CHAPTER 3

TRENDS IN SOUTH AFRICAN BANKS

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.

comparative figures may differ from those in 1997 Annual Report

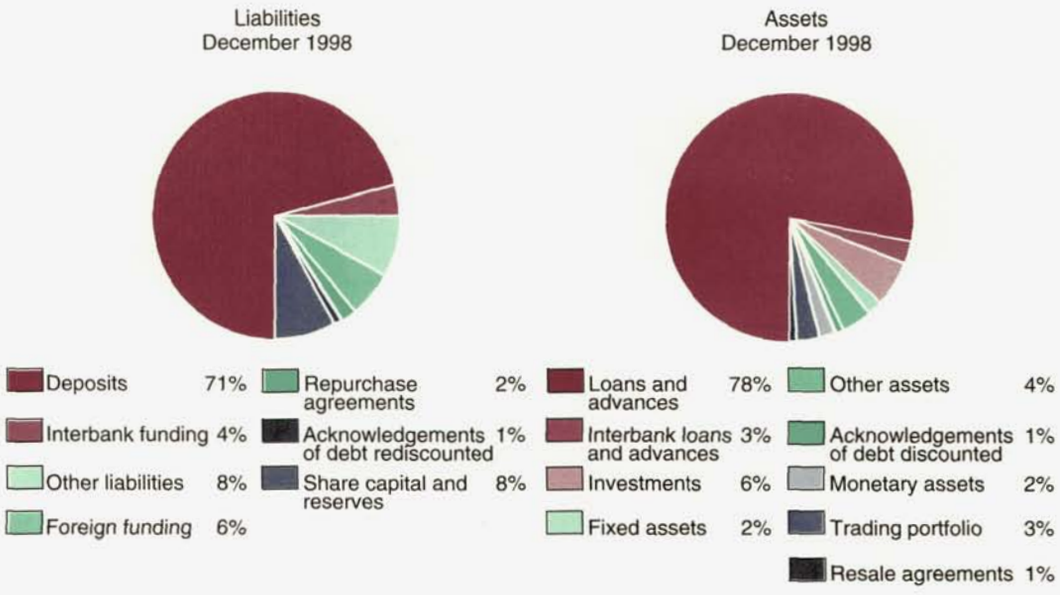
Aggregated information of individual banks is contained in the reports and graphs in sections 3.1 to 3.8 below. Certain of the comparative figures in respect of December 1997 may differ from those reported in the 1997 Annual Report because banking institutions submitted amended returns after publication of that report. Since the "big four" banks constituted 69,1 per cent of the banking sector in December 1998 (74,7 per cent in December 1997), their position largely affects the reports and graphs that follow. The six largest banks constituted 86,9 per cent of the banking sector as at the end of December 1998.

3.1 BALANCE-SHEET STRUCTURE

type and spread of a bank's business activities

The balance-sheet structure is analysed to determine the type and spread of a bank's business activities, as well as to consider the impact of any changes thereto on the risk profile of the banking sector. The aggregated balance sheet of the banking sector in South Africa, as at 31 December 1998, equalled R654,3 billion (as opposed to R549,4 billion as at 31 December 1997). This represents a growth rate of 19,1 per cent for the year (1997: 16,9 per cent), which is more than two percentage points higher than the growth for the period ending 31 December 1997. The composition of the balance-sheet structure as at 31 December 1998 is shown graphically in Figure 1.

FIGURE 1: BALANCE-SHEET STRUCTURE



domestic deposits from the public constituted the main source of funding loans and advances to the public were the main asset

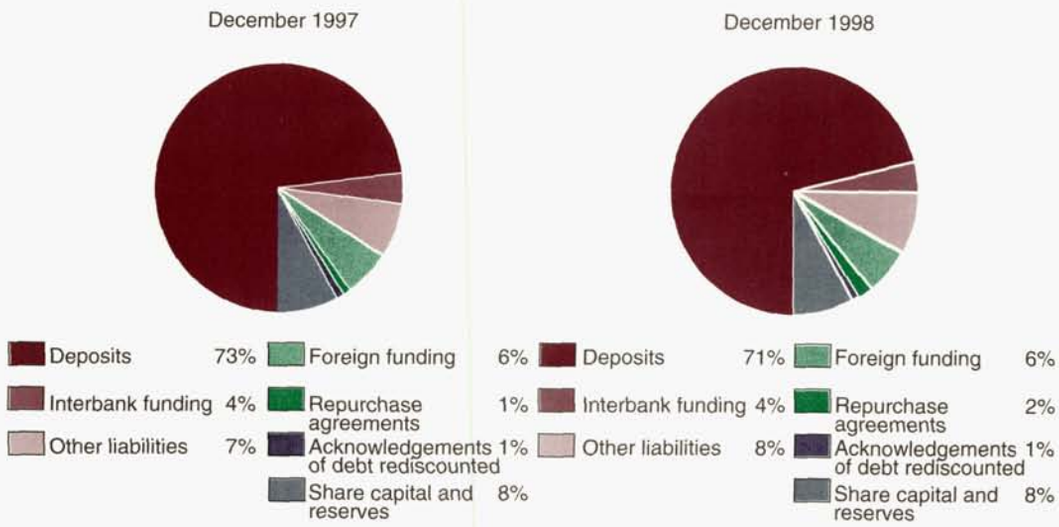
As can be seen from the graphs as at 31 December 1998, domestic deposits from the public constituted the main source of funding for the banking sector, namely, R460,3 billion. This represented 70,4 per cent of total funding (December 1997: 72,1 per cent). With respect to assets, loans and advances to the public, which amounted to R515,8 billion on 31 December 1998, represented 78,8 per cent of total assets (80 per cent in December 1997) and were the main asset to which the funding available to the banking sector was applied.

Liabilities

only minor changes

Figure 2 reflects the year-on-year comparison of the compositions of liabilities. With respect to the percentages represented by deposits, foreign loans and capital and reserves, there were only minor changes in the composition of liabilities.

FIGURE 2: LIABILITIES - YEAR-ON-YEAR COMPARISON



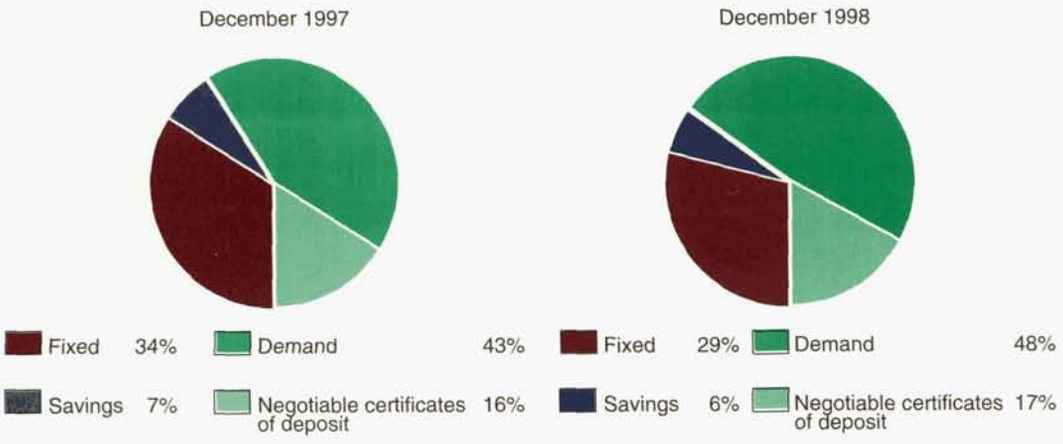
Composition of deposits

Deposits from the public, as at 31 December 1998, amounted to R460,3 billion (December 1997: R396,3 billion). This represents 70,4 per cent (December 1997: 72,1 per cent) of the total funding available to the banking sector as at 31 December 1998. The growth rate for the year was 16,1 per cent (1997: 18 per cent).

composition remained fairly static

As can be seen from the year-on-year comparison in Figure 3, the composition of deposits remained fairly static. Negotiable certificates of deposit increased by only one percentage point, whereas savings deposits decreased by 1 percentage point. Demand deposits, however, increased by 5 percentage points, whereas fixed and notice deposits decreased by 5 percentage points. There was thus an increase in the proportion of total deposits represented by short-term investments. As a result, a higher percentage of the banking sector's assets (consisting mainly of non-bank loans and advances) was financed by short-term funding, thereby increasing the liquidity risk to which banks are exposed.

FIGURE 3: COMPOSITION OF DEPOSITS



other major liabilities

Other major liabilities of the banking sector, as at 31 December 1998, included foreign funding of R42,2 billion (which increased by 18,3 per cent when compared to the December 1997 level of R35,6 billion), capital and reserves of R52,5 billion (which increased by 25,8 per cent when compared to the December 1997 level of R41,8 billion), other liabilities of R52,5 billion (which represents a growth rate of 34,8 per cent when compared to the December 1997 level of R39 billion) and interbank funding of R28,5 billion (representing a growth rate of 25,1 per cent when compared to the amount of R22,8 billion at the end of December 1997). Other liabilities include amounts owing to the South African Reserve Bank, trade creditors, deferred income, deferred tax balances, impairments and other funding liabilities.

Assets

assets increased by R104,9 billion

Figure 4 graphically reflects the year-on-year comparison of the composition of assets as at 31 December 1998 to that as at 31 December 1997. During the year under review, the banking sector's assets increased by R104,9 billion (which represents a growth rate of 19,1 per cent), to a total of R654,3 billion at the end of December 1998. The main factors contributing to this growth were the following:

- Money assets grew by 8,7 per cent, from R13,6 billion as at 31 December 1997 to R14,8 billion as at 31 December 1998.
- The trading portfolio increased by R11,3 billion (which represents a growth rate of 136,5 per cent), from R8,3 billion as at 31 December 1997 to R19,5 billion as at 31 December 1998.
- Non-bank advances grew by R76 billion (which represents a growth rate of 17,3 per cent), from R439,8 billion at the end of December 1997 to R515,8 billion at the end of December 1998.
- The investment portfolio of banking institutions increased from R27,3 billion as at 31 December 1997 to R36,9 billion as at 31 December 1998, which represents a growth rate of 35,2 per cent.
- Other assets grew by R10,3 billion (which represents a growth rate of 64,5 per cent),

from R15,9 billion at the end of December 1997 to R26,2 billion at the end of December 1998.

