Strength and stability

South Africa – Major Banks Analysis

PwC's analysis of major banks' results for the reporting period ended 31 December 2021

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About this publication

PwC's Major Banks Analysis presents the highlights of the combined local currency results of Absa, FirstRand, Nedbank and Standard Bank and incorporates key themes from other South African banks.

The analysis also identifies common trends shaping the banking industry across all major players and builds on previous PwC analyses for a period of over a decade.

- 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 their 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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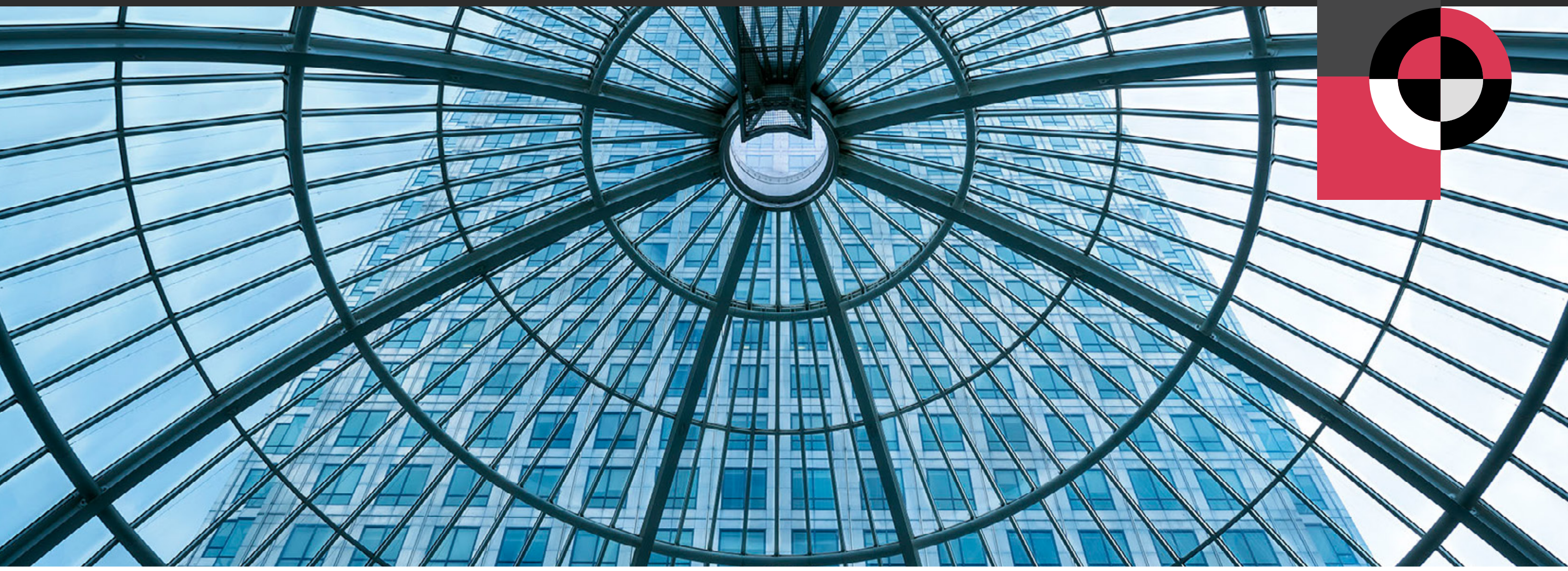
1 Strength and stability



SA's major banks delivered a strong financial performance on the back of more supportive conditions

- Combined headline earnings of R86.8bn increased 99% against FY20
- Combined ROE of 15.9% (FY20: 8.3%)
- Net interest margin of 408 bps (FY20: 387 bps)
- Credit loss ratio of 74 bps (FY20: 180 bps)
- Cost-to-income ratio of 55.8% (FY20: 56.4%)

As the books closed for 2021, the operating environment that contextualised the period was in some ways more familiar. While 2020 began with a brief period of normality, the COVID-19 pandemic dominated the entirety of 2021.

Learnings from navigating the extreme uncertainty during earlier phases of the pandemic – coupled with shifts to new ways of working and delivering financial services – aided the major banks' abilities to navigate 2021 with a focus on stability, innovation and digitally-led operational excellence.

Against more supportive conditions, the major banks delivered strong results on the back of a rebound in economic activity, increased client engagement levels and gains made through the execution of their digitally-centric strategies.

Key themes observed include:

- **Supportive economic conditions and an improved credit cycle provided the basis for an unwind in risk provisions across loan portfolios.** Credit impairment charges decreased 59.6% year-on-year, underpinning an acceleration in headline earnings to pre-pandemic levels. However, some risk provisions remain to cater for macro risks and the still uncertain path of the pandemic.
- **While the major banks' results for the period largely reflect positive credit performance**, underlying franchise momentum and heightened client transactional activity combined to result in resilient pre-provision operating profit growth of 6.2% year-on-year. Interestingly, revenue pools from the delivery of broader financial services – including from insurance activities and asset and investment management – represent a growing contribution to non-interest revenue.

- **Deliberate risk appetite management and disciplined approaches to credit origination remained observable**, while the low-interest rate environment, pent-up consumer demand and favourable buy-side property market dynamics supported credit growth.
- **Credit quality has improved, evidenced by the decrease in the stock of non-performing loans.** This reflects a combination of collections efforts, client repayments and credit migration into lower risk bands.
- **Continued focus on, and investments into, further building out digital banking capabilities resulted in positive client satisfaction scores and experience sentiment.** While these efforts made for a more competitive banking environment, they also translated into client acquisition gains in some cases and a higher proportion of digitally-active clients, which grew 8% against FY20 (and 22% against FY19).
- **Key metrics across capital, liquidity and provisioning were consistently maintained and further bolstered in FY21**, reflecting the stability and resilience of the major banks' balance sheets. The combined common equity tier 1 capital ratio, a core measure of capital adequacy, strengthened to 13.4% (FY20: 12.3%), surpassing pre-pandemic levels. These robust balance sheet positions provided the foundation for the major banks to continue to support clients and execute on their strategies.
- **Tight cost control continued, with expense growth managed below CPI growth for the period.** As the major banks double-down on embedding their digitally-led strategies, we expect that the next wave of cost reduction will mostly come from productivity improvement, digitisation and reshaping enterprise priorities as opposed to more traditional measures such as reducing discretionary expenditure or optimising headcount.
- **Changes in the scope and delivery of financial services is unrelenting, particularly across the African continent.** Africa remains the world's largest adopter of mobile money transfer systems, accounting for approximately 70% of global mobile money transactions and two-thirds of the world's mobile money transaction volume by value (according to research by The Brookings Institute). The major banks' foreign operations in the rest of Africa contributed 17% (FY20: 21%) to total headline earnings, dampened by stronger relative performances from South African operations and Rand currency strength.
- **Data is now clearly seen as a strategic asset**, informing product innovation, the scaling of new businesses and investments in a new range of skills – from data scientists to engineers.
- **Accelerating cloud adoption and use of emerging technologies.** The acceleration of strategic partnerships between some of the major banks and established and emerging technology players highlights extensive efforts to access and deploy cloud and other new technologies to gain competitive advantages. The major banks understand that implementing cloud-based solutions, AI, algorithms and other changes is foundational in an era of expansive digital change and customer expectations.
- **Responding to evolving social and regulatory expectations related to climate risk and ESG-related topics is a high priority.** As financial intermediaries and risk managers, banks will play a key role in facilitating an orderly energy transition as economies, markets and companies adapt to evolving climate policy. At the same time, they will seek to service the wide-ranging ESG needs of clients and the growing investor appetite for ESG products, evidenced by several 'green-bond' issuances that the major banks undertook in FY21.

