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NEDBANK GROUP LIMITED

SUPPLEMENTARY INFORMATION: OPERATIONAL OVERVIEW

for the year ended 31 December 2013

To be read in conjunction with the 2013 Integrated Report

A Member of the  **OLDMUTUAL** Group

NEDBANK CAPITAL

Contribution to Group	2013	2012
Headline earnings (Rm)	1 726	1 431
Economic profit (Rm)	963	693
Average Total advances (Rbn)	92,7	73,1
Average Total assets (Rbn)	155,4	149,6
Credit loss ratio (%)	0,51	1,06
Return on equity (%)	29,4	25,4
Employees	683	705

BUSINESS PROFILE

- Provides comprehensive investment banking solutions to institutional and corporate clients.
- Product strengths include investment banking, leverage financing, trading, broking, structuring and hedging.
- Offices in SA and London and representative offices in Angola and Toronto.
- Primary units:
 - Investment Banking
 - Global Markets
 - Treasury
 - Client Coverage & Origination

BUSINESS STRATEGY

- Nedbank Capital follows an integrated investment banking business model - leveraging a unique combination of industry and product expertise with a single client interface.
- Plans for future growth are built around the following core themes:
 - leveraging our strategic alliances to expand into the Rest of Africa, and internationally utilising sector specialisation;
 - being an integrated investment bank that offers bespoke, seamless client solutions built on product strengths and execution excellence;
 - focusing on increasing internal efficiencies through streamlining of internal processes and building on the client-centric model within Nedbank Capital and fellow Nedbank Group clusters; and
 - investment and retention strategies to ensure the development of our next generation of leaders.

MARKET POSITION

- Reputable industry standings across key portfolios (eg resources, infrastructure and energy).
- Prominent market position in renewable energy financing.
 - REIPPPP: Round 2 - closed five renewable-energy transactions; and
 - Followed up with a strong performance in Round 3, providing debt funding to seven of 17 preferred bidder projects. Financial close for Round 3 is expected to be in 2014.
- Top three mergers and acquisitions player.

REVIEW OF 2013

- Successful year.
- Realised gains of a successfully implemented integrated investment banking model.
- Notable success in REIPPP programme.
- Continue to enhance portfolio through disciplined and pro-active lending and investment criteria.
- Strong focus on efficiency.
- Continued development of our people.

CLUSTER INTEGRATED SUSTAINABILITY HIGHLIGHTS

- First Nedbank Capital Sustainable Business awards took place to honour African business and its leaders that have made a significant effort to promote sustainable business on the continent and, in so doing, are serving to redefine the traditional paradigm of 'business as usual' by refocusing commerce on creating value for society and the environment without trade-offs for shareholders, suppliers and customers.
- Expanded the outreach of Spell It, whilst providing more focused support for the ChessKids initiative.

KEY CHALLENGES IN 2013

Management of economic volatility and limiting the impact across all areas of business.

CLUSTER OVERVIEW

Nedbank Capital provides seamless specialist advice, debt and equity raising (including execution), and trading capabilities to clients in all major South African business sectors. Clients include the top 200 domestic corporates, parastatals, financial institutions, multinational corporates and major infrastructure, energy, telecoms and mining projects in Africa as well as emerging black economic empowerment (BEE) consortia.

The cluster comprises four primary businesses, from which it makes its distinctive products, services and solutions available to clients.

Client Coverage & Origination represents Nedbank Capital's single point of entry for its clients. This team of senior bankers is responsible for origination of client-centric solutions as well as exploring integrated risk solutions. Client service and innovation remain key to our sustainable business model. The primary roles of the Investment Banking Origination team are:

- Origination - originate big ticket or multiproduct deals.
- Coverage - maintain regular coverage of clients, particularly where there is no current live deal.
- Coordination - leverage internal Nedbank client relationships, including Nedbank Corporate, to maximise cross-sell.
- Brand-building - build profile of Nedbank Capital to external and internal stakeholders.
- Sector focused team which intends to represent the broad South African economy and develop sector-specialised knowledge.

Investment Banking, includes:

- Advisory services comprising corporate finance, debt origination and debt advisory.
- Debt financing solutions incorporating project finance, export credit finance, acquisition and leveraged finance, global commodity finance and securitisation.
- Sectoral specialist teams which provide clients with insight and advice into the energy, infrastructure, telecommunications, aviation, resources, oil and gas and diversified industrials sectors.
- Private equity and alternative investments.

Global Markets, includes:

- A consolidated Equities business that provides our client base with solution-driven, selective research, execution and innovation through providing:
 - cost efficient, reliable access to financial market instruments for investment, trading and hedging purposes;
 - efficient and knowledgeable access to market, product and administrative information;
 - continuous product innovation; and
 - informative and thematic research.
- FICC (Fixed Income, Commodities, Credit and Currencies), providing both vanilla and custom solutions through our full suite of interest-rate, inflation-linked, commodity, credit and currency-based derivative products.

Treasury is Nedbank Group's funding interface with local and international financial and investment markets. All domestic and foreign currency funding requirements are executed and managed through this unit. Treasury also includes the carbon finance unit and offers structured financial solutions, focusing on liquidity and liability management.

REVIEW OF THE YEAR

Nedbank Capital retained its strong position in the local finance market. Some of the notable awards/achievements received by Nedbank Capital during 2013 include:

- **Project Finance Deal of the Year awards, Project Finance, Euromoney:**
 - Nedbank Capital won for the Dorper Wind transaction in the African Wind Deal of the Year category
 - Nedbank Capital won for the RDP funding of the Nigeria National Petroleum Corporation/Exxon Mobil in the African Oil & Gas Deal of the Year category
 - Nedbank Capital won for the Tamar transaction in the EMEA Oil & Gas Deal of the Year category
- **Project Finance International awards, Project Finance International, Thomson Reuters:**
 - Tamar transaction won in the category: Middle East and Africa Energy Deal of the Year

NEDBANK CAPITAL (CONTINUED)

- Lundin Petroleum won in the category: European Oil & Gas Deal of the Year
- REIPPP:
 - Building on successful Round 1 from 2012
 - Round 2 – closed five renewable energy transactions
- Followed up with a strong performance in Round 3, providing debt funding to seven of 17 preferred bidder projects. Financial close for Round 3 is expected to be in 2014
- Corporate Finance:
 - Top three mergers and acquisitions player

Financial Review

Year ended	2013	2012
Headline earnings (Rm)	1 726	1 431
Efficiency ratio (%)	46,0	43,2
Credit loss ratio banking advances (%)	0,51	1,06
Average banking advances (Rm)	60 469	49 596
Allocated economic capital (Rm)	5 863	5 632
Return on equity (ROE) (%)	29,4	25,4

Nedbank Capital produced an excellent set of results, achieving a return on equity of 29,4% (2012: 25,4%) and delivering growth in headline earnings of 20,6% to R1 726m (2012: R1 431m). All business segments within Nedbank Capital contributed towards this growth, reflecting a consistent and stable earnings platform throughout 2013. Economic profit (EP) increased by 39,0% to R963m (2012: R693m).

(NII) Net Interest Income grew to R1 608m (2012: R1 521m) as a result of 21,9% growth in our banking book, with asset margins increasing to 1,65% (2012: 1,62%). Our lending margin reduced to 2,6% (2012: 2,9%), due to higher dollar-denominated exposure and a continued focus on high-quality assets.

Asset growth was underpinned by proactive, disciplined risk management which led to the CLR improving to 0,51% (2012: 1,06%), within Nedbank Capital's through-the-cycle target range of 0,10% to 0,55% for the first time since 2009. Prudent management of the watch list should result in the CLR's remaining within the cluster's target range.

(NIR) Non-interest-revenue was marginally up at R3 078m (2012: R3 049m). However, the quality of NIR has improved as less reliance on some volatile NIR from trading revenue was reduced and replaced with more flow and fee-generating activities. Commission and fees increased 25,1% to R614m (2012: R491m) and trading income increased by 3,7% to R2 347m (2012: R2 263m).

Total expenses increased by 9,2% to R2 156m (2012: R1 974m) following continued investment in the cluster's infrastructure and key specialist skills.

The effective tax rate decreased to 21,6% (2012: 29,6%) off a high base in 2012 as a result of a higher capital gains tax rate and tax legislation changing from secondary tax on companies to a dividend withholding tax rate.

Our efficiency ratio is at 46,0%, and our NIR-to-expense ratio of 142,7% are supportive of the group's strategic focus areas.

RESPONSIBLE LENDING FOR SUSTAINABLE SUCCESS

2013 saw the first Nedbank Capital Sustainable Business awards take place. The awards came about as a natural progression from the successful Nedbank Capital Green Mining awards, which awarded sustainability excellence in the mining industry between 2006 and 2011.

The purpose of the awards is to honour African business and its leaders that have made a significant effort to promote sustainable business on the continent and, in so doing, are serving to redefine the traditional paradigm of 'business as usual' by refocusing commerce on creating value for society and the environment without trade-offs for shareholders, suppliers and customers.

Even though the awards are still in their infancy stage, the quality of the entries received was indicative of the commitment industry continues to make in helping the continent transform towards a greener economy.

STRATEGY

Going into 2014, Nedbank Capital continues to build on the platform from previous years.

