



Strategic and Emerging Issues in South African Banking

2007 Edition

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Foreword



This is the tenth PricewaterhouseCoopers survey on banking 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:

- key sources of competitive advantage;
- separate identification of the important macro issues affecting banks' operations in South Africa;
- developments with regard to consumer protection; and
- expected merger and acquisition activities by South African banks.

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;
- understand the thinking of Chief Executive Officers and Senior Executives in the banking industry;
- 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:

- the continued proliferation and burden of regulation in the banking industry;
- implementation of Basel II;
- the Competition Commission's bank enquiry;
- implementation of the National Credit Act;
- concerns about crime; and
- the need to find good personnel.

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

A handwritten signature in dark ink, appearing to read 'Tom Winterboer'.

Tom Winterboer
Banking and Capital Markets Leader
– Southern Africa
PricewaterhouseCoopers Inc.

Johannesburg
11 June 2007

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 2007".

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.



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.

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Comments on certain key issues

Pertinent developments and observations from the survey

This year's "Strategic and Emerging Issues in South Africa Banking – 2007 Edition" highlighted a number of issues of particular interest, which include developments and observations on:

- the continued proliferation and burden of regulation in the banking industry;
- the implementation of Basel II
- the implementation of the National Credit Act;
- expected merger and acquisition activity by South African Banks;
- the Competition Commission's bank enquiry;
- concerns about crime; and
- the need to find good personnel.

Obviously one cannot go into significant detail on all of these or the other issues raised in the survey, but we enclose some detail on the economic landscape, and selected issues deemed more pertinent to the users of this survey.

The South African economic landscape – a nutshell overview

It probably makes sense in a publication of this nature to reflect on the economy's short-term to medium-term growth prospects. **Dr Roelof Botha**, PricewaterhouseCoopers' resident economist, provides his views on the South African economy, and one would do well to keep this commentary in mind when reading the survey results.

"This exercise is essentially a rather pleasant one, as the majority of key variables in the South African economy continue to point towards relatively strong GDP growth. In fact, the country is currently enjoying its longest sustained growth phase in modern history. The current upward phase of the business cycle has endured for 93 months, which is more than double the previous record of 44 months (recorded on two occasions, once during the early 1960s and once during the late 1970s).

Some caveats

Unfortunately, however, the economic landscape is not without its blemishes. The first and most obvious problem area is higher price levels, caused mainly by the weakening of the domestic currency between April and October 2006, the higher oil price, weak agricultural output and the inability of the public sector to contain administered prices.

The reaction of the South African Reserve Bank has been to implement policies designed to "cool down" the economy (just as the 5% GDP growth level was breached), which casts doubt on the country's short term ability to reach government's official economic growth target of 6%.

A return to stricter monetary policy has resulted in five successive interest rate increases between June 2006 and June 2007, raising the prime overdraft rate to 13%. As a result, the cost of capital for business has increased by 24%, a significant portion of which will undoubtedly be shifted forward to consumers.

A second area of concern is related to an over-regulated economic environment, particularly the country's rigid labour legislation. According to a variety of authoritative economic researchers, rigid labour legislation continues to reduce the willingness of employers to take on more permanent staff, whilst labour law bias in favour of trade unions also continues to place a damper on inward flows of foreign direct investment.

A third key obstacle to higher economic growth is the parlous state of the country's economic infrastructure. Thirteen years of democratic rule have witnessed a welcome return to fundamental macroeconomic stability, including low inflation and a sharp decline in the public debt/GDP ratio.

This has come at a high cost however, with serious neglect of the maintenance of the country's roads, harbours, water reticulation system and electricity supply network. Furthermore, an alarming lack of vision from the relevant authorities has resulted in virtually zero new capacity being created, despite the obvious sustained expansion of economic growth. The electricity situation has become quite precarious, with Eskom issuing warnings of blackouts for several years to come as it faced regular outages of electricity generating units.

A fourth impediment to increased momentum in the rate of output growth is the skills shortage. Figures quoted by Azar Jammine of Econometrix indicate that the country needs 21,000 teachers per annum, but only 5,000 teachers qualify each year. In 1975, 33,000 apprentices registered for artisan training. In 2004, this figure had dropped to a paltry 1,400. Furthermore, the current state of affairs at the Department of Home Affairs is not conducive to the obvious need for a more pro-active and flexible migration policy, exacerbated by the strong global demand for highly skilled workers.

Positive trends

Fortunately, positive trends in key indicators outweigh the above obstacles to growth by a considerable margin. These include the following:

- Fundamental macroeconomic stability, as reflected in a budget surplus; single-digit inflation; positive real interest rates; a strong balance of payments; and 14 successive years of positive real GDP growth.
- Three successive years of substantial fiscal revenue overruns that have collectively transformed a twenty-year period of negative government saving into prospects for sustained balanced current expenditure budgets.
- Prospects for lower interest rates toward the end of 2007, due to a fairly stable currency, the possibility of lower oil prices and lower levels of domestic consumption expenditure.
- The continued impact of the 2010 Soccer World Cup, which is stimulating economic activity in a large variety of sectors.
- Indications of a long-term upward trend in commodity prices as the world's two most populous nations (China & India) continue to record high real growth rates.
- Strong formal sector employment creation since 2003, which has enlarged the size of the country's middle class and, as an inference, has broadened the base of both taxation and aggregate demand in the economy.
- Exceptionally high levels of domestic capital formation, which is more broad-based (in terms of the different sectors of the economy) than at any stage in the past three decades.

This list is quite impressive and depicts an economy that is capable of forging ahead at a growth rate of at least 5%. Viewed objectively, however, this probably represents a short to medium term growth ceiling.

The impediments to higher growth discussed above, combined with potential balance of payments constraints, will prevent South Africa from reaching the government's AsgiSA (Accelerated and Shared Growth Initiative for South Africa) growth target of 6% for at least until the country's electricity supply capacity has been expanded, skills levels improve and other supply-side deficiencies have been removed.

"For the time being, a growth rate of around 5% has become fairly predictable and is certainly an improvement on the average growth rate of only 3% during the first decade of democracy. Although it remains well below the country's potential growth rate, GDP growth of 5% should continue to facilitate a significant rate of formal sector employment growth *en route* to 2010."

Background information

There are currently 36 banks operating in South Africa, comprising:

- 20 registered banks (of which 5 are foreign controlled);
- 14 branches of foreign banks; and
- 2 mutual banks.

As at the end of March 2007 the five largest banks held approximately 90%, the foreign banks 8% and the other local banks 2% of the South African banking assets. The total banking assets have grown by 21% to R2 177 bn over the last 12 months to the end of March 2007.

As set out in the "Market Environment" section of the survey, the 21 banks participating in the survey employed approximately 129,000, people and operated approximately 2 900 branches and 17 000 automated teller machines.

Continued Proliferation and Burden of Regulation in the Banking Industry

"Banking Banana Skins 2006", the centre for the Study of Financial Innovation's survey of the risks facing banks, produced in association with PricewaterhouseCoopers, found that "too much regulation" was the top risk identified by the 468 respondents in 60 countries.

It was then no surprise to note that in the "South African Strategic and Emerging Issues Survey – 2007 Edition". participants firstly listed this as one of the **major developments** taking place in the South African market, and secondly, rated it as the **top pressing issue** out of 47 different pressing issues listed.

As noted by Andrew Hilton, director of CSFI, in the Banana Skins 2006 survey, "it can be said that banks don't collapse as a result of excess regulation. That is arguably true. But regulation is not a free good; it is added to the cost of every single financial product, and if it is excessive, that excess means we will all earn less from and (pay more for) the financial services that we purchase. Over-regulation also means that another row of bricks will have been added to the barriers that keep new entrants out of the banking industry – and that, inevitably, means less competition, less innovation and generally higher charges. So, while over-regulation is seldom a catastrophe for individual institutions, it can be devastating for the system as a whole."

The *Business Day* of 8 June 2007 further reported that SA bank compliance costs an estimated R2 bn and that the number of laws governing the banking industry has shot up from 106 in 1990 to 232 currently.

It remains, however, important to emphasise the necessity of an appropriate level of regulation to ensure the proper functioning of financial markets and provide adequate protection for depositors and consumers.

Implementation of Basel II

The South African Reserve Bank (SARB), National Treasury, local banks (mainly the five largest South African banks), the South African Banking Association, The South African Institute of Chartered Accountants (SAICA), and a number of other role-players have all put a significant effort into the preparation for the implementation of Basel II, scheduled for 1 January 2008.

A number of processes on the road to implementation have been completed by the end of 2006, including the establishment of an Accord Implementation Forum (chaired by the Registrar of Banks), submission and evaluation of Quantitative Impact Studies (QIS) 1 to 5, drafting of relevant legislation, informal and formal field testing, and on-site visits by the SARB to banks.

Outstanding issues for 2007 include:

- the processing of the Internal Ratings Based (IRB) approach applications for credit risk from banks;
- Tier 3 guidance from SARB;
- concluding outstanding memoranda of understanding (MOU's) and refining them;
- approval by the SARB of External Credit Assessment Institutions (ECAI's);
- a parallel run by banks on the new Basel II compliant Banks Act (BA) forms in the fourth quarter of 2007; and
- the finalisation of the banking legislation, of which the Banks Amendment Bill will be tabled in Parliament later this year, and we understand that the new Regulations to the Banks Act will be presented to the Minister of Finance for signature in the third quarter of 2007.

At the time of conducting this survey, a formal decision by the SARB on the minimum capital ratio for South African banks, (10% at present compared to 8% set in both Basel I and Basel II) is still outstanding. Basel II provides for the opportunity of setting the capital requirement of 8% in Pillar I, together with additional percentages for country risk and any "supervisory" add on's.

The number of banks expected by the SARB to follow each approach under Pillar I are as follows:

		Registered Banks	Foreign Banks
Credit risk :	Standardised Approach	14	12
	Internal Ratings Based Approach (IRB)	5	2
Operational Risk:	Basic Indicator Approach	8	10
	Standardised Approach	10	3
	Advanced Measurement Approach (AMA)	1	1

Expanding on the implications of Basel II

Challenges for banks on the road to Basel II implementation remain a general skills shortage, the quality of data, current systems constraints and new system requirements - all adding to the burden of regulation.

Banks and regulators across the globe have spent a great deal of resources and energy to get ready for Basel II. It is not different in South Africa.

The proposed Amendments to the Banks Act are serving in parliament this year which will, when promulgated, enshrine Basel II in South African law. This is the culmination of more than three years of efforts from the SARB, the banks, the Banking Association and the accounting profession who have worked together through the Accord Implementation Forum to ensure South Africa is ready for Basel II in January 2008.

As with any large, and in this case a mammoth change, there is still some aspects which should bed down with time. Justice cannot be given to the complexity of Basel II in only a few paragraphs, but below are a few of the critical aspects that are likely to be on every bank's current agenda:

- The quantitative impact studies conducted by the SARB so far have assisted a great deal in getting banks used to reporting their existing numbers in terms of Basel II and have served to resolve most of the inconsistencies in interpretation. However, through our discussions with banks and the SARB, we understand there remain a number of areas which are still being addressed. As the banks and the SARB get more familiar with the new rules one would hopefully see greater consistency between the banks.
- To report under Basel II in terms of the proposed Banks Act ('BA') returns has required significant systems' changes. The effective working of which will only be fully tested through the dry run planned for the fourth quarter of this year. The banks and the SARB will have to work closely together to resolve any issues that this exercise may highlight before going live in January 2008.
- The banks adopting the Internal Ratings Based Approaches to Pillar 1 have been gathering data for a number of years and have invested heavily in models, systems and processes to meet the regulatory hurdles for these advanced approaches. Clearly the more robust a bank's data is, the more accurate the results will reflect the risk the bank is exposed to as determined by Basel II. This will require ongoing improvement in data quality and systems by those banks adopting the IRB approaches.
- The operational risk charge is one of the more significant changes brought about by Basel II and at present the majority of South African banks are targeting the more basic approaches to calculating operational risk. In an emerging economy such as South Africa, with relatively high margins, this will lead to a relatively high capital charge for operational risk. As a result most of the larger banks are investing heavily in systems and processes which will enable them to target the Advanced Measurement Approach. However, banks should not underestimate the challenge involved in reaching this goal.
- Lastly, we understand the SARB has communicated what their approach to Pillar 2 will be and they are in the process of conducting their reviews of the banks' Internal Capital Adequacy Assessment Processes ('ICAAP'), however, this will evolve over time and we may see further refinement of the Pillar 2 charges in future. With more certainty on the goal posts, banks need to finalise their capital planning to ensure they continue to meet their targeted capital adequacy ratios under Basel II.

Recruitment of good personnel

After **concerns about crime levels, recruitment of good personnel** was listed as the second most important macro issue to banks' operations in South Africa. Examples of personnel in short supply include:

- qualified and experienced investment banking professionals;
- risk managers; and
- resources to implement the onerous Basel II requirements.

Implementation of National Credit Act

The National Credit Act (NCA), which was promulgated in 2006, contained three phases with implementation dates as follows:

Phase 1	Registration	28 July 2006
Phase 2	Credit Bureau information established	1 September 2006
	Tribunal established	1 September 2006
Phase 3	Registration of debt councillors	1 June 2007
	All other sections effective	1 June 2007

Following the greater momentum of consumerism in South Africa, the NCA was enacted to enforce consumer protection and to establish a more accessible and competitive credit market with a consistent enforcement framework.

Steps for banks to follow before credit is granted, include:

- checking of the customer's credit record;
- recording of all the customer's information;
- conducting an affordability test;
- requirement for a customer to sign a declaration of details provided;
- quotes to be given by the bank; and
- requirement for the customer to sign the credit agreement.

The NCA provides for penalties for unlawful agreements, unlawful provisions in credit agreements, reckless lending and non-compliance with an order of the Tribunal.

Consequently the requirements of the NCA should not be underestimated and have led to changes:

- to IT systems. (The *Financial Mail* quoted Johan Geldenhuys of Absa saying that "Absa has had to re-work about 1 400 forms, contracts and letters" and "the greatest change for Absa, he says, was the introduction of a quote system...".)
- in market share (it may open a new market for banks, but also restrict credit growth overall);
- in client interaction;
- in credit granting policies (ie, these are now subject to scrutiny as to why credit was not granted, and customers are entitled to receive copies of credit bureau information);
- in monitoring and reporting (including compliance reports, statistical returns, etc); and
- in collection processes (which includes an extensive debt counselling process, the consumer's rights to a debt counsellor etc).

Conclusion

The comments above only touch on the complexity of some of the issues raised in this survey which we trust that bankers, observers and others working in the banking industry will find of interest.

Executive summary

Background

This survey focuses on strategic and emerging issues in South African banking.

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 managing directors and senior executives of 21 banks, 13 of whom are foreign-owned and eight of whom are domestically-owned (Absa is still included in the latter category within the Big Four group, as well as Mercantile Bank in the domestically-owned banks, to protect confidentiality).

The participants in 2007 closely match those involved in the 2005 report. One exception is the removal of Barclays Bank as a result of the Absa acquisition.

The interviews with participants were approximately one hour in length and were conducted in Johannesburg during February and March 2007.

The domestic participants included Absa Bank (even though it is controlled from Barclays in the UK), African Bank, FirstRand Bank, Investec Bank, Mercantile Bank (even though controlled from Portugal), Nedbank Group Ltd, Sasfin Bank and The Standard Bank of South Africa.

The foreign participants were ABN AMRO Bank NV, Calyon, Citibank NA, Commerzbank AG, Deutsche Bank AG, Dresdner Bank AG, HSBC, JP Morgan Chase Bank, Société Générale, Standard Chartered Bank, State Bank of India, The South African Bank of Athens and UBS.

Main findings

The following findings are based on personal interviews with 21 banks, which are judged to represent a sound and comprehensive overview of the South African banking industry. The main findings are summarised below:

Most important developments

The regulatory environment featured strongly in the banks' review of important developments. The widely held view was that regulations will continue to proliferate across the financial sector. The regulatory environment is now seen as the most important driver of change.

Major developments include the Competition Commission's Bank Enquiry, which is due to report at the end of July 2007, the implementation of the National Credit Act, the pending implementation of Basel II on 1 January 2008 and the on-going demands of the Financial Sector Charter.

Bankers' criticisms of the financial system

There was a close correlation between many of the developments mentioned above and criticisms of the financial system.

In contrast to the 2005 report, no mention was made of a perceived cartel-like approach by the Big Four banks. Instead, many participants drew attention to perceived poor service levels in the retail banking sector.

Capital adequacy and reserve requirements attracted criticism from the foreign banks, many of which are concerned about their ability to generate adequate profitability.

The retail bankers expressed concerns around the roll out of the National Credit Act. Credit extension strategies were criticised by some of the participants.

Several foreign bank participants indicated that they believed that the large domestic banks were using high margins in the retail sector to cross-subsidise their corporate bank operations.

Market competition

Within the six different market sectors reviewed in terms of competition, the home mortgage market is considered to be the most competitive. It has replaced corporate banking as the most competitive market. Internet banking is the least competitive segment.

Pressing issues

Issues requiring immediate attention included new compliance and regulatory requirements, profit performance and revenue growth. Some notable contrasts were identified between the domestic banks and the foreign banks.

A new category of macro or industry-wide issues, placed crime at the top of the agenda followed by the need to find good personnel, affirmative action and employment equity.

Marketplace evolution

The number of banks that consider South Africa to be an overcrowded banking market continues to decline.

New entrants in key niches have emerged in both the retail and wholesale sectors. The banks are becoming increasingly conscious of the widening demands of more informed and sophisticated retail consumers. Allied to consumer behaviour changes are far-reaching legislative reforms such as the National Credit Act.

The foreign banks are expected to continue to gain market share in the merchant and investment banking sector, but participants are much more circumspect on their ability to do so in retail banking.

Emerging issues

Although the banks believe that BEE funding structures exceed normal, commercial risk, their assessment of the degree of risk in such deals has declined since 2005.

Fewer banks expect future foreign investments in the domestic banks compared to 2005 and the majority believe that there will only be two large foreign-owned banks.

