Annual Report 2006

Bank Supervision Department

South African Reserve Bank

Annual Report
2006

Bank Supervision
Department

South African Reserve Bank

Mission

To promote the soundness of the banking system through the effective and efficient application of international regulatory and supervisory standards.

Business philosophy

Market principles underlie all our activities and decisions, and we strive to act with professionalism, integrity, credibility and impartiality at all times. We liaise with each individual bank through a single point of entry – a relationship manager, assisted by a team with diverse competencies. We follow a risk-based supervisory approach, not one of inspection, and our objective is to add value. Consequently, our role is that of a "watchdog", not that of a "bloodhound". We place emphasis on empowering our staff to ensure that all interaction and service delivery is characterised by professionalism, and a high premium is placed on ethical behaviour at all levels of activity. A relationship of mutual trust between the Department and all other key players is regarded as essential and is built up through regular open communication.

ISSN 1811-4431
Obtainable from:
Bank Supervision Department
South African Reserve Bank
P O Box 8432, Pretoria, 0001
Tel. 27-12-313 3218

Also available on the Internet at: http://www.reservebank.co.za

Business continuity planning

Banking institutions and bank supervisors are equally concerned about disruptions to business continuity – a state of continued, uninterrupted operation of a business – and therefore the promotion of a resilient financial system is in the interest of all stakeholders.

To date, South Africa has not been directly exposed to major natural disasters, acts of terrorism or outbreaks of the avian influenza. However, the potential threat of these events should never be overlooked. Power outages and the impact of HIV/Aids are matters that have affected all South African financial institutions directly or indirectly.

Business continuity plans should consider the distinction between preparing for events that cause short-term disruptions, for example power outages and non-material infrastructural damage, and "events" that result in medium to longer-term disruptions. In the latter category, major natural disasters, the avian flu and HIV/Aids come to mind. Furthermore, in developing and updating business continuity plans, banking institutions and bank supervisors should ensure that continuity plans are effectively administered, thorough business impact analysis is conducted, clear implementation guidelines are available, simulation exercises are conducted, and continuity plans are regularly reviewed.

In reviewing the matter of business continuity planning, the following remarks are deemed appropriate:

"Banks, like businesses everywhere, can be subject to wide-scale disruptions resulting from both natural and man-made disasters. Potential problems include destruction of facilities, missing personnel, power and communications outages, lack of transportation and fuel, interruption of mail and other delivery services, and health and safety crises. In short, services and activities normally taken for granted can be suddenly disrupted – and in some cases for an extended time.

When developing business-continuity plans, bankers need to understand that people are the most vital resource. Bankers should plan for ways to track and communicate with personnel through a range of channels, including ways to reach personnel if phone and electrical services are down… Depending on the cause of the disruption, bankers should also expect that some of their personnel may be dealing with family emergencies that will limit their ability to work. Therefore, it is especially important to identify and train backup personnel to handle critical operations and services.

Business-impact analysis and planning requires that bankers understand not only their business lines but also the systems and processes that support those business lines. The bank's planning should address how these support systems and processes could be recovered if they are disrupted, including the effect such a disruption would have on the bank's facilities, equipment, and other physical property. The bank may have to operate from backup or some type of recovery facilities for an extended period in order to provide critical services to customers. Employees may also need to be prepared to perform services manually if computer systems become unavailable.

Naturally, we cannot expect bankers to prepare for every conceivable event or plan for them with equal intensity. As with any aspect of risk management, bankers should assess the probability of an event and its potential consequences. We certainly *understand that planning, preparation, and testing consume time, energy, and money. Accordingly, institutions should determine the most cost-effective way to mitigate risks and continue to assess which possible events deserve greater attention and preparation."* Ms Susan Schmidt Bies, Governor: Board of Governors of the Federal Reserve System, United States of America, at the Western Independent Bankers Annual CFO and Risk Management Conference, Coronado, California, 6 June 2006.

Contents

Chapters

Appendices

Annual report for the calendar year ended 31 December 2006 in terms of section 10 of the Banks Act, 1990, and section 8 of the Mutual Banks Act, 1993.

This report presents an overview of the objectives and activities of the Bank Supervision Department of the South African Reserve Bank, with particular reference to the period 1 January 2006 to 31 December 2006.

Chapter 1

Registrar's review

During 2006, the South African banking system remained stable and banks were adequately capitalised. Banks continued to benefit from favourable economic conditions which resulted in strong asset growth, increased profitability and a decline in overdue ratios (as discussed below), notwithstanding the cumulative two-per-cent increase in the South African Reserve Bank's repurchase rate. However, the full impact of these increases needs to be monitored and managed by all stakeholders.

banking system remained stable

This chapter discusses the development of bank directors, international supervisory interaction, the biennial International Conference of Banking Supervisors that was held in Mexico, the proliferation of credit, and provides an update on the International Monetary Fund's Article IV consultation. A review of the Bank Supervision Department's (the Department) human resources developments is also presented.

Overview of the South African banking system

The South African banking system remained stable and banks were adequately capitalised, with the banking-sector's capital-adequacy ratio remaining above the minimum requirement of 10 per cent during the period under review. The capital-adequacy ratio declined from 12,7 per cent in December 2005 to 12,3 per cent at the end of December 2006.

banks were adequately capitalised

The aggregated balance sheet continued to grow strongly, but eased off towards the end of 2006. By the end of December 2006, the total assets of banks had increased by 23,7 per cent (measured over twelve months) to a level of R2 075,1 billion (December 2005: R1 677,5 billion). The five largest banks constituted 89,7 per cent of the total banking-sector assets at the end of December 2006 (December 2005: 89,6 per cent).

aggregated balance sheet continued to grow strongly

Non-bank deposits remained the main source of funding for the banking sector and constituted 65,2 per cent of total liabilities (2005: 65,7 per cent). Total non-bank deposits increased by 22,9 per cent (measured over twelve months) amounting to R1 353,2 billion, compared to the 21,1-per-cent growth in December 2005 (R1 101,5 billion). The composition of non-bank deposits remained fairly stable throughout 2006.

non-bank deposits remained main source of funding

Profitability ratios improved during 2006. By the end of December 2006, a return of 18,3 per cent on net qualifying capital and reserves (12-month smoothed average) was reported, compared to 15,2 per cent in December 2005. Return on assets (12-month smoothed average) amounted to 1,4 per cent at the end of December 2006 (December 2005: 1,2 per cent). The efficiency ratio of the banking sector displayed steady improvement, ending the year under review at 58,9 per cent (December 2005: 66,3 per cent).

profitability ratios improved

Throughout 2006, the banking sector maintained an adequate amount of liquid assets, exceeding the statutory liquid-asset requirement. In December, the average daily amount of liquid assets held by banks represented 111,2 per cent of the statutory liquid-asset requirement, compared to 119,7 per cent in December 2005.

excess liquid assets held

Non-performing loans continued to decline during 2006. This decline should, however, be seen against the backdrop that gross overdues in respect of mortgages deteriorated from R6,1 billion at December 2005 to R6,9 billion at December 2006 which was offset by an improvement in the gross overdues in respect of other loans and advances. Expressed

non-performing loans continued to decline as a percentage of total loans and advances, gross overdues improved from 1,5 per cent in December 2005 to 1,1 per cent in December 2006. In terms of the minimum regulatory requirements, provisioning by banks remained adequate.

Concentration in the South African banking system

H-index

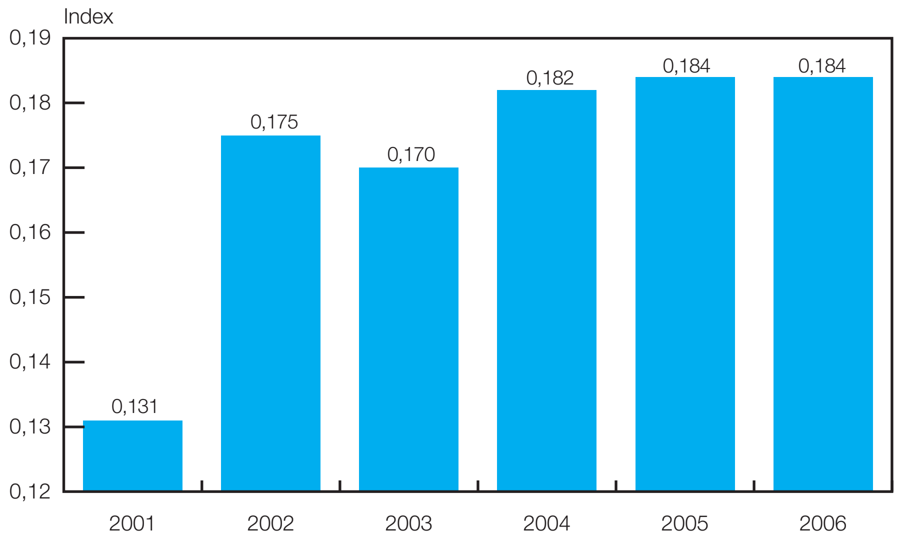
The Herfindahl-Hirschman Index (H-index) is a commonly accepted measure of market concentration in a banking system. The index is calculated by squaring the market share of each bank in the system and subsequently summing the squares. The higher the index, the less competition exists in the market and vice versa.

An H-index below 0,1 indicates that there is no concentration in an industry, while an H-index between 0,1 and 0,18 is an indication of moderate concentration. However, an H-index above 0,18 indicates a high level of concentration.

continued dominance by four largest banks

The concentration in the South African banking system is portrayed in Figure 1. An H-index of 0,184 was recorded in December 2006 and can be attributed to the continued dominance by the four largest banks which constituted 84,1 per cent of banking-sector assets (December 2005: 83,8 per cent). At the end of December 2006 there were 33 banking institutions reporting data to the Department (excluding two mutual banks, however, including one institution doing banking business in terms of an exemption from the provisions of the Banks Act, 1990, namely Ithala Limited).

Figure 1 H-index for the South African banking system (2001 – 2006)



Development of bank directors

Corporate governance received much attention in the 2004 and 2005 *Annual Reports* of the Department (*Annual Reports*). In 2006 the Department continued to monitor the corporate-governance practices of banks and focused mainly on the induction and development of individual directors.

principles for sound corporate governance in banks

The document *Enhancing Corporate Governance for Banking Organisations*, published by the Basel Committee on Banking Supervision (Basel Committee) in February 2006, recommends the following eight principles for sound corporate governance in banks:

- Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgement about the affairs of the bank.

- The board of directors should approve and oversee the bank's strategic objectives and corporate values that are communicated throughout the banking organisation.

- The board of directors should set and enforce clear lines of responsibility and accountability throughout the organisation.

- The board should ensure that there is appropriate oversight by senior management consistent with board policy.

- The board and senior management should effectively utilise the work conducted by the internal audit function, external auditors and internal control functions.

- The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long-term objectives and strategy, and control environment.

- The bank should be governed in a transparent manner.

- The board and senior management should understand the bank's operational structure, including where the bank operates in jurisdictions, or through structures that impede transparency (i.e. "know-your-structure").

ultimate accountability remains with board of directors

It is clear from the above principles that directors have a demanding role to fulfil in the corporate-governance processes of banks. Directors are not prevented from delegating certain responsibilities to management. However, the ultimate accountability for ensuring that management acts in accordance with these responsibilities remains with the board of directors.

banks were requested to provide information

In Banks Act Circular 5/2006, which was released in April 2006, banks were requested to provide, *inter alia*, the following information:
- Details of induction programmes for new directors.
- Details of continuous training and updating of skills of all directors.
- Methods by which directors are kept abreast of changing banking trends and dynamics.

induction and training programmes of banks diverged significantly

The analysis of the above-mentioned information confirmed that the induction and training programmes of banks diverged significantly. The Department acknowledges the uniqueness of banks' operations and therefore anticipated that these programmes would differ. However, with regard to director development, the Department is of the view that directors of all banks, particularly non-executive directors, should be exposed to homogenous development programmes that will equip them to perform their fiduciary duties.

develop a suitable programme for directors of banks

After its findings, the Department brought the matter of inadequate development of directors to the attention of The Banking Association South Africa. Subsequently, it was agreed that the association would pursue the matter. Its efforts culminated in the identification of a local tertiary institution that was tasked to develop a suitable programme for directors of banks. The director development programme which has been compiled by the institution consists of three courses, namely: Introductory course; Banking Board Leadership Programme; and Banking Board Leadership Forum.

introductory course

The introductory course will familiarise participants with the regulatory environment in which banks operate, and introduce the key concepts and principles. The topics include the following:
- Banks and banking.
- The South African regulatory framework.
- The international regulatory framework.
- The Banks Act and Regulations relating to Banks.
- Internal audit/compliance.
- Other legislation affecting banks.
- The legal position of bank directors.

Banking Board Leadership Programme

The Banking Board Leadership Programme will be aimed at providing participants with a broad understanding of risk management in banks at a governance level. In addition, the objective is to equip participants with the skills to apply their knowledge in the fulfilment of their statutory and fiduciary duties. Topics included in this course are as follows:
- Risk management, regulation and corporate governance.
- Risk management structures.
- Board dynamics.
- Solvency and liquidity risk.
- Market risk.
- Credit risk.
- Basel II.
- Operational risk.

In addition to the above, a case study will be included.

Banking Board Leadership Forum

The Banking Board Leadership Forum will endeavour to instil a deeper understanding of the principles covered in the first two courses and the application thereof. The issues will be covered through the sharing of views in discussion groups. The focus will be on “real-life” experiences and the development of “best-practice” approaches.

needs of both new and experienced directors

In developing the programme, the Department believes that the institution has filled a void that will meet the needs of both new and experienced directors. The programme is comprehensive enough to provide new directors with a solid foundation to comfortably enter the banking arena, and for experienced directors to stay abreast of current developments in banking products, practices and risk management.

chairpersons encouraged to utilise the programme

In Banks Act Circular 9/2006, which was released in November 2006, chairpersons of banks were encouraged to utilise the programme to ensure that proposed directors have a basic understanding of banking. It was also emphasised that this development programme should be considered supplementary to internal induction and development programmes, and not as an alternative thereto.

International supervisory interaction

During the year under review, the Department continued to interact with other global national supervisors and international institutions such as the Basel Committee, the International Monetary Fund (IMF) and the World Bank.

National supervisors

Argentina

The Department received an application from the Standard Bank Group Limited for its subsidiary, Standard Bank Argentina Société Anonyme, to acquire certain assets and liabilities of BankBoston N.A. Argentina Branch (BankBoston Argentina). As a result of the transaction broadening the risk profile of Standard Bank Argentina, it was important for the Department to gain an understanding of the nature of supervision in Argentina as well as of the banking operations of both Standard Bank Argentina and BankBoston Argentina.

understanding of supervision in Argentina

In view of the above, meetings were held with the Regulatory Authority of the Central Bank of Argentina in Buenos Aires, Argentina in August 2006 to discuss the transaction, as well as matters affecting the mutual understanding and co-operation with respect to home/host issues. In addition, relevant discussions were held with the executive management of Standard Bank Argentina.

discuss the transaction

Indonesia

In September 2006 the Department was invited to attend a seminar hosted by Bank Indonesia. The objectives of the seminar, attended by approximately 175 participants from central banks, commercial banks and academic institutions, were to:

- share knowledge on different aspects of Basel II and its implementation challenges in emerging and developed economies;
- explore in detail the Basel II capital-adequacy regime for promoting financial stability;
- address the challenge of devising a supervisory response to Basel II implementation for the benefit of financial stability; and
- discuss the implications of Basel II namely the potential impact of the new framework, both on capital flows and global competition.

objectives of the seminar

At the seminar, the Department shared its experiences on the policy and practical challenges of implementing Basel II from both regulatory and banking industry perspectives, as well as their impact on financial stability in South Africa.

shared experiences

Mauritius

In October 2006 discussions were held with supervisors from the Bank of Mauritius (BOM) in Port Louis, Mauritius. The meeting afforded an opportunity to discuss the working relationship between the Department and the BOM. In particular, a Memorandum of Understanding and its practical effectiveness were discussed. The Department was also updated on the supervisory framework, practices and resources of the BOM.

Memorandum of Understanding

During the visit, the Department also held prudential meetings with the local executive management teams of two South African banks operating in that country. In that way the Department was updated on the strategies, business activities and risk-management frameworks of the respective entities.

held prudential meetings

Namibia

During August 2006 a meeting was held with the Bank of Namibia (BON) in Windhoek, Namibia to enhance relationships between the BON and the Department. The

enhance relationships

Department gained an understanding of the nature of supervision by the BON over the Namibian operations of South African banks. Furthermore, prudential meetings were held with the local executive management of three South African banks. During these meetings, the Department was updated on the management structures, strategic objectives, business plans, risk management issues, regulatory reporting and these banks' relationships with the BON.

Basel Committee on Banking Supervision

participation in working groups, seminars and training initiatives

The Department has over the years participated in the initiatives of the Basel Committee, either by direct participation in its working groups, seminars and training initiatives, or by providing input on draft publications and information-gathering exercises. The four main working groups of the Basel Committee are the Accord Implementation Group (AIG), the Policy Development Group, the Accounting Task Force, and the International Liaison Group (ILG). These working groups have several subgroups that focus on specific matters as prescribed by their various working groups.

The Department's participation in the Basel Committee's working groups is described below.

International Liaison Group

interact with broad group of supervisors

The ILG consists of eight Basel Committee member countries (France, Germany, Italy, Japan, the Netherlands, Spain, the United Kingdom and the United States of America) and Argentina, Australia, Brazil, Chile, China, the Czech Republic, Hong Kong, India, Korea, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, the West African Monetary Union, the European Commission, the IMF, the World Bank, and the Financial Stability Institute. The ILG provides a forum for the Basel Committee to interact with a broader group of supervisors on various regulatory and supervisory matters.

The ILG was previously known as the Core Principles Liaison Group (CPLG) with a subgroup, the CPLG Working Group on Capital (CPWG). During 2006 the CPLG's main focus was on the revision of the Core Principles for Effective Banking Supervision (Core Principles), while the CPWG continued to deal with issues related to the implementation of Basel II.

Validation Subgroup of the Accord Implementation Group

validation of systems

The Validation Subgroup of the AIG deals with matters related to the validation of systems used to generate the ratings and parameters that are used in the internal ratings-based (IRB) approaches to credit risk within Basel II. The subgroup consists of supervisors from fifteen jurisdictions and held four meetings during 2006. The main issues that the subgroup focused on during 2006 are, *inter alia*, the use test for the IRB approach and the use of vendor products within the IRB approach.

Operational Risk Subgroup of the Accord Implementation Group

advanced measurement approaches for operational risk

The Operational Risk Subgroup of the AIG, which consists of supervisors from seventeen jurisdictions, focuses on issues related primarily to the implementation of Basel II's advanced measurement approaches for operational risk in banks. The subgroup has explored the practical challenges associated with the successful development, implementation and maintenance of an operational risk framework addressing the requirements and expectations of Basel II. Subgroup members have identified certain operational risk implementation challenges within their respective jurisdictions and participated actively in developing resolution plans. In addition, the subgroup continued to facilitate the resolution of issues associated with the cross-border supervision of international banking groups under Basel II, particularly those related to operational risk. The subgroup held four meetings during 2006.

International Monetary Fund and World Bank

Kenya

In November 2006 the IMF hosted a seminar in Nairobi, Kenya. The Department, other African supervisors, representatives from the Bank for International Settlements and commercial banks attended the seminar. Participants were updated on the preparations for Basel II in South Africa and the Department advised on the ways in which implementation challenges were being addressed. In addition, there were sessions on supervisory colleges, where supervisors from individual countries held informal discussions with supervisors from the United Kingdom, France and South Africa, in their capacity as home country supervisors.

preparations for Basel II

United States of America

In May 2006 the Department was represented at the IMF's Expert Forum on advanced techniques on stress-testing applications for supervision. The Department chaired a session on liquidity risk management which focused on the following: National approaches to stress test liquidity; cross-border issues in stress testing; and contagion in payment and settlement systems.

advanced techniques on stress testing

In June 2006 the Department was invited to participate in a seminar hosted by the IMF, the World Bank and the Federal Reserve Board of the United States of America. The focus of the seminar was on policy challenges for the financial sector.

policy challenges for financial sector

The objective was to provide a balanced discussion on cross-border supervisory co-operation – issues and challenges – including the following:

- Cross-border supervisory co-operation under Basel II and the (draft) revised Core Principles;
- how to supervise internationally active banks – key challenges and practical solutions;
- building practical arrangements for cross-border supervisory co-operation;
- cross-border supervisory co-operation – a host country perspective;
- cross-border crisis management; and
- cross-border supervisory co-operation – regional developments.

cross-border supervisory co-operation

The Department delivered a presentation on the last topic.

International Conference of Banking Supervisors

The Department attended the fourteenth International Conference of Banking Supervisors (ICBS), which was hosted by the National Banking and Securities Commission, Mexico, in the city of Mérida in Mexico from 2 to 6 October 2006. The ICBS, held biennially since 1979, is designed to promote co-operation among national authorities in the supervision of international banking and to enable senior representatives of supervisory authorities to exchange views on a range of current issues of common concern.

Department attended ICBS hosted in Mexico

During the first two days, pre-meetings were held by the various regional groupings of bank supervisors established under the auspices of the Basel Committee.

During the afternoon of the second day, on 3 October 2006, a special address was delivered by Ms Susan Schmidt Bies, Governor: Board of Governors of the Federal Reserve System, United States of America. In her address she highlighted the following issues:

- In the United States of America exposures to real estate were double those in the 1980s when the country went through a real-estate crisis. Consequently, a need exists to ensure that the exposures are monitored and managed on a portfolio basis with limits in place on the extent of risks taken or to be taken in order to effectively manage concentrations.

- The risks of entering into new lines of business need to be carefully assessed as new product developments tend to progress at a fast pace while back-office developments of internal controls are falling behind.

- The challenge revolved around ways to keep staff skills upgraded in order to be able to anticipate new areas of stress that arise as well as recalling the way in which previous crises had been handled.

- The new Basel Capital Accord (Basel II) would tie capital requirements to risk appetite more efficiently, and regulators need to understand how banks manage capital including how they anticipate future capital needs.

On 4 October 2006, the conference commenced with a welcome message and an opening speech delivered by Mr Jonathan Davis, President of the National Banking and Securities Commission, Mexico.

Chairman of the Basel Committee opened the conference

Mr Nout Wellink, Chairman of the Basel Committee and President of De Nederlandsche Bank, officially opened the conference. In his address, Mr Wellink touched on the following issues:

- Supervisors face the ever-growing challenge of devising appropriate prudential structures for a financial industry that is in a constant state of change. Such changes require supervisors to design flexible standards and regulations that ensure a safe and sound banking system while still allowing for continued innovation in bank practices. The Basel II framework is designed to achieve this balance. It represents a fundamental paradigm shift on how regulators have, to date, thought about capital regulation. The advanced approaches to credit and operational risk rely on banks' own assessments of risks as input to capital calculations, a recognition that banks are best positioned to understand and measure the risks that they face. In addition, because the quantitative and qualitative parameters for using the advanced approaches are intended as a baseline of sound practices, they can accommodate continued innovation by firms. Combined with the role assigned to supervisory review and market discipline, these features of the framework represent a more forward-looking approach to capital regulation, with the flexibility to evolve over time.

- Since the previous ICBS held in Madrid, Spain in 2004, the Basel Committee had achieved much to be proud of. On completion of the rules relating to Basel II implementation issues and updating the Core Principles, the Basel Committee had pursued approaches that have flexibility to accommodate the continued evolution of bank and supervisory practices. It had also recognised the critical contributions from the broader supervisory community, the industry and other standard-setting bodies and all these efforts amounted to significant contributions for ensuring the robustness of a financial system to withstand possible future shocks.

- The role of banks is changing. Banks increasingly originate loans and other types of credit instruments with the intent of securitising them and selling them to other market participants. This has resulted in banks, as well as securities firms, being at the centre of a new intermediation landscape that is increasingly based on traded products, where they are actively involved in the origination, securitisation and management of credit exposures.

- The greater reliance on capital markets in credit origination and distribution has also served to unlock the creative potential of market participants. While these changes have made the banking system more resilient, they also pose a range of risks that supervisors and the industry both need to monitor.

- Globalisation is another important trend in the banking sector. Cross-border mergers and acquisitions have resulted in a number of banking markets having a significant foreign bank presence and, consequently, a local financial system could conceivably be disproportionately dependent on the safety and soundness of a handful of foreign banks. This potentially has significant implications for the way in which banks in these markets are supervised. One of the greater challenges arises from the fact that, while the operations and management frameworks of many banks are becoming increasingly global, the supervisory structures remain along national borders.

- The future work of the Basel Committee, Basel II, remained a key item on the Basel Committee’s agenda. Regarding Basel II implementation challenges, home-host issues are a challenge for both supervisors and the industry. In addressing this issue every effort should be made to achieve as much cross-border consistency as possible on key elements of the framework. While recognising that both home and host had legitimate interests that needed to be met and national implementation would vary in relation to local needs, the tension inherent in applying a global standard within national supervisory regimes would never fully dissipate. An understanding of the impact of Basel II on banks and markets is vital. Many banks, and market participants more broadly, had voiced concerns that the new framework could have unintended consequences on banks’ risk-taking and capital allocation in both the short and long term. There could also be consequences for banks’ activities relative to those of securities firms. Supervisors have to be attuned to the risk that these consequences could have from inconsistent application across banks or sectors, particularly for rules related to risk assessment and quantification.

- In light of the increasing tension between regulatory structures, which remain structured on national lines, and banks’ operations and risk-management structures which are increasingly becoming global, cross-border information sharing is of the utmost importance. Supervisors would need to depend increasingly on information provided by their colleagues in other jurisdictions. This requires the setting up of appropriate mechanisms to facilitate the deepening and broadening of information sharing that does not impose a burden on one another or on the industry.

Core Principles and governance issues

The themes for the first day of the conference were centred on the Core Principles and governance issues and the panel session on these themes was chaired by Ms Bies.

keynote address

The keynote address was delivered by Mr Francisco Gil Diaz, Minister of Finance and Public Credit, Mexico. His address gave a broad outline of the Mexican economy and its challenges.

working group discussions

The following topics were discussed by different working groups during the afternoon of 4 October 2006:

- The main changes to the updated Core Principles
- Stress testing as a regulatory tool
- Corporate governance of banks
- Governance and accountability of financial supervisors
- Risk-based supervision

The working groups were respectively chaired by Göran Lind (Chairperson of the Basel Core Principles Reference Group and Advisor to the Executive Board: Sveriges Riksbank, Sweden); John Dugan (Comptroller of the Currency, United States of America); Danièle Nouy (Secretary General: Banking Commission, France); Andreas Ittner (Director: Financial Institutions and Markets, Austrian National Bank); and John Laker (Chairman of the Australian Prudential Regulation Authority).

international banks in domestic markets

The theme for the second day was "International banks in domestic markets" and the keynote address titled "International banking participation in emerging economies" was delivered by Mr Guillermo Ortiz (Governor, Central Bank of Mexico).

working group discussions

The topics discussed by the working groups on 5 October 2006 were the following:

- Multilateral information sharing based on AIG/EMEAP (Executives' Meeting of East Asia-Pacific Central Banks) experience;
- IRB (internal ratings-based approach) data issues including data pooling and validation;
- listed and non-listed subsidiaries;
- home-host information sharing under Basel II; and
- cross-border co-operation in a problem bank situation.

The working groups were respectively chaired by Teo Swee Lian (Deputy Managing Director: Prudential Supervision, Monetary Authority of Singapore); Gerhard Hofmann (Head: Banking and Financial Supervision Department, Deutsche Bundesbank, Germany); Gustavo Arriagada (Superintendent of Banking and Financial Institutions, Chile); William Ryback (Deputy Chief Executive: Hong Kong Monetary Authority); and Arnold Schilder (Executive Director: De Nederlandsche Bank).

press statement by the Basel Committee

On 5 October 2006, a press statement was issued by the Basel Committee announcing the endorsement, by bank supervisors from central banks and supervisory agencies from 120 countries who attended the ICBS in Mérida, Mexico, of the updated version of "Basel Core Principles for Effective Banking Supervision and its Methodology" as well as its continued support for the implementation, by all countries, of international minimum standards on banking supervision.

conference formally closed

The conference was formally closed by Mr Jonathan Davis, President: National Banking and Securities Commission, Mexico.

Proliferation of credit in South Africa

Members of the public lately have been exposed to a proliferation of new names linked to banking services. The term "bank" has always been perceived to be used sparingly. However, it appears of late that many institutions that provide some form of financial service to the public have banking connotations and names attached to them.

proliferation of new names

With South Africa always au fait with developments in the banking arena, it is not surprising that new innovations in the provision of banking services to the public are emerging from the marketplace. These new developments could prove to be confusing to the public in that banking names are now being linked to retail outlets, cellular telephone service providers and other such companies.

developments in banking arena

The connection between the name of a bank and the confidence placed in such a bank by the public has always been of critical importance. In cases where problems with financial matters were experienced in the past, the first port of call for the public was the "name" that was entrusted with a person's financial matters. This fact will probably not change as the reliance on an institution handling a person's financial matters will always be regarded with seriousness.

confidence placed in a bank

The introduction of new names in banking is based largely on the exponential developments in technology over the past decade which created possibilities that were only a dream a few years ago. The integration of retail outlets through banks into the payment system, as well as the vast developments in cellular telephone technology have enabled several developments that drastically improved the lives of the public in terms of utilising existing infrastructure and communication facilities in conducting banking business. These developments also paved the way for solutions to issues such as bringing banking to the unbanked, as well as other advantages.

developments in technology

Furthermore, these technological advancements created the opportunity for the cross-utilisation of different service providers or retail outlets' client bases. Certain service providers have developed strong client bases over time and the utilisation of available information pertaining to potential cross-marketing of clients is an area worth exploring from a business point of view. Therefore, it is no coincidence that, in a fairly captured market such as South Africa, alliances will develop to optimise the utilisation of shared client bases.

cross-utilisation of service providers

In certain media circles, however, the proliferation of new names that have entered the banking market might cause uncertainty in the mind of the public as to the origin and soundness of such initiatives. New banking services are portrayed as being stand-alone initiatives, but this does not reflect the true state of affairs. Whereas the new banking initiatives are undertaken as joint ventures with, or as divisions of currently registered banking institutions, they are portrayed as being provided and supported by the retail outlet or cellular telephone service provider only.

uncertainty in the mind of the public

From a supervisory point of view, the Department ensures that the risk management pertaining to such joint ventures or divisions of banking institutions is of the highest standard and in so doing, endeavours to ensure that these business initiatives and the proliferation of banking services will not dilute the public's trust in the banking system. Furthermore, the supervisory process will be strengthened by proposed changes to the

risk management

Banks Act that will ensure that any variations on the joint venture themes by retailers or service providers on the provision of banking services will have to be pre-approved by the Department. The proposed changes will also ensure that a “fit and proper” vetting process is applied to the management of such joint ventures, as is the case for the management of banks.

2006 International Monetary Fund Article IV consultation

sound macroeconomic and financial policies

The 2005 staff report produced by the International Monetary Fund (IMF) following its Article IV consultation commended the South African authorities for their continued implementation of sound macroeconomic and financial policies as well as their increased focus on social spending and on addressing the many challenges facing the country. Note was also taken of the serious economic challenges that remained, including persistently high unemployment, widespread poverty and large wealth disparities.

comments by IMF

The 2006 Article IV discussions with the IMF were held in Pretoria and Cape Town during the period 10 – 14 May 2006. In its 2006 staff report, the following comments were made:

- The IMF expressed support for the South African authorities’ overall strategy that seeks to spur growth and address social concerns while preserving macroeconomic stability.

- Plans to boost investment infrastructure and selected social programmes over the next few years, which would imply a moderate expansionary fiscal impulse to the economy, were supported.

- The IMF also concurred with the South African Reserve Bank’s assessment of upside risks to inflation and expressed the view that the inflation-targeting regime continued to gain effectiveness and credibility.

- The IMF believed that the South African authorities remained committed to a flexible exchange rate, intervening only to increase reserves at times of rand strength.

banking sector sound and well regulated

- The view was expressed that the South African banking sector was sound and well regulated. Near-term prospects were favourable, but pressures, which the South African authorities were fully aware of, could emerge if interest rates rose markedly. It was observed that intense competitive pressures and narrowing margins were encouraging innovation and presenting new challenges for regulators. These innovations include cellular telephone banking, alliances with retailers, increased credit card issuance and the emergence of asset-backed securities. It was noted, however, that the regulators had been assessing the risks of these new products and markets and introducing appropriate regulations and legislation. The IMF noted also progress being made in improving access to banking services for the poor and aligning regulations with international standards.

- The IMF expressed support for the South African authorities’ efforts to identify and address constraints on economic growth through the emerging Accelerated and Shared Growth Initiative for South Africa as well as the efforts made to increase employment. It favoured further discussions among stakeholders to revise those labour-market regulations and practices that may limit job creation.

- The IMF further expressed its support for official programmes to address wide income and wealth disparities including the broad-based economic empowerment and land reform initiatives.

