

**Risk & margin  
management**

**Funding  
& liquidity  
management**



**Value-based  
management  
& portfolio tilt**

**Capital  
management  
& leverage**

**Balancing risk &  
growth as we build  
Africa's most  
admired bank**

**UBS Financial Services  
Conference**

**May 2011**





## Agenda

- Overview of recent results
- Strategy for managing risk & growth
- Summary & prospects

## Key financial highlights – 2010

For the year ended	% change	2010	2009
Headline earnings (Rm)	14,6	4 900	4 277
Efficiency ratio (%)		55,2	53,1
NIR : expenses		79,6	78,8
Diluted HEPS (cents)	8,7	1 069	983
Diluted basic EPS (cents)	(5,3)	1 050	1 109
ROE (excluding goodwill) (%)		13,4	13,4
ROE (%)		11,8	11,8
Headline economic (loss)/profit (Rm)		(289)	57
Tangible NAV per share (cents)	10,3	8 160	7 398

# Delivery of NIR & CLR targets – illustrative scenario

			NIR : expenses			ROE (Excl. goodwill)
			Current	Mid way	Target	
Impairments - CLR	Current	1,36%	79,6%	82,3%	85,0%	
	Top of target range	1,00%	13,4%	14,0%	14,7%	
	Mid-target range	0,80%	16,6%	17,2%	17,9%	
			18,3%	19,0%	19,7%	
Estimated cost of equity			13,0%			

- Based on 2010 results
- Assuming no change in leverage or equity
- Assuming efficiency ratio remains the same

... further uplift from interest rate sensitivity of R660m pre-tax for every 1% increase in interest rates = approximately 1,3% addition to ROE

## Key financial highlights – 2011 Q1

%	2011 Q1	2010 year	2010 Q1
Margin	3,42	3,35	3,38
Credit loss ratio	1,15	1,36	1,46
NIR growth*	16,4	8,0	10,4
Commission & fee income growth*	13,9	11,2	18,4
Advances growth (annualised)	0,8	5,5	3,9
Core Tier 1 ratio (period end)	10,8	10,1	9,8

***... earnings momentum of H2 2010 maintained in Q1 2011***

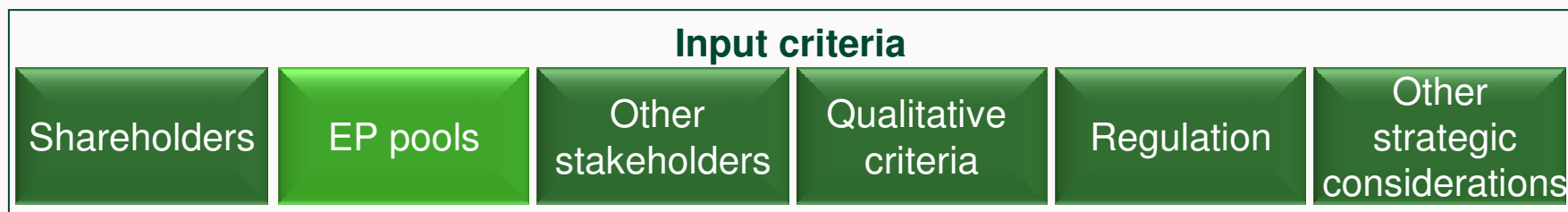
*\* Like-for-like growth*



## Strategy for managing risk & growth

# Strategy for managing risk & growth

## 1 Strategic portfolio discussion = “Where do we play”



### Nedbank Group business portfolio



- In which client segments does Nedbank Group want to operate?
- Which are key focus products?
- Where does group have competitive advantage?
- What does this mean for capital & liquidity allocation?



