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April 2021

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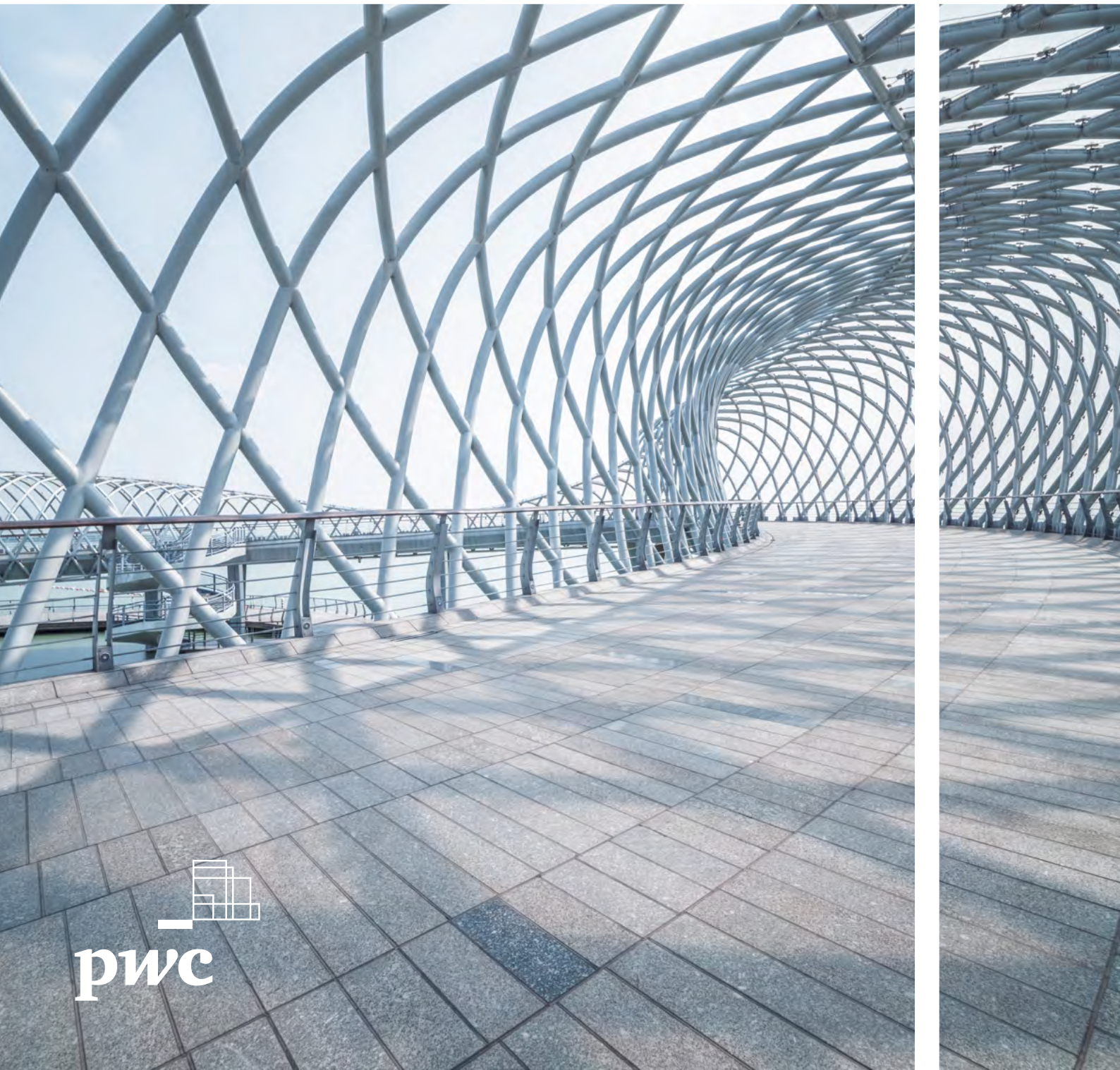
South Africa – Major Banks Analysis

PwC analysis of major banks' results for the reporting period ended 31 December 2020



About this publication

PwC's Major Banks Analysis presents the highlights of the combined local currency results of Absa, FirstRand, Nedbank and Standard Bank.

Other major players in the South African banking industry, including Investec and Capitec, are excluded from our analysis due to their different reporting periods and product mix. However, the analysis identifies common trends shaping the banking industry across all major players and builds on previous PwC analyses for a period of over a decade.

About this publication

- This analysis has been prepared from publicly available information
- The data, charts and figures included are based on the banks' published results, which are available on the banks' websites
- Certain ratios have been recalculated to present comparable six-month results
- Where applicable, amounts and ratios are based on 'Banking activities', as published in the respective banks' results

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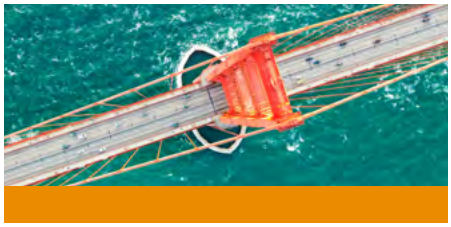

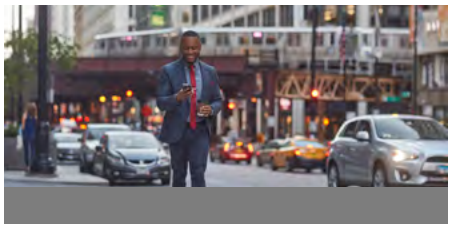

1 The big picture

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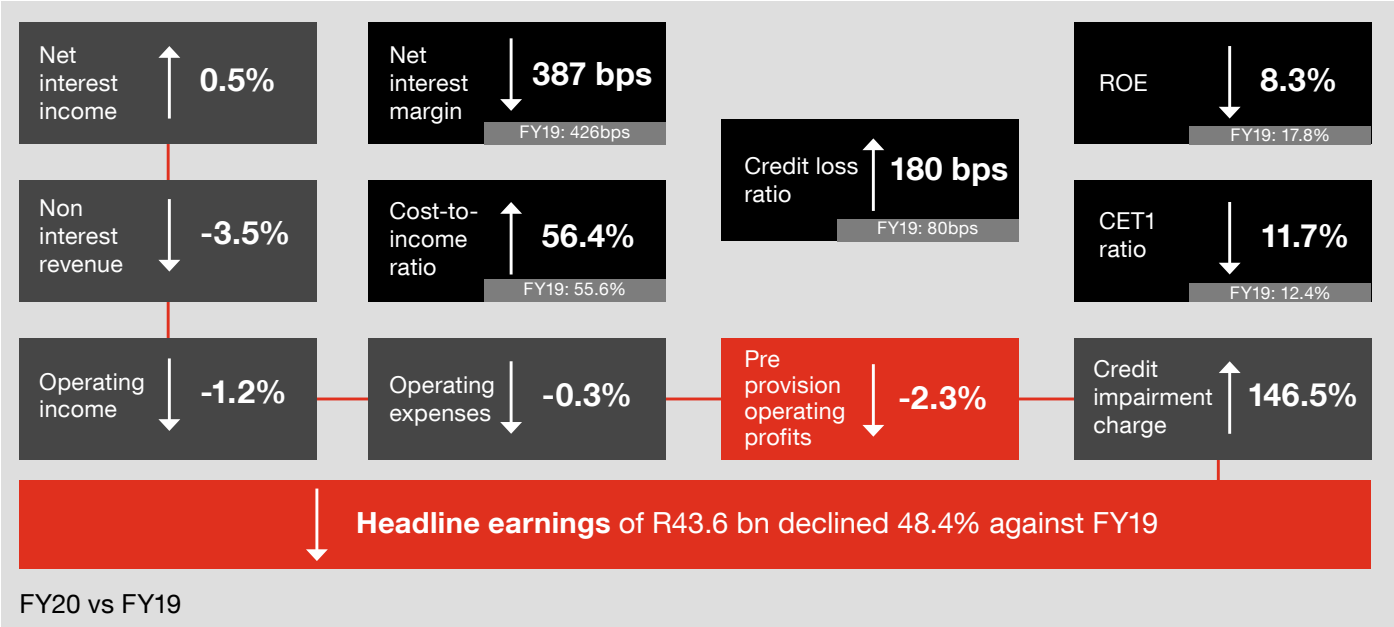
Combined financial performance

Figure 1.1: FY20 results summary



Source: PwC

Overview and external environment

When the history books complete the accounting for 2020, they will recount a profound period – one that altered the trajectory of lives and livelihoods, societies and economies, businesses and households – on a global scale. Financial services, and banking in particular, function at the epicentre of the broader economic context and therefore banks' financial performance is closely tied to the economies in which they operate.

The South African economy has laboured under structural constraints, deteriorating growth trends, worrying unemployment levels and limited fiscal space that have been well documented long before COVID-19. Quantifying the domestic economic performance of 2020, as ***Stats SA notes***, makes for sobering reading. While the 7% contraction in the South African economy in 2020 represents a cardiac arrest driven by crisis conditions, it does not diminish the declining domestic economic trends that have prevailed for more than a decade.

Concerningly, inflation-adjusted South African GDP per capita peaked in 2014 and has since been declining, highlighting the extent to which struggling economic growth has battled to keep pace with population growth. South Africa was in some form of lockdown for 279 days in 2020, triggering GDP per capita to decrease to a level last seen in 2005. In 2020, the South African economy registered average inflation of 3.3% – its lowest in 16 years.

This context provided space for monetary easing and allowed the South African Reserve Bank (SARB) to cut market interest rates to levels not seen in 50 years. Low inflation and aggressive rate cuts reflect the extent of weakness in the domestic economy, which 2020 starkly illuminated.

Some green shoots were observed in the fourth quarter, with the BER/RMB Business Confidence Index increasing notably from a reading of 24 in Q3-20 to 40 in Q4-20.

Even at this level, the majority of South African businesses reflect that prevailing business conditions while household and consumer confidence remained depressed.

Globally, no economy or demographic group was spared in 2020, prompting extraordinary monetary policy and legislative relief in some of the largest economies and creating a backdrop of volatile global markets.

Table 1.1: Weak economic environment translates into challenging operating conditions

Economic environment	Operating context	Impact on banks' results
2020 began with slowest level of economic activity since the global financial crisis	**Low interest rate environment**	• Negative net interest income (NII) impact and margin compression / negative endowment
Pandemic-induced lockdowns resulted in reduced client activity and a dire 2020 economic performance	**Depressed private sector credit appetite**	• Muted risk taking and credit origination (loan growth) • Negative NII impact
SA GDP contracted 7% in 2020, with a somewhat better than expected second half - although far worse than pre-pandemic levels	**Some industries more acutely impacted by lockdown restrictions**	• Restaurants, hospitality and travel/airline industries sharply and negatively impacted • Depressed credit demand and heightened credit risks
Globally and regionally, no economy or demographic group was spared, prompting extraordinary monetary policy and legislative relief in some large economies	**Sustained low GDP growth**	• Rating downgrades for banks and corporates, increasing cost of equity • Negative impact on corporate activity and business volumes
2020: A public health crisis resulted in an economic crisis and worsened already significant social challenges	**Relatively higher private sector liquidity**	• Positively impacting deposit growth and corporate lending particularly in 1H2020 as clients drew on facilities

Key themes arising from the reporting period

Operating under severely constrained macroeconomic conditions and considerable uncertainty, the major banks delivered a financial performance in FY20 that reflects the challenges of an unprecedented year. Anchored in public health concerns related to the COVID-19 pandemic, depressed business and consumer confidence levels combined to produce the largest annual fall in domestic economic activity in nearly seven decades.

Many of the central themes we highlighted in our 30 June 2020 Major Banks Analysis prevailed throughout the year, as outlined below:

- **Credit impairment charges soared relative to FY19, as forward-looking impairment models and post-model adjustments sought to capture the scale of the crisis on loan portfolios.** The dramatic increase in impairments contributed as the primary factor to the steep fall in combined headline earnings and returns, which now compare to 2012 levels.
- **The robust capital and liquidity positions with which the major banks entered the crisis** were maintained above regulatory required levels in FY20, providing risk capacity and supporting their ability to navigate turbulent operating conditions.
- **'The branch is dead. Long live the branch!'** With the undeniable flight to digital and mobile banking platforms – a trend that predates the pandemic – 2020 saw record volumes of banking transactions conducted through lower-cost digital channels across all customer segments. The major banks recognise, however, that while the size, scope and configuration of the physical branch network will change, they will continue to play a central, albeit different, part in their overall channel and distribution strategies going forward.
- **Early in the crisis, the major banks shifted strategic focus from managing profitability and delivering stakeholder returns to managing operational stability and ensuring balance sheet resilience.** These efforts resulted in both technology infrastructure and customer service levels holding up without major incident in spite of a sudden pivot to remote working and strong demands on systems. Demands on systems and IT architecture came from both facilitating the business of the major banks, as work was conducted remotely, and in supporting higher digital transaction volumes.
- **The major banks' trusted brands, geographic diversity and integrated and growing product set across the financial services spectrum** aided their ability to demonstrate operational and balance sheet resilience through crisis conditions. This enabled them to focus efforts on supporting customers, colleagues and communities.
- **In a year characterised by uncertainty, new ways of working and of doing business**, tight cost control and a changing variable cost composition resulted in operating expenses being well managed. However, the combined cost-to-income ratio deteriorated as revenue growth did not keep pace with cost growth.
- **Broader change considerations such as the sustainability agenda now feature prominently in strategic thinking**. With expectations for operating uncertainty to prevail, the major banks continue to seek out ways to adapt business models to respond to the changing operating environment, while managing a dynamic risk environment.
- **To foster customer loyalty in a competitive market, expand access to financial services, leverage technology and create seamless customer experiences**, the major banks acknowledge the need to be continuously relevant to how customers engage and transact, and are willing to reward loyalty and embrace partnerships to achieve this. Platform-based banking, increasingly led by digital channels, data-driven targeting and offering a multitude of applications, is likely to foster a new era in how the major banks deliver financial services. The need to be agile and 'speed to market' will not be a temporary phenomenon.

Regulatory developments

The regulatory reform agenda that began following the global financial crisis has continued swiftly and steadily since the implementation of the Basel III framework in 2013. While the implementation timeline of remaining aspects of banking prudential regulation post-crisis reforms (referred to by some commentators as 'Basel IV') were deferred at the onset of the pandemic by the Basel Committee on Banking Supervision and subsequently the Prudential Authority, expectations that regulatory reform measures would be slowed or severed by the pandemic were short-lived.

