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

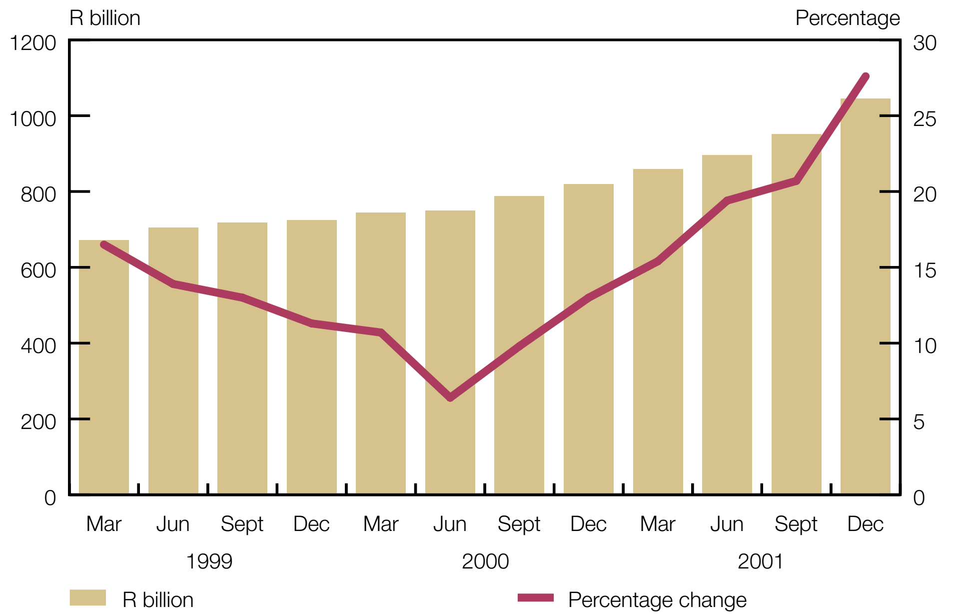
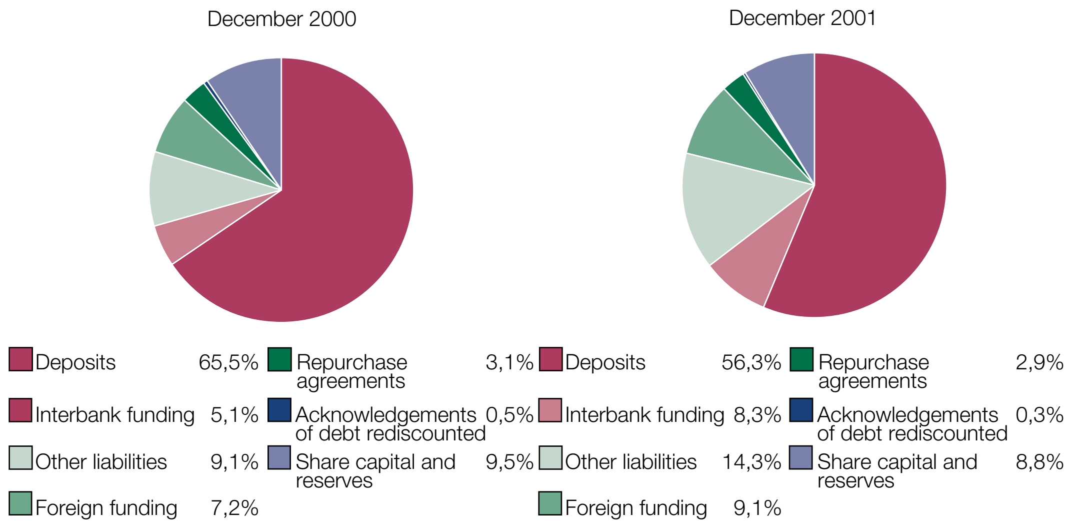


Figure 1 graphically depicts the quarter-end value of, and percentage growth (measured over 12 months) in, the aggregated balance sheet of the banking sector for the period from March 1999 to December 2001. Growth in the aggregated balance sheet picked up markedly from June 2000 and, by the end of December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

