INTUITION

18 JULY 2025

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

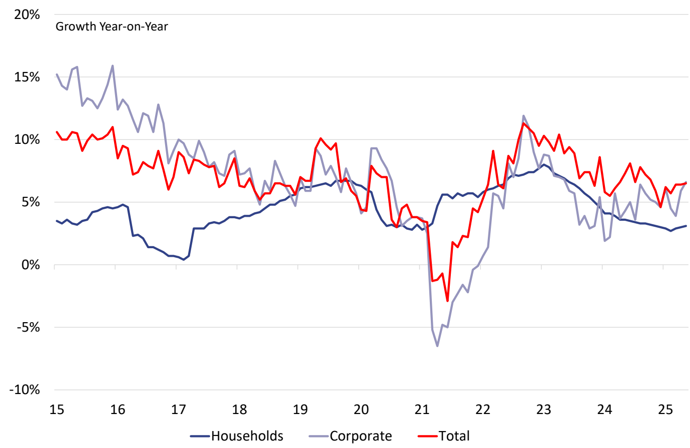
Recent trading updates from South Africa's big four banks conveyed a core message: credit growth has been slower than anticipated. Although interest rates have declined by 100 basis points from their peak last year, the pace of these rate cuts has been slower than originally predicted, and not deep enough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

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

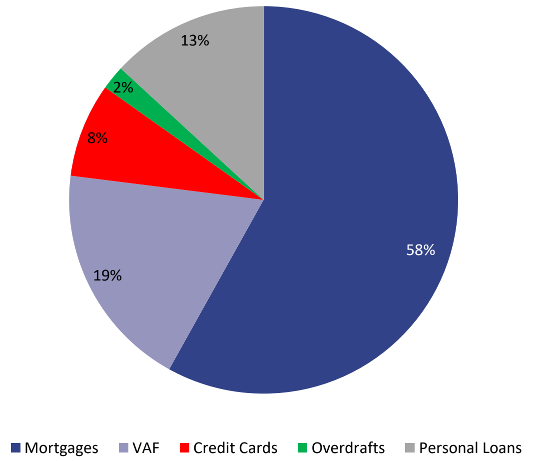


Credit demand has been driven by corporate borrowers, while household lending remains depressed

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.

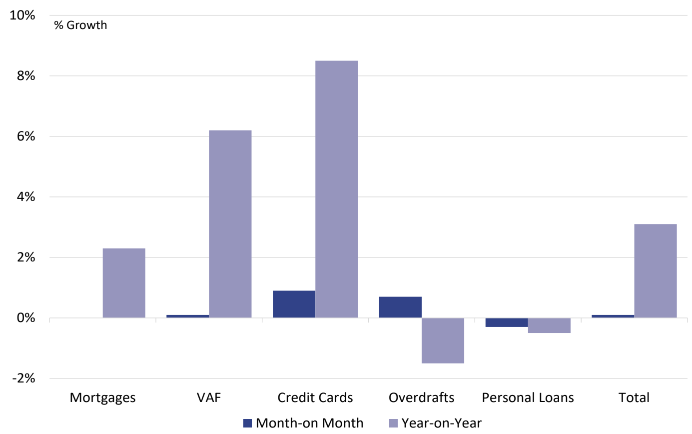
Elevated interest rates have placed significant financial strain on households. The mortgage market, which accounts for roughly 58% of household lending, has been muted at 2.3% growth year-over-year, according to data from the SARB for April 2025. Additionally, unsecured personal lending growth has also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



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."

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

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HARVARD HOUSE GROUP

3 Harvard Street, Howick, 3290, South Africa

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

+27 (0) 33 330 2164

+27 (0) 33 330 2617

@ admin@hhgroup.co.za

W www.hhgroup.co.za