Client-centricity remains a driving force within the business: we are committed to understanding our clients' needs and delivering appropriately, through the provision of full spectrum solutions and excellence in execution. In order to improve the quality of client service, we have focused significantly on improving our client-centric model and alignment both within the cluster and with the wider group.

As part of our vision to be Africa's most admired bank, Nedbank Capital continues to play a major role in infrastructure, energy and resource finance (including oil and gas). In the South African context, we are especially proud of our strong participation in renewable-energy financing.

As we look to entrench and strengthen our domestic position, we are also concentrating on selective expansion into Africa. Nedbank now has several important alliances which can be strategically leveraged to successfully capitalise on opportunities

in various parts of the continent. In addition to these alliances, Nedbank Capital is focused on growing its own internal capacity in several key markets.

While Nedbank Capital is strongly growth focused, we continue to work on internal efficiencies and effective risk management to ensure sustainable expansion.

Talented people who are committed to our vision are vital to the continued success of the business. Finding and developing the future leaders of Nedbank Capital remains a cornerstone of our strategy.

LOOKING FORWARD

Given our diversified earnings platform and the quality of our lending portfolio, the business is well positioned for continued growth in 2014, focusing on client solutions and cross-sell.

Disciplined and proactive risk management will continue to underpin all of these endeavours as economic conditions are expected to remain volatile.

We will continue to pursue opportunities in Africa by working closely with and leveraging the Ecobank and Bank of China alliances. This is supported by a defined risk appetite framework, sector-specific expertise and underpinned by our client-centric approach.

We continue to work towards becoming entrenched as Africa's most admired investment banking business in the advisory, equity and specialised lending asset classes.

CASE STUDY

Bank of China Alliance

In July 2013, Nedbank Group and Bank of China entered into a strategic business cooperation agreement to grow business flows between the People's Republic of China and Africa. The alliance will support clients of Bank of China as they look to grow and invest in South Africa and the Rest of Africa by providing access to an African bank with a deep understanding of how to do business in Africa, and similarly by providing support through the expertise of Bank of China for Nedbank clients expanding into China.

The China-Africa relationship is dynamic on many fronts. China is South Africa's most significant trading partner in terms of both exports and imports, and has been so for the past four years. Likewise, African trade with China has grown over the past 20 years and China has displaced France as Africa's largest trading partner. Today China accounts for 20% of Africa's trade. In addition, China has proposed or committed about US\$101 billion to commercial projects in Africa since 2010, demonstrating the strengthening of political ties between China and Africa. As facilitators of the flow of capital, goods and services between geographies, Bank of China and Nedbank will play a key role in growing and developing this relationship.

Since the signing of the alliance, Nedbank and Bank of China have worked together on transactions and have a strong pipeline which will continue to develop and grow. Nedbank Capital has closed four transactions with Bank of China, two of which have been done as mandated lead arrangers.

NEDBANK CORPORATE

OVERVIEW OF 2013

We celebrated our 10th anniversary as Nedbank Corporate in its current form and with it, some unique successes and achievements:

- Our headline earnings grew by 23,6% to R2 245m from R1 817m. Corporate Banking contributed 53,3% of these earnings and Property Finance 42,1%.
- We contributed 26% of the group's headline earnings in 2013.
- Economic profit grew by a very pleasing 50,1% to R1 138m.
- Our NIR : expense ratio surpassed the Nedbank internal target of 85% at 89,7%, with core NIR growing by 21,3%.
- Our efficiency ratio improved by 1,5% to 39,6% (2012: 41,1%).
- We maintained a superior credit risk management profile: our high-quality portfolio recorded an impairment ratio of 23bps, within our target range of 20bps to 35bps.
- We continued to retain key primary banking relationships both within the public and private sectors.
- Concluded two of the largest deals ever funded by the Property Finance team: namely Bay West Mall in Port Elizabeth (R1,8bn) and the Mall of Africa in Midrand (R3,3bn). In both cases, Nedbank was the sole debt provider and we retained our position as the largest property financier in SA measured by advances (31,7% of the market per the BA900 December 2013).
- During 2013 the Affordable Housing unit disbursed more than R1bn towards new affordable housing developments across SA, with more than 12 000 new home opportunities created in 2013 and cumulatively over 25 000 homes over the past five years. This business has grown from a start-up basis with breakeven profitability to a unit that made R8,3m headline earnings in 2013. The strategic imperative for the Affordable Housing Development Finance business is to ensure that Nedbank can credibly demonstrate its participation to the Financial Sector Code and in a sustainable way. To build on this momentum we have increased the headcount for this unit to take advantage of the increase in business, which also reflects the increasing demand in SA for housing to the lower income sector.
- Nedbank Investor Services (NIS) has continued to win the Global Finance best subcustodian award in SA since 2008. Assets under custody of R2 trillion in value are administrated by NIS on behalf of institutional investors.
- We enhanced our position in the global trade market through client enablement and new product development. Transactional Banking continued to innovate whilst still focusing on compliance projects related to product enhancements.

The year was, however, a slow one, confirming the bearish market in SA at present with its sub 2% growth rate. The sluggish macroeconomic environment continued to play a key role in determining the pace of expansionary activity. We expect these conditions to persist during 2014.

Internally, leadership succession and maintaining the high levels of management expertise as well as securing scarce skills, continued to be a challenge.

CASE STUDY

Rest of Africa – Barloworld fleet contract in Ghana

Corporate Banking was approached by Avis Fleet Services (SA), who requested general purpose funding for their planned start-up operations in Ghana. Avis Southern Africa, in a JV collaboration arrangement with local licence holder, U-Save Car Rental Ghana, was able to acquire a majority stake in this start-up operation under the name Fleet Services Ghana Limited. This opportunity allowed them to bring to Ghana a comprehensive fleet management services solution for local corporates and multinational companies.

The deal yielded a number of useful considerations:

- Insight into the local market and risks.
- Need to collaborate in order to be quick to market.
- Understanding and managing legal compliance and processes in-country.
- Working relationship with a reputable legal firm which aligns with Nedbank's operational risk profile requirements.

Although it was a challenge to limit our transaction turnover time, we were successful in managing the client expectations and driving collaboration with our vendors.

Ecobank provided in-country knowledge of key legal frameworks in Ghana within which we had to operate. This local expertise was an important requirement for Nedbank and Avis Fleet Services Limited (Ghana) to implement the transaction.

'Funding from Nedbank provided us with a distinct advantage over the high cost of local funding.' Avis Fleet Services

Our responses to these challenges included the following:

1. Client-centricity: overall this constitutes 25% of senior management scorecards. The alignment of our Employee Value Proposition (EVP) to the Client Value Proposition (CVP) has reaped positive outcomes in both staff and client feedback.
2. Seeing risk as an enabler: we ensured that our risk management process maintained the correct balance between optimally servicing clients and acquisition, and risk appetite.
3. Effective and agile leadership: we continued developing and building the strength of our leadership pipeline. Our staff surveys continue to return positive feedback. The Leading for Deep Green initiatives have also gained strong momentum and are developing personal mastery, leadership and team effectiveness capability.
4. Building future talent: our continued investment in specialised Nedbank Corporate academies, learnerships and management development programmes will continue to provide a sustained pipeline of talent.

CORPORATE BANKING

The slow deal flow in a very competitive market resulted in a modest average advances growth of 4,2% to R81,4bn. Average deposits grew by 10,5% to R162bn. Furthermore, advanced preparations for certain aspects of Basel III, as well as funding and liquidity management requirements, have placed additional costs onto the business. These factors have reduced our pricing competitiveness, resulting in an estimated 30bps drop in margin on our investment-grade lending products.

Notwithstanding, headline earnings growth in 2013 was 13,2%, due to the increased contribution from deposit-taking activities

and continued growth in core-NIR. Revenue growth was driven off a diverse portfolio of clients, highlighting the sector and industry expertise in the business. The resilience and agility of the business has enabled us to extend a 0% fee increase for 2014. We understand that for many of our clients the current economic conditions present an array of challenges and we believe this gesture sends a positive message.

'We have a solid partnership with our clients and we believe in a relationship that is sustained for the long term. The value we place on the benefits of the relationships we have with our clients far outweigh the opportunity cost of the extra revenue that we might have earned had we increased fees.' Mfundo Nkuhlu, Managing Executive: Nedbank Corporate.

We have extended our collaboration with Nedbank Capital to increase client-centricity, which enhanced our ability to offer more integrated lending solutions.

NEDBANK CORPORATE (CONTINUED)**CASE STUDY****Consolidating our position as the market leader in property finance in SA**

Property Finance won our largest deal to date of R3,3bn, which is a new development known as The Mall of Africa. We provided the total funding for the development. The mall is envisaged as a unique retail experience that will form the key development in what is to become the most sought-after urban framework in Waterfall City, Midrand. It is the largest mall to be constructed in the country in a single phase. The development will act as the central hub for a range of future mixed uses including retail, offices, conference and recreational amenities, residential and town centre parking and will consist of more than 300 shops.

Our success in securing the tender was based on the following:

- flexibility in the debt structuring of the transaction was key and required a strong understanding of the client's funding requirements and future plans;
- collaboration and involvement across the Nedbank Group;
- ability to meet a tight deadline;
- competitive interest rates; and
- strength of our relationship with Atterbury.

