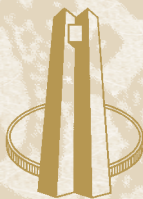


ANNUAL REPORT 2002



South African Reserve Bank
Bank Supervision Department



MISSION

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

PHILOSOPHY

Market principles underlie all activities and decisions, and we strive to act with 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 the Department and all other key players is regarded as essential and is built up through regular open communication.

IMPORTANCE OF SOUND CORPORATE GOVERNANCE AND ROLE OF SUPERVISION

In recent times, corporate and bank failures, locally and abroad, have received much publicity. It may therefore be useful to reiterate some thoughts on the importance of sound corporate governance and the role of bank supervisors, as recently expressed by Mr William J McDonough, Chairman of the Basel Committee on Banking Supervision and President and Chief Executive Officer of the Federal Reserve Bank of New York:

"... corporate governance depends on more than just a company's compliance with rules. We are all learning that effective governance emerges from the business culture that a company nurtures throughout all of its operations. In recent months, we've witnessed what happens when firms fail to develop the commitment to manage risks appropriately. Avoiding the corporate debacles of the recent past requires a clear and consistent message, as well as a transparent pattern of behaviour, that must first emerge from the boardroom. It must then filter down to the executive offices, the front offices, and the back offices.

In a similar vein, the work of financial supervision is moving away from a purely retrospective, rules-based approach. This is particularly true in the banking world. Bank supervisors in the United States and many countries around the world are assessing the safety and soundness of banks based less on the strength of the balance sheet today, and more on the strength of controls that will safeguard a bank's financial health tomorrow ... the job of bank supervisors is certainly not to hinder the responsible pursuit of new opportunities and profits. Rather, it is our job to encourage banks to ensure that their controls evolve with their businesses." Risk management, supervision and Basel II. Speech delivered by Mr McDonough at the Bond Market Association: 2003 Legal and Compliance Conference, New York City, on 4 February 2003.

"That the health of an economy depends to a great degree on whether its banks are financially sound and well managed is certainly not coincidental. Banks are charged with critical public trust to safeguard the public's wealth and to serve as a source of credit to consumers and businesses alike. When banks fail to discharge these tasks responsibly, the costs to society can be high and the impact on the economy devastating.

At the same time, the duty for supervisors to promote the safety and soundness of the banking system entails achieving a delicate balance. Ensuring the prudent management of banks does not mean that we should hinder their profit and growth.

Rather the supervisor's job is to promote the responsible pursuit of opportunity and innovation. Likewise, it cannot be our job to prevent every bank failure, for some failures remove poorly managed banks from the market and encourage other banks to improve their management as well." Completing the journey to the new Basel Accord. Remarks by Mr McDonough at the opening of the 12th International Conference of Banking Supervisors, hosted by the South African Reserve Bank, on 18 September 2002, in Cape Town, South Africa.

SOUTH AFRICAN RESERVE BANK

BANK SUPERVISION DEPARTMENT

Annual report for the calendar year ended 31 December 2002
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 2002 to 31 December 2002.

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CHAPTER 1

REGISTRAR'S REVIEW

most important issue reviewed is the liquidity crisis among small and mid-sized banks and subsequent consolidation

Among the issues of interest discussed in this review are the lessons arising from the highly publicised failure of international corporations such as Enron and Worldcom. The most important issue reviewed in this chapter, however, is the liquidity crisis among small and mid-sized banks and subsequent consolidation in the South African banking sector during 2002, together with the lessons and the policy framework for dealing with banks in distress arising therefrom. Other issues reviewed include the level of concentration in the South African banking system, the ongoing debate on the financial architecture and the corporate-governance review of South Africa's five largest banking institutions instituted in the wake of the above-mentioned corporate failures and recent bank failures in this country.

OVERVIEW OF SOUTH AFRICAN BANKING SYSTEM

fairly turbulent first half year

As discussed later in this chapter, there was considerable consolidation in the South African banking sector during 2002. After a fairly turbulent first half year, which saw the demise of a number of small and medium-sized banks, stability returned. South African banks remained well capitalised, and the average risk-weighted capital-adequacy ratio for the sector increased to 12,6 per cent at the end of December 2002, compared to 11,4 per cent in 2001.

concentration in the South African banking sector increased noticeably

Growth in the total balance sheet moderated during 2002, mainly as a result of a moderation in the growth of total loans and advances. By the end of December 2002, the total funds of banks – comprising capital, reserves, deposits and loans – had increased by 4,8 per cent (measured over a period of twelve months), to a level of R1 100,8 billion. Concentration in the South African banking sector increased noticeably during 2002, and the four biggest four banks now represent about 80 per cent of the total banking sector. Prior to the merger of Nedcor Bank Limited and BoE Bank Limited, discussed later in this chapter, the four biggest banks represented 74,2 per cent of total banking-sector assets. The participation of foreign banks in the local banking industry decreased for the first time in six years, from 7,7 per cent in 2001 to about 6,9 per cent of the total banking-sector assets by the end of December 2002.

participation of foreign banks decreased

marginal shift to longer term deposits

Total non-bank deposits increased by 12,5 per cent (measured over a 12-month period) in December 2002, from 9,7 per cent in December 2001. The composition of non-bank deposits showed a marginal shift from short-term and medium-term deposits to longer term deposits.

return on equity and return on assets deteriorated

Both the return on equity and the return on assets of the total banking sector deteriorated during the year under review. By the end of December 2002, the average return on equity was 5,6 per cent, down from 9 per cent in December 2001, and the return on assets also decreased, from 0,8 per cent in December 2001 to 0,5 per cent in December 2002. The interest margin, on the other hand, increased to 3,8 per cent in December 2002, from 3,2 per cent in 2001. The efficiency of the banking sector also deteriorated, from 64,1 per cent in 2001 to 67 per cent in 2002.

efficiency also deteriorated

adequate levels of liquidity

South African banks maintained adequate levels of liquidity despite liquidity strains experienced by the system during the first half of 2002, as discussed later in this chapter. In December 2002, banks' liquid assets (calculated on the basis of total liabilities less capital

and reserves) amounted to 118,1 per cent of liquid assets required to be held, compared to a level of 113,5 per cent in December 2001.

total gross overdues
decreased

Total gross overdues of the banking sector decreased by R61,4 million compared to the previous year, to a level of R26,1 billion at the end of December 2002. Provisioning by banks against these non-performing loans was adequate, even when benchmarked against international requirements.

LESSONS ARISING FROM RECENT HIGH-PROFILE CORPORATE FAILURES

destructive element in such
failures

In the final analysis, the high-profile failure of enterprises such as Enron, Worldcom and others is proof that the market-based capitalist system ultimately rids itself of inefficient and ineffective economic participants that are not soundly structured and operated. When such failures occur, resources that were applied suboptimally are freed and can then be applied more optimally. In this way, productivity gains are made, to the benefit of the greater good. The destructive element in such failures is not the failure itself, but the criminal activity, such as fraud, theft and deliberate misrepresentation, that has occurred.

objective of regulatory and
supervisory authorities

Since we do not live in a perfect world, it is natural to expect that some economic participants will fail. The objective of regulatory and supervisory authorities can never be to avoid the failure of economic participants, and, in a sound system, there will be failures. If it were the objective to ensure no failures, supervision and regulation would have to be so intense as to stifle activity, and the cost of such an approach would simply be too high. Instead, the objective is to strive for an optimal balance between, on the one hand, the cost of controls and intervention in order to address market failures and, on the other hand, the anticipated benefits of regulation and supervision.

The highly publicised failures in the United States of America and elsewhere during the past number of years have again proved that most failures of previously successful economic participants are due to a range of reasons that are well known, reasonably easily identifiable and reasonably easily preventable. The importance of the failure of corporate enterprises such as Enron and Worldcom lies in the fact that these failures have already changed and are continuing to change the behaviour of stakeholders for the better. For example, energy traders' cost of equity capital and borrowed capital has increased, and employees are demanding improved security for their pension-fund investments. Another long-term effect will be an improvement in the quality of corporate governance, independent auditing, independent ratings and oversight by the authorities.

some conclusions

Some of the conclusions that can be drawn from these failures are discussed below.

Risk versus reward

the following fundamental
issues are not adequately
addressed

The positioning of an enterprise along the risk-versus-reward continuum and proper analysis thereof hold critical implications for, amongst others, investors and providers of funds, management of enterprises, internal and external auditors, rating agencies and regulators. Unfortunately, however, it has become clear that, generally, there is a lack of ability to perform such analyses and that even when such analyses take place, they tend to be clouded by a lack of independence. Typically, the following fundamental issues are not adequately addressed or taken into account:

- ▲ The nature and sustainability of competitive advantages, and the consequent ability to add economic value by a consistent achievement of returns in excess of an enterprise's cost of capital.

- ▲ The quality of an enterprise's earnings, as indicated by the nature, sources and consistency of these earnings. Particularly significant is the extent of the correlation between earnings and cash flows.
- ▲ The size and consistency of an enterprise's cash flows.
- ▲ The level of stress and risk, as indicated by operational and financial leverage.
- ▲ The nature of an enterprise's corporate culture, that is, the balance between the own interests of personnel and the interest of the enterprise.
- ▲ The gap between investors' expectations, as reflected in the market rating of an enterprise, and the underlying realities pertaining to the enterprise, such as the position of the enterprise in the industry within which it operates and the nature of the economic cycle generally, as well as the particular industry's position in that cycle.

Corporate governance

Corporate governance may be described a system of checks and balances that have as their objective to improve the quality of decision-making. The quality of decision-making, in its turn, determines the quality of the outcome.

lack of appropriate checks and balances

A gross lack of appropriate checks and balances is evident in most corporate failures. Some common weaknesses include an insufficient number of independent directors, compliant and unquestioning boards and board committees, a lack of appropriate division of duties and responsibilities and a lack of independence.

Accounting

Accounting may be described as a system that aims to provide relevant and reliable information on which decisions can be based.

areas causing concern

In many areas, accountants have not yet been able to agree on and produce sound and generally accepted solutions to complex issues. This has resulted in even greater confusion among non-accountants. Among the areas causing concern are staff incentives, related-party transactions, non-consolidated special-purpose vehicles, intangibles, revenue recognition, off-balance-sheet items and financial instruments.

External auditors

role of the external auditor

The role of the external auditor of an enterprise is to provide assurance on the relevance and reliability of the information on which the general public base their decisions. Unfortunately, in a number of corporate failures, the external auditors appear to have failed miserably. A critical failing appears to have been various dimensions of a lack of independence.

Conclusions

Not all problems that led to recent high-profile corporate failures are listed above. Those that are listed, however, include some of the most important issues now being addressed by various authorities and professional bodies worldwide.

market discipline is working effectively

The fact that these failures appear to be pervasive does not point to a fundamental failure of the market-based system. Instead, it indicates that market discipline is working effectively by ridding the market of suboptimal enterprises well before the authorities realise

that there are problems. Obviously, criminal activity cannot be tolerated and must be rooted out.

What cannot be provided is absolute assurance that such failures will not occur again. Even if it were possible to provide such assurance, the cost thereof would be prohibitive, and innovation and initiative would be destroyed.

reminder of the difference
between banks and industrial
enterprises

The failures also serve as a stark reminder of the difference between banks and industrial enterprises. Had a bank with the market capitalisation or net asset value of an enterprise such as Enron or Worldcom defaulted, the ramifications for the economy would have been far more serious. There would have been a high probability of contagion within the banking sector, with disastrous systemic implications for the economy as a whole.

CONSOLIDATION IN BANKING SECTOR

As reported in previous annual reports, small banks in South Africa were faced with liquidity pressures in the latter part of 1999. Subsequently, there was a gradual loss of depositor confidence in small to mid-sized participants in the South African banking sector.

trend arose from a number
of factors

This trend arose from a number of factors. These included the South-East Asian financial crisis of 1997 and the concomitant banking crisis, the Russian financial crisis of 1998 and the related banking gridlock, and the imposition of curatorship over a relatively small bank, FBC Fidelity Bank Limited (FBC), in the last quarter of 1999. The trend reached its zenith upon the imposition of curatorship over Saambou Bank Limited (Saambou) in February 2002 and the subsequent takeover of BOE Bank Limited (BOE) by Nedbank Limited (then named Nedcor Bank Limited), which arose from BOE's liquidity strain. In view of the extensive media coverage that the Saambou and BOE cases received during the past year, their demise is discussed in more detail below.

Between 1997 and 2002, a number of other banks (such as Ons Eerste Volksbank, The Business Bank Limited, Real Africa Durolink Investment Bank Limited and Unibank Limited) were taken over, or exited the banking sector (such as Southern Bank of Africa Limited and TA Bank of South Africa Limited), whereas others (such as New Republic Bank Limited and Regal Treasury Private Bank Limited) were placed under curatorship. In consequence of the Nedbank/BOE transaction, Brait Merchant Bank Limited and Corpcapital Bank Limited requested that their registration as banks be withdrawn. From the beginning of 2002 to the end of March 2003, some 22 banks exited the South African banking system.

Demise of Saambou and BOE

As indicated above, the problems in the South African small-bank sector started with the imposition of curatorship over FBC. This step, together with uncertainty about the potential impact of the then topical year 2000 computer issue on the banking system, caused relative unease in the South African market and a loss of depositor confidence in some smaller banks.

The demise of FBC also sparked a confidence crisis in its largest shareholder of reference, Fedsure Limited (Fedsure), a life-insurance company. Since Fedsure held approximately 46 per cent of the shares in Saambou, the lack of confidence in Fedsure extended to Saambou.

apparently lost sight of the
bank's core business

During 2000, the management of Saambou apparently lost sight of the bank's core business. In essence, Saambou's management engaged in various business schemes with a view to finding a new partner for the bank, whilst also diversifying its business activities.

steady withdrawal of deposits

The first indication of something amiss was the sale of Saambou shares by two of the bank's executive directors. Press coverage triggered media speculation that the share sales were due to management knowing that the bank had been underperforming. Saambou's subsequent issue of a profit warning exacerbated the situation. In its announcement, Saambou ascribed the bank's poor performance to losses suffered in its microfinance-business activities. This was followed by the JSE Securities Exchange South Africa (JSE) announcing that it would institute an insider-trader investigation into the two directors' share-sale transactions. Saambou was subsequently faced with a steady withdrawal of deposits.

loss of confidence in micro-finance

Adding fuel to the fire, Unibank Limited (Unibank) announced at the beginning of 2002 that it had lost its entire capital base as a result of losses sustained in its microfinance business. Because of the consequent loss of confidence in one of Saambou's product lines, that is, microfinance, Saambou's share price deteriorated, and the bank lost further deposits. The Bank Supervision Department then requested one of the big four auditing firms to conduct a solvency due-diligence audit of Saambou. The auditors expressed the opinion that the bank was solvent. The rating agency Fitch, however, had placed Saambou on a negative rate watch, pending an evaluation of Saambou's action plans to overcome its liquidity problems.

All these events placed Saambou's share price under extreme pressure. Wholesale depositors started withdrawing their deposits at an increasing tempo, leaving the bank with retail deposits, most of which were subject to term conditions. This was a manifestation of the asymmetry of information argument – that those who are best informed act immediately, to the detriment of the uninformed.

contagion would set in

Since Saambou was the seventh largest South African bank and had both a large retail deposit base and a well-established branch network, the regulator regarded the bank as systemically significant. In other words, the regulator was of the opinion that the entire banking system would be placed in jeopardy if Saambou were unable to settle its transactions – that contagion would set in – and that failure of the bank would greatly damage confidence in the banking system.

contagion moved rapidly up the ladder

As the regulator had feared, contagion set in after the imposition of curatorship over Saambou. Not only did most of the banks smaller than Saambou experience large withdrawals of deposits, but contagion moved rapidly up the ladder as well. As confidence in these banks dissipated and their deposit base was consequently eroded, the net interest income of these banks declined. A general decline in the business cycle led to a concomitant slowdown in the level of business activity. Therefore, other sources of income for these banks, which could no longer attract new and longer term funding, came under pressure and could not compensate for these banks' loss in net interest income. It became increasingly difficult for these banks to maintain their profitability, also because of the need to maintain higher levels of liquidity. This, in turn, impaired the profitability of these banks even further, until most of them started making losses.

liquidity assistance to some small banks

Some of these small banks lost up to 40 per cent of their deposit base, resulting in a severe decrease in their share price on the JSE. The South African Reserve Bank provided liquidity assistance to some of these small banks, in the belief that the liquidity crisis was short term and would correct itself once normality returned to the market and depositors regained confidence. Unfortunately, this did not happen, and the small banks in question had to exit the banking system, albeit without any loss to the *fiscus* or depositors.

Of extreme concern to the regulator was that contagion also set in higher up the banking ladder. This significantly affected the sixth largest bank, BOE, which was also regarded as systemically significant. This unfortunate turn of events was due largely to a market per-

ception that the authorities lacked clarity and certainty in dealing with banks in distress, suggesting that the market was testing where the proverbial line in the sand would be drawn.

drastic action by the authorities stopped the withdrawals

BOE suffered rapid, large withdrawals by its wholesale depositors and approached the Reserve Bank for liquidity assistance. Since this did not stem the tide of withdrawals, the National Treasury issued a guarantee to all depositors that their withdrawals would be funded by the *fiscus*. This drastic action by the authorities stopped the withdrawals from BOE and provided the necessary signal to the market that the authorities were serious about maintaining the stability of the banking sector. As indicated above, Nedbank then acquired BOE and took over the responsibility of funding the assets, allowing the National Treasury to withdraw its guarantee, since it was no longer necessary.

Important lessons

many reasons for failures

There are many reasons for failures and suboptimal outcomes in the resolution of banking crises. These include external factors, weak corporate governance, weak risk management and fraud. Some important lessons, however, can be drawn from the unfortunate sequence of events outlined above.

banks are built on public confidence

As has been shown above, banks are built on public confidence. The general public has a special relationship with banks, because banks act as the repositories of the public's surplus resources and savings, which have to be readily available. For that reason and because of the intertwined exposures of banks to one another, a loss of confidence in one bank can very rapidly lead to contagion – that is, a loss confidence in other banks, smaller and bigger, and, ultimately, in the whole banking sector - with potentially disastrous consequences to the economy. Contagion risk should therefore never be underestimated.

special nature of banks

Because of the special nature of banks, all key players, both within and outside the banking sector, should not underestimate the gravity of their respective responsibilities with regard to the banking sector. Important external players include external auditors and rating agencies, as evidenced by the scrutiny under which the external auditors of failed enterprises are being placed worldwide and the negative effect of adverse ratings on the small-bank sector at the time of the Saambou crisis.

crucial that a systemically significant bank in distress be identified as such

It is therefore crucial that a systemically significant bank in distress be identified as such by all authorities that exercise responsibility in the resolution of a crisis or bank in distress. Of equal importance is that the resolution of a bank in distress must take into account the contagion effect. The authorities also have to be mindful of the fact that all their actions, combined and separately, constitute signals to the market and that greater problems may result if a bank in distress is not handled in a manner that provides certainty.

confidence of the general public

Given the nature and level of sophistication of the banking sector in South Africa, an institution aiming to conduct traditional banking business - namely, to take deposits and make advances - can succeed only if it has gained the confidence of the general public. Alternatively, such a bank has to be niche player to enable it to gear its balance sheet. As is well known, banks' margins (that is, the difference between the interest income earned on credit granted and the interest expense incurred in respect of deposits received) are tight as a result of the high level of competition that prevails in the traditional banking market. Therefore, only banks that are able to optimise their level of gearing - that is, the ratio of deposit funding to own capital - can maintain their profitability.

Other important issues

usually liquidity problems
well before insolvency

Some other issues of importance should also be noted. It is somewhat unusual for a bank to become insolvent, since loss of confidence in a bank usually leads to liquidity problems well before the point of insolvency. Often, this culminates in default, in that the particular institution can no longer meet its deposit withdrawals, because of the typical maturity mismatch between banking assets, which tend to be long term, and banking liabilities, generally short term. Once a bank is no longer a going concern - for example, as a result of the imposition of curatorship - the quality of the bank's assets often deteriorates to such an extent that insolvency rapidly becomes a reality.

negative effects of the
resultant decrease in com-
petition

The loss of confidence in small and mid-size banks outlined above means that the breeding ground that would normally yield the leaders in innovation and the big banks of tomorrow has been decimated. The negative effects of the resultant decrease in competition will include less optimal allocation of resources, less choice for consumers and less attractive offerings to consumers. During the past year, these negative effects became clearly visible in the widening of the South African banking sector's net interest margin.

Corrective measures cannot, however, be imposed by authoritarian decree. The right conditions need to be established and maintained to foster a small and mid-size banking sector. This is a long-term initiative, fraught with great complexity. The challenge is to create an enabling environment.

market-based economy

South Africa has a market-based economy. The implications thereof for banks in South Africa can be summarised as follows. A system of free entry and free exit, subject to compliance with certain minimum standards and minimum criteria, applies in the banking sector. In other words, parties that are fit and proper, in a position to capitalise a bank at the required minimum level, wish to establish a bank for purposes of pursuing an acceptable and appropriate public good and have a viable and robust business plan have an excellent chance of being granted authorisation to establish a bank. Once registration as a bank has been granted, the management (in the widest sense of the word) of the banking institution has to ensure its survival and success. Similarly, unless there are systemic-risk considerations, a bank in distress has to find its own solutions to its problems. As explained in previous annual reports, it is not the function of regulatory and supervisory authorities to manage banks or to prevent bank failures.

management of banking
institution has to ensure its
survival and success

public confidence can
disappear in an instant

A bank's management is responsible for ensuring that the general public retains its confidence in the bank. Reputational risk, therefore, is one of the most important risks that the management of a bank has to address effectively. It takes a long time to build public confidence, but, as has been sketched above, it can disappear in an instant.

high risk associated with
entering a new market

The problems recently experienced by some banks that had entered the microlending market (for example, Saambou and Unibank) again illustrate the high risk associated with a bank entering a new market. This risk is further compounded by a high rate of growth at a stage when a full understanding of the market has not yet been achieved or when systems cannot yet cope with increasing volumes.

The events outlined above again highlight the critical importance of a sound working relationship and proper coordination between the Ministry of Finance, the central bank and the banking supervisor.

POLICY FRAMEWORK FOR DEALING WITH BANKS IN DISTRESS

As a result of the problems prevalent in the small to mid-sized banking sector during 2002, discussed extensively above, the South African Reserve Bank adopted a policy framework for dealing with banks in distress.

In the normal course of its supervisory duties, the Bank Supervision Department assesses the risk-management processes and controls instituted by banks. Therefore, the Department is often able to identify circumstances that could cause a bank to lose credibility in the market, which, in turn, could result in a loss of depositor confidence and subsequent withdrawals of deposits. Once the Department has identified a bank as being in distress, any of the scenarios discussed below may apply, depending on the circumstances.

Bank with liquidity problem

When a bank has a liquidity problem, the regulator has to assess whether settlement failure - that is, the bank no longer being able to meet its payment obligations - is imminent. Consideration is then given to granting such a bank a concession to use its statutory liquid assets and minimum cash reserves – that is, its prudential assets - to allow settlement to proceed. If the liquidity problem proves to be short term and the aforementioned concession tides the bank over the problem, and the prudential assets are restored, the regulator will condone the shortfall in prudential assets for the period of non-compliance with the statutory requirements.

If the above-mentioned concession proves not to be sufficient to stem the tide of deposit withdrawals, the bank may become insolvent. Therefore, the bank's directors are then summoned to the South African Reserve Bank and requested to devise a private-sector resolution. Options in such a private-sector resolution may include one or more of the following steps, depending on the particular circumstances:

private-sector resolution

- ▲ Injection of new share capital.
- ▲ Securitisation of assets.
- ▲ Merger with another bank.
- ▲ A new shareholder of reference taking up a large stake in the bank.
- ▲ Subordination of some deposits as secondary capital.

Invariably, the management of the bank is replaced by more competent managers at this stage.

Solvency due-diligence audit

In the meantime, the regulator will appoint an auditing firm that is not one of the external auditors of the bank in distress to perform a solvency due-diligence audit in order to establish whether the bank is still solvent. The private-sector resolution might of course restore the bank's solvency through the injection of fresh or subordinated capital.

If a solvency due-diligence audit proves the bank in distress to be solvent, the next issue that the regulator has to address is whether the bank is of systemic significance. As indicated earlier in this chapter, the regulator has to assess whether the entire banking system would be placed in jeopardy if the bank were unable to settle its transactions and whether confidence in the system as a whole would be damaged if the bank were to fail.

Bank solvent and systemically significant

If a bank in distress proves to be solvent and is considered to be systemically significant, the South African Reserve Bank, as lender of last resort, would provide liquidity assistance, in combination with one or more of the above-mentioned private-sector resolution meas-

liquidity assistance

merger with another bank

ures. If the combination of public- and private-sector assistance does not restore confidence in the bank, a merger with another bank is the only option that can be pursued. Such a merger will be effected with a well-managed bank, in the interest of a stable banking system, that is, in the interest of all banks. If the combined public/private-sector assistance is effective, however, the amount of special liquidity assistance provided will be repaid, and the bank will continue to be supervised in terms of the normal supervisory process.

Bank solvent, but not systemically significant

special short-term liquidity assistance

Should a bank in distress be found to be solvent by a solvency due-diligence audit, but not be regarded as systemically significant, the South African Reserve Bank would provide special short-term liquidity assistance, at a penal rate. Again, this would be combined with a private-sector resolution. In addition, such assistance would have a sunset clause, in terms of which the amount of assistance provided would have to be repaid by a certain date. If the short-term special liquidity assistance to a solvent, but not systemically significant, bank proves not to be adequate, a curator is appointed to freeze the bank's deposits and to start an asset-liquidation process in order to repay depositors.

Bank not solvent, but systemically significant

purchase-and-assumption transaction

If, however, a bank in distress is found not to be solvent, but is regarded as systemically significant, the fiscal authorities might enter into a purchase-and-assumption transaction. Thereby, the bank is purchased by the public authorities until it can be nursed back to health, at which stage the bank can again be privatised. This option was chosen in Sweden to salvage the banking system in the early 1990s, when 18 per cent of total unconsolidated bank loans were reported lost.

Bank neither solvent nor systemically significant

appoint a curator, or apply for liquidation

If a bank in distress is neither solvent nor systemically significant, the regulator can either approach the Minister of Finance to appoint a curator, or apply for liquidation of the bank, depending on the circumstances.

Conclusion

depends entirely on the particular circumstances

As the policy framework set out above clearly illustrates, the way in which a bank in distress is handled depends entirely on the particular circumstances. It is hoped that the policy framework will serve to provide clarity on the process in place for dealing with banks in distress, as well to prevent problems in one bank spreading to other banks. It is, however, only a framework to guide the approach taken, which has to be decided on a case-by-case basis, depending on the specific circumstances. Once again, it needs to be stressed that it is not the responsibility of the regulator and supervisor to prevent bank failures. The need for a sound relationship and proper coordination between the fiscal authorities and the regulator can also not be overemphasised.

CONCENTRATION IN THE SOUTH AFRICAN BANKING SYSTEM

Several indices may be used to measure concentration and competition in a banking system. As explained extensively in the previous annual report, the most widely used index in the literature is the Herfindahl-Hirschman Index, commonly referred to as the H-index.

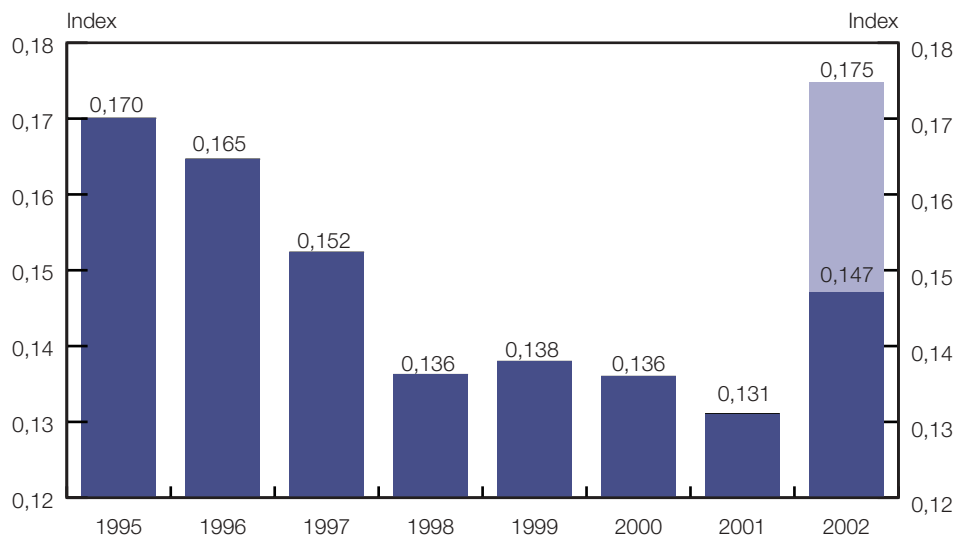
rapid consolidation

Worldwide, the ongoing consolidation of banking institutions has been one of the most notable features of the financial landscape over the past number of years. South Africa's banking system has not been immune to this trend, and there has been rapid consolidation during the past twelve months, as discussed earlier in this chapter.

direct results are greater concentration and structural changes

Two direct results of such consolidation are greater concentration in and structural changes to the banking system. During the year under review, the market share of the so-called big four banks in South Africa increased by no less than 5 percentage points, from about 69 per cent in 2001 to about 74 per cent at the end of 2002. This increase did not take into account the effect of the merger of BOE Bank Limited (BOE) with Nedcor Bank Limited (subsequently renamed Nedbank Limited) and the Nedcor restructuring process, whereby BOE, Nedcor Investment Bank Limited and Cape of Good Hope Bank Limited were consolidated into one bank, Nedbank, early in 2003. It is estimated that the effect of this merger and restructuring process will increase the market share of the big four banks to about 82 per cent.

