ANNUAL REPORT 2001

South African Reserve Bank

Bank Supervision Department

SOUTH AFRICAN RESERVE BANK

BANK SUPERVISION DEPARTMENT

ANNUAL REPORT

2001

Issued by Authority

MISSION

To promote the soundness of banks through the effective application of international regulatory and supervisory standards

PHILOSOPHY

Market principles and risk-management assessment underlie all activities and decisions, and we strive to project an image of professionalism, integrity, credibility and impartiality at all times. We subscribe to a service-oriented approach, which entails accessibility and integrity, and we place a high premium on ethical behaviour at all levels of activity. A relationship of mutual trust between this Department and all other key players is regarded as essential and is built up through regular open communication.

NEED TO STRENGTHEN CORPORATE GOVERNANCE IN BANKS

In recent months, a number of highly publicised failures of corporate entities, locally and abroad, have been ascribed mainly to a failure of their corporate-governance arrangements - the names Enron, Allied Irish Bank and, locally, Regal Bank spring to mind. Banking supervisors, as well as bankers, would therefore do well to note the following comments:

"… improving corporate governance is an important way to promote financial stability. The effectiveness of a bank's internal governance arrangements has a very substantial effect on the ability of a bank to identify, monitor and control its risks. Although banking crises are caused by many factors, some of which are beyond the control of bank management, almost every bank failure is at least partially the result of poor risk management within the bank itself. And poor risk management is ultimately a failure of internal governance.

Although banking supervision and the regulation of banks' risk positions can go some way towards countering the effects of poor governance, supervision by some external official agency is not a substitute for sound corporate governance practices. Ultimately, banking system risks are most likely to be reduced to acceptable levels by fostering sound risk management practices within individual banks. Instilling sound corporate governance practices within banks is a crucial element of achieving this." Promoting financial stability: the New Zealand approach - Address by Dr Donald T Brash, Governor of the Reserve Bank of New Zealand, to the Conference for Commonwealth Central Banks on Corporate Governance for the Banking Sector, London, 6 June 2001.

"Corporate governance is of course not just important for banks. It is something that needs to be addressed in relation to all companies … I do however believe that sound corporate governance is particularly important for banks. The rapid changes brought about by globalization, deregulation and technological advances are increasing the risks in banking systems. Moreover, unlike other companies, most of the funds used by banks to conduct their business belong to their creditors, in particular to their depositors. Linked to this is the fact that the failure of a bank affects not only its own stakeholders, but may have a systemic impact on the stability of other banks. All the more reason therefore to try to ensure that banks are properly managed." The importance of corporate governance in banks – Speech by Mr David Carse, Deputy Chief Executive of the Hong Kong Monetary Authority, at the Year 2000 Millenium Dinner of The Association of International Accountants – Hong Kong Branch, Hong Kong Bankers Club, Hong Kong, on 17 March 2000.

SOUTH AFRICAN RESERVE BANK

BANK SUPERVISION DEPARTMENT

Annual report for the calendar year ended 31 December 2001
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 from 1 January 2001 to 31 December 2001.

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CHAPTER 1

REGISTRAR'S REVIEW

The year under review was marked by the unprecedented decline in the South African currency during the latter part of 2001. Although the impact thereof on the South African banking sector does not appear to have been significant, it is deemed appropriate to examine other effects of and possible reasons for the decline in the rand in this review.

A brief overview is also given of South African banking data, discussed in more detail in Chapter 3 of this Annual Report. Other issues of interest addressed in this review include, amongst others, the separation of macro-prudential and micro-prudential oversight into separate departments of the South African Reserve Bank, the debate surrounding the possible establishment of a single financial regulator in South Africa, considerations in the resolution of weak banks and the findings of external investigations into failed banking and financial institutions in South Africa.

need for enhanced corporate governance

The need for enhanced corporate governance and for compliance with standards and legislation is a theme that runs through this Annual Report, albeit not always expressed explicitly. It is for this reason that some comments on corporate governance, to be heeded by banking supervisors and bankers alike, are highlighted on the verso of the title page of this Annual Report.

OVERVIEW OF SOUTH AFRICAN BANKING SYSTEM

remained fairly stable

During 2001, the South African banking system remained fairly stable, and, in general, banks appeared to be sound. South African banks are well managed and, generally, have in place sophisticated risk-management systems and corporate-governance structures. The banks are well capitalised, and the average risk-weighted capital-adequacy ratio for the system as a whole stood at 11,4 per cent at the end of December 2001, compared to the required minimum ratio of 10 per cent.

growth remained strong

Growth in the total balance sheet remained strong throughout the year under review. By the end of December 2001, the total funds of banks – comprising capital, reserves, deposits and loans – had increased by 27,6 per cent (measured over a 12-month period), to a level of R1 046 billion. The growth in total assets was due to an increase of 22,4 per cent in total loans and advances, boosted by the depreciation of the South African rand. Foreign-currency loans and advances increased by 96,7 per cent to a level of R109,9 billion. Of these total assets, 69,5 per cent was concentrated in the four biggest banks. Foreign banks, the participation of which in the local banking industry has grown during the past five years, held about 7,7 per cent of the total assets of all banks conducting business in South Africa.

Total non-bank deposits increased slightly to 9,8 per cent in December 2001, from 7,5 per cent in December 2000. The composition of non-bank deposits remained largely unchanged during the past year.

profitability under pressure

Despite the disruptions caused by relatively unstable international financial markets, particularly after the 11 September tragedy, the South African banking system remained profitable. More recent statistics, however, have shown that the profitability of banks has increasingly come under pressure. By the end of December 2001, the average return on equity was 10,0 per cent, down from 13,3 per cent in December 2000. The return on assets also decreased, from 1,1 per cent in December 2000 to 0,8 per cent in December 2001, and the interest margin amounted to 3,5 per cent in December 2001 (down from 4,4 per cent in December 2000). The efficiency of the banking sector also started showing signs of deterioration during the past year and weakened from 62,5 per cent in December 2000 to 64,2 per cent in December 2001.

adequate levels of liquidity

South African banks maintained adequate levels of liquidity. In December 2001, banks' liquid assets (calculated on the basis of total liabilities less capital and reserves) amounted to 113,5 per cent of the liquid assets required to be held, compared to a level of 105,9 per cent in December 2000.

non-performing loans decreased

During 2001, the non-performing loans of the total banking sector decreased by R192,4 million, to a level of R26,2 billion at the end of December 2001. Provisioning by banks against these non-performing loans was adequate, even in terms of international requirements. Specific provisions covered about 46 per cent of all overdues. Net overdues (gross overdues less specific provisions) as a percentage of net qualifying capital and reserves decreased to 17,3 per cent in December 2001, which was well within the international benchmark of 25 per cent. An analysis of the quality of banks' assets during 2001 revealed that 78,3 per cent of the banking sector's assets earned a reasonable margin and that 5,9 per cent earned a small margin, whereas the remaining 15,8 per cent, including infrastructure, earned no margin.

CURRENCY DEPRECIATION AND IMPACT ON SOUTH AFRICAN BANKING SECTOR

economy more vulnerable to swings

South Africa has made great strides in opening its economy to foreign investment. This, however, has made the country's economy more vulnerable to swings in global growth. It is clear that South Africa cannot escape the consequences of an international economic slowdown, exacerbated by the tragic events in the United States of America on 11 September 2001. Most analysts, rating agencies and commentators agree that the unprecedented decline in the South African rand during the latter part of 2001 is not justified by the country's solid economic fundamentals, including sound fiscal and monetary policies. The lack of an economic rationale for the rand's decline remains a source of vulnerability, and the currency's decline appears to be due primarily to a problem of perceptions.

pronounced declines in last quarter

During the past two calendar years, the exchange rate of the South African rand declined on a bilateral basis against not only a large number of currencies, but also the trade-weighted index (TWI) value of the rand. The currency performed relatively strongly during the first half of the 2001 calendar year. The decline in the external value of the rand, however, gained momentum in the second half of the year, and more pronounced declines were registered in the last quarter of 2001, particularly in December 2001. During the first half of 2001, the rand declined by 6,5 per cent, whereas the second half of the year saw a decline of almost 50 per cent, 16,8 per cent of which occurred in December 2001. Against the TWI, the rand lost 34,5 per cent during 2001.

factors mentioned

Over the longer term, the South African rand was expected to decline to lower levels by virtue of the South African authorities' decision to liberalise existing exchange controls, as well as the policy to reduce the net open foreign-currency position (NOFP) of the South African Reserve Bank (SARB). The objective of these policy actions was to reduce the negative perceptions stemming from the above-mentioned factors, in view of their impact on, amongst others, South Africa's perceived ability to attract foreign direct investment and the need to improve the country's credit rating.

There does not appear to be a single, plausible explanation for the unprecedented decline in the exchange rate of the rand during the last two to three months of 2001. Among the factors that have been mentioned are the deteriorating political and economic conditions in some neighbouring countries, an element of non-resident risk aversion and use of the rand as a proxy hedge for exposures in other emerging markets. Other reasons commonly cited by market participants include:

other reasons

- The emerging-market contagion caused by the Argentinian debt crisis. Traders cited worries about Argentina's financial crisis, which might affect investor appetite for other emerging markets, as being negative for South Africa. South Africa's financial markets are among the most sophisticated and liquid in the developing world, making the rand an easy and open target. The currencies of other emerging markets, however, have not suffered to the extent that the rand has. For instance, the Brazilian currency declined by only 20 per cent, despite the country being Argentina's neighbour.

- Political and economic conditions in countries neighbouring South Africa. Despite the South African Government's strongly stated assurance that it would not tolerate lawlessness similar to that evident in neighbouring Zimbabwe, the current political and economic instability in that country negatively affected investor confidence in some Southern African countries.

- The outstanding NOFP of US$4,8 billion. As clearly stated on 21 December 2001, the Government will draw down a full syndicated loan of US$1,5 billion to reduce the NOFP further. Since the NOFP is expected to be expunged entirely during 2002, any effect that it may have had on the rand's decline should be eradicated.

- Progress with the privatisation of State assets. Questions have been raised about the Government's commitment to privatisation.

SARB statement

The monetary authorities became increasingly concerned that excessive volatility in the foreign-exchange market during the third quarter of 2001 negatively influenced inflation, business decisions and the economy as a whole. Therefore, the SARB issued a statement on 14 October 2001 that "the Reserve Bank stands ready to take appropriate firm steps against trading activities inconsistent with existing rules and regulations. The enforcement of existing rules serves to ensure that only legitimate transactions take place in the foreign exchange market. This does not restrict, for example, the ability of a non-resident investor to either hedge or repatriate the sale proceeds of an investor in South Africa. It does, however, exclude the financing of short rand positions in the domestic markets, which is consistent with the requirements that domestic borrowing by non-resident investors is subject to certain restrictions".

sensitive about exchange controls

Some market participants appear to have misinterpreted this statement to mean that the stricter enforcement of existing exchange controls amounted to an effective tightening of such controls. It was subsequently noted that many market participants, both locally and abroad, had become sensitive about issues relating to exchange controls. The SARB is communicating with the foreign-exchange market in order to explain the rationale for the above statement and, in consultation with banks, is finalising requirements for certain compliance letters to be provided to local authorised dealers. Despite these consultations, some offshore banks may have decided, as a precautionary measure so as to avoid finding themselves in contravention of exchange-control rules, to reduce their level of activity in South Africa's markets. This may have had a negative impact on market liquidity.

turnover declined

The figures reported to the SARB indicate that the net daily turnover in the domestic foreign-exchange market declined from an average level of US$7,4 billion in October 2001 to

US$5,5 billion in November, but increased again to a level of US$6,1 billion during December 2001. Despite these lower activity levels, it may be too soon to conclude that turnover has declined on a sustainable basis, especially since December turnover figures tend to be somewhat distorted in the South African foreign-exchange market because of the holiday period.

Although it is accepted that turnover alone is not a perfect measure of liquidity, it does represent a reasonable proxy. When turnover is assessed together with a widening bid/offer spread, ranging from 50 points to, at times, 1 000 points, it would appear that liquidity in the South African markets has been affected. It is, however, not possible to attribute such a reduction in liquidity to a single reason or event.
It is similarly difficult to be definitive about speculation in the South African markets. Although such speculation cannot be excluded, the rate of the depreciation of the currency may have given rise to legitimate hedging transactions.

impact on banking sector negligible

The impact of the decline in the external value of the rand on the South African banking sector appears to have been negligible. South Africa has a well-developed banking system, which sets the country apart from many other emerging markets globally. It is a more mature market, with a moderate level of private indebtedness and a good regulatory and legal framework. During the East-Asian crisis of 1998, the South African banking sector proved to be remarkably resilient in the face of the global financial turmoil and its impact on local economic conditions. South African banks, however, have been shielded from other consequences of the contagion, since they do not have large direct or indirect credit exposures outside the country. In addition, the level of net external liabilities is low. Therefore, any withdrawal of funds by foreign investors does not expose South African banks to exchange-rate risks, directly or indirectly.

FINANCIAL STABILITY

increased macro-prudential emphasis

It has become increasingly clear in recent years that micro-prudential supervision, although essential, is in itself insufficient to ensure stability of the financial system as a whole. Bank supervisors, therefore, now rely less on the assumption that, if all banks are sound, the system must be sound. For this reason, the Bank Supervision Department has gradually increased its macro-prudential emphasis over the past three years. As discussed in the Department's two previous Annual Reports, this new emphasis led to the formation of a financial stability unit in the Department.

new specialist department

In the first quarter of 2001, the South African Reserve Bank (SARB) decided to separate the macro-prudential oversight function from the Bank Supervision Department and to form a specialist department, called the Financial Stability Department (FinStab). This move is in line with a clear trend among non-regulatory central banks in particular to place a more explicit focus on financial-system stability as a natural second objective of a central bank. The move is also in support of the mission statement of the SARB, namely, the achievement and maintenance of financial stability, which includes both monetary (price) stability and financial-system stability.

The two elements of a central bank's task, that is, price stability and financial stability, are inextricably intertwined. Price stability, although necessary, is not a sufficient condition for financial stability. Similarly, a strong financial system cannot ensure price stability. Failure to maintain one provides a very uncertain operating environment for the other, with causality running in both directions.

micro-prudential and macro-prudential oversight are very interdependent

Similarly, micro-prudential supervision and macro-prudential oversight are very interdependent. The Bank Supervision Department, therefore, envisages cooperating closely and exchanging information with FinStab. Since several staff members of the Bank Supervision

Department have moved to FinStab, information is exchanged, albeit on a largely informal basis. A challenge for the future is to formalise the mandates, responsibilities, powers and rights surrounding this continuing interaction to ensure that it is entrenched in either agreements or legislation and does not remain dependent on interpersonal relationships.

difference in focus and responsibilities of the two departments

The difference in the focus and responsibilities of the two departments is clear. The Bank Supervision Department is responsible for the day-to-day supervision of banks, in pursuit of its objectives of the soundness of banks and, thereby, the protection of depositors. The Department's focus is on the risk profiles and risk-management processes of individual banks. FinStab's function, on the other hand, is to oversee the stability of the financial system as a whole. The purpose of FinStab is to identify inherent weaknesses and the build-up of risks that may result in financial-system disturbances, with potential macro-economic costs. FinStab will use the aggregated data about the banking system that the Bank Supervision Department provides. Unlike the Bank Supervision Department, however, FinStab will place a special focus on non-idiosyncratic risks, that is, those risks to which the whole banking system is exposed. More importantly, FinStab will integrate such aggregated micro-prudential data of the banking and financial system with other indicators of financial-system weakness. These indicators include certain macro-economic variables and data such as aggregated data on Government, non-bank corporate and household balance sheets.

intention is not to duplicate functions

Although there may be a period of ambiguity and possible overlap between the work of the two departments, the intention is not to duplicate functions. The Bank Supervision Department intends to make use of the macro-prudential analyses of FinStab, whereas FinStab does not intend to become involved at the institutional level. The Bank Supervision Department focuses on micro-prudential supervision in the context of reliable information on the stability, or otherwise, of the financial system as a whole. The inputs received from FinStab, however, will make the system considerably more robust.

DEBATE ON REGULATORY ARCHITECTURE

As reported in the Bank Supervision Department's previous Annual Report, there has been a debate about alternative institutional arrangements for financial regulation in South Africa since March 1999. In particular, the debate has centred on whether South Africa should establish a single financial regulator outside the South African Reserve Bank (SARB). During the 2001 parliamentary session, the Minister of Finance specifically commented that the Government intended establishing such a single regulator. It is therefore deemed appropriate to revisit some of the arguments surrounding the issue of a single financial regulator.

The rationale for establishing an integrated financial regulator remains the following:

rationale for integrated financial regulator

- Convergence in financial markets and the need for a more consistent approach to the regulation of financial conglomerates.
- The need for greater consistency in the application of policy across different industries.
- The ability to make more effective use of scarce regulatory resources.

There are four main sources of market failure in the financial system:

four main sources of market failure

- *Anti-competitive behaviour* - The first source of market failure gives rise to the need for competition regulation to be designed so as to ensure that markets remain competitive and contestable.

- *Market misconduct* - The second source gives rise to regulation that is directed at disclosure of information and the prevention of fraud, market manipulation and other forms of false and misleading behaviour.

- *Asymmetry of information* - The third source arises when buyers and sellers of financial products are unlikely to be on an equal footing, regardless of the amount of information that is disclosed. When the disparity between buyers and sellers and the potential damage that may arise from the failure of a financial institution are sufficiently great, this source of market failure warrants prudential regulations that are aimed at reducing the probability of failure to an acceptable level.

- *Systemic instability* - The final source of market failure, systemic instability, is peculiar to financial markets. These markets often function efficiently only to the extent that participants have confidence in the ability of markets to do so. A sudden loss of confidence in some institutions can be sufficiently damaging as to cause otherwise unrelated and sound institutions to fail and, in special circumstances, may even threaten the stability of the entire financial system. The risk of this type of contagion is greatest in the payment system, but may well extend beyond payments in times of crisis.

single-regulator model

In the single-regulator model, the regulator would be given responsibility for correcting each of the four sources of market failure and for supervisory oversight of all institutions that are subject to such failure. A single regulator as defined here can, however, not be found anywhere. The most common structure is that in which prudential regulation is allocated to separate regulatory agencies according to institutional groupings. Integrated regulators around the world have in common that they bring together, under one roof, all major forms of prudential regulation.

Most integrated regulators can be classified as versions of the functional approach to regulation in that a regulator is assigned to each source of market failure. The global trend toward integrated regulation can thus be viewed as a restructuring of regulatory agencies along functional lines.

wide range of responsibilities, powers and organisational structures

A single financial regulator will generally have a wide range of responsibilities, powers and organisational structures. The power to make regulatory policy and responsibility for supervisory oversight should vest in the same agency. The regulatory powers should include authorisation and licensing, the power to inspect and to request information and enforcement powers, such as the authority to give directions, to suspend operations and to appoint a curator to a regulated institution.

A single regulator is not, in and of itself, a solution to regulatory failure. Correction of regulatory failure requires better regulation. This, in turn, requires the setting of more appropriate prudential and market-conduct standards, improved surveillance and strengthening of enforcement. A single regulator may help to facilitate this process, but does not, by itself, cause these changes to occur.

The most obvious advantage of a single regulator is that it brings the various regulated components of financial conglomerates under one agency. Common standards across industry groupings for large exposures, intragroup exposure and capital adequacy help to promote the stability of the financial sector.

primary long-term objective

The primary long-term objective of a single regulator is the development of an approach to regulation that looks through the institutional structure of financial entities and imposes regulatory requirements on the basis of risk. The linking of regulatory responses to risk is fundamental to the risk-based approach to prudential regulation. This approach assumes that any financial institution can be viewed in terms of the extent to which it retains the following core risk types:

core risk types

- *Credit risk* - the risk that creditors will default on their obligations.
- *Market risk* - the risk of loss arising from fluctuations in the market value of assets, together with the risk of liabilities arising from movements in market prices.
- *Insurance risk* - the risk of loss from underwriting and reinsurance.
- *Governance risk* - the risk of loss arising from inadequate internal controls, lack of accountability within an institution, operational failure and poor management.

cannot provide assurance of absence of failures

Although the extent of these risks may vary between banking, insurance and markets, a case can be made for the regulator to treat similar risks in a similar manner. No single regulator, however, can provide the assurance of a financial system with a complete absence of failures and, in particular, no regulator has the capacity to eliminate fraud.

The most important factor governing a single regulator's effectiveness is the prudential framework of laws, standards and operational procedures covering inspection and analysis. Globally, the necessary legislative reforms in associated industry laws and regulatory powers have lagged well behind institutional reforms.

In South Africa, we would be well advised to learn from the single regulatory agencies around the globe. South Africa should therefore first put into place the legal structure and powers necessary to ensure that scarce resources are retained in order to develop policies that are appropriate to the rapidly evolving financial scene. All stakeholders should be invited to participate in the development of a strategic framework with a view to ensuring an efficient and orderly process of integration. In order to achieve the sustainability of such a regulatory agency, there should be extensive public debate on both the funding of the integration process and the agency's future funding.

success will depend on cooperative arrangements

Ultimately, however, the success of a single regulator will depend on the cooperative arrangements between the regulator, the Minister of Finance/National Treasury and the SARB. All three pillars of economic management need to be assured of a flow of information that will enable each one to operate effectively, especially in times of stress.

RESOLUTION OF WEAK BANKS

task of banking supervisor

Weak banks are a worldwide phenomenon. The task of the banking supervisor is to identify the problem at an early stage, agree on a plan for corrective action with the directors of the bank concerned, devise resolution techniques if the corrective action proves not to be working or to be too late and have ready an exit strategy if all fails.

weak bank defined

A weak bank can be defined as a bank whose solvency will be threatened unless the bank can achieve a major improvement in its financial resources, strategic business direction and/or quality of its management in the near future. Given the need to maintain confidence in the financial system, the supervisor must try to preserve the value of a weak bank's assets with minimal disruption to its operations. At the same time, the resolution costs should be minimised. The result may well be that such a weak bank ceases to exist as a legal entity.

The supervisor has to distinguish clearly between the symptoms and the causes of a bank's problems. These problems have to be identified and addressed at an early stage, before they become acute. The relevant sources of information have to be identified, and the tools required to obtain and to handle the data have to be available or be developed.

range of corrective tools

Although the supervisor has available a range of corrective tools to resolve a weak bank, the primary responsibility rests with the bank's board of directors and, through the directors, the management of the bank. Not only should the supervisory measures be proportionate to the problem, but the corrective actions should also fit the scale of the problem and be set within a clear time frame. A balance has to be struck between rigid, prompt corrective actions and general, less binding frameworks. An ideal approach would include rules for pre-agreed acceptable supervisory actions, whilst allowing flexibility in particular circumstances. A balance also has to be struck between informal methods, normally when a bank's problems are less serious and its management is cooperative, and more formal actions, which are binding on the bank and which include penalties for non-compliance. Revocation of a bank's registration and licence remains the ultimate sanction.

action plans

The action plans for the resolution of a weak bank have to be detailed and specific. Such plans also need to show how the bank's financial position will be restored. Furthermore, the supervisor has to be able to assess continually whether there has been satisfactory progress, or whether additional action is necessary.

consult and inform

The supervisor should have in place agreed mechanisms to consult and inform the government of the action plans required to resolve distress in a bank. Other supervisory agencies, both domestic and foreign, should also be informed. When disclosure is considered, the overriding consideration has to be whether such disclosure will contribute to the supervisor's objective of resolving the weak bank.

private-sector solutions

If the prospect of a bank's insolvency remains, the supervisor has to consider private-sector solutions. These include a merger with a healthy bank, recapitalisation and a change of management, or ring fencing of the bad debts into a separate legal entity, funded by long-term debentures or preference shares. If no investor is willing to step in, or if reimbursement of a weak bank's depositors is less costly than other options, repayment of depositors through a curatorship and, eventually, liquidation become unavoidable.

emergency liquidity assistance

In certain circumstances, public funds could be used to provide liquidity support to a weak bank, as discussed comprehensively in the 1999 Annual Report of the Bank Supervision Department. The central bank may consider the discretionary provision of emergency liquidity assistance, in addition to the normal accommodation facilities, to an illiquid but solvent bank. Since such assistance will involve the use of taxpayers' money, the decision should be made and funded by government and not the central bank. Such support should be linked to other, more permanent measures, such as a change in the ownership structure of the bank concerned at a future date.

In some cases, for example, when a weak bank is part of a larger group or is a foreign-controlled bank, the supervisor has to take into account particular factors of relevance. Possible options, such as ring fencing of the bank, also have to be considered.

INVESTOR PROTECTION

As reported in the 1997 and 1998 Annual Reports, the Commission of Inquiry into the Affairs of the Masterbond Group and Investor Protection in South Africa, chaired by the Honourable Mr Justice H C Nel and generally known as the Nel Commission, was appointed by the then State President in 1992. This appointment followed a public outcry in the wake of the failure of the Masterbond group of companies during the early 1990s. Over a number of years, these companies had attracted approximately R1 billion in investments by promising secured and thus purportedly safe investments. After the collapse of the Masterbond group, many small investors lost their entire life savings, resulting in financial disaster for many of the victims. The above-mentioned Annual Reports made mention of the findings of the Nel Commission's report of November 1997.

issues addressed

In another report released during October 2001, Judge Nel made a number of recommendations aimed, amongst others, at protecting the interests of investors. Among the issues addressed were greater controls on the auditing and accounting professions and the establishment of a single financial regulator.

role of auditing profession

In addressing the role of the auditing profession, the report noted that, during the 20th century, public confidence in the auditing profession and the veracity of audited financial statements had started to decline. It was further noted that this decline had led to the creation of an independent oversight body for the profession in the United Kingdom and that similar steps had been recommended in the Republic of Ireland. It was recommended that a local independent public oversight body be created for the auditing and accounting professions. This body should have all such powers as would be necessary to regulate and oversee the respective activities of auditors and accountants. The creation of such a body would be likely to increase the level of, amongst others, accountability within these professions. The Bank Supervision Department would welcome the establishment of, and maintain an active relationship with, such a body. This is all the more necessary in view of the reliance placed on the work and integrity of external auditors in the methodology followed in the supervision and regulation of banks.

independent public oversight body

more holistic regulation

A need for more holistic regulation of the financial industry was also identified. The report stated that a fragmented system of financial regulators could not deliver the standards of investor protection and supervision to which both the industry and the public were entitled. Accordingly, the report recommended the establishment of a single autonomous regulatory authority, which should incorporate the various fragmented functions of a variety of financial regulators. The recommendation was that such a single regulatory authority should have wide-ranging powers to make rules, in support of the following objectives, amongst others:

objectives

- ▲ Investor protection.
- ▲ Maintenance of fair, efficient, transparent and orderly investment markets.
- ▲ Maintenance of public confidence in financial markets.
- ▲ Minimisation of financial crime and misconduct.
- ▲ Reduction of systemic risk, that is, the risk of a collapse of markets.
- ▲ Assistance to the Government in maintaining the stability of monetary and financial systems.

CURATORSHIP OF REGAL TREASURY PRIVATE BANK LIMITED

run on Regal Bank

During the second quarter of 2001, Regal Treasury Private Bank Limited (Regal Bank), one of South Africa's small banks, was subject to unusually large-scale withdrawals by its depositors. This run on Regal Bank is believed to have been caused by the external auditors of the bank's controlling company rescinding their approval of the company's 2001 financial statements. The concomitant outflow of funds led to Regal Bank finding it extremely difficult to maintain the required levels of liquidity. Consequently, the bank had to be placed under curatorship on 26 June 2001.

appointed commissioner to investigate

On 13 July 2001, the Registrar of Banks appointed Advocate J F Myburgh SC as commissioner in terms of section 69A of the Banks Act, 1990 (Act No. 94 of 1990), to investigate the affairs of Regal Bank, its dealings, business and assets and liabilities, as well as corporate-governance issues and the roles of the bank's Chief Executive Officer, directors and external auditors. Section 69A was introduced into the Banks Act in 1994 to address the problem of delays previously experienced with the investigation of possible improper conduct by the directors, executive management and other employees of a bank placed under curatorship. In essence, section 69A of the Banks Act provides for the appointment of a commissioner to investigate the business of a bank under curatorship, and prescribes a period of five months from the date of appointment of the commissioner for the investigation to be completed. Section 69A also provides for such a commissioner to submit a written report within 30 days of the completion of an investigation.

hearings

Key to the Commissioner's investigation were the hearings conducted between 20 August and 17 October 2001, at which 53 witnesses gave evidence. Some of the preliminary issues covered during the hearings included a ruling by the Commissioner that the hearings were open to the public unless there were justifiable grounds for a witness's evidence, in whole or in part, to be heard in camera. During the hearings, 3 516 pages of oral evidence were heard and transcribed, and some 16 000 pages of documents were handed in as exhibits.

The investigation was completed on 15 November 2001, upon completion of a 645-page written report, which was submitted to the Registrar of Banks and the Minister of Finance. The Commissioner also handed a 90-page list of criminal charges, including 18 counts of fraud, to the Directorate of Public Prosecutions, which, at the time of this Annual Report, had not yet made a final decision on the action to be taken.

Commissioner's report

The Commissioner's report consists of three parts. Part 1 contains an executive summary and a detailed indictment against the perpetrators. Part 2 covers events pertaining to Regal Bank from 1991, when Mr Jeff Levenstein, the bank's former Chief Executive Officer, first made application to establish a bank, to the events leading to the bank's curatorship in 2001. Part 3 is an analysis, per subject matter or issue, of the evidence and documents presented to the Commissioner. The full report is available on the South African Reserve Bank's Internet Website.

Some of the recommendations made in the report included the following:

recommendations

▲ Regal Bank should continue to be remain under curatorship pending the outcome of negotiations with another bank to conclude, in the interests of the depositors, a scheme of arrangement, rather than the bank being placed into liquidation.

▲ The Registrar of Banks should refer the Commissioner's report to the Public Accountants' and Auditors' Board (PAAB), with the request that the PAAB, firstly, hold an enquiry in terms of section 20(8) of the Public Accountants' and Auditors' Act, 1991 (Act No. 80 of 1991), against the responsible auditors of the bank who had failed to perform their duties with care and skill, or who had performed negligently and, secondly, conduct a disciplinary hearing into the conduct of those auditors.

▲ The Banks Act should be amended to increase the powers of the Registrar of Banks in order to enable the Registrar to take action, such as removing a director from office, when standards of corporate governance in a bank had been found wanting, before a stage of curatorship being necessary was reached.

▲ The Registrar of Companies should open a register of delinquent directors in accordance with the recommendations of the draft report of the second King Commission on Corporate Governance, on which report more detail is given in Chapter 2 of this

Annual Report. The names of Messrs Levenstein and Jack Lurie, the former Chairman of Regal Bank, should be placed in such a register as persons disqualified from acting as directors under the Companies Act, 1973 (Act No. 61 of 1973).

- Criminal prosecutions should be instituted as soon as possible against some directors and officers of Regal Bank and of the bank's controlling company, Regal Treasury Bank Holdings Limited, on several counts of fraud and contraventions of the Companies Act and the Banks Act.

timing of decisive action critical

The report also found that the timing of decisive action was critical in addressing the problems faced by Regal Bank. The Bank Supervision Department will therefore ensure that greater focus is placed on this issue in the future.

FINANCIAL ASSISTANCE PACKAGE TO BANKORP LIMITED

panel of experts

In an effort to lay to rest ongoing speculation about the role of the South African Reserve Bank (SARB) in providing financial assistance to Bankorp Limited (Bankorp) during the mid-1980s and the mid-1990s, the Governor of the SARB appointed a panel of experts on 15 June 2000. This panel was chaired by the Honourable Mr Justice D M Davis and is generally known as the Davis Panel. In the interests of transparency, the Bank Supervision Department deems it important to highlight the most important findings of the Davis Panel.

findings and recommendations

legitimate part of function to assist a bank

After a thorough investigation, the Davis Panel submitted its findings and recommendations to the Governor of the SARB during October 2001. The Davis Panel expressed the opinion that it was a legitimate part of the function of a central bank to assist a bank experiencing problems in order to avert a general crisis in the banking system. Such assistance should therefore always be within the legal powers of a central bank and should be consistent with its responsibility for the soundness of the banking system.

supported supervisory principles and practices currently used

early supervisory intervention

The practices and procedures employed in extending such assistance should be in line with best international practice. In this regard, the Davis Panel supported the regime of supervisory principles and practices currently used by the SARB and the Bank Supervision Department. The current principles and practices were found to be in line with international trends and in accordance with the Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision, as well as related documents issued by the Bank for International Settlements. The Davis Panel highlighted an important element in the application of the Basel Core Principles as being the supervision of management's ability to exercise best practice in the management of risk. Another element of importance that the Panel identified was the requirement for early supervisory intervention in banks with deteriorating positions, an issue also addressed earlier in this chapter.

criticised shareholding structures in banks

The Davis Panel concluded that, in the final analysis, ABSA Bank Limited (ABSA), which bought Bankorp in 1992, could not be regarded as a beneficiary of the assistance package, since ABSA was the party responsible for providing continued assistance to Bankorp. In expressing its opinion, the Panel concluded that although the calculated net asset value of Bankorp and the value of the SARB's assistance package were equivalent, this was coincidental and that ABSA had paid fair value for Bankorp. The Davis Panel, however, criticised the shareholding structures in banks and, in particular, expressed reservations about the position of the shareholders of Bankorp.

deposit-insurance scheme

Furthermore, the Davis Panel advised that an effective and well-designed deposit-insurance scheme should be implemented urgently in South Africa. In this regard, it should be noted that the Work Group on the development of a limited, explicit, mandatory deposit-insurance scheme for South Africa continued its work during 2001. The Work Group has developed a consultative paper and will host a workshop in early 2002 to introduce the issues relating to deposit insurance to the relevant interest groups. The comments received will be incorporated into a final proposal, which the Policy Board for Financial Services and Regulation will submit to the Minister of Finance, for consideration, during 2002.

PROGRESS WITH IMPLEMENTATION OF 2005 HUMAN-RESOURCE PLAN

As reported in the previous two Annual Reports, the Bank Supervision Department is shaping its employment plan to accord with the philosophy of promoting equity through diversity, in line with the 2005 human-resource (HR) plan of the South African Reserve Bank (SARB). This plan may briefly be stated as contemplating, by the year 2005, a staff complement at all levels of, at least, an equal ratio of black staff (that is, Africans, Coloureds and Asians) and white staff, as well as one-third female staff.

aims to promote employment equity and to ensure competent workforce

The main aims of the 2005 HR plan are to promote employment equity in the SARB and to ensure a competent and motivated workforce. In the case of the Bank Supervision Department, this implies a workforce that is capable of performing the required regulatory and supervisory tasks, in the interests of the larger South and Southern African enterprise. The Department, therefore, regards its efforts to train not only its own staff, but also bank supervisors from, amongst others, the member countries of the East and Southern Africa Banking Supervisors Group as according with the spirit of the 2005 HR plan of the SARB. The policy implemented includes accelerated development and promotion, in a constructive manner, of employees with potential from the designated group (that is, blacks, females and disabled persons).

good progress

The Department is making good progress towards bringing the profile of its workforce in line with the requirements of the 2005 HR plan. At the end of 2001, 49 per cent of the Department's workforce was black. In terms of gender, males and females constituted 53 per cent and 47 per cent, respectively, of the workforce. The relatively high staff-turnover rate of 10,2 per cent in 2001, however, is a cause for concern. In order to address the resulting loss of competence, as well as the pressures arising from new developments in banking supervision, the Department will continue with initiatives such as the following:

initiatives

- Head hunting to recruit senior managers should no successful candidates be identified in the normal process of recruitment.
- Fast tracking of deserving current employees from the designated group and continued intake of cadets. During the year under review, the Department appointed ten cadets (eight from the designated group) as staff members, and three new cadets (two from the designated group) are currently participating in the cadet-training programme.

increase capacity

In order to help to increase capacity, an organisational restructuring of the Department was approved and is currently being implemented. As part of this process and to fill the vacancies arising from four senior staff members joining the new Financial Stability Department, additional positions were created, particularly at the managerial levels. The Department envisages filling these positions during 2002, in line with the SARB's 2005 HR plan.

ISSUES THAT WILL RECEIVE PARTICULAR ATTENTION DURING 2002

During 2002, the Bank Supervision Department will focus on, amongst others, the following issues, which are discussed elsewhere in this report:

focus areas

- Detailed study of the proposed new Capital Accord to determine the changes required to the regulatory framework and supervisory procedures, as well as participation in a forum to discuss implementation issues.

focus areas

- Continued participation in the work of the Core Principles Liaison Group, particularly as regards countries' compliance with the Core Principles for Effective Banking Supervision.
- Ongoing review of banking legislation to ensure that it keeps pace with local and international developments and standards, including particular emphasis on corporate-governance issues.
- Ongoing refinement of the procedures for the consolidated supervision of banking groups, focusing particularly on qualitative aspects.
- On-site reviews of banks' risk-management practices, with particular emphasis on credit and counterparty exposures.
- Finalisation, in collaboration with the Financial Services Board, of guidelines on incentive schemes applicable to financial institutions.
- Further participation in forums to facilitate the provision of finance to all, as well as research on a relevant regulatory framework and environment in that regard.
- Ongoing investigation and combating of illegal deposit-taking schemes.
- Continued monitoring of local developments with anti-money-laundering measures and the implications thereof for the banking regulatory framework.
- Continued monitoring of banks' liquidity profiles, as well as surveillance of banks' trading activities and positions.
- Monitoring of the implications of electronic commerce for the banking regulatory framework and the banking sector.
- Implementation of the Regulations relating to Representative Offices.
- Analysis of existing preference-share investment structures, with a view to finalising the regulatory requirements in that regard.
- Research on credit-derivative instruments to provide for the regulation thereof.
- Coordination of the twelfth biennial International Conference of Banking Supervisors, which will be hosted in Cape Town, during September 2002.
- Continued participation in the activities of the East and Southern Africa Banking Supervisors Group (ESAF), including hosting and presentation of courses in banking supervision for ESAF members and other supervisors.

