BALANCING GROWTH AND RISK

NEDBANK GROUP

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UBS conference, New York City

8 May 2012

2011 financial highlights

- **Headline profit before tax increased**
  31,9%
- **ROE (excluding goodwill) increased to**
  15,3% (2010: 13,4%)
- **Capital adequacy further strengthened**
  Core Tier 1: 11,0%
- **Full year dividend per share of**
  605 cents, up 26,0%
- **Pre-provisioninig operating profit increased**
  10,1%
- **Credit loss ratio down to**
  114bps (from 136bps)
- **Efficiency ratio at 56,6%**

HEADLINE EARNINGS
R6,2bn
▲ 26,2%

STRONG NIR GROWTH TO
R15,4bn
▲ 16,6%

DILUTED HEADLINE EARNINGS PER SHARE
1 340 cents
▲ 25,4%

nkonki Integrated Reporting Awards 2011

The Banker
Bank of the Year 2011
SOUTH AFRICA

Chartered Secretaries Southern Africa

Nedbank share performance (large bank):
#1 : 1 year
#1 : 3 years
#2 : 5 years

Sound banking and governance environment in South Africa

Indicators for South Africa	Rank (/142) 2011 - 2012	Rank (/139) 2010 - 2011
Strength of auditing & reporting standards	1	1
Regulation of securities exchange	1	1
Efficacy of corporate boards	2	2
Soundness of banks	2	6
Protection of minority shareholder's interests	3	6
Financial markets development	4	9
Financing through local equity market	4	7
Strength of investor protection	10	10

Source: World Economic Forum, 2010/1 & 2011/2 Global Competitiveness Report

The business of banking is fundamentally about managing risk

BALANCE SHEET

Volatility in asset value (= risk)

Asset value a direct consequence of risk-taking activities e.g.

- credit margins
- credit losses
- ALM position
- trading
- macro-economic factors
  - market prices

ASSETS

- loans
- bonds
- equities
- derivatives
- investments

CAPITAL

- Buffer for unexpected losses (i.e. risk)
- Responsible to shareholders to deliver acceptable returns
- Varies according to earnings and losses

LIABILITIES

- deposits
- bonds
- derivatives
- etc

- Responsible to depositors & debt holders
- Liabilities always remain fixed in value unlike assets which may vary considerably

Off-balance sheet

The business of banking is fundamentally about managing risk

Nedbank has 3 core objectives in managing risk

- ‘Managing Risk as a THREAT’
- ‘Managing Risk as an UNCERTAINTY’
- ‘Managing Risk as an OPPORTUNITY’

Nedbank strictly applies 3 lines of defence in its risk governance

- 1st line (Nedbank business clusters & BSM cluster [centrally])
- 2nd line (Group Risk and Group Governance & Compliance)
- 3rd line (Internal and External Audit)

Under pinned by a best practice Enterprise-wide Risk Management Framework (ERMF)

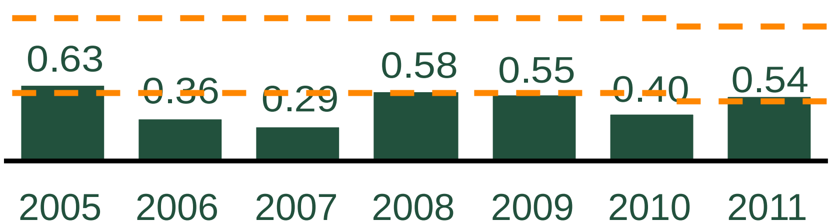
Nedbank Retail vs Business Banking
– illustration of the importance of risk management

Business Banking: very strong risk management culture, which reflects in consistently low CLR