# Managing risk & growth

## 2 Realisation of target portfolio

### A Tactics = “*How do we play*”

- Reposition Nedbank Retail
  - Customer value management in Retail
  - Grow primary clients & cross-sell
- Grow NIR
  - But ensure value based cost management (NIR : expense target)
- Grow in areas which optimise EP & fix or slow growth in areas with poor EP
- To be Africa’s most admired bank need to be South Africa’s most admired bank

### B Execution = “*How do we ensure we win*”

- Biggest differentiator - how successful we are at executing strategies
  - Our people & culture
- Projects that consume large proportion of resources or have large impact on EP
  - Monitored centrally
  - Link to rewards if successful & consequences for failure
- Allocate capital / expenditure according to strategic fit, tactical impact & previous execution performance



# Strategic drivers

## Reposition Nedbank Retail

Client-centred focus underpinned by strong risk management  
Grow primary clients & cross-sell for sustainable ROE

## Grow NIR

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

## Sustainability

Economic  
Cultural  
Environmental  
Social

## Optimise EP & portfolio tilt

Active portfolio management: optimise scarce resources – capital, liquidity & costs  
Focus on EP growth  
Deposits a key priority

## Building Africa's most admired bank

Long-term growth opportunity  
4-tier strategy to selectively expand into Africa

*... regulation & Basel III, key influencers of future growth & return levels*

# Reposition Nedbank Retail



**“Delivering a choice of distinctive client-centred banking experiences”**

## **Harness strengths**

- Leverage wholesale clusters' client relationships
- Product monolines – aligned with building deep client relationships
- Leverage Personal Loans business
- Focus on people & unique Nedbank Group culture

## **Primary clients**

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

## **Manage for value**

- Align risk appetite metrics with desired earnings & returns profile
- Strong risk management practices
- Discerning home loans strategy - using scarce resources judiciously
- Client view - transactional banking & lending closely aligned

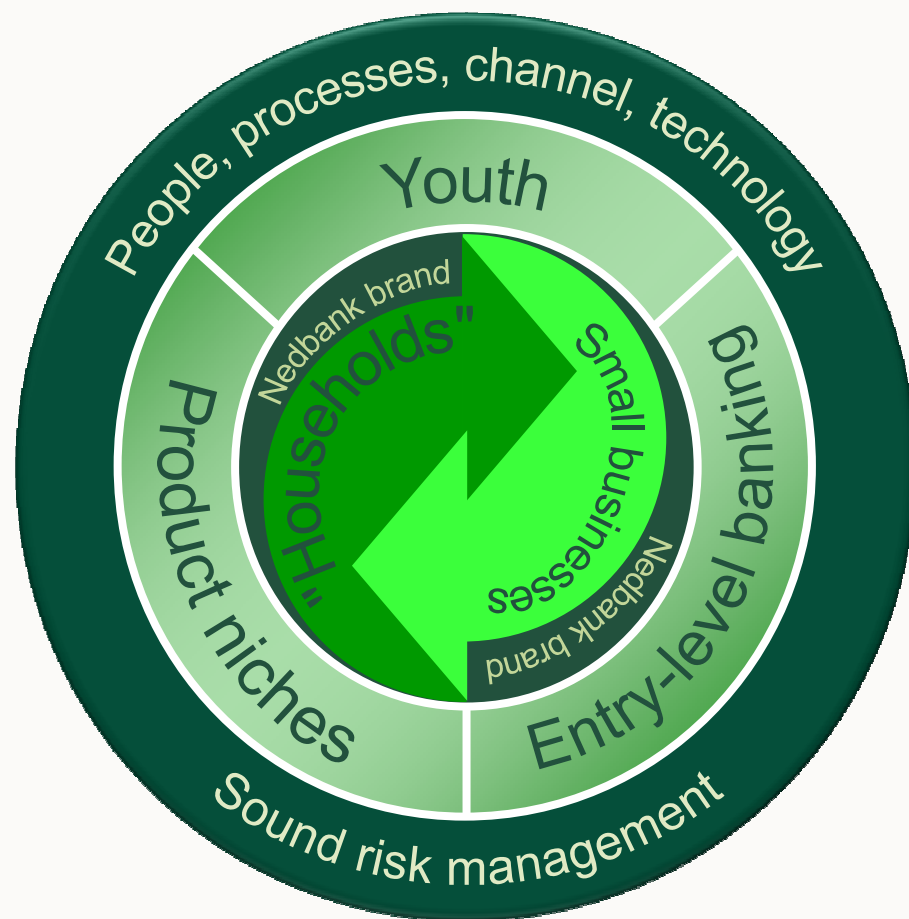
***... Nedbank Retail has made significant progress***