PROPERTY FINANCE

2013 was an excellent year for Property Finance, growing average advances to R84,4bn and generating earnings growth of 32,0%. The medium-term prospects are also looking promising, with a good pipeline. Our average impairment ratio dropped to 27bps, from 53bps in 2010.

During 2013, this division's activities earned Nedbank the accolade of being voted the best property finance bank in SA in the PricewaterhouseCoopers South African Banking survey which is conducted every two years, measuring performance, presence and momentum across a variety of different markets as rated by CEOs and executives in the banking industry.

A core strength has been our ability to nurture and build relationships and as part of our offering, provide clients with complementary skills and high levels of specialised sector expertise. This is evidenced in the Consulta Research Client Satisfaction survey, which also noted a 15,4% increase in Nedbank Corporate Property Finance as first choice property financier. There was a 24,2% increase in clients confirming that they will continue to do business with this division.

While there has been a stable long-standing management team in place, succession planning remains one of our challenges, and we are cognisant of our Property Finance Managing Executive's planned retirement in 2016.

TRANSACTIONAL BANKING

Electronic banking, cash and global trade remain our strong client offerings, underpinned by excellent results in surveys. Further development in current accounts and mobile banking remains to be achieved this year. As part of our offering we continue to manage the relationship with international financial institutions.

Product innovation projects worth R191m were executed in 2013, on time and within budget. Principally, these products focused on cross-border reporting, global trade and a regular updating of our internet banking functionality. An increased focus on anti-money-laundering, terrorist financing and compliance matters such as 'know your client', resulted in increased systems investment costs across the cluster.

We continue to engage with our clients regarding their product experience and to pre-empt newer requirements, through selected focus groups.

The risk of disintermediation by non-banking service providers remains an increasing threat to our transactional revenue streams, which we seek to counter through constant innovation.

We see innovation through technology as a key area in generating efficiencies through for example, cashless banking, mobile and internet banking.

CASE STUDY

Innovation in highly competitive corporate market

As most of our corporate clients are multibanked, it is important that we contribute to the overall effectiveness of the banking sector in SA. As a result, we have developed the first to market non-proprietary electronic billing system on an open market basis.

Our electronic (or 'eBilling') solution was created in response to reducing our carbon footprint, while simultaneously providing our corporate clients with a cross-bank solution for sending, viewing and paying bills on a single platform.

- The solution facilitates the efficient collection of bill payments and improves the reconciliation process for billers.
- Clients can receive a consolidated view of bills and pay these via Nedbank's secure online and mobile banking channels.

The eBilling solution was deployed into production during the course of 2013. Since its launch, the Ekurhuleni and Tshwane Metro Councils have provided their billing data via the solution. We are currently testing a number of other billers, who are also interested in the solution.

CORPORATE SHARED SERVICES

2013 was challenging for Corporate Shared Services (CSS), brought on by a significant increase in governance and regulatory requirements. Despite the increase in these requirements, the division maintained high levels of client service and efficiency. Most pleasing was the continued focus on operational risk management, and CSS recorded an outstanding overall performance. Tight internal controls, a focus on continual business process improvement and the delivery of some key IT system enhancements, all contributed to this performance.

Our Corporate Contact Centre was again highly rated for the support they offer to our clients, particularly in the area of electronic banking. The centre achieved a 97% first call resolution and frequently achieved a 100% SLA performance, thereby ensuring high levels of client satisfaction. This was evidenced by the Business Electronic Banking survey ranking the Contact Centre first amongst our competitors.

Focus continues to be placed on the division's people and their development, with CSS scoring extremely well in both the Barrett and staff surveys, as well as meeting transformation targets.

OUTLOOK

Looking ahead, we remain very well positioned in the market. Nedbank Corporate has adopted the group's growth drivers for the 2014-2016 planning period given the synergy between our previous growth drivers and the group's current focus areas. In particular, in order to further strengthen our business and deliver sustainable returns, we will continue to serve client needs holistically while seeking to enhance operating efficiencies. As part of our key offering to clients, we will continue to innovate around client needs in order to meet their servicing requirements.

We will also focus on our Rest of Africa strategy to grow market share. Growth opportunities on the continent will have to be considered within a number of carefully considered constraints. We will support our activities by providing cross-border and global trade facilities and through introducing our SA clients to Ecobank to facilitate in-country transactional requirements.

To ensure the sustained transformation of our business, we will continue to build on our client-centric approach as well as invest and develop our people.

The above strategies will be pursued in our drive for an optimal mix in revenue, through continued diversification of our revenue streams and building on the growth momentum in the business.

NEDBANK RETAIL AND BUSINESS BANKING

OVERVIEW

Having completed several years of strategic, cultural and financial transformation, Nedbank Retail and Nedbank Business Banking are strongly positioned amongst its peers to grow the client franchise by servicing the needs of individuals and businesses on an integrated basis in more than 70 area offices and over 1 000 staffed outlets.

The comprehensive range of products, deep client insights and excellent channels are combined to deliver a choice of distinctive and client-centred banking experiences, which will entice clients to build deep and enduring relationships with Nedbank. This approach is underpinned by worldclass risk management principles carefully balancing appropriate risk taking to be open for business vs responsible lending to protect the consumer.

NEDBANK BUSINESS BANKING

Nedbank Business Banking services medium- sized businesses with an annual turnover of R10m to R700m. Typically these businesses tend to be family-owned and geographically dispersed. As such, Nedbank Business Banking operates through a well-entrenched, decentralised, accountable business service model, which uniquely positions the business to deliver personalised relationship banking based on local knowledge and a deep understanding of clients' businesses.

Client service teams, comprising sales, service and credit specialists, are located in 71 offices around the country, ensuring proactive engagements and quick responses to client requests, as well as early identification of risks and service opportunities. The client service teams are supported by industry and product specialists who facilitate more complex client needs, including specialist finance, invoice discounting, transactional banking, card acquiring and asset management, as well as personal-banking solutions for business owners and their employees. Industry specific solutions are in place for agriculture, franchises, and the professional, medical and public sectors.

NEDBANK RETAIL

Nedbank Retail serves the financial needs of all individuals (excluding high-net-worth clients) and small/micro businesses with a turnover of up to R10m, offering a full spectrum of banking and assurance products as well as other value add services. The Nedbank Retail product portfolio includes transactional accounts, home loans, motor finance, cards (both card-issuing and merchant-acquiring services), personal loans and investments.

Within Nedbank Retail, Retail Relationship Banking (RRB) targets households requiring an 'I know you' client experience and small/micro businesses with a turnover of less than R10m. The interaction is relationship-based (lower to higher touch) and supported by centralised functional teams or regionalised product specialists (shared with Nedbank Business Banking).

STRATEGY

Retail & Business Banking remained committed to the consistent implementation of their distinctive client-centered growth strategies (Business Banking: 'ASCENT', Retail: 'TRUE NORTH') underpinned by effective risk management.

RETAIL & BUSINESS BANKING – FOCUS ON SIX CORE DIFFERENTIATORS

Retail and Business Banking continue to place emphasis on our six core differentiators as a source of distinctiveness relative to competitors and a platform for sustainable growth:

- 1 **Distinctive client value propositions (CVPs)**, delighting clients in moments of truth and emphasising financial fitness to attract and retain more clients and deepen product cross-sell.
- 2 A rigorous approach to **capturing the virtuous circle of the influencer** in households and businesses, including employees.
- 3 Leveraging **integrated channels, including digital**, to accelerate growth across more micromarkets, while optimising presence, systems and processes to lower costs.
- 4 **Robust risk management** for quality asset portfolios through economic cycles in line with the targeted risk appetite and appropriate pricing.
- 5 **Client-centred innovations** to be a leader in digital, to grow the source and share of deposits, and to capture additional complementary revenues in the payment value chain.
- 6 A **collaborative, networked culture of trust** to increase organisational effectiveness and deliver a choice of distinctive client-centred banking experiences that enable clients to achieve their aspirations and financial goals.

REVIEW OF 2013

Retail and Business Banking delivered headline earnings of R3,47bn and, as guided at the interim results, this is at a similar level to the prior year (2012: R3,50bn) at an ROE of 13,2% (2012: 13,7%) on an allocated capital ratio of 10,1%. This was achieved after absorbing the following pretax items:

- R167m for the First Strut Group specific impairment in Business Banking incurred in June 2013 (R182m).

- R323m in additional impairments as downside risk protection for deteriorating levels of consumer credit health, fuelled by the high, industrywide unsecured lending growth rates in preceding years and resultant industry tightening of credit availability. This has contributed to balance sheet impairments on Retail's performing advances increasing materially to 0,76% from 0,55% in December 2012.
- R149m in lower interest earnings from endowment-related balances following the 50 basis point prime interest rate cut in July 2012.

Over the past few years we have been at the forefront of consistently tightening loan origination policies in Retail and Business Banking to align with discerning business strategies and market insights. This has contributed to the improved quality of the overall advances portfolio, notwithstanding the short-term impact on earnings growth, a recent example being that of reducing our Personal Loans actual advances by R2,1bn within a year.

