SOUTH AFRICAN BANKS

Profits have recovered. Can returns hold?

16.0%
Banking sector return on equity
August 2026, highest since 2019; trough 6.9% in January 2021

6.7%
Loan growth
Year to September 2026, up from 4.3% in December 2024

3.9%
Household deposit growth
Year to September 2026, the slowest since 2019

KEY CONCLUSIONS

1. **Returns diverge sharply by bank.** Four of the six banks earn well above a cost of equity of about 14%; Absa and Nedbank earn about one point above it.
2. **Credit growth has shifted to the corporate sector.** Commercial property (+9.3%) and corporate lending (+7.0%) lead. Unsecured consumer lending has grown only 2.9% a year since 2019.
3. **Banking sector asset quality is improving; some portfolios are not.** Impaired advances fell to 4.62% of loans from a 5.49% peak, but Capitec's Personal Banking and Nedbank's card losses are rising.
4. **Retail market share is moving to challenger banks.** Capitec, African Bank and Discovery hold almost a fifth of card balances and a third of unsecured lending; Nedbank has lost share in most products since 2019.

FACTORS SUPPORTING AND THREATENING CURRENT RETURNS

Supporting factors

Non-interest revenue growing faster than costs; corporate credit demand of 7–9%; capital held above target; lower interest rates easing credit losses and the cost of equity.

Threatening factors

Interest rate reductions in 2027 compressing deposit margins; household deposit growth below 4%; rising card and unsecured credit losses.

Sources: SARB BA900 returns; Prudential Authority, Selected banking sector trends; bank results to Sep 2026.

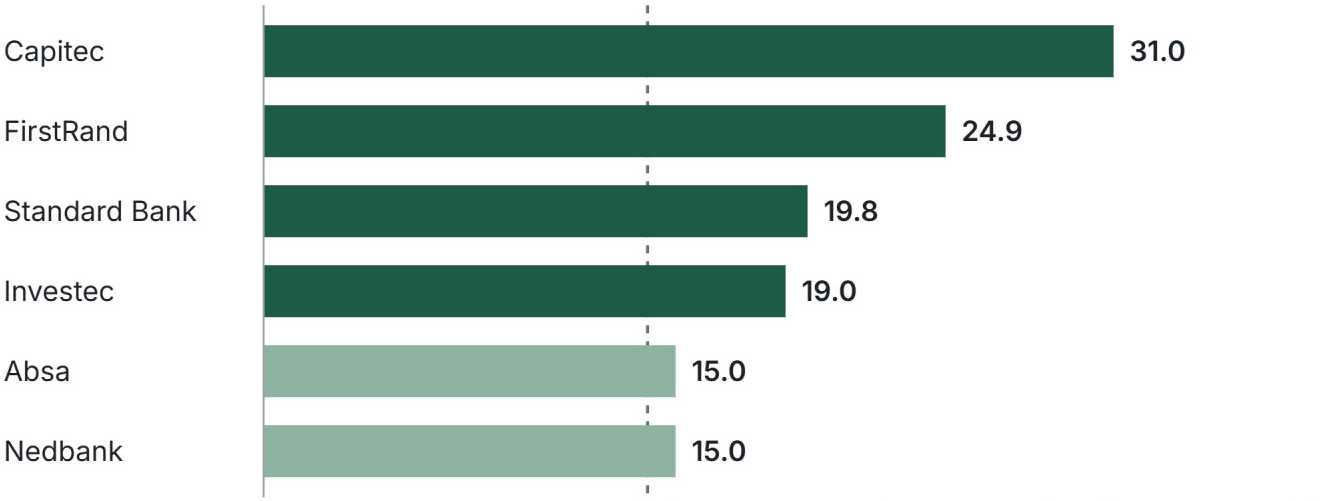
BANK COMPARISON

Reported returns differ sharply across the banks

The dispersion of returns between banks, rather than the sector average, is the principal consideration for valuation: returns range from 15% to 31% on broadly similar capital ratios.

Exhibit 1. Four banks earn well above their cost of equity

Return on equity, latest reported period, %



Cost of equity ≈ 14% (FirstRand 14.05%, Nedbank 14.0%)

Bank	Period	ROE %	CET1 %	Credit loss ratio, bps	Cost-to-income %
Capitec	6m to Aug 2026	31.0	–*	840	36.0
FirstRand†	12m to Jun 2026	24.9	13.9	105	48.0
Standard Bank	6m to Jun 2026	19.8	13.6	73	49.3
Investec‡	6m to Sep 2026	19.0	13.8	7	53.0
Absa	6m to Jun 2026	15.0	12.8	94	53.4
Nedbank	6m to Jun 2026	15.0	12.6	95	56.2

* Capitec reports total capital adequacy (34%), not CET1. † FirstRand on normalised continuing operations; reported ROE 18.3%. ‡ Investec Limited (Southern Africa); its credit loss ratio is for the South African specialist bank. Changes on the prior period are on page 3.

Sources: Capitec interim results, Aug 2026; FirstRand results, Jun 2026; Standard Bank interim results, Jun 2026; Absa interim results, Jun 2026; Nedbank interim results, Jun 2026; Investec interim results, Sep 2026.