H-index for the South African banking system (1995-2002)



rapid increase in the H-index

In South Africa, which had some 45 banking institutions at the end of the year under review, the H-index declined steadily from 0,170 in 1995 to 0,136 in 1998. From 1998 to 2001, the H-index remained stable, before deteriorating to 0,147 in 2002, as illustrated in the figure above. The rapid increase in the H-index can be attributed mainly to the liquidity crisis and subsequent consolidation in the small-bank sector discussed earlier in this chapter. When the estimated effect of the above-mentioned Nedbank-BOE merger and restructuring process is taken into account (the shaded area in the figure above), the H-index will deteriorate even further to 0,175. This represents an increase of 33,4 per cent in the H-index from 2001 to 2002.

Level of competition

level of concentration and competition is of concern

To some extent, the H-index is also an indication of the level of competition in a banking system. The rapid increase in the H-index therefore raises questions about the level of competition in the South African banking sector and the market power of banks. The more concentrated a banking system is, the more likely it is that banks will be able to raise prices for their products and services. As indicated earlier in this chapter, an expected result of greater concentration is a higher margin between the lending and deposit rates of banks. Although the four biggest retail banks have emerged even stronger from the 2002 crisis, the level of concentration and competition is of concern to the regulator.

DEBATE ON THE FINANCIAL ARCHITECTURE

In previous annual reports, the Bank Supervision Department reported extensively on the debate about whether banking supervision should be an integral part of the functions of the South African Reserve Bank.

In the 1993 annual report, it was reported that the Committee of Investigation into the Promotion of Equal Competition for Funds in Financial Markets in South Africa, chaired by Dr A S Jacobs, proposed in September 1992 that both the Registrar of Banks and the Executive Officer of the Financial Services Board (FSB) should report to an independent financial regulation policy board. Clear implementation guidelines were expected during 1993 from the committee reporting on a holistic approach for financial supervision, chaired by Mr Justice D A Melamet.

practical issues and problems first had to be resolved

As previously reported, however, the proposals of the Jacobs and Melamet Committees were not given full effect, largely because practical issues and problems first had to be resolved. Despite the establishment of the Policy Board for Financial Services and Regulation in 1993 and the subsequent implementation of a number of measures to achieve greater cooperation between the FSB and the Bank Supervision Department, the two regulators continued to function separately.

recommencement of the debate in March 1999

The recommencement of the debate in March 1999, through round-table discussions initiated by the Minister of Finance, and subsequent arguments for and against a single-regulator model were reported extensively in the previous annual report. It was also reported that the Minister of Finance commented in Parliament in mid-2001 that the Government intended establishing a single financial regulator in the near future.

banking supervision closely aligned with the Reserve Bank's other functions

In his address to the eighty-second ordinary general meeting of shareholders in August 2002, Governor Tito Mboweni expressed the view that banking supervision should remain part of the South African Reserve Bank's functions. He explained that the problems in the banking sector early in 2002, discussed earlier in this chapter, had shown that banking supervision was closely aligned with the Reserve Bank's other functions. Governor Mboweni stated, amongst other things, that these problems had shown that "a least-cost resolution of a banking crisis would always depend on a special collegial interaction between the Registrar of Banks and at least four other departments in the Bank. The policy formulation, decision-making, co-ordination and rapid execution of the many interventions that were necessary would have been almost inconceivable in a situation where the supervision of banks was not part of the Bank".

stability in the banking sector integral to the transmission of monetary policy

Governor Mboweni reiterated many of the considerations expressed in the Bank Supervision Department's 2000 and 2001 annual reports. An important consideration remained that stability in the banking sector was integral to the transmission of monetary policy, resulting in a need for the central bank to be involved in banking supervision. The Governor also reiterated one of the fundamental differences between banks and other financial institutions - namely, that banks were prone to contagion, as discussed earlier in this chapter. He further indicated that a risk-based approach to supervision, as adopted by the Bank Supervision Department in the early 1990s, was more appropriate to banks than a rules-based approach, since every case of banking distress was unique, as the policy framework for dealing with banks in distress discussed above also illustrates. The Governor reiterated, however, that close cooperation between the different regulatory authorities was essential in order to promote effective consolidated supervision of financial conglomerates.

risk-based approach to supervision more appropriate

close cooperation between regulatory authorities essential

Towards the end of the International Conference of Banking Supervisors held in Cape Town, in September 2002, and discussed in chapter 2 of this annual report, the matter of

ability to cooperate and act decisively more important than institutional arrangements

a single financial regulator was also raised. Mr William McDonough, Chairman of the Basel Committee on Banking Supervision and President and Chief Executive Officer of the Federal Reserve Bank of New York, commented that supervision by the central bank and by a separate regulator could both work, as experience in the United States of America had shown. Deputy Governor Gill Marcus reiterated a view previously expressed by, amongst others, the South African Reserve Bank that the ability to cooperate and act decisively, in a coordinated manner and in a very short time, was more important than the institutional arrangements.

CORPORATE-GOVERNANCE REVIEW

status of compliance with sound corporate-governance practices

On 15 August 2002, Deputy Governor Gill Marcus announced that the South African Reserve Bank had agreed with the five largest banking groups in South Africa to investigate, in terms of section 7 of the Banks Act, 1990, the status of compliance with sound corporate-governance practices within these banking groups. Deputy Governor Marcus emphasised that the review was a pro-active step to maintain the credibility of and foster confidence in the South African banking sector, in the wake of the recent failure of local banks, such as Regal Treasury Private Bank Limited and Saambou Bank Limited, and highly publicised international corporate failures, such as those of Enron and Worldcom. The investigation was led by Advocate John Myburgh SC, assisted by three members of the Bank Supervision Department.

purpose of the investigation

The purpose of the investigation was to:

- ▲ Investigate compliance with corporate-governance best practices as laid down by the Banks Act, the Regulations thereto and the March 2002 recommendations of the King Committee on Corporate Governance.
- ▲ Establish the extent to which, firstly, an adequate and effective corporate-governance process had been established and maintained within the controlling company, the bank and its subsidiaries and, secondly, the board of directors monitored the overall effectiveness of the corporate-governance process.

areas investigated

The scope of the review was to establish, as well as describe and express an opinion on, the adequacy of a wide range of areas, although the investigation was not limited thereto. In particular, the areas investigated included the following:

Executive and non-executive management

- ▲ Structure, composition, role and functions of the board of directors.
- ▲ Independence of directors.
- ▲ Director selection, career path and development.
- ▲ Role of the chairman of the board of directors.
- ▲ Role and functions of the risk-management committee, audit committee and remuneration committee.
- ▲ Role of the chief executive officer.
- ▲ Leadership.

Monitoring and control

- ▲ Systems of control.
- ▲ Decision-making process and decision-making capability of the board.
- ▲ Reports from management to the board.
- ▲ Board's monitoring of activities reported to it.
- ▲ Status, role and scope of the internal audit function.
- ▲ Role and function of the external auditors.

Remuneration and related areas

- ▲ Remuneration, including share incentives, of executive and non-executive directors.
- ▲ Incentive schemes for staff.
- ▲ Related-party lending, conflicts of interest and related matters.

Disclosure

- ▲ Disclosure to stakeholders.

The committee conducted interviews with all persons performing executive and non-executive functions in the five banking groups, as well as the groups' external auditors and the risk officers of the banks in the groups. The committee expected to present its report and findings to the Registrar of Banks during the first quarter of 2003.

It has become clear in recent years that, in the interests of good corporate governance, legislation, regulation, policy and guidelines in the different sectors of the financial-services industry need to be brought in line with each other. Therefore, the Financial Services Board and the Bank Supervision Department have embarked on a process of devising a common approach to the level of legislative implementation of a corporate-governance framework in the financial-services industry.

process of devising a common approach

HUMAN-RESOURCE PLAN

In previous annual reports, it was reported that the focus of the Bank Supervision Department's employment plan was to accord with the aim of promoting equity through diversity, in line with the 2005 human-resource (HR) plan of the South African Reserve Bank. In order to increase capacity, the Governor approved an organisational restructuring of the Department, and implementation thereof began during the year under review.

main aims are to promote employment equity and to ensure a competent and motivated workforce

In essence, the main aims of the 2005 HR plan are to promote employment equity in the Reserve Bank and to ensure a competent and motivated workforce. The policy, as implemented, includes the accelerated development and promotion of employees with potential from the designated group, that is, blacks (including coloured and Asian persons), females and disabled persons.

During the first seven months of 2002, the Department made good progress towards bringing the profile of its workforce in line with both the requirements of the 2005 HR plan and new developments in banking supervision. At the end of July 2002, 50 per cent of the Department's workforce was black, and males and females constituted 51 per cent and 49 per cent, respectively, of the workforce.

Department was particularly affected

In August 2002, however, the Reserve Bank embarked on an intense process of finding ways to contain costs, whilst achieving its employment-equity objectives. In order to contain the increase in costs and staff numbers, a moratorium was placed on all recruitment. The Bank Supervision Department was particularly affected, given its staff-turnover rate of 7 per cent, albeit an improvement on the rate of 10,2 per cent in 2001. By the end of 2002, the black component of the Department's workforce had decreased to the 2001 level of 49 per cent, whereas the composition in terms of gender remained at the July 2002 percentages.

initiatives

During 2002, the Department continued with the following initiatives:

- ▲ Fast tracking of employees from the designated group, and appointment of cadets. Three cadets (two from the designated group) were appointed.

- ▲ Training of bank supervisors from, amongst others, the member countries of the East and Southern Africa Banking Supervisors Group and of emerging auditing firms.
- ▲ Formulation of career plans for the various job clusters, such as analysts, information technologists and legal consultants.

ISSUES THAT WILL RECEIVE PARTICULAR ATTENTION DURING 2003

The issues on which the Bank Supervision Department will place particular focus during 2003 include the following, most of which are discussed elsewhere in this annual report:

focus areas

- ▲ Continued leadership of and participation in the Accord Implementation Forum in order to address and resolve issues pertaining to the implementation of the new Basel Capital Accord (Basel II), as well as interaction in this regard with other supervisors.
- ▲ Continued amendment of the regulatory framework and the supervisory process and procedures, as well as development of complementary tools, in order to cater for the requirements of Basel II.
- ▲ Finalisation of a regulatory framework to enable the establishment of second- and third-tier banking institutions aimed at providing broader access to finance.
- ▲ Ongoing review of the banking legislation to ensure that it remains in line with international and local developments and standards in addition to those required by Basel II.
- ▲ Development of a policy framework for banks' reporting in accordance with Accounting Standard AC 133 and assessment of the impact of AC 133 on statutory reporting.
- ▲ Interaction with the Accounting Standards Board on the transparency and fair-value accounting requirements of Accounting Standard AC 133, and continued interaction with the accounting profession through the Auditor-regulator College discussed in the previous annual report.
- ▲ Promotion of more diversified shareholding structures and stability of large shareholders of banks in furtherance of the stability of the banking sector.
- ▲ Participation in the finalisation of the proposed financial charter for South Africa, in order to ensure that the stability of the financial sector is not impaired.
- ▲ Continued monitoring and surveillance of banks' liquidity positions, as well as trading activities and positions.
- ▲ Continued on-site review of banks' risk-management processes and practices.
- ▲ Ongoing combating and investigation of illegal deposit-taking institutions, and measures to create investor awareness.
- ▲ Assessment and monitoring of banks' implementation of anti-money-laundering measures, as well as their compliance with the relevant local legislation and international requirements.
- ▲ Continued participation in the initiatives and activities of international and regional bank-supervisory bodies, such as the Basel Committee on Banking Supervision and the East and Southern Africa Banking Supervisors Group.

A WORD OF THANKS

Once again, I wish to express my appreciation to the Minister and Deputy Minister of Finance for their valued inputs to requests in terms of statutory requirements. Sincere thanks also go to the Governor and Deputy Governors of the South African Reserve Bank, in particular to Ms Gill Marcus, both as Chairperson of the Policy Board for Financial Services and Regulation and as the Department's Deputy Governor, for their continued cooperation, guidance and support, which my staff and I have found to be invaluable. We further wish to thank the many local and international organisations, as well as individuals, whose cooperation the Department again received during the past year - to list but a few, the Chief Executive of the Financial Services Board and his staff, the senior executives of banking institutions and their external auditors, The Banking Council South Africa, the Standing Committee for the Revision of the Banks Act, 1990, the auditing profession, the staff of the South African Reserve Bank, the East and Southern Africa Banking Supervisors Group, the Basel Committee on Banking Supervision and the central bankers and bank supervisors worldwide with whom the Department liaises on an ongoing basis.

The above review gives but a small taste of the difficulties that faced the Department during a very stressful year for the South African banking system. As the focus areas for 2003 and subsequent chapters indicate, the challenges that the future holds for bank supervisors promise to be no less demanding. I, therefore, wish to express my sincere gratitude to my staff for continuing to handle their ever more difficult task and substantial workload with professionalism, dedication and enthusiasm.

C F Wiese

Registrar of Banks, and General Manager: Bank Supervision Department

CHAPTER 2

CURRENT ISSUES IN BANKING SUPERVISION

new Capital Accord remained an issue of great importance

As was the case in previous annual reports, this chapter deals with some of the most important regulatory and supervisory trends and developments, locally and internationally, during the year under review. Developments with the new Capital Accord remained an issue of great importance to the Bank Supervision Department and banks, as well as their external auditors. Among the other issues discussed are the impact of changes to accounting standards on banks, the potential impact of the proposed community-reinvestment legislation for housing purposes on the banking system, initiatives to provide broader access to finance and developments with measures to combat money laundering.

FURTHER DEVELOPMENTS WITH NEW CAPITAL ACCORD

The need for a new capital-adequacy framework was discussed in several previous annual reports and is now well entrenched. The proposed new Basel Capital Accord, generally referred to as Basel II, has been accepted as international best practice to align capital-adequacy assessment more closely with the key elements of banking risks and to provide for banks to enhance their risk-measurement and risk-management capabilities.

The 2001 annual report focused on the second consultative paper (CP2) on Basel II developed by the Basel Committee on Banking Supervision and highlighted the comments that the Committee had received from approximately 270 sources, including the Bank Supervision Department. Since then, interested stakeholders, including academics, bankers, supervisors, regulators and consultants, have debated a wide range of issues, among them procyclicality, the impact of Basel II on emerging markets, the credit-risk and operational-risk issues emanating from the prescribed standards and the complexity of Basel II.

International developments

agreement on a number of important issues

At a meeting on 10 July 2002, the Basel Committee reached agreement on a number of important issues, discussed briefly below.

Timetable for implementation

third quantitative impact study (QIS 3)

In order to perform a concrete and comprehensive assessment of the impact of the Basel II proposals on particular banks, the Basel Committee initiated a third quantitative impact study (QIS 3), discussed in more detail below. Assessment of the QIS 3 results will allow the Basel Committee to determine whether adjustments need to be made before the release of consultative paper 3 (CP3), for public comment, during the second quarter of 2003.

implementation delayed by a year

As a result of the additional step introduced by QIS 3 and the proposed CP3, the Basel Committee intends to finalise Basel II only during the fourth quarter of 2003, and no longer in 2002, as previously planned. Consequently, implementation of the new framework in each country was delayed by a year. Accordingly, Basel II is to be implemented on 31 December 2006. During the forthcoming three-year period, banks and supervisors are expected to develop the systems and processes necessary for compliance with the standards of Basel II. Banks adopting the internal ratings-based (IRB) approach to credit risk and the advanced measurement (AM) approach to operational risk will be required to perform

parallel calculations from
1 January 2006

parallel calculations in terms of Basel II and the 1988 Accord for one year prior to implementation, that is, from 1 January 2006.

QIS 3

field test of Basel II

The Basel Committee officially launched QIS 3, a field test of Basel II, on 1 October 2002, in the form of the:

- ▲ QIS 3 workbook – a series of spreadsheet-based questionnaires with embedded formulae for capital-adequacy calculation.
- ▲ QIS 3 instruction.
- ▲ QIS 3 technical guidance.

QIS 3 involved more than 200 banks from over 40 countries, including South Africa, and banks had to submit their responses by 20 December 2002. The study, which focused on the proposed minimum capital requirements under pillar one of Basel II, represents a significant step in the Basel Committee's efforts to develop an improved capital-adequacy framework. As indicated above, after assessing the results of QIS 3, the Basel Committee intends to refine its proposals, where appropriate, before issuing CP3.

Treatment of small and medium enterprises

The Basel Committee regards the small and medium enterprise (SME) sector as important for economic prosperity. Inherently, exposures to SMEs tend to be more risky for banks than exposures to larger corporates. Certain sectors raised a concern that a more risk-sensitive capital-adequacy framework might result in banks being unwilling to extend credit to SMEs, potentially hampering economic growth.

recognition of the different
risks associated with SME
borrowers

In recognition of the different risks associated with SME borrowers, banks will be permitted to distinguish loans to SME borrowers from loans to larger firms under the IRB approach to corporate credit. In terms of the proposed treatment, exposures to SMEs will attract a lower capital requirement than exposures to larger firms. A reduction of up to 20 per cent, depending on size of the borrower, and, on average, a reduction of approximately 10 per cent will apply. In addition, banks that manage SME-related exposures in a manner similar to retail exposures will be permitted to apply the retail IRB treatment to such exposures, provided that the total exposure of a bank to an individual SME is less than one million euros.

Retail framework

greater risk sensitivity in the
treatment of non-mortgage
retail lending

In an effort to achieve greater risk sensitivity in the treatment of non-mortgage retail lending, two distinct IRB risk-weighting curves will now be available for such exposures. The first curve, that for other retail lending, will produce capital requirements that are modestly higher than those that the Basel Committee proposed earlier and will apply to those exposures that do not qualify for use of the second curve. The second curve will apply to qualifying revolving exposures and will produce capital requirements that are materially below those previously proposed.

In an effort to maintain consistency with the likely changes in capital requirements under the retail IRB framework, risk weightings for residential mortgage exposures under the standardised approach will be reduced from 50 per cent to 40 per cent. Risk weightings for non-mortgage retail exposures will be reduced from 100 per cent to 75 per cent.

Operational risk

progress with the management of operational risk

The Basel Committee recognises that banks are continuing to make progress with the management of operational risk. In view thereof, as well as banks' development of better operational risk-management frameworks, the Basel Committee reaffirmed its intention to proceed with the pillar one approach to operational risk. In the light of the continuing evolution of analytical approaches to operational risk, the Basel Committee recognises the flexibility inherent in the AM approach to the measurement and management of operational risk and to the development of systems for such frameworks. Accordingly, the Basel Committee will no longer demand a floor capital requirement on operational risk in conjunction with the more advanced approach.

Procyclicality

credit-risk stress test

A concern that has been raised is that the increased risk sensitivity of Basel II will tend to reinforce behavioural patterns in banks that are likely to increase the cost of credit precisely when the supply of credit is falling, that is, during a downturn in the business cycle. In order to address this concern about procyclicality - the impact of stress in one cycle on another cycle - banks adopting the IRB approach to credit risk will be required to perform a meaningfully conservative credit-risk stress test of their own design. The aim is to estimate the extent to which such banks' IRB capital requirements could increase during stress scenarios. Banks and supervisors will use the results of these stress tests to ensure that banks hold a sufficient capital buffer under pillar two of Basel II.

Accord Implementation Group

In recognition of the challenges that supervisors face in the implementation of Basel II, the Basel Committee announced the creation of the Accord Implementation Group. The Group will serve as a means for supervisors to share information on approaches to the implementation of Basel II. The Accord Implementation Group also has the potential to promote consistency in supervisors' implementation approaches.

Local developments

As mentioned above, Basel II has been adopted as the international standard for a capital-adequacy framework.

Position on Basel II

In furtherance of its mission to promote the soundness of banks through the effective application of international regulatory and supervisory standards, the Bank Supervision Department will require South African banks adopting the IRB approach to credit risk and the AM approach to operational risk to be Basel II compliant by 2006, as indicated above, and all banks by 1 January 2007, the official date for compliance. The Department is of the view that adoption of the Basel II standards is likely, amongst other benefits, to:

benefits

- ▲ Assist in the development of a safe and sound banking and financial system.
- ▲ Improve risk management within the system.
- ▲ Enhance ratings and international interest.
- ▲ Attract foreign funds to South Africa.
- ▲ Promote economic development.

- ▲ Make local banks more competitive internationally.
- ▲ Allow local banks to expand globally.

The Department has actively been engaging banks in discussions on Basel II implementation and believes that they are committed to implementing and complying with Basel II.

Participation in QIS 3

Local banks regarded QIS 3 as an important starting point in their initiatives to implement Basel II standards. Eight South African banks, covering approximately 80 per cent of the total South African banking sector, participated in QIS 3. Feedback from these banks suggests that the exercise was useful for the following reasons, amongst others:

useful for the following reasons

- ▲ QIS 3 allowed a comprehensive gap analysis, assisting banks to identify areas that required attention in order for them to be Basel II compliant by 2006/2007.
- ▲ Banks could conduct an assessment of the impact of Basel II on their institutions and plan appropriate responses. Typically, QIS 3 gave banks guidance on the approach that they had to adopt to the calculation of credit-risk and operational-risk capital charges.
- ▲ QIS 3 was resource intensive, helping banks to establish their permanent teams for Basel II implementation.
- ▲ QIS 3 was useful in identifying specific implementation issues. Once banks have considered these issues, they will be debated and discussed with the Department.
- ▲ Executive sponsorship ensured that the executive teams of banks became involved in the QIS 3 exercise. As a result, banks that participated in QIS 3 succeeded in making their executives aware of the implications of Basel II and what the implementation process would require.

The Bank Supervision Department is continuing to analyse the South African QIS 3 results in order to gain a thorough understanding of the impact of Basel II on particular banks and the banking sector as a whole. Upon completion of this analysis process, the Department will discuss the QIS 3 results with participating banks and release summarised results.

Accord Implementation Forum

The Department established the Accord Implementation Forum (AIF) by means of Banks Act Circular 5/2002. Subsequently, the Department received over 40 representatives from banks and auditors (in as far as their statutory duty was concerned). The AIF held its first meeting on 29 August 2002, at which a working structure was proposed. In essence, the proposal was that the AIF consist of a steering committee and four subcommittees, a structure accepted in November 2002. The Steering Committee, chaired by the Registrar of Banks, consists of some 16 members, representing the Bank Supervision Department, other regulatory bodies, The Banking Council South Africa, the five biggest local banks and three smaller ones, two branches of foreign banks, one representative office of a foreign bank and the South African Institute of Chartered Accountants. The four subcommittees are a risk-management subcommittee, with three groups (credit risk, operational risk and market risk), to address issues pertaining to pillar one of Basel II, a regulatory-framework subcommittee, a disclosure subcommittee to address issues pertaining to pillar three of Basel II and an economic-impact subcommittee.

steering committee and four subcommittees

The mission of the AIF is to promote the implementation of the prescribed Basel II standards, in co-operation with all relevant stakeholders, in a manner that promotes a sound banking and financial system. The specific objectives of the AIF are to:

specific objectives

- ▲ Work towards a safe and sound banking and financial system in pursuing the implementation of Basel II by the South African banking system.
- ▲ Represent the interests of stakeholders that will be affected by the adoption of Basel II.
- ▲ Identify all relevant issues associated with the implementation of Basel II and understand the consequences thereof.
- ▲ Reach consensus on issues identified and recommend solutions.
- ▲ Work with national and international bodies, in order to identify and formulate recommendations for the resolution of issues.
- ▲ Promote the development and adoption of sound risk-management practices.

The AIF is positioned to build a bridge between banks and the supervisor. The common goal is to align capital adequacy more closely with the key elements of banking risks and to provide incentives for enhanced efforts in risk measurement and management. The AIF will identify issues that require the formulation of policy and is expected to serve as an effective platform for sharing scarce skilled resources.

platform for sharing scarce skilled resources

Supervisory developments

supervisors have to re-engineer their processes and tailor their organisational structures

Basel II will have a significant impact not only on banks, but also supervisors, who will have to re-engineer their processes and tailor their organisational structures to meet the Basel II standards. In collaboration with other supervisors, the Bank Supervision Department is currently developing its Basel II implementation strategy. This process requires, amongst other things, a thorough understanding of the provisions of Basel II, the design of appropriate supervisory processes and the development of complementary tools to discharge supervisory duties.

Representation on international bodies

The Bank Supervision Department represents South African interests at, and makes significant contributions to, the Basel II work of the following international bodies:

- ▲ Core Principles Liaison Group (CPLG) of the Basel Committee.
- ▲ Working Group on Capital, a subgroup of the CPLG that considers the interests of countries that do not form part of the Group of Ten (G10).
- ▲ QIS 3 Global Group, which consists of the supervisors of banks participating in the QIS 3 exercise.
- ▲ Non-G10 Accord Implementation Group.

Conclusion

Basel II holds great challenges for both banks and supervisors during the forthcoming number of years, and many issues have to be discussed and negotiated. Ultimately, however,

potential to improve risk management	the new capital-adequacy framework has the potential to improve risk management in banks and to align economic capital more closely with regulatory capital. Co-operation between banks and supervisors, between supervisors of different countries and between different banks is therefore essential for the successful implementation of Basel II.
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CHANGES TO ACCOUNTING STANDARDS AND IMPACT ON BANKS

significant milestone in changing the reporting environment	The year under review marked a significant milestone in changing the reporting environment of all companies, including banks, in South Africa. The changes not only arose from the aftershock of Enron and other highly publicised corporate failures, but, more importantly, represented the outcome of several long-term projects that a number of public bodies had undertaken to improve corporate governance and the quality of financial reporting.
most notable change was the adoption AC 133	The most notable change was the adoption, following an 18-month postponement, of Accounting Standard AC 133 on financial instruments, recognition and measurement. Other significant developments included the draft Financial Reporting Bill, proposed amendments to the Companies Act, 1973, on which the Bank Supervision Department reported in its 2001 annual report, and the JSE Securities Exchange South Africa (JSE) and the South African Institute of Chartered Accountants (SAICA) establishing a panel to monitor compliance with generally accepted accounting practice (GAAP) – the JSE/SAICA GAAP Monitoring Panel.

draft Financial Reporting Bill	In its final report, the Commission of Inquiry into the Affairs of the Masterbond Group and Investor Protection in South Africa stated that “legal backing for accounting standards is recognised in many jurisdictions and is widely supported by professional organisations”. In order to improve the quality of financial reporting in South Africa, the Minister of Finance presented the draft Financial Reporting Bill during 2002. The draft Bill includes legal backing for Statements of South African GAAP, the establishment of an investigative and an enforcement committee by the Financial Services Board (FSB) and proposals to address the onerous consequences of compliance with accounting standards for small and medium-sized entities.
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GAAP compliance reviews	As part of its mandate, the proposed investigative committee will be tasked with performing GAAP compliance reviews of the financial statements of publicly listed entities, including banks. The committee will also be responsible for responding to and investigating public complaints about inappropriate accounting treatment by listed companies. If a contravention of GAAP is identified, the persons responsible for the preparation of the financial information may be required to take corrective action. The FSB may refer cases to the proposed enforcement committee, which may levy penalties and fines in the case of serious contraventions, or a refusal to implement corrective action. The activities of these committees are expected to place significantly greater pressure on the management, audit committees and auditors of affected entities in order to ensure that published financial information fairly presents the financial position, performance and activities of the entities.
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JSE/SAICA GAAP Monitoring Panel	As mentioned above, the JSE/SAICA GAAP Monitoring Panel was established as an interim measure. Although the Panel is still in its infancy, provision is made for a group of independent people, selected from a panel of technical experts, to assess all complaints lodged with, or by, the JSE about a listed company’s financial reporting. The JSE may then require such a company to restate the filed information. The Monitoring Panel is expected to operate alongside the committees envisaged by the draft Financial Reporting Bill so as to provide a more timely resolution process for listed companies.
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two major developments	From an accounting perspective, there were two major developments during 2002. The first development resulted from the Improvements Project of the International Accounting Standards Board (IASB) and constituted a number of amendments in order to simplify,
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consolidate and enhance the body of International Accounting Standards (IAS). Pursuant to SAICA's decision in 1993 to harmonise South African accounting standards with the IAS, the aforementioned amendments are expected to become effective locally in 2003 and to enhance the quality of financial reporting in South Africa.

The second development was the adoption and limited amendment of the comprehensive and complex AC 133. Based on International Accounting Standard IAS 39, AC 133 was initially effective from 1 January 2002. The Banking Council South Africa, however, made submissions to SAICA in 2001, and the effective date of AC 133 was delayed to enable banks to implement the necessary systems and required reporting changes. Accordingly, AC 133 became effective for the year-ends of companies, including banks, commencing on or after 1 July 2002.

Diverging from the provisions of IAS 39, SAICA already adopted certain of the amendments proposed by the IASB's Improvements Project in July 2002. This limited amendment resulted from the Banking Council making further submissions to SAICA, in a move to remove certain inconsistencies inherent within the standard and to alleviate certain of the practical implementation difficulties in AC 133.

impact of AC 133 will
become evident in 2003

The impact of the implementation of AC 133 by banks in South Africa will become evident only in 2003, once they report their interim and annual financial statements on the basis of AC 133. Banks have indicated, however, that AC 133 is expected to have a pervasive effect. This effect will have an impact not only on the reported accounting results, but also the key operational and risk-management functions of banks and other entities.

classification framework

Arguably the most complex standard ever issued by SAICA, AC 133 follows a rules-based, financial-component approach to accounting for financial instruments and introduces a classification framework for all financial instruments. In view of this classification framework, AC 133 significantly alters the basis for measuring financial instruments, by moving away from the traditional basis of historical cost accounting to the greater use of fair values in reporting financial instruments in the balance sheet and income statement of banks and other entities. Financial instruments held for trading purposes will largely continue to be accounted for at market value, as in the past. AC 133, however, will improve the quality of financial reporting by obliging banks and other entities to record all derivative positions on the balance sheet and to reflect changes in the value of such positions through the income statement.

improve the transparency
of financial statements

As a result of these and other changes to existing accounting practices, AC 133 is expected to improve the transparency of financial statements. A major consequence of the greater use of fair values, however, will be the introduction of greater volatility in the reported earnings and equity of banks and other entities. The Bank Supervision Department is actively involved in assisting banks in preparing for reporting in terms of AC 133 and is also determining the expected impact on regulatory reporting so as to ensure the stability of the banking sector during the transitional period.

