

MAKE  
THINGS  
HAPPEN



NEDBANK GROUP LIMITED

## SBG Investor Day

Retail and Business Banking

14 November 2016

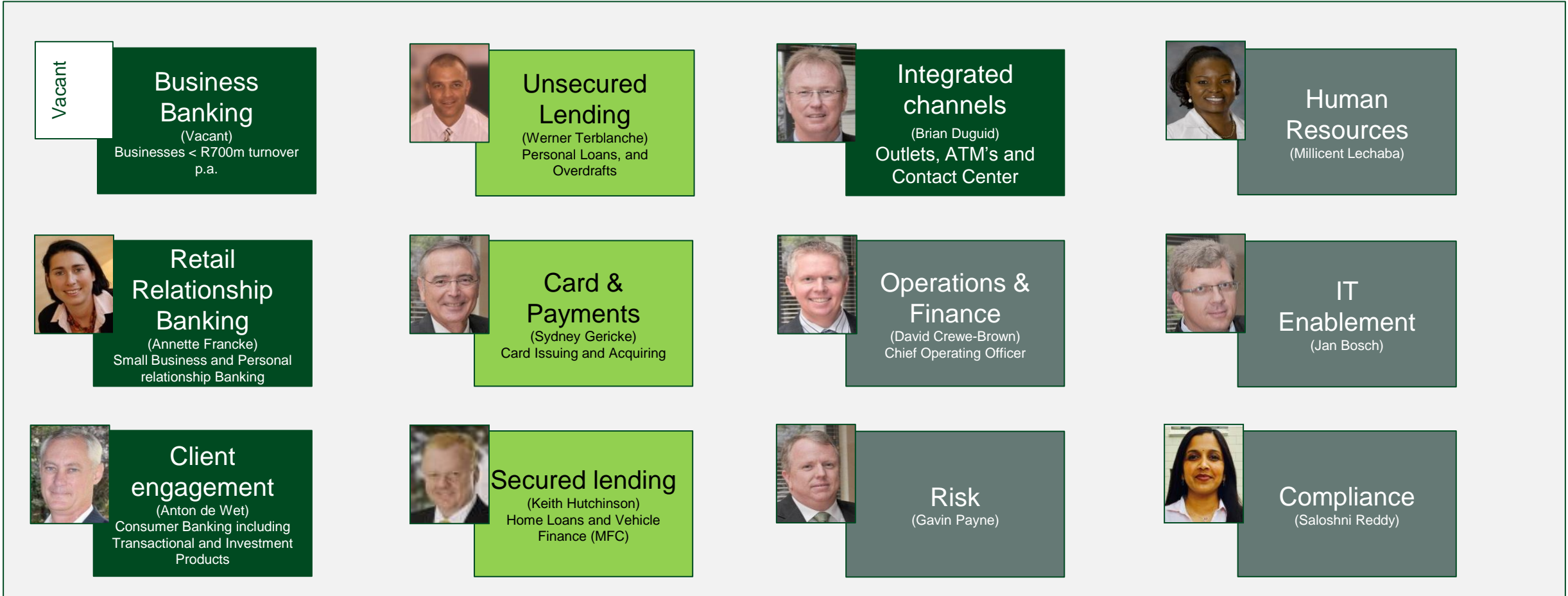
A Member of the  **OLDMUTUAL** Group

# Retail & Business Banking executive committee leadership & structure



**Retail & Business Banking**  
(Ciko Thomas)

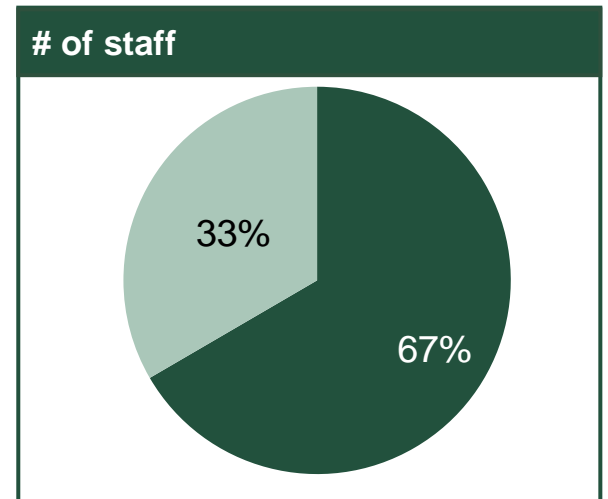
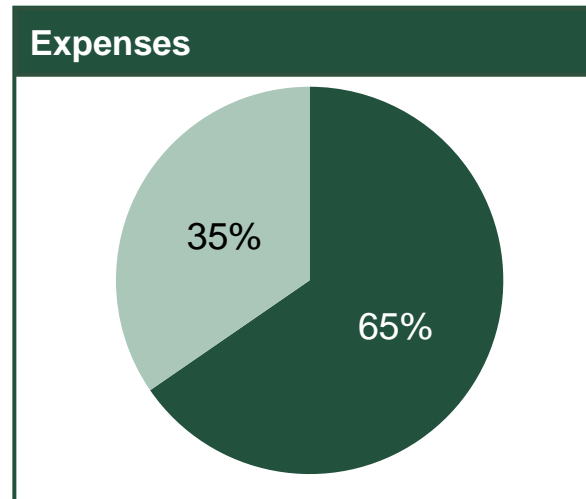
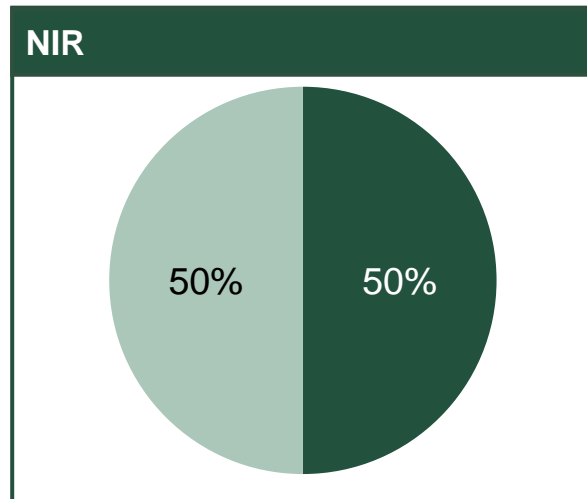
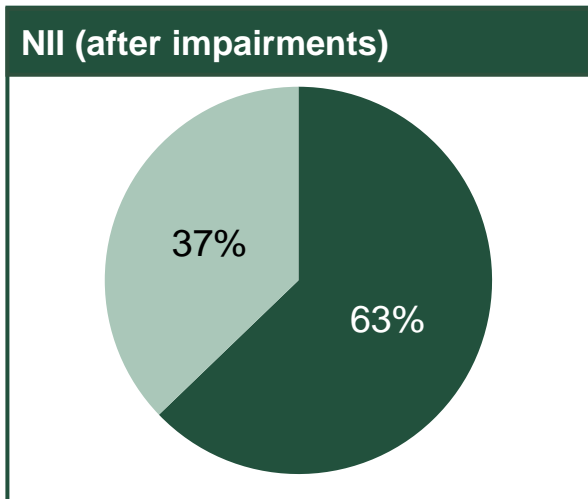
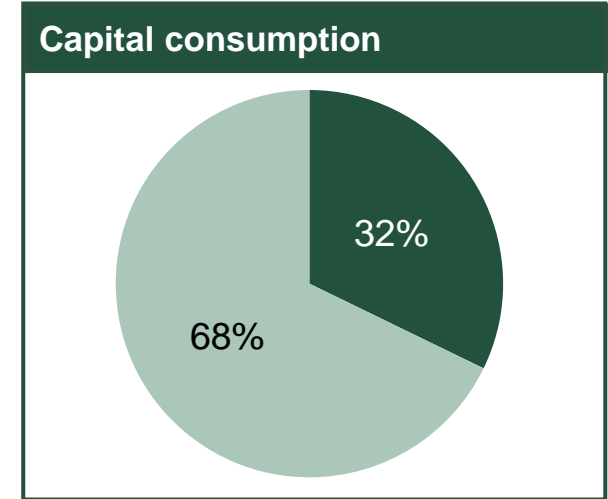
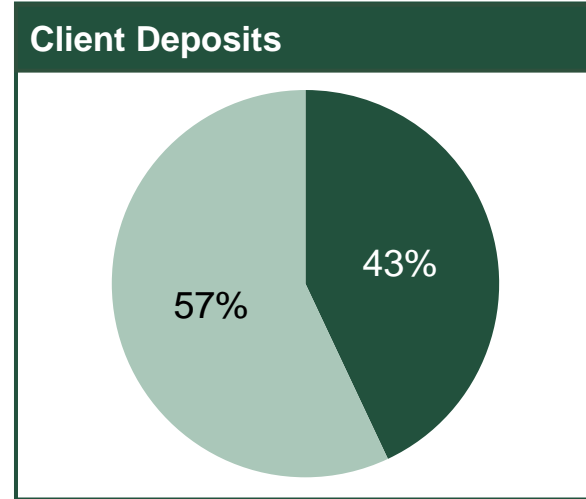
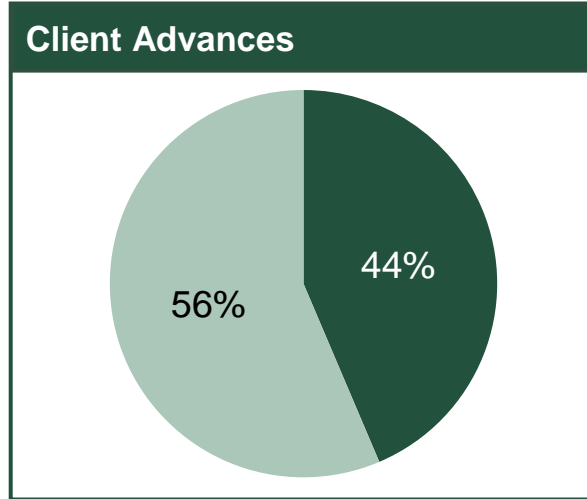
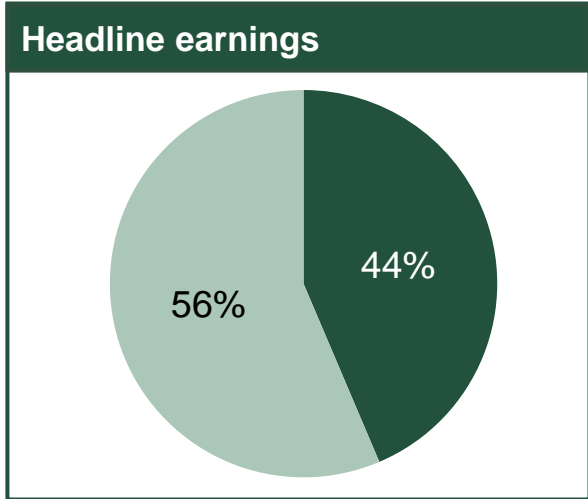
- Client facing businesses & channels
- Product lines
- Functional Support









# Retail & Business Banking contributions to Nedbank Group

H1 2016, %

Retail & Business Banking  
 Rest of the Group



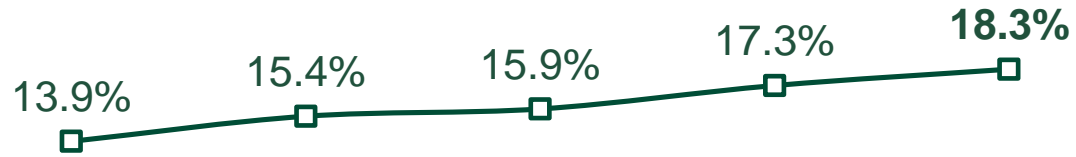
# The context in which we operate

<b>Customers</b>	Digital first 	<ul style="list-style-type: none"> <li>Digital is the preferred channel for ~55% of retail clients on transactions and ~25% on sales<sup>1</sup>;</li> <li>&gt;90% of professional &amp; small business clients are digitally enabled</li> <li>95% of business banking clients digitally enabled.</li> </ul>
	Seeking value 	<ul style="list-style-type: none"> <li>Value is key for SA households - 42% of South Africans rate price as the most important factor in choosing a bank (24% rate service).</li> <li>~25.5% of business banking clients are multi-banked – they seek value through personalised, easy &amp; insightful engagements</li> </ul>
	Growing middle 	<ul style="list-style-type: none"> <li>The middle segment is growing at ~8% which is significantly higher than other segments.</li> <li>In a depressed economy growth is specifically challenged in key sectors that business banking operate in, such as manufacturing, agriculture &amp; construction.</li> </ul>
<b>Competition</b>	Benchmarks highlight opportunities for Nedbank 	<ul style="list-style-type: none"> <li>Opportunity to grow our Retail transactional market share of 10% towards our lending &amp; liability market shares</li> <li>NIR growth &amp; efficiencies should drive higher ROEs over time</li> <li>Our Net Promoter Score (NPS) is improving the fastest in the industry</li> <li>Business Banking has 20% primary banked market share, up from 18% in 2013</li> </ul>
	Increasingly competitive 	<ul style="list-style-type: none"> <li>Increasingly crowded &amp; complex competitor playing field across all segments</li> <li>SA banking market, especially middle market, is ripe for disruption</li> </ul>
<b>Nedbank</b>	Increased focus on digital 	<ul style="list-style-type: none"> <li>Nedbank is currently accelerating its digital capabilities, which will help to support our Digital 1<sup>st</sup> plans.</li> <li>The establishment of a Digital Fast Lane will help to accelerate the digital transformation</li> </ul>

