CAPITAL MARKETS DAY
TRANSCRIPT - NEDBANK

Mike Brown: Right, good afternoon everyone. I'm not sure whether you needed the drink after Paul's presentation or before mine but… Right. On the agenda this afternoon we've got around thirty minutes to get through quite a few slides before there's some Q&A at the end.

So I'm only really going to talk to the key issues on each slide with this overall agenda slide here providing a roadmap for the rest of the presentation today. I'm going to start with a quick overview of the Nedbank group and the context within which we operate conscious that as a listed company many of you will already know this.

Then I'm going to move on to highlight how in a volatile, uncertain and generally slow economic environment we've built a strong and sustainable Nedbank business that continues to deliver value for our shareholders through the cycle. I then intend to talk about how we continued, how we intend to grow and sustain value creation, and to delivery to shareholders into the future through what we call our five key strategic focus areas. And lastly I'll give you some thoughts on why we believe that Nedbank is a sound and attractive equity investment.

Nedbank is one of the leading financial services providers on the African continent with a vision to be Africa's most admired bank by all our stakeholders. We are currently 54% held by the Old Mutual Group and more specifically these shares are held by the Old Mutual companies in South Africa. The Old Mutual managed separation process will not have any impact on the strategy or the operations of the Nedbank group.

Whilst our origins date back to the early 1800s, the Nedbank group share has been separately listed on the Johannesburg stock exchange since 1961 and we are governed by an independent board of directors. At the 30 September this year, our market capitalisation was around 110 billion rand making us one of the top 40 companies on the JSE. For the full year ending 31 December, we produced headline earnings which, is the JSE definition of profit, of almost 11 billion rand. Compounding growth in assets on our balance sheets since 2010 has been at 9.7% and we have deliberately been growing our wholesale assets or advances faster than our retail assets.

Our unique best of breed asset management business has produced market leading investment returns for our customers, and as a consequence assets under management has grown at a compound rate of 16.5% since 2010 to just a touch over 250 billion rand. Just to give you another sense of scale at

Nedbank, across the group we service more than 7.7 million clients and together with our alliance partner, Ecobank, in whom we have just over a 20% strategic investment, we provide our clients with access to the largest banking network in Africa across some 39 countries. Lastly, we service our clients and customers through around 32,000 employees, over 4,000 ATMs and 789 staffed outlets.

Our operating model at Nedbank consists of 4 client facing clusters and a largely shared back office environment. On the left, Nedbank Corporate and Investment Bank or CIB is a top two SA corporate and investment bank. We have got leading market share positions in commercial property finance and in industry segments such as renewable energy, where our share in both of these is above 30%. CIB is also the largest contributor to group profits and advances at over 50% as you can see on the pie charts, and has consistently delivered return on equities in excess of 20%. This positioning along with our strong business banking franchise makes Nedbank somewhat unique amongst the big four South African banks as we are more biased to wholesale banking than any of our competitors.

Nedbank Retail and Business Banking or RBB as we refer to it services more than 7.4 million retail and business banking customers. We have been investing in RBB to boost growth and this cluster has seen its return on equity consistently improve over the last few years to now above 18%. As I said, we have invested significantly in the retail franchise and are now starting to see the benefits of this coming through in improved returns.

Nedbank Wealth is a combination of our high net worth client private business, our best of breed asset management business and our integrated simple insurance activities. It is a high ROE generator with ongoing growth potential. In our financial planning business, which is part of Nedbank Wealth, about 90% of all of the flows that come through our advisory force are received into products that are either Nedbank products or Old Mutual products.

Lastly, in the rest of Africa, our focus is to own and manage operations in Southern and East Africa, and in Central and West Africa we have chosen a partnership approach and have a strategic relationship with Ecobank as that partner. These are currently all relatively small contributors to the group but do position us well to participate in the longer term African financial services growth opportunity.

I'm sure that many of you are familiar with our results to the 30 June and we show you here our results including and excluding ETI. A quick look at some of the highlights shows that our Nedbank managed businesses, which is the bottom row here, excluding both the funding and related associated income from our 21.8% shareholding in ETI and including our share of the fourth quarter 2015 loss, we account for ETI one quarter in arrears, so we accounted for that in our first quarter in 2016. On that basis, headline earnings grew very strongly by 20% for the six months. Similarly, excluding ETI, our return on equity increased to just over 18% and our efficiency ratio improved to just below 56%. The top row shows you all of those ratios including the impact of ETI.