In 2021, various elements of the Basel IV package of prudential regulation – which focus on revising the calculation of risk-weighted assets and therefore capital demand – will become effective. These include the Standardised Approach for Counterparty Credit Risk (SA-CCR), capital requirements for bank exposures to central counterparties, capital requirements for banks' equity investments in funds, revisions to the securitisation framework and the large exposures framework. Each of these have varying levels of technical and operational complexity and have already been high on the agenda of the major banks in assessing and analysing their impact and implications.

In February 2021, the Prudential Authority (PA) issued guidance pertaining to the distribution of ordinary dividends and payments of cash bonuses to executive officers and material risk takers of banks. While the latest guidance, inter alia, allows for the declaration of ordinary dividends, it asserts the PA's view as reflected in the extract of Guidance Note 3 of 2020 alongside.

From a conduct perspective, the final Conduct Standard for Banks was published by the Financial Sector Conduct Authority in July 2020. It focuses on ensuring the fair treatment of financial customers by banks. The Standard deals with a range of areas, including culture and governance, suitability and performance requirements for financial products and services, advertising, disclosures, complaints and terminations of financial products or services.

> "Capital resources must continue to be available to support the real economy and to absorb losses in the immediate and medium to long term and, as such, the PA expects banks to take into consideration the adequacy of their current and projected capital and profitability levels, internal capital targets and risk appetite as well as current and potential future risks of the global pandemic when making distributions of dividends on ordinary shares and payments of cash bonuses to executive officers and material risk takers in 2021.

Source: Prudential Authority – Guidance Note 3 of 2021

Outlook

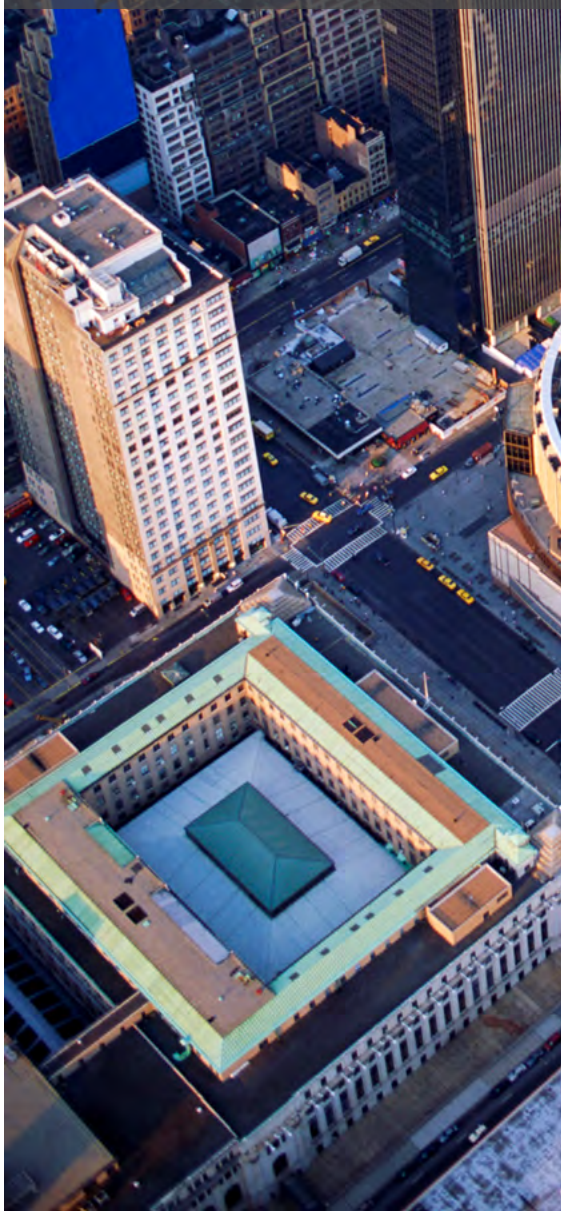
We expect that a return to pre-pandemic profit levels is at least a few years away. Through this crisis, however, the major banks have demonstrated their intent to be part of the solution and, in doing so, accelerated digital strategies and fostered greater levels of public trust.

While considerable uncertainty, both from a public health and from an economic standpoint is certain to prevail, the major banks have shown their ability to respond purposefully to crisis conditions. For the majority of the major banks' management teams and their people, 2020 will have been the most difficult and complex year on record. With various outlook scenarios dependent on a range of variables, the consensus view is that of more uncertainty ahead.

Some of the major banks have cautiously indicated in their results announcements that they are hopeful to have seen the bottom from an earnings perspective. Early indicators emanating in Q1-21 show a sliver of positivity – with increased business volumes, retail credit collections and early-stage debt relief showing a few promising trends.

As forward-looking expectations drove credit provisions in 2020, the major banks will hope that earnings trends return to more business-as-usual levels as impairments stabilise. Consequently, a strong focus on credit collections is likely to be a key theme of activity in 2021. Importantly however, just as data, models and expectations drove credit impairments in 2020, it will be data, collections and experience that will inform how impairment models adapt to changes in the environment going forward. Forthcoming data indicators will therefore be closely tracked by the major banks to gain a fuller appreciation of credit collection trends.

Positive indicators come with heavy caution – as some commentators note that there is little to no pent-up demand seen on the immediate horizon. In their view, the economy is simply too weak and unemployment too high to contemplate what a meaningful recovery might look like. The characteristics that will support the major banks' earnings profiles and drive growth into the future will be premised on a clear corporate and competitive purpose, a relentless mission to execute on strategies and leveraging technology and data-driven insights across the product and value spectrum.



South Africa's economic outlook

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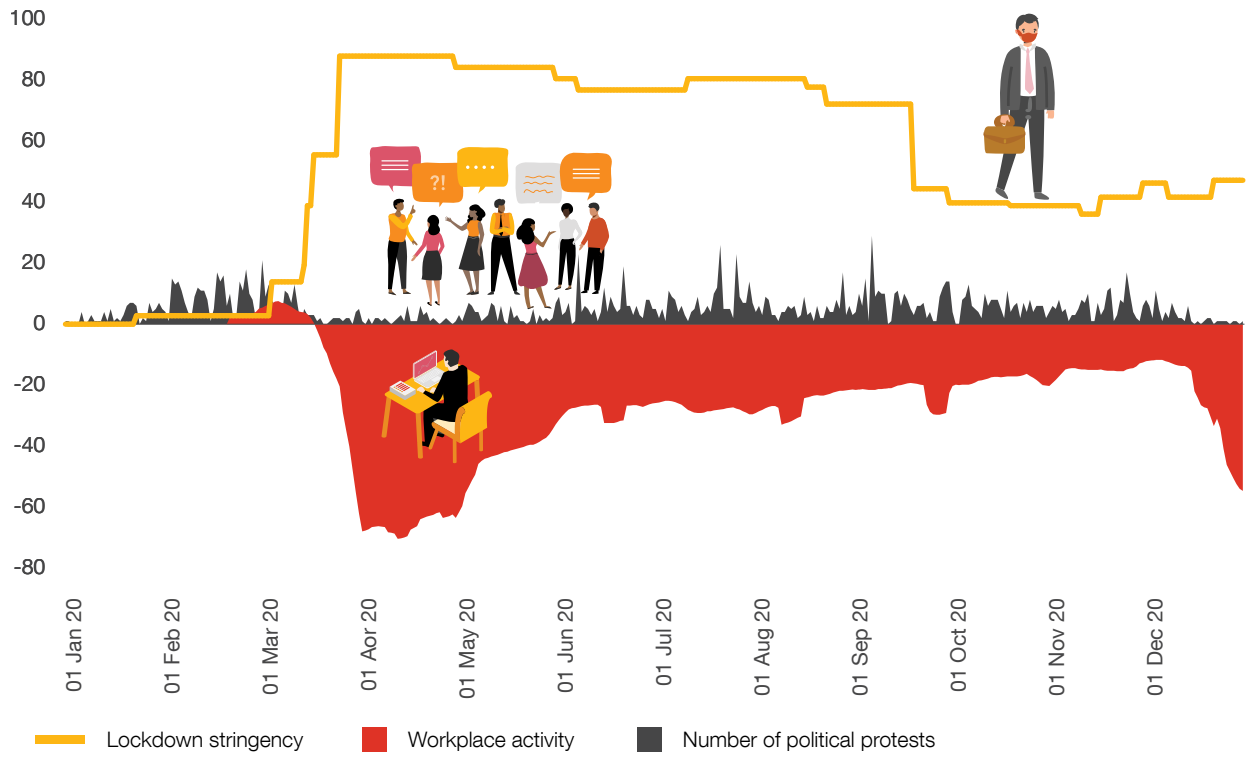
A strict pandemic lockdown sharply reduced workplace activity and cost South Africa 1.4m jobs

In response to the health threats posed by rising COVID-19 infections, both locally and abroad, South Africa instituted a strict lockdown late in March 2020. Data from the University of Oxford's Blavatnik School of Government indicates that over the period 27 March to 30 May (Lockdown Alert Levels 5 and 4), the country's lockdown rules were among the strictest 25% of countries in the world. The restrictions on human movement and business activity resulted in a significant drop in workplace activity. During the second half of 2020, the significant increase in unemployment as well as fewer restrictions on human movement fuelled a rise in societal discontent and associated protest action.

In addition to the millions of jobless people at the start of the year, an additional 2.2m people were without work during the April–June period. Only 876,000 of them returned to a job by end-2021 – a net loss of 1.4m jobs compared to a year earlier.

Monthly economic data reflect a sharp deterioration in economic conditions from April 2020, with most indicators declining significantly during the second and third quarters compared to the same period in 2019. For example, new vehicle sales dropped by 98.4% year-on-year during April as dealerships were closed. Overall, new vehicle sales declined by 29.1% in 2020 to 380,449 units, which was similar to the volume sold during 2009 – i.e. during the global financial crisis. There were some green shoots during the fourth quarter, in particular an increase in export revenues and mineral sales due to favourable international metal prices and exchange rate movements. The South African Revenue Service also reported growth in VAT revenue from October, reflecting improvement in the consumer economy, albeit off a low base.

Figure 1.2 Daily lockdown indicators



Sources: Google Community Mobility, Armed Conflict Location & Event Data Project (ACLED), Oxford COVID-19 Government Response Tracker

Notes:

- Lockdown stringency – an index from 0 to 100 (100 = most strict) calculated from nine indicators, including workplace closures, closures of public transport, stay-at-home requirements and restrictions on internal movements, amongst others.
- Workplace activity – the percentage change (seven-day moving average) in activity and duration of stay at places of work compared to a reference period of January 3–February 6 2020, based on location tracking by Android mobile phones.
- Number of political protests – reported incidents of political violence and protest events.

Uneven economic recovery expected among South Africa's key trading partners

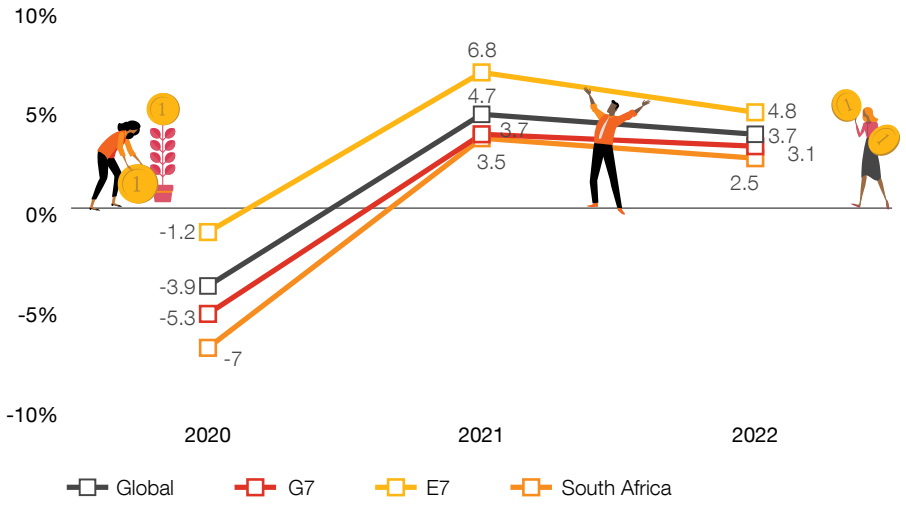
Following the 2020 recession, PwC expects the global economy to expand by 4.7% in 2021. This projection is heavily conditional on a successful deployment and spread of effective COVID-19 vaccines and continued accommodative fiscal, financial and monetary conditions. By the end of 2021, or early in 2022, we expect the global economy to revert to its pre-pandemic level of output.

However, this picture masks an uneven recovery pattern among South Africa's key trading partners. At one end of the spectrum is the Chinese economy, which is already larger than its pre-pandemic size. On the other end are mostly advanced (G7) economies that are either service based (e.g. the United Kingdom and France) or more focused on exporting capital goods (e.g. Germany and Japan), which are unlikely to recover to their pre-crisis levels by the end of 2021.

Notes:

- Forecast date: 31 March 2021
- G7 = Canada, France, Germany, Italy, Japan, United Kingdom, United States of America
- E7 = China, India, Brazil, Russia, Indonesia, Mexico, Turkey

Figure 1.3 Aggregate real GDP growth (%)



Source: PwC analysis

A third wave of infections and lockdown restrictions will strongly influence the local economic recovery

The South African economy is expected to see positive GDP growth in 2021. However, much of this growth will be due to the base effects arising from the large contraction in economic activity last year, especially in the second quarter. PwC's baseline forecast is for GDP growth of 3.5% in 2021. In addiction to stricter lockdown levels during winter around a third wave of COVID-19 infections, this outlook also assumes the negative impact of continued electricity load-shedding, albeit not as serious as that seen in 2020.

The upside scenario assumes less restrictive lockdowns, reduced pressure from electricity supply challenges, as well as greater fiscal stimulus on the back of better-than-expected tax collections. Our upside scenario would see South African GDP return to 2019 levels by 2022. In turn, the downside scenario sees these factors turn out worse than currently expected, with the economy remaining in lockdown for the rest of the year and heading into 2022.

2 Earnings analysis

> The primary driver of the sharp fall in headline earnings for FY20 was the significant increase in expected credit losses as a result of the deteriorated macro outlook and customer risk profiles.

Headline earnings

We have previously highlighted that the South African major banks have a consistent track record of registering earnings growth in relatively close proximity to domestic annualised GDP growth, as depicted in Figure 2.1.

