

**South African Reserve Bank**

Analysis of performance  
trends of the big five banks  
from 1992 to 2001

## **Ratio analysis**

## **Glossary**

“Standard”	-	Standard Bank Group Limited
“FirstRand”	-	FirstRand Bank Holdings Limited
“Investec”	-	Investec Group Limited
“ABSA”	-	ABSA Group Limited
“Nedcor”	-	Nedcor Limited

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# 1 Introduction

The purpose of this analysis is to provide a high-level overview of the performance of the “big five” banking groups in South Africa. The analysis is **background** to the review of corporate governance practices in these banks in terms of section 7 of the Banks Act, 1990, and must be viewed in this light.

The process followed in compiling the report is as follows:

- The annual KPMG Banking Survey was used as a starting point to compile the ratios (all the banks covered in the Survey contribute a comprehensive number of ratios for inclusion therein).
- The tables, graphs and commentary were compiled and submitted to each bank for comments.
- The tables, graphs and commentary were revised, based on the inputs received from the banks.
- Comments and/or changes were made and circulated to the banks, final comments requested and the document finalised.

It must be borne in mind that each of the banking groups has its own particular strengths and weaknesses, business focus areas, group structures, mix of assets and liabilities, capital structures etc, that makes meaningful comparisons difficult without detailed and deep analysis. This is not the purpose of this

document; rather it is to provide the reader with an overview of the relative performances from 1992 to 2001. Furthermore, during this time, each of these banks has been involved in one or more major strategic initiatives that can have influenced one or more of the ratios that have been selected for this limited review. Examples are the following:

- Standard – the divisionalisation of Standard Merchant Bank, the establishment of the London operation and entry into a number of African countries.
- FirstRand – formed after the merger between Rand Merchant Bank and First National Bank.
- Investec – the establishment of operations in, *inter alia*, London, Israel, the USA, Mauritius and the acquisition of Fedsure and a large stake in Saambou. During this period Investec also acquired a number of other banking and financial operations and built up a large asset management business.
- ABSA – is the result of the merger of several banks in the early 1990's. A large degree of management time and effort has been directed towards integrating the various businesses, which obviously has an effect on the running of the business.

- Nedcor – acquired FBC Bank that was in curatorship and also made the failed bid for Standard Bank. The strategic alliances with Didata and others also differentiated Nedcor from the other banks.

From the above, it is clear that there are many factors that can influence the ratio analysis, both positively and negatively, and that these must be taken into account.

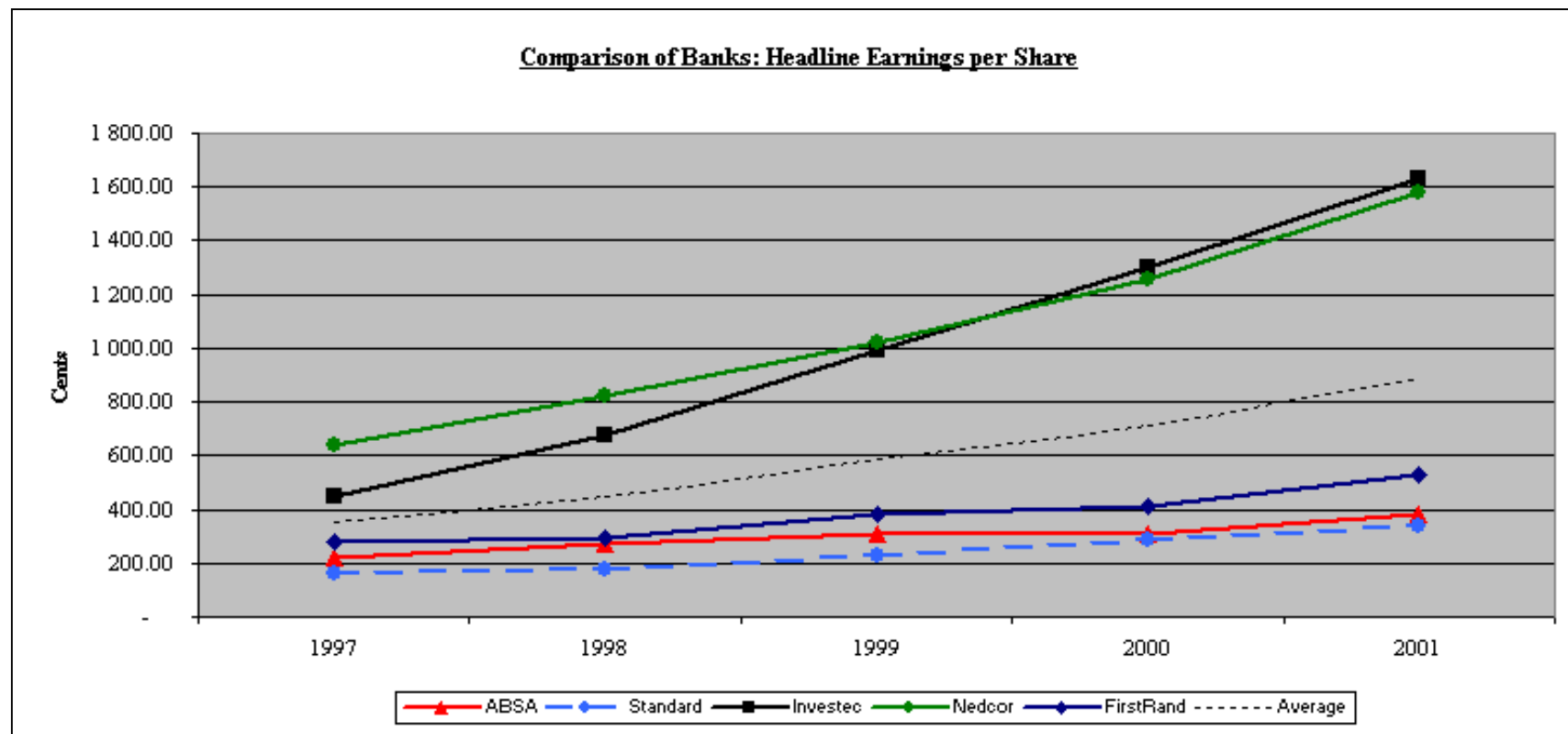
## 2 **Headline earnings per share**

Over the period 1997 to 2001, Investec (264,3%) had the best growth in HEPS, followed by Nedcor (145.9%), Standard (104.5%), FirstRand (88,8%) and ABSA (70.43%).

<b>Financial year ended</b>	<b>ABSA</b>	<b>Standard</b>	<b>Investec</b>	<b>Nedcor</b>	<b>FirstRand</b>	<b>Average</b>
1992						
1993						
1994						
1995						
1996						
1997	222.20	164.59	447.00	641.00	279.30	350.82
1998	271.30	177.81	672.90	822.00	295.62	447.93
1999	309.70	226.47	989.60	1 024.00	384.78	586.91
2000	310.30	283.45	1 300.90	1 260.00	413.15	713.56
2001	378.70	336.54	1 628.20	1 576.00	527.32	889.35
Average	298.44	237.77	1 007.72	1 064.60	380.03	597.71
Max	378.70	336.54	1 628.20	1 576.00	527.32	889.35
Min	222.20	164.59	447.00	641.00	279.30	350.82

