Balancing resilience and growth

South Africa – Major banks analysis

PwC analysis of major banks' results for the reporting period ended 30 June 2017

September 2017

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The big picture

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*Headline earnings growth	***3.8%***
*Return on equity	***17.9%, up 25bps***
*Combined common equity tier 1 ratio	***13.3%, up 80bps***
*Net interest margin	***4.42%, up 5bps***
*Credit loss ratio	***0.84%, down 15bps***
*Cost-to-income ratio	***55.61%, up 79bps***

**1H17 vs 1H16*

Technological disruption and opportunity

The banking and broader financial services industry is today navigating through an increasingly complex world of decisions, risks and opportunities, amid technological advances that are unprecedented in their speed and impact.

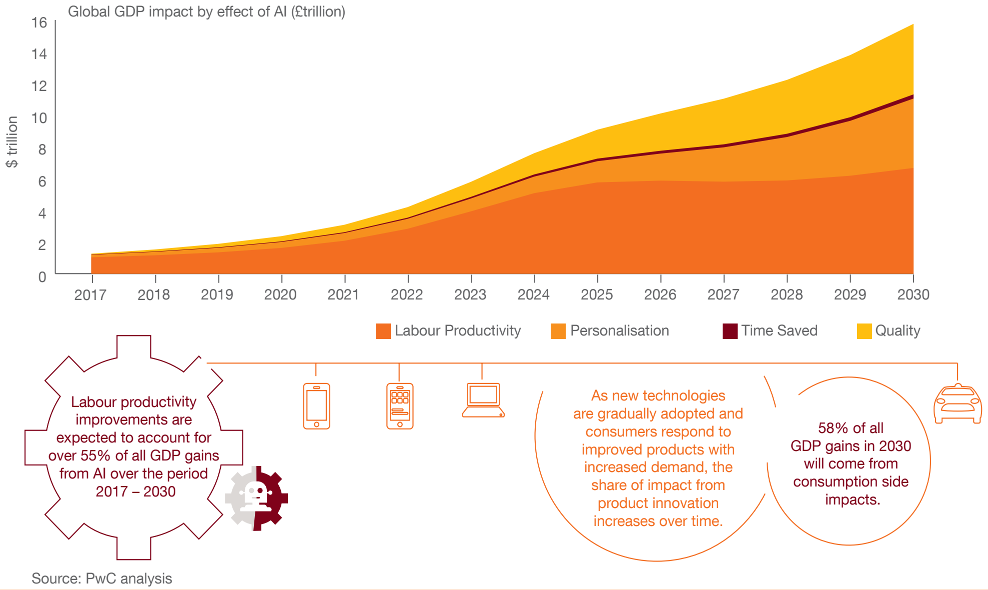
Business leaders are asking: What impact will artificial intelligence (AI) or robotic process automation (RPA) have on my workforce and organisational strategy, and how is our business model threatened by these disruptions?

As industry leaders look to capitalise on opportunities presented by these technologies, they're facing deeper questions, often asking: Where should we target investment, and what kind of capabilities would enable us to perform better, sustainably into the future?

As Figure 1.1 reveals, our global research highlights three key areas where AI provides the opportunity for value gains to be derived:

1. Productivity gains from businesses augmenting their existing labour force with AI technologies.

Figure 1.1 Where will the value gains come from with AI?



Source: PwC analysis

2. Increased consumer demand resulting from the availability of personalised and/or higher-quality AI-enhanced products and services, and

3. Improved quality in the output of processes.

In parallel to these important questions, the intersection of finance and technological innovation (FinTech) – and more recently, regulation and technology (RegTech) – has had a staggering effect in some global markets over the past year. Financial institutions and FinTech companies are moving closer together and redrawing the lines that separate them. Through this process, financial institutions and banks in particular have begun to look inward, driving internal innovation through partnerships with FinTech companies and technological developments.

Our recent Global FinTech survey took the pulse of the industry regarding this emerging trend and our findings reinforce this view:

> *82% of FS incumbents expect to increase FinTech partnerships in the next three-to-five years, 88% are increasingly concerned they are losing revenue to innovators, while 30% of large financial institutions are already investing in AI.*

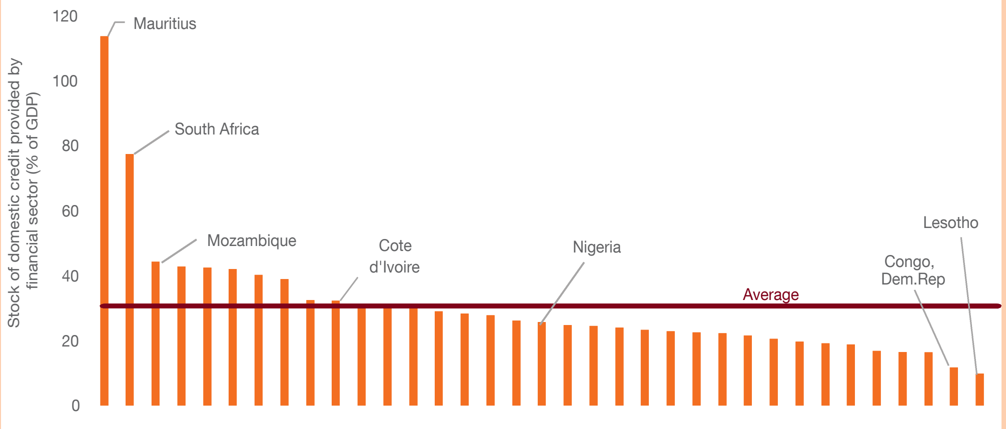
Cutting across these considerations is the question of how to ensure financial services organisations build their businesses in the responsible and transparent way needed to maintain the confidence of customers and wider stakeholders.

Credible answers to these questions, and others like them, will consume increasingly larger proportions of senior management time. While a lot is unclear, our view is that these shifts are combining to create an irresistible force for change. **From today's state of flux, we can see a set of opportunities emerging that can be broader, yet more fluid, than before.**

To be clear, these opportunities do not exist only conceptually and are much more than potential horizon plays. Instead, they are real, tangible, and particularly close to home – to such an extent that leading organisations in the future may likely be those who best respond to these issues today.

To gauge a sense of the scale of the opportunity, take for instance our recent analysis of regional banking industry dynamics in sub-Saharan Africa (SSA). SSA is home to approximately 550 million people of working age, but is believed to lack a banking system to match.

Figure 1.2 Mauritius and South Africa lead the way in 'financialisation' in sub-Saharan Africa



Sources: PwC analysis, World Bank

The latest data from the World Bank shows that the median credit-to-GDP ratio in SSA's low and middle income countries was just 25%, which is 20 percentage points below the global average for countries with similar incomes.

Meanwhile, intra-regional trade linkages have grown increasingly strong in SSA, prompting the expansion of some African banks to follow their corporate clients abroad. Our analyses show that the potential size of the opportunity for SSA banking could range between $490 and $950 billion of additional credit (at 2016 prices).

To realise this growth potential, regulators on the continent will need to continue getting to grips with the key issues affecting banking in the region, including assessing the increased risk of cross-border spill-over risks that this could bring, but also making sure that financial inclusion is accelerated across all sectors of the economy.

Regulators, banks and technology companies will need to work together to reap these benefits. Cheap and simple technological developments have been critical in helping improve access to financial services. For example, SSA is a world leader in the field of mobile banking – and South Africa is home to some of these industry leading banks.

Worldwide, 2% of adults have a mobile money account compared to 12% in SSA. Fintech can enable the region to leapfrog stages of financial development, while automating legacy manual processes (through RPA) can make banking leaner, more efficient and ultimately more accessible. In a period characterised by a challenging operating environment, opportunity remains strong.

Against this backdrop of potentially disruptive forces emerging across the financial services industry – often across markets, countries and sectors – and after analysing the South African major banks results for nearly 15 reporting periods over seven years, we've seen a number of themes play out.

As the 'word cloud' of commonly used terms in this publication over the years depicts, our narrative has continually reinforced themes of 'uncertainty' when describing the broader operating environment in which the major banks results are achieved, and 'resilience' in articulating the results themselves. For the reporting period to June 2017, this theme again resonates.

Reflecting on the scale and impact – both realised and potential – of global and domestic events during the first six months of 2017 places this period arguably among the most noteworthy in recent memory.

To put this into context, figure 1.3 outlines some of the significant events during this period, overlaid with daily movements in the ZAR/USD exchange rate – often a useful barometer to gauge market sentiment and reaction.

In summary, the external environment over the period has been characterised by mixed macroeconomic signals, significant policy uncertainty in South Africa, alongside currency fluctuations, low GDP growth and subdued business confidence levels.

External developments[1]

Macroeconomic landscape

1H17 continued the theme in which 2016 ended, and remained broadly a mixed picture. Global economic growth accelerated from 3.6% in Q4-2016 to 3.9% in Q1-2017, mainly a result of robust output growth in a number of emerging markets, particularly Brazil, Russia, India and China. In contrast, against a backdrop of heightened geopolitical risks, growth in advanced economies slowed to 1.8% in Q1-2017 from 2.3% in the previous quarter, as economic activity in the United States and the United Kingdom lost some of the momentum in consumption spend registered at the end of 2016.

Zooming in on emerging markets, Brazil exited its protracted recession in Q1-2017, marking its first economic expansion since Q4-2014. The Brazilian economy continues to face structural challenges, including low rates of industrial capacity utilisation and a high unemployment rate.

1 Sources: SARB Quarterly Bulletin, June 2017; PwC Global Economy Watch, August 2017

The Chinese economy accelerated from 6.6% in Q4-2016 to 7.3% in Q1-2017, a result of robust government infrastructure and private real estate spending. However, headwinds in the form of tighter monetary conditions, credit risks as well as measures to curb concerns of a property bubble could limit Chinese growth prospects in the short to medium term.

India's economic growth, meanwhile, rebounded to 7.2% in this period, suggesting that the demonetisation shock towards the end of 2016 was a severe, but temporary, drag on the economy.

