



# Renaissance Capital Cost Day

9 May 2017

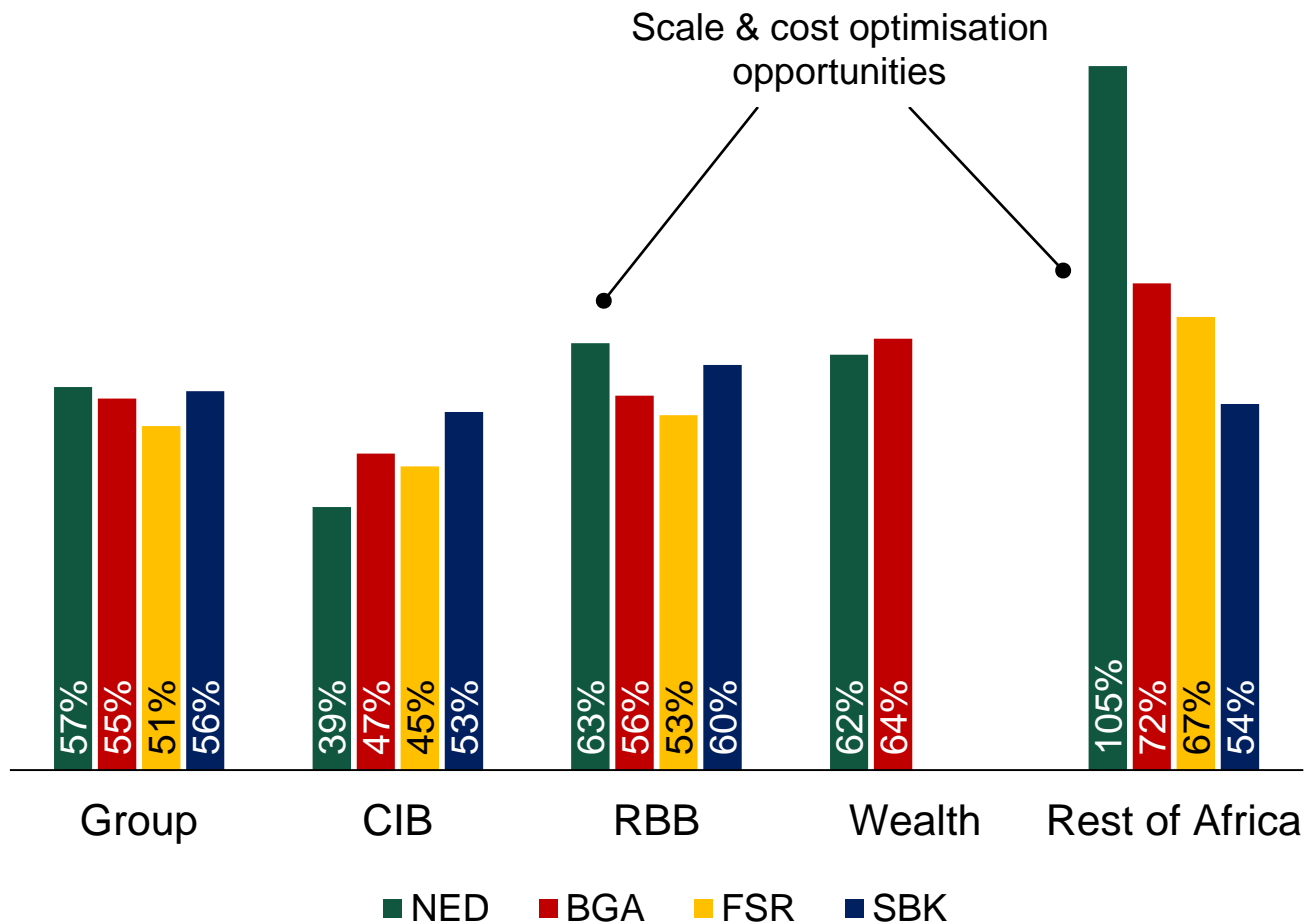
Raisibe Morathi (CFO)

Dave Crewe-Brown (RBB: COO)