# Understanding of external trends & context required



- SA banked population expected to grow by 4,9m to 24,2m by 2020
  - 25% more than today
- Middle class 2m of this growth - fed by rising youth & entry-level
- Seniors will remain important - growing by 1,4m by 2020
- Growing small business segment employing ~45% of working SA
- Increasing consumer preference for
  - Choice of channels
  - Self-serving banking
  - Low cost banking
- Tightening regulation
- Technological innovation in products & channels, reducing cost to serve
- Increased competition from big four, non-bank & niche players

# Nedbank Retail – medium-term strategy



## Key deliverables – medium term

- Unlocking R600m\* cost efficiencies
- Re-investing R400m\*\*: 340 new outlets & >1 000 new ATMs
- Extended shopping hours
- Win in mobile
- Unsecured lending enabling primary client growth
- Home Loans integral to total client relationship
- >30% of clients primary banked
- Step change in SBS offering with extended branch presence

\* run rate in year 4

\*\* cumulative capex over 4 years

***... delivering a choice of distinctive client-centred banking experiences***

# Nedbank Retail - 12 step change initiatives



## Strengthen heart of the business

1. Build deep enduring banking relationships embracing full household
2. Capture SBS & individual synergies / entrepreneur opportunity



3. Tailor products for rising demographics
4. Reposition Home Loans
5. Align products to strategic intent - win in mobile space



6. Leverage wholesale client relationships, group efficiencies & brand
7. Align roles & accountabilities
8. Capture cost efficiencies
9. Simplification / sharing of IT platforms / processes



10. Upgrade risk capabilities & practices
11. Align channels & distribution to strategic intent
12. Empower staff

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*... regulation & Basel III, key influencers of future growth & return levels*

