Nedbank Group Limited	Nedbank Limited
(Incorporated in the Republic of South Africa)	(Incorporated in the Republic of South Africa)
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(‘Nedbank Group’)	
(collectively the ‘group’)	

NEDBANK GROUP PRE-CLOSE INVESTOR CALL AND CONFIRMATION OF PREVIOUS MARKET GUIDANCE AND TRADING STATEMENT FOR THE TWELVE-MONTH PERIOD ENDING 31 DECEMBER 2020

On 29 October 2020 Nedbank Group released a detailed voluntary trading update for the nine months ended 30 September 2020, wherein we noted that both the economic environment and the performance of the group had improved in the third quarter of 2020 (Q3 2020) when compared to the second quarter of 2020 (Q2 2020). While the negative impacts of the Covid-19 pandemic and subsequent lockdowns were still evident in parts of the group’s client base, high frequency data from our transactional banking channels, our point of sale devices and card-related digital channels reflected positive growth in total industry turnover data from August 2020 onwards. These trends have continued post Q3 2020 and into October 2020. The ongoing economic recovery from the low point in Q2 2020, initiated by the gradual easing of lockdown levels from level five to the current level one, is encouraging and is expected to continue. Our Nedbank Group Economic Unit’s SA GDP growth forecast for 2020 has recently been revised from -9,2% to -8,1% and our 2021 forecast has been revised upwards from 2,5% to 3,0%. Our current forecast is for interest rates to remain flat in 2021 and then increase by 50 bps in H1 2022.

On 20 November 2020, Fitch downgraded SA’s long-term foreign currency debt to BB- (from BB) with a negative outlook citing rising government debt and the economic shock from Covid-19 as the main reasons for the downgrade. Similarly Moody’s downgraded the SA sovereign credit ratings from Ba1 to Ba2 maintaining a negative outlook with the key driver behind the rating downgrade being the further expected weakening in SA’s fiscal strength over the medium term. Following the Moody’s SA sovereign downgrade, SA banks including Nedbank were downgraded on 24 November 2020 to Ba2 (from Ba1) as the rating of domestic banks cannot be above that of the sovereign. Positively, Moody’s noted that: ‘the rating agency expects the South African banks to continue to maintain solid capital buffers, along with sound funding and liquidity’. The Moody’s downgrade, taken in isolation of any other matters, is expected to have an immaterial impact on Nedbank Group’s risk weighted assets (RWA) and regulatory capital. In addition, the downgrade is not expected to have any significant impact on the group’s cost of funds over time, as a result of the group being largely domiciled in SA and raising most of our deposits and funding within the closed rand system, with very little mismatch between foreign denominated funding and foreign denominated assets.

As we have consistently communicated to investors over the past seven months, our primary focus at this time remains 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 and in so doing providing support to the economy. We thank our Nedbank staff for tirelessly supporting and delivering products and services to our clients and all our stakeholders throughout the crisis. While it is still too early to draw final conclusions given evidence of a resurgence in infection rates globally and in some parts of SA, Covid-19 infection rates in staff peaked in mid-July. We remain on a high alert for a possible second round of infections and continue to observe the Covid-19 health protocols, while closely tracking the recent news of the progress in development of potential vaccines.

From a technology perspective, our IT systems have remained stable and the Managed Evolution technology programme is still on track to be materially complete (above 80%) by the end of 2020. We continue to see an upward trend in digital usage and digitally active clients, driven by our market-leading digital solutions. At 31 October 2020 digitally active clients increased by more than 10% yoy to almost 2m (and to 70% of total main-banked clients, from 60% in 2019), while active Money App users increased 44% yoy.

Financial performance and confirmation of outlook for market guidance

Commentary on the group's financial performance in this pre-close update reflects the performance of the group to 31 October 2020 (10M 2020) and trends into Q4 2020. We also confirm that currently the group remains on track to meet the full year guidance we provided as part of our H1 2020 results and affirmed as part of the Q3 2020 voluntary trading update.

