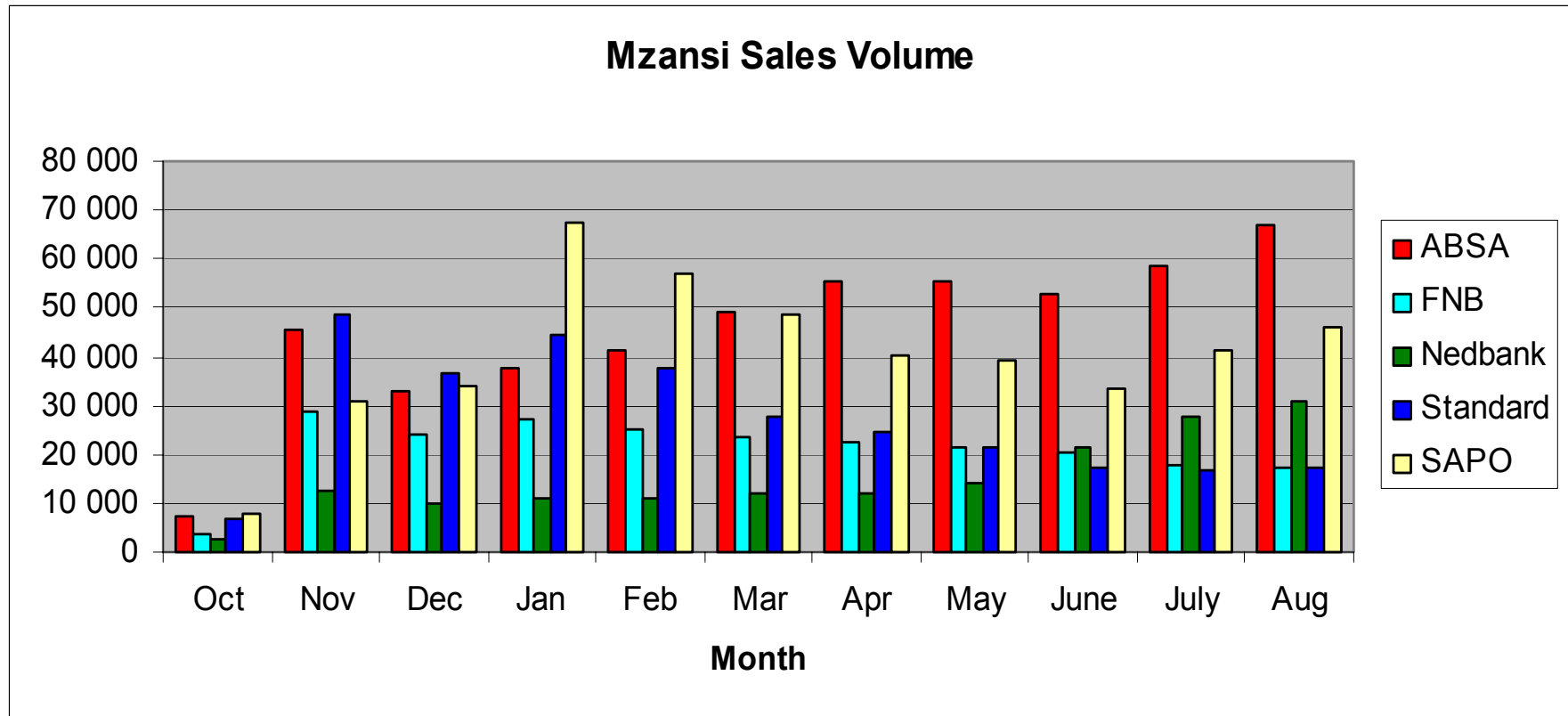


- Data anecdotal - mainly from surveys & not necessarily consistent
- However, clear that black middle class, upper-end income growth significant over past few years
- UNISA's Bureau for Market Research - black households in high income group jumped 368% to 440 000 in 2004 from 1998 (White share fell from 77% to 52% although numbers still grew)
- BMR - black purchasing power has overtaken white's
- Industry stats – blacks make up about a quarter of new car loans from 8% in 1994