# Grow NIR - innovative solutions & cross-sell



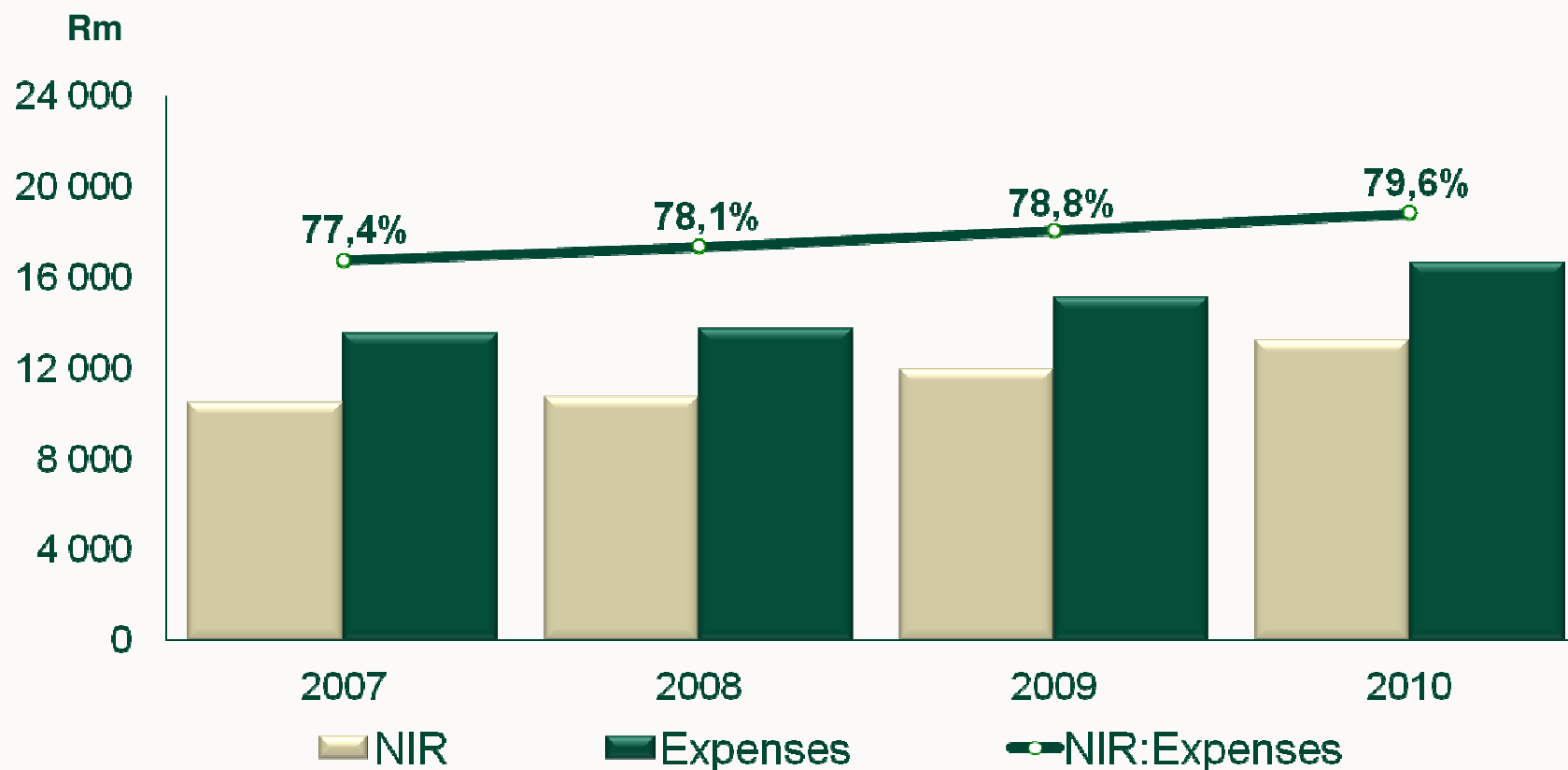
<b>Nedbank Capital</b>	<ul style="list-style-type: none"> <li>■ Improved equity trading</li> <li>■ Wall Street – rationalised 7 multi-interface applications</li> <li>■ Innovative origination of carbon credits via project finance</li> </ul>
<b>Nedbank Corporate</b>	<ul style="list-style-type: none"> <li>■ Primary banked client gains</li> <li>■ NetBank Business &amp; Cash Payments System electronic platforms</li> <li>■ Improved cross-sell</li> </ul>
<b>Nedbank Business Banking</b>	<ul style="list-style-type: none"> <li>■ NetBank Business electronic platforms - banking volumes up 20%</li> <li>■ Leveraging innovative products &amp; cash solutions</li> <li>■ Primary banked client gains – 800 net new clients or 35% growth in 2010</li> </ul>
<b>Nedbank Retail</b>	<ul style="list-style-type: none"> <li>■ Siyakha - improve customer interaction &amp; front-end sales solutions</li> <li>■ Primary banked client gains – 96 000 net new clients or 7% growth in 2010</li> <li>■ Increased services on mobile &amp; online platforms</li> </ul>
<b>Nedbank Wealth</b>	<ul style="list-style-type: none"> <li>■ Life: fully underwritten product 360life &amp; 'become' wellness programme</li> <li>■ Short-term: vehicle related products including Warranty, Top-up, Tyre &amp; Rim</li> <li>■ Channel expansion: Credit Life in MFC &amp; Credit Guarantee in Namibia</li> <li>■ Asset Management: launch of 'Best of breed' internationally</li> </ul>



# NIR : expenses trend



Targeting NIR : expenses ratio of > 85% in medium-to-long-term



*... NIR growth momentum continued into Q1 2011*

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# Economic profit (EP)



***EP primary metric because it 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

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

Indicator for TSR <sup>1</sup>	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

