



# **AR** Annual Results '16

for the year ended 31 December 2016

Using our financial  
expertise to do good





**MIKE BROWN**

## OVERVIEW

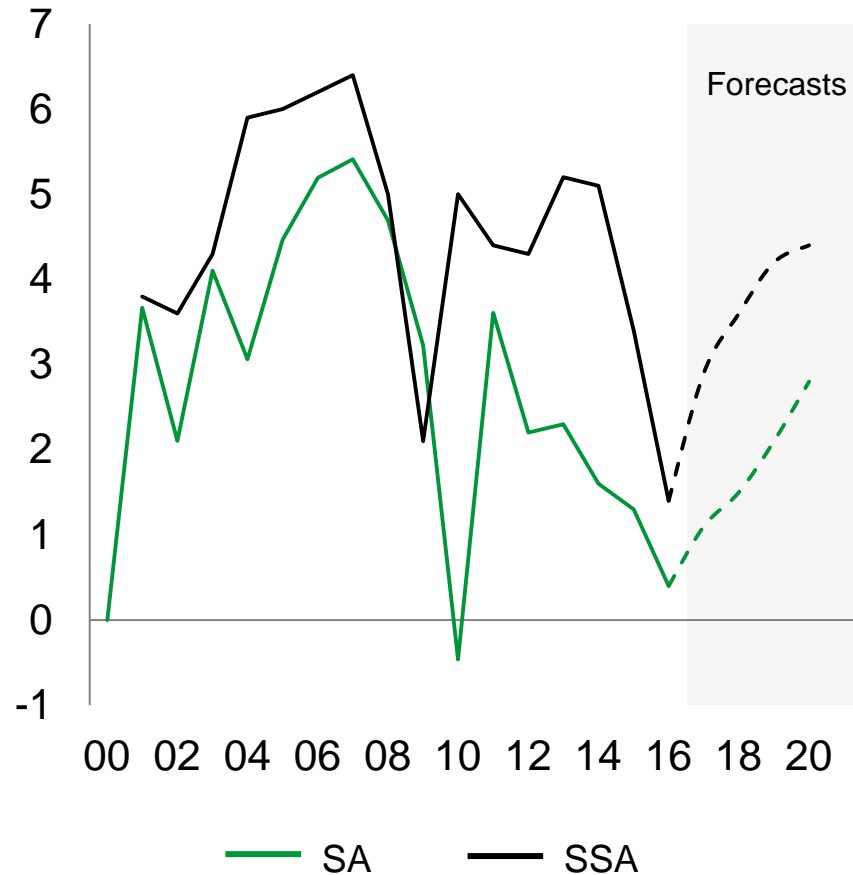
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Excellent operational performance offset by loss from ETI associate



# Slow growth with improving outlook

## GDP growth (%)



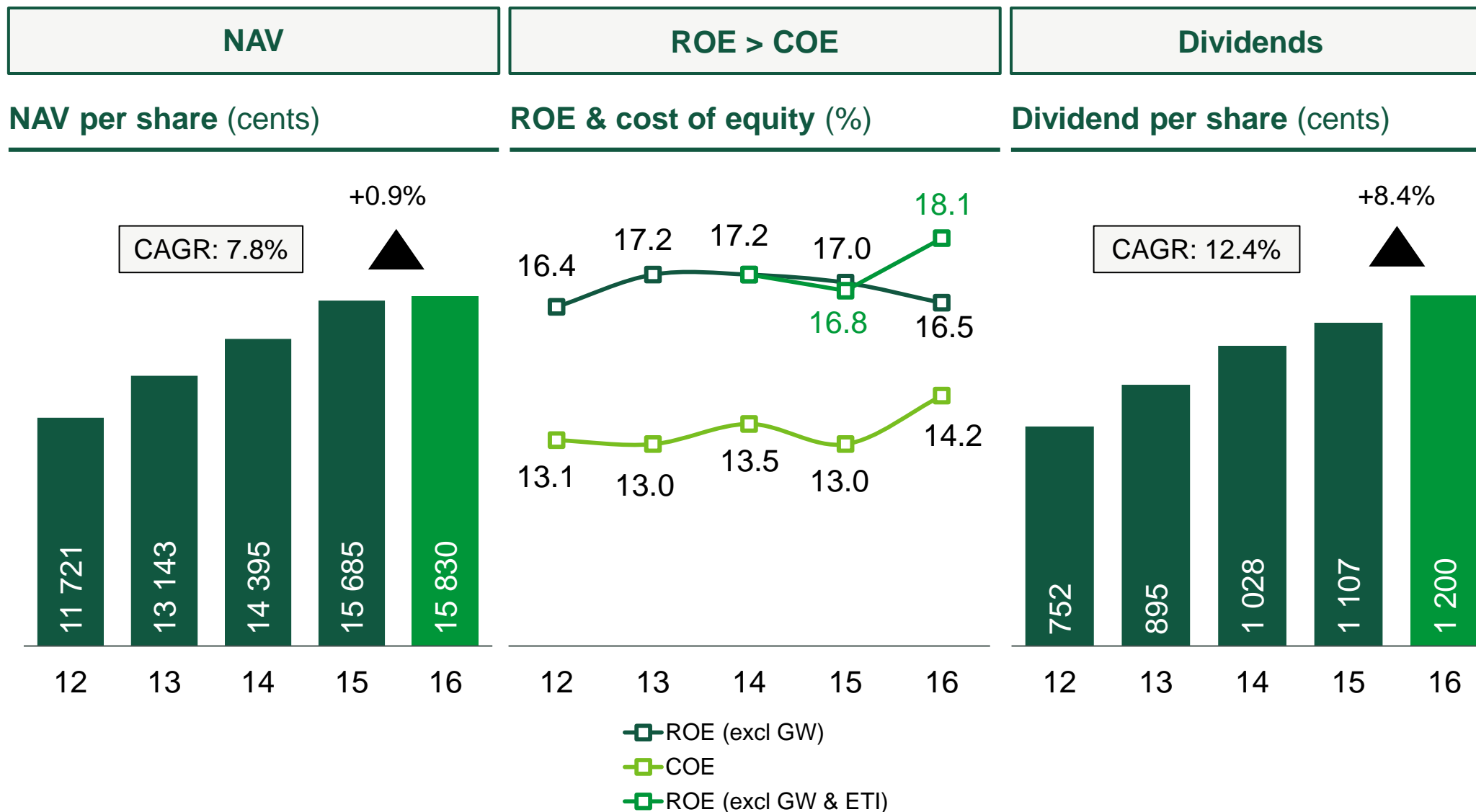
## Key developments & outlook

- Rising antiglobalisation & policy uncertainty in developed countries
- Ongoing currency & market volatility
- Commodity prices off their lows
- In SA:
  - inflation elevated, but forecast to decrease
  - interest rates at or close to their peak
  - credit growth slow, with wholesale ahead of retail
  - regulatory focus shifting to market conduct
  - government, business & labour working together

Note: Sub Sahara Africa forecasts from WEF | SA forecasts from Nedbank Economic Unit



# Delivering value to shareholders





# Our role in society – contributing by delivering value to all our stakeholders



## STAFF

- Paid **R15.5bn in salaries & benefits** to support our 32 401 staffmembers & their families
- Facilitated transfer of **R3.5bn payroll taxes** on behalf of staff to government
- Created almost **4 000 new jobs** since 2010
- **Transforming our workforce** towards SA demographics (> 78% black employees)
- **Leadership in transformation** acknowledged at 15th Oliver Empowerment Awards



## CLIENTS

- **R162bn loan payouts** to enable clients to finance their homes, vehicles, education & grow their business, including **R26bn loan payouts to SME & BB clients** & **R3.6bn for affordable housing**
- Infrastructure financing – over **R50bn drawn & committed**
- Safeguarded **R762bn deposits** at competitive interest rates
- Processed over **15bn transactions** to enable clients to pay for their goods & services
- **Top 3 SA asset manager** for eight consecutive years – managing our clients' investments

**TO BE THE  
MOST ADMIRABLE  
FINANCIAL SERVICES  
PROVIDER IN AFRICA  
BY OUR  
STAKEHOLDERS**

## SHAREHOLDERS

- Achieved a **32.3% total shareholder return**
- Paid **R5.6bn dividends**  
... to shareholders who represent pension funds & investments of all South Africans (incl GEPP, a 6.0% shareholder in Nedbank)
- **Unlocked R8.2bn in value** for our more than 500 000 BBBEE shareholders<sup>1</sup>

## REGULATORS

- Maintained a strong balance sheet to **support a safe & stable banking system**
- Paid **R5.2bn direct & indirect taxes**
- Invested **more than R100bn in government & public sector bonds** to support the funding needs of government

## COMMUNITIES

- Provided **consumer finance education to 180 000 people**
- Procured **75% of our goods & services locally**
- Education & black student support:
  - Nedbank Mogale Empowerment Trust – **R100m investment**
  - **R11m contribution** to issues around Fees Must Fall
  - **R141m to socioeconomic development** (50% spent on education)
- Invested **R20m in the government SME Fund**
- **Maintained level 2 BBBEE status** for eight consecutive years

<sup>1</sup> As reported in February 2016 based on our BBEEE schemes that matured in 2015.





# FINANCIAL OVERVIEW

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Excellent performance from our  
managed operations

**RAISIBE MORATHI**



## Key performance indicators

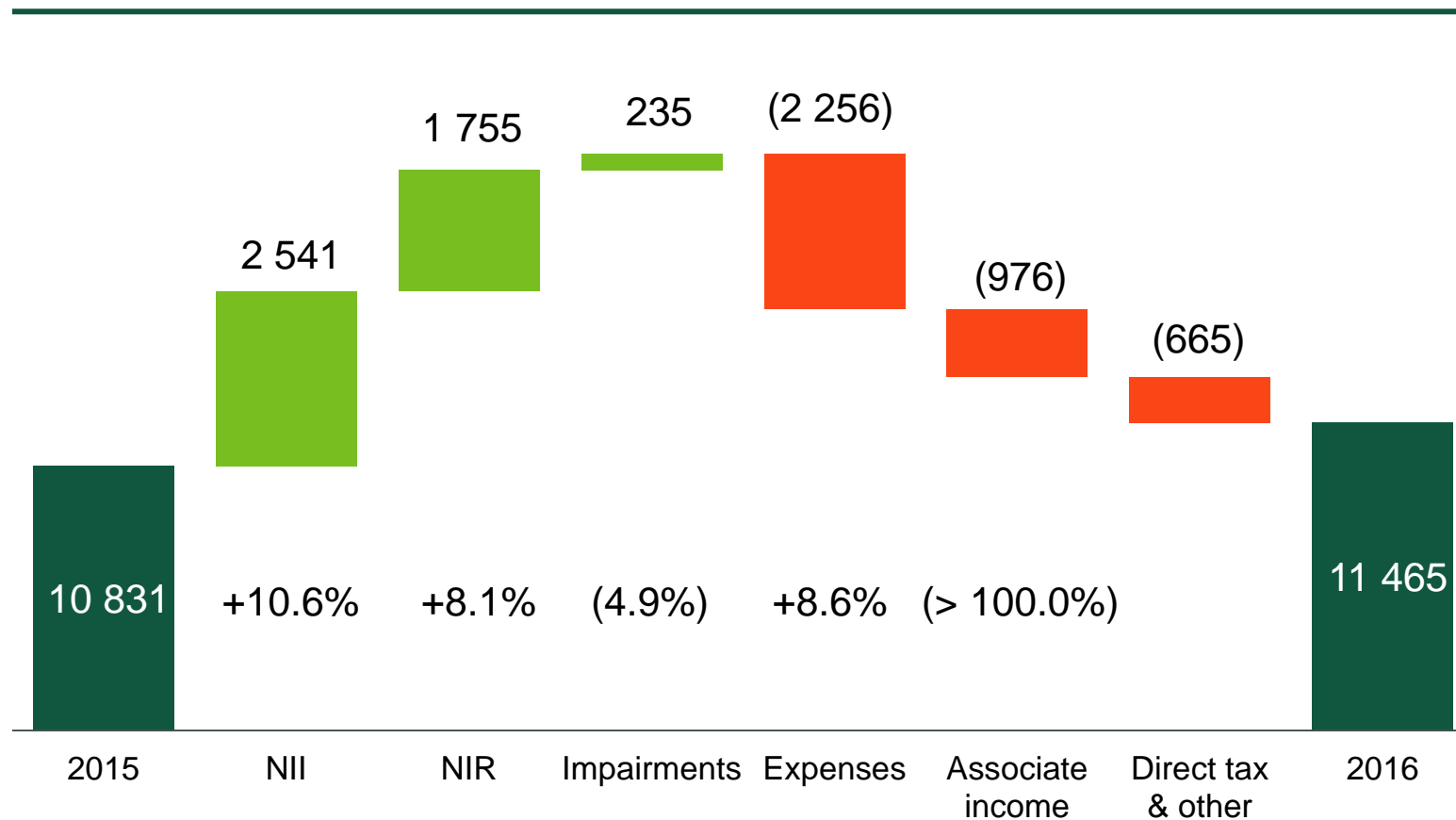
					Managed operations	
					2016 <sup>1</sup>	2015 <sup>1</sup>
Headline earnings (Rm)	5.9%	<b>11 465</b>	10 831	16.2%	<b>11 839</b>	10 187
ROE (excl goodwill)		<b>16.5%</b>	17.0%		<b>18.1%</b>	16.8%
Diluted HEPS growth		<b>4.8%</b>	8.5%		<b>15.1%</b>	2.8%
Preprovisioning operating profit growth		<b>4.4%</b>	7.3%		<b>10.0%</b>	4.1%
Net interest margin		<b>3.41%</b>	3.30%			
Credit loss ratio		<b>0.68%</b>	0.77%			
NIR-to-expenses ratio		<b>82.9%</b>	83.3%			
Tier 1 CAR		<b>13.0%</b>	12.0%			
Assets under management (Rbn)	6.2%	<b>273</b>	257			
Dividend per share (cents)	8.4%	<b>1 200</b>	1 107			

<sup>1</sup> Excluding associate income/losses, as well as funding costs.

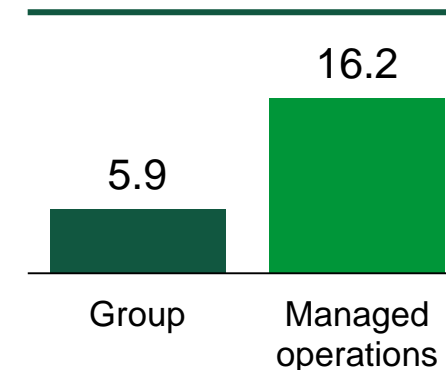
# Solid headline earnings growth supported by strong revenue growth from our managed operations



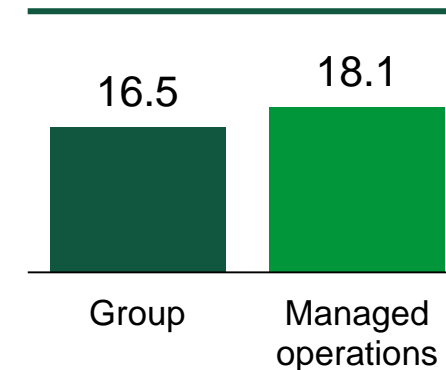
Headline earnings (Rm)



HE growth (%)



ROE excl GW (%)

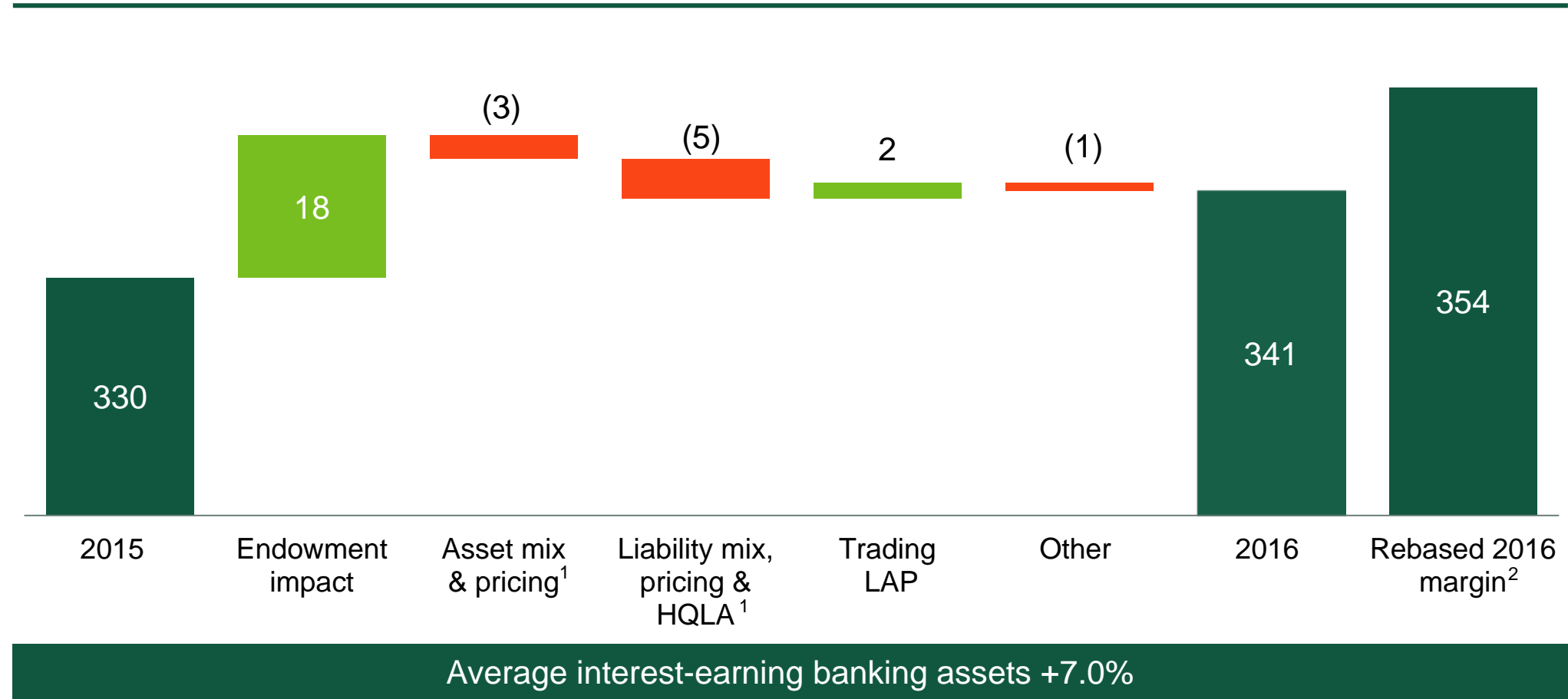






# Net interest margin – driven by endowment, asset mix & Basel III funding costs

## Net interest margin (bps)



<sup>1</sup> Asset mix -4 & pricing +1 | Liability mix & pricing -3 & HQLA -2

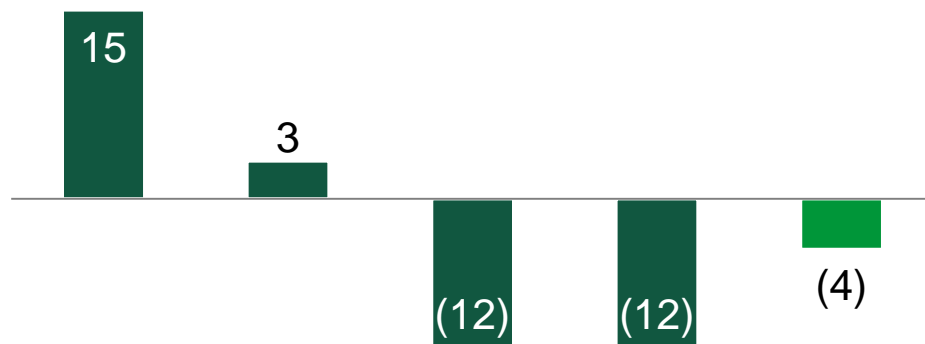
<sup>2</sup> Rebased NIM for full year ended 31 December 2016 would have been 354 bps, had HQLA of R34bn been removed from the banking book & included in the trading book from 1 January 2016.