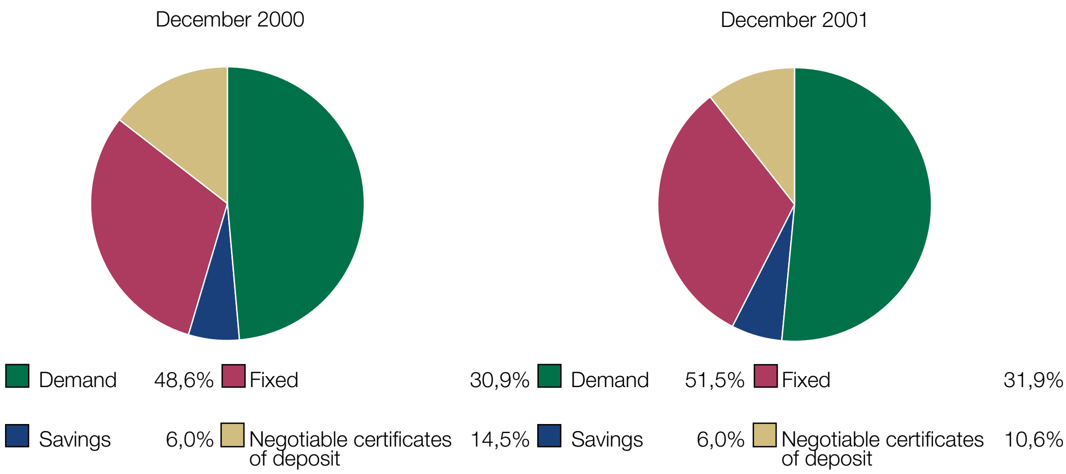
Domestic deposits from the public in the amount of R588,9 billion remained the main source of funding for the banking sector and constituted 56,3 per cent of total liabilities in December 2001, compared to 65,5 per cent in December 2000 and 68,8 per cent in December 1999. Foreign funding as a percentage 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