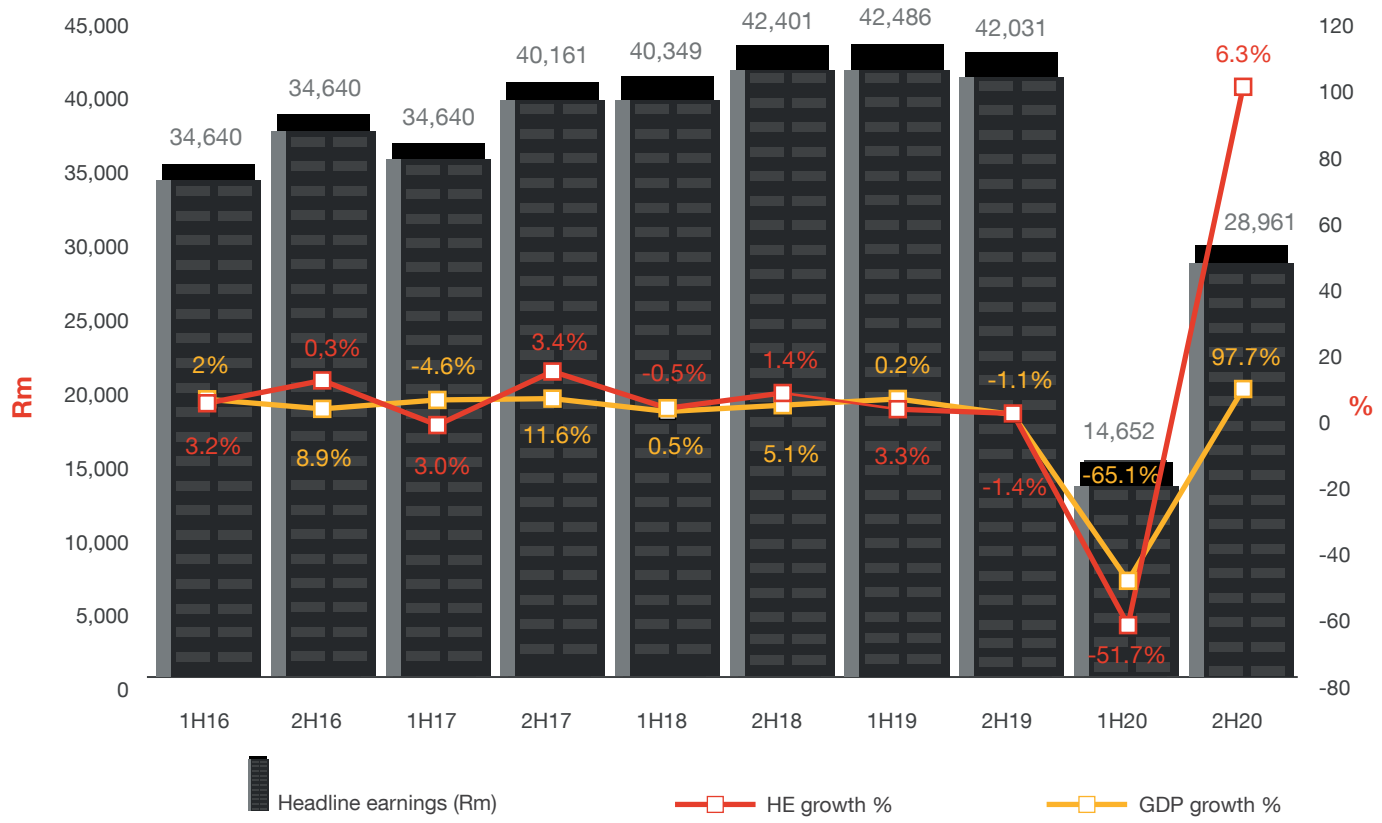
While earnings fell sharply in 1H20 in line with the steep negative GDP impact brought about by the pandemic and associated restrictions, the second half of 2020 reflected resilient earnings generation that outperformed the first half of 2020 but remained well below pre-pandemic levels.

For FY20, combined headline earnings of R43.6bn declined 48.4% relative to FY19. On a rolling six-month basis, combined headline earnings of R28.9bn at 2H20 grew 97.7% against 1H20, exceeding annualised GDP growth for the same period (as depicted in Figure 2.1).

The primary driver of the sharp fall in headline earnings for FY20 was the significant increase in expected credit losses raised by the major banks as a result of the deteriorated macro outlook and customer risk profiles, and the corresponding increase in credit impairment charges. For FY20, the combined credit impairment charge increased 146.5% compared to FY19.

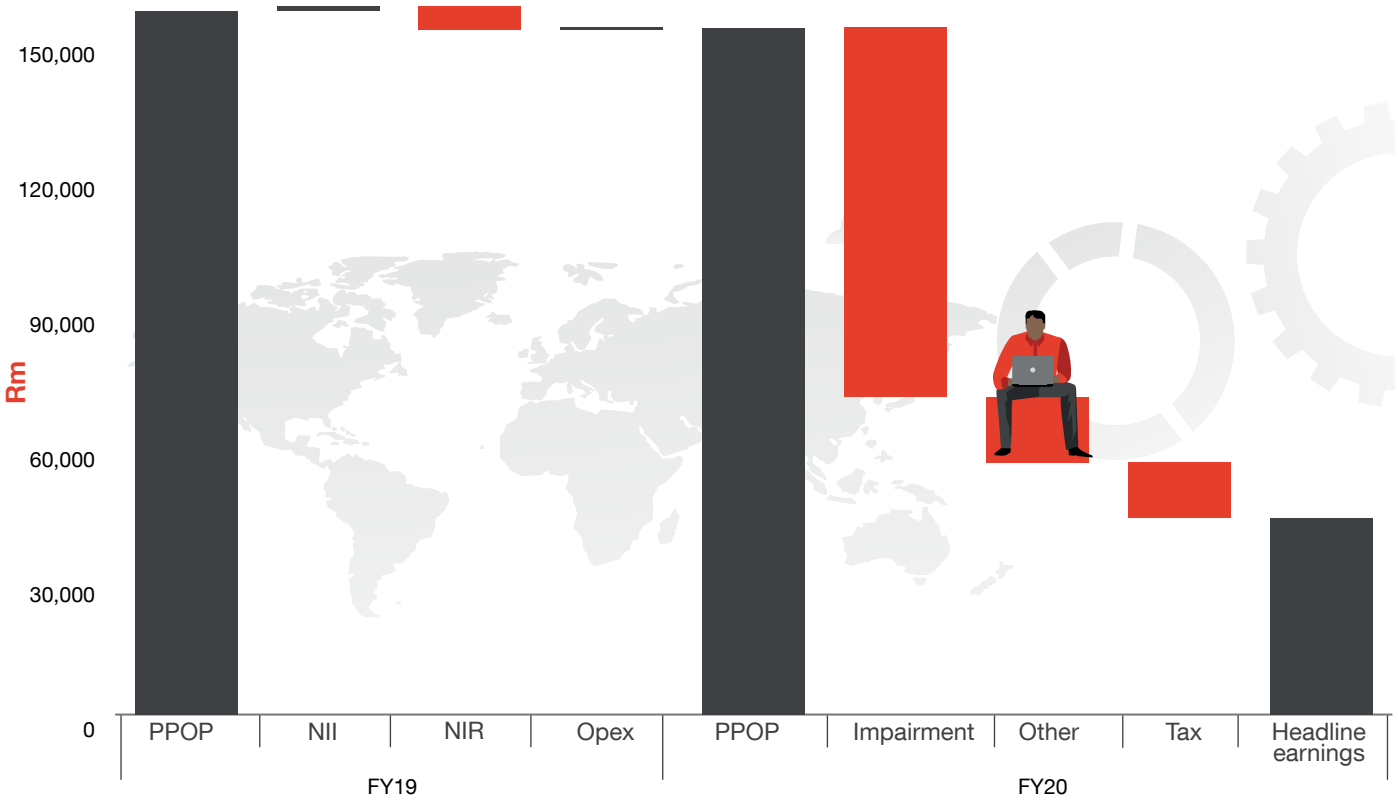
Excluding for risk costs, pre-provision operating income fell 2.3% in FY20 when compared against FY19. On the back of lower headline earnings, the combined return on equity (ROE) fell to 8.3% on an annualised basis for FY20 compared to 17.8% for FY19 (and amounted to 11.2% at 2H20 on a six-monthly basis compared to 5.4% at 1H20).

Figure 2.1: SA major banks headline earnings growth, 1H16–2H20



Source: PwC analysis

Figure 2.2: Key drivers of combined headline earnings



PPOP: Pre-provision operating profit
NII: Net interest income
NIR: Non-interest revenue
Opex: Operating expenses

Source: PwC analysis

Table 2.1: Combined income statement (Rm)

	FY20	2H20	1H20	FY19	2H19	1H19	FY20 v FY19	2H20 v 1H20
Net interest income	203,271	102,068	101,267	202,178	102,534	99,644	0.5%	0.8%
Non-interest revenue	145,920	72,923	72,441	151,221	76,960	74,261	-3.5%	0.7%
Operating income	**349,191**	**174,991**	**173,708**	**353,399**	**179,494**	**173,905**	**-1.2%**	**0.7%**
Operating expenses	-196,561	-100,770	-95,411	-197,124	-98,221	-98,903	-0.3%	5.6%
Pre-provision operating profit	**152,630**	**74,221**	**78,297**	**156,275**	**81,273**	**75,002**	**-2.3%**	**-5.2%**
Bad debt charge	-82,153	-30,077	-52,076	-33,322	-17,358	-15,964	146.5%	-42.2%
Other	-10,487	-3,629	-7,036	-4,953	-3,802	-1,168	111.7%	-48.4%
Direct tax	-12,413	-8,830	-3,557	-22,485	-13,217	-14,038	-44.8%	148.2%
Profit after tax	**47,577**	**31,685**	**15,628**	**95,515**	**46,896**	**43,832**	**-50.2%**	**102.8%**
Headline adjustable items	-3,964	-2,724	-976	-10,998	-4,865	-1,346		
Headline earnings	**43,613**	**28,961**	**14,652**	**84,517**	**42,031**	**42,486**	**-48.4%**	**97.7%**

Source: PwC analysis

Net interest income

Impacted by a combination of a lower market interest rate environment and related negative endowment effects, changes in balance sheet mix with deposits growing faster than advances, and robust pricing competition in both lending and deposit products, total net interest income of the major banks showed muted growth of 0.5% in FY20 when compared against FY19.

The combined net interest margin fell 37 bps to 3.83% at FY20 compared to 4.20% at FY19.

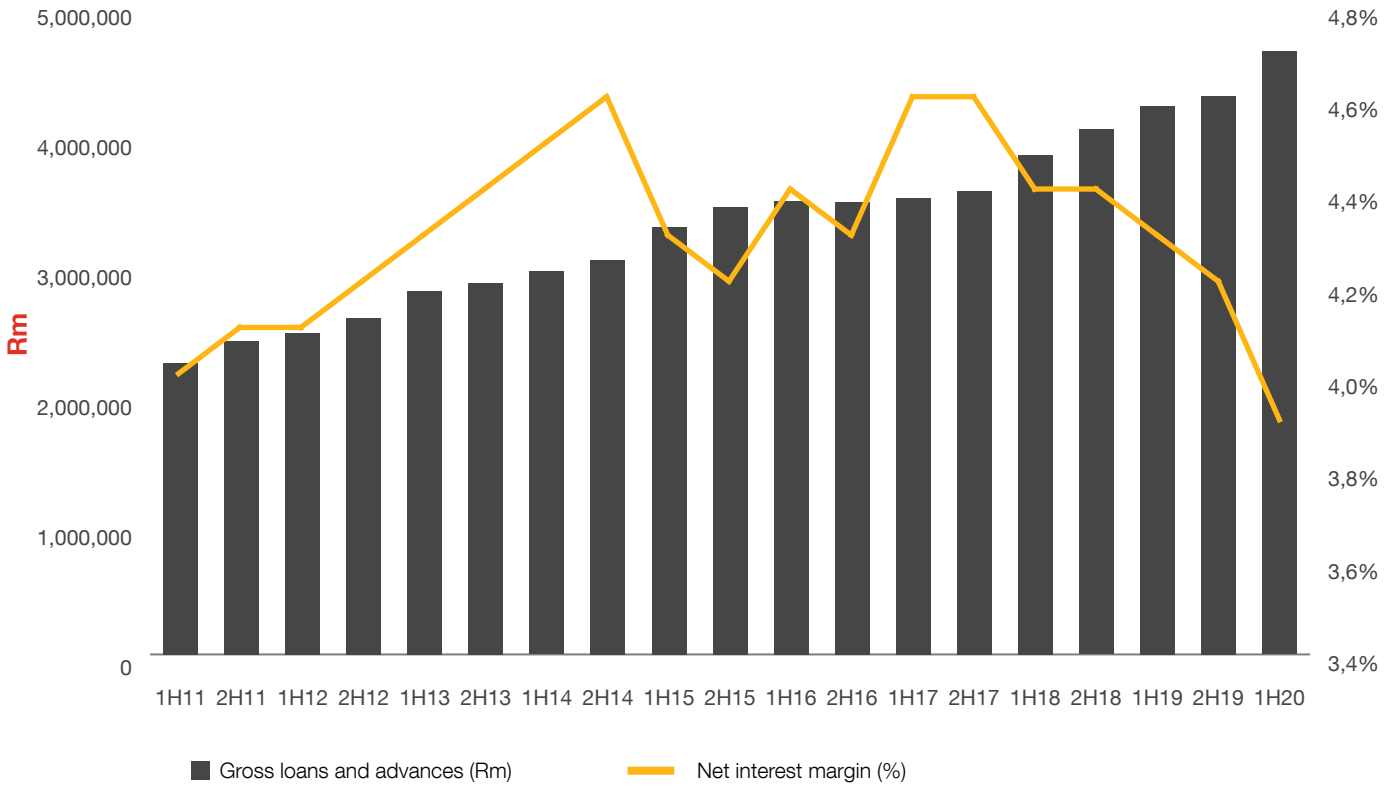
Balance sheet mix and economic impacts

Total loans and advances grew 5.3% at FY20 when compared against FY19, while deposit growth was registered at roughly double the level of advances growth. Total deposits grew 9.9% at FY20 when compared against FY19, with a significant portion of this growth experienced during the first half of 2020.

Net interest margin analysis

Slower loan growth in contrast to deposit growth, combined with significant competitive pressures in deposit pricing combined to play a key role in margin compression experienced in 2020. These factors, particularly deposit pricing competition, are likely to persist into the future amidst an increasingly competitive domestic banking environment and a fight for a share of the customer wallet.

