

## 2020 Sector Report: Banking and Financial Services

### Introduction

This report analyses eight companies from banking, life insurance and the financial services sector as listed on the Johannesburg Stock Exchange (JSE). Included in this report is an analysis of Standard Bank Group and Nedbank comprising a third of JSE listed companies under the 'Banks' sector, Liberty Holdings, Discovery, Rand Merchant Holdings (RMB Holdings) and Sanlam constituting 67% of the JSE 'Life Insurance' sector, and FirstRand Bank and Investec are two of the more than 55 companies listed on the JSE under 'Financial Services' sector<sup>1</sup>.

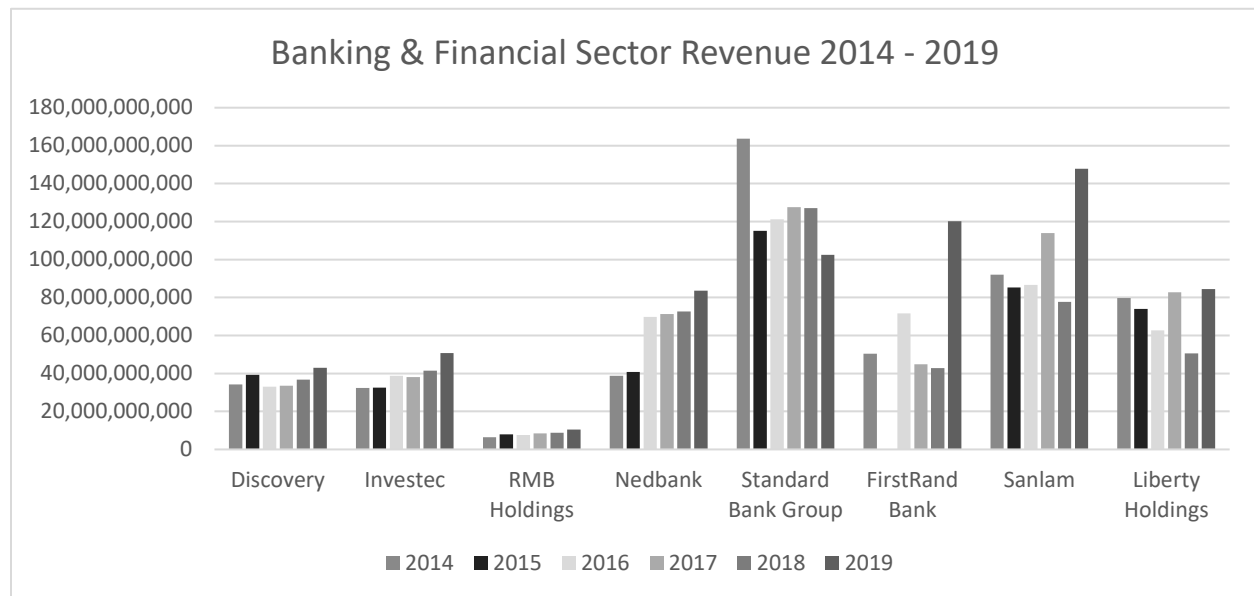
This report will be in three parts. The first part presents an overview of the revenue amounts of the 2019 financial year and the second part provides an analysis of the sector's profit before tax. The last part is on the directors' remuneration starting with CEO pay, and executive and non-executive directors' remuneration.

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<sup>1</sup> <https://www.african-markets.com/en/stock-markets/jse/listed-companies>

# Revenue

The eight companies included in this report recorded a total revenue amount of over R642 Billion with an average of R80 billion in the 2019 financial year. Standard Bank Group lost its position as



the highest earning in the Banking and Financial Services Sector to Sanlam, which recorded a 90.1% increase in revenue from R77 billion in 2018 to R147 billion in 2019.

*Figure 1: Banking and Financial Sector Revenue for the years 2014-2019. Data from company annual financial statements.*

Standard Bank Group is the only company which had negative growth in income, reporting a 19% decrease in revenue from R127 billion in 2018 to R102 billion in 2019. Significantly, FirstRand Bank reported a 181% increase in revenue from R42 billion in 2018 and almost tripling to R120 million in the 2019 financial year.