2 External environment

The economic narrative of 2021 tells a story of recovery, with our projections estimating the global economy to have grown 5.9% compared to the 3.3% decline experienced in 2020.

As we have previously noted, the recovery played out – and continues to play out – unevenly between advanced and emerging economies. In sub-Saharan Africa, where recovery efforts were relatively more muted, 2021 GDP growth is estimated at 3.7%.

The South African economy, which entered the crisis under fragile conditions, long-standing structural constraints and limited fiscal and monetary space, is estimated to have grown by 4.9% in 2021, slightly surpassing initial estimates. The effects of a prolonged third wave of COVID-19 infections, renewed lockdown restrictions towards the end of the year and frequent power outages combined to weigh adversely on economic activity.

Additionally, the civil unrest which occurred in mid-2021 served as an additional drag that undermined business and consumer confidence, while providing a stark reminder of the extremely high levels of unemployment that persists within the domestic economy. Notwithstanding these challenges, higher commodity prices helped support tax revenue collections and the current account surplus.

Regulatory change

Progress was made in several key regulatory developments during 2021, including the assent of the Financial Sector Laws Amendment Bill which provides for the establishment of the Corporation for Deposit Insurance to manage a deposit insurance scheme in South Africa and establishes that the SARB will become the designated resolution authority with the necessary powers to operationalise a bank resolution regime.

On bank resolution, the new resolution regime will require certain banks (expected to be those considered domestically systemically important) to issue a new tranche of loss-absorbing debt instruments (referred to as 'flac' instruments) which will be subordinated to other unsecured creditors and intended for bail-in during resolution.

Additionally, directives were issued by the Prudential Authority to withdraw, from 1 January 2022, the temporary capital, liquidity and credit risk relief (as it relates to restructured credit exposures) which was provided to the South African banking sector at the onset of the pandemic in 2020.

The major banks remain keenly aware of these and other changes in the regulatory environment within which they operate and work continues to assess financial and operational impacts.

At the same time, those groups with insurance operations remain focused on the implementation of the far-reaching new accounting standard, IFRS 17 – Insurance Contracts, which takes effect on 1 January 2023.

3 Major banks' results highlights

Net interest income ↑ 5.4%

Non interest revenue ↑ 5.0%

Operating income ↑ 5.2%

Net interest margin 408 bps
FY20: 387bps

Cost-to-Income ratio 55.8%
FY20: 56.4%

Operating expenses ↑ 4.5%

Credit loss ratio 74 bps
FY20: 180bps

Pre provision operating profit ↑ 6.2%

ROE 15.9%
FY20: 8.3%

CET1 ratio 13.4%
FY20: 11.7%

Credit impairment charge ↓ 59.6%

↑ **Headline earnings** of R86.8 bn increased 99% against FY20

FY21 vs FY20

"While 2021 remained a difficult year for many South Africans, some stakeholders expect that the worst of the pandemic is now in the rear-view mirror. Against relatively supportive conditions and deliberate management of risk appetite, the major banks' results exhibit the strength and stability of the South African banking industry.

Costa Natsas,
PwC Africa Financial Services Leader

- **Headline earnings:** Underpinned by a 59.6% decrease in the combined credit impairment charge, headline earnings grew 99% against FY20. Underlying franchise performance across all areas of activity reflected a combination of strategic initiatives and heightened client engagement. Good top-line growth across net interest income and non interest revenue (which grew 5.4% and 5% respectively) translated into operating income growth of 5.2%.
- **Credit growth:** The low-interest-rate environment supported demand for prime-linked credit in the secured lending space, including home loans and vehicle and asset finance. This environment also provided an opportunity for households, businesses and corporates to service existing debt, which played out in the lower combined credit loss ratio of 74bps (FY20: 180bps). Corporate and commercial credit demand also showed signs of recovery in certain key industry sectors. However, commodity producers and other players in the commodity value chain used the higher commodity price context to optimise credit levels by re-paying facilities.
- **Credit quality:** Total non-performing loans fell 8.1% and comprised 4.7% of gross loans and advances (FY20: 5.5%). This trend is driven by an improvement in risk profiles, focused collection efforts and client repayments. Specific impairment coverage levels increased to 45.8% (FY20: 41.3%) reflecting the risk profile of the remaining non-performing loans.
- **Costs:** Disciplined cost management continued, with combined operating expense growth of 4.5% tracking better than headline consumer inflation of 5.9%. Unpacking expenses, we continue to observe proactive discretionary spend management, an evolving approach to property rationalisation strategies in light of hybrid working arrangements and investments into technology related spend, including strengthening the talent pool in key areas such as cloud, cyber security and data science.
- **ROE and capital:** Regulatory capital levels have surpassed pre-pandemic levels, with the total capital adequacy ratio amounting to 17.2% (FY20: 15.3%), well above regulatory required levels. Notwithstanding robust capital positions, the combined ROE of the major banks expanded to 15.9% (FY20: 8.3%) reflecting, in part, the improved credit environment and the operating strength of the major banks' core client franchises. All of the major banks declared a dividend for the period to 31 December 2021.
- **Liquidity and funding:** Total deposits grew 7.4% with continued activity in shorter-term products – current, savings and transmissions accounts – while the loan-to-deposit ratio averaged 86.3% (FY20: 87%).

> The major banks delivered strong results for the period, evidencing efforts made by management teams through the worst of the pandemic. Having consistently maintained robust balance sheet metrics across capital, liquidity and credit provisioning, these results reflect a rebound on the back of a more supportive operating environment and the focused execution of their digitally-led strategies.
>
> Francois Prinsloo, PwC Africa Banking and Capital Markets Leader

4 Outlook

Economic outlook: Our analysis has consistently revealed a truism of South African banking – that bank performance is in many ways connected to the broader economic context and prevailing operating conditions.

Recent research from our PwC South Africa Strategy& Economics team shows that observable progress has been made in getting economic activity back to pre-pandemic levels. The industry sector view in this regard is telling – while several key industries are currently seeing activity levels above pre-pandemic levels – including manufacturing, mining and retail sales – some tourism and leisure related industries remain depressed.

While the major banks all expressed cautious optimism in outlooks, a level of macro-related uncertainty exists in two key areas:

- **The domestic economic context:** South African economic growth will soon revert back to its long term, low-growth trend if impactful structural changes are not made. As the bounce back from lockdowns comes to an end, South Africa's economic growth rate is moderating back to pre-pandemic levels. This reversion serves as a reminder that stronger economic growth is possible if the right decisions are made at a policy level. We expect a real GDP growth rate of only 1.5% looking out to 2024: this is now the country's potential growth rate in a normal year based on structural constraints, equating to a level slightly higher than the population growth rate. South African respondents to the survey underpinning the World Economic Forum Global Risks Report 2022 identified prolonged economic stagnation as one of their top five risks for the country.
- **Global geopolitical tensions:** The volatile exchange rate – and its impact on domestic inflation – is at the mercy of international financial market sentiment and could quickly weaken if, for example, the geopolitics around the complex and evolving Ukraine/Russia situation deteriorates further. The PwC South Africa Strategy& Economics team has looked at the potential impact of the situation on the South African economy. The key points are:
  - The impact of events in and around the Ukrainian and Russian economies are further disrupting regional and international supply chains.
  - Ukraine is known for the agricultural bounty provided by its fertile soil – its agricultural produce feeds 600 million people annually. In turn, Russia is one of the biggest players in the global energy (oil and gas) market.
  - South Africa has some industry-specific exposure to trade with Ukraine and Russia: for example, about 10% of South Africa's wheat consumption is imported from the two countries.
  - The biggest risk for South Africa is the impact of higher international commodity prices and financial market volatility on local producer and consumer price inflation – and, by implication, interest rates.

