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RMB Morgan Stanley
5th Annual Bank showcase

30 May 2016

The risks to impairments & other key cyclical challengers

A Member of the OLDMUTUAL Group

Overview – Well positioned ahead of cyclical upswing & potential severe stress event

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A — Context

Experienced team & weak macro assumptions embedded in our planning

- **Experienced team –** managed through BOE liquidity crisis (‘02), Strategic Recovery Programme (’04 – ’08), GFC (‘08 – ’10), VUCA environment (since 2010)
- **Current business plans informed by conservative macro-economic outlook**
- **Ratings agency reviews**
  - Moody’s: 6 May 2016
  - S&P: 3 June 2016
  - Fitch: 10 June 2016

B — Nedbank Group

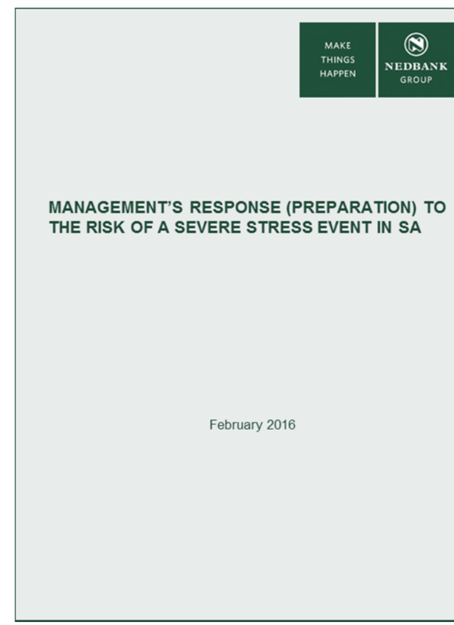
Well prepared for a difficult macro environment

- **Selective advances growth** (portfolio tilt)
- **Strong balance sheet**
  - Positioned for rising interest rate (endowment)
  - Conservative provisioning (multi-year highs)
  - Active hedging
  - Strong capital & funding
- **Greater NIR contribution** (transactional banking)
- **Proven expense management track record** (Optimise and invest)

C — Outlook

Responding to a tougher macroeconomic environment

- **Plan to deal with a severe stress event** (Feb 2016)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MANAGEMENT’S RESPONSE (PREPARATION) TO THE RISK OF A SEVERE STRESS EVENT IN SA

February 2016

Our planning has factored in a low GDP growth & rising rate environment

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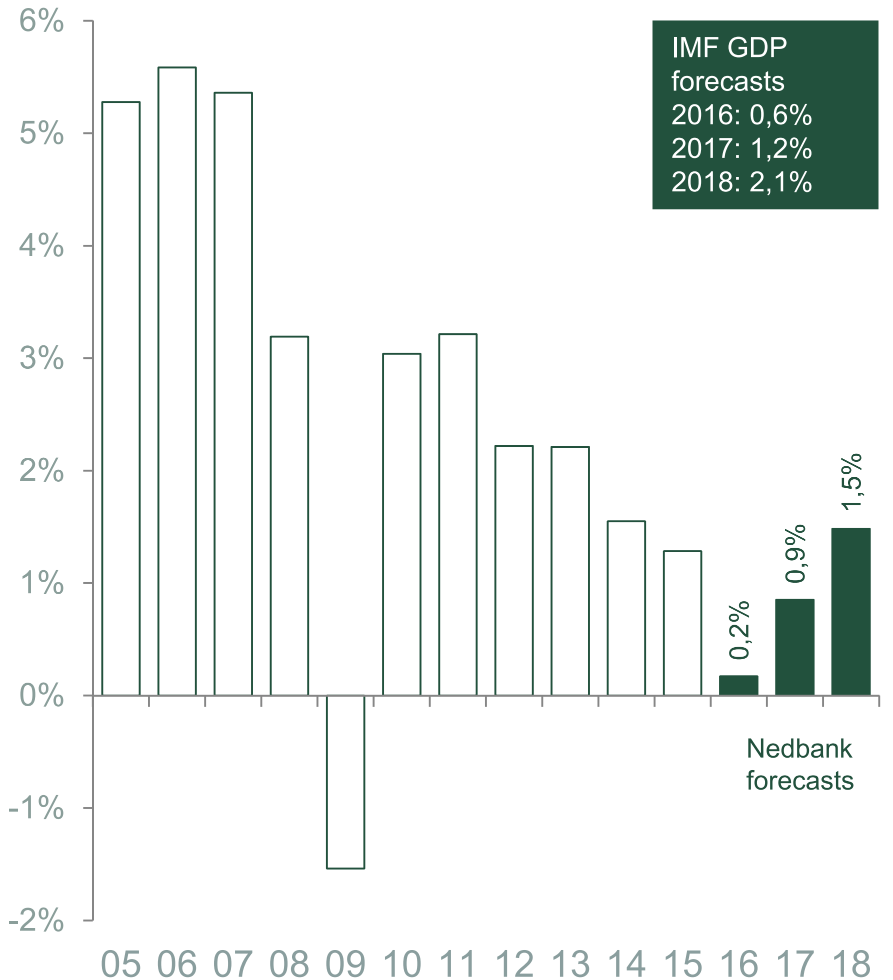
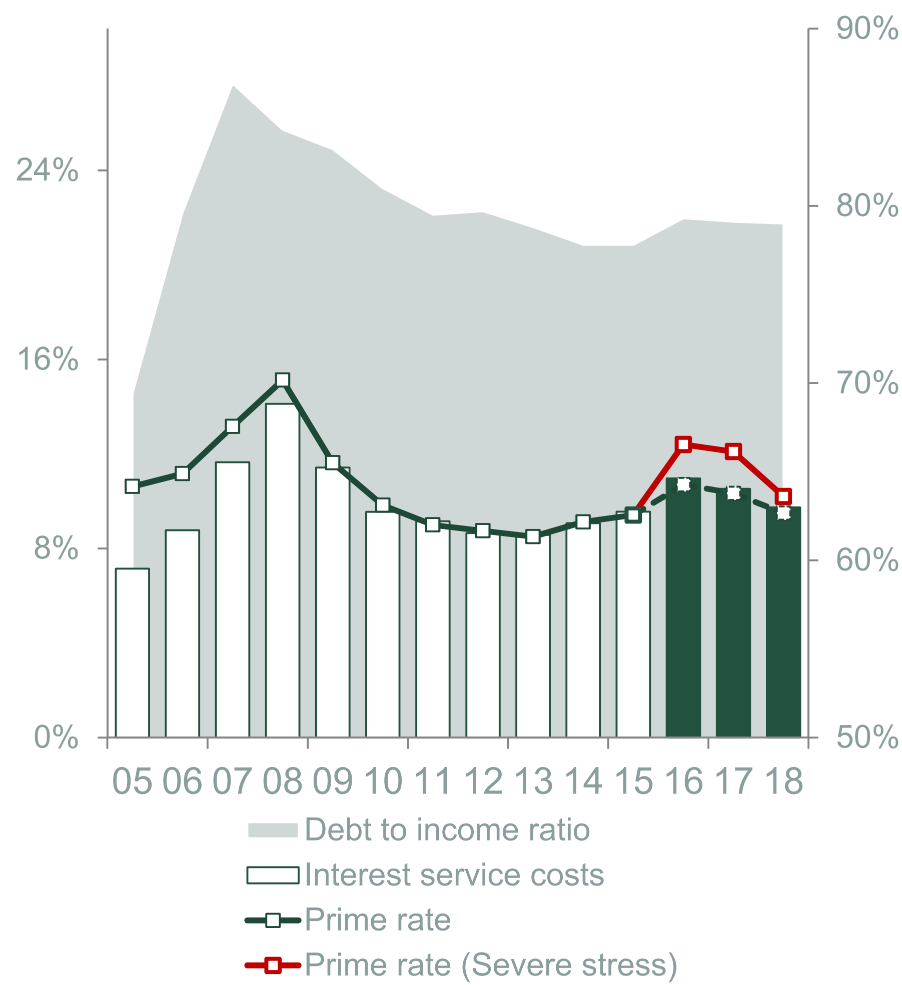
SA GDP growth (%)



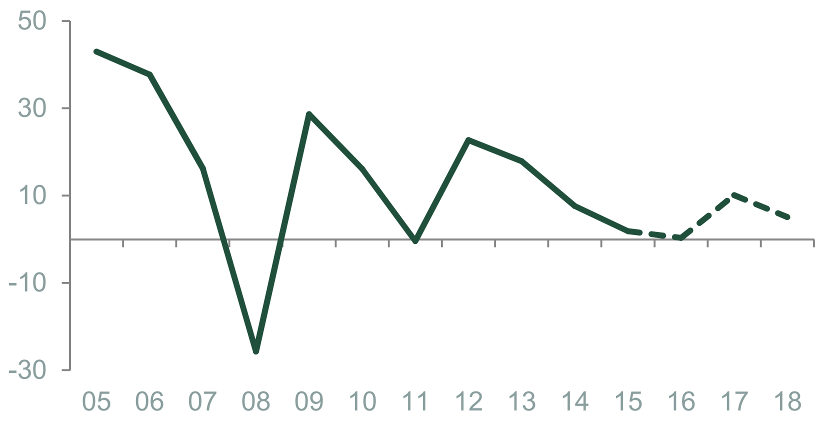
Debt-to-income, Interest service costs & Prime rate (%)



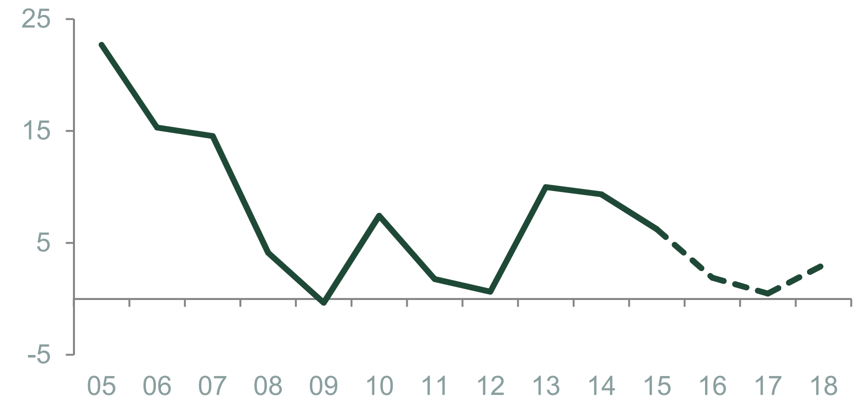
Source: Nedbank Group Economic Unit

Expect muted equity markets & low property prices, as well as weak Rand & bond yields

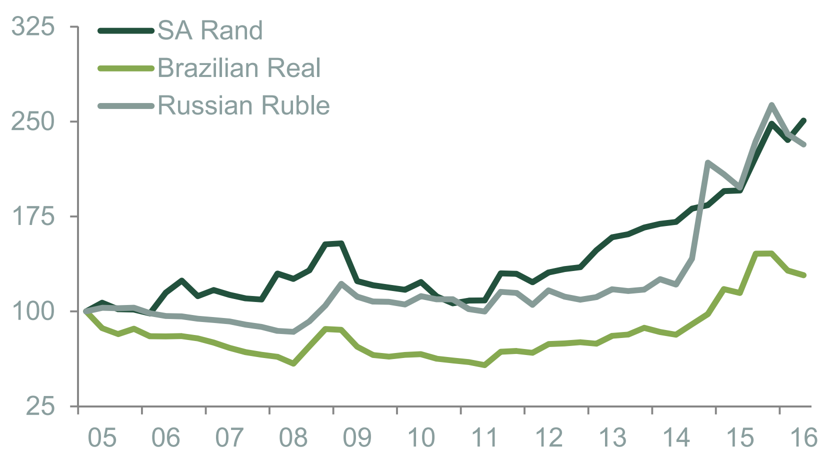
JSE All share index (%)



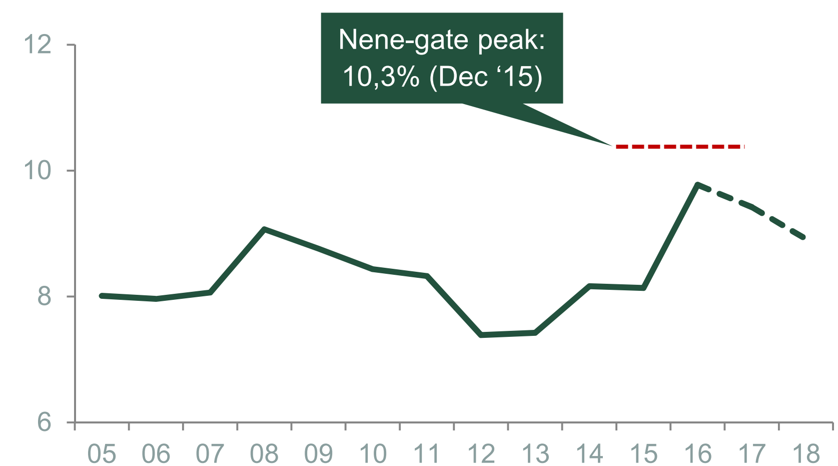
Property price proxy change (%)