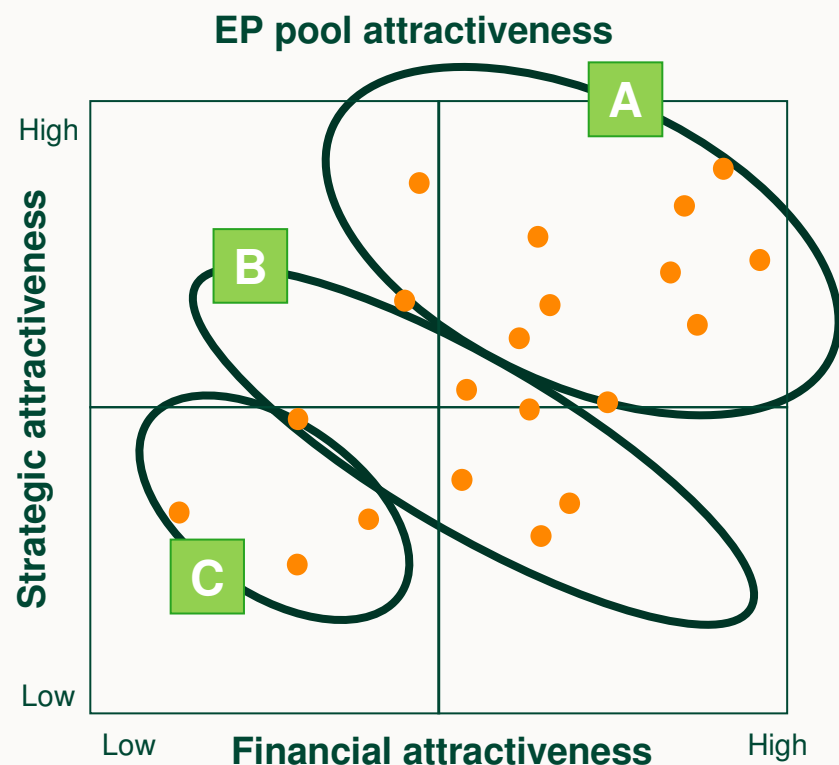
$$EP = \text{Capital} \times (\text{RORAC} - \text{Cost of capital})$$

