# Mike Brown- Chief Financial Officer

*UBS SA Financial Services Conference - Navigating the Downcycle*

14 October 2008

# Contents

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# Understanding the macro context

# What is a bank?

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

# Global & local environment

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## Global environment

- Banking crisis
- Pending US / UK recession
- Stronger Middle East, East & Africa

*More volatile & uncertain international environment pointing towards "Hard Times"*

- Risk of globalisation forces reversing
- Inflation
- A divided world?

## Local environment

- Political uncertainty
- Inflation: Historic / Outlook
- Skills shortage

*A more uncertain SA, but not as hard hit as global environment*

- Signs of social unrest
- Economic slowdown
- Domestic infrastructure investment

# Therefore Nedbank's focus …

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

- Differentiate culture
- Staff retention
- Cost control
- Conservatism

- Grow deposits
- Grow assets selectively
- Pricing for risk
- Proactive risk management
- Reduce leverage

- Grow transactional businesses
- Focus on primary clients
- Cross sell

***… focus on market share of EP***

# SA context

# SA context

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Short-term

- Consumer under pressure
- Business banking growth slowing
- Corporate sector still growing
- Capacity constraints may limit growth
- Fixed investment spend underpin
- Challenging & volatile investment banking market
- Global uncertainty impacting confidence
- Currency volatility

Outlook

- Inflation peaked?
- Interest rates peaked?
- Longer term effects of global crisis?
- Capacity constraints being addressed
- Tough 2008 / 2009 but outlook improving for 2010

# SA GDP growth

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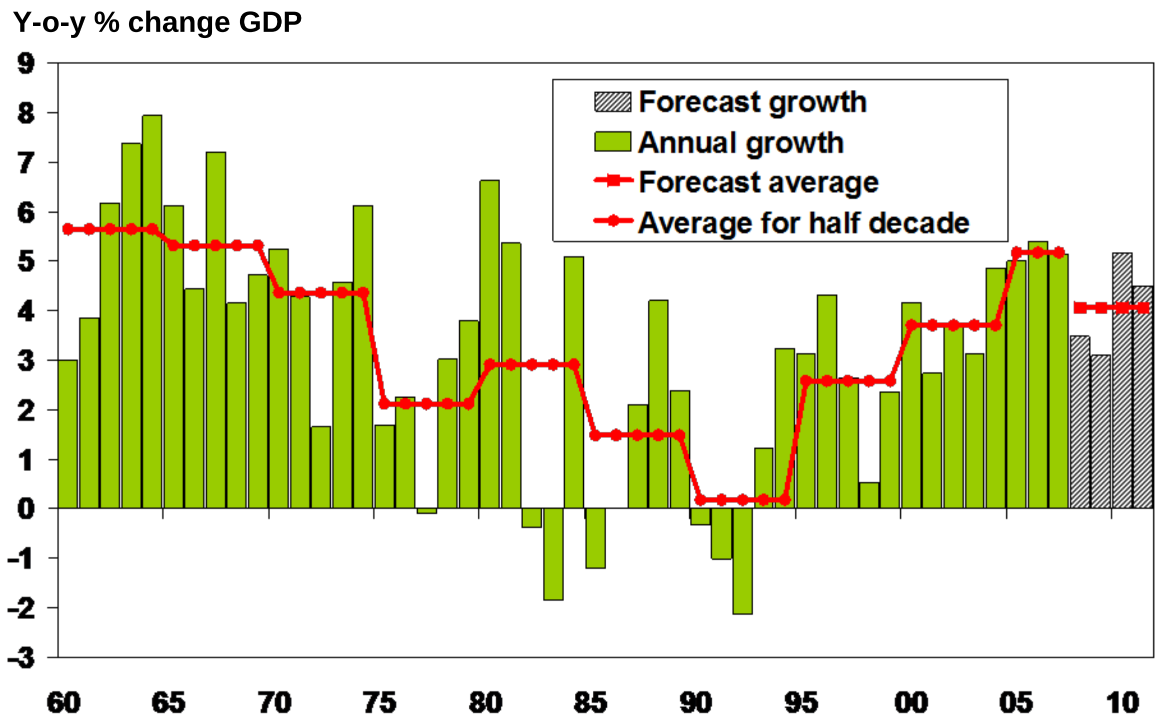
- SA experienced one of its strongest economic upswings since 2004
- GDP growth remains behind economies such as BRIC, but has held up well to date despite changed global & domestic conditions
- Highest GDP per capita of major economies in Africa

<u>Economic outlook</u>

- High inflation & interest rates will limit short term growth
- Capacity constraints a challenge, but being addressed
- Forecast GDP
  - 2008: 3,5%
  - 2009: 2,6%
  - 2010: 4,7%



# Inflation peaking?

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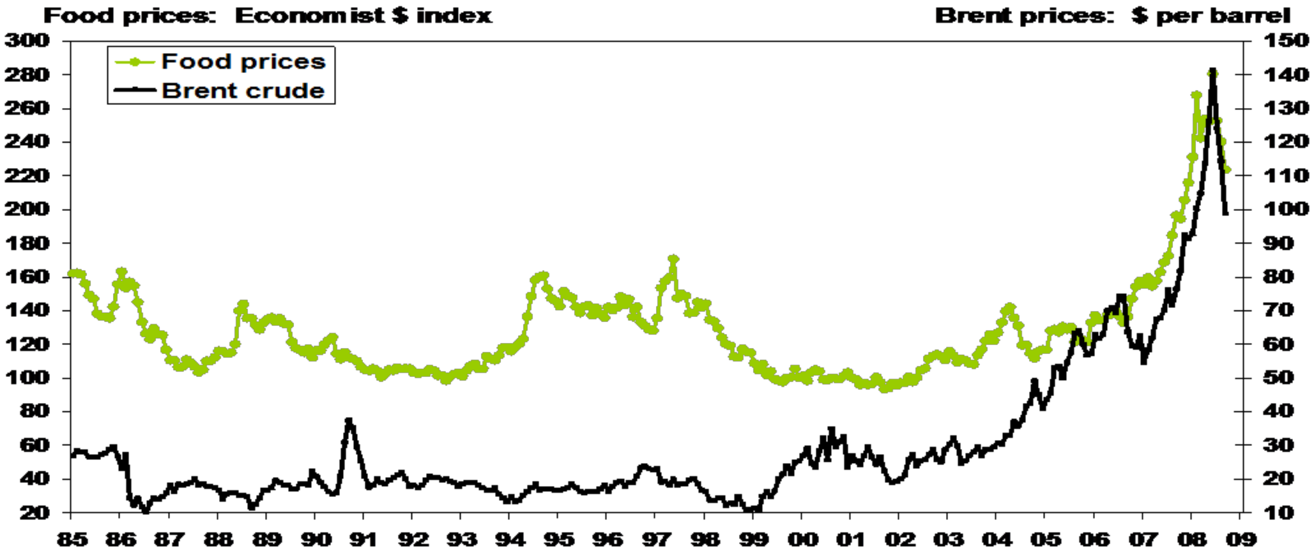
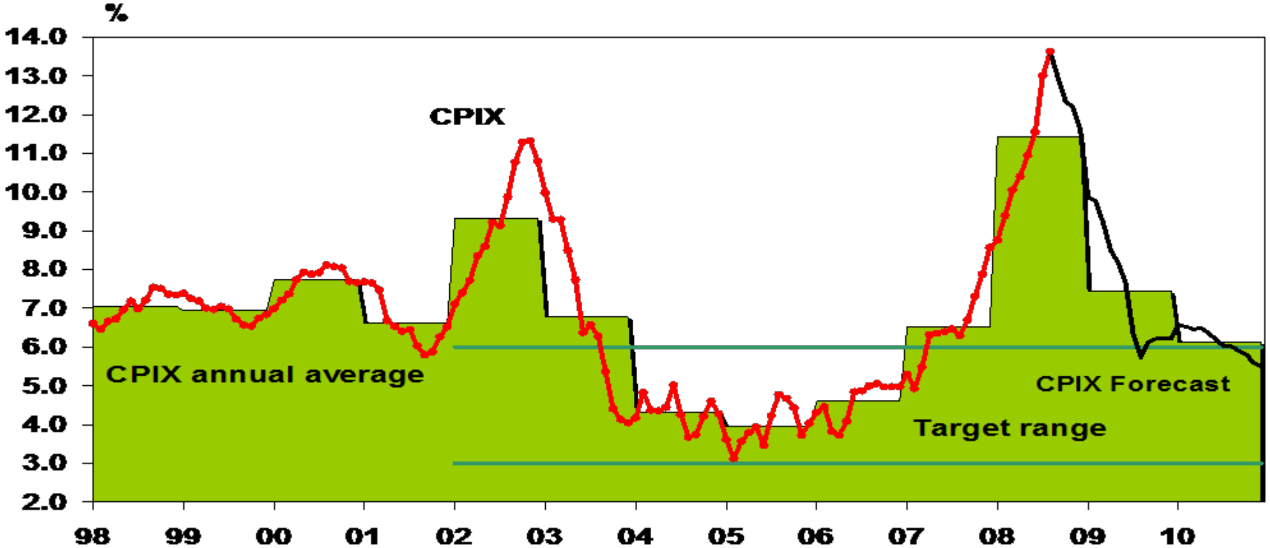
## Drivers of high inflation




