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 VOLUNTARY TRADING UPDATE FOR THE FOUR MONTHS ENDED 30 APRIL 2023 AND EXECUTIVE SUCCESSION PROCESS**

**Operating environment**

Global economic activity slowed as demand weakened in response to persistently high levels of inflation and the resultant steep rise in interest rates. While global inflation is gradually receding, it remains above central bank targets and the US and other major central banks continued to tighten monetary policy. Global liquidity has deteriorated, resulting in much tighter financial conditions with US regional banks suffering particular challenges. This global slowdown is also weighing on economic activity and risk appetite in emerging and developing countries.

In South Africa (SA), the operating environment in the first four months of 2023 has also become much more challenging when compared to our expectations at the start of the year. On top of a weaker global economy and lower international commodity prices, domestic economic activity continues to be negatively impacted by acute electricity shortages, logistical constraints, higher-than-expected inflation and the continued rise in domestic interest rates. In addition to SA's relatively weak growth prospects, slow progress in tackling corruption coupled with the potentially severe economic consequences of the US reaction to SA's alleged compromising of its non-aligned stance in relation to the Russia/Ukraine conflict have added further to SA's country risk premium. As a result, bond yields have increased sharply and the rand has declined to record lows against the US dollar.

The Nedbank Group Economic Unit (GEU) has revised its SA GDP growth forecast for 2023 downwards from 0,7% (February 2023) to 0,2%. The cost implications of load-shedding and a weaker rand have resulted in upward adjustments to our inflation forecast, which is now expected to average 6,0% in 2023, up from 5,5% (February 2023). In response to higher-than-expected inflation, the weaker rand and the continuous tightening of foreign monetary policy, the SARB's Monetary Policy Committee increased the repo rate by 50 bps in March and a further 50 bps in May 2023. The Nedbank GEU now expects the prime lending rate to remain flat for the rest of 2023 at 11,75%, before starting a slow decline in 2024. As a result, the SA prime interest rate is 75 bps higher than the 11,0% peak expected at the start of the year, with upside risk to this forecast given ongoing rand weakness.

The primary implication for banks of these worse-than-expected macroeconomic outcomes is increased levels of consumer stress and resultant increases in credit losses, offset to some extent by higher levels of endowment income. While currently the economic benefits of increased endowment income are greater than the increase in impairments, this benefit is narrowing and is likely to reverse with further interest rate increases.

**Financial performance**

The financial performance of the group in the first four months to 30 April 2023 ('the period' or '4M 2023') compared to the first four months to 30 April 2022 ('prior period') reflected mid-teen headline earnings growth with strong net interest income (NII) and non-interest revenue (NIR) growth, a credit loss ratio (CLR) that was above the top end of our through-the-cycle (TTC) target range, very strong associate income growth and focused expense management.

Revenue growth is currently performing ahead of the 2023 full year financial guidance provided by management in March 2023. The group's CLR for the period is also higher than the full year guidance as a result of the normal seasonality in RBB bad debts, together with the effects of a more difficult than expected macroeconomic environment and the resultant impact on collections in our retail portfolios. At this point in the cycle, the incremental accounting benefit of higher interest rates on endowment income for 4M 2023 continued to exceed the incremental increase in impairments.

NII growth for 4M 2023 was above mid-teens when compared to the prior period and ahead of management expectations. This growth was driven by banking loans and advances growth and an increase in the group's net interest margin (NIM) largely as a result of the impact on endowment from interest rate increases. Average interest earning banking assets increased yoy by high single digits, reflecting improving yoy growth in CIB banking loans and advances and ongoing growth momentum in RBB banking loans and advances. Deposit growth remained ahead of advances growth. The group's NIM increased from the 393 bps reported in FY 2022 and is above the 410 bps reported for Q4 2022, driven by the run-rate benefit of interest rate increases in 2022 and further interest rate increases in Q1 2023. The group's full year NII growth is now expected to be slightly higher than the guidance provided in February 2023 of around mid-teens.

Impairments for 4M 2023 increased when compared to the prior period as the group strengthened its total coverage given the impact of a more difficult macroeconomic environment on consumers. The group's credit loss ratio (CLR) for 4M 2023 was above the top end of the guidance we provided for FY 2023 (80 bps to 100 bps, with upside risk) and was also above management expectations for the period. The higher impairments and CLR reflect the impact of higher-than-expected interest rate increases, higher levels of inflation and higher levels of loadshedding on consumers and were most evident in RBB's CLR being above its TTC target range of 120 to 175 bps. Stage 3 loans in RBB increased across the portfolio. RBB impairment provisions for 4M 2023 also incorporate our updated macroeconomic assumptions up to 30 April 2023 to ensure the group remains well-provided within a deteriorating economic environment. The CLRs for CIB and Nedbank Africa Regions (NAR) were within their respective TTC target ranges, while Nedbank Wealth's CLR remained below its TTC target range. The group's CLR is anticipated to decline from these levels given the traditional improvement due to seasonality in RBB as well as focussed management interventions, but is now expected to be above the top end (100 bps) of the group's TTC target range for the remainder of the year (ahead of the guidance provided in February 2023 of in the top half of the group's TTC target range). The recent SARB Monetary Policy Committee decision to increase interest rates by another 50 bps in May 2023 has increased the risk to CLR guidance.

