MAKE THINGS HAPPEN

NEDBANK GROUP

NEDBANK GROUP LIMITED

SUPPLEMENTARY INFORMATION: OPERATIONAL OVERVIEW

for the year ended 31 December 2014

To be read in conjunction with the 2014 Nedbank Group Integrated Report

A Member of the OLDMUTUAL Group

NEDBANK
RETAIL AND BUSINESS BANKING

RETAIL AND BUSINESS BANKING

Retail and Business Banking delivered a 16,2% increase in headline earnings to R4 031m (2013: R3 468m) at a return on equity (ROE) of 14,6% (2013: 13,0%) on an allocated economic capital ratio of 10,2%. These results reflect the consequence of delivering on our strategic choices, namely:

- quality origination across all asset classes at appropriate risk-based pricing with a continued focus on responsible credit extension and collections, thereby improving the overall health of our book;
- a conservative risk appetite in personal loans, leading to lower levels of new business and a corresponding lower level of unsecured advances during 2014;
- continued investment in distribution, marketing and client-centred innovation to ensure long-term sustainability and future growth;
- pricing at 2013 levels or better, combined with a move to simplify products and pricing rules and align cash pricing to the market for business clients, which has reduced non-interest revenue (NIR) growth; and
- active cost management focused on consolidation of roles, removal of duplication and extracting efficiencies from increased technology enablement.

Both businesses benefited from significantly lower impairments, reflecting a combined credit loss ratio (CLR) of 1,39% (2013: 1,80%). This is within the risk appetite target ranges of each cluster.

Lower impairments specifically included:

- R139m lower impairments in Business Banking, given the R167m specific impairment relating to First Strut in the 2013 base; and
- R855m lower impairments in Retail as the improvement seen in unsecured lending and home loans continued into the second half of 2014.

Good progress in gaining quality clients, improving retention and deepening product usage is reflected in 6,9m clients, including 224 000 small-and-medium-enterprise (SME) clients choosing to bank with Nedbank.

The sustained investments made in both businesses are expected to bring further improvements in quality-client acquisition and retention over time.

Expense growth of 8,4% (2013: 7,5%) reflects the investment in distribution, marketing and innovation, but has been contained through active cost management, with R400m in cost savings extracted. NIR growth of 1,5% (2013: 8,8%) is lower than in the previous year due to the impact of no fee increases and selected fee reductions, the slower growth in personal loans as well as continued economic pressures.

Consistency of strategic choices, improving the size and quality of our client base, active cost management and steadily improving market perception will contribute to improved returns and sustainable growth of Retail and Business Banking, notwithstanding the challenging economic and regulatory environment.

Nedbank Business Banking

Business Banking is regarded by clients and other market stakeholders as a significant competitor and has maintained its strong position in challenging market conditions. The business continues to strive towards being the leader in business banking by having more clients do more business with us.

Business Banking's headline earnings increased by 17,8% to R1 094m (2013: R929m) at an ROE of 20,1% (2013: 19,4%), generating economic profit of R358m (2013: R308m). This growth was assisted by the R167m First Strut impairment that occurred in 2013.

Notwithstanding low levels of business confidence causing many business owners to delay key investment decisions and manage their cashflows more carefully, it was pleasing to see preprovisioning profit increase by 5,8% to R1,8bn (2013: R1,7bn).

Net interest income continued to grow strongly at 12,5% (2013: 6,3%), driven by sound growth of 12,3% in client deposits and 3,9% growth in average banking advances on the back of continued strong asset payouts. This was further aided by R175m of higher endowment earnings, given the increase in the prime interest rate of 75 basis points in 2014. Business Banking is a strong generator of funding, with R102,3bn in total deposits and R48,2bn net surplus funds placed with the group (2013: R38,7bn).

The overall margin was maintained at 3,24%, as the 17-basis-point-benefit of higher endowment earnings was largely offset by a change in product mix as liabilities, at a lower margin, grew faster than assets.

NIR decreased by 1,1% (2013: 9,6% increase) owing to no transactional fee increases in 2014, as well as selective fee reductions, which negatively impacted NIR by an estimated R120m in the current year. The 2014 pricing strategy was necessary to ensure alignment with market practices by implementing a simpler flat-fee pricing structure and positioning the business competitively for growth. The opportunity to communicate these beneficial pricing changes to clients was leveraged through face-to-face engagements to explore additional product needs and deepen the client relationship, which we expect will result in improved client retention and increased product cross-sell over time.

The CLR at 0,42% (2013: 0,65%) is below the through-the-cycle target range of 55 to 75 basis points and continues to reflect effective and disciplined management risk practices.

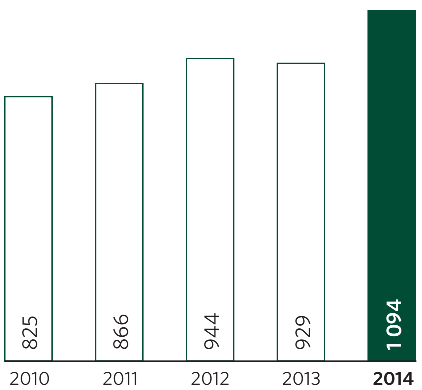
Total expenses have increased by 8,6% as cost efficiencies and headcount savings from judicious expense management and greater automation are reinvested in system enhancements, product innovation, the development of a self-service capability and compliance with new regulations.

Key innovations in 2014 focused on adding value to clients while improving security. These included:

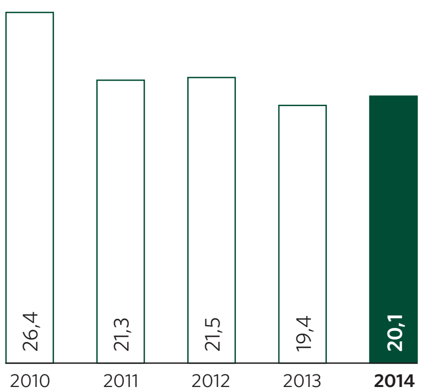
- The new Plug and Transact™ token: a USB token platform that provides business clients with tighter online transaction security. It provides a digital 'safe zone' through a USB key plugged into a PC or Mac, which allows for secure transactions.
- Notifications: a dynamic notification service that informs clients of any transactional activity on their account.
- Payroll Lite: a web-based payroll solution that is designed for small businesses with up to 50 employees.
- Real-time Account Verification Service™ (AVS-R), a new capability that clients can use through electronic banking to verify whether that the account details at another bank are correct.
- Corporate Saver's straight-through process, with a fully integrated system that enables clients to make deposits directly into their accounts, instead of using suspense accounts.

Nedbank Business Banking

Headline earnings



Return on equity



Looking forward

Although economic conditions are expected to remain challenging, there will still be opportunities for growth. The Nedbank Small Business Index™ is highlighting the pressure felt by small-business owners in particular, but equally indicates that there is demand for financial services, including access to credit.

Business Banking's decentralised, accountable business service model and 'influencer' strategy to unlock the virtuous circle of business owners, their business and employees are recognised by our clients as compelling differentiators.

The collaboration with Nedbank Retail to expand in key geographies, optimise costs and footprint through the integrated-channel strategy and move clients proactively to Business Banking as their needs and complexity evolve is proving very valuable in unlocking growth opportunities.

With our committed, values-driven team of people, Nedbank Business Banking remains outwardly focused to partner with its clients for growth for a greater SA.

Nedbank Retail

Having completed the repositioning of Nedbank Retail, the business is now focused on enhancing its returns. This will require continued careful navigation of the external challenges posed by a low-growth, high-volatility economy, increasingly indebted consumers and ongoing regulatory changes.

Nedbank Retail maintained its strategic focus, which resulted in a 15,7% increase in headline earnings to R2 937m (2013: R2 539m). All of the underlying businesses showed an improved performance and contributed to this growth. Retail achieved an improved ROE at 13,3% (2013: 11,6%) on the allocated economic capital ratio of 10,7%, while ensuring balance sheet impairments remained at strong levels.

Operating income grew 9,9% to R17 040m (2013: R15 502m), benefiting from the improved impairments charge. Preprovisioning operating profit decreased 4,1% to R7 572m (2013: R7 897m), impacted as expected by strategic choices, which include lower volumes in personal-loan advances, no transactional fee increases and an accelerated rollout of the 'branch of the future' format. In addition, there were increasing challenges posed by the low-growth, high-volatility economy, together with highly indebted consumers and ongoing regulatory changes.

Key drivers of the 2014 financial performances

NII increased 4,6% to R11 720m (2013: R11 206m). Overall margin grew by a net 10 basis points to 5,91%. The increase is made up of 13 basis points from improved pricing, including the compensation for lower insurance-related NIR, and seven basis points in endowment-related benefits resulting from the interest rate increase of 75 basis points in 2014, offset by seven basis points of mix changes due to the relative shift away from unsecured lending.

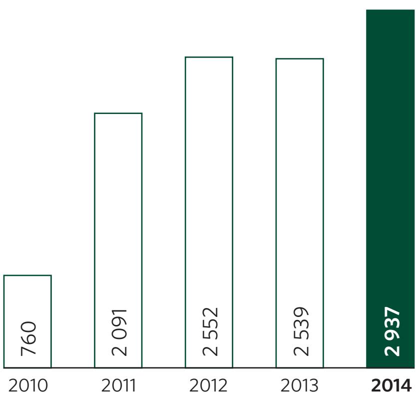
Average banking advances increased 2,6% to R198,0bn (2013: R192,9bn). New-loan payouts in secured lending, card and overdrafts increased 6,9% to R46,3bn (2013: R43,4bn), while personal-loan payouts decreased by 19,3% to R7,5bn (2013: R9,2bn).

Average deposits increased 9,6% to R110,5bn (2013: R100,9bn). The Nedbank MoneyTrader investment offering launched in October 2012 has grown to a cumulative total of R25,8bn (2013: R15,3bn). Despite heightened competitive forces and the impact of Basel III on the pricing of retail deposits, Nedbank's share of household deposits at 18,8% (2013: 19,8%) reflects the impact of tougher competitive forces offset by benefits of increased marketing presence and competitive pricing. Restatements made by other banks have resulted in changes and incomparability with prior-period market share statistics, but overall market share has fallen slightly. Household deposits remain a key strategic focus area for Nedbank and this valuable funding source will be nurtured further through our growth strategy of offering distinctive, innovative client value propositions that enhance product cross-sell.

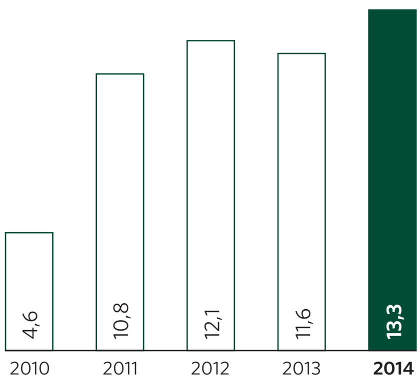
Defaulted advances continued to decrease to R10,2bn (2013: R11,4bn), which is 4,8% of the advances portfolio, as the sustained excellence in collection efforts, effective client rehabilitations (including restructures and rearrangements) and higher-quality new business continued. The defaults in unsecured lending, which peaked in May 2013, continue to show a downward trend and, overall, balance sheet impairments have been maintained at 3,61% of total advances (2013: 4,05% and June 2014: 4,04%). Specific coverage decreased to 49,4% (2013: 49,9% and June 2014: 50,1%). Defaulted advances, specific provisions as well as coverage ratios have been impacted by the decision to write off R400m of fully provided advances in Motor Finance Corporation (MFC).