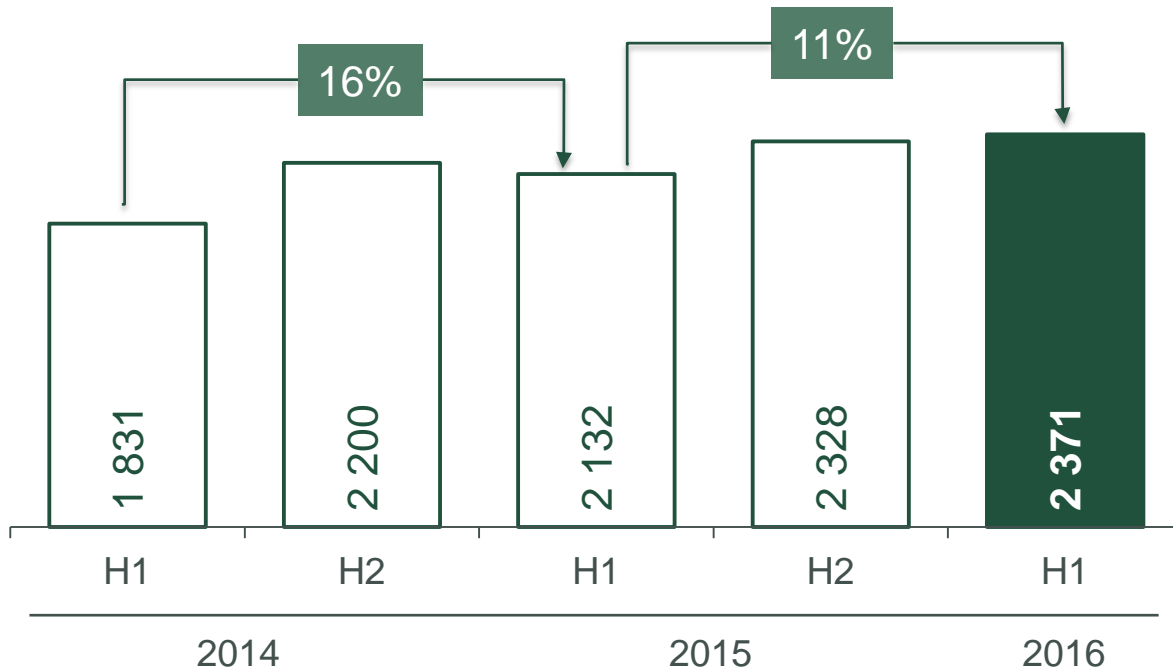
<sup>1</sup> SOURCE: McKinsey Retail Banking Consumer Survey South Africa 2016; Finalta McKinsey Digital Banking Benchmark South Africa 2015

# Resilient performance in a challenging macro environment

## ROE (%)



## Headline earnings (Rm)

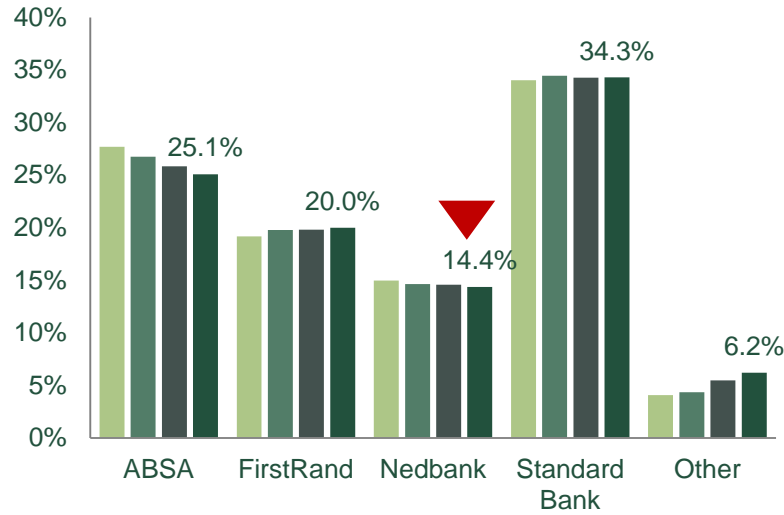


## Key drivers

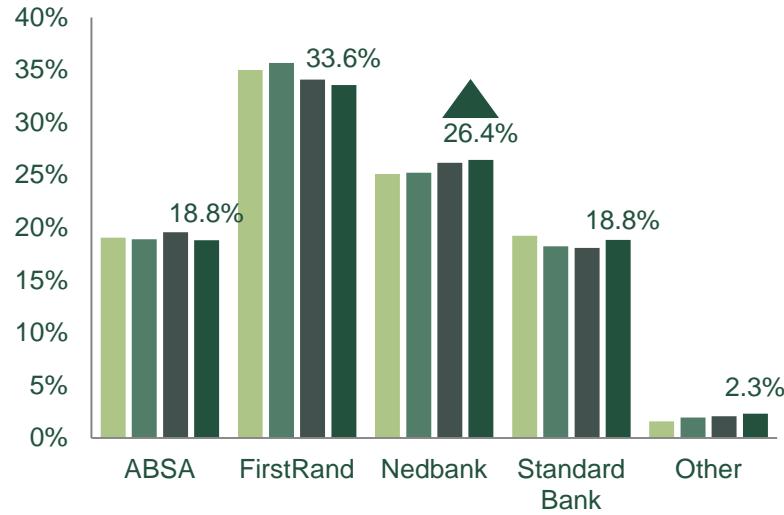
- Margin improvements due to endowment benefits & rigour in asset & deposit pricing
- CLR down from peak of 2,2% in June 2012 & now flat at ~1,2% as improvements in personal loans book & Business Banking are off-set by increases in secured lending
- NIR growth driven mainly by growth in middle market main banked clients
- Ongoing active cost management balancing investments into digital & distribution. Cumulative savings of R2,2bn since 2011.
- Risk weighted asset reductions now reflective of lower risk & contributing to steadily improving ROE's

# Market Share – consistent selective origination while growing household deposits

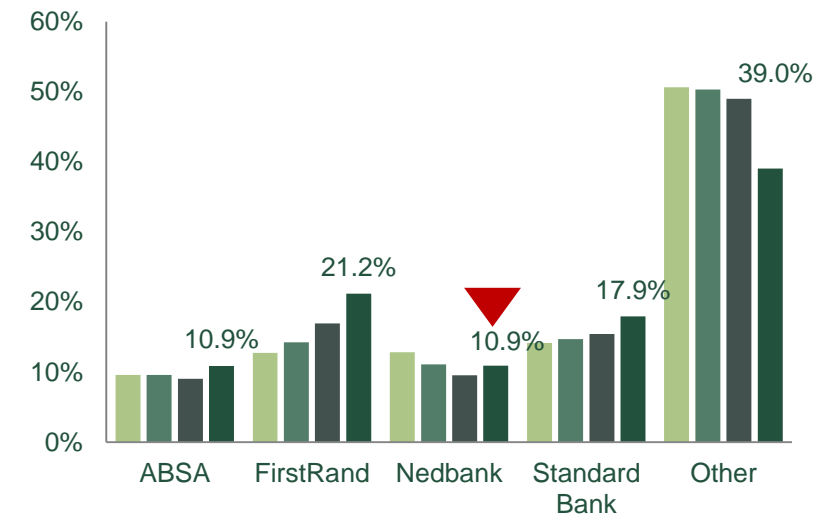
### Home Loans (%)



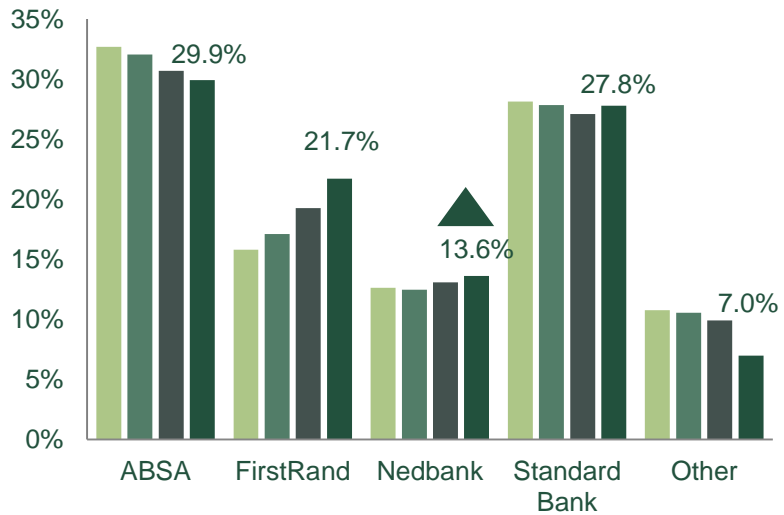
### Instalment Credit (%)



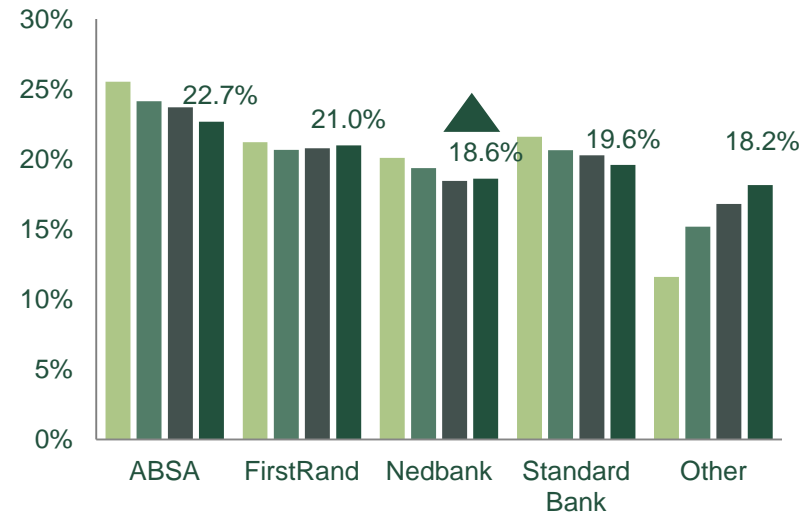
### Personal Loans (%)



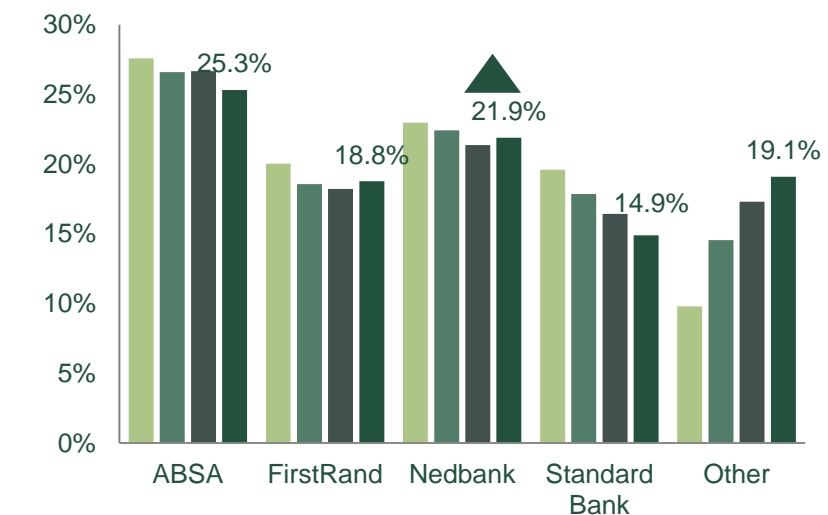
### Credit Cards (%)