The developments in the South African financial-reporting environment outlined above will improve the quality of publicly available financial statements and will result in positive, enduring benefits for companies, including banks, and the South African economy.

INTERNATIONAL CONFERENCE OF BANKING SUPERVISORS

As previously reported, the Bank Supervision Department was tasked with organising the twelfth International Conference of Banking Supervisors (ICBS) in conjunction with the Basel Committee on Banking Supervision. The ICBS, held at two-yearly intervals since 1979, is designed to promote cooperation among national authorities in the supervision of interna-

tional banking and to 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 held

The twelfth ICBS was held from 16 to 20 September 2002, in Cape Town, at the invitation of the South African Reserve Bank. The conference was attended by 270 delegates, mainly the heads and other senior staff of about 150 bank-supervisory authorities, from 134 countries.

premeetings for various regional groupings

Two days of premeetings for various regional groupings of bank supervisors, established under the auspices of the Basel Committee, were held on 16 and 17 September. At the end of the second day, the regional chairpersons reported on the status of bank supervision in their regions to a joint session, chaired by Mr William J McDonough, Chairman of the Basel Committee on Banking Supervision and President and Chief Executive Officer of the Federal Reserve Bank of New York.

Governor Tito Mboweni of the South African Reserve Bank officially opened the conference on 18 September 2002. In his address, Governor Mboweni briefly outlined the conference topics and sketched, amongst other issues, the challenges facing the South African economy. He also assured the delegates that South Africa would be ready to implement the new Capital Accord, or Basel II, by 2006.

keynote speech: four main topics

In his keynote speech on completing the journey to Basel II, Mr McDonough discussed four main topics - the milestones that had been achieved, the status of Basel II, what supervisors were doing to prepare for implementation and application of Basel II in non-group-of-ten countries, as outlined earlier in this chapter. At the end of the day, the South African Minister of Finance, Mr Trevor Manuel, delivered a dinner address on global financial developments and how South Africa had fared.

two main themes of the conference

The two main themes of the conference were a review of Basel II and how to create a stable financial environment in emerging-market economies. Plenary and panel sessions on these topics were chaired by Mr Claes Norgren, Chairman of the Basel Committee Task Force on the Future of Capital Regulation and Director General of Financial Inspection in Sweden, and Mr Tommaso Padoa-Schioppa, Member of the Executive Board of the European Central Bank and a former Chairman of the Basel Committee. A number of working sessions on these two topics were chaired by Mr McDonough and Deputy Governor Gill Marcus of the South African Reserve Bank.

special panel sessions

Two special panel sessions on topical issues were also held. The first session addressed customer due diligence and terrorist financing, a topic of particular significance in the light of the increased worldwide need to combat the scourge of money laundering, as discussed later in this chapter. This session was chaired by Mr Jochen Sanio, President of the German financial supervisory authority and current President of the intergovernmental Financial Action Task Force. At the close of the session, participants resolved to declare, in a separate press communiqué, their commitment to adopting the standards set out in the Basel Committee's 2001 paper on customer due diligence for banks. The second special panel session, chaired by Mr Arnold Schilder, Executive Director of the Netherlands Bank, was devoted to loan accounting.

Mr Stanley Fischer, Vice Chairman of Citigroup and former First Deputy Managing Director of the International Monetary Fund, delivered a lecture in memory of William Taylor, a former head of bank supervision at the Federal Reserve Board and former chairman of the Federal Deposit Insurance Corporation in the United States of America. Mr Fischer addressed the topical issue of risk management and the implications of Basel II for banking in emerging-market countries.

Besides an active sight-seeing programme for delegates' partners, the conference programme included social events at well-known Western Cape venues, such as the Arts Cape Theatre, the Company Garden's Museum and the Botanical Gardens. An excursion to the Cape Winelands and Franschhoek Valley on the final day offered some welcome relaxation and fun for delegates and their partners.

Overall, participants regarded the conference as a great success. The next ICBS will be held in 2004, in Madrid, Spain, at the invitation of the Bank of Spain.

BANK-SUPERVISORY ACTIVITIES AT REGIONAL LEVEL

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 stated in previous annual reports, the objectives of ESAF are to promote the standard and quality of banking supervision in ESAF member countries, in line with international best practice, and to harmonise bank-supervisory philosophies and practices in the region.

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. The Department has been fulfilling that role since 1999 and will continue to do so until 2004.

During 2002, the Republic of Rwanda, represented by the National Bank of Rwanda, was admitted as the seventeenth ESAF member country.

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

second phase of the project was completed

The second phase of the project to provide harmonised bank-supervisory legislation, regulations, procedures and systems at a national and regional level, within the ESAF region, was completed. The design and specification document was signed off by all members of the Project Steering Committee, on the recommendation of the Project Management Committee. The specification document has since been translated into Portuguese and will also be translated into French.

The Bank Supervision Application (BSA) system consists of six integrated modules for the management of the supervisory infrastructure, licensing of banks, off-site analysis, on-site investigation, enforcement action and risk analysis. Implementation of a pilot scheme at the Bank of Mozambique was scheduled for February 2003, and the BSA system is expected to be installed in other participating ESAF member countries within the forthcoming two years.

Courses in bank supervision

two regionally focused seminars

During the year under review, the Financial Stability Institute of the Bank for International Settlements presented two regionally focused seminars for ESAF members. The first seminar, which covered the new Capital Accord (Basel II) and interest-rate risk, was held in Kampala, Uganda, and was attended by 30 participants from nine ESAF countries. The second seminar, which covered Basel II, measures to combat money laundering and corporate governance, was held in Livingstone, Zambia, and was attended by 38 participants from 14 ESAF countries.

objectives

The objectives of the seminars were to:

- ▲ Provide an overview of the latest developments with Basel II.

- ▲ Update participants on current best practices in interest-rate risk management.
- ▲ Provide a forum for the exchange of ideas on common problems, such as combating money laundering, and the implementation of best supervisory practices, such as improving corporate governance in banks.
- ▲ Provide the Financial Stability Institute with useful information on the most important needs in the ESAF region.

The Bank Supervision Department successfully hosted another intermediate course in banking supervision, attended by 38 participants from 14 of the 17 ESAF member countries, in Pretoria, from 22 July to 2 August 2002.

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 2003.

PROPOSED LEGISLATION ON COMMUNITY REINVESTMENT IN HOUSING

Community Reinvestment (Housing) Bill (CR Bill) proposes minimum targets

During the year under review, the Department of Housing published the Community Reinvestment (Housing) Bill (CR Bill) for comment. The CR Bill, which is regarded as a sequel to the Home Loan Mortgage Disclosure Act, 2000 (Act No. 63 of 2000 - the HLMD Act), proposes the implementation of a programme of minimum targets and standards for lending for the purpose of housing at low- and medium-income levels. The stated goal of the CR Bill is to encourage innovation and prudent risk-taking in expanding access to housing finance.

The Minister of Housing would be responsible for setting targets for such lending as a proportion of overall housing lending. The Office of Disclosure, to be established under the HLMD Act, would be responsible for assessing the performance of housing lenders against the prescribed targets and other criteria specified in the CR Bill.

most housing lenders are banks

The CR Bill provides for the principles applicable to community reinvestment for housing and proposes that all housing lenders share in this task proportionately, but not necessarily through directed lending. In this regard, it should be noted that most housing lenders, by volume and value, are banks. The Bill encourages lenders to meet the prescribed targets by channelling funds either directly to low-income niche lenders, or through the National Housing Finance Corporation.

In addition to prescribed targets for such lending, the CR Bill provides restrictions on redlining and a number of other practices. The Bill also requires greater communication and disclosure to potential borrowers by lenders. Failure by lenders to meet the targets or transgression of other provisions of the CR Bill may result in a fine.

The CR Bill is an admirable attempt to further the cause of creating broader access to housing finance. Certain provisions of the current approach, however, may undermine this objective. Some of the concerns and issues in this regard are highlighted below.

Some concerns

The Bank Supervision Department is well aware of the housing shortage in South Africa and fully supports the ideals and prescriptions embodied in the Constitution. The Department, however, is concerned that the CR Bill may be seen an attempt to oblige pri-

vately owned financial institutions that are entrusted with the savings of the general public – that is, banks - to resolve the housing crisis in the country. This perception could also have a negative impact on the investment rating of South Africa.

Although bank loans and advances are made to borrowers from both shareholders' capital and depositors' funds, most loans are made from depositors' funds. Potential consequences of a statute (such as the CR Bill) directing banks to provide loans to persons falling outside the acceptable credit-risk profile of banks include the following:

potential consequences

- ▲ Depositors and shareholders may find the utilisation of their deposits and capital to fund riskier loans by banks unacceptable and may wish to invest or place their funds elsewhere.
- ▲ A statutory obligation on banks to fund loans perceived to be riskier might have a severe impact on the effectiveness of banking regulation in general. The fundamental principle of banking legislation is to oblige banks to manage the risks inherent in banking business.
- ▲ Should banks be encouraged to provide riskier loans, such services would inevitably have to be provided at a higher than normal cost to the borrower. The resultant higher interest rates charged on riskier loans might thus defeat the purpose and aims of the CR Bill.
- ▲ Borrowers falling within the category prescribed by the CR Bill may in certain instances regard the statutory obligation placed on banks to grant riskier loans to certain borrowers as an invitation to obtain funding from banks without having to repay such loans.

Market distortion and role of Government

The CR Bill was designed to respond to the lack an effective mechanism to provide low-income individuals with access to credit and the excessive and unaffordable price of credit.

A market distortion is created when demand is not sufficiently met by supply. Although the aim of the CR Bill is to address the market's failure to promote broader access to finance, the focus is on the supply side, while ignoring the demand side. Government could address this by:

competition

- ▲ Increasing competition so as to allow prices to adjust to levels that more accurately reflect underlying risks. This would include measures designed to remove barriers to entry, facilitate the entry of firms by increasing the rate of return that can be earned in the market and improve information dissemination so that price signals are transmitted efficiently.

special-purpose vehicles

- ▲ Creating special-purpose vehicles (SPVs) that require a lower return on, or have a higher risk tolerance of, the credit extended to certain markets, or which provide a service that reduces the costs to private firms of extending credit to those markets. Such SPVs would in effect represent an implicit Government subsidy to low-income earners.

direct incentives

- ▲ Providing direct incentives to private firms to encourage them to enter a particular market.

Scope of the CR Bill

likely to impact on participation of foreign banks

Section 2 of the CR Bill indicates that the provisions thereof apply equally to all financial institutions, both large and small, as well as foreign and domestic. Although it is equitable that the CR Bill encompasses all banks, the Bill is likely to impact adversely on the participation of foreign banks in the local market. It is difficult to predict the consequences of the CR Bill in this regard.

survival of small banks likely to be affected

Furthermore, the survival prospects of small banks, already operating under difficult circumstances, as indicated in chapter 1 of this annual report, are likely to be affected under the prescriptions of the CR Bill. The further demise of small banks would lead to even more consolidation and reduced competition in the banking sector.

Pressures on banking sector

As indicated in chapter 1 of this annual report, there are already pressures on the South African banking sector, in the face of adverse economic circumstances, domestically and internationally. Introduction of further pressures on banking assets could severely harm the financial system. Furthermore, many major banks have strained their resources to assist failing and failed banks, in order to prevent such systemic risk, in the national interest. Data indicate that banks are already serving microborrowers, micro-enterprises and the low-cost housing market, as also indicated later in this chapter.

does not provide for safety mechanisms

The CR Bill does not provide for safety mechanisms or allowances to protect a bank's assets or depositors' funds. The effect of redistribution of income from savings surplus entities to savings deficit entities can be achieved without any threat to the financial sector, through redistributive taxation measures.

BROADER ACCESS TO FINANCE

As indicated in previous annual reports, there is a need in South Africa to facilitate and extend access to banking and financial services on a wider basis than is currently possible. The Bank Supervision Department, therefore, envisages amending the regulatory framework in order to allow for the establishment of different classes of banking institution, such as second-tier and third-tier banks.

Narrow and core banks

objective

A project to consider the establishment of narrow and core banks was initiated during the year under review. The objective is to increase competition in the banking sector, whilst also creating greater access to basic banking services, such as savings accounts and housing and educational loans, to the under- and unbanked.

The Bank Supervision Department proposes that such banks be subject to lower entry criteria, but that their business scope be limited. In order to safeguard the stability of the banking system, it is envisaged that narrow and core banks would be subject to strict conditions, such as being permitted to take retail deposits, but not to trade or invest in, for example, derivatives. Draft legislation is expected to be made available for comment in 2003.

Community deposit-taking institutions

Research undertaken by the Bank Supervision Department has indicated that, in some Central and South American countries, the provision of credible and safe deposit-taking institutions, convenient service and market returns have helped lower income individuals to increase their savings deposits substantially.

two requirements

The fulfilment of two requirements is essential to the credibility and success of such community deposit-taking institutions – firstly, a sound regulatory framework and, secondly, fair and affordable access to basic banking services for small, medium and micro-enterprises (SMMEs) and individuals for specific purposes, such as housing. In addition, services such as payment and transmission services and savings and lending services should be provided, particularly in rural areas.

need for resource support

To achieve this in South Africa, changes to the legal framework to provide for such community deposit-taking institutions may be an appropriate starting point. New legislation could borrow heavily on the legislation developed by Uganda, as well as the community-bank legislation in the United States of America, to facilitate community-development lending opportunities. A typical example is lending for the purpose of serving the need for affordable housing. The objective of such lending is to provide housing to individuals, such as the homeless, low- to medium-income earners and the elderly, who cannot afford market interest rates on bonds. In each instance, however, the cost of providing facilities for housing exceeds the client population's ability to pay for housing. There is thus an important need for Government or other third-party resource support, as also indicated earlier in this chapter.

regulation and supervision

Similarly, many small business-development initiatives require outside intervention before a bank loan can be obtained. Many new and small businesses without working capital may find it difficult to obtain bank credit without a Government loan guarantee or a second mortgage from a Government agency. Community deposit-taking institutions could be used to facilitate these processes.

Adequate regulation and supervision of such community deposit-taking institutions, possibly separately from that of traditional banking institutions, would also be essential. New legislation in that regard should therefore provide for ensuring that the business of such institutions is conducted in a safe and sound manner, conducive to the orderly growth of the financial sector, whilst contributing to poverty reduction in both rural and urban areas.

level of service could be coupled to capital requirement

The regulatory framework might also prescribe that community deposit-taking institutions hold different levels of minimum capital. The level of service rendered to the clients of such an institution could be coupled to the capital requirement. At the lowest level of capital requirement, basic services, such as deposit-taking and extension of loans, could be allowed. At the next level of capital requirement, such an institution could be allowed to offer not only the aforementioned services, but also transmission and account-payment services. At yet a further level of capital requirement, an institution could be allowed to offer its clients participation in clearing and settlement services in the National Payment System. An important advantage of such a regulatory framework would be its flexibility, enabling it to cater for the growing needs of clients at the lower level. Such a framework would also have to provide clarity on the level of supervisory capacity required, as well as the cost and funding of such supervision.

From a regulatory perspective, community deposit-taking institutions at the lower level of capital requirement might be allowed to operate and, possibly, fund themselves through wholesale deposits with minimal intervention and a low regulatory burden. When such institutions, however, increase in size to the extent of being able to impact on the stability of the financial system, they should be required to comply with higher levels of prudential, governance and risk-management standards. Supervision to the extent of at least enabling the regulator to monitor the growth of such institutions would therefore be essential.

self-regulation not very successful

Currently, stokvels, credit unions and financial-service cooperatives operate under exemptions from the provisions of the Banks Act, 1990, and are self-regulated. The exemptions allow these institutions to take deposits without having to register as a bank. Self-regulation, however, has not proved to be very successful, as discussed below. As indicated in

previous annual reports, the Mutual Banks Act, 1993, has also not lived up to expectations, and only two mutual banks are still registered.

different regulatory treatment is required

The problem appears to be that when the regulatory framework deals with an institution by way of an exemption, the institution tends to be regarded as not being mainstream and as not sufficiently significant to be included in the relevant legislation. If exempted institutions are to be regarded as stable, permanent and safe, a different regulatory treatment is required. The exemptions referred to above limit the growth of credit unions and financial-service cooperatives to a maximum deposit base of R9,9 million. This amount has already proved to be inadequate.

Evidently, different financial-service providers require supervisory approaches that differ in focus and intensity, in accordance with the role of these players in the market and the manner in which they are funded. The problem of institutions operating under exemptions from the Banks Act could be addressed by allowing such institutions to register with the Registrar of Banks. The supervision implied thereby, however, would require increased supervisory capacity.

Problems in the financial-service cooperative market

self-regulators ceased to operate

In the 2000 annual report, it was reported that the Registrar of Banks had appointed FinaSol and the Financial Services Association as approved self-regulators to regulate and supervise financial-service cooperatives (FSCs) established under an exemption from the Banks Act, 1990. During 2002, however, both self-regulators ceased to operate, because the donor money and Government grants on which they were dependent had been terminated and they could no longer perform their task.

Subsequently, it was revealed that neither of these self-regulatory bodies had records of audits of the FSCs under their control. As a first step to determine the financial position of these FSCs, the 33 FSCs under the control of FinaSol were audited between July and December 2002. The problems exposed at some of these FSCs will receive attention in 2003.

Broader issues in microfinance

As indicated in chapter 1 of this annual report, two bank microlenders experienced problems with their microlending business during the year under review. These problems were institution specific and were due mainly to these banks having underestimated the high risk of entering a new market and of coping with high volumes in a market that they did not fully understand. Since non-bank lenders did not face the same problems, they could not be ascribed to a general weakness in the microlending sector.

main problem facing the non-bank microfinance sector

The main problem facing the non-bank microfinance sector remains access to loan capital. When the Micro Finance Regulatory Council (MFRC) was established in 1999, it was envisaged that access to loan capital by means of wholesale, not retail, deposits would be addressed through an appropriately worded provision in the Banks Act, 1990, or the Regulations thereto. The problem has not yet been resolved, mainly because of the potentially problematic consequences inherent in inserting such a provision in the Banks Act or the Regulations thereto, since non-bank microlenders are not registered in terms of the Banks Act.

lack of access to loan capital

Lack of access to loan capital is increasing the cost of capital for non-bank lenders. Most non-bank microlenders use their own capital to fund loans, which contributes to the high cost of lending. The lack of access to loan capital is not only hampering development of the microfinance industry, but also limiting the ability of microlenders to originate loans for micro-enterprises and low-cost housing.

provisions of the Usury Act

Another problem relates to the provisions of the Usury Act, 1968 (Act No. 73 of 1968). The intention of the Usury Act is to provide protection to consumers against usurious charges on lending products. The effectiveness of the Usury Act as a consumer-protection measure, however, is questionable on two fronts. Firstly, from a consumer-protection perspective, the use of an interest-rate ceiling and disclosure have not achieved the desired effect – the ceiling is circumvented, and the disclosure requirements are out of step with the market that the Usury Act serves to protect. Secondly, economic consequences arise from supply-side market distortions and inefficiencies created by the interest-rate ceiling, as well as the exemption of certain categories of loan and different treatment of different types of lender.

competition

A third important problem for the microfinance industry is that as more players enter the market, competition increases, exacerbating the problem of access to loan capital. Microfinance will inevitably have to move away from the current supply-led approach, whereby a narrow range of services is offered, towards a demand-driven, client-orientated approach, to the benefit of both microfinance institutions and their clients. As indicated earlier, however, amendments to the regulatory framework and adequate supervision would be required to facilitate such a development.

Current status of microfinance business of South African banks

growth in bank microloans and micro-advances slowed

44 per cent of total was overdue

According to the data that the banks conducting microfinance business in South Africa submitted to the Bank Supervision Department, growth (measured over a 12-month period) in microloans and micro-advances slowed down from 46,6 per cent in 2001 to 0,1 per cent in 2002. As at the end of December 2002, total microloans and micro-advances granted by banks amounted to R13,6 billion. About 44 per cent of that total was overdue by the end of December 2002, compared to 15,7 per cent in the previous year. Specific provision was made for about 38 per cent of total microloans in 2002, compared to 13 per cent in 2001. In terms of profitability, the results of these banks varied widely, from a positive return on equity of 23 per cent to negative returns of nearly 100 per cent in certain instances.

growth in micro-homeloans improved

Growth in micro-homeloans improved by 24,6 per cent (R21,5 billion) in 2002, compared to a contraction in growth of about 19,5 per cent in 2001. Amounts overdue remained fairly stable at R1,4 billion, compared to R1,1 billion in 2001. Expressed as a percentage of the total micro-homeloan book, the asset quality of banks conducting microfinance business deteriorated only marginally, from 6,3 per cent in 2001 to 6,5 per cent in 2002. Specific provision was made for 1,9 per cent of micro-homeloans in 2002, compared to 1,7 per cent in 2001.

Problems identified by the Microlenders Association

In order to keep abreast of problems in the microfinance industry, the Bank Supervision Department has established a regular discussion forum with the Microlenders Association (MLA), which represents the interests of microlenders nationally. Since the inception of the MLA in the mid-1990s, the level of professionalism in the industry has increased markedly.

inadequate access to the National Payment System

An important problem for members of the MLA is inadequate access to the National Payment System. The MLA's initiatives to develop a viable option in conjunction with consultants and big banks have not yet borne fruit.

unregistered lenders

Another problem is the large number of unregistered lenders. As a consequence, the MLA is finding it increasingly difficult to motivate, firstly, lenders to register with the MFRC and, secondly, its members to comply with the MFRC's rules. The market perception is that the MFRC prosecutes only registered lenders that transgress rules, whereas unregistered lenders go unpunished. The MLA believes that the Department of Trade and Industry (DTI) could play a role in ensuring that the playing-field is levelled.

high level of administration orders

Also of concern to the MLA is the high level of administration orders against borrowers. The MLA believes that individuals who have been placed under administration find it difficult to escape their financial woes and that the DTI could assist in creating an environment with a realistic cost structure for debt collection.

important development, aimed at containing borrowers' overindebtedness

In the above regard, there was an important development, aimed at containing borrowers' overindebtedness, during the year under review. The MFRC's rules on reckless lending and on the National Loans Register (NLR) came into effect in July 2002. These rules make it compulsory for all registered microlenders (including banks) to provide information on all their loans to the NLR and to assess the affordability of new loan applications by obtaining information on the indebtedness of an applicant from the NLR. Use of the NLR by all microlenders should substantially alleviate the problem of overindebtedness and decrease the credit risk in the microlending industry. The NLR already contains over four million records, and over one and a half million enquiries had been made by the end of 2002. In order to assess compliance, the MFRC is conducting inspections of microlenders, including bank microlenders.

Process of the National Economic Development and Labour Council

In 2000, the South African Communist Party and the Congress of South African Trade Unions tabled a demand at the National Economic Development and Labour Council (Nedlac) for Government and financial institutions to address deficiencies in the financial sector. In subsequent discussions, in which the Bank Supervision Department participated, all parties agreed on the need for all participants to ensure that the financial sector contributed more to development. There was also agreement on the need to maintain the long-term viability of the financial sector and that the problems identified were in large part due to external constraints.

agreements reached

Some of the agreements reached at the Financial Sector Summit in August 2002 and to be implemented during 2003 related to the following:

- ▲ Regulation of credit bureaux. These bureaux should improve the flow of information, supporting more equitable and efficient financial markets. In this way, credit bureaux should reduce the scope for discrimination in decisions about credit. It was also agreed that it was important to establish a regulatory framework for credit bureaux to ensure that they fulfilled their developmental role and did not wrongly deny people access to credit.
- ▲ Elements for legislation on cooperative banks. Legislation should be developed to give cooperative banks legal status with limited liability for both the organisation and members.
- ▲ Support for financial cooperatives and non-profit microlending schemes. The development of third-tier community-based financial organisations was regarded as an important route to extend credit to and support savings by poor households and micro-enterprises.
- ▲ Cessation of discrimination in the financial sector. Access to financial services was regarded as differing substantially by race and gender.
- ▲ Capital markets and investment. Ways should be found to ensure that the financial sector as a whole gave more support to economic and social development.
- ▲ Savings initiative. It was agreed that South Africa required increased investment in production capacity at all levels in order to generate the necessary levels of growth and employment. There was thus a need to increase measures to mobilise local savings and investment.

ILLEGAL DEPOSIT-TAKING

duties include acting against illegal deposit-takers	<p>Persons and institutions that take deposits whilst not registered as a bank or not operating in terms of the various exemptions and exclusions from the Banks Act, 1990 (Act No. 94 of 1990), are acting illegally, since they are contravening the provisions of that Act. The duties of the Bank Supervision Department include acting against such illegal deposit-takers.</p> <p>In terms of the banking legislation, registered banks have to comply with certain minimum prudential requirements. Illegal deposit-takers are obviously not subject to these requirements and, through their various illegal schemes, enter into direct competition with registered banks, to the detriment of the banking and financial system and, ultimately, the investors in such schemes once their deposits cannot be recovered.</p>
inspections	<p>In an effort to counter the activities of unscrupulous individuals that operate schemes designed to defraud others of their funds, 26 new inspections, together with 23 inspections carried over from the previous year, were undertaken during 2002. The Bank Supervision Department also actively continued to encourage members of the public to come forward with information on possible contraventions of the Banks Act.</p>
communication	<p>Communication with the public included input to various articles in popular lifestyle magazines, featuring, amongst others, Governor Tito Mboweni. Other communication measures included active liaison with newspapers, as well as participation in a number of radio interviews by members of the Department and appointed inspectors. The Department also delegated some of its members to act as expert witnesses in court proceedings during the year under review.</p>
interaction with other key players	<p>The Bank Supervision Department believes that its interaction with other key players, such as the Department of Trade and Industry, the Financial Services Board, the South African Police Service and the South African Revenue Service, has served to assist in the discharge of the Department's duty to act against illegal deposit-takers. The Department also increased its human-resource capabilities in that regard.</p>
Miracle 2000 pyramid scheme	<p>As reported in the previous annual report, Mr S M Radebe, an integral figure in the operation of the Miracle 2000 pyramid scheme, was charged and found guilty of contravening both the Banks Act and the Harmful Business Practice Act, 1988 (Act No. 71 of 1988). He was sentenced to one year in prison, or a fine of R50 000, for contravening the Banks Act, as well as three years in prison, or a fine of R150 000, for contravening the Harmful Business Practice Act. In view of the magnitude of Mr Radebe's crimes, and the amount money involved in the Miracle 2002 scheme, his sentence was not regarded as a deterrent for prospective criminals. The State, therefore, appealed against his sentence. On 12 December 2002, the High Court upheld the appeal and sentenced Mr Radebe to an effective four years' imprisonment.</p>
Krion	<p>A scheme that received much adverse publicity and extensive media coverage during the year under review was that of Ms Marietjie Prinsloo (née Pelser), namely, Krion Financial Services Limited (Krion). There were numerous rumours of the involvement of an amount of up to R1 000 million and 30 000 investors. During June 2002, Krion was placed into liquidation, and Ms Prinsloo and her associates were arrested. The Bank Supervision Department is closely monitoring developments in the case.</p>
motivation of the public	<p>The motivation of the public when investing in such schemes also deserves mention. Many members of the public invest in illegal schemes because of greed or ignorance. Although many greedy investors are aware of the illegality of such schemes, they raise the alarm only once a scheme fails and they are unable to access or recover their investment.</p>

penalties not sufficiently severe

The Department is of the opinion that the penalties prescribed by the Banks Act are not sufficiently severe to deter contraventions of the Act. Consequently, proposed amendments to the Act were drafted, as mentioned in chapter 4 of this annual report.

foreign-exchange schemes

Recently, the Department noted that illegal schemes were becoming more complex and diverse in nature, which might add to the problems facing investors when trying to distinguish between products that offer a *bona fide* return on their investments and illegal schemes. In particular, the Department has been receiving reports of so-called foreign-exchange (forex) schemes, generally involving speculation against, amongst others, the South African rand, the United States dollar and the British pound sterling. Most notable among these schemes were the Equilibrium and Mercedes Cura schemes.

A typical forex scheme promises to take deposits from the public to buy and sell foreign-currency options. In practice, however, these schemes turn out to be normal pyramid schemes, whereby Peter's money is used to pay Paul, with no or negligible forex trades.

Intervention in forex schemes has been more difficult than in more traditional pyramid schemes, because the investors are required to participate actively in laundering the money to offshore accounts. As a result of their involvement, few such investors are willing to come forward or to cooperate with the Department in its efforts to eradicate such schemes. Since bank accounts in foreign countries are used, jurisdictional and cost concerns also arise.

liquidation

Another growing concern is the number of illegal deposit-taking schemes that were placed into liquidation during the past year. Although this is not necessarily an undesired phenomenon at first sight, early indications are that liquidation proceedings are seldom the best alternative for investors. The process is often more costly, since some liquidators tend to duplicate, at additional cost, the work already done by the inspectors appointed in terms of the South Reserve Bank Act, 1989. In a bid to protect the funds of investors in such schemes or, at least, the percentage remaining for distribution, the Department is considering amending the Banks Act to provide for such administrative considerations.

MONEY LAUNDERING

anti-money-laundering (AML) measures

The events of 11 September 2000 in the United States of America placed a renewed worldwide focus on a variety of criminal activities. Although various supervisory, governmental and enforcement bodies have been addressing the crime of money laundering for a number of years, the events surrounding 11 September emphasised the need for anti-money-laundering (AML) measures to be implemented without delay.

