MEDIA RELEASE

Nedbank delivers an excellent financial performance as strong revenue growth enables headlines earnings growth of 20%

Salient features

- Headline earnings increased by 20% to R14bn
- ROE increased to 14%
- Capital and liquidity ratios strong with CET1 capital ratio of 14,0%
- Total dividend for 2022 of 1 649 cents per share, up 38%, at record high levels
- R5bn share repurchase programme approved by the board
- Number 1 SA bank on client net promoter score (satisfaction)
- Double-digit digital transaction growth continued
- Money app and Avo users each above 2 million
- Ranked AAA and among top 5% of global banks in the MSCI ESG ratings

JOHANNESBURG, 7 March 2023 – Nedbank Group delivered a strong financial performance for the 12 months to 31 December 2022 as headline earnings (HE) increased by 20% to R14bn. HE was driven by strong double-digit revenue growth, a slightly higher credit loss ratio and a well-managed expense base. Return on equity (ROE) for the period increased to 14%, above the prior period of 12,5%, assisted by the group's improved return on assets that increased from 0,98% to 1,14%.

The group's balance sheet remained very strong, and capital and liquidity positions improved further to multi-year highs. CET1 and tier 1 capital adequacy ratios of 14,0% and 15,5% respectively increased from the 31 December 2021 levels and are well above board-approved target ranges and SARB minimum requirements.

On the back of strong earnings growth and capital and liquidity positions, the group declared a final dividend of 866 cents per share, up by 14% (December 2021: 758 cents per share), bringing the total dividend for 2022 to 1 649 cents per share, up 38%, both at record levels for the group.

Nedbank CE Mike Brown said Nedbank delivered a strong financial performance and made excellent strategic progress against a challenging macroeconomic backdrop. "In 2022 the South African economy faced multiple global and domestic challenges, including the war in Ukraine, lockdowns in China, slower global growth, lower commodity prices, destructive floods in KwaZulu-Natal, persistent power outages, as well as 325-bps-higher rates and inflation that peaked at 7,8% in July.

"All our business units reported pleasing earnings growth and higher ROEs. A strong balance sheet and excess levels of capital enabled the group to declare a record-high final dividend as well as announce a R5bn capital optimisation initiative, subject to regulatory

approvals, to be executed over 12 months through both a share repurchase and an odd-lot offer."

South African economy: Urgent and decisive leadership action and delivery needed

Despite the challenging environment, the South African economy still managed to expand by 2,3% year on year (yoy) over the first three quarters of the year. However, economic conditions deteriorated further over the final quarter of 2022 as the country's electricity crisis worsened, global growth slowed, commodity prices dipped and the pressure on household income from the earlier surge in inflation and the increases in interest rates intensified.

The network infrastructure provided largely by state-owned monopolies and needed to enable higher levels of GDP growth and sustainable job creation in SA, has been deteriorating over many years, including, in particular, the crises being experienced in the areas of electricity supply and distribution, transport and logistics, and water infrastructure. In addition, municipal service delivery is poor and levels of crime and corruption are unacceptably high.

Brown called for more urgent and decisive action. "These are critical foundations required for business confidence, sustainable investment, higher economic growth and job creation as well as fiscal sustainability, and more urgent action is needed.

Progress on structural reforms to address these matters has been far too slow, and the will of the political and public sector, to make meaningful changes, is uneven and actual delivery is poor. This cannot continue and more urgent and decisive leadership and action is required. Nedbank remains committed to working with all like-minded South Africans to accelerate delivery of structural reforms in these key areas," he said.

Digital wins

Nedbank's strategy to build a modern, modular and agile technology platform has reached 91% completion of the IT build, enabling continued double-digit growth in digital metrics, client satisfaction scores at the top-end of the South African banking peer group, higher levels of cross-sell, main-banked client gains, market share gains in household deposits as well as improved efficiencies evidenced by cumulative operating model (TOM 2.0) cost savings of R1,5bn, Brown said.

In 2022, main-banked clients in retail grew by 6% to 3,24 million and cross-sell was 1,94 (compared with 1,86 in 2021 and 1,71 in 2019). Corporate and Investment Banking gained 25 new primary clients in the period. In Nedbank Africa Regions total clients increased by 7% to over 360 000, of which around 162 000 are main-banked clients.

"Our digital initiatives helped us to increase the number of digitally active retail clients in SA by 13% to 2,6 million. This now represents 68% of retail main-banked clients (2021: 64% and 2019: 49%)."

Retail digital transaction volumes in SA increased by 18% (up 76% since 2019) and transaction values by 16% (up 40% since 2019). Digitally active clients across the NAR business grew by 18% and now represents 57% of its total active client base.

Nedbank Money app clients reached the key milestone of two million active clients and was up by 23%. Transaction volumes on the Money app increased by 34% (up by 253% since 2019) and transaction values increased by 27% (up by 233% since 2019).

“The outcome of our digital innovations was evident in higher levels of client satisfaction with Nedbank ranked #1 in Net Promoter Score (NPS) among South African banks in the Kantor survey that was conducted among SA consumers, reaching our 2023 target a year earlier than expected,” Brown said.

The Avo super app that enables clients to buy essential products and services online and have them delivered to their home, with seamless secure payments has since its launch in app stores in June 2020, signed up more than two million users, up 1,9 times yoy. At the end of 2022, more than 20 000 businesses, up 15%, were registered to offer their products and services on this e-commerce platform. Avo Auto, a virtual vehicle mall that was launched in 2021, now hosts over 200 MFC-accredited dealers, with more than 8 000 vehicles available on the platform.