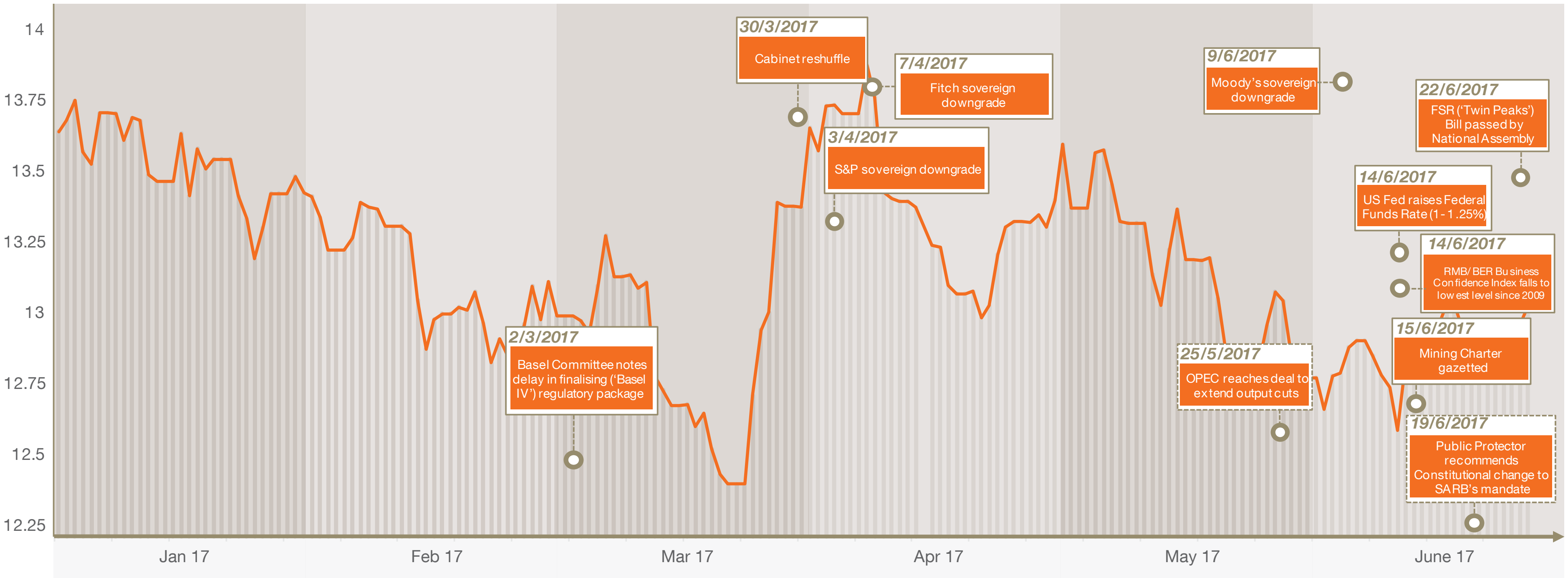
Most industrial commodity prices increased further during Q1-2017 – with metals and minerals prices surging almost 10% due to strong Chinese demand and various supply constraints, while global agricultural commodity prices remained broadly unchanged.

Energy prices increased 6.3% in the period, underpinned by higher oil prices, which increased sharply on the back of an agreement reached between OPEC and some non-OPEC countries at the end of 2016 to reduce Brent Crude output in the first half of 2017.

In the Eurozone, our global research has revised upwards our projections for GDP growth, which we expect to come in at about 2% this year – the strongest since 2015. Eurozone economies are experiencing a synchronised upswing in economic activity with countries in the core and periphery both growing at relatively rapid rates. We expect this upswing to continue into Q3-2017, particularly for some smaller peripheral economies like Malta and Cyprus, which are expected to record bumper years for tourism.

Finally, in the US, the Federal Reserve remains cautious about the pace of economic recovery in the face of relatively subdued inflation. A key risk is associated with the impending negotiations regarding the federal debt ceiling, which although temporary agreement appears to have been reached, could drag for political reasons and cause short-term uncertainty on a global scale.

Figure 1.3 1H17's Volatile operating environment (rand:dollar exchange rate)



Since December 2015, the Fed has raised interest rates four times, by 100 basis points in total (to 1.25%). We expect this gradual upward trend to continue, though there may only be one more rate rise this year given that core inflation in the US remains below targets.

Domestic economic landscape

The South African economy entered a technical recession in Q1-2017, having recorded a second consecutive quarter of contraction – for the first time since Q1-2009. GDP declined at an annualised rate of 0.7% in the quarter, following a contraction of 0.3% in Q4-2016.

Growth in household disposable income moderated from an annualised rate of 2.3% in Q4-2016 to a contraction of 1.6% in the first quarter, as prices increased at a faster pace than households' nominal disposable income over the period.

However, South African GDP growth in Q2-2017 improved to 2.5% on an annualised basis – beating previous market expectations – and enabling the domestic economy to have exited the technical recession.

Some market commentators have noted that residual risk to South African GDP growth remains as the Q2 increase may not be reflective of a structural pickup in economic activity or a sustained improvement in prospects.

Meanwhile, in the wake of arguably the biggest natural catastrophe seen in South Africa in recent memory, the combination of the severe storm in Cape Town and surrounding areas and devastating fires in the Southern Cape in early June triggered a sharp spike in insurance-related claims. However, the impact of these devastating events on domestic economic output remains to be fully quantified.

The nominal effective exchange rate of the rand weakened by 0.7% in Q1-2017, reversing an upward trend which began at the end of 2016, and which was supported by an expectation of improved economic growth prospects for both the global and domestic economy.

This weakening has largely been linked to the cabinet reshuffle that took place in March. Following this, external credit rating agencies Standard & Poor's (S&P) and Fitch downgraded South Africa's sovereign long-term foreign currency credit rating to sub-investment grade (S&P also downgraded the local currency sovereign rating). This was followed by a Moody's downgrade of the sovereign long-term foreign currency rating to one notch above sub-investment grade.

The key downside scenario that many market participants will be planning for is the possibility that either Fitch or Moody's may effect a local currency sovereign rating downgrade in the short-to-medium term. At this point, much of the risk concerns that dominated headlines will manifest, and market reaction to such an event is likely to be swift and sudden.

The level of political and economic uncertainty that prevailed over much of 1H17, and which remains elevated, poses a significant risk to the economic outlook in South Africa. The worry for many market participants is that current recessionary conditions may be longer, deeper and more protracted than anticipated – and that risks can emerge quickly, leaving little comfort for early warning indicators.

South African households' structurally low savings rate remained prevalent throughout 1H17. However, household debt as a percentage of annualised disposable income decreased from 73.5% in Q4-2016 to 73.2% in the first quarter.

Interestingly, National Credit Regulator data[2] show the number of South African consumers classified in good standing increased by 442 000 over Q1-2017 to 15 million consumers (compared to Q4-2016), while consumers with impaired credit records decreased by 72 000 to 9.69 million over the same period.

While these statistics show a relatively healthy trend reading at a point in time, we have observed in previous periods that the retail credit cycle can often be accompanied by a lag before economic stresses start to show direct impact on the South African consumer.

Some consumer comfort may come from market expectations that, on a data dependent basis, the SARB may have now reached the end of its rate hiking cycle, with inflation starting to pull back from previous levels. The SARB's Monetary Policy Committee decreased the repo rate by 25 basis points to 6.75% per annum with effect from 21 July 2017.

Headline consumer price inflation slowed from a recent peak of 6.8% at the end of 2016 to 5.3% in April 2017. The moderation in consumer price inflation was fairly broad-based, as the slowdown in domestic food price inflation, weak consumer demand and the continued benefit from currency appreciation in 2016 all contributed to easing inflationary pressures.

The positive news may be offset as the South African Chamber of Commerce and Industry's monthly business confidence index fell to 89.6 in August, the lowest level in over a decade, from 95.3 in July.

2 National Credit Regulator, Credit Bureau Monitor: March 2017 – www.ncr.org.za/documents/CBM/CBM%20March%202017.pdf

In broad summary, both globally and domestically, 1H17 presented a difficult economic backdrop and business environment, often felt by both corporate South Africa and consumers alike.

Stakeholder expectations

Prudential regulation

By now there is no doubt frustration with the ongoing delay in finalising global prudential regulations on the part of both regulators and the banks themselves, as they await the end of uncertainty around what the final rulebook will look like.

As recently as early this month it was hoped that the Basel Committee on Banking Supervision (BCBS) would agree on a compromise package for the expected changes to complete the regulatory reform agenda (the so-called 'Basel IV' suite of regulations).

However, US and European delegates seem to be unable to reach binding agreement. Much as it did six months ago, politics may continue to be hampering efforts. It also continues to appear that a key area of contention in finalising the package of rules relates to the calibration of output floors – which will impose a 'hard limit' to the modelling benefit banks derive from using internal models to measure risk.

Depending on the final calibration of these rules – including new approaches for standardised measurements of credit and operational risks – banks will have to wait to understand what further binding constraints on capital resources and balance sheets may lie ahead. They will also have to wait to determine what adjustments may need to be made to business models or product mix, as a result of the regulatory regime.

Expectations remain for this set of rules to be concluded in 2017.

In our previous publication, we noted that many banks will be planning for the significant transformation of the regulatory market risk framework – the Fundamental Review of the Trading Book (FRTB). Six months later, while the extent of progress the banks have made is unclear, the expected impact that FRTB will have on operating models, systems, data and regulatory capital is becoming increasingly clear.

As we commented previously, among other changes, the rules will limit diversification and offsetting benefits that currently exist across individual asset classes and between trading desks, while 'electrifying the fence' between banking and trading-book boundaries through a tighter trading-book definition.

Amidst what may be seen as a relentless regulatory change environment over recent years, South African banks will welcome the SARB's decision (published on 23 August 2017) to delay the implementation of requirements related to a capital standard for measuring bank exposures to central counterparties, the standardised approach for measuring counterparty credit risk exposures (SA-CCR) and capital requirements for equity investments in funds. The SARB noted that these will be deferred to a date later than 1 September 2017 as previously planned.

Accounting developments

With less than four months to go (for those with December year ends), the major banks are entering the final model build and parallel-run phases of their IFRS 9 implementation programmes.

While all of the banks have commented that they broadly remain on track for IFRS 9-implementation, there will no doubt be a number of areas of focus in the months leading up to implementation. These focus areas will range from ensuring data, controls and systems are fully tested and properly in place to produce IFRS 9 compliant measures of expected credit loss (ECL), to producing high-quality disclosures to facilitate market understanding of the impact of IFRS 9 transition across a range of financial and regulatory metrics.

Conduct

The Financial Intelligence Centre Amendment Act (FICA) was signed into law during the first half of 2016. This is a positive reflection on the domestic financial system in its objectives to combat financial crime – including tax evasion, money laundering and the financing of terrorism.

A key event that took place shortly after the end of 1H17, but one that will have broad ramifications for the South African financial services industry going forward, was the promulgation of the Financial Sector Regulation Act of 2017 – the legislation often referred to as 'Twin Peaks', which was passed by Parliament in June.

While the commencement dates for the new Act are not yet known, what is clear is that it provides the architecture for the much-discussed Twin Peaks model of financial regulation to be adopted across the South African financial services industry. The Act makes provision for this model by establishing two new financial sector regulators, the Prudential Authority and the Financial Sector Conduct Authority.

The Bank Supervision Department of the SARB will become the Prudential Authority, responsible for prudentially supervising all financial institutions – banks, insurers and asset managers.

Market conduct and consumer protection will be governed by a new entity, the Financial Sector Conduct Authority, to replace the current Financial Services Board. The legislation also provides for cooperation and collaboration among the National Credit Regulator, the SARB and the Financial Intelligence Centre.