Strategic outlook: Looking to the short to medium term, most of the major banks commented on their expectations for:

- Pent-up consumer demand to serve as the backdrop to supporting credit volumes which, together with higher expected interest rates, will support margins and net interest income growth
- Improved credit conditions to support credit loss ratios remaining within through-the-cycle target ranges
- Relentless focus on client execution and operational excellence, broadening the scope of financial services and continued embedment of digitally-led distribution channels to aid transactional volumes and non-interest revenues
- Costs to remain tightly managed, but will reflect the impact of continued investments in optimising the technology stack, further building out digital platforms and new ways of working. At the same time, some banks have also commented on their expectation to continue to assess property (including branch) optimisation strategies
- Key balance sheet metrics and prudential ratios to remain robustly managed to meet changing regulatory requirements and pockets of uncertainty that exist in the operating and geopolitical landscape.

The resolve to reimagine the future of financial services will continue to be at the forefront of overall bank strategy. We expect key themes to include:

- **Integrating climate-related risks** into lending policies and pricing strategies, existing enterprise risk management and external reporting frameworks is likely to continue to gather pace in light of growing social, regulatory and wider stakeholder expectations on ESG-related topics
- **Accelerating 'trust-building' activities:** Globally, the banking system has generated a 'trust surplus' over the course of the pandemic as a result of actively supporting clients and communities with, inter alia, COVID-19-related stimulus, payment holidays and other financial support mechanisms. We expect that the major banks will look to build on this momentum by astutely focusing on addressing new client needs ranging from supply chain issues to facilitating energy transition in a balanced and responsible manner.
- **Optimising the business/service mix and aligning incentives:** ESG topics are fast becoming the most important business driver across all industries. Rather than just assessing client capital needs, the major banks now have an opportunity to deliver more to help clients navigate the financial aspects of climate related risks and energy transition. From climate-related initiatives, accessing new markets or managing risk, the ability to deliver meaningful and tailored financial solutions will call for expansion in areas adjacent to their existing core franchise strengths.
- **An unrelenting focus on digital innovation across channels, platforms and products remains central to structuring differentiated competitive propositions.** At the same time, efforts will range from bolstering third party risk management frameworks and policies as strategic partnerships are further developed, to focusing on identifying, managing and mitigating existing and emerging risks associated with the evolving digital and platform economy.

"

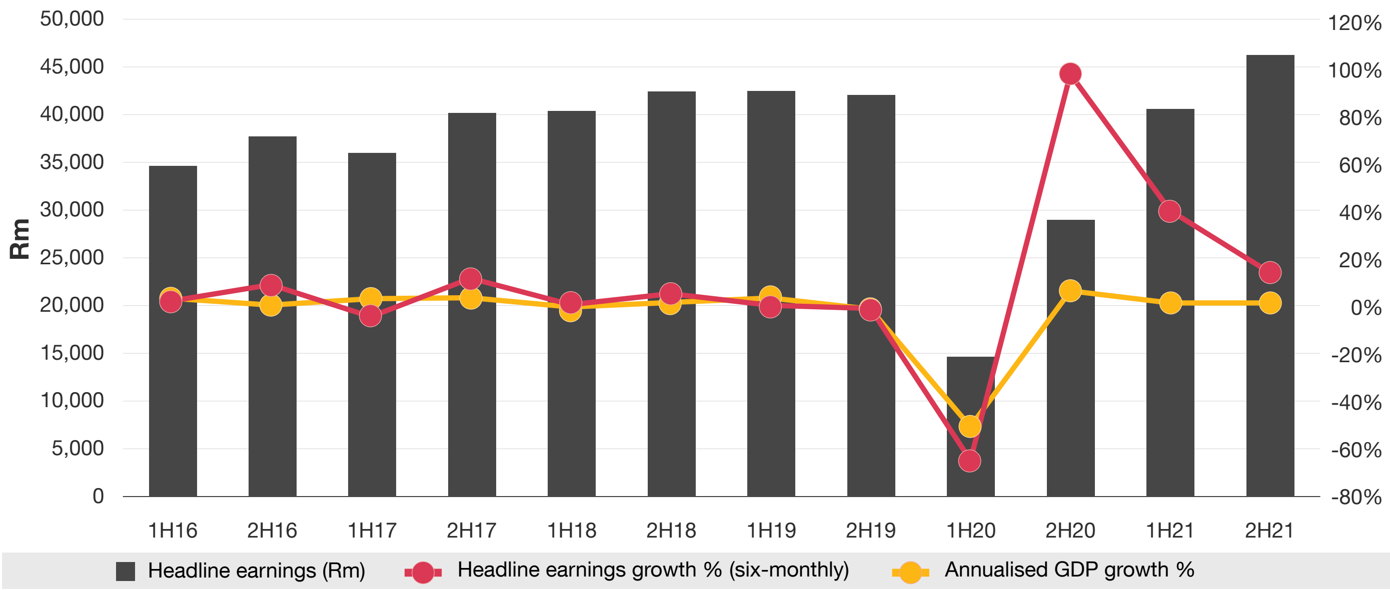
After consecutive periods of significant uncertainty, the major banks are optimistic that the rebound in economic activity and consumer confidence will gather momentum. Further embedment of digital innovation and ESG-related metrics into reporting and performance measures are likely to remain important elements of overall bank strategy.

Rivaan Roopnarain,
PwC Africa Banking Partner

Appendix

A Analysis of financial results

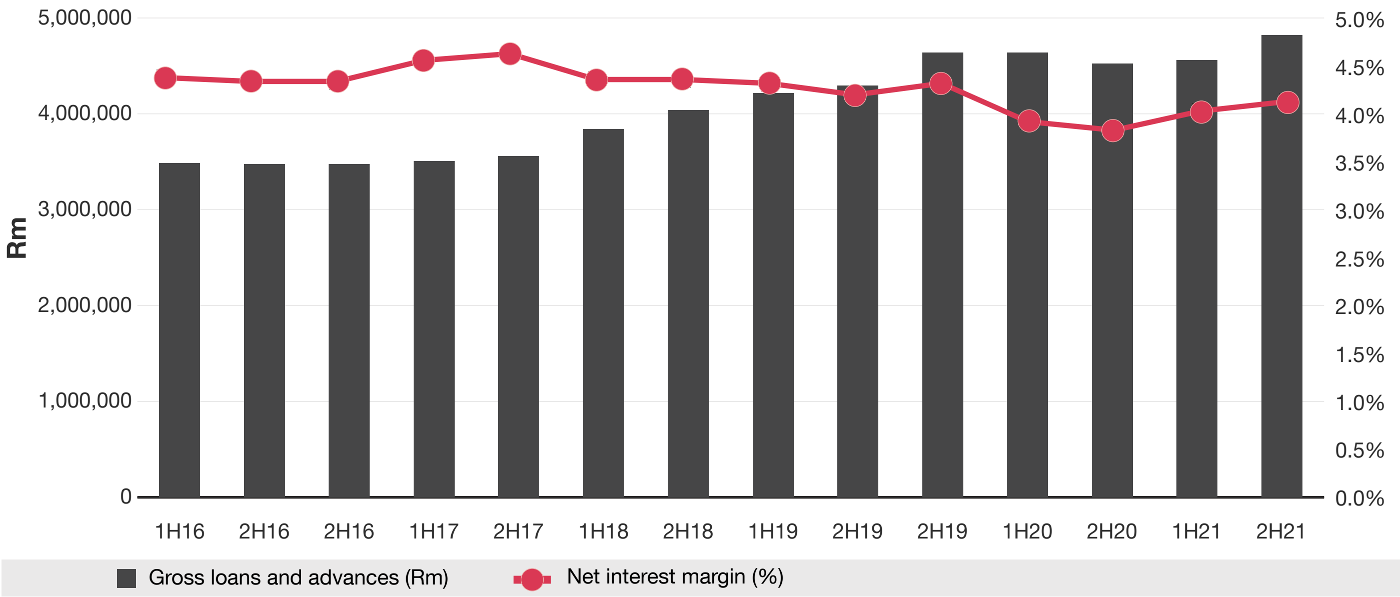
Figure 1: GDP and headline earnings growth