### Household Deposits (%)

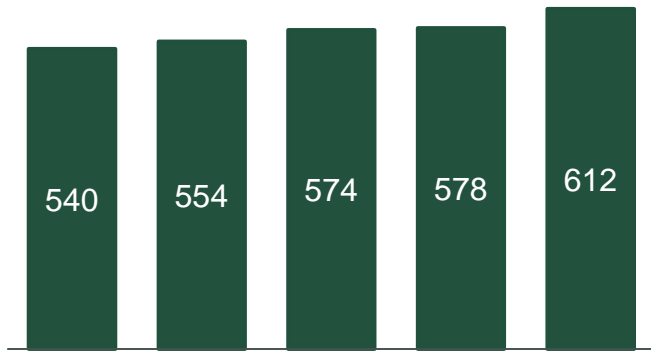


### Household CASA & Demand (%)

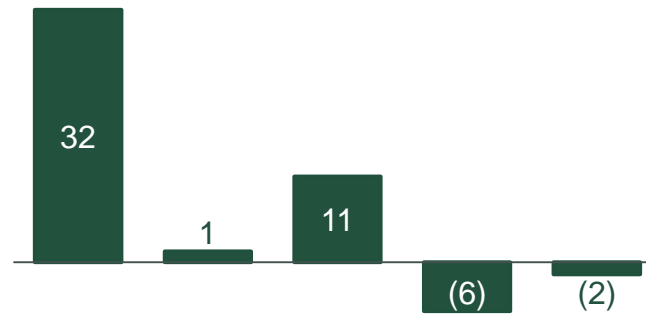


# Net interest margin – driven by asset mix change & endowment over time with increasing impact from Basel III requirements

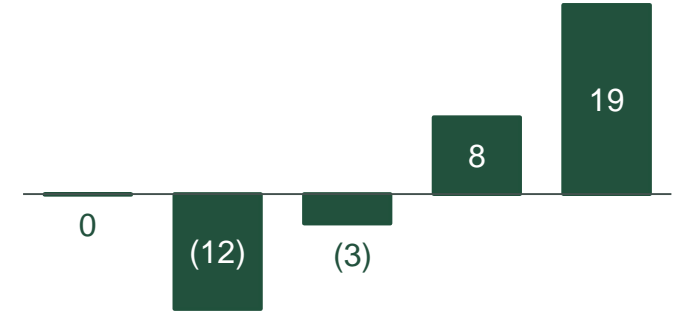
Net interest margin (bps)



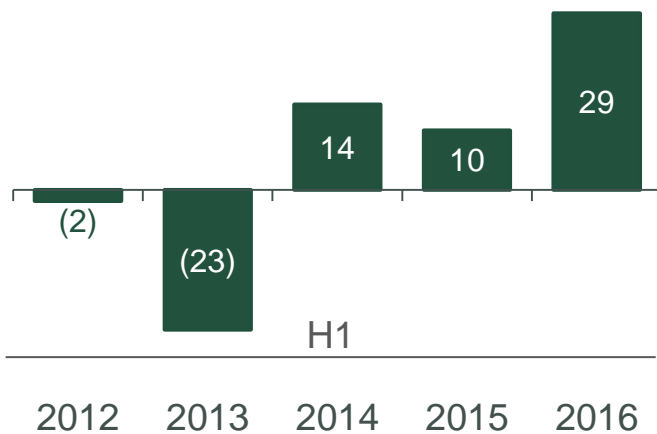
Mix change impact (bps)



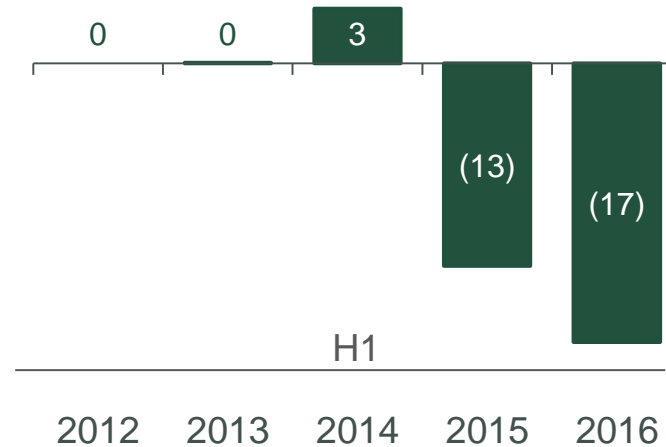
Asset pricing impact (bps)



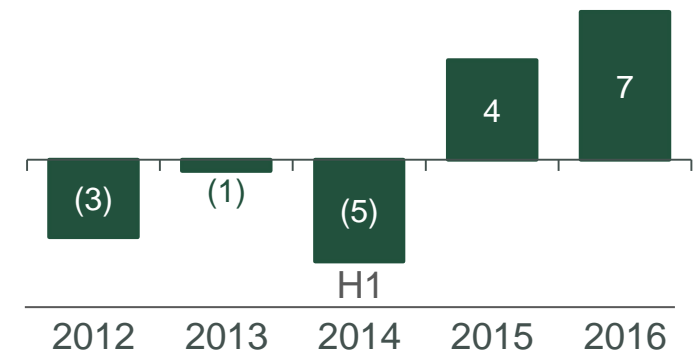
Endowment impact (bps)



Funding cost impact (bps)

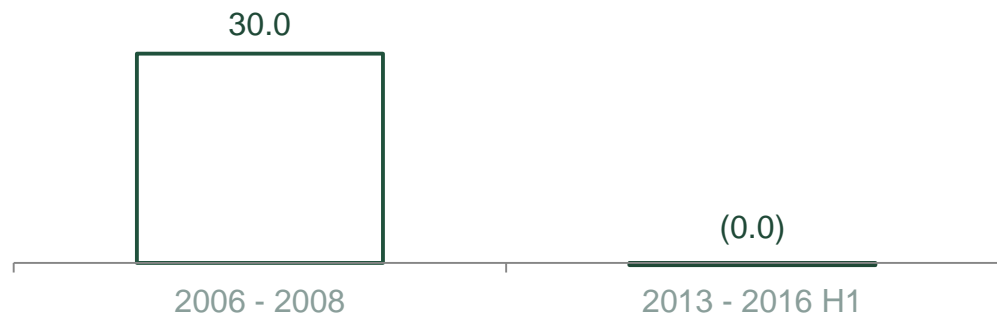


Liability pricing & mix impact (bps)



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

## Advances growth (CAGR %)



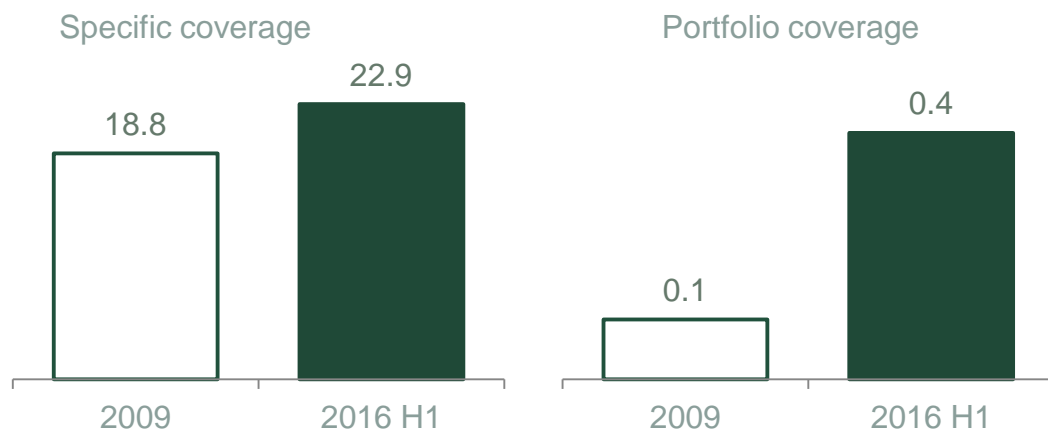
Market share

17.1%



14.4%

## Provisioning (%)



## Key potential industry stress points

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

## Positioning & actions taken

- Selective origination – 60% through own channels (2008: 32%)
- Pricing front book: prime +55bps (2008: prime -133bps)
- LTV > 100%: 1% of book (2008: 27%)
- Completed back-book clean-up
- Strong focus on collections
- Improved risk profile of new business written

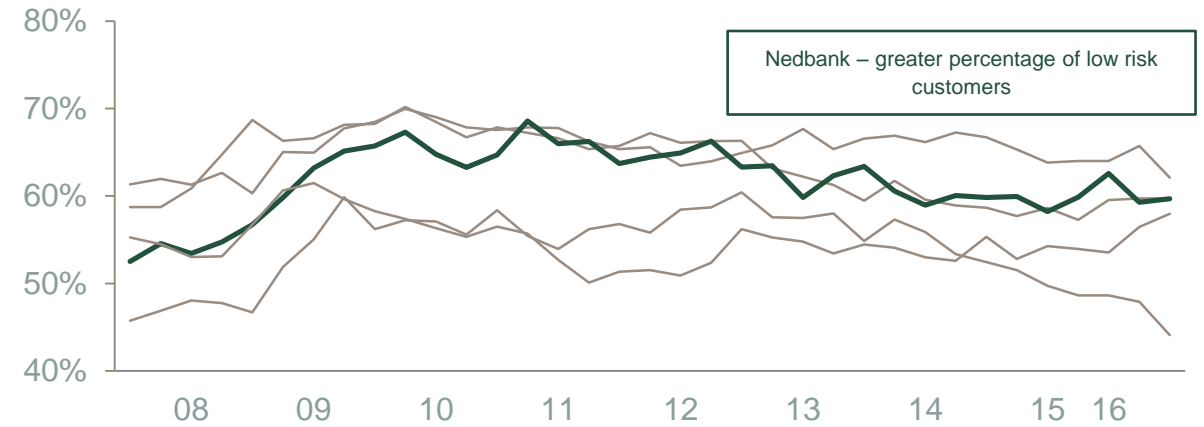


# Home loans – improved asset quality enabled by increase in low risk customer & property contribution

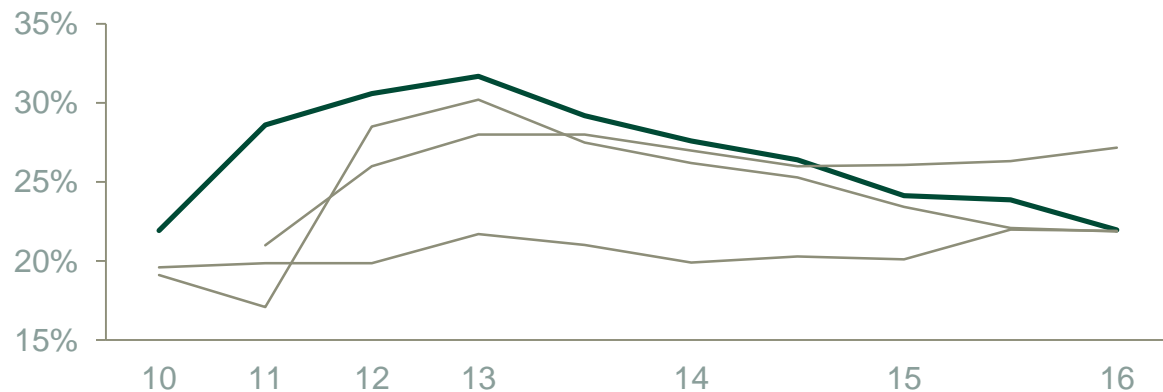
### Credit loss ratio (%)



