Nedbank Group Limited
(Incorporated in the Republic of South Africa)
Registration number: 1966/010630/06
JSE share code: NED
NSX share code: NBK
ISIN: ZAE000004875
JSE alpha code: NEDI
('Nedbank Group')

Nedbank Limited
(Incorporated in the Republic of South Africa)
Registration No. 1951/000009/06
JSE share code: NBKP
ISIN: ZAE000043667
JSE alpha code: BINBK

(collectively the 'group')

NEDBANK GROUP VOLUNTARY TRADING UPDATE FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

In line with the JSE Limited's letter to issuers regarding effective communication to investors during the Covid-19 pandemic wherein they highlighted the importance of providing more regular and detailed communication to the market during uncertain times, the following Nedbank Group voluntary trading update for the nine months ended 30 September 2020 (9M 2020) is shared with investors.

The Covid-19 pandemic and subsequent lockdowns as well as financial market volatility in late March 2020 were extreme events and the negative impact of these on the group's client base remains evident and is expected to continue for some time. The economic environment in the third quarter of 2020 (Q3 2020) improved when compared to the second quarter of 2020 (Q2 2020), as evident in macroeconomic indicators and high frequency data from our transactional banking channels. Industry turnover data recorded on our point of sale devices and digital channels in Q3 2020 illustrates an ongoing recovery as lockdown levels eased, with turnover levels in September 2020 at 98% of March 2020 levels and an increase of 3% compared to the month of September in 2019. This compared to the April 2020 low at 47% of March 2020 levels (46% down on the month of April 2019).

In the group's interim results announcement, released on 26 August 2020, we noted that our focus at this time is primarily on the health and safety of our staff and clients and serving and supporting clients in good standing in managing their finances through this difficult period. While it is still too early to draw final conclusions given the risk of a second round of infections, Covid-19 infection rates in staff peaked in mid-July and are trending downwards. In support of our clients in this difficult economic environment, in the period up to 30 September 2020, we have approved and concluded more than 400 thousand loan restructures qualifying under SARB Directive 3/2020 (D3) amounting to more than R121bn and paid out R1,1bn under the SA Government's SME Loan Guarantee scheme and in so doing have helped our clients to better manage their cashflows through the crisis. Our IT systems remain stable and the Managed Evolution technology strategy on track despite the lockdown. The launch of market-leading digital solutions has resulted in an increase in digital usage and a 9% yoy increase in digitally active clients to over 1,9m.

Financial performance

The financial performance of the group improved in Q3 2020 when compared to Q2 2020, primarily driven by lower impairments in the quarter as the extent of forward looking IFRS 9 macro-model adjustments and judgmental overlays booked in Q2 2020 did not repeat.

Average interest earning banking assets growth slowed to around mid-single digits, down from the 8,2% reported in H1 2020. In RBB, gross loans and advances growth increased to around 3%, up from the 1% reported in H1 2020. Retail loan application volumes have recorded a full recovery to above pre-lockdown levels across all major products, in part driven by pent up demand given the impact of lockdown on home loans and vehicle finance, and in part by the 300 bps lower interest rates. The higher growth in RBB was achieved notwithstanding loan approval rates that are lower than pre-crisis levels. In CIB, gross banking loan and advances growth slowed from the 10% growth reported in H1 2020 primarily as a number of clients that accessed committed liquidity facilities at the height of the crisis repaid their loans, and as we continued to optimise the portfolio.

Deposit growth remained robust and well ahead of growth in loans and advances.

Net interest income (NII) growth for 9M 2020 decreased from the 1% growth reported for the six months to 30 June 2020 (H1 2020) as overall loan growth slowed and the group's net interest margin (NIM) contracted slightly to just below the 330 bps reported in H1 2020. The decline in NII in Q3 2020 was less than we expected but is in line with our full year 2020 guidance range of between 0% and -5%. While lower endowment income continued to put pressure on NIM due to the run rate impact of the 300 bps interest rate cuts to date, asset pricing improved, particularly in the secured lending (home loans, vehicle finance and commercial property) and corporate lending portfolios.