Figure 2.3: Net interest margin



Source: PwC analysis

Non-interest revenue

On a total basis, the combined non-interest revenue ("NIR") of the major banks fell 3.5% in FY20 when compared to FY19, with the majority of the decline attributed to the first half of 2020.

In the second half, total NIR reflected moderate growth of 1% as South Africa moved down lockdown levels and transactional activity increased.

Net fee and commission income

Net fee and commission income continues to comprise the largest category of NIR for the major banks at 67.5% for FY20 (69% at FY19).

Largely impacted by reduced business activity and pandemic-related restrictions, fee and commission income declined 6% for FY20 when compared against FY19 but showed healthy growth of 8.4% in the second half.

A key driver of growth in this category of revenue continues to be significantly elevated transactional volumes initiated through digital channels – which are generally lower cost banking channels as opposed to physical channels. The drive towards digital channels particularly from a retail banking perspective has been a key theme we have previously highlighted – a trend markedly accelerated in the last year. Within the digital channel landscape and the variety of applications that customers now have to conduct banking transactions – including mobile, internet and other devices – the mobile app has largely emerged as the channel of choice for a majority of South African retail banking consumers. Many of the major banks have noted that they have observed a significant increase in the number of 'digitally active' customers in 2020.

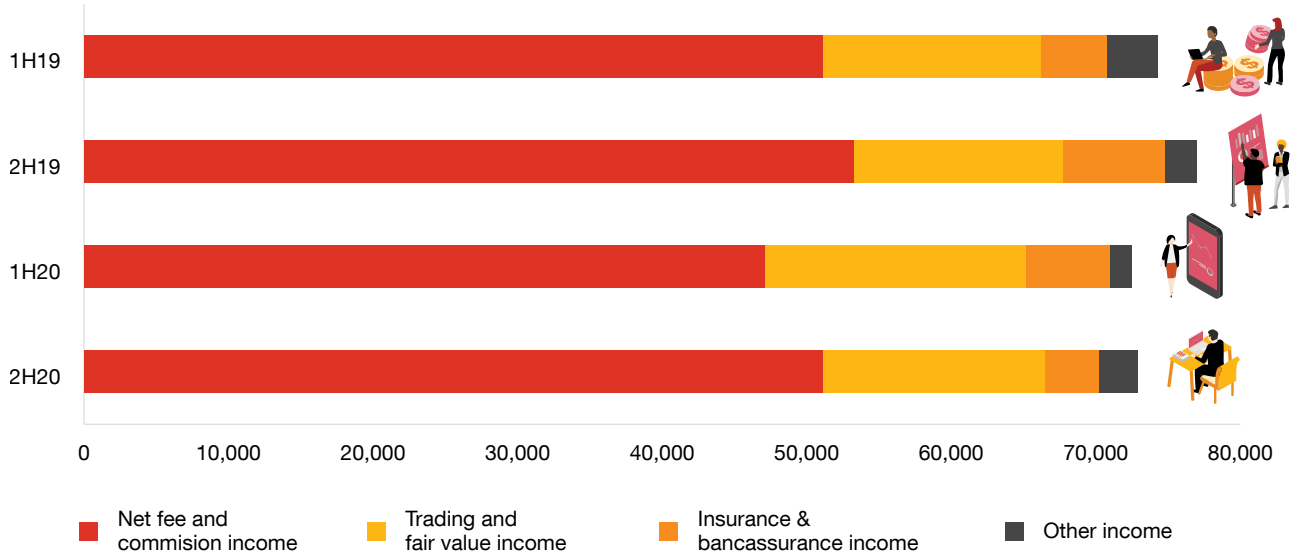
Trading and fair value income:

Trading and fair value income has historically been positively correlated with market volatility – a trend that reflects greater demand for trading, hedging and risk management products from corporate and business clients in periods of market stress.

Against this backdrop and a year of unprecedented market volatility, combined trading and fair value income grew 13% in FY20 against FY19 – now comprising 23% of total NIR (19.5% at FY19).

The majority of growth in this revenue category occurred during the first half of 2020 at the onset of the pandemic and when market volatility and uncertainty were at most elevated levels.

Figure 2.4: Non-interest revenue (Rm)



Source: PwC analysis

Efficiency

Cost-to-income ratio analysis

At the start of the pandemic, the major banks quickly pivoted strategic focus towards supporting customers, colleagues and communities. As part of this, tight cost control and a changing variable cost composition in a year when business travel reduced to record lows contributed to operating expenses being well-managed.

Total operating expenses of the major banks grew by a moderate 1% in FY20 when compared against FY19, considerably beating average inflation in South Africa in 2020 of 3.3%.

Key cost drivers

Staff costs continue to comprise the most significant component of the major banks cost base (55.7% in FY20, 56.7% in FY19). Year-on-year, staff costs decreased 0.8% in FY20 while aggregate combined headcount fell 3.4% during 2020.

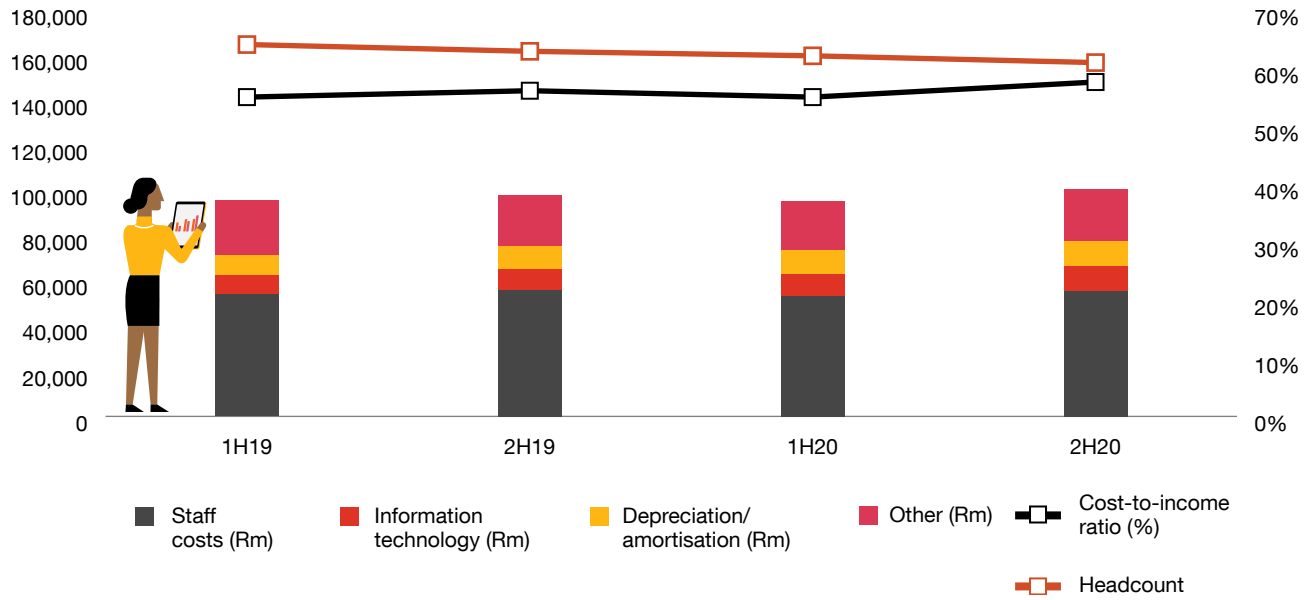
At these levels, the decrease in headcount is more attributable to natural rates of staff attrition as opposed to structural downsizing activity on the part of the major banks. This observation is consistent with comments made by some bank management teams as part of their results announcements that no significant strategic decisions have been taken in relation to the reconfiguration of their physical branch networks during the crisis conditions of 2020 – although they acknowledge longer term trends that will result in a different looking branch network with new and varied skills needed from branch staff.

Another consistent trend observable in analysing the major banks' cost base is the increasing contribution of spend on IT costs. In FY20, IT costs was the fastest category of operating expenses increasing 18.4% against FY19, and 13.9% in the second half of 2020 compared against the first half.

The trend in increased IT spend accelerated in 2020 reflecting:

- changing dynamics of how the major banks do business and how they conducted significant parts of their corporate activity in 2020 remotely;
- a significant flight of transactional banking activity to online channels; and
- the associated need to strengthen and enhance security around banking systems in recognition of increased online volumes and sophisticated cyber attacks.

Figure 2.5: Operating expenses and cost-to-income ratio



Source: PwC analysis

3 Asset quality

Credit growth

On a combined basis, the total loans and advances portfolios of the major banks grew 5.3% in FY20 when compared against FY19. A relatively significant portion of this growth was experienced in the first half of 2020, in particular in the first quarter prior to the onset of the COVID-19 induced national lockdown and associated restrictions which commenced at the end of March 2020 in South Africa.

Comparing the aggregate loan portfolios of the major banks on a rolling six-month basis bears out this observation, with combined loans and advances decreasing 2.5% at 2H20 when compared against 1H20.

Analysing the annual growth further reveals the following key trends:

- With the exception of retail card and overdraft portfolios which grew 5.5% and 3.8% respectively, all other retail credit portfolios showed either negligible growth or contracted year on year.
- The retail credit card portfolio in particular shrank 9% on a rolling six-month basis (when comparing 2H20 with 1H20), evidencing a combination of adverse credit supply (risk appetite tightening) and demand (subdued credit appetite) dynamics in the second half of the year.
- The combined residential mortgage portfolio reflected a flat growth trend, registering a modest 0.4% increase against FY19 owing to closed deeds offices at the start of the lockdown period and nearly no mortgage applications processed in the month of April 2020 in particular. Residential mortgages recorded 3.4% growth on a six-month basis when compared against 1H20, on the back of limited pent up demand accumulated during the hardest phases of the lockdown.
- The instalment sale and finance lease portfolio declined most heavily on an annual basis, falling nearly 10% against FY19 with moderate growth of 3.2% observed in the second half of 2020.
- In aggregate, the combined retail lending portfolio (across all retail credit products) was largely flat against FY19 (0.1% growth) and 1H20 (1.1% growth).
- The corporate lending portfolio on the other hand reflected 4.3% annual growth against FY19, with similar growth trends most acutely experienced in the first quarter of 2020 and in the early phases of the lockdown (in the second quarter) on the back of elevated levels of market uncertainty and corporate drawdowns on existing working capital and other loan facilities.
- Combined interbank and sovereign asset holding positions of the major banks provided the strongest impetus to overall loan growth in FY20, driven in part by a flight to high quality liquid assets (including government bonds) as the banks' balance sheets were positioned towards a posture of resilience to navigate crisis conditions in 2020.

A broad observation of the major banks' combined loan portfolios by segment (as depicted in Figure 3.1) reflects that, unsurprisingly, no significant shifts in lending strategy from a segmental perspective have been observed in FY20.

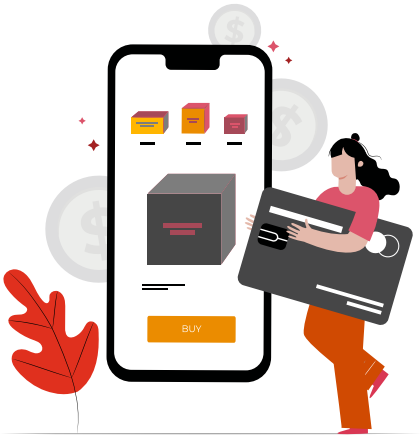
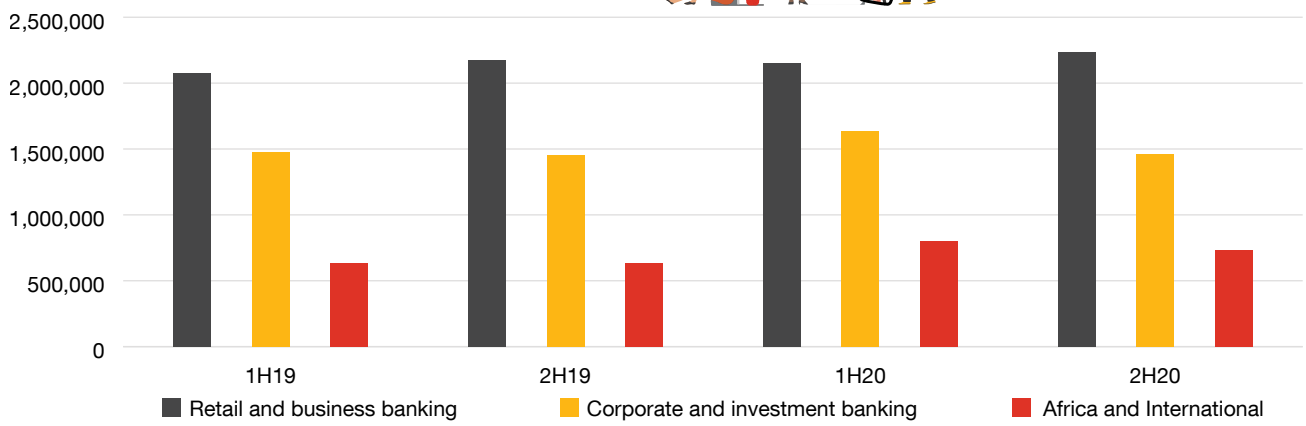
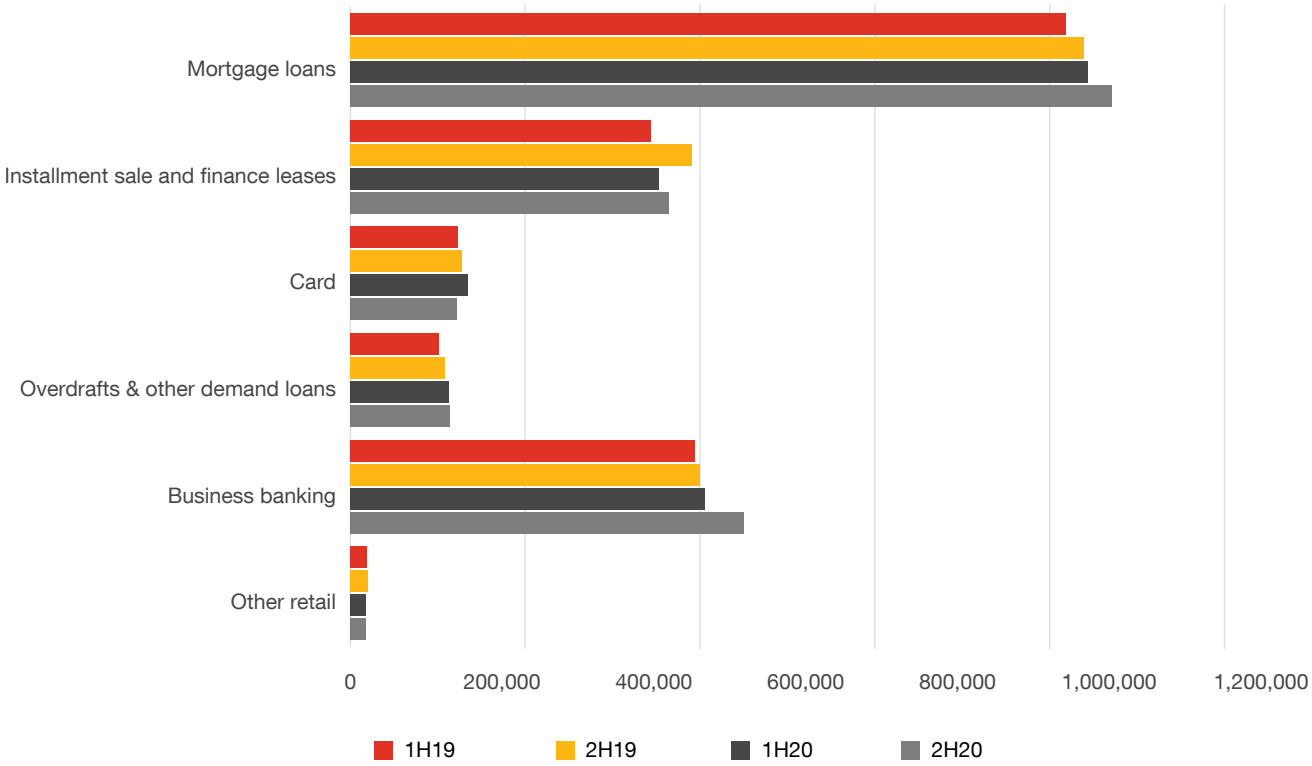