Rand relative to other EM currencies (US $)



SA 10-year government bond R186 (%)



1: JP Morgan Emerging Markets bond Index

S&P and Fitch ratings agency reviews in June 2016 are key milestones

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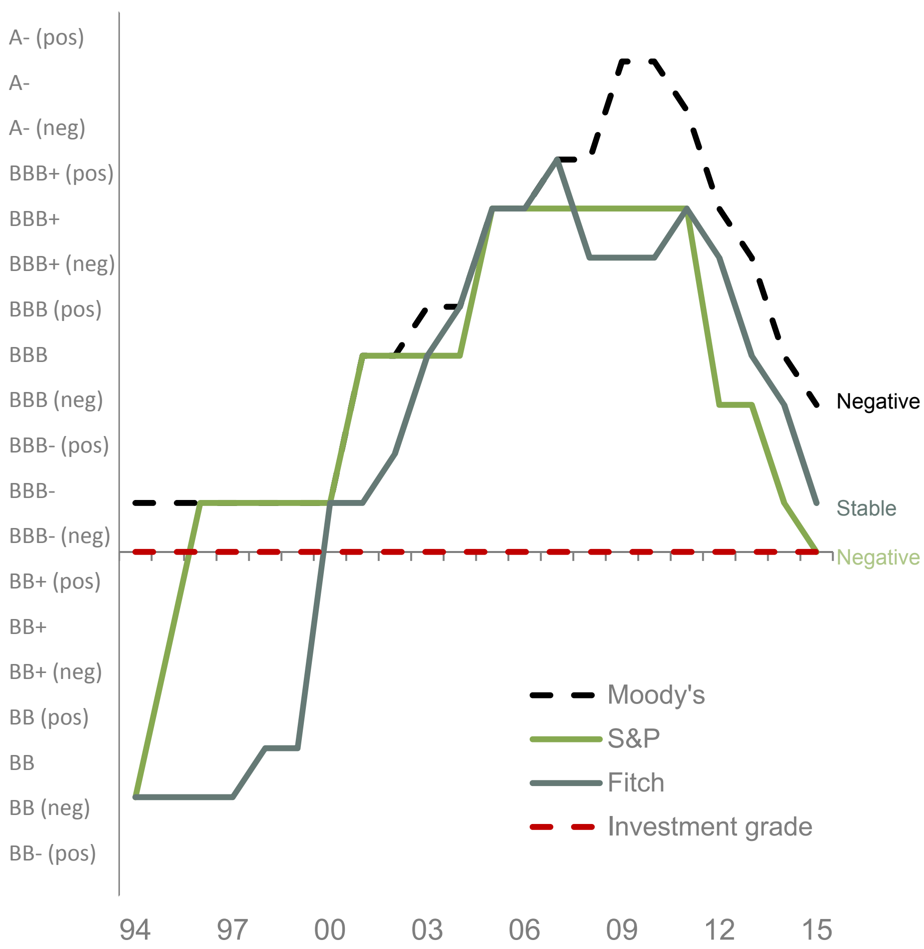
SA sovereign credit ratings



Implications of a SA sovereign downgrade

- Markets price in c60% chance of a downgrade – could be in December '16
- Bond, CDS yields & foreign funding costs increase (but recover within 12 months)
- Property prices & JSE contract
- Rand weakens leading to inflationary pressures
- SARB responds through interest increases – prime rates peak at ~13,5% & interest servicing costs increase
- GDP decline by -1,1% in a severe stress vs 0,2% currently expected for 2016
- Exports improve from weaker Rand, but demand remains weak
- Business working with government & labour to restore fiscal credibility
- Moody's reaffirmed Baa2 rating with a negative outlook on 10 May 2016

Overview – Well positioned ahead of cyclical upswing & potential severe stress event

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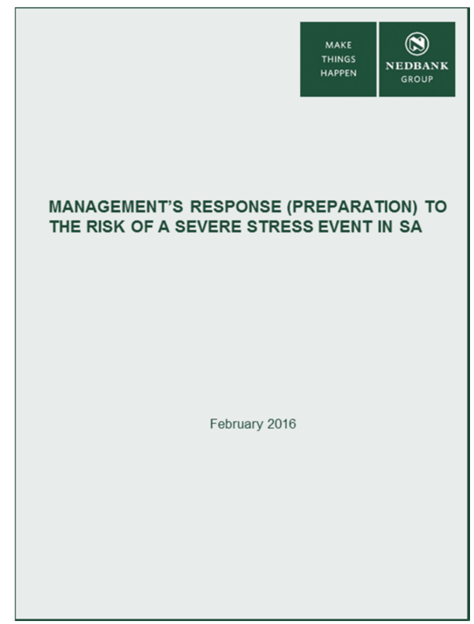
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MANAGEMENT'S RESPONSE (PREPARATION) TO THE RISK OF A SEVERE STRESS EVENT IN SA

February 2016

Developments during 2008/9 crisis

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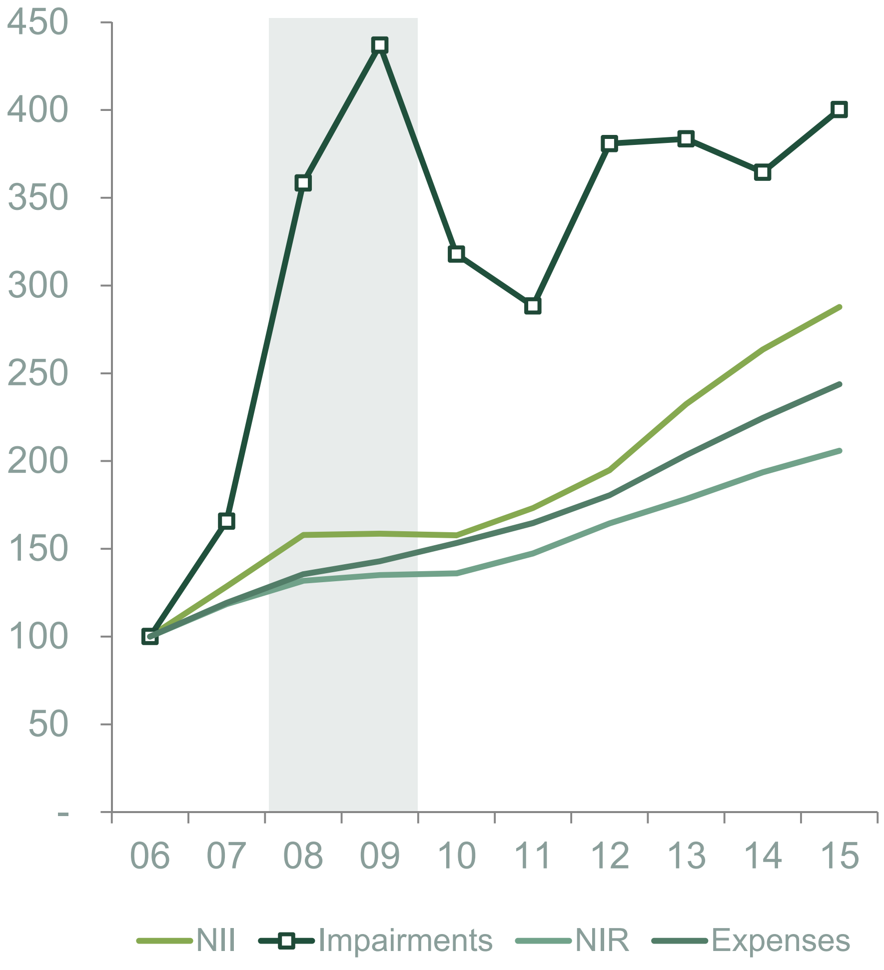
Key SA Bank profit drivers indexed to 100 (2006)



What happened in the 2008/9 crisis?

Impairments spiked (mostly driven by home loans) but recovered in Y+2

Initial endowment benefit, eroded by slower advances growth

Expense growth slowed to c50% of pre-stress levels

Revenue growth declined to almost 0%

RWA growth slowed from weak credit growth, assisting CET 1

Nedbank Group in a strong position to deal with a more difficult environment

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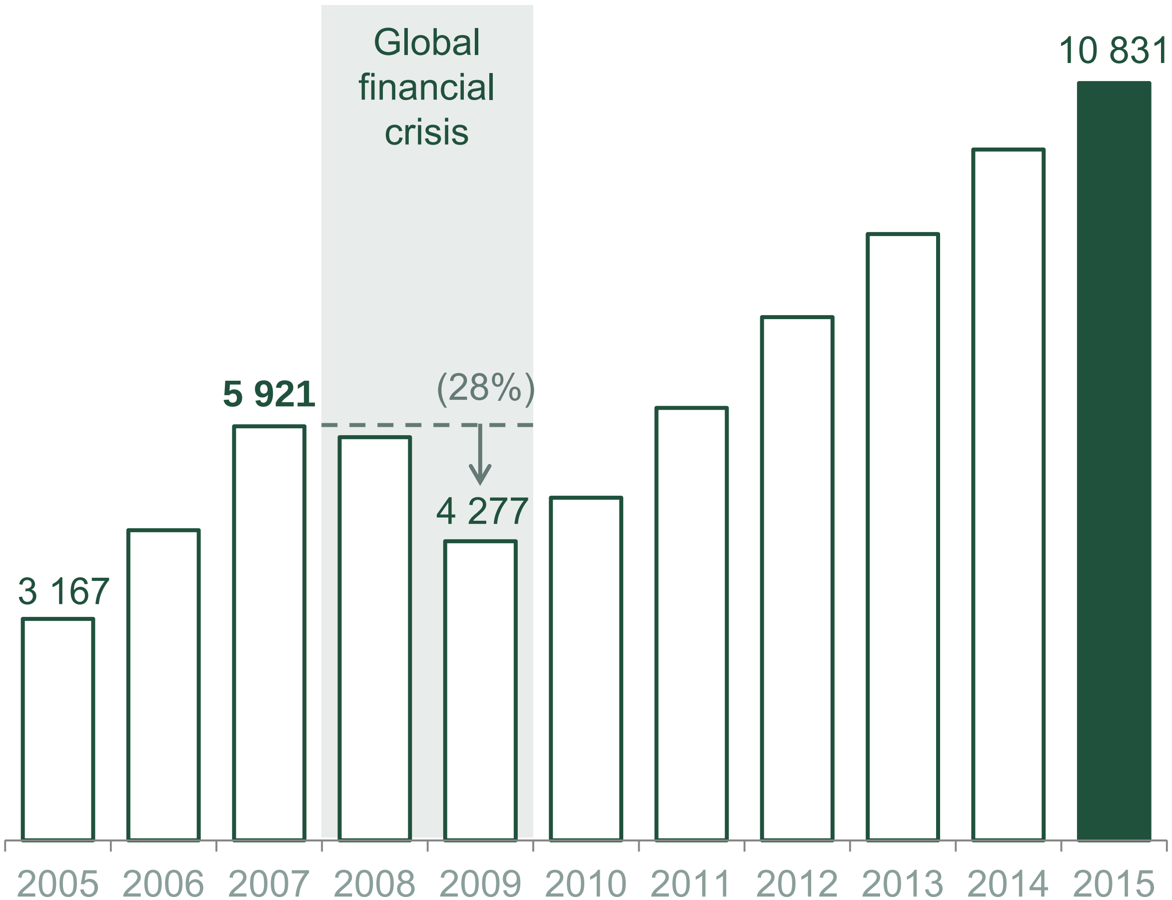
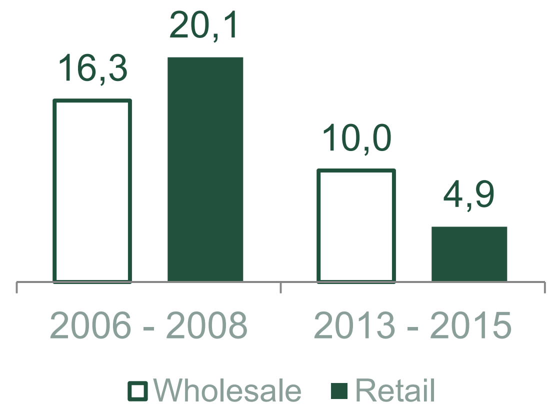
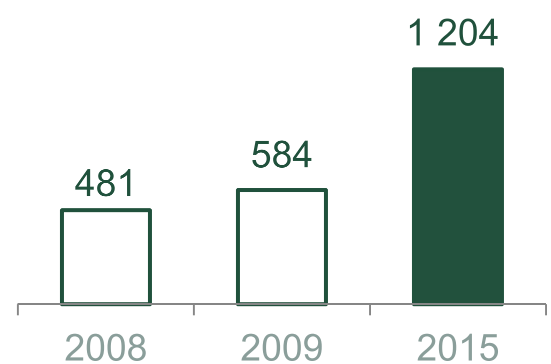
Resilient headline earnings
(Rm)



