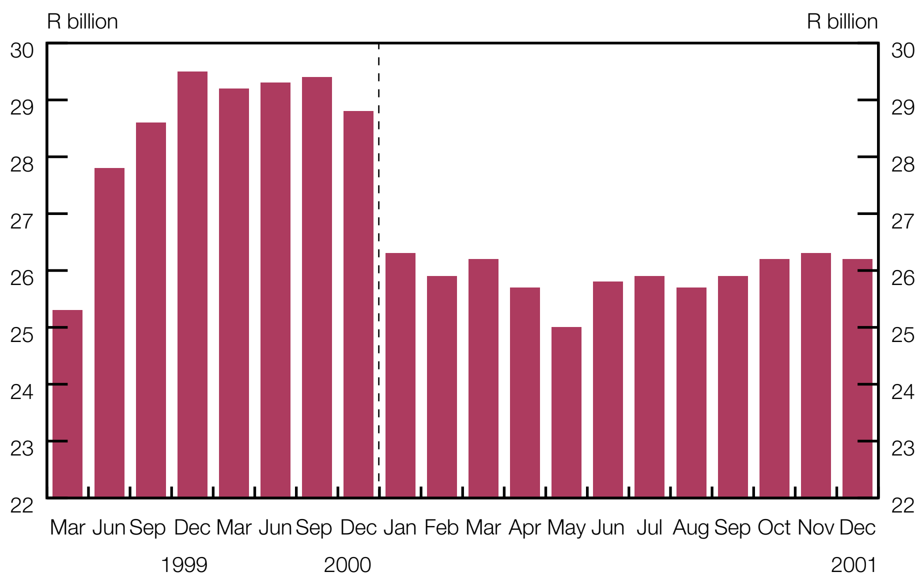
3.6 CREDIT RISK

Analysis of overdue amounts

banks submit credit-risk data on a monthly basis

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.

FIGURE 30: TOTAL BANKING-SECTOR OVERDUES



comparisons over time should be made with caution

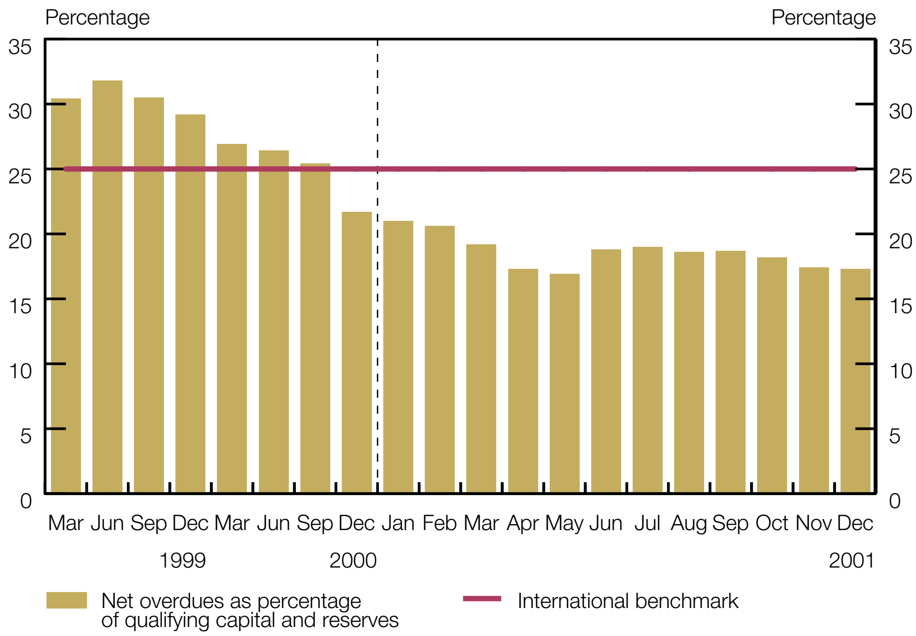
In terms of the amended Regulations relating to Banks, which became effective on 1 January 2001, banks also had to classify all loans and advances according to the quality of the assets. Only those loans classified as “doubtful” and “loss” were regarded as “overdue” for purposes of this Annual Report. 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.

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.

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

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.