The combined CLR of 1,80% (2012: 1,62%, June 2013: 2,20%) is within the risk appetite target ranges of each cluster and reflects the effective risk management practices, notwithstanding the continuation of challenging competitive, regulatory and economic conditions and the effects of the abovementioned First Strut Group impairment.

Good growth in the underlying franchise is reflected in preprovisioning operating profit increasing by R500m to R9,6bn (2012: R9,1bn), with the overall growth of 5,4% being muted by two percentage points from lower interest income on endowment-related balances and a material increase in marketing spend.

NIR grew strongly by R840m, up 8,8% to R10,4bn (2012: R9,5bn), while expense growth was contained at 7,5% (2012: 9,3%). The continued investment in people, distribution, innovation, marketing and client value propositions to accelerate client gains, improve retention and deepen product usage is reflected in 6,4m individuals, including about 210 000 small and medium enterprise (SME) clients, choosing to bank with Nedbank.

This excellent strategic momentum, while protecting for the downside risk of an economy with weak fundamentals through effective risk management practices, is a consequence of the consistent and diligent execution of our distinctive client-centred growth strategies by a highly skilled, values-based leadership team. This approach has ensured high-quality moderate advances growth at higher margins and at a more optimal portfolio mix, strengthening of total balance sheet impairments (while materially reducing defaulted loans), a significant increase in transactional banking clients and related revenues, and sustainable investments in the franchise over the past four years. The resilient, high-performing, collaborative culture in Retail and Business Banking has enabled this accelerated momentum in the face of a worsening macro environment and credit cycle.

NEDBANK RETAIL AND BUSINESS BANKING (CONTINUED)

LOOKING FORWARD

By leveraging the strong foundations now in place and remaining steadfast to the commitment of building sustainable businesses that increase their source of distinctiveness relative to peers, Retail and Business Banking are well positioned to continue delivering earnings growth for shareholders at improved returns and accelerate the momentum in building many more deep, enduring client relationships with all in SA.

BUILDING SUSTAINABLE BUSINESSES - HIGHLIGHTS:

- A significant shift in brand perception as CVPs such as Savvy and Ke Yona are resonating with their target markets, supported by increased investment in marketing. Two of Nedbank's Savvy adverts ranked among the top five best-liked adverts in Q3 2013, only the third time it has happened in 29 years. Nedbank was also acknowledged as the bank of choice for small business and rated second business bank overall in the first business banking survey by *Intellidex for Business Day Investors Monthly*.
- Making Nedbank more accessible through the R1,7bn investment in distribution since 2009. Branches have increased by 41% to 763, with 76% growth in the non-urban areas, and ATMs by 83% to 3 382. Following extensive testing, the Branch of the Future design and optimal combination of formats and technology in each of the 213 geographic micro markets have been finalised in a way that also considers changing client behaviour and related branch services offered. Rollout has commenced to 28 branches, with early benefits already reflected in the level of staff and client engagement, changed perception and improved cross-sell. Consequently, an accelerated rollout plan has been chosen to invest R2,1bn over the next five years, while saving 15% in floor space. This will enable 75% of the client base to experience this enhanced branch experience within three years. Nedbank's progress on conceptualising and operationalising the integrated-channels strategy, leveraging digital, was acknowledged when Nedbank received the Bank of the Year 2013 award from *Financial Times* and *The Banker* magazine.
- A focus on product and process innovation, yielding a number of market firsts and enhancing the client experience through simplified onboarding, more relevant offerings and automated fulfilment.
- Continuing refinements to our organisational design to deliver the distinctive client experience more effectively, while improving staff morale - to date over 3 000 people were affected with no job losses. A key strategic crosscluster initiative with Group Technology is under way to enhance the way that teams innovate and operationalise technology requirements as a key enabler for achieving both business benefits and improving the health of technology platforms.
- Holding or reducing transactional prices in 2014 to ensure all elements of the value proposition remain compelling for our clients and encourage product cross-sell while also supporting the accelerating drive in new client acquisition. This will negatively impact NIR growth in Retail and Business Banking by R346m in 2014.

NEDBANK BUSINESS BANKING

Strategy

Business Banking aspires to 'be the leader in business banking for SA' as measured across the key dimensions of employees, clients (including primary-banked market share) and financial performance. Emphasis is on the word 'for' SA, in recognition of the importance of Nedbank Business Banking's contribution towards enterprise development, job creation and community upliftment in the broader context of sustainable development.

This aspirational vision was set in 2005, with implementation guided by the ASCENT strategy road map.

Since then, Business Banking has made significant progress in delivering on the foundational elements and 2013 thus marks the completion of this process with the next phase of the journey continuing to focus on the 6 core differentiators.

Business Review

Business Banking has been on a journey of fundamental business transformation. From being in a disadvantaged position in 2005 as the clear market laggard, with strategic drift translating into low staff morale, little internal cohesion and overall performance issues, Nedbank Business Banking is today recognised by clients and other stakeholders as distinctive, offering a compelling

proposition through its decentralised accountable business approach and well on its way to achieving the aspirational vision of 'being the leader in business banking for SA'.

Through focused execution in line with its consistent strategic intent, the business has delivered well on all of its key imperatives, while maintaining a strong financial performance for nine successive years, generating ROEs between 19% and 32% and a CLR within or better than its through-the-cycle target range and its peers. This was achieved while replacing almost R1bn in endowment-related interest income with core client-related revenues in this lower interest rate cycle, as the prime interest rate dropped to 8,5% in 2012 from its peak at 15,5% in 2008.

Significant shifts across all focus areas:

The focus on new-client acquisition has led to a steady recoupment of market share from its low at 15% in 2005 to the current level of 20%. In 2013 a total of 965 net new clients chose Nedbank Business Banking as their primary bank, and over 30 000 carefully scripted telephone calls were made to prospective clients, of which over 60% translated into appointments, demonstrating the depth of focus and action within the business to increase quality transactionally banked client market share. Collaboration to unlock crosscluster lead flow is well embedded and also contributing to these results.

Sales force effectiveness has been much improved through appropriate people development, creating segment and industry focus, as well as the development of supporting tools, including a comprehensive client relationship management technology-enabled system. The Client Service Team concept is a key differentiator and core to Business Banking's value proposition, which is being evolved further to incorporate this seamlessly within the greater integrated channels strategy, leveraging digital and self-service capabilities.

Cross-sell has been accelerated through a holistic approach to client reviews, credit preassessments and bundled offerings, coupled with specialist support in areas such as transactional banking, global trade, card-acquiring and investments. As a result cross-sell ratios have improved steadily across all segments and loyalty of our approximately 25 000 clients increased to a historic high in 2013, well ahead of that of our peers as measured by the Net Promoter Score.

Making it **easy to do business** for our staff and clients is reflected in the automation of the end-to-end fulfilment process to create a hassle-free client-centred banking experience. Moving from a totally paper-based approach in 2005, with poor data management capabilities, focus has been on driving simplicity, emphasising self-service capabilities, data reuse, deep knowledge of client activities and needs, as well as paperless workflow to improve measurement, reduce errors and improve turnaround times. Business Banking's client management capabilities are worldclass as confirmed by an independent assessment conducted globally, ranking the business first in 92 global SCHEMA™ assessments and second in some 900 global CMAT™ assessments.

New markets and products were captured through compelling client value propositions for small business, agriculture, franchises and the medical profession, and are continuously enriched with client-centred innovations. Payroll and integrated

accounting, the Nedbank App Suite™ functionality for business and business-specific card solutions (such as PocketPOS™ mobile chip and PIN card acquiring, POS-in-a-box, the ePay e-commerce solution, and the Cash Revolve Card) are examples of the many innovative new products launched.

Throughout this period the 2 300 **talented, skilled and energised staff** displayed extraordinary resilience and a deep commitment to achieving this aspirational vision despite significant pressures and unprecedented levels of organisational change in difficult macroeconomic conditions. This was possible as a result of continuous investments in skills development and visible leadership at all levels, with clear strategic direction complemented by ongoing, transparent communication, which resulted in staff survey results reflecting multiyear highs.

Financial Review

Year ended		2013	2012
Headline earnings	(Rm)	929	944
Efficiency ratio	(%)	64,5	65,3
Credit loss ratio	(%)	0,65	0,34
Average advances	(%)	61,590	58 958
Average deposits	(Rm)	91 085	86 941
Allocated economic capital	(Rm)	4 780	4 401
Return on equity	(%)	19,4	21,5

Nedbank Business Banking generated headline earnings of R929m, which is similar to the R944m in 2012, with the effects of the annualised impact of the R167m First Strut Group impairment being compensated for in the organic performance of the business. The business delivered good EP of R308m (2012: R368m) and an ROE of 19,4% (2012: 21,5%), which demonstrates the resilience of this business, given the protracted challenges facing the SME sector in SA.

NEDBANK RETAIL AND BUSINESS BANKING (CONTINUED)

CASE STUDY - ENABLING GROWTH OF SMALL BUSINESS

Nedbank continues to 'Vote Small Business'

Our ongoing commitment to support the SME sector is demonstrated across a wide range of initiatives and the investments Nedbank has made over several years, including the recent launch of the Small Business Index, a quarterly assessment of the small business operating environment & sentiment, and adoption of the Prompt Payment Code, a promise to pay Nedbank suppliers (<R20m t/o) within 30 days.

