NEDBANK PRESENTATION TRANSCRIPT

13 NOVEMBER 2009

Patrick Bowes

Good morning everyone, here in person at Old Mutual Place in London and to those of you on the phones and on the webcast, thank you very much for joining us. I'm Patrick Bowes, head of investor relations at Old Mutual and to-day we have a show-case on NedBank, which is obviously, 55% owned by Old Mutual. Presenting to us to-day, we have Tom Boardman, who's the current CEO and Mike Brown, who's the CO designate. We also have a number of other members of the senior management team with us to-day. We've got Raisibe sitting at the front and Graham Dempster, both of whom will be participating later on in the event.

We've got quite a bit to get through this morning. If you look at the size of the pack, that's a little bit daunting, but we will be going at a relatively quick pace. We aim to break at around about 11 o'clock for coffee, proceeded by a short Q&A session on just the topics that we've covered in the time so far and then, we will start again promptly for the second session and a final Q&A, followed by a buffet lunch, which will allow for a more informal interaction with the management team.

Two housekeeping points, for those here today. Firstly, could you please turn off your various electronic devices, BlackBerries, phones etc and secondly, the exit and rest rooms are outside and turn right and I think we're now ready, if everyone's settled, to hand over to Tom and Mike to start their presentation. Perhaps they'd like to do a short introduction of their careers and of themselves - over to Tom and Mike. Thank you.

Tom Boardman

Good morning everybody and thanks very much Patrick. You know when you get to having been in business for thirty five years and you're about to stand down; we have mandatory retirement in the bank at sixty, I don't know why I'm surprised that it's happened because it's been coming for sixty years, but it's happening and so Mike Brown will be taking over from me at the beginning of March next year and I must say I'm delighted to say that we have had a smooth hand-over and that through all the crises and the turnarounds we've been through, I will be leaving, I've got six weeks to go – I know what a batsman feels like when you're on ninety eight and three balls to go, don't want to go out now, having avoided the black plastic bag and kept the bank in good shape, and I'm delighted to say the bank is in very good shape and that it is being put in to very, very good hands in the whole succession.

I thought this morning, we should maybe just start with a bit of an overview of South Africa, because an overview of what I've done really become fairly irrelevant if you're on your way out, but I've been with the Group for the last twenty two years. I have come through the asset management background, originally private banking and then I ran a small bank called BOE, which was bought by Nedbank in 2002 and I become Chief Executive in 2003 when the bank had got in to deep trouble. We beat the rush. We had our crisis in 2003. We wiped out our capital, we had to go to the market and raise five billion on a five to twelve deeply discounted rights offer. We had to re-structure the entire bank, put a whole new executive team in place, turn the strategy around, do the re-branding, because we were operating on a multi brand; so it's been a very exciting six years. Just as we popped the corks for our big celebration, and having met every target and got our RE back above 20%, in 2007, the global crisis hit us, so we put all the champagne corks back in the bottles and we've had two years of quite a tough haul because although the South African banking system has come through this crisis pretty much unscathed, the country hasn't come through unscathed in terms of the economic impact, particularly given the dependence that we have on commodities.

For those of you who already know the South African story, please forgive me, I drew the straw to talk about the economic overview. I'm not an economist, but I will battle on. We normally, on the road shows in the last eighteen months or so, we've always taken our group economist with us and in the US, a number of the investors, when we arrived with our economist said, you know, most of you South African banks, when you come and see us, you bring your economist; so the difference is that when the American banks come and see us, they bring their lawyers, so I'm glad we haven't had to do that. That's the agenda, I'll be doing the macro economic part and then I'll hand over to Mike on the Nedbank Group and then Graham will do another piece. As we said, we'll take a break at 11.00 or shortly before, but we'll have a Q&A before that.

On the macro economics side, we really need in our country to grow our economy at real GDP growth of between 5 and 6% to keep up with our population growth and to have a net growth in per capita GDP and we were doing pretty well on that score until the crisis hit and we are looking at this year being negative, 2.2% and then turning out but coming out of it very slowly, 2% in 2010 and you can see 3.2, 4.2. Now if you read the latest estimates for the UK, you will see that the UK is now saying, looking at 2.1 I think it is for 2010 and going up to 4 in 2011; so as an emerging market, that is fairly pedestrian growth that we're still looking at, down the track. There may be some upside in the 2010 numbers, we may get above the 2 but we don't think it will be significant.

Inflation, we are a country that uses inflation targeting as a primary monetary tool and our target range is between 3 and 6%. We actually stayed within that range for seven or eight years, which enabled us to have a much more stable interest rate environment, but we came popping out of that range, as did many countries in the world in 2009, going all the way up to 7.2%. We see it dropping back to just under the 6, getting back in to the range next year and then staying thereabouts.

Current account deficit, at 4.1% fairly comfortable. We were up to 7% on our current account deficit and it was an issue that was worrying people, particularly in terms of the currency and I must say the currency surprises everybody, including those who deal in it every day. The Rand has a strange propensity to get really strong at times that you can't really explain why and it is going through one of those, I think, one of those phases at the moment. But the current account deficit, if you kind of look at what is rule of thumb, a comfortable level, for countries such as ours, 4% would be regarded as pretty comfortable, so we're there or thereabouts and it looks like we'll be under that so we don't think there's going to be a real issue on the current account deficit.

If you take debt to GDP, again, if you just use the benchmark, I think for the more Mastricht Treaty, for entry in to the Eurozone, debt to GDP should not be more than 60%, so with us down at our current 22%, we are very, very comfortably under-borrowed and you'll see that again later on in our foreign borrowings. But you can see that that is kicking up, going up to 37% and if there is potential, the potential is on the upside in 2012, that it will be more than 37, we could get up in to the mid 40s. And the reason for that is that South Africa lagged behind on spending money on infrastructure and we are now doing a massive infrastructure catch-up, which is good news, the good news is it's going to stimulate the economy because apart from the 2010 World Cup, and if you arrive in South Africa right now, for those of you who've travelled there recently, every single airport has had a massive upgrade and re-vamp. Luckily, it looks like they're all going to be finished on time. All the stadia for the 2010 World Cup are up and most of them, some of them have already been commissioned, so they will all be ready on time. The new railway infrastructure around Johannesburg, Pretoria and the airport, the trains have started running on the test beds and certainly the major section will be ready for 2010. But in addition to the 2010 stuff, huge amount of spend is required on electricity, we have had electricity problems and we're now embarking on a very big upgrade programme. We've got some issues because right now the Electricity Supply Commission has neither a Chairman nor a Chief Executive, because they had a fight, then one resigned and then the other one got fired. But we have a few issues to handle at Eskom. So all in all that debt to GDP is going to grow, but the good news is it's going to stimulate the economy because of the infrastructure spend.

If you look at our prime overdraft rate, it's currently at 10.5 and that's kind of the bank's best customer rate. We think there may be room for another fifty bip cut before we go through December. We then expect it will stay pretty flat through 2010 and then kick up again, 2011, 2012. And I think around the world, you start seeing people talking that maybe the time is coming, you've got to start bumping rates up a bit. The good news for South Africa is our rates never got too low for too long, which by the way, I think is one of the problems at the heart of the global financial crisis, rates were just too low for too long. The supply of money was too great, it pushed up prices, people chased yields and banks took on riskier positions, and households just got mired in very, very deep debt. Now in South Africa that didn't happen. It's a fundamental issue, if you look at household debt to disposable income, in South Africa, two decades ago, household debt to annual disposable income was running at about 50%, with a period of low and stable interest rates, but when we say low, it's 10%. When I tell people that's the best you could borrow for your house, was at 10%, they said well nobody could have bought houses if you had to borrow at 10% in the UK and the US. The good news is that it kept our increase in debt to disposable income, peaked at 78%. Now if you take Australia, two decades ago, they were at 40, and they've peaked at a 160. If you take the US, it was at about 55, 60 and they got up to 130 odd and the UK not dissimilar. So the good news in South Africa is that households are under-borrowed. The bad news is, they under-save. The savings propensity in the country is very low. So I think it's difficult, but market conditions are improving.

We thought it would be useful just to give you some comparative macro economic indicators and some of these numbers are fairly small but if you look at real GDP growth, 2008-2009, we were positive 3.1, it was already falling back from the 5%, we did get through the 5% level, back in 2007. 2008 fell to 3.1 and as you've seen this year, looking at minus 2.2. Out of kilter, with other emerging markets such as India, Nigeria, Egypt and China, where those emerging markets have managed to stay positive, even through this global down-turn. Not surprising that South Africa hasn't, because if you took a correlation for the last thirty five years, of what happened to South Africa's GDP, compared to the G8 GDPs, there's a very strong correlation. The South African economy is absolutely plugged in and in sync with what happens in the major developed western markets. There is a switch, because our trade with India and China in particular is increasing very significantly, enormous interest from India and China. Hu Jintao has been in South Africa twice in the last eighteen months. You know, he doesn't come down there to go to game reserves, the Chinese are seriously interested in what is happening in Africa and in terms of procurement of commodities over the long term. So that will switch, but at the moment we are absolutely going to be in parallel with what happens in the G8.

If you look at fiscal deficit to GDP, again, South Africa out of line there. That fiscal deficit and we're kind of sitting in the middle there, the green bar that goes down, the fiscal deficit got up to 7.5%, now that's a bit more like the first world than an emerging market. The USA, fiscal deficit sitting at 12%, and in South Africa the bottom line is there, that the authorities under-estimated the extent of the collapse of the revenue and the tax base and that massive drop in the revenue and the tax base, as companies took pressure in this downturn, has resulted in a much higher fiscal deficit.

I've spoken about the CPI and there you can see we are at the sort of 9.9% inflation, we came in just under 10 last year, this year it's dropped and as you saw, we believe we'll be back in to our target range.

Just interestingly, certainly for the bank, 50% of our total cost base is payroll and for the 2009 financial year, we do our negotiations with the Unions, we have quite a big unionized portion of our labour force. We do our negotiations with the Unions in March/April every year. For 2009, we settled at 8.25% on average. Lower paid workers getting slightly higher than that, getting closer towards 9% and management getting closer to 7% to kind of even out. Now that was in some ways unfortunate because we were negotiating when inflation was virtually at its peak and we suspect that the next round of negotiations will be significantly lower. But upward pressure on wages has kept that inflation higher than we would have liked.

Now the foreign debt to GDP, I think is one of South Africa's strong points. Our foreign debt to GDP is very low, we are in fact under borrowed internationally. Foreign debt to GDP, we're running at 28%. You compare that to Turkey, which is second from the right on your bar, which is running at 38%. But perhaps a more meaningful number to look at is - and Argentina by the way, if you did exactly the same, Argentina is round about 50%. Anything below 25 to 28% is regarded as under-borrowed. A key measure is to look at debt to export, so what percentage of your debt is covered annually by your exports. South Africa, that figure is 78%.

Turkey is 162% for example, so which ever way you look at it, either on the equivalent of the quick ratio, debt to exports or at the total foreign debt to GDP, we are under-borrowed.

If you look at house prices and here's a very interesting one because the pain in the banks in South Africa has really come in the mortgage business and although we didn't ever get sucked in to the real sub-prime crisis, and again, I'd love to tell you it's because it's the SA bankers are so smart, but we did have the Goldmans and the Morgans and the other people knocking at our door saying, have we got a package of high yield assets for you, it's called sub-prime, but don't worry about the label, because it's got a credit default swap, underwritten by AIG, and Standard and Poor have given it a triple 'A'. And we looked at these things and said, and they said you can diversify and you'll get away from the Basel II concentration risk that you're otherwise going to have, because all your loans are in one geography. And we looked at them and we looked at the yields on them and we said, no thank you, we'll stick to the South African home loans, which wasn't because we were smart, it's because we were getting better yields on the South African home loans. But the bottom line is, South African house prices rose very rapidly for a period and all the banks slipped in to the bad habit of doing 100% loan to value, all the banks slipped in to being disintermediated from the customers by the originators, the real estate agents in particular, started paying very high prices and commissions to the originators and the sub-economic nature of the business, giving huge concessions on the pricing, the sub-economic nature of that business was concealed by the fact that house prices had risen so sharply and the impairment charges were unsustainably low. When interest rates went up in South Africa, prime went from to 10 to 15.5, that's a 55% increase in the cost of borrowing, the strain started hitting householders and the first problem was the ability to pay, so it wasn't that you were going to lose the money, it was just the affordability went out the window. But then we actually saw house prices going negative for the first time; so if you look there, the third from the left is the US and there you can see the US was negative 10% in 2007. It got to negative 20% roughly in 2008. 2009, the estimate is that it will be negative again about 5%. Now you do that aggregation and you can see why there's so much pain in the US in the residential mortgage market. South Africa you can see, was still positive in '07, it was positive 14.5. If you went back one year before that in '06, house prices in South Africa on average went up 28%, so that's when everybody thought the sun was shining and it would never stop shining and the bad loans took place, in fact, if we look at our mortgage book, our worse loans were back end of 2006. But notwithstanding the fact that we've taken a lot of pain, you can see compared to other countries, it's very, very small, in fact we're looking at probably round about 2%, we think that number is a little bit low, it's probably closer to 3% or 4% during 2009, but that has cost us significantly, as Michael points out in our impairments.

The conundrum in South Africa, unemployment. How does a country survive when you've got unemployed sort of at the 24, 25% level? It is extremely high. Fortunately for us, there are certain societal and traditional values which allow us to have a higher unemployment rate in terms of families being mutually supportive but in addition to that, we now pay out - thirteen million people get a welfare grant every single month in South Africa and we've been doing that now for three or four years and it's well-established and comfortable, within the budget.

Domestic credit to GDP, that's not such a crucial one. But again, you can see there at 82%, we're pretty much in line with India, a little bit higher than places like Turkey. I think very often, Turkey is probably a good bench mark against which to measure South Africa.

Mortgage debt to total debt, there you can see South Africa about 50% of total debt actually sits in the mortgage area.

So a few positives and a few negatives in South Africa, let's start with the bad news first. Yes, we have been in recession. We went in to recession officially last quarter of last year and certainly quarter one and quarter two this year. It looks like that in quarter three, and we don't have all the data out yet, we may have moved out of recession, again pretty much happening, what's happening, seeing what's happening in the rest of the world. We have had job losses but a lot of them have been at the lower end of the market and income levels. We have a serious skills shortage in the country, particularly engineers and scientists and that's a problem that comes with the back of education levels. Electricity, where we have had, electricity has been too cheap for too long, we now have very rapid increases in electricity tariffs. There was a 32% increase in electricity last year and they have just applied for another increase this year of 45%. Now in terms of sustainable energy and going green on the energy side, and in terms of putting in nuclear as a back-up, as a bridge, at this point we have to increase the electricity tariffs. Unfortunately that is going to have upward pressure on inflation for a period of time but they have factored that in to the CPI figures that I showed you earlier.

Education levels are a major challenge in our country. I'll give you a small stat. the World Economic Forum Annual Global Competitiveness survey which the World Economic Forum does with Michael Porter at Harvard, and a Harvard team, where they measure twelve different pillars in about a hundred and ten different measures, in terms of primary school education, South Africa is spending at number 32 out of 133 countries in the survey. The outcome of our primary school education is at number 107, out of the 133 countries. So spot the gap, it's not that we don't have the money, it is that the money is not being deployed efficiently and effectively and that's a big challenge that we've got, but it is a do-able challenge because the money is there to do it with.

Crime and corruption. Crime is a major, major issue. In the World Economic Forum survey, South Africa comes number last, a hundred and thirty three out of hundred and thirty three, in the impact of crime on business and running a bank, when I talk to my counter-parts at Istanbul at the IMF and I tell them, well we have one bank taken out a week, one of our branches at least every week, and that's just our bank, and when they come and take a branch out, they kind of got you know, six or seven guys toting AK47s, so our guy with his stick, his pistol at the door doesn't have much of a deterring factor. We have people blowing up our ATMs, they were stealing all our money and the cash and transit vehicles but we've beefed up that service and we've actually stopped that now. We've got a few people sitting in the trucks who say "make my day" and it's kind of changed the dynamic, so there is a resilience and an ability to strike back and we have a very high gini coefficient between the poorest and the richest in the country, so I mean there's a lot of negatives but none of them are insoluble and we do have the resources to do it. We need more deployment of people in the right areas.

