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MANAGING A BANK IN TESTING TIMES

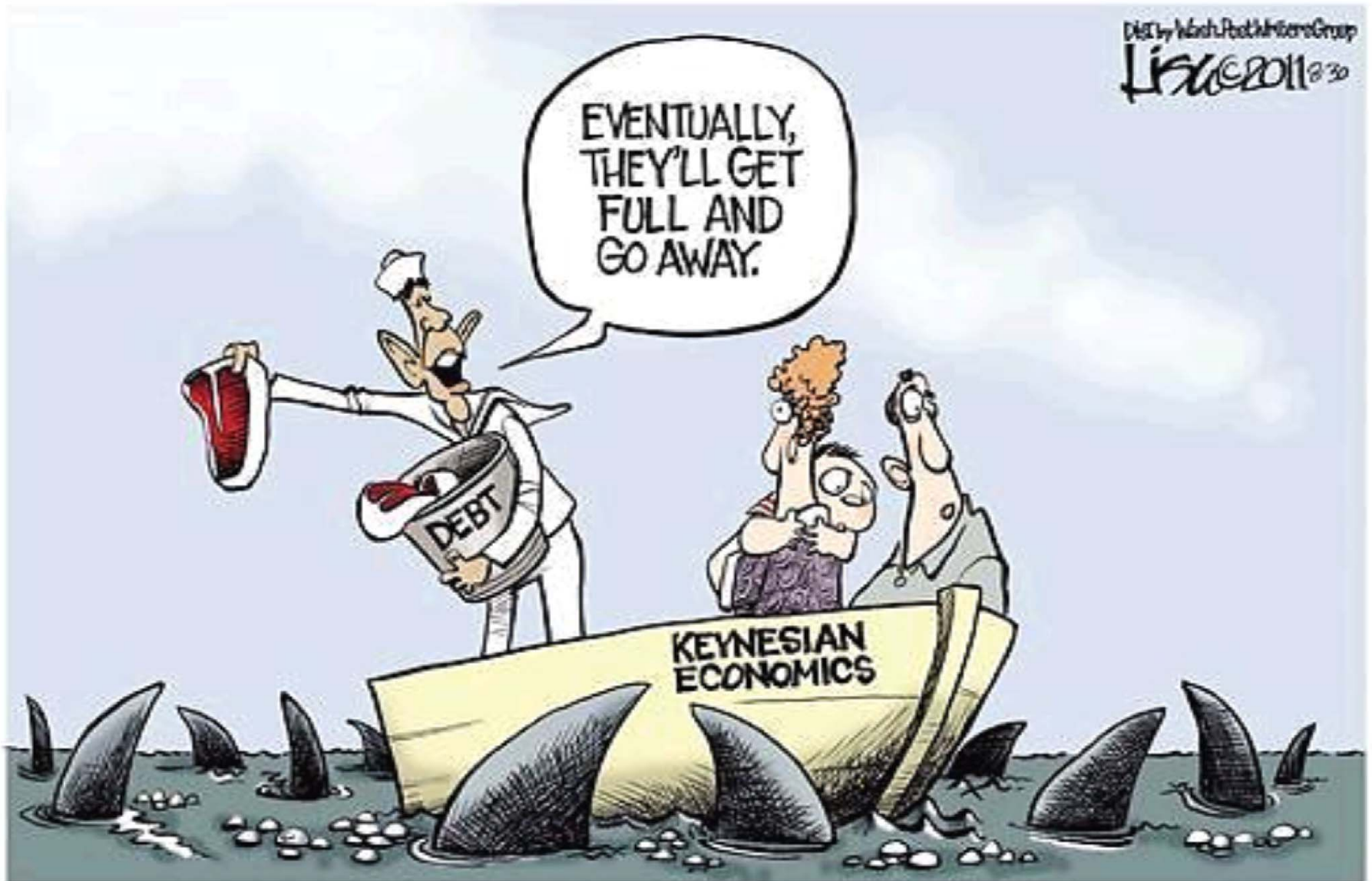
16th UBS Annual Financial Services conference, October 2013

A Member of the  **OLDMUTUAL** Group

“Ben promised me the debt ceiling was the least of my problems”

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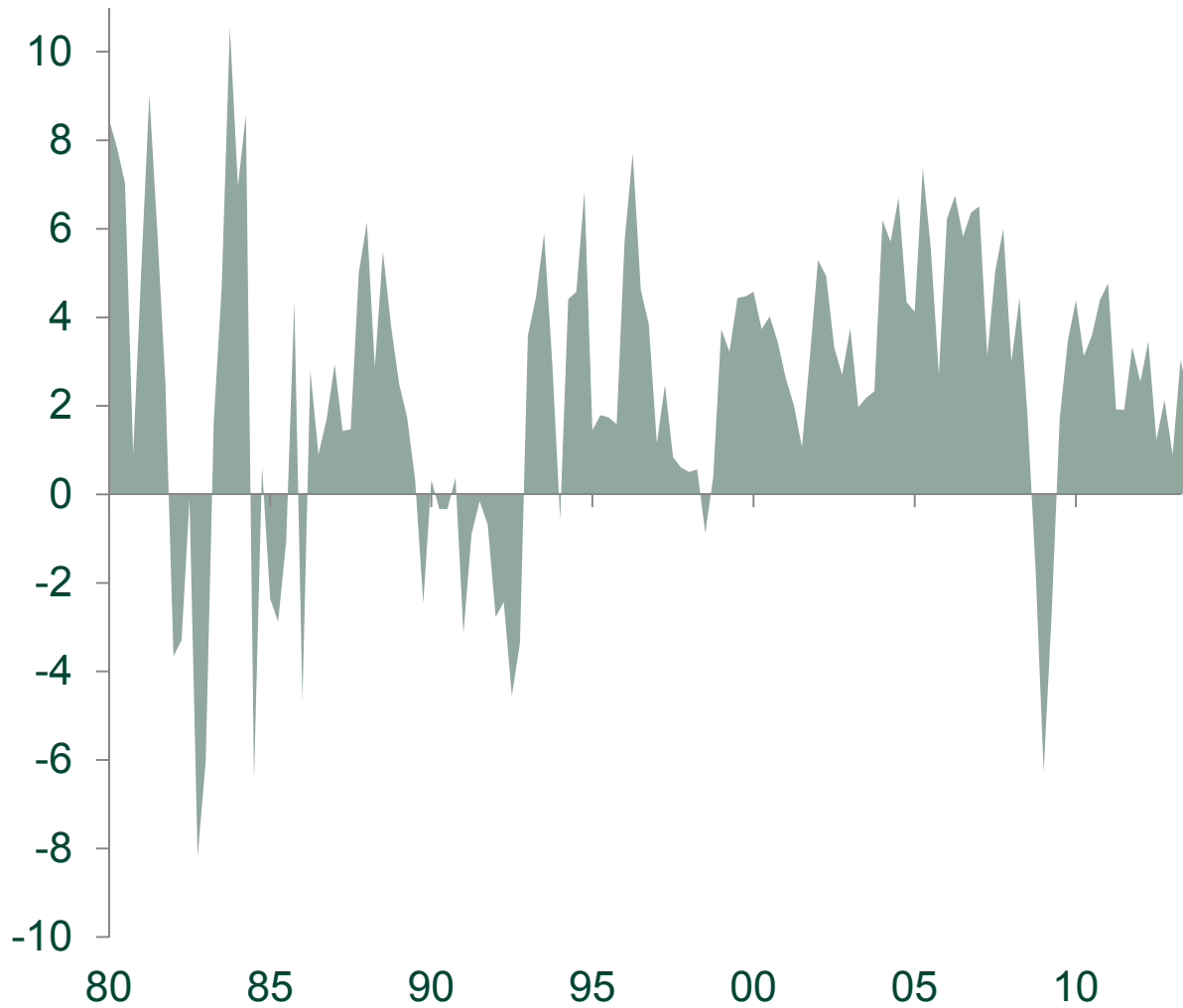
- What is our current macro outlook?
- The state of the environment
- What does 'Testing Times' mean for banks?
- The Cs of uncertain & 'Testing Times' in banking

How testing are the times?

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SA GDP (Q-o-q % - SAAR)



Low GDP growth &
outlook muted:

2013: 2,0%

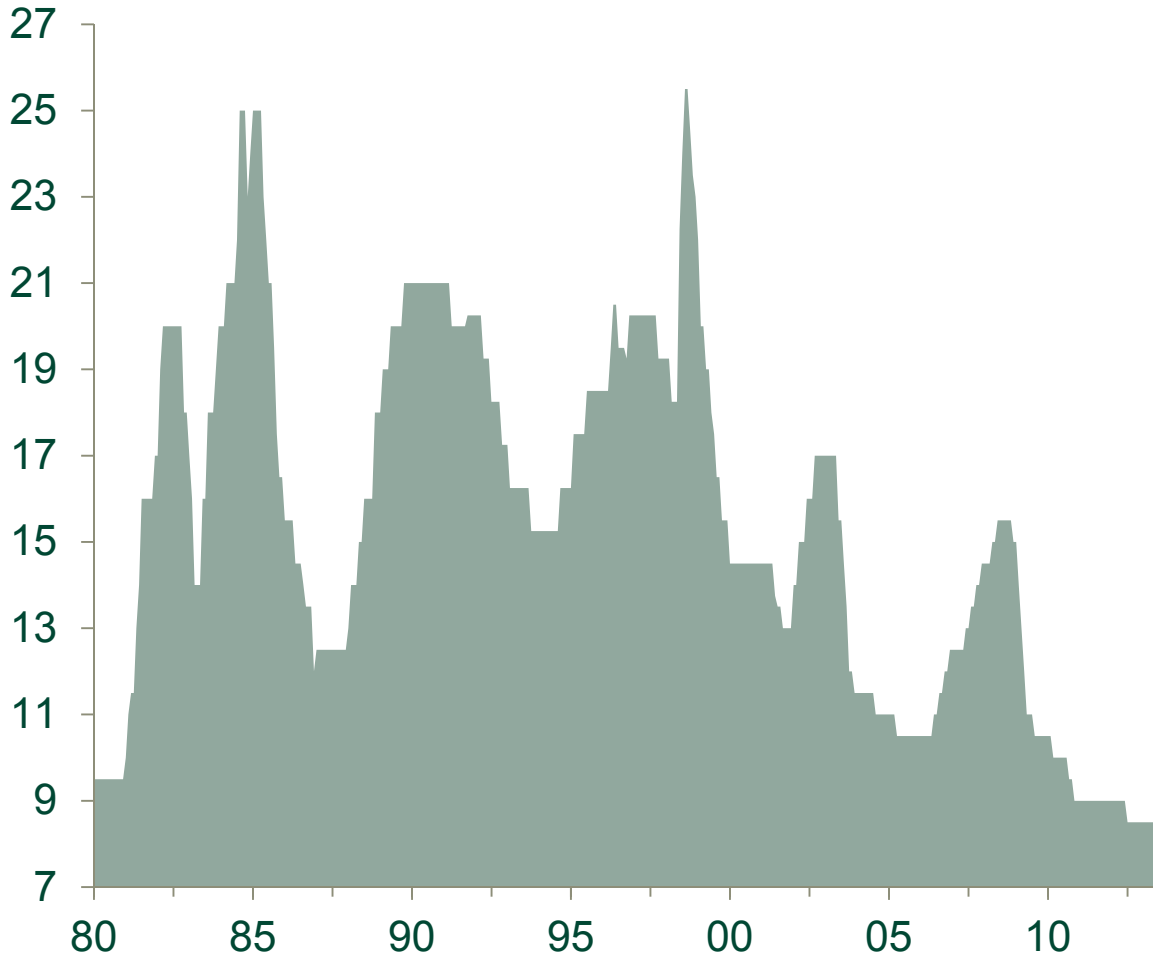
2014: 2,9%

How testing are the times?

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Prime interest rate (%)



Interest rates at
40-year lows:

Increase 50bps
in Q3 2014

How testing are the times?