SCORECARD DETAIL

Credit losses improved at four banks and worsened at Capitec and Nedbank

RATIOS AGAINST THE PRIOR COMPARABLE PERIOD

Bank	ROE %	Prior	CET1 %	Prior	Credit loss, bps	Prior	Cost/income %	Prior
Capitec	31.0	31.0	–	–	840	790	36.0	40.0
FirstRand	24.9	24.3	13.9	14.0	105	108	48.0	48.5
Standard Bank	19.8	19.1	13.6	13.2	73	93	49.3	49.5
Investec	19.0	18.3	13.8	13.6	7	12	53.0	52.1
Absa	15.0	14.8	12.8	12.5	94	100	53.4	53.2
Nedbank	15.0	15.2	12.6	13.1	95	81	56.2	56.9

EARNINGS GROWTH AND CAPITAL, WITH THE MEASURE EACH BANK REPORTS

Bank	Earnings growth	Measure	Other capital measure
Capitec	+19%	Headline earnings per share	Total capital 34% (33%)
FirstRand	+13%	Normalised EPS, continuing (reported HEPS −5%)	
Standard Bank	+10%	Headline earnings per share	
Investec	+2.5%	Operating profit, SA specialist bank, rand	CET1 prior is 31 March 2026
Absa	+8%	Headline earnings per share	CET1 target range 11.0–12.5%
Nedbank	+2%	Diluted HEPS (+12% excluding Ecobank)	

Capitec: increased provisions rather than realised defaults

The 840 bps group ratio includes Business Banking and AvaFin. Personal Banking rose from 810 to 920 bps, largely a forward-looking provision for the Middle East shock.

Nedbank: deterioration in cards and home loans

Cards rose from 554 to 810 bps and home loans from 39 to 57 bps; vehicle finance (231 to 211) and personal loans (945 to 926) improved.

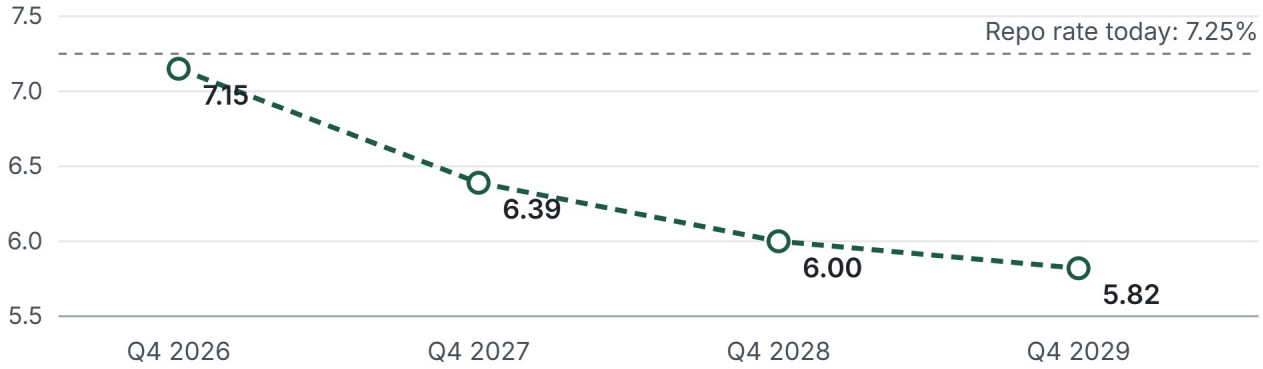
Sources: Capitec interim results, Aug 2026; FirstRand results, Jun 2026; Standard Bank interim results, Jun 2026; Absa interim results, Jun 2026; Nedbank interim results, Jun 2026; Investec interim results, Sep 2026. FirstRand on normalised continuing operations.

MACRO BACKDROP

The policy rate is on hold, with the SARB's projected path lower in 2027

Exhibit 2. The SARB's model path has the policy rate about 115 bps lower by late 2028

SARB policy rate, fourth-quarter average on its Quarterly Projection Model path, %. The path is conditional, not a commitment.



SARB forecast, November 2026	2026	2027	2028	2029
Real GDP growth	1.2%	1.7%	1.9%	2.0%
Headline CPI, fourth quarter	5.1%	3.3%	3.0%	3.0%
Core CPI, year	3.8%	4.0%	3.3%	3.0%
Brent crude, US$ per barrel	90.6	80.0	75.0	73.0

Rates. The MPC raised the repo rate by 25 bps in May and again in September 2026, to 7.25%, and held it on 19 November by four votes to three. The three dissenting members voted for an increase, so the near-term risk is a higher rate; on the SARB's own path, the 2027 risk is a lower one.

Inflation. October CPI was 5.2%, driven by fuel prices up 42.9% on a year earlier. The SARB expects headline inflation back at its 3% target by the end of 2028.

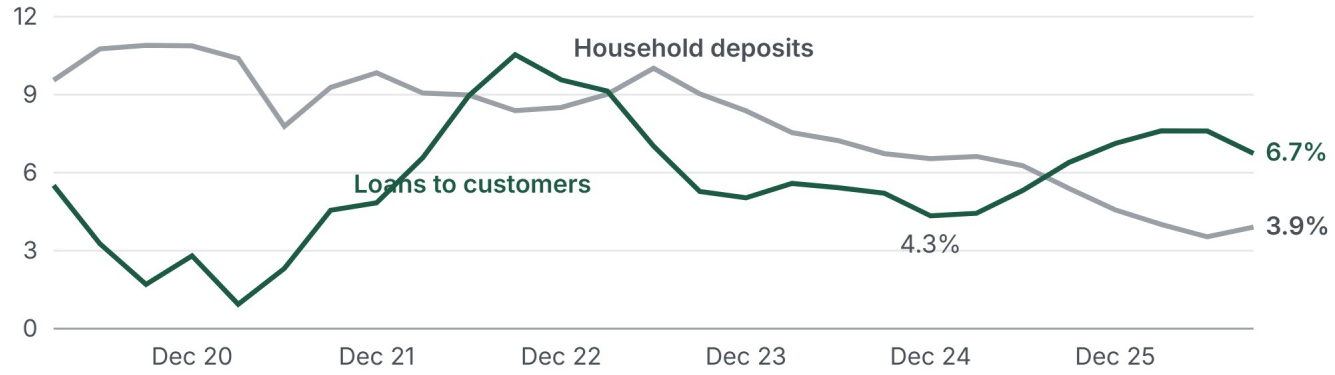
What it means for banks. Lower rates reduce the margin on low-cost deposits, but also ease credit losses, support lending demand and lower the cost of equity. The net effect depends on each bank's hedging of its deposit book.