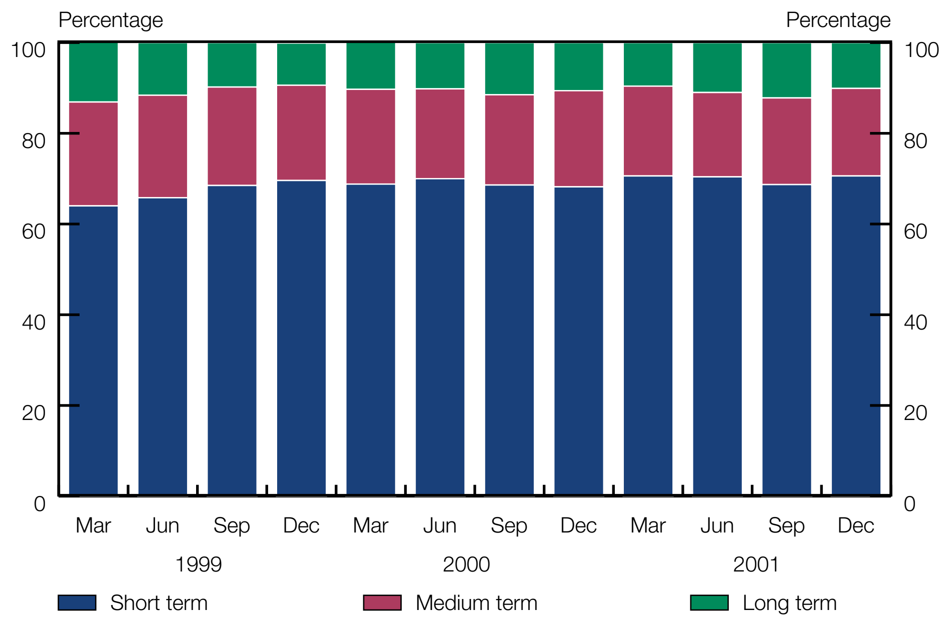


Maturity structure of non-bank deposits

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

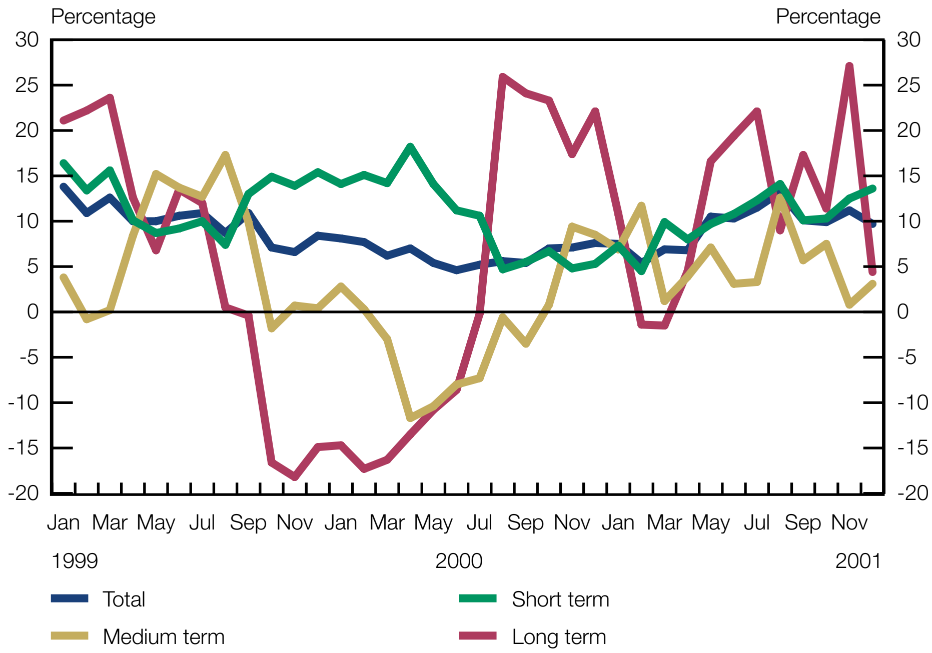


The slight increase in the proportion of total deposits represented by short-term deposits resulted in a slightly higher percentage of the banking sector's assets (consisting mainly of non-bank loans and advances) being financed by short-term funding. Thereby, the liquidity risk to which banks are exposed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