### **Headline earnings per share**



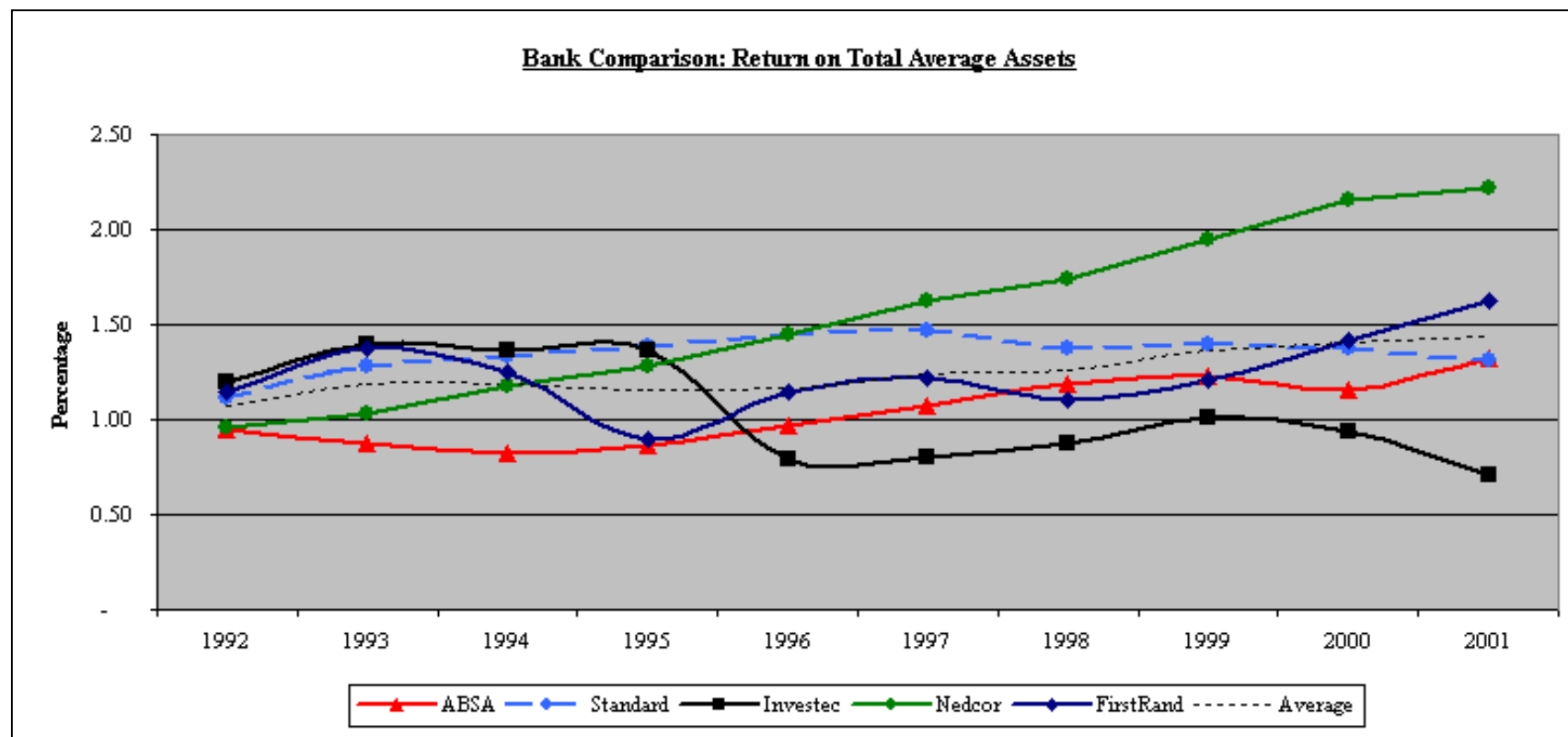


### 3 Return on total average assets

For the period 1992 – 1994, Investec showed the best ROA. Nedcor ranked 4<sup>th</sup> in each of these years. Nedcor improved to 3<sup>rd</sup> in 1995 and since then have recorded the best ROA in every year up to 2001. Investec have had the worst ROA of the banks since 1997. ABSA, 5<sup>th</sup> from 1992 to 1995 improved to 3<sup>rd</sup> or 4<sup>th</sup> during 1996 – 2001.

Financial year ended	ABSA	Standard	Investec	Nedcor	FirstRand	Average
1992	0.95	1.11	1.20	0.96	1.15	1.07
1993	0.87	1.28	1.40	1.03	1.38	1.19
1994	0.82	1.33	1.36	1.18	1.25	1.19
1995	0.86	1.39	1.36	1.28	0.90	1.16
1996	0.97	1.45	0.79	1.45	1.15	1.16
1997	1.07	1.47	0.80	1.62	1.22	1.24
1998	1.19	1.37	0.88	1.74	1.10	1.26
1999	1.23	1.40	1.01	1.95	1.21	1.36
2000	1.16	1.37	0.94	2.16	1.42	1.41
2001	1.32	1.31	0.71	2.22	1.62	1.44
Average	1.04	1.35	1.05	1.56	1.24	1.25
Max	1.32	1.47	1.40	2.22	1.62	1.44
Min	0.82	1.11	0.71	0.96	0.90	1.07

#### Return on total average assets

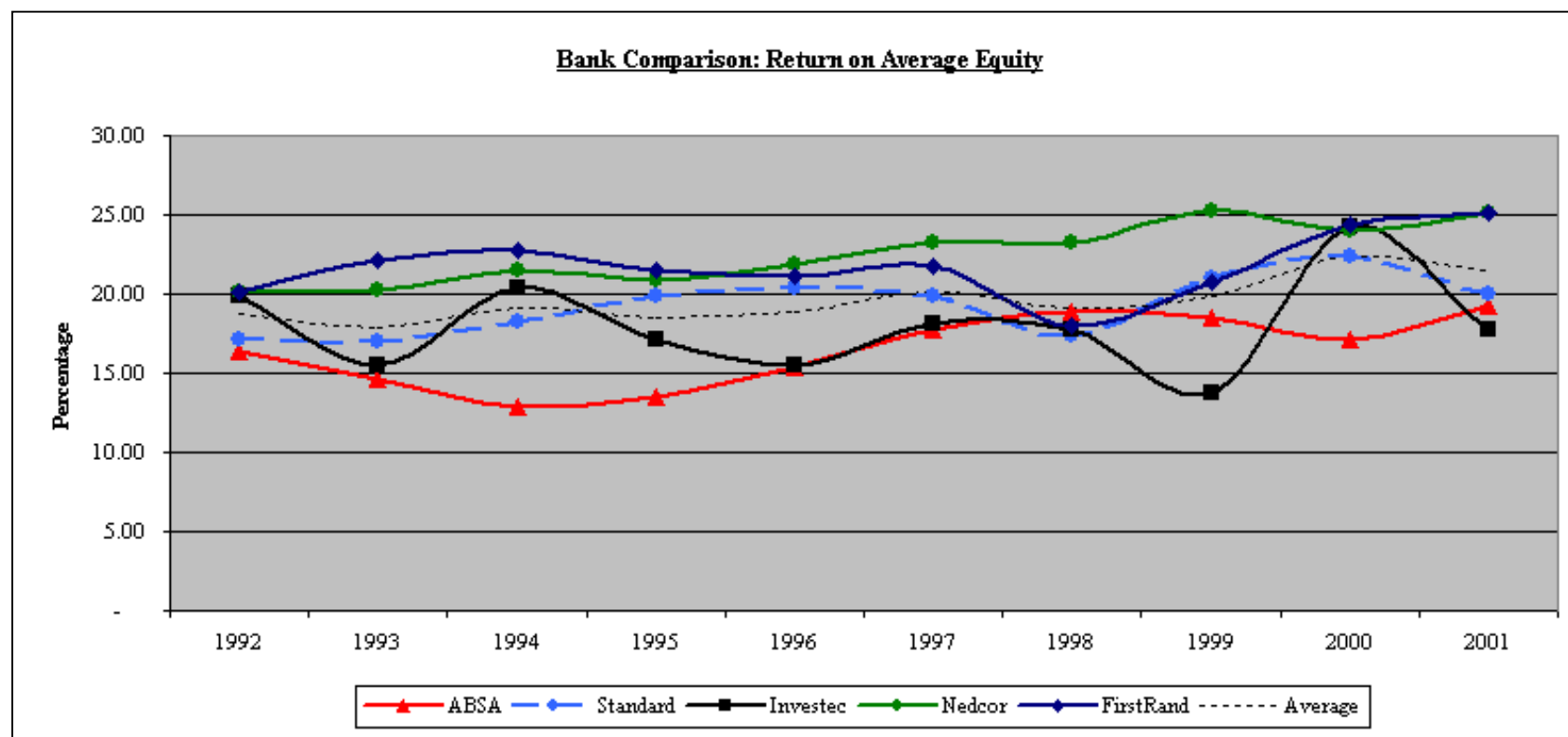


## 4 Return on average equity

Nedcor has consistently been one of the best two performing banks over the entire period. This is indicated in Nedcor's average ROE of 22,56% which is the highest. This is followed by FirstRand at 21,76%, which has also been a good performer over the period. ABSA has shown the weakest performance over the period, with an average ROE of 16,43%, but has shown marked improvement since 1997.