Nedbank is an important supplier of funding to emerging enterprises with the following contributions made:

- As the preferred banking partner for the implementation of the Vuk'Uphile Learnership Programme (an Expanded Public Works Programme initiative) to develop emerging contractors through the provision of free mentorship, classroom and on-site training, Nedbank has extended over R12m in funding to the Learner Contractors since the start of the programme in 2011, thereby contributing to the creation of 655 jobs.
- Also as part of the Expanded Public Works Programme Nedbank increased its funding to SMEs with more than 50% black ownership to R197m in 2013 from R107m in 2012
- A new empowerment funding initiative was signed in 2013 between Nedbank, Brimstone and Taste Holdings to support the growth of their Fish & Chip brand, aimed at the emerging small business black market
- A new Enterprise Development/SME incubator fund was started in 2012, with 2503 entrepreneurs receiving assistance in 2012 and 605 in 2013 supporting ~1000 jobs being over the period.
- In partnership with the Small Enterprise Finance Agency, 14 clients received facilities to the value of ~R15m

In addition, Nedbank continues to evolve its Banking & Beyond solutions to enable small business growth through the provision of practical advice and crucial skills. These include:

- Nedbank's Small Business Seminars, which over the past 8 years, have helped address some of the business management skills shortages with in excess of 30,000 entrepreneurs.
- Nedbank's 'It's my Biz' TV show aired on e-tv, has run over 4 years – and has focused once again on building successful small businesses. This has been done at a total investment over the 4 years of around R25 million
- Through the Nedbank Small Business Friday initiative, Nedbank has led the charge in attempting to lift the consciousness of the SA community of the importance of supporting small business to the country's future by leading the – over the last two years at a cost of around R40 million.
- SimplyBiz.co.za is a resource portal designed specifically to provide small businesses with business advice, networking and publicity.

Nedbank's ongoing support to small business is encapsulated in the sentiment of 'Vote Small Business' as we seek to make a difference to the growth of small business as a key enabler to job growth and the engine of our economy.

Key drivers of the financial performance included:

- The preprovisioning operating profit of R1,7bn increased by 10,1% with the momentum of a 20% increase in new loan disbursements mainly to existing clients, at levels last seen in 2008 (while maintaining appropriate asset margins), 9,6% NIR growth (2012: 6,0%), 4,8% increase in client liability volumes and 25% increase in net new clients all driving this growth. The R45m pretax negative endowment impact due to the 50 basis point cut in prime interest rate in 2012 was largely offset by R48m lower internal cost reallocations following changes in transfer-pricing methodologies.
- The CLR recovered to 0,65% from 1,02% at half year (2012: 0,34%) as the effects of the abovementioned single large specific impairment on the CLR normalised. The CLR is within the target range of 55 to 75 basis points for the ninth consecutive year. Defaulted advances have decreased to 3,6% of the total portfolio from 4,2% in December 2012. Rigorous risk management processes are deeply embedded in the business and continually enhanced.
- A four basis point increase in overall margin to 3,24% was driven mainly by volume gains in higher-yielding assets and strongly growing current account creditors at 11,6% (aided by new client gains), partially offset by five basis points due to lower endowment-related interest income. Business Banking is a valuable generator of funding, placing net surplus funds of R38,7bn (2012: R33,6bn) with the group.
- Total expenses were contained at 6,1% as the increased investment in marketing and systems innovation was offset by the benefits of a high-performance culture and related operational effectiveness, as well as the abovementioned internal cost reallocations.
- Ongoing collaboration efforts ensured meaningful contributions to other parts of the bank, including banking the employees of businesses banked in Business Banking for Retail (client gains doubled yoy), accelerating growth in new card acquiring volume by 10% yoy, increasing forex and global trade revenues for Capital, generating banacassurance leads for Wealth and providing expertise into Africa.

Looking forward

The business is resilient, outwardly focused and alert to the risks and heightened competitive forces of a low-growth economy with weak fundamentals. The consistent investments over many years, the excellent risk culture and the current strong momentum have positioned Business Banking appropriately to gain a greater share of the business market into the future and achieve its vision of being the leader in business banking for SA. The decision to simplify pricing structures while not increasing prices will negatively impact NIR by an estimated R94m in 2014, before factoring in related benefits from improved cross-sell and retention. Guided by the group's five strategic focus areas and deep green aspirations, the business remains committed to delivering quality growth and sustainable returns for shareholders, and will continue to invest in a collaborative, diverse culture to ensure Nedbank remains a great place to work and to partner with our clients for growth for a greater SA.

NEDBANK RETAIL

Strategy

Following a thorough strategic review of the retail business and landscape, Nedbank Retail started charting a new path to sustainable profitable growth in 2010 (after five years of cumulative economic losses of R3bn).

Nedbank Retail's 'TRUE NORTH' strategic intent is to 'deliver a choice of distinctive, client-centred banking experiences' for all in SA with careful orchestration and consistent execution of a multiplicity of initiatives crafted to give effect to 3 strategic imperatives:

- Rebuilding the client franchise as a bank for all.
- Embedding effective risk management and culture.
- Evolving the organisation to be more client-centred and integrated.

Business Review

Retail has delivered on its challenging strategic and financial commitments set in 2010.

Over this four-year period headline earnings have improved from a loss of R27m to a R2,5bn profit and ROE from a negative 0,2% to 11,6% in 2013. This was achieved by generating R3,5bn incremental NIR at a high 14% compound annual growth rate, increasing NII by R2,7bn as the quality, mix and pricing of the advances portfolio improved off 3,9% compound annual growth rate for advances and materially strengthening balance sheet impairments by R1,8bn from methodology changes while extracting R1,1bn in efficiencies to invest R1,7bn.

The 2,2m growth in new clients to 6,4m is testimony to the excellent progress in strengthening the transactional banking client franchise, which, as indicated at the outset, will take time.

The accelerating levels of consumer financial distress, increased conservatism in impairment methodologies while continuing to

build the franchise sustainably, and higher cost of capital make it more challenging to achieve an ROE at or above the cost of equity in the short term.

The excellent momentum, together with consistency in risk management, strategy and leadership, will ensure that Retail continues to improve financial returns while growing the transactional banking franchise and contributing positively to the group achieving its medium-to-long-term targets.

Rebuilding the client franchise as a bank for all

Based on deep insights of client needs, relevant CVPs have been developed for each segment to address the deficient position in 2009. Enhanced with rich, innovative product features, these offerings are competitively and transparently priced, and positioned in the market with brand ambassadors with whom clients can identify.

Developing and consistently investing in these distinctive CVPs such as Nedbank Savvy (for middle-market banking), Nedbank Ke Yona (for entry-level banking) and Nedbank4me (for youth) as well as redesigning Retail Relationship Banking to deliver the 'I know you' client experience - are all changing client perceptions of Nedbank as well as improving the actual client experience.

The youth and entry-level banking segments, where Nedbank has always been underrepresented, contributed 70% of the 2,2m new clients gained and the balance of the growth is in the very competitive middle-market and seniors segments. This is a dramatic increase in the number of total clients banking with Nedbank (now at 6,4m individuals and small businesses) while improving the quality of main banked transactional clients and deepening product cross-sell.

Nedbank Retail has leveraged the strengths of Business Banking to invest significantly in the small-business sector, and joint initiatives such as Small Business Friday™, the Small Business Index™ and Business Accelerator™ have succeeded in raising awareness and support for small businesses, which are key to employment creation and economic growth.

The R1,7bn investment in the retail network since January 2009 has optimised and expanded distribution, with 41% more branches and alternative outlets (a total of 763 excluding personal-loans kiosks) and 83% more ATMs (3 382 up from 1 853 in 2009), while also refurbishing 28 outlets in line with the innovative new Branch of the Future formats. This, together with improved digital and mobile channels, has made Nedbank much more accessible to all clients. Brand surveys no longer reflect access as a constraint for those considering a banking relationship with Nedbank.

Accelerated innovation resulted in a number of new solutions being launched over the period, including the Approve-it™ internet security feature, the PocketPOS™ mobile chip and PIN card acceptance device and the MyFinancialLife™ personal financial management tool, many of which are unique in the market and contribute to the distinctiveness of Nedbank's overall value proposition.

NEDBANK RETAIL AND BUSINESS BANKING (CONTINUED)

As a result of these efforts, coupled with increased marketing spend, the Nedbank brand is increasingly resonating with our target markets, which in turn is increasing client loyalty and the depth of clients' banking relationships with Nedbank. From no presence on social media in 2011 Nedbank is now actively engaging with its clients across the full range of social and digital channels.

Embedding effective risk management

Bad debts are the most volatile driver of banking industry earnings. Excellent risk management practices have been embedded to protect against this downside risk, while our competitive position was significantly strengthened by fundamentally redesigning our underlying advances-generating businesses, particularly Home Loans, Personal Loans and Retail Relationship Banking. This meant tilting the advances portfolio away from the inherently higher capital-consuming home loans with marginal economics to a more balanced advances portfolio, emphasising pricing for risk, transactional revenues and growing deposits while strengthening capital levels and balance sheet impairments.