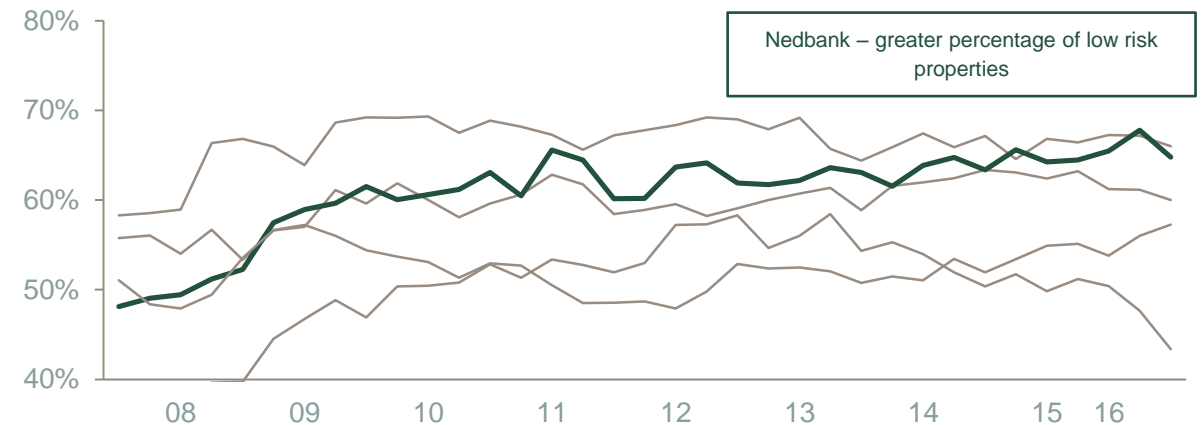
### Delphi Score - low risk



### Coverage (%)



### Low risk properties (%)<sup>2</sup>



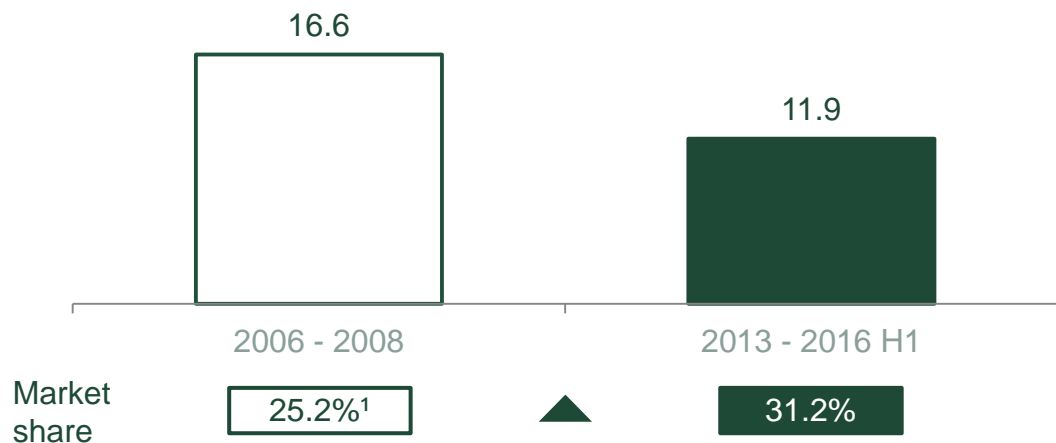
— Nedbank

— Competitors

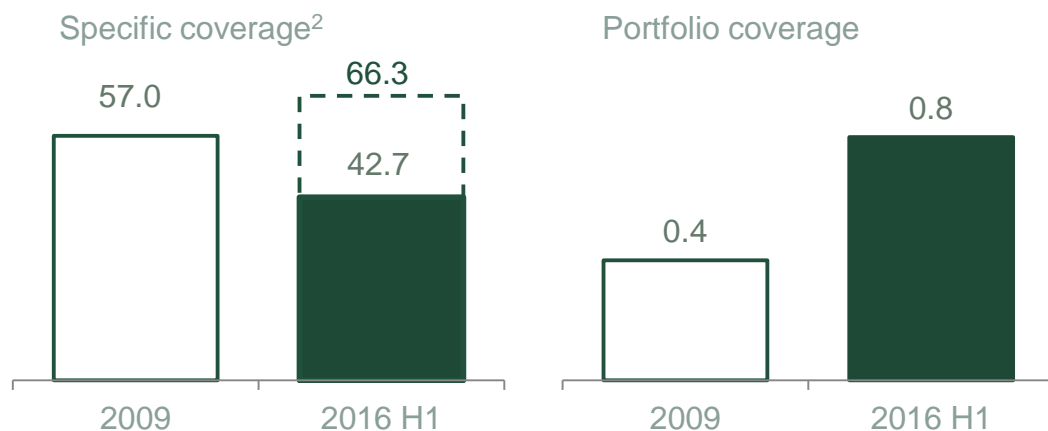
1: Source: Experian Delphi Score  
 2: Source: Lightstone Risk Quality Grade

# Vehicle finance – Strong player in used/ more affordable vehicle market

## Advances growth (CAGR %)



## Provisioning (%)



1: 2008 market share includes Nedbank plus Imperial Bank (MFC)

2: Specific coverage decreased after restating part of performing book to defaulted in 2013, changing write-off policy in H2 2014 & SARB directive 7 in 2015

## Key potential industry stress points

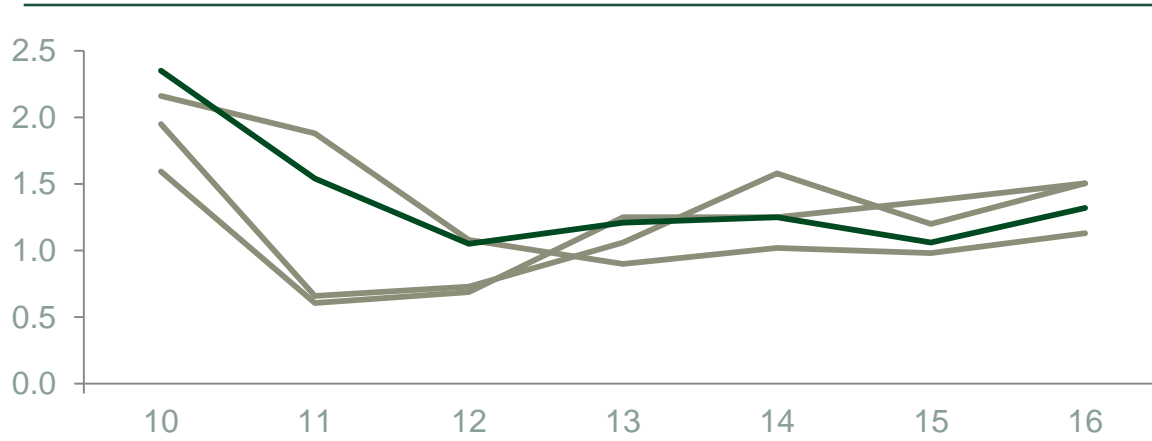
- Employment environment pressure and job losses
- Inflationary & exchange rate pressures – vehicle import prices & interest rate increases
- New vehicles sales declining
- The outlook for vehicle sales remains poor mainly due to weak economic growth, low confidence, still fragile household finances and higher borrowing costs.

## Positioning & actions taken

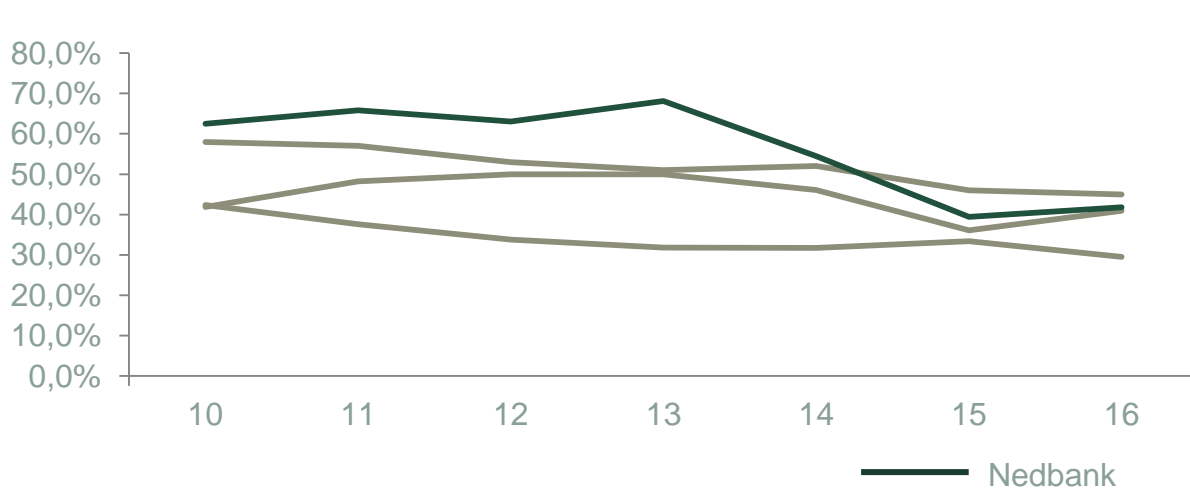
- Lending through the cycle – strong dealer relationships
- Consumers shop down/ buy second hand
- 64% of deals on book are used/lower value vehicles
- 25% of total book is fixed rate

# Vehicle finance – Benchmarking through the cycle

### Credit loss ratio (%)



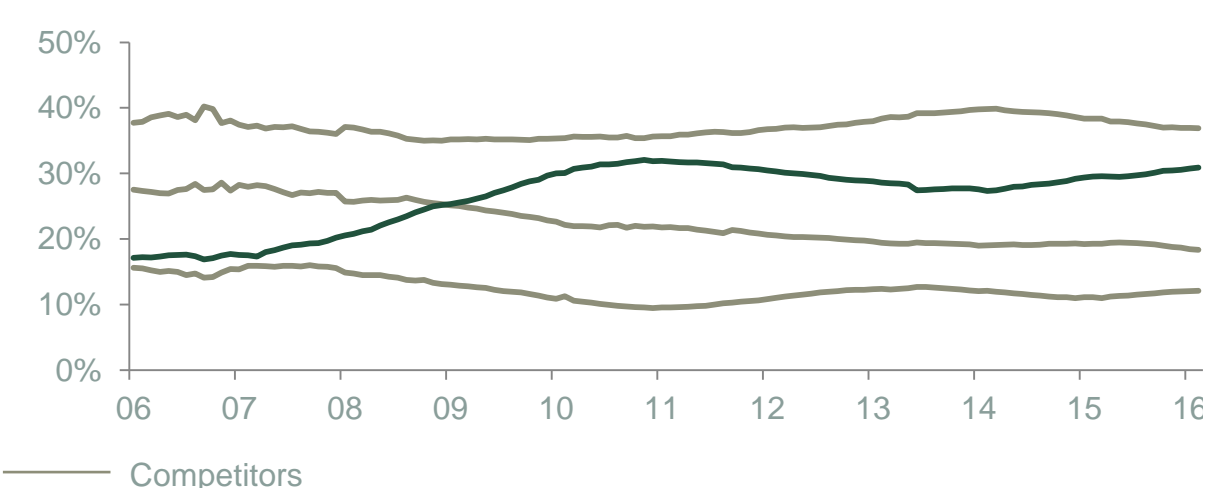
### Coverage (%)



### MFC new & used vehicle distribution (%)

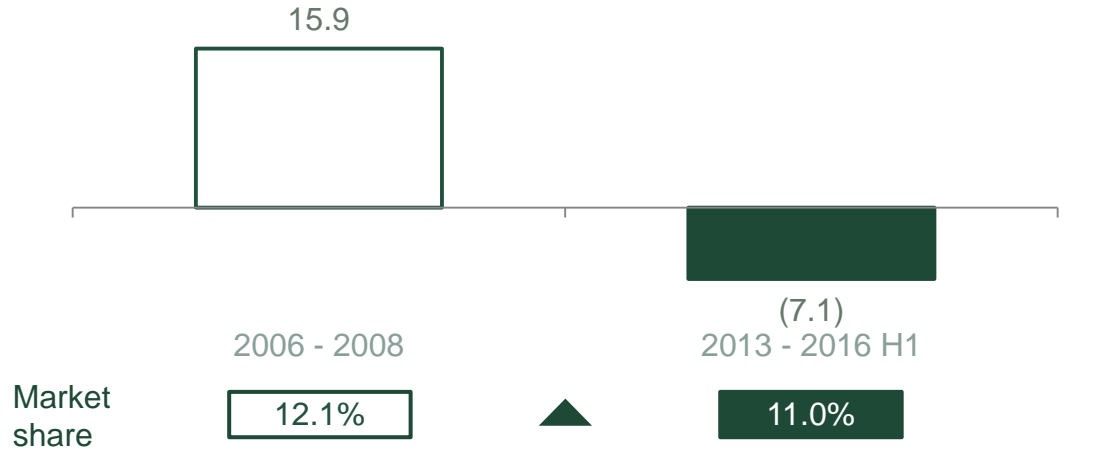


### Market share of big 4 SA banks (%)

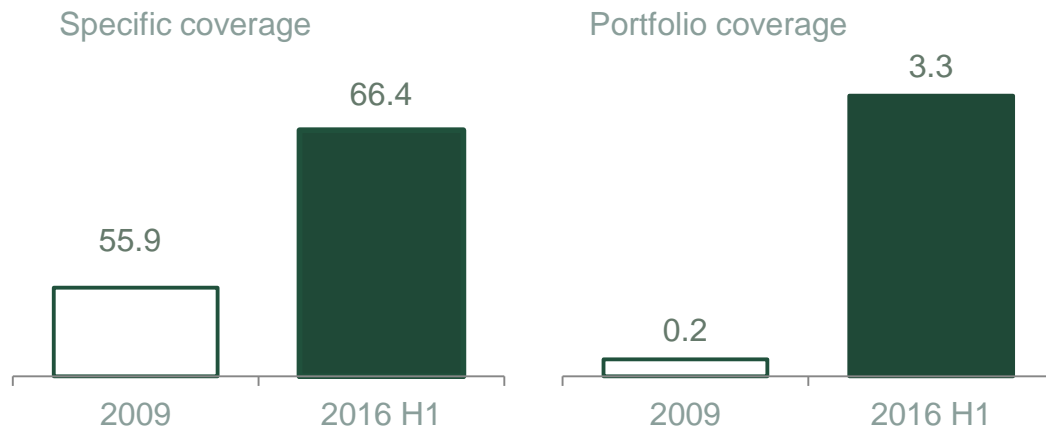


# Personal Loans – improved asset quality enabled by increase in low risk customer

## Advances growth (CAGR %)



## Provisioning (%)



## Key potential industry stress points

- Employment environment pressure and job losses
- Inflationary & exchange rate pressures – impact of other lending on clients
- Affordability declining
- The outlook for economic growth remains poor with high probability for job losses.

