

TRENDS IN SOUTH AFRICAN BANKS

3.1 INTRODUCTION

The purpose of this chapter is to reflect the more important trends and industry statistics that are apparent from the information received from registered banks.

Aggregated information of individual banks is contained in the reports and graphs in sections 3.2 to 3.9 below.

3.2 BALANCE-SHEET STRUCTURE

The balance-sheet structure is analysed to determine the composition and spread of a bank's business activities, as well as changes therein and the impact thereof on the risk profile of the bank concerned. Since the "big four" banks constituted approximately 77 per cent of the total banking sector in December 1994 (78 per cent in December 1993), it is largely their position that is reflected in the reports and graphs that follow.

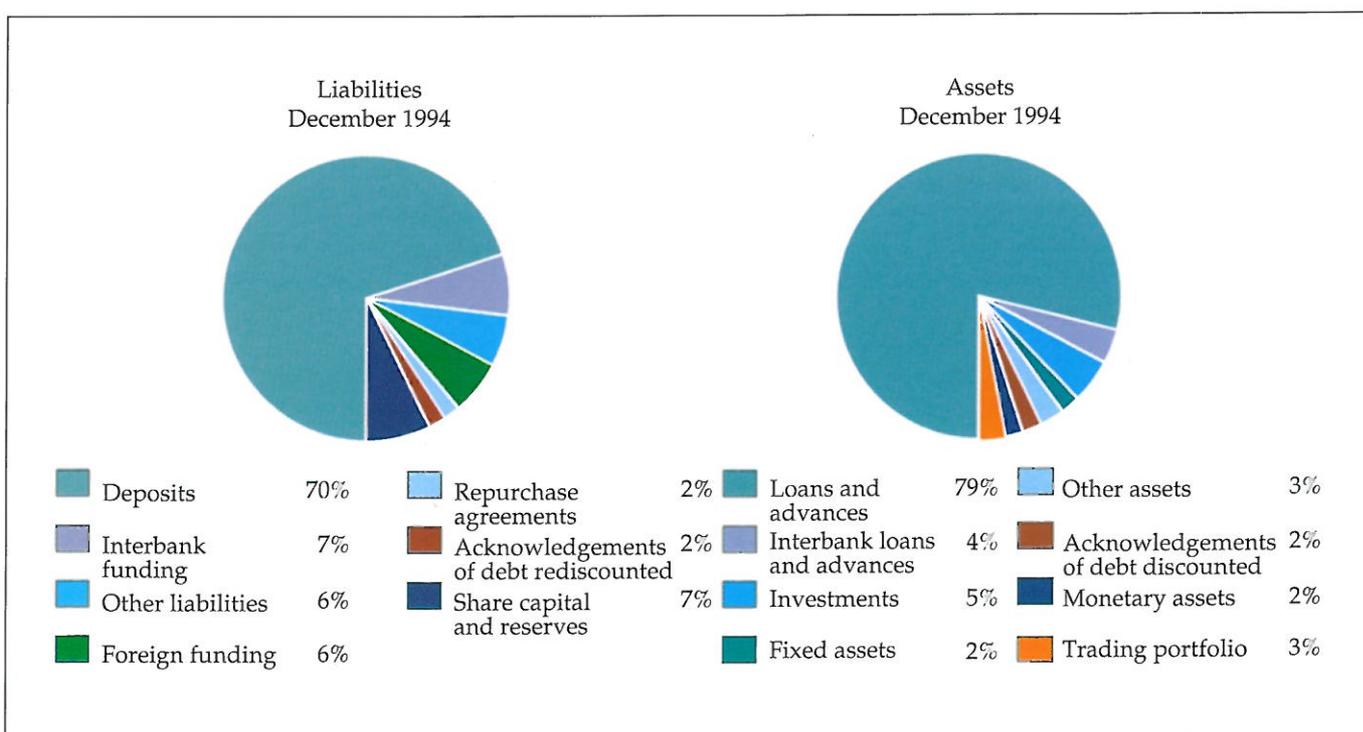
The aggregated balance sheet of all banks in the South African banking sector equalled R344,6 billion as at 31 December 1994 (as opposed to R297,5 billion as at

31 December 1993). This equals a growth rate of 15,9 per cent for the year.

Deposits from the public constitute the main source of funding, namely, R241,9 billion, or 70 per cent of total funding. Loans and advances (that is, loans and advances to the public) represent the main asset, namely, R270,8 billion, or 79 per cent of total assets. These liabilities and assets are discussed in more detail below. The balance-sheet structure as at 31 December 1994 is shown graphically in Figure 1.

Deposits from the public constitutes R241,9 billion, that is, 70 per cent of *total funding* (as opposed to R198,5 billion, or 67 per cent of total funding, in December 1993), and increased by 21,9 per cent over the past year. This is due partially to banks being instructed to report all negotiable certificates of deposit ("NCDs") as a single item as from July 1994, whereas certain NCDs had previously been reported as part of interbank funding. Although interbank funding showed an increasing trend from July 1994, there was a year-on-year decrease of 17,7 per cent, which was partially due to the change in the reporting of NCDs.

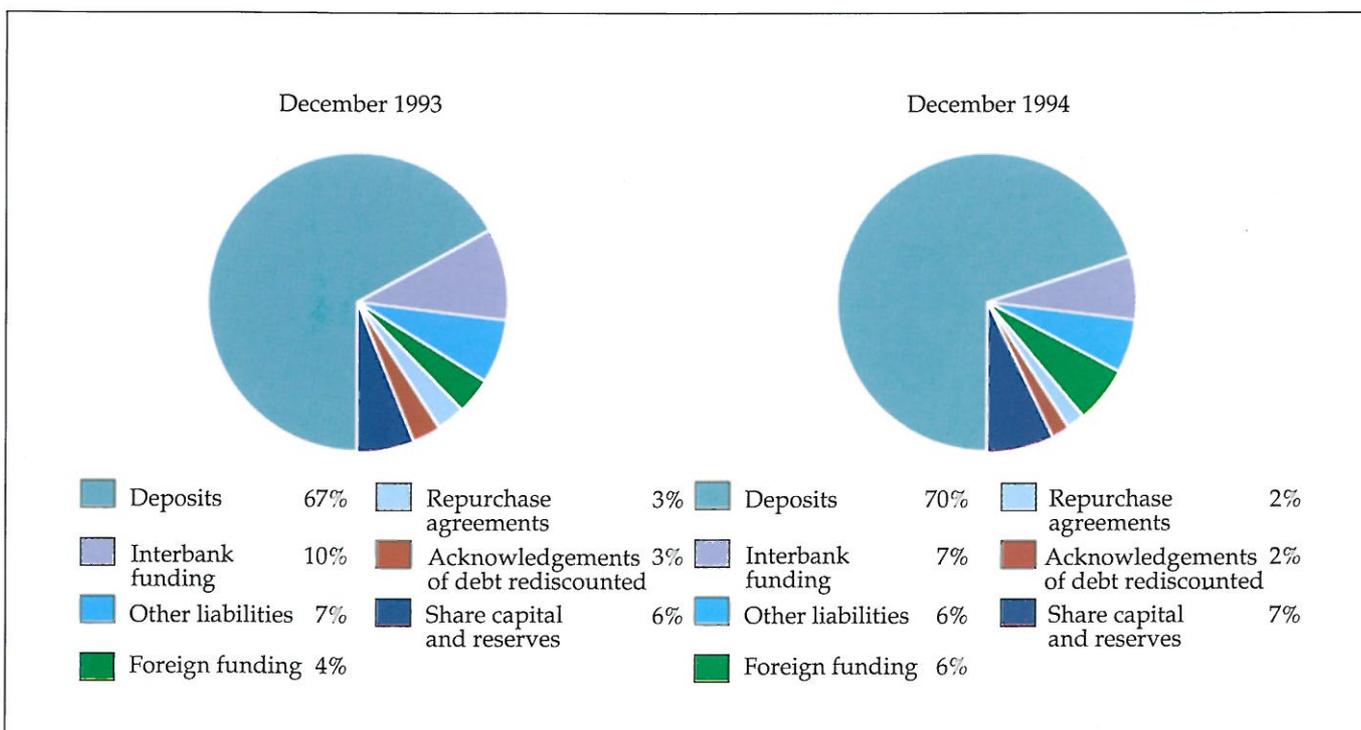
FIGURE 1: BALANCE-SHEET STRUCTURE



Other major liabilities include capital and reserves (R24,2 billion), which increased by 26,2 per cent, and interbank funding (R23,4 billion) and other liabilities (R21,3 billion), which decreased by 17,7 per cent and 2,7 per cent, respectively, over the past year. Other liabilities include balances due to the South African Reserve Bank, creditors, impairments and tax liabilities, as well as other funding liabilities. Foreign funding totalled R19,3 billion as at 31 December 1994, an increase of 56,4 per cent over the previous year. This is due to South African banks becoming more active in foreign markets as a result of foreign markets opening up to South Africa.

Capital and reserves increased from 6 per cent to 7 per cent of *total funding* over the past year. This was due to the share capital of banks being increased to comply with the increase in the prudential requirement in respect of capital, as well as banks increasing their capital-to-asset ratio to enable them to move into foreign markets. The minimum capital requirement, which is based on *total risk-weighted assets*, increased from 7 per cent to 8 per cent as from 1 January 1995 and is discussed in more detail in section 3.3 below. More detail of the year-on-year comparison of liabilities is shown in Figure 2.

FIGURE 2: LIABILITIES — YEAR-ON-YEAR COMPARISON



The year-on-year comparison of assets is shown in Figure 3. Non-bank advances grew by 15,9 per cent to R270,8 billion in December 1994 (R233,6 billion in December 1993). Other major assets include the investment portfolio of R18,4 billion (R18,8 billion in December 1993) and interbank advances of R12,9 billion (R12,7 billion in December 1993), as well as other assets, which increased by 5,4 per cent to R8,4 billion in December 1994 (R7,9 billion in December 1993). Other assets include remittances in transit, properties in possession and deferred tax and, therefore, fluctuate fairly widely, although there has been an increasing trend over the past year. The year-on-year increase in the trading portfolio is due to the trading portfolio being identified separately on the balance sheet as from 1 January 1994.

Composition of deposits

An analysis of the most significant liability item on the balance sheet, namely deposits, which represents 70 per cent of liabilities, is depicted graphically in Figure 4.

