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Optimising return on capital in a challenging new landscape

Nedbank Group

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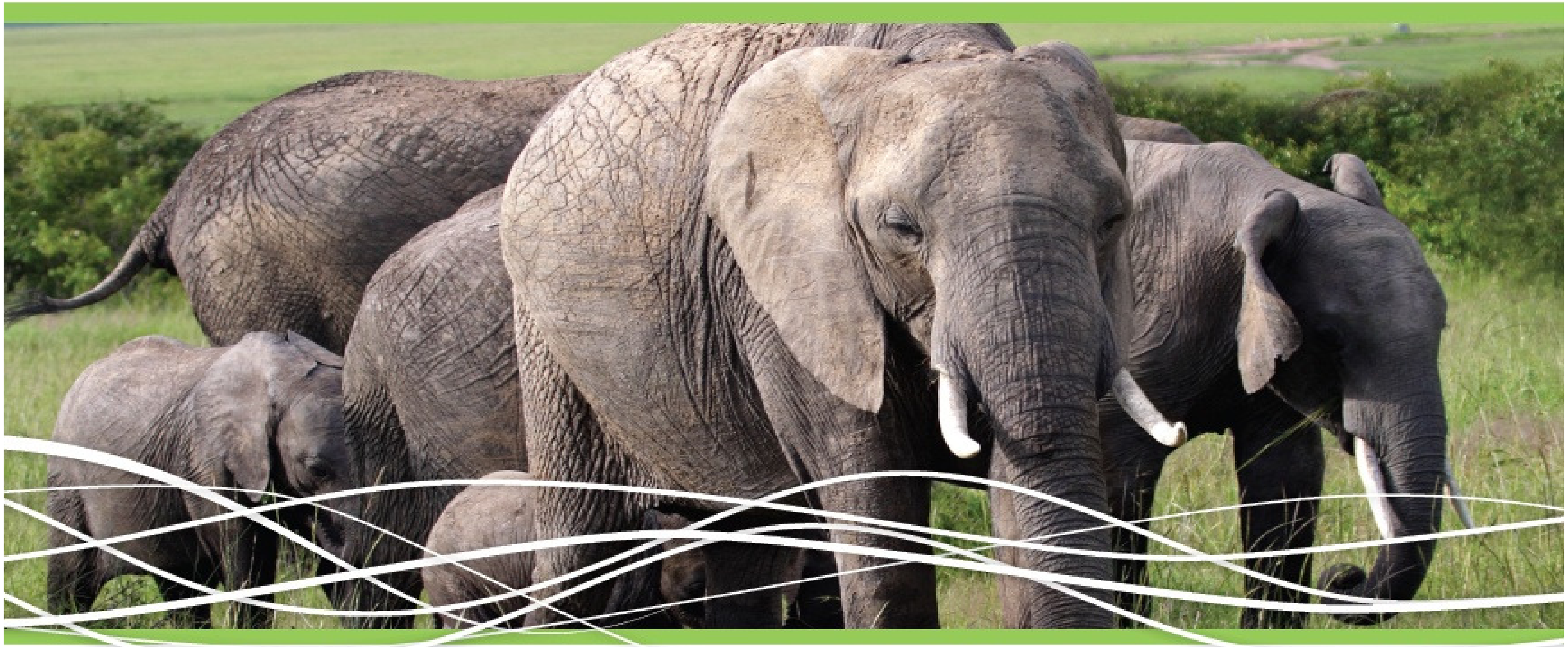

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A Member of the OLD MUTUAL Group

AGENDA

- **Nedbank's current position**
- Key environmental trends
- Optimising return on capital
- Summary & conclusion

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Nedbank's current position

Refined Vision

Building Africa's most admired bank … by our staff, clients, shareholders, regulators & communities

EXCO team in place

Wealth Management repositioned

Business Banking & Retail link

Balance Sheet Management

Structural changes & investments

Acquisition of 100% of JVs in Nedbank Wealth & Imperial Bank

Refined strategy – to move from 'good to great'

Portfolio Tilt

NIR - key driver

Retail – revised strategy & risk management

Greater focus on Africa

Nedbank has a clear strategy, a good track record, a fundamentally well positioned banking business & a strong management team in place in order to grow our business & increase shareholder value as we deliver on our vision of building Africa's most admired bank.