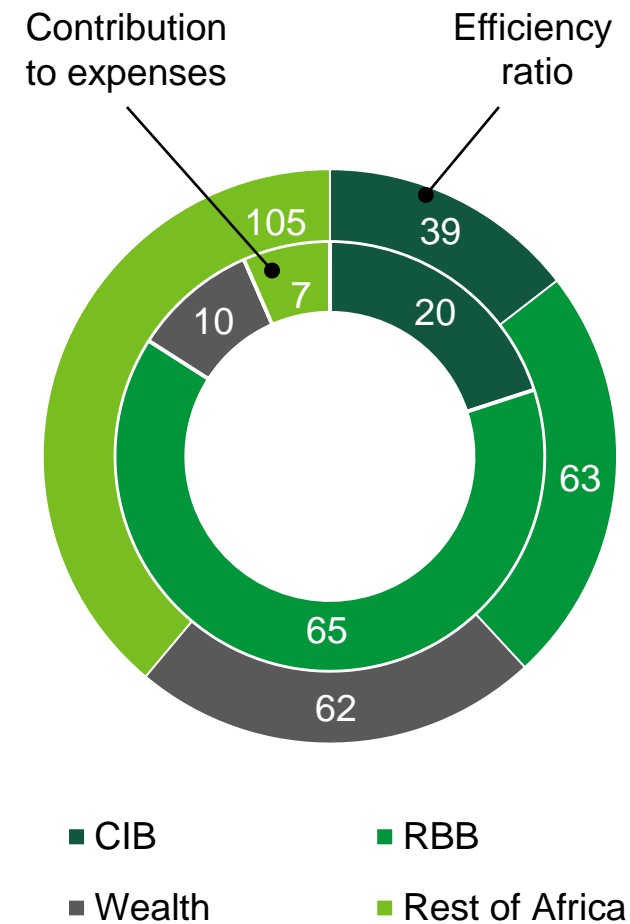


# Efficiency ratio a key focus – leading in CIB, with opportunities in RBB & ROA

### Efficiency ratio vs peers<sup>1</sup> (%)



### Nedbank expense split (%)

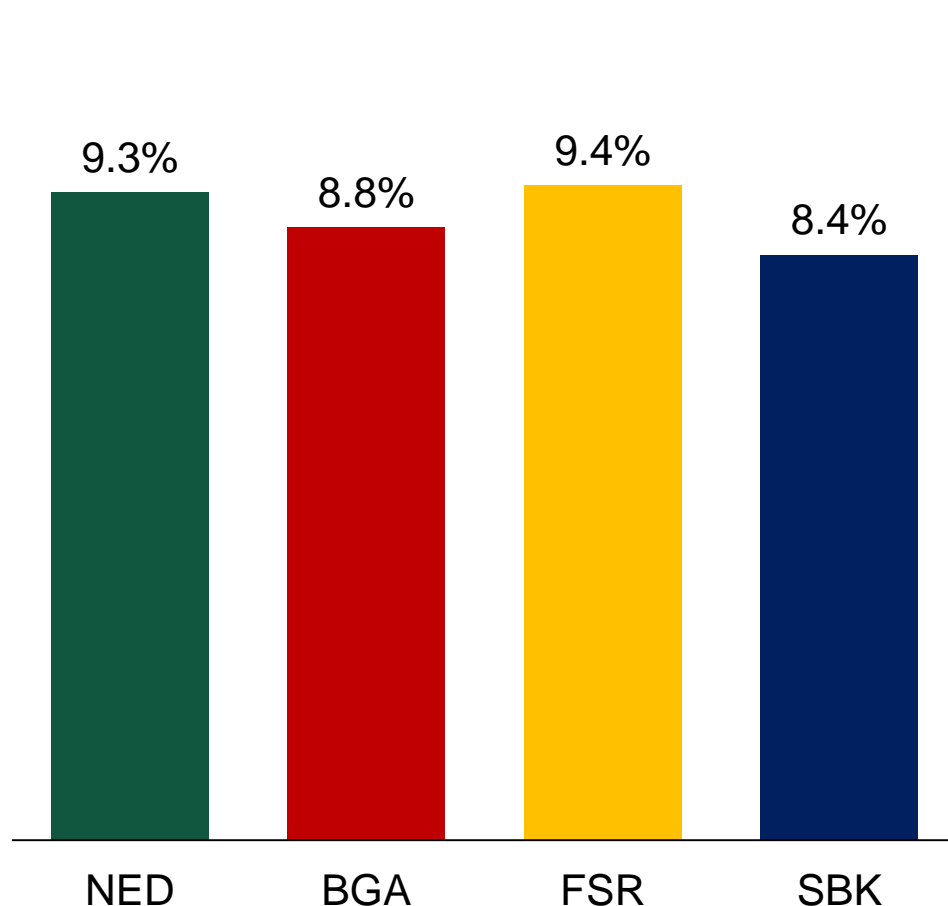


1: Efficiency ratio including Associate income/ loss



# Historic expense growth in line with peers notwithstanding significant investment in the franchise

Expense growth 2010 – 2016 (CAGR %)



Nedbank investments (2010 – 2016)

- ATMs +77% (+1 682)
  - Intelligent depositors +769 (launched 2013)
  - Outlets +9% (+56)
  - New format branches +304
- 
- IT cashflow spend from R800m to R1,7bn
  - Various digital innovations, Flexcube core banking system for ROA, SAP ERP etc
- 
- Regulatory requirements
  - Banco Único consolidation

Note: BGA includes the impact of the acquisition of the Barclays' rest of Africa businesses

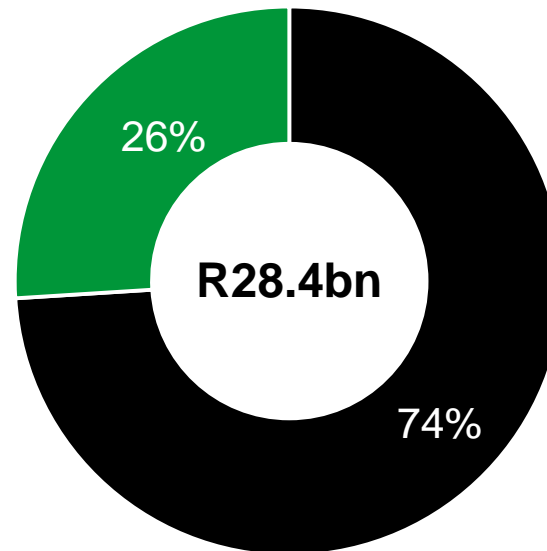


# Looking forward – opportunities to optimise our expense base

## Variable expenses – can be delayed or reduced

- ~10% staff attrition per annum
- STI: Linked to headline earnings & economic profit
- LTI: Linked to ROE, FINI 15 & corporate performance targets
- Discretionary spend: Marketing & communication, consulting fees, travel expenses etc
- Revenue related fees (not included in 26%)

## Flexibility of expense base (%)



■ Fixed ■ Variable

## Fixed & variable expenses – structural optimisation planned

- Target operating model synergies of R1bn pre-tax by 2019
- Digitisation & integrated channels – lower cost to serve & revenue benefits
- Managed Evolution IT core system replacement
- Robotics & artificial intelligence
- Shared services model, including procurement, property strategy



# Target Operating Model synergies of R1bn pre-tax by 2019

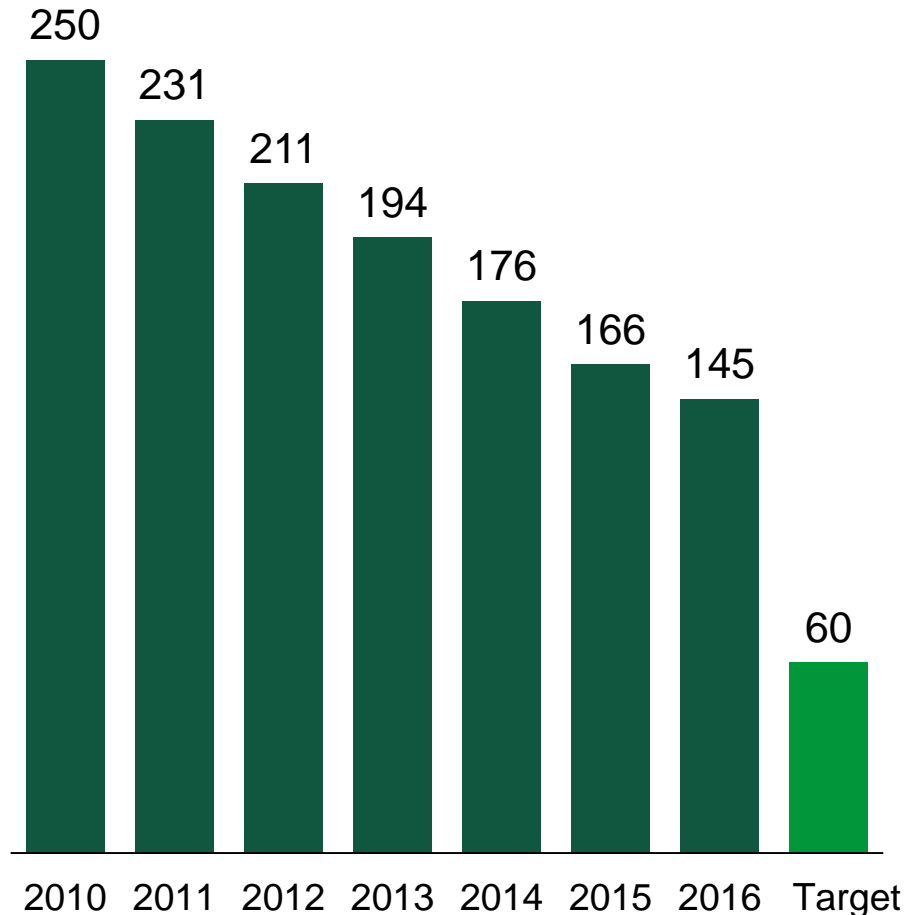
|  |   |
|--|---|
| Client, product & channel simplification | <ul style="list-style-type: none"><li>▪ Shift sales from branch to alternative channels</li><li>▪ POS, ATM &amp; digital channels for transactions &amp; rationalisation of low volume channels</li></ul> |
| Front, middle & back office optimisation | <ul style="list-style-type: none"><li>▪ Improve support function efficiency &amp; achieve top quartile operational productivity across business clusters</li></ul>  |
| Shared services optimisation             | <ul style="list-style-type: none"><li>▪ Fit-for-purpose shared services model</li><li>▪ Remove duplication between centre &amp; business clusters</li></ul>   |
| Digital transformation                   | <ul style="list-style-type: none"><li>▪ Virtual digital value chain</li><li>▪ Digital fast lane - pilot new capabilities end-to-end scaling up</li></ul>  |
| Data-driven intelligence                 | <ul style="list-style-type: none"><li>▪ Improve client profitability, acquisition, retention, channel optimisation &amp; collections</li></ul>  |
| Rest of Africa                           | <ul style="list-style-type: none"><li>▪ Reduce head office costs through new ROA operating model - an extension of existing clusters &amp; report directly to CIB, RBB, Wealth</li></ul>                  |