# Net interest margin – driven by endowment, reducing mix impact & Basel III funding costs

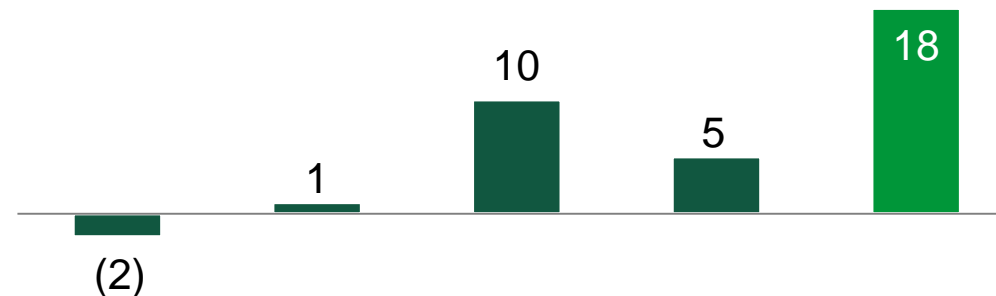
BOOKLET SLIDE



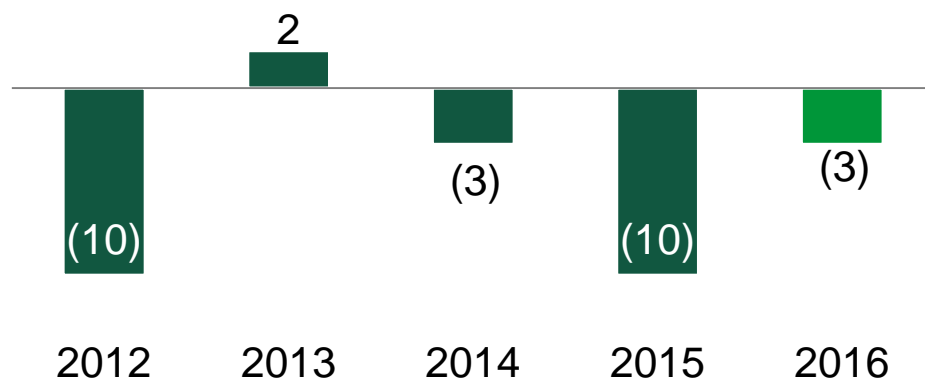
Mix change (bps)



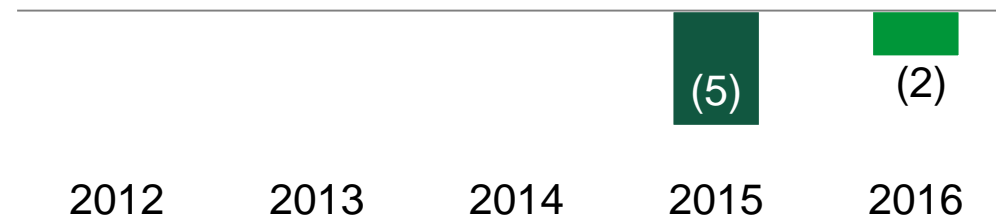
Endowment (bps)



Liability mix & pricing (bps)



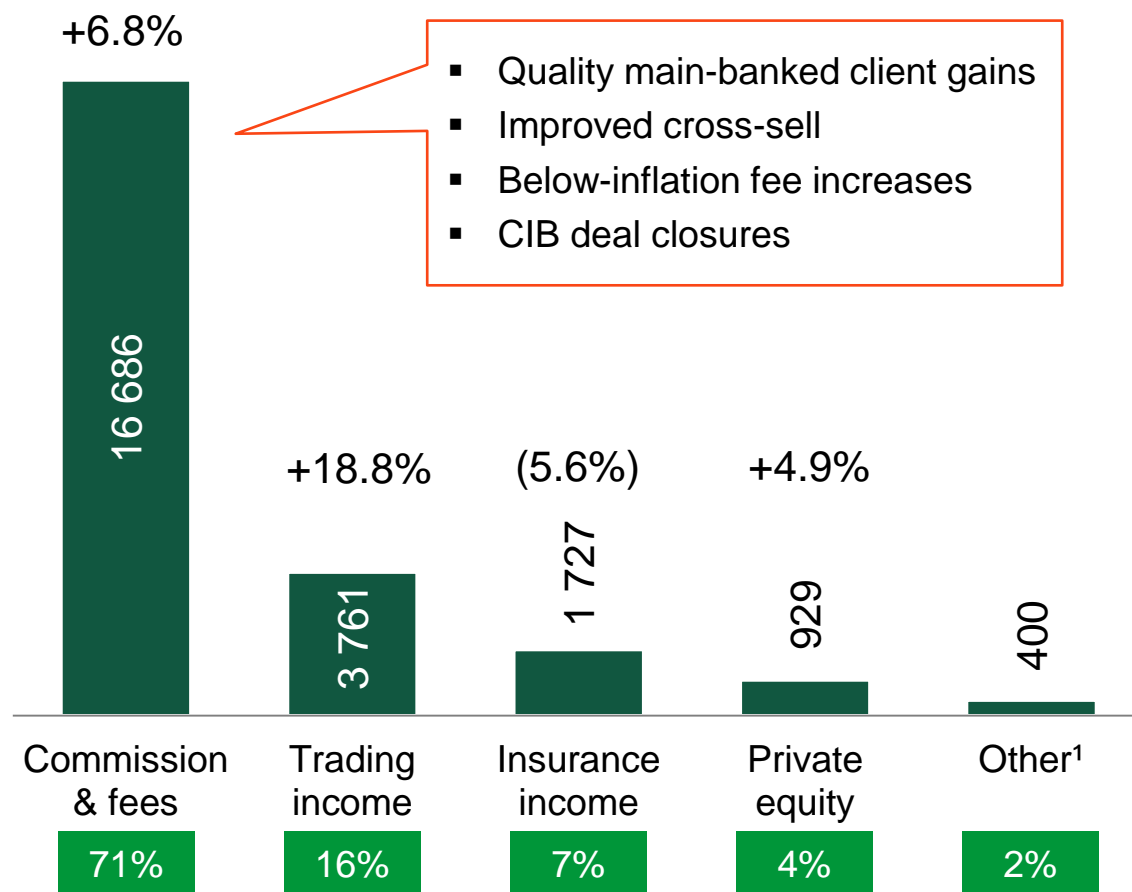
HQLA (bps)





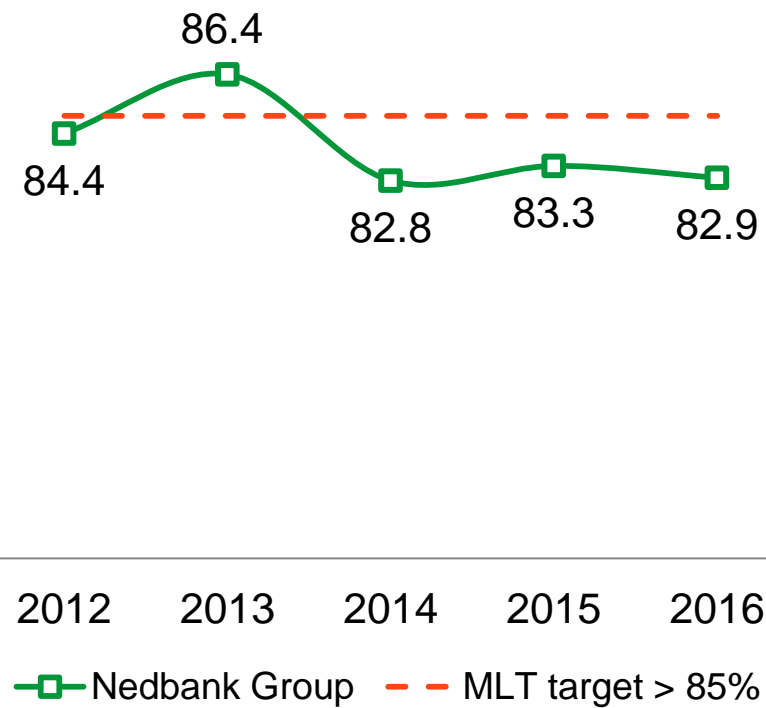
# Non-interest revenue up 8.1% – solid commission & fee income growth & strong trading performance

## Non-interest revenue (Rm)



<sup>1</sup> Represents sundry income, investment income & fair-value adjustments.

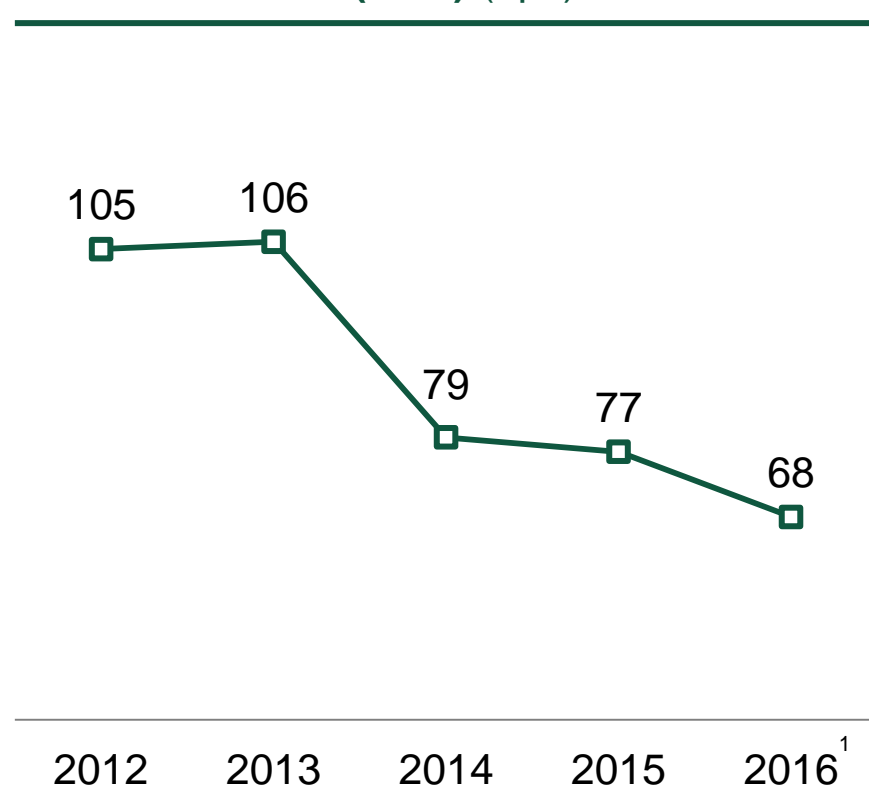
## NIR-to-expenses ratio (%)



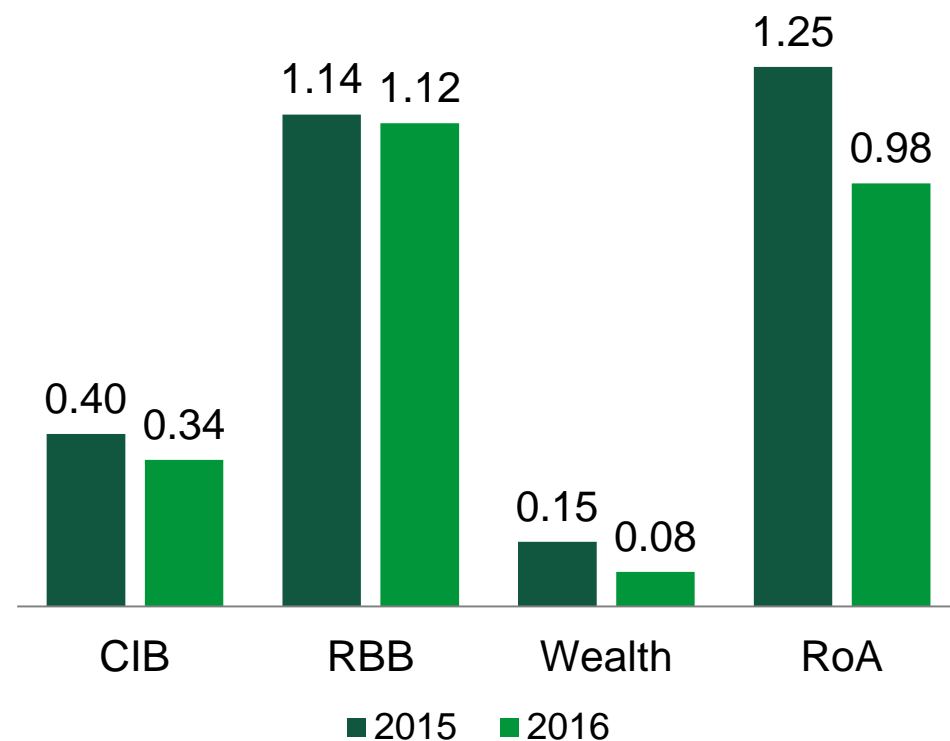


# Credit loss ratio – improvement underpinned by quality portfolio

Credit loss ratio (CLR) (bps)



Cluster credit loss ratio (CLR) (bps)



**Banking  
advances**

48.9%

43.9%

4.4%

2.7%

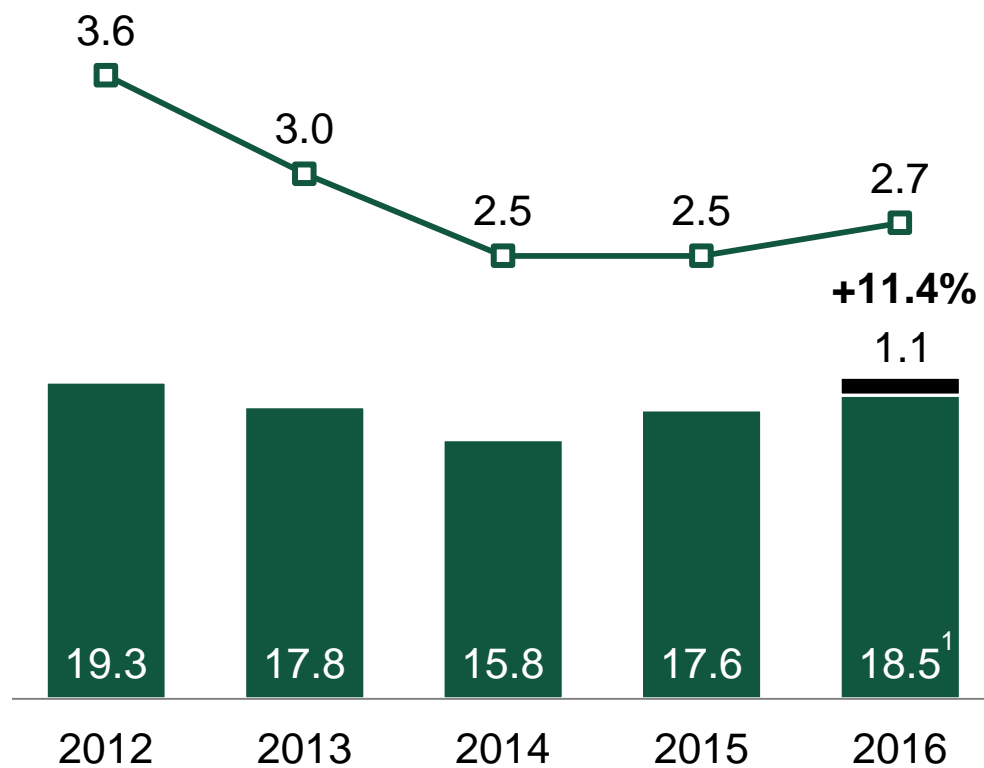
<sup>1</sup> Nedbank through-the-cycle target range: 60 – 100 bps



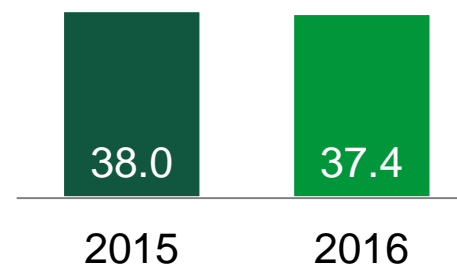


# Defaulted advances – maintained healthy coverage levels & overlays

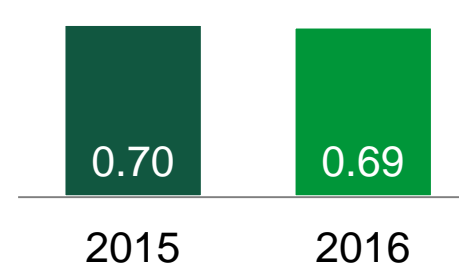
## Defaulted advances (Rbn, %)



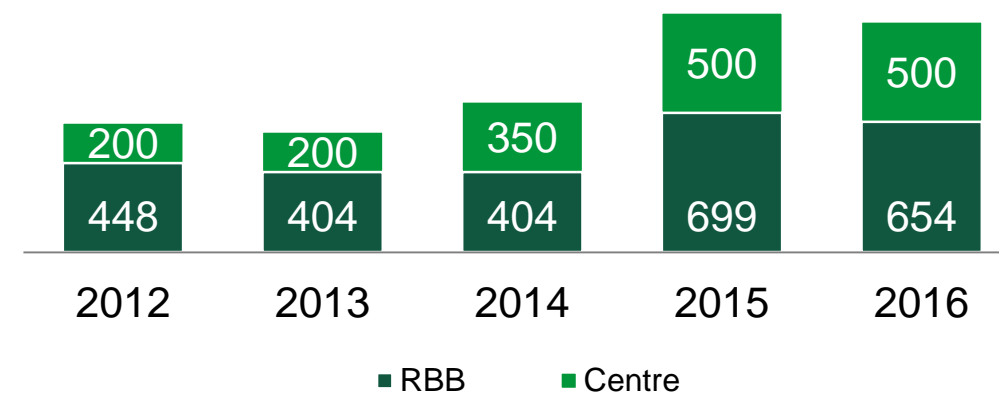
## Specific coverage (%)



## Portfolio coverage (%)



## Overlays & central provision (Rm)



<sup>1</sup> Excluding the new curing definition changes (SARB driven), like-for-like defaulted advances increased 5.0%.

# Managing our risks & exposures – improvement in key stressed sectors

BOOKLET SLIDE



Industry exposures (%)



Changes in stressed sectors

Sectors	Trends	2016	2015
Mining	▼	2.3%	2.7%
Retailers (new)	▼	0.8%	1.2%
Oil & gas	▼	1.0%	1.2%
Agriculture	▼	0.9%	1.0%
Steel	▼	0.2%	0.7%
		5.2%	6.8%
Rest of group		94.8%	93.2%

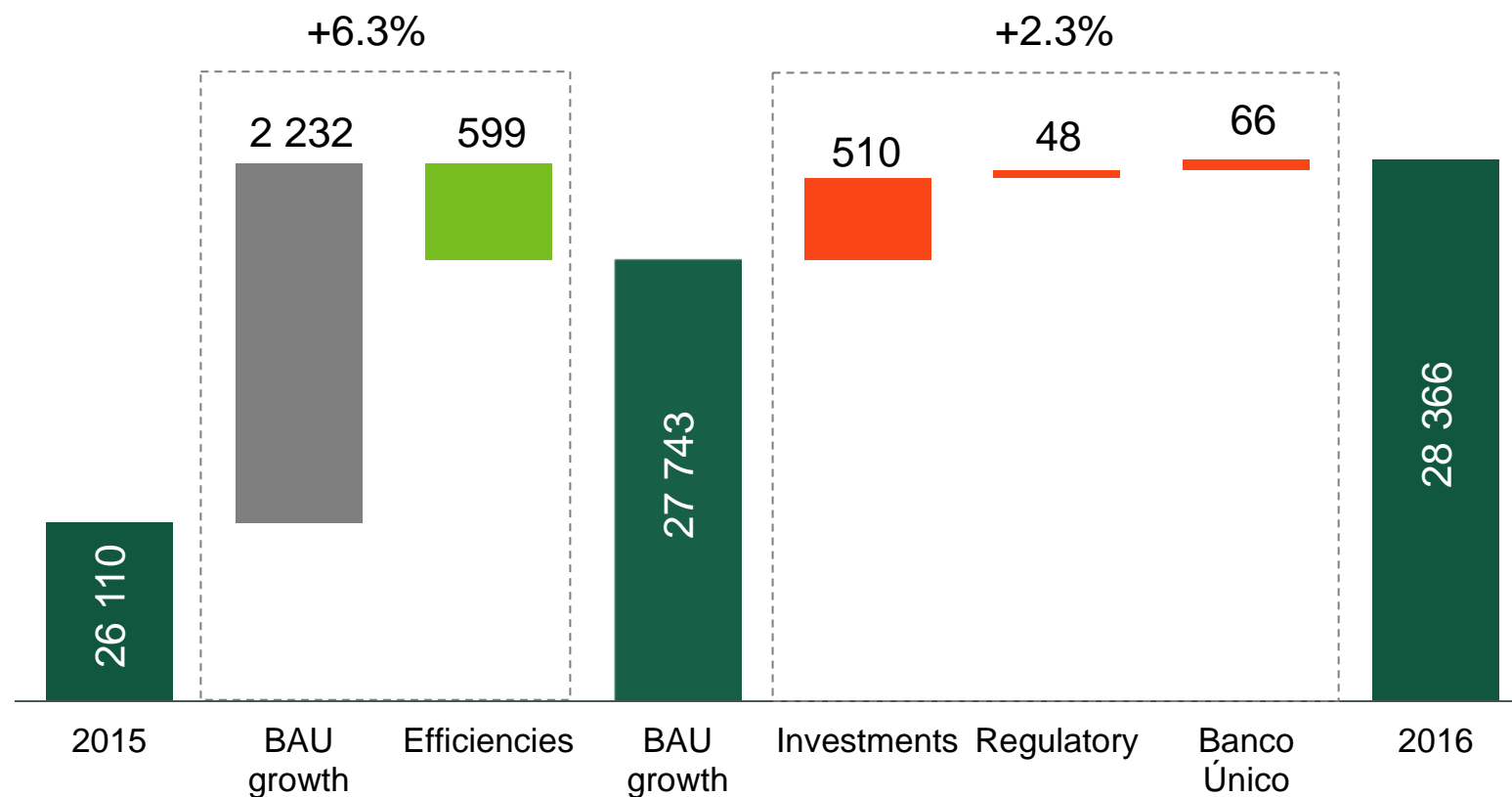
Change on prior period:

[ ▼ ] Risk decrease [ ▲ ] Risk increase

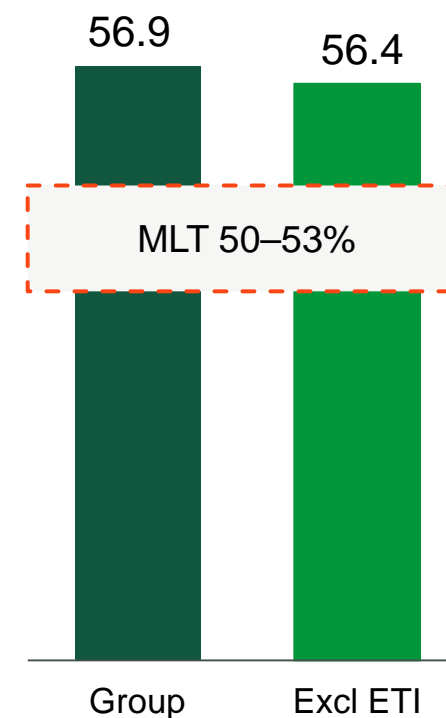


# Expenses – ongoing investment for growth & increasing emphasis on efficiencies

## Expenses (Rm)



## Cost to income (%)

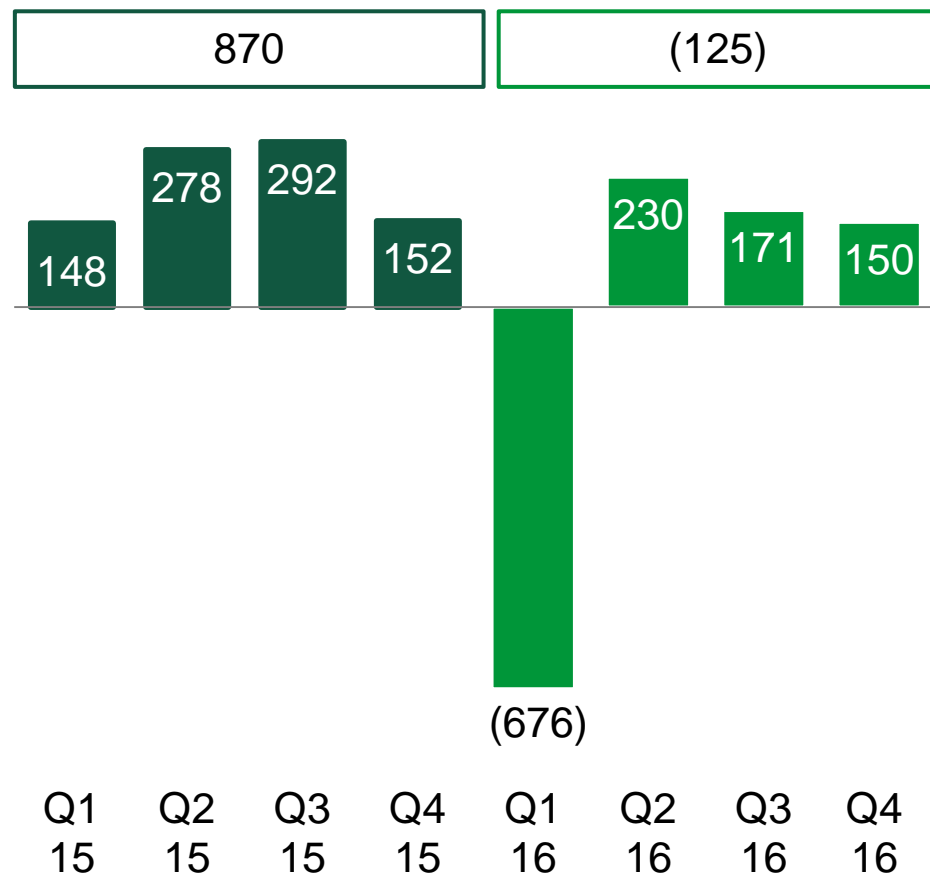


1 Investments, including IT projects, branch reformatting costs, etc.



## Associate income – ETI performance reflective of tough environment, particularly in Nigeria

### Associate income from ETI (Rm)



### ETI-related headline earnings (Rm)

#### Funding cost (Rm)



#### Associate income (Rm)



#### Headline earnings (Rm)

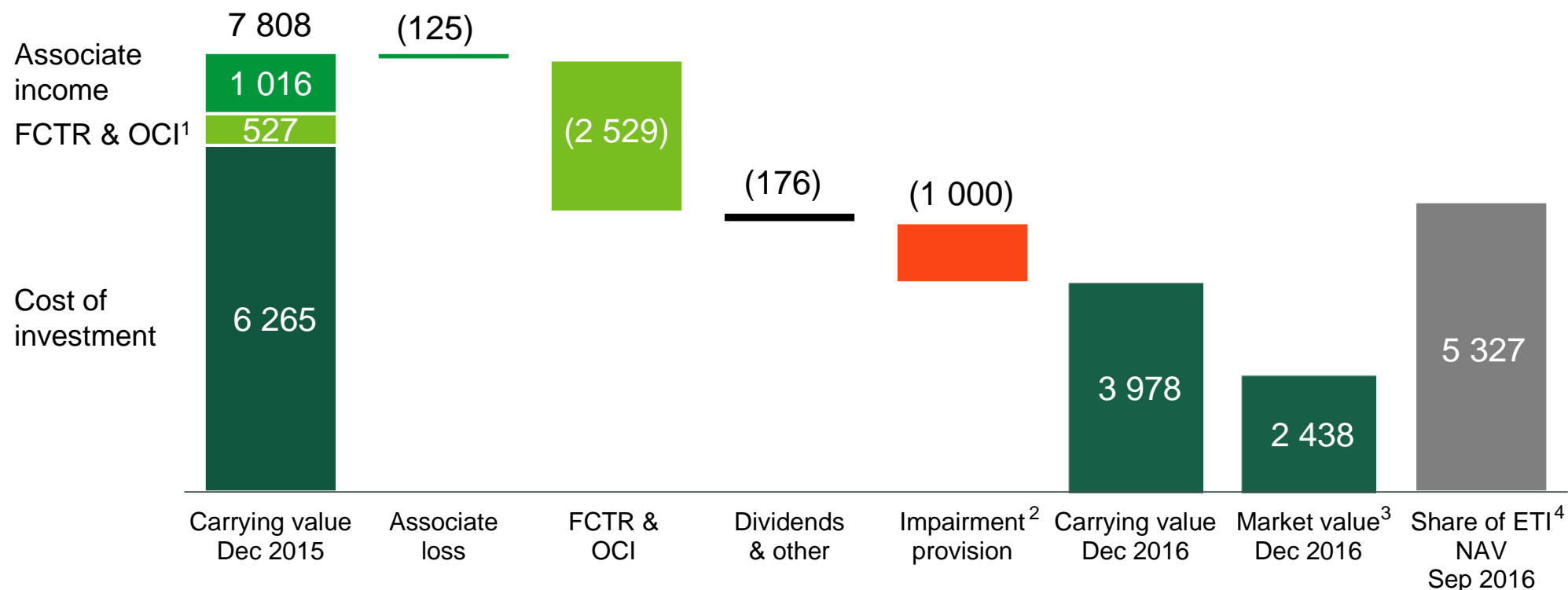






# ETI an important investment for the long term – impacted by weaker economic conditions

## Carrying value & market value (Rm)



1 Cumulative FCTR & OCI made up of FCTR: R2 042m & OCI R1 515m loss

2 Value-in-use calculation is performed in terms of IFRS & based on a number of scenarios by taking into account publically available information. Management determined that an impairment provision of R1bn was appropriate. Headline earnings, regulatory capital & dividend not impacted

3 The ETI share trades in low volumes, given its low free float, while also being listed in an illiquid market

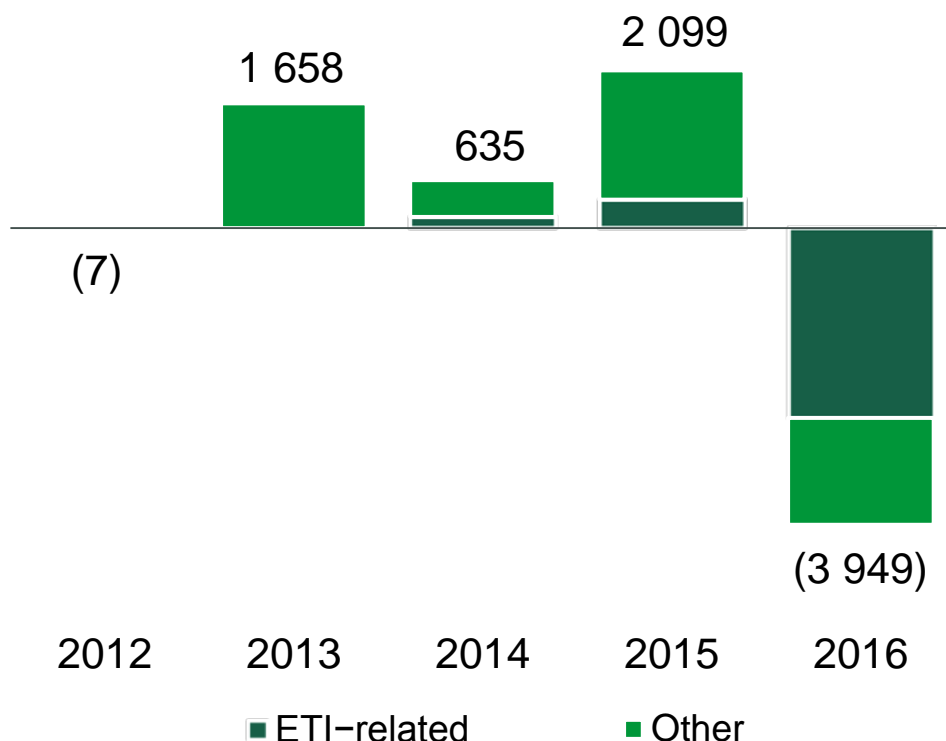
4 Calculated as Nedbank's 21.2% share of ETI's NAV at 30 September 2016 & exchange rate of Rand / US\$: 13.77 at 31 December 2016

# Other comprehensive income – NAV growth of 0.9% largely impacted by FCTR

BOOKLET SLIDE



## Other comprehensive income (Rbn)



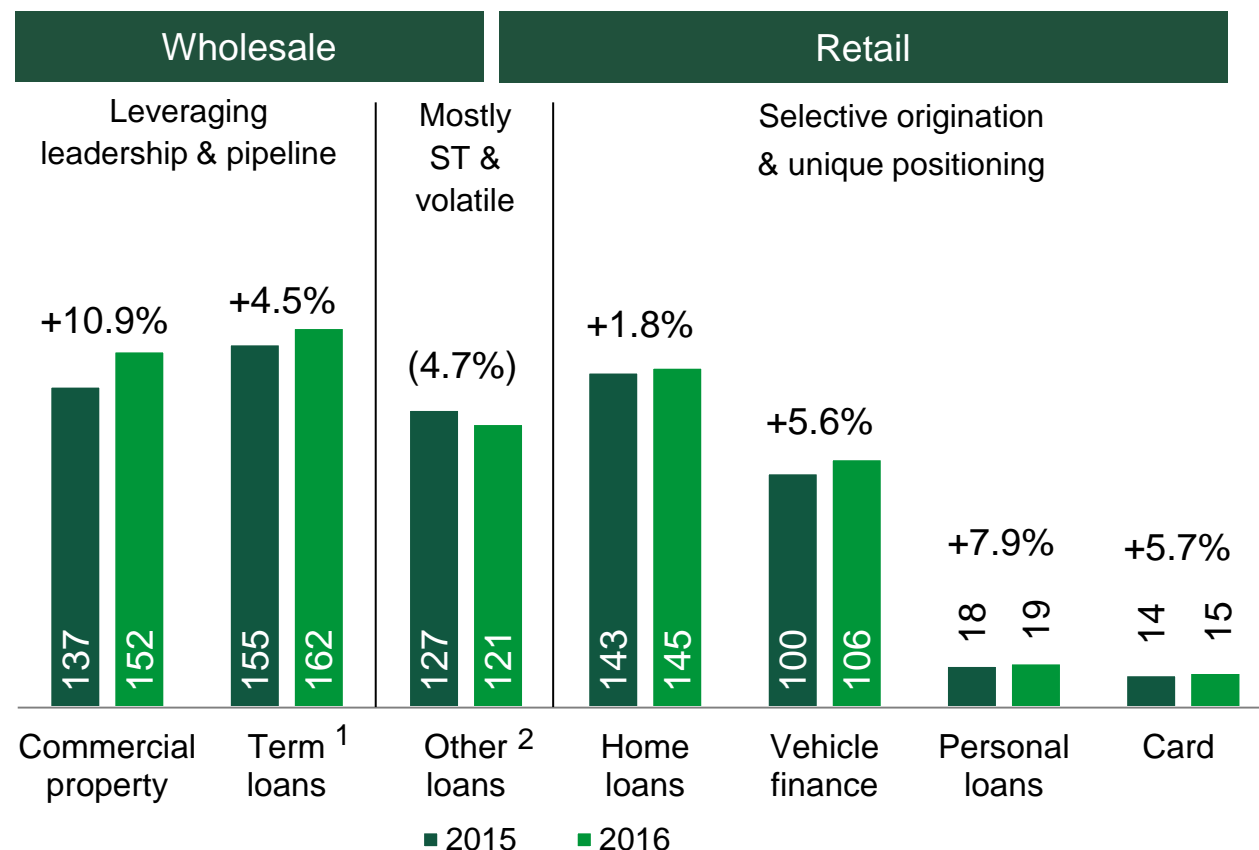
## Key drivers (2016 vs 2015)

- Associate income & related currency impact (ave naira devaluation 31.8%)
- ETI book value & related currency impact (Naira at year-end devalued 58.3%)
- Non-SA operations & related currency impact (year-end GBP devaluation 26.8%)
- Other OCI



# Advances up 3.8% – solid growth & market share gains across key categories (AIEBA +7.0%)

## Gross advances (Rbn)



## BA900 market share

	Share <sup>3</sup>	Trend
Commercial property	40.8	▲
Core corporate <sup>4</sup>	22.3	▲
Home loans	14.4	▶
Vehicle finance	27.7	▲
Personal loans	10.9	▶
Card	13.7	▲

<sup>1</sup> Terms loans & other longer dated loans in CIB

<sup>2</sup> Other loans include overdrafts, overnight loans, preference shares, deposits placed under reverse repurchase agreements & other smaller corporate loans.

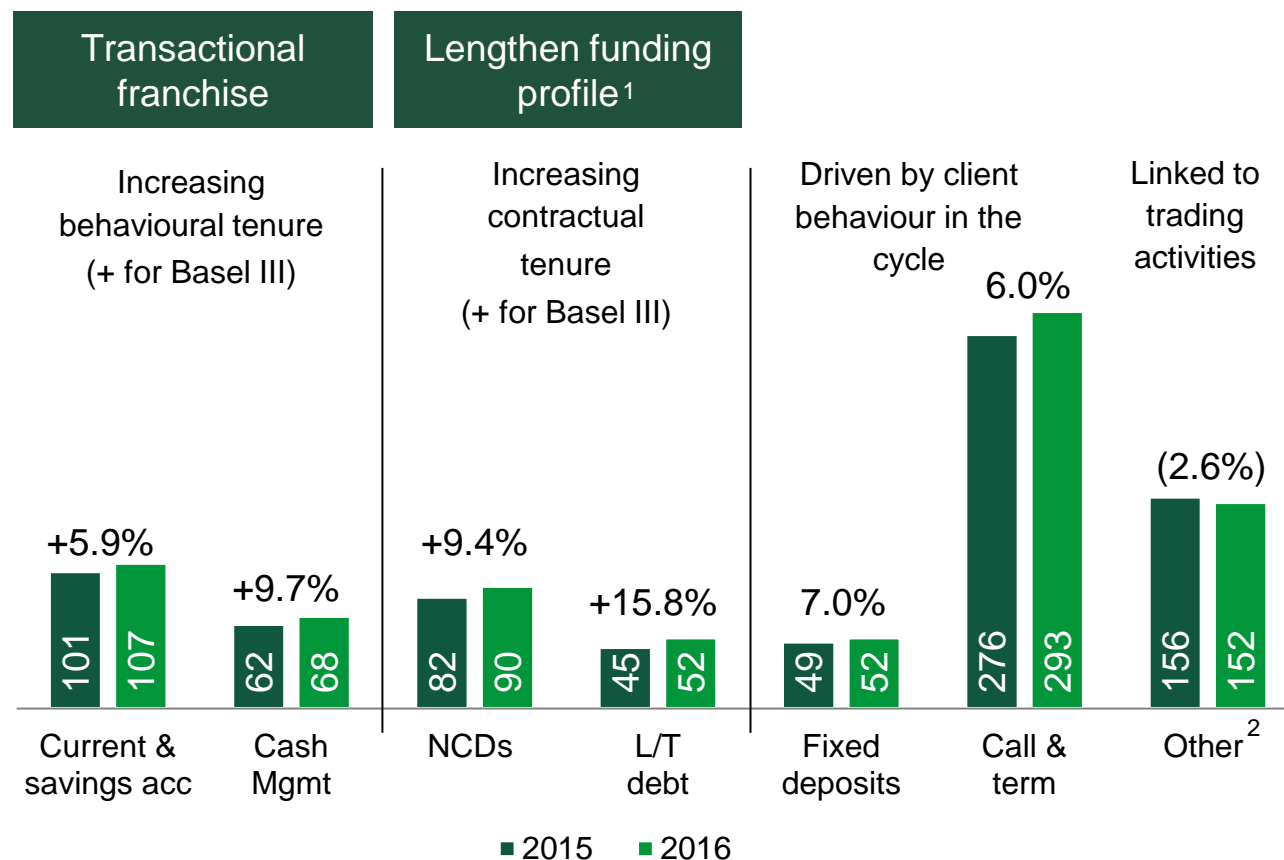
<sup>3</sup> BA900 – December 2016.

<sup>4</sup> Core corporate loans comprise commercial mortgages, corporate overdrafts, corporate credit cards, corporate instalment credit, foreign sector loans, public sector loans, preference shares, factoring accounts & other corporate loans (other loans and advances excluding household personal loans).



# Deposits up 4.9% – good transactional & Basel III deposit growth

## Deposits (Rbn)



## BA900 market share

	Share <sup>3</sup>	Trend
Wholesale	22.3	▲
Commercial	17.4	▲
Household	18.7	▲
Foreign currency	12.6	▼

<sup>1</sup> Nedbank's market share of medium & long term wholesale funding is 31% and 26% respectively. The favourable Basel III treatment of longer-term funding reduces the need to hold HQLA thereby reducing the all-in marginal cost of longer-term wholesale funding vs short-term wholesale funds. Including NCDs with tenure of > 30 days.

<sup>2</sup> Includes foreign client liabilities, deposits received under repurchase agreements & other.

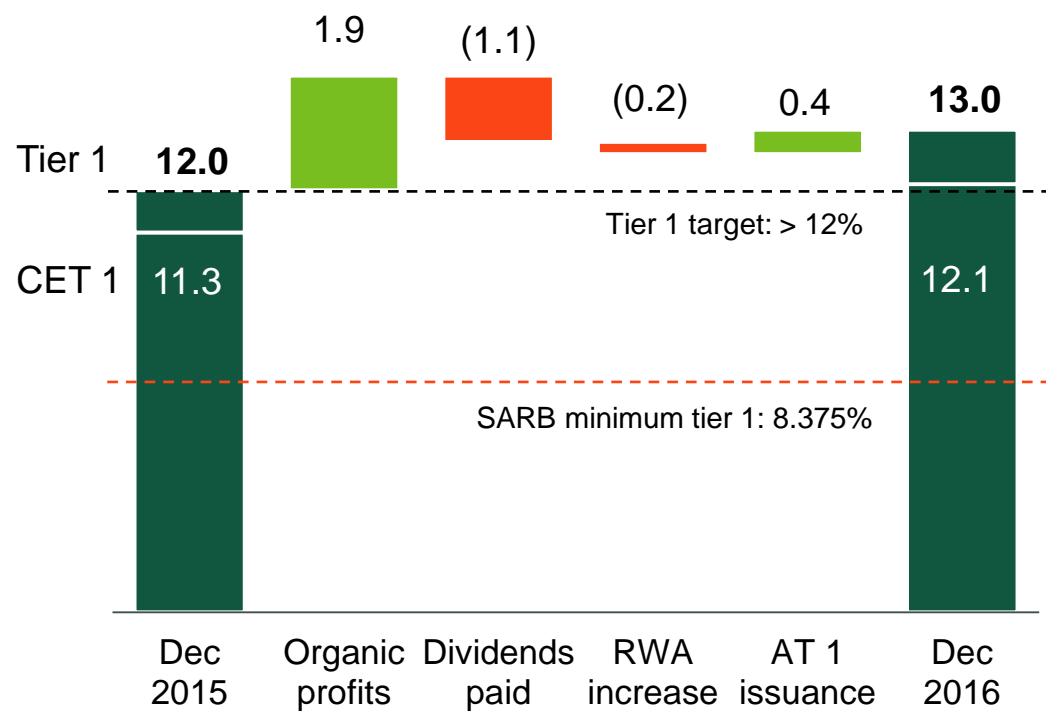
<sup>3</sup> BA900 – December 2016



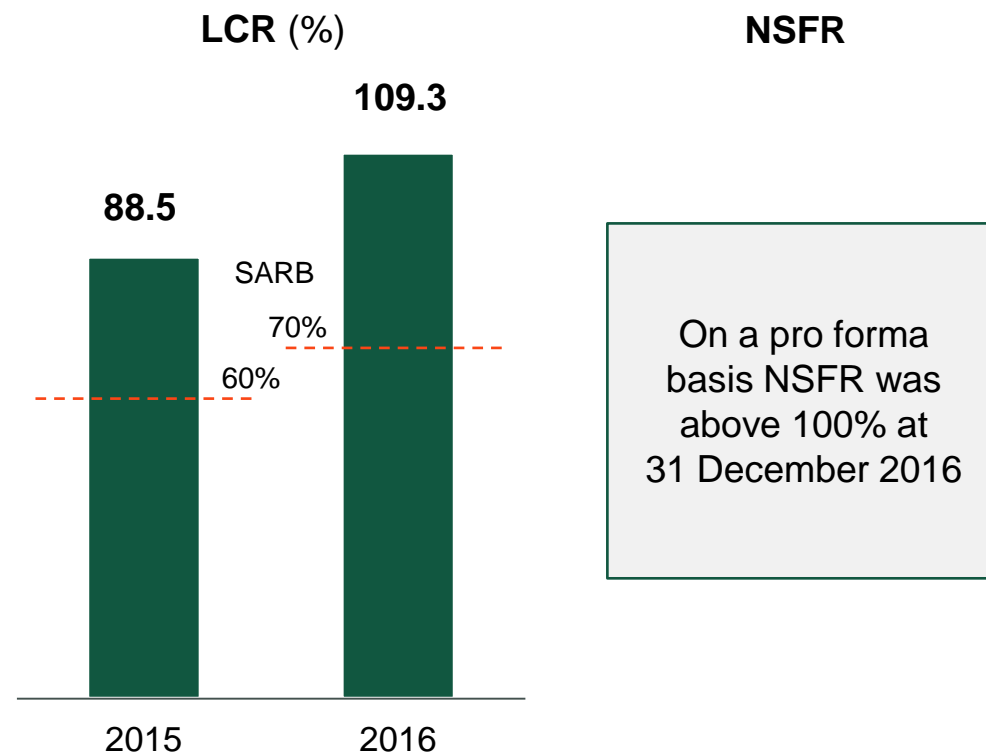


# Capital – well positioned for Basel III regulatory environment

## Tier 1 capital ratio (%)



## Liquidity coverage ratio & net stable funding ratio



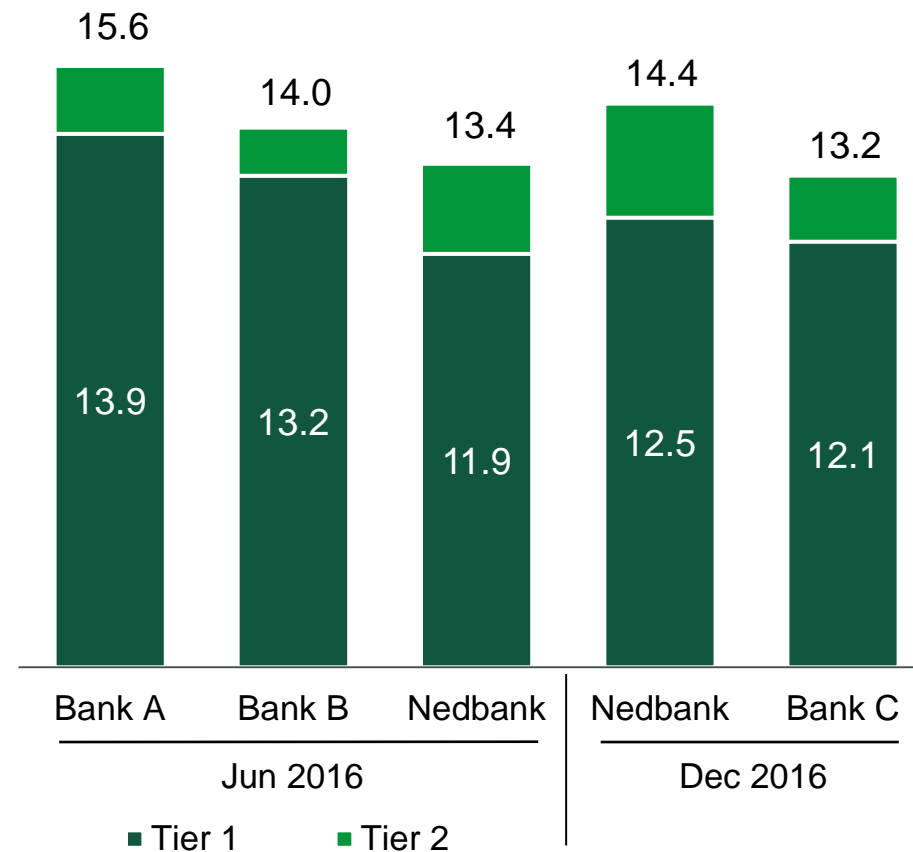
Note: Capital adequacy ratios are underpinned by ongoing organic profit generation & RWA optimisation opportunities. The IFRS 9 standard is not anticipated to have a significant impact on capital adequacy.