We're a big chunk of Africa's GDP, a quarter of the whole of Africa's GDP. We have very strong mineral resources in particular, very strong financial system, and I'll be touching on that a little bit later, in fact globally, we're the 27th biggest economy in the world, I've spoken about in the infrastructure and 2010. We are a democracy and when Mandela said, I'm going to serve one term, everyone said yeah, yeah, yeah, everyone says that in Africa and he served one term and stood down and Mbeki came in and when Mbeki didn't deliver he got voted out and so we really are very pleased that our political democracy has been as strong as it has been.

Tourism. There is massive up-side potential still in South Africa. We've got to get some of the crime stats a bit better. Our corporates are world class. We have had a massive transition in terms of black economic empowerment. We have to fast track people in to the mainstream economy, which I think we've been doing at a very good level and I've spoken about the social grants.

Now before I wrap up, just a quick look at the banking sector. If you look at the four big banks and the four big banks in South Africa are Standard, Absa. The First Rand and ourselves, account for over 90% of all banking, all loans and advances and deposits and transactions in South Africa, 90% sits in the big four banks. Standard Bank, the biggest; assets of just over a hundred, a hundred and eight billion dollars. Absa at 91, First Rand 73 and ourselves at 68. But if you look at the split, that's where the real difference come in. First Rand and Standard are pretty much 50:50. Absa, overweight retail, and ourselves overweight wholesale and underweight retail. And that leads to some interesting dynamics in some of the different efficiency measures when you look at cost income ratios, if you look at assets or expenses to assets and Mike will touch on some of those. So pretty much, the big four banks and again, when I've talked to my counterparts at the IMF, they say they dream of working in an environment where there are only really four banks carving up a whole market, not dissimilar in some ways to Australia and Canada.

If you look at our banking sector again, very strong asset growth, 2006, '07 and '08 and then flattening out '08 to '09. If you dig down and you go in to the loans and advances, which is the crucial area and which takes out the noise of grossing up derivatives for instance, compound growth in loans and advances of 17% per annum for three years and that gave us very strong results over that period and actually a decrease. Now, we meet quarterly, the heads of the big five banks in South Africa, where there's the big four and then there's Investec, which is a major player but they are more of a specialist bank and at our last meeting, about three or four weeks ago, not one of us around the table and I think the longest serving had been in banking for twenty seven years, not one of us have ever seen asset growth as slow as it has been during the first nine months of 2009; so you can see it's actually gone flat. But that growth over the period fortunately was matched, in the bottom left hand graft, by deposits so liquidity has not been an issue in the South African banking industry but you can see what happened with this up tick in interest rates that the quality of assets has deteriorated, if you looked at impaired loans, have gone up from sixty four billion, that's industry wide to a hundred and twenty five, so that's just about doubled and that is just 2008, so that starts in July, '08 to June '09, so that's sort of the twelve month period, when the growth has been flat. So the result of the doubling in the Rand value means that the percentage has doubled, just about gone from 2.8 to 5.5 and as we come off now, because we have had a rapid drop in interest rates, we are hoping to see that starting to move down and we are seeing early signs that the impairments are starting to improve. They're not getting better yet, but they are still getting worse slower but it helps.

The financial system is well-regulated. In that World Economic Forum survey of competitiveness, South Africa, the soundness of the South African banking system was number fifteen last year. It's moved up to number six, which is a very strong position and I think recognition of the stability during this crisis of the banking industry. Our banks are all very well capitalised and right through the banking crisis, our government has not had to put in one deposit guarantee, they haven't had to put a Rand in to any bank in terms of capital. The banking system has operated normally, with normal liquidity. One of the reasons is that we have a very, very tough banking regulator, who, by the way, I see Mr Sants has changed his mind, because if he's going to be Deputy Governor, the FSA can move or banking supervision can move out of the FSA back in to the bank. He's re-thinking now that he might have got an offer on the job. Our system has been extremely well regulated by our central bank, by the supervision department of the South African Reserve Bank and when we converted to Basil II at the beginning of 2008, our regulator said, Europe is happy to have a minimum of 8% for South Africa, it's going to be 9.5 and we all moaned and screamed and yelled and said it's going to make us uncompetitive to the branches of the international banks. He stuck to his guns and of course we keep hearing now, I told you so. So we all went in at 9.5, he added another twenty five bips under bullet 2A so the minimum capital that we went in at the beginning of last year, was actually 9.75 and it has stood us in extremely good stead through this crisis and Mike will touch on our capital ratios.

Overall our banks are relatively lowly geared and I'll touch on those. Probably an average of about 16%. We had a Bill called the National Credit Act, which came in June, July 2007 and that had very strict criteria in terms of affordability and that also helped us avoid this whole crisis, because although it only came in in '07, very, very rigorous rules about not lending to people who can't afford the repayments. So even if the asset value was there to cover the loan, you couldn't make the loan if the affordability criteria were not met and that did slow down the extension of credit and I think gave us another cushion.

Exchange controls help and I'll touch on that briefly. Because you've got a captive money market, the money can't just flow out, so we didn't have the problem like when Ireland suddenly guaranteed their banks, that money moved from one jurisdiction to another, we avoided that during the crisis and if I had to pull out my BlackBerry and switch it on right now, I could guarantee you in the last twenty four hours, I've had at least two SMS and email from the registrar of banks, he phones you on Sundays and it's not only me he phones, but all the banks. They really have done an outstanding job of regulating the banking industry in South Africa. I've spoken about transformation, we've made very good progress on that as well.

It's a very sophisticated banking market and always has been. If you look at loan penetration, we're sitting up there with Brazil, sort of 78%, Brazil at 79, way ahead of people like Turkey, who are only at 45. So you know, the good news is, there is a sophisticated banking system but the growth up-side is much lower because the penetration is really quite high and the penetration on loans is echoed by the penetration on deposits, which you see in the bottom left hand side but a very comfortable loans to deposits ratio, so where you get Brazil right out on the right flank, with loans at 233% of deposits, so that means there's a huge amount of wholesale and other structured funding, to fund those loans, 100%, sort of an equal match, is regarded as comfortable and we are sitting at 103, so we're very comfortably sitting in there, round about the same as Egypt, better than Turkey.

If you then just have a look at a key measure, and I think this is one of the things that with all the noise of Basel II and the sophistications of tools and measures, people lost sight of a fundamental thing like a leverage ratio and that is, just take your total loans to ordinary shareholders funds, what is the leverage? And I'm surprised on this chart to see the US as low as it is now and I think this particular chart which came from UBS, has stripped out the grossing up of derivatives. If you grossed up derivatives, these ratios would be very different. I mean we know that Barclays and Deutsche both got well above 60% - 60 times geared on their balance sheets but the South African average sitting at 14.1, and there you can see the four banks, Absa, First Rand, Nedbank and we're sitting at 14.7. So again, in a meeting with the regulator, looking at everything that's been coming out of the Bank of International Settlements, been coming out of the FSA, been coming out of the US in terms of capital ratios, going forward, core tier ones, the South African banking system is unlikely to have to have any additional capital raised or injected, we are comfortably in every measure that has been discussed so far, on the right side of the line, which is quite encouraging.

At the World Economic Forum, it's actually fascinating that you've got a little country down in the southern tip of Africa, the dichotomy of our amazing country that in the strength of auditing reporting standards, were regarded as number two in the world. Regulation on the securities exchanges, our JSE, number two in the world and there you can see, corporate boards, number three, so whenever anything in that financial area, it is actually remarkable that South Africa has such a high ranking in the world and I think all four of us representing the bank here today, are chartered accountants so we're kind of pleased to come from a sector as well recognised as that and I've spoken about the improvement from 15 to 6, of the banks.

Without going in to this chart in any detail, it just indicates the way the banking system works and the fact that there still is, although exchange controls are being steadily abolished, there still is the money from the South African corporates and the retail market is trapped in South Africa, the central bank regulates the shortage in the money supply and as money flows from one bank to another and if you extend credit it actually is all trapped in that circle, which is a very sound reason for, or the reason rather, that we had no liquidity crisis in South Africa, during that whole period. I think another thing that we didn't have the crisis is because we have very little off-shore borrowing. This chart just gives you an idea that retail and commercial deposits and that's regarded, when you talk about deposits to loans, that would be those two sitting at a comfortable, about 45%.

Finally, in South Africa, a huge imperative is the imperative of transformation. We had a thing called the financial sector charter, which had about nine different measures starting with ownership and then going through Board composition and then going through the demographics of your management teams at every level, senior, middle, junior management, who you're procuring from, your spend on social responsibility in to your communities. More recently, we have moved to all companies being measured on the DTI employment equity or the DTI transformation scores and the first comprehensive survey done in South Africa, done by a company called Empowerdex, and published in the Financial Mail a couple of months back, we were very, very pleased to see Nedbank coming out at number three in South Africa, of the two hundred companies on the JSE, that were measured. Number one in transformation of the financial services sector and clearly number one in banks as well. First Strand coming in the top ten and some of our other competitors lagging. And this is a very, very crucial issue in South Africa today, your ability to transform as the country transforms. So that kind of covers the macro picture and I'm delighted to hand over to Mike Brown, and I think from here Mike is going to have to do all the talking, not only today but every day hereafter. Over to you Mike.

Mike Brown

Thanks very much Tom. I think when you retire, you could take up being an economist, I think you did a pretty good job of going through the economy there.

I think just before I get going in to these slides, just to give you a brief introduction of myself. I qualified as a chartered accountant at Deloittes in the 1980s. I spent three or four years auditing banks there. Worked for Deloittes in the States, came here, worked in London for two years, then went back to South Africa and one of my largest clients was a bank then called NBS, or it was the Natal Building Society that got shortened to that acronym so I joined them, I worked in the Treasury department for a while, and then eventually ended up starting their private equity and structured finance businesses. After a couple of years I ran their secured lending and commercial industrial property development businesses and then when NBS merged with BOE, I ran the secured lending and commercial property environment in that business. When BOE merged with Nedbank, I ran the consolidated version of those and I've been Chief Financial Officer of the bank since mid 2004.

Okay, so what I'm really going to do is just take everybody through a quick over-view of the bank at a consolidated level, some of the history and positioning of the bank. A high level look at the June results, we're a December year end so June would have been our half year numbers. And then up-date some of these numbers for our September trading statement, our Q3 numbers that were released to the market a couple of weeks ago and then we'll just have a look at the various clusters or segments in the bank after a coffee break.

Just to start off with, from a group perspective, as Tom said, there are four big banks essentially in South Africa that collectively have around about 90% market share. All of them are so-called universal banks, so they'll have a retail element, a commercial element, a corporate element and an investment banking element. If you look at Nedbank in particular, we've been around for over a hundred and ten years as Nedbank, certainly some of the banks that have come in to Nedbank, have closer to a hundred and seventy years of history and our London branch here and I see we've got some people here, our London branch recently had its hundredth year anniversary.

55 or 54% owned by Old Mutual and as you saw in those pie charts that Tom put up, essentially, Nedbank is overweight wholesale, underweight retail, relative to the peer group, with approximately a 60:40% split in that regard. The focus of our businesses down the bottom of this slide are essentially in South and Southern Africa. The majority of our operations is in South Africa, but we do own banks in Lesotho, Swasiland, Nambia, Malawi and we also own a bank in Zimbabwe that we've appropriately written off, but certainly we do think that that provides us with some strong option money in to the future in that environment. I think you know, to give you some direction as to why we've had such a strong focus in those geographies, we look and manage the bank, we manage a lot of the metrics in the bank around economic profits; so simply speaking, economic profits is the difference in Rands between your return on equity and your cost of equity, so how much value are you creating, over and above a cost of equity hurdle and if you do the maths, we think that somewhere between 65 and 75% of the entire financial services economic profit pool in Africa, is accessible through South Africa, so that's really what makes that the main game in town and from a Nedbank perspective, we've got probably a 17 or 18% asset market share that we're running currently with a 12 to 14% economic profit market share, so the main game, really from a shareholder value creation perspective, in our minds, is to close out that EP gap in the South African environment. Certainly, if one does look further down the track, there are some very exciting growth prospects in Africa as well and we need to make sure we position ourselves for that, but certainly, in the short term, we think the big game for shareholder value creation, remains, the main game remains in South and Southern Africa.

Just a quick look at the executive management structure. We've recently re-structured the management team, we announced this in August and essentially, this re-structure was occasioned by Tom's retirement, which takes place at the end of February, so I'll be taking over from him then and essentially, what we've done is we've created a cluster of the support environment in the bank, run by Graham Dempster who's going to be talking to you later, as the Chief Operating Officer and all of those executive members on the right hand side will report through to Graham. And we've also got Raisibe Morathi who took over from me, as the Chief Financial Officer, two months ago, and she's joined us here today. Then we've got what we would call, the second line of defence, in terms of the Chief Risk Officer and the Governance and Compliance officers. So clearly, first line of defence from a risk perspective lives in the businesses, the second line of defence is our monitoring roles, the third line of defence would be internal and external auditors and then we've got the clusters from a client facing prospective, and we'll be drilling down in to each of these later on. Nedbank Capital is the investment bank. Nedbank Corporate is our large wholesale businesses, Corporate banking and property finance and Africa. Then we've got retail and business banking and finally, bank assurance and wealth. Bank assurance and wealth, prior to this restructure was part of Nedbank Retail and you'll see when we talk to it later, that it's an area of significant focus in our organisation, and really to put some weight behind that focus, we've moved Dave McCrady on to the Ex Co, to put that requisite weight behind it.

So just to have a look at how we've been managing the bank in 2009. Really, what we've been saying to everybody throughout this year is that the focus has been on the balance sheet, as opposed to short term profitability. Much more focused on trying to make sure that we come through this tough, banking cycle in a strong position, than trying to squeeze the last fifty or a hundred million Rands worth of profit and loss out in the 2009 cycle. So if you have a look at some of the key things that popped up in our June numbers here, you know, some reasonable growth in net asset value, so the underlying tangible value of the bank going forward by either 6 or 7%, very strong capital position and there's a lot of slides coming up on that later, but tier one capital sitting at 10.7% and still some pretty, I think attractive opportunities in risk-weighted asset optimisation for us to continue to increase our capital levels, without calling on shareholders for any additional capital.

As Tom said, the liquidity has remained very, very strong and that's been throughout the South African banking system, so we've had, you know, no injections of liquidity at all from the central bank and very, very fortunate that we haven't struggled at any stage to fund the organisation and really, that focus on managing for value is driving the bank at trying to ascertain that difference between return on equity and cost of equity as the key drive for shareholder value going forward, and trying to keep that gap open and keep that gap open for as long a period of time as possible and I'm sure all of you guys, as asset managers will know that mathematically, that is what drives shareholder value.

And then really from a risk management perspective, you know a lot of focus internally this year on trying to make sure that we come through this environment with no big surprises and we've been very fortunate to have got this far in the year without any big negative surprises, we've seen, you know, quite a few banks come out with trading losses in certain portfolios or you know, losses on contract for differences and those sorts of things, you know we really want to come through this environment with no big surprises and I think the end objective here is to make sure that your reputation remains at the top end of the peer group because that in itself drives the ability for you to fund your organisation through these times.