■ Mostly expense synergies   ■ Mostly revenue synergies

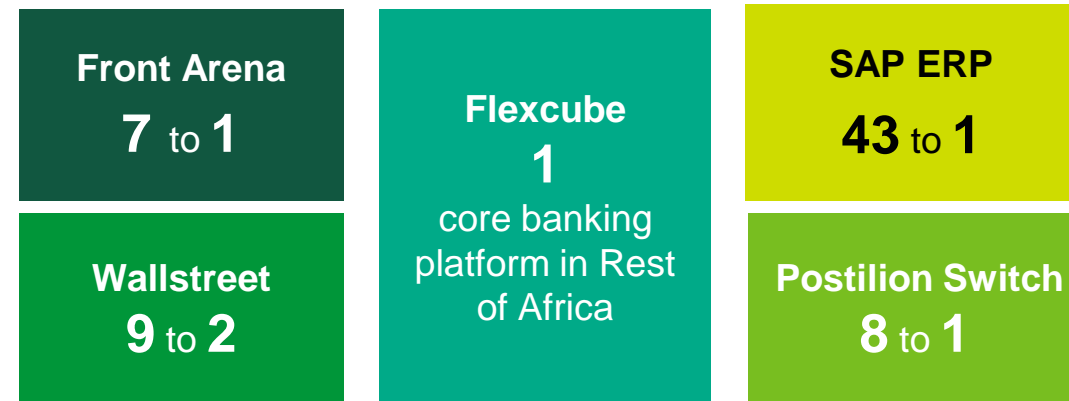


# Managed evolution – simplifying & reducing number of core systems, licence fees & maintenance costs

Core systems (#)



Examples of core systems replaced to date



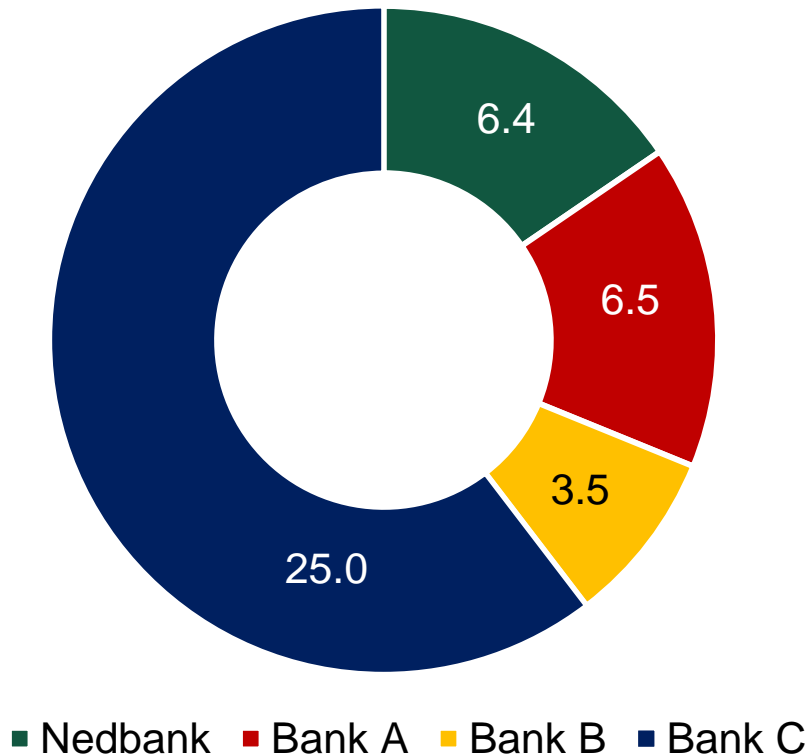
## Benefits from core systems replacement

- Reduction in licence fees
- Straight-through processing
- Headcount optimisation
- Reduced maintenance costs
- Improved functionality & client service levels

