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')
(collectively the 'group')

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

NEDBANK GROUP VOLUNTARY TRADING UPDATE FOR THE FOUR MONTHS ENDED 30 APRIL 2024

Operating environment

The operating environment during the first four months of 2024 remained challenging, despite lower levels of electricity outages (loadshedding) and the easing of some transportation bottlenecks in South Africa. Generally, economic activity was weak, impacted by geopolitical uncertainty, high interest rates and high inflation. Household finances remained under pressure as real incomes contracted and job prospects remained muted. Corporate activity was also weak, impacted by the uncertain political and economic environment.

Economic activity is expected to remain weak before gradually improving into the second half of the year as inflation reduces further, potentially enabling the SARB's Monetary Policy Committee (MPC) to start cutting interest rates. As a result, the Nedbank Group Economic Unit revised its SA GDP growth forecast for 2024 from 1,0% (February 2024) to 0,9%. Inflation is expected to end 2024 at around 4,7% and as a result we now forecast 2 interest rate cuts of 25 bps each during the final four months of 2024 with the prime interest rate at 11,25% at the end of the year.

The implications of the difficult macroeconomic environment for our clients and therefore banks are evident in continued elevated levels of consumer strain and slowing credit and transactional revenue growth across both wholesale and retail portfolios.

Financial performance

The financial performance of the group in the first four months to 30 April 2024 ('the period' or '4M 2024') compared to the first four months to 30 April 2023 ('the prior period') reflects headline earnings growth of around mid-single digits, supported by strong growth in Retail and Business Banking (RBB), albeit off a low base, and solid growth in Corporate and Investment Banking (CIB), partially offset by a decline in headline earnings in Nedbank Wealth and Nedbank African Regions (NAR). Headline earnings growth was driven by softer net interest income (NII) and non-interest revenue (NIR) growth when compared to our 2024 full year guidance, a decline in the impairments charge and good expense management. Headline earnings per share growth continued to benefit from the R5bn capital optimisation initiative completed in 2023.

NII growth for 4M 2024 was just below mid-single digits when compared to the prior period. This increase was driven by moderate growth in average interest earning banking assets and a slight period on period increase in the group's net interest margin (NIM) as a result of the run-rate benefit of interest rate increases (endowment) in the prior period. Average interest earning banking assets increased period on period by low-to-mid single digits, reflecting slow growth in CIB average gross banking loans and advances and solid, although slowing growth, in RBB average gross banking loans and advances. We expect stronger advances growth in H2 2024 when compared to H1 2024 as lower interest rates and inflation start benefitting retail credit growth and as wholesale clients start drawing down on approved and committed renewable energy deals. Deposit growth was slightly ahead of advances growth, supported by our various initiatives to grow retail deposits faster than the market, as evident in the SARB's March 2024 BA900 disclosures. The group's NIM decreased slightly from the 4,21% reported in FY 2023 largely as a result of negative asset mix changes due to slower growth in high-yielding assets owing to our continued cautious approach in unsecured lending in the current environment.

Impairments for 4M 2024 decreased when compared to the prior period and the group's credit loss ratio (CLR) declined period on period but remained above the top end of the group's board-approved through the cycle (TTC) target range (60 bps to 100 bps). This outcome and the view that the group's CLR peaked in H1 2023 is in line with management expectations. RBB's CLR declined period on period due to better collections and improved loan origination but remained above its TTC target range of 120 to 175 bps given the impact of a continued high interest rate environment and normal seasonality in the first few months of the year alongside updates to the macroeconomic models. The CLRs for CIB and Nedbank Wealth were within their respective TTC target ranges, while the Nedbank Africa Regions (NAR) CLR was slightly above its TTC target range. Stage 3 loans in CIB declined by just over R7bn since December 2023 post the resolution of a few high-profile exposures, while the average monthly increase in stage 3 loans in RBB in the period slowed materially when compared to H1 2023 and was broadly similar to the average monthly increase in stage 3 loans in H2 2023. The group's CLR is expected to remain elevated but decline further from the levels in 4M 2024 in line with the full year 2024 guidance provided (being to move back to within the top half of the group's TTC target range), although the risk of interest rates remaining higher for longer and/or unexpected corporate defaults could pose upside risk.