Human resources issues

quality of human resources

The Department prides itself in the quality of its human resources. The appointment of the three deputy registrars of banks and the 21 promotions which were effected during 2006 were some of the highlights. The continued scarcity of human resources in the industry as well as the staff turnover rate of 14 per cent in 2006, contributed to a decline in the Department's progress towards employment equity. At the end of 2006, 46 per cent of the Department's workforce was black and in terms of gender, 49 per cent was female. The Department focused much of its human resources efforts on the training and development of its current staff members, which are outlined in Chapter 2 of this report.

Issues to receive particular attention in 2007

focus areas

Besides fulfilling its normal supervisory and regulatory tasks, the Department will particularly focus on the following issues during 2007:
- Continued preparations for the effective implementation of Basel II by January 2008. This includes the finalisation of the amended regulatory framework, ongoing assessments of the impact of Basel II and the state of readiness of banks as well as interaction with other supervisors.
- Updating of the Department's regulatory framework and supervisory processes to ensure full compliance with the Core Principles for Effective Banking Supervision.
- Continued monitoring of banks' corporate-governance processes, with particular focus on the development of directors.
- Ongoing monitoring of banks' compliance with anti-money laundering legislation.
- Continued participation in the initiatives and activities of international and regional bank-supervisory bodies, such as the Basel Committee on Banking Supervision and the Subcommittee of Bank Supervisors of the Southern African Development Community.
- Ongoing combating and investigation of illegal deposit-taking by unregistered institutions and persons.
- Continued training of staff to meet the challenges posed by developments in regulatory and supervisory standards, both locally and internationally.

Expression of thanks

I wish to express my appreciation to the Minister and Deputy Minister of Finance for their valued input on requests in terms of statutory requirements. Sincere thanks also go to the Governor and deputy governors of the South African Reserve Bank for their continuous co-operation, guidance and support. I further wish to thank my fellow executive general managers with whom I serve on the Governor's Executive Committee.

The Department continued to benefit from the resolute relationships it has with numerous individuals and organisations, locally and abroad. These include, to name but a few, the Chief Executive Officer of the Financial Services Board (FSB) and his staff, the

Director of the Financial Intelligence Centre, the Chief Executive Officer of the National Credit Regulator, senior executives of banking institutions, The Banking Association South Africa, the Standing Committee for the Revision of the Banks Act, 1990, the auditing profession, the Basel Committee on Banking Supervision, the central bankers and bank supervisors, both in Southern Africa and elsewhere in the world, and staff of other departments of the South African Reserve Bank, with whom the Department has ongoing interaction.

Finally, I wish to thank my staff members for continuing to fulfil their tasks with dedication, enthusiasm and professionalism.

Errol M Kruger
Registrar of Banks and Executive General Manager: Bank Supervision Department

Chapter 2

Current issues in banking supervision

This chapter reports on the most important supervisory and regulatory developments during 2006. The most significant international development was the publication of the revised Core Principles for Effective Banking Supervision. Locally, The Bank Supervision Department intensified its efforts aimed at the implementation of the new Capital Accord, while continuing to focus on the development of bank directors. Other issues discussed in this chapter include concentration risk in the South African market, banks' compliance with anti-money laundering legislation, internal models for market risk, liquidity risk simulation, consolidated supervision, the Independent Regulatory Board of Auditors and training of the Department's staff.

important supervisory and regulatory developments

Core Principles for Effective Banking Supervision

During the year under review the Basel Committee on Banking Supervision continued its efforts to publish high-quality standards on banking supervision. Banking supervisors across the world would certainly concur that the highlight of 2006 was the Basel Committee's publication of a revised version of the document titled "Core Principles for Effective Banking Supervision", commonly referred to as the Core Principles. The Basel Committee is constituted of senior representatives of banking supervisory authorities from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States of America.

high-quality standards on banking supervision

The twenty-five principles

The Core Principles comprises twenty-five fundamental requirements, covering various components and aspects of a bank supervisory system, that need to be complied with for a banking supervisor to operate effectively and for banks to operate in a safe and sound manner. The revised principles, globally accepted as the building blocks of sound banking supervision, are as follows:

various components and aspects of a bank supervisory system

Principle 1 – Objectives, independence, powers, transparency and cooperation
An effective system of banking supervision will have clear responsibilities and objectives for each authority involved in the supervision of banks. Each such authority should possess operational independence, transparent processes, sound governance and adequate resources, and be accountable for the discharge of its duties. A suitable legal framework for banking supervision is also necessary, including provisions relating to authorisation of banking establishments and their ongoing supervision; powers to address compliance with laws as well as safety and soundness concerns; and legal protection for supervisors. Arrangements for sharing information between supervisors and protecting the confidentiality of such information should be in place.

Principle 2 – Permissible activities
The permissible activities of institutions that are licensed and subject to supervision as banks must be clearly defined and the use of the word "bank" in names should be controlled as far as possible.

Principle 3 – Licensing criteria
The licensing authority must have the power to set criteria and reject applications for establishments that do not meet the standards set. The licensing process, at a minimum, should consist of an assessment of the ownership structure and governance

of the bank and its wider group, including the fitness and propriety of Board members and senior management, its strategic and operating plan, internal controls and risk management, and its projected financial condition, including its capital base. Where the proposed owner or parent organisation is a foreign bank, the prior consent of its home country supervisor should be obtained.

Principle 4 – Transfer of significant ownership
The supervisor has the power to review and reject any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties.

Principle 5 – Major acquisitions
The supervisor has the power to review major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and confirming that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.

reflect risks that bank undertakes

Principle 6 – Capital adequacy
Supervisors must set prudent and appropriate minimum capital adequacy requirements for banks that reflect the risks that the bank undertakes, and must define the components of capital, bearing in mind its ability to absorb losses. At least for internationally active banks, these requirements must not be less than those established in the applicable Basel requirement.

identify, evaluate, monitor and control or mitigate all material risks

Principle 7 – Risk management process
Supervisors must be satisfied that banks and banking groups have in place a comprehensive risk management process (including Board and senior management oversight) to identify, evaluate, monitor and control or mitigate all material risks and to assess their overall capital adequacy in relation to their risk profile. These processes should be commensurate with the size and complexity of the institution.

Principle 8 – Credit risk
Supervisors must be satisfied that banks have a credit risk management process that takes into account the risk profile of the institution, with prudent policies and processes to identify, measure, monitor and control credit risk (including counterparty risk). This would include the granting of loans and making of investments, the evaluation of the quality of such loans and investments, and the ongoing management of the loan and investment portfolios.

Principle 9 – Problem assets, provisions and reserves
Supervisors must be satisfied that banks establish and adhere to adequate policies and processes for managing problem assets and evaluating the adequacy of provisions and reserves.

Principle 10 – Large exposure limits
Supervisors must be satisfied that banks have policies and processes that enable management to identify and manage concentrations within the portfolio, and supervisors must set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties.

Principle 11 – Exposures to related parties
In order to prevent abuses arising from exposures (both on balance sheet and off balance sheet) to related parties and to address conflict of interest, supervisors must

have in place requirements that banks extend exposures to related companies and individuals on an arm's length basis; these exposures are effectively monitored; appropriate steps are taken to control or mitigate the risks; and write-offs of such exposures are made according to standard policies and processes.

Principle 12 – Country and transfer risks
Supervisors must be satisfied that banks have adequate policies and processes for identifying, measuring, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining adequate provisions and reserves against such risks.

Principle 13 – Market risks
Supervisors must be satisfied that banks have in place policies and processes that accurately identify, measure, monitor and control market risks; supervisors should have powers to impose specific limits and/or a specific capital charge on market risk exposures, if warranted.

Principle 14 – Liquidity risk
Supervisors must be satisfied that banks have a liquidity management strategy that takes into account the risk profile of the institution, with prudent policies and processes to identify, measure, monitor and control liquidity risk, and to manage liquidity on a day-to-day basis. Supervisors require banks to have contingency plans for handling liquidity problems.

Principle 15 – Operational risk
Supervisors must be satisfied that banks have in place risk management policies and processes to identify, assess, monitor and control/mitigate operational risk. These policies and processes should be commensurate with the size and complexity of the bank.

Principle 16 – Interest rate risk in the banking book
Supervisors must be satisfied that banks have effective systems in place to identify, measure, monitor and control interest rate risk in the banking book, including a well defined strategy that has been approved by the Board and implemented by senior management; these should be appropriate to the size and complexity of such risk.

Principle 17 – Internal control and audit
Supervisors must be satisfied that banks have in place internal controls that are adequate for the size and complexity of their business. These should include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent internal audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.

Principle 18 – Abuse of financial services
Supervisors must be satisfied that banks have adequate policies and processes in place, including strict "know-your-customer" rules, that promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities.

Principle 19 – Supervisory approach
An effective banking supervisory system requires that supervisors develop and maintain a thorough understanding of the operations of individual banks and banking groups, and

also of the banking system as a whole, focusing on safety and soundness, and the stability of the banking system.

Principle 20 – Supervisory techniques
An effective banking supervisory system should consist of on-site and off-site supervision and regular contact with bank management.

Principle 21 – Supervisory reporting
Supervisors must have a means of collecting, reviewing and analysing prudential reports and statistical returns from banks on both a solo and a consolidated basis, and a means of independent verification of these reports, through either on-site examinations or use of external experts.

Principle 22 – Accounting and disclosure
Supervisors must be satisfied that each bank maintains adequate records drawn up in accordance with accounting policies and practices that are widely accepted internationally, and publishes, on a regular basis, information that fairly reflects its financial condition and profitability.

Principle 23 – Corrective and remedial powers of supervisors
Supervisors must have at their disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability, where appropriate, to revoke the banking licence or to recommend its revocation.

Principle 24 – Consolidated supervision
An essential element of banking supervision is that supervisors supervise the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential norms to all aspects of the business conducted by the group worldwide.

Principle 25 – Home-host relationships
Cross-border consolidated supervision requires cooperation and information exchange between home supervisors and the various other supervisors involved, primarily host banking supervisors. Banking supervisors must require the local operations of foreign banks to be conducted to the same standards as those required of domestic institutions.

Development of the Core Principles

heads of government of G7 countries

The heads of government of the G7 countries (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States of America) held their 1995 annual summit in Halifax, Canada, after which they issued a communiqué which included the following statement:

"Closer international cooperation in the regulation and supervision of financial institutions and markets is essential to safeguard the financial system and prevent an erosion of prudential standards. We urge:

– *a deepening of cooperation among regulators and supervisory agencies to ensure an effective and integrated approach, on a global basis, to developing and enhancing the safeguards, standards, transparency and systems necessary to monitor and contain risks."*

This message was reiterated in the G7 countries' communiqué following its summit held in Lyon, France, the following year. Support was also expressed for the adoption of strong prudential standards and the promotion of effective supervisory structures in emerging markets.

The Basel Committee, in response, explored ways in which it could increase its efforts aimed at strengthening prudential supervision worldwide. These efforts culminated in the Basel Committee publishing the original Core Principles in September 1997. The Core Principles document was drafted in association with supervisors from non-Basel Committee countries and is viewed as the first *bona fide* consensus document of the global banking supervisory community.

efforts aimed at strengthening prudential supervision worldwide

Banking supervisors use the Core Principles to assess the quality of their supervisory system and identify any weakness that may exist. The IMF and the World Bank use these principles to conduct Financial Sector Assessment Programs (FSAPs). FSAPs are programmes undertaken by the IMF and the World Bank to enhance the effectiveness and soundness of financial systems in countries. The key objectives of FSAPs are to identify the strengths and vulnerabilities of a country's financial system and to determine the way in which the major sources of risk to such systems are being managed. Following from this, the aim is to determine technical assistance requirements and prioritise policy responses.

Financial Sector Assessment Programs

The Core Principles, although widely viewed as a sound standard for the regulation and supervision of banks, posed a few difficulties to those tasked with assessing compliance with them. This was mainly a result of assessors interpreting the principles in diverging ways and therefore resulting in inconsistent assessments. In late 1998 the Basel Committee, in association with non-Basel Committee supervisors, the IMF and the World Bank, undertook a project to establish guidelines that would promote consistent assessment. This project resulted in the Basel Committee publishing the "Core Principles Methodology" (the Methodology) in October 1999.

Core Principles Methodology

The Methodology sets out assessment criteria and accompanying gradings which are to be applied when assessing compliance with each principle. The assessment criteria comprise essential and additional criteria. In determining compliance only the essential criteria are considered, while additional criteria are accepted as "best practice" which should be considered by countries with advanced banking systems.

assessment criteria and accompanying gradings

The assessment criteria have the following revised grading scale:

revised grading scale

- Compliant – a country will be considered compliant with a principle when all essential criteria applicable for this country are met without any significant deficiency. Of course, there may be instances where a country can demonstrate that the principle has been achieved by other means. Conversely, due to the specific conditions in individual countries, the essential criteria may not always be sufficient to achieve the objective of the principle, and therefore other measures may also be needed for the aspect of banking supervision addressed by the principle to be considered effective.

- Largely compliant – a country will be considered largely compliant with a principle if only minor shortcomings are observed which do not raise any concern about the authority's ability and clear intent to achieve full compliance with the principle within a prescribed period. The assessment "largely compliant" can be used when the system does not meet all essential criteria, but the overall effectiveness is sufficient and no material risks are left unaddressed.

- Materially non-compliant – a country will be considered materially non-compliant with a principle whenever there are severe shortcomings, despite the existence of formal rules, regulations and procedures, and there is evidence that supervision has clearly not been effective, that practical implementation is weak, or that the shortcomings are of such a nature to raise doubts about the authority's ability to achieve compliance. It is acknowledged that the "gap" between "largely compliant" and "materially non-compliant" is wide, and that the choice may be difficult. However, the intention is to force the assessors to make a clear statement.

- Non-compliant – a country will be considered non-compliant with a principle whenever there has been no substantive implementation of the principle, several essential criteria are not complied with or supervision is manifestly ineffective.

Revision of the Core Principles

significant developments have taken place

Following the publication of the original Core Principles, significant developments have taken place in both banking regulation and in the manner in which banks conduct their business. Issues that in particular have come to the fore are risk-management, corporate-governance and anti-money laundering concerns. Furthermore, the numerous compliance assessments that have been performed have identified some shortcomings in the Core Principles. In this light, the Basel Committee initiated the process of revising the Core Principles and its Methodology at the end of 2004.

Basel Core Principles Reference Group

The revision of the Core Principles was mainly executed by a Basel Committee working group, namely the Basel Core Principles Reference Group (BCP Reference Group). This working group consisted of representatives of the Basel Committee and the Core Principles Liaison Group (CPLG). The CPLG consists of senior representatives from eight Basel Committee member countries (France, Germany, Italy, Japan, the Netherlands, Spain, the United Kingdom, and the United States of America), 16 non-G10 supervisory authorities (Argentina, Australia, Brazil, Chile, China, the Czech Republic, Hong Kong, India, Korea, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, and the West African Monetary Union), the European Commission, IMF, World Bank, and the Financial Stability Institute.

mandate to the BCP Reference Group

The Basel Committee's mandate to the BCP Reference Group was to maintain continuity and comparability with the 1997 Core Principles framework and only focus on areas where modifications were required. The objective, therefore, was to update rather than rewrite the principles.

intensive discussions

The drafting process did not only involve intensive discussions within the BCP Reference Group, but also incorporated the views of banking supervisors not directly involved in the revision of the Core Principles. In addition, the comments from the International Association of Insurance Supervisors, the International Organization of Securities Commissions, the Financial Action Task Force and the Committee on Payment and Settlement Systems were considered. This culminated in an eleven-week global public consultation process which commenced in April 2006.

endorsed the revised Core Principles

Comments received during the public consultation process were processed whereafter the final versions were provided to the Basel Committee and the CPLG for their approval. Subsequently, at the biennial International Conference of Banking Supervisors which was held in Mérida, Mexico from 4 – 5 October 2006, senior bank supervisors from 120 countries endorsed the revised Core Principles and its Methodology, whereafter it was published by the Basel Committee.

Compliance with the revised Core Principles

Banking supervisors around the world concur that the adoption of the Core Principles enhances not only a banking supervisory system, but also the banking and financial sector in general. Some of the benefits that it offers to the supervisor are as follows:

benefits of the Core Principles

- Comprehensiveness – notwithstanding the fact that the principles cover numerous components of a supervisory system, a detailed assessment of each principle is possible as a result of the essential and additional criteria in the Methodology.

- Flexibility – the principles are flexible in that, for a number of criteria, compliance can be achieved in more than one way.

- Comparability – the principles focus on the key requirements for an effective supervisory system and compliance is possible for all supervisors globally. It therefore enables peer group comparisons.

During the first half of 2006 the Department performed a self-assessment of compliance with the revised Core Principles. The Core Principles had, at that stage, not yet been endorsed for publication and, therefore, the Department monitored all further amendments throughout the assessment process. This exercise was facilitated by the Department having served as a member of the BCP Reference Group.

Department performed a self-assessment

A project team was established in the Department comprising a chairperson, five senior staff members appointed as team leaders and two project co-ordinators. The team leaders who, in turn, each had six staff members reporting to them, were tasked with the responsibility of co-ordinating and steering the assessments that were being conducted. The two project co-ordinators were responsible for ensuring that the assessments were conducted in an objective and consistent manner.

project team was established

The key objectives of the self-assessment were to:
- benchmark the South African banking supervisory system against the Core Principles;
- conduct a comprehensive gap analysis; and
- develop an action plan for eliminating the shortcomings that were identified.

key objectives

The self-assessment conducted by the Department was very conservative in that gradings were not assigned to the principles, but rather to each essential and additional criterion of all the principles. Every graded criterion had to be supported by one or more of the following: The Banks Act; the Regulations relating to Banks; and the Department's supervisory process. Criteria not rated as compliant had to be explained clearly in terms of the shortcomings in the aforementioned categories, as applicable. This approach, although very time-consuming, allowed for the precise identification of shortcomings and the determination of rectification plans.

self-assessment was very conservative

The self-assessment process culminated in a three-day workshop attended by all of the Department's staff during the second quarter of 2006. The workshop was very successful in that it allowed different views to be expressed and also resulted in lively debates on certain issues. Following the incorporation of comments received at the workshop, the five team leaders were directed to implement the proposed rectification plans that would steer the Department to full compliance with the Core Principles.

process culminated in a three-day workshop project team continues to meet

A project team continues to meet on a monthly basis to assess the progress made in implementing the action plans. The ultimate objective for the Department is to obtain a favourable rating when it is next assessed by the IMF and World Bank FSAP.

The new Capital Accord (Basel II)

The 2004 and 2005 *Annual Reports* provide an extensive overview of the implementation of Basel II in South Africa.

intensify efforts to prepare for Basel II

During the past year all parties involved in and affected by the activities of the Accord Implementation Forum (AIF) became acutely aware of the full implication of the Basel II implementation date of 1 January 2008 and the required effort to meet associated deadlines. This prompted all involved to intensify their efforts to prepare for Basel II implementation during 2006.

Accord Implementation Forum activities

highlighted areas for improvement

A second draft of the proposed amendments to the Regulations relating to Banks (proposed Regulations) was made available by the Department to the AIF forums from the end of January 2006. The proposed regulatory returns were subjected to a variety of tests, which highlighted areas for improvement and further refinement. The AIF forums were given opportunity until 30 June 2006 to comment on this second draft.

comprehensive third draft of the proposed Regulations

As a result of continued work in the AIF forums, international developments and further information becoming available in certain areas, the commentary period for the AIF forums was extended to encapsulate further valuable input. A comprehensive third draft of the proposed Regulations was made available on 31 October 2006, whereafter further updated modules were released until the end of November 2006.

basis for banks' systems-development processes

Following the issuing of draft three of the proposed Regulations, the Department engaged actively with the chairpersons and delegates of the respective AIF task groups and subcommittees through structured meetings which were held until 8 December 2006, with a view to concluding high-priority issues that needed to be clarified and incorporated into a fourth draft of the proposed Regulations. This was a critical step to ensure that a stable draft of the proposed Regulations was produced to serve as a basis for banks' systems-development processes and preparation for the parallel runs that are scheduled to take place during the second half of 2007.

Minister of Finance will consider for approval

It is anticipated that the Minister of Finance will consider for approval the proposed Regulations during the latter part of 2007, which will enable the implementation of Basel II on 1 January 2008.

Overview of approaches

a variety of approaches

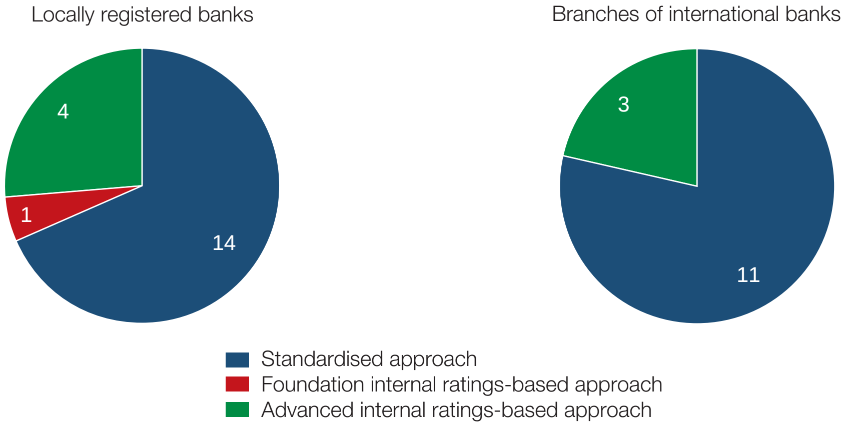
Basel I did not make provision for different approaches and all banks followed the same methodology for the calculation of the minimum required capital (MRC). By contrast, Basel II offers a variety of approaches, in particular for credit risk and operational risk. The use of the more advanced approaches would be subject to the approval of the supervisory authority. The Department will be processing the approval applications during 2007.

Credit risk

The targeted approaches in respect of credit risk are as follows:
- Standardised approach (STA)
- Foundation internal ratings-based (FIRB) approach
- Advanced internal ratings-based (AIRB) approach

The number of banks that have indicated they would be targeting the respective approaches for credit risk are as follows:

Figure A Credit risk

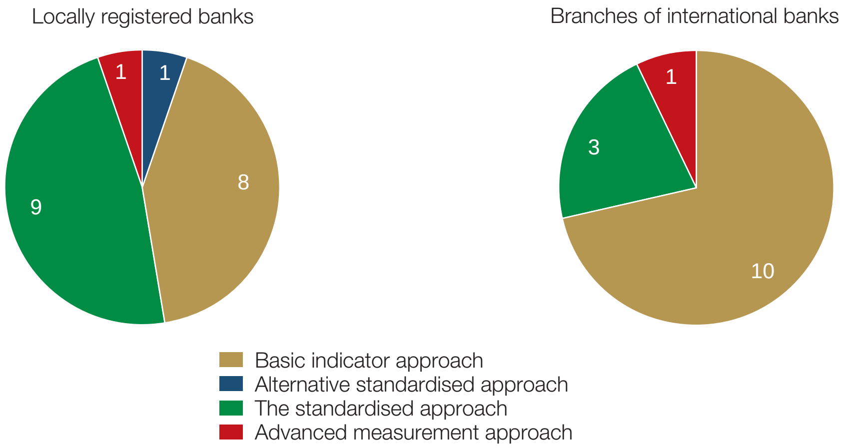


Operational risk

Targeted approaches in respect of operational risk are as follows:
- Basic indicator approach (BIA)
- Alternative standardised approach (ASA)
- The standardised approach (TSA)
- Advanced measurement approach (AMA)

The number of banks that have indicated they would be targeting the respective approaches for operational risk are as follows:

Figure B Operational risk



Quantitative Impact Study 5

During 2006 the Department requested locally-incorporated banks targeting the advanced approaches for credit and/or operational risk, as well as other specially selected smaller banks to take part in Quantitative Impact Study 5 (QIS 5). The banks were requested to complete and submit the QIS 5 worksheets by 31 July 2006.

purpose of QIS 5

The purpose of QIS 5 was manifold and included the following:
- Obtaining relevant information pertaining to the impact of implementing Basel II.
- Assessing the state of preparedness for Basel II implementation.
- Developing guidance on relevant issues pertaining to Basel II.

From a quantitative perspective, the QIS 5 results indicated that the MRC, in terms of Basel II and when compared to the MRC in terms of Basel I, would increase by:
- 12,70 per cent for Group 1 banks (banks implementing the advanced approaches for credit and/or operational risk); and
- 4,75 per cent for Group 2 banks (specifically selected smaller banks).

It should be noted that the above-mentioned increases in MRC, refers to a monetary value and not the capital-adequacy ratio. Currently, the banking sector is well-capitalised, and it is anticipated that the banking sector will remain well-capitalised upon implementation of Basel II. The banking sector, on a weighted basis, has made good progress in its capital management, *inter alia*, by managing capital on a proactive basis.

Formal field tests

resources, systems, processes and procedures

Banks are required to demonstrate that they have the necessary resources, systems, processes and procedures in place to duly populate and complete the proposed statutory returns with the implementation of Basel II. Accordingly, the Department conducted formal field tests during the year under review.

purpose of the field tests

The purpose of the field tests was to assist the Department in assessing the level of preparedness for the implementation of the new regulatory framework and to ensure that the objectives set for the proposed Regulations could be met and that they would facilitate the implementation of Basel II.

returns for credit risk and financial information

Banks that did not participate in the QIS 5 conducted formal field tests of the proposed returns for credit risk and financial information during the period September 2006 to November 2006. This was a valuable exercise to identify areas where refinement was needed in respect of regulatory reporting.

Conclusion

skills requirements in respect of Basel II

The ever-increasing demand for appropriately skilled resources is a worldwide phenomenon and skills requirements in respect of Basel II is a constant challenge. Notwithstanding, significant progress was made with the Basel II project in South Africa through the combined efforts of many interested parties within the National Treasury, the banks, the South African Institute of Chartered Accountants and, in particular, assistance from The Banking Association South Africa.

Apart from the quality of resources, supervisors worldwide continue to face many other challenges in ensuring that the implementation of Basel II can be effected in a manner that is appropriate in their respective countries, while at the same time ensuring that the objectives of the Basel II framework are achieved. As highlighted by the Chairman of the Basel Committee recently, supervisors have utilised supervisory tools in the past which fortunately will still be relevant for Basel II implementation, such as sound judgement.

many other challenges

Review of compliance with the Financial Intelligence Centre Act, 2001

As indicated in the 2005 *Annual Report*, two firms of auditors were commissioned to verify compliance with the requirements of the Financial Intelligence Centre Act, 2001 (FICA) by the five largest banks and in particular to verify the client-verification data that the banks had submitted to the Department during the year.

verify FICA compliance

As from January 2006, the review team of the Department performed a similar review of the remaining banks and selected branches of foreign banks. The review comprised an analysis of the policies and procedures of the banks concerned, coupled with the testing of sample files to assess whether or not each bank's policies and procedures complied with the implementation of best practice.

On completion of each review, each bank was informed of the Department's recommendations regarding improvements that could be made to the adopted policies and procedures.

The Department is of the opinion that banks and branches of foreign banks have made good progress in the implementation of anti-money laundering (AML) and combating the finance-of-terrorism (CFT) measures, and it will continue to monitor and supervise their progress in this regard.

banks have made good progress

Enforcement of deadline for client identification and verification

In terms of the exemption granted by the Minister of Finance in Government Notice No. 749 published in *Government Gazette* No. 26487 of 21 June 2004 (the exemption), banks were given until 30 September 2006 to establish and verify the identity of all the clients they had categorised as a low money-laundering risk. After this date, banks were to comply with the law by stopping transactions on the accounts of clients in the low risk category who had not co-operated with their bank in its efforts to comply with the provisions of the exemption.

verify the identity of all clients

The Department duly monitored the banks' compliance with the exemption and requested banks to provide it with the figures verifying their compliance and non-compliance with the know-your-customer (KYC) requirements in terms of FICA.

At the end of the process some banks were found to have been unable to identify and verify some of their customers across all categories of risk, and this was accordingly communicated to the FIC. The aforementioned banks were requested to submit detailed plans of action to address the non-compliance.

Cellular telephone banking

challenges with AML/CFT compliance

The banking industry continued to extend banking services to a wider range of prospective clients. One of these initiatives was cellular telephone (cell phone) banking. The introduction of cell phone banking, however, brought about unique challenges with regard to compliance with AML/CFT measures. The Department released Banks Act Circular 6/2006 in July 2006 to provide guidance to banks to ensure that they had adequate and appropriate policies and procedures in place to detect, investigate and prevent money laundering and the financing of terrorism.

The cell phone banking product is covered by exemption 17 of the exemptions in terms of FICA and is therefore subject to reduced requirements to establish and verify a client's identity. The circular highlighted further parameters and conditions that banks had to put in place if they wished to provide cell phone banking products.

Banks' operations in Africa and the impact of FICA

uniform compliance with Financial Action Task Force standards

South African banks have expanded their operations into the African region. It is therefore important, in terms of cross-border supervisory standards, that all regulatory authorities in Africa ensure industry alignment and uniform compliance with Financial Action Task Force (FATF) standards. South Africa contributes to this objective through its participation in the East and Southern African Anti-Money Laundering Group (ESAAMLG) and the Committee of Central Bank Governors (CCBG).

Supervisory process

role of internal audit function

The Department proposed that the role of the internal audit function of banks be extended to include FICA requirements. During 2007, the internal audit function of each bank will be required to report to the Department on the following:

- A high-level overview of internal audit functions in respect of the implementation of AML/CFT.
- Key internal audit findings in respect of the 2006 financial year as well as the 2007 financial year to date.
- An overview of reports issued, actions taken and the timing thereof, in order to address the key findings.
- Interaction with the bank's audit committee and anti-money laundering control officer responsible for AML/CFT.
- An overview of the internal audit plan for the forthcoming twelve months, including the adequacy of resources.
- An overview of the current compliance status with AML/CFT requirements.

staff to be fully trained in AML/CFT

Banks were requested to have their staff fully trained in AML/CFT and to furnish the Department with copies of their training programmes and manuals. Banks were also encouraged to expose their directors to enhanced training in AML/CFT.

Combating illegal deposit-taking

business of a bank

The Department is primarily responsible for the regulation and supervision of registered banks in the Republic of South Africa. It neither registers nor supervises investment schemes. The Banks Act, however, provides that no person may conduct the "business of a bank" unless such a person is a public company and is registered as a bank. The "business of a bank" is defined in the Banks Act and can be described as the soliciting or advertising for or the acceptance of "deposits" from the general public as a regular feature of a business. There are a number of exclusions and exemptions to the above-mentioned prohibition.

"deposit" comprehensively defined

A "deposit" is comprehensively defined in the Banks Act, but can be described as an amount of money paid by one person to another subject to an agreement in terms of which an equal amount or any part thereof will be repaid on demand, on a specified or unspecified date, or in agreed upon circumstances. There are a number of specified exemptions to the aforementioned general definition.

high degree of confidence and trust

Deposit-taking, i.e. conducting the business of a bank, requires a high degree of confidence and trust and it is for these reasons that banks need to be stringently regulated. When deposits are illegally taken from the general public by unregulated and unsupervised persons and entities, such deposits are not afforded any level of trust and confidence as enjoyed by the banking system.

powers to control activities of unregistered persons

Sections 81 to 84 of the Banks Act afford the Department certain powers to control the activities of unregistered persons. These activities are, however, confined to illegal deposit-taking. The above-mentioned provisions provide, *inter alia*, that the Registrar of Banks may do the following in respect of unregistered persons suspected of taking deposits from the general public in contravention of the Banks Act:

- Apply to court for an order prohibiting anticipated or actual schemes involving illegal deposit-taking;
- exact information from unregistered persons;
- inspect the affairs of an unregistered person (inspectors are appointed by the Governor or deputy governors of the South African Reserve Bank in terms of the provisions of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989);
- direct such a person to repay such money if the Registrar is satisfied that the person has illegally taken deposits from the general public; and
- appoint a manager to manage and control the repayment of the money unlawfully obtained.

The Department understands the rationale for the above-mentioned powers to be the following:

- As banks are subjected to stringent regulation and meticulous supervision in exchange for the right to accept deposits from the general public, it is unfair and untenable to allow unregistered persons not subjected to the same regulation and meticulous supervision to compete with banks in an unfettered manner. The Department is therefore empowered to take action against unregistered persons in order to prevent unfair competition with registered banks. The regulation of banks described above is a costly but necessary exercise in the interest of the public. The unregulated person, however, has the advantage of freedom brought about by non-regulation and therefore competes with the regulated person unfairly.

- Notwithstanding the fact that deposit-taking from the general public by an unregistered person is a criminal offence, deposit-taking schemes are often characterised by an element of fraud and are harmful not only to the established and regulated banking system but also to the economy as a whole. To prevent the development of a secondary illegal, harmful and/or fraudulent "banking" system, it is necessary for the Department to enforce the above-mentioned powers.

- Another purpose of the above-mentioned powers is to contribute to depositor or investor protection.

