Nedbank Group Limited
(Incorporated in the Republic of South Africa)
Registration number: 1966/010630/06
JSE share code: NED
NSX share code: NBK
A2X share code: NED
ISIN: ZAE000004875
JSE alpha code: NEDI
('Nedbank Group')

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

(collectively the 'group')

NEDBANK GROUP PRE-CLOSE INVESTOR UPDATE

This announcement follows the group's voluntary trading update for the first four months of the year ('4M 2022') issued on 27 May 2022 as part of the proceedings at the group's AGM and includes subsequent trends to the end of May 2022 ('5M 2022') as well as expectations of the group's performance for the six-month period ending 30 June 2022.

Macroeconomic developments

Global economic conditions deteriorated markedly in the first half of 2022. Russia's invasion of Ukraine pushed international energy, food, and other commodity prices sharply higher, adding to global inflationary pressures. In advanced countries, inflation increased to around 40-year highs, forcing the Federal Reserve in the US and other major central banks to tighten monetary policy much more aggressively than previously expected. Given the multiple headwinds facing the world economy, the World Bank revised its global growth forecast for 2022 down from 4,1% to 2.9%. Given slowing growth and higher inflation, global risk appetites are likely to remain subdued and markets volatile, unsettled by growing fears of stagflation and the increased threat of recession.

South Africa's economy fared better than most had expected in early 2022. Real SA GDP grew by a seasonally adjusted 1,9% quarter-on-quarter in Q1 2022, up from 1,4% in Q4 2022. This increase was driven by continued growth in consumer spending and by government expenditure, complemented by an encouraging acceleration in fixed investment. Given the better-than-expected first-quarter GDP growth outcome, the Nedbank Group Economic Unit now expects the economy to expand by around 2,2% this year. We expect that domestic demand will remain the main driver of economic growth, underpinned by continued growth in consumer spending and firmer fixed investment. Downside risks do however remain and include weaker global demand, the disruptions caused by the floods in Kwazulu-Natal, persistent domestic power outages, rising domestic inflation and higher interest rates.

Inflation breached the upper end of the Reserve Bank's target range in May due to higher food and fuel prices and as a result the MPC is likely to tighten interest rates further. This will hurt discretionary income and persuade households to be more cautious about spending on non-essential goods and services. Our forecast for average CPI (SA inflation) has increased from 4,9% (forecast in February 2022) to 6,5% (with a peak of around 7,3% expected in Q2 2022) and the forecast for the SA prime interest rate at the end of the year has increased from 8,50% to 9,25% (a further 100 bps increase from the current level of 8,25%).

Pre-close investor update

The five months to 31 May 2022 reflect similar trends to what was communicated in the group's four months to 30 April 2022 voluntary trading update. These trends include robust net interest income (NII) and non-interest revenue (NIR) growth, a credit loss ratio (CLR) within the top half of the group's through-the-cycle (TTC) target range, strong associate income growth and good expense control. All key financial metrics are currently performing in line with achieving the 2022 full year financial guidance provided by management in March 2022.

Momentum in net interest income (NII) growth continued into May 2022, and we expect NII growth for the six months to 30 June 2022 (H1 2022) to be in line with the guidance provided in March 2022 for the full year 2022 (upper single digits). Average interest earning banking assets increased yoy by low-to-mid single digits, supported by RBB loans and advances growth ahead of mid-single digits, with low-single digit growth in CIB as we remain selective in origination and new loan demand is moderate. The group's net interest margin is expected to increase in H1 2022 from the 373 bps reported in FY 2021, driven by ongoing mix benefits and the endowment benefit from higher interest rates.

At the end of May 2022, the group's credit loss ratio (CLR) remained within the 80 bps to 100 bps guidance we provided for the full year 2022 and we expect this performance to remain in place for H1 2022. CLRs for CIB, RBB, Nedbank Wealth and Nedbank Africa Regions (NAR) were all within their respective TTC target ranges. The 5M 2022 CIB CLR reflects the continued good performance of the commercial property portfolio, while having adequate provisioning and security in place relating to stressed counters including those in the aviation and agricultural sectors. The group remains well-provided and the R1,5bn Covid-19 and macro-related judgemental overlays we had at 31 December 2021 will be reviewed prior to finalising our H1 2022 results.

The group's non-interest revenue (NIR) grew by early double digits up to the end of May 2022, boosted by the fair value losses recorded in the H1 2021 base that did not recur. NIR growth was around mid-single digits when excluding fair value adjustments. Fee and commission growth remained solid at mid-single digits, driven by an ongoing improvement in transactional activity, cross-sell and main-banked client growth. NIR growth continues to be partially offset by a muted trading performance in the Markets business as unfavourable market conditions persist in fixed income markets, with the delay in closing renewable energy deals also contributing. NIR was also impacted by accounting for estimated insurance claims (net of re-insurance) relating to the KwaZulu-Natal floods in April 2022. NIR growth for H1 2022 is expected to be slightly ahead of the guidance provided for FY 2022 of upper single digits given the impact of the base effect of the fair value losses in H1 2021.

In our 4M 2022 voluntary trading update we noted that we estimate associate income relating to ETI for H1 2022 to be approximately R469m (subject to the final average exchange rates in Q2 2022), up 74% compared to ETI-related associate income of R270m in H1 2021.

Expense growth to the end of May 2022 was above mid-single digits driven by higher incentive costs and some expenses normalising post the Covid-19 pandemic. This growth is expected to remain above mid-single digits for both H1 2022 and FY 2022. The group's JAWS ratio (revenue growth, including associate income, less cost growth) remains positive, both including and excluding fair value adjustments. PPOP growth for 5M 2022 was in double digits.

At 31 March 2022, Nedbank Group reported a CET1 capital adequacy ratio of 12,7%, above the upper end of our board-approved target range of 11% to 12%, reflecting the impact of earnings growth, offset by the declaration of the group's final 2021 dividend. The group's CET1 ratio is expected to increase further by 30 June 2022.

Investor call

Our Nedbank Group CFO, Mike Davis, will host a pre-close investor call based on this release at 17:15 (SA-time) on Tuesday, 28 June 2022. Please contact NedgroupIR@nedbank.co.za for the details of this meeting.

Nedbank Group's results for the six months ended 30 June 2022 are currently expected to be released on the JSE Stock Exchange News Service on or about 10 August 2022.

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

Sandton
28 June 2022

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