Nedbank Retail

Headline earnings



Return on equity



Current coverage on Retail's performing advances was maintained at 0,74% (2013: 0,74%). This reflects the effects associated with high industry rates of growth in unsecured lending in preceding years, together with increasing consumer indebtedness and expected outcomes from recent strike action on the performing portfolio.

The CLR of 1,70% (2013: 2,16%) improved significantly due to lower impairments in Home Loans and Personal Loans and closed the year below the through-the-cycle target range of 190 to 260 basis points. As a result of the active credit management actions taken, including the strong focus on collections, the CLR in Personal Loans declined to 10,0% from 12,2% in 2013 and in Home Loans to 0,13% from 0,33% in 2013.

The 2,0% increase in NIR to R8 820m (2013: R8 651m) is a function of solid growth from the higher volume and quality of transactional clients across all segments and card transactional revenue (together contributing an additional R601m), offset by a reduction in NIR from personal-loan volumes of R269m. The reduction in NIR from the lower pricing for credit life of R95m was compensated for in the higher interest margin achieved on unsecured lending. The strategic decision to leave pricing unchanged for 2014 as well as to reduce selected fees has improved client retention and gains, and ensured that Nedbank is competitively priced in the retail market. The opportunity cost of no fee increases and selected reductions is R235m. Total growth amounts to 9,2%, excluding personal loans, fee reductions and the pricing impact.

Total clients grew 7,2% from 6,4m in December 2013 to 6,9m in 2014, notwithstanding a reduction of personal-loan accounts in line with risk strategies adopted. Excluding personal-loan standalone clients, the number of clients grew 8,5%, with NIR growing by 5,8%.

Expenses increased by 8,4% to R12 690m (2013: R11 705m), which includes R235m from the ongoing investment in distribution (2013: R151m) and an additional R198m from increased selling-related costs as well as R52m in additional credit, collections and risk-related costs. The distribution growth includes an additional 304 net new self-service devices, which includes the rollout of 298 'Intelligent Depositor' devices. We now have 456 of these devices, which are processing on average 354 000 deposit transactions a month. Altogether 20 new branches and inretailer outlets were built during 2014, offset by 20 closures, as we aim to eliminate duplication. A total of 65 branches and 54 inretailer outlets were reformatted in line with the 'branch of the future' design principles, bringing the total new-format branches to 171. These formats include the queuing system, internet stations and expanded video banking services. This programme has resulted in a reduction of 133 staffmembers in branch networks (a net optimisation from distribution and other initiatives of 272 and growth of 139 due to investment in new distribution) and a 10 418 m^2 decrease of space occupied. The new-image branches have shown a 12% lift in sales volumes. At the same time R395m in operating efficiencies was unlocked to offset the cost of these investments. Organic cost growth, excluding the impact of the above, increased by 7,6%. Headcount (including temporary staffmembers) was tightly managed and increased by only 1,48% to 18 765 (2013: 18 491), which includes additional staff to support the growth in distribution footprint and the conversion of staff from temporary to permanent positions.

Nedbank Retail 2014 segmental review

Secured Lending's headline earnings increased R158m or 10,8% to R1 619m at an ROE of 14,6%.

MFC delivered headline earnings of R1 134m at an ROE of 15,7%. The book grew 12,4% to R73,7bn, with market share increasing to 28,8% (2013: 27,7%). The business operating model and service excellence continue to be strong differentiators, continuing to set benchmark credit approval turnaround times. Although the results reflect a reduced margin of 4,27% (2013: 4,40%), driven by rolloff of the more favourably priced backbook, the business remains well positioned to take advantage of its efficiency ratio of below 30% as well as its strong share of the used-car finance market. The CLR and non-performing-loan ratio deteriorated marginally to 1,25% and 2,5% respectively, performing well within the target range. Specific coverage on defaulted loans dropped to 53,4% (2013: 67,1%), driven mainly by the decision to write off R378m of fully provided advances. In addition, MFC proactively rearranged more than 24 000 accounts, keeping these clients using their cars rather than taking legal or repossession action. To improve efficiencies further five premerger collections systems were replaced by a single improved and rationalised collections platform.

Home Loans delivered headline earnings of R485m, increasing ROE to 12,4%, up by 58%. This result has been driven by an improvement in the CLR to 0,13% (2013: 0,36%) and improved pricing for risk. New business is now priced on average at approximately 60 basis points above prime, compared with well below prime before 2009. New business granted increased 25%, 10% of which was originated through online applications. This is now a key differentiator of the value proposition, offering clients convenience and bond approval within hours.

Retail's home loan defaulted portfolio continued to improve to 4,8% of home loan advances (2013: 5,6%) and is now at R3,9bn (2013: R4,5bn). The balance-sheet-performing coverage ratio decreased to 0,89% (2013: 0,96%) and the specific-coverage ratio dropped to 26,4% (2013: 29,1%) as the ageing on the defaulted book improved. The increase in portfolio provisions included an additional R55m provided in H1 2014 for clients with exposures to unsecured lending who could have a higher propensity to default in the future, taking the total of this provision to R210m. The post-2008 frontbook now generates an ROE of 19%, compared with 6% from the pre-2008 backbook, which continues to impact negatively on overall performance. Nedbank remains committed to helping clients facing financial hardship and provides a website that aims to educate clients about their options should they be falling behind on their bond repayments. This website (Home Loans Payment Solution) was viewed by over 46 000 people. In addition, over 22 000 families have been able to retain their homes as a result of loan restructures, which offer an effective rehabilitation process, with the redefault rate on these loans being well under 20%.

Card

Nedbank Card and Payments grew headline earnings by 0,5% to R863m (2013: R859m) at an ROE of 28,2% (2013: 30,9%). The worsening consumer credit dynamics saw higher card impairments impacting headline earnings growth. Despite this, the CLR at 4,8% (2013: 4,9%) is well within risk appetite parameters. NIR growth of 8,6% was underpinned by 20% growth in acquiring turnover, moderated by lower cardholder transacting volumes and fees earned. The Greenbacks Rewards Programme membership base grew by 29%, largely driven by the increase in Savvy Account clients and existing clients joining the programme. The innovative SHOP Card was launched, enabling Greenbacks members to access the value of their rewards at any ATM, make point-of-sale (POS) purchases at merchants both domestically and abroad, and use their rewards for online shopping.

Crossdivisional collaboration to acquire and retain more clients, optimising the efficiency of the core business and the full commercialisation of new payment solutions will ensure continued growth, notwithstanding the impact of reduced interchange fees that will be earned from March 2015.

Advances in technology, notably mobile, and changing client payment needs will continue to provide opportunities for innovation. Launching new payment solutions will serve to entrench our card-issuing and card-acquiring capabilities and ensure we remain relevant and responsive to client needs. An example of this is Market Edge™, a first-in-market web application that provides Nedbank merchants with rich customer data from their POS transactions, assisting them to leverage the insights gained to make better business decisions.

Consumer Banking

Consumer Banking headline earnings improved to R166m (2013: R1m) at an ROE of 3,0% (2013: 0,02%). This was mainly because a significant decrease in impairments, which more than offset the lower personal-loan volumes. Investments in distribution and marketing were also maintained.

Revenues of R8,6bn were generated (2013: R8,7bn) in delivering the 'I know about you' client experience, against which R1,9bn (2013: R2,7bn) was charged for impairments and a further R6,3bn for operating costs (2013: R5,8bn).

Digitally enabled clients are up 48% year on year and engaged users on all Nedbank social platforms are up 38%, with Nedbank leading the number of 'Likes' on Google+ relative to peers.

Management actions contributed to Personal Loans increasing headline earnings 44,2% to R624m (2013: R432m) at an ROE of 17,9% (2013: 11,2%). Personal Loans, including the economics reflected in the Wealth Cluster, has increased headline earnings 26,2% to R874m and generated an ROE of 24,0% (2013: 17,3%) on an allocated economic capital ratio of 19,4%.

The growth of new personal-loan advances remains below current industry levels. However, the improved quality of risk and higher gross operating income margins compensate for this at headline earnings level. Overall margins for the personal-loans book increased by 193 basis points to 17,0% (2013: 15,1%).

As planned, the personal-loans book declined by R3 045m, or 15,1%, from 2013, compared with the overall industry personal-loan market (excluding Nedbank), which grew by R7 822bn, or 4,9%, in 2014. The negative growth rate is, however, slowing and the book is expected to stabilise in 2015. Market dynamics are shifting towards higher-value consolidations for middle-market clients, although at higher interest rates than pre-2014 levels. Client retention has remained stable over the period; however, the elevated levels of consumer indebtedness resulted in a cautious approach to acquisition, given client affordability constraints.

Personal Loans continued to excel in the selective origination direct marketing campaigns, winning three gold and two silver awards at the annual Assegai Awards. In addition, the Brighter Tomorrow campaign won the prestigious Nkosi award for the best campaign across all categories.

The Personal Loans CLR decreased to 10,0% in 2014 (2013: 12,2%). Defaults peaked in May 2013 and are now 11,5% lower than in December 2013. Specific actions taken ensured that the impairments charge remained at or below the June 2013 level, with management continuing to be vigilant as the risks identified early in 2012 emerge across the unsecured-lending industry.

Given current consumer health levels as well as ongoing industry concerns, credit risk optimisation and collections performance remain a priority. The overall book quality continued to improve, with less than R160m of the existing book falling outside our current risk appetite range. A further R709m was underpriced relative to new business; however, this portfolio continued to decline and both portfolios were performing in line with expectations.

Exceptional performance from a credit risk management and collections perspective resulted in vintages after 2012 performing at levels similar to those in the first half of 2011, but at higher margins and ROEs. Postwriteoff recoveries improved by 24,2% year on year from R276m to R343m, highlighting improved collections performance, as well as a conservative writeoff policy and provisioning. The non-performing-loan coverage has increased to its highest-ever level of 65,9% (2013: 62,1%).

Retail Relationship Banking

Retail Relationship Banking (RRB) serves two distinct client segments: small businesses with a turnover of less than R10m and professionals (defined as people in senior positions or with high-earnings-growth trajectories, including young graduates regardless of their field of study or work). These two segments have a common need for relationship capabilities and an 'I know you' banking experience.

RRB achieved a 45,5% increase in headline earnings to R323m (2013: R222m) at a significantly improved ROE of 15,1% (2013: 11,4%) on R2,1bn of allocated capital. A strong focus on collections, granting of quality loans with emphasis on primary-banked clients and model refinements have reduced impairments by R62m, with the CLR at 0,07% (2013: 0,33%), which is well below the through-the-cycle target range of 1,0% to 1,5%. This CLR is, however, not a good indicator of the inherent risk profile of the book, nor the 'open for business' mindset prevalent in the business. The latter is evidenced by increased payouts, growth in client numbers and ongoing improvements to the credit policy. Moderate expense growth was maintained following the implementation of large-scale organisational changes in 2013 to unlock efficiencies and ongoing diligence in managing down organic cost and headcount.

The business continues to gain momentum, even though the small-business segment remains under pressure in the current economic environment and competition in the professional/upper-middle segment remains fierce. The redefined proposition for professionals, coupled with a proactive internal migration strategy, provides significant opportunity for future growth. Nedbank's strong positioning in the small-business segment built over several years is being leveraged to enable small-business growth not only for Nedbank but also for a stronger and more sustainable SA.