- Fixed assets grew by R810 million (which represents a growth rate of 7,6 per cent), from R10,7 billion at the end of December 1997 to R11,5 billion at the end of December 1998.

FIGURE 4: ASSETS - YEAR-ON-YEAR COMPARISON

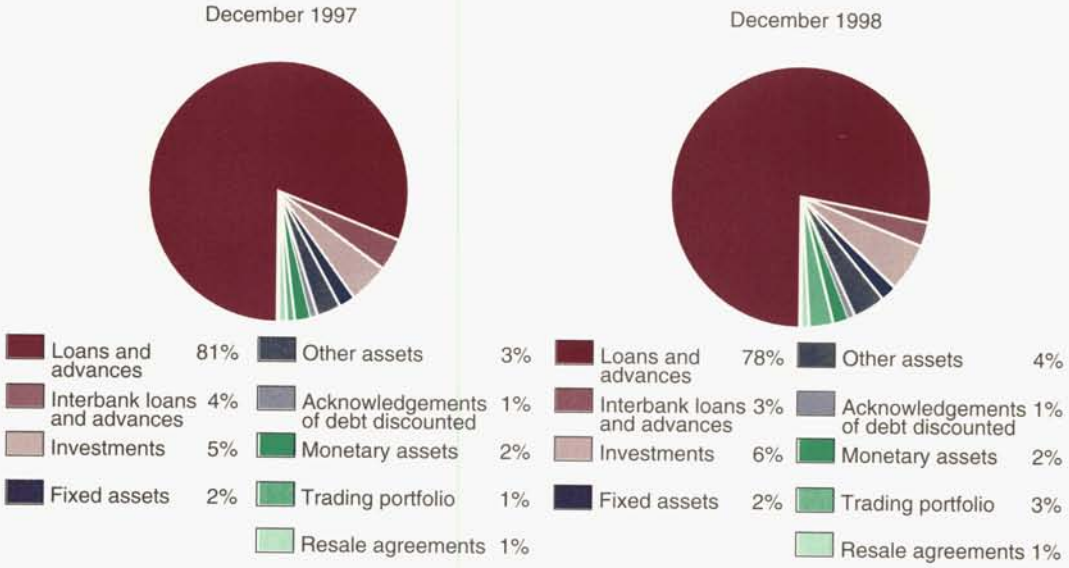
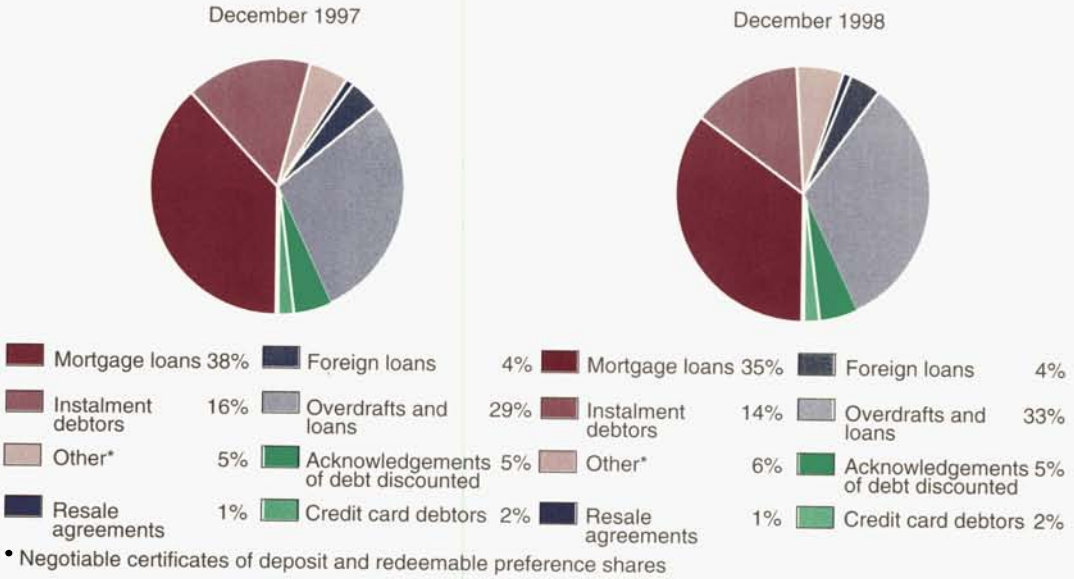


FIGURE 5: COMPOSITION OF LOANS AND ADVANCES



* Negotiable certificates of deposit and redeemable preference shares

Composition of loans and advances

non-bank loans and advances represented main focus for the management of on-balance-sheet credit risk

The composition of loans and advances is shown graphically in Figure 5. As at the end of December 1998, non-bank loans and advances constituted 78,8 per cent (December 1997: 80 per cent) of the banking sector's assets. Non-bank loans and advances represented the main area of focus for the management of on-balance-sheet credit risk. The increase of R76 billion (1997: R66,6 billion), which represents a growth rate of 17,3 per cent (1997: 17,8 per cent), can be attributed mainly to the following areas:

- Mortgage loans increased by R17 billion (9,9 per cent, as opposed to 11,9 per cent in 1997), from R172,4 billion to R189,4 billion.
- Overdrafts and loans increased by R40,7 billion (30,5 per cent, as opposed to 29,5 per cent in 1997), from R133,5 billion to R174,2 billion.
- Instalment debtors increased by R2 billion (2,8 per cent, as opposed to 5,8 per cent in 1997), from R71,6 billion to R73,6 billion.
- Acknowledgements of debt discounted increased by R1,4 billion (6,3 per cent, as opposed to 30,1 per cent in 1997), from R22,5 billion to R23,9 billion.
- Negotiable certificates of deposit (NCDs) grew from R12,4 billion as at 31 December 1997 to R20,2 billion (63 per cent) as at 31 December 1998 (1997: 89,4 per cent).
- Redeemable preference shares increased by R4 billion (53,2 per cent), from R7,4 billion to R11,4 billion.
- Foreign-currency loans and advances increased by R4,7 billion (26,8 per cent, as opposed to 8,8 per cent in 1997), from R17,6 billion to R22,4 billion.

several changes in growth rates of different assets

As can be observed from the above, there have been several changes in the growth rates of the different assets during the year under review. This is evidenced by the decrease in the growth of mortgage loans, acknowledgements of debt discounted and NCDs, the large increases in overdrafts and loans, as well as in foreign-currency loans and advances and redeemable preference shares, and the minimal increase of 2,8 per cent in instalment debtors during the year under review.

FIGURE 6: GROWTH IN MAJOR CATEGORIES OF LOANS AND ADVANCES

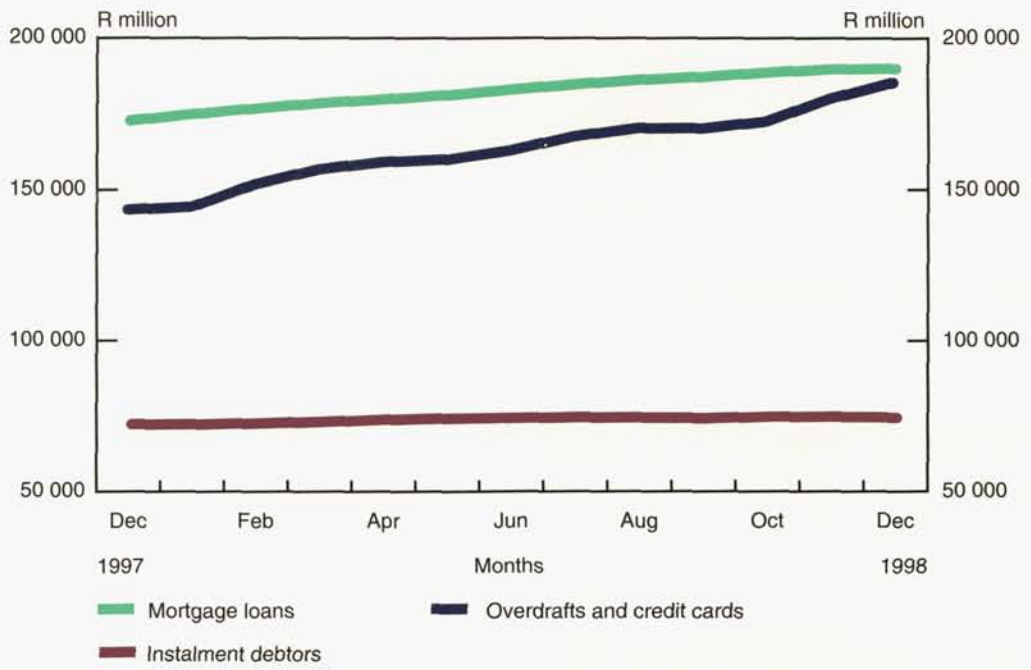


Figure 6 graphically reflects the growth, in absolute terms and over a period of 13 months, of the major categories of loans and advances (that is, 85,2 per cent of loans and advances) granted by the banking sector. In comparison to the growth rates of 9,9 per cent (1997: 11,9 per cent) and 2,8 per cent (1997: 5,8 per cent) achieved in respect of mortgages and instalment-sale debtors, respectively, during the year, overdues pertaining to the same categories of loans and advances grew by 30,1 per cent (from R7,1 billion to R9,2 billion) and 63 per cent (from R2 billion to R3,3 billion), respectively. For all other loans and advances, the major portion being overdrafts, loans and credit cards, overdues grew by 36,9 per cent (from R6,5 billion to R8,9 billion). Specific provisions as percentages of the above-mentioned overdues were as follows:

specific provisions as percentages of overdues

- Mortgage loans - 19,9 per cent (1997: 22,9 per cent).
- Instalment sales - 40,1 per cent (1997: 59,7 per cent).
- Other loans - 67,9 per cent (1997: 64,2 per cent).