Department only reacts to complaints

Since the Department neither registers nor supervises unregistered persons, it is generally not aware of such deposit-taking schemes unless it is informed thereof by members of the public. The Department only reacts to complaints received from the general public that contain sufficient details and documentary evidence to justify the Department invoking its powers in terms of the Banks Act.

exorbitant returns on investments

One of the hallmarks of these investment schemes is that they offer exorbitant returns on investments, thereby luring depositors on a large scale. In recent cases, it has been found that the managers of such schemes often fraudulently justify the exorbitant returns by stating that funds taken from the public will be invested in lucrative property developments, or by providing so-called “bridging finance” at a higher rate than the promised return or by means of a foreign-exchange transaction yielding income in excess of the promised return. Schemes of this nature that have been investigated by the Department have all failed and have been found to be well-disguised pyramid schemes where investors have lost all or large portions of their investments.

investors fully aware of risks involved

Although the Department is concerned about the number of uninformed persons losing their hard-earned money or life savings through such schemes, it seems the continued existence and frequent establishment of these schemes are the result of greedy investors who are fully aware of the risks involved, but are making a healthy profit by withdrawing from the scheme at an early stage and at the cost of investors who join the scheme at a later stage.

During the year under review, the Department investigated approximately forty such businesses or investment schemes.

Market risk

internal model approach

There are twelve banks in South Africa that conduct proprietary trading and report on the resulting market risk. To calculate the capital requirement for market risk, three of these banks report to the Department according to the internal model approach (IMA). Another three banks are in the process of applying to the Department for approval to use this approach. Seven banks report according to the building-block method and the remaining two employ the simplified method.

increased frequency of on-site reviews

The imminent introduction of Basel II and its greater sensitivity to bank-wide risk is an additional motivating factor encouraging banks with significant market-risk exposures to pursue the IMA. Accompanying the task of annual and new approvals for this approach is a strategy for the increased frequency of on-site reviews that the Department has begun to deploy. The short-term reviews aim to assess operational risks associated with applying the IMA, and to review the validity of the multiplication factor more regularly, enabling a more rapid response to adjusting capital requirements via the multiplication factor under both adverse and favourable circumstances.

documentary investigation, on-site inspection and interviews

The Department conducted in-depth reviews on banks following the IMA, as part of the process of annual IMA approval and re-assessment of the value-at-risk (VaR) multiplication factor. In addition, a new application for the use of the IMA by a bank was reviewed. The Department’s assessments are thorough, measuring the compliance of the banks’ treasuries, market-risk departments and back-offices with standards set out in the Core Principles, as well as qualitative standards for banks with IMA approval documented in the integrated version of the Basel II framework, as published in June 2006. The reviews address economic, regulatory, prudential, technical, mathematical, organisational and governance-related aspects of the banks' treasury operations, taking the form of documentary investigation and on-site inspection and interviews. Following the Department's satisfactory findings, approval was granted to a bank applying for first-time use of the IMA and all the banks applying for renewals of approval.

market volatility

Upward movements in the local interest rate environment, as well as escalated activity in equities markets marked by continual record-breaking levels in the JSE all-share index, coupled with a weakening in the rand-dollar exchange rate resulted in dramatic increases in volatility and in the position risk of trading banks in the latter half of the year. This market volatility triggered noticeable increases in the trading profitability of many banks during August and September 2006. Most banks did not adjust their trading limits or increase their appetite for market risk during this period.

Liquidity risk

general increase in liquidity risk

Due to the growth in long-dated assets, i.e. mortgage loans which were mainly being funded by short-term funding, the Department continued to focus on liquidity risk management during the year under review. This asset growth had resulted in a general increase in liquidity risk especially in the short-term maturity mismatch of banks. The Department, at the annual meetings held with the respective boards of directors of banks, engaged on this issue.

ongoing monitoring of action plans

As indicated in the 2005 *Annual Report*, all issues that the Department identified during the reviews were communicated to the banks concerned. As part of its ongoing monitoring of action plans, the Department continued to monitor the progress of the reviewed banks' action plans.

simulated liquidity crisis

As a result of these action plans one bank, in conjunction with consultants, conducted an exercise to test the effectiveness of its contingency strategy in a simulated liquidity crisis. Central to the simulation exercise was stress testing the dependency of wholesale funding by way of bank-specific events and external events that had an impact on the bank occurring over a short time frame, and the ability of the bank to handle the liquidity crisis independent of any assistance from the South African Reserve Bank. The exercise required responses from all functional areas of the bank and management. The Department primarily participated in the exercise in an observer role and, to a limited extent, interactively.

banks should communicate with the Department

Various tools and procedures utilised by the bank proved effective in identifying a crisis and monitoring key liquidity risk indicators. The management of the bank found the exercise to be invaluable since it highlighted those areas where further enhancements to the existing contingency policies and procedures were required. The exercise also made it evident that banks should communicate with the Department more promptly when a crisis is identified.

In 2007 liquidity risk supervision will focus on developing liquidity risk-monitoring practices during the field testing of the draft regulatory returns in preparation for implementing the proposed Regulations in line with Basel II. In particular, the proposed Regulations will include behavioural aspects of deposit volatility, while supervisory reviews will examine the utility of stress testing conducted by banks.

Supervision of financial conglomerates: Joint Forum

banking, securities and insurance sectors

The standard-setting body with respect to the supervision of financial conglomerates is the Joint Forum, a body of financial-sector supervisors with equal representation from the banking, securities and insurance sectors. It was established in 1996 under the auspices of the Basel Committee, the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) – often referred to as the Joint Forum parent committees.

The work of the Joint Forum encompasses issues relating to financial conglomerates as well as issues that are of common interest to the three parent committees. It has published a number of papers setting out principles to be applied in the supervision of financial conglomerates. These publications, which were originally issued in 1999, were reissued as a compendium in 2001.

Brazil, India and South Africa were invited to participate

In addition to the two working groups already in existence, dealing with (i) how firms identify and manage concentrations, and (ii) how they manage the risks related to customer suitability, the Joint Forum recently created a third working group which held its first meeting on 2 and 3 November 2006 in Basel, Switzerland. Although they are not Joint Forum member countries, Brazil, India and South Africa were invited to participate in this new working group, called the Joint Forum Working Group on Conglomerate Principles (JFCP). The JFCP's mandate comprises taking stock of the implementation by supervisors worldwide of the principles contained in the Joint Forum's *Supervision of Financial Conglomerates* (the Joint Forum principles) issued in 1999.

incorporated into South African banking legislation

The Joint Forum principles were incorporated into the South African banking legislation in November 2000, when the Regulations were promulgated with respect to banking groups. Furthermore, the Department has for some time been engaged in the process of formalising its working arrangements through Memoranda of Agreements for sharing information with supervisory agencies internationally in the various jurisdictions where South African banks' operations are located. In addition, a Memorandum of Agreement has been locally entered into with the FSB, the regulator of non-bank financial institutions in order to foster the supervision of financial conglomerates with bank and non-bank regulated entities and to facilitate the sharing of information pertaining to such conglomerates. Furthermore, formal meetings are held, on a quarterly basis, with the FSB to discuss, among other matters, those relating to conglomerate groups.

The Joint Forum principles require that the fitness and properness of individuals in financial conglomerates are assessed. The vetting by the Department of individuals regarding fitness and properness for the appointment of directors as executive officers has always been applied at the levels of both the bank and the bank controlling company and in consultation with the FSB. Furthermore, an amendment to the banking legislation, promulgated in 2003, further enhanced the Department's powers by vesting in it the power to object to any such appointment. With respect to shareholding, South African banking legislation requires the Registrar of Banks' approval when the shareholding in a bank or banking group breaches the thresholds of 15 and 24 per cent. The Minister of Finance's approval, in addition to that of the Registrar of Banks, is required when shareholding breaches the 49 and 74-per-cent thresholds.

continued compliance with the Joint Forum principles

Finally, the imperative of ensuring continued compliance with the Joint Forum principles has been fully taken into account in the Basel II implementation process which is intended to culminate with full implementation on 1 January 2008.

Independent Regulatory Board of Auditors

Auditing Profession Act, 2005 promulgated

Following recommendations made by the Review Panel on the Accountancy Profession, set up by the Minister of Finance in December 2002 in the aftermath of high-profile corporate failures that had taken place both locally and internationally during the preceding three years, the Auditing Profession Act, 2005 (the Act) was promulgated and assented to by the President of the Republic of South Africa in January 2006. This Department served on the aforementioned Review Panel. The Act came into effect on 1 April 2006, thereby heralding the beginning of a new era of regulation of the auditing profession in South Africa through the creation of the Independent Regulatory Board of Auditors (IRBA), a statutory regulatory body that superseded the Public Accountants and Auditors Board which ceased to exist from that date.

objectives of the Act

The objectives of the Act include:
- the establishment of IRBA;
- the protection of members of the public through the regulation of audits performed by auditors;
- the development and maintenance of international standards of auditing and ethics;
- advancing the implementation of appropriate standards of competence and ethics; and
- the development and implementation of appropriate disciplinary procedures in respect of improper conduct.

The Board of Directors (Board) of IRBA, which is funded jointly by government and the auditing profession, comprises representatives who are not registered auditors as well as registered auditors. The Act, however, prescribes that the majority of IRBA Board representatives be persons who are not registered auditors, with the maximum of registered auditor representatives being limited to 40 per cent of the Board.

functions of IRBA

The functions of IRBA are:
- promoting professional integrity;
- protecting the public in dealings with registered auditors;
- prescribing standards of professional competence, ethics and conduct;
- encouraging continued education and research;
- prescribing auditing standards;
- governing the accreditation of professional bodies;
- governing the registration of auditors; and
- determining registration fees and charges.

IRBA committees

In terms of section 20(2) of the Act IRBA must, at least, establish the following permanent committees:
- Committee for Auditor Ethics;
- Committee for Auditing Standards;
- Education, Training and Professional Development Committee;
- Inspection Committee;
- Investigating Committee; and
- Disciplinary Committee.

Section 22(1)(h) of the Act stipulates that one of the members of the Committee for Auditing Standards must be an incumbent of the Department or a person nominated by that incumbent.

Furthermore, IRBA, through its disciplinary committee, is responsible for the development and maintenance of appropriate discipline and procedures in respect of improper conduct by registered auditors. The disciplinary code is applicable to both individual members and audit firms.

duty on registered auditors to report

The Act has also placed the duty on registered auditors to report to IRBA whenever they are satisfied or have reason to believe that a reportable irregularity has taken place or is taking place in an entity in respect of which they are the registered auditors, in terms of section 45 of the Act. The Act places a duty on IRBA to further report such continuing irregularities pertaining to banking institutions to the Department. This replaces the requirements pertaining to material irregularities which were applicable under the now repealed Public Accountants and Auditors Act, 1991.

Training of staff

ensure that the skills base is constantly improved

To ensure that the skills base of the Department is constantly improved, considerable resources are allocated for training purposes. During the year under review the Department allocated approximately R1 million of its funds to the training of approximately 90 employees. This training enables staff to:
- implement sound global supervisory standards and practices;
- share supervisory practices and experiences; and
- promote cross-border supervisory contacts and co-operation.

International courses attended

During the year under review, staff members attended the following courses:
- IMF Regional Meeting on Financial Soundness Indicators Co-ordinated Compilation Exercise, in Brazil.
- Basel II and Financial Stability: Preconditions and Implementation Challenges, in Indonesia.
- International Banking Supervision Seminar: Core Supervisory Issues and the Core Principles, in Switzerland.
- The Financial Services Authority International Seminar, in the United Kingdom.
- The Federal Reserve Bank's Bank Supervision Specialised Course, in the United States of America.

Basel II training

Regarding the validation and monitoring of the advanced approaches for Basel II, risk specialists and quantitative experts will need to sufficiently understand a bank's internal ratings systems and models to conduct an initial validation and to monitor compliance. This will require a high level of expertise in areas such as statistics, modelling techniques and evaluation, simulation and stress testing.

commenced training on a number of fronts

The Department has recognised these challenges and has commenced training on a number of fronts as outlined below:

Firstly, the continued subscription to FSI Connect, a web-based training programme developed by the Financial Stability Institute of the Bank for International Settlements (FSI). The programme consists of more than 130 modules, each module covering a specific topic which includes a self-test that must be passed by the participant before graduating to the next module.

Secondly, vetting sessions on the draft Basel II returns were attended by all staff.

Thirdly, specialised training courses were presented in Pretoria.

- A reputable London-based consultancy presented Basel II training courses which had been adapted to ensure that they complied with South African legislation. The courses covered the following modules:
  - Fundamentals of credit risk and operational risk.
  - Basel II frameworks and risk mitigation.
  - Modelling and rating regimes.
  - Loss given default and exposure at default.

- The Federal Deposit Insurance Corporation of the United States of America presented a four-day training programme on operational risk in relation to Basel II, in Pretoria. The course content was comprehensive and well structured, enabling the participants to develop a thorough understanding of operational risk from a bank supervisor's perspective.

Intermediate Course in Risk-based Supervision

Department provided SADC training

During the year under review the Department hosted and presented the fourteenth Intermediate Course in Risk-based Supervision. The course was attended by fifteen participants from Angola, Mauritius, Malawi, Mozambique, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

The objectives of the course were to:

- update participants on current best practice in risk management as set out in the revised Basel Core Principles;
- provide a platform to discuss problem-bank resolution;
- provide an overview of the latest developments with Basel II; and
- provide a forum for the exchange of ideas on common problems such as combating money-laundering and the implementation of best supervisory practice, such as improving corporate governance in banks.

Regional training initiatives

The FSI presented a regionally-focused seminar in Pretoria during May 2006. The seminar, titled "Basel II and its implementation", covered the implementation and practical application issues relating to the Basel II framework. The various approaches for measuring credit risk, Pillar 2 and Pillar 3 issues, and cross-border issues were covered. The seminar was attended by twenty-four participants from twelve Southern African Development Community (SADC) countries.

Chapter 3

Developments related to banking legislation

ensure that legal framework remains relevant

A key responsibility of the Department is to ensure that the legal framework for the regulation and supervision of banks and banking groups in South Africa remains relevant and current. Consequently, the legal framework pertaining to banking regulation has to take account of local and international developments relating to the markets and the applicable regulatory standards. The Department, therefore, has to review the banking legislation – that is, the Banks Act, 1990, the Mutual Banks Act, 1993, the regulations thereto and other related banking legislation – on an ongoing basis and to effect the necessary amendments.

proposed amendments to Banks Act

In its previous *Annual Report* the Department provided an exposition of the proposed amendments to the Banks Act together with the reasons and motivations for such amendments. The proposed amendments were drafted by members of the Department and debated at a number of meetings of the Regulatory Framework Subcommittee (the Regulatory Subcommittee) of the Accord Implementation Forum (AIF). This process culminated in draft five of the proposed Banks Amendment Bill, 2006 (the Bill) being discussed and approved in principle by the Standing Committee for the Revision of the Banks Act (the Standing Committee), subject to certain changes that had to be affected, at a meeting held on 26 May 2006.

The Bill (draft six) was duly adapted in accordance with the directions of the Standing Committee and was submitted to the Minister of Finance for his consideration and approval to publish for comment. In September 2006 the Department was informed by the National Treasury that the Bill may be published on the Internet websites of both the National Treasury and the South African Reserve Bank for comment.

The Bill (draft six) was published on the above-mentioned websites on 7 September 2006 and the Department received comments up to and including 7 November 2006.

The Bill (draft six), together with the comments received, was debated at a meeting of the Standing Committee which was held on 15 November 2006. The Standing Committee made determinations about the (non)acceptability of individual comments received and approved the Bill on condition that the necessary amendments be effected. Feedback regarding the comments received and the determinations made by the Standing Committee was provided to the Regulatory Subcommittee at a meeting held on 24 November 2006. Feedback was also provided to the Steering Committee of the AIF at a meeting held on 27 November 2006. Both committees were satisfied with the Bill and the determinations that were made by the Standing Committee and no objections were raised.

Bill scheduled to be tabled in Parliament during 2007

The relevant determinations that were made by the Standing Committee were incorporated into the Bill which resulted in the production of draft seven of the Bill. The memorandum on the objectives of the Bill was also adapted accordingly. The date of the Bill was amended to refer to 2007, as the Bill is scheduled to be tabled in Parliament during 2007.

The Department has taken due care to produce a Bill that will not only serve as a basis for the successful implementation of the prescriptions of the new Capital Accord, Basel II, but will also continue to keep the legal framework pertaining to the regulation and supervision of banks in South Africa in compliance with international standards.

The Department is furthermore satisfied that the Bill is the product of thorough research that has been augmented by an extensive consultation process involving the banking industry, the auditing profession and the National Treasury, ensuring the attainment of broad consensus on the provisions and principles embodied in the Bill.

extensive consultation process

Although the short title of the Bill proposes that it comes into operation on 1 January 2008, this is merely stated to indicate the proposed implementation date of Basel II. It is hoped that the Bill will be promulgated much sooner to provide legal certainty not only to the banking industry, but also to the Department as the banking supervisor. Advance certainty about the legal framework would assist greatly in ensuring a smooth transition from the current Capital Accord to Basel II on 1 January 2008. In order to be prepared for the transition, all stakeholders involved in the process will be required to implement and adopt a vast number of current and new policies, processes and procedures in 2007.

new policies, processes and procedures

Regulations relating to Banks

As indicated in the previous *Annual Report*, the prescriptions contained in Basel II have necessitated a complete review of the Regulations relating to Banks (Regulations). The process of drafting amendments to the Regulations has been managed via the AIF (refer also to the section on Basel II in Chapter Two) and its various subcommittees. On 31 August 2006 draft three of the proposed amendments to the Regulations (proposed Regulations) was submitted to the Minister of Finance for initial review and evaluation. Draft three of the proposed Regulations was also circulated to the AIF on 31 October 2006 for further testing and to facilitate discussion of high-priority issues.

review of Regulations

The Department received comments on draft three up to the end of December 2006. The comments received will be incorporated into the proposed Regulations and it is envisaged that draft four of the proposed Regulations will be available during the first quarter of 2007.

The proposed Regulations will be tabled at the Standing Committee during 2007 for its approval, after which it will be finalised and submitted to the Minister of Finance for his consideration and approval.

will be submitted to the Minister of Finance

Chapter 4

Trends in South African banks

This chapter contains the banking-sector overview of monthly financial information received from registered banks for the year under review. Certain comparative figures in respect of 2005 may differ from those reported in the 2005 *Annual Report*, as some banking institutions subsequently submitted amended returns.

reports and graphs dominated by activities of four largest banks

The reports and graphs presented in this chapter are dominated by the size of the balance sheets and activities of the four largest banks, which constituted 84,1 per cent of the banking-sector assets in December 2006 (December 2005: 83,8 per cent). The five largest banks constituted 89,7 per cent of the banking sector as at the end of December 2006 (December 2005: 89,6 per cent). A list of the balance-sheet sizes of individual banks is available in Appendix 2.

4.1 Balance-sheet structure

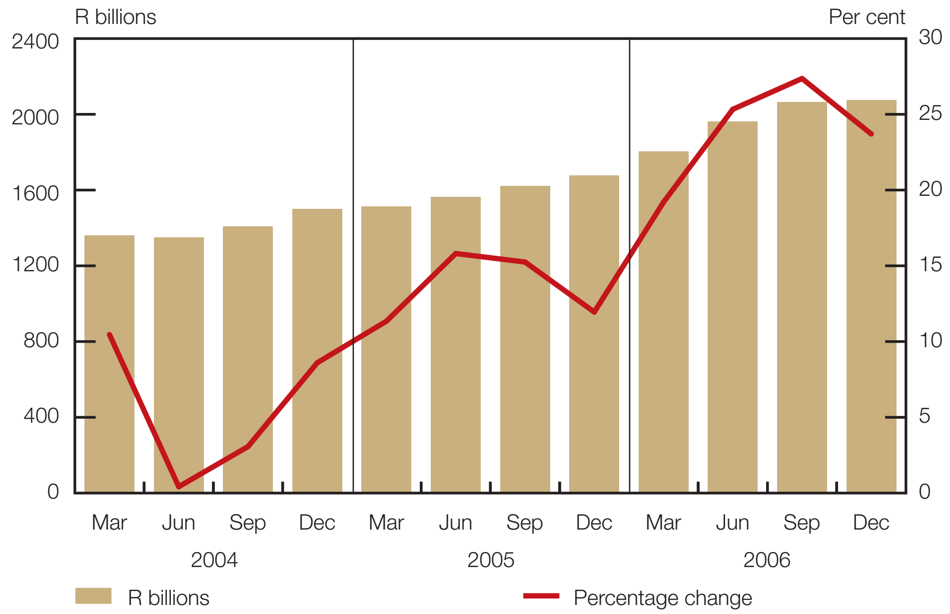
determine the type and spread of banks' business activities

The composition of the balance sheet is analysed to determine the type and spread of banks' business activities, as well as to consider the impact of changes thereto on the risk profile of the banking sector. The aggregated balance-sheet size of the banking sector in South Africa amounted to R2 075,1 billion as at 31 December 2006, in comparison to R1 677,5 billion as at 31 December 2005 and R1 498,4 billion as at 31 December 2004.

annual growth of 23,7 per cent

Figure 1 depicts the quarter-end value and percentage growth (measured over 12 months) in the aggregated balance sheet of the banking sector for the period March 2004 to December 2006. The aggregated balance sheet of the banking sector continued to grow strongly, albeit at a slower rate, during the fourth quarter of 2006. During 2006 the growth rate accelerated until September 2006 (27,4 per cent) and ended the year at 23,7 per cent (December 2005: 12 per cent).

Figure 1 Aggregated balance sheet



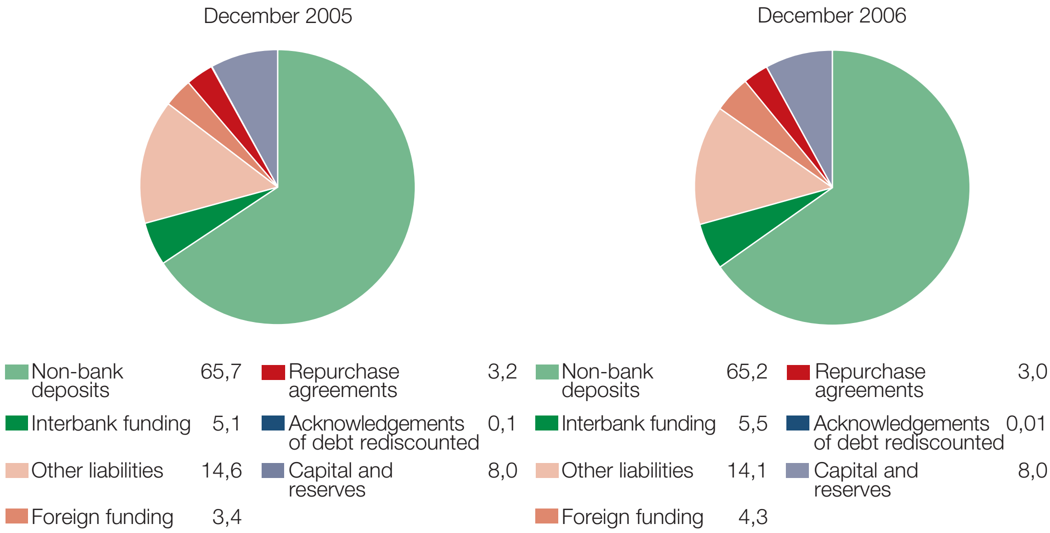
4.1.1 Liabilities

non-bank deposits remained main source of funding

A year-on-year comparison of the composition of liabilities is reflected in Figure 2. Total liabilities as at the end of December 2006 equalled R2 075,1 billion, as opposed to R1 677,5 billion as at the end of December 2005. Non-bank deposits remained the main source of funding for the banking sector and constituted 65,2 per cent of total liabilities in December 2006, compared to 65,7 per cent in December 2005. Other liabilities, repurchase agreements and acknowledgements of debt rediscounted, as a percentage of total liabilities, however, decreased from 14,6 per cent, 3,2 per cent and 0,1 per cent, respectively, in December 2005 to 14,1 per cent, 3,0 per cent and 0,01 per cent in December 2006. Foreign and interbank funding increased from 3,4 per cent and 5,1 per cent, respectively, in December 2005 to 4,3 per cent and 5,5 per cent in December 2006. Capital and reserves remained unchanged at 8,0 per cent of total liabilities.

Figure 2 Liabilities (year-on-year comparison)

Per cent

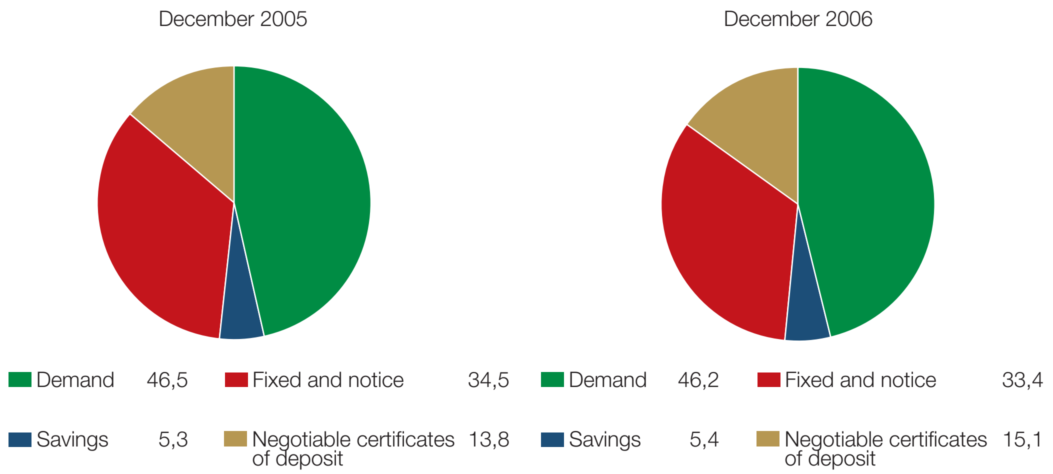


4.1.2 Non-banks deposits

demand deposits constituted largest portion

Figure 3 reflects a year-on-year comparison of the composition of non-bank deposits. Total non-bank deposits as at the end of December 2006 equalled R1 353,2 billion, as opposed to R1 101,5 billion as at the end of December 2005. Demand deposits and fixed and notice deposits as a percentage of total non-bank deposits constituted the largest portion of total non-bank deposits, followed by negotiable certificates of deposit (NCDs) and savings accounts. Demand deposits and fixed and notice deposits as a percentage of total non-bank deposits decreased from 46,5 per cent and 34,5 per cent, respectively, in December 2005 to 46,2 per cent and 33,4 per cent in December 2006. The share of non-bank deposits represented by NCDs increased from 13,8 per cent as at the end of December 2005 to 15,1 per cent as at the end of December 2006. The increase in NCDs during 2006 can be attributed to investors switching to NCDs due to the favourable characteristics of the instrument in an environment of higher interest rates. Savings deposits constituted a small portion of total non-bank deposits, amounting to 5,4 per cent in December 2006 (December 2005: 5,3 per cent).

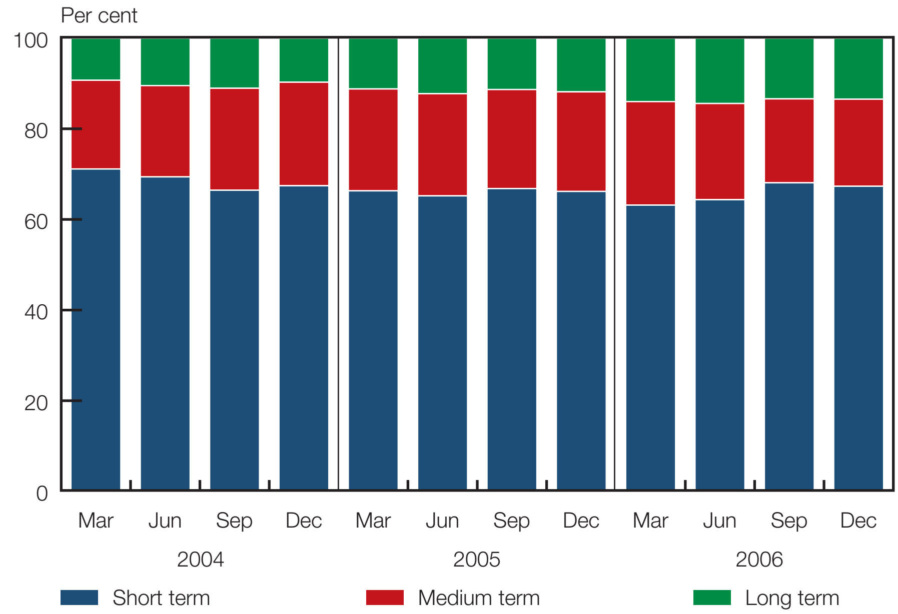
Figure 3 Composition of non-bank deposits



short-term deposits remained largest component

The composition of non-bank deposits according to maturity is portrayed in Figure 4. Short-term deposits remained the largest component of total non-bank funding and accounted for 67,3 per cent of total non-bank funding as at the end of December 2006, compared to 66,2 per cent as at the end of December 2005 and 67,4 per cent as at the end of December 2004. Medium-term deposits accounted for 19,2 per cent as at 31 December 2006, compared to 22,0 per cent and 22,9 per cent as at the end of December 2005 and 2004, respectively. Medium-term deposits decreased during the third quarter of 2006 to 18,5 per cent in September 2006 (June 2006: 21,2 per cent) as a result of a decrease in medium-term fixed and notice deposits and, to a lesser extent, medium-term NCDs. Although long-term deposits remained the smallest component of total non-bank funding and accounted for 13,5 per cent of total non-bank funding as at 31 December 2006, they portrayed steady growth when compared to 11,9 per cent and 9,7 per cent as at the end of December 2005 and 2004, respectively.

Figure 4 Composition of non-bank deposits according to maturity



As shown in Figure 5, growth in short-term deposits increased at a steady pace over the past three years, increasing from 11,3 per cent in December 2004 to 18,8 per cent in

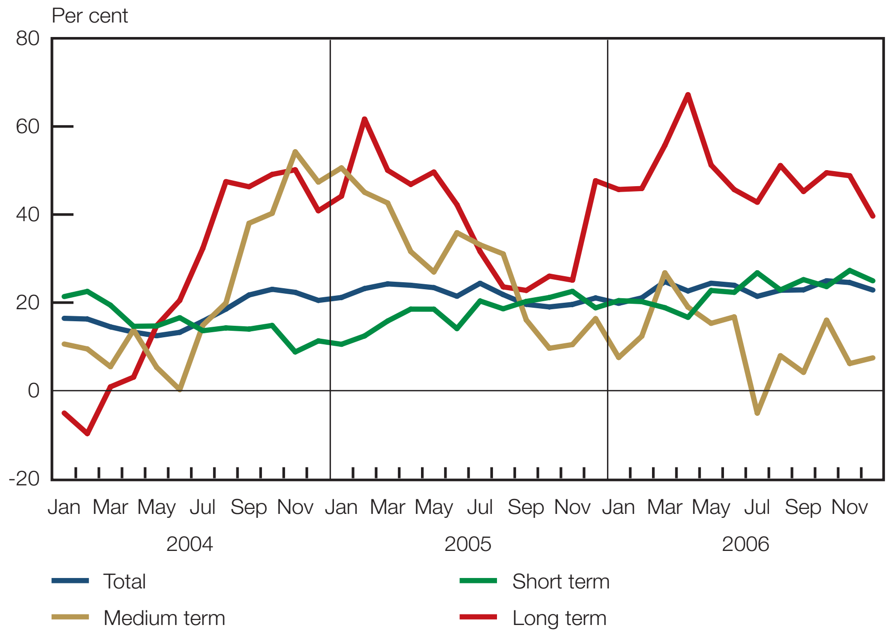
December 2005 and, by the end of December 2006, had increased to 25,0 per cent (percentage change over 12 months). The growth rate in short-term deposits was comparable to the growth rate in the total balance sheet size for the period under review. Demand deposits were the main contributor to the growth in short-term deposits.

Growth in medium-term deposits was at a lower level than short and long-term deposits during 2006. Medium-term deposits consist mainly of fixed and notice deposits and to a lesser extent, NCDs. These two sources of funding, although fluctuating, increased only slightly in the medium term, whereas as long-term deposits they increased substantially during 2006. Growth in medium-term deposits decreased from 16,4 per cent in December 2005 to 7,5 per cent in December 2006. In July 2006, medium-term deposits had a negative growth rate of 5,1 per cent due to a decline in medium-term fixed and notice deposits.

Growth in long-term deposits remained above 40 per cent for most of 2006, peaking at 67,2 per cent in April 2006, before decreasing to 39,6 per cent in December 2006.

growth in long-term deposits remained above 40 per cent

Figure 5 Growth in non-bank deposits according to maturity (change over 12 months)



In addition, at the end of December 2006 other major sources of funding included the following:

- Interbank funding amounting to R113,7 billion, having increased by 32,8 per cent during 2006.
- Foreign funding amounting to R89,6 billion, having increased by 57,6 per cent during 2006. The increase was mainly due to a growth in foreign funding deposits from banks, often foreign operations of locally registered banks.
- Funding received under repurchase agreements amounting to R61,5 billion, having increased by 13,3 per cent during 2006.
- Other liabilities amounting to R291,9 billion, having increased by 19,2 per cent during 2006.