Slower loan growth
(CAGR %)

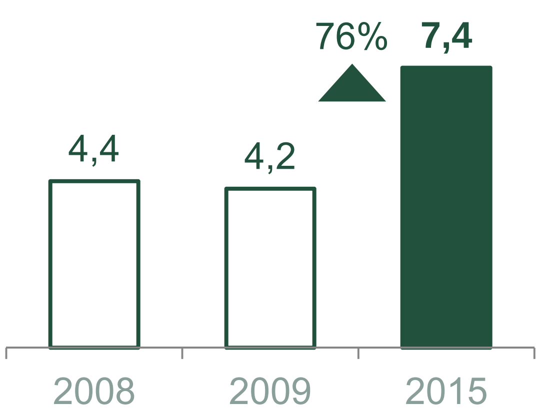


Endowment benefit for 1% change in interest rates (Rm)

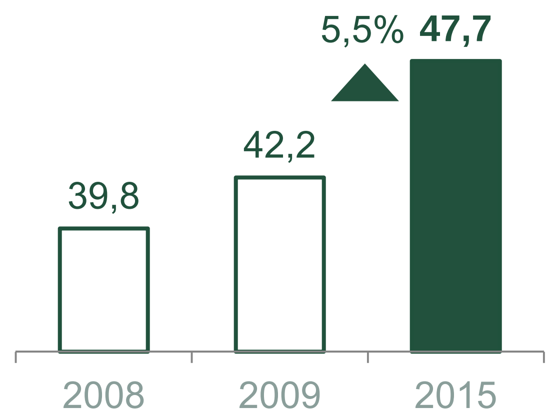


Nedbank Group in a strong position to deal with a more difficult environment

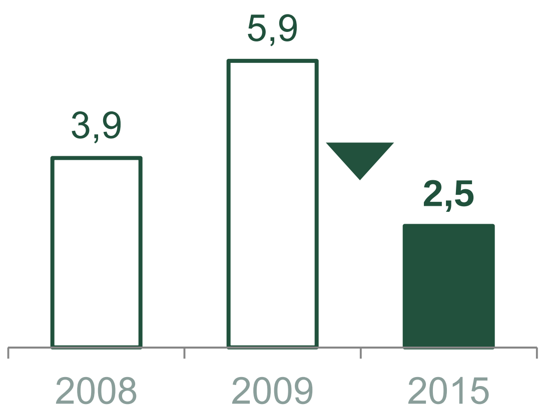
Increase in number of clients (m)



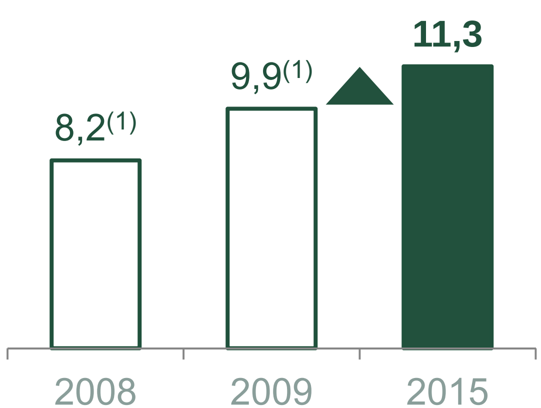
Increase in NIR to total revenue contribution (%)



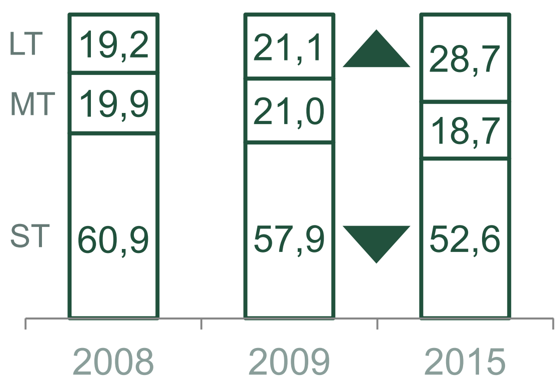
Lower levels of defaulted advances (%)



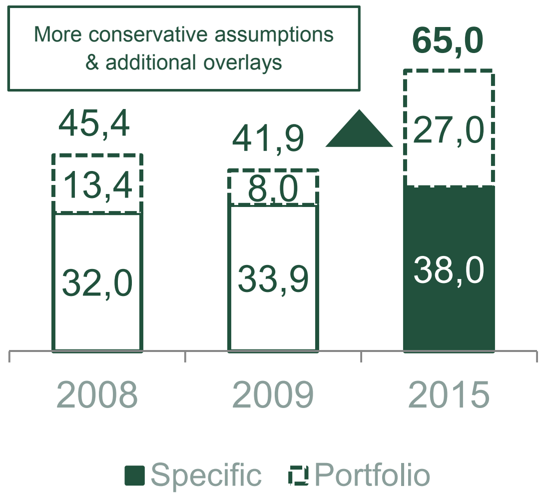
Stronger CET 1 ratio (%)



Longer funding tenor (%)



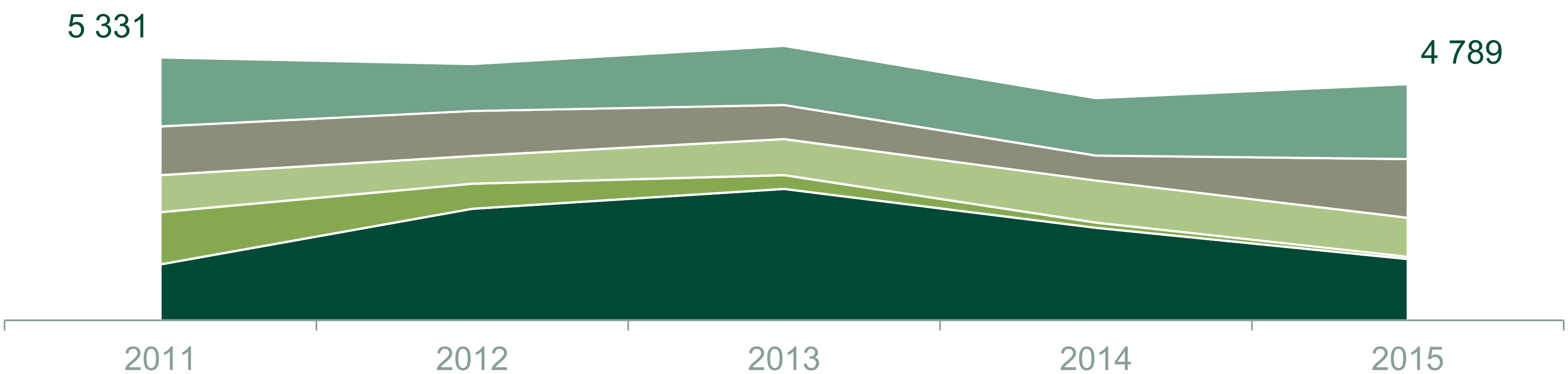
Higher coverage (%)



1 *Core equity tier 1*

Impairment charge reflect the change in advances mix

Impairments charge (Rm)



Percentage of advances book (%)

	2011	2012	2013	2014	2015
	17,7%	23,7%	23,3%	23,4%	22,9%
	47,0%	45,8%	48,4%	49,1%	51,6%
	10,0%	10,6%	11,1%	11,8%	11,4%
	21,7%	15,7%	13,8%	13,0%	11,8%
	3,5%	4,1%	3,4%	2,7%	2,4%
	100%	**100%**	**100%**	**100%**	**100%**

■ Personal Loans ■ Home Loans ■ MFC ■ CIB ■ Other

Note: Other includes the rest of RBB, Wealth, Rest of Africa & Centre.

RBB benefitting from change in mix & prudent lending – expect a cyclical increase (normalisation) from here

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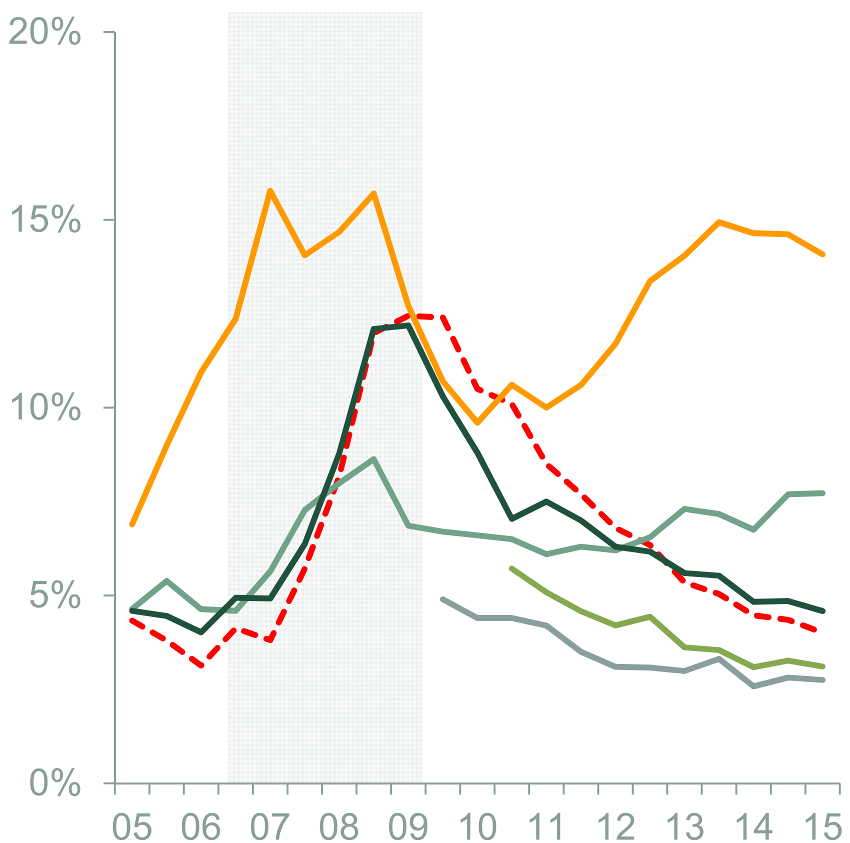
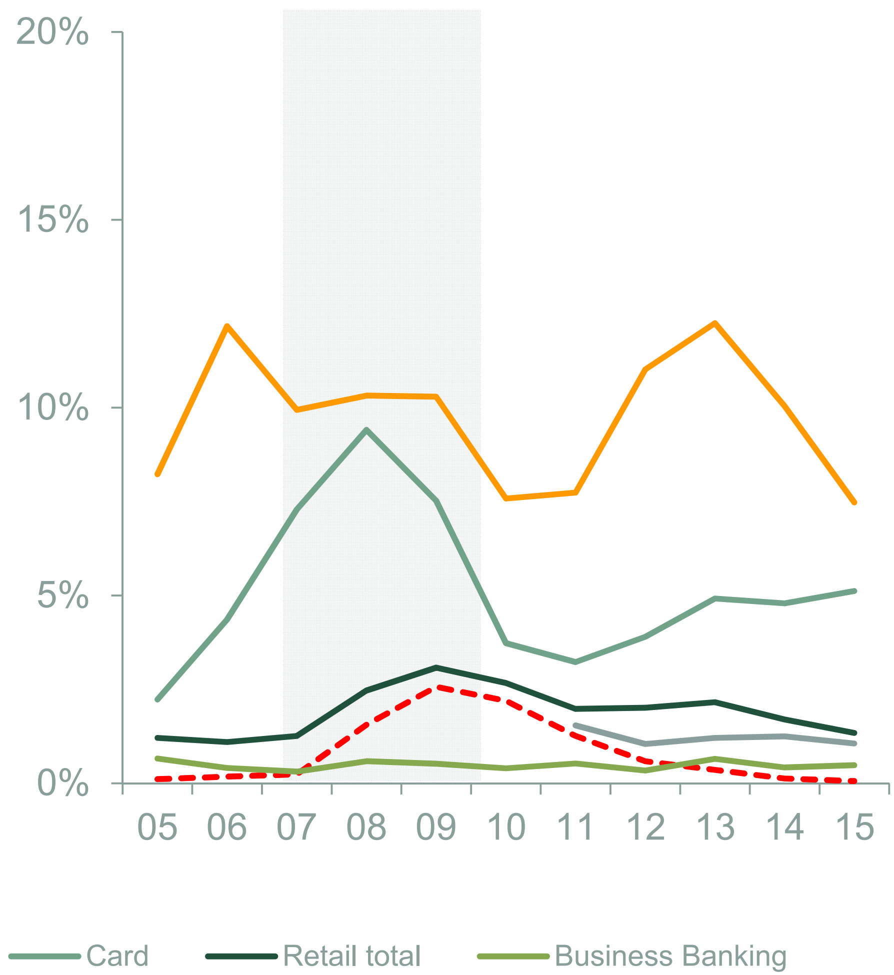
Defaulted as percentage of total advances (%)