Financial year ended	ABSA	Standard	Investec	Nedcor	FirstRand	Average
1992	16.34	17.16	19.90	20.13	20.09	18.72
1993	14.67	17.01	15.50	20.30	22.17	17.93
1994	12.88	18.24	20.40	21.52	22.72	19.15
1995	13.45	19.90	17.10	20.84	21.48	18.55
1996	15.39	20.37	15.50	21.89	21.13	18.86
1997	17.80	19.85	18.10	23.22	21.70	20.13
1998	18.87	17.42	17.80	23.30	18.05	19.09
1999	18.50	20.94	13.70	25.30	20.75	19.84
2000	17.08	22.35	24.20	24.00	24.40	22.41
2001	19.30	20.02	17.80	25.07	25.15	21.47
Average	16.43	19.33	18.00	22.56	21.76	19.62
Max	19.30	22.35	24.20	25.30	25.15	22.41
Min	12.88	17.01	13.70	20.13	18.05	17.93

### Return on average equity



## 5 Average net interest margin

The type of assets on a bank's balance sheet will influence this ratio.

Investec's ratio, which is the lowest, is impacted by large intra-group loans and the relatively greater amount of trading assets on its balance sheet.

All the banks' ratios have declined since 1995. Nedcor's ratio, which is the 2<sup>nd</sup> lowest on average (but still more than double the average of Investec), has shown the greatest decline since 1992 (1992 – 4,31% and 2001 – 3,15%).

ABSA ratio has shown the least erosion and was the highest in 2001 at 4,23%.

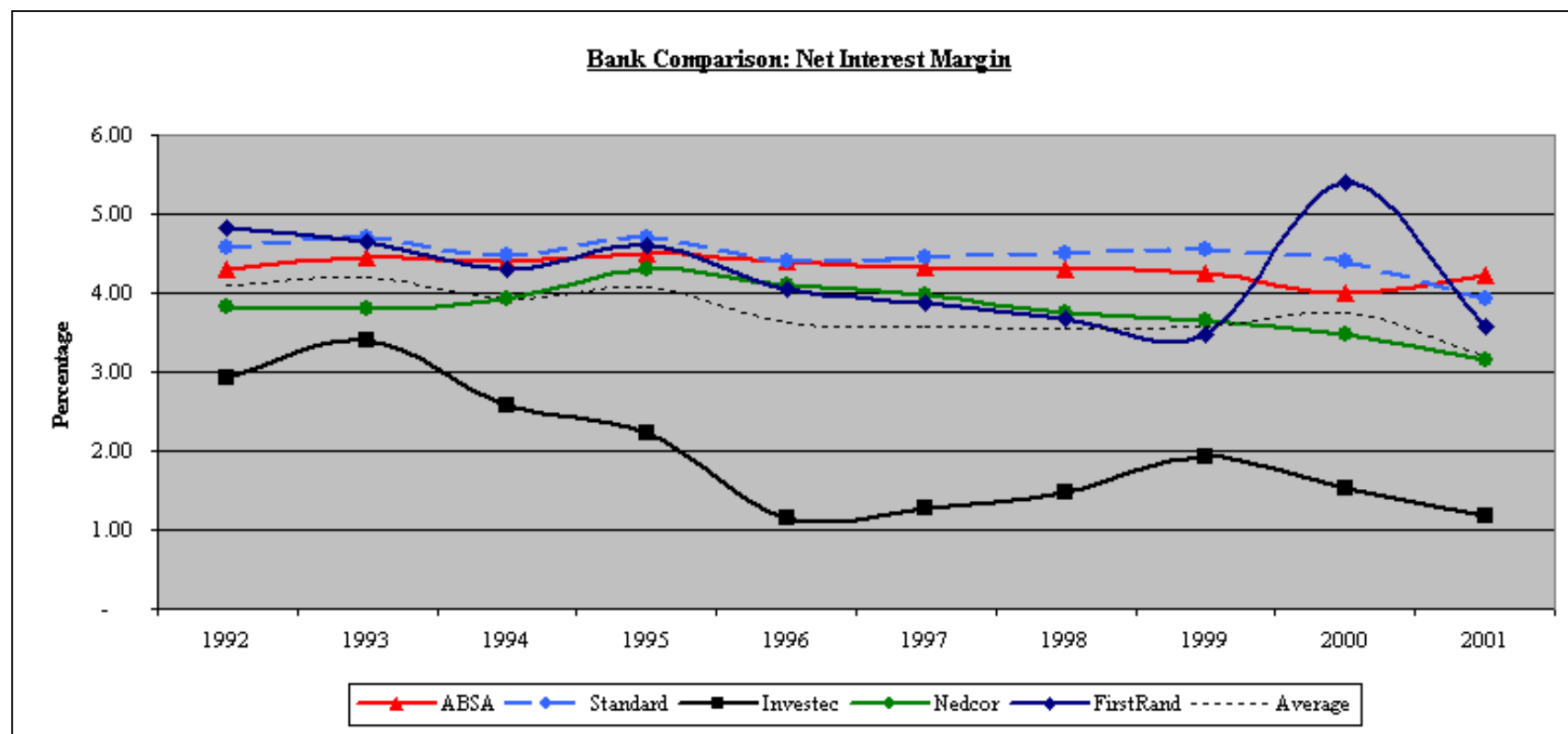
Financial year ended	ABSA	Standard	Investec	Nedcor	FirstRand	Average
1992	4.31	4.57	2.92	3.82	4.82	4.09
1993	4.45	4.71	3.40	3.80	4.64	4.20
1994	4.41	4.48	2.57	3.93	4.29	3.94
1995	4.51	4.69	2.23	4.31	4.59	4.07
1996	4.40	4.41	1.15	4.09	4.05	3.62
1997	4.33	4.44	1.28	3.97	3.87	3.58
1998	4.30	4.51	1.48	3.75	3.68	3.54
1999	4.26	4.55	1.92	3.64	3.48	3.57
2000	3.99	4.40	1.52	3.47	5.40	3.76
2001	4.23	3.92	1.18	3.15	3.58	3.21
Note 1						
Average	4.32	4.46	1.86	3.79	4.18	3.72
Max	4.51	4.71	3.40	4.31	5.40	4.20
Min	3.99	3.92	1.15	3.15	3.48	3.21

### Average net interest margin

**Note 1:**

For the years 1995 to 2001 Net Interest Margin is calculated as: Net interest income divided by average interest earning assets.

For the years 1992 to 1994 Net Interest Margin is calculated as: Net interest income divided by average total assets.





## **6 Non-interest income as a percentage of operating income**

Banks globally are trying to increase this ratio. South African banks are part of this trend and all of the 5 banks managed to show good increases from 1992 to 2001.