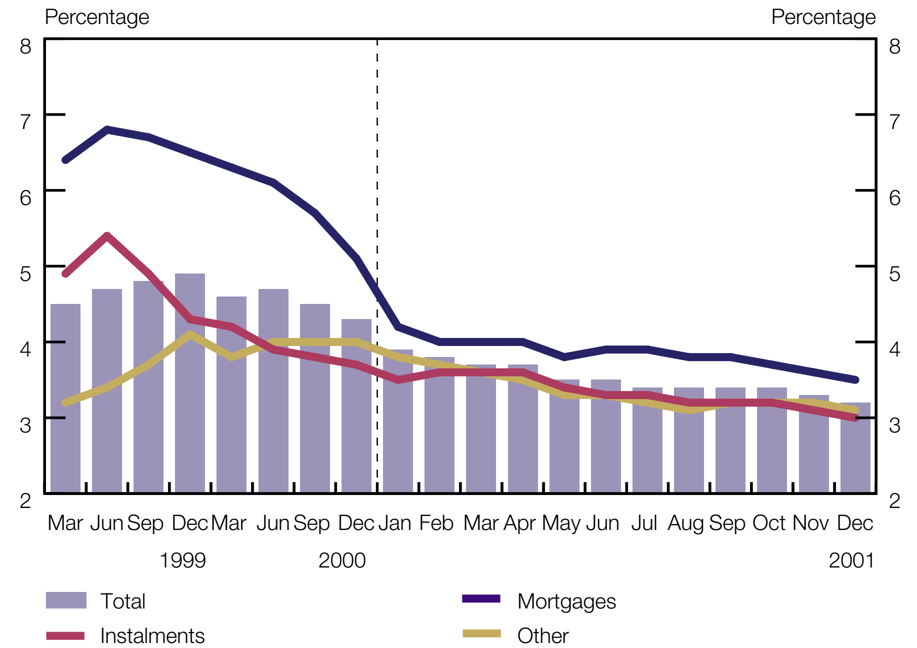
FIGURE 31: NET OVERDUES AS A PERCENTAGE OF NET QUALIFYING CAPITAL AND RESERVES



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.

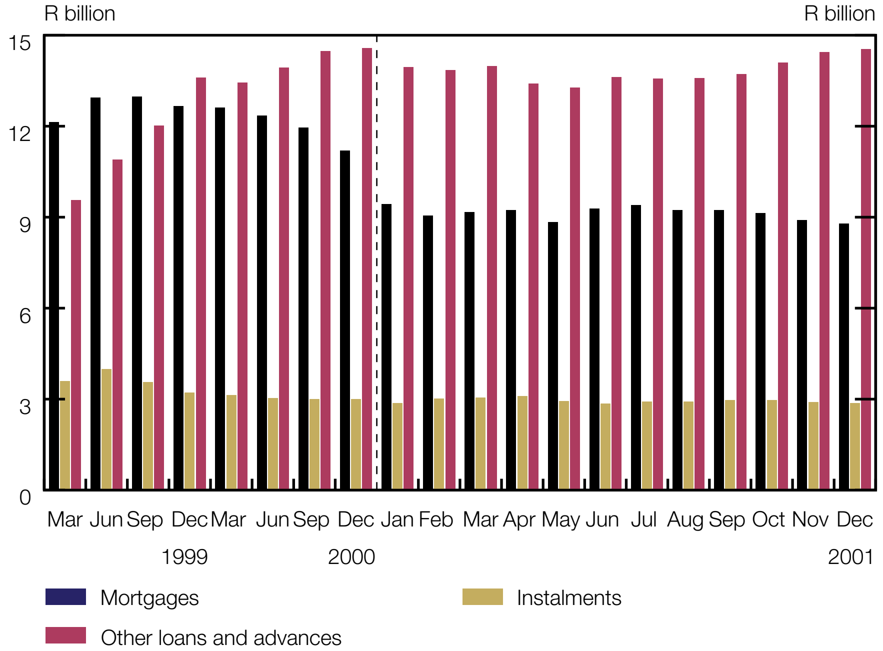
FIGURE 32: COMPOSITION OF OVERDUES (AS A PERCENTAGE OF LOANS AND ADVANCES)



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



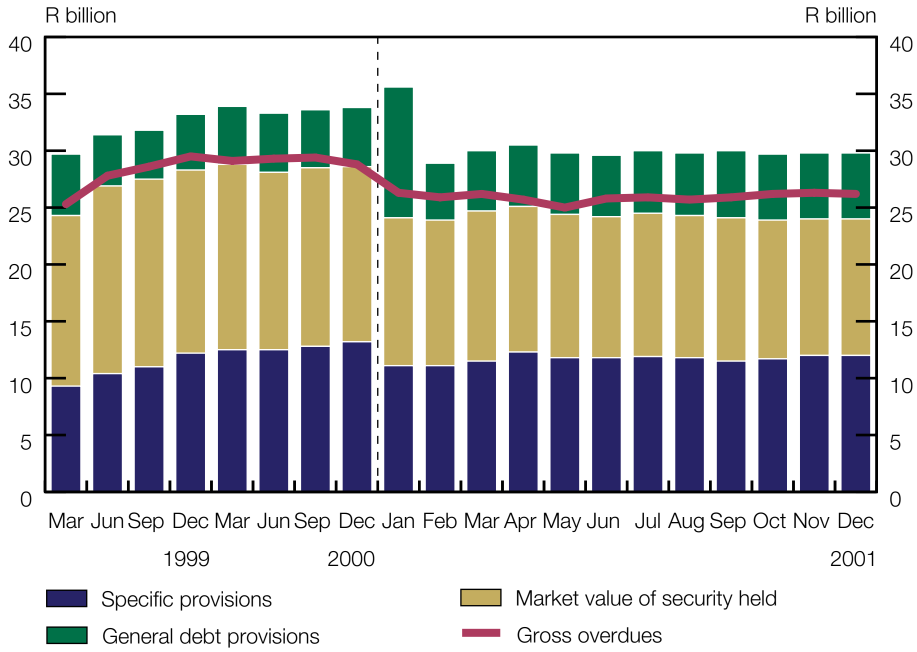
Provisioning policy for bad and doubtful loans and advances