FIGURE 3: ASSETS — YEAR-ON-YEAR COMPARISON

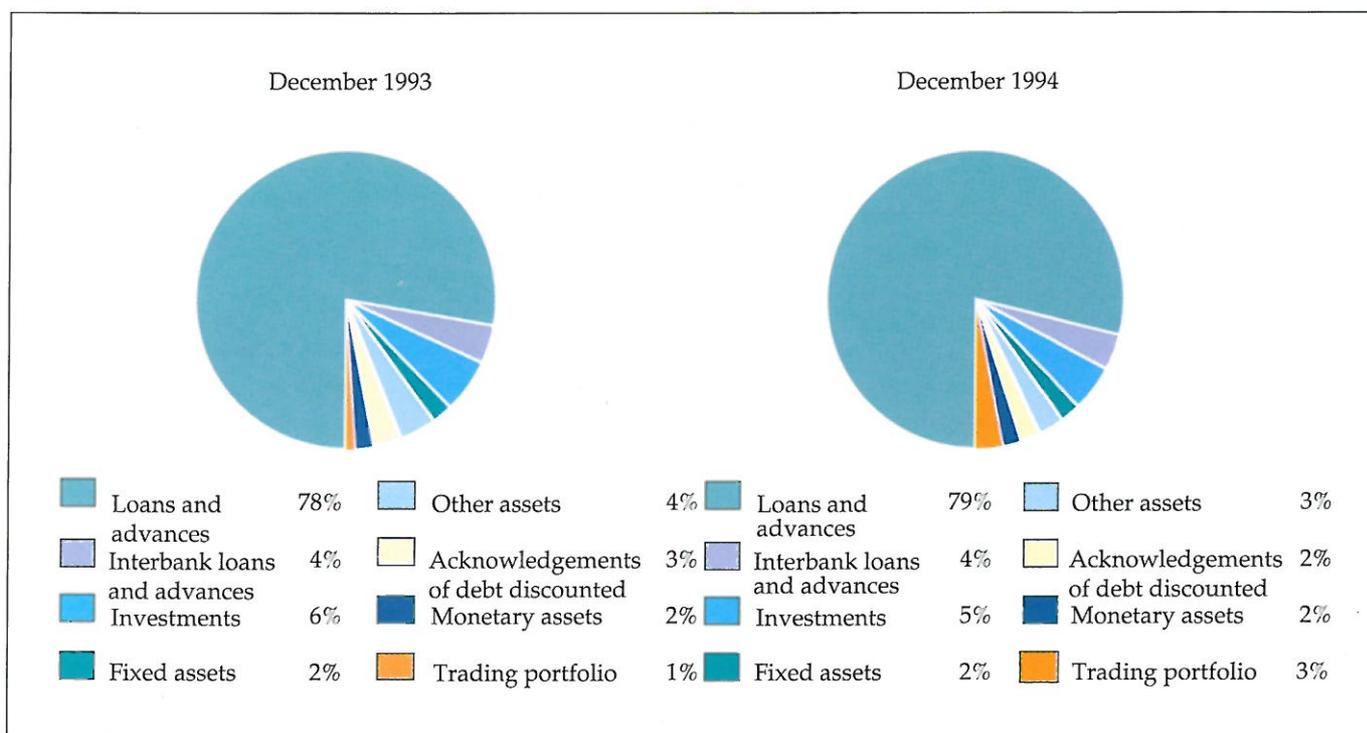


FIGURE 4: COMPOSITION OF DEPOSITS

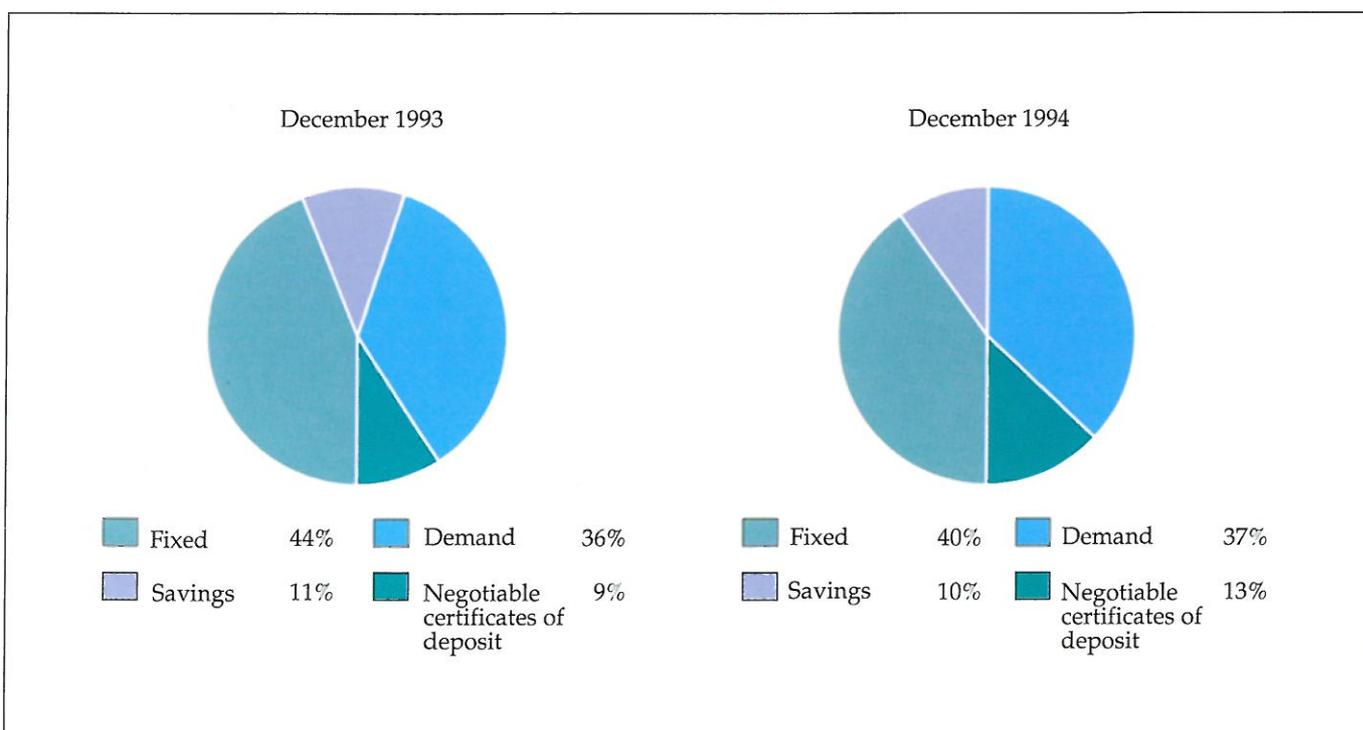
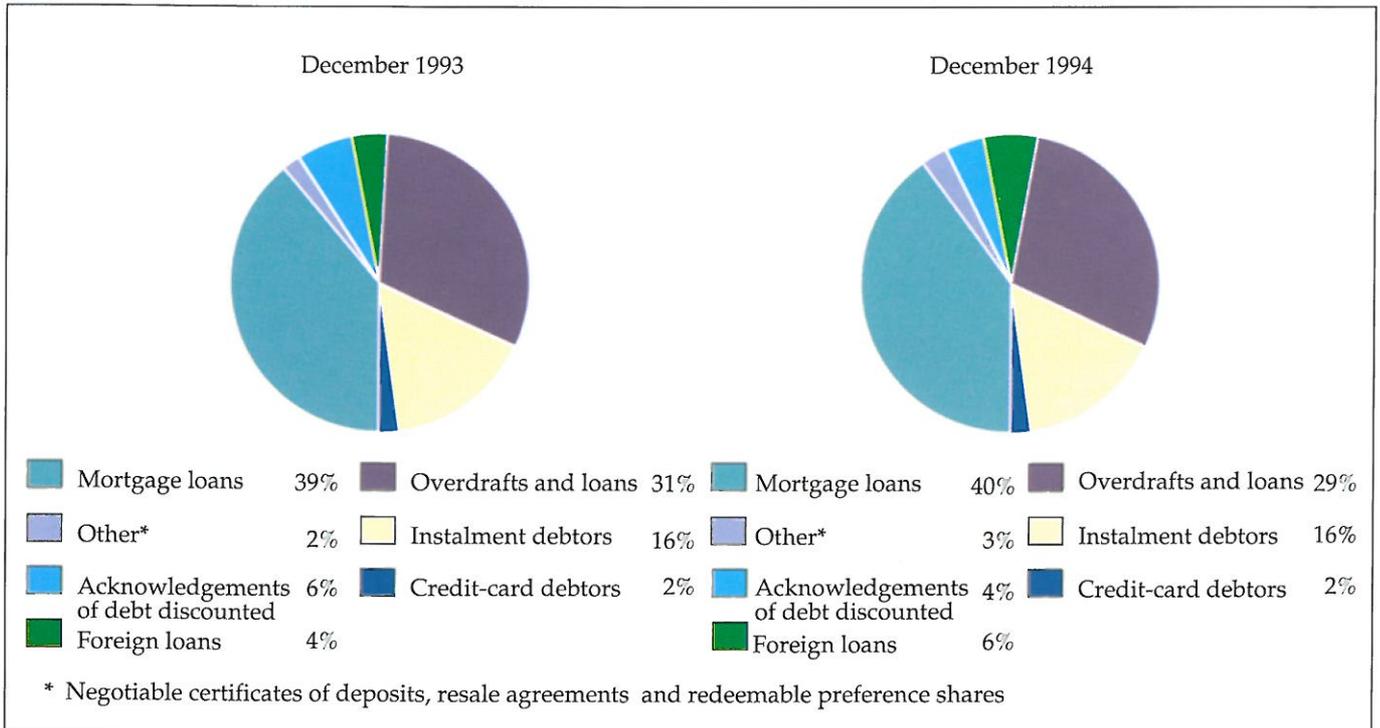


FIGURE 5: COMPOSITION OF LOANS AND ADVANCES



Demand deposits grew by 23,9 per cent to R88,7 billion in December 1994 (R71,6 billion in December 1993). Savings grew by 12,4 per cent to R23,9 billion, whilst fixed and notice deposits increased by 11,5 per cent to R98,3 billion over the same period. This shows that the public's preference has been towards demand and shorter term funding. As mentioned earlier, certain amounts previously reported under interbank funding have been reported under NCDs (non-bank funding) since July 1994, resulting in an increase in NCDs of 78,1 per cent over the past year to R31,0 billion in December 1994 (R17,4 billion in December 1993).

Since the term and cost of the various products differ, the funding structure impacts directly on profitability, as well as on liquidity-risk management and interest-rate risk management.

More detailed information on the composition of deposits is given in Table 2 of Appendix 6.

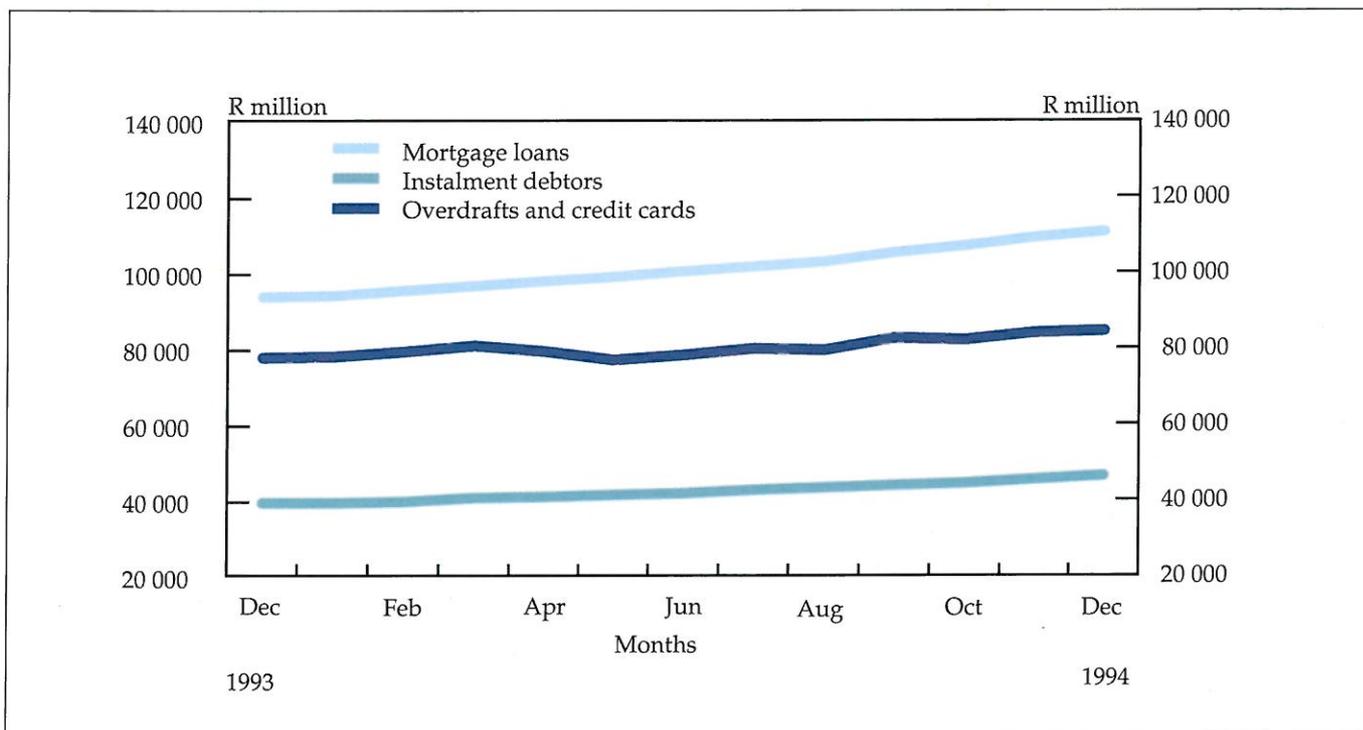
Composition of loans and advances

Loans and advances constitute the main area of credit-risk exposure. Loans and advances to non-banks (the public) total R270,8 billion (as opposed to R233,6 billion in December 1993) and constitute 79 per cent of total assets (78 per cent in December 1993). The composition of loans and advances to non-banks is depicted graphically in Figure 5.

The growth in loans and advances to non-banks of R37,2 billion (15,9 per cent) – as opposed to R23,4 billion (11,1 per cent) in December 1993 – was caused mainly by growth in the following four areas, three of which are depicted graphically in Figure 6:

	December 1994		December 1993	
	Amount	% growth	Amount	% growth
Mortgage loans	R17,3 billion	18,5	R14,3 billion	18,5
Instalment debtors	R7,2 billion	18,6	R4,2 billion	12,4
Overdrafts and loans	R5,9 billion	8,1	R8,8 billion	13,7
Foreign-currency loans and advances	R5,1 billion	47,4	R1,0 billion	10,3

FIGURE 6: SELECTED LOANS AND ADVANCES



The increase in the mortgage-loan book holds a number of potential effects for the banking sector. Since mortgage loans traditionally earn a lower yield than other products, these loans could negatively affect the profitability of the sector. This could be offset by the greater potential for bad debts to be recovered when the security is realised, as well as increased income from cross-selling of products to the client base concerned. In addition, the average risk weighting of assets would decrease, resulting in a lower capital requirement.

Overdues on mortgage loans increased by 46 per cent during the year ended December 1994. This increase could be due to the change in the definition of overdues in the Regulations relating to Banks, as explained under the heading “Form DI 500 – Credit risk” in Chapter 4 of this report. Specific provisions on mortgages increased by 0,8 per cent during the same period. An increase in interest rates had been expected by banks in 1994, and the first increase occurred in October 1994. In the light thereof, it is of some concern that specific provisions have not increased in line with the increase in overdues.