Using 1992 as a base, the percentage increases for each bank up to 2001 are as follows:

- ABSA – 64,95%
- Standard – 45,69%
- Investec – 36,53%
- Nedcor – 31,47%
- FirstRand – 17,06%

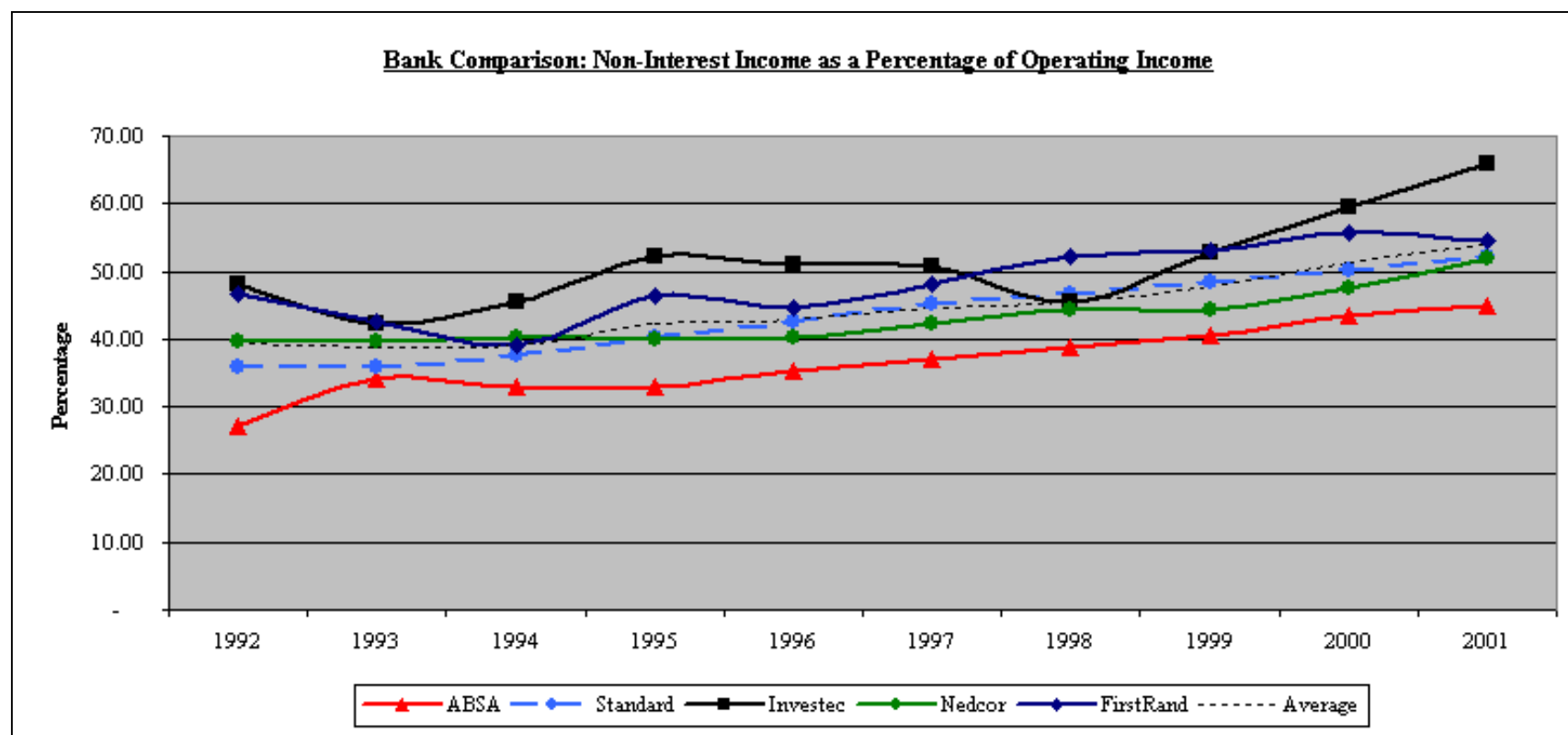
It must be stressed that the above ratios will be influenced by the base ratio, i.e. 1992. Consequently, whilst ABSA have shown the greatest growth, it still has the lowest ratio at 2001, namely 44,9% compared to Investec at 65,85%.

Financial year ended	ABSA	Standard	Investec	Nedcor	FirstRand	Average
1992	27.22	35.81	48.23	39.56	46.60	39.48
1993	34.17	35.80	42.37	39.68	42.60	38.92
1994	33.08	37.63	45.55	40.24	39.03	39.11
1995	32.93	40.27	52.10	39.91	46.25	42.29
1996	35.16	42.53	51.11	40.20	44.72	42.74
1997	37.00	45.07	50.73	42.29	47.98	44.61
1998	38.80	46.66	45.61	44.35	52.16	45.52
1999	40.50	48.55	52.83	44.40	53.00	47.86
2000	43.60	50.04	59.64	47.56	55.63	51.29
2001	44.90	52.17	65.85	52.01	54.55	53.90
Note 2						
Average	37.79	44.30	51.75	43.40	48.44	45.14
Max	44.90	52.17	65.85	52.01	55.63	53.90
Min	32.93	35.80	42.37	39.68	39.03	38.92

### **Non-interest income as a percentage of operating income**

#### **Note 2**

For the years 1992 to 1995 Non-Interest Income as a % of Operating Income is not provided in the Bank Survey. The ratio shown has been calculated from information provided in the Bank Survey.



## **7 Cost-to income ratio**

The cost-to-income ratio is one of the most important performance indicators for banks and banks, both locally and globally; direct a significant degree of resources towards driving this ratio down. The SARB issued a circular during 2001 barring certain practices that were distorting the ratio.

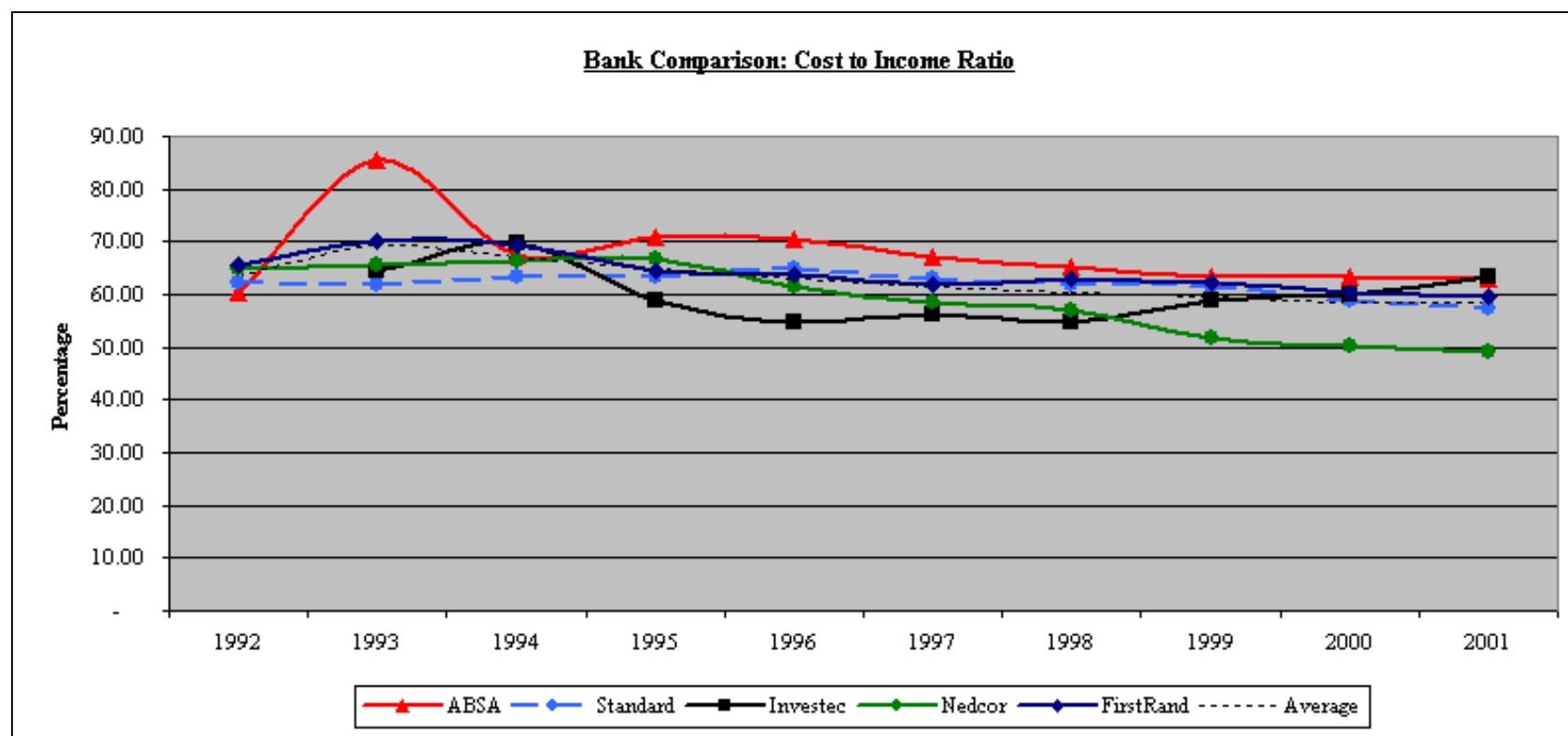
Nedcor has been the most successful of the big five in decreasing its cost-to-income ratio, which now stands at less than 50% (2001: 49,27%). ABSA has struggled more than the other banks to reduce its ratio; mainly due to its very broad client base, wide geographical representation and the costs involved in integrating the banks that formed part of the merger.

