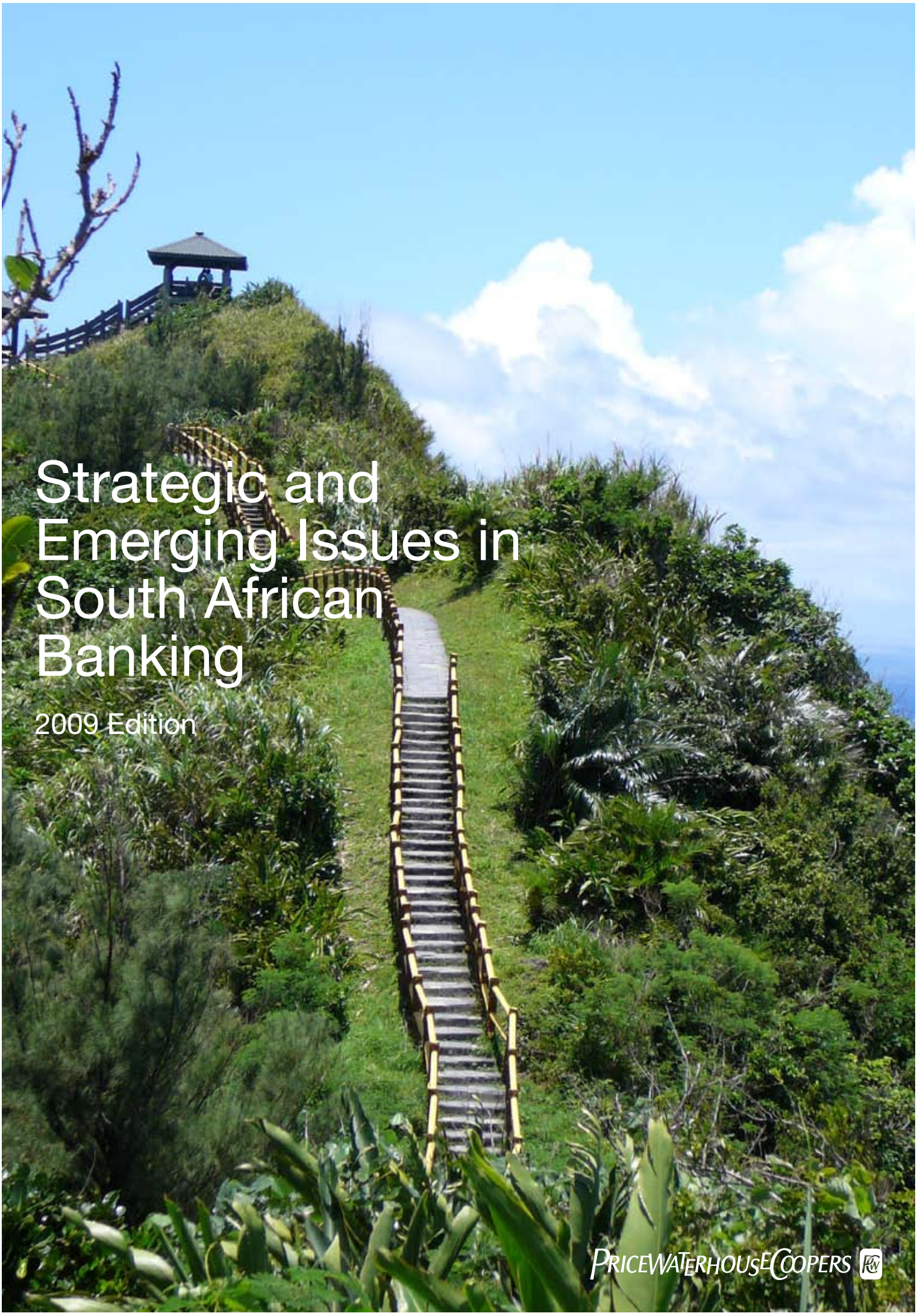

Strategic and Emerging Issues in South African Banking

2009 Edition

PricewaterhouseCoopers

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Foreword

This is the eleventh PricewaterhouseCoopers survey of the banking industry in South Africa. As in the past, we continue this survey on 'Strategic and Emerging Issues in South African Banking'.

This survey has been developed by PricewaterhouseCoopers and Dr Brian Metcalfe and builds on previous surveys. New areas include perspectives on the global financial crisis and comments on risk management.

The key objectives of this survey remain to:

- raise awareness of strategic and emerging issues in banking in South Africa;
- establish data on certain industry trends;
- encourage timely discussion and debate on the best options for capitalising on trends to enhance and improve performance of the various banks; and
- provide perspectives on how banking in South Africa could evolve over the next three years.

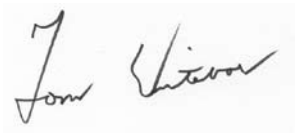
Observations of particular interest in this year's survey include those on:

- perspectives on why the local banks weathered the global financial crisis well;
- imminent retreat of certain foreign banks;
- increasing support for deposit insurance;
- less readily available credit; and
- crime remaining a critical issue.

I would like to thank:

- the Chief Executive Officers and Senior Executives who participated in this survey for their time, commitment and support in making this publication possible;
- the partners and staff in our Johannesburg office who have assisted in producing this report; and
- in particular Dr Brian Metcalfe for his work in producing this report.

As always, we look forward to feedback on this survey and on topics to be included in future surveys on the South African banking industry.



Tom Winterboer
Financial Services and Banking & Capital Markets Leader
PricewaterhouseCoopers Inc.
Southern Africa

Johannesburg
1 June 2009

About the author

Dr Brian Metcalfe is an Associate Professor in the Business School at Brock University, Ontario, Canada. He has a doctorate in financial services marketing and has researched and produced over 30 reports, such as this one, on behalf of PricewaterhouseCoopers in eleven different countries including China, India, Canada, Australia, Japan, and South Africa. His most recent report is “Foreign Banks in China 2008”.

Previous reports have examined strategic and emerging issues in corporate, investment and private banking, life and property and casualty insurance, insurance broking and wealth management.

In the past he has been employed by National Westminster Bank, Bank of Ireland and Connecticut Bank & Trust Co. He has consulted for a wide range of organisations, including Royal Bank of Canada, Bank of Nova Scotia, Barclays Bank, Clarica Life Insurance Company, Equitable Life of Canada, and several major consulting firms.

He has also taught an executive management course entitled ‘Financial Services Marketing’ at the Graduate School of Business, University of Cape Town.

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This report was researched and written by Brian Metcalfe, Ph.D. Information presented herein, while obtained from sources believed reliable, is not guaranteed as to accuracy or completeness. This report has been commissioned by and distributed through PricewaterhouseCoopers Inc., Johannesburg.

Additional copies of this report can be obtained from Tom Winterboer, Financial Services and Banking & Capital Markets Leader: Financial Services Practice – PricewaterhouseCoopers Inc., 2 Eglin Road, Sunninghill, 2157

Telephone: +27 11 797 5407 Fax: +27 11 209 5407
E-mail: tom.winterboer@za.pwc.com

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Executive summary

Background

This survey focuses on strategic and emerging issues in South African banking at a time of one of probably the most severe global financial crisises we have experienced.

Participants are a combination of domestic and foreign banks; they range from local niche players to branches of global banks to the Big Four domestic banks.

The survey attempts to synthesise diverse viewpoints, protect confidentiality and offer insights into the ever-changing banking and financial services environment.

It is based on interviews with Chief Executive Officers and senior executives of 23 banks, 12 of whom are foreign-owned and 11 of whom are domestically-owned. Absa is still included in the latter category and within the Big Four group, despite ownership by Barclays. In addition, Mercantile Bank and The South African Bank of Athens are also in this group although both are foreign-owned. They all possess characteristics more typically found in a domestic bank and to include them in the foreign bank category would compromise their confidentiality.

The participants in 2009 closely match those involved in the 2007 report, although there were some new participants in 2009.

They included Capitec, Imperial Bank and TEBA Bank on the domestic front and CCB (China Construction Bank) on the foreign side.

The interviews with participants were approximately one hour in length and were conducted in Johannesburg and Cape Town during February 2009.

The domestic participants included Absa Bank, African Bank, Capitec, FirstRand Bank, Imperial Bank, Investec Bank, Mercantile Bank, Nedbank Group Ltd, The South African Bank of Athens, The Standard Bank of South Africa and TEBA Bank.

The foreign participants were Calyon, China Construction Bank, Citibank NA, Commerzbank AG, Deutsche Bank AG, Dresdner Bank AG, HSBC, JPMorgan Chase Bank NA, RBS, Société Générale, Standard Chartered Bank and UBS.

Main findings

The following findings are based on personal interviews with 23 banks, which are judged to represent a sound and comprehensive overview of the South African banking industry. The main findings are summarised below:

Regulation and legislation

In the 2007 report the regulatory environment was considered to be the most important driver of change. At that time the banks were in the midst of their respective Basel II implementations and not surprisingly, felt overburdened with the pace of new regulations.

In this survey the banks acknowledged that some of the new legislation such as the National Credit Act had helped slow the expansion of consumer credit and therefore turned out to be fortuitous timing in terms of the subsequent global financial crisis.

The insight of and tight regime imposed by the Registrar of Banks ("the Registrar") were often complimented and regarded as positive contributors in South African banks weathering the global financial crisis well. The early adoption of Basel II requirements were frequently viewed by the respondents as very positive contributions and they believe that Basel II has improved risk management in terms of capital adequacy, market risk, credit risk and operational risk.

Risk management

Further focus on risk management and risk management systems is required, as well as integration of these into other systems at banks.

Less competition

On the retail banking side, both the home loan and vehicle finance markets reported lower levels of competition in 2009.

Participants commented on the change in conditions in the home loans market, and in particular in the erosion of the position of the home loan originators.

Corporate banking, which has traditionally experienced the greatest level of competition, has also experienced a decline. In 2007 88% considered this sector to be intensively competitive. By 2009 this figure had dropped to 56%.

Credit and funding

Concerns were raised about the declining quality of banks' lending books. The report also confirmed, as a result of the global financial crisis, that credit will become less available and margins will widen.

All banks have seen an increase in the cost of funding. Funding will also become more challenging for the smaller domestic banks.

Areas that still need improvement

The banks continue to acknowledge that improvements are still needed on service quality and customer service. Debt counselling could also be improved.

There is, participants also believe, a need for greater transparency and the previously unbanked market needs further attention.

Drivers of change

The three most important drivers of change were identified as the global financial crisis, the economic cycle and funding constraints.

Macro issues

Important macro issues that affect the smooth operation of the banks include the global financial crisis, the underlying domestic and global economies and the recruitment of good personnel. Crime remains a critical issue.

Marketplace evolution

For the first time in 2009 the majority of banks considered it unlikely that there would be further foreign bank investments in the Big Four.

This assessment runs contrary to on-going media speculation. It is, however, influenced by the foreign banks' appraisal that their overseas head offices and the local Registrar are unlikely to welcome radical changes within the banking system at the present time.

The respondents do not foresee the return of the second tier banks but they predict there will be more community banks.

There appears to be less appetite for overseas expansion at the moment, despite the participants' assessment that the global financial crisis may uncover some good investment opportunities for the South African banks. Only two domestic banks envisaged significant merger or acquisition activity in 2009.

Foreign bank commitment to South Africa

A significant change in this report versus previous ones is the imminent retreat and departure of several foreign banks.

This move is the result of the global financial crisis, which has forced foreign banks to look carefully at the markets in which they are active and to reconfigure their future strategy.

Only six foreign banks were judged to have a strong commitment to the South African market at present. This is predicted to expand to seven banks by 2012, as the global financial environment is expected to stabalise.

European and American banks are expected to reduce their presence while sub-Saharan and BRIC (Brazil, Russia, India and China) country banks should stay the same or increase.

Deposit insurance gains support

Perhaps reflecting recent developments in other markets the survey found increasing support, 15 out of 23 banks or nearly 70%, for deposit insurance. However, such support is not universal and within the largest five banks only two banks support this.

Mixed revenue growth and profitability

Despite the market uncertainty, several banks predict strong revenue growth. Two foreign banks predict zero growth in 2009 and nine banks project less than 10% growth in 2009.

Markets where rates of growth are expected to decline include, predictably, car financing, mortgages and credit cards. One bank predicts a 5% drop in the number of credit cards in 2009.

Profitability has been affected in retail banks although in treasury, investment banking and for a few specialist areas, such as micro-lending, it continues to be extremely strong.

Growth expectations from 2009 to 2012 are as follows:

	2009	2012	Percentage increase
• Number of retail accounts	34,5m	42m	22%
• Number of employees (Big Four)	122 000	125 000	3%
• Number of employees	137 086	143 326	5%
• Number of branches	2 786	2 910	5%
• Number of ATMs	19 451	22 500	16%

Peer ranking

The top ranked bank/financial institution in each of 23 categories based on peer ranking is shown in the table below (comparisons are shown with the rankings for the two previous Strategic Issues reports). In 2009, based on request from participants to the survey, there are five new categories, Derivatives, Fixed Income, Equities, Commodities and Prime Broking.

As in the past participants were asked to name the top three banks in terms of success, which does not necessarily only include market share, but also performance, momentum, etc. Participants were not permitted to vote for their own institution.

	2009	2007	2005
Corporate Banking	Standard Bank	Standard Bank	Standard Bank
BEE Deals	FirstRand (RMB)	FirstRand (RMB)	FirstRand (RMB)
Listings	FirstRand (RMB)	Standard Bank	FirstRand (RMB)
Mergers and Acquisitions	FirstRand (RMB)	FirstRand (RMB)	JP Morgan Chase
Foreign Exchange Trading	Standard Bank	Standard Bank	Standard Bank
Derivatives	Standard Bank	*	*
Fixed Income	Standard Bank	*	*
Money Markets	Standard Bank	Standard Bank	Standard Bank
Equities	Standard Bank	*	*
Commodities	Standard Bank	*	*
Structured Finance	FirstRand (RMB)	FirstRand (RMB)	FirstRand (RMB)
Brokerage – Institutional	Deutsche Bank	Deutsche Bank	Deutsche Bank
Brokerage – Retail	Standard Bank	Investec	*
Prime Broking	Standard Bank/ FirstRand Bank (RMB)/ Peregine	*	*
Retail Lending and Deposits	ABSA/ Standard Bank	ABSA	ABSA
Retail Mortgages – Home Loans	ABSA	ABSA	ABSA
Vehicle Financing	FirstRand (Wesbank)	FirstRand (Wesbank)	FirstRand (Wesbank)
Internet Banking	Standard Bank	ABSA/ Standard Bank	ABSA
Private Banking	Investec	Investec	Investec
Private Equity Investments	Ethos	Ethos	FirstRand (RMB)/Ethos
Micro Lending	African Bank	African Bank	African Bank
Commercial Property Finance	Nedbank	Investec	ABSA
Trade Finance	Standard Bank	Standard Bank	*

* – Not rated in these years

Market environment

Background profile

Number of retail customers

Based on data provided by the Big Four banks in 2009 they have 34.5 million accounts and expect to have 42 million retail accounts by 2012, an increase of 22%.

The 2009 figure included several domestic banks that had not been included in 2007. The number of retail accounts provided by African Bank, Capitec and TEBA Bank added another 3.5 million accounts in 2009.

This total is before the (publicly stated) addition of 1.3 million new clients as a result of African Bank's acquisition of Ellerines. It is therefore reasonable to estimate that the retail banks included in this survey operate approximately 40 million retail accounts.

Number of employees

In 2009 the Big Four banks employed 122,000 people and anticipate an increase of 3,000 people (or 3%) by 2012. This is below the forecasted growth in the 2007 report, which predicted 131,000 employees by 2010. Two of the Big Four banks do not plan to increase their employee count by 2012.

The total employee number for all 23 banks in this survey was 137,086 increasing by 4.6% to 143,326 by 2012. Two foreign banks predicted zero employees by 2012 while one foreign bank forecasted a 25% decline in numbers. Fourteen of the 23 banks in this survey expect individual growth over the next three years to be less than 100 employees.

This contrasts dramatically with 2007 when seven foreign banks predicted growth of 50% or more by 2010.

Number of branches

In 2007 the Big Four Banks stated that they had 2,692 branches and would have 2,953 branches by 2010. In this survey the four banks have 2,786 branches and project 2,910 branches by 2012, an increase of 5%.

The group of banks that includes African Bank, Capitec and TEBA Bank plans an aggressive increase in relative terms over the next three years.

Number of ATMs

The Big Four banks continue to roll out their electronic distribution network. In the 2007 survey they indicated 17,046 ATMs and expected to have 19,486 ATMs by 2010.

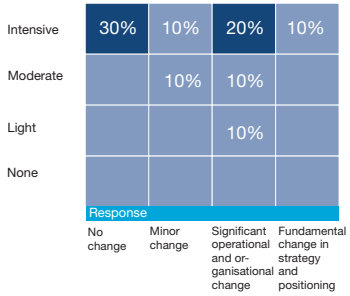
In the current survey they reported 19,451 ATMs and forecast a 16% increase to 22,500 by 2012.

Competition in the marketplace

Overall retail banking

In 2007, 76% of participants viewed the retail banking sector as intensively competitive. This fell modestly to 70% in 2009.

Three banks indicated they had made no change to their strategy over the last year while four banks have made significant changes and one bank fundamental changes.

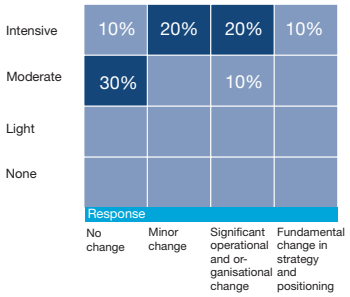


Note: Based on responses from 10 banks
Shading represents greater than 20%

Home loans

There appears to be a moderation in home loan competition. In 2007, 100% of respondents considered it to be intensively competitive. By 2009, this has fallen to 60%. Furthermore, four of the ten banks indicated that they had made significant or fundamental changes to strategy.

Several participants commented on the change in market conditions and the new equilibrium in the distribution channel with home loan originators experiencing an erosion of their position.

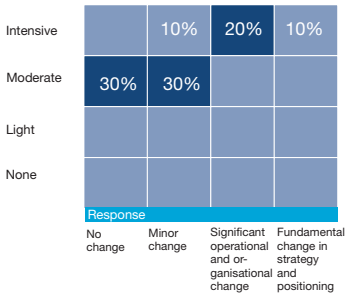


Note: Based on responses from 10 banks
Shading represents greater than 20%

Vehicle financing

Vehicle financing has witnessed a decline in competition. In 2007 only one bank considered the competition to be moderate while seven banks considered it intensive.

By 2009 six of the ten reporting banks considered it moderate and four banks still intensive.

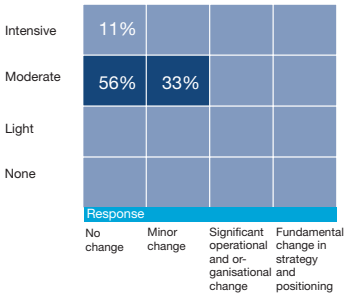


Note: Based on responses from 10 banks
Shading represents greater than 20%

Internet banking

In 2007, 62% said the competition was moderate and 38% said it was intensive.

In 2009, 89% view it as moderate and only 11% believe it to be intensive. Two thirds of the banks also suggested that they had made no change to strategy.

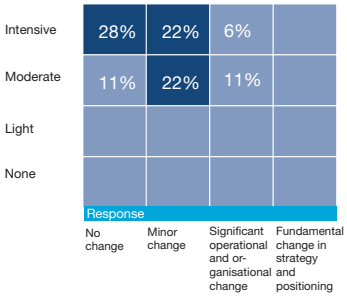


Note: Based on responses from 9 banks
Shading represents greater than 20%

Corporate banking

In previous years corporate banking was repeatedly viewed to be an intensively competitive sector.

In 2007 88% classified it as intensively competitive; by 2009 this had dropped to 56%.

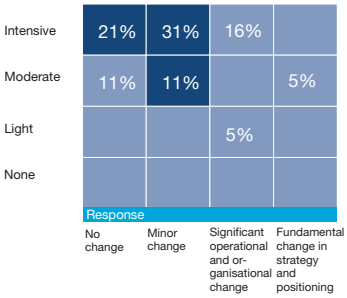


Note: Based on responses from 18 banks
Shading represents greater than 20%

Investment and merchant banking

Seventeen banks provided a view of competition in investment and merchant banking. 77% percent viewed it as intensively competitive in 2007 and this declined to 68% in 2009.

Only one bank indicated it had made a fundamental change in strategy over the last year. In contrast, 74% suggested they had made no change or minor change to strategy.



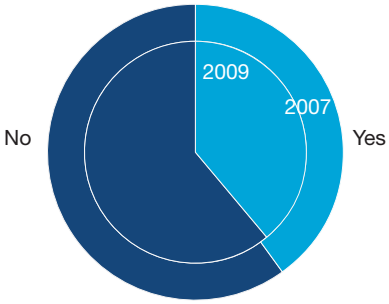
Note: Based on responses from 19 banks
Shading represents greater than 20%

Q Do you believe that the banking market is overcrowded?