Looking forward

Nedbank Retail has continued to strengthen the foundations from which to grow. The continuation of the difficult macroeconomic environment, compounded by the prospect of ongoing labour unrest and slower gross domestic product growth, will result in a more challenging operating environment. Regulatory changes on the horizon (Basel III and revised interchange rates) will also negatively impact the level of earnings growth.

The NIR impact of the revised interchange rates, effective 17 March 2015, is estimated at R270m for Nedbank Retail assuming 2014 transaction volumes. In addition, the rate of improvement seen in impairments in 2014 is unlikely to be sustained, particularly as we enter into an upward rate cycle. Retail will continue with the elimination of cost duplications with Business Banking as well as other cost-efficiency strategies.

Nedbank Retail is committed to delivering a great client experience with friendly, efficient service and competitively priced products, and providing superior value banking to all. Over the next three years a further R2,1bn will be invested to expose 75% of our clients to the enhanced branch format. Continued improvements in quality-client acquisition, improved attrition and deeper product penetration are expected to result in growth in the transactional banking franchise over time.

Nedbank Retail remains focused on delivering its client-centred strategy and to enhance returns.

CASE STUDY
BUSINESS BANKING

Continuing to deliver value to our small-business clients

Our ability to achieve sustainable economic growth for SA is highly dependent on the success of our country's small businesses. Under the Vote Small Business banner Business Banking continued its efforts to support the sector in 2014 as a key contributor both through the funding we provide to small businesses, and equally in the solutions that go beyond banking, encompassing interventions and resources that give support to our clients through the various stages of their business growth.

We continued to be an important funder and supporter of emerging enterprises, with the following highlights:

- We partnered with the **Branson Centre for Entrepreneurship**, offering entrepreneurial development to startup and emerging businesses. Nedbank provided grant funding for 120 entrepreneurs in and around Gauteng to participate in the training course in 2014. In addition, Nedbank aligned the bank's offerings to enable the participating businesses to implement the training to support sustainable growth, as well as to access funding to enable business owners to implement the training practically into their businesses. This resulted in more than 200 jobs being created during 2014. Nedbank also facilitated market access opportunities and specialist mentorship expertise to the businesses.
- Through the **SME incubator fund** that had been started in 2012, R12,1m was advanced in total, with R6,9m advanced in 2014.
- As part of the **black SME and Agricultural financing** we provided R40m in black agriculture financing for the year to date.
- R1 015bn worth of **black (SME) loans** had been granted to 2 479 2720 beneficiaries as at December 2014.
- We were the preferred banking partner for the implementation of the **Vuk'phile Learnership Programme** (an Expanded Public Works Programme initiative) to develop emerging contractors through the provision of free mentorship, and classroom and onsite training. Nedbank extended R21,8m of funding to learner contractors from January 2011 to December 2014, which led to the creation of 1 179 job opportunities.

We also focused on offering a range of Banking and Beyond™ solutions to empower small businesses with practical advice and tools, affording them more time to focus on growing their businesses. Notably in 2014 we drove the following:

- **The Nedbank 702 Business Accelerator**, in partnership with Primedia, which is a collaborative radio programme profiling businesses with a desire to accelerate growth. A business development specialist provides practical guidance and tips for taking the business to the next stage and overcoming specific challenges or stumbling blocks. In 2014 a total of 60 businesses were mentored through the programme and 180 businesses since inception in 2010.
- **SimplyBiz seminars,** through which we have provided training and practical advice to small-business owners since 2004. In 2014 a total of 10 seminars were successfully hosted nationally with key leaders in business across various industries.
- **Small Business Index**™, which was launched in 2013 and aims to provide a clearer measurement of the state of the small-business sector as a whole, a deeper understanding of the challenges that small businesses continue to struggle with and regular insights that small-business owners can use to make more informed decisions. In 2014 we continued to provide these insights quarterly, sharing them with our staff, clients and the public at large.
- **LaunchLab**, a partnership between Nedbank and Stellenbosch University that incubates small businesses and supports their growth. Through this partnership Nedbank has been involved in financing the actual LaunchLab facility, which is currently under construction and is part of the advisory board and participates in mentoring participants. Nedbank also has the option to enter into agreements with the incubated companies to procure their outputs and innovations to add value to our own clients.

We believe in a holistic approach that not only focuses on fulfilling the banking and funding needs of small businesses, but also ensures that they are sustainable. We continue to invest in the sector and constantly seek to innovate our banking and non-banking solutions to ensure they talk to the real needs of a small business.

CASE STUDY

RETAIL:
Nedbank Talks4Success initiative

Nedbank Talks4Success initiative

Nedbank Talks4Success seminars are entrepreneurship and motivational seminars that were launched and rolled out in 2014, targeted at the youth of SA, with the aim to **inspire** and help **enable** their successes in various fields, whether entrepreneurially or academically.

The inspiration and motivation were communicated using young aspirational South Africans who have achieved success in their respective fields through hard work and in the face of adversity. These fields range from academia to entrepreneurship.

Through these seminars young South Africans are able not only to listen to inspirational stories, but also to meet likeminded peers. Thus they do not only look up to others who may be out of reach for success, but also to their peers, in their varying circumstances.

Based on research and the country's current statistics on socioeconomic factors affecting the youth, we know that young South Africans feel disenfranchised, with 60% of them unemployed. We know they are in need of resources, guidance and motivation to rise above their circumstances, which are often dire.

The Talks4Success seminars were free and aimed at students aged between 16 and 28 years, which predominantly covers students in tertiary institutions [traditional as well as non-traditional (Further Education and Training) universities]. This target market includes students who are starting their first jobs due to no access to funds to study further and students who have completed some tertiary qualification and/or certificate and are looking to start a business or get into the workforce.

The seminars were registration-based, with the only barrier to entry being the venue capacity for each event. These events were held in four cities across SA, namely Johannesburg, Cape Town, Durban and Pretoria, with each venue accommodating between 500 and 2 000 students, as well as an additional 4 000 students at national South Point residences that allowed Nedbank to showcase the seminar recordings on their premises.

Additional students were reached through our social media channels, such as Facebook and Twitter, as well as the distributed on-campus leaflets. The seminars took place from 13 May to 17 September throughout the country.

There had been great collaboration across the Retail business in ensuring these sessions were a success. The segment team has been critical to ensuring alignment with the overall Retail segment strategy, as well as appropriate strategic positioning of these events for this pipeline market (youth). The Retail Marketing team (including internal communications and social media) and the Group Media team have been integral to the process in ensuring the selection of agency partners, overseeing the creative process, arranging keynote speakers and liaising with the media to leverage this great opportunity fully.

One of the key objectives of launching these Nedbank Talks4Success events was to immerse Nedbank in the education and development mindset of the youth of SA to increase their bonding and interaction with the bank, and ultimately positioning the youth brand as top of mind and Nedbank as the bank of choice for financial fitness and success.

NEDBANK **CORPORATE**

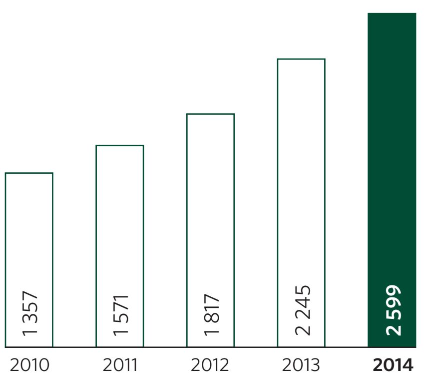
SUSTAINED DELIVERY TO STAKEHOLDERS

Notwithstanding subdued economic growth and pressure on margins, we maintained our record of sound performance and sustainable growth. The environment over the past year was tough, with corporates experiencing pressure due to the power outages as well as the impact of labour unrest across key sectors of the economy, while the continued delays in infrastructure rollout failed to create an additional boost to the economy. This was compounded by SA's ratings downgrade. We nevertheless gained momentum on our strategies, founded on the group's growth drivers, which are centred on: continuing growth in transactional banking; client-centred innovation; initiatives to enhance efficiency and optimise operations; growing market share across commercial mortgages and corporate advances; improving our liability mix and tenor; expanding our Pan-African banking network; and providing crossborder and global trade facilities.

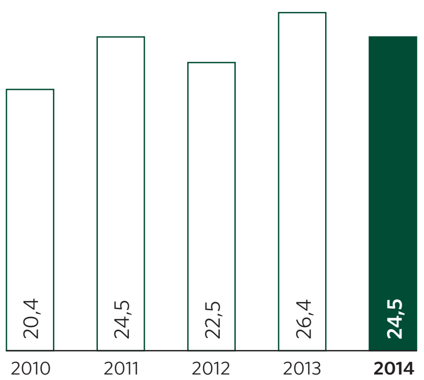
OVERVIEW OF 2014

- Nedbank Corporate's headline earnings grew 15,8% to R2 599m (2013: R2 245m). The increase in headline earnings was underpinned by continued advances growth as well as strong growth in core non-interest revenue (NIR).
- We contributed 26% of the group's headline earnings in 2014.
- Economic profit was R1 167m with a return on equity (ROE) of 24,5%.
- The net interest margin improved by three basis points to 2,06% (2013: 2,03%) as a result of endowment benefits and commercial-mortgage and corporate lending growth.
- Core NIR grew 11,4% as a result of increased transactional volumes.
- Impairments increased to R400m (2013: R385m), while the credit loss ratio (CLR) decreased to 0,21%. This was as a result of good risk management across the portfolio despite the tough environment and the increased provisioning on a single large counter.
- Total expenses were well managed at 11,0% growth, with the efficiency ratio reducing year on year to 38,6%.
- Despite a subdued recovery in the property market, the momentum gained from the previous year benefited the revenue lines for Property Finance in 2014.
- The pooling of expertise and coordination of origination efforts through integration of Corporate Banking's Debt Structuring and Nedbank Capital's Acquisition and Leveraged Finance teams paid dividends, with large-ticket deals being closed out. This initiative was a valuable precursor to the merger of Nedbank Corporate and Nedbank Capital announced in the last quarter, and laid a firm foundation for extracting further material benefits from the amalgamation in 2015 and beyond.
- Our focus on ensuring that our wholesale electronic-banking capability provides a wide range of banking solutions and innovative value-added services beyond traditional banking, was recognised by the 2014 *African Banker* award for Innovation in Banking. This was an honour for our Transactional Banking team, as well as for Retail and Business Banking.
- Our standards of client service and efficiency were acknowledged in a quality award from Deutsche Bank for crossborder payment processing.
- Nedbank Investor Services was again rated as the best subcustodian bank in South Africa by *Global Finance* magazine.
- We increased our investment in our people strategies and behavioural and functional excellence of leaders at senior-and middle-management levels. In driving a high-performance culture with best-

Headline earnings (Rm)



Return on equity (%)



of-breed people in client-facing roles we have focused on customised programmes such as the Corporate Banking Excellence Programme in partnership with Duke University-Corporate Education, the Forex and Property Finance academies and the first-class Dealmakers programmes. Our drive in ensuring that we continue to enhance our leadership effectiveness and bench strength have ensured that over 70% of our senior and middle managers went through the Leading for Deep Green programme in the past three years.

- In the Barrett culture survey, which measures the cultural entropy of our organisation, we achieved an entropy score of 9% in 2014, which is ahead of worldclass levels of 10%.

Corporate Banking

In 2014 we saw intensified competition among peers for quality assets and transactional revenue. This resulted in a modest average advances growth of 5,6% to R85,9bn. Average deposits grew by 8,9% to R176,4bn. Net interest income (NII) grew 8,9% as a result of advances volume and rate increases, as well as higher endowment income. Funding and liquidity management requirements imposed additional costs on the business by reducing our pricing competitiveness, which resulted in a pricing differential in our investment-grade lending products relative to our peers.