The continued growth in overdues remains a cause for concern to the Bank Supervision Department.

3.2 CAPITAL ADEQUACY

Capital provides a safety net to depositors and other providers of loan finance against losses that a bank might incur. For this reason, it is very important that only banks that are adequately capitalised be authorised to accept deposits from the public. The existence of adequate capital does not, however, provide a guarantee against the failure of a bank that is badly managed.

total capital and reserves amounted to R52,5 billion

The total capital and reserves held by the banking sector at the end of December 1998 amounted to R52,5 billion (R41,8 billion in December 1997). For purposes of assessing capital adequacy, R49,7 billion (1997: R39,8 billion) thereof constituted qualifying capital and reserves. The capital-adequacy ratio at the end of December 1998 was 10,7 per cent (1997: 9,7 per cent).

growth in qualifying capital and reserves exceeded growth in total balance sheet

Figure 7 reflects the split between primary and secondary capital, as well as the rand values of required capital (based on 8 per cent of risk exposures) and actual qualifying capital. At the end of December 1998, primary capital and reserves constituted 72,8 per cent (1997: 69,2 per cent) of qualifying capital and reserves before deduction of impairments amounting to R5,716 billion (1997: R1,973 billion). During the year, primary capital and reserves grew by 39,6 per cent (1997: 20,7 per cent) to R40,4 billion. Secondary capital and reserves, on the other hand, grew by 17,3 per cent (1997: 20,2 per cent) to R15,1 billion during the year. It is encouraging to note that the growth in qualifying capital and reserves of 24,9 per cent (from R39,8 billion to R49,7 billion) exceeded the growth in the total balance sheet of 19,1 per cent.

An analysis of the percentage distribution of banks in terms of capital adequacy at the end of December 1998 (see Figure 8) reveals that 3 per cent (1997: 8 per cent) of the total number of banking institutions (which had received special dispensation from this Department) did not meet the minimum capital-adequacy ratio of 8 per cent. Fifty-five per cent of banking institutions (1997: 38 per cent) had capital-adequacy ratios that exceeded 15 per cent.

FIGURE 7: CAPITAL ADEQUACY - PERCENTAGES AND RAND VALUES

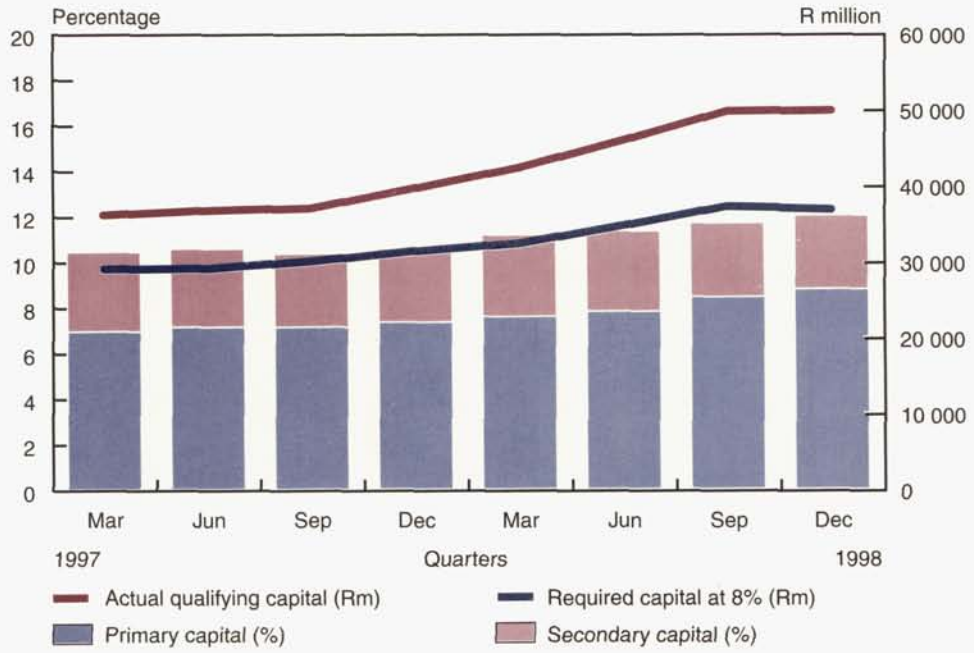
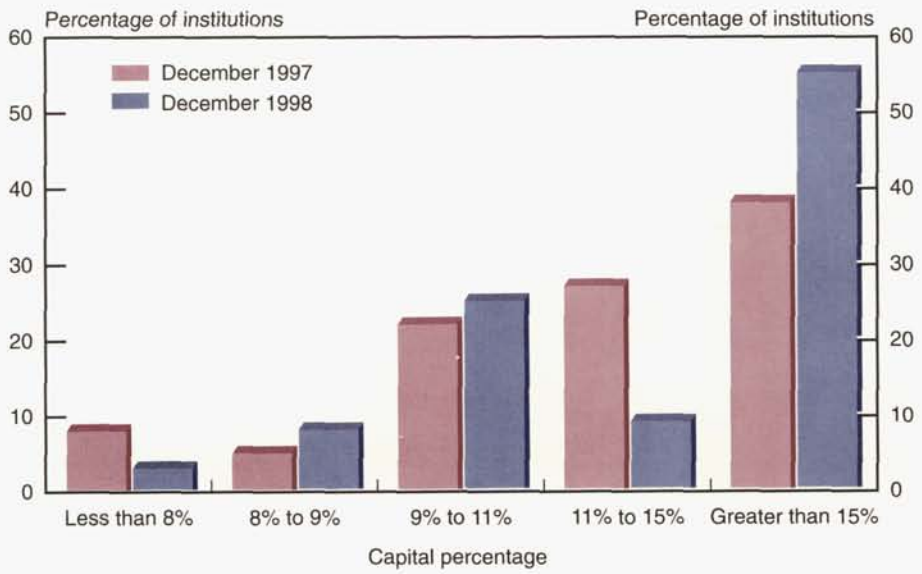


FIGURE 8: DISTRIBUTION OF BANKS IN TERMS OF CAPITAL ADEQUACY



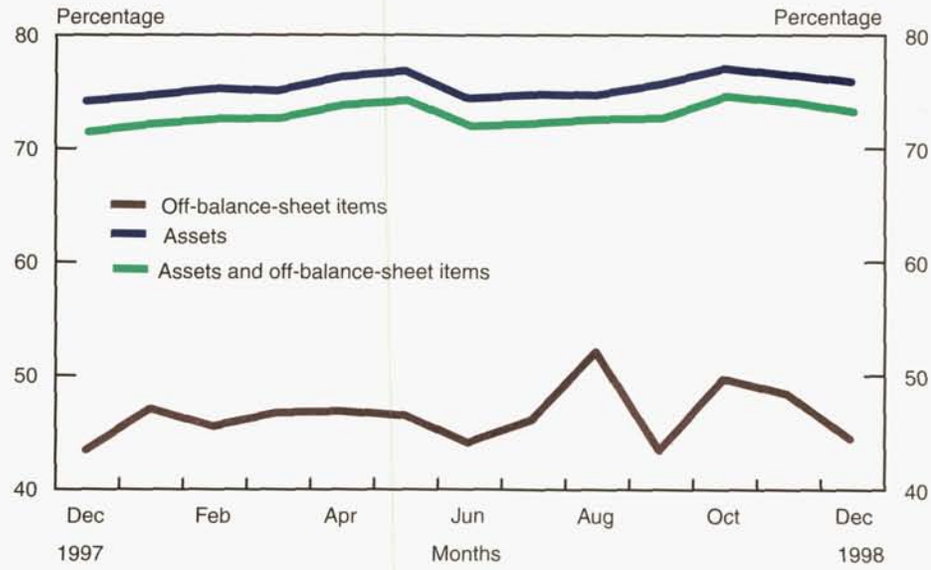
Risk profile of on- and off-balance-sheet items

For the year ended 31 December 1998, total assets and off-balance-sheet items grew by 19,3 per cent (1997: 15,7 per cent), and total risk-weighted assets and off-balance-sheet items grew by 24 per cent (1997: 16,6 per cent).

average combined risk weighting of 73,2 per cent

The composition of off-balance-sheet items had the effect of lowering the average risk weighting of total assets, which amounted to 75,8 per cent for December 1998 (1997: 74 per cent), to an average combined risk weighting of 73,2 per cent (1997: 71,3 per cent) for assets and off-balance-sheet items. The latter accounted for approximately 10,1 per cent (December 1997: 9,9 per cent) of the combined total of assets and off-balance-sheet items at the end of December 1998. Figure 9 graphically illustrates the risk-weighted percentages of assets and off-balance-sheet items and of the combined total of assets and off-balance-sheet items.