The departure of several foreign banks from the market has been commented on elsewhere in this report.

Despite these departures and restructuring within different market segments, the percentage of respondents that believe the market is not overcrowded has remained virtually identical to that recorded in 2007.

This viewpoint contrasts markedly with the 2002 survey when 88% of respondents said the market was overcrowded.



Based on responses from 23 banks in 2009 and 20 banks in 2007

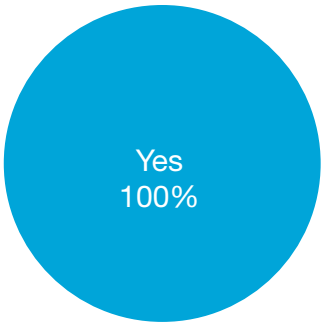
Q In your view, did the government and regulatory bodies deal with the global financial crisis in a competent manner?

Responses to the handling of the global financial crisis by the government and the regulator ranged from grudging compliments (which implied good luck and fortuitous timing of the National Credit Act) to unreserved and unqualified support for the Registrar of Banks.

Several banks noted that the full impact of the crisis had been avoided for a host of reasons, many of which were outside the control of the South African authorities.

Three banks specifically mentioned the early adoption of Basel II by the South African banks.

One bank observed that the Registrar had performed well while another bank complimented the Registrar by saying the questions asked by him, and responses taken, had been “very good”.



Based on 23 banks

Q Do you expect regulatory changes in SA as a result of the global financial crisis?

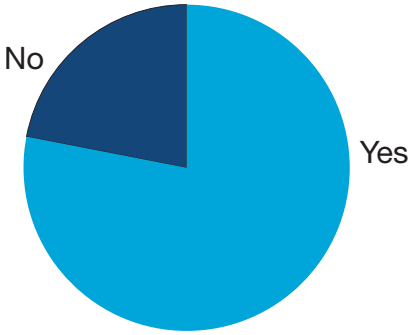
The participants contend that the global financial crisis will affect the regulatory environment in South Africa.

The range of potential areas of interest to regulators is documented as follows:

- ownership of the domestic banks
- a possible increase in minimum capital requirements
- fair value accounting
- measures of corporate liquidity
- compensation structures
- offshore exposure of investors in the post Madoff-era
- perceived anti competitive behaviour of the big banks
- structure of the international banks
- bank liquidity

The general feeling expressed by the banks was that the regulators around the world are extremely nervous at the moment and that comprehensive changes will follow.

Several participants indicated that the Registrar of Banks would watch developments in other markets and then apply them to the needs of the South African banking market.



Based on 23 banks

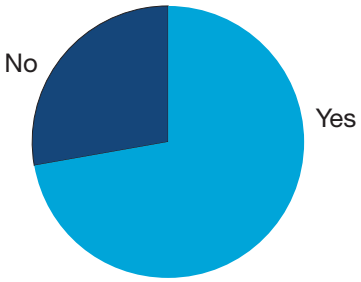
Q Will banking in SA in the future be different as a result of the global financial crisis?

The general feeling expressed by the bankers was that South Africa largely escaped the financial liquidity crisis but that the secondary wave of global economic recession would have a significant impact.

The most frequently cited side effect of the global economic recession was the decline in demand for commodities and the resultant fall in commodity prices.

Specific comments on the impact of the crisis were as follows:

- Tighter credit will be more evident as South Africa builds up its foreign debt to finance infrastructure spend.
- Spreads will widen.
- As the economy slows, there will be job losses and an impact on house and car sales.
- The risk appetite of the South African banks has been affected by the crisis.
- The global recession will impact on South Africa's balance of payments.



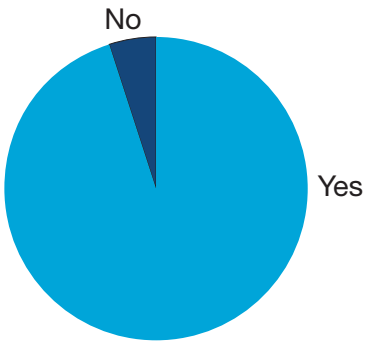
Based on 18 banks

- South Africa was experiencing an economic slowdown ahead of the global financial crisis. There had already been significant defaults by consumers and repossessions of cars and houses.
- There will be an impact on the economy and its growth as the foreign banks withdraw cash from the system.
- The "Big Four" banks will raise more debt locally. Risk appetite of foreign investors will be affected for 2009.
- Inward investment will decline.

Q Are there special opportunities for South African banks given the international turmoil?

The participants believe there are opportunities for the domestic banks both at home and internationally. In general, they believe that the South African banks are well capitalised and should be able to expand and acquire. Several banks mentioned that there was less competition in Africa and now was a good time to grow. Several banks specifically mentioned opportunities for Standard Bank. Another participant commented that there were a number of opportunities in the rest of Africa, Latin America, the Middle East and Russia.

On the negative side some participants suggested that the South African banks may lack skills to take advantage of some opportunities and then said they should acquire "infrastructure machines."



Based on 21 banks

The retreat of the foreign banks from South Africa was also deemed to present opportunities for the Big Four Banks in their home market.

Q What are the most important developments taking place in South Africa's financial markets at present?

Below is a list of important developments cited by the participants:

- In addition to the possible departure of certain foreign banks, others are said to be refocusing their strategies. One bank commented that Basel II will force foreign banks to reduce their exposure.
- The Big Four banks have become more realistic and pricing has improved. One domestic bank said prime -2% was no longer prevalent.
- A critical issue is the declining quality of the banks' lending books.
- Several banks mentioned the downturn in the credit cycle and resultant consumer losses. They cited increased repossessions of both houses and cars.
- The timing of the National Credit Act was considered fortunate as it may have helped ameliorate some of the worst effects of the credit crisis.
- Home loans were at the 100% or 110% of loan to value level. That has now reversed and a 20% deposit is the new norm.
- Much sharper focus by banks on risk management.
- Large corporates have retreated back into South Africa to source their funding requirements. This has been influenced by the foreign banks' deleveraging, and by the foreign banks having less access to capital.
- Movement to the creation of long-term debt instruments.
- Expect to see more PPP (Public Private Partnerships) to finance infrastructure, for example, prison construction.
- Regulators are watching international developments very closely.

Q Do you believe South African banks' risk management systems are sufficiently robust?

The general consensus was that the South African banks' risk management systems are relatively robust.

They have benefited from the early introduction of Basel II requirements and the overall vigilance of the regulatory system. In addition, previous experience gained in handling the uncertainty created by the demise of Saambou Bank and the turmoil prior to the takeover of BOE by Nedbank was beneficial. There was also a feeling expressed that the capital markets remain well controlled as a result of exchange controls.

One bank noted that the risk management systems were robust in a general sense but it was not clear how capable they were of anticipating on-going shocks to the system.

The following comments were made regarding the banks' risk management systems:

- The various scenarios for "street testing" have been underestimated.
- There may be surprises associated with BEE funding under Financial Sector Charter obligations.
- The cash flows may not be sufficiently robust on fixed dividend schemes.
- There may be risk as a result of the level of concentration in small capitalisation companies and liquidity in small stocks.
- There is a sectoral exposure to mining.
- Line managers need to have a better understanding of risk.
- One foreign bank acknowledged that it struggled with the capital adequacy requirements set by the Reserve Bank.
- Risk management systems would benefit from better integration into other systems at banks.

Q Why have South African banks largely escaped the severe effects of the global financial crisis?

The following reasons were provided to explain why South Africa has largely escaped the most damaging affects of the global financial crisis:

- There has been minimal exposure to sub-prime loans.
- There is only one category of bank in South Africa, which differs from the US where investment banks were in a separate, unregulated category.
- There are no free-standing investment banks of any size.
- Local foreign exchange regulations control South African banks in investing in US dollars.
- Although consumers were highly leveraged, South African corporates were not.
- Exchange controls helped prevent investments in CDOs (collateralised debt obligations are a form of structured asset-backed security (ABS)). CDOs are valued on a mark-to-market basis and have therefore experienced significant write-downs on their value.
- The National Credit Act had a dampening effect on consumer demand, commencing approximately two years ahead of the global financial crisis.
- Regulations and a more conservative DNA have helped de-link South Africa from the global financial markets.
- South Africa does not invest in the extent of the products that caused the crisis.
- The consolidation of the local banking industry in 1999-2002 and the elimination of the smaller banks have helped isolate the worst effects of the market downturn.
- South Africa has a very astute Registrar of Banks.

Q What do you see as the most likely funding sources for South African banks following the global financial crisis?

Although comments made by the domestic banks in other parts of this report stressed the strength of being able to access local funding sources, responses to this question highlighted concerns associated with a loss of external funding.

Respondents made the following comments regarding the funding environment:

- funding will become more expensive;
- the privatised pension retirement structure will provide a growing deposit pool;
- funding will be very difficult to obtain and is impacted by the financial crisis and the lack of global liquidity;
- "crowding out" as a result of the national budget deficit and the financial needs of infrastructure projects (where government may utilise a larger portion of the funding available to South Africa); and
- there will be a drive to increase local deposits.

Standard Bank secures US$400 million from IFC to boost trade in Africa

Standard Bank will receive a US$400 million line of credit from IFC, a member of the World Bank Group, to support trade in sub-Saharan Africa and address the shortage of trade finance resulting from the global financial crisis.

The loan is part of a co-ordinated global initiative, announced in London yesterday during the G-20 Summit, which brings together governments, development finance institutions, and private sector banks to mobilise funding targeted to support trade finance in the developing countries.

Up to US$5 billion will be mobilised and disbursed through the Global Trade Liquidity Program (GTLP) to regional banks, who will use the financing to extend trade finance to importers and exporters in developing countries. The program is expected to support about US$50 billion in trade with developing countries.

"In a world where liquidity and funding are in short supply, a loan facility of this scale will go a long way towards stimulating economic growth and development. It is good for Africa and the region. Standard Bank will continue to lend in a responsible manner with due consideration of the existing financial and economic climate. We will not lose focus on our risk and corporate governance processes," said Jacko Maree, Standard Bank Group Chief Executive.

Jean Philippe Prosper, IFC Director for Eastern and Southern Africa said "Supporting the private sector by ensuring access to trade finance when it has become less available in the marketplace is an IFC priority under the Global Trade Liquidity Program. The program is an important part of IFC's response to the recent turmoil in global financial markets and will help address the decline in trade that threatens to set back decades of economic progress in Africa and in tackling poverty across the region."

Source: The Ghanaian Chronicle, 3 April 2009

Q Can you identify three major criticisms of South African banking at present?

The participants highlighted a number of criticisms about their industry.

Mortgage originators

A number of the banks expressed unhappiness with the mortgage originators' control of the mortgage market. They commented that the banks needed to become more efficient in the market. They noted it was difficult to wrestle control away from the originators at a time of overcapacity.

Consumer services

The banks continue to acknowledge that there is room for improvement on service quality and consumer service.

Pricing issues

Some participants criticised the banks for not being competitive in pricing. The "perceived cartel-like" behaviour of the Big Four banks was mentioned. However, there was also criticism of the under-pricing of risks and the high level of consumer losses. A car financing company was provided as an example of under-pricing for risk.

Debt counselling

Some participants criticised the retail banks on their failure to engage in debt counselling as required by the National Credit Act.

Bankserv alternative

Some of the smaller banks would like to see an alternative to Bankserv. Bankserv, a private company owned by the Big Banks, was accused of charging smaller banks higher transaction costs.

Greater transparency

There was criticism of the lack of disclosure regarding funding of BEE and the property sector.

Unbanked market

A few participants had the view that the major banks have largely avoided serving the previously unbanked market.

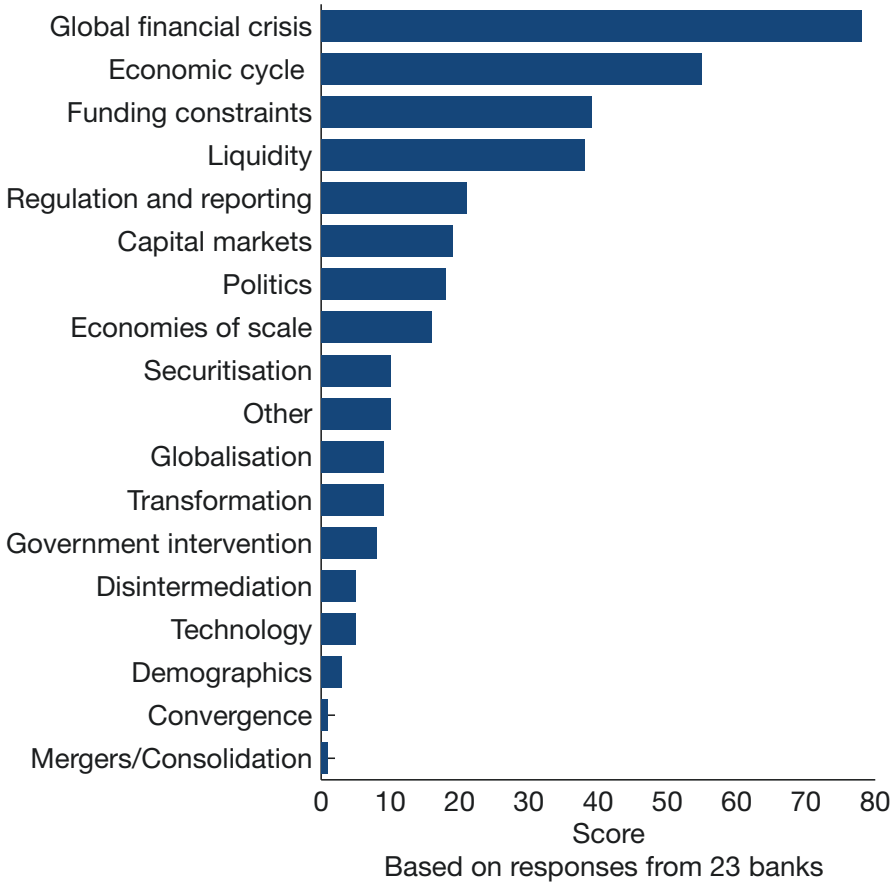
Q What are the major drivers of change in the banking industry?

The global financial crisis was identified as the most significant driver of change in the banking industry in South Africa

In 2007, regulation and reporting was in top position. By 2009 it had slipped to fifth position. In 2005, the top factor was foreign entrants reflecting Barclays' pending acquisition of ABSA.

The next three most important drivers in 2009 are the economic cycle, funding constraints and liquidity.

All of these drivers relate to the current economic and financial environment. Although the measured impact of the financial crisis has been mentioned in other parts of this report, it is clear that the participants recognise that what is happening beyond South Africa will ultimately result in change in the local banking market.



The category "other" included a range of drivers suggested by participants. They were consumer affordability, funding costs, use of capital, foreign bank departures and re-intermediarian. The last driver referred to one bank's belief that banks were becoming more directly involved in corporate funding and being more actively engaged as financial intermediaries.

Q Which areas of your business are the key sources of competitive advantage for your organisation in the marketplace? Please choose up to three.

When asked to identify a competitive advantage for their bank in the marketplace, the participants selected the speed and quality of decision making. In second place was “other”, which covered a variety of responses including :

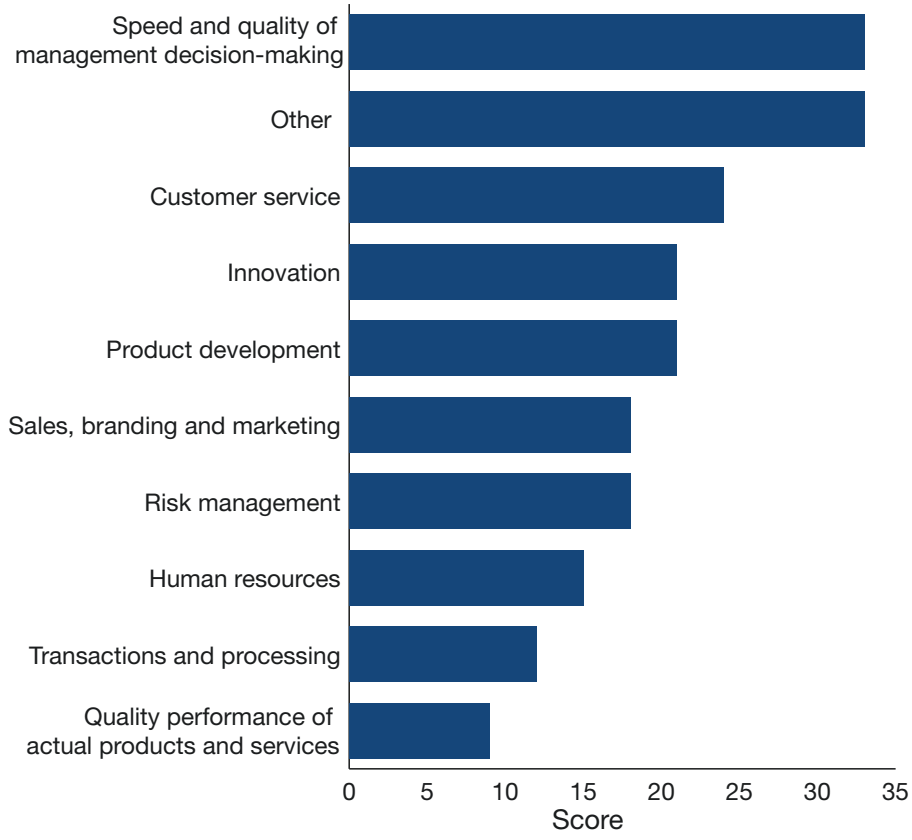
- distribution network;
- credit rating;
- pricing;
- global network;
- financial strength; and
- a community-based orientation.

Three foreign banks mentioned their global network as the most important advantage in comparison to their competitors.

In 2007, the participants believed that customer service was the key differentiator.

By 2009, customer service had fallen to third position. Innovation and product development shared fourth position.

Human resources, which had been in third position in 2007, slipped to eighth position in 2009.



Based on responses from 23 banks

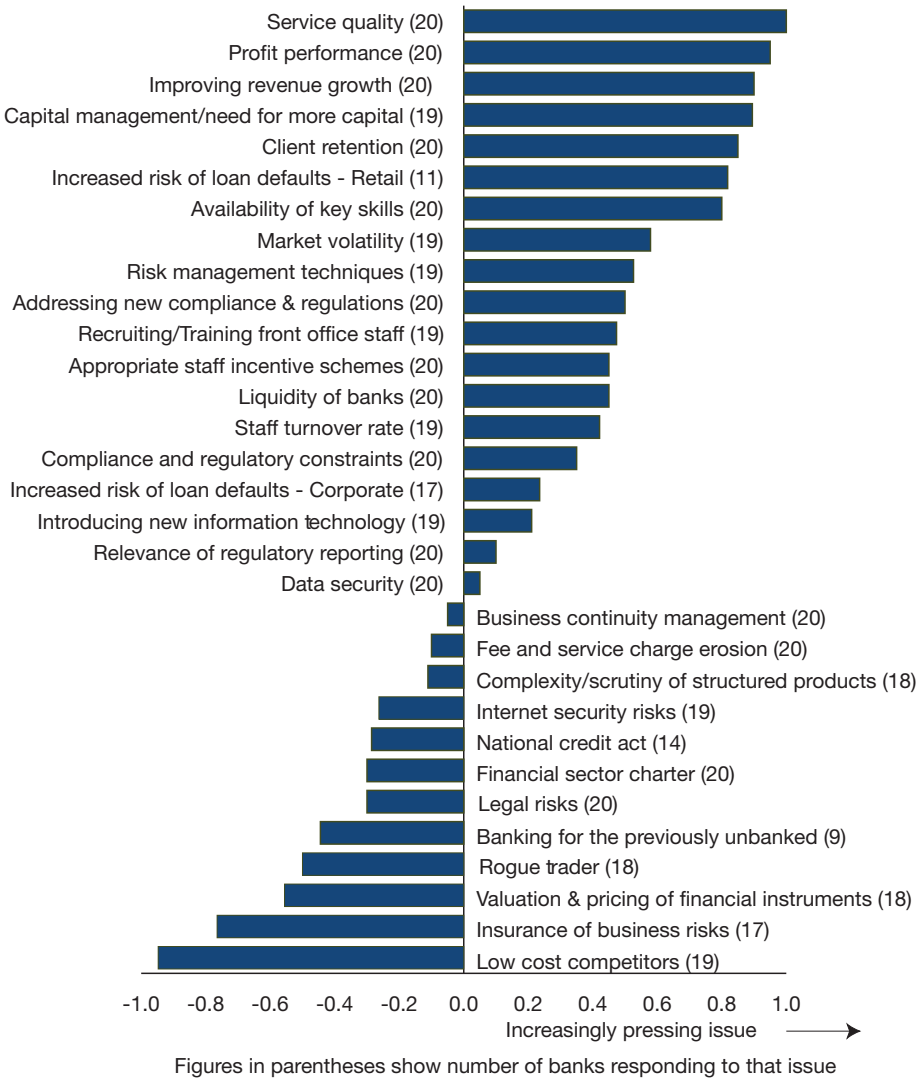
Q What are the most pressing issues you face? Can you rate them 1 to 5?

