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

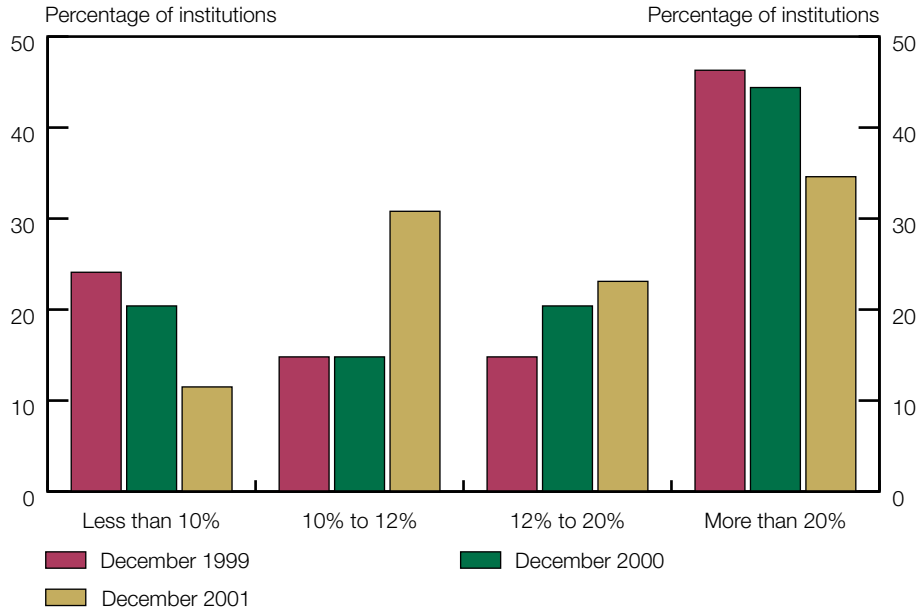
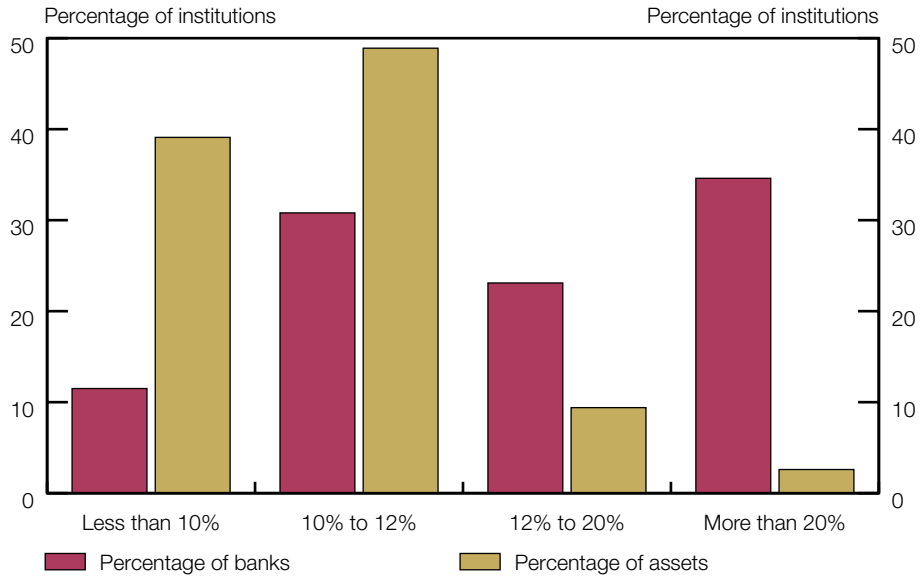


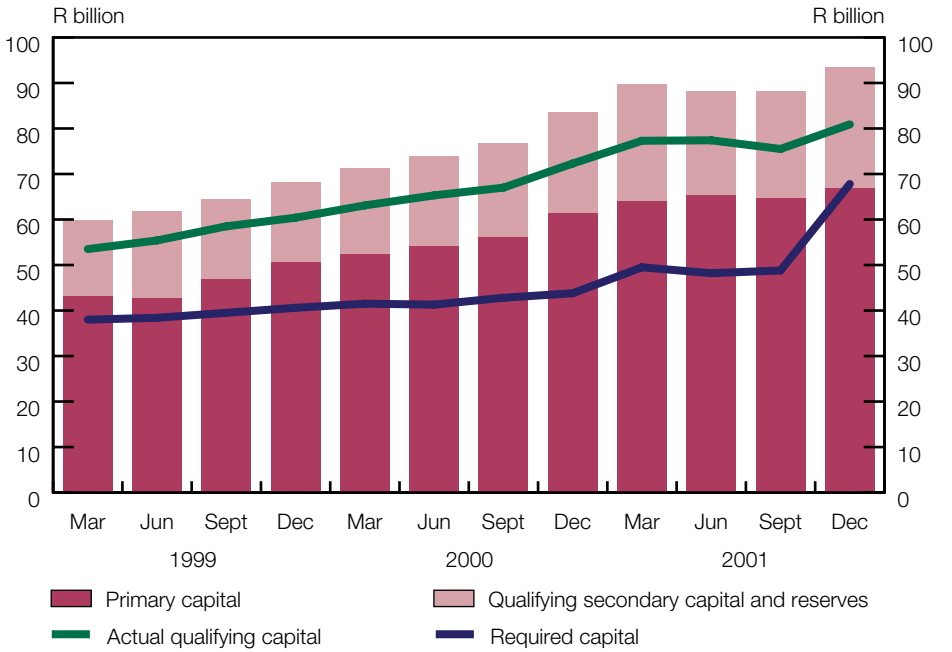
FIGURE 12: BANKS' CAPITAL ADEQUACY IN TERMS OF TOTAL ASSET VALUE



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.