PwC analysis of major banks' results for the reporting period ended 31 December 2012
14 March 2013

Growing in an uncertain world
South Africa – Major banks analysis

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Contents

1. Combined results overview	3
2. Economic outlook	6
3. Net interest income	7
4. Non-interest revenue	8
5. Efficiency	9
6. Asset quality	10
7. Capital and funding	12
8. Aligning financial services businesses with new global dynamics	16
9. Key banking statistics	18
10. Industry data	20
11. Contacts	22

1. Combined results overview

Combined headline earnings up **8.9%**

Average return on equity of **15.8%**

Bad debt expenses up **36%**

Total operating income up **12.4%**

Operating expenses up **11.1%**

This analysis presents the combined local currency results of the major banks in South Africa (Absa, FirstRand, Nedbank and Standard Bank). Investec, the other major player in the South African market, has not been included due to its unique business mix, different currency reporting methodology and reporting period.

This analysis is unique in that it aims to aggregate the results of the major banks, with a view to identifying common trends and issues that are shaping the financial landscape.

The most recent major banks' results – which represents the year end results for three of the four major banks – show the extent of headwinds facing some of the banks.

After two years of higher range double-digit profit growth, underlying earnings rose by 11.3% during 2012. In contrast to prior years, the major banks' results varied significantly this year, as each bank faces its unique challenges and focused strategies begin to play out.

Given the current regulatory regime, the banks continued to maintain their capital bases with the combined average capital adequacy ratio rising marginally to 15.5% in 2012 from 15.4% in 2011.

Despite the relatively high capital holdings and muted profit growth, return on equity (ROE) only reduced slightly from 16.0% in 2011 to 15.8% in 2012, reinforcing the long held view that bank ROE's are in transition to an era in which 15-18% will be in the upper band and not the lower band for South African bank ROEs.

The cautious outlook in our last report was reinforced by global developments such as economic uncertainty created by the fiscal cliff crisis in the US, the potential break-up of the eurozone and continued lethargy in China's economy.

Optimism began to return as the risk associated with these macroeconomic concerns subsided and a new set of challenges arose in the form of labour market unrest, the heightened focus on domestic economic imbalances, high levels of unemployment coupled with a widening current account deficit and increasing national debt.

These concerns resulted in an unexpected rate cut in July 2012. In addition, they were also the main contributors to the downgrade of South Africa's sovereign debt in September 2012, which in turn placed pressure on the rand.

While the rest of the world is engaged in vigourous debate about whether the commodity boom is over, the local mining sector continues to seek opportunities to improve competitiveness, taking into account the current labour environment and the complexity of mining in South Africa.

It is possible that these factors restricted local mines' ability to ride the commodity boom. The South African economy also remains dependent on government spending and the current focus on the National Development Plan, along with the associated commitments made, are expected to contribute to economic growth in a meaningful way.

Despite all these challenges, emerging markets continue to drive global growth. Particularly bullish prospects exist in BRICS countries, which represent more than a fifth of global output.

Our economic research puts South Africa's real GDP growth prospects at 2.8% for 2013. While this is slightly higher than the 2.6% experienced in 2012, it is muted compared to other BRICS countries.

Closer to home, IMF research suggests that growth in sub-Saharan Africa has remained generally robust against the backdrop of a sluggish global economy. Regional output is expected to expand by at least 5% in 2013.

However, there is significant variation across the region, with solid expansion being recorded in low-income countries contrasting with slowing growth in some middle-income countries that are tracking the global economy, while others continue to be affected by drought and political instability.

In summary, the external enviroment for our banks has been by no means an entirely negative one, but has reinforced perceptions of only modest growth in income and economic activity for the foreseeable future. Thoughts of a return to bouyant economic conditions are even further from most minds than six months ago.

In aggregate, the banks have dealt with these difficulties fairly well. The subdued credit growth we have seen previously continued to reverse, while total operating income grew by 12.4%, which is quicker than in either 2011 (5.7%) or 2010 (3.4%).

Good credit growth has resulted in growth of net interest income (NII) of 11.1% and continues to contribute significantly to the bottom line. Earnings growth during 2012 was further enhanced by growth in non-interest revenue (NIR) of 13.7%.

Expenses grew fractionally slower than income at 11.1%, maintaining the positive jaws established in previous periods.

Impairment levels appear to have bottomed out and coverage ratios have started to trend upwards as the banks review credit models and attempt to appropriately factor in the additional risk in loan portfolios.

Net interest margin continues along the same trend observed previously, largely driven by changes in balance sheet composition.

With regard to assets, the focus has been on higher-margin products and improved pricing for lending as banks reprice longer-term deals. Deposits raised have also improved as banks seek to place less reliance on wholesale funding, although this has been offset by aggressive pricing for deposits and measures taken to lengthen funding profiles.

Credit loss ratios continued to reflect heightened stress in the retail credit market as the overall combined ratio deteriorated slightly to 1.2% at the end of 2012 (2011: 0.9%) as a result of a 36% increase in income statement impairments.

There continues to remain some divergence in trends relating to the decline of the combined credit loss ratio as the banks' different credit strategies and loss experiences evolve and play out over time.

What is consistent is the banks' views that this upward trend will prevail and that they continue to refine credit modelling scenarios to factor in the current negative sentiment.

This is an area which banks are monitoring closely because they are still dealing with some legacy non-performing loan (NPL) portfolios, while also having to deal with portfolios showing new signs of increasing early arrears.

Loan portfolio growth has come primarily in the form of higher yielding advances such as:

- Card debtors, which saw growth of 27.4% to R79bn,
- Instalment sale and vehicle finance, up 13.1% to R304bn; and
- Other loans (including unsecured lending) up 16.2% to R413bn.

In contrast, strong growth has not been seen in home loans (up 0.4% to R833bn) and corporate and investment banking lending portfolios (up 4.0% to R882bn), which are by far the biggest loan portfolios. Banks have commented on their strategies in these two sectors with the new capital and liquidity ratios introduced by Basel III playing a significant role.

Fee and commission income continued to grow and dominate NIR as a result of innovation and the launch of value-based packages, which give clients more control and flexibility. These products and focused cost reductions reduced absolute transaction-related prices, but had the opposite effect on customer numbers and transaction volumes, which translated into an overall increase in transaction-related revenues for the banks.

Trading income remains subject to market sentiment and volatility. Customer flow business has remained at a relatively high level, although a decrease in demand for risk management products persists.

Trade flows, commodity prices and foreign exchange rates continue to be factors that contribute to customer flow business, resulting from the banks' focus on obtaining the transaction flows relating to corporate business on the African continent.

The 11.1% increase in expenses for the year was offset by the banks' cost-to-income ratio improving to 55.8% from 56.8% in 2011. This is by no means a light performance and points to commendable cost management by the banks given the inflationary pressures in the market and the weakening of the rand against all major currencies.

Salary costs, while increasing in line with overall cost increases, continue to be controlled by tight headcount management balanced with the need for ongoing investment in human resources. As noted earlier, the weaker rand also severely impacts costs as all of the banks have to contend with higher dollar-based costs in relation to funding their Africa expansion initiatives.

The New York Stock Exchange hit a historical high earlier this month, with the FTSE 100 and JSE also close to their respective highs. Notwithstanding these positive sentiments, the risks which have plagued the financial system are far from resolved. It is therefore not surprising that the 'prospects' sections in banks' recent results analyses were muted and highlighted cautious optimism as they look forward.

On the positive side, our banks' local franchises are strong, well capitalised and performed soundly with good revenue growth. Focus on Africa is starting to pay off, but it is coupled with significant executive management attention and investments being made.

Execution will continue to be the differentiating factor, both with regard to strategy and the optimal utilisation of capital not only in the form of financial resources, but also human capital.

Combined results of six-month periods (Rm)

	2H12	1H12	2H11	1H11	2H12 vs 1H12	2H12 vs 2H11
Net interest income	54 285	50 309	49 676	44 449	7.9%	9.3%
Non-interest revenue	52 833	49 460	45 529	44 446	6.8%	16.0%
Total operating income	**107 118**	**99 769**	**95 205**	**88 895**	**7.4%**	**12.5%**
Total operating expenses	-61 766	-57 402	-56 532	-50 767	7.6%	9.3%
Core earnings	**45 352**	**42 367**	**38 673**	**38 128**	**7.0%**	**17.3%**
Impairment charge	-14 140	-14 177	-10 201	-10 623	-0.3%	38.6%
Other income/(expenses)	-642	1 312	515	470	>100%	>100%
Discontinued operations	2 004	431	390	255	>100%	>100%
Income tax expenses	-7 817	-7 412	-7 741	-7 396	5.5%	1.0%
Profit for the period	**24 757**	**22 521**	**21 636**	**20 834**	**9.9%**	**14.4%**
Attributable earnings	23 161	21 276	21 571	21 362	8.9%	7.4%
Headline earnings	**22 210**	**21 282**	**20 306**	**18 184**	**4.4%**	**9.4%**
Return on equity	**15.9%**	**15.6%**	**16.2%**	**15.5%**	**1.9%**	**-1.5%**

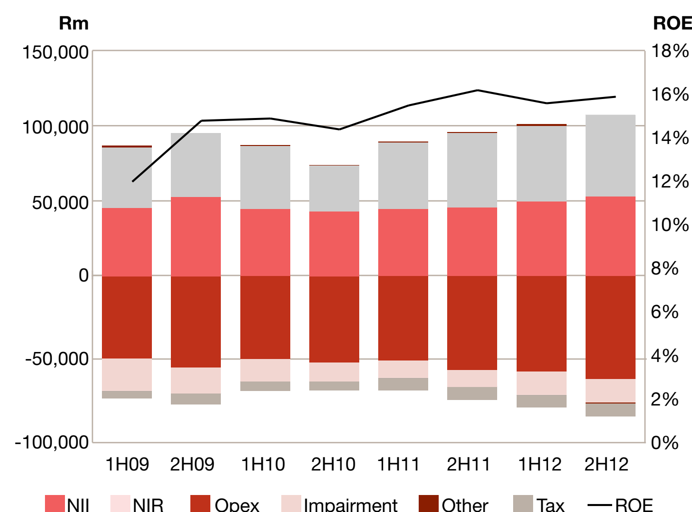
Source: PwC analysis

Combined results of annual periods (Rm)