Average interest earning banking assets growth in 10M 2020 has slowed to around mid-single digits, down from the 8,2% reported in H1 2020 and we expect this trend of slower advances growth to continue towards the 2020 year-end. This slowdown in advances growth is driven primarily by reduced wholesale advances growth due to selective loan participation, active portfolio management and as corporate clients continued to repay loans drawn during the height of the crisis. The impact of this has only been partially offset by slightly increased advances growth in Retail and Business Banking (RBB) with growth at 10M 2020 improving to around 3%, up from the 1% reported in H1 2020. This increase in RBB is driven by a recovery in loan application volumes across all major retail products, notwithstanding lower approval rates as we tightened our lending criteria. Home loans, vehicle finance, personal loan and card applications have now fully recovered to above pre-lockdown levels, in part driven by pent up demand given the impact of lockdown on home loans and vehicle finance, and in part supported by the 300 bps reduction in interest rates. The end-to-end digital client onboarding and product sales capabilities we have launched in 2019 as part of our Managed Evolution technology programme are enabling significantly quicker loan approval times and better client experiences, and in the nine months to 30 September 2020, despite lower approval rates this has led to a 0,5% increase in personal loans market share to 10,7% as per the Prudential Authority BA 900 returns (personal loans was one of the first products to be fully digitised). The trend of slowing wholesale advances growth and improving retail advances growth is expected to continue throughout Q4 2020.

Deposit growth remains robust and still well ahead of advances growth.

Net interest income (NII) growth for 10M 2020 decreased from the 1% growth reported for the six months to 30 June 2020 as overall advances growth slowed and the group's net interest margin (NIM) contracted to just below the 333 bps reported in H1 2020 on the back of the run rate impact of lower interest rates on endowment income. The decline in NII to date is less than we expected but remains in line with our full year 2020 guidance range of between 0% and a decrease of 5%, which remains unchanged. Pleasingly, asset pricing has improved, particularly in the secured lending (home loans, vehicle finance and commercial property) and corporate lending portfolios.

Impairment growth for 10M 2020 was lower than the 202% reported in H1 2020, and as a result the group's credit loss ratio (CLR) decreased in line with our expectations from 194 bps in H1 2020 to within our 2020 full year guidance range of between 150 bps to 185 bps, which remains unchanged.

Year to date at 10M 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 R1,4bn 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. New requests from our clients for Covid-19 related payment relief, restructures and support have declined materially since 30 June 2020 and this trend continued into October 2020.

- In CIB, monthly impairments post H1 2020 decreased compared to monthly impairment levels in 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 in CIB increased from the R30,5bn reported in H1 2020 to R32bn in September 2020 and has since declined in October 2020 to around R31bn. Our focus on high risk sectors such as construction, aviation and hospitality remain top of mind.
- The group's commercial property advances portfolio continues to perform ahead of our expectations as the underlying rental collections by listed clients improved to 94% in October 2020, up from the low of 67% in April 2020, and as our clients' cashflows benefited from the significant reduction in interest rates. In addition, reduced shareholder distributions by REITs have been beneficial for bondholders and lenders. While cashflows are key to the ability of clients to perform under their loan obligations, property values are also important in this environment and although we entered this crisis with low average LTVs (48%) and good-quality collateralised assets which act as a significant buffer against potential losses, we have accelerated revaluation processes ahead of the group's 2020 year end. While we currently expect the overall trend in commercial property values to be downwards over the next few years, we perform our own valuations on each property and generally our own Nedbank valuations are below those of client valuations. Pleasingly the level of arrears (0 to 90 days) in our CPF portfolio remains very low at R40m at the end of October 2020, highlighting the strength of underlying client cashflows and their ability to service debt obligations.