<b>Financial year ended</b>	<b>ABSA</b>	<b>Standard</b>	<b>Investec</b>	<b>Nedcor</b>	<b>FirstRand</b>	<b>Average</b>
1992	60.23	62.16		65.01	65.61	63.25
1993	85.36	62.06	64.48	65.65	70.16	69.54
1994	67.63	63.27	69.62	66.56	69.42	67.30
1995	70.84	63.54	58.87	66.61	64.66	64.90
1996	70.47	64.91	54.80	61.38	63.84	63.08
1997	67.20	63.11	56.23	58.67	61.78	61.40
1998	65.40	62.03	54.71	56.83	62.89	60.37
1999	63.30	61.61	58.90	51.68	62.40	59.58
2000	63.50	58.80	59.89	50.30	60.30	58.56
2001	63.00	57.26	63.21	49.27	59.50	58.45
	<b>Note 3</b>					
Average	68.52	61.84	60.08	58.55	63.88	62.58
Max	85.36	64.91	69.62	66.61	70.16	69.54
Min	63.00	57.26	54.71	49.27	59.50	58.45

### **Cost-to income ratio**

#### **Note 3**

For the years 1992 to 1995 the Cost to Income Ratio is not provided in the Bank Survey. The Cost Income Ratio shown has been calculated from information provided in the Bank Survey.



## **8 Bad or doubtful debt charge as a percentage of average advances**

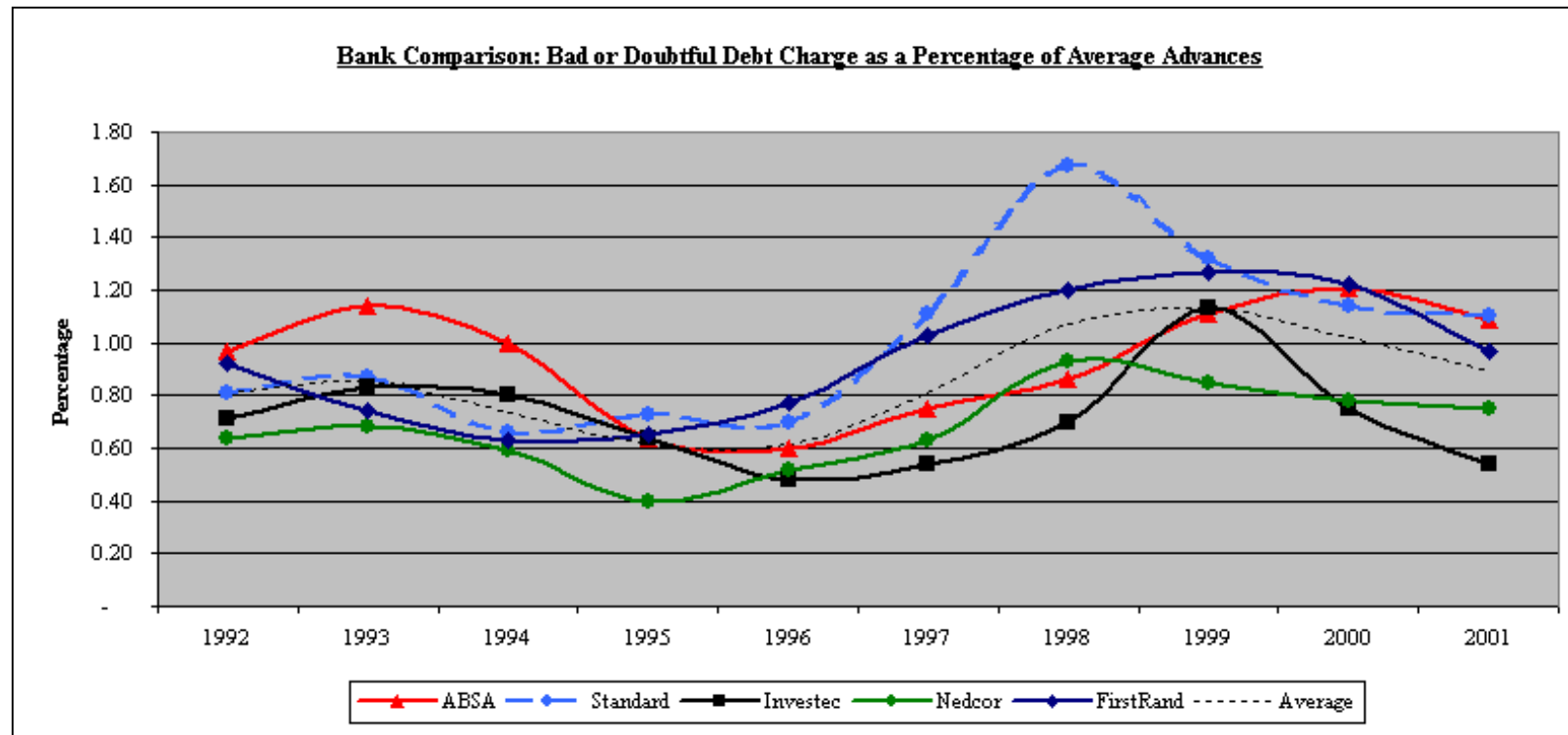
Investec and Nedcor have traditionally had the lowest bad debt to advances ratio of the big five banks. On an average basis, Nedcor is the lowest at 0,68% followed by Investec at 0,71%. Standard has the highest average over the period, namely 1,01%. Standard's ratio was negatively impacted by the losses incurred by Standard Bank London in 1998 through its exposures to Russia. If these losses were "stripped out", the average ratio would be 0,94%, the same as both ABSA and FirstRand.

All the banks were affected by the large increase in interest rates in 1998. Only in 2000 did the ratios start to decline. At the end of 2001 the ratios were more or less at 1997 levels.

<b>Financial year ended</b>	<b>ABSA</b>	<b>Standard</b>	<b>Investec</b>	<b>Nedcor</b>	<b>FirstRand</b>	<b>Average</b>
1992	0.97	0.81	0.71	0.64	0.92	0.81
1993	1.14	0.87	0.83	0.68	0.74	0.85
1994	1.00	0.66	0.80	0.59	0.63	0.74
1995	0.64	0.73	0.64	0.40	0.65	0.61
1996	0.60	0.70	0.48	0.52	0.77	0.61
1997	0.75	1.11	0.54	0.63	1.03	0.81
1998	0.86	1.67	0.70	0.93	1.20	1.07
1999	1.11	1.32	1.13	0.85	1.27	1.14
2000	1.21	1.14	0.75	0.78	1.22	1.02
2001	1.09	1.10	0.54	0.75	0.97	0.89
Average	0.94	1.01	0.71	0.68	0.94	0.86
Max	1.21	1.67	1.13	0.93	1.27	1.14
Min	0.60	0.66	0.48	0.40	0.63	0.61