4.1.3 Assets

Figure 6 reflects a year-on-year comparison of the composition of assets as at 31 December 2005 and 31 December 2006. Banking-sector assets increased by R397,6 billion during 2006 – representing a growth rate of 23,7 per cent – to a total of R2 075,1 billion as at the end of December 2006. This strong asset growth is attributable to the following:

- Monetary assets (which refer to legal tender in the Republic of South Africa, gold coin, bullion and non-South African currency holdings, and deposits with the South African Reserve Bank) grew by 23,1 per cent, from R38,3 billion as at 31 December 2005 to R47,2 billion as at 31 December 2006.

- Interbank advances grew by 26 per cent, from R72,2 billion as at 31 December 2005 to R91,1 billion as at 31 December 2006.

- Non-bank loans and advances grew by 27,9 per cent, from R1 231,4 billion as at the end of December 2005 to R1 575,3 billion as at the end of December 2006. Non-bank advances constituted 75,9 per cent of the banking-sector assets as at the end of December 2006 (December 2005: 73,4 per cent).

- Loans granted under resale agreements increased by 60,4 per cent, from R34,6 billion as at the end of December 2005 to R55,6 billion as at the end of December 2006.

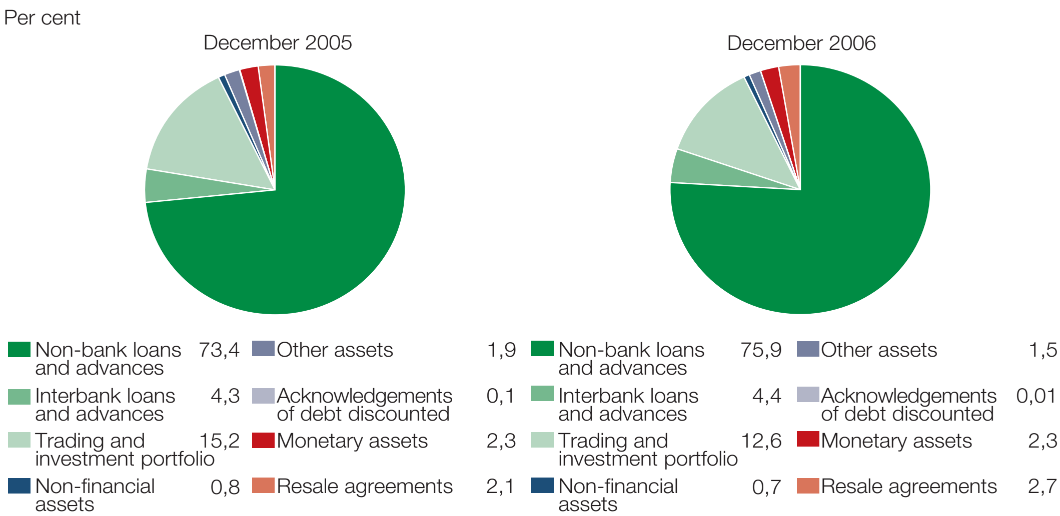
- Trading and investment assets increased by 2,7 per cent, from R254,3 billion as at the end of December 2005 to R261,1 billion as at 31 December 2006. This asset category fluctuated substantially throughout 2006.

- Non-financial assets increased by 5,8 per cent, from R13,8 billion as at the end of December 2005 to R14,6 billion as at the end of December 2006.

securitisation diluted reported asset growth

It is worth mentioning that certain asset categories, specifically assets that form part of loans and advances, had higher growth rates than those presented in this report. The growth rates are diluted or decreased due to the effect of securitisation transactions during 2006, mainly by the larger banks. Securitisation is the process whereby similar assets are pooled together and repackaged into marketable securities which can be sold to investors. The asset categories that have been most influenced by securitisation are mortgage loans, instalment debtors and credit cards. The process of loan securitisation enables a bank to

Figure 6 Total assets (year-on-year comparison)

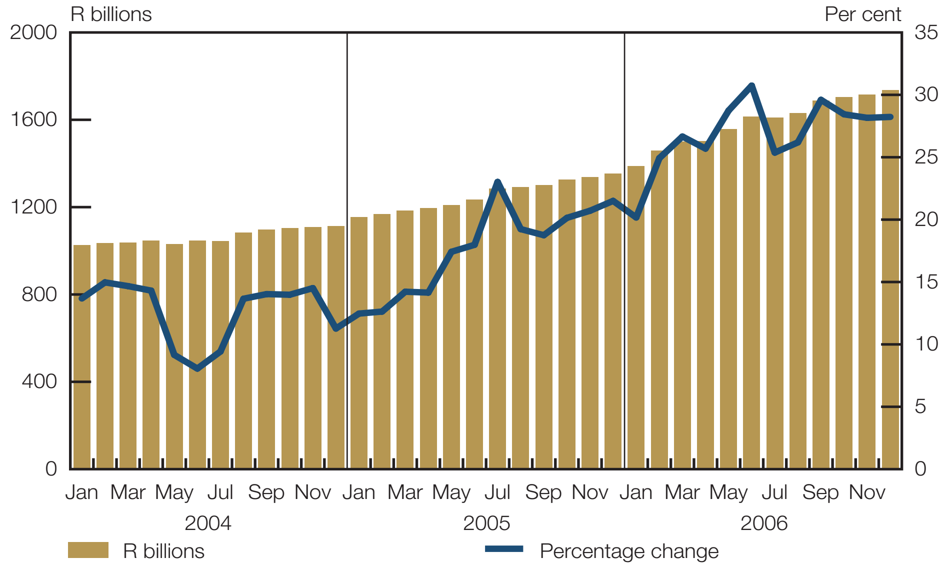


move its assets off the balance sheet, thereby improving liquidity due to an increased funding pool, and free up capital, resulting in an improved capital-adequacy ratio.

In a trend similar to that of total assets, total loans and advances continued to increase during 2006 (refer to Figure 7). By the end of December 2006, total loans and advances equalled R1 735,8 billion as opposed to R1 353,6 billion at the end of December 2005. The 12-month growth rate accelerated from 20,2 per cent in January 2006 to 30,7 per cent in June 2006, before easing to 28,2 per cent at the end of 2006. The strong growth in total loans and advances during 2006 was mainly due to growth in mortgage loans, followed by growth in overdrafts and loans, instalment debtors and foreign-currency loans. The peak in the growth rate reported in June 2006 was mainly due to increases in interbank advances, mortgage loans and foreign-currency loans reported by most of the large banks.

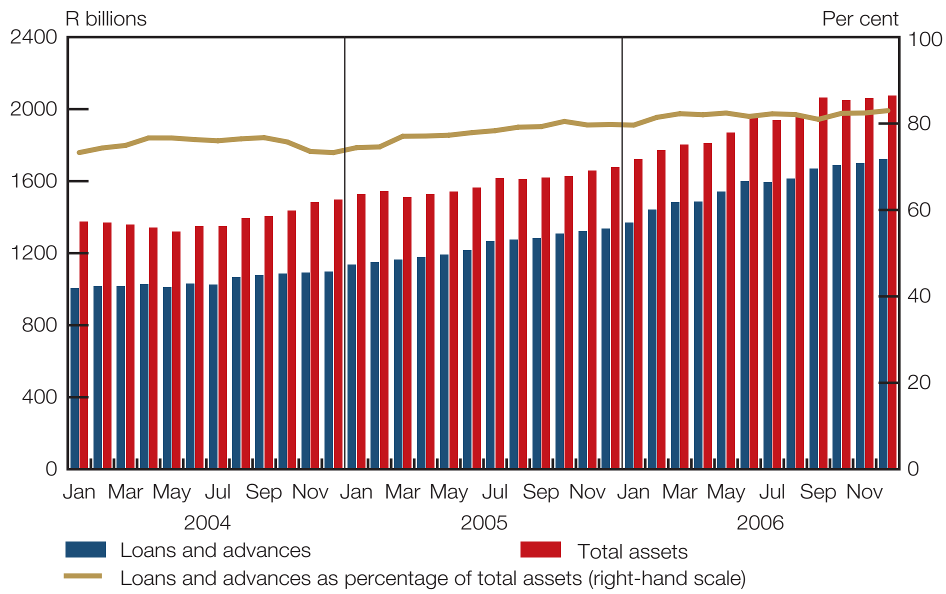
28,2 per cent growth in loans and advances

Figure 7 Total loans and advances



Loans and advances constituted 83 per cent of total assets as at the end of December 2006 as opposed to 79,8 per cent as at the end of December 2005 and 73,3 per cent as at the end of December 2004, as presented in Figure 8.

Figure 8 Loans and advances as percentage of total assets



4.1.4 Loans and advances

strong growth in most loan categories

As depicted in Figure 9, a comparison of the composition of loans and advances as at the end of 2005 and 2006 clearly shows that mortgage loans remained the largest portion of total loans and advances, followed by overdrafts and loans, instalment debtors, foreign loans and other loans. Figure 10 portrays the 12-month growth rates for instalment debtors, mortgage loans, overdrafts and loans and other assets. The 12-month growth in total assets can be broken down according to the following contributing components:

- Mortgage loans increased by R158,5 billion to a level of R680,9 billion in December 2006, representing an increase of 30,3 per cent. The growth in mortgage loans remained stable in the region of 30 per cent throughout 2006.

- Overdrafts and loans increased by R85,0 billion to a level of R383,5 billion in December 2006, representing an accelerated growth rate of 28,5 per cent (December 2005: 7 per cent). Non-financial companies, closed corporations and individuals contributed to this increase.

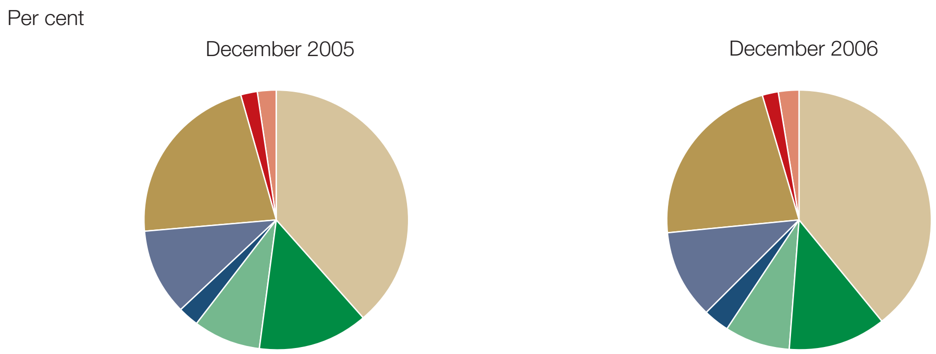
- Instalment debtors increased by R25,2 billion to a level of R207,4 billion as at the end of December 2006. The growth rate in instalment debtors decreased during 2006, ending the year at 13,9 per cent compared to 19,5 per cent in December 2005. The decline in the growth rate during 2006, specifically noticeable in November 2006, was mainly a result of securitisation transactions by the larger banks.

- Foreign-currency loans and advances increased by R46,2 billion to a level of R191,7 billion, representing an increase of 31,7 per cent as at the end of December 2006.

- Credit-card loans increased by R12,7 billion to a level of R43,9 billion, representing an increase of 40,8 per cent as at the end of December 2006. Individuals were responsible for the substantial increase in this asset class.

- Acknowledgements of debt discounted increased by R6,6 billion to a level of R34,1 billion, representing an increase of 24,1 per cent as at the end of December 2006.

Figure 9 Composition of loans and advances

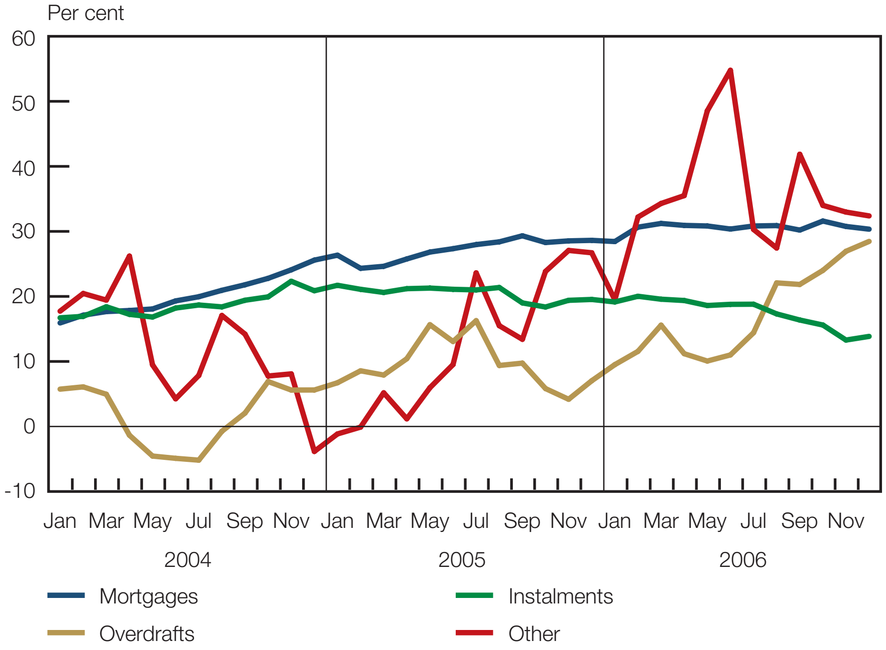


December 2005				December 2006			
Mortgage loans	38,6	Foreign loans	10,7	Mortgage loans	39,2	Foreign loans	11,0
Instalment debtors	13,5	Overdrafts and loans	22,0	Instalment debtors	12,0	Overdrafts and loans	22,1
Other*	8,3	Acknowledgements of debt discounted	2,0	Other*	8,0	Acknowledgements of debt discounted	2,0
Resale agreements	2,6	Credit-card debtors	2,3	Resale agreements	3,2	Credit-card debtors	2,5

* Negotiable certificates of deposit and redeemable preference shares

- Redeemable preference shares increased by R5,1 billion to a level of R23,3 billion, representing an increase of 27,7 per cent as at the end of December 2006.

Figure 10 Growth in selected loans and advances (change over 12 months)



4.2 Capital adequacy

Capital adequacy is a measure of the adequacy of a banking institution's capital resources in relation to its current liabilities and to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.

Under the guidelines of the Basel Committee on Banking Supervision (Basel Committee), banking institutions are required to maintain a certain level of capital against their risk-adjusted assets. In South Africa these guidelines have been adopted but with a higher minimum capital-adequacy ratio requirement of 10 per cent in comparison to the Basel Committee guideline of 8 per cent.

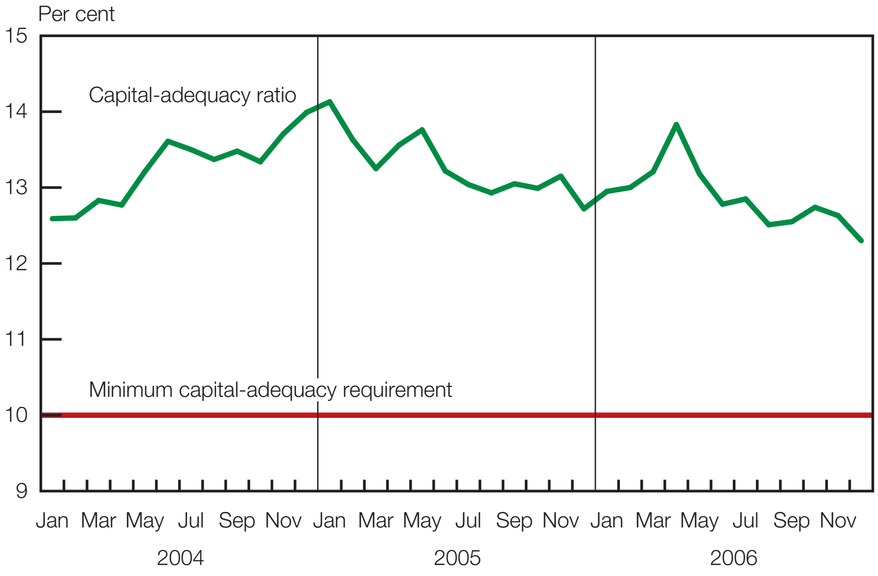
Figure 11 shows the capital-adequacy ratio of the banking sector in relation to the 10-per-cent minimum requirement. During 2006, the banking sector was capitalised in excess of the minimum requirement of 10 per cent. The capital-adequacy ratio declined from 12,7 per cent in December 2005 to 12,3 per cent in December 2006 as a result of the following:

capital-adequacy ratio declined

- The total capital requirement increased by 24,5 per cent, from R100,3 billion in December 2005 to R124,9 billion in December 2006.

- Total net qualifying capital increased by 20,3 per cent, from R127,4 billion in December 2005 to R153,3 billion in December 2006.

Figure 11 Capital-adequacy ratio



An analysis of the percentage distribution of banks in terms of capital adequacy as at the end of December 2006 (refer to Figure 12a) reveals that there were no banks that reported capital-adequacy ratios below the minimum requirement of 10 per cent, whereas there was one bank that did not meet the minimum requirement as at the end of December 2005. As at the end of December 2006, 39,4 per cent of banking institutions had capital-adequacy ratios that exceeded 20 per cent (41,2 per cent as at the end of December 2005).

Figure 12a Distribution of banks in terms of capital adequacy

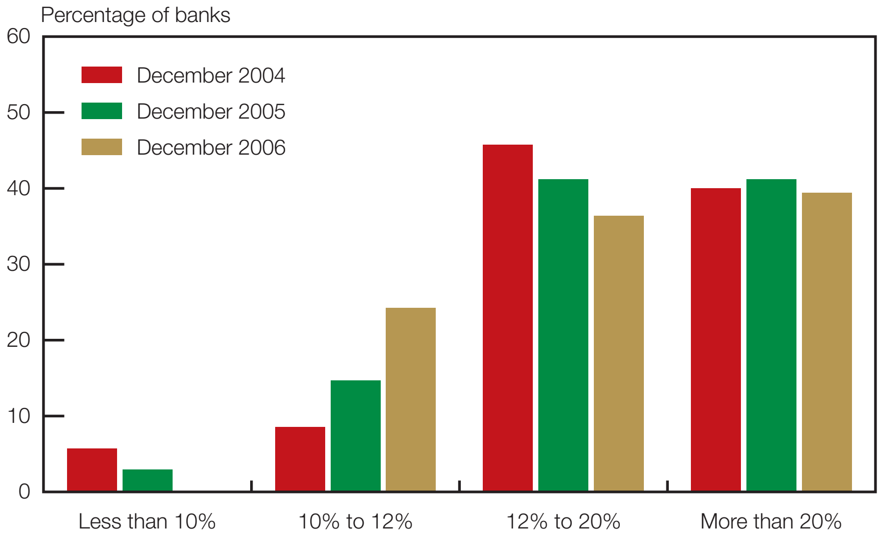
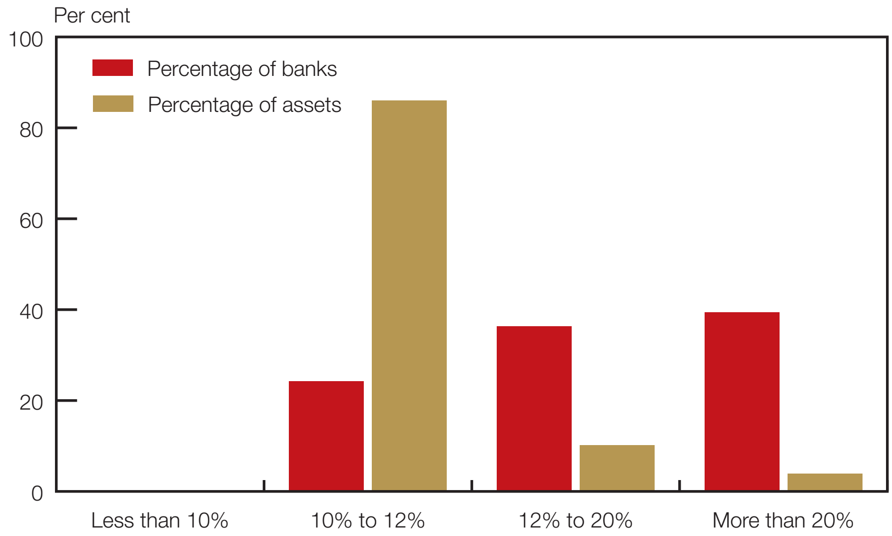


Figure 12b represents the sector distribution in terms of capital-adequacy ratios for December 2006. As a percentage of total banking-sector assets, 86 per cent of the assets belonged to banks that had capital-adequacy ratios between 10 and 12 per cent (24,2 per cent of banking institutions). Banks that reported capital-adequacy ratios between 12 and 20 per cent (that is, 36,4 per cent of the institutions) represented 10,2 per cent of total banking-sector assets. Banks that reported capital-adequacy ratios above 20 per cent (that is, 39,4 per cent of the institutions) represented 3,9 per cent of the total banking-sector assets.

Figure 12b Capital-adequacy ratios – sector distribution (December 2006)

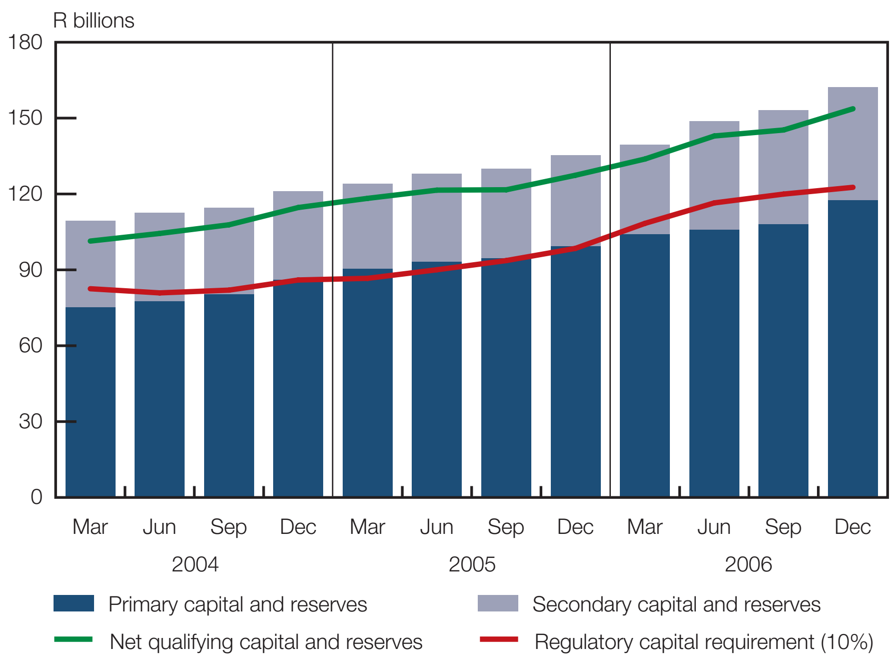


capital and reserves increased

Figure 13 reflects the quarterly average monetary values of primary capital and reserves, secondary capital and reserves, net qualifying capital and reserves, and the regulatory capital requirement. Primary capital and reserves constituted 72,5 per cent of total primary and secondary capital and reserves (before impairments) as at the end of December 2006. Primary capital and reserves increased from R99,2 billion as at the end of December 2005 to R117,5 billion as at the end of December 2006 (18 per cent year on year). Secondary capital and reserves increased by 23,8 per cent to R44,6 billion as at the end of December 2006 (R36 billion as at the end of December 2005).

As indicated earlier, net qualifying capital and reserves remained above the 10-per-cent minimum regulatory requirement throughout the period under review (Figure 11).

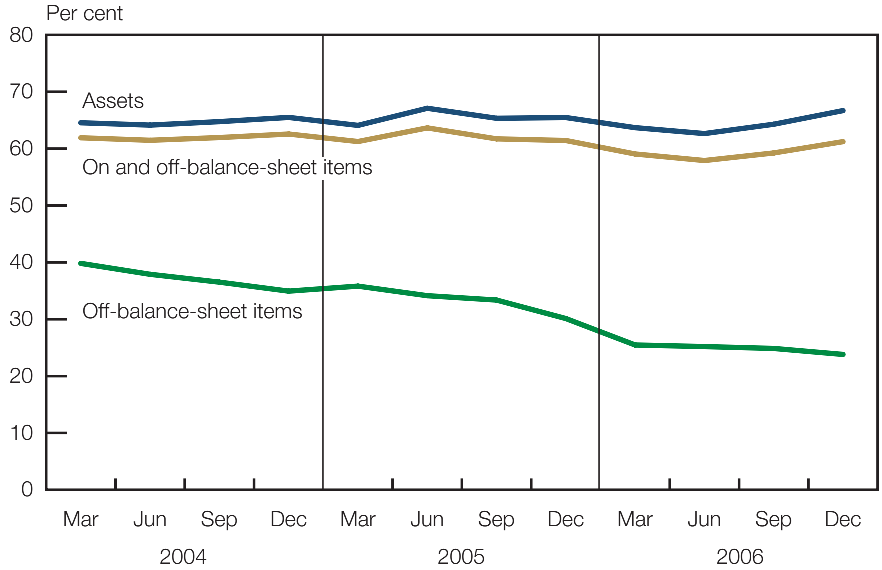
Figure 13 Qualifying capital and reserves



4.2.1 Risk profile

On and off-balance-sheet items are portrayed in Figure 14 from a risk-weighting perspective. The risk-weighting percentage of total assets increased from 65,5 per cent in December 2005 to 66,7 per cent in December 2006. The risk-weighting percentage of off-balance-sheet items declined from 30,1 per cent in December 2005 to 23,8 per cent in December 2006 due to an increase in the zero risk-weighted unutilised facilities, and a decline in the 100-per-cent risk-weighted items. As a result of the aforementioned downward movement, the combined risk-weighting percentage of on and off-balance-sheet items decreased slightly from 61,4 per cent in December 2005 to 61,2 per cent in December 2006.

Figure 14 Risk profile of on and off-balance-sheet items



4.3 Profitability

profitability ratios improved

The improvement in banks' profitability ratios for 2006 was owing to, among other things, the favourable economic conditions that prevailed during the period under review.

Total income, that is, the sum of net interest turn (interest income less interest expense) and non-interest income (income derived from investment and trading positions, assets repossessed, net mark-to-market adjustments and fee income) amounted to R106,9 billion as at the end of December 2006, as opposed to R84,8 billion as at the end of December 2005. Total net income (after operating expenses and provisions) after taxation increased from R18,6 billion as at the end of December 2005 to R26,4 billion as at the end of December 2006.

intermediation function remained main source of income

Figure 15 provides a monetary value breakdown of the main components of the income statement from January 2004 to December 2006. During 2006, the intermediation function remained the main source of income for banks. The intermediation function generates interest margin (2,5 per cent of total assets for 2006) and transaction-based fee income (1,7 per cent of total assets for 2006). The income of R87,1 billion derived from the intermediation function during 2006 exceeded the sum of operating expenses and provisions, which amounted to R71,3 billion. Fee income (December 2006: R37,5 billion), and investment and trading income (December 2006: R15,2 billion) as a percentage of total assets amounted to 1,8 per cent and 0,7 per cent, respectively, for 2006, as opposed to 2 per cent and 0,5 per cent for 2005.

interest margin increased

The interest margin increased by 36,4 per cent in December 2006 compared to 10,6 per cent in December 2005. The higher growth in December 2006 was a result of interest income that increased at a higher rate than interest expense. The main components of interest expense were interest in respect of fixed and notice deposits at 31,2 per cent of total interest expense in December 2006 (December 2005: 31,7 per cent) and interest in respect of demand deposits at 28,9 per cent of total interest expense in December 2006 (December 2005: 27,4 per cent). Interest income derived from mortgage loans, and overdrafts and loans constituted 38,7 per cent and 23,1 per cent, respectively, of total interest income in December 2006, as opposed to 36,5 per cent and 25,1 per cent in December 2005.

Figure 15 Composition of the income statement

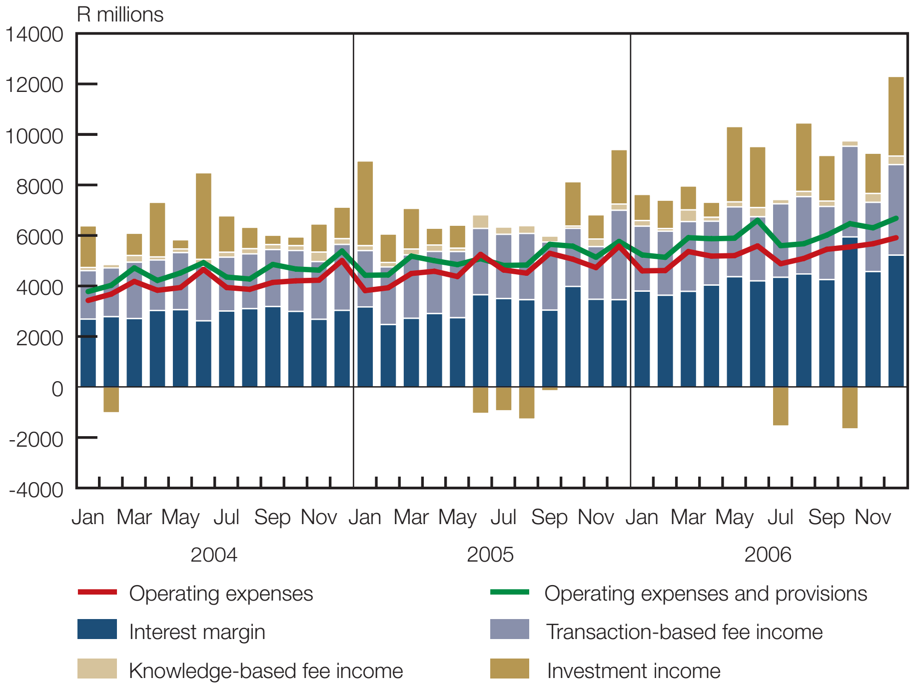


Figure 16 depicts the interest margin of the banking sector for the period January 2004 to December 2006, whereas Figure 17 depicts the monthly percentage-point change in the components of the interest margin for this period. The interest margin was stable in the region of 3 per cent throughout 2006. By the end of December 2006, the interest margin was 3,4 per cent, compared to 3,1 per cent in December 2005 and 3,4 per cent in December 2004. However, the interest margin increased from 2,8 per cent in September 2006 to 4 per cent in October 2006 as a result of a substantial decrease in interest expenses from foreign funding (change in reporting by a large bank). The said decrease caused total interest expense to decline from 6,8 per cent in September 2006 to 5,3 per cent in October 2006.