- In RBB, monthly impairments post H1 2020 reduced when compared to monthly impairment levels in Q2 2020, but remain elevated as some D3 loans migrated to Stage 2 due to payment holiday renewals. There has also been an increase in Stage 3 loans. At the end of October 2020, 95% of the total of R79bn D3 loans extended in RBB have matured (lapsed), with 83% of these having resumed their monthly payment, 7% being one or more payments in arrears, 5% having been extended/renewed and 5% having not yet matured. Of the 90% of loans that have matured and were not renewed, 93% were paying their instalments, similar to payment levels in the prior months. As at 31 October 2020 R9bn (approximately 2% of RBB loans and advances) were still classified as D3 loans compared to R73bn in June 2020 and R23bn in September 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% at 10M 2020, driven by an increase in Stage 2 coverage from 4,7% in H1 2020 to 6,5% at 10M 2020 as a result of the D3 extension-related overlays in RBB and a reduction in a number of Stage 2 CIB clients with lower coverage that have 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. These, along with the risk of an unexpected large unsecured corporate default remain the largest risks to our guidance for FY 2020.

Non-interest revenue (NIR) growth for 10M 2020 was in line with our expectations and decreased when compared to the decline of 5% reported in H1 2020, but remains in line with our full year 2020 guidance range of a decline of between 7% and a decline of 11%, which guidance remains unchanged.

- Commission and fees in 10M 2020 reduced by less than the 9% decline reported in H1 2020 as the easing of lockdown restrictions to level one has been beneficial for transactional activity. In October 2020, digital payment volumes, point of sale volumes and ATM volumes were at 100% or more when compared to March 2020 levels, although branch volumes remained lower. Compared to June 2020 levels, digital payment volumes increased 49%, point of sale volumes increased 34%, ATM volumes increased 20% and branch volumes increased 27%. Cross-sell on new retail consumer sales increased to 1,9x from 1,2x in 2019. Retail main-banked clients at the end of October 2020 increased by more than 5% from the 2,65m reported in H1 2020 as transactional activity levels improved, while CIB recorded 31 primary-banked client wins up to 10M 2020 (H1 2020: 19).
- Insurance income continued to decline, given higher levels of credit life loss of income related claims but volumes of these appear to have peaked in September/October 2020.
- Trading income growth remains strong but has slowed, as expected, with declining levels of volatility and volumes when compared to the first half of the year.
- After recording a loss of R765m in H1 2020, largely from unrealised losses in marking down private equity investments to reflect reductions in public market values, full year 2020 unrealised private equity losses are expected to be only slightly higher than H1 2020.
- A portion of the macro fair value gains reported in H1 2020 continue to unwind in line with our expectations.

Key risks for NIR growth include materially better or worse transactional activity over the December holiday period, which traditionally generates significantly higher levels of NIR than in other months and volatility in trading income.

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 10M 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. We expect our guidance to remain appropriate for the full year. In the ten months to 31 October 2020 total staff numbers declined by more than 750 and SA retail branches declined by almost 40.

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. ETI is expected to announce its Q3 2020 results in due course, and this will inform Nedbank's Q4 2020 associate income from ETI.

The group's effective tax rate for FY 2020 is expected to be between 23% and 24%.

From a balance sheet perspective, the group remains liquid and well capitalised at levels above board-approved minimum targets and well above the minimum regulatory requirements. We noted in our Pillar 3 disclosures at 30 September 2020 that our CET1 ratio increased slightly from 30 June 2020 levels (10,6%) and remained strong at 10,7% reflective of organic capital generation after accounting for the impact of growth in RWA during the period. Our LCR and NSFR ratios were 125,6% and 113,2% respectively. In line with SARB Guidance Note 4/2020 (G4/2020) and in support of capital preservation, it is unlikely the board will declare a final ordinary dividend for 2020 so long as G4/2020 is in place.

The group will host a pre-close investor call based on this release at 14:00 on 2 December 2020. Details available at nedbankgroup.co.za.

Trading statement

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). This guidance remains unchanged and all the key 2020 performance metrics, as outlined in our 2020 interim results announcement on 26 August 2020 and Q3 2020 Voluntary Trading update, remain intact. 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.

We will enter our closed period on 1 January 2021 and release our group results for the year ended 31 December 2020 on the JSE Stock Exchange News Service around the third week of March 2021.

Shareholders are advised that the financial information contained in the pre-close announcement and investor call have not been reviewed or reported on by the Nedbank Group´s auditors.

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2 December 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