Sources: SARB MPC statement and forecast report, 19 Nov 2026; Stats SA CPI, Oct 2026, released 18 Nov 2026.

BANKING SECTOR BALANCE SHEET

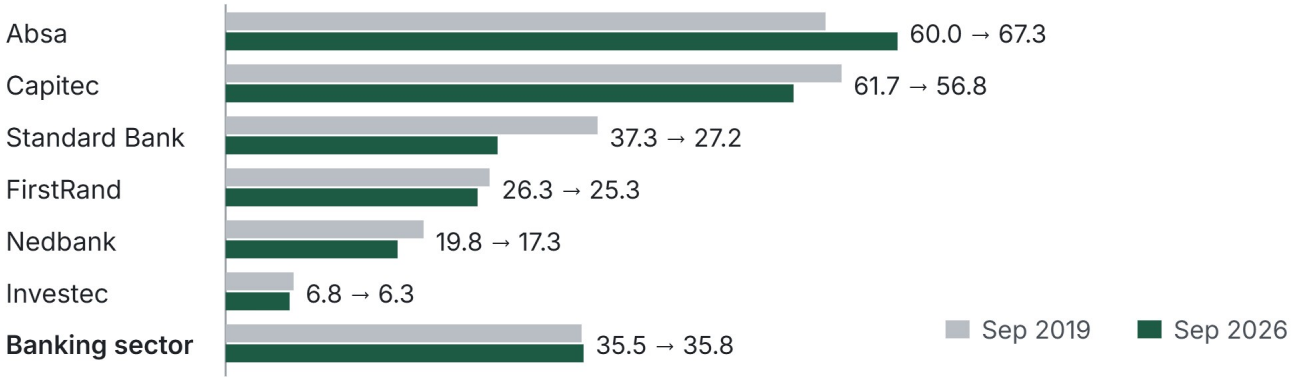
Loan growth is outpacing household deposit growth

Exhibit 3. Loans have outgrown household deposits since September 2025
Year-on-year growth, all banks, quarter-ends, %



Loans to customers reached R5,130bn in September 2026. Total deposits grew 7.6% to R6,939bn, faster than loans, so the banking sector is not short of funding; the question is its cost.

Exhibit 4. The banking sector deposit mix is stable; the movement is at bank level
Share of household deposits held in cheque and savings accounts, %



Transactional accounts made up 35.8% of household deposits in September 2026, against 35.5% in 2019. Standard Bank's household book has moved from transactional accounts into call deposits, which reprice with rates and pay more; Absa has moved the other way.

Source: SARB BA900 returns, all reporting banks, March 2019 to September 2026. Loans = items 139, 150, 166, 171 and 180; household deposits = item 27.

BANKING SECTOR PROFITABILITY

Revenue drove the profit recovery; efficiency improved only modestly

Exhibit 5. Banking sector ROE is back above its 2019 level

Return on equity, all banks, 12 months to each month-end, %

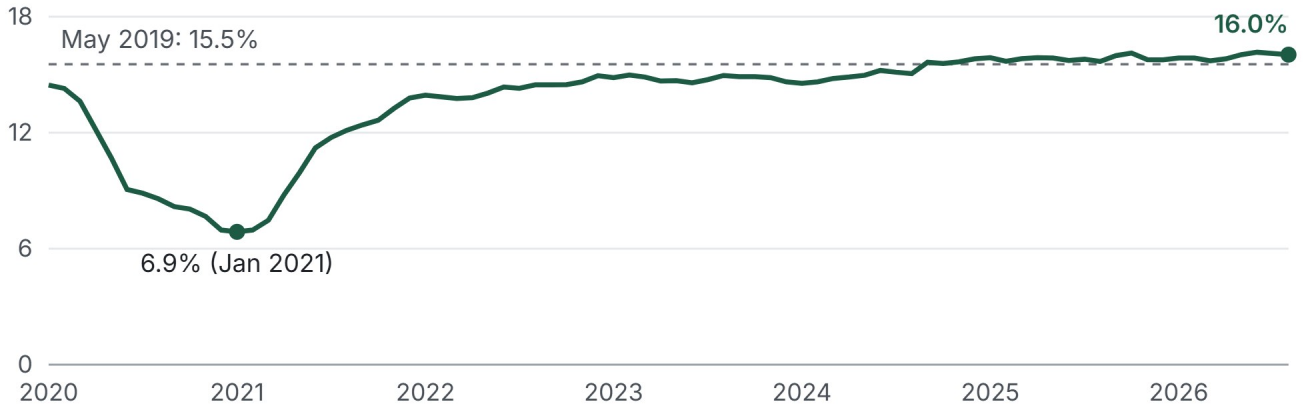


Exhibit 6. Income growth drove the R23.7bn rise in profit

All banks, 12-month profit, August 2024 to August 2026, R billion. Green adds to profit, red reduces it.



