3.4 LIQUIDITY RISK

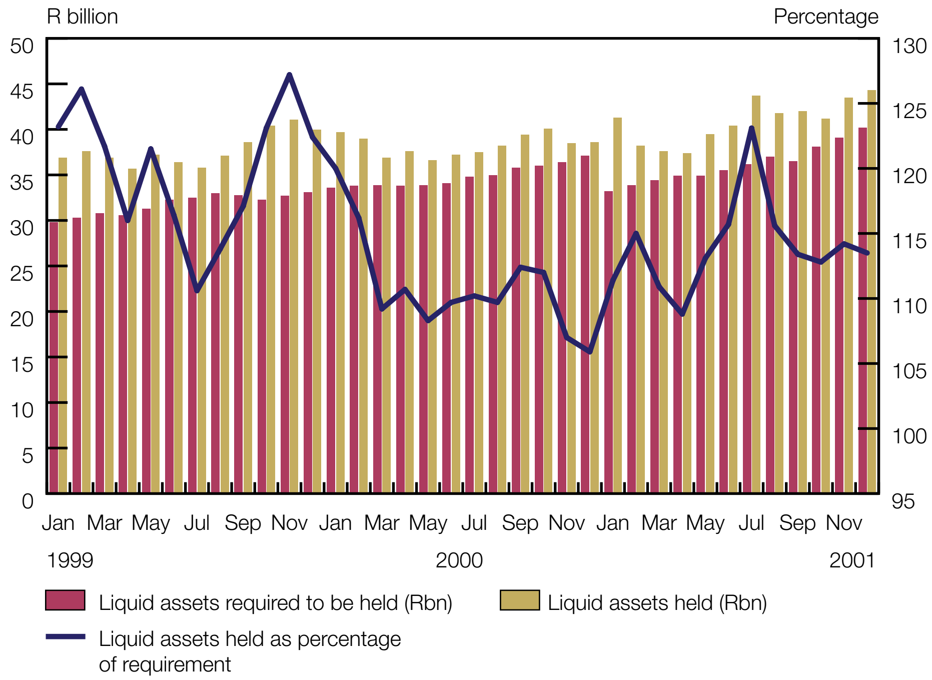
An evaluation of liquidity-risk management involves an assessment of the level of compliance with the statutory liquid-asset requirements, an analysis of the short-term liquidity mismatch in terms of its size (in relation to total funding) and its trend, an assessment of the sources of liquid funds available 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

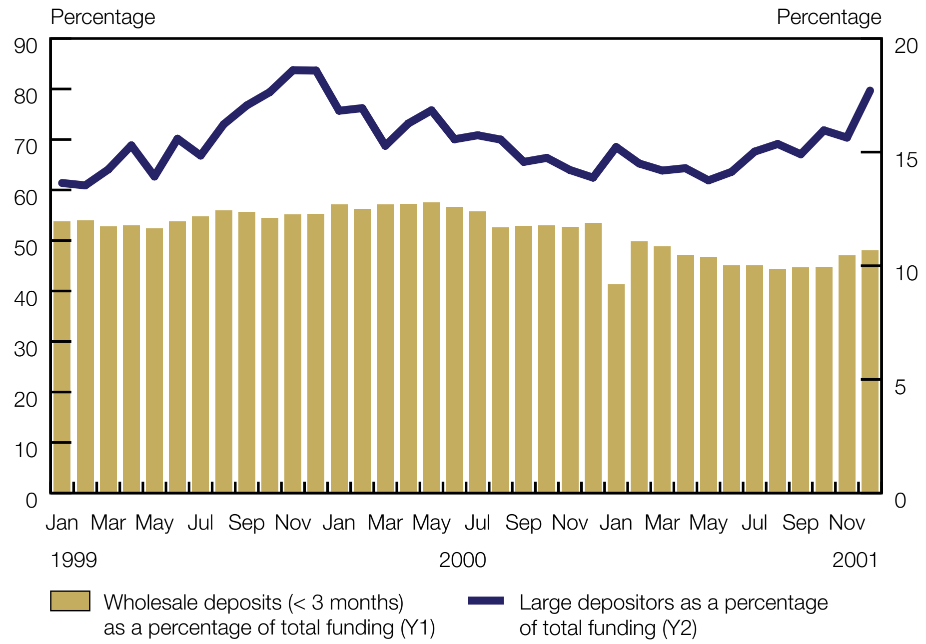
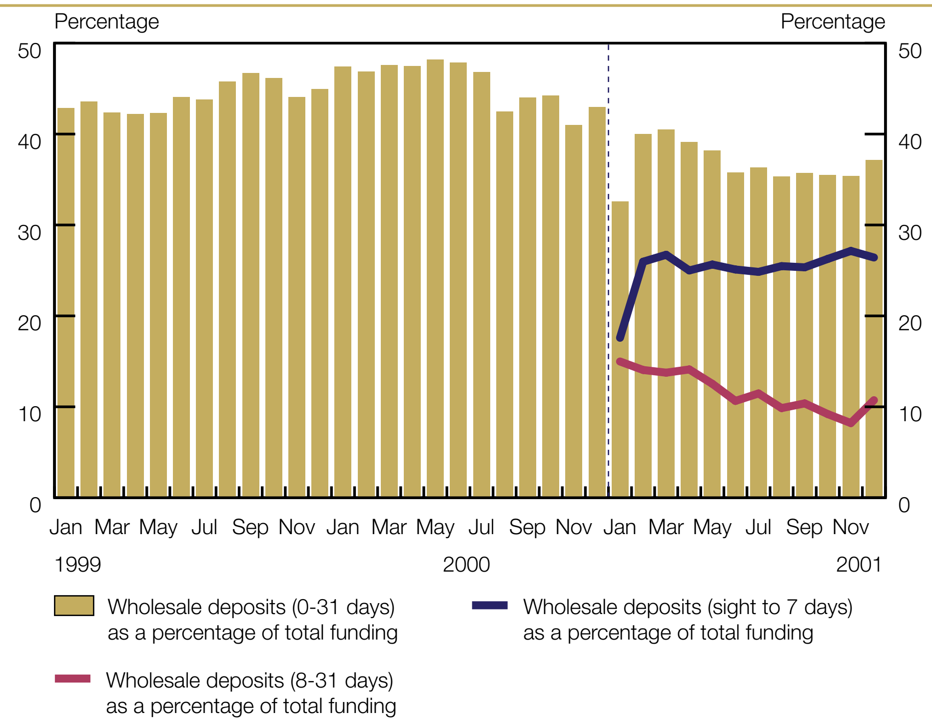