	FY12	FY11	FY12 vs FY11
Net interest income	104 594	94 125	11.1%
Non-interest revenue	102 293	89 975	13.7%
Total operating income	**206 887**	**184 100**	**12.4%**
Total operating expenses	-119 168	-107 299	11.1%
Core earnings	**87 719**	**76 801**	**14.2%**
Impairment charge	-28 317	-20 824	36.0%
Other income/(expenses)	670	985	-32.0%
Discontinued operations	2 435	641	>100%
Income tax expenses	-15 229	-15 137	0.6%
Profit for the period	**47 278**	**42 466**	**11.3%**
Attributable earnings	44 437	44 361	0.2%
Headline earnings	**43 492**	**39 954**	**8.9%**
Return on equity	**15.8%**	**16.0%**	**-1.3%**

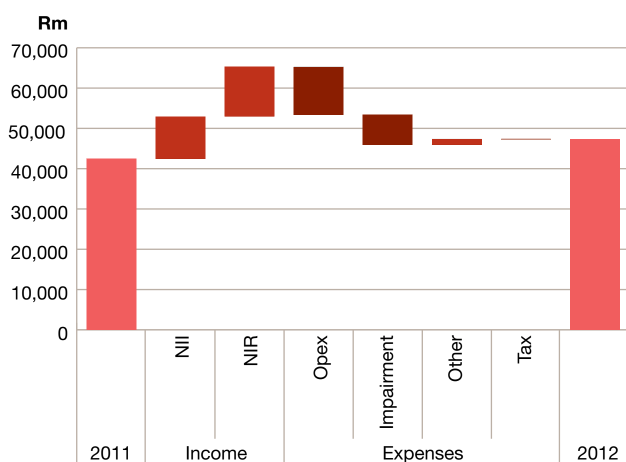
Source: PwC analysis

Figure 1.1 Combined income statement of the major banks



Source: PwC analysis

Figure 1.2 Key drivers of profit and loss



Source: PwC analysis

2. Economic outlook

By Dr Roelof Botha, economic advisor to PwC

According to the latest global economic outlook compiled by the United Nations, the European Union will improve its rate of real output growth from negative 0.3% in 2012 to positive 0.6% in 2013.

Similarly, the IMF forecasts that world output will increase by 3.6% in 2013, marginally higher than the estimated growth rate of 3.3% for 2012.

Vibrant BRICS

Emerging markets once again constitute the engine of global growth, with no less than eight of the world's ten largest diversified emerging markets forecast to improve on the growth performance of 2012.

Particularly bullish prospects exist in the BRICS countries, which represent more than one-fifth of global output and which are home to more than 40% of the world's population.

The rapidly growing influence of developing economies is illustrated by the fact that during the space of only four years since the 2008 recession, emerging markets have expanded their collective share of global GDP from 31% to 38%.

This trend is expected to continue well into the future, especially due to the gradual expansion of the number of developing countries that meet the requirements for emerging market classification.

The relentless rise of the emerging market economies represents a paradigm shift in the composition of global economic output and the so-called developing world is primarily responsible for the prospect of sustained and marginally higher global GDP growth in 2013.

Key developing countries in various world regions forecast to record higher GDP growth in 2013

	2012 (%)	2013 (%)
Indonesia	6.3	6.4
Vietnam	5.0	5.4
Colombia	3.8	4.3
Turkey	2.7	3.8
Argentina	2.0	3.5
Taiwan	1.1	3.0
Singapore	1.2	2.9
Egypt	2.2	2.7

Source: Economist poll

Commodities in demand

Cynical views over the likelihood that a number of key economies may return to recession will have been thwarted by the recent performance of commodity prices. In most cases, commodity prices have stabilised at higher levels than 2010 (post-recovery), with the notable exception of a number of food products.

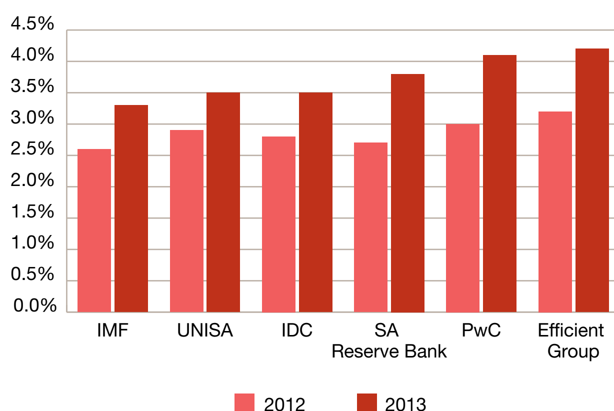
However, since mid-2012 the prices of most staple foods, metals, raw materials and crude oil have started to embark on a noticeable upward trend, mainly as a result of strong demand from China, India and most of the other key emerging markets.

Higher commodity prices and increased trade volumes, particularly for metals and minerals, represent good news for local banks as they hold the promise of sound growth rates for foreign exchange transactions, a trend that is likely to gain momentum in 2013.

It is no surprise, therefore, that the value of foreign assets of the South African monetary sector often demonstrates a positive correlation with several export commodity price trends. After a stellar average annual increase of more than 40% between 2005 and 2008, the value of South Africa's foreign assets declined by almost 20% over the next three years.

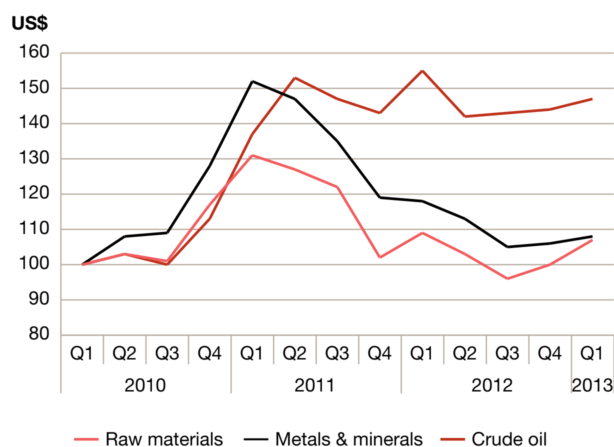
In September last year, they had rebounded to a level of R842bn, more than 25% higher than at the end of 2011 and banks are set to do brisk foreign exchange business this year.

Figure 2.1 Higher GDP growth forecast for BRICS in 2013



Source: PwC analysis

Figure 2.2 Commodity price changes



Source: World Bank, PwC analysis

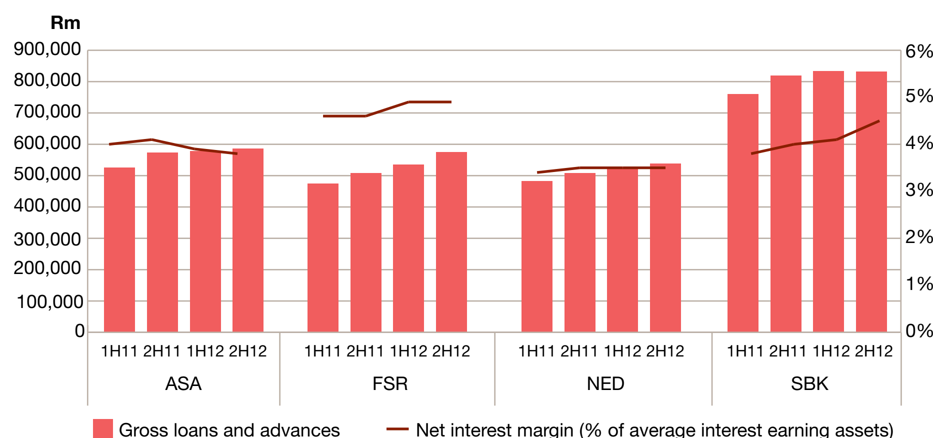
3. Net interest income

Net interest margin (Rm)

	Combined			
	2H12	1H12	2H11	1H11
Gross loans and advances	2 486 685	2 413 619	2 351 850	2 226 400
Net interest margin (% of average interest earning assets)	4.18%	4.12%	4.05%	3.95%

Source: PwC analysis

Figure 3.1 Net interest margin and advances



Source: PwC analysis

NII comprised 50.6% of revenues for 2012 and 50.7% for 2H12.

Banks have managed to continue growing their net interest margin, despite the stable, low interest rate environment and changes to balance sheet composition.

Net interest margin growth has continued along the same trajectory we have reported on previously, largely driven by changes in balance sheet composition.

With regard to assets, the focus has been on higher-margin products and improved pricing for lending as banks reprice longer-term deals.

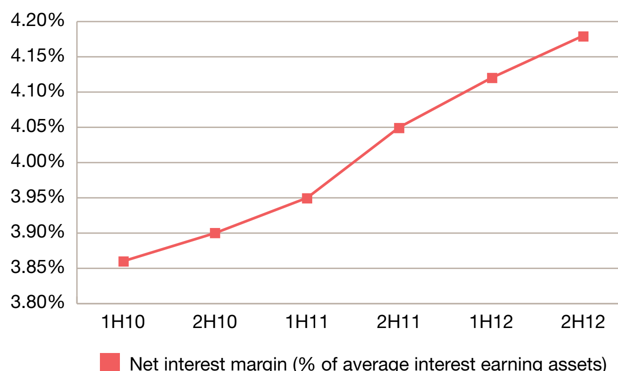
Deposit rates have also improved as banks seek to place less reliance on wholesale funding, although this is being offset by measures to lengthen their funding profiles.