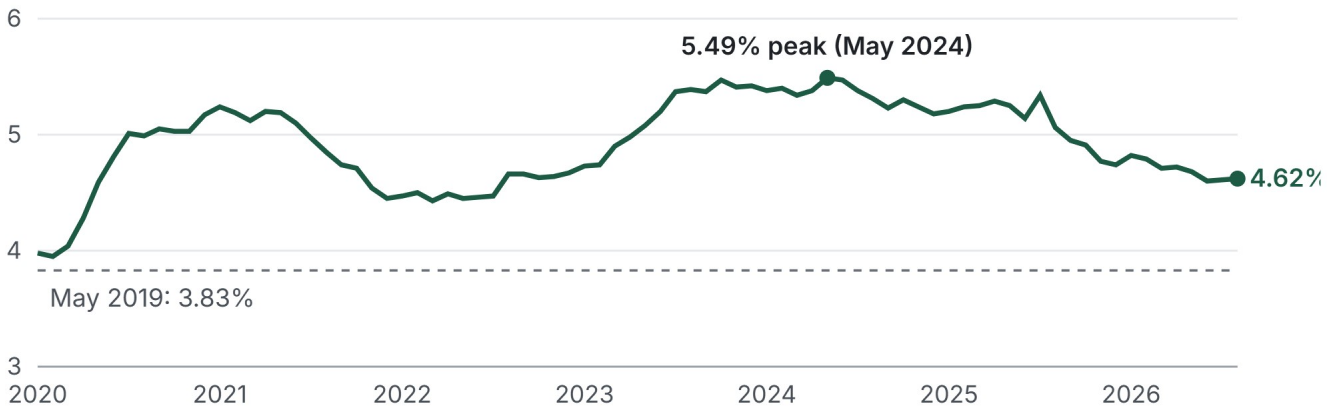
Non-interest revenue grew 21.9% over the two years, twice the 10.3% growth in net interest income. Costs grew 13.7% against 14.9% for income, so costs absorbed more than half of the revenue gain and cost-to-income edged only from 57.1% to 56.7%. Returns supported by fee and transactional income are generally more resilient through an interest rate cycle than returns that depend on interest margin.

Source: Prudential Authority, Selected banking sector trends, May 2019 to August 2026. Exhibit 6: 'impairments, tax and other' is the balancing figure.

SECTOR HEALTH

Banking sector asset quality is improving; the pressure is in specific portfolios

Exhibit 7. Banking sector impaired advances have fallen from their 2024 peak
Impaired advances to gross loans and advances, all banks, %



All banks	May 2019	Dec 2022	Dec 2024	Aug 2026
Impaired advances to gross loans	3.83%	4.67%	5.18%	4.62%
Common equity tier 1 ratio	12.9%	13.5%	13.2%	13.4%
Total capital adequacy	16.9%	–	17.2%	17.8%
Liquidity coverage ratio	153%	–	154%	160%
Cost-to-income ratio	58.1%	57.0%	56.6%	56.7%

At banking sector level, asset quality is improving and capital and liquidity are comfortable: CET1 has held at about 13.4% and the liquidity coverage ratio is 160%, well above the 100% minimum. The pressure is in specific portfolios rather than across the banking sector as a whole: Capitec's Personal Banking credit loss ratio rose from 8.1% to 9.2% and Nedbank's card losses from 554 to 810 bps, while Standard Bank, Absa, FirstRand and Investec all reported lower credit loss ratios.

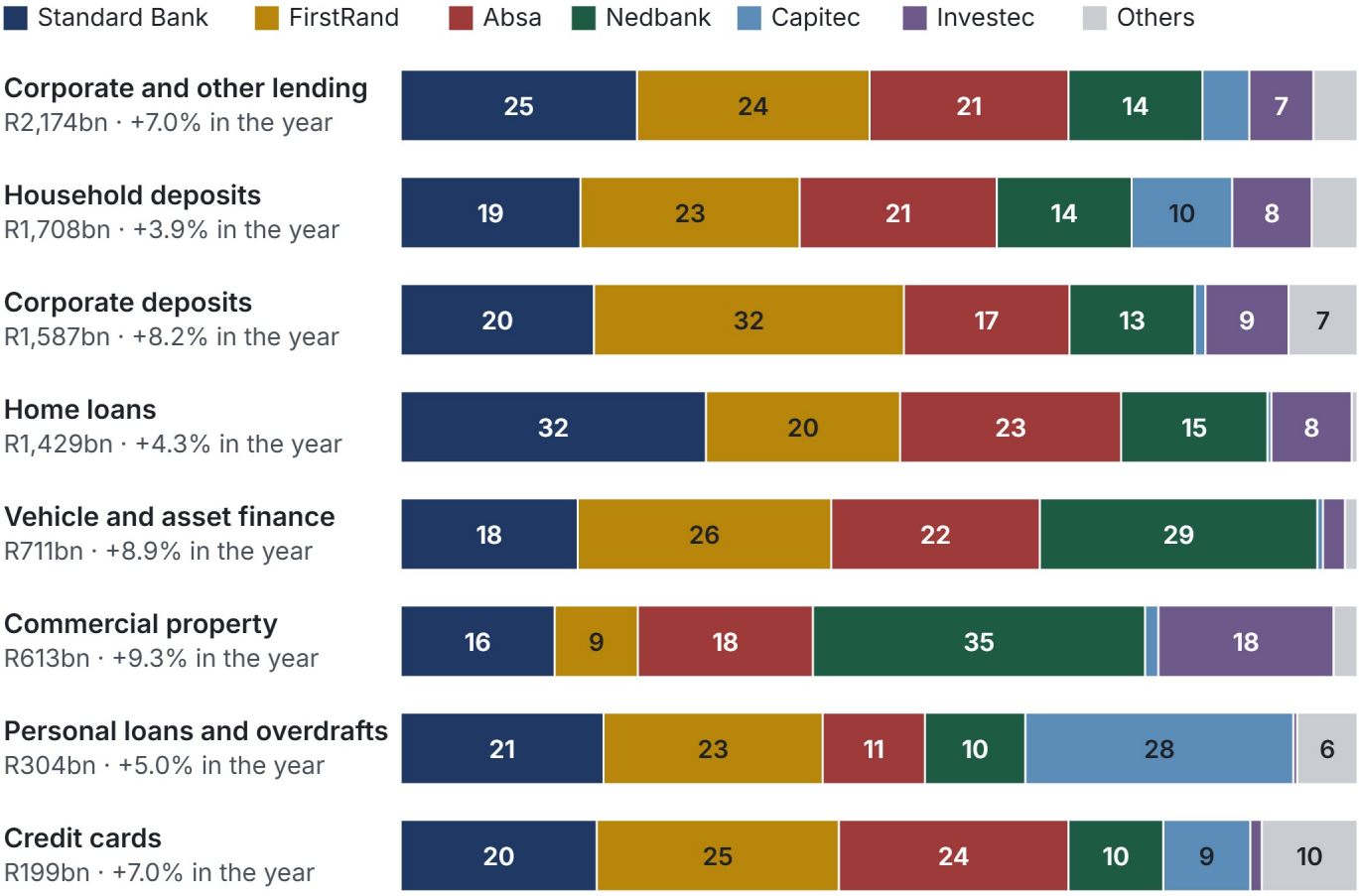
Sources: Prudential Authority, Selected banking sector trends, May 2019 to August 2026 (2020 and 2022 from prior-year columns); Capitec interim results, Aug 2026; Nedbank interim results, Jun 2026.

