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

Nedbank Limited
(Incorporated in the Republic of South Africa)
Registration No. 1951/000009/06
JSE share code: NBKP
ISIN: ZAE000043667
JSE alpha code: BINBK

(collectively the 'group')

NEDBANK GROUP VOLUNTARY TRADING UPDATE FOR THE FOUR MONTHS ENDED 30 APRIL 2021 AND CONFIRMATION OF THE TRADING STATEMENT FOR THE SIX-MONTH PERIOD ENDING 30 JUNE 2021

The economic environment in the first four months of 2021 improved but remained challenging, impacted initially by the return to stricter lockdown levels as a result of the second wave of Covid-19 infections, but also constrained by continued power outages, uncertain job prospects and depressed levels of business and consumer confidence. On the positive side, 55-year low SA interest rates continued to support credit active consumers and a global commodity boom has been beneficial to exporters. Real GDP is expected to have grown by around 0,4% q-o-q (not annualised) in Q1 2021. Industry turnover data recorded on Nedbank's point of sale devices and digital channels in the four months to 30 April 2021 ('4M 2021') continues to show yoy growth, with turnover levels in the period up 22% when compared to the four months to 30 April 2020 ('the prior period').

In May 2021, the Nedbank Group Economic Unit revised its SA GDP growth forecasts for 2021 from 3,4% to 4,4% and expects the SA prime interest rate to remain flat in 2021, before increasing by 100 bps in 2022.

Financial performance

The financial performance of the group compared to last year should be considered in the light of the health and economic environment in the prior period being very different to that in the four months to 4M 2021. The prior period included two months of largely pre-Covid-19 conditions and then the significant impact of Covid-19 and the start of hard lockdown level 5 in March and April 2020. Market volatility in the prior period delivered a strong global markets trading performance (NIR), but from April 2020 reflected the significant negative impacts on commission and fees (NIR) given the impact of lockdown level 5 on our clients' transactional activity. Impairments in the prior period were significantly higher as a result of the initial negative impact of forward looking IFRS 9 macro-factor models and judgemental overlays. While 4M 2021 still reflects the ongoing impact of a difficult macroeconomic environment on revenue growth, the group recorded a material reduction in the impairment charge compared to the prior period. Headline earnings for 4M 2021, are materially higher than the R2 114m headline earnings reported for the full six months to 30 June 2020.

Average interest earning banking assets declined yoy, reflecting the impacts of lower gross loans and advances in CIB as a result of clients using excess liquidity to repay committed facilities and a conscious focus on portfolio optimisation by reducing lower yielding assets. Current demand for new wholesale loans remains moderate, but the timing of drawdowns is uncertain. In contrast, gross loans and advances growth in RBB continued its momentum from 2020, benefitting from both client demand for secured loans as a result of the 300 bps cuts in interest rates in H1 2020 as well as an increase in unsecured lending volumes originated through the group's expanded digital channels, notwithstanding lower loan approval rates.

Net interest income (NII) growth for 4M 2021 increased by low single digits when compared to the prior period as the decline in overall loan growth was more than offset by an increase in the group's net interest margin (NIM) from the 336 bps reported in FY 2020. This was driven by ongoing improved asset pricing and high-quality liquid asset optimisation. The growth in NII and NIM for 4M 2021 was ahead of management expectations.

Impairments in 4M 2021 declined substantially and the group's credit loss ratio (CLR) was below the bottom end of the 110 bps to 130 bps guidance we provided for the full year 2021, and is well-below management expectations for the period. While this is a very encouraging start to the year, it is too early to reduce our full year guidance for the CLR. The reduction in the group CLR, when compared to the prior period and FY 2020, was supported by lower CLRs across CIB, RBB, Nedbank Wealth and Nedbank Africa Regions (NAR). In RBB the reduction in impairments was driven by an improving macroeconomic outlook, excellent collection outcomes, the benefit of the 300 bps lower interest rates on clients' ability to service their debt, the tightening of credit criteria ahead of the Covid-19 crisis, the group's decision not to perpetually extend D3 loans and a better-than-expected performance of D7 loans exiting their monitoring period. In CIB, impairments declined when compared to the prior period as a result of improving IFRS 9 macroeconomic forecasts and better client operating performance, despite ongoing stress particularly in the aviation and hospitality sectors. The commercial property portfolio continues to perform as expected, with underlying client rental collections remaining strong and arrears remaining low. The group remains well-provided with no material change in the R3,9bn judgemental overlays that were raised during 2020 as we remain cognisant of ongoing risks relating to future waves of Covid-19 infections and delays in the rollout of vaccines. D3 loans (payment relief) reduced to R14,8bn at 30 April 2021, from the R27,7bn reported at 31 December 2020, with RBB, Wealth and NAR reducing to negligible amounts and CIB to R14,6bn (2020: R25,4bn). This is expected to reduce further in the coming months.