A WORD OF THANKS

Once again, I wish to express my sincere appreciation to the Minister and Deputy Minister of Finance for their valued inputs to requests in terms of statutory requirements. My particular thanks for their support and guidance go to the Chairperson of the Policy Board for Financial Services and Regulation and the Governor and Deputy Governors of the South African Reserve Bank. My staff and I also wish to record our gratitude for the cooperation that we received from the many organisations and individuals, locally and abroad, with

whom we had contact during the past year. In this regard, I wish to make particular mention of the Chief Executive of the Financial Services Board and his staff, the senior executives of banking institutions, The Banking Council South Africa, the Standing Committee for the Revision of the Banks Act, 1990, the staff of the South African Reserve Bank and other supervisory and regulatory authorities worldwide.

A special word of thanks goes to Mr André Bezuidenhout, who was Deputy Registrar of Banks from 1 November 1995 until the end of June 2001 and who now heads the new Financial Stability Department. Besides all the other tasks and responsibilities that he shouldered with enthusiasm and dedication, we owe him particular gratitude for the important role that he played in ensuring that the computerised systems of banking institutions in South Africa were year 2000 compliant and in formalising a methodology for the consideration of the wide range of factors relevant in proposed banking mergers. We wish him well with his new responsibilities and challenges.

It gives my great pleasure to welcome Mr Errol Kruger as the new Deputy Registrar of Banks. He was appointed to the position on 1 September 2001, and we look forward to a long and fruitful association with him.

Finally, I wish to thank my staff for continuing to handle the diverse challenges with which they are faced and their ever increasing workload with the professionalism, dedication and enthusiasm to which I have become accustomed.

C F Wiese
Registrar of Banks, and General Manager: Bank Supervision Department

CHAPTER 2

CURRENT ISSUES IN BANKING SUPERVISION

As in previous years, this chapter presents an overview of some of the most important regulatory and supervisory trends and developments, at international and local level, during the year under review. Among the issues that remained particularly important were the proposed new Capital Accord, compliance with international and local standards, liaison with other regulatory and supervisory authorities, locally and elsewhere, and access to finance for all in South Africa.

FURTHER DEVELOPMENTS WITH NEW CAPITAL ACCORD

The previous two Annual Reports addressed the need for a new capital requirement and comprehensively explained the three pillars comprising the new Basel Capital Accord. Since then, the Basel Committee on Banking Supervision has made further developments towards the finalisation of the new Capital Accord.

second consultative (CP2) document

In January 2001, the Basel Committee released a second consultative (CP2) document for comment, by 31 May 2001. The Basel Committee received comments from approximately 270 sources, including financial institutions, banking and financial-industry associations, supervisory authorities, central banks, rating agencies and multilateral development banks. Among the main comments made by these institutions (other than the Bank Supervision Department, the comments of which are detailed separately below) were the following:

main documents on CP2

- In general, responding institutions supported the Basel Committee's goal of, firstly, maintaining an amount of regulatory capital (inclusive of operational risk) equivalent to the 1988 Accord for banks using the standardised approach and, secondly, providing a capital incentive for banks to move along the spectrum of approaches. Many institutions, however, strongly argued that, based on preliminary results, the current proposal did not appear to satisfy these goals. In particular, capital charges under the standardised approach would appear to exceed those obtained under the 1988 Accord. Capital requirements under the foundation internal ratings-based (IRB) approach were likely to exceed, by a large amount, those produced under the revised standardised approach. Therefore, there did not appear to be any incentive to move beyond the standardised approach.

- A significant number of institutions broadly welcomed the IRB approach as a critical step in more closely aligning the capital requirement and credit risk. The framework was also regarded as being consistent with the economic capital models used by sophisticated banks.

- A number of institutions expressed concern that the new Accord might inadvertently increase capital requirements on exposures to small and medium-sized enterprises (SMEs). An overall increase in funding costs for SMEs might be inevitable and threaten their fundamental role in many economic markets.

- In general, the institutions were positive about the standardised approach. Some, however, were of the opinion that the proposals remained overly complex for smaller, emerging-market banks to implement.
- A significant number of institutions expressed strong concern about the application of

- A significant number of institutions expressed strong concern about the application of the "w" factor for collateralised transactions. They indicated that risks addressed by "w" appeared to be captured within the capital requirements for operational risk, thereby, in effect, double counting these charges. The "w" factor was intended to capture residual risk in collateralised transactions. The residual risks relate to, firstly, the type of collateral and, secondly, the process on which the collateralised transaction is based. In both cases, however, there is a risk that the collateral may turn out to be worthless, since it may be of a type that is impossible to liquidate, or the process for realising the collateral may be subject to uncertainty. Consequently, an exposure that appears to be secured may turn out to unsecured.

- The responding institutions welcomed the recognition of a spectrum of approaches to operational risk, since this would provide banks with incentives to adopt more sophisticated risk-management practices.

- A number of institutions recognised that the absence of sufficient loss data made it difficult to calibrate each option.

- An operational-risk charge calibrated at 20 per cent of total capital would increase the overall capital requirement relative to the 1988 Accord for the average bank.

- The responding institutions generally advocated the introduction of adjustments to reflect the qualitative factors influencing operational risk, in particular a bank's internal control environment.

- The principles embodied in pillar 2, relating to a process of supervisory review, were generally welcomed.

- With respect to pillar 3, the responding institutions strongly supported more transparent bank disclosure as an essential ingredient in promoting a sound regulatory framework. A significant number, however, were of the opinion that the level of information required exceeded the amount needed to promote market discipline. They were also concerned that the disclosure requirements were likely to impose significant costs on banks.

comments of Bank Supervision Department

Besides generally supporting some of the comments on the new Accord outlined above, the comments of the Bank Supervision Department included, amongst others, that:

- The Department welcomed and strongly supported the introduction of three mutually reinforcing pillars.

- The complexity of the new Accord might prove to be problematical within the context of an emerging-market environment.

- The level of skills and the resource requirements that the new Accord imposed on the Bank Supervision Department and banks, especially within the context of a skill shortage in South Africa, were of concern.

- Insufficient data relating to credit and operational risk were available.

quantitive impact studies

Taking cognisance of the myriad of comments, the Basel Committee embarked on several quantitative impact studies (QIS), the objective being to gather the data necessary to allow the Committee to gauge the impact of the proposal for capital requirements set out in CP2. Taking the comments into consideration, together with an analysis of the results of the QIS,

various modifications

the Basel Committee considered various modifications to the new Accord. The modifications were presented in the form of several working papers, which were released for comment by interested parties. These working papers included the following, amongst others:

working papers

- IRB treatment of expected and future margin income (30 July 2001).
- Risk sensitivities approaches for equity exposures in the banking book for IRB banks (7 August 2001).
- Pillar 3 – market discipline (28 September 2001).
- Regulatory treatment of operational risk (28 September 2001).
- Internal ratings-based approach to specialised lending exposures (5 October 2001).
- Treatment of asset securitisation (12 October 2001).

additional review will focus on three issues

In line with its revised approach to finalising the new Accord, the Basel Committee plans to undertake an additional review, aimed at assessing the overall impact of a new Accord on banks and the banking system, before releasing the next consultative paper (CP3). During this review, the Committee's work will focus on three issues:

- Balancing the need for a risk-sensitive Accord with its being sufficiently clear and flexible to enable banks to use it effectively.
- Ensuring that the Accord leads to appropriate treatment of credit to SMEs, which are important for economic growth and job creation.
- Finalising the calibration of the minimum capital requirements to bring about a level of capital that, on average, is approximately equal to the requirements of the present Basel Accord, whilst providing some incentives to those banks using the more risk-sensitive IRB system.

further QIS planned

A further comprehensive QIS is also planned. The qualitative review and the QIS will form the basis upon which modifications to the new Accord will be effected. After incorporating the results, the Basel Committee will release the draft proposal (CP3) for a consultative period. The Committee, however, does not believe that its additional review process will be lengthy, and the final Accord is still expected to be released during 2002, for implementation in 2005.

detailed study to determine changes required to current bank-supervisory process

The Bank Supervision Department is of the view that the general framework of the new Accord will not change materially subsequent to modifications emanating from the Basel Committee's QIS and qualitative review. Accordingly, the Department has dedicated a staff member to the task of assessing and implementing the new Capital Accord and providing guidelines to the banking industry. Current plans are to conduct a detailed study of the new Accord and to determine the changes required to the current bank-supervisory process. It is anticipated that a comprehensive project plan will be in place when the final Accord is released.

The Bank Supervision Department is also endeavouring to engage the banking industry through quarterly seminars and by the formation of an interest group/steering committee, at which implementation issues will be discussed freely and constructively with banks. It is envisaged that this forum will be coordinated through The Banking Council South Africa.

IMPORTANCE OF GOOD CORPORATE GOVERNANCE

due regard of interests of all stockholders

The importance of and focus on good corporate-governance practices have continued to increase globally during the past decade. The social responsibility of companies has also become a central issue worldwide and is increasing in significance as institutions grow larger, thereby affecting greater portions of society. Institutions should therefore be not managed purely to satisfy the needs of their shareholders, but with due regard of the interests of all stakeholders. Currently, however, the provisions of the Companies Act, 1973, in South Africa do not adequately provide for the management of a company's affairs in a manner that strikes a balance between the interests of stakeholders other than the company's shareholders. In the case of banks, in particular, it is generally held, however, that the interests of depositors should be paramount.

confidence of the public is essential

As the custodians of the public's funds, banks have a particular responsibility to safeguard their integrity and credibility. The confidence of the public in the safety of their deposits and in the integrity and professional conduct of their bankers is essential to the business of all banks. This public trust means that the managers of banks bear a great responsibility towards depositors and have to ensure that their institutions are professionally managed and soundly based. The directors and management of a bank, therefore, must conduct their business with the highest level of care and skill.

King 2 report

particular focus on risk management and responsibilities of directors

In order not only to address the above-mentioned developments, but to provide clarification of how directors and management should conduct business, a number of reports on corporate governance were released worldwide. In South Africa, the King Committee on Corporate Governance produced a report (King 1 report) and a draft second report (King 2 report) in 1994 and 2001, respectively. The King 1 report represented a response to a worldwide demand for greater accountability and transparency by companies. The objective of the report was to promote high standards of corporate governance in South Africa. The draft King 2 report, issued for comment in July 2001, maintains this philosophy. The report, however, also takes account of developments since the release of the first report, such as socio-political transformation, legislation and the role of information technology in decision making. The King 2 report places a particular focus on risk management and the crucial responsibilities of directors in this process as a whole, including the system of internal control. Specific guidelines on risk and non-financial management are also introduced. In practising good corporate governance, companies are expected to focus not only on financial issues, but also on societal and environmental issues.

seven primary characteristics of good corporate governance

The draft King 2 report highlights seven primary characteristics of good corporate governance, namely, corporate discipline, transparency, independence, accountability, responsibility, fairness and social responsibility. These primary characteristics of good corporate governance have far reaching implications for the manner in which the boards of directors and management of companies should conduct their business. Furthermore, the increasing emphasis that international investors are placing on good corporate governance and should not be underestimated by any country or regulatory authority. Poor corporate governance within a financial system is often given as an important reason for investors' withdrawal of their funds from a country.

amended Regulations include a chapter dealing with corporate governance

In the light of the crucial role of good corporate governance in the soundness of the banking and financial systems, the Bank Supervision Department has committed itself to enhancing corporate governance in the South African banking system, in line with local and international developments. As mentioned in the previous Annual Report and elsewhere in this Report, amended Regulations relating to Banks were implemented on 1 January 2001. These amended Regulations include a chapter dealing specifically with corporate governance. Among the issues addressed are the maintenance of effective risk management by banks, guidelines relating to the conduct of directors, a statement relating to the attributes of serving or prospective directors or executive officers and the introduction of an independent compliance function into each bank. These measures serve as an indication of the Department's commitment to the application of good corporate-governance standards in the banking system in South Africa.

changes to the Banks Act are contemplated

A number of changes to the Banks Act are also contemplated to incorporate the application of good corporate governance into the Act. The proposed changes are further intended to provide clarity regarding the principles of good corporate governance set out in the King 2 report. The Bank Supervision Department hopes that the amended legal framework will not only promote proper corporate-governance behaviour in the directors and management of banks, but will also enable the Department to enforce such behaviour when appropriate and necessary.

LEGAL BACKING FOR ACCOUNTING STANDARDS

The report of the King Committee on Corporate Governance, issued in November 1994, recommended that there should be legal backing for accounting standards, from which there should be departure only in the interests of fair presentation. This recommendation was repeated in the draft second report of the King Committee, discussed above. The revised Listing Requirements of the JSE Securities Exchange South Africa, which became effective on 2 October 2000, also require listed companies to prepare annual financial statements and group annual financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice (Statements of GAAP), or International Accounting Standards, approved by the International Accounting Standards Committee. Furthermore, local and foreign users of annual financial statements, including rating agencies, require assurance that there is compliance with accounting standards and that the force of law requires such compliance.

compliance with accounting standards

Legal opinions that the South African Institute of Chartered Accountants (SAICA) obtained in 1977 and 1987 confirmed that Statements of GAAP constituted generally accepted accounting practice. In both opinions, however, senior counsel stated that other practices not codified in Statements of GAAP might also constitute generally accepted accounting practice, since the concept of GAAP allowed for such flexibility. This dichotomy could result in unsound practices being sanctioned purely because they have been adopted by several enterprises.

The Standing Advisory Committee on Company Law, therefore, embarked on the task of providing legal backing for accounting standards and of facilitating the monitoring of institutions' compliance with the standards set out in the Statements of GAAP.

Proposed amendments to Companies Act, 1973

The steps envisaged in order to achieve legal backing for accounting standards include, amongst others, amendments to the Companies Act, 1973. Among the most important of these amendments are the following:

most important amendments

- Amendment of sections 286(2) and 286(3) of the Companies Act to require, amongst others, that annual financial statements consist of the components required by and comply with the financial reporting standards laid down by a new body, the Financial Standards Reporting Council (FSRC), under a new Act, the Financial Reporting Act (FR Act), and include a director's report and an auditor's report complying with the requirements of the Companies Act.

- Insertion of a new subsection 286(3A) into the Companies Act, requiring all financial statements or reports other than annual financial statements issued by a company to comply with the financial reporting standards laid down by the FRSC under the FR Act.

- Amendment of section 300(i) of the Companies Act to require auditors to satisfy themselves that the annual financial statements of companies comply with section 286(3) of the Companies Act.

- Insertion, in the Companies Act, of a definition of annual financial statements stipulating that, when applicable, they shall include group annual financial statements.

New standard-setting process

new Act

The proposed amendments to the Companies Act require the establishment of a new standard-setting process, as proposed by SAICA, after consultation with the Accounting Practices Board. This process will be effected through the new FR Act. The FSRC referred to above will be responsible for the setting and supervision of financial reporting standards, as well the issuing of directives and guidelines. The FSRC will also be responsible for the enforcement of compliance with these standards and for determining the appropriate sanction for non-compliance.

The Financial Services Board (FSB) is to be responsible for administering the FR Act. In the discharge of this duty, the FSB would prescribe, by notice in the *Government Gazette*, the classes of entity to which the supervision and enforcement provisions of the FR Act would apply.

LIAISON WITH OTHER REGULATORY AUTHORITIES AND WITH AUDITORS

During the year under review, the Bank Supervision Department continued to liaise and cooperate with other regulatory and supervisory authorities, at the international, regional and domestic level. The Department also initiated a structure for regular liaison with the auditors of banking institutions.

Work of Core Principles Liaison Group

The Core Principles for Effective Banking Supervision of the Basel Committee on Banking Supervision and the work of the Bank Supervision Department in that regard were discussed comprehensively in the Department's past four Annual Reports. As previously reported, the objective of the Core Principles is to provide a benchmark against which the effectiveness of bank-supervisory requirements can be assessed. The work of the Core Principles Liaison Group, on which South Africa serves, is directed at the successful implementation of the Core Principles by the supervisory fraternity on a global basis.

focused on new Capital Accord

loan classification

During the past year, the Core Principles Liaison Group focused on the new Capital Accord and the impact thereof on countries' banking systems. A survey and assessment of loan-classification and provisioning practices among member countries highlighted the gaps that emerge in times of distress. Loan classification enables banks to monitor the quality of their loan portfolios and, when necessary, to take remedial action to counter any deterioration that may affect the solvency of banks. From an accounting perspective, loans should be recognised as being impaired when their book value no longer matches the amount of the expected repayments.

Because bank loans and overdrafts are not marked to market, bank management is expected to evaluate the potential losses incurred in loan portfolios based on available information. This process involves a great deal of judgement. In many instances, it was found that banks did not set aside funds to provide for doubtful loans, since such action would decrease their profitability and reduce shareholder dividends.

provisions

The lack of internationally recognised definitions and the general nature of accounting standards have allowed countries to customise their own systems. The terms "specific provision" and "general provisions" are common in regulation, but the definition and uses of these types of provision vary widely across countries.

categories based on the probability of default

As the new Capital Accord becomes increasingly accepted, the traditional concept of regulatory loan classification will become less relevant, because banks will be required to implement systems to separate loans into categories based on the probability of default. Much greater homogeneity of classification systems is expected to follow from the adoption of criteria that are less dependent on judgement and which rely more on indisputable factors that banks will have to assemble and submit for supervisory review.

assessment of compliance with Core Principles

Ongoing assessment of different countries' compliance with the Basel Core Principles by means of the assessment methodology developed by the Core Principles Liaison Group revealed that:

- Many countries had in place the basic legislative framework to grant supervisors the statutory authority needed to implement the principles. The enforcement powers, however, were not always applied in practice.
- Progress with the implementation of prudential requirements had been slow, and significant differences remained between countries. Significant weaknesses had been found in the area of management of credit risk.
- Many countries had to strengthen their supervisory capacity in several areas. In particular, on-site and off-site resources had to be strengthened, and consolidated supervision had to implemented in many countries.

International Conference of Banking Supervisors

As reported in the previous Annual Report, the eleventh International Conference of Banking Supervisors (ICBS) was held in Basel, Switzerland, in September 2000. These biennial international conferences, held since 1979, are designed to promote cooperation among national bank-supervisory authorities on the supervision of international banking. The conferences also enable senior representatives of supervisory authorities from a large number of countries to exchange views on a range of current issues of common concern.

twelfth ICBS will be held in Cape Town

The Bank Supervision Department was honoured to be tasked with planning and coordinating the twelfth ICBS, which will be held in Cape Town, South Africa, from 16 to 20 September 2002. Preparations are proceeding well, and South Africa is looking forward to hosting this important occasion.

Cooperation at regional level

objectives of ESAF

At the regional level, the Bank Supervision Department continued to participate in the initiatives of the East and Southern Africa Banking Supervisors Group (ESAF). As mentioned in previous Annual Reports, the objectives of ESAF are to promote the overall standard and quality of banking supervision in ESAF member countries, in line with best international practice, and to harmonise bank-supervisory philosophies and practices in the region.

The Bank Supervision Department has been fulfilling the role of the ESAF Secretariat since 1999 and will continue to do so until 2004. In order to ensure a focused approach to bank-supervisory training for ESAF member countries and optimal use of available resources, all such training is organised and coordinated by the ESAF Secretariat.

During 2001, members of the Department attended three meetings of the ESAF Executive Committee. As indicated in previous Annual Reports, the ESAF Executive Committee initiated a number of projects, which are at various stages of completion. Among these projects are the following:

- *Compliance with Core Principles for Effective Banking Supervision*

two self-assessments of compliance

ESAF members endorsed the Core Principles for Effective Banking Supervision and declared their intention to implement them within a reasonable time frame. During the year under review, the members undertook two self-assessments of compliance using the Core Principles Methodology, published by the Basel Committee on Banking Supervision in October 1999. The Basel Committee views the formulation of this document as an iterative process, and refinements will be made as experience is gained. A draft document, titled "Conducting a supervisory self-assessment: practical application" and prepared for the Core Principles Liaison Group, was distributed to ESAF members to assist them in benchmarking their own supervisory systems against the Core Principles, with the ultimate goal of enhancing the effectiveness of bank supervision in the region.

In terms of a decision taken at the 2000 Annual General Meeting (AGM), ESAF members are required to submit their completed compliance self-assessments as at the end of March and the end of September of each year. A summary of the responses was drawn up by the ESAF Secretariat and distributed at the 2001 AGM.

- *Bank supervision harmonisation project: Business-process models and supporting information systems*

The objective of the project on the harmonisation of business-process models and supporting information systems is to provide harmonised bank-supervisory legislation, regulations, procedures and systems at a national and regional level, within the ESAF region.

As part of the second phase of this project, the bank supervisors of the Southern African Development Community (SADC) met with the SADC Central Banks Information Technology Forum in February 2001, to discuss information technology (IT) solutions capable of assisting bank supervisors in their harmonisation and other strategic objectives. The ESAF Executive Committee subsequently resolved to support the objectives of IT solutions to be developed by the SADC IT Forum using the business model developed by ESAF. The Executive Committee designated bank supervisors from the Bank of Botswana, Bank of Namibia, Reserve Bank of Zimbabwe and the South African Reserve Bank to form part of an expert group. The role of this expert group is to assist the SADC IT Forum and to:

role of expert group

- Act on behalf of ESAF members.
- Confirm that the harmonised specifications can be used for IT-solution development.
- Ensure quality.
- Engage the non-SADC ESAF members.

- Provide business expertise and knowledge.

- Sign off the IT products that are developed.

Since the ESAF countries are at different stages of developing bank-supervisory models, it is recommended that each individual country should itself decide which products it needs. The financial support of the central bank governors will facilitate the furtherance of this project, and cost sharing of the project will expedite the development of harmonised bank-supervisory standards in the region.

- *On-site supervisory model*

best-practice guideline was developed

ESAF member countries were requested to complete a questionnaire on on-site surveillance, with the objective of determining a minimum standard of on-site supervision. A best-practice guideline for on-site surveillance was developed by the Reserve Bank of Zimbabwe and was distributed to all the ESAF members, for comment. Comments received from members will be incorporated into a guideline document, which will serve as a harmonised standard for on-site surveillance in the ESAF region.

- *Deposit-insurance scheme for the region*

As mentioned in Chapter 1 of this Annual Report, South Africa is in the process of developing a deposit-insurance scheme for deposit-taking institutions in South Africa. The Executive Committee decided in March 2001 that ESAF should keep the development of a harmonised standard on deposit insurance in abeyance until South Africa had implemented its proposed scheme. Member countries should, however, liaise with one another to exchange information on deposit insurance.

- *Standard data-collection standards*

At its meeting in March 2001, the Executive Committee decided to adopt the format of the form DI 900 of the amended South African Regulations relating to Banks to collect data from ESAF members. The Secretariat subsequently circulated the form to all Executive Committee members, for completion.

- *Development of harmonised e-banking supervision standards*

Electronic banking (e-banking) is becoming an issue of growing importance worldwide, including in the ESAF region. In order to ascertain the status of e-banking in the region, ESAF members were requested to furnish the Secretariat with their countries' views on e-banking. A discussion paper will be prepared for submission to members.

- *Role of rating agencies*

The new Basel Capital Accord assigns a specific role to rating agencies. The grades that a rating agency assigns to a particular bank will determine the risk profile of that bank and, thereby, also determine the capital-adequacy ratio of the bank. Rating agencies will therefore play an important role in determining the amount of capital that a bank has to hold.

The ESAF Executive Committee deemed it important for the rating process to be market driven and independent in order for it to be credible. Although rating agencies would be subject to an evolutionary process in the region, it was recommended that they abide by a code of conduct and be self-regulatory in nature. In some countries, rating agencies are subject to rules and have to consult with the bank supervisor before a bank is rated or downgraded.

▲ *Heads of Supervision Workshop*

The sixth ESAF/IMF/World Bank Heads of Supervision Workshop was held in Maputo, Mozambique, in June 2001. The theme of the workshop was the regulation of microfinance institutions and other topical bank-regulatory issues, such as consolidated supervision, combating of money laundering and the Financial Sector Assessment Programme of the International Monetary and World Bank.

▲ *Courses in banking supervision*

regionally focused seminars and workshops

As reported previously, attendance of training courses in Basel, Switzerland, has significant cost implications for representatives of countries outside the European Union. The Financial Stability Institute of the Bank for International Settlements, therefore, decided to present regionally focused seminars and workshops in various parts of the world.

The first of two regional seminars for ESAF members during 2001 was held in Cape Town, South Africa. This seminar, which covered credit risk, was attended by 20 participants from nine ESAF countries. The second regional seminar for ESAF members was held in Swakopmund, Namibia. This seminar, which covered the new Capital Accord and problem-bank resolution, was attended by 26 participants from 13 ESAF countries.

The objectives of the seminars were to:

objectives of the seminars

- ▲ Update participants on the current best practices in credit-risk management.
- ▲ Provide an overview of the latest developments with the new Capital Accord.
- ▲ Provide a forum for the exchange of ideas on common problems, such as problem-bank resolution and the implementation of best supervisory practices.
- ▲ Provide the Financial Stability Institute with useful information on the most important needs in the ESAF region.

The Bank Supervision Department successfully hosted an intermediate course in banking supervision, attended by 34 participants from 12 of the 16 ESAF member countries, in Pretoria, from 27 August to 7 September 2001. As in previous years, a one-day seminar on updates and trends in bank supervision preceded the ESAF course. The some 270 participants included representatives of the banking sector, external auditing firms, the financial press and the central bank. The speakers from the Federal Deposit Insurance Corporation, the Financial Services Authority, the Financial Stability Institute, an external auditing firm and the South African Reserve Bank covered the following topics:

topics covered

- ▲ Risk assessment and evaluation of banks by the Financial Services Authority.
- ▲ Latest risk-management techniques for measuring market and credit risk.
- ▲ Opportunities, challenges and practicalities of a strong auditor/regulator relationship.
- ▲ Global anti-money-laundering efforts of the Financial Action Task Force.
- ▲ New Basel Capital Accord.

As part of its ongoing initiative to work with central banks in Southern Africa on technical bank-supervisory training, the South African Reserve Bank has indicated its willingness to host further courses in bank supervision in 2002.

Regulators' Forum

As reported in the previous Annual Report, recent amendments to the Competition Act, 1998 (Act No. 89 of 1998), introduced concurrent jurisdiction between the Competition Commission and specific sector regulators, such as the Registrar of Banks. This development highlighted a need for cooperation and coordination amongst the various regulatory bodies. On 30 May 2001, the Competition Commission hosted a dinner to discuss the possibility of establishing a Regulators' Forum. The delegates present, representing the broad spectrum of statutory regulators in South Africa, unanimously decided in favour of such an initiative. The Forum will initially operate as a voluntary arrangement, without any formal legal status. The nature of the Forum and its governance arrangements may, however, evolve over time.

voluntary arrangement

Forum arose from a need

The formation of the Regulators' Forum arose from a need to:

- Encourage discussion and promote consistency and cohesion in the broad South African regulatory framework.
- Enable regulators to identify common interests, as well as overlap and duplication in functions and activities.
- Facilitate a sharing of resources.
- Promote the coordination of common projects.
- Promote regulatory certainty in the application of regulatory legislation.

The purpose of the Forum includes to:

purpose of Forum

- Promote and facilitate the exchange and flow of information.
- Provide useful information to the public about the role and functions of regulatory bodies.
- Foster an understanding of the activities of various regulators operating in different jurisdictions and industries, as they implement economic reform and engage in the regulation of their respective industries.
- Ensure consistency in regulation.
- Strengthen the relationship among regulators.

The delegates are currently compiling an information document, containing details of the legislation in terms of which they derive their authority and the objectives in regulating the particular industry. The Bank Supervision Department supports the development of effective regulation within South Africa, since the need for coherence and integration in the regulatory framework has become an increasingly important issue, not only in South Africa, but also in other developing and developed economies.

need for coherence and integration

Auditor-regulator College

auditor-regulator relationship regarded as very important

In the South African bank-regulatory environment, the auditor-regulator relationship has always been regarded as very important. This is due largely to the supervisory approach focusing on the need for key players in the supervisory process, including the auditors of banks, knowing, understanding and fulfilling their respective roles and responsibilities in that process. Furthermore, until the implementation of on-site supervision in 2000, the bank-supervisory approach focused mainly on off-site supervision. Consequently, the Bank Supervision Department used the auditing profession for a large portion of the on-site component of supervision.

From the late 1980s, a number of initiatives were undertaken to strengthen the relationship between the Department and the external auditors of banks. For example, a banking interest group forum was established in order to enable representatives of the Department, banks and their external auditors to discuss and gain an understanding of various supervisory issues, including the expectation gap between auditors and the Department.

structure for regular interaction

The pace of regulatory development during the past number of years is commonly known. During that period, both the auditing profession and the Bank Supervision Department experienced a fairly significant turnover of staff. It, therefore, became necessary to address not only the pressures arising from new developments, but also the loss of competence. During 2001, therefore, the Registrar of Banks, in collaboration with the senior partners of the large auditing firms in South Africa, decided to establish a structure for regular interaction.

objective of the Auditor-regulator College

The objective of the Auditor-regulator College that was established is to enhance the understanding of both auditors and bank regulators, particularly at lower level, of the importance of bank audits and the risk-focused approach that should be taken in such audits. The focus is on the special nature of banks as the custodians of the public's funds. Furthermore, the Registrar, as the bank regulator, had identified a need to sensitise the auditing profession to the needs of the regulator.

opportunities to provide training and share perspectives

The Auditor-regulator College held its first meeting during in November 2001 and will convene on a quarterly basis. The meetings will include formal presentations and discussions on a wide range of issues, agreed in advance by the regulator and the senior partners of the large auditing firms. The establishment of the Auditor-regulator College presents new and exciting opportunities to provide training and share perspectives, amongst others, on the lessons learnt from on-site reviews of banks' risk-management practices. The Department is confident that the College will contribute to strengthening the bank-supervisory process in South Africa.

CONSOLIDATED SUPERVISION

group capital adequacy

New regulations with regard to consolidated supervision were implemented successfully with effect from 1 January 2001, as part of the amended Regulations relating to Banks. As reported in the 2000 Annual Report, the new regulations provide, amongst others, for a standardised approach to the calculation of a measure of group capital adequacy.

The new consolidated-supervision regulations incorporate the latest international developments and are regarded as being at the forefront of worldwide banking supervision standards. Besides having been received favourably by the industry, the regulations have achieved the Bank Supervision Department's objective of complying with the Core Principles for Effective Banking Supervision.

applied to all South African banking groups

As regulator, the Bank Supervision Department is now in a position to assess the financial condition of individual banking groups. Banking groups will also reap benefits, particularly when they wish to expand their international operations. Consolidated supervision is now applied to all South African banking groups, which have to ensure that they are adequately capitalised in order to sustain both their banking and non-banking operations. At present, the minimum capital-adequacy ratio for a banking group is set at 10 per cent of risk exposures. The entities that are subject to consolidated supervision are the bank controlling company, its subsidiaries, joint ventures and companies in which the bank controlling company or its subsidiaries have a participation.

new quarterly returns

During the year under review, the Department devoted much time to ensuring that the new quarterly statutory returns were being completed correctly. The objective was to verify the integrity of the information, on which the Department bases its analyses, in order to enable the Department to add value to the supervisory process. Much effort was also expended on training the Department's staff members in the review and analysis of the consolidated statutory returns.

training

The Department, because of its progress in the area of consolidated supervision, including group capital adequacy, also participated in an international workshop on the consolidated supervision of financial conglomerates. This workshop, held in Nassau, the Bahamas, in January 2001, was jointly organised by the Financial Stability Institute of the Bank of International Settlements and the Toronto International Leadership Centre for Financial Sector Supervision.

As mentioned in the 2000 Annual Report, the Bank Supervision Department is of the opinion that consolidated supervision will continue to gain in importance and will remain an effective supervisory tool. The supervisory methods used, however, will have to be responsive to changes in the continuously evolving banking industry and financial environment. During 2002, therefore, qualitative consolidated supervision will receive particular attention. The objective will be to obtain a better understanding of the risk environment in which a banking group operates.

ON-SITE SUPERVISION

follow-up reviews

During the year under review, good progress was made with the process of on-site supervision, and more on-site reviews were undertaken. A start was made with follow-up visits to banks previously reviewed in order to assess the progress that these banks had made with addressing the issues that had been identified as requiring attention during a previous visit. More follow-up reviews will be undertaken in the future as resources increase, and the aim will be to decrease the time span between on-site reviews to a period of not more than 18 months.

The on-site reviews undertaken have enabled the Bank Supervision Department to uncover issues that would have remained unknown had the Department relied solely on the outsourcing of the on-site supervisory function to external auditors. Consequently, the Department decided, firstly, to establish a structure (the Auditor-regulator College referred to earlier in this chapter) for regular interaction with the external auditors of banks, in order to share information on the lessons learnt from on-site reviews of banks' risk-management practices, and, secondly, to hold meetings with the external auditors of individual banks after each on-site bank visit.

process is subject to ongoing review

The Department's on-site supervisory process is subject to ongoing review and evaluation, with account being taken of lessons learnt and international best-practice standards. As a result of this ongoing review and evaluation, the Department decided to expand the scope of the on-site reviews beyond a review of credit and counterparty exposures, to embrace banks' entire risk-management process, on a solo and a consolidated basis. Because of the significance of credit and counterparty exposures, the on-site reviews, however, will continue to focus on banks' risk-management practices in these areas.

decided to expand the scope of reviews

As a result of the requirements of the new Basel Capital Accord, the Department will have to develop its internal capacity to enable it to meet the challenges posed by the new Accord. As soon as such capacity is in place, the on-site reviews will be expanded to include risk-management assessments of operational risk and, later, market risk.

APPLICATION OF INCENTIVE SCHEMES

Incentive schemes have received much public attention lately. From a regulatory perspective, there is a growing concern worldwide about the extent and application of incentive schemes by financial institutions. Incentive schemes are not in themselves regarded as an undesirable practice. International trends in the application of such schemes, however, have resulted in regulators becoming increasingly concerned about the implications thereof for the risk profiles of banks.

implications for risk profiles of banks

There is no doubt that incentive schemes have been, and will continue to be, an integral part of the remuneration systems of most financial institutions operating in the free market. It has to be recognised, however, that when such a scheme forms part of the remuneration system of a bank, there is a real danger that the scheme could affect the overall risk profile of the bank. It is this aspect that is of concern to regulators.

Although incentive schemes differ widely in their structuring and application, current research suggests certain basic requirements to which management should attend:

basic requirements to which management should attend

- Financial institutions, banks in particular, critically have to assess the possible effects of incentive schemes on the actions of employees and the possible risks that could emanate from such schemes.
- Each institution has to ensure that new employees understand the institution's appetite for risk, as well as the overall goals that the institution is trying to achieve through an incentive scheme.
- Banks should also determine whether their incentive schemes generate a community of interest between employees and shareholders in that the reward for success is available to the group as a whole and is not restricted to certain individuals or certain sections of the group.
- Controls on risk taking and proper measures to ensure the honesty of employees are essential and should regularly be reviewed.
- Clear policies on the structuring and implementation of incentive schemes are essential, and such policies should preferably promote relatively long assessment periods for purposes of calculating performance bonuses.
- The international literature calls for disclosure of the details of incentive schemes to the shareholders of institutions before such schemes are approved, as well as an extensive range of details on the remuneration received by executives and employees.

finalising guidelines

The Bank Supervision Department and the Financial Services Board are currently finalising guidelines on incentive schemes applicable to financial institutions. These guidelines should become available during 2002, and the application thereof will be assessed during on-site visits.

ACCESS TO FINANCE

Broader access to finance and banking services for all remains an important issue in South Africa. In its endeavour to enhance such access to finance and to formalise the micro-several initiatives

finance industry further, the Bank Supervision Department embarked on several initiatives during the year under review.

International experience

Frankfurt Seminar

During September 2001, a member of the Department attended the Frankfurt Seminar in Frankfurt, Germany, a joint project between the Goethe University of Frankfurt and the Ohio State University of the United States of America. It was the fourth seminar that focused on new development finance.

four major challenges face MFIs

A number of conclusions drawn from the seminar might be relevant to South Africa and its microfinance institutions (MFIs). Four major challenges face MFIs, namely, loan repayment, cost recovery, accessing commercial funding and attracting private-equity investment. It also became clear that similar problems were being experienced worldwide:

similar problems worldwide

- The financing of social development has increasingly been effected through a commercial approach and has become a function of the private sector.
- The promotion of savings has become a focus area in most countries.
- There is a shortage of collateral and security for most MFIs.
- The concentration of the microfinance industry is exacerbated by an oversupply of participants.
- The legal framework is inadequate or, in some countries, non-existent.

creation of value for clients

Some speakers at the seminar also emphasised that in order for MFIs to succeed under increasingly competitive conditions, it is not sufficient for MFIs to know their products and offer their products efficiently. MFIs should also know their clients and understand how their clients use and benefit from the MFIs' products. Based on a better understanding of their clients' financial practices and needs, MFIs could develop better products and services, whilst improving the financial sustainability of the organisation. In other words, the creation of value for clients and the financial sustainability of an MFI are compatible objectives.

several problems

The microfinance industry has successfully demonstrated that some institutions are capable of serving many of the poor with a great measure of success. Several problems have, however, emerged in recent years. These problems include inflexible products, faulty policies, a failure to understand client demands and preferences fully, high levels of client non-performance, multiple memberships, rising delinquency and default rates, cross-financing between MFIs and informal sources, and a failure to reach the very poor.

causes of and solutions to poverty are complex

It is also becoming clear, worldwide and in South Africa, that the causes of and solutions to poverty are more complex than often assumed. The poor often seem to regard the function of financial-services industry as being not only to help them with their investment projects, but also to smooth consumption, bear risk and reduce their vulnerability. An understanding of the behaviour and complex financial-management strategies of the poor is essential to providing them with better financial services.