Financial Intelligence Centre Act

In its 2001 annual report, the Bank Supervision Department reported on the progress made in South Africa with the implementation of AML measures. The provisions of the Financial Intelligence Centre Act (FIC Act), which was promulgated on 1 January 2002 and which established the FIC and the Money Laundering Advisory Council (MLAC), came into effect in February 2002. As a result of further progress with the development of regulations under the FIC Act and a process of consultation with all affected parties, the FIC Regulations were gazetted in December 2002. The regulations on the reporting of suspicious transactions require accountable institutions, which include banks, to start reporting suspicious transactions that may involve money laundering to the FIC as from February 2003. In addition, accountable institutions have to implement all required know-your-customer (KYC) and record-keeping measures by June 2003.

reporting suspicious transactions

In order for the Bank Supervision Department to determine the status of the implementation of AML measures by banks in South Africa, the Department issued an assessment questionnaire late in 2002. The results of the questionnaire will give the Department an

indication of the extent to which banks have already implemented the necessary measures and which areas require improvement in order for all banks to comply fully with the requirements of the FIC Act and the FIC Regulations.

implementation of AML measures

The Bank Supervision Department regards the implementation of AML measures by banks in South Africa as an issue of high priority for 2003. Therefore, the Department intends using the information obtained as the basis for supervisory discussions with each bank during 2003. The Department will require banks that have not made sufficient progress towards full implementation of AML measures to submit detailed plans in that regard.

AML training

Another initiative undertaken by the South African Reserve Bank during 2002 was the development of several curricula for AML training. The intention is that the South African Reserve Bank College will present the training needed by the Bank Supervision Department, other regulators and enforcement agencies to fulfil their supervisory and inspection duties with regard to money laundering.

evaluation processes

In May 2002, South Africa applied for membership of the Financial Action Task Force (FATF), an intergovernmental body that develops and promotes policies, nationally and internationally, to combat money laundering. The AML measures of and the actions taken by South Africa to combat terrorist financing (CTF) will be subject to two separate evaluation processes in March/April 2003. The first evaluation will be conducted by an FATF team, on which the International Monetary Fund (IMF) and the World Bank may have observer status. The second evaluation team will be drawn together by the Eastern and Southern African Anti-money Laundering Group (ESAAMLG), with which South Africa signed a memorandum of understanding in April 2002. Both evaluations will be undertaken in accordance with the common methodology recently agreed by the FATF, the IMF and the World Bank for assessments of compliance with AML and CTF requirements by individual states.

FIC Regulations – four components

The standards against which South Africa will be measured are the FATF Forty Recommendations with regard to AML and the Eight Special Recommendations relating to CTF. A number of basic legislative and administrative arrangements have to be in place for this purpose, including commencement of the implementation of AML measures. Such implementation has to be based on the FIC Regulations, the four components of which are KYC requirements, record-keeping obligations, suspicious transaction reports (STRs) and provision for training and compliance.

South Africa will have to demonstrate that accountable institutions are submitting STRs to the FIC by March 2003 and are putting into place the capacity to apply KYC and associated verification procedures by June 2003. The maintenance of records, training of staff and monitoring of compliance by South African accountable institutions will also be reviewed.

monitoring programme

Supervisory bodies will have to demonstrate a knowledge and understanding of the various implementation plans geared towards full compliance with AML and CFT obligations and drawn up by the respective supervised institutions. Supervisors will also need to have in place trained capacity and a monitoring programme. Furthermore, supervisors will have to demonstrate the steps that they have taken to provide guidance and advice to accountable institutions.

It is clear that the various key players in South Africa have a serious responsibility to take the necessary measures towards compliance with both the local and the international requirements imposed on the banking and financial system. The Bank Supervision Department is confident that the coordinated efforts of all key players will help to prevent the misuse of the banking and financial system by criminal elements.

CHAPTER 3

TRENDS IN SOUTH AFRICAN BANKS

As in previous years, this chapter reflects the main trends and industry statistics that are apparent from the information received from registered banks.

Aggregated information of individual banks is contained in the reports and graphs in sections 3.1 to 3.7 below. Certain comparative figures in respect of 2001 may differ from those contained in the 2001 annual report because of the subsequent submission of amended returns by banking institutions.

The reports and graphs that follow are largely affected by the position of the four biggest banks, which constituted 74,2 per cent of the banking sector in December 2002 (69,3 per cent in December 2001). The six biggest banks constituted 84,3 per cent of the banking sector as at the end of December 2002 (80,9 per cent in December 2001).

3.1 BALANCE-SHEET STRUCTURE

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 2002, equalled R1 100,8 billion, as opposed to R1 050 billion as at 31 December 2001 and R819,2 billion as at 31 December 2000.

FIGURE 1: AGGREGATED BALANCE SHEET

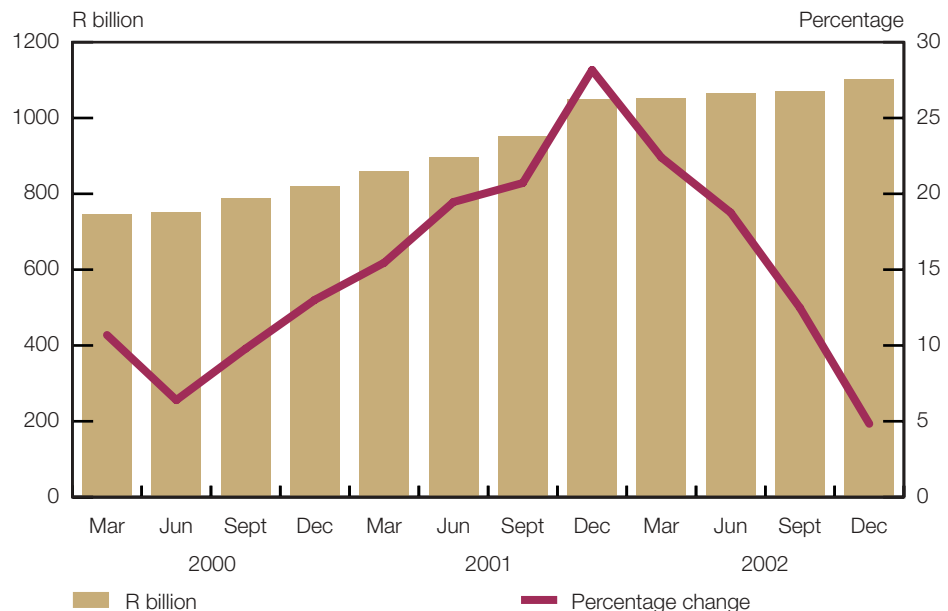
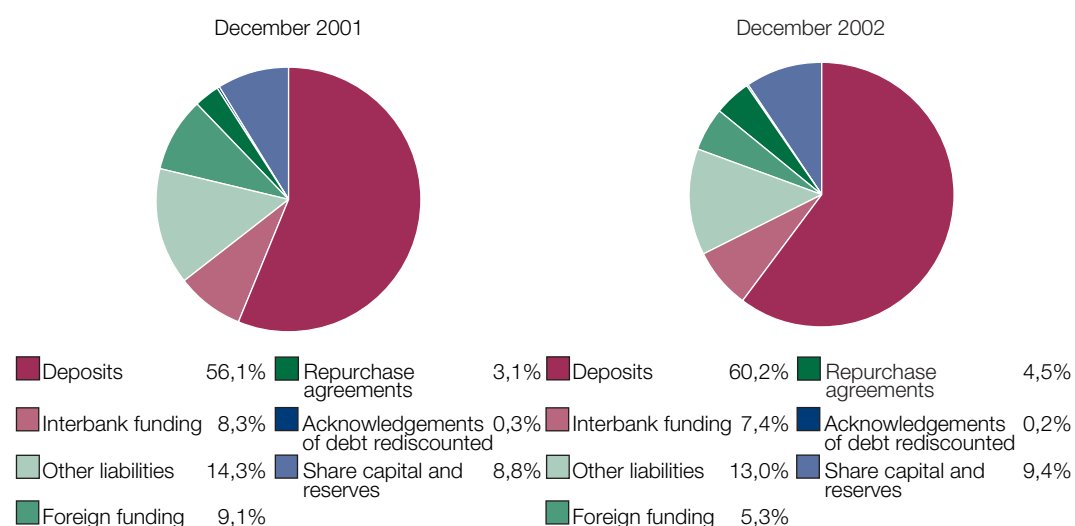


Figure 1 graphically depicts the quarter-end value of, and percentage growth (measured over 12 months) in, the aggregated balance sheet of the banking sector for the period from March 2000 to December 2002. Growth in the aggregated balance sheet increased markedly from June 2000 to December 2001, but had moderated to 4,8 per cent by the end of December 2002, mainly as a result of a moderation in the growth of total loans and advances.

Liabilities

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

FIGURE 2: LIABILITIES – YEAR-ON-YEAR COMPARISON



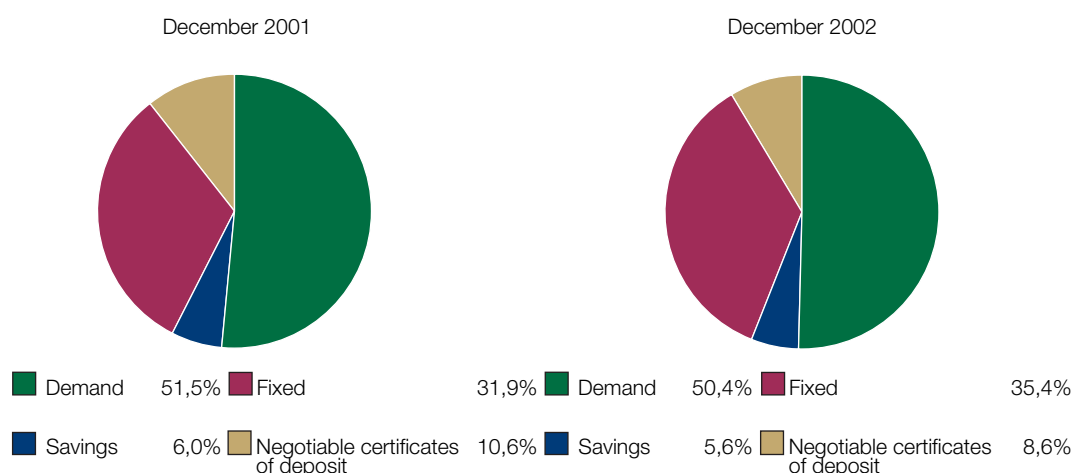
domestic deposits from the public remained the main source of funding

Domestic deposits from the public in the amount of R662,5 billion remained the main source of funding for the banking sector and constituted 60,2 per cent of total liabilities in December 2002, compared to 56,1 per cent in December 2001 and 65,5 per cent in December 2000. Foreign funding and interbank funding as a percentage of total liabilities, on the other hand, decreased from 9,1 per cent and 8,3 per cent, respectively, in December 2001 to 5,3 per cent and 7,4 per cent, respectively, in December 2002. Repurchase agreements, on the other hand, increased from 3,1 per cent in December 2001 to 4,5 per cent in December 2002.

Composition of non-bank deposits

Figure 3 reflects a year-on-year comparison of the composition of non-bank deposits. Compared to the previous year, fixed and notice deposits increased by 3,5 percentage points. Demand deposits as a percentage of total non-bank deposits decreased from 51,5 per cent to 50,4 per cent. The share of non-bank deposits represented by negotiable certificates of deposit decreased from 10,6 per cent at the end of December 2001 to 8,6 per cent a year later.

FIGURE 3: COMPOSITION OF NON-BANK DEPOSITS

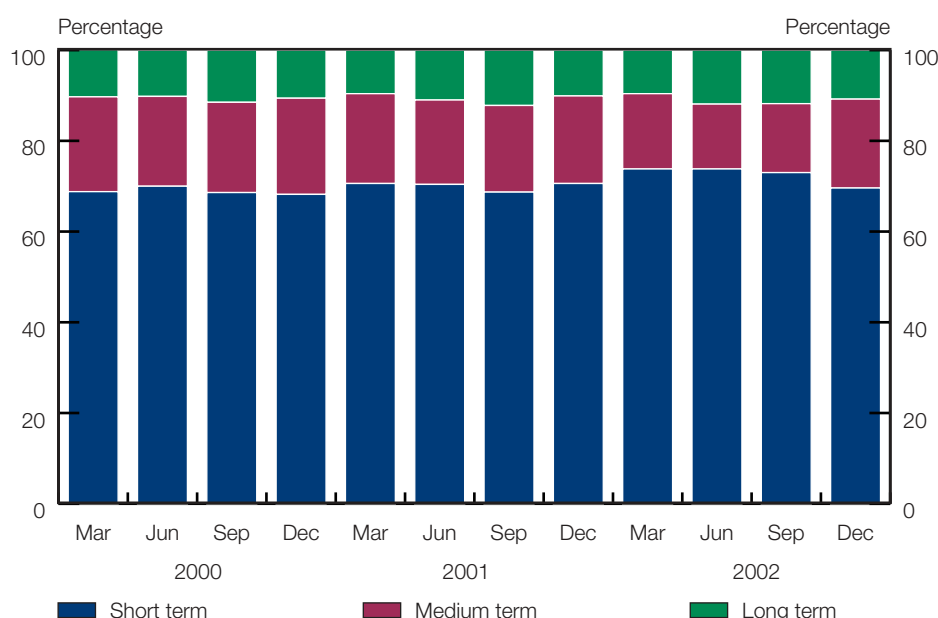


Maturity structure of non-bank deposits

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 2000 to December 2002. As can clearly be seen from figure 4, short-term deposits remained the biggest component of total non-bank funding and accounted for 69,6 per cent of total non-bank funding as at 31 December 2002, compared to 70,6 per cent at the end of December 2001 and 68,2 per cent at the end of December 2000. Long-term deposits, on the other hand, remained the smallest component of total non-bank funding and accounted for 10,8 per cent of total non-bank funding as at 31 December 2002, compared to 10,1 per cent and 10,6 per cent at the end of December 2001 and the end of December 2000, respectively. Medium-term deposits accounted for the remaining 19,6 per cent as at December 2002, compared to 19,3 per cent and 21,2 per cent at the end of December 2001 and the end of December 2000, respectively.

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

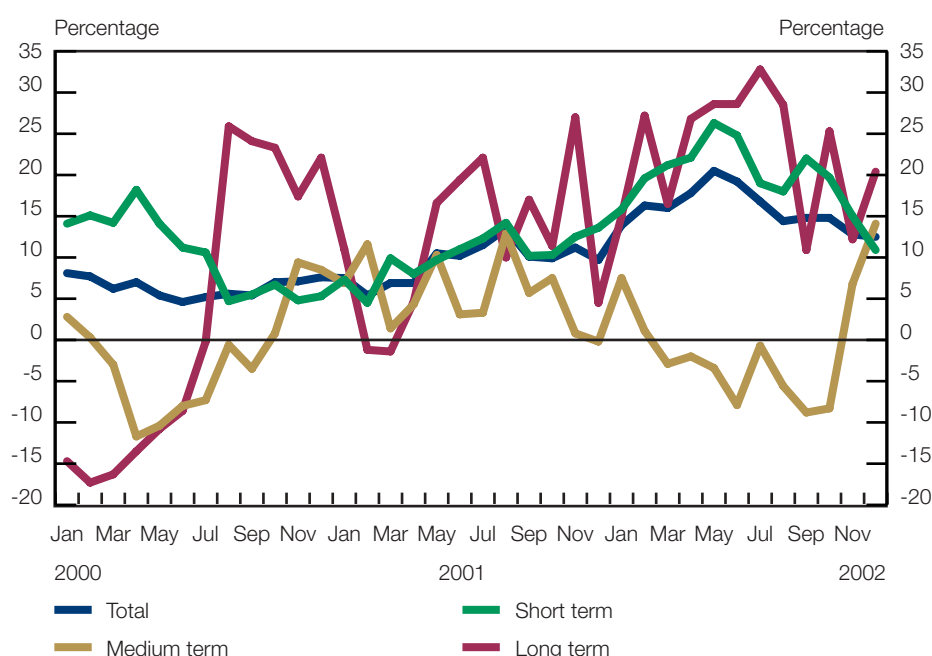


The slight decrease in the proportion of total deposits represented by short-term deposits resulted in a slightly lower percentage of the banking sector's assets (consisting mainly of non-bank loans and advances) being financed by short-term funding. As a result, the liquidity risk to which banks are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

growth in long-term deposits was volatile

As indicated above, long-term deposits remained the smallest component of total non-bank funding. Growth in long-term deposits was volatile throughout 2002 (see figure 5) and increased from 15 per cent in January 2002 to 32,8 per cent in July 2002 and then decreased to 10,9 per cent in September 2002, before ending the year at 20,4 per cent. By the end of December 2002, the six biggest banks held more than 92,1 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 2002, but had moderated somewhat by the end of the year. Growth in short-term deposits increased by 10,9 per cent in December 2002, compared to 13,6 per cent in December 2001. Growth in medium-term deposits, on the other hand, was negative for eight consecutive months until October 2002. From November 2002, however, growth in medium-term deposits became positive and, by the end of December 2002, had increased markedly to 14,1 per cent.

other major liabilities

Other major liabilities of the banking sector as at 31 December 2002 included foreign funding of R58,4 billion, which decreased by 38,6 per cent during the year under review. This decrease in foreign funding was due mainly to the appreciation in the value of the rand during 2002. Capital and reserves increased by 12,1 per cent, from R92,2 billion in December 2001 to R103,4 billion a year later. Other liabilities, on the other hand, decreased to R143,1 billion (a decrease of 5,2 per cent compared to the December 2001 level of R151 billion), and interbank funding decreased to R81,6 billion (a decrease of 6,5 per cent compared to the amount of R87,3 billion at the end of December 2001). Other liabilities included amounts owing to the South African Reserve Bank, trade creditors, deferred income, deferred tax balances, impairments and other funding liabilities.

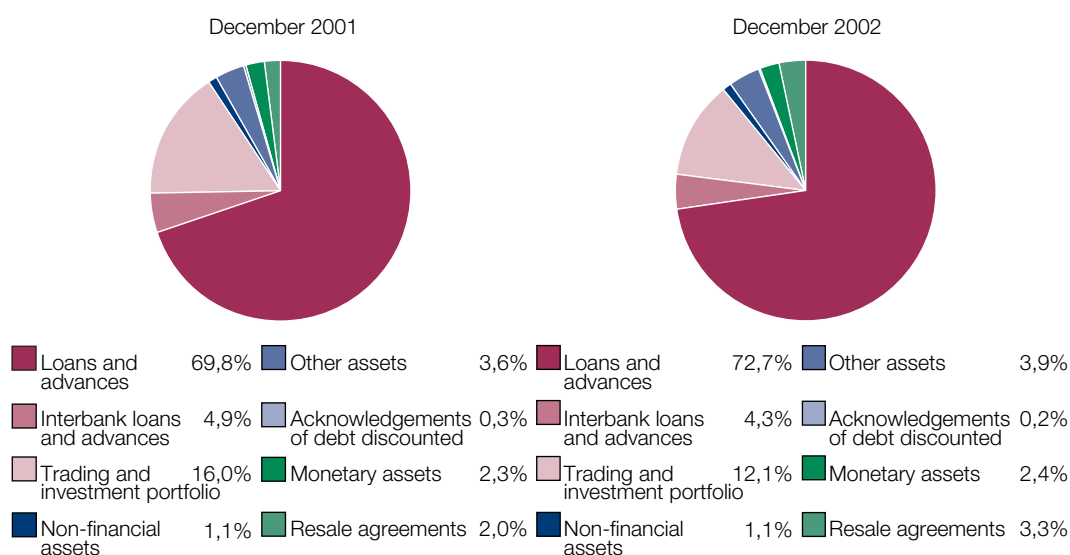
Assets

factors contributing to growth in assets

Figure 6 graphically reflects a year-on-year comparison of the composition of assets as at 31 December 2002 and 31 December 2001. The banking sector's assets increased by R50,8 billion (representing a growth rate of 4,8 per cent) during the year, to a total of R1 100,8 billion at the end of December 2002. Factors contributing to this growth were the following:

- ▲ Monetary assets grew by 10,4 per cent, from R24 billion as at 31 December 2001 to R26,5 billion as at 31 December 2002.
- ▲ Non-bank advances grew by R67 billion (representing a growth rate of 9,1 per cent), from R732,8 billion at the end of December 2001 to R799,8 billion a year later.
- ▲ Loans granted under resale agreements increased from R20,7 billion at the end of December 2001 to R36,8 billion at the end of December 2002, representing a growth rate of 78,3 per cent.
- ▲ Non-financial assets increased by 5,7 per cent, from R11,9 billion at the end of December 2001 to R12,5 billion at the end of December 2002.
- ▲ Other assets increased by 11,9 per cent, from R38,2 billion at the end of December 2001 to R42,7 billion at the end of December 2002.

FIGURE 6: ASSETS – YEAR-ON-YEAR COMPARISON



growth in total loans and advances slowed down significantly

It is apparent from figure 7 that growth in total loans and advances slowed down significantly during 2002. By the end of December 2002, loans and advances had increased by 10 per cent, compared to an increase of 22,8 per cent during 2001. The moderation in the growth of total loans and advances was the main contributor to the moderation in the growth of total assets. By the end of December 2002, loans and advances accounted for about 81,9 per cent of total assets (see figure 8).

FIGURE 7: TOTAL LOANS AND ADVANCES

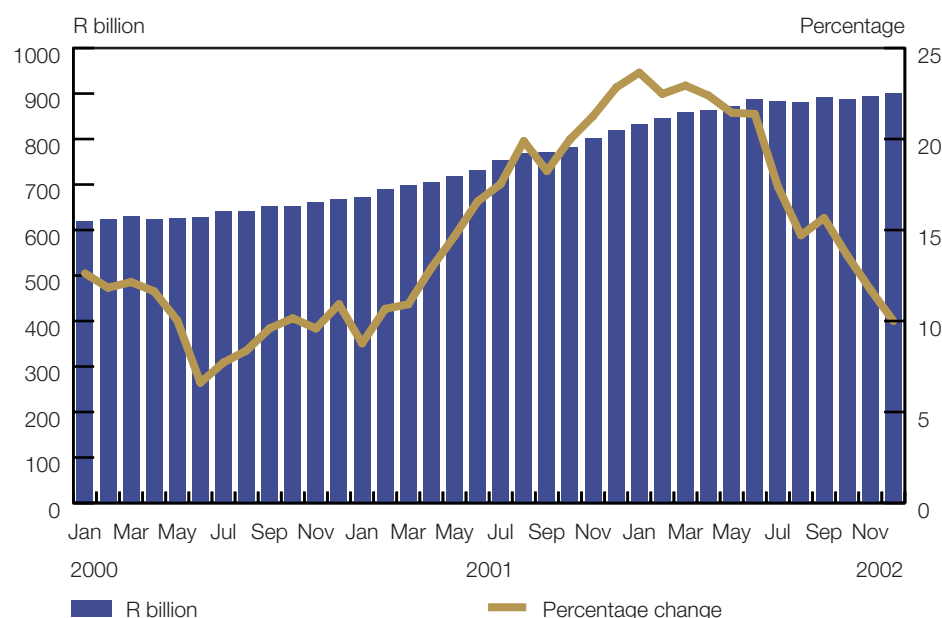
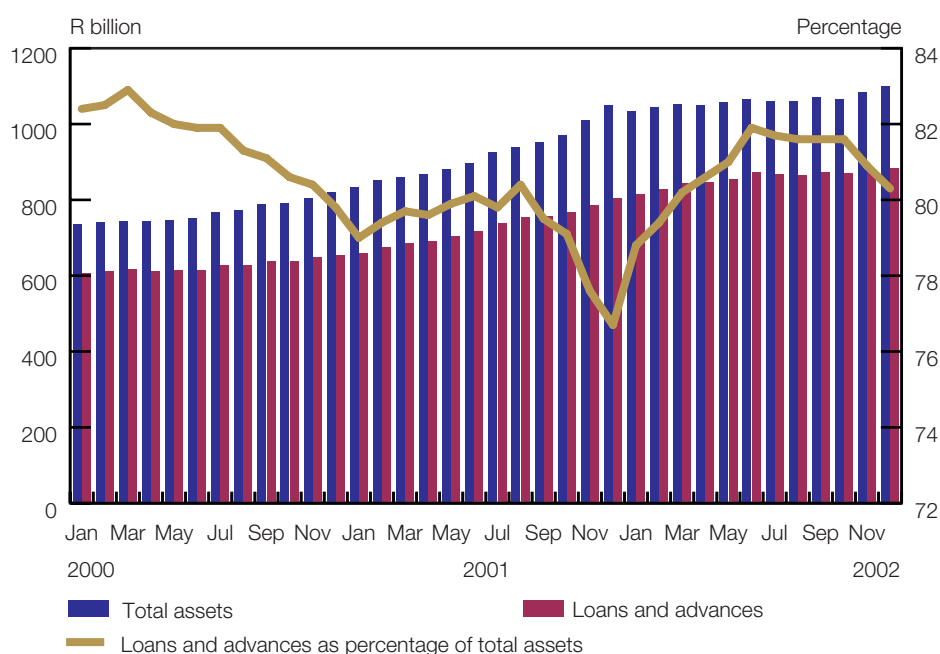


FIGURE 8: LOANS AND ADVANCES AS A PERCENTAGE OF TOTAL ASSETS



During the second half of 2001, loans and advances as a percentage of total assets decreased significantly, from 80,4 per cent in August 2001 to 76,7 per cent in December 2001, but increased again throughout the first six months of 2002, to 81,9 per cent in June 2002. Loans and advances as a percentage of total assets, however, decreased somewhat during the second half of 2002 and ended the year at 80,3 per cent (see figure 8). The lower percentage of loans and advances to assets was due mainly to a moderation in the growth of loans and advances and an acceleration in the growth of the trading and investment portfolio of banks during that period.

lower percentage of loans
and advances to assets

Composition of loans and advances

The composition of loans and advances is shown graphically in figure 9. A comparison of the composition of loans and advances in 2001 and 2002 clearly shows that the composition remained almost unchanged.

As at the end of December 2002, non-bank loans and advances constituted 72,7 per cent (December 2001: 69,8 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 R67 billion (2001: R120,3 billion) achieved in respect of non-bank advances during the year under review and representing a growth rate of 9,1 per cent (2001: 19,6 per cent) can be attributed to the following areas (figure 10):

reasons for increase in
non-bank advances

- ▲ Mortgage loans increased by R27,3 billion to a level of R279,3 billion, representing an increase of 10,8 per cent measured over a 12-month period.
- ▲ Overdrafts and loans increased by R17,1 billion to a level of R247,7 billion, representing a growth rate of 7,4 per cent.
- ▲ Instalment debtors increased by R12,8 billion to a level of R107,9 billion, representing an increase of 13,4 per cent.
- ▲ Foreign-currency loans and advances increased by R7,8 billion to a level of R117,7 billion, representing an increase of 7,1 per cent.
- ▲ Credit cards increased by R1,1 billion to a level of R14,6 billion, representing an increase of 8,3 per cent.
- ▲ Acknowledgements of debt discounted increased by R4,2 billion to a level of R19,4 billion, representing an increase of 27,9 per cent.
- ▲ Redeemable preference shares increased by R2,7 billion to a level of R16,9 billion, representing an increase of 19,3 per cent.