The sector saw an average revenue increase of 49% in 2019. The average revenue increased by 40% from R57 million in 2018 to R80million in 2019.

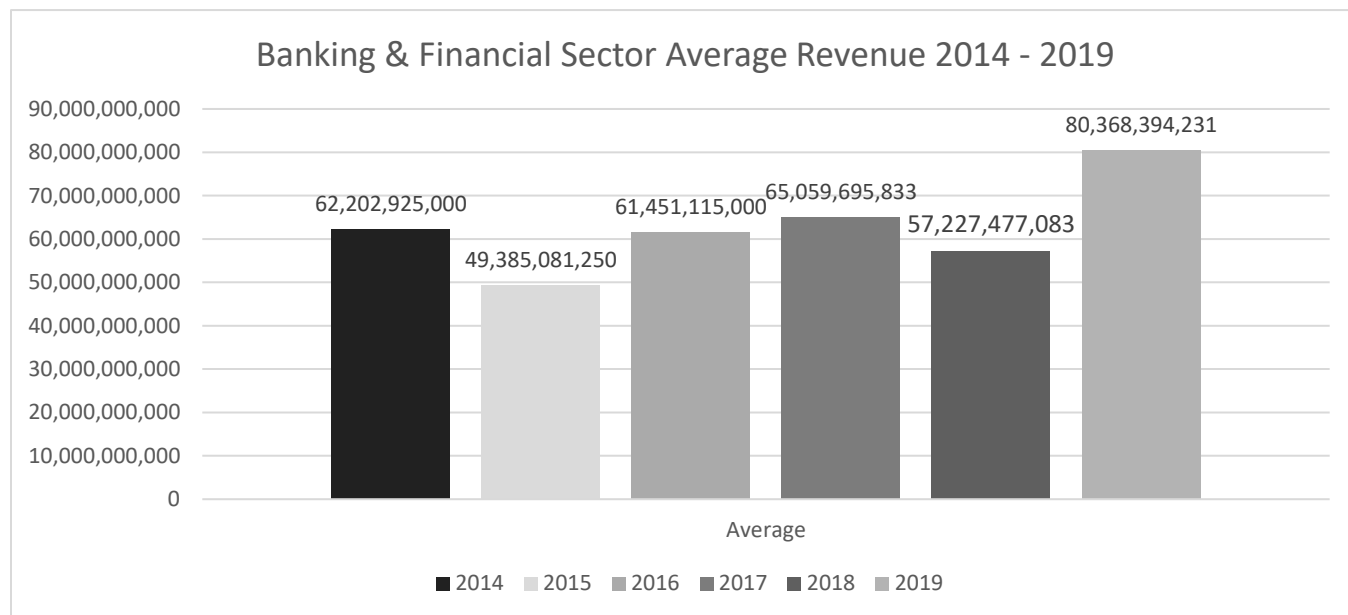


Figure 2: Banking and Financial Sector Average Revenue 2014-2019. Data from company annual financial statements.

Against this backdrop, Standard Bank Group’s performance stands as a sharp outlier in contrast to the performance of the remaining seven companies in the sector which reported positive revenue increases. This contrast is even more pronounced because in the last six financial years, Standard Bank Group consistently maintained its position in terms of grossing the highest revenue in the banking and financial services sector. It maintained a comfortable lead in this regard with its closest competitor, Sanlam, trailing Standard Bank Group’s revenue by an average of 30,1 percent in the last six financial years. Therefore, the takeover by Sanlam was both sudden and unexpected.

Standard Bank’s Chief Executive attributed the unfavorable performance to the loss reported by one of its investments – its London based venture with the Industrial and Commercial Bank of China (ICBC). An oil refinery explosion by one of ICBC’s clients led to the London venture reporting

a loss of \$248 million<sup>2</sup>. With a 40% investment stake by Standard Bank in ICBS, the loss precipitated by the refinery explosion meant that the group's earnings for the 2019 year could have increased by 5% if it was not for the cost allocated to Standard Bank<sup>3</sup>.

## Profit before Tax

In terms of profit before tax, Standard Bank lost its position as the sector leader in profitability. FirstRand Bank was the most profitable company in the Banking and Financial Services sector reporting a 15% increase.