Participants were required to score each issue on a scale of 1 to 5, where 5 was most pressing. The 0 centre axis therefore represents 3 in the 1 to 5 scale and those to the right side are 'most pressing' and range from 3 to 5. The list of pressing issues was trimmed from 47 in 2007 to 31 different factors in 2009.

In 2007, profit performance and improving revenue growth were in second and third place respectively and this positioning was continued in the 2009 survey.

However in 2009, the top pressing issue for bankers was identified as service quality. Service quality had been in fourth position in 2007. In 2007 the top issue had been compliance issues and regulations but by 2009 this had dropped to tenth position. Reflecting the new business environment, capital management moved up from nineteenth position in 2007 to fourth position in 2009. Risk management moved up from twenty-fourth position in 2007 to ninth position in 2009.

The Financial Sector Charter had been in twelfth position in 2007 but slipped to twenty-fifth position by 2009. Indeed, the Charter had moved to the left side of the central axis, which meant it now warranted a score of less than 3 on the '1' to '5' scale.



Figures in parentheses show number of banks responding to that issue

Pressing issues: Domestic versus foreign banks

In the chart below the pressing issues are sub-divided between the domestic banks and the foreign banks and they reveal key differences.

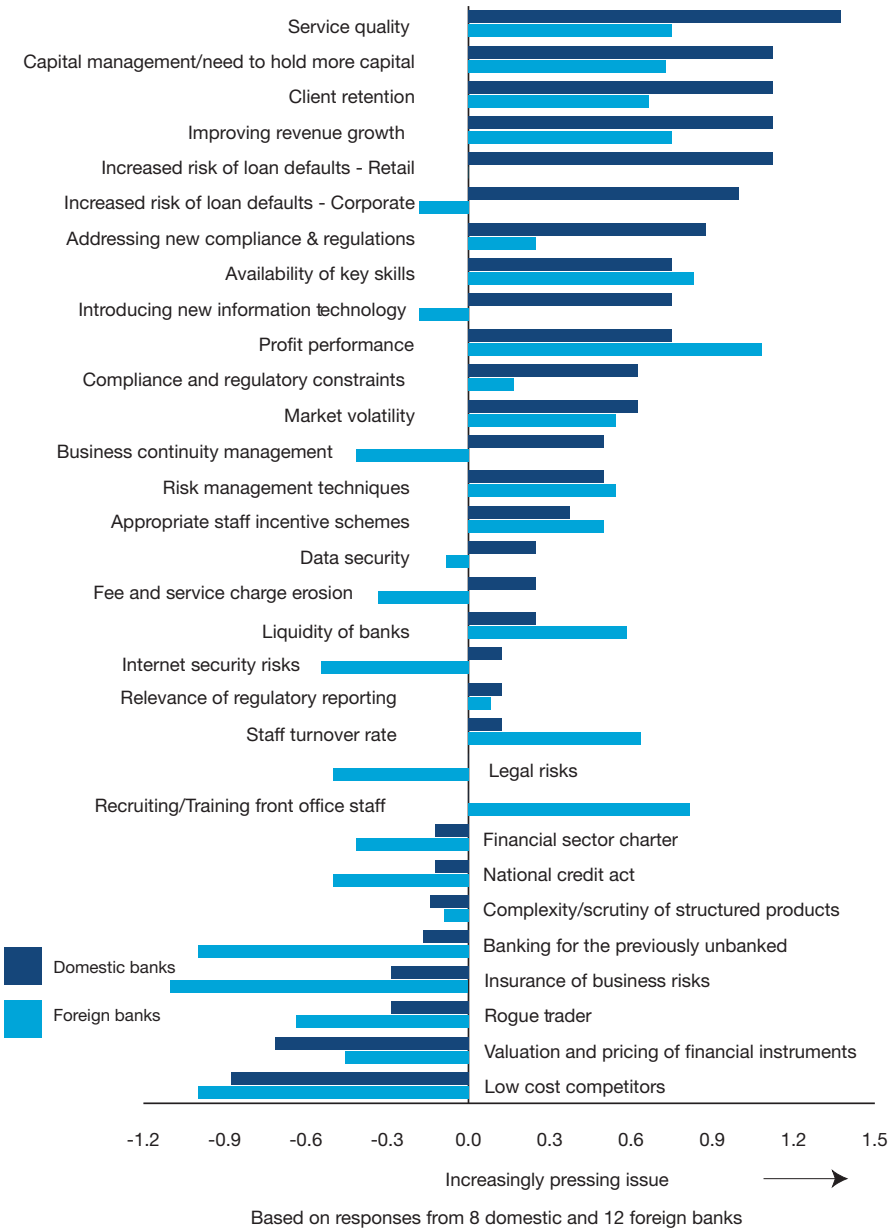
In 2009 the domestic banks' most pressing issue was identified as service quality. (In 2007 service quality was ranked in fifth position).

For the foreign banks profit performance was the most pressing issue in 2009. It ranked in second position in 2007.

The domestic banks assigned strong scores to four factors, which shared second place in 2009. They were capital management, client retention, revenue growth and finally retail loan defaults.

The foreign banks recognised a number of personnel-related issues as pressing, including recuiting and training, availability of skills and staff turnover.

There are notable differences between the two bank groups across a number of pressing issues.



Based on responses from 8 domestic and 12 foreign banks

Q Below is a list of important macro issues that might affect your operation in South Africa. Can you score each one according to their level of importance?

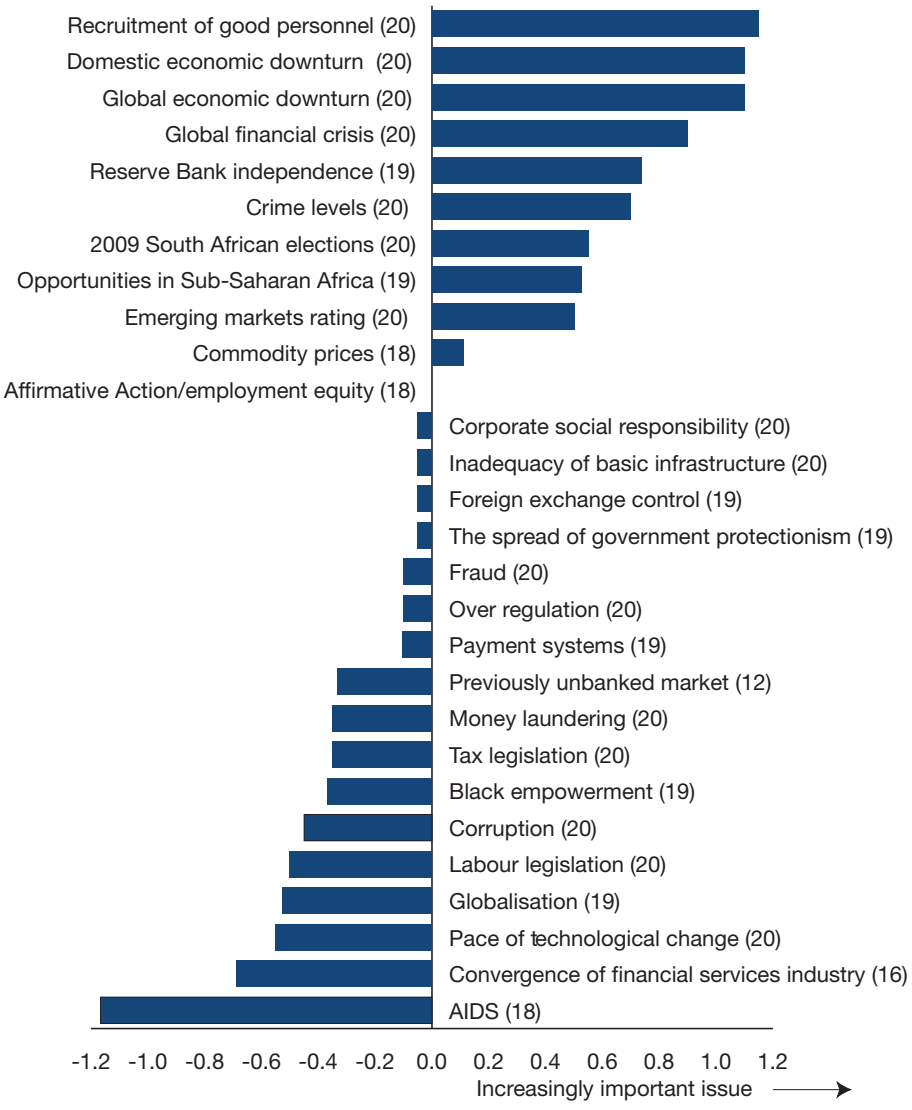
In addition to pressing issues, banks were also asked to rank a range of macro issues. Here we also see some major changes from just two years ago. In 2007, the two most important macro issues that shared the top position were recruitment of good personnel and crime.

Although crime continues to generate a high score it has moved down the list to sixth position.

Predictably, macro issues that dominate the ranking this year are also closely related, they include in order of importance:

- Domestic economic downturn;
- Global economic downturn;
- Global financial crisis; and
- Reserve Bank independence.

Affirmative action (third place in 2007) had a score of 3 out of 5 and was placed in a neutral position in the axis while corporate social responsibility moved across to the left side or less important part of the chart.



Figures in parentheses show number of banks responding to that issue

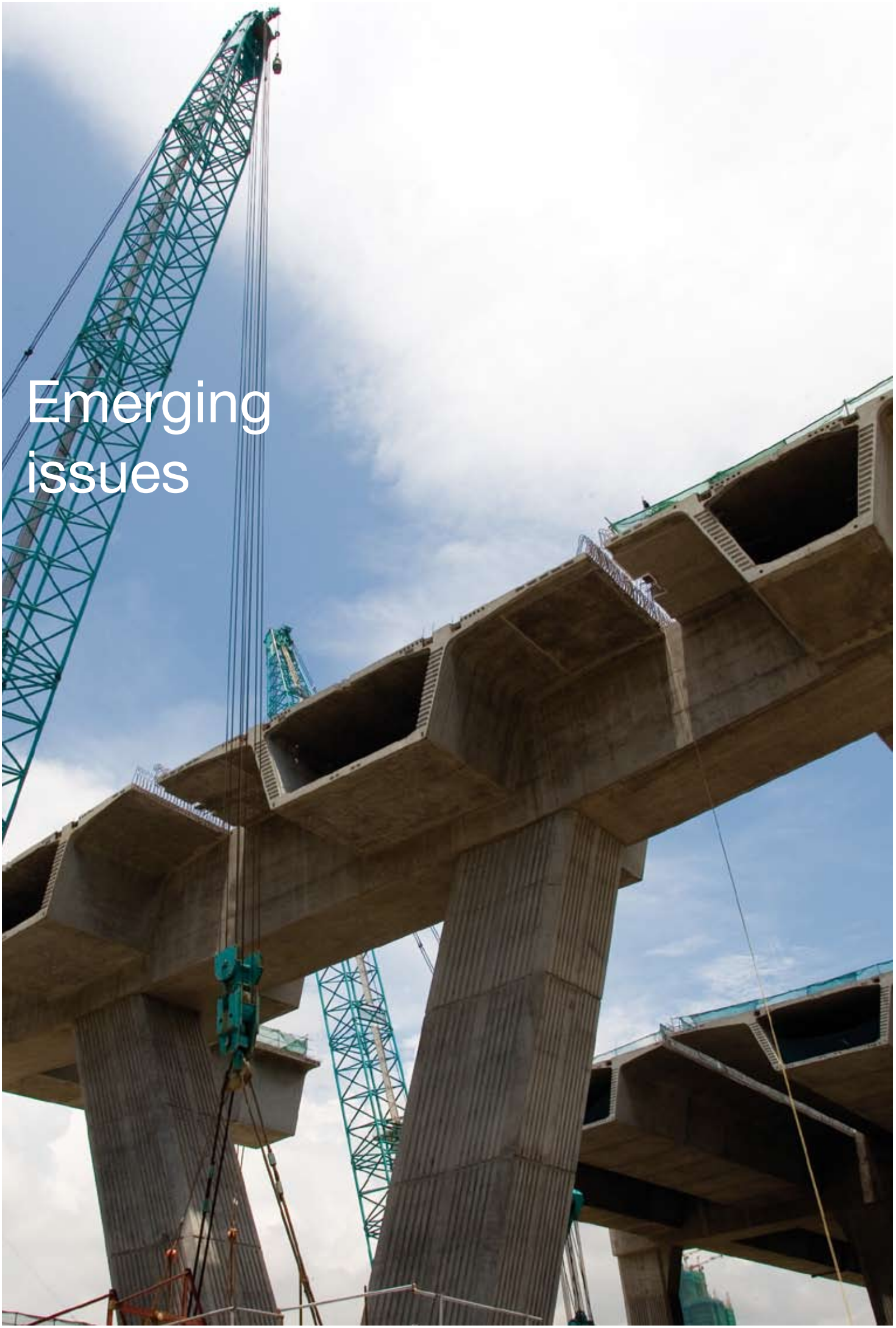
Macro issues: Domestic versus foreign banks

A comparison of the differences between domestic and foreign banks on the macro issues shows much greater divergence in 2009 than in 2007.

Both the domestic and foreign banks expressed almost identical weightings on issues such as crime, Reserve Bank independence and recruitment of good personnel.

But they digress predictably on some other issues. For example the domestic banks are particularly concerned about the payment systems, fraud and the domestic economy. The foreign banks are clearly anxious about the global economic downturn and the global financial crisis.

The domestic and foreign banks attribute the same level of importance to both crime levels and recruitment of good personnel. Affirmative action/ employment equity was identified as an important issue for the foreign banks while the domestic banks recorded a higher score for black empowerment.

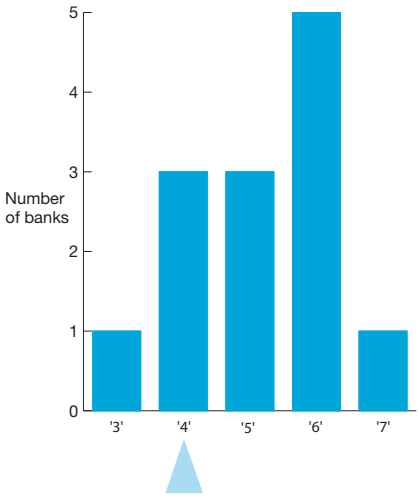


Emerging issues

Q How do you perceive the level of risk in the BEE funding structures that your institution has been involved in? On a 7-point scale where 4 is considered a 'normal/commercial' level of risk where would you place the average BEE deal? 1,2,3 (less risk) or 5,6,7 (greater risk)?

The perception held in both 2005 and 2007, that BEE deals are associated with a higher than normal level of risk, continued in 2009.

On a seven point scale where '4' is considered to be normal, five banks recorded '6' and one bank '7'.

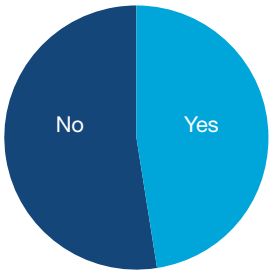


...where 4 is considered a "normal/commercial" risk

Q Do you anticipate further legislation on consumer protection?

The majority of banks now believe that there will be no further legislation related to consumer protection within the foreseeable future.

Although ten banks acknowledged that there may be some new developments, most of these banks envisage minor adjustments to legislation rather than on the scale of the National Credit Act.



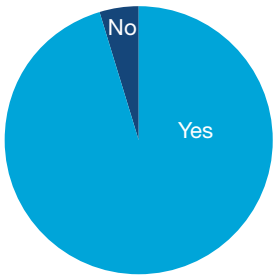
Based on responses from 21 banks

Q Do you anticipate further demands on the need for increased transparency on pricing and product comparisons?

The participants almost unanimously agreed that they anticipated increased demands related to transparency on pricing and product comparisons.

Major changes are expected in relation to fees. One bank observed that there was a significant amount of transparency surrounding the National Credit Act. Another commented that the Reserve Bank had resisted becoming involved in the insurance side of the bank's business.

Finally one bank predicted that changes on transparency and product comparisons would be part of a gradual process.



Based on responses from 22 banks

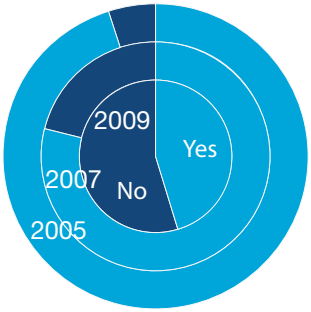
Q Do you expect any further foreign bank investments in the Big Four banks over the next three years?

In contrast to responses regarding foreign investments in the Big Four banks made in 2005 and 2007 in this survey, a slight majority of participants forecasted there would be no further investments over the next three years.

Only a small minority of respondents held this view in 2005 but perhaps influenced by the turmoil in global financial markets, this has grown significantly over the last four years.

This opinion runs contrary to media speculation that Old Mutual was willing to sell its controlling shareholding in Nedbank (see adjacent article).

One participant held the opinion that it would not be permitted by the Reserve Bank while another participant observed that the Government had remained silent on the topic.



Based on responses from 22 banks in 2009
19 banks in 2007 and 21 banks in 2005

Media Speculation on the future ownership of Nedbank

Old Mutual, the London-listed insurance group, is planning to offload its 53% holding in South Africa's Nedbank, currently valued on the Johannesburg stock exchange at around £2.5bn. The company has sounded out Standard Chartered about a possible deal.

City sources say that Standard Chartered is interested in Nedbank, as is HSBC. The insurer is under pressure from shareholders to boost its stock price after a number of setbacks, including a profits warning in the summer that led to the resignation of former chief executive Jim Sutcliffe in September.

Any buyer of Old Mutual's Nedbank stake would be obliged to bid for the whole bank unless it obtained a waiver from the South African authorities.

Source: Richard Wachman, "Old Mutual seeks buyers for Nedbank", The Observer, UK, Sunday 1 March 2009

Q How many days training did non-executive directors receive in 2008?

The banks were more forthcoming in providing a response to this question in 2009 than in 2007. Ten banks responded this year, showing the importance of training and the pressure on non-executives to stay abreast of the continuing changes in regulations.

The highest number of days training for directors was ten days, this was undertaken by one bank. Seven banks suggested three to four days, two banks said five to seven days and one bank said eight days.

A number of banks stressed the importance of this exercise and indicated that they believed their training programmes were comprehensive and effective.

Q How many days training will non-executive directors receive in 2009?

The banks detailed similar levels of director training for 2009. Three banks will provide three days, three banks four days, one bank six days and one bank ten days.

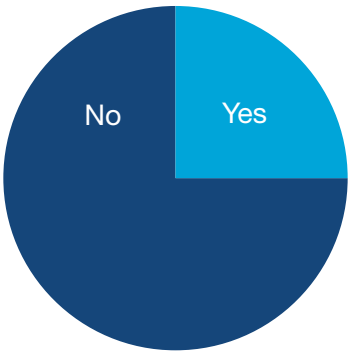
Q Will you be increasing your capital raising requirements during 2009?

The banks were asked to comment on their capital raising needs during the coming year.

Only two banks indicated that they would seek to increase funding from offshore sources.

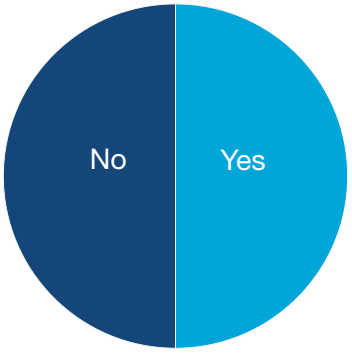
Six banks responded to the question in relation to onshore funding and three banks said they would tap this source in 2009.

Offshore funding



Based on responses from 8 banks

Onshore funding



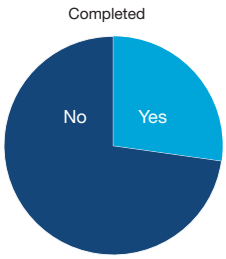
Based on responses from 6 banks

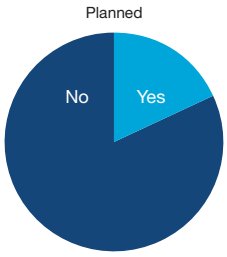
Q Have you completed a merger or an acquisition in the last year and are any planned for 2009?

The domestic banks were asked to comment on whether they had engaged in M&A activity in 2008 and whether they planned any in 2009.

Within the group of 11 domestic banks, only three stated they had completed a merger or acquisition in 2008 and only two banks envisaged such activity in 2009.

One significant investment by a South African domestic bank occurred during March 2009 when Standard Bank acquired a 33% stake in Russian investment bank, Troika Diago (See press report below).





Based on responses from 11 domestic banks

Standard Bank buys 33% of Russia's Troika

Africa's biggest bank by assets, Standard Bank, bought a third of Russia's number two investment bank, Troika Diago, in an asset swap and cash deal. The deal marks the first major foreign investment in the Russian financial sector since the onset of the economic crisis, which sent capital flooding out of the country late last year and effectively froze all mergers and acquisitions. Troika and Standard Bank, which is 20% owned by China's biggest lender, Industrial and Commercial Bank of China (ICBC), said in a joint statement released for Russian media that Standard Bank would buy 33% in Troika.