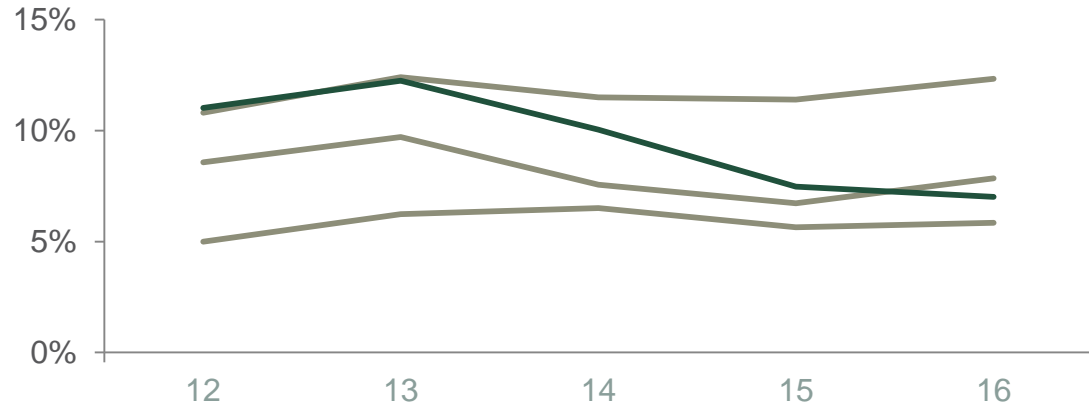
## Positioning & actions taken

- Nedbank has lowest share of high risk clients
- Market share in best risk segments has grown from ~12% in 2014 to >17% in 2016
- Growth in advances now entrenched through operational efficiencies not change in risk appetite

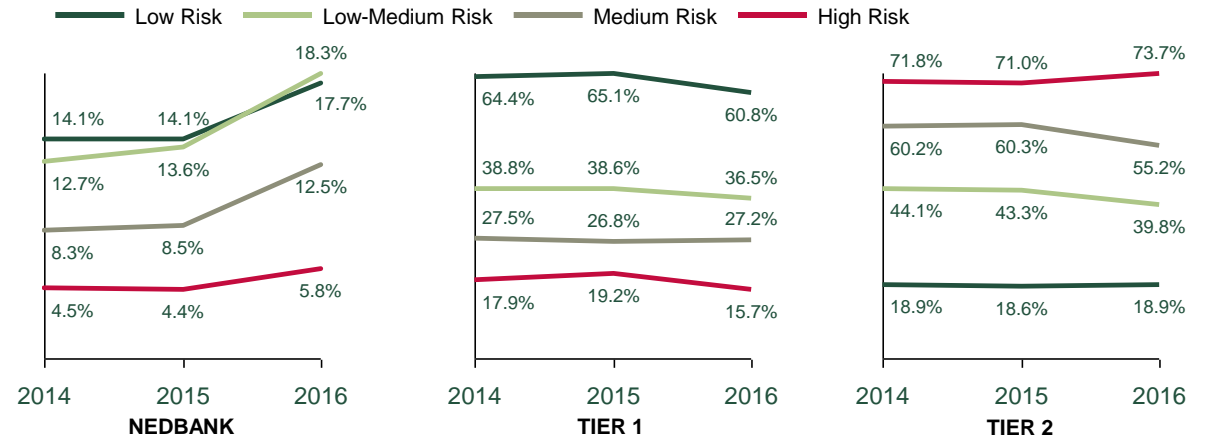
# Personal loans – improved product offering, on-boarding & client targeting has driven growth in desired lower risk segments; market share of new business in best risk segments has grown from ~13% in 2014 to ~18% in 2016



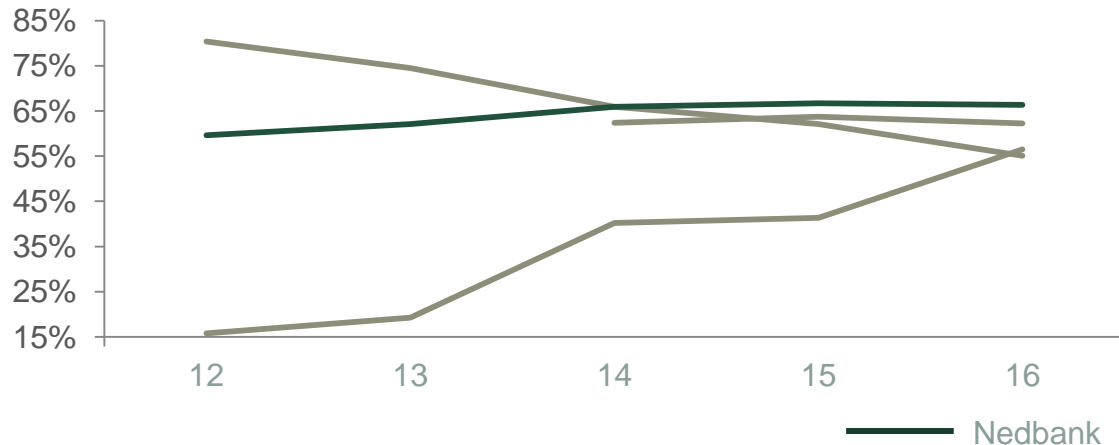
### Credit loss ratio (%)



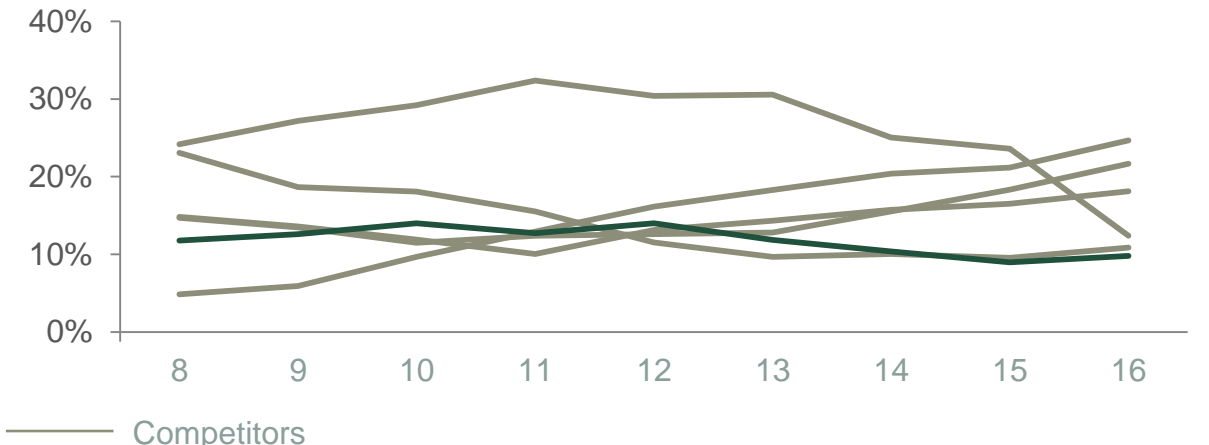
### Market Share of New Business by Risk Band (%)



### NPL Coverage (%)



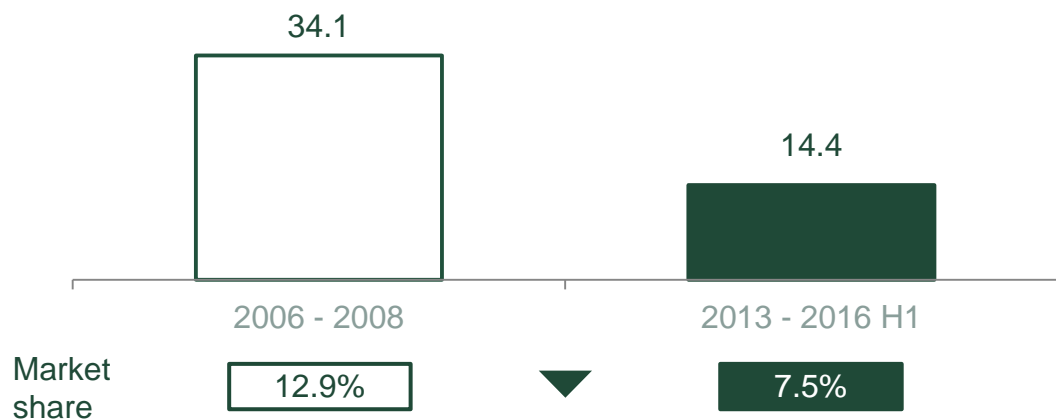
### Market Share Total Book (%)



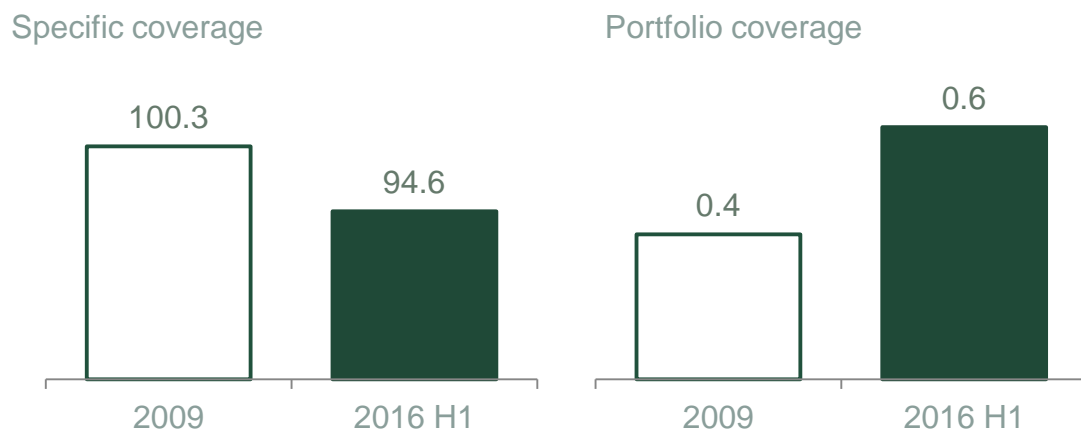
1. Credit Loss Ratio include Absa, FirstRand, and Capitec while coverage only includes ABSA & FirstRand (Standard Bank reporting does not allow for appropriate comparison)  
 2. Low Risk (Bureau Score >= 658); Low-Medium Risk (Bureau Score 644-657); Medium Risk (Bureau Score 626-643); High Risk (Bureau Score <= 625)  
 3. Tier 1 refers to big 4 banks excluding Nedbank while Tier 2 refers to remaining material providers of unsecured personal loans  
 4. Market Share Competitors includes Absa, African Bank, Capitec, FirstRand, and Standard Bank

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

## Advances growth (CAGR %)



## Provisioning (%)



## Key potential industry stress points

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

## Positioning & actions taken

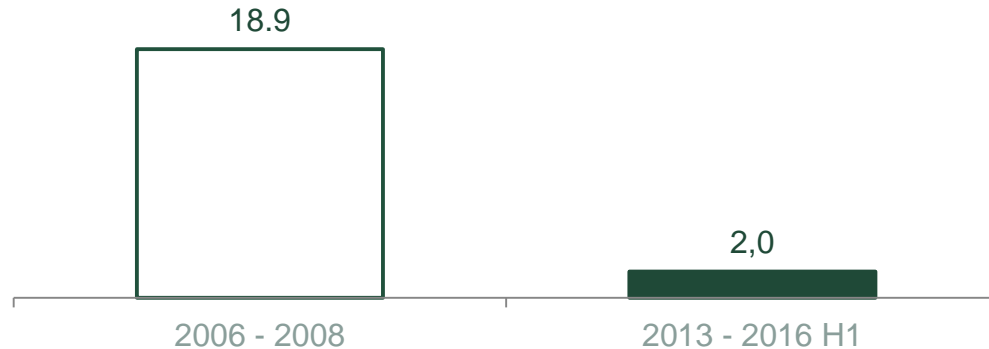
- Conservative provisioning
- 100% written-off at 3 months
- Bundled with transactional client base
- Acquisition focused on more resilient medium to high income segment