Although instalment sales increased by 18,6 per cent over

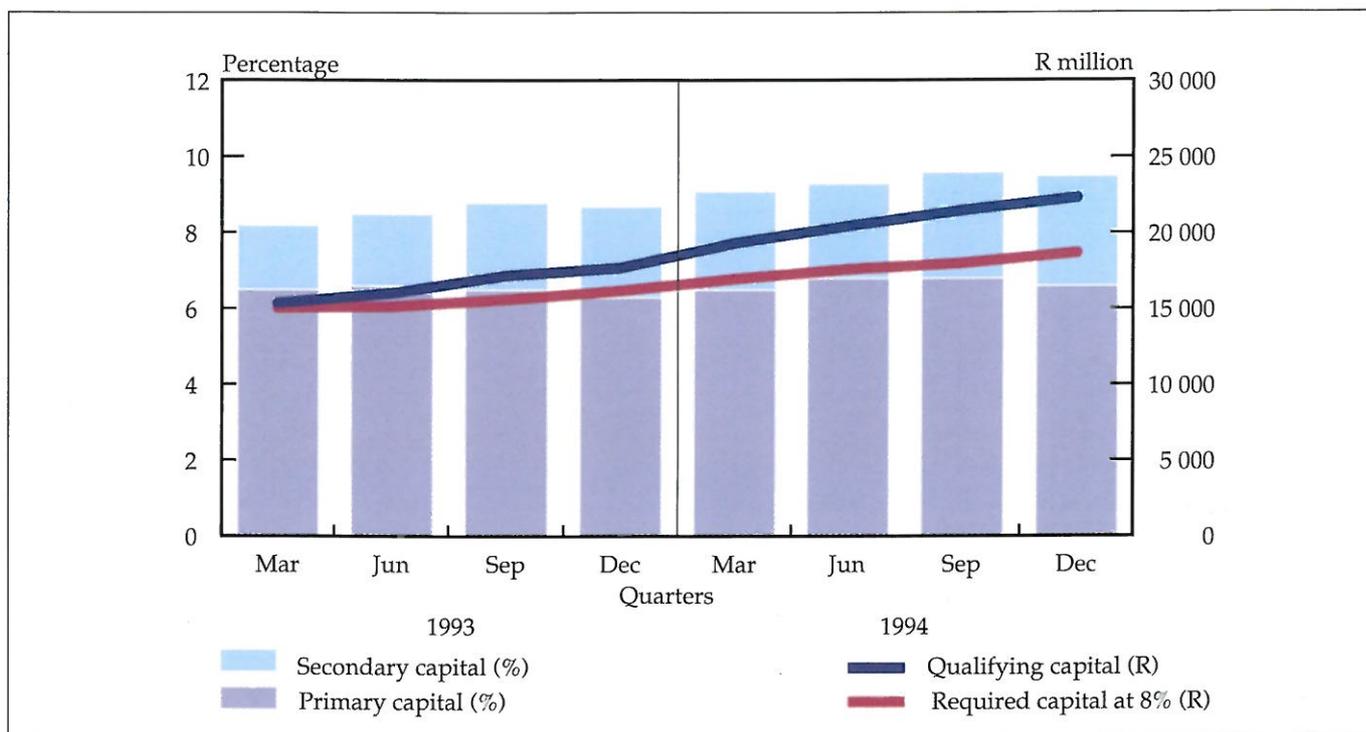
the year ended December 1994, overdues on instalment sales increased by only 5,9 per cent, whilst specific provisions on instalment sales increased by 4,6 per cent during the same period. This could be an indication of an upswing in the economy; as the forecast increase in interest rates materialises, overdues could increase, since people would find it more difficult to meet their commitments in view of higher instalments.

Overdues on other loans and advances, of which overdrafts and loans constitute approximately 66 per cent, increased by 2,3 per cent during the year ended December 1994, and specific provisions increased by 17,8 per cent during the same period.

3.3 CAPITAL ADEQUACY

Capital provides a cushion that protects depositors and providers of loan finance against losses that a bank might incur. Although all banks require capital for this purpose, capital is no guarantee against the failure of a bank that is badly managed.

FIGURE 7: CAPITAL ADEQUACY - PERCENTAGES AND RAND VALUES



International and local developments with regard to capital adequacy are discussed in Chapter 2 of this Annual Report, under the heading “Netting, market risks and interest-rate risk”.

Capital-adequacy trends

Total capital and reserves, as reported on the form DI 100, equalled R24,2 billion in December 1994 (R19,2 billion in December 1993). As is illustrated in Figure 7, R22,4 billion (R17,7 billion in December 1993) qualified as capital and reserves for capital-adequacy purposes.

Primary share capital and reserves constitute 72,8 per cent of qualifying capital and reserves, before the deduction of impairments of R797 million.

A growth of 26,1 per cent in total qualifying capital and reserves was recorded for the year ended 31 December 1994. This was due to qualifying capital and reserves having to grow at a greater rate in order to meet the increased capital-adequacy requirement discussed under section 3.1 and to provide for additional qualifying capital

and reserves to allow for growth in the banking sector. Total *risk-weighted assets* grew by 15,4 per cent during the same period.

Banks are also increasing their capital to risk-weighted asset ratio to ensure that they are able to gain entry into foreign markets, since certain foreign supervisory authorities have the power to set, on a case-by-case basis, capital requirements higher than those set by the 1988 Basle Accord.

The growth in primary capital and reserves during 1994 equalled 23,6 per cent, whereas secondary capital and reserves increased by 39,4 per cent. This was expected, since most banks are not yet close to the statutory provision in terms of which secondary capital and reserves is limited to total primary capital and reserves.

The ratio of qualifying share capital and reserves to total risk-weighted assets for the banking sector as a whole stands at 9,5 per cent, with 22 of the 41 banks having a ratio in excess of 10 per cent and only two banks experiencing capital-adequacy problems, as illustrated in Figure 8.

FIGURE 8: DISTRIBUTION OF BANKS IN TERMS OF CAPITAL ADEQUACY

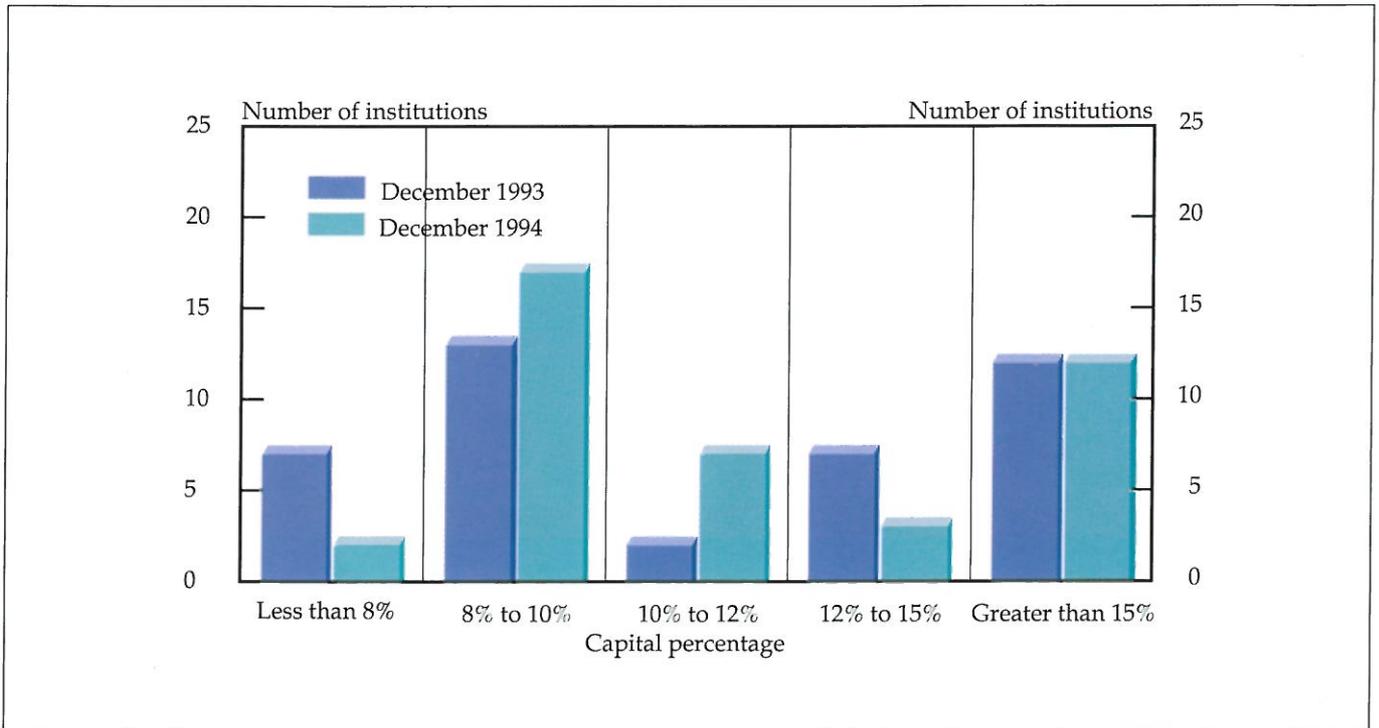
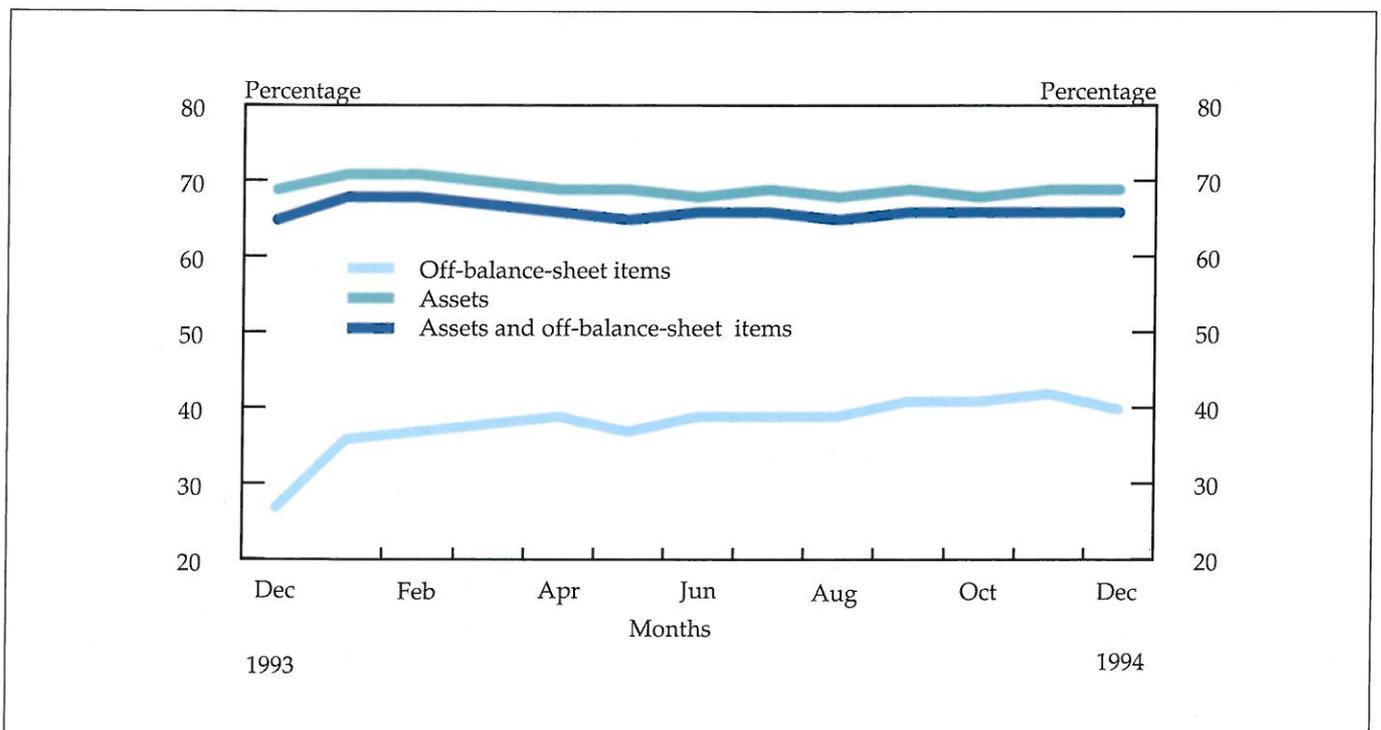


FIGURE 9: RISK PROFILE OF ON- AND OFF-BALANCE-SHEET ITEMS



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

For the year ended 31 December 1994, total assets and off-balance-sheet items grew by 15,6 per cent, and total risk-weighted assets and off-balance-sheet items grew by 15,4 per cent. The asset spread has thus remained fairly constant during the past year.

Off-balance-sheet items account for approximately 8,7 per cent of the total of assets and off-balance-sheet items (as opposed to 9,9 per cent in December 1993) and have the effect of lowering the average risk weighting of on-balance-sheet assets of approximately 69 per cent to an average risk weighting of 66,2 per cent for combined assets and off-balance-sheet items. This is shown graphically in Figure 9.

3.4 PROFITABILITY

The profitability of banks is reviewed to determine the quality of income and the long-term sustainability of activities. To this end, the analyses focus on:

- Quality of earnings (riskiness of earnings).
- Balance in the sources of income (for example, a variety of sources of income, which are well spread).
- Nature of income (for example, from the intermediation function or from agency-type or advisory activities).

- Integrity of the information (for example, whether the income statement is consistent with the balance sheet).
- Profitability of assets and effectiveness of activities *versus* cost control and cost optimisation.
- Balance between the effort expended on activities and the income generated therefrom.
- Structural changes in profitability during the year.

As can be seen in Figures 10 and 11, most of the income earned by banks for the year ended 31 December 1994 results from the intermediation function and consists of interest margin and transaction-based fees, which equal 3,3 per cent and 1,5 per cent, respectively, of total assets.

Investment income earned by banks, resulting largely from investments in government stocks and treasury bills in order to comply with liquid-asset requirements, equalled 0,6 per cent of total assets. Skills-based income, consisting of trading income and knowledge-based fee income and being an important component in ensuring the profitability of banks, amounted to 0,9 per cent of total assets.