Source: Stats SA, PwC analysis

- The directional relationship between the major banks' combined headline earnings growth and South African GDP growth that we have commented on previously continues to be evident.
- On a rolling six-month basis, headline earnings in 2H21 exceeded 1H21 (and pre-pandemic levels observed in 2H19) given a combination of relatively stronger operating conditions and improved business confidence levels in the second half of the year.

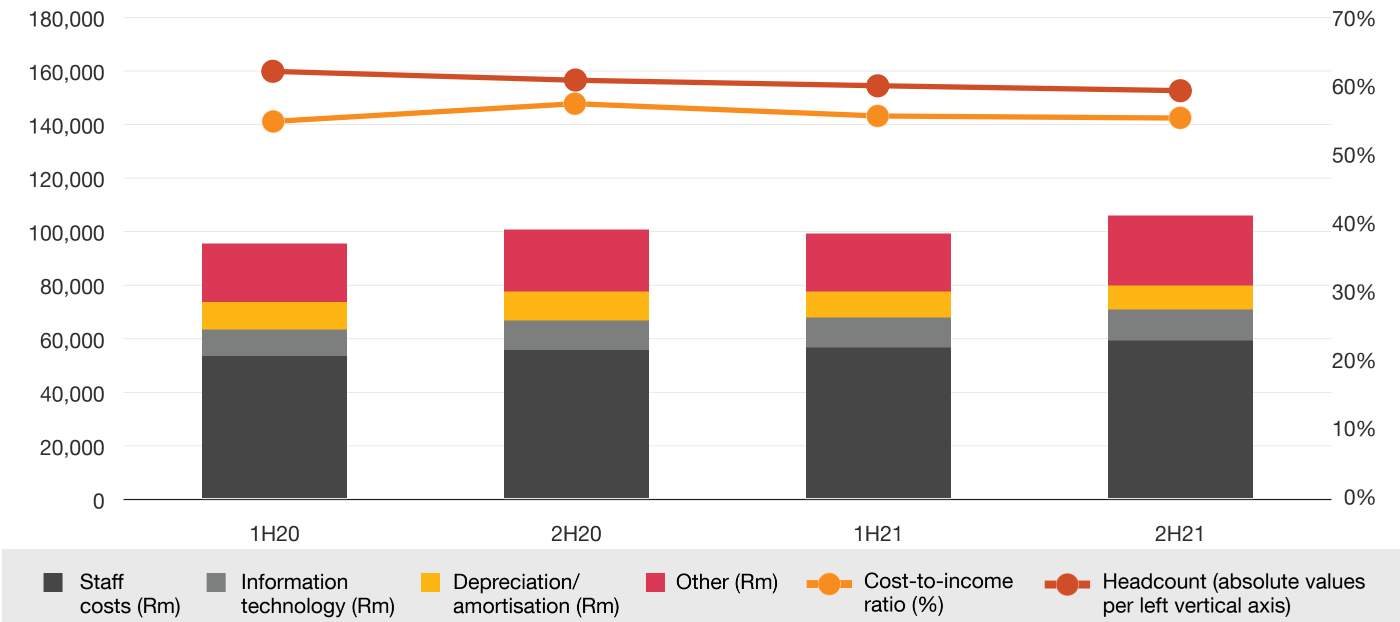
Figure 2: Net interest margin



Source: PwC analysis

- Against relatively improved economic and credit conditions, gross loans and advances showed good growth of 6.6% against FY20 (5.7% against 1H21).
- In particular, secured prime-linked credit products exhibited strong demand – including residential mortgages and vehicle and asset finance.
- While the low interest rate environment provided a basis for credit demand in rate sensitive portfolios, the effect of negative endowment offset margin growth. The negative endowment effect refers to variable rate assets re-pricing in line with market rates while non-rate sensitive liabilities or equity that funds those assets not re-pricing commensurately.

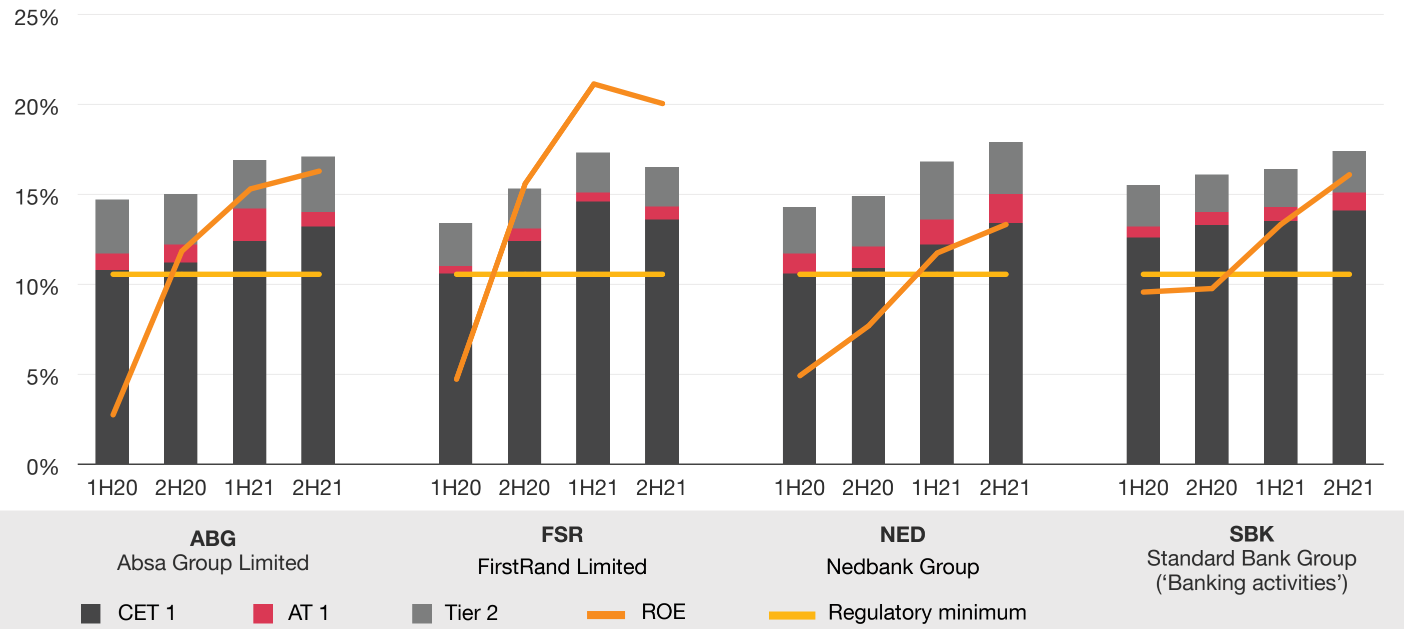
Figure 3: Operating expenses, cost-to-income ratio and headcount



Source: PwC analysis

- Operating expenses grew 4.5% against FY20 (6.7% against 1H21), a lower rate than CPI growth for the period.
- We continue to observe the composition of overall bank spending moving towards ongoing investments in IT architecture and cloud computing, AI, skills development and new ways of working – aligned to the major banks' overall strategies.
- Total headcount remained stable with a moderate reduction of 2.5% against FY20, reflecting natural attrition, with staff costs increasingly directed towards upskilling and reskilling staff in areas aligned to digitally-centric strategies.

