

Updates from the local banks

The JSE has soared to new heights this year, but the underlying performance across its sectors has been divergent. Extreme global uncertainty has induced strong demand for gold globally, resulting in a rampant performance among the local gold miners this year, driving the overall index. However, other sectors, like the domestic banking sector, have been uninspiring. Recently, South Africa's big four banks (Absa, FirstRand, Nedbank, and Standard Bank) released trading updates ahead of their results for the period ending June 2025. Despite differing results, consistent themes emerged through these reports, providing a timely opportunity to assess the factors shaping the sector's lukewarm performance this year.



**James
Clark**

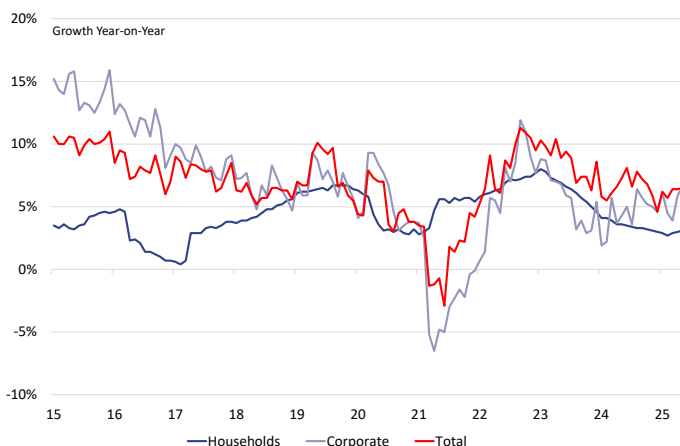
Recent trading updates from South Africa's big four banks conveyed a core message: credit growth has been slower than anticipated. Although interest rates have declined by 100 basis points from their peak last year, the pace of these rate cuts has been slower than originally predicted, and not deep enough to spark meaningful loan growth, particularly in the household sector.

Since the onset of 2025, the local economy has faced several headwinds. Globally, President Trump's sudden and aggressive trade policies have dampened sentiment and weakened growth forecasts. Domestically, challenges included tensions with the US and the unprecedented failure to pass two budgets, which nearly destabilized the newly formed coalition. Subsequently, South Africa's growth forecasts have been downgraded this

SPEED READ

- The local banking sector's performance has been unexciting this year as credit growth remains subdued, especially in the household sector, reflecting macroeconomic challenges.
- Slow credit growth is weighing on net interest margins despite marginal rate cuts.
- Fortunately, the local banks are well-diversified with exposure to growth pockets outside of domestic retail lending, such as non-interest revenue and geographical diversification, especially in the rest of Africa.
- Although heightened economic uncertainty is likely to persist, we remain positive about the banking sector's strong underlying fundamentals, in general, utilizing our analysis of the sector to pick the higher-quality banks.

SOUTH AFRICA CREDIT GROWTH



Credit demand has been driven by corporate borrowers, while household lending remains depressed

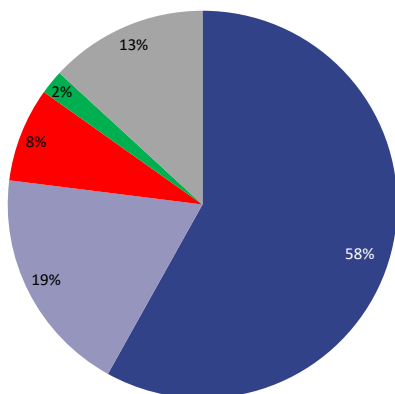
year, leading to weak credit demand.

Credit growth increased by 6% year-over-year in June. While still growing, this growth is soft relative to historical levels and weaker than forecasts made at the start of the year. Insightfully, credit growth has been corporate-led, a trend that emerged after the formation of the GNU as businesses and corporates gained more confidence in the country's growth prospects. Household lending, however, remains suppressed.

Elevated interest rates have placed significant financial strain on households. The mortgage market, which accounts for roughly 58% of household lending, has been muted at 2.3% growth year-over-year, according to data from the SARb for April 2025. Additionally, unsecured personal lending growth has also been weak. Targeted credit card lending and vehicle

and asset finance (VAF) have been the brighter spots within the household sector, as pressured consumers have turned to credit for shorter-term essential spending.