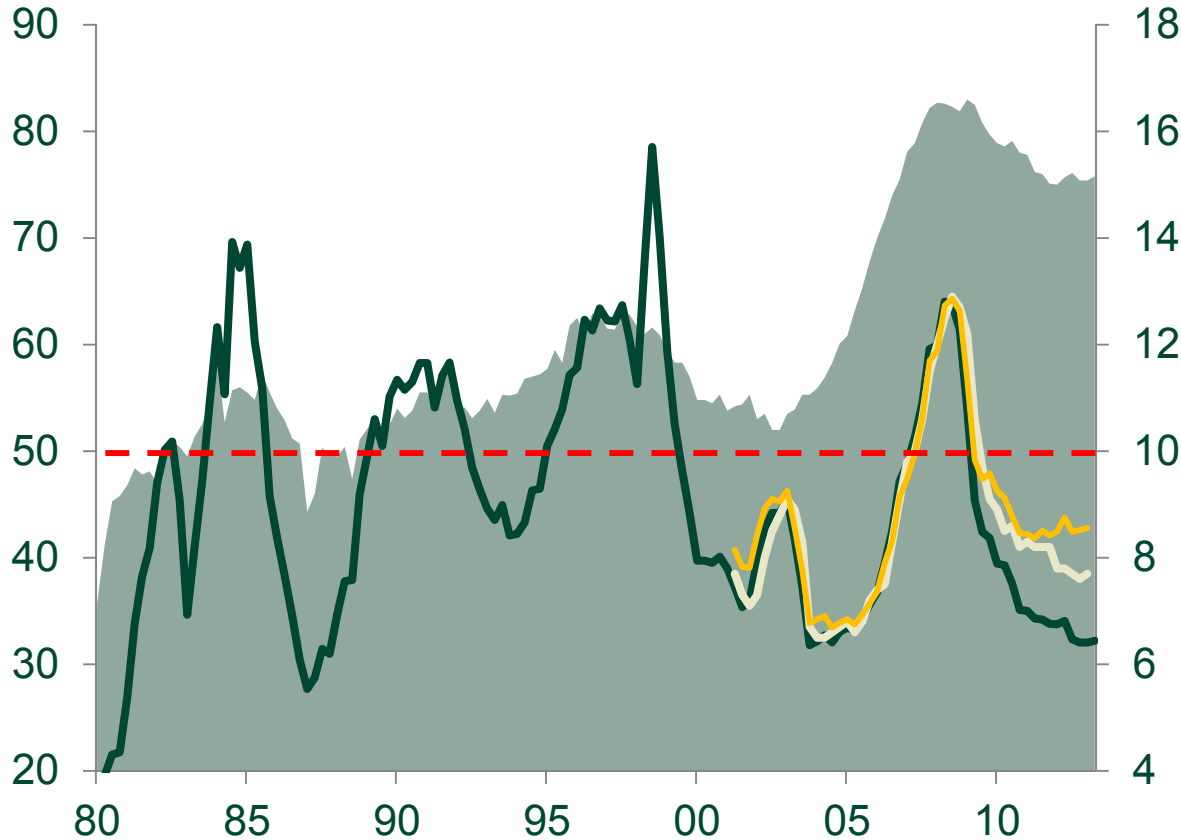
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Consumer indebtedness (%)

Personal debt as a %
of disposable income

Interest service costs as
% of PDI (ISR)



Consumers remain
highly indebted

Nedbank adjusted
ISR reflects:

- Mix changes
- Pricing changes

2013-2015: Debt levels
remain elevated

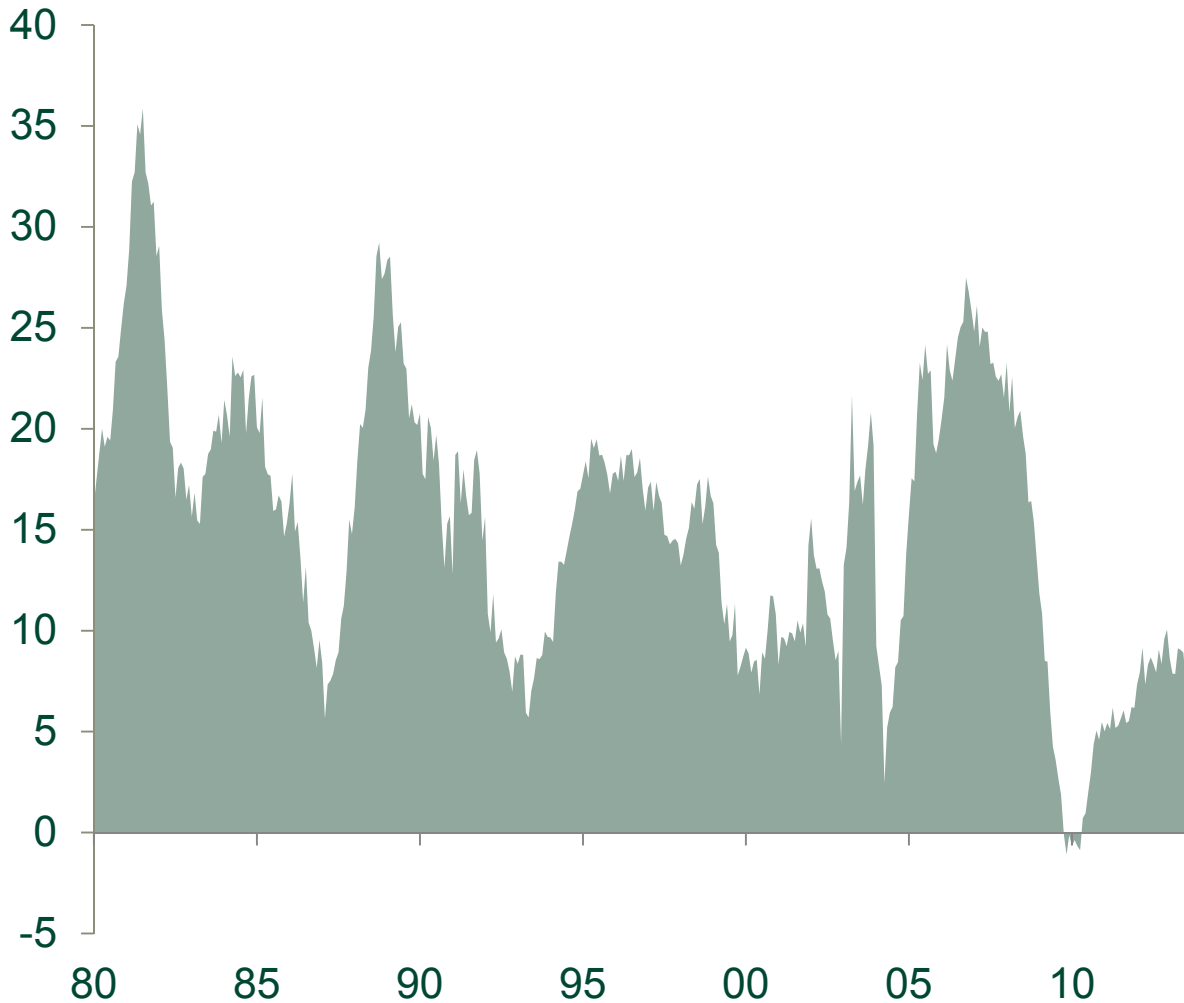
■ Household Debt as % of PDI ■ Debt Service Cost to PDI
■ SARB new calc ■ Nedbank new calc
■ ISR threshold

How testing are the times?

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Private sector credit extension (% growth)



Muted credit growth,
particularly retail

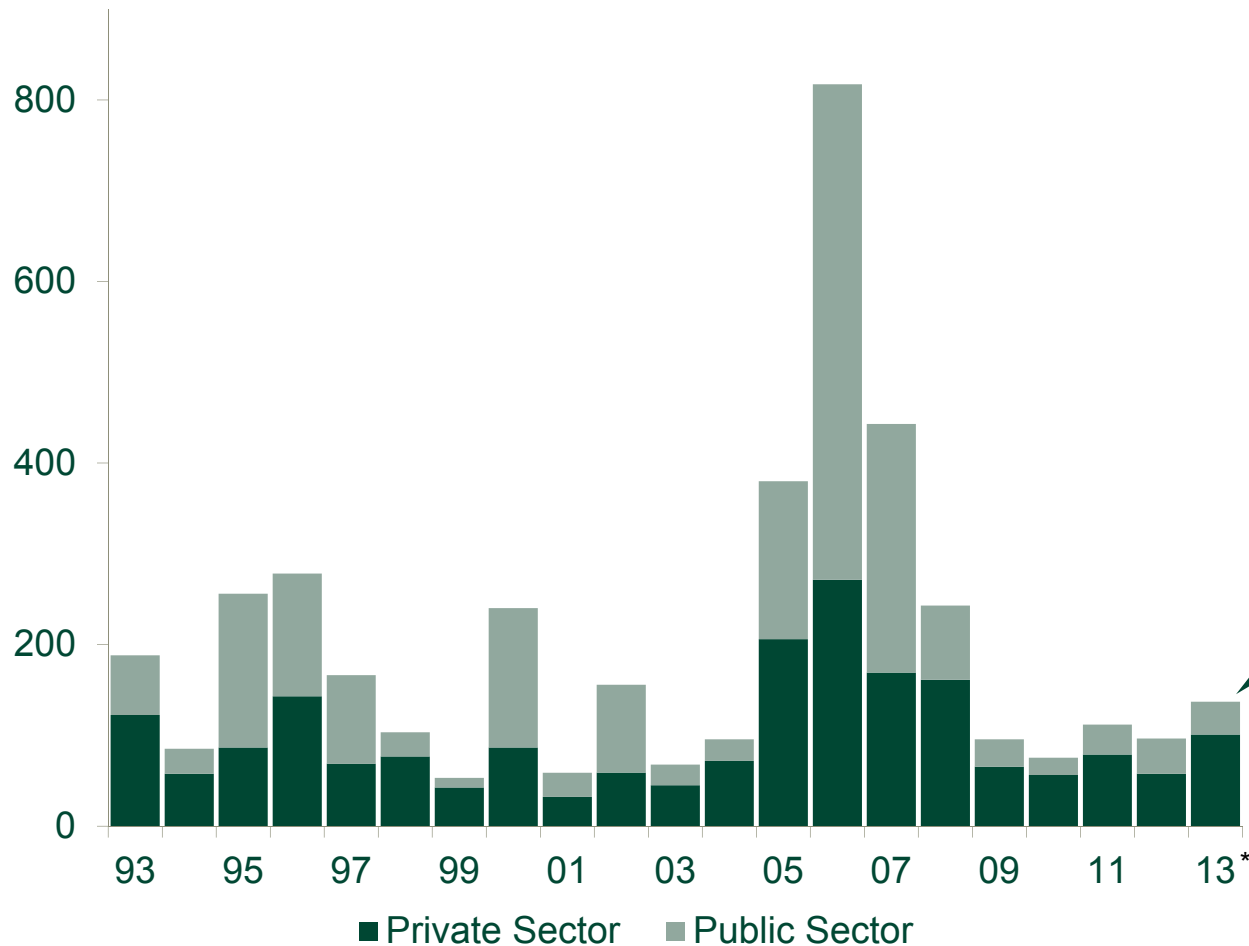
2013: mid to upper
single digit growth

How testing are the times?