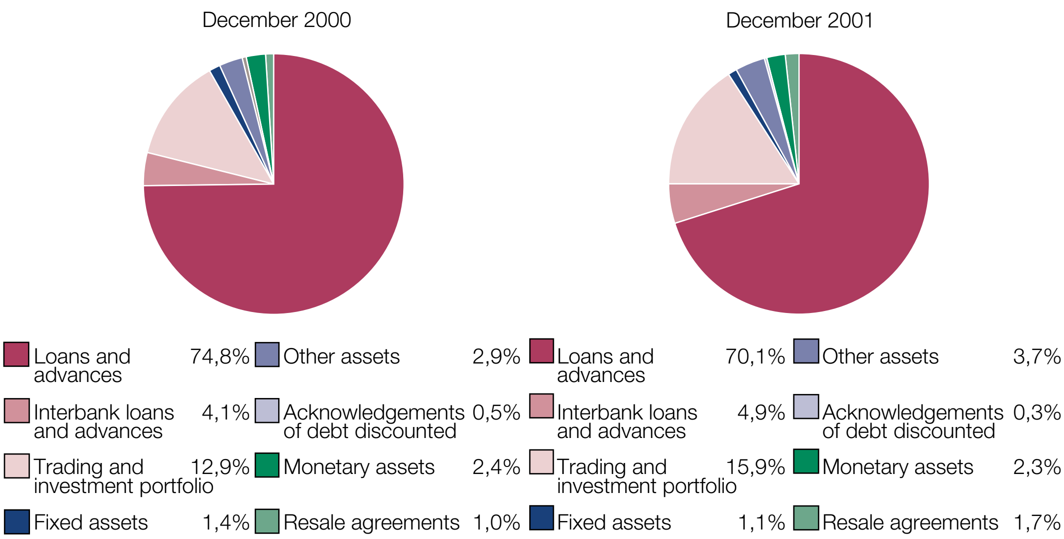
assets increased by R226,3 billion

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

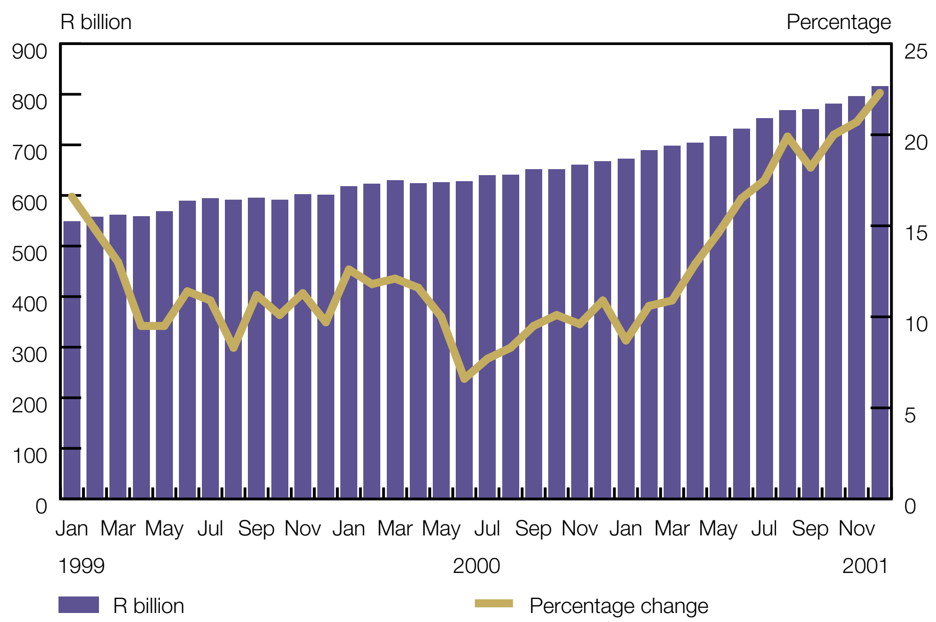
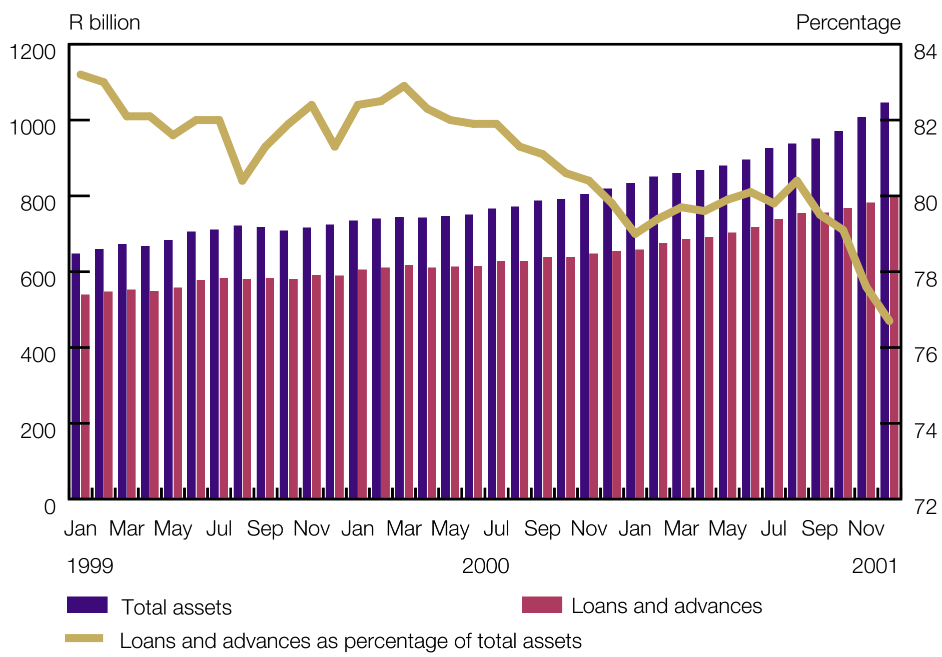


FIGURE 8: LOANS AND ADVANCES AS A PERCENTAGE OF TOTAL ASSETS



increase in the trading and investment portfolio

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.

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.

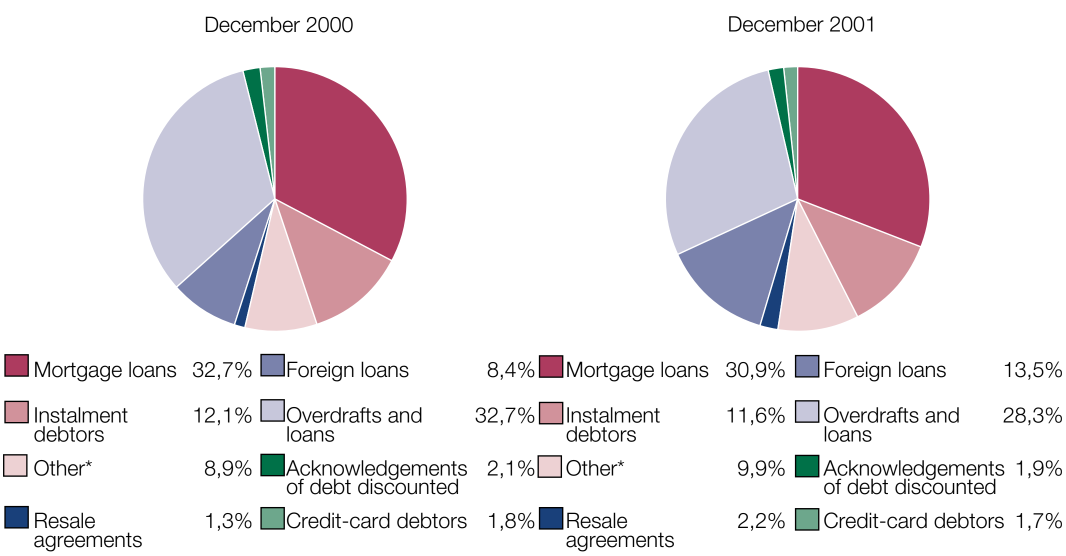
non-bank loans and advances represented main area of focus for the management of on-balance-sheet credit risk

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



* Negotiable certificates of deposit and redeemable preference shares

FIGURE 10: GROWTH IN SELECTED LOANS AND ADVANCES