## Inflation expectation



# Interest rates at a peak?

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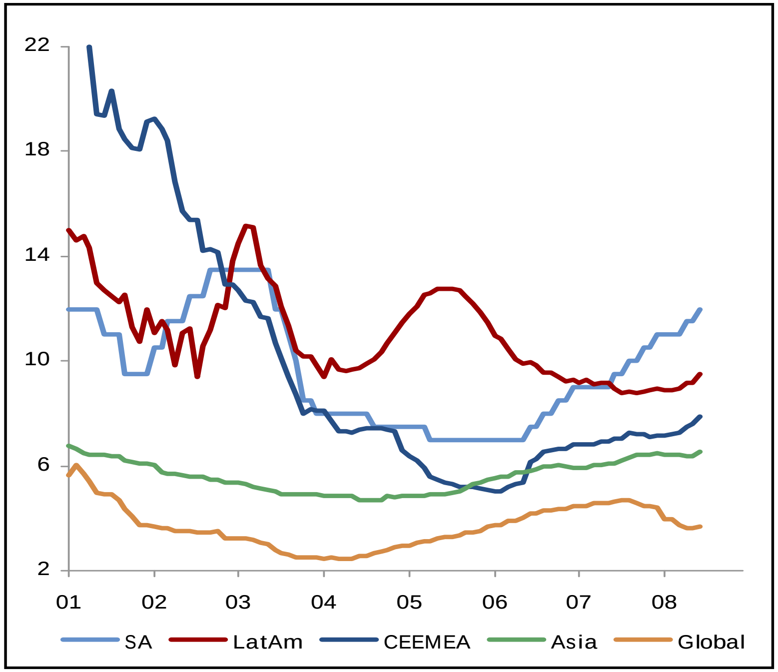
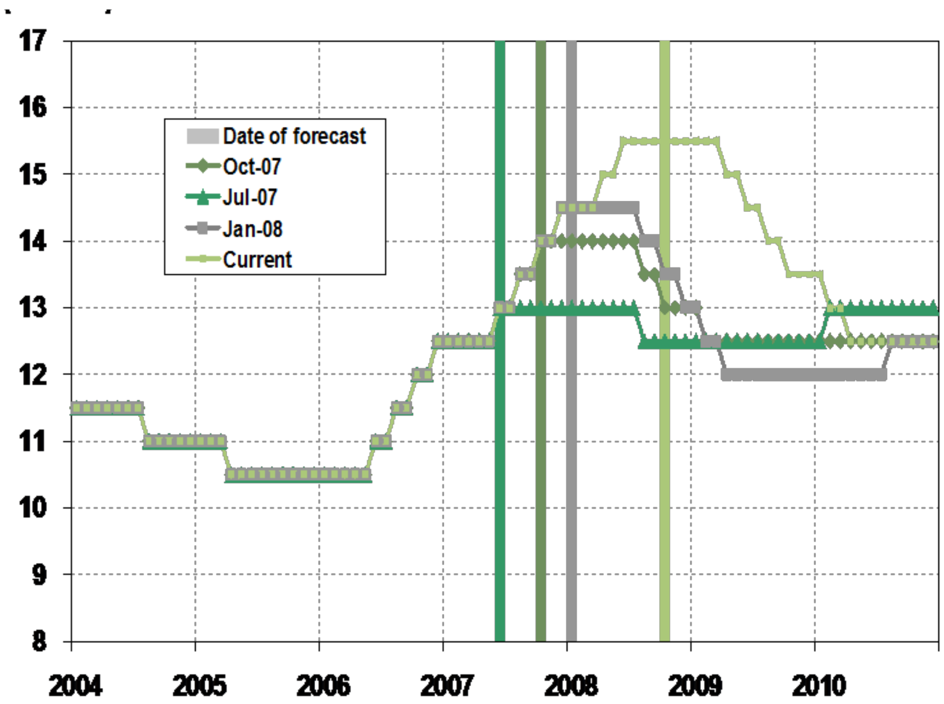
## Policy rates




Source: SARB, JPMorgan estimates

## Prime interest rate %




Source: Nedbank Group Economic Unit

**Forecast average prime**
**2008: 15,5%**
**2009: 13,5%**
**2010: 12,5%**

***… SA tight economic policy leaves more room for interest rate cuts***

# Infrastructure investment underpin

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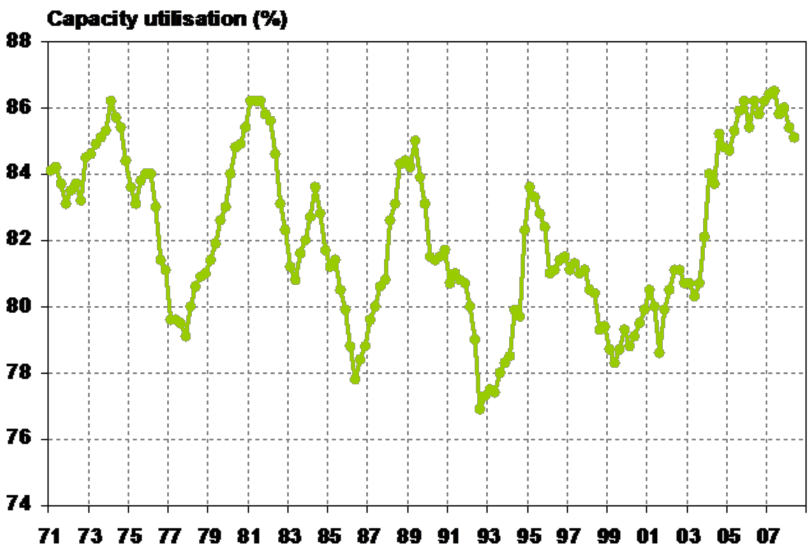