Impairment growth for 9M 2020 remained elevated but was lower than the 202% reported in H1 2020, supporting a credit loss ratio (CLR) that decreased from 194 bps in H1 2020 to within our 2020 full year guidance range of between 150 bps to 185 bps. The reduction was supported by lower CLRs across CIB, RBB and Nedbank Africa Regions, while Nedbank Wealth's CLR remained flat on June 2020.

- In CIB, impairments for Q3 2020 decreased compared to Q2 2020 as the R1bn forward looking IFRS 9 macro-economic overlay in Q2 2020 did not repeat. More clients migrated to Stage 3 loans and appropriate impairments were raised, and D3 loans increased to R32bn, slightly up from the R30,5bn reported in H1 2020. An update to the group's macro-economic forecasts resulting in a larger GDP growth decline for 2020 (-9,2%) compared to the (-7,0%) forecast in June 2020, has not had a material impact on CIB's impairments as the lower levels of exposure at default (EAD) had an offsetting impact. The commercial property portfolio continues to perform well and the underlying rental collections by listed clients continued to improve (94% in August 2020, up from 88% in July 2020 and the low of 67% in April 2020).
- In RBB, impairments for Q3 2020 reduced compared to Q2 2020. Impairments in Q3 2020 reflect the impact of D3 loans migrating to Stage 2 due to payment holiday renewals, as well as an increase

in Stage 3 loans. 90% of the R79bn D3 loans extended in RBB have matured (lapsed) with 66% having resumed their monthly payment, 5% were one or more payments in arrears and 19% have been extended/renewed. 10% of D3 loans have not yet matured. Of the 71% of loans that matured and were not renewed, 93% are paying their instalments. As at 30 September 2020 R23bn (6% of RBB loans and advance) were classified as D3 loans, a reduction from R78bn (21,5% of RBB loans and advances) at 30 June 2020. Non-D3 loan repayments continue to perform ahead of our expectations given the positive impact of the 300 bps reduction in interest rates ytd.

- The group's total coverage ratio increased from the 2,95% reported at H1 2020 to 3,2%, driven by an increase in Stage 2 coverage from 4,7% in H1 2020 to 6,0% as a result of additional D3 extension-related overlays in RBB and a reduction in Stage 2 CIB clients with low coverage that repaid and/or cured, and therefore moved to Stage 1.
- While impairment trends are encouraging, risks associated with D3 and D7 restructured loans in RBB, as well as watchlist clients in CIB remain elevated and are closely monitored. A D3 loan is a restructured loan categorised under SARB Directive 3 of 2020 providing payment relief to qualifying borrowers that are temporarily affected by Covid-19 and were up to date with their payments at 29 February 2020. A D7 loan is a distressed restructure categorised under SARB Directive 7 of 2015, classified as defaulted (Stage 3) and has to be kept in default for at least six months until the new loan agreement can be considered cured.

Non-interest revenue growth for 9M 2020 decreased when compared to the decline of 5% reported in H1 2020, in line with our expectations and our full year 2020 guidance range of between -7% to -11%.

- Commission and fees reduced by less than the 9% decline reported in H1 2020 as the easing of lockdown restrictions to level one and two has been beneficial. Client transactional activity across our branches, as well as on our digital channels, ATMs and POS devices increased when compared to April, May and June 2020, but remained below March 2020 levels. Digital penetration increased further to 26% (H1 2020: 25% digitally active clients as a percentage of total clients). Retail main-banked clients increased 4,5% from the 2,65m reported in H1 2020 as transactional activity levels improved, while CIB recorded 25 primary-banked client wins ytd (H1 2020: 22).
- Insurance income continued to decline given higher levels of credit life claims which we expect to peak in H2 2020.
- Trading income growth remains strong but has slowed, as expected, with declining levels of volatility and volumes.
- Private equity income recorded an improvement from the R765m loss reported at interims as market valuations stabilised in Q3 2020, but downward pressures on underlying investee companies are still evident.
- A portion of the fair value gains reported in H1 2020 continued to unwind in line with our expectations.