Domestic banks' issues

There appears to be a general satisfaction with progress on banks' assurance models.

Non-executive director training and education has gained wider acceptance.

A number of domestic banks have completed acquisitions in the last year and the most popular locations are Southern Africa followed by East Africa, West Africa and Asia.

Foreign banks' commitment

Approximately half of the foreign banks interviewed indicated that South Africa was an important market for their parent banks. It is encouraging to see that many foreign banks expect their parent banks to increase their level of commitment by 2010.

Future optimism

The banks predicted significant revenue growth in 2007 and over the next three years to 2010. A breakdown of credit book projections for six business lines further supports the top line growth forecasts. Corporate banking continues to manifest steady growth, while two banks indicate 50% annual growth in micro lending.

Profitable sectors

Several banks recorded very strong levels of performance in retail banking, credit cards, merchant banking, treasury, micro lending and brokerage. Commercial property has also delivered very satisfactory performance.

Areas of greatest success

Twenty-five different markets were reviewed in terms of current success and future importance. For the first time they have been displayed in the context of retail banking and wholesale banking. **Retail** segments that were considered very successful include retail lending, credit cards, home loans and life insurance. On the **wholesale** side the most successful markets included capital markets, foreign exchange, stock brokerage and treasury.

Ongoing issues

Fewer banks predict a need to change their business models over the next three years, which suggests a degree of satisfaction and stability with their current strategies.

The banks predict an increase in the role and number of traditional bank branches.

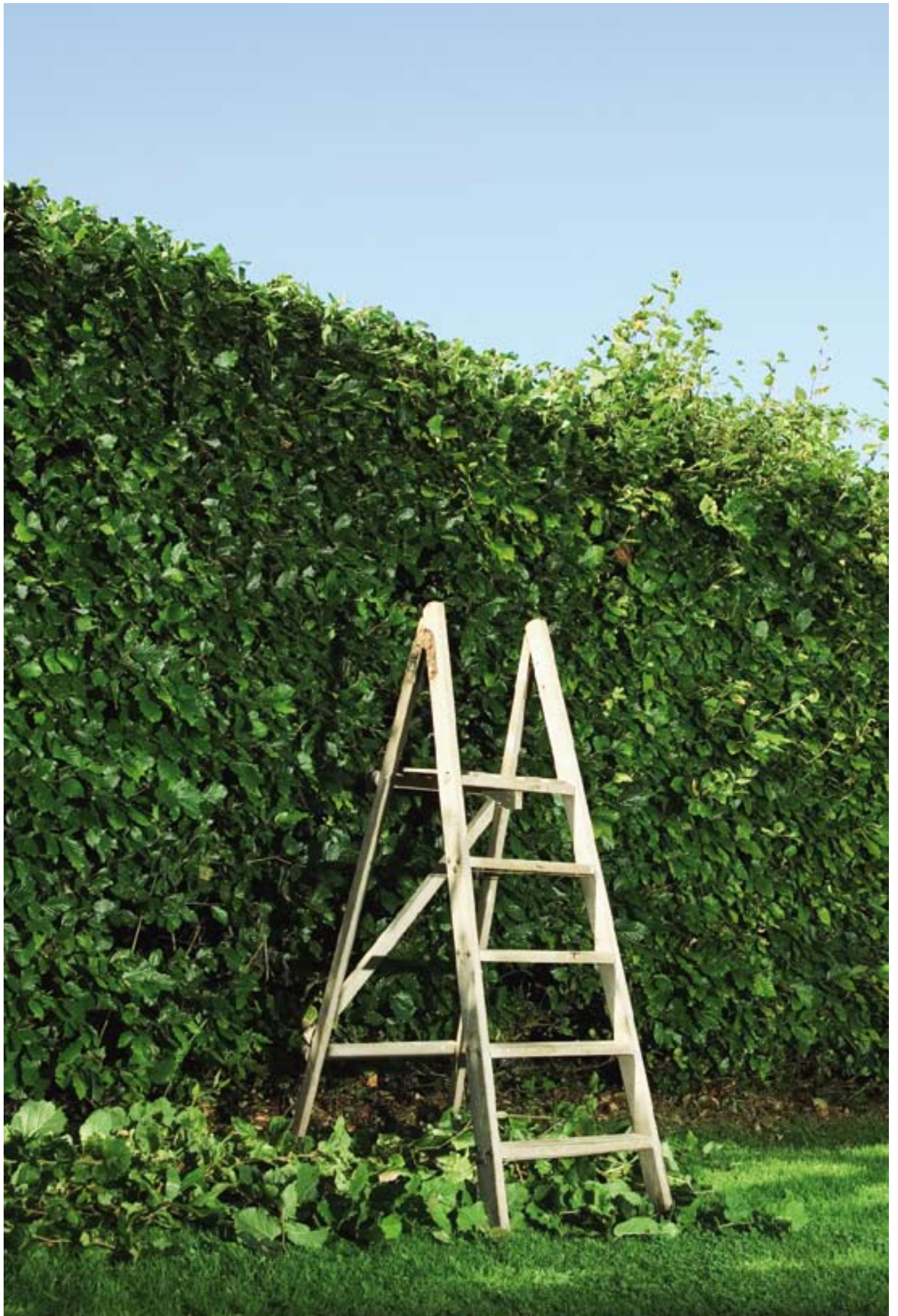
The banks have made sound and steady progress towards the implementation of Basel II on 1 January 2008.

Peer ranking

The top ranked bank/financial institution in each category based on peer ranking is shown in the table below (comparisons are shown with the rankings for the two previous Strategic Issues reports). In 2007 there are two new categories, Retail Brokerage and Trade Finance.

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.

	2007	2005	2003
Corporate Banking	Standard Bank	Standard Bank	Standard Bank
BEE Deals	FirstRand (RMB)	FirstRand (RMB)	
Listings	Standard Bank	FirstRand (RMB)	Deutsche Bank
Mergers and Acquisitions	FirstRand (RMB)	JP Morgan Chase	FirstRand (RMB)/ Standard Bank
Foreign Exchange Trading	Standard Bank	Standard Bank	Standard Bank
Structured Finance	FirstRand (RMB)	FirstRand (RMB)	FirstRand (RMB)
Bonds and Derivatives	Standard Bank	Standard Bank	Standard Bank
Money Markets	Standard Bank	Standard Bank	Standard Bank
Brokerage – Institutional	Deutsche Bank	Deutsche Bank	Deutsche Bank
Brokerage – Retail	Investec		
Retail Lending and Deposits	ABSA	ABSA	ABSA
Retail Mortgages – Home Loans	ABSA	ABSA	FirstRand Bank (FNB)
Vehicle Financing	FirstRand (Wesbank)	FirstRand (Wesbank)	FirstRand (Wesbank)
Internet Banking	ABSA/ Standard Bank	ABSA	ABSA
Private Banking	Investec	Investec	Investec
Private Equity Investments	Ethos	FirstRand (RMB)/ Ethos	Ethos
Micro Lending	African Bank	African Bank	
Commercial Property Finance	Investec	ABSA	
Trade Finance	Standard Bank		



Market environment

Background profile

Number of retail customers

The Big Four banks together with African Bank had 35.2 million bank accounts in 2007 and they expect this total to increase by 24.8% to 43.9 million by 2010. In the 2005 survey the Big Four banks estimated that they had 31.2 million accounts and projected they would have 35.4 million accounts in 2008.

Number of Mzansi accounts

The Government has published data that the number of Mzansi accounts now exceeds 3 million. Several of the Big Four banks have made significant increases in the number of Mzansi accounts. One example had more than doubled its number since 2005. However, the totals provided fall short of the 3 million total mentioned above. This may be because of the inclusion of the Post Bank accounts, which the Banking Association in 2005 suggested made up over 25% market share.

Number of employees

The Big Four banks employ 120,000 people at present. They expect employment to expand by 9.2% over the next three years to 131,000. This contrasts with their 2005 to 2008 prediction that growth would remain flat. Three banks expect growth of approximately 3,000 to 4,000 employees while one expects less than 1,000 new employees.

The 21 banks in the survey employed 128,893 rising by 9.8% to 141,515 by 2010.

The 13 foreign banks employ 1,795 people and predict strong growth to 2010 to 2,635 people. Seven foreign banks predict growth of 50% or more by 2010. One foreign bank predicts zero growth

Number of branches

The Big Four banks, in keeping with the 2005 report, continue to emphasise the need for physical branches. In 2005 they predicted a total of 2,700 branches by 2008.

In 2007 they indicated that they have 2,692 branches and expect to increase that total to 2,953 or almost 10%, by 2010.

Number of ATMs

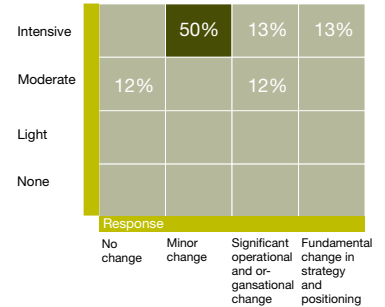
There has been a significant growth in the number of ATMs over the last two years. The Big Four banks currently have 17,046 ATMs and this is expected to grow by 14.3% to 19,486 by 2010.

In 2005 the Big Four banks predicted 14,428 ATMs by 2008. This has already been significantly surpassed. One of the Big Four banks predicts an above-average increase in its ATM distribution (these totals include an estimated 2010 projection for one Big Four bank).

Competition in the marketplace

Overall retail banking

In 2005 two thirds of the banks viewed retail banking competition as intensive and two thirds recorded significant or fundamental changes. In 2007 the intensity has increased to 76% while only three banks have made significant or fundamental changes. Half the group made minor changes to retail strategy in 2007.

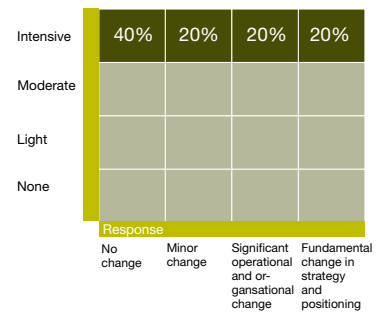


Note: Based on responses from 8 banks
Shading represents greater than 20%

Home loans

The home loan market is unanimously viewed as intensively competitive, while 60% have made minor or no change.

The buoyant economy is reflected in this competitive marketplace.

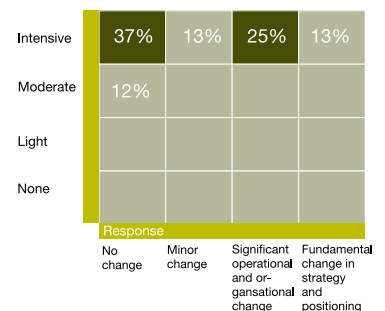


Note: Based on responses from 10 banks
Shading represents greater than 20%

Vehicle financing

Only one bank declined to categorise vehicle financing as intensively competitive.

Three banks have made significant or fundamental changes to vehicle financing strategies.

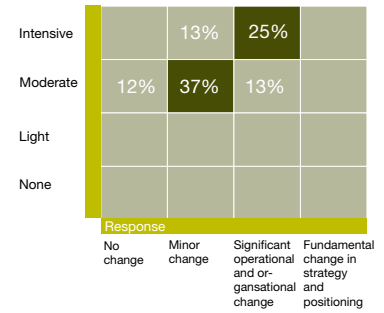


Note: Based on responses from 8 banks
Shading represents greater than 20%

Internet banking

Internet banking relationships appear to be relatively stable, with the result that this distribution channel is seen as moderately rather than intensively competitive.

In 2005 two banks recorded light competition; this viewpoint has now disappeared.

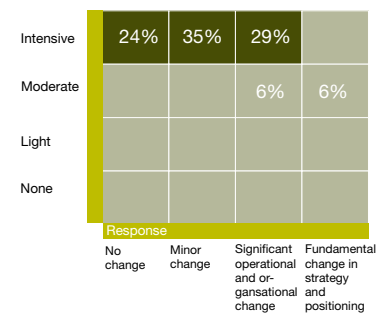


Note: Based on responses from 8 banks
Shading represents greater than 20%

Corporate banking

Although corporate banking continues to be viewed as more competitive than investment and merchant banking below, two banks consider it moderately competitive.

Fifteen banks, as in 2005, view it as intensively competitive.

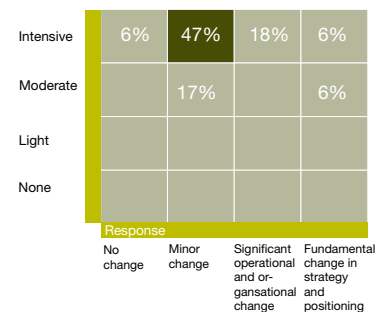


Note: Based on responses from 17 banks
Shading represents greater than 20%

Investment and merchant banking

The majority of banks have made little or no change to their investment banking strategy, although two banks recorded fundamental changes.

This response closely mirrors that given in the previous report.

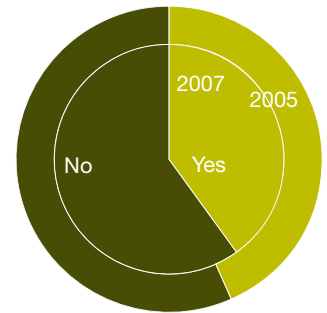


Note: Based on responses from 17 banks
Shading represents greater than 20%

Q Do you believe that the banking market is overcrowded?

The number of banks that believe the market is overcrowded has declined from 10 banks to eight banks in 2007. This contrasts with the pre-A2 bank demise in 2002 when 88% of participants said the market was overcrowded. Today only 40% of participants believe the market is overcrowded.

It was, however, recognised that the market is overcrowded and very competitive in certain key segments, such as corporate finance, foreign exchange, credit cards, etc. One participant acknowledged that there was always space for new players, but the barriers to entry remain high. Another commented that on the wholesale side, new players such as Macquarie Bank and Morgan Stanley had appeared.

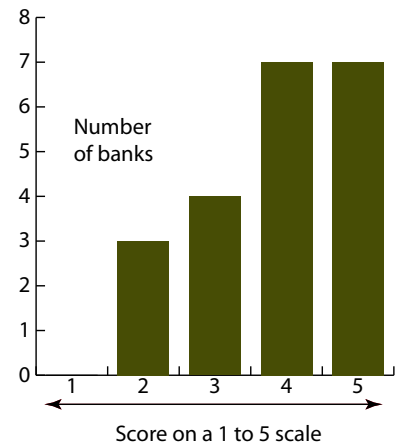


Based on responses from 20 banks in 2007

Q On a scale of 1 to 5 (where 5 is very important), how important is consumerism in South African banking?

The plethora of new consumer orientated legislation and, increasing consumer sophistication and awareness suggests that the banks are aware of the growing demands of consumers.

Two thirds of participants recorded a '4' or '5' on the importance scale, which is an increase over the 2005 response.

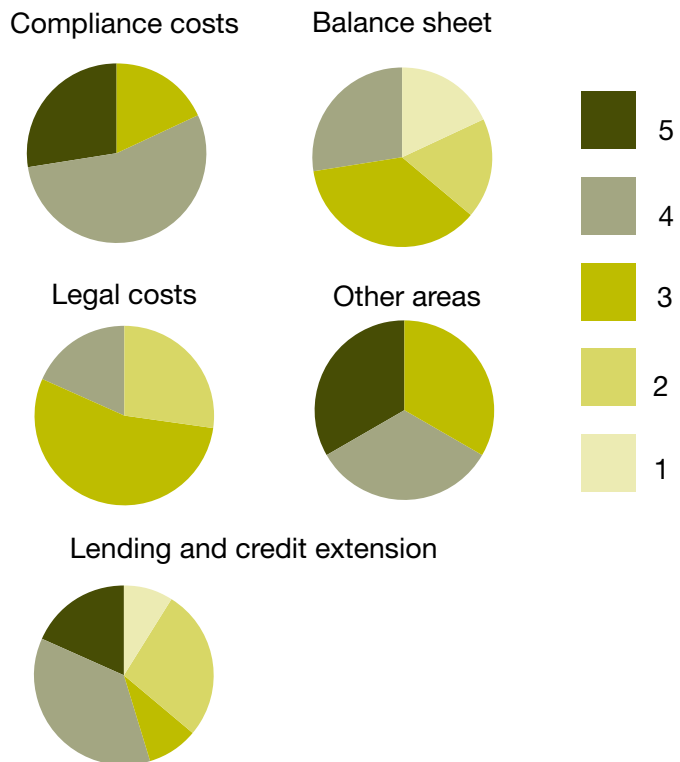


Based on 21 banks reporting

Q On a scale of 1 to 5 (where 5 is greatest) can you rate the impact of the National Credit Act on your business in the following areas?

The National Credit Act is now in place and in comparison with responses to this question in 2005, when the legislation was still at the Bill stage, the bankers now believe that the impact will be particularly pronounced in areas such as compliance, legal costs and lending and credit extension.

For example, seven banks recorded a '4' or '5' in 2005 while nine banks indicated a '4' or '5' in 2007.



Q Over the next three years the foreign banks' market share relative to the Big Four banks will... in the merchant and investment banking sector; in the retail banking sector; increase/ remain the same/ decrease?

Several important changes occurred in response to this question in 2007 versus 2005.

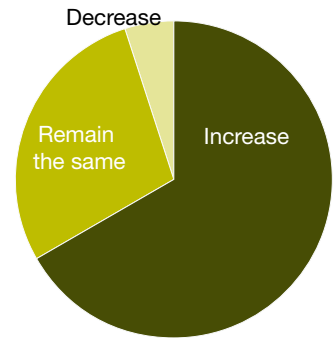
While the banks still predict that the foreign banks' market share relative to the Big Four banks will increase in the merchant and investment banking sector, the percentage has declined.

Comments related to this included the impact of capital markets, a growing trend of disintermediation and a loss of appetite by the foreign banks for vanilla lending.

In 2005, the participants forecasted an increase in market share for foreign banks in the retail sector.