Total income, therefore, amounts to 6,3 per cent of total assets, as opposed to operating expenses and provisions, which equal 4,9 per cent of total assets, of which provisions comprise 0,5 per cent.

FIGURE 10: COMPOSITION OF THE INCOME STATEMENT

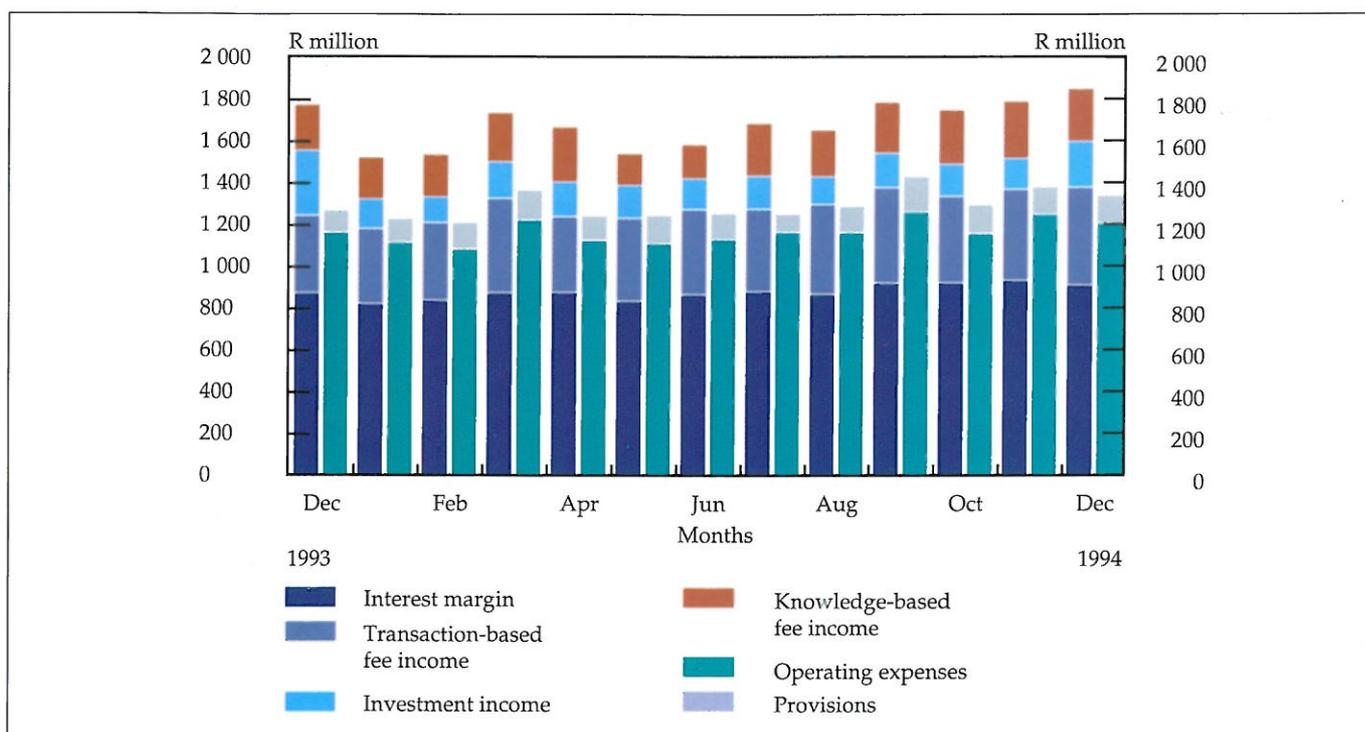
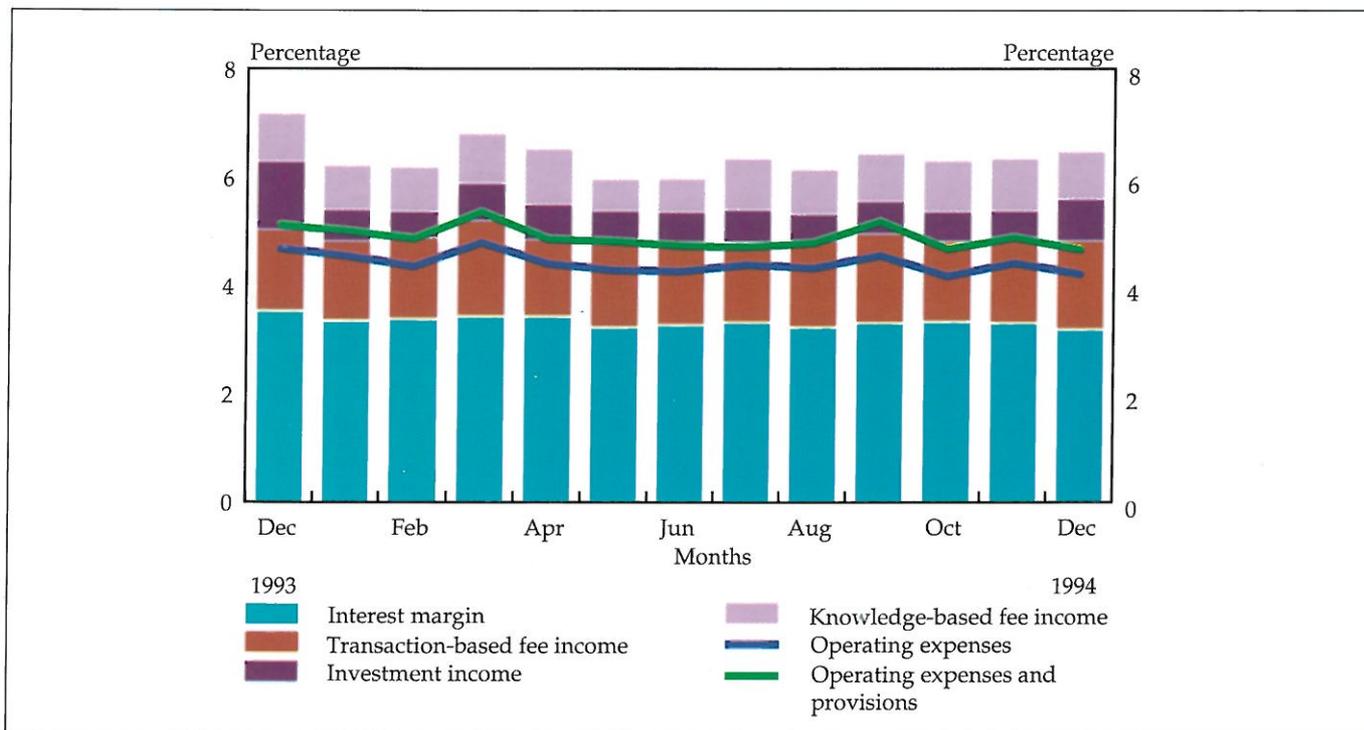


FIGURE 11: INCOME AND EXPENSES, AS A PERCENTAGE OF TOTAL ASSETS



The banking sector, therefore, had a before-tax return on assets of approximately 1,4 per cent, and an after-tax return on assets of 0,9 per cent.

Interest income increased by 10,3 per cent (as opposed to 9,1 per cent decrease in 1993) during the year ended 31 December 1994. Interest expense increased by 11,8 per cent (as opposed to a 14,1 per cent decrease in December 1993). The interest margin increased at approximately the same rate (6,6 per cent) as during the previous year (6,7 per cent).

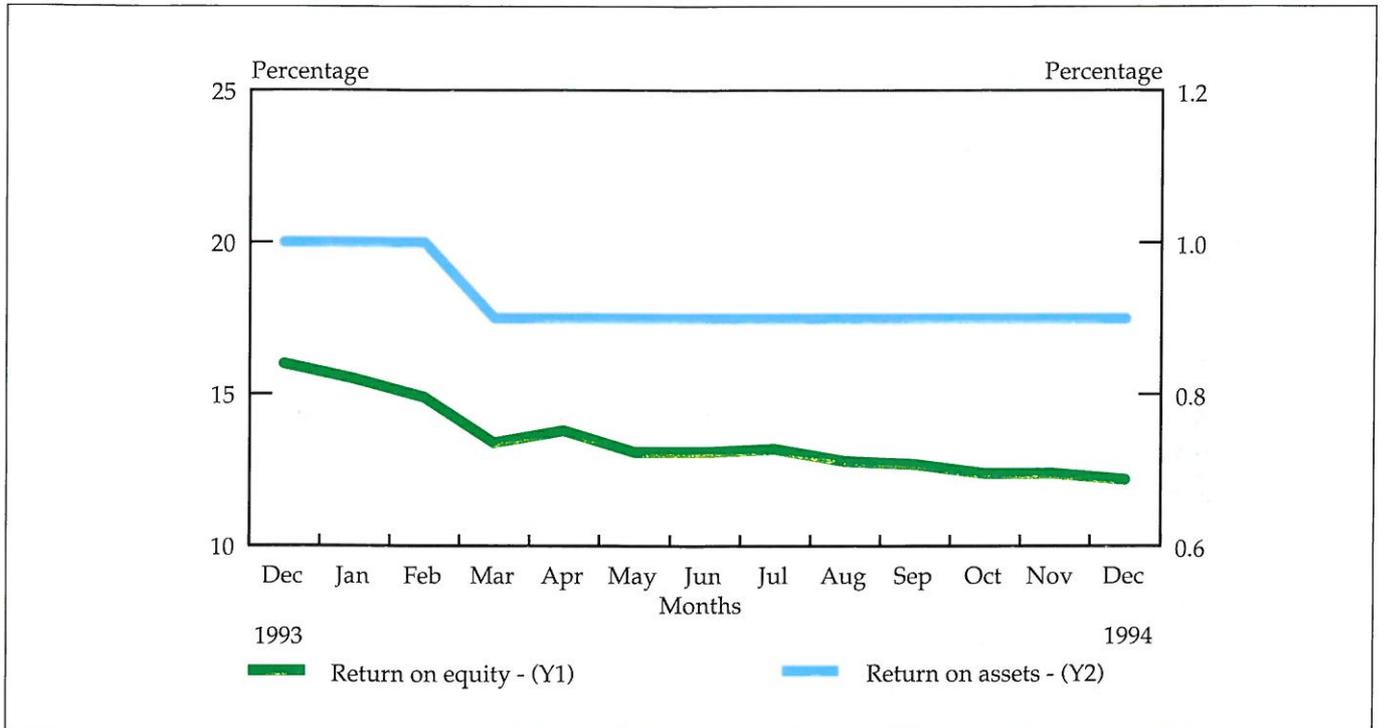
Most categories of interest income increased during the year, the exception being interest income in respect of acknowledgements of debt discounted and loans under resale agreements, which has decreased by 17,4 per cent and 18,5 per cent, respectively, over the past year, mainly as a result of a decrease in the corresponding asset item. Interest income on mortgage loans constituted approximately 39,1 per cent of total interest income. Interest received on overdrafts and loans and from instalment debtors constituted 27,8 per cent and 18,4 per cent, respectively, of interest income. The growth in these items of interest income appears to be due to a growth in the underlying asset, since interest

rates have been relatively stable over the past year, the exception being the increase of 1 per cent in the bank rate in October 1994.

Total interest expense has increased by 11,8 per cent over the past year (as opposed to 14,1 per cent decrease during 1993). This is due to the increase in total funding and will probably continue to increase as there is a movement into an increasing interest-rate cycle. Interest expense on fixed and notice deposits decreased by 1,1 per cent over the past year, despite an 11,5 per cent increase in the liability item for the same period. Fixed and notice deposits constitute 28,5 per cent of total funding, but are the most expensive form of funding, equalling 38,2 per cent of the total interest expense. Demand and NCD funding constitute 25,1 per cent and 10,2 per cent, respectively, of total interest expense, followed by interest expense on savings deposits and other funding, which each equal approximately 5 per cent.

Operating expenses increased by 9,9 per cent over the previous year (as opposed to 6,2 per cent in 1993). The increase of 9,9 per cent is particularly significant in the light of the growth in assets of 15,9 per cent.

FIGURE 12: PROFITABILITY RATIOS - 12-MONTH MOVING AVERAGE



As can be seen from the above explanations, banks are profitable because of, firstly, investment income, which is a source of annuity income, and, secondly, knowledge-based fee income, which is an inconstant source of income.

Figure 12 shows that the average after-tax return on assets and on equity for the total banking sector was, respectively, 0,9 per cent (as opposed to 1 per cent in December 1993) and 12 per cent (as opposed to 16 per cent in December 1993).

3.5 LIQUIDITY RISK

Key aspects in an analysis of liquidity risk include the statutory liquid-asset requirements, the trend in the short-term liquidity mismatch, the volatility of the various types of funding and the sources of liquid funding that are available to a bank.

Liquidity-risk management deals with expected future cash flows. The statutory return for liquidity risk has been adapted to cater for those institutions that have

asset-and-liability models. In this regard, the inter-relationship with interest-rate risk management and the impact that credit risk has on cash flows have to be borne in mind. Mismatches may therefore develop in various future time bands because management has taken a specific view on future interest-rate movements.

Statutory liquidity

As can be seen from Figure 13, the liquid-asset requirement has increased as total liabilities have increased, since the liquid-asset requirement is calculated on total liabilities less capital and reserves.

The average daily amount of liquid assets held has been somewhat higher than the liquid-asset requirement.