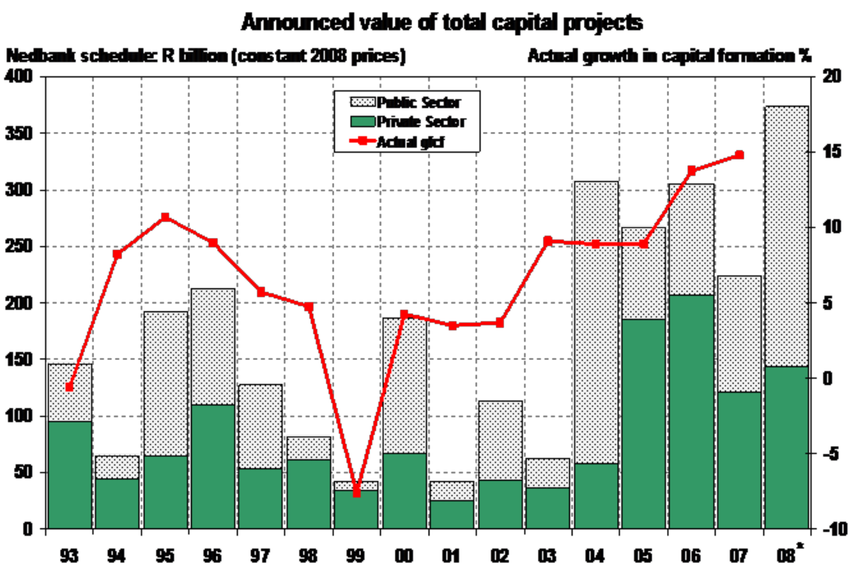


* The 2008 figure is the annualised value of announced projects in the first half of 2008

## Comment & potential impact

- Capacity utilisation levels in private sector & public sector high
- Significant fixed investment required over next 5 years to ease constraints
- Will continue to see high levels of infrastructure spend - opportunity for corporate & investment banking

## Comment & potential impact

- Announced capital projects increased - infrastructure projects enhancing growth, 2010 FIFA World Cup & service delivery
- Despite power constraints – seems that most announced plans will go ahead
- Global banking crisis likely to delay projects & affect access to foreign funding

# SA consumer under pressure

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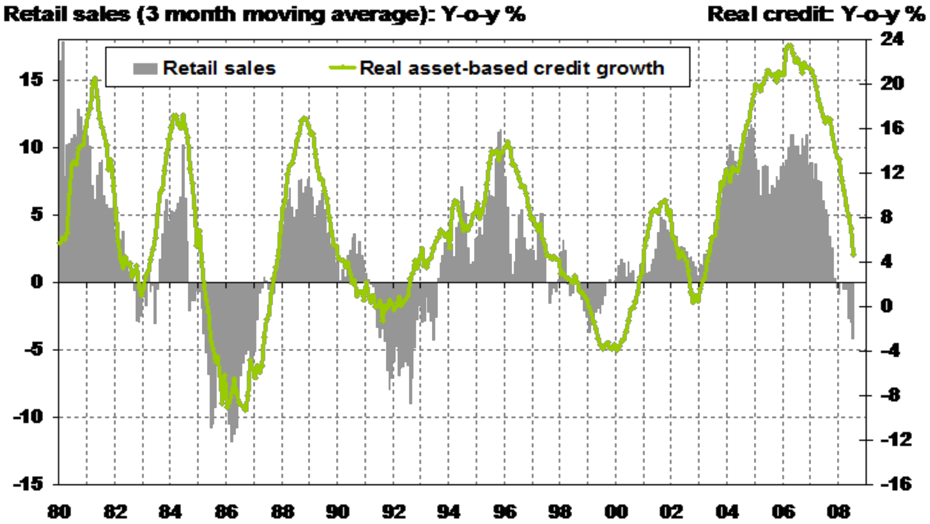


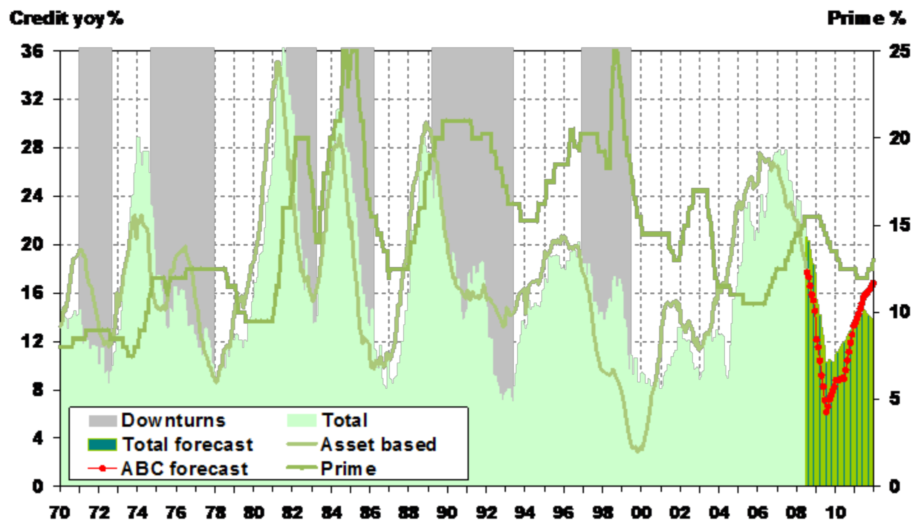


## Comment & potential impact

- Rising inflation & higher interest rates have resulted in sharp slowdown in retail sales - starting to impact on credit growth
- Lower retail sales also impact transactional volume & will eventually flow through to slower commercial & corporate activity

## Comment & potential impact

- Forecast a decline in overall credit growth - most notably in asset based credit, before returning to higher levels of growth from mid ‘09
- Overall forecast advances growth
  - 2008: mid-teens
  - 2009: mid-teens
  - 2010: upper teens

# Investment banking environment

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- SA market partially insulated from global investment banking trends
- Equity markets & private equity valuations have suffered
- M&A environment slowdown
- Postponement or abandonment of some deals
- Foreign private equity interest continues in <$1bn market (locally funded with emphasis on management & strategy)
- Volatile trading environment

# SA Banks
# vs.
# Global Banks

# SA Banks

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SA banking sector less exposed to global credit market woes

- Exchange controls - effectively keep local funds captive in SA
- Strong deposit franchises of SA banks
- Low offshore funding
- Low level of securitised assets
- Good loan-to-deposit ratios
- +80% of banking assets controlled by big four banks
- Comfortable capital levels & leverage ratios
- Bolstered liquidity buffers
- Interbank markets currently operating well

- Do not have ‘sub-prime’ - nor is property market fundamentally overpriced *(some room for property price weakness, but do not expect a 'freefall‘)*
- Dependence on institutional & corporate funding, but retail improving

# Bank's gearing

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| Bank | Assets : Equity | Equity : Assets |
|---|---|---|
| Barclays (UK) | 61.3 | 1.6% |
| Dexia (Fra) | 57.5 | 1.7% |
| Deutsche Bank (Ger) | 52.5 | 1.9% |
| UBS (Swi) | 46.9 | 2.1% |
| Freddie Mac (US) | 46.2 | 2.2% |
| Merrill Lynch (US) | 46.0 | 2.2% |
| Fannie Mae (US) | 45.6 | 2.2% |
| Lloyds (UK) | 34.1 | 2.9% |
| Lehman Brothers (US) | 34.0 | 2.9% |
| CSFB (Swi) | 33.4 | 3.0% |
| Danske (Den) | 33.3 | 3.0% |
| Fortis (Bel) | 33.3 | 3.0% |
| Morgan Stanley (US) | 33.0 | 3.0% |
| RBS (Sco) | 31.6 | 3.2% |
| Bear Sterns (UK) | 31.0 | 3.2% |
| RB Canada (Can) | 24.1 | 4.1% |
| Goldman Sachs (US) | 24.0 | 4.2% |
| HSBC (UK) | 20.1 | 5.0% |

| Bank | Assets : Equity | Equity : Assets |
|---|---|---|
| ANZ (Aus) | 19.6 | 5.1% |
| Standard Chartered (UK) | 19.5 | 5.1% |
| Citigroup (US) | 15.4 | 6.5% |
| C W Bank (Aus) | 19.0 | 5.3% |
| NAB (AUS) | 19.0 | 5.3% |
| Firstrand Bank (RSA) | 19.0 | 5.3% |
| ABSA (RSA) | 18.5 | 5.4% |
| Investec (RSA) | 17.8 | 5.6% |
| Nedbank (RSA) | 16.6 | 6.0% |
| Standard Bank (RSA) | 16.4 | 6.1% |
| CBOC (China) | 15.5 | 6.4% |
| Wachovia (US) | 12.4 | 8.1% |
| JP Morgan (US) | 13.3 | 7.5% |
| Bank of America (US) | 12.0 | 8.3% |