The new risk management framework brings these capabilities to Retail

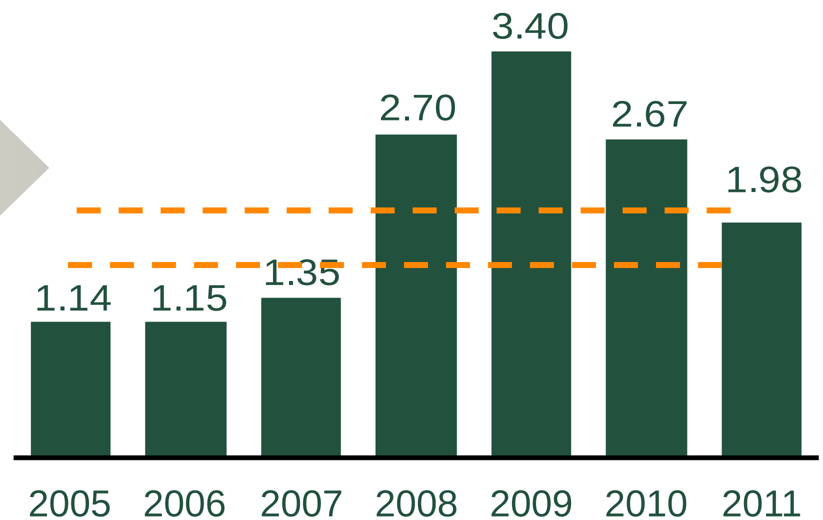
Business banking CLR
%

Risk appetite target range



Retail banking CLR
%

Risk appetite target range



	Business 2005	2006	2007	2008	2009	2010	2011	Retail 2005	2006	2007	2008	2009	2010	2011
Impairments (Rm)	227	162	152	330	284	210	324	887	1,040	1,512	3,559	4,843	5,110	3,729
NPLs (%)	3.0	2.1	2.7	3.6	5.4	6.3	5.2	2.0	2.4	5.7	8.3	10.5	9.1	7.4

How we look at banking

Bank = Macro-economic hedge fund + Fees & services business

- **Bank specific, idiosyncratic risk**
  - Credit risk profile
  - ALM position
  - Trading activities
  - Risk appetite
  - Stress and scenario testing
  - Risk strategy
  - Etc.
- Risk culture & risk management
- Balance sheet management
- **Systemic risk (from economic cycles)**

Key macro-economic factors and forecasts

- CPI inflation rate
- Real GDP growth
- Prime rate
- 10+ year interest rates
- 0-3 year interest rates
- JSE % change
- Property prices
- Household debt to income ratio
- Credit growth

A macro-economic view of growth vs risk

Growth potential

- GDP growth:
  Developed world < SA < Rest of Africa
- SA infrastructure spending potential (R800bn pipeline)
- Growing banking population & middle class (transformation driven)
- Secured lending growth < unsecured growth
- Non-banking growth > banking growth
- Nedbank's relatively lower share of EP