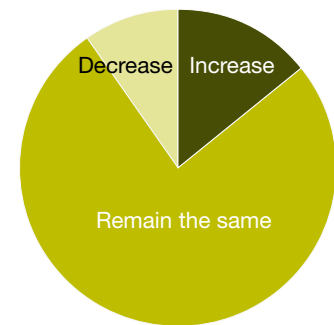
In the aftermath of the Barclays/Absa deal, 16 banks opted for the status quo, while two banks predicted a decrease in market share.

Merchant and investment banking sector



Based on responses from 21 banks

Retail banking sector



Based on responses from 21 banks

Q Can you describe the major developments taking place in the South African financial markets?

Regulatory environment

The participants predict a trend toward increasing regulations, with more and more regulatory intervention. This trend is anticipated across the breadth of the financial sector and is not limited to retail banking.

Competition Commission

The retail participants cited the Banking Enquiry, which is discussed later in this report.

Implementation of the National Credit Act

The participants noted that there were many unknowns associated with the National Credit Act (NCA), of which the main requirements came into effect on 1 June 2007.

Implementation of Basel II

The domestic banks emphasised the magnitude of resources that are being devoted to making Basel II operational in South Africa by 1 January 2008. This was a particular concern to the small domestic banks in the survey.

Financial Sector Charter

The banks cited the on-going process of meeting the requirements of the Charter.

Growth in credit

The banks cited the strong 20% plus annual growth in credit extension to the private sector. They predicted that there would be favourable growth in the retail banking sector until 2010.

Other developments:

The following developments were also mentioned by the participants:

- Sub-Saharan banking expansion, with South Africa as the powerhouse on the African continent;
- banking the unbanked;
- intensification of competition with a growth in alternative offerings, for example retailers, Virgin Money, MTN Money, Wizzit, etc;
- competition between banks for key management and specialist personnel;
- fund management asset growth;
- focus of large international equity funds on listed South African assets and pools of assets;
- increasing use of international financial markets for debt fund raising;
- derivatives market controlled by a few banks (although the derivatives market has expanded it was felt that it was controlled by a small group of banks);
- increase in leveraged buyouts (not BEE related);
- growth in the black middle market;
- private equity growth;
- revamping of trading systems at the JSE with the Orion Project;
- rising tide of consumerism; and
- one bank mentioned a resurgence in corporate credit demand.

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

Many of the criticisms raised by the participants relate to the new developments mentioned on the previous page.

Implementation of the National Credit Act

The participants cited the uncertainty surrounding the implementation of the NCA.

Unsatisfactory service levels

Both domestic and foreign bankers acknowledge that the level of service offered to retail customers needs significant improvement.

Capital adequacy and reserve requirements

The foreign banks believe that new capital adequacy and reserve requirements make it almost impossible to profitably fund their operations.

Over-extension of credit to the consumer

Some banks believe that there has been an over-extension of credit into the retail sector.

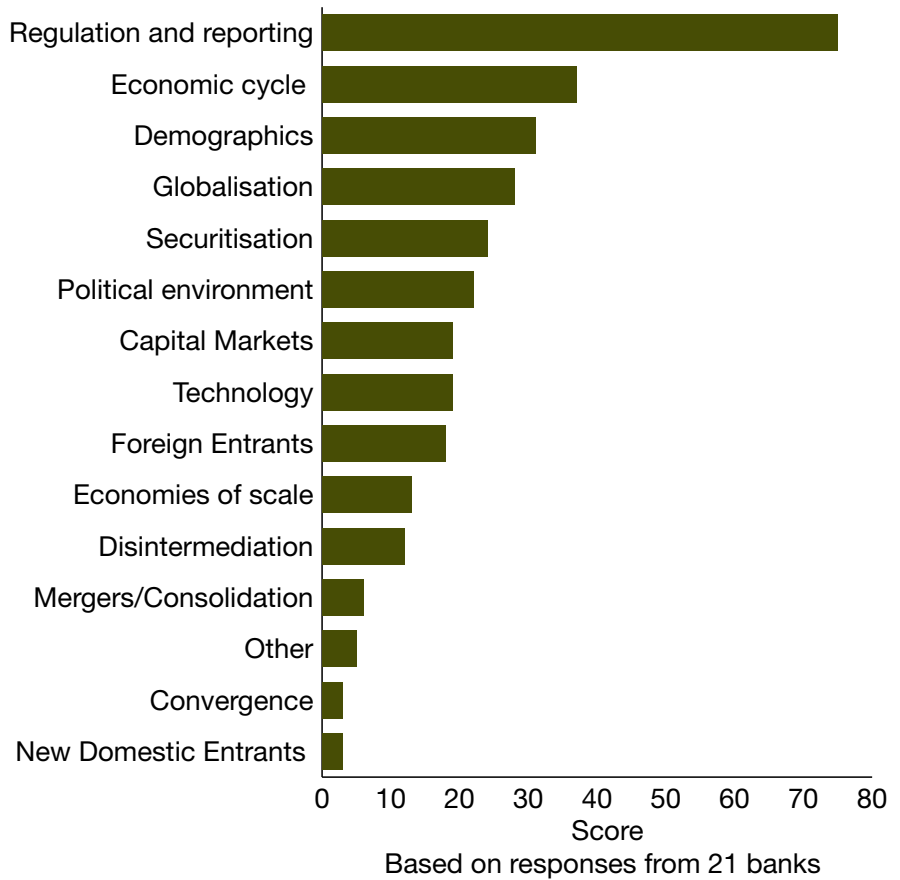
Other criticisms mentioned:

- Cost structures of banks remain too high.
- Lack of transparency and value for money.
- Exchange controls are still in place.
- The impact of an early transition to Basel II has been particularly burdensome for the smaller domestic banks.
- Corporates are spoiled by cross subsidisation from the retail banking sector.
- Reluctance to raise interest rates.
- Small foreign banks may leave – not generating enough return.
- First year that Financial Sector Charter return will be audited.
- Cross-border lending not permitted and banks would like to lend cross border.
- Crime has affected the recruitment and retention of talented personnel. There is a risk of further emigration and immigration is being inhibited, and a feeling that talented people are becoming more difficult to recruit.
- Alternative players from outside the banking sector are subject to less regulation.
- A concern about not lending to those in greatest need.
- Aggressive use of call centre marketing by the major institutions.
- High card fees.

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

In 2005, the proposed acquisition of Absa by Barclays Bank and the possibility of additional foreign interest catapulted Foreign Entrants to the most important driver position. In 2007, Foreign Entrants has fallen down the rankings to ninth position while the top three drivers are now seen as Regulation and Reporting, Economic cycle and Demographics.

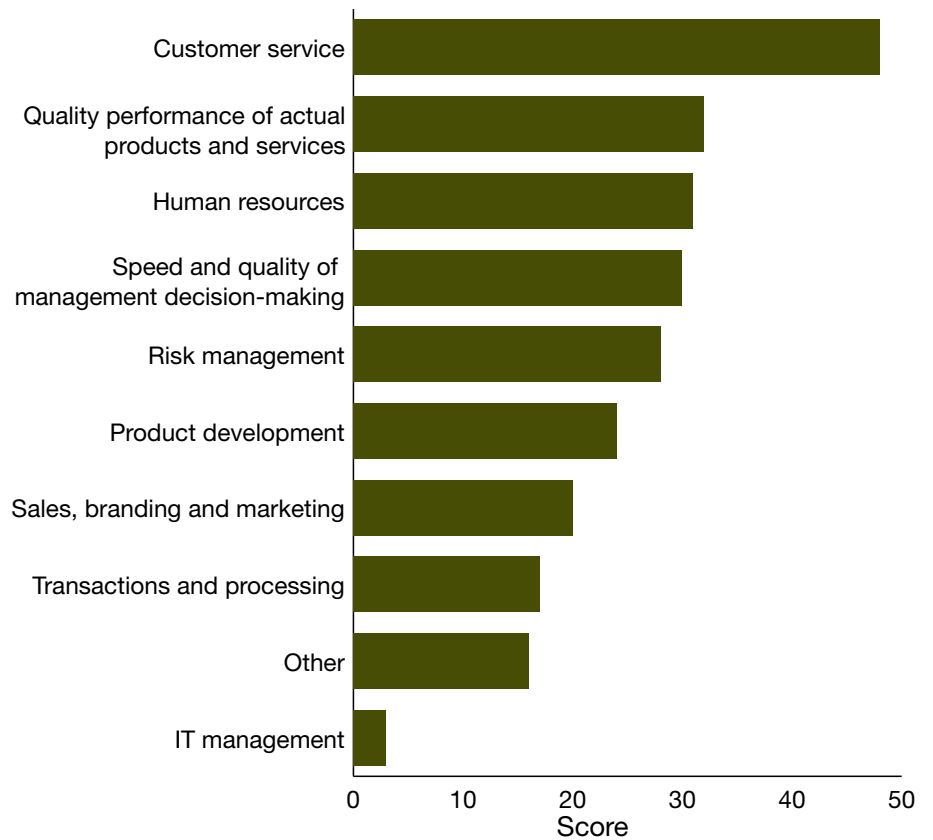
In 2002 and 2003 Technology topped the list, but again it has fallen dramatically to eighth position.



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

Despite criticism from consumers in the retail-banking environment, the participants, which include retail and wholesale banks, recognise that the key source of competitive advantage, by a significant margin, is customer service.

Other means of differentiating their services include actual service performance, human resources or the people side of the delivery and the speed and quality of decision-making. Interestingly, Sales, Branding and Marketing is located in seventh position.



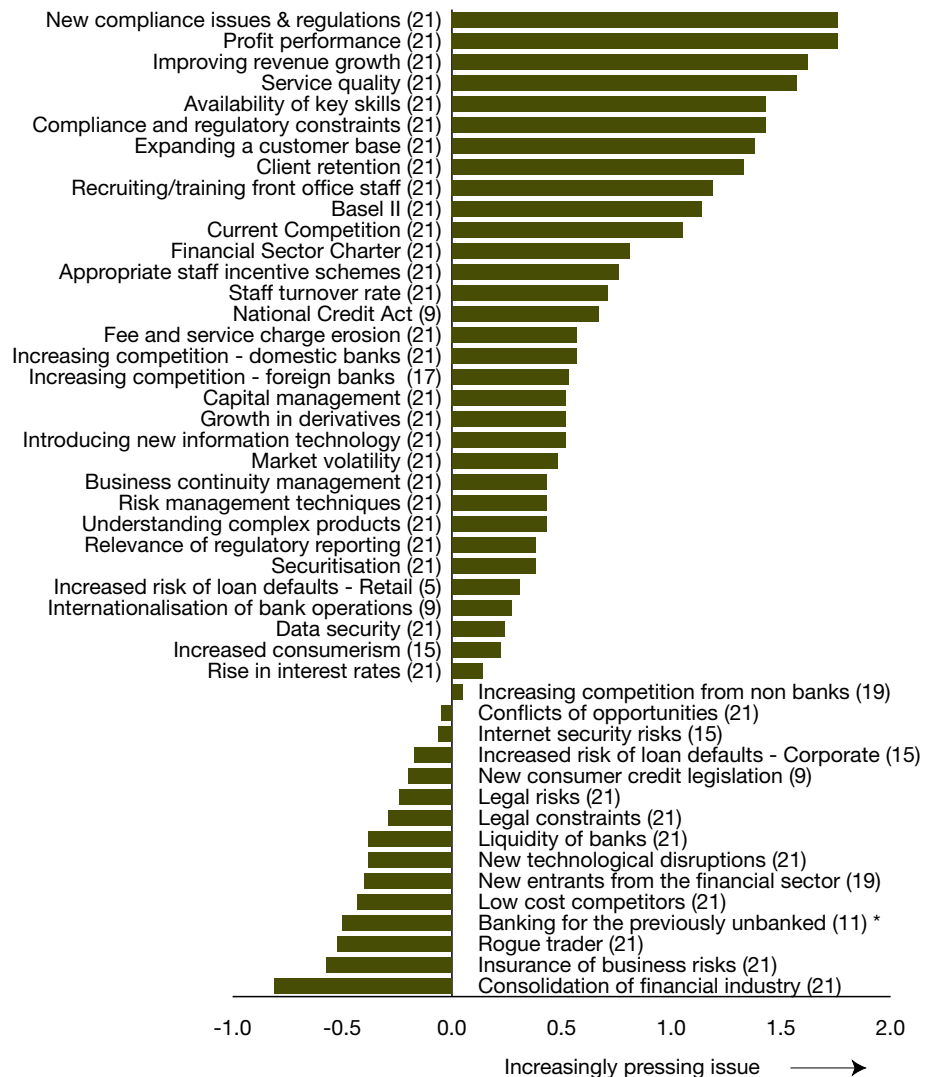
Based on responses from 21 banks

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

The most pressing issues question was further expanded this year to include 47 different factors. 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 three most pressing issues are now compliance issues and regulations, profit performance and improving revenue growth. Eleven different issues scored above 4 on a 1 to 5 scale.

The Financial Sector Charter was placed in 12th position.



Figures in parentheses show number of banks responding to that issue

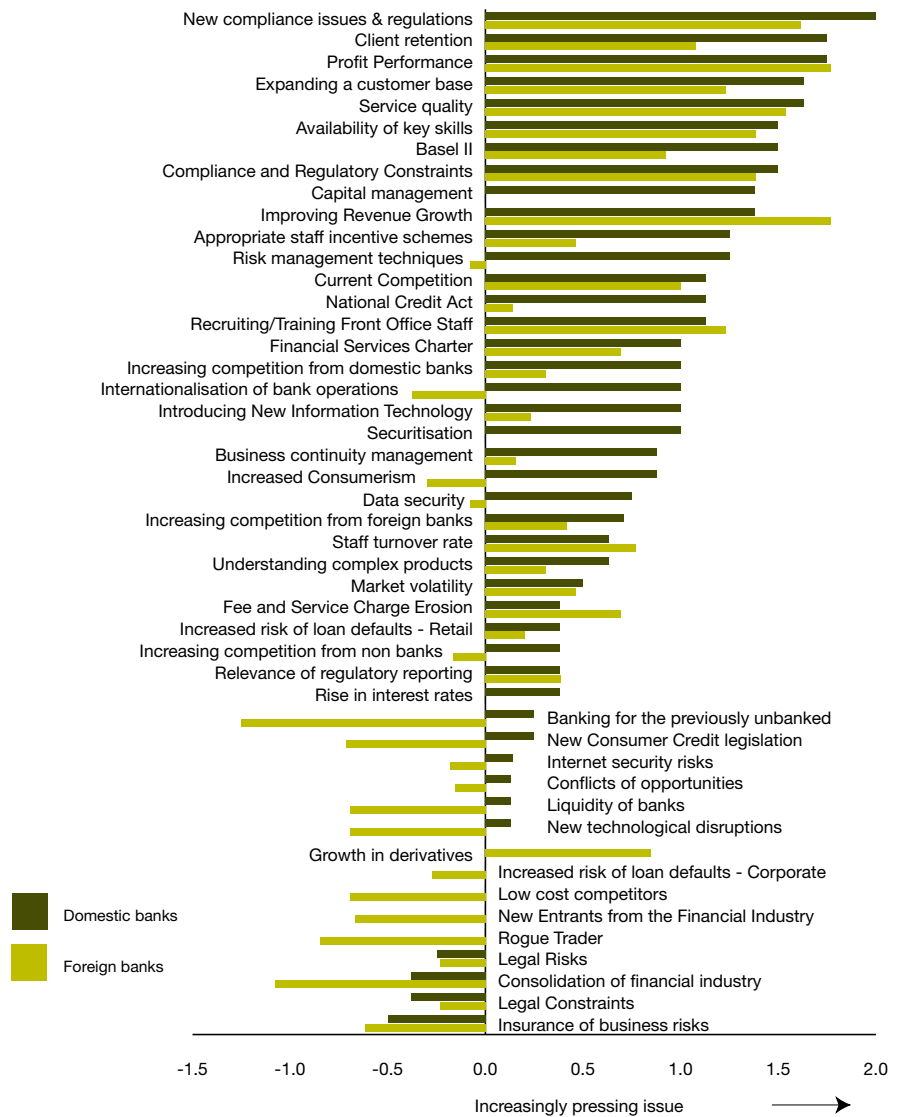
* This position is affected by the influence of the foreign banks on the overall score

**Pressing issues:
Domestic versus foreign banks**

The chart below separates the pressing issues for the domestic and foreign banks. It shows contrasts between the two groups.

For example the foreign banks record higher scores for issues such as improving revenue growth, staff turnover

and the growth in derivatives, while the domestic banks highlight client retention, Basel II, capital management, risk management and banking the previously unbanked.



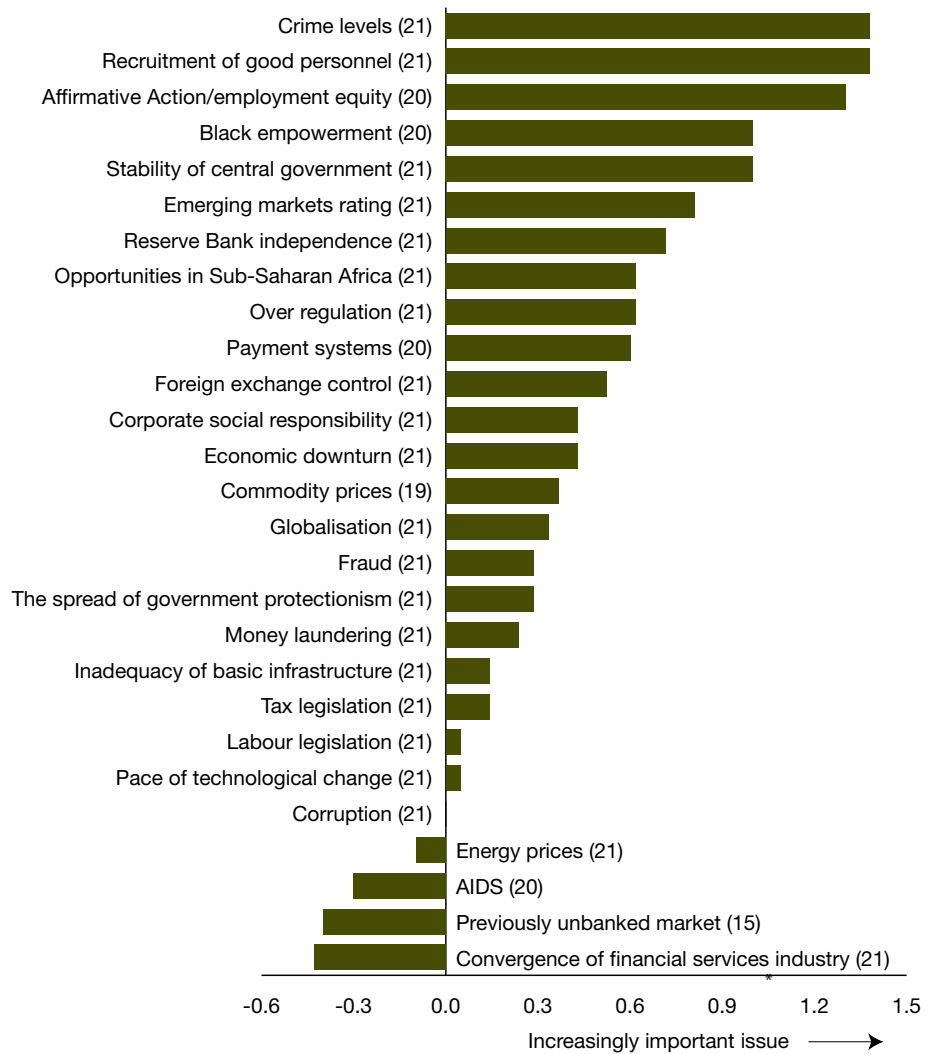
Based on responses from 8 domestic and 13 foreign banks

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?