Figure 3.1: Gross loan portfolio segmental split (Rm)

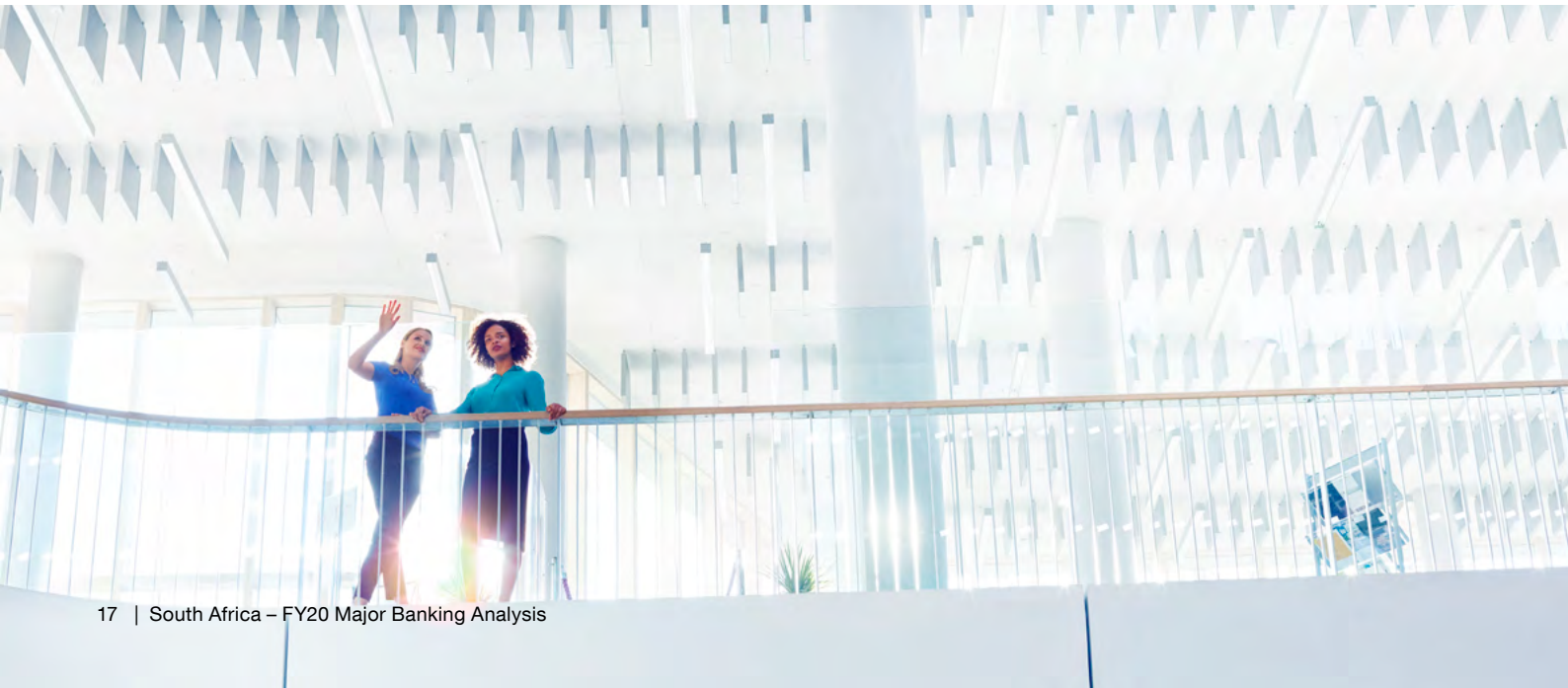


Source: PwC analysis

Figure 3.2: Retail credit product composition (Rm)



Source: PwC analysis



Credit quality

Consistent with analyst expectations, the major banks' June 2020 reporting and the widely acknowledged challenging operating and economic conditions that prevailed throughout FY20, the major banks' combined stock of non-performing loans (NPL) increased significantly by 47.8% compared against FY19.

While the increase in NPLs during the second half was less severe than the first half, on a rolling six-month basis NPL stocks increased 10.8% (when compared against 1H20).

Key thematic observations that can be drawn from the major banks FY20 reported NPL information include:

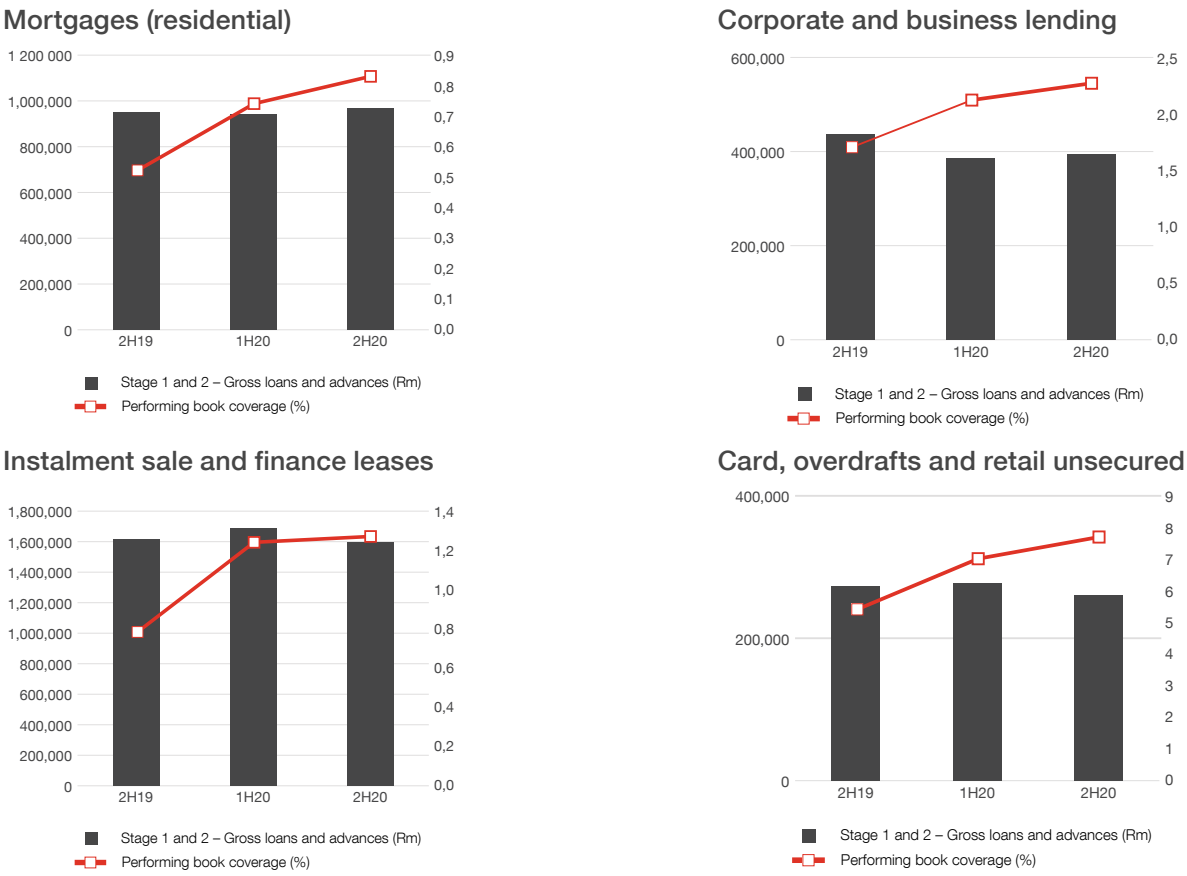
- No lending product category, customer segment or geography was spared from the sharp increase in NPL formation across the major banks' balance sheets in FY20.
- Retail lending categories including residential mortgages, instalment sale and finance leases and card and overdraft portfolios each reported steep NPL increases of greater than 32% year on year, with the retail NPL portfolio in aggregate increasing 42% in FY20 (increasing 10.3% in the second half of 2020).
- In aggregate, corporate lending NPL trends broadly approximate those observed in retail lending portfolios, with total corporate NPLs increasing 44.3% in FY20 (increasing 10.1% in the second half of 2020).
- At FY20 NPLs comprised 5.6% as a proportion of the total loan portfolio (4% at FY19 and 4.9% at 1H20).
- Consistent with historical trends, residential mortgages comprise the largest category of the major banks' total NPL stock at 32.9% at FY20 (32.9% at FY19 and 34.5% at 1H20).
- Corporate NPLs grew to 23.3% as a percentage of total NPLs, compared to 22.5% at FY19 (22.7% at 1H20).

Impairments and coverage ratios

Given the forward-looking nature of expected credit loss provisioning in terms of IFRS 9 – Financial Instruments, a combination of deteriorated macroeconomic outlooks and customer risk profiles built into credit impairment models, along with post-model adjustments in certain loan portfolios, resulted in a sharp increase in ECL provisions related to performing (Stage 1 and Stage 2) loan portfolios. On a combined basis, ECL coverage (ECL provisions divided by total performing loans) grew 52 basis points to 1.64% at FY20 (1.12% at FY19).

Reflecting a consistent trend, performing portfolio ECL levels increased across all lending categories in FY20 (as depicted in Figure 3.3), with the sharpest increase observed in the unsecured retail lending portfolios (comprising credit cards and overdrafts) which grew 230bps to 7.7% at FY20 (5.4% at FY19).

Figure 3.3: Performing book impairment coverage ratios

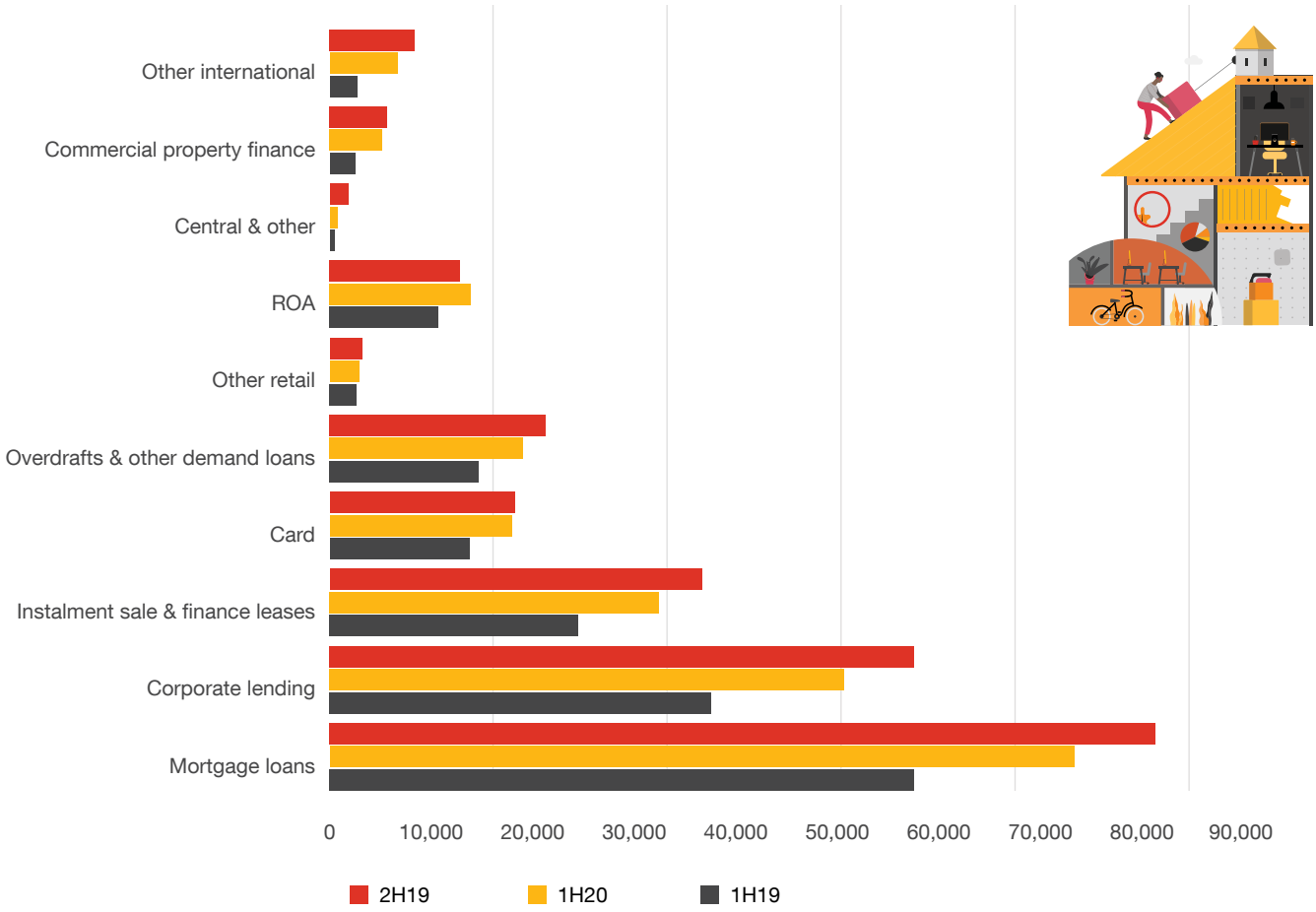


Source: PwC analysis

In the non-performing (Stage 3) portfolio, ECL coverage (specific provisions divided by Stage 3 loans) remained broadly consistent with levels observed previously in spite of the significant increase in NPL stock described above, as depicted in Figure 3.4