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Large SA capital project schedule (R billion - constant 2012 prices)



Despite R3 trillion potential by 2030, announced projects at multi-year lows post the Soccer World Cup

*The 2013 figure is value of projects announced in the first half of the year – annualised
Note: R3 trillion potential announced projects sourced from 2013 Budget Review document

Looking at all the macro data, we can create an index reflecting the state of the SA environment

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Macroeconomic factors utilised in stress testing (Mc):

- Real GDP growth
- Prime interest rate
- 10 year interest rate
- 0 - 3 year interest rate
- Property price index
- Household debt to disposable income ratio
- JSE index*
- CPI index*
- Credit growth*

Mc

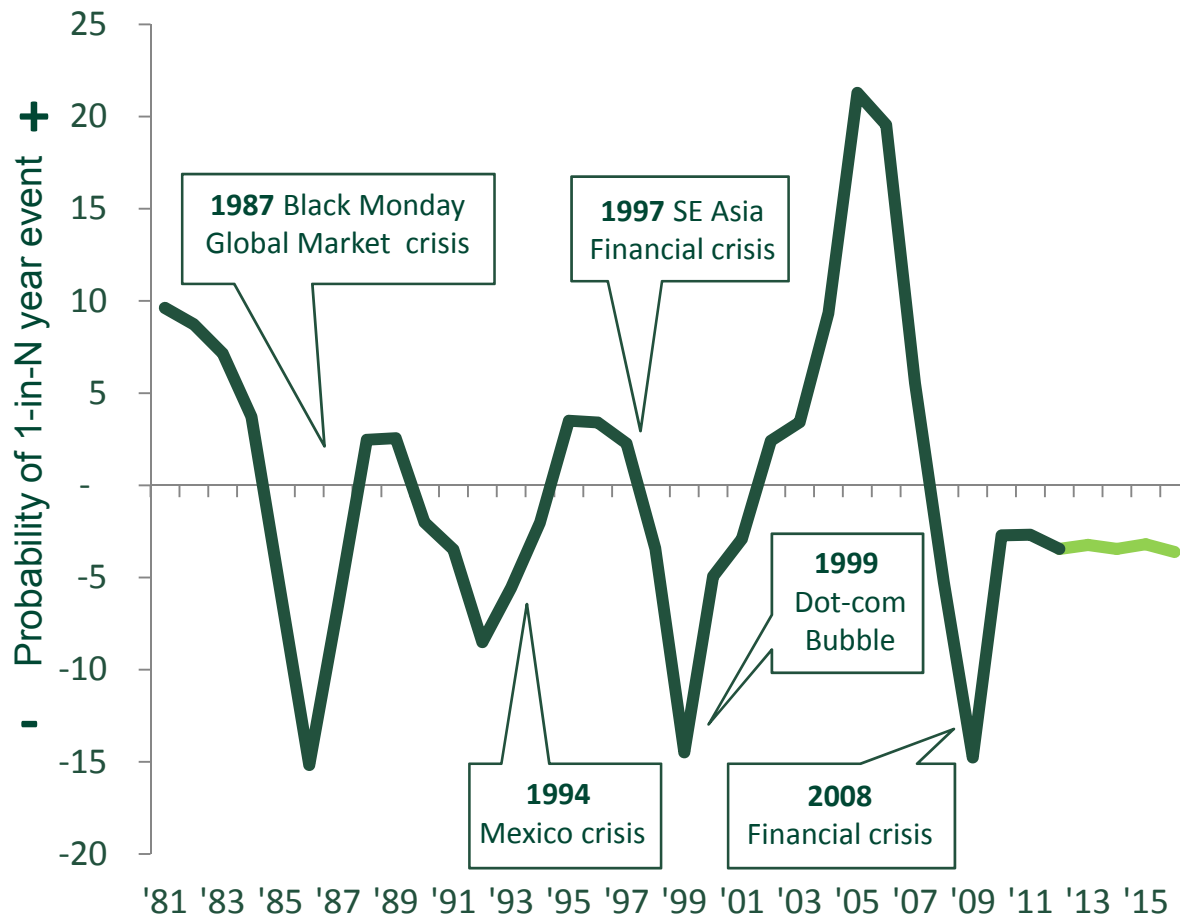
- **Modelling of systemic credit risk incorporating macro-economic state**
- **Multiple macro-economic factors used**
- **Incorporates sensitivity of different portfolios as they respond differently to the macro-economic state**
- **Translated into probability of occurring (1-in-N year event)**
 - **Global financial crisis impact on SA's own recession equates to approximately a 1-in-15 year event**
- **Other factors used in stress testing of other risk types**

The index, relevant for banks, shows how testing the times are

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Macroeconomic state of SA for systemic credit risk (Probability of 1-in-N year event)



Mild stress or The new normal?

- Volatile
- Uncertain
- Complex
- Ambiguous

* Also known as Mc model (Macro economic state of the world model)

So what are some of the implications for banks?

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More
capital, liquidity &
provisions



Lower
growth



Increased
regulatory
burden



Changing
client needs &
behaviours



Increased
competition



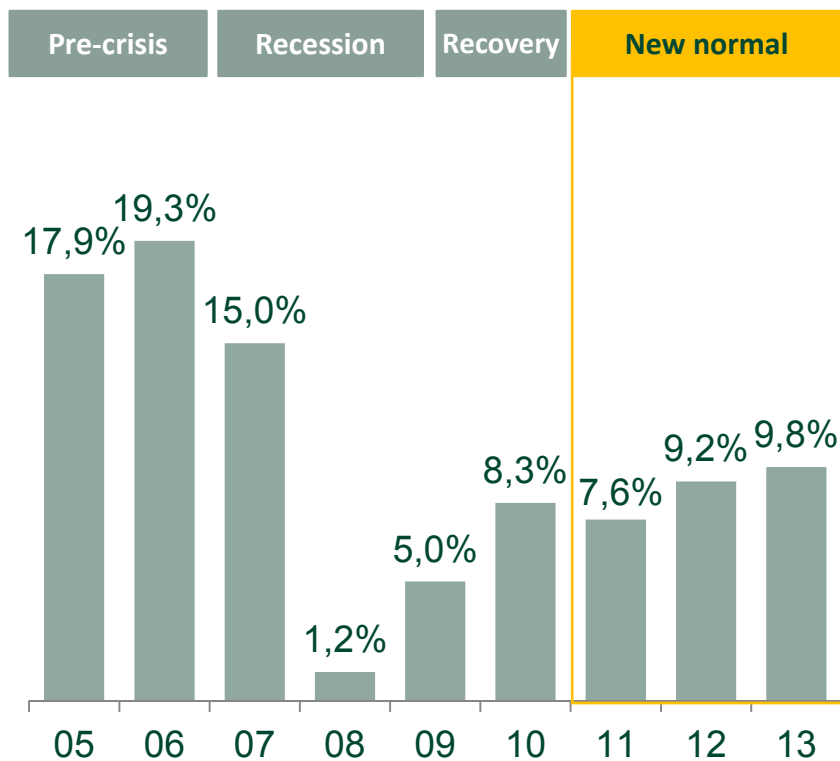
Need for agility
&
Understanding different
outcomes

So what are some of the implications for banks?

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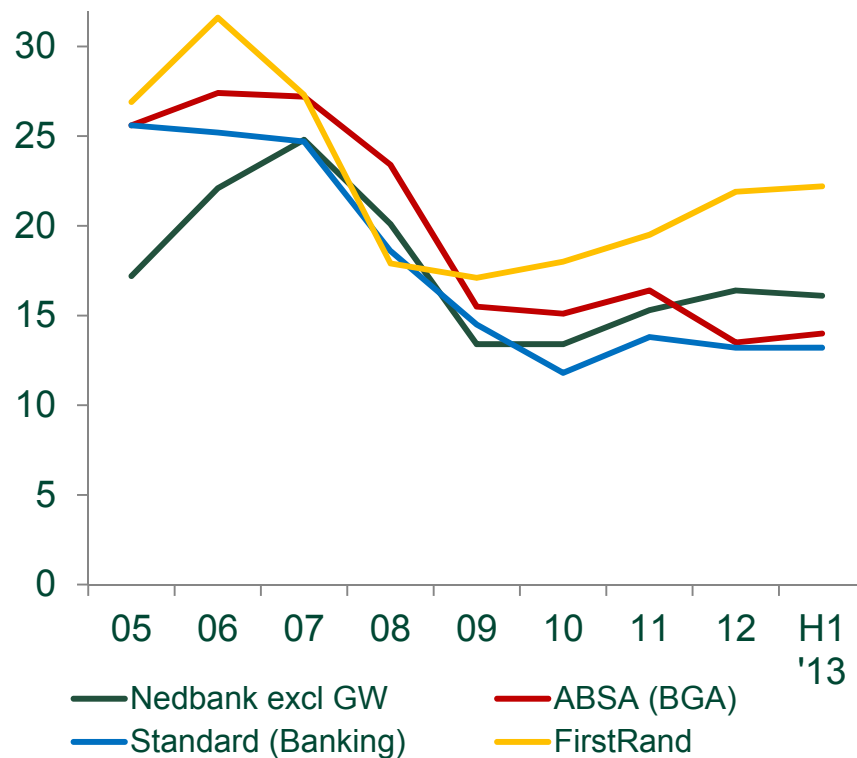


European & US Global Bank ROEs (%)



“Global banks have to adjust to a period of low ROEs - 12% will be a good but stretching target”

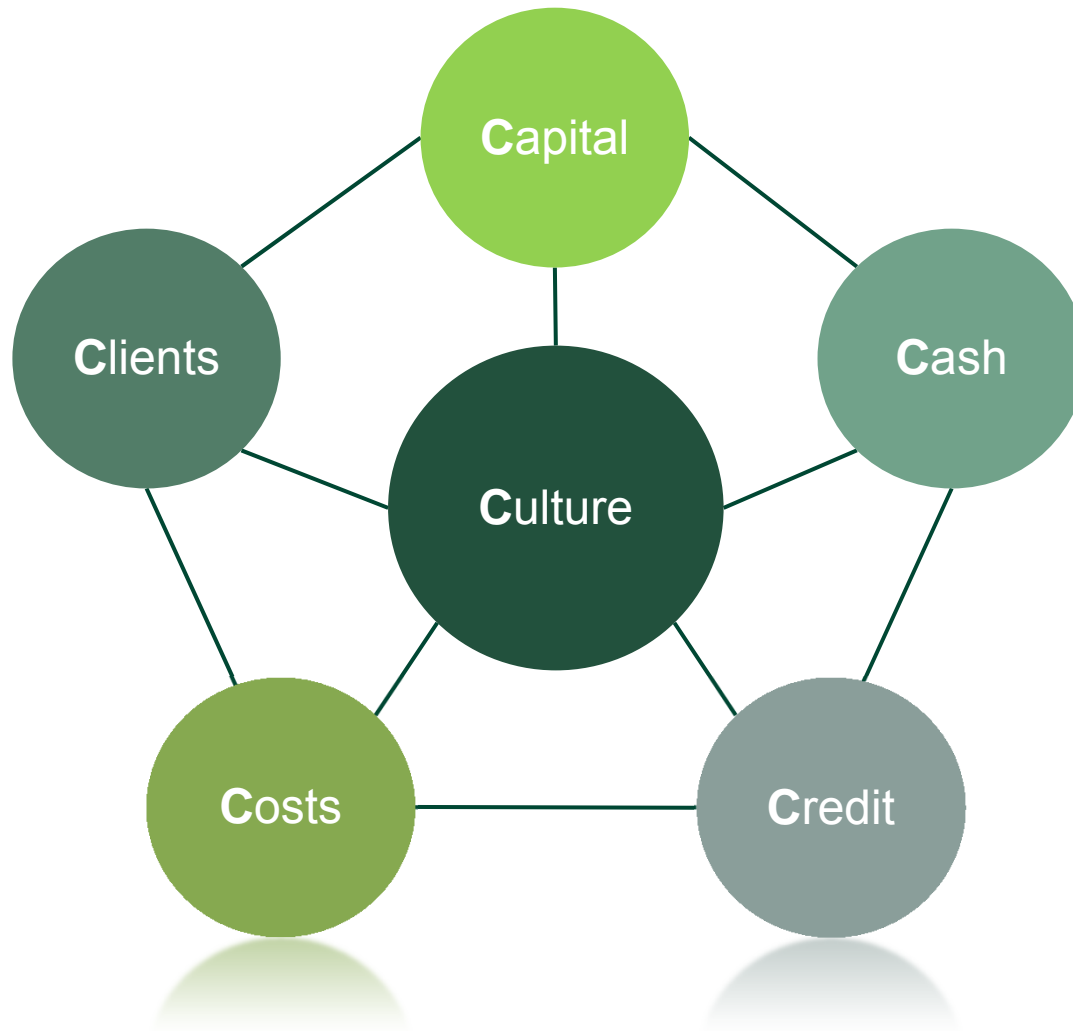
SA Bank ROEs (%)



Nedbank Group medium to long term ROE (excl. goodwill) target is CoE + 5% (from CoE +10% pre-crisis)

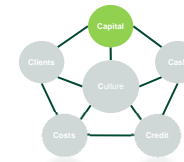
The Cs of uncertain & testing times in banking