**Collapsed**

**Regulated / Sold**

**Possible government capital injection**

# Stages of a banking cycle

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1
**Banking crisis begins**

2
**Regulator takes action**

3
**Banks become more prudent**

4
**Economy & stock market takes off**

5
**Loan growth skyrockets**

6
**New competitors & banking mergers & acquisitions**

7
**Excess liquidity, investment & investment optimism**

8
**Overheating economy of concern to regulators**

*Source: SARB 2004*

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# Impact of global banking crisis on Nedbank

# Indirect effects of global credit crunch

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- Conduit (Synthesis R8 bn)
  - Funding profile has shortened (shift towards 1 month vs. 3 months)
  - Notes issued at 20 - 25 basis points higher
- Securitised programmes
  - Reduction in market appetite
  - Increased pricing for new programmes
- New tier 1 & tier 2 capital initiatives
  - Credit spreads widened
  - Reduction in appetite for hybrid and secondary debt issues
  - Focus on private placements
  - Foreign markets effectively closed

# Indirect effects of global credit crunch *(Continued)*

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- Positive aspects & opportunities
  - No contagion into SA money markets in which most of bank's funding is raised & rolled
  - May positively impact Big 4 banks market share
  - Will facilitate improved asset pricing

# Conduit pricing

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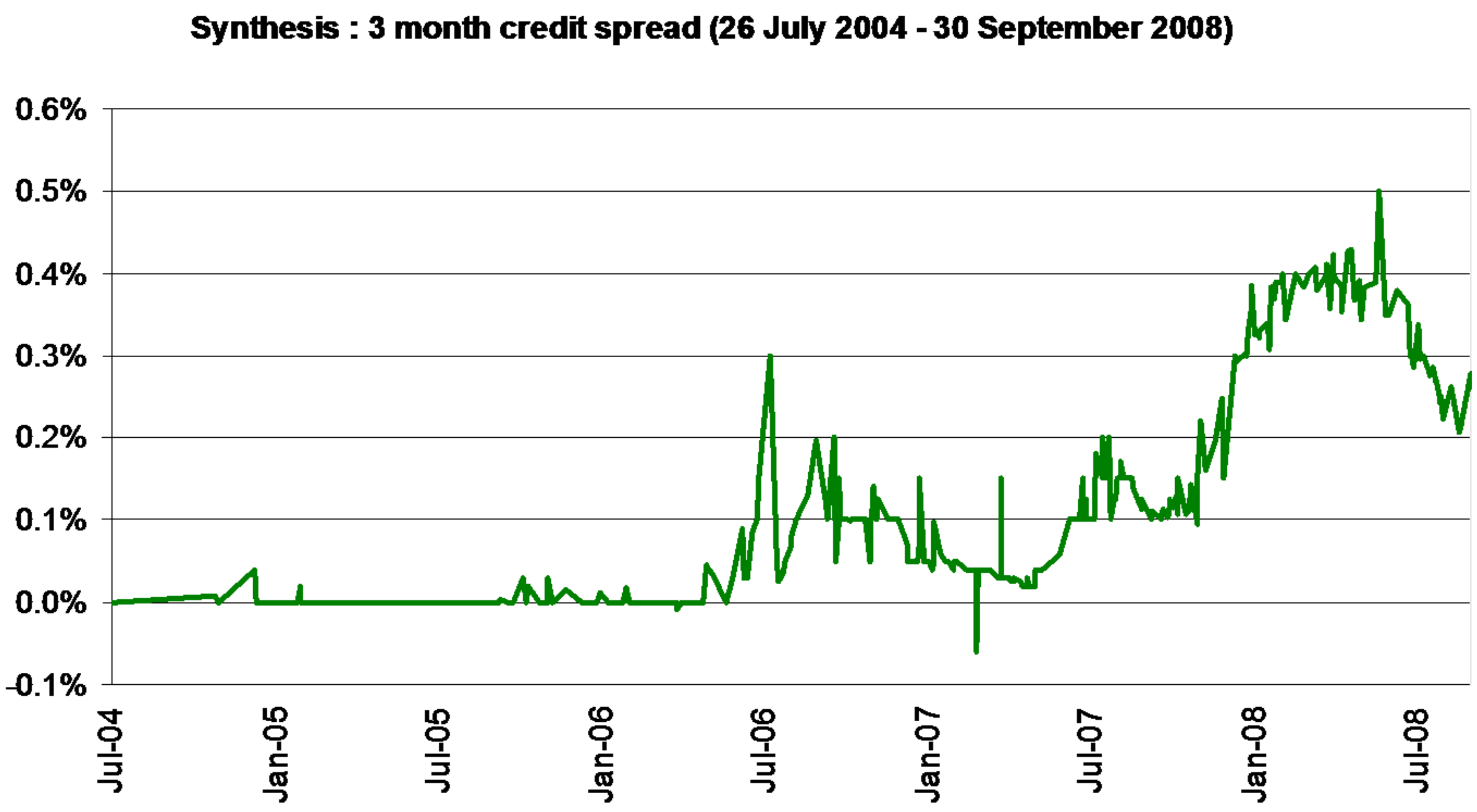


***… and R62 billion rolled over since July 2007***

# Cost of sub-debt

- Nedbank last issue was a Tier 2 10NC5 in 2007 at an effective 0,70% above JIBAR
- Hybrid issued R1,2 bn in H12008 at an effective 475 bps above JIBAR

- Debt Capital markets are thin & credit spreads wider
- Nedbank has no short-term maturities