Local developments

During 2001, members of the Bank Supervision Department participated in the activities of the Small, Medium and Micro Enterprises (SMME) Finance Reference Group of the Department of Trade and Industry (DTI). Other stakeholders that participated included

Khula Enterprise Finance, the National Treasury, The Banking Council South Africa, the Microfinance Regulatory Council (MFRC), commercial banks, business associations and non-governmental organisations. The Reference Group's work has been focused on access to finance. It remains one of the important economic and social challenges in South Africa to integrate businesses owned by historically disadvantaged individuals into the formal sector. Since these businesses come in a variety of forms and sizes, with different locations and needs, they may need assistance with both business development and access to finance.

important economic and social challenge

During its meetings, the first of which was held in November 2000, the Reference Group identified factors inhibiting SMME access to finance and recommended actions to remedy the current situation. In late November 2001, the DTI hosted a workshop to discuss the recommendations of the Reference Group. The recommendations arising from the workshop will be submitted to the Minister of Finance.

The Bank Supervision Department also participated in a number of other forums. For example, members of the Department attended the board meetings of the MFRC and participated in the MFRC's lender workshops, held in Johannesburg, Durban and Cape Town, as well as in a discussion forum with the Micro Lenders Association. Furthermore, the Department initiated discussions with various stakeholders on possible changes to the legislation governing the microfinance industry. This initiative will be strengthened during 2002.

Status of formal and informal banking services in South Africa

Banks and branches of foreign banking institutions, registered as such in terms of the Banks Act, 1990 (Act No. 94 of 1990), represent the pinnacle of the broad banking industry. Although banks provide a wide variety of financial services to their customers and although the industry as a whole is regarded as being highly sophisticated and well regulated, banks serve only a portion of the population in South Africa.

banks serve only a portion of the population

Mutual banks, registered as such in terms of the Mutual Banks Act, 1993 (Act No. 124 of 1993), were intended to provide financial services to a greater portion of the population, especially after the disappearance of the erstwhile mutual building societies. The structure of a mutual bank was designed to be less formal and simpler than that of a bank, the principle of mutuality being paramount. Unfortunately, however, mutual banking has not proved to be successful in South Africa, and only two registered mutual banks have remained.

mutual banking has not proved to be successful

The lower end of the market is served to some extent by institutions that have been exempted, subject to certain conditions, from the provisions of the Banks Act. These institutions, which are largely self-regulated and which were described in several previous Annual Reports, are stokvels or savings clubs, credit unions and financial service co-operatives. Although growing in number, these institutions provide limited financial services at a micro or community level only.

exempted institutions provide limited financial services

mcrolenders regarded as an important player

Microlenders, in general, engage in consumption lending and are not authorised to take deposits from the general public. Microlenders, however, may be regarded as an important player within the broader financial-services industry in South Africa. Microlenders are regulated by the MFRC in terms of an exemption notice issued under the Usury Act, 1968 (Act No. 73 of 1968).

Factors affecting microfinance development

Formal research has not yet been conducted to determine the reasons for or the factors that have influenced the lack of growth and development of mutual banking in South Africa. The Bank Supervision Department believes, however, that the following factors have to be considered in deciding on the future direction to be taken in this regard:

factors to be considered

- The economic and social history of the country in general and communities in particular.
- The depth of current financial services being offered, and whether or not such financial services are retreating from rural areas.
- The development of a second-tier banking system based on sound business principles.
- The presence and effectiveness of a middle financial-services market or second-tier banking system.
- The ability of the population in general to take up and deal with debt, its savings patterns and its inclination to compare prices.
- Less onerous entry criteria and regulatory and supervisory standards in a framework in which risks and exposures are effectively capped.

Research

thorough research is required

wide consultation is required

The initial discussions and meetings on microfinance development have led to a realisation that the solution to the problem is not merely the establishment of a legislative framework for a second-tier banking system. The problems and concerns are as varied as they are deep rooted. It is clear, therefore, that thorough research is required in order fully to understand the problem of access to finance at grass-roots level. Also, wide consultation with persons and institutions currently involved in the microfinance industry is required in order to gain an understanding of the problems and challenges facing the industry.

need for market deepening

In the light of the above-mentioned problems, the Bank Supervision Department launched a research project to study the issues relevant to access to finance, as well as the possibility of addressing some of the problems in South Africa by means of a so-called second-tier banking system. Policy research in South Africa long ago identified the need for market deepening beyond banks at the top end and microlenders at the bottom end. In view of the focus on the expansion of services to small businesses and for housing purposes, a more fully developed financial landscape has become necessary. The development of a significant second tier of deposit-taking institution to serve the lower end of the market has been under discussion for some time, but has proved difficult to implement. As indicated above, the Mutual Banks Act has also been unable to support this objective fully.

Further meetings and consultations with various role players are planned for 2002. The Bank Supervision Department is also considering the hosting of a consultative conference in this regard.

ILLEGAL DEPOSIT-TAKING

In accordance with one of its auxiliary functions, the Bank Supervision Department is responsible for the regulation and control of illegal deposit-taking. During the year under review, the Department continued to inspect and close down persons and institutions acting in contravention of the provisions of the Banks Act, 1990.

As explained in previous Annual Reports, the taking of deposits without being registered as a bank or falling within and complying with one of the exemptions to the Banks Act amounts to an offence in terms of the Act. Registered banking institutions have to comply with certain prescribed prudential requirements in terms of the Banks Act, whereas illegal deposit-taking schemes obviously do not comply with such requirements. Such schemes not only operate

risk to investors

illegally, but also pose a risk to investors in such schemes on the one hand and financial stability on the other hand. The funds invested in such illegal schemes may be used for purposes not known to an investor and may result in the investor losing all invested funds in a very short period of time.

During the year under review, 18 new inspections, together with some inspections carried over from the previous year, were undertaken. The Bank Supervision Department hopes that the steps taken have served to quell, at least to some extent, the enthusiasm of unscrupulous individuals to operate schemes designed to deprive others, often the poor, of their funds. The public is also continually encouraged to inform the Department of possible contraventions of the Banks Act. The Department believes that the queries about various schemes received from the public during 2001 were largely attributable to the awareness campaigns previously conducted.

successful prosecution Miracle 2000 pyramid scheme

Of particular importance was the successful prosecution of Mr S M Radebe, an integral figure in the operation of the Miracle 2000 pyramid scheme. The firm PricewaterhouseCoopers was appointed to inspect the activities of Miracle 2000, and the inspectors concluded that the scheme had operated illegally, in contravention of the Banks Act. Mr Radebe was charged and pleaded guilty to contravening the Banks Act, as well as the Harmful Business Practice Act, 1988 (Act No. 71 of 1988). The court subsequently found Mr Radebe guilty of contravening, firstly, the Banks Act, for which he was fined R50 000, or one year in prison, and, secondly, the Harmful Business Practice Act, for which he was fined R150 000, or three years in prison. It is hoped that this successful prosecution is a further deterrent for prospective pyramid-scheme founders and a stopping mechanism for those already operating such schemes.

In a recent court decision handed down in the High Court of South Africa, Natal Provincial Division, in the matter between Barnard and Lynn v Schoeman and Rogers (as yet, unreported), the court found that payment to certain investors in a pyramid scheme was an undue preference and ordered them to repay the funds to the entity under liquidation. Investors should be aware that action might be taken against them, in line with insolvency legislation, for payment received from an illegal deposit-taking institution.

increase in more complex scheme

Of note, during the year under review, was the increase in more complex schemes, involving high net worth individuals. Most of these schemes used the guise of selling shares in the scheme/institution. This method, *prima facie*, appears to be legal. On closer inspection, however, it will become apparent that a prospectus has not been issued, that the so-called products traded or services rendered by such an institution are more often than not non-existent and that the investors are guaranteed their capital plus a fixed return. Moreover, the investors' intention is to deposit money with such an institution without any risk and with their capital and predetermined interest guaranteed. Upon application of the principle of substance over form, it becomes apparent that such an institution is accepting deposits illegally, in contravention of the provisions of the Banks Act.

MONEY LAUNDERING

Financial Intelligence Centre (FIC)

The long awaited Financial Intelligence Centre Bill was promulgated as an Act of Parliament on 1 January 2002. The Act will bring into existence the Financial Intelligence Centre (FIC) to coordinate policy and efforts to counter money-laundering activities. The FIC will not be an

repository of data

investigative body, but a repository of data to produce financial intelligence regarding listed institutions' financial transactions. The FIC Act will also bring into existence the Money-laundering Advisory Council, which will oversee the national strategy pertaining to anti-money-laundering initiatives.

functions of the FIC

The functions of the FIC will broadly encompass collection, processing and analysis of information, informing of and cooperation with investigating authorities, supervision and regulation of compliance by accountable institutions and appointment of persons to specialise in measures to detect and counter money-laundering activities.

accountable institutions

The FIC Act will apply to a list of accountable institutions issued by the Minister of Finance, who has the power to add or remove institutions, or to exempt accountable institutions of certain types of transaction. These accountable institutions will be required to implement certain internal administrative systems in order to keep detailed records of their customers. The accountable institutions will also have to report certain transactions above a specified amount, as well as transactions that are suspicious. Furthermore, the accountable institutions will be required to train their employees to recognise and deal with suspicious transactions.

In order to expedite the orderly implementation of the FIC, the Minister of Finance has appointed an official to oversee the process. The intention is for the FIC to be operational by the end of 2002.

CONCENTRATION IN THE SOUTH AFRICAN BANKING SYSTEM

most widely used index is the H-index

Several indices may be used to measure concentration in a banking system. The most widely used index in the literature to measure the extent of competition and concentration in a banking system is the Herfindahl-Hirschman Index (H-index). It is calculated by adding the square of the market shares of the banks in the industry, and ranges between 1 (for a monopoly) and 1/n, where n is the number of banks in the system. Alternatively, the H-index can be calculated as the square of the deviation of market segments of single banks from the average bank, plus 1 divided by the number of banks in the industry. The H-index accounts for both the number and relative size of banks in the system and is therefore preferred to other measures of concentration.

tool to suggest the degree of monopoly power

Another way of expressing the H-index is to sum the squares of the percentage-point shares of the banks in the system. The index will vary between 0 (many banks in a system) and 10 000 points (for a monopoly) when expressed in this way. The H-index can also be seen as a statistical tool used to suggest the degree of monopoly power. The smaller the H-index is, the greater is the competition in, and the lower is the concentration, of the banking system. A higher H-index will mean weaker competition and higher concentration of a banking system.

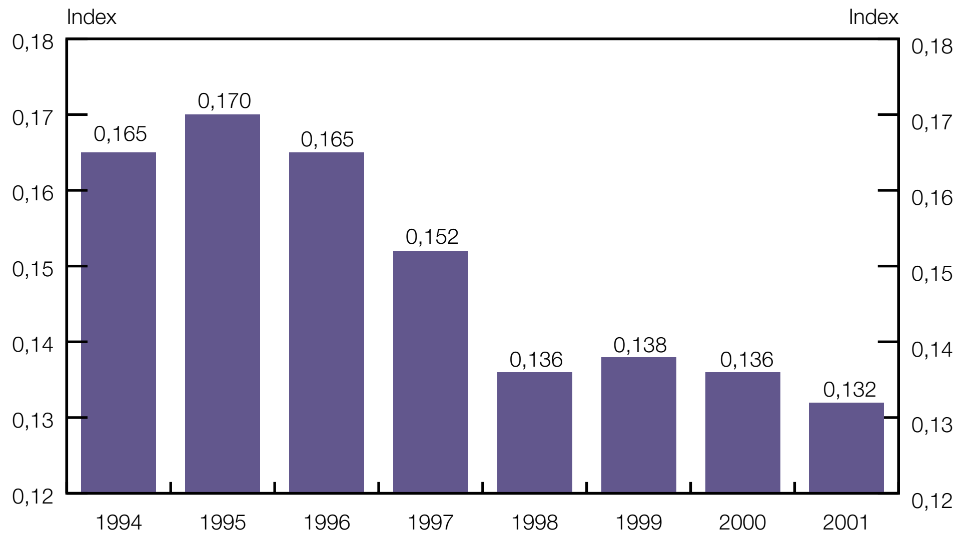
screening device and planning tool

Banking regulators widely use the H-index as an efficient screening device for horizontal mergers (those between banks operating in the same product and geographical markets) and as a planning tool for industry participants. In practice, use of the H-index has been focused mainly on the lower H-index values of 0,10 to 0,25 in order to determine the existence of any oligopolistic patterns within a given industry. Oligopoly concerns are normally raised when the index reaches a level of 0,18.

H-index improved gradually

For South Africa, which currently has some 58 banking institutions, the H-index improved gradually from 0,170 in 1995 to 0,132 in 2001 (see Figure 1). As indicated in Chapter 1 of this Annual Report, foreign participation in the local banking industry has grown during the past five years, and foreign banks held about 7,7 per cent of the total assets of all banks doing business in South Africa at the end of December 2001 (up from 3,1 per cent in December 1996). This increase in foreign participation has contributed to the marginal decline of the South African banking system's H-index.

FIGURE 1: H-INDEX FOR THE SOUTH AFRICAN BANKING SYSTEM (1994 - 2001)



average level of concentration

A comparison of H-indices (shown in Figure 2) for different countries shows that South Africa belongs to a group of countries, such as Spain (0,134), Canada (0,158) and Australia (0,166), with an average level of concentration. Concentration is high in Greece (0,29), New Zealand (0,25) and Sweden (0,24). By contrast, concentration is very low (between 0,039 and 0,089) in the United States of America, Germany, Italy, the United Kingdom and France, the average being 0,123 for the Group-of-ten countries.

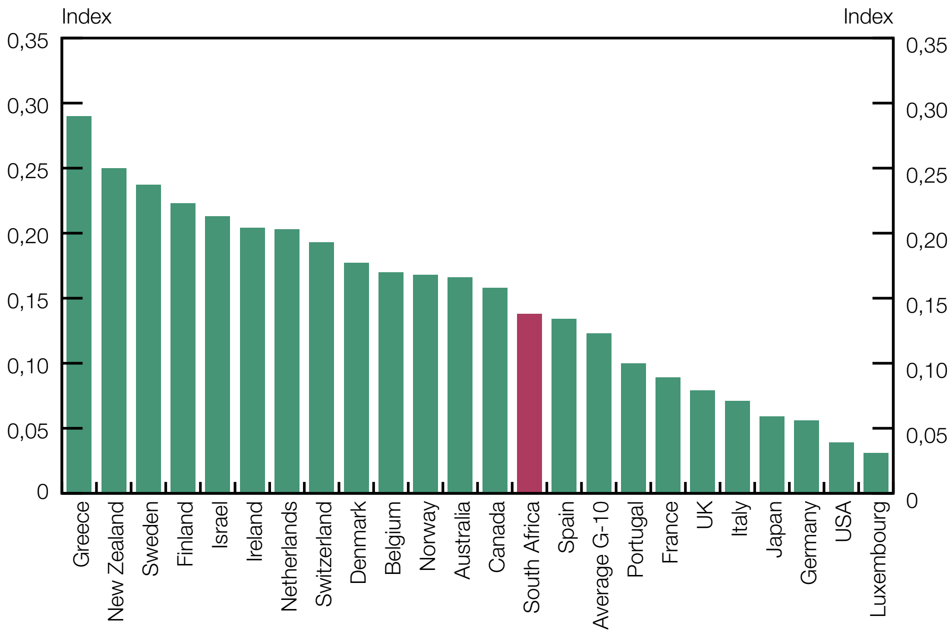
indication of the intensity of competition

To some extent, the H-index is also an indication of the intensity of competition in a banking system. It can be used as a tool to assess the impact of possible bank mergers on competition. At the Federal Reserve in the United States of America, it is common practice to assume that a merger would generally not be seriously anti-competitive if the post-merger H-index falls below the numerical guidelines prescribed by the Department of Justice, that is, a change of 0,02 in the H-index. A post-merger H-index higher than the prescribed numerical guideline calls for the conduct of a detailed economic analysis of competition to determine whether other factors, such as potential competition, indicate that the market would be more (or less) competitive than the H-index alone suggests.

regulators have to decide which institutions to include

When analysing market concentration, regulators have to decide which institutions to include as competitors. In the past, regulators viewed commercial banks as distinct from other financial institutions. This is changing, however, since brokerage and insurance companies offer similar products, in competition to commercial banks. When these other financial institutions are included in the commercial banking market, concentration, as measured by the H-index, is usually reduced. When, for instance, a cross-sector financial merger needs approval, regulators may have to include a wider range of financial institutions than included in most evaluations of market concentration.

FIGURE 2: H-INDEX: AN INTERNATIONAL COMPARISON, 1999



Source: Israel's Banking System Annual Survey 2000

relationship between concentration and financial margins

According to banking theory, a rise in the concentration of the banking system, subject to certain assumptions about the interaction between banks in the system, leads to an increase in the market power of banks in that country or region. The more concentrated a market is, the more likely it is that market participants will conspire to raise prices for people who purchase their services. Thus, in the banking environment, one may expect that the higher the margins between lending and deposit rates are, and the higher the levels of profits earned by banks are, the more concentrated the market will be. Most data for European banking systems indicate a positive and significant relationship between concentration and financial margins.

There is an alternative argument in the literature, setting out a different relationship between market share and profitability. The argument is that banks will be more profitable because they are more efficient, and that because they are more efficient, they will achieve a larger market share. If this is a valid explanation, there may not be a specific relationship between market concentration and profitability. Another argument, however, might apply in this regard. Regulation might restrict the entry of new banks to a market, enhancing the opportunity available to existing banks to take excessive profits. Other things being equal, therefore, if a market is contestable, there will be less opportunity for banks to generate excessive profits, or to have unduly wide margins.

MARKET RISK

During the year under review, the activities of the Bank Supervision Department relating to market risk focused mainly on ongoing surveillance of the daily trading activities of banking institutions.

Surveillance

implementation of a surveillance procedure

The focus with regard to banks' trading activities during 2001 was the implementation of a surveillance procedure. This procedure includes, amongst others, the monitoring of banks' trading positions and analyses of their daily capital-adequacy requirements (CAR).

Since 1 May 1999, trading banks have been required to submit their CAR values, irrespective of the calculation method used by a particular bank, to the Bank Supervision Department, on a daily basis, via electronic mail or telefacsimile transmission. The Department's surveillance capabilities in this regard have been enhanced through the introduction of a new statutory return, form DI 425. The Department will continue its surveillance of banks' trading positions during 2002 as part of its supervisory programme.

Approval of banks' internal models

In terms of regulation 24 of the Regulations relating to Capital-adequacy Requirements ("CAR") for Banks' Trading Activities in Financial Instruments, the Department may grant approval to a bank to use an internal model in order to calculate its capital-adequacy requirements (CAR) for market risk.

Any approval granted to a bank for the use of such an internal model is valid only for a period of one year, normally coinciding with the bank's financial year. Before the expiry date of the approval, the particular bank has to submit a written request for renewal of the approval to the Bank Supervision Department, for consideration During 2001, the Department renewed the approval granted to the two banks using an internal model, but did not receive new applications for such approval.

ELECTRONIC COMMERCE

During the past number of years, electronic commerce (e-commerce) has shown impressive growth. E-commerce touches all aspects of the economy and involves the integration of elements of technology, legislation, infrastructure, business operation and public policy. All elements need to interface as smoothly as possible in order to yield maximum benefit. In South Africa, as in the rest of the world, the Internet is increasingly being used to advertise and sell goods and services. This has given rise to a growing interest in the development of more reliable and secure methods of electronic payment.

only banks will be permitted to issue e-money

During April 1999, the South African Reserve Bank (SARB) issued a position paper on electronic money, as well as submission guidelines for electronic money products and schemes for persons wishing to issue electronic money (e-money) in South Africa. In terms of the position paper, only banks will be permitted to issue e-money. Primary and intermediary issuers of electronic value will therefore be subject to regulation and supervision by the SARB.

Several concerns have been raised about the introduction of e-money, especially prepaid smart-card schemes. These concerns relate to, amongst others, possible contravention of the Banks Act, 1990, as regards deposit-taking, and of the National Payment System Act, 1998, as regards offering payment and clearing services as a regular part of an issuer's business.

New developments and initiatives in the e-commerce field include:

developments and initiatives

- *EMV (Europay Mastercard Visa) Forum* - The EMV Forum is an initiative by South African banks, the leading card associations and retailers of South Africa to implement the global EMV chip-card standard in the South African payments system. This will ensure interoperability between chip cards and terminals on a global basis, regardless of the manufacturer, the financial institution, or where a card is used.

- *CEPS (Common Electronic Purse Specification) Forum* - The CEPS Forum is an initiative by South African banks and the leading card associations to explore and facilitate the implementation of a national and international interoperable e-purse solution for

South Africa, based on a CEPS standard and, preferably, based on a single architecture.

- *Mobile banking* - One of the latest additions to electronic banking in South Africa is banking by mobile telephone. Mobile banking offers numerous services, including, amongst others, a facility that allows clients to use their mobile telephones to make electronic payments to third parties.

- *Wireless payments* - Banks, card associations and mobile-telephone operators have developed a common interoperable technical architecture framework for the implementation of wireless payment solutions in South Africa.

All these developments and initiatives will create new opportunities for financial innovation. The Bank Supervision Department will therefore be monitoring these new developments carefully in order to ensure that the integrity of the South African financial system is maintained.

CHAPTER 3

TRENDS IN SOUTH AFRICAN BANKS

This chapter reflects the main trends and industry statistics that are apparent from the information received from registered banks.

comparative figures may differ from those in 2000 Annual Report

Aggregated information of individual banks is contained in the reports and graphs in sections 3.1 to 3.7 below. Certain of the comparative figures in respect of December 2000 may differ from those reported in the 2000 Annual Report because of, firstly, banking institutions subsequently submitting amended returns and, secondly, the implementation of the amended Regulations relating to Banks on 1 January 2001.

The reports and graphs that follow are largely affected by the position of the "big four" banks, which constituted 69,5 per cent of the banking sector in December 2001 (70,4 per cent in December 2000). The six largest banks constituted 81,2 per cent of the banking sector as at the end of December 2001 (83,2 per cent in December 2000).

3.1 BALANCE-SHEET STRUCTURE

type and spread of a bank's business

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 2001, equalled R1045,6 billion, as opposed to R819,2 billion as at 31 December 2000 and R724,9 billion as at 31 December 1999.

FIGURE 1: AGGREGATED BALANCE SHEET

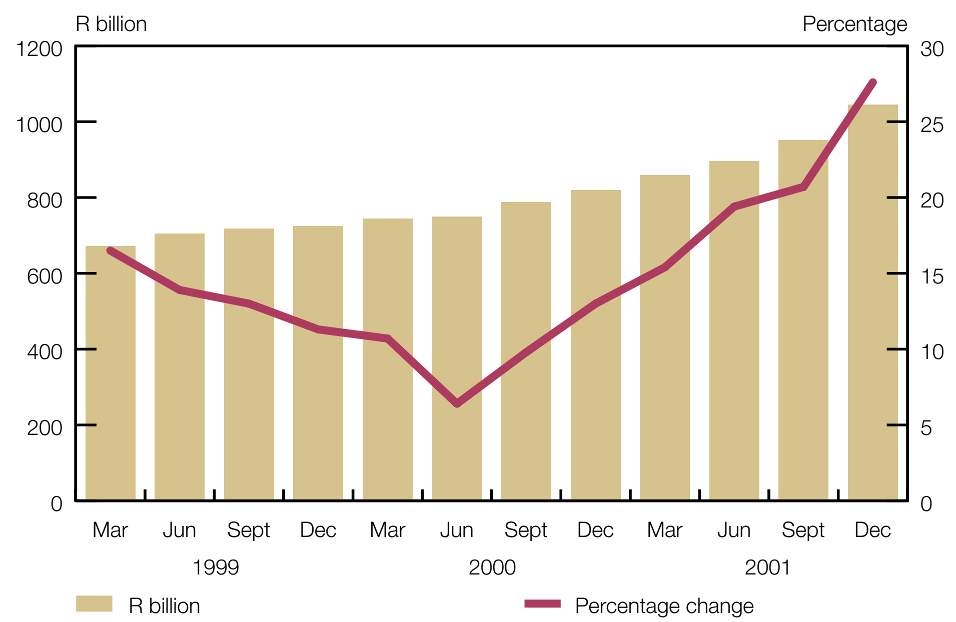
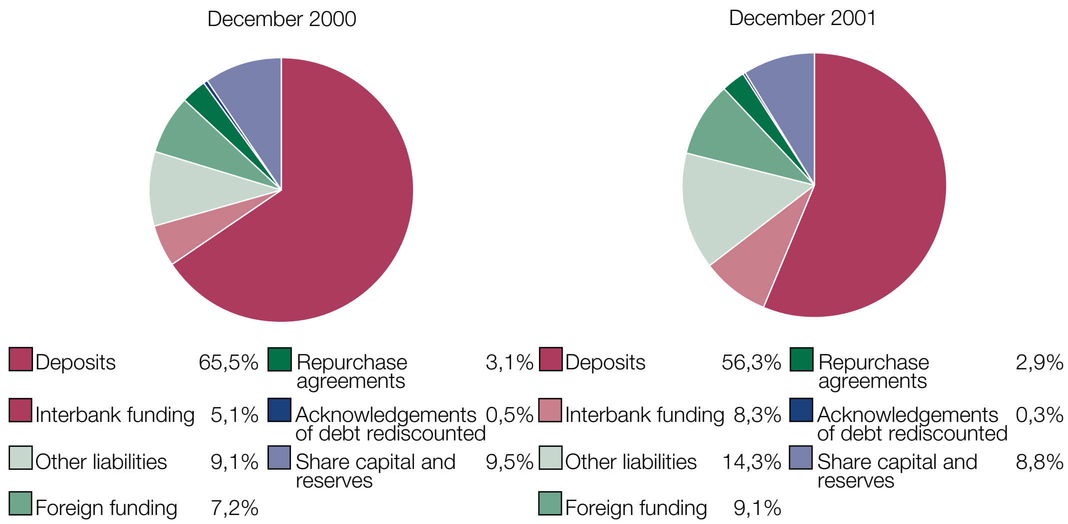


Figure 1 graphically depicts the quarter-end value of, and percentage growth (measured over 12 months) in, the aggregated balance sheet of the banking sector for the period from March 1999 to December 2001. Growth in the aggregated balance sheet picked up markedly from June 2000 and, by the end of December 2001, had increased by 27,6 per cent.

Liabilities

A year-on-year comparison of the composition of liabilities is reflected in Figure 2.

FIGURE 2: LIABILITIES – YEAR-ON-YEAR COMPARISON



domestic deposits from the public remained the main source of funding

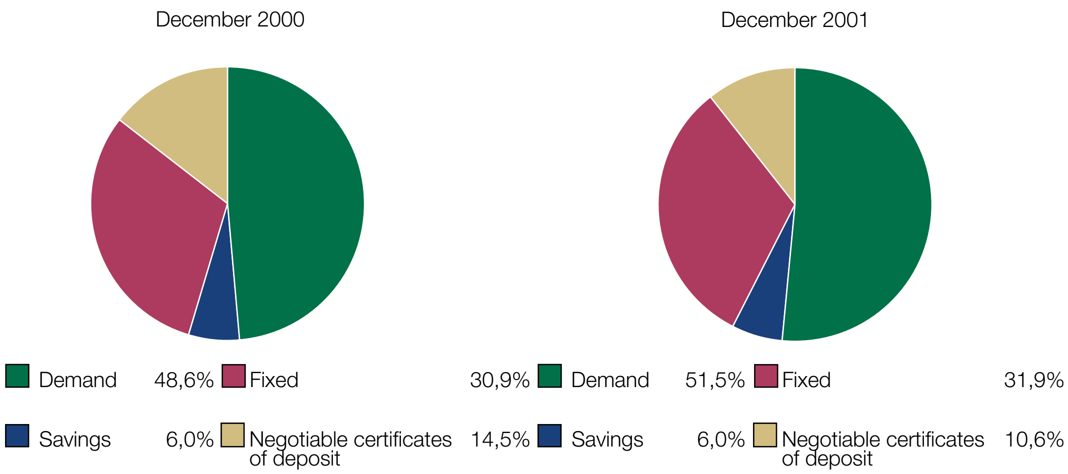
Domestic deposits from the public in the amount of R588,9 billion remained the main source of funding for the banking sector and constituted 56,3 per cent of total liabilities in December 2001, compared to 65,5 per cent in December 2000 and 68,8 per cent in December 1999. Foreign funding as a percentage of total liabilities, on the other hand, increased from 7,2 per cent in December 2000 to 9,1 per cent in December 2001, mainly because of the depreciation of the South African rand. Interbank funding increased from 5,1 per cent in December 2000 to 8,3 per cent in December 2001.

Composition of non-bank deposits

changed slightly in favour of demand deposits

Figure 3 reflects a year-on-year comparison of the composition of non-bank deposits. The composition of non-bank deposits changed slightly in favour of demand deposits. Compared to the previous year, demand deposits increased by 2,9 percentage points, whereas negotiable certificates of deposit decreased by 3,9 percentage points. Negotiable certificates of deposit as a percentage of total non-bank deposits decreased from 14,5 per cent to 10,6 per cent. This was due to an amendment to the Regulations relating to Banks, in terms of which the amount of negotiable certificates of deposit that banks issue to banks in the same group have to be included in intragroup bank funding.

FIGURE 3: COMPOSITION OF NON-BANK DEPOSITS

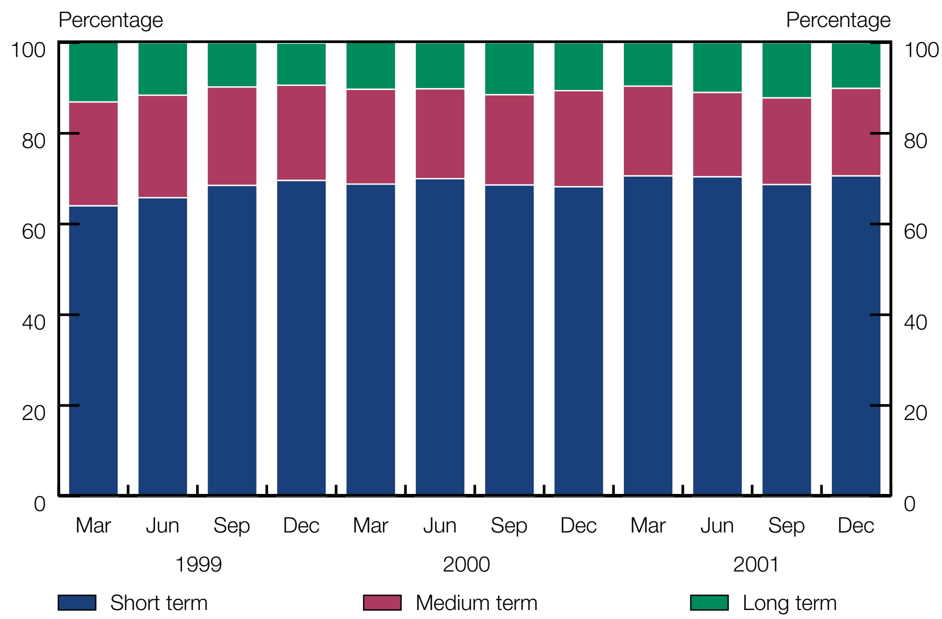


Maturity structure of non-bank deposits

short-term deposits remained the biggest component of total non-bank funding

Figure 4 reflects the composition of non-bank deposits (according to maturity) for the period from March 1999 to December 2001. As can clearly be seen from this figure, short-term deposits remained the biggest component of total non-bank funding and accounted for 70,6 per cent of total non-bank funding as at 31 December 2001, compared to 68,2 per cent at the end of December 2000 and 69,6 per cent at the end of December 1999. Long-term deposits, on the other hand, remained the smallest component of total non-bank funding and accounted for 10,1 per cent of total non-bank funding as at 31 December 2001, compared to 10,6 per cent and 9,3 per cent at the end of December 2000 and the end of December 1999, respectively. Medium-term deposits accounted for the remaining 19,3 per cent as at December 2001, compared to 21,2 per cent and 21 per cent at the end of December 2000 and the end of December 1999, respectively.

FIGURE 4: COMPOSITION OF NON-BANK FUNDING ACCORDING TO MATURITY

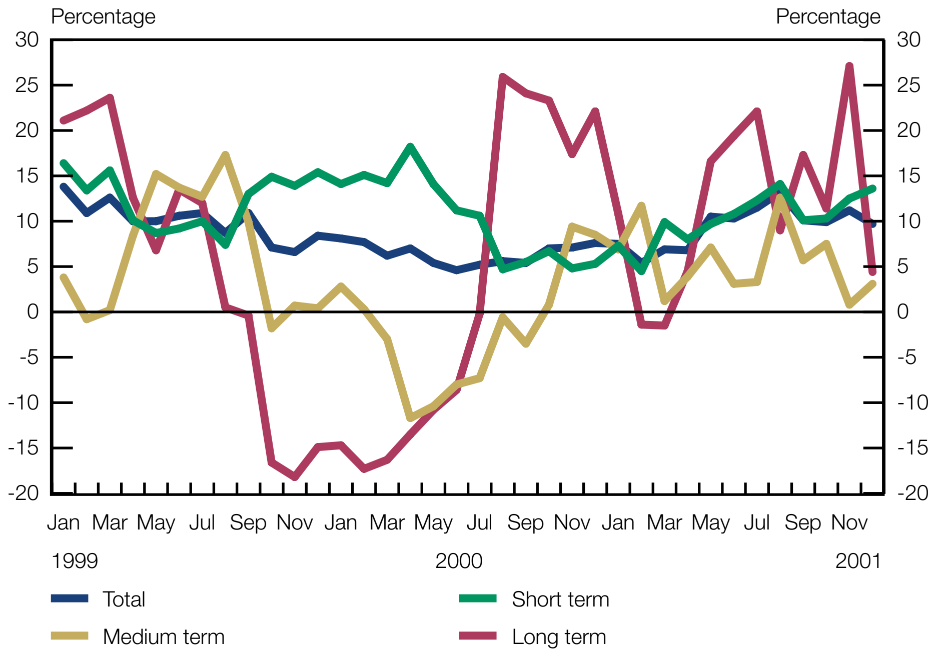


The slight increase in the proportion of total deposits represented by short-term deposits resulted in a slightly higher percentage of the banking sector's assets (consisting mainly of non-bank loans and advances) being financed by short-term funding. Thereby, the liquidity risk to which banks are exposed increased.

growth in long-term deposits was volatile

As indicated above, long-term deposits remained the smallest component of total non-bank funding, but growth in long-term deposits was volatile throughout 2001 (see Figure 5). Measured over a 12-month period, growth in long-term deposits declined by 1,5 per cent during February and March 2001, but had increased by about 22,1 per cent by the end of July 2001. By the end of December 2001, however, growth in long-term deposits had moderated to 4,4 per cent. The big six banks held more than 73,2 per cent of long-term deposits.

FIGURE 5: GROWTH IN NON-BANK FUNDING ACCORDING TO MATURITY (percentage change over 12 months)



growth in short-term deposits remained strong

Growth in short-term deposits, on the other hand, remained strong throughout 2001 and, compared to December 2000, increased by 13,6 per cent in December 2001. Growth in medium-term deposits remained volatile and growth rates varied between 1,2 per cent in March 2001 and 12,6 per cent in August 2001. By the end of December 2001, however, medium-term deposits had declined by 0,1 per cent (measured over a 12-month period).

other major liabilities

Other major liabilities of the banking sector as at 31 December 2001 included foreign funding of R95,1 billion, which increased by 60,6 per cent when compared to December 2000. This increase in foreign funding was boosted by the depreciation of the rand. Capital and reserves increased by 19,1 per cent, to R92,4 billion from R77,5 billion in December 2000. Other liabilities increased to R149,2 billion (representing a growth rate of 100,1 per cent when compared to the December 2000 level of R74,6 billion), and interbank funding increased to R87,1 billion (representing a growth rate of 107,4 per cent when compared to the amount of R42 billion at the end of December 2000). Other liabilities included amounts owing to the South African Reserve Bank, trade creditors, deferred income, deferred tax balances, impairments and other funding liabilities.