Headline earnings growth in 2014 remained flat at 1,1%, largely due to an impairment on a single steel counter (R181m) and a negative year-on-year fair-value movement of R76m. Core NIR grew by 12,5% in line with our strategy of growing our transactional franchise. Our growth was driven off a diverse portfolio of clients, highlighting the sector and industry expertise in the business.

Increasing sophistication of markets and clients has underscored the need to deliver holistic, integrated business solutions. In response, over the past few years, our deepened collaboration with other business units in the group and specifically Nedbank Capital to increase client-centredness has enhanced our ability to offer more integrated lending and hedging solutions. Harnessing the synergies to provide optimal client solutions while creating better upsell and cross-sell opportunities for improved revenue, enabled us to leverage opportunities in constructing wholesale banking solutions for our clients.

Practically, the keytouch point of wholesale client collaboration has been the joint client-value management process, which aims to develop a common client strategy for proactive origination. In addition, sector forums have allowed for expertise and information sharing, which is beneficial for client solutions. The nature of the collaboration model was intensified in 2013 through the co-location of Corporate Banking's Debt Structuring team and the Nedbank Capital Acquisition and Leveraged Finance team. The shared expertise in this successful initiative resulted in innovative, holistic client solutions as well as improved coordination of origination efforts.

While the co-location incorporated two of the frontline areas, it did not encompass the remaining support areas such as Credit and Legal. The merger of Nedbank Corporate and Nedbank Capital is the natural culmination of Nedbank's wholesale collaboration journey and quest for creating a client-centred bank while streamlining and simplifying the supporting processes.

CASE STUDY
NETCARE

The following case study reflects the material matter of transformation within planetary boundaries, and aligns to our strategic focus area of strategic portfolio tilt and client-centred innovation.

Corporate Banking's longstanding 18-year relationship with Netcare was extended through Netcare's energy reduction project. Nedbank provided energy-efficient and renewable-energy funding of R647m for the project in conjunction with the Agence Française de Développement (French Development Agency or AFD) and Nedbank Capital, of which Corporate Banking provided a seven-year R500m facility.

The Netcare project is an amalgamation of 52 individual energy-efficient hospital retrofit projects and 36 renewable-energy projects, with rooftop photovoltaic additions to existing hospital buildings as well as three newly built sites in SA.

From this single financing transaction, 91 projects will provide a cumulative greenhouse gas emission saving of 70 000 tons of CO_2 per annum (once complete) and reduce the hospital group's annual energy consumption by roughly a third. This will assist Netcare to counter the instability of electricity generation as well as achieve anticipated cumulative savings of R1bn on electricity costs over 10 years.

'Netcare is a prime example of how Corporate Banking, through responsible lending, is making things happen for blue-chip brands, which highlights our ability to provide sustainable and innovative banking and lending solutions,' **Graeme Auret, Managing Executive of Corporate Banking**.

Property Finance

Despite muted activity in other sectors of the economy, Property Finance continued to experience good asset growth. The average advances book grew 18,1% to R99,6bn and market share in advances increased to 34%.

NIR generation both within the lending business and property investing business showed substantial growth year on year, with NIR increasing 38,5% to R953m, despite the negative year-on-year fair-value movement of R150m. This, together with the NII growth of R271m as a result of higher lending volumes, contributed to the substantial growth in headline earnings of 39,5% to R1 318m. The impairments charge at 0,21% was the lowest it has been over the past five years, in part due to resolution of some long-outstanding problem accounts, while levels of non-performing assets showed steady improvement.

While we are headed into a tougher economy, we will continue to create value for clients and assist in ensuring that their investment and development opportunities are realised through our considerable experience and expertise. A core strength has been our ability to nurture and build relationships and, as part of our offering, to provide clients with complementary skills and high levels of specialised property sector expertise. This, coupled with a stable and consistent approach to funding, which acknowledges that we are partners with our clients in the longer term, has been key to our success in the past and will continue to be the foundation on which we operate in the market. While the deteriorating economic environment and infrastructural constraints pose further challenges for the commercial property industry, we believe our market leadership position and robust client relationships will provide a lever for continued growth.

CASE STUDY

CONSOLIDATING OUR POSITION AS THE MARKET LEADER IN PROPERTY FINANCE IN SA

The following case study reflects the material matter of banking relevance amid consumerism and increased competition and aligns to our strategic focus area of strategic portfolio tilt.

Property Finance prides itself on partnering with clients for long-term growth and this is shown through our relationship with Attacq, a leading capital growth fund in the South African real estate sector.

In November 2006 Property Finance entered into a joint venture with one of its key Cape clients, Abacus Trust, and provided development funding to construct the Mooirivier Mall regional shopping centre in Potchefstroom. The shopping centre opened in April 2008 and from commencement proved to be successful with exceptional trading figures.

In 2011 Property Finance was party to an agreement between Abacus Trust and another key client, the Pretoria-based Atterbury Group, to create a new private property fund through the pooling of their respective shopping centre properties, including the Mooirivier Mall.

This deal resulted in Property Finance's acquiring a shareholding in this fund as well as in the Property Asset and Management Company.

In 2013 we sold our shares in the fund and management company to Atterbury Investment Holdings in return for shares in Atterbury Acquisitions, which was listed on the JSE as Attacq during 2014, realising a substantial uptick in value over our original holding.

This success is based on the following:

- A strong relationship with both Atterbury and Abacus Trust built up over time and over many property developments and investments.
- Property Finance staff who were able to identify a sound investment and thereafter were dynamic and flexible to ensure maximum returns for Property Finance.
- Valuable input from an experienced Investment Committee and Credit Committee.
- A Property Finance team that had the experience to provide funding for complex developments.

Our relationship with these key clients displays the key attributes of our business:

- Willingness to both participate in equity and provide lending to clients where we believe in the property and the investor.
- Seeing property as a long-term investment with benefits accruing over time.
- Our belief that success lies in partnering clients for long-term growth.
- Ensuring that we partner with the right people.

Transactional Banking

Correspondent and electronic banking, cash, liquidity management, global trade product solutions and value-added services remain our primary client offerings. These have been well received by our clients as borne out by independent annual surveys. We continually drive innovation and new-product development of our solutions through engagement with clients, internal stakeholder feedback, independent third-party surveys, global and competitor research and analysis. We have specifically focused on client-centred re-engineering of our mobile, digital, self-service and onboarding capabilities.

We rolled out the exclusive Cash Online™ solution to non-Nedbank clients. Further development in value-added services was reflected in the launch of the real-time Account Verification Service™ (AVS-R), an industry-first and market leader in 2014. Mobile banking remained a focus area, with good takeup of its functionality.

We invested substantially in innovation – completing 48 projects, 226 concept designs and 221 technical enhancements, with incremental financial benefits expected over the next five years. Principally, these projects focused on client- driven efficiencies, compliance and enhancements to our wholesale transactional banking capabilities to maintain our market leading position. An increased focus on anti-money-laundering, terrorist financing and compliance matters resulted in increased systems investment. This trend will continue in 2015 and beyond.

The risk of disintermediation by non-banking service providers remains a threat. We will seek to counter this through adhering to the requisite regulation, while still focusing on value-added innovation for our clients. An example is our Cash Bureau, which resulted in incremental NIR in 2014, 90% of which was realised from non-Nedbank accountholders.

Client feedback confirmed that security remained a high priority for electronic banking and in response we, in partnership with global leader Gemalto™, launched a new and innovative security token, Plug and Transact™, which provides a superior security solution.

We successfully continued to manage Nedbank's relationship with international financial institutions, where we have seen a 53% year-on-year increase in revenue. From a liquidity point of view four bilateral loans as well as the Club Loan were facilitated, supporting our foreign funding requirements. In support of the bank's strategic drive into the rest of Africa, there was an increase in credit and risk appetite for a number of the top-tier African banks. This assisted in leveraging Nedbank's international banking relationships and resulted in an increase in our NIR streams.

The continued focus on frontline enablement by our Global Trade unit in tough economic conditions resulted in modest year-on-year growth across all global product revenue lines and an increase in market share. This can be attributed to the additional functionality introduced through our online TradeXchange™ platform, namely export documentary credits, export and import collections, as well as additional enhancements to the onboarding process. Increased client usage of NedTreasury, our premier online global trade channel, continues to show strong growth.

CASE STUDY

INNOVATION IN HIGHLY COMPETITIVE CORPORATE MARKET

The following case study reflects the material matter of banking relevance amid consumerism and increased competition and aligns to our strategic focus area of client-centred innovation.

The real-time Account Verification Service™ (AVS-R) provides a mechanism to verify the validity of an account belonging to a specific individual or juristic entity. By using AVS-R our wholesale clients can validate an account before making a payment, thus assisting in the prevention of fraudulent redirection of payments. Alternatively, AVS-R can be used to validate an account before instituting debit order instructions.

In 2010 we launched a batch version of AVS and pursued the idea of an industry real-time solution with BankServ. The benefits of an industry solution lies in quicker response times, increased verification fields and enhanced data security and hosting options.

Nedbank was first to join the BankServ AVS resolution in 2013. BankServ was the preferred partner for hosting the industry solution as an extended service to being the Payments Clearing House in SA. Standard Bank, First National Bank, Absa and Capitec responded by joining the solution in 2014.

One of the key drivers for this solution is the requirement for a real-time verification service. For example, in the mobile and insurance industries the confirmation of an account is required as part of the contracting process with clients. By affording these companies the ability to do account verifications in real time Nedbank provided a competitive edge. Host-to-host connectivity provided a further advantage, as it is integrated into the client's own frontend systems. It enables a call centre agent at a mobile or insurance company to avoid having to switch systems when doing the account verification, while providing additional functionality.

Corporate Shared Services

Continued regulatory risk and industry requirements, including increased levels of oversight from all regulators, added to business pressures in 2014. Despite the increase in these requirements, Corporate Shared Services - the division with the highest staff complement in Nedbank Corporate – maintained admirable levels of client service and efficiency. Our Corporate Contact Centre was again highly rated for its support of our clients, particularly in the area of electronic banking. The centre achieved excellent levels of first-call resolution and frequently a 100% performance in terms of service level agreements, thereby ensuring superior client satisfaction. This was evidenced by the rating of the Contact Centre against our competitors in the Business Electronic Banking Survey.

A continued focus on operational risk management resulted in outstanding performance. Despite the increase in the risk profile of the cash industry as a result of a large loss in a cash centre robbery, full recovery was made by us, resulting in a zero actual loss being recorded.

Continued focus on the division's people and their development enabled Corporate Shared Services to score well in both the Barrett and staff surveys, and to record good progress in meeting its transformation targets.

Tight internal controls, responsible cost management, a focus on continual business process improvement and the delivery of key information technology system enhancements contributed to a sound performance. The team continued to contribute to the industry in which it operates through its chairmanship of a number of key forums and payment clearing houses.

Outlook

We believe that – in addition to slow local growth – weaker export markets such as the European Union and China and continued shortages of electricity could jeopardise growth prospects and pose greater credit risk for the wholesale portfolio, with a lag impact in Property Finance. Although the environment ahead is likely to be much more difficult to navigate, we are well positioned to achieve our objectives and to sustain our track record. In the corporate market we will focus on capitalising on our strong lending franchise by cross-selling transactional products and hedging solutions among existing clients, while also expanding our market share of corporate deposits. Lending opportunities are likely to result from refinancing opportunities as well as merger and acquisition activity due to the sale of non-core assets, while demand for expansionary capital credit is expected to be low. Growth opportunities for Property Finance lie in funding developments in higher-demand sectors of the economy, such as historically undersupplied sectors, development of rental and student accommodation, as well as retail activity in rural and peri-urban areas. The potential impact of the formulation of the new cluster on maintaining revenue momentum and staff morale will be closely managed, but the successful collaboration between teams in recent years augurs well for the future.