The home loans business, which was the prime contributor to the Nedbank Retail 2009 losses, has been reinvented by creating a compelling alternative to mortgage originators and restoring Nedbank as the primary client interface, while taking early action to address inadequate coverage on defaulted loans with materially strengthened portfolio impairments and improve the quality of the advances portfolio at appropriate pricing.

Similarly, given concerning personal-loans industry dynamics, Nedbank took preemptive action in early 2012 as a first mover to redesign the business fundamentally and reduce risk appetite, resulting in a slowing of advances growth well ahead of the market. By applying more stringent affordability criteria and selective advances origination, Nedbank sought to improve clients' financial fitness and protect clients from overindebtedness, while also improving the underlying asset quality of the portfolio at appropriate pricing for risk. This is in readiness for the anticipated next cycle of consumer credit stress (particularly as this is the start of a rising interest rate cycle) and personal loans is an early indicator of such future stress.

Over the period Nedbank Retail reduced defaulted loans from R19,9bn (10,6% of advances) in 2009 to R11,0bn (5,4% of advances) in 2013. Balance sheet impairments have been strengthened by R1,4bn to their highest levels in nine years, including R1,8bn related to impairment methodology changes to build added protection for any rise in future bad debts as our concerns regarding the credit health of the consumer increase and a knock-on effect from personal loans into the secured-lending book is anticipated.

The portfolio tilt to higher-yielding advances with a better risk profile and less downside risk in high-stress scenarios is reflected in Home Loans representing 51% of R196bn of advances (from 65% of R171bn advances in 2009), which is more in line with the overall industry mix. Personal Loans increased from 5% to 9% of advances and MFC from 25% to 33%, both with more attractive economics.

Given the elevated impairment levels in 2009 and 2010 – increasing fivefold from the benign levels of 2006 – the choice was made to

protect earnings by widening deposit margins by 10 basis points in 2010 in a rapidly declining interest rate cycle through not competing on price as competitors sought to gain a greater share of this attractive funding source, particularly in preparation for Basel III. These competitive dynamics continued and resulted in lower-volume growth leading to a 4,4% lower overall household deposit market share since December 2009 currently at 19,8%. This remains an important focus area to rebuild by the continuing strengthening of the transactional banking franchise (currently 12%), including the important seniors market.

Evolving the organisation to be client-centred and integrated

In streamlining the organisation to give effect to the strategic intent, over 3 000 people were directly affected and redeployed into meaningful roles, with no job losses. Notwithstanding substantial organisational change, the culture and staff satisfaction measures improved materially over this period to worldclass levels, highlighting the deep commitment and understanding of the role that all employees play as they bring this vision to life in their daily interactions with our clients. Key to achieving this accelerated organisational change was the consistency in communication of the cohesive growth strategy as well as active engagement through strategy conversations held in early 2012 with 17 000 people in four months.

Many changes were introduced to enhance the client experience and improve the fulfilment processes. Guided by the principle of 'hassle-free', account opening processes have been reengineered to assist clients with salary and debit order and beneficiary switching, while documents and cards are delivered to the client's premise. The Integrated Banking System not only achieved a consolidation of > 20 different product systems, but also made it easier for staff to navigate and identify further cross-sell opportunities, compare different pricing bundles and guide the client discussion. A significant reduction of paper and forms was achieved as digital channels were enhanced to provide additional, easy-to-use functionality and services, such as electronic balance enquiry via USSD, the Home Loans apply online channel offering approval within hours and the rapid online application process for new clients. The branch experience has been evolved with the introduction of 'service champions' and combining teller and enquiry functions to create a more seamless process for our clients. Additional concepts, including queuing systems, video banker facilities and intuitive self-service terminals with increased functionality have been successfully piloted and these will form part of accelerated Branch of the Future rollout.

In addition, cost optimisation initiatives have resulted in cumulative savings of R1 103m, creating capacity for additional investment (opex of R687m for distribution) and a further R391m for other initiatives, including CVPs (Ke Yona, Savvy), redesigning Retail Relationship Banking; product and channel innovation, including digital; and additional marketing.

The results of the wideranging actions are reflected in the most recent CMAT™ results, which have shown a substantial improvement in the overall score, with Retail's clients

management intentions benchmarked as worldclass in 2012. On the recent very rigorous SCHEMA™ measure, Retail was ranked in the top 5 of 92 companies surveyed globally.

Imperial Bank was successfully integrated into Nedbank in a way that sustained and enhanced the unique strengths of MFC, with the technology integration finally completed in May this

year as planned. Although the technology solution cost an additional R98m to ensure existing operational efficiencies were maintained, the overall R148m in integration costs and R60m of asset impairments unlocked R224m in recurring-cost synergy and revenue benefits, well ahead of the original integration plan.

CASE STUDY – PERSONAL LOANS

Responsible lending to protect clients, investors and the bank from the pressures of the next credit cycle

A number of concerning industry dynamics over the past three years have made it easier for consumers to access personal loans:

- Many new entrants driving supply.
- Inconsistency in the criteria and calculations applied, especially using 40-year-low interest rates and above-inflation wage increases (especially in the public sector) to determine affordability.
- Ability to increase debt by extending tenor for similar or lower monthly instalments.

This fuelled strong personal-loans industry growth before 2013 in an economy with weak fundamentals, while consumer indebtedness has materially increased over the past two years. At the same time distressed consumers have been able to keep current for longer, as they can access more credit to delay going into default. There is also a knockon effect to other asset classes as consumers are able to take out additional personal loans to sustain their lifestyles, including the ability to meet their home loans or vehicle finance obligations.

As a result, actual loan origination vintages look more benign than the underlying factors suggest, and as macro factors change (higher inflation especially due to administered prices, below-inflation salary increases, higher risk of job losses and prime interest rate increases), the true quality of the assets and level of consumer stress emerge.

Nedbank highlighted these concerns in 2011 and took early action to redesign the personal loans business fundamentally and reduce risk appetite, while increasing conservatism in impairment methodologies (away from the recency-based industry approach). This resulted in a slowing of advances growth well ahead of the market. In the 2013 financial year we reduced our book by 9,4% (R2,1bn) while the rest of the industry continued to grow strongly at 8,3% (R12,3bn).

By applying more stringent affordability criteria and selective advances origination policies across all asset classes Nedbank sought to improve the underlying asset quality and, importantly, protect our clients against overindebtedness ahead of the next rising interest rate cycle. This is in line with Nedbank's principles of acting as a responsible lender, ensuring sustainable growth and enabling our clients' financial fitness.

NEDBANK RETAIL AND BUSINESS BANKING (CONTINUED)**Financial Review**

Year ended		2013	2012
Headline earnings	(Rm)	2 539	2 552
Efficiency ratio	(%)	58,9	58,3
Credit loss ratio	(%)	2,16	2,01
Average advances	(Rm)	192 933	187 654
Average deposits	(Rm)	100 897	93 034
Allocated economic capital	(Rm)	21 903	21 077
Return on equity	(%)	11,6	12,1

Nedbank Retail generated headline earnings of R2 539m, which is similar to the R2 552m in 2012, after absorbing R323m pretax in additional impairments as downside risk protection in anticipation of the effects of the systemic risk of high unsecured lending industry growth rates in preceding years and increasing consumer indebtedness, and the R105m pretax effect of lower endowment-related interest income. A credible ROE at 11,6% (2012: 12,1%) on the allocated economic capital ratio of 10,9% has been achieved, while ensuring balance sheet impairments are at their strongest levels in nine years, with defaulted advances now at levels below those in 2008.

Preprovisioning operating profit increased by 4,4% to R7 897m (2012: R7 564m), driven by good revenue growth from increasing client gains and deeper product cross-sell as well as further cost optimisation, to offset continued investment in distribution expansion and a step change in marketing spend. This contributed to a slightly elevated NIR-to-expenses ratio of 73,9% (2012: 73,4%).

Key drivers of the financial performance included:

The excellent growth in NIR of R689m (up 8,7% to R8 651m) was driven primarily by higher volumes and quality of transactional clients (R449m) and card transactional revenue (R299m), but moderated by lower fees from clients moving to more relevant, lower-priced transacting bundles and transacting less (R351m).

Nedbank Retail has led the slowdown in personal loans industry advances growth as well as the reduction in pricing for credit life to an effective R3,50 per R1 000, with improved benefits for clients. NIR growth was impacted by one percentage point due to these two strategic choices.

The number of total clients grew by 529 000 to 6,4m, up 9,0% yoy, and the number of clients with two or more Nedbank products also increased by 9,0%, notwithstanding a 106 000 reduction in Personal Loans clients, which was the result of the decision to derisk the business.

NII increased by R547m (5,1%) to R11 206m. Overall margin increased strongly by a net 13 basis points as a result of the strategic rebalancing of the portfolio to higher-yielding assets of better risk quality at more appropriate pricing for risk, and after absorbing a 4 basis point reduction in endowment-related interest income on lower interest rates.

Average banking advances increased 2,8% to R192,9bn (2012: R187,6bn). This growth is after the writedown of R4,8bn in defaulted advances (2012: R4,4bn) after all collection alternatives had been exhausted. The consistent tightening of credit granting

criteria to capture the deteriorating financial health of the consumer and weak economic fundamentals placing pressure on client affordability is reflected in the mix of new-loan payouts of R52,6bn (2012: R52,5bn). Home Loans and MFC made up 80% of the 2013 payouts compared with 68% in 2012, while Personal Loans payouts were down almost 41% yoy to R9,2bn (2012: R15,5bn), with a significantly improved risk and pricing profile.