So having a look at the financial overview I said I'll start with the June numbers that we published and then give you a little bit of an update through to September but I think before I actually get in to the numbers I'm just going to try and paint a picture of how the economic circumstances that Tom spoke about, really translate through in the bank's income statements. So really what you saw, if you think about the interest rate cycle that South Africa has been through, interest rates a couple of years ago were down at 10% and as Tom said, they went all the way up to 15.5%, so you had a huge amount of pressure on affordability, which means that you saw this big run up in non performing loans and as a result of that, an increase in bad debts so you've got this increasing bad debt cycle, and then interest rates peaked at the back end of 2008, and what we've seen in 2009 is effectively a reversal of that increase. Interest rates have come all the way back down again to 10.5% and what that does to the bank is in the short term it causes an enormous amount of income statement pain, because as interest rates drop very strongly, you lose what we would call in the banking world, endowment, that is effectively, the free funding from your own capital, so if we've got thirty billion or forty billion of the bank's own capital, when interest rates are at 15%, effectively, we're earning 15% on the bank's capital. When interest rates drop down to 10%, we're only earning 10, so you lose 5%

on forty billion, it's quite a big, chunky amount of money that's going to come out of your earnings. So as interest rates cut, there's a big squeeze in the margins of all the South African banks, but there's a delay from when those interest rates cut to when bad debts start getting better, so a real pain from an earnings prospective is as interest rates cut – but you see from a valuations prospective as investors look further on in the cycle, they know that the present value effect of that drop in interest rates, is in fact positive because bad debts do start to unwind but slightly later in the cycle. So that's kind of like the big picture of how the economics are playing through in the income statements.

So if you have a look at our June numbers, you know, we remain very solidly profitable, but at levels below that of the prior year. Interest rates cutting, squeezing NII and bad debts still increasing so we had headline earnings, which is the sort of South African measure of something similar to AOP that you guys would look here, except this is a post-tax measure, down 30%, diluted headline earnings per share down 34% and kind of, the real bottom line, in terms of basic earnings per share, down 30%. Return on equity sitting at 13% and if you dig a little bit underneath what's happening in return on equity and mathematically in a bank, return on equity is equal to return on assets times gearing, you've got a squeeze in the return on assets, as those interest rates come down, there is a squeeze in the margin, bad debts still going up and slightly lower, non-interest revenue, particularly from our private equity portfolios, so you've got squeeze in ROA and if you see what's happened to our capital levels, our capital levels have consistently increased over this period, so you've got slightly lower gearing levels as well, and then clearly, in return on equity, you get the multiplication of the drop in ROA and the drop in gearing coming through.

We saw earlier, we've still been able to increase the net asset value of the company so at June our net asset value is sitting at around 88 Rand and our share price currently is about a 115 Rand, so price to book running at 1.3 times.

We also look at a ratio called pre-provisioning operating profit and that's certainly not intended to say that provisions aren't real by any sense of the imagination, but certainly, what it does, is it gives you a sense of the ability for the franchise to generate capital to cover off increases in impairments, whatever they may be. So you can see that at a pre-provisioning level, we have actually grown our income statement and we're producing for the six months, around six billion of pre-provisioning operating profit. A slight deterioration in the efficiency ratio, again, for those of you who aren't bankers, efficiency ratio is essentially your costs divided by your revenues, so it's kind of a measure of operating efficiency and again, it's revenues excluding bad debt, so it's just net interest income and non interest revenue. Again, what you see is that as interest rates cut, you get that squeeze in your margin from the free-funding that used to earn 15% and now only earns 10% and as that revenue comes down, you will see the efficiency ratios deteriorate. So we would certainly expect that efficiency ratio to continue to push out mostly driven by slower revenue growth, as opposed to kind of lax attention to costs. So with our return on equity running at around 13%, that is slightly lower than where we would currently estimate our cost of equity at this point in the cycle, so when your ROE is below your cost of equity, effectively you're creating negative economic profit at this point.

Then we have a dividend policy of between 2.25 and 2.75 times cover. So headline earnings per share divided by either point, somewhere in that range, produces the dividend. So you'll see with headline earnings down 30 odd%, the dividend followed as we kept our cover levels constant period on period.

Just to update, quickly, how those June numbers have progressed to September. I think just to point out, we don't do full quarterly reporting, so we don't publish a full income statement, balance sheet etc in our quarterly results, we only pick out key trading data which is why you only get certain items picked up here. So if you look at the margin, essentially the difference in percentage terms between what we charge our customers and pay our depositors, you can see at June the margin was sitting at 3.44% and that squeezed down to 3.4% by September. We would expect that margins will continue to squeeze, again, exactly that same phenomena as interest rates have fallen, that does produce a margin squeeze, which will continue through in to 2010, because on average, even if rates remain flat from this point in the cycle, on average rates will be lower in 10 than they were in 9, when rates were coming down. We have had some pretty good traction around being able to increase margins to our customers, particularly on the wholesale front, where for many years, you know, wholesale margins just got squeezed more and more and more and certainly, this credit event in the cycle has given the banks back some pricing power in the wholesale environment.

If you look at the credit loss ratio, again for those of you who aren't bankers, essentially what the credit loss ratio says is, for every hundred Rand you lend, how much are you providing in bad debts. So this would say that we're providing R1.47 out of every 100 Rand that we're currently lending. I think what's very pleasing is to see that that ratio has begun to trend down from June, so in June it was sitting at R1. 57 and we would like, we would forecast that we would end the year at slightly better than R1.47. There's quite a lot of detail on that coming later, but essentially what we're seeing is an improvement in our, in the roll rates, in our retail portfolios, so people are deteriorating at a much slower rate through the retail portfolio, so that's a good thing from a provisioning perspective. And our wholesale portfolios, particularly at Nedbank have withstood the cycle so far, very, very well. We've come through historic cycles very strongly from a wholesale lending perspective, we've got very experienced teams in those markets so while the risk still remains high, our portfolios are performing particularly well.

Just to give you some sense as to the effect that these credit loss ratios have on profitability. We've got some very complicated statistical modelling on probabilities of default and loss given defaults across all of our portfolio, so if you had to say to us from all of that, what is a through the cycle credit loss ratio, our through the cycle would run at around 80 basis points. So you can see at a 147, we're kind of 80 odd % higher than where we would expect credit losses to run on a kind of cycle neutral basis and certainly, you know the big game in town from future profitability growth is when will the credit loss ratio trend back to cycle normal levels?

Tom spoke a little bit about advance growth rate, so you can see pretty slow at 2.8% and you know, a strong capital position, we'll touch on this again later with core tier one at over 9% and total capital at 14%. So that 14% total capital compares to the regulatory minima of 9.75% that Tom pointed out in one of the earlier slides.

Having a look at the margin in a little bit more detail. At the end of December 2008, the margin was 3.66% and if you kind of go right down that column you can see the 3.4% annualised, September margin that I touched on earlier. And just to pick up on a couple of the areas that have caused that margin squeeze. So the first thing you see is four basis points from the net endowment effect, so endowment is the money that we earn on our own capital, so as interest rates come down, we get squeezed in the endowment. Then, if you look at the liability prices, those have squeezed by 33 basis points. Underneath that, the single biggest squeeze is in current and savings accounts and again, current and savings accounts is very similar to endowment. Those are the accounts where we pay our customers 1% or 2% in their transactional accounts, so when interest rates fall by 2%, you're still paying them 2%. So you don't get that drop in the low paying accounts, equivalent to the overall drop in interest rates. So as interest rates come down, there's a net squeeze in what one would term lazy deposits from a banking perspective.

I think I will just point out a couple of the other items. Personal loans. We have a personal loans book that runs at about seven or eight billion Rand and we've been consciously over the last two or three years, focusing that business in to lower risk products and off the back of focusing that in to lower risk products, you get lower margins on the one hand, because lower risk equals lower reward from a banking perspective, but we've also seen our bad debt or credit loss ratio in that business improved as a result of that, so we're certainly not surprised at all by the reduction in margins there. And then you can see ten basis points of increase in margins from our ability to re-price assets in this environment. You know, very conscious that our cost of deposits has gone up and as a transmission mechanism, you know, we have to make sure that we pass through that cost to our customers. We've been able to do that very successfully in the wholesale businesses, I think Graham will talk through that just now, particularly in things like over-night deposits and also on the retail front, we have been able to widen the spreads that we earn and at the same time, reduce the commissions that we pay to mortgage originators and under IFRS, mortgage origination commissions are amortized through the margin, so that would also lead to an improvement in the margin. And to give you some sense of this kind of change in interest rates, relative to change in margin, we run the bank at the moment with what we would call interest rate risk of around five hundred million Rand. So what that means is for every 1% parallel shift in the yield curve, it's a wonderful, theoretical concept, because you know that 1% parallel shifts never actually happen, but it does give you a sense. If yield curve dropped by 1% in parallel for twelve months, we would lose five hundred million of interest income as a result of the money on our own capital and those lazy deposits. Similarly, if rates go up, we would make five hundred million. And in the way that we think about the bank, we try and model that interest rate risk, relative to the change in impairments. Again, as interests rates come down, you're going to lose money in your net interest income but you would expect to get that back in impairments, so economically, we try and model that as a hedge. In accounting terms it's clearly not a hedge because you lose the money from interest rates dropping immediately and you only get the credit loss improvement, later on in the cycle but certainly, we would try to run the bank much more on an economic basis than try and run the bank for the vagaries of accounting.

Talking about impairments and default and advances, which is the key area for changes in profits, year on year and provisioning. I spoke about what a credit loss ratio is and you can see that we moved up from 1.17 in December last year, 1.67 in March, so that was really the peak of the credit loss ratio. We always have in the South African environment, a degree of seasonality in credit loss ratios, particularly on the retail front. After the December January period, where traditionally, many South Africans go away and they're paying school fees and Christmas and all of that, we always see a deterioration in retail in the first quarter and then it pulls back for the remaining nine months, so no different this year. June we were at 1.57 and then pleasingly September down at 1.47. If you look underneath that in to three buckets, retail, business banking and wholesale, essentially what we're seeing happening in all of our retail portfolios is in the early stages, an improvement in roll rates. So roll rates means that if somebody sits in bucket one, if you've got a hundred loans in bucket one in month zero, how many of those loans in month one, one month later, have moved a bucket to the right. That's a forward roll rate. Or how many of those loans have moved a bucket to the left, which is a backward roll rate, they've been able to catch up an historic missed instalment. And essentially, what you've seen here is that as interest rates have cut from 15% down to 10% in an environment where 95% plus of all loans are floating rate, so there's a very direct transmission mechanism, in to affordability. What we've seen is early stage arrears improving significantly. So roll rates improving in all of the early buckets, less and less people moving down the buckets. So an improvement in the front end of the book but at the back end of the book, so those people who've got themselves in to real difficulty, they have been unable to roll backwards. So you've got an improvement in the front end of the book but a deterioration in the back end of the book in default and advances, and that's certainly still going to take some time to get through the system.

If you look at what's happening in business banking, we have a very strong position in the SME environment, which we would call core business banking. Certainly, we've been on high alert for increases in impairments in business banking. They have increased, but still below our expectation levels, so we've been very, very pleased as to how our business banking portfolio impairments have progressed and I think exactly the same in our wholesale businesses, where we have a very strong position in corporate South Africa. Most of the corporates in South Africa, many of the corporates in South Africa run what one would term, lazy balance sheets – high levels of capital, high levels of cash. I think South African businessmen generally have been through many of the challenges of strong changes in economic cycles and the sort of private equity guys came in to South Africa pretty late in trying to chase up leverage and gearing in the South African environment, so we had one or two big private equity deals done at huge levels of leverage and generally leverage is low, so the South African corporates I think are pretty well positioned to be able to get through this cycle without big bad debts. Clearly we remain on high alert because what happens in many corporate environments is, as the economy slows, working capital shrinks, so in fact, even though profitability is going down, cash is in fact going up, as working capital shrinks, so I think the thing that we on high alert as the economy starts to grow again. Are those businesses able to access cash to grow and could there be businesses that fall over as the cycle starts growing, because they've been able to produce cash as the cycle starts shrinking?

So just to talk you through the methodology of how provisioning works under IFRS and it is a pretty complicated process so I'm going to try and explain it at a relatively high level. I'm happy to take any Q&A on this outside afterwards.

I think the first thing to kind of get our heads around is that you know, if you think about this thing as two big buckets; a retail bucket and a wholesale bucket. To deal with the wholesale environment first, essentially, all provisioning in the wholesale environment is done on a deal by deal basis because you can actually look at you know, Client 'A', you know they've either broken a covenant, you know you can calculate what your security is, you can present value when you think you're going to get that money in and you can raise the appropriate provisioning level. So very much, deal by deal on the wholesale side of the business. Retail, you've got you know, hundreds of thousands, millions of loans churning over in a portfolio, so retail is very much done on a bucket approach. If you're in bucket nought, this is the provisioning you will get. .If you're in bucket one, this is what you'll get, bucket two this is what you'll get, as you effectively migrate down an aging environment.

So just to start at the top there, the way clients or customers would migrate down the credit cycle, if someone is 100% up to date, in all of their instalments for you, you will still have a provision booked against those loans, that provision is called an incurred but not reported provision because you know that perhaps something has happened underneath that loan – that in two or three months time, maybe that loan will deteriorate but that's not yet evident to you and that manifests itself in something called in total, a portfolio provision. So that's against your current loans. As you move to the right, if there is a trigger event, so that is some indication to you that there is a potential change in the ability of that customer to meet his cash flow commitments to you going forward, you have a trigger event, so for example, in our retail portfolios, that trigger event is generally set at 30 days, so if somebody goes one instalment in arrears, you would be hitting a trigger event, which would then require a calculation of a provision, other than on a basis of a portfolio and when somebody gets to essentially three instalments in arrears, the industry would classify those as defaulted advances so that graph that Tom put up that showed you the impaired advances, which is the same word as defaulted advances, going up to 5.5%, that is essentially three plus instalments down, across the industry. And then, as somebody goes in to default, beyond that there's a process of security realisation, legal short fall and then eventually a right off.

So just to try and talk what the key drivers, and I'm going to talk to retail now because I think I painted the picture that wholesale is really done on a deal by deal basis. The key drivers of what actually changes provisioning, so if you've got – I'm just going to make it really, really simple and say you've got three buckets. Bucket nought, bucket one and bucket two. Essentially, your historic modelling will tell you in the form of a probability of defaults, so what's the probability that this guy is going to default, bearing in mind that when you are defaulted, your probability of default is now one, because you're in that zone. So if you're in bucket nought, historically, what is the probability of a loan in bucket nought defaulting, if they do default, what is your LGD or loss given default? You multiply those two together and you get an expected loss. So we know statistically, working backwards and if you see there, from our home loans book for example, we've got seven years of historic data, that someone who sits in bucket nought, has an expected loss of 'x', made up of that probability of default and loss given default. Bucket one is 'x' plus and bucket three in my example is 'x' plus, plus. So those expected loss calculations in each bucket change quite slowly over time because that's really your historic data of when people actually have defaulted, you build up that history. The key driver of provisioning is which bucket do people sit in. Much more so than changing the actual provisioning in each bucket, which does change, but it changes on a slightly slower basis. So in fact, really the key driver is the roll rates. As people move from bucket nought to bucket one, there's an increase in provision and that is a much bigger driver than changes in provisioning between bucket nought and bucket one and in fact the biggest increase in provisioning, comes as you go in to defaulted. So as you go in to three plus instalments down, so as you move in to that environment, you probably get on average in the home loan portfolio, around a 10% increase in provisioning, relatively to being two instalments down, so that's quite a key change point in the overall environment, so certainly that's you know, in all of our modelling, what gives us some degree of confidence that we think that the worst of the retail bad debt cycle is behind us, not in front of us, is we have, you know, very strong statistical modelling on forward roll rates, backward roll rates, we get them every single month and we have seen consistent improvements in those forward roll rates, which has to be the leading indicator that, less and less goes in to those default buckets on the right, which is what's driving provisioning up.

And what we've done, because you know, you've got seven years of historic data, you can also, under IFRS, say, do you think that the current economic environment is particularly different from your seven years of history and if you do, you can actually top up your provisioning and you'll see that in 2008, we put an extra 280 million, in to our specific provisions, on the basis that we expected house prices to drop, our modelling was actually house prices to drop between 7 and 8% in 2009, Tom showed you the data point earlier, where I think they're down 3 or 4%. So we did take that opportunity to bolster provisioning in 2008.