Assets

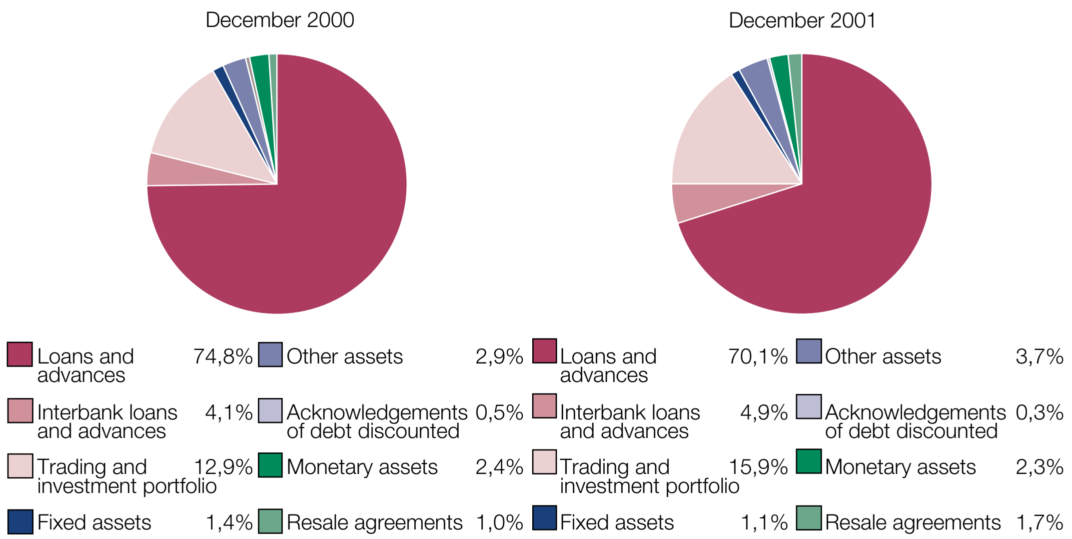
assets increased by R226,3 billion

Figure 6 graphically reflects a year-on-year comparison of the composition of assets as at 31 December 2001 and that as at 31 December 2000. The banking sector's assets increased by R226,3 billion (representing a growth rate of 27,6 per cent) during the year, to a total of R1 045,6 billion at the end of December 2001. Factors contributing to this growth were the following:

factors contributing to growth

- ▲ Monetary assets grew by 21,1 per cent, from R19,9 billion as at 31 December 2000 to R24 billion as at 31 December 2001.
- ▲ The trading and investment portfolio increased from R105,5 billion as at December 2000 to R166,8 billion as at December 2001, representing a growth rate of 58 per cent.
- ▲ Non-bank advances grew by R120,2 billion (representing a growth rate of 19,6 per cent), from R612,5 billion at the end of December 2000 to R732,7 billion a year later.
- ▲ Interbank advances increased by 54,7 per cent, from R33,3 billion at the end of December 2000 to R51,5 billion at the end of December 2001.
- ▲ Loans granted under resale agreements increased from R8,6 billion at the end of December 2000 to R17,9 billion at the end of December 2001.
- ▲ Non-financial assets increased by 6 per cent, from R11,2 billion at the end of December 2000 to R11,9 billion at the end of December 2001.
- ▲ Other assets increased by 58,2 per cent, from R24 billion at the end of December 2000 to R37,9 billion at the end of December 2001.

FIGURE 6: ASSETS – YEAR-ON-YEAR COMPARISON



It is apparent from Figure 7 that growth in total loans and advances was very volatile during 1999, but slowed down somewhat in the first half of 2000. From June 2000, however, growth in total loans and advances recovered and increased nearly uninterruptedly until the total loans and advances accounted for about 78 per cent of total assets

end of 2001. By the end of December 2001, loans and advances had increased by 22,3 per cent (measured over a period of 12 months). The increase in the growth of total assets can therefore be attributed to an increase in total loans and advances, which accounted for about 78 per cent of total assets by the end of December 2001 (see Figure 8).

FIGURE 7: TOTAL LOANS AND ADVANCES

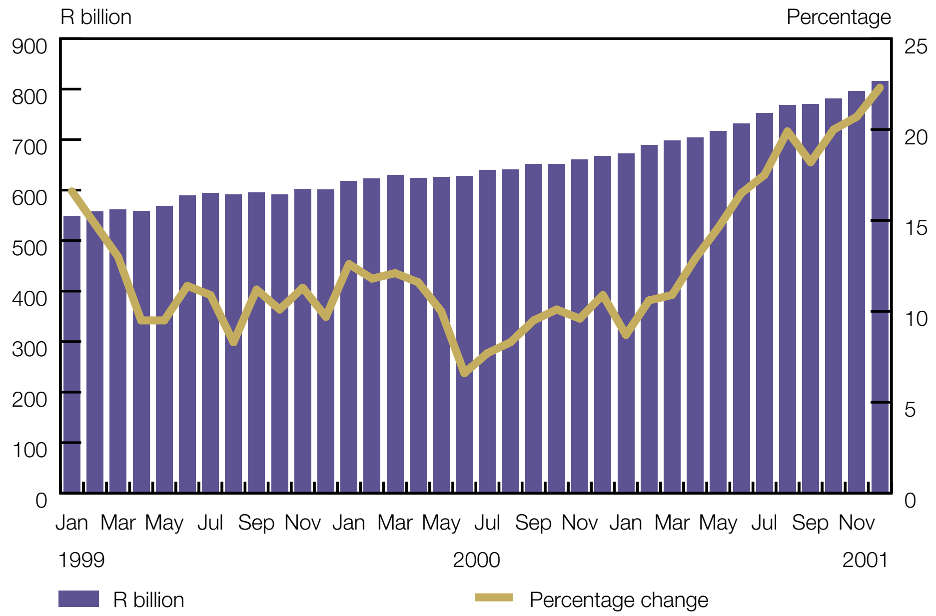
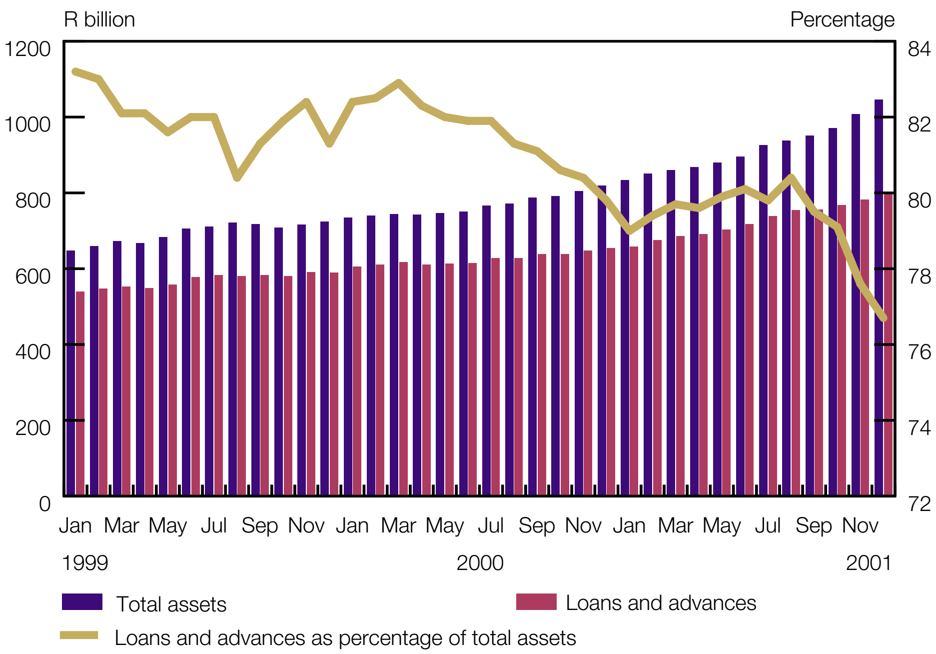


FIGURE 8: LOANS AND ADVANCES AS A PERCENTAGE OF TOTAL ASSETS



Loans and advances as a percentage of total assets have been decreasing since August 2001 (see Figure 8). The lower percentage of loans and advances to assets was due mainly to the above-mentioned increase in the trading and investment portfolio of banks as a percentage of total banking sector assets.

increase in the trading and investment portfolio

Composition of loans and advances

mortgage loans and overdrafts and loans decreased

The composition of loans and advances is shown graphically in Figure 9. A comparison of the composition of loans and advances in 2000 and 2001 clearly shows that instalment debtors remained fairly unchanged, whereas mortgage loans and overdrafts and loans decreased as a percentage of total loans and advances. Mortgage loans decreased from 32,7 per cent in December 2000 to 30,9 per cent in December 2001, and overdrafts and loans decreased from 32,7 per cent in December 2000 to 28,3 per cent in December 2001.

Foreign loans, on the other hand, increased from 8,4 per cent in December 2000 to 13,5 per cent in December 2001, and resale agreements increased from 1,3 per cent in December 2000 to 2,2 per cent in December 2001. Acknowledgements of debt discounted decreased from 2,1 per cent in 2000 to 1,9 per cent in 2001, whereas other loans and advances increased from 8,9 per cent in December 2000 to 9,9 per cent in December 2001.

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

As at the end of December 2001, non-bank loans and advances constituted 70,1 per cent (December 2000: 74,8 per cent) of the banking sector's assets and, thus, represented the main area of focus for the management of on-balance-sheet credit risk. The increase of R120,2 billion (2000: R60,8 billion), representing a growth rate of 19,6 per cent (2000: 11 per cent), achieved in respect of non-bank advances during the year under review can be attributed to the following areas (Figure 10):

reasons for increase in non-bank advances

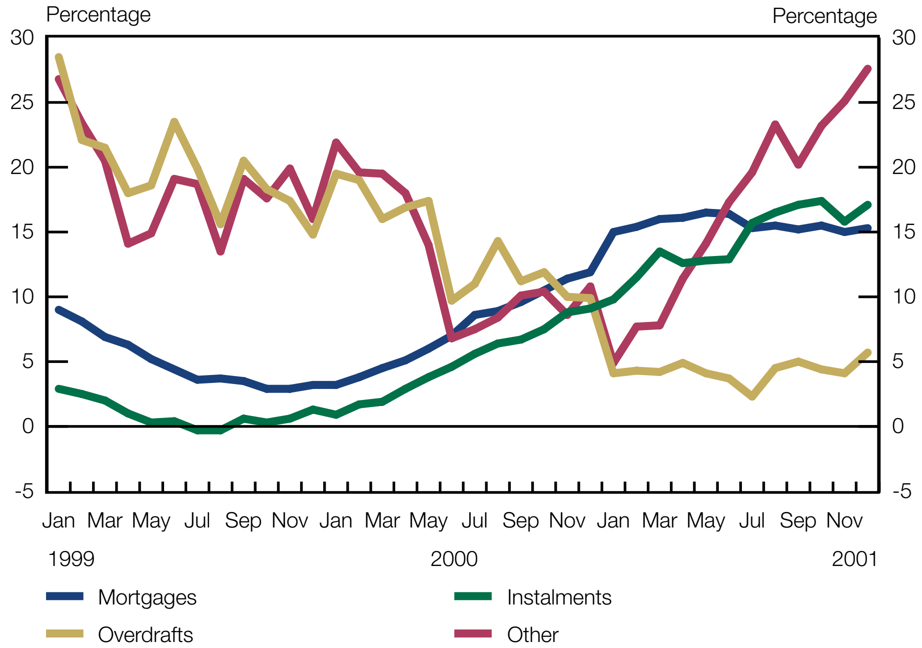
- Mortgage loans increased by R33,4 billion to a level of R251,9 billion, representing an increase of 15,3 per cent measured over a 12-month period.
- Overdrafts and loans increased by R12,4 billion to a level of R230,7 billion, representing a growth rate of 5,7 per cent.
- Instalment debtors increased by R13,8 billion to a level of R94,8 billion, representing an increase of 17,1 per cent.
- Foreign-currency loans and advances increased by R54 billion to a level of R109,9 billion, representing an increase of 96,6 per cent.
- Credit cards increased by R1,4 billion to a level of R13,5 billion, representing an increase of 11,2 per cent.

FIGURE 9: COMPOSITION OF LOANS AND ADVANCES

Mortgage loans	32,7%	Foreign loans	8,4%	Mortgage loans	30,9%	Foreign loans	13,5%
Instalment debtors	12,1%	Overdrafts and loans	32,7%	Instalment debtors	11,6%	Overdrafts and loans	28,3%
Other*	8,9%	Acknowledgements of debt discounted	2,1%	Other*	9,9%	Acknowledgements of debt discounted	1,9%
Resale agreements	1,3%	Credit-card debtors	1,8%	Resale agreements	2,2%	Credit-card debtors	1,7%

* Negotiable certificates of deposit and redeemable preference shares

FIGURE 10: GROWTH IN SELECTED LOANS AND ADVANCES



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. As experience has shown, however, the existence of adequate capital does not provide a guarantee against the failure of a bank that is badly managed.

capital-adequacy ratio was 11,4 per cent

For the year under review, the average capital and reserves held by the banking sector amounted to R92,4 billion (R76,3 billion in December 2000), R73,5 billion (2000: R66,9 billion) of which constituted qualifying capital and reserves for purposes of assessing capital adequacy. The capital-adequacy ratio for the year ended December 2001 was 11,4 per cent (2000: 12,5 per cent).

banks that did not meet the required minimum ratio had phase-in programmes

An analysis of the percentage distribution of banks in terms of capital adequacy at the end of December 2001 (see Figure 11) reveals that 11,5 per cent (2000: 20,4 per cent) of the total number of banking institutions did not meet the new minimum capital-adequacy ratio of 10 per cent, whereas 34,6 per cent of banking institutions (2000: 44,4 per cent) had capital-adequacy ratios that exceeded 20 per cent. Banks that did not meet the required minimum capital-adequacy ratio of 10 per cent had in place phase-in programmes, which had been approved by the Registrar.

Banking institutions that reported capital-adequacy ratios of above 20 per cent (that is, 34,6 per cent of institutions) represented only 2,6 per cent of total banking-sector assets (see Figure 12). Banking institutions with a capital-adequacy ratio of between 10 per cent and 12 per cent (30,8 per cent of banking institutions) represented the biggest portion of total banking-sector assets, namely, 48,9 per cent. The banking institutions that did not meet the minimum capital-adequacy requirement of 10 per cent represented 39,1 per cent of total banking-sector assets.

FIGURE 11: DISTRIBUTION OF BANKS IN TERMS OF CAPITAL ADEQUACY

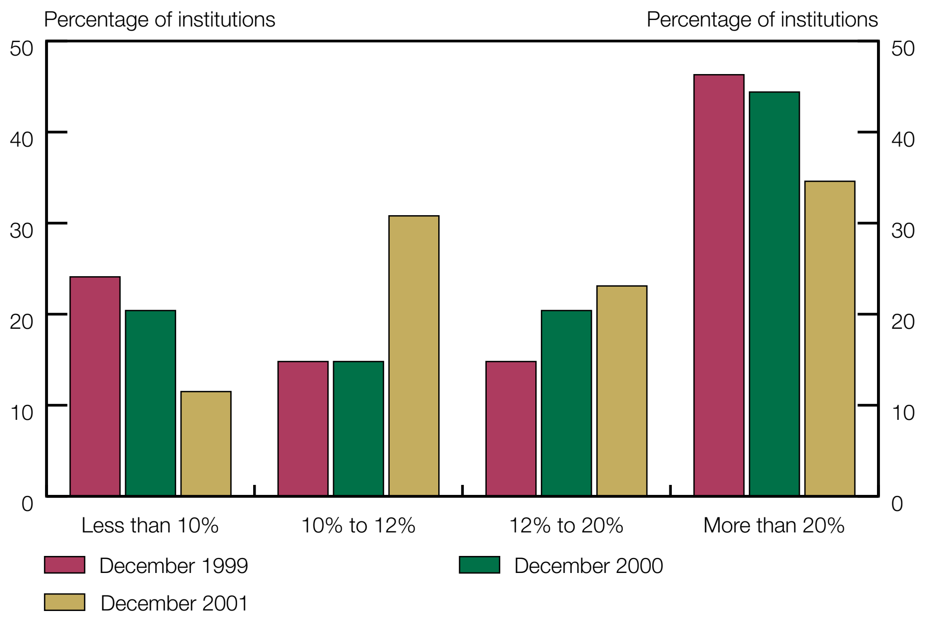
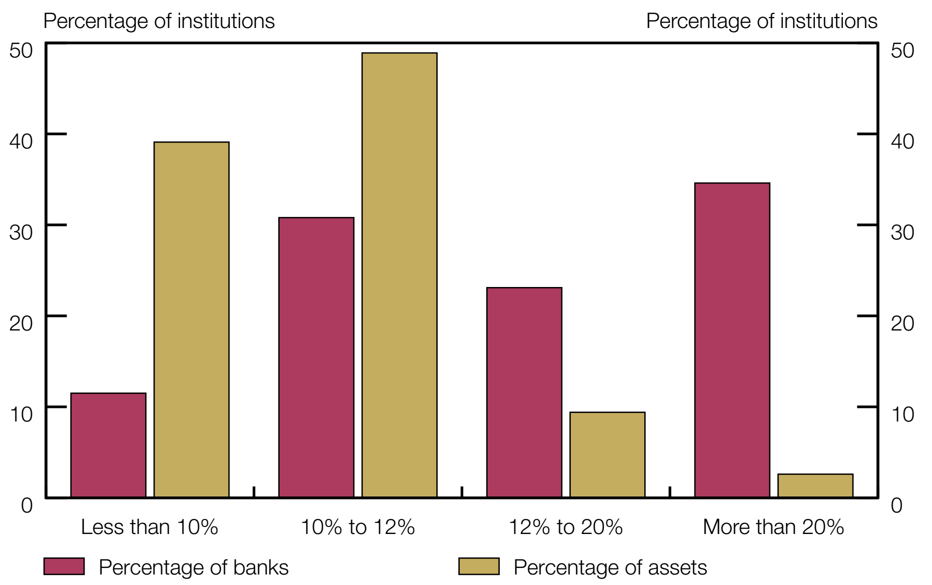


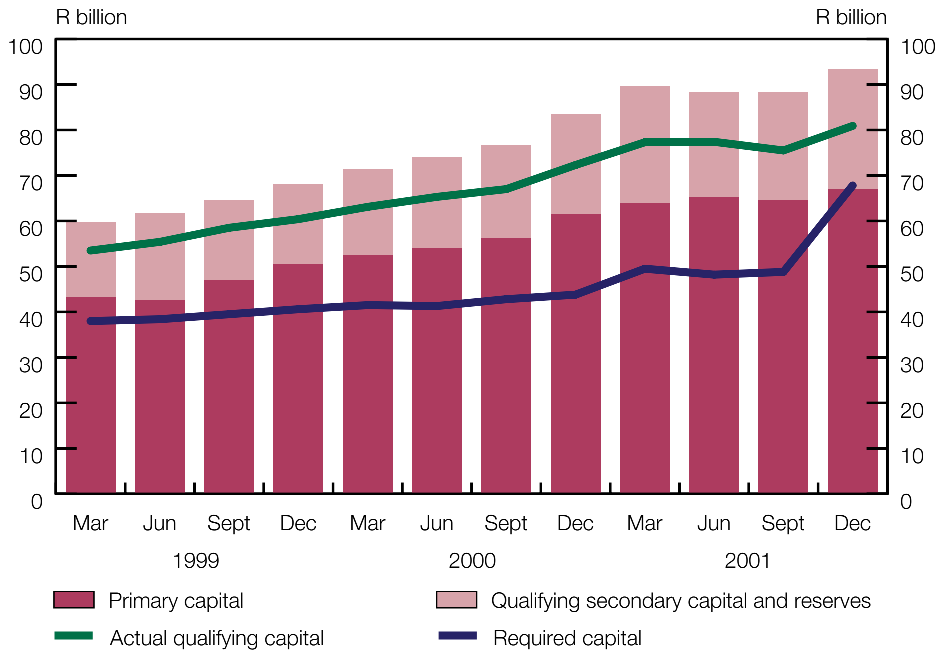
FIGURE 12: BANKS' CAPITAL ADEQUACY IN TERMS OF TOTAL ASSET VALUE



net qualifying caital and reserves growth was lower than the growth in the total balance sheet

Figure 13 reflects the split, over time, between primary and secondary capital, as well as the rand values of required capital and actual qualifying capital. At the end of December 2001, primary capital and reserves constituted 71,8 per cent (2000: 73,7 per cent) of qualifying capital and reserves before deduction of impairments amounting to R12,4 billion (2000: R11,2 billion). Primary capital and reserves grew by 16,3 per cent (2000: 22,2 per cent) during the year, to R67 billion at the end of December 2001. Qualifying secondary capital and reserves, on the other hand, grew by 21,6 per cent during the year (2000: 19,8 per cent), to R26,4 billion at the end of December 2001. The net qualifying capital and reserves growth of 16,3 per cent was lower than the growth in the total balance sheet of 27,6 per cent.

FIGURE 13: QUALIFYING CAPITAL AND RESERVES



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

marked increase in off-balance sheet items was due mainly to amendments to the Regulations

For the year ended 31 December 2001, total assets and off-balance-sheet items (Figure 14) grew by 76,4 per cent (2000: 14,3 per cent), whereas total risk-weighted assets and off-balance-sheet items decreased by 2,8 per cent (2000: 15,9 per cent). The marked increase in off-balance sheet items in 2001 compared to 2000 was due mainly to amendments to the Regulations relating to Banks. In terms thereof, banks were required to report on central securities-depository participation, which, however, did not affect the average risk weighting of assets.

average combined risk weighting of 56,7 per cent

The composition of off-balance-sheet-items had the effect of increasing the average risk weighting of total assets, which amounted to 65,8 per cent for December 2001 (2000: 73,7 per cent), to an average combined risk weighting of 56,7 per cent (2000: 71 per cent) for assets and off-balance-sheet items. The latter accounted for approximately 42,9 per cent (December 2000: 11 per cent) of the combined total of assets and off-balance-sheet items at the end of December 2001. The risk-weighted percentages of assets and off-balance-sheet items and of the combined total of assets and off-balance-sheet items are graphically illustrated in Figure 14.

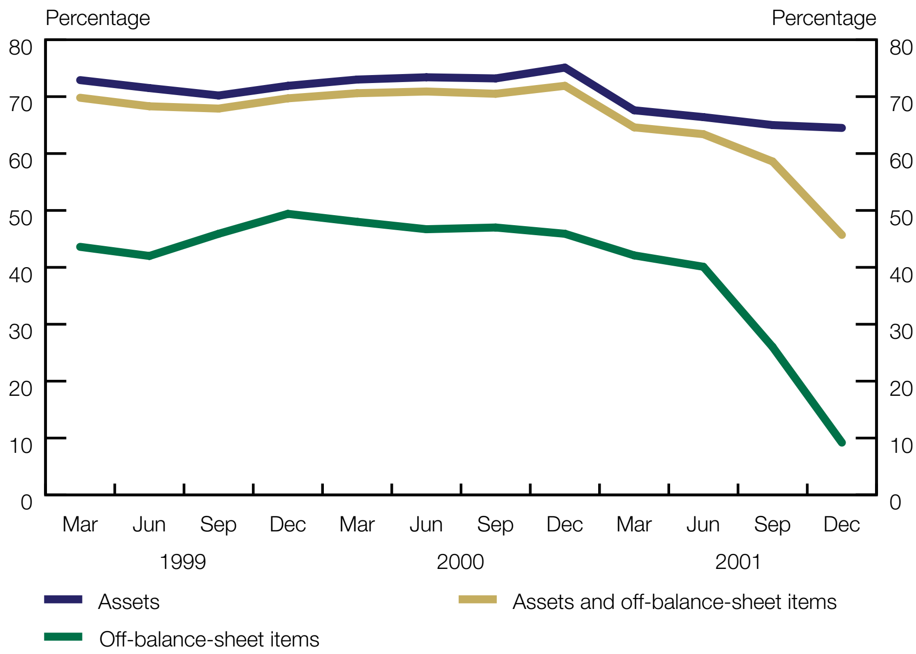
3.3 PROFITABILITY

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 the income. For this reason, the analyses focus on the following aspects:

analysis focus on the following aspects

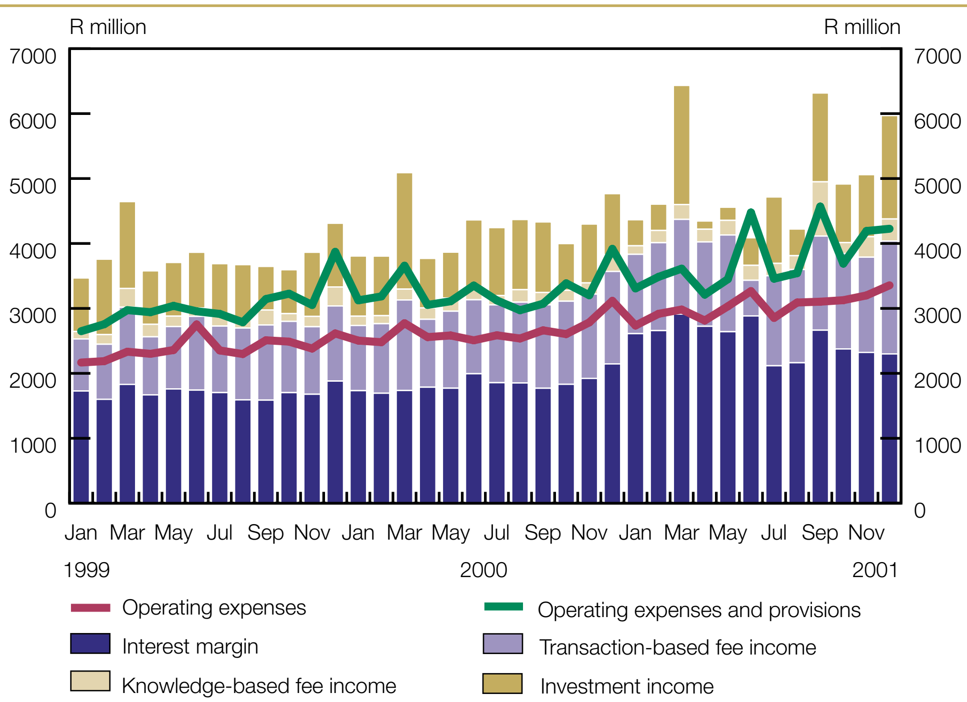
- ▲ Quality of earnings (riskiness of earnings).
- ▲ Balance in the various sources of income (such as, a good spread of income sources).
- ▲ Nature of income (such as, the intermediation function, advisory services or trading activities).
- ▲ Integrity of the information (whether the income statement is consistent with the balance sheet).

FIGURE 14: RISK PROFILE OF ON- AND OFF-BALANCE-SHEET ITEMS



- ▲ 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.

FIGURE 15: COMPOSITION OF THE INCOME STATEMENT



intermediation function again constituted the main source of income

As can be seen in Figure 15, the intermediation function again constituted the main source of income for banks. The intermediation function consists of interest margin (an average of 3,3 per cent of total assets for the year, as opposed to 2,9 per cent in 2000) and transaction-based fee income (an average 1,8 per cent of total assets for the year, as opposed to 1,9 per cent in 2000). As can be observed from Figure 15, the income derived from the intermediation function (R46,7 billion) was generally just sufficient to cover the sum of operating expenses and provisions (R45,2 billion). It is thus clear that 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 to ensure the continued profitability of banks. Fee income and investment and trading income earned during the year were on average equivalent to 2,1 per cent and 1,0 per cent, respectively, of total assets (as opposed to 2,2 per cent and 1,6 per cent, respectively, during 2000).

Interest income increased by about 12,4 per cent for the year, which was 9,2 percentage points higher than the increase of 3,2 per cent in interest expense. The net result thereof was that the interest margin grew by 37,4 per cent (2000: 7,8 per cent). Interest derived from mortgage bonds and overdrafts and loans constituted 33,2 per cent and 30,1 per cent, respectively, of total interest income (as opposed to 35 per cent and 32,5 per cent, respectively, during 2000).

The main component of interest expense was interest on demand deposits and fixed and notice deposits. Interest paid in respect of demand deposits constituted 33,9 per cent (2000: 36,1 per cent) of the total interest expense, whereas interest paid on fixed and notice deposits constituted 28,9 per cent (2000: 25,7 per cent) of the total interest expense for the year.

FIGURE 16: INTEREST MARGIN

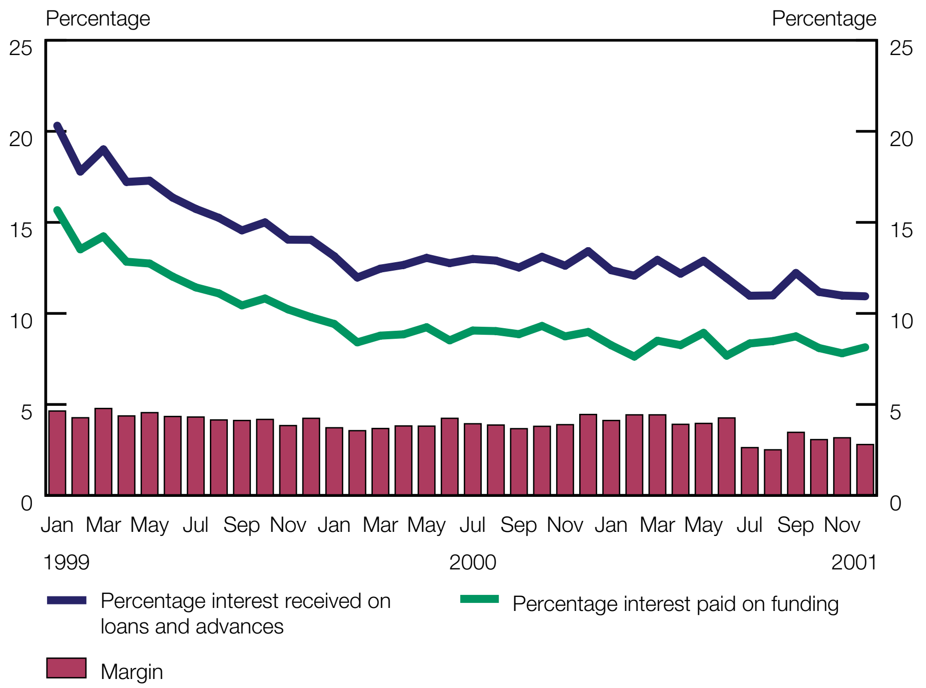
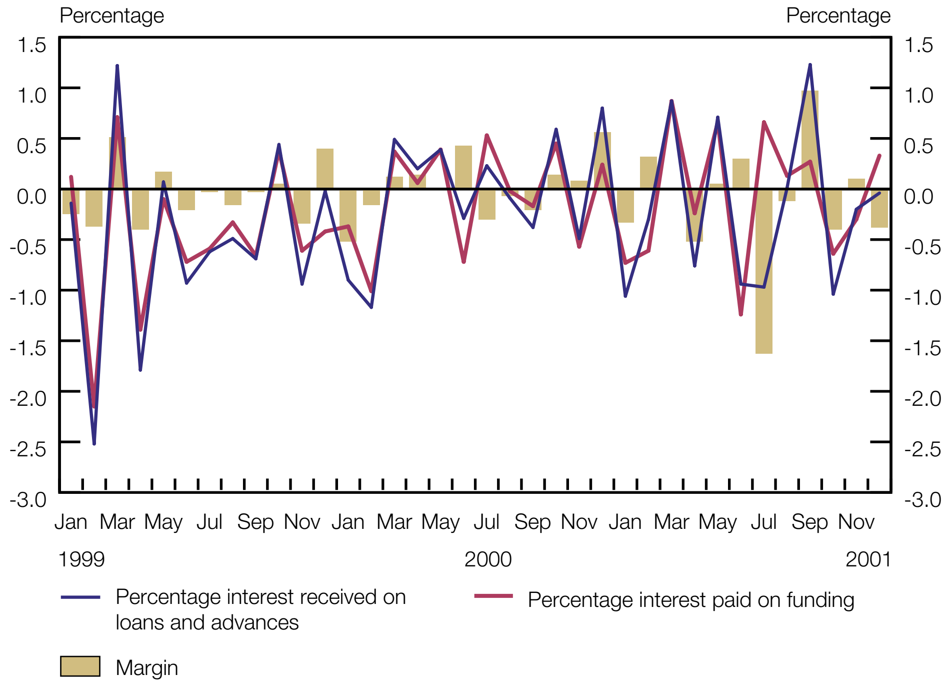


Figure 16 graphically displays the interest margin of the banking sector for the period from January 1999 to December 2001, whereas Figure 17 represents the percentage-point change in the components of the interest margin for the aforementioned period. As can clearly be seen from Figure 16, the interest margin for the year was on average higher

(4,2 per cent) than in 2000 (3,9 per cent). For the 12 months ended December 2001, the average interest margin was 3,5 per cent, compared to 4,3 per cent in 2000 and 4,2 per cent in 1999. An analysis of the relative monthly percentage-point change in the underlying components, as well as in the interest margin (Figure 17), displayed clear seasonal tendencies.

FIGURE 17: PERCENTAGE-POINT CHANGE IN INTEREST MARGIN



operating expenses increased by 15,1 per cent

The operating expenses of the total banking sector increased by 15,1 per cent (2000: 10,2 per cent) in 2001, mainly as a result of an increase of 13,8 per cent in total staff expenses, which accounted for about 55,0 per cent of total operating expenses. The increase in total staff expenses, however, was not due to an increase in the number of people employed. This is confirmed by Figure 18, which graphically displays the percentage change (meas-ured over a 12-month period) in total staff expenses, the number of people employed and the number of branches for the past three years. For the year 2001, employment in the banking sector decreased by 0,2 per cent, whereas the number of branches increased by 14,1 per cent compared to the year before.

Growth in operating expenses was also boosted by an increase in administrative expenses. Compared to the previous year, administrative expenses increased by 18,4 per cent and accounted for 47,6 per cent of total operating expenses.

lower efficiency in the banking sector

Growth in total income of 11,3 per cent could not offset the increase in operating expenses (15,1 per cent), resulting in lower efficiency in the banking sector (see Figure 19) during the year under review.

FIGURE 18: GROWTH IN STAFF EXPENSES, NUMBER OF PEOPLE EMPLOYED AND NUMBER OF BRANCHES AND AGENCIES

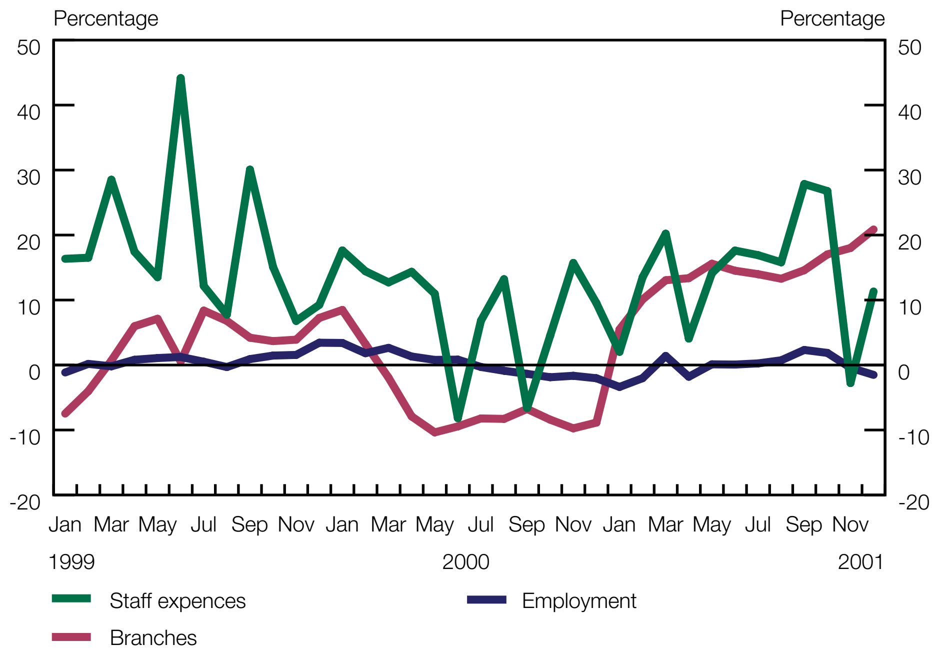
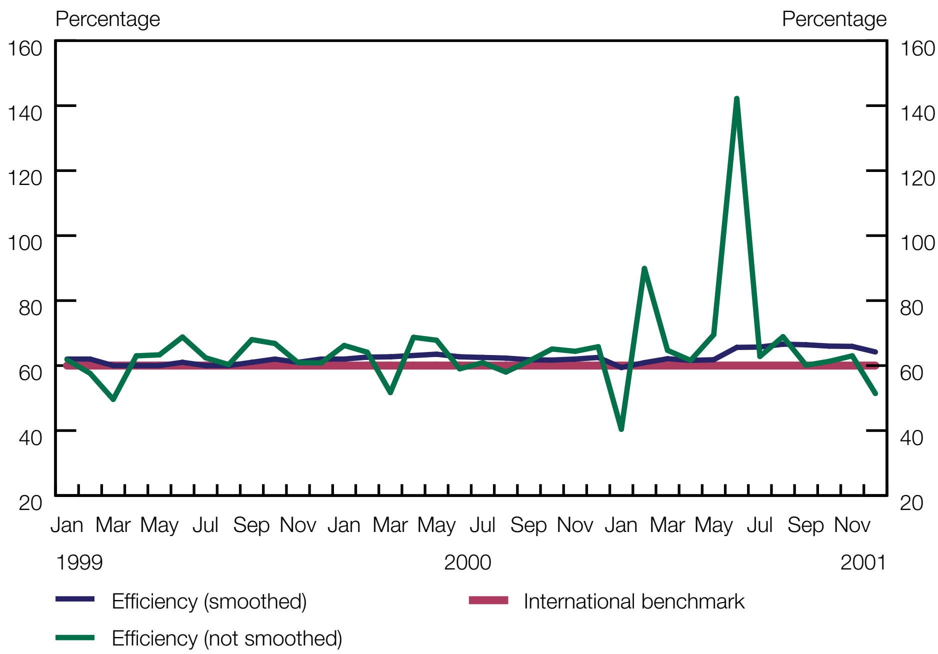


FIGURE 19: EFFICIENCY OF SOUTH AFRICAN BANKING SECTOR



The efficiency of the banking sector can be determined by expressing operating expenses as a percentage of total income. Currently, the international benchmark for efficiency is 60 per cent. In other words, banks that have an efficiency ratio of above 60 per cent are regarded as less efficient.