Expenses continued to be well managed in response to the more challenging environment through lower variable costs and diligent cost management and the decline in expenses for 9M 2020 was in line with our full year 2020 guidance range of between -1% and -4%, and lower than the 1% decline reported in H1 2020.

Associate income of R222m, relating to Nedbank Group's 21% shareholding in ETI for 9M 2020 (9M 2019: R561m), has been recognised. This includes accounting for associate income from our share of ETI's Q4 2019 and H1 2020 attributable profits (a quarter in arrear) of R458m, as well as our share of the ETI's 2019 restatement of R236m which was reflected in our half year results.

As a result of the group's improved financial performance in Q3 2020, the ROE for 9M 2020 increased when compared to the 4,8% reported in H1 2020. NAV per share increased 4%, up from the 2% increase reported at H1 2020.

Outlook

SA Q2 GDP of -51% annualised q-o-q (-17,1% yoy), was slightly worse than expected, given a greater deterioration of economic activity during lockdown. Over the first half of 2020, the economy contracted 8,7% yoy. As a result, our Nedbank Group Economic Unit's SA GDP forecast for 2020 has been revised down from -7,0% to -9,2% while our 2021 forecast increased slightly to 2,5% (from our previous 2,2% forecast). The SA Economic Reconstruction and Recovery Plan announced by President Ramaphosa, contains many practical initiatives which together should improve the underlying investment environment and unlock greater job creation and faster economic growth. Much now depends on how quickly the specific measures proposed in the plan can be implemented.

The Medium Term Budget Policy Statement (MTBPS) delivered by the Minister of Finance on 28 October 2020 had no surprises and few new insights. SA's debt trajectory is, however, substantially worse than reflected in the Supplementary Budget. The MTBPS reiterates the need to make difficult choices to stabilise debt, stressing that failing to do so could lead to a fiscal crisis. The fiscal policy path presented will be a further drag on SA's recovery, with higher taxes and spending constraints likely to weigh on incomes, earnings and growth.

The impacts of the Covid-19 pandemic on economies are material and continuously evolving. As a result, the impact on the banking industry and Nedbank Group's results in 2020 remains uncertain. As noted in our H1 2020 disclosures, full-year HEPS and EPS are expected to decline by more than 20% when compared to the 12-month period ended 31 December 2019 (HEPS: 2 605 cents, EPS: 2 500 cents). As at 30 September 2020 this guidance remains unchanged. A further trading statement will be issued in Q1 2021 to provide more specific guidance ranges once there is reasonable certainty regarding the extent of the decline and the relevant HEPS and EPS ranges.

The group's pre-close call is scheduled for the first week of December 2020 and further details will be provided in due course.

Nedbank Group Chief Executive, Mike Brown, noted: 'While these are very challenging times, we are well prepared to respond to and manage the risks that have emerged. We have strong, capable and experienced management teams in place to navigate our way through these headwinds and emerge stronger and more competitive on the other side. The past eight months have been a difficult period and we thank our dedicated staff for continuing to support and deliver to our clients, communities and all our stakeholders. The group remains profitable and capital and liquidity ratios are strong and above boardapproved minimum targets and well above all regulatory requirements. Our current guidance for all the key 2020 performance metrics, as outlined in our 2020 interim results announcement on 26 August 2020, remains intact. The group's Basel III disclosures as at 30 September 2020 will be released in November 2020.'

Shareholders are advised that the financial information contained in this voluntary trading update has not been reviewed or reported on by the Nedbank Group´s auditors.

Sandton
29 October 2020

Sponsors to Nedbank Group in South Africa:
Nedbank CIB
Merrill Lynch South Africa (Pty) Limited

Sponsor to Nedbank Group in Namibia:
Old Mutual Investment Services (Namibia) (Pty) Ltd

Sponsors to Nedbank Limited in South Africa:
Nedbank CIB
Investec Bank Limited