MARKET SHARE BY PRODUCT

Each lending market has a different competitive leader

Exhibit 8. Each market has a different leader

Share of each product, all reporting banks, September 2026, %. Size and growth in the year to September 2026. Others include African Bank, Discovery, TymeBank and foreign banks.



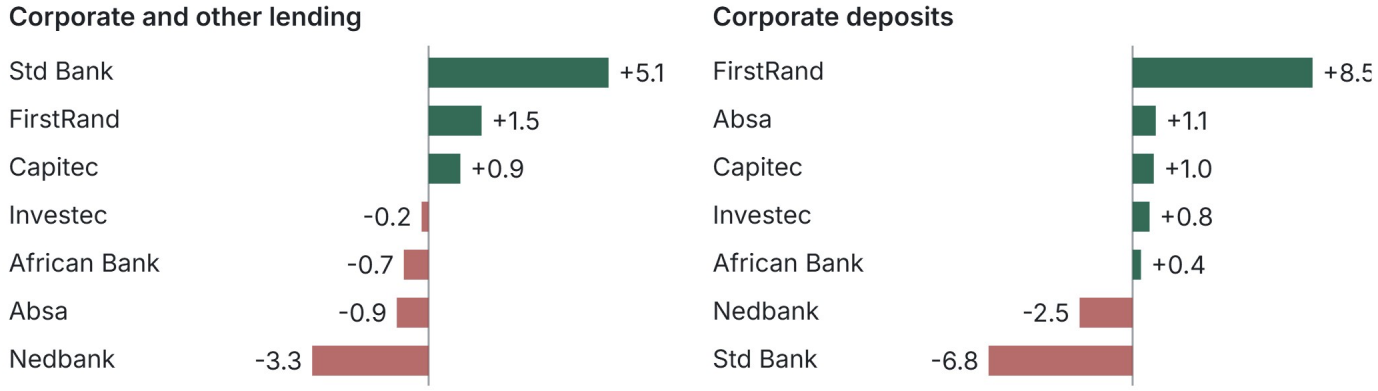
The three largest banks hold 62% to 77% of every product. Concentration is highest in vehicle finance, where four banks hold 96%, and lowest in household deposits, where challengers have made the most headway. The following three pages set out the competitive position in each market.

Source: SARB BA900 returns, September 2025 and September 2026. The BA900 covers each group's South African bank only.

MARKET SHARE: CORPORATE LENDING AND FUNDING

Standard Bank leads corporate lending, while FirstRand has gained corporate deposits

Exhibit 9. Standard Bank has gained corporate lending; FirstRand has gained corporate deposits
Change in share, September 2019 to September 2026, percentage points



Corporate and other lending: Standard Bank and FirstRand lead

The largest pool, at R2,174bn. Standard Bank has added 5.1 points since 2019, a full point in the last year, to edge ahead of FirstRand (24.3%). Absa (20.8%) regained 0.4 points in the year. Nedbank has lost 3.3 points since 2019 and 0.9 in the last year, although its mid-corporate and commercial payouts rose more than 30% in the first half of 2026; loan disbursements have not yet exceeded repayments.

Corporate deposits: FirstRand has recorded the largest gain

FirstRand has made the largest share move in any product, from 23.9% to 32.4% since 2019, 1.2 points of it in the last year, while Standard Bank lost 6.8 points. Investec gained 1.6 points in the year. Absa's corporate deposits are the cheapest in the banking sector: 74% sit in cheque and savings accounts, against 42% for the banking sector.