Figure 16 Interest margin

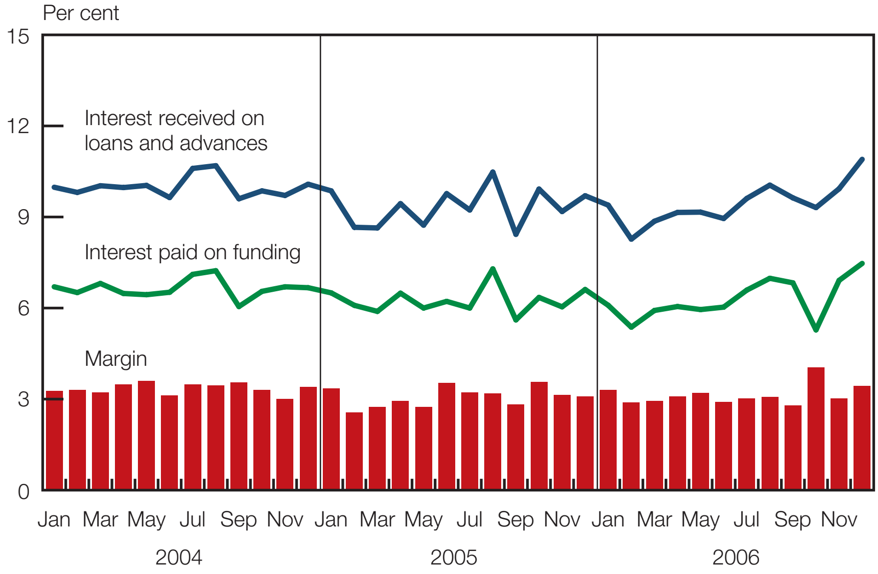
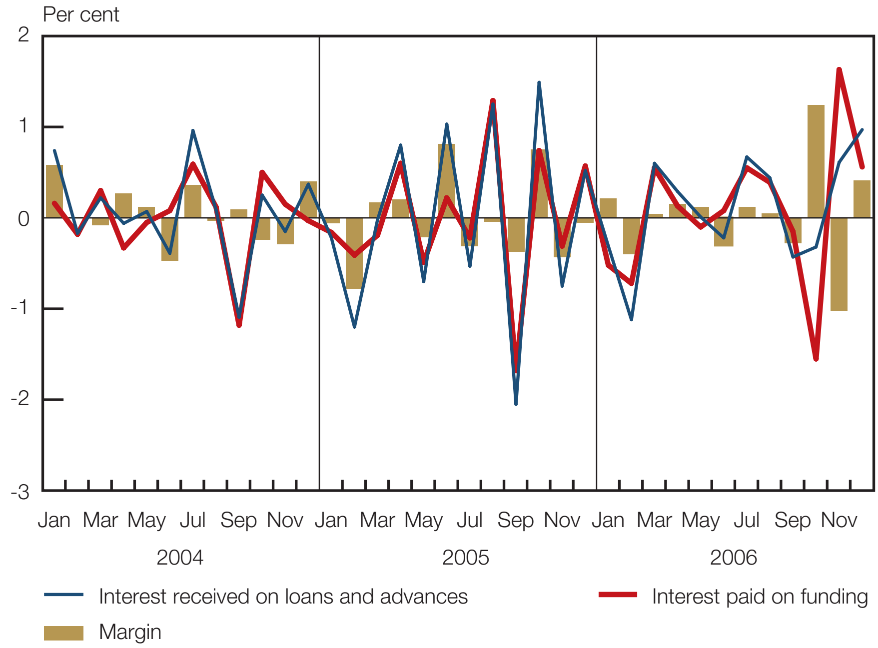


Figure 17 Percentage-point change in interest margin (month on month)



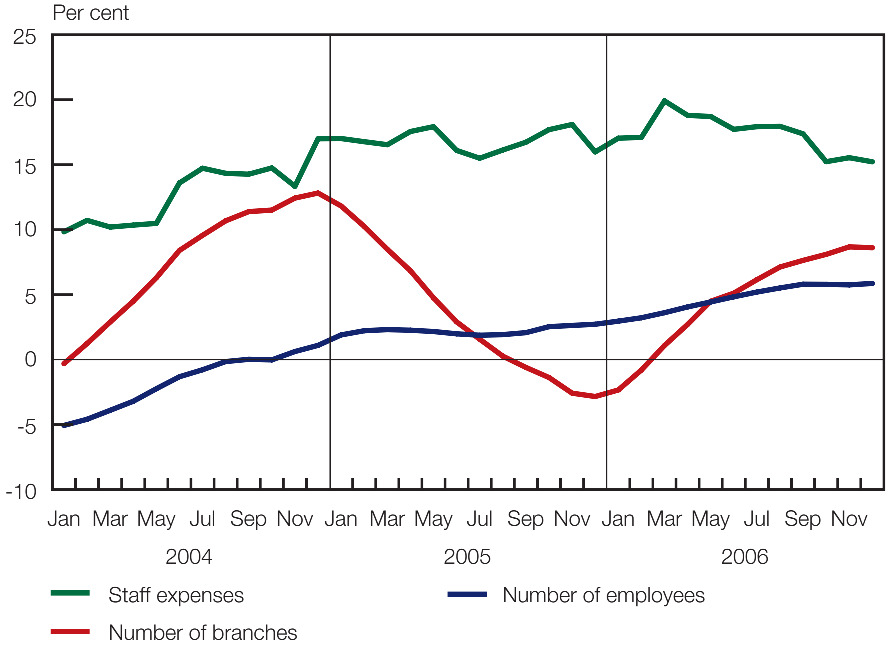
operating expenses increased due to staff expenditure

The operating expenses of the total banking sector increased by 12,2 per cent in December 2006 (14,6 per cent in December 2005), mainly as a result of an increase of 15,2 per cent in total staff expenses. Staff expenses accounted for 51,2 per cent of total operating expenses in December 2006 (2005: 49,8 per cent).

Figure 18 depicts the percentage change (calculated on a 12-month smoothed average) in total staff expenses, the number of employees and branches for the past three years.

The growth in staff expenses fluctuated between 15,2 per cent and 19,9 per cent during 2006, ending the year with a growth rate of 15,2 per cent (2005: 16,0 per cent). By December 2006, the number of employees in the banking sector and the number of bank branches had increased by 5,9 per cent and 8,6 per cent, respectively, as opposed to an increase of 2,7 per cent and a decrease of 2,8 per cent during December 2005 (12-month smoothed average).

Figure 18 Growth in staff expenses, number of employees and branches (12-month smoothed average)

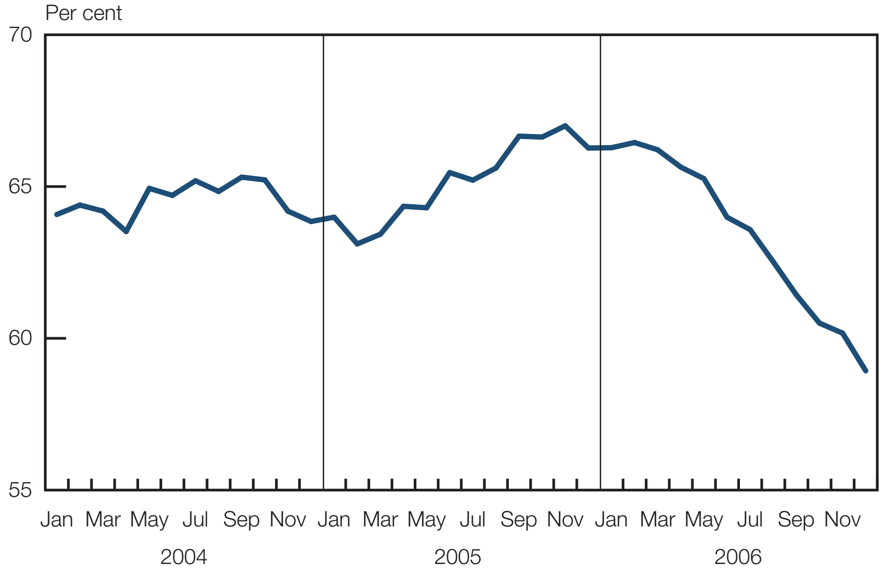


Increases in administrative and other expenses, and in marketing and communications expenditure also contributed to the growth in operating expenses. In December 2006, administrative and other expenses increased by 6,7 per cent and accounted for 38,4 per cent (December 2005: 40,4 per cent) of total operating expenses. Marketing and communications costs increased by 36,3 per cent in December 2006 and contributed 5,4 per cent to total operating expenses (December 2005: 4,4 per cent).

The efficiency ratio, also referred to as the cost-to-income ratio, is a measure that expresses the total operating costs incurred as a percentage of operating income. An informal investigation into the efficiency ratios reported by the largest and most efficient international banks indicated that these banks reported efficiency ratios of approximately 50 per cent. Figure 19 reflects the efficiency ratio of the South African banking sector for the past three years. Smoothed over a 12-month period, the efficiency ratio of the banking sector improved from 66,3 per cent in December 2005 to 58,9 per cent in December 2006. The improvement in the efficiency ratio in December 2006, compared to December 2005, can be attributed to an increase in total income with operating expenses remaining fairly stable throughout 2006.

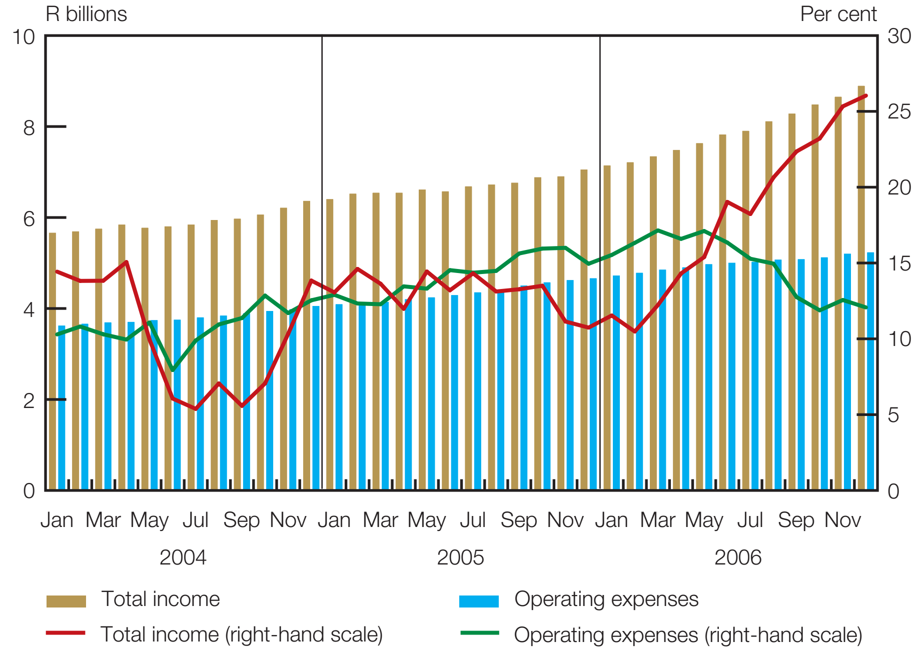
efficiency ratio improved

Figure 19 Efficiency ratio (12-month smoothed average)



The monetary values of, and the growth (12-month smoothed average) in the determinants of the efficiency ratio are illustrated in Figure 20. Growth of 26 per cent in total income for 2006 offset the increase of 12,1 per cent in total operating expenses, resulting in an improvement in the efficiency ratio for the banking sector during 2006 (see Figure 19).

Figure 20 Determinants of efficiency ratio (12-month smoothed average)



The efficiency ratio calculated for each asset-size category (12-month smoothed average) is presented in Figure 21. As at December 2006, banks with assets exceeding R5 billion, but below R10 billion, were the most efficient with an efficiency ratio of 36,3 per cent, followed by banks with asset values between R10 billion and R50 billion (59 per cent). Banks with asset values greater than R50 billion (the five largest banks) had an efficiency ratio of 59,2 per cent. The least efficient were banks with asset values between R1 billion and R5 billion (74,1 per cent).

Figure 21 Efficiency of banking institutions according to asset value – 12-month smoothed average (December 2006)

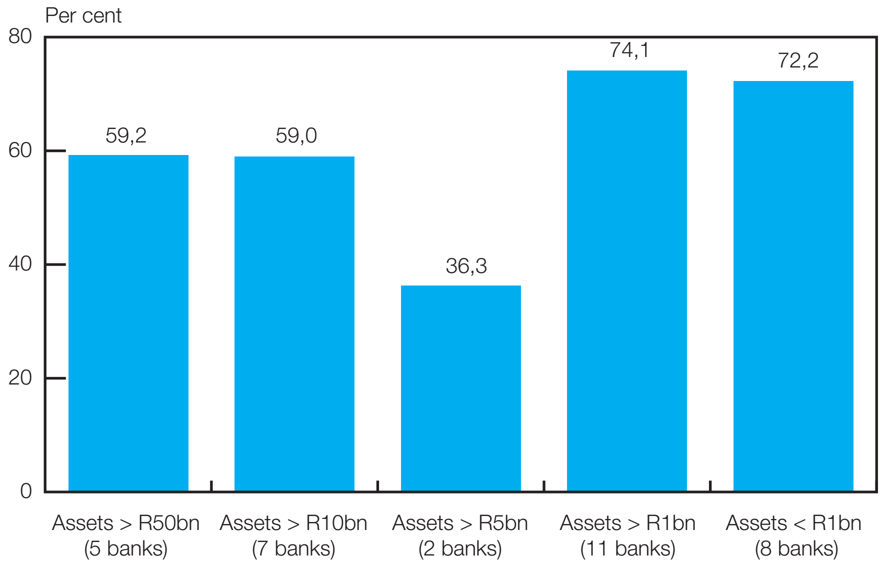
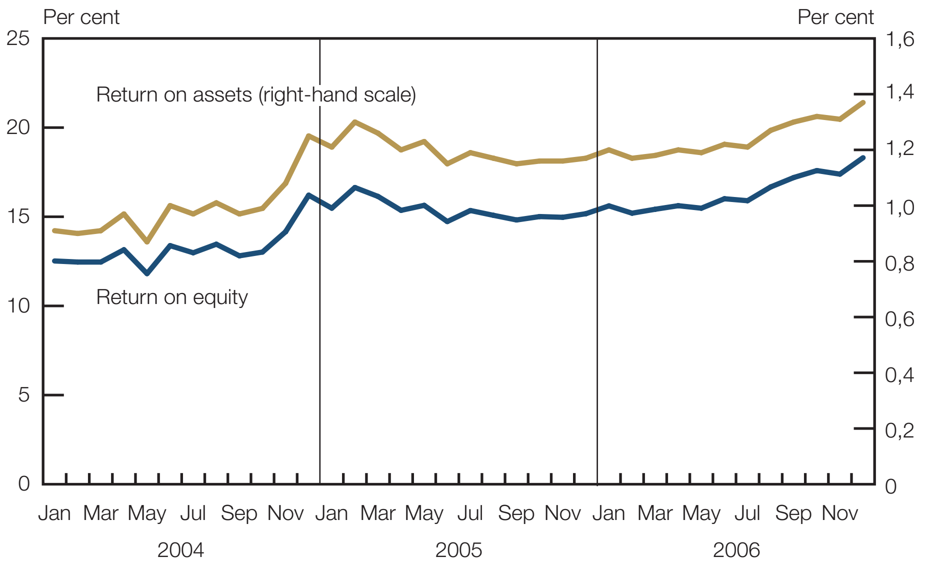


Figure 22 portrays the improved profitability of banks operating under favourable economic and market conditions during the period under review. The trends in return on equity (ROE) and return on assets (ROA) continued to improve during 2006 (12-month smoothed average). The improvement mainly resulted from higher total income recorded during 2006. At the end of December 2006, an after-tax return of 1,4 per cent on total assets (2005: 1,2 per cent) was reported, whereas an after-tax return of 18,3 per cent on net qualifying capital and reserves (2005: 15,2 per cent) was reported. The banking sector achieved a before-tax return of 1,8 per cent on total assets as at the end of December 2006 (12-month smoothed average) in comparison to the 1,6 per cent as at the end of 2005.

ROE and ROA showed increasing trend

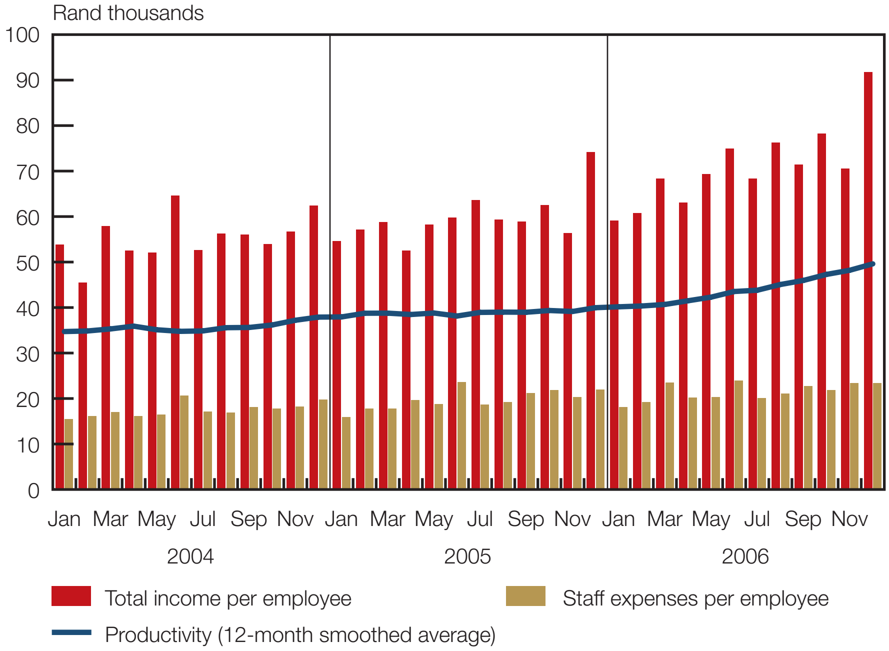
Figure 22 Profitability (12-month smoothed average)



net income generated per employee improved

Productivity can be measured by comparing the expenditure on employees with the amount of income generated. Figure 23 depicts the productivity of the banking sector for the past three years. During 2006, the total income generated per employee was on average R71 062, as opposed to R59 685 in 2005. During 2006, the average staff expenses per employee were R21 459 (2005: R19 716). Also portrayed in Figure 23 is the average (smoothed over a 12-month period) net income generated per employee. The net income generated per employee was R49 604 as at the end of 2006, as opposed to R39 969 as at the end of 2005.

Figure 23 Productivity



4.4 Liquidity risk

Liquidity – the ability to fund increases in assets and meet obligations as they become due – is crucial to the sustained viability of any banking institution. But the importance of liquidity transcends the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions. The management of liquidity is therefore among the most important activities conducted by banks.

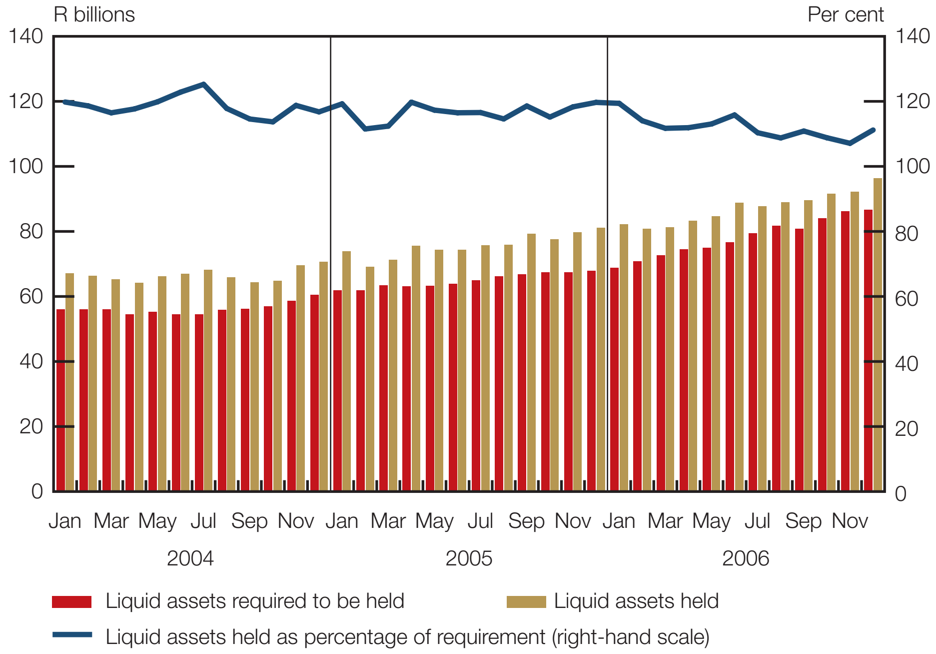
4.4.1 Statutory liquid-asset requirement

liquid assets held by banks exceeded the statutory requirement

The statutory liquid-asset requirement is calculated as a percentage of total liabilities less capital and reserves (referred to as adjusted liabilities). As indicated in Figure 24, the average daily amount of liquid assets held by banks exceeded the statutory liquid-asset requirement throughout 2006. For the month of December 2006, the average daily amount of liquid assets held represented 111,2 per cent of the statutory liquid-asset requirement, compared to 119,7 per cent for December 2005.

On average for 2006, 43,1 per cent of the liquid assets held consisted of securities issued by virtue of section 66 of the Public Finance Management Act, 1999 (2005: 46,8 per cent), whereas 39,8 per cent consisted of Treasury bills of the Republic of South Africa (2005: 32,3 per cent) and 0,7 per cent of short-term bills issued by the Land Bank (2005: 1 per cent). Measured over 12 months, cash-management schemes managed on behalf of bank clients decreased by about 1,6 per cent as at the end of December 2006 (down by 13,2 per cent from 2005). Set-off increased by 0,3 per cent as at the end of December 2006 (down by 48,8 per cent from 2005). Cash-management schemes and set-off represented 4,5 per cent and 5,9 per cent of average adjusted liabilities (12-month average), respectively, in December 2006 (2005: 5,4 per cent and 11 per cent).

Figure 24 Statutory liquid assets (actual versus required)



4.4.2 Volatility of funding

During 2006, the banking sector absorbed interest-rate increases amounting to 200 basis points. This has an influence on the demand/supply of certain types of funding, which affects the pricing and maturity of the pool of deposits.

ten largest depositors constituted 23 per cent of total funding

The ten largest depositors on the balance sheets of every banking institution, including the maturity structure of each deposit, are reported to the Department. The sum of the ten largest depositors, as a percentage of total funding, is portrayed in Figure 25. The ten largest depositors, in total, constituted 23 per cent of total funding-related liabilities to the public (total funding) as at the end of December 2006 (2005: 20,4 per cent). The largest depositors with a maturity within sight to seven days amounted to 8,5 per cent of total funding-related liabilities to the public as at the end of December 2006 (2006: 10,2 per cent).

Figure 25 Deposits from banks' ten largest depositors, as percentage of total funding

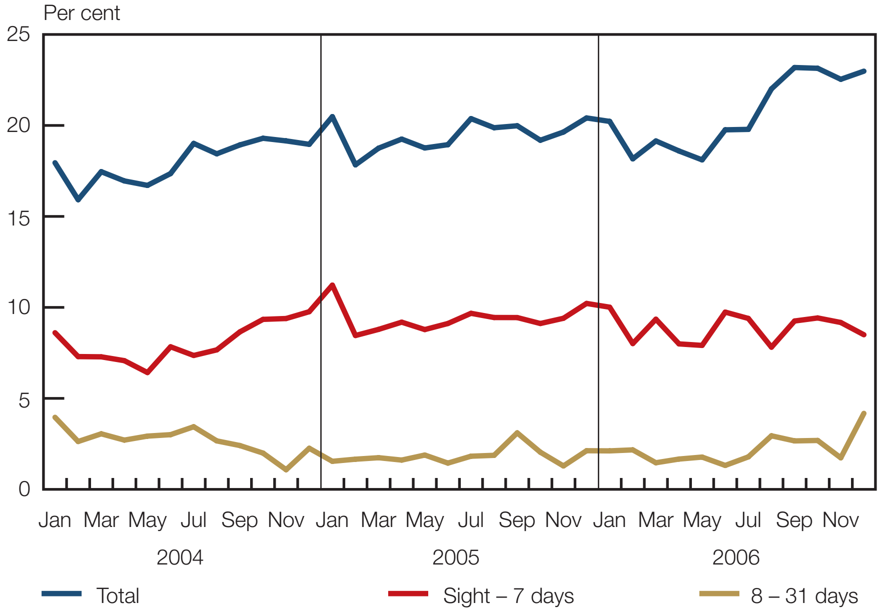


Figure 26 depicts the anticipated maturities of short-term funding. Anticipated maturities are calculated/forecasted by the asset-and-liability committees (ALCOs) of banking institutions. The contractual maturities are adjusted to what is perceived by an ALCO as an anticipated maturity per deposit. Total short-term funding (with an anticipated maturity of nil to 31 days) amounted to 22,7 per cent of total funding as at the end of December 2006, as opposed to 24,5 per cent for December 2005. As at the end of December 2006, total funding with an anticipated maturity within sight to seven days and total funding with an anticipated maturity within eight to 31 days represented 13,5 per cent and 9,3 per cent, respectively, of total funding.

Figure 26 Anticipated maturity of short-term funding (as percentage of total funding)

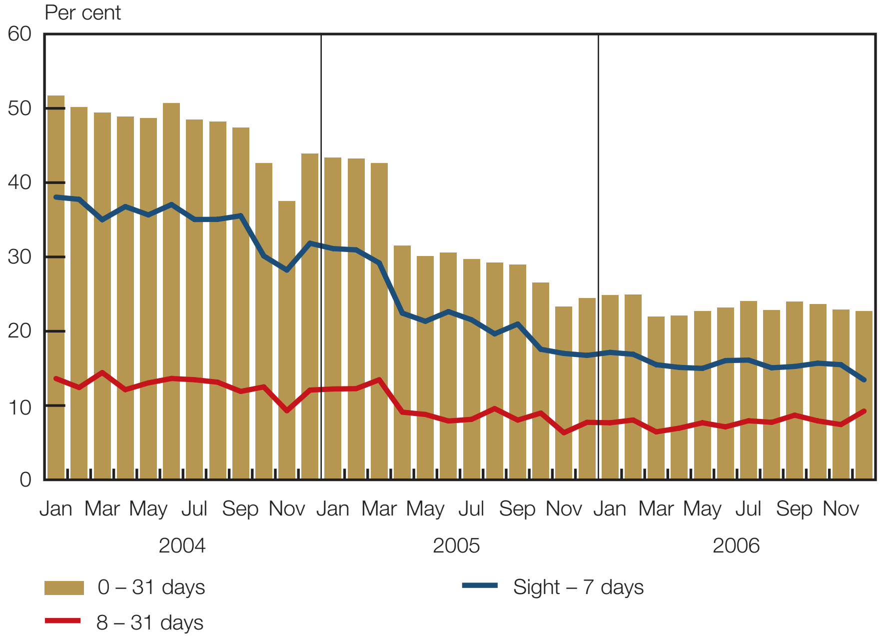
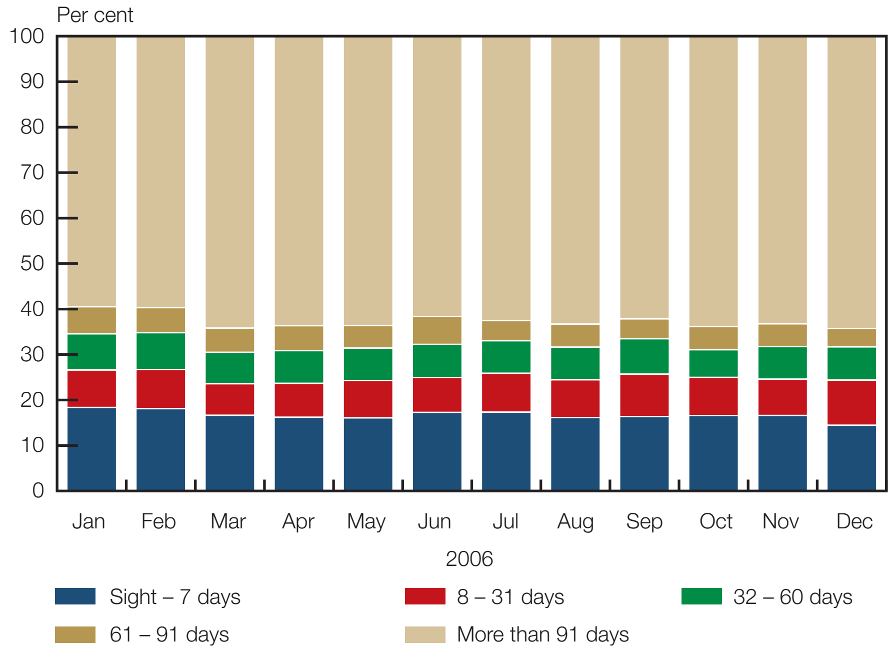


Figure 27 presents the composition of total funding according to anticipated maturity for 2006. As at the end of December 2006, deposits with an anticipated maturity longer than 91 days and deposits with an anticipated maturity shorter than seven days constituted the largest portion of total funding, namely 64,3 per cent and 14,5 per cent, respectively. Deposits with an anticipated maturity of 8 to 31 days constituted 9,9 per cent of total funding, followed by deposits with an anticipated maturity of 32 to 60 days, which constituted 7,3 per cent. Deposits with an anticipated maturity of 61 to 91 days constituted the smallest portion of total funding, namely 4 per cent.

Figure 27 Anticipated maturity of total funding (composition)



4.5 Derivative contracts

In this section a summary of banking institutions' derivative activities is provided. A derivative contract derives much of its value from an underlying asset. Examples of derivatives include futures, options, forward contracts and swap agreements. For the period under review, forward contracts were the main contributors to total derivative turnover. A forward contract can be derived from the spot currency market and the spot markets for borrowing and lending transactions.

Figure 28 depicts the monthly turnover in forward contracts and other derivative contracts. The monthly turnover in forward contracts fluctuated between R1 168 billion (lowest turnover amount reported) and R2 311,5 billion (highest turnover amount reported) during 2006. The turnover in forward contracts amounted to R1 879 billion for December 2006 (R1 346 billion for December 2005), while the remainder of the turnover in derivative contracts amounted to R739,2 billion for December 2006 (R728,9 billion for December 2005).

Figure 28 Turnover in derivative contracts

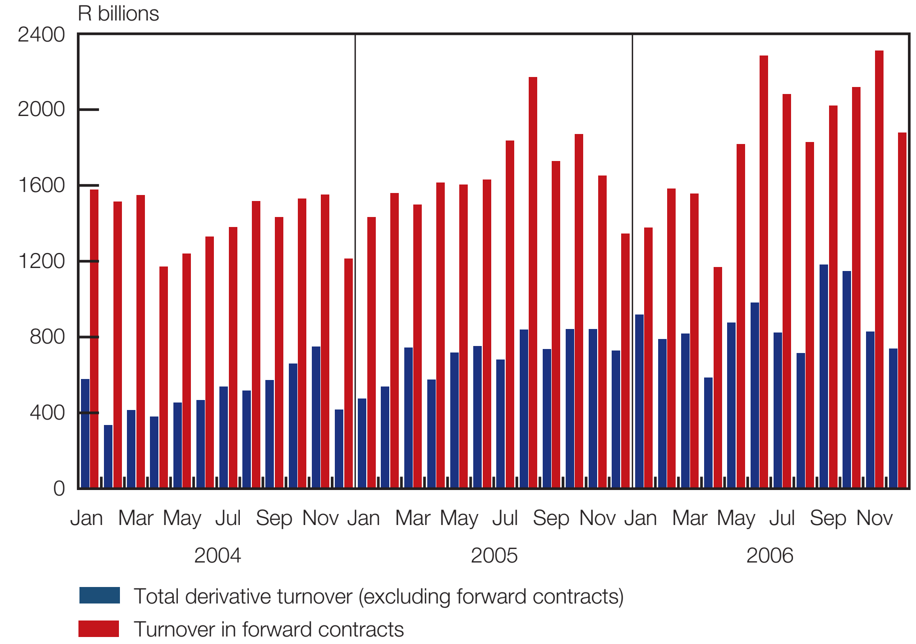
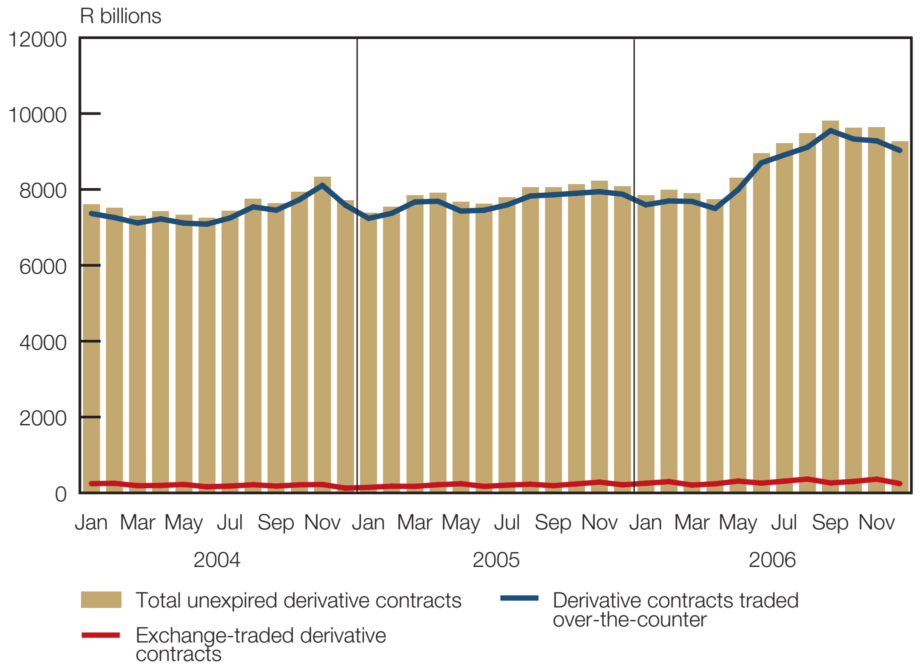


Figure 29 portrays the gross nominal value of total unexpired derivative contracts. Derivative contracts traded over-the-counter (OTC) as a percentage of total unexpired contracts remained at 97,4 per cent for both December 2005 and December 2006.

Figure 29 Total unexpired derivative contracts



Total unexpired derivative contracts increased from R8 086,1 billion in December 2005 to R9 272,2 billion in December 2006 as a result of the increase in OTC contracts. Total unexpired derivative contracts as a percentage of total banking assets declined from 482,0 per cent in December 2005 to 446,8 per cent in December 2006.

unexpired derivative contracts increased

4.6 Credit risk

Banking institutions are in the business of lending, and therefore face the risk that a party to a contractual agreement/transaction will be unable to meet its obligations or will default on commitments, which in essence describes credit risk. As a result of the strong asset growth during 2006, credit-risk ratios generally continued to improve. Given the cumulative 200-basis-point increase in the repurchase rate, as announced by the Monetary Policy Committee of the South African Reserve Bank during 2006, these ratios will be monitored closely during 2007.

