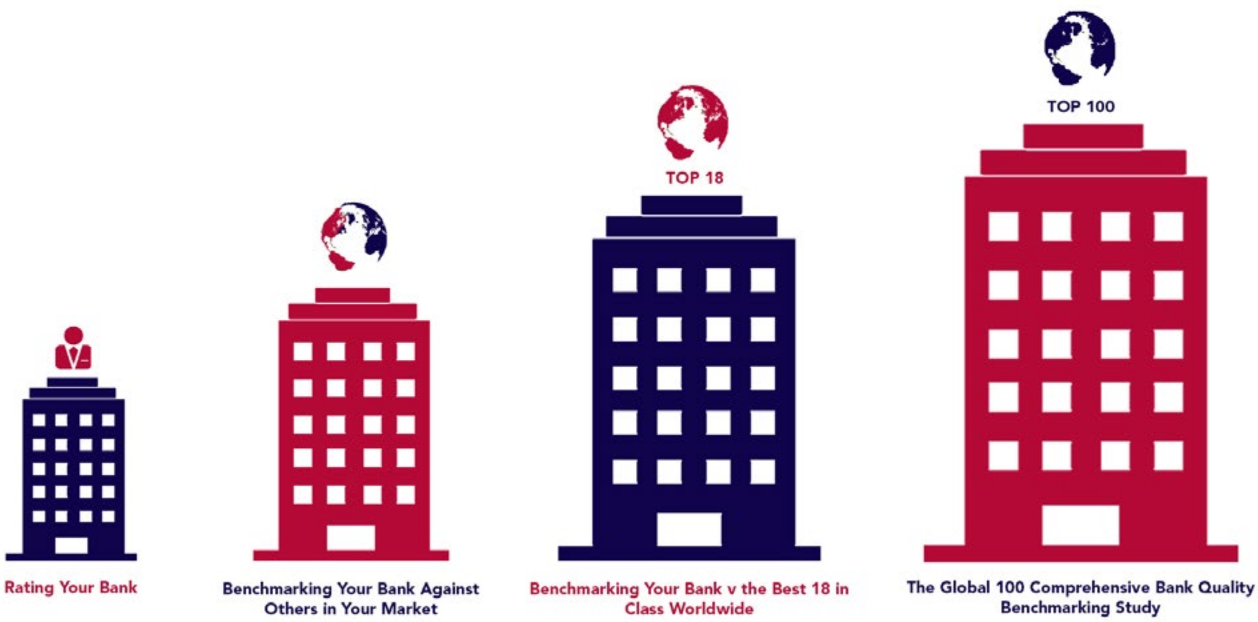
THE 2017 GLOBAL 100

Lafferty Bank Quality Benchmarking Study

REPORT OPTIONS

	Report Options	Fees
1	Rating Your Bank	$9,500
2	Benchmarking Your Bank Against Other South African Banks	$25,000
3	Benchmarking Your Bank v the Best in Class Worldwide	$50,000
4	The Global 100 Comprehensive Bank Quality Benchmarking Study	$75,000

Reports include telephonic/skype briefings



REPORT ONE - RATING YOUR BANK

We will rate your bank according to the Lafferty Bank Quality Benchmarking criteria and provide:

1. Scores for each of the 15 rating criteria
2. Your bank's star-rating – which may range from 1 to 5
3. Your relative position among comparable banks

Methodology

The aim of Lafferty Bank Quality Ratings (LBQR) is to identify the characteristics that make banks successful over the longer term: ie, over one full credit cycle at the very least.
As with any model, one has to decide on two basic issues. The first is the decision on the variables that go into the model. The second is the decision on what form the model takes – whether or not it should be tailored to exactly fit the data in the sample – at the risk of losing generality and not fitting future data.

In terms of form, we followed the approach taken in a joint paper by the Bank of England and the Max Planck Institute of Berlin, published in 2014.
In an investigation of what the best predictors of bank failure were in the run-up to the financial crisis, the paper found that simple rules of thumb, or "heuristics", were often the indicators that would have helped bank investors to make the best decisions.

The paper describes how investors might have used "decision trees", where they would run through a list of "heuristics", with each one leading to a "red flag" if it were showing danger or, if not showing danger, to either the next heuristic or a "green flag".

Under the LBQR methodology, the variables all receive the same weighting.

In addition to giving an example for the form of the model, Bank of England/Max Planck Institute (2014) also identified some of the variables that should go in the model, such as the loans-to-deposits ratio and the equity-to-assets ratio.

The decision on what other variables should go into the model involved lengthy discussions with bankers, central bankers and regulators around the world.

It was influenced by the stock market, which performed much better than rating agencies and regulators in flagging-up the banks that were heading for trouble.

Northern Rock, Anglo Irish, Kaupthing, HBOS, and Royal Bank of Scotland, among others, were showing extremely high return-on-equity and earnings-per-share readings in the five years before the crisis, which in most areas of the stock market would have been rewarded.

But many of these companies traded at a discount and the banking sector as a whole underperformed on wider indices for several years running up to 2007, as the stock market correctly anticipated that the banks were over-trading.
In fact, EPS growth, Tier 1 ratios, VaR, RoE and other measures frequently used to value a stock simply do not correlate with share price performance. Therefore we did not include these variables.

The model was very favourably received by the Bank of England and the UK's Prudential Regulatory Authority, which considered it to be a unique approach.