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



3.3 PROFITABILITY

An evaluation of the profitability of banks involves an assessment of the quality of income and the long-term sustainability of the activities that generate that income.

intermediation function constitutes the main source of income

As can be seen in Figures 10 and 11, the intermediation function constitutes the main source of income for banks. This income consists of interest margin (an average of 3,0 per cent of total assets for the year, as opposed to 3,1 per cent in 1997) and transaction-based fee income (an average of 1,6 per cent of total assets for the year, as opposed to 1,7 per cent in 1997). As can be observed from Figures 10 and 11, the income derived from the intermediation function (R28,3 billion) was generally not sufficient to cover the sum of operating expenses and provisions (R30,2 billion). As stated in previous Annual Reports, the generation of additional income (that is, from investments in Government stock and Treasury bonds, as well as knowledge-based fee income derived from trading activities, and agency type and advisory activities) remains critical in order to ensure the continued profitability of banks.

generation of additional income remains critical

Knowledge-based fee income and investment income earned during the year were equivalent to 1,9 per cent and 0,8 per cent, respectively, of total assets (as opposed to 1,9 per cent and 0,9 per cent, respectively, during 1997). Interest income increased by 22,5 per cent (1997: 19 per cent) during the year, whereas interest expense increased by 24,1 per cent (1997: 19,4 per cent). The net result thereof was that growth of 16 per cent (1997:

FIGURE 10: COMPOSITION OF THE INCOME STATEMENT

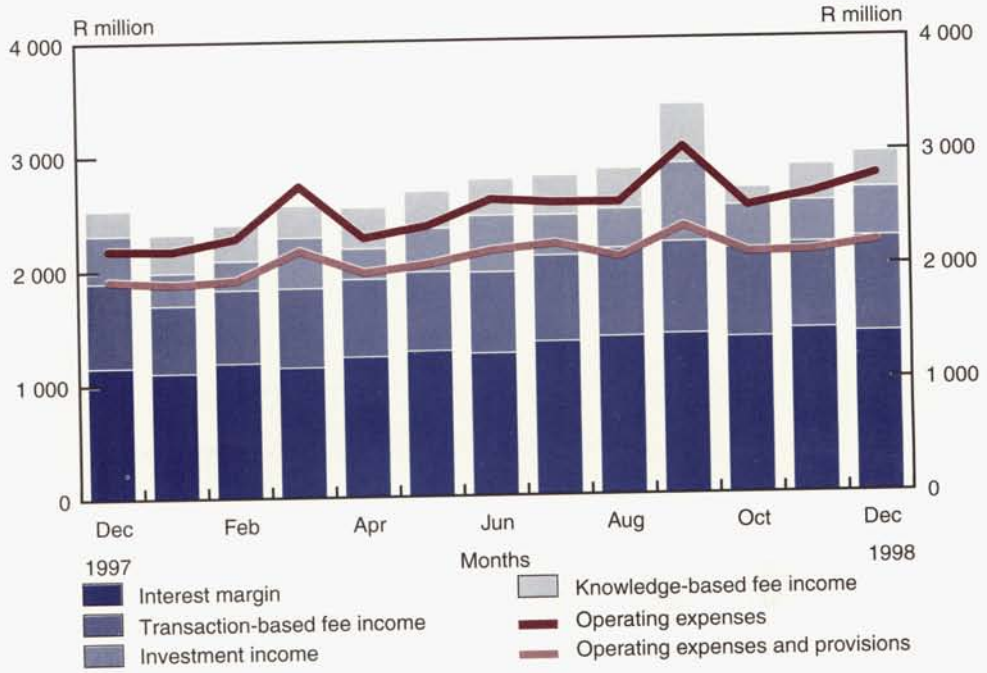
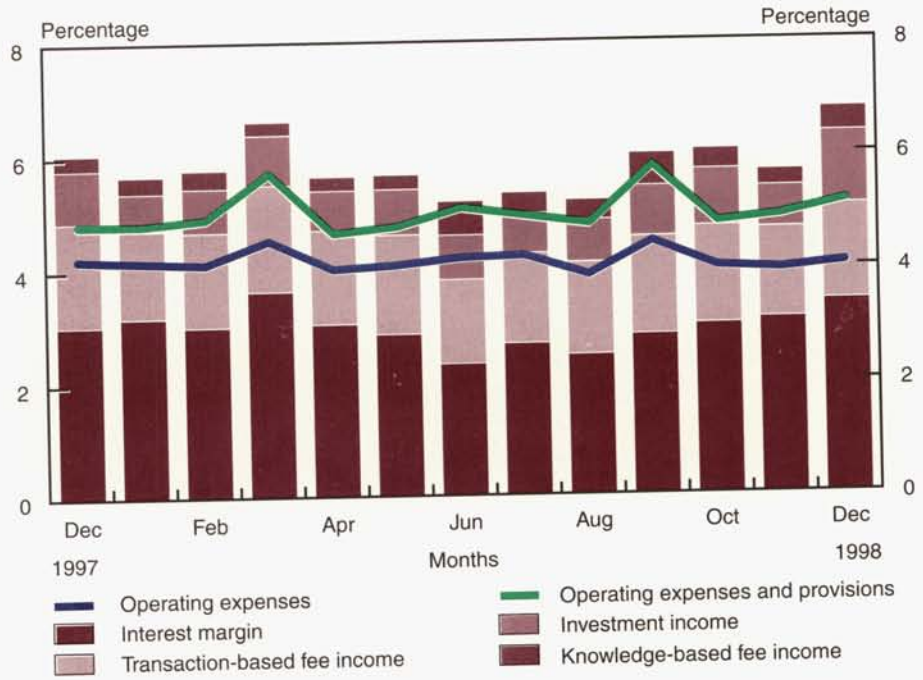


FIGURE 11: INCOME AND EXPENDITURE AS A PERCENTAGE OF TOTAL ASSETS



mortgage-loan advances continued to be largest component of non-bank loans and advances

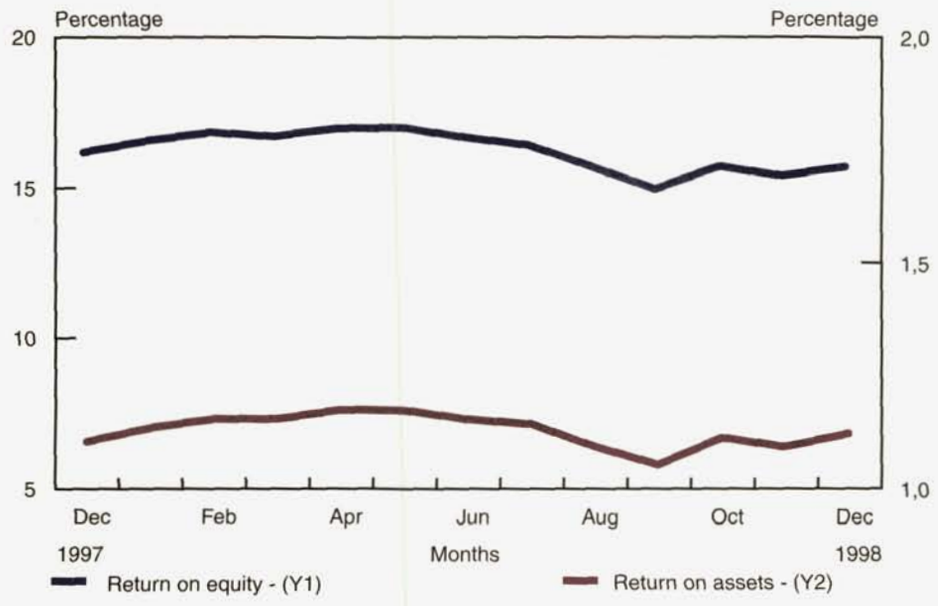
17,5 per cent) in the interest margin was 1,5 percentage points lower than in the previous year. Interest derived from mortgage bonds, constituting 36,9 per cent (1997: 39,3 per cent) of total interest income, continued to be the largest component of total interest income. This is in line with the fact that mortgage-loan advances continued to be the largest component of non-bank loans and advances (36 per cent in December 1998 and 38,6 per cent in December 1997). The proportionate decrease in mortgage loans, as a percentage of non-bank loans, appears to have been accompanied by a shift to overdrafts and loans, which increased from 29,9 per cent in 1997 to 33,1 per cent in 1998. The main components of interest expense during the year were the interest expense relating to demand deposits and fixed and notice deposits. Interest paid in respect of demand deposits constituted 37,3 per cent (1997: 32 per cent) of the total interest expense, whereas interest paid on fixed and notice deposits constituted 27,2 per cent (1997: 31,2 per cent) of the total interest expense for the year.

Specific and general provisions relating to loans and advances increased by 31,2 per cent and 62,3 per cent, respectively (as opposed to the previous year's growth rates of 16 per cent and 11,8 per cent, respectively), whereas operating expenses increased by 18,3 per cent (1997: 14,6 per cent). Specific provisions for loans and advances charged to the income statement amounted to R4,3 billion (1997: R3,2 billion).

before-tax return equivalent to approximately 1,5 per cent of total assets

The banking sector achieved a before-tax return equivalent to approximately 1,5 per cent of total assets (1997: 1,5 per cent) and an after-tax return equivalent to approximately 0,8 per cent of total assets (1997: 1,3 per cent). The average after-tax return on equity for the year was 10,2 per cent (1997: 18,3 per cent). The after-tax return on equity and the after-tax return on total assets for the period from December 1997 to December 1998, calculated on the basis of a 12-month moving average, are depicted in Figure 12.