Primary drivers of margin include:

- Banks' ability to grow their asset bases and focus on higher yielding assets given their appetite for risk. A focus on unsecured lending and vehicle finance has yielded good returns, but growth in unsecured lending appears to be slowing.
- Pricing receives significant focus given ongoing regulatory reform, as banks do not want to price long-term assets at margins that erode target ROE levels. As such, there has been some caution in the industry with regard to larger assets, which impacts on the length of time taken to finalise transactions.
- The negative impact of low interest rates has a significant effect on net interest margin (NIM) as net interest received on assets does not fully compensate for the increased costs associated with deposits and longer-term funding. Hedging of this endowment effect alleviates these pressures, but it is usually not practical to hedge the entire impact effectively.
- South African banks remain relatively underfunded by deposits with price competition remaining intense as banks price aggressively to lengthen their funding profiles.
- Term funding is increasingly popular and required to remain compliant with additional regulatory capital requirements. Lengthening the funding profile comes at a cost for banks as this funding is usually raised in wholesale markets.

The South African interest rate environment continues to play a major role in the economy and it will be interesting to see where rates go over the course of 2013.

Figure 3.2 Combined net interest margin



Source: PwC analysis

4. Non-interest revenue

NIR is primarily driven by fee and commission income, which represents 70% of the total for 2H12, up from 68% in 1H12.

This remains a highly competitive area in which the major banks are focused on widening the net and banking the unbanked. In so doing, the banks are finding innovative ways to reach their clients.

Trading income decreased in 2H12 as a result of difficult trading conditions.

Banks continue to focus on client flows and minimising the volatility associated with proprietary trading, given the more onerous Basel III capital rules.

While volatility persists, customer flows should remain robust, but the positioning of portfolios can be a significant challenge when there is lack of market direction.

We have also observed a strong trading performance from the banks' African trading operations, given the strong economic growth being experienced in many of the remaining African countries.

While the relative contribution of these operations to the banks' bottom line currently remains low, it is expected to increase substantially as the banks execute on their African ambitions.

Net fee and commission income

Net fee and commission income increased by 10% on 1H12.

This is a remarkable achievement given the benign inflationary environment, the lower income-generating effect of innovative pricing packages introduced by some banks and the considerable base established in prior periods.

The growth in this area has been largely driven by an increase in transaction volumes with limited price increases.

An interesting development in the recent past has been the launch of 'value' packages by a number of banks. These offer customers the flexibility to tailor a banking fee package to meet their individual requirements in a cost-effective manner.

While this strategy has the effect of reducing overall fee income in absolute terms, there has been an increase in customer numbers as the banking net has been widened and the major banks compete more fiercely in the lower-income market. In 2H12 we have observed a continuation of this trend.

The major banks also continue to be at the forefront of innovation as they seek to meet the requirements of changing client behaviour. This has been achieved through the launch of innovative products such as mobile and electronic banking applications.

We have continued to observe that the ability to translate innovative product offerings into increased customer numbers remains a key differentiating factor between the relative growth of the fee and commission income lines for the various banks.

We have also noted further aggressive marketing of loyalty programmes as banks compete fiercely to widen the banking net and seek to create new cross-sell opportunities.

Fair value income

Fair value income continued on the volatile trend established in previous reporting periods and was down 16% on 1H12 and up 13% on 2H11.

European sovereign debt concerns, concerns about a fiscal disruption in the US and volatile equities and commodities markets negatively impacted trading conditions.

Customer flow business has remained at relatively high levels, although a decrease in the demand for risk management products was observed. However, continuing to position trading books in an environment in which market direction is lacking remains a significant challenge.

We have also seen strong balance sheet growth in investment banking as banks participated in the structuring of renewable energy funding facilities. The banks have also commented that they have been successful in strengthening their pipeline of deals both locally and across the African continent.

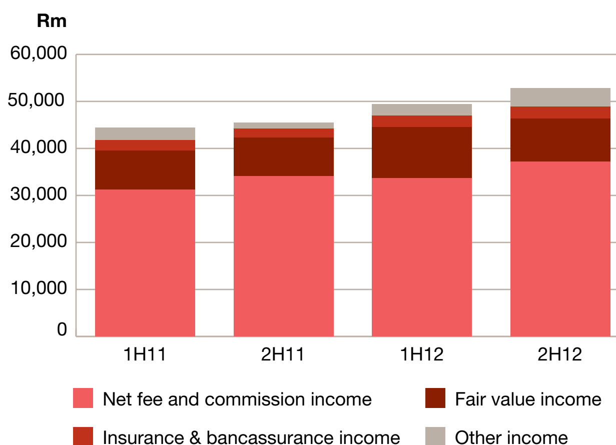
Insurance and bancassurance income

Insurance and bancassurance income was up 13% on 1H12 and 32% on 2H11.

On a year-on-year basis this equates to growth of 19%. This increase is due largely to continuing strong premium growth through the launch of innovative product offerings and strong equity markets.

However, these favourable results were offset by an increase in fire and weather-related claims in 2H12.

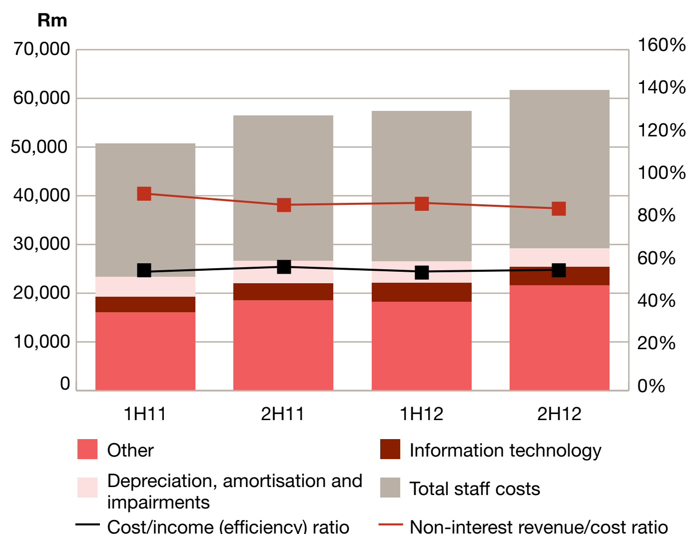
Figure 4.1 Non-interest revenue



Source: PwC analysis

5. Efficiency

Figure 5.1 Operating expenditure



Source: PwC analysis

Compared to the prior period, banks' operating expenses increased by 11.1%, while total operating income increased by 12.4%. Consequently, their combined cost-to-income ratio remained relatively flat at 56.5% in 2H12 (56.6% in 1H12).

Salaries, which continue to represent roughly half of the total expense bill, grew at a rate of 10.6% on an annual basis.

The weaker rand continues to be a drag on the expense base.

The aggregate improvement in the banks' cost-to-income ratio bears testimony to the successful continuation of cost containment strategies implemented in previous periods. We expect these strategies to continue as revenue growth potential remains under pressure.

Increased salary costs reflect annual salary increases as well as the increased short- and long-term incentive awards associated with the banks' improved operating performances.

Tight headcount management continues to be top priority for management teams, although this continues to be balanced with the need for ongoing investment in human resources in the rest of Africa.

Operating expenses were also unfavourably impacted by the weak rand during the period, which continued to be a drag on the expense base.

The average USD/ZAR rate weakened from 7.94 in 1H12 to 8.48 in 2H12 and negatively affected the earnings of those banks with operations outside of South Africa.

IT spend also continues to be on the rise as banks seek to implement new systems to cater for increased regulatory requirements and customer expectations.

6. Asset quality

Asset quality (Rm)

	Combined			
	2H12	1H12	2H11	1H11
Gross loans and advances	2 486 685	2 413 619	2 351 850	2 226 400
Non-performing loans	99 012	106 139	109 359	122 668
Impairments	-54 398	-52 024	-48 808	-50 957
Portfolio provisions	-16 295	-15 819	-14 186	-13 119
Specific provisions	-38 103	-36 205	-34 622	-37 838

Source: PwC analysis

Gross loans and advances

Credit extension for the year ended 31 December 2012 has seen all of the major banks recording modest growth in their lending books, with combined loans and advances for the period growing at 5.7% (compared to 7.4% growth in the combined lending books for the year ended 31 December 2011).

Subdued total lending across the major banks in 2012 reflected the fragile business climate, which was emphasised by a continued uncertain global economic outlook and a local economy in which confidence levels were impacted by protracted periods of labour unrest in the second half of the year.

Corporate advances

It is interesting to note that in spite of 2012 being a year characterised by a low interest rate environment (which would theoretically encourage alternative funding sources such as bond issuances), continued economic uncertainty and low business confidence, corporate credit growth outpaced overall retail lending across all of the major banks in aggregate portfolio terms.

Looking forward, this positive outlook is emphasised by the banks' commenting on their expectations for continued robust corporate lending growth in 2013.

Those banks with significant exposure to government and public sector entities are likely to emerge as beneficiaries of credit growth in this category as forecast infrastructure spend is expected to contribute to wholesale lending growth in South Africa in 2013.

Retail mortgages

In the retail category, growth in mortgage advances staggered along a subdued path in 2012 with combined mortgage book growth across the major banks slowing to 0.4% (2011: 1.0%).

It is probable that low margins on long-term mortgages and accelerated capital repayments brought about by the depressed interest rate environment contributed to weak mortgage lending growth in 2012 with some economists expecting limited signs of recovery in 2013.