Credit loss ratio (%)



RBB benefitting from change in mix & prudent lending – expect a cyclical increase (normalisation) from here

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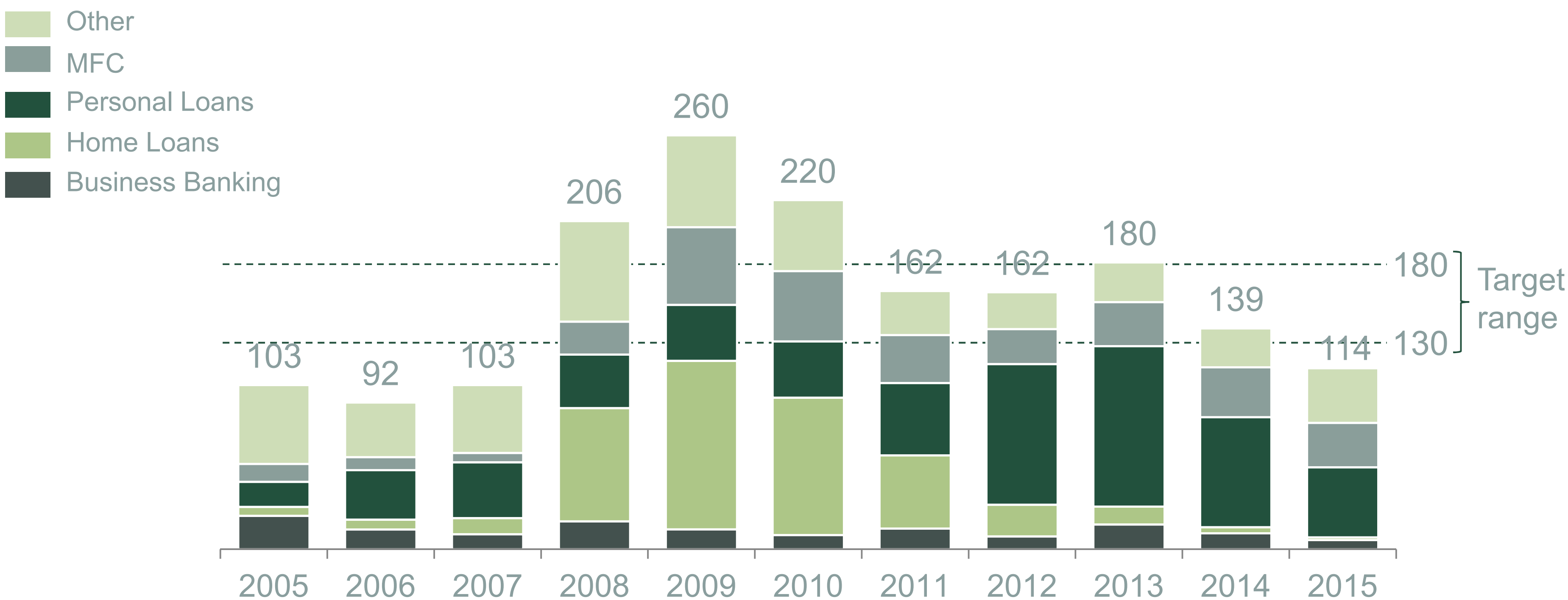
Credit loss ratio (bps)



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
I/S[1] (Rm)	1 113	1 202	1 664	3 890	5 928	5 169	4 053	4 134	4 765	3 771	3 212
NPLs[2] (%)	4,1	3,4	4,2	7,3	9,2	8,2	6,9	5,8	5,1	4,4	4,2
Total coverage[3] (%)	3,4	2,3	2,2	2,9	3,4	3,6	3,6	3,5	3,6	3,2	3,0

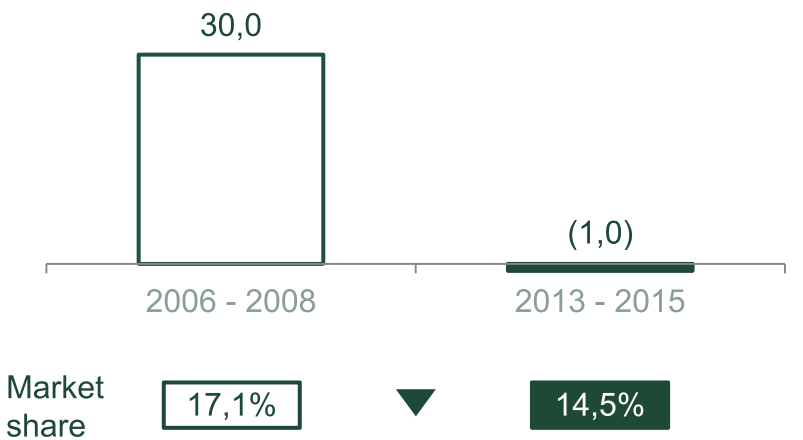
1 Income statement impairments

2 Percentage defaulted advances including legal & non legal

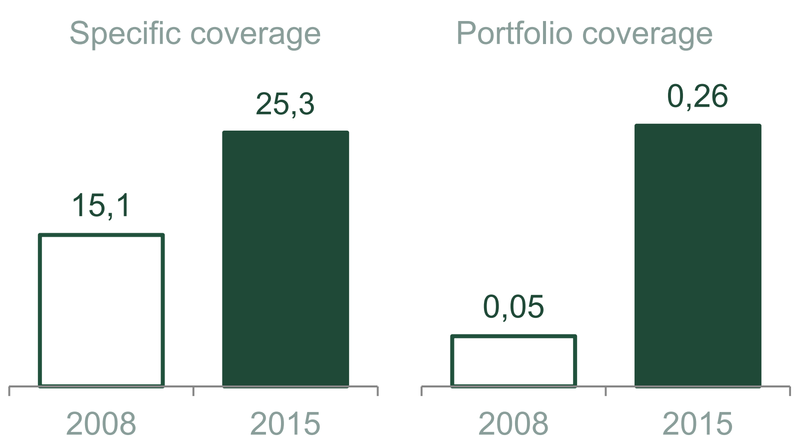
3 2005 to 2008 numbers exclude MFC

Home loans – selective origination since 2009, focussing on better quality own channels

Advances growth (CAGR %)



Provisioning (%)



Key potential industry stress points

- Job losses – particularly middle market
- Interest rate increases
- Devaluation of house prices
- Not a credit bubble as in 2006 – 2008

Positioning & actions taken

- Selective origination – 70% own channels (2008: 32%)
- Pricing front book: prime +55bps (2008: prime -133bps)
- LTV > 100%: 1% of book (2008: 27%)
- Completed back-book clean-up
- Strong focus on collections
- Improved risk profile of new business written

Home loans – improved asset quality enabled by increase in low risk customer & property contribution

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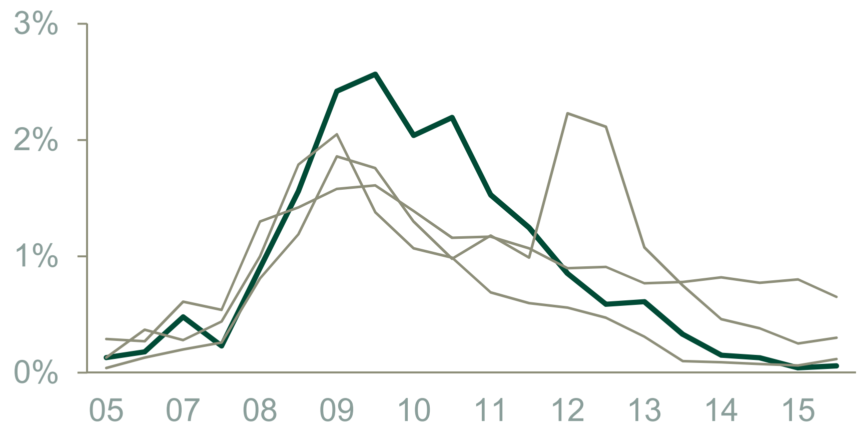
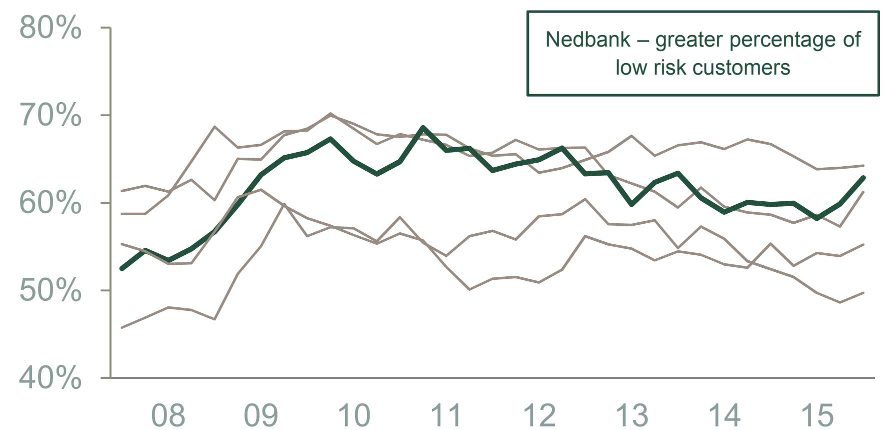
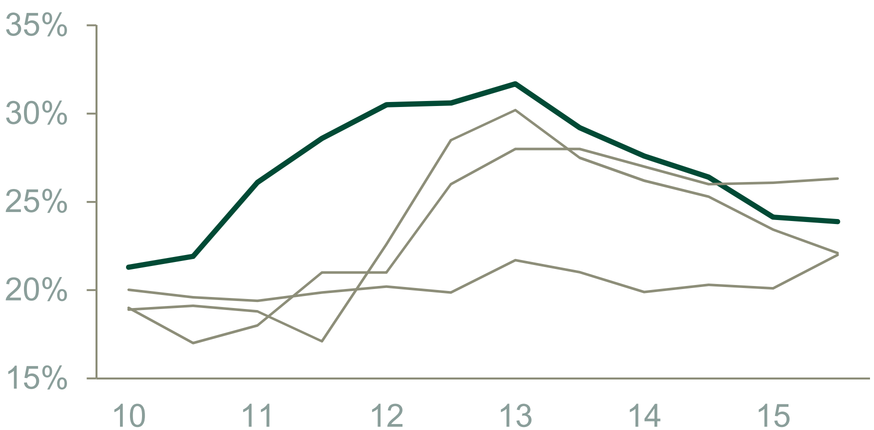
Credit loss ratio (%)



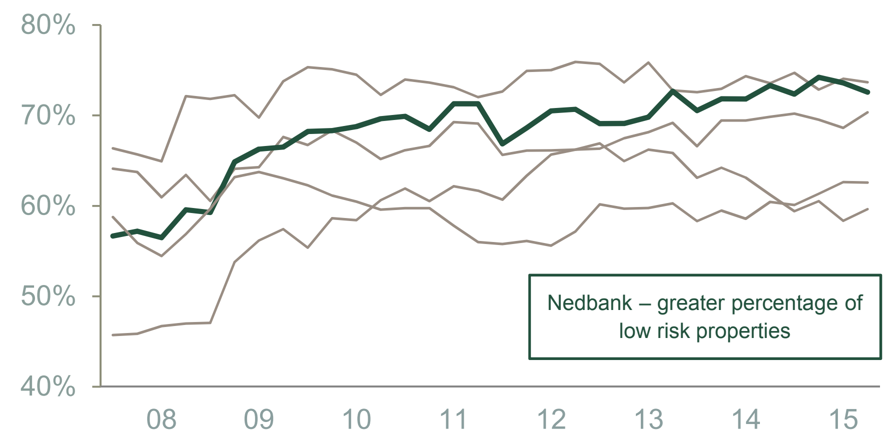
Delphi Score - low risk customers (%)[1]



Coverage (%)



Low risk properties (%)[2]