**... adds to growth in overall market**

# Growth of the black / emerging market



*Nedbank Mzansi sales volumes grew by 60% since April 2005*

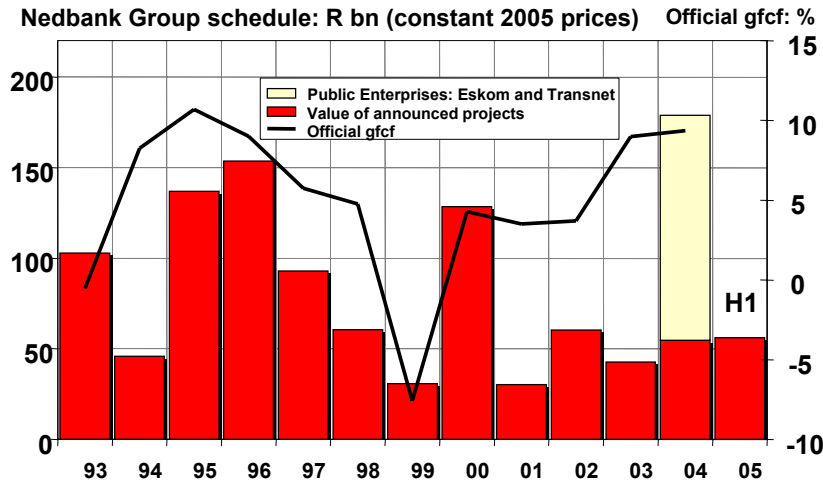
**... the Nedbank brand can stretch**



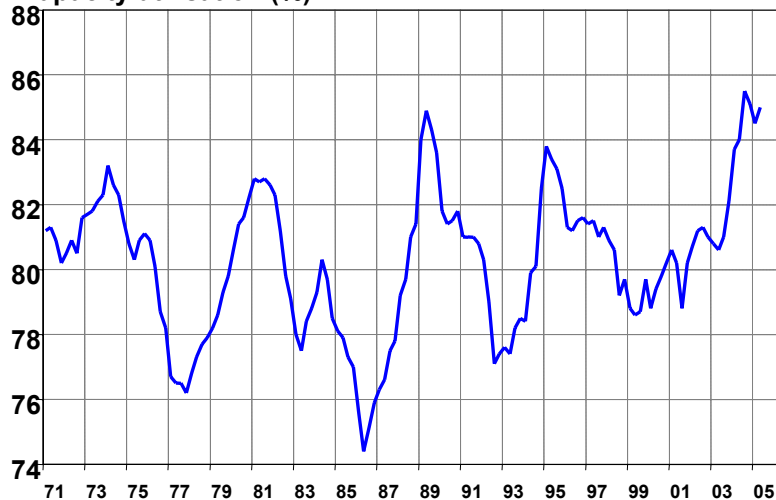
# Growth in infrastructure spend



## Announced value of total capital projects



## Capacity utilisation (%)



## INFRASTRUCTURE SPENDING SINCE 1993

Date	Project	Value - Rbn	Status
<b>Power</b>			
1993	Eskom's Electricity for All	2.2	Complete
1997	Electricification pre-payment meters	7.5	Complete
1999	Eskom Electrification programme	1.2	Complete
2004	Eskom capacity expansion	84.0	To start
<b>Water</b>			
1997	Thukela Vaal transfer scheme	4.5	Complete
1997	Durban & Western Cape Metro Schemes	3.5	Complete
2003	Olifants catchment dam in Limpopo	1.0	Underway
<b>Transport</b>			
<b>Rail</b>			
2000	Spoornet Rolling Stock Renewal	54.0	???
<b>Road</b>			
1996	Maputo Corridor	3.0	Complete
1996	N3 toll road	2.0	Complete
1997	Platinum toll road	3.2	Complete
<b>Port</b>			
1996	Coega Industrial Port	25.2	Underway
1997	Richards Bay Harbour upgrade	1.5	Complete
2002	Durban Harbour car terminal	5.0	Complete
<b>Air</b>			
1997	JHB & CPT airports upgrade	1.1	Complete
2002	SAA fleet replacement	7.0	Underway
2003	Airport expansions & upgrades	3.8	To start
<b>General</b>			
2004	Transnet capacity expansion	37.0	To start