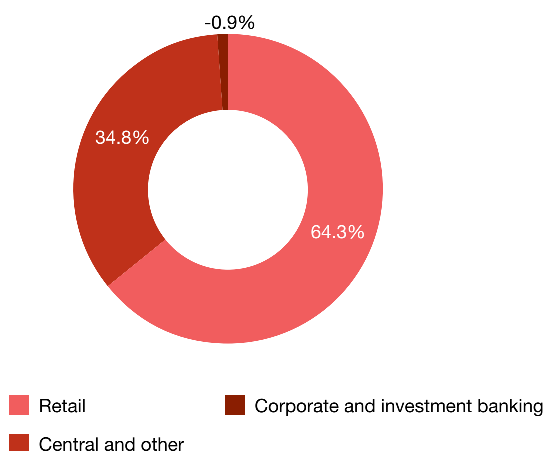
Card debtors and other unsecured lending

Across the major banks, robust credit growth was seen in both card and other secured lending, which emerged as the main driver of growth in credit extension for the major banks in 2012.

Absa, in particular, recorded strong growth in this category on the back of its purchase of Edcon's store-card book during the year.

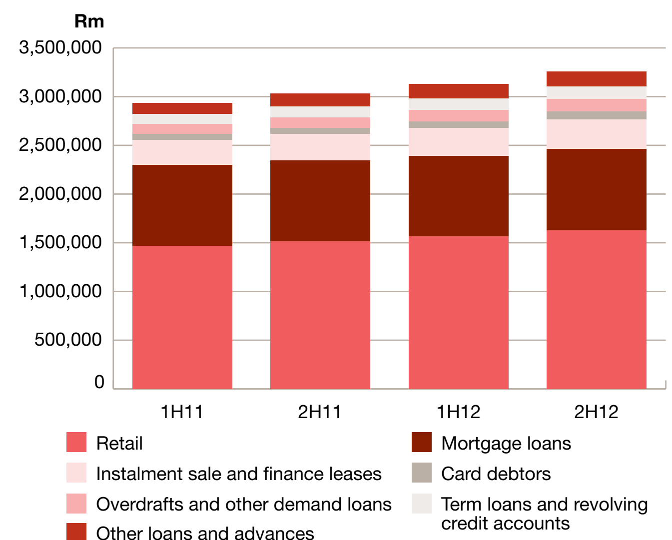
Total growth in card lending for 2012 amounted to 27.4% (2011: 2.0%), while other unsecured lending grew 19.9% (2011: 12.4%).

Figure 6.1 Combined loans and advances by product



Source: PwC analysis

Figure 6.2 Retail advances per product



Source: PwC analysis

Concern in some quarters around the extent of credit growth in the unsecured lending category in South Africa and the potential for an unsecured lending asset bubble continued to receive the focus from regulators, National Treasury and the financial press in 2012.

However, it should be noted that the major banks' combined total exposure to unsecured lending as a percentage of their total portfolios continues to hover in mid-single digits.

As we previously noted in our half-year *Major banks analysis*, released in September 2012, these banks continue to report that they are pricing appropriately for the risk they have taken on in their unsecured lending books.

Furthermore, they are monitoring their direct and indirect exposures closely, particularly those to the low-income segment, which remains a small percentage of their overall lending portfolios.

Non-performing loans (NPLs)

Given persistent fears in 2012 over levels of consumer indebtedness, asset price uncertainty and the inevitable bottoming out of the interest rate cycle, the trend towards tighter credit origination practices on the supply side continues to translate into improvement in the major banks' overall credit experience.

Combined total advances growth for 2012 of 5.7%, while modest, was supplemented by an optimistic 9.5% decline in total non-performing loans. This was largely driven by a concerted effort to decrease the size of the NPL book.

Mortgage NPLs saw particularly sharp declines in 2012, reflecting further effectiveness and process enhancements in the banks' monitoring and collection processes, which also aid the earlier identification of potential risk exposures.

Coverage ratios

The specific impairment coverage ratios (specific impairment divided by NPLs) across the corporate and retail sectors increased by 590 basis points from 32.4% at end of 2011 to 38.3% at the end of 2012.

These increases were influenced mainly by the banks' retail portfolios, with a notable average deterioration of 6.0% for this sector in 2H12 compared to 2H11.

Absa reported a recalibration of its credit models in 2012 to reflect the current environment of credit stress within its retail mortgages and commercial property finance portfolios.

Standard Bank also noted higher specific impairments coverage ratios in the current year, which were raised within its mortgage-lending portfolio.

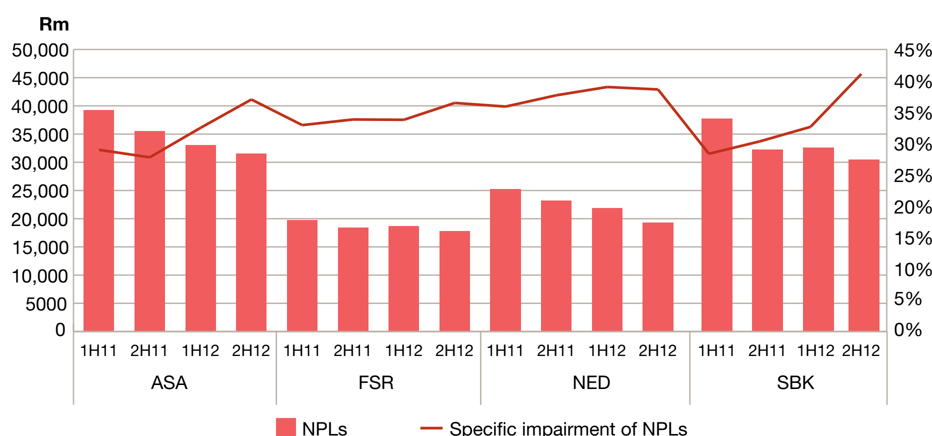
Both instances reflect the operational and collection challenges challenges faced by the major banks in a difficult mortgage-lending environment.

Income statement impairment charges

Credit loss ratios (income statement impairment charge divided by average advances) showed continued indications of heightening stress in the retail credit market as the major banks' overall combined ratio increased to 1.2% at the end of 2012 (2011: 0.9%).

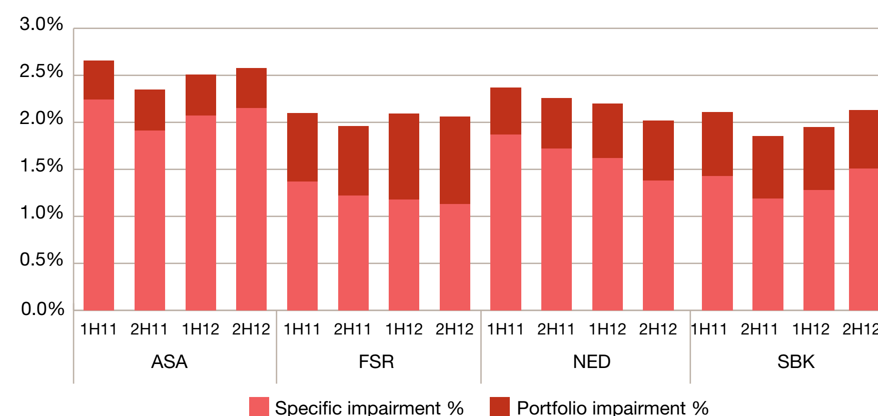
It is interesting to note that there continues to be some divergence in trends relating to the increase of the combined credit loss ratio for the current period between the major banks. However, the variability in the credit loss ratios between the major banks continues to be somewhat pronounced.

Figure 6.3 Non-performing loans and level of specific impairment



Source: PwC analysis

Figure 6.4 Specific and portfolio impairment levels



Source: PwC analysis

7. Capital and funding

Capital and Funding (Rm)

	Combined			
	2H12	**1H12**	**2H11**	**1H11**
Tier 1	260 191	246 840	239 507	220 694
Other	52 326	46 764	42 676	41 969
Total capital	312 517	293 604	282 183	262 663
Risk-weighted assets	2 077 770	1 882 315	1 744 948	2 077 770
Deposits	2 645 842	2 472 391	2 222 758	2 645 842

Source: PwC analysis

All of the major banks continued on their positive path of increasing total qualifying capital and reserve funds, which showed moderate combined year-on-year growth of 10.8% and 6.4% compared to 1H12.

The major banks combined capital adequacy ratios remained flat at 15.5%, compared to 15.4% at December 2011.

The growth in qualifying capital, coupled with constant capital adequacy levels, reflect industry efforts to contain the rise in risk-weighted assets (RWA) brought about by the application of Basel II.5 in 2012.

Overall, the major banks have all indicated that the transition to the higher capital requirements of Basel III – effective since 1 January 2013 – should occur without significant deterioration in regulatory capital levels.

This well-capitalised status is a long-standing credit to the South African banking sector, both for the banks' prudent business practices as well as for the strong regulatory capital regime adopted by our regulator over the years.

It is no surprise that the South African banking system was rated second in the world by the World Economic Forum in the 'Soundness of Banks' category in 2012.

However, the thrust of banking regulatory reforms may have profound implications for the economics of banking, particularly relating to ROE dilution, which is an inevitable consequence of the recapitalisation that lies at the heart of the reforms.

Deposits due to customers remain the most important source of bank funding. Total deposits for the major banks grew 6.5% in the year to December 2012, somewhat below the 11.8% growth recorded in the previous year. Interestingly, this growth arose mainly in the second half of the year.

It is also pleasing that growth in the major banks' corporate deposit books – largely comprising notice deposits and cash-managed accounts – continued steadily in 2012. This was in spite of the subdued interest rate environment and relatively stable money market rates.

In addition, the 1.2% decline in the combined loans-to-deposit ratio (which provides a useful measure in tracking the rebalancing of the South African banking system) underlines the relative funding contribution of the banks' deposits and the competitive environment to source deposit funding.

Looking ahead, deposit balances are expected to continue to grow, with the rate of growth impacted by volatility in the equity and bond markets. Naturally, the opposite will be true should confidence return to the markets and business sentiment improve.

As with many of its emerging market peers, a pronounced and long-standing structural feature of South Africa's banking sector is that it utilises shorter-term wholesale funding to a greater extent to fund longer-term advances.