As previously noted, the move towards Twin Peaks is likely to have significant implications for the South African financial services industry at different stages over the coming years and in different ways across the financial services sectors.

It is expected that other related regulations and legislation around Twin Peaks will emerge and/or converge in future periods as the new framework is embedded. One of the first of these is likely to be the Conduct of Financial Institutions (CoFI) Act, which will set out a new framework for how financial services providers should conduct themselves, including standards for distribution and advice.

For banks and insurers, we expect that a dedicated market conduct regulator is likely to result in elevated supervisory attention in the broad areas of market conduct and consumer protection, possibly to a level more aligned with the extent of focus conduct regulation has seen in the UK in recent years.

The major banks continue to be focused on establishing programmes to implement far-reaching conduct requirements of this Act as well as other legislation such as the Protection of Personal Information Act (POPI), and will likely continue to expend significant effort on compliance activities over the short to medium term.

Internal responses

The SARB granted three provisional banking licences in 2016, with these licensees required to finalise their licence application submissions during 2017.

Some market commentators have observed that the potential granting of these licences may add a new level of competition to the South African banking sector – particularly given the digital orientation of new bank start-ups.

Meanwhile, the major banks remain focused on many of the strategic themes we have commented on previously, including digitising legacy processes through robotic process automation initiatives, replacing and retooling legacy system architecture, and channel and product innovation with a view to enhancing customer experiences.

An interesting theme we note is an observable effort to partner with external, innovative market players. In some ways this breaks from recent periods in which the banks sought to incubate innovation efforts internally, and demonstrates a recognition of the benefits of efficiency and creativity that can come from partnering with those from different, non-financial disciplines to accelerate innovation.

Given the pace of technological development, there is little doubt that technology-driven innovation in financial services, or FinTech, may affect the banking industry in material ways over the medium term. This view was reinforced in August 2017 with the Basel Committee consulting on the implications of FinTech for the financial sector, ***Sound practices: Implications of fintech developments for banks and bank supervisors***[3].

3 https://www.bis.org/bcbs/publ/d415.pdf

In its consultation, the BCBS explores various future potential scenarios, with specific risks and opportunities considered. In addition to banking industry scenarios, three case studies focus on technology developments (big data, distributed ledger technology and cloud computing) and three on FinTech business models (innovative payment services, lending platforms and ‘neo-banks’).

The BCBS finds that:

> *“although fintech is only the latest wave of innovation to affect the banking industry, the rapid adoption of enabling technologies and emergence of new business models pose an increasing challenge to incumbent banks in almost all the scenarios considered.”*

The BCBS recognises that banking standards and supervisory expectations should be adaptive to new innovations, while maintaining appropriate prudential standards – identifying 10 key observations and related recommendations on supervisory issues for consideration by banks and bank supervisors

Outlook

Despite the range of challenges and the degree of policy uncertainty currently facing the South African economy, the domestic banking system remains profitable, well managed, robustly capitalised and regulated in line with international best practice.

Nevertheless, the banking sector remains a key transmission mechanism for savings, investment and spending, and is therefore often considered a barometer of the health of the overall economy. While the political environment has become a perennial influencing factor for the South African economy, much of the forecast risk depends on open questions relating to the domestic political and policy landscape and how events play out until, and potentially beyond, the ANC's elective conference in December 2017.

While economic growth prospects for the South African economy are arguably the single largest factor on banks' risk radars, the effects of potential further (local currency) sovereign rating downgrades on the economy and funding costs will feature prominently in risk scenarios.

Given current levels of economic uncertainty, domestic financial markets are likely to remain characterised by elevated levels of volatility, with downside risks firmly built into banks' scenario planning and economic models.

While the outlook for the rest of 2017 is clearly challenging, some positives remain in sight. Inflation is expected to remain within the SARB's inflation target band, with the possibility of further rate cuts which would be welcomed by business and consumers alike.

Globally, forecasts expect relatively stronger commodity prices to continue, which should support cyclical recoveries, particularly in export-orientated industries – and which in turn should sustain corporate credit demand in these sectors.

The International Monetary Fund (IMF) currently forecasts global economic growth to improve to 3.5% in 2017, with emerging market economies expected to be meaningful contributors and beneficiaries of global growth. Global emerging market growth is expected to be 4.5% for 2017, compared with 2% for advanced countries, and growth in sub-Saharan Africa to accelerate to 2.1% in 2017 (from 1.4% in 2016).

Beyond economic factors, other dynamics will also likely feature strongly on the agendas of bank management – ranging from increasing cyber dependency, elevated incidences of data fraud, large-scale cyberattacks, and intensifying competition from non-traditional competitors with lower-cost structures, all amid a global backdrop reflecting deepening social and cultural polarisation, and intensifying nationalist sentiment.

Many of these factors may combine to create headwinds and in many cases direct challenges to bank profitability. However, the resilience and well-diversified nature of the major banks' franchises, anchored in strategies that have proven themselves over time, will continue to provide management teams with confidence to execute growth strategies.

Results overview

2

Headline earnings

Despite the turbulent and challenging operating environment and subdued economic climate outlined above, the major banks produced a resilient set of results at 1H17, with earnings growth of 3.8% against 1H16, but decreasing 4.6% against 2H16.

The contrast in the headline earnings trend between these two periods reflects the manner in which the operating environment in these two six-month reporting periods impacted the major banks to varying extents, together with bank-specific circumstances playing out in the results.

Two key drivers of the earnings trend for this period has been the impact of their experiences in their rest of Africa operations, which differed across the banks and across specific markets, and the effect of the credit cycle, which manifests differently between portfolios over time.

While comparable data to quantify the precise contribution of the major banks operations in the rest of Africa remains difficult to gauge, the contribution from these operations continues to be increasingly important.

For the current period, the rest of Africa experience of the major banks was mixed, with currency fluctuations and different portfolio sizes in various markets on the continent resulting in offsetting contributions for the banks collectively.

Credit growth

Given the depressed levels of business confidence that persisted over 1H17 across the retail and corporate sectors, the major banks' aggregate credit growth was muted for the period. Gross loans and advances stayed largely flat against both 2H16 and 1H16, showing marginal growth of 0.9% and 0.7% respectively.

Asset quality

The credit experience of the major banks, meanwhile, continued to reflect the disciplined approach to origination that they have adopted consistently over the years. Non-performing loans (NPLs) fell moderately by 0.5% against 1H16, but ticked slightly upwards by 1.9% against 2H16.

Balance sheet provisions followed this directional trend, falling marginally by 0.6% against 1H16, while showing slight growth of 0.9% against 2H16. The total credit coverage ratio similarly followed these trends, coming in at 66.5% at 1H17 (67.6% at 2H16 and 67% at 1H16).

This moderate decline in the coverage ratio in the last six months is largely a function of individual banks taking nuanced stances in their portfolio provisioning strategies, given their different experiences within the credit cycle, and some releasing certain previously raised provisions for event risks that did not manifest as negatively as expected in their portfolios (primarily the impact of the downturn in commodity prices seen previously).

Net interest income (NII)

The net interest income line also reflected the challenges of the current operating environment, staying largely flat against 2H16 and showing moderate growth of against 1H16 on the back of positive endowment impact offset by curreny fluctuations and higher average rates in some African countries.

On a positive note, the major banks continue to maintain their net interest margins, which showed a 5bps expansion against 1H16 to 4.42%, while expanding more moderately (3bps) against 2H16. This continues to reflect the banks' efforts to appropriately price for risk in their portfolios, and is an admirable achievement in the current climate. Funding margins of the major banks have showed some level of widening as lending slowed during 1H17. At the same time the banks continue to position funding efforts by focussing on growing retail deposits rather than having to place reliance on more expensive wholesale funding.

Interestingly, this level of margin is also reflective of the impact of the sovereign downgrade being priced in by the market prior to its occurrence, which had the effect of minimising a spike in funding costs.

Non-interest revenue (NIR)

The major banks' NIR continues to be primarily supported by growth in fee and commission income, which represents 71% of total NIR revenue for 1H17 (73% at 2H16, 70% at 1H16). Combined annualised NIR growth was 1.7% in 1H17 against 1H16 (3.7% against 2H16), largely on the back of growth in fees and commissions of 2.4%.

In a challenging environment that saw many retail banking customers transact within value bundles, this growth is a positive sign of healthy transaction volumes and may indicate that the banks' focus on optimising and digitising electronic channels over previous periods is paying dividends.

Fee and commission income growth was offset by a decrease in bancassurance income (decrease of 17% against 1H16), largely on the back of greater weather-related claims arising from events in the Cape.

Efficiency

The combined cost-to-income ratio deteriorated to 55.6% as at 1H17 (2H16: 55.4%, and 1H16: 54.8%). The major banks continue to focus on managing discretionary spend, while managing structural cost programmes to realise efficiency gains that can be invested in growth initiatives.

This is the ninth consecutive reporting period in which the cost-to-income ratio remained in the 54%-56% range, highlighting the challenge to further contain costs in the current environment.

Approximately 57% of the major banks' total operating expenses at 1H17 relate to staff costs, which represents a marginal increase on the contribution of 55.5% at 2H16.

We expect this trend to continue in the short term, as specialist and skilled resources are employed to assist the banks with their large-scale IT and data transformation programmes and to help meet evolving regulatory and compliance requirements.

Return on equity (ROE)

Combined ROE grew by 25bps against 1H16, but contracted 73bps against 2H16, further evidence of the earnings challenge experienced by the major banks over the first six months of 2017. As always, the ROE experience of individual banks is reflective of different experiences their lending portfolios demonstrate at different points in the credit cycle. In the current reporting period in particular, the banks took deliberate actions regarding their levels of credit provisioning to reflect their specific experiences of the current credit cycle.