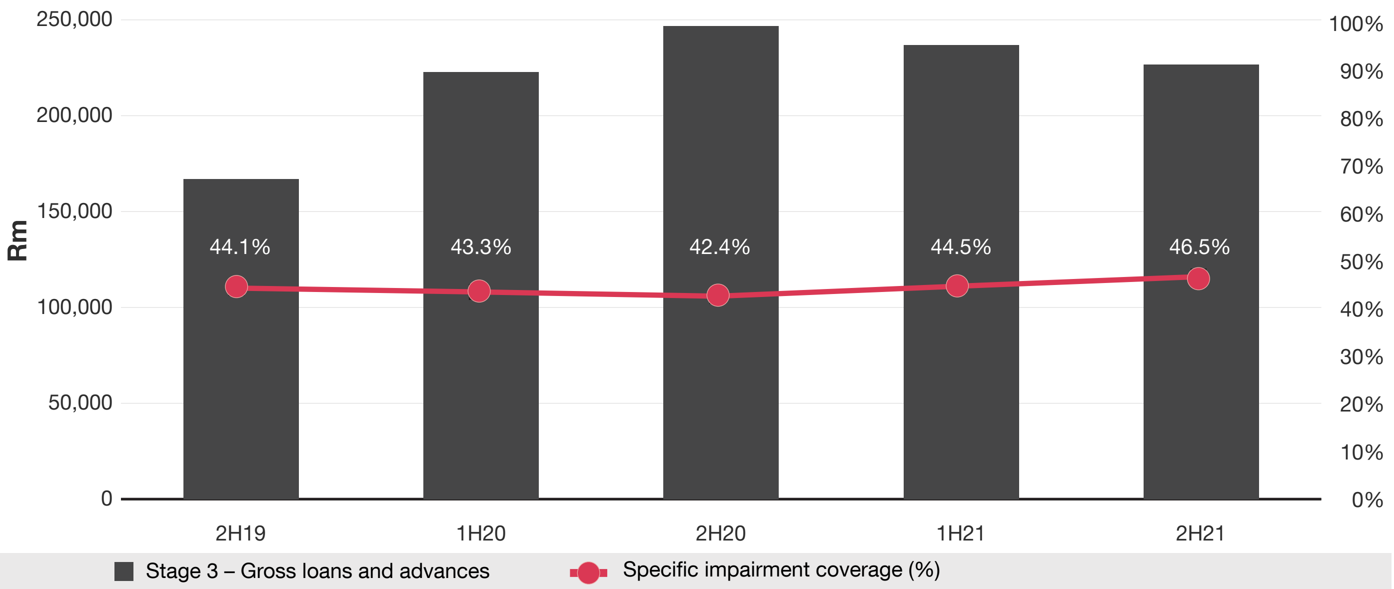
Figure 4: ROE and regulatory capital levels



Source: PwC analysis

- ROEs depicted reflect a six-month recalculated ratio.
- Driven by earnings growth and well-managed risk weighted assets, the Common Equity Tier 1 ratio of the major banks improved to 13.4% (FY20: 11.7%), while the total capital adequacy ratio improved to 17.2% (FY20: 15.3%), both well above regulatory required levels and at the higher end of target ranges.
- In light of ongoing prudential regulatory reform, we continue to observe focused management effort applied towards optimisation programmes, parallel runs and other impact assessments to proactively identify future capital demand.

Figure 5: Stage 3 (NPL) Coverage

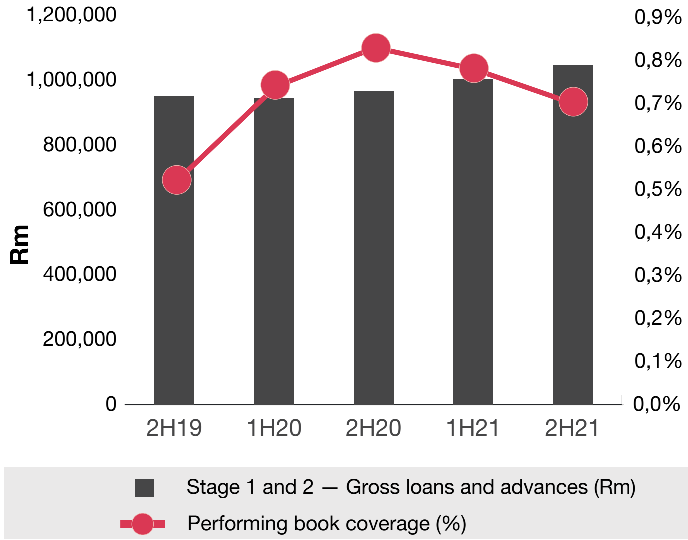


Source: PwC analysis

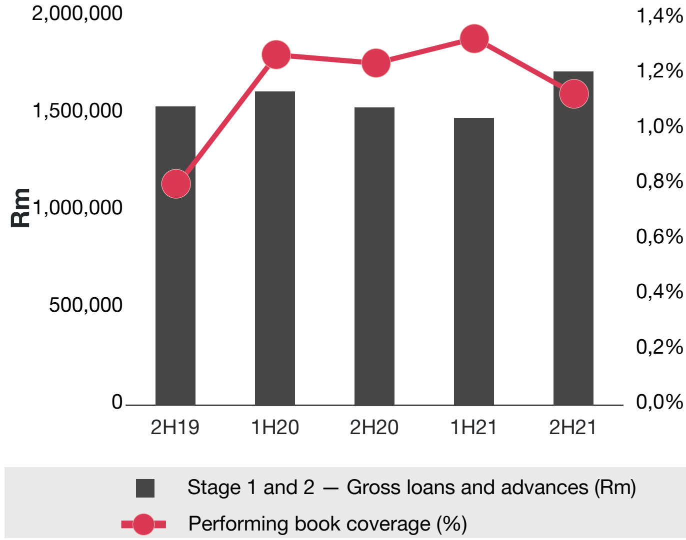
- While the aggregate stock of non-performing loans has decreased, the marginal increase in the specific impairment coverage ratio reflects impairment provisions for unfavourable credit experiences primarily due to pandemic-related effects on specific industries and counterparties.