Household deposits: the most competitive market

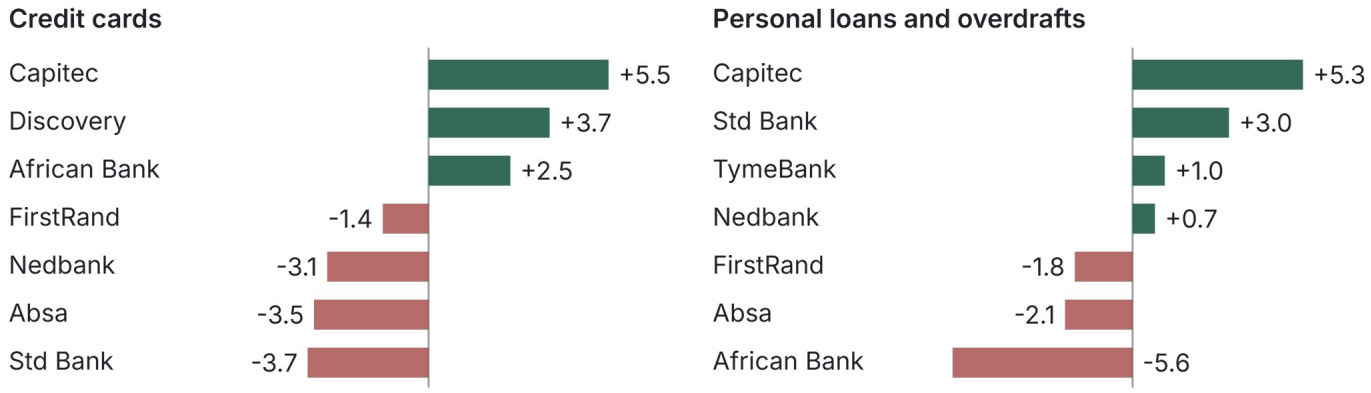
FirstRand leads with 22.9%, ahead of Absa (20.6%) and Standard Bank (18.8%). Capitec has added 2.6 points to 10.5%; Discovery, African Bank and TymeBank together hold 3.6%, from a negligible base in 2019. With the market growing at only 3.9%, any gain in share is necessarily at a competitor's expense.

Sources: SARB BA900 returns, September 2019 to September 2026; Nedbank interim results, Jun 2026.

MARKET SHARE: RETAIL LENDING

Challenger banks have gained material share in cards and unsecured lending

Exhibit 10. Challengers have taken card and unsecured share from the incumbents
Change in share, September 2019 to September 2026, percentage points



Credit cards: share continues to move to challenger banks

The big four have lost 11.7 points of card balances since 2019 to Capitec (9.1%), African Bank (5.8%) and Discovery (4.0%). FirstRand still leads with 25.3%. Capitec gained a further 1.4 points in the last year. Nedbank regained 0.3 points, but its card credit loss ratio rose from 554 to 810 bps.

Personal loans and overdrafts: Capitec leads a market in which growth has been subdued

The unsecured consumer market has grown only 2.9% a year since 2019. Capitec leads with 28.0%, up 5.3 points. African Bank has more than halved its share, from 10.2% to 4.6%, while buying Grindrod Bank's commercial book. TymeBank recorded the largest recent gain in share. Capitec's Personal Banking credit loss ratio rose from 8.1% to 9.2% in the six months to August 2026.

Home loans: the market leader is losing share

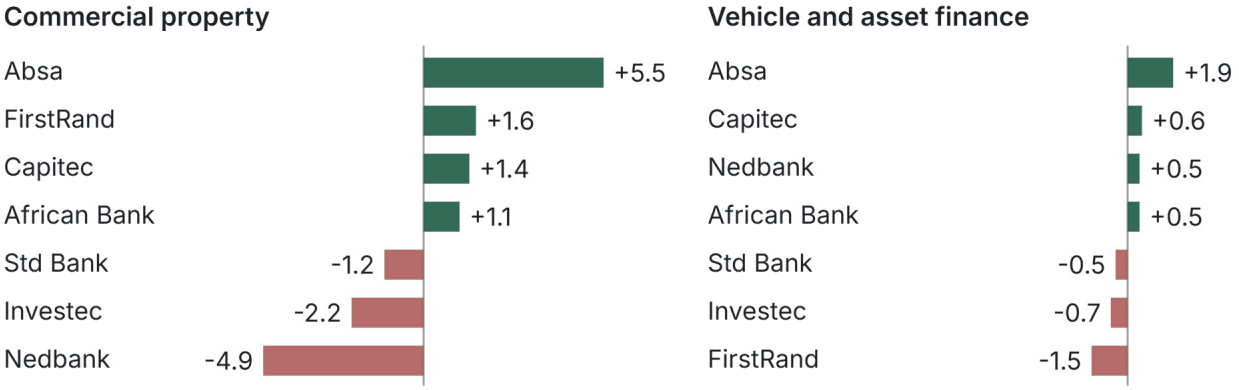
The largest secured retail book (R1,429bn) and the slowest-growing (4.3%). Standard Bank leads with 31.9% but has given up 2.1 points since 2019. Investec (+1.4 points, to 8.4%) and Nedbank (+1.0) have gained; Nedbank's home loan credit loss ratio rose from 39 to 57 bps in the first half of 2026.

Sources: SARB BA900 returns, September 2019 to September 2026; Capitec interim results, Aug 2026; Nedbank interim results, Jun 2026.

MARKET SHARE: PROPERTY AND VEHICLE FINANCE

Absa is gaining share in commercial property from the specialist lenders

Exhibit 11. Absa is taking share in commercial property and vehicle finance
Change in share, September 2019 to September 2026, percentage points



Commercial property: Absa is gaining share from the specialist lenders

Nedbank (34.7%) and Investec (18.3%) still hold 53% between them, but both have lost share since 2019, and Investec a further 1.2 points in the last year. Absa is up 5.5 points to 18.3% and still gaining. At 9.3%, this was the fastest-growing loan book in the year.

Vehicle and asset finance: four banks hold 96% of the market

Nedbank (29.0%) and FirstRand's WesBank (26.5%) lead, with Absa (21.8%) the main gainer since 2019. The book grew 8.9%, the fastest of the secured retail products, and Nedbank's credit loss ratio here improved from 231 to 211 bps. New entrants have made little impact, as the business is dependent on dealer relationships.