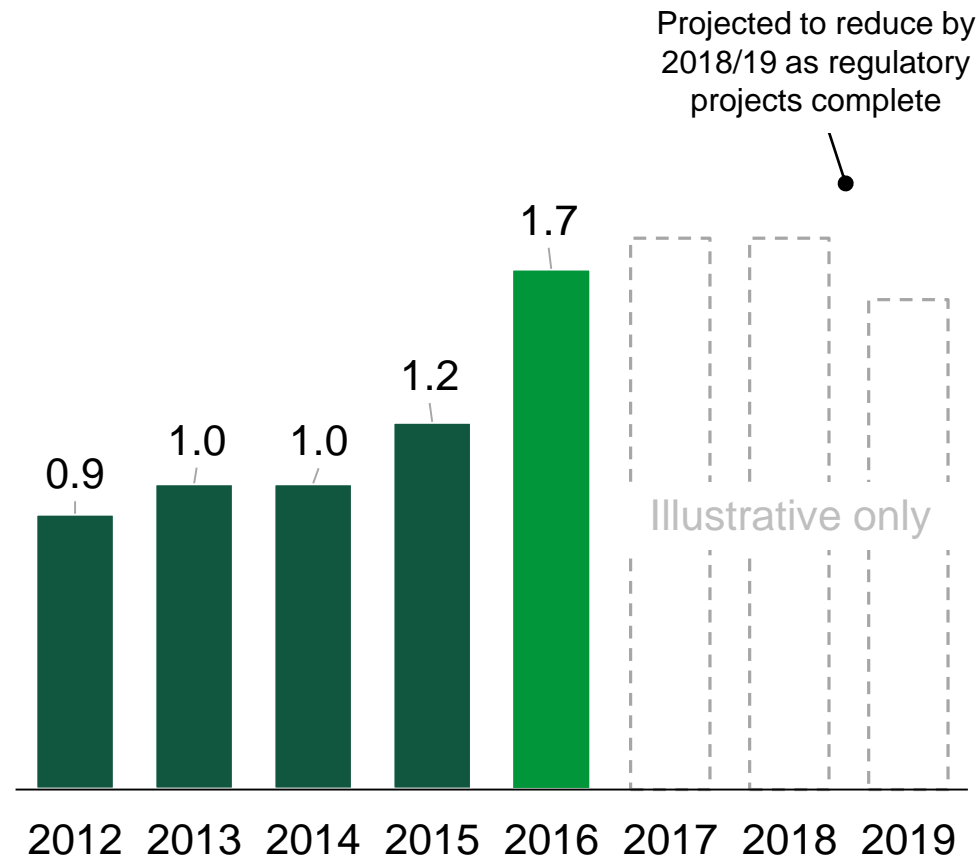


# Managed evolution – replacing core banking systems cost efficiently

Capitalised IT costs<sup>1</sup> (Rbn)



Nedbank IT cashflow spend (Rbn)



1: Costs including software & development costs, as well as computer equipment



# Robotics & artificial intelligence – opportunities as implementation at Nedbank is set to start

## Robotics

Robotics Process Automation are software tools that have emerged to simplify business process delivery by mimicking human actions & automating repetitive tasks across multiple business applications. This technology offers:



Process efficiency



Cost reduction



Improved client experience



Accelerated delivery



Improved controls

**25-50%**

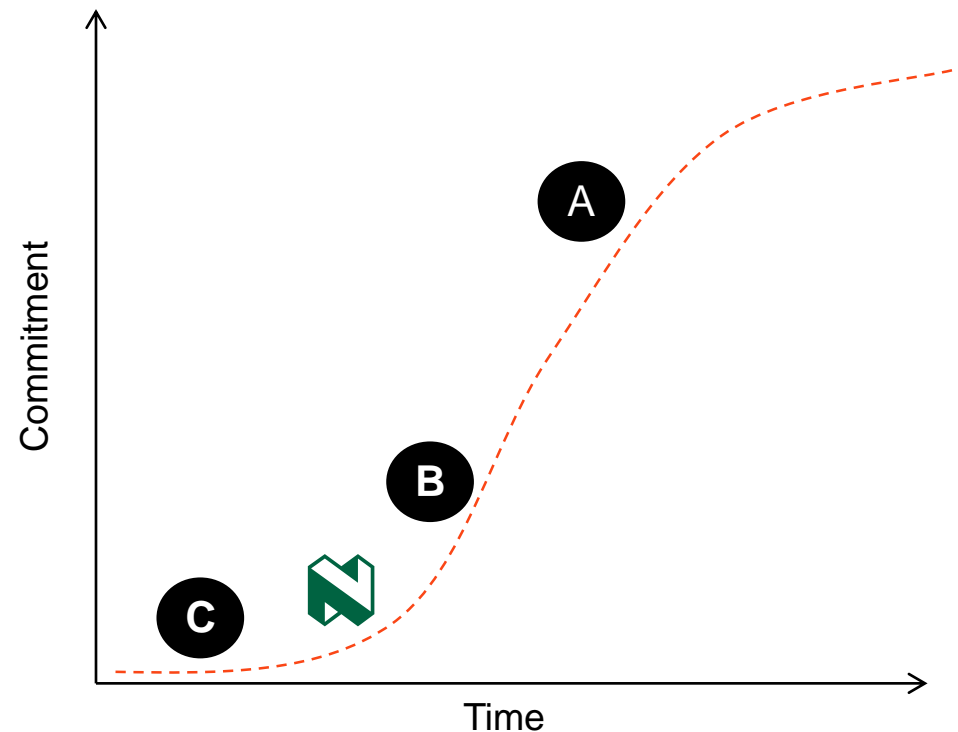
Typical cost savings from RPA enabling automation reduction

**40%**

Average handling time reduction due to Robotic Process Automation

## Level of automation

In the spectrum of automation within the banking industry, taking into consideration the maturity of moving from Process Automation to Artificial Intelligence...

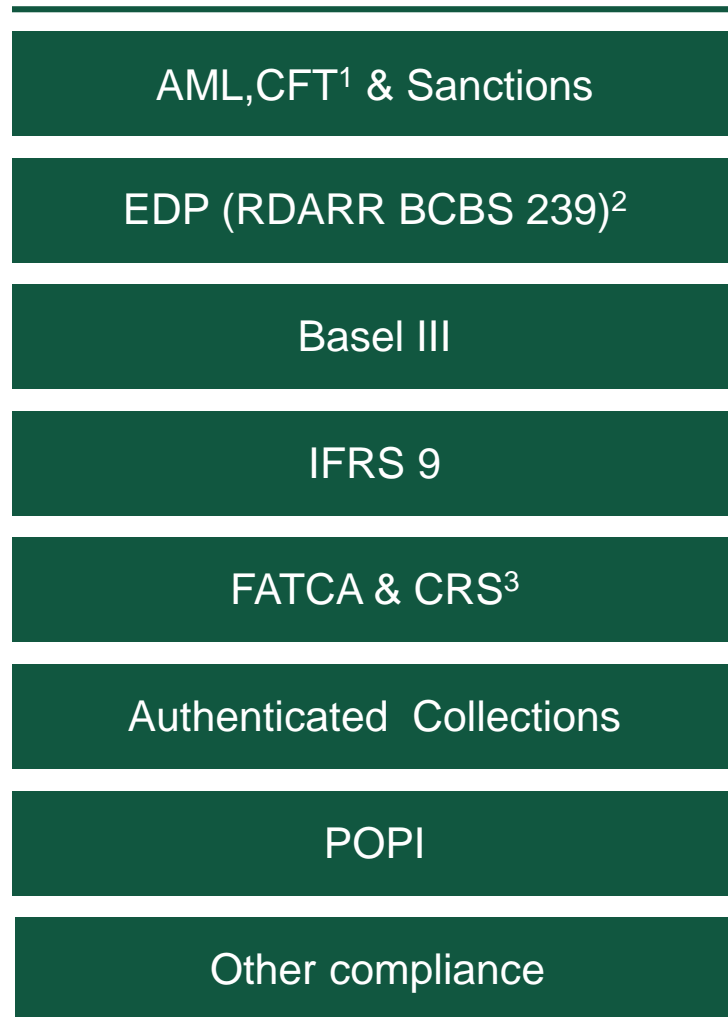






# Ongoing investment in regulatory programmes

## Key regulatory programmes



## Benefits

- **Regulatory compliance** – avoidance of significant fines
- **Improved technological capabilities** – uniform client on-boarding systems /interfaces & advanced data analytics capabilities & reduction in temporary AML staff once programme runs off
- **Synergies between major initiatives** – Managed evolution & regulatory change programme alignment
- **Improved client centricity** – implementation of key regulatory and technological initiatives (Big data/ Data Fast Lane, KYC, Data warehouse, etc.)
- **Competitive advantage** – leveraging risk management to be a strategic & competitive differentiator