Robust  
measure of  
risk based on  
Basel II

Economic  
return on  
equity

Shareholder  
requirements

# Portfolio tilt



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

**A**

Grow faster / invest

**B**

Maintain current plan

**C**

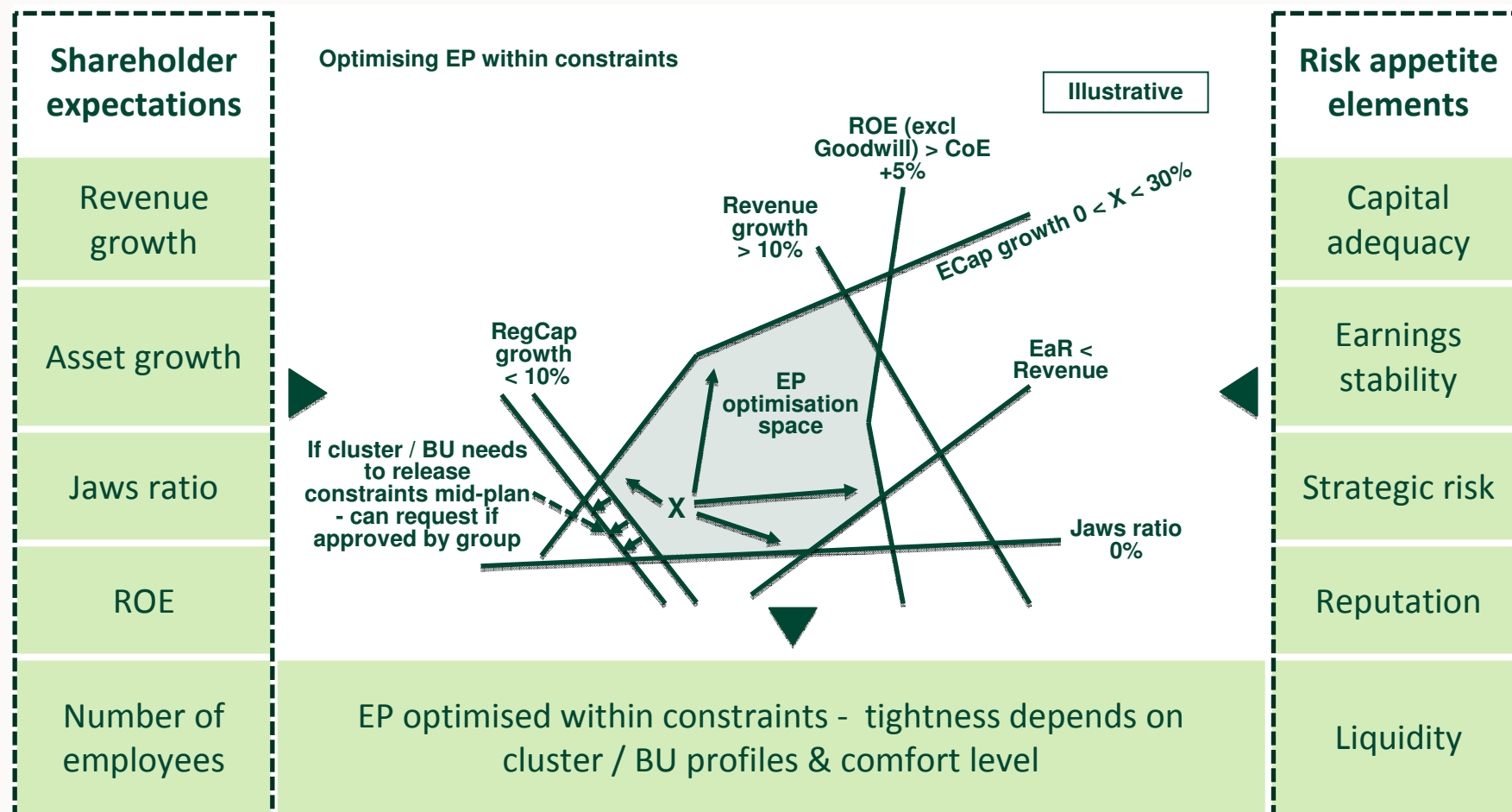
Fix economics / grow slower

Rewards appropriately linked to performance

# Economic profit (EP)



*Although primary metric, EP optimised within other constraints set by shareholder expectations/regulator & risk appetite*



# Risk vs reward – 2010



Shareholder expectations				Risk appetite elements		
Metric	2010		Medium- to long-term target	Board approved group level risk appetite metrics		
ROE (excl goodwill)	13,4%	✗	5% above monthly weighted COE	Earnings at risk (EaR) (potential earnings lost over 1 year period)	EaR less than 80%	✓
Diluted HEPS growth	8,7%	✗	≥ CPIX + GDP growth + 5%			
Credit loss ratio	1,36%	✗	0,60% - 1,00%	Chance of experiencing a loss	Better than 1 in 15 years	✓
NIR : expenses	79,6%	✗	>85%			
Efficiency ratio	55,2%	✗	< 50%	Chance of regulatory insolvency	Better than 1 in 50 years	✓
Core Tier 1 CAR	10,1%		7,5% - 9,0%			
Tier 1 CAR	11,7%	✓	8,5% - 10,0%			
Total CAR	15,0%		11,5% - 13,0%	Economic capital	Greater than A+ rating plus 10%	✓
Economic capital	✓	✓	99,93% confidence - A debt rating (including 10% buffer)	Further broken down into 58 different board approved metrics for different risk types for banking & insurance operations		
Dividend cover	2,30	✓	2,25 to 2,75 times			



## Key shifts for Nedbank Group

### Advances

- Home Loans - negative CAGR (reduce share from  $\pm 20\%$  to  $\pm 15\%$ )
- Business Banking, Nedbank Capital & Personal Loans higher growth
- Property Finance lower growth - bearish outlook & 37% market share
- Rest of portfolio – average / maintain growth

### Deposits

- Home Loans – negative growth positively contributes to liquidity profile
- Growth in fixed deposits, NCDs, term deposits & long-term debt to maintain  $\pm 25\%$  long-term funding ratio
- Expect flat growth in savings deposits given external environment & low savings culture in SA
- Maintain #2 industry position in household deposits
- Overall sound funding / liquidity position





## Key shifts for Nedbank Group

### NIR

- Significant growth improvement in all business clusters
- Positive shift overall in group's NII : NIR mix & NIR : expenses ratio

### Capital & liquidity

- Risk (capital) vs return enhancement – shift to higher EP businesses
- Shift towards lower capital / liquidity demanding businesses - ie Nedbank Wealth, Nedbank Capital & Nedbank Business Banking
- Enhances group's risk profile - reducing earnings at risk & B/S duration
- Nedbank Retail - from EP negative to EP positive

### Productivity & execution

- IT simplification & rationalisation benefits identified
- Embedding a culture of innovation
- Ongoing cross organisational cost optimisation project