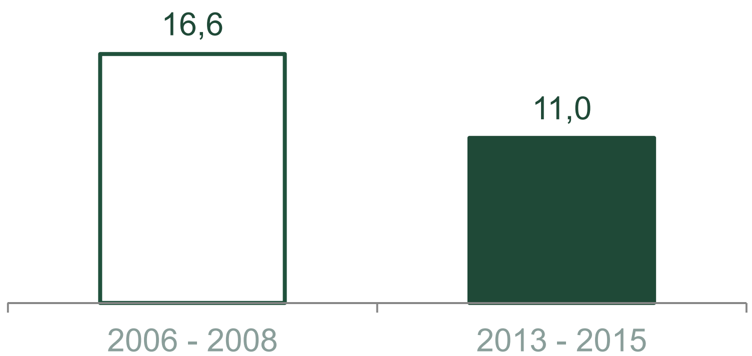


Nedbank Competitors

1: Source: Experian Delphi Score
2: Source: Lightstone Risk Quality Grade

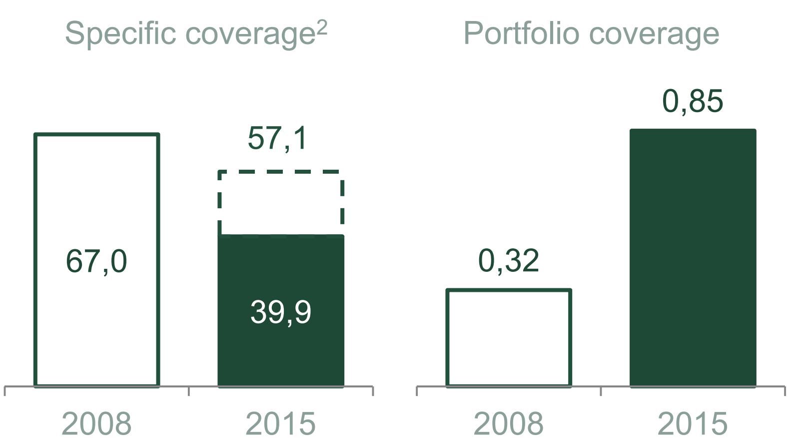
Vehicle finance – strong player in used/ lower value vehicle (relative outperformance to new vehicle players)

Advances growth (CAGR %)



Market share: 25,2%[1] ▲ 30,6%

Provisioning (%)



Key potential industry stress points

- Job losses
- Inflationary factors – vehicle imported price & interest rate increases
- New vehicles sales declining
- Vehicles a key asset as people need to get to work

Positioning & actions taken

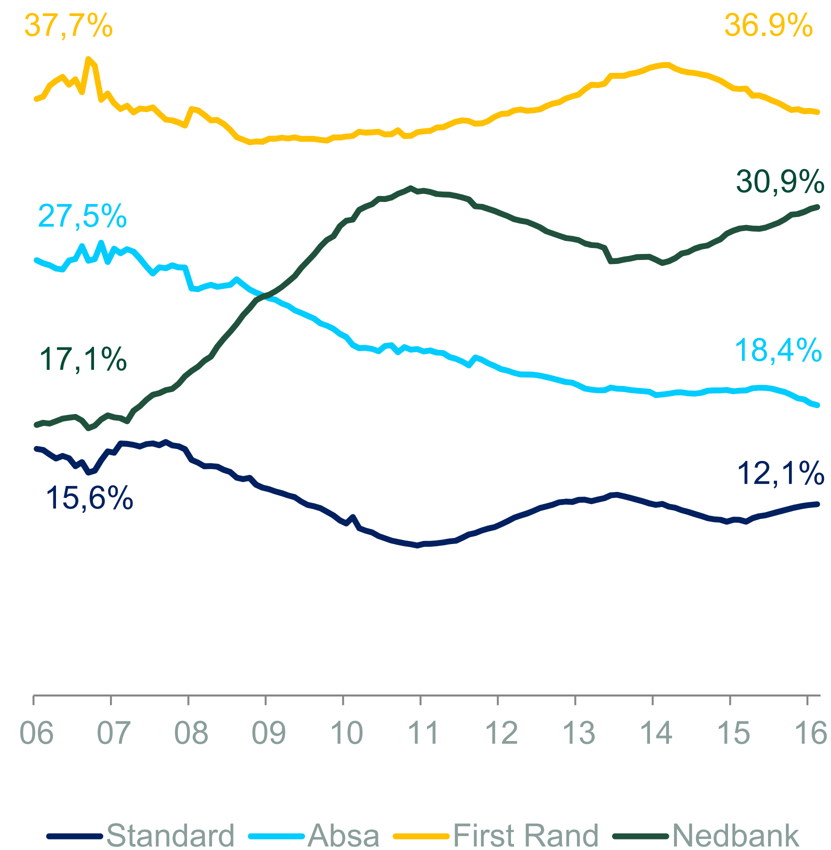
- Lending through the cycle – strong dealer relationships
- Consumers shop down/ buy 2nd hand
- Integration of MFC & Nedbank VAF
- 74% of book used/ lower value
- 30% of book fixed rate

1: 2008 market share includes Nedbank plus Imperial Bank (MFC)
2: Specific coverage decreased after restating part of performing book to defaulted in 2013, changing writeoff policy in H2 2014 & SARB directive 7 in 2015

Vehicle finance – used vehicles countercyclical to interest rate cycle

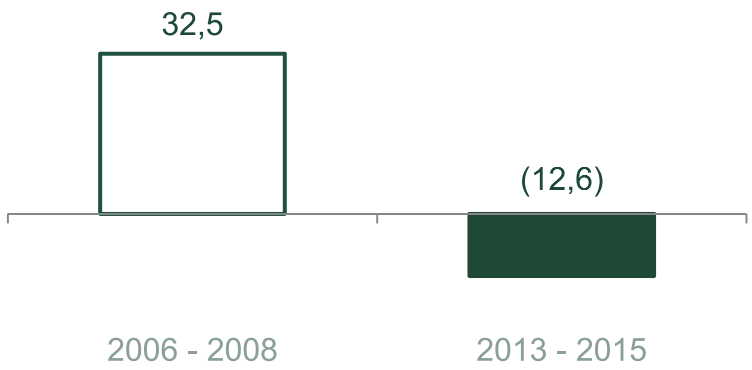
MFC new & used vehicle distribution (%) **SA Prime** (%)

Market share of big 4 SA banks (%)



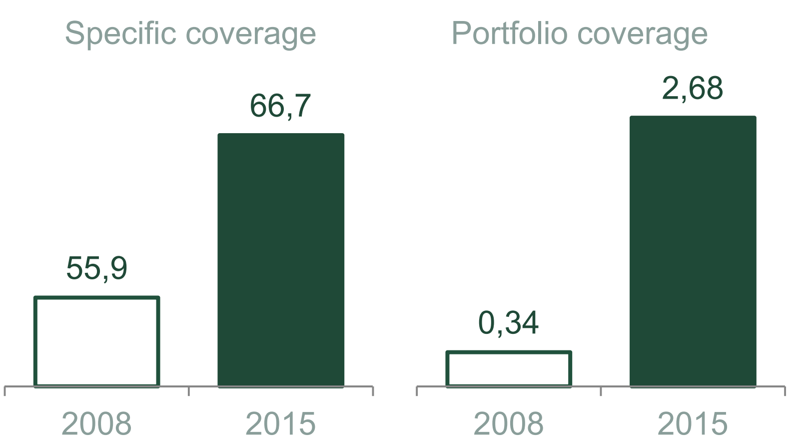
Personal loans – Derisked the book & repositioned to grow without relaxing credit criteria

Advances growth (CAGR %)



Market share 12,1% ▼ 9,3%

Provisioning (%)



Key potential industry stress points

- Job losses – particularly lower LSM
- Inflationary & administrative cost pressures impact disposable income & affordability
- Regulatory pressures:
  - DTI pricing caps
  - Creditlife
  - Mis-selling

Positioning & actions taken

- Selective origination reduced book by 42,8% since 2012 & CLR to 7,48%
- Improved efficiency of processing – volume increases, but no relaxation in credit criteria
- Do not actively do restructures
- Lend only to salary earners - focus on higher end clients, longer tenure (no payday loans)
- Increased overlays for mining stress & debt counselling

Credit Card – Consistent credit quality with a focus on transactional growth

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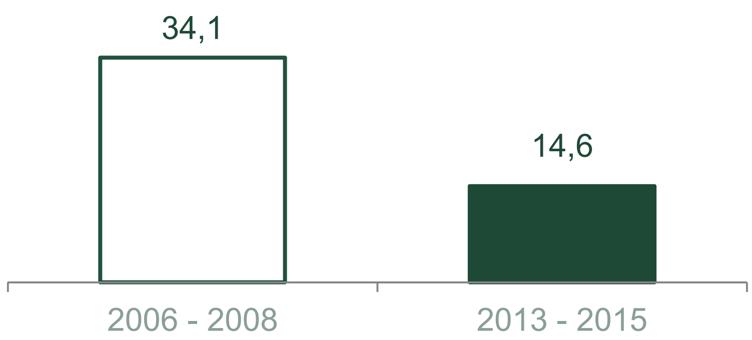
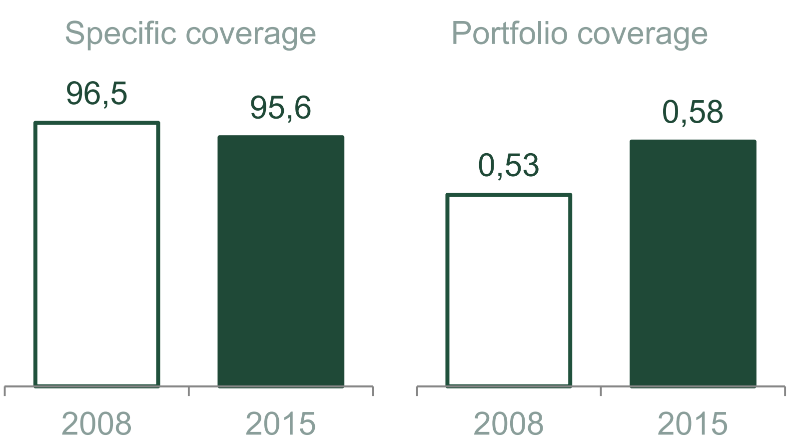
Advances growth (CAGR %)



Market share: 12,9% ▼ 12,7%

Positioning (%)



Key potential industry stress points

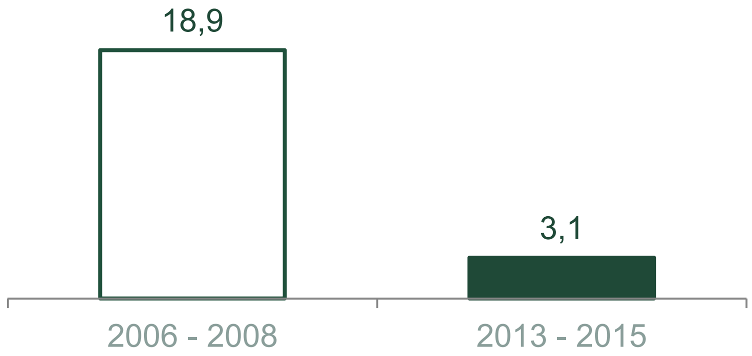
- Job losses (Middle-market client base)
- Interest rate increases
- Regulatory pressures

Positioning & actions taken

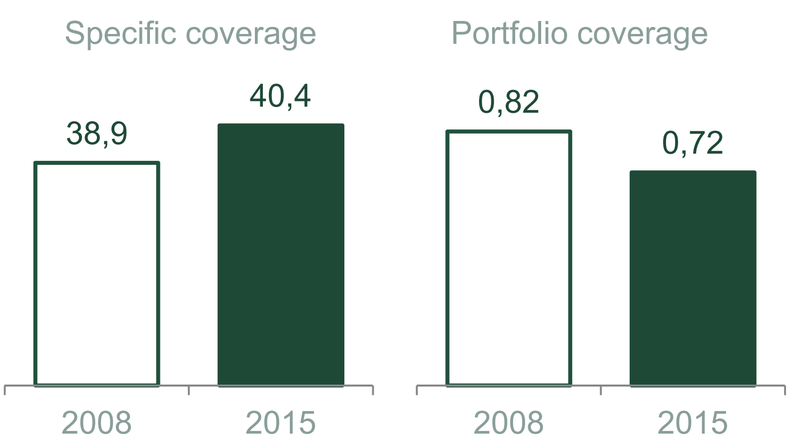
- Conservative provisioning
- 100% written-off at 3 months
- Bundled with transactional client base
- Acquisition focused on more resilient medium to high income segment

Business Banking – Decentralised empowered business model beneficial in tough times

Advances growth (CAGR %)



Provisioning (%)