*... potential for growth in corporate lending*

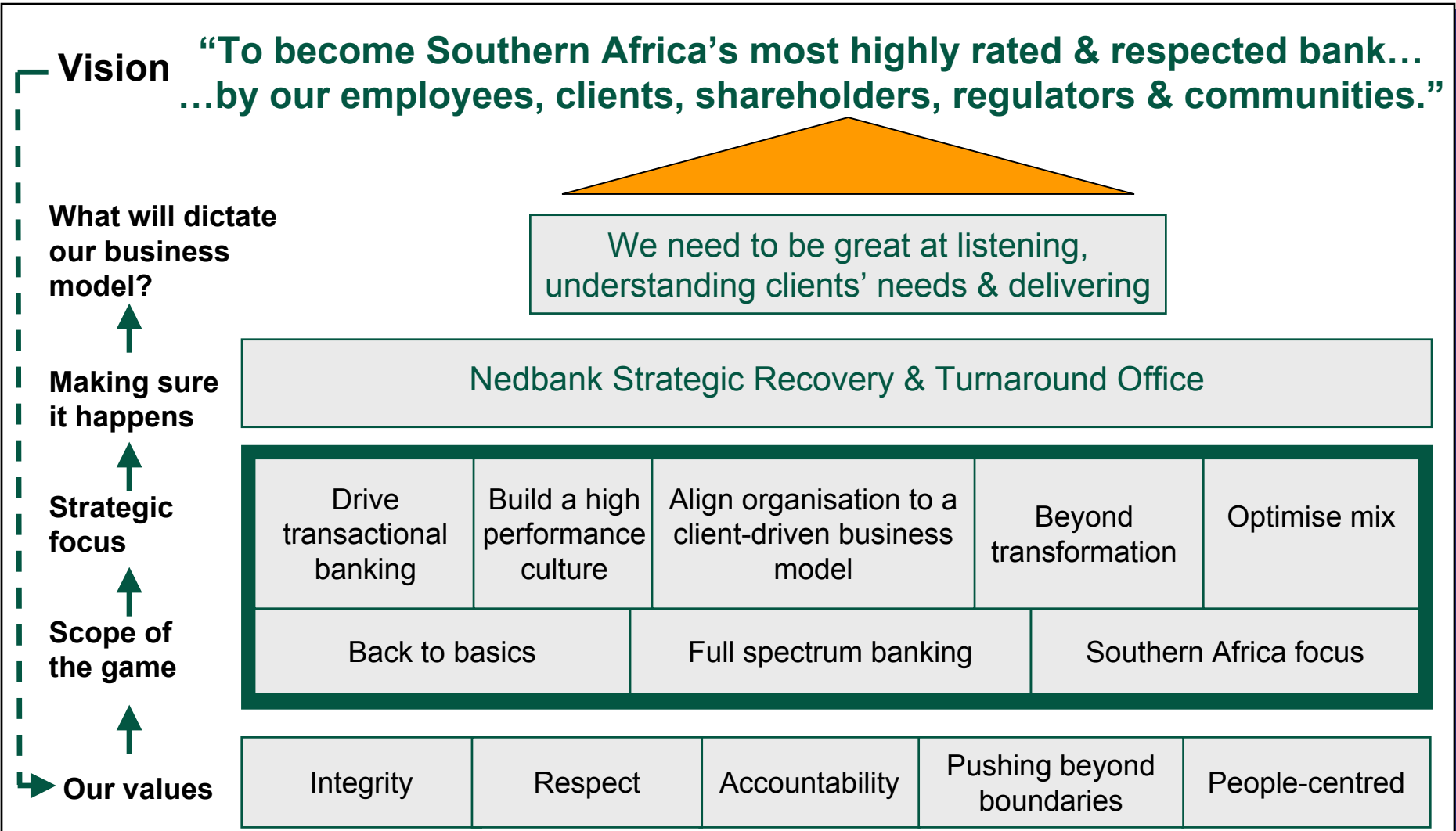


## Internal factors

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# Strategy remains the same



**... simple clear focus**

# Key turning points



## Internal Focus

- Set the base
- Reduced the risk
- Increased accountability
- Clarified vision
- Set strategy
- Fixed the structure
- Delivered the merger
- Improved measurement

## More external Focus

- Staff morale
- Client service
- Product improvements
- Systems enhancements
- Channel improvements
- Transformation & FSC
- Brand repositioning
- Sustainability