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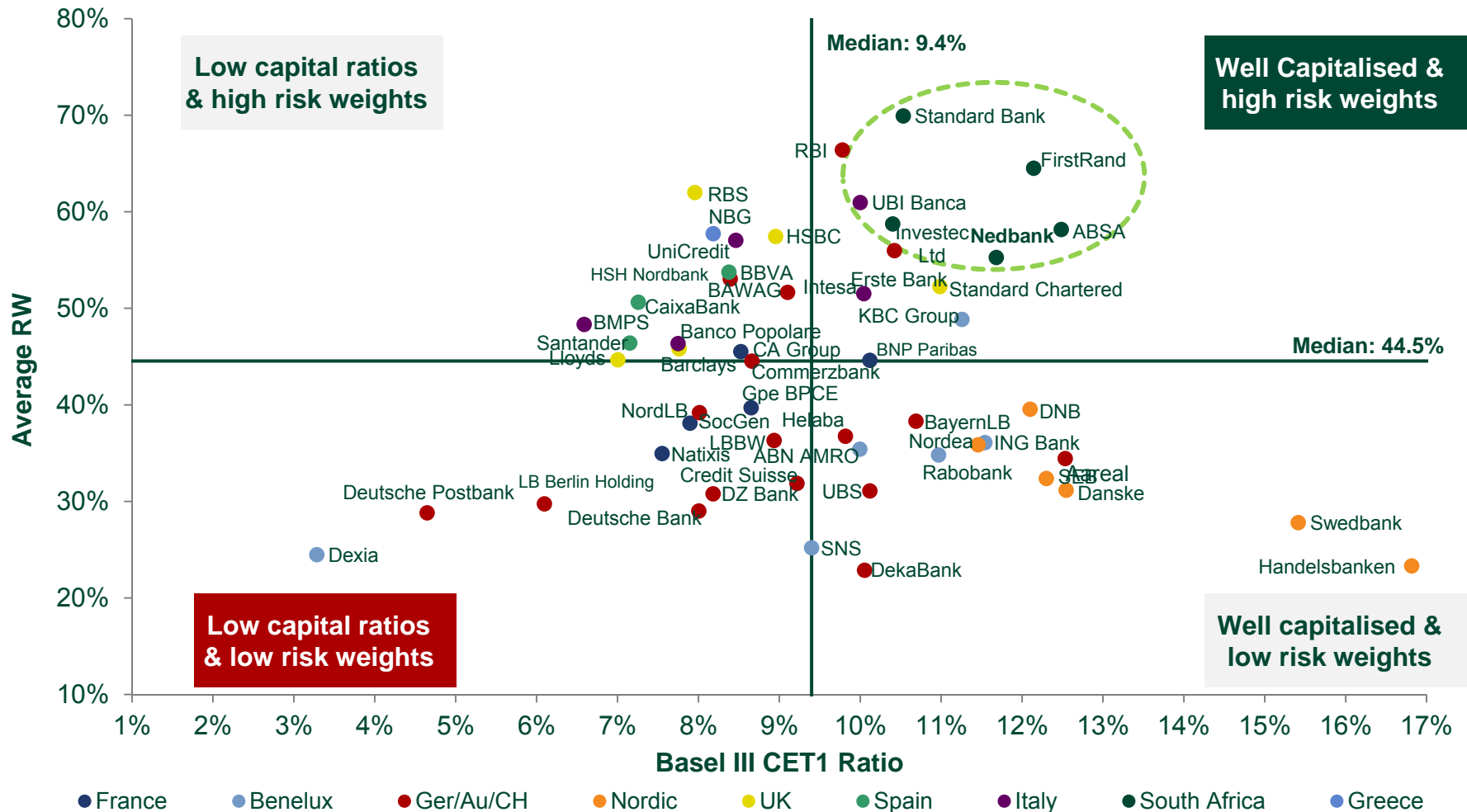


Collectively all of these create... **Credibility**

Capital – SA banks well positioned



Average risk weight vs Basel III CET1 ratio (%, as at 31 Dec 2012)



Source: Goldman Sachs from company reports

Note: Average risk weight = Total risk weighted assets/total assets excluding derivatives & insurance assets

Capital – NAV growth the key focus



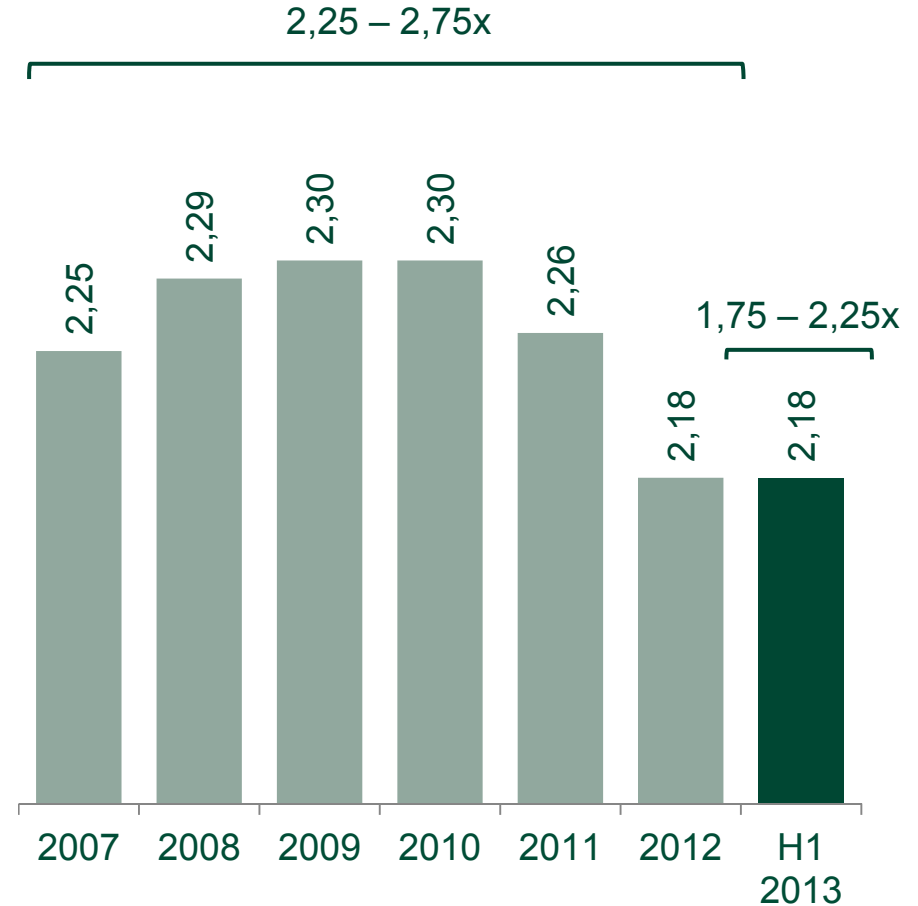
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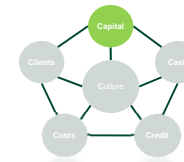
Nedbank NAV per share & growth
(Rbn, %)



Dividend cover ratio
(x)



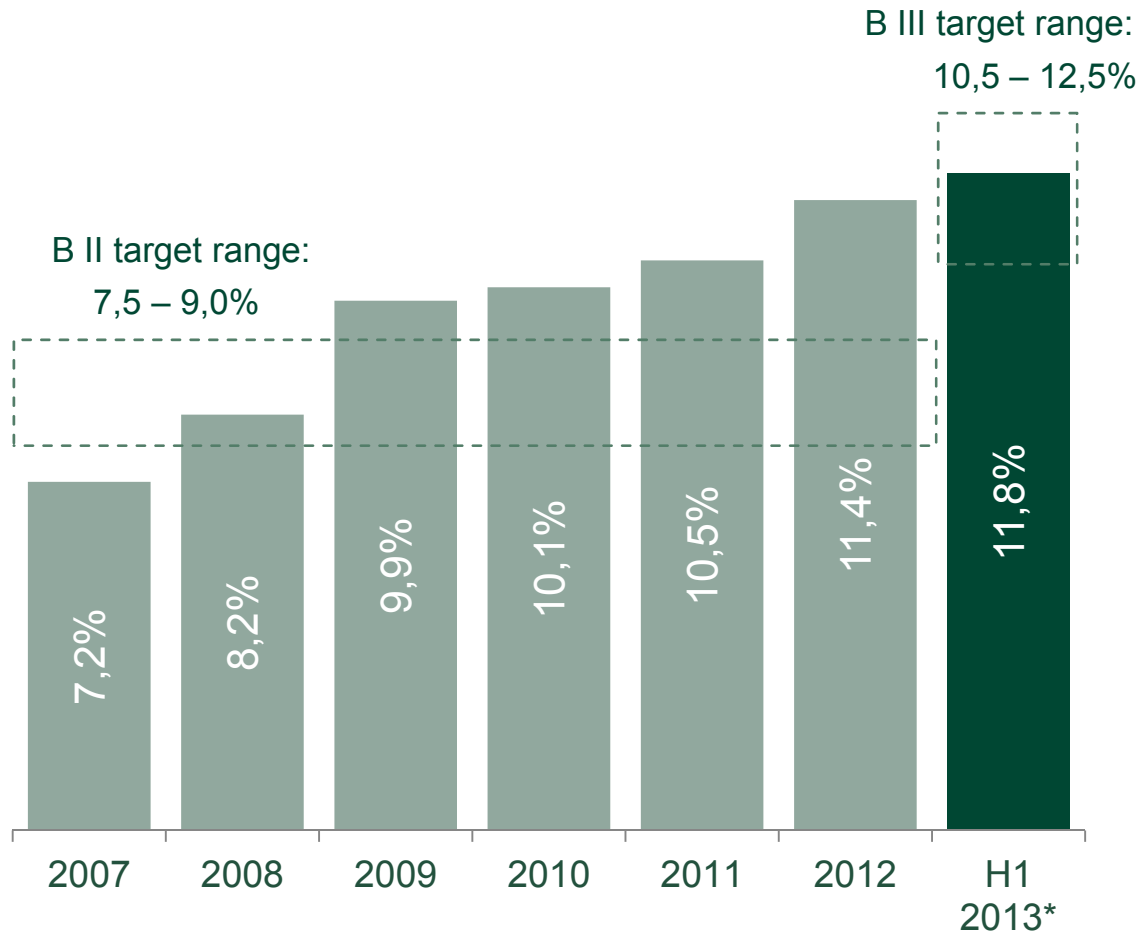
Capital – Nedbank well positioned under Basel III



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Common equity tier 1 (%)



* Basel III

Strong capital position

- CET 1 above mid-point of target range

enabling

- Lower dividend cover (dividend growth > HEPS growth)

and

- Testing times - the right time to have excess capital to exploit strategic investment opportunities eg Rest of Africa

Capital - Stress & scenario testing becomes very important



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Scenarios*

Positive (1-in-4)			
	2013	2014	2015
CPI inflation rate	5.4%	5.1%	5.3%
Real GDP growth	3.5%	4.6%	4.2%
Prime rate	8.2%	8.3%	9.8%
10+year interest rate	7.3%	7.8%	8.1%
0-3 year interest rate	5.1%	5.5%	6.6%
JSE% change	14.2%	18.3%	12.0%
Property price proxy %change	11.0%	12.9%	7.2%
Householde debt to income ratio	73.1%	71.0%	68.5%
Credit growth	10.5%	12.1%	13.2%

Mild stress (1-in-4)			
	2013	2014	2015
CPI inflation rate	5.9%	6.5%	6.2%
Real GDP growth	2.1%	2.6%	2.8%
Prime rate	9.2%	10.5%	12.4%
10+year interest rate	7.5%	8.4%	9.1%
0-3 year interest rate	5.8%	7.0%	8.4%
JSE% change	8.0%	10.4%	7.2%
Property price proxy %change	1.5%	1.8%	4.5%
Householde debt to income ratio	75.8%	76.2%	76.5%
Credit growth	8.2%	8.1%	8.6%