# Shared services model<sup>1</sup> – best practice & scale benefits

## Example: Property strategy (centralised)

Manage property costs through consolidation (scale benefits), workspace planning & optimisation (efficient use of office space), standardisation, sustainable practices (electricity, water, recycling etc) to maintain cost increases relating to Nedbank's facilities at below inflation & create an supportive & attractive place to work

|                                       | Base KPI<br>(year)                | 2016<br>KPI                                     | Strategy  |
|---------------------------------------|-----------------------------------|---|---|
| Strategic office vacancy              | 7.7%<br>(2009)                    | 2.0%  | <ul style="list-style-type: none"> <li>Regional office consolidation &amp; optimisation (planning 10 000m<sup>2</sup> savings from Western Cape office consolidation)</li> <li>Target &lt;4%</li> </ul> |
| Office space efficiency               | 20m <sup>2</sup> / desk<br>(2006) | 13.2m <sup>2</sup> / desk                       | <ul style="list-style-type: none"> <li>World-class workspace planning incl standardisation</li> <li>Target: 12m<sup>2</sup> / desk</li> </ul>   |
| Desk to employee utilisation          | 86%<br>(2011)                     | 85%   | <ul style="list-style-type: none"> <li>Workspace optimisation</li> <li>Target 100% (hot-desking may increase to world-class levels of 120%)</li> </ul>  |
| Electricity consumption / FTE         | 6 546 Kwh / FTE<br>(2008)         | 4 249 Kwh / FTE                                 | <ul style="list-style-type: none"> <li>Renewable energy &amp; sustainable practices</li> </ul>  |
| Facilities management cost / employee | R35.4k / FTE<br>(2010)            | R46.3k / FTE<br>(4.6% CAGR)<br>(CPI: 5.6% CAGR) | <ul style="list-style-type: none"> <li>Increase facilities cost at less than CPI (despite municipal rates, rent, security costs, electricity etc increase &gt;CPI pa)</li> </ul>                        |

1: Nedbank does not run a totally decentralised federal model, but have centralised key functions to enable scale benefits



# Shared services model<sup>1</sup> – best practice & scale benefits

## Example: Procurement strategy (centralised)

### Leverage group buying power

- Deal negotiation & scale benefits
- OM SA group synergies<sup>2</sup> (joint R1bn by 2017 of which c30% accrue to Nedbank)

### Centralised sourcing

- Deal negotiation & scale benefits
- Centralised contract negotiation & procurement of commodities
- Governance & policy oversight

### Technology enablement

- SAP system implemented in 2015
- Benefits from streamlined procurement processes (more efficient)

### Transformation benefits

- Focus on enterprise development & increasing spend with Black Women Owned and Black Owned suppliers
- B-BBEE FSC preferential procurement (16 / 16 points)
- Client benefits

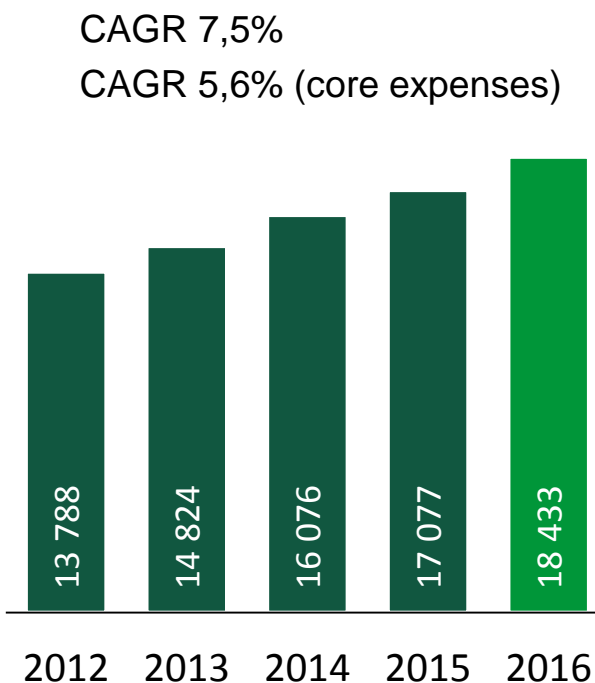
**Majority of non-salary & incentives related expenses through group procurement process**  
(saved ~R290m in 2016)

1: Nedbank does not run a totally decentralised federal model, but have centralised key functions to enable scale benefits | 2 OM SA synergies extend beyond procurement