FIGURE 12: PROFITABILITY RATIOS - 12-MONTH MOVING AVERAGE

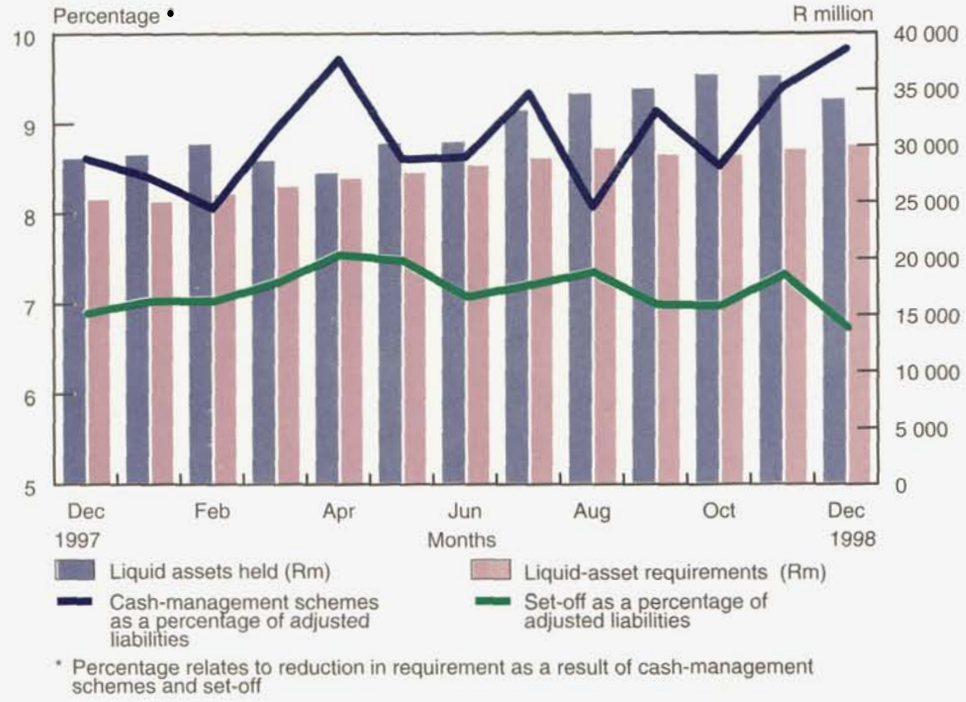


3.4 LIQUIDITY RISK

An evaluation of liquidity-risk management involves an assessment of the level of compliance with the statutory liquid-asset requirements, an analysis of the short-term liquidity mismatch in terms of its size (in relation to total funding) and trend, an assessment of the sources of liquid funds available for funding such mismatches and a consideration of the volatility of funding sources available. The relationship between interest-rate risk management and liquidity-risk management also has to be borne in mind, since mismatches may

develop in various future time bands because management has taken a specific view of future interest-rate movements.

FIGURE 13: STATUTORY LIQUID ASSETS - ACTUAL VERSUS REQUIRED



Statutory liquidity

average daily amount of liquid assets held exceeded statutory liquid-asset requirement

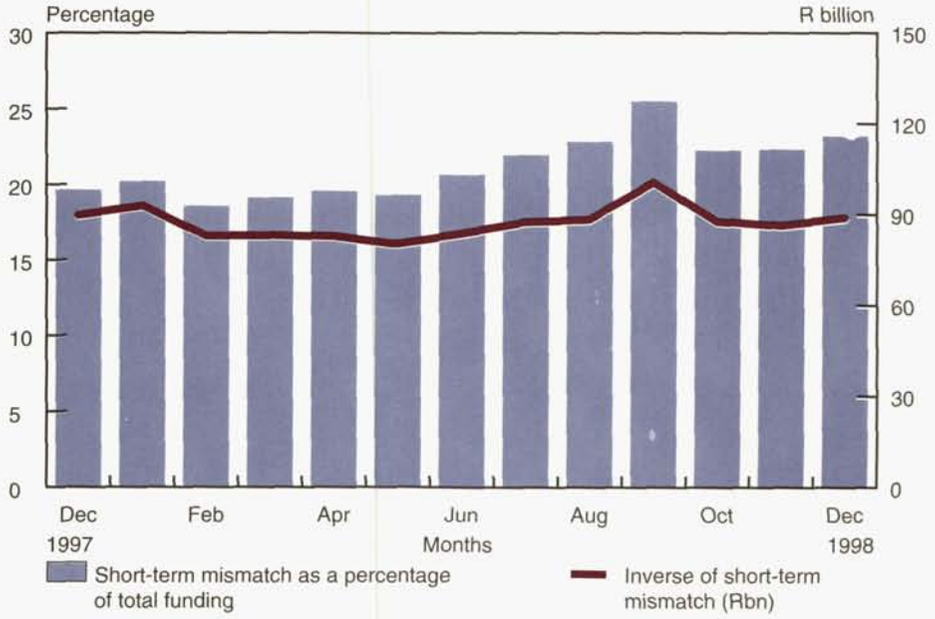
The liquid-asset requirement is calculated at 5 per cent of total liabilities less capital and reserves (later in this chapter referred to as adjusted liabilities). As can be seen from Figure 13, the average daily amount of liquid assets held by the banking sector exceeded the statutory liquid-asset requirement throughout the year. Approximately 37,1 per cent (1997: 62 per cent) of the average daily amount of liquid assets held during December 1998 consisted of stocks held in terms of section 19 of the Exchequer Act, whereas 52 per cent (1997: 32,3 per cent) consisted of Treasury bills of the Republic and 8,3 per cent (1997: 3,8 per cent) consisted of short-term bills issued by the Land Bank.

Cash-management schemes managed on behalf of clients of banks and set-off (see Figure 13) increased by about 36,8 per cent and 16,9 per cent (measured over 12 months), respectively, as at the end of December 1998, and represented approximately 11,8 per cent (1997: 10,2 per cent) and 8,1 per cent (1997: 8,2 per cent), respectively, of adjusted liabilities. This means that the adjusted liabilities, which are used for purposes of computing the liquid-asset and reserve-balance requirements, were reduced by 19,8 per cent (1997: 18,4 per cent), or R119,3 billion (1997: R93,3 billion).

Short-term liquidity mismatch

Because an increase in the mismatch could indicate a potential funding problem in the short term, the Bank Supervision Department assesses both short-term liquidity mismatch trends and the size thereof over a period of time.

FIGURE 14: SHORT-TERM LIQUIDITY MISMATCH



inverse of the short-term theoretical mismatch showed steady upward trend

The short-term theoretical mismatch is determined by the difference between short-term assets and short-term liabilities. The inverse of the short-term theoretical mismatch, as depicted in Figure 14, showed a steady upward trend during the year under review. Average monthly balances, computed on a quarterly basis, amounting to R96,8 billion, R99,6 billion, R117,6 billion and R113,5 billion were reported in respect of the quarters ended March 1998, June 1998, September 1998 and December 1998, respectively.

For the month of December 1998, the short-term theoretical mismatch for the banking sector stood at R116,5 billion (1997: R98,6 billion), representing 17,8 per cent (1997: 17,9 per cent) of total liabilities.

The anticipated short-term mismatch, as derived from the asset-and-liability committee (ALCO) models of banks for December 1998, amounted to R59,5 billion (1997: R71,5 billion). This was R57 billion (1997: R27 billion) less than the level of the theoretical mismatch as at 31 December 1998.

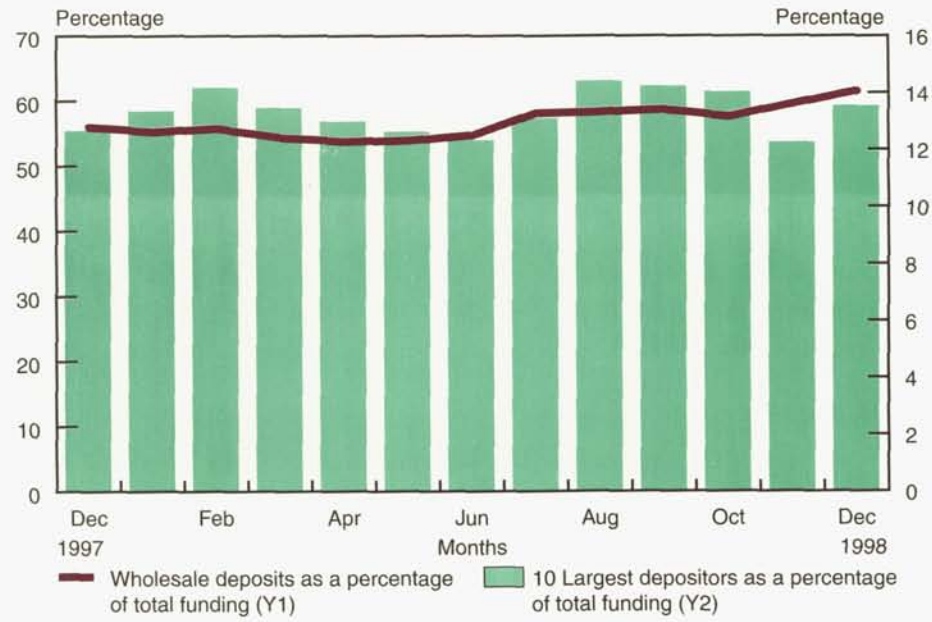
Volatility of funding

reliance on wholesale deposits for funding increased

As at 31 December 1998, wholesale deposits (greater than R100 000) constituted 78,3 per cent (1997: 70,9 per cent) of total deposits. This means that the banking sector's reliance on wholesale deposits for funding increased during 1998. Wholesale deposits represented 63,6 per cent of the total on-balance-sheet funding for December 1998, as opposed to 58,5 per cent for December 1997. This marginal increase indicates a fairly constant application of wholesale deposits for funding purposes by the banking sector (see Figure 15).

During the year under review, the aggregate amount of the 10 largest depositors of individual banks averaged R71,5 billion (1997: R56,4 billion). Expressed as a percentage of the aggregate amount of total funding liabilities to the public, large depositors equalled 13,2 per cent (1997: 12,2 per cent), at the end of December 1998. Figure 15 reflects the trend in wholesale deposits and large depositors, expressed as a percentage of total deposits.