High stress (1-in-10)			
	2013	2014	2015
CPI inflation rate	6.5%	6.8%	5.9%
Real GDP growth	1.9%	2.1%	2.2%
Prime rate	10.0%	13.3%	12.8%
10+year interest rate	7.8%	9.2%	9.2%
0-3 year interest rate	6.4%	8.9%	8.7%
JSE% change	4.7%	6.1%	4.7%
Property price proxy %change	0.3%	(3.9%)	5.9%
Householde debt to income ratio	76.3%	77.0%	76.8%
Credit growth	7.5%	6.4%	7.5%

Severe inflation stress			
	2013	2014	2015
CPI inflation rate	4.9%	4.5%	5.5%
Real GDP growth	(0.1%)	(3.9%)	0.9%
Prime rate	7.3%	6.5%	6.5%
10+year interest rate	7.3%	7.8%	7.9%
0-3 year interest rate	5.4%	5.9%	6.1%
JSE% change	(27.8%)	(17.8%)	28.0%
Property price proxy %change	(15.9%)	(24.1%)	(2.6%)
Householde debt to income ratio	78.3%	79.2%	80.6%
Credit growth	0.4%	(2.1%)	4.0%

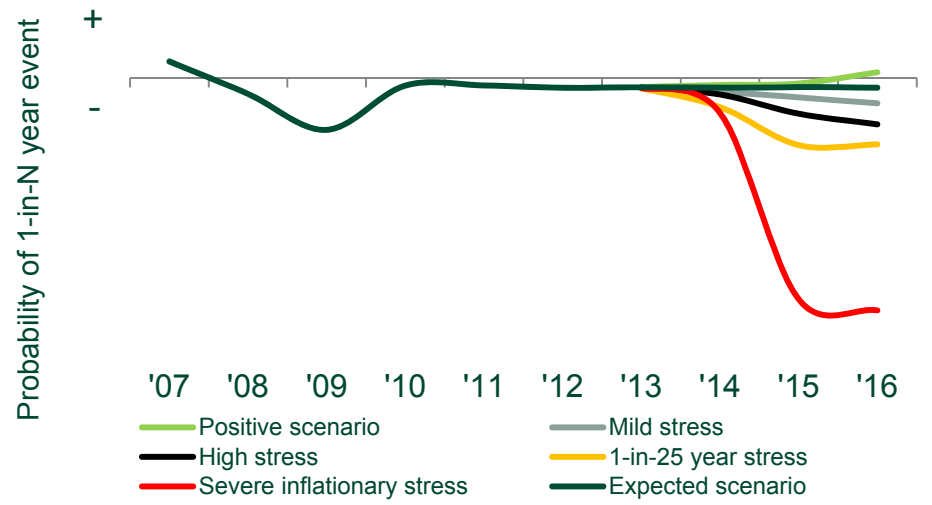
Base case (Expected)			
	2013	2014	2015
CPI inflation rate	5.9%	6.0%	5.9%
Real GDP growth	2.0%	2.9%	3.1%
Prime rate	8.5%	9.1%	11.0%
10+year interest rate	7.3%	7.9%	8.4%
0-3 year interest rate	5.4%	6.0%	7.4%
JSE% change	9.4%	12.2%	9.4%
Property price proxy %change	8.3%	7.8%	4.4%
Householde debt to income ratio	73.2%	71.5%	69.5%
Credit growth	9.9%	10.4%	11.5%



Purpose & outcome of stress testing

- Tests capital adequacy under various stress scenarios
- Shapes strategy – informs Portfolio Tilt decisions
- Informs the management of our business
- Informs our risk appetite
- Regulatory requirement (Nedbank highly rated)

Macroeconomic state of SA for systemic credit risk (Probability of 1-in-N year event)



* Illustrative forecasts

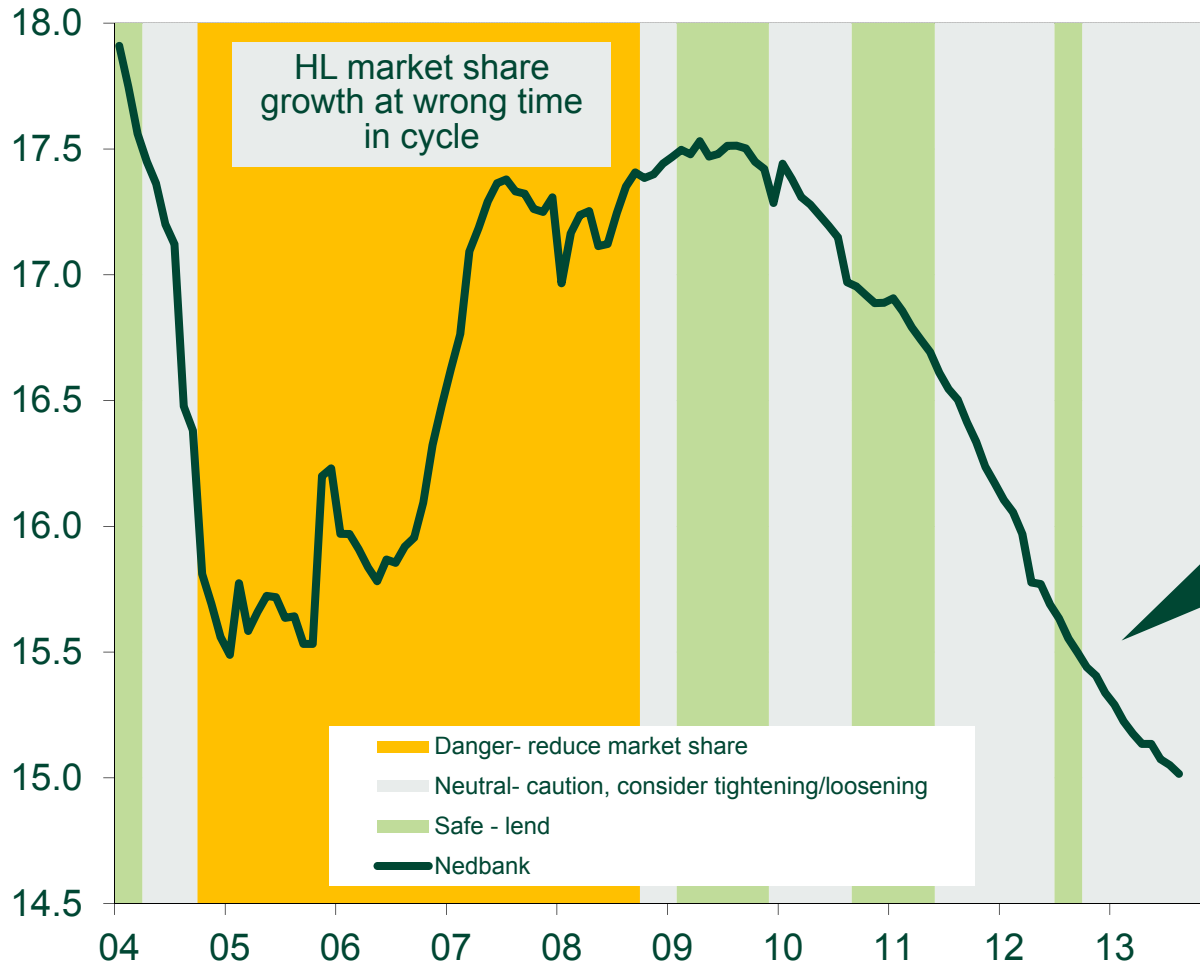
Capital - Stress & scenario testing becomes very important



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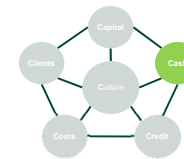


Nedbank Home loan market share & cyclical triggers



- Strategic decision to shrink property concentration risk
- Prefer CPF over HL

Cash – Nedbank's liquidity sound

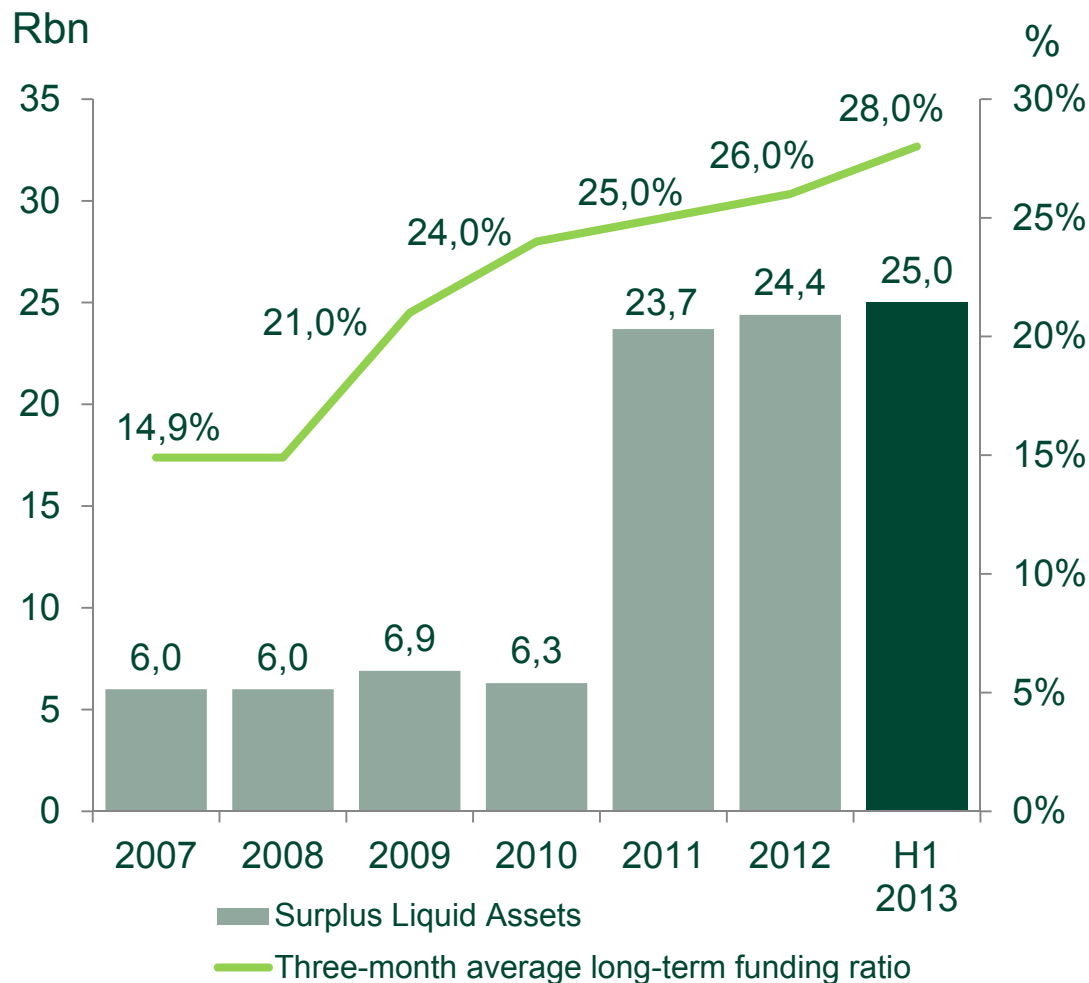


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Nedbank LT funding ratio (%)

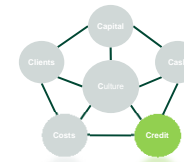
Surplus liquid assets (Rbn)



Sound liquidity

- Closed SA funding system
- Pro-forma LCR compliant
- LT funding ratio top-end of industry
- Surplus liquidity adds to interest rate risk & requires appropriate hedging
- Deposits a key focus area
- NSFR under Basel review

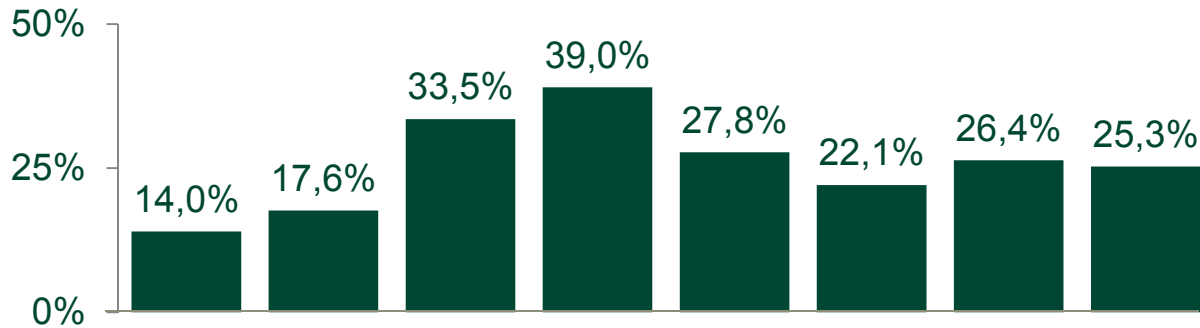
Credit – impairments under IFRS most volatile driver of profits