Troika, Russia's oldest brokerage, in exchange will acquire Standard Bank's Russian unit and get a cash injection of $200-million "initially in the form of a convertible loan". Two executives of Standard Bank will join Troika's six-member board. The acquisition will allow Troika to get access to Russian central bank's refinancing resources that it had been unable to get before being a brokerage.

"Troika will get support it has been seeking for several months. And Standard Bank will obtain Troika's client base," a source at one of Russia's financial regulators said on condition of anonymity because he was not allowed to talk to the press. Russian investment banks have been badly hit by the stock market collapse as the demand for investment banking products such as debt issues and initial public offerings has evaporated.

Renaissance Capital, Troika's biggest peer, sold half its shares to Russian metals and banking tycoon Mikhail Prokhorov in September for $500-million. Troika, whose main owner is businessman Ruben Vardanyan, said its capital would amount to $850-million after the deal with Standard Bank is closed.

Source: Mail & Guardian Online, 6 March 2009

Q On a scale of 1 to 10 where 10 represents maximum commitment, how committed is your parent to the South African market?

In 2009, support ranged from a score of '2' to '10' where '10' represents maximum commitment. The lowest score in the 2007 was '5' and this precipitous drop represents the retreat by a foreign bank from the South Africa market.

Q What is your estimate of that commitment three years ago? What is your estimate of that commitment in three years time?

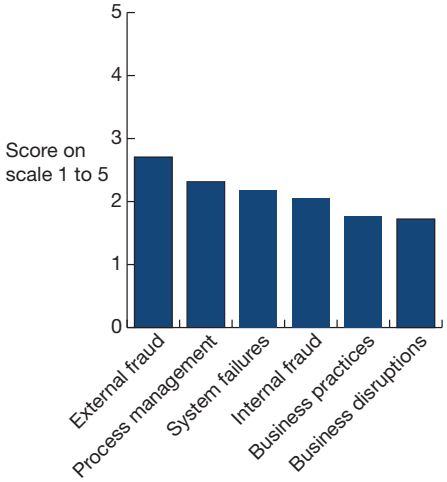
In 2009, three foreign banks recorded a score of '5', whilst in the 2007 report two banks recorded '5'. Only two foreign banks recorded the maximum score of '10' out of '10' which was the same situation in 2007. In addition to these two foreign banks that scored '10', another bank scored '9' and three banks scored '8'.

Consequently, one could conclude that only around six foreign banks have a strong and serious commitment in the South Africa market.

The situation looks more positive going forward. By 2012 the commitment projections are two banks at '10', three banks at '9' and two banks at '8'.

	3 years ago	2009	2012	Change 2009 to 2012
Bank 1	7	5	5	0
Bank 2	8	10	10	0
Bank 3	10	10	10	0
Bank 4	10	2	withdraw	na
Bank 5	8	9	8	-1
Bank 6	9	7	9	2
Bank 7	7	8	9	1
Bank 8	8	8	8	0
Bank 9	6	5	7	2
Bank 10	7	0	withdraw	na
Bank 11	3	8	9	1
Bank 12	5	5	5	0

Q In the context of operational risk can you estimate on a scale of 1 to 5 the magnitude of losses in the following areas? (Where 5 represents the greatest loss)



Based on 19 banks reporting

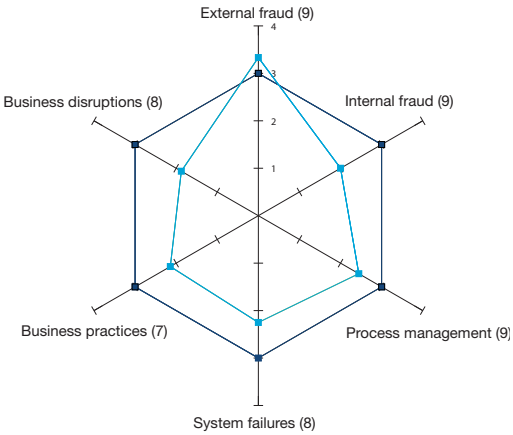
The participants estimated the magnitude of losses attributable to operational risk on a scale of '1' to '5' where '5' represents the greatest loss.

Nineteen banks responded to this question and while there was little variation across the different types of risk, the highest losses focussed on external fraud. This was followed by process management and system failures.

The average scores in all cases fell below '3', which suggests that the losses are relatively moderate. However, on an individual bank basis, two banks recorded '5' for external fraud, one bank attributed the score of '5' for internal fraud and one bank scored '5' for system failures.

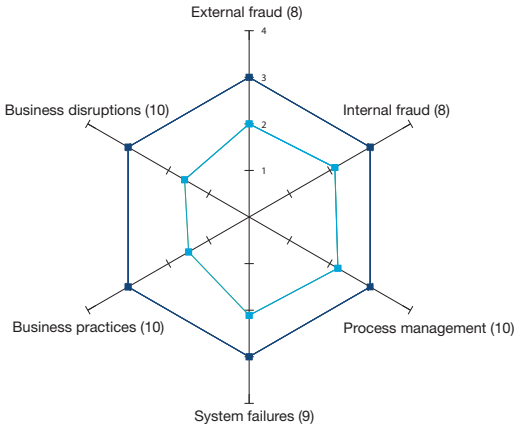
This suggests that while the big picture looks acceptable on an individual basis some of the banks' risk experiences have been quite critical.

Domestic banks



Figures in parentheses are number of responses

Foreign banks



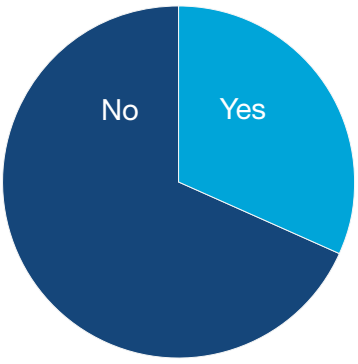
Figures in parentheses are number of responses

Q Will there be a re-emergence of the A2 banking sector in the next five years?

The majority of participants do not believe that we will see a return of the former A2 banking sector.

Those that expressed some optimism on the re-emergence of a secondary banking tier acknowledged that the new players would need to focus on narrow market niches and would find it hard to gain traction. They did see some potential for community banks, but recognised that these banks are quite different from the former A2 banks.

It is worth noting that this survey included several players in the local banking market who have developed strategies focused on distinct segments. Examples include, African Bank, Capitec Bank, Bank of Athens, Mercantile Bank, Imperial Bank and TEBA Bank.

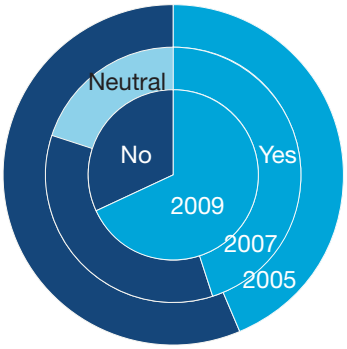


Based on responses from 22 banks

Q Do you support the concept of deposit insurance?

The survey has tracked the banks' attitude towards deposit insurance since 2005. The results indicate a growing level of support. In 2005, seven banks supported it, this increased to nine banks in 2007 and this year it jumped to 15 banks.

This is perhaps a reaction to the global financial crisis and the need to promote confidence in the banking system. In many markets where deposit insurance is available, governments have supported increasing the size of deposits covered. The seven non-supportive banks reflect a strong bias on behalf of the domestic banks (six are domestic banks). Within the five largest banks, two banks supported the concept of deposit insurance.



Based on responses from 22 banks in 2009 and 20 banks in 2007

Q What would you consider to be the appropriate level of deposit insurance?

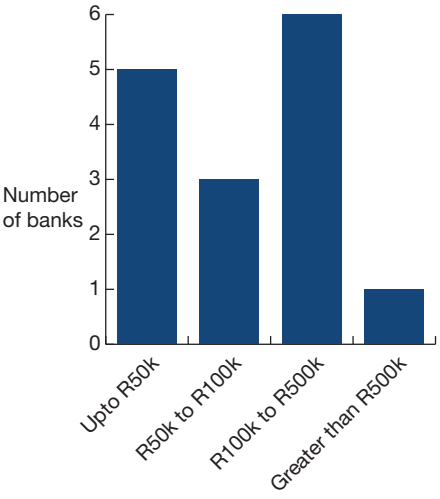
A follow-up question directed at the 15 supporting banks displayed a wide variation in response on the level of deposits to be insured.

Five banks felt the insurance should be directed at the low end of the market – up to R50,000.

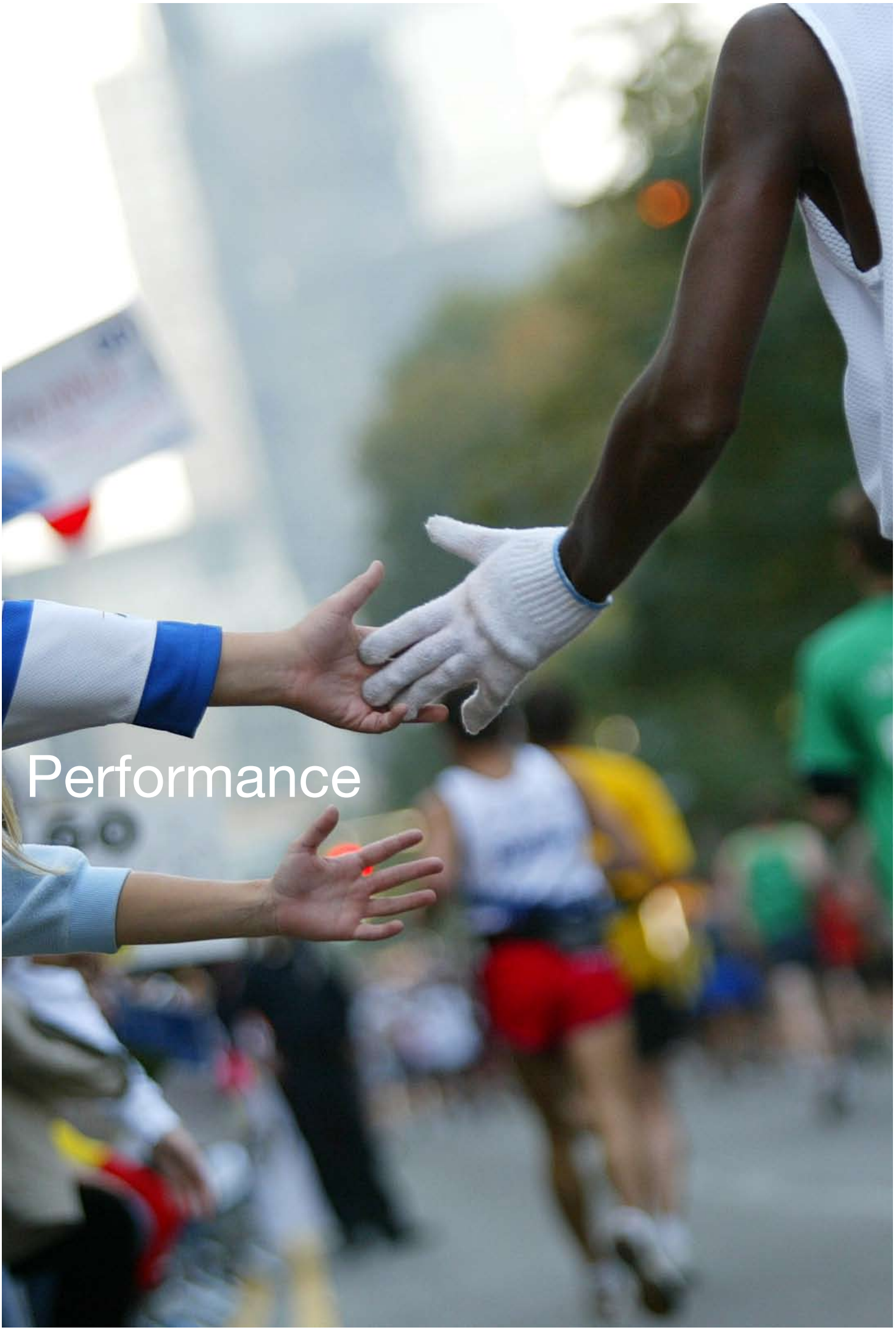
A group of six banks suggested the level of support should cover deposits in the range R100,000 to R500,000. Only one bank would recommend exceeding the R500,000 level.

At current exchange rates all of these suggestions fall well below the deposit insurance levels in countries such as Canada and the United States (which increased it in 2008 to $250,000).

The last country within the 30-member list of OECD countries, of which South Africa is not a member, not to have deposit insurance was New Zealand and that changed with the announcement of a deposit insurance scheme in late 2008.



Based on 15 banks reporting



Performance

Q What is your estimate of the annual growth in revenues of your business for 2009 and over the next three years?

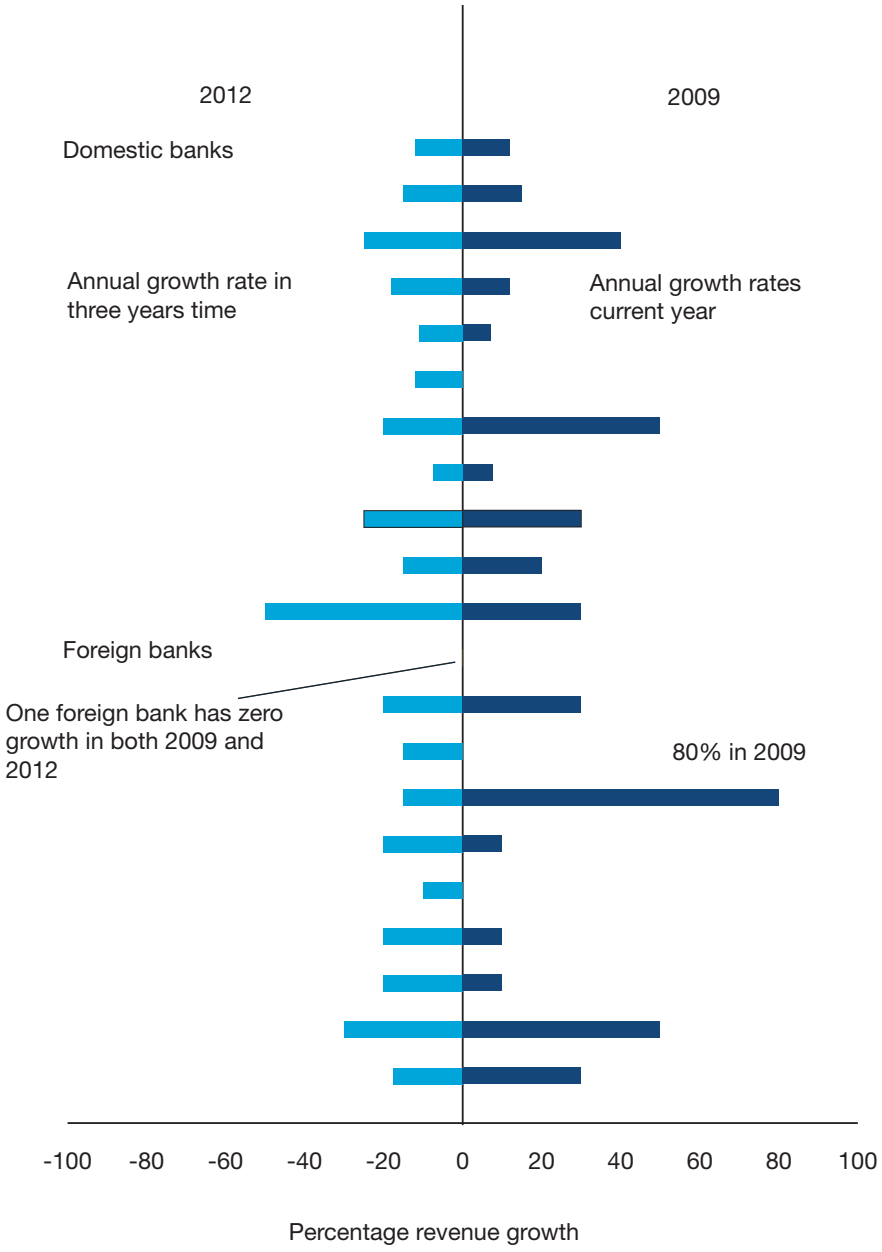
The domestic banks' growth rates ranged from 50% to zero growth in 2009 while the range for the foreign banks was from 80% to zero growth. The domestic bank that projected 50% in 2009 also anticipated strong ongoing growth with 20% projected in 2012. This bank is one of the smaller domestic banks.

Three other domestic banks forecasted significant growth, 40% (2009) to 25% (2012), 30% (2009) to 25% (2012) and 30% (2009) to 50% (2012).

The foreign banks included one bank that projects zero growth in 2009 and zero growth again in 2012.

Four foreign banks have strong growth predictions for 2009, namely 80%, 50%, 30%, and 30% respectively. These represent special circumstances, since none of these banks envisage this pace of expansion to 2012.

However, not all the banks anticipate such buoyant growth. Within the group of 21 respondents, nine banks project growth in 2009 to be 10% or less. By 2012, this number will decline to just three banks.

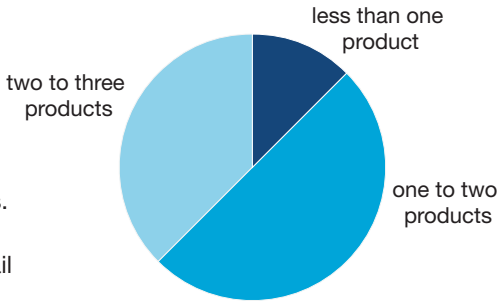


Q What is your bank's cross-sell ratio for retail products?

The ability to cross-sell is an important part of any financial institution's marketing strategy. It is however, extremely difficult to quantify and measure and because different banks classify products in different ways, it is extremely difficult to make comparisons.

In this survey eight banks, all with a retail presence, provided guidance on their cross-selling abilities.

Four banks suggested that their cross-sell ratio was somewhere between one and two products. Three banks suggested they were more successful while one bank indicated a cross-sell ratio of less than one.



Based on responses from 8 banks

Q Can you describe the expected growth in your credit book in the following lines of business for 2009 and 2012?

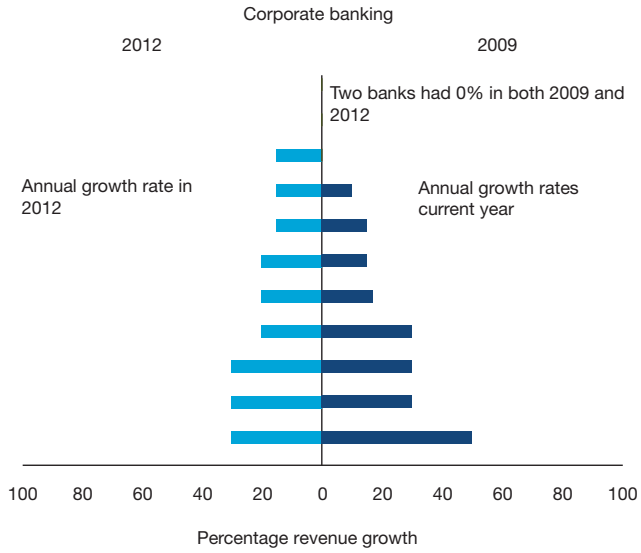
Six different types of credit were identified, corporate lending, vehicle financing, mortgages, credit cards, micro-lending and private banking. The participants were asked to comment on their projected growth for each line in both 2009 and 2012.

Bars on the right side of the axis represent growth in 2009 and on the left side projected growth for 2012 for the same bank. In several charts, banks projected zero growth in both 2009 and 2012 and bars are therefore not displayed. Reference is, however, made to the number of banks that anticipate zero growth.

Corporate lending

Eleven banks provided detail on their corporate lending book. Two banks envisaged zero growth in 2009 and 2012 while one bank had zero growth in 2009 and 15% in 2012.

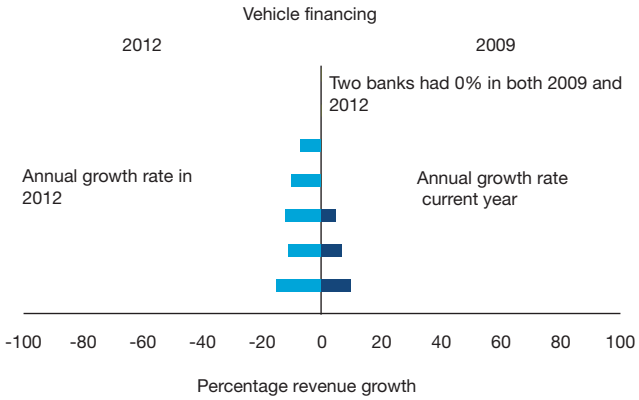
Three banks projected 30% growth in 2009 and one bank had 50% growth in 2009. All these banks expected continued strong growth in 2012.