2003 / 2004



2005

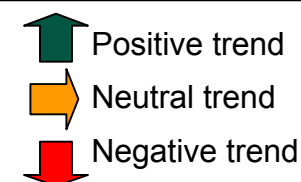


***... switch from internal to external focus***

# Key opportunities



	Progress trend
Improvement in staff morale	
Turnaround Retail	
Performance of the corporate market	
Drive transactional revenue	
Unleash synergies with Old Mutual Group	
Transformation & leveraging BEE deal	
Brand positioning / promise / differentiation	
Integration of risk & capital management into strategy	



**... external focus will increase performance**

# Improvement in staff morale

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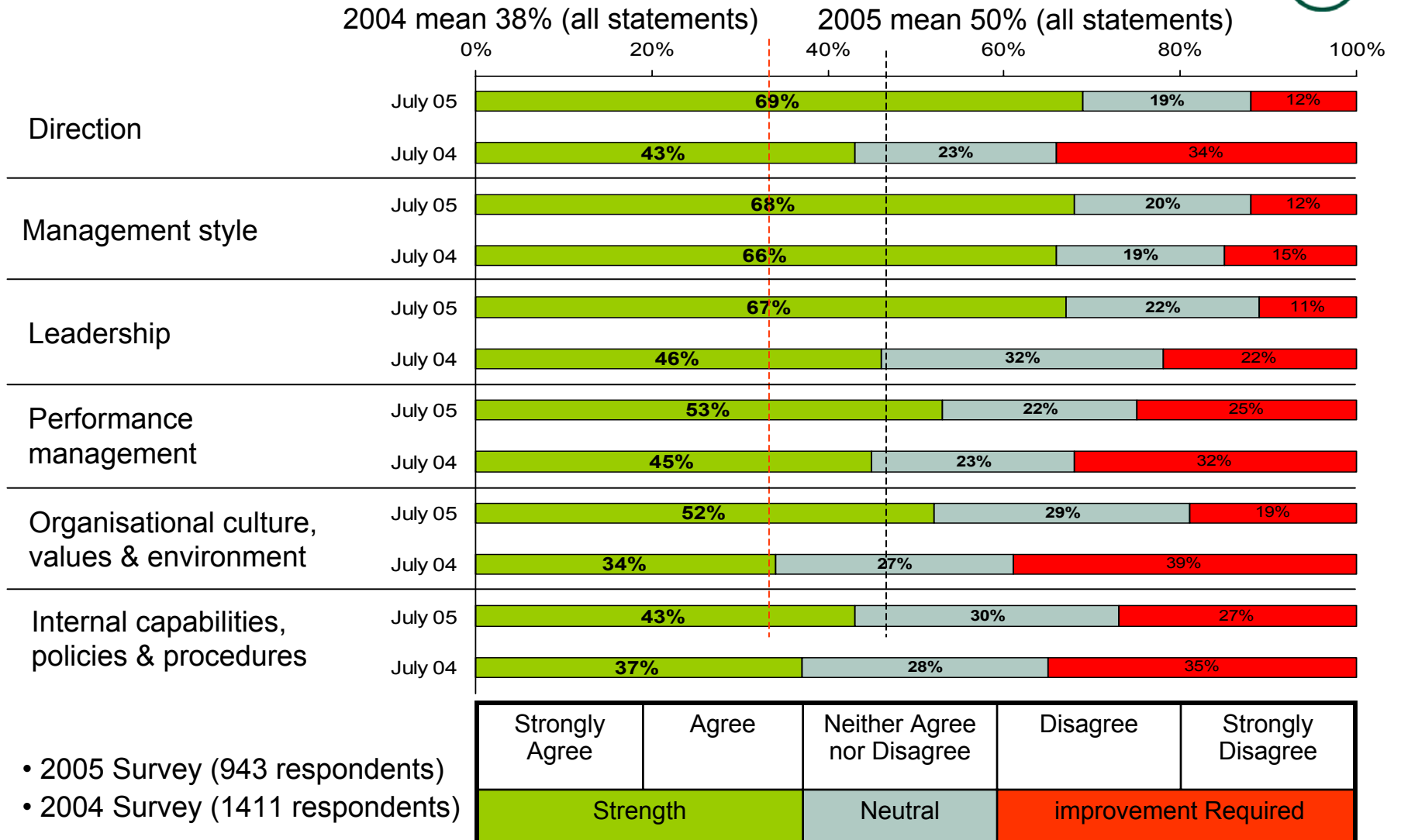