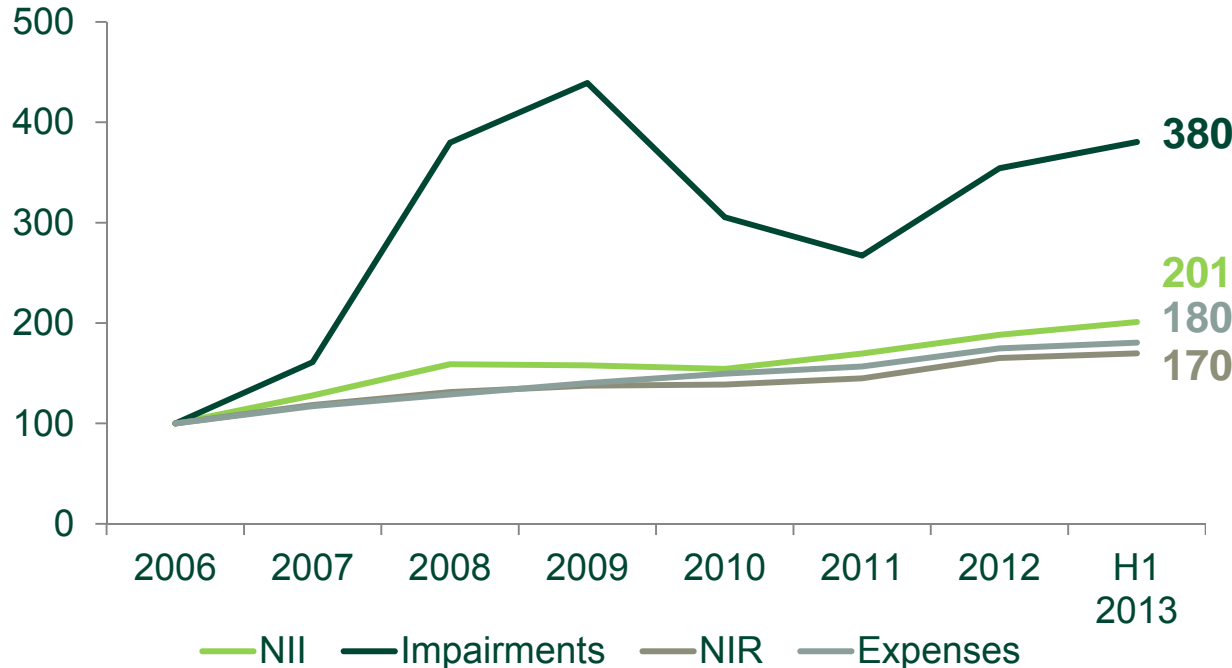
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SA Bank impairments / NII (%)



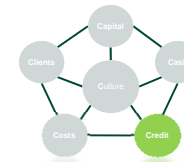
SA Banks' key income statement drivers (indexed to 2006)



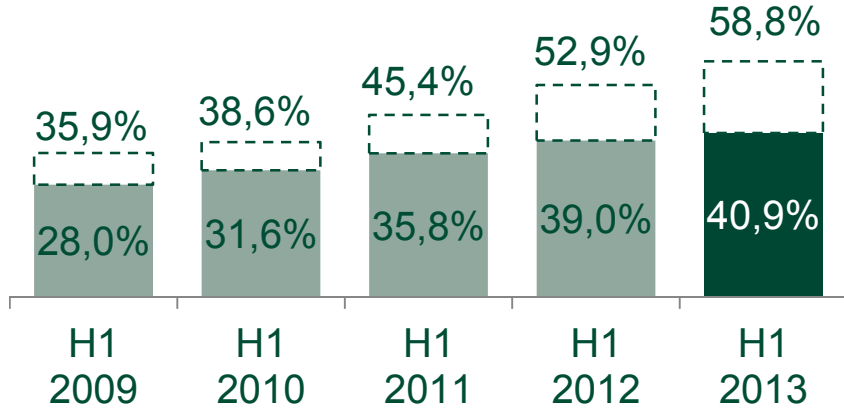
SA Banks
2006 - H1 2013:
Total R175bn
impairment charge

Note: SA Banks include Standard Bank, ABSA (BAG), FirstRand and Nedbank

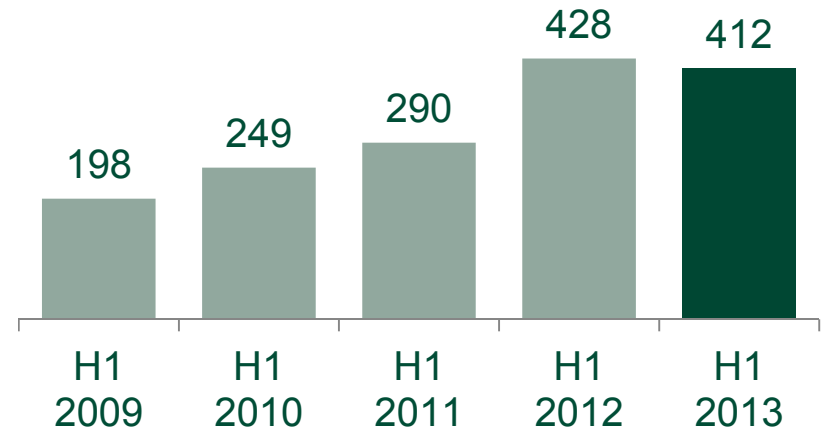
Credit – prudent provisioning, ahead of the curve



Nedbank Group total & specific coverage (%)



Nedbank Group post write-off recoveries (Rm)



Nedbank Retail portfolio impairments

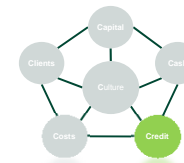
Rbn

- Home Loans
- Other Retail
- Personal Loans



2005 to 2009 numbers exclude MFC

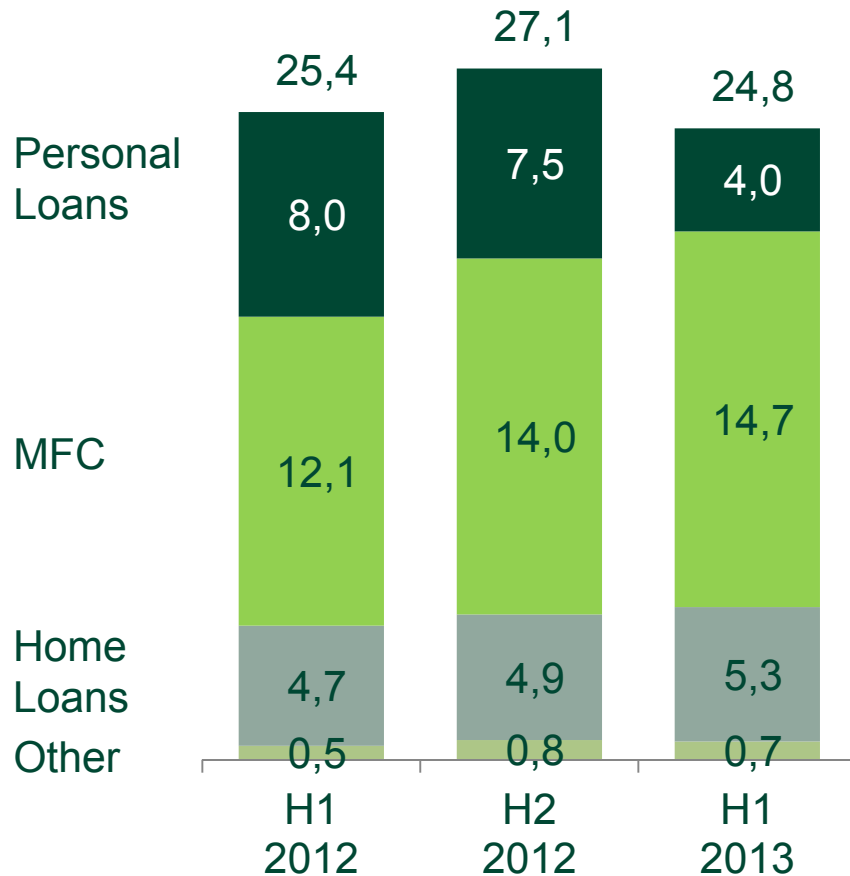
Credit – selective retail growth & better pricing



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Retail asset pay-outs Rbn



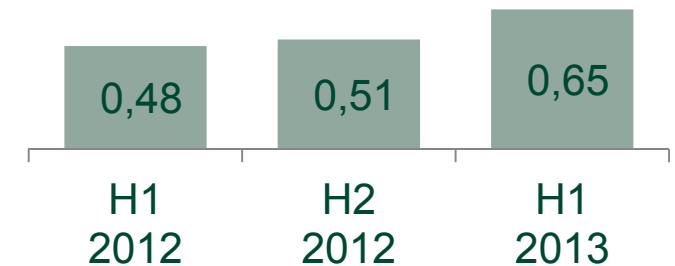
YTD book growth¹ %

(5,8)

10,6

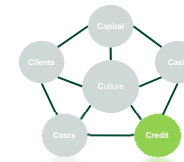
(1,8)

Client premium relative to Prime² %

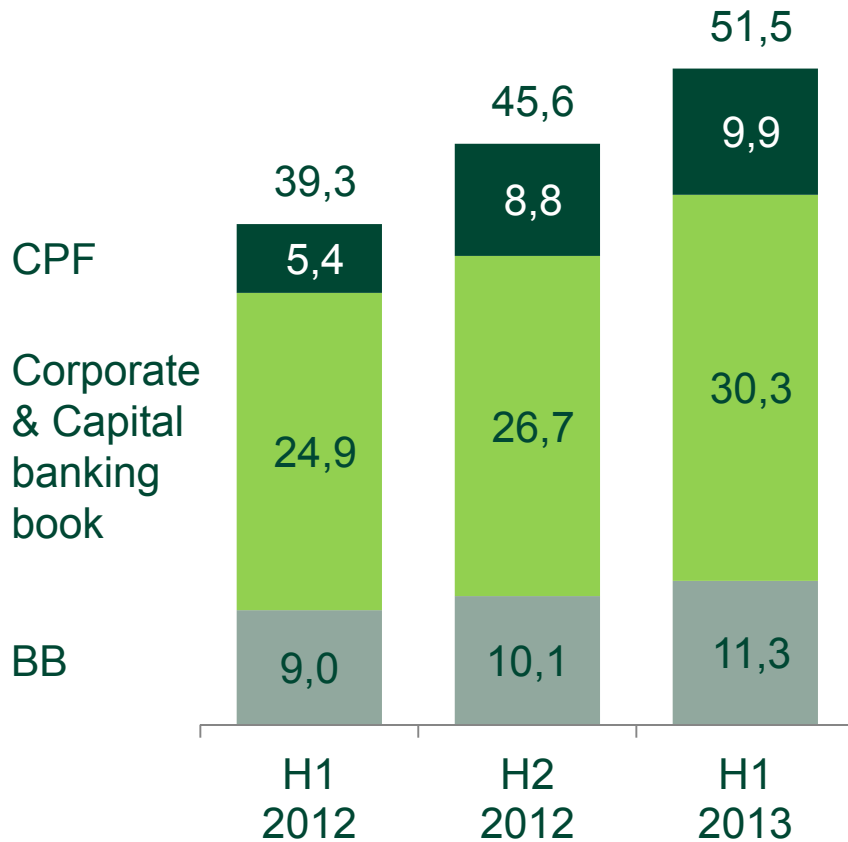


¹ Annualised based on net advances
² Home loans excludes staff and re-advances

Credit – selective wholesale growth with good risk metrics



Wholesale asset pay-outs Rbn



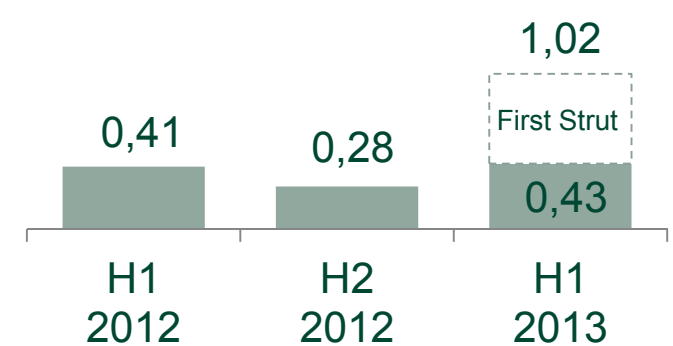
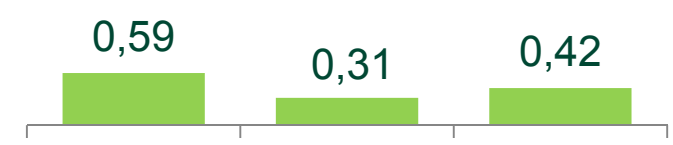
YTD book growth¹ %