# Subordinated debt & hybrid maturity profile

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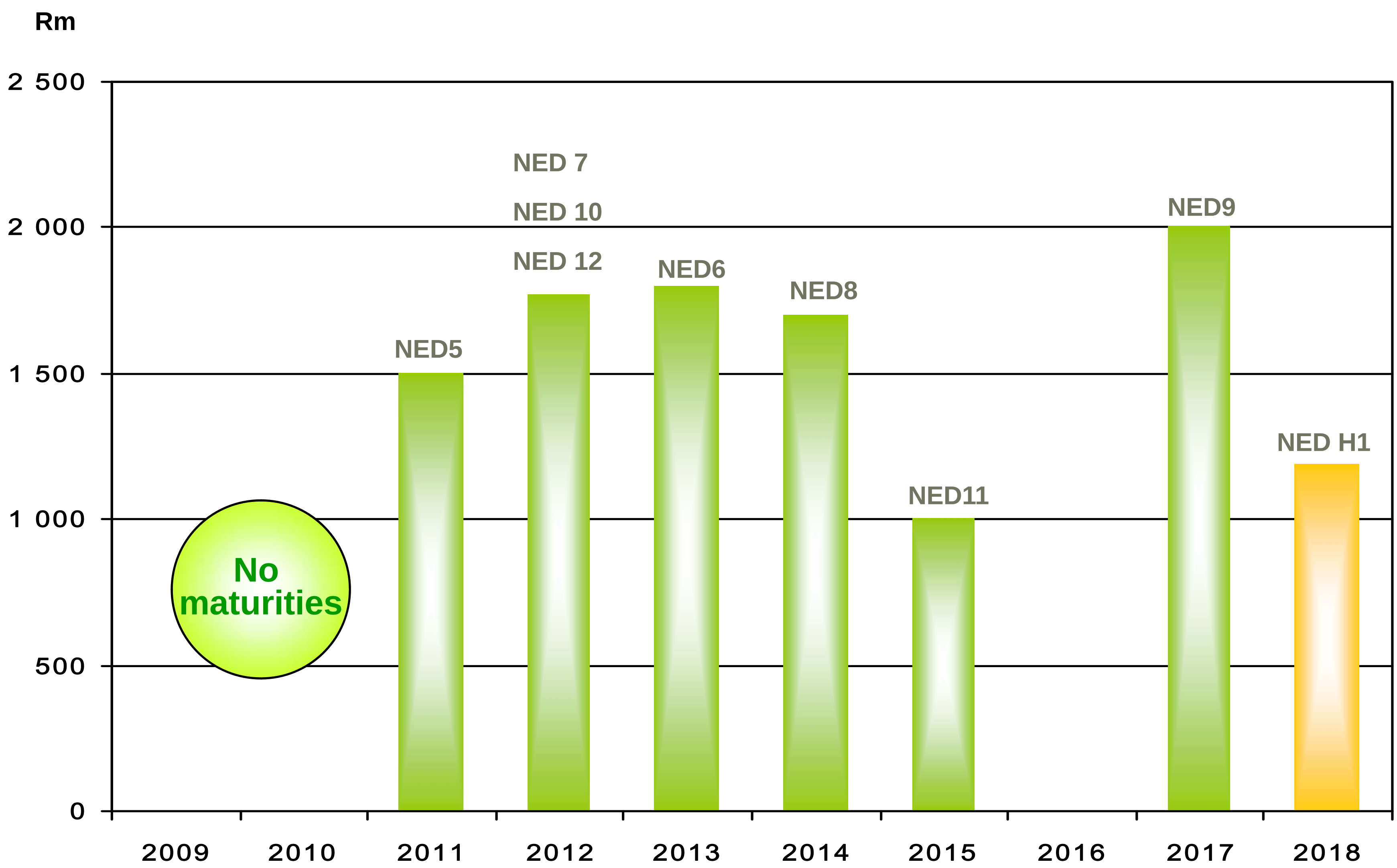

# Credit exposure to global banks

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- Small money market exposure to Lehmans of USD1m
  - all trading positions closed out at no loss & operational processes tested
- Uncommitted lines primarily extended to systemically important banks in investment grade sovereigns
- Continue to reassess uncommitted lines - particularly money market placement & bond lines
- Capped securities lending to international financial institutions
- Trading activities governed by ISDAs, many of which have full collateralisation
- Immediate rating alerts from Moody’s for all financial institutions
- Daily movements in share prices & CDS monitored
- Daily scrutiny of press, broker reports, IMF Global Financial Stability Report & SARB Financial Stability Review, etc.

# Nedbank outlook

# Implications for Nedbank 2009 - 2011

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- Asset growth starting to slow
  - particularly in Retail & Business Banking
  - Corporate Banking still strong
- Liability growth becoming increasingly important
- Margin pressure – benefits from repricing new deals will not offset margin deterioration from cost of liquidity buffers, reduced endowment & mix changes
- Increased impairments
  - Remain outside targets (55 – 85 bps) for 2008 & 2009
  - Only likely to improve 12 – 18 months after first drop in interest rates
  - Move back to top end of target range in 2010
- Inflationary pressures including future wage & salary negotiations likely to put pressure on costs
- Increased capital levels will reduce gearing & ROE

# Current sector outlook for 2009

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| Wholesale | |
|---|---|
| Business Banking | Mild bearish |
| Corporate Banking | Mild bullish |
| Property Finance | Mild bearish |
| Nedbank Africa | Neutral |
| Nedbank Capital | Mild bullish |

| Retail | |
|---|---|
| Home loans | Bearish |
| VAF | Bearish |
| Card | Issuing: Bearish<br>Transaction: Neutral<br>Acquiring: Bullish |
| Personal Loans | Bullish |
| SBS | Short term bearish |
| Banc. & Wealth | Mild bullish |
| Private Bank | Bullish |
| Deposits | Bullish |

# Nedbank's approach to current environment

# Grow our share of market EP

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- Focus on liability growth & our strong depositor franchise
- Slowing advances growth & focus on value
- Increasing capital levels to top end of targets
- Pricing for risk & increased cost of funding
- Credit & risk parameter refinement
- Transactional income & primary client growth focus
- Cross sell
- Smart cost management
- Agile & alert to opportunities

# Positioning for long-term value creation

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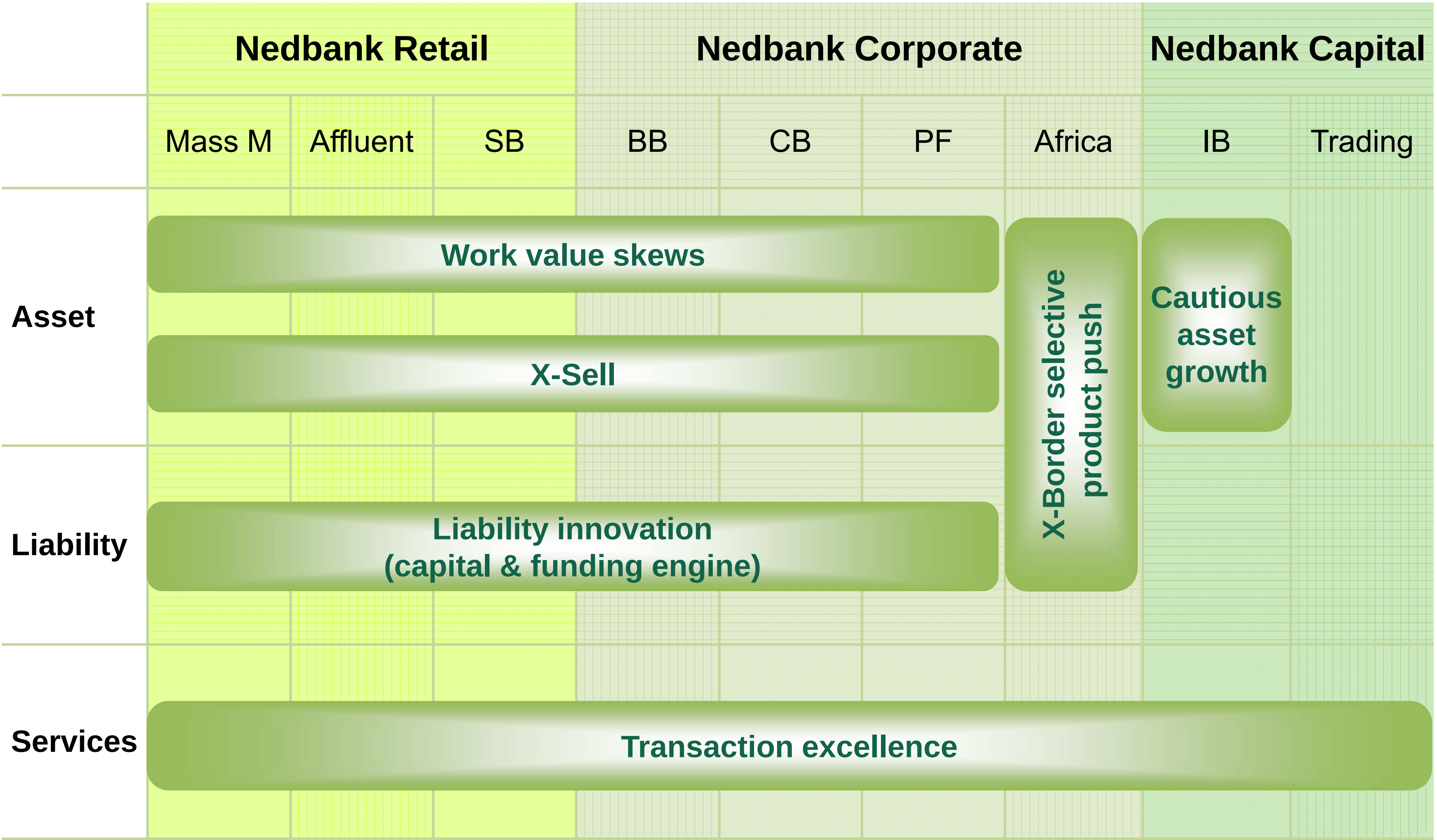