Turning now to a quick overview of the context in which Nedbank group operates. South Africa's five largest banks are also the largest banks on the African continent. Financial services markets in West, Central and East Africa are not as developed as South Africa but are expected to show stronger growth of this low base into the future, and we do see significant potential from our participation in these markets. In this context, South African banks operate in a well-developed and regulated market but also provide investors with exposure to other African growth markets via the form of the more liquid Johannesburg stock exchange.

In South Africa, we have a concentrated banking market with more than 80% of the almost 5 trillion rand of banking assets held by the so-called big four banks, where Nedbank is ranked as South Africa's fourth largest bank. We are fortunate to operate in one of the most sound banking systems in the world, ranked recently number two in the latest world economic forum global competitor index on the metric of soundness of banks. I will leave some of the other proof points on the right hand side for you to read but want to highlight aspects that underpin this stability and ranking, including the closed loop rand funding system, world class regulation, highly rated management teams, good governance and disclosure levels, and strong institutions that protect the interests of investors and depositors in South Africa.

In the context of a sound financial services environment, South African banks compare favourably to our emerging market peers as we deliver attractive returns as shown in the ROE graph on the left hand side. In addition, South African banks are also well capitalised, all on a Basel III fully phased basis, a very good position to be in during these volatile economic times. It's also interesting to note from this graph that South African banks' return on equity and capital levels have both increased or improved since 2010 while the emerging market averages for these have both reduced since 2010.

Nedbank has built a strong and sustainable business over time, and the next few slides will show that we are well prepared to deal with ongoing economic and market volatility and, in particular, any consequences should there be a downgrade of the South African sovereign below investment grade. As shown on the graph on the left, we have grown headline earnings or the Johannesburg stock exchange definition of profit strongly since the global financial crisis in 2009 to finish last year at a touch under 11 billion rand. Even during high stress events such as the global financial crisis, earnings or profits in Nedbank remained positive and South African banks were not required to be bailed out or guaranteed in any way by taxpayers. You can see on the slide that peak to trough there was just under a 30% drop in the overall profit level of Nedbank through the global financial crisis. However, importantly today Nedbank is a materially stronger franchise than prior to the global financial crisis. Our much more selective credit extension over the past three years – and you can see that in the top right – as well as greater levels of endowment benefit from higher capital levels and current account and savings balances provide us with protection in the event of a sudden interest rate raise that a sovereign downgrade could trigger.

Our stress testing models at Nedbank also suggest that we would be able to manage well through such a potential stress event, and the following slide shows some of the reasons why.

Since prior to the global financial crisis, we now have 83% more clients that have chosen to bank with us, a much stronger franchise. We have a much greater contribution to revenue from less volatile non-interest revenue and our defaulted advances have declined to multi-year lows now at 2.6% of total advances. Our common equity tier one capital ratio at 11.6% on a Basel III basis is strong and above the midpoint of our target range for this which is 10.5 to 12.5. If you look at the duration of our funding, you can see we have a much higher mix of long-term funding and our impairment coverage is also significantly higher, supported by an additional 701 million rand of overlays on top of our retail IFRS models and a 350 million rand central provision.

This slide highlights what we believe to be the key drivers of shareholder value creation in banks. Over this period, we have increased our net asset value by a compound rate of 9%. We focussed on delivering economic profit by making sure that we deliver returns above our cost of equity and we have paid dividends in a progressive manner, compounding at 13.8% over the period.

Having looked now at the context of our historic performance as well as our ability to be resilient in times of economic uncertainty, I'm now going to highlight how our strategic focus areas that are designed to drive future growth and ongoing shareholder value creation.

We focussed all of our businesses on the five strategic focus areas that you see here, and I'm going to unpack each of these on the following slides, starting with client centred innovation. This underpins everything that we do to ensure that our client value propositions remain compelling in a rapidly evolving and increasingly digital financial services landscape. At Nedbank, we have launched more innovations in the last three years than we did in the preceding ten, as we focussed much more of our efforts on being externally competitive. For example, innovations such as our smaller and more digital branch of the future have not only positively impacted client experience and our sales volumes but have also saved costs as we've been able to reduce branch space by almost 16,000 square metres to date. Our focus on digital innovation has also seen very strong growth in our digitally enabled customers to 3.4 million. Many of our innovations are also seen as being market leading and have been independently acknowledged as such. These include products such as "Market Edge" which uses Big Data to benefit our card acquiring customers and "Approve It" which uses security features that give our clients best in class mobile security which we've done in partnership with a local phone tech.