Looking at non interest revenue, so this is kind of, you know, net interest income, the difference between what we charge our customers and what we pay our depositors, non interest revenue is essentially the commissions and fees in our business, our trading businesses in the investment bank and our private equity, all consolidates through in to non interest revenue. Pretty strong growth, 19.6%, you see there, September on September, but bear in mind, for those of you who know the bank well, we bought effective June or July of this year, we bought some of the bank assurance joint ventures from Old Mutual, and those are strong drivers of non-interest revenue, so previously we owned 50% of those businesses and would have accounted for them as associates. We now own a 100% of them, so that pushes through in to the non interest revenue line, so on a like for like basis, if we just kind of normalize the accounting there, we were growing our non interest revenue at around 14.4%. I think you know, that's a pretty strong non interest revenue growth, we're very pleased with that It's been an enormous focus of the bank over the last four or five years and it will continue for the next four or five years. If you do any form of bench marking of Nedbank, relative to the peers, you'll see that in fact as you run down the income statement our net interest income and margins, stack up fine. Our impairments levels are pretty much in line with the peer group, our costs are pretty much in line with the peer group, in fact we've probably been slightly better than many of the peers at managing costs over the last four or five years. The big weakness in the Nedbank franchise relative to the peers, is in the non-interest revenue line, where we have quite a big gap on any bench mark basis and we've spent a lot of time, effort and money over the last few years, building out systems on particularly our wholesale side of our business, to enable us to sell transactional banking products, to our clients on the wholesale side. And on the retail side, a huge focus on what we call primary customers, growing the primary customer base. Those people, that if you look in to their accounts, it looks like a salary is getting deposited in to that account and they're using that as their main transactional vehicle.

Looking at capital adequacy and just to position, we've got about another five minutes before the coffee break, I'm sure you'll be pleased to hear that. Looking at the Group's capital adequacy, you know, clearly the game in town over the last year or year and a half has been capital and you know, I think we're very, very fortunate that we've got a very strong story to tell when that has been the main game in town. If you look at our core tier one, on the left hand side, you know, over the period since December '07 up to September, improved by 2% from 7.2% to 9.2%. Tier one sitting at 10.7 now and total capital at around 14. And just to give you some sense if you want to scribble on your piece of paper, I'll just try to benchmark that against the core tier one, which is kind of the real equity capital base, against some of the UK banks. Barclays, and this was one of the analysts estimating what they think the core tier one of these UK banks are going to be at the end of 2009. So it will be subsequent to any capital raisings etc that they're doing. You've got Barclays running at 8.8. Lloyds at 8.6 and that would be after the twenty billion pounds or whatever they're going to raise. Standard Chartered at 8.3 and you know, Spanish banks like Santandar at 7.8. So we certainly do have, I think, a very strong capital story to tell at this stage in the cycle.

This is the earnings guidance that we gave for the full year, when we did our September trading statement. The Stock Exchange requirements in South Africa, require you, if you believe that your headline earnings per share are going to be more than 20% different from the previous reported period, to provide earnings guidance to the market, so the earnings guidance, we in fact provided in June, was that we thought, I'm just trying to remember now. We thought that headline earnings per share would be somewhere between 18 and 38%

down, is what we said in June and you are allowed to use at 20% range, so clearly, with a lot of the volatility in the environment, we used the full 20% range, so 18 and 38, you kind of cut that in the middle, you'd have sort of 28% down, year on year. And when we did our September trading statement, you know we'd been tracking pretty much in line with our expectations, in the third quarter, so we took the opportunity to really say to the market, we've got a little bit more confident about that, so we squeezed that range to 25 to 35, again the middle point in a not particularly dissimilar place, to where we were in June.

So just to talk you through some of the drivers. Pretty sluggish advances growth, we've seen how that slowed off in the industry, so low to mid single digits, so you know, kind of 3 or 4% advances growth is what we were expecting. We said in June that we expected the margin to squeeze by between 30 and 35 basis points on 2008. If you remember that slide, 2008 the margin was 3.66%, so that squeeze would take you to, you know, somewhere between 3.31 and 3.36, and in September, we were at 3.4. So you know, we would expect to squeeze down further from where we were in September.

From the credit loss ratio prospective, still concerned about the possibility of corporate defaults. So an increase in the wholesale credit loss ratios but we do expect our retail credit loss ratios to taper off and we have seen that continue to transpire. Non interest revenue, up a single digit growth, so you'll see on a like for like basis in September we were at 14%, so we would expect some slow down in non interest revenue, essentially, as transactional volumes are slowing right across the industry and we wouldn't expect particularly large private equity write ups in the 4th quarter of this year. We got a little bit more than we expected in September, because I think the underlying proxies that we marked many of these things off, pushed up quite a lot stronger than we had expected them to in the third quarter.

Low double digit growth in expenses, so somewhere round about 10% in an environment where inflation is running at around 8. So again, very conscious from a Nedbank prospective that we do need to make sure that we continue to invest for the future, rather than have a massive expense squeeze and then find ourselves under-invested in systems, processes and people, as the economy starts to grow later on in the cycle. I think perhaps some of the history might also be useful to you, is that when Tom took over, shortly after that we did realize that our expense base was larger than our revenue generation capability and we went through a retrenchment exercise in 2004, where we retrenched around 10% of the workforce and if you look at Nedbank's expenses to assets, we are the lowest of the peer group. Our cost to income isn't. So we have much more of a challenge in our organisation, around generating income to fix the cost to income ratio, than trying to continue to squeeze expenses and I think you'll see later on that again, we all know that you can only create a certain amount of value by squeezing expenses, that probably somewhere between 60 and 70% of all value creation, in fact comes from the revenue side of the income statement, not the expense side.

I think we'll also continue to improve our capital ratios between now and the year end. You'll see a slide that I'll put up later on that shows what our risk rated asset ratio to total asset ratio is, relative to the peers and we've certainly got a lot of scope to continue to optimise our risk rated assets. We have, it appears, been a lot more conservative than our peers in our RWA calculation. It's a good place to have been conservative in at this point in the cycle, but it does give us the ability to continue to drive up capital levels, in a way that doesn't create additional equity, so no call on shareholders, and no additional equity that we have to earn and ROE against. It's absolutely the cheapest, the most efficient way of driving up capital levels. So, to give you a sense, you know, we've been saying that diluted headline earnings per share now down between 25 and 35, off the R1401 – that was our diluted headline earnings per share in 2008. And at the moment, I just had a look this morning, you know so 25 to 35% down would put diluted headline earnings per share somewhere between R9 10 and R9 50, just doing the maths on that. And in consensus for us, was sitting at around R10, so pretty much bang in the middle of the range that we've given to the market.

Right. So what we're going to do now is have a short Q&A session on any of the data that we've heard so far and then have a coffee break. We're going to start with the Q&A in the room and then to the extent that any come in off the webcast we'll deal with that later. You do need to get the microphone, so that the people on the web can hear.

Andy Hughes

Thank you. Andy Hughes, ICAP. I'm afraid I'm not a banking expert, so this might be an obvious question for you to answer. Just looking at the loans to – advances to deposits you showed 95%. I'm trying to understand that in the context of the 60% commercial banking. I think you mentioned before that commercials perhaps have more deposits in South Africa. Could you actually break that down between how much of it is commercial deposits. Indeed on, exchange controls, is that influencing the situation with these commercial deposits. So in a scenario where exchange controls were relaxed in South Africa, would that see your commercial deposits basically leave. Thank you very much.

Mike Brown

Okay, from a Nedbank perspective, we're very fortunate, we've got a very balanced deposit franchise. In fact our market share of retail deposits sits at around 23%. It's the number two market share in retail deposits, even though we have the number four market share in terms of retail assets. So I certainly don't think that we are overly reliant on the corporate sides of our business, to provide deposits to enable us to grow our business in total.

I think the question around, if exchange control is relaxed, could that see a significant departure of corporate deposits. I think it could. But certainly, the regulators are very well aware of that and you know, there are some structural challenges in the South African economy, from a deposit prospective and certainly, our view is that some of those structural challenges live in some of the legislation that drives the way that the money market environment works. So a lot of the money that we see as wholesale money to the bank, is in fact retail money because it's retail money that's going in to a money market unit trust or a money market fund and coming back at us as wholesale money, even though it's underlying nature is retail. And you know, certainly some of the legislation, forces those money market managers to hold money short. I might be slightly wrong, but I think they can't hold deposits of anything greater than twelve months. So to the extent that you've got a banking system that's reliant on that money market money, we do have an environment where we have kind of long-dated assets and shorter-dated liabilities, and do run liquidity mis-matches in, certainly on a contractual basis, in the South African environment.

Paul Meesday

Thank you. It's Paul Meesday at Caznove. Just coming back to the margin point, I wonder if you could explain the extent to which you hedge your low cost and non-interest bearing liabilities, and the reason for the question is really twofold, first of all just to understand whether there's actually a much larger gross effect in terms of the margin guidance you're giving for this year but perhaps more importantly, looking forward under the scenario for gently rising interest rates over the next two to three years, how quickly might we see that margin recover or will there be a lag to fit because of hedges. Thank you.

Mike Brown

Okay, so we do significantly hedge the overall interest rate risk environment of the bank. The areas that we struggle to hedge in would be in the nought to three month bucket, so what we would call the short end stub and we struggle to hedge there because essentially, in South Africa, there isn't a depth of market to enable one to hedge there. For those of you who are familiar with the market, there used to be an instrument called the ROD market or the Rand overnight deposit swap market, which the banks used to use to hedge the short end stub, but effectively, there weren't enough people taking the other side of that, so the market makers stopped making that market. So there certainly is a much larger gross position and what we do in the way that we manage interest rate risk in the bank, is through hedges, we manage that down to currently, that five hundred million Rand for 1% parallel shift, because that is in our modelling, the estimate of what we think is going to happen to bad debts over time. So as much as we lose here, we think that economically, we're gaining in bad debts, to try and keep the kind of overall thing economically hedged. Does that make sense?

Paul Meesday

Were we to see interest rate rises over the next couple of yeas, how long before we actually see the margin improve.

Mike Brown

So we would expect that the margin will start to improve in the second half of next year, would be our current outlook.

Colin Simpson

It's Colin Simpson from Goldman's. Slightly less technical question. Tom, you mentioned the ESKOM saga and you recently had the very influential president of the ANC Youth League, call for a boycott of Nedbank over an athletics sponsorship. What's the outlook for the political environment for operating in South Africa and the risks to corporate governance.

Tom Boardman

Yeah, I think there has been shift since Policani and the new government coming in under Zuma and I must say, I had the, for those of you who don't know, an extraordinary thing, we sponsor athletics but we only sponsor road running. And South Africa has had this big controversy at the Games in Berlin, and we for some reason were regarded as having withdrawn a sponsorship. We were negotiating with the road running people because they'd fowled up so badly, I mean they never pitched up on time for the road running. The organisers, they sent – one of the big races with our name on it, they sent the front five runners the wrong way, five hundred metres from the finish, so five other guys won and the other guys eventually found their way back and so we said, listen guys, we're out of here, we're not going to sponsor you any more. This was picked up by the ANC Youth League and they said, no, no, the reason that you're not sponsoring anymore is because no white athletes won medals in Berlin and because of that, they called for a boycott on Nedbank. We, to the best of my knowledge, did not lose one single account and eventually, I did go and sit down last Friday, with the whole ANC Youth League executive and I told them the whole story and in fact they published a statement saying they had been misinformed. We had a bit of trouble getting them to publish the statement the right way round too, but eventually we got it and so the newspapers carried the articles, Big Retraction by the ANC Youth League. So I think there's a lot of rhetoric and noise in the system. I mean they're the same guys who'd been saying, oh we must nationalise the mines, and you know, they say it and then the President and the Minister of Finance say you know, we debated that thing in '92 to '93 before the election and there's no ways we're going to nationalize the mines. But unfortunately, they're doing a lot of damage at this point. We don't see any real shift in policy, but the noise levels around the rhetoric have really got out of hand. I'm having much more fun this Friday than I did last Friday.

James Pearce

James Pearce, also from Cazenove. Could you talk about the pros and cons of being owned by a domestic life company rather than being independent or being part of an international banking group please.

Tom Boardman

Well if you'd asked me that question a year or two ago, I would have said, yeah, I would think it would be much better to be owned by a big global bank. We're quite glad we haven't been owned by a big global bank in the last year or so. But notwithstanding that, Old Mutual have been a very solid shareholder. Twice Nedbank has needed help from its parent and twice they've been forthcoming. We have, I think in South Africa, extracted most of the synergies that are available between the insurance client base of Old Mutual South Africa and between the banks client base, in terms of the cross-sell of insurance products in to our client base. Obviously, you never get it fully exploited, so right now, we're fairly neutral as to you know, whether we were owned by an insurance company like Old Mutual, or an international bank.

The only thing that we see as being beneficial to Absa since Barclays came in, is the cost to them of raising capital on international markets. On the South African market, there is not one basis point difference between what we have to pay on our ratings, without a global bank as a parent and what Absa pay. But internationally I think they can raise capital a bit cheaper. And that would be the only differential.

I've been involved with joint ventures before and my previous bank had a JV with Nat West before they got in to trouble and gobbled up by RBS before they got in to trouble, and we thought we were going to get a huge mount of sort of wonderful systems and everything that this big bank could bring to us and the reality is South Africa is pretty sophisticated already, in fact there was almost a transfer of technology back the other way. So we don't see a huge advantage from other points as well, so it's pretty neutral to us.

Patrick Bowes

Okay, thank you very much. We'd like to break now. Could everyone come back in at about quarter past eleven and we'll get going on the second half. Coffee is just in the inside door out there. Thank you.

END OF SESSION ONE

Tom Boardman

Just to let you all know before we start, that in the break I had a message that said, "Hi Tom, just not to disappoint you or let you down, here is an SMS. Travel back safely, regards Errol Kruger, Registrar of Banks." So I thought that's kind of spooky and then it occurred to me so I sent him a message, I said Errol, are you on the web cast and yes, he is, he's sitting in Pretoria and he's on the web cast, so when I tell you we've got a plugged in regulator, we've got a plugged in regulator. And also just want to say one thing about our financial reporting. Since Mike took over as CFO, we've moved from being regarded as the most opaque and least transparent of the banks in South Africa, in terms of our financial reporting and I'm delighted to say that apart from coming first in the financial services sector, in the Ernst and Young awards for the best annual financial statements for 2008, we were awarded number one in South Africa, not just in banks but in all the companies in the JSE, in terms of the quality of our financial disclosure and our interaction with the investor community, so whatever you want to know about this bank, believe me, it is out there in our financial reports. They've really done an outstanding job. So Mike, back to you.

Mike Brown

Right, so as I said, what we were going to do before the break is give you the high level picture of the consolidated view of the bank. We're now just going to drop down one level in to what's happening in each of the clusters or segments as we call them and perhaps we can go through these a little bit faster because it's the next level of detail.

Just to start out by painting the picture of the various areas we're going to take you through, I'm going to start by taking you through Nedbank Capital, so that's the investment bank and there's just a data point for you to say, well, so how much of the earnings that the bank produced in June did we get out of our investment bank, so you can see just over six hundred million of the nearly two billion of earnings out of the investment bank and growth of 4%. Then Graham Dempster is going to take you through Nedbank Corporate, that's our Corporate Banking business, our commercial and industrial real estate business in Africa, as well as our business banking business. As we'd said, you'd have seen from the slide, Graham is the Chief Operating Officer but prior to Graham's appointment as the Chief Operating Officer, Graham in fact ran Nedbank Corporate, so it's a business that he knows very well. Then you get me back again, to talk through Nedbank Retail and Imperial Bank. Imperial Bank is essentially a vehicle finance bank that we own 50% of, Imperial Holdings, which is the larger vehicle dealership in South Africa, owns the other 50%. Again, for anybody who's followed Nedbank you'll see we are currently in the process of purchasing their 50%. We have signed agreements in place. We are currently waiting for the fulfilment of various conditions precedent and we would expect by the time we get in to the first quarter of next year that Imperial Bank would be a wholly owned subsidiary of Nedbank.