- Increased job stability
  - Retrenchment programme completed end 2004
  - No retrenchments from Peoples Bank integration
- More positive publicity
  - Positive press coverage increased from 17% in Q4 2004 to 31% in Q2 2005 (Q2 2005 industry average 28%)  
(Delahaye Africa Media Reputation Study)
- Increased financial reward
  - Market related bonuses & some share options in-the-money

*... improvement in staff survey results*

***... leading to improved client service***

# Nedbank employee survey




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# Turnaround Nedbank Retail



- Comprehensive restructure
  - Integrated branch operations into Retail
  - Focussed business units
- Improving staff morale
- Enhanced relationships with mortgage originators
  - Home loans a significant proportion of earnings
  - 67% (54% Jan '05) of applications from originators
  - Processing improvements being realised
- Peoples Bank integration
  - Enhanced footprint – 284 to 443 Nedbank branches
  - Full product set to Peoples Bank clients
  - IT integration completed
  - Rebranding to be completed by end 2005
- C.O.U.R.A.G.E. strategy gaining momentum



Rm	Jun 05	Jun 04
Headline earnings	439	214
ROE	18,3%	9,2%

***... improving financial performance***

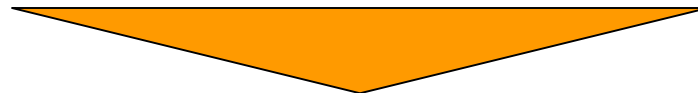


# Nedbank Retail – C.O.U.R.A.G.E. strategy



## Management actions (2005 – 2007)

Client-driven C.O.U.R.A.G.E.						
<b>C</b> redit integration	<b>O</b> rganisational redesign	<b>U</b> nleash bancassurance	<b>R</b> etain market share	<b>A</b> ct Quickly	<b>G</b> row net transactional accounts	<b>E</b> xpense control
People-driven C.O.U.R.A.G.E.						
<b>C</b> reate high performance culture	<b>O</b> btain role clarity	<b>U</b> nderstand people economics	<b>R</b> eward programmes	<b>A</b> ccelerate FSC	<b>G</b> et the right people	<b>E</b> nvironment / community



*On track with implementing foundational fixes as per C.O.U.R.A.G.E. strategy...*

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# Retail focus areas ... 2008



Tier 1	Tier 2	Tier 3
<ul style="list-style-type: none"><li>• Profitable asset growth (market related)</li><li>• Impairments reduction</li><li>• Bancassurance profit growth</li><li>• Net growth in transactional banking</li><li>• Staff morale &amp; high performance culture</li><li>• World class service</li></ul>	<ul style="list-style-type: none"><li>• Pricing realignment</li><li>• Product enhancement</li><li>• Brand repositioning</li><li>• Channel enhancement</li><li>• Develop &amp; implement segment strategy</li><li>• Integrate &amp; grow Retail International</li></ul>	<ul style="list-style-type: none"><li>• Expense control</li><li>• Get the numbers</li><li>• Acceptable risk environment</li><li>• Implement ECAP &amp; RAPM</li><li>• Transformation &amp; FSC targets</li><li>• Basel II</li></ul>

*Turn around phase will continue*

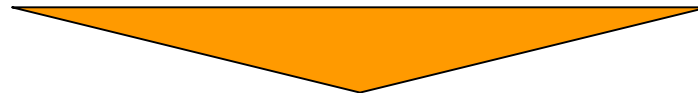
***... improving group business mix over time***

# Performance of the corporate market

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- Highly geared to corporate market performance
  - Nedbank Capital contributed 32% to June 2005 headline earnings
  - Nedbank Corporate contributed 66% to June 2005 headline earnings
- Drivers of growth
  - Increased investment in capacity & infrastructure by corporates
  - Trading revenue driven by market conditions & good deal flow
  - BEE transactions



*Top end Corporate Banking market remains fairly subdued*

*Business Banking market showing strong growth*

***... group still geared towards corporate market***

# Selected Nedbank BEE advisory experience



Acquisition of 6,7% of Telkom by Elephant Consortium & 5% by PIC



Acquisition of 25% of Dimension Data SA by BEE consortium



Restructuring & recapitalisation of IBE Consortium Worldwide African Bank



Advisor to BEE consortium on the acquisition of 12.5% of Uhambo Oil for R1.45bn



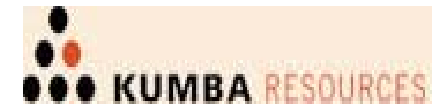
Earn-in model to fund 25% BEE shareholding by Safika