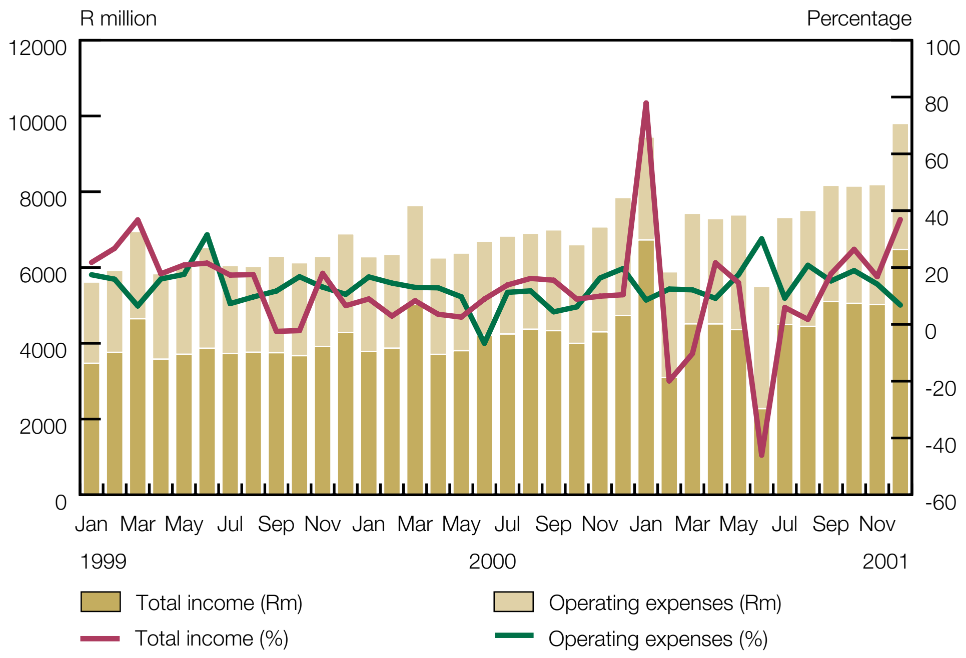
high volatility in efficiency was due mainly to the implementation of AC 133 by some banks

Figure 19 reflects the efficiency of the South African banking sector for the past three years. The high volatility in efficiency for the year 2001 was due mainly to the implementation of Accounting Standard AC 133 by some banks in January 2001. In terms of the disclosure requirements of AC 133, banks are required, in respect of financial-year periods commencing on or after 1 January 2001, to reflect the net mark-to-market adjustments of investments (fair-value accounting) in their financial statements, as opposed to the equity accounting (book value or purchase price) done previously.

The Accounting Practice Board, however, had reconsidered the implementation date of AC 133 and announced that AC 133 would become effective for financial years commencing on or after 1 July 2002. The objective of the delayed implementation was to enable companies to improve their business practices and systems and to complete the necessary training. Some banks, however, had already implemented AC 133 and reported data in accordance with the requirements of AC 133 for 2001. For the year as a whole, efficiency, at 64,2 per cent, was lower on average (smoothed over a 12-month period) than in the previous year (2000: 62,5 per cent).

The actual values of, and the percentage growth in, the determinants of efficiency are graphically displayed in Figure 20.

FIGURE 20: DETERMINANTS OF EFFICIENCY



banks with assets above R5 billion, but below R10 billion were the most efficient in December 2001

Figure 21 graphically displays the efficiency of the various categories (according to asset size) of banking institution for the year ended December 2001. The figure clearly shows that banks with assets above R5 billion, but below R10 billion, in value were the most efficient in December 2001, with an efficiency ratio of 45,1 per cent, followed by banks with assets above R100 billion, with an efficiency ratio of 46,4 per cent. The least efficient were banks with asset values above R50 billion, but below R100 billion, and banks with asset values below R1 billion. It should be borne in mind that these figures are compiled for one month at a time. Because operating expenses and total-income components can fluctuate drastically from one month to another, the average efficiency ratios of different banks would fluctuate accordingly.

average efficiency ratios fluctuate from one month to another

FIGURE 21: EFFIENCY OF BANKING INSTITUTIONS ACCORDING TO ASSET SIZE – DECEMBER 2001

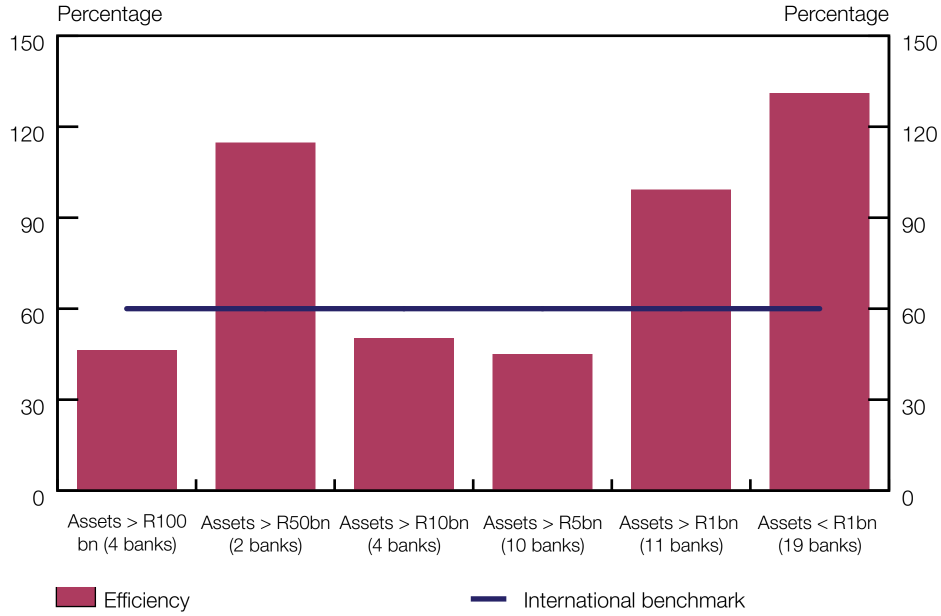
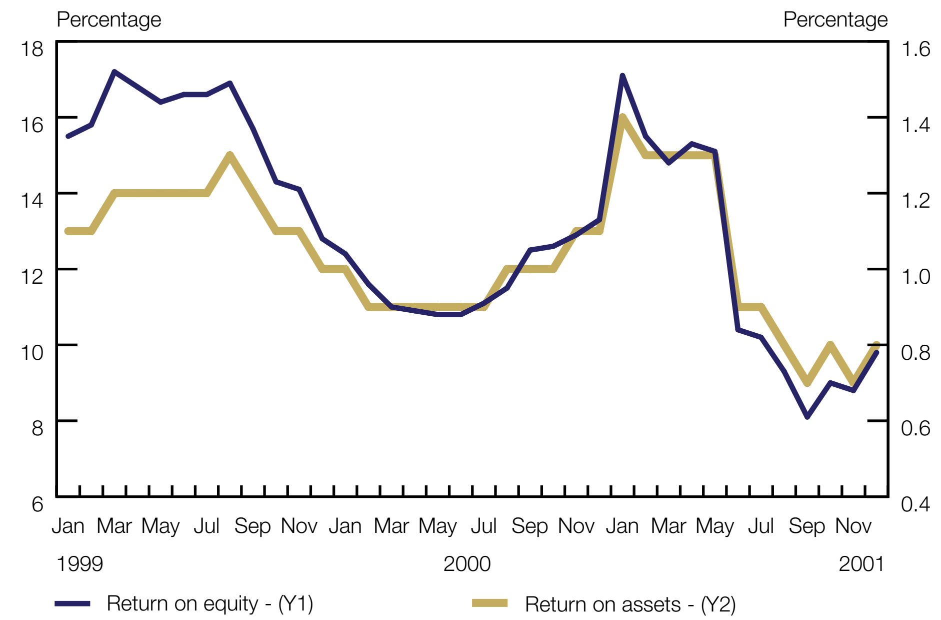


FIGURE 22: PROFITABILITY (12-month smoothed average)



The banking sector achieved a before-tax return equivalent to approximately 1,0 per cent of total assets (2000: 1,5 per cent). An after-tax return equivalent to approximately 0,7 per cent of total assets (2000: 1,1 per cent) was reported for 2001, whereas an after-tax return equivalent to approximately 9,2 per cent was reported on net qualifying capital and reserves (2000: 12,0 per cent).

marked deterioration in both ROA and ROE was due mainly to losses in the investment portfolio in terms of AC 133

The trends (calculated on the basis of a 12-month moving average) in return on equity (ROE) and return on assets (ROA) for the past three years are graphically displayed in Figure 22. After a marked deterioration in both the ROA and the ROE during the period from September 1999 until June 2000, both the ROA and the ROE improved noticeably until January 2001. This improvement was due mainly to a higher net income after tax resulting from slower growth in operating expenses. From January 2001, however, a marked deterioration in both ROA and ROE, however, can clearly be detected from Figure 22. This deterioration was due mainly to losses in the investment portfolio reported by some banks in terms of AC 133.

FIGURE 23: PRODUCTIVITY

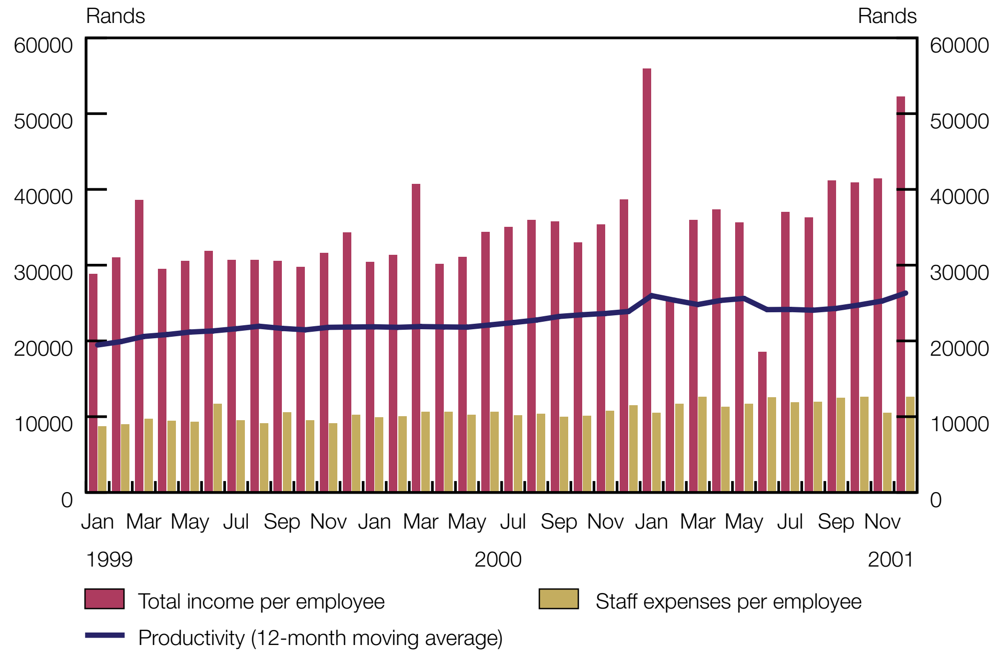


Figure 23 graphically displays the productivity of the banking sector for the past three years, measured by comparing the expenditure on employees with the amount of income generated. During the year under review, the total income generated per employee was on average equivalent to R38 200, as opposed to R34 300 in 2000. Staff expenses per employee, on the other hand, were on average R11 900 in 2001, as opposed to R10 400 during 2000. Also reflected in Figure 23 is the average (smoothed over 12 months) net income generated per employee. The net income generated per employee increased from R23 900 to R26 300, indicating that the productivity of employees in the banking sector improved during the year under review.

productivity of employees improved

3.4 LIQUIDITY RISK

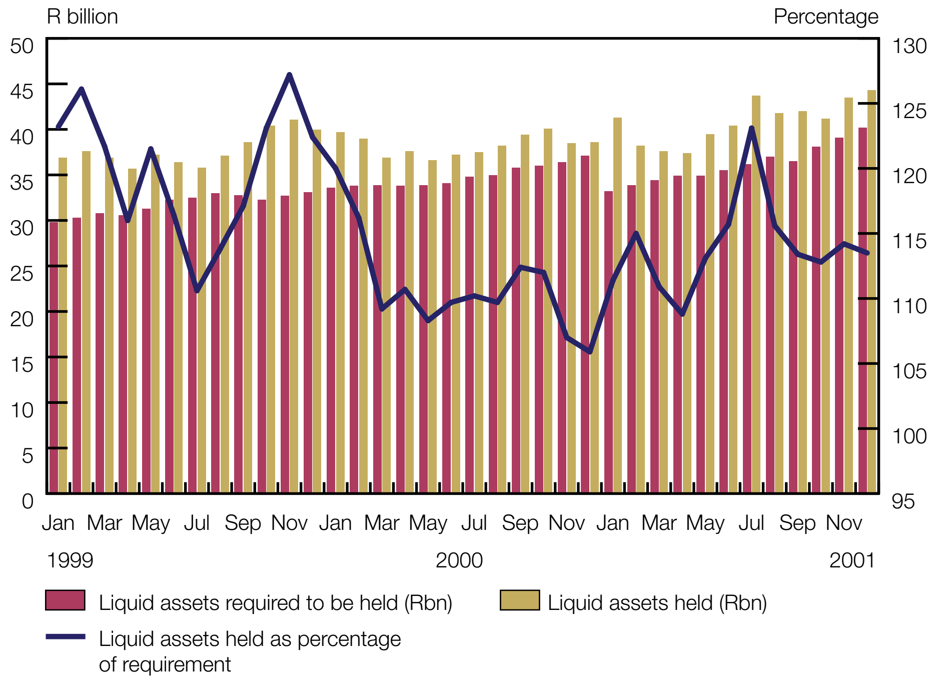
An evaluation of liquidity-risk management involves an assessment of the level of compliance with the statutory liquid-asset requirements, an analysis of the short-term liquidity mismatch in terms of its size (in relation to total funding) and its trend, an assessment of the sources of liquid funds available for funding such mismatches and a consideration of the volatility of funding sources available. Mismatches may develop in various future time bands, because management has taken a specific view of future interest-rate movements. Therefore, the relationship between interest-rate risk management and liquidity-risk management also has to be borne in mind.

Statutory liquidity

average daily amount of liquid assets held exceeded statutory requirement

The liquid-asset requirement is calculated on total liabilities less capital and reserves (referred to as adjusted liabilities). Figure 24 shows that the average daily amount of liquid assets held by banks exceeded the statutory liquid-asset requirement throughout the year under review.

FIGURE 24: STATUTORY LIQUID ASSETS – ACTUAL VERSUS REQUIRED



Approximately 66,1 per cent (2000: 48,9 per cent) of the average daily amount of liquid assets held during December 2001 consisted of securities issued by virtue of section 66 of the Public Finance Management Act, 1999, whereas 24,7 per cent (2000: 43,3 per cent) consisted of Treasury bills of the Republic of South Africa and 2,4 per cent (2001: 5,1 per cent) consisted of short-term bills issued by the Land Bank. Cash-management schemes managed on behalf of banks' clients increased by about 20,5 per cent (2000: 0,8 per cent). Set-off had increased by 9,7 per cent (measured over 12 months) as at the end of December 2001, and represented approximately 9,9 per cent (2000: 9,8 per cent) 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 13,4 per cent (2000: 12,9 per cent), or R124,7 billion (2000: R110 billion), because of use of cash-management schemes by banks' clients and the setting off of some asset balances against liabilities.

adjusted liabilities were reduced by 13,4 per cent

Volatility of funding

As at 31 December 2001, total wholesale deposits constituted 84,4 per cent (2000: 77,9 per cent) of total wholesale and retail deposits. As can be seen in Figure 25, wholesale deposits shorter than three months represented 47,9 per cent of total funding for December 2001. The sharp decline in wholesale deposits shorter than three months in January 2001 compared to December 2000 (from R364,2 billion in December 2000 to comparisons over time should be made with caution

R281,6 billion in January 2001) can mainly be explained by some banks having been unable to report in terms of the amended Regulations relating to Banks. Because of an amendment to the definition of wholesale deposits, however, comparisons over time should be made with caution.

The aggregate amount of the 10 largest depositors of individual banks averaged R112,8 billion (2000: R99,5 billion) during the year under review. Expressed as a percentage of the aggregate amount of total funding-related liabilities to the public, large depositors averaged 15,1 per cent (2000: 15 per cent) at the end of December 2001 (see Figure 25).

FIGURE 25: WHOLESALE DEPOSITS SHORTHER THAN THREE MONTHS AND LARGE DEPOSITORS

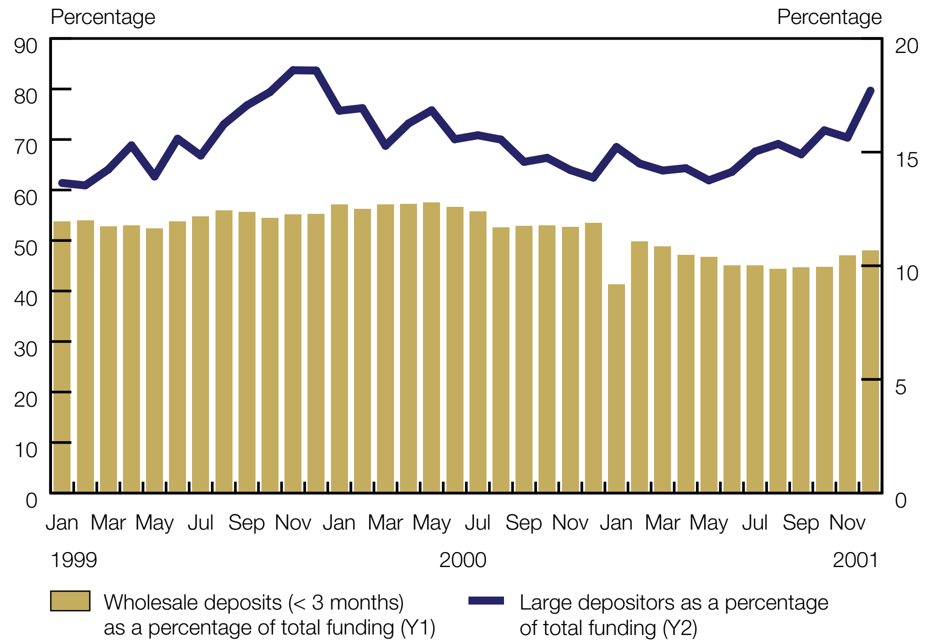
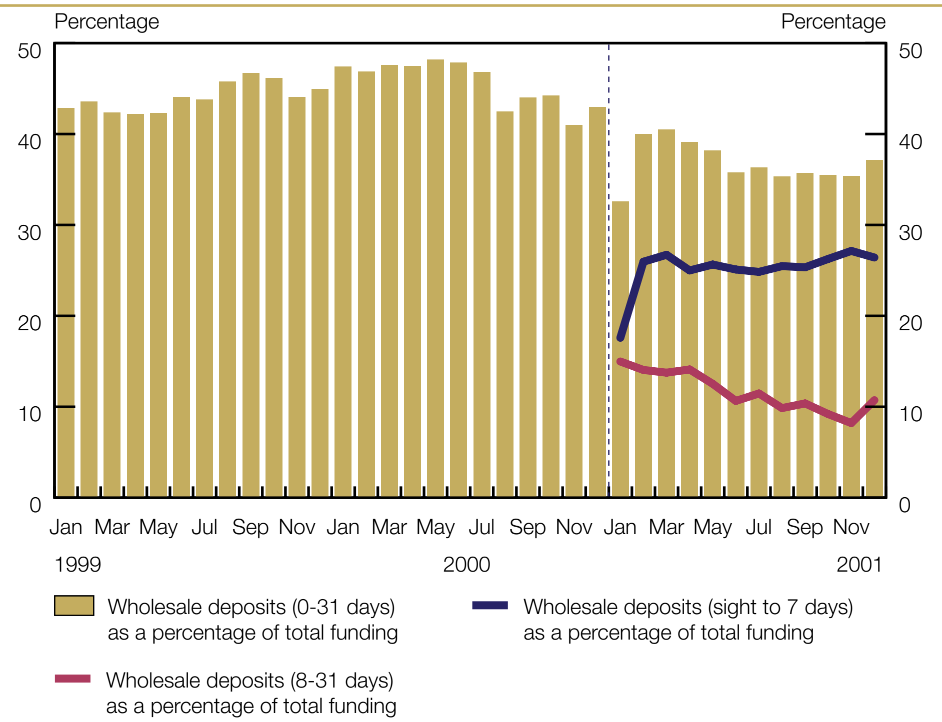


FIGURE 26: SHORT-TERM WHOLESALE DEPOSITS



Short-term wholesale deposits (0-31 days) represented 37,2 per cent of total funding in December 2001, as opposed to 43,0 per cent for December 2000 (Figure 26). As already mentioned, the sharp decline in short-term wholesale deposits from December 2000 to January 2001 can mainly be attributed to some banks not being able to report some information in terms of the amended Regulations relating to Banks. Wholesale deposits shorter than seven days and wholesale deposits between eight and 31 days are shown only from January 2001 onwards, owing to the requirements of the amended Regulations relating to Banks. As at the end of December 2001, wholesale deposits shorter than seven days and wholesale deposits between eight and 31 days represented 26,4 per cent and 10,7 per cent, respectively, of total funding.

FIGURE 27: COMPOSITION OF WHOLESALE DEPOSITS ACCORDING TO MATURITY

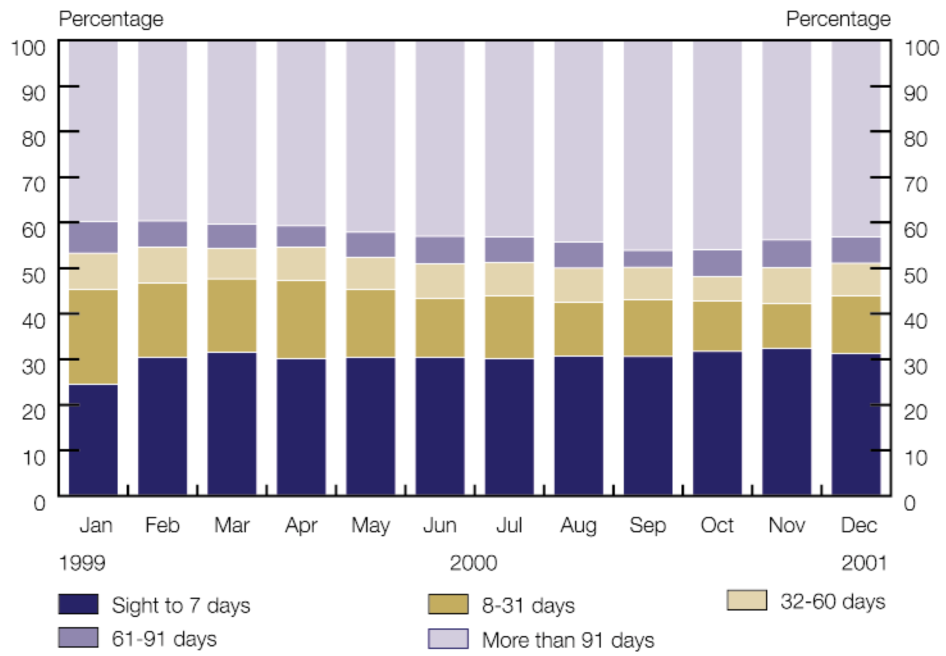


Figure 27 displays the composition (measured over a period of 12 months) of wholesale deposits according to maturity for the year under review. Wholesale deposits with a maturity shorter than seven days and wholesale deposits with a maturity greater than 91 days constituted the biggest portion of wholesale deposits in December 2001, namely, 30 per cent and 43 per cent, respectively. Wholesale deposits with a maturity of 32 to 60 days constituted only a small portion of total wholesale deposits, namely, 7 per cent, followed by deposits with a maturity of eight to 31 days (14 per cent of total wholesale deposits).

3.5 MARKET RISK

banks also required to report on forward contracts

Turnover in derivatives again fluctuated widely during the year, from approximately R364,5 billion in January 2001, to R814 billion in August 2001 and to R502,3 billion in December 2001 (see Figure 28). In terms of the amended Regulations relating to Banks, banks were also required to report on forward contracts. By the end of December 2001, forward contracts amounted to R1 500 billion.

FIGURE 28: TURNOVER IN DERIVATIVE CONTRACTS

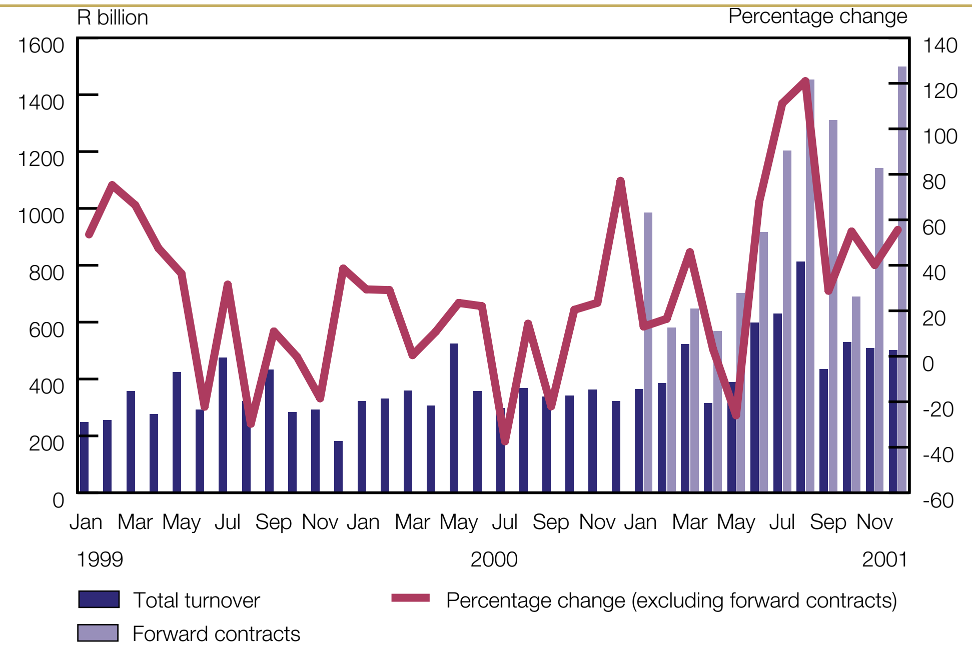
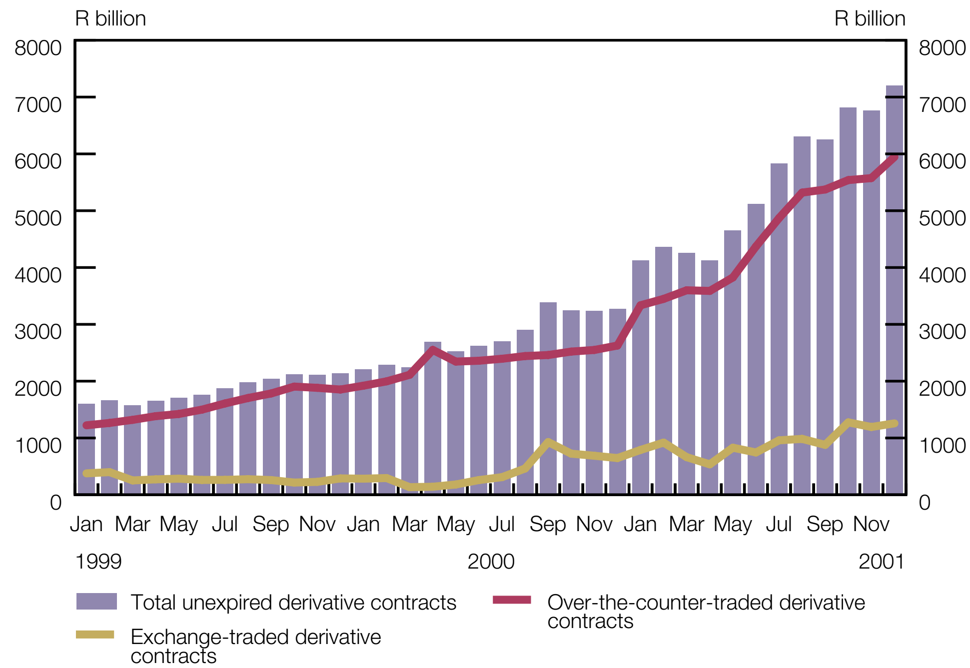


Figure 29 reflects the value of and growth (measured over a period of 12 months) in total unexpired derivative contracts. Unexpired exchange-traded derivative contracts amounted to R1 257,3 billion in December 2001 (December 2000: R645,6 billion), or 120,2 per cent of the banking sector's total assets (December 2000: 78,8 per cent). Compared to the year before, total unexpired derivative contracts increased by 120,1 per cent. Average monthly balances, computed on a quarterly basis, were reported as R790,4 billion, R703,4 billion, R940,5 billion and R1 242 billion for the quarters ended March 2001, June 2001, September 2001 and December 2001, respectively. As at 31 December 2001, the total value of unexpired derivative contracts was R7 203,3 billion (December 2000: R3 273,5 billion), representing 689 per cent of total assets (December 2000: 399,6 per cent of total assets). As at 31 December 2001, over-the-counter traded derivatives accounted for 82,5 per cent (2000: 80,2 per cent) of all unexpired derivative contracts.

total unexpired derivative conracts increased by 120,1 per cent

FIGURE 29: TOTAL UNEXPIRED DERIVATIVE CONTRACTS



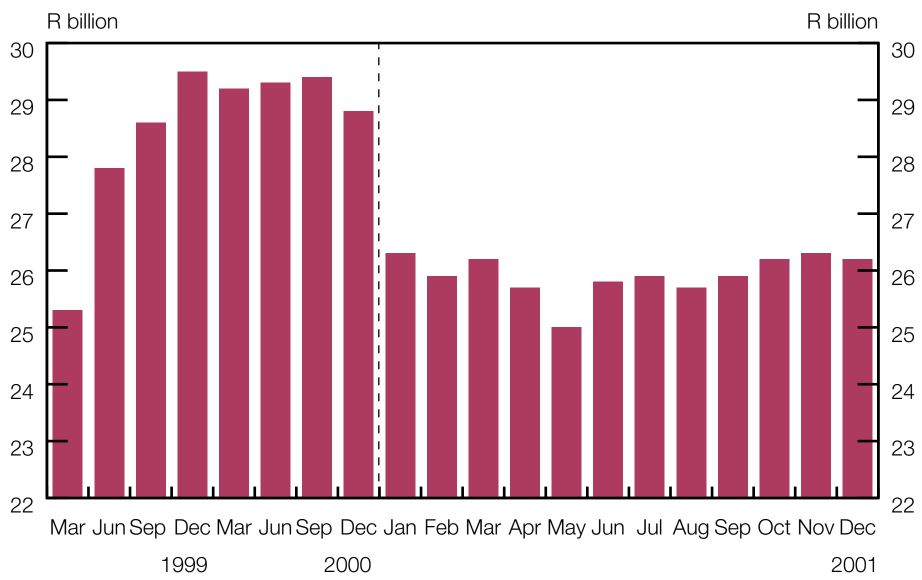
3.6 CREDIT RISK

Analysis of overdue amounts

Figure 30 graphically displays the level of total overdues for the banking sector for the period from March 1999 to December 2000 (in terms of the old Regulations relating to Banks) and from January to December 2001 (in terms of the amended Regulations relating to Banks). Owing to amendments to the definition and classification of overdue accounts in the amended Regulations relating to Banks, the gross overdues of the total banking sector decreased by R2,5 billion to a level of R26,3 billion in January 2001 (December 2000: R28,8 billion). Also, in terms of the old Regulations relating to Banks, banks had to submit credit-risk data on a quarterly basis, but on a monthly basis in terms of the amended Regulations.

banks submit credit-risk data on a monthly basis

FIGURE 30: TOTAL BANKING-SECTOR OVERDUES



In terms of the amended Regulations relating to Banks, which became effective on 1 January 2001, banks also had to classify all loans and advances according to the quality of the assets. Only those loans classified as “doubtful” and “loss” were regarded as “overdue” for purposes of this Annual Report. The impact of the amendment to the definition of overdues can also be seen clearly in Figure 30. A dotted line separates the overdues in terms of the old Regulations from the overdues in terms of the amended Regulations. Because of the amended definition of overdues, comparisons over time should be made with caution.

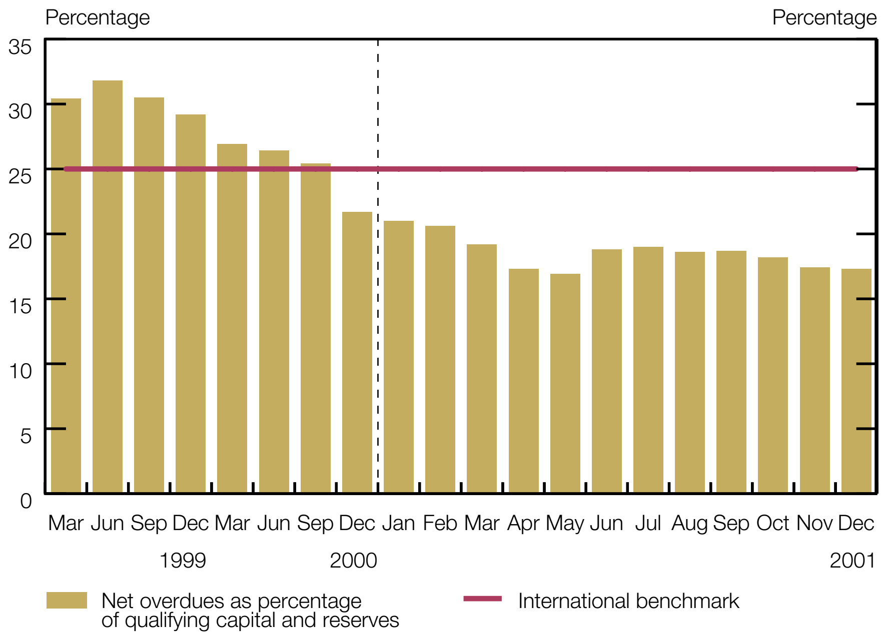
comparisons over time should be made with caution

During the year under review, gross overdues fluctuated between R25 billion and R26,3 billion. The net decrease in gross overdues of the total banking sector since January 2001 amounted to R192,4 million.

The ratio of net overdues (that is, gross overdues less specific provisions) to net qualifying capital and reserves is used internationally to benchmark the extent of amounts overdue in a banking sector. Figure 31 displays this ratio for the past three years. Net overdues as a percentage of net qualifying capital and reserves amounted to 21 per cent in January 2001 (December 2000: 21,7 per cent). By the end of December 2001, this ratio had improved to 17,3 per cent, which was well within the international benchmark of 25 per cent.

ratio of net overdues to net qualifying capital and reserves improved to 17,3 per cent

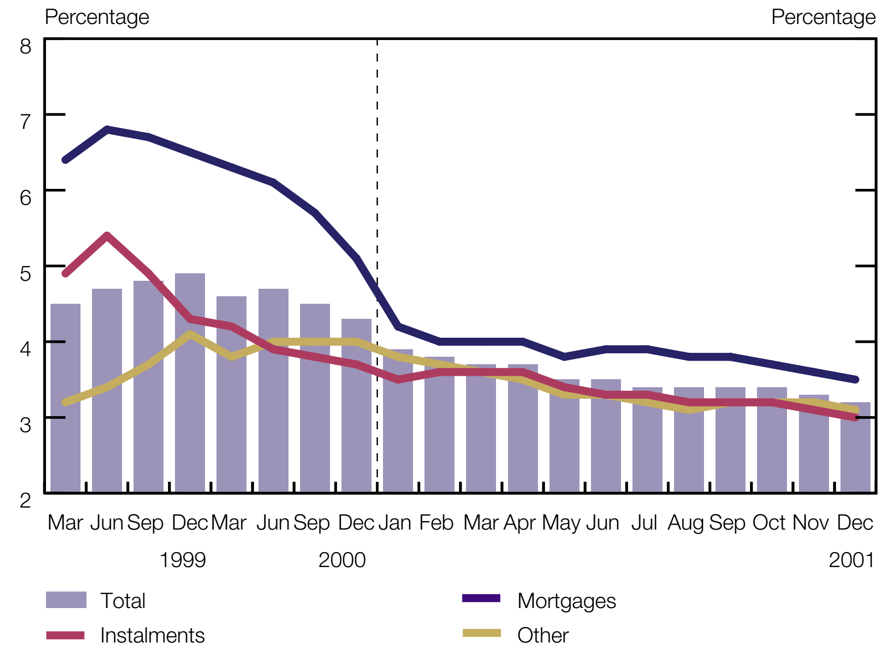
FIGURE 31: NET OVERDUES AS A PERCENTAGE OF NET QUALIFYING CAPITAL AND RESERVES



gross amount overdue amounted to 3,2 per cent

Expressed as a percentage of total loans and advances (see Figure 32), gross amounts overdue decreased from 4,3 per cent in December 2000 to 3,9 per cent in January 2001, mainly because of the implementation of the amended definition of overdues in January 2001. By the end of December 2001, the gross amount overdue (as a percentage of total loans and advances) amounted to 3,2 per cent. From January 2001 to December 2001, mortgage loans overdue (as a percentage of total mortgage loans and advances) decreased from 4,2 per cent to 3,5 per cent, instalment sales overdue (as a percentage of total instalment sales) decreased from 3,5 per cent to 3 per cent, and other loans and advances overdue (as a percentage of total other loans and advances) decreased from 3,8 per cent to 3,1 per cent.