# Business Banking – Decentralised empowered business model beneficial in tough times

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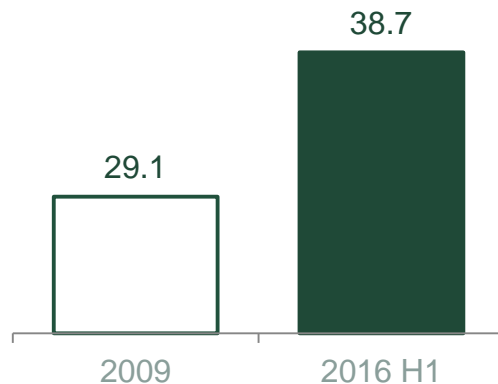


## Advances growth (CAGR %)

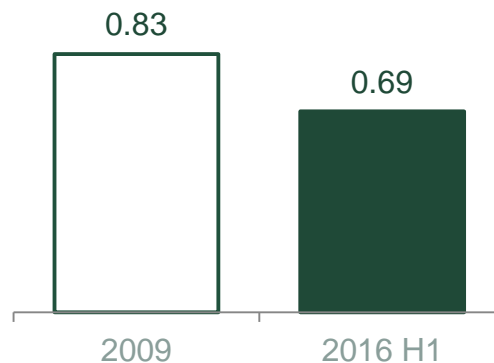


## Provisioning (%)

Specific coverage



Portfolio coverage



## Key potential industry stress points

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

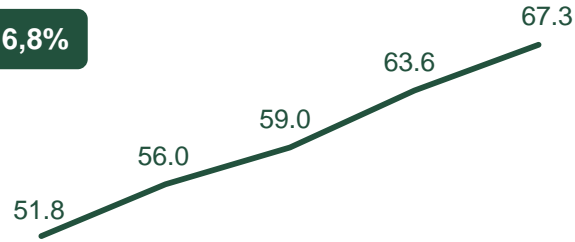
## Positioning & actions taken

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

# Deposit growth driving increases in NII & market share

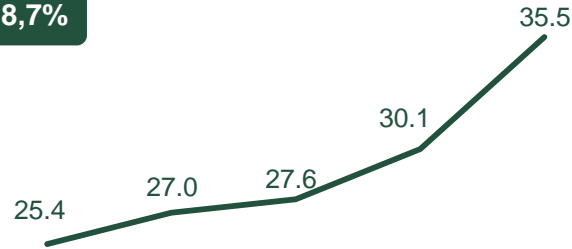
Current and Savings (Rbn)

6,8%



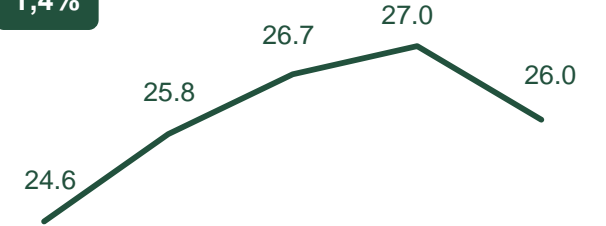
Fixed Deposits (Rbn)

8,7%



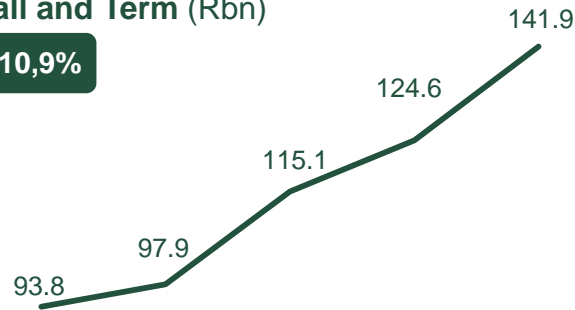
Average Capital Allocation (Rbn)

1,4%



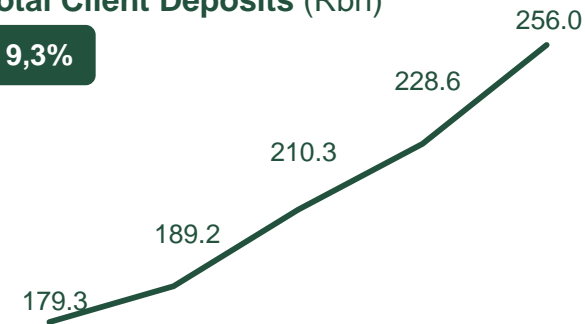
Call and Term (Rbn)

10,9%



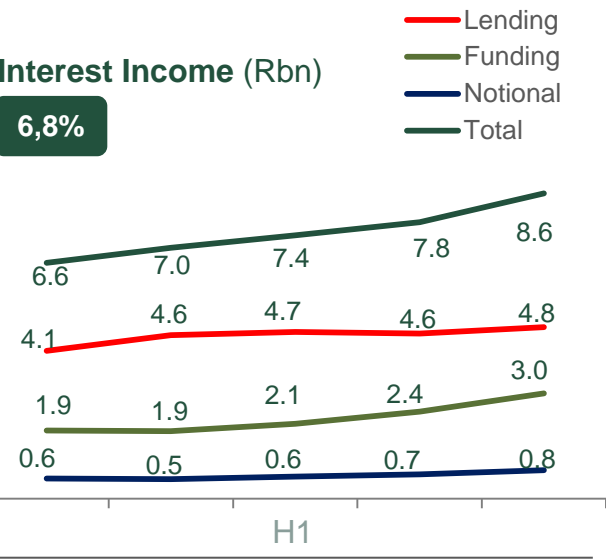
Total Client Deposits (Rbn)

9,3%



Interest Income (Rbn)

6,8%



2012 2013 2014 2015 2016

2012 2013 2014 2015 2016

2012 2013 2014 2015 2016

%

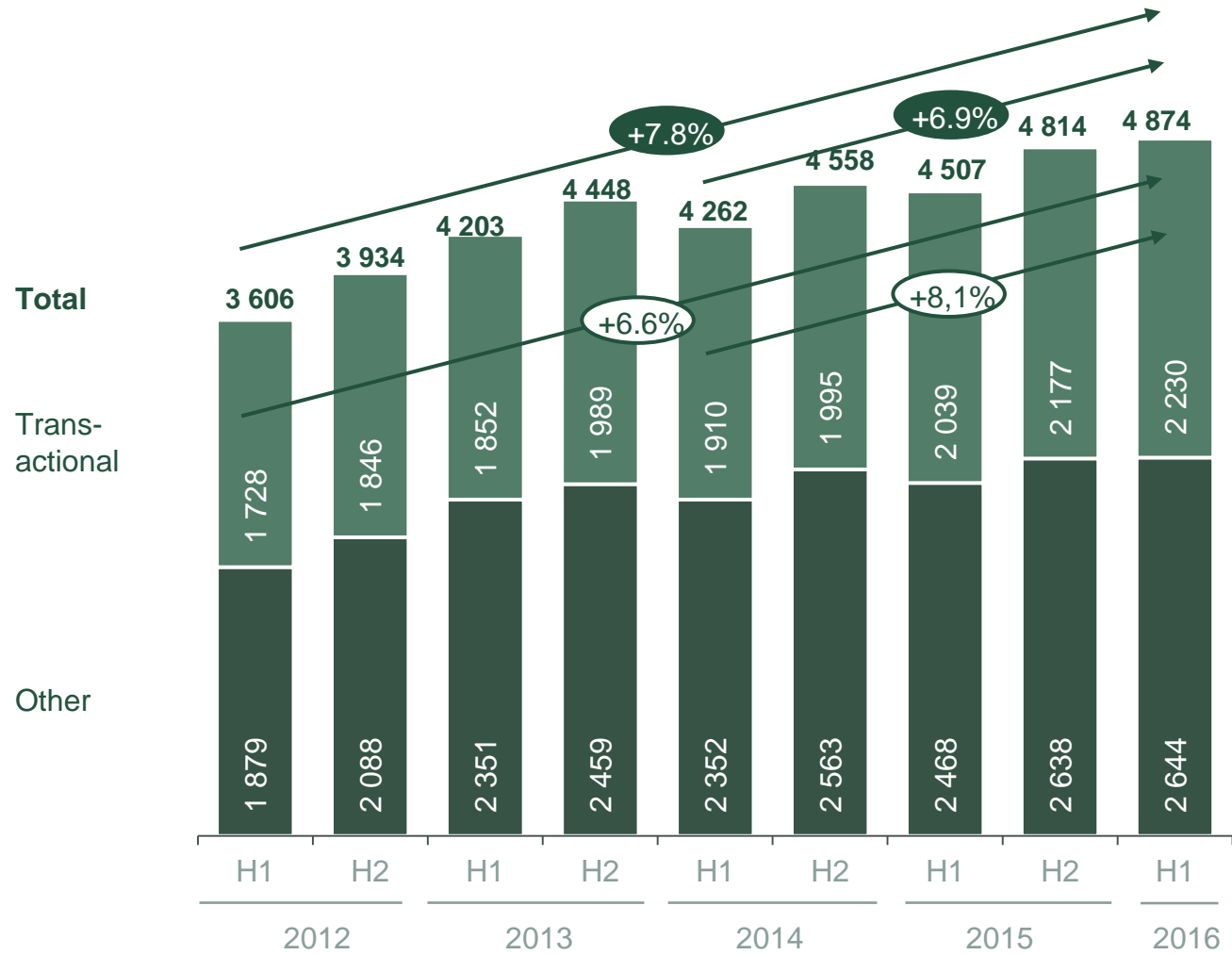
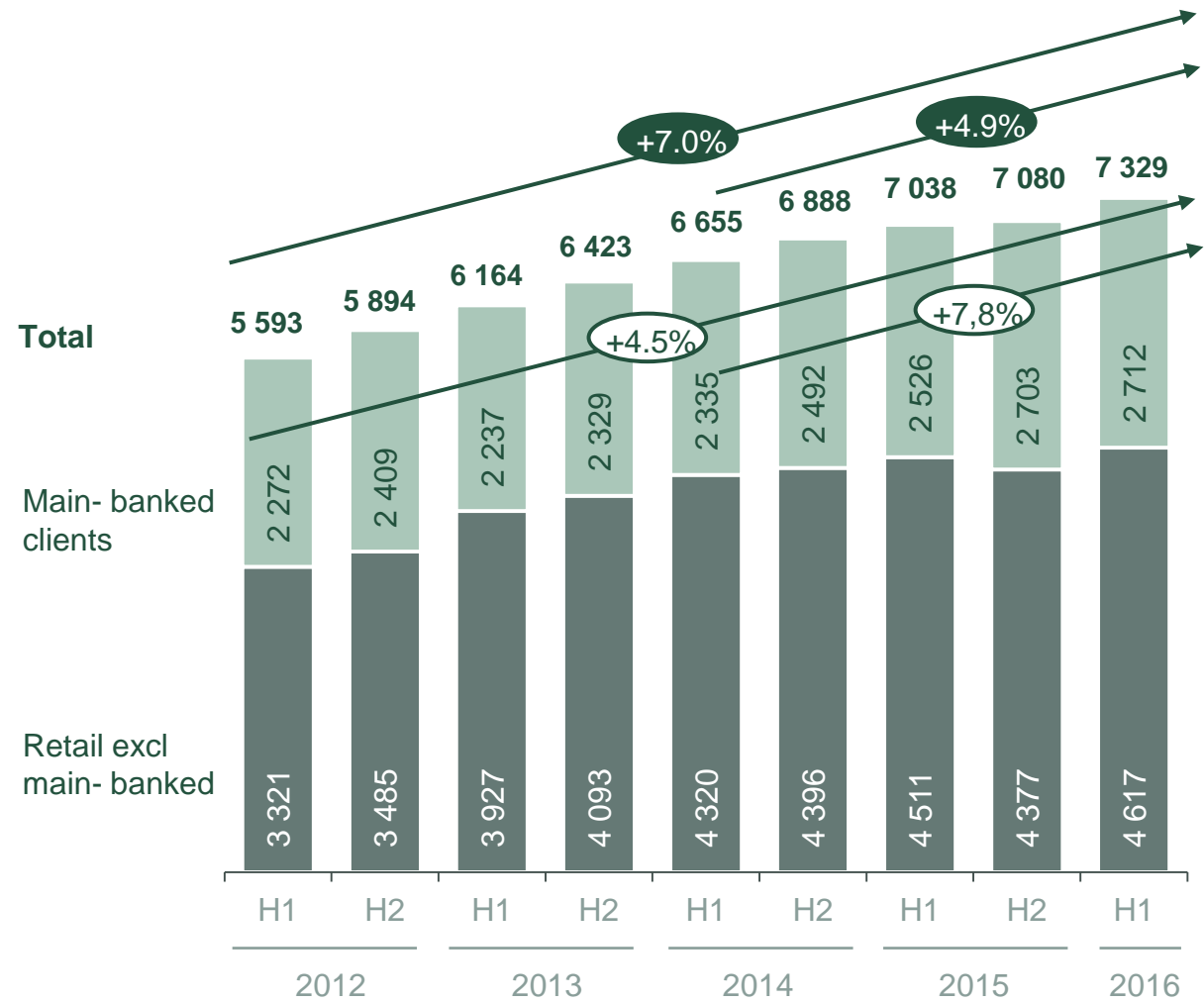
CAGR 2012 to 2016