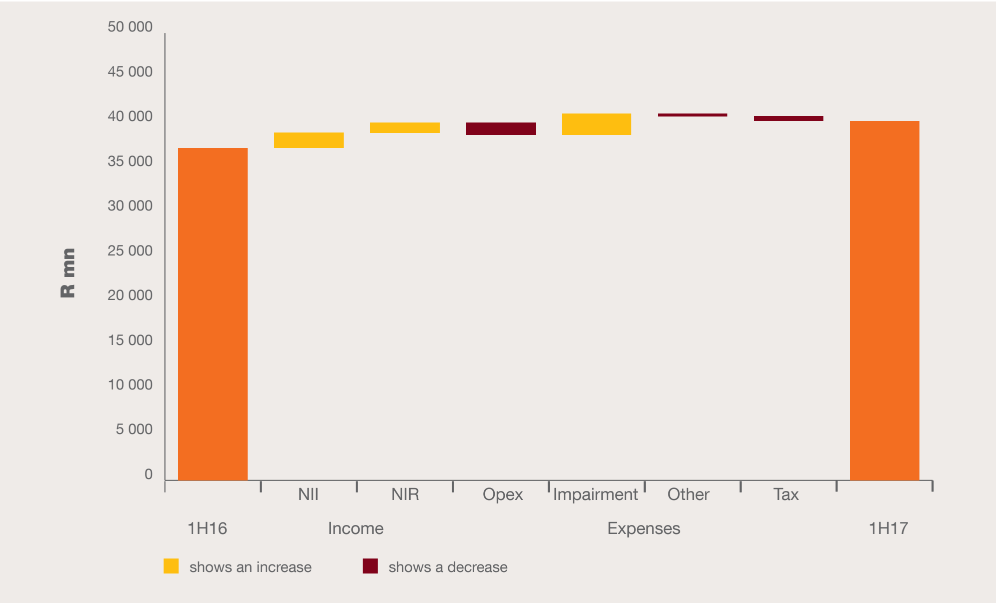
In addition, the impact that the major banks' operations in the rest of Africa had on their earnings was marked in the current period, reflecting the particular effects of challenges in some markets offset by positive growth trajectory in others. Overall, the major banks healthy double-digit ROE levels remains significantly above those of their global peers.

Combined results (Rm)

	1H17	2H16	1H16	2H15	1H17 v 1H16	1H17 v 2H16
Net interest income	86,492	86,668	84,803	78,834	2.0%	-0.2%
Non-interest revenue	68,109	65,662	66,940	65,046	1.7%	3.7%
Total operating income	**154,601**	**152,330**	**151,743**	**143,880**	**1.9%**	**1.5%**
Total operating expenses	-87,290	-87,135	-85,893	-82,154	1.6%	0.2%
Core earnings	**67,311**	**65,195**	**65,850**	**61,726**	**2.2%**	**3.2%**
Impairment charge	-14,835	-13,356	-17,237	-13,336	-13.9%	11.1%
Other income/(expenses)	-147	-1,378	183	-453	>100%	-89.3%
Discontinued operations	-	-	-	-261	-	-
Income tax expenses	-12,176	-12,513	-11,630	-11,432	4.7%	-2.7%
Profit for the period	**40,153**	**37,948**	**37,166**	**36,244**	**8.0%**	**5.8%**
Attributable earnings	36,926	34,194	34,468	32,502	7.1%	8.0%
Headline earnings	35,961	36,254	34,640	33,973	3.8%	-4.6%
Return on equity	17.9%	18.6%	17.6%	18.4%	0.25	-0.73

Source: PwC analysis

Figure 2.1 Key drivers of combined profit and loss



Source: PwC analysis

Balance sheet dynamics

3

Credit growth

Gross loans and advances

Given the depressed levels of consumer and business confidence that persisted over 1H17 broadly across the South African economy, spanning both the retail and corporate sectors, the major banks' aggregate credit growth was muted for the period.

Gross loans and advances stayed largely flat against both 2H16 and 1H16, showing marginal growth of 0.9% and 0.7% respectively. In some ways however, the asset mix change that the banks experienced was positive, with retail advances showing a trend of outpacing corporate growth in the current period.

Corporate lending

Loans and advances to the corporate sector by the major banks fell by 3.9% against 2H16 and 2.8% against 1H16, in many ways reflecting the cloud of economic uncertainty that persisted over the domestic economy in the first six months of 2017.

While some banks have commented on resilience in certain discrete lending portfolios (agriculture and specialised finance), in general, weaker corporate demand for overdrafts and other working capital facilities was a prevalent theme on a combined basis in the current period.

SARB data released in June 2017 confirms this view, noting that the recent slowdown in credit extension to the corporate sector was particularly evident in general loans to companies, with growth moderating from a recent year-on-year high of 19.9% in June 2016 to 10.8% in April 2017. However, resilient growth in commercial property finance continued to be seen in the current period, with lending in this category increasing 3.2% against 2H16 and a solid 5.9% against 1H16.

Retail mortgages

Mortgage portfolios continue to show the benign rates of growth that we have now consistently seen over a number of reporting periods, growing 1.2% against 2H16 and 1.9% against 1H16. Some of the major banks have noted that residential mortgage portfolios appear to be showing better levels of credit demand from the lower end of the property market, which may highlight financial inclusion efforts paying dividends.

SARB data, meanwhile, notes that although mortgage advances represented around half of all credit extended to households over the period, 12-month growth in mortgage advances to households slowed from 4.7% in February 2016 to 3.1% in April 2017.

Instalment sale credit, card debtors and other unsecured lending

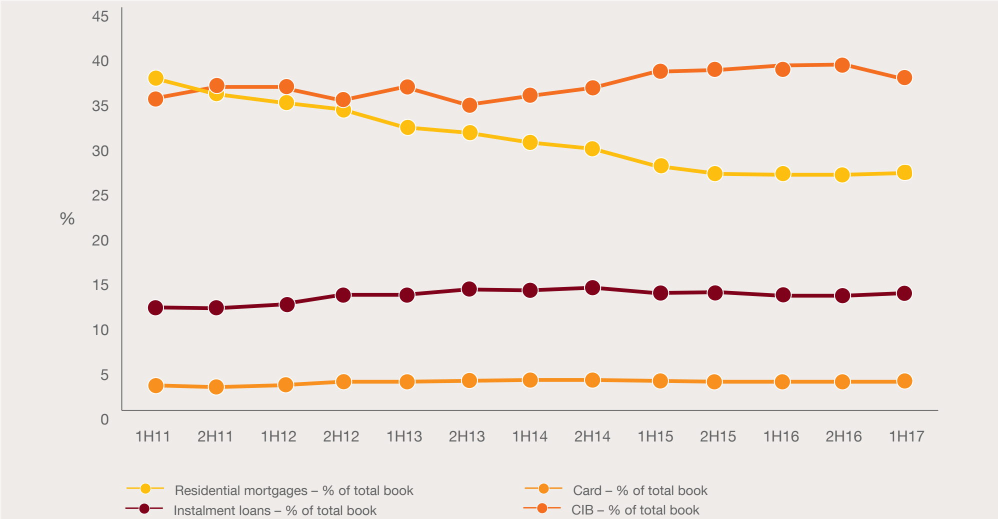
In spite of the vehicle financing and leasing categories being a noticeable contributor to retail NPLs in the current period (on the back of credit written in previous periods), this lending category continues to show resilient loan growth of 2.9% against 2H16 and 3.3% against 1H16.

SARB data for the period notes that instalment sale financing of used passenger vehicles continued to exceed the financing of new vehicles.

However, the outlook for this sector may be less promising, with the SARB noting that business confidence among new vehicle dealers remained quite low in the current period while business confidence among used vehicle and spare part dealers remained around the neutral level, suggesting that consumers are postponing replacement by maintaining their vehicles for longer.

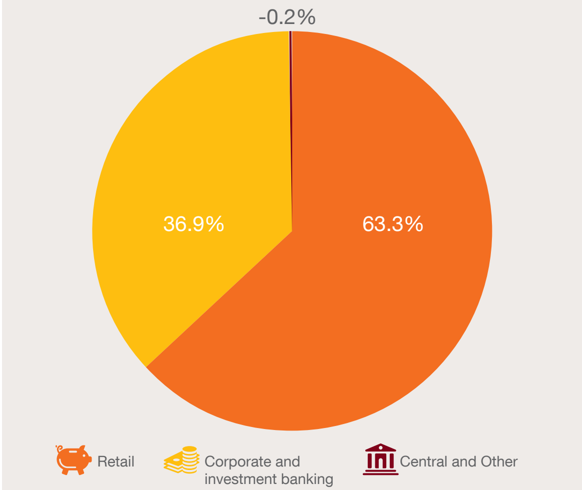
Similarly, card debtors and other unsecured lending categories also continued to show solid growth on a combined basis in the major banks' retail portfolios.

Figure 3.1 Composition of loan portfolios



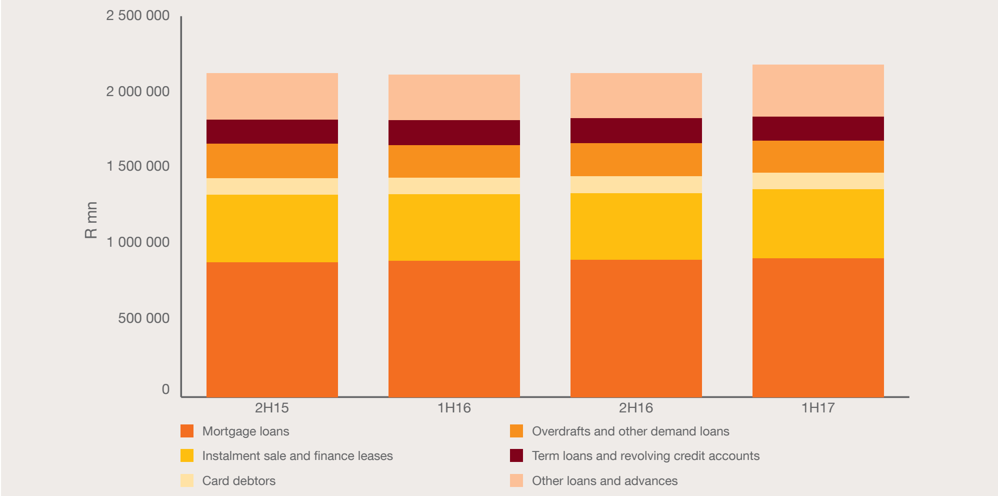
Source: PwC analysis

Figure 3.2 Combined loans and advances by sector



Source: PwC analysis

Figure 3.3 Retail advances per product



Source: PwC analysis

Capital and funding

Capital resources and requirements

The major banks have consistently reported robust capital positions over a number of periods. This continued in the period to 1H17, with the combined total capital adequacy ratio improving to 16.3% at 1H17, which represents a strengthening of 80 and 30bps from 15.5% at 1H16 and 16% at 2H16 respectively.

Additionally, the combined Common Equity Tier 1 (CET1) capital ratio – seen as the highest quality and most loss-absorbing tier of regulatory capital – also strengthened to 13.3% (12.5% at 1H16, 12.9% at 2H16).

Both the total and CET1 capital ratios of the major banks remain well-above regulatory minima – and often above internally-set targets, reflecting the robust levels of capital management that the banks have maintained over many years.

Key drivers of the strong levels of capitalisation of the major banks has been resilient earnings growth in spite of difficult operating conditions, and tight management of risk-weighted assets (RWAs), which expanded only 2.6% and 2.8% against 1H116 and 2H16 respectively.

As noted in our strategic overview earlier, at the global level the Basel Committee appears to be taking longer than expected to finalise the Basel reforms. These reforms include, inter alia, revisions to the standardised RWA framework, the leverage ratio framework and the capital output floor.