Approximately 72 per cent of liquid assets held are stocks issued in terms of the Exchequer Act, 1975, whereas Treasury bills of the Republic of South Africa and Land Bank bills constitute 14,5 per cent and 6,2 per cent, respectively, of the liquid assets held during December 1994.

FIGURE 13: STATUTORY LIQUID ASSETS - ACTUAL VERSUS REQUIRED

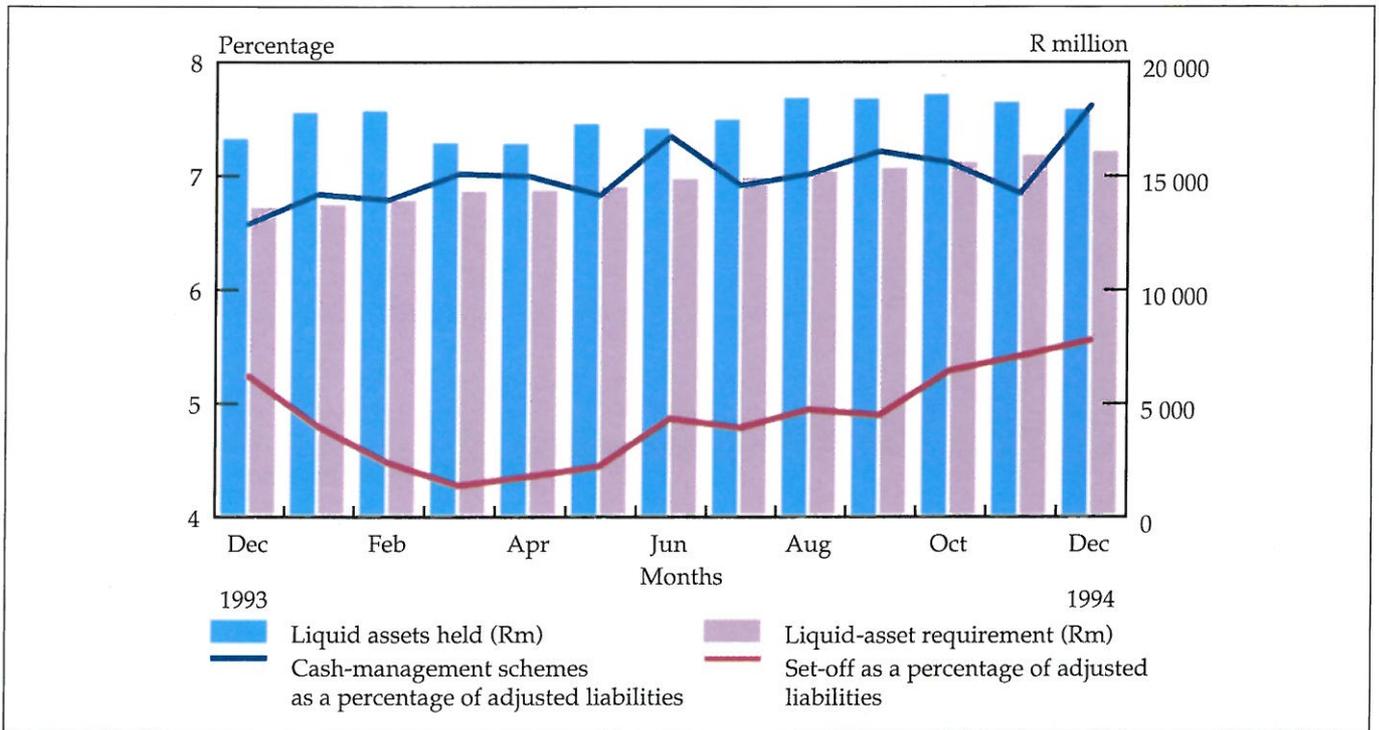
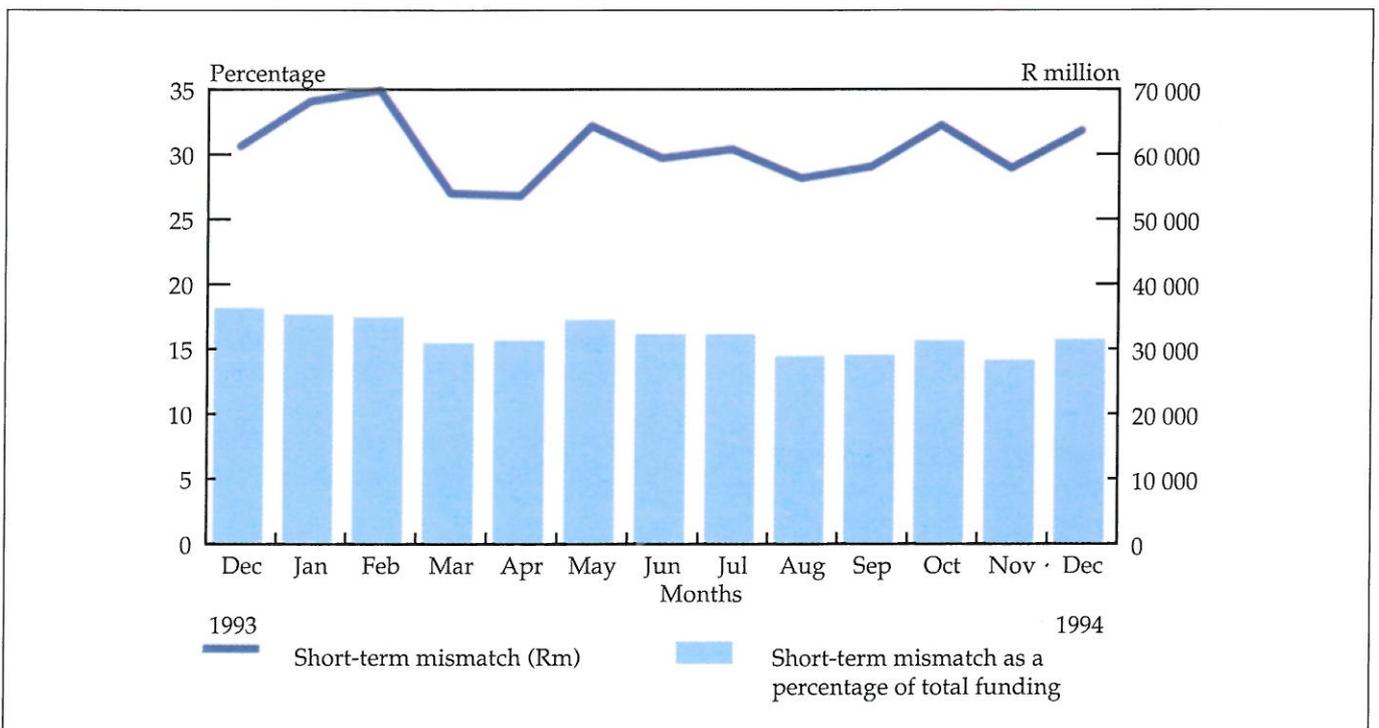


FIGURE 14: SHORT-TERM LIQUIDITY MISMATCH



Cash-management schemes and set-off showed an increasing trend during the year ended December 1994, with a year-on-year increase of 36,1 per cent and 24,8 per cent, respectively. Cash-management schemes and set-off represent 7,6 per cent and 5,5 per cent, respectively, of total liabilities. This means that total average liabilities, less capital and reserves, were reduced by 13,1 per cent, or R48,6 billion (as opposed to 11,1 per cent, or R37,1 billion, in December 1993), for purposes of computing the liquid-asset and reserve-balance requirements.

Trends in short-term liquidity mismatch (liquidity risk)

It is not only the size of the mismatch that is of relevance, but, more importantly, the trend of the mismatch over time. An increase in the mismatch over time could indicate that a bank has a potential funding problem.

As from January 1994, the amended form DI 300, relating to liquidity risk, has allowed banks that make use of asset-and-liability models to report their anticipated liquidity structure.

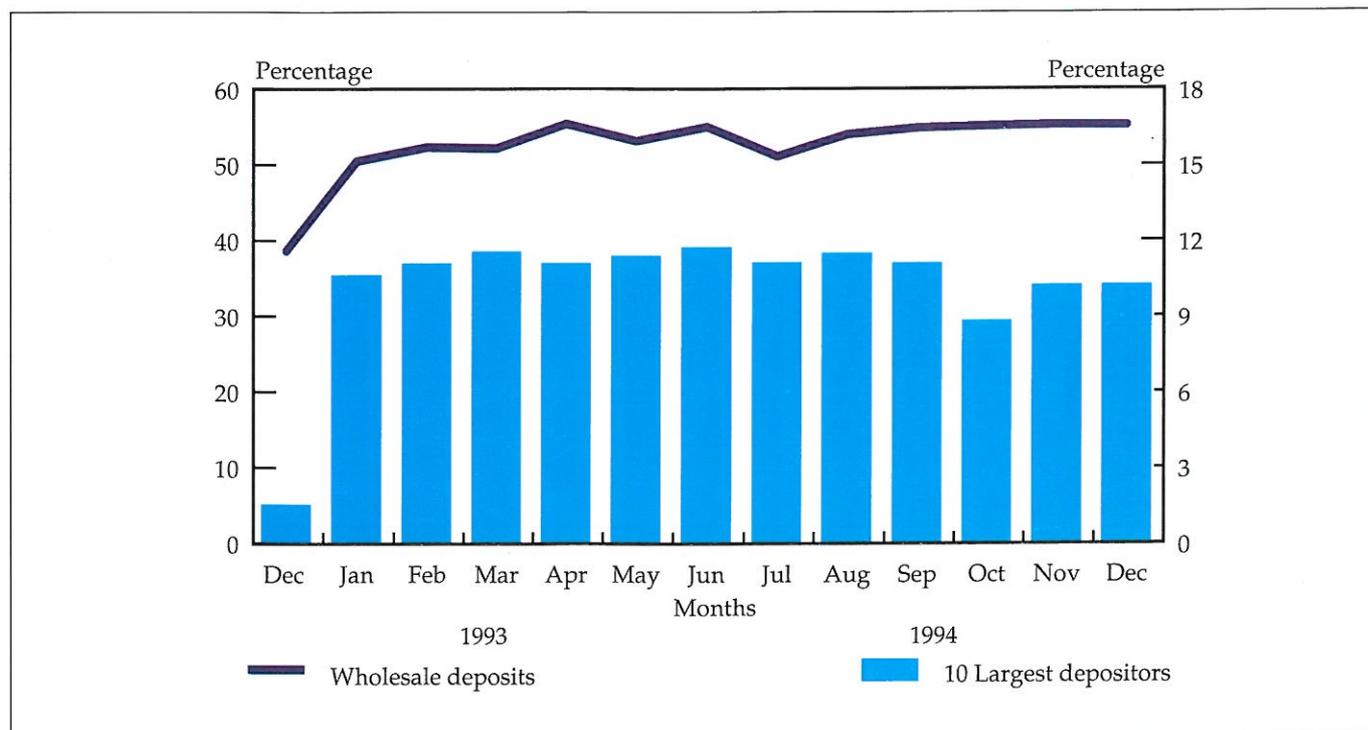
Because of fluctuations, no specific trend in the short-term mismatch could be discerned during the past year. This was due mainly to different interpretations in completing the DI 300 return; this matter will be addressed during 1995.

Volatility of funding

Certain sources of funding are more volatile than others. In addition, banks usually spread their funding sources to prevent excessive dependence on any one source.

Wholesale deposits, which have shown an increasing trend during the past year, account for 55,2 per cent of total deposits (38,6 per cent in December 1993). It would therefore appear that the banking sector is fairly dependent on wholesale funding. The transformation of retail funding into wholesale funding takes place through the intermediation of fund managers such as life assurance companies, pension funds, portfolio managers, money brokers and unit trusts. This phenomenon could be due to factors such as, *inter alia*, inflation and taxation.

FIGURE 15: WHOLESALE DEPOSITS AND LARGE DEPOSITORS



From January 1994, banks have been required to report the aggregate amount of their 10 largest depositors, as opposed to the aggregate amount of deposits in excess of 10 per cent of total liabilities to the public reported in the past. This large deposit exposure is expressed as a percentage of total funding (an indicator of the sensitivity of a bank to the withdrawal of a large deposit).

Because of fluctuations, no specific trends could be discerned in respect of the 10 largest depositors. The aggregate amount for the 10 largest depositors of individual banks varied between a low of R24,8 billion and a high of R30,7 billion. Expressed as a percentage of the aggregated amount of total liabilities to the public, these amounts equalled 9 per cent and 11,5 per cent respectively. Figure 15 shows the trend in wholesale deposits and large depositors, expressed as a percentage of total deposits.

Sources of liquidity

An important aspect of the management of liquidity risk is to ensure that lines of funding are available from other sources to bridge short-term fluctuations in funding.

The amended form DI 300, containing information on the sources of liquidity, has been completed by banks as from 1 January 1994.

Since the aggregated information for total banks could be exaggerated when banks grant standby facilities to each other, the information supplied for the individual banks would be of more value – it is unlikely that all banks would experience liquidity problems at the same time.

3.6 INTEREST-RATE RISK

The statutory return on interest-rate risk measures a static gap. It then uses dynamic sensitivity analysis to measure the impact, on the income statement, of yield curve changes in the event of the bank rate increasing or decreasing by 1 per cent and the bank not being able to restructure its balance sheet in the short term.