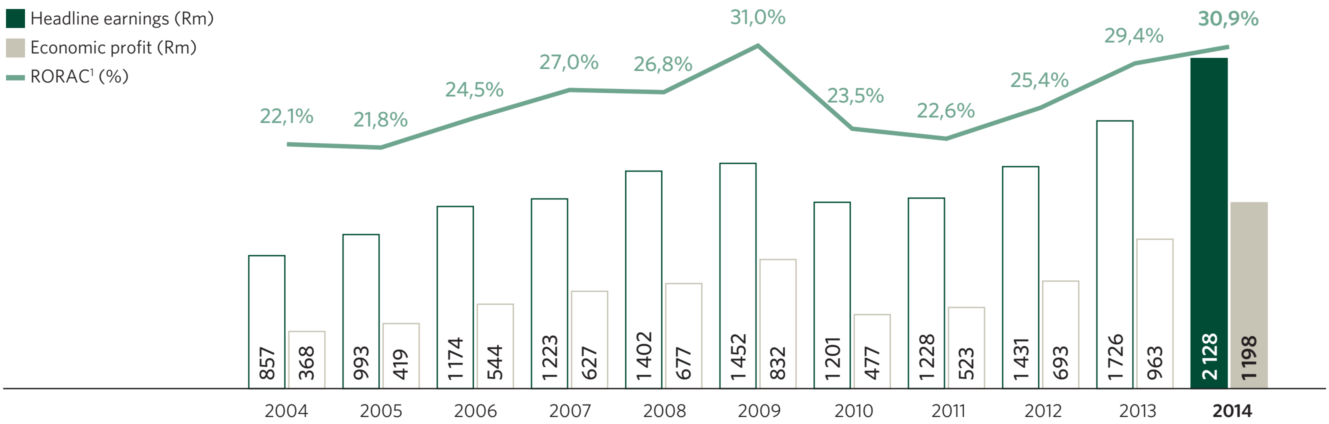
NEDBANK **CAPITAL**

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 and Origination

Over the past 10 years Nedbank Capital has built a sustainable and efficient investment bank in a difficult and competitive environment. In 10 years we have:

- more than doubled headline earnings;
- increased balance sheet lend five-fold;
- consistently achieved a return on equity (ROE) of above 20%;
- improved our transformation ratio by 40%; and
- become one of the leading funders to the renewable-energy sector in SA.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	**2014**
Headcount	602	616	626	625	693	695	699	721	705	683	**665**
[2] HE/employee	1 423	1 613	1 875	1 956	2 023	2 089	1 719	1 704	2 030	2 527	**3 200**
Efficiency ratio (%)	46,6	40,8	42,3	46,7	48,6	45,9	45,1	47,7	43,2	46,0	**43,9**
[3] NIR/Expenses (%)	170,8	172,8	174,9	166,2	125,6	139,2	145,0	141,3	154,3	142,7	**142,1**

	2004 - 2014 (Rm)	CAGR[4] (%)
Headline earnings	14 815	9,5
Economic profit	7 320	12,5

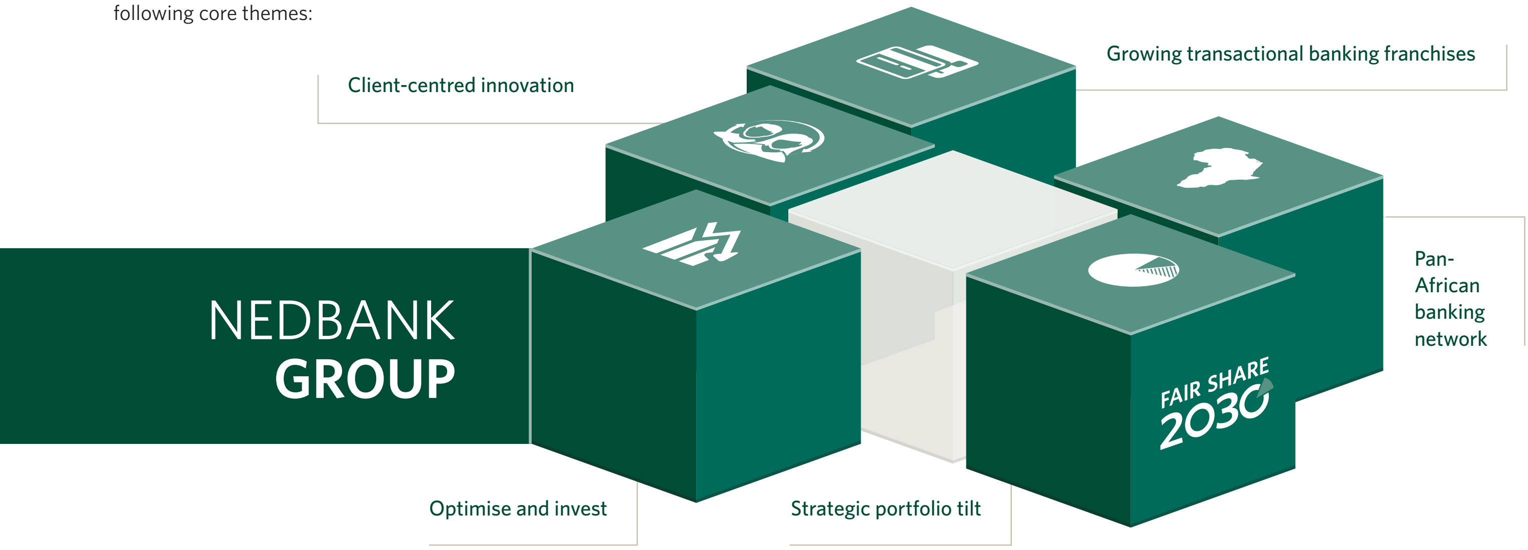
[1] *RORAC = return on risk-adjusted capital.*
[2] *HE = headline earnings.*
[3] *NIR = non-interest revenue.*
[4] *CAGR = compound annual growth rate.*

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.

2015 – 2017 THEMES

Nedbank Capital's strategic themes are focused on simplicity and have a strong alignment to the group. Plans for future growth are built around the following core themes:



Rest of Africa

Selectively grow into Africa utilising our deep sector expertise and leveraging the Ecobank–Nedbank Alliance

Client-centred innovation

Strengthen our client relationships and enhance collaboration across the organisation

People

Develop investment and retention strategies to ensure the development of our next generation leaders

Focusing on efficiency

Ensure efficient management of our costs and systems to enhance business productivity

Strategic portfolio tilt

Focus on differentiated and selective growth strategies (includes Fair Share 2030)

Market position

- Reputable industry standings across key portfolios (eg resources, infrastructure and energy).
- Prominent market position in renewable-energy financing as evidenced by the following:
  - Nedbank Capital achieved commercial close for 12 round 3 renewable-energy projects in December 2014, totalling 1 107 MW.
  - The Department of Energy also announced two preferred bidders for round 3.5 concentrated solar power projects, in which Nedbank Capital has been mandated as a lead arranger for both transactions and will participate as the senior lender and hedging bank.
  - As a result of our continuous and extensive involvement in the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) we have maintained our status as the leading green bank by supporting and enabling renewable-energy delivery of 2 198 MW, participating in 54% of total market share in the renewable-energy capacity awarded by the Department of Energy.
  - The Department of Energy is expected to announce the round 4 preferred bidders in 2015.
- Voted first in Best Research Team – Technical Analysis (FX, Interest Rate Derivatives, Bonds).
- Nedbank Capital ranked fourth in the Bloomberg Underwriter rankings in the local SA market.
- Won Global Trade Review (GTR) Best Deal of 2014.

Key challenges in 2014

- Domestic economic growth has been hampered by poor industrial relations, a negative policy environment for investment and growing electricity constraints.
- Regulation continues to remain a critical element as banks address cost structures, revenue models, and strategic positioning. The implementation of the regulatory framework continues to generate uncertainty regarding both revenue models and costs.

CLUSTER OVERVIEW

Nedbank Capital provides seamless specialist advice, debt and equity raising (including execution), and trading capabilities to clients in all major SA 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 broad-based black economic empowerment consortia.

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

- **Coverage and origination**
  Coverage focuses on building and strengthening client relationships at a strategic level to become the most trusted and admired corporate and investment banking business.
- **Investment Banking**
  Investment Banking houses Nedbank Capital's collective capabilities in identifying, structuring and executing innovative transactions for clients across various industry and product groups.
- **Global markets**
  We are the solution provider and execution house of choice for both institutional and non-institutional clients. We strive to create a platform for one-stop investment solutions, while maintaining a centre of excellence and a commitment to building and maintaining long-term relationships with our clients.
- **Treasury**
  Treasury's core function is to be an efficient and balanced liquidity provider for both Nedbank Group and Nedbank Capital.

FINANCIAL REVIEW

Year ended		% change	2014	2013
Headline earnings	(Rm)	23,3	**2 128**	1 726
Efficiency ratio	(%)		**43,9**	46,0
Credit loss ratio – banking advances	(%)		**0,14**	0,51
Average banking advances	(Rm)	21,0	**73 154**	60 469
Allocated economic capital	(Rm)	17,5	**6 891**	5 863
Return on equity	(%)		**30,9**	29,4

Nedbank Capital produced another strong set of results in 2014, achieving a return on equity (ROE) of 30,9% (2013: 29,4%), and grew headline earnings by 23,3% to R2 128m (2013: R1 726m). Economic profit (EP) increased by 24,3% to R1 198m (2013: R963m).

Net interest income (NII) grew to R1 936m (2013: R1 608m), underpinned by 20,2% growth in our interest-earning banking book, with asset margins remaining constant at 1,65% (2013: 1,65%). Banking advances book growth was a result of good pipeline conversion rates across our sector-focused businesses. Our lending margin declined to 2,4% (2013: 2,6%), impacted by growth in the dollar-denominated book as well as the continued weakening of the rand against major currencies during 2014.

The credit loss ratio (CLR) improved to 0,14% (2013: 0,51%) as a result of proactive recovery processes and disciplined risk management. The CLR is within Nedbank Capital's through-the-cycle target range.

Non-interest revenue (NIR) increased to R3 206m (2013: R3 078m). Trading income grew by 2,4% to R2 404m (2013: R2 347m), while private-equity income increased by 152,6% to R160m (2013: R63m) as a result of realised gains and revaluations. Commission and fees were relatively flat at R613m (2013: R614m).

Total expenses increased by 4,6% to R2 256m (2013: R2 156m) following prudent cost management and continued investment in the cluster's infrastructure and key specialist skills, particularly with the expansion of our presence in the rest of Africa.

The effective tax rate decreased marginally to 21,1% (2013: 21,6%). Our efficiency ratio of 43,9% and our NIR/expense ratio of 142,1% are supportive of the group's strategic focus areas.