Vehicle financing

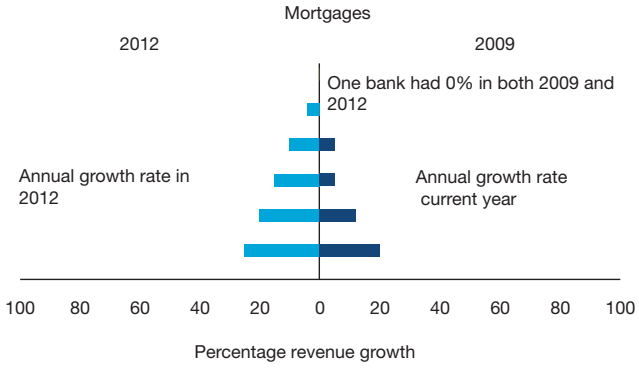
Again two banks had zero growth in 2009 and 2012 while two more banks had zero growth in 2009 followed by 7% and 10% growth in 2012.

The highest growth projection for this segment in 2009 was 10% for just one bank.



Mortgages

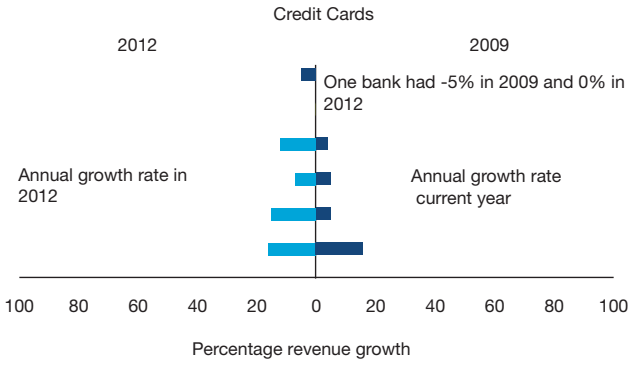
Six banks provided data on projected mortgage growth. In 2009, two banks reported zero growth, two banks indicated 5% and the remaining two said 12% and 20%. Three of these banks expect growth in the 15-20% range by 2012.



Credit cards

Only one bank predicted growth of 15-17% in 2009, four banks were 5% or below and one bank forecasted a contraction of 5%.

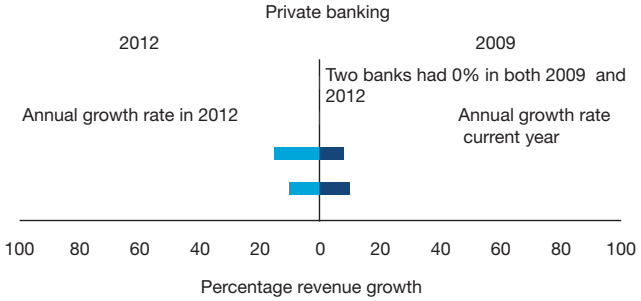
A modest rebound is projected by two banks in 2012 going from 4% to 12% and 5% to 15% with the 15-17% bank staying at that level. Three banks foresee zero or very limited growth by 2012.



Private banking

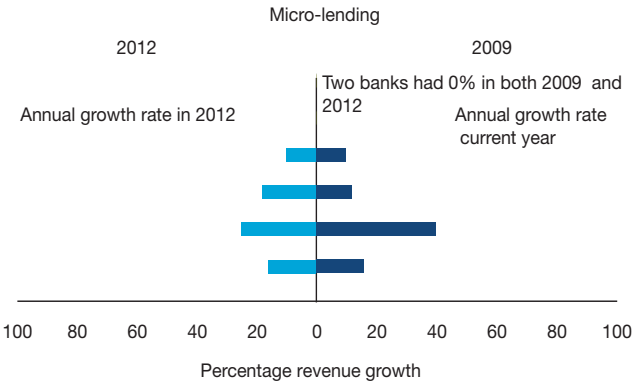
Private banking again had two banks with zero growth in 2009 and 2012.

In addition, one bank projected 10% growth in 2009 being maintained in 2012 while the fourth bank predicted 8% growth in 2009 growing to 15% by 2012.



Micro-lending

Two banks projected zero growth in 2009 and 2012, two banks were maintaining their growth 10% and 16% (2009) to 10% and 16% (2012) while one bank was moving from 40% (2009) to 25% (2012) and another 12% (2009) to 18% (2012).



Bank profitability on capital allocated in a number of different segments over the last year

To ascertain which bank segments have recorded contrasting levels of profitability, the banks were asked to identify levels of return from market sectors in which they were active. Contrasting colours are used to distinguish between the foreign and domestic banks.

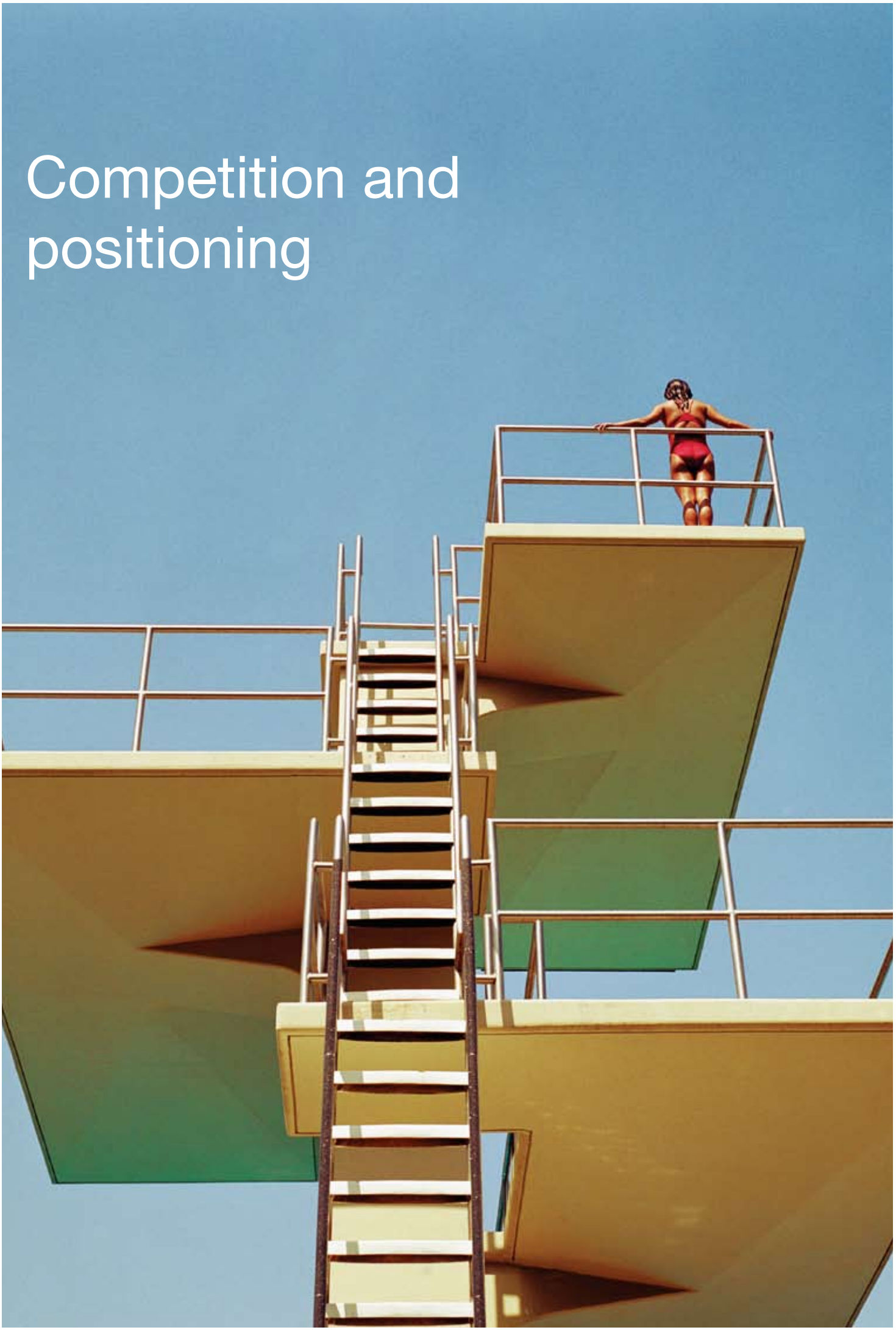
Sectors where three or more banks record that they are extremely profitable are merchant and investment banking and treasury. In 2007 four additional categories were in this group: retail banking, credit cards, micro-lending and brokerage. In 2009 a major shift has occurred in home loans and vehicle financing where six domestic banks indicate they are experiencing losses.

Commercial property finance and stock brokerage have also experienced significant declines in profitability in 2009.

	Loss <0%	Marginally profitable 0-10%	Profitable 10-20%	Very Profitable 20-30%	Extremely Profitable >30%
Retail banking		☑	☑☑☑ ☑☑		
Home loans	☑☑☑☑	☑	☑ ☑		
Vehicle financing	☑☑	☑☑	☑☑☑		
Credit cards		☑☑	☑☑☑		☑
Corporate banking		☑ ☑	☑☑☑ ☑☑☑ ☑	☑ ☑☑☑☑	☑☑
Merchant & investment banking		☑☑☑ ☑	☑ ☑	☑☑☑ ☑☑☑ ☑☑	☑ ☑☑
Private banking		☑☑ ☑	☑	☑☑ ☑	☑
Treasury			☑☑	☑☑☑ ☑☑☑	☑☑☑ ☑☑☑ ☑☑
Internet banking		☑☑	☑☑☑☑	☑	
Asset management & unit trusts		☑☑ ☑	☑		☑☑
Life insurance		☑☑	☑☑	☑	
Micro-lending		☑	☑☑	☑	☑☑
Commercial property		☑	☑☑☑☑ ☑☑☑		
Stock brokerage	☑	☑☑ ☑	☑☑	☑	☑

☑ Foreign banks ☑ Domestic banks

Competition and positioning



Q How successful has your bank been in penetrating the following markets in the last year?

Twenty-nine different markets were identified, covering both retail and wholesale banking.

If the participating banks were deemed to be active in a particular market, they scored their perceived levels of success on a scale of one to five where one was 'very unsuccessful' and five was 'very successful'.

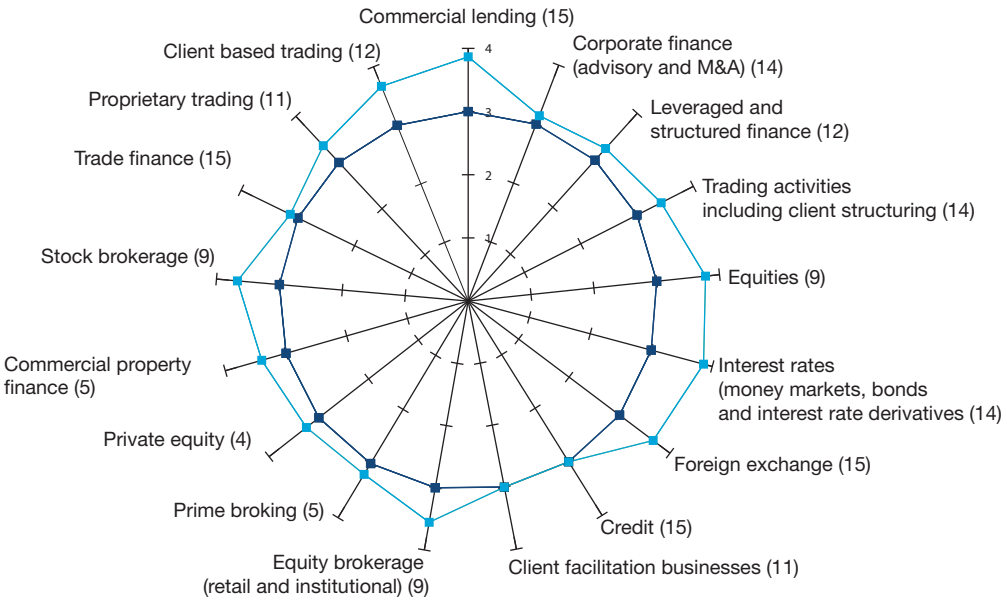
Since three is perceived as neutral, to suggest a degree of measurable success, it is important that the average scores for the participants in that market exceed three.

Figures in parentheses indicate the number of participants providing a score in that particular market. In the radar diagrams appearing on the following pages, a 12-sided (retail) or 17-sided (wholesale) frame, based on the value of three has been drawn.

If the line pierces the frame (e.g. the line moves to the outside of the circle frame), success has been achieved in that respective market.

All banks – Levels of success Wholesale banking

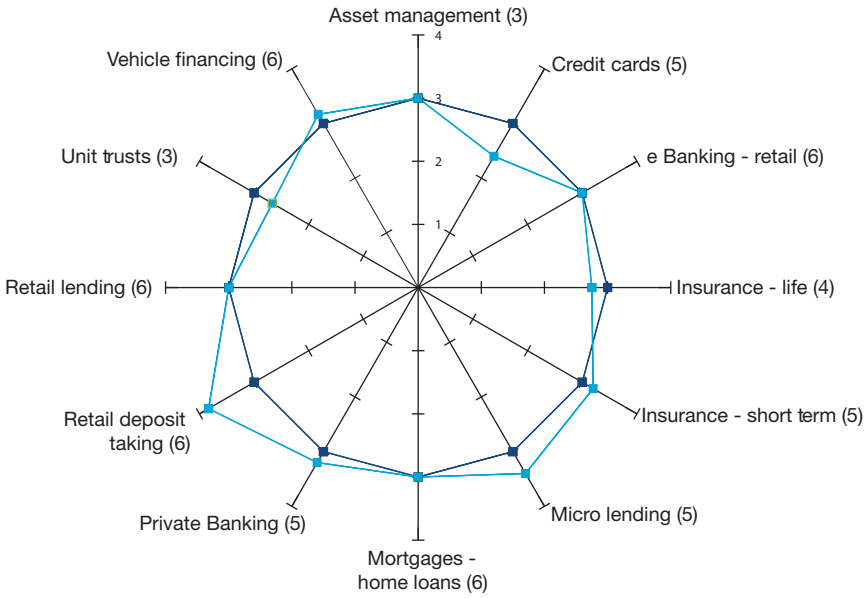
The chart below suggests that the banks have enjoyed success in a series of different markets including equities, money markets, general trading activities and in commercial lending. However, none of these markets warranted a score above four on the '1' to '5' success scale.



All banks – Levels of success Retail banking

The retail market displays moderate levels of success in most markets. However, markets where the average score falls below '3' are credit cards, life insurance and unit trusts. The highest score is recorded in retail deposit taking.

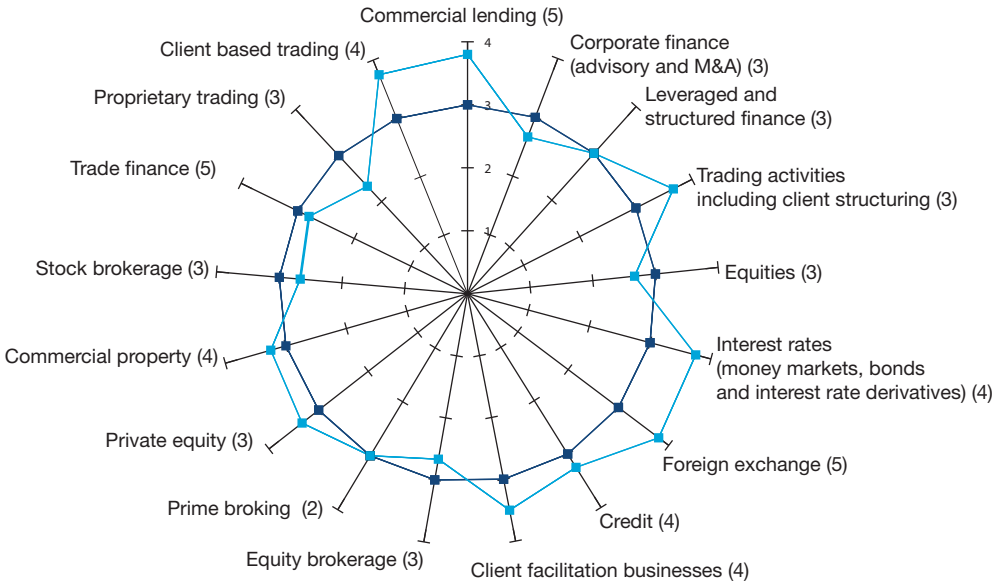
In 2007 the same chart indicated more positive scores in credit cards, e-banking, retail lending, unit trusts, vehicle financing and life insurance. Retail deposit taking has a higher score in 2009.



Domestic banks – Levels of success Wholesale banking

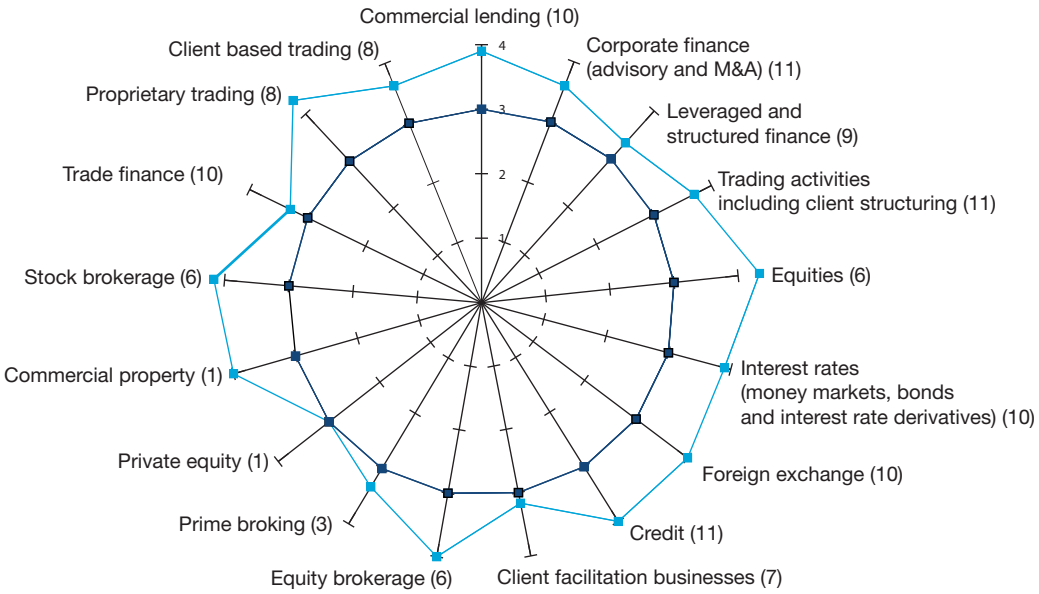
The domestic banks in the wholesale market recorded their highest scores in foreign exchange, money markets, client-based trading and commercial lending.

Property finance exceeded '4' in 2007, in 2009 it scores just over '3'.



Foreign banks – Levels of success Wholesale banking

The foreign banks enjoyed more comprehensive success in 2009 relative to their domestic counterparts in the wholesale markets. Areas where they excelled included proprietary trading, stock brokerage, commercial property (just one bank), equities and foreign exchange.



Q How important are the following markets for your bank over the next three years?

To identify the markets that the banks believe will be of greatest importance over the next three years, the 23 participants ranked the following 27 (retail (13) and wholesale (14)) markets on a scale of one to five.

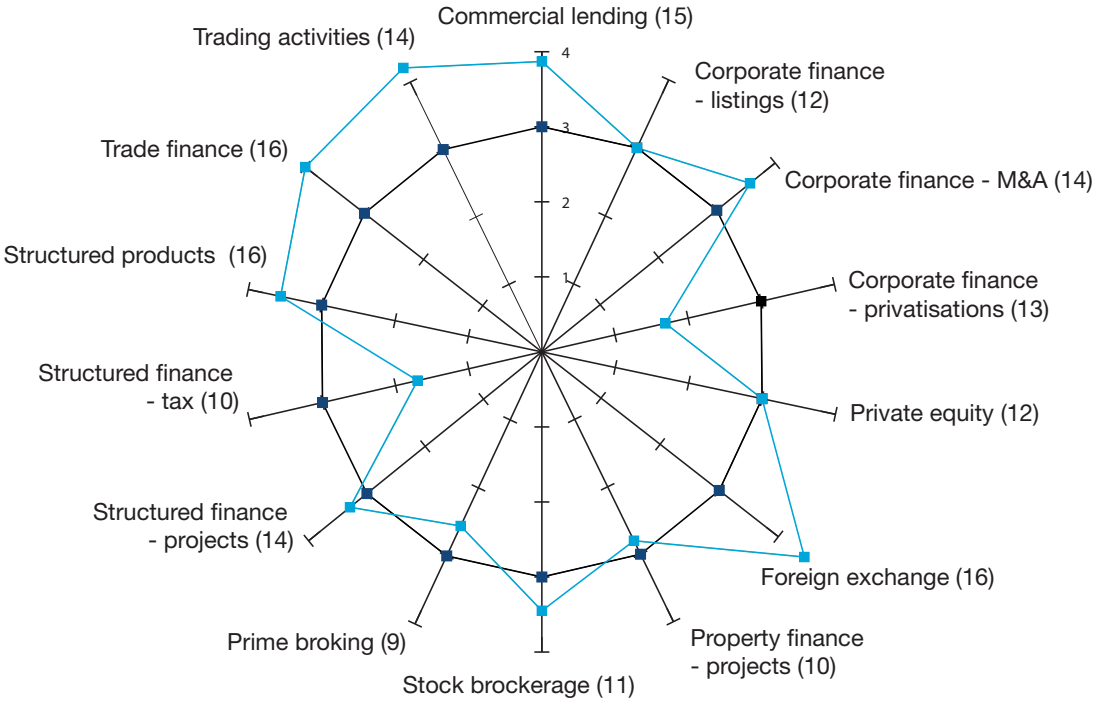
Once again, a score of one indicates little or no importance, while a score of five can be considered very important.