vs

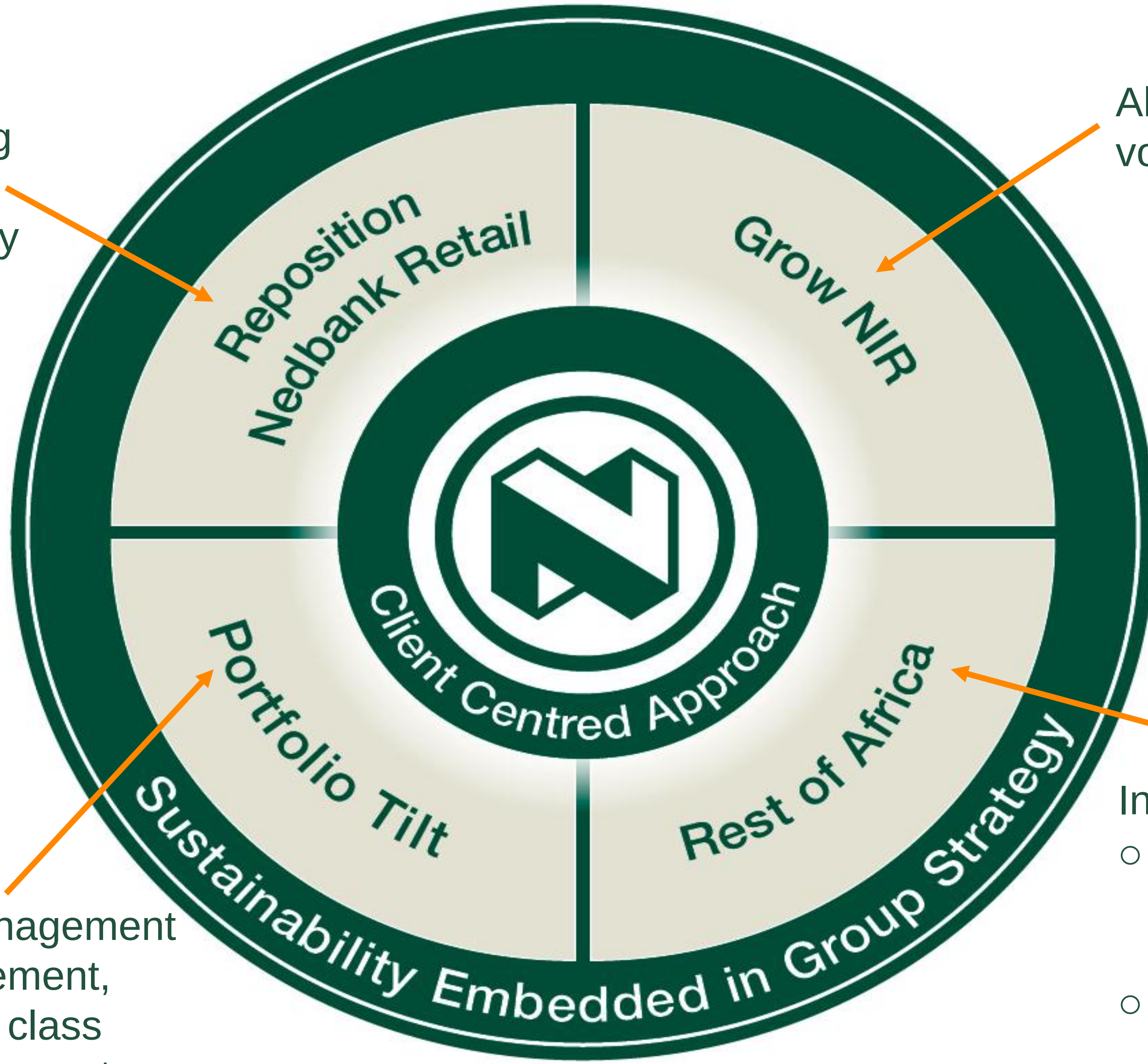
Risks

- Impact of fragile global economy on SA
- Geopolitical risk (international and SA)
- Weak housing market recovery
- Unemployment
- Rising interest rate cycle
- Inflationary pressures
- Highly indebted consumers
- Cash flush corporates not investing

Our key strategic focus areas – all about balancing risk and growth

Client-centred focus underpinned by strong risk management for sustainable profitability

Also reduces earnings volatility risk



Strategic portfolio management & client value management, underpinned by world class balance sheet management

Investing for the future

- "Risk Appetite in Africa" clearly defined & quantified
- Risk mitigated approach to growth

Our primary focus on Economic Profit (EP)

EP primary metric: Aligns closest with shareholder value creation & incorporates risk (via economic capital allocation)

- EP a combination of familiar metrics that enables trade-off between:
  - Risk & return
  - Growth & profitability
  - Shareholder value creation

Strong correlation of total shareholder return (TSR) with economic profit growth

Indicator for TSR[1]	Compare
RoE vs. TSR	R = 19%
Δ RoE vs. TSR	R = 15%
EP vs. TSR	R = 18%
Δ EP vs. TSR	R = 49%

1. Source: Oliver Wyman analysis, Based on US banks with market values over $1 BN for 5-year period ending 2007

$$EP = \underbrace{Capital}_{\text{Robust measure of risk based on Basel III}} \times (\underbrace{RORAC}_{\text{Economic return on equity}} - \underbrace{\text{Cost of capital}}_{\text{Shareholder requirements}})$$