Nedbank's current position *(continued)*

Where we are today - Good

- Financial performance benchmarks well, except for NIR
- Asset & liability market shares not materially out of line & strong in wholesale
- Capital and liquidity strong – but landscape changing (Basel 3)
- Strength in balance sheet management
- Strong staff culture & morale – people risk
- Leader in transformation, green & community based franchise

We need to get to - Great

- Growth of NIR / transactional / primary client market share – greater share of wallet
- Retail - game changing strategy, especially Home Loans
- More innovative
- Client value management
- Enhanced balance sheet shape
- Stronger brand

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Macro-economic environment

	2010	2011	2012	2013
GDP	2,8%	3,0%	4,2%	4,0%
CPIX Inflation	4,4%	4,9%	6,2%	6,0%
Current account deficit	3,4%	3,9%	4,2%	4,9%
Prime overdraft rate (year end)	9,50%	9,5%	12,0%	13,5%
Exchange rate ($/R)	7,40	7,49	7,97	8,13

- Risk of double-dip recession in global markets
  - few remaining options to stimulate growth
- Improving conditions in 2011 although growth more modest in this cycle
- Credit growth will continue to lag real GDP growth

Key environmental trends

- Bank RoEs are structurally declining
- SA financial services EP pool large but Africa higher growth long term
- SA prospects driven by infrastructural investment & wealthier consumer
- High growth from bandwidth, electronic, internet, mobile & new technology
- SA demographic shifts enabling consumer opportunities
- Increasing voice of & focus on client
- Non-banking solutions growing faster than banking & deposits a key priority
- Demand for talent greater than growth of talent pool

Basel 3 – implications for capital & liquidity

Calibration of the Basel capital framework -

Core Tier 1 equity up from 2% to 4.5%	*(2013 - 2015)*
Additional regulatory deductions to core Tier 1	*(2014 - 2018)*
Tier 1 up from 4% to 6%	*(2013 - 2015)*
Capital conservation buffer of 2.5%	*(2016 - 2019)*
Countercyclical capital buffer of 0% to 2.5%	*Phasing periods with earlier observation*
Stricter requirements for new capital issues -	
Existing non-qualifying Hybrid and Tier 2 debt phased out 10% p.a.	*(2013 -2022)*
Qualifying Tier 2 debt reduced to 2%	*(2013 - 2015)*
Reduced opportunities for capital structuring	

Higher Equity & Cost of Capital → Resulting in bank RoEs reducing

- BUT SA banks remain above top end of target ranges & well capitalised ... as confirmed by our Regulator
- AND SA minimum capital requirements currently above Basel 3 ... how will SARB respond?

Basel 3 – implications for capital & liquidity *(continued)*

Calibration of the Basel liquidity risk framework -

Liquidity coverage ratio

$$\frac{\text{High quality liquid assets}}{\text{Net cash outflows 30-day time period}} \geq 100\%$$

Net stable funding ratio

$$\frac{\text{Long stable funding}}{\text{Required amount of stable funding}} \geq 100\%$$

- Additional liquid asset buffers
- Longer funding profiles
- Additional diversification into other markets
- Other potential changes:
  - *Deposit insurance?*
  - *Taxation revisions?*

Higher cost of funding

Resulting in bank RoEs reducing

How will SARB respond regarding national discretion given structural differences in SA?

