MEDIA RELEASE

Nedbank delivers solid first half performance with headline earnings increasing 10% and the interim dividend up 11% in a difficult operating environment

Salient features

- Headline earnings increased by 10% to R7,3bn.
- ROE increased to 14,2% (H1 2022: 13,6%).
- Capital and liquidity ratios strong with CET1 capital ratio of 13,3%.
- Interim dividend of 871cents per share, up 11%.
- Strong revenue growth and disciplined expense management partially offset by increases in retail impairments.
- Strong growth in digital clients.
- Number 1 ranked bank for customer satisfaction in SA.

JOHANNESBURG, 8 August 2023 – Nedbank Group delivered a solid financial performance for the six months to 30 June 2023 as headline earnings (HE) increased by 10% to R7,3bn in a challenging operating environment and return on equity (ROE) increased to 14,2% (H1 2022: 13,6%). The increase in HE was underpinned by strong revenue growth, including associate income, of 14% and good expense management, enabling preprovisioning operating profit growth of 22%. This was partially offset by a 57% increase in the impairment charge, particularly in the retail consumer banking segment.

The operating environment in the first half was much more challenging than we had initially forecast, Nedbank CE Mike Brown said. “In addition to a weak global economy and lower commodity prices, domestic economic activity continued to be negatively impacted by very high levels of load-shedding, logistical constraints, higher-than-expected levels of inflation and as a result higher-than-expected increases in interest rates.

“While progress is being made in improving outcomes on the key issues of energy security, transport and logistics, and crime and corruption, this progress is slow and when coupled with the potentially severe economic consequences of the United States (US) reaction to SA’s allegedly compromising its non-aligned stance in relation to the Russia–Ukraine conflict, has added further to SA’s country risk premium, increasing bond yields and resulting in a deterioration in the value of the rand against foreign currencies.”

Capital and liquidity ratios remained high, with a common equity tier 1 (CET1) ratio of 13,3%, an average second-quarter liquidity coverage ratio (LCR) of 143% and a net stable funding ratio (NSFR) of 119%, all well above board targets and regulatory minimums.

The group’s total expected credit loss (ECL) coverage increased to an all-time high of 3,67% (Dec 2022: 3,37%) and Nedbank remains conservatively provided in a difficult macroeconomic environment.

The group's solid financial performance and strong balance sheet metrics enabled the group to declare an interim dividend of 871 cents per share, up by 11%, at a payout ratio of 57%.

The R5bn capital optimisation initiative announced in March 2023 was materially completed by 30 June 2023, with the share repurchase programme and odd-lot offer, executed at attractive levels, enhancing both ROE and growth on a per-share basis.

Digital leadership

The build-out of a modern, modular and agile technology platform (Managed Evolution) has reached 93% completion, supporting the launch of three new transactional products off our new core banking system, continued double-digit growth in all digital-related metrics, client satisfaction scores remaining at the top-end of the South African banking peer group, higher levels of cross-sell, main-banked client gains across all segments, market share gains in key product categories as well as improved efficiencies.

Nedbank Money app active clients reached 2,2 million in H1 2023, up by 23% year on year (yoy). Transaction volumes on the Money app increased by 22% yoy and transaction values increased by 23%. Revenue from value-added services grew by 29% yoy across prepaid data, voucher and electricity purchases, as well as LOTTO and the sending of money to cellphones.

Our digital initiatives helped us to increase the number of digitally active retail clients in SA by 14% yoy to 2,8 million, representing 69% of retail main-banked clients and to rank the number one bank in SA on Net Promoter Score.

Since its launch in 2020, the Avo super app (now SuperShop) has signed up 2,3 million customers (up by 44% yoy), with over 23 000 businesses registered to offer their products and services on this e-commerce platform. Avo continues to grow exponentially, with a 70% yoy increase in gross merchandise value.

In recognition of our market-leading digital positioning, Nedbank was recently recognised as the Best Digital Bank in Africa in 2023 at the Euromoney Awards and the best bank for client-facing technology at the 2023 Global Banking & Finance Awards.