For the first time a question on macro issues has been introduced. This question has helped identify a broad range of financial industry issues.

The two most important macro issues are Crime levels and Recruitment of good personnel.

These were followed by Affirmative action/employment equity and Black empowerment.



Figures in parentheses show number of banks responding to that issue

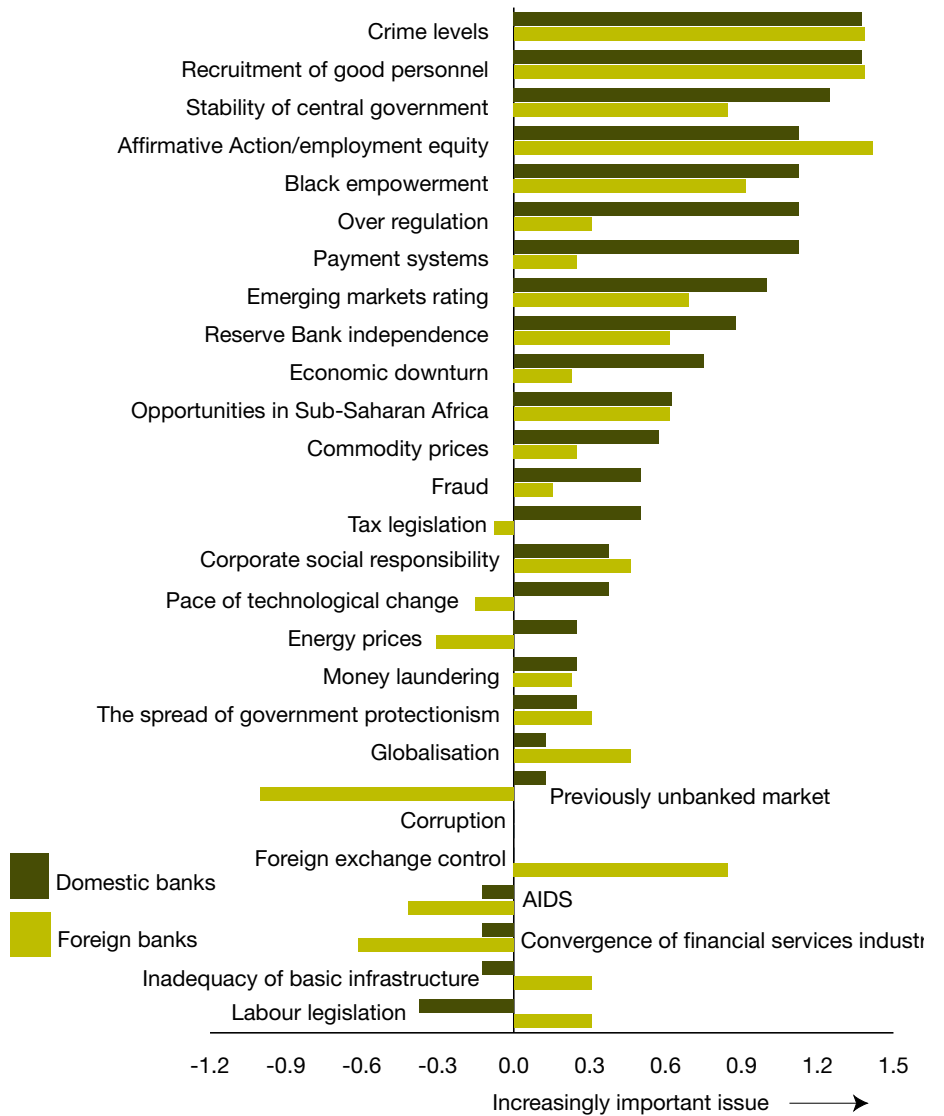
* This position is affected by the influence of the foreign banks on the overall score

**Macro issues:
Domestic versus foreign banks**

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.

Foreign exchange control was also identified as a more important issue by the foreign banks.

Opportunities in Sub-Saharan Africa were seen as significant by both the domestic and foreign banks.





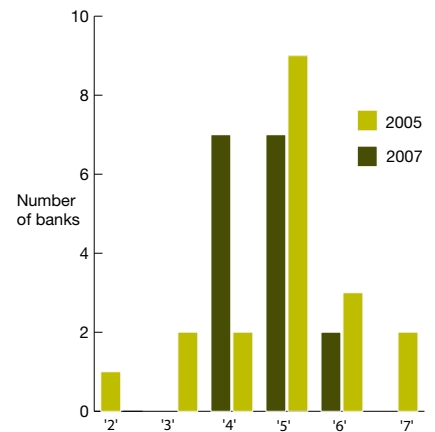
Emerging issues

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 banks continue to believe that there is a higher than normal level of risk associated with BEE funding structures.

On a seven point scale where '4' is considered normal, seven banks recorded '5' and two banks '6'.

The perceived level of risk has improved since 2005 when a larger number of banks scored above '5'.

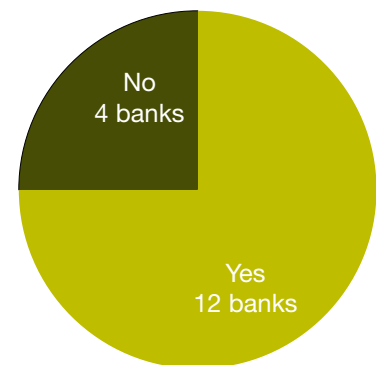


...where 4 is considered a "normal/commercial" risk

Q Do you anticipate further legislation on consumer protection?

The participants believe that there will be an on-going drive towards increased consumer protection.

Twelve banks indicated a belief that legislation will continue to be brought forward in this area.



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

Eighteen banks unanimously predicted demands for increased transparency on pricing and product comparisons.

They forecasted a "breaking of ranks" as banks addressed the growing pressure.

It is important to note that concerns surrounding bank charges is not unique to South Africa. In the last few years this has become an important issue in many developed and developing markets.

If one takes the UK market as an example, The Office of Fair Trading (OFT) announced a new indepth study of revenue bank pricing in March 2007. This will focus attention on bank current account charges.

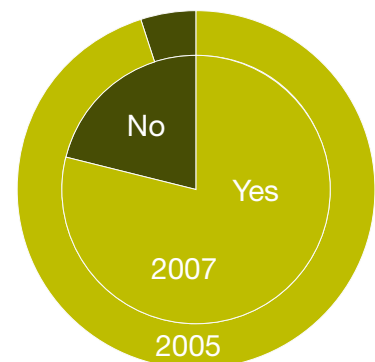
Credit markets are one of the OFT's five priority areas. Issues handled by the OFT in 2006 included credit and default charges, credit licensing, credit advertising and overseas credit card transactions.

It is the on-going process illustrated by the example of the UK's OFT that has led many South African bankers to conclude that competition and transparency of pricing will be an important issue going forward.

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

The participants continue to believe that there could be further foreign bank investments in the Big Four banks.

Four banks, however, indicated that this was unlikely to occur.



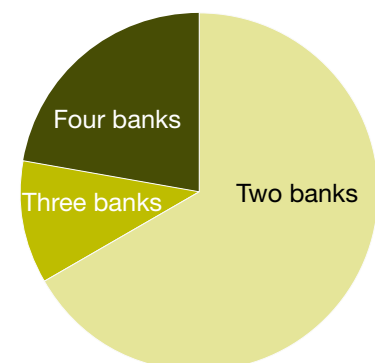
Based on responses from 19 banks in 2007 and 21 banks in 2005

Q How many foreign banks should be allowed to invest in the Big Four banks?

While the majority of participants believe that all four banks should be open to foreign investment, not all believe that such investments will be permitted.

The consensus suggests that at least two banks should be permitted foreign ownership, consequently only one further Big Four bank should be allowed foreign control.

One foreign bank commented that it would not be desirable to have all four banks under foreign ownership.



Based on responses from 9 banks

Q How many days training did non-executive directors receive in 2006?

Responses to this question on non-executive directors training varied by bank.

One bank said that their non-executive directors received ten days training, several said two days, one said five sessions associated with five board meetings and another indicated six hours.

Q How many days training will non-executive directors receive in 2007?

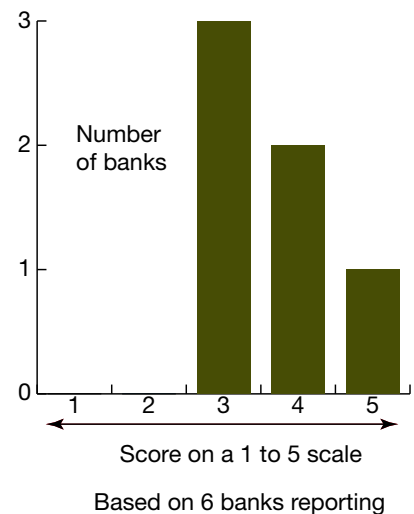
With regard to training in 2007, one said 10 days training, two said five days and one said two days.

Several mentioned the three-day programme offered by the Gordon Institute of Business Science (GIBS) which covers structural matters, financial risk, operational risk and Basel II.

Q On a scale of 1 to 5 how satisfied are you with your bank's progress on the success of bank assurance?

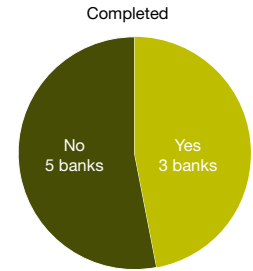
The banks indicated that they were relatively satisfied with the bank assurance model.

Three banks assigned a score of 4 or above.



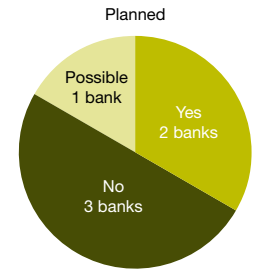
Q Have you completed a merger or an acquisition in the last year?

Three domestic banks reported that they had completed a merger or acquisition in the last year.



Q Are you planning a significant merger or acquisition in 2007?

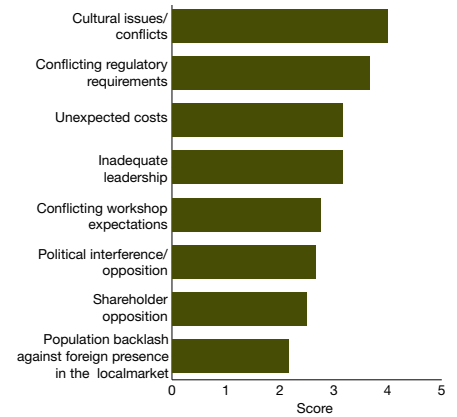
A further two banks suggested that they would undertake a merger or acquisition in 2007.



Based on responses from 6 domestic banks

Q What obstacles do you anticipate in any cross border merger or acquisition activity? (where 5 represents a major obstacle)

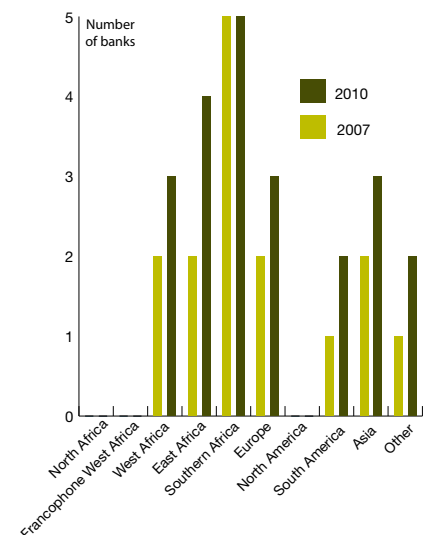
The most prominent obstacle in any acquisition was identified as cultural issues and conflicts. The banks also highlighted regulatory challenges, unexpected costs and leadership issues.



Based on responses from 6 banks

Q In which geographic areas have you already done a major merger or acquisition in the past year?

The most popular geographic areas for merger and acquisition activity are Southern Africa, East Africa, West Africa and Asia.



Q Or plan to make a major merger or acquisition by 2010?

North Africa and Francophone West Africa are not targeted as areas of potential for the next three years.

- Q On a scale of 1 to 10 where 10 represents maximum commitment.
- Q How committed is your parent to the South African market?
- Q What is your estimate of that commitment three years ago? What is your estimate of that commitment in three years time?

The 13 foreign banks provided a summary of their parent's commitment to the South African market. In 2007, this ranged from a score of 5 to 10 where 10 represents maximum commitment.

Six banks recorded a score of 8 or above. Seven banks forecasted that their parent's commitment would increase by 2010 and only one bank believed that it would decline.

In comparison to three years earlier, several banks recorded quite dramatic increases.

Two banks assessed that parent interest was as low as 2/10 in 2004 and eight banks in total calculated scores of 5 or below at that time.

	3 years ago	2007	2010	Change 2007 to 2010
Bank 1	2	5	7	2
Bank 2	7	9	9	0
Bank 3	5	7	7	0
Bank 4	6	8	9	1
Bank 5	5	7	7	0
Bank 6	10	10	10	0
Bank 7	4	6	5	-1
Bank 8	4	10	10	0
Bank 9	7	9	9.5	0.5
Bank 10	2	5	6	1
Bank 11	8	8	10	2
Bank 12	4	6	8	2
Bank 13	4	6	8	2
Average	5.2	7.4	8.1	0.7

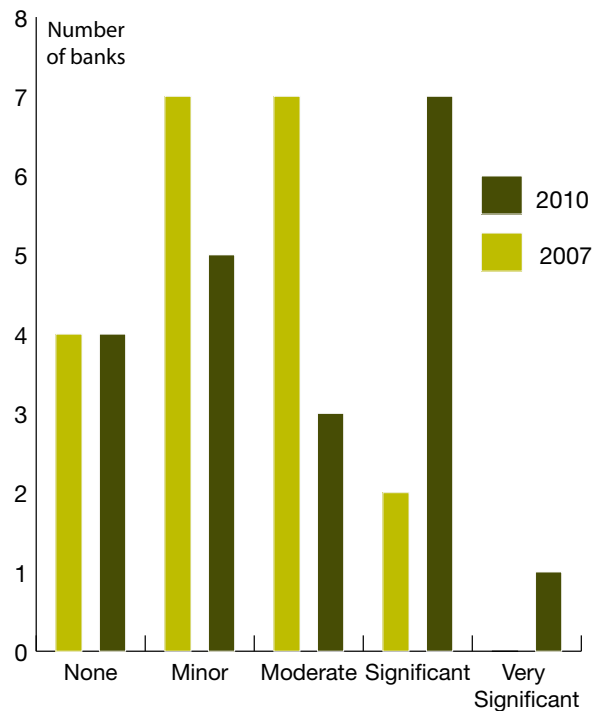
Q How important is outsourcing at present and how important is it expected to be in 2010?

In 2007, the banks attributed only minor or moderate importance to outsourcing. A change is, however, predicted by 2010 when seven banks believe outsourcing will become significant.

Areas where there is already outsourcing include cheque processing, cash handling, card collections, call centres,

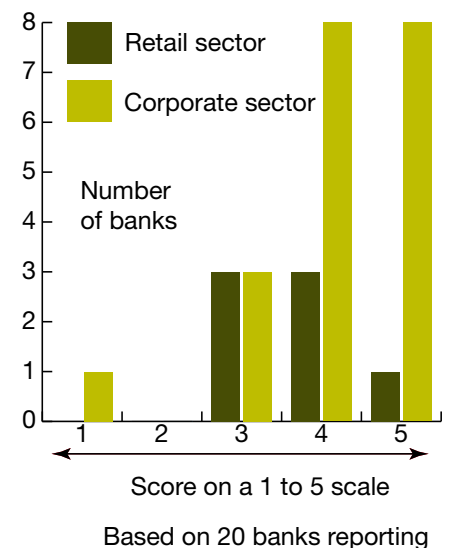
building management and information technology. BEE is viewed as a stimulant to outsourcing.

With regard to in-sourcing, some participants expect to have greater involvement in wealth management, third-party fund administration and systems development.



Q On a scale of 1 to 5 (where 5 is the maximum) how far has your bank progressed on risk adjusted pricing and portfolio management ?

The banks appear to have made good progress on risk adjusted pricing and portfolio management. This was particularly evident in the corporate sector where 16 banks assigned a strong score. On the retail side three banks recorded a '4' and one bank a score of '5'.



Q What do you believe will the final impact of the Competition Commission's enquiry into aspects of competition in retail banking and the national payment system be?

The general consensus amongst the 21 banks interviewed was that the banks would move toward greater self-regulation accompanied by more regulation.

Several participants predicted that market forces would become more apparent as the banks moved to more transparent and itemised pricing.

It was felt that the threat of legislation and moral suasion would inject new competitive energy into the Big Four banks.