Source: Oliver Wyman analysis

# How are we doing?

# NII



- Expanding margins on new assets
- Internal funds transfer pricing increased
- Focus on high EP businesses, slowing growth in lower EP businesses
- Growing deposits & building liquidity buffers
- Above the line marketing focused on deposit growth


***R2,8bn raised from launch in mid August***

***… NIM under pressure***

# Focus on growing NIR

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- Distribution channel growth – revert to organic vs “step change” (699 manned outlets in 2005 grow to 777 by end 2008)
- 11% growth in retail primary clients (H1 2008)
- Progress made in gaining public sector transactional banking clients
- Large high volume client wins in Corporate Banking
- NetBank successfully implemented in Business Banking & roll out starting in Corporate Banking
- Cash handling market share growing
- Growth in bancassurance earnings but slowing
- Private equity valuations under pressure
- Retail volumes slowing

***… key long-term opportunity***

# Impairments

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| Rm – six months ended | % of average advances | June 2008 | |
|---|---|---|---|
| As % of average advances (%) | 100,0 | **0,96** | > through the cycle |
| Nedbank Capital | 14,5 | **0,12** | = through the cycle |
| Nedbank Corporate | 40,4 | **0,15** | < through the cycle |
| Nedbank Retail | 35,4 | **2,00** | > through the cycle |
| Personal loans | 1,6 | **9,10** | = through the cycle |
| Other retail | 33,8 | **1,66** | > through the cycle |
| Imperial Bank | 9,7 | **1,75** | > through the cycle |

***… wholesale to increase, but remain < through the cycle ranges***
***retail to stabilise, but remain > through the cycle ranges in '08 & '09***

# Retail credit – default rates

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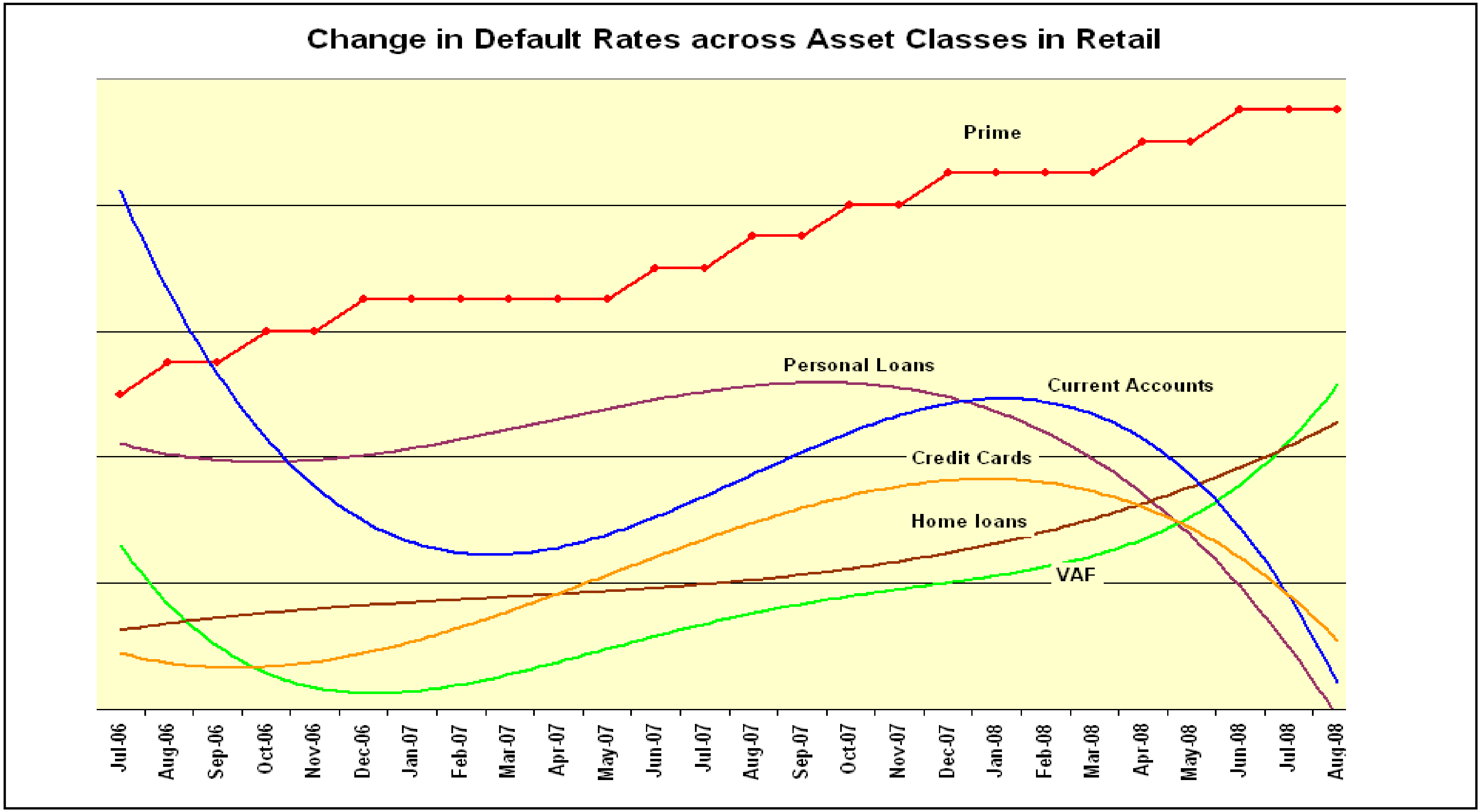
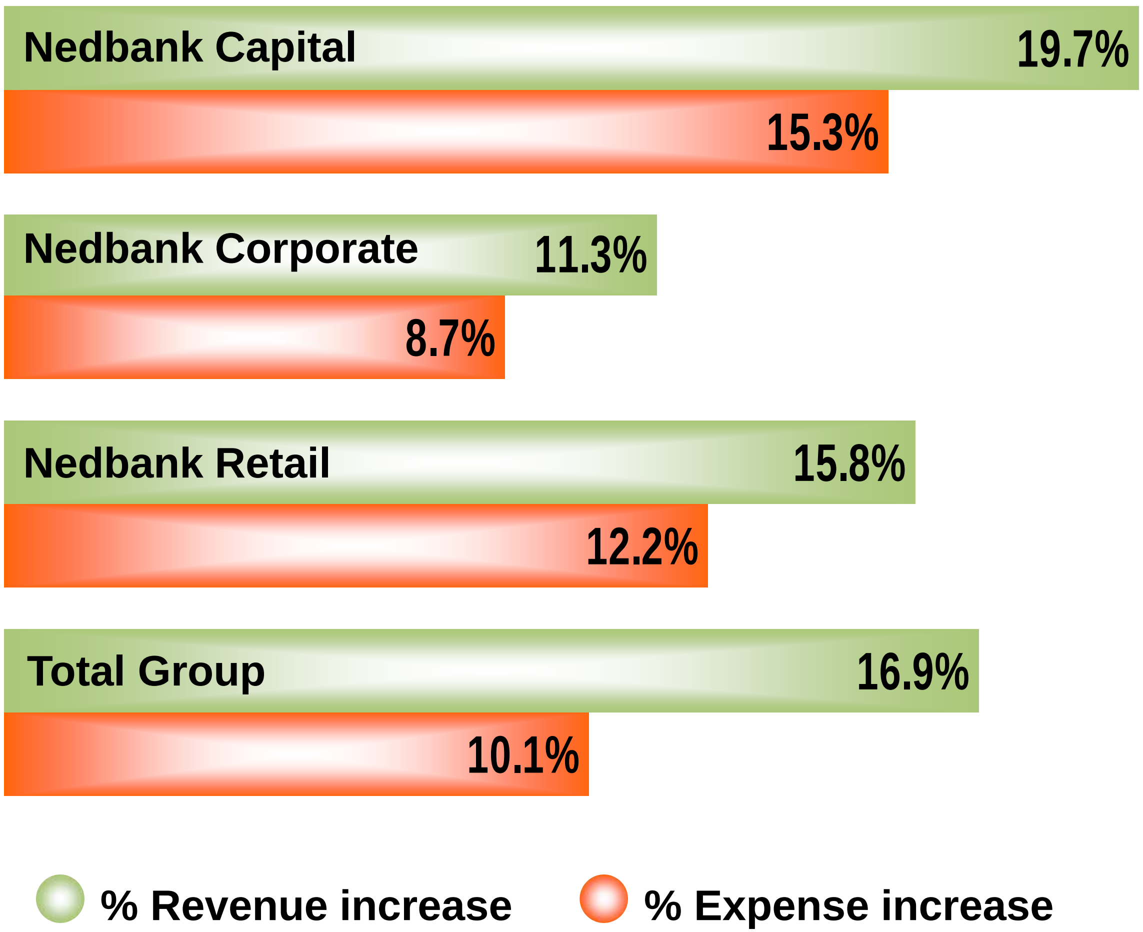
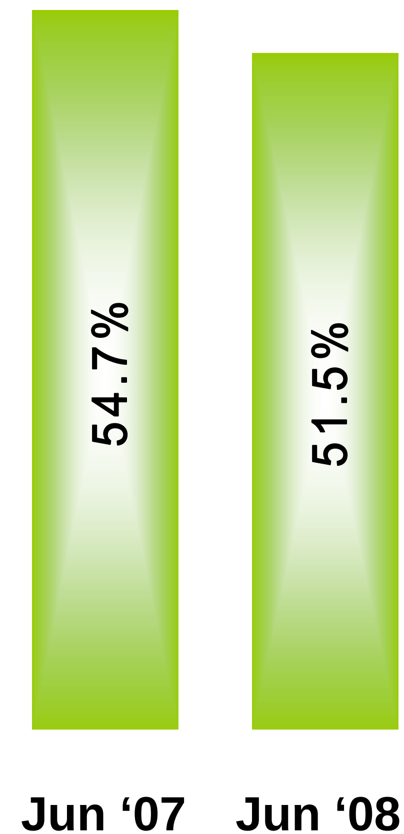