4.6.1 Analysis of amounts overdue (non-performing loans)

The monetary value of gross overdues (non-performing loans that have been overdue for a period longer than 180 days) is portrayed in Figure 30. The gross overdues continued along a downward trend, tapering off from R20,1 billion in December 2005 to R18,8 billion in December 2006.

total gross overdues declined

Figure 30 Total overdues

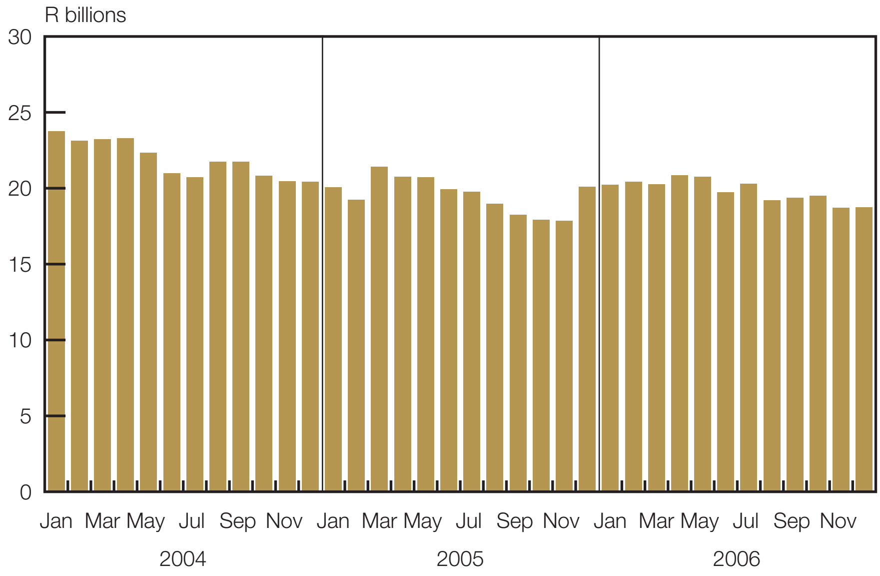
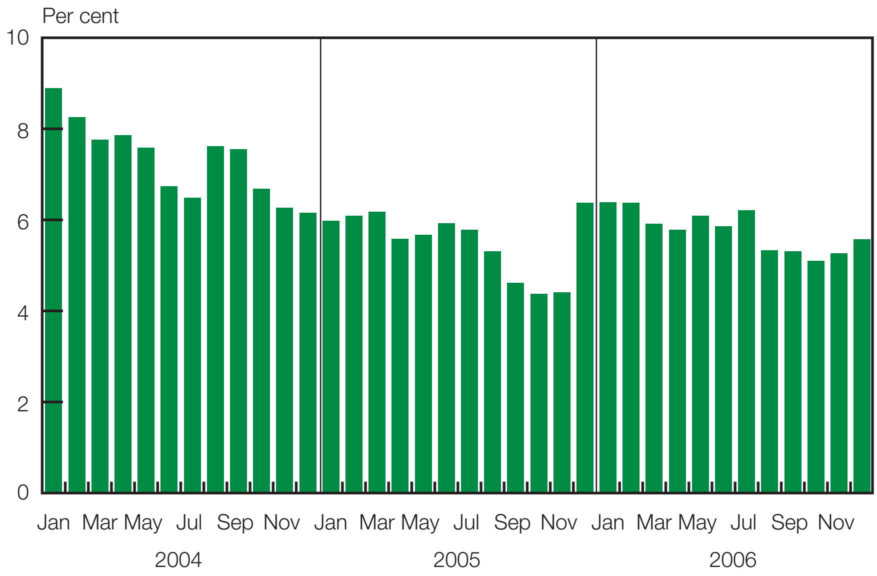


Figure 31 depicts net overdues (gross overdues less specific provisions) as a percentage of net qualifying capital and reserves. This ratio continued to decline from 6,4 per cent in December 2005 to 5,6 per cent in December 2006, mainly as a result of the decline in specific provisions and gross overdues, while net qualifying capital continued to increase. As at the end of December 2006 net overdues amounted to R8,5 billion (R8,2 billion as at the end of December 2005), and specific provisions amounted to R10,2 billion (R11,9 billion as at the end of December 2005).

Figure 31 Net overdues as percentage of net qualifying capital and reserves



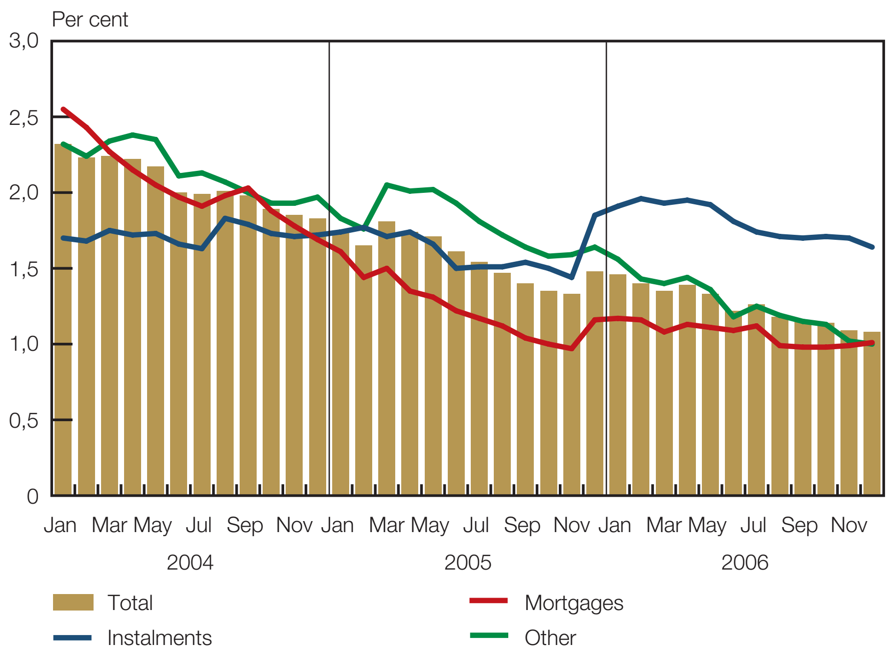
overdue ratios improved

Expressed as a percentage of total loans and advances, gross amounts overdue improved from 1,5 per cent in December 2005 to 1,1 per cent in December 2006 (refer to Figure 32) as a result of strong asset growth and a decline in gross overdues, caused by favourable economic conditions. The overdue ratios of all the asset categories contributed to this improvement as follows:

- Mortgage loans overdue expressed as a percentage of total mortgage loans improved from 1,2 per cent in December 2005 to 1,0 per cent in December 2006.

- Expressed as a percentage of total instalment debtors, instalment debtors overdue improved from 1,9 per cent in December 2005 to 1,6 per cent in December 2006.

Figure 32 Composition of overdues (as percentage of loans and advances)



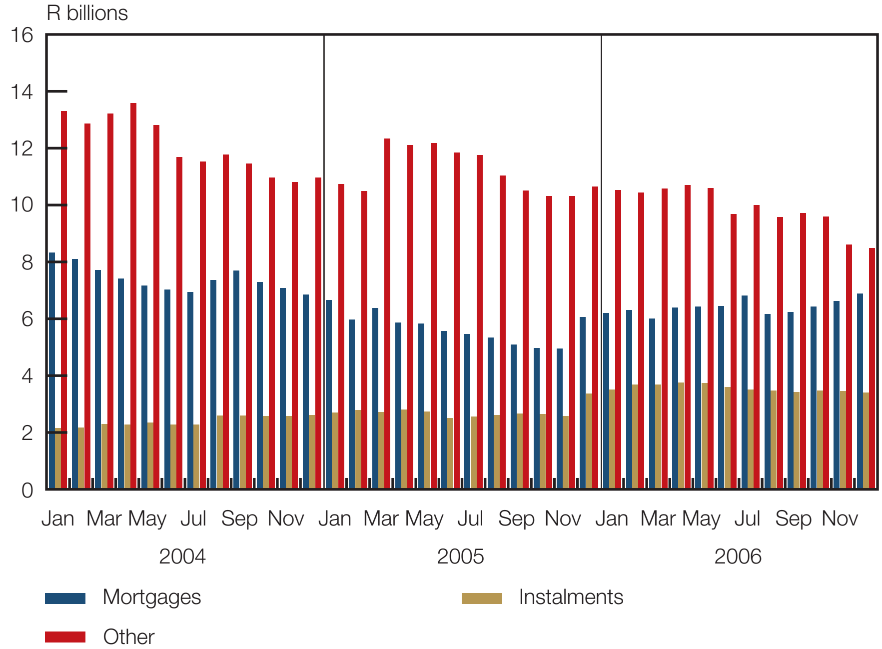
- Other loans and advances overdue expressed as a percentage of total other loans and advances improved from 1,6 per cent in December 2005 to 1,0 per cent in December 2006.

Figure 33 presents a breakdown of the monetary value of gross overdues according to the different asset categories. Gross overdues in respect of other loans and advances declined substantially from R10,7 billion in December 2005 to R8,5 billion in December 2006, whereas instalment debtors overdue remained at R3,4 billion for the aforementioned periods. Other loans and advances overdue decreased in June 2006 and November 2006 as a result of write-offs of accounts overdue.

Gross overdues in respect of mortgage loans, however, increased from R6,1 billion in December 2005 to R6,9 billion in December 2006.

mortgage loans overdue increased

Figure 33 Analysis of overdues



4.6.2 Provisioning

In terms of the minimum regulatory provisioning requirements, the banking sector was adequately provided for throughout 2006.

provisions remained adequate

The coverage ratio, expressing specific provisions and the market value of security held as a percentage of gross overdues, is portrayed in Figure 34. The coverage ratio increased from 98,9 per cent in December 2005 to 100,7 per cent in December 2006. Specific provisions as a percentage of gross overdues decreased from 59,4 per cent in December 2005 to 54,4 per cent in December 2006, due to the decline in specific provisions during 2006.

Specific provisions per asset category, expressed as a percentage of gross overdues, were as follows as at the end of December 2006:

- Mortgage loans: 30,2 per cent (31,5 per cent on 31 December 2005).
- Instalment debtors: 57,7 per cent (56,8 per cent on 31 December 2005).
- Other loans and advances: 72,8 per cent (76,1 per cent on 31 December 2005).

Figure 34 Coverage ratio (specific provisions and security as percentage of gross overdues)

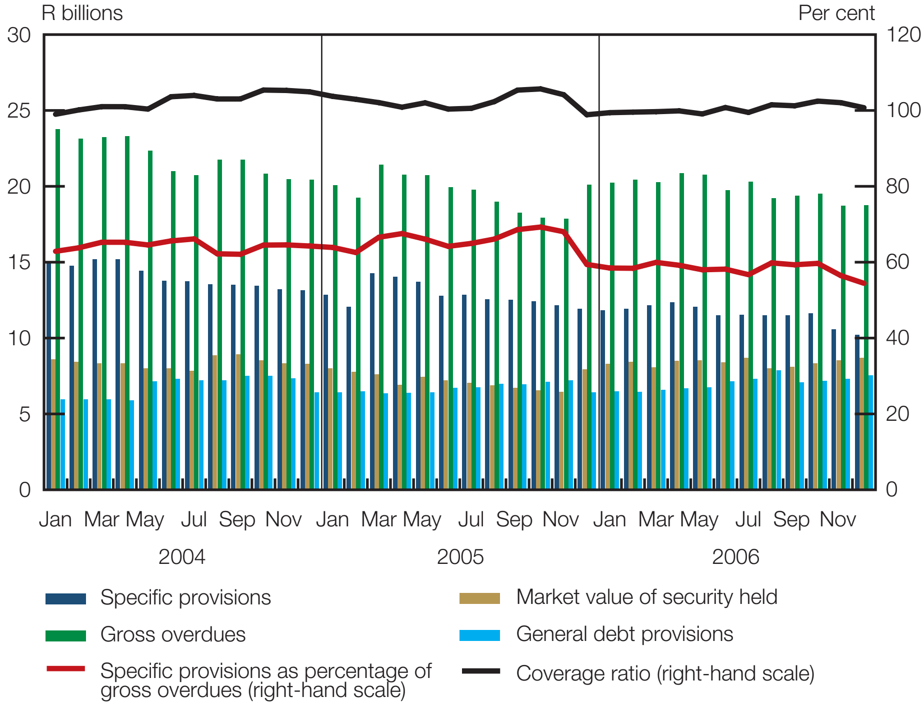
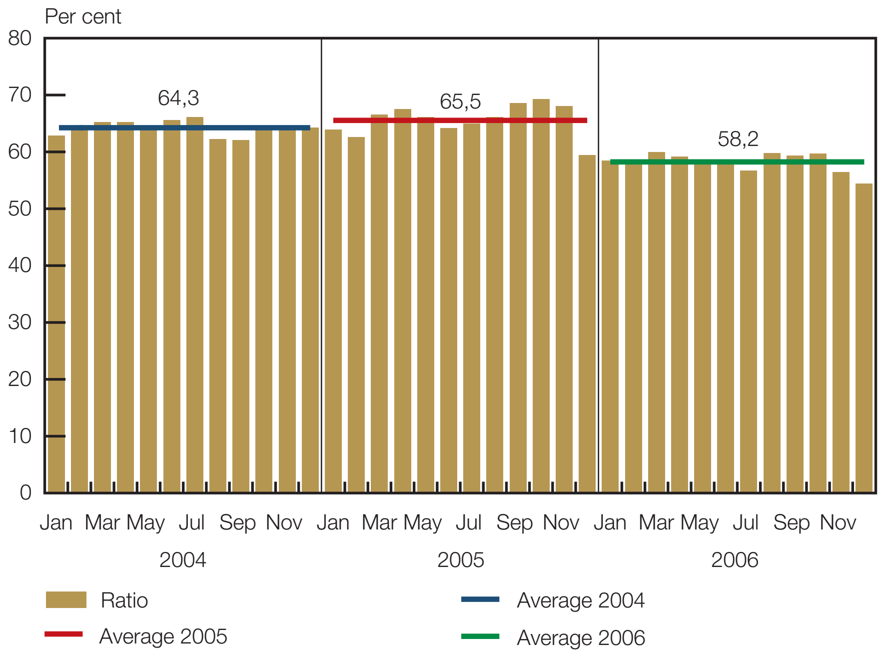


Figure 35 depicts specific provisions as a percentage of gross overdues from January 2004 to December 2006. On average, specific provisions amounted to 58,2 per cent during 2006 (65,5 per cent during 2005). The ratio declined from 59,7 per cent in October 2006 to 56,5 per cent in November 2006 (due to write-offs in loans classified as overdue) and continued to decline in December 2006 to 54,4 per cent.

Figure 35 Specific provisions as percentage of gross overdues



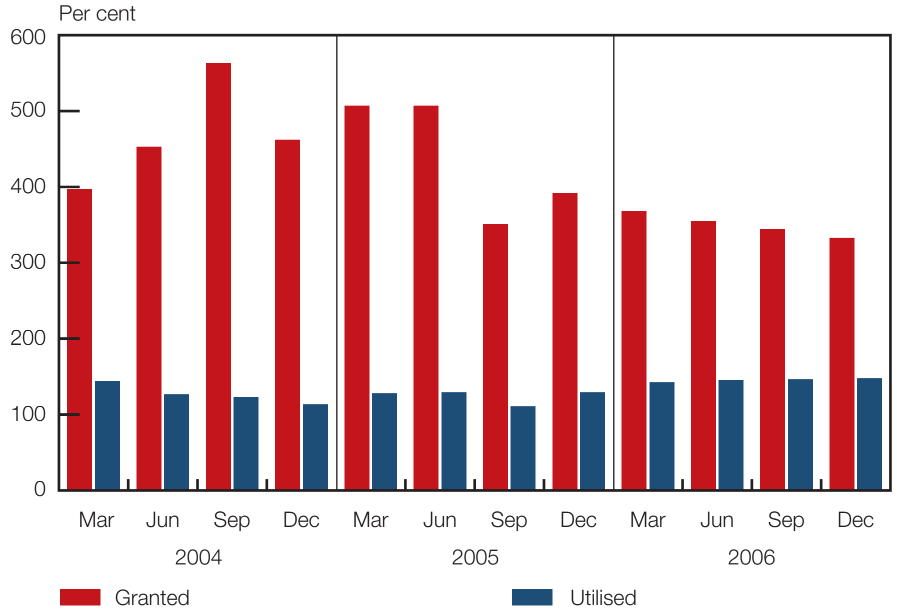
4.6.3 Large exposures

In terms of section 73(1)(b) of the Banks Act, 1990, exposures granted that exceed 10 per cent of qualifying capital and reserves (referred to as large exposures) should not exceed, in total, 800 per cent of qualifying capital and reserves, and any single exposure granted exceeding 25 per cent should be an impairment against the capital of the bank. It should be borne in mind, however, that this refers only to large exposures to private-sector non-bank borrowers and that the total of the large exposures analysed in this report includes, among other things, exposures to government and other banking institutions.

Figure 36 compares large exposures granted and large exposures utilised, expressed as a percentage of net qualifying capital. Large exposures granted as a percentage of net qualifying capital decreased from 391,5 per cent in December 2005 to 333,1 per cent in December 2006. Large exposures utilised as a percentage of net qualifying capital and reserves increased from 128,8 per cent in December 2005 to 147,3 per cent in December 2006.

large exposures granted continued to decrease

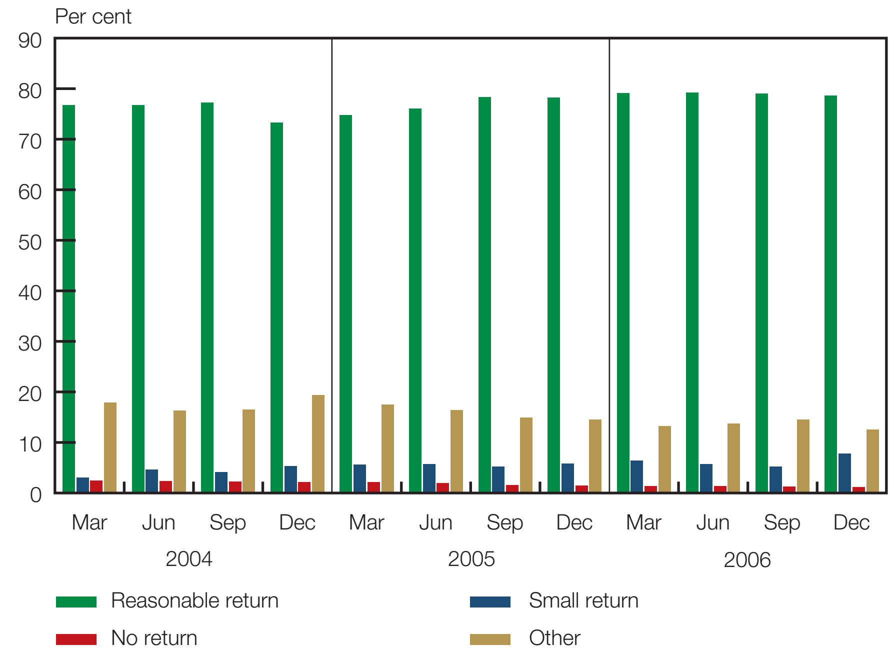
Figure 36 Large exposures as percentage of net qualifying capital and reserves



4.6.4 Quality of assets

Figure 37 indicates that 78,6 per cent of banking-sector assets earned a reasonable return as at the end of December 2006 (78,2 per cent as at the end of December 2005). The assets that earned a small return amounted to 7,8 per cent as at the end of December 2006 (5,8 per cent as at the end of December 2005), whereas 1,2 per cent earned no return (1,5 per cent as at the end of December 2005).

Figure 37 Asset performance



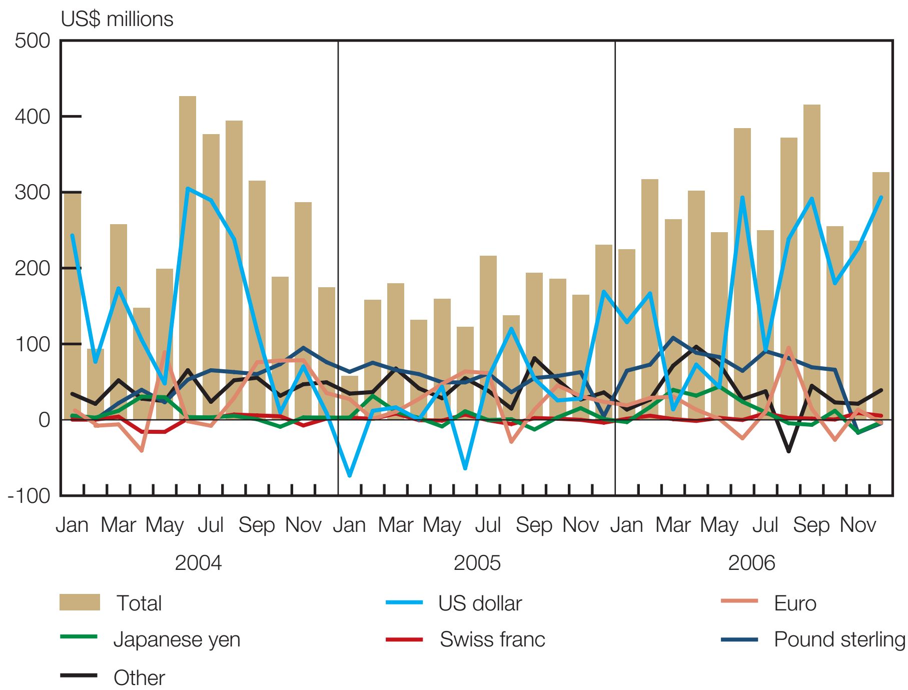
4.7 Currency risk

US dollar remained main contributor to net open position

During 2006, the aggregated effective net open foreign-currency position fluctuated at higher levels, if compared with fluctuations in 2005. The US-dollar positions were the main contributors to the larger aggregated effective net open foreign-currency position.

Figure 38 illustrates the total aggregated effective net open foreign-currency position, as well as the net open positions per currency. The total aggregated effective net open

Figure 38 Aggregated effective net open foreign-currency position (all currencies converted to US dollars)



foreign-currency position increased from US$230,6 million in December 2005 to US$326,4 million in December 2006. Expressed as a percentage of net qualifying capital and reserves, the total aggregated effective net open foreign-currency position amounted to 1,5 per cent in December 2005, compared to 1,1 per cent in December 2006.

The aggregated effective net open position in US dollars increased to its highest level in June 2006, amounting to US$293 million. The total aggregated effective net open foreign-currency position reached its highest level in September 2006 amounting to US$415 million (2,2 per cent of net qualifying capital and reserves).

During 2006 the maximum effective net open foreign-currency position remained well within the 10-per-cent statutory limit, but fluctuated above the levels reported during 2005 (refer to Figure 39). As a percentage of net qualifying capital and reserves, the maximum effective net open foreign-currency position declined from 1,9 per cent in December 2005 to 1,4 per cent in December 2006, reaching its highest ratio at the end of September 2006, amounting to 3 per cent.

Figure 39 Maximum effective net open foreign-currency position as percentage of net qualifying capital and reserves

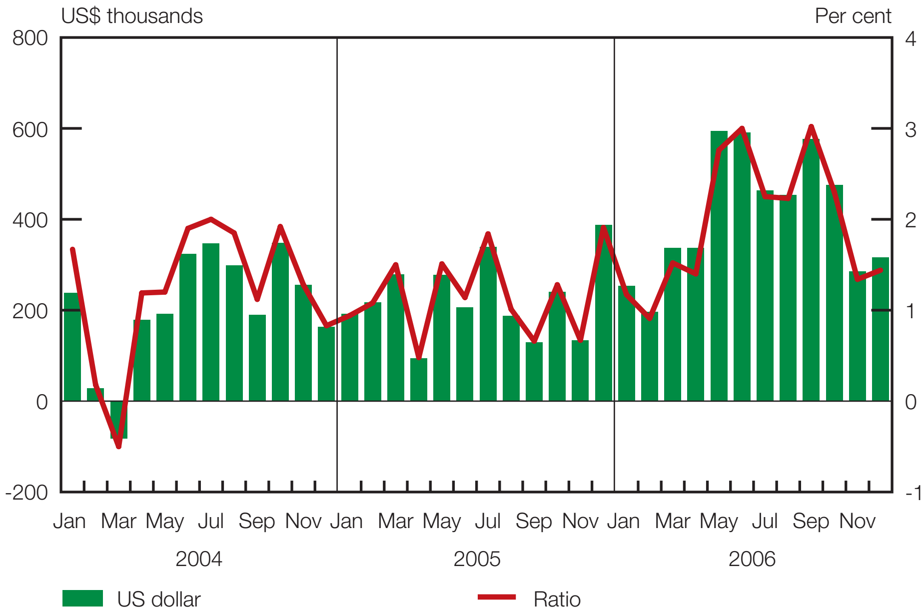
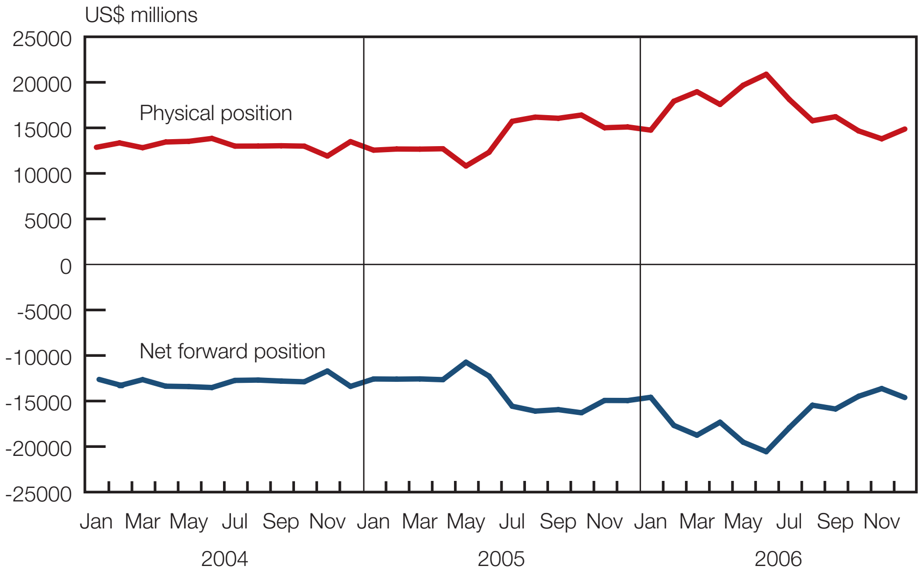


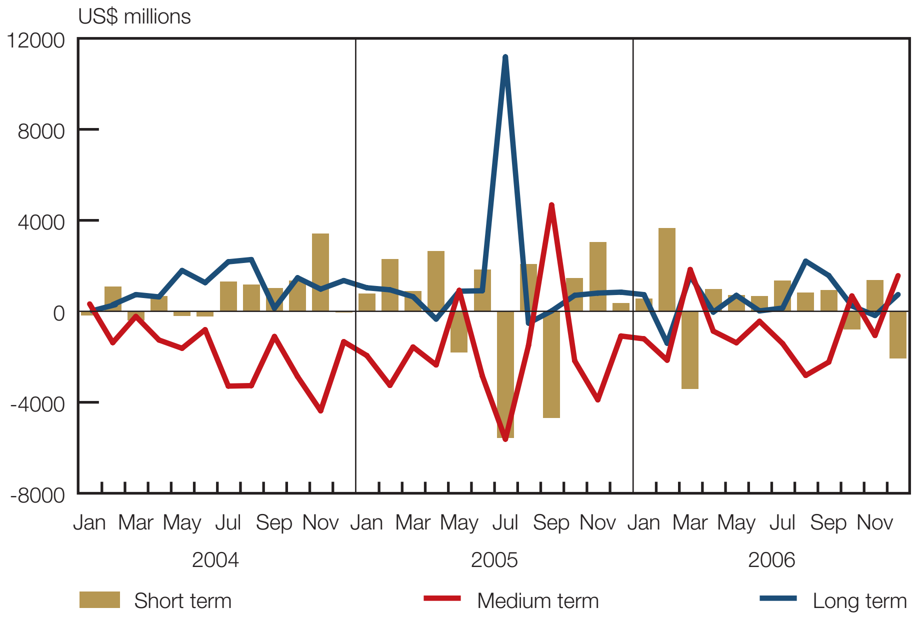
Figure 40 presents the position in foreign-currency instruments. The physical position equals the difference between foreign assets and foreign liabilities, whereas the net forward position is the difference between commitments to sell foreign currency and commitments to purchase foreign currency. The physical position decreased slightly from US$15,1 billion in December 2005 to US$14,9 billion in December 2006, whereas the net forward position decreased from -US$14,9 billion in December 2005 to -US$14,6 billion in December 2006. The increase in the physical position mirrored the movements of the forward position in order to maintain the overall net open position within the regulatory limit of 10 per cent of qualifying capital.

Figure 40 Position in foreign-currency instruments



The liquidity-maturity structure of foreign assets, liabilities and commitments is portrayed in Figure 41. The net impact of the maturity ladder was minimal during 2006.