One participant commented that there would be a huge amount of investigation before the Commission reached its final conclusion.

A *Business Day* article in May 2007 reported that the 'Big Four' banks were embroiled in a simmering price war, bidding to outdo each other by slashing their fees.

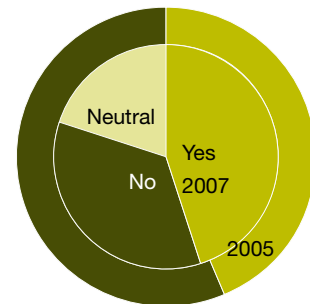
The Banking Enquiry timetable envisages Final Public Hearing between April and June 2007 with report writing commencing in July 2007 and the final report is expected by 31 July 2007 or soon thereafter.

Q Do you support the concept of deposit insurance?

In 2003 the banks were almost evenly split on the need for deposit insurance, with a slight majority in favour.

The banks continue to have a mixed view on the merits of deposit insurance.

Less than 50% of respondents indicated support and this included only two domestic banks.



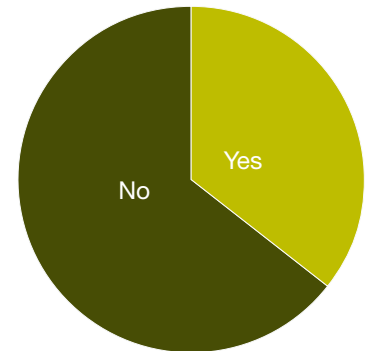
Based on responses from 20 banks in 2007

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

Only five banks believe that there will be a re-emergence of second tier banks over the next five years.

Those that believe there will be new banks formed suggested that one or two banks might be black-owned, they might have a small and medium sized (SME) corporate orientation or they may be formed by an insurance company.

Those who were more pessimistic, pointed to the high costs of regulation, the National Credit Act and the generally high barriers of entry.



Based on responses from 14 banks

The second Financial Sector Charter report will be released in July 2007.

The following statement was made during an address to the National Assembly by Mr Jabu Moleketi MP, Deputy Minister of Finance on 24 May 2007.

“I am glad to report that the financial sector is making good progress with regard to reaching the 2008 targets although there are some challenges.

Progress on meeting the five-year targets is as follows:

- In 2005 the financial sector had virtually achieved its R50 billion target for funding major black economic empowerment (BEE) transactions, set to be achieved only in 2008, and surpassed its R5 billion 2008 target for financing black small and medium enterprises (SMEs).
- Financial institutions have provided over R100 billion to targeted investments in support of SMEs, low-income housing, resource-poor farmers and developmental infrastructure.
- The number of Mzansi bank accounts for the period up to November 2006 is estimated to be in excess of 3 million.
- Over 73% of the approximately R16 billion of the sector's procurement was from BEE accredited suppliers.”



Performance

Q What is your estimate of the annual growth in revenues of your business for 2007 and over the next three years?

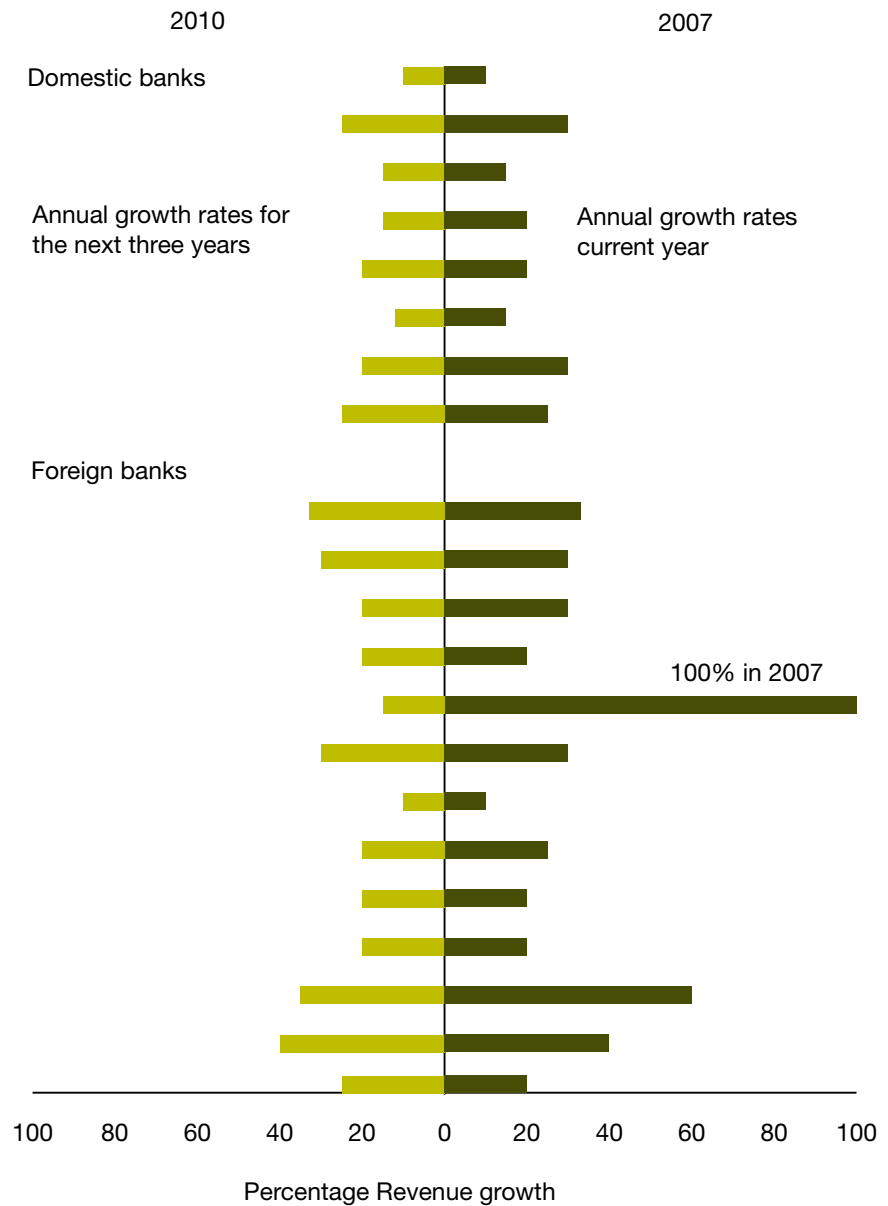
The chart indicates the rate of revenue growth anticipated by 21 respondents.

On the right side of the axis are the projected growth rates for 2007 and on the left side are the projected annual rates for 2010.

The domestic banks' growth rates range from 10% to 30% in 2007 and 10% to 25% in 2010.

Seven foreign banks anticipate revenue growth of 30% or greater in 2007, with one bank predicting 60% and another 100%.

Five banks predict 30% or greater revenue growth by 2010.

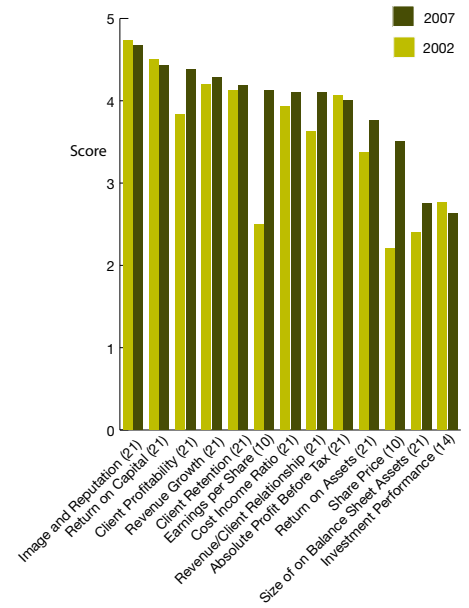


Q What factors are used to measure success in your bank's operations?

Image and reputation continues to be regarded as the most important measure for the banks as a whole.

This is followed by Return on capital and Client profitability.

Revenue growth and Client retention continue to be important measures of success while the cost/income ratio has dropped to seventh position.

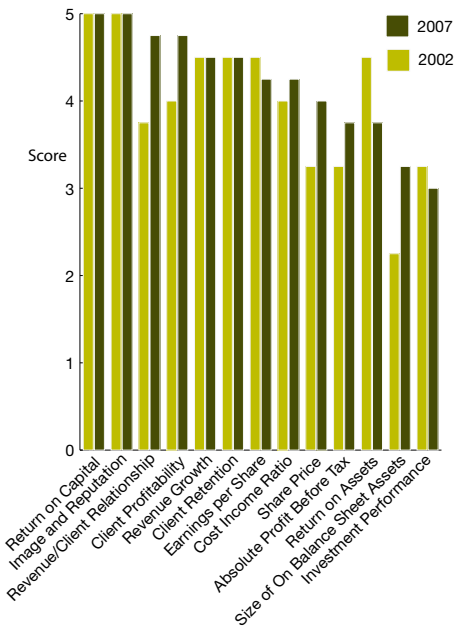


How the Big Four banks rate the importance of measures of success

The Big Four banks have awarded Return on capital with the maximum score of 5 out of 5 since 2002.

They have elevated the Importance of client profitability in 2007.

Earnings per share and the Cost/income ratio are also important to this group.



Q Can you describe the expected growth in your credit book in the following lines of business for 2007 and 2010?

The following table displays the anticipated growth in 2007 and 2010 for 20 banks across six different credit lines.

The market optimism over the next three years is reflected in the robust growth projections.

Corporate banking continues to display steady growth while micro- lending records 50% growth for two banks in 2007.

Credit cards are expected to grow by 20% or more for four banks.

Percentage growth expected												
	Corporate banking		Vehicle financing		Mortgages		Credit cards		Micro-lending		Private banking	
	2007	2010	2007	2010	2007	2010	2007	2010	2007	2010	2007	2010
Bank 1	15	20	15	15	15	15	25	20	25	30	10	10
Bank 2	20	20	18	18	16	16	25	25	40	40	25	25
Bank 3	20	20										
Bank 4	20	18	18	15	18	15	25	15	40	20		
Bank 5	5	10										
Bank 6							20	20	20	20		
Bank 7	30	30										
Bank 8	10	10										
Bank 9	25	30										
Bank 10	15	15										
Bank 11	20	20										
Bank 12	10	10							20	20		
Bank 13	10	10										
Bank 14	15	15									20	20
Bank 15			30	30	30	30						
Bank 16	20	20			20	20						
Bank 17	20	20										
Bank 18	22	20										
Bank 19	35	35										
Bank 20	25	25	20	20	30	30						

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

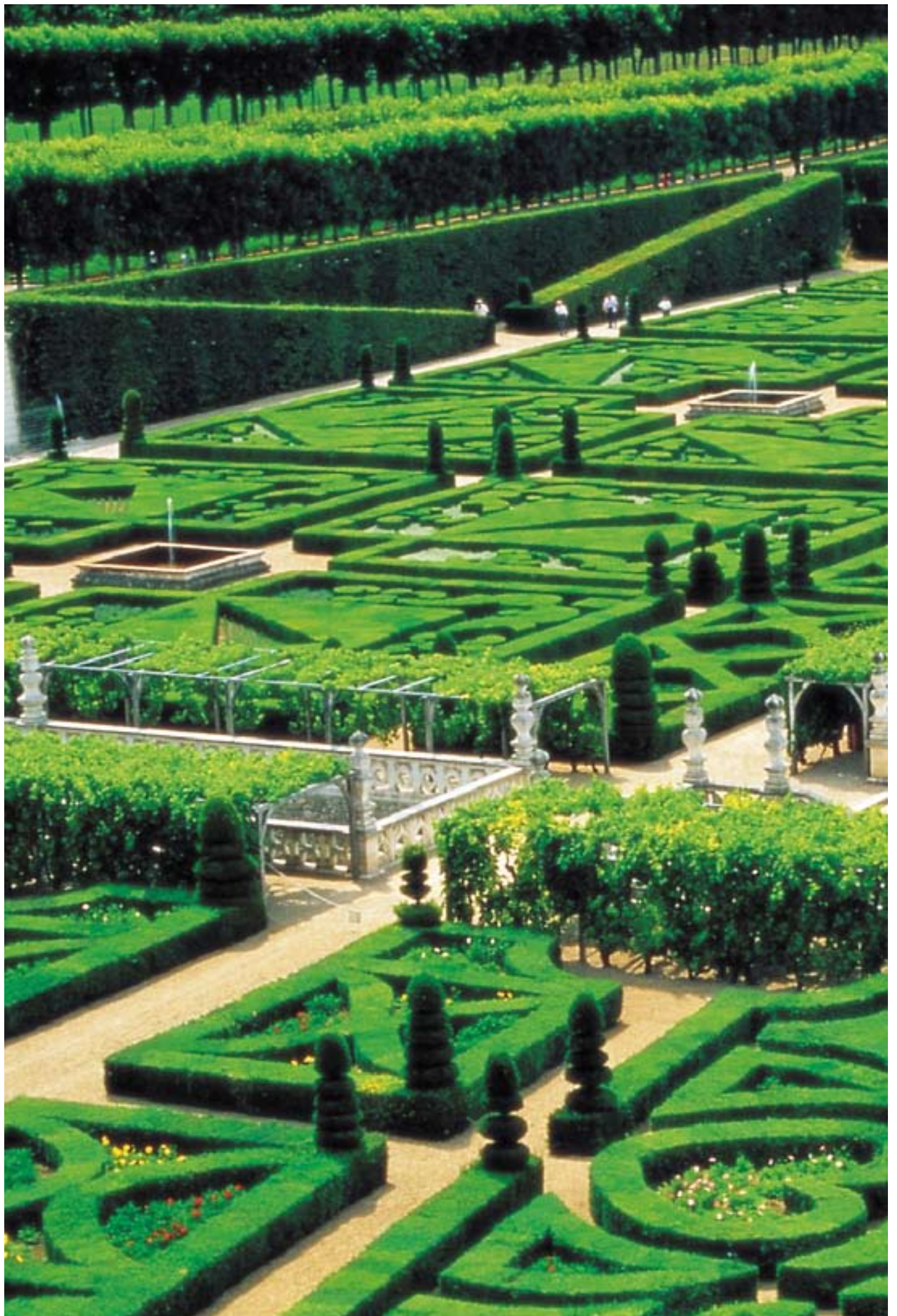
To ascertain which bank segments have recorded contrasting levels of profitability, the banks were asked to identify levels of return from market sectors in which they were active.

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 Retail banking, Credit cards, Merchant banking, Treasury, Micro-lending and Brokerage.

Corporate banking, Asset management and Commercial property also indicate a strong performance. As in 2005 four domestic banks record very profitable performance in Commercial property.

	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-five different markets were identified, covering both retail and wholesale banking. In contrast to previous surveys these factors are represented in different charts for 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.

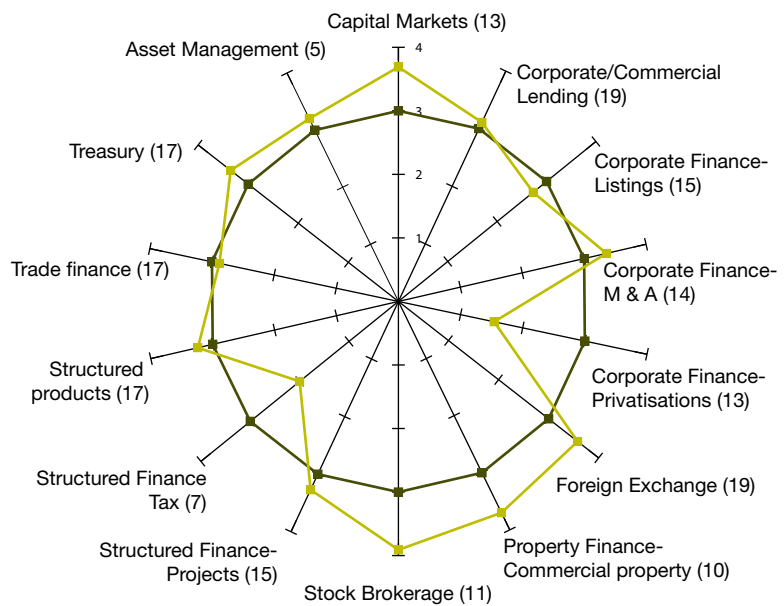
Figures in parentheses indicate the number of participants providing a score in that particular market. In the radar diagrams appearing on the following pages, a 14 or 11-sided frame based on the value of three has been drawn.

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

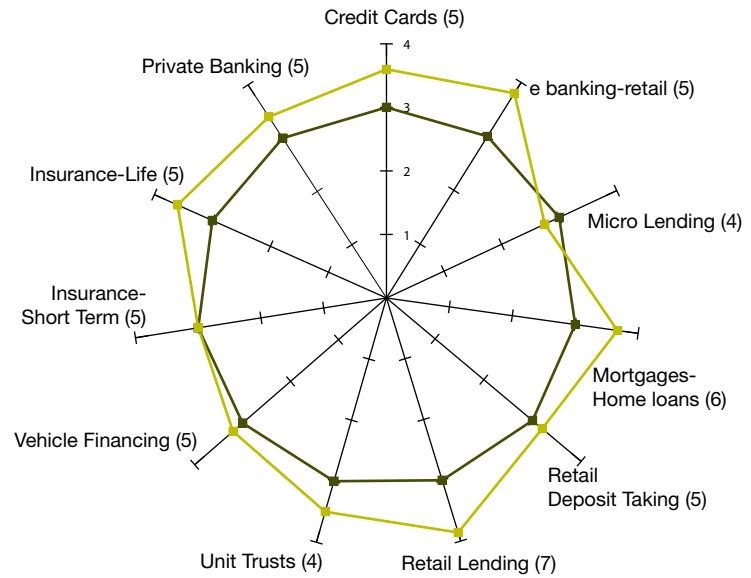
At an industry-wide level the banks record success in Capital markets, M&A, Foreign exchange, Property finance and Brokerage.

Corporate/commercial lending is deemed to be moderately successful.