Key potential industry stress points

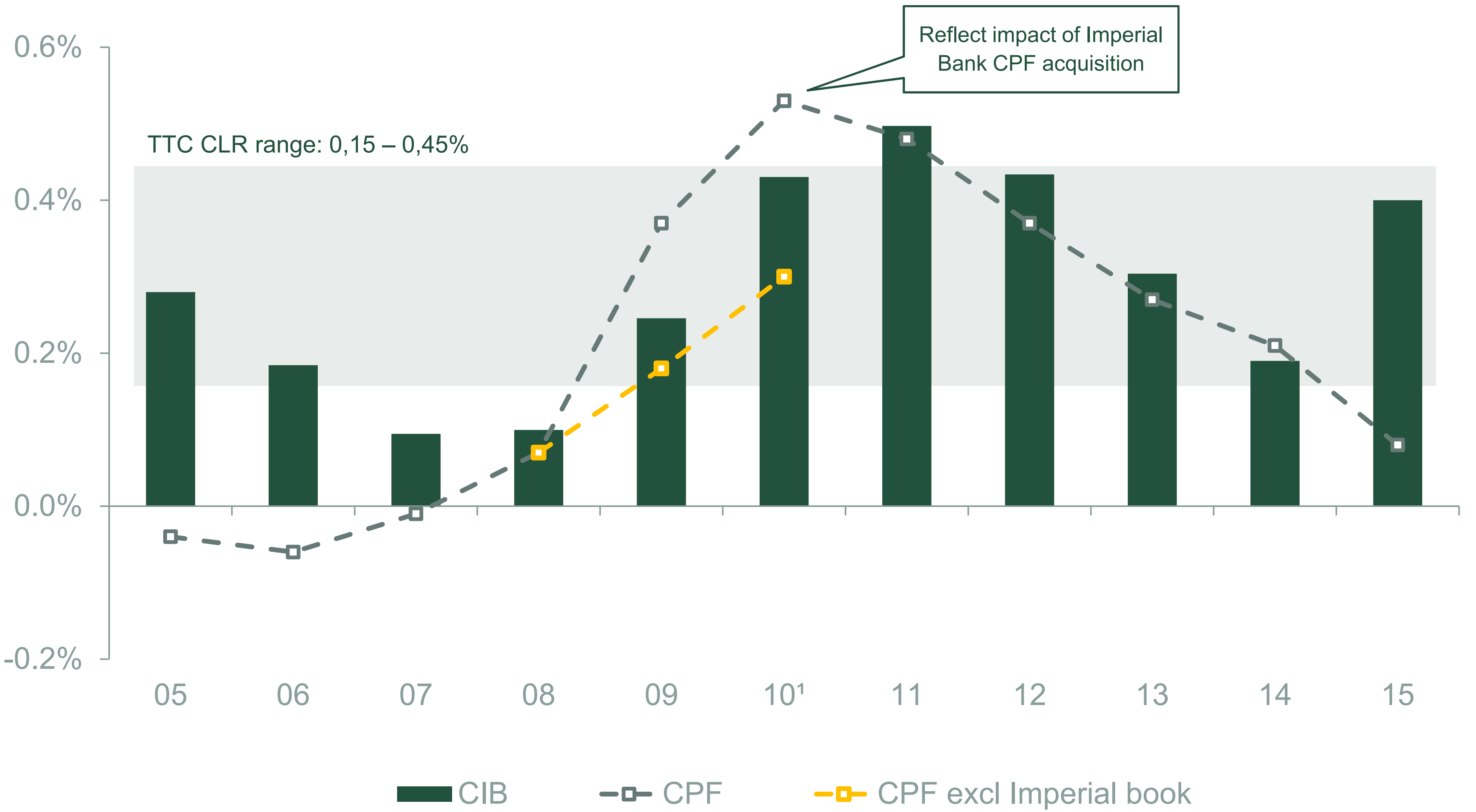
- Downstream impact from stressed sectors
- Higher risk from corporate fraud events
- Smaller balance sheet & working capital base - more vulnerable to macro pressures
- Higher defaults, lower recovery from security, longer legal process

Positioning & actions taken

- No standalone asset financing
- Decentralised decision making & deep client insight leading to quick remedial action
- Increased overlays for stressed sectors e.g. R80m Agriculture
- Consistent origination & collection strategies

Corporate & Investment Banking CLR – well managed through the cycle

CLR over time (%)



1:Nedbank Group acquired outstanding minority shareholding in Imperial Bank in 2010.
Property Book CLR of Nedbank 0,30% & Imperial Bank 1,9% in 2010

Commercial property finance – Leveraging market leadership, quality client base & diversified portfolio

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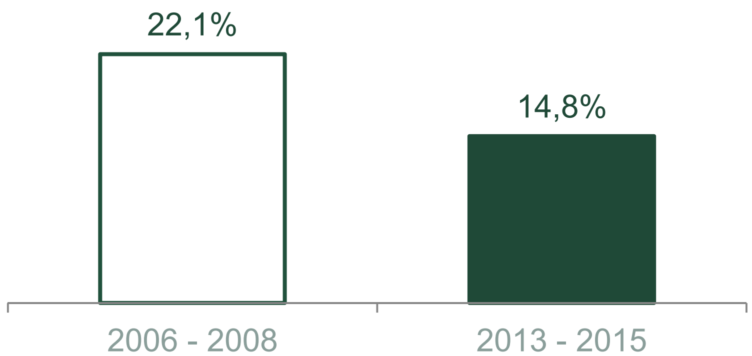
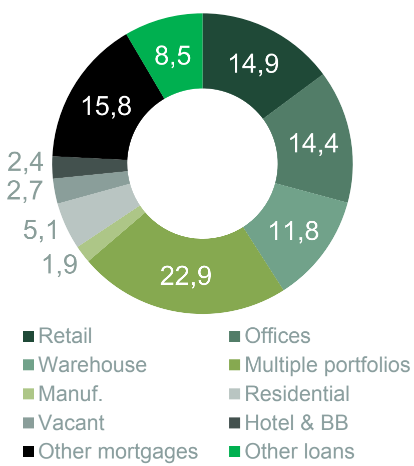
Advances growth (CAGR %)



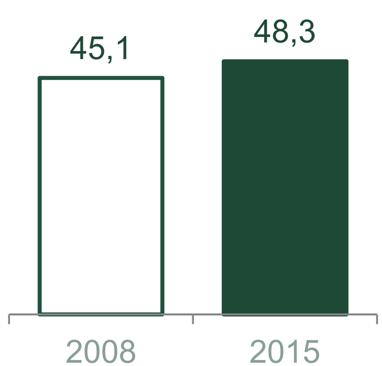
Market share 31,2% ▲ 40,4%

Provisioning & Loan-to-Value (LTV) (%)

Property type



LTV



Key potential industry stress points

- Pressure on income returns & capitalisation rates which impact property values
- Retail space affected by limited consumer demand & retailer performance
- Oversupply of office space
- Potential bubble in residential development

Positioning & actions taken

- Excellent client base, supported by experienced team
- Lending access to existing collateral pools
- LTVs below 50%
- Vacant land < 3% & Residential 5% of portfolio
- Retail shopping centre developments at least 70% pre-let

Other corporate lending – Proactive deep dives in stressed sectors, supported by prudent provisioning

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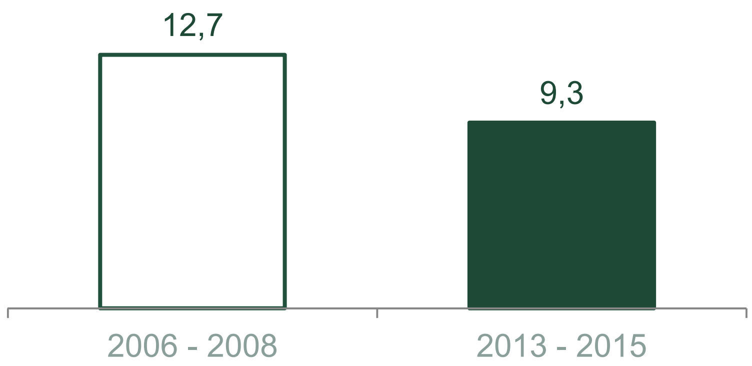
Advances growth (CAGR %)[1]



Market share: 19,9% ▼ 18,2%

Overview of selected portfolios

Portfolio	Concentration risk²	Migration risk	Downside risk
Oil & Gas	L	H	M
Mining	M	H	M
Steel	L	M	M
Agriculture	L	L	L
Equity-based transactions	M	M	L
CPF	H	L	L

1: Calculated from Nedbank Capital & Nedbank Corporate's Corporate Banking
2: Concentration risk criteria (as % of total CIB book): Low: < 5% | Medium: < 5% to 15% | High: > 15%

Key potential industry stress points

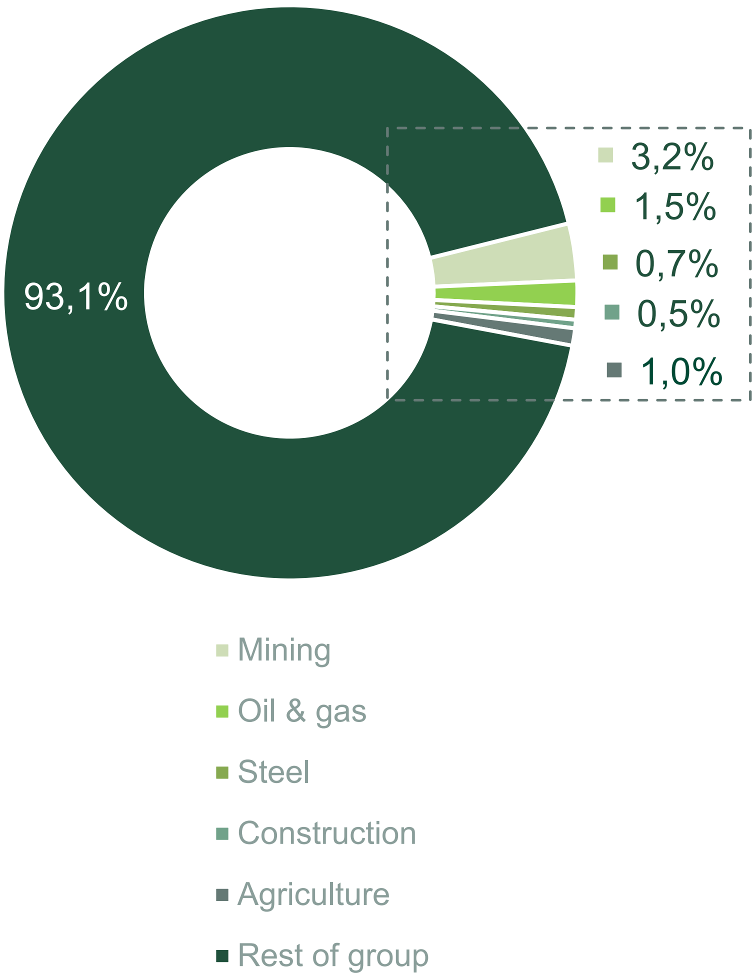
- Industry specific, as Corporate SA has managed well through cycles
  - Resources incl. mining, oil & gas, steel, commodity exporting economies in RoA
- Increased risk of a large corporate default

Positioning & actions taken

- Track record of quality portfolio
- Deep dives into stresses sectors – increased portfolio coverage & write offs
- Adequacy of provisioning done on individual deal & client basis – specific coverage less relevant given security/ collateral
- Lending at lower end of the cost curve e.g. oil & gas

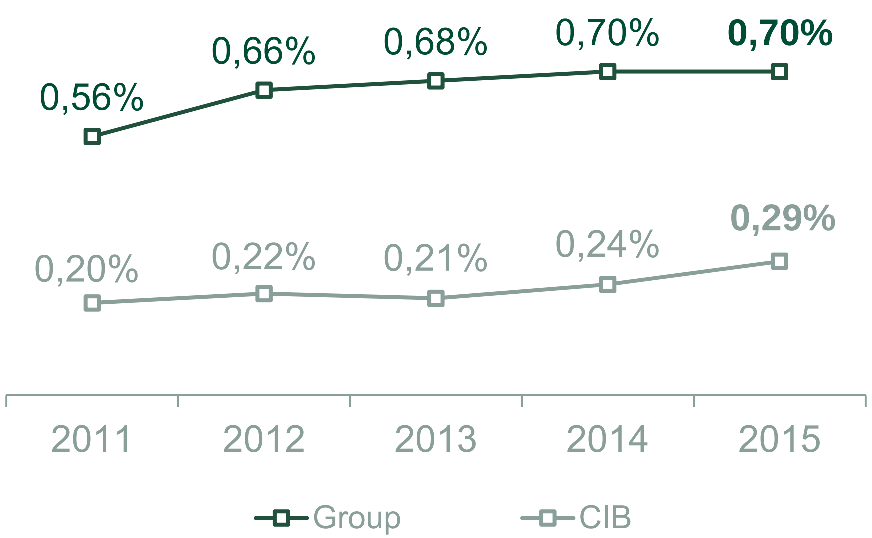
Limited exposure to stressed sectors – however, higher levels over portfolio coverage & overlays

Group industry exposures [1] (%)



Overlays & central provision (Rm)

Portfolio coverage (%)