READING THE MOVES

Some shifts have clear causes: acquisitions (Capitec absorbing Mercantile; African Bank buying Grindrod Bank in 2024), new entry (Discovery and TymeBank) and retreat (African Bank's unsecured book). Others need testing against margins, losses and capital in the company evidence packs: whether FirstRand's corporate deposit gains were achieved through pricing, and whether Nedbank's share losses reflect weaker competitiveness or deliberate capital allocation. Nedbank's 2025 buybacks point to the second; its higher corporate and commercial disbursements in 2026 indicate that it is now pursuing growth.

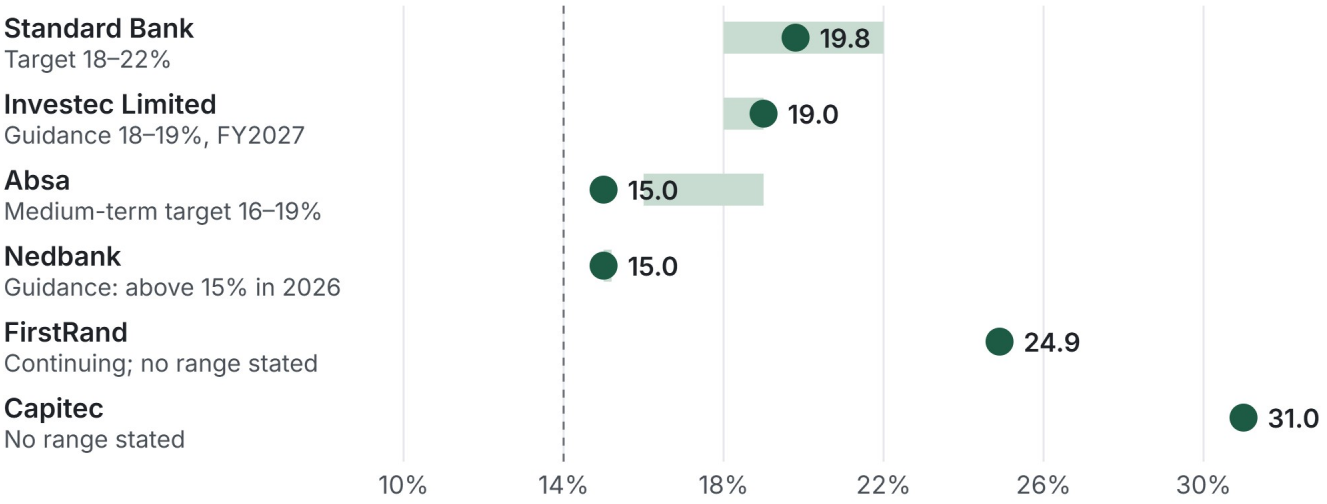
Sources: SARB BA900 returns, September 2019 to September 2026; Nedbank interim results, Jun 2026.

GUIDANCE

The banks guide to higher returns in 2026; Absa remains below its target range

Exhibit 12. Current ROE against each bank's stated target

Latest reported ROE (dot) and stated target or guidance (band), %. Dashed line: cost of equity of about 14%.



Bank	Other guidance and targets
Standard Bank	Banking revenue growth in the mid-to-high single digits; cost-to-income to decline slightly; credit losses slightly higher, in the lower half of 70–100 bps; payout ratio 45–60%
Investec	Group ROE 13–14% and cost-to-income 52–54% for the year to March 2027; credit losses within 25–45 bps; investment spending to peak this year
FirstRand	Cost of equity 14.05%; exiting UK consumer finance (Aldermore and MotoNovo)
Absa	CET1 target range 11.0–12.5%, currently above it at 12.8%
Nedbank	Cost of equity 14.0%; earnings growth to improve in the second half from a flat first half
Capitec	Credit loss ratio within its through-the-cycle range; Business Banking now scaling

Sources: Capitec interim results, Aug 2026; FirstRand results, Jun 2026; Standard Bank interim results, Jun 2026; Absa interim results, Jun 2026; Nedbank interim results, Jun 2026; Investec interim results, Sep 2026.

INVESTMENT AREAS AND COMMON THEMES

Growth spending goes to business banking, payments, wealth and Africa

WHERE THE BANKS ARE INVESTING

- **Business and commercial banking.** Capitec's Business Banking earnings rose 52%; Nedbank's mid-corporate and commercial payouts rose more than 30%; African Bank bought Grindrod Bank's commercial book.
- **Payments and merchant services.** Nedbank sells iKhokha point-of-sale devices through its branches; Capitec's value-added services income rose 30% and Capitec Connect revenue 72%.
- **Insurance and wealth.** Standard Bank's insurance and asset management business earned a 21.1% ROE on R1,763bn of assets under management and administration; Capitec's net insurance result rose 28%; Investec's Southern African funds under management rose 13.1% in six months.
- **Africa.** Standard Bank expects sub-Saharan Africa to grow 4.3% in 2026 and 4.5% in 2027; Absa operates banks in ten African countries.
- **Technology, funded from savings elsewhere.** Standard Bank's "save to invest" approach, with software and cloud costs up 6%; Investec expects its investment spending to peak in the current financial year.

COMMON THEMES ACROSS THE SIX BANKS

- **Non-interest revenue is driving growth.** Banking sector non-interest revenue rose 21.9% in two years, twice the growth in net interest income.
- **Corporate lending is prioritised over consumer lending.** Each bank is expanding its corporate, commercial or business lending.
- **Capital is above target and being returned.** Absa and Nedbank sit above their CET1 targets; Nedbank bought back shares in 2025; Standard Bank's payout ratio is 56%. With a regulatory CET1 floor of 8–10% before each bank's confidential add-on (Investec Limited's is 9.0%), management targets, not regulation, set the capital available for distribution.
- **Simplification.** FirstRand is leaving UK consumer finance; Nedbank sold its Ecobank stake in 2025.
- **Provisions are being raised ahead of credit losses.** Capitec and Nedbank both raised forward-looking provisions for the Middle East shock and higher fuel prices.