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

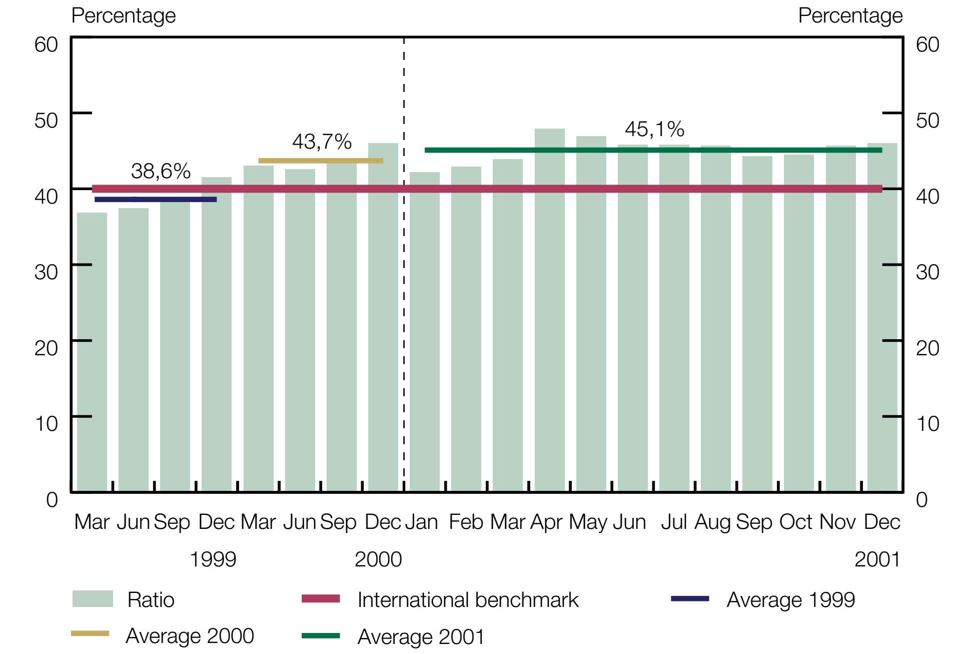
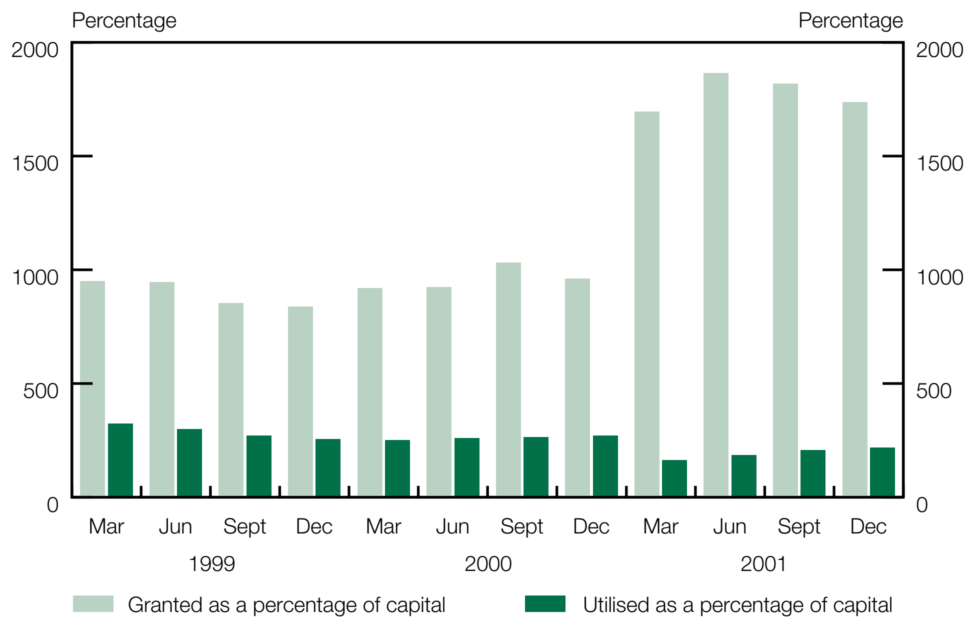


FIGURE 36: LARGE EXPOSURES GRANTED AND UTILISED AS A PERCENTAGE OF CAPITAL



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