1 Nedbank Group on-balance-sheet exposures: R762bn

2016 CLR guidance – to remain within our revised target range of 60 – 100 bps

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Drivers of 2016 guidance:

- Mix impact: Wholesale advances growth > retail advances growth
- Retail & business banking:
  - Selective credit granting
  - Derisked homeloans & personal loans
  - Increased coverage & R699m overlays
  - Expect a cyclical increase (normalisation) into a the rising interest rate cycle
- Corporate & investment Banking:
  - Quality commercial property portfolio – no stresses evident
  - Deep dives, increased provisioning & write offs in stressed sectors
  - Outcomes could remain volatile (wholesale tail risk)
- Large single client impairment in Rest of Africa in 2015
- Increased central provision to R500m

IFRS 9 – Impact on income statement impairments

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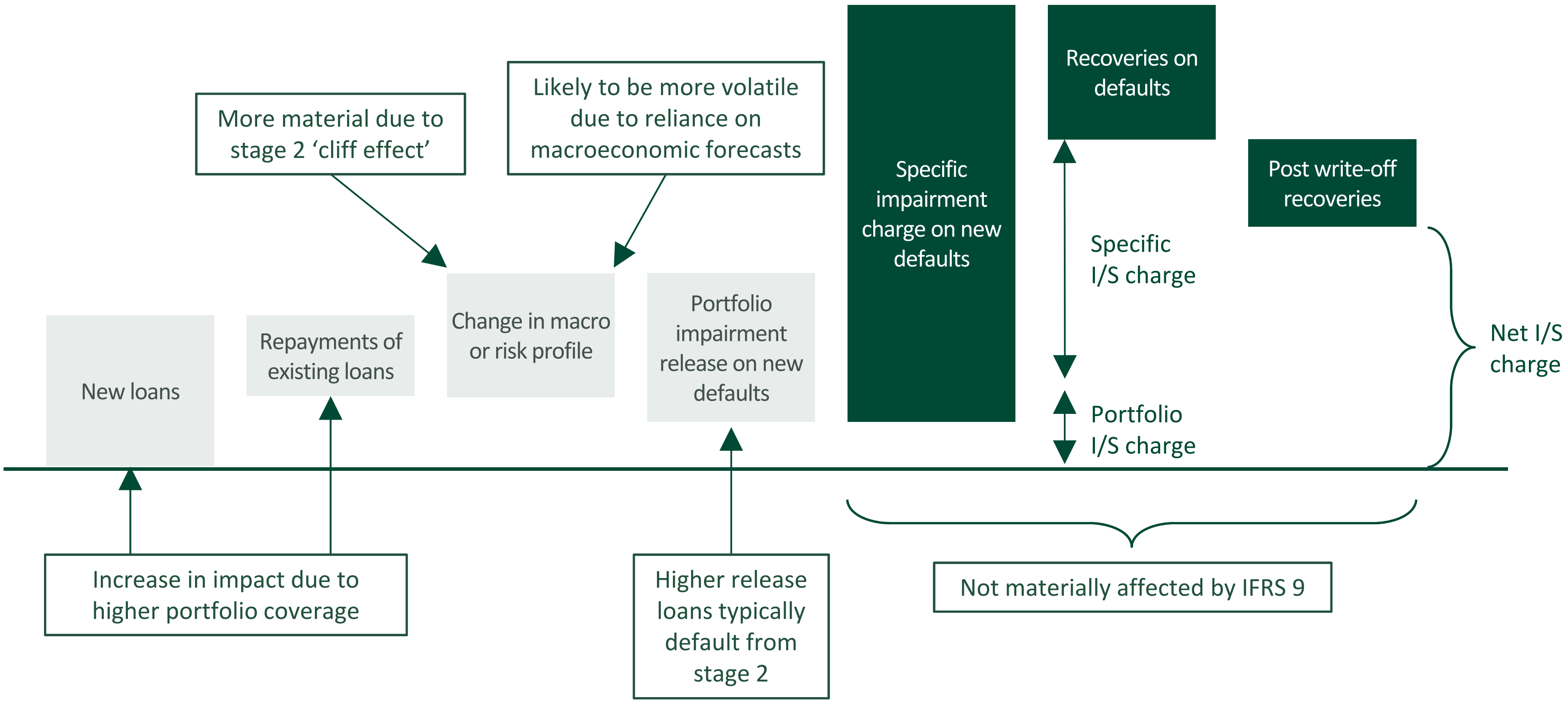
IAS 39: Build up of annual income statement charge



- Overall income statement impact over life of deal will not change however losses will be recognised earlier with potential increase in earnings volatility
- Some components likely to become slightly more volatile, in particular under changing macroeconomic environments (in both directions).

Note: Illustrative impact

IFRS 9 – Drivers of impact on balance sheet impairments at inception (portfolio impairments)

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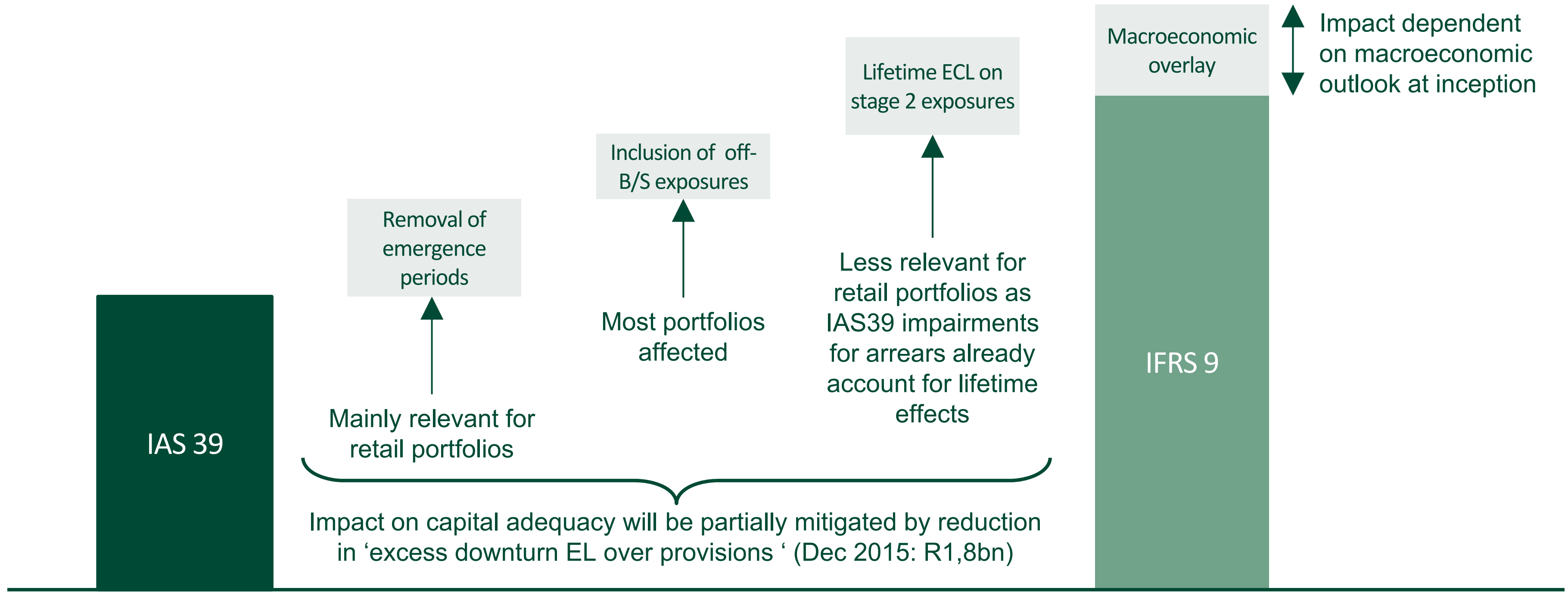
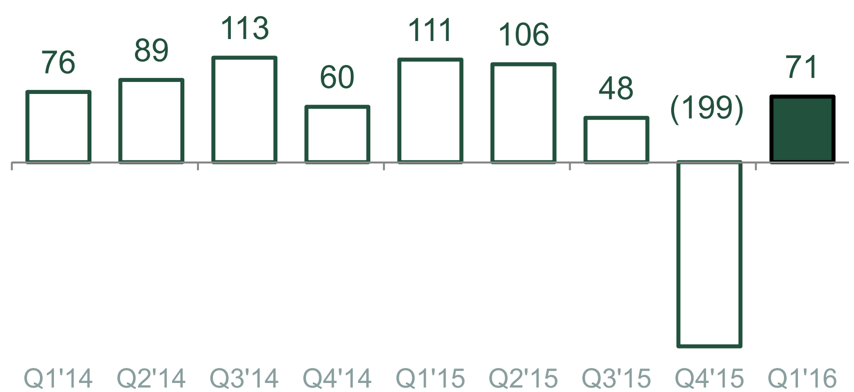


- IFRS 9 will lead to a general increase in B/S portfolio impairments & hence portfolio coverage
- Once-off impact at inception will be taken from reserves such that there is no impact on income statement
- Bank’s capital adequacy ratio will only be affected by an increase in balance sheet portfolio impairments in excess of the current capital deduction due to ‘excess downturn EL over provisions’ (2015: R1,8bn)
- Actual long run average credit losses will not be affected by IFRS 9 as client defaults & subsequent recoveries are not driven by accounting standards.

Note: Illustrative impact

Rest of Africa – difficult & volatile environment

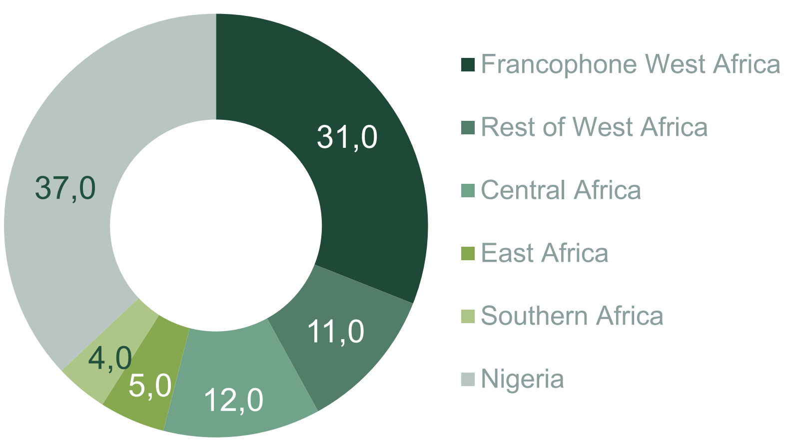
ETI quarterly earnings trend (US$m)



Key potential industry stress points

- Impact of a weak commodity cycle (incl. oil & gas) on economic growth
- Currency depreciation, including potential devaluation of the Naira

ETI loan distribution by region (%)



Positioning & actions taken

- Nedbank's ETI shareholding c20% given impact of regulatory roll-up, AML & macro risks
- ETI: new CEO, revised strategy
- Central provision of R500m (2014: R350m) for risks in commodities & rest of Africa
- Threshold deduction for investments in FI above 10% with >R5bn fully impaired in 2015 – no impact on CET1 in the event of ETI investment write down up to this amount

Earnings underpinned by strong NIR growth & prudent expense management

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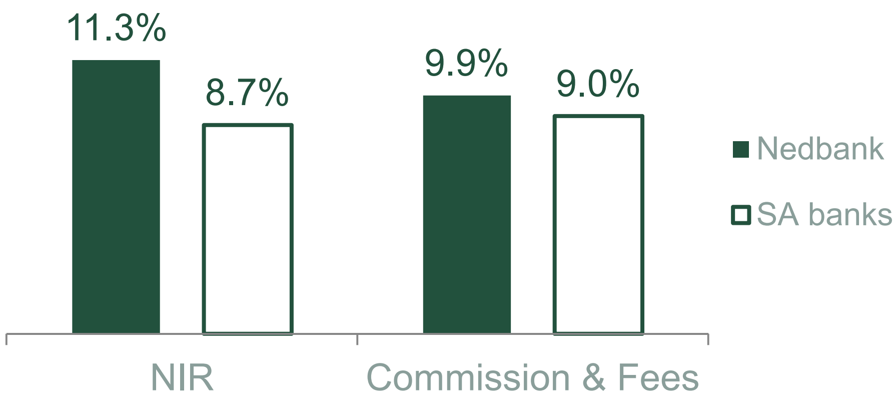
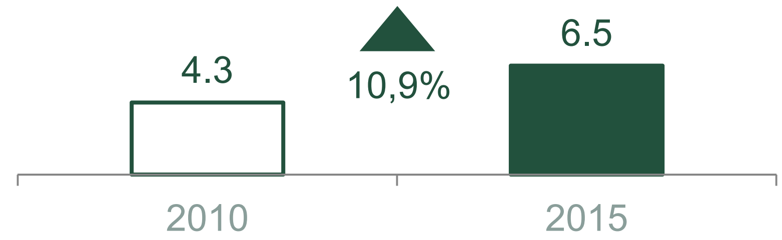
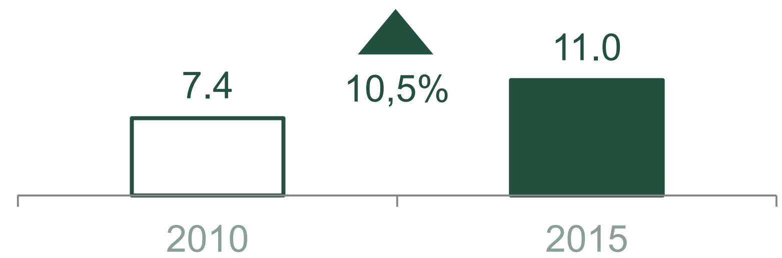
NIR, Commission & Fee growth
(CAGR 2010 – 2015, %)