FIGURE 9: COMPOSITION OF LOANS AND ADVANCES

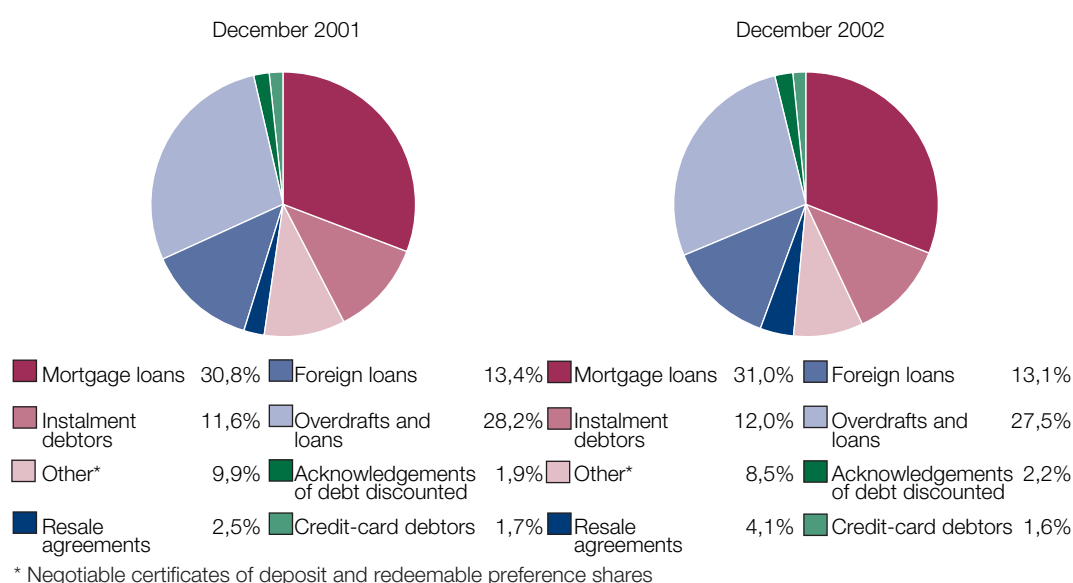
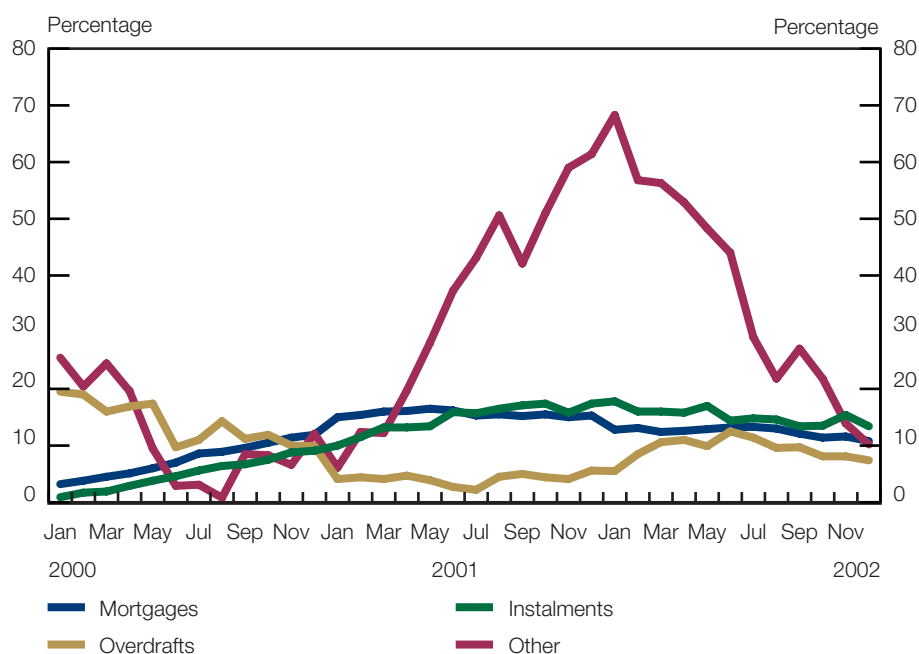


FIGURE 10: GROWTH IN SELECTED LOANS AND ADVANCES

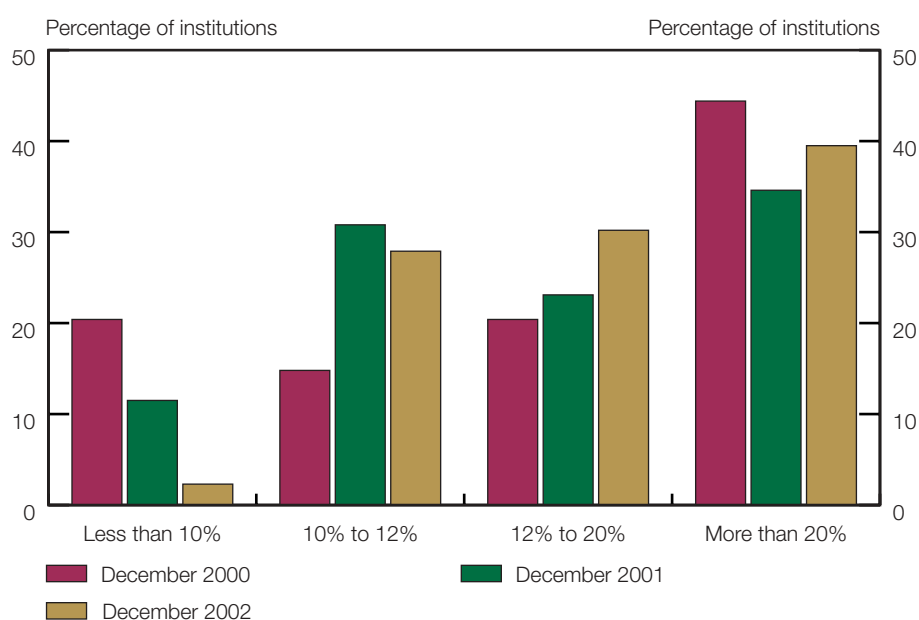


3.2 CAPITAL ADEQUACY

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, or, as indicated in chapter 1 of this annual report, a bank that is affected by contagion.

adequate capital does not provide a guarantee against failure

FIGURE 11: DISTRIBUTION OF BANKS IN TERMS OF CAPITAL ADEQUACY



capital-adequacy ratio was
12,6 per cent

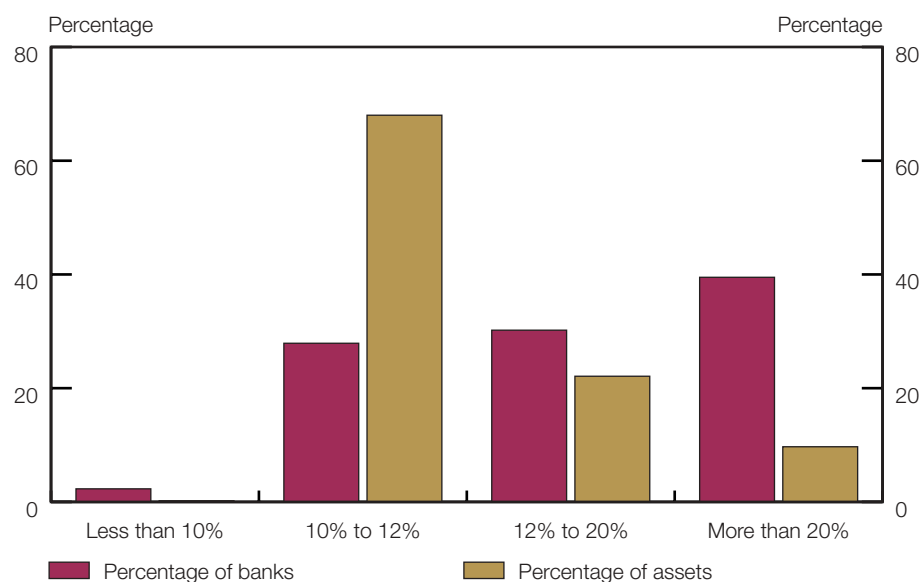
For the year under review, the average capital and reserves held by the banking sector amounted to R97,8 billion (R89,7 billion in December 2001), R84,4 billion (2001: R77,6 billion) of which constituted qualifying capital and reserves for purposes of assessing capital adequacy. The capital-adequacy ratio for the year ended December 2002 was 12,6 per cent (2001: 11,4 per cent).

only one bank was unable
to meet the required ratio

An analysis of the percentage distribution of banks in terms of capital adequacy at the end of December 2002 (see figure 11) reveals that only 2,3 per cent (2001: 11,5 per cent) of the total number of banking institutions - in fact, one bank - did not meet the minimum capital-adequacy ratio of 10 per cent, whereas 39,5 per cent of banking institutions (2001: 34,6 per cent) had capital-adequacy ratios that exceeded 20 per cent. The only bank that was unable to meet the required ratio of 10 per cent was taken over by a bigger bank and is being deregistered.

The 39,5 per cent of banking institutions that reported capital-adequacy ratios of above 20 per cent represented only 9,7 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 (27,9 per cent of banking institutions) represented the biggest portion of total banking-sector assets, namely, 68 per cent. The bank that did not meet the minimum capital-adequacy requirement of 10 per cent represented only 0,2 per cent (as opposed to 39,1 per cent in 2001) of total banking-sector assets.

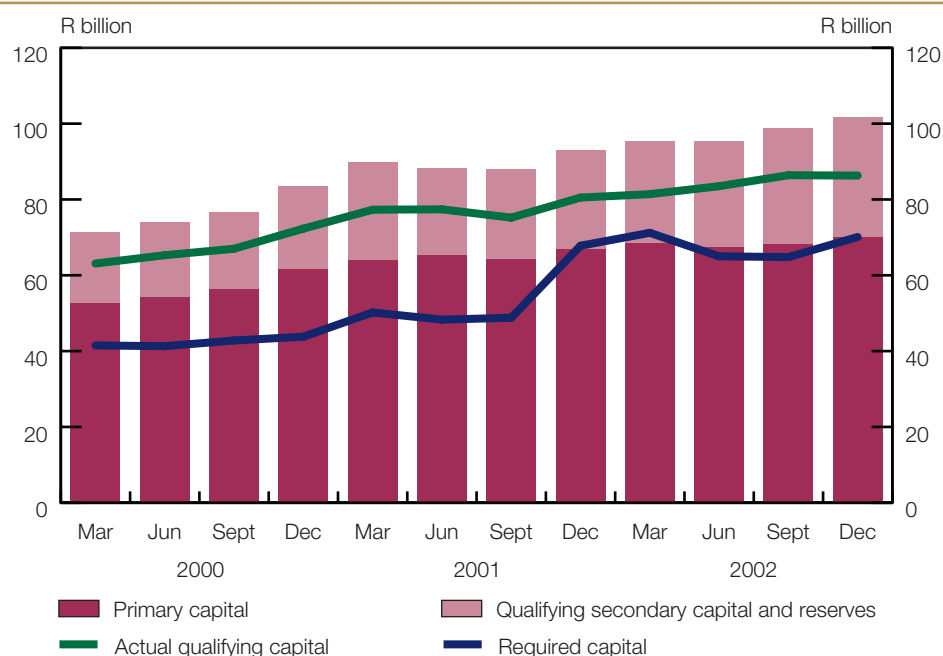
FIGURE 12: BANKS' CAPITAL ADEQUACY IN TERMS OF TOTAL ASSET VALUE



net growth in qualifying
capital and reserves was
higher than growth in 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 2002, primary capital and reserves constituted 68,8 per cent (2001: 86,6 per cent) of qualifying capital and reserves before deduction of impairments amounting to R15,5 billion (2001: R12,5 billion). Primary capital and reserves grew by 4,6 per cent (2001: 8,8 per cent) during the year under review, to R70 billion at the end of December 2002. Qualifying secondary capital and reserves, on the other hand, grew by 21,9 per cent during the year (2001: 18,7 per cent), to R31,8 billion at the end of December 2002. The net growth in qualifying capital and reserves of 7,2 per cent was higher than the growth in the total balance sheet of 4,8 per cent.

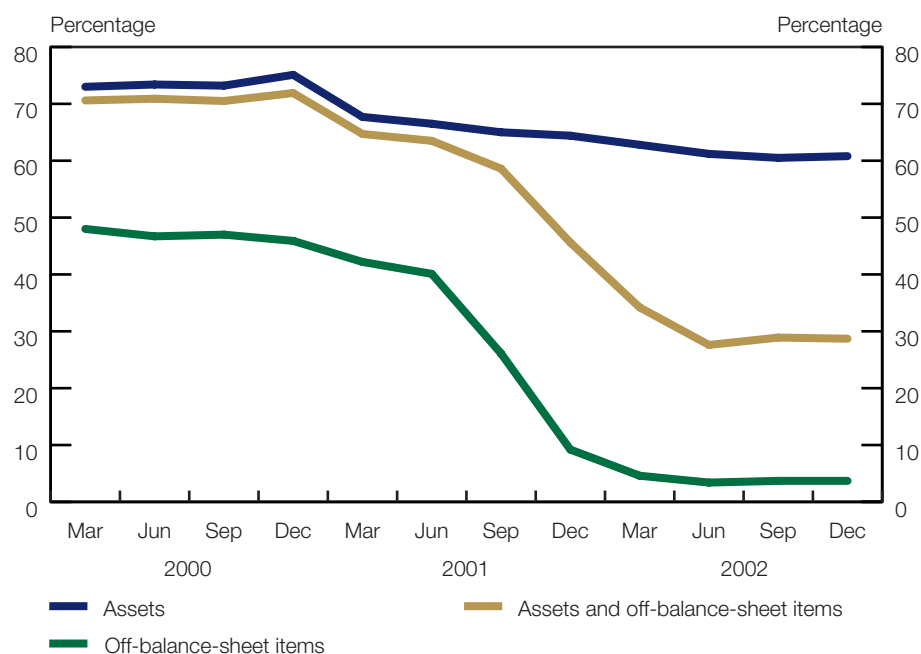
FIGURE 13: QUALIFYING CAPITAL AND RESERVES



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

For the year ended 31 December 2002, total assets and off-balance-sheet items (figure 14) grew by 68,2 per cent (2001: 51,5 per cent), whereas total risk-weighted assets and off-balance-sheet items grew by 5,8 per cent (2001: 4,1 per cent). The marked increase in off-balance-sheet items in 2001 and 2002 compared to 2000 was due mainly to amendments to the Regulations relating to Banks that became effective on 1 January 2001. In terms of those amendments, banks have been required to report on central securities-depository participation, which, however, has not affected the average risk weighting of assets.

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



marked increase in off-balance-sheet items in 2001 and 2002

As a result of the composition of off-balance-sheet items, the average combined risk weighting for assets and off-balance-sheet items decreased from 58,1 per cent in 2001 to 29,9 per cent in 2002. At the end of December 2002, off-balance-sheet items accounted for approximately 56,3 per cent (December 2001: 34,1 per cent) of the combined total of assets and off-balance-sheet items. Figure 14 graphically illustrates the risk-weighted percentages of assets and off-balance-sheet items and of the combined total of assets and off-balance-sheet items.

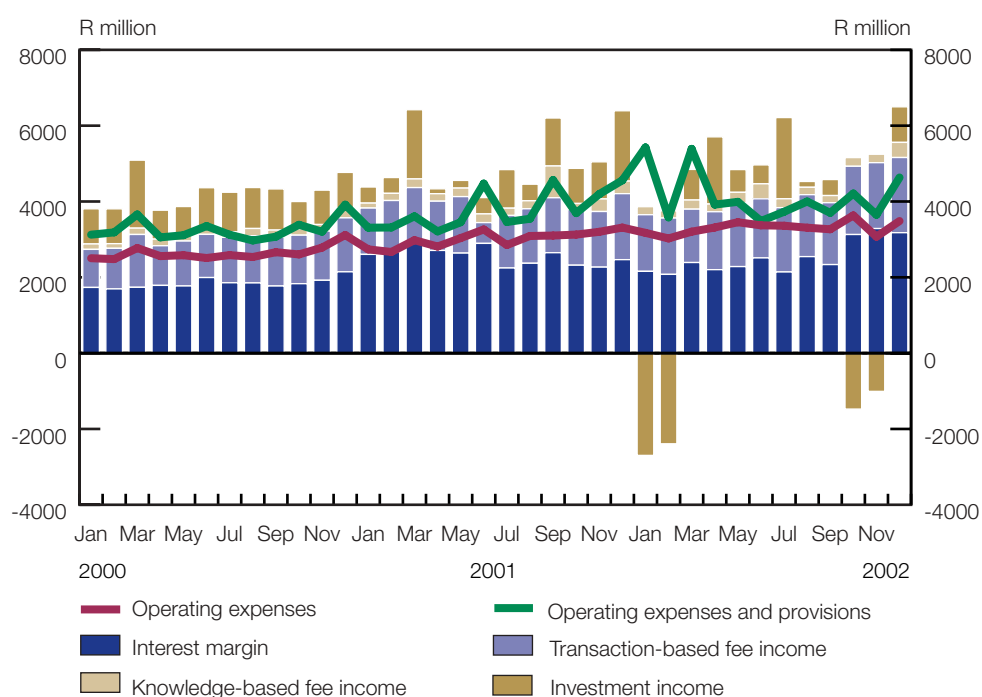
3.3 PROFITABILITY

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:

analyses 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).
- ▲ 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 2,8 per cent of total assets for the year, as opposed to 2,9 per cent in 2001) and transaction-based fee income (an average of 1,9 per cent of total assets for the year, as opposed to 1,8 per cent in 2001). As can be observed from figure 15, the income derived from the intermediation function (R49,9 billion) was generally just sufficient to cover the sum of operating expenses and provisions (R49,7 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 -0,02 per cent, respectively, of total assets (as opposed to 2,1 per cent and 1,1 per cent, respectively, during 2001).

interest margin decreased by 1,7 per cent

For the year, interest expense increased by about 39,8 per cent, which was 13,9 percentage points higher than the increase of 25,8 per cent in interest income. The net result thereof was that the interest margin decreased by 1,7 per cent, whereas it increased by 39 per cent in 2001. Interest derived from mortgage bonds and overdrafts and loans constituted 32,3 per cent and 30,3 per cent, respectively, of total interest income (as opposed to 33,3 per cent and 30,1 per cent, respectively, during 2001).

The main component of interest expense was interest on demand deposits and fixed and notice deposits. Interest paid in respect of demand deposits constituted 35,2 per cent (2001: 34,4 per cent) of the total interest expense, whereas interest paid on fixed and notice deposits constituted 27,7 per cent (2001: 29,2 per cent) of the total interest expense for the year.

FIGURE 16: INTEREST MARGIN

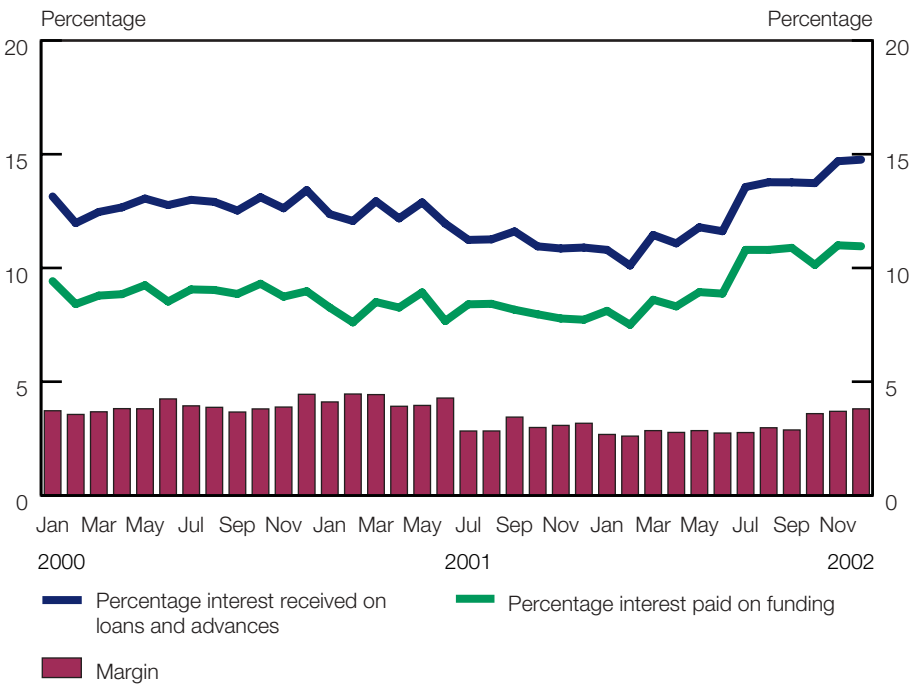


Figure 16 graphically displays the interest margin of the banking sector for the period from January 2000 to December 2002, whereas figure 17 represents the percentage-point change in the components of the interest margin for the aforementioned period. As can

clear seasonal tendencies

clearly be seen from figure 16, the interest margin for the year was on average lower in 2002 than in 2001. By the end of December 2002, however, the interest margin was 3,8 per cent, compared to 3,2 per cent in 2001 and 4,5 per cent in 2000. 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

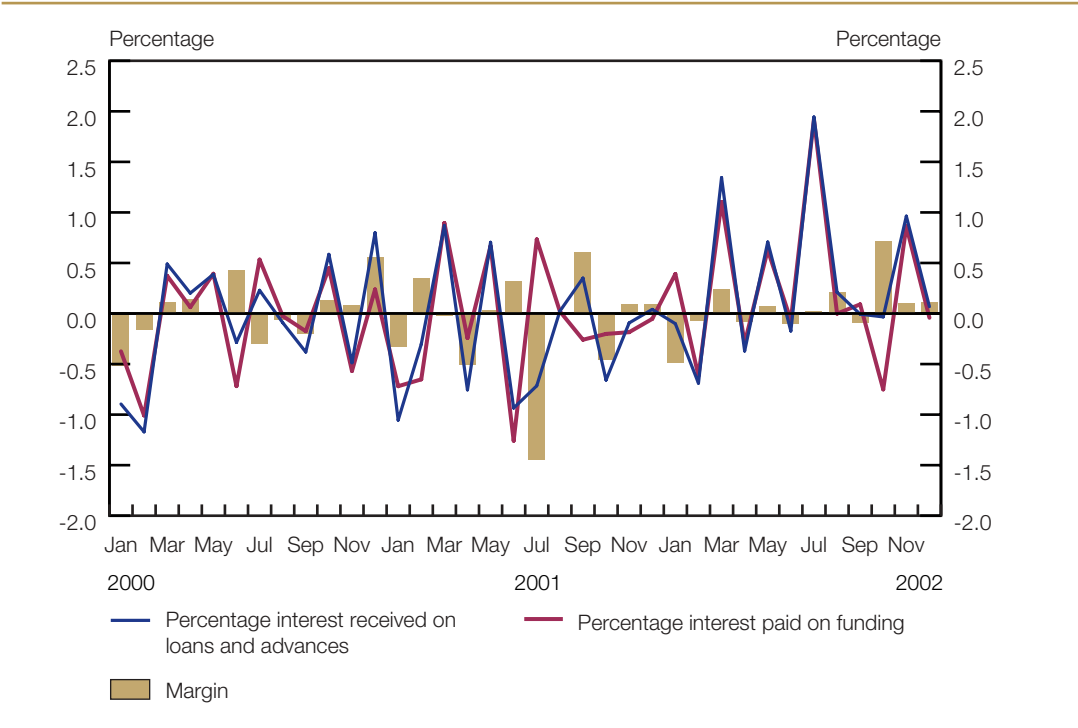
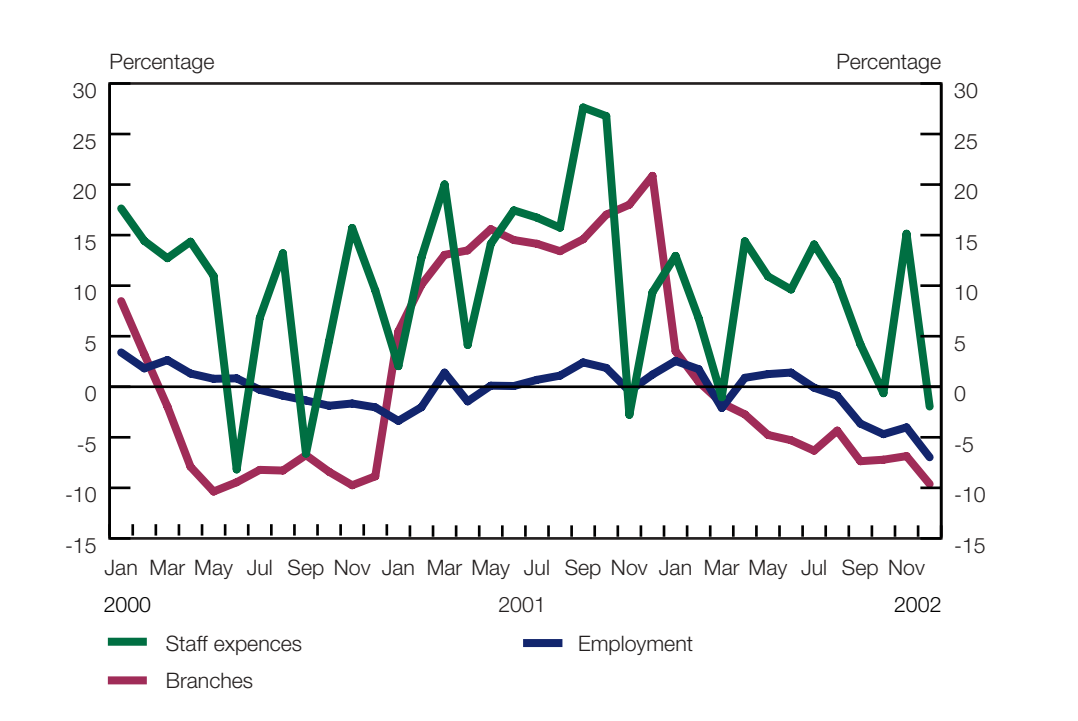


FIGURE 18: GROWTH IN STAFF EXPENSES, NUMBER OF EMPLOYEES AND NUMBER OF BRANCHES



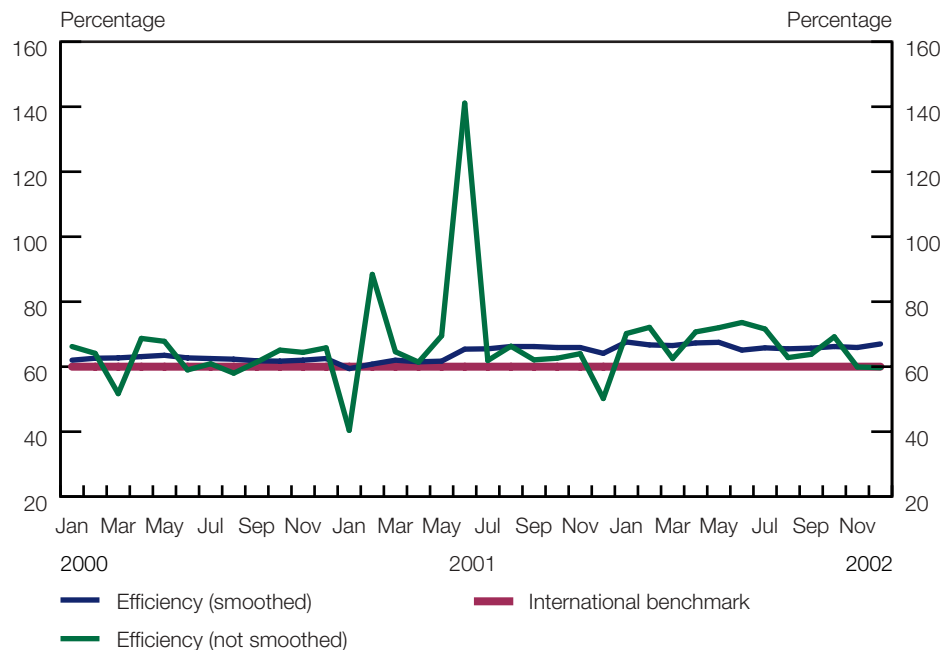
operating expenses
increased by 9,6 per cent

employment and number
of branches decreased

The operating expenses of the total banking sector increased by 9,6 per cent (2001: 14,1 per cent) in 2002, mainly as a result of an increase of 7,6 per cent in total staff expenses, which accounted for about 47,2 per cent of total operating expenses. The increase in total staff expenses, however, was not due to an increase in the number of employees. This is confirmed by figure 18, which graphically displays the percentage change (measured over a 12-month period) in total staff expenses, the number of employees and the number of branches for the past three years. During 2002, both employment in the banking sector and the number of branches decreased by 1,2 per cent and 4,4 per cent respectively, as opposed to an increase of 0,1 per cent and 14,1 per cent, respectively, during 2001.

Growth in operating expenses was also boosted by an increase in administrative expenses. Compared to the previous year, administrative expenses increased by 10,7 per cent and accounted for 42 per cent of total operating expenses.

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.

Figure 19 reflects the efficiency of the South African banking sector for the past three years. The high volatility in efficiency for 2001 was due mainly to some banks implementing Accounting Standard AC 133 in January 2001. In terms of the disclosure requirements of AC 133, banks were 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 book value or purchase price in terms of the equity accounting applied previously.

After reconsidering the implementation date of AC 133, however, the Accounting Practice Board announced that AC 133 would become effective for financial years commencing on or after 1 July 2002. As indicated in chapter 2 of this annual report, the objective of this delay was to enable companies to improve their business practices and systems and to

efficiency was on average lower

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 2002, efficiency (67 per cent) was on average lower than in 2001 (64,1 per cent).

The actual values of, and the percentage growth in, the determinants of efficiency are graphically displayed in figure 20. Growth in total income of 5,1 per cent could not offset the increase in operating expenses (9,6 per cent), resulting in lower efficiency in the banking sector (as reflected in figure 19) during the year under review.