A short-term yield curve is constructed from the forecast movements in the wholesale call rate, the three-month negotiable certificate of deposit (“NCD”) rate and the 12-month NCD rate, thus covering the call, three-month, six-month and 12-month time bands. This is shown graphically in Figure 16.

FIGURE 16: REPRICING STRUCTURE AND EXPECTED YIELD CURVES

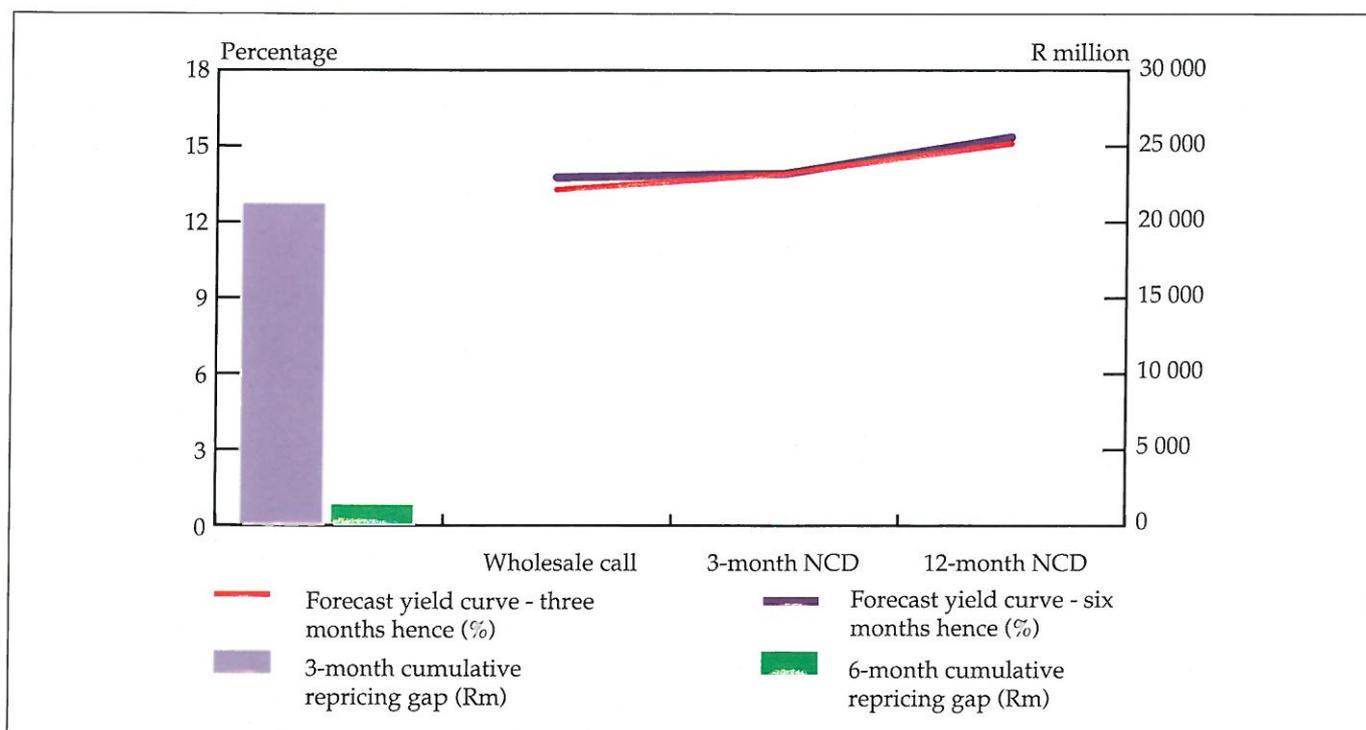
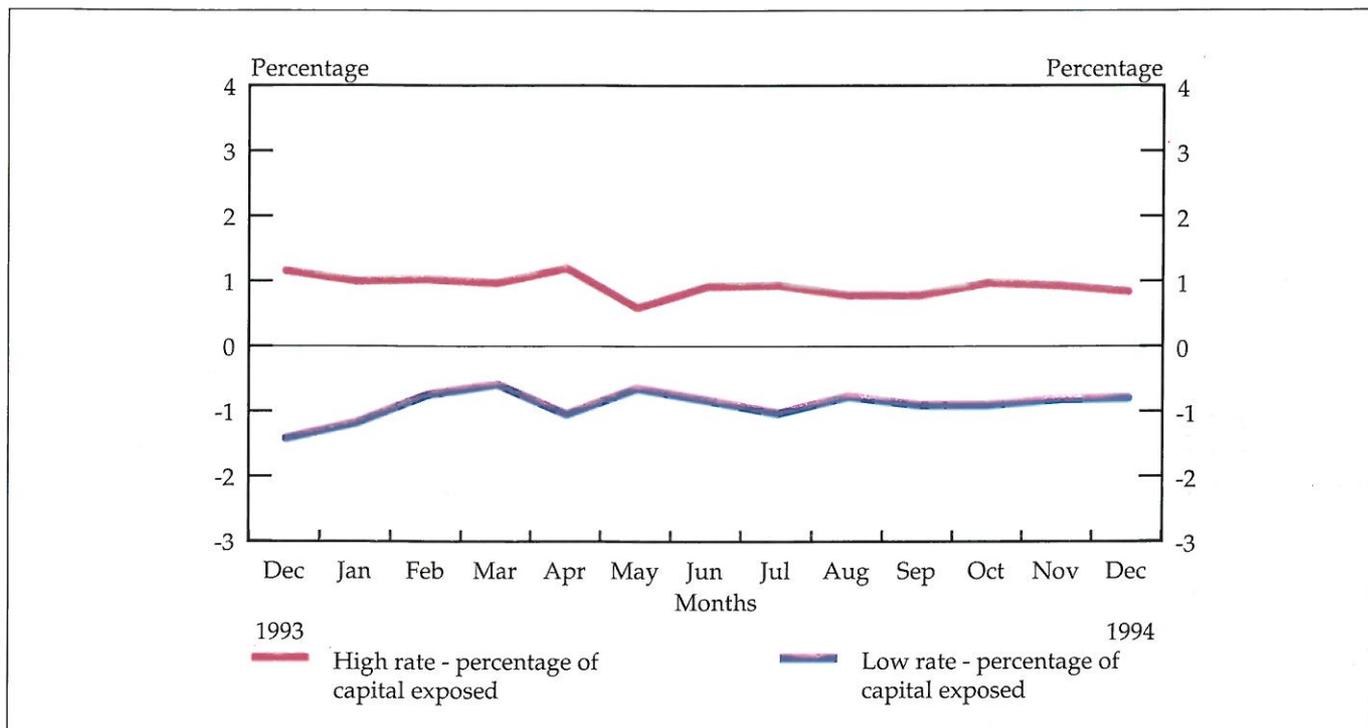


FIGURE 17: POTENTIAL EFFECT ON CAPITAL AS A RESULT OF CHANGE IN BANK RATE



The cumulative three-month repricing gap – that is, the net value of assets or liabilities that would be sensitive to interest-rate changes in that period – remained positive for the quarter ended December 1994. This would indicate that, should interest rates change, interest-bearing assets would reprice faster than interest-bearing liabilities. It would therefore appear that the banking sector is positioned to take advantage of the expected increase in interest rates.

A sensitivity analysis is done in respect of simulated interest-rate movements, and the consequential impact is expressed as a percentage of capital and reserves. The graph in Figure 17 illustrates the extent of the effect on capital and reserves as a percentage should rates increase (or decrease) as a result of a 1 per cent rise (or fall) in the bank rate and should a bank not be able to restructure its balance sheet in the short term.

A possible reason for banks not being able to restructure their books to take advantage of changes in interest rates is that a large portion of the major banks' assets consists of mortgage loans (32,1 per cent), making a restructuring of a bank's book difficult.

Although banks could restructure their books by using instruments such as swaps, the cost thereof might not warrant the benefit, or the market might not have the depth to enable effective restructuring to take place. Banks may, however, be able to counter this problem by "leading" and "lagging" when there is a change in interest rates.

3.7 MARKET RISK

The form DI 420 requires a bank first to report its exposure to assets in the four fundamental markets – namely, the equities, money, capital and commodities markets – as well as the aggregate net foreign-currency position.

Transactions in derivative instruments are then taken into account to calculate the net effective open position in the various markets. An assumed percentage movement in market prices is used (as supplied on the form DI 420) to calculate the loss should the expected adverse movements in price be realised.