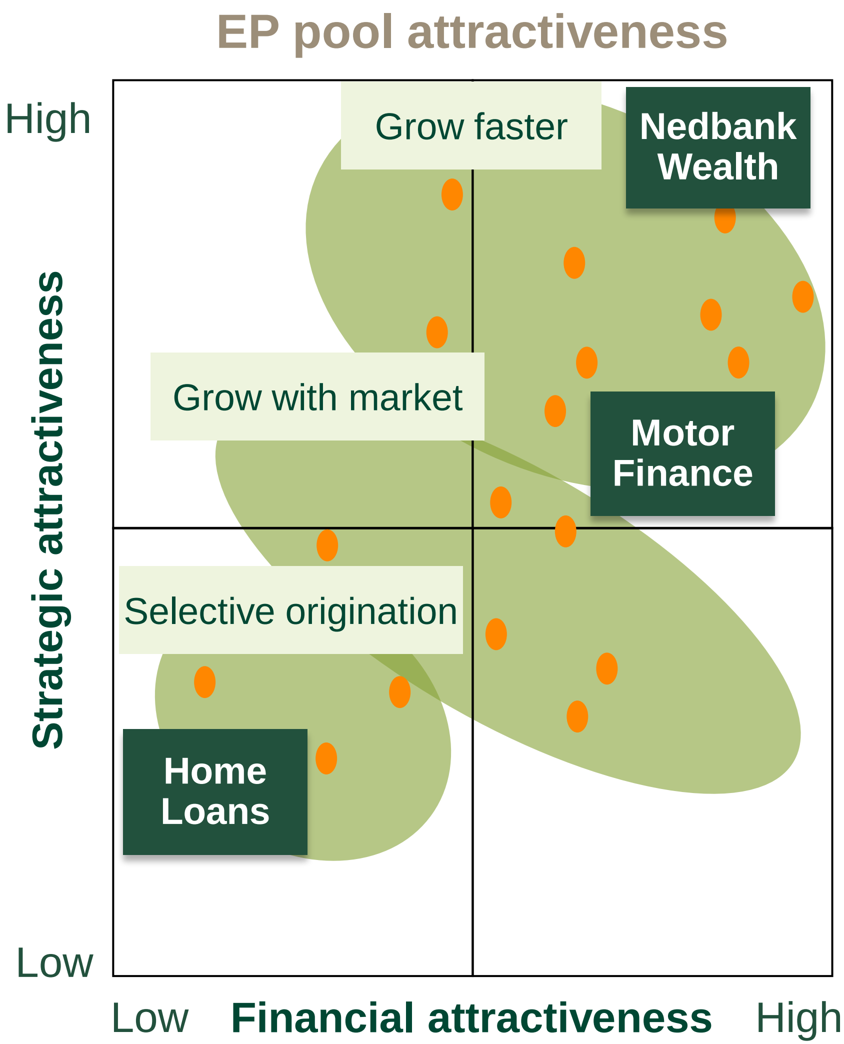
Portfolio Tilt – key objectives

- Focus on **maximising EP** (and ROE)
- Target an **optimal balance sheet** and income statement shape and mix
- Optimise the **strategic impact of Basel III**
  - **Optimal allocation of resources:** capital, liquidity and expenses
- **Reduce through-the-cycle earnings volatility**
- **Optimise the risk profile** (risk versus return) of the group
  - Aligned with risk appetite
- Embed a **culture of client value management** (exploit the value skews)
- Further **enhance the sustainability** of the Group

Portfolio Tilt – key considerations

- **Delta EP growth,** being the primary **driver of shareholder value-add**
- Overlay of current and forecasted **economic cycle**
- **Growth of market share by economic value** (or EP) more important than volume/asset size
- Strategic **impact of Basel III**
- Emphasising **capital and liquidity 'light'** areas
- **Differentiated growth strategies** within portfolios and products (e.g. Home loans)
- **Client and transactional emphasis** over a product-based approach
- **Cross-sell** between businesses and products
- **Front book versus back book economics**
- **Risk appetite**, including concentration risk, and stress tested
- **Investing for the future** (eg. Rest of Africa, Youth & unbanked market)

Portfolio Tilt – grow faster vs selective growth examples

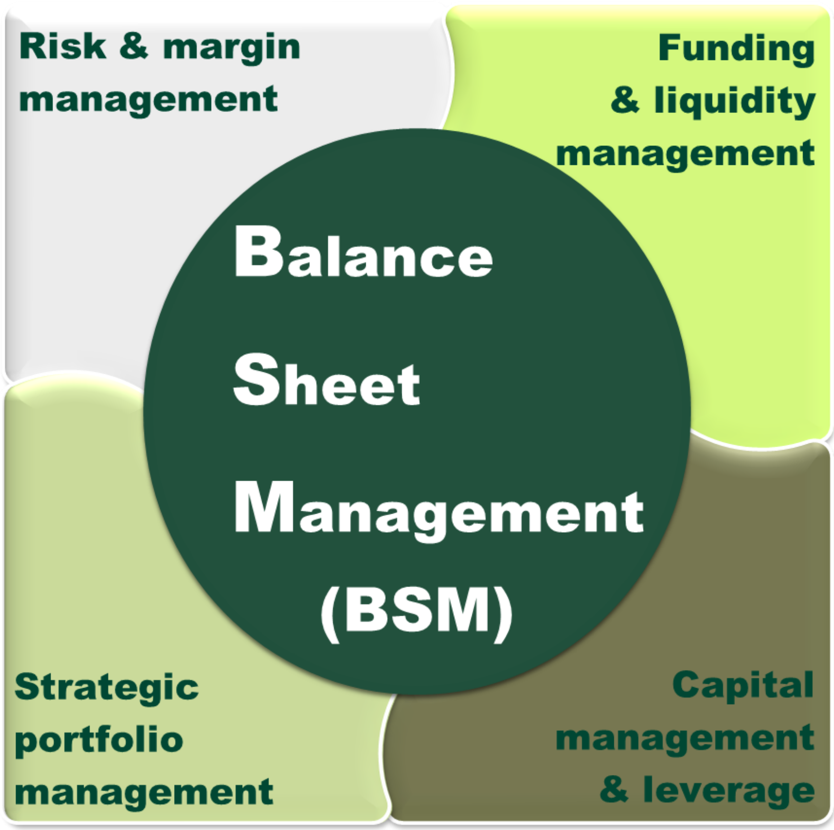


- Selective origination guided by client centred strategy & understanding economics / risk

- Acquired JVs & launching various new products including life, insurance & asset management
- Transactional banking / clients / deposits
- Card, Investment Banking

- Acquisition of MFC provided scale & expertise to improve Nedbank's VAF capabilities & economics (31% market share)
- Unsecured lending
  - remain cautious

Championed at Nedbank by Balance Sheet Management (BSM) and embedded in the practices of all clusters