FIGURE 20: DETERMINANTS OF EFFICIENCY

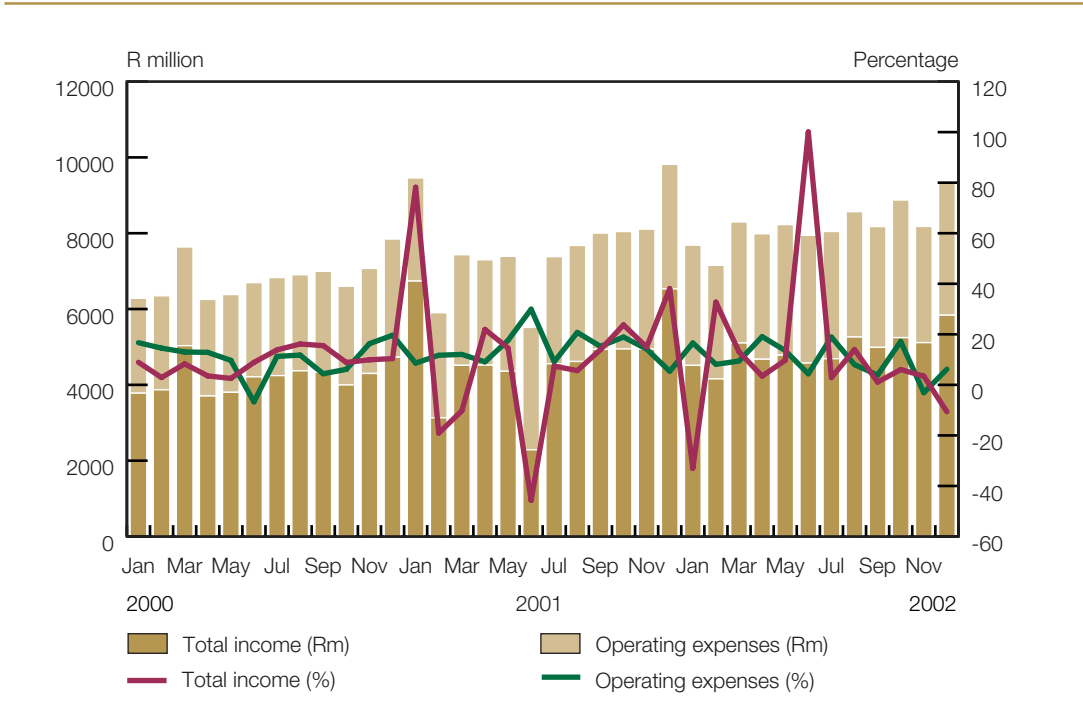


FIGURE 21: EFFICIENCY OF BANKING INSTITUTIONS ACCORDING TO ASSET SIZE – DECEMBER 2002

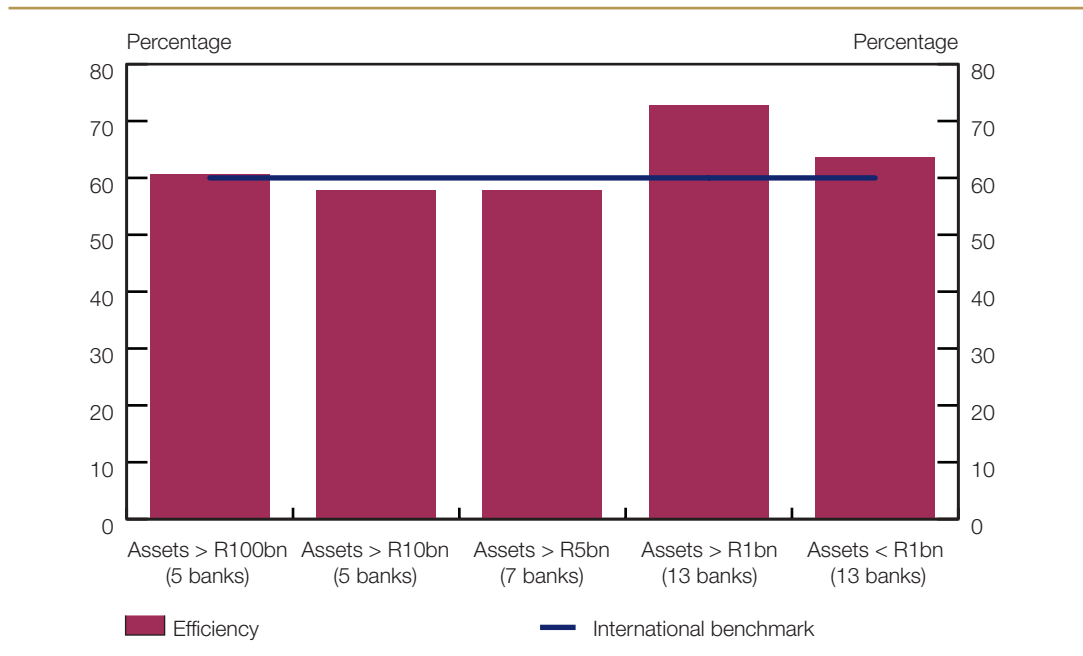
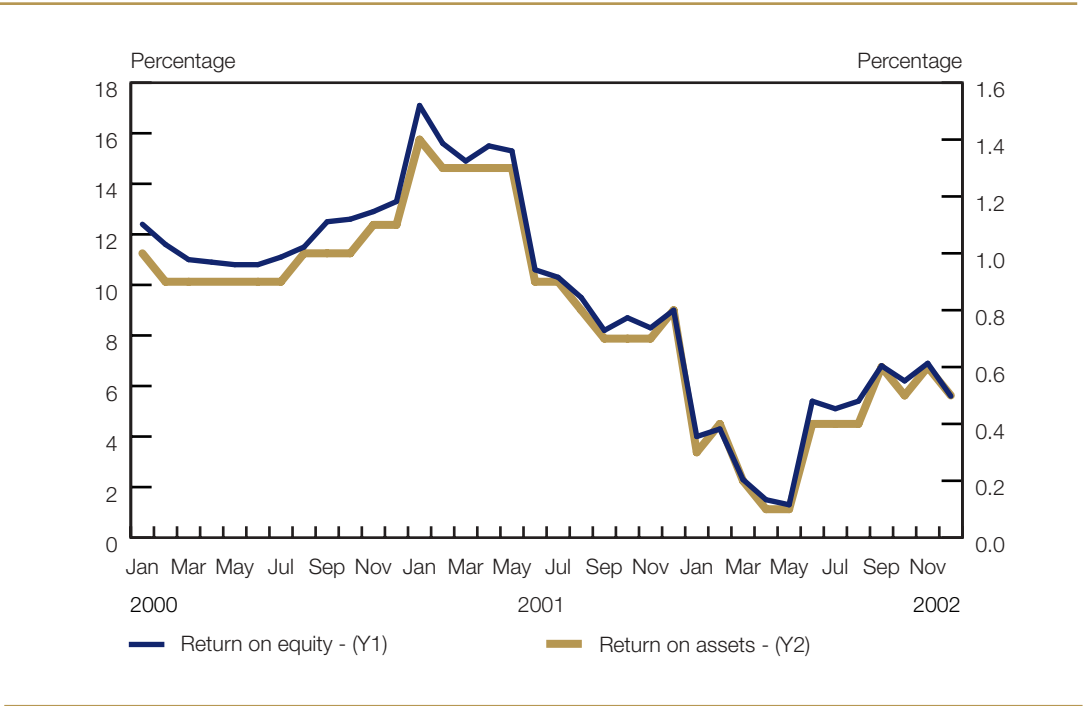


Figure 21 graphically displays the efficiency of the various categories (according to asset size) of banking institution for the year under review. The figure clearly shows that banks with asset values of above R5 billion, but below R50 billion, were the most efficient, at an efficiency ratio of 57,7 per cent, in December 2002. The next most efficient, at an efficiency ratio of 60,7 per cent, were banks with asset values of above R100 billion. Banks with asset values of above R1 billion, but below R5 billion, were the least efficient. It should be borne in mind, however, 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.

FIGURE 22: PROFITABILITY (12-month smoothed average)



The banking sector achieved a before-tax return equivalent to approximately 0,8 per cent of total assets (2001: 1,0 per cent). An after-tax return equivalent to approximately 0,4 per cent of total assets (2001: 0,7 per cent) was reported for 2002, whereas an after-tax return equivalent to approximately 5,6 per cent on net qualifying capital and reserves was reported (2001: 9,0 per cent).

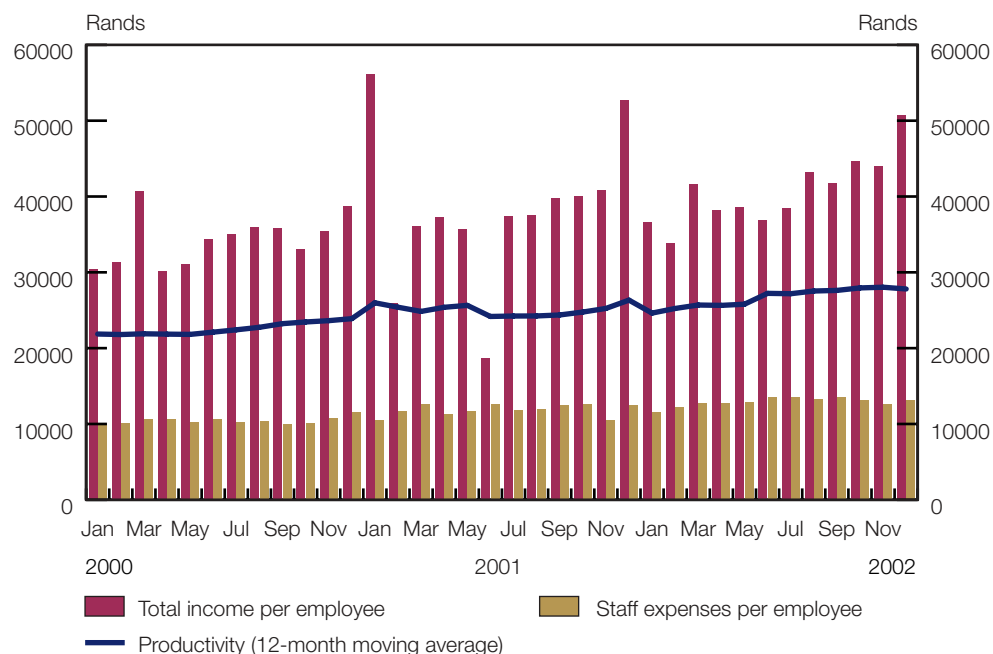
The trends (calculated on the basis of a 12-month moving average) in the return on equity (ROE) and the return on assets (ROA) for the past three years are graphically displayed in figure 22. From January 2001 until May 2002, a marked deterioration in both the ROA and the ROE can clearly be detected from figure 22. This deterioration was due mainly to higher operating expenses, as discussed earlier in this chapter.

Productivity can be measured by comparing the expenditure on employees with the amount of income generated. Figure 23 graphically displays the productivity of the banking sector for the past three years. During the year under review, the total income generated per employee was on average equivalent to R40 699, as opposed to R38 162 in 2001. Staff expenses per employee, on the other hand, were on average R12 893 in 2002, as opposed to R11 828 during 2001. 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 R26 334 in 2001 to R27 806 in 2002, indicating that the productivity of employees in the banking sector improved during the year under review.

marked deterioration in both the ROA and the ROE

productivity of employees improved

FIGURE 23: PRODUCTIVITY



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 the 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

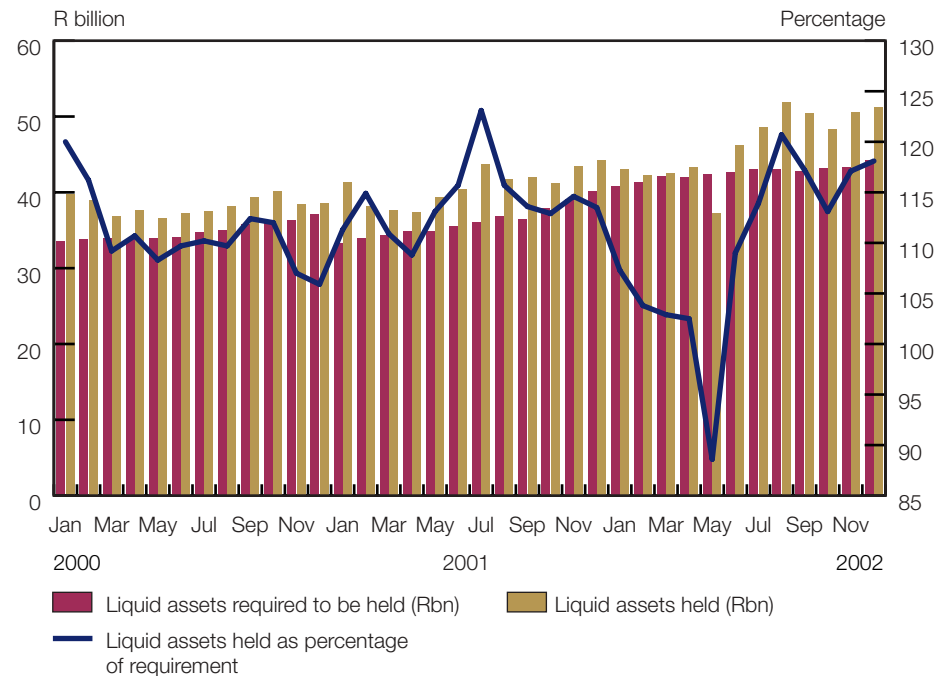
The liquid-asset requirement is calculated on total liabilities less capital and reserves (referred to as adjusted liabilities). Figure 24 shows that the average daily amount of liquid assets held by banks exceeded the statutory liquid-asset requirement throughout the year under review.

Approximately 56,1 per cent (2001: 57,4 per cent) of the average daily amount of liquid assets held during December 2002 consisted of securities issued by virtue of section 66 of the Public Finance Management Act, 1999, whereas 29,5 per cent (2001: 34,4 per cent) consisted of Treasury bills of the Republic of South Africa and 2,3 per cent (2001: 4,3 per cent) consisted of short-term bills issued by the Land Bank. Cash-management schemes managed on behalf of banks' clients increased by about 7,7 per cent (2001: 20,5 per cent). Set-off had decreased by 25,1 per cent (measured over 12 months) by the end of December 2002 and represented approximately 10 per cent (2001: 11,3 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 12,2 per cent (2001: 15,5 per cent), or R108,3 billion (2001: R124,7 billion), because of the use of cash-management schemes by banks' clients and the setting off of some asset balances against liabilities.

average daily amount of liquid assets held exceeded statutory liquid-asset requirement

adjusted liabilities were reduced by 12,2 per cent

FIGURE 24: STATUTORY LIQUID ASSETS – ACTUAL VERSUS REQUIRED



Volatility of funding

As at 31 December 2002, total wholesale deposits constituted 81,2 per cent (2001: 84,1 per cent) of total wholesale and retail deposits. As can be seen in figure 25, wholesale deposits shorter than three months represented 50,1 per cent of total funding for December 2002. The sharp decrease, from R364,2 billion in December 2000 to R281,6 billion in January 2001, in wholesale deposits shorter than three months was due mainly to the inability of some banks to report in terms of the amended Regulations relating to Banks as from the effective date of 1 January 2001. 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 R167,4 billion (2001: R115,4 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 18 per cent (2001: 13,8 per cent) at the end of December 2002 (see figure 25).

Short-term wholesale deposits (0-31 days) represented 39,6 per cent of total funding in December 2002, as opposed to 37,5 per cent for December 2001 (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' inability to report some information in terms of the amended Regulations relating to Banks as from the effective date. 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 2002, wholesale deposits shorter than seven days and wholesale deposits between eight and 31 days represented 23 per cent and 16,6 per cent, respectively, of total funding.

comparisons over time
should be made with cau-
tion

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

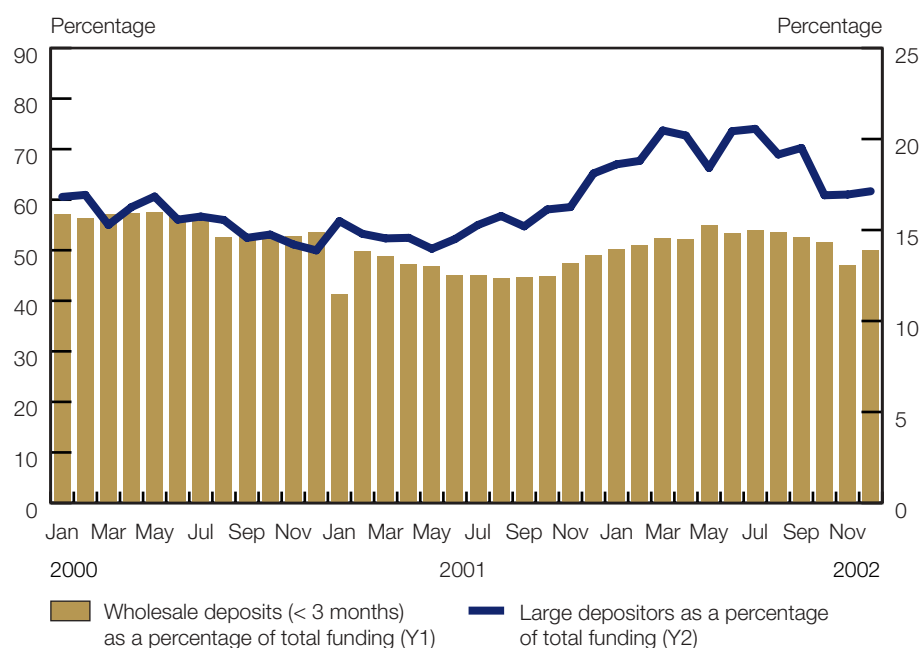


FIGURE 26: SHORT-TERM WHOLESALE DEPOSITS

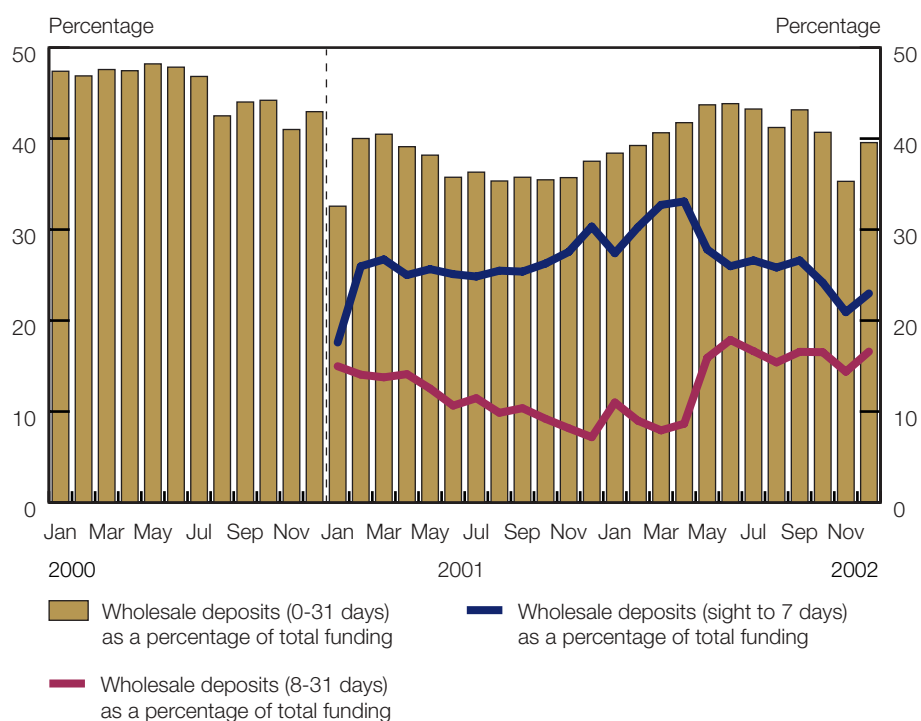


FIGURE 27: COMPOSITION OF WHOLESALE DEPOSITS ACCORDING TO MATURITY

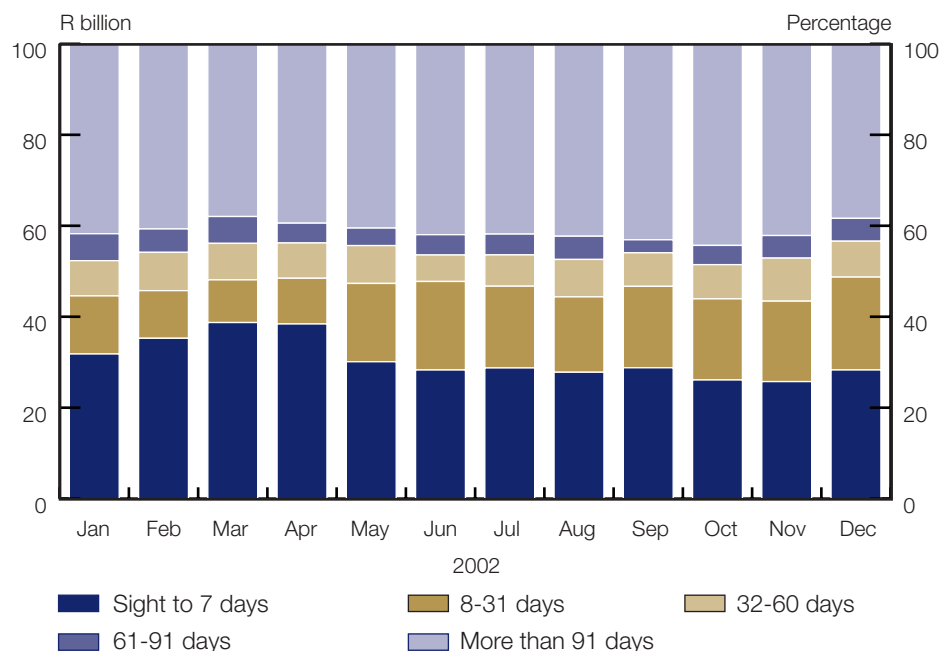


Figure 27 displays the composition (measured over a period of 12 months) of wholesale deposits according to maturity for the year under review. Wholesale deposits with a maturity shorter than seven days and wholesale deposits with a maturity greater than 91 days constituted the biggest portion of wholesale deposits in December 2002, namely, 28 per cent and 38 per cent, respectively. Wholesale deposits with a maturity of 32 to 60 days constituted only a small portion of total wholesale deposits, namely, 8 per cent, followed by deposits with a maturity of eight to 31 days (20 per cent of total wholesale deposits).

3.5 MARKET RISK

turnover in derivatives fluctuated widely

Turnover in derivatives fluctuated widely during the year under review, from approximately R1,329 billion in January 2002, to R438,4 million in June 2002 and to R545,8 million in October 2002 (see figure 28). In terms of the amended Regulations relating to Banks, banks have also been required to report on forward contracts, which decreased from R1,790 billion in January 2002 to R896,1 million in December 2002.

total unexpired derivative contracts decreased by 4,5 per cent

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 R586,5 million in December 2002 (December 2001: R1,2 billion), or 53,3 per cent of the banking sector's total assets (December 2001: 115,9 per cent). Average monthly balances, computed on a quarterly basis, were reported as R1,120 billion, R1,096 billion, R922,3 million and R634,4 million for the quarters ended March 2002, June 2002, September 2002 and December 2002, respectively. Compared to the previous year, total unexpired derivative contracts decreased by 4,5 per cent. As at 31 December 2002, the total value of unexpired derivative contracts was R6,891 billion (December 2001: R7,214 billion), representing 626,1 per cent of total assets (December 2001: 686,9 per cent of total assets). As at 31 December 2002, over-the-counter traded derivatives accounted for 91,5 per cent (2001: 83,1 per cent) of all unexpired derivative contracts.

FIGURE 28: TURNOVER IN DERIVATIVE CONTRACTS

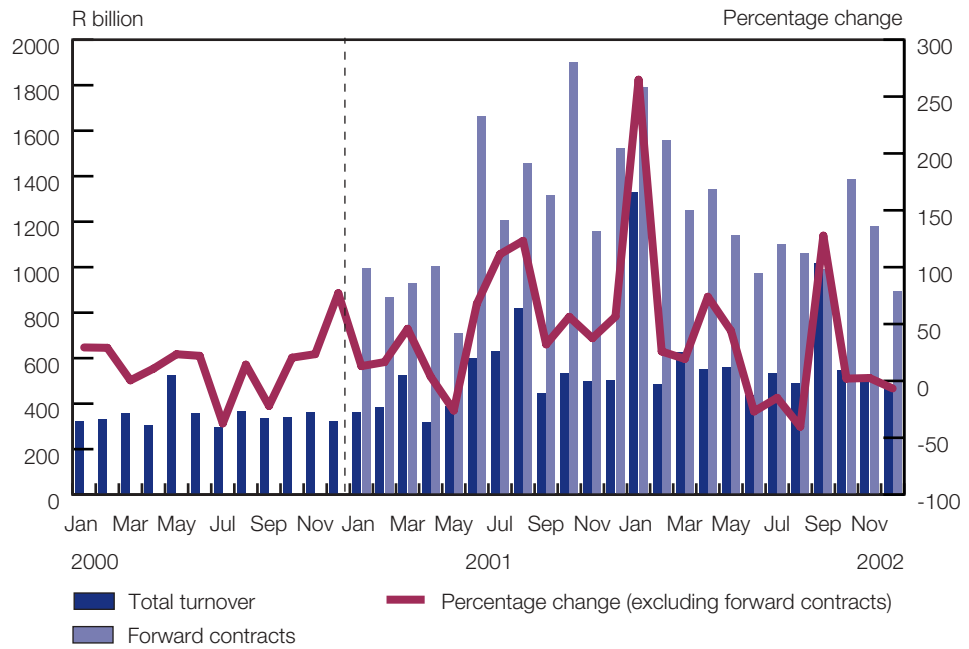
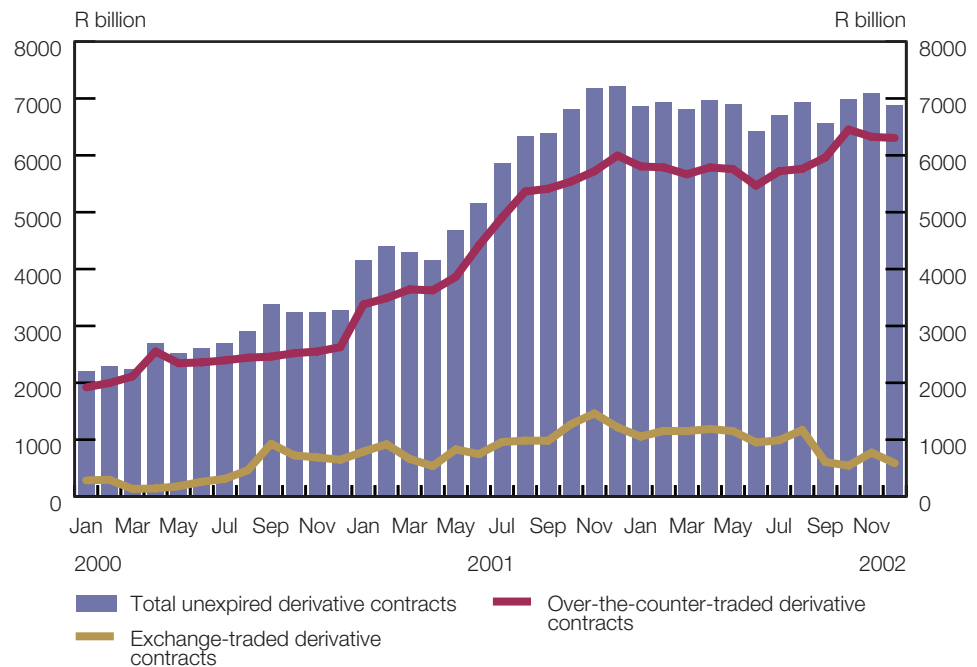


FIGURE 29: TOTAL UNEXPIRED DERIVATIVE CONTRACTS

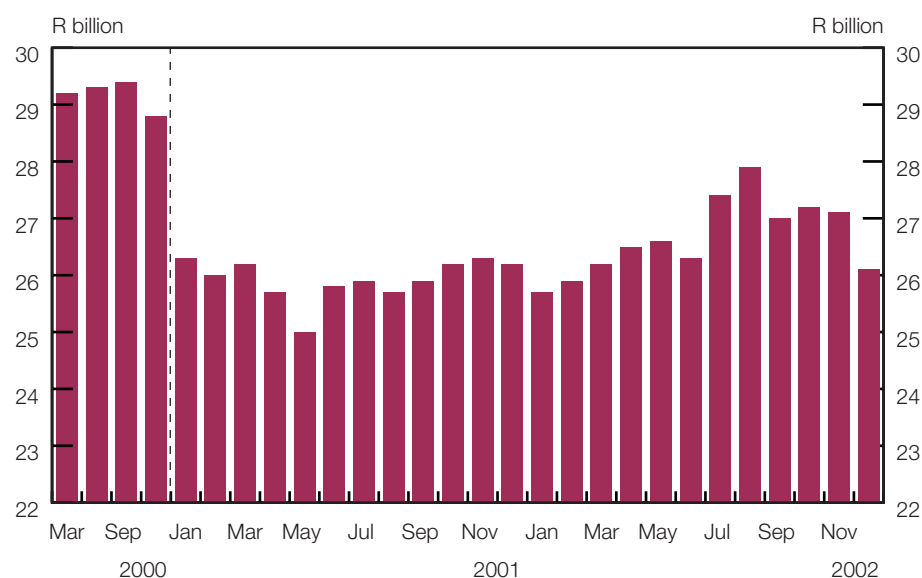


3.6 CREDIT RISK

Analysis of overdue amounts

Figure 30 graphically displays the level of total overdues for the banking sector for 2000 (in terms of the previous Regulations relating to Banks) and from March 2001 to December 2002 (in terms of the amended Regulations effective from 1 January 2001).

FIGURE 30: TOTAL BANKING-SECTOR OVERDUES



In terms of the amended Regulations relating to Banks, banks also have 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 clearly be seen in figure 30. A dotted line separates the overdues in terms of the previous Regulations from the overdues in terms of the amended Regulations. Because of the amended definition of overdues, comparisons over time should therefore be made with caution.

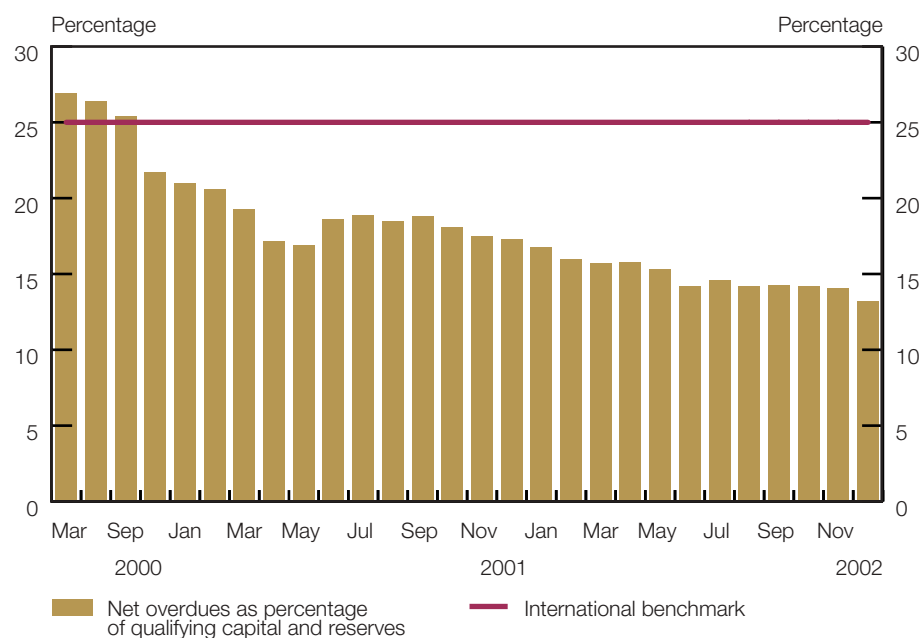
Gross overdues increased from R26,3 billion in June 2002 to R27,4 billion in July 2002 (that is, by R1,1 billion), mainly as a result of the reclassification of loans and advances by a smaller bank. From January 2001 to the end of December 2002, the net decrease in gross overdues of the total banking sector amounted to R117,4 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. As can be clearly noted from this figure, net overdues as percentage of net qualifying capital and reserves decreased almost uninterruptedly during 2002. Net overdues as a percentage of net qualifying capital and reserves decreased from 17,3 per cent in December 2001 to 16,8 per cent in January 2002. By the end of December 2002, this ratio had improved to 13,2 per cent, which was well below the international benchmark of 25 per cent.

comparisons over time
should be made with
caution

net overdues decreased
almost uninterruptedly

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



Expressed as a percentage of total loans and advances (see figure 32), gross amounts overdue improved from 3,2 per cent in December 2001 to 3,1 per cent in January 2002. By the end of December 2002, the gross amount overdue (as a percentage of total loans and advances) had improved to 2,9 per cent. From January 2002 to December 2002, mortgage loans overdue (as a percentage of total mortgage loans and advances) and instalment sales overdue (as a percentage of total instalment sales) improved from 3,4 per cent to 3 per cent and from 3 per cent to 1,9 per cent, respectively. Other loans and advances overdue (as a percentage of total other loans and advances), however, increased from 2,9 per cent to 3 per cent.