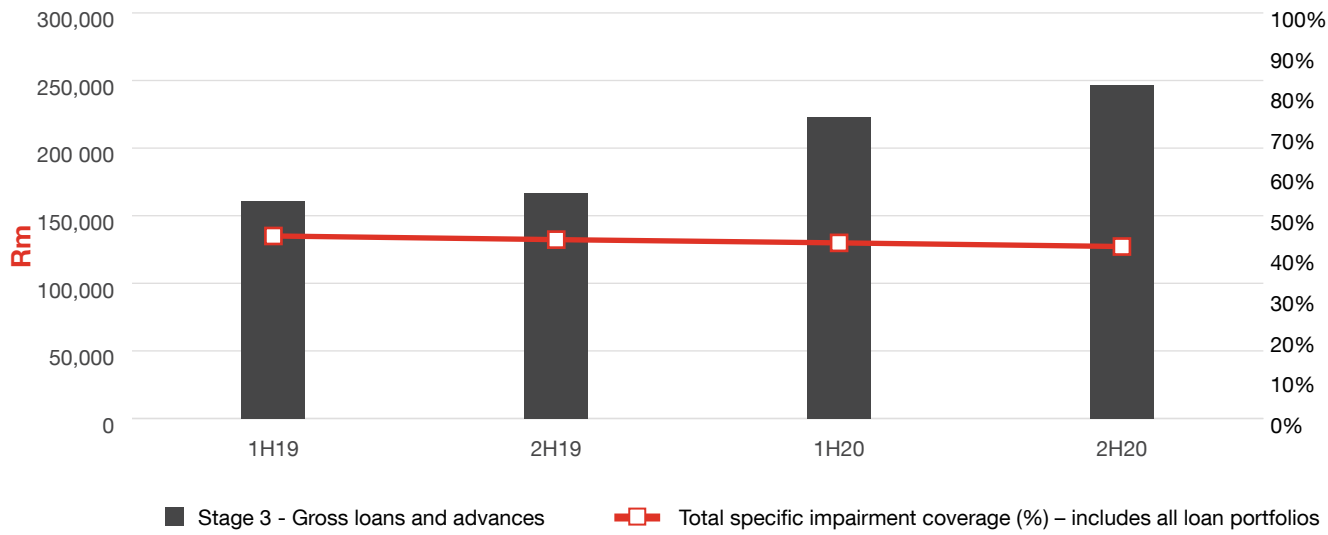
On a combined basis NPLs remained well covered at FY20, amounting to 42.4% (44.1% at FY19 and 43.3% at 1H20). As we have previously noted, lags in both customer credit data and credit experience of the major banks, as well as mitigation driven by customer relief, all play a part in how credit exposures migrate through IFRS 9 stages. Therefore, both NPL stocks and specific impairment coverage levels will continue to be closely monitored by the major banks over the short term.

Figure 3.4: Non-performing loan composition and specific impairment coverage ratios



Source: PwC analysis

Specific impairment coverage levels



Source: PwC analysis

4 Capital and funding

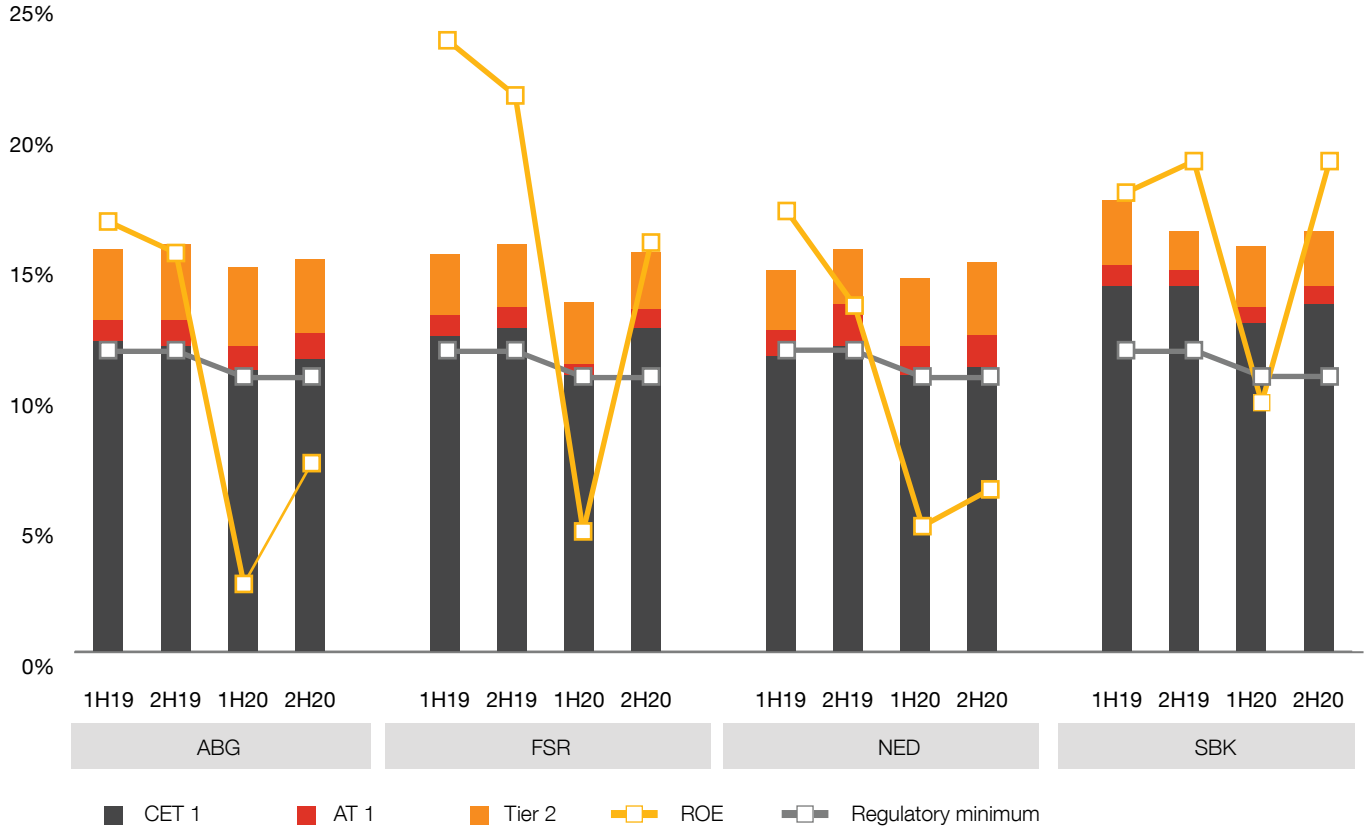
Capital supply and demand

On a combined basis, a much-watched measure of resilience, the Common Equity Tier 1 (CET1) ratio, of the major banks improved to 12.3% on a rolling six-month basis at 2H20, from 11.2% from 1H20, on the back of better earnings generation in the second half of 2020.

However, on an annual basis the CET1 ratio declined to 11.7% in FY20 from 12.4% at FY19, reflecting the sharp increases in credit impairment charges that negatively affected organic capital.

On a total basis, the total Capital Adequacy Ratio averaged 15.3% in FY20 (13.8% at FY19), aided by higher general provisions which qualify as a Tier 2 regulatory capital subject to specified regulatory limits.

Figure 4.1: Regulatory capital and ROE



ABG – Absa Group Limited
NED – Nedbank Group
FSR – FirstRand Limited
SBK – Standard Bank Group ('Banking activities')
CET 1 – Common Equity Tier 1 capital
AT 1 – Additional Tier 1 capital
ROE – Return on Equity

Source: PwC analysis

Notes:

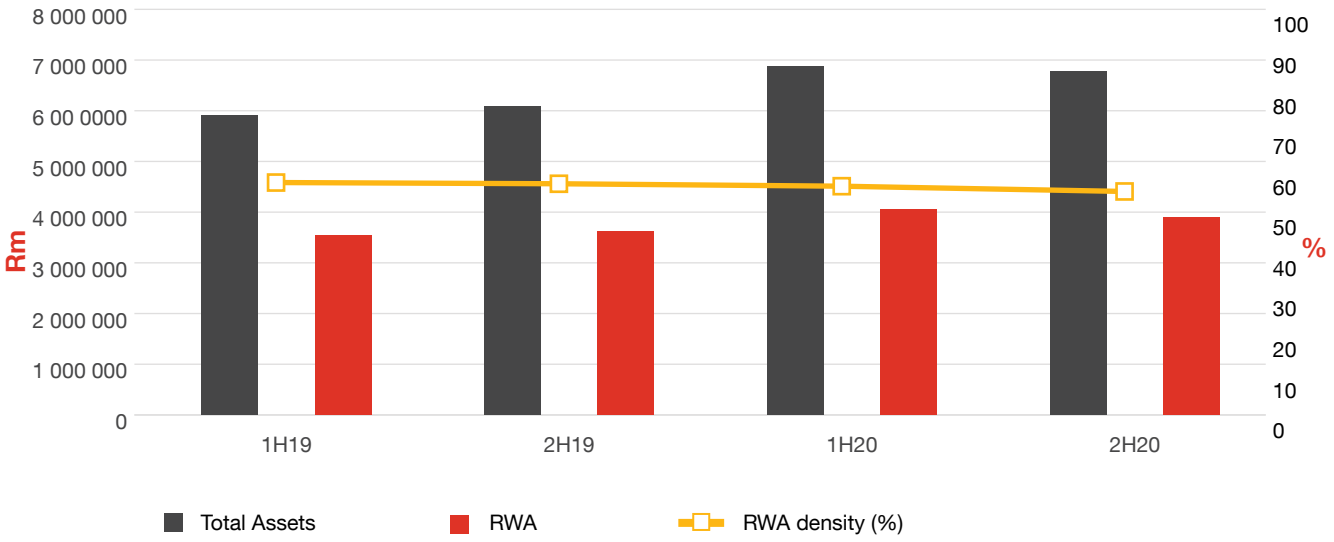
- Ratios recalculated to reflect six-monthly ratios for ABG, NED and SBK.
- 'Regulatory minimum' includes Basel base minimum (8%), Pillar 2A (0%), Capital Conservation Buffer (2.5%) at 2H20

From a capital demand perspective, combined risk-weighted assets (RWA) grew 7.6% compared to FY19, at a rate slower than total asset growth of 11.4%. RWA density – a measure of total assets divided by RWAs, and therefore indicative of the extent of modelling benefit that the banks derive in calculating capital demand – averaged 57.3% at FY20 (58.6% at FY19).

The following are key messages that arise from an analysis of RWA and capital demand dynamics of the major banks:

- The major banks continue to recognise capital adequacy as a strategic imperative, and beyond merely a compliance imperative. As such, capital demand analysis and capital optimisation initiatives represent an area of key focus for some banks.
- As credit volumes migrate from performing to non-performing portfolios (evidenced by the increase in NPL stocks depicted in Figure 3.4), application of the Internal-Ratings Based (IRB) approach for credit risk capital requirements results in lower unexpected losses and therefore a lower average RWA charge.
- Current and forthcoming prudential regulatory changes that fundamentally revise the methodology and calculations underpinning RWAs, most prominently described as Basel IV by some commentators, will continue to result in capital demand being closely managed. We expect impact assessments and capital optimisation initiatives to continue to feature prominently in the major banks' strategic plans going forward.

Figure 4.2: Combined RWA density (Total Assets / RWA)



Source: PwC analysis

Liquidity and funding

Total deposits on a combined basis across the major banks reflected a robust increase of 9.9% at FY20 when compared against FY19. A significant portion of this increase in deposits was experienced in the first half of 2020 at a time when both retail consumers and corporate treasurers sought to actively manage liquidity amidst a highly volatile and uncertain outlook.

Interestingly, the average loan-to-deposit ratio fell marginally to 87% at FY20 (89.5% at 1H20 and 90.8% at FY19) reflecting overall balance sheet dynamics. At 87%, the average loan-to-deposit ratio continues to reflect a resilient funding profile on the part of the major banks in which the vast majority of the loan portfolio is deposit funded, in spite of regulatory capital levels (an alternative funding source) maintained well above regulatory minimum levels.