Since three is perceived as neutral, average scores for the group should exceed three and, therefore, markets viewed as important project beyond that line.

All banks – Future importance
Wholesale banking

The three most important markets for all banks going forward to 2012 were identified as Foreign exchange, Trading activities and Trade finance.

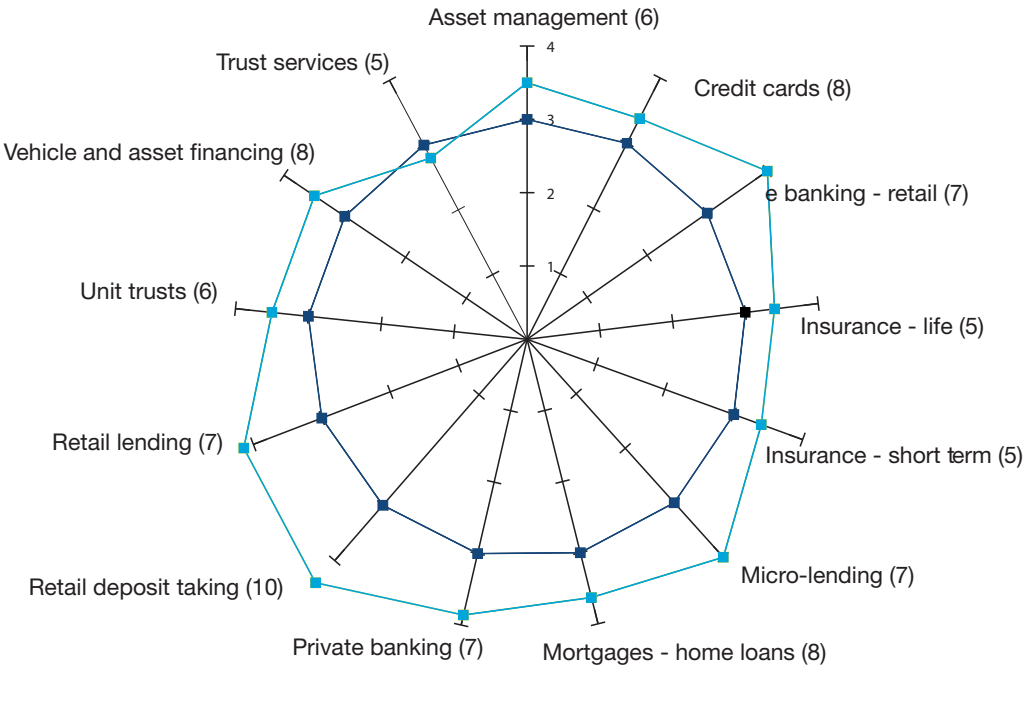
Areas which have experienced downgrading in importance since 2007 include Corporate finance (particularly privatisations), Property finance and Structured finance - tax (which apparently is virtually non-existent).



All banks –
Future importance
Retail banking

There is a restricted number of banks with a close focus on the retail sector, although ten banks are interested in retail deposit taking, a smaller number (six or seven) are active across the full range of retail banking.

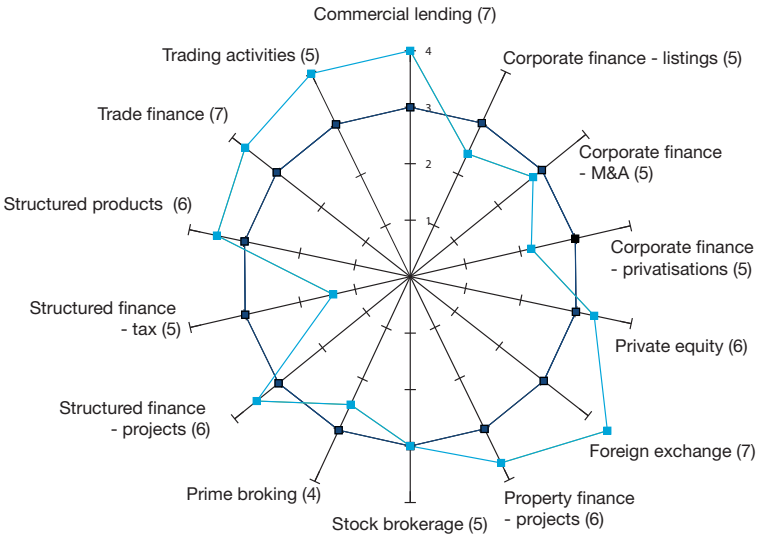
Seven banks attributed significant importance to micro-lending. The most important retail market over the next three years will be retail deposit taking.



Domestic banks – Importance Wholesale banking

Going forward, the domestic banks place emphasis on foreign exchange, trade finance, trading activities and commercial lending. They contrast with their foreign counterparts in the wholesale market by attributing moderately positive scores to insurance and property finance.

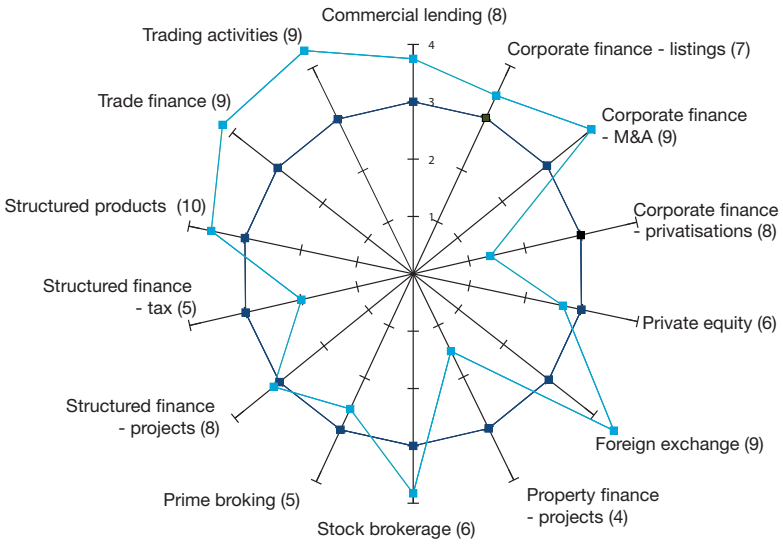
The domestic banks attributed relatively low scores to Corporate finance relating to both listings and M&A.



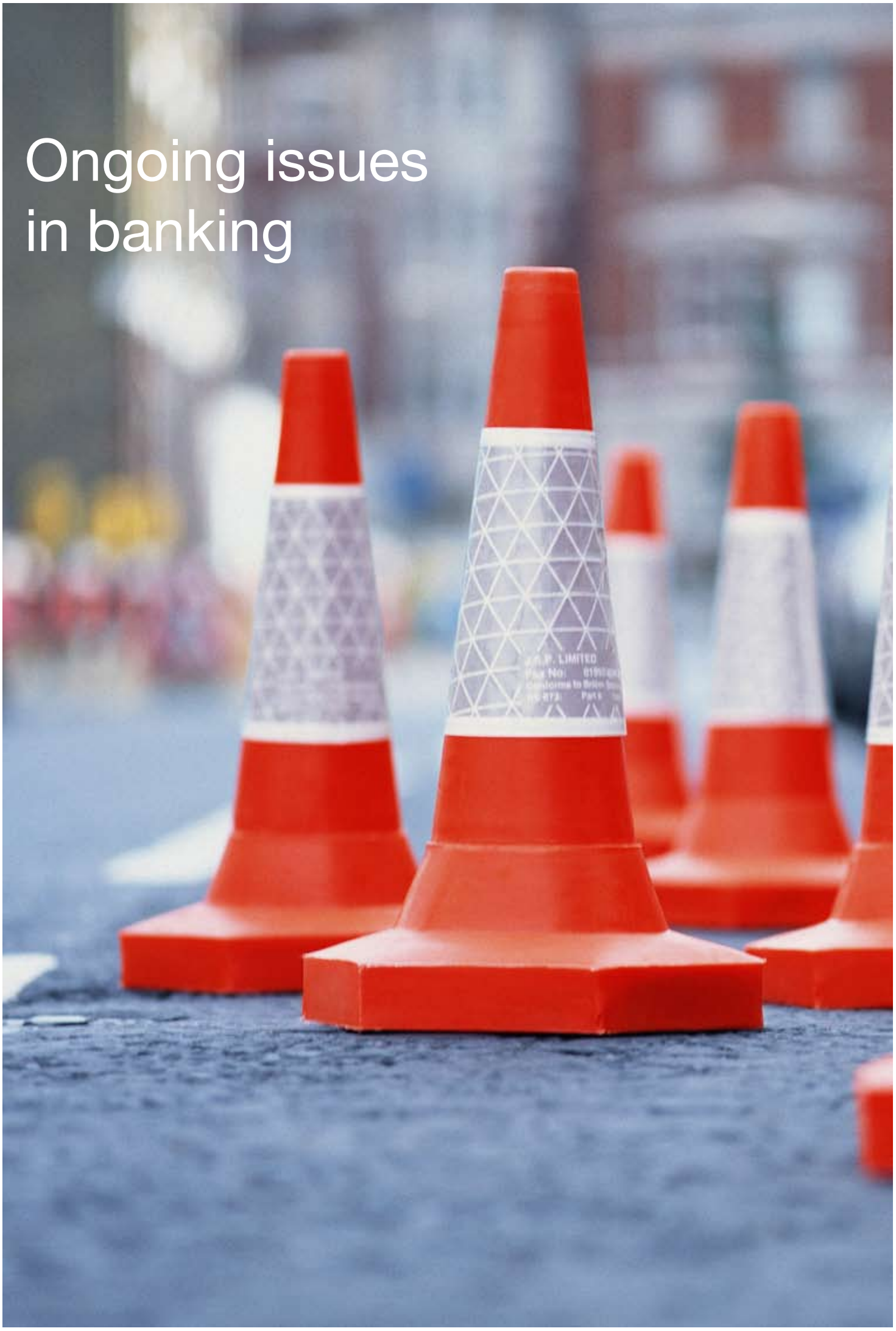
Foreign banks – Importance Wholesale banking

The foreign banks placed particular emphasis on foreign exchange, stock broking, structured products, trade finance, trading activities and commercial lending.

The highest level of importance for the foreign banks was assigned to structured products.



Ongoing issues in banking



Q What will the role of branches be in 2012?

As reported in the 2007 survey, the participants continue to believe that traditional bricks and mortar branches will increase.

This year one domestic bank commented “traditional branches have always been and will continue to be an integral part of our banking model”. Nine banks responded to a question on increases in branch numbers.

Seven banks indicated increases while two banks suggested a reduction in the overall number.

The most likely rate of increase over the next three years was recorded as “single digit”.

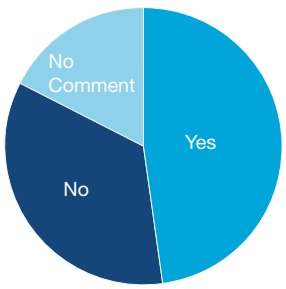
Q Will your business model change over the next three years?

In 2009 eleven banks said their business model would change over the next three years. Eight banks believe there will be no change.

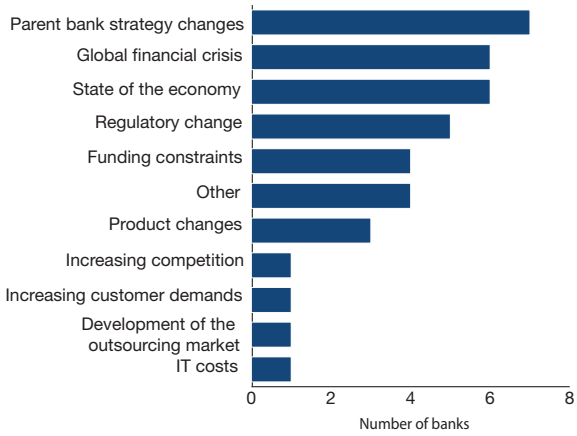
In 2005, 17 banks predicted a change in their business model. In 2007 that number had dropped to eight banks and this year it has increased again to eleven banks.

On top of this certain banks in the current survey. may cease operations in South Africa this year.

The three most important triggers of change in their current business models were parent bank strategy changes, the global financial crisis and the state of the economy.



Based on responses from 23 banks



Q Following the global financial crisis, how do you believe foreign banks will react in terms of presence/ business in South Africa?

At the time this research was undertaken, an European bank had announced its imminent departure from South Africa.

Twenty two banks provided their evaluation of how the global financial crisis will affect the future operations of foreign banks in South Africa.

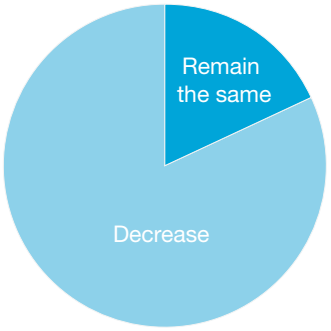
Foreign banks from Europe and the United States are predicted to reduce their presence over the next three years.

Eighteen banks thought the US banks would reduce their presence while two banks predicted an increase.

In the context of the BRIC countries (Brazil, Russia, India and China) nine banks forecast an increase, ten banks said “remain the same” and three banks predicted a decrease.

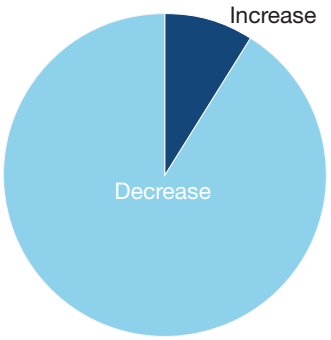
For the sub-Saharan banks (which includes Nigerian banks) eleven banks predicted the status quo, six banks suggested an increase and five banks a decrease.

U.S. banks



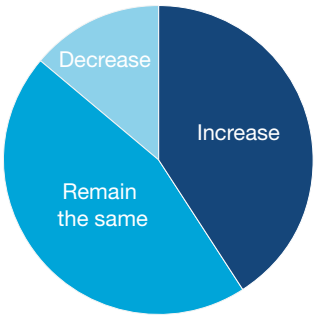
Based on responses from 22 banks

European banks



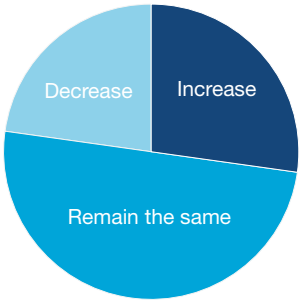
Based on responses from 22 banks

BRIC Country banks



Based on responses from 22 banks

Sub Saharan banks



Based on responses from 22 banks

Q Following the introduction of Basel II into South Africa, do you believe there has been an improvement in risk management in terms of:

- credit risk,
- operational risk,
- market risk, and
- adequate capital levels.

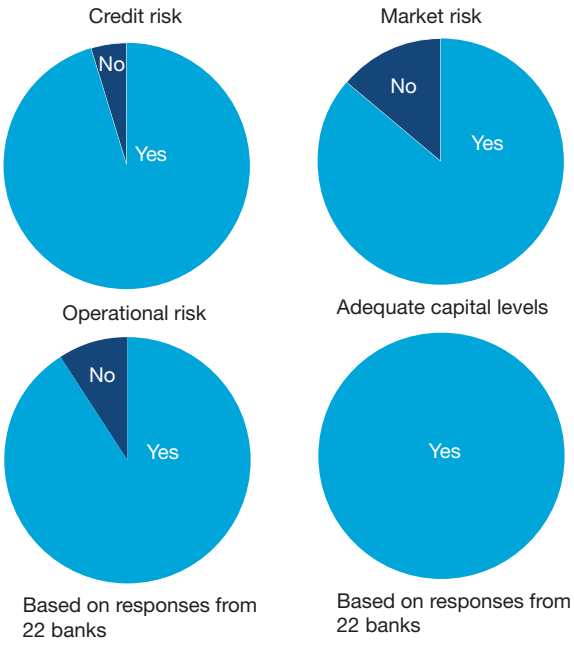
The banks believe that Basel II has had a very positive impact on risk management.

The 22 banks unanimously agreed that Basel II had improved capital adequacy levels. With few exceptions they also concluded that credit risk, market risk and operational risk had benefited from Basel II.

The banks were asked to suggest where they believed there could be further improvements in risk management.

There was general agreement that further improvements were needed in operational risk management. Other areas that were mentioned included:

- a better understanding of pro-cyclicality;
- greater transparency of information on non-listed companies;
- credit risk and the pricing of credit; and
- off balance sheet and liquidity management.



Based on responses from 22 banks

Based on responses from 22 banks

Peer review

Q Can you name the top three banks in terms of success (performance, presence, momentum, etc.) across a variety of different markets?

As in previous years the participants ranged from retail banks to merchant and investment banks to universal banks.

A simple scoring method awarded 3 points to first place, 2 points to second and 1 point to third place. This allowed the banks to be ranked based on a total score.

The arrow in the right-hand column portrays a directional change in ranking from the 2007 report.

Five new categories appear for the first time in 2009, Derivatives, Fixed income, Equities, Commodities and Prime broking – and therefore a change column is not displayed.

Banks were asked not to record an opinion unless they were active in that segment and were comfortable in providing an accurate ranking in terms of success (performance, presence and momentum) as opposed to mere size.

They were not permitted to rank their own institution. Often banks chose just to indicate first or second place.