FIGURE 32: COMPOSITION OF OVERDUES (as a percentage of loans and advances)

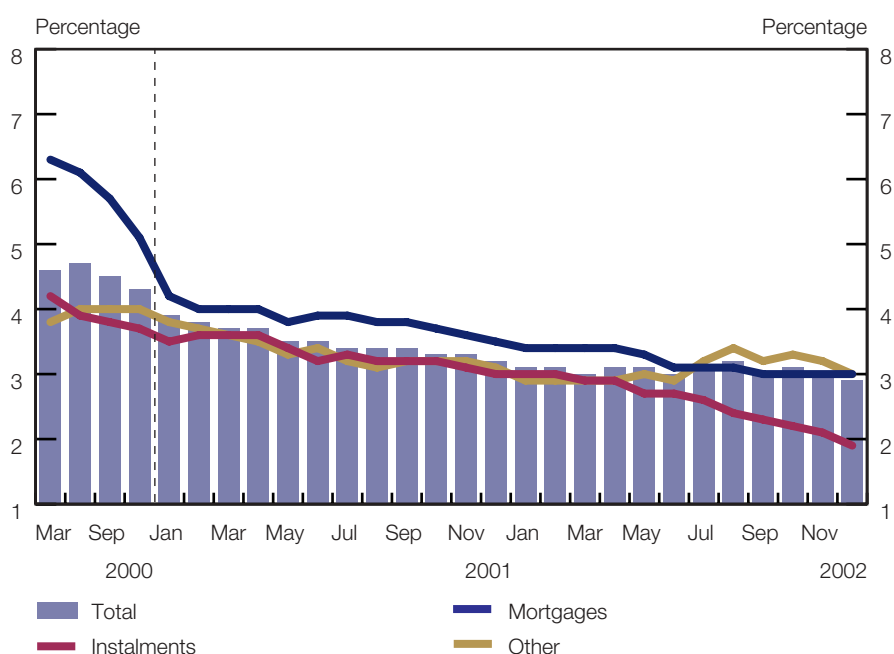
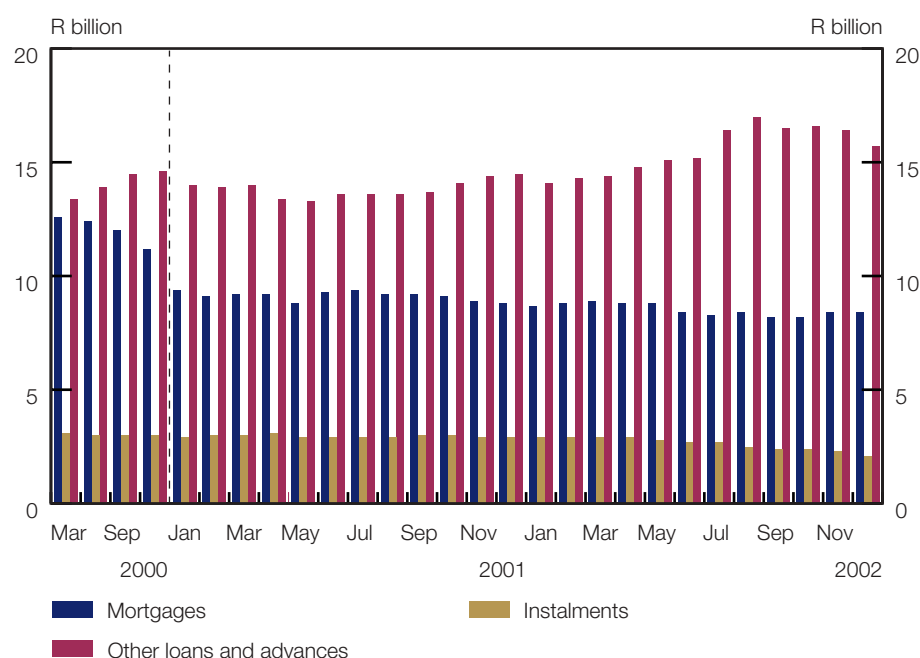


Figure 33 graphically displays an analysis of overdue amounts for the period from March 2000 to December 2002. The gross amount overdue in respect of other loans and advances, which constituted the biggest portion of amounts overdue, increased from R14,1 billion to R15,7 billion during the year under review and, by the end of December 2002, exceeded overdues in respect of mortgages by R7,2 billion. Overdues in respect of mortgages decreased from R8,8 billion in December 2001 to R8,7 billion in January 2002 and to R8,4 billion in December 2002, and overdues in respect of instalment sales decreased from R2,9 billion to R2,1 billion during the year under review.

FIGURE 33: ANALYSIS OF OVERDUE ACCOUNTS



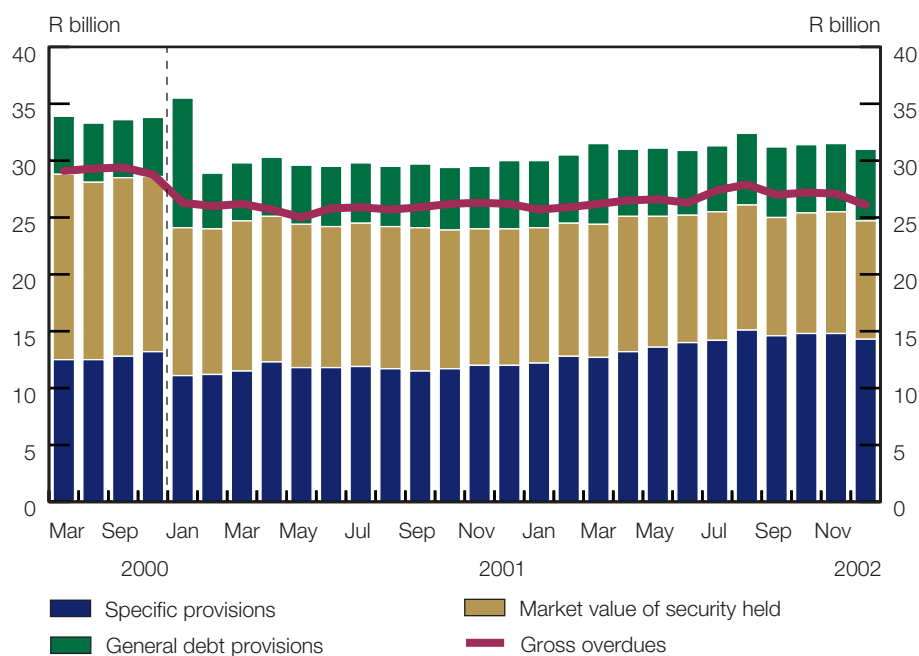
Provisioning policy for bad and doubtful loans and advances

As indicated in the previous annual report, the implementation of the amended Regulations relating to Banks on 1 January 2001 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, despite the marked increase in overdues between June and August 2002. By the end of December 2002, specific provisions covered about 54,5 per cent (December 2001: 45,9 per cent) of all overdues. At the end of December 2002, provisioning (that is, specific provisioning plus security) covered about 94,4 per cent of overdues, compared to 91,7 per cent in December 2001.

FIGURE 34: ADEQUACY OF PROVISIONS

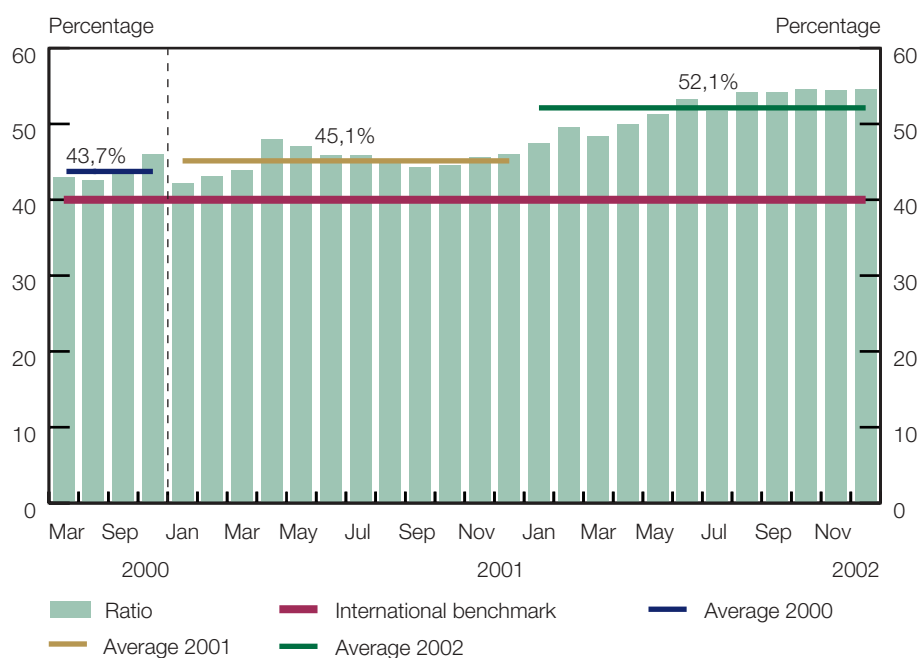


specific provisions by loan type

Specific provisions made at the end of December 2002, by loan type and expressed as a percentage of overdue amounts, were as follows:

- ▲ Mortgages - 26,1 per cent (2001: 27,4 per cent).
- ▲ Instalment sales - 66,5 per cent (2001: 52,3 per cent).
- ▲ Other loans and advances - 68,3 per cent (2001: 56 per cent).

FIGURE 35: SPECIFIC PROVISIONS AS PERCENTAGE OF TOTAL OVERDUES



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 52,1 per cent of overdues were covered by specific provisioning during 2002 (2001: 45,1 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

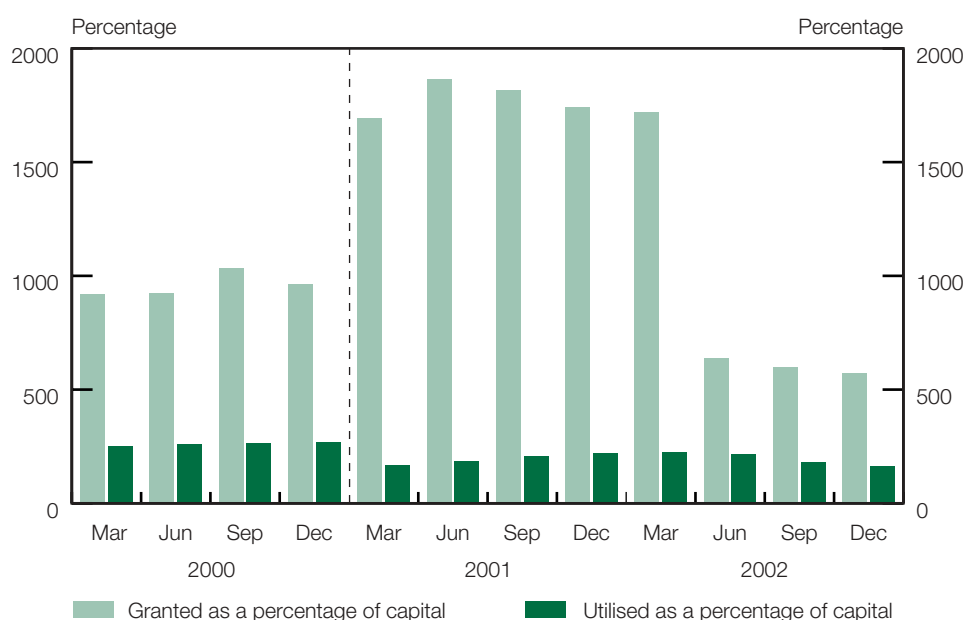
As from January 2001, the Regulations relating to Banks have required large exposures granted not to exceed 800 per cent of capital and reserves, in line with the guidelines of the European Economic Community. In terms of these guidelines, those large exposures granted that exceed 15 per cent of capital 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 2000 to December 2002 is illustrated graphically in figure 36

overdues in respect of large
exposures decreased

Large exposures granted increased by R50,8 million, to a level of R1,5 billion in January 2002 (representing 1 718,5 per cent of net qualifying capital and reserves), as opposed to R1,4 billion (representing 1 743,3 per cent of net qualifying capital and reserves) in December 2001. By the end of December 2002, large exposures granted had decreased to a level of R514,2 million (representing 570,2 per cent of net qualifying capital and reserves). Overdues in respect of large exposures decreased from R216,7 million in December 2001 to R214,2 million in January 2002. By the end of December 2002, overdues in respect of large exposures had decreased marginally to R32,5 million, and specific provisions covered about 2 per cent of overdues. The value of the security held by banks covered the remaining overdues.

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

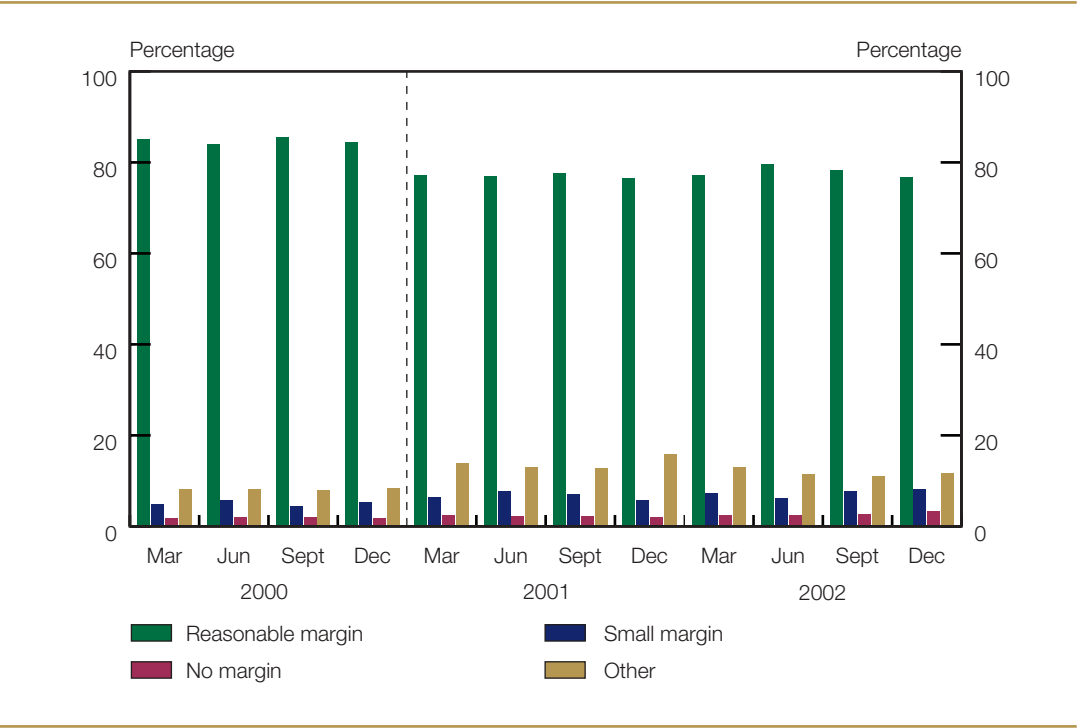


Quality of assets

76,7 per cent of assets earned a reasonable margin

Figure 37 shows that, by the end of December 2002, about 76,7 per cent of the banking sector's assets (December 2001: 76,5 per cent) earned a reasonable margin and 8,2 per cent (December 2001: 5,7 per cent) earned a small margin, whereas the remaining 15,1 per cent of assets (December 2001: 17,8 per cent), including infrastructure, earned no margin.

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 0,1 per cent in January 2002 and, by the end of December 2002, the ratio had increased to 0,3 per cent. The aggregated net effective open foreign-currency position of the total banking sector is displayed in figure 38.

During the year under review, the maximum net open position in foreign currency after hedging decreased from 4,6 per cent to 3,6 per cent and remained safely within the limit of 10 per cent of net qualifying capital and reserves (see figure 39).

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

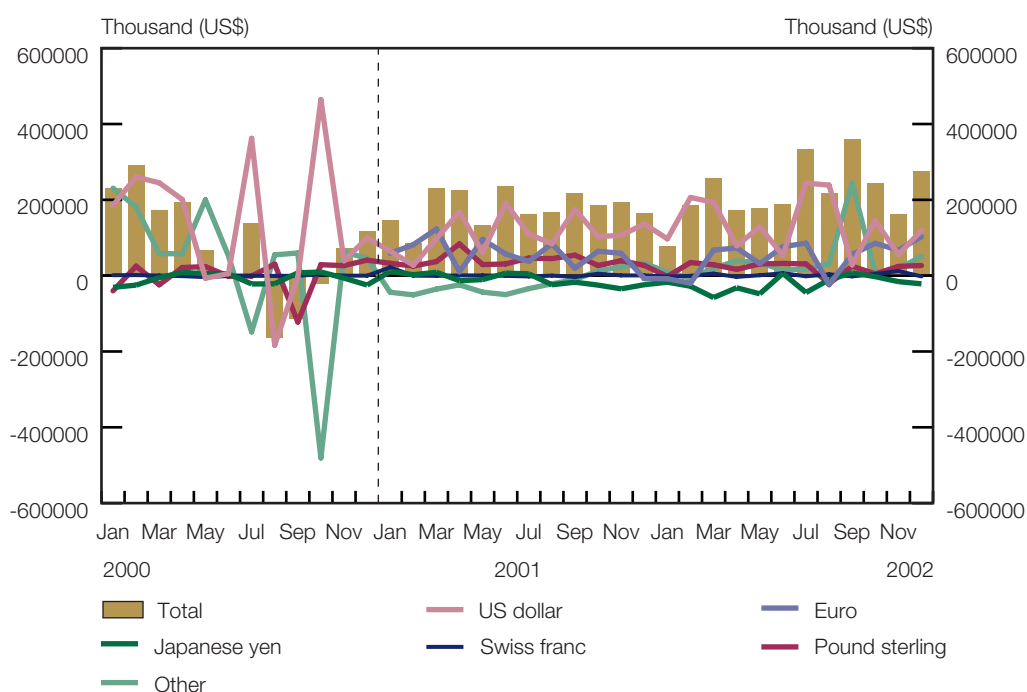
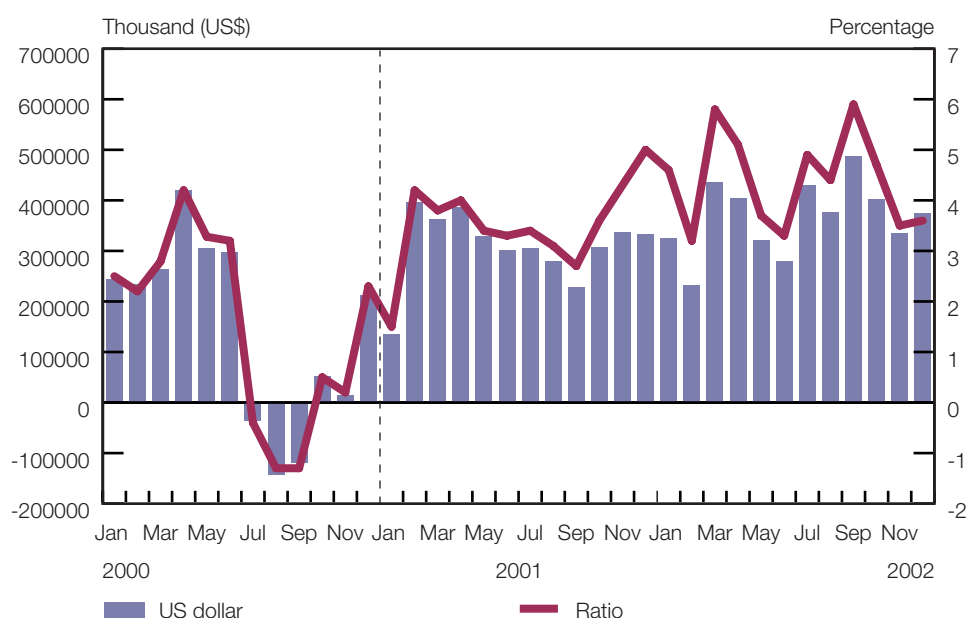


FIGURE 39: MAXIMUM EFFECTIVE NET OPEN FOREIGN-CURRENCY POSITION AS A PERCENTAGE OF NET QUALIFYING CAPITAL AND RESERVES (compliance with limit of 10 per cent)



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

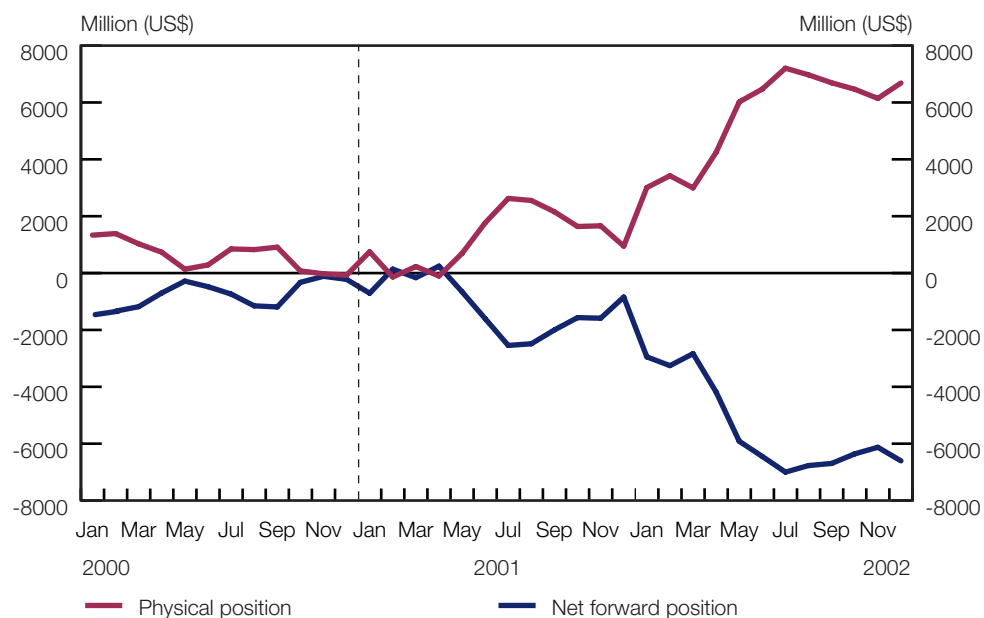
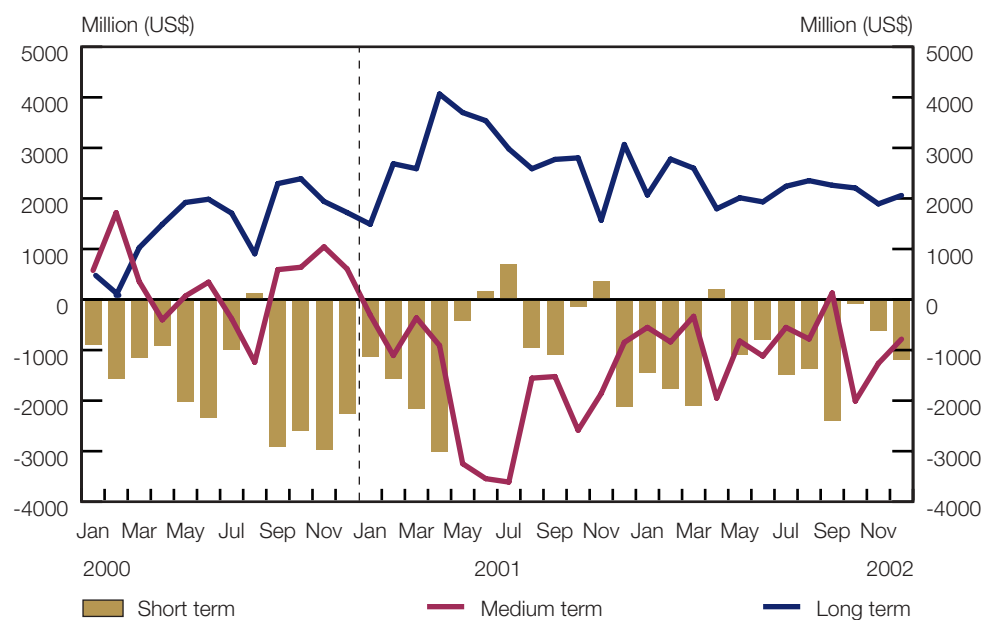


FIGURE 41: LIQUIDITY-MATURITY STRUCTURE (US dollars)



CHAPTER 4

DEVELOPMENTS RELATED TO BANKING LEGISLATION

important responsibility

The Bank Supervision Department is tasked with ensuring that the legal framework for the regulation and supervision of banking institutions and banking groups in South Africa continues to be relevant and current. In order for the Department to fulfil this important responsibility effectively, the banking legal framework has to remain in line with regulatory and market developments, locally and internationally. Consequently, the Department continuously has to review the banking legislation – that is, the Banks Act, 1990, as well as the Mutual Banks Act, 1993, and the Regulations thereto – and make the necessary amendments.

As in previous years, this chapter contains a brief overview of proposed amendments to the Banks Act, 1990. The chapter also provides an outline of recent amendments made to the banking regulatory framework in order to provide for, amongst others, the regulation and supervision of credit risk-mitigation instruments.

Although not a development in banking legislation itself, an important court ruling on the investment of attorneys' trust funds in a bank, of relevance to both the banking industry and the legal fraternity, is also reported.

AMENDMENTS TO THE BANKS ACT, 1990

Amendments to the Banks Act, 1990 (Act No. 94 of 1990), were not tabled in Parliament during the past two years. In 2002, the Department drafted a number of further proposed amendments, in addition to those outlined in the 2001 annual report, and consolidated these amendments into the proposed Banks Amendment Bill. The amendments were approved by the Standing Committee for the Revision of the Banks Act, 1990, and subsequently submitted to the Minister of Finance, for approval and submission to Cabinet. The proposed Bill was tabled in Parliament early in 2003.

objective of the most
important amendments

The objective of the most important proposed amendments to the Banks Act made in 2001 (as previously reported, but repeated below) and in 2002 may briefly be stated as being to:

- ▲ Address and amend 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 the implementation of subordinated legislation relating to the establishment of representative offices, the compliance function of banks and corporate governance.
- ▲ Delete certain provisions that have become outdated or superfluous.
- ▲ Insert provisions that would grant the Registrar of Banks certain powers in the appointment and dismissal of a bank's and a controlling company's board members and executive officers.
- ▲ Provide for the Registrar to approve the appointment of an external auditor to a bank and a controlling company, since this will accord with the established principle of con-

solidated supervision of banks and their controlling companies by the Registrar.

- ▲ Enable the value threshold that will require the appointment of a second external auditor to a bank to be prescribed by regulation.
- ▲ Enable the criteria, conditions and procedure whereby a bank's auditor is subject to a system of compulsory rotation to be prescribed by regulation.
- ▲ Compel all banks to establish a risk committee and a directors' affairs committee in the interest of sound risk management and corporate governance.
- ▲ Restrict certain investments made by banks, especially those relating to investments in shares of any company, and not only property companies (as interpreted by some banks).
- ▲ Augment certain provisions relating to activities and practices that are regarded as undesirable.
- ▲ Increase the penalties for contraventions of the Banks Act.

BANKING REGULATORY FRAMEWORK

amended Regulations

On 13 November 2002, the Minister of Finance granted approval for the publication and implementation of amendments to the Regulations relating to Banks and the Regulations relating to Capital-adequacy Requirements ("CAR") for Banks' Trading Activities in Financial Instruments (CAR Regulations). The amended Regulations were published under Government Notices R.1464 and R.1465, in *Government Gazette* No. 24088 on 22 November 2002, and apply in respect of the reporting periods of January 2003 onwards. The amendments became necessary to provide for:

- ▲ Requirements relating to the risk-management processes, policies and procedures of banks and their controlling companies.
- ▲ The regulatory and supervisory treatment of credit risk-mitigation instruments, including credit-derivative instruments.

Risk-management processes, policies and procedures of banks and controlling companies

The primary objective of the Regulations relating to Banks is to provide for the establishment of basic principles pertaining to the maintenance of effective risk management by banks and controlling companies. An ancillary objective is that the benefits that banks and controlling companies derive from compliance with the Regulations should exceed the cost of such compliance.

In order to promote the achievement of the above-mentioned primary objective, the amended Regulations require every bank and every controlling company to have in place comprehensive risk-management processes and board-approved policies, as well as procedures to identify, measure, monitor, control and report on, amongst others, the main risk areas to which the bank or controlling company are exposed. Furthermore, the amended Regulations prescribe that the risk-management processes, policies and procedures shall:

risk-management processes, policies and procedures

- ▲ Be adequate for the size and nature of the activities of a bank or controlling company and be adjusted periodically in the light of the changing risk profile of the bank or con-

trolling company, as well as external market developments.

- ▲ Clearly specify the business strategy of a reporting bank or controlling company.
- ▲ Clearly specify the limits and allocated capital relating to the various risks.
- ▲ Be subject to adequate internal controls and appropriate internal audit coverage.
- ▲ Include appropriate board and senior-management oversight.

Credit-risk mitigation

reduction of credit exposure

Credit-risk mitigation relates to the reduction of credit exposure by, for example, obtaining collateral, credit-derivative instruments or guarantees, or taking an offsetting position subject to a netting agreement.

The 1988 Capital Accord recognises only collateral instruments and guarantees of the highest quality for risk-mitigation purposes. Since 1988, however, the markets for the transfer of credit risk have become more liquid and more complex. The number of suppliers of credit protection has increased, and new products, such as credit-derivative instruments, have allowed banks to unbundle their credit risks and to sell those risks that they do not wish to retain.

The aforementioned innovations in financial markets are welcomed, because greater liquidity in instruments reduces the transaction costs of intermediation between borrowers and lenders. Greater liquidity also encourages a more efficient allocation of risks in the financial system.