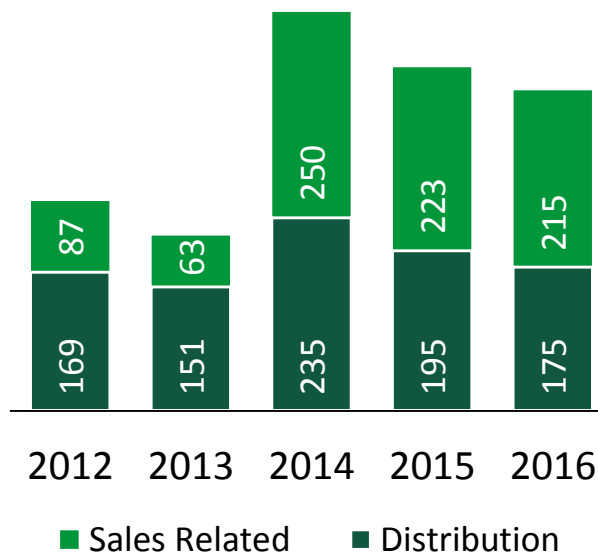


# RBB historic expense growth – efficiencies offsetting investment

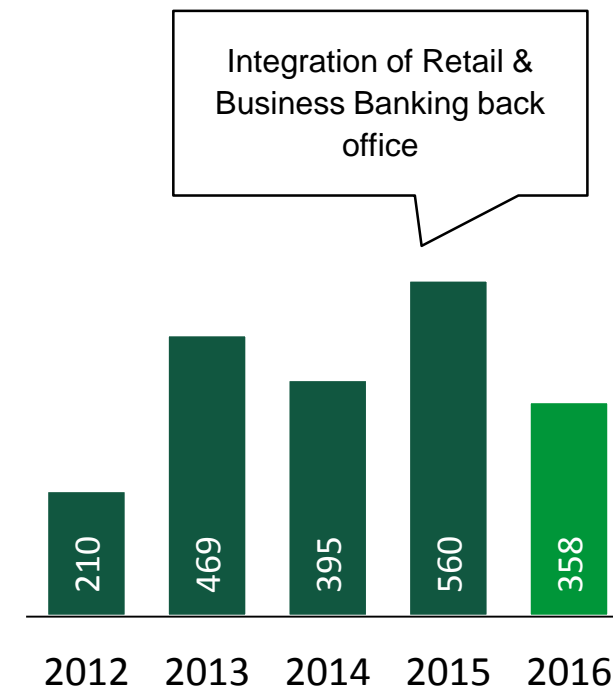
## Expenses (Rm)



## Distribution & sales related cost growth (Rm)

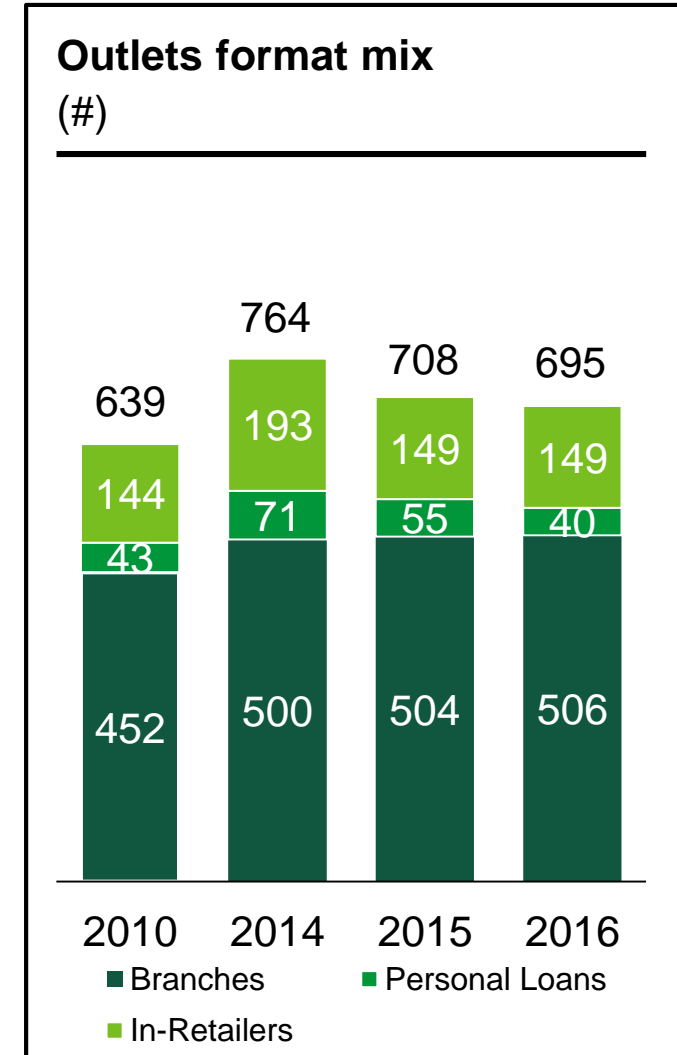
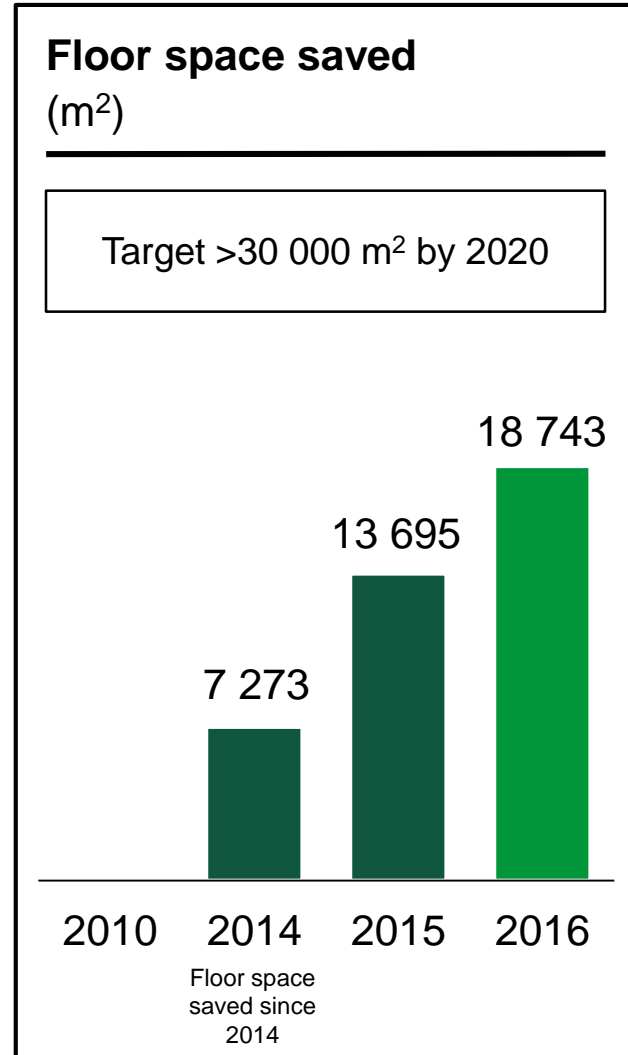
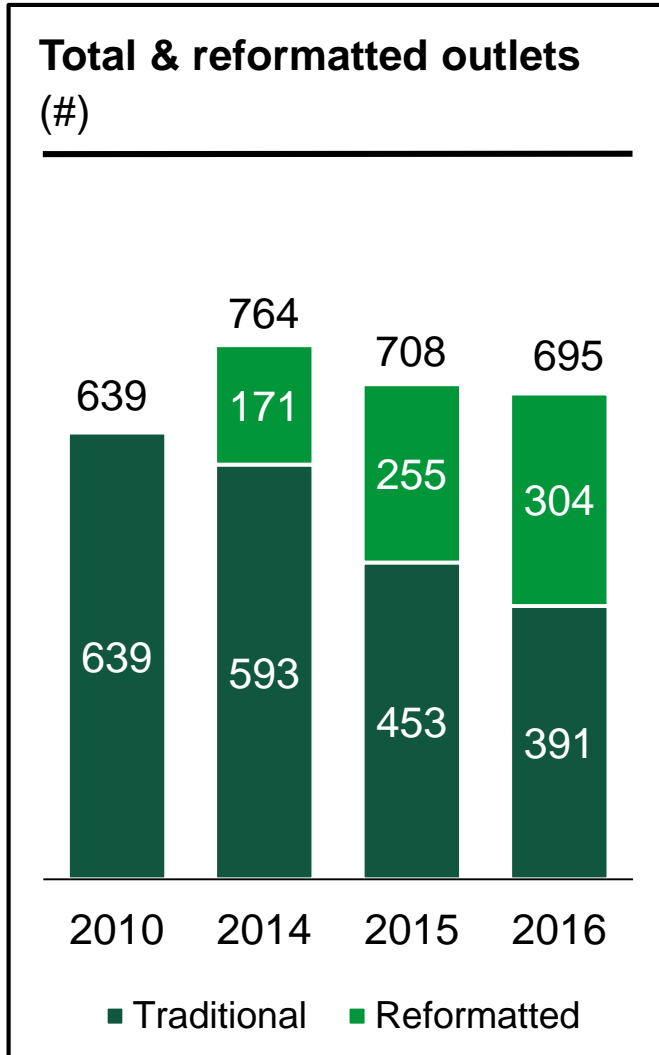