The implications of these reforms, together with the impact of IFRS 9, could impact bank capital ratios, albeit to a lesser extent than global peers given the strongly capitalised position of the major banks.

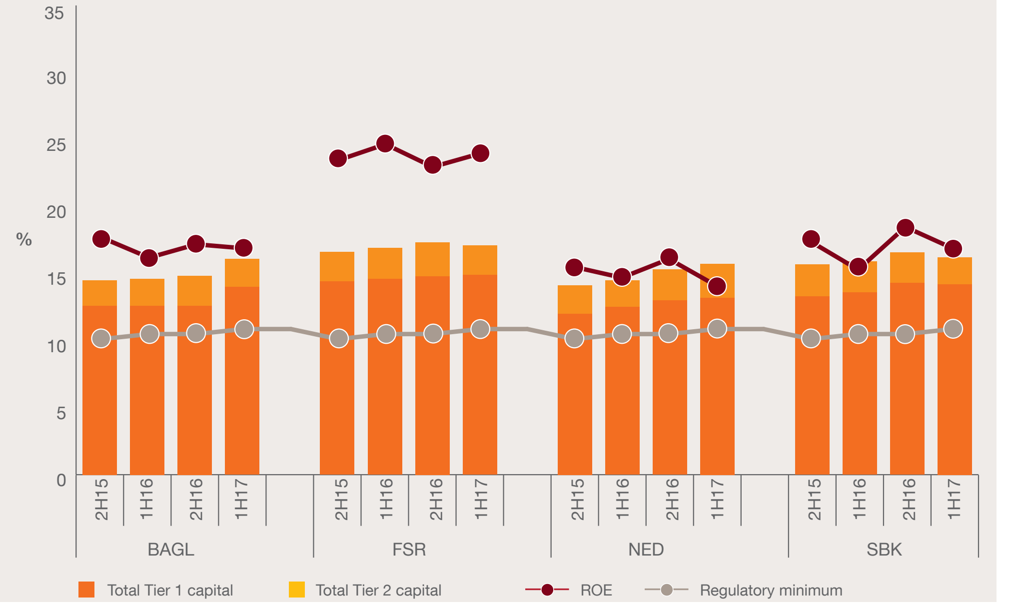
Liquidity and funding

Deposit growth at 1H17 remained muted, growing by only 2.4% against 1H16 and 1.3% against 2H16. Given the challenge in achieving higher rates of deposits within an environment of weak consumer and business confidence, and in the context of a structurally low national savings rate, the loans-to-deposit ratio contracted to 94.4%, which is a 162 and 34bps lower than the 96% and 94.7% levels reported at 1H16 and 2H16 respectively.

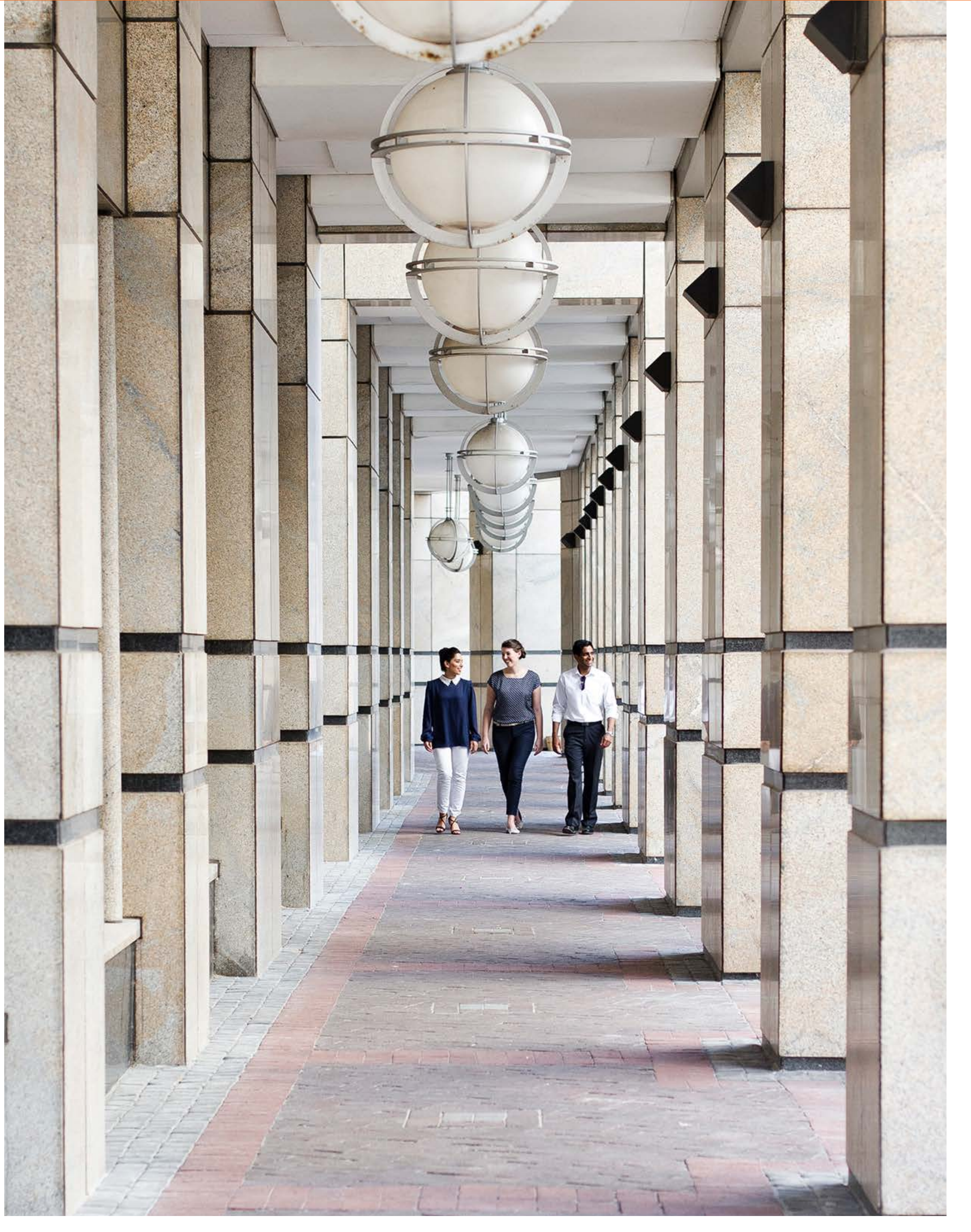
The major banks also commented positively on their efforts to grow 'high-quality liquid assets' (HQLAs) as they focus on managing their Liquidity Coverage Ratios (which they all currently comply with above regulatory minima) and broader efforts to manage the liability side of the balance sheet, as the longer term Basel III prudential liquidity measure, the Net Stable Funding Ratio (NSFR), comes into effect from 1 January 2018.

Remaining key focus areas relating to the NSFR are finalising a number of minor technical interpretational matters and ensuring that compliance is achieved, taking into context the banks' continued balance sheet optimisation efforts.

Figure 3.4 Regulatory capital ratios and ROEs



Source: PwC analysis



Asset quality

4

Combined NPLs fell moderately by 0.5% against 1H16, but ticked slightly upwards by 1.9% against 2H16.

Non-performing loans (NPLs)

The NPL trend across the major banks for 1H17 continued to reflect a mixed picture, but one that shows conservative credit management. As a percentage of total lending, NPLs remained at 3% at 1H17, which is largely where it was at both 2H16 and 1H16.

The portfolio drivers of the major banks NPLs followed a trend we have seen previously, with retail NPLs growing 4.4% against 2H16 (7% against 1H16), with corporate NPLs reducing by 5.9% and 22.6% respectively. From an NPL composition perspective, retail and business banking NPLs comprised 79.3% of total NPLs at 1H17 (77.8% at 2H16), and corporate and investment banking NPLs making up the rest of the total at 1H17.

From a retail perspective, growth in NPLs was driven by the instalment sale and finance leases category and reflects NPL growth as a result of the strong levels of growth seen in this portfolio in previous periods. However, early arrears and close monitoring of portfolios, coupled with enhanced collections in early stages, enabled the major banks to tightly manage their retail credit portfolios in a difficult operating environment.

Corporate credit portfolios, meanwhile, continue to benefit from prior period impairments taken on specific names, which were not repeated and continued discipline in credit risk management.

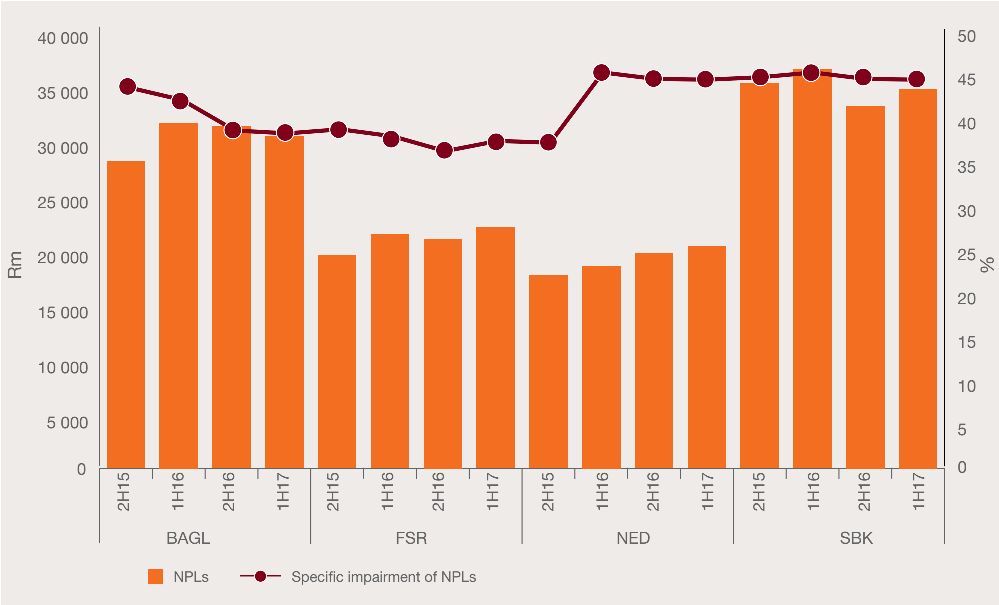
Coverage ratios and income statement impairments

The major banks continued the trend of maintaining resilient credit coverage ratios as the specific impairment coverage ratio improved by 10bps and 25bps to 41.05% at 1H17 from 40.8% at 1H16 and 40.95% at 2H16. Total impairment coverage at 1H17 came in at a healthy 66.5%, moderately lower than the levels seen in recent periods (67.6% at 2H16 and 67% at 1H16).

This moderate decline in the total coverage ratio for the major banks is largely a function of individual banks taking nuanced stances in their portfolio provisioning strategies, given their different experiences in the credit cycle, and releasing certain previously raised provisions for event risks that did not manifest as negatively as expected in their portfolios (primarily the impact of the downturn in commodity prices seen previously).