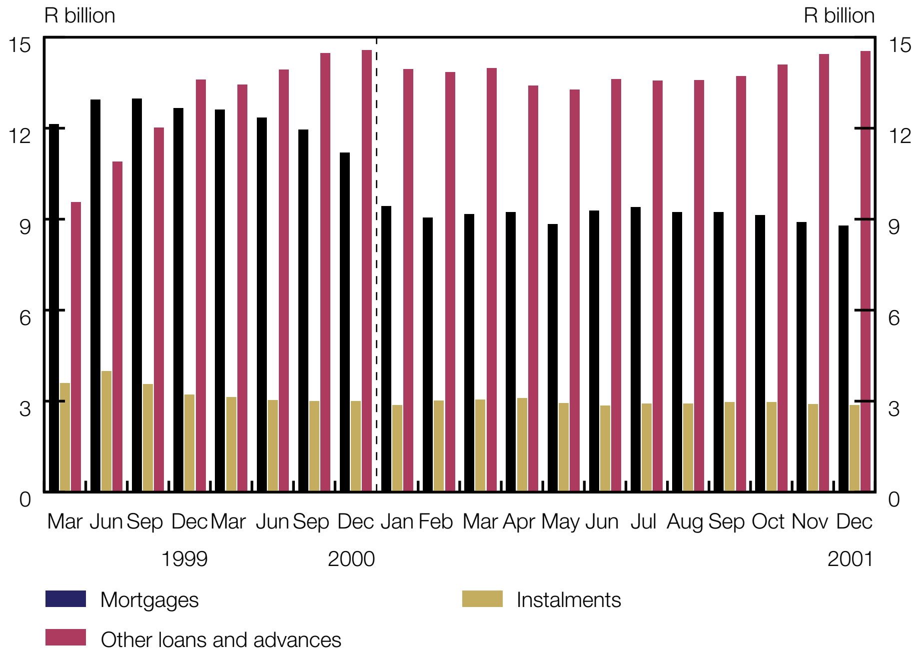
FIGURE 32: COMPOSITION OF OVERDUES (AS A PERCENTAGE OF LOANS AND ADVANCES)



overdues in respect of other loans and advances exceeded mortgage accounts overdue

Figure 33 graphically displays an analysis of overdue accounts for the period from March 1999 to December 2001. The gross amount overdue in respect of other loans and advances increased from R14 billion in January 2001 to R14,5 billion in December 2001. Overdues in respect of other loans and advances still constituted the biggest portion of amounts overdue and, by the end of December 2001, exceeded mortgage accounts overdue by R5,8 billion. Mortgage accounts overdue decreased from R11,2 billion in December 2000 to R9,4 billion in January 2001. From January 2001 to December 2001, the mortgage accounts overdue decreased to R8,8 billion, whereas instalment accounts overdue fluctuated between R2,9 billion and R3,1 billion.

FIGURE 33: ANALYSIS OF OVERDUE ACCOUNTS



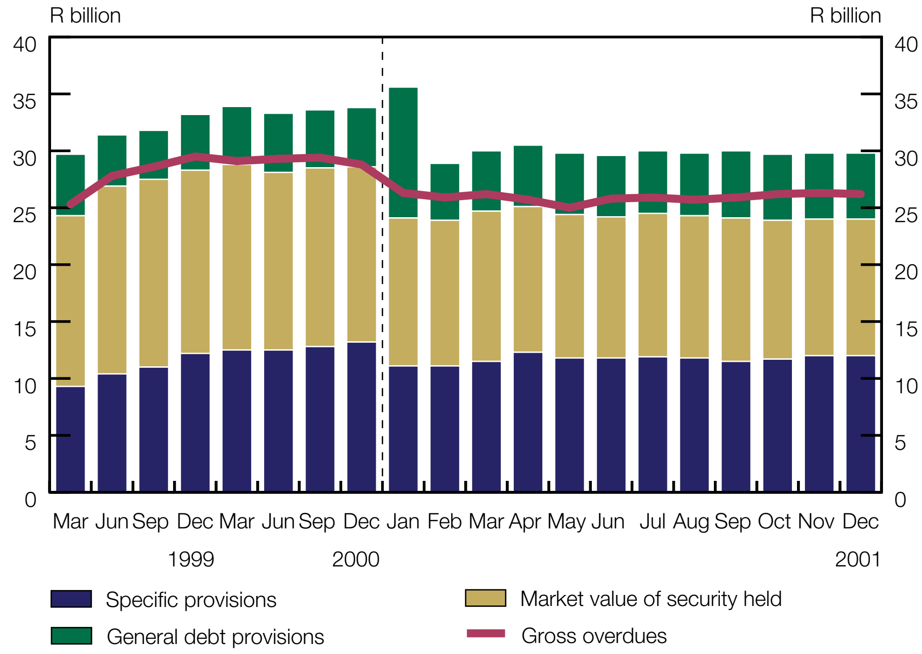
Provisioning policy for bad and doubtful loans and advances

The implementation of the amended Regulations relating to Banks made it possible to determine the exact amount of specific provisions made and the value of the security held against loans classified as non-performing. The Bank Supervision Department, therefore, decided to take into account only the specific provisions and security relating to loans classified as "doubtful" and "loss" when determining the adequacy of banks' provisioning.

provisioning by banks remained adequate

According to Figure 34, provisioning by banks remained adequate throughout the year under review. By the end of December 2001, specific provisions covered about 46 per cent (the same percentage as in December 2000) of all overdues. In January 2001, general provisioning increased noticeably, to a level of R11,5 billion (December 2000: R5,2 billion), that is, about 44 per cent of overdues. At the end of December 2001, about 22 per cent of overdues were covered by security.

FIGURE 34: ADEQUACY OF PROVISIONS



specific provisions by loan type

Specific provisions made at the end of December 2001, by loan type and expressed as a percentage of overdue amounts, were as follows:

- Mortgages - 27,4 per cent (21,9 per cent on 31 December 2000).
- Instalment sales - 54,1 per cent (49,4 per cent on 31 December 2000).
- Other loans and advances - 56,0 per cent (63,9 per cent on 31 December 2000).

conservative stance of South African banks

Figure 35 graphically displays the relationship of specific provisions to total gross overdues for the past three years. On average, about 45,1 per cent of overdues were covered by specific provisioning during 2001 (2000: 43,7 per cent). Internationally, it is generally accepted that specific provisioning should cover at least 40 per cent of non-performing loans, which indicates the slightly more conservative stance of South African banks in this regard.

Large exposures

As from January 2001, the amended Regulations relating to Banks require large exposures granted not to exceed 800 per cent of capital and reserves, in line with the guidelines of the European Economic Community. In terms of these guidelines, 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 no single exposure should exceed 25 per cent of an institution's capital base. 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 Annual Report includes, amongst others, exposures to Government and interbank settlements.

The position of large exposures granted and utilised during the period from March 1999 to December 2001 is illustrated graphically in Figure 36. A dotted line separates the large exposures in terms of the old Regulations from those in terms of the amended Regulations, which require banks to report only the maximum amount (instead of the month-end balance) of the large exposures granted.

FIGURE 35: SPECIFIC PROVISIONS AS PERCENTAGE OF TOTAL OVERDUES

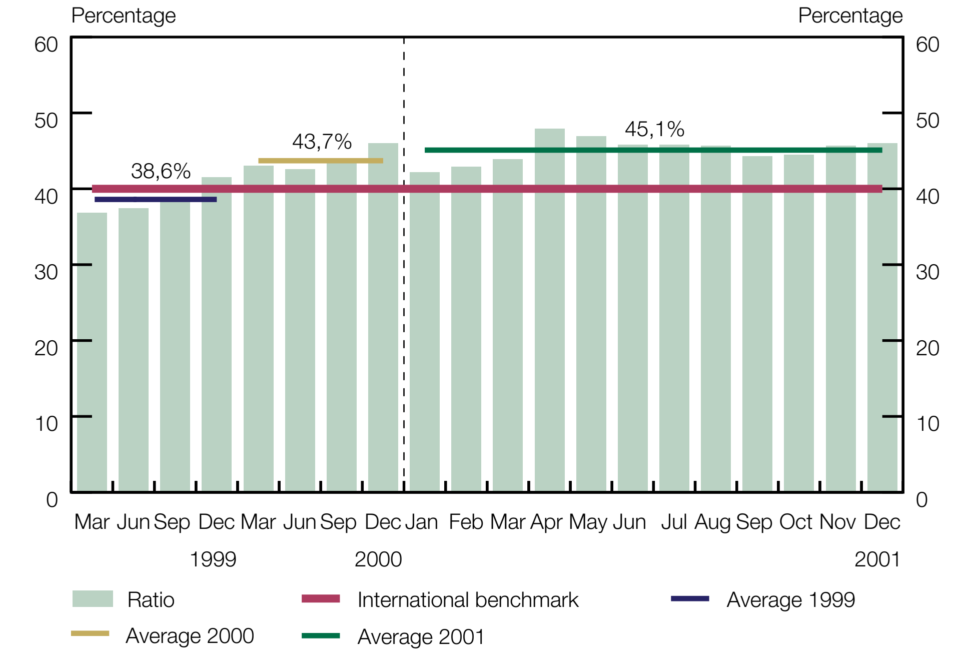
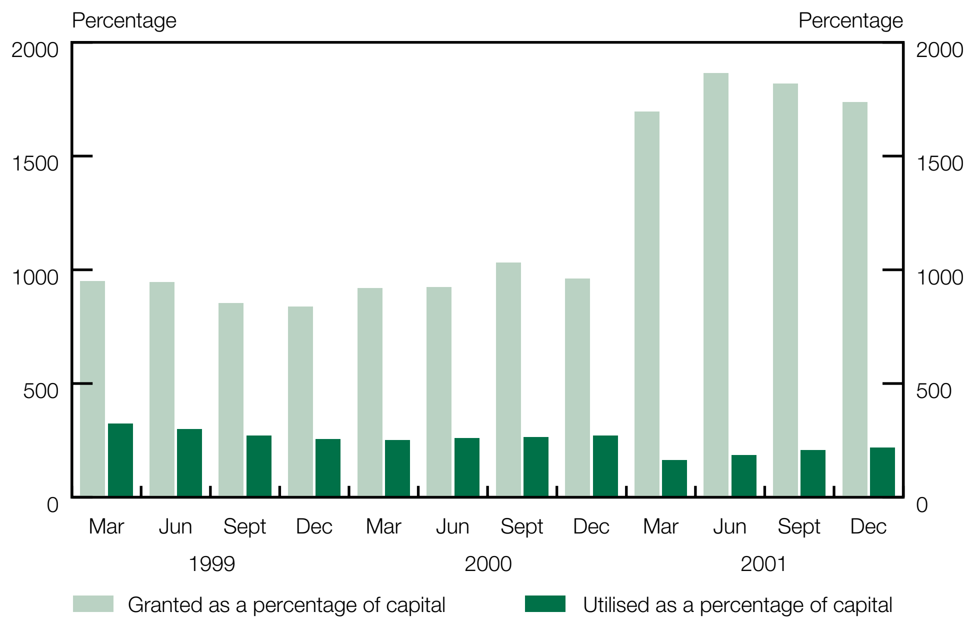


FIGURE 36: LARGE EXPOSURES GRANTED AND UTILISED AS A PERCENTAGE OF CAPITAL



overdues in respect of large exposure decreased

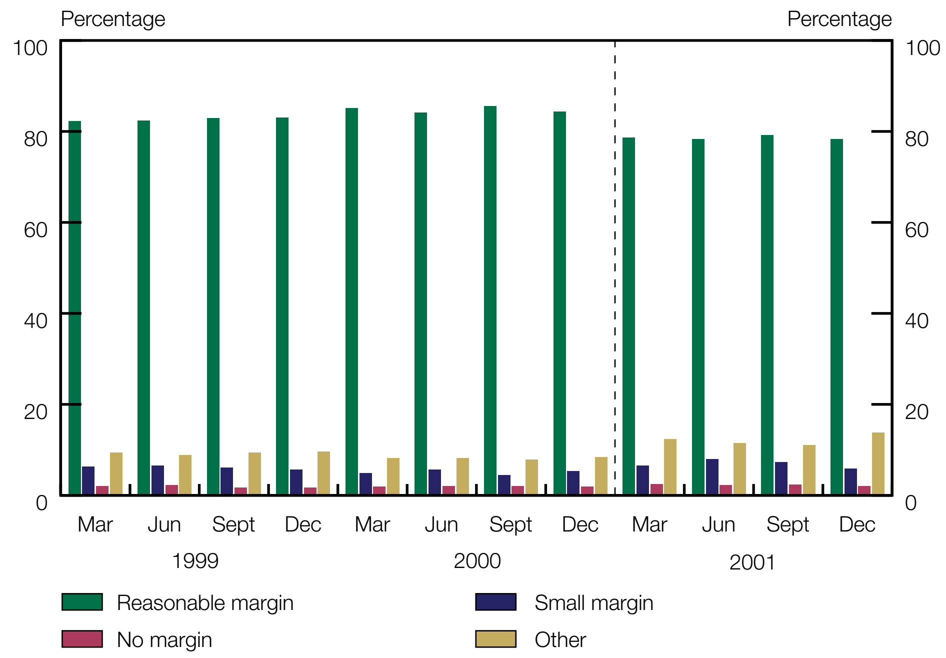
Large exposures granted increased by R664,4 million to a level of R1,4 billion in January 2001 (representing 1 874,8 per cent of net qualifying capital and reserves), compared to R690 million (representing 962,8 per cent of net qualifying capital and reserves) in December 2000. Overdues in respect of large exposures decreased from R437,7 million in December 2000 to R381,2 million in January 2001. By the end of December 2001, overdues in respect of large exposures had further decreased to a level of R216,7 million, and specific provisions covered about 75,9 per cent of overdues. The remainder of the overdues was covered by the value of the security held by banks.

Quality of assets

78,3 per cent earned a reasonable margin

About 78,3 per cent of the banking sector's assets (December 2000: 84,4 per cent) earned a reasonable margin, 5,9 per cent (December 2000: 5,3 per cent) earned a small margin, and the remaining 15,8 per cent (December 2000: 10,3 per cent), including infrastructure, earned no margin (see Figure 37).

FIGURE 37: ASSET PERFORMANCE

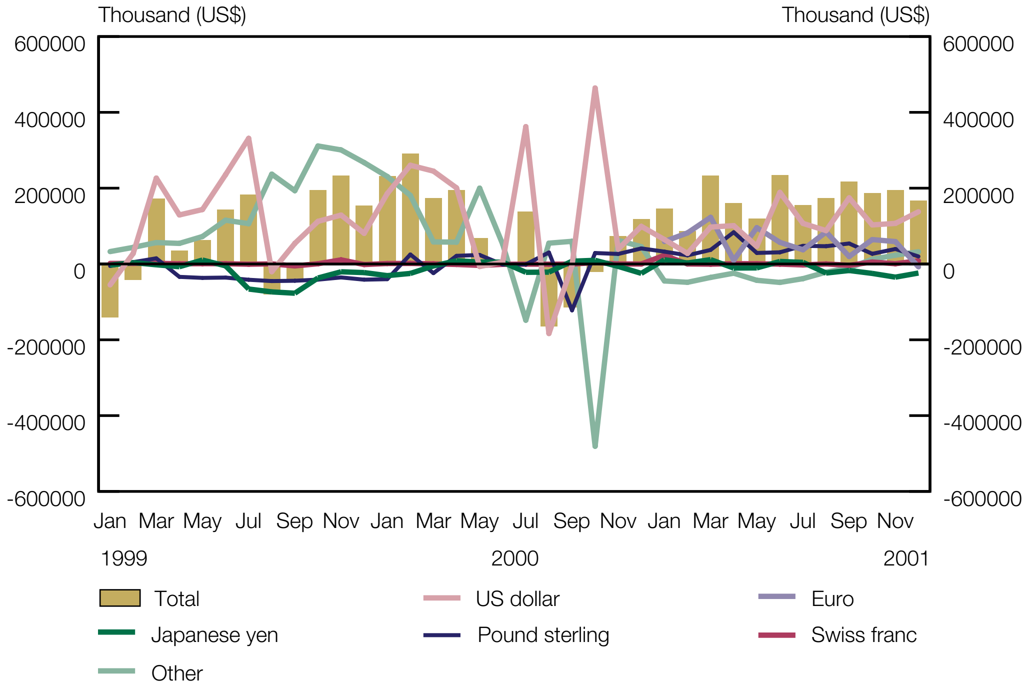


3.7 CURRENCY RISK

position remained within limit

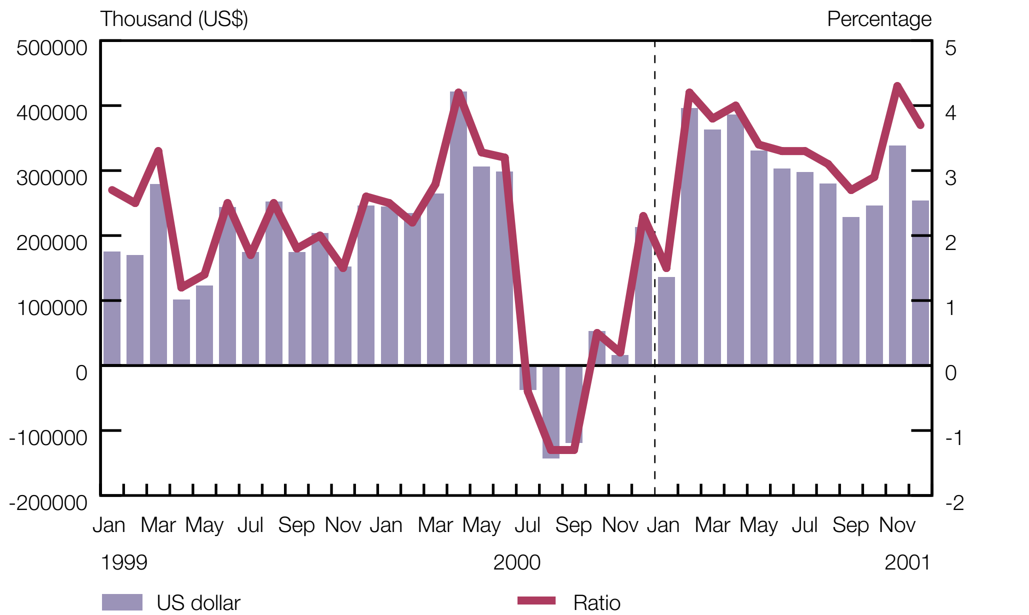
For the period under review, the aggregated net open foreign-currency position after hedging remained within the limit of 10 per cent of net qualifying capital and reserves. The aggregated net effective open foreign-currency position of individual banks, expressed as a percentage of net qualifying capital and reserves, amounted to 0,2 per cent in January 2001 and, by the end of December 2001, had remained unchanged at 0,2 per cent. The aggregated net effective open foreign-currency position of the total banking sector is displayed in Figure 38.

FIGURE 38: AGGREGATED EFFECTIVE NET OPEN FOREIGN-CURRENCY POSITION (all currencies converted to US dollars)



From December 2000 to January 2001, the maximum net open position in foreign currency after hedging decreased from 2,3 per cent to 1,5 per cent and remained safely within the limit of 10 per cent of net qualifying capital and reserves for the period under review. By the end of December 2001, the maximum net open position in foreign currency after hedging had increased to 3,7 per cent (see Figure 39).

FIGURE 39: MAXIMUM EFFECTIVE NET OPEN FOREIGN-CURRENCY POSITION AS A PERCENTAGE OF NET QUALIFYING CAPITAL AND RESERVES (compliance with 10 per cent limit)



The position in foreign-currency instruments and the liquidity-maturity structure of US dollar positions are shown in Figures 40 and 41, respectively.

FIGURE 40: POSITION IN FOREIGN-CURRENCY INSTRUMENTS

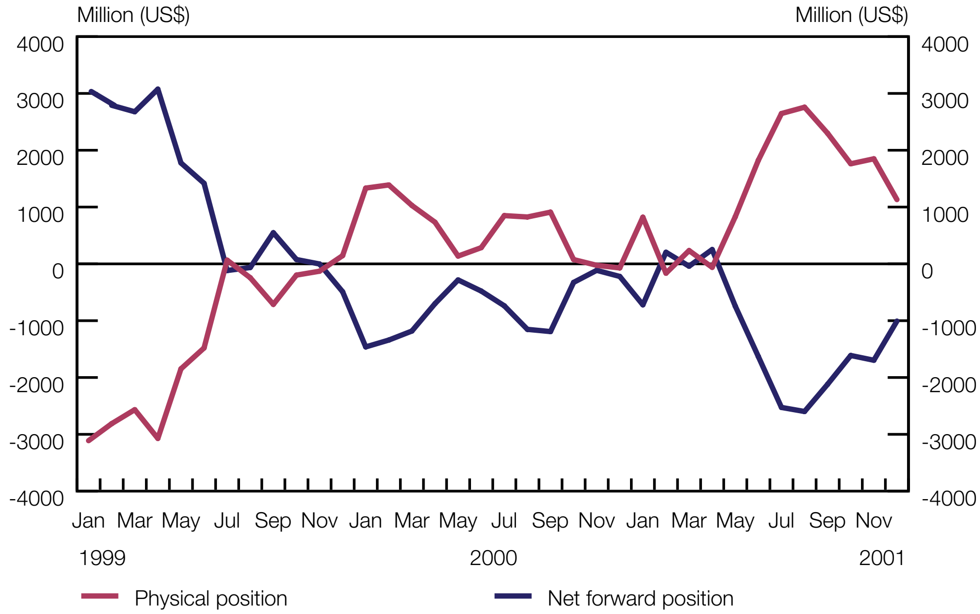
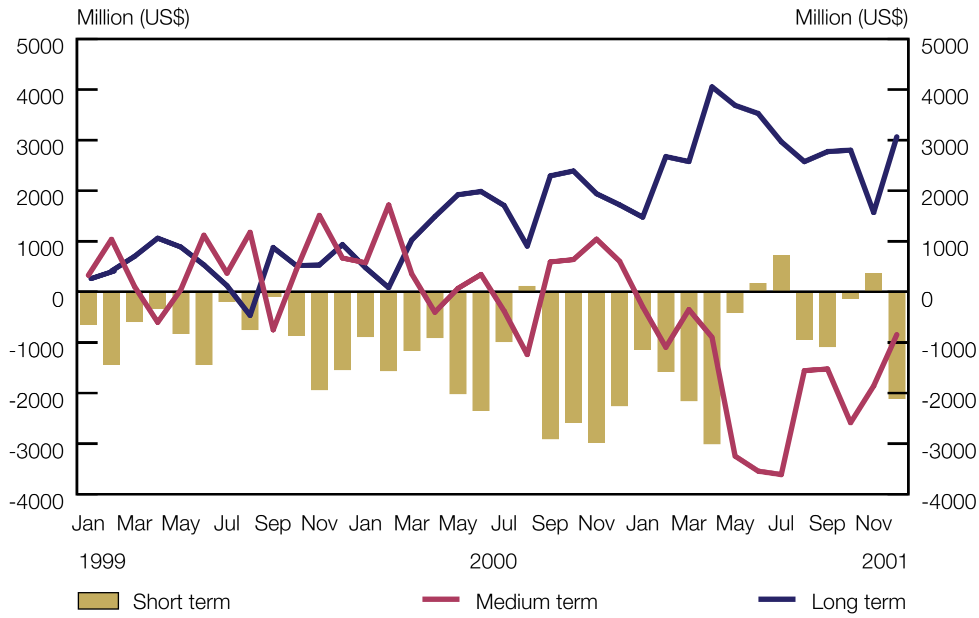


FIGURE 41: LIQUIDITY-MATURITY STRUCTURE (US dollars)



CHAPTER 4

DEVELOPMENTS RELATED TO BANKING LEGISLATION

important function

As indicated in previous Annual Reports, a particularly important function of the Bank Supervision Department is to ensure that the legal framework for the regulation and supervision of banking institutions and banking groups in South Africa remains relevant and current. The Department can fulfil this responsibility only if it ensures that the banking legal framework remains in line with international regulatory and market developments. Therefore, the Department has to review the banking legislation on an ongoing basis and, if necessary, make amendments.

This chapter provides a brief overview of proposed amendments to the Banks Act, 1990, and recent amendments to the Regulations thereto, as well as an overview of the recently promulgated Regulations relating to Representative Offices. Developments in the regulation of certain financial instruments are also outlined.

AMENDMENTS TO THE BANKS ACT, 1990

Although amendments to the Banks Act, 1990 (Act No. 94 of 1990), were not tabled in Parliament during the year under review, the Department drafted a number of proposed amendments for submission to the Standing Committee for the Revision of the Banks Act, 1990, in due course. It is hoped that these amendments will be tabled in Parliament during 2002.

The aim of the most important proposed amendments to the Banks Act may be summarised as being to:

aim of most important proposed amendments

- Address and amend the gender-insensitive provisions in the Banks Act.
- Insert definitions of certain new expressions and amend certain existing definitions.
- Amend certain provisions either to clarify or to reflect existing practices.
- Amend certain sections to reflect a change in institutional names or legislation.
- Insert provisions to enable subordinated legislation in respect of the establishment of representative offices, the compliance function of banks and corporate governance.
- Delete certain provisions that have become outdated or superfluous.
- Grant the Registrar the discretion to determine the value threshold that will require the appointment of a second external auditor to a bank.
- Insert provisions that would grant the Registrar certain powers in the appointment and dismissal of a bank's and a controlling company's board members.
- Increase the penalties for contraventions of the Banks Act.

AMENDMENTS TO THE REGULATIONS RELATING TO BANKS

amended Regulations implemented

The amended Regulations relating to Banks, on which the Bank Supervision Department reported comprehensively in its 1999 and 2000 Annual Reports, were implemented on 1 January 2001, after extensive consultation with the banking industry. During the year under review, some further amendments to the Regulations became necessary.

Increase in capital requirement

Ongoing concern worldwide about financial-sector stability necessitated a review of the minimum required capital-adequacy ratio of banks and of mutual banks. During 2000 and 2001, the Bank Supervision Department held discussions with banking institutions on a proposal to increase the prescribed percentage of the minimum capital and reserve funds that banks and mutual banks are required to maintain.

A study of the potential impact of an increase in the capital-adequacy ratio from 8 per cent to 10 per cent revealed that most banks and the two remaining mutual banks already had capital-adequacy ratios in excess of 10 per cent. The study further revealed that those banks that were not complying with the said percentage formed part of banking groups with sufficient capital to capitalise the banks to the required level.

banks carry systemic risk

It is the bank or banks within a financial group that carry the systemic risk that could influence financial stability and which may even cause bank failures. Consequently, sufficient capital should be held in the bank or banks of a banking group, rather than in the controlling company or elsewhere in the group. It was therefore decided to increase the minimum prescribed capital requirement for banks and mutual banks to 10 per cent.

decided to increase to 10 per cent

At a meeting on 15 February 2001, the board of directors of The Banking Council South Africa discussed the proposal to increase the prescribed capital requirement from 8 per cent to 10 per cent and, subsequently, informed the Bank Supervision Department that the banking sector endorsed the proposal. The proposed amendment was tabled at a meeting of the Standing Committee for the Revision of the Banks Act, 1990, on 25 May 2001, and it was decided that the amendment should be implemented with effect from 1 October 2001. The Minister of Finance subsequently approved this decision.

The amended capital requirement for banks was published under Government Notice No. R 1003, in *Government Gazette* No. 22737 on 5 October 2001, with an effective date of 1 October 2001. For mutual banks, the amended requirement, also with an effective date of 1 October 2001, was published under Government Notice No. R 1007, in *Government Gazette* No. 22738 on 5 October 2001.

Amendment of certain statutory returns

On 13 December 2001, the Registrar, with the approval of the Minister of Finance, designated the acceptance of money from the general public by a special-purpose institution (SPI) against the issue, by such an SPI, of commercial paper in respect of a securitisation scheme as an activity not falling within the meaning of "the business of a bank". The exemption of securitisation schemes from the provisions of the Banks Act, discussed later in this chapter, required amendments to be made to various statutory risk returns. These amendments, as well as amendments necessitated by the increase in banks' and mutual banks' capital requirement to 10 per cent, discussed earlier in this chapter, were therefore incorporated into the various risk returns that banks and mutual banks have to submit to

exemption of securitisation schemes required amendments to various statutory risk returns the Bank Supervision Department.

The Minister of Finance subsequently approved amended regulations in the above regard. Those for banks were published under Government Notice Nos. R 1004 and R 1006, in *Government Gazette* No. 22737 on 5 October 2001, with an effective date of 1 October 2001. The amended regulations for mutual banks were published under Government Notice No. R 1008, in *Government Gazette* No. 22738 on 5 October 2001, also with an effective date of 1 October 2001.

REGULATIONS RELATING TO REPRESENTATIVE OFFICES

In terms of section 34 of the Banks Act, 1990, an institution that has been established in a country other than the Republic of South Africa (Republic) and which lawfully conducts in such other country a business similar to the business of a bank may establish a representative office in the Republic after having obtained the written consent of the Registrar of Banks. Such a representative office, however, may not conduct the business of a bank in the Republic.

representative office and supervisor have certain obligations

Both a representative office established in terms of section 34 of the Banks Act and the supervisor have certain obligations. Section 34(5) of the Banks Act provides for a representative office to furnish the Registrar, at such time or at such intervals or in respect of such period and in such form as may be prescribed, with such information as may be required for the performance of the Registrar's functions under the Act. As regards the supervisor's obligations, the Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision require, amongst others:

requirements of Core Principles

- The permissible activities of institutions that are licensed and subject to supervision to be clearly defined either by supervisors, or in laws or regulations.

- The law to enable the supervisor to address compliance with laws.

- The law to empower the supervisor to take prompt remedial action when, in a supervisor's judgement, an authorised institution does not comply with legislation.

In order to address the above-mentioned obligations and with a view to drafting Regulations relating to Representative Offices, the Bank Supervision Department engaged in a number of discussions with representative officers of foreign institutions resident in the Republic. At the beginning of January 2001, the Department released draft Regulations relating to Representative Offices for comment, on the South African Reserve Bank's Internet Website. Various representative officers furnished the Department with valuable proposals and comments. The Department also held discussions and workshops with representative officers, in order to clarify and resolve various matters.

At a meeting on 26 July 2001, the Euro Chamber Banking and Finance Committee discussed the proposed Regulations relating to Representative Offices and, subsequently, informed the Bank Supervision Department that the Chamber endorsed the proposed Regulations. On 24 August 2001, the proposed Regulations were tabled at a meeting of the Standing Committee for the Revision of the Banks Act, 1990, and it was decided that the Regulations should be implemented with effect from 1 January 2002.

The Minister of Finance subsequently approved the Regulations relating to Representative Offices, which were published under Government Notice No. R 1370, in *Government* effective date of 1 January 2002

Gazette No. 22939 on 13 December 2001, with an effective date of 1 January 2002.

REGULATION OF FINANCIAL INSTRUMENTS

Ongoing innovation in financial markets includes the development of new financial instruments and new uses of financial instruments. The Bank Supervision Department has to assess the need to regulate such instruments and, if necessary, has to amend the banking legislation accordingly, in line with international best practice and after consultation with the industry. During the year under review, a new regulatory framework for asset securitisation was finalised, and work was done on the possible regulation of preference-share investment structures and credit-derivative instruments.

Asset securitisation

The reasons for and factors influencing the proposed amendment of the legal framework governing asset securitisation were discussed in the previous Annual Report.

new Securitisation Notice

The Minister of Finance consented to the amended framework, which was published under Government Notice No. 1375 (the new Securitisation Notice), in *Government Gazette* No. 22948 on 13 December 2001. The new Securitisation Notice repeals Government Notice No. 153 (the previous Securitisation Notice), published in *Government Gazette* No. 13723 on 3 January 1992, in its totality and provides for the issue of commercial paper in terms of a securitisation scheme established under the new Securitisation Notice. The provisions of Government Notice No. 2172 (the Commercial Paper Notice), published in Government Gazette No. 16167 on 14 December 1994, will thus not apply to commercial paper issued in terms of securitisation schemes established under the new Securitisation Notice.

combined regulatory regime

The new Securitisation Notice, therefore, introduces a combined regulatory regime. This regime will not constrain certain activities merely because of prudential considerations, which are aimed primarily at ensuring the financial soundness of financial institutions and the financial system. The accepted international approach is that the same regulatory objectives can be achieved through market-conduct regulation, which is aimed primarily at the protection of investors through adequate disclosure. An approach of sufficient disclosure of the relevant risks should enable investors to decide whether these risks have been addressed sufficiently.

incorporates international best practice and latest guidelines of Basel Committee

The new Securitisation Notice incorporates both international best practice and the latest guidelines on the regulatory aspects of asset securitisation published by the Basel Committee on Banking Supervision. The main areas that have been amended in accordance with international developments and market needs are the following:

main areas amended

- The definition of securitisation has been broadened by allowing banks to act as originator, remote originator, sponsor or repackager in relation to a securitisation scheme. The amendments also specifically allow for securitisation schemes involving non-banking assets.

- Banks are permitted to provide a multiplicity of services in securitisation schemes. When a bank, however, provides credit-enhancement or liquidity facilities in relation to securitisation schemes, the capital of the bank will be impaired in accordance with the risk undertaken by the bank.

- Certainty is provided in relation to the Commercial Paper Notice. The previous Securitisation Notice required adherence to the "relevant clauses" in the Commercial Paper Notice. This reference created uncertainty, since it was not clear to which clauses reference was being made. The specific clauses have therefore been incorporated directly into the new Securitisation Notice.

Preference-share investment structures

An important function of the Bank Supervision Department is to enforce the provisions of the Banks Act, 1990, in order to ensure that "the business of a bank", as defined in the Act, is conducted only by entities that are either registered as banks in terms of the Act or exempted from the provisions of the Act under certain conditions.

The Department became aware that several entities, including trusts, were possibly conducting the "business of a bank" by means of preference-share investment structures without being registered as a bank in terms of the Banks Act. On 29 November 2000, the Department, therefore, issued Banks Act Circular 10/2000, to be read in conjunction with Banks Act Circular 6/99, in order to set out the Department's position on the issue. The Department held the view that such preference-share investment schemes were possibly being operated in contravention of the provisions of the Banks Act and that regulatory intervention was required.

In response to the above-mentioned circulars, however, the Department received comments and representations from various banks and The Banking Council South Africa. Consequently, the Department reconsidered its initial position and decided to obtain further information from banking institutions on, amongst others, the nature and extent of the preference-share investment schemes being operated before making a final determination. To this end, the Department issued Banks Act Circular 12/2001, requesting banking institutions to submit the said information, which the Department received during October and November 2001.

final decision will be made

A final decision on the regulation of preference-share investment schemes will be made once the Bank Supervision Department has analysed and duly considered the information submitted by banking institutions.

Credit-derivative instruments

credit-derivative instrument

The introduction of credit-derivative instruments is a relatively recent innovation in the financial markets. A credit-derivative instrument is a contract in terms of which the credit risk associated with a financial asset is isolated from the other risks associated with that financial asset. Furthermore, in terms of the contract, the credit risk is transferred from one counterparty, which can be referred to as the protection buyer or credit-risk seller, to another counterparty, which can be referred to as the protection provider or credit-risk buyer. The current regulatory framework in South Africa, however, does not provide for the use of credit-derivative instruments in the mitigation of credit risk.

transfer of credit risk

Bank failures have often arisen from excessive credit exposure to particular borrowers or groups of borrowers that were vulnerable to the same economic shocks. The further development of markets for the transfer of credit risk has the potential to improve the stability and efficiency of financial markets.

instrument offers advantages and opportunities but also additional risks and uncertainties

Furthermore, credit-derivative instruments may improve the ability of banks to manage credit risk separately from funding. A credit-derivative instrument offers the advantages and opportunities common to derivative instruments in general, but may also present certain additional risks and uncertainties. For example, if the buyer of credit risk, that is, the seller of protection, decides to make a loan to a corporate institution instead of providing protection, the credit-risk buyer would typically make a detailed analysis of the risks inherent in extending the credit, undertake a detailed review of the underlying documentation and even obtain legal opinions. The speed and flexibility at which transactions can be executed in the credit-derivative market, however, may create a false sense of security for a protection provider (credit-risk buyer) that buys a large amount of notional corporate debt. The legal effects, jurisdictional peculiarities, enforceability of the underlying documents and the fair value of the transaction may turn out to be materially different from what the credit-risk buyer had anticipated.

credit-derivative market growing rapidly

The credit-derivative market has been growing rapidly during the past number of years. The global notional principal outstanding amount for credit-derivative instruments may have been as high as US$ 1 trillion at the end of 2001. Indications are that this amount will grow rapidly in the forthcoming number of years. Some regulatory authorities have already expressed growing concern about the potential threat of the exponential growth in the credit-derivative market to the global financial system, especially in a period of economic downturn.

The proposed new Basel Capital Accord acknowledges the latest developments in the financial markets by recognising credit-derivative instruments as potential credit-risk mitigation instruments. Following the latest regulatory and market developments in the credit-derivative market, the Bank Supervision Department established a working group, consisting of representatives of all key players in the risk-management process of banks and banking groups, in order to formulate legislation for the regulatory treatment of credit-derivative instruments in South Africa. During 2001, several meetings and discussions were held.

extensive research

The Bank Supervision Department is also conducting extensive research on credit-derivative instruments. The Department envisages releasing amended banking legislation to provide for the regulatory treatment of credit-derivative instruments during 2002.