## Efficiencies (Rm)



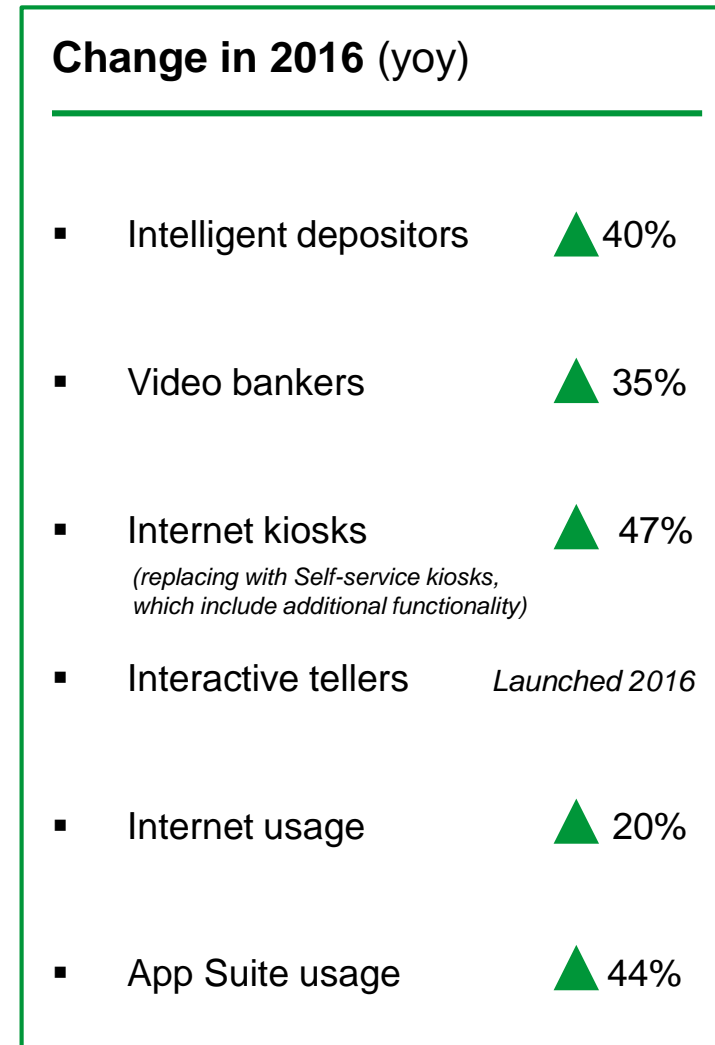
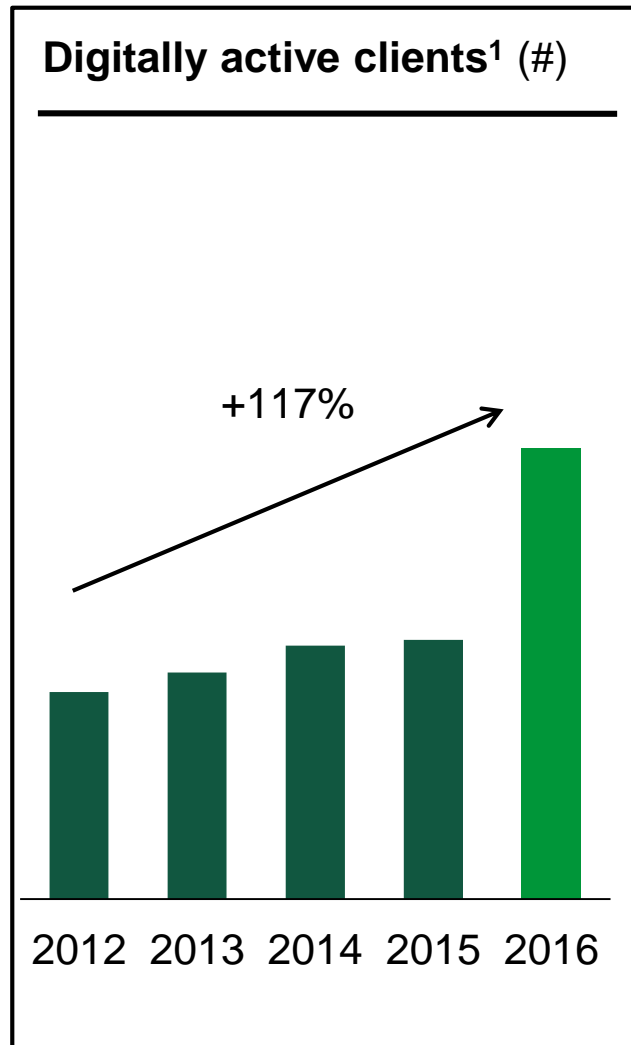
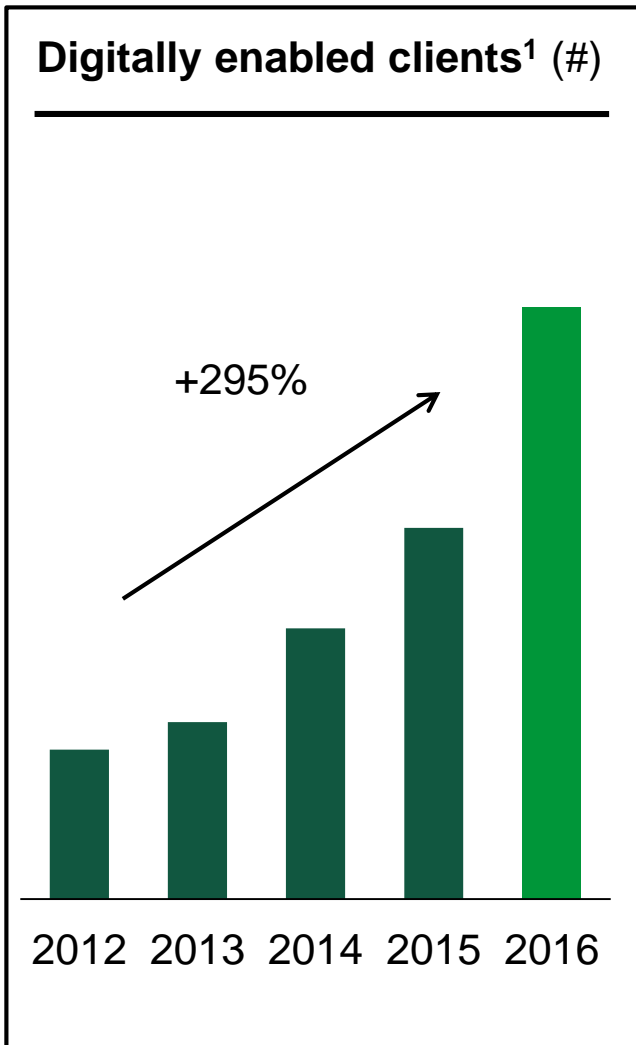
64% of total RBB capital spend related to technology investments.