Non-interest revenue (NIR) for 4M 2021 declined on the prior period, reflecting the faster than expected further unwind of a significant proportion of the group's fair value gains recorded in H1 2020 and the impact of a high trading revenue base in the prior period. NIR increased by low single digits when excluding fair value adjustments. Commission and fees increased, driven by improving transactional activity as evident in increased levels of client spend, cash withdrawals and purchase of value-added services, as well as improved levels of cross sell. Insurance income grew as we benefitted from higher investment returns and higher premiums on life products. Credit life loss-of-income and funeral claims remained elevated when compared to the prior period, although showing a declining trend from recent highs. Trading income was robust, tracking above expectations, but declined on the prior period given the high base in the volatile market conditions in the prior period. Private equity income reflected good growth compared to the negative revaluations in the prior period.

Expenses increased by low to mid-single digits and continued to be well managed in response to the more challenging environment. Variable incentive related costs increased, driven by the group's improved financial performance. Expense growth is expected to increase from these levels as new additional costs such as Deposit Insurance and Twin Peaks are likely to be incurred, as well as the return of some discretionary spend during the remainder of 2021. The group's JAWS ratio (revenue growth, including associate income, less cost growth) remained negative, as expected. Excluding fair value adjustments, the JAWS ratio was flat.

For Q1 2021, associate income of R113m, relating to Nedbank Group's 21% shareholding in ETI has been recognised (ETI reported attributable income to shareholders of $36m in Q4 2020). In addition, ETI released its Q1 2021 results on 26 April 2021 (reporting attributable income to shareholders of $52m) and Nedbank's share is estimated to contribute R159m to associate income in Q2 2021 (accounted for a quarter in arear). As a result, we estimate associate income relating to ETI for H1 2021 to be approximately R272m (subject to the final average exchange rates in Q2 2021), up 257% compared to associate income of R76m in H1 2020.

As a result of the group's significantly improved financial performance, ROE for 4M 2021 increased to early double digits, while this is still below the cost of equity it is well above both the prior period and the 6,2% reported in FY 2020.

At 31 March 2021, Nedbank Group reported a CET1 capital adequacy ratio of 11,3% (March 2020 and December 2020: 10,9%) above the mid-point of our board-approved target range of 10% to 12%, a Liquidity Coverage Ratio of 128% (March 2020: 110% and December 2020: 126%) and a Net Stable Funding Ratio of 112% (March 2020: 110% and December 2020: 113%).

As reported in the group's 2020 annual results announcement, we expect to resume dividend payments when reporting interim results in 2021, with the pay-out ratio still to be determined by the board, taking into consideration growth opportunities, our responsibility to support clients and the economy, as well as the then progression of the virus and the vaccine rollout programme and its effectiveness.

Trading statement

In our FY 2020 results announcement on 17 March 2021, we advised shareholders that headline earnings per share (HEPS) and basic earnings per share (EPS) for the six-month period ending 30 June 2021 are expected to increase by more than 20% (HEPS greater than 525,6 cents and basic EPS greater than 324,0 cents) when compared with those in the six-month period to 30 June 2020 (HEPS: 438 cents and basic EPS: 270 cents).

A further trading statement will be issued to provide more specific guidance once there is reasonable certainty regarding the extent of the increase in earnings and the relevant HEPS and EPS ranges. Nedbank Group's results for the six months ended 30 June 2021 are currently expected to be released on the JSE Stock Exchange News Service on or about 11 August 2021.

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

Sandton
27 May 2021

Sponsors to Nedbank Group in South Africa:
Nedbank Corporate and investment Banking, a division of Nedbank Limited
Merrill Lynch South Africa (Pty) Limited

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

Sponsors to Nedbank Limited in South Africa:
Nedbank Corporate and investment Banking, a division of Nedbank Limited
Investec Bank Limited