**Bad or doubtful debt charge as a percentage of average advances**





## **9 Annual growth in advances**

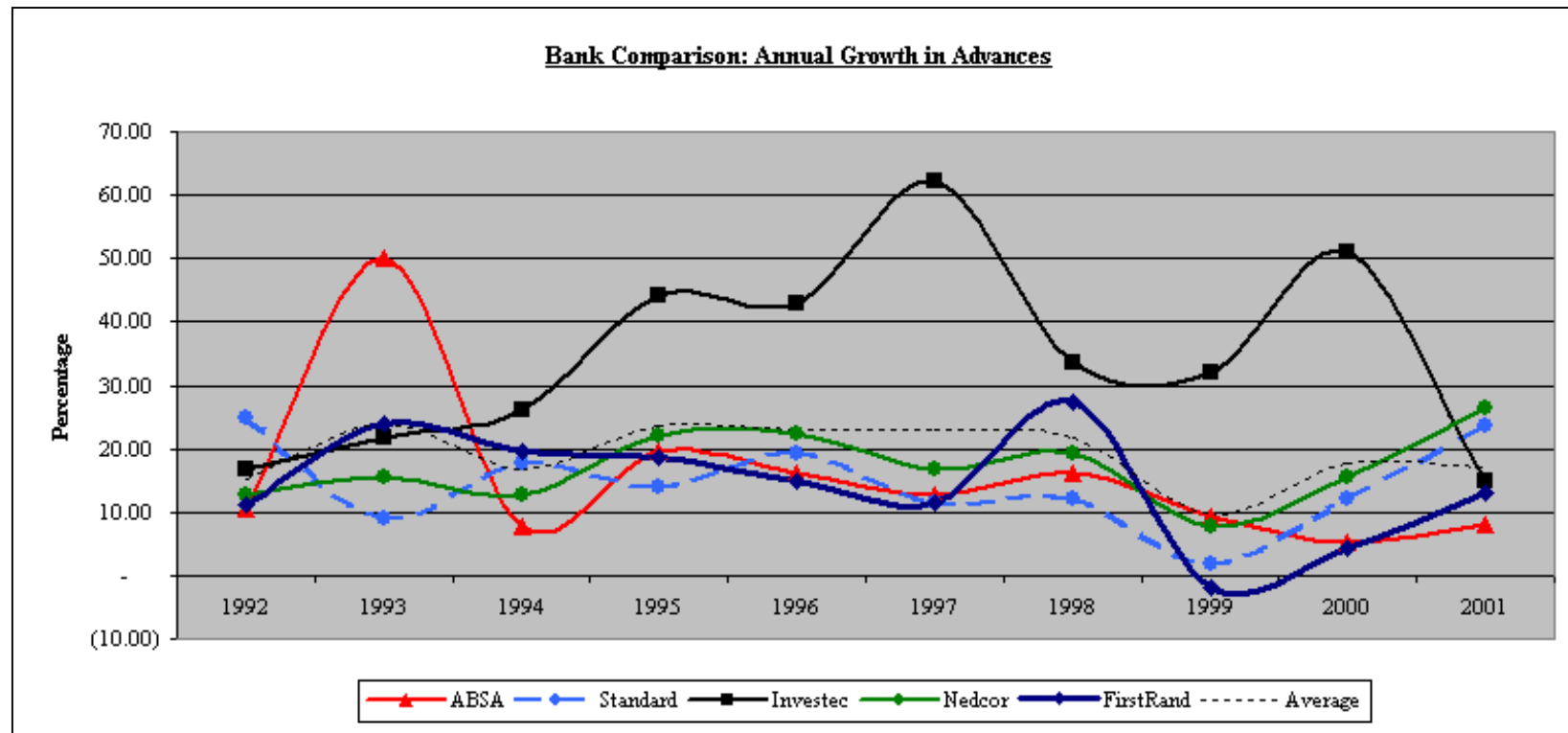
Investec has shown by far the largest growth in advances over the period (an average of 34,53% per annum), but it must be remembered that this was largely through acquisitions.

Nedcor grew by 26,35% in 2001, influenced by the acquisition of FBC.

ABSA has consistently shown the least growth over the period, probably due to an inward focus whilst the merger was bedded down. Its ratio was heavily influenced in 1993 because of the merger.

<b>Financial year ended</b>	<b>ABSA</b>	<b>Standard</b>	<b>Investec</b>	<b>Nedcor</b>	<b>FirstRand</b>	<b>Average</b>
1992	10.49	24.80	16.86	12.62	11.05	15.16
1993	50.05	9.14	21.80	15.40	23.83	24.04
1994	7.62	17.70	25.97	12.57	19.66	16.70
1995	19.42	14.08	44.12	22.15	18.52	23.66
1996	16.25	19.33	42.95	22.33	14.75	23.12
1997	12.60	11.56	62.14	16.64	11.51	22.89
1998	16.26	11.95	33.69	19.14	27.27	21.66
1999	9.28	1.88	31.89	7.60	(1.95)	9.74
2000	5.24	11.99	50.93	15.40	4.23	17.56
2001	8.00	23.53	14.98	26.35	13.10	17.19
Average	15.52	14.60	34.53	17.02	14.20	19.17
Max	50.05	24.80	62.14	26.35	27.27	24.04
Min	5.24	1.88	14.98	7.60	(1.95)	9.74

### **Annual growth in advances**



## **10 Non-performing advances as a percentage of total advances**

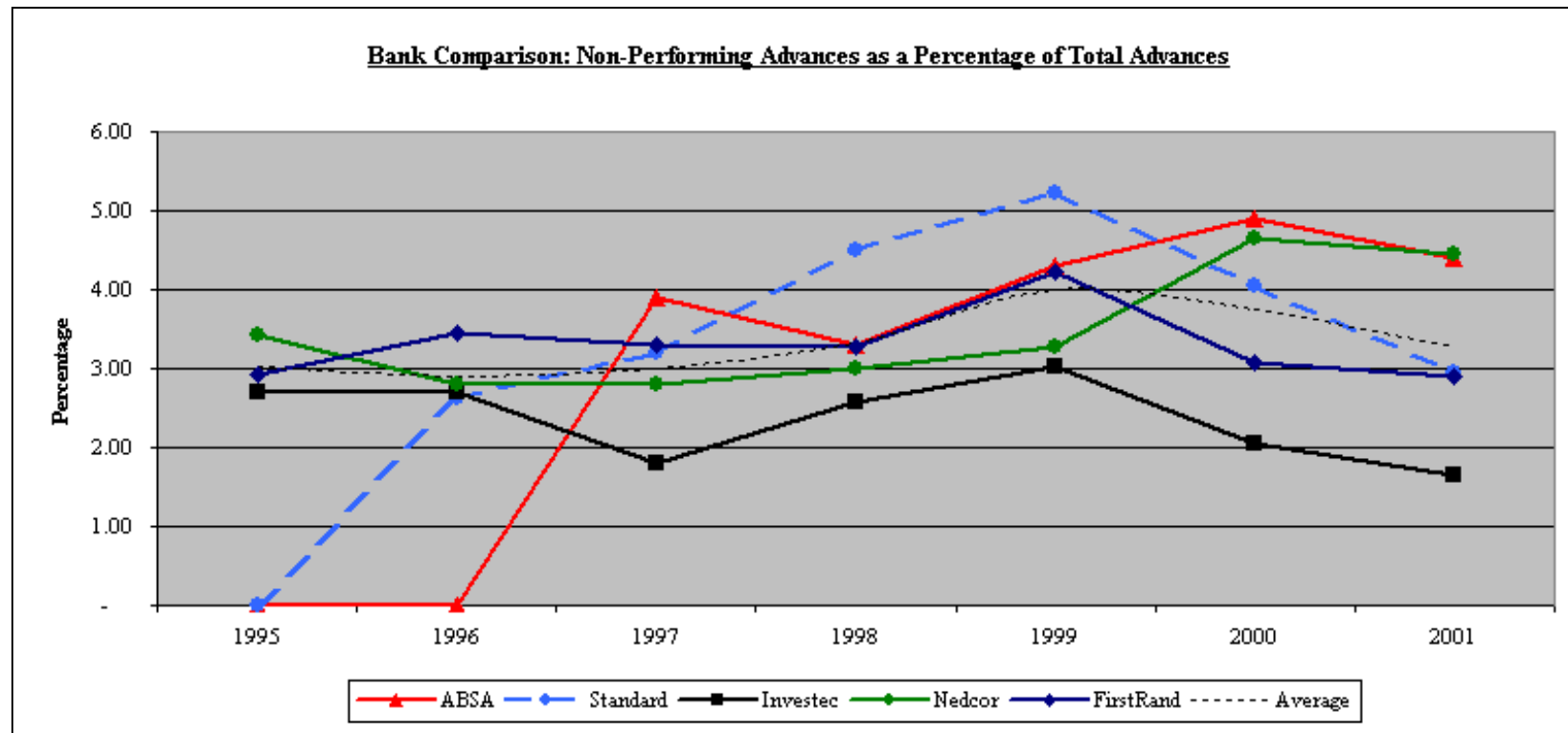
On average, ABSA has the highest ratio of non-performing advances to total advances (4.16%) and Investec the lowest at 2,36%.