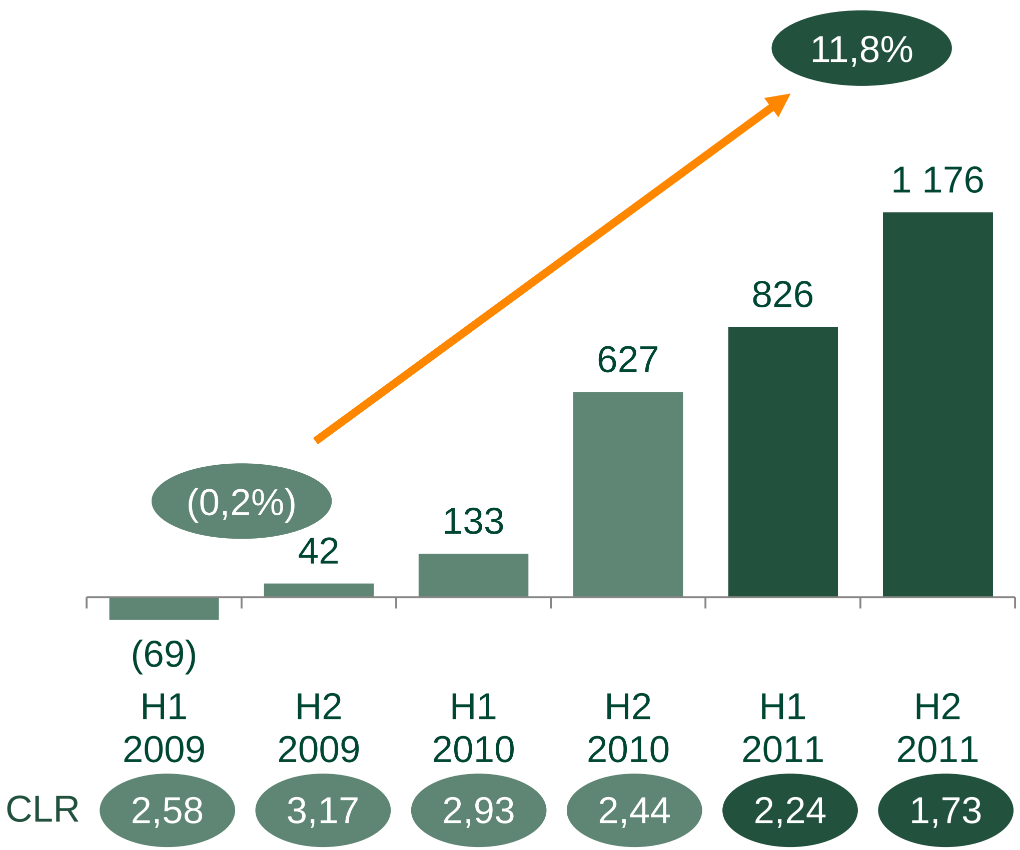
In place bank-wide:

- Risk-based economic capital allocation
- Funds transfer pricing
- Liquidity premiums
- RAPM
  - Primary driver EP and HE growth
- Risk Appetite
- Risk Strategy
  - Integrated component of 3 year business plans
- All integrated in group's strategy & business plans, performance scorecards & remuneration

Reposition Nedbank Retail

Enabling sustainable headline earnings & ROE increase

Headline earnings (Rm) & annual ROE (%)



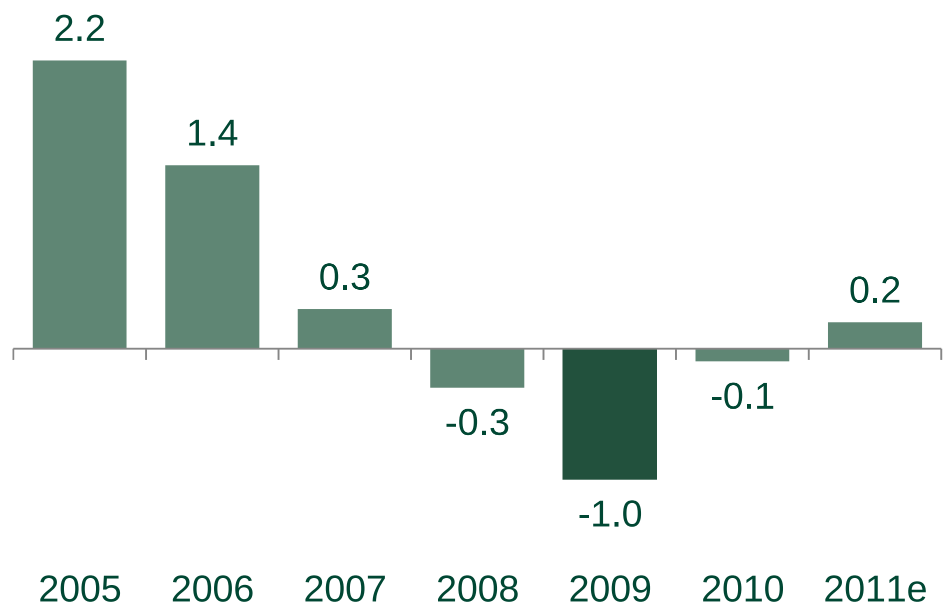
- Skilled & stable leadership
- Excellent progress implementing client centred growth strategy
- Growth in 2011
    - NIR increased 17,3%
    - Clients +434k
    - Outlets +121, ATMs +389
- Risk management
    - Improved risk management processes
    - Stronger balance sheet
    - CLRs now within target range