# Capital – fully loss absorbent capital adequacy

BOOKLET SLIDE



## Fully loss-absorbent capital adequacy ratios<sup>1</sup> (%)

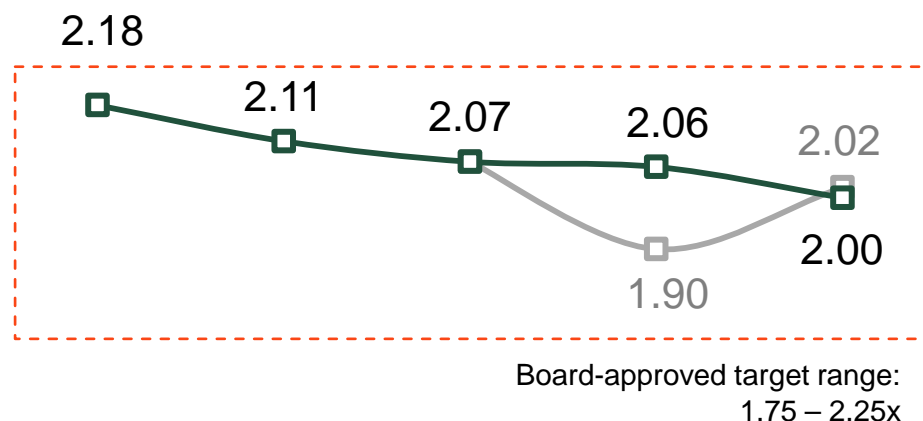


<sup>1</sup> Nedbank analysis based on peer disclosures. Fully-loss absorbent capital excludes old-style capital instruments & therefore represents fully loss-absorbent capacity before gone concern.



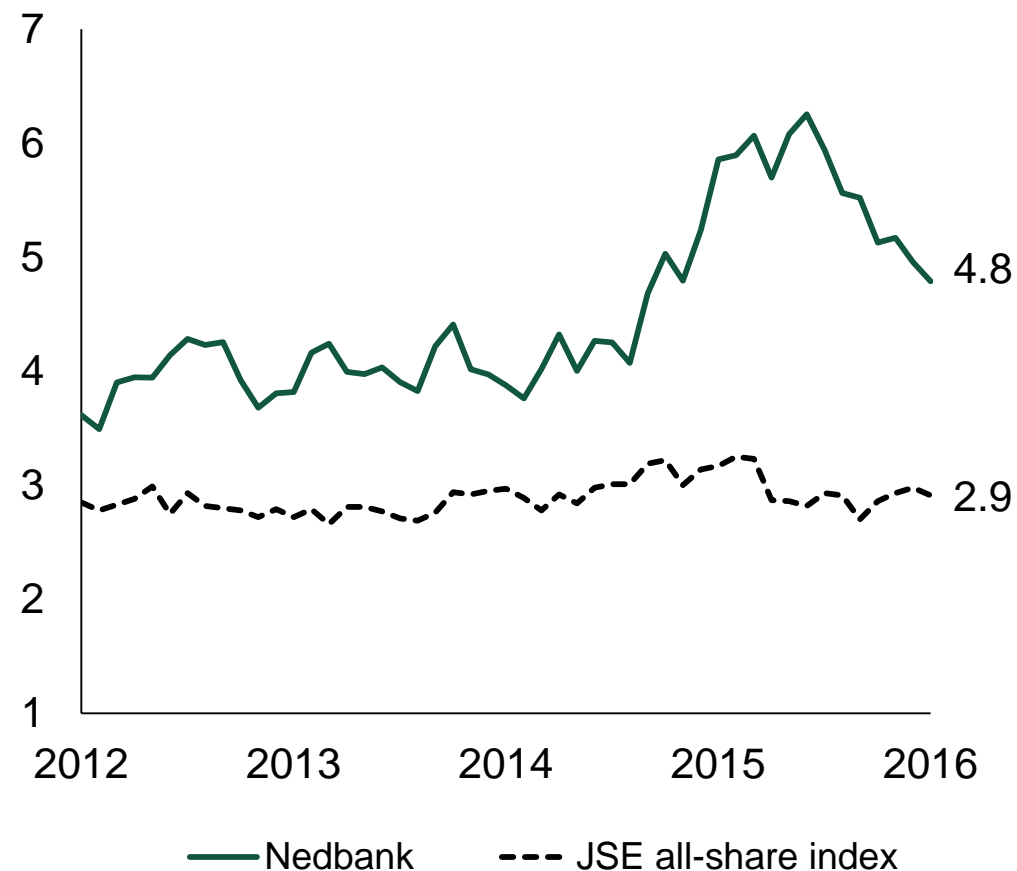
# Dividend cover at mid-point of our target range – supporting an attractive dividend yield

## Full-year dividend cover (x times)



- Dividend cover excluding ETI associate income
- Dividend cover

## Dividend yield (%)

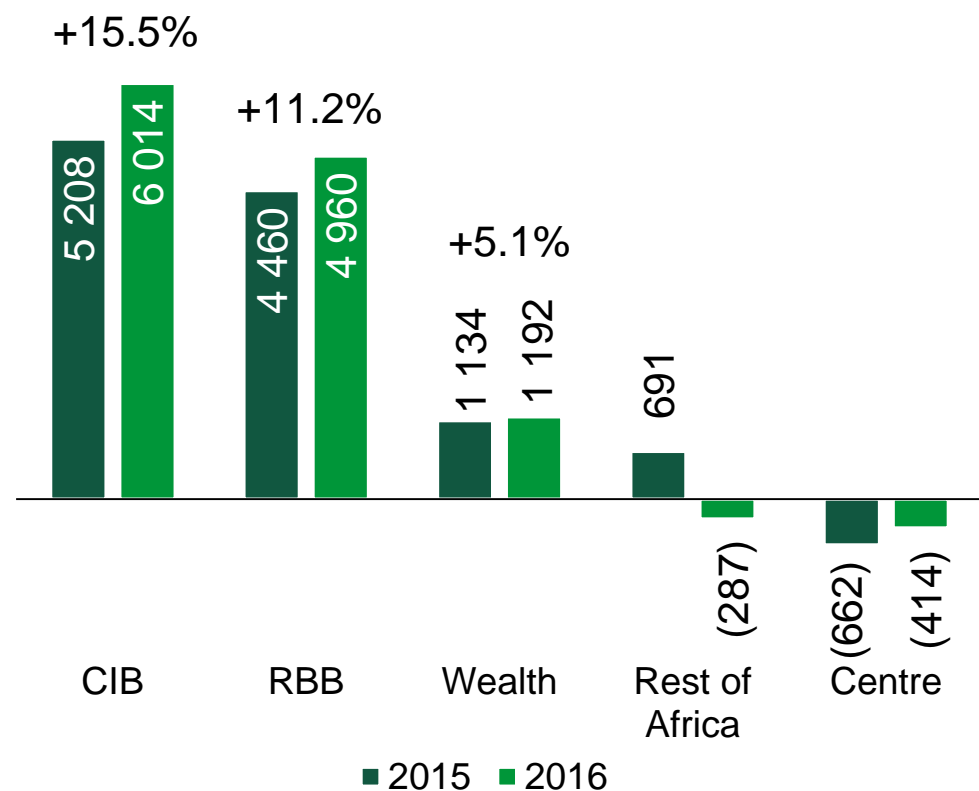


Note: The cash dividend will be subject to a dividend withholding tax rate of 20%, which recently increased from 15%

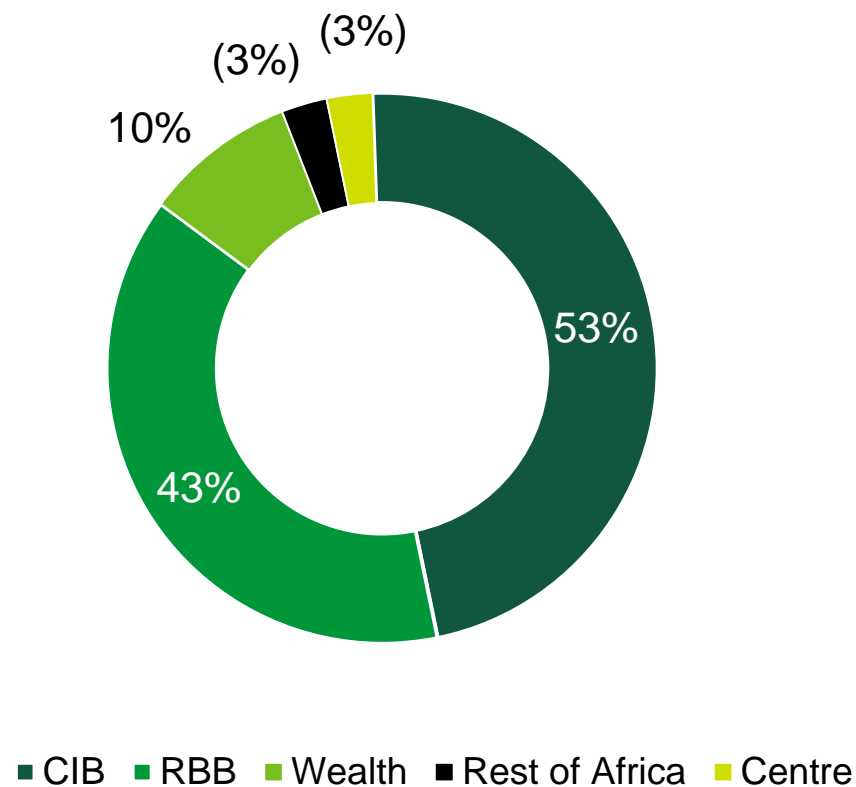


# Excellent performance from our managed operations – headline earnings up 16.2%

## Headline earnings (Rm)



## Earnings contribution (Rm)





## NEDBANK CORPORATE & INVESTMENT BANKING

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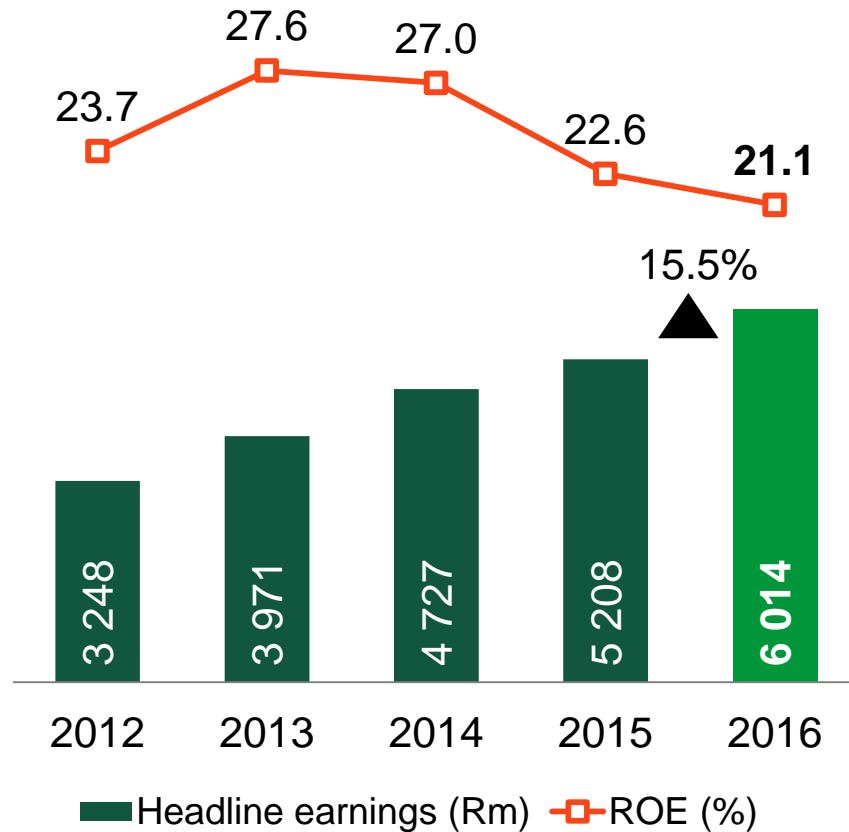
Serving our clients holistically

**BRIAN KENNEDY**



# Excellent growth derived from improved client service

## Headline earnings, ROE



## Key drivers

- Deeper client penetration
- Strong performance from all business units
- Sustained industry-leading efficiency ratio
- Healthy ROE impacted by increased allocated capital
- Continuing proactive risk management

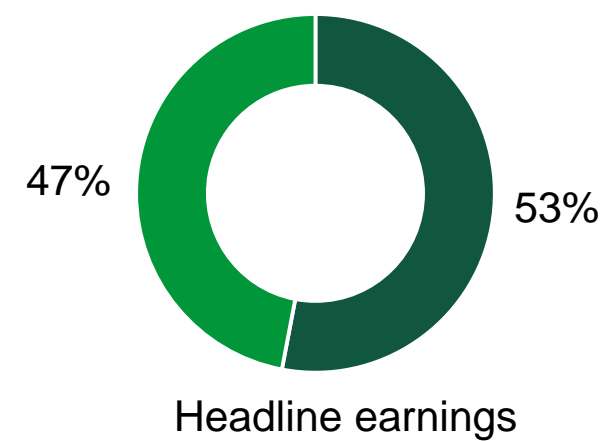
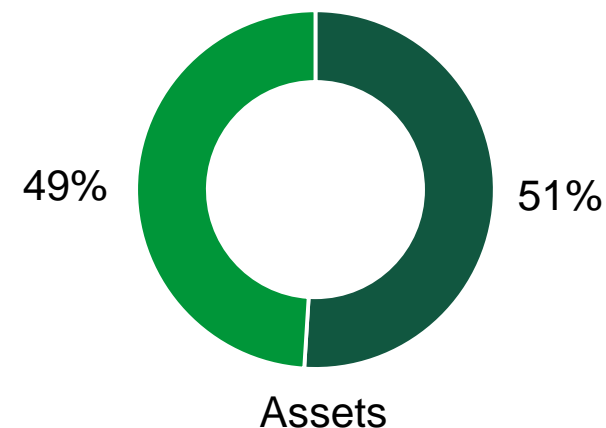
# Corporate & Investment Banking – financial highlights

BOOKLET SLIDE



Year ended	% change	2016	2015
Headline earnings (Rm)	15.5	6 014	5 208
Operating income (Rm)	12.8	13 649	12 101
PPOP (Rm)	9.6	8 878	8 098
Net interest margin (%)		1.97	1.98
NIR-to-expense ratio (%)		129.6	127.5
Efficiency ratio (%)		39.0	38.4
Credit loss ratio (%)		0.34	0.40
Average banking advances (Rm)	10.0	325 428	295 903
Average deposits (Rm)	2.1	336 878	329 881
Headline economic profit (Rm) <sup>1</sup>	(10.7)	1 970	2 205
Allocated capital (Rm)	23.2	28 462	23 096
ROE (%)		21.1	22.6

■ Nedbank CIB ■ Other clusters



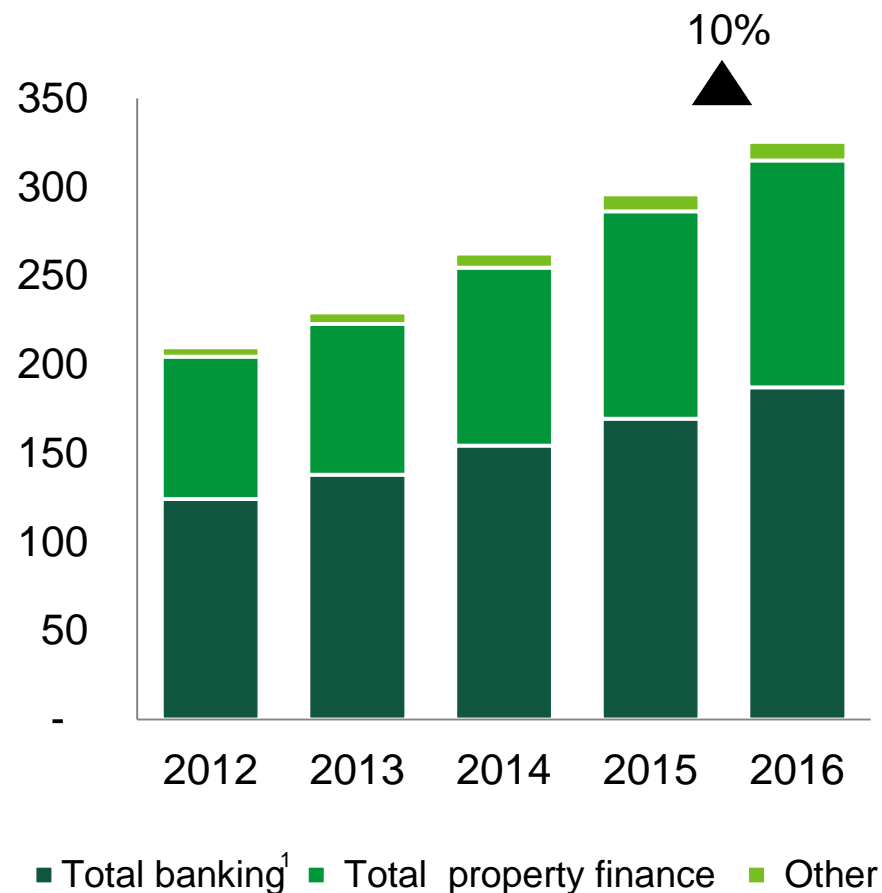
<sup>1</sup> Cost of equity 2015: 13.0% | 2016: 14.2%





# Advances growth driven by pipeline conversion in strategic sectors

Average loans & advances (Rbn)



## Key drivers

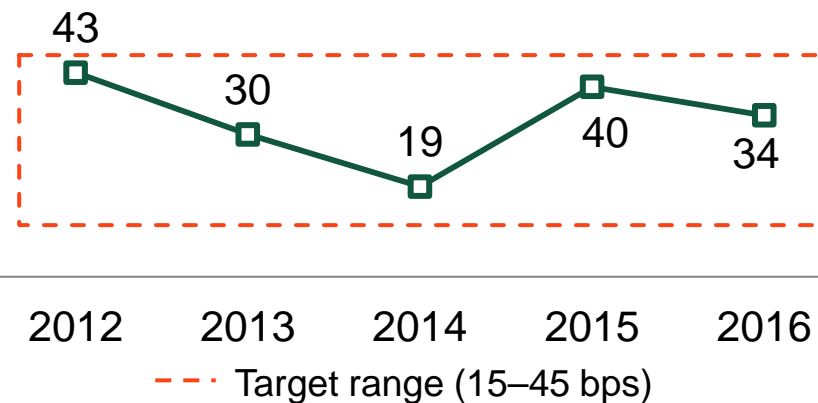
- Investment Banking converting strong pipeline in strategic sectors
- Margins maintained despite competition for high-quality assets & additional regulatory costs
- Quality of investment-grade book improved (to 73% of book from 68% in 2015)
- Active risk management across distressed sectors

<sup>1</sup> Total banking defined as Investment banking & client coverage combined.

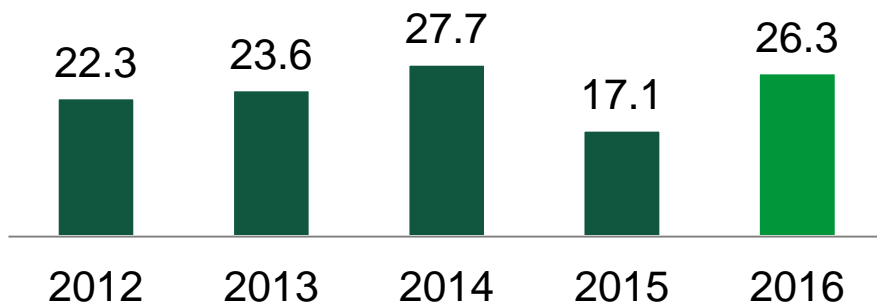


# CIB portfolio concentration

## Credit loss ratio (bps)



## Specific coverage (%)



## CIB portfolio

Selected portfolios			
Portfolio	Concentration risk	Migration risk	Downside risk
Oil & gas (2.1%)	L	L ▼	M
Mining (4.0%)	L	M	M
Steel (0.5%)	L	L ▼	M
Agriculture (1.4%)	L	L	L
Equity-based transactions (3.5%)	L	H	L
CPF (32.5%)	H	M ▲	L
Retailers (1.3%)	L	H	M

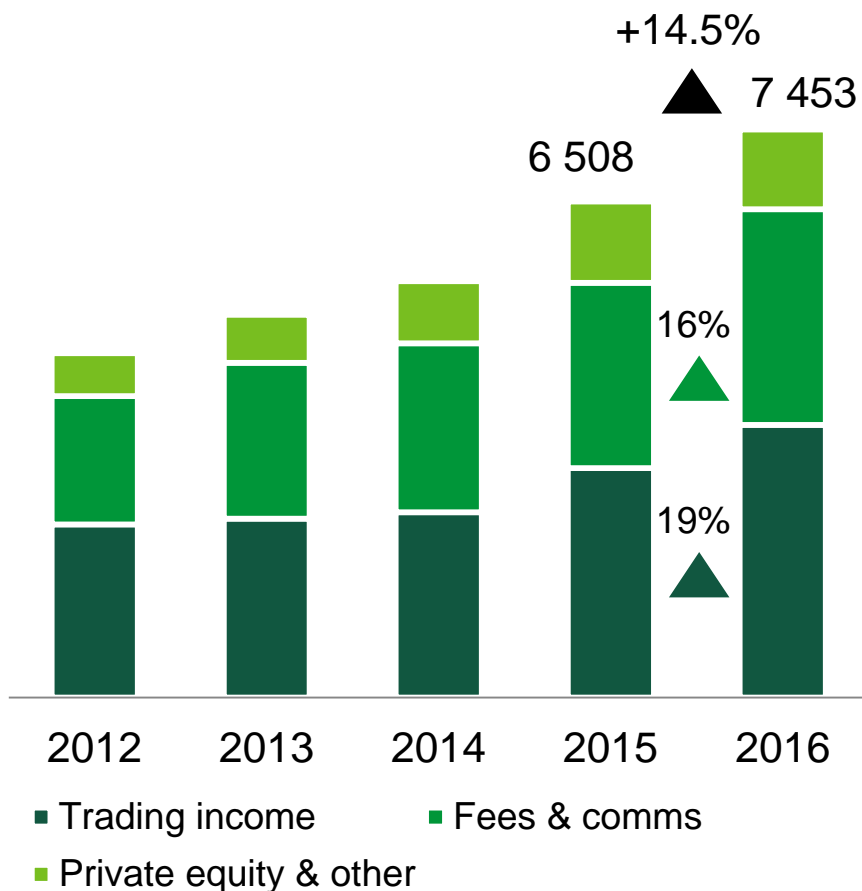
Change on prior period:

[ ▼ ] Risk decrease    [ blank ] No change    [ ▲ ] Risk increase



# NIR growth of 14.5% underpinned by the flows of an integrated model

NIR (Rm)



## Key drivers

- Integrated business enabling:
  - stronger client relationships
  - deeper client penetration
  - transactional banking client gains
- Trading-income growth from increased trading activity driven by increased market volatility & dealflow
- Successful primary transactional account wins of top-tier clients contributes to excellent fee & commission growth





# Prospects for Corporate & Investment Banking

## A powerful wholesale business focused on its clients

- Pipeline remains robust
- Continued focus on deeper client penetration
- Embedding client intelligence platforms to enhance our value proposition
- Growing our transactional banking & deposits remains essential
- Continued commitment to expanding our Africa presence
- Proactively acquiring & retaining top talent at all levels

### NEDBANK CORPORATE AND INVESTMENT BANKING SHINES AT THE 2016 JSE SPIRE AWARDS

Ranked #1: Interest Rate Derivatives House, Market Making Team - Government Bonds, Sales Team - Bonds, Sales Team - Interest Rate Derivatives, Research Team - Technical Analysis (FX, IRD, Bonds)



## NEDBANK RETAIL & BUSINESS BANKING

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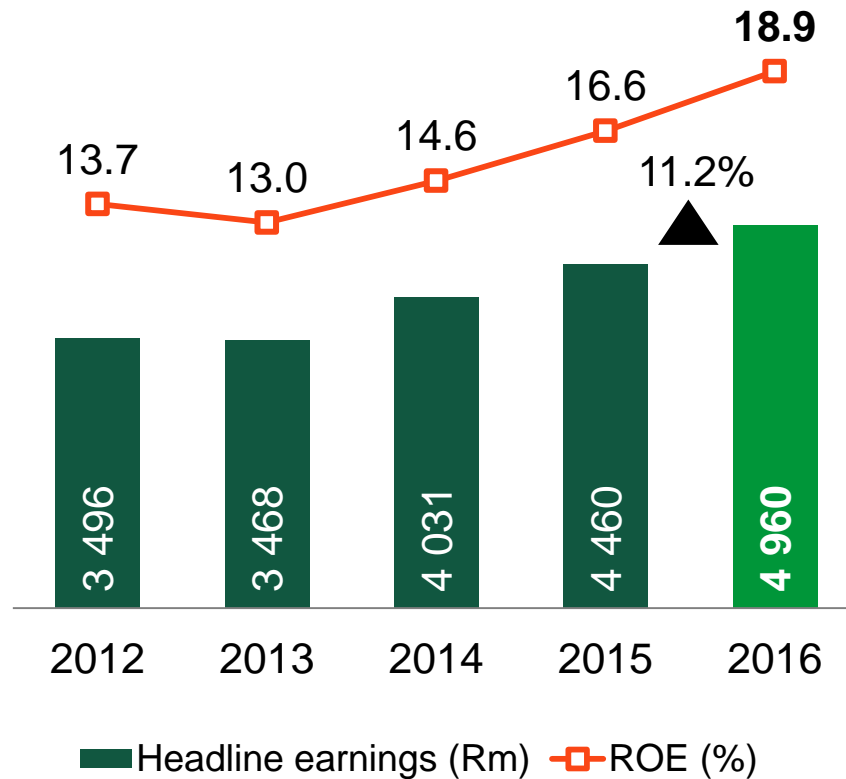
Improving ROE, while  
continuing to grow the franchise

**CIKO THOMAS**



# Good performance in a challenging environment

## Headline earnings, ROE



## Key drivers

- NIM improvements due to endowment benefits & rigour in asset & deposit pricing
- CLR benefiting from improvements in personal-loan book & Business Banking
- NIR increase driven mainly by growth in middle-market main-banked clients
- Ongoing active cost management, balancing investments in digital & distribution
- RWA reductions now reflective of lower risk & contributing to steadily improving ROE

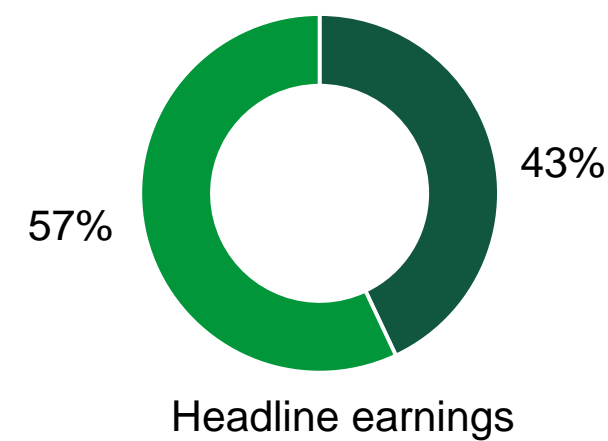
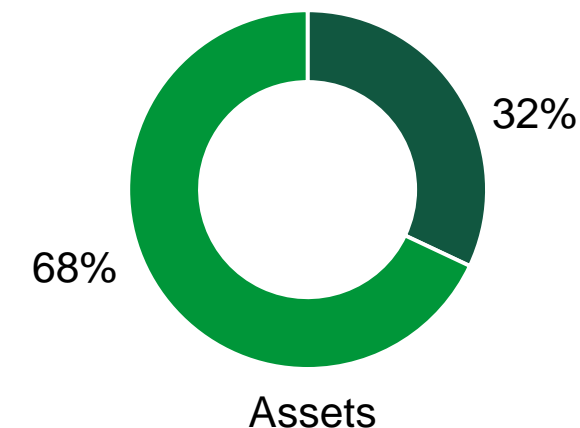
# Retail & Business Banking – financial highlights

BOOKLET SLIDE



Year ended	% change	2016	2015
Headline earnings (Rm)	11.2	4 960	4 460
Operating income (Rm)	8.8	25 810	23 715
PPOP (Rm)	7.9	10 199	9 453
Net interest margin (%)		6.08	5.82
NIR-to-expense ratio (%)		63.6	64.3
Efficiency ratio (%)		63.4	63.4
Credit loss ratio (%)		1.12	1.14
Average banking advances (Rm)	3.5	282 992	273 517
Average deposits (Rm)	10.2	257 968	234 162
Headline economic profit (Rm) <sup>1</sup>	28.1	1 230	960
Allocated capital (Rm)	(2.5)	26 254	26 924
ROE (%)		18.9	16.6

■ Nedbank RBB ■ Other clusters



<sup>1</sup> Cost of equity 2015: 13.0% | 2016: 14.2%



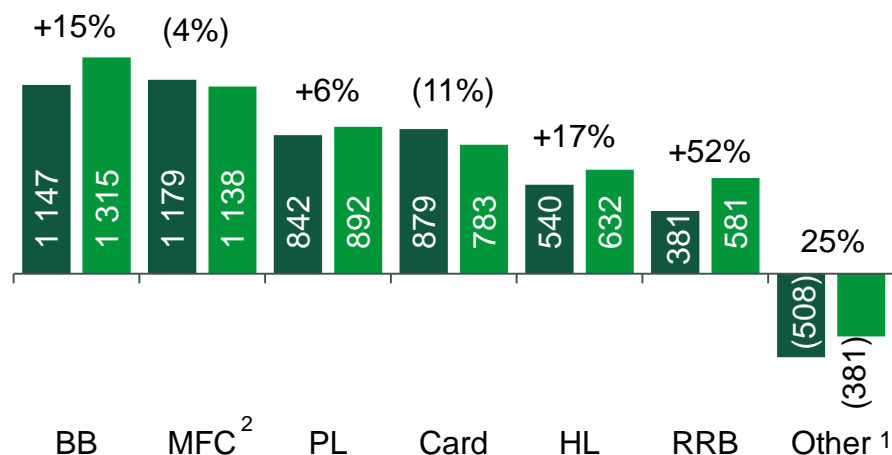
# Retail & Business Banking – underlying business showed improved performance given market dynamics

BOOKLET SLIDE



## Performance by business

### Headline earnings (Rbn)



### ROE (%)

21.6	17.0	28.0	28.2	14.0	16.4	n/a
23.8	18.3	29.4	24.0	18.4	23.6	n/a

■ Dec 2015 ■ Dec 2016

## Key drivers

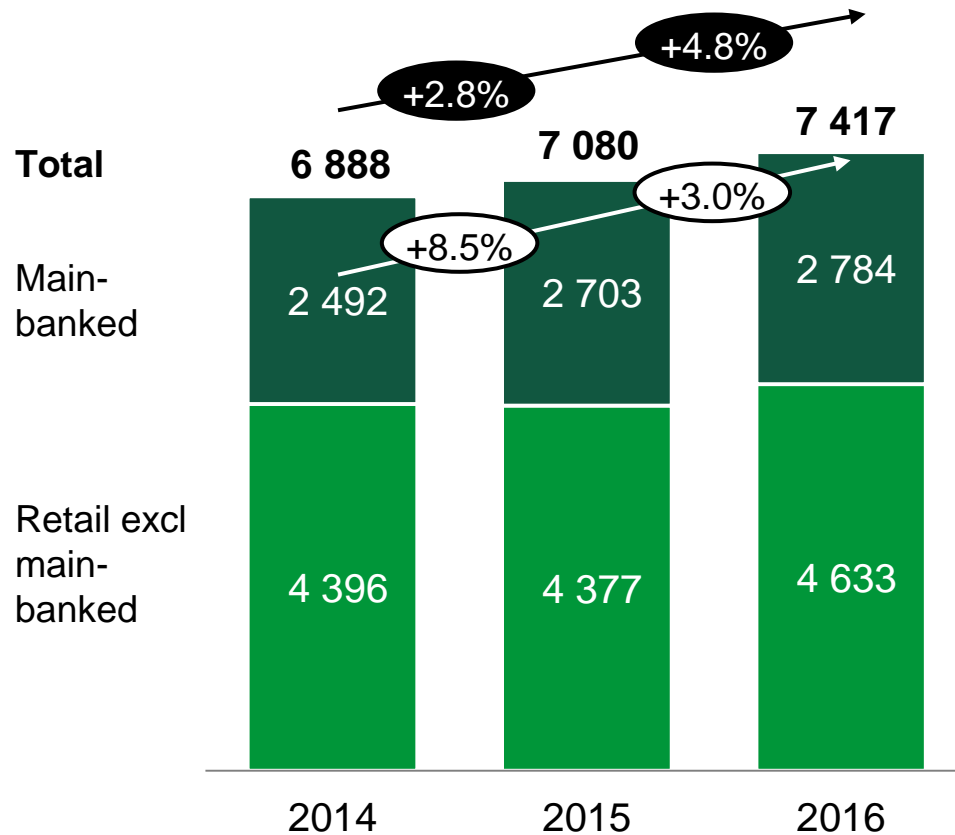
- **BB:** consistent performer, benefiting from higher endowment
- **MFC:** new-business volume growth resulting in increased market share gains
- **Personal Loans:** advances growth with benefits from lower impairments as book risk profile continues to improve
- **Card:** good underlying NIR growth offset by residual interchange impact & investment in payment platforms
- **Home Loans:** improved new-business pricing & runoff of lower margin book. CLR still below target range
- **RRB:** strong growth in earnings across all lines & higher endowment revenue
- **Other:** includes endowment offset by distribution

<sup>1</sup> Other includes Client Engagement improvement in HE loss of 28% to R236m.  
<sup>2</sup> MFC represents Nedbank's vehicle finance operations.

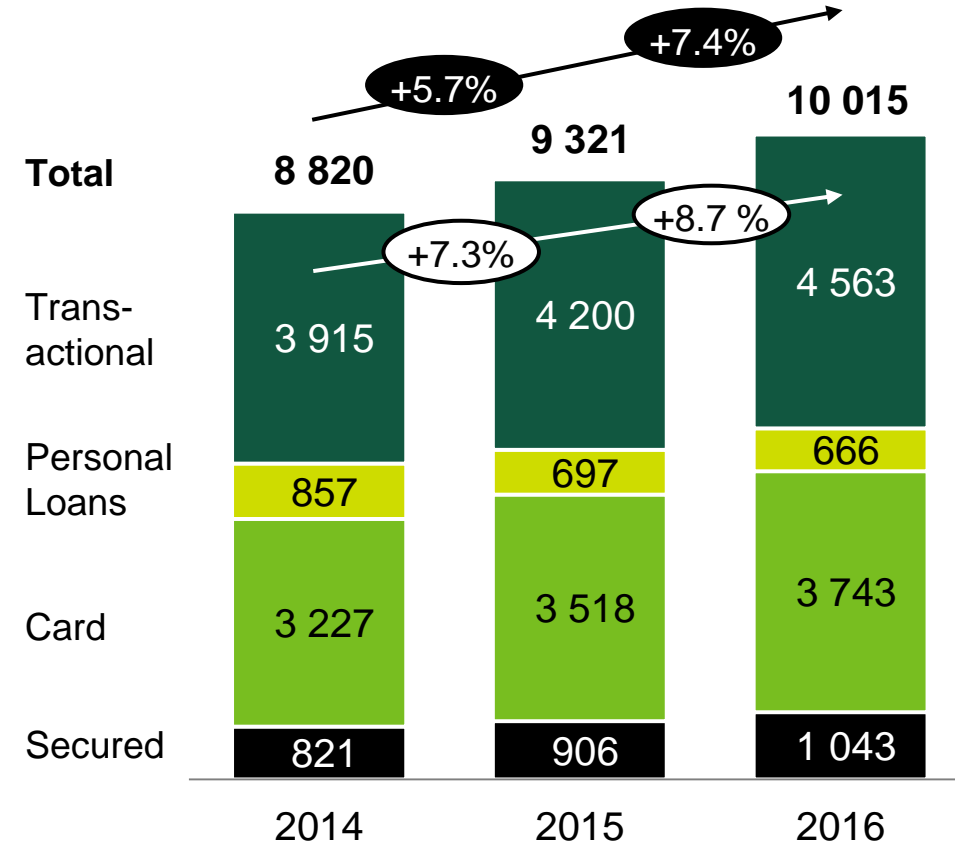


# Retail transactional NIR growth ahead of client growth

Total retail client base (#000)



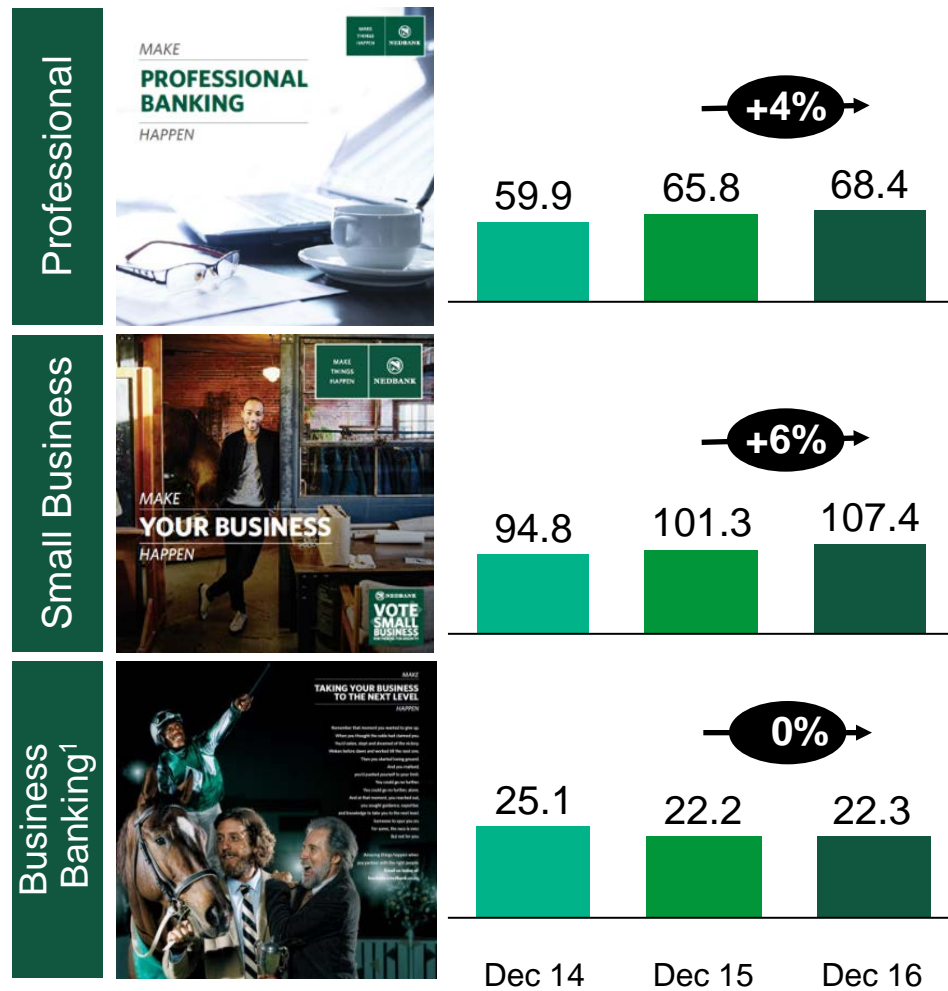
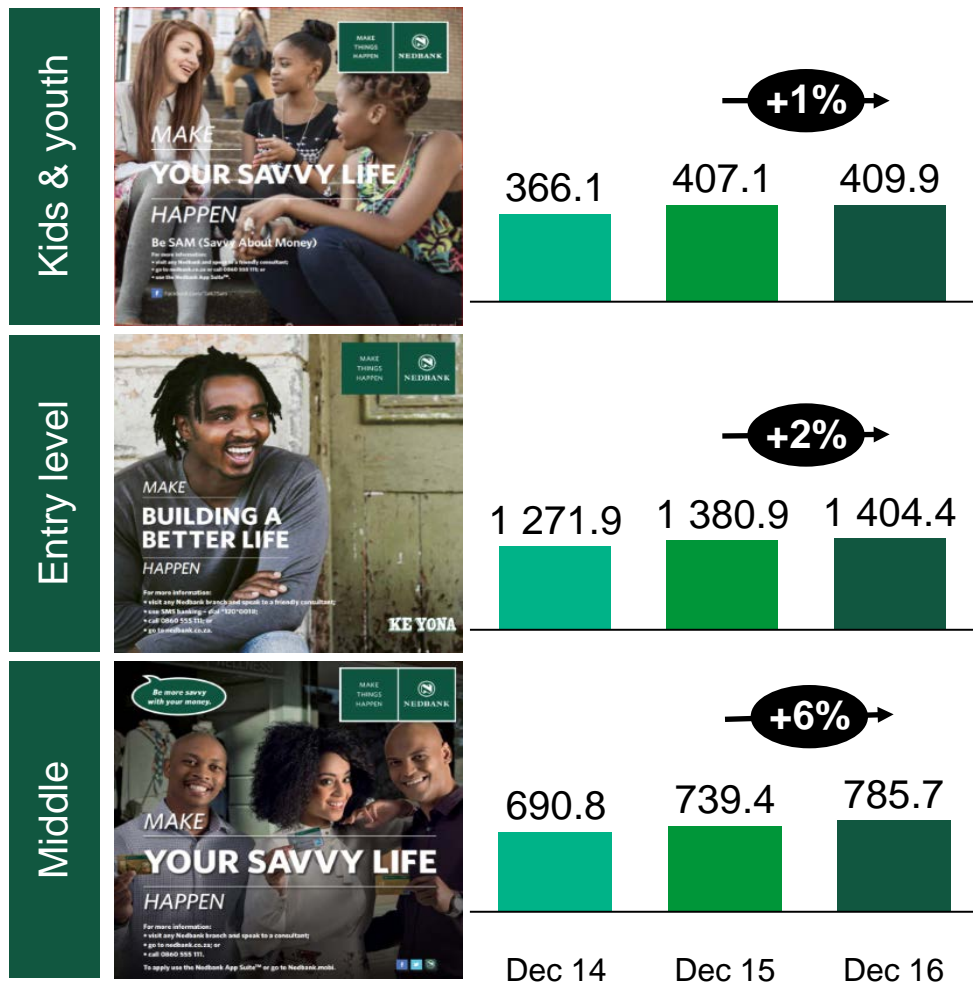
Retail NIR (Rm)





# Client-centred strategy driving growth across all segments

Main-banked, # 000

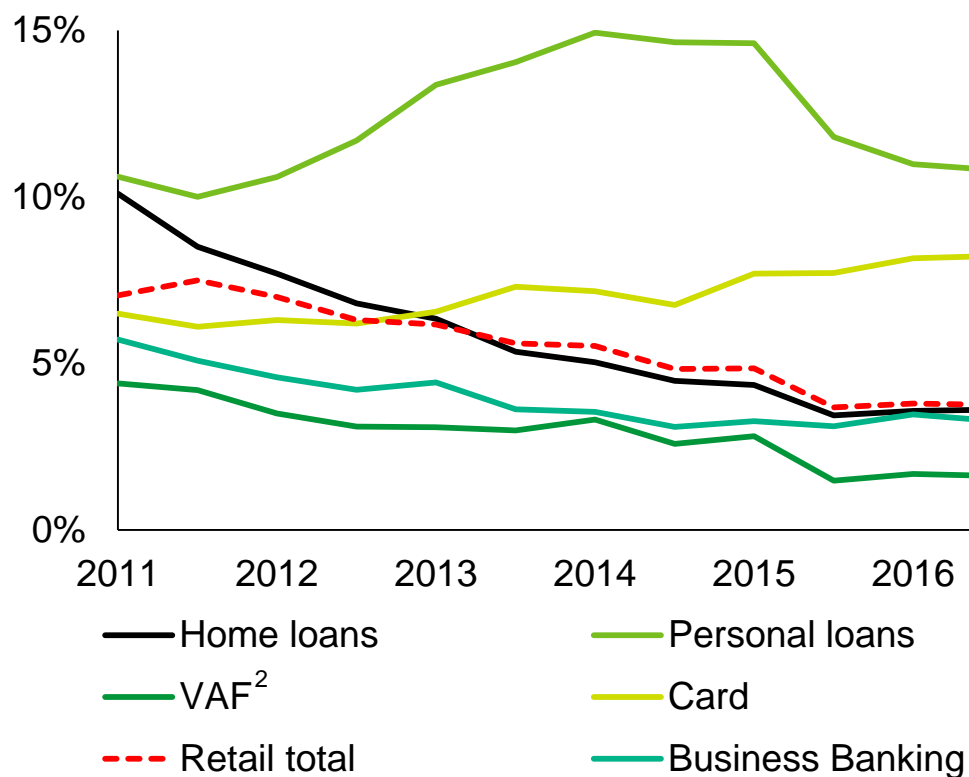


<sup>1</sup> Client groups with gross operating income contributions in excess of R500 pm.  
Note: Non-resident, non-individual segment not shown.