NIR growth for 4M 2024 was below mid-single digits. Removing the base effect of foreign currency gains on US$ capital in Zimbabwe in the prior period given the change to US$ as the functional currency for Nedbank Zimbabwe in 2024, NIR growth was slightly above mid-single digits. Fee and commission growth at mid-to-upper single digits remained robust, driven by arranging fees on deal closures in CIB and higher-levels of cross-sell and continued growth in both main-banked clients and value-added services in RBB, partially offset by slowing client volumes on the back of the difficult macroeconomic environment. Trading income growth was encouraging at above mid-single digits but remains volatile. NIR growth was negatively impacted by insurance income that declined period on period mainly as a result of lower personal loans premiums given our cautious approach in unsecured lending in the current environment and lower shareholder investment returns. Other NIR was lower than the prior period, impacted by the base effect from foreign currency gains on US$ capital in Zimbabwe in the prior period that will not repeat. We remain focused on achieving our guidance for NIR growth for FY 2024 of above mid-single digits despite early headwinds in the start of the year, although this will be more challenging.

Expense growth for 4M 2024 was above mid-single digits and slightly better than management expectations, partly as a result of slower than expected variable costs in line with revenue growth. Our guidance for expense growth for FY 2024 of mid-to-upper single digits remains in place and will be a key focus for us.

Associate income relating to Nedbank Group's 21% shareholding in Ecobank Transnational Incorporated (ETI) for H1 2024 is estimated to be approximately R510m and materially in line with management's expectations; but down 32% compared to ETI-related associate income of R749m in H1 2023 given the base effect of the reversal in H1 2023 of the R175m estimate provided by Nedbank for our share of the impact of the Ghana sovereign domestic debt restructure programme that will not repeat. Nedbank Group's associate income in H1 2024 relating to ETI includes ETI's reported attributable income to shareholders of US$64m in Q4 2023 and US$69m in Q1 2024 (accounted for a quarter in arrear).

The group's JAWS ratio (revenue growth, including associate income, less cost growth) was slightly negative, as expected, and as a result the cost-to-income ratio increased. ROE for 4M 2024 increased on the prior period but was seasonally lower than the 15,1% reported for FY 2023. Basic earnings per share, headline earnings per share and diluted headline earnings per share all grew by early double digits, benefitting also from the R5bn capital optimisation initiative that was executed in 2023.

At 31 March 2024, Nedbank Group reported a CET1 capital adequacy ratio of 13,1% (31 December 2023: 13,5% and 31 March 2023: 13,5%), above the upper end of the group's board-approved target range of 11% to 12%, reflecting the benefit of ongoing earnings growth, offset by the declaration of the group's final 2023 dividend and balance sheet growth. Liquidity metrics remained strong.

Eqstra acquisition

All conditions relating to the acquisition of Eqstra Investment Holdings Proprietary Limited (Eqstra) by Nedbank Group have been fulfilled, and various regulatory and Competition Commission approvals were received. Eqstra will likely be consolidated into the group's financials from 1 June 2024.

Termination of Nedbank/Transnet mediation

As noted in the group's media statement that was released on 28 May 2024, mediation between Nedbank and Transnet, in respect of interest rate swap transactions between the parties that took place in December 2015 and March 2016, and which have been widely reported in the media for many years, has ended after it became apparent that there is no likelihood of resolving the matter amicably despite extensive engagements.

Considering internal and independent external reviews commissioned by the Nedbank board, the board and management remain satisfied that Nedbank internal governance procedures were followed in respect of the transactions and that there is no evidence of any Nedbank staff dishonesty, corruption or collusion. Nedbank will strongly defend itself in any litigation proceedings that may follow.

Chief Executive (CE) transition

Jason Quinn (CE designate) joined the group on 22 May 2024 and assumes the role of CE on Mike Brown's planned retirement from the boards at the conclusion of the group's annual general meeting on 31 May 2024. Mike will remain employed by Nedbank for another 3 months as a senior advisor to ensure a seamless handover to Jason.

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
31 May 2024

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