NEDBANK

Nedbank Group Limited	Nedbank Limited
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('Nedbank Group' or the 'group')	

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 2023 ('10M 2023' or 'the period'), compared with the prior period ('10M 2022'), and highlights trends currently expected through the 12 months to 31 December 2023 ('FY 2023').

Macroeconomic environment

Global economic conditions deteriorated further in the second half of 2023 as tighter monetary policies weighed on advanced economies and as the property market slump undermined China's economic recovery. The IMF expects global growth to slow to 3,0% in 2023. On the upside, globally, inflation rates appear to have peaked, which should create the space for the US and other central banks to start easing monetary policy in 2024.

While the South African economy fared better than expected in the first half of 2023 (H1 2023), with real GDP expanding by 0,9% yoy, real GDP in the third quarter contracted by 0,2% qoq. The Nedbank Group Economic Unit now expects GDP growth of 0,5% for the year, down from 1,9% in 2022. Inflation rose to 5,9% in October 2023, mostly driven by a temporary spike in global oil prices and a weaker rand. Inflation is expected to moderate towards year-end, averaging 5,8% in 2023. The downward trend in inflation is likely to continue in 2024, supported by fading global inflation and weaker domestic demand. The MPC left interest rates unchanged in November, with the prime rate remaining at 11,75%. As inflation moderates towards the 4,5% target, the MPC is currently expected to ease monetary policy in 2024. However, if inflation proves sticky, interest rates could remain higher for longer. Industry-level credit growth has slowed to 3,9% yoy in October 2023, weighed down by weaker household credit demand amid sharply higher interest rates, which slowdown has been offset by pockets of more resilient corporate demand, particularly in renewable energy related projects.

Pre-close investor update

The group's performance in 10M 2023 is materially in line with the FY 2023 guidance we provided with our interim results ('H1 2023') and reflects strong net interest income (NII) and moderate non-interest revenue (NIR) growth, a credit loss ratio (CLR) that improved from the H1 2023 level of 121 bps, very strong associate income growth, expenses that continue to be well managed and a lower effective tax rate. Pre-provisioning operating profit growth for 10M 2023 was around the mid-teens and the group's return on equity (ROE) increased from the 14,2% reported in H1 2023, making solid progress towards our 2023 target of 15%.

NII growth for 10M 2023 was above mid-teens and in line with the guidance we provided for FY 2023. Average interest earning banking asset growth has slowed to around mid-to-upper-single digits yoy, below the 9% reported in H1 2023 as average banking loan and advances growth in Corporate and Investment Banking (CIB) slowed to high single digits (down from early double digits in H1 2023) and average banking loan and advances growth in Retail and Business Banking (RBB) slowed slightly from the levels reported in H1 2023. The group's net interest margin (NIM) remained similar to the 418 bps reported in H1 2023, as the run rate benefit from higher interest rates (endowment) was offset by asset mix changes and the impact of pricing pressure in some lending and deposit categories. NII growth for FY 2023 is expected to be around mid-teens.

The group's CLR for 10M 2023 improved from the 121 bps reported at H1 2023 but remained above the group's through-the-cycle (TTC) target range of 60 bps to 100 bps, in line with the guidance provided for FY 2023. All cluster CLRs were within their respective TTC target ranges, except for the RBB CLR that was above its TTC target range of 120 bps to 175 bps. The CIB CLR increased from the 16 bps reported at H1 2023, incorporating adequate provisioning for stage 3 counters, and is expected to end the year around the mid-point of its TTC target range (15 bps to 45 bps). RBB's CLR improved from the 226 bps reported at H1 2023 as a result of focussed management interventions in respect of collections and origination, which benefits are expected to continue into 2024, and the benefit of a more stable macroeconomic outlook. The CLRs of home loans, vehicle finance, personal loans, card and Retail Relationship Banking, were all lower than reported in H1 2023.

NIR growth for 10M 2023 was just below mid-single digits and was slightly below the guidance provided for FY 2023 of around mid-single digits. Fee and commission growth was solid, driven by improved cross-sell, main-banked client gains, and strong growth in value added services as well as card interchange volumes. This growth was partially offset by a slowdown in client activity on the back of the difficult macroeconomic environment and timing delays in the closure of some renewable energy deals. Insurance income declined, impacted by the slowdown in retail lending volumes, the non-repeat of reserve releases in the prior year and new business strain relating to new insurance solutions. Trading conditions in SA remain muted but have improved on H1 2023. Our guidance for NIR growth of around mid-single digits for FY 2023 remains in place, with downside risk should trading income, equity investment income or deal closures emerge lower than currently expected.

On the back of the Ecobank Transnational Incorporated ('ETI') audited results for the first nine months of 2023, released on 30 November 2023, the group's associate income relating to ETI for FY 2023 is estimated to be approximately R1,4bn, up over 80% yoy (FY 2022: R779m). This includes the H1 2023 reversal of the R175m estimate provided by Nedbank Group for our share of the impact of the Ghanaian sovereign domestic debt restructure programme on associate income in the group's results for FY 2022 and represents an annualised return on the group's initial investment in ETI of 22% (19% excluding the H1 2023 reversal of the Ghana related provision).

Expense growth for 10M 2023 was around mid to upper single digits, in line with management expectations. The increase was driven by higher salary and incentive related costs, higher levels of communication and travel costs, as well as higher fees linked to revenue growth and ongoing investment in technology and digital solutions. Our guidance for expense growth for FY 2023 of mid-to-upper single digits remains in place. The group's JAWS ratio (revenue growth, including associate income, less cost growth) was positive and is expected to remain positive for FY 2023. The group's effective tax rate is expected to be lower than H1 2023.

At 30 September 2023, Nedbank Group reported a CET1 capital adequacy ratio of 12,9%, above the upper end of the board-approved target range of 11% to 12%, reflecting the benefit of ongoing earnings growth since H1 2023, offset by the declaration and payment of the group's interim 2023 dividend and balance sheet growth since June 2023. These strong capital levels should support ongoing dividend payments at the top end of our dividend payout ratio, subject to board approval (i.e. pay at the lower end of our dividend cover range of 1,75 to 2,25 times cover).

The external targets that we set for the year-end 2023 relating to DHEPS being above 2 565 cents (achieved in 2022), ROE being above 15%, a cost-to-income ratio of below 54% and ranking #1 on NPS among large South African banks (achieved in the 2023 Kantar survey) remain unchanged. Following a solid 10M 2023 financial performance, we remain focused on delivering on the remaining aspects of our targets in respect of ROE and the cost-to-income ratio in a more challenging economic environment.

Investor call

Nedbank Group's Chief Financial Officer, Mike Davis, will host a pre-close investor call based on this announcement at 17:15 (South African Standard Time) on Wednesday, 6 December 2023. Please contact NedgroupIR@nedbank.co.za for the details of this investor call.

The group's results for the twelve months ending 31 December 2023 are currently expected to be released on the Stock Exchange News Service on or about 5 March 2024.

Shareholders are advised that the financial information contained in this announcement has not been reviewed and reported on by the Nedbank Group´s joint auditors.

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6 December 2023

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