FIGURE 18: PERCENTAGE OF CAPITAL EXPOSED AS A RESULT OF CAPITAL-MARKET POSITIONS

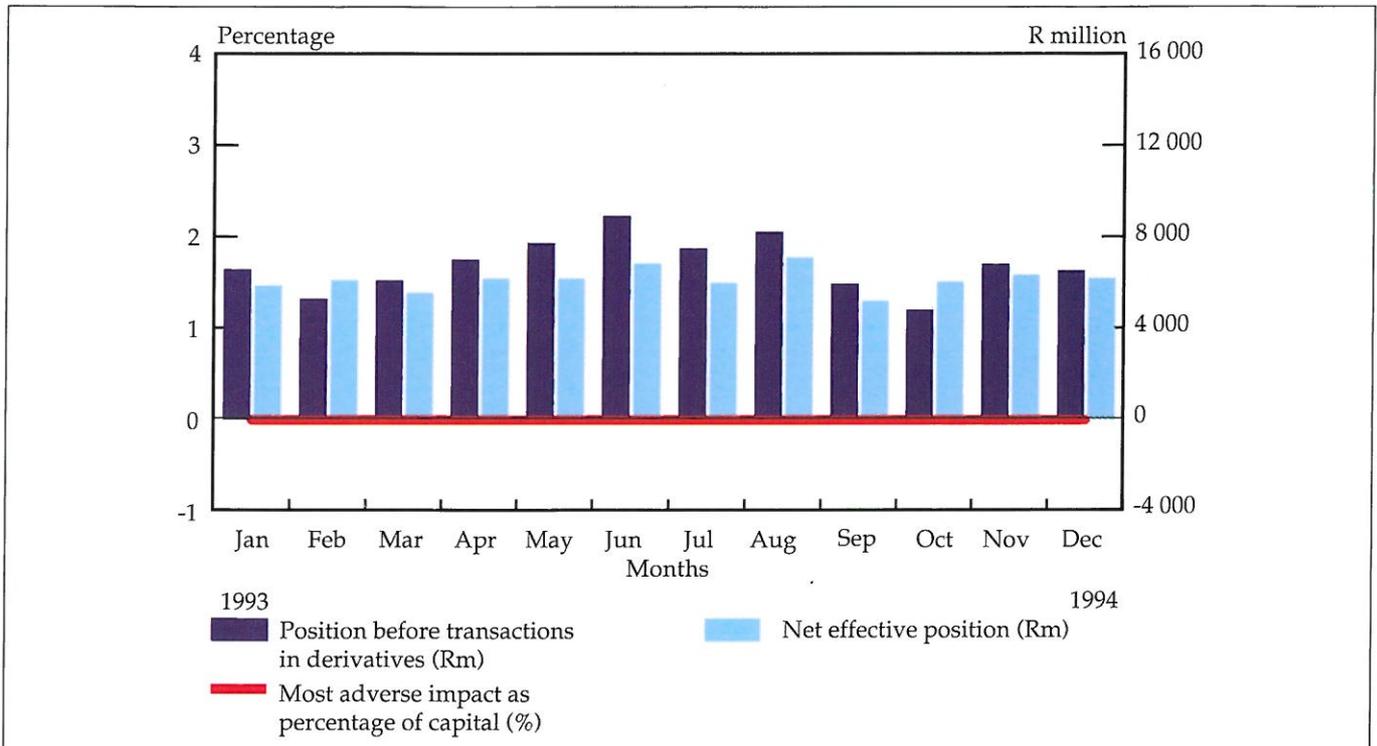


FIGURE 19: TURNOVER IN DERIVATIVE CONTRACTS

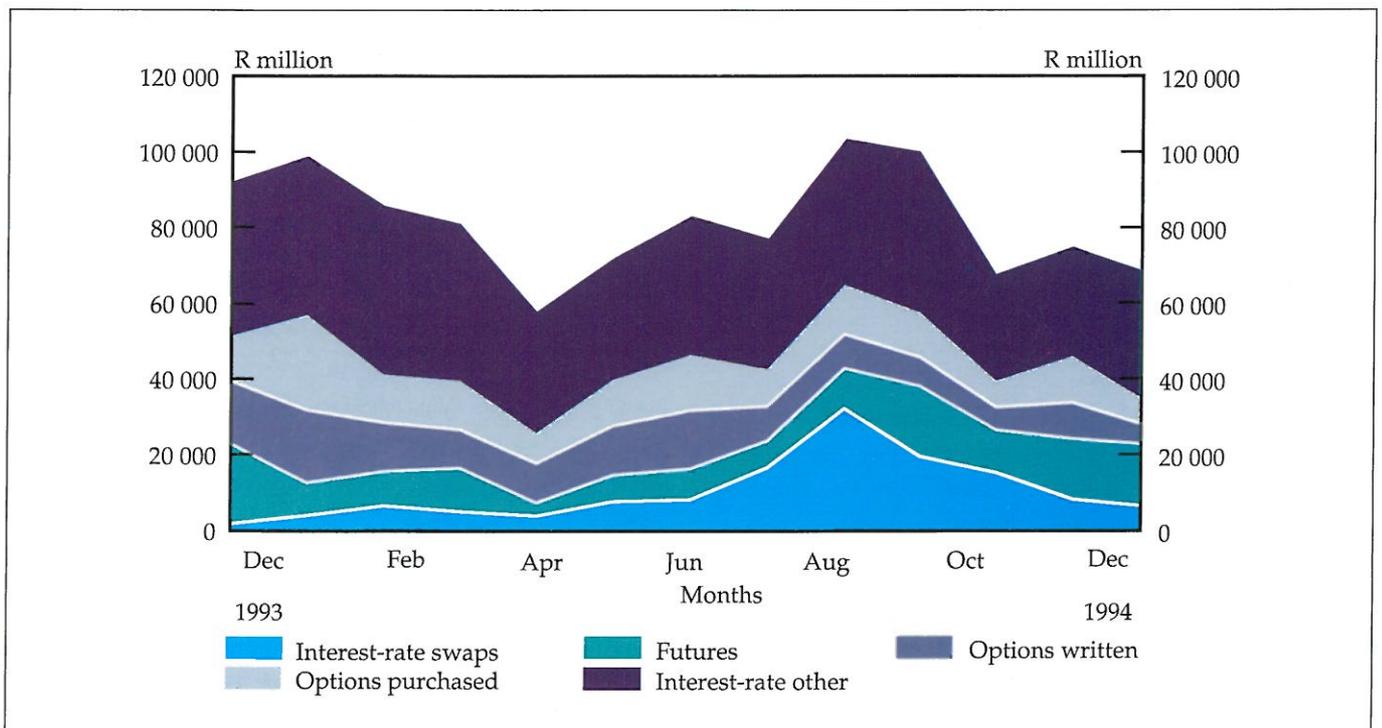
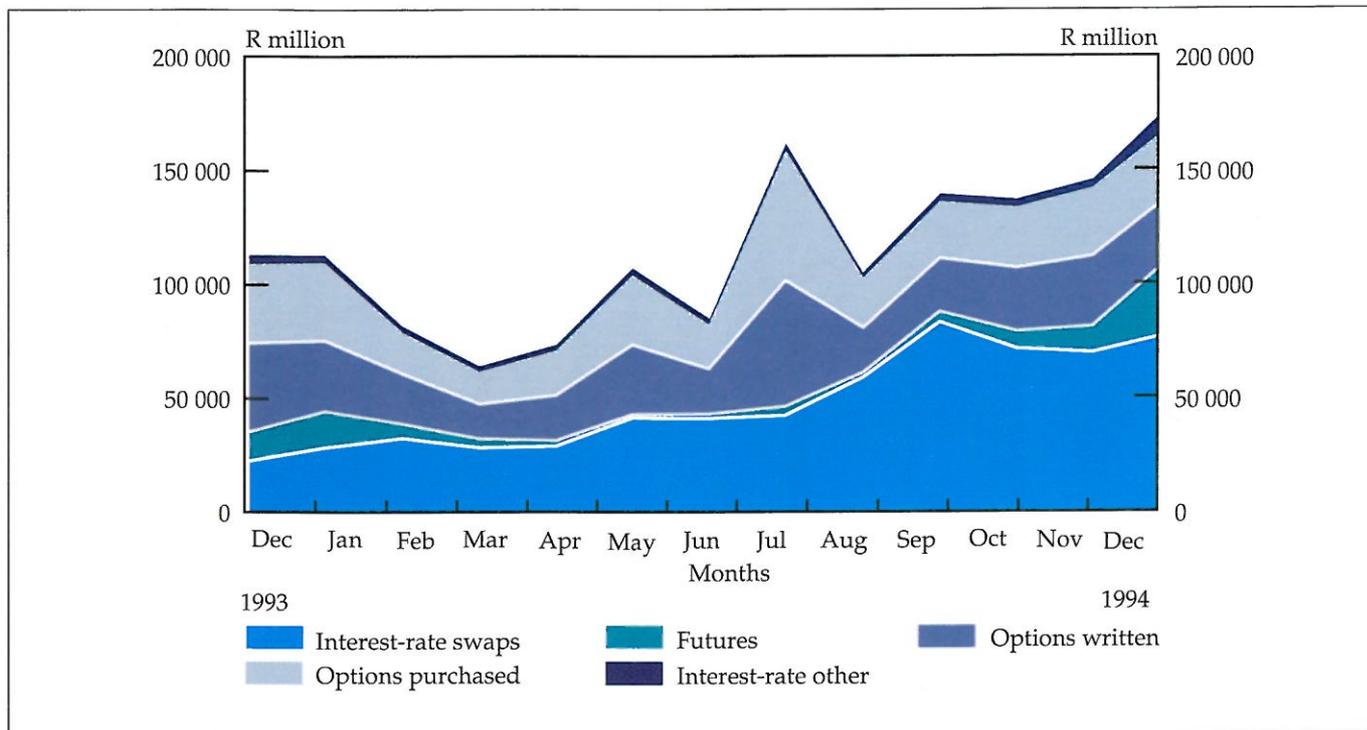


FIGURE 20: UNEXPIRED DERIVATIVE CONTRACTS



The net effective open position of capital-market positions and the effect on capital and reserves are illustrated in Figure 18.

As regards total banks, the impact resulting from market movements would equal anything from 0,2 per cent to 2 per cent. This figure could, however, be far higher, since the information supplied is obtained from models using forecast information.

Turnover in derivative instruments fluctuated widely during the year under review, from approximately R90,2 billion for 1993 to approximately R67,2 billion in December 1994. The latter amount is equal to approximately 19 per cent of total assets (see Figure 19).

Unexpired derivative contracts amounted to approximately R170,1 billion in December 1994 (R110,4 billion in December 1993), which figure equals approximately 49 per cent of the total assets of the banking sector. Although the market in derivative instruments in South Africa is growing rapidly, it is relatively small when compared to foreign markets. The growth in this market is being monitored.

3.8 CREDIT RISK

Key issues in the analysis of credit risk include an analysis of overdues, the provisioning policy for bad and doubtful debts, large exposures and the quality of assets as regards their earnings potential.

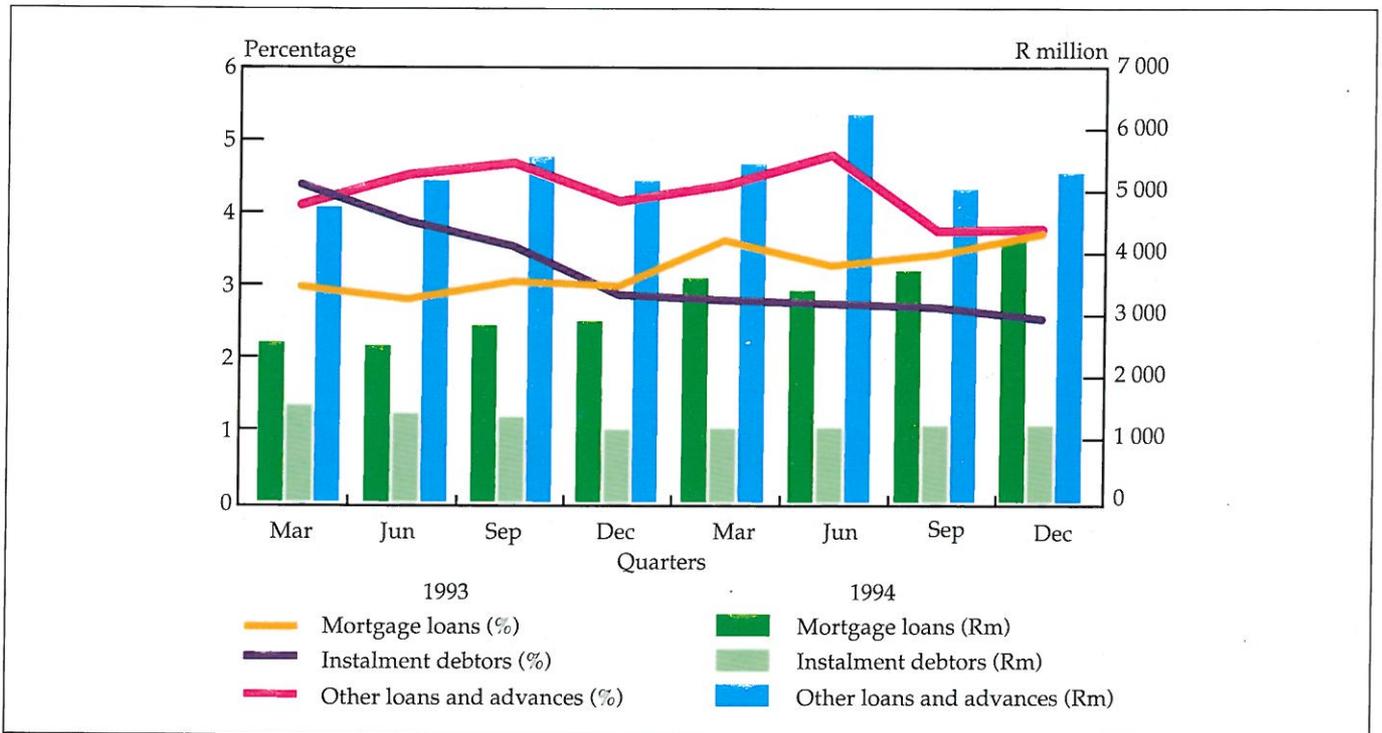
Analysis of overdues

Total overdues increased by 16,5 per cent over the previous year. This increase could be due to the change in the definition of overdues referred to in section 3.2. Overdues are analysed graphically in Figure 21.

Overdues in mortgage loans increased by 46 per cent from the previous year. Overdues in instalment finance increased by 5,9 per cent, and overdues in other loans increased by 2,3 per cent. The increase of 18,6 per cent in instalment loans and the far smaller increase of 5,9 per cent in overdues have resulted in a dramatic decline in overdues as a percentage of instalment loans.

Overdues without provisions increased by 23,0 per cent from R509 million in December 1993 to R626 million in

FIGURE 21: ANALYSIS OF OVERDUE ACCOUNTS - PERCENTAGES AND RAND VALUES



December 1994. Interest has been suspended on 83,5 per cent (86 per cent in December 1993) of these accounts.

Provisioning policy for bad and doubtful debts

Specific provisions for bad and doubtful debts increased by 13,8 per cent during the past year. Specific provisions for bad debts, as a percentage of loans *overdue*, were as follows as at 31 December 1994:

Mortgages	-	15,7 per cent (22,7 per cent on 31 December 1993).
Instalments	-	56,5 per cent (57,2 per cent on 31 December 1993).
Other loans and advances	-	80,8 per cent (70,2 per cent on 31 December 1993).

Provisions, as a percentage of total overdues, are illustrated graphically in Figure 22.

As stated in section 3.2, it is of some concern that specific provisions have not increased in line with the increase in overdues.

Specific provisions for bad and doubtful debts equal 52,4 per cent (as opposed to 53,6 per cent in December

1993) of the total loans overdue of R10,6 billion (as opposed to R9,1 billion in December 1993).

Overdues, as a percentage of total loans and advances, equalled 3,6 per cent in both December 1993 and December 1994. Similarly, specific provisions for bad and doubtful debts, as a percentage of loans and advances, have remained constant for both 1993 and 1994.

Large exposures

Figure 23 illustrates the large exposures granted and utilised during 1994.

Large exposures granted increased by 19,7 per cent over December 1993 and amounted to 1 110 per cent (1 147 per cent in December 1993) of capital and reserves. (The guidelines of the European Economic Community recommend that those large exposures granted that exceed 15 per cent of capital and reserves should not exceed, in total, 800 per cent of capital and reserves, and that no single exposure should exceed 25 per cent of an institution's capital base.) Large exposures utilised increased by 15,6 per cent for the year. Expressed as a percentage of capital and reserves, large exposures