Figure 6: Performing portfolio coverage

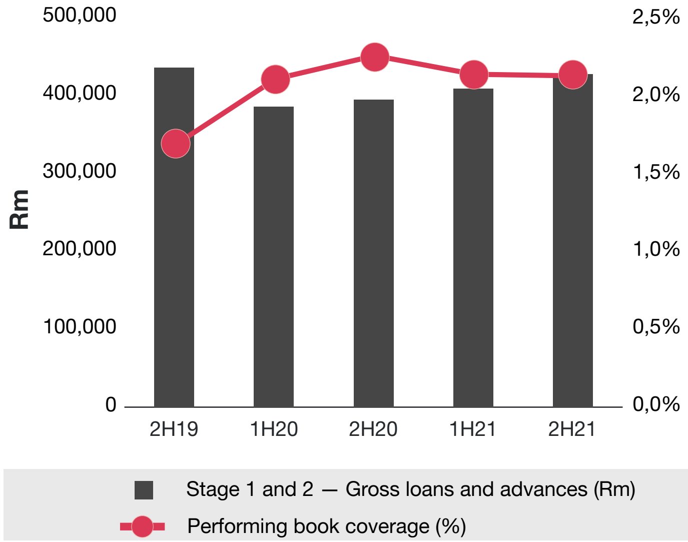
Mortgages (residential)



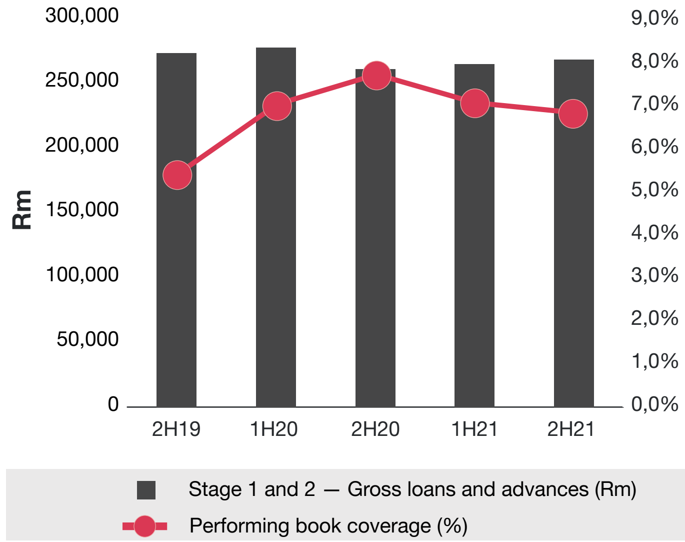
Corporate and business lending



Instalment sale and finance leases



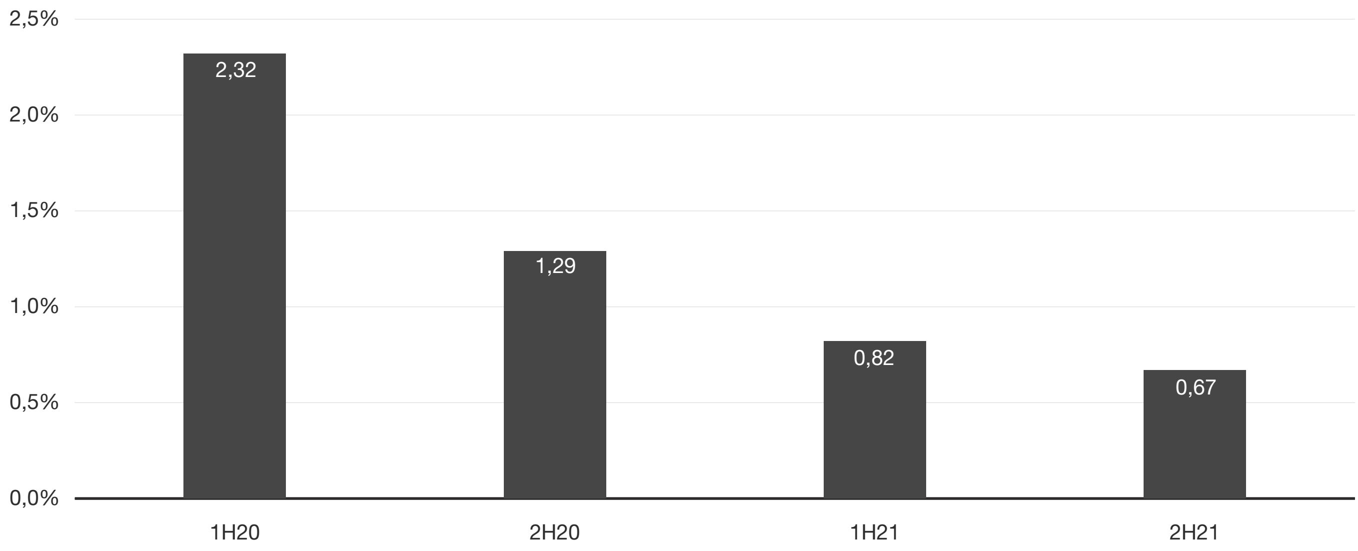
Card, overdrafts and retail unsecured lending



Source: PwC analysis

- The residential mortgage portfolio has seen increased growth since 2019 as a result of new consumers entering the market supported by lower interest rates.
- Instalment sale and finance leases advances growth continues as new and used car sales activity has increased in this market.
- Corporate and business lending activity has increased as organisations seek to invest in infrastructure and other business initiatives.
- Transactional and unsecured lending activity has started to increase as consumer spending increases.

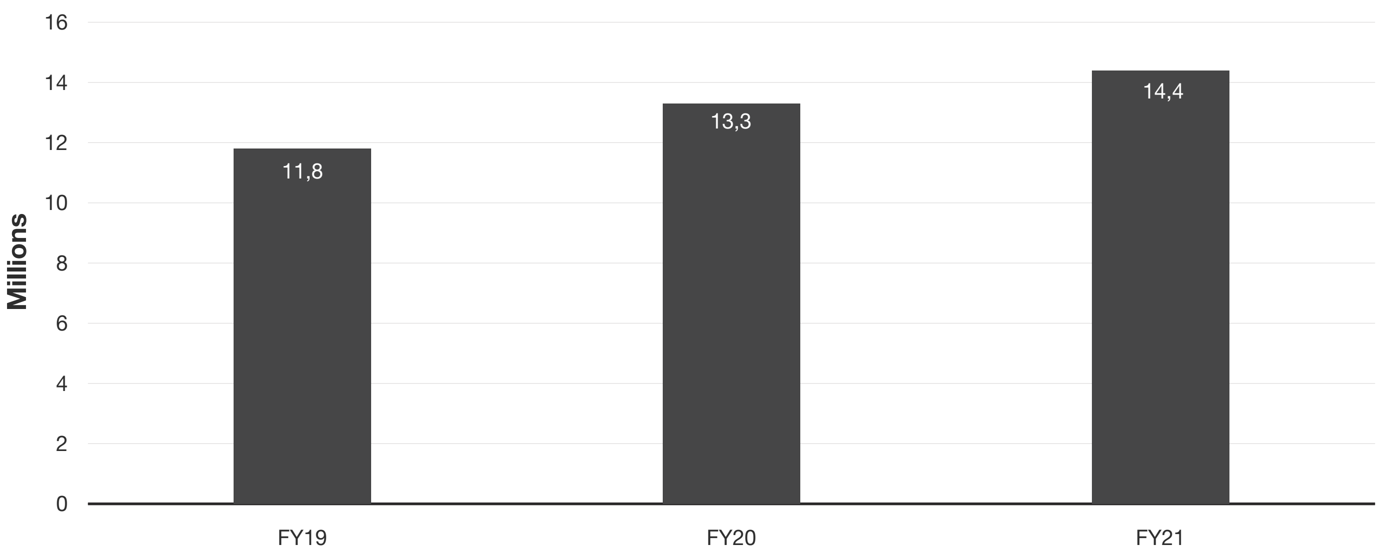
Figure 7: Credit loss ratio



Source: PwC analysis

- The combined credit loss ratio reduced to 67 bps as at 2H20 (on a six-monthly basis) and 74 bps on an annualised basis (FY20: 180 bps, 1H21: 82bps)
- The decline in credit impairment charges are primarily due to a relatively improved macroeconomic outlook in IFRS 9 credit models, coupled with a clearer understanding of industry-specific impacts of the pandemic.