FIGURE 15: WHOLESALE DEPOSITS AND LARGE DEPOSITORS



Sources of liquidity

The management of liquidity risk entails ensuring that lines of funding are available to bridge short-term fluctuations in funding. The main sources of funding short-term liquidity shortfalls have continued to consist of funding through the repurchase mechanism of the South African Reserve Bank, bank deposits, irrevocable undrawn call facilities and other readily marketable securities.

3.5 INTEREST-RATE RISK

The statutory return 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 a percentage (which a bank, in terms of its ALCO model, considers as a shock) and the bank not being able to restructure its balance sheet in the short term.

An interest-rate forecast is constructed from the forecast movements in the prime and 12-month NCD rates. This is shown graphically in Figure 16.

FIGURE 16: INTEREST-RATE FORECAST

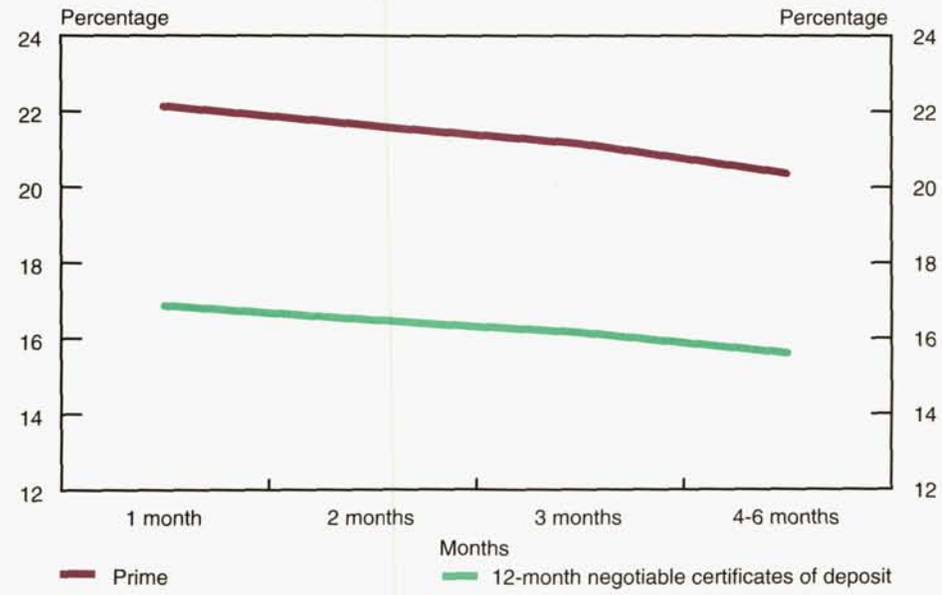
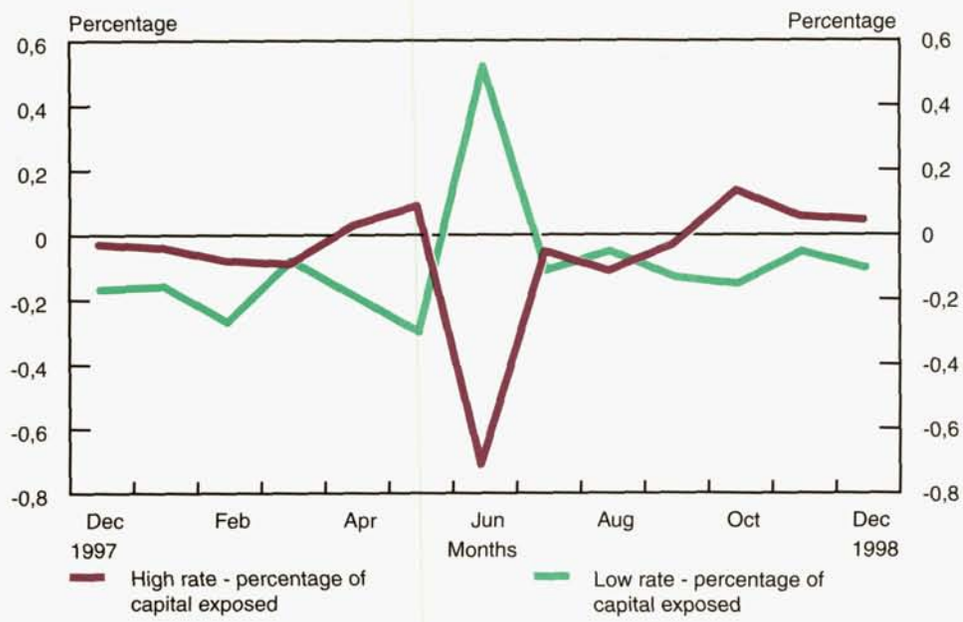


Figure 17 reflects the extent of the effect, on capital and reserves, of an upward or downward interest-rate shock in the event of a bank not being able to restructure its balance sheet in the short term. It should, however, be noted that banks themselves determine the size of an interest-rate change, which each individual bank considers to be a shock.

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



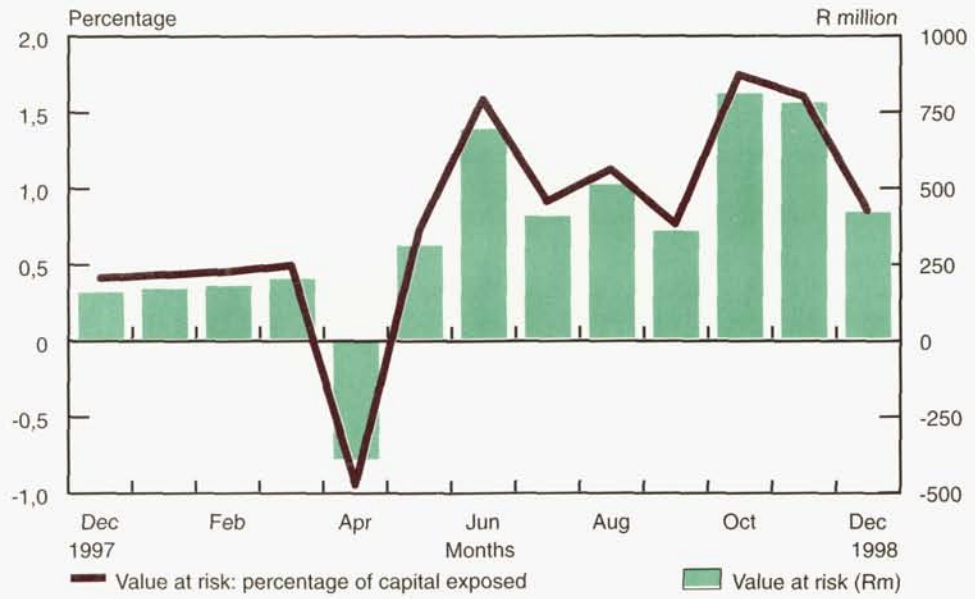
3.6 MARKET RISK

The form DI 420 requires a bank to report its net effective open position, after taking into account the effect of transactions in derivative instruments, based upon its exposures to assets in the equities, money, capital and commodities markets, as well as the aggregate net foreign-currency position. The bank is then required to indicate, based on its ALCO model, what its anticipated market-price movements pertaining to the above-mentioned markets are and to report the values at risk pertaining to these markets, based on such expected market movements.

value at risk increased markedly before declining slightly

Figure 18 graphically depicts the value at risk in absolute terms, as well as the percentage of capital at risk. As can be seen from the graph in Figure 18, the value at risk, as a percentage of capital, which remained below 1 per cent for most of 1997, increased markedly during 1998 before declining slightly, to 0,9 per cent, in December 1998.

FIGURE 18: VALUE AT RISK AND PERCENTAGE OF CAPITAL AT RISK



Turnover in derivatives

again fluctuated widely

During the year under review, turnover in derivatives again fluctuated widely (see Figure 19). The turnover in derivatives displayed a continuous upward trend until August 1998, when it peaked at R456,6 billion. Sharp decreases were recorded for September, October and December 1998. Despite these wide fluctuations, the total turnover in derivatives as at the end of December 1998 (R132,1 billion) was about the same as that recorded for December 1997 (R133,1 billion).

Unexpired derivatives contracts

unexpired exchange-traded derivative contracts increased

Unexpired exchange-traded derivative contracts amounted to R366 billion in December 1998 (December 1997: R177,7 billion). This represented 55,9 per cent of the banking sector's total assets (December 1997: 32,4 per cent). With the exception of September and December 1998, unexpired exchange-traded derivative contracts increased throughout the

year, as depicted in Figure 20. Average quarterly balances showed a marked increase from the levels of the previous year. Average monthly balances, computed on a quarterly basis, were reported as R192,4 billion, R207,6 billion, R391,3 billion and R370,2 billion for the quarters ended March 1998, June 1998, September 1998 and December 1998, respectively.

As at 31 December 1998, the total value of unexpired derivative contracts was R1 509,4 billion (December 1997: R762,9 billion), representing 230,7 per cent of total assets on that date (December 1997: 138,9 per cent of total assets). Over-the-counter traded derivatives accounted for 75,7 per cent (1997: 76,7 per cent) of all unexpired derivatives contracts.

