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' or the 'group')

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

NEDBANK GROUP PRE-CLOSE INVESTOR UPDATE

Commentary on the group's financial performance in this pre-close investor update reflects the year to date performance of the group to 31 October 2022 ('10M 2022' or 'the period'), compared with the prior period ('10M 2021'), and highlights trends currently expected through the 12 months to 31 December 2022 ('FY 2022').

Macroeconomic environment

Global economic conditions deteriorated into the second 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 US Federal Reserve and other major central banks to tighten monetary policy much more aggressively than previously expected. Persistent inflation and sharply higher interest rates are eroding confidence, household incomes, company profits and global demand in most countries. As a result, global economic activity slowed noticeably in the second half of the year. The International Monetary Fund (IMF) revised its global growth forecast for 2022 down to 3,2% from 4,9% in October 2021 and expects the global downturn to intensify in 2023, reaching a trough around the middle of the year. The risk of key developed countries slipping into recession is considered significant.

The South African economy also lost momentum into the second half of the year, but proved relatively resilient in the face of strong global and domestic headwinds. Real GDP contracted by 0,7% quarter-on-quarter in Q2 2022, negatively impacted by the floods in Kwazulu-Natal, regular power outages and softer global demand, aggravated by strict lockdowns in parts of China. The main drag came from a relatively sharp deterioration in the country's net export position, but domestic demand held up relatively well, with growth in consumer spending and fixed investment continuing, albeit at a slower pace. Economic activity likely recovered some lost ground in Q3 2022 and the modest recovery is expected to continue during the remaining months of this year. However, relatively high domestic inflation, the rapid rise in interest rates, severe load-shedding and the anticipated downturn in the global economy are expected to weigh on confidence, credit demand and economic growth, and pressure on household finances is increasing. The Nedbank Group Economic Unit now expects economic growth to moderate from 4,9% in 2021 to 1,9% in 2022.

Inflation was sticky at 7,6% in October 2022 after peaking at 7,8% in July 2022, remaining above the upper end of the Reserve Bank's target range due to higher food and fuel prices and mounting evidence of broader price pressures. As a result, the MPC has tightened monetary policy significantly, lifting the prime rate to 10,5% in November 2022, up from 7,25% in December 2021. Our forecast for average consumer inflation for 2022 has increased to 6,8% from 4,9% back in February 2022.

Pre-close investor update

The group's performance in 10M 2022 was in line with the guidance provided by management for FY 2022 during August 2022 as part the group's results for the six months to 30 June 2022 ('H1 2022'). Net interest income (NII) and non-interest revenue (NIR) growth remained robust, the credit loss ratio (CLR) remained within the top half of the group's through-the-cycle (TTC) target range, associate income increased strongly, and expense growth was well managed, notwithstanding higher levels of inflation and currency pressures.

Momentum in NII growth continued and for 10M 2022 this was in line with the guidance we provided for FY 2022 of low double digits (remains unchanged). Average interest earning banking assets increased year-on-year by mid-single digits, slightly up from the 4% reported in H1 2022. This increase was supported by loans and advances growth above mid-single digits in both Corporate and Investment Banking (CIB) and Retail and Business Banking (RBB). The recovery in CIB loans and advances growth has been driven by stronger performances from the Investment Banking and Transactional Services businesses as demand for short-term and long-term credit has increased. In RBB, loans and advances continue to be driven by strong growth in our commercial banking and small business segments, as well as solid growth in homeloans, vehicle finance and overdrafts. The group's net interest margin (NIM) increased further from the 385 bps reported in H1 2022, primarily driven by the endowment benefit from higher interest rates that will continue to run rate into 2023.

The group's credit loss ratio (CLR) for 10M 2022 remained within the 80 bps to 100 bps guidance we provided for the full year 2022 (remains unchanged). CLRs for CIB, RBB and Nedbank Africa Regions (NAR) were all within their respective TTC target ranges, while Nedbank Wealth continued to report a net impairment release. The CIB CLR increased slightly from the 20 bps reported at H1 2022 and reflects adequate provisioning and security in place for Stage 3 stressed counters, including those in the commercial property, aviation and agricultural sectors. Some of these counters, that filed for business rescue post 30 June 2022, have increased the overall levels of Stage 3 exposures. The RBB CLR remained similar to the H1 2022 levels (152 bps), taking into account the impact of higher interest rates and the deteriorating economic outlook.

NIR grew by high single digits in 10M 2022, boosted by base effects of fair value losses recorded in H1 2021 that did not recur, a strong insurance performance and solid fee and commission growth. This strong performance was partially offset by the continued impact of unfavourable domestic market conditions on trading income and asset management income. Current trading conditions remain volatile. Fee and commission growth of around mid-single digits was driven by an ongoing improvement in transactional activity, improved cross-sell and an acceleration in main-banked client growth in RBB in the second half of the year. Growth in insurance income post H1 2022 reflects a continued improvement in death and funeral claims experience. NIR growth for FY 2022 is at risk of being slightly behind the guidance we provided of high single digits, given the delay in the closure of renewable energy deals (and related NIR) to 2023 and the impact of the net monetary loss which is anticipated to be reclassified on the face of the statement of comprehensive income as NIR. Excluding the net monetary loss, NIR is expected to grow in line with guidance.

On the back of Ecobank Transnational Incorporated's (ETI) 9M 2022 audited results, released on 1 December 2022, we estimate associate income relating to ETI for FY 2022 to be approximately R956m (subject to the final average exchange rates in Q4 2022), up 37% compared to ETI-related associate income of R699m in FY 2021.

Expense growth for 10M 2022 was above mid-single digits driven by higher incentive costs and the normalisation of some expenses such as marketing and travel post the Covid-19 pandemic. Growth in the group's IT amortisation charge continues to slow, while headcount and real-estate floor space continue to decline. Overall expense growth for FY 2022 is expected to remain above mid-single digits, with some upside risk (remains unchanged). The group's JAWS ratio (revenue growth, including associate income, less cost growth) remains positive and is expected to remain positive for FY 2022. Pre-provisioning operating profit growth for 10M 2022 was above the mid-teens.

At 30 September 2022, Nedbank Group reported a CET1 capital adequacy ratio of 13,3%, well above the upper end of our board-approved target range of 11% to 12%, reflecting the impact of earnings growth since H1 2022, offset by the declaration and payment of the group's interim 2022 dividend. These strong capital levels should support ongoing dividend payments at the lower end of our dividend cover range of 1,75 to 2,25 times cover (subject to board approval).

Our positive trajectory towards achieving our 2023 targets continues, underpinned by ongoing strategic and operational delivery. We currently expect to meet the 2023 DHEPS target (greater than the 2019 level of 2 565 cents per share) in FY 2022 and we continue to focus on achieving an ROE greater than the 2019 ROE level of 15%, reducing our cost-to-income ratio to below 54%, and ranking #1 on NPS among large South African banks, all by the end of 2023. In the longer term we aim to increase our ROE to above 18% (COE plus 3% to 4%) and reduce our cost-to-income ratio to below 50%.

Investor call

Nedbank Group CFO, Mike Davis, will host a pre-close investor call based on this release at 17:15 (SA-time) on Monday, 5 December 2022. Please contact NedgroupIR@nedbank.co.za for the details of this investor call.

The group's results for the twelve months ending 31 December 2022 are currently expected to be released on the JSE Stock Exchange News Service on or about 7 March 2023.

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
5 December 2022

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