Figure 8: Digitally-active clients



Source: PwC analysis

- As we have previously noted, the total number of digitally-active clients have been on a steady growth path since the onset of the pandemic in 2020, accelerated by changing customer expectations and the adoption of digital platforms and channels to conduct banking transactions
- Against FY20, total digitally-active client numbers increased 8% (22% increase against FY19)

B Key banking statistics – FY21

Key banking statistics – FY21

R'millions

ABG	FY21	2H21	1H21	FY20	2H20	1H20
Balance sheet						
Gross loans and advances	1,133,697	1,133,697	1,079,785	1,058,203	1,058,203	1,088,652
Total deposits	1,173,766	1,173,766	1,105,237	1,048,000	1,048,000	1,028,394
Loan-to-deposit ratio	96.6%	96.6%	97.7%	101.0%	101.0%	105.9%
Profit and loss analysis						
Net interest income	53,297	27,712	25,585	48,790	24,718	24,072
Non-interesting revenue	32,576	16,951	15,625	32,592	16,586	16,006
Operating income	85,873	44,663	41,210	81,382	41,304	40,078
Operating expenses	-47,412	-24,807	-22,605	-45,576	-23,963	-21,613
Pre-provision operating profit	38,461	19,856	18,605	35,806	17,341	18,465
Bad debt charge	-8,499	-3,797	-4,702	-20,569	-5,908	-14,661
Other	-2,115	-1,123	-992	-2,274	-1,223	-1,051
Direct tax	-7,604	-4,093	-3,511	-3,606	-2,888	-718
Key ratios						
ROE	15.8%	16.3%	15.3%	7.2%	11.8%	2.6%
Cost-to-income	55.2%	55.5%	54.9%	56.0%	58.1%	53.9%
Credit loss ratio (CLR)	0.8%	0.7%	0.9%	1.9%	1.1%	2.8%
Net interest margin (NIM)	4.5%	4.5%	4.4%	4.2%	4.1%	4.2%
Capital ratios						
CET 1	12.8%	13.2%	12.4%	11.2%	11.6%	10.8%
Tier 1	14.1%	14.0%	14.2%	12.2%	12.2%	11.7%
Tier 2	2.9%	3.1%	2.7%	2.8%	2.8%	3.0%
Total CAR	17.0%	17.1%	16.9%	15.0%	15.0%	14.7%

FSR	FY21	2H21	1H21	FY20	2H20	1H20
Balance sheet						
Gross loans and advances	1,355,666	1,355,666	1,274,052	1,275,510	1,275,510	1,311,095
Total deposits	1,644,630	1,644,630	1,542,078	1,556,904	1,556,904	1,535,015
Loan-to-deposit ratio	82.4%	82.4%	82.6%	81.9%	81.9%	85.4%
Profit and loss analysis						
Net interest income	65,972	33,478	32,494	63,039	32,017	31,022
Non-interesting revenue	44,556	22,849	21,707	41,476	21,841	19,635
Operating income	110,528	56,327	54,201	104,515	53,858	50,657
Operating expenses	-58,534	-29,925	-28,609	-55,651	-28,733	-26,918
Pre-provision operating profit	51,994	26,402	25,592	48,864	25,125	23,739
Bad debt charge	-8,273	-4,027	-4,246	-27,863	-9,414	-18,449
Other	82	45	37	-1,233	-121	-1,112
Direct tax	-10,875	-5,775	-5,100	-4,106	-3,749	-357
Key ratios						
ROE	20.1%	21.2%	21.2%	10.1%	15.6%	4.6%
Cost-to-income	52.4%	52.0%	52.0%	53.3%	52.8%	53.7%
Credit loss ratio (CLR)	0.6%	0.7%	0.7%	2.2%	1.5%	2.9%
Net interest margin (NIM)	4.4%	4.4%	4.4%	4.3%	4.3%	4.3%
Capital ratios						
CET 1	14.1%	13.6%	14.6%	11.5%	12.4%	10.6%
Tier 1	14.7%	14.3%	15.1%	12.1%	13.1%	11.0%
Tier 2	2.2%	2.2%	2.2%	2.3%	2.2%	2.4%
Total CAR	16.9%	16.5%	17.3%	14.4%	15.3%	13.4%

NED	FY21	2H21	1H21	FY20	2H20	1H20
Balance sheet						
Gross loans and advances	857,385	857,385	840,504	868,107	868,107	846,568
Total deposits	971,795	971,795	935,723	953,715	953,715	944,011
Loan-to-deposit ratio	88.2%	88.2%	89.8%	91.0%	91.0%	89.7%
Profit and loss analysis						
Net interest income	32,500	16,691	15,809	30,081	15,112	14,969
Non-interesting revenue	25,027	13,234	11,793	24,140	11,920	12,220
Operating income	57,527	29,925	27,602	54,221	27,032	27,189
Operating expenses	-33,639	-17,284	-16,355	-31,772	-16,381	-15,391
Pre-provision operating profit	23,888	12,641	11,247	22,449	10,651	11,798
Bad debt charge	-6,534	-3,256	-3,278	-13,127	-5,452	-7,675
Other	-924	-682	-242	-2,991	-1,617	-1,374
Direct tax	-4,043	-2,120	-1,923	-1,877	-969	-908
Key ratios						
ROE	12.5%	13.3%	11.7%	6.2%	7.6%	4.8%
Cost-to-income	57.7%	56.9%	58.5%	58.1%	59.8%	56.4%
Credit loss ratio (CLR)	0.8%	0.8%	0.9%	1.6%	1.3%	1.9%
Net interest margin (NIM)	3.7%	3.8%	3.7%	3.4%	3.4%	3.3%
Capital ratios						
CET 1	12.8%	13.4%	12.2%	10.9%	11.2%	10.6%
Tier 1	14.3%	15.0%	13.6%	12.1%	12.1%	11.7%
Tier 2	2.9%	2.6%	3.2%	2.8%	2.8%	2.6%
Total CAR	17.2%	17.6%	16.8%	14.9%	14.9%	14.3%

SBK	FY21	2H21	1H21	FY20	2H20	1H20
Balance sheet						
Gross loans and advances	1,475,726	1,475,726	1,366,536	1,321,241	1,321,241	1,392,131
Total deposits	1,797,291	1,797,291	1,650,877	1,642,401	1,642,401	1,673,653
Loan-to-deposit ratio	82.1%	82.1%	82.8%	80.4%	80.4%	83.2%
Profit and loss analysis						
Net interest income	62,43	32,468	29,968	61,425	30,221	31,204
Non-interesting revenue	51,120	26,635	24,485	47,156	22,576	24,580
Operating income	113,556	59,103	54,453	108,581	52,797	55,784
Operating expenses	-65,735	-33,965	-31,770	-63,182	-31,693	-31,489
Pre-provision operating profit	47,821	25,138	22,683	45,399	21,104	24,295
Bad debt charge	-9,873	-4,076	-5,797	-20,594	-9,303	-11,291
Other	-1,809	-744	-1,065	-4,167	-668	-3,499
Direct tax	-8,083	-4,551	-3,532	-2,798	-1,224	-1,574
Key ratios						
ROE	14.7%	16.1%	13.3%	9.6%	9.7%	9.5%
Cost-to-income	57.9%	57.5%	58.3%	58.2%	60.0%	56.4%
Credit loss ratio (CLR)	0.7%	0.6%	0.9%	1.5%	1.3%	1.7%
Net interest margin (NIM)	3.7%	3.9%	3.6%	3.7%	3.5%	3.9%
Capital ratios						
CET 1	13.8%	14.1%	13.5%	13.3%	14.0%	12.6%
Tier 1	14.7%	15.1%	14.3%	14.0%	14.0%	13.2%
Tier 2	2.2%	2.3%	2.1%	2.1%	2.1%	2.3%
Total CAR	16.9%	17.4%	16.4%	16.1%	16.1%	15.5%