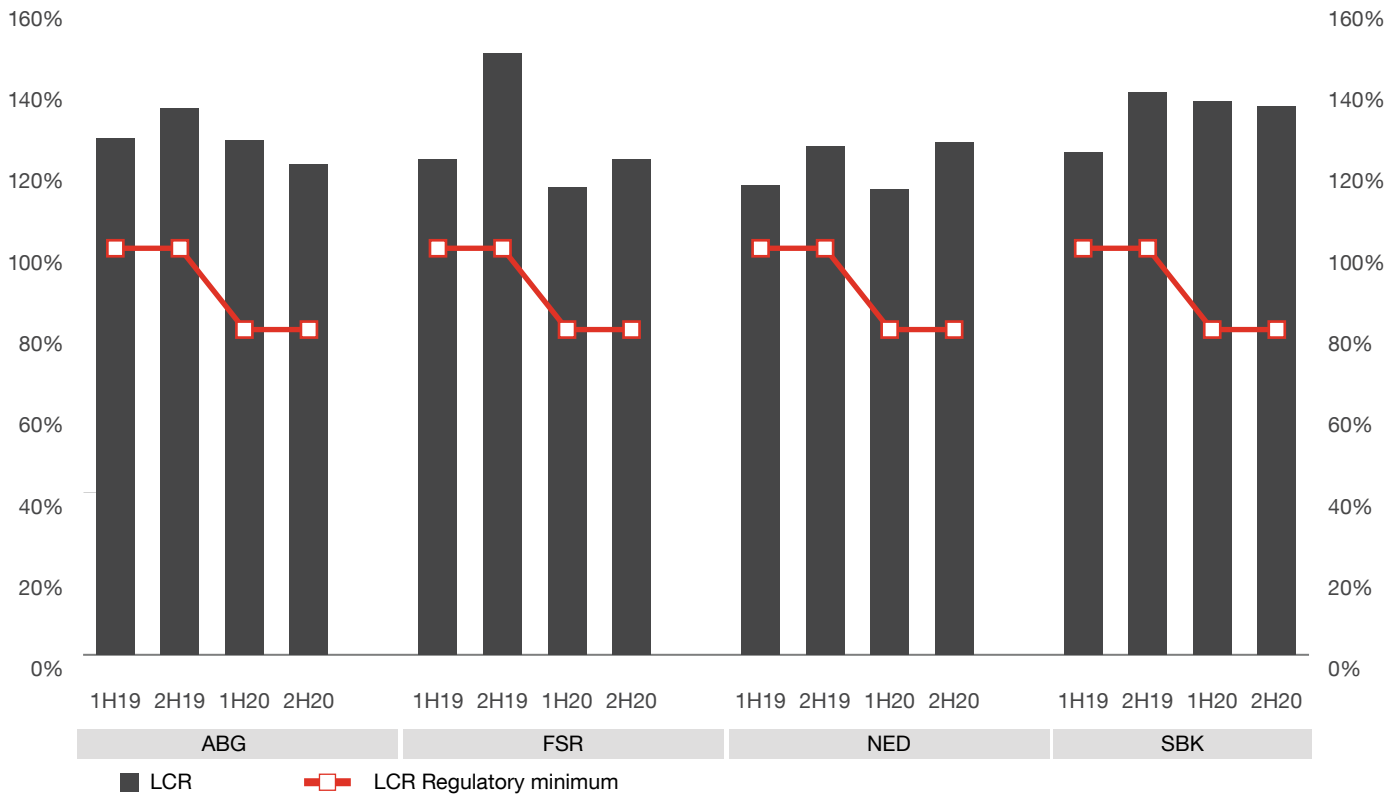
Positively, both liquidity prudential ratios – the shorter-term Liquidity Coverage Ratio (LCR) and the longer term, structural Net Stable Funding Ratio (NSFR) – were maintained above regulatory required levels, as depicted in Figure 4.3.

In spite of the regulatory relief provided by the Prudential Authority in early 2020 to reduce the LCR minimum requirement to 80% from 100% (the requirement measure 'high-quality liquid assets' relative to 'net cash outflows'), all of the major banks maintained their LCR's above 100%.

The combined average LCR at FY20 was 125.8% (136.5% at FY19), while the average NSFR was 119.7% (116.1% at FY19).

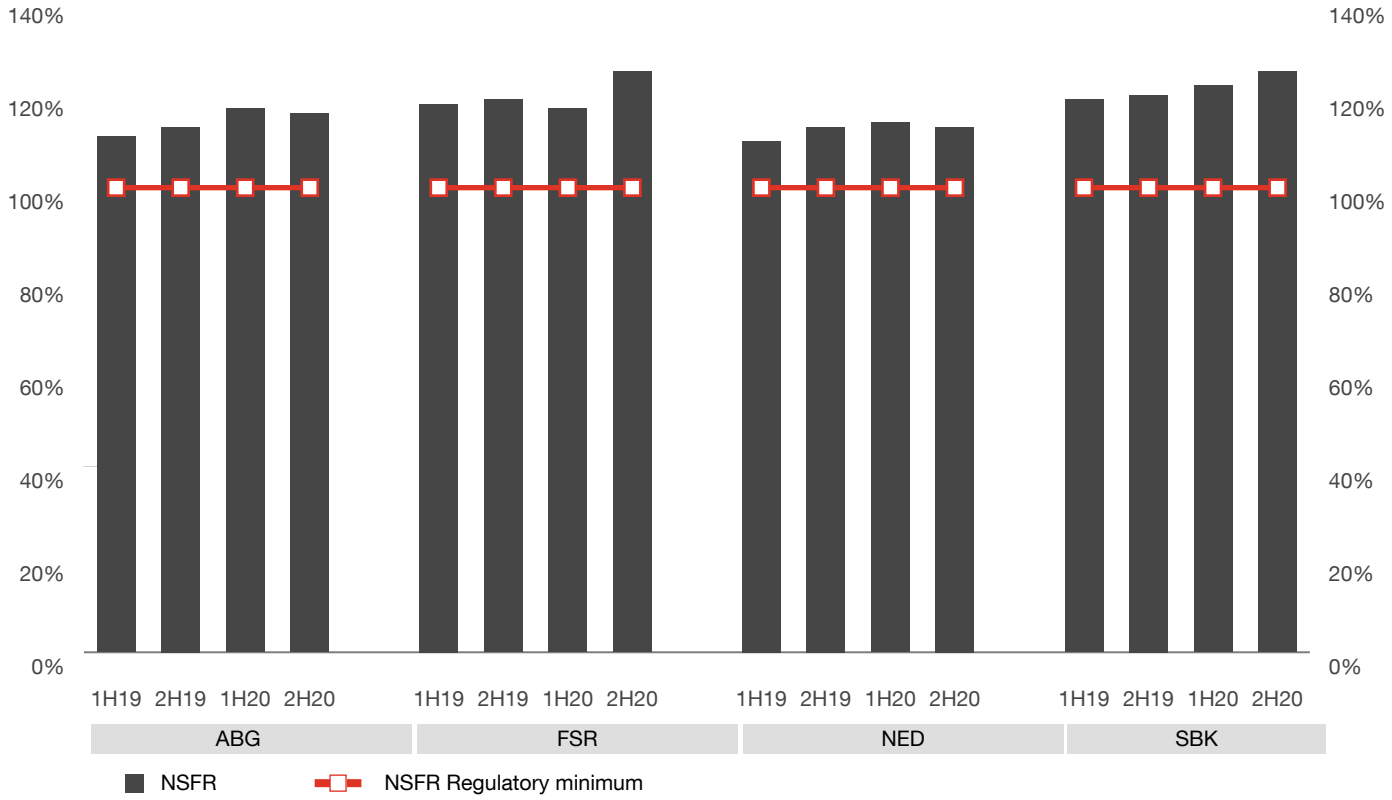
Figure 4.3: LCR and NSFR levels

Liquidity Coverage Ratio



ABG – Absa Group Limited
NED – Nedbank Group
FSR – FirstRand Limited
SBK – Standard Bank Group ('Banking activities')
LCR – Liquidity Coverage Ratio

Net Stable Funding Ratio



ABG – Absa Group Limited
NED – Nedbank Group
FSR – FirstRand Limited
SBK – Standard Bank Group ('Banking activities')
NSFR – Net Stable Funding Ratio

Source: PwC analysis

5 Purpose led. Platform driven.

Much has been written about how and why 2020 constituted an extraordinary year – one in which the world confronted among the greatest biological threats in a generation, that spiraled into profound public health, social and economic challenges.

As we noted previously, at the onset of the crisis and the associated lockdown measures, the major banks shifted strategic focus to ensuring resilience – operationally and financially – while supporting customers, colleagues and communities (as summarised in the graphic below). Managing the crisis called for a set of immediate responses, which the major banks quickly pivoted towards.

Figure 5.1 Summary of major bank responses to COVID-19

Combined responses			
Immediate responses	**Safety:** Ensure colleague safety and wellbeing	**Open for business:** Debt relief and payment holidays, fee waivers	**Resilience:** Protecting balance sheet and liquidity
Recovery responses	**Resilience:** Manage the crisis – people, costs, balance sheet	**Transition:** Enable recovery and embed new ways of work	**Re-imagine:** Strategise for a 'new normal'
Strategic responses	**Assess longer term** business model impacts and closely monitor credit experiences	**Recover:** Facilitate return to growth	**Re-imagine:** Adapt to the 'new normal'

The major banks entered the crisis in a position of strength – with strong brands and business models, robust balance sheets and seasoned management teams. These and other features of the major banks, together with a sound regulatory regime, aided their ability to respond to crisis conditions.

The 4 Rs

Many of the immediate responses by the major banks align with the response framework ('the 4 Rs', as depicted below) we referenced in the previous edition of our major banks analysis based on our global thought leadership, The future of financial services. Here, we expand these concepts further:

Repair. Rethink. Reconfigure. Report

Repair the damage The damage from COVID-19 to the real economy – and, by extension, the financial system – is only beginning to manifest itself in various ways. This damage will require deliberative activities to repair the balance sheets and reputations of financial institutions.	The following 'repair' activities have been top priorities for financial institutions globally: • Preparing for restructurings, workouts and wind-downs. • Increasing the proportion of fee-based revenue. • Accelerating 'trust-building' activities. • Creating new business capacity.
Rethink the organisation Many of the questions about organisational structures and talent that existed before COVID-19 – the efficacy of remote working and the productivity of agile teams – have been answered. These and related tools and approaches are now being deployed, and are succeeding, on a massive global scale.	'Rethinking' the organisation requires a focus on at least the following priorities: • Adopting a modern management approach. • Embracing new ways of working and digital upskilling. • Crowdsourcing talent and innovation. • Redesigning the customer journey and strategy.
Reconfigure the business and operating platform Along with the repair and rethink activities, many financial services institutions will need to reconfigure the business and operating platform, in some cases making profound changes in order to succeed in the future. To be sure, the post-global financial crisis changes were also profound, as the industry grappled with increased regulatory costs by selling businesses, reducing workforces, increasing offshoring and taking many other important actions. The COVID-19 crisis is only accelerating trends well underway in each sector and underscores how much work remains to be done.	There are a myriad 'reconfigure' activities, with critical areas, including: • Doubling down on cost reduction, digitisation and reshaping the change portfolio. • Increasing cloud adoption and the use of emerging technologies. • Using M&A to bolster strategic position. • Partnering with nonbank lenders and embracing change in market structures. • Optimising business/product mix and aligning incentives.
Report the results As various stakeholders demand more transparency and accountability from financial institutions, the focus will increasingly turn to complete and accurate reporting in a range of areas, including financial performance, ESG, regulatory compliance and the like. In addition, it will be critical not to miss perhaps the most important attribute of any successful financial institution in the future: being able to articulate its unique culture, story and value to society.	• ESG. • Accounting standards. • Regulatory. • Shareholders. • Society. • Taxes.

While a lot remains uncertain as to the short to medium term outlook – an outlook dependent on a range of factors, including the rate of vaccine rollout in South Africa – strategic focus will invariably shift towards the future.

In our estimation, the major banks have been primarily focused and operating between the 'Repair' and 'Recover' phases in the response framework we outlined above, with an eye towards how best to 'Reconfigure' the organisation.

Purpose led.

The idea that corporate entities should have a sense of purpose that not just guides or shapes their strategic vision, but serves as the driving force for their activities, has been well documented in recent years.

In a financial services and banking context in particular, corporate mission statements abound.

Yet 'purpose', when properly defined, transcends the day to day of what banks are or what they do. Purpose is beyond product development, risk management, regulatory compliance financial stability, external reporting, internal controls, or financial metrics – yet it straddles and influences all of them at once.

Purpose is the beating heart of overall bank strategy, shaping its calibration and execution every step of the way.

When considered with meaning, instead of marketing, it is easy to imagine how an organisation's purpose can be multi-tiered: a galvanising corporate ambition translated into a sharp focus on a particular customer segment or demographic at business unit level.

One area in which 'purpose' is often usually associated, and which the COVID-19 pandemic has made the world more attuned towards, is in the domain of Environmental, Social and Governance (ESG) considerations.

Since the creation of the Equator Principles in 2003, the concept of sustainability has gained relevance, with momentum and social awareness significantly accelerated in recent periods. The banking industry globally and locally is increasingly aware of the ESG risks and their impact at an accelerated pace. Investors and businesses are increasingly committing to ESG goals and criteria.

Why should banks care about ESG?

Customer Acquisition	Attracting a new pool of customers (B2B and B2C) in sustainable industries and attract customers that like to transact with an organisation with purpose and sustainable products
Physical / transition risk	Mitigating the direct impacts from environmental events on the existence of assets and the risks arising from the transition to more environmentally sustainable economies
Reduced regulatory / legal interventions	Reducing companies' risk of regulatory non-compliance and adverse government/ legal actions amidst garnering potential government support and guidance by adopting ESG as part of an organisation's strategy, operations and governance
New revenue generation	Understanding ESG implications and incorporating these into strategy and operations give banks the ability to offer more sustainable finance solutions to the market with more purpose, incentives and profitability
Reputational risk	Integrating ESG practices into core business activities through sustainable developments, solutions, improving social injustices and policy changes can improve one's brand and positioning in the community
Productivity uplift	Boosting employee motivation and attracting talents by building stronger environmental and social credibility in its values and operations

Platform driven

> Banks already compete against a large and powerful shadow banking system. And they are facing extensive competition from Silicon Valley, both in the form of fintechs and Big Tech companies (Amazon, Apple, Facebook, Google and now Walmart), that is here to stay. As the importance of cloud, AI and digital platforms grows, this competition will become even more formidable.

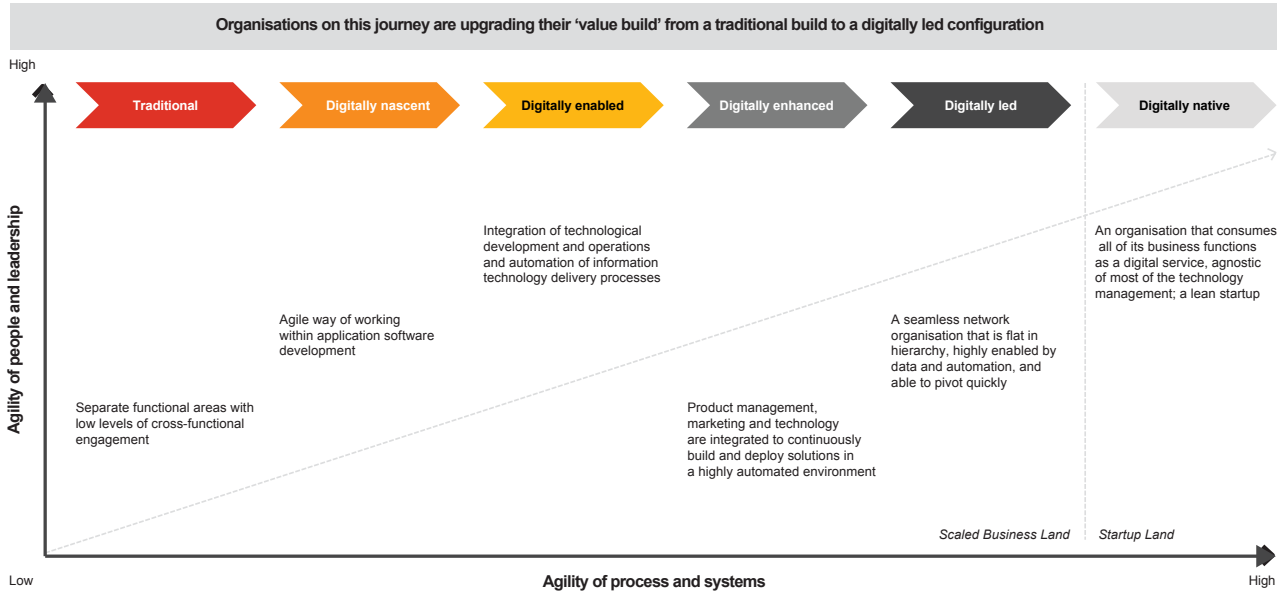
JPMorgan 2020 Annual Report - CEO Letter to Shareholders

The pandemic and mobility restrictions of 2020 resulted in new ways of working and accelerated customer acceptance of technologically enabled platforms to conduct banking.