FIGURE 19: TURNOVER IN DERIVATIVE CONTRACTS

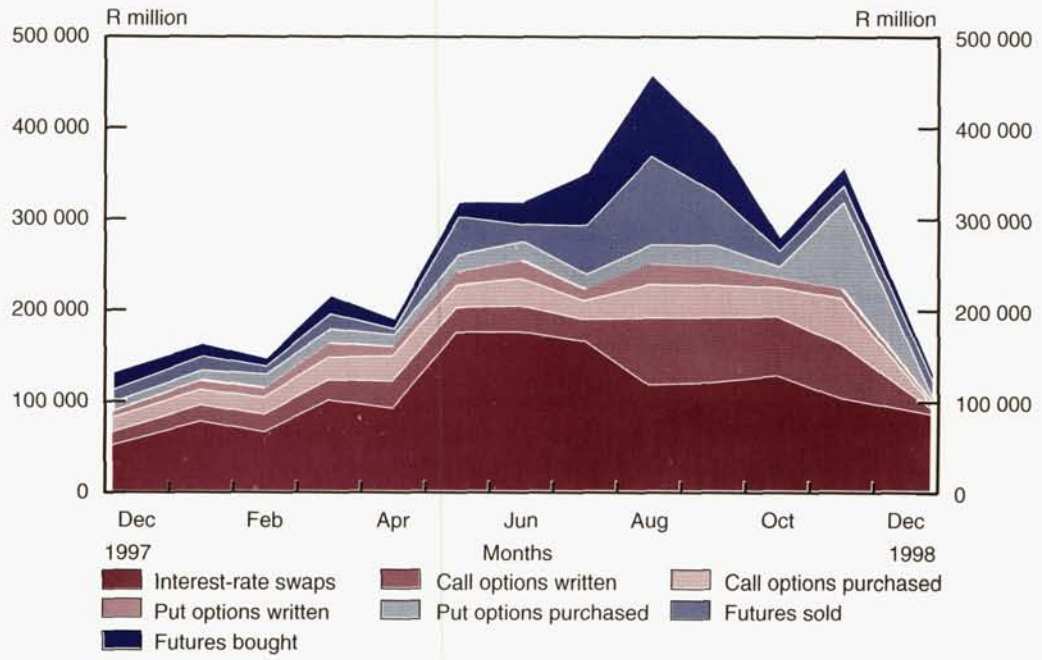
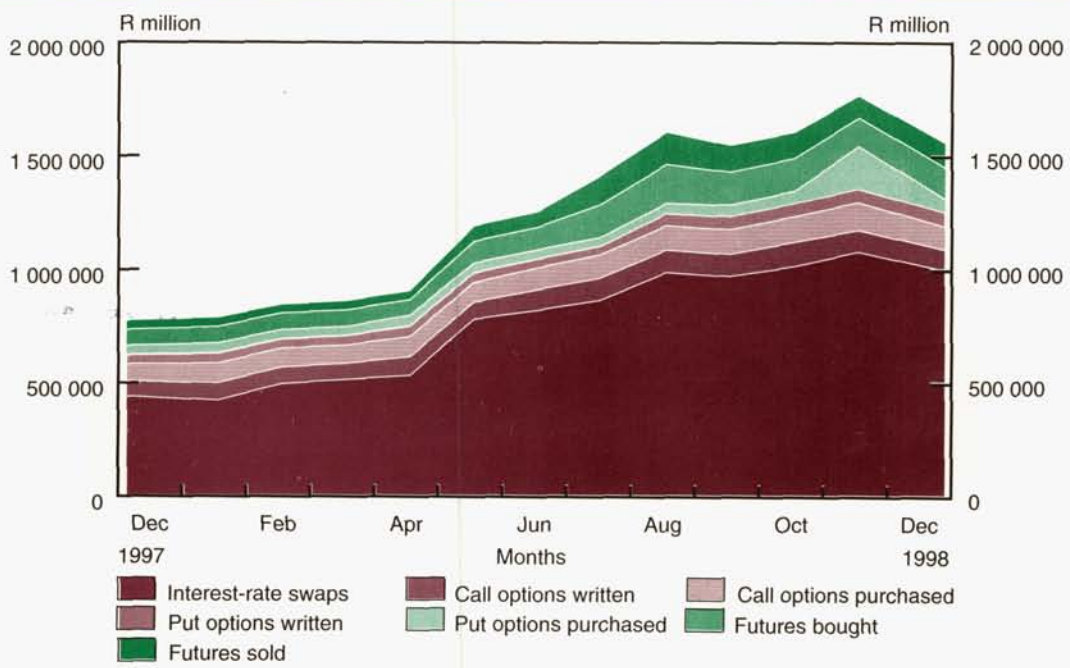


FIGURE 20: UNEXPIRED DERIVATIVES CONTRACTS



3.7 CREDIT RISK

Analysis of overdue amounts

overdues in repsect of all categories again increased

The gross amount of overdues in respect of loans and advances grew by 37,2 per cent (R5,8 billion) during the year, from R15,6 billion in December 1997 to R21,4 billion in December 1998. Expressed as a percentage of total loans and advances, gross amounts overdue amounted to 3,9 per cent in December 1998 (December 1997: 3,3 per cent).

overdues pertaining to mortgage loans increased

The gross amount of overdues pertaining to mortgage loans increased by 30,1 per cent (R2,1 billion) during the year, from R7,1 billion in December 1997 (representing 4,1 per cent of total mortgage loans) to R9,2 billion in December 1998 (representing 4,9 per cent of total mortgage loans). Specific provisions as a percentage of overdues declined from 22,9 per cent in December 1997 to 19,9 per cent in December 1998. The sum of specific provisions and security held, expressed as a percentage of overdues, increased from 109,1 per cent in December 1997 to 115,7 per cent in December 1998.

overdues pertaining to instalment-sale agreements grew

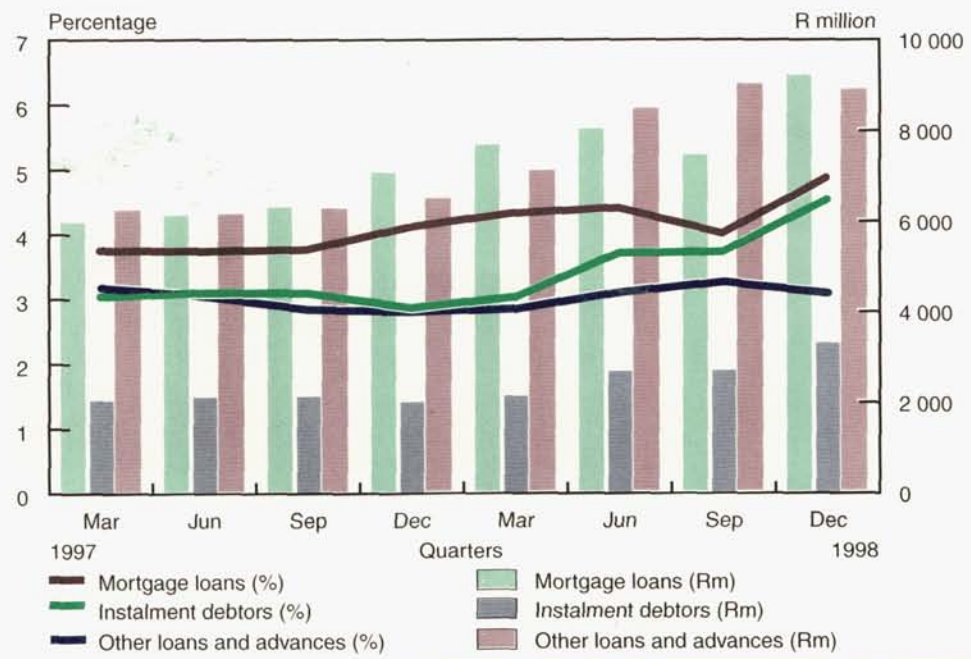
The gross amount of overdues pertaining to instalment-sale agreements grew by 63 per cent (R1,3 billion) during the year, from R2 billion in December 1997 to R3,3 billion in December 1998. As a percentage of total instalment sales, gross amounts overdue increased from 2,9 per cent in December 1997 to 4,5 per cent in December 1998. Specific provisions increased by 9,4 per cent, from R1,2 billion in December 1997 to R1,3 billion in December 1998. Expressed as a percentage of overdues, however, specific provisions decreased from 59,7 per cent in December 1997 to 40,1 per cent in December 1998.

overdues on other loans and advances increased

Overdues on other loans and advances increased by 36,9 per cent (R2,4 billion) during the year, from R6,5 billion in December 1997 to R8,9 billion in December 1998. Overdues as a percentage of other loans and advances, however, increased from 2,8 per cent in December 1997 to 3,1 per cent in December 1998. Specific provisions increased by 44,8 per cent during the year, from R4,2 billion (representing 64,2 per cent of overdues) in December 1997, to R6 billion (representing 67,9 per cent of overdues), in December 1998.

An analysis of overdues in respect of mortgage loans, instalment sales and other loans and advances is illustrated graphically in Figure 21.

FIGURE 21: ANALYSIS OF OVERDUE AMOUNTS



Provisioning policy for bad and doubtful loans and advances

As a result of the increase in overdues on total loans and advances (37,2 per cent during the year), specific provisions made in respect of such overdues increased by 31,2 per cent, from R7 billion in December 1997 to R9,2 billion in December 1998. Specific provisions, expressed as a percentage of overdues, decreased from 44,9 per cent in December 1997 to 42,9 per cent in December 1998. Thus, 57,1 per cent (R12,2 billion) of the overdue loans and advances at the end of December 1998 had not been specifically provided for, as opposed to 55,1 per cent, or R8,6 billion, in December 1997.