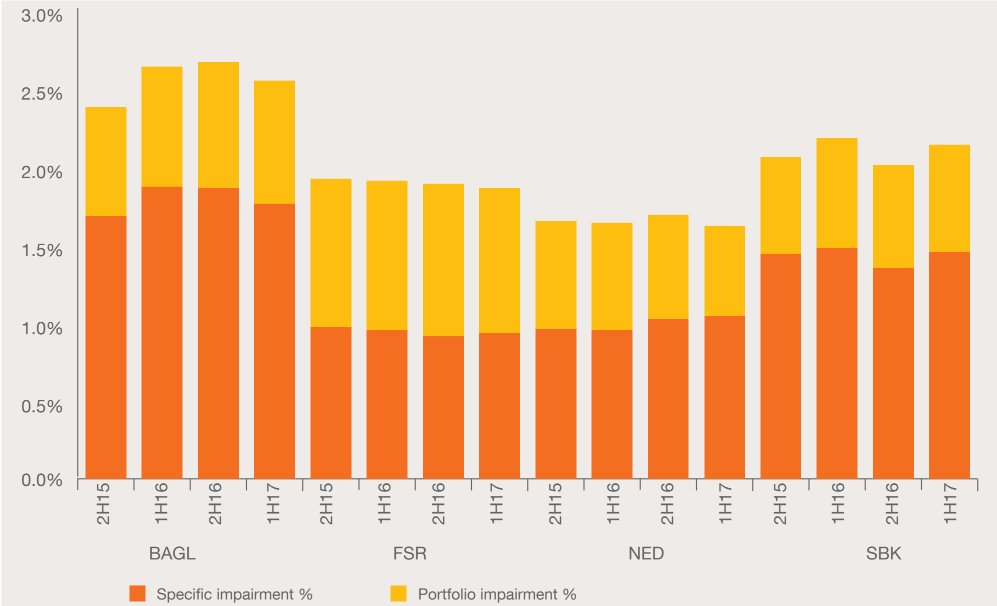
The combined credit loss ratio was a tale of two halves, which the major banks experienced over the last 12 months and amounted to 0.84% at 1H17 (0.77% at 1H16 and 0.99% at 2H16).

Figure 4.1 Impairment coverage ratios



Source: PwC analysis

Figure 4.2 Balance sheet provisions (impairment vs specific)



Source: PwC analysis

Net interest income

5

Net interest income remains an important revenue driver of earnings growth for the major banks, and showed resilience by growing 1.8% and 3.8% against 1H16 and 2H16 respectively within a challenging operating context.

The combined net interest margin (NIM) also reflected strength at 4.42% at 1H17 (4.39% at 2H16 and 4.38% at 1H16).

What's driving the numbers?

Endowment and economic impact

The 5bps expansion (rounded) in the combined NIM at 1H17 (4.42%) compared with 1H16 (4.38%) is a significant achievement, given the nature and scale of operating pressures that characterised the first half of 2017.

Key drivers that the banks have noted to maintain this level of NIM were the effect of positive endowment with higher average rates in some countries in the rest of Africa, and improved and more risk-sensitive loan pricing, particularly in corporate portfolios where effort was spent in replacing foreign-currency lending with local-currency lending.

Factors constraining the NIM include asset pricing challenges, particularly in relation to retail products where customers are increasingly price-sensitive and competition continues to increase among the banks.

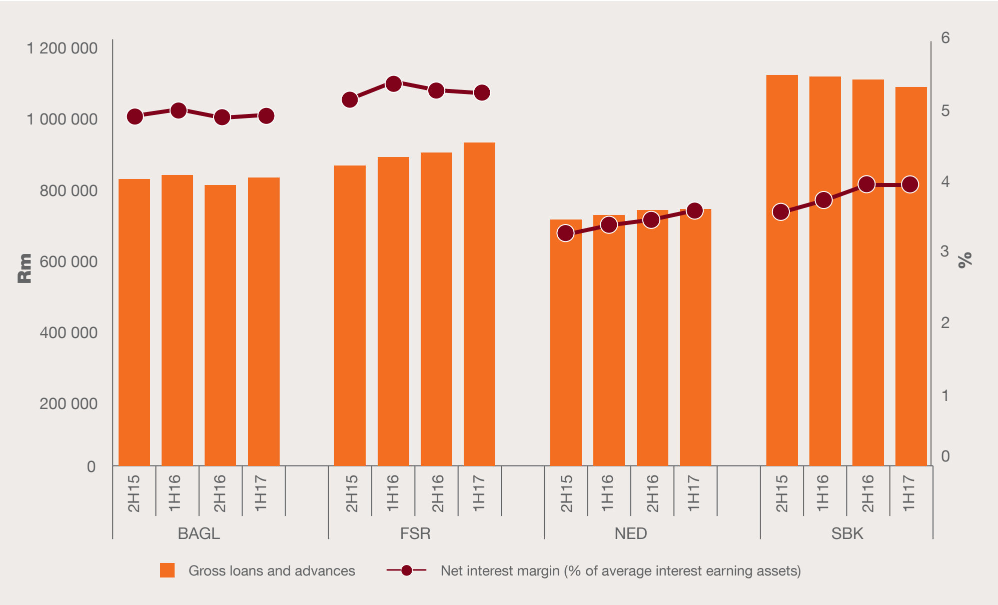
An additional factor that some banks have highlighted is the impact of 'JIBAR squeeze' – when short-end market rates moved with prime in reaction to political events in early 2016, whereas in 2H16 and 1H17 the anticipated rate changes did not happen.

Regulatory requirements, higher funding costs and balance sheet mix

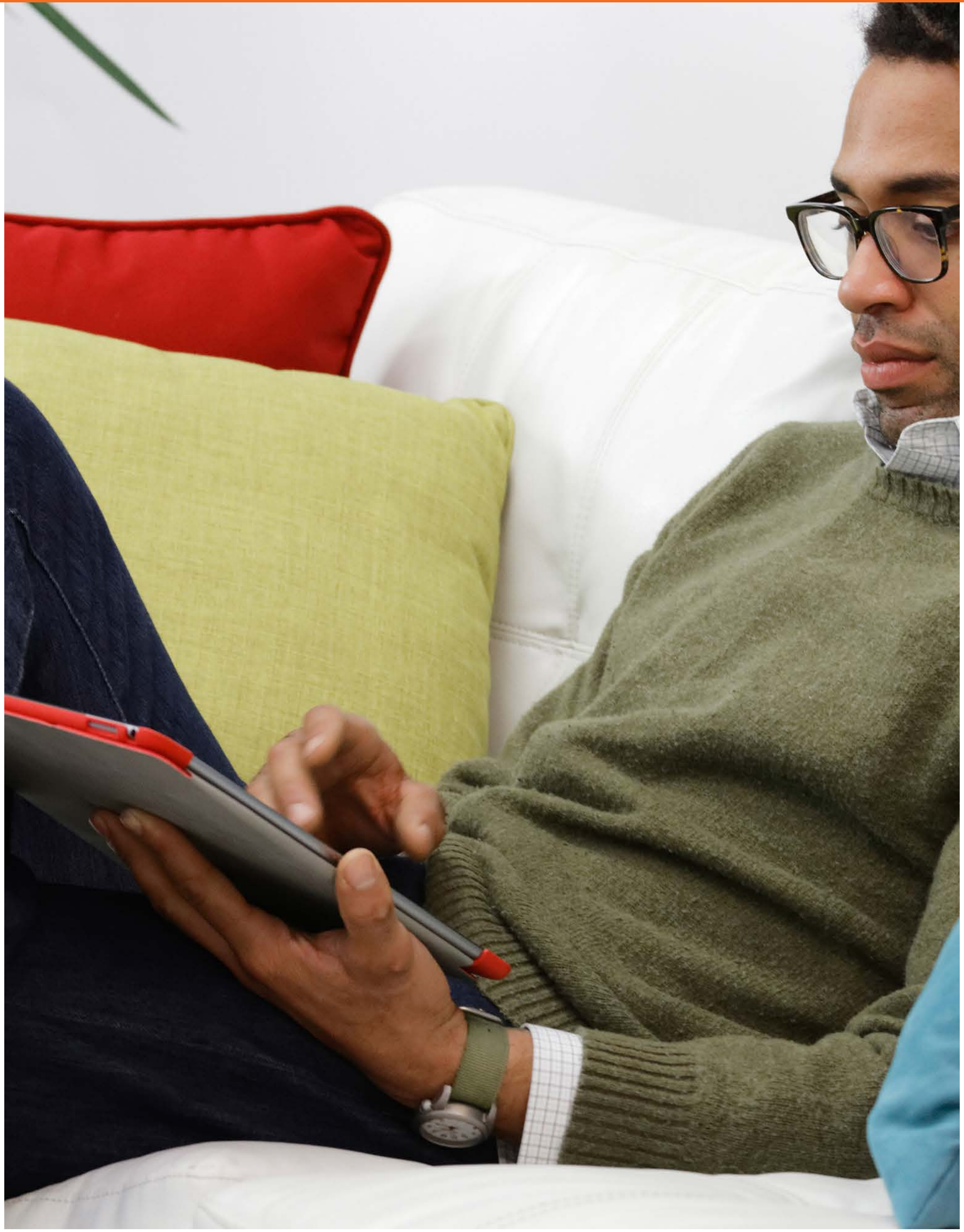
The major banks' funding margins have shown some level of widening as lending slowed during 1H17. At the same time, the banks continue to positon funding efforts to place less reliance on more expensive wholesale funding.

As we have previously highlighted, with the liquidity coverage ratio (LCR) now firmly embedded into the regulatory framework, the banks continue to accumulate stocks of low-yielding, high-quality liquid assets (HQLAs) for the purposes of the LCR – a factor that also continues to offset NIM growth.

Figure 5.1 Net interest margin and advances



Source: PwC analysis



Non-interest revenue

6

Non-interest revenue (NIR) continues to be primarily supported by growth in fee and commission income, which represents 71% of total NIR revenue for 1H17 (73% at 2H16, 70% at 1H16).

Combined NIR growth was 1.7% in 1H17 against 1H16 (3.7% against 2H16).

What's driving the numbers?

Net fee and commission income

Net fee and commission income grew 2.4% compared to 1H16 as reduced transactional activity and lower volumes across the corporate and retail sectors in the first half of 2017 dragged on the back of lower business confidence levels. This growth remains a remarkable achievement given the operating environment in the current reporting period.

Banks experienced lower market volatility in South Africa and on the continent outside South Africa in comparison to 2H16, which reduced revenue generating capacity. Management teams continue to diversify the net fee and commission income revenue streams across various geographical regions in Africa, given the relatively mature state of the banking market in South Africa and muted opportunities for significant further growth in the domestic market.