Corporate banking

Ranking	First	Second	Third	Score	Change
Standard Bank	16	4	1	57	→
FirstRand Bank (FNB)	2	7	5	25	↗
Nedbank	3	4	7	24	↗
ABSA	1	5	8	21	↘
Deutsche Bank		1		2	→

§ Based on 22 banks

BEE deals

Ranking	First	Second	Third	Score	Change
FirstRand Bank (RMB)	8	3	2	32	→
Standard Bank	2	5	4	20	→
Investec	1	3	2	11	↗
ABSA	1	1	5	10	↗
Nedbank	2	2		10	↗
JPMorgan			1	1	↗

§ Based on 14 banks

Listings

Ranking	First	Second	Third	Score	Change
FirstRand Bank (RMB)	6	1	2	22	↗
Standard Bank	1	3	2	11	↘
ABSA	1	1	2	7	↗
Nedbank		2	2	6	↗
Investec	1	1		5	↘
UBS		2		4	↗
Deutsche Bank	1			3	↘
JPMorgan	1			3	↘
Goldman Sachs			1	1	↗
Credit Suisse			1	1	↗

§ Based on 11 banks

Mergers and acquisitions

Ranking	First	Second	Third	Score	Change
FirstRand Bank (RMB)	11			33	→
Standard Bank		3	4	10	↗
ABSA		3	2	8	↗
Deutsche Bank	1	2		7	↘
JPMorgan		3	1	7	↘
Investec		2	2	6	↘
Citibank	1			3	→
Goldman Sachs	1			3	→
Rothschild	1			3	↗
Nedbank			2	2	↗
Morgan Stanley		1		2	↗
UBS			1	1	↘
Merrill Lynch			1	1	↗

§ Based on 15 banks

Foreign exchange trading

Ranking	First	Second	Third	Score	Change
Standard Bank	10	1	2	34	→
FirstRand Bank (RMB)	2	7		20	↗
ABSA	2	4	3	17	↘
Nedbank			4	4	↗
Citibank		1	1	3	↘
JPMorgan	1			3	↗
Morgan Stanley		1		2	↗
Deutsche Bank			1	1	↘
Investec			1	1	↗
Merrill Lynch			1	1	↗

§ Based on 15 banks

Derivatives

Ranking	First	Second	Third	Score
Standard Bank	9	1	1	30
ABSA		4	4	12
FirstRand Bank (RMB)	1	3	3	12
Nedbank	1	2		7
Investec	1	1	1	6
Citibank		2		4
Deutsche Bank	1		1	4
Goldman Sachs	1			3
UBS			1	1

§ Based on 14 banks

Fixed Income

Ranking	First	Second	Third	Score
Standard Bank	9	4	1	36
ABSA	5	1	5	22
FirstRand Bank (RMB)	1	6	5	20
Nedbank		3	3	9
Deutsche Bank	1	2	1	8
Investec	2		1	7
Calyon		1		2
Citibank			1	1

§ Based on 18 banks

Money markets

Ranking	First	Second	Third	Score	Change
Standard Bank	8	4	1	33	→
ABSA	4	5	3	25	→
FirstRand Bank (RMB)	2	3	5	17	→
Nedbank		3	3	9	→
Investec	1		2	5	→

§ Based on 15 banks

Equities

Ranking	First	Second	Third	Score
Standard Bank	4	3	2	20
FirstRand Bank (RMB)	3	3	1	16
ABSA	2	1	2	10
Investec	1	2	2	9
JPMorgan	1	2		7
UBS	1	1		5
Deutsche Bank			4	4
Merrill Lynch	1		1	4
Nedbank		1	1	3
Barnard Jacobs Mellet	1			3
Morgan Stanley		1		2
Citibank			1	1

§ Based on 14 banks

Commodities

Ranking	First	Second	Third	Score
Standard Bank	9	2		31
FirstRand Bank (RMB)	1	5	4	17
ABSA	2	4	1	15
Nedbank	1	2	3	10
Investec			3	3
Merrill Lynch	1			3
UBS		1		2
Calyon			1	1

§ Based on 14 banks

Commercial property finance

Ranking	First	Second	Third	Score	Change
Nedbank	5	5	1	26	↗
Standard Bank	2	4	4	18	→
Investec	5	1	1	18	↘
ABSA	2	3	3	15	→
FirstRand Bank (FNB)		1	4	6	↘

§ Based on 14 banks

Structured finance

Ranking	First	Second	Third	Score	Change
FirstRand Bank (RMB)	8	3	1	31	→
Standard Bank	4	3	4	22	↗
Nedbank	1	2	2	9	↗
ABSA		2	4	8	↗
Investec	1	2		7	↘
Citibank		1	1	3	↘
Deutsche Bank		1		2	↘
HSBC			1	1	↗

§ Based on 14 banks

Brokerage – Institutional

Ranking	First	Second	Third	Score	Change
Deutsche Bank	3	1	2	13	→
FirstRand Bank (RMB)	2	3		12	↗
UBS	2	1		8	→
Standard Bank	2		1	7	↗
JPMorgan Chase		3	1	7	↘
Merrill Lynch	1		2	5	↘
Investec		2		4	→
BJM	1		1	4	↗
Nedbank		1	1	3	↗
Citibank			1	1	↘
ABSA			1	1	↗

§ Based on 11 banks

Brokerage – Retail

Ranking	First	Second	Third	Score	Change
Standard Bank	4			12	↗
FirstRand Bank (RMB)		4		8	↗
Investec	1	1		5	↘
Barnard Jacobs Mellet	1		1	4	↘
ABSA		1	1	3	↗
PSG	1		1	4	↘
Nedbank			3	3	↗
Sanlam		1		2	↘

§ Based on 7 banks

Prime broking

Ranking	First	Second	Third	Score
Standard Bank	1		1	4
FirstRand Bank (RMB)	1		1	4
Peregrine		2		4
Cadiz	1			3
Investec	1			3
ABSA		1		2
Sasfin		1		2
Macquarie			1	1

§ Based on 4 banks

Retail lending and deposits

Ranking	First	Second	Third	Score	Change
ABSA	8	5	1	35	→
Standard Bank	7	7		35	→
FirstRand Bank (FNB)		3	9	15	→
Nedbank			5	5	→

§ Based on 15 banks

Retail mortgages

Ranking	First	Second	Third	Score	Change
ABSA	13	1		41	→
Standard Bank	2	12		30	→
FirstRand Bank (FNB)		1	12	14	→
Nedbank		1	3	5	→

§ Based on 15 banks

Vehicle financing

Ranking	First	Second	Third	Score	Change
FirstRand Bank (Wesbank)	13	7		53	→
ABSA	2	4	7	21	↗
Nedbank		3	2	8	↗
Standard Bank			6	6	↘
Imperial Bank (Nedbank)		1		2	↗

§ Based on 15 banks

Internet banking

Ranking	First	Second	Third	Score	Change
Standard Bank	7	3		27	↗
ABSA	2	4	1	15	↘
FirstRand Bank (FNB)	1	3	6	15	↗
Nedbank	1	1	4	9	→
Investec	2	1	1	9	↘

§ Based on 13 banks

Private banking

Ranking	First	Second	Third	Score	Change
Investec	10	2		34	→
Standard Bank	1	5		13	↗
ABSA	2	3		12	→
Nedbank		2	5	9	↗
FirstRand Bank (RMB)		2	3	7	↘
UBS	1			3	→
Sanlam			1	1	↗

§ Based on 14 banks

Private equity investments

Ranking	First	Second	Third	Score	Change
Ethos	4	1		14	→
ABSA	3	1		11	↗
Brait	2	2		10	↘
Standard Bank		3	1	7	↗
FirstRand Bank (RMB)	1		3	6	↗
Nedbank		1	2	4	↗
Actis		1	2	4	↘
Investec		1		2	↘
JPMorgan Chase			1	1	↗

§ Based on 10 banks

Micro-lending

Ranking	First	Second	Third	Score	Change
ABIL	12	1		38	→
Capitec	1	6		15	→
ABSA		3	5	11	→
Standard Bank	1	2	2	9	↗
Nedbank		1	3	5	↗
FirstRand Bank (FNB)		1		2	↘

§ Based on 14 banks

Trade finance

Ranking	First	Second	Third	Score	Change
Standard Bank	11	2	1	38	→
ABSA	3	4	2	19	→
Nedbank	2	4	5	19	→
FirstRand Bank (FNB)		4	6	14	→
Citibank		1		2	↗
HSBC		1		2	↗
Grindrod			1	1	↗

§ Based on 16 banks

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Methodology

Previous experience has shown that personal interviews with senior bankers using a standard questionnaire offers the best research approach. The questionnaire contained 42 questions and was completed during interviews of approximately one hour. The author conducted all interviews during February 2009 in Johannesburg and Cape Town.

Responses have not been attributed to individual banks but rather collectively within two groups: Foreign banks (12) and Domestic banks (11). Included within the Domestic bank group are the Big Four banks (ABSA, FirstRand Bank, Nedbank and Standard Bank) and, on occasion, their results are shown alongside the overall Domestic bank group.

At times, individual banks declined to answer particular questions or were unable to provide sufficiently accurate data. This is noted where applicable.

The time commitment and support by all banks in this survey was outstanding. Once again they provided interpretation and direction on how South African banking may unfold over the next three years.

Bank groups

Bank groups

The information provided has been considered proprietary and remains confidential. Results are therefore presented in a 'disguised' group format, in the form of Foreign or Domestic banks. The members of the bank groups are as follows:

- **Domestic banks:**

  ABSA Bank*
  African Bank
  Capitec
  FirstRand Bank
  Imperial Bank
  Investec Bank
  Mercantile Bank*
  Nedbank Group Ltd.
  Standard Bank of South Africa
  TEBA Bank
  The South African Bank of Athens*

- **Big Four banks:**

  ABSA Bank *
  FirstRand Bank
  Nedbank Group Ltd.
  Standard Bank of South Africa

- **Foreign banks:**

  Calyon
  China Constructon Bank
  Citibank NA
  Commerzbank AG
  Deutsche Bank AG
  Dresdner Bank AG
  HSBC
  JPMorgan Chase Bank
  RBS
  Société Générale
  Standard Chartered Bank
  UBS South Africa

- **Foreign banks classification:**

  - Registered branches

    Calyon
    China Construction Bank
    Citibank NA
    Commerzbank AG
    Deutsche Bank AG
    HSBC Bank Plc
    JPMorgan Chase Bank
    RBS
    Société Générale
    Standard Chartered Bank

  - Registered banks – Foreign controlled

    The South African Bank of Athens

  - Foreign banks – Representative offices

    Dresdner Bank AG UBS
    UBS South Africa

* Included in this category in this particular survey to ensure confidentiality (Absa controlled from the UK, Mercantile Bank controlled from Portugal and also The South African Bank of Athens controlled from Greece). The South African Bank of Athens, although a foreign controlled registered bank was included in the domestic group because of its retail and middle market focus. To include it in the foreign bank group would have compromised its identity.

Participants

Name	Position	Bank
Domestic banks:		
Steve Booysen	Chief Executive Officer	ABSA Bank*
Johan de Ridder	Executive Director	African Bank
Riaan Stassen	Chief Executive Officer	Capitec Bank
Sizwe Nxasana	Chief Executive Officer	FirstRand Bank
René Van Wyk	Chief Executive Officer	Imperial Bank
Stephen Koseff	Managing Director	Investec Bank
Dave Brown	Managing Director	Mercantile Bank*
Mike Brown	Chief Financial Officer (and CEO elect)	Nedbank Group Ltd.
Graham Dempster	Managing Director, Nedbank Corporate	Nedbank Group Ltd.
Brian Kennedy	Managing Director, Nedbank Capital	Nedbank Group Ltd.
Jacko Maree	Chief Executive Officer	The Standard Bank of South Africa
Hector Zarca	Chief Executive Officer	The South African Bank of Athens*
Mark Williams	Chief Executive Officer	TEBA Bank
Foreign banks:		
Serge de Beaufort	Senior Country Officer	Calyon
Yimin He	General Manager	China Construction Bank
Donna Nemer Oosthuyse	Chief Operating Officer, Africa Division	Citibank NA
Clive Kellow	Chief Executive Officer	Commerzbank AG
Herman Bosman	Chief Executive Officer	Deutsche Bank AG
Dietrich von Stackleburg	Country Officer	Dresdner Bank AG
Sandy Wynd	Chief Operating Officer	HSBC
Jon Zehner	Managing Director Head Sub Saharan Africa	JPMorgan Chase Bank
Simon Penney	Chief Executive Officer	RBS
Pierre Wolmarans	Chief Executive Officer	Société Générale
Steve Brice	Director, Head of Global Markets	Standard Chartered Bank
Wayne Lawson-Turnbull	Managing Director and Chairman	UBS South Africa

* Although classified as domestic banks, all three of these banks are foreign controlled

Background comments on participants

Big Four bank group

Big Four Banks	World Ranking *The Banker, July 2008		Home Country Ranking* Tier 1	Background Comments **
	Tier 1	Assets		
Absa Bank 34,000 employees www.absa.co.za	Foreign owned		3	Absa is a subsidiary of Barclays Bank PLC, which holds a stake of 58,6% in the Group. Absa's business is conducted primarily in South Africa, but also has equity holdings in banks in Mozambique, Angola and Tanzania. At 31 December 2008, the Group had 680,3 million shares in issue and a market capitalisation of R73,6 billion. The Group had assets of R773,8 billion, 1 192 points of presence, 10,7 million customers (excluding African entities) and 9 104 automated teller machines.
FirstRand Bank 31,000 employees www.firstrand.co.za	144	164	2	FirstRand was created in 1998 through the merger of the financial service interests of Anglo American Corporation and RMB Holdings. The major companies involved at the time were the listed entities, First National Bank Holdings of Southern Africa Limited and Southern Life Association Limited, which were controlled by AAC and Momentum Life Assurers Limited, the holding company of Discovery Health and Rand Merchant Bank, which were controlled by RMBH. FirstRand has a retail franchise footprint of 680 branches and 4185 ATM's.
Nedbank Group Ltd. 27,000 employees www.nedbankgroup.co.za	169	169	4	Nedbank Group Limited is a bank holding company that operates through its principal banking subsidiaries, Nedbank Limited and Imperial Bank Limited, in which it has a 50.1% interest. Nedbank Group focuses on southern Africa. Nedbank Group's headquarters are in Sandton with operational centres in Durban and Cape Town. Principal services offered by the group comprise business, corporate and retail banking, property finance, investment banking, private banking, foreign exchange and securities trading. Nedbank Group also generates income from private equity, credit card issuing and processing services, custodial services, unit trust administration, asset management services and bancassurance.
The Standard Bank of South Africa 30,000 employees www.standardbank.co.za	106	92	1	Standard Bank Group operates in a range of banking and related financial services. The group has a representation which spans 17 African countries and 19 countries outside of Africa with an emerging markets focus. Standard Bank has 681 branches in South Africa and 332 in the rest of Africa. The group had total assets of over R1 509 billion (approximately $162 billion) at 31 December 2008 and employed more than 50,000 (including Liberty) people worldwide. Standard Bank's market capitalisation at 31 December 2008 was R127 billion (approximately $14 billion).

* World rankings were taken from The Banker, July 2008
** The background comments were taken from the respective banks' websites in March 2009

Domestic bank group

Other Domestic Banks	World Ranking *The Banker, July 2008		Home Country Ranking* Tier 1	Background Comments **
	Tier 1	Assets		
African Bank 3,500 employees www.africanbank.co.za	841	993	6	Prior to 1998, African Bank operated for 24 years as a small commercial bank concentrating on the historically disadvantaged market. In December 1999, Theta Group Limited changed its name to African Bank Investments Limited (ABIL). Currently, African Bank Investments Limited (ABIL) is a publicly quoted bank-controlling company listed on the JSE Limited. ABIL services approximately 1.5 million clients through its 550 branches and 3,000 staff members and currently has an advances book totalling R11 billion.
Investec 3,500 employees www.investec.com	199	215	5	Investec services a niche client base in three principal markets, the United Kingdom, South Africa and Australia, as well as certain other geographies. Investec is organised as a network comprising five business divisions: Investment Banking, Treasury and Specialised Finance, Private Client Activities, Asset Management, and Property Activities. Since Investec was founded in South Africa in 1974, it has expanded through a combination of organic growth and strategic acquisitions.
Mercantile Bank 423 employees www.mercantile.co.za	128	99	NA	Mercantile Bank Limited provides a full range of foreign and domestic banking, custodial and securities services. It operates in selected retail, commercial, corporate and alliance banking niches to which it offers banking, financial and investment services. The world rankings are for Caixa Geral de Depositos S.A of Portugal. Mercantile wants to break away from the image of being a bank exclusively for the Portuguese community.
Imperial Bank 1,148 employees www.imperialbank.co.za	NA	NA	NA	Imperial Bank was established in 1996 as part of the Imperial Group. Nedbank Limited has owned a controlling interest in the bank since 2001 and it is managed as a joint venture between Nedbank Group Limited and Imperial Holdings Limited, capitalising on the combined strengths of its shareholders. The primary area of operation of the bank was motor finance initiated by motor dealerships. This is still the core business of the bank, but it has since branched out into the financing of a selection of other assets such as aircraft, properties and corporate assets.
TEBA Bank 958 employees www.tebabank.co.za	NA	NA	NA	Teba Bank is the 9th largest South African bank in terms of asset size and is the 8th most recognised banking brand in South Africa. Teba Bank offers paymaster functions for the gold and platinum mines, savings accounts including linked accounts for workers` spouses, fixed deposits, microloans, provident backed housing loans, ATM cards and funeral insurance. Teba Bank is increasing its distribution channels to ensure accessibility for its target communities.
Capitec Bank 3,600 employees www.capitecbank.co.za	NA	NA	NA	Capitec Bank Holdings Limited was established on March 1, 2001 and listed on the JSE Limited on February 18, 2002. Capitec Bank is a retail bank, offering savings and lending, as well as funeral plan services to 1.8 million clients. It operates 360 branches and 765 ATMs, as well as Internet banking.

Foreign bank group

Foreign Banks	World Ranking *The Banker, July 2008		Home Country Ranking* Tier 1	Background Comments **
	Tier 1	Assets		
Calyon 60 employees www.calyon.com	7	6	1	Calyon was formed from the merger of Crédit Agricole Indosuez and Crédit Lyonnais' Corporate and Investment Banking division. With 13,000 staff in 57 countries, Calyon specialises in capital markets, investment banking and financing. With a network of more than 250 senior bankers across the world, Calyon has the ability to operate in the world's financial markets on behalf of large corporations, financial institutions and French SMEs.
China Construction Bank 35 employees www.ccb.com	13	23	3	Market leaders in China in a number of products and services including infrastructure loans, residential mortgage and bank cards. CCB has an extensive network of approximately 13,629 branch outlets . It has overseas branches in Hong Kong, Singapore, Frankfurt, Johannesburg, Tokyo and Seoul and representative offices in New York, London and Sydney.
Citibank 350 employees www.citibank.com	2	7	1	Citibank is the consumer and corporate banking arm of financial services giant Citigroup. The corporation has 275,000 employees operating in over 100 countries. The group's banking services is represented around the world, as well as in South Africa, with offices in Johannesburg, Durban, Port Elizabeth and Cape Town. In South Africa, Citigroup offers Global Transaction Services, Lending Services, Project and Structured Finance, Global Markets and Treasury Services.
Commerzbank 30 employees www.commerzbank.com	36	22	3	Commerzbank is Germany's second-largest bank. Its consolidated balance- sheet total stands at 608bn euros. Roughly 36,000 employees, 8,725 of them active outside Germany, look after more than 8 million customers worldwide. Commerzbank offers financial services for private and business customers as well as for small to medium-sized companies, but it also serves major corporates and multinationals.
Deutsche Bank 178 employees www.db.com	21	2	1	A leader in Germany and Europe, Deutsche Bank offers financial services in 73 countries, holds EUR1,126 billion in assets, and has 68,849 employees from 130 nations. Deutsche Bank comprises three Group Divisions: Corporate and Investment Bank, Private Clients and Asset Management and Corporate Investments. In South Africa, Deutsche Bank has locations in Sandton and Cape Town.
Dresdner Bank 6 employees www.dresdner-bank.com	52	32	6	The Dresdner Bank Group is headquartered in Frankfurt and London. Dresdner Bank offers Personal Banking, Business and Corporate Banking, as well as Private Wealth Management services. With roughly 950 branch offices and 27,625 full-time staff, the Dresdner Bank Group is active in some 50 different countries. Since January 2009, Dresdner Bank has been a wholly-owned subsidiary of the Commerzbank Group. In South Africa, Dresdner has a representative office in Johannesburg.

Foreign Banks	World Ranking *The Banker, July 2008		Home Country Ranking* Tier 1	Background Comments **
	Tier 1	Assets		
HSBC 200 employees www.hsbc.co.za	1	5	1	HSBC Holdings plc is headquartered in the UK. With assets of US$2,547 billion at 30 June 2008, HSBC is one of the world's largest banking and financial services organisations. HSBC established a presence in Sub-Saharan Africa in 1981 and entered the South African market in 1995. The HSBC Bank plc - Johannesburg branch employs over 120 staff. Its operations in the region now cover Commercial Banking, Corporate Banking, Global Investment Banking, Transaction Banking (Trade Services and Payments and Cash Management), Treasury and Capital Markets and Equities.
JPMorgan Chase Bank 600 employees www.jpmorganchase.com	4	12	2	JPMorgan Chase is a global financial services firm with assets of $2.2 trillion and operations in more than 60 countries. Is a component of the Dow Jones Industrial Average. JPMorgan Chase has corporate headquarters in New York and U.S. consumer and commercial banking headquarters in Chicago. It is involved in six lines of business: Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset Management.
RBS 58 employees www.abnamro.com	3	1	2	In late 2007, The Royal Bank of Scotland Group (RBS) successfully led the consortium bid for ABN AMRO. ABN AMRO South Africa has been operating as a branch since 1995 from its headquarters in Sandton, in the north of Johannesburg. It maintains a balance sheet of EUR 2 - 3 billion. RBS was established in 1727, and is one of the oldest banks in the UK. It operates in more than 50 countries around the world to provide a range of retail and corporate banking, consumer finance, insurance and wealth management services. RBS has been established in South Africa since 1995, offering equities, corporate finance & advice, emerging markets and transaction banking services..
Société Générale 55 employees www.socgen.com	27	11	5	Société Générale is a French-based financial services group. The Group operates in 82 countries and employs 151,000 people worldwide in three key businesses: Retail Banking & Financial Services, Global Investment Management & Services, and Corporate & Investment Banking. Société Générale Group serves 22.5 million customers in France and worldwide.
Standard Chartered Bank 110 employees www.standardchartered.com	49	58	6	Standard Chartered has a history of over 150 years in banking and operates in many of the world's fastest-growing markets with a global network of over 1,750 branches in over 70 countries. Standard Chartered serves both Consumer and Wholesale Banking customers worldwide and employs almost 75,000 people, representing over 115 nationalities. In South Africa, Standard Chartered offers Personal Banking, Commercial Banking, and Global Markets services.

Foreign Banks	World Ranking *The Banker, July 2008		Home Country Ranking* Tier 1	Background Comments **
	Tier 1	Assets		
The South African Bank of Athens*** 200 employees www.bankofathens.co.za	117	113	1	The South African Bank of Athens was established in 1947. It is a 99.50% subsidiary of National Bank of Greece S.A., an international banking and financial service provider listed on the New York and Athens Stock Exchanges, with total assets in excess of Euro 76.7 billion in 2006. From its head office in Johannesburg and 10 branches in Gauteng, Western Cape and KwaZulu-Natal, Bank of Athens serves its clientele as a fully-fledged, registered, commercial and clearing bank.
UBS 75 employees www.ubs.com	31	8	2	UBS is present in all major financial centres, with offices in more than 50 countries. It employs around 78,000 people, with 39% in the Americas, 35% in Switzerland, 16% in the rest of Europe and 10% in Asia Pacific. UBS offers Wealth Management, Asset Management, Investment Banking and Securities and Swiss Retail and Corporate Banking services. It has a BIS Tier 1 ratio of 12.9%, invested assets of CHF 2.65 trillion, shareholders' equity of CHF 44.3 billion and market capitalisation of CHF 131.9 billion on 31 December 2005.