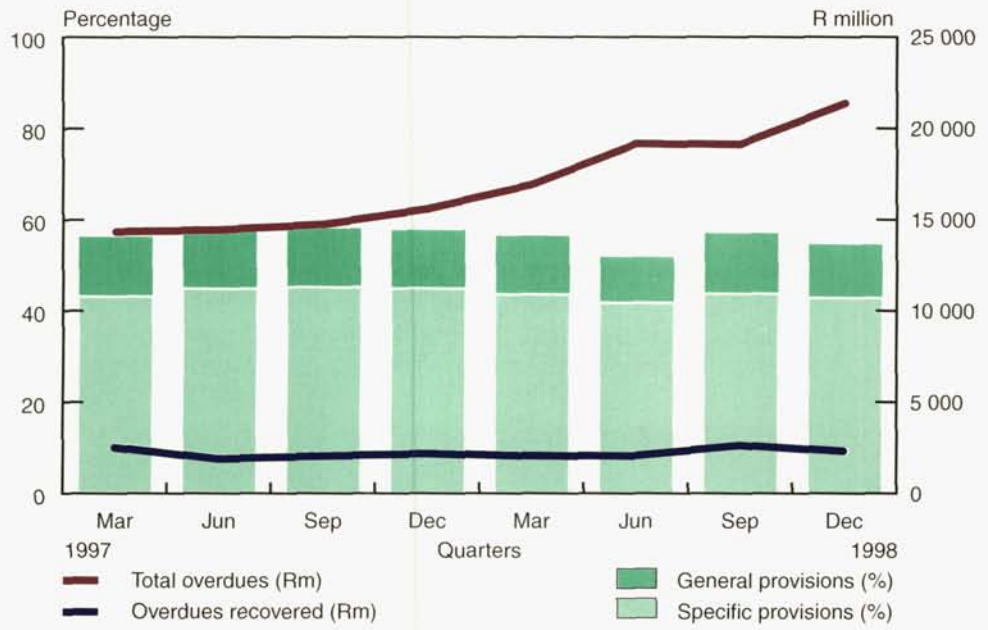
specific provisions by loan type

Specific provisions made at the end of December 1998, by loan type and expressed as a percentage of overdue amounts, were as follows:

- Mortgages - 19,9 per cent (22,9 per cent on 31 December 1997).
- Instalment sales - 40,1 per cent (59,7 per cent on 31 December 1997).
- Other loans and advances - 67,9 per cent (64,2 per cent on 31 December 1997).

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

FIGURE 22: PROVISIONS AS PERCENTAGE OF TOTAL OVERDUES



Large exposures

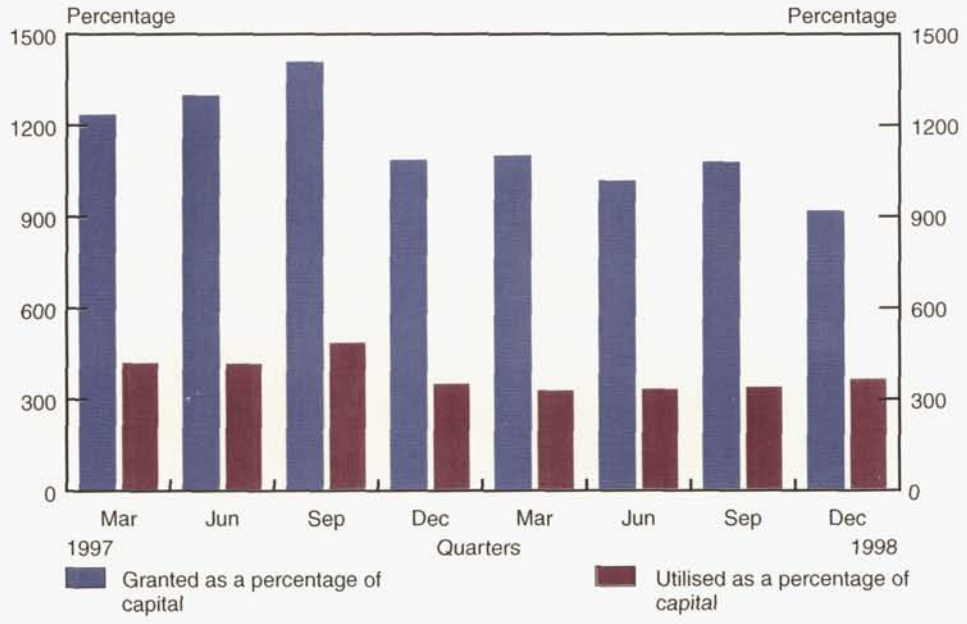
large exposures granted and utilised increased

The position of large exposures granted and utilised over the period from March 1997 to December 1998 is illustrated graphically in Figure 23. Large exposures granted increased by 9,3 per cent during the year, from R413,5 billion (representing 1 039,2 per cent of net qualifying capital and reserves) as at 31 December 1997, to R451,8 billion (representing 908,2 per cent of net qualifying capital and reserves) as at 31 December 1998. Large exposures utilised increased by 34,5 per cent during the year, from R134,2 billion (representing 337,2 per cent of net qualifying capital and reserves) as at 31 December 1997 to R180,5 billion (representing 363,1 per cent of net qualifying capital and reserves) as at 31 December 1998.

Overdues in respect of large exposures decreased by 62,5 per cent during the year, from R8 million in December 1997 to R3 million in December 1998.

overdues in respect of large exposures decreased

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



Quality of assets

eighty per cent earned a reasonable margin

About eighty per cent (79,9 per cent) of the banking sector's assets (December 1997: 80,4 per cent) earned a reasonable margin, 6,6 per cent (December 1997: 7,3 per cent) earned a small margin, and the remaining 13,5 per cent (December 1997: 12,3 per cent), which includes infrastructure, earned no margin (see Figure 24).

3.8 CURRENCY RISK

aggregated net effective position amounted to 0,8 per cent

For the period under review, the net effective open position in foreign currency after hedging remained within the limit of 15 per cent of net qualifying capital and reserves. The aggregated net effective position of individual banks, expressed as a percentage of net qualifying capital and reserves, amounted to 0,8 per cent for December 1998 (December 1997: 0,4 per cent).

The position in foreign-currency instruments and the liquidity maturity structure of US dollar positions are shown in Figures 25 and 26, respectively.

FIGURE 24: ASSET PERFORMANCE

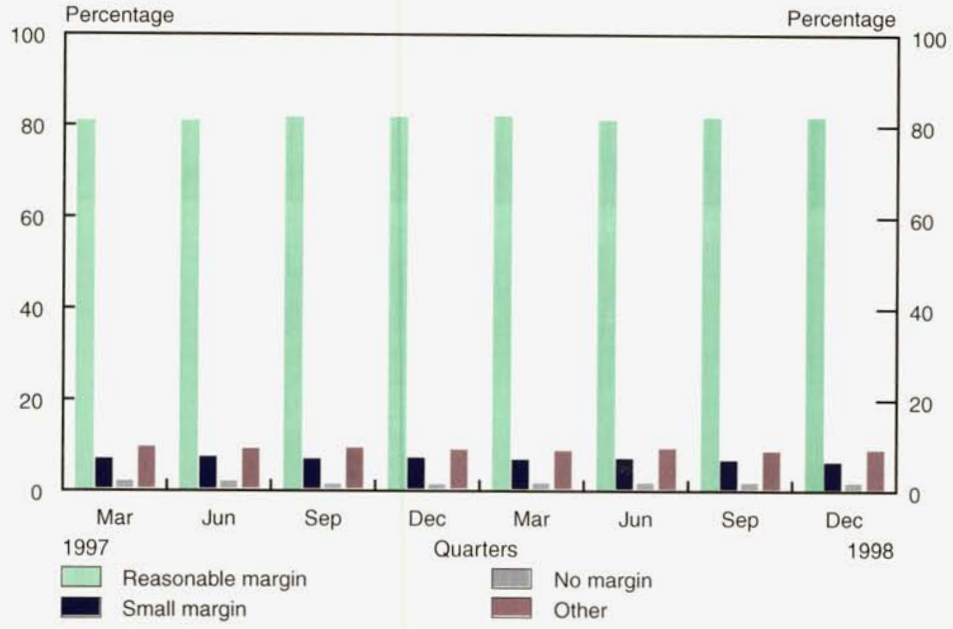


FIGURE 25: POSITION IN FOREIGN-CURRENCY INSTRUMENTS

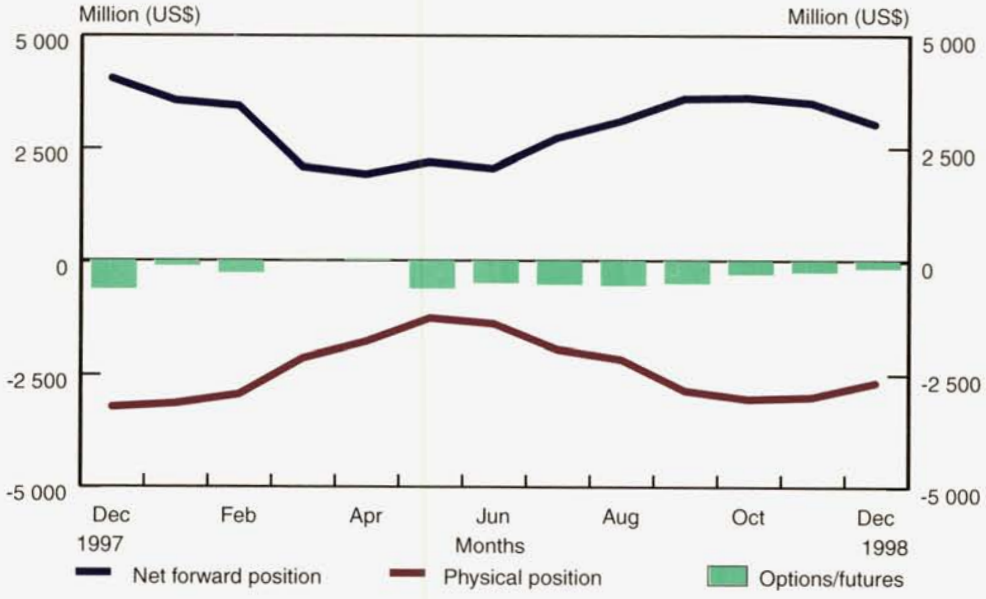


FIGURE 26: LIQUIDITY MATURITY STRUCTURE : US DOLLARS