So to start with Nedbank Capital, which is the investment bank. To give you a sense of what it does, it is essentially a full service investment bank, so it has an investment banking division, so underneath that, you'd get all the normal business units, things like there's a private equity business, there's a corporate finance advisory business, an M&A advisory business. We also have our project finance lending activities that sit in that area. We've got the global markets divisions, which is essentially the trading operations of the bank. Again, you'll see later on that approximately, 75% of all our trading operations are what we would call flow-trade and about 25% would be the prop trading environment. Then we've got debt capital markets, which is essentially our fixed income business. The Treasury, the Treasury of the bank in total lives in our investment bank. They run that on behalf of the overall bank and then we've got a securities business that sits there in Nedbank Securities. So to give you a sense of that, you saw that they made just over six hundred million of earnings at the half-way mark. For those of you who want some acronyms, RORAC, which is Return On Risk Adjusted Capital, so internally, we allocate capital to all of our businesses, based on our economic capital modelling, so that's why it's called Return On Risk Adjusted Capital. The higher the risk in any business, the more capital we'll allocate to that business and effectively the higher return they have to earn, to measure appropriate risk return measurement. So very strong return on risk adjusted capital at up at over 40%. Economic profit growing at 20%, the efficiency ratio below 50. Their credit loss ratio in the first six months was at 44 basis points, higher than we would have expected to be through the cycle. They had a few international exposures that they had to provide against in the first six months of the year, so certainly, we would hope that that ratio gets better and to give you a sense of their balance sheet, around R50 billion of advances, so those would be the project finance, structured finance, BEE transactions, those sorts of things that are being financed out of the Investment Bank. The Morgan Miller loans would be sitting in the corporate bank. It's the more specialized lending that sits in the investment bank and then a significant deposit base because clearly, that's our interaction in to the institutional market and the money managers to effectively fund the bank and then the total capital allocated to that business, sitting at around three billion Rand.

In terms of the business model, essentially what Nedbank Capital is trying to be is an integrated investment bank, so really what that involves is collaboration across the organisation, both internally, so strong collaboration with Nedbank Corporate, who has the relationship managers dealing with the top corporates and Para-statals in the country and, collaboration with our retail businesses. For example, in the structuring of some quite innovative retail deposit products, where the structuring and management of those products is done out of the investment bank and a lot of co-operation with Old Mutual South Africa, from an investment banking perspective. And I think you know, really what we've trying to do in our investment bank is create an environment where we can offer our clients holistic solutions, which enables us to get as many clips of the deal ticket as possible, as a deal is executed and perhaps the best way of explaining that, well just to give you an example of a particular transaction that we executed over the last eighteen months or so, there was a junior miner called Eland Platinum, so we started out with our advisory business that enabled that business to effectively obtain its mining licences, which it bought from one of the large mining concerns in South Africa. At the same time, our private equity business took a small equity stake in that, so that was the first kind of point of interaction. We then worked with the management team as they developed their mining plans and all of the mineral surveys etc were done. We took all of that data, effectively using our project finance team, translated that in to funding structure, that would enable them to fund the start up of the mining operations and in order to protect our risk, we sold off some of the platinum on a forward commodity hedge, so again, we would have executed that forward commodity hedge through our trading businesses and made some money out of that. We then listed Eland Platinum as a junior miner, so that enabled us to monetize some of our equity upside and then finally, we were involved in the negotiations of the sale of Eland Platinum to Xstrata, which effectively enabled us to exit that, so you can see multiple clips of the same deal ticket and I think that's certainly an example of how we would like to take the business going forward.

I think you know, as we've seen worldwide, investment banks have struggled enormously with earnings volatility over the last twelve to twenty four months. I think, you know, if you had to criticise our investment bank, we've had relatively slow levels of earnings growth over the last three or four years. We've been growing earnings at 15 to 20%, and you've seen investment banks worldwide, growing at 50 or 100% per annum. I think underneath that, does live a much more conservative risk appetite. So you know, you can't grow earnings at 50% without having a much more aggressive risk appetite than someone who's trying to grow earnings at 15 or 20% and you know, certainly, our first half earnings that were up 5%, compared very, very well with the international peer group, enormously well in fact and compared very well with the domestic peer group, where it does appear that our lower level of risk appetite has enabled us to have more stable earnings over time in our investment bank. So you know, I think if you just run down the left hand side there, our priorities are to provide a full range of services, to grow our flow based businesses, to try and make sure that we keep that 75% flow based, where you have very low VAR or Value At Risk, in relation to that – effectively you're just executing trades on a client behalf and extracting the difference between the bid-offer spread and only around 25% of prop trading and you'll see later on our VAR levels are pretty low. Our one day VAR sits at under thirty million Rand.

A lot of focus on improving profitability in existing deals, again in the wholesale side generally, big squeeze in margins over the last four or five years and we've seen the ability to open those margins up quite nicely over the last few months. A lot of discipline around the risk appetite in that environment and then a focus on maintaining the cost base.

So if you have a look at VAR and again, for those of you who are involved in all of this, you know, VAR is merely one measure of risk so we do supplement all of our VAR measures with stress and scenario testing, because clearly to the extent that VAR is based on history, to the extent that history doesn't repeat itself, it's not a perfect measure of risk. But if you look at our one day, 99% VAR, 2009, in the first half, you know, 27, 28 million Rand, again what we point to many people is if you look at the trading revenues that peers etc have produced, perhaps quite a crude way of looking at that is if you just take trading revenues and divide it by VAR. It gives you some sense of how much risk people are taking to be able to generate the amount of trading revenues that they do and we stack up quite well on that basis, even though our trading levels are lower than the peers, so it's very much a risk reward scenario and you can see, the one thing that we did push up a little bit in the first six months was our interest rate risk VAR and some of the non interest revenue growth that you've seen across the bank, is that we've had a very strong nine months trading in our interest rate risk environment in the investment bank. We had a particular view on what was going to happen to interest rates and that has played out well for us.

What we give you in the graphs at the bottom is just really some analysis of the number of days of profits versus number of days of losses. And again, if you just look, generally speaking what you see there is the light green bars slightly more to the right and larger than the dark green bars, which means a better consistency of trading profits, more days of positive relative to negative.

If you have a look at the investment banking environment, so that's really the lending area inside Nedbank Capital, there's a book in total of around 33 billion Rand. The primary focus is domestic and we scaled back quite considerably on foreign deals in the first half of the year, we certainly saw that one of the consequences of the global financial crisis would be and it has transpired to be that of shortage of term dollars and a lot of the project finance deals, etc, in Africa are five or ten year duration, and we certainly didn't want to run currency mismatch, funding five or ten year dollar deals in the kind of three month dollar space, so we didn't change any of our mismatch limits, we rather didn't do those longer dated transactions, we've had no problem finding the dollars short end but certainly long end dollars have become more expensive and more scarce. So if you have a look there, you know around 80% of our business is South Africa, and the balance split pretty evenly between Africa and the rest of the world, a lot of the rest of the world executed here out of London Nedbank Capital. If you look at the growth rates, you can see pretty strong growth rates from '04 through to '07, so we've got quite a nice underpin now of net interest income in the investment bank to provide some earnings growth going forward, but then a slow down in to the first half of this year. And in terms of breaking the book down, we get a lot of questions around, you know, what's your exposure to BEE transactions on the one hand and what's your exposure to junior miners on the other hand and this gives you a sense that you can see, if you look at BEE deals, 13% of that thirty three billion, would be in the BEE environment.

I think the way we've tried to explain BEE transactions to people, from a funding perspective is they're generally kind of three ways and this also pretty high level, three ways that BEE deals are done. In the first instance you have a number of BEE transactions that are in fact done with the parent company support. So it is whichever company is executing, they stand behind any BEE funding, so really from a banking perspective it's a corporate loan, disguised as a BEE transaction and certainly all of those have remained very strong for us and we haven't had any challenges in that space. The second way, and I'm going to go through levels of riskiness, the second way a number of BEE transactions are done, is effectively in the form of a leverage buy-out, so some transaction where an entity sells its assets to a new Co and the bank is able to put direct funding in to that new Co and effectively securitize itself, on the assets and underlying cash flows of the new company and it just so happens that the shareholders of the new company are a different percentage, black and white, relative to what they were in the old company. And again, those are pretty standard LBO type transactions, and we haven't had any challenges there.

I think the most risky have been the share cover ones, where you're lending against a particular ratio of shares so you know an example would be that you lend somebody a hundred million rand, and you've got a hundred and fifty million of share cover on day one and you have a whole host of trigger levels built in, that if the share price falls below 'x', you have to sell so many shares, below 'y', another amount of shares and I think you know, if you look purely at the Nedbank portfolio, it has performed significantly better than I would have expected it to do. When the markets started to get in to a bit of challenges, we've got enormous stress and scenario testing on all of these things, I think we've had either one or two, Graham might remember better than I have, deals, that have in fact fallen below trigger levels where we've either had to request additional share cover and in those instances we've been provided with additional share cover so we've gone back up above the trigger levels again, and we've had no deals that have fallen below one to one times cover, so we've been particularly pleased how our particular private equity, our BEE portfolio has withstood the shock through the equity markets.

So if you have a look at the way we think about the business, at the top, the investment banking business, I said – you see the growth in the assets of that business, you saw the sort of growth over the last few years, up to thirty three billion, really what that's there to do is to provide an underpin of net interest income to the investment bank over time and clearly every time we do a transaction with a lending element to it, we try to make sure that we get our appropriate share of any of the transactional flows that come off the back of that and in this environment, it's actually been quite good for us to be able to do that, because you know, many customers now understand that if we're going to lend to them and provide us our balance sheet, we absolutely want to get our fair share of the transactional experience and we've been able to get an increase of transactional experience as a result of leveraging our balance sheet. So you've kind of got a steadier business in the investment bank and then across the bottom you've got the trading businesses and primarily, as I said, around 75% of the trading business is focused on flow business, so that's really where we are, the primary bankers to our customer, and they're looking to execute a commodity trade or execute a foreign exchange hedge, and we're really trying to take the middle out of the bid-offer spread, and around 25% being the prop businesses, which certainly are more volatile.

If you kind of summarise where we are with Nedbank Capital, five years ago Nedbank Capital was born out of the merger of BOE NIB and Nedbank, so it did take a while to get all of that to gel in the form of systems, processes, architecture, risk management, environments. I think we've set a very good base in that environment, a solid base. We've got stable NII generation. We have had less risk appetite than our peers, it's translated in to still excellent returns. Any business that can produce me a 45% return on equity, I certainly want more of that business not less of that business but our growth rates have been lower than the peers and predominantly that has been a reflection of that lower risk appetite and I think going forward, we're certainly looking to try and improve the growth rates in that business, having set, I think a very, very strong base.

Right. Graham is going to take us through Nedbank Corporate. Over to you.

Graham Dempster

Morning. Thanks very much Mike. Just starting with Nedbank Corporate. Nedbank Corporate has got three principle businesses; corporate banking, where Nedbank is a top two player, particularly in lending and deposit taking. And in commercial and industrial property finance, we are the market leader with a market share of just under 25%. Nedbank Africa, it's a relatively smaller business, which is our regional operations, that Mike described earlier. We're in five countries but there's a significant potential in that business going forward and we'll touch on that a little later.

Just looking at some of the key financial metrics. Headline earnings were strong in Nedbank Corporate with a good RORAC, 25.9% in probably the toughest year that you're likely to experience in the cycle, and so very pleased with that and a very key driver for us, economic profit growth, 4.5%, notwithstanding a normalisation of our impairment ratio, where we've had exceptionally low levels of impairment and you'll see that our credit loss ratio here, sitting at 25 basis points, which we would see as being in the middle, of the pack through the cycle range and given that the environment is particularly tough at the moment, that's a pretty respectable performance as we're sitting here now.

You'll note that average advances and deposits, pretty much balanced each other, so good ability to fund the growth that's taken place in that business and a fairly significant consumer of capital usage.

Just turning to the strategic positioning of the cluster. In corporate banking, I referred to the fact that they're a top two player in lending and deposit taking and we'd like to complement that by becoming a top two player in transactional banking which generates fees and commission income, non interest revenue, non capital consuming, so it enhances your overall return on capital and also enables you to have a sticker relationship with your client. And we're going to focus on that both through product development service and on elements in the market where we haven't had strong representation like for example the public sector.

Property finance, we are a leader there. We actually adjust our market share depending on our assessment of risk in that particular business. We were comfortable to let a little bit of market share go towards 2007, when in our estimation, we thought that loan to value ratios and credit margins were both going in the incorrect direction and generally speaking at the top of a buoyant market, you write your problem loans for the next cycle, so we pulled back an element, allowed some competitors to come in to that space and we will now monitor that situation carefully to see when we'd actually like to increase our position once again. And we also have a property, private equity business, which over the last four, five years has generated us a billion Rand profit after tax. We're showing a marginal loss, through to the half year this year, but against the four, five year cycle, we're very comfortable with the position we've got there, and opportunities are going to present themselves in the next twelve to eighteen months, to be able to take advantage of the lower property values that will inevitably come through, after a recession and higher interest rate platform. And then I've touched base on Africa and I'll talk about that a little later.

Moving to the segmental analysis, what you'll see there is that corporate banking in particular had a very strong six months with strong RORAC, strong headline earnings growth, but if you look at the June 2009, RORAC column, you'll see that all of the businesses were net economic profit generators or generated a return on capital that exceeded the cost of capital and very pleased about that performance in these conditions. So just touching in more detail on the highlights of the first six months, we would describe the core banking business performance as having been a strong performance and particularly from our point of view, we are able to be very efficient in our capital management and able to reduce our capital by 13%, notwithstanding asset growth of around about 25%, so there were a lot of capital efficiency initiatives that took place in the business during that period.

Very pleasingly, we're able to improve credit margins as the tightening of the liquidity took place and international competitors withdrew, we were able to get significant enhancement in our returns on our credit risk that we run and you'll see that the overall margin increased by 30 basis points to 2.07, notwithstanding the fact that we earned lower endowments on a reduced amount of capital and also earned a lower endowment as a result of the reduction in interest rates.

I mentioned that property investment values were marginally down, that we had strong advances growth, but the real key for Nedbank Corporate in the first six months of this year was what I would describe as effective risk management, this is a very experienced management team that has got a strong capacity to understand the dynamics taking place in terms of risk. Mike touched on it earlier – in 2007 we started to see some of the international players coming in to the leverage buy-out market, looking to increase their amount of leverage, drive down the margins and the South African banks looked at this and sort of said, we've always had a blue-chip portfolio in the corporate space, we're starting to see elements here that could drive it in to a much higher risk environment, with no justification, pulled back from that and fortunately before that became sort of endemic in the South African system, the global market conditions changed so we remained with a high quality portfolio.

A lot of work has taken place in terms of building up primary bankers status, by investing in our systems, for example our electronic banking platform is brand new. We've invested significant, hundreds of millions of Rands in that and there's an annual survey called the BMI text survey, which assesses transactional banking capability and we demonstrated the highest level of overall improvement during the last twelve months of that, which really bodes well for our positioning going forward. And a lot of work does take place in terms of our people management from a cultural point of view and leadership development.

So just moving in to the individual businesses and I'm going to skim through these because they are quite detailed. The key driver in corporate banking, 'a' very strong risk management but 'b', a really good re-positioning of the asset advances portfolio, by reducing our short-term overnight portfolio to drive up the credit margin and we were able to more than double the credit margin over a twelve month period, and then simultaneously and almost a virtuous sort of cycle evolved, is as we had the opportunity to write some significantly high quality, medium term advances, the credit margins widened towards the back of 2008 and we were able to put business on the books that we hadn't – at margins and quality that we hadn't seen for quite some time as the reintermediation and the margin widening took place, so very, very good set of circumstances there that has driven that performance there and you'll see that the transactional banking revenue flows were also strongly up at 12%.