***... recovery in unsecured products***
***secured products a challenge***

# Controlling cost growth




**Efficiency ratio**




***Note: excluding Bond Choice***

# Increasing capital ratios

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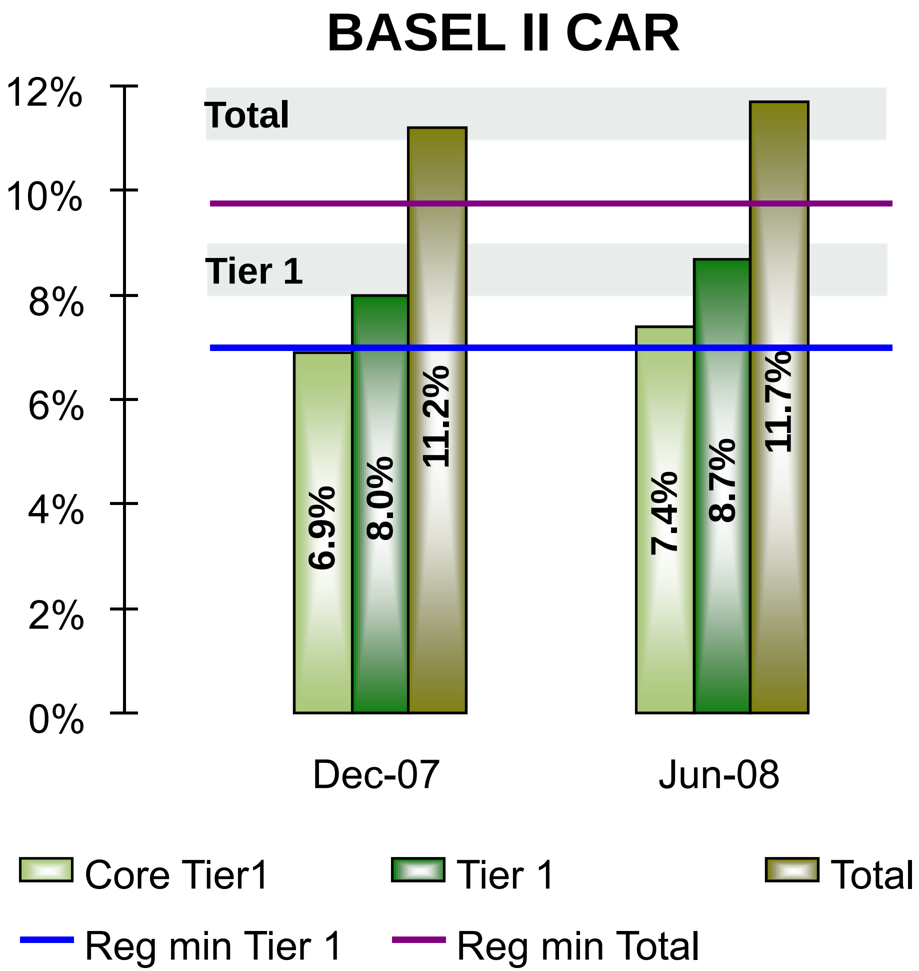


**30 June 2008**

- R6,9bn economic capital surplus after a 10% buffer built in
- R6,9bn regulatory capital buffer
- Strong Tier 1 ratio

**By December 2008**

- Increasing capital to upper end of target ranges

***… conservative capital management through the cycle***

# Funding & liquidity risk management

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Liquidity barometer

- No exposure to US sub-prime or related asset classes
- Small conduit business at approximately 2% of liabilities
- Limited access made of securitisation market – <1% of total liabilities
- Limited access made of foreign markets – <3% of total liabilities
- Strong Retail deposit franchise that continues to grow
- Strong Corporate & Business Banking deposit franchises
- Sound capital position
- Asset growth slowing due to market conditions
- Stable money market shortage
- Good client relationships
- Functioning SA interbank market

- Increased reliance on wholesale deposits
- Debt capital markets & foreign markets currently thin & expensive

- Global financial crisis & domestic uncertainty dominates JSE sentiment.

# Investment case

# Our vision

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**Vision**

**To become Southern Africa's most highly rated and respected bank…**
**…by our staff, clients, shareholders, regulators and communities.** **= DEEP GREEN**

**'Deep Green' aspirations**

- Great place to work
- Great place to bank | Great place to invest
- Unleashing synergies | Worldclass at managing risk | Community of leaders
- Most respected and aspirational brand | Highly involved in the community and environment | Leading transformation | Living our values

**What makes us different & guides our long –term strategy?**

**Great at listening, understanding clients' needs and delivering**

**Our brand expression**

**'Make things happen'**

**Strategic focus areas**

| | | | | | | |
|---|---|---|---|---|---|---|
| Grow our share of EP | Become client driven | Manage risk as an enabler | Enhance productivity and execution | Build unique Culture for competitive advantage | Accelerate Transformation | Lead as a Corporate Citizen |

**Scope of the game**

| | | | |
|---|---|---|---|
| A member of the Old Mutual Group | Full spectrum banking | Bank for all | Southern Africa focus, with selected offshore expansion |

**Our values**

| | | | | |
|---|---|---|---|---|
| Integrity | Respect | Accountability | Pushing Beyond Boundaries | People-centered |