Reposition Nedbank Retail – The SA home loans market

A sobering example:
Indicative* economics of South African home loans back to 2005

Impairments as % of advances

Headline earnings as % of advances



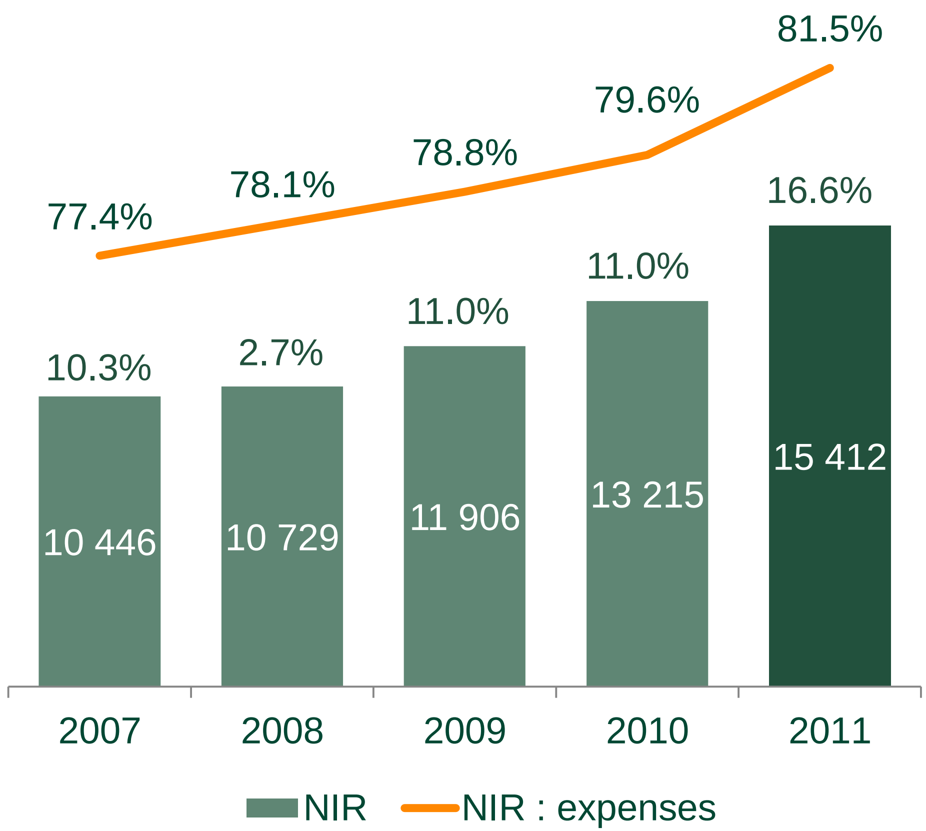
* Note economics are based on overall market and have been adjusted to take account for different FTP approach and capital allocation in different banks over time

Source: © 2012 OLIVER WYMAN

Grow NIR

Growing NIR to also reduce earnings volatility risk

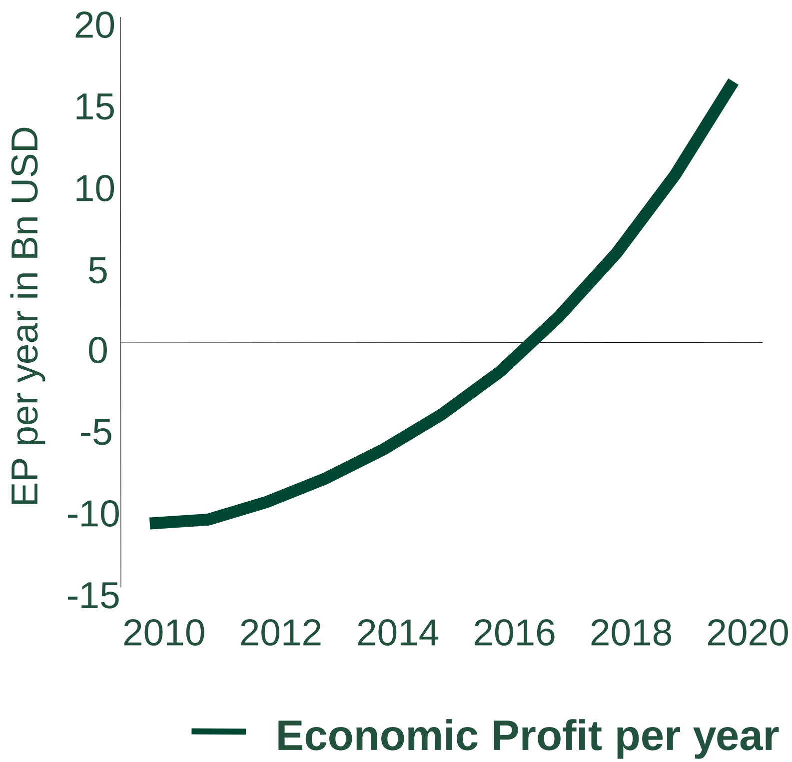
NIR : expenses ratio (%)