# Non-performing defaulted advances & specific coverage maintained



## Default % of total advances<sup>1</sup>



## Specific coverage<sup>1</sup> (%)

Products	Dec 2016	Jun 2016	Dec 2015
Home loans	25.7	25.5	28.3
Vehicle asset finance <sup>2</sup>	61.4	63.4	65.1
Personal loans	72.4	70.5	71.3
Card	95.6	94.6	95.6
Other loans	96.2	95.9	95.8
<b>Total Retail</b>	<b>52.9</b>	52.7	54.5
Business Banking	37.6	38.7	40.4
<b>Total RBB</b>	<b>49.9</b>	49.7	51.6

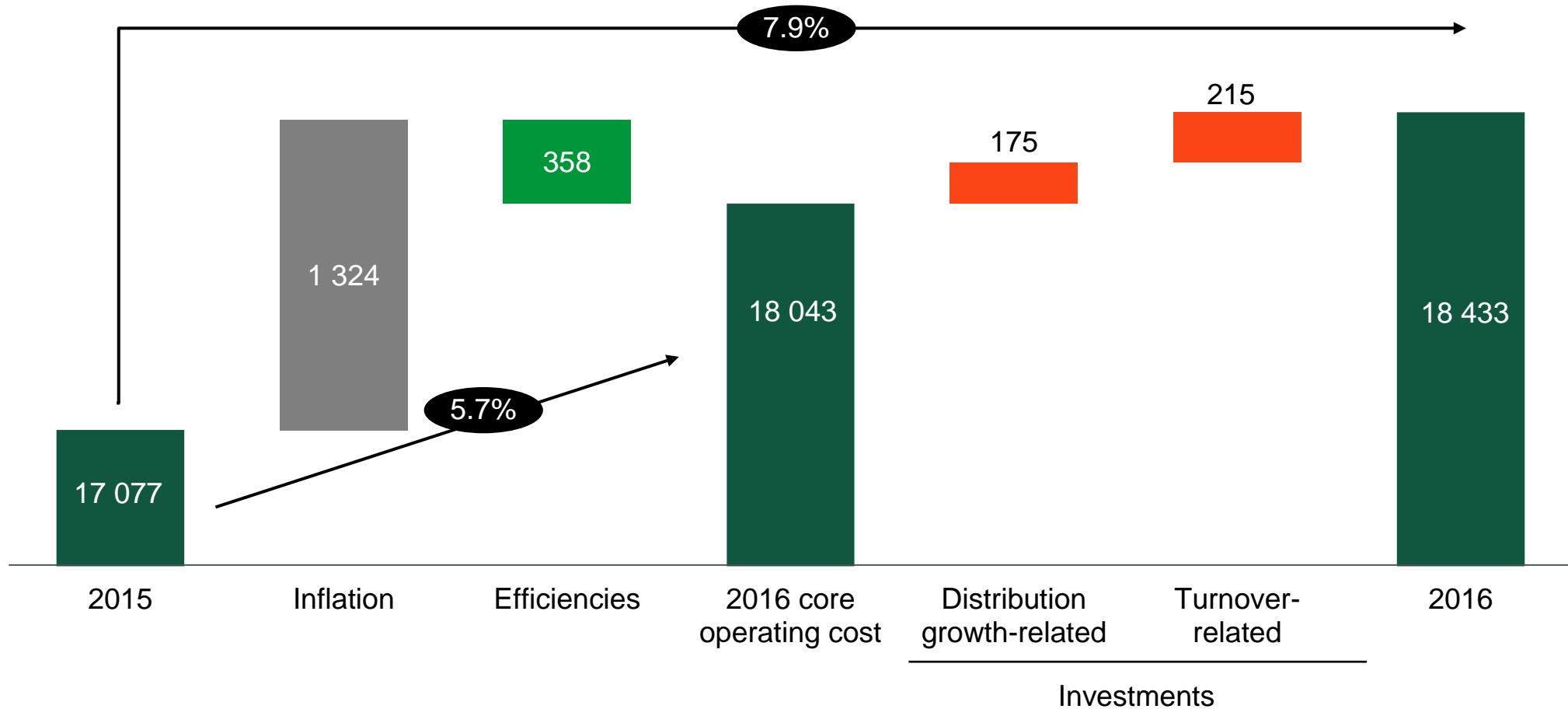
<sup>1</sup> Relates to non-performing defaulted advances

<sup>2</sup> Vehicle asset finance includes MFC & vehicle loans in RRB.



# Organic costs well managed

## Operating expenses (Rm)





# Prospects for Retail & Business Banking

## Building sustainable, profitable businesses through the cycle

- Grow transactional clients faster than the market through focus on acquisition, retention & cross-sell, enabled by:
  - Digital First, First in Digital
  - Disruptive CVPs
  - Sales & service excellence
  - Loyalty & rewards
- Continued selective origination to drive relative CLR outperformance through the cycle
- Ongoing focus on expenses with optimisation initiatives
- Acceleration of the digital journey to drive operational efficiency

RETAIL BANKER  
INTERNATIONAL







# NEDBANK WEALTH

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Strong ROE in a challenging  
environment

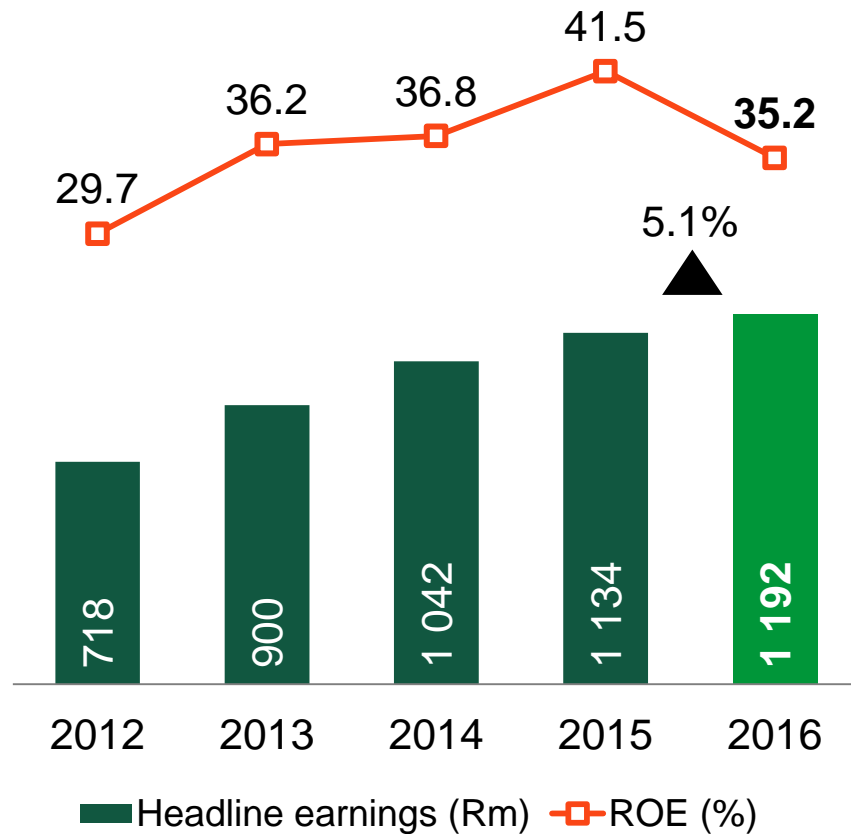
**IOLANDA RUGGIERO**





# Strong return on equity in a challenging environment

## Headline earnings, ROE



## Key drivers

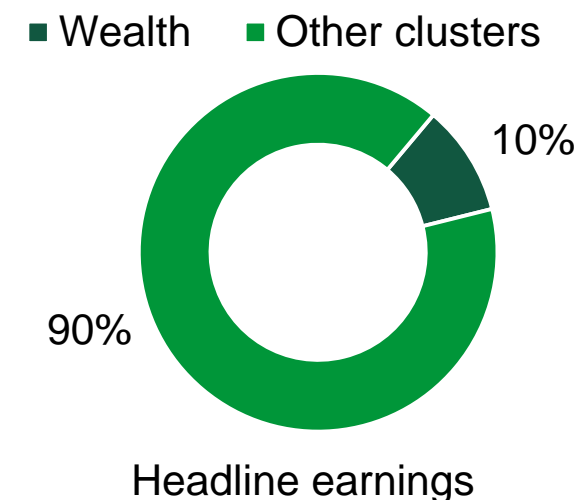
- NII performance supported by strong balance sheet growth & improved margin
- Declining impairments driving lower CLR
- NIR declined as a result of higher weather-related insurance claims, market uncertainty & subdued investor sentiment
- Expense growth well contained
- Significant increase in allocated capital as a result of strong balance sheet growth & increased group allocations

# Nedbank Wealth – financial highlights

BOOKLET SLIDE



Year ended	% change	2016	2015
Headline earnings (Rm)	5.1	<b>1 192</b>	1 134
Operating income (Rm)	1.0	<b>4 362</b>	4 320
PPOP (Rm)	2.5	<b>1 572</b>	1 534
Net interest margin (%)		<b>2.15</b>	1.93
NIR-to-expense ratio (%)		<b>126.1</b>	131.6
Efficiency ratio (%)		<b>61.7</b>	62.6
Credit loss ratio (%)		<b>0.08</b>	0.15
Assets under management (Rbn)	6.2	<b>273 327</b>	257 295
Life embedded value (Rm)	3.1	<b>2 740</b>	2 657
Life value of new business (Rm)	61.5	<b>399</b>	247
Headline economic profit (Rm) <sup>1</sup>	(8.6)	<b>711</b>	778
Allocated capital (Rm)	23.9	<b>3 387</b>	2 734
ROE (%)		<b>35.2</b>	41.5

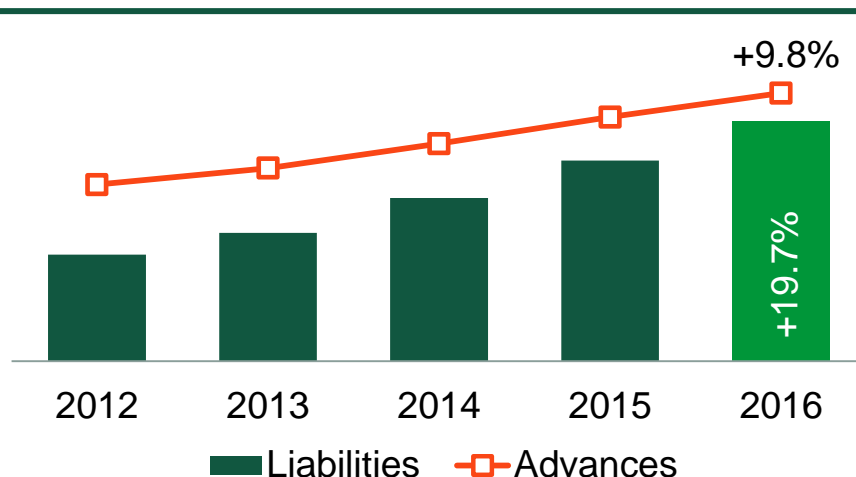


■ Net inflows	<b>R24.0bn</b>
■ Life APE	<b>+31.7%</b>
■ Non-life GWP	<b>+5.9%</b>

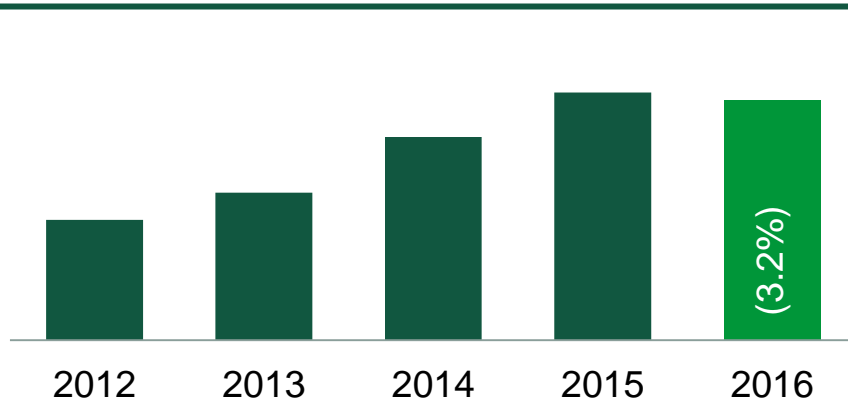
<sup>1</sup> Cost of equity 2015: 13.0% | 2016: 14.2%

# Wealth Management – continued growth momentum

## Liabilities & advances (Rbn)



## Stockbroking AUA (Rbn)



## Key drivers

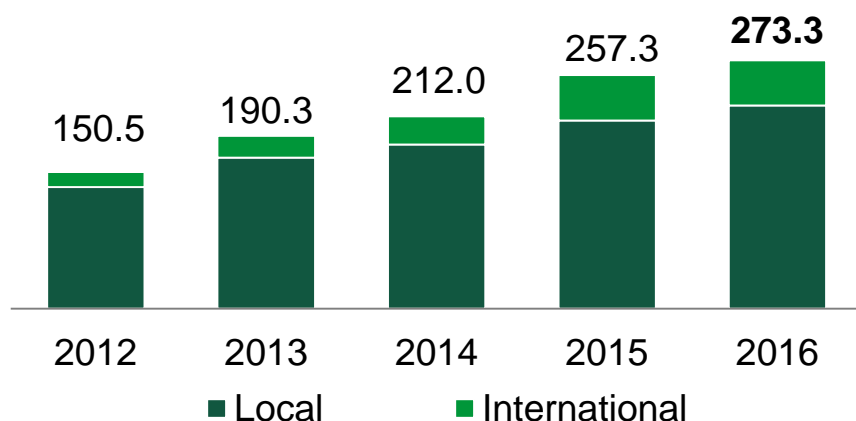
- Strong liability & advances growth locally & internationally
- Record low levels of impairments
- Stockbroking AUA impacted by subdued markets & investor sentiment
- Noteworthy local & international awards



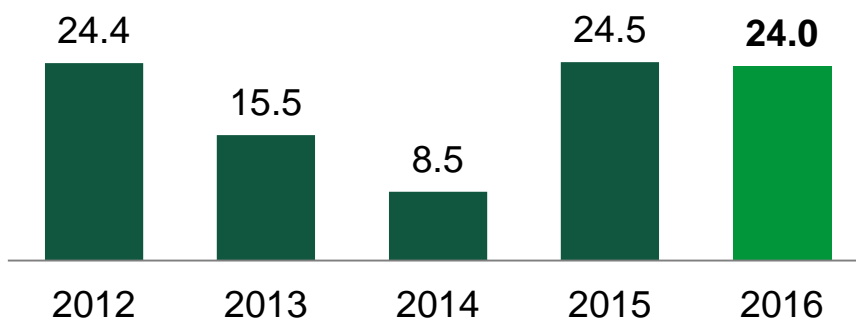


# Asset Management – excellent investment performance

## Assets under management (Rbn)



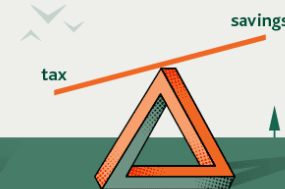
## Net flows (Rbn)



## Key drivers

- Top offshore manager; among top 3 SA managers & one of the highest in net inflows of FSB-approved offshore funds in 2016
- Top SA equity manager over 5 & 10 years
- AUM growth of 6.2% despite flat markets & exchange rate impacts
- Net inflows driven predominantly by global, cash & passive solutions, resulting in market share growth
- Enhancements to mobile & digital through investment in technology

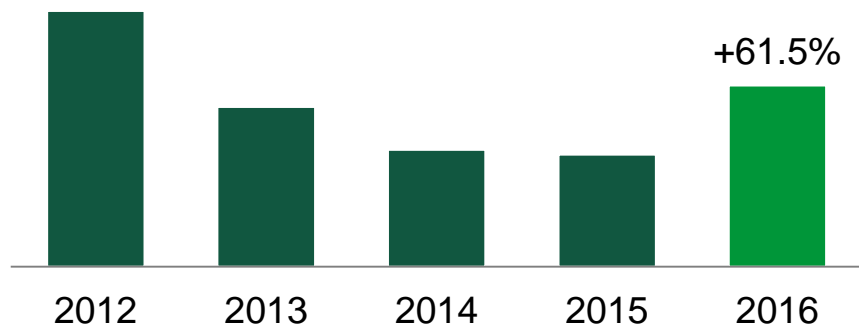
**If tax goes down,  
savings go up**  
It's a no-brainer



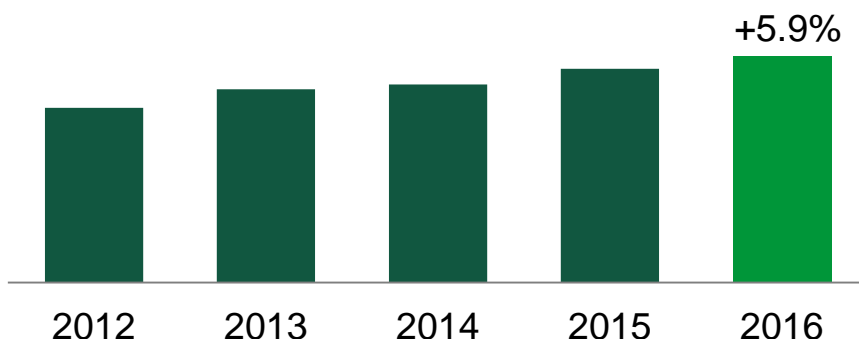
itsanobrainier.co.za

# Insurance – positioning for future growth

## Life value of new business (Rbn)



## Non-life gross written premiums (Rbn)



## Key drivers

- Insurance earnings impacted by abnormal weather-related claims & lower investment returns
- Life VNB driven by an increase in credit life & single-premium investments
- Non-life gross written premium growth impacted by lower homeowner's cover volumes





# Prospects for Nedbank Wealth

## Continued investment to unlock future revenue

- Ongoing investment in value propositions, brand positioning & systems
- Deliver seamless & integrated digital propositions
- Maintain investment performance & drive market share growth
- Deepen group collaboration & pursue new opportunities for growth







## REST OF AFRICA

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Investing for growth in our  
Rest of Africa franchise

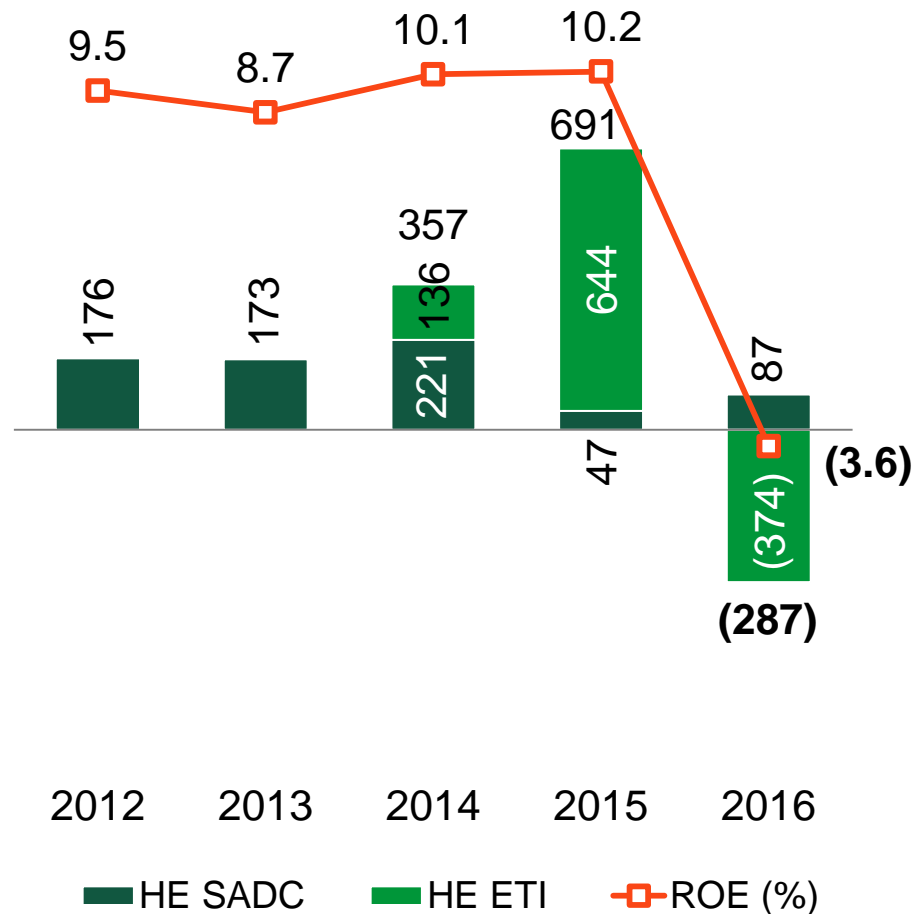
**MFUNDO NKUHLU**





# Headline loss driven by ETI associate loss

## Headline earnings, ROE



## Key drivers

- Slowdown in economic activity across sub-Saharan Africa
- Headline earnings impacted by ETI loss
- SADC business performance weighed down by investment-related costs
- Good traction on strategic initiatives to reposition operations in SADC for future growth

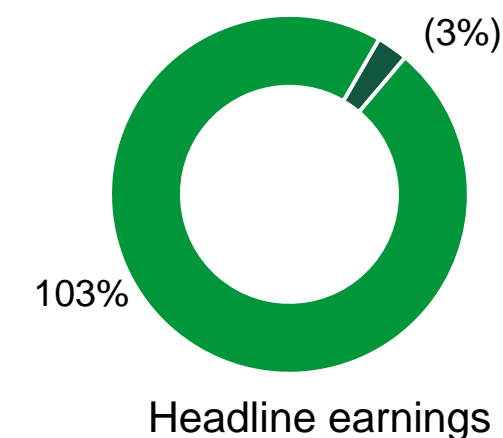
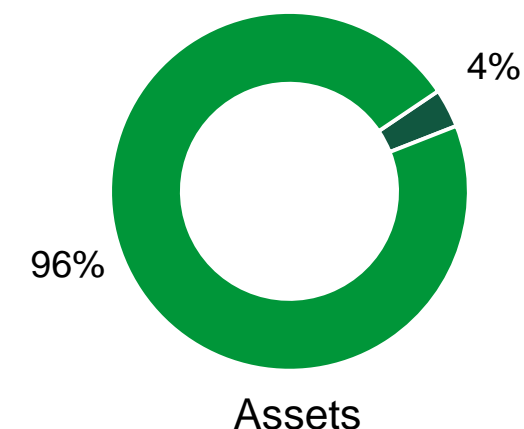
# Rest of Africa – financial highlights

BOOKLET SLIDE



Year ended	% change	2016	2015
<b>SADC</b>			
Headline earnings (Rm)	85.1	<b>87</b>	47
Operating income (Rm)	23.4	<b>2 058</b>	1 668
PPOP (Rm)	6.3	<b>268</b>	252
Net interest margin (%)		<b>6.69</b>	6.26
NIR-to-expense ratio (%)		<b>46.5</b>	50.5
Efficiency ratio (%)		<b>82.9</b>	81.6
Credit loss ratio (%)		<b>0.98</b>	1.27
Average banking advances (Rm)	14.0	<b>17 724</b>	15 543
Average deposits (Rm)	16.9	<b>23 492</b>	20 100
Headline economic profit (Rm) <sup>1</sup>	(30.9)	<b>(491)</b>	(164)
Allocated capital (Rm)	25.6	<b>4 076</b>	3 245
ROE (%)		<b>2.1</b>	1.4
<b>ETI investment</b>			
Headline Earnings (Rm)	> (100)	<b>(374)</b>	644
<b>Total headline earnings</b>	> (100)	<b>(287)</b>	691