Moving to property finance, commercial and industrial property finance, we are a market leader, we know what's happened globally, in terms of the impact of commercial and industrial property finance to banks around the world. A very, very key differentiator in South Africa, is we had many, many years of under investment in commercial and industrial property finance, so there was pent up demand for space, and secondly, the market operates very much on the basis that you aren't able to access finance unless you've got a pre-committed tenant, that actually lowers your risk in terms of a new development, so you'll see that the portfolios that the banks hold in commercial and industrial property finance is very skewed towards existing developed properties, with predictable cash flows and a much smaller element in residential or commercial development and therefore inherently, the speculative nature in that market is at a much lower level. Never the less, as a result of a normalisation of impairments, we're sitting at a credit loss ratio of thirty basis points at the half year. We had had no impairment charges for the previous four years at all, which just gives you some sort of indication of the strength of that market, and we would describe thirty basis points as a very normal, acceptable level of impairment charge and we're very comfortable with that.

Importantly, the core lending businesses, that's net of the private equity business, generated an economic profit of a hundred and twenty eight million Rand in the first six months of the year and this business is seen by the peers as the leader in property finance, as voted in the recent Price Waterhouse Coopers survey.

Just moving on to Africa. Smaller business, generated fifty million Rand, earnings, in the first six months of the year with growth at 13.6% and a ROREC of 19.8, so a well positioned business with a low risk profile. We do believe this is an area where we can grow. We've got a sort of three tiered Africa strategy, where we want to improve and grow the existing businesses, working in conjunction with Nedbank Capital, there's a boutique type activity where you can do investment banking and complex trade finance deals across the continent and we have a lot of initiatives on that and then importantly, what we would call tier three, which is where we're looking at selected investment opportunities and the formation of a sort of regional pan African network and I'll touch a little later on the alliance that we've established with a pan African group called Ecobank, that's very significant in terms of medium term positioning.

Just looking at the impact of the external environment. Each of the businesses has a particular positioning, corporate banking we've described their position as pursuing guarded growth, with an emphasis really on ensuring that we write high quality, good margin business and then emphasis on the public sector and other transactional banking activities to enhance our non interest revenue as Mike described, that's our challenge.

Property finance, they've been on a economic profit drive for a number of years now so they had a selected growth in what they call smart origination, which we think is an appropriate positioning to have in challenging markets and in Nedbank Africa, cautiously optimistic of continued growth, complemented by the alliance that we have.

So looking at the future focus area, a tremendous focus in this business of economic profit, sustainable economic profit growth. Tight risk management is fundamental in a lower margin business like Nedbank Corporate so that will continue to be driven very, very tightly and then the emphasis that we've described on non interest revenue, by gaining our primary bank corporate clients and the market is well positioned first to benefit from that. As funding has become a more important element for corporates, they now have to look very carefully at the banking relationships, so if they're sourcing funding from a particular institution, and they're providing less of their transactional banking activity to that institution, you have a degree of leverage that you wouldn't have had historically, to be able to normalise that position and clearly, we're working on that to benefit ourselves. And then transformation is a key focus for us, as is development of our people and the Ecobank alliance.

I'm just going to move on to business banking. The target market for business banking is the SME market as Mike described earlier. Medium sized businesses, turnover seven to four hundred million Rand and for us, the key competitive advantage that we believe we have in this business is that we have a client centric relationship driven, de-centralized business model, but fundamentally based on accountability, so what we've effectively done is broken that business down in to fifteen smaller regions across the country. Each of them has a money managing director that has total responsibility for sales, credit and operational risk and the bottom line. So it's not a question of somebody else having actually made a credit decision that you didn't agree with and then you actually run for cover when things go wrong. That person has the total responsibility to manage the client, manage the team, manage the bottom line and manage the risk and as you'll see, in terms of the financial matrix that we have here, once again, a strong RORAC business, sitting at 28.8%, economic profit down – this is one of those areas where you have a large amount of capital and a large amount of lazy deposits, so as the interest rate cycle comes down, you do suffer margin compression quite significantly, but never the less, even at the bottom of the cycle, you're seeing a RORAC of 27.8% and a credit loss ratio sitting at 79 basis points, which for a medium sized business, enterprise type environment is a very health credit loss ratio and certainly has exceeded our expectations and we attribute it, fundamentally to the strength of that business model and the accountability that's wrapped with it, as well as an inclination in that business to forward anticipate economic circumstances and to early adopt risk mitigating strategies depending on how you see an economic downturn arriving. Strong funding deposit in this business, as you can see the deposits, seventy five billion, relative to advances portfolio of fifty four billion.

The business rationale for business banking, we believe this is a sweet spot in the market in that over any extended period, medium sized enterprise, high growth market, high loyalty factor because the credit extension is very important to the clients and as a consequence of that, you have a high cross sell ratio which then gives you higher returns on equity. So this is a very significant and attractive business for us.

In terms of a couple of other elements, it's also a difficult market for international players to penetrate, because you do need a distribution network across the country, which means you've got to have four or five hundred branches to be able to participate in a business like this, so you really are focused on your domestic competitors.

Business performance, as I indicated, strong RORAC, market share position, depending on whether you're looking at urban based, particular niches and products, and we are between number 2 and Number 4, so for example we're much stronger in the metropolitan and urban based areas and less so in the rural type areas where our branch network being a bit smaller than the other competitors, we don't have quite that reach in to the rural areas, so we focus principally on the urban areas.

Income statement drivers. Very significant focus on NRI to do asset re-pricing, it's a common theme across the banking industry and across the organisation, as you know, the impact of what has taken place over the last few years has manifested itself and in this business, there's been a very significant focus on avoiding EP negative, single product line business, which doesn't come with the total relationship of the client. So what you generally find is originator business, which comes from a third party originator, has higher default statistics generally, and we've clamped down very significantly on some of those sources of business generation and focused much more on generating it through our own franchise in the banking network.

Just looking at the 2009, half one, highlights. As indicated, pricing for risk on a client centric basis, deemphasizing the single product, non-interest revenue is growth up strongly at greater than 10%. Big focus on liquidity generation, because it's a fundamental indication of your franchise strength and rigorous risk management has given rise to that performance.

In terms of the outlook, as indicated the endowment effect in this business is interest rates start high at the beginning of 2009 and train down, you get the effect of endowment on a year on year basis where your earnings are down and then that will cascade through in to 2010, because you'll have an overall lower interest rate level than you would have had on average in 2009, so you should expect to see that coming through. Well managed on the impairment line to date, but in a market like this, depending on whether you see a V or a W, you have to be really on red alert in terms of potential down side risk on the impairment line. Very strong on pro-active cross sell, which is the key for us to able to enhance our non interest revenue in this business and fundamentally, when you've got a business like this with two and a half thousand people, visible leadership in times of stress and difficulty is fundamentally important and this team really does that very, very well and the overall strategy is to be the leader in business banking for South Africa in its entirety. And I think at that point Mike, I'll hand back to you.

Mike Brown

Thanks very much. I'm sure you all appreciated the change in voice. So you've got me now, I think for about the next thirty minutes. Graham might do one other piece and then it's lunch.

So first of all, just to start with Nedbank retail. I think it's very clear to us that Nedbank retail is both our biggest challenge and our biggest opportunity as an organisation. You've heard some pretty good solid stories around all of our wholesale franchises but our retail business has been a challenge for us. We recently appointed Ingrid Johnson to run our retail business, as a firm believer that you put your best people on your biggest problems and Ingrid has had a really great career in the bank. She came through corporate banking, working for Graham. She actually has run our business banking environment for the last five years and now she's in charge of business banking and retail so I'm certain Ingrid is going to make a great contribution.

A lot of data up there. We're the smallest retail bank. You can see, as I pointed out, I think in respect of one of the questions, you know very strong position to have as the smallest retail bank a 24% share in retail deposits, so a very strong deposit franchise. The other interesting one is we've got 7% share in vehicle and asset finance. When we've completed the Imperial transaction, Imperial has got somewhere round about a 12% market share, so together, you're kind of 18 or 19%, so that would get us much more to our, kind of more natural market share post that.

You can see from the numbers, a very, very difficult six months in our retail business as impairments continue to rise and you'll see when we get to the segmentals, a lot of that pain taken in the secured businesses and as the lazy deposits that sit in retail got squeezed as interest rates came down. So we ended up just northwards of breaking even: 50 million Rand profit in the first six months and a return on equity as pretty much close to zero as you can get, so that would put you in negative economic profit terms, not a particularly happy place for us to be. You will see a lot of the focus going forward is on what we call fixing the EP negative businesses, primarily in home loans and vehicle finance.

If you just have a look at how the business is positioned. As I said, I think our area of biggest weakness is also our area of biggest opportunities. If you look at our business relative to the peers, we are over-weight in the secured lending environment, on a relative basis, home loans and vehicle finance and underweight transactional, so that means when you take pain in the cycle on secured lending, we take more pain than the peers, so the focus has to be on growing our transactional franchises and on primary client growth and cross sell as a means of moving this reliance away from the secured lending environment.

So if you have a look at the 50 odd million Rand in the green column at the bottom, what we made in our retail business in the first six months, it's almost a tale of two halves. If you look at our bank assurance businesses, which I'll dive in to, actually grew a little bit. Our personal loans business grew. Our card business grew. Our transactional businesses, slightly negative, 20% down. A big squeeze in our small business services, so those are the businesses that fall below business banking. Again, quite a bit up tick in the credit loss ratios in that environment and also some pain on the lazy money that sits in small business services. The private bank, you know doesn't make a huge amount of money, but that also fell year on year. Again, we saw an increase in bad debts in the private banking environment, so if you kind of put all those together, you've got an environment that in the first half of last year made you seven hundred and sixty million, first half of this year, six hundred million, so around 20% down. The real pain has been in those two secured lending businesses, which you can see collectively lost us just over half a billion Rand in the six month period, which takes us down to pretty much a break-even environment.

It is a lot more stark when you look at the first half of 2008, relative to the first half of 2009, because a lot of the pain started happening in the second half of 2008, so if you just cast your eye across the home loans environment there. You see, in the first half of last year, we actually made a small profit in our home loans business, twenty eight billion. The pain picked up significantly in the second half where we lost four hundred and seventy million and in the first half of this year we lost four hundred and ninety million, so not too dissimilar to the second half of last year, but a really big change relative to the first half of 2008.

Clearly the numbers aren't what we would like them to be in our retail business at the moment but there are some good stories underneath those numbers as well. Good growth in non interest revenue, up 15% and I think that does point to the underlying strength of the franchise. People borrow money from anyone, people transact with banks that they have a lot of faith and trust in, so that does point to the underlying strength of our franchise. We've seen good growth in our transactional accounts. We have seen good growth in primary customers, so as I said earlier, those are the people that it looks like their salary is getting deposited in to Nedbank and they're using us as their main bank.

We have improved our cross-sell. It is still at very low levels. I think our cross-sell ratios which excluded bank assurance at this stage, but our cross sell ratio sits at around 1.4 ish, so they've inched up over the last few years, but that's certainly still a very big opportunity for us and we've introduced a number of new products, showing some innovation in our retail business. We've also had continued growth in the strength of our funding franchise; banks all over the world have absolutely realized the value and importance of a strong retail funding franchise, so we're the number two retail funding franchise and have been able to growth that at somewhere round about 10%.

If you look at the unsecured lending, generally those environments have had a reasonable first six months, so that's kind of the card businesses and the personal loans business. We've seen some growth in advances. We have had some pain on the credit environment, but pretty much in line with our expectations and I think some of the areas that we'll be focused on in the unsecured business would be the effect of things like debt counselling, where we've had some legislation in South Africa and a larger proportion of our book has migrated its way in to debt counselling. That's certainly still a challenge for us but I think broadly speaking, our unsecured businesses have performed reasonably in line with our expectations.

As you saw from the numbers slide, the real game in town has been the pain taken on the secured lending businesses, which is home loans and vehicle finance and just to spend a bit of time on this slide. You know, the conditions still remain very, very challenging in those markets. If you have a look at home loans, new business volume is down 56% year on year. So that's the flow of business that's coming to us either through the originator channel or through our branches. So that certainly is reflective of a strong drop in consumer confidence. I think something that we've been very conscious of trying to do is to remain more open for business than our peers in this environment. So we have picked up a small piece of market share in home loans and I think the old adage in banking that you write some of your worst loans at the top of the cycle and you write some of your best loans at the worst point of the cycle, does hold true. So I think that the loan business that we've written in the current year, is going to be a very profitable business for us over the next three to four years, where you know, we've been able to be more selective, we've been able to open up margins, we're paying the originators less commission, so I think we're very comfortable with the small market share gains that we've made throughout 2009.

We've also been able to significantly improve our loan to value ratios so 84% was the average loan to value that we were writing at the back end of 2008 and you can see that that's dropped down to just under 80% by June, so on average, people are being required to provide a 20% deposit.

We've had a huge focus on the collection environment in our home loans business. To some extent we weren't up to speed with where we needed to be, so we were our own worst enemy in the collections environment. We've had a massive project to significantly ramp that up and that's actually had some really good effects and you know, what we've seen is those earlier rear buckets improve now for eight months in a row. The back end however, PRPs or properties in possession, so that's kind of, you've gone right the way through the cycle now and the bank has eventually not been able to sell the property on an auction at a price that we think is reasonable, so we've bought that property back in again and we effectively now own it. And you can see, we've got about eight hundred million Rand's worth of properties that we own out of our residential mortgage portfolio and we would certainly see that that number is still going to increase in to the first half of next year, before beginning to taper back off again. We've got a number of innovative ways that we've been involved with auctioneers etc in disposing of those properties, because I think we know from the experience in the 2002-2003 cycle, that properties in possession can cause you an awful lot of pain over time.

I think we've also seen an increase in the level of fraud in our home loans business. In an environment where times get tough, people get very creative in things that they do in the overall environment. So certainly some of our bad debt experience is reflective of an increased level of fraud and we've got a number of kind of fraud squads and fraud busters that we've put in place to enable that not to get out of hand and I think we've made some good progress there.

We've also been able to use this environment to significantly renegotiate our relationships with originators. Generally speaking in the South African market, about 60% of loans would come to banks through originators. Banks would still credit score all of them and choose whether you want to accept them or not and 40% would come through our branches, but we've been able to reduce originator commissions by about a third over the last year, so we certainly think that originators still have a strong role to play in the South African market going forward. They're the guys sitting there on Sunday afternoons, when people buy their houses, they say, you know for no extra cost to you, I'll get you four quotes on your home loan, it's a very powerful proposition, I think they were just being paid too much money for what they were actually contributing in the cycle. So we've been able to renegotiate that; so certainly a number of positive factors out there, in the secured lending environment, but we do remain cautious in to the second half.

Vehicle finance, also a strong drop in volumes as we've seen new car sales fall, so 45% down and generally speaking, Nedbank has had a pretty sub-scale and weak vehicle finance business in our own right. Imperial, through a brand called MFC has had a very strong vehicle business, tough at this point in the cycle, but they've got a strong business so we would certainly see the rationale for combining those two businesses as being quite powerful in terms of strategically fixing Nedbank's vehicle finance operations.

If you look at the outlook for retail, you know we've got some positives and some negatives here. I think there's a positive story to be told in terms of non-interest revenue. We have focused that business very strongly on economic profit, so not market share for market share's sake, only trying to write EP positive business. We've got a good story to tell around growing our primary customers and the liability side of our business but there's still a number of challenges that sit out there from a bad debt prospective on the retail cycle and even though it does feel that the worst is more behind us than in front of us, there is still certainly some risk that lives in the tail end of that book and we expect the second half to be tough as well.