(1,0)

22,4

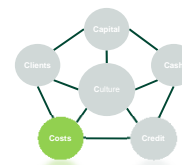
9,1

Credit loss ratio %



¹ Annualised

Costs – investing though cycles

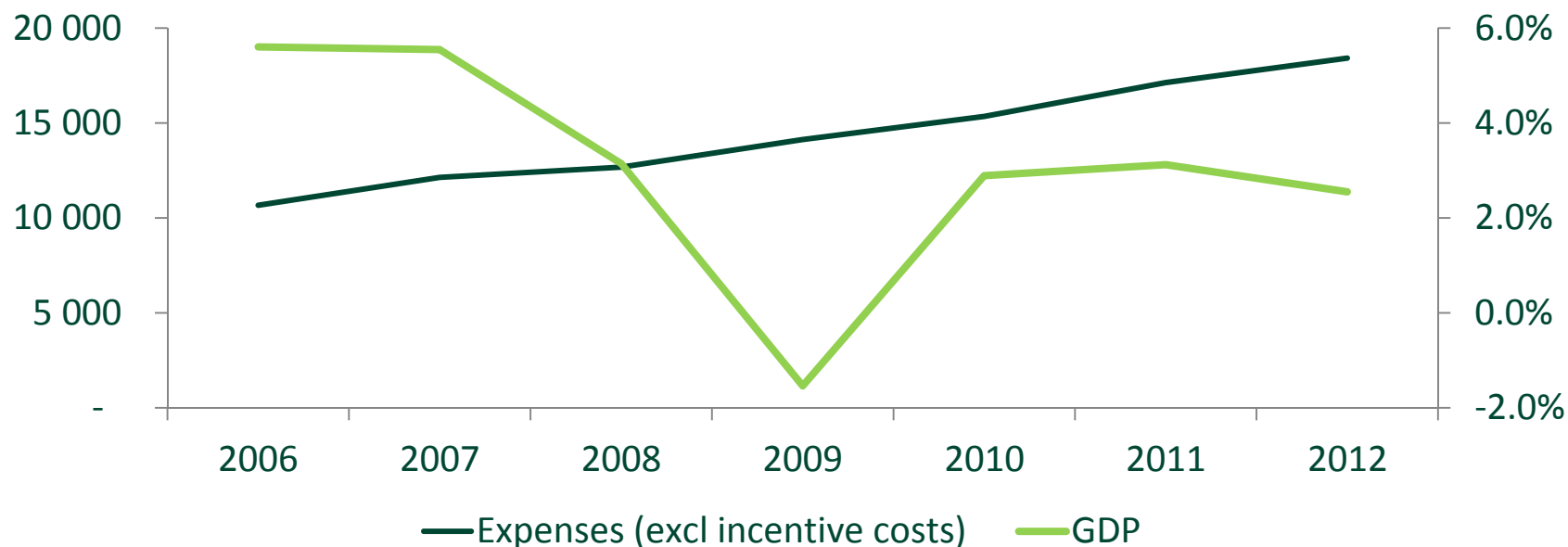


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Operating expenses excl incentives (Rm)

GDP (%)



Training spend % of payroll

2,7%

2,0%

4,1%

4,3%

3,6%

4,0%

4,0%

Computer amortisation & depreciation (Rm)

656

719

745

796

833

894

888

ATMs

1 286

1 636

1 747

1 853

2 183

2 572

3 048

Outlets

483

518

486

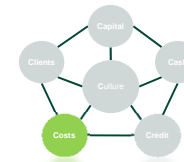
543

639

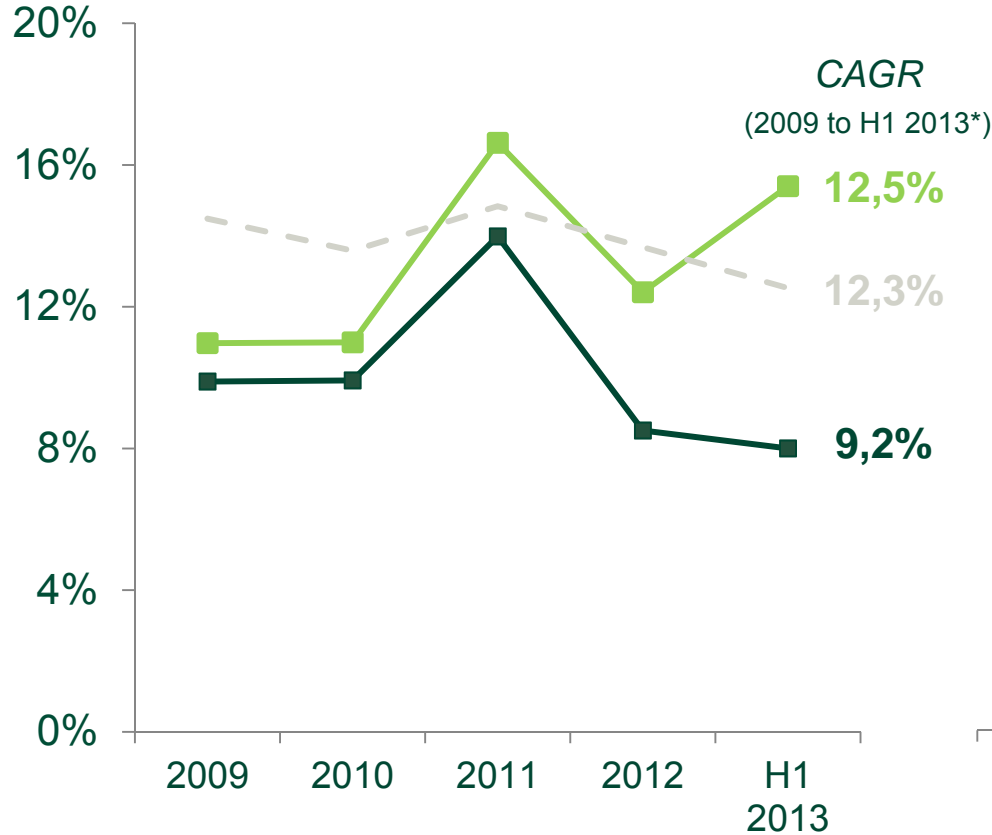
694

758

Costs – positive delta between NIR & cost growth



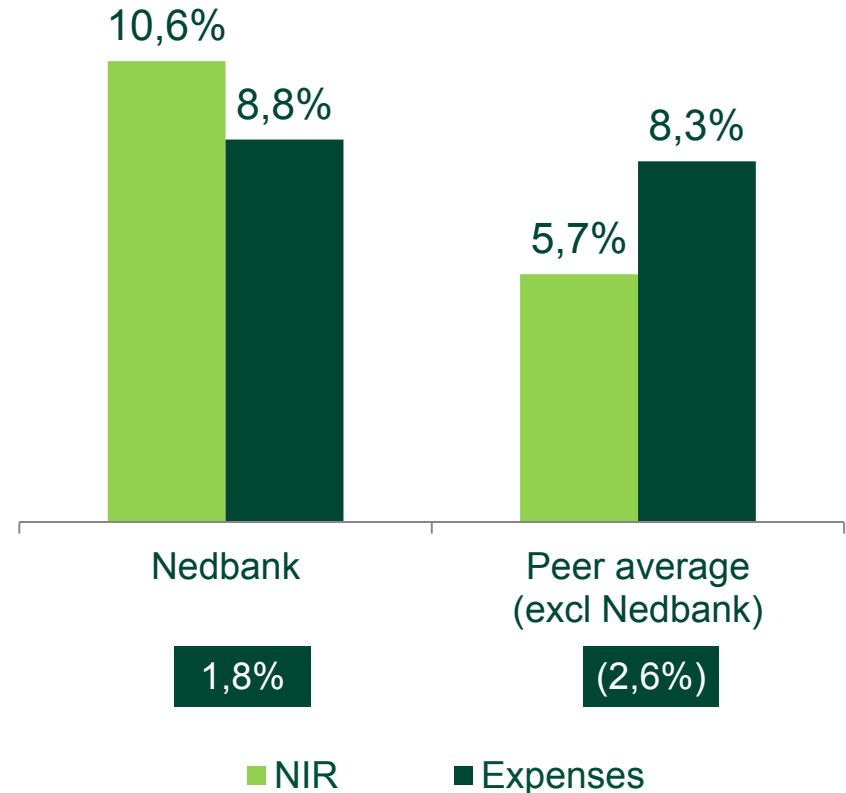
Nedbank NIR & expenses growth (%)



Jaws: 1,1% 1,1% 2,6% 3,9% 7,4%

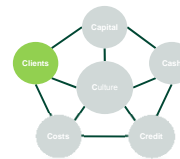
■ NIR - - NIR excl FV ■ Expenses

NIR & expenses growth (2007 to 2012 CAGR %)



* H1 2013 annualised on 2009 FYE

Clients – investing for the long-term

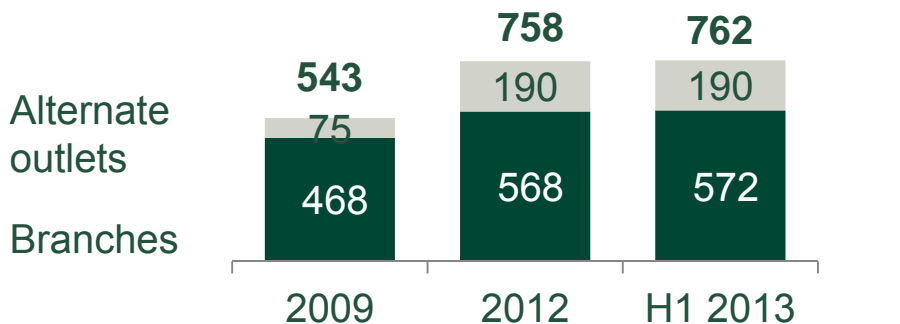


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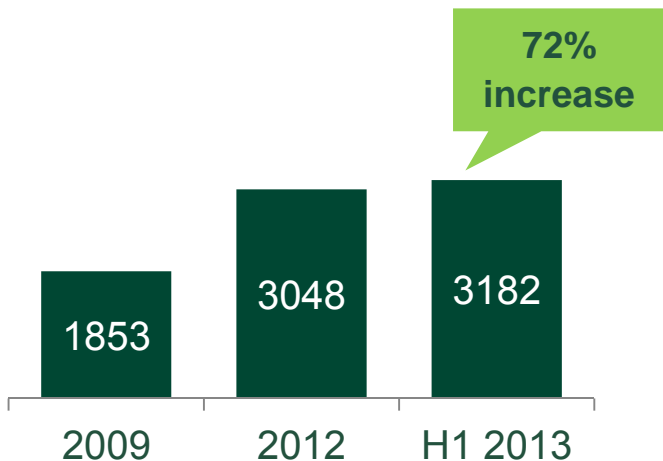


Growth in distribution...