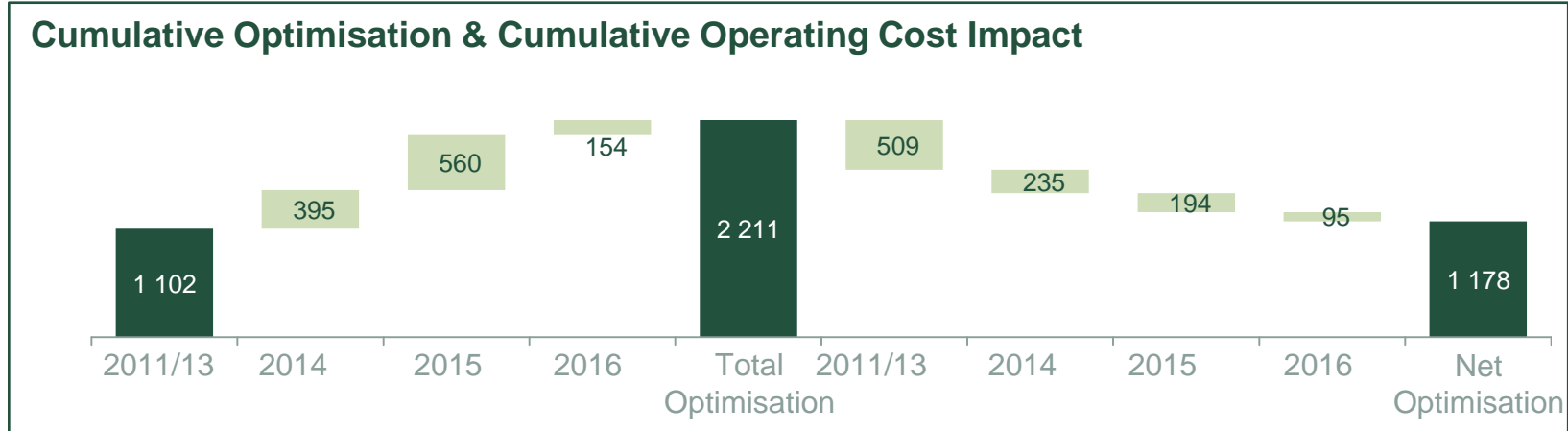
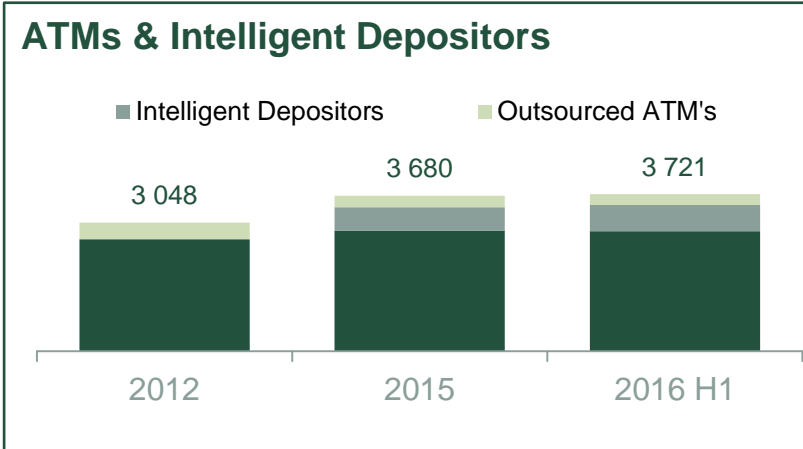
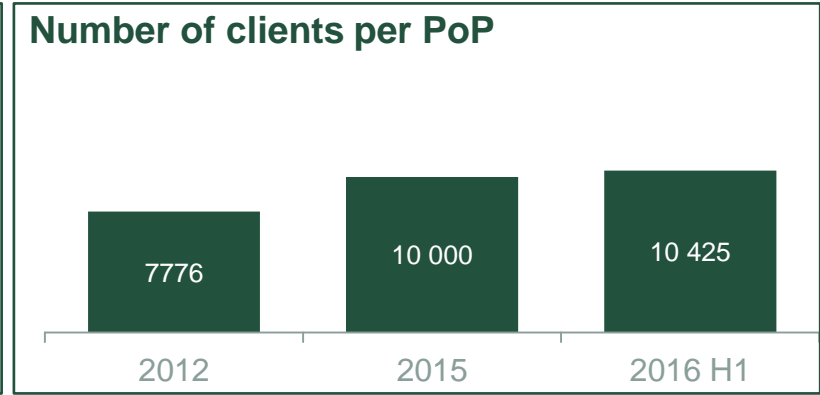
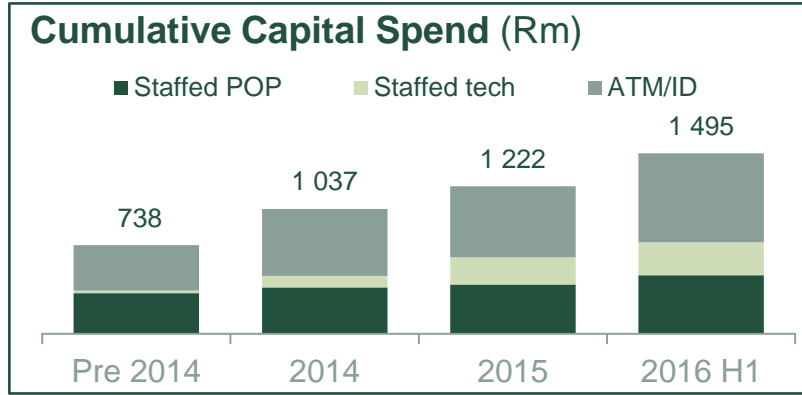
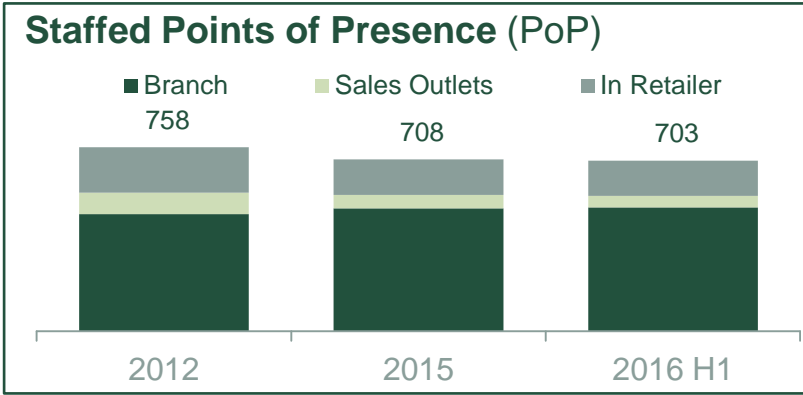
# Retail transactional NIR & main banked growth ahead of total client growth

Total client base  
#000

NIR  
Rm



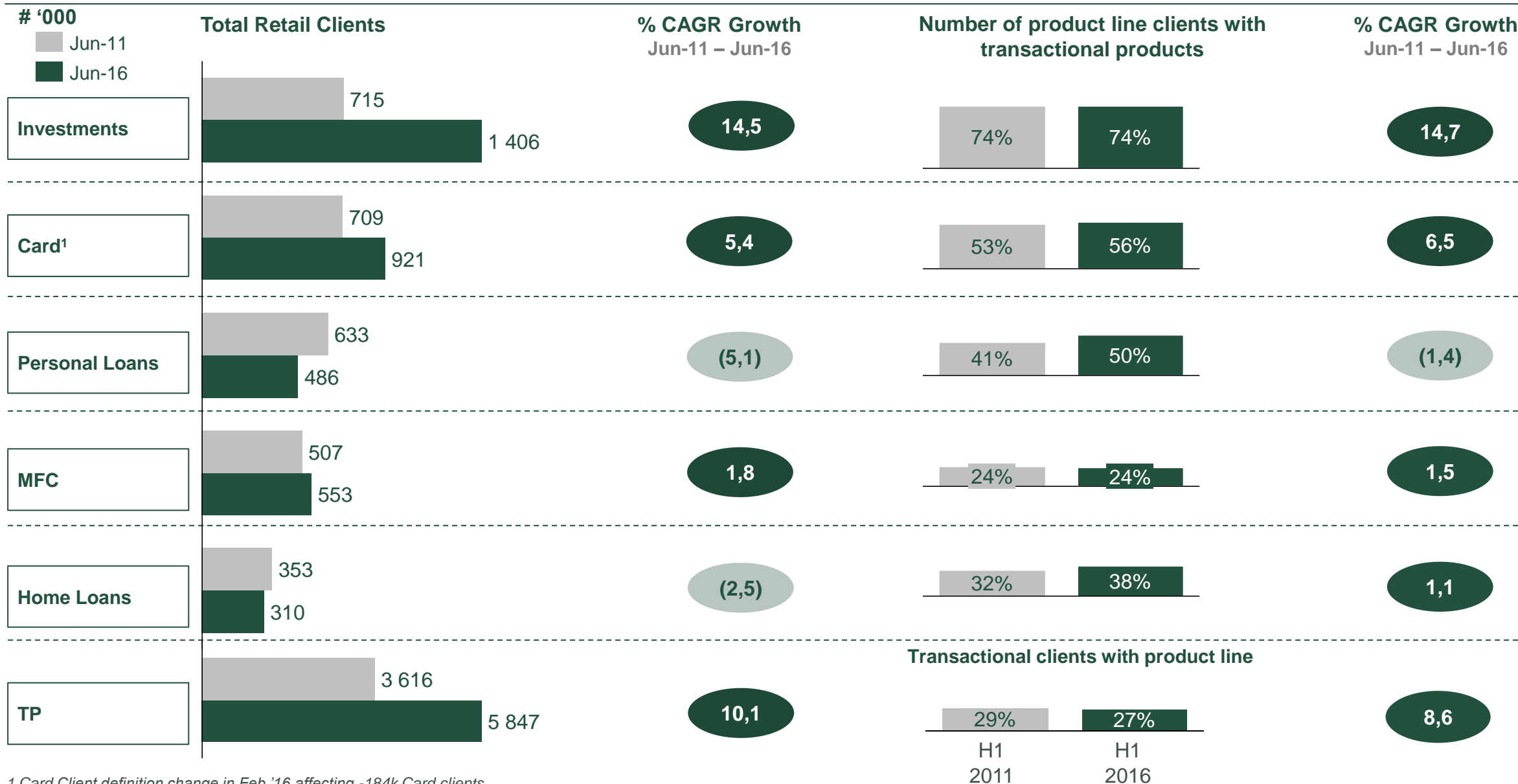
# Distribution Investment driving client growth, funded through efficiencies



- During 2012 a decision was made to slow down on staffed outlet expansion & focus on enabling existing branches with relevant digital technologies whilst updating our image to create consistency across our staffed outlets. This intent will continue as we expand only to remain relevant and aim to remove further duplication from Micro Markets.
- Only 36% of total capital spend over the last four years has related to creating a consistent image, 64% related to technology spend aimed at creating channel of choice and an improved client experience.