# Strategic drivers

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# Building Africa's most admired bank



South Africa	Rest of Africa			
First & foremost need to improve competitive positioning	Support wholesale client expansion into Africa	ROEs remain low & challenging in short to medium-term	Regulation & political issues remain challenging in some jurisdictions	Longer-term growth opportunity



<b>Expand &amp; grow in SADC</b>	<b>Advisory boutiques</b>	<b>Pan-African / Ecobank network</b>	<b>Selected investment opportunities</b>
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Provides		
<b>Options</b>	<b>Low cost / risk of entry</b>	<b>Presence</b>

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- Economic sustainability
  - Balancing risk & growth for sustainable, quality returns to shareholders
- Cultural sustainability
  - Created & maintaining a unique culture
  - A basis for distinctiveness within a competitive market
- Environmental sustainability
  - Maintained position as the “Green Bank”
  - One of the first corporates in SA to commit to & go carbon neutral
- Social sustainability
  - Maintain strong social commitment

## FM Top Empowerment Companies 2011

# The PLAN IS *to stay* RELEVANT

The ranking might be the same, but the level of commitment has been taken to a different level

■ SA'S THIRD-MOST EMPOWERED COMPANY

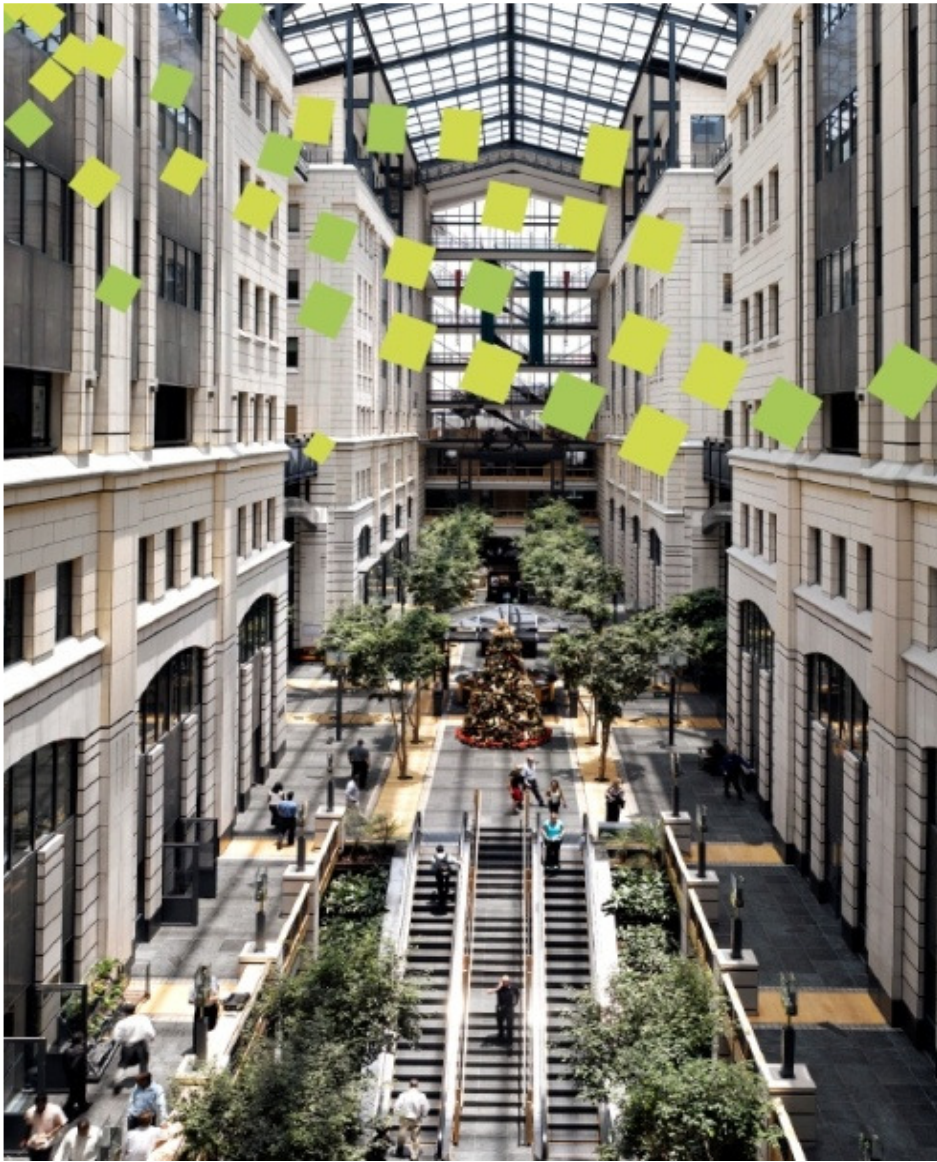
**3**

**Nedbank**

Total BEE score: 89,50

Ownership Score: 20,11; Pref proc: 19,75

**N**edbank continues to be one of the big empowerment performers and has managed to maintain its third place in this year's rankings.



# Prospects

# Nedbank Group focus

## Growing the franchise & closing the price : book gap

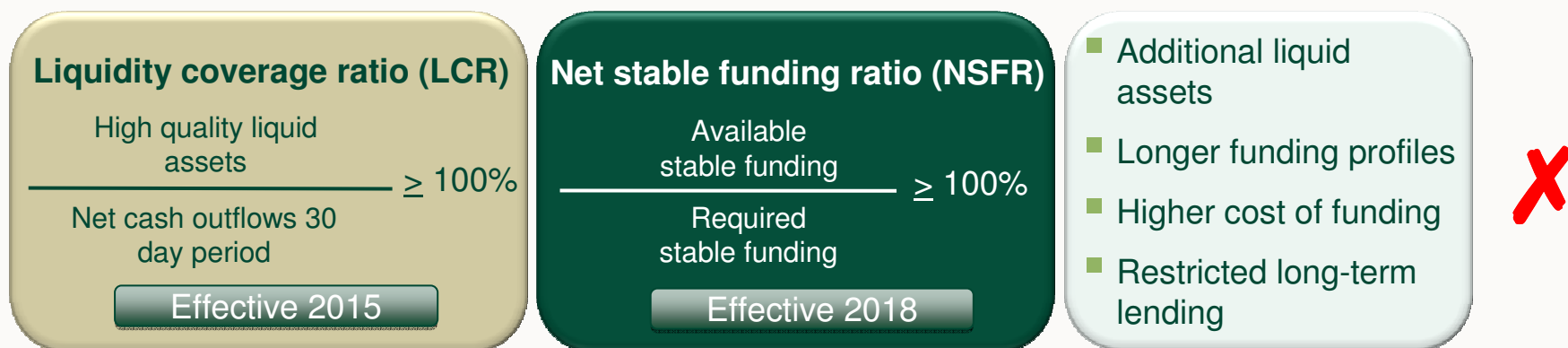