Acquisition of an 18.7% interest in MTN



Introduction of Dinatla as BEE shareholder



Adviser to Eyebantu Consortium on acquisition of a stake in Kumba Resources



Arranger of funding for the acquisition of 12.5% of Uhambo Oil for R1.45bn



Employee Acquisition of 10% of Cashbuild, fully funded by Cashbuild grant



Introduction of a 26.1% BEE shareholding



The introduction of new black shareholders through a broad-based transaction

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# Selected Nedbank BEE funding experience



Senior debt participant and bond underwriter



Funder of 25% acquisition in Total SA by Calulo-led BEE Consortium



Funding of joint venture for JD Group



Preference share funding into the established BEE vehicle for Lonmin and Impala's platinum interests



Funding of BEE acquisition by Eyesizwe Coal of Anglo American & Billiton coal assets



Funding of empowerment retail schemes for Naspers Group



Acquisition of 25% stake in Shell Marketing and Distribution



Funder of acquisition of Freegold assets from Anglo American & ARMGold's subsequent listing



Major funders for casino licence bidding for Johnnic-led consortium, Thebe-led consortia

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# Focus on transactional revenue

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- Nedbank Corporate

- Focussed transactional banking unit
- Improving corporate banking systems
- Channel convergence project in progress, roll-out scheduled for H1 '06
- Joint initiatives with Nedbank Capital

- Nedbank Retail

- New structure, staff training, improving morale, focus on channels to market all geared to achieve:
  - Growth in number of clients (primary banker status = 21,4 % Aug '05)
  - Increased cross-sell ratios (currently 1,19x)
  - Bancassurance penetration (new business premiums up 40% H1 '05)

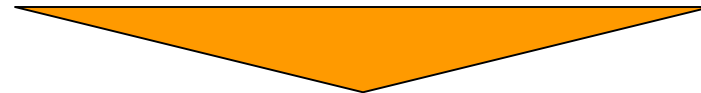
***... critical to future growth***

# Unleash Synergies with Old Mutual group

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- Much closer working relationship
  - Recently appointed Old Mutual Group Director for Southern Africa
  - Working on projects together – i.e., outsourced voice & data networks
  - Nedbank Retail Bancassurance - new group business premiums up 74%
  - Increased share of Old Mutual's banking
  - Financing opportunities with OmsFin
  - Potential opportunities in Sub-Saharan Africa
- Identify quick wins (mainly – 3<sup>rd</sup> party services)



*Increasing revenue*

*Reducing cost*

**... aids in opening “Jaws”**

# Transformation beyond FSC targets



Core component of FSC	2004	2005 status
<b>Human Resources</b> <ul style="list-style-type: none"> <li>• Employment equity</li> <li>• Skills development</li> </ul>	<ul style="list-style-type: none"> <li>• ●</li> <li>• ●</li> </ul>	<ul style="list-style-type: none"> <li>• ●</li> <li>• ●</li> </ul>
<b>Procurement</b>	• ●	• ●
<b>Access to financial services</b> <ul style="list-style-type: none"> <li>• Savings &amp; transactional</li> <li>• Loan origination</li> </ul>	<ul style="list-style-type: none"> <li>• ●</li> <li>• ●</li> </ul>	<ul style="list-style-type: none"> <li>• ●</li> <li>• ●</li> </ul>
<b>Empowerment financing</b> <ul style="list-style-type: none"> <li>• BEE transaction</li> <li>• Infrastructure Investment Indus <i>(Industry measure O/S)</i></li> <li>• Agriculture</li> <li>• SMMEs</li> <li>• Low income housing</li> </ul>	<ul style="list-style-type: none"> <li>• ●</li> <li>• ●</li> <li>• ●</li> <li>• ●</li> <li>• ●</li> </ul>	<ul style="list-style-type: none"> <li>• ●</li> <li>• ●</li> <li>• ●</li> <li>• ●</li> <li>• ●</li> </ul>
<b>Corporate Social Investment</b>	• ●	• ●
<b>Management &amp; Control</b> <ul style="list-style-type: none"> <li>• Ownership</li> <li>• Executive management</li> <li>• Board composition</li> </ul>	<ul style="list-style-type: none"> <li>• ●</li> <li>• ●</li> <li>• ●</li> </ul>	<ul style="list-style-type: none"> <li>• ●</li> <li>• ●</li> <li>• ●</li> </ul>