Nedcor has shown the most deterioration and has risen from 3,42% in 1995 to 4,46% in 2001. From being the second lowest (2,79%) in 1997 it now has the highest ratio.

Standard has shown significant progress and has improved from 5,22% in 1999 to 2,95% in 2001.

<b>Financial year ended</b>	<b>ABSA</b>	<b>Standard</b>	<b>Investec</b>	<b>Nedcor</b>	<b>FirstRand</b>	<b>Average</b>
1992	N/A	N/A	N/A	N/A	N/A	N/A
1993	N/A	N/A	N/A	N/A	N/A	N/A
1994	N/A	N/A	N/A	N/A	N/A	N/A
1995	N/A	N/A	2.70	3.42	2.92	3.01
1996	N/A	2.62	2.70	2.80	3.45	2.89
1997	3.90	3.21	1.79	2.79	3.30	3.00
1998	3.30	4.49	2.57	3.00	3.27	3.33
1999	4.30	5.22	3.03	3.27	4.23	4.01
2000	4.90	4.04	2.06	4.66	3.08	3.75
2001	4.40	2.95	1.65	4.46	2.91	3.27
Average	4.16	3.76	2.36	3.49	3.31	3.32
Max	4.90	5.22	3.03	4.66	4.23	4.01
Min	3.30	2.62	1.65	2.79	2.91	2.89

### **Non-performing advances as a percentage of total advances**



## **11 Conclusion**

Based on the restricted nature of the ratios used in this review, Nedcor and Standard have been the best performers over the period under review.

FirstRand's performance has tended to be fairly consistent, with the last 3 to 4 years being largely spent on bedding down the merger (Rand Merchant Bank/First National Bank).

ABSA has tended to consistently under-perform the other banks, although almost all the ratios have improved in recent years. A significant amount of management time has been spent over a number of years integrating the merger of the banks making up ABSA.

Investec is difficult to analyse due to the aggressive acquisition strategy that it has followed over a number of years, which made comparisons from year to year difficult. Furthermore, its business differs significantly from the other four banks in many areas.

John Martin

Partner

KPMG



## **Share price movements**

## **Glossary**

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## **1 Standard**

During the period March 1999 to December 2002, Standard's share price increased from R17.55 to R30.58; a 74.25% increase. The increase was steady from March 1999 to September 2001, whereafter it has traded in a range between approximately R29.00 and R35.00.

Since the middle of January 2003, the share price has declined (as have the other "big five" banks in South Africa) and on 14 February 2003 closed at R29.40.

## **2 FirstRand**

FirstRand's share price has traded in a range between R6.50 and R8.50 during the period March 1999 to December 2002. There were no major transactions or incidents during this period that caused the price to move up or down significantly.

More recently, the share price has recovered from R6.90 on 27 January 2003 to close at R7.35 on 14 February 2003.

## **3 Investec**

Of all the shares of the banks covered in this analysis, Investec has shown by far the greatest decline in value over the period 31 March 1999 to 31

December 2002. during this period the share price declined from R226.36 to R119.66, a decline of 47%.

As is clearly illustrated by the attached graphs, Investec's price has continued to decline during 2003, and closed at R88.80 on 14 February.

Although not depicted on the Investec graphs, the share closed at R79.00 on 19 February 2003.

#### **4 ABSA**

ABSA closed at R29.38 on 31 March 1999. By 28 September 2001 the closing price had increased to R38.16, some 34%. However, the Unifer debacle in early 2002 drove the price down significantly, closing on 28 March 2002 at R28.58, which was lower than the 31 March 1999 close.

By the end of 2002 the share price had recovered to R32.60 and stood at R33.80 on 14 February 2003.

#### **5 Nedcor**

Nedcor's share price has also performed poorly during the period 31 March 1999 to 31 December 2002. The share closed at 126.64 on 31 March 1999 and rose steadily to close at 162.79 on 30 March 2001, an increase of 29%. Subsequently, however, the share has declined steadily and closed at R112.23

on 31 December 2002. By 14 February 2003, the share price had dipped further, closing at R104.90.

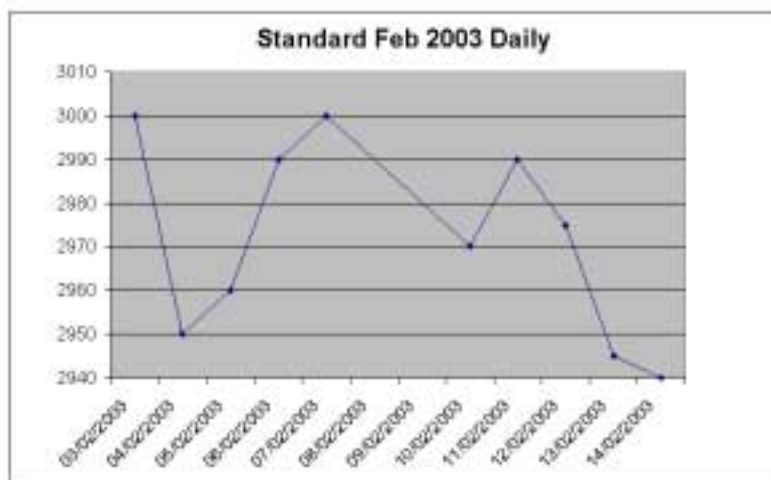
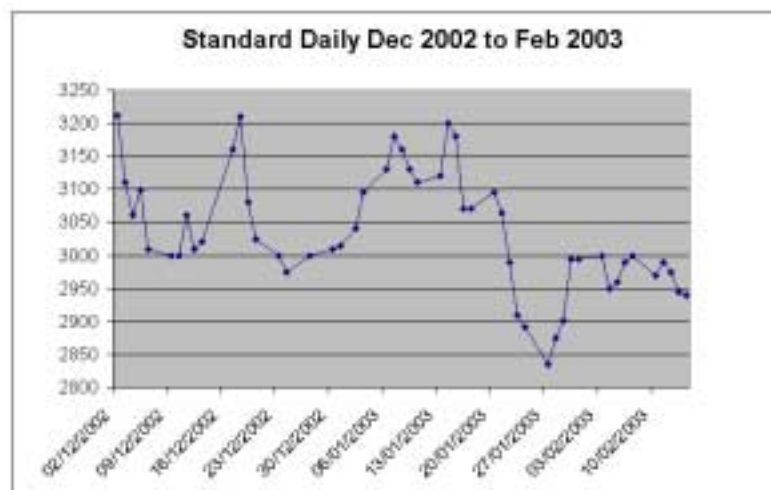
Between 31 March 2001 and 30 June 2001, Nedcor's share price dropped from R162.79 to R147.81. This was around about the same time that the Didata share incentive controversy occurred. However, it is not possible to say whether the controversy was the only cause of the decline in price. What is evident, however, is that since March 2001, the share has shown a steadily declining trend.