Wholesale funding is perceived to be less stable than retail-sourced funding in light of its inherent potential for sharper swings in the availability and costs of this funding type.

Keenly aware of the adverse impact of this funding structure on the Net Stable Funding Ratio (NSFR) anticipated by Basel III, banks are mindful of the need to continue to lengthen the tenor of their funding profiles.

However, bank executives continue to emphasise that given the structural funding characteristics of emerging market economies and their banking sectors, the NSFR requirements will need to be re-evaluated before becoming effective in 2018.

The new economics of banking

PwC's global research reflects the view that the banking industry is not going through a simple cycle or period of consolidation or adjustment, but rather a permanent one, in which there is little prospect of the industry delivering anywhere near pre-crisis levels of nominal ROE performance.

We believe that in the next three to five years the industry may settle into a new equilibrium that will be very different from the past.

To provide context, the table on the next page sets out reported ROE figures for the major banks compared to the year ended 2007, which is used as a proxy pre-crisis benchmark.

Amendments to the Liquidity Coverage Ratio (LCR)

In January 2013, the Basel Committee on Banking Supervision (BCBS) announced changes to the LCR - a key component of the Basel III regulatory framework.

The LCR is intended to promote short-term resilience of a bank's liquidity risk profile by requiring banks to hold more High Quality Liquid Assets (HQLA).

The changes made to the LCR requirements comprise:

- ***Increasing the range of assets*** qualifying as HQLA, including some equities and high-quality mortgage-backed securities.
- ***Changes to the calculation method,*** which effectively reduces the extent of 'liquidity outflows' envisaged by the LCR.
- ***The LCR ratio***, initially set at 100% in 2015, will now be phased in, starting at 60% in 2015 and gradually increasing by 10% every year until it reaches 100% in 2019.
- ***Clarification*** that banks will be allowed to use the buffer, and thus fall below the minimum ratio, in a liquidity stress scenario.

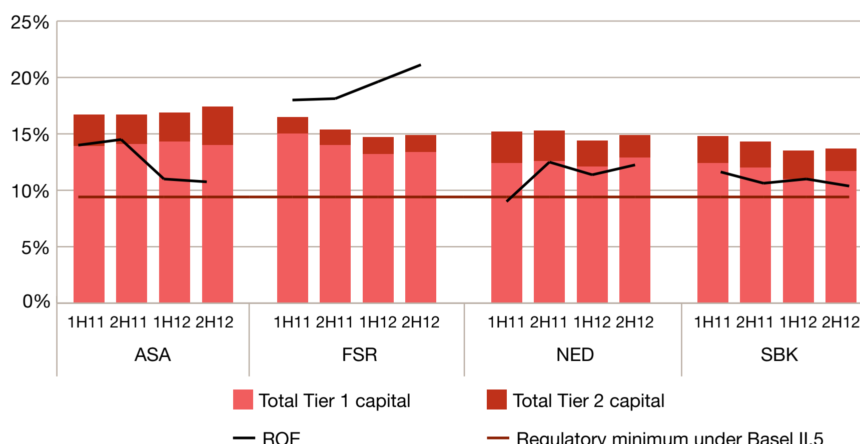
As a result of these changes, some concerns that banks may have sought to compensate for low-yielding liquid assets by raising lending rates, have been somewhat allayed. All of the major banks have welcomed these changes.

South African banks could save on costs following the decision to relax the LCR requirements as the need for the Committed Liquidity Facility (CLF), set up by the SARB in May 2012 to help local banks meet LCR requirements, may now be reduced.

Some commentators have highlighted that the positive implications of these revisions may be offset in the South African context because:

- The more favourable treatment of insured retail deposits and the broadening of the definition of HQLA are ***probably not as relevant in the South African context*** given that we do not have a deposit insurance scheme in place, which the changes to the LCR requirements favour; and
- The change to widen eligible HQLA in the form of bonds may be ineffectual as South Africa has a relatively ***small corporate bond market*** compared to some of its developed market counterparts.

Figure 7.1 Regulatory capital ratios and ROEs



Source: PwC analysis

Historical ROE comparison

	ASA	FSR	NED	SBK	Combined Average
2007	27.2%	26.0%	21.4%	24.8%	24.9%
2011	16.4%	19.5%	13.6%	14.3%	16.0%
				Difference against 2007	-8.9%
2012	13.6%	21.3%	14.8%	13.3%	15.8%
				Difference against 2007	-9.1%

Source: PwC analysis

By some estimates, as much as four percentage points of global pre-crisis ROE was attributable to gearing alone. With gearing largely off the table, underlying economic growth substantially subdued and an overhang of excess capacity pressurising margins, there is little prospect of the global banking industry delivering anywhere near previous levels of nominal ROE performance.

The main issue from a global banking perspective is that the performance expectations and decision rules that formed in the pre-crisis era are no longer valid in the new world, due largely to the substantial restructuring of bank balance sheets.

On this basis, we believe that a long-run equilibrium will be one in which the industry settles on a capital structure that satisfies stakeholders; where the relative costs of debt and equity have readjusted to reflect their respective share of the risk burden; where the various debt and equity cost premia (legacy of the financial crisis) have ebbed away as much as they are going to; and where price competition has driven average equity returns down to a reasonable and sustainable margin over that cost.

Basel III and beyond

Understanding the new capital structure for South African banks

Background

As South Africa transitioned to the new Basel III framework from 1 January 2013, much-welcomed clarity is emerging over the new capital structure and the calibration of its various components.

As has been well publicised in recent years, the fundamental objective of Basel III is to raise the resilience of the banking sector. Regulators have sought to achieve this through raising the quality, consistency and transparency of the capital base.

While the Basel III framework sets out clear objectives in respect of the capital structure, it has been up to national regulators to translate these goals into detailed regulations for their territories.

On 15 October 2012, the South African Reserve Bank (SARB) issued Guidance Note 9/2012, *Capital framework for South Africa based on the Basel III framework*, which provides clear and authoritative guidance on the capital structure over the Basel III implementation period and beyond.

As expected, the new capital structure is more complex than under current regulations. In this article and against this backdrop, we examine the amended capital framework that South African banks will be subjected to and provide an analysis of some of the key elements of the new structure.

The buffers and capital surcharge are to be imposed over and above the minimum capital requirement for South Africa. While banks will be allowed to operate below the buffers', restrictions on capital distribution will apply. In addition, we do not expect that banks will necessarily operate below buffer levels due to the negative market signals that doing so may entail.

Analysis

In line with the Basel III framework the SARB will be introducing the following measures to address certain key weaknesses identified through the crisis at a global level:

- **A capital conservation buffer**
  This buffer is intended to promote the conservation of capital and the build-up of adequate buffers above the minimum that can be drawn down in periods of stress. This buffer will be phased in from 2016 and, when finally implemented, will reach a maximum of 2.5%.
- **A countercyclical buffer**
  This buffer is designed to adjust the capital buffer range when there are signs that credit has grown to excessive levels. The purpose of the countercyclical buffer is to achieve the broader macro-prudential goal of protecting the banking sector in periods of excess aggregate credit growth.

  Similar to the capital conservation buffer, this buffer will be phased in from 2016. However, a notable difference is that this buffer is set to zero in normal times and increases during periods of excessive credit growth to a maximum of 2.5%. This buffer is to be levied indiscriminately across all banks within the South African banking sector.
- **Domestic systemically important bank (D-SIB) capital surcharge**
  This capital surcharge is intended to address externalities caused by banks that are not significant from an international perspective, but which nevertheless could have an important impact on their domestic financial system and economy compared to non-systemic institutions. The D-SIB capital requirement will range from 0 to 2.5% and will be phased in from 2016.

Our analysis and summary of the anticipated South African capital structure under Basel III and over the implementation horizon is set out in the table on the next page, using the assumed scenario where the D-SIB requirement and the countercyclical buffer are set at 2.5%. This scenario yields the indicative maximum required capital.

Maximum regulatory capital requirements over the Basel III implementation horizon

	2013	2014	2015	2016	2017	2018	2019
Base minimum per Basel III	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Pillar 2A	1.50%	2.00%	2.00%	1.75%	1.50%	1.25%	1.00%
SA minimum	9.50%	10.00%	10.00%	9.75%	9.50%	9.25%	9.00%
D-SIB phase in	-	-	-	0.625%	1.25%	1.875%	2.50%
Capital conservation buffer	-	-	-	0.625%	1.25%	1.875%	2.50%
Countercyclical buffer	-	-	-	0.625%	1.25%	1.875%	2.50%
Pillar 2B	Not presented for the purpose of this table						
Total Required Capital Ratios	9.50%	10.00%	10.00%	11.625%	13.25%	14.875%	16.50%

Source: PwC analysis

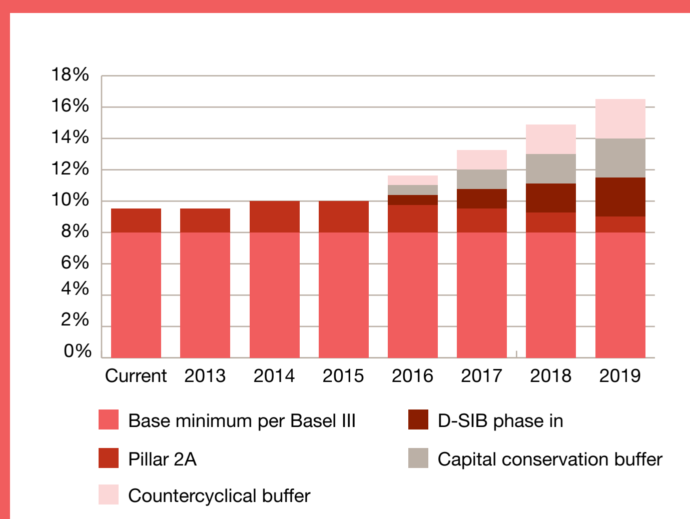
In the case where the D-SIB and the countercyclical buffer are set at 0%, the total required capital ratio would amount to 11.5% (the minimum capital requirement scenario).