**All banks – Levels of success
Retail banking**

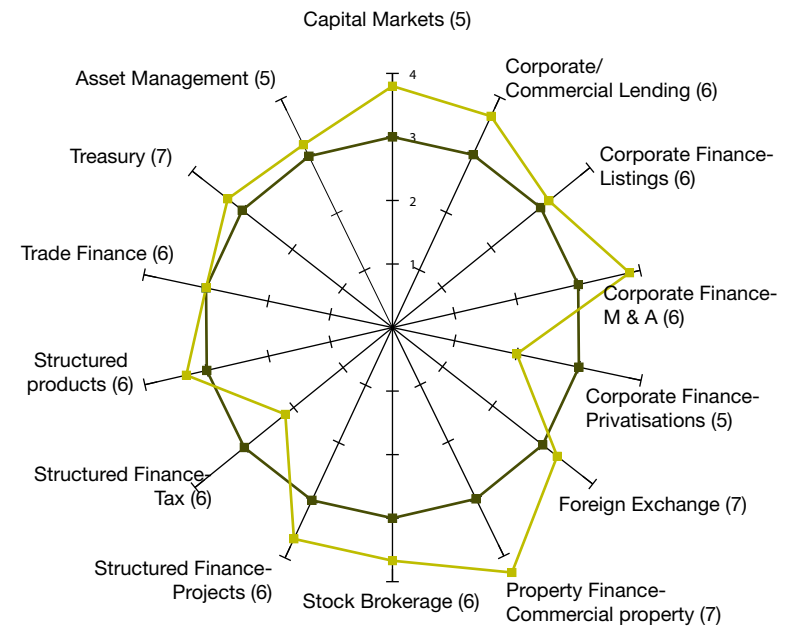
The strong retail banking market at present is displayed in the positive scores in all sectors with the exception of Micro lending.



**Domestic banks – Levels of success
Wholesale banking**

The domestic banks recorded high scores for Capital markets, Corporate/commercial lending, M&A, Commercial

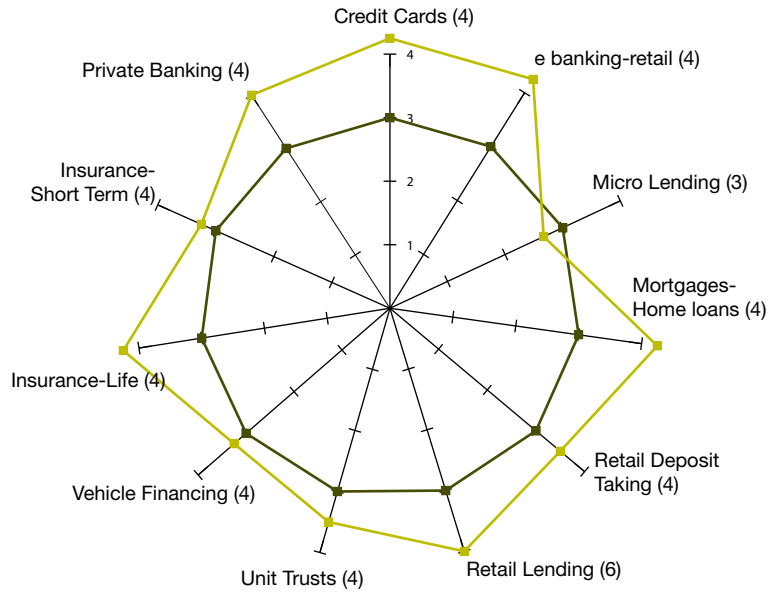
property, Project finance and Stock brokerage.



**Domestic banks –
Levels of success
Retail banking**

The levels of success for all banks in the retail sector are more pronounced in the domestic bank chart, particularly where there are only four respondents.

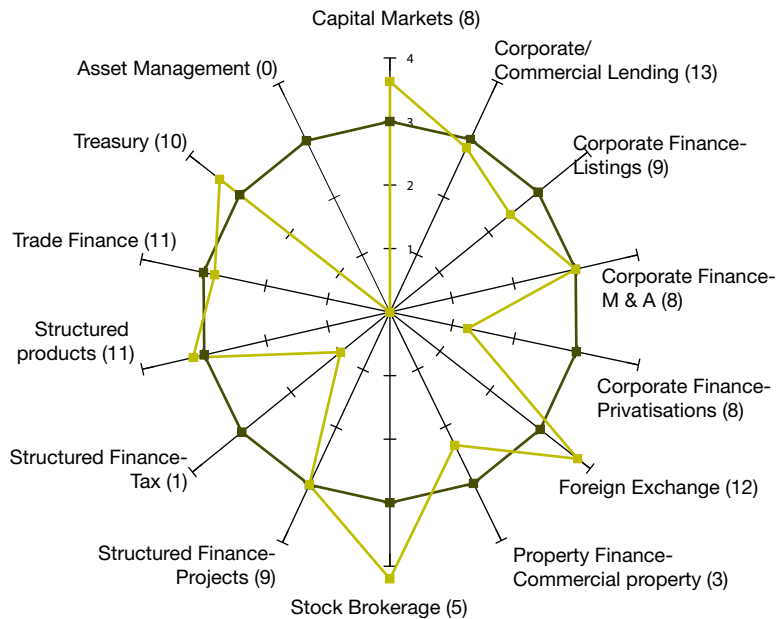
Micro-lending remains the only area where the banks record lower levels of success. Retail lending, Credit cards and Life insurance also display strong scores.



**Foreign banks –
Levels of success
Wholesale banking**

The best performing lines for the foreign banks in the wholesale sector include Capital markets, Foreign exchange, Brokerage and Treasury.

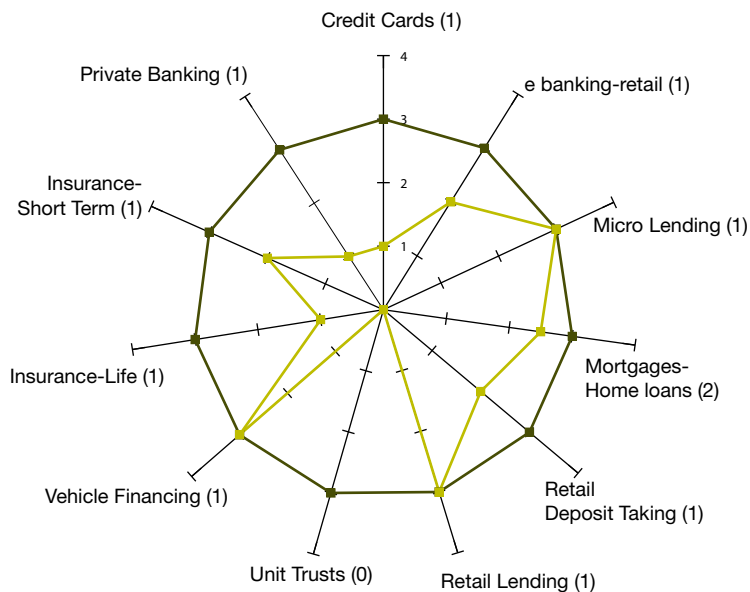
Corporate/Commercial lending indicates a score just below three.



**Foreign banks –
Levels of success
Retail banking**

The foreign banks in the retail sector acknowledge disappointing or negligible degree of success.

Although only one bank is shown in parentheses in all but one category - Mortgages, it should not be assumed that it is the same bank that is reflected in the scores for all the different business lines.



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 21 participants ranked the following 25 (retail and wholesale) markets on a scale of one to five.

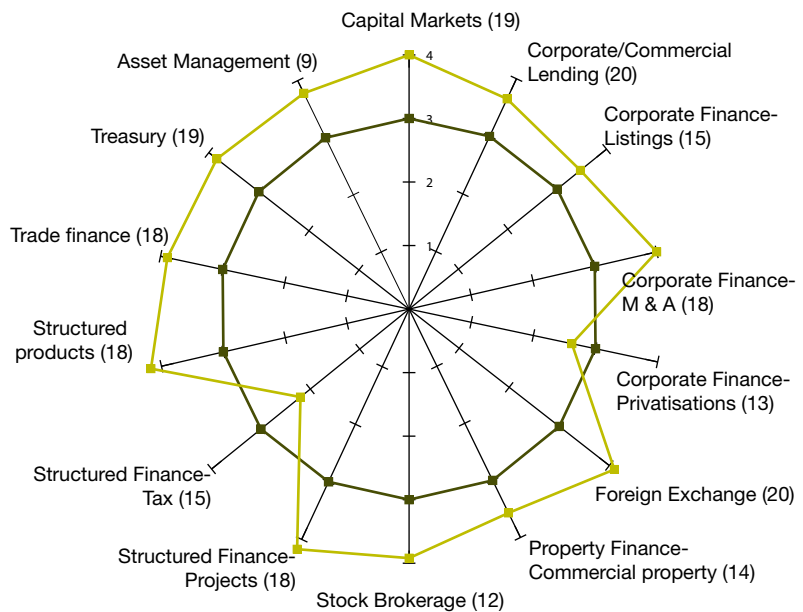
Since three is perceived as neutral, average scores for the group should exceed three and, therefore, markets viewed as important project beyond that line.

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

All banks – Future importance Wholesale banking

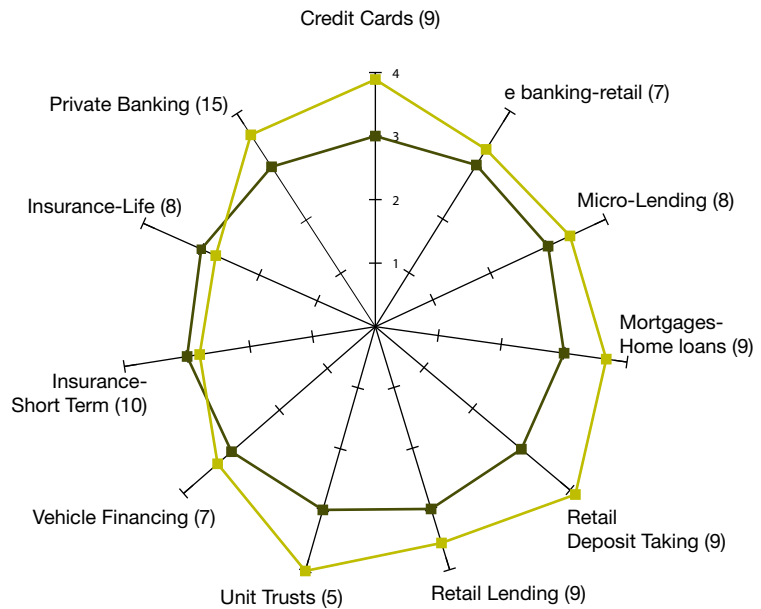
There were only two areas which the banks did not deem to be important over the next three years. They were Privatisations and Tax-related structured finance.

The remaining 12 different markets were all considered significantly important.



**All banks – Future importance
Retail banking**

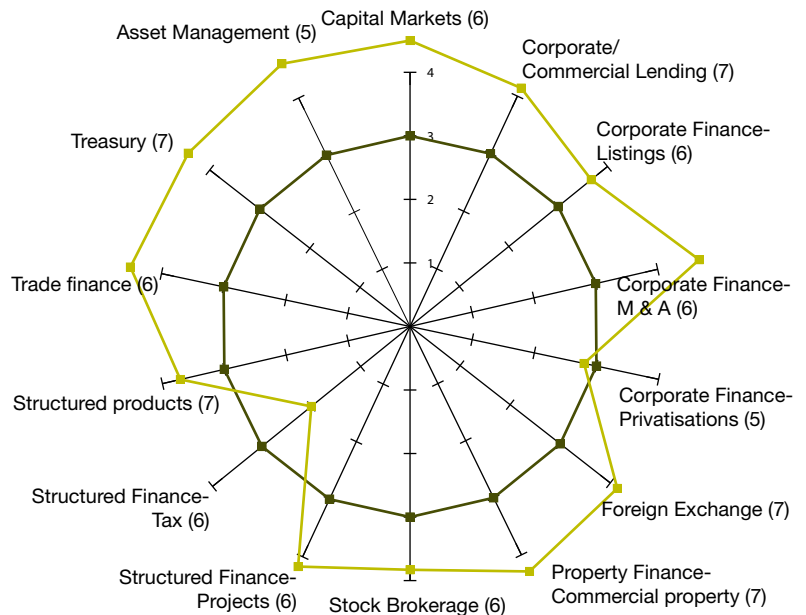
The strongest scores on the retail side going forward were for Credit cards, Mortgages, Retail deposits, Retail lending, Unit trusts and Private banking.



**Domestic banks – Future importance
Wholesale banking**

The domestic banks diagram has the same outline as the “all banks” one but takes some of the scores to a higher level.

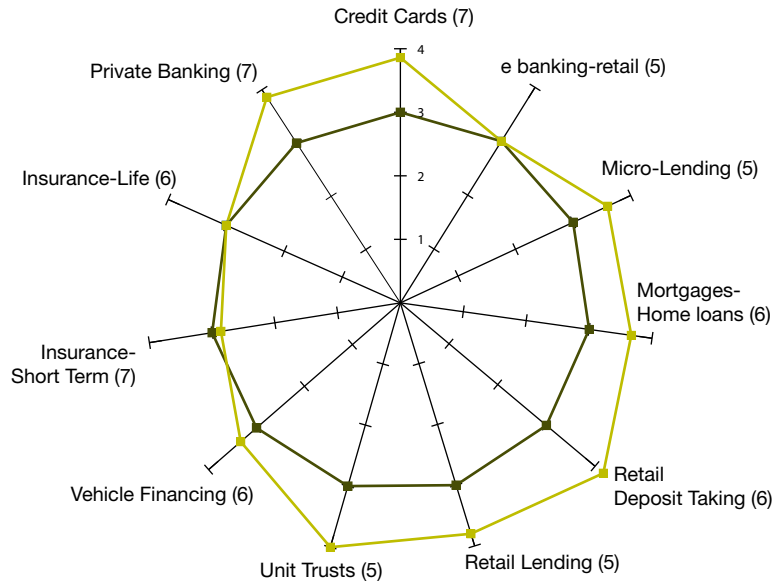
It similarly shows little interest in Tax related financing and Privatisations.



Future importance – Domestic banks Retail banking

Retail deposit taking and lending, Unit trusts, Credit cards and Private banking all recorded strong scores for the domestic banks.

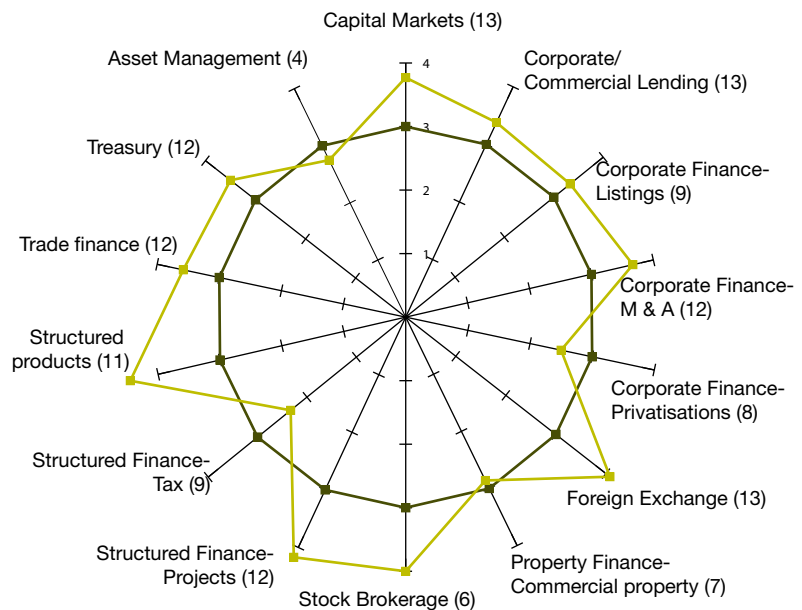
Micro-lending increases its score in terms of future importance relative to past success.



Importance – Foreign banks Wholesale banking

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

Ten different lines of business exceeded a score of three on the importance scale.