To quickly get to bank assurance. Following the merger of BOE, NIB and Nedbank in 2003, we ended up with a pretty disjointed bank assurance structure. We had a number of entities that we owned in joint ventures with our parent company Old Mutual and since July of this year, we've reached agreement to effectively tidy up those structures and effectively re-issued shares to Old Mutual, to buy them out of their 50% shareholdings in a number of those joint ventures so absolutely, they'll still participate in the bank assurance revenues through their increased shareholding, but it does make the businesses much easier to run operationally and strategically and does take out a significant amount of leakage in things like VAT and additional over-head etc that those joint venture arrangements had in place. And to really put some weight behind the bank assurance strategy, as I said earlier, Dave McCrady has now joined the Exco.

This slide here really is just to try and orientate you around what sits in that word, bank assurance, so down the left hand side there, we've got a Life business called NedLife, that was one of the businesses that was previously 50, 50% held, so really what that Life business is focused on is the life assurance that we sell alongside our home loans and vehicle finance business, so it's kind of an internal life assurance business. We also have an insurance company, Nedic, Nedbank insurance company, again exactly the same focus in selling the home owners cover and short term insurance on the assets that we are financing and then we have a broking business, which is effectively providing advice to our clients in respect of life and short term insurance. There's then an investment pillar, which is effectively both domestically and internationally a best of breed asset management business; so we don't employ the asset managers, we effectively get asset managers to run funds on our behalf, external asset managers, and we're really choosing those asset managers and down the bottom we have a financial planning business. And then on the right hand side, we have our high net worth businesses, in South Africa, through BOE private clients and internationally through Fairbairn, and again Fairbairn was also one of the businesses that was owned together with Old Mutual, that was a 70% Nedbank, 30% Old Mutual, and we now have full ownership of Fairbairn, and we certainly think that that will enable us to provide a much more kind of joined up and international service to our clients, both domestically and internationally.

So if you have a look at the business themselves, we saw the numbers earlier, the business was up 2% in the first six months, pretty mixed bag of what sits underneath that, some reasonable advances growth in the high net worth business. Some good increase in sales in the short term and life business, up 15%. We saw some good fundamentals in to our asset management businesses, with continued inflows and the funds themselves performing relatively well in very volatile markets. But if you then drop down in to the private client businesses, certainly some strain in the credit environment from a high net worth prospective and we saw bad debts increase and also an increase in lapse rates in the life business.

Looking at it going forward, I'm really not going to go through this in a huge amount of detail, but I think really what we're trying to do here is now that we have effective control and ownership of a 100% of our bank assurance operations, we think that there's a significant amount we can do to make them operate in a much more coherent and cheaper manner and to be able to provide our clients with a more seamless service across the piece.

So if you look at the various pieces from a bank assurance perspective, you know we want to position ourselves as the fastest growing bank assurer, we've already launched a number of new products in the savings environment, a product called "Dream Maker". We've been pushing some unemployment insurance in the last couple of months, so there's certainly a lot of product development going there. The asset management business built off a best of breed asset manager, and we're going to continue with that focus and then, as I said earlier, the wealth management environment is really an alignment of the domestic and international high net worth strategy. There are also some pieces of Imperial Bank, that will naturally migrate their way in to the high net worth environment, particularly those pieces that focus on the high net worth medical lending etc and we're going to plug that piece in to this segment.

So looking up a little bit now, in to the future, this is just a generic picture of growth drivers. I said earlier that the way we run everything in the bank is on an economic profit basis, so driving that differential between a return on equity and cost of equity, trying to keep that differential wide and sustainably open over time, but really the kind of, in the back of our minds, we've got the underlying principle that somewhere between 70 and 90% of any value creation in a financial service organisation is driven off the revenue side and the inverse of the 10 to 30% is done as a result of cutting costs, so if you follow the sort of red lines there, a huge amount of focus in the organisation that the big prize is really in selling more to your existing customers and improving our cross-sell ratios throughout the organisation, making sure that we're operationally geared to be able to do that. A huge amount of working going on in the front end of our retail systems to enable the client interface to be done in a much easier way, to free up time for cross selling and then the usual thing in any environment of making sure that what you want people to do is appropriately linked through in to things like balanced score cards. So I think Tom has always been a huge believer in you know, people do what you pay them to do, so if you want people to ramp up cross sell, you have to make sure that you link that through in to how people are remunerated in a balanced score card environment.

Looking at longer term growth, there's a list here of the key focus areas in the organisation. I'm not going to go through each one in detail, because they are coming up on the next few pages. So the first one there was managed for value, that's really our kind of internal jargon for the focus on economic profit, as the primary driver of shareholder value creation. I spoke about fixing the EP negative businesses, so there's a huge amount of value in just getting home loans and vehicle finance, firstly from EP negative to EP zero and then the growth in the economic profit in those businesses going forward and certainly on the vehicle finance prospective, we do see the purchase of Imperial Bank as being a catalyst for improving our own vehicle finance business and on the home loan side, combination of lower loan to values, less fees being paid to originators and wider spreads on new business, as the interest rate cycle turns and feeds in to perhaps more normalised bad debt levels, certainly, we think we'll push economic profits back in to that environment, perhaps not in 2010, but certainly if you look in to 2011 and 2012, I think we could see some pretty strong earnings growth coming out of our retail businesses.

Big focus on bank assurance and wealth. It's a low capital intensive business with high levels of economic profit. Focus throughout the organisation on re-pricing asset levels. There's no doubt that asset spread has got too low in the froth of the cycle and we have to use this opportunity to open those up. Very selected advances growth, so not market share growth for market share's sake. I think there's an error on the slides here that RWA to total assets should be dropped down one line. That's a key component of how we're going to continue to optimise our capital.

If you take the big four banks in South Africa and you take their risk rated assets to total assets ratio, so again, for the non bankers, your RWA ratio is what is effectively modelled out of all of your Basle II modelling. So that tells you what percentage comes out of RWA to total assets, relative to the peers. Nedbank is sitting there at 63%, so we have the highest relative ratios of RWA to our peers. No surprises, the red one is Absa, the light blue is First Stand and the dark blue is Standard Bank, so you can see they're sitting at sort of 50 to 52%. So what that tells us with not a particularly dissimilar mix of assets, for sure we have slightly more wholesale than retail, but certainly, I'm sure what Basle II is going to tell us over time is that retail assets are also pretty risky, as we've seen in the US. You know we absolutely have the opportunity to continue to optimize our risk weighted asset ratio. We have been without doubt, much more conservative than our peers in the way we've computed RWA so that optimisation you know, trying to move that ratio down, perhaps even to the mid 50s, still not even at peer group level, is going to enable us to continue to grow our capital adequacy without any new capital, so I think that's certainly a feature that we would like to see over time and then a continued focus on our deposit franchises.

I said earlier that the stand out metric relative to the peers is our lower non interest revenue. And in fact we're drilling that down in to non interest revenue to expenses, generally speaking our peers have got ratios there of somewhere between 90 and 100% and we sit, sort of up in the top 70s, so a big focus in what we need to do to improve that. You'll have seen the message coming through from Graham around what we've done to improve our banking systems in the corporate and business banking environment and the big focus in retail on primary customers. So all of that geared to improve our non interest revenue to expenses ratio. Some of the data points on here we've been able to grow our primary clients by 20% since 2006, so there is some success that we've seen there. We've gained a number of key accounts in the public sector, the largest one would be the whole government of the Western Cape. So that's a key kind of toe-hold for us in to the public sector environment and we've been able to use the strength of our balance sheet to leverage up our ability to sell transactional products in the corporate environment. Trying to keep that prop to flow trading at around the 75% to 25% level, because I really don't think that you get significant amount of value for you know, pumping up prop trading in one year and then the next year it kind of falls by 50% or whatever it is, I don't think shareholders give you any credit for that, so we have to make sure we keep the weighting on the flow side of the business and then, you know, certainly the full ownership of the bank assurance environment, first optically improves non-interest revenue significantly because when we didn't have full ownership, all of that was effectively coming through the associate line and not sitting in non interest revenue, so the gross up will give us more non interest revenue, also more expenses on full consolidation. But it does enable us to have full control of those businesses to push up the cross sell.

Just in terms of differentiating, in terms of service across the business, we have less branches than our peers. You know, we've got somewhere round about four hundred and fifty branches, four hundred and forty or fifty branches across the country. I think the next one of our peers is at around six hundred and fifty, so that certainly does give us the opportunity to provide better service because we've got a smaller delivery footprint. In the business banking environment, Graham spoke about the differentiation in terms of accountability, making sure that the people running the regions are fully accountable for what they do. We've got very strong corporate relationships on the wholesale side. And on the retail front, if you look at how our brand has progressed over the last few years, there's a number of brand recognition surveys but through some of the sponsorships that we're involved in, and perhaps particularly in our sponsorship of soccer in South Africa, which we started about two years ago, previously we were a very strong sponsorship of golf, which remains in place, but clearly that's a top-end sport. We've complemented that with soccer sponsorship and you've seen Nedbank's brand awareness grow probably more than any of the other banking brands over the last two to three years as a result of that.

I think risk is absolutely at the heart of any bank and the ability to firstly measure risk and then manage risk has to be a core competence. You know risk is an integral part of our strategy, our reward systems are based on economic profit, so we don't have any traders being remunerated off directly a share of revenue lines, in fact our investment bank runs on one total pool, from a remuneration prospective, so I do think that that's, you know, that's kind of – a lot of what we read around what's happening in reward and recognition systems around the world, is very much where we've progressed the bank to over the last two or three years.

Big focus throughout the bank on bad debts, collections and risks and as I said earlier, we've seen some really encouraging signs in the roll rates in retail and I think broadly speaking, the enterprise wide risk management frameworks etc, that we've rolled out in the bank over the last few years are right up there with what we see anywhere else in the world.

In terms of enhancing productivity and execution, you can see there our efficiency ratio. When we got ourselves in to a lot of trouble in 2003 and 2004, rolling up at the 70 or 80% levels, we've got that all the way down to 52% now. We would expect that to deteriorate over the next year or so, primarily as those interest rates continue to cut, a squeeze in the NII, but if you look at expenses to assets, we have the best expenses to assets ratio of anyone in the peer group and I think probably, in fact definitely, I think the culture of the organisation has been very tight on managing expenses over the last few years.

Looking at the corporate culture, we've had a huge thrust under Tom's leadership on building an organisation that is vision led and values driven. Many of the analysts out there, find this to be all the soft fluffy stuff, because you can't translate all this in to numbers, but it is absolutely at the heart of building an organisation that can sustainably compete over time and in fact internally, I think that we talk a lot about, I know we talk a lot about perhaps, the culture of your organisation is your only sustainable competitive advantage in financial services over time. It's very easy for people to copy products, you know, if you've got a branch, they put one next door, but it's really the underlying culture of the organisation that is a real focus for us. We've developed, together with Richard Barrett, a number of culture measures in the organisation and if you look at the culture measures that came out in 2005, these are things that are coming out in surveys of you know, fifteen or twenty thousand people in our organisation, you can see we had a lot of what we would call limiting values, those are all the things put in there in red – bureaucracy, silo mentality, hierarchy, control etc. Pretty understandable, having come through the challenges we did in '03 and '04, but if you look at how our culture has migrated through to 2009, you know I certainly think that Nedbank's culture is absolutely appropriate for both the financial services institution and for a high performing organisation going forward and that will remain a key focus area of mine, as I take over from Tom.

No organisation can perform or provide client service, unless the staff who work in that organisation are happy and this is our staff surveys that we've done over the last four years or so. Again, I won't dwell on too many of the metrics but you can see those concentric circles pushing out over time which is fantastic. You can see a 26% improvement in the overall scores over the last few years and if you look at some of the key things that you need in a financial services organisation, if you look at our scoring 86% on ethics, it's our highest score anywhere and it's certainly something that we're particularly proud of. Things like direction, scoring 82%, so that's the understanding of the staff, of the strategic direction of the organisation and things like leadership, scoring 80%, again, I think a very powerful testament to what Tom has done in the organisation over the last four or five years.

We've touched on transformation, one of the aspects of transformation that you saw earlier was that we were the third most transformed company in South Africa, under the DTI codes. One element of that is employment equity, so that is what does the profile of your workforce look like, relative to the profile of the country and I think what you can see here is across all levels, we've made steady progress over the last few years. We've beaten our internal targets but the key challenge from an employment equity prospective is if you go right to the right hand side, you'll see that from a total management prospective, we're 62% black, but if you look at the senior management on the left hand side, we're around 30% black. So it's still the continued flow through from junior management to middle management to senior management, to get a more normalised score right across the work environment.

We've remained alert to opportunities in the environment. I said earlier we've purchased the Old Mutual bank assurance joint venture, so that's BOE, Nedlife and Fairbairn, around 1.2 billion Rands worth of purchase consideration there, settled through the issue of shares to Old Mutual and we certainly think that both ourselves and Old Mutual will make more money with these three entities under one common control environment, rather than working through the challenges of 50:50 ownership and the leakages in terms of governance and VAT etc, as a result of that.

Also in terms of the Imperial Bank transaction, you saw we had 7% market share in vehicle finance, they've got 11, so together we'll have 18%. Previously it was 50:50 owned by ourselves and Imperial Holdings so again, for us it represents a pretty low risk acquisition, it's a business we know very well. A number of our people – their CFO, their chief risk officer, in fact their chief executive are all ex Nedbank people so we do know the business particularly well. It was also a rather strange structure. We had 50% equity ownership but we provided a 100% of the funding to the business, it didn't have any of its own funding base, so there's a misalignment in the economics, so certainly purchasing it is not going to increase our funding requirements because we already fund 100% of the business. We've agreed a purchase consideration of R1.8 billion, which is about R200 million in excess of the underlying net asset value of that organisation, and some of that excess in net asset value, is a result of us being able to get out of our onerous funding obligations earlier than we otherwise would have in the normal course of business. So I certainly think that this is going to represent an opportunity for us going forward, an opportunity to help fix our vehicle finance business, but also a significant opportunity to help improve our cross-sell in to the Imperial base.

If you have a look at Imperial itself, it's in a really tough part of the cycle at the moment. It is only a secured lending business, so you can see, producing a return on equity of around 7%, but again, we think that it does have some pretty exciting prospects over the next two or three years, as the credit loss ratios normalise. You can see it sitting there at around 2.5%, normal credit loss ratios in the vehicle businesses sit probably somewhere around 1.3 to 1.5%, so as that cycle turns, we will see significant profitability coming back.

You're going to get Graham for a few minutes to talk about the Ecobank Alliance and then I've got two or three slides to conclude on before lunch.

Graham Dempster

Thank you very much Mike. Just to touch on the ECO Bank Alliance. The principle lying behind that is that as South Africa becomes more integrated in to the rest of the continent, you find that the trade and investment activity that's taking place across the continent, by South African companies is escalating dramatically and so for us, the challenges to ensure that we were able to follow our clients and support them as they expanded their activities across the continent, the reality is they're going to multiple countries, so to actually try and be rifle shot in which particular country they'd be going to is enormously difficult to predict. So we found a partner in the form of Ecobank. Ecobank is pan African operation that has businesses in twenty eight countries, the largest geographic footprint on the continent of Africa and if you look at the map in front of you, the blue area represents where Ecobank is currently operating. The green is where Nedbank operates and the red in between, those really are expansion opportunities. So we got together in terms of, they were looking to actually have some ability to be able to get their clients to transact in South Africa, but recognise that it's a very competitive market and likewise, for us to be able to go in simultaneously in to twenty eight countries was an enormous challenge. So we've come together on the strategic business alliance. It's a low risk, low cost, significant potential opportunity, that you have to work at quite dramatically. We have a whole number of work streams which are really configured at the end of the day to provide both sets of clients with what we would describe as a one bank customer experience. So that they get a consistent way of experiencing the bank, whether they're operating directly with us or through our partner on the basis that we actually have a single interface in to Ecobank, they have a complete multi currency, multi country computer system, based on a single IT platform that makes for integrated viewing of activity very simple to achieve.