NIR growth for 4M 2023 was ahead of management expectations for the period (on a restated 2022 base given IFRS 17 related reclassifications). Fee and commission growth was solid, driven by client transactional activity, cross-sell and main-banked client growth as well as a good performance in asset management. The closure of renewable energy deals, previously expected in H1 2023, has been delayed to H2 2023. Insurance income benefited from a non-repeat of claims relating to the Kwazulu-Natal floods in 2022. Trading income was solid in the first three months of the year but deteriorated into April. Our guidance for NIR growth for FY 2023 of around mid-single digits remains in place.

Expense growth for 4M 2023 was high-single digits (on a restated 2022 base given IFRS 17 related reclassifications) and slightly ahead of management expectations as a result of higher non-salary related staff costs, higher levels of communication and travel costs, as well as higher fees linked to revenue growth. Reducing the expense growth rate over the rest of the year and into the future is a key focus of management. Our guidance for expense growth for FY 2023 of mid-to-upper single digits remains in place.

In Q1 2023, associate income of R512m (Q1 2022: R258m), relating to Nedbank Group's 21% shareholding in ETI was recognised. ETI reported attributable income to shareholders of $90m in Q4 2022, incorporating the impact of the final Ghana sovereign debt restructure charge on ETI which was materially less than expected resulting in the reversal of the R175m estimate provided for this in associate income in our 2022 results. In addition, ETI released its Q1 2023 results on 28 April 2023 (reporting attributable income to shareholders of $63m) and Nedbank's share is estimated to contribute R237m to Nedbank's associate income in Q2 2023 (accounted for a quarter in arrear). As a result, we estimate associate income relating to ETI for H1 2023 to be approximately R749m, up 59% compared to ETI-related associate income of R469m in H1 2022.

The group's JAWS ratio (revenue growth, including associate income, less cost growth) was strongly positive, the cost-to-income ratio improved and PPOP growth was very strong.

We currently expect the group to produce muted headline earnings growth in H1 2023 with a better performance expected in H2 2023 given higher levels of H1 2023 impairments in RBB, and in CIB the impact of higher equity revaluations in H1 2022 and the delay in closing renewable energy rounds to H2 2023, together with a slowdown in trading income growth into Q2 2023, partly offset by strong growth in Nedbank Wealth and Nedbank Africa Regions.

At 31 March 2023, Nedbank Group reported a CET1 capital adequacy ratio of 13,5% (31 March 2022: 12,7% and 31 December 2022: 14,0%), above the upper end of the group's board-approved target range of 11% to 12%, reflecting the benefit of ongoing strong earnings growth, offset by the declaration of the group's final 2022 dividend, balance sheet growth and capital optimisation activities. The group substantially completed its general share repurchase programme at the end of May 2023 (a total of R4,25bn shares have been repurchased). On average, the share repurchases were concluded at levels slightly below the group's book value per share (31 December 2022: R215,33) and will be ROE and DHEPS accretive. The odd-lot offer, which comprises the balance of the R5bn capital optimisation initiative, is proposed for approval by shareholders at the group's general meeting on 2 June 2023.

Liquidity metrics remained strong with no implications evident from recent global banking and other developments.

**IFRS 17: Insurance Contracts impact**

IFRS 17 Insurance Contracts which became effective on 1 January 2022 will result in a restatement of the 2022 Statement of Comprehensive Income. As expected, this will not be material to the group's results.

Under IFRS 17, directly attributable expenses are allocated to insurance income (and therefore included as a reduction in NIR and not in expenses). The impact on NIR and expenses is anticipated to be a reduction in NIR of R0,7bn, and a reduction in operating expenses of R0,6bn with an immaterial impact on indirect tax and headline earnings. This impact will be spread evenly through the 2022 financial year. At an equity level, the after-tax impact of the IFRS 17 transition will be an increase of between 0% and 0,5% of reserves at 1 January 2022.

Comprehensive IFRS 17 disclosures, subject to external audit, with restated and comparable prior year results and opening equity adjustments, will be released as part of the group's 2023 interim results to be released in August 2023.

**Executive succession process**

Following the successful completion of the group's chairperson succession process and the subsequent appointment of Daniel Mminele as chairperson from 2 June 2023, the Nedbank Group board, supported by a global search firm with strong domestic presence, will commence a process to choose a successor to Mike Brown who joined the Nedbank Group 30 years ago, has been the Chief Executive (CE) since 2010 and an executive director since 2004.

Nedbank has a strong track-record of effective leadership succession, and this process will consider both internal and external candidates. Mike, who is 57 years of age, continues to enjoy the total confidence of shareholders and the Board. He will continue in his current CE role until such time as a successor has been chosen and will retire after an appointment has been made and a suitable handover process has been completed.

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 joint auditors.

Sandton
2 June 2023

Sponsors to Nedbank Group in South Africa:
Merrill Lynch SA Proprietary Limited t/a BofA Securities
Nedbank Corporate and Investment Banking, a division of Nedbank Limited

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

Debt Sponsor to Nedbank Limited:
Nedbank Corporate and Investment Banking, a division of Nedbank Limited