Banks continue to focus on growth in annuity revenue in the rest of Africa, particularly through focusing on less capital-intensive activities. Knowledge-based fee income, largely associated with investment banking advisory activities, has continued to show resilience despite tough trading conditions. Current economic, political and social uncertainty could, however, impact banks in the near term as financing decisions, listings and takeovers may be delayed.

Fair value income

Fair-value income increased marginally by 0.6% compared to 1H16 and a robust increase of 11.8% compared to 2H16. With the volatile patterns experienced in previous reporting periods, banks will welcome some sort of stability reached in 1H17, however it will be challenging to predict the movement and performance of fair-value income for the coming period.

The demand for hedging and risk management products remains a key driver for trade flows in light of the market volatility that prevailed over the current period. While trading income increased as a result of good performance, competition in the trading environment is increasing along with compressed margins, contributing to a challenging trading environment.

Given the volatility noted in FY16, the banks' fair-value income benefited from this tailwind, notwithstanding the pressure placed on other financial statement line items (such as foreign currency translation reserves) as a result of the currency volatility experienced.

Some of the major banks capitalised on the increase in cross-border trading activities and the contribution of trading activities in the rest of Africa and remains a key driver for the next reporting period.

Insurance and bancassurance income

Revenue related to insurance and bancassurance activities decreased by 10.1% compared to 1H16. Significant higher weather-related claims, lower homeowner's cover and credit life volumes all contributed to the decrease.

Various other challenges were faced during the reporting period, including, low levels recorded in assets under management in wealth businesses, softer global equity markets, and a moderation in the growth of life and short-term insurance premiums on the back of slower economic growth.

Increased investments are still a focus point to ensure banks meet regulatory obligations expected in the near term in relation to insurance-type products.

Efficiency

7

The combined cost-to-income ratio deteriorated to 55.6% as at 1H17 (2H16: 55.4% and at 1H16: 54.8%).

This is the 9th consecutive reporting period in which the ratio remained in the 54%-56% range, illustrating the challenge of containing costs in this environment.

What's driving the numbers?

The major banks continue to focus on managing discretionary spend in a difficult operating environment for revenue growth, while they continue to focus on structural cost programmes to realise efficiency gains that can be invested in growth initiatives. This is the ninth consecutive reporting period in which the cost-to-income ratio remained in the 54%-56% range, highlighting the challenge to further contain costs in the current environment.

The banks were able to control IT costs and staff costs at growth rates of around 3.3%, which reflects a disciplined approach in these areas. However, limited cost growth in these areas were offset by depreciation, amortisation and impairments, which all contributed to the slight increase in the combined cost-to-income ratio. We previously indicated that there will be increased amortisation charges as IT systems come online, which is now being reflected in the cost line.

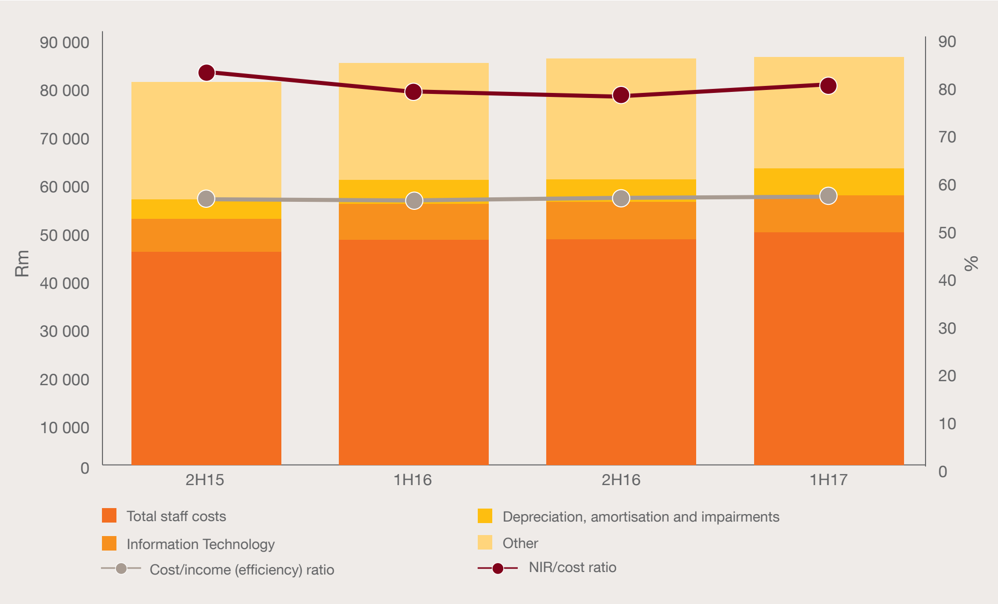
Key drivers and focus areas from a cost perspective for the major banks:

- Continued initiatives to optimise branch networks, coupled with increased costs to build out channels (particularly digital) that are fit for the future and responsive to evolving customer needs;
- Critical evaluation of internal processes and levels of automation with the aim of simplifying processes and rationalising systems, where possible, in order to deliver an enhanced customer experiences and limit operational inefficiencies;
- Continued investment in operations on the continent outside South Africa, where significant efforts remain focused on infrastructure, people and IT systems;
- Significant investments in data capabilities to meet increased regulatory requirements, which generate additional software and licensing costs;
- Spending on cyber programmes to bolster cyber risk resilience; and
- Investments in new digital, data and automated solutions to respond to heightened customer expectations for seamless transactional banking as well as marketing costs for product campaigns.

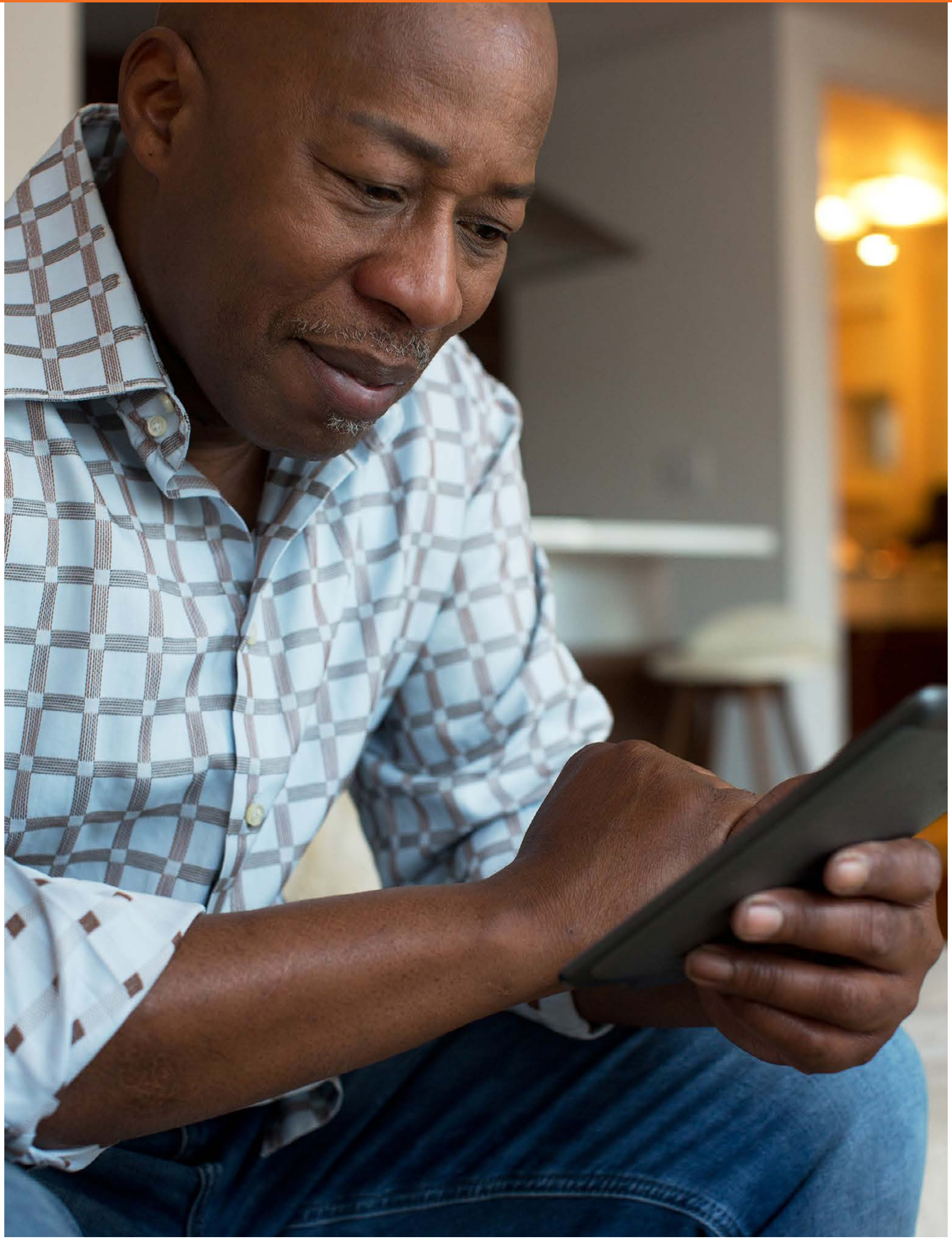
Approximately 57% of the major banks' total operating expenses at 1H17 relate to staff costs, which represents a marginal increase on the contribution of 55.5% at 2H16. We expect the staff cost trend to continue in the short term, as specialist and skilled resources are employed to assist the banks with the IT transformation described above and to help meet evolving regulatory and compliance requirements.

It will be interesting to see how the major banks respond to an unstable local economic and political environment over the coming period, a stronger currency and continuing levels of investment in IT-related costs to meet their future ambitions. Cost containment strategies will remain a critical profitability lever for the major banks in the coming period to enable growth ambitions.

Figure 7.1 Operating expenses



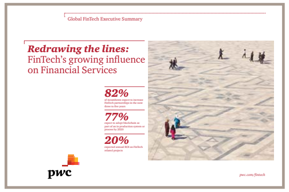
Source: PwC analysis



Hot off the press

8

Recent PwC financial services and related publications



Redrawing the lines: FinTech's growing influence on Financial Services

What does FinTech mean for financial services organisations: innovation, disruption, opportunity – or all of them? FinTech is all about innovation, disruption and transformation, and will undoubtedly impact and shape the way financial institutions around the world operate. Explore the key themes of our report, download the Global report and the Executive Summary to find out how senior financial services and FinTech executives around the world prepare their organisations for the impact of FinTech.