Combined/Average	FY21	2H21	1H21	FY20	2H20	1H20
Balance sheet						
Gross loans and advances	4,822,474	4,822,474	4,560,877	4,523,061	4,523,061	4,638,446
Total deposits	5,587,482	5,587,482	5,233,915	5,201,020	5,201,020	5,181,073
Loan-to-deposit ratio	86.3%	86.3%	87.1%	87.0%	87.0%	89.5%
Profit and loss analysis						
Net interest income	214,205	110,349	103,856	203,335	102,068	101,267
Non-interesting revenue	153,279	79,669	73,610	145,364	72,923	72,441
Operating income	367,484	190,018	177,466	348,699	174,991	173,708
Operating expenses	-205,320	-105,981	-99,339	-196,181	-100,770	-95,411
Pre-provision operating profit	162,164	84,037	78,127	152,518	74,221	78,297
Bad debt charge	-33,179	-15,156	-18,023	-82,153	-30,077	-52,076
Other	-4,766	-2,504	-2,262	-10,665	-3,629	-7,036
Direct tax	-30,605	-16,539	-14,066	-12,387	-8,830	-3,557
Key ratios						
ROE	15.8%	16.7%	15.4%	8.3%	11.2%	5.4%
Cost-to-income	55.8%	55.5%	55.9%	56.4%	57.7%	55.1%
Credit loss ratio (CLR)	0.7%	0.7%	0.8%	1.8%	1.3%	2.3%
Net interest margin (NIM)	4.1%	4.1%	4.0%	3.9%	3.8%	3.9%
Capital ratios						
CET 1	13.4%	13.6%	13.2%	11.7%	12.3%	11.2%
Tier 1	14.5%	14.6%	14.3%	12.6%	12.9%	11.9%
Tier 2	2.6%	2.6%	2.6%	2.5%	2.5%	2.6%
Total CAR	17.0%	17.2%	16.9%	15.1%	15.3%	14.5%

Appendix

C Our recent thought leadership

Africa Capital Markets Watch 2021

PwC's Africa Capital Markets Watch 2021 is our seventh annual publication examining both African debt capital markets (DCM) and equity capital markets (ECM) transactions. The study covers activity up to 31 December 2021 and captures deals based on their pricing date.

Despite the ongoing health and economic impact of COVID-19 worldwide, our latest report shows that African markets have continued with a modest recovery through 2021.

ECM transactions included in our report comprise capital raising activities, whether initial public offerings (IPOs) or further offers (FOs), by African companies on exchanges worldwide and those made by non-African companies on African exchanges. DCM transactions analysed include non-local currency debt funding raised by African companies and public institutions, whether high-yield or investment grade.

Building public trust through tax reporting 2022

Our review of the tax disclosure of the top 100 companies listed on the JSE. In the 6th edition of our Building Public Trust through Tax Reporting publication, we look at emerging trends in tax transparency and material topics for stakeholders.

We provide a year-on year comparison over the last 3 years of tax transparency in South Africa, in areas such as tax strategy and risk management, tax numbers and performance, total tax contribution and wider impact.

We continue to be encouraged by the variety of initiatives that the surveyed companies take to tell their tax story, thereby demonstrating good corporate citizenship as responsible taxpayers. There is certainly opportunity for more companies to consider their tax transparency strategy.

Non-executive directors report 2022: Practices and fees trends report

Purpose. Risk. Retention. These are the three themes interlinking remuneration discussions and decisions today. The 15th edition of our Non-executive directors: Practices and fee trends report explores how these themes intersect with some of the pressing boardroom topics today – including the urgency of the need for a rapid but just transition to a net-zero economy and, if and how, this links to remuneration structures.

Our report also touches on estate planning considerations, the living wage and other fair pay considerations. It is clear that boards need to be agile and prepared to take courageous action in line with a well-defined purpose. Good chemistry is vital for this, and we explore some of the boardroom biases which may hold boards back from maximum effectiveness.

The report presents an analysis of JSE non-executive fees for the period 1 September 2020 to 31 October 2021, our analysis of the profile of a JSE board today (including gender and race split), and the premium being paid to directors sitting on South African boards, but paid in foreign currencies.

South Africa Economic Outlook: February 2022 edition

South Africa's consumer price inflation reached 5.9% y-o-y in December 2021 — the highest level since early 2017 — while producer price inflation climbed to 10.8% y-o-y in the same month. As a small open economy, the country is vulnerable to global forces like rising consumer and producer price inflation. Following recent domestic and international developments, we are now penciling in an average 2022 inflation rate of at least 5.3% under a downside scenario. Alongside elevated inflation levels, the South African Reserve Bank is continuing with its tightening of monetary policy: the central bank is planning four more interest rate hikes this year.

The outlook for consumer and producer prices contains a substantial list of cost risk factors that South African companies are facing in the year ahead. For many companies, this will increase the need for a cost reduction exercise in order to sustain their operations. Businesses must look at every cost-cutting opportunity as an opportunity to channel investments toward strengthening their value proposition. It is important to connect a company's budget directly to strategic priorities; if the budget does not reflect key priorities, there is little chance of executing the organisation's vision.

PwC's 25th Annual Global CEO Survey

After two years of the COVID-19 pandemic, the global economy has rebounded from the depths of mid-2020. The IMF projects global GDP to grow 4.9% in 2022, a downtick from the 5.9% growth expected in 2021, but still formidable. The 4,446 CEOs from 89 countries and territories who responded to our 25th Annual Global CEO Survey display optimism about continued economic resilience.

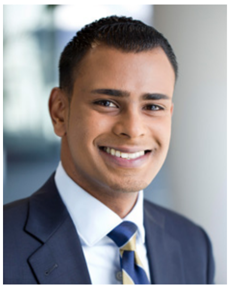
Yet threats, uncertainties and tensions abound. The survey was in the field during the COP26 conference in Scotland, which convened world leaders to try to prevent the worst effects of climate change. PwC experts who attended were both impressed by executives' commitment to rapid progress and aware that the captains of industry in Glasgow were a self-selected group that came prepared to take action. The question of how to bring others along looms large. Then, just two weeks after our survey closed, news of the Omicron variant reverberated around the world, raising fresh questions about the course of the pandemic and about society's ability to continue the slow climb to normalcy.

Our survey findings reflect these and other tensions. For example, just 22% of survey respondents have made net-zero commitments (though the largest companies in our sample are further along). CEOs are most worried about the potential for a cyberattack or macroeconomic shock to undermine the achievement of their company's financial goals—the same goals that most executive compensation packages are still tied to. And they are less concerned about challenges, like climate change and social inequality, that appear to pose smaller immediate threats to revenue.

Contacts

Costa Natsas
Financial Services Industry Leader
PwC Africa
costa.natsas@pwc.com

Francois Prinsloo
Banking & Capital Markets Industry Leader
PwC Africa
francois.prinsloo@pwc.com



Rivaan Roopnarain
Banking & Capital Markets Partner
PwC Africa
rivaan.roopnarain@pwc.com