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# Leveraging BEE deal – Status 14 Oct 2005



Scheme	Achieved subscription	Target subscription	Closing date	Status
Broadbase	Allocated 1 451 400 shares to 14 514 employees	As per allocation	10 <sup>th</sup> Aug 2005	😊
Black Exec	Allocated 168 000 shares and 504 000 options to 18 Execs	Approx 1,3m shares are held in Trust for future black Execs	10 <sup>th</sup> Aug 2005	😊
Black Mgt	Allocated 298 609 shares and 3 255 829 options to 719 employees	Approx 1,7m shares are held in Trust for future black managers	10 <sup>th</sup> Aug 2005	😊
Corporate	19 signed legal agreements	20 identified potential clients	15 <sup>th</sup> Sept 2005	😊
	50 Business Banking legal agreements signed	50 identified Business Banking clients	15 <sup>th</sup> Sept 2005	😊
Retail	9,500 applications received	>20 000 subscriptions	15 <sup>th</sup> Nov 2005	😞

*... empowering the group*

# Leveraging BEE deal *(continued)*

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- **Black business partners (Wiphold & Brimstone consortia)**
  - Strategic planning sessions held with Nedbank Corporate, Nedbank Capital & Group Human Resources
  - Pursuing in excess of 10 different transactions introduced by partners
  - Various meetings with Nedbank Retail & a number of presentations given to potential client bodies & on potential client schemes
- **Black development partner (Aka)**
  - Regular meetings with Nedbank Capital & Nedbank Corporate
  - Nedbank Capital currently advising on 3 different deals introduced
- **Non-executive directors**
  - Allocation to 4 participants
- **Communities**
  - Discussions commenced on ways to utilise funds