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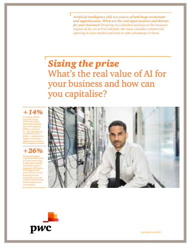

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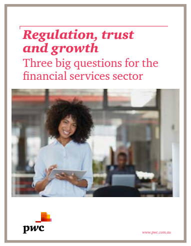

Regulation, trust and growth: Three big questions for the financial services sector

Our PwC Australia financial services practice, in partnership with the Financial Services Council, surveyed a group of the Council's CEO members, to better understand the FS industry's major concerns and opportunities for the year ahead. Three key themes facing FS emerged: the burden of changing regulation, attracting talent to drive growth and lack of trust in the sector. These insights reinforce trends identified in PwC's global CEO survey released earlier this year, suggesting that global nature of challenges financial services professionals face around the world.

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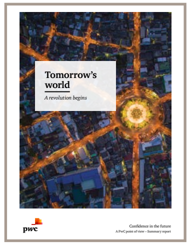

Tomorrow's world: A revolution begins

Companies today are navigating their businesses through an increasingly complex world of decisions, risks and opportunities, amid technological advances that are unprecedented in their speed and impact. A fluid, inclusive information system is taking shape. Our report expands on these trends, sets out our thoughts on how the new information 'ecosystem' we describe is the future of information and trust and what actions must be taken for companies to secure their role within this dynamic.

Click here to view

Key banking statistics

9

	BAGL				FSR				NED				SBK				Combined				Growth (% and bps)	
	1H17	2H16	1H16	2H15	1H17	2H16	1H16	2H15	1H17	2H16	1H16	2H15	1H17	2H16	1H16	2H15	1H17	2H16	1H16	2H15	1H17 v 1H16	1H17 v 2H16
Balance sheet																						
Total assets	1,137,876	1,101,023	1,142,469	1,144,604	1,217,745	1,180,462	1,149,326	1,139,523	965,830	966,022	944,188	925,726	1,532,004	1,543,758	1,549,292	1,570,610	4,853,455	4,791,265	4,785,275	4,780,463	1.42%	1.30%
Gross loans and advances	811,503	789,814	818,303	806,410	910,066	880,742	867,982	844,691	721,910	719,226	704,871	693,043	1,066,214	1,087,421	1,095,230	1,099,797	3,509,693	3,477,203	3,486,386	3,443,941	0.67%	0.93%
Total deposits	745,652	728,057	754,895	751,399	983,529	951,970	920,074	899,619	762,712	761,542	741,712	725,851	1,226,166	1,228,993	1,214,408	1,201,549	3,718,059	3,670,562	3,631,089	3,578,418	2.40%	1.29%
Risk weighted assets	724,780	703,785	698,685	702,663	738,386	715,240	698,732	680,400	516,051	509,221	507,466	501,243	911,520	883,179	912,822	944,039	2,890,737	2,811,425	2,817,705	2,828,345	2.59%	2.82%
LOANS TO DEPOSIT RATIO	**108.8%**	**108.5%**	**108.4%**	**107.3%**	**92.5%**	**92.5%**	**94.3%**	**93.9%**	**94.7%**	**94.4%**	**95.0%**	**95.5%**	**87.0%**	**88.5%**	**90.2%**	**91.5%**	**94.4%**	**94.7%**	**96.0%**	**96.2%**	**-1.69%**	**-0.36%**
Asset quality & provisioning																						
Non-performing loans	30,252	31,097	31,409	27,980	21,905	20,851	21,282	19,409	20,190	19,553	18,437	17,559	34,541	33,406	36,344	35,128	106,888	104,907	107,472	100,076	-0.54%	1.89%
Impairments	-19,067	-19,716	-19,431	-17,100	-16,960	-16,571	-16,577	-16,158	-12,046	-12,149	-11,539	-11,411	-22,816	-21,793	-23,796	-22,652	-70,889	-70,229	-71,343	-67,321	-0.64%	0.94%
Collective provisions	-5,908	-5,971	-5,666	-5,027	-8,471	-8,589	-8,359	-7,988	-4,528	-4,832	-4,856	-4,747	-7,376	-7,134	-7,623	-6,790	-26,283	-26,526	-26,504	-24,552	-0.83%	-0.92%
Individually assessed provisions	-13,159	-13,745	-13,765	-12,073	-8,489	-7,982	-8,218	-8,170	-7,518	-7,317	-6,683	-6,664	-15,440	-14,659	-16,173	-15,862	-44,606	-43,703	-44,839	-42,769	-0.52%	2.07%
Non-performing loans (% of advances)	3.7%	3.9%	3.8%	3.5%	2.4%	2.4%	2.5%	2.3%	2.8%	2.7%	2.6%	2.5%	3.2%	3.1%	3.3%	3.2%	3.0%	3.0%	3.1%	2.9%	0.02	-0.01
Impairment charge (% of average advances)	0.96%	0.87%	1.29%	0.99%	1.0%	0.86%	0.95%	0.77%	0.47%	0.69%	0.67%	0.77%	0.96%	0.67%	1.05%	0.75%	0.84%	0.77%	0.99%	0.82%	0.06	-0.15
Impairment coverage ratio	63.03%	63.4%	61.9%	61.1%	77.4%	79.5%	77.9%	83.3%	59.7%	62.1%	62.6%	65.0%	66.05%	65.2%	65.5%	64.5%	66.5%	67.6%	67.0%	68.5%	-1.02	-0.41
Implied loss given default	43.50%	44.2%	43.8%	43.1%	38.8%	38.3%	38.6%	42.1%	37.2%	37.4%	36.2%	38.0%	44.70%	43.9%	44.5%	45.2%	41.0%	40.9%	40.8%	42.1%	0.10	0.25
Profit & loss analysis																						
Net interest income	20,791	20,910	21,093	19,944	23,383	23,243	22,907	20,823	13,548	13,398	13,028	12,210	28,770	29,117	27,775	25,857	86,492	86,668	84,803	78,834	1.99%	-0.20%
Non interest income	15,249	14,976	15,415	14,831	20,564	17,663	18,080	16,909	11,730	12,146	11,357	11,298	20,566	20,877	22,088	22,008	68,109	65,662	66,940	65,046	1.75%	3.73%
Total operating income	36,040	35,886	36,508	34,775	43,947	40,906	40,987	37,732	25,278	25,544	24,385	23,508	49,336	49,994	49,863	47,865	154,601	152,330	151,743	143,880	1.88%	1.49%
Total operating expenses	-20,754	-21,317	-20,759	-20,336	-23,035	-21,819	-21,740	-20,130	-14,843	-15,141	-14,152	-13,987	-28,658	-28,858	-29,242	-27,701	-87,290	-87,135	-85,893	-82,154	1.63%	0.18%
Core earnings	15,286	14,569	15,749	14,439	20,912	19,087	19,247	17,602	10,435	10,403	10,233	9,521	20,678	21,136	20,621	20,164	67,311	65,195	65,850	61,726	2.22%	3.25%
Impairment charge	-3,773	-3,554	-5,197	-3,370	-4,313	-3,741	-4,014	-3,145	-1,594	-2,343	-2,211	-2,482	-5,155	-3,718	-5,815	-4,339	-14,835	-13,356	-17,237	-13,336	-13.94%	11.07%
Other income/(expenses)	-	60	55	58	572	469	640	813	-1,084	-1,041	-427	294	365	-866	-85	-1,618	-147	-1,378	183	-453	-180.33%	-89.33%
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-261	-	-	-	-261	0.00%	0.00%
Income tax expenses	-3,191	-2,838	-2,997	-2,992	-3,456	-3,495	-3,227	-3,557	-2,178	-2,011	-1,944	-1,699	-3,351	-4,169	-3,462	-3,184	-12,176	-12,513	-11,630	-11,432	4.69%	-2.69%
Profit for the period	8,322	8,237	7,610	8,135	13,715	12,320	12,646	11,713	5,579	5,008	5,651	5,634	12,537	12,383	11,259	10,762	40,153	37,948	37,166	36,244	8.04%	5.81%
Attributable earnings	7,781	7,689	7,019	7,561	12,683	10,480	12,083	10,480	5,244	4,690	5,442	5,393	11,218	11,335	9,924	9,068	36,926	34,194	34,468	32,502	7.13%	7.99%
Headline earnings from continuing operations	7,770	7,728	7,252	7,532	11,903	11,859	11,988	10,399	5,271	6,038	5,427	5,508	11,017	12,089	9,973	10,534	35,961	37,714	34,640	33,973	3.81%	-4.65%
Key data																						
Other operating income (% of total income)	42.31%	41.73%	42.22%	42.65%	46.79%	43.18%	44.11%	44.81%	46.40%	47.55%	46.57%	48.06%	41.69%	41.76%	44.30%	45.98%	44.30%	43.55%	44.30%	45.38%	-0.01	1.71
Net interest margin (% of average interest earning advances)	4.93%	4.89%	5.01%	4.92%	5.24%	5.28%	5.40%	5.16%	3.58%	3.45%	3.37%	3.24%	3.94%	3.94%	3.72%	3.55%	4.42%	4.39%	4.38%	4.22%	0.05	0.03
Standardised efficiency ratio	55.60%	57.00%	53.40%	56.10%	51.26%	51.94%	52.01%	51.10%	59.30%	56.70%	57.10%	56.40%	56.30%	55.80%	56.80%	56.70%	55.6%	55.4%	54.8%	55.1%	0.79	0.26
Return on equity	16.8%	17.1%	16.1%	17.6%	23.9%	22.9%	24.6%	23.4%	14.0%	16.0%	14.6%	15.4%	16.8%	18.4%	15.2%	17.3%	17.9%	18.6%	17.6%	18.4%	0.25	-0.73
Total number of staff	41,714	41,241	41,247	41,840	44,916	45,490	45,100	43,406	32,349	32,401	31,915	31,312	48,427	48,622	48,645	47,958	167,406	167,754	166,907	164,516	0.30%	-0.21%
Capital ratios																						
CET 1	12.9%	11.4%	11.3%	11.9%	14.3%	14.1%	13.9%	13.7%	12.3%	12.1%	11.6%	11.3%	13.7%	13.9%	13.2%	12.9%	13.3%	12.9%	12.5%	12.5%	0.80	0.43
Tier 1	14.0%	12.6%	12.6%	12.6%	14.9%	14.8%	14.6%	14.4%	13.2%	13.0%	12.5%	12.0%	14.2%	14.3%	13.6%	13.3%	14.1%	13.7%	13.3%	13.1%	0.75	0.40
Tier 2	2.1%	2.2%	2.0%	1.9%	2.2%	2.5%	2.3%	2.2%	2.5%	2.3%	2.0%	2.1%	2.0%	2.3%	2.3%	2.4%	2.2%	2.3%	2.2%	2.2%	0.05	-0.12
Total	**16.1%**	**14.8%**	**14.6%**	**14.5%**	**17.1%**	**17.3%**	**16.9%**	**16.6%**	**15.7%**	**15.3%**	**14.5%**	**14.1%**	**16.2%**	**16.6%**	**15.9%**	**15.7%**	**16.3%**	**16.0%**	**15.5%**	**15.2%**	**0.80**	**0.28**

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