* World rankings were taken from The Banker, July 2008
** The background comments were taken from the respective banks' websites in March 2009
*** As noted for confidentiality reasons South African Bank of Athens has been placed in the domestic group alongside ABSA and Mercantile Bank.

Quarterly BA-900 analysis of individual South African banks – March 2009

BA 900 summary of SA banks – March 2009

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LOANS, ADVANCES AND OTHER ASSETS (R MILLION)

Line no		103 Central bank, money & gold	111 SA Banks	117 Foreign loans	118 Resale agree-ments	139 Instalm. Finance	150 Mortgage advances	166 Credit cards	126 Foreign currency loans	135 Redeem'l pref shares	171 Public sector o/d, loans	180 O/draft Private sector	194 Impair-ments	195 Invest-ments	246 Accept CP, Bills PN	258 Fixed assets (Non-Fin)	267 Other assets	Total assets
1	A B N Amro Bank /RBS	99	6511	873	723				5517			3107		2969	129	6	39	19973
2	Absa Bank Ltd	16116	15228	1368	16807	58056	300228	15097	22432	3049	12290	111033	9588	108047	8404	5583	19714	703864
3	African Bank Ltd	367	1336					1555				17176	2972	246	447	255	254	18665
4	Albaraka Bank Ltd	36	362			291	933						27	65	267	24	10	1959
5	Bank Of Baroda	3	100	0			54					202	5		10	1	0	366
6	Bank Of China Ltd Jhb Branch	32	99						1587			242	4	7	159	1	5	2127
7	Bank Of Taiwan South Africa Branch	16	3				188		403			151	5	17		1	22	795
8	Grindrod Bank Ltd	26	182		145		380			104		674		87	65	3	87	1755
9	Calyon Corporate And Investment Bank - South Africa	51	0						5477		330	4290		5492	1086	1	15	16744
10	Capitec Bank	367	1096							17		3290	243	16	271	234	40	5086
11	China Construction Bank Corporation - Jhb Branch	84	26						1008			2121	37	1015		183	8	4409
12	Citibank N.A	167	10379	145	4346	0			20489		251	6554	7	25884	1206	165	142	69720
13	Commerzbank Aktiengesellschaft	103	282	0					1915	401		1643		1661	208	1	15	6229
14	Deutsche Bank AG	33	3731	1507	8266				6752			439		9620		0	75	30424
15	FirstRand Bank Limited	14499	16863	2218	24389	75672	149686	12349	11057	22530	10445	104377	9555	110569	22965	5880	7534	581480
16	GBS Mutual Bank	13	116			209	303					29	4	24	38	1	6	734
17	Bidvest Bank Limited	75	292			114	41		206			341	11	93		57	159	1367
18	Habib Overseas Bank Ltd	9	414	37					30			163	2	2	30	6	1	690
19	HBZ Bank Ltd	49	765				75		66			450	6	165	110	15	2	1691
20	HSBC Bank plc Johannesburg Branch	129	937		880				5699			2548		636	800	9	177	11816
21	Imperial Bank Ltd	1090	78			31552	11996			125		750	892	684	1904	278	467	48033
22	Investec Bank Ltd	3141	10402		6914	1316	58670	1344	6501	9618	602	47455	1034	19149	7163	250	1087	172580
23	JPMorgan Chase Bank	46	525		3241				4667			27		31689	2112	28	596	42931
24	Meeg Bank Limited	44	291			309	593	11			1	40	29	6	15	14	10	1306
25	Mercantile Bank Ltd	103	169			381	1620	22	855			1877	90	124	332	144	192	5731
26	Nedbank Ltd	13399	52710	4467	3901	26806	199269	7149	12682	2169	8068	109016	7065	58100	663	6026	4780	502140
27	Regal Treasury Private Bank Ltd	0	436			11	37		4	479		427	5	21		33	79	1522
28	Sasfin Bank Ltd	22	135			412			2			490	28	102	128	47	92	1401
29	Societe Generale Johannesburg Branch	8	6470	1948		6			2388			46		206		4	48	11123
30	Standard Chartered Bank	288	3172				311		2453		100	6061	49	425	933	3	408	14106
31	State Bank of India	46	143			0	74		178			1387	1	47	134	1	15	2024
32	Teba Bank Limited	86	614						0	406		1074	130	1	1050	94	82	3278
33	The S A Bank of Athens Ltd	34	42			142	453		84			421	23	2	68	38	8	1268
34	The Standard Bank of S A Ltd	11973	30935	12530	15616	53079	260892	19644	74823	14937	2480	111625	12963	219289	26925	5981	7959	855725
35	VBS Mutual Bank	6	104			0	104					6	1		12	2	1	234
36	Total	62563	164950	25094	85229	248357	985909	57170	187275	53835	34569	539533	44778	596460	77635	25368	44130	3143298

BA 900 summary of SA banks – March 2009

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2009-03 CAPITAL, DEPOSITS AND OTHER LIABILITIES TO THE PUBLIC (R MILLION)

Item no		1 Cheques deposits	2 Savings deposits	3 Other demand deposits	4 Short term deposits	5 Medium term deposits	6 Long term deposits	1-6 Total deposits	3 Inter DI funding	42 Repurch-agree-ments	58 Foreign funding	57 Other loans	67 Other public liabs	78 Total public liabs	79 Accep-tances	80 Other liabs	97 Share capital	101 Other reserves	78-101 Total equity & liabs
1	A B N Amro Bank/RBS			14063	1372	686		16121	2517					16121		3074	305	473	19973
2	Absa Bank Ltd	93702	59055	76031	65231	123934	96730	514682	43337	27981	18956	7997	19697	589314	11	72362	14260	27916	703864
3	African Bank Ltd			532	1088	3645	9084	14349					874	15223		695	1523	1224	18665
4	Albaraka Bank Ltd		186	112	417	548	449	1712	3					1712		37	150	61	1959
5	Bank Of Baroda	10		0	162	66	23	262						262		0	63	42	366
6	Bank Of China Ltd Jhb Branch	76	645	98	178	53		1050			730			1780		50	250	47	2127
7	Bank Of Taiwan South Africa Branch			79	78	74	8	239	39		356		8	603		32	50	109	795
8	Grindrod Bank Ltd			803	83	459	102	1447	205					1447		41	207	60	1755
9	Calyon Corporate And Investment Bank - South Africa	661		6252	1833	1316	1860	11922	200				1341	13263		2295	583	603	16744
10	Capitec Bank		1325	81	63	475	1500	3444						3444		253	155	1235	5086
11	China Construction Bank Corporation - Jhb Branch			2726		1086	0	3812	710					3812		125	459	13	4409
12	Citibank N.A	6700		13056	11516	5037		36309	8562	1720			9	38039		27983	2165	1534	69720
13	Commerzbank Aktiengesellschaft			300		4201		4501	246					4501	8	1271	375	74	6229
14	Deutsche Bank AG	4		8954	3901	1148	542	14550	1445	10218				24768		4693	503	461	30424
15	FirstRand Bank Limited	104777	1929	95097	36326	84733	77343	400206	29048	28537	6831	7591	8780	451945		98192	13821	17523	581480
16	GBS Mutual Bank	1	14		124	145	337	620	1					620		14		100	734
17	Bidvest Bank Limited		40	484	25	46	28	623	16				75	698		91	2	577	1367
18	Habib Overseas Bank Ltd	249	19	261	71	15	6	621						621		14	51	5	690
19	HBZ Bank Ltd	531	116	66	593	161	28	1496	4					1496		32	50	113	1691
20	HSBC Bank plc Johannesburg Branch	531	48	2781	399	5039	0	8798	242	686				9484		1140	885	307	11816
21	Imperial Bank Ltd			707		13	42586	43305	42586				813	44117		629	1400	1887	48033
22	Investec Bank Ltd		2746	34170	41718	33309	25486	137429	1686	2281			5091	144802		14688	9078	4012	172580
23	JPMorgan Chase Bank	23		3360	1290	28	224	4925	815	2765				7689		32592	2650		42931
24	Meeg Bank Limited	266	166	345	41	234	86	1138	0				10	1148		6	55	98	1306
25	Mercantile Bank Ltd	629	165	1021	712	1227	401	4155	14			32		4188		202	1483	-143	5731
26	Nedbank Ltd	68810	8346	101348	79303	95962	61042	414811	17001	11677	6932		12687	446108		23600	14461	17971	502140
27	Regal Treasury Private Bank Ltd			419	171	125	378	1093					3	1096		6	1	419	1522
28	Sasfin Bank Ltd	0		710	62	166	31	969	0					969		37	201	194	1401
29	Societe Generale Johannesburg Branch		1	1992	4987	3739		10718	987				6	10724		61	296	42	11123
30	Standard Chartered Bank			5270	4322	2579	714	12884	1131					12884		164	1079	-21	14106
31	State Bank of India	326	1	37	416	665	140	1585						1585		28	339	73	2024
32	Teba Bank Limited		2020	2	67	315	104	2509						2509		145	245	379	3278
33	The S A Bank of Athens Ltd	194	95	163	1	310	140	904			134	22	8	1069		12	168	19	1268
34	The Standard Bank of S A Ltd	121583	37375	47636	130824	81946	116803	536167	22996	27256	43325		18979	625727		192146	22790	15062	855725
35	VBS Mutual Bank		149		8	2	48	206					2	209				25	234
36	Total	399075	114440	418956	387382	453487	436224	2209563	173790	113121	77266	15642	68384	2483975	20	476709	90100	92494	3143298

PricewaterhouseCoopers
Who we are

A world-leading professional services firm

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services for public and private clients. More than 155 000 people in 153 countries connect their thinking, experience and solutions to build public trust and enhance value for clients and their stakeholders.

PricewaterhouseCoopers is truly a global organisation committed to helping our clients meet the challenges posed by the globalising economy. We are one of the largest knowledge businesses in the world – a leader in every market in which we operate.

Worldwide, we possess an enviable breadth and depth of resources, yet we work locally, bringing appropriate local knowledge and experience to bear – and using the depth of our resources to provide a professional service, specifically tailored to meet our clients' needs.

The service we offer to clients is underpinned by our extensive coverage and breadth of skills.

Servicing our markets

The objectives of our service offering are to build trust and enhance value for clients and their stakeholders. To meet the requirements of our clients, our services are grouped into three distinct service lines, namely Assurance, Advisory and Tax. We continue to operate as a multi-competency organisation offering a range of high-quality services to clients.

In our business change is the only constant and we are continually adapting our range of services to ensure our sustainability and that of our clients and stakeholders. As market needs change, so will our service offering.

Assurance

Our Assurance group provides audits to clients on their financial performance and operations, as well as helping them improve their external financial reporting and adapt to new regulatory requirements such as the King Report on Corporate Governance and International Financial Reporting Standards (IFRS).

The true value of an audit is not solely in ensuring compliance with exacting rules, regulations and standards. Instead it lies in our focus on substance over form and on progressing toward a reporting and audit model that communicates better information about a company's long-term value and the risks that are being taken to achieve such value.

Our leading-edge audit approach can be tailored to meet the needs of any size organisation, as evidenced by our appointment as auditor to thousands of small and mid-sized businesses. In every case, the PricewaterhouseCoopers audit is underpinned by our deep industry knowledge, wide international experience, and global network of skilled professionals. This deep industry knowledge is one of the foundations of our success. Our teams are aligned to the industry groupings in which they have the most expertise, enabling them to deliver tailored solutions to problems in these sectors. Our traditional core competency has been augmented over the years by the development of additional services that address our clients' requirements. Our audit clients include many of the top performing companies on the JSE Securities Exchange SA, as well as many small and mid-sized businesses. In addition to audit, other services provided include accounting and regulatory advice, and attest and attest-related services.

Advisory

Advisory provides advice and assistance based on financial, analytical and business process skills to corporations, government bodies and intermediaries in the implementation of strategies relating to:

- Creating/acquiring/financing businesses
- Integrating them into current operations
- Enhancing performance
- Improving management and control
- Dealing with crises
- Restructuring and realising value

Offered by trained professionals specialising in their respective fields, we provide advisory services in an objective manner that helps clients create stakeholder value, build trust and communicate with the marketplace. Advisory clients set and implement strategies that create value for their stakeholders. This is done through five critical activities, called the business lifecycle.

Advisory services are built around four key client priorities: transactions; performance improvement; governance, risk and compliance; and crisis management.

Transactions	Comprehensive services related to financial transactions, including financial due diligence, valuations, financial modelling, negotiating and structuring acquisitions and disposals, raising finance, and developing exit strategies.
Performance Improvement	Services to assist clients in identifying and implementing cost-saving initiatives, improving management and control, identifying and managing risk, and improving quality.
Governance, Risk and Compliance	
Crisis Management	Comprehensive services related to business recovery, restructuring, and dispute analysis and investigations.

Tax

Taxation is one of the biggest cost items in any business, yet it is one of the most manageable. Using state-of-the-art methodologies and technology, coupled with specialist skills, our national team of advisers can assist clients to control and minimise their tax burden by providing innovative and practical tax and business solutions. Our advice covers all aspects of Southern African direct and indirect taxes, exchange control regulations and employee-related issues. Through our extensive network of offices we are also able to provide advice on structuring international business operations and investments.

Corporate Tax

Corporate Tax provides specialist advice to assist South African corporates to manage taxation costs and cash flows. Our specialists are informed on current regulatory and business developments, and use this knowledge to maximise the return to our clients through corporate tax planning.

Human Resource Services

We have an established human resource practice delivering solutions to the people-related issues encountered by our clients. By combining our expertise in reward strategy and incentives, personal tax and social security, employment law, employee benefit services and human resource consulting, we are able to deliver solutions on all issues relating to the development, reward and management of employees within an organisation. Our experts providing expatriate tax services examine all aspects of deploying people globally from creating non-standard assignment programmes to managing costs through effective tax planning, process improvements and outsourcing. They are supported by highly experienced immigration specialists in South Africa and worldwide providing advice on the immigration law and various permit categories.

Indirect Tax

Our specialists have a detailed knowledge of local and international laws and practices and can offer an unparalleled breadth and depth of services and advice on value- added tax, customs and excise duties and Regional Services Council levies.

International Tax Structuring

We provide business solutions to specific, complex client needs that control and minimise the global tax burden, taking into account exchange control as appropriate. We work as part of an integrated local and international industry-focused team of business advisers, to provide specialist international tax and exchange control services.

Transfer Pricing

We develop transfer pricing policies that are practical, defensible and consistent with our clients' overall business strategy. Our services include transfer pricing risk assessments and full transfer pricing studies. We also provide advice on current and proposed transfer pricing legislation in South Africa and abroad.

Tax Compliance Centre

We provide specialist income tax compliance services, based on global best practice models, to companies, individuals and trusts. The Centre runs state-of-the-art income tax compliance processes, and has a dedicated compliance manager responsible for each outsourcing contract to ensure the timely and efficient delivery of tax returns. Tailored electronic tax data collection tools and robust risk management and quality control procedures ensure the delivery of high quality tax returns.

Private Company Services

Business leaders regard business as personal. Our past and continued involvement with business leaders gives us a broad understanding of the unique demands and challenges facing private companies today. Our response is simple – to develop professionals who understand these challenges and rise to them. These Trusted Business Advisers (TBAs) work closely with our industry experts to provide tailor-made solutions specifically geared to adding value in the private company environment. A TBA acts as a gateway to all the knowledge and expertise of our entire organisation, combined with comprehensive knowledge of local markets and industries. Through our TBAs, clients have access to an integrated service delivery approach encompassing any combination of our firm's services. Trust and excellence are the foundations of our relationships. We foster those relationships by engaging our clients in conversations around the issues, risks and opportunities of the day, in order to ensure that their businesses continue on the road to sustainable profitability and growth. We also know that life is about more than business. It is also about individuals. We therefore extend our involvement to offering advice on personal finances, taxation, succession, estate and retirement planning. We assist clients with every facet of their business in order to add real value, and help them achieve their business goals and dreams.

A focus on industries

One of the foundations of our success is our ability to adapt our services to meet the needs of our clients.

Internationally, teams are aligned to the industry groupings in which they have the most expertise, enabling them to deliver tailored solutions to problems in these sectors. The depth of our industry expertise, like our international perspective, is an attribute that our

clients value highly. We invest significant resources in building and sharing such expertise. We have organised ourselves around industries to:

- Share the latest research and points of view on emerging industry trends.
- Locate individual experts on each issue, wherever they are based.
- Develop industry-specific performance benchmarks, based on global best practices.
- Share methodologies and approaches in complex areas such as financial instruments and tax provisioning.
- Collaborate on accounting or technical issues unique to a particular industry, especially when interpretive guidance is needed.

Our clients range from the country's largest and most complex organisations to some of its most innovative entrepreneurs – we are privileged to work with such an unrivalled client base. We serve many of the leading businesses in every sector on which we focus; those businesses value our rigorous, practical approach, characterised by a detailed understanding of individual client issues and by deep industry knowledge and experience. Our industry groups are:

- Financial Services
- Consumer and Industrial Products and Services (CIPS)
  - Automotive
  - Retail
  - Consumer packaged goods
  - Industrial products
  - Pharmaceutical sector
- Technology, InfoComm, Entertainment and Media (TICE)
  - Technology
  - InfoComm
  - Entertainment and Media
  - Hospitality and Leisure
- Mining
- Public Sector
- Healthcare
- Higher education
- Agribusiness

Financial Services

The financial services industry landscape is continually changing and increasing in complexity, causing firms to face a diverse array of challenges and concerns. Corporate governance, risk management and regulatory issues continue to impact the industry. Firms have expanded international operations around the globe to tap into new markets as a source of growth, increase their competitiveness, satisfy demand and better leverage their expertise. To assist our clients, our professionals have in-depth knowledge of the issues driving change in the various sectors of the financial services industry. This knowledge, combined with our specialised skills, enables us to design and implement cost-effective multi-disciplinary solutions to meet the challenges and opportunities facing our clients.

Banking and Capital Markets

The banking and capital markets industry continues to be transformed by increasing globalisation, advancing technology, and changing demographics. Protecting and enhancing a firm's reputation as well as rebuilding investor confidence and trust, have become high priorities.

We have the largest specialist financial services practice in Southern Africa, managed by a multidisciplinary team of auditors, advisers and tax professionals. Our strategy is to bring significant business advantage to our clients through global multidisciplinary teams, integrated across industry sectors, geographies and functional skills.

Our Banking and Capital Markets practice has taken the lead in presenting significant research on the local banking industry in order to complement our substantial international research projects.

Locally, we have been presenting various industry surveys since 1996, with the Strategic and Emerging Issues in South African Banking survey currently in its sixth year. Previous surveys focussed on Foreign Banks in South Africa and on Investment and Merchant Banking in South Africa.

At an international level, research includes two global surveys; the Banana Skins survey, which is a survey of the risks facing banks, and the Global Private Banking survey. We are pleased to note a number of South African participants in both of these surveys.

We act as auditors to more financial services companies in South Africa than any other professional services firm.

The leadership of our Southern African Financial Services practice would be pleased to hear from you.

Financial Services and Banking and capital markets leader:

Tom Winterboer
+27 11 797 5407

Insurance leader:

Victor Muguto
+27 11 797 5372

Pension funds leader:

Gert Kapp
+27 12 429 0059

Actuarial and insurance management solutions leader:

Mark Claassen
+27 21 529 2522

Investment management leader:

Pierre de Villiers
+27 11 797 5368

Contacts for Banking and Capital Markets Services

South Africa

Gauteng: Johannesburg and Pretoria

Private Bag X36
Sunninghill
2157

Tel +27 11 797 4000
Fax +27 11 797 5819

Contact: Tom Winterboer

Durban

PO Box 1049
Durban
4000

Tel +27 31 250 3700
Fax +27 31 202 8220

Contact: Steve Ashforth

Cape Town

PO Box 2799
Cape Town
8000

Tel +27 21 529 2000
Fax +27 21 529 3300

Contact: Hennie Nel

Southern Africa

Namibia

Windhoek

PO Box 1571
Windhoek

Tel +264 61 284 1000
Fax +264 61 284 1001

Contact: Louis van der Riet

Swaziland

Mbabane

PO Box 569
Mbabane

Tel +268 404 2861
Fax +268 404 5015

Contact: Paul Lewis

Botswana

Gaborone

PO Box 1453
Gaborone

Tel +267 395 2011
Fax +267 397 3901

Malawi

Blantyre

PO Box 1147/1064
Blantyre

Tel +265 620 322
Fax +265 621 215

Zimbabwe

Harare

PO Box 453
Harare

Tel +263 4 307 213 19
Fax +263 4 332 495

Contact: Tinashe Rwodzi

Mozambique

Maputo

PO Box 2583
Maputo

Tel +258 1 307 620
Fax +258 1 307 621

Contact: Rob Walker

www.pwc.com/za

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