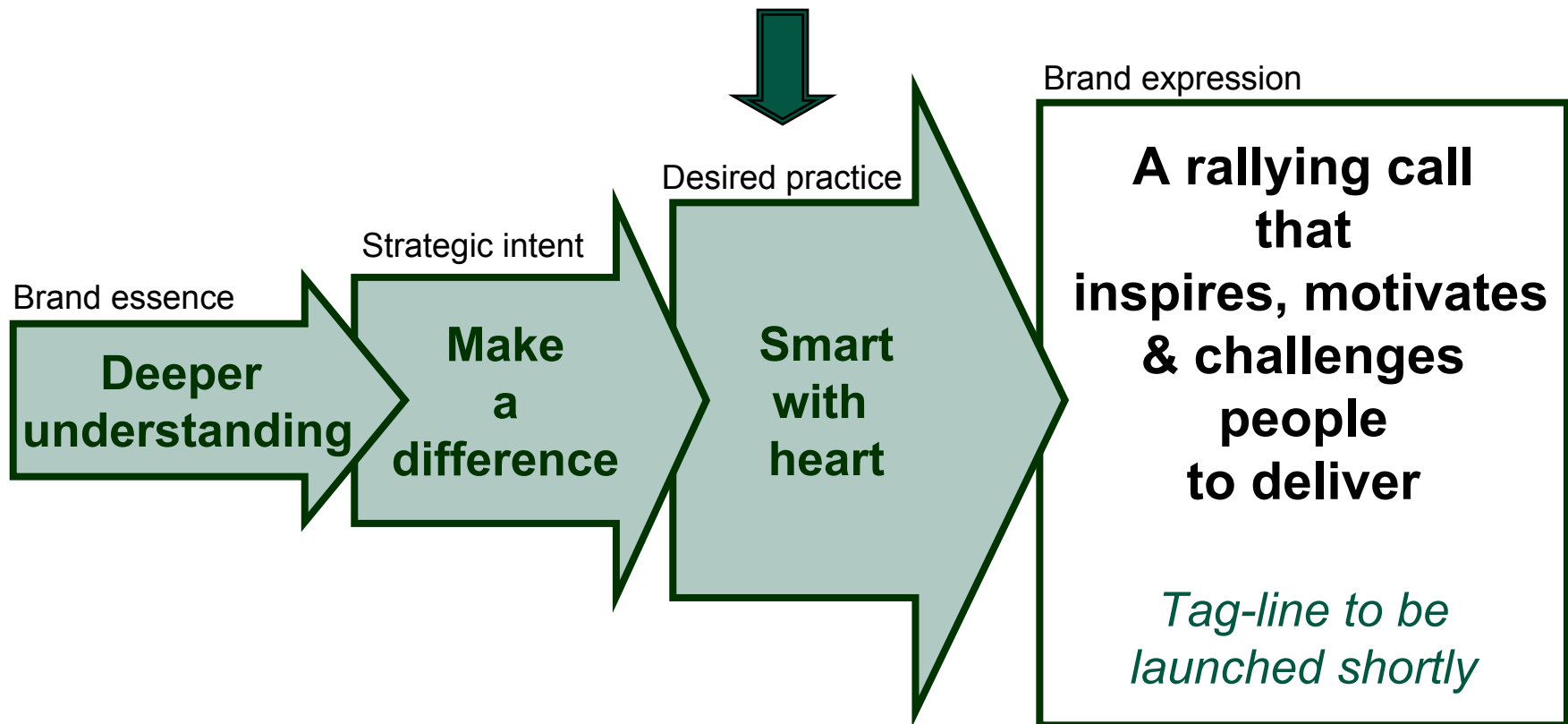
*... empowering the group*

# Brand positioning / differentiation



- Clarified strategy & structure ahead of finalising brand campaign


***Listening*** → ***Understanding*** → ***Delivering***



***... Nedbank a bank for all***

# Phased approach to brand



Nedbank Listening Campaign				
Value proposition	Deeper understanding of you & your banking needs			
Personality	Smart with Heart			
	BEE	Integration	Affinities	CSI
	Nedbank Eyethu Ownership Plan	Peoples Bank People into Nedbank	Nelson Mandela Children's Fund	Raise profile

## *The proposed way forward:*

Combine intent & delivery – listening, understanding & delivering in the creative expression of Nedbank's value proposition to be launched shortly

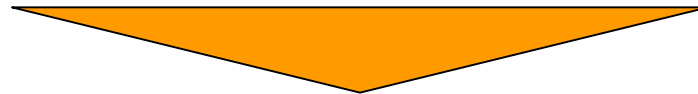
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# Brand alignment with strategy



## By 2007, Nedbank aims to:

- Be seen as a bank accessible to all
- Have significantly broadened its demographic business, marketing & distribution footprint
- Have held retail banking market share
- Have retained its wholesale banking market share
- Be seen as a true Proudly South African bank
- Be one of best companies to work for
- Be seen as the benchmark for client care
- Be seen as having a true community orientation
- Remain most aspirational of SA's banks
- Be seen to care for the environment
- Be seen as aligned to values of a large part of the nation



## In essence Nedbank brand has to **S – T – R – E – T – C – H**

- From niche elite to mass aspirational
- From unashamedly not for everyone to proudly for everyone
- From premium brand in a portfolio to group uni-brand
- From difference for the sake of difference to the difference that truly will make a difference

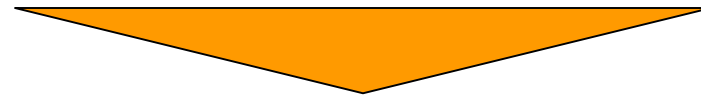
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# Integration of risk & capital mgt into strategy



Basel 2 a catalyst to banks to ensure proper  
risk based capital management

The “rules of banking” in SA changing in line with  
international best practice



- Economic capital allocation & RAPM
- Collateral management improvement
- Client value management
- Limit management improvement

- Reduce / optimise risk profile of balance sheet
- Risk adjusted profitability - determines growth areas
- Credit risk transfer / securitisation
- Risk based pricing

***... ensuring the group optimises returns***



# Summary

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# Conclusion



## External environment

- Macro banking environment
- Pressure on bank charges
- Increased regulatory pressure
- Increased competition
- Growth of black/emerging market

## Internal factors

- Improving staff morale
- Focus on client service
- Product improvements
- System enhancements
- Transformation & BEE

Improved management processes

2007 targets

ROE	20%
Efficiency ratio	55%

**... continue delivering on our commitments**





*“There is no miracle moment. Small incremental wins in one common direction will restore Nedbank Group to a highly rated & respected financial institution.”*

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GROUP





**Thank you**

**NEDBANK**  
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