REVIEW OF THE YEAR

- Experienced another successful year.
- Continued to enhance portfolio through disciplined and proactive lending and investment criteria and pursued cross-sell opportunities in the market's business.
- Continued to develop our people and invested in key skills to support our African strategy.
- **REIPPPP**
  - Achieved commercial close for 12 round 3 renewable-energy projects in December 2014, totalling 1 107 MW.
  - Mandated as lead arranger for the Department of Energy's two preferred bidders for round 3.5 concentrated solar power projects, and will participate as the senior lender and hedging bank.
- **Awards**
  - Project Finance International Awards 2014
    - Middle East and Africa Energy Deal of the Year
    - African Renewables Deal of the Year
    - African Power Deal of the Year
  - Infrastructure Journal Global 2014
    - African Renewables Deal of the Year
    - African Power Deal of the Year
  - Nedbank Capital was ranked number one in the 2014 Spire Awards in the Best Research Team – Technical Analysis (FX, Interest Rate Derivatives, Bonds) category.
  - Nedbank Capital ranked fourth in the Bloomberg Underwriter rankings in the local SA market.
  - Won GTR Best Deal of 2014.

RESPONSIBLE LENDING FOR SUSTAINABLE SUCCESS

The lasting success and growth of any modern business hinges entirely on its ability to balance economic profitability effectively with truly sustainable business practices. That was the underlying theme of the 2014 Nedbank Capital Sustainable Business Awards.

Now in their third year, the awards were established to broaden the scope of the immensely successful Nedbank Capital Green Mining Awards that ran between 2006 and 2011. The awards have since grown into a key means of challenging African companies in all major industries to rethink the way they operate so as to ensure that they deliver sustainable value, in all its forms, to their stakeholders.

The quality of entries received from across Africa in 2014 emphasised the excellence of the winning projects and organisations. In the 2014 Resources and Non-renewable Energy category Sherritt International Corporation took top honours for its Ambatovy Joint Venture's Biodiversity Programme. GrowthPoint Properties took home the award in the Infrastructure and Renewable Energy category for its Tshedimosetso House Project, while the ReadySet Solar Charging Solution created by MTN Group and Fenix International came out top in the Trade and Services category.

Anglo American Coal SA and Murray & Roberts Construction were runners-up in the Resources and Non-renewable Energy and Infrastructure and Renewable Energy categories respectively.

CLIENT FEEDBACK

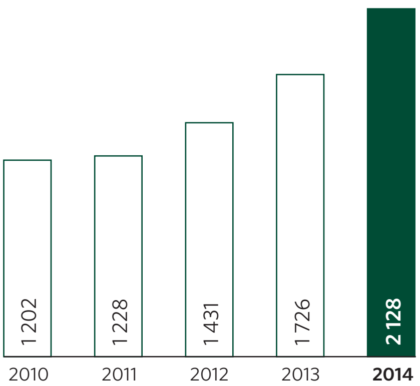
'Were it not for Nedbank's partnership and belief in our vision in 2004 to build a black-owned and -controlled private-equity business, we would not be where we are today, 10 years later.'

Gcina Zondi
CEO Imbewu Capital Partners

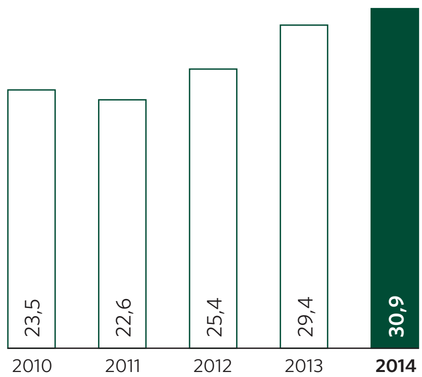
'We are pleased to have worked with Nedbank on our successful DCM programme. They played a key role in helping us successfully navigate difficult market conditions for subdebt following the collapse of Abil.'

Abubakar Addae
Head of Balance Sheet Management, Old Mutual Emerging Markets

Headline earnings (Rm)



Return on equity (%)



CASE STUDY
LAKE TURKANA WIND PROJECT – KENYA

In keeping with Nedbank's African strategy, Nedbank Capital was involved in the historic Lake Turkana Wind Power Project based in Kenya. The project is the largest single private sector investment in Kenya. At up to 310 MW, it will be the biggest wind farm on the African continent and in the top 10 worldwide. Wind experts hail the quality of the wind as among the best in the world.

What started out as a camping trip in 2006 by some Kenyan farmers who went fishing and camping in the north of Kenya near an excessively windy Lake Turkana evolved into the Lake Turkana Wind Project. This was achieved after several years of collecting wind data and having discussions with both government and a Kenyan offtaker, finally culminating first in equity then in debt financial close in December 2014.

In addition to the 365 wind turbines, an electric grid collection system, a village and a high-voltage substation form part of the overall project. Road upgrades to over 200 km of Kenyan roads, as well as internal access roads on the project site, make up what is being paid for and financed by the project company.

Through Nedbank's involvement as a mandated co-lead arranger in the Lake Turkana Wind Project, we have successfully supported the production of low-cost electricity that will be provided to the Kenyan national grid. The electricity generated from the plant will be equivalent to nearly 20% of the currently installed generating capacity of Kenya and will be the cheapest form of electricity in the country. The project further reduces the need to depend on unreliable hydro and on expensive, unpredictably priced fossil-fuel-based power generation. The Lake Turkana Wind Project will save the Kenyan government in excess of €100m a year in fuel import bills.

The uniqueness and importance of this project was evident in that it has received the following two prestigious international awards:

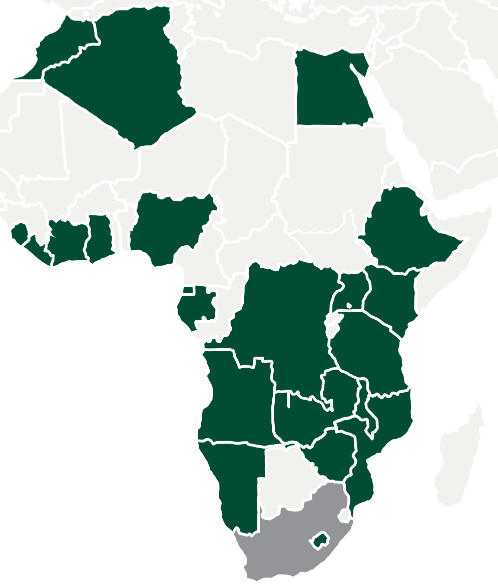
- African Renewables Deal of the Year (2014) by the PFI Awards (Thomson Reuters); and
- African Renewables Deal of the Year (2014) by IJ Global (*Infrastructure Journal* and *Project Finance* magazine).

Nedbank is proud to be part of this project and will continue to act as a key enabler to providing sustainable success and continuous support to our clients across the African continent.

DEALS EXECUTED IN AFRICA

- Rest of Africa remains a focal point for Nedbank Capital as we build on our existing platform to increase our footprint in Africa through strategic alliances and physical presence.
- Nedbank Capital has a presence across 24 countries in Africa.

Deals executed in 24 countries across Africa



Looking forward

The primary drivers integrating Nedbank Capital and Nedbank Corporate are to grow revenue and capture opportunities by putting our clients at the centre of our universe.

The relationship management and client coverage pillar will achieve this by providing a seamless interface that can coordinate the product pillars to create value-adding solutions for our clients.

The four product pillars, namely transactional services, financing and advisory, markets, and property finance, are well established and have grown significantly over the past few years, generating excellent returns for shareholders. The strength of our combined balance sheet will assist us to originate and lead large sector deals, driving growth across the group.

In terms of geographic reach we will continue to capture opportunities in the rest of Africa by offering holistic solutions as our clients expand beyond SA borders, while working closely with our strategic partners, Ecobank, Banco Único, Bank of China and Canadian Imperial Bank of Commerce (CIBC).

All of our growth initiatives are underpinned by prudent cost management and centralised support functions to eliminate duplications, with continued investment in systems to enhance productivity and regulatory compliance.

Nedbank Corporate and Investment Bank has excellent people and cohesive teams that have worked together for a long time, as well as indepth client knowledge and relationships that will play a key role in helping to develop the continent going forward.

NEDBANK CORPORATE AND INVESTMENT BANK

RELATIONSHIP MANAGEMENT AND CLIENT COVERAGE

Transactional services

Financing and advisory

Markets

Property finance

STRATEGIC PARTNERS:
ECOBANK, BANCO ÚNICO, BANK OF CHINA, CIBC

NEDBANK **WEALTH**

Providing broad-based financial services to clients of Nedbank Group.

OVERVIEW

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

Wealth Management

We provide integrated, international wealth management solutions to HNW individuals through the Nedbank Private Wealth brand. The division also offers trust, stockbroking and financial planning services. Nedgroup Trust provides trust and fiduciary services both locally and internationally, while Nedbank Private Wealth Stockbroking provides local and international stockbroking solutions to affluent and HNW individuals. Nedbank Financial Planning provides comprehensive financial planning to clients across the income spectrum.

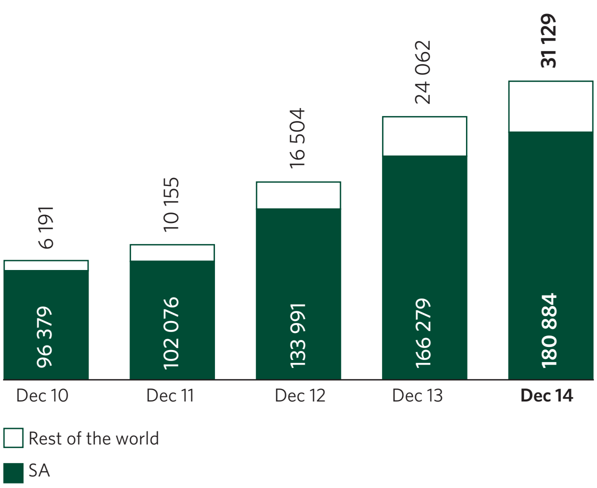
Asset Management

Nedgroup Investments offers a range of local and international Best of Breed (BoB)™ unit trusts, cash, multimanagement and passive solutions. They also provide active client management and research supporting the HNW and stockbroking businesses of Nedbank Private Wealth.

Insurance

Nedbank Insurance provides a broad range of life and short-term insurance solutions as well as insurance broking of Nedbank and third-party insurance products.

Assets under management (Rm)



REVIEW OF 2014

Nedbank Wealth delivered strong financial performance with noteworthy progress against the key strategic objectives set out for 2014. The performance was noteworthy considering the decrease in Nedbank Retail's unsecured-lending volumes that impacted credit life, and weather-related claims that impacted short-term insurance. This performance was achieved through increased collaboration across the group and improved client penetration in an environment of higher market volatility and macroeconomic instability.

Our focus during 2014 was to enhance and profile our broad range of financial services as well as to deliver new value-added client solutions.

In addition, we have prepared for the opportunities presented by the broad regulatory change that will significantly impact the various industries in which we operate.

Looking ahead, we see more opportunities to simplify and align so that we can improve client experience and business efficiency. We will also continue to explore broader complementary organic and inorganic financial service opportunities, while leveraging our advantage of having access to the Nedbank Group client base.

Wealth Management

Record levels in equity markets supported the strong performance of our overall wealth management operations in 2014.

Wealth Management delivered a very strong set of results on the back of strong growth in client acquisition, advances and net client cashflow, together with strong risk management, deposits and a widening net-interest margin.

Locally, our Nedbank Private Wealth investment solutions range performed exceptionally, with four of our funds ranking top in their categories over the past 10 years. Further achievements included being ranked second in both the Up-and-coming Professionals and Passive Lump-sum Investors categories in *Investors Monthly's,* SA's Top Private Banks and Top Wealth Manager Survey.