Fulfilling our purpose

Fulfilling our purpose of using our financial expertise to do good is best demonstrated through our ongoing delivery against the UN Sustainable Development Goals (SDGs), our continued focus on leading in ESG matters, and our sustainable-development finance (SDF) commitments as we proactively tilt our portfolio to areas that create positive impacts.

In H1 2023 we made new SDF-related payouts to the value of more than R10bn and at 30 June 2023 had exposures of R134bn (December 2022: R123bn) that support SDF, representing 15% of the group's gross loans and advances. By the end of 2025, it is our ambition to have increased our SDF exposures to around 20% of the group's total gross loans and advances, achieved by supporting more than R150bn in new SDF (from our starting base in 2021).

In July Nedbank signed a pledge along with 115 of SA's leading corporations to work with government to play our part in helping to address the key economic challenges facing South Africa in the areas of energy, transport/logistics and crime/corruption with the aim of achieving higher levels of sustainable and inclusive economic growth.

Impact of higher levels of load-shedding

While record levels of electricity outages (load-shedding) in H1 2023 had a limited impact on Nedbank's own operations, this had a negative impact on the operations of many of our clients, while at the same time leading many clients to invest in renewable-energy and private power generation solutions, providing a large financing opportunity for Nedbank.

"While it should never have happened, 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 costs and reduce their dependency on electricity supply from Eskom. This is creating a strong runway for bank advances growth in this sector. However, electricity outages adversely impact business and consumer confidence, as well as increase inflation, and, as a result, limit GDP growth. From an SME perspective, load-shedding is making it increasingly difficult to start a business," Brown said.

From a credit quality perspective, the negative impact of load-shedding has been more evident in our small-business and commercial-business segments, with clients in the following industries being especially impacted to various degrees: agriculture, manufacturing, restaurants, food services, retail (supply chain) and tourism. Some have incurred operational losses (such as the impact of products perishing and stoppages in production lines) while at the same time absorbing increasing levels of operational costs (such as for the use of generators). Corporate clients, in general, are more resilient given their strong balance sheets after having deleveraged post-Covid-19, but we continue to monitor the impact on clients who may be more impacted.

"The shortage of electricity supply – and hence very high levels of loadshedding - is currently the most material constraint on GDP growth. Urgent and decisive action is required by government, labour, civil society and business to unlock SA's undoubted economic potential and ensure higher levels of sustainable and inclusive economic growth," Brown said.

Outlook

Nedbank currently expects the economic environment in SA to remain very challenging, particularly given the high levels of electricity shortages and increased levels of pressure on consumers' disposable income as a result of higher levels of inflation and interest rates.

To support our clients during these challenging times, we offer clients tailored payment plans to help address their temporary financial distress and provide restructures and debt consolidation options that reduce monthly debt payments to help clients deal with the increase in interest rates and keep them in their homes and in their vehicles.

The Nedbank Group Economic Unit currently forecasts SA's gross domestic product (GDP) to increase by only 0,3% in 2023 and interest rates to remain at elevated levels, with the repo rate at 8,25% and the prime lending rate at 11,75% for the remainder of the year.

"The solid financial performance in H1 2023 supports our ambition of achieving our published 2023 targets of an ROE greater than the 2019 ROE level of 15% and a cost-to-income ratio of below 54%, but the deteriorating macroeconomic environment has made these and our medium-term targets to 2025 more difficult to achieve. Pleasingly, in 2022 we had already achieved our 2023 target of exceeding the group's 2019 diluted headline earnings per share (DHEPS) of 2 565 and we aim to maintain our current #1 ranking on Net Promoter Score (NPS) among South African banks," Brown said.

CEO Succession Process

It was announced at the group's AGM on 2 June 2023 that the Nedbank Group Board, supported by a global search firm with strong domestic presence, had commenced a process to choose a successor to Mike Brown, who joined Nedbank Group 30 years ago and has been the Chief Executive 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 a successor has been chosen and will retire after an appointment has been made and a suitable handover process has been completed.

This process is now well underway and further updates will be provided alongside our 2023 year end results in Q1 2024 .

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

Ends

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About Nedbank Group

Nedbank Group is a bank holding company listed on the JSE Limited, with a market capitalisation of R112bn as at 30 June 2023. Nedbank is one of Africa's largest banking groups, with operations in South Africa, Namibia, Eswatini, 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