FIGURE 22: PROVISIONS, AS A PERCENTAGE OF TOTAL OVERDUES

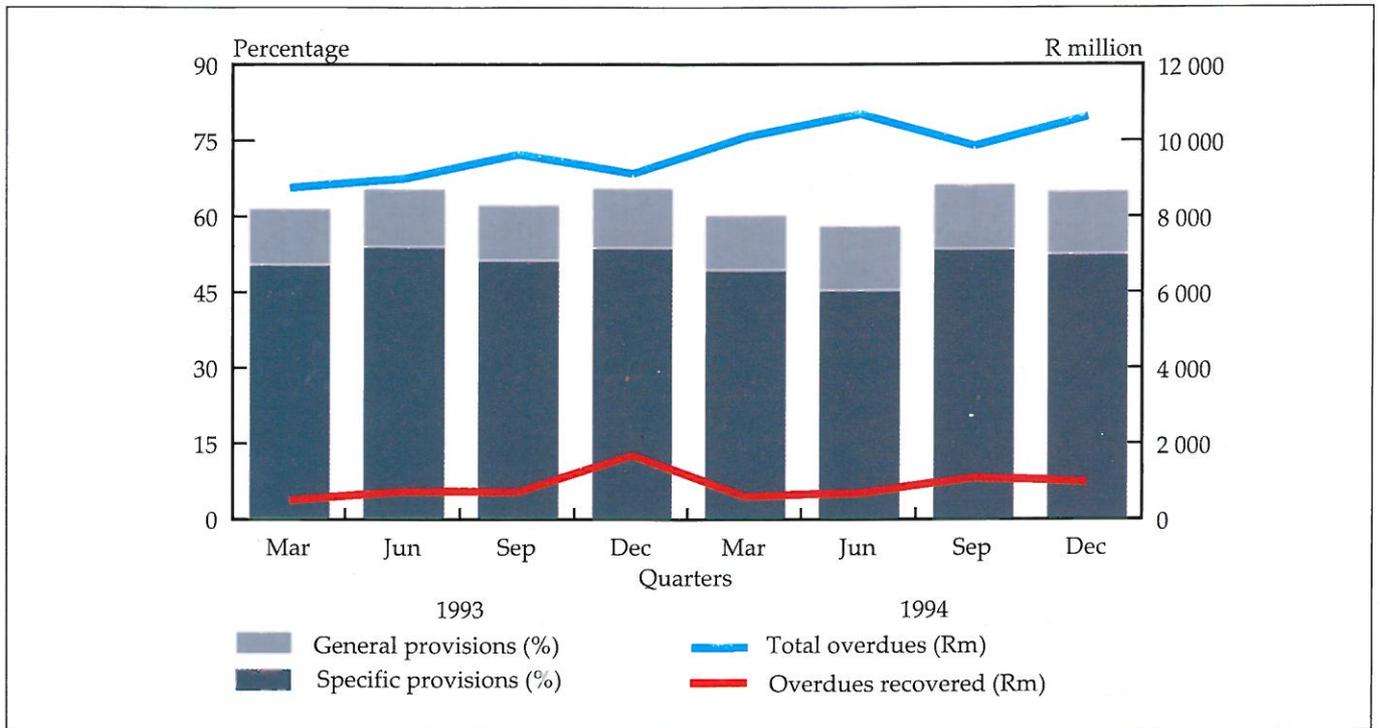


FIGURE 23: LARGE EXPOSURES GRANTED AND UTILISED, AS A PERCENTAGE OF CAPITAL

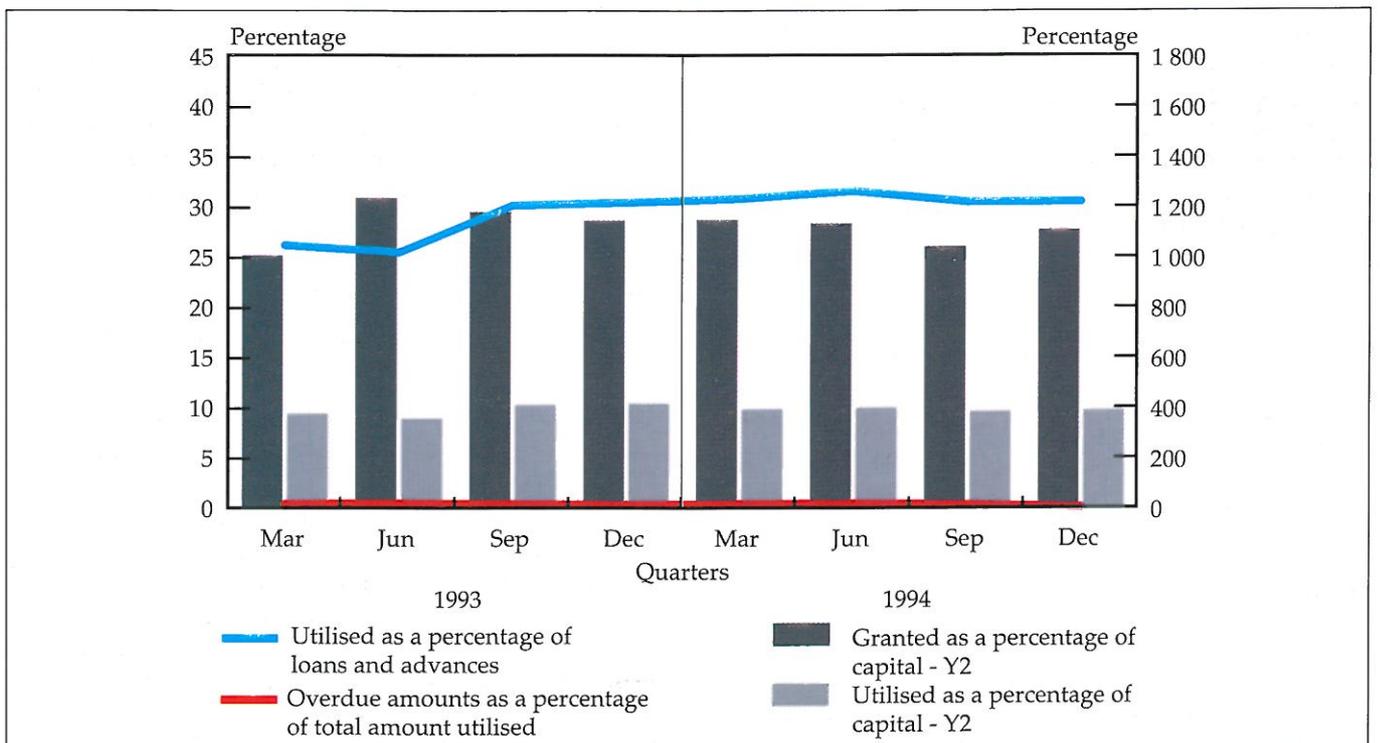
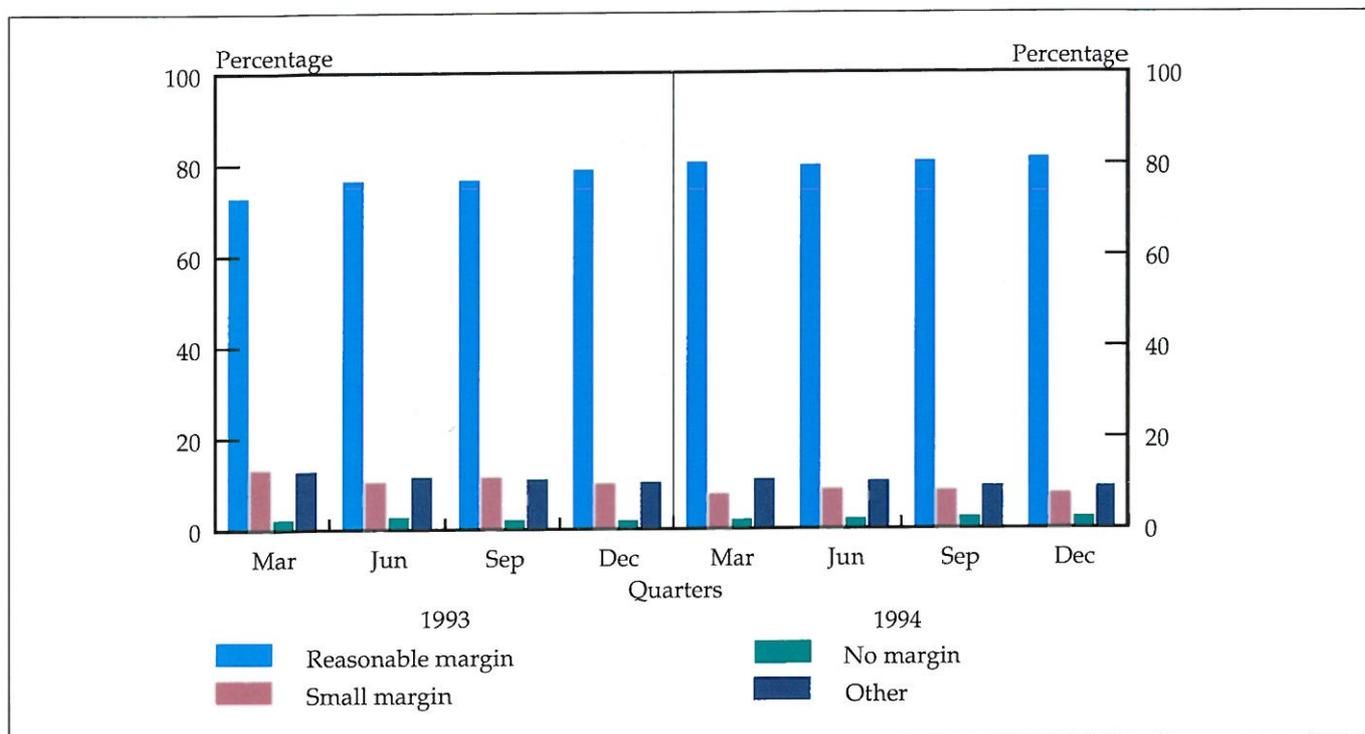


FIGURE 24: ASSET PERFORMANCE



utilised decreased from 420 per cent in December 1993 to 392 per cent in December 1994, the decrease being due partly to an increase in capital and reserves of 26,2 per cent in the same period.

Overdues in respect of large exposures decreased by 56,8 per cent over the past year, whereas overdues, as a percentage of total large exposures utilised, equalled 0,01 per cent at 31 December 1994 (0,03 per cent in December 1993).

Quality of assets

As can be seen from Figure 24, approximately 81 per cent (78 per cent in December 1993) of the asset portfolio for total banks earns a reasonable margin, 8 per cent (10 per cent in December 1993) earns a small margin, and the remaining 11 per cent (12 per cent in December 1993), which includes infrastructure, earns no margin.

3.9 CURRENCY RISK

During the period under review, the net effective open position in foreign currency after hedging remained within

the limit of 10 per cent of capital and reserves. Foreign assets, liabilities and hedging instruments were well matched throughout the year. The aggregated net effective open position of individual banks, expressed as a percentage of capital and reserves, amounted to 0,3 per cent for December 1994 (1,7 per cent in 1993) and is therefore insignificant as regards total institutions. From April 1994, there has been an increase in foreign-currency transactions, and the physical position, net forward transactions and net options/futures position have all increased significantly, although the open position has remained very small. The net effective open position is being monitored closely for the individual banks. The position in foreign-currency instruments and the liquidity maturity structure of US dollar positions are shown in Figures 25 and 26, respectively.

From April 1994, there has been an increase in the mismatch in foreign currency. This mismatch is reported on the form DI 300. It is important that the liquidity mismatch in foreign currency is well managed. The growth in this area could partly be attributable to the uncertainty regarding the abolition of the financial rand mechanism and exchange controls.

FIGURE 25: POSITION IN FOREIGN-CURRENCY INSTRUMENTS

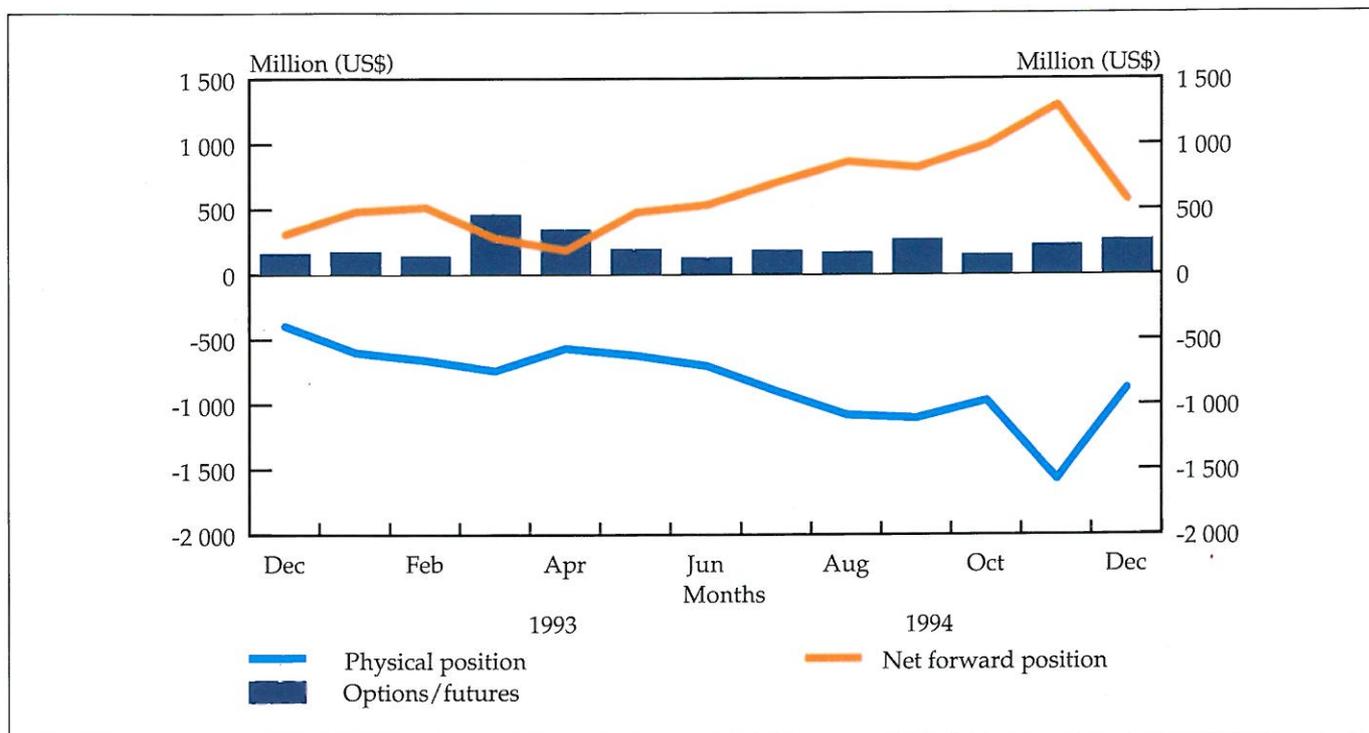


FIGURE 26: LIQUIDITY MATURITY STRUCTURE: US DOLLARS