It is important to note that greater clarity is also available on the composition of the different tiers of capital. Thus, the requirement in terms of the capital conservation buffer and the countercyclical buffer can only be met with Common Equity Tier 1 capital.

The D-SIB and Pillar 2A requirements, however, can be met by a combination of all Tiers of capital in their prescribed ratios as set out in Guidance Note 9/2012.

Based on this assumed scenario, the required regulatory capital structure for an illustrative bank over the Basel III implementation horizon is shown in Figure 7.2 below.

Figure 7.2 Total required capital in SA over the Basel III implementation horizon



Source: PwC analysis

It follows from this analysis that those banks not identified as a D-SIB may find themselves in a relatively less burdensome capital position than D-SIBs as a result of the Pillar 2A requirement gradually decreasing from 2016.

Systemic importance

As the table above shows, the Pillar 2A capital requirement for South Africa decreases from 1 January 2016 as the D-SIB requirement is phased-in. This is a concept that aligns with the Basel III framework, as the purpose of the higher loss absorbency (HLA) requirement for D-SIB banks is *"to reduce further the probability of failure compared to non-systemic institutions, reflecting the greater impact a D-SIB failure is expected to have on the domestic financial system and economy."**

As the HLA requirement for D-SIBs is essentially a capital extension that supplements required capital buffers, the implication of not appropriately adapting the Pillar 2A requirement, (which is calibrated to deal with systemic and domestic interest rate and concentration risk) would amount to a double count. The SARB has also indicated that the sum of the Pillar 2A and D-SIB requirement will be limited to 3.5%.

A notable departure for South Africa from the BCBS' modality in setting the D-SIB framework is that its principles indicate that *'the HLA requirement should be met fully by Common Equity Tier 1 (CET1) capital'*, whereas the SARB has prescribed that 50% of the D-SIB capital requirement should be met by CET 1 capital (up to a maximum of 1%) with the additional requirement able to be met by a combination of additional Tier 1 and Tier 2 capital, as prescribed.

Conclusion

Guidance note 9/2012 indicates that banks' minimum capital requirement will increase by at least 2% from the current minimum of 9.5%. While this represents a significant increase, it is 1% less than had previously been communicated, as the SARB provides relief on Pillar 2A to avoid double counting as the requirement for D-SIB is introduced.

It is also pleasing to note that D-SIB does not have to be met entirely from CET 1 capital. Many commentators still expect South African banks to meet these new capital requirements, though it is expected that current buffer levels will not be maintained as they are used to provide for the additional capital requirements. Recent results announcements from the banks' latest reporting period support this view.

Indeed, none of the major South African banks indicated significant difficulties in meeting this new increased capital level, which is extremely positive for the South African banking system.

* Basel Committee on Banking Supervision, 'A framework for dealing with domestic systemically important banks' (Bank for International Settlements, 2012)

8. Aligning financial services businesses with new global dynamics

The rise and interconnectivity of the emerging markets is in many ways the most far-reaching of the developments facing financial services organisations worldwide. In order to remain relevant, financial services organisations must find ways to differentiate and make themselves relevant within their target markets and trade blocs. In this article, we seek to provide a stable starting point and a clear set of considerations for strategic evaluations, both now and in the future.

Rethinking strategy

Adapting business models

Traditional 'Western' financial services models may have little relevance in some SAAAME markets. While certain innovations can be adapted for local markets, strategies must reflect the local culture, distribution preferences and relative levels of sophistication in demand and technology.

Even within countries themselves, there are likely to be marked regional distinctions. As financial services organisations move into new territories, they will need people on the ground that understand the local markets and can forge the all-important personal relationships, so that people know their importance and understand their value.

In certain SAAAME markets, the customer relationship is almost entirely personal and takes many years to develop, which requires patience and puts obvious pressure on employee retention. In turn, a crucial part of the 'licence' to operate is convincing local and national governments that the company's development plans can complement and augment their own.

Governments are also likely to be crucial customers in their own right as investment in urban and infrastructure development accelerates and the public/private partnerships that support this proliferate. Demographics will have a powerful influence on economic growth and demand for financial services within each of the SAAAME markets.

Questions for the board

- How adaptable are your people, products and business development strategies to local needs?
- How can you develop the necessary relationships with regulators, governments and distribution partners?
- As you look for a way into key target markets, what opportunities are there in helping governments to support economic development plans or bridge their pension, welfare and healthcare gaps?
- What would be the most efficient distribution networks? Could digital developments help bypass the need for well-established branch or agent networks?

SAAAME

SAAAME refers to South America, Africa, Asia and the Middle East. SAAAME doesn't include Japan, as it is a developed G7 economy. Mexico is excluded, as it trades mainly within the North American Free Trade Agreement zone. For now, Russia and the Commonwealth of Independent States are also excluded from SAAAME, as trade is largely internal or with Europe.

Following your customers

The international financial services groups that will have the strongest prospects within SAAAME are actively following the evolving global trade flows and seeking to support domestic clients in developing their overseas reach. This could equally apply to a developed market group setting up a branch within the SAAAME region, or a SAAAME institution seeking to extend its presence to its clients' key supply or customer markets.

The ability to target investments and meet customer needs, demands effective trade flow projections and the ability to discern where clients are planning to invest and develop their businesses. Organisations can then work with their clients to help bridge any potential gaps in the local financial infrastructure and overcome challenges in areas such as financing, risk management, currency convertibility and repatriation of revenues.

Few financial institutions are going to be able to sustain a global infrastructure covering all the necessary corporate services, so partnerships with local providers and even competitors will be necessary ('coopetition'). This will in turn demand more effective partner analysis and greater expertise in managing commercial networks.

Questions for the board

- Do your investment and business development plans reflect the shift in global trade flows?
- How can you identify and tap into business that may bypass traditional financial centres and trade flows?
- Are you able to serve both ends of the trading pipeline for your key customers and, if not, how can you develop the necessary presence on the ground?
- Can models developed in one country be replicated in another?

Breaking into new markets

Many SAAAME governments have strategic plans for their economies, which could include favouring domestic institutions, directing investment priorities and dictating how far foreign organisations can compete.

In turn, many Western governments want to promote their own financial centres and encourage domestic institutions to direct investment into the local economy rather than overseas, especially if they've received state aid in the crisis.

Protectionist barriers to foreign ownership and licences are making it difficult for some foreign institutions to penetrate SAAAME markets, though investors from other SAAAME states may in some cases be favoured over their Western counterparts.

The financial crisis may make some SAAAME governments more reluctant to embrace market liberalisation and foreign ownership.

Questions for the board

- How can you make sure your business development plans are aligned with long-term domestic and target market government agendas?
- What strengths and innovations would help to differentiate your offering from local competitors?
- How can you ensure a stable and reliable source of local currency funding?
- If many of the best joint venture and strategic investment opportunities have already been taken up, could there be openings for partnerships within other sectors, for example with telecommunications firms?

Reinventing the organisation

Designing the organisation of the future is a crucial part of the Board agenda as financial institutions seek to create more nimble and adaptive operational capabilities and make sure their talent, structure and board compositions reflect the changing market environment.

Adapting operating models and governance structures

As business models evolve, so will the demands on governance, organisational and operating models. Operating models will need to reflect what may be a changing geographical focus for the business. They will also need to deal with more extensive partnership and 'coopetition' arrangements and be sufficiently agile to respond quickly to evolving and possibly unfamiliar market conditions, distribution channels and cultural preferences. In turn, reporting and controls will need to adapt to reflect these more extended operations.

Legal and physical structures will evolve as new growth markets come to the fore and groups look at how to operate in the most tax- and capital-efficient way. The composition and qualifications of the board is also likely to change as groups and their customers become more culturally diverse and partnerships with government become an ever more crucial feature of financial services businesses.

Questions for the board

- Do the bases and structures of your global and regional operations reflect the changing centre of gravity of your business?
- Does your board have the right skills and are your current governance arrangements equipped to deal with multiple partnerships and extended global operations?
- Does the composition of your board provide you with sufficient business know-how, relationships and cultural understanding in your target markets?
- Are information flows timely and reliable enough to support your evolving operations?

Securing the talent to meet your objectives

As SAAAME becomes ever more crucial to growth, local and incoming firms will need to train, hire or relocate unprecedented numbers of skilled people in markets where suitably qualified and experienced people are already in short supply. As emerging market organisations expand their footprint and become more global in scope, they will also need to integrate and manage people from many different cultures within their businesses.

Many organisations are still relying on short-term approaches, be this seeking to lure key people from competitors, or bringing in large numbers of expatriate personnel, even though this is likely to prove excessively costly and may still fail to provide the people needed to meet their strategic objectives.

A more systematic and forward-looking workforce plan, capable of anticipating and meeting skills needs could reduce costs, give financial institutions the edge in a competitive job market and allow them to build a more sustainable platform for business development.

A further priority is more effective communication and collaboration across markets. Promoting diversity within the management of the organisation and creating career paths that extend across all its geographical operations are going to be crucial in competing against domestic companies for the best people in emerging markets. It sends a clear message that advancement is open to all rather than just people from the home market.

Questions for the board

- Could shortages of talent impede or even derail your growth plans?
- How are you planning to bridge gaps in talent in key growth markets?
- Are you doing enough to encourage your staff to seek out international opportunities and make the most of this experience when they get back?
- Are you doing enough to develop the right skills and behaviour to take your business forward?

Managing a new and unfamiliar set of risks

The pace of growth of financial services within many SAAAME markets creates its own inherent risks. There may also be limited credit data or systematic checks to manage the risks in a way that would be possible in a more mature market. The broader risk profile and how it's assessed and priced are also going to be very different.