APPENDICES

APPENDIX 1

ORGANISATIONAL STRUCTURE OF THE BANK SUPERVISION DEPARTMENT

General Manager
(Registrar)

C F Wiese

Complex Groups
(Deputy Registrar)

E M Kruger

- Complex Groups
- Emerging Processes
- Consolidated Supervision
- Market Risk

Supervision of
Other Banks

H W Krull

Regulations

M S Blackbeard

- Legal Administration and Enforcement
- Regulations
- Legal

On-site Supervision

M A Petros

- On-site Supervision
- Special Investigations

Support

(Vacant)

- Information Systems
- Administration and Premises
- Policy and Research
- Training
- International Relations

APPENDIX 2

REGISTERED BANKS AND MUTUAL BANKS AS AT 31 DECEMBER 2001

REGISTERED BANKS

	Institution	Address	Total assets at 31 December		Percentage annual growth
			2000 R million	2001 R million	%
1.	ABSA Bank Limited	P O Box 7735, Johannesburg, 2000	169 961	202 484	19,1
2.	African Bank Limited	Private Bag X170, Halfway House, 1685	5 779	5 711	-1,2
3.	African Merchant Bank Limited	P O Box 786833, Sandton, 2146	2 172	1 979	-8,9
4.	Albaraka Bank Limited	P O Box 4395, Durban, 4000	436	523	20,0
5.	BOE Bank Limited	P O Box 1744, Durban, 4000	54 600	58 439	7,0
6.	Brait Merchant Bank Limited	Private Bag X1, Northlands, 2116	2 360	2 500	5,9
7.	Cadiz Investment Bank Limited	P O Box 44547, Claremont, 7735	745	0	-
8.	Cape of Good Hope Bank Limited	P O Box 2125, Cape Town, 8000	5 171	6 295	21,7
9.	Capitec Bank Limited	P O Box 12451, Die Boord, Stellenbosch, 7613	328	304	-7,3
10.	CorpCapital Bank Limited	P O Box 91656, Auckland Park, 2006	2 949	4 467	51,4
11.	FBC Fidelity Bank Limited	P O Box 1789, Joubert Park, 2044	5 937	5 113	-13,9
12.	FirstCorp Merchant Bank Limited	P O Box 1153, Johannesburg, 2000	169	228	35,3
13.	FirstRand Bank Limited	P O Box 11533, Johannesburg, 2000	141 828	195 764	38,0
14.	Gensec Bank Limited	P O Box 411420, Craighall, 2024	6 270	12 337	96,8
15.	Habib Overseas Bank Limited	P O Box 62369, Marshalltown, 2107	172	205	18,8
16.	HBZ Bank Limited	P O Box 48449, Qualbert, 4078	301	374	24,2
17.	Imperial Bank Limited	P O Box 3567, Edenvale, 1610	4 169	5 830	39,9
18.	International Bank of Southern Africa Limited	P O Box 8771, Johannesburg, 2000	1 363	992	-27,2
19.	Investec Bank Limited	P O Box 785700, Sandton, 2146	50 627	62 977	24,4
20.	Marriott Merchant Bank Limited	P O Box 3211, Durban, 4000	556	633	13,7
21.	Mercantile Bank Limited	P O Box 782699, Sandton, 2146	4 094	2 880	-29,7
22.	MLS Bank Limited	P O Box 87175, Houghton, 2041	3 346	3 781	13,0
23.	Nedcor Bank Limited	P O Box 1144, Johannesburg, 2000	113 665	144 866	27,5

REGISTERED BANKS AND MUTUAL BANKS AS AT 31 DECEMBER 2001 (continued)

REGISTERED BANKS (continued)

Institution	Address	Total assets at 31 December		Percentage annual growth
		2000 R million	2001 R million	%
24. Nedcor Investment Bank Limited	P O Box 582, Johannesburg, 2000	21 093	26 122	23,8
25. New Republic Bank Limited	P O Box 4928, Durban, 4000	-	-	-
26. Old Mutual Bank Limited	P O Box 453, Pinelands, 7540	514	510	-0,8
27. PSG Investment Bank Limited	P O Box 24024, Claremont, 7735	2 530	3 279	29,6
28. Rand Merchant Bank Limited	P O Box 1153, Johannesburg, 2000	4 274	3 651	-14,6
29. Real Africa Durolink Investment Bank Limited	P O Box 987, Parklands, 2121	1 295	613	-52,7
30. Rennies Bank Limited	P O Box 185, Johannesburg, 2000	81	250	209,5
31. Saambou Bank Limited	P O Box 74127, Lynnwood Ridge, 0040	15 262	17 029	11,6
32. Sasfin Bank Limited	P O Box 95104, Grant Park, 2051	346	570	64,9
33. Securities Investment Bank Limited	P O Box 1499, Saxonwold, 2132	815	685	-16,0
34. Southern Bank of Africa Limited	P O Box 2533, Saxonwold, 2132	77	0	-
35. TA Bank of South Africa Limited	P O Box 2938, Parklands, 2121	413	362	-12,2
36. TEBA Bank Limited	Private Bag X174, Halfway House, 1685	1 262	1 395	10,6
37. The South African Bank of Athens Limited	P O Box 7781, Johannesburg, 2000	370	419	13,2
38. The Standard Bank of South Africa Limited	P O Box 7725, Johannesburg, 2000	150 988	184 724	22,3
39. Unibank Limited	P O Box 5490, Rivonia, 2128	4 204	6 243	48,5

REGISTERED BANKS AND MUTUAL BANKS AS AT 31 DECEMBER 2001 (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		Percentage annual growth
		2000 R million	2001 R million	%
1. MEEG Bank Limited	P O Box 332, Umtata, 5100	408	697	70,8

REGISTERED MUTUAL BANKS

Institution	Type of registration	Address	Total assets at 31 December		Percentage annual growth
			2000 R million	2001 R million	%
1. GBS Mutual Bank	Final	P O Box 114, Grahamstown, 6140	266	285	7,2
2. VBS Mutual Bank	Provisional	P O Box 3618, Louis Trichardt, 0920	152	172	13,4

BANK UNDER CURATORSHIP

Institution	Curator	Date of order
1. Regal Treasury Private Bank Limited	Mr R K Store of Deloitte & Touche	26 June 2001

BANK IN FINAL LIQUIDATION

Institution	Liquidator	Date of order
1. Islamic Bank Limited	Mr A D Wilkins of Deloitte & Touche	13 January 1998

APPENDIX 3

LOCAL BANK BRANCHES OF FOREIGN BANKS AS AT 31 DECEMBER 2001

Institution		Address
1.	ABN AMRO Bank N.V.	P O Box 78769, Sandton, 2146
2.	Bank of Baroda	91/121 Cowey Road, Cowey Park, Berea, Durban, 4001
3.	Bank of China Johannesburg Branch	P O Box 782616, Sandton, 2146
4.	Bank of Taiwan South Africa Branch	P O Box 1999, Parklands, 2121
5.	Barclays Bank Plc, South Africa Branch	P O Box 1542, Saxonwold, 2132
6.	China Construction Bank – Johannesburg Branch	Private Bag X10007, Sandton, 2146
7.	Citibank N.A.	P O Box 1800, Saxonwold, 2132
8.	Commerzbank Aktiengesellschaft	P O Box 860, Parklands, 2121
9.	Crédit Agricole Indosuez	P O Box 61523, Marshalltown, 2107
10.	Deutsche Bank AG	Private Bag X9933, Sandton, 2146
11.	ING Bank N.V. South Africa Branch	P O Box 782080, Sandton, 2146
12.	JPMorgan Chase Bank (Johannesburg Branch)	Private Bag X9936, Sandton, 2146
13.	Merrill Lynch Capital Markets Bank Limited	P O Box 61, Johannesburg, 2000
14.	Société Générale	P O Box 6872, Johannesburg, 2000
15.	State Bank of India	P O Box 2538, Saxonwold, 2132

APPENDIX 4

NAME CHANGES AND CANCELLATION OF REGISTRATION OF BANKS AND BRANCHES OF FOREIGN BANKS DURING THE PERIOD FROM 1 JANUARY 2001 TO 31 DECEMBER 2001

NAME CHANGES

Previous name		New name	Date of change
1.	Cashbank Limited	LBW on Long 55 Limited	28 December 2001
2.	First National Bank of Southern Africa Limited	FirstCorp Merchant Bank Limited	9 November 2001 (effective 1 September 2001)
3.	The Business Bank Limited	Capitec Bank Limited	7 June 2001

CANCELLATION OF REGISTRATION

Institution		Date of cancellation
1.	LBW on Long 55 Limited (following the acquisition of the business of Cashbank Limited by BOE Bank Limited as at 1 November 2001)	28 December 2001
2.	Morgan Guaranty Trust Company of New York (assets and liabilities transferred to JPMorgan Chase Bank (Johannesburg Branch))	10 November 2001
3.	Southern Bank of Africa Limited	4 April 2001
4.	TNBS Mutual Bank (assets and liabilities transferred to Meeg Bank Limited)	5 February 2001

APPENDIX 5

REGISTERED CONTROLLING COMPANIES AS AT 31 DECEMBER 2001

Institution	Address
1. ABSA Group Limited	P O Box 260595, Excom, 2023
2. African Bank Investments Limited	P O Box X170 Halfway House, 1685
3. AMB Holdings Limited	P O Box 786833, Sandton, 2146
4. BOE Bank Holdings Limited	P O Box 86, Cape Town, 8000
5. Brait South Africa Limited	Private Bag X1, Northlands, 2116
6. Cadiz Holdings Limited	P O Box 44547, Claremont, 7735
7. CorpCapital Bank Controlling Company Limited	P O Box 91656, Auckland Park, 2006
8. FBC Fidelity Bank Holdings Limited	P O Box 3308, Parklands, 2121
9. FirstCorp Merchant Bank Holdings Limited	P O Box 9773, Johannesburg, 2000
10. FirstRand Bank Holdings Limited	P O Box 1153, Johannesburg, 2000
11. Genbel Securities Limited	P O Box 411420, Craighall, 2006
12. Imperial Bank Holdings Limited	P O Box 3567, Edenvale, 1610
13. Investec Group Limited	P O Box 785700, Sandton, 2146
14. Investec Holdings Limited	P O Box 785700, Sandton, 2146
15. Keynes Rational Limited	P O Box 12451, Die Boord, Stellenbosch, 7613
16. Marriott Holdings Limited	P O Box 207, Durban, 4000
17. MEEG Bank Holdings Company Limited	P O Box 412352, Craighall, 2024
18. Mercantile Lisbon Bank Holdings Limited	P O Box 782699, Sandton, 2146
19. Nedcor Investment Bank Holdings Limited	P O Box 582, Johannesburg, 2000
20. Nedcor Limited	P O Box 1144, Johannesburg, 2000
21. NRB Holdings Limited	P O Box 4928, Durban, 4000
22. Old Mutual Bank Holdings Limited	P O Box 453, Pinelands, 7450.
23. PSG Investment Bank Holdings Limited	P O Box 987, Parklands, 2121
24. Real Africa Durolink Holdings Limited	P O Box 987, Parklands, 2121
25. Regal Treasury Bank Holdings Limited	P O Box 3215, Rivonia, 2128
26. Rennies Bank Holdings Limited	P O Box 185, Johannesburg, 2000
27. Saambou Holdings Limited	P O Box 74127, Lynnwood Ridge, 0040
28. Sasfin Holdings Limited	P O Box 95104, Grant Park, 2051
29. Standard Bank Investment Corporation Limited	P O Box 7725, Johannesburg, 2000
30. TA Investment Holdings South Africa Limited	P O Box 2938, Parklands, 2121
31. TEBA Bank Controlling Company Limited	Private Bag X174, Halfway House, 1685
32. Unibank Group Limited	P O Box 5490, Rivonia, 2128
33. Unibank Investment Holdings Limited	P O Box 5490, Rivonia, 2128

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

1. Albaraka Investment and Development Company	P O Box 6854, Jeddah, 21452, Saudi Arabia
2. National Bank of Greece	86 Eolou Street, Athens TT 121, Greece
3. Pitcairns Finance	121, Avenue de la Faiencerie, L-1511 Luxemburg, RCS Luxemburg, B nr 33-106
4. Société Financière pour les Pays d'Outre-mer	69, Rue la Boétie, 75008, Paris, France

APPENDIX 6

FOREIGN BANKS WITH APPROVED LOCAL REPRESENTATIVE OFFICES

Institution	Address
1. American Express Bank Limited	P O Box 31079, Braamfontein, 2017
2. Banca di Roma	P O Box 787018, Sandton, 2146
3. Banco BPI, SA	P O Box 303, Bruma, 2026
4. Banco Comercial Português	P O Box 273, Bruma, 2026
5. Banco Espirito Santo e Comercial de Lisboa	P O Box 749, Bruma, 2026
6. Banco Totta & Açores SA	P O Box 309, Bruma, 2026
7. Bank Austria Aktiengesellschaft	P O Box 1483, Parklands, 2121
8. Bank Leumi Le-Israel BM	P O Box 8214, Johannesburg, 2000
9. Bank of America, National Association	P O Box 653144, Benmore, 2010
10. Bank of Cyprus Group	P O Box 652176, Benmore, 2010
11. Banque Bruxelles Lambert S.A.	P O Box 650660, Benmore, 2010
12. Banque Commerciale du Congo	P O Box 652065, Benmore, 2010
13. Banque Privée Edmond de Rothschild Luxembourg	P O Box 1022, Houghton, 2041
14. BNP Paribas Johannesburg	P O Box 653002, Benmore, 2010
15. Barclays Private Bank Limited	P O Box 1542, Saxonwold, 2132
16. Bayerische Hypo- und Vereinsbank AG	P O Box 1483, Parklands, 2121
17. Bayerische Landesbank Girozentrale	P O Box 47337, Parklands, 2121
18. Belgolaise Bank	P O Box 652065, Benmore, 2010
19. China Everbright Bank, South African Representative Office	P O Box 78345, Sandton, 2146
20. Commerzbank AG	P O Box 860, Parklands, 2121
21. Credit Commercial de France	P O Box 3248, Parklands, 2121
22. Crédit Industriel et Commercial	302 Portofino, 30 9th Street, Killarney, 2193
23. Crédit Lyonnais	P O Box 1059, Cramerview, 2060
24. Credit Suisse	Private Bag X9911, Sandton, 2146
25. Credit Suisse First Boston	Private Bag X9911, Sandton, 2146
26. Deutsche Bank AG	P O Box 781948, Sandton, 2146
27. Dresdner Bank AG	P O Box 413355, Craighall, 2024
28. Dresdner Kleinwort Wasserstein Limited	P O Box 413355, Craighall, 2146
29. Export-Import Bank of India	P O Box 2018, Saxonwold, 2132
30. First Union National Bank of Carolina	P O Box 3091, Saxonwold, 2132
31. Fortis Bank (Nederland) N.V.	P O Box 652065, Benmore, 2010
32. Hambros Bank Limited	P O Box 652275, Benmore, 2010
33. Hellennic Bank Limited	P O Box 783392, Sandton, 2146

FOREIGN BANKS WITH APPROVED LOCAL REPRESENTATIVE OFFICES (continued)

Institution	Address
34. HSBC Equator Bank Plc	P O Box 3248, Parklands, 2121
35. ING Banque Bruxelles Lambert (Suisse) SA	P O Box 65660, Benmore, 2010
36. Kredietbank SA Luxembourgeoise	P O Box 11241, Hatfield, 0028
37. Laiki Banking Group	P O Box 1621, Bruma, 2026
38. Natexis Banques Populaires	P O Box 1414, Morningside, 2057
39. National Bank of Egypt	P O Box 55402, Northlands, 2116
40. National Bank of Malawi	P O Box 412723, Craighall, 2024
41. Nordea Bank Danmark A/S	P O Box 11241, Hatfield, 0028
42. Nordea Bank Finland Plc	P O Box 11241, Hatfield, 0028
43. Nordea Bank Norge ASA	P O Box 11241, Hatfield, 0028
44. Nordea Bank Sweden AB (Publ)	P O Box 11241, Hatfield, 0028
45. Royal Bank of Canada	P O Box 652260, Benmore, 2010
46. Royal Bank of Canada Europe Limited	P O Box 784568, Sandton, 2146
47. Société Générale – South Africa	P O Box 6872, Johannesburg, 2000
48. Standard Chartered Bank	P O Box 2047, Houghton, 2041
49. Sumitomo Mitsui Banking Corporation	Private Bag X134, Bryanston, 2021
50. The Bank of Tokyo-Mitsubishi, Ltd	P O Box 78519, Sandton, 2146
51. The Representative Office for Southern and Eastern Africa of the Export-Import Bank of China	5th Floor, Norwich Life Towers, 13 Fredman Drive, Sandown, 2196
52. UBS AG	P O Box 652863, Benmore, 2010
53. Union Bank of Nigeria Plc	P O Box 653125, Benmore, 2010
54. Vereins- und Westbank AG	P O Box 1483, Parklands, 2121
55. Vnesheconombank	P O Box 413742, Craighall, 2024
56. Westdeutsche Landesbank Girozentrale	P O Box 786126, Sandton, 2146

APPENDIX 7

TRENDS IN SOUTH AFRICAN BANKS

The following tables have been selected for publication because they disclose:

- The most important industry trends.
- Industry statistics that facilitate banks' evaluation of their own positions.

Note: Certain of the comparative figures in respect of 1999 and 2000 may differ from those reported in the 1999 and 2000 Annual Reports owing to amended returns having been submitted by banks after publication of those reports.

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-ledge-ment of debt R million	Capital and reserves R million	Total liabilities R million
Average month-end balance for quarter								
1999:01	29 995	459 268	45 363	13 267	53 852	4 481	53 883	660 109
1999:02	33 722	465 610	45 960	16 825	60 329	5 803	57 177	685 426
1999:03	39 396	479 567	43 773	23 547	63 155	6 433	61 055	716 925
1999:04	37 494	488 618	40 471	20 320	59 479	7 702	62 486	716 569
2000:01	40 626	494 108	42 279	26 195	67 656	4 248	64 669	739 781
2000:02	41 822	492 563	44 978	27 783	66 887	4 240	68 371	746 643
2000:03	43 403	505 448	50 413	25 864	74 029	4 960	71 450	775 567
2000:04	41 710	523 890	57 787	24 091	78 161	4 352	75 337	805 326
2001:01	63 024	526 933	61 248	21 896	81 813	3 926	89 310	848 150
2001:02	72 697	537 956	64 743	21 016	93 016	3 069	88 966	881 463
2001:03	81 129	564 451	68 548	22 986	110 801	2 833	87 557	938 305
2001:04	88 397	577 675	84 231	26 586	136 321	3 483	91 602	1 008 295
Month-end balance for year								
Dec 1999	36 912	498 995	38 521	16 600	62 460	8 201	63 233	724 922
Dec 2000	42 013	536 438	59 258	25 155	74 589	4 247	77 538	819 238
Dec 2001	87 129	588 925	95 147	29 965	149 219	2 816	92 381	1 045 582
Average for 12 months								
1999	35 152	473 266	43 892	18 490	59 204	6 105	58 650	694 757
2000	41 890	504 002	48 864	25 983	71 683	4 450	69 957	766 829
2001	76 312	551 754	69 692	23 121	105 487	3 328	89 359	919 053
Percentage annual growth	%	%	%	%	%	%	%	%
1999	35,2	8,7	-8,6	11,7	19,7	108,7	22,2	11,3
2000	13,8	7,5	53,8	51,5	19,4	-48,2	22,6	13,0
2001	107,4	9,8	60,6	19,1	100,1	-33,7	19,1	27,6

TABLE 2

COMPOSITION OF BALANCE SHEET - ASSETS

	Money R million	Interbank advances R million	Non-bank advances R million	Loans granted under resale agreements R million	Invest-ment portfolio R million	Non-financial assets R million	Acknow-ledgement of debt outstanding R million	Other assets R million	Total assets R million
Average month-end balance for quarter									
1999:01	12 919	22 258	522 267	1 943	58 565	11 511	4 481	26 166	660 109
1999:02	14 792	25 765	534 082	1 866	65 719	11 315	5 803	26 084	685 426
1999:03	14 760	29 453	550 328	2 944	70 834	10 873	6 433	31 301	716 925
1999:04	15 868	31 530	548 680	6 668	68 040	10 819	7 702	27 262	716 569
2000:01	13 936	30 009	571 144	10 297	70 232	10 978	4 248	28 937	739 781
2000:02	14 595	30 688	572 583	9 966	76 340	10 929	4 240	27 302	746 643
2000:03	15 025	30 014	592 796	8 756	87 018	10 841	4 960	26 156	775 567
2000:04	17 696	32 810	605 180	8 731	100 411	11 152	4 352	24 995	805 326
2001:01	15 965	33 963	627 742	11 649	111 222	12 280	3 926	31 392	848 139
2001:02	16 711	42 469	646 644	14 678	103 670	11 518	3 070	42 704	881 463
2001:03	17 709	49 452	686 070	14 337	116 552	11 611	2 834	39 739	938 305
2001:04	21 362	49 632	717 467	16 991	148 502	11 718	3 573	39 050	1 008 295
Month-end balance for year									
Dec 1999	18 066	30 720	551 737	7 001	69 011	10 856	8 201	29 330	724 922
Dec 2000	19 851	33 326	612 517	8 597	105 526	11 211	4 247	23 964	819 238
Dec 2001	24 046	51 546	732 673	17 932	166 774	11 882	2 817	37 912	1 045 582
Average for 12 months									
1999	14 585	27 252	538 839	3 355	65 790	11 129	6 105	27 703	694 757
2000	15 313	30 881	585 426	9 438	83 500	10 975	4 450	26 848	766 829
2001	17 937	43 879	669 481	14 414	119 986	11 782	3 351	38 222	919 052
Percentage annual growth	%	%	%	%	%	%	%	%	%
1999	22,3	44,7	7,3	98,1	23,3	-5,8	108,7	13,4	11,3
2000	9,9	8,5	11,0	22,8	52,9	3,3	-48,2	-18,3	13,0
2001	21,1	54,7	19,6	108,6	58,0	6,0	-33,7	58,2	27,6

TABLE 3

COMPOSITION OF SELECTED LIABILITIES

	Deposits					Loans under repurchase agreement			Foreign funding		
	Demand R million	Savings R million	Fixed and notice R million	Negotiable certificates of deposit R million	Total 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											
1999:01	215 553	26 988	133 692	83 035	459 268	8 043	5 224	13 267	34 473	10 889	45 363
1999:02	218 704	27 903	137 589	81 414	465 610	10 289	6 535	16 825	34 486	11 474	45 960
1999:03	235 992	29 903	135 970	77 702	479 567	17 309	6 238	23 547	31 130	12 643	43 773
1999:04	253 856	31 085	133 319	70 358	488 618	12 645	7 674	20 320	28 060	12 412	40 471
2000:01	256 297	30 112	132 820	74 879	494 108	13 791	12 404	26 195	29 096	13 183	42 279
2000:02	253 071	30 372	142 759	66 361	492 563	14 384	13 399	27 783	31 214	13 764	44 978
2000:03	252 642	30 956	152 117	69 734	505 448	13 117	12 747	25 864	35 151	15 262	50 413
2000:04	255 038	32 061	163 723	73 067	523 890	12 960	11 131	24 091	40 474	17 313	57 787
2001:01	260 307	31 395	177 191	58 041	526 933	6 021	6 137	12 158	42 772	18 476	61 248
2001:02	270 744	32 261	180 516	54 436	537 956	5 760	5 461	11 221	45 888	18 855	64 743
2001:03	281 265	33 653	189 510	60 023	564 451	5 480	7 117	12 597	47 939	20 609	68 548
2001:04	270 772	32 436	182 406	57 500	543 113	5 754	6 238	11 992	55 508	28 723	84 231
Month-end balance for year											
Dec 1999	263 209	31 303	132 093	72 390	498 995	8 692	7 908	16 600	26 636	11 886	38 521
Dec 2000	260 554	32 045	165 816	78 023	536 438	13 781	11 375	25 155	41 845	17 413	59 258
Dec 2001	303 390	35 123	187 812	62 600	588 925	9 047	8 443	17 490	59 402	35 744	95 147
Average for 12 months											
1999	231 026	28 970	135 143	78 127	473 266	12 072	6 418	18 490	32 037	11 855	43 892
2000	254 262	30 875	147 855	71 010	504 002	13 563	12 420	25 983	33 984	14 881	48 864
2001	276 310	33 069	183 468	58 906	551 754	6 027	6 737	12 764	48 027	21 665	69 692
Percentage annual growth	%	%	%	%	%	%	%	%	%	%	%
1999	21,3	14,8	-2,0	-9,4	8,7	-9,0	48,6	11,7	-11,7	-0,9	-8,6
2000	-1,0	2,4	25,5	7,8	7,5	58,5	43,8	51,5	57,1	46,5	53,8
2001	16,4	9,6	13,3	-19,8	9,8	-34,4	-25,8	-30,5	42,0	105,3	60,6

TABLE 4

COMPOSITION OF LOANS AND ADVANCES TO NON-BANKS

	Negotiable certificates of deposit R million	Instalment debtors R million	Mortgage loans R million	Credit cards R million	Acknow-ledgement of debt discounted R million	Redeem-able preference shares R million	Overdrafts and loans R million	Foreign-currency loans and advances R million	Less: Specific provisions R million	Total R million
Average month-end balance for quarter										
1999:01	24 218	73 380	190 199	10 782	22 751	12 605	173 382	24 595	9 645	522 267
1999:02	24 419	73 410	190 167	11 028	23 274	13 057	179 309	29 919	10 502	534 082
1999:03	21 320	73 232	191 877	10 882	23 684	13 218	187 467	39 559	10 911	550 328
1999:04	15 160	73 967	194 255	11 313	20 398	12 312	195 860	37 169	11 755	548 680
2000:01	14 309	74 492	197 490	11 627	20 698	12 487	204 865	47 610	12 433	571 144
2000:02	12 441	76 160	201 585	11 792	20 470	11 678	205 439	45 602	12 582	572 583
2000:03	14 416	77 809	209 216	11 882	17 108	11 030	210 238	53 596	12 500	592 796
2000:04	13 883	80 223	216 169	12 129	13 582	10 676	216 630	54 810	12 922	605 180
2001:01	16 780	83 101	228 027	12 279	15 349	11 160	213 412	60 912	13 277	627 742
2001:02	17 016	86 955	234 430	12 367	14 831	11 487	213 167	70 167	13 775	646 644
2001:03	19 453	90 603	241 304	12 747	15 696	12 194	218 426	89 259	13 612	686 070
2001:04	18 196	93 651	249 142	13 233	15 750	13 226	226 911	101 321	13 964	717 467
Month-end balance for year										
Dec 1999	14 692	74 242	195 237	11 582	21 034	12 167	198 684	36 235	12 136	551 737
Dec 2000	15 023	80 994	218 566	12 164	14 157	10 380	218 310	55 915	12 991	612 517
Dec 2001	16 507	94 804	251 948	13 522	15 177	14 136	230 706	109 941	14 069	732 672
Average for 12 months										
1999	21 279	73 497	191 624	11 001	22 527	12 798	184 005	32 811	10 703	538 839
2000	13 762	77 171	206 115	11 858	17 964	11 468	209 293	50 405	12 609	585 426
2001	17 861	88 577	238 226	12 657	15 407	12 017	217 979	80 415	13 657	669 481
Percentage annual growth	%	%	%	%	%	%	%	%	%	%
1999	-27,3	1,3	3,2	9,8	-11,5	7,2	14,8	61,4	28,2	7,3
2000	2,3	9,1	11,9	5,0	-32,7	-14,7	9,9	54,3	7,0	11,0
2001	9,9	17,1	15,3	11,2	7,2	36,2	5,7	96,6	8,3	19,6

TABLE 5

FUNDING MATURITY STRUCTURE

	Short-term %	Medium-term %	Long-term %
Quarter			
1999:01	63,7	22,6	13,7
1999:02	64,3	22,8	12,9
1999:03	67,1	21,4	11,5
1999:04	67,7	21,3	11,0
2000:01	68,7	19,6	11,7
2000:02	69,0	19,4	11,6
2000:03	67,7	19,5	12,8
2000:04	67,0	21,1	11,9
2001:01	66,4	20,9	12,7
2001:02	66,8	19,9	13,4
2001:03	64,3	21,4	14,3
2001:04	64,0	21,6	14,5
Month-end for year			
December 1999	68,2	20,6	11,2
December 2000	67,7	20,4	11,9
December 2001	66,1	20,4	13,5
Average 12 months			
1999	65,7	22,0	12,3
2000	68,1	19,9	12,0
2001	65,3	21,0	13,7

TABLE 6

ANALYSIS OF CAPITAL AND RESERVES

	Primary capital R million	Qualifying secondary capital R million	Total qualifying capital R million	Less: Impairments R million	Net qualifying capital R million	As percentage of total risk exposure: Primary capital %	Impairments %	Secondary capital %
Quarter								
1999:01	43 155	16 462	59 617	6 149	53 467	9,1	1,3	3,5
1999:02	42 748	19 135	61 883	6 480	55 403	8,9	1,3	4,0
1999:03	46 894	17 647	64 541	6 013	58 528	9,5	1,2	3,6
1999:04	50 596	17 483	68 079	7 630	60 450	10,0	1,5	3,4
2000:01	52 473	18 850	71 322	8 230	63 092	10,1	1,6	3,6
2000:02	54 074	19 892	73 966	8 714	65 252	10,5	1,7	3,9
2000:03	56 161	20 465	76 626	9 591	67 035	10,5	1,8	3,8
2000:04	61 490	21 960	83 450	11 185	72 265	11,2	2,0	4,0
2001:01	63 961	25 695	89 656	12 334	77 322	10,3	2,0	4,1
2001:02	65 300	22 966	88 266	10 847	77 419	10,8	1,8	3,8
2001:03	64 563	23 705	88 268	12 768	75 500	10,7	2,1	3,9
2001:04	66 986	26 358	93 344	12 411	80 933	10,4	1,9	4,1
Average for year								
1999	45 848	17 682	63 530	6 568	56 962	9,4	1,3	3,6
2000	56 049	20 292	76 341	9 430	66 911	10,6	1,8	3,8
2001	65 202	24 681	89 883	12 090	77 793	10,5	2,0	3,8
Percentage annual growth	%	%	%	%	%			
1999	26,4	17,4	23,9	31,4	23,1			
2000	22,2	14,8	20,2	43,6	17,5			
2001	16,3	21,6	17,7	28,2	16,3			

TABLE 7

RISK PROFILE OF ASSETS

	Risk category						Total	Risk-weighted assets	Risk-weighted assets as percentage of total average assets
	0% R million	10% R million	20% R million	50% R million	100% R million	1250% R million	R million	R million	%
Average month-end balance for quarter									
1999:01	75 171	13 637	56 625	151 329	360 624	2 583	660 109	481 275	72,9
1999:02	88 149	12 200	61 986	151 425	369 157	2 510	685 426	489 861	71,5
1999:03	105 322	11 906	60 399	155 942	380 859	2 497	716 925	503 312	70,2
1999:04	98 359	13 477	58 629	151 029	392 301	2 772	716 569	515 535	71,9
2000:01	97 880	16 180	63 504	157 021	401 533	3 663	739 781	540 153	73,0
2000:02	103 010	16 727	64 071	156 916	401 662	4 256	746 643	547 812	73,4
2000:03	115 211	14 868	69 085	158 673	412 923	4 808	775 567	567 664	73,2
2000:04	119 541	13 728	74 195	162 339	429 304	6 220	805 326	604 431	75,1
2001:01	114 394	17 360	54 011	156 846	433 989	-	776 600	524 950	67,6
2001:02	133 422	11 926	60 606	160 823	446 424	-	813 201	540 149	66,4
2001:03	151 864	11 434	68 261	165 066	458 832	-	855 457	556 161	65,0
2001:04	162 115	15 719	74 406	168 955	481 113	-	902 308	582 043	64,5
Month-end balance for year									
Dec 1999	98 664	14 930	58 506	153 312	396 145	3 365	724 922	528 060	72,8
Dec 2000	126 176	13 700	75 071	162 867	435 004	6 420	819 238	613 069	74,8
Dec 2001	167 017	23 837	74 505	169 820	492 879	-	928 058	595 074	64,1
Average for 12 months									
1999	91 750	12 805	59 410	152 431	375 735	2 590	694 757	497 496	71,6
2000	108 910	15 376	67 714	158 737	411 356	4 737	766 829	565 015	73,7
2001	140 449	14 110	64 321	162 922	455 090	-	836 892	550 826	65,8
Percentage annual growth	%	%	%	%	%	%	%	%	
1999	27,0	16,9	13,4	0,4	12,0	31,2	11,3	11,5	
2000	27,9	-8,2	28,3	6,2	9,8	90,8	13,0	16,1	
2001	32,4	74,0	-0,8	4,3	13,3	-	13,3	-2,9	

TABLE 8

RISK PROFILE OF OFF-BALANCE-SHEET ITEMS

	Risk category							Risk-weighted off-balance-sheet items	Risk-weighted items as percentage of total average off-balance-sheet items
	0% R million	5% R million	10% R million	20% R million	50% R million	100% R million	Total R million	R million	%
Average month-end balance for quarter									
1999:01	17 105	1 582	789	4 577	43 132	11 802	78 986	34 441	43,6
1999:02	20 592	1 472	907	4 366	44 160	11 892	83 390	35 010	42,0
1999:03	12 813	3 001	1 008	4 885	41 484	12 944	76 135	34 914	45,9
1999:04	11 530	3 073	715	5 432	41 934	17 166	79 851	39 445	49,4
2000:01	12 071	3 330	691	5 360	43 228	15 617	80 296	38 538	48,0
2000:02	12 880	2 654	1 068	5 514	40 987	14 324	77 426	36 160	46,7
2000:03	14 315	2 506	1 370	5 784	48 391	15 805	88 171	41 420	47,0
2000:04	14 845	2 357	2 069	6 525	57 000	14 410	97 205	44 539	45,8
2001:01	20 836	3 461	3 626	5 945	54 374	14 332	102 573	43 244	42,2
2001:02	27 646	4 464	1 926	5 138	49 881	15 625	104 680	42 009	40,1
2001:03	79 646	15 680	2 449	4 511	47 542	17 968	167 796	43 672	26,0
2001:04	390 248	501	2 895	6 973	48 242	16 871	465 728	42 701	9,2
Month-end balance for year									
Dec 1999	11 062	3 440	706	5 310	42 916	17 125	80 559	39 888	49,5
Dec 2000	15 530	2 348	2 812	6 211	61 788	12 780	101 470	45 315	44,7
Dec 2001	615 513	278	3 408	8 514	50 194	18 000	695 906	45 155	6,5
Average for year									
1999	15 510	2 282	855	4 815	42 678	13 451	79 590	35 952	45,2
2000	13 528	2 712	1 299	5 796	47 401	15 039	85 775	40 164	46,8
2001	129 594	6 026	2 724	5 642	50 010	16 199	210 195	42 906	20,4
Percentage annual growth	%	%	%	%	%	%	%	%	
1999	-25,5	134,2	24,9	16,6	4,8	47,9	8,9	20,5	
2000	40,4	-31,7	298,4	17,0	44,0	-25,4	26,0	13,6	
2001	3863,5	-88,2	21,2	37,1	-18,8	40,8	585,8	-0,4	

TABLE 9(a)

RISK PROFILE OF LOANS AND ADVANCES

	5% R million	10% R million	20% R million	50% R million	100% R million	1250% R million	Total R million	Risk-weighted loans and advances R million	Risk-weighted loans and advances as percentage of total loans and advances %
Month-end balance for year 1999									
Loans and advances	0	11 773	53 718	148 574	336 706	-2	550 769	422 889	76,8
Interbank advances	0	0	21 894	20	32	0	21 947	4 421	20,1
Negotiable certificates of deposit	0	106	14 517	0	0	0	14 624	2 914	19,9
Instalment debtors	0	271	6	0	73 910	0	74 187	73 938	99,7
Mortgage loans	0	128	1	148 453	46 612	0	195 194	120 852	61,9
Credit cards	0	0	0	0	11 581	0	11 581	11 581	100,0
Acknowledgements of debt discounted	0	3 378	297	0	3 903	0	7 578	4 300	56,7
Redeemable preference shares	0	162	101	0	11 903	0	12 167	11 940	98,1
Overdrafts and loans	0	6 745	389	235	188 548	0	195 918	189 423	96,7
Foreign-currency loans and advances	0	926	12 298	0	10 093	0	23 318	12 645	54,2
Loans granted under resale agreements	0	57	4 234	0	2 100	0	6 391	2 953	46,2
Banks	0	0	4 202	0	0	0	4 202	840	20,0
Non-banks	0	57	33	0	2 100	0	2 190	2 112	96,5
Total loans and advances	0	11 773	53 738	148 709	348 684	0	562 905	434 968	77,3
Less: Specific provisions	0	0	20	135	11 978	2	12 136	12 079	99,5

TABLE 9(b)

RISK PROFILE OF LOANS AND ADVANCES

	5% R million	10% R million	20% R million	50% R million	100% R million	1250% R million	Total R million	Risk-weighted loans and advances R million	Risk-weighted loans and advances as percentage of total loans and advances %
Month-end balance for year 2000									
Loans and advances	0	9 030	64 116	161 257	368 753	335	603 490	467 292	77,4
Interbank advances	0	0	24 938	12	139	0	25 088	5 132	20,5
Negotiable certificates of deposit	0	0	14 554	0	27	0	14 581	2 938	20,1
Instalment debtors	0	260	7	0	80 709	0	80 976	80 736	99,7
Mortgage loans	0	31	0	161 077	57 259	0	218 367	137 801	63,1
Credit cards	0	0	0	0	12 164	0	12 164	12 164	100,0
Acknowledgements of debt discounted	0	981	443	0	4 938	0	6 361	5 124	80,6
Redeemable preference shares	0	164	132	451	9 633	0	10 380	9 906	95,4
Overdrafts and loans	0	6 916	811	2	205 671	334	213 734	210 705	98,6
Foreign-currency loans and advances	0	658	18 973	0	9 184	0	28 816	13 045	45,3
Loans granted under resale agreements	0	20	4 312	0	1 681	0	6 013	2 545	42,3
Banks	0	0	4 232	0	0	0	4 232	846	20,0
Non-banks	0	20	80	0	1 681	0	1 781	1 699	95,4
Total loans and advances	0	9 030	64 170	161 542	381 403	335	616 480	480 096	77,9
Less: Specific provisions	0	0	54	285	12 650	0	12 990	12 804	98,6

TABLE 9(c)