- NIR growth momentum maintained - strongest growth in peer group (10.2% CAGR)
- Consistent delivery across clusters
- Growth underpinned by:
  - client gains
  - transaction volume increases
  - new CVPs & products
  - footprint expansion
  - investment in systems
  - Wealth JV acquisitions in 2009

Rest of Africa - a medium to long-term opportunity

Sub-Saharan Africa (excl SA) EP development 2010 - 2020

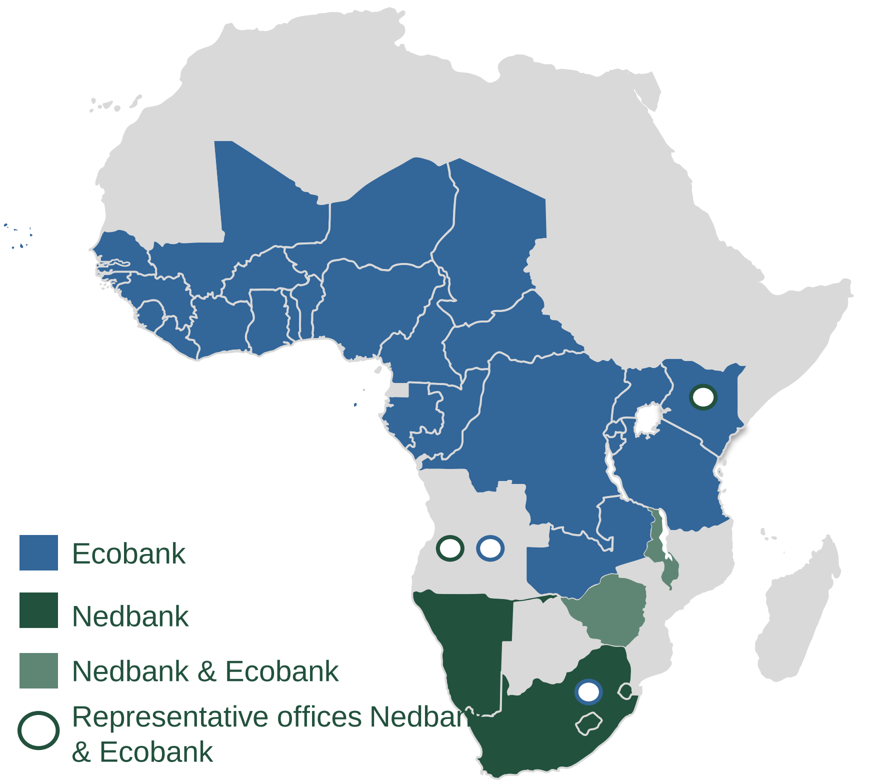


Building stronger position in Southern Africa:

- ~75% of financial services EP pool accessible via SADC
- Nedbank, locally, has greater opportunity to capture EP share
- Rest of Africa GDP to grow faster than SA GDP
- Rest of Africa only likely to turn EP positive by 2016/ 7

Rest of Africa – our risk mitigated approach

‘One bank’ experience for clients across 36 countries & over 2 000 staffed outlets