■ Rest of Africa ■ Other clusters

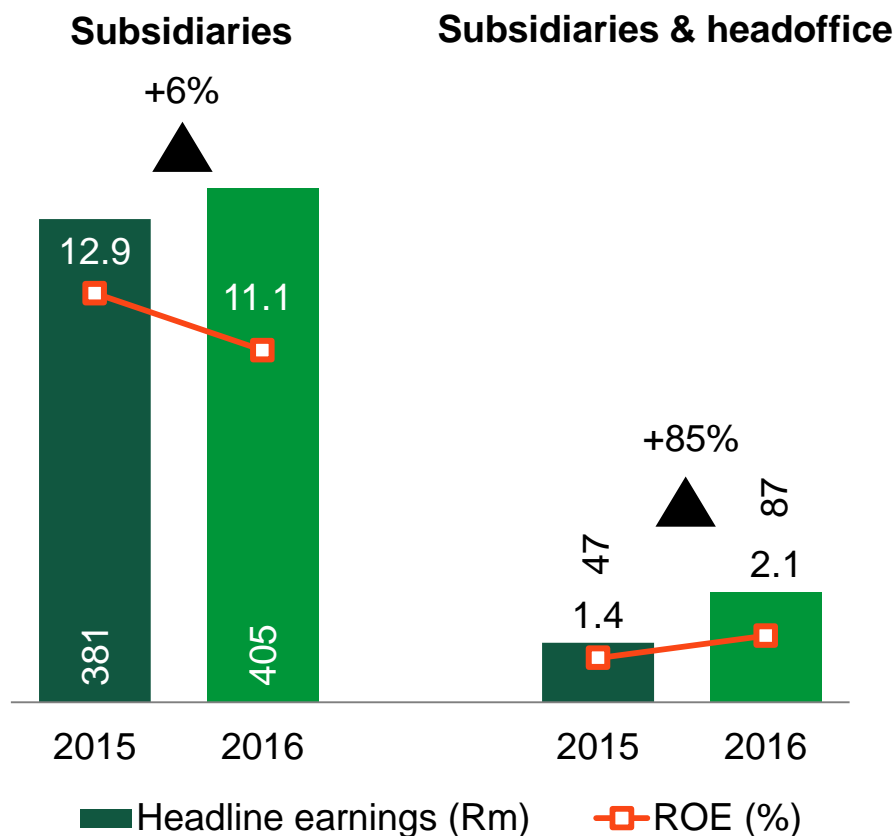


<sup>1</sup> Cost of equity 2015: 13.0% | 2016: 14.2%



# SADC – revenue growth offset by investment related costs

## Headline earnings, ROE



## Key drivers

### Subsidiary operations, excluding headoffice costs

- Headline earnings growth driven by:
  - good revenue growth
  - the positive impact of consolidating Banco Único
- ROE declined from additional capital allocated to Banco Único on consolidation

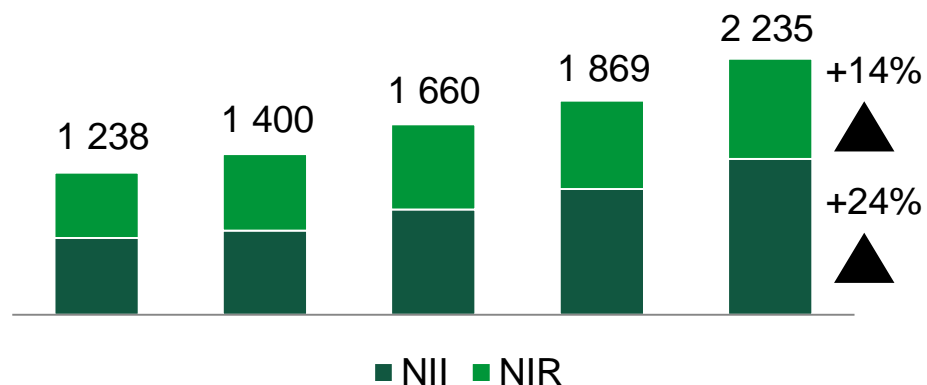
### Subsidiary operations, including headoffice costs

- Headline earnings growth reflects the impact of investment-related costs
- ROE well below group cost of equity

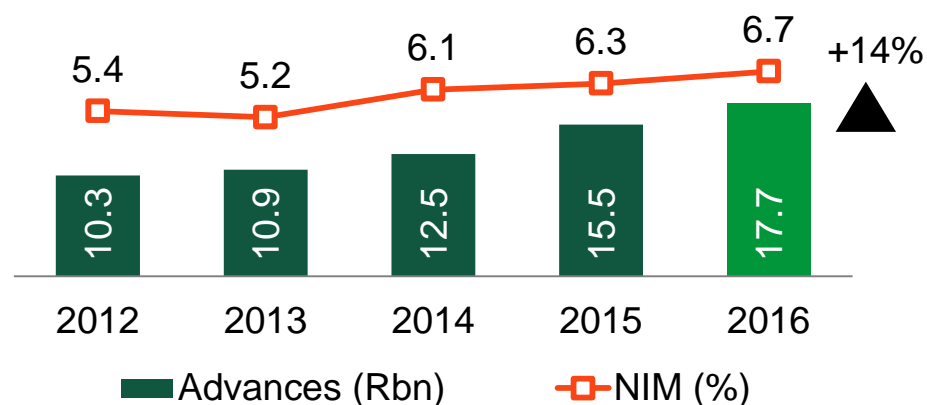


# SADC – good revenue growth, NIM expansion & net client gains

## Revenues (Rm)



## Average advances, NIM



## Key drivers

- Good revenue growth
- Strong advances growth underpinned by demand from wholesale banking clients
- NIM driven by growth in retail deposits, endowment benefit & better pricing for risk
- NIR benefited from net growth in retail clients
- Credit underwriting & collections improved
- Rate of cost growth higher than revenue growth



## ETI investment – supporting strategic review for growth

- **Challenging environment**

- Challenging economic conditions in West Africa with commodity exporters under pressure
- Currency weakness & foreign currency liquidity constraints, particularly in Nigeria
- Likelihood of ongoing pressure on quality of credit portfolios

- **ETI board-led strategic review underway**

- Shifts in regulation, client expectations & competitor dynamics
- Focus on client centricity in key business segments
- Digitisation to drive client experience
- Enhanced risk & compliance culture

- **Nedbank a supportive shareholder**

- Working with other shareholders to support the ETI board & management to improve business performance & generate returns in excess of cost of equity



# Prospects for Rest of Africa

## SADC

- Drive business benefits from core banking system & new product rollout
- Integrate Banco Único into our one-bank operating model
- Review the operating model to drive value to clients, revenue growth & cost optimisation

## ETI investment

- ETI is an important strategic investment for the long term
- Economic conditions in West Africa, especially in Nigeria, expected to remain challenging in 2017 before improving in 2018 & beyond





# STRATEGY & 2017 GUIDANCE

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Delivering sustainable growth

**MIKE BROWN**





# Refined strategy to enhance & accelerate delivery

Purpose

TO USE OUR FINANCIAL EXPERTISE TO DO GOOD FOR INDIVIDUALS, FAMILIES, BUSINESSES & SOCIETY

Vision

TO BE THE MOST ADMIRED FINANCIAL SERVICES PROVIDER IN AFRICA  
BY OUR STAFF, CLIENTS, SHAREHOLDERS, REGULATORS & COMMUNITIES

Strategic  
focus areas



Delivering innovative  
market-leading  
client experiences



Growing our  
transactional  
banking franchise  
faster than the  
market



Being  
operationally  
excellent in  
all we do



Managing scarce  
resources to  
optimise economic  
outcomes



Providing our clients  
with access to the  
best financial  
services network in  
Africa

## OPTIMISING THE WAY WE OPERATE

Strategic enablers

- **PEOPLE 2020** – Transforming our leadership, culture & talent capability
- **BRAND 2020** – Developing a distinctive brand
- **MANAGED EVOLUTION & DIGITAL FAST LANE** – An innovative technology transformation creating an agile digital platform
- **GOVERNANCE & REGULATORY CHANGE** – Leveraging risk management to be a strategic & competitive differentiator
- **FAIR SHARE 2030** – Guiding the creation of financial solutions that deliver on Nedbank's purpose
- **LEADING TRANSFORMATION** – Actively promoting a globally competitive financial sector while creating a more equitable society



## 2017 guidance

### NII

- Average interest-earning banking asset<sup>1</sup> growth to increase slightly ahead of nominal GDP growth
- NIM to be slightly above the rebased 2016 level of 3.54%

### CLR

- To increase, but remaining below the mid-point of our target range of 60–100 bps

### NIR

- Upper-single-digit growth (excluding fair-value adjustments)

### Associate income

- ETI earnings likely to remain volatile & uncertain (reported a quarter in arrear)

### Expenses

- Mid- to upper-single-digit growth

**Growth in DHEPS for full-year 2017 greater than growth in nominal GDP**

<sup>1</sup> To align with industry practice from November 2016 average balances of R6bn in the CIB liquid-asset portfolio were included in our trading book and removed from average interest-earning banking assets used as the denominator in the NIM calculation. The 2016 AIEBA base needs to be adjusted for the remaining R28bn.

# Medium-to-long-term targets

BOOKLET SLIDE



Metric	2016	vs MLT	Medium-to-long-term target	2017 outlook <sup>1</sup>
ROE (excl goodwill)	16.5%	▼	5% above COE	Below target
Diluted HEPS growth	4.8%	▼	≥ CPI + GDP growth + 5%	Below target
Credit loss ratio	68 bps	►	60–100 bps	Increase, but below the mid-point of target range
NIR-to-expenses ratio	82.9%	▼	> 85%	Below target
Efficiency ratio <sup>2</sup>	56.9%	▲	50–53%	Above target
CET 1 CAR	12.1%	►	Basel III basis <sup>3</sup> : 10.5–12.5%	Within target
Tier 1 CAR	13.0%	▲	> 12%	
Total CAR	15.3%	▲	> 14%	
Dividend cover	2.00 x	►	1.75 to 2.25 times	Within target range

<sup>1</sup> 2017 outlook based on current economic forecasts. <sup>2</sup> Efficiency ratio includes associate income

<sup>3</sup> Tier 1 & total CAR targets were revised in 2016 from 11.5–13.0% & 14.0–15.0% respectively

# Nedbank Group in a strong position

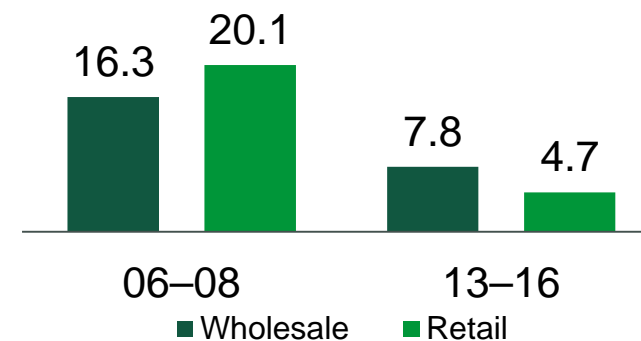
BOOKLET SLIDE



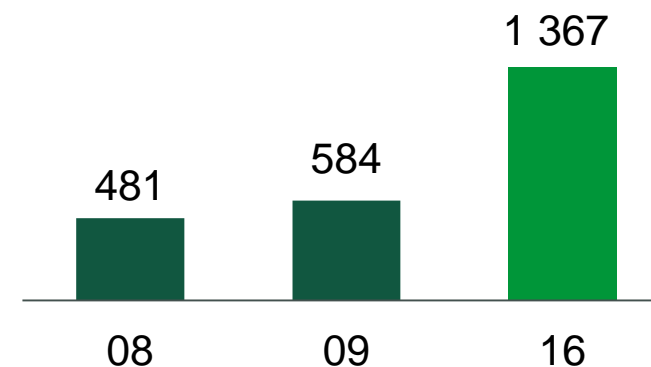
## Headline earnings (Rm)



## Loan growth (CAGR %)



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

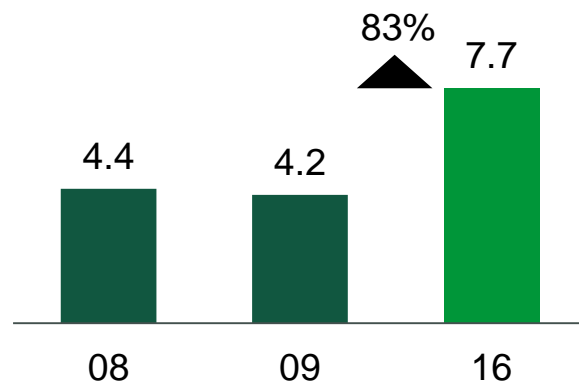




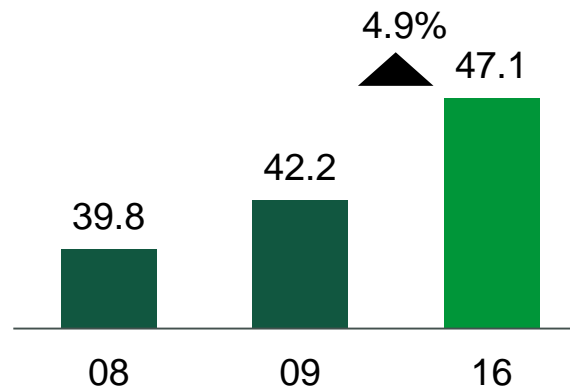
# Nedbank Group in a strong position

BOOKLET SLIDE

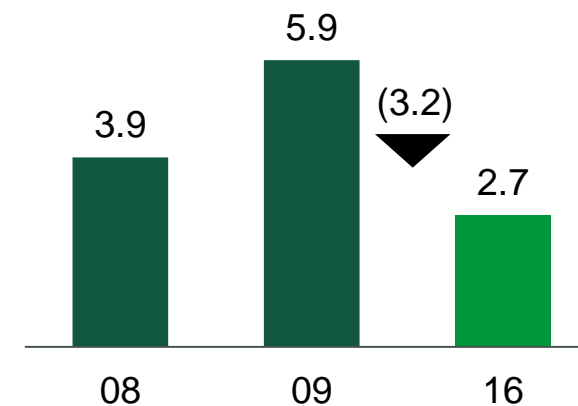
## Number of clients (m)



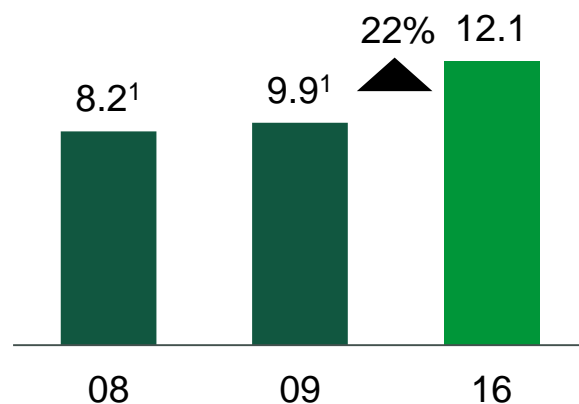
## NIR income contribution (%)



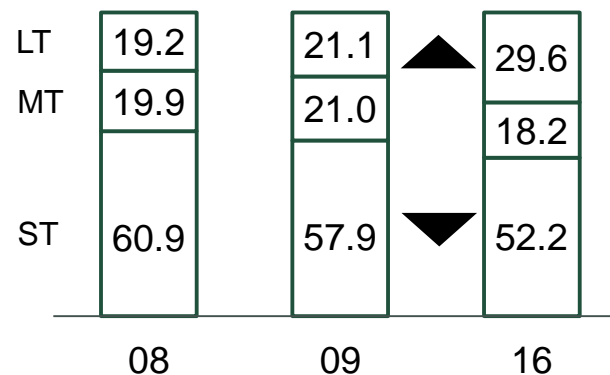
## Defaulted advances (%)



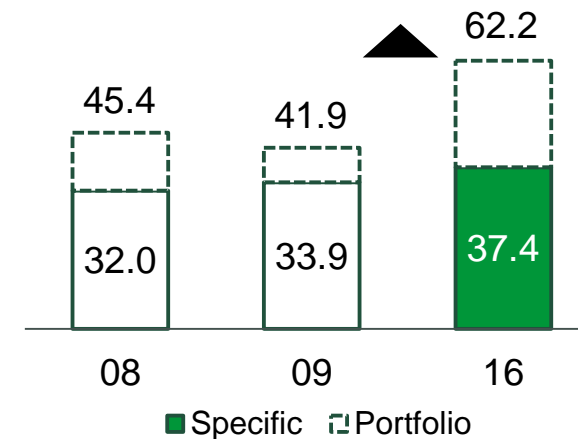
## CET 1 ratio (%)



## Funding tenor (%)



## Coverage (%)



■ Specific □ Portfolio

1 Core equity tier 1.



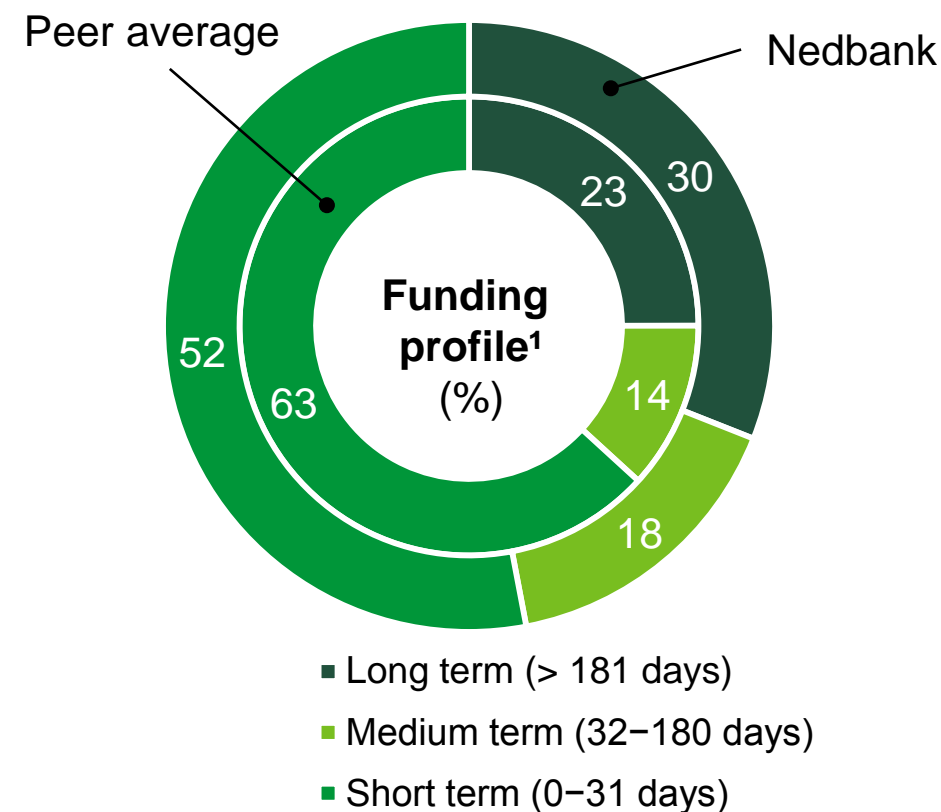
# Improved funding profile in a competitive market

BOOKLET SLIDE

## Funding mix & impact of possible sovereign downgrade

Funding sources	Funding base mix	
Households	19%	Limited impact - closed domestic market
Commercial	27%	
Wholesale	39%	Reprice marginally
Capital markets	7%	Reprice on new issuances
Foreign – asset matched	7%	Matched to US\$ lending – no material impact
Foreign – general funding pool	1%	Reprice on contractual repricing date
<b>Volume-weighted total</b>	<b>100%</b>	

## Funding duration longer than industry average (%)



Total funding (deposits + long-term debt) at 31 December 2016: R813.6bn.

FCTR: Foreign currency translation reserves. QC& R: Qualifying capital & reserves

<sup>1</sup> Funding profile: Nedbank & peer fourth quarter 2016 average funding ratio. Peers at 31 December 2016.

# Nedbank Retail & Business Banking

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

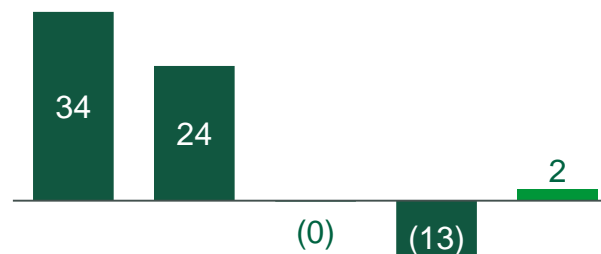
BOOKLET SLIDE



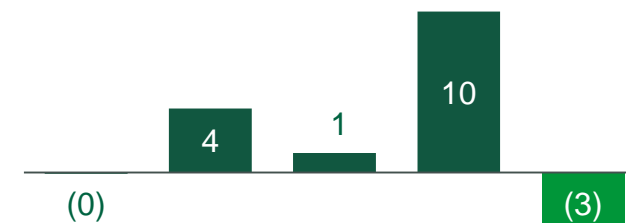
## Net interest margin (bps)



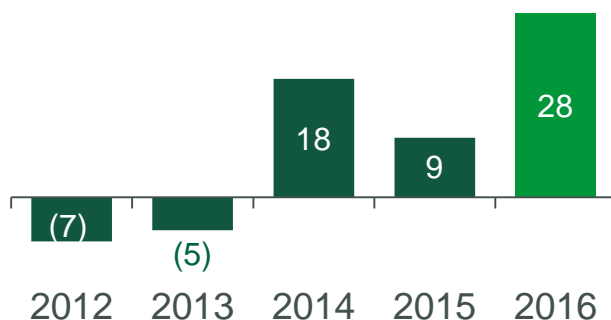
## Mix change impact (bps)



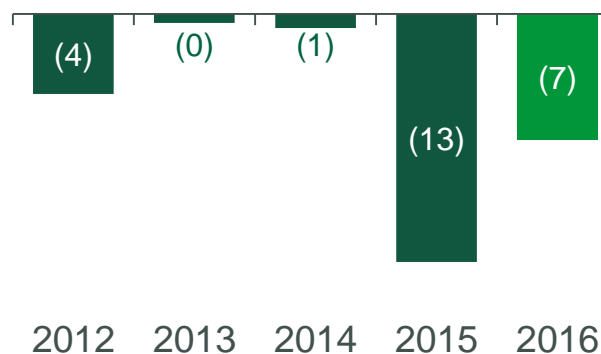
## Asset pricing impact (bps)



## Endowment impact (bps)



## Funding cost impact (bps)



## Liability pricing & mix impact (bps)





# Nedbank Retail & Business Banking

NIR growth support by good volume growth, but muted by strategic choices & other factors

BOOKLET SLIDE



## NIR growth (Rm)



## 2015 NIR growth (Rm)

+186	+321 <sup>1</sup>	+58 <sup>4</sup>	+242 <sup>5</sup>	(98)	(34)	(73) <sup>6</sup>	(160)	+442
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<sup>1</sup> Includes interchange impact of R88m in 2016 and R261m in 2015.