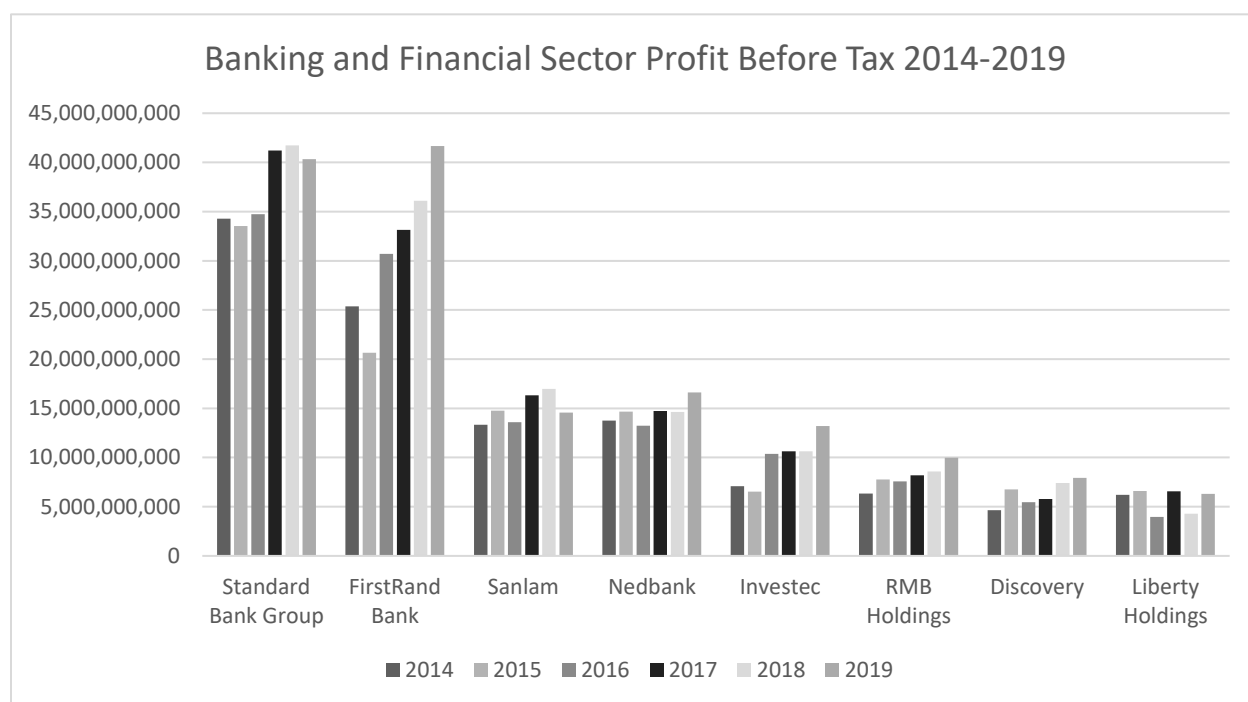
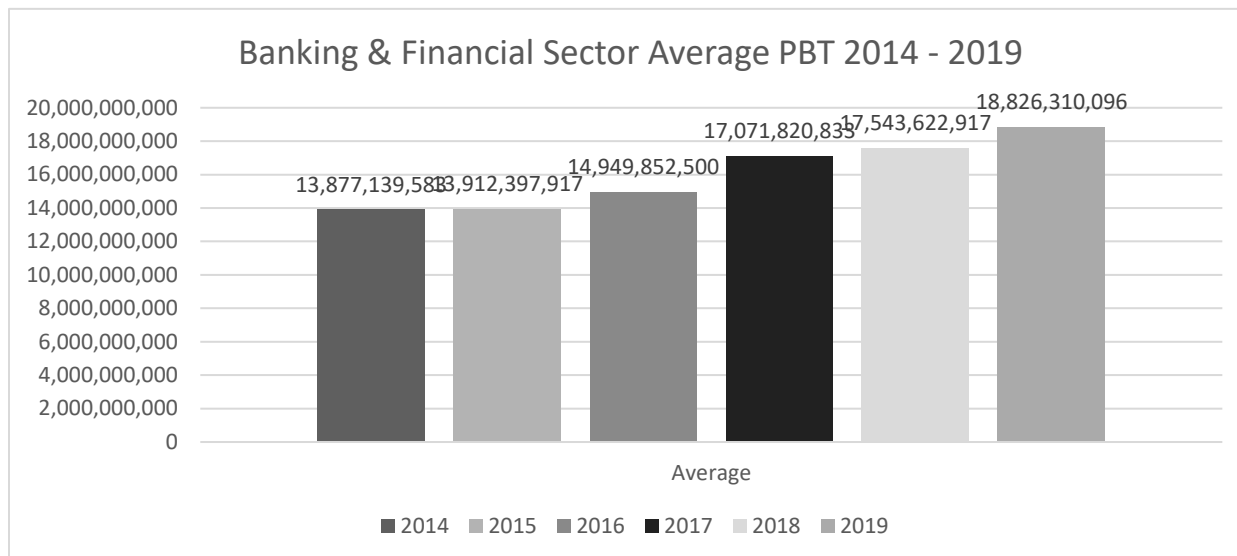