When we tested our model on a sample of banks across the world we found 70 percent correlation with price-to-book ratios. That is banks that scored well on our rating system tended to be valued at higher price-to-book ratios, and banks that did poorly tended to trade at lower price-to-book ratios

The main variables in the model are listed below:

Quantitative Criteria

Education/qualifications
Most chief executives running banks do not possess a banking qualification.
Some are lawyers, others are accountants, economists or MBAs. None of these qualifications are an adequate replacement for a banking qualification.

Mis-selling
Does the bank mis-sell to retail customers? Consider the PPI fallout in the UK. We believe that banks that treat their customers fairly and do not mis-sell have a more sustainable business model – not least because very often mis-selling is recognised in the future, with write-downs taken against profits.

Loans: Deposit ratio
Back testing of the Lafferty Bank Ratings criteria has shown that a high loans-to-deposit ratio was a surprisingly good indicator of banks that were over-trading at the time of the 2007 financial crisis.

Return on assets
This is a surprisingly tough measure for banks in the developed economies to pass. It is the measure that Warren Buffet looks at when it comes to analysing banks, not Return on Equity.

Equity: Total assets
Tangible equity (shareholders equity less goodwill) as a percentage of total assets (IFRS definition). This is the direction that regulators around the world are heading in, supported by analysis from the Max Planck Institute Berlin, plus Anat Admati and Martin Hellwig. We reward banks that are already there.

Cash: Total assets
Cash on the face of the balance sheet is a good measure of liquidity, which is surprisingly rarely looked at.

Retail loans: Total Loans
One of our metrics is retail centricity, which we define as the portion of loans that are retail. Retail banking tends to be a more profitable business than other forms of banking, and there is increasing research to back up this proposition.

Qualitative criteria

Strategy – Clarity or fluff
Rumelt (2011) says "good strategy honestly acknowledges the challenges being faced and provides an approach to overcoming them", while fluff is "superficial restatement of the obvious combined with a generous sprinkling of buzzwords".
Coherent strategies involve the direction of scarce resources away from some projects and towards others. Decisions about what to concentrate on are fraught with difficulty, but the companies that make them tend to be the ones that thrive.

Brand Promise
Taken from the world of marketing, brand promise can be defined as the standards of customer care that can be expected from all interactions with a bank. We apply simple rules of thumb which indicate whether each bank's actions are aligned with their brand.

Culture
The concept of culture captures what Peter Drucker called the "spirit of an organisation". We believe culture comes from the top and that management statements give indications about what kind of culture the bank has. We score banks for culture using simple rules of thumb.

Not more than two 'one offs' in a year
We reward banks that make it easy to discern the trends in their business and that do not make several adjustments to present an "underlying" profit number that is very different from statutory profits.

Management Experience
We reward banks whose top managers have worked in the banking industry for at least one full credit cycle.

Customer loyalty metric
It is hard to find a bank that does not claim to be "customer-centric" or "putting the customer first". Many banks also back up their claims to be competing on service with independent surveys on customer satisfaction. We reward credible independent measures of customer satisfaction (such as Net Promoter Score or similar survey, with comparisons relative to peers).
Banks must also score well on the chosen customer-loyalty target. Several banks set themselves an unchallenging customer satisfaction hurdle and then achieve their easily attainable goal.

REPORT TWO

BENCHMARKING YOUR BANK AGAINST OTHER SOUTH AFRICAN BANKS

EXECUTIVE SUMMARY

- Main findings

PART I – BANK RATINGS IN DETAIL

- Commentary and star-ratings
- Quantitative and qualitative scores for each bank
- Detailed scores for each bank across 15 criteria

PART II – BEST IN CLASS FOR QUANTITATIVE CRITERIA

- Equity/assets
- ROA
- Loans/deposits
- Retail loans
- Mis-selling
- Management education and qualifications

PART III – BEST IN CLASS QUALITATIVE EXAMPLES

- Strategy
- Culture
- Brand Promise
- Management experience
- Customer Loyalty
- One-Offs

REPORT THREE

BENCHMARKING YOUR BANK V THE BEST IN CLASS WORLDWIDE

Executive Summary

- Main findings

PART I – BANK RATINGS IN DETAIL

- Commentary and star-ratings – YOUR BANK V BEST
- Quantitative and qualitative scores for each bank
- Detailed scores for each bank across 15 criteria

PART II – BEST IN CLASS FOR QUANTITATIVE CRITERIA

- Equity/assets
- ROA
- Loans/deposits
- Retail loans
- Mis-selling
- Management education and qualifications

PART III – BEST IN CLASS QUALITATIVE EXAMPLES

- Strategy
- Culture
- Brand Promise
- Management experience
- Customer Loyalty
- One-Offs

EXECUTIVE SUMMARY

- Commentary
- Ratings by star-scores
- Quantitative and Qualitative scores of 4-star and 5-star banks
- Quantitative and Qualitative scores of lowest-rated banks
- Price/book values of the 4-star and 5-star banks
- Price/book values of the lowest-rated banks
- UPs and DOWNs
- Country average rankings

PART I – BANK RATINGS IN DETAIL

- Commentary
- 100 banks by star-scores
- 100 banks by country
- Alphabetically
- Universal banks v focused banks

PART II – BEST IN CLASS EXAMPLES

Commentary – Quantitative v Qualitative

Quantitative scores

- Equity/assets
- ROA
- Loans/deposits
- Retail loans
- Mis-selling
- Management education and qualifications

Qualitative Examples

- Strategy
- Culture
- Brand promise
- Management experience
- Customer loyalty
- One-offs

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