It therefore goes without saying that a robust digital banking strategy – across customer segments and business models – is likely to feature at the center of thinking as banks attempt to leverage learnings from the crisis towards reimagining their purpose, structure and strategies.

Real digital transformation – applied toward a specific set of objectives, from boosting productivity to increasing employee engagement and creating a better customer experience – will result in profound change in the way an institution is organised and operated. These capabilities will likely be built up in stages over time, as depicted below.

Figure 5.2 Agile methods and the digital maturity continuum



In our most recent global report ***Productivity 2021*** and beyond, we observed that central to the success of FS organisations into the future will be a digitally upskilled workforce that will drive the productivity gains banks will need to defend their competitive position against non-traditional FS players and respond to changing, digitally-enabled customer expectations and unlock productivity gains. In our view, these are the key pillars of FS productivity into the medium term:

Figure 5.5 The five pillars of FS productivity

With some major banks commenting on astounding statistics regarding the increase in digitally-active customers seen over 2020, the focus on leveraging technological trends to establish robust digital platforms and ecosystems is clearer than ever before.

As The Banker noted in a recent article, *Platforms vs. ecosystems*, "[t]oday, most banks are neither platforms nor ecosystems, though many have ambitions to head in that direction" as the article reflects on whether it is necessary to choose between being either a platform or an ecosystem, with the value of being both at once highlighted.

> "In the context of banking, this could be the much lauded financial lifestyle proposition, where the bank acts as an orchestrator of the ecosystem and brings together not just financial services, such as mortgages, but businesses that help a customer insure, renovate and furnish the new home – which are all integrated into the bank's platform. With such a model, a customer is more likely to stay within the platform ecosystem because of a higher personalisation of services or loyalty programmes.

Purpose led. Platform driven.

The common theme running across all of the best literature on the future of financial services is that, depending on the perspective selected, the future of the industry could be either perilous or promising, ominous or optimistic.

We choose to focus on promising and optimistic. Significant upheavals create new opportunities for innovation. The challenge for leadership teams is to look forward, understand the scope of changes underway and be bold in responding to them.

The future of banking is purpose led, platform driven.

6 Hot off the press

Global Risk Survey 2021

Repositioning Risk in the transforming financial services industry

Background to the study

In 2018, PwC engaged the senior Risk executives of several leading banks to understand the vision for their Risk functions. The study highlighted a radical transformation agenda as banks sought to respond to a changing risk and regulatory landscape and an increasing focus on cost management.

Since then, most banks have engaged in strategic transformations of business and operating models. Additionally, sustainability has become an increasingly important strategic and risk priority, while the COVID-19 pandemic highlighted the need to revisit existing risk management practices.

PwC has been updating our study during 2020 and 2021 and in our industry engagements to date, we have observed a number of common questions and themes that arise for Risk functions to confront. These include:

- Where is business moving – and what does this mean for risk management across the organisation?
- How do we set up a 'future-proof' operating model across complex and global organisations?
- How do we evolve our practices to address challenges posed by digital and other emerging thematic risks?
- How can we capitalise on opportunities presented by emerging and advancing technologies? How do we best manage the associated risks?

Since October 2020 to date, we have surveyed various global and regional banks in answering these key questions. Some of the emerging themes from our analysis are summarised below, which will be unpacked in more detail in our Global Risk Survey 2021 report.

Risk mandate and organisation

- Growing prominence of thematic and non-financial risks such as climate change and sustainability, operational resilience and cybersecurity.
- Balancing cost and efficiency pressure with the need to invest in practices that address emerging risks is a challenge across many institutions.

Risk life cycle processes

- Importance of building digital culture, taking staff along on the journey and investing in training and development.
- Investment in systems and tools enhancing analytics capabilities for risk management across the three 'lines of defense.'

Thematic and digital risks

- A strong push around sustainability from regulators and wider societal stakeholders, with a mixed industry outlook on Risk's approach to respond to sustainability related risks and their impacts.
- Recognition of the need to think 'outside the institution' and better understand and manage connectedness with other parties and external influences beyond the institution's direct control.

Emerging technologies

- Data integrity and granularity is foundational - with accessibility, governance and quality highlighted as critical.
- There are limits to the extent of optimisation of the costs of Risk and Compliance without the use of emerging technologies.
- Importance of improving demand management, with a focus on governance around use cases and rigour around return on investment.

Risk workforce of the future

- Some institutions feel that the skills profile remains geared towards staff with credit and market risk backgrounds, in particular at more senior levels, as opposed to being more focused on emerging risk types and disciplines.

Our recent thought leadership

Productivity 2021 and beyond: Five pillars for a better workforce

CCOVID-19 has severely disrupted the financial services industry, ending a decade-long positive credit cycle and all but guaranteeing that ultra-low interest rates are here for the foreseeable future. The pandemic has also exacerbated existing productivity challenges. Many firms have had increasingly unsustainable cost–income ratios — and if they don't take action, they'll face an existential threat. But the pandemic has presented productivity opportunities, too.

In our first productivity report, published in 2019, we identified six areas that our survey showed were the focus of most institutions' productivity efforts. Now, in our second survey, we realise that one of them, improving workforce digital IQ, is integral to and interwoven with all of the others.

https://www.pwc.com/gx/en/industries/financial-services/publications/productivity-agenda.html

24th Annual Global CEO Survey

A leadership agenda to take on tomorrow: For business, 2021 will be a year of reinvention. One year into the COVID-19 pandemic, we surveyed 5,050 CEOs around the world about their plans to respond to new threats, transform their operating model and create a more sustainable future.

Our 24th Annual Global CEO Survey presents as a snapshot of leaders' sentiment, a road map of the priorities ahead and how we can collectively address them.

https://www.pwc.com/gx/en/ceo-agenda/ceosurvey/2021.html

Non-executive directors: Practices and fees trends report 2021

With disruption and consistent change continuing to prevail in 2021 as the COVID-19 pandemic further unfolds, boards and NEDs continue to face challenges, pressures and demands. Our report sets out a framework for how boards and NEDs should use this as an opportunity to relook, rethink and re-evaluate how they're doing business - reflecting on the purpose of the organisation to tie company strategy to endeavours such as relooking company culture, empowering the workforce as a strategic asset, and incorporating ESG and diversity to create long-term value.

https://www.pwc.co.za/en/publications/non-executive-directors-report.html

Compliance. Transformed.

As the COVID-19 pandemic continues to evolve, in a world where trust is increasingly important, organisations that build credibility throughout their brand, products and services can improve their corporate resilience and relationships with customers, staff and stakeholders.

PwC is focused on helping organisations thrive in change - not only by helping to manage their compliance requirements but also helping them stay ahead of risk and regulatory changes and navigating the course forward in times of upheaval.

Is your approach to compliance fit for the future?

https://www.pwc.com/gx/en/issues/compliance-transformed.html

IFRS 17: Managing data to optimise cloud strategy

Over the past five years, as insurers have prepared for the implementation of IFRS 17, which will dramatically affect finance – including underwriting pricing, and sales and marketing – they've steadily adopted cloud technologies and ramped up their investment in data engineering capabilities. More recently, to further prepare themselves for the new regulations and to modernise, they have also begun changing how they deploy these data applications and solutions.

https://www.pwc.com/gx/en/industries/financial-services/publications/ifrs-17-managing-data-to-optimise-cloud-strategy.html

7 Key banking statistics – FY20

R'millions

	ABG				FSR				NED				SBK				Combined/Average			
	2H20	1H20	2H19	1H19	2H20	1H20	2H19	1H19	2H20	1H20	2H19	1H19	2H20	1H20	2H19	1H19	2H20	1H20	2H19	1H19
Total assets	1,525,964	1,560,996	1,394,494	1,372,797	1,949,769	1,926,539	1,716,357	1,669,062	1,228,137	1,222,053	1,143,349	1,101,595	2,080,771	2,170,361	1,836,652	1,769,682	6,784,641	6,879,949	6,090,852	5,913,136
Gross loans and advances	1,058,203	1,088,652	1,006,459	978,915	1,275,510	1,311,095	1,259,326	1,239,914	868,107	846,568	814,367	775,363	1,321,241	1,392,131	1,216,346	1,223,662	4,523,061	4,638,446	4,296,498	4,217,854
Total deposits	1,048,000	1,028,394	943,716	914,395	1,556,904	1,535,015	1,438,588	1,393,104	953,715	944,011	904,382	865,815	1,642,401	1,673,653	1,446,080	1,396,757	5,201,020	5,181,073	4,732,766	4,570,071
Risk-weighted assets	915,061	935,766	870,406	844,332	1,081,000	1,114,000	1,024,000	1,007,000	673,688	677,877	628,725	618,608	1,229,478	1,324,767	1,099,528	1,063,866	3,899,227	4,052,410	3,622,659	3,533,806
Loan-to-deposit ratio	101,0%	105,9%	106,6%	107,1%	81,9%	85,4%	87,5%	89,0%	91,0%	89,7%	90,0%	89,6%	80,4%	83,2%	84,1%	87,6%	87,0%	89,5%	90,8%	92,3%
Profit and loss analysis																				
Net interest income	24,718	24,072	23,639	22,667	32,017	31,022	31,893	30,893	15,112	14,969	15,348	14,819	30,221	31,204	31,654	31,265	102,068	101,267,	102,534,	99,644,
Non-interest revenue	16,586	16,006	17,251	16,404	21,841	19,635	22,056	21,971	11,920	12,220	13,123	12,874	22,576	24,580	24,530	23,012	72,923	72,441,	76,960,	74,261,
Operating income	**41,304**	**40,078**	**40,890**	**39,071**	**53,858**	**50,657**	**53,949**	**52,864**	**27,032**	**27,189**	**28,471**	**27,693**	**52,797**	**55,784**	**56,184**	**54,277**	**174,991**	**173,708,**	**179,494,**	**173,905,**
Operating expenses	-23,963	-21,613	-23,368	-22,989	-28,733	-26,918	-28,358	-27,895	-16,381	-15,391	-16,095	-16,084	-31,693	-31,489	-30,400	-31,935	-100,770	-95,411,	-98,221,	903,
Pre-provision operating profit	**17,341**	**18,465**	**17,522**	**16,082**	**25,125**	**23,739**	**25,591**	**24,969**	**10,651**	**11,798**	**12,376**	**11,609**	**21,104**	**24,295**	**25,784**	**22,342**	**74,221**	**78,297,**	**81,273,**	**75,002,**
Bad debt charge	-5,908	-14,661	-4,121	-3,695	-9,414	-18,449	-5,934	-5,479	-5,452	-7,675	-3,586	-2,543	-9,303	-11,291	-3,717	-4,247	-30,077	-52,076,	-17,358,	-15,964,
Other	-1,223	-1,051	-912	-760	-121	-1,112	-207	776	-1,617	-1,374	-1,840	-203	-668	-3,499	-843	-981	-3,629	-7,036,	-3,802,	-1,168,
Direct tax	-2,888	-718	-2,925	-3,385	-3,749	-357	-4,491	-4,770	-969	-908	-1,604	-2,192	-1,224	-1,574	-4,197	-3,691	-8,830	557,	-13,217,	-14,038,
Key ratios																				
ROE	11,8%	2,6%	15,2%	16,4%	15,6%	4,6%	21,2%	23,3%	7,6%	4,8%	13,2%	16,8%	9,7%	9,5%	18,7%	17,5%	11,2%	5,4%	17,1%	18,5%
Cost-to-income	58,1%	53,9%	59,3%	56,7%	52,8%	53,7%	52,1%	51,2%	59,8%	56,4%	57,6%	55,4%	60,0%	56,4%	55,8%	57,0%	57,7%	55,1%	56,2%	55,1%
Credit loss ratio (CLR)	1,1%	2,8%	0,8%	0,8%	1,5%	2,9%	1,0%	0,9%	1,3%	1,9%	0,9%	0,7%	1,3%	1,7%	0,6%	0,8%	1,3%	2,3%	0,8%	0,8%
Net interest margin (NIM)	4,1%	4,2%	4,5%	4,5%	4,3%	4,3%	4,6%	4,8%	3,4%	3,3%	3,5%	3,6%	3,5%	3,9%	4,2%	4,4%	3,8%	3,9%	4,2%	4,3%
Capital ratios																				
CET 1	11,6%	10,8%	11,7%	11,9%	12,4%	10,6%	12,4%	12,1%	11,2%	10,6%	11,7%	11,3%	14,0%	12,6%	14,0%	14,0%	12,3%	11,2%	12,5%	12,3%
Tier 1	12,2%	11,7%	12,7%	12,7%	13,1%	11,0%	13,2%	12,9%	12,1%	11,7%	13,3%	12,3%	14,0%	13,2%	14,6%	14,8%	12,9%	11,9%	13,5%	13,2%
Tier 2	2,8%	3,0%	2,9%	2,7%	2,2%	2,4%	2,4%	2,3%	2,8%	2,6%	2,1%	2,3%	2,1%	2,3%	1,5%	2,5%	2,5%	2,6%	2,2%	2,5%
Total capital adequacy ratio	15,0%	14,7%	15,6%	15,4%	15,3%	13,4%	15,6%	15,2%	14,9%	14,3%	15,4%	14,6%	16,1%	15,5%	16,1%	17,3%	15,3%	14,5%	15,7%	15,6%

- *Prior period restatements have not been adjusted for*
- *Ratios and income statement amounts have been recalculated in certain instances to reflect six-month periods*

8 Contacts

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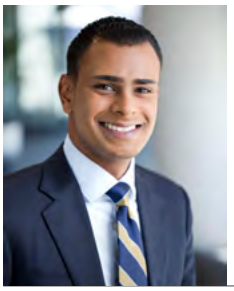

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