*Optimisation benefits include all efficiencies extracted over time from Retail and Business banking not specifically those extracted from the channel cost base. These have more than off-set the cumulative operating cost increase relating to the distribution strategy.*

# Building more enduring client relationships through transactional product cross-sell



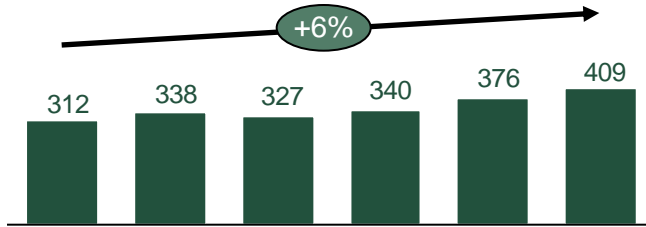
<sup>1</sup> Card Client definition change in Feb '16 affecting -184k Card clients

# Client-centred strategy driving growth across all segments

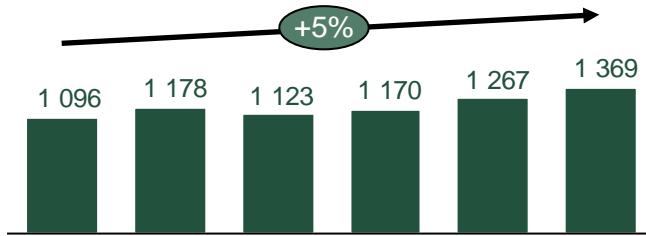
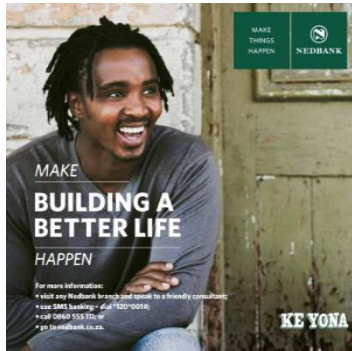
Kids & Youth



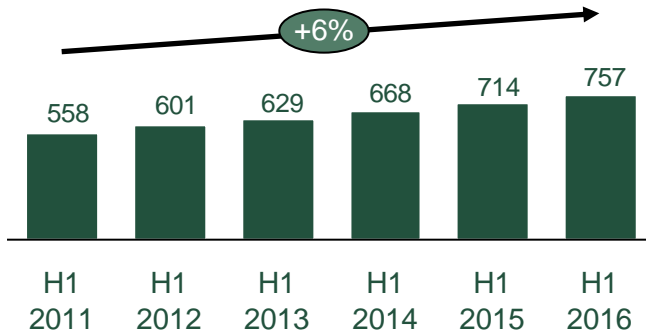
Main banked, # 000



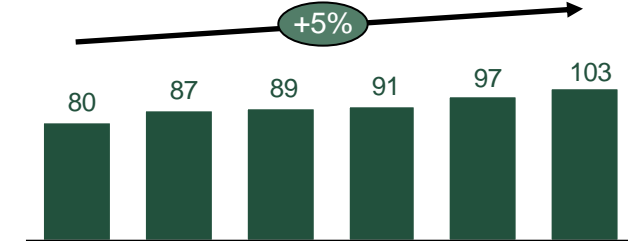
Entry Level



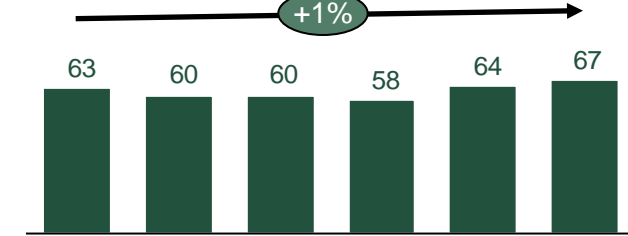
Middle



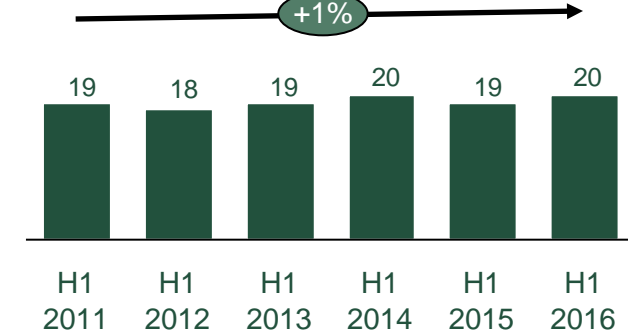
Professional



Small Business



Business Banking<sup>1</sup>

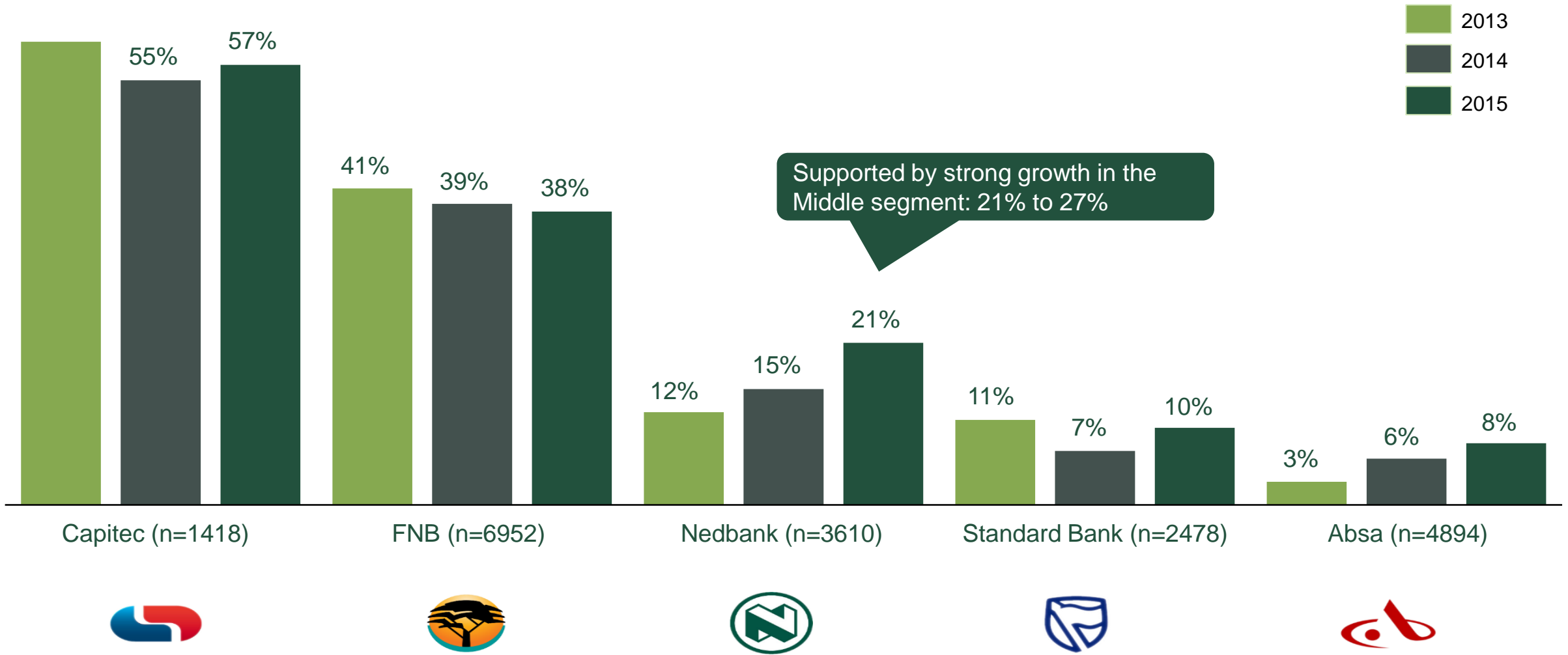


<sup>1</sup> Client Groups with Electronic Banking Profiles. During May 2015 1127 Medical Professional Groups migrated to RRB  
 Note: Non-residential, Non-individual segment not shown

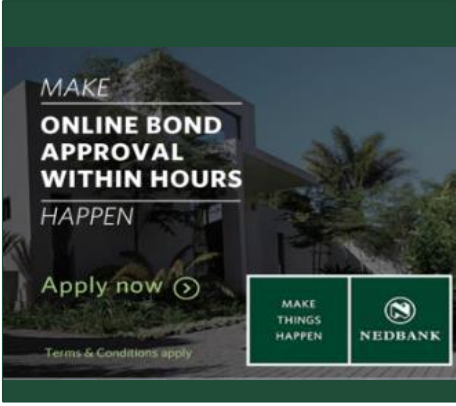




# Nedbank Net Promoter Score is trending upwards... fastest growth in the industry

## Net Promoter Score – Retail

Consulta Industry Report



# Value creating innovation

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Innovation</p>	 <p>MAKE ONLINE BOND APPROVAL WITHIN HOURS HAPPEN</p> <p>Apply now</p> <p>MAKE THINGS HAPPEN NEDBANK</p>	 <p>Be more savvy when sending money</p> <p>Send money via any Nedbank digital channel to a cellphone. The recipient can withdraw at any Nedbank ATM even without a bank account.</p> <p>MAKE THINGS HAPPEN NEDBANK</p>	 <p>SHOP</p> <p>NEDBANK CERTIFICATES</p>	 <p>Nedbank MARKETEDGE™</p>	 <p>MAKE TAKING YOUR BUSINESS TO THE NEXT LEVEL HAPPEN</p> <p>Are you a business owner looking to expand your business? Do you need access to working capital to grow your business?</p> <p>NEDBANK GAP ACCESS™</p>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Value to clients</p>	<ul style="list-style-type: none"> <li>▪ Efficient - quick turnaround time of 3 hours on average</li> <li>▪ Convenient - access anytime &amp; on any device</li> <li>▪ Regular status updates</li> </ul>	<ul style="list-style-type: none"> <li>▪ Convenient &amp; secure</li> <li>▪ Do not need bank account</li> <li>▪ Affordable - flat rate to send money &amp; no withdrawal fee</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rewards automatically available, accessible via Amex merchants / ATMs</li> <li>▪ Attractive redemption values (1,2% of spend)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Valuable client analytics for sales strategies</li> <li>▪ Reduces reliance on costly data research companies</li> </ul>	<ul style="list-style-type: none"> <li>▪ Providing cashflow solutions to merchants off the back of transactional flows</li> <li>▪ Quick turnaround and minimal paperwork required for assessment</li> </ul>
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Value to Nedbank</p>	<ul style="list-style-type: none"> <li>▪ R2.9bn<sup>1</sup> of loans registered since inception (Sep '12)</li> <li>▪ Equal to 11%<sup>1</sup> of granted business</li> <li>▪ Attracts new clients with good risk quality</li> </ul>	<ul style="list-style-type: none"> <li>▪ New revenue stream</li> <li>▪ Cross-sell to non-Nedbank clients</li> <li>▪ Simplified payment capability</li> <li>▪ Increases digital scale</li> </ul>	<ul style="list-style-type: none"> <li>▪ 16%<sup>1</sup> year-on-year increase in membership</li> <li>▪ Enhances brand &amp; CVP</li> <li>▪ Higher client 'stickiness'</li> <li>▪ Additional client data analytics</li> </ul>	<ul style="list-style-type: none"> <li>▪ New CVP &amp; revenue</li> <li>▪ Improved client retention</li> <li>▪ Cross-sell &amp; conversion to primary clients</li> <li>▪ Low implementation cost</li> <li>▪ Commercial use of big data</li> </ul>	<ul style="list-style-type: none"> <li>▪ Over 200 disbursements since launch</li> <li>▪ New CVP &amp; revenue</li> <li>▪ Improved client retention</li> <li>▪ Cross-sell to existing &amp; acquisition of new merchants</li> </ul>

## Advances/ Liabilities

- Advances: Leverage strong position in vehicle finance & business banking. Look to selectively increasing market share in other asset classes & segments, having derisked the book.
- Liabilities: Focus on growth in household liabilities driven off main banked transactional client growth

## Net interest margin

- Growth in higher margin lending businesses & transactional balances will drive margin

## Credit loss ratio

- Continued selective origination to drive relative CLR outperformance through the cycle

## Non interest revenue

- Grow transactional clients faster than the market, thereby growing NIR & current account balances. Resultant increase in Retail and BB main banked market share to >15% & >20% respectively by 2020 through:
  - Digital 1<sup>st</sup>, 1<sup>st</sup> in Digital
  - Disruptive CVPs
  - Sales and Service Excellence
  - Loyalty & Rewards

## Efficiency

- Ongoing focus on cost optimisation through acceleration of the digital journey driving operational efficiency to reduce cost to income ratios / overcome scale issues

## Key Enablers

- Enabled by Operational Excellence, Efficient Support Functions, Evolved Channels & Distribution

# Contact us



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