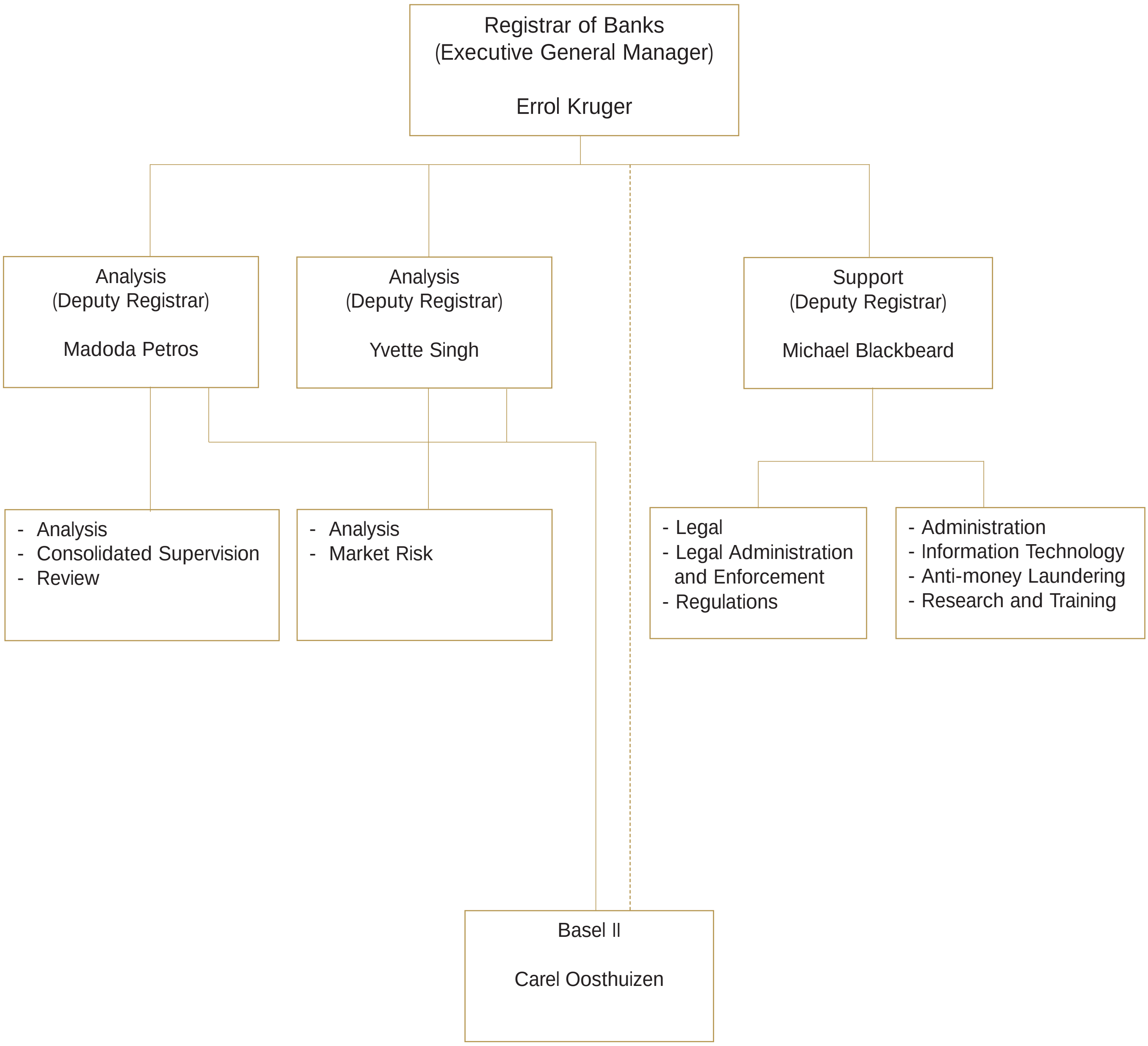
Figure 41 Maturity structure of forward contracts denominated in US dollar



Appendices

Appendix 1

Organisational structure of the Bank Supervision Department



Appendix 2

Registered banks, mutual banks and local branches of foreign banks as at 31 December 2006

Registered banks

	Institution	Address	Total assets at 31 December 2005 R million	Total assets at 31 December 2006 R million	Annual growth Per cent
1	ABSA Bank Limited	P O Box 7735, Johannesburg, 2000	358 607	446 402	24,48
2	African Bank Limited	Private Bag X170, Halfway House, 1685	7 462	8 353	11,95
3	Albaraka Bank Limited	P O Box 4395, Durban, 4000	1 148	1 441	25,47
4	Capitec Bank Limited	P O Box 12451, Die Boord, Stellenbosch, 7613	1 170	1 810	54,68
5	FirstRand Bank Limited	P O Box 786273, Sandton, 2146	307 310	388 171	26,31
6	Grindrod Bank Limited	P O Box 1, Durban, 4000	771	1 000	29,71
7	Habib Overseas Bank Limited	P O Box 62369, Marshalltown, 2107	422	485	14,86
8	HBZ Bank Limited	P O Box 1536, Wandsbeck, 3631	1 023	1 245	21,62
9	Imperial Bank Limited	P O Box 6093, Rivonia, 2128	22 286	30 862	38,48
10	Investec Bank Limited	P O Box 785700, Sandton, 2146	97 129	117 836	21,32
11	Mercantile Bank Limited	P O Box 782699, Sandton, 2146	3 425	4 497	31,29
12	Nedbank Limited	P O Box 1144, Johannesburg, 2000	303 225	379 331	25,10
13	Rennies Bank Limited	P O Box 185, Johannesburg, 2000	378	561	48,26
14	Sasfin Bank Limited	P O Box 95104, Grant Park, 2051	948	1 158	22,14
15	TEBA Bank Limited	Private Bag X101, Sunninghill, 2157	2 257	2 349	4,06
16	The South African Bank of Athens Limited	P O Box 7781, Johannesburg, 2000	659	837	27,00
17	The Standard Bank of South Africa Limited	P O Box 7725, Johannesburg, 2000	436 281	530 566	21,61

Appendix 2

Registered banks, mutual banks and local branches of foreign banks as at 31 December 2006 (continued)

Bank (with effect from 1 July 1996) in terms of the Supervision of Financial Institutions Rationalisation Act, 1996 (Act No. 32 of 1996)

	Institution	Address	Total assets at 31 December		Annual growth Per cent
			2005 R million	2006 R million	
1	MEEG Bank Limited	P O Box 429, East London, 5200	952	937	-1,61

Registered mutual banks

	Institution	Address	Total assets at 31 December		Annual growth Per cent
			2005 R million	2006 R million	
1	GBS Mutual Bank	P O Box 114, Grahamstown, 6140	222 481	228 297	2,61
2	VBS Mutual Bank	P O Box 3618, Makhado, 0920	499 550	570 934	14,29

Registered local branches of foreign banks

	Institution	Address	Total assets at 31 December		Annual growth Per cent
			2005 R million	2006 R million	
1	ABN AMRO Bank NV	P O Box 78769, Sandton, 2146	12 792	16 009	25,15
2	Bank of Baroda	91/121 Cowey Road, Cowey Park, Berea, Durban, 4001	150	258	71,37
3	Bank of China Limited Johannesburg Branch (trading as Bank of China Johannesburg Branch)	P O Box 782616, Sandton, 2146	437	502	15,01
4	Bank of Taiwan South Africa Branch	P O Box 1999, Parklands, 2121	639	362	-43,40
5	Calyon (trading as Calyon Corporate and Investment Bank)	P O Box 527, Melrose Arch, 2076	20 646	22 139	7,23
6	China Construction Bank Corporation – Johannesburg Branch	Private Bag X10007, Sandton, 2146	703	1 453	106,57
7	Citibank NA	P O Box 1800, Saxonwold, 2132	26 651	36 268	36,09
8	Commerzbank Aktiengesellschaft	P O Box 860, Parklands, 2121	6 912	6 369	-7,85
9	Deutsche Bank AG	Private Bag X9933, Sandton, 2146	19 160	17 740	-7,41

Appendix 2

Registered banks, mutual banks and local branches of foreign banks as at 31 December 2006 (continued)

Registered local branches of foreign banks (continued)

10	HSBC Bank plc – Johannesburg Branch	Private Bag X785434, Sandton, 2146	4 102	13 456	228,03
11	JPMorgan Chase Bank, NA (Johannesburg Branch)	Private Bag X9936, Sandton, 2146	22 225	32 110	44,48
12	Société Générale	P O Box 6872, Johannesburg, 2000	2 701	4 380	62,17
13	Standard Chartered Bank (Johannesburg Branch)	P O Box 782080, Sandton, 2146	3 432	4 040	17,69
14	State Bank of India	P O Box 2538, Saxonwold, 2132	650	592	-8,94

Banks in final liquidation

Institution		Liquidator	Date of order
1	Islamic Bank Limited	Mr A D Wilkins of Deloitte & Touche	13 January 1998
2	Regal Treasury Private Bank Limited	Mr T A P du Plessis of D & N Trust and Mr J Pema of Sekela Antrust (Pty) Limited	10 February 2004

Appendix 3

Name changes and cancellation of registration of banks and branches of foreign banks during the period 1 January 2006 to 31 December 2006

Name changes

Previous name		New name	Date of change
1	Marriott Corporate Property Bank Limited	Grindrod Bank Limited	5 December 2006

Cancellation of registration

Institution		Date of cancellation
1	Barclays Bank plc (South Africa Branch)	30 June 2006

Appendix 4

Registered controlling companies as at 31 December 2006

	Institution	Address
1	ABSA Group Limited	P O Box 7735, Johannesburg, 2000
2	African Bank Investments Limited	Private Bag X170, Halfway House, 1685
3	Capitec Bank Holdings Limited	P O Box 12451, Die Boord, Stellenbosch, 7613
4	FirstRand Bank Holdings Limited	P O Box 786273, Sandton, 2146
5	Grindrod Financial Holdings Limited	P O Box 1, Durban, 4000
6	Investec Limited	P O Box 785700, Sandton, 2146
7	Mercantile Bank Holdings Limited	P O Box 782699, Sandton, 2146
8	Nedbank Group Limited	P O Box 1144, Johannesburg, 2000
9	Rennies Bank Holdings Limited	P O Box 185, Johannesburg, 2000
10	Sasfin Holdings Limited	P O Box 95104, Grant Park, 2051
11	Standard Bank Group Limited	P O Box 7725, Johannesburg, 2000
12	TEBA Bank Controlling Company Limited	Private Bag X174, Halfway House, 1685

The following institutions are deemed to be controlling companies in terms of section 42 of the Banks Act, 1990:

1	Albaraka Banking Group (in respect of Albaraka Bank Limited)	P O Box 1882, Manama, Kingdom of Bahrain
2	National Bank of Greece (in respect of The South African Bank of Athens Limited)	86 Eolou Street, Athens TT 121, Greece
3	Pitcairn’s Finance SA (in respect of Habib Overseas Bank Limited)	23 Val Fleur, L-1526, Luxembourg

Appendix 5

Foreign banks with approved local representative offices

	Institution	Address
1	American Express Bank Limited	P O Box 651, Parklands, 2121
2	Banco BPI, SA	P O Box 303, Bruma, 2026
3	Banco Espirito Santo e Comercial de Lisboa	P O Box 749, Bruma, 2026
4	Banco Privado Português, SA	P O Box 78407, Sandton, 2146
5	Banco Totta & Açores SA	P O Box 309, Bruma, 2026
6	Bank Leumi Le-Israel BM	Private Bag X41, Saxonwold, 2132
7	Bank of Cyprus Group	P O Box 652176, Benmore, 2010
8	BNP Paribas Johannesburg	Postnet Suite 508, Private Bag X9, Benmore, 2010
9	Barclays Bank plc	P O Box 1542, Saxonwold, 2132
10	Barclays Private Clients International Limited	P O Box 1542, Saxonwold, 2132
11	Bayerische Hypo- und Vereinsbank AG	P O Box 1483, Parklands, 2121
12	Crédit Industriel et Commercial	302 Portofino, 30 9th Street, Killarney, 2193
13	Credit Suisse (South Africa) (Pty) Limited	Private Bag X9911, Sandton, 2146
14	Credit Suisse Securities (Europe) Limited	Private Bag X9911, Sandton, 2146
15	Dresdner Bank AG	P O Box 413355, Craighall, 2024
16	Dresdner Kleinwort Limited	P O Box 413355, Craighall, 2146
17	Export-Import Bank of India	P O Box 2018, Saxonwold, 2132
18	Fairbairn Private Bank (Isle of Man) Limited	P O Box 787549, Sandton, 2146
19	Fairbairn Private Bank (Jersey) Limited	P O Box 787549, Sandton, 2146
20	First Bank of Nigeria	P O Box 784796, Sandton, 2146
21	Fortis Bank (Nederland) NV	P O Box 652065, Benmore, 2010
22	Hellenic Bank Public Company Limited	P O Box 783392, Sandton, 2146
23	HSBC Bank International Limited	Private Bag X785434, Sandton, 2146
24	Icici Limited	P O Box 78261, Sandton, 2146
25	ING Bank (Switzerland) Limited	P O Box 650660, Benmore, 2010
26	Laiki Banking Group	Suite #199, Private Bag X9916, Sandton, 2146
27	Lloyds TSB Offshore Limited	P O Box 783, Parklands, 2121
28	Millenium BCP	P O Box 273, Bruma, 2026
29	N M Rothschild & Sons (CI) Limited	P O Box 411332, Craighall, 2024
30	Natexis Southern Africa Representative Office	P O Box 1414, Morningside, 2057
31	National Bank of Egypt	P O Box 55402, Northlands, 2116
32	Royal Bank of Canada Europe Limited	P O Box 784568, Sandton, 2146
33	Société Générale Representative Office for Southern Africa	P O Box 2805, Saxonwold, 2132
34	Sumitomo Mitsui Banking Corporation	Private Bag X134, Bryanston, 2021
35	The Bank of New York, Johannesburg Representative Office	Postnet Suite 100, Private Bag X43, Sunninghill, 2157

Appendix 5

Foreign banks with approved local representative offices (continued)

	Institution	Address
36	The Bank of Tokyo-Mitsubishi Limited	P O Box 78519, Sandton, 2146
37	The Representative Office for Southern and Eastern Africa of the Export-Import Bank of China	Postnet Suite 158, Private Bag X91, Benmore, 2010
38	The Royal Bank of Scotland	3 Merchant Place, 1 Fredman Drive, Sandton, 2146
39	UBS AG	P O Box 652863, Benmore, 2010
40	Union Bank of Nigeria plc	P O Box 653125, Benmore, 2010
41	Vnesheconombank	P O Box 413742, Craighall, 2024
42	Wachovia Bank, NA	P O Box 3091, Saxonwold, 2132
43	WestLB AG	P O Box 786126, Sandton, 2146

Appendix 6

Trends in South African banks

The following tables have been selected for publication because they disclose the following:
- The most important industry trends.
- Industry statistics that facilitate banks' evaluation of their own positions.

Note: Certain of the comparative figures in respect of 2004 and 2005 may differ from those reported in the 2004 and 2005 *Annual Reports* owing to the submission of amended returns by banks after publication of those reports.

Table

Table 1

Composition of balance sheet – liabilities

	Interbank funding R million	Non-bank funding R million	Foreign funding R million	Loans received under repurchase agreements R million	Other liabilities R million	Acknow-ledgements of debt R million	Capital and reserves R million	Total liabilities R million
Average month-end balance for quarter								
2004:01	75 299	765 467	44 947	45 696	321 756	1 844	112 894	1 367 904
2004:02	68 613	798 164	43 577	48 130	262 532	945	115 877	1 337 838
2004:03	69 907	849 980	45 116	57 062	244 028	682	117 603	1 384 377
2004:04	70 793	898 640	43 872	54 554	282 581	528	122 213	1 473 181
2005:01	83 317	940 484	46 996	53 429	278 443	270	125 927	1 528 867
2005:02	80 915	980 976	49 743	54 801	251 400	255	126 294	1 544 385
2005:03	86 348	1 036 035	53 665	48 564	262 387	173	129 626	1 616 798
2005:04	82 634	1 077 432	55 737	57 010	248 957	597	132 685	1 655 052
2006:01	97 138	1 146 621	61 003	62 834	261 082	285	137 085	1 766 047
2006:02	103 974	1 213 106	72 988	63 437	278 756	108	148 428	1 880 796
2006:03	107 437	1 267 829	88 797	60 866	310 134	247	155 221	1 990 532
2006:04	112 594	1 337 191	89 616	62 545	298 653	573	161 289	2 062 462
Month-end balance for year								
Dec 2004	72 765	909 918	45 762	51 806	292 756	481	124 945	1 498 434
Dec 2005	85 611	1 101 532	56 822	54 307	244 957	1 004	133 308	1 677 541
Dec 2006	113 665	1 353 220	89 553	61 543	291 949	294	164 921	2 075 145
Average for 12 months								
2004	71 153	828 063	44 378	51 361	277 724	1 000	117 147	1 390 825
2005	83 304	1 008 732	51 535	53 451	260 297	324	128 633	1 586 275
2006	105 286	1 241 187	78 101	62 421	287 156	303	150 506	1 924 959
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
2004	6,9	20,5	18,0	-9,1	-16,2	-66,0	13,4	8,6
2005	17,7	21,1	24,2	4,8	-16,3	108,7	6,7	12,0
2006	32,8	22,9	57,6	13,3	19,2	-70,7	23,7	23,7

Table 2

Composition of balance sheet – assets

	Money	Interbank advances	Non-bank advances	Loans granted under resale agreements	Investment portfolio	Non-financial assets	Acknow-ledgements of debt	Other assets	Total assets
	R million	R million	R million	R million	R million	R million	R million	R million	R million
Average month-end balance for quarter									
2004:01	25 143	67 790	907 024	39 934	283 870	12 051	1 769	30 323	1 367 904
2004:02	26 145	64 920	916 222	42 847	242 165	11 685	945	32 910	1 337 838
2004:03	27 664	68 094	945 310	44 323	254 257	11 383	682	32 664	1 384 377
2004:04	30 650	57 879	998 105	36 603	308 306	11 541	531	29 566	1 473 181
2005:01	31 475	69 229	1 047 284	35 409	298 967	11 582	270	34 651	1 528 867
2005:02	33 010	62 112	1 095 289	38 529	272 285	11 948	255	30 956	1 544 385
2005:03	33 659	73 193	1 168 549	34 397	262 368	12 125	173	32 334	1 616 798
2005:04	37 350	68 066	1 217 221	38 306	247 043	13 262	571	33 233	1 655 052
2006:01	37 859	80 641	1 303 491	48 672	246 166	13 448	272	35 499	1 766 047
2006:02	37 200	92 573	1 390 506	59 793	252 855	13 535	108	34 225	1 880 796
2006:03	40 859	90 023	1 477 790	59 536	272 669	13 784	247	35 624	1 990 532
2006:04	45 052	98 212	1 545 095	60 190	265 182	14 230	573	33 928	2 062 462
Month-end balance for year									
Dec 2004	32 319	54 767	1 014 122	29 076	331 015	11 641	481	25 013	1 498 434
Dec 2005	38 338	72 245	1 231 409	34 648	254 282	13 841	962	31 816	1 677 541
Dec 2006	47 181	91 053	1 575 276	55 581	261 112	14 648	294	30 000	2 075 145
Average for 12 months									
2004	27 401	64 671	941 665	40 927	272 150	11 665	982	31 366	1 390 825
2005	33 874	68 150	1 132 086	36 660	270 166	12 229	318	32 794	1 586 275
2006	40 242	90 362	1 429 221	57 048	259 218	13 749	300	34 819	1 924 959
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
2004	12,0	-9,3	15,8	-37,4	0,9	-5,1	-60,1	-6,2	8,6
2005	18,6	31,9	21,4	19,2	-23,2	18,9	99,8	27,2	12,0
2006	23,1	26,0	27,9	60,4	2,7	5,8	-69,4	-5,7	23,7

Table 3

Composition of selected liabilities

	Deposits					Loans under repurchase agreements				Foreign funding		
	Demand R million	Savings R million	Fixed and notice R million	Negotiable certificates of deposit R million	Total R million	SARB and Corp for Public Deposits R million	Banks R million	Non-banks R million	Total R million	Banks R million	Non-banks R million	Total R million
Average month-end balance for quarter												
2004:01	391 119	45 377	306 963	22 008	765 467	13 383	23 380	8 932	45 696	25 860	19 087	44 947
2004:02	383 028	46 880	315 041	53 214	798 164	13 676	25 864	8 590	48 130	25 949	17 628	43 577
2004:03	393 411	48 308	321 775	86 486	849 980	13 551	30 132	13 380	57 062	24 965	20 151	45 116
2004:04	415 640	50 552	325 880	106 568	898 640	13 631	26 898	14 025	54 554	21 542	22 329	43 872
2005:01	431 912	50 518	333 830	124 224	940 484	13 934	27 079	12 416	53 429	24 955	22 040	46 996
2005:02	443 557	51 933	355 450	130 035	980 976	14 118	26 987	13 697	54 801	26 530	23 213	49 743
2005:03	475 021	53 934	364 538	142 541	1 036 035	14 085	19 790	14 688	48 564	27 415	26 250	53 665
2005:04	499 587	57 070	371 517	149 258	1 077 432	12 225	24 996	19 789	57 010	26 917	28 820	55 737
2006:01	515 360	60 958	399 842	170 461	1 146 621	12 869	29 103	20 863	62 834	34 662	26 341	61 003
2006:02	536 170	65 329	427 864	183 742	1 213 106	13 162	30 161	20 115	63 437	46 837	26 151	72 988
2006:03	583 196	69 396	441 686	173 550	1 267 829	12 939	29 179	18 749	60 866	60 739	28 059	88 797
2006:04	610 727	72 332	455 281	198 852	1 337 191	12 768	25 831	23 946	62 545	58 258	31 358	89 616
Month-end balance for year												
Dec 2004	428 740	51 095	320 224	109 859	909 918	13 444	24 286	14 075	51 806	20 616	25 146	45 762
Dec 2005	511 728	57 870	380 353	151 581	1 101 532	11 909	23 465	18 934	54 307	27 100	29 722	56 822
Dec 2006	624 458	72 799	451 702	204 262	1 353 220	12 484	24 208	24 851	61 543	57 112	32 441	89 553
Average for 12 months												
2004	395 800	47 780	317 415	67 069	828 063	13 560	26 568	11 232	51 361	24 579	19 799	44 378
2005	462 519	53 364	356 334	136 515	1 008 732	13 591	24 713	15 148	53 451	26 454	25 081	51 535
2006	561 363	67 004	431 168	181 651	1 241 187	12 934	28 569	20 918	62 421	50 124	27 977	78 101
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
2004	9,2	12,1	8,8	385,4	20,5	3,4	-11,6	-14,9	-9,1	-2,2	42,0	18,0
2005	19,4	13,3	18,8	38,0	21,1	-11,4	-3,4	34,5	4,8	31,4	18,2	24,2
2006	22,0	25,8	18,8	34,8	22,8	4,8	3,2	31,3	13,3	110,7	9,1	57,6

Table 4

Composition of loans and advances to non-banks

	Negotiable certificates of deposit	Instalment debtors	Mortgage loans	Credit cards	Acknow-ledgements of debt	Redeem-able preference shares	Overdrafts and loans	Foreign-currency loans and advances	Less: Specific provisions	Total
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million
Average month-end balance for quarter										
2004:01	7 663	129 346	333 431	17 713	29 160	15 408	266 697	125 977	18 370	907 024
2004:02	4 903	135 440	350 523	18 584	25 609	15 219	257 246	126 349	17 649	916 222
2004:03	10 224	142 705	371 183	19 460	22 305	14 517	257 489	124 382	16 957	945 310
2004:04	15 672	150 500	396 923	20 697	21 129	15 258	279 744	114 480	16 297	998 105
2005:01	21 123	156 678	417 061	23 531	24 319	15 396	287 312	118 521	16 656	1 047 284
2005:02	22 564	164 133	443 934	25 427	25 135	17 817	290 663	123 323	17 707	1 095 289
2005:03	24 793	171 876	477 237	27 289	24 924	18 275	287 709	153 143	16 698	1 168 549
2005:04	22 477	179 251	509 984	29 969	26 370	17 767	295 616	151 556	15 770	1 217 221
2006:01	26 187	187 356	542 653	32 950	28 562	19 149	322 426	159 768	15 561	1 303 491
2006:02	25 746	195 170	580 218	35 523	30 237	22 209	321 921	195 112	15 630	1 390 506
2006:03	21 302	201 932	623 438	38 230	34 522	23 980	343 556	206 233	15 402	1 477 790
2006:04	23 938	204 773	667 485	42 235	32 635	23 666	373 895	191 060	14 590	1 545 095
Month-end balance for year										
Dec 2004	16 716	152 406	406 174	21 169	22 499	15 707	278 893	116 723	16 164	1 014 122
Dec 2005	21 225	182 165	522 416	31 207	27 461	18 258	298 509	145 497	15 331	1 231 409
Dec 2006	24 382	207 401	680 893	43 940	34 087	23 311	383 462	191 678	13 878	1 575 276
Average for 12 months										
2004	9 616	139 498	363 015	19 113	24 551	15 100	265 294	122 797	17 318	941 665
2005	22 740	167 985	462 054	26 554	25 187	17 314	290 325	136 636	16 708	1 132 086
2006	24 293	197 308	603 448	37 234	31 489	22 251	340 449	188 043	15 296	1 429 221
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
2004	81,6	20,9	25,6	24,9	-9,7	2,0	5,6	2,0	-12,7	15,8
2005	27,0	19,5	28,6	47,4	22,1	16,2	7,0	24,7	-5,2	21,4
2006	14,9	13,9	30,3	40,8	24,1	27,7	28,5	31,7	-9,5	27,9

Table 5

Funding maturity structure

	Short term Per cent	Medium term Per cent	Long term Per cent
Quarter			
2004:01	66,9	20,1	13,0
2004:02	66,1	19,8	14,1
2004:03	64,8	20,7	14,4
2004:04	63,4	22,9	13,6
2005:01	64,7	21,7	13,6
2005:02	63,9	21,4	14,6
2005:03	64,0	20,7	15,3
2005:04	64,3	20,5	15,2
2006:01	63,5	20,4	16,1
2006:02	62,9	19,8	17,3
2006:03	65,7	17,2	17,1
2006:04	64,6	18,1	17,3
Month-end balance for year			
Dec 2004	65,7	21,1	13,2
Dec 2005	64,6	20,6	14,8
Dec 2006	65,6	17,4	17,0
Average for 12 months			
2004	65,3	20,9	13,8
2005	64,2	21,1	14,7
2006	64,2	18,8	17,0

Table 6

Analysis of capital and reserves

	Primary capital and reserves	Secondary capital and reserves	Tertiary capital and reserves	Total capital and reserves	Less: Impairments	Net qualifying capital and reserves	As percentage of total risk exposure: Primary capital and reserves	Impairments	Secondary capital and reserves
	R million	R million	R million	R million	R million	R million	Per cent	Per cent	Per cent
Average month-end balance for quarter									
2004:01	75 136	34 366	2 160	111 662	9 847	101 814	10,2	1,3	4,6
2004:02	77 439	35 186	2 110	114 736	9 738	104 998	10,5	1,3	4,7
2004:03	80 259	34 412	2 241	116 911	8 378	108 534	10,7	1,1	4,5
2004:04	86 120	34 883	2 131	123 135	7 991	115 144	11,0	1,0	4,4
2005:01	90 371	33 687	1 891	125 948	7 274	118 674	11,1	0,9	4,1
2005:02	93 087	34 869	1 602	129 558	7 583	121 975	11,0	0,9	4,1
2005:03	94 506	35 490	1 499	131 495	9 217	122 277	10,6	1,0	4,0
2005:04	99 242	36 028	1 437	136 707	8 668	128 038	10,6	0,9	3,9
2006:01	103 961	35 553	1 234	140 747	6 501	134 246	10,6	0,7	3,6
2006:02	105 890	42 812	1 413	150 115	6 674	143 441	10,3	0,6	4,1
2006:03	108 011	45 133	1 506	154 650	8 596	146 054	9,7	0,8	4,1
2006:04	117 532	44 597	1 381	163 510	9 216	154 293	10,0	0,8	3,8
Average for 12 months									
2004	79 739	34 712	2 160	116 611	8 988	107 623	10,6	1,2	4,6
2005	94 301	35 018	1 607	130 927	8 186	122 741	10,8	0,9	4,0
2006	108 848	42 024	1 383	152 256	7 747	144 509	10,2	0,7	3,9
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent			
2004	23,9	3,3	-12,5	16,8	-21,9	20,8			
2005	9,8	1,4	-21,9	7,0	-8,5	8,0			
2006	18,6	28,4	-7,3	20,8	36,9	19,9			

Table 7

Risk profile of assets

	Risk category									
	0 per cent R million	10 per cent R million	20 per cent R million	50 per cent R million	100 per cent R million	150 per cent R million	Impair-ments R million	Total R million	Risk-weighted assets R million	Risk-weighted assets as percentage of total average assets Per cent
Average month-end balance for quarter										
2004:01	245 981	12 066	100 473	232 806	567 848	1	3 911	1 163 086	744 664	64,1
2004:02	238 262	11 407	100 150	245 753	561 912	16	3 972	1 161 473	745 707	64,2
2004:03	235 518	9 838	99 479	261 961	570 183	6	4 119	1 181 104	763 242	64,6
2004:04	234 497	8 574	97 394	279 203	603 737	0	4 548	1 227 954	809 160	65,9
2005:01	247 037	9 782	101 323	292 385	621 312	93	3 532	1 275 464	824 207	64,6
2005:02	241 379	8 472	102 953	307 861	648 896	0	4 294	1 313 855	867 203	66,0
2005:03	254 692	8 193	120 576	331 319	666 436	3	5 120	1 386 339	908 237	65,5
2005:04	251 372	9 705	133 066	351 122	704 550	30	4 969	1 454 814	957 429	65,8
2006:01	277 003	10 421	134 699	377 215	743 688	61	3 755	1 546 843	997 919	64,5
2006:02	302 157	8 625	158 082	407 864	774 573	72	3 914	1 655 287	1 050 234	63,4
2006:03	323 284	9 023	168 068	435 672	818 023	133	5 601	1 759 803	1 126 578	64,0
2006:04	312 896	10 596	163 308	466 931	876 674	162	6 568	1 837 134	1 209 782	65,9
Month-end balance for year										
Dec 2004	242 411	8 297	95 383	285 788	609 174	0	4 360	1 245 412	815 570	65,5
Dec 2005	260 898	9 470	125 490	360 454	718 413	60	4 357	1 479 142	968 344	65,5
Dec 2006	305 456	10 699	159 611	477 629	896 641	187	6 993	1 857 215	1 238 654	66,7
Average for 12 months										
2004	238 565	10 471	99 374	254 931	575 920	6	4 138	1 183 404	765 693	64,7
2005	248 620	9 038	114 480	320 672	660 299	31	4 479	1 357 618	889 269	65,5
2006	303 835	9 666	156 039	421 920	803 240	107	4 959	1 699 767	1 096 128	64,5
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	
2004	2,9	-34,7	2,0	26,3	8,7	-100,0	9,2	10,0	11,2	
2005	7,6	14,1	31,6	26,1	17,9	-100,0	-0,1	18,8	18,7	
2006	17,1	13,0	27,2	32,5	24,8	210,6	60,5	25,6	27,9	

Table 8

Risk profile of off-balance-sheet items

	Risk category										Risk-weighted items as percentage of total average off-balance-sheet items
	0* per cent	5 per cent	10 per cent	20 per cent	50 per cent	100 per cent	150 per cent	Impair-ments	Total**	Risk-weighted off-balance-sheet items	
	R million	R million	R million	R million	R million	R million	R million	R million	R million	R million	Per cent
Average month-end balance for quarter											
2004:01	29 953	1 085	12 604	6 560	68 200	14 137	0	165	1 527 308	52 513	3,4
2004:02	35 000	1 154	11 314	8 572	68 051	15 274	0	165	1 572 653	53 852	3,4
2004:03	37 062	302	9 348	9 795	62 280	13 447	0	269	1 711 245	50 186	2,9
2004:04	41 963	159	8 872	10 316	56 982	11 405	0	338	1 971 627	46 238	2,3
2005:01	49 762	248	9 290	8 929	57 259	13 739	16	547	2 082 625	50 590	2,4
2005:02	54 155	401	10 106	11 982	61 245	10 708	0	750	2 113 880	52 254	2,5
2005:03	61 431	479	14 655	12 878	68 064	11 202	0	683	2 459 051	56 133	2,3
2005:04	72 930	321	17 188	11 294	71 277	11 975	0	590	2 689 922	57 504	2,1
2006:01	93 902	464	22 660	11 958	67 525	10 892	0	587	3 164 255	55 207	1,7
2006:02	112 718	218	23 295	11 656	74 275	11 956	0	627	3 203 997	60 034	1,9
2006:03	129 927	333	19 226	14 654	80 890	15 854	0	614	3 277 613	67 309	2,1
2006:04	134 045	279	21 764	16 885	85 098	11 233	0	620	3 652 629	65 550	1,8
Month-end balance for year											
Dec 2004	44 441	169	8 459	10 422	56 739	10 906	0	373	2 006 856	45 944	2,3
Dec 2005	75 595	279	19 806	11 706	70 699	11 865	0	583	2 849 462	57 380	2,0
Dec 2006	135 636	207	22 415	17 762	84 062	10 561	0	620	3 812 890	64 596	1,7
Average for 12 months											
2004	35 995	675	10 535	8 811	63 878	13 566	0	234	1 695 708	50 697	3,0
2005	59 570	362	12 810	11 271	64 461	11 906	4	642	2 336 370	54 120	2,3
2006	117 648	323	21 736	13 788	76 947	12 484	0	612	3 324 624	62 025	1,9
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	
2004	51,8	-75,1	-27,6	77,3	-2,1	11,5	-100,0	126,1	39,6	7,4	
2005	70,1	64,9	134,1	12,3	24,6	8,8	-100,0	56,3	42,0	24,9	
2006	79,4	-25,8	13,2	51,7	18,9	-11,0	-100,0	6,3	33,8	12,6	

* 0-per-cent risk category = total off-balance-sheet activities *minus* central securities depository participation
** Total includes central securities depository participation

Table 9(a)

Risk profile of loans and advances

	0 per cent R million	10 per cent R million	20 per cent R million	50 per cent R million	100 per cent R million	150 per cent R million	1 000 per cent R million	Total R million	Risk-weighted loans and advances R million	Risk-weighted loans and advances as percentage of total loans and advances Per cent
Month-end balance for year 2004										
Intragroup bank advances	24 223	0	0	0	3 648	0	0	27 872	3 648	13,1
Interbank advances	267	0	27 545	0	0	0	7	27 819	5 580	20,1
Negotiable certificates of deposit	0	0	16 154	0	0	0	0	16 154	3 231	20,0
Instalment debtors	30	727	130	0	149 006	0	0	149 893	149 105	99,5
Mortgage loans	0	0	71	281 541	121 094	0	0	402 706	261 879	65,0
Credit-card debtors	0	0	0	0	21 336	0	0	21 336	21 336	100,0
Acknowledgements of debt discounted	14 961	145	1 121	10	5 465	0	0	21 702	5 708	26,3
Redeemable preference shares	534	0	325	0	14 522	0	135	15 516	15 938	102,7
Overdrafts and loans	10 684	4 798	1 473	127	252 195	0	1 704	270 982	270 077	99,7
Foreign-currency loans and advances	66 301	144	40 136	32	7 820	0	0	114 434	15 878	13,9
Loans granted under resale agreements	2 562	1 052	3 865	0	1 224	0	0	8 703	2 102	24,2
- SARB and Corporation for Public Deposits	2 118	0	0	0	0	0	0	2 118	0	0,0
- Banks	444	0	3 865	0	0	0	0	4 309	773	17,9
- Non-banks	0	1 052	0	0	1 224	0	0	2 276	1 329	58,4
Total loans and advances	119 564	6 866	90 821	281 711	576 310	0	1 847	1 077 118	754 481	70,0
Less: Specific provisions	7	124	0	26	15 997	0	0	16 154	16 022	99,2

Table 9(b)