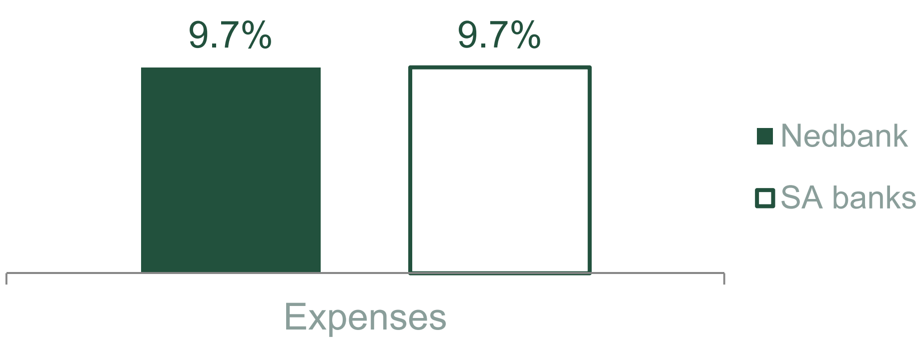
Nedbank CIB NIR (Rbn, % CAGR growth)



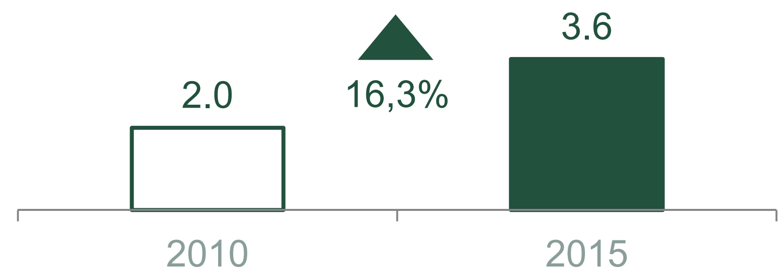
Nedbank RBB NIR (Rbn, % CAGR growth)



Expense growth
(CAGR 2010 – 2015, %)



Nedbank Wealth NIR (Rbn, % CAGR growth)



1 SA banks include Big 4 and Capitec

Well capitalised – Expecting limited negative impact on CET1 if SA was to be downgraded to sub-investment grade

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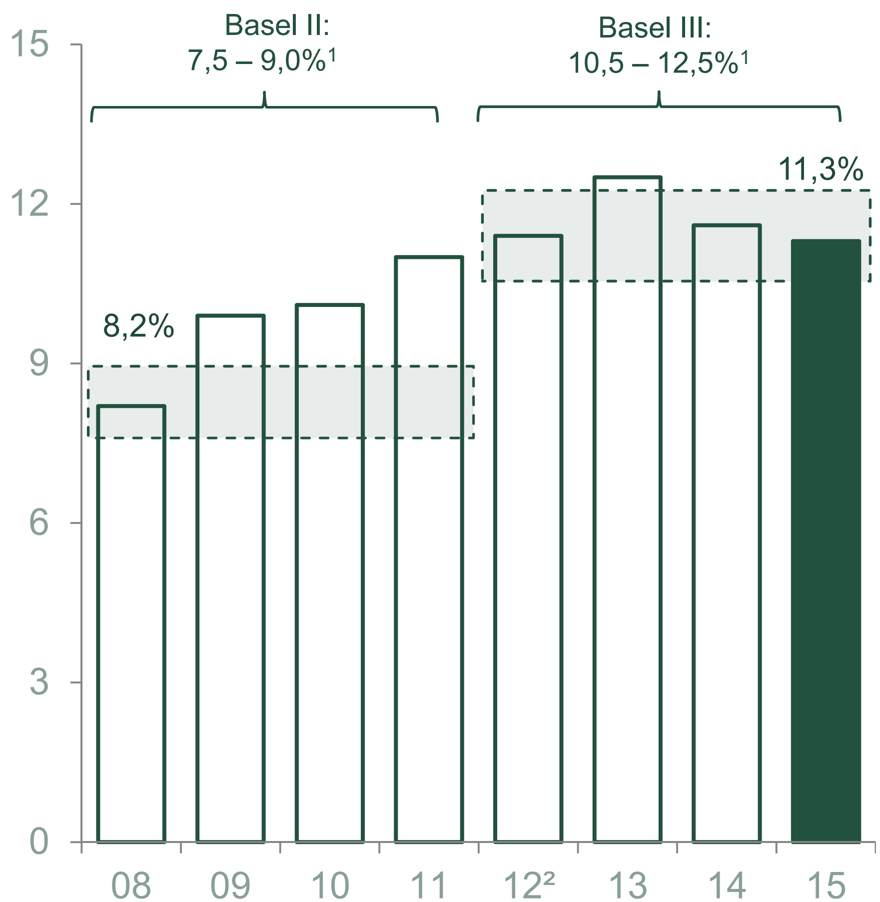
Common equity tier 1 ratios (%)



1: Internal target ranges
2. Basel II.5 common equity tier 1

Key potential industry stress points

- CARs improve initially driven by lower credit growth from lower EAD & RWA & higher endowment income
- Later on, reduced headline earnings impact CARs
- Ratings migration if PDs & dLGDs increase more than the EADs decrease
- Capital issuances likely to price up
- Cost of equity increases in line with long bond yields & equity risk premium

Positioning & actions taken

- Extensive stress testing reflect all CARs remain above regulatory minima in stress scenarios
- CARs strengthened from 8,2% in 2008 to 11,3% in 2015
- Optimisation of RWA
- Successfully issued multiple new-style Basel III-compliant Tier 2 instruments & more recently a new-style Basel III-compliant AT1 instrument that are fully loss absorbent

Funding position – Impact of a SA sovereign downgrade to sub-investment grade manageable

Funding contribution & downgrade impact

Funding Sources	Funding Base Mix	
Households	19%	Limited impact given closed domestic market
Commercial	27%	
Wholesale	39%	To reprice marginally
Capital Markets	6%	Reprice on new issuances
Foreign – matched with assets	7%	Matched to US$ lending – no material impact
Foreign – general funding pool	2%	Reprice following sovereign downgrade
Volume weighted Total	**100%**	

Interest rate sensitivity (Rbn)

R1,2bn NII impact from 1% change in interest rates over 12-months

Foreign asset volatility impact on RWA immaterial as FCTR qualifies as QC&R

Interest Earning Assets as at 31 Dec 2015: R724bn
Total Funding (Deposits + Long-term debt) as at 31 Dec 2015: R771bn
FCTR: Foreign currency translation reserves | QC& R: Qualifying Capital & Reserves

Overview – Well positioned ahead of cyclical upswing & potential severe stress event

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A Context
Experienced team & weak macro assumptions embedded in our planning

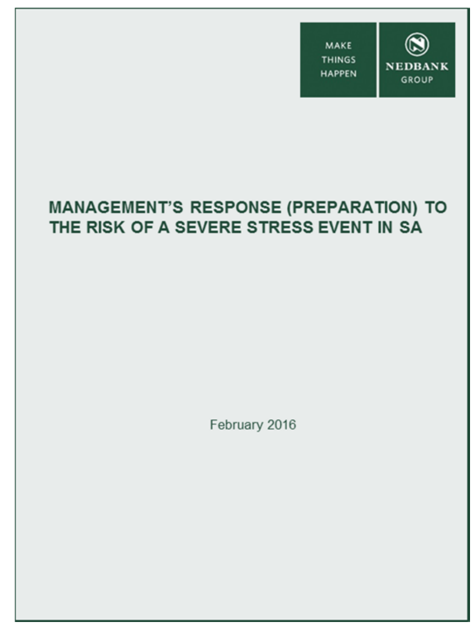
- **Experienced team –** managed through BOE liquidity crisis (‘02), Strategic Recovery Programme (’04 – ’08), GFC (‘08 – ’10), VUCA environment (since 2010)
- **Current business plans informed by conservative macro-economic outlook**
- **Ratings agency reviews**
  - Moody’s: 6 May 2016
  - S&P: 3 June 2016
  - Fitch: 10 June 2016

B Nedbank Group
Well prepared for a difficult macro environment

- **Selective advances growth** (portfolio tilt)
- **Strong balance sheet**
  - Positioned for rising interest rate (endowment)
  - Conservative provisioning (multi-year highs)
  - Active hedging
  - Strong capital & funding
- **Greater NIR contribution** (transactional banking)
- **Proven expense management track record** (Optimise and invest)

C Outlook
Responding to a tougher macroeconomic environment

- **Plan to deal with a severe stress event** (Feb 2016)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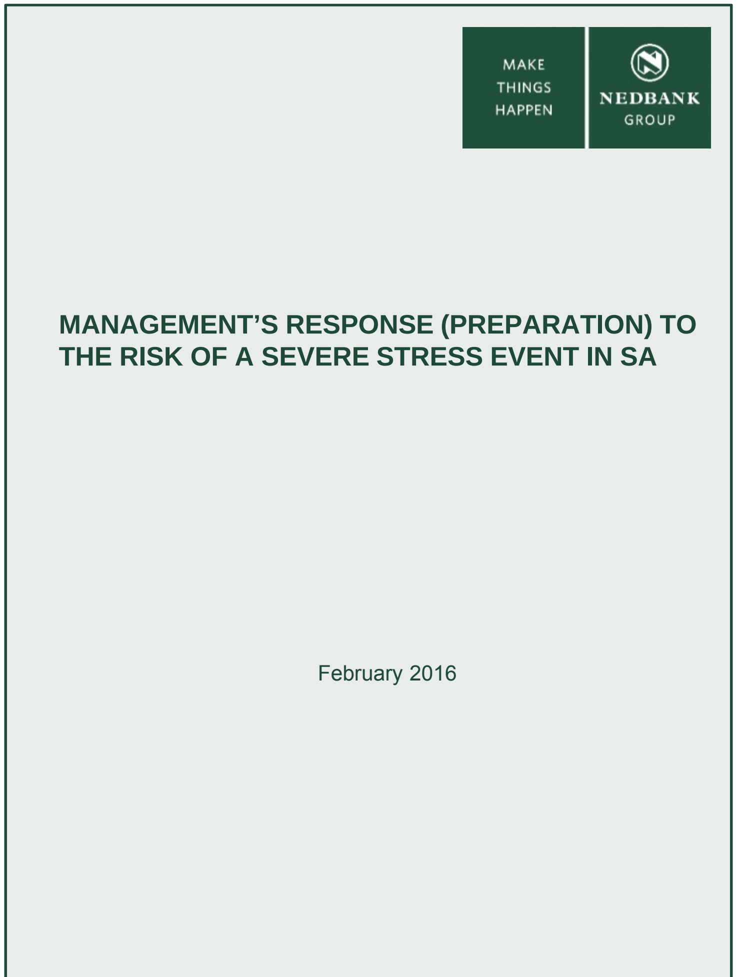
MANAGEMENT’S RESPONSE (PREPARATION) TO THE RISK OF A SEVERE STRESS EVENT IN SA

February 2016

Responding to a tougher macroeconomic environment / severe stress event (what more can be done?)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MANAGEMENT'S RESPONSE (PREPARATION) TO THE RISK OF A SEVERE STRESS EVENT IN SA

February 2016

Potential further management actions

- **Credit risk: Lending & collection actions**
  - Tighter origination criteria
  - Increased collection efforts (built excellent capabilities during GFC)
  - Portfolio strategies e.g. lengthen repayment terms
  - Collateral strategies - enhance for existing deals
- **Managing the cost base**
  - Effective workforce management (~9% annual staff attrition)
  - Incentives (10% of expenses) correlated to economic profit & headline earning growth, ROE & share performance to FINI 15
  - Training costs can be reduced by up to 50%
  - Up to 20% spending delays or cuts possible in: computer processing, marketing, communication & travel, occupation & accommodation, fees & office equipment
  - Overall potential expense reductions could be material under a severe stress event
- **Various other:** Eg. Pricing strategies - reprice deals

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