Sources: Capitec interim results, Aug 2026; FirstRand results, Jun 2026; Standard Bank interim results, Jun 2026; Absa interim results, Jun 2026; Nedbank interim results, Jun 2026; Investec interim results, Sep 2026; Prudential Authority, Selected banking sector trends; PA Directive 5/2021; PA countercyclical buffer directive (2023 draft).

WHAT TO MONITOR

Nine indicators will determine whether current returns are sustainable

Indicator	Latest	What a change would signal	Source and frequency
Household deposit growth	3.9%, Sep 2026	Further slowing raises funding costs as banks lean on corporate and wholesale money	BA900, monthly
Transactional share of household deposits	35.8% banking sector; Standard Bank 27.2%	A fall means more deposits repricing with rates, and thinner margins	BA900, monthly
Impaired advances to gross loans	4.62%, Aug 2026	A turn upwards would mark the end of the improvement across the banking sector	PA trends, monthly
Card and unsecured credit loss ratios	Capitec Personal Banking 9.2%; Nedbank cards 810 bps	Whether rising provisions become actual defaults	Bank results, half-yearly
Repo rate and MPC vote	7.25%; held 4–3	A hike supports margins but strains borrowers; cuts do the reverse	MPC, January 2027 next
Headline and fuel inflation	5.2%; fuel +42.9%, Oct 2026	Sets the rate path and household affordability	Stats SA, monthly
Corporate and commercial loan growth	7.0% and 9.3%	Whether the corporate cycle can carry banking sector growth	BA900, monthly
Non-interest revenue growth	+21.9% over two years	Whether the main source of the profit recovery is holding	PA trends, monthly; bank results
CET1 against target ranges	Absa 12.8% vs 11.0–12.5%	Capital available for buybacks and special dividends	Bank results, half-yearly

The current banking sector ROE is treated as a level to be tested, not assumed. These indicators will confirm or contradict that level, and Caret Research will update each of them in its monthly monitor.

VALUATION

Valuation views are available on request

Valuation views on each bank are available on request, in separate valuation books published on the Caret Research website. This page sets out the book values on which those valuations are based.

BOOK VALUE PER SHARE

Bank	Net asset value per share	Basis	As at
Capitec	53,956 cents	Group	31 Aug 2026
Nedbank	25,486 cents	Group	30 Jun 2026
Absa	20,968 cents	Group	30 Jun 2026
Standard Bank	16,771 cents	Group	30 Jun 2026
Investec	14,292 cents	**Whole group (Investec Limited and plc)**	30 Sep 2026
FirstRand	3,348 cents	Normalised continuing operations	30 Jun 2026

> **Investec on two bases.** The scorecard measures Investec on its Southern African business (Investec Limited), for comparison with the other South African banks. Its valuation uses group book value and group earnings, because each Investec Limited share carries an interest in the whole group, including the UK business.

Sources: Capitec interim results, Aug 2026; FirstRand results, Jun 2026; Standard Bank interim results, Jun 2026; Absa interim results, Jun 2026; Nedbank interim results, Jun 2026; Investec interim results, Sep 2026.

SOURCES AND NOTES

Sources, definitions and important information

SOURCES

- SARB BA900 returns: quarter-ends March 2019 to December 2020; monthly January 2021 to September 2026; all reporting institutions.
- Prudential Authority, Selected banking sector trends: May 2019 and January 2021 to August 2026; 2020 and 2022 from the prior-year columns.
- SARB MPC statement and forecast report, 19 Nov 2026; prime lending rate history, June 2019 to November 2026.
- PA Directive 5/2021; PA Directive 3/2025 (leverage buffer); PA Circular C1/2026; PA countercyclical buffer directive (2023 draft).
- Capitec interim results, Aug 2026: unaudited condensed consolidated interim financial statements, six months to 31 August 2026.
- FirstRand results, Jun 2026: analysis of financial results for the year to 30 June 2026.
- Standard Bank interim results, Jun 2026; Absa interim results, Jun 2026; Nedbank interim results, Jun 2026: six months to 30 June 2026.
- Investec interim results, Sep 2026: analyst booklet and presentation, six months to 30 September 2026.
- Stats SA CPI, Oct 2026, released 18 November 2026, as reported in the press.

NOTES AND DEFINITIONS

- BA900 market shares cover each group's South African bank on a solo basis (for example FirstRand Bank and The Standard Bank of South Africa), not African or UK operations.
- Loans to customers = BA900 items 139, 150, 166, 171 and 180. Personal loans and overdrafts = household overdrafts and other loans (items 185 and 192).
- Prudential Authority ratios are for all reporting banks, solo basis, on 12 months of income; they lag the half-year results the banks report.
- FirstRand figures are on its normalised continuing basis unless stated. Capitec reports total capital adequacy, not CET1.
- Investec's scorecard uses Investec Limited (Southern Africa) figures; its book value per share is the group figure in rand.

IMPORTANT INFORMATION

This report has been prepared by Caret Research for information purposes only. It is based on publicly available information that Caret Research believes to be reliable, but whose accuracy and completeness it does not guarantee. The report does not constitute investment, legal or tax advice, nor an offer or solicitation to buy or sell any security, and does not assess any management case. Readers should obtain independent professional advice before making any investment decision.