Figure 3: Banking and Financial Sector Profit before tax 2014-2019. Data from company annual financial statements

<sup>2</sup> Kruger, "Solid, but subdued results from Standard Bank". <https://www.moneyweb.co.za/news/companies-and-deals/solid-but-subdued-results-from-standard-bank/>.

<sup>3</sup> Ramalepe, "How misfortunes in ICBCS cost Standard Bank". <https://www.news24.com/fin24/companies/financial-services/how-misfortunes-in-icbcs-cost-standard-bank-20200308>.

FirstRand Bank's profit was R41 billion increasing from R36 billion in 2018. Significantly, Liberty Holdings reported the highest growth in profit before tax (PBT) of 44% and the majority of the companies had upward increases in profit. Whilst Sanlam overtook Standard Bank in terms of



receiving the highest revenue, both Standard Bank and Sanlam were the only two companies which reported a decrease in profit of 3 and 14 percent respectively.

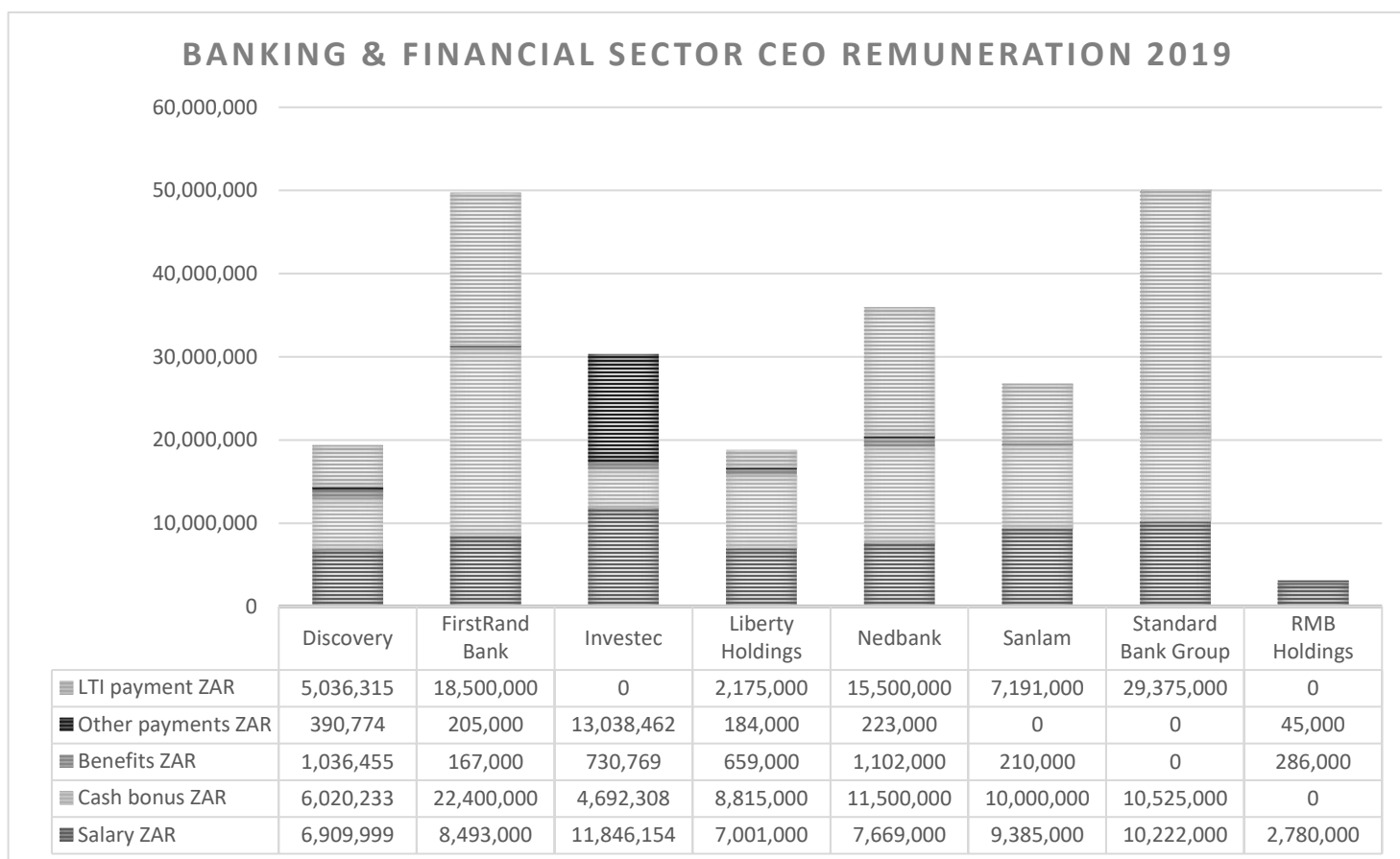
Figure 4: Banking and Financial Sector Average Profit before tax 2014-2019. Data from company annual financial statements.