FIGURE 26: SHORT-TERM WHOLESALE DEPOSITS



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

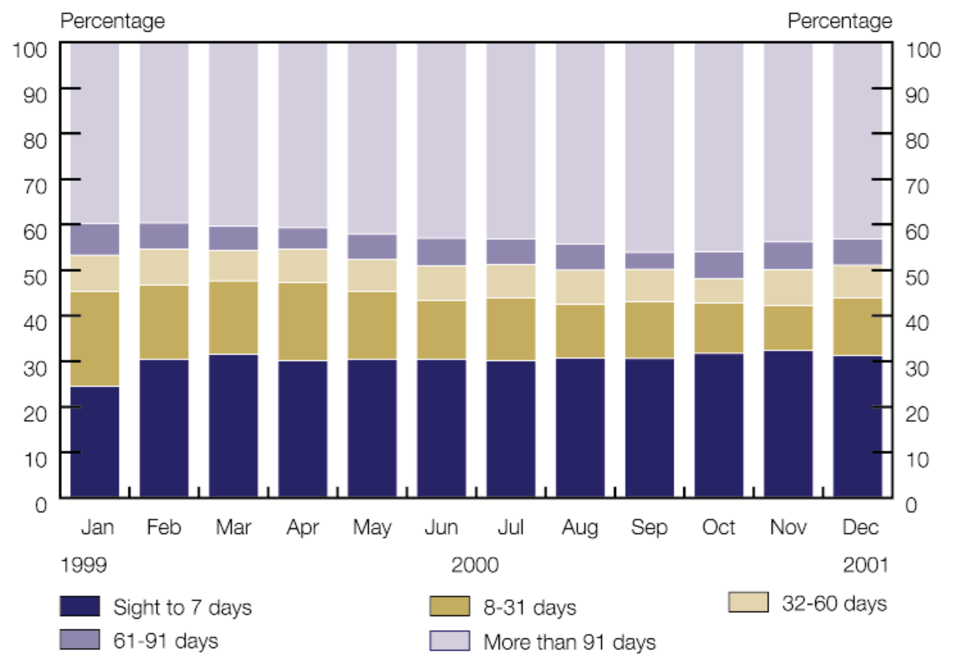


Figure 27 displays the composition (measured over a period of 12 months) of wholesale deposits according to maturity for the year under review. Wholesale deposits with a maturity shorter than seven days and wholesale deposits with a maturity greater than 91 days constituted the biggest portion of wholesale 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).