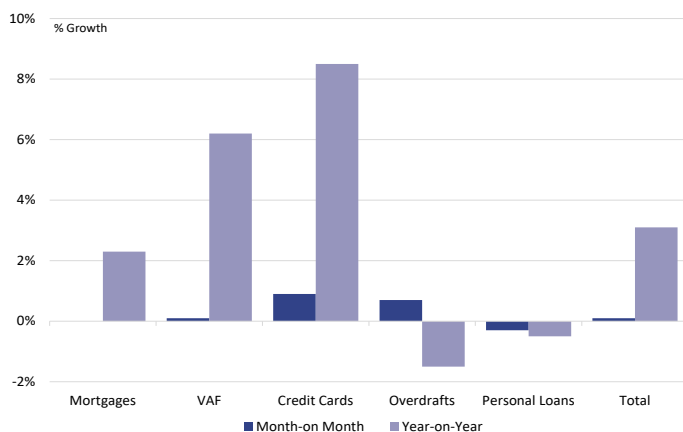
HOUSEHOLD LENDING MARKET – APRIL 2025



■ Mortgages ■ VAF ■ Credit Cards ■ Overdrafts ■ Personal Loans

The mortgage market makes up the majority of household lending, at over 58% of household loans

HOUSEHOLD CREDIT GROWTH - APRIL 2025



Mortgage lending remains muted due to a lack of affordability, increasing by 2.3% year-over-year in April, while personal lending is weak at -0.5%. Demand for credit card and vehicle and asset finance (VAF) financing have been relatively strong, as cash-strapped consumers have turned to credit to meet their shorter-term essential needs.

Household lending trends show that credit demand is stronger for smaller ticket spending, such as day-to-day necessities, but not for larger ticket items, like housing. This trend reveals that consumers are hesitant to take on significant debt in this environment due to a lack of affordability, and importantly, a lack of certainty, particularly since interest rates have stayed persistently high.

As lending institutions, the appetite for credit in the economy directly impacts a bank's profitability. Conceptually,

traditional banks generate income through two channels: net interest income (NII) and non-interest revenue (NIR). NII is the interest earned by banks from lending money to clients, less the interest paid on deposits. NIR refers to all income earned through sources other than interest income. This broad category typically includes fees, commissions, other service charges, insurance income, and trading and investment income.

Elevated interest rates and muted credit growth place the local banks in a tough spot. Banks are facing compression in their net interest margins (net interest income as a percentage of total loans) due to marginally lower interest rates, with insufficient loan volume growth to compensate. Additionally, stronger lending growth into the corporate sector is not margin accretive, as corporate lending is typically more secure, earning a lower yield. Competitive pricing due to weak demand, particularly in the mortgage market, has also put pressure on net interest margins. Consequently, all four banks commented on a soft performance in NII.

Fortunately, however, the local banks have well-diversified operations with exposure to growth pockets unrelated solely to retail lending in South Africa. Challenging environments like this highlight the importance of having a strong NIR base that can provide earnings stability and diversification. Generally, supportive NIR growth was highlighted as a key theme helping earnings growth across the sector, to varying degrees. The lenders generated strong income growth from fees and commissions due to improved banking activity and client growth, while Absa and Standard Bank noted strong trading income, which is typically fuelled by higher market volatility.

Geographical exposure is another key source of diversification. Although all big four banks have a presence in African regions outside of South Africa, Standard Bank's leading position in Africa is a key differentiator, which substantiates its investment case. Despite currency headwinds, the bank's performance in Africa continues to outperform its local operations in local currency terms. Absa also has sizable exposure to Africa and continues to allocate capital to these markets given their potential. Africa is expected to grow faster than South Africa and has a larger unbanked population, creating significant room for growth.

Although credit growth has been slower than expected, banks have generally performed resiliently due to their well-diversified operations. Household lending is expected to pick-up in the second half of the year as further rate cuts alleviate household strain, which would provide a tailwind for NII. Notwithstanding ongoing global uncertainty, we remain positive about the strength of the sector's fundamentals in general, utilizing our analysis to choose the higher-quality banks within the sector.