Average deposits increased 8,5% to R100,9bn (2012: R93,0bn). The Retail Savings Bond and the Retail Green Bond launched in March 2011 continued to attract additional flows of new term deposits, cumulatively reaching R9,6bn at December 2013 (2012: R7,3bn). The Nedbank Money Trader investment offering launched in October 2012 also captured new inflows of R15,3bn (2012 R3,3bn). With the heightened competitive forces and the impact of Basel III on the pricing of retail deposits, Nedbank's household sector deposits market share, now at 19,8% (December 2012: 20,4%), remains under pressure, also recognising that the deposit market share is at a significantly higher level than Retail's transactional banking market share at about 12%. This is a valuable funding source, which we will protect and grow by offering clients compelling value propositions that enhance product cross-sell (deposit clients with a transactional product have doubled since 2009).

Defaulted advances were reduced to R11,0bn (December 2012: R12,4bn), now at 5,4% of the advances portfolio, as the result of sustained excellence in collection efforts, effective client rehabilitations (including restructures and rearrangements) and higher-quality new business in attractive EP pool products. Balance sheet impairments have been further strengthened to 4,05% of total advances (December 2012: 3,98%), which is reflected in both specific coverage increasing to 51,1% (2012: 45,2%) and portfolio impairments on the performing advances increasing to 1,4% (2012: 1,2%).

The CLR of 2,16% is up on the 2012 ratio of 2,01% due to the additional R323m impairments charges (16 basis points) mentioned above and is within the through-the-cycle target range of 150 to 220 basis points. The balance of the increases in CLR due to the mix effect (five basis points) and higher Personal Loans defaults (eight basis points), albeit at half the pace of the prior year, were offset by continued improvements in mainly the Secured Lending defaulted advances (14 basis points). The six-month writeoff period for Personal Loans, methodology changes, and steps taken in prior periods to reduce risk resulted in Personal Loans defaulted advances peaking in May 2013 and the CLR improving since June 2013. Given the mix and methodology change effects, the new CLR through-the-cycle target range for Retail has been adjusted to 190 to 260 basis points.

Expenses increased by 7,9% to R11 705m (2012: R10 849m) as a result of the ongoing investment in distribution of R151m (R169m in 2012). Distribution growth included 334 ATMs and five net new outlets, while 27 branches and one inretailer outlet were refurbished in line with the Branch of the Future design principles. A R469m benefit in operating efficiencies was also unlocked, principally through the integrated channels approach and lean processes. Organic cost growth was up by 5,3%, excluding the impact of distribution and other investments. Overall headcount was tightly managed and decreased by 77 (0,4%) from December 2012, while 214 more people were needed for the distribution expansion.

Looking forward

Given the comprehensive strategic repositioning, strengthening of leadership, sustainable investments and the embedding of effective risk management that has taken place over the past four years, Nedbank Retail has strong foundations off which to grow, with many of the client metrics accelerating, and is well positioned to weather the downside of the next consumer risk cycle. As guided at the outset of the turnaround, rebuilding the transactional banking client franchise will take time, as perceptions of banking with Nedbank built up over an extended period need to be reframed in the eyes of the consumer.

The business is cognisant of the fact that it is midway through a large-scale organisational transformation, which requires consistency and strength in leadership, strategic direction and risk management to embed these early gains. At the same time it is imperative to evolve its strategic choices in the context of Retail's overall competitive positioning and in relation to the key trends shaping the banking industry and its stakeholders.

Key decisions made in 2013 that will contribute to the sustainability of Retail's turnaround while moderating growth in the short term include:

- Holding transactional fees flat for 2014 equating to forgone revenues of R252m.
- Continuing the educational drive to encourage clients to transact on the most attractively priced bundle.
- Sustaining the step change in marketing investment.
- Accelerating the distribution rollout plan of R2,1bn in five years to enable 75% of clients to experience the new Branch of the Future design within three years.
- Continuing with quality advances growth at higher pricing.
- Proactively increasing impairments by R323m for downside risk protection in anticipation of the effects of the systemic risk related to high unsecured lending industry growth rates in preceding years, which have previously masked the true underlying level of consumer financial distress, yet are starting to emerge.
- Investing in our people while driving high performance.

Nedbank Retail is focused on continuing to deliver on its strategy and enhancing returns. Achieving this requires continued careful orchestration of the strategic choices to balance the expansion of the franchise optimally with revenue opportunities and cost optimisation, as the experienced Retail team leads its 18 500 people in building deep, enduring banking relationships with all in SA and enables clients to achieve their aspirations and financial goals.

NEDBANK WEALTH

Providing the broad-based financial services and solutions of Wealth Management, Asset Management and Insurance to clients of the Nedbank Group.

REVIEW OF 2013

Nedbank Wealth achieved significant progress against its key strategic objectives and delivered record financial performance during 2013. This success was underpinned by the improving global macroeconomic environment, strong markets, increased collaboration and a solid delivery from our people across all of our divisions.

Over the past few years we have strategically focused on internal alignment and simplification to improve our client experience. This is evidenced by bringing together all of our asset management operations in 2009 under Nedgroup Investments and the consolidation of our HNW offerings into the single brand of Nedbank Private Wealth in 2012. In Insurance we have made significant investments in new systems and through our 'One Insurance journey' begun to align our marketing and distribution efforts, supporting our move from being product-focused to client-centric.

The next phase of our long-term strategy will aim to reduce the cyclical nature of our wealth-, asset management and insurance operations by exploring broader complementary organic and inorganic financial services opportunities. We will continue to leverage our advantage of having access to the group client base and build sustainable growth through further investments in skills, systems and distribution capabilities.

WEALTH MANAGEMENT

2013 saw a recovery in global equity markets which supported components of our wealth management operations.

Our Stockbroking and Financial Planning businesses experienced a record year in terms of cash flow and client acquisition. Stockbroking benefited from improved client trading whilst enhanced cross-cluster collaboration resulted in increased leads to the financial planners who service the investment advice needs of the broader Nedbank client base. This, coupled with an increase in the number of planners; improvement in productivity levels and lower lapse ratios, translated to record growth in the business.

Our strategy of an integrated international HNW wealth management offering through Nedbank Private Wealth has enabled us to better respond to the changing needs of our clients. The focus in 2013 included further investment in profiling the Nedbank Private Wealth brand as well as enhancements to our value proposition and distinctive service offering which supported strong growth in our primary client base. We continued to invest significantly in key skills and talent, and in establishing a single client relationship interface supported by specialists.

Nedbank Private Wealth clients experienced top quartile investment performance as measured over periods of 1, 3, 5, 7 and 9 years and since fund inception. Locally, the business was ranked 2nd in both the 'Up-and-coming professionals' and 'Passive Lump-sum investors' categories in the 2013 Investors Monthly SA's Top Private Bank survey. On the international front, Nedbank Private Wealth achieved numerous awards including 'Best Private Bank for the Channel Islands', 'Best International Private Wealth Manager' as well as the prestigious Euromoney 'Best Private Bank for HNW clients' in the offshore category.

OVERVIEW

Nedbank Wealth provides a range of financial services through nine separate businesses which are structured into the three divisions of Wealth Management, Asset Management and Insurance. The cluster has operations in SA, London, on the Isle of Man, Jersey, Guernsey and the UAE. We create, manage and protect the wealth of a wide spectrum of clients ranging from high-net-worth (HNW) individuals all the way through to the entry level market.

WEALTH MANAGEMENT

Provides trust and fiduciary services locally and internationally, as well as stockbroking and financial planning to the broader Nedbank client base. In addition, the division is responsible for the high-net-worth client segment of Nedbank, which is serviced both locally and internationally through Nedbank Private Wealth.

ASSET MANAGEMENT

Offers a range of local and international Best of Breed (BoB)[™] unit trusts, cash and multimangement solutions. In addition Nedgroup Investments provides active client management and research supporting the high-net-worth segment and stockbroking business of Nedbank Private Wealth.

INSURANCE

Provides life and short-term insurance solutions as well as insurance broking of Nedbank and third party products.

The restructure of our trust and fiduciary operations was completed in early 2013. Increased cooperation across the broader group has resulted in signs of a turn-around in new business volumes.

ASSET MANAGEMENT

Over the past few years we have seen significant growth in our Asset Management division. Underpinning this success is our Best of Breed (BoB[™]) proposition, unique partnerships with external fund managers as well as our ability to attract and retain key skills and build our culture of stewardship.

2013 was a record year for Asset Management. We maintained the growth momentum of prior years and attracted substantial net inflows across our Best of Breed (BoB[™]), cash solutions and international offerings. We remained close to our clients through frequent and transparent communication during the year. This reinforced the Best of Breed (BoB[™]) values and commitment that underpin the relationships with our prospective and existing asset managers as well as our culture of stewardship to our clients.

Nedgroup Investments delivered excellent fund performance and for the 5th consecutive year was nominated as one of the top three Domestic Management companies at the recently held 2013 Raging Bull awards. The business also achieved overall 3rd place in the SA Morningstar awards.