- Reposition Nedbank Retail onto a sustainable growth path
- Grow NIR & primary banking across the spectrum
- Leverage the strong wholesale franchises
- Optimise costs & actively manage portfolio towards higher EP areas
- Greater focus on African expansion

- **Short-term** – impairment reduction remains key earnings driver
- **Longer-term** – grow NIR, optimise costs & improve endowment

*... balancing risk & growth for sustainable EP generation*



# Basel III – implications on SA banks



- LCR & NSFR under "observation" from 2011/2012
- Much debate internationally over NSFR implications
- If implemented, anticipate pragmatic solution
- Strengthening of banks liquidity profiles inevitable

- **Constraint to economic growth**
- **Increased asset pricing**
- **Reduced ROEs**

# In conclusion – 2011 growth within risk metrics

## Levers for growth

- Economy recovering
- Strong management team in place
- NIR strategy starting to deliver
- Good cost discipline
- Ongoing CLR improvements
- Strong capital & liquidity
- Strong wholesale base & retail potential
- Good staff morale
- Sustainable business model

## Diluted HEPS growth

Medium-term target:

≥ CPIX + GDP growth + 5%

**2011 forecast: to exceed target**

## Risk metrics in 2011

Anticipate to:

- **Meet ALL broad group level risk appetite metrics**
- Detailed risk metrics
  - Meet most detailed risk metrics
  - Except certain credit risk metrics due to slow economic recovery



Thank you

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