Growing our transactional banking franchise remains the number one priority of the management team at Nedbank to continually improve our return on equity, to reduce earnings volatility and also to grow the brand value of the bank. We believe we have done well over the past few years with the financial outcome of this being seen in growing commission and fees which constitutes around about 70% of the overall non-interest revenue base of the bank. You can see on the right our 11% compound growth in non-interest revenue has been the fastest of our peer group, notwithstanding on the left hand side our deliberate strategic decisions to keep our banking fees flat and, in fact, reduce some fees in 2014 in expectation of greater volume growth later on in the cycle. We think that we are well positioned to continue this performance going forward given our strong customer growth, competitive pricing and increase in transactional volumes.

Unpacking this growth a little bit further at a divisional level, retail non-interest revenue growth has been supported by growing our main banked or primary customers by a compound 6% per annum since 2010, while also improving our cross-sell ratios. As a result, transactional non-interest revenue on the right hand side has increased by more than 9% per annum since 2010. Our share of main banked or primary clients in our retail business is at approximately 11%, and at that level is well below our retail advances and deposits market share of around 17%, and this is an ongoing and sizeable opportunity for Nedbank to focus on closing that market share gap relative to our peers. This will be achieved through a focus on five key levers: loyalty and rewards, digital innovation, process enhancement, our integrated channels, and winning client value propositions.

Moving on now to our CIB or Corporate Investment Banking cluster, here you can see that we have grown non-interest revenue by more than 11% per annum. This has more recently been supported by the integration of our previous corporate banking and investment banking franchise into CIB. We did that at the start of 2015 and this has significantly improved our client value management and cross-sell. And recent transactional banking wins of two large Metros in South Africa and one new large corporate in the last couple of weeks are proof points of exactly this. So while historically at Nedbank we have always had a very strong lending and deposits bank, transactional banking across RBB, and CIB is an important growth opportunity for us.

In an environment of slower economic growth and rising regulatory and compliance costs, a focus on efficiencies is encapsulated in our strategic focus area that we call optimise and invest. We continue to run various efficiency programmes and initiatives that in turn enable us to fund the ongoing investment in our franchise that is required to sustain future growth. Some examples of these will include: the integration of our corporate and capital businesses into CIB, the integration of the back offices in retail and business banking, and the integration of aspects of our insurance businesses which have collectively delivered benefits at a run-rate of just around about 400 million rand per annum. We also continue to optimise our footprints, both in the branch space and have consolidated all of our regional offices around the country. We are also on a deliberate process of reducing and replacing our banking systems over time in a deliberate and controlled manner, while at the same time digitising and simplifying our IT landscape, and we refer to this as the managed evolution of our IT environment. We certainly believe that this managed evolution process minimises the cost impact of large scale IT transformations but also significantly reduces the risk. To date, we have reduced the number of systems by almost 90 – you can see that on the right hand side – and in doing so we have both saved money but, very importantly, the simplification of our IT landscape enables us to be faster, more agile and more client centred.

Lastly, we continue to extract synergies by working very closely with our sister companies in Old Mutual Emerging Markets in South Africa and, notwithstanding the managed separation, we remain on target for our joint one billion rand 2017 savings, all of which are down on an arm's length basis and ensuring that the standalone nature of the respective entities is never compromised.

As the name suggests, we are using some of the savings that we are able to generate to continue to invest in our franchise to underpin growth into the future. Executing on the strategies discussed in the previous slides to drive top line growth combined with further efficiency initiatives, we are planning to deliver scale benefits, particularly in retail and business banking and in the rest of Africa clusters where we extent to see these benefits come through over the next few years in the reduction in cost to income ratios and you can see from these slides that the cost to income ratio in our RBB and rest of Africa businesses remain too high. This is one of the key drivers in shifting the group's cost to income ratio closer to our group target of 50% to 53% and in turn supporting higher ROE generation at a group level.

Under the strategic focus area called, "Strategic Portfolio Tilt," we deliberately try and shift asset growth rates in our business at points in the cycle to maximise long-term profitability given our economic outlook. Consciously slowing growth and losing market share in some areas and trying to gain market share and grow faster in others.

More recently you would have seen that we have reduced our growth rates in both home loans and personal loans over the last few years given the pressures that we foresaw in the consumer finances in South Africa while growing faster in our areas of strength being wholesale credit and retail vehicle finance where the MFC business, or Motor Finance Corporation, has a market leading position in the more defensive second-hand market via our relationship with the Imperial Group, who are the largest seller of cars in South Africa. These actions not only ensure that we continue to deliver top line growth, but they have also reduced our credit risk profile. We would therefore expect as a consequence of our selective origination and deliberate portfolio tilts, all other things being equal, to outperform our peers on impairments or credit losses over the cycle.