We have introduced important enhancements to our client value propositions most notably in the mobile and digital channels. These include alignment of our client experience across digital channels, a new mobile unit trust application to the Nedbank app suite as well as tools to assist our top sales advisors.

Only 6% of SA's population retire with adequate savings to live comfortably. We are cognisant of our responsibility to educate our clients, both current and prospective, through targeted

financial literacy initiatives. In 2013 we continued our investment in the profiling of Nedgroup Investments with the objective of creating further brand awareness and encouraging a culture of savings. The 'Hudson Landing - Ordinary Day' campaign not only highlights the power of experience but also aims to impart sound financial discipline and principles to all South Africans.

In 2012 Nedbank Group adopted the Old Mutual Group Responsible Investments standards to align with their commitment to the Principles for Responsible Investment (PRI) and the Codes for Responsible Investment SA (CRISA). The adoption of such aligns well with Nedbank's strategic positioning of being a green and caring bank and more importantly offers the bank a new lens through which to make investment decisions thereby enabling better risk management and identification of new opportunities.

During 2013 many of the compliance requirements of being a signatory to the PRI such as committing to the publication of our Responsible Investment Policy and Voting Guidelines on the Nedgroup Investments website were addressed. Focus was given to up-skill staff to ensure a better understanding of PRI and CRISA, as well as what needs to be adapted to integrate PRI into the various Life and Investment businesses. This will continue in 2014. Old Mutual Group will submit their first report to the PRI in February 2014 using 2013 data.

INSURANCE

The high growth achieved in our Insurance division over recent years started to show signs of slowing in 2013. This is as a result of a slowdown in traditional insurance products, most notably a reduction in retail home owner's cover policies as well as the pull-back in the volume of new unsecured loans. Notwithstanding the above, our short-term business has experienced substantial growth in new niche solutions launched since 2009.

NEDBANK WEALTH (CONTINUED)

Our strategy to deliver the next phase of sustainable growth lies in the repositioning of our offerings under a single Nedbank Insurance brand guided by the principle of 'enabling everyday certainty'. We have aligned our marketing and distribution efforts and simplified client engagement and process.

Importantly, we have concluded strategic partnerships with Mutual & Federal as well as Auto and General in order for Nedbank to enter the direct insurance market. This broadens our offering to include bundled solutions such as vehicle- and home contents cover and enhances client accessibility.

We are driving innovation across multiple distribution channels, including mobile and digital, allowing our clients to choose the way in which they interact with us. Our aim is to decrease our reliance on an embedded distribution environment by building the direct side of our business. Our life and short-term system replacements remain on track and will further enhance the client experience and support our growth strategy. To measure the drivers of client satisfaction we monitor parameters such as claims turnaround and feedback through mystery shopping experiences.

Credit life protection and pricing has become a much debated topic in South Africa and is under increasing regulatory scrutiny. In 2013, we took a leadership position in proactively launching a differentiated credit life proposition which offers a sustainable insurance solution to the entry level market and provides top quartile and differentiated benefits at highly competitive rates.

Financial overview

Nedbank Wealth achieved record headline earnings growth of 25,3% to R900m (2012: R718m). These results are attributed mainly to strong growth in asset management, financial planning and stockbroking as well as a reduction in impairments. Economic profit grew by 43,9% to R577m (2012: R401m), whilst return on equity improved to 36,2% (2012: 29,7%).

Our 2012 base included the one-off rebranding costs for Nedbank Private Wealth, excluding this, adjusted headline earnings and EP growth for 2013 would have been 20,1% and 33,4%, respectively.

NII increased 7,5% supported by higher investment income, increased deposits and the depreciation of the rand. Total provisioning declined to R59m (2012: R118m) and our CLR improved to 0,28% (2012: 0,61%), within our through-the-cycle target range. Strong fee and premium growth in the majority of our businesses sustained an NIR uplift of 17,7%.

Expenses grew 16,0% mainly due to continued investment in capacity, increased acquisition costs and expenditure associated with the replacement of insurance systems. Despite this, the efficiency ratio remained flat at 61,4% resulting in the NIR-to-expense ratio improving to 138,9% (2012: 136,8%).

Performance in local Wealth Management was largely underpinned by higher stockbroking volumes, a record year in financial planning and improvements in the CLR. Offshore, the favourable impact of the depreciation of the rand was partially offset by the effect on margins from the reduction in the London Interbank Offered Rate (LIBOR). Fiduciary activity in both our local and international trust operations remained subdued during 2013.

Asset Management achieved excellent fund performance in strong market conditions and benefitted from an increased contribution from performance fees. AUM grew strongly to

R190,3bn (2012: R150,5bn) up 26,5% on the back of net inflows of R15,5bn. Nedgroup Investments has become a formidable player in the market and its earnings growth is reflective of operational benefits of scale.

Overall insurance earnings was supported by significant growth in niche short-term insurance products launched in recent years as well as a lower short-term insurance claims experience in comparison to 2012. Life value of new business (VNB) and annual premium equivalent (APE) decreased by 37,5% and 31,7% respectively. This is as a result of the deliberate slower rate of growth in retail unsecured lending, single premium investment volumes and the introduction of the new credit life proposition. Life embedded value increased by 5,3% and short-term insurance recorded favourable growth in gross written premiums of 10,7% notwithstanding subdued growth in home owner's cover.

Looking forward

Our businesses are of a cyclical nature and given the current market levels as well as the favourable claims and impairments, environment, we foresee slower rates of growth in 2014. In addition, the full extent of the slowdown in retail unsecured lending volumes from 2012 will dampen insurance earnings growth in the coming year, reaching its full impact in 2015. We anticipate a continued depreciation of the Rand and rising interest rates which have a mixed but generally favourable impact on our businesses.

We still see further growth opportunities through collaboration and deepening our product penetration into the Nedbank client base. We will continue to refine our HNW proposition focussing more on the professional and entrepreneurial markets and leverage the momentum in our stockbroking and financial planning businesses. In Asset Management and Insurance we will explore broadening our financial services capabilities through new geographies and complimentary organic and inorganic opportunities.

Our focus areas for 2014 will include:

OVERALL CLUSTER:

- Building a broad financial services franchise
- Pursuing African & inorganic gap opportunities
- Leveraging advantage through Group collaboration

WEALTH MANAGEMENT:

- Nedbank Private Wealth profiling & net client cash flow growth
- Service excellence & CVP enhancements
- Momentum in financial planning, stockbroking & international business

ASSET MANAGEMENT:

- Building international, wholesale & passive offerings
- Continued focus on long-term performance
- Further service & CVP enhancements

INSURANCE:

- Shift from product focus to client centric solutions
- Profiling Nedbank Insurance
- Continued product expansion including direct offerings.

CASE STUDY – MAKING JOY HAPPEN

The following case study reflects our deep commitment to making a difference in the communities in which we operate.

Our integrated approach to sustainability informs the way in which we do business and ensures that Nedbank is in a position to make a lasting contribution in addressing the social, political, economic, transformational and cultural issues affecting our country.

In 2013 Nedbank Wealth partnered with the Santa Shoebox Project; an inspiring community initiative that coordinates the donation, collection and distribution of personalised gifts to underprivileged children across South Africa and Namibia over the Christmas season.

The project is sustained by an extensive network of volunteers and various corporate institutions which pledge monetary as well as logistical support. Many companies also appeal to their staff to pledge Santa Shoeboxes as part of their year-end Corporate Social Investment programmes. Satellite projects have sprung up not only in the big cities but also in many rural towns with an objective to distribute boxes containing food and toiletry essentials to as many underprivileged children as possible.

Nedbank Wealth challenged staff to support the 2013 Santa Shoebox Project. 42 teams registered, 554 staff members participated and over a period of three months more than R270 000 was raised to fill 1 804 shoeboxes.

The overwhelming response to this initiative demonstrates the generosity and compassion of our staff members and their will to make a difference in South Africa.

CLIENT COMMENTS AND FEEDBACK

Wealth Management

- Nedbank Private Wealth: I would like to see more financial applications designed for the iPhone.
- Nedbank Private Wealth is the best bank that I have dealt with. You are very professional, fair and clear. I rate Nedbank Private Wealth as a model bank.
- I would criticise the Nedbank Private Wealth logo. The marketing colours are dull.

Asset Management

- The Nedgroup Investments website is fairly easy to navigate although there could be more work done making the popular requests easier to access.
- I cannot perform online switches on the Nedgroup Investments website. Are you still working on it?
- Your (Nedgroup Investments) response times are excellent and the system is relatively easy to use. It might be very helpful to be able to sell units online without having to scan through a confirmation.
- I was assisted sooner than the 48hours stated on the automatic email reply from Nedgroup Investments.

Insurance

- I appreciate your pro-activeness in resolving my long pending insurance claim. Thank you very much for an excellent customer experience.
- Thank you for a painless claims experience. I greatly appreciate the service rendered by Nedbank Insurance.
- The prompt response was greatly appreciated. This is the reason why I keep my policy with Nedbank Insurance.

Client comments via Twitter:

- Love the new @Nedbank ad on the Hudson River landing. "I'm not a hero I'm just a pilot who used 30 yrs of experience to do my job" #inspiring
- @Nedbank Your new Nedgroup Investments ad is awesome