Risk profile of loans and advances

	0 per cent R million	10 per cent R million	20 per cent R million	50 per cent R million	100 per cent R million	150 per cent R million	1 000 per cent R million	Total R million	Risk-weighted loans and advances R million	Risk-weighted loans and advances as percentage of total loans and advances Per cent
Month-end balance for year 2005										
Intragroup bank advances	28 784	0	0	0	1 674	0	0	30 458	1 674	5,5
Interbank advances	3	0	35 499	0	0	0	1	35 504	7 113	20,0
Negotiable certificates of deposit	0	0	18 702	0	204	0	0	18 906	3 945	20,9
Instalment debtors	13	1 059	9	0	177 803	0	0	178 884	177 911	99,5
Mortgage loans	2	0	0	357 800	160 636	0	0	518 438	339 536	65,5
Credit-card debtors	0	0	0	0	30 634	0	0	30 634	30 634	100,0
Acknowledgements of debt discounted	20 106	38	822	385	4 549	61	16	25 976	5 157	19,9
Redeemable preference shares	0	0	1 277	0	16 516	0	54	17 847	17 311	97,0
Overdrafts and loans	8 455	4 752	404	0	274 163	0	1 802	289 576	292 739	101,1
Foreign-currency loans and advances	71 700	74	59 092	0	9 925	0	519	141 311	26 945	19,1
Loans granted under resale agreements	1 608	1 883	5 800	0	6 603	0	0	15 893	7 951	50,0
- SARB and Corporation for Public Deposits	51	0	0	0	0	0	0	51	0	0,0
- Banks	1 199	0	5 800	0	0	0	0	6 998	1 160	16,6
- Non-banks	358	1 883	0	0	6 603	0	0	8 844	6 791	76,8
Total loans and advances	130 670	7 805	121 605	358 186	682 706	61	2 392	1 303 426	910 915	69,9
Less: Specific provisions	7	166	0	0	15 086	0	0	15 259	15 102	99,0

Table 9(c)

Risk profile of loans and advances

	0 per cent R million	10 per cent R million	20 per cent R million	50 per cent R million	100 per cent R million	150 per cent R million	1 000 per cent R million	Total R million	Risk-weighted loans and advances R million	Risk-weighted loans and advances as percentage of total loans and advances Per cent
Month-end balance for year 2006										
Intragroup bank advances	41 575	0	0	0	2 023	0	10	43 608	2 123	4,9
Interbank advances	194	0	43 730	0	0	0	0	43 924	8 746	19,9
Negotiable certificates of deposit	0	0	22 763	0	0	0	0	22 763	4 553	20,0
Instalment debtors	2	57	1	0	203 573	0	0	203 634	203 579	100,0
Mortgage loans	0	0	0	472 928	202 249	0	0	675 178	438 714	65,0
Credit-card debtors	0	0	0	0	42 392	0	0	42 392	42 392	100,0
Acknowledgements of debt discounted	26 967	64	783	520	4 079	187	171	32 771	6 493	19,8
Redeemable preference shares	0	0	1 277	0	22 724	0	12	24 013	23 104	96,2
Overdrafts and loans	9 029	6 737	504	0	349 528	0	2 892	368 690	379 220	102,9
Foreign-currency loans and advances	90 355	81	73 979	0	14 030	0	1 416	179 861	42 994	23,9
Loans granted under resale agreements	1 906	2 129	12 302	0	6 489	0	0	22 826	9 163	40,1
- SARB and Corporation for Public Deposits	44	0	0	0	0	0	0	44	0	0,0
- Banks	1 402	0	12 258	0	0	0	0	13 660	2 452	17,9
- Non-banks	460	2 129	45	0	6 489	0	0	9 122	6 711	73,6
Total loans and advances	170 028	9 068	155 340	473 449	847 087	187	4 501	1 659 659	1 161 080	70,0
Less: Specific provisions	10	125	0	1	14 220	0	0	14 355	14 233	99,1

Table 10

Capital adequacy

	Banking book					
	Total risk exposure R million	Counterparty-risk exposure R million	Risk-weighted assets and off-balance-sheet items R million	Required capital R million	Net qualifying primary capital and reserves R million	Primary capital adequacy ratio Percentage
Quarter						
2004:01	748 016	12 762	735 254	74 867	66 456	8,9
2004:02	734 053	8 125	725 929	73 476	71 435	9,7
2004:03	761 747	8 333	753 414	76 250	73 633	9,7
2004:04	793 667	10 760	782 907	79 446	83 117	10,5
2005:01	821 627	8 934	812 693	82 270	82 382	10,0
2005:02	859 451	8 143	851 308	86 055	84 607	9,8
2005:03	896 683	8 711	887 973	89 799	87 075	9,7
2005:04	949 685	9 296	940 389	95 120	92 194	9,7
2006:01	996 912	10 590	986 322	99 846	99 748	10,0
2006:02	1 047 996	10 216	1 037 780	112 490	94 657	9,0
2006:03	1 117 491	8 159	1 109 332	111 986	103 830	9,3
2006:04	1 195 439	9 677	1 185 762	119 763	107 700	9,0
Average for year						
2004	753 466	10 450	743 016	77 427	71 414	9,5
2005	870 465	8 864	861 602	87 169	86 727	10,0
2006	1 069 023	9 643	1 059 379	111 819	101 783	9,5
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	
2004	11,3	-35,4	12,4	11,3	31,2	
2005	19,7	-13,6	20,1	19,7	10,9	
2006	25,9	4,1	26,1	25,9	16,8	

Table 11(a)

Composition of income statement

	Average monthly balance for quarter 2004				Average monthly balance for quarter 2005			
	Mar R million	Jun R million	Sep R million	Dec R million	Mar R million	Jun R million	Sep R million	Dec R million
Interest income	8 558	8 579	9 219	9 132	8 811	9 422	10 105	10 716
Interest expense	5 832	5 677	6 121	6 229	6 023	6 322	6 772	7 080
Interest margin	2 726	2 903	3 098	2 903	2 788	3 100	3 333	3 636
Less: Specific provisions on loans and advances	466	348	609	522	617	347	335	411
Less: General debt provisions	37	186	-4	-3	68	3	58	78
Other	-2	-10	-5	6	-5	-5	0	-5
Adjusted interest margin	2 225	2 379	2 499	2 377	2 108	2 755	2 940	3 153
Add: Transaction-based fee income	2 028	2 143	2 185	2 436	2 340	2 570	2 623	2 643
Income from management of funds	4 253	4 522	4 684	4 813	4 447	5 325	5 563	5 796
Less: Operational expenses	3 758	4 136	3 978	4 476	4 076	4 732	4 808	5 117
Net income from management of funds	494	386	706	337	371	593	755	679
Add: Investment and trading income	502	1 985	888	903	2 031	178	-788	1 623
Less: Specific provisions – investment	-9	-2	2	3	-1	0	9	-5
Add: Knowledge-based fee income	177	178	200	264	202	308	276	213
Net income before taxation	1 731	2 013	1 916	1 831	2 021	1 689	2 126	2 463
Taxation	354	461	555	315	444	454	563	646
Net income after taxation	1 377	1 552	1 361	1 516	1 577	1 235	1 563	1 818

Table 11(b)

Composition of income statement

	Average monthly balance for quarter 2006				Results for 12 months			Average for year		
	Mar R million	Jun R million	Sep R million	Dec R million	2004 R million	2005 R million	2006 R million	2004 R million	2005 R million	2006 R million
Interest income	10 657	11 796	13 367	14 388	106 461	117 162	150 625	8 872	9 764	12 552
Interest expense	6 919	7 596	9 010	9 144	71 574	78 591	98 005	5 965	6 549	8 167
Interest margin	3 738	4 200	4 357	5 244	34 887	38 571	52 620	2 907	3 214	4 385
Less: Specific provisions on loans and advances	600	649	694	657	5 836	5 132	7 804	486	428	650
Less: General debt provisions	71	182	59	221	647	619	1 598	54	52	133
Other	8	88	2	25	-34	-44	369	-3	-4	31
Adjusted interest margin	3 059	3 281	3 602	4 341	28 439	32 865	42 849	2 370	2 739	3 571
Add: Transaction-based fee income	2 623	2 610	2 955	3 305	26 376	30 527	34 484	2 198	2 544	2 874
Income from management of funds	5 683	5 891	6 558	7 646	25 642	31 747	34 504	2 137	2 646	2 875
Less: Operational expenses	4 854	5 320	5 137	5 706	49 046	56 199	63 049	4 087	4 683	5 254
Net income from management of funds	829	571	1 421	1 940	5 769	7 193	14 284	481	599	1 190
Add: Investment and trading income	1 035	1 999	991	1 030	12 832	9 134	15 167	1 069	761	1 264
Less: Specific provisions – investment	0	-1	0	0	-17	9	-2	-1	1	0
Add: Knowledge-based fee income	264	240	197	302	2 457	2 996	3 009	205	250	251
Net income before taxation	2 370	2 466	3 227	3 666	22 473	24 899	35 190	1 873	2 075	2 933
Taxation	493	691	809	942	5 055	6 319	8 804	421	527	734
Net income after taxation	1 878	1 775	2 418	2 724	17 419	18 580	26 386	1 452	1 548	2 199

Table 12

Profitability: Operating ratios

	Interest income to loans and advances Per cent	Interest expense to funding Per cent	Interest margin Per cent	Provisions to loans and advances Per cent
Average month-end balance for quarter				
2004:01	9,9	6,7	3,2	0,5
2004:02	9,7	6,5	3,2	0,5
2004:03	10,0	6,8	3,2	0,6
2004:04	9,5	6,6	2,9	0,5
2005:01	8,7	6,2	2,5	0,6
2005:02	9,1	6,2	2,9	0,2
2005:03	9,3	6,3	3,0	0,3
2005:04	9,5	6,3	3,1	0,3
2006:01	8,7	5,8	3,0	0,5
2006:02	8,9	6,0	2,8	0,6
2006:03	9,6	6,8	2,8	0,5
2006:04	10,0	6,6	3,4	0,5
Average for the 12 months ended				
Dec 2004	9,3	6,3	3,0	0,5
Dec 2005	8,5	5,8	2,7	0,3
Dec 2006	8,5	5,8	2,7	0,5

Table 13

Profitability ratios

	Net income after taxation to total assets	Net income after taxation to net qualifying capital and reserves	Stated as percentage of total assets					
			Interest income	Interest expense	Interest margin	Operating expenses	Fee income	Investment and trading income
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Average month-end balance for quarter								
2004:01	1,2	16,3	7,5	5,1	2,4	3,3	1,9	0,4
2004:02	1,4	17,8	7,7	5,1	2,6	3,7	2,1	1,8
2004:03	1,2	15,1	8,0	5,3	2,7	3,4	2,1	0,8
2004:04	1,2	15,8	7,4	5,1	2,4	3,6	2,2	0,7
2005:01	1,2	16,0	6,9	4,7	2,2	3,2	2,0	1,6
2005:02	1,0	12,2	7,3	4,9	2,4	3,7	2,2	0,1
2005:03	1,2	15,4	7,5	5,0	2,5	3,6	2,2	-0,6
2005:04	1,3	17,1	7,8	5,1	2,6	3,7	2,1	1,2
2006:01	1,3	16,8	7,2	4,7	2,5	3,3	2,0	0,7
2006:02	1,1	14,8	7,5	4,8	2,7	3,4	1,8	1,3
2006:03	1,5	20,0	8,1	5,4	2,6	3,1	1,9	0,6
2006:04	1,6	21,2	8,4	5,3	3,1	3,3	2,1	0,6
Average for the 12 months ended								
Dec 2004	1,2	14,7	7,1	4,8	2,3	3,3	1,9	0,9
Dec 2005	1,1	14,5	7,0	4,7	2,3	3,4	2,0	0,5
Dec 2006	1,3	17,2	7,3	4,7	2,5	3,0	1,8	0,7

Table 14

Percentage composition of interest income

	Interbank loans	Instal-ment debtors	Mortgage loans	Credit cards	Acknow-ledgements of debt	Redeem-able pref-erence shares	Over-drafts and loans	Foreign-currency loans and advances	Loans under resale agree-ments	Negoti-able certi-ficates of deposit	Interest income from invest-ments
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Average month-end balance for quarter											
2004:01	8,9	14,4	33,9	2,5	2,8	1,0	27,6	2,5	3,2	0,6	2,5
2004:02	8,1	15,1	35,7	2,6	2,8	1,4	25,8	1,3	3,2	0,3	3,7
2004:03	7,3	14,4	35,0	2,6	2,4	1,2	26,9	2,3	2,7	0,8	4,4
2004:04	5,2	14,8	37,1	2,7	2,1	1,6	25,7	2,6	2,3	1,0	4,9
2005:01	5,9	15,6	36,2	2,9	2,2	1,0	24,6	3,0	1,9	1,4	5,3
2005:02	6,0	15,0	36,7	3,0	2,0	1,3	25,3	3,5	1,9	1,5	3,8
2005:03	9,0	14,5	35,7	3,1	1,8	1,3	25,5	4,4	1,6	1,3	1,7
2005:04	5,3	15,8	37,4	3,4	1,8	1,3	24,8	4,9	1,8	1,3	2,4
2006:01	5,0	15,1	38,3	3,6	1,9	1,2	24,5	5,4	1,6	1,4	2,0
2006:02	5,4	14,4	37,3	3,6	1,7	1,0	23,4	6,5	1,9	1,2	3,5
2006:03	4,7	14,1	38,5	3,7	1,9	1,2	23,7	6,8	1,9	0,9	2,8
2006:04	6,6	13,3	40,4	3,5	1,8	1,3	21,1	5,3	3,7	1,1	1,7
Average for the 12 months ended											
Dec 2004	7,3	14,7	35,4	2,6	2,5	1,3	26,5	2,2	2,8	0,7	3,9
Dec 2005	6,6	15,2	36,5	3,1	1,9	1,2	25,1	4,0	1,8	1,4	3,2
Dec 2006	5,5	14,2	38,7	3,6	1,8	1,2	23,1	6,0	2,4	1,1	2,5

Table 15

Percentage composition of interest expense

	Intra-group funding	Interbank funding	Demand deposits	Savings deposits	Fixed and notice deposits	Negotiable certificates of deposit	Loans under repurchase agreements	Other funding	Foreign funding	Transfer cost of trading activities	Debt instruments
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Average month-end balance for quarter											
2004:01	4,3	4,3	29,9	2,0	33,5	2,6	4,4	13,5	1,0	-1,2	5,7
2004:02	4,0	4,6	29,3	2,2	35,6	5,6	4,4	9,2	1,0	-1,8	5,9
2004:03	3,7	3,8	26,6	2,0	34,7	10,2	4,7	9,1	0,9	-1,0	5,2
2004:04	3,9	4,4	27,0	1,9	32,4	11,0	4,7	8,4	1,2	-0,8	5,8
2005:01	3,9	4,8	29,0	2,0	31,2	12,3	4,7	5,4	1,5	-0,5	5,7
2005:02	3,9	4,8	26,1	1,9	33,5	13,0	4,0	6,5	1,6	-0,3	5,0
2005:03	4,1	4,2	25,6	1,9	30,5	12,2	3,2	12,1	1,8	-0,2	4,6
2005:04	2,8	3,8	29,0	1,9	31,8	12,9	3,8	7,1	2,2	0,0	4,7
2006:01	3,5	4,1	28,3	2,0	31,4	14,1	4,1	6,8	2,7	-1,0	3,9
2006:02	5,6	3,6	27,0	1,9	30,5	13,2	3,6	5,8	5,3	-0,5	4,0
2006:03	3,2	4,0	28,3	2,1	30,0	12,0	3,3	6,0	8,0	-0,5	3,7
2006:04	5,2	4,4	31,6	2,5	32,6	15,2	2,9	4,0	-0,2	-1,7	3,5
Average for the 12 months ended											
Dec 2004	4,0	4,3	28,2	2,0	34,0	7,5	4,6	10,0	1,0	-1,2	5,6
Dec 2005	3,6	4,4	27,4	1,9	31,7	12,6	3,9	7,9	1,8	-0,2	5,0
Dec 2006	4,4	4,0	28,9	2,1	31,2	13,6	3,4	5,5	4,0	-1,0	3,8

Table 16(a) Calculation of liquid-asset requirement

	Average month-end balance for quarter 2004				Average month-end balance for quarter 2005			
	Mar R million	Jun R million	Sep R million	Dec R million	Mar R million	Jun R million	Sep R million	Dec R million
Liabilities including capital and reserves	1 367 284	1 331 174	1 360 564	1 446 501	1 499 696	1 521 030	1 589 575	1 633 571
Less: Capital and reserves	113 756	115 065	116 141	119 363	124 193	124 220	128 628	131 508
- average daily amount of funding from head office or branches	9 896	11 463	8 988	7 890	8 674	9 940	10 714	8 726
- average daily amount owing by banks, branches and mutual banks	132 701	109 482	107 814	111 704	110 106	106 054	113 441	132 179
Liabilities as adjusted	1 110 966	1 095 164	1 127 621	1 207 543	1 256 724	1 280 817	1 336 791	1 361 158
Liquid-asset requirement	55 548	54 758	56 381	60 377	62 836	64 041	66 839	68 058
Liquid assets held	66 323	65 789	66 197	68 367	71 437	74 732	76 962	79 548
SARB notes and coin	6 680	6 488	6 835	7 900	8 882	8 686	8 223	8 480
Gold coin and bullion	5	21	7	0	0	0	0	0
Clearing-account balances	1	2	-2	5	4	10	7	1
Treasury bills of the Republic	21 152	19 555	16 841	18 181	21 967	24 841	24 668	26 164
Stock issued – Exchequer Act, 1975								
Securities issued – Public Finance Management Act, 1999	35 089	34 615	37 719	37 539	33 634	34 563	36 094	37 393
Securities of the SARB	2 634	4 445	4 193	3 978	6 137	5 872	7 274	6 779
Land Bank bills	762	663	604	764	812	760	696	731
Memorandum items								
Cash-management schemes	56 379	61 118	63 437	65 173	53 708	51 006	50 719	54 014
Set-off	79 825	83 548	93 674	109 068	117 238	125 384	130 896	52 262
Ratios	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Liquid assets held to liquid assets required	119,4	120,1	117,4	113,2	113,7	116,7	115,1	116,9

Table 16(b) Calculation of liquid-asset requirement

	Average month-end balance for quarter 2006				Year-end balance			Annual growth		
	Mar R million	Jun R million	Sep R million	Dec R million	2004 R million	2005 R million	2006 R million	2004 Per cent	2005 Per cent	2006 Per cent
Liabilities including capital and reserves	1 730 964	1 834 674	1 956 409	2 041 116	1 482 832	1 654 353	2 054 990	7,1	11,6	24,2
Less: Capital and reserves	134 536	145 423	154 119	159 793	122 315	131 806	163 102	12,2	7,8	23,7
- average daily amount of funding from head office or branches	11 484	12 792	14 737	11 153	7 716	11 695	9 883	-15,1	51,6	-15,5
- average daily amount owing by banks, branches and mutual banks	131 063	135 820	142 718	133 754	113 492	133 297	128 582	-21,5	17,5	-3,5
Liabilities as adjusted	1 453 880	1 540 640	1 644 834	1 736 416	1 239 309	1 377 555	1 753 423	10,4	11,2	27,3
Liquid-asset requirement	72 694	77 032	82 242	86 821	61 965	68 878	87 671	10,4	11,2	27,3
Liquid assets held	81 441	85 611	88 756	93 384	70 656	81 176	96 339	9,2	14,9	18,7
SARB notes and coin	9 458	9 945	8 615	8 895	7 970	8 728	9 129	28,5	9,5	4,6
Gold coin and bullion	0	0	0	0	0	0	0	-96,4	0	0
Clearing-account balances	0	-1	91	157	5	-45	271	300,0	-959,6	-707,4
Treasury bills of the Republic	31 149	32 500	37 595	37 755	19 318	27 496	38 264	6,8	42,3	39,2
Stock issued – Exchequer Act, 1975										
Securities issued – Public Finance Management Act, 1999	35 024	36 019	37 544	41 949	37 415	38 661	43 893	1,0	3,3	13,5
Securities of the SARB	5 149	6 631	4 351	4 072	5 139	5 650	4 260	93,5	9,9	-24,6
Land Bank bills	660	517	559	555	808	684	521	16,1	-15,3	-23,9
Memorandum items										
Cash-management schemes	54 404	53 348	53 436	54 266	67 467	58 534	57 578	18,1	-13,2	-1,6
Set-off	69 882	83 341	61 784	67 434	113 864	58 289	58 452	50,4	-48,8	0,3
Ratios	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent			
Liquid assets held to liquid assets required	112,1	111,1	107,9	107,6	114,0	117,9	109,9			

Table 17

Analysis of overdue accounts

	Mortgage loans R million	Instalment finance R million	Other loans and advances R million	Total R million	Specific provisions R million	Market value of security held R million
Average month-end balance for quarter						
2004:01	8 049	2 209	13 126	23 384	14 958	8 435
2004:02	7 203	2 303	12 697	22 202	14 461	8 098
2004:03	7 332	2 496	11 581	21 409	13 582	8 540
2004:04	7 072	2 590	10 910	20 571	13 257	8 382
2005:01	6 330	2 732	11 183	20 245	13 041	7 788
2005:02	5 751	2 678	12 044	20 473	13 503	7 192
2005:03	5 299	2 612	11 093	19 003	12 637	6 878
2005:04	5 330	2 865	10 427	18 622	12 165	6 968
2006:01	6 166	3 623	10 512	20 300	11 964	8 246
2006:02	6 421	3 693	10 332	20 446	11 954	8 472
2006:03	6 404	3 464	9 763	19 632	11 501	8 270
2006:04	6 645	3 445	8 898	18 988	10 805	8 516
Month-end balance for year						
Dec 2004	6 848	2 616	10 962	20 425	13 126	8 302
Dec 2005	6 061	3 373	10 654	20 087	11 933	7 926
Dec 2006	6 885	3 397	8 478	18 759	10 213	8 682
Average for 12 months						
2004	7 414	2 400	12 078	21 892	14 065	8 364
2005	5 677	2 722	11 187	19 586	12 837	7 206
2006	6 409	3 556	9 876	19 842	11 556	8 376
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
2004	-17,1	19,5	-18,2	-14,4	-15,3	-2,2
2005	-11,5	28,9	-2,8	-1,7	-9,1	-4,5
2006	13,6	0,7	-20,4	-6,6	-14,4	9,5

Table 18

Analysis of overdue accounts: Selected ratios

	Specific provisions as percentage of total overdues	Specific provisions and securities held as percentage of total overdues	Overdues as percentage of advances	Specific provisions as percentage of advances	Net overdues* as percentage of net qualifying capital and reserves
	Per cent	Per cent	Per cent	Per cent	Per cent
Average month-end balance for quarter					
2004:01	65,3	101,0	2,2	1,5	7,8
2004:02	65,6	103,6	2,0	1,3	6,7
2004:03	62,1	103,0	2,0	1,2	7,6
2004:04	64,3	104,9	1,8	1,2	6,2
2005:01	66,6	102,1	1,8	1,2	6,2
2005:02	64,2	100,4	1,6	1,0	5,9
2005:03	68,6	105,4	1,4	1,0	4,6
2005:04	59,4	98,9	1,5	0,9	6,4
2006:01	60,0	99,7	1,4	0,8	5,9
2006:02	58,2	100,8	1,2	0,7	5,9
2006:03	59,3	101,2	1,1	0,7	5,3
2006:04	54,4	100,7	1,1	0,6	5,6
Average for 12 months					
2004	64,3	103,1	2,0	1,3	7,0
2005	64,6	101,6	1,6	1,0	5,8
2006	58,0	100,6	1,2	0,7	5,7

* Net overdues = gross overdues less specific provisions

Table 19

Large credit exposures

	Granted	Utilised	Utilised as percentage of loans and advances	Utilised as percentage of net qualifying capital and reserves	Granted as percentage of net qualifying capital and reserves
	R million	R million	Per cent	Per cent	Per cent
Balance at quarter ended					
2004:01	413 167	150 000	14,5	144,1	396,9
2004:02	484 959	135,257	12,9	126,3	452,7
2004:03	614 652	134 078	12,2	122,8	562,8
2004:04	547 096	133 909	12,0	113,0	461,8
2005:01	587 373	147 696	12,5	127,4	506,8
2005:02	611 373	155 481	12,6	128,9	507,0
2005:03	435 380	137 477	10,6	110,7	350,5
2005:04	501 417	164 914	12,2	128,8	391,5
2006:01	504 657	195 478	13,0	142,4	367,7
2006:02	499 801	204 934	12,7	145,5	354,8
2006:03	510 724	216 893	12,9	146,2	344,3
2006:04	511 045	225 987	13,0	147,3	333,1
Average for 12 months					
2004	514 969	138 311	12,9	126,0	469,3
2005	533 886	151 392	11,9	123,9	436,9
2006	506 557	210 823	12,9	145,4	349,5
Annual growth	Per cent	Per cent			
2004	48,8	-13,2			
2005	-8,3	23,2			
2006	1,9	37,0			

Table 20

Profitability of assets

		Advances			Investments			
	Money R million	Reasonable return R million	Small return R million	No return R million	Profitable R million	Non-profitable R million	Non-financial and other assets R million	Total R million
Average month-end balance for quarter								
2004:01	25 083	1 046 582	37 023	33 522	172 034	11 739	44 105	1 370 089
2004:02	26 125	1 026 329	58 241	31 311	133 113	13 213	45 366	1 333 697
2004:03	27 664	1 070 514	55 779	30 554	141 750	13 400	44 696	1 384 356
2004:04	30 641	1 098 533	67 526	31 760	188 946	13 999	41 655	1 473 060
2005:01	31 475	1 141 819	80 052	30 776	185 311	12 908	46 502	1 528 844
2005:02	33 494	1 163 140	89 418	33 486	165 938	16 453	42 678	1 544 607
2005:03	33 659	1 250 480	91 926	26 082	153 520	16 699	44 623	1 616 987
2005:04	37 350	1 302 403	89 942	26 087	129 703	22 524	46 987	1 654 996
2006:01	37 853	1 387 486	108 165	23 695	126 676	32 672	49 182	1 765 730
2006:02	37 191	1 497 704	103 925	26 529	147 100	20 968	47 679	1 881 096
2006:03	40 858	1 582 559	107 720	25 409	162 732	21 452	49 559	1 990 289
2006:04	45 051	1 645 918	125 351	23 494	147 128	26 884	48 633	2 062 458
Month-end balance for year								
Dec 2004	32 291	1 097 918	79 218	31 251	207 967	12 625	37 121	1 498 391
Dec 2005	38 338	1 311 686	98 015	24 657	124 139	34 166	46 619	1 677 620
Dec 2006	47 179	1 630 636	161 261	23 801	142 768	24 666	44 828	2 075 138
Average for 12 months								
2004	27 378	1 060 490	54 642	31 787	158 961	13 088	43 956	1 390 301
2005	33 995	1 214 460	87 835	29 108	158 618	17 146	45 198	1 586 358
2006	40 238	1 528 417	111 290	24 782	145 909	25 494	48 763	1 924 893
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
2004	11,9	7,4	139,7	-3,8	-1,6	12,4	-7,5	8,6
2005	18,7	19,5	23,7	-21,1	-40,3	170,6	25,6	12,0
2006	23,1	24,3	64,5	-3,5	15,0	-27,8	-3,8	23,7

Table 21

Open position in foreign currency

	Total foreign-currency assets US$ million	Total foreign-currency liabilities US$ million	Net spot position US$ million	Commit-ments to purchase foreign currency US$ million	Commit-ments to sell foreign currency US$ million	Mismatched forward commit-ments US$ million	Foreign branches and subsidiaries US$ million
Average month-end balance for quarter							
2004:01	19 825	6 815	13 010	135 650	148 514	-12 864	70
2004:02	20 290	6 688	13 603	133 827	147 261	-13 434	89
2004:03	20 206	7 195	13 011	133 731	146 477	-12 746	98
2004:04	20 646	7 850	12 796	143 956	156 617	-12 661	82
2005:01	20 724	8 094	12 630	149 700	162 282	-12 582	84
2005:02	19 859	7 912	11 947	163 656	175 543	-11 887	78
2005:03	24 531	8 548	15 983	177 178	193 053	-15 874	74
2005:04	24 384	8 877	15 506	189 805	205 194	-15 390	77
2006:01	27 521	10 308	17 213	193 169	210 175	-17 006	62
2006:02	30 775	11 396	19 379	192 170	211 305	-19 135	68
2006:03	29 142	12 436	16 706	212 137	228 559	-16 422	62
2006:04	27 379	12 934	14 444	207 654	221 896	-14 242	70
Month-end balance for year							
Dec 2004	21 964	8 475	13 489	141 855	155 246	-13 392	78
Dec 2005	24 462	9 363	15 098	184 287	199 232	-14 946	78
Dec 2006	28 197	13 324	14 872	189 219	203 836	-14 617	71
Average for 12 months							
2004	20 242	7 137	13 105	136 791	149 717	-12 926	85
2005	22 374	8 358	14 017	170 085	184 018	-13 933	78
2006	28 704	11 769	16 935	201 283	217 984	-16 701	65
Annual growth	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
2004	19,6	37,9	10,4	0,5	1,2	10,2	26,3
2005	11,4	10,5	11,9	29,9	28,3	11,6	0,5
2006	15,3	42,3	-1,5	2,7	2,3	-2,2	-9,2

Appendix 7

Circulars sent to banking institutions during 2006

Banks Act Circular 1/2006	Annual withdrawal and retention of circulars
Banks Act Circular 2/2006	Electronic communication with this Office
Banks Act Circular 3/2006	Revision of the Basel Core Principles for Effective Banking Supervision
Banks Act Circular 4/2006	Trilateral discussions to be held during calendar year 2006
Banks Act Circular 5/2006	Training of bank directors
Banks Act Circular 6/2006	Cell-phone banking
Banks Act Circular 7/2006	Proposed amendments to the regulations relating to branches as published in Government Notice No. R1414 in *Government Gazette* No. 21936 on 28 December 2000
Banks Act Circular 8/2006	Endorsement of the Revised Core Principles for Effective Banking Supervision
Banks Act Circular 9/2006	Development programme for directors of banks

Appendix 8

Exemptions and exclusions from the application of the Banks Act, 1990

Section 1(cc): Exemptions by the Registrar of Banks

Government Gazette		Topic	Expiry
Date	Number		
2006/12/01	29412	A group of persons between which a common bond exists	Indefinite
1994/12/14	16167	Commercial paper	Indefinite
2006/01/27	28414	"Ithala Limited" A wholly owned subsidiary of Ithala Development Finance Corporation Limited	2008/12/31
1994/12/14	16167	Mining houses	Indefinite
1994/12/14	16167	Trade in securities and financial instruments	Indefinite
2004/06/04	26415	Securitisation schemes	Indefinite

Section 1(dd): Exemptions by the Minister of Finance

Government Gazette		Topic	Subparagraph	Expiry
Date	Number			
1991/01/31	13003	Participation bond schemes	(dd)(ii)	Indefinite
1991/01/31	13003	Unit trust schemes	(dd)(ii)	Indefinite

Section 1(gg): Exemptions by the Registrar of Banks

Government Gazette		Topic	Expiry
Date	Number		
1998/09/22	19283	Members of the Johannesburg Stock Exchange as persons authorised to accept money as mandatories and to deposit such money into banking accounts maintained by them	Indefinite

Section 2(vii): Exclusions by the Minister of Finance

Government Gazette		Topic	Expiry
Date	Number		
1992/01/24	13744	Post Office Savings Bank	Indefinite
1994/12/14	16167	Industrial Development Corporation of SA Limited	Indefinite

Section 78(1)(d)(iii): Exemptions by the Registrar of Banks

Government Gazette		Topic	Expiry
Date	Number		
1997/05/02	17949	Category of assets of a bank held in the name of a person other than the bank concerned	Indefinite

Appendix 9

Approval of acquisition or establishment of foreign banking interests in terms of section 52 of the Banks Act, 1990, from 1 January 2006 to 31 December 2006

Name of bank/ controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Country
FirstRand Bank Holdings Limited	2006-01-06	Representative Offices in Dubai and Shanghai	Dubai and Shanghai
FirstRand Bank Holdings Limited	2006-08-22	RMB Resources Limited	United Kingdom
Investec plc*	2006-02-10	Quorum Holdings Limited	Jersey
Investec plc*	2006-03-09	Investec Captive Insurance Limited	Guernsey
Investec plc*	2006-06-20	TIMC (Pty) Limited	Australia
Investec plc*	2006-01-25	Investec Investment Holdings AG – Representative Office Oman	Oman
Investec plc*	2006-06-14	Investec securities US LLC	United States of America
Investec plc*	2006-06-09	54 Miller Street (Pty) Limited and 54 Miller Street Trust	Australia
Investec plc*	2006-06-14	Rozelle Bay Unit Trust	Australia
Investec plc*	2006-04-24	Global Ethanol Holdings Limited	Australia
Investec plc*	2006-07-04	NM Rothschild Australia Holdings (Pty) Limited	United Kingdom
Investec plc*	2006-07-04	IdaCorp Technologies Incorporated	United States of America
Investec plc**	2006-12-06	Nua Homeloans Limited	Ireland
Standard Bank Group Limited	2006-01-25	Andisa Capital (Botswana) Limited	Botswana
Standard Bank Group Limited	2006-02-10	SN Holdings Limited	Namibia
Standard Bank Group Limited	2006-03-06	Ghana Home Loans Limited (35 per cent)	Ghana
Standard Bank Group Limited	2006-10-23	Jayana Limited	Gibraltar
Standard Bank Group Limited	2006-10-26	Standard Securities Asia Limited	Hong Kong

* Applications for acquisition of indirect interests were noted in terms of Banks Act Circular 8/2004.

** Applications in respect of Investec plc to establish or acquire foreign interests or subsidiaries were noted in terms of the conditions of approval of the dually listed company structure.