The other thing for Ecobank clients that's very exciting and has a benefit for us is that they have the opportunity to early identify project type activities across all of those countries that they operate, but they don't have the same level of investment banking expertise that resides within Nedbank Capital, that focuses on mining, energy, resource, infrastructure, so there's a great complimentarity of opportunity there, us providing the skills, them early identifying the opportunities across the continent. So it's early days. We've been going just under a year. We announced the alliance December last year, after about nine to ten months of detailed evaluation of how we would work together. We're very pleased with the progress. We think that, if I just move you to the next slide, that there's a whole number of opportunities that we have there.

The first is, as our clients move north, we need to support them, otherwise potentially they could migrate to somewhere else. So there's a defensive element to that alliance, to ensure that we can provide the full service to them as they go north. But there's also in terms of positioning, tremendous strategic opportunity both to take advantage of that additional deal flow and to position us for further consolidation type opportunity that can take place across the continent and then furthering that positioning, you have to take in to account the level of trade flows that go in to Asia, both China and India, and we're looking at that component as well. So from the growth perspective, we've agreed with Ecobank that there's a whole number of countries that we'd like to expand over the next three to five years and we are going to evaluate those opportunities on a joint basis, depending on the nature of risk, the proximity of the country to South Africa and the type of opportunity that exists, so tremendous collaboration on future joint investment opportunities as well. And so we have a series of work streams on transactional banking, investment banking, wholesale lending and retail banking and mobile telephony type opportunities that we're working on. This is not a one day wonder, it's a medium term positioning, but which has significant potential. And with that, I'm going to hand back to Mike. Thank you.

Mike Brown

I think we've got three or four slides left to go here. First of all, just a slide on our positioning as a corporate citizen. We're very, very conscious of the special role that banks play in society. Clearly, we want to be strong, we want to be profitable, but we also have to make sure that we do that in a sustainable way and we give back to society and I think Ned, I know Nedbank takes this enormously seriously, not only is our colour green, but we absolutely have the high ground here in the South African banking environment. I'm just going to pick some of the awards that we've received, there's numerous of those. We'll be one of twenty five banks in the world that is included in the Dow Jones sustainability index. Further down, we were the first signatory bank in Africa on the Equator principles, that's all about responsible project finance, and the way that things are funded. We have a partnership with the World Wildlife Fund. Things like affinity card, you can have a Nedbank credit card is in affinity with the World Wild Life Fund and every time you spend on it, we donate a certain amount of the fees in to the World Wildlife Fund. And if you go right down to the bottom there, things like the African Bankers Awards, where we won the socially responsible bank of the year in Africa and we've also committed to be carbon neutral in to 2010. So I think we've got a very, very powerful positioning there.

In summary, I think everybody here is very well aware that there's lots of macro economic uncertainty out there. Hopefully we've been able to paint a picture for you that says, to date, the South African banks and Nedbank within that environment, have navigated a very, very challenging environment particularly well and it's certain that we have improved our relative competitive positioning on the world stage of banks in this very, very tough environment. So certainly from a Nedbank prospective, we're very pleased but certainly in no way complacent in terms of what we've achieved in this environment.

We have a look at the outlook for the balance of 2009. It is going to remain tough. We saw earlier that our outlook for earnings, headline earnings per share was 25 to 35% down. But in that really, really tough environment, we're not making losses and we're not running out of capital, we're remaining very, very solidly profitable. We do expect that the recovery in South Africa will be slow and you saw the GDP numbers that Tom put out there and are back up here with around 2% growth in 2010, perhaps the opportunity to outperform that with some of the impetus in a relatively small economy from the World Cup. Volumes will remain low we think, in the foreseeable future. So you've seen the drop in loan volumes and the transactional volumes. We are still forecasting a 50 basis point interest rate cut between now and December. Interestingly enough, if that doesn't happen, it will in fact be a positive to profitability in 2009 and I think will have very little effect on bad debts. The main driver of bad debts improving has been that 5 percentage drop that we've seen as rates came from 15% down to 10% and we expect to see that starting to come through quite positively by the time we get in to the second half of 2010 and in to 2011, but in the interim, you're in the sort of period of shorter term pain for longer term gain, as that cut in interest rates squeezes the margin without the release in impairments that happens later in the cycle.

In terms of just looking at our focus. Very fortunate to have a very strong balance sheet. You saw our tier one capital sitting at 10.7%. And on top of that we still have those risk rated asset optimisation opportunities to further improve tier one capital adequacy. You're also seeing loan growth slowing, so there isn't the demand on capital going forward, perhaps with some quite strong profitability growth, if impairments begin to unwind. We have our new management team in place and certainly success for me when I take over from Tom next year, will be if the organisation doesn't notice the change in leadership. We've worked enormously closely together for the last five years so nobody should expect any radical changes in strategy, otherwise people would quite rightly say to me, well what the hell have you been doing for the last five years, if you've suddenly got such a different view of the world, come the 1st March next year, than you've had for the last five years.

If you look at our business in total, we've got a very, very solid franchise, 18 to 20% market share player in South Africa and a very strong customer positioning across particularly our wholesale franchises and importantly on our retail deposit franchise.

Big focus on fixing those businesses with negative economic profits. Those are the things that we think are really going to cause the big swing factor in earnings going forward, if we're able to unwind the historic high impairment levels that live particularly in our home loan and vehicle finance businesses.

Big focus on growing non interest revenue, it's the piece that we are out of line with the peer group on a relative basis. The rest of our business I think stacks up very well. Non interest revenue does give you a higher quality of earnings, it's less cyclical, it's less capital intensive, so it's certainly an area that we are looking to continue to focus on in terms of cross sell and primary clients.

A lot of focus in our retail business on being client centric. Over the last few years we've probably erred on being too product centric, particularly the focus on home loans. We really want to make sure that we focus a lot more across the piece and then to continue to transform our organisation; we know we live and operate in a transforming society, in a transforming country, and we need to make sure that we continue to transform to remain relevant and to be able to continue to grow in to the future.

So thank you very much indeed for listening to what we had to say. We're very pleased, as I said, as to how we've navigated the global financial crisis so far. We certainly aren't complacent. We do think and I know, that I have an excellent executive team in place and we are well-positioned to benefit from the economy as it begins to turn and hopefully, the worst of the retail bad debt cycle that has been so painful from an earnings growth prospective, is more behind us than in front of us. So thank you very much indeed and we'll take any questions.

Andy Hughes

Hi, it's Andy Hughes from ICAP again. It's a question on slide 85, where you show the Imperial Bank acquisition. The average interest earning assets and the number of clients. It looks like the average loan is a hundred thousand Rand per person. They seem to drive much better cars than I do. Is that actually the value of the loan per person, a hundred thousand.

Mike Brown

That would be exactly right. I think the average car would certainly be around that value.

Andy Hughes

What do you actually lend as a proportion of the car.

Mike Brown

It's done on an individual scoring basis, customer by customer. So I couldn't tell you, maybe Graham has got the data point in his hand, what the average LTV is in respect of cars.

Graham Dempster

It would be around about 80.

Mike Brown

It would be round about 80. But absolutely, there will be 100% LTV done on cars to the extent that you know, somebody is a professional person with an underlying income stream to be able to support that.

Andy Hughes

Is that similar for the existing business. So if I take this business in combination with the existing one, you're basically going to have seventy billion or so with average interest bearing assets, from vehicle finance.

Mike Brown

That's correct. So we'd have about, that 18% market share. I think Nedbank would probably have a slightly higher average loan than the hundred thousand because Imperial operating through the Imperial franchises, has had a higher market share of second hand cars, which would be a slightly lower value than the new cars.

Andy Hughes

Okay. Thank you very much.

Jon Hocking

Jon Hocking from Morgan Stanley. I'm an insurance person, so this may be a dumb question. What drives the difference between the ranking in retail deposits and retail assets. Because that doesn't seem to be a sort of non interest income related issue.

Mike Brown

Yeah. So I think, you know, essentially, if you look at the history of the organisation. What has driven our really strong retail deposit franchise is that in fact, over many years, Nedbank has been the merger of a lot of old building societies, so things like the Permanent Building Society, Cape of Good Hope Building Society, Natal Building Society, all of those things have over time merged in with Nedbank and the building societies were very strong deposit businesses. So we've been able to keep that strength that came through that process.

Magdalena Stacorsa

Magdalena Stacorsa, Morgan Stanley. What's your assessment of the improvement of the impairment of cycle in to 2010 and 2011 and the potential for normalisation of your impairment charges.

Mike Brown

So I mean I think that's a huge – that's the kind of big question out there because there's no doubt, if you look forward, the key delta in earnings, year on year is going to be what happens to the impairment line. You know, our current view is that we think that it's probably going to take through to 2012 for impairments to normalize back to our expected loss levels, which run at around the 80 basis points. So obviously a lot of risk in kind of all of that at this stage in forecasting that. You could easily have a big corporate you know, fall over that gives you a big spike there. But you know nothing in any of our modeling would say that that expected loss level of 80 is materially incorrect. So somewhere there does have to be a normalization towards that.

Man

Could you please give us some idea of the economics of the Ecobank alliance. How much money have you put in to it and what ownership do you have.

Mike Brown

Do you want to do that Graham

Graham Dempster

The principle thing for us in the shorter term, you shouldn't expect that Ecobank is going to be a game change in terms of revenue generation in a three year period. The key critical thing for us is to ensure that we service our clients, so you can do all sorts of reverse engineering calculations as to what potential loss of revenue could you have if you weren't able to provide your clients, but you should see it as a medium terms positioning, with the immediate benefit for Nedbank coming out of investment banking activity as distinct from transactional banking activity. So then you've got to get in to, well how many deals are you going to do and what is the generation of revenue going to take place there. And that really is driven by opportunity, hard currency funding, it's a pretty tricky market out there in the shorter term but there's significant potential by virtue of the pent up demand for capital infrastructure development over time.

John Sykes

John Sykes. How much are your insurance products that you sell or actually Old Mutual products and how is this going to change going forward and do your competitors actually make more money selling insurance than you do, on a sort of comparable basis.

Mike Brown

Yeah, so again, I'm talking from memory in respect of the data points that we've got around that. Around 90% of the insurance products that we sell, are group products and that would include whether they're Nedbanks own products or Old Mutual's products and around 40% of those products are Old Mutual products per se. I think in terms of do the competitors make more money than we do, look, I think the competitor who makes the most money out of their bank assurance operations in fact, Absa at this point in time. And that I think is really to do with how operationally they've structured their businesses. And if you look at how we are currently structured now, post the take out of the JV's, you'll see we structured very similar to how Absa is structured. So the key in these environments is really to try and get the insurance products plugged in at the point of sale and really try and sell an embedded product in the sales environment, so certainly, we would be looking to try and replicate more of an Absa type model, which we are now able to do, given the structuring, and Old Mutual will then benefit through the shareholding.

John Sykes

Does Absa manufacture?

Mike Brown

Yeah, absolutely

Tony Silverman

Just a follow up on the last question, which was something I was interested in anyway. It's Tony Silverman, Standard & Poor's Equity Research. Was that 40% figure a sort of as of now or a historic one. And what's it going to do going forwards and if you could talk a bit about if you'll really be in any sense competing with Old Mutual.

Mike Brown

Have you got that Tom

Tom Boardman

We have always sold the fundamental credit life products through the bank's Life company. Those are the ones that are plugged – every time you get a home loan you, you know, come to the credit life, you can have a cost loan cover that. The more complex products have been coming out of Old Mutual, so any retirement annuities, endowments, policies, those come out of Old Mutual and still do. So there's not a big shift in the mix. I think where Old Mutual used to benefit in the 50:50, that's where we will now pick up that share of those particular products, but we still will not be running any of the more complicated capital, products requiring capital and requiring the actuarial side. In fact we out source our actuarial business to Old Mutual as well.

Mike Brown

Certainly at the top end of all of those complicated products, we do run an open architecture model. So we do provide our clients with a choice of product. Any questions coming from the web? We have one on the telephone.

Tom Boardman

Our first question on the telephone comes from the line of Louis Seti from Morgan Stanley, please go ahead, your line is open.

Louis Seth

Hi Mike. Good morning everyone. Just a quick question on your risk rated assets. Can you give a bit of colour as to what is going to drive it down. Would it be loan reduction. And secondly, some sort of a time frame as to when this will be achieved by.

Mike Brown

Okay, so the question is really around if you looked at that slide that I put up that said our RWA to total assets ratio, was 62.9 and the peers was drifting around 50 to 52%. You know I think the key issue for us in terms of what we're doing, it's really just taking out excess conservatism from our modeling. We were very conscious when we transitioned in to Basel II that if we had any data points where we had a five year history, but we'd rather have had a ten year history, if our data points say the probability of default was 3.5, we had plugged 4 in to our models because we wanted to make sure that if we were wrong, we were wrong on the right side of conservatism, in all of those environments. So a lot of the improvements that we can see happening in our RWA, is effectively as we get a longer data history, so not changing any models or changing any loan growth rates of any of that stuff, but as we get a longer history in our data, we can prove that the data points that we are using, are way too conservative. We want to make sure that we remain conservative, absolutely, in this environment, but it's really a data issue as we've looked backwards and seen that some of our data estimates have been significantly too conservative and we do get to see those data points relative to the peers. There's significant disclosure that comes out in pillar three disclosures etc under Basel. So we're able to benchmark our portfolios a lot better and say, where do we think we've been significantly more conservative. Does that help you Louis?

Louis Seth

Yeah, it does. Just one follow up question. Can I read in to that that your income statement charge has probably been conservative as well.

Mike Brown

No, I think it's not driving the income statement charge at all. That's all being driven out of IFRS. All of that modeling that I talk about would drive the expected loss and you'll see the difference as you know, between expected loss and the income statement charge, running directly through equity. So I don't think there's a read through in to the income statement charge at all, that's being driven off IFRS modeling.

Louis Seth

Thanks very much.

Andy Hughes

Hi. Andy Hughes, ICAP again. Quick question, following up on that question, on the lines of the commercial loans within South Africa. Is it right to say that you'll have a lot of big exposures to – in terms of your top five exposures will be quite big. And would there be a lot of correlation in your loan book, given that you've got a lot of related industries, which must form a large proportion of – and how do you deal with the risk inherent in that correlation within your book. So for example, are you comparing yourselves in terms of risk weighted assets to presumably more diversified banks.

Mike Brown

So that comparison I gave you is the comparison to the other four South African banks so there would be very little difference in diversification.

Andy Hughes

Okay. So how does it work. Do you have a lot of correlated exposures at the top of your risk book

Mike Brown

Graham, do you want to.

Graham Dempster

The major correlation that you have is that you have fairly significant property exposure in the South African market and you can't diversify completely out of that but when you look at the large individual exposures, you will generally find that the four South African banks will be at similar levels of activity there, so everybody should have the same element of diversification other than for the differentiation in the profile of your assets and we've got a slightly heavier skew towards wholesale, but not overwhelmingly so.

Tom Boardman

To add to that perhaps that you know, one of the things we've seen in the last three years is the less and less balance sheet being used by foreign banks, so the South African banks have had pretty much and I think you saw this widening of the spreads in our corporate business, where the loans are chunkier, turnaround is quicker, so there's a spread widening that manifested itself in the margin already. And so we really have been able to kind of pick the eyes because the foreign banks haven't been there and that's what's enabled the margins to up a bit. I do have a concern that the sheer extent of the infrastructure spend that is taking place and needs to be funded, the South African banks can't fund all of that. Because we would all go over our maximum appetite per industry and per large corporate. So there's going to have to either be you know, some government funding or ESKOM and the Telecoms are going to have to get on the road and raise capital internationally. But it's been a great environment for us to operate in in the last two, three years.

Andy Hughes

Thank you very much.

Mike Brown

Anybody else on the phones or web. Patrick, do you want to tell us what's happening next.

Patrick Bowes

Firstly, thank you very much to the Nedbank management team, very interesting presentation. We're now going to lunch and at the buffet there will be an opportunity to mingle with the senior management, but many thanks for you all joining us today and thank you to the presentation team.

END.