Overall, the banking and financial sector continues to maintain an upward mobility in profit before tax with the average profit for the sector increasing by 7% from R17.5 billion in 2018 to R18.8 billion in 2019.

## Directors' Remuneration

Long Term Incentive (LTI) payments constitute the bulk of CEO remuneration followed closely by cash performance bonuses and the salary figures. The highest paid CEO in the 2019 financial year

employed by Standard Bank, Sim Tshabalala, received an annual salary of R10,2 million, a cash bonus of R10.5 million and an LTI payment of R29 million and together he received a total



remuneration of R50 million.

*Figure 5: Banking and Financial Sector CEO 2019 Remuneration.*

Trailing closely behind was FirstRand Bank’s CEO Alex Pullinger taking home R49.7 million in total remuneration comprised of an R8 million salary, R22million cash bonus and an LTI payment of R18 million.

On average, salaries for the forty-one executive directors in the sector increased by 11% from R6 million in 2018 to R6,6 million in 2019. However, the average total annual remuneration – excluding LTI payments, decreased by 16%.

On the non-executive front, the annual average sector remuneration for the 107 directors decreased by 25% from R2,4 million in 2018 to an annual average of R1.8 million. This was partly attributed to lower payments by Discovery to non-executive directors who were recently appointed to the board and only served a few months following resignations and the retirement of other non-executive directors in the company.