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Optimising return on capital - Nedbank's strategic drivers

Portfolio tilt approach

Adopt active portfolio management approach to optimise scarce resources – more judicious allocation of capital, liquidity & costs

Focus on EP growth

Deposits become a key priority

NIR is the key driver

Provides high returns, low capital & liquidity consumption & reduces earnings at risk profile

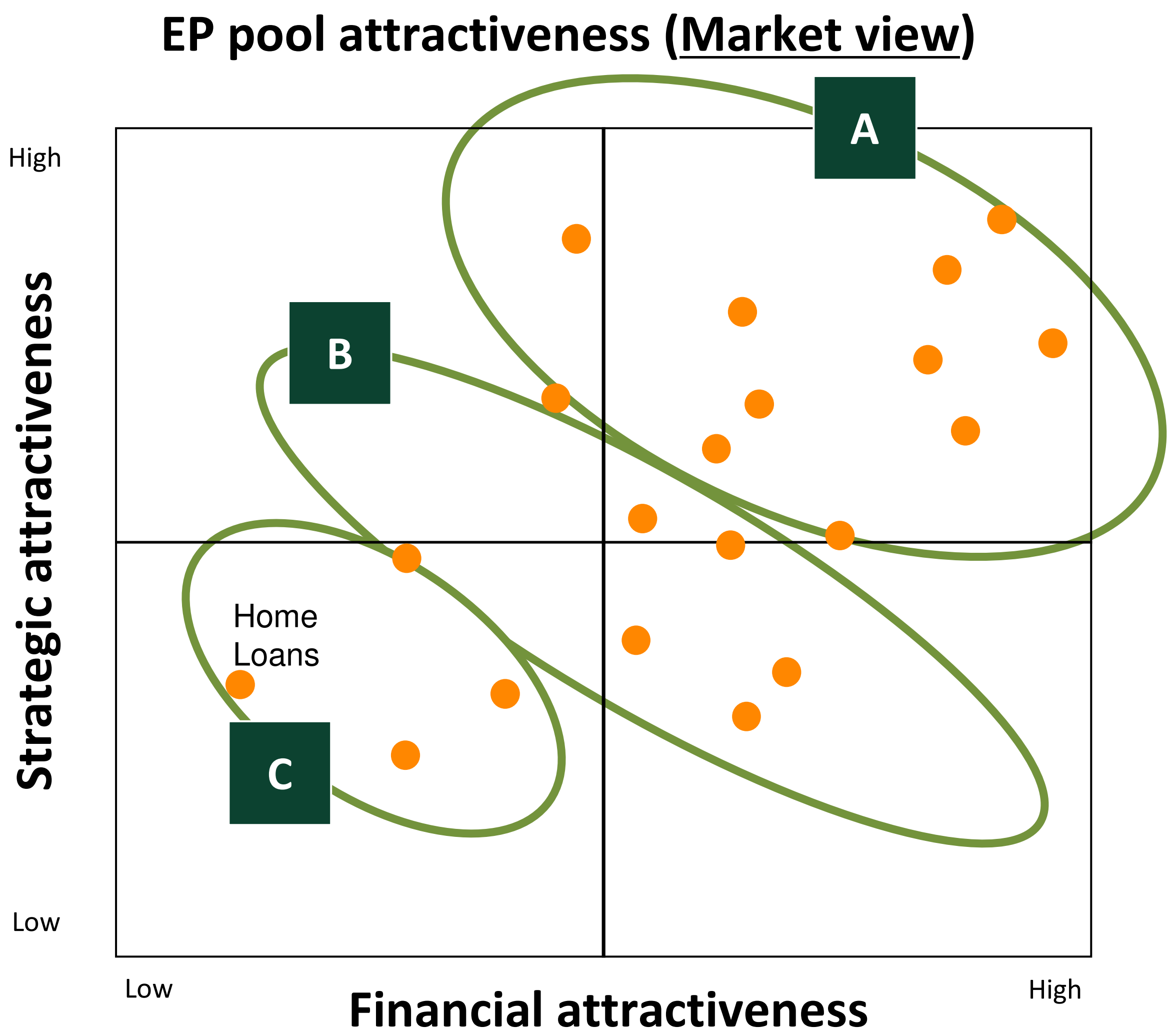
Retail - game changing strategy, client centric focus supported with strong strategic risk management