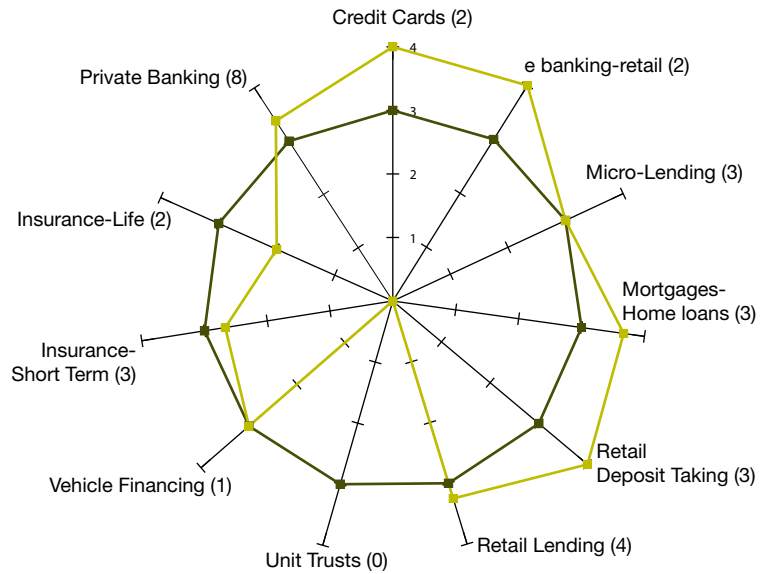


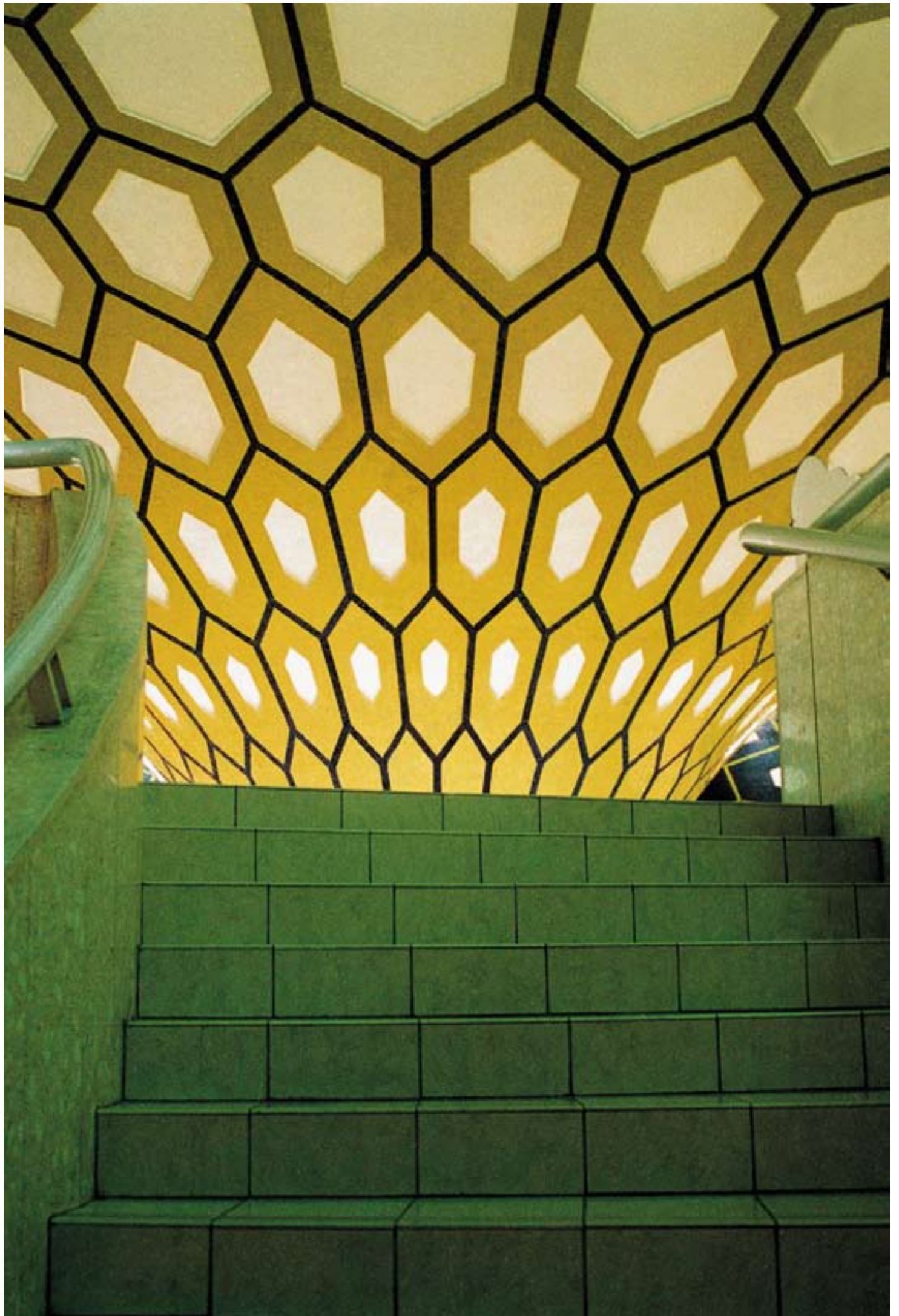
**Importance –
Foreign banks
Retail banking**

The retail sector is important to only a few select foreign banks over the next three years.

Private banking was considered important to eight foreign banks.

Areas that are considered attractive are Credit cards, Mortgages and Retail deposits and loans.





Ongoing issues in banking

Q What will the role of branches be in 2008?

There was a general consensus amongst banks in the retail sector that the number of “traditional” branches would increase over the next three years.

Five banks predicted that they would increase the number of branches.

Those servicing the previously unbanked market recognised the importance of physical branches.

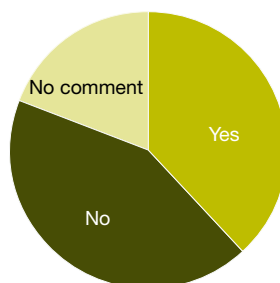
Q Will your business model change over the next three years?

In the 2005 report, 17 banks predicted that their business model would change over the next three years. That number has been reduced to eight banks in 2007.

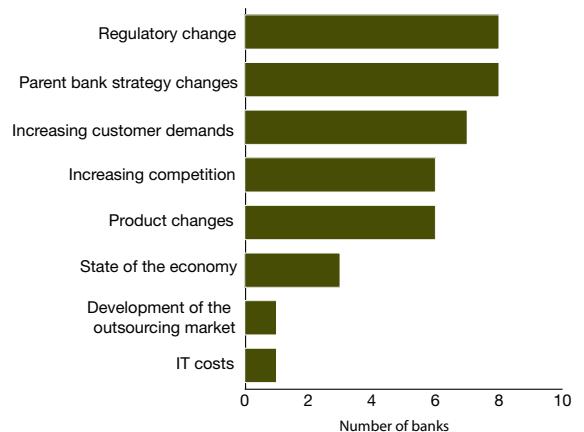
Many more banks therefore plan to stay with their existing strategies. They appear to have retreated into selected niches.

In 2005 the principal cause of business model change was Increasing competition.

In 2007, the main drivers behind a new business model are Regulatory change and Parent bank strategy changes.



Based on responses from 21 banks



Q How would you rate your bank's level of preparedness for changes resulting from Basel II?

Domestic banks

On 1 January 2008, South Africa will implement Basel II. As in the 2005 report, the banks were asked to indicate their level of preparedness as this deadline approaches.

The domestic banks continue to make steady progress in their preparations.

Level three which was populated in 2005 has now been virtually vacated and the larger banks have moved to level five.

The progress has been consistent across the different areas.

	NA	Very Unprepared 1	2	Prepared 3	4	Very Prepared 5
Strategic Issues				☑	☑☑☑	☑☑☑ ☑
Credit Risk Management					☑☑☑ ☑☑☑	☑☑
Operational Risk Management					☑☑☑ ☑☑	☑☑☑
Regulatory Review					☑☑☑ ☑	☑☑☑ ☑
Market Discipline				☑	☑☑☑	☑☑☑ ☑

Foreign banks

Six or more foreign banks described themselves as being very prepared, but some banks believe there is still work required in the market discipline area.

	NA	Very Unprepared 1	2	Prepared 3	4	Very Prepared 5
Strategic Issues				☑	☑☑	☑☑☑ ☑☑☑ ☑☑
Credit Risk Management				☑☑	☑☑☑	☑☑☑ ☑☑☑
Operational Risk Management					☑☑☑ ☑	☑☑☑ ☑☑☑
Regulatory Review				☑☑	☑☑☑	☑☑☑ ☑☑☑
Market Discipline			☑	☑☑	☑☑	☑☑☑ ☑☑☑

Big Four banks

The Big Four banks believe that they are moving steadily toward full preparation by 2008.

This progress reflects the direction and preparation recorded in the 2005 report.

	NA	Very Unprepared 1	2	Prepared 3	4	Very Prepared 5
Strategic Issues					☑	☑☑☑
Credit Risk Management					☑☑☑	☑
Operational Risk Management					☑☑☑	☑
Regulatory Review					☑☑	☑☑
Market Discipline					☑☑	☑☑

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 2005 report. Two new

categories appear for the first time in 2007, Retail Brokerage and Trade Finance and therefore no change column is included.

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	11	4	1	42	→
ABSA	4	3	8	26	↗
FirstRand Bank (RMB)	1	8	3	22	↘
Nedbank	2	3	3	15	↘
Deutsche Bank		1	2	4	↗
Investec	1			3	↗
Citibank	1	1			↘

§ Based on 19 banks

BEE deals

Ranking	First	Second	Third	Score	Change
FirstRand Bank (RMB)	12	1	1	39	→
Standard Bank	3	2	7	20	→
Deutsche Bank	2	1	1	9	↗
Investec		4	1	9	↗
ABSA	1	2		7	↘
Nedbank		2	2	6	↗
JPMorgan Chase		1		2	↘

§ Based on 18 banks

Listings

Ranking	First	Second	Third	Score	Change
Standard Bank	2	1	1	9	↗
Deutsche Bank	2			6	→
FirstRand Bank (RMB)	1	1		5	↘
Investec		1	1	3	↘
JPMorgan Chase		1		2	→
Citibank			1	1	↗

§ Based on 5 banks

Mergers and acquisitions

Ranking	First	Second	Third	Score	Change
FirstRand Bank (RMB)	7	1	2	25	→
Deutsche Bank	3	1	1	12	↗
Standard Bank	2	2	2	12	↗
JPMorgan Chase		4	2	10	↘
Investec	1	2	1	8	↘
Citibank		2		4	↗
Goldman Sachs	1		1	4	↘
UBS		1		2	↗
Rothschild			1	1	↗

§ Based on 14 banks

Foreign exchange trading

Ranking	First	Second	Third	Score	Change
Standard Bank	13	3	1	46	→
ABSA	2	5	4	20	↗
Citibank	2	2	2	12	↗
FirstRand Bank (RMB)		3	3	9	↘
Deutsche Bank		2	1	5	↘
Nedbank		1	1	3	↘
ABN AMRO			1	1	↗
JPMorgan Chase			1	1	↘

§ Based on 17 banks

Structured finance

Ranking	First	Second	Third	Score	Change
FirstRand Bank (RMB)	10			30	→
Investec	1	5	1	14	↗
Standard Bank		4	4	12	↘
Nedbank		1	2	4	↗
Deutsche Bank	1			3	↗

Based on 12 banks

Bonds and derivatives

Ranking	First	Second	Third	Score	Change
Standard Bank	7	2	1	26	→
JPMorgan Chase	2	4	1	15	↗
Deutsche Bank	1	2	5	12	↗
Nedbank	2	2		10	↗
Citibank	1	2		7	↗
FirstRand Bank (RMB)	2		1	7	↘
ABSA		1	3	5	↘
Investec		1		2	↘

§ Based on 15 banks

Money markets

Ranking	First	Second	Third	Score	Change
Standard Bank	10	1	1	33	→
ABSA	3	3	4	19	→
FirstRand Bank (RMB)	1	4	2	13	→
Nedbank		3	3	9	→
Investec		1	1	3	↗

Based on 14 banks

Brokerage – Institutional

Ranking	First	Second	Third	Score	Change
Deutsche Bank	5	2	2	21	→
JPMorgan Chase	2	2	1	11	↗
UBS	2	2	1	11	↗
Merrill Lynch	1	2	3	10	↘
Standard Bank		1		2	↘
Citibank		1		2	↗
Investec			1	1	↘

Based on 10 banks

Brokerage – Retail

Ranking	First	Second	Third	Score
Investec	4			12
Standard Bank	1	2	1	8
Barnard Jacobs Mellet		2	1	5
PSG	1			3
Sanlam	1			3
Merrill Lynch		1		2
Sasfin		1		2
FirstRand Bank			1	1
HSBC			1	1
ABSA			1	1

§ Based on 7 banks

Retail lending and deposits

Ranking	First	Second	Third	Score	Change
ABSA	8	2		28	→
Standard Bank	4	4	4	24	→
FirstRand Bank		4	3	11	→
Nedbank		2	3	7	→

§ Based on 12 banks

Retail mortgages

Ranking	First	Second	Third	Score	Change
ABSA	10	1		32	→
Standard Bank	2	5	5	21	→
FirstRand Bank		4	4	12	→
Nedbank		2	2	6	→
Investec	1			3	↗

§ Based on 13 banks

Vehicle financing

Ranking	First	Second	Third	Score	Change
FirstRand Bank (Wesbank)	8	1		26	→
Standard Bank	1	5	2	15	→
ABSA	2	2	4	14	→
Nedbank		1	3	5	→

§ Based on 11 banks

Internet banking

Ranking	First	Second	Third	Score	Change
ABSA	2	1	1	9	→
Standard Bank	2	1	1	9	↗
Investec	2		1	7	↗
Nedbank	2			6	→
FirstRand Bank		2	1	5	↘

§ Based on 8 banks

Private banking

Ranking	First	Second	Third	Score	Change
Investec	14	2		46	→
FirstRand Bank (RMB)	1	5	2	15	↗
ABSA	1	3	1	10	↘
Standard Bank		2	5	9	↗
Nedbank	1	1	2	7	↘
UBS	1			3	↗
HSBC		1		2	↘
Rothschild			1	1	↗

§ Based on 18 banks

Private equity investments

Ranking	First	Second	Third	Score	Change
Ethos	11	4	1	42	→
Brait	6	10		38	↗
Actis			2	2	↗
ABSA		1		2	↗
Capitec		1		2	↗
Investec			1	1	↘
Standard Bank			1	1	↘
Deutsche Bank			1	1	↗
Old Mutual			1	1	↗
Peregrine			1	1	↗

§ Based on 17 banks

Micro-lending

Ranking	First	Second	Third	Score	Change
ABIL	11	4		41	→
Capitec	4	8	1	29	↗
ABSA	1		2	5	↘
FirstRand Bank		1		2	↗
TEBA		1		2	↘
Nedbank			1	1	↗

§ Based on 16 banks

Commercial property finance

Ranking	First	Second	Third	Score	Change
Investec	3	2	1	14	↗
Standard Bank	4		1	13	↗
FirstRand Bank (RMB)	2	2	2	12	↗
ABSA	1	2	2	9	↘
Nedbank		3	2	8	↘
Old Mutual	1			3	↗
Sanlam		1		2	↗

§ Based on 11 banks

Trade finance

Ranking	First	Second	Third	Score
Standard Bank	11	2	1	38
ABSA	1	2	7	14
Nedbank	1	4	2	13
FirstRand Bank		4		8
Investec	1			3
Deutsche Bank	1			3
Standard Chartered Bank		1		2

§ Based on 15 banks

Appendices

Methodology	71
Bank groups	72
Participants	73
Background comments on participants	74
Quarterly DI 900 Analysis of individual South African banks – March 2007	79

Methodology

Previous experience has shown that personal interviews with senior bankers using a standard questionnaire offers the best research approach. The questionnaire contained approximately 50 questions and was completed during interviews of approximately one hour. The author conducted all interviews during February and March 2007 in Johannesburg.

Responses have not been attributed to individual banks but rather collectively within two groups: Foreign banks (13) and Domestic banks (8). 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
FirstRand Bank
Investec Bank
Mercantile Bank*
Nedbank Group Ltd.
Sasfin Bank
The Standard Bank of South Africa

- **Big Four banks:**

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

- **Foreign banks:**

ABN AMRO Bank NV
Citibank NA
Commerzbank AG
Calyon
Deutsche Bank AG
Dresdner Bank AG
HSBC
JPMorgan Chase Bank
Société Générale
Standard Chartered Bank
State Bank of India
The South African Bank of Athens
UBS

- **Foreign banks classification:**

- Registered branches

ABN AMRO Bank NV
Citibank NA
Commerzbank AG
Calyon
Deutsche Bank AG
HSBC Bank Plc
JP Morgan Chase Bank
Société Générale
Standard Chartered Bank
State Bank of India

- Registered banks – Foreign controlled

The South African Bank of Athens

- Foreign banks – Representative offices

Dresdner Bank AG UBS

* Included in this category in this particular survey to ensure confidentiality (Absa controlled from the UK and Mercantile from Portugal).

Participants

Name	Position	Bank
Domestic banks:		
James Slabbert	Executive Director, Strategy & Planning	ABSA Bank
Johan de Ridder	Executive Director	African Bank
Sizwe Nxasana	Chief Executive Officer	FirstRand Bank
Stephen Koseff	Managing Director	Investec Bank
Dave Brown	Managing Director	Mercantile Bank
Graham Dempster	Managing Director, Nedbank Corporate	Nedbank Group Ltd.
Brian Kennedy	Managing Director, Nedbank Capital	Nedbank Group Ltd.
Alan Greenstein	Managing Director	Sasfin Bank
Jacko Maree	Chief Executive Officer	The Standard Bank of South Africa
Simon Ridley	Group Financial Director	The Standard Bank of South Africa
Foreign banks:		
Simon Penney	Chief Executive Officer	ABN AMRO Bank NV
Serge de Beaufort	Senior Country Officer	Calyon
Donna Nemer Oosthuysen	Chief Operating Officer, Africa Division	Citibank NA
Clive Kellow	Chief Executive Officer	Commerzbank AG
Rakesh Garach	Chief Operating Officer	Deutsche Securities
Dietrich von Stackleburg	Country Officer	Dresdner Bank AG
Krishna Patel	Group General Manager & CEO Africa	HSBC
Sandy Wynd	Chief Operating Officer	HSBC
Jon Zehner	Managing Director Head Sub Saharan Africa	JP Morgan Chase Bank
Kathryn Spencer	Chief Financial Officer & COO	JP Morgan Chase Bank
Pierre Wolmarans	Chief Executive Officer	Société Générale
Mathieu Maurier	Managing Director	Société Générale
James Robertson	Regional Head Global Markets	Standard Chartered Bank
Vijay Jasuja	Chief Executive Officer	State Bank of India
Ashok Das	Manager (Banking)	State Bank of India
Wayne Lawson-Turnbull	Managing Director and Chairman	UBS South Africa
Hector Zarca	Chief Executive Officer	The South African Bank of Athens

Background comments on participants

Big Four bank group

Big Four Banks	World Ranking *The Banker, July 2006		Home Country Ranking* Tier 1	Background Comments **
	Tier 1	Assets		
Absa Bank 32,000 employees www.absa.co.za	foreign owned		2	At 31 December 2006, Absa had assets of R495 billion, more than 749 physical outlets, 8,4 million customers and 7 053 automated teller machines. Absa became a subsidiary of Barclays Bank PLC on 27 July 2005, when Barclays acquired a controlling stake in the Absa Group.
FirstRand Bank 35,000 employees www.firststrand.co.za	195	181	5	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. 24,000 employees www.nedbankgroup.co.za	165	171	3	Nedbank Group Limited is a bank holding company, which operates as one of the four largest banking groups in South Africa through its principal banking subsidiaries, Nedbank Limited and Imperial Bank Limited, in which it has a 50,1% interest. Imperial Bank focuses mostly on motor vehicle finance, which it markets through its Motor Finance Corporation (MFC) brand.
The Standard Bank of South Africa 29,000 employees www.standardbank.co.za	18	93	1	Standard Bank Group operates in a range of banking and related financial services. The group spans 18 African countries and 21 countries outside of Africa with an emerging markets focus. The Group had total assets of over R970 billion (approximately \$139 billion) at 31 December 2006 and employed more than 42 000 (including Liberty) people worldwide.