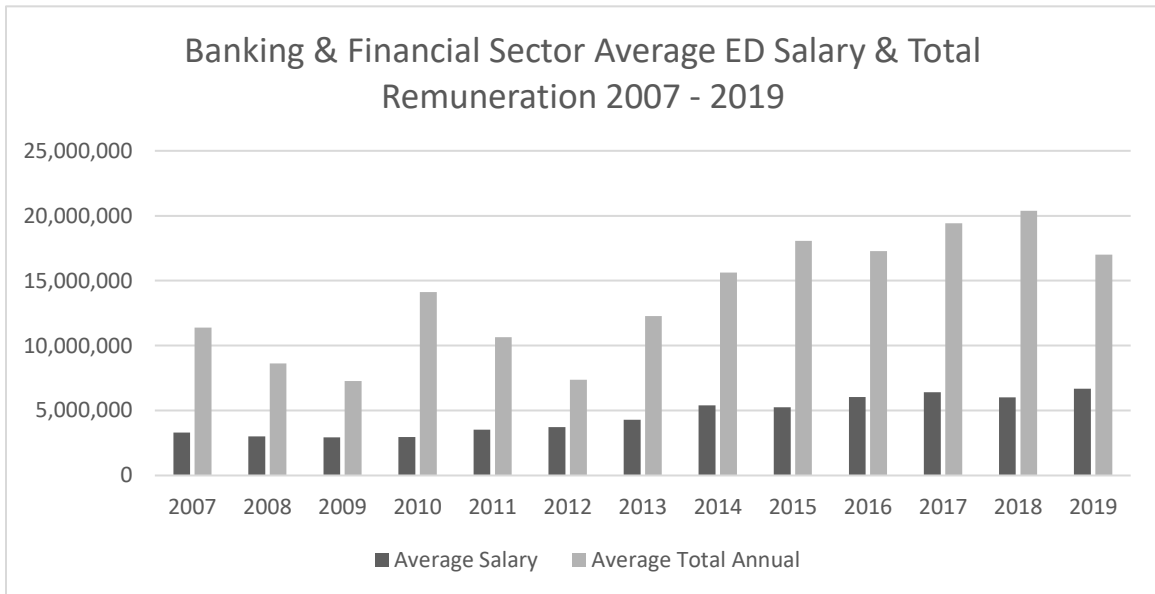


Figure 6: Banking and Financial Sector Executive Directors (ED) 2019 Remuneration.

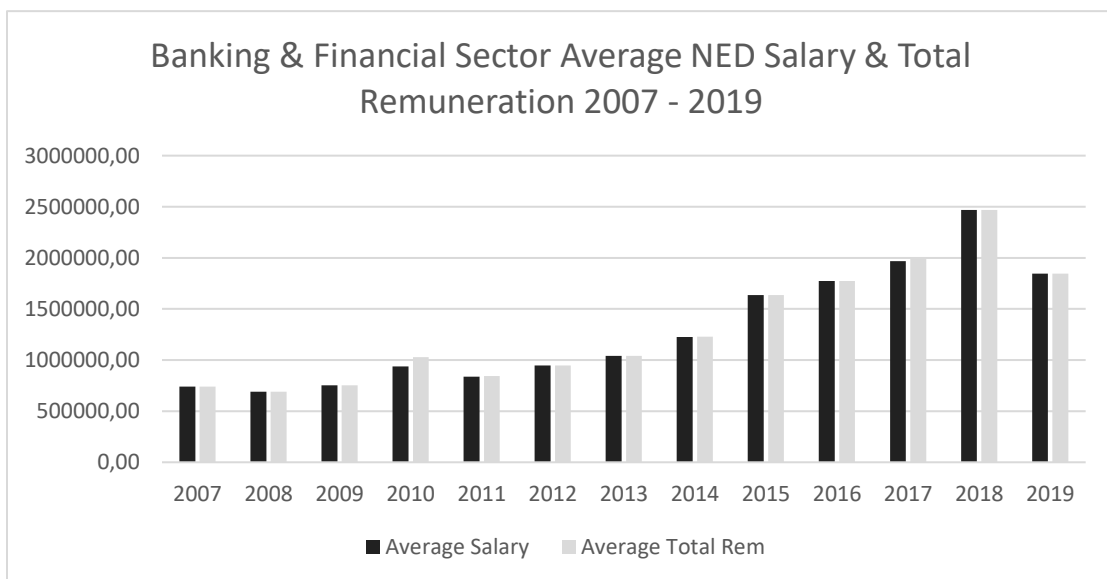


Figure 7: Banking and Financial Sector Non-executive directors 2019 Remuneration.

## Conclusion

The banking sector on average maintained an increase in profitability. Nonetheless, the earnings recorded by banks according to analysis by PwC was only an increase in growth of 2.1% compared to a 2018 headline earnings growth of 8%<sup>4</sup>. Banks financial performance is closely linked to that of the economy, therefore with slow economic growth and more consumer pressure, banks expect dampened results.

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<sup>4</sup> Buthelezi, "How Banks were battered in 2019".