On the international front Nedbank Private Wealth received numerous accolades, including the Best in Class for Integrated Banking Service award at the Professional Advisor Fund and Product Awards, Gold Standard rating from Investors in People and extraordinary status by Best Companies Accreditation for the eighth consecutive year. Our international trust operations were awarded Platinum Partner Status, which is the top accreditation by the Society of Trust and Estate Practitioners in the UK.

Stockbroking and Financial Planning enjoyed continued momentum of net client cashflows and new-client acquisition. Stockbroking benefited from improved client trading, while enhanced cross-cluster collaboration generated increased leads to financial planners who service the investment needs of the broader Nedbank client base. Nedbank Financial Planning continues to benchmark itself as a worldclass distribution business with record back-to-back premium and productivity levels. This growth is on the back of an increase in the number of financial planners, higher productivity and lower lapse ratios.

We initiated a new collaborative initiative that will see Nedbank and Old Mutual offer a combined employee benefits (EB) solution to Nedbank's client base. This is built on Old Mutual's administration capabilities and experience in providing risk benefits by leveraging off Nedgroup Investments' funds and Nedbank Financial Planning's distribution.

The restructure of our trust and fiduciary businesses completed in 2013 has enabled and enhanced operational efficiencies and synergies.

Asset Management

While equity markets grew to new record highs during 2014, the asset management industry faced headwinds in the form of a struggling SA and global economy and the resultant collapse of African Bank Investments Limited (Abil) which in turn created volatility in the financial markets. Despite this, Asset Management continued to grow, underpinned by our market differentiated BoB™ proposition and excellent fund performance.

The investment range delivered excellent fund performance, with key funds significantly outperforming peers and benchmarks. For the sixth consecutive year Nedgroup Investments was ranked among the top management companies in the industry as measured by independent surveys Plexus and Morningstar.

Nedgroup Investments maintained its growth momentum of prior years in attracting strong net inflows, despite increased outflows in our cash as a result of the uncertainty from Abil's collapse. In particular, we attracted strong net flows into our equity asset allocation funds, Nedgroup Investments Stable Fund and the medium-equity Nedgroup Investments Opportunity Fund. The international BoB™ range of funds significantly increased assets and market share, with exceptional performance across the range.

We are particularly proud of the track record and growth of our low-cost passive offerings, which have taken the lion's share of net flows in the unit trust and exchange-traded fund passive market. We anticipate continued interest and momentum in this space as regulators and investors pay greater attention to costs, and believe we are well positioned to be a significant beneficiary.

In October 2014, at the investment industry's 18th annual STAR Awards ceremony in Chicago, the Nedgroup Investments advertising campaign, Ordinary Day, was announced as the winner for Best Retail Advertising Campaign for Small Fund Managers. The STAR Awards programme honours the fund industry for its extraordinary efforts to communicate with and market to investors in ways that support shareholders and their investment goals.

In the digital space we continue to invest and innovate to deliver a better client experience as evidenced by the growing momentum in our clients' uptake of our unit trust app that was launched at the end of 2013.

In 2012 Nedbank Group adopted the Old Mutual Group Responsible Investments Standards to align with its commitment to the Principles for Responsible Investment (PRI) and the Codes for Responsible Investment SA (CRISA). This is well aligned to Nedbank's strategic positioning of being a green and caring bank, and offers the bank a new lens through which to make investment decisions, enabling better risk management and the identification of new opportunities. There was a focus on upskilling staff to ensure a better understanding of PRI and CRISA and of what needs to be adapted to integrate PRI into the various life and investment businesses. Old Mutual Group coordinates the reporting process and submits the report to the relevant authorities.

Insurance

The Insurance Division's earnings growth was placed under pressure during 2014 with the slowdown in the retail credit book, particularly in unsecured lending and motor finance. This was further compounded by a one-off drop in gross written premium as a result of a home loan process change in homeowner's cover renewals as well as by the impact of significant weather-related claims throughout the year.

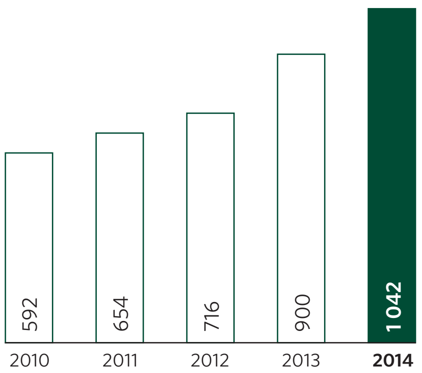
In line with Nedbank's strategy to increase product cross-sell to existing clients, Nedbank Insurance enhanced its Funeral Plan offering across the product range. This will provide flexible payment options as well as increased benefits across all the market segments. This product was well received and we expect further penetration into the Nedbank client base.

We continue to invest in repositioning our insurance offerings under a single Nedbank Insurance brand, guided by the principle of 'enabling everyday certainty'. Future alignment of systems and processes will be guided by client-centredness and our focus of simple bancassurance.

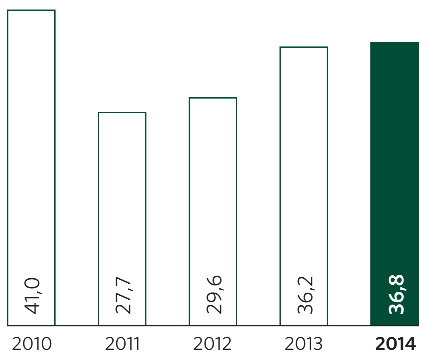
To broaden the range of our life investment products we recently established the Nedbank Insurance's Green Property Fund. This property fund will invest in selected Nedbank-tenanted properties, with a preference for green-rated buildings, and will be marketed to the HNW client segment, seeking yield in this sector of the market.

Nedbank Insurance has been innovative in the mobile and digital space and proudly launched the **NedbankInsurance.co.za** website. The site aims to improve client experience, build on the direct distribution option for insurance, and will help differentiate our products from those of our competitors.

Headline earnings (Rm)



Return on equity (%)



Note: 2010 not restated for enhancements to economic captial allocation methodologies.

REGULATORY ENVIRONMENT

There have been a number of regulatory proposals that affect the environment our businesses operate in.

In July 2014 the joint task team of the National Treasury and the Financial Services Board released its long-awaited technical paper on the outlook for increased regulation of consumer credit insurance. The objective of the paper is to curb widespread credit insurance abuse and improve the credit insurance client value proposition across the finance industry.

In November 2014 the FSB released the much anticipated draft Retail Distribution Review proposal. The proposal aligns to the Twin Peaks approach that will separate prudential and market conduct regulation of the financial services sector. The FSB's intention is to change the regulatory approach from reactionary to a more proactive outcome-based one. The objective of the proposal is to promote appropriate, affordable and fair advice, while clarifying the role of product providers and intermediary services.

We support the objectives of both the above as they have the client's interests in mind and will create increased transparency and enable SA to have a leading financial services market. This proposal will create greater alignment to treating customers fairly and our businesses are at the forefront of aligning our processes and systems to this proposal so as to be competitively 'future-fit'.

FINANCIAL REVIEW

Nedbank Wealth's headline earnings grew by 15,8% to R1 042m (2013: R900m). These results are attributed to record earnings growth in Wealth Management as well as continued growth momentum in Asset Management partially offset by relatively slower growth in Insurance.

Net interest margin was maintained at a level of 1,94% while our credit loss ratio improved to 0,17% (2013: 0,28%), slightly below our through-the-cycle target range of 20 to 40 basis points.

The non-interest revenue (NIR)/expenses ratio deteriorated marginally to 136,9% (2013: 138,9%) as a result of lower NIR growth in Asset Management and an overall increase in expenses driven by investment in new systems, products, intellectual property (IP) and capacity. Despite this, the efficiency ratio was maintained at 61,7% (2013: 61,4%) primarily due to strong NII growth of 18,3%.

Wealth Management delivered a noteworthy uplift in earnings both locally and internationally. The success in the repositioning and profiling of our integrated international HNW proposition is evidenced by the strong performance of our banking operations with overall advances up 13,3% and liabilities up 27,8%. The stockbroking and financial planning businesses continue their growth momentum off a high base set in prior years.

Asset Management generated net inflows of R8,5bn against a backdrop of volatile markets and the uncertainty created from the demise of Abil. Overall assets under management increased 11,4% to R212bn (2013: R190bn). Internationally, the BoB™ model is proving to be successful, with strong net inflows into the Global Equity and Flexible Funds. Locally we attracted excellent flows in the unit trust and multi-asset passive industries. For the sixth consecutive year Nedgroup Investments was ranked third in the annual Raging Bull Awards. This is an outstanding achievement and testimony to our commitment to long-term performance and stewardship.

Insurance earnings growth slowed due to lower Retail volumes as well as higher weather related claims experienced in the first half of 2014. The drop in the Retail volumes resulted in the 27% decline in value of new business. Despite this, embedded value grew 12,0% to R2 393m (2013: R2 138m) as a result of funds reserved for the acquisition into the Nedbank Insurance Green Property Fund. We continue to invest in the broadening of our insurance offering, evidenced by strong growth in funeral policies and niche short-term products. The transformation of our insurance business is well on track, with the move to a single insurance system and good progress being made in the mobile, digital and direct space.

Looking forward

Over the past five years Nedbank Wealth has consistently delivered strong growth, with high return on equity. This performance has been achieved through focusing on internal alignment, collaboration and simplification to improve our client experience and propositions.

The outlook for 2015 remains mixed given the level of markets, volatility and the rebasing of our insurance business.

In Insurance we will focus on simple bancassurance and broadening our life investments offering taking advantage of the bank's distribution and related opportunities to collaborate within the wider Old Mutual Group.

Asset and Wealth Management are well positioned in their respective markets both in terms of the unique BoB™ offering and integrated international value propositions.

RESPONSIBLE INVESTMENT

What is responsible investment and why is it important?

According to the United Nations Principles for Responsible Investment website 'responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and the long-term health and stability of the market as a whole. It is driven by a growing recognition in the financial community that effective research, analysis and evaluation of ESG issues is a fundamental part of assessing the value and performance of an investment over the medium and longer term, and that this analysis should inform asset allocation, stock selection, portfolio construction, shareholder engagement and voting. Responsible investment requires investors and companies to take a wider view, acknowledging the full spectrum of risks and opportunities facing them, in order to allocate capital in a manner that is aligned with the short and long-term interests of their clients and beneficiaries.'

Nedbank's commitment to responsible investment and progress to date

Nedbank adopted the Old Mutual Group's Responsible Investment Standards in 2012 to align with its commitment to the UNPRI and CRISA. Annual reporting on Nedbank's Responsible Investment data is done through the Old Mutual Responsible Investment Committee.

In 2014 Nedbank's efforts were focused on integrating ESG factors into investment and ownership practices as well as meeting the following compliance requirements:

- Published the Responsible Investment (RI) policy.
- Published proxy voting and conflict of interest policies.
- Included ESG considerations into mandates and service level agreements.
- Integrated ESG into investment decisions.
- Engaged with investors and key stakeholders.
- Developed and implemented reporting standards.

Nedgroup Investments applies ESG criteria to approximately 90% of total assets under management. The division has a unique BoB™ model, whereby the investment management function is outsourced to external fund managers. Nedgroup Investments's RI guidelines, proxy voting policy and conflict of interest policies are published on its website and guide the fund managers on Nedbank's approach. In addition, Nedgroup Investments has also developed and implemented an annual RI survey for its fund managers to assess their adoption and continuous commitment to the principles of RI. Due to the complexities associated with a multimanager model, manager vote records are disclosed only on client request. Formal tracking of manager votes has been identified as one of the focus areas for 2015 to 2016.