The result of portfolio tilt can already be seen in our credit loss ratio which you see here on the left-hand side was the lowest across the big banks in South Africa in June this year. But this has been done while increasing our level of conservatism or overlays in our central provision and portfolio coverage at the same time, and you can see that on the right-hand side.

Lastly, in terms of strategic focus areas, we continue to focus on the longer term opportunity in the rest of Africa as we build a regional champion as Nedbank in Southern and East Africa, with access to a Pan-African banking network focused in Central and West Africa via our investment in ETI or Ecobank. In Southern and East Africa, I said we want to own, manage and control banks because this is a geography where we believe we have competitive advantage. We have a presence in six countries and recently concluded a top-up deal to take us to a majority stake in Banco Único in Mozambique.

In West and Central Africa, countries that are further away from South Africa, and countries where we are less familiar with local issues, we have deliberately followed a partnership approach. Our chosen partner in which we have a 21.8% shareholding is ETI or Ecobank. They are present in 36 countries with Ghana and Nigeria being their largest businesses. We have a board seat at ETI and our investment is underpinned by a strategic and technical banking alliance. We now have more than 70 of our wholesale clients in South Africa banking with Ecobank in Central and West Africa and during 2015 we concluded three joint lending deals as a consequence of the relationship.

Currently, many economies in Africa have seen pressure on the back of the decline in commodity prices, particularly oil, and this has been combined with currency volatility and dollar shortages right across the continent. As a result, banks exposed to West Africa and Nigeria in particular have been negatively impacted. This, together with a portfolio review performed by the new Chief Executive who took over in ETI during 2015, resulted in Ecobank making a loss in their fourth quarter of 2015 – I said earlier we at Nedbank account for our share one-quarter in arrears, so we would account for that in our first quarter in 2016, and you can see that 676 million rand loss that we accounted for in Q1 16. ETI has since returned to profitability as you can see from that graph in their Q1 and Q2.

Bank share prices have also been under pressure and at 30th June the book value of ETI in Nedbank's books was 36% above the market value, albeit in a thinly traded market. We have not impaired our investment as the underlying value in use calculation which you are required to perform exceeded the book value as at 30th June, but clearly we revisit this at each reporting period. Despite the current pressures in many African economies, we still believe that the long-term prospects for financial services in the rest of Africa remain attractive.

Lastly, a few reflections on why we believe Nedbank is an attractive equity investment. Our track record of delivering value through NAV growth, ROEs above our cost of equity, and sustained dividend growth, ranks at or above the midpoint of South African peer group. These are important measures of value for investors and will remain our focus in the years to come. In the context of emerging markets, South African banks produce sustained and strong return on equity metrics on the back of high levels of capitalisation, and in turn are priced at a premium reflecting a stable, well-regulated and growing banking sector consistently producing returns well in excess of the cost of equity. Nedbank's valuation metrics in this context remain attractive amongst peers in South Africa, where the high valuation of Firstrand skews the average, as well as being attractive relative to others in emerging markets.

Lastly, to provide investors with a high level roadmap we have a number of historically published medium to long-term financial targets that we set out here, and we continue to measure our progress towards attaining all of these over the medium to longer term, and you can see the efficiency ratio target of 50% to 53% that I outlined earlier set out here.

Finally, in summary – I hope that I've been able to highlight that Nedbank Group operates in a well-regulated and stable banking system in South Africa.

Our balance sheet has a bias to wholesale exposures with growth opportunities in retail and also provides investors with liquid exposure into the growth opportunity in the rest of Africa.

Nedbank Group has a strong balance sheet. We are conservatively provided, we are liquid, and we are well capitalised. A strong foundation.

Our relative valuation to peers is attractive, underpinned by our focus on sustainable earnings growth and return on equity increases over the medium to long-term. In our CIB franchise we aim to deliver the benefits of the integrated CIB model to leverage our strong lending position to grow our transactional non-interest revenue and to sustain an efficient business model and a high quality loan book.

In retail and business banking we aim to grow our transactional banking franchise faster than the markets.

We are accelerating the digital journey to drive both operational efficiencies and to outperform, and we expect to outperform the peers on the cost of risk with continue ROE improvements as a consequence of that.

In our wealth business we are focused on new product innovation and further penetration into the Nedbank client base and we need to leverage our top quartile asset management investment performance to grow our assets under management and market share.