# Growth potential in SA & SADC

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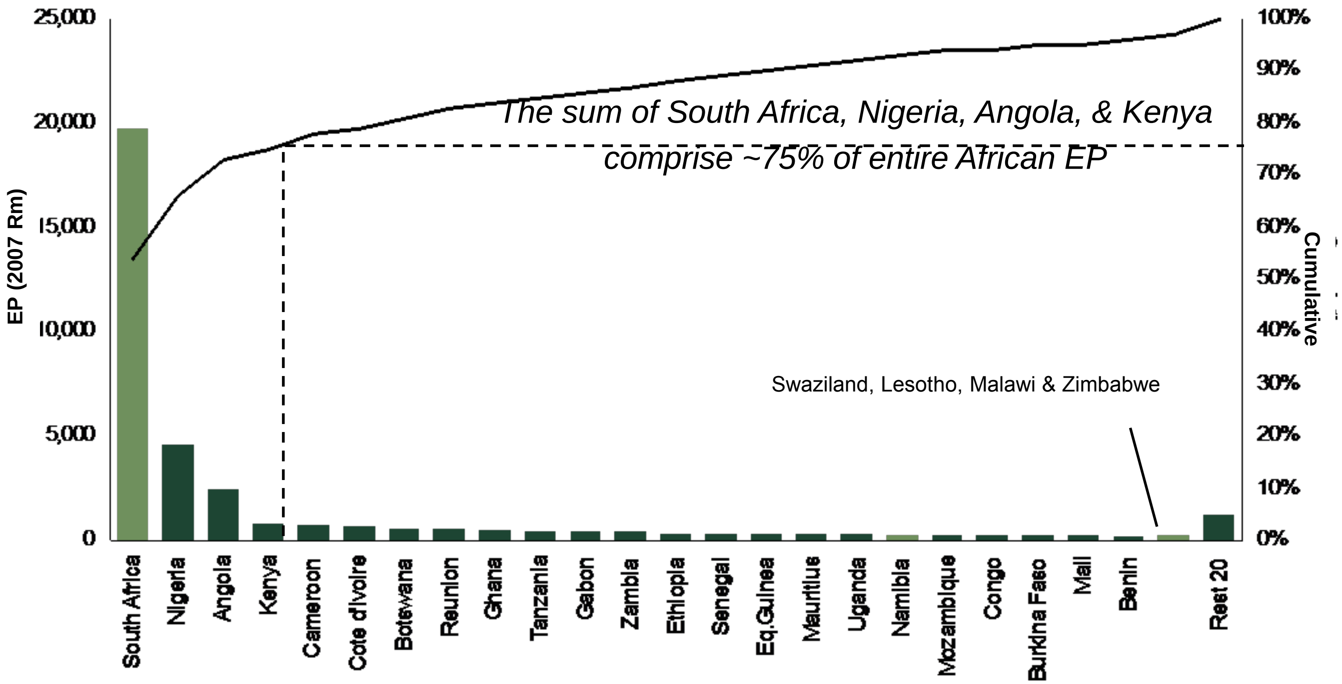
**Managing for value - market growth**

- SA = 60% of economic profit pool in Africa (SADC has 65% – 75%)
- SADC - opportunity - likely to show higher growth than local SA market
- Benefit from boutique investment banking strategy in Africa & Rest of World

**Financial services EP by African country (Rbn)**




***… focus where we have competitive advantage***

# Growth potential in SA & SADC *(continued)*

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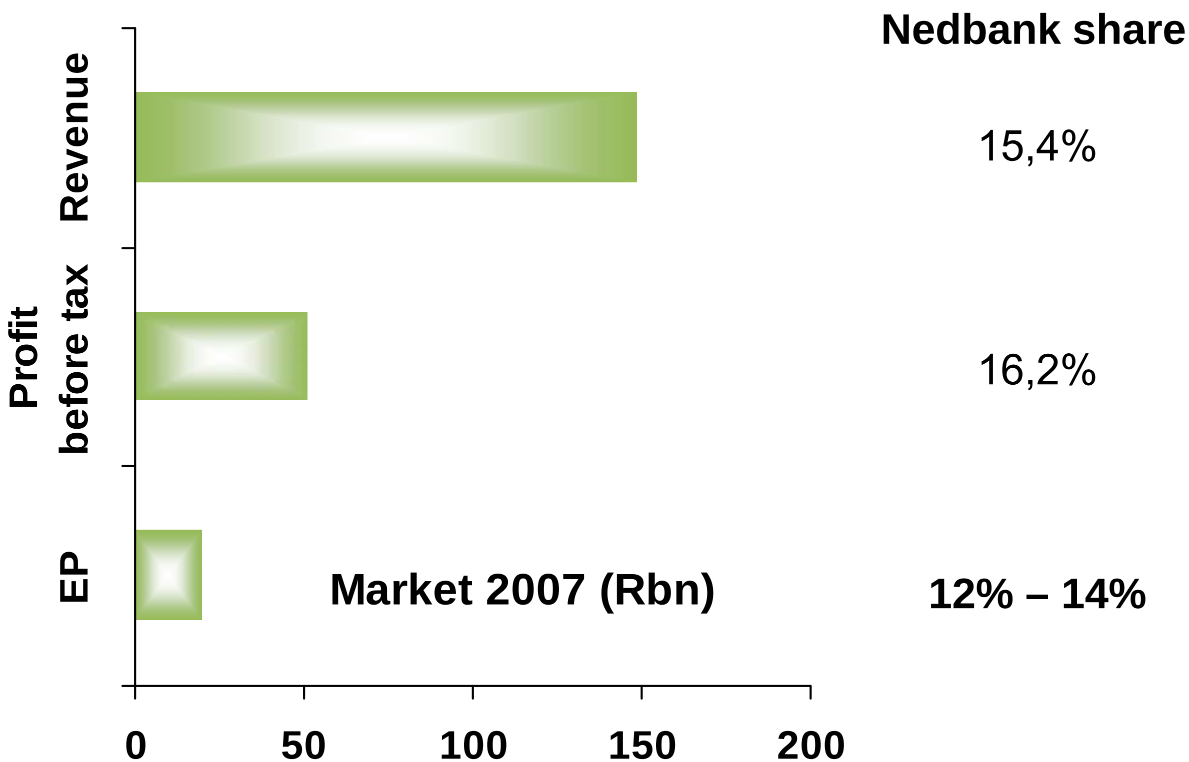
**Managing for value - market share growth**

- Nedbank has only an estimated 12% - 14% share of SA banking EP pool today
- We can gain EP market share across various segments & products
- Continuously focus on winning EP game in SA & selectively expand in Africa



# Smart with Heart

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**Agility**
*Execution speed*
*Managing differently for different points in cycle*

**Best place to bank & invest**
*Differentiate on service*
*Customised products*
*Expand existing risk management reputation*

**Value not volume**
*Pursue value, not volume*
*Data enhancement*

**Attract & retain best & brightest**
*Employer of choice*

**Work the value skews**
*Identify & pursue pockets of value*

**Green bank high ground**
*Stakeholders identify with green bank values*
*Leverage green banking*

**Targets & incentives**
*Targets aligned to EP*

# Current outlook vs medium-to-long term targets

| Medium to long-term targets | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| ROE (excl goodwill): 10% > monthly weighted average cost of ordinary shareholders' equity | | | | |
| Efficiency ratio: < 55% | | | | |
| Diluted HEPS: at least CPIX + GDP growth + 5% | | | | |
| Impairment charge: between 0,55% & 0,85% of average advances | | | | |
| Basel II tier 1 CAR: 8,0% – 9,0%<br>Basel II total CAR: 11,0% – 12,0% | | | | |
| Capitalised to a 99,9% (A-) confidence on an economic capital basis + 10% buffer | | | | |
| Dividend cover policy 2,25 to 2,75 times | | | | |

***… but forecast risk is high***

Thank you

# Disclaimer

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