Particular focus on Home Loans

Greater focus on Africa

Currently EP pool negative but growing into profitability over longer term

Portfolio Tilt – actively manage toward high EP areas



A	Grow faster/ invest
B	Maintain current plan
C	Fix economics

Focus is on market share growth by value (EP) rather than pure volume

Portfolio Tilt – measuring risk vs. return (value)

Portfolios managed across business units

- Rewarded on portfolio performance vs. single business
- Allocate scarce resources to high EP areas
- "Manage for value" at Group and business unit levels

Risk allocation framework

Economic Capital Framework

- Risk quantified by portfolio – down to 100 sub portfolios
  - facilitates measure of value-creating vs. value destroying EP areas
- Individual hurdle rates drives profitable decisions

Matching maturity funds transfer pricing solution

- Accurate pricing for liquidity - advances & deposits
- Imperative for pricing both sides of balance sheet
- Removes reprice risk from business units

Activity justified transfer pricing

- Allocation of costs to portfolios on activity justified basis
- Enables accurate measure of profitability

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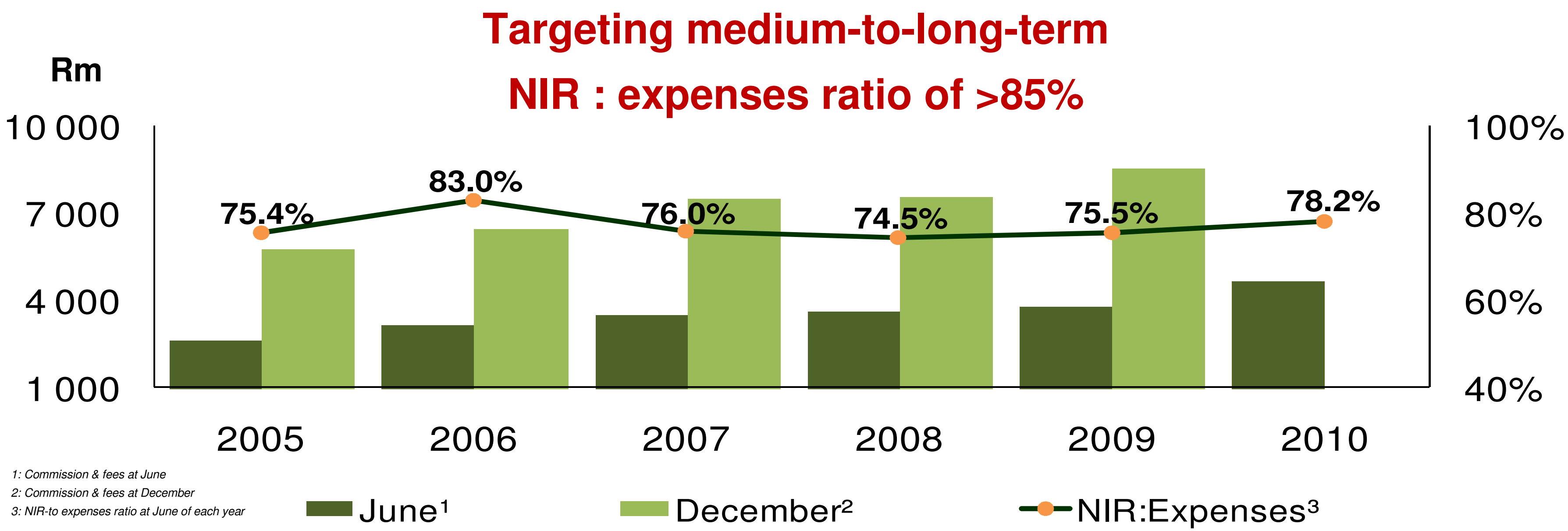
NIR – grow transactional banking & primary clients