Nedbank continued to create positive impacts through R123bn of exposures that support sustainable development finance, aligned to the United Nations Sustainable Development Goals (UN SDGs), and retained our top-tier rankings on environmental, social and governance (ESG) scores, including MSCI upgrading Nedbank’s ESG rating to AAA (now within the top 5% of global banks) and maintained our Level 1 BBBEE status under the amended FSC codes for the fifth year in a row.

Loadshedding impact

The higher levels of electricity outages (load-shedding) in the second half of the year had a limited impact on Nedbank’s own operations, but has had a material negative impact on many of our clients.

Generator run-time in our own operations, including offices and branches, increased by over 200% and diesel-related expenses were up just over 100% to R59m in 2022. Load-shedding had no material impact on our ATMs, branches and point-of-sale (POS) devices as we leveraged our wide coverage of sustainable back-up power solutions. While our physical points of presence remained largely unaffected, call centre and digital channels have seen an increase in utilisation.

Load-shedding has increasingly become a catalyst for renewable- and embedded-energy investments to support both SA’s Just Energy Transition and for individuals and companies to reduce their exposure to Eskom. This is creating a strong runway for bank advances growth in this sector. However, electricity outages adversely impact business and consumer confidence, and, as a result, GDP growth will be negatively impacted in 2023 and beyond. From a credit quality perspective, we have not seen a material impact on impairments or credit loss ratios in 2022 yet but we are becoming concerned, as risks take time to emerge.

Outlook

Looking forward, Nedbank expects the economic environment in South Africa to remain challenging, particularly given the high levels of electricity shortages that we expect to continue. The Nedbank Group Economic Unit forecasts SA’s gross domestic product (GDP) to increase by only 0,7% in 2023 but this has downside risk as it assumes loadshedding at an average of level 4 but the experience year to date has been worse than this; interest rates to increase by a further 50 bps from December 2022 levels, taking the repo rate to

7,5% and the prime lending rate to 11,0% by the end of the year; and for inflation to reduce from 2022 levels and average 5,5% in 2023.

In SA economic conditions deteriorated significantly in early 2023, hurt by a sharp escalation in rolling blackouts as the country's electricity shortage escalated. Load-shedding is likely to continue at elevated levels throughout 2023, and combined with slower global demand and softer commodity prices will negatively impact domestic production and exports, resulting in a wider current account deficit in 2023. Furthermore, 2022's rise in inflation and higher interest rates will continue to weigh on household incomes and contain consumer spending.

While fixed investment will be supported by renewable-energy projects, the upside will be limited by regular power outages and weaker domestic and global growth prospects, along with easing commodity prices, slow progress with structural reforms and persistent policy uncertainties that will continue to hurt investor sentiment.

Inflation in SA is forecast to ease gradually in 2023, as international oil, food and other imported prices moderate from the highs of 2022 and global supply chains improve. Inflation is forecast to average 5,5% in 2023 and moderate to an average of around 4,8% in 2024 and 2025.

Conditions in the banking industry are likely to remain challenging. Credit extension is forecast to slow to 5% by the end of 2023, contained by the rise in interest rates and the anticipated slowdown in economic growth. Concerns about job security and earnings prospects will affect household demand for credit, but manageable household debt burdens and accumulated savings will provide some buffers against tighter financial conditions and limit the downside for credit. Corporate credit growth will also slow as the impact of the low base established in 2020 and 2021 disappears.

Brown said: "We have made good progress towards our published 2023 targets by exceeding our 2019 diluted headline earnings per share (DHEPS) level of 2 565 cents in 2022 (a year earlier than planned) and aim to achieve an ROE greater than the 2019 ROE level of 15%, a cost-to-income ratio of below 54% and maintain our #1 ranking on NPS among South African banks by the end of 2023.

"Given our strong 2022 performance, we have set ourselves revised medium-term (2025) and long-term targets. In 2025 we aim to achieve an ROE of 17% (around COE plus 2%) and a cost-to-income ratio below 52%. Over the longer term we aim to improve these to above 18% (around COE plus 3%) and below 50% respectively. Achieving these targets will be value-creating for shareholders," he said.

For a detailed breakdown of business unit performance, please refer to SENS announcement and analyst booklet.

Ends

Nedbank Group Strategic Communications

Annaleigh Vallie
Phone: +27 (0)66 479 0936
Email: annaleighv@nedbank.co.za

Refilwe Boikanyo
Phone:+27 (0)79326276
Email: refilweb@nedbank.co.za

About Nedbank Group

Nedbank Group is a bank holding company listed on the JSE Limited, with a market capitalisation of R109bn as at 31 December 2022. Nedbank is one of Africa's largest banking groups, with operations in South Africa, Namibia, Eswatini (formerly Swaziland), Mozambique, Lesotho and Zimbabwe, and offshore in the Isle of Man and Jersey. It also has representative offices in other Africa countries, including Kenya, and has key global financial centres to provide international banking services for SA-based multinational and high-net-worth clients in London, Toronto and Dubai. The group is a diversified financial services provider, offering a wide range of wholesale and retail banking services, as well as insurance, asset management and wealth management solutions. www.nedbankgroup.co.za