RISK PROFILE OF LOANS AND ADVANCES

Month-end balance for year 2001	0% R million	10% R million	20% R million	50% R million	100% R million	Total R million	Risk-weighted loans and advances R million	Risk-weighted loans and advances as percentage of total loans and advances %
Intragroup bank advances	22 882	0	61	0	0	22 943	12	0,1
Interbank advances	20	2 255	21 938	7	0	24 219	4 616	19,1
Negotiable certificates of deposits	493	0	10 496	0	287	11 277	2 386	21,2
Instalment debtors	24	80	19	0	93 210	93 333	93 222	99,9
Mortgage loans	6	26	32	167 032	83 363	250 459	166 888	66,6
Credit-card debtors	0	0	0	0	13 293	13 293	13 293	100,0
Acknowledgements of debt discounted	6 043	917	1 589	1	6 758	15 308	7 168	46,8
Redeemable preference shares	1 000	0	591	424	11 768	13 782	12 098	87,8
Overdrafts and loans	3 740	7 029	407	0	210 793	221 969	211 578	95,3
Foreign-currency loans and advances	50 268	535	34 043	0	18 178	103 023	25 040	24,3
Loans granted under resale agreements	2 309	0	1 455	0	52	3 816	343	9,0
S A Reserve Bank and Corporation for Public Deposits	68	0	0	0	0	68	0	0,0
Banks	2 241	0	1 455	0	0	3 696	291	7,9
Non-banks	0	0	0	0	52	52	52	100,0
Total loans and advances	86 785	10 842	70 631	167 463	437 703	773 423	536 645	69,4
Less: Specific provisions	12	0	0	128	13 739	13 879	13 803	99,5

TABLE 10

CAPITAL ADEQUACY

	Risk-weighted assets and off-balance-sheet items R million	Counterparty-risk exposure R million	Total risk exposure R million	Required capital R million	Net qualifying capital R million	Net qualifying capital Percentage
Quarter						
1999:01	467 312	6 835	474 147	37 975	53 467	11,2
1999:02	473 376	6 701	480 077	38 406	55 403	11,5
1999:03	486 798	6 295	493 092	39 517	58 528	11,9
1999:04	501 427	5 354	506 782	40 604	60 450	11,9
2000:01	512 705	4 905	517 610	41 462	63 092	12,2
2000:02	509 954	5 815	515 769	41 312	65 252	12,7
2000:03	527 774	6 219	533 993	42 759	67 035	12,5
2000:04	541 738	5 255	546 992	43 814	72 265	13,2
2001:01	615 560	7 113	622 672	49 484	68 977	11,1
2001:02	598 795	6 985	605 780	48 153	72 986	12,1
2001:03	596 321	6 668	602 990	48 817	70 731	11,7
2001:04	625 853	15 633	641 486	67 840	74 208	11,6
Average for year						
1999	482 228	6 296	488 524	39 125	56 962	11,6
2000	523 043	5 548	528 591	42 337	66 911	12,7
2001	609 132	9 100	618 232	53 574	71 725	11,6
Percentage annual growth	%	%	%	%	%	
1999	11,6	-23,1	11,1	11,1	22,1	
2000	8,5	-11,9	8,2	8,2	17,5	
2001	16,5	64,0	17,0	26,5	7,2	

TABLE 11(a)

COMPOSITION OF INCOME STATEMENT

	Average monthly balance for quarter 1999				Average monthly balance for quarter 2000			
	March R million	June R million	September R million	December R million	March R million	June R million	September R million	December R million
Interest income	8 667	7 933	7 237	6 955	6 511	6 689	6 873	7 175
Interest expense	6 945	6 208	5 606	5 198	4 787	4 836	5 047	5 211
Interest margin	1 722	1 726	1 631	1 757	1 723	1 853	1 827	1 964
Less: Specific provisions on loans and advances	493	578	601	850	546	572	412	587
Less: General debt provisions	30	-63	-55	14	162	17	11	35
Other	38	-7	14	22	25	31	38	24
Adjusted interest margin	1 161	1 218	1 071	871	990	1 233	1 366	1 318
Add: Transaction-based fee income	946	997	1 096	1 098	1 156	1 125	1 243	1 335
Income from management of funds	2 108	2 215	2 167	1 969	2 146	2 358	2 609	2 653
Less: Operational expenses	2 230	2 472	2 388	2 496	2 584	2 551	2 595	2 836
Net income from management of funds	-123	-256	-221	-528	-439	-193	14	-183
Add: Investment and trading income	1 107	836	779	881	1213	840	1071	856
Less: Specific provisions - investments	3	0	3	3	3	2	0	0
Add: Knowledge-based fee income	184	161	168	190	145	187	175	188
Net income before tax	1 166	740	722	541	916	831	1259	861
Taxation	284	178	183	189	274	210	302	248
Net income after tax	881	562	539	352	641	621	958	613

TABLE 11(b)

COMPOSITION OF INCOME STATEMENT

	Average monthly balance for quarter 2001				Results for 12 months			Average for year		
	March R million	June R million	September R million	December R million	1999 R million	2000 R million	2001 R million	1999 R million	2000 R million	2001 R million
Interest income	7 438	7 722	7 752	7 728	92 376	81 744	91 921	7 698	6 812	7 660
Interest expense	4 711	4 972	5 437	5 395	71 871	59 643	61 545	5 989	4 970	5 129
Interest margin	2 727	2 750	2 315	2 333	20 505	22 101	30 375	1 709	1 842	2 531
Less: Specific provisions on loans and advances	469	773	831	703	7 565	6 351	8 328	630	529	694
Less: General debt provisions	84	95	69	119	-224	675	1 100	-19	56	92
Other	21	4	22	72	200	354	356	17	30	30
Adjusted interest margin	2 153	1 878	1 393	1 439	12 963	14 721	20 591	1 080	1 227	1 716
Add: Transaction-based fee income	1 345	1 112	1 424	1 558	12 413	14 577	16 319	1 034	1 215	1 360
Income from management of funds	3 498	2 991	2 817	2 998	25 376	29 298	36 910	2 115	2 442	3 076
Less: Operational expenses	2 879	3 037	3 016	3 227	28 759	31 698	36 478	2 397	2 642	3 040
Net income from management of funds	620	-47	-199	-230	-3 383	-2 403	432	-282	-200	36
Add: Investment and trading income	880	251	933	1 150	10 806	11 940	9 642	900	995	803
Less: Specific provisions - investments	70	-54	0	15	27	15	89	2	1	7
Add: Knowledge-based fee income	183	217	413	274	2 109	2 085	3 261	176	174	272
Net income before tax	1 332	5	733	1 481	9 505	11 601	10 652	792	967	888
Taxation	225	243	253	323	2 503	3 102	3 131	209	259	261
Net income after tax	1 107	-238	479	1 159	7 002	8 499	7 521	583	708	627

TABLE 12

PROFITABILITY: OPERATING RATIOS

	Interest income to loans and advances %	Interest expense to funding %	Interest margin %	Provisions to loans and advances %
Average monthly balance for quarter				
1999:01	19,0	14,5	4,6	0,3
1999:02	17,0	12,5	4,4	0,4
1999:03	14,9	10,8	4,1	0,4
1999:04	14,2	10,0	4,2	0,5
2000:01	12,8	8,9	3,9	0,3
2000:02	13,1	8,9	4,2	0,3
2000:03	13,1	9,0	4,1	0,2
2000:04	13,3	9,0	4,3	0,3
2001:01	12,6	8,0	4,5	1,0
2001:02	12,7	8,5	4,2	0,9
2001:03	11,4	8,5	2,9	1,1
2001:04	11,3	8,0	3,3	1,2
Results for the 12 months ended				
December 1999	15,7	11,5	4,2	1,6
December 2000	12,5	8,4	4,1	1,2
December 2001	10,9	7,4	3,5	1,1

TABLE 13

PROFITABILITY RATIOS

	Net income after tax to total assets %	Net income after tax to owners equity %	Stated as percentage of total assets					
			Interest income %	Interest expense %	Interest margin %	Operating expenses %	Fee Income %	Investment and trading income %
Average month-end balance for quarter								
1999:01	1,6	20,8	15,8	12,6	3,1	4,1	2,1	2,0
1999:02	1,0	12,6	13,9	10,9	3,0	4,3	2,0	1,5
1999:03	0,9	11,5	12,1	9,4	2,7	4,0	2,1	1,3
1999:04	0,6	7,2	11,6	8,7	2,9	4,2	2,2	1,5
2000:01	1,0	12,6	10,6	7,8	2,8	4,2	2,1	2,0
2000:02	1,0	11,7	10,8	7,8	3,0	4,1	2,1	1,3
2000:03	1,5	17,5	10,6	7,8	2,8	4,0	2,2	1,7
2000:04	0,9	10,6	10,7	7,8	2,9	4,2	2,3	1,3
2001:01	1,6	18,1	10,5	6,7	3,9	4,1	2,2	1,2
2001:02	-0,3	-3,7	10,5	6,8	3,7	4,1	1,8	0,3
2001:03	0,6	7,61	9,9	7,0	3,0	3,9	2,3	1,2
2001:04	1,4	17,09	9,2	6,4	2,8	3,8	2,2	1,4
Results for the 12 months ended								
December 1999	1,0	13,0	13,3	10,3	3,0	4,1	2,1	1,3
December 2000	1,1	13,1	10,7	7,8	2,9	4,1	2,2	1,5
December 2001	0,7	9,2	8,8	5,9	2,9	3,5	1,9	0,9

TABLE 14

PERCENTAGE COMPOSITION OF INTEREST INCOME

	Interbank loans %	Instal-ment debtors %	Mortgage loans %	Credit cards %	Acknow-ledge-ment of debt dis-counted %	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 %
Average month-end balance for quarter											
1999:01	8,5	14,4	36,7	2,2	4,3	1,8	29,9	1,5	0,7	-	-
1999:02	8,9	14,5	35,3	2,4	4,1	2,0	30,8	1,4	0,7	-	-
1999:03	8,2	14,5	35,9	2,4	4,1	2,1	29,5	2,5	0,8	-	-
1999:04	8,7	14,1	34,5	2,3	3,2	2,2	31,0	2,7	1,2	-	-
										-	-
2000:01	7,2	14,1	35,3	2,4	3,3	1,5	32,1	2,8	1,3	-	-
2000:02	7,3	14,1	35,3	2,4	3,1	1,8	31,1	3,8	1,1	-	-
2000:03	6,2	13,8	35,0	2,3	2,7	1,6	32,9	4,5	1,0	-	-
2000:04	6,5	13,9	34,4	2,2	2,2	1,6	33,8	4,6	0,8	-	-
2001:01	7,2	13,3	34,3	2,2	2,4	1,6	28,7	3,9	0,5	1,7	4,2
2001:02	8,0	13,2	34,0	2,2	1,8	1,6	28,5	3,8	0,8	1,7	4,5
2001:03	3,8	12,9	32,8	2,2	2,0	1,5	31,2	4,6	0,6	1,9	6,5
2001:04	5,1	13,1	31,5	2,2	2,9	1,3	32,0	4,1	0,9	1,7	5,1
Results for the 12 months ended											
December 1999	8,6	14,4	35,6	2,3	3,9	2,0	30,3	2,0	0,8	-	-
December 2000	6,8	14,0	35,0	2,3	2,8	1,6	32,5	3,9	1,0	-	-
December 2001	6,0	13,1	33,2	2,2	2,3	1,5	30,1	4,1	0,7	1,8	5,1

TABLE 15

PERCENTAGE COMPOSITION OF INTEREST EXPENSE

	Intra-group funding %	Interbank funding %	Demand deposits %	Savings deposits %	Fixed and notice deposits %	Nego-tiable certifi-cates of deposit %	Loans under re-purchase agree-ments %	Other funding %	Foreign funding %	Transfer cost of trading activities %	Debt instru-ments %
Average month-end balance for quarter											
1999:01	3,0	3,4	37,4	2,9	26,7	16,0	1,3	3,7	3,7	-	1,9
1999:02	3,7	3,3	36,0	2,6	25,6	16,5	1,6	4,2	4,3	-	2,3
1999:03	3,4	3,3	35,4	2,5	25,6	13,7	2,1	6,2	4,7	-	3,1
1999:04	3,1	3,6	37,9	2,5	25,6	11,6	1,5	6,3	4,6	-	3,3
										-	
2000:01	3,2	4,0	38,3	2,4	24,1	12,7	1,8	5,9	3,9	-	3,7
2000:02	2,7	3,7	37,5	2,3	25,3	10,7	2,2	6,7	5,2	-	3,7
2000:03	3,0	3,4	35,1	2,3	26,7	10,7	2,1	6,8	6,0	-	4,0
2000:04	4,0	3,6	33,5	2,3	26,7	10,8	1,9	6,4	6,6	-	4,2
2001:01	2,0	7,0	36,8	2,4	30,5	9,8	2,2	-1,5	6,5	-0,8	4,9
2001:02	3,0	8,2	37,1	2,4	30,7	8,4	1,9	-1,7	5,8	-0,6	4,9
2001:03	3,7	7,8	31,9	2,1	27,8	8,5	1,6	7,8	5,5	-1,1	4,6
2001:04	4,4	8,2	30,4	2,0	26,7	9,8	1,8	9,6	4,6	-2,8	5,4
Results for the 12 months ended											
December 1999	3,3	3,4	36,7	2,6	25,9	14,4	1,6	5,1	4,3	-	2,7
December 2000	3,2	3,7	36,1	2,3	25,7	11,2	2,0	6,5	5,4	-	3,9
December 2001	3,3	7,8	33,9	2,2	28,9	9,1	1,8	3,8	5,6	-1,4	4,9

TABLE 16(a)

CALCULATION OF LIQUID-ASSET REQUIREMENT

	Average month-end balance for quarter 1999				Average month-end balance for quarter 2000			
	March R million	June R million	September R million	December R million	March R million	June R million	September R million	December R million
Liabilities, including capital and reserves	660 109	685 426	716 925	716 569	739 781	746 643	775 567	805 326
Less: Capital and reserves	53 883	57 177	61 055	62 486	64 669	68 371	71 450	75 337
- average daily amount of funding from head office or branches	-	-	-	-	-	-	-	-
- average daily amount owing by banks, branches and mutual banks	-	-	-	-	-	-	-	-
Liabilities as adjusted	606 226	628 249	655 870	654 083	675 112	678 272	704 117	729 990
Liquid-asset requirement	30 311	31 412	32 794	32 704	33 756	33 914	35 206	36 500
Liquid assets held	37 136	36 450	37 157	40 515	38 535	37 128	38 379	39 001
SARB notes and coins	8	3	1	1	8	9	70	63
Gold coin and bullion	1	0	1	0	0	0	0	0
Clearing-account balances	40	39	53	41	24	26	22	62
Treasury bills of the Republic	15 540	16 370	14 116	15 500	16 090	13 865	13 809	15 545
Stock issued - Exchequer Act, 1975	18 030	16 497	18 140	20 964	18 792	19 912	21 480	20 280
Securities issued - Public Finance Management Act, 1999	-	-	-	-	-	-	-	-
Securities of the SARB	833	1 405	2 393	1 267	881	860	711	941
Land Bank bills	2 685	2 062	2 315	2 590	2 585	2 457	2 288	2 110
Memorandum items								
Cash-management schemes	75 208	94 993	89 609	53 197	38 961	38 490	39 046	38 925
Set-off	46 964	53 135	64 229	51 674	54 138	62 586	65 011	68 204
Ratios	%	%	%	%	%	%	%	%
Liquid assets held to liquid assets required	122,5	116,0	113,3	123,9	114,2	109,5	109,0	106,9

TABLE 16(b)

CALCULATION OF LIQUID-ASSET REQUIREMENT

	Average month-end balance for quarter 2001				Month-end for year			Percentage annual growth		
	March R million	June R million	September R million	December R million	1999 R million	2000 R million	2001 R million	1999 %	2000 %	2001 %
Liabilities, including capital and reserves	835 389	872 259	919 561	976 089	724 922	819 238	1 006 052	11,3	13,0	22,80
Less: Capital and reserves	88 402	89 001	87 668	91 885	63 223	77 538	94 438	22,2	22,6	21,80
- average daily amount of funding from head office or branches	7 408	7 918	10 645	15 672	-	-	16 982	-	-	-
- average daily amount owing by banks branches and mutual banks	62 685	73 571	90 042	86 359	-	-	90 775	-	-	-
Liabilities as adjusted	676 894	701 769	731 205	782 173	661 689	741 700	803 857	10,4	12,1	8,38
Liquid asset requirement	33 845	35 088	36 560	39 109	33 084	37 085	40 193	10,4	12,1	8,38
Liquid-assets held	39 052	39 090	42 471	42 989	40 034	38 486	44 341	17,7	-3,9	15,21
SARB notes and coins	90	95	873	1 841	1	61	1 969	-	-	-
Gold coin and bullion	5	6	5	6			11	-7,5	-13,5	
Clearing-account balances	1	22	4	6	26	27	7	-6,7	3,2	-73,95
Treasury bills of the Republic	16 086	13 868	14 373	12 021	17 279	16 716	10 962	-2,2	-3,3	-34,42
Stock issued - Exchequer Act, 1975	-	-	-	-	18 943	18 820	-	49,9	-0,7	-
Securities issued - Public Finance Management Act, 1999	20 256	22 168	24 245	27 224	-	-	29 292	-	-	-
Securities of the SARB	630	967	1 071	761	984	844	1 033	15,7	-14,2	22,39
Land Bank bills	1 984	1 965	1 899	1 131	2 656	2 018	1 067	-6,1	-24,0	-47,14
Memorandum items										
Cash-management schemes	39 883	41 150	41 713	42 679	37 207	37 507	45 205	-47,4	0,8	20,53
Set-off	79 198	83 014	67 867	76 240	49 517	72 489	79 531	2,2	46,4	9,71
Ratios	%	%	%	%	%	%	%			
Liquid assets held to liquid assets required	115,4	111,4	116,2	109,9	121,0	103,8	110,3			

TABLE 17

ANALYSIS OF OVERDUE ACCOUNTS

	Mortgage loans R million	Instalment finance R million	Other loans R million	Total R million	Specific provisions R million	Market value of security held R million
Quarter						
1999:01	12 137	3 599	9 566	25 302	9 334	15 046
1999:02	12 937	3 993	10 901	27 831	10 406	16 546
1999:03	12 973	3 564	12 021	28 558	11 007	16 510
1999:04	12 664	3 223	13 597	29 484	12 236	16 096
2000:01	12 615	3 126	13 441	29 182	12 530	16 302
2000:02	12 354	3 034	13 944	29 332	12 492	15 604
2000:03	11 953	3 001	14 469	29 424	12 758	15 738
2000:04	11 189	2 999	14 578	28 767	13 242	15 443
2001:01	9 168	3 048	13 975	26 191	11 498	13 160
2001:02	9 279	2 859	13 617	25 755	11 796	12 441
2001:03	9 229	2 965	13 720	25 914	11 483	12 620
2001:04	8 782	2 866	14 546	26 194	12 047	11 985
Average for year						
1999	12 678	3 595	11 521	27 794	10 746	16 050
2000	12 028	3 040	14 108	29 176	12 756	15 772
2001	9 115	2 935	13 965	26 014	11 706	12 552
Percentage annual growth	%	%	%	%	%	%
1999	20,1	2,0	52,5	30,3	31,7	19,0
2000	-11,6	-6,9	7,2	-2,4	8,2	-4,1
2001	-	-	-	-	-	-

Note: In the new Regulations relating to Banks, which came into effect on 1 January 2001, the definition and classification of overdue accounts were amended to comply with international best practice. As a result, data on overdue accounts changed markedly, and comparisons over time should be made with caution.

TABLE 18

ANALYSIS OF OVERDUE ACCOUNTS: SELECTED RATIOS

	Specific provisions as a percentage of total overdues %	Specific provisions and securities held as percentage of total overdues %	Overdues as percentage of advances %	Specific provisions as a percentage of advances %	Net overdues[1] as percentage of net qualifying capital and reserves %
End of quarter					
1999:01	36,9	96,4	4,5	1,7	21,2
1999:02	37,4	96,8	4,7	1,8	25,1
1999:03	38,5	96,4	4,8	1,9	24,7
1999:04	41,5	96,1	4,9	2,0	22,1
2000:01	42,9	98,8	4,6	2,0	19,5
2000:02	42,6	95,8	4,7	2,0	19,2
2000:03	43,4	96,9	4,5	2,0	18,5
2000:04	46,0	99,7	4,3	2,0	15,3
2001:01	43,9	94,1	3,7	1,6	19,2
2001:02	45,8	94,1	3,5	1,6	18,8
2001:03	44,3	93,0	3,4	1,5	18,7
2001:04	46,0	91,7	3,2	1,5	17,3
Average for year					
1999	38,6	96,4	4,7	1,8	23,3
2000	43,7	97,8	4,5	2,0	18,0
2001	45,0	93,3	3,5	1,6	18,5

1. Net overdues = gross overdues less specific provisions.

TABLE 19

LARGE CREDIT EXPOSURES

	Granted R million	Utilised R million	Utilised as a percentage of advances %	Utilised as a percentage of net qualifying capital and reserves %	Granted as a percentage of net qualifying capital and reserves %
Quarter					
1999:01	500 944	170 878	30,4	324,0	949,9
1999:02	521 448	164 939	28,0	299,3	946,3
1999:03	493 451	156 842	26,4	271,1	852,9
1999:04	498 890	152 298	25,3	256,3	839,6
2000:01	572 012	155 988	24,8	250,6	919,0
2000:02	595 509	167 290	26,7	259,8	924,8
2000:03	679 507	173 978	26,7	264,5	1 033,0
2000:04	689 984	194 041	29,1	270,8	962,8
2001:01	1 287 424	124 516	17,8	164,0	1 695,6
2001:02	1 396 682	139 118	19,0	185,7	1 864,8
2001:03	1 395 267	160 015	20,8	208,6	1 818,7
2001:04	1 425 698	179 447	20,8	218,8	1 738,1
Average for year					
1999	503 683	161 239	27,5	287,7	897,2
2000	634 253	172 824	26,8	261,4	959,9
2001	1 376 268	150 774	19,6	194,3	1 779,3
Percentage annual growth	%	%			
1999	2,7	-5,5			
2000	38,3	27,4			
2001	-	-			

TABLE 20

PROFITABILITY OF ASSETS

	Money R million	Advances: Reasonable margin R million	Advances: Small margin R million	Advances: No yield R million	Investments: Profitable R million	Investments: Not profitable R million	Infra-structure R million	Total R million
Quarter								
1999:01	14 912	535 625	42 402	13 693	16 535	4 073	43 941	671 180
1999:02	14 568	554 699	44 975	16 344	19 511	3 166	43 403	696 665
1999:03	15 438	577 516	43 734	11 905	20 239	4 216	48 210	721 258
1999:04	18 029	579 059	41 384	12 506	20 359	3 158	47 923	722 418
2000:01	14 528	609 549	36 208	13 964	24 233	4 106	42 406	744 994
2000:02	14 251	606 628	43 099	14 635	24 467	5 100	42 019	750 199
2000:03	15 080	649 909	35 805	15 721	24 681	7 079	39 963	788 238
2000:04	19 843	662 541	43 253	15 614	28 188	9 911	39 171	818 522
2001:01	16 092	657 933	54 373	20 903	37 936	11 324	54 180	852 677
2001:02	16 450	686 296	69 850	20 237	34 575	8 517	57 303	893 229
2001:03	17 879	717 522	66 542	22 017	36 245	11 371	52 571	924 146
2001:04	24 526	797 414	60 023	20 858	83 892	4 381	52 519	1 043 614
Average for year								
1999	15 737	561 725	43 123	13 612	19 161	3 653	45 869	702 880
2000	15 926	632 157	39 591	14 983	25 392	6 549	40 890	775 488
2001	18 737	714 791	62 697	21 004	48 162	8 898	54 143	928 417
Percentage annual growth	%	%	%	%	%	%	%	%
1999	22,0	9,9	14,9	2,1	31,8	-8,9	15,6	11,2
2000	10,1	14,4	4,5	24,9	38,5	213,8	-10,9	13,3
2001	23,6	20,4	38,8	33,6	197,6	-55,8	34,1	27,5

TABLE 21

OPEN POSITION IN FOREIGN CURRENCY

	Total foreign-exchange assets USA$ million	Total foreign-exchange liabilities USA$ million	Net spot position USA$ million	Commit-ments to purchase foreign currency USA$ million	Commit-ments to sell foreign currency USA$ million	Mismatched forward commit-ments USA$ million	Foreign branches USA$ million
Average month-end balance for quarter							
1999:01	4 132	6 962	-2 830	163 535	160 701	2 834	-59
1999:02	5 136	7 269	-2 134	155 278	153 188	2 090	-41
1999:03	6 699	6 997	-297	148 133	148 010	122	-39
1999:04	6 252	6 312	-61	139 678	139 817	-139	-7
2000:01	7 629	6 379	1 250	133 251	134 579	-1 328	11
2000:02	6 652	6 267	385	141 198	141 685	-487	30
2000:03	7 567	6 705	862	135 461	136 488	-1 028	31
2000:04	7 119	7 126	-7	137 972	138 193	-221	32
2001:01	7 640	7 343	297	148 044	148 230	-186	44
2001:02	8 609	7 745	864	152 035	152 743	-708	36
2001:03	10 410	7 843	2 567	171 453	173 867	-2 415	30
2001:04	9 518	7 937	1 581	161 092	162 531	-1 439	40
Month-end balance for year							
Dec 1999	6 068	5 923	145	123 126	123 617	-491	6
Dec 2000	7 299	7 370	-72	138 337	138 559	-221	36
Dec 2001	9 035	7 903	1 131	151 083	152 090	-1 007	42
Average for year							
1999	5 555	6 885	-1 330	151 656	150 429	1 227	-36
2000	7 242	6 619	623	136 971	137 736	-766	26
2001	9 044	7 717	1 327	158 156	159 343	-1 187	38
Percentage annual growth	%	%	%	%	%	%	%
1999	47,8	-13,3	105,3	-19,0	-17,1	-116,2	108,4
2000	20,3	24,4	-149,3	12,4	12,1	54,9	557,1
2001	23,8	7,2	1 682,4	9,2	9,8	-355,0	17,8

APPENDIX 8

CIRCULARS SENT TO BANKING INSTITUTIONS DURING 2001

Banks Act Circular 1/2001	Annual withdrawal and retention of circulars
Banks Act Circular 2/2001	Completion of a compliance checklist
Banks Act Circular 3/2001	Accounting Statement AC 133: Financial instruments: recognition and measurement
Banks Act Circular 4/2001	The new Basel Capital Accord: invitation for comment
Banks Act Circular 5/2001	Warning against fraudulent use of insurance policy
Banks Act Circular 6/2001	Increase in the prescribed percentage contemplated in section 70 of the Banks Act, 1990, and section 48 of the Mutual Banks Act, 1993
Banks Act Circular 7/2001	Warning against the risks associated with the collection of non-transferable cheques
Banks Act Circular 8/2001	Use of divisional names
Banks Act Circular 9/2001	Reissue of warning against the risks associated with the collection of non-transferable cheques
Banks Act Circular 10/2001	Percentage of the average daily amount of a bank's or mutual bank's Reserve Bank notes and subsidiary coin that may be taken into consideration for purposes of the calculation of the minimum reserve balance as contemplated in terms of section 10A of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989)
Banks Act Circular 11/2001	New Basel Capital Accord: regional conference in Pretoria, South Africa, on 20 October 2001 and 30 October 2001
Banks Act Circular 12/2001	Preference share investment schemes
Banks Act Circular 13/2001	Electronic submission of amended capital-adequacy ratio requirement DI returns to this Office by banks and branches of foreign banks
Banks Act Circular 14/2001	Electronic submission of amended capital-adequacy ratio requirement DI returns to this Office by mutual banks
Banks Act Circular 15/2001	Expansion of scope of on-site bank examinations

APPENDIX 9

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		
1994/12/14	16167	A group of persons between which a common bond exists	Indefinite
1994/12/14	16167	Commercial paper	Indefinite
1994/12/14	16167	Mining houses	Indefinite
1994/12/14	16167	Trade in securities and financial instruments	Indefinite
2001/12/13	22948	Securitisation schemes	Indefinite

SECTION 1(dd): EXEMPTIONS BY THE MINISTER OF FINANCE

GOVERNMENT GAZETTE		TOPIC	SUBPARAGRAPH	EXPIRY
Date	Number			
2000/12/28	21941	Village financial service co-operatives	(dd)(i)	2003/12/31
2000/12/28	21942	The National Housing Finance Corporation Limited	(dd)(i)	2003/12/31
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 MINISTER OF FINANCE

GOVERNMENT GAZETTE		TOPIC	EXPIRY
Date	Number		
1998/09/22	19283	Members of the Johannesburg Stock Exchange as persons authorised to accept money as mandataries and to deposit such money into banking accounts maintained by them	Indefinite

SECTION 2(vii): EXCLUSIONS BY THE REGISTRAR OF BANKS

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): EXEMPTION 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 10

LEGISLATION REGARDING REGULATION OF FINANCIAL SERVICES

The following Acts fall within the ambit of the current regulatory structure in respect of which the Policy Board for Financial Services and Regulation, established in terms of the Policy Board for Financial Services and Regulation Act, 1994 (Act No. 141 of 1994), advises the Minister of Finance, with a view to co-ordinating the financial regulation policy in respect of the entire financial services sector:

1.	Banks Act, 1990	No. 94 of 1990	(A)
2.	Mutual Banks Act, 1993	No. 124 of 1993	(A)
3.	Bills of Echange Act, 1964	No. 34 of 1964	(A)
4.	Financial Services Board Act, 1990	No. 97 of 1990	(B)
5.	Participation Bonds Act, 1981	No. 55 of 1981	(B)
6.	Financial Institutions (Investment of Funds) Act, 1984	No. 39 of 1984	(B)
7.	Pension Funds Act, 1956	No. 24 of 1956	(B)
8.	Friendly Societies Act, 1956	No. 25 of 1956	(B)
9.	Unit Trusts Control Act, 1981	No. 54 of 1981	(B)
10.	Long-term Insurance Act, 1998	No. 52 of 1998	(B)
11.	Short-term Insurance Act, 1998	No. 53 of 1998	(B)
12.	Insider Trading Act, 1998	No. 135 of 1998	(B)
13.	Inspection of Financial Institutions Act, 1998	No. 88 of 1998	(B)
14.	Stock Exchanges Control Act, 1985	No. 1 of 1985	(B)
15.	Financial Markets Control Act, 1989	No. 55 of 1989	(B)
16.	Safe Deposit of Securities Act, 1992	No. 85 of 1992	(B)
17.	Financial Supervision of the Multilateral Motor Vehicle Accidents Fund Act, 1993	No. 8 of 1993	(B)
18.	Companies Act, 1926 (Partially)	No. 46 of 1926	(C)
19.	Business Names Act, 1960	No. 27 of 1960	(C)
20.	Companies Act, 1973	No. 61 of 1973	(C)
21.	Share Blocks Control Act, 1980	No. 59 of 1980	(C)
22.	Close Corporations Act, 1984	No. 69 of 1984	(C)

(A) Supervised by the Bank Supervision Department, South African Reserve Bank.

(B) Supervised by the Financial Services Board.

(C) Administered by the Registrar of Companies.

APPENDIX 11

APPROVAL OF ACQUISITION OF FOREIGN BANKING INTERESTS IN TERMS OF SECTION 52 OF THE BANKS ACT, 1990, FROM 1 JANUARY 2001 TO 31 DECEMBER 2001

Name of bank/ controlling company	Date of approval	Name of interest	Country
ABSA Group Limited	2001-12-06	Banco Austral - 80 per cent	Mozambique
ABSA Group Limited	2001-12-07	EIC Corporation Limited - 0,9 per cent	Bermuda
Brait South Africa Limited	2001-08-20	Brait Botswana Limited	Botswana
Cadiz Holdings Limited	2001-03-08	Cadiz Forsyth Limited - 50 per cent	United Kingdom
FirstRand Bank Holdings Limited	2001-04-23	Jersey General Group Holdings Limited - 62,46 per cent	Jersey
Genbel Securities Limited	2001-01-16	- Gensec Netherlands Holding B.V. - Gensec Financial Services B.V.	Netherlands
Genbel Securities Limited	2001-02-07	- Gensec Psigma Holdings UK Limited - Psigma Group Limited and subsidiaries	United Kingdom
Genbel Securities Limited	2001-11-01	Gensec Dublin Limited	Ireland
Genbel Securities Limited	2001-12-07	Real Africa Durolink London Limited	United Kingdom
Genbel Securities Limited	2001-12-10	- Ireland Newco - Netherlands Newco	Ireland Netherlands
Investec Group Limited	2001-02-05	Hargreave Hale London Limited - 35 per cent	United Kingdom
Investec Group Limited	2001-03-08	Wentworth Associates Pty Limited	Australia
Investec Group Limited	2001-03-16	- Investec Property (Eagle Court II) Limited - Investec Property (Palace Street) Limited	United Kingdom
Investec Group Limited	2001-03-22	- Investec plc - Investec International BV. - Investec International (Gibraltar) Limited - Investec Holding Company Limited - Investec Mauritius BV - Investec (Overseas Holdings) BV - Invego Belgium SA NV - Investec (USA) BV	United Kingdom Netherlands Gibraltar United Kingdom Netherlands Netherlands Belgium Netherlands
Investec Group Limited	2001-03-22	Blycort Limited - 50 per cent	United Kingdom
Investec Group Limited	2001-03-23	- Investec Property Investments (27 Dover Street) Limited - Investec Property Investments (40a Dover Street) Limited - Investec Property Investments (Thanet House) Limited	United Kingdom
Investec Group Limited	2001-03-23	- Investec Property (Eastleigh) Limited - Investec Property Investments (25 Dover Street) Limited	United Kingdom
Investec Group Limited	2001-03-30	- Radcliffe Trustee Company Société Anonyme - Radinvest Limited	Switzerland
Investec Group Limited	2001-04-23	Irish Managed Companies Limited	Ireland
Investec Group Limited	2001-04-26	- Theodores Holdings Limited and subsidiaries - T G Jersey Limited	Jersey
Investec Group Limited	2001-05-04	Investec Management Services (Mauritius) Limited	Mauritius
Investec Group Limited	2001-06-01	All foreign financial services and insurance businesses (28 companies) of Fedsure Holdings Limited	Various domiciles

APPENDIX 11

APPROVAL OF ACQUISITION OF FOREIGN BANKING INTERESTS IN TERMS OF SECTION 52 OF THE BANKS ACT, 1990, FROM 1 JANUARY 2000 TO 31 DECEMBER 2001 (continued)

Name of bank/ controlling company	Date of approval	Name of interest	Country
Investec Group Limited	2001-06-11	Pro Vision Financial (Pty) Limited	Australia
Investec Group Limited	2001-07-04	IMC Recruitment Limited	Ireland
Investec Group Limited	2001-07-18	PMG Group Incorporated and subsidiaries	United States of America
Investec Group Limited	2001-07-24	Laroc Aviation Limited	Mauritius
Investec Group Limited	2001-09-21	- Investec Property (Furnival Street) Limited - Investec Property (Upper Richmond Road) Limited	United Kingdom
Investec Group Limited	2001-10-03	Investec Receivables Trading Limited	Ireland
Investec Group Limited	2001-11-20	Enterprise Business Centres (Dover Street) Limited	United Kingdom
Nedcor Limited	2001-01-23	Dimension Data Holdings plc - 8,18 per cent	United Kingdom
Nedcor Limited	2001-03-01	Acturis Ltd - 40 per cent	United Kingdom
Nedcor Limited	2001-05-14	Fleming (Jersey) Limited and subsidiaries, including Fleming (Isle of Man) Limited	Jersey Isle of Man
Nedcor Limited	2001-05-29	Hatch Investments (Mauritius) Limited	Mauritius
Nedcor Limited	2001-09-20	Nedcor Bank Limited - Hong Kong Branch	Hong Kong
Real Africa Durolink Holdings Limited	2001-01-30	Sagit Stockbrokers (Private) Limited	Zimbabwe
Saambou Holdings Limited	2001-02-27	Saamsure International Limited	Guernsey
Sasfin Holdings Limited	2001-09-28	Saturn Advisors Limited	Guernsey
Standard Bank Investment Corporation Limited	2001-02-05	Financial Equities Limited - 90 per cent	Nigeria
Standard Bank Investment Corporation Limited	2001-04-17	Stanbic Nominees Botswana (Pty) Limited	Botswana
Standard Bank Investment Corporation Limited	2001-05-04	Standard Distribuidora de Titulos e Valores Mobiliarios Limitada	Brazil
Standard Bank Investment Corporation Limited	2001-05-11	Jardine Fleming Bank Limited	Hong Kong
Standard Bank Investment Corporation Limited	2001-06-05	Standard Merchant Bank (Asia) Limited	Singapore
Standard Bank Investment Corporation Limited	2001-06-06	Standard Bank Mauritius Offshore Banking Unit Limited	Mauritius
Standard Bank Investment Corporation Limited	2001-07-04	SBL Unit Trust Management (Pty) Limited - 51 per cent	Lesotho
Standard Bank Investment Corporation Limited	2001-07-16	- Protea Chemicals (UK) Limited - Acol Chemicals (Pvt) Limited	United Kingdom Zimbabwe
Standard Bank Investment Corporation Limited	2001-08-20	Melville Douglas International Limited and subsidiaries	British Virgin Islands
Standard Bank Investment Corporation Limited	2001-11-01	Stanbic Nominees Ghana Limited	Ghana
Standard Bank Investment Corporation Limited	2001-11-23	Commercial Bank of Malawi Limited	Malawi
Standard Bank Investment Corporation Limited	2001-12-10	Ulusal Yatirim Menkul Degerler AS	Turkey