# RBB integrated channels – efficient use of space & staff, replacing traditional branches





# RBB digitisation – accelerated digitisation of technology & operations



1: Digitally enabled and active clients have been restated to include all digital channels and to allow for only last 90 days of recent activity



# RBB changing service model – core focus to migrate clients from branch to staff guided & self-service channels

## Staff Guided

Clients can access an enhanced suite of offerings (including specialist sales and services) through new channels reducing dependence on the physical branch network



Interactive Teller



NCC



Video banking



Service Champion

## Self-service on Nedbank Devices

Through enabling self-service transactions, such as statements on intelligent depositors and limit increases on ATMs, clients are enticed to use our devices



Internet Kiosks / Self Service Kiosks



ATMs and Intelligent Depositors

## Self-service on User Device

Servicing capabilities, including maintaining a profile and pin encoding will be enabled on user owned devices, thereby increase client convenience



Online



Mobile



# RBB product set – rationalised number of retail products

## From 17 products

### Youth

- Nedbank 4me
- Dezign Save
- Dezign Banking Current Account
- Dezign Student Account

### ELB

- Mzansi
- Ke Yona Account
- Transactor Plus Account
- Transactor Plus Bundle Account

### Middle

- Nedbank Current Account
- Everyday Current Account
- Savvy Electronic Current Account

### Seniors

- Optimum Current Account
- Prime Club Current Account
- Prime Club Savings Account
- Optimum Savings Account

### RRB

- Professional PAYU
- Professional Bundle

## to 10 products

- Nedbank 4me
- Dezign Student Account

- Keyona Bundle
- Savvy Plus

- Savvy Bundle
- Nedbank PAYU

- Optimum Current Account

- Professional PAYU
- Professional Bundle
- Young Professional





# RBB initiatives – large contributor to future efficiencies & savings

## 277 initiatives in five areas

**Credit**

**Evolved distribution**

**Operational excellence**

**Organisation simplification**

**Procurement**

## Examples of RBB initiatives

- Integration of personal loans & client engagement
- Operational improvements in collections & debt counselling

- Branch right sizing, personal loan branch optimisation & reducing layers of management
- Sales & service operating model changes

- Self-service websites
- Video banker
- Mail suppression

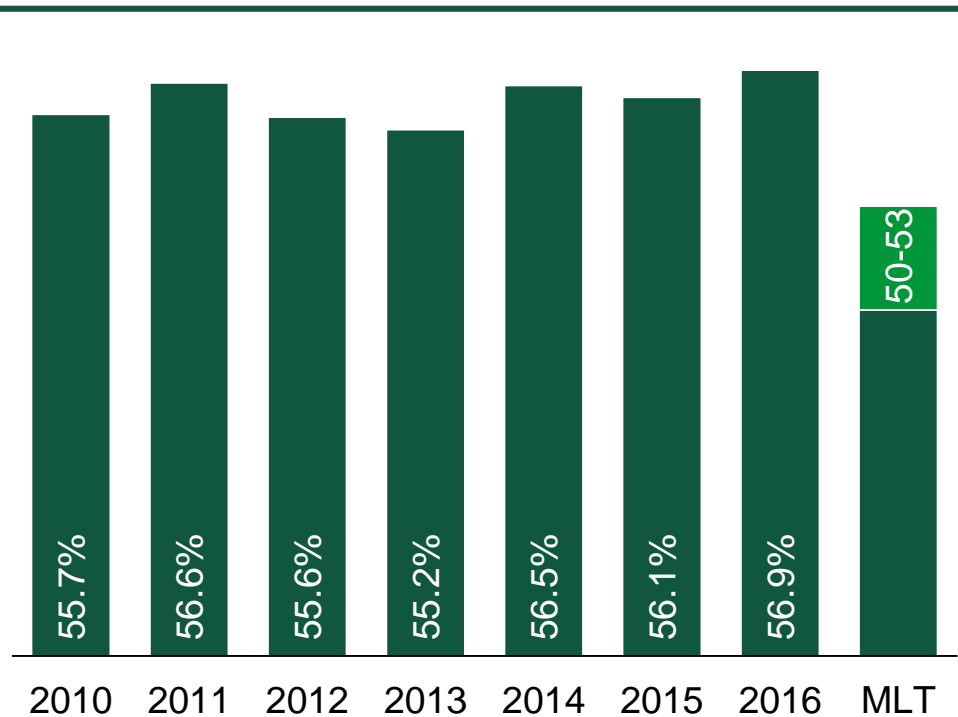
- Robotic automation
- Support function optimisation

- Guarding & armed response
- Marketing



# Outlook – targeting 50 – 53% efficiency ratio (medium to long-term)

Efficiency ratio<sup>1</sup> (%)



## Corporate performance targets linked to LTIs

Achieved by 31 December 2019:

- R1bn pre-tax Target Operating Model synergies
- 15,0% Retail transactional market share
- 16,5% Commercial deposit market share

## Key cluster C:I targets

- Maintain CIB at ~40%
- Improve RBB from 63% to ≤58%
- Improve Wealth from 62% to ≤60%
- Improve RoA from 105% to ≤60%

**Tracking, monitoring implementation** – Targets incorporated into individual scorecards, ongoing tracking & reporting into monthly executive operational meetings (SAP, Wave) & transformation office to track target operating model progress

1: Efficiency ratio including Associate income/ loss



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