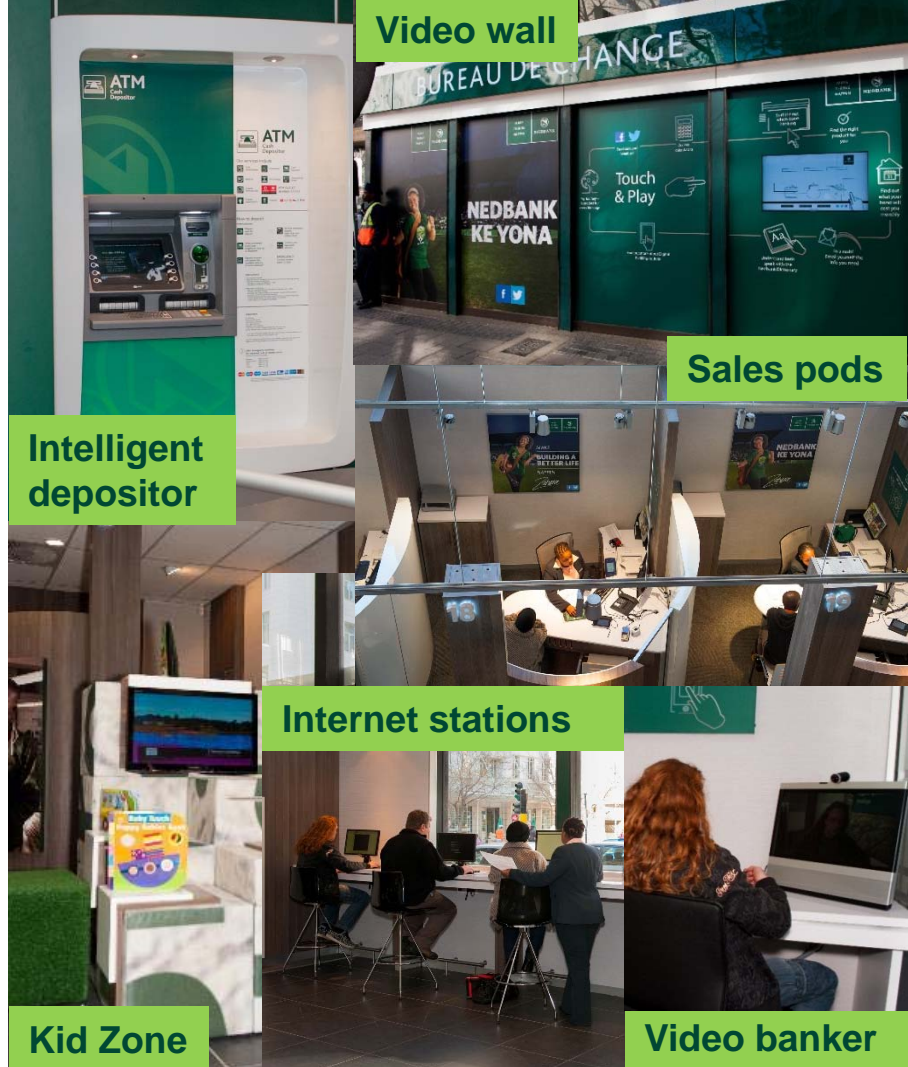
Branches & Outlets¹
(#)



ATMs
(#)

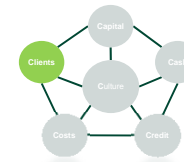


... to the branch of the future



¹ Excludes Personal Loans kiosks (2009: 250 & 2012: 313).
Growth is from 2009 year end levels

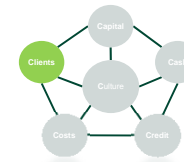
Clients – innovation that makes a difference



The rate of Nedbank's commercial innovation has increased strongly since early 2012



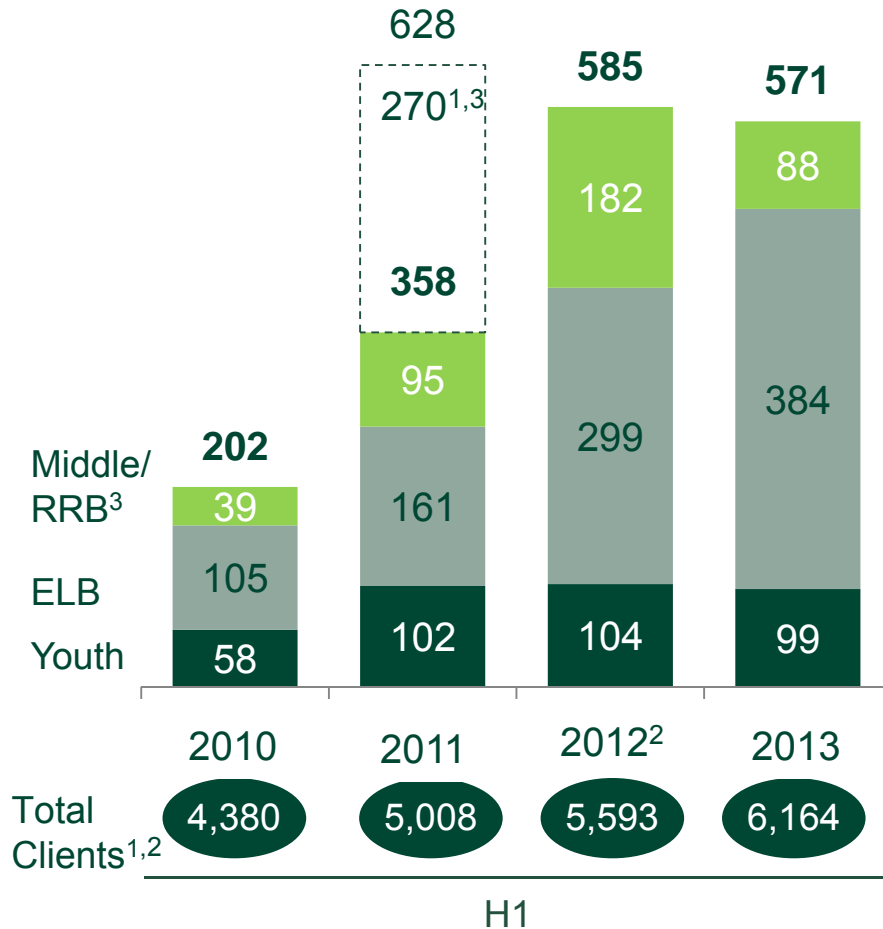
Clients – more clients, increased cross sell



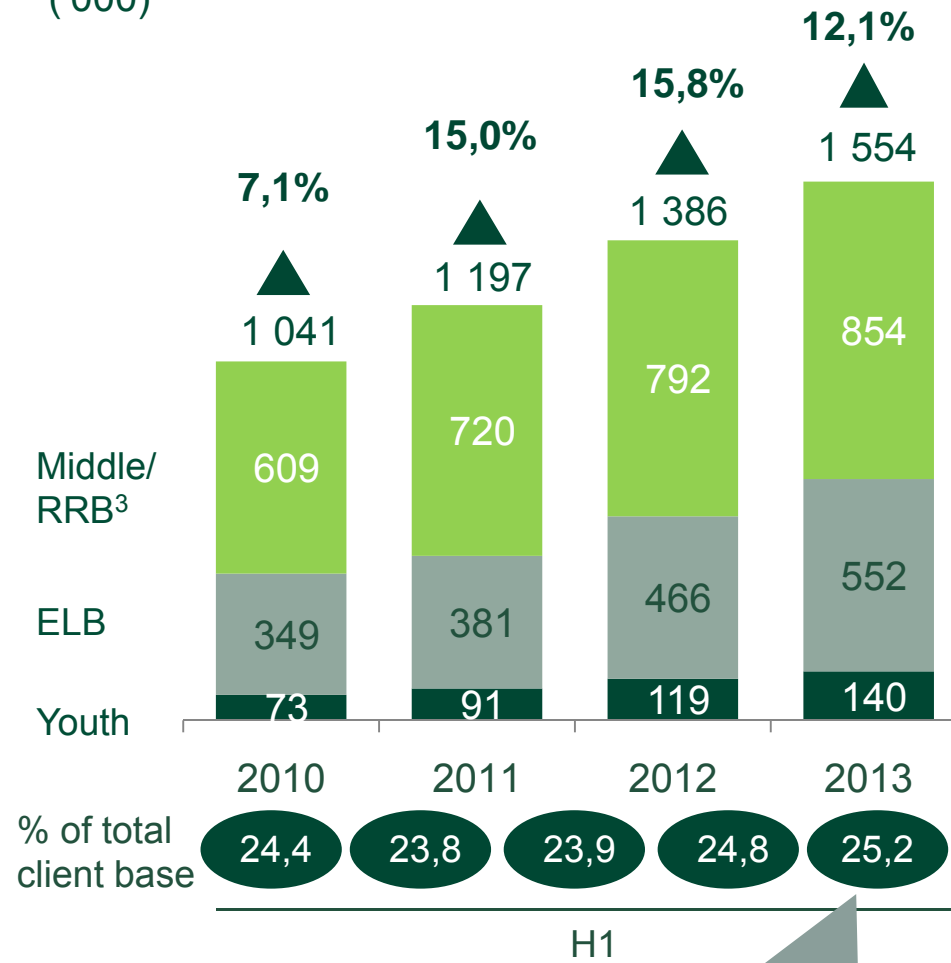
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Client growth ('000)



Clients with 2+ Products ('000)



1 2011 includes 270K clients acquired as part of MFC
 2 Acquired approximately 49k customers from Ackerman's base (Jan'12)
 3 The majority of MFC clients fall in the middle market, increasing the base of clients with a single product holding

Culture – a key differentiator



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Salz Review

Key take-outs

- “The problems... are to some extent industry issues”
- “**Trust** takes decades to build... yet **can be destroyed quickly**”
- “**Culture... if left to its own devices** shapes itself, with inherent risk... and **not be those desired**”
- “...there was an **overemphasis on short-term** financial performance”
- “Some banks and bankers have **lost any sense of social responsibility**”

Culture – a key differentiator



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Nedbank Group's top 10 current culture values

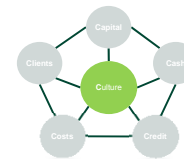
- Accountability
- Client satisfaction
- Client-driven
- Brand reputation
- Teamwork
- Environmental awareness
- Employee recognition
- Performance driven
- Community involvement
- People-centred

Nedbank Group cultural entropy (%)



The right people in the right roles consistently –
“Cannot have the rabbit guarding the cabbage patch”

Compensation – focus on the long-term



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Fixed remuneration increases skewed to non-management (2-3% higher ASR)

Growth in short-term incentives (%)



- No direct line of sight
- Driven by HE & EP growth
- Includes non-financial modifiers eg client satisfaction, culture metrics, transformation
- Deferrals (6, 18 & 30 months) linked to share price & includes forfeiture test

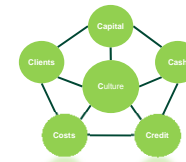
Long-term incentive (Rm)



- 50% performance based (3 years)
 - External: Relative to FINI 15
 - Internal: ROE excl GW target
 - Sliding scale 0 - 120%
- 50% time based: only vests after 3-years

STI & LTI discretionary | Remco: 3 independent directors & 1 non-exec

Credibility – no surprises



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Reality

Expectation

> 1

- Collectively created by all the Cs
- Continuity of management
- Clear & credible strategy
- Consistent quality disclosure/ transparency
- Clear market guidance



A last thought... Common sense



- “Testing times” - the new normal
- Nedbank continues to be well positioned - prudent with good growth prospects
- **Prudence:**
 - **Capital:** strongly capitalised, able to exploit opportunities
 - **Cash:** sound liquidity
 - **Credit:** selective growth while prudently provided
 - **Costs:** well managed while investing for the future & generating good NIR growth
- **Growth prospects:**
 - **Clients:** more clients choosing to bank with Nedbank, as we improved access, are more innovative & competitive, & expanding into Rest of Africa
- Our **Culture** is a key differentiator, **Compensation** drives sustainable behaviour & maintaining **Credibility** is a key focus

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 prove to 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.

Nedbank Group does not undertake to update any forward-looking statements contained in this document and does not assume responsibility for any loss or damage whatsoever and howsoever arising as a result of the reliance by any party thereon, including, but not limited to, loss of earnings, profits, or consequential loss or damage.