SAAAME countries have varied legal and regulatory frameworks, political systems, business ethics, cultures and sometimes, non-Western views on capitalism. It's important for incoming institutions to make sure they understand the ways of working required to operate in these jurisdictions.

The pace of development is also heightening pressure on natural resources. The competition for access is already going beyond oil and minerals to include water and land as countries seek to secure guaranteed food supplies. Helping businesses to manage commodity, supply chain and other risks provides a clear opportunity; financial institutions will need to take account of the associated shifts in investment risks and asset prices.

Questions for the board

- How much freedom will you have to operate in a particular country?
- What kind of restrictions might you face?
- How vulnerable is your investment in a particular country to political instability, regulatory risks, a change of government, or consumer boycotts of particular countries or groups?
- What environmental risks does the country face and how could this affect stability and asset prices?

9. Key banking statistics

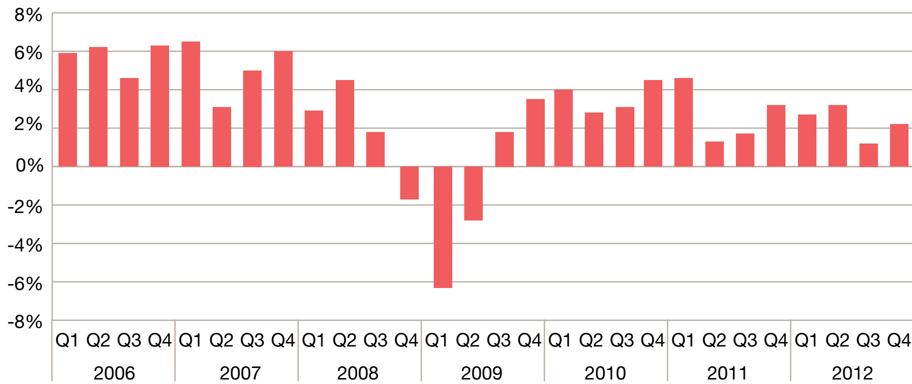
Summary financial information 2H12 (Rm)

Rm	ASA				FSR			
	2H12	1H12	2H11	1H11	2H12	1H12	2H11	1H11
Balance sheet								
Total assets	807 939	808 806	786 719	707 327	825 327	769 765	763 514	700 146
Gross loans and advances	586 852	577 734	573 066	526 371	574 850	535 704	508 253	474 566
Total deposits	513 462	483 707	479 299	415 695	651 349	606 281	595 200	553 657
Risk weighted assets	438 216	426 452	424 489	408 397	490 373	471 468	415 121	385 190
Asset quality & provisioning								
Non-performing loans	31 483	33 029	35 536	39 258	17 797	18 666	18 366	19 790
Impairments	-14 012	-13 029	-12 131	-13 502	-11 812	-11 197	-9 995	-9 973
Collective provisions	-2 358	-2 294	-2 254	-2 123	-5 322	-4 892	-3 779	-3 457
Individually assessed provisions	-11 654	-10 735	-9 877	-11 379	-6 490	-6 305	-6 216	-6 516
Non-performing loans (% of advances)	5.4%	6.8%	6.2%	7.3%	3.1%	3.5%	3.6%	4.2%
Impairment charge (% of average advances)	1.59%	1.6%	1.01%	1.18%	0.9%	1.1%	0.8%	0.9%
Impairment coverage ratio	44.5%	33.2%	34.1%	34.4%	66.4%	60.0%	54.4%	50.4%
Implied loss given default	37.0%	32.5%	27.8%	29.0%	36.5%	33.8%	33.8%	32.9%
Profit & loss analysis								
Net interest income	12 202	11 909	12 807	11 622	13 606	12 964	11 905	10 730
Non-interest revenue	11 567	11 174	10 723	10 680	14 237	13 517	11 455	11 981
Total operating income	23 769	23 083	23 530	22 302	27 843	26 481	23 360	22 711
Total operating expenses	-13 682	-13 011	-13 820	-12 761	-15 582	-14 383	-13 380	-12 104
Core earnings	10 087	10 072	9 710	9 541	12 261	12 098	9 980	10 607
Impairment charge	-4 270	-4 020	-2 179	-2 902	-2 518	-3 510	-1 961	-2 015
Other income/(expenses)	214	35	12	28	289	1 096	401	362
Discontinued operations	–	–	–	–	–	–	–	-
Income tax expenses	-1 610	-1 767	-2 185	-1 841	-2 442	-2 181	-2 168	-2 457
Profit for the period	4 421	4 320	5 358	4 826	7 590	7 503	6 252	6 497
Attributable earnings	4 204	4 189	5 093	4 581	7 019	7 129	6 067	7 995
Headline earnings	4 475	4 332	5 124	4 595	7 195	7 003	5 639	4 813
Key data								
Other operating income (% of total income)	48.5%	48.4%	45.6%	47.9%	51.1%	51.0%	49.0%	52.8%
Net interest margin (% of total assets)	3.0%	3.0%	3.3%	3.3%	3.4%	3.2%	3.3%	2.9%
Net interest margin (% of average interest earning advances)	3.9%	3.9%	4.1%	4.0%	4.9%	4.9%	4.6%	4.6%
Standardised efficiency ratio	55.2%	54.9%	56.3%	55.0%	54.3%	54.6%	58.9%	54.3%
Return on equity	13.6%	13.8%	16.6%	16.2%	21.9%	20.7%	19.5%	19.4%
Total number of staff	33 717	34 244	35 200	36 535	36 491	36 398	35 526	34 612
Capital ratios								
Tier 1	14.0%	14.3%	14.1%	13.9%	13.4%	13.2%	14.0%	15.0%
Tier 2	3.40%	2.6%	2.6%	2.8%	1.5%	1.5%	1.4%	1.5%
Total	17.4%	16.9%	16.7%	16.7%	14.9%	14.7%	15.4%	16.5%

Rm	NED				SBK			
	2H12	1H12	2H11	1H11	2H12	1H12	2H11	1H11
Balance sheet								
Total assets	682 979	670 021	648 127	609 875	1 273 083	1 296 030	1 257 361	1 137 688
Gross loans and advances	538 036	525 071	507 545	483 384	831 596	833 154	818 996	759 488
Total deposits	550 878	536 944	521 115	493 974	930 153	916 473	888 968	847 398
Risk weighted assets	359 568	362 022	331 980	323 562	789 613	797 659	710 725	654 405
Asset quality & provisioning								
Non-performing loans	19 273	21 838	23 073	25 241	30 459	32 606	32 225	37 691
Impairments	-10 870	-11 545	-11 497	-11 466	-17 704	-16 253	-15 185	-16 016
Collective provisions	-3 427	-3 027	-2 748	-2 440	-5 188	-5 606	-5 410	-5 133
Individually assessed provisions	-7 443	-8 518	-8 749	-9 026	-12 516	-10 647	-9 775	-10 883
Non-performing loans (% of advances)	3.6%	4.2%	4.5%	5.2%	3.7%	3.9%	3.9%	5.0%
Impairment charge (% of average advances)	1.05%	1.11%	1.1%	1.2%	1.08%	1.0%	0.9%	0.8%
Impairment coverage ratio	56.4%	52.9%	49.8%	45.4%	58.1%	49.8%	53.1%	40.3%
Implied loss given default	38.6%	39.0%	37.9%	35.8%	41.1%	32.7%	37.9%	25.9%
Profit & loss analysis								
Net interest income	10 038	9 642	9 351	8 683	18 439	15 794	15 613	13 414
Non-interest revenue	9 059	8 265	8 273	7 139	17 970	16 504	15 078	14 646
Total operating income	19 097	17 907	17 624	15 822	36 409	32 298	30 691	28 060
Total operating expenses	-10 918	-10 182	-10 334	-9 090	-21 584	-19 826	-18 998	-16 812
Core earnings	8 179	7 725	7 290	6 732	14 825	12 472	11 693	11 248
Impairment charge	-2 497	-2 702	-2 539	-2 792	-4 855	-3 945	-3 522	-2 914
Other income/(expenses)	-52	34	2	-16	-1 093	147	100	96
Discontinued operations	–	–	–	–	2 004	431	390	255
Income tax expenses	-1 471	-1 404	-1 169	-1 005	-2 294	-2 060	-2 219	-2 093
Profit for the period	4 159	3 653	3 584	2 919	8 587	7 045	6 442	6 592
Attributable earnings	3 979	3 497	4 436	2 764	7 959	6 461	5 975	6 022
Headline earnings	4 042	3 468	3 376	2 772	6 498	6 479	6 167	6 004
Key data								
Other operating income (% of total income)	47.4%	46.2%	46.9%	45.1%	49.4%	51.1%	49.1%	52.2%
Net interest margin (% of total assets)	3.3%	3.3%	3.2%	3.1%	3.1%	2.5%	2.6%	2.4%
Net interest margin (% of average interest earning advances)	3.5%	3.5%	3.5%	3.4%	4.3%	4.1%	4.0%	3.8%
Standardised efficiency ratio	57.2%	55.5%	57.2%	55.9%	59.3%	61.4%	63.5%	58.2%
Return on equity	14.8%	14.1%	15.0%	12.2%	13.3%	13.8%	13.5%	14.3%
Total number of staff	28 748	28 678	28 494	28 210	42 736	45 755	46 375	46 037
Capital ratios								
Tier 1	12.9%	12.1%	12.6%	12.4%	11.7%	11.0%	12.0%	12.4%
Tier 2	2.0%	2.3%	2.7%	2.8%	2.9%	2.5%	2.3%	2.4%
Total	14.9%	14.4%	15.3%	15.2%	14.6%	13.5%	14.3%	14.8%