In the rest of Africa our businesses in Southern and East Africa need to scale and in Central and West Africa we need to support ETI and their management team to ensure that that business produces a return on equity in excess of its cost of equity but also to leverage our investment by ensuring that it in enables us to access increased deal flow in the region using ETI's local knowledge of Central and West Africa.

And finally, we continue to believe that there is scope to extract ongoing efficiencies across all of our businesses, particularly considering the environment that we operate in and importantly the impact of digitisation. This will be used to both fund future investment and to enable improvements in efficiency ratios and return on equity to enable us to continue to deliver value to shareholders and meet our medium to long-term financial targets and indeed achieve our vision, which is to become Africa's most admired bank. Thank you.

I'm now going to ask Raisibe to come and join me on the stage. She's our Finance Director and will take any questions.

Greig Paterson: Greig Paterson, KBW – three quick questions. One is I know for a while on the credit loss ratio on your corporate side has been below long-term trend, and there was some indications of that ticking up. I was wondering what the risks are that it will tick up again. And also, I mean, if you look at, you effectively lost market share in the retail to protect your credit loss ratio on the retail side. I mean, what's the risk that will rise as you try and regain some share in that space? And the third one, and excuse my cryptic working, but I think you might get the drift, there was a comment by the industry – the banking industry – that they were going to stop lending to certain parties and then there was a threat – or there was a comment – that the regulation of the banks would be moved under the President's office. I wonder if you could just tell us where we are with that now please.

Mike Brown: Okay. Raisibe, perhaps you want to do the credit loss ones and I'll deal with the last one.

Raisibe Morathi: So the credit loss ratio we have benefited from the portfolio tilt as Mike indicated earlier on but in the retail segment we also observed, you know, the kind of trend that is pretty much in line with the economy that is maybe a little bit under pressure where, you know, different product lines showed a tick up in credit loss ratio in each one, but the overall credit loss ratio was flat because personal loans which had been a negative growth in the last two years has actually come down and that is really just as a result of the book having not been growing, but overall our outlook is that our credit loss ratio has probably bottomed out and, you know, in line with the industry we expect that our retail portfolios will probably tick up a little bit but because our book is more biased towards wholesale we'll probably still have a relatively lower credit loss ratio experience for 2016 and probably also in outlook to '17.

Mike Brown: Yes, so I think retail we've reached a cyclical low and it's likely to trend upwards. On the wholesale side of the business I think what's quite interesting is that actually most of the pressure in the wholesale credit exposure environment arose in Q3, Q4 last year, and into the first quarter of this year off the back of the very strong drop that we saw in commodity prices. We've now seen commodity prices begin to tick back up again. Many of those companies have actually either raised equity or restructured debt, so certainly as I stand here today we're a lot less concerned around commodity exposures that we would have been at that back end of last year. Then on the state owned enterprises issue and regulation of banks, I think two comments. Firstly, I mean as Nedbank we certainly haven't taken any blanket decision around do we or don't we lend to state owned enterprises. Each one we assess on their merits from a credit point of view, so we have no blanket decision around any of those. And, you know, I think that the environment in South Africa has for a long time been a very well-regulated and sensible banking environment and I certainly can't see that changing, you know, global precedent around where banks are regulated and where banking supervision rolls up. I'm pretty certain that there's lots of noise out there but that we will remain a very sound and well-regulated banking system and that the focus of regulation won't shift outside of the reserve bank.

Mike Brown: Oh? Lending to private families?

Mike Brown: So a couple of things. I mean there's rhetoric out there that says banking community decided to – that's completely false. Every bank made their own individual decisions and, you know, banks anywhere in the world can choose who they do or don't want to do business with. And that's really just a consequence of banks' individual risk appetites.

Male voice: Okay, thank you. Can you comment on any changes in your business, if any, as a result of Old Mutual and Nedbank, you know, separate?

Mike Brown: I think quite simply there will be no change in Nedbank's strategy. The strategy of Nedbank has always been set by the Nedbank board. Old Mutual is an active participant in setting that strategy at an Old Mutual board level but by the time all is said and done that is the appropriate strategy for the group, not unduly influenced in any way by Old Mutual, and from an operational point of view there are no operational linkages between the two businesses – we don't share systems in any way, so the simple answer is that strategically, operationally and for our clients there should be no impact. However, we clearly want to continue to cooperate and collaborate with our sister companies in Old Mutual because that is a win/win for both of us, and we do that in a way that is arm's length and doesn't what we say scramble the egg between the businesses. So it's quite a different separation I think to the Barclays ABSA separation where there's a lot of integration between the businesses. Any other questions?

I'm going to get let off early and easily.