<sup>2</sup> Includes average price increase of 4.3% implemented on 1 January 2016.

<sup>3</sup> Includes non-transactional banking in BB & fair-value swaps in MFC & BB.

<sup>4</sup> Includes HOC & guarantees which was previously reported in 'Other'.

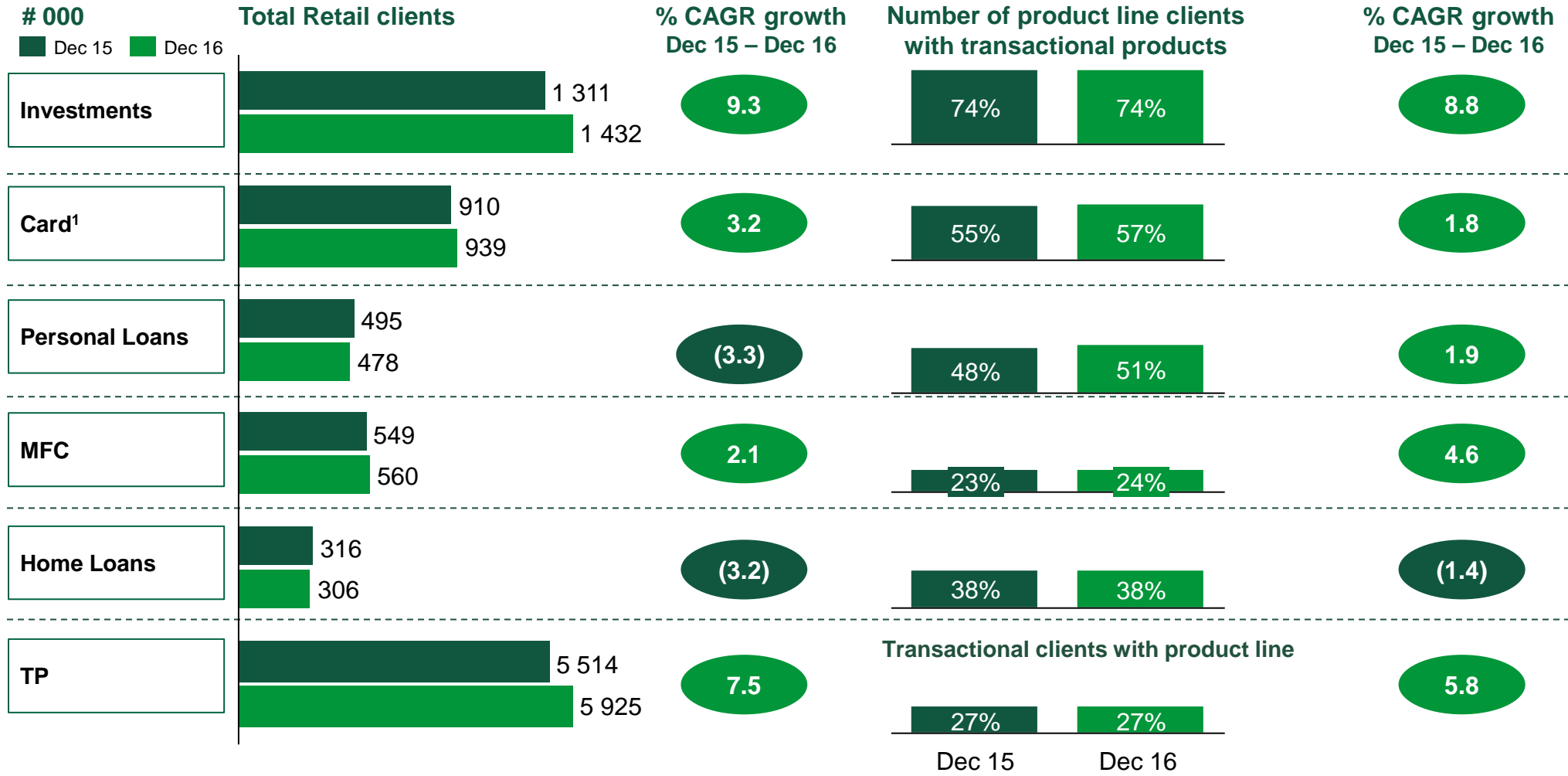
<sup>5</sup> Includes average price increase of 5.6% implemented in January 2015 and repricing in RRB (R38m) implemented in H2 2014

<sup>6</sup> Card – 2015 numbers were restated to illustrate the impact of acquiring margin pressure that was previously reported in 'Other'

# Nedbank Retail & Business Banking

Building more enduring client relationships through transactional product cross-sell

BOOKLET SLIDE



<sup>1</sup> Prior-year card client numbers restated to align with a definition change implemented in 2016.

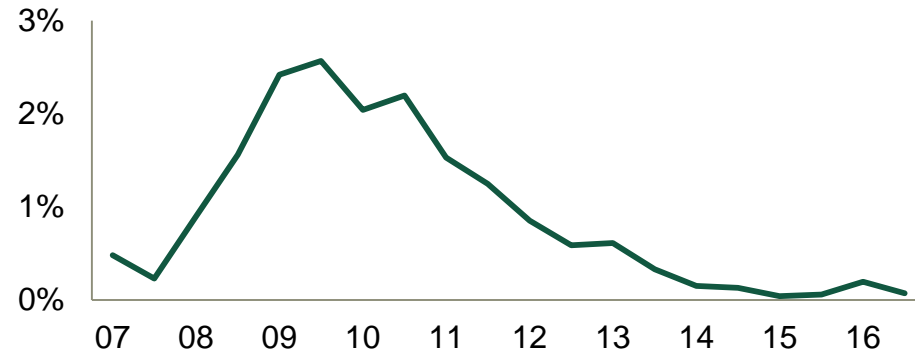
# Nedbank Retail & Business Banking

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

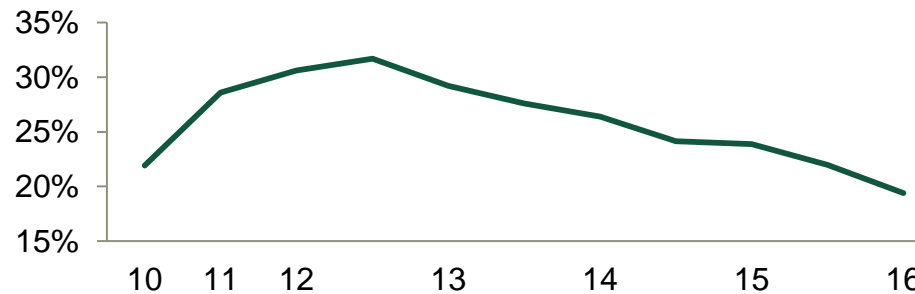
BOOKLET SLIDE



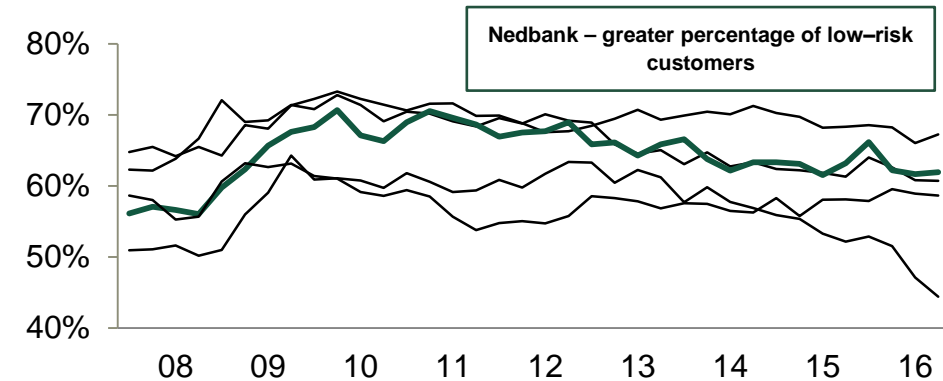
## Credit loss ratio (%)



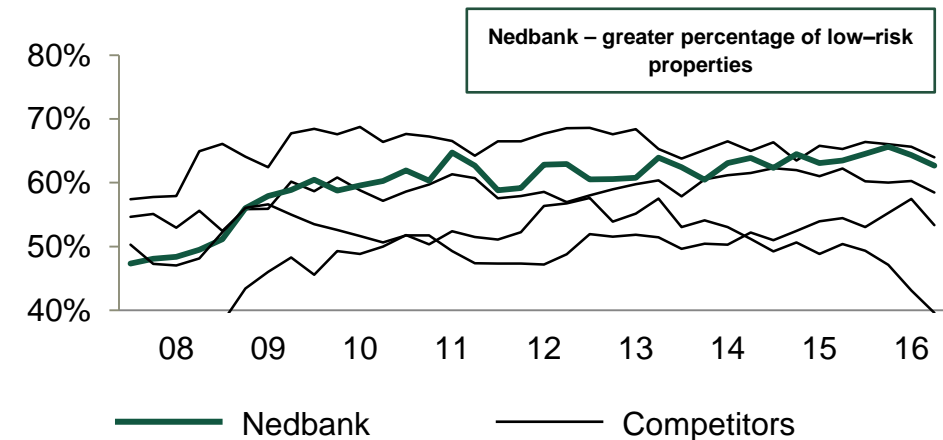
## Coverage (%)



## Delphi Score – low risk<sup>1</sup> (%)



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



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

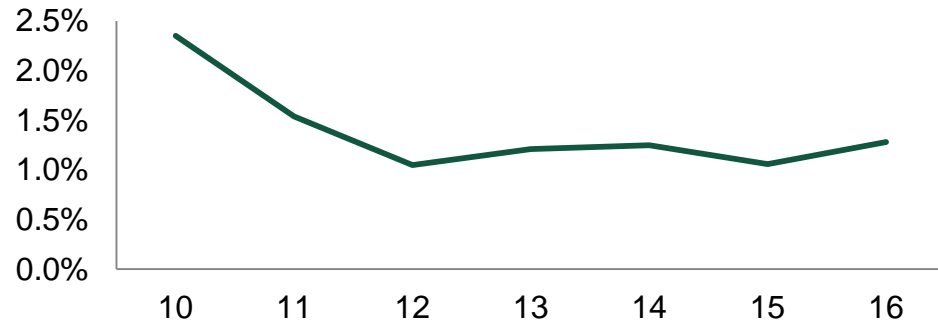
# Nedbank Retail & Business Banking

## Vehicle finance – Benchmarking through the cycle

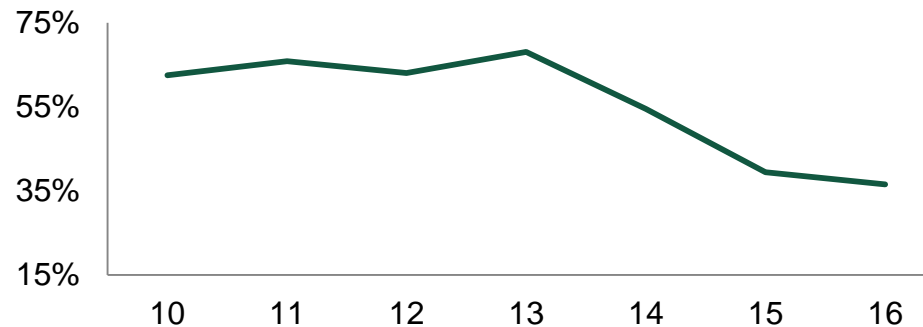
BOOKLET SLIDE



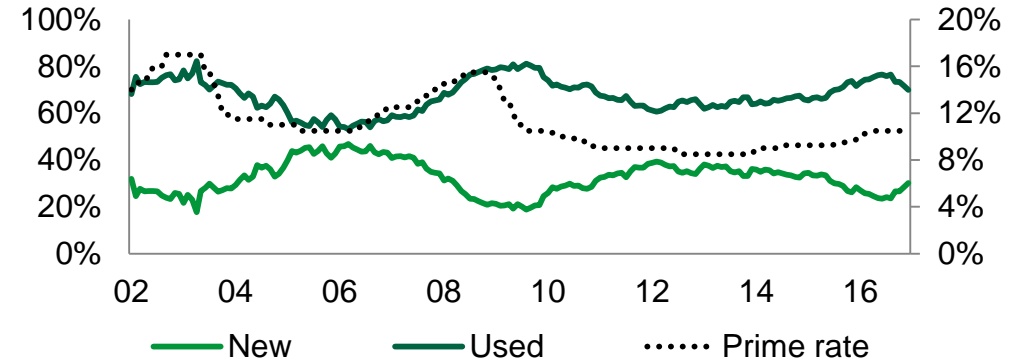
### Credit loss ratio (%)



### Coverage (%)

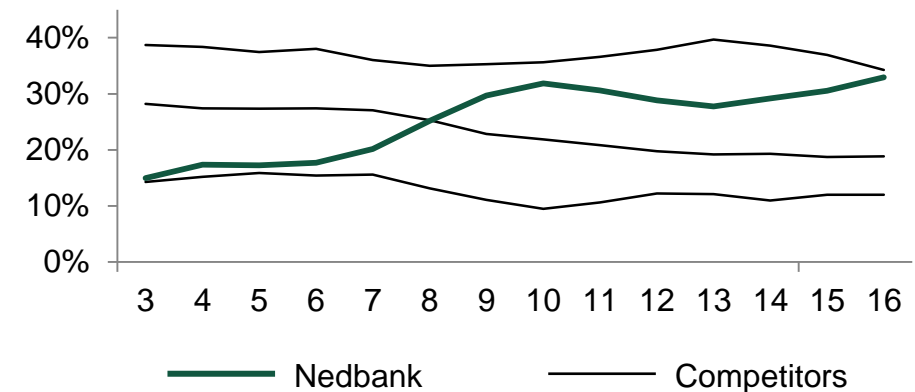


### MFC new & used vehicle distribution (%)



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

\*BA900 Market Share



# Nedbank Retail & Business Banking

Personal Loans – improved product offering, onboarding & client targeting has driven growth in desired lower-risk segments

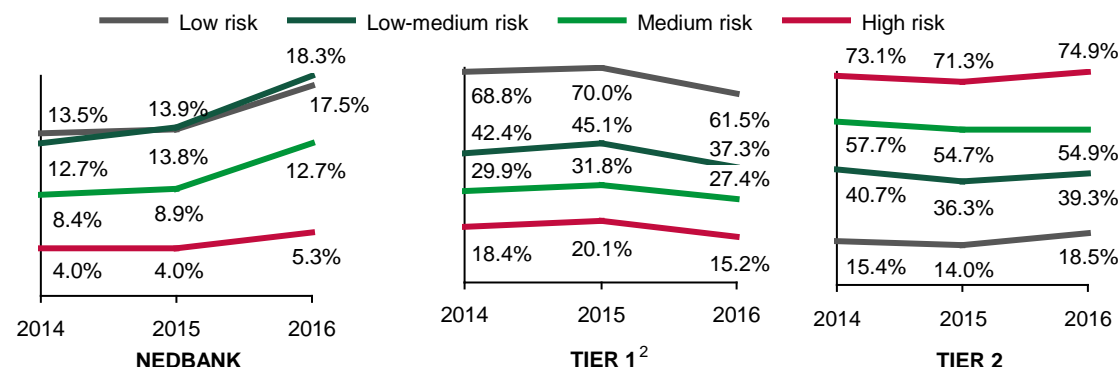
BOOKLET SLIDE



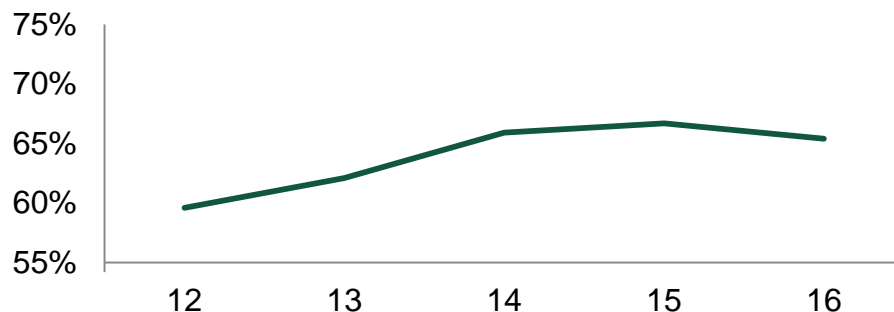
## Credit loss ratio



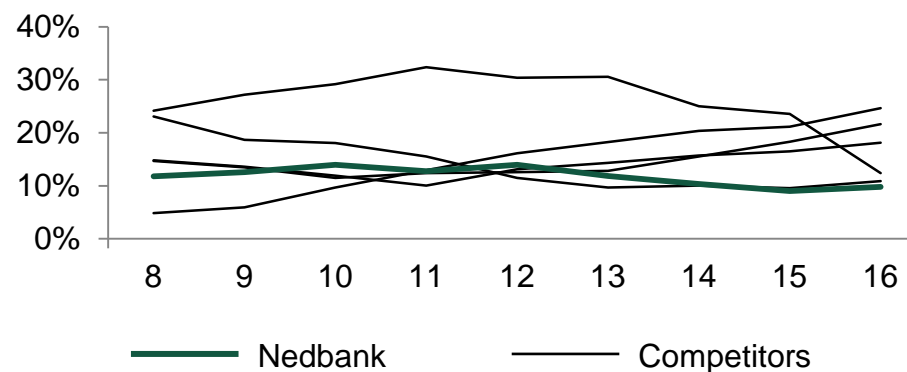
## Market share of new business by risk band <sup>1</sup> (%)



## NPL coverage (%)



## Market share total book (%)



<sup>1</sup> Low risk (Bureau score >= 658); Low-medium risk (Bureau score 644-657); Medium risk (Bureau score 626-643); High risk (Bureau score <= 625)

<sup>2</sup> Tier 1 refers to big 4 banks excluding Nedbank while Tier 2 refers to remaining material providers of unsecured personal loans

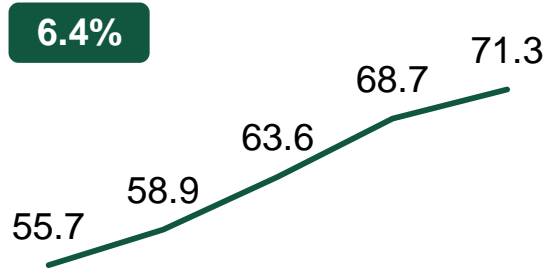
# Nedbank Retail & Business Banking

Deposit growth driving increases in NII & market share

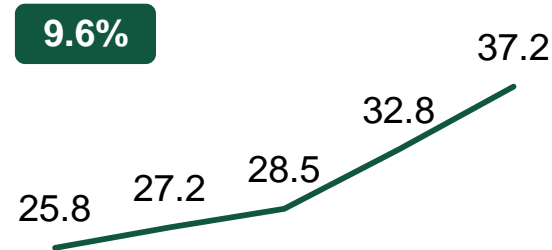
BOOKLET SLIDE



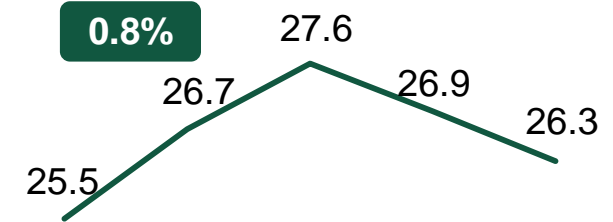
Current and Savings (Rbn)



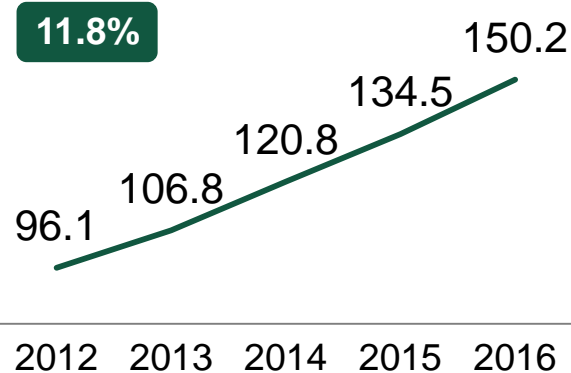
Fixed Deposits (Rbn)



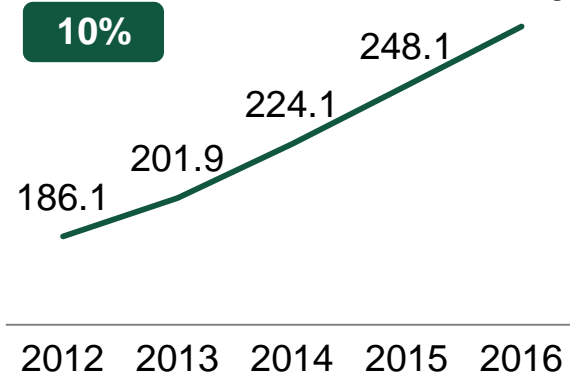
Average Capital Allocation (Rbn)



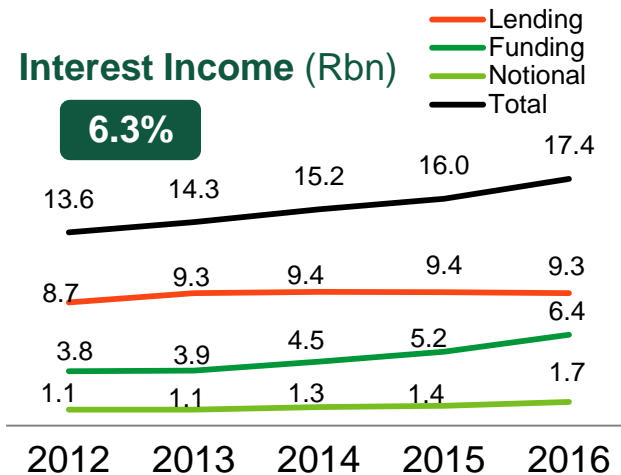
Call and Term (Rbn)



Total Client Deposits (Rbn)



Interest Income (Rbn)



% CAGR 2012 to 2016



## Disclaimer

Nedbank Group has acted in good faith and has made every reasonable effort to ensure the accuracy and completeness of the information contained in this document, including all information that may be defined as 'forward-looking statements' within the meaning of United States securities legislation.

Forward-looking statements may be identified by words such as 'believe', 'anticipate', 'expect', 'plan', 'estimate', 'intend', 'project', 'target', 'predict' and 'hope'.

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