1: Commission & fees at June
2: Commission & fees at December
3: NIR-to expenses ratio at June of each year

- Targets and scorecards – strong NIR focus
- IT investment
- Selective investment in footprint
- Strong client centric focus in Retail
- Increase trading off primary client gains - flows
- NIR project streams cut across businesses - cross cell, efficiencies
- Leverage opportunities from IBL & JV acquisitions

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NIR – grow through innovative solutions & cross-sell

Opportunities across clusters	• Cross-sell across clusters • Medium- to long-term: Africa / Ecobank alliance
Nedbank Capital	• Wallstreet – rationalise 7 multi-interface applications • Innovative origination of carbon credits via project finance
Nedbank Corporate	• Successfully launched E-Mall & Currency converter • Collaborate with Nedbank Capital - cross-sell hedging products
Nedbank Business Banking	• Leverage innovative products • Automation of fee collection
Nedbank Retail	• Siyaka - improve customer interaction & front-end sales solutions • Leverage M-Pesa opportunities • Introduce real time electronic clearing
Nedbank Wealth	• Launch Life underwritten product together with 'Wellness' programme – Q4 2010 • Increased penetration into Nedbank Retail & ex-Imperial Bank client base

vodacom M-PESA
By Nedbank Mobile Money
NEDBANK

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Reposition Retail

... particularly Home Loans

- Imbalance of risk vs. return
- Overly competitive – given economics
- Margins squeezed due to:
  - Originator costs
  - Increasing funding costs
  - Higher concessions to Prime
- Market slow to respond to increasing risk – some banks quicker than others
- Declining property market
- Optionality – one sided

Reposition Retail *(continued)*

"Delivering a choice of distinctive client-centred banking experiences that build many deep, enduring relationships with Nedbank"

Harness strengths

- Leverage small business, Business Banking & corporate client relationships
- Product monolines – aligned with building deep client relationships
- People & Nedbank Group culture

Primary clients

- Understand diverse client needs to define a range of relevant banking experiences
- Invest in youth & entry-level market - distinctive low cost offering
- Differentiated small business services offering
- One high net worth offering via Nedbank Wealth

Manage for value

- Align risk appetite metrics with desired earnings & return profile
- World class risk management practices
- Using scarce resources judiciously
- Differentiated pricing strategy

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- Nedbank has significant market share in SA corporate & commercial sectors
- Corporate & commercial clients increasing presence across Africa – future growth opportunities in African economic growth story
- Nedbank needs capacity to service its clients as they extend into Africa
- Leverage competitive position in South Africa to expand into Africa

Expand & grow in SADC	Advisory boutiques	Pan-African banking network	Selected investment opportunities

… selective strategy driven by EP, as sustainable revenue levels, decreasing costs & reduction in risk improve economics in African countries

Greater focus on Africa *(continued)*

Expand & grow in SADC	• Currently operate banks in 5 SADC countries • Existing niche competitive advantages • Continue to seek opportunities to grow scale in SADC
Advisory boutiques	• Angola & Kenya representative offices opened • Structured term trade & advisory
Pan-African banking network	• Ecobank Alliance coverage in 33 countries • Support clients as they expand into Africa • Advisory & project finance opportunities
Selected investment opportunities	• Cautiously explore investments within disciplined risk return parameters

… SA remains our key focus as we plant the acorns in the rest of Africa for the future

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In summary

In order to optimise capital & close the price : book gap

- Actively manage portfolio towards higher economic profit areas
- Grow NIR & primary banking across the spectrum
- Reposition Nedbank Retail onto a sustainable growth path
- Greater focus on African expansion
- Active balance sheet management

THANK YOU

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