Our next seminar will be held in September in Johannesburg and the Midlands. The topic will be communicated in due course."



[Harvard House is on Facebook](#)



[Harvard House is on YouTube](#)

CONTACT DETAILS:

For more information on the range of products and services offered by Harvard House Investment Management and its associated companies (including Harvard House, Chartered Accountants), or for any financial advice, please contact the Company at:

HARVARD HOUSE GROUP



3 Harvard Street, Howick, 3290, South Africa



P.O. Box 235, Howick, 3290, South Africa



+27 (0) 33 330 2164

Topic: **To be announced**

Natal Midlands

Date: 11th of September, 2025

Venue: Christ Church Howick, 23 Mare Street, Howick

Morning Time: 10am for 10.30am

Evening Time: 5.30pm for 6pm

Johannesburg

Date: 9th of September, 2025

Venue: Rosebank Union Church, Cnr Winne Mandela Drive and St Andrews Road, Hurlingham

Time: 7am for 7.30am

Cape Town

Date: N/A

Venue: SSISA Conference Centre, Boundary Road, Newlands, Morne du Plessis Boardroom, 4th floor

Time: 7.30am

Venue: ABRU Motor Studio, Lourensford Wine Estate, Somerset West

Time: 5.30pm for 6pm



+27 (0) 33 330 2617



@ admin@hhgroup.co.za



W www.hhgroup.co.za

The information contained in this newsletter comes from sources believed to be reliable, but Harvard House Investment Management (Pty) Ltd, Harvard House Financial Services Trust, Harvard House Insurance Brokers and Harvard House, Chartered Accountants (collectively known as the Harvard House Group), do not warrant its completeness or accuracy. Opinions, estimates and assumptions constitute our judgment as of the date hereof and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Any investor who wishes to invest with the Company should seek additional advice from an authorized representative of the firm. The Company accepts no liability whatsoever for any loss or damages whatsoever and howsoever incurred, or suffered, resulting, or arising, from the use of this newsletter. The contents of this newsletter does not constitute advice as contemplated in the Financial Advisory and Intermediary Services Act (FAIS) of 2002.

The Harvard House unit trusts are registered under the Boutique Collective Investments. Custodian: Standard Executors & Trustees: Tel (021) 007-1500. Collective Investments are generally medium to long term investments. The value of participating interests may go down as well as up and past performance is not necessarily a guide to the future. Collective Investments are traded at ruling prices and can engage in script lending. Forward pricing is used. Commission and incentives may be paid and if so, are included in the overall cost. This fund may be closed to new investors. Collective Investment prices are calculated on a Net Asset Value basis and auditor's fees, bank charges, trustee and RSC levies are levied against the portfolio. The portfolio manager may borrow up to 10% of portfolio NAV to bridge insufficient liquidity. Boutique Collective Investments (RF) Pty Ltd ("BCI") retains full legal responsibility for the third party named portfolio. Boutique Collective Investments is a member of ASISA and is an authorised Financial Services Provider. Should you have any further queries or complaints regarding the suite of units trusts offered by The Harvard House Group please contact: Boutique Collective Investments Call Centre, Tel: (021) 007-1500, Email: clientservices@bcis.co.za. For your information, the FAIS ombudsman provides an independent and objective advisory service. Should you not be satisfied with the outcome of a complaint handled by Boutique Collective Investments, please write to, The Ombudsman, PO Box 74571, Lynnwoodridge, 0040. Telephone (012) 470 9080/99. Fax (012) 348 3447. Email: info@faisombud.co.za

Performance figures quoted for the portfolio is from Morningstar, as at the date of this document for a lump sum investment, using NAV-NAV with income reinvested and do not take any upfront manager's charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the initial fees charge applicable, the actual investment date, the date of reinvestment and dividend withholding tax. Performance fees do not apply to any funds managed by Harvard House. The manager does not provide any guarantee either with respect to the capital or return of the portfolio. A schedule of fees, charges, and maximum commissions are available on request from the manager.

Harvard House Investment Management (Pty) Ltd*, Licence no: 675 Harvard House Insurance Brokers*, License no. 44138
Harvard House Financial Services Trust*, Licence no: 7758 * Authorised financial service providers in terms of FAIS (2002)