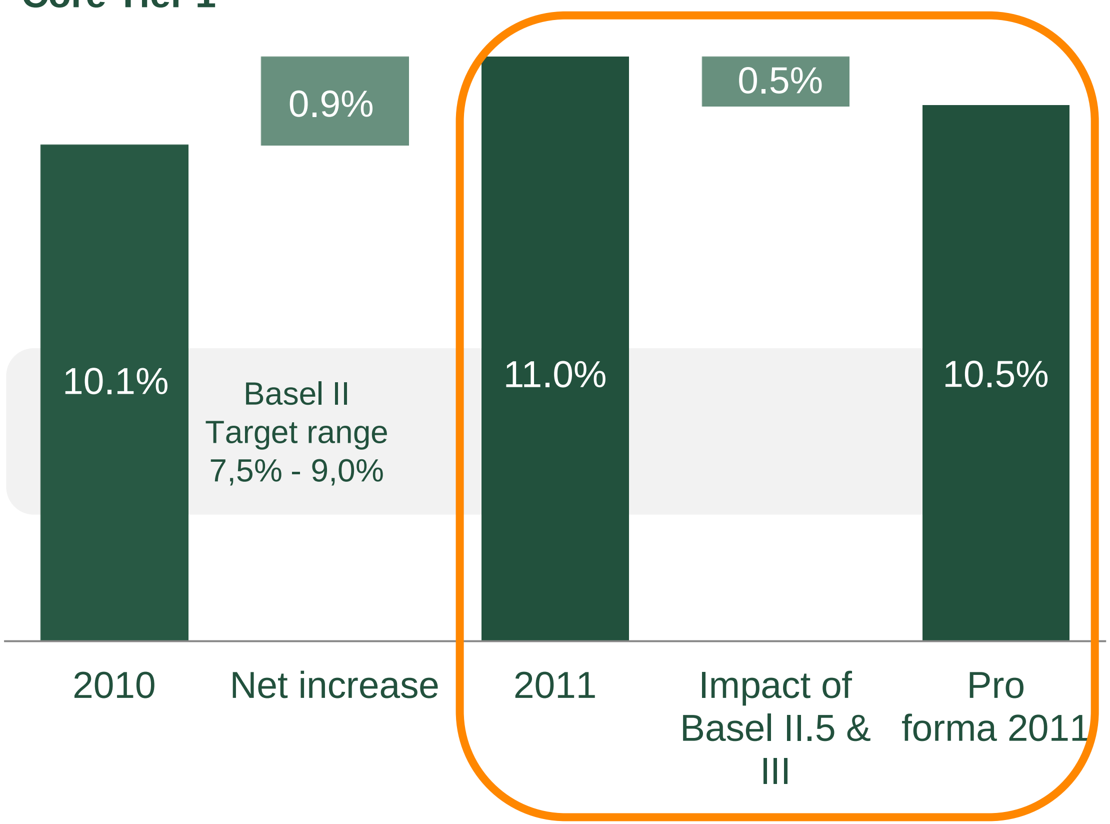


- Alliance with Ecobank since 2008
- Provided Ecobank a $285m loan facility, with rights to acquire up to 20% equity stake (in 2 - 3 years)
  - Partnership approach with local bank
  - Effective 2 year due diligence
  - Diversification of earnings (presence in 32 countries)

Impact of Basel III

Well capitalised & positioned for Basel III, on back of successful Basel II implementation

Core Tier 1



CAR targets & dividend cover under review, pending finalisation of SA regulations

Basel II.5 capital (-0.5%)

- 6% scaler for credit RWA IRB portfolios
- Stressed VAR for market trading risk

Basel III capital (neutral)

- New capital deductions e.g. deferred tax assets, 100% EL - IFRS impairments

\+ Offset by new qualifying capital: AFS, FCT & SBP reserves etc

\+ Upside from further RWA optimisation

Liquidity coverage ratio (anticipate compliance)

- Surplus liquid assets increased
- National discretion likely e.g. committed liquidity facilities (Australia)

Net Stable Funding Ratio (structural constraints)

- Expecting fundamental revision of NSFR by Basel Committee
- G20 meeting in Mexico highlighted EM issues
- Anticipate pragmatic approach by SARB

Proposed South African Basel III capital ratios – Draft 1

Draft 1 of the SA regulations were released by SARB on 30 March 2012

Proposal for SA Regulations	Common Equity Tier 1	Tier 1 Capital	Total Capital	Effective date
BCBS Basel 3 minimum	4.5%	6.0%	8.0%	
Pillar 2A for SA systemic risk *	2.0%	2.0%	2.0%	Phased-in from 2013 to 2015
SARB Basel 3 minimum	**6.5%**	**8.0%**	**10.0%**	
D-SIB capital add-on B4 buffers **	ds%	ds%	ds%	Phased-in from 2016 to 2018
Pillar 2B - bank specific add-on	x%	y%	z%	As from 1 January 2013
Capital conservation buffer	2.5%	2.5%	2.5%	Phased-in from 2016 to 2018
Countercyclical buffer range (0 - 2.5%)	cc%	cc%	cc%	Phased-in from 2016 to 2018
SARB Basel 3 minimum including buffers	**9.0% + ds% + cc% + x%**	**10.5% + ds% + cc% + y%**	**12.5% + ds% + cc% + z%**	
Current SARB Basel 2 minimum	5.25%	7.0%	9.5% + z%	

* The SARB minimum ratios include an additional capital requirement pertaining to SA systemic risk

** The Big 4 SA banks are likely to be classified as domestic systematically important banks (D–SIBs)

- SARB await BIS paper on D-SIBs before finalising this aspect.

Conclusion

- SA & Africa provides good growth opportunities, balanced against some inherent risks
- SA banking industry the 2nd most sound in the world
- The business of banking is fundamentally about managing risk
- The Nedbank Group strategy has a strong growth orientation, integrated with world class risk & balance sheet management:
    - NIR growth
    - Repositioning Nedbank Retail
    - Portfolio Tilt
    - Rest of Africa
- Nedbank Group is well positioned in a Basel III world
- We continue to make good progress on our vision of “Building Africa’s most admired bank” by all our stakeholders

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