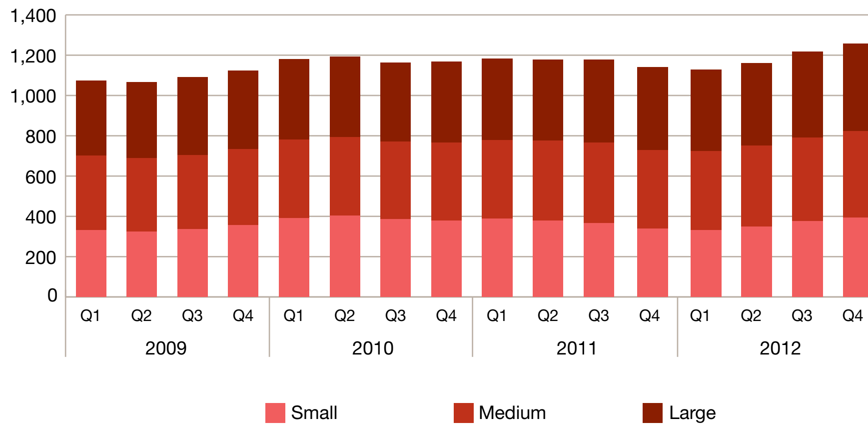
10. Industry data

GDP growth



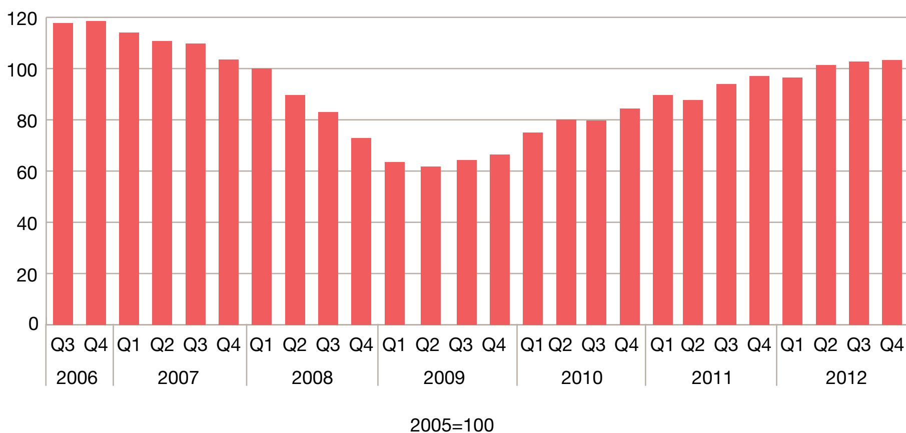
Source: Statistics SA

Absa House Price Index

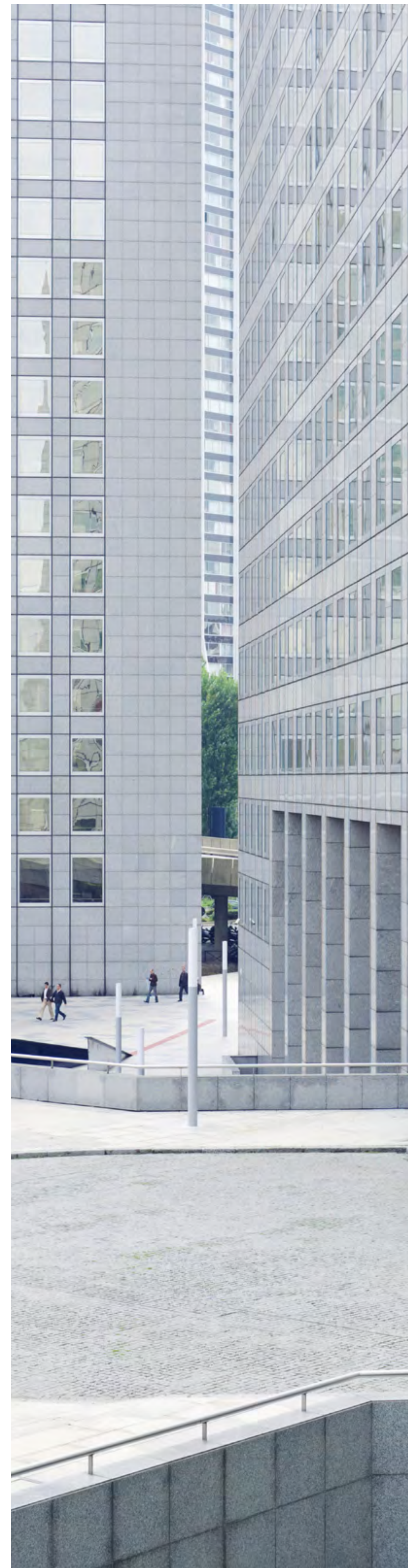


Source: Absa

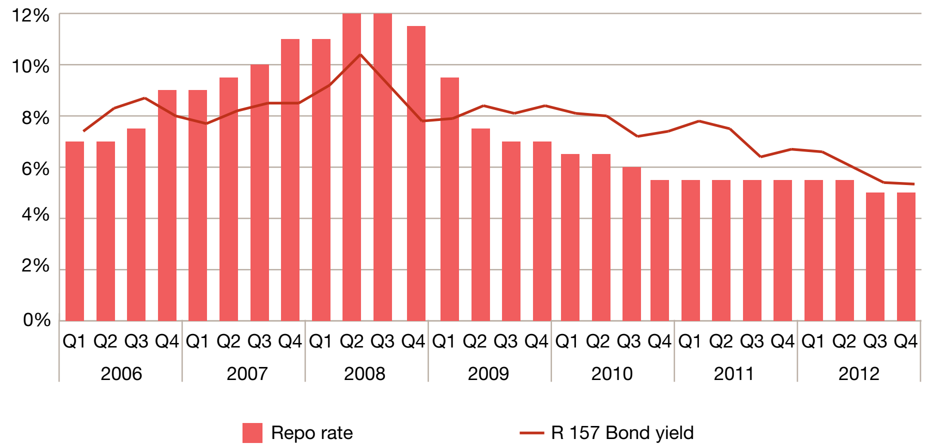
New vehicles sold



Source:SARB

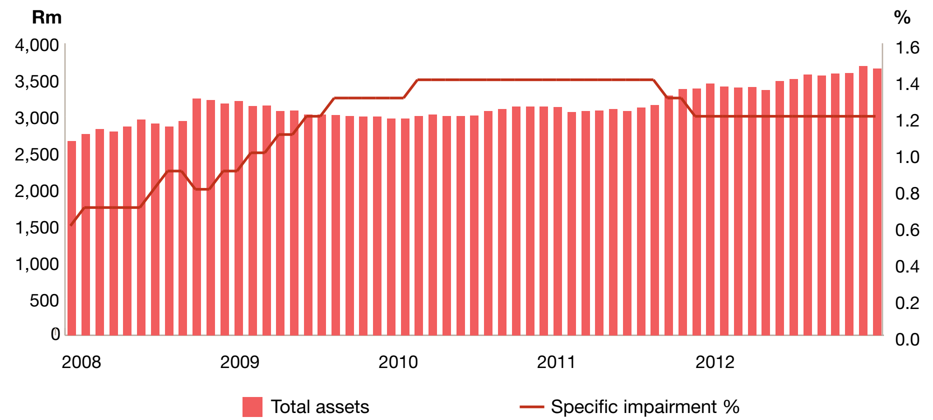


Interest rates



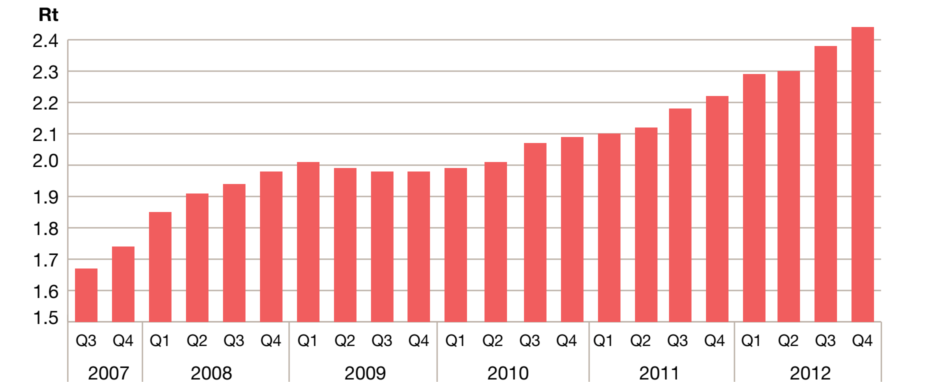
Source: SARB

Industry credit impairments



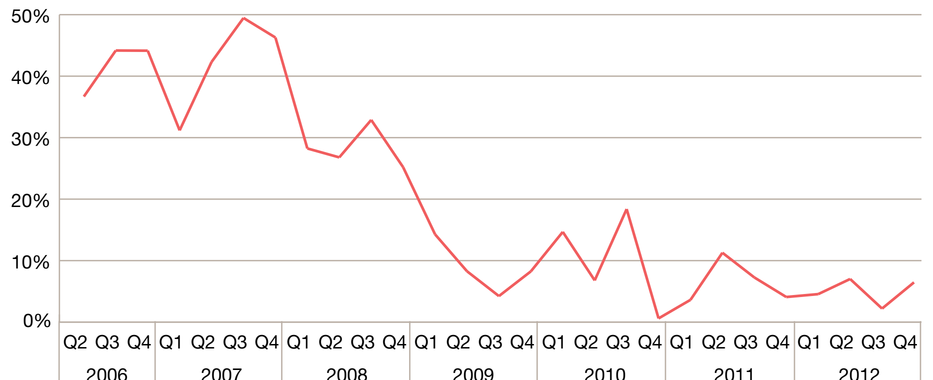
Source: SARB

Industry credit extension



Source: SARB

Growth in mortgage advances



Source: SARB

11. Contacts

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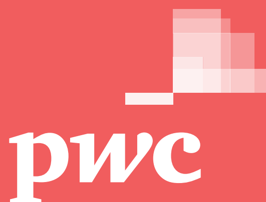

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