The Active Management team of Nedbank Private Wealth (NPW) also committed itself to instituting RI principles and published on its website proxy voting guidelines as well as the proxy vote records of all stock covered and voted for by the Active team, which is 100% of its listed equity. NPW has identified the need to build on RI skills and expertise and continues to work towards improving its overall research and investment processes to incorporate ESG factors.

Nedbank Insurance, as the asset owner, is yet to review the impact of the ESG factors on its mandates with the fund managers. However, their fund managers are already applying the principles.

CLIENT FEEDBACK

Wealth Management

'The service I receive from Nedbank Private Wealth feels much personalised and you have a good basket of products to access.'

'The service from Nedbank Private Wealth is excellent because I have been dealing with them for 20 years and I am not moving. My banker is amazing and so is her assistant.'

'I am very likely to recommend Nedbank Private Wealth to my friends and family.'

'For a number of years, I have had the same relationship and fund manager with Nedbank Private Wealth. This stability is extremely important.'

Asset Management

'It is great to use the Nedgroup Investments online service; it was really easy to use and executed quickly. Well done.'

'Nedgroup Investments always sends me SMS confirmation and I do not have to worry further as I know my instruction has been received and is being dealt with.'

'The consultants at Nedgroup Investments are very knowledgeable and always very helpful. They make the processes feel easy.'

'Thank you. The attention to detail by the Nedgroup Investments service team was very professional. Every aspect was very clear. It was a pleasure to deal with professionals who know and understand their service offering. A 10 rating from me.'

Insurance

'I have found the Nedbank Insurance staff to be very helpful and friendly. The staff read out every sentence and provided clear context and explanations'.

'The whole process was very professional. The financial planner visited us even though we were 120 km from his office. He explained everything in simple terms we could understand. We are very satisfied with the advice provided to us.'

NEDBANK **REST OF AFRICA**

WHO WE ARE

The Pan-African banking network represents Nedbank Group's interests and ambitions in the rest of Africa through coverage in 39 countries representing owner and managed banks, representative offices as well as equity interests and an alliance.

In the South African Development Community (SADC) and in East Africa our interests are represented through an existing network of banks in five countries, an initial 36,4% stake in Banco Único and representative offices in Angola and Kenya. In West and Central Africa our involvement is through the Pan-African banking alliance and a 20% equity stake in Ecobank Transnational Incorporated (ETI).

Our goal is to leverage this structure to offer a one-bank operating model for our clients with a network capability in southern, eastern and western Africa covering 39 countries and comprising over 2 000 banking points of presence.

WHERE WE OPERATE AND WHY

Historically, long on promise but short on delivery, sub-Saharan Africa has, in the past two decades become one of the fastest-growing regions in the world. Economic growth prospects will continue to remain among the highest in the world in the next few years, with many economies expected to show growth ranging between 4% and 6%. Against this backdrop, in many of the territories in which we operate, we expect retail revenue pools to mirror the gross domestic product growth trends through to 2020, driven by a growing middle class and a decrease in the unbanked population.

In wholesale we expect resource-driven growth in mining, oil and gas to be complemented by growth in infrastructure, energy, agriculture and the hospitality sectors. Notwithstanding the attractive growth prospects, the operating environment remains challenging due to developing regulatory and governance frameworks as well as a competitive banking environment. Despite these challenges, our strength in using risk as an enabler for growth puts us in a good position to grow in a risk-mitigated manner.

HOW WE OPERATE AND CREATE VALUE

The Rest of Africa strategy is anchored by Nedbank's vision to build Africa's most admired bank through strong organic growth, deep alliances and prudent acquisitions underpinned by a one-bank operating model across the continent. Our one-bank operating model ensures that we have the appropriate focus on client-centredness, efficiency and risk management.

Key elements of the one-bank operating model include a largely common focus on client segments; client value propositions (CVPs) and service models; information technology and operating systems; risk frameworks; governance; and people management practices and culture. In deploying the one-bank operating model we are leveraging the best of the vast expertise and experience in our Pan-African network. In 2014 we accelerated the deployment of our one-bank operating model.

In the SADC and East Africa

Namibia, Swaziland, Lesotho, Zimbabwe and Malawi

We have further strengthened our leadership team through key internal and external appointments to drive our strategy.

In our retail subsidiary business our focus is on acquiring primary transactional relationships through:

- introducing new and simplified CVPs for our entry-level banking and middle-market segments to capture market share;
- investing in expanding our branch network, leveraging our client-centred thinking in the SA 'branch of the future', concept, tailored appropriately to our market nuances to service our clients better; and
- leveraging our SA alternative distribution strategy to roll out cost-efficient distribution networks.

In our wholesale business we are:

- standardising our client service model to ensure consistently high service delivery across our subsidiaries;
- enhancing our corporate and business banking CVPs to target key growth sectors by collaborating with the rest of the group, particularly Nedbank Corporate and Investment Banking and Business Banking; and
- leveraging off Nedbank Corporate and Business Banking relationships to gain new clients and retain existing ones.

In information technology and operations we are making a significant investment in a common information technology platform across our subsidiaries to improve system stability and lay the foundation for optimisation of operations, faster time to market on innovations and better risk management.

Our people are key to driving our business and overall employee satisfaction remains high as we have continued to invest in skills development, capacity building and embedding a client-first culture.

Mozambique (Banco Único); Angola and Kenya (representative offices)

In Mozambique we continue to work collaboratively with Banco Único to grow market share by meeting the needs of both local businesses and the increasing number of SA businesses operating in Mozambique. We have made progress on setting up a framework for further collaboration including risk, compliance and operations.

Our Angolan and Kenyan representative offices have expanded their operations, with an increase in dedicated staff. Working within the Ecobank Alliance in these territories, we continue to build and establish meaningful client relationships and offer our clients access to our Pan-African network.

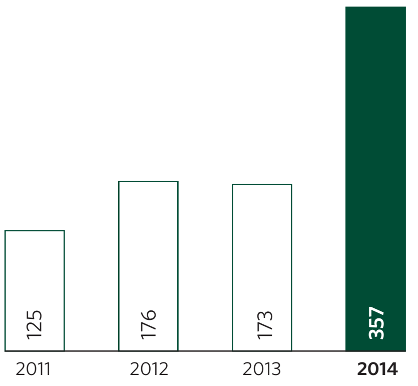
In West and Central Africa

In West and Central Africa we follow a partnership approach with ETI. In 2014 we exercised our rights to acquire a 20% equity stake in ETI, which provides an opportunity to deepen the technical and strategic alliance that was formed in 2008. This investment offers our shareholders participation in earning potential from the fastest growing markets in sub-Saharan Africa.

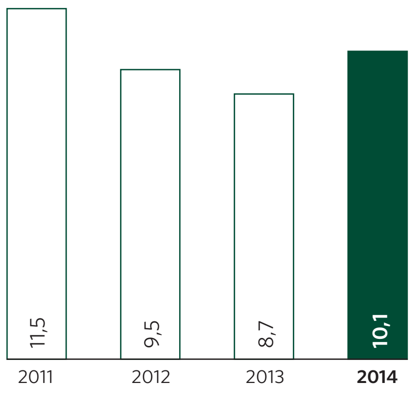
The alliance is a client-focused initiative intended to provide our clients with a seamless banking experience across the 39 African countries that make up the alliance footprint. We have continued to see growing collaboration between Ecobank and Nedbank, evidenced by a growing number of Nedbank clients who now bank with Ecobank.

Through our alliance we have been able to deliver country-specific, tailored banking solutions for our corporate and individual clients expanding their operations into Africa. We are ensuring, through Nedbank Group, that our clients are afforded the opportunity to receive financial investment banking advisory services and transactional banking services. The alliance's commitment to providing a one-bank experience is significantly supported by its advanced technical infrastructure and an array of technology initiatives aimed at making banking simpler and easier for clients.

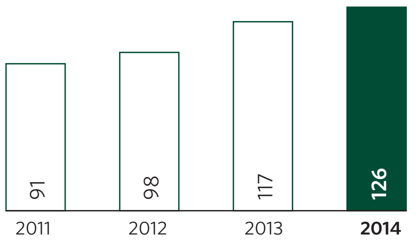
Headline earnings (Rm)



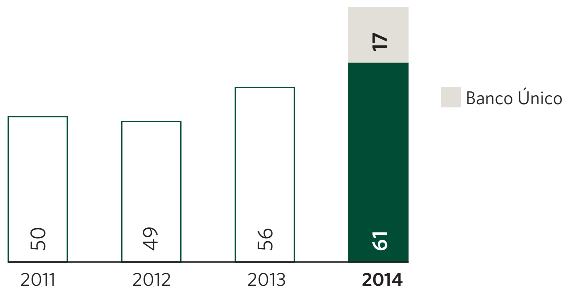
Return on equity (%)



ATMs



Branches



These initiatives, combined with a global coverage model, enable clients to enjoy a smooth flow of transactions regardless of the alliance partner bank with which they hold their primary bank account.

HOW WE PERFORMED ON OUR STRATEGY

Our Rest of Africa strategy is beginning to pay off. The Nedbank Rest of Africa Division delivered growth in headline earnings of 106% to R357m (2013: R173m) and generated a return on equity of 10,1% (2013: 8,7%), with an allocated economic capital ratio of 15,0%. Strong earnings growth of 35,9% was achieved in the five existing SADC banking subsidiaries, with performance including associate income from its investments in ETI and Banco Único for the first time.

Net interest income (NII) was 12,1% higher at R899m, including the grossed-up cost of financing the investments in associates. The banking subsidiaries' growth in NII was 24,3%, driven by advances growth of 17,3% and higher capital allocations.

Non-interest revenue at R768m (2013: R675m) was 13,8% higher as a result of 8,8% growth in the banking subsidiaries and net fair-value gains arising from investments.

The credit loss ratio improved to 0,23% (2013: 0,37%) due to the release of the portfolio provision carried against the loan to ETI.

Expenses increased by 11,5% to R1 256m (2013: R1 126m), with the efficiency ratio strengthening to 69,2% (2013: 76,3%) mainly due to the inclusion of associate income net of funding costs for the first time.

Associate income of R148,9m (2013: Nil) was generated from the investments in associates, with Banco Único turning profitable during the year as anticipated. Associate income for ETI was estimated by Nedbank on a prudent basis, effective from the fourth quarter, as ETI reports later than Nedbank. In future earnings from ETI will be reported a quarter in arrear.

Our performance and dedication to a client-centred approach have been recognised during the year through various awards including:

- Nedbank Namibia being named **Best Banking Service Provider** during the country's first Customer Service Excellence Awards;
- MBCA (Zimbabwe) being named **Most Customer-focused Organisation** for the Banking Category by the Contact Centre Association of Zimbabwe;
- Banco Único being named **Fastest Growing Retail Bank** in Mozambique and Best Bank CEO in Mozambique in 2014; and
- Ecobank Mali being named **Best Bank in West Africa** during the 2014 *African Banker* Awards.

Looking to the future

We are well positioned to grow our market share and improve our performance through:

- deploying targeted, simple and competitive CVPs;
- investing in enabling technology to reach our clients in a cost-efficient manner;
- building scale by establishing a competitive cost-efficient distribution;
- exploring opportunities across the SADC and East Africa to expand our Pan-African banking network; and
- deepening our Ecobank Alliance to offer greater value to our clients.