John Martin

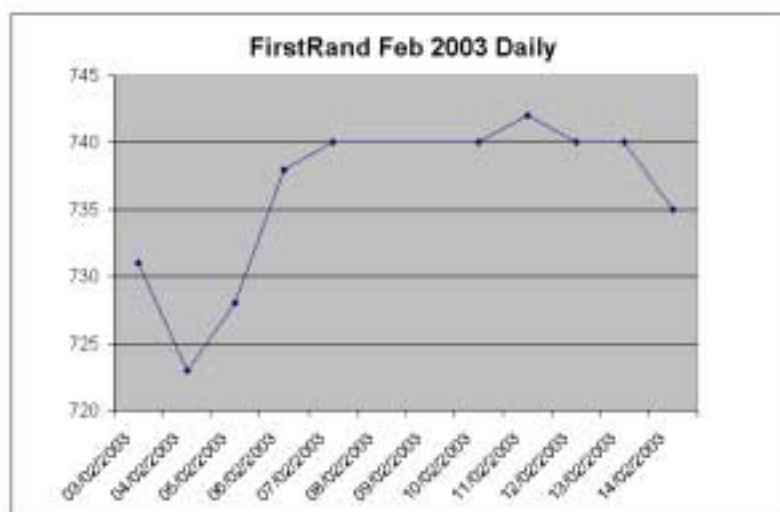
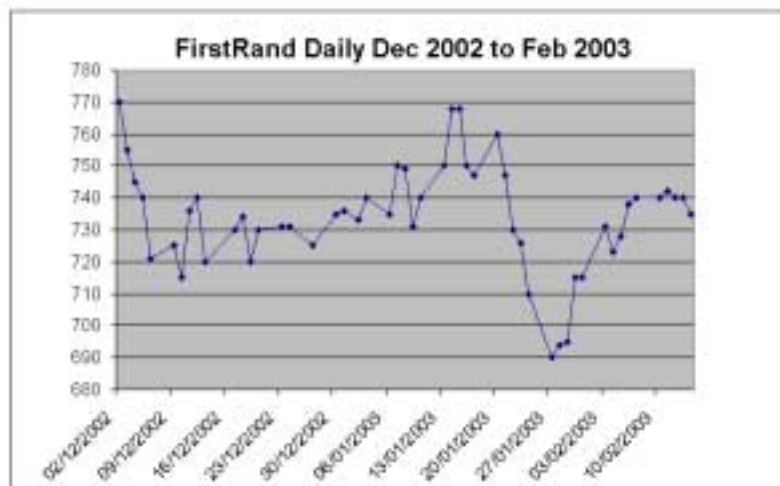
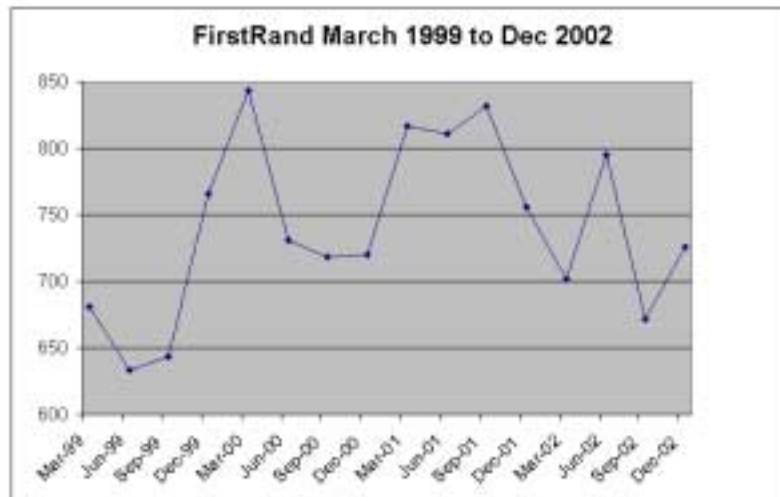
Partner

KPMG

## Standard

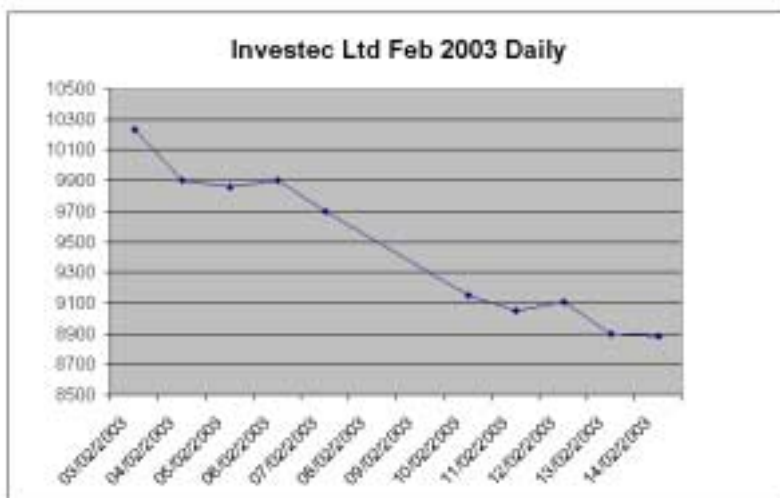


## FirstRand

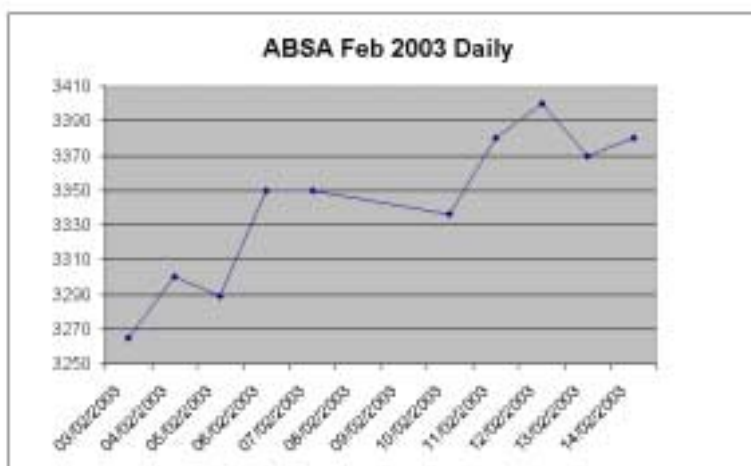
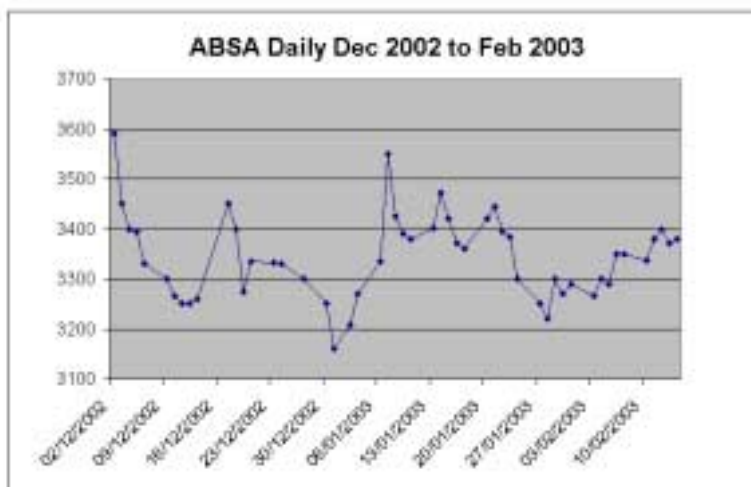
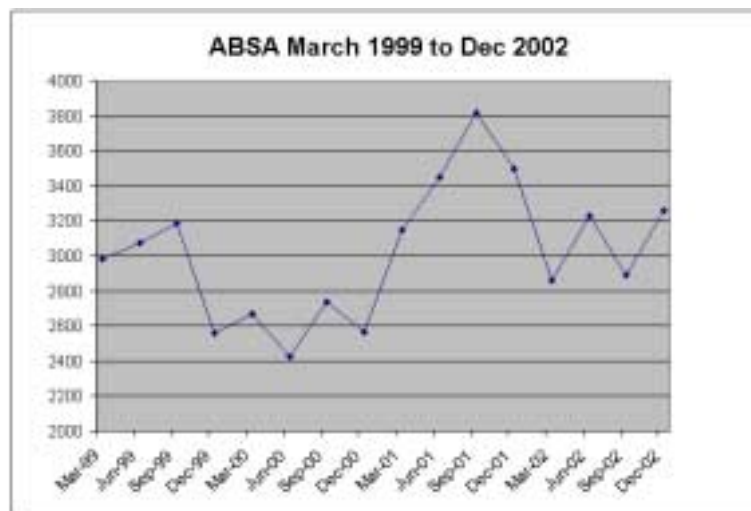




## Investec



## ABSA



## Nedcor