* World rankings were taken from The Banker, July 2006

** The background comments were taken from the respective banks' websites in May 2007

Domestic bank group

Other Domestic Banks	World Ranking *The Banker, July 2006		Home Country Ranking* Tier 1	Background Comments **
	Tier 1	Assets		
African Bank 2,500 employees www.africanbank.co.za	691	987	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). The main focus of ABIL is to underwrite unsecured credit risk through the provision of personal loans to the formally employed market. In 2006 African Bank opened 40 new branches.
Investec 3,500 employees www.investec.com	189	240	4	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 420 employees www.mercantile.co.za	140	109	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.
Sasfin Bank 340 employees www.sasfin.com	NA	NA	NA	Established in 1951, and listed on the JSE in 1987, Sasfin Holdings Limited is a bank-controlling company. Sasfin provides a portfolio of services which include: Commercial Finance, Corporate Finance, Treasury, Portfolio Management, Investment & Asset Management and Freight Services.

Foreign bank group

Foreign Banks	World Ranking *The Banker, July 2006		Home Country Ranking* Tier 1	Background Comments **
	Tier 1	Assets		
ABN AMRO 60 employees www.abnamro.com	15	13	1	ABN AMRO is a prominent international bank, its history going back to 1824. ABN AMRO ranks eighth in Europe and 13th in the world based on total assets, with more than 4,500 branches in 53 countries, a staff of more than 105,000 full-time equivalents and total assets of EUR 987 billion (as at 31 December 2006). ABN AMRO in May 2007 was subject to takeover bids by Barclays Bank and a consortium of banks led by RBS.
Calyon 70 employees www.calyon.com	6	7	1	Calyon was formed from the merger of Crédit Agricole Indosuez and Crédit Lyonnais' Corporate and Investment Banking division. With 12,000 staff in 55 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.
Citibank 390 employees www.citibank.com	1	5	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 51 employees www.commerzbank.com	40	32	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 200 employees www.db.com	23	12	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 Invest- ments. In South Africa, Deutsche Bank has locations in Sandton and Cape Town.
Dresdner Bank 6 employees www.dresdner-bank.com	44	29	4	The Dresdner Bank Group is headquartered in Frankfurt and London. With around 950 branch offices and about 27,625 full-time staff, the Dresdner Bank Group is active in some 50 different coun- tries. In terms of assets and the number of customers, Dresdner Bank is one of the leading banking groups in Europe. In South Africa, Dresdner has a representa- tive office in Johannesburg.

Foreign Banks	World Ranking *The Banker, July 2006		Home Country Ranking* Tier 1	Background Comments **
	Tier 1	Assets		
HSBC 130 employees www.hsbc.co.za	2	4	1	HSBC Holdings plc is headquartered in the UK. With assets of US\$1,861 billion at 31 December 2006, 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
JP Morgan Chase Bank 425 employees www.jpmorganchase.com	4	11	3	JP Morgan Chase is a global financial services firm with assets of \$1.4 trillion and operations in more than 50 countries. Is a component of the Dow Jones Industrial Average. JP Morgan 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.
Société Générale 45 employees www.socgen.com	26	15	4	Société Générale Group is the 6th largest French company by market capitalization and one of the leading financial services groups in the euro zone. It is the 4th largest bank in the euro zone with Euro 422 billion in assets under management and the 3rd largest bank in the euro zone by assets under custody Euro 2,262 billion. Outside France, its retail banking arm is present in 30 countries and overseas. Société Générale Group serves 22.5 million customers in France and worldwide. It employs over 120,000 people worldwide.
Standard Chartered Bank 124 employees www.standardchartered.com	61	62	7	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 1,400 branches in over 50 countries. Standard Chartered serves both Consumer and Wholesale Banking customers worldwide and employs almost 60,000 people, representing over 100 nationalities. In South Africa, Standard Chartered services Personal Banking, Commercial Banking, and Global Markets.
State Bank of India 26 employees www.statebank.co.za	107	84	1	SBI has grown to be the largest banking organisation in India, with the State Bank Group controlling about 30% of the country's banking business. The Johannesburg branch of SBI was established in March 1997, and it also has marketing offices in Durban, Cape Town and Port Elizabeth. SBI in South Africa is active in Corporate Finance, International Trade, Project Finance, Remittances and Correspondent Banking. SBI has a network of domestic branches in India, and agency arrangements with about 590 correspondent banks in 127 countries.

Foreign Banks	World Ranking *The Banker, July 2006		Home Country Ranking* Tier 1	Background Comments **
	Tier 1	Assets		
The South African Bank of Athens 185 employees www.bankofathens.co.za	128	139	1	Bank of Athens was established in 1947 and is owned by National Bank of Greece (NBG). NBG boasts a dynamic profile internationally, especially in South-eastern Europe and the Eastern Mediterranean. As at 31 December 2005 total assets exceeded Euro 60,400 million. 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 83 employees www.ubs.com	18	2	1	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.

Quarterly DI-900 analysis of individual South African banks – March 2007

Quarterly DI-900 Analysis of Individual South African Banks – March 2007

Line No.	Bank (In alphabetical order, first groups, then independents)	Capital & Reserves	Total Assets	Contingent Liabilities	Total Public Liabilities	Deposits				Acceptances	Repurch Agreements	Resale Agreements
		Rm	Rm	Rm	Rm	Total	Short	Medium	Long			
						Rm	%	%	%			
1	ABSA Group	38,796	476,246	165,260	408,405	371,357	58.7	21.5	19.8	208	14,505	16,331
2	First Rand Group	30,054	404,492	131,858	320,834	290,326	64.3	17.7	18.0	320	14,552	16,542
3	Investec Bank	11,318	128,223	16,515	107,041	103,399	50.5	28.6	20.8	0	2,148	2,343
4	Nedcor Bank	29,891	390,660	93,326	331,734	307,715	62.9	21.0	16.1	0	7,547	8,674
5	Imperial Bank	3,258	32,371	795	28,583	28,583	2.2	0.1	97.7	0	0	0
6	Nedcor Group	33,149	423,031	94,120	360,317	336,299	57.7	19.2	23.0	0	7,547	8,674
7	The Standard Bank of S A	35,365	549,818	272,029	432,086	371,326	66.1	13.8	20.0	0	14,664	6,058
8	ABN Amro Bank	1,732	18,784	6,665	17,191	17,191	74.9	24.6	0.5	0	0	150
9	African Bank	1,925	9,390	488	6,743	3,038	17.5	20.7	61.8	0	0	0
10	Albaraka Bank	159	1,487	107	1,291	1,291	46.0	24.3	29.7	0	0	0
11	Bank of Baroda	93	266	163	173	135	84.7	9.9	5.5	0	0	0
12	Bank of China	66	446	87	349	275	86.2	13.8	0.0	0	0	0
13	Bank of Taiwan SA Branch	110	366	562	228	208	93.9	6.1	0.0	0	0	0
14	Barclays Bank PLC	0	0	0	0	0	n/c	n/c	n/c	0	0	0
15	Capitec Bank	978	2,255	899	919	902	65.2	0.2	34.6	0	0	0
16	China Construction Bank	163	1,325	403	1,144	1,144	78.8	20.8	0.4	0	0	0
17	Citibank N.A	2,551	45,126	3,768	35,153	34,708	78.8	17.3	3.9	0	434	3,516
18	Commerzbank	1,790	7,880	3,172	6,900	5,714	70.3	24.5	5.1	1	0	0
19	Credit Agricole Indosuez	853	23,263	2,303	20,158	18,830	74.0	14.9	11.1	0	0	0
20	Deutsche Bank	268	25,138	843	23,993	17,104	36.1	49.9	14.0	0	6,889	6,890
21	GBS Mutual Bank	62	616	83	519	519	27.3	20.8	51.9	0	0	0
22	Habib Overseas Bank	31	449	272	412	389	97.3	2.0	0.7	0	0	0
23	HBZ Bank	88	1,218	712	1,088	1,088	94.2	3.9	2.0	0	0	0
24	HSBC Bank	552	10,353	3,028	9,501	9,300	91.8	8.2	0.0	0	0	150
25	ING Bank	0	0	0	0	0	n/c	n/c	n/c	0	0	0
26	JP Morgan Chase Bank	4,159	23,822	748	19,448	12,200	92.5	5.0	2.5	0	7,248	5,589
27	Marriott Merchant Bank	250	988	137	703	703	84.0	15.1	1.0	0	0	0
28	Meeg Bank	73	1,072	106	972	950	69.0	21.7	9.3	0	0	0
29	Mercantile Lisbon Bank	717	4,244	992	3,371	3,280	56.5	34.9	8.6	0	0	0
30	Regal Treasury Private Bank	450	1,522	21	1,096	1,093	53.9	11.5	34.6	0	0	0
31	Rennies Bank	316	579	79	160	135	76.3	15.0	8.7	0	0	0
32	Sasfin Bank	327	1,190	64	785	721	94.8	2.6	2.6	0	0	0
33	Societe Generale JHB Branch	243	4,417	373	4,106	4,106	79.1	20.7	0.1	0	0	0
34	Standard Chartered Bank	351	4,967	80	4,413	4,413	82.3	8.8	9.0	0	0	0
35	State Bank of India	86	635	904	500	500	45.6	51.7	2.7	0	0	0
36	Teba Bank	472	2,429	25	1,837	1,837	87.3	9.6	3.1	0	0	0
37	The SA Bank of Athens	88	913	234	781	719	59.6	37.5	2.9	0	0	0
38	VBS Mutual Bank	21	229	7	208	205	52.3	26.4	21.3	0	0	0
39	TOTAL	167,658	2,177,180	707,107	1,792,827	1,615,405	61.9	19.0	19.2	529	67,987	66,242
40	Totals (R1 = 0,1382) US \$ m	23,169	300,869	97,717	247,755	223,236				73	9,395	9,154
41	Totals (R1 = 0,0704) £ m	11,800	153,231	49,766	126,180	113,693				37	4,785	4,662
42	Totals (R1 = 16,2583) ¥ bn	2,726	35,397	11,496	29,148	26,264				9	1,105	1,077
43	Totals (R1 = 0,1035) € m	17,358	225,404	73,207	185,612	167,244				55	7,039	6,858

Notes:

1. Bank = A bank registered under South African law
2. DI900 = Statutory return submitted monthly to the South African Reserve Bank (the central bank) by each registered bank

Quarterly DI-900 Analysis of Individual South African Banks – March 2007

Line No.	Fixed assets	Investments	Total	Advances/Loans								Selected ratios				
				Instalment	Mortg loans	Credit card	Bills	Foreign currency loans	Pref shares	Public sector	Private sector	Retail/total deposits	Capital asset + cont. liabs	Prime cap/ Total cap & res	Loans/public liabs	Provs bad debt/loans
				Rm	Rm	Rm	%	%	%	%	%	%	%	%	%	%
1	3,687	39,296	413,915	12.7	55.1	3.0	0.0	3.5	0.9	0.7	19.8	17.2	6.0	69.7	101.3	0.8
2	3,016	49,735	322,447	22.5	37.4	3.5	1.6	4.6	0.9	0.7	23.3	18.8	5.6	69.3	100.5	0.9
3	154	11,192	95,538	1.7	36.1	1.1	6.2	11.3	7.1	0.0	34.1	7.8	7.8	63.8	89.3	0.2
4	3,925	31,386	302,785	7.2	46.1	2.0	1.5	6.5	0.7	2.0	31.3	23.7	6.2	67.8	91.3	0.9
5	120	469	30,718	70.7	24.5	0.0	3.4	0.0	0.4	0.0	1.0	0.0	9.8	62.9	107.5	1.7
6	4,045	31,854	333,503	13.0	44.1	1.8	1.6	5.9	0.6	1.8	28.5	21.7	6.4	67.3	92.6	1.0
7	2,941	83,388	429,540	11.0	41.7	4.0	4.9	14.5	2.1	0.3	18.4	16.4	4.3	68.5	99.4	0.5
8	2	991	13,531	0.0	0.0	0.0	0.0	79.9	0.0	0.0	19.0	0.0	6.8	97.4	78.7	0.5
9	79	48	9,305	0.0	0.0	2.8	3.4	0.0	0.0	0.0	93.9	0.1	19.5	97.0	138.0	16.5
10	10	13	1,018	24.9	56.1	0.0	4.1	0.0	0.0	0.0	14.9	99.8	10.0	97.1	78.9	4.0
11	0	0	200	21.1	0.0	0.0	1.8	18.6	0.0	0.0	58.4	0.0	21.6	98.3	115.4	0.6
12	0	13	383	0.0	0.0	0.0	0.0	38.7	0.0	0.0	61.3	0.0	12.4	94.5	109.7	0.0
13	0	12	304	0.0	0.0	0.0	0.0	31.0	0.0	0.0	69.0	65.4	11.8	98.4	133.1	6.2
14	0	0	0	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c
15	199	252	1,091	0.0	0.0	0.0	9.6	0.0	1.4	0.0	89.1	64.2	31.0	99.8	118.7	10.9
16	1	277	1,004	0.0	0.0	0.0	0.0	47.8	0.0	0.0	52.2	0.0	9.4	95.1	87.8	0.0
17	194	7,477	31,891	0.2	0.0	0.0	6.8	57.0	0.0	0.0	25.0	0.0	5.2	97.0	90.7	0.1
18	14	1,043	6,083	0.0	0.0	0.0	14.1	19.3	6.6	0.0	60.0	0.0	16.2	96.7	88.2	0.3
19	2	2,443	17,239	0.0	0.0	0.0	7.2	67.0	0.0	0.0	25.8	0.0	3.3	90.1	85.5	0.0
20	0	1,689	21,074	0.0	0.0	0.0	0.0	63.8	0.0	0.0	3.5	0.0	1.0	101.6	87.8	0.0
21	1	20	496	38.8	49.5	0.0	6.3	0.0	0.0	0.0	5.5	73.7	8.8	67.0	95.4	0.5
22	7	0	175	0.0	0.0	0.0	17.0	23.3	0.0	0.0	59.6	32.6	4.3	95.1	42.6	0.1
23	13	81	516	0.0	0.0	0.0	0.0	27.5	0.0	0.0	72.4	21.9	4.6	92.6	47.5	0.9
24	9	125	9,678	0.0	0.0	0.0	3.2	77.6	0.0	0.0	17.7	0.0	4.1	93.9	101.9	0.0
25	0	0	0	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c	n/c
26	13	5,771	17,182	0.0	0.0	0.0	4.0	58.1	0.0	0.0	5.3	0.0	16.9	99.8	88.3	0.0
27	3	144	788	0.0	12.2	0.0	4.4	0.0	5.4	0.0	78.0	9.8	22.2	97.0	112.1	1.9
28	10	6	769	36.1	52.6	1.3	1.6	0.0	0.0	1.3	7.0	36.3	6.2	67.7	79.0	2.2
29	109	154	3,790	8.0	20.3	0.6	5.7	36.1	0.0	0.3	28.8	56.5	13.7	97.2	112.4	0.7
30	33	21	957	1.1	3.9	0.0	0.0	0.4	50.0	0.0	44.6	99.6	29.2	98.4	87.4	0.5
31	19	38	339	0.4	0.4	0.0	0.0	47.4	0.0	0.0	51.8	33.9	48.0	98.4	211.8	2.7
32	27	6	970	35.3	0.0	0.0	4.0	2.9	0.0	0.0	57.3	73.3	26.1	97.6	123.5	2.3
33	2	50	1,944	0.4	0.0	0.0	7.6	57.2	0.0	0.0	20.2	0.0	5.1	83.9	47.4	0.0
34	2	356	3,252	0.0	18.7	0.0	0.5	27.3	0.0	3.1	50.4	0.0	7.0	97.4	73.7	1.8
35	2	37	562	0.1	6.3	0.0	0.0	63.9	0.0	0.0	29.8	13.4	5.6	97.3	112.5	0.3
36	62	131	411	0.0	0.0	0.0	16.6	0.0	0.0	0.0	83.4	70.1	19.2	97.9	22.4	7.8
37	26	0	826	10.6	40.0	0.0	5.3	4.0	0.0	0.0	40.1	47.9	7.7	74.1	105.8	0.7
42	3	0	133	0.4	85.3	0.0	8.8	0.0	0.0	0.0	5.5	94.1	8.9	94.3	64.0	1.5
39	14,686	236,663	1,740,853	12.6	40.9	2.8	2.5	11.5	1.5	0.7	23.1	16.6	5.8	71.7	97.1	0.8
40	2,029	32,705	240,572													
41	1,034	16,656	122,522													
42	239	3,848	28,303													
43	1,520	24,502	180,231													

- 3. Total advances exclude group & interbank funding and provisions in respect of loans & advances
- 4. Contingent liabilities include guarantees, letters of credit and other risk exposures
- 5. Bad debt provisions comprise of what are called loan loss reserves in the USA
- 6. n/a = Not appropriate
- 7. n/c = Not calculated

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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 140 000 people in 149 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. When PricewaterhouseCoopers was formed on 1 July 1998, it immediately became the largest collection of professional services firms ever created. The merger marked a quantum leap in global professional services, bringing together thousands of people all over the world possessing considerable collective expertise and sharing a single goal of enhancing client value.

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 for South Africa 2002 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.

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 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.

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.

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. The Basel II Capital Accord's requirement will impact risk management's efforts in the industry.

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 an annual 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.

Other relevant PricewaterhouseCoopers publications include:

- The **journal** tackling the key issues in banking and capital markets;
- The **Financial Services Journal** (South African publication);
- **PricewaterhouseCoopers / EIU IS Briefing Programme**;
- **CBI/PricewaterhouseCoopers Financial Services Survey March 2005**;
- **A Practitioner's Guide to the Basel Accord**; and
- **Initial Perspectives on Strategic and Emerging Issues in Key African Markets** (published in February 2007).

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.

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Notes