In designing the new Capital Accord, on which there is a comprehensive report in chapter 2 of this annual report, the Basel Committee on Banking Supervision is pursuing three main objectives in respect of risk mitigation, namely, to:

main objectives

- ▲ Improve the incentives for banks to manage credit risk in a prudent and effective manner.
- ▲ Continue to offer a prudent and simple approach, which may be adopted by a wide range of banks.
- ▲ Relate capital treatments to the economic effects of the different credit risk-mitigation techniques, in order to ensure greater consistency and flexibility in the treatment of different forms of credit-risk mitigation.

approach focuses on economic effects

The approach to credit risk-mitigation techniques focuses on the economic effects. Collateral, netting, guarantees and credit-derivative instruments, however, typically have different risk characteristics. For example, collateral represents so-called funded protection, whereas guarantees and most credit-derivative instruments are unfunded.

risk-weighting treatment differs

Furthermore, whereas collateral instruments are subject to market risk, guarantees are not, and credit-derivative instruments are more likely than collateral to be subject to maturity or asset mismatches. Consequently, although the treatment of collateral, netting, credit-derivative instruments and guarantees is based on similar concepts, the risk-weighting treatment differs.

Collateral and guarantees

The risk exposure of a bank may be secured by the pledge of an asset or a deposit, or guaranteed by a guarantor. When such security or guarantee attracts a lower risk weighting than the transaction or exposure itself, the risk weighting applicable to the relevant transaction or exposure may be reduced to the lower risk weighting, provided the bank meets certain criteria. These criteria relate mainly to the following:

criteria

- ▲ Legal certainty.
- ▲ Documentation.
- ▲ Low correlation with the relevant exposure.
- ▲ Robust risk management.
- ▲ Maturity mismatches.

Credit-derivative instruments

As indicated in the 2002 annual report, credit-derivative instruments are a relatively recent innovation in the financial markets. The Bank Supervision Department undertook extensive research on these instruments in order to ensure that the regulatory framework kept pace with the latest regulatory, supervisory and market practices in that regard.

In its review process, the Department consulted widely with the banking industry and the auditing profession. In March 2002, the Department issued draft amendments to the Regulations relating to Banks and the CAR Regulations for comment. Thereafter, the Department processed the valuable and comprehensive comments that it had received and also held discussions and workshops with key players in order to clarify and resolve various matters.

term credit-derivative instrument is used to describe various contracts designed to transfer credit risk

The term credit-derivative instrument is used to describe various contracts designed to transfer credit risk from one party (the protection buyer) to another party (the protection seller). When a portion of a credit exposure is protected, a bank that is a protection buyer may substitute the risk weighting relating to the protection provider for the risk weighting of the underlying asset or exposure. The protection seller, on the other hand, is normally exposed to the credit risk associated with the reference asset, reference entity or underlying asset. In terms of the amended Regulations, the position will be treated as though the protection seller has a direct exposure to the reference asset, reference entity or underlying asset.

The amended Regulations cover various aspects relating to credit-derivative instruments. These include that a distinction is made between funded and unfunded credit-derivative instruments, single-name and multiple-name instruments, and cash settlement and physical settlement.

Credit-derivative instruments are subject to criteria in addition to those listed above for collateral and guarantees. These criteria include requirements relating to:

requirements

- ▲ Rules, conditions or regulations issued by the Exchange Control Department of the South African Reserve Bank.
- ▲ Risk-management systems.
- ▲ Credit events.
- ▲ Asset mismatches.

Synthetic securitisation schemes

As reported in the previous annual report, an amended regulatory framework for asset securitisation was published under Government Notice No. 1375, in *Government Gazette* No. 22948 on 13 December 2001. The publication of regulations on credit-derivative instruments necessitated further amendment of the asset-securitisation framework in order to provide for synthetic securitisation schemes.

synthetic securitisation
scheme

In essence, a synthetic securitisation scheme refers to a structured transaction in which an institution uses a credit-derivative instrument to tranche and transfer the credit risk and/or market risk associated with a specified pool of assets to a special-purpose institution. A

traditional securitisation
scheme

traditional securitisation scheme, on the other hand, involves the legal and economic transfer of the assets themselves to a special-purpose institution issuing asset-backed securities that are claims against a specific asset pool.

ATTORNEYS' TRUST FUNDS - THE CASE OF SAAMBOU BANK LIMITED

As reported in chapter 1 of this annual report, Saambou Bank Limited (Saambou) was placed under curatorship on 9 February 2002, in terms of section 69 of the Banks Act, 1990. Subsequently, two firms of attorneys demanded the release of certain funds invested with Saambou in terms of section 78(2A) of the Attorneys Act, 1979 (Act No. 53 of 1979). The curator of Saambou was of the opinion that investments made in terms of the above-mentioned section of the Attorneys Act and not linked to a guarantee constituted an ordinary deposit and could not be released. This led to the attorneys applying to the High Court of South Africa (Transvaal Provincial Division) for a declaratory order that such trust funds be kept separate from the assets and liabilities of the bank.

trust property

The court discussed whether the funds that the firms of attorneys had invested with Saambou qualified as trust property, as defined in section 1, read with sections 4(4) and 4(5), of the Financial Institutions (Protection of Funds), 2001 (Act No. 28 of 2001 - the 2001 FI Act). Should the funds indeed qualify as trust property, the attorneys' application had to succeed. Should the funds, however, not qualify as trust property, the court had to determine whether or not Saambou qualified as a financial institution.

common-law position

The court accepted the common-law position that a bank that accepts deposits from a depositor does not in any way act as a trustee of the money so deposited. It was also common cause that under the Financial Institutions (Investment of Funds) Act, 1984 (Act No. 39 of 1984 - the 1984 FI Act), monies deposited in an attorney's trust account in terms of section 78(2A) of the Attorneys Act did not constitute trust property and were accordingly not protected under section 4(5) of the 1984 FI Act. The court, however, further held that the 2001 FI Act, which came into operation on 23 November 2001, altered both the statutory and the common-law position.

conclusion

The court concluded that the written instructions that the firms of attorneys had given to Saambou to invest the funds as trust monies in terms of section 78(2A) of the Attorneys Act should be seen as an offer that was accepted by Saambou. The court reached the somewhat strained conclusion that the invested monies were received and treated as trust monies. In terms of section 4(4) of the 2001 FI Act, therefore, the trust monies had to be kept separately from the assets belonging to Saambou.

effects of the court decision
were held to be untenable

The effects of the court decision were held to be untenable, since they would necessitate a restructuring of the trust-property process of the entire banking sector. For example, a bank as trustee would not be able to invest trust property in the ordinary course of busi-

ness. This would result in diminished profit for the bank and less or no interest being earned on the trust property. The curator of Saambou, the Registrar of Banks and the South African Reserve Bank, therefore, took the decision on appeal to the Supreme Court of Appeal.

appellants' argument

The basis of the appellants' argument was that one could not infer that the intention of the legislature was to change the common-law and the current statutory position radically through minor changes to the wording of legislation. The court referred to authority and found that when a bank accepted deposits, it became the owner thereof and had a personal obligation to repay the amount together with interest (if applicable).

The court could not find any indication or express language in the 2001 FI Act to suggest a change in the mindset of the legislature so as to vary the common-law position and the position under the 1984 FI Act. It would be contrary to the established rules of interpretation to effect such a change without an express intention of the legislature to do so.

The court consolidated its finding by stating that section 4(5) of the 2001 FI Act should be read in the context of section 4 of that Act as a whole. Section 4(1) of the 2001 FI Act requires that trust property be invested in accordance with an instruction from the principal, or in terms of an agreement. Section 78(2A) of the Attorneys Act, on the other hand, requires that an attorney give an instruction. The court was of the view that an instruction by an attorney could be construed neither as an instruction to the bank by the attorney's client (the principal), nor as an agreement between the client and the bank. Consequently, there was no trust relationship between the bank and the attorney's client.

no trust relationship

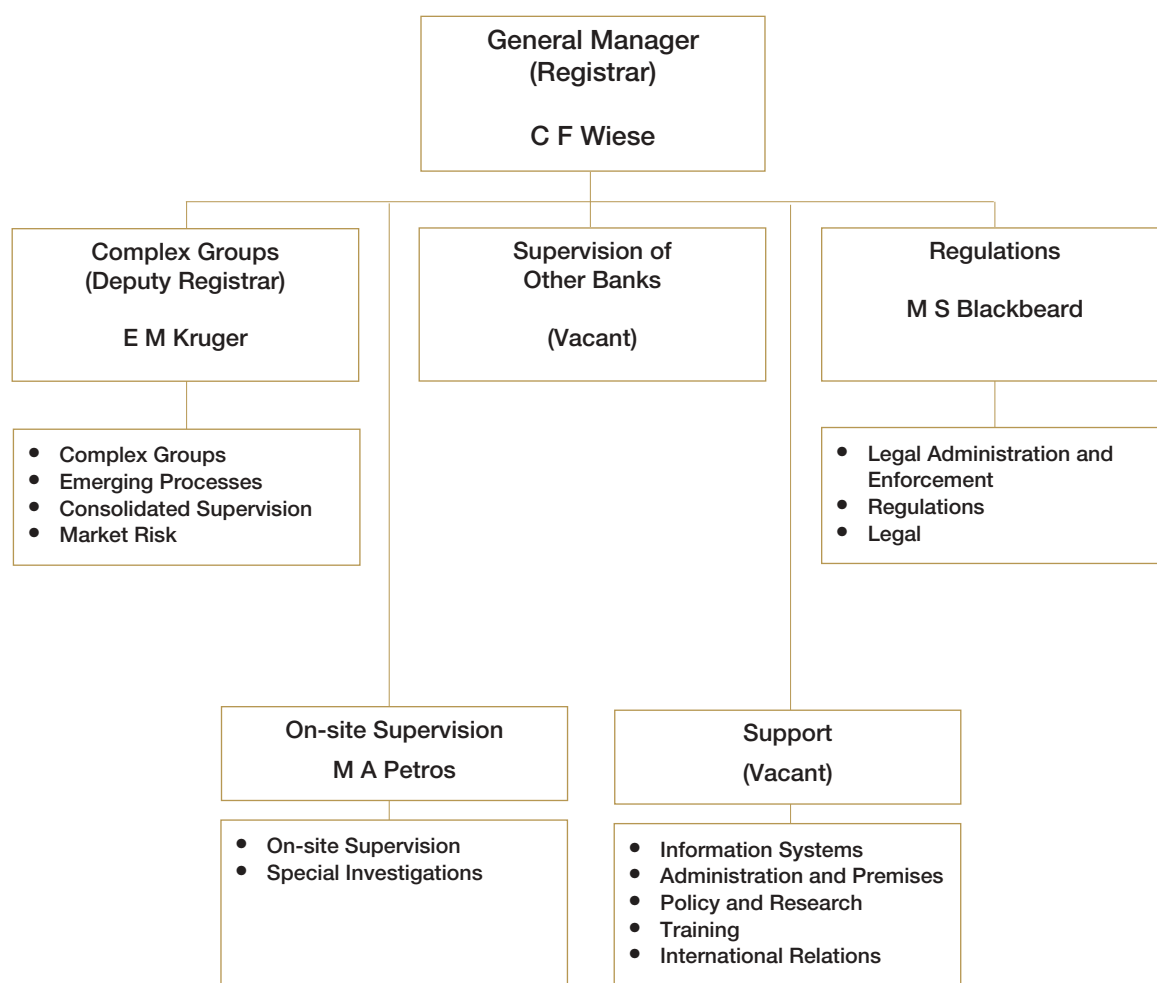
Finally, therefore, and based on the arguments expressed by the court, it was held that the more detailed wording of the definition of trust property and of section 4(5) of the 2001 FI Act did not change the meaning of trust property. The court was of the view that the purpose of the 2001 FI Act was simply to provide for and consolidate the investment and administration of trust property by financial institutions.

common-law position
remains unchanged

The appeal was therefore upheld, and the common-law position, in effect, remains unchanged.

APPENDICES

ORGANISATIONAL STRUCTURE OF THE BANK SUPERVISION DEPARTMENT



APPENDIX 2

REGISTERED BANKS AND MUTUAL BANKS AS AT 31 DECEMBER 2002

REGISTERED BANKS

Institution	Address	Total assets at 31 December		Percentage annual growth %
		2001 R million	2002 R million	
1. ABSA Bank Limited	P O Box 7735, Johannesburg, 2000	202 484	227 685	12,4
2. African Bank Limited	Private Bag X170, Halfway House, 1685	5 711	6 417	12,4
3. African Merchant Bank Limited	P O Box 786833, Sandton, 2146	1 979	1 250	-36,9
4. Albaraka Bank Limited	P O Box 4395, Durban, 4000	523	643	22,9
5. BOE Bank Limited	P O Box 1744, Durban, 4000	58 439	46 439	-20,5
6. Cape of Good Hope Bank Limited	P O Box 2125, Cape Town, 8000	6 295	7 456	18,4
7. Capitec Bank Limited	P O Box 12451, Die Boord, Stellenbosch, 7613	304	368	20,8
8. FirstRand Bank Limited	P O Box 786273, Sandton, 2146	195 764	212 536	8,6
9. Gensec Bank Limited	P O Box 411420, Craighall, 2024	15 214	12 678	-16,7
10. Habib Overseas Bank Limited	P O Box 62369, Marshalltown, 2107	205	262	28,0
11. HBZ Bank Limited	P O Box 48449, Qualbert, 4078	374	486	30,0
12. Imperial Bank Limited	P O Box 3567, Edenvale, 1610	5 830	9 417	61,5
13. Investec Bank Limited	P O Box 785700, Sandton, 2146	62 977	63 964	1,6
14. Marriott Merchant Bank Limited	P O Box 3211, Durban, 4000	633	525	-17,1
15. Mercantile Bank Limited	P O Box 782699, Sandton, 2146	2 880	2 225	-22,7
16. MLS Bank Limited	P O Box 87175, Houghton, 2041	3 781	4 124	9,1
17. Nedbank Limited	P O Box 1144, Johannesburg, 2000	144 698	161 090	11,3
18. Nedcor Investment Bank Limited	P O Box 582, Johannesburg, 2000	26 122	35 781	37,0
19. Peoples Bank Limited	P O Box 1144, Johannesburg, 2000	5 104	7 906	54,9
20. PSG Investment Bank Limited	P O Box 987, Parklands, 2121	3 279	869	-73,5
21. Rand Merchant Bank Limited	P O Box 786273, Sandton, 2146	3 651	3 671	0,5
22. Rennie's Bank Limited	P O Box 87274, Houghton, 2041	250	257	2,9
23. Sasfin Bank Limited	P O Box 95104, Grant Park, 2051	570	566	-0,8

APPENDIX 2

REGISTERED BANKS AND MUTUAL BANKS AS AT 31 DECEMBER 2002 (continued)

REGISTERED BANKS (continued)

Institution	Address	Total assets at 31 December		Percentage annual growth %
		2001 R million	2002 R million	
24. Securities Investment Bank Limited	P O Box 1499, Saxonwold, 2132	685	200	-70,8
25. TEBA Bank Limited	Private Bag X174, Halfway House, 1685	1 395	1 578	13,1
26. The South African Bank of Athens Limited	P O Box 7781, Johannesburg, 2000	419	480	14,7
27. The Standard Bank of South Africa Limited	P O Box 7725, Johannesburg, 2000	184 724	215 717	16,8
28. Unibank Limited	P O Box 5490, Rivonia, 2128	6 243	2 527	-59,5

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 %
		2001 R million	2002 R million	
1. MEEG Bank Limited	P O Box 332, Umtata, 5100	697	729	4,7

REGISTERED MUTUAL BANKS

Institution	Type of registration	Address	Total assets as at 31 December		Percentage annual growth %
			2001 R million	2002 R million	
1. GBS Mutual Bank	Final	P O Box 114, Grahamstown, 6140	285	295	3,4
2. VBS Mutual Bank	Provisional	P O Box 3618, Louis Trichardt, 0920	172	178	3,3

APPENDIX 2

REGISTERED BANKS AND MUTUAL BANKS AS AT 31 DECEMBER 2002 (continued)

BANK UNDER CURATORSHIP

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

BANKS IN RECEIVERSHIP IN TERMS OF A SCHEME OF ARRANGEMENT IN TERMS OF SECTION 311 OF THE COMPANIES ACT, 1973

Institution	Receiver
1. New Republic Bank Limited	Mr C C Allan of Ernst & Young
2. Saambou Bank Limited	Mr T J Louw of KPMG

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 2002

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. Société Générale	P O Box 6872, Johannesburg, 2000
14. 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 2002 TO 31 DECEMBER 2002

NAME CHANGES

Previous name	New name	Date of change
1. FBC Fidelity Bank Limited	Peoples Bank Limited	29 April 2002
2. Nedcor Bank Limited	Nedbank Limited	9 December 2002
3. Real Africa Durolink Investment Bank Limited	PSG Investment Bank Limited	29 November 2002

CANCELLATION OF REGISTRATION

Institution	Date of cancellation
1. Brait Merchant Bank Limited	30 September 2002
2. Cadiz Investment Bank Limited	15 April 2002
3. Corpcapital Bank Limited	28 November 2002
4. FirstCorp Merchant Bank Limited	17 April 2002
5. International Bank of Southern Africa Limited	30 April 2002
6. Merrill Lynch Capital Markets Bank Limited	5 April 2002
7. PSG Investment Bank Limited	31 October 2002
8. Old Mutual Bank Limited	17 December 2002
9. TA Bank of South Africa Limited	5 April 2002

APPENDIX 5

REGISTERED CONTROLLING COMPANIES AS AT 31 DECEMBER 2002

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 Limited	P O Box 86, Cape Town, 8000
5. Capitec Bank Holdings Limited	P O Box 12451, Die Boord, Stellenbosch, 7613
6. FirstRand Bank Holdings Limited	P O Box 1153, Johannesburg, 2000
7. Genbel Securities Limited	P O Box 411420, Craighall, 2006
8. Investec Holdings Limited	P O Box 785700, Sandton, 2146
9. Investec Limited	P O Box 785700, Sandton, 2146
10. Marriott Holdings Limited	P O Box 207, Durban, 4000
11. MEEG Bank Holdings Company Limited	P O Box 412352, Craighall, 2024
12. Mercantile Lisbon Bank Holdings Limited	P O Box 782699, Sandton, 2146
13. Nedcor Investment Bank Holdings Limited	P O Box 582, Johannesburg, 2000
14. Nedcor Limited	P O Box 1144, Johannesburg, 2000
15. NRB Holdings Limited	P O Box 4928, Durban, 4000
16. PSG Investment Bank Holdings Limited	P O Box 987, Parklands, 2121
17. Regal Treasury Bank Holdings Limited	P O Box 3215, Rivonia, 2128
18. Rennie's Bank Holdings Limited	P O Box 87274, Houghton, 2041
19. Saambou Holdings Limited	P O Box 74127, Lynnwood Ridge, 0040
20. Sasfin Holdings Limited	P O Box 95104, Grant Park, 2051
21. Standard Bank Group Limited	P O Box 7725, Johannesburg, 2000
22. TEBA Bank Controlling Company Limited	Private Bag X174, Halfway House, 1685
23. Unibank Group Limited	P O Box 5490, Rivonia, 2128
24. 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

APPENDIX 6

FOREIGN BANKS WITH APPROVED LOCAL REPRESENTATIVE OFFICES

Institution	Address
1. American Express Bank Limited	P O Box 651, Parklands, 2121
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 Espírito Santo e Comercial de Lisboa	P O Box 749, Bruma, 2026
6. Banco Privado Português, SA	P O Box 78407, Sandton, 2146
7. Banco Totta & Açores SA	P O Box 309, Bruma, 2026
8. Bank Austria Aktiengesellschaft	P O Box 1483, Parklands, 2121
9. Bank Leumi Le-Israel BM	P O Box 8214, Johannesburg, 2000
10. Bank of America, National Association	P O Box 653144, Benmore, 2010
11. Bank of Cyprus Group	P O Box 652176, Benmore, 2010
12. Banque Bruxelles Lambert SA	P O Box 650660, Benmore, 2010
13. BNP Paribas Johannesburg	P O Box 653002, Benmore, 2010
14. Barclays Private Bank Limited	P O Box 1542, Saxonwold, 2132
15. Bayerische Hypo- und Vereinsbank AG	P O Box 1483, Parklands, 2121
16. Bayerische Landesbank Girozentrale	P O Box 47337, Parklands, 2121
17. Belgolaise Bank	P O Box 652065, Benmore, 2010
18. Berliner Handels- und Frankfurter Bank	P O Box 782080, Sandton, 2146
19. China Everbright Bank, South African	P O Box 78345, Sandton, 2146
20. Commerzbank AG	P O Box 860, Parklands, 2121
21. Crédit Industriel et Commercial	302 Portofino, 30 9th Street, Killarney, 2193
22. Crédit Lyonnais	P O Box 1059, Cramerview, 2060
23. Credit Suisse	Private Bag X9911, Sandton, 2146
24. Credit Suisse First Boston SA (Pty) Limited	Private Bag 1773, Parklands, 2121
25. Dresdner Bank AG	P O Box 413355, Craighall, 2024
26. Dresdner Kleinwort Wasserstein Limited	P O Box 413355, Craighall, 2146
27. Export-Import Bank of India	P O Box 2018, Saxonwold, 2132
28. Fortis Bank (Nederland) N.V.	P O Box 652065, Benmore, 2010
29. Gerrard Private Bank (Isle of Man) Limited	P O Box 1144, Johannesburg, 2000
30. Gerrard Private Bank (Jersey) Limited	P O Box 1144, Johannesburg, 2000
31. Hambros Bank Limited	P O Box 652275, Benmore, 2010
32. Hellenic Bank Limited	P O Box 783392, Sandton, 2146
33. HSBC Equator Bank Plc	P O Box 3248, Parklands, 2121

APPENDIX 6

FOREIGN BANKS WITH APPROVED LOCAL REPRESENTATIVE OFFICES (continued)

Institution	Address
34. ING Banque Bruxelles Lambert (Suisse) SA	P O Box 65660, Benmore, 2010
35. Kredietbank SA Luxembourgeoise	P O Box 11241, Hatfield, 0028
36. Laiki Banking Group	P O Box 1621, Bruma, 2026
37. Natexis Banques Populaires	P O Box 1414, Morningside, 2057
38. National Bank of Egypt	P O Box 55402, Northlands, 2116
39. National Bank of Malawi	P O Box 412723, Craighall, 2024
40. Royal Bank of Canada	P O Box 652260, Benmore, 2010
41. Royal Bank of Canada Europe Limited	P O Box 784568, Sandton, 2146
42. Société Générale Representative Office for Southern Africa	P O Box 6872, Johannesburg, 2000
43. Standard Chartered Bank	P O Box 2047, Houghton, 2041
44. Sumitomo Mitsui Banking Corporation	Private Bag X134, Bryanston, 2021
45. The Bank of Tokyo-Mitsubishi, Ltd	P O Box 78519, Sandton, 2146
46. The Representative Office for Southern and Eastern Africa of the Export-Import Bank of China	5th Floor, FedSure Towers, 13 Fredman Drive, Sandown, 2196
47. UBS AG	P O Box 652863, Benmore, 2010
48. Union Bank of Nigeria Plc	P O Box 653125, Benmore, 2010
49. Vereins- und Westbank AG	P O Box 1483, Parklands, 2121
50. Vnesheconombank	P O Box 413742, Craighall, 2024
51. Wachovia Bank, NA	P O Box 3009, Parklands, 2121
52. WestLB	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 2000 and 2001 may differ from those reported in the 2000 and 2001 Annual Reports owing to the submission of amended returns by banks after publication of those reports.

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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								
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	66 888	4 240	68 371	746 644
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	78 163	4 352	75 337	805 328
2001:01	63 022	526 930	61 248	21 896	81 903	3 926	89 273	848 198
2001:02	72 684	537 949	64 739	21 016	93 099	3 069	88 977	881 533
2001:03	81 129	564 445	68 548	22 986	110 919	2 833	87 563	938 423
2001:04	88 443	577 658	84 232	28 757	136 086	3 483	91 584	1 010 244
2002:01	94 496	607 977	90 352	24 592	130 068	3 137	92 647	1 043 268
2002:02	97 055	640 957	73 190	30 458	115 294	2 708	96 834	1 056 496
2002:03	91 370	650 973	68 614	24 692	124 246	2 375	100 948	1 063 218
2002:04	85 485	654 884	65 829	37 839	135 833	2 176	101 628	1 083 674
Month-end balance for year								
Dec 2000	42 013	536 438	59 258	25 155	74 589	4 247	77 538	819 238
Dec 2001	87 267	588 873	95 151	32 685	150 982	2 816	92 213	1 049 987
Dec 2002	81 634	662 492	58 405	49 661	143 073	2 131	103 356	1 100 753
Average for 12 months								
2000	41 890	504 002	48 864	25 983	71 683	4 450	69 957	766 829
2001	76 320	551 745	69 692	23 564	79 285	3 328	89 349	919 600
2002	92 101	638 698	74 496	29 395	126 359	2 599	98 014	1 061 663
Percentage annual growth	%	%	%	%	%	%	%	%
2000	13,8	7,5	53,8	51,5	19,4	-48,2	22,6	13,0
2001	107,7	9,8	60,6	29,9	102,4	-33,7	18,9	28,2
2002	-6,5	12,5	-38,6	51,9	-5,2	-24,3	12,1	4,8

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									
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	746 644
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	805 328
2001:01	15 965	33 962	627 817	11 649	111 261	12 280	3 926	31 339	848 198
2001:02	16 711	42 472	646 705	14 678	103 706	11 518	3 070	42 674	881 533
2001:03	17 709	49 453	686 140	14 337	116 612	11 605	2 834	39 734	938 423
2001:04	21 362	49 626	717 525	19 162	148 797	11 695	3 573	38 505	1 010 244
2002:01	21 007	53 452	756 703	18 981	133 853	11 476	3 137	44 657	1 043 268
2002:02	21 768	58 181	776 943	22 187	121 584	12 015	2 708	41 110	1 056 496
2002:03	22 135	46 248	802 755	19 038	120 817	12 382	2 375	37 468	1 063 218
2002:04	24 774	46 117	802 543	28 291	124 684	12 357	2 176	42 732	1 083 674
Month-end balance for year									
Dec 2000	19 851	33 326	612 517	8 597	105 526	11 211	4 247	23 964	819 238
Dec 2001	24 046	51 529	732 811	20 652	168 098	11 851	2 817	38 183	1 049 987
Dec 2002	26 537	47 293	799 787	36 814	132 934	12 523	2 131	42 734	1 100 753
Average for 12 months									
2000	15 313	30 881	585 426	9 438	83 500	10 975	4 450	26 848	766 829
2001	17 937	43 878	669 547	14 957	120 094	11 774	3 351	38 063	919 600
2002	22 421	50 999	784 736	22 124	125 234	12 058	2 599	41 492	1 061 663
Percentage annual growth	%	%	%	%	%	%	%	%	%
2000	9,9	8,5	11,0	22,8	52,9	3,3	-48,2	-18,3	13,0
2001	21,1	54,6	19,6	140,2	59,3	5,7	-33,7	59,3	28,2
2002	10,4	-8,2	9,1	78,3	-20,9	5,7	-24,4	11,9	4,8

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											
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	260 355	31 395	177 138	58 041	526 930	6 021	6 137	12 158	42 772	18 476	61 248
2001:02	270 767	32 261	180 485	54 436	537 949	5 760	5 461	11 221	45 888	18 851	64 739
2001:03	281 278	33 653	189 491	60 023	564 445	5 480	7 117	12 597	47 939	20 609	68 548
2001:04	292 925	34 969	186 638	63 126	577 658	8 906	8 389	17 295	55 509	28 723	84 232
2002:01	319 058	34 906	195 500	58 513	607 977	8 097	5 145	13 242	53 543	36 810	90 352
2002:02	338 398	36 357	214 003	52 199	640 957	10 267	6 777	17 044	40 759	32 431	73 190
2002:03	336 317	37 573	225 440	51 643	650 973	7 415	6 063	13 478	41 563	27 051	68 614
2002:04	325 308	37 435	237 346	54 794	654 884	16 383	9 822	26 205	37 521	28 309	65 829
Month-end balance for year											
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	187 759	62 600	588 873	11 663	8 681	20 344	59 406	35 745	95 151
Dec 2002	334 143	37 083	234 674	56 592	662 492	20 924	16 706	37 630	33 105	25 301	58 405
Average for 12 months											
2000	254 262	30 875	147 855	71 010	504 002	13 563	12 420	25 983	33 984	14 881	48 864
2001	276 331	33 069	183 438	58 907	551 745	6 542	6 776	13 318	48 027	21 665	69 692
2002	329 770	36 568	218 072	54 288	638 698	10 540	6 952	17 492	43 346	31 150	74 496
Percentage annual growth	%	%	%	%	%	%	%	%	%	%	%
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	13,2	-19,8	9,8	-15,4	-23,7	-19,1	42,0	105,3	60,6
2002	10,1	5,6	25,0	-9,6	12,5	79,4	92,4	85,0	-44,3	-29,2	-38,6

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										
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	16 784	83 101	228 027	12 279	15 349	11 149	213 489	60 945	13 306	627 817
2001:02	17 021	86 955	234 430	12 367	14 826	11 487	213 192	70 202	13 775	646 705
2001:03	19 453	90 603	241 304	12 747	15 696	12 194	218 442	89 313	13 612	686 140
2001:04	18 196	93 758	249 142	13 233	15 750	13 231	226 886	101 312	13 984	717 525
2002:01	13 797	96 900	257 159	13 835	15 591	15 912	230 978	128 196	15 666	756 703
2002:02	10 999	100 602	264 684	14 156	19 135	14 398	236 950	132 297	16 278	776 943
2002:03	9 267	103 535	272 226	13 588	21 587	15 114	240 770	143 678	17 010	802 755
2002:04	12 766	106 979	277 261	14 391	20 242	16 323	244 762	127 237	17 417	802 543
Month-end balance for year										
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	95 126	251 948	13 522	15 177	14 149	230 595	109 915	14 130	732 811
Dec 2002	13 408	107 900	279 281	14 640	19 404	16 881	247 689	117 726	17 143	799 787
Average for 12 months										
2000	13 762	77 171	206 115	11 858	17 964	11 468	209 293	50 405	12 609	585 426
2001	17 864	88 604	238 226	12 657	15 405	12 015	218 002	80 443	13 669	669 547
2002	11 707	102 004	267 832	13 992	19 138	15 437	238 365	132 852	16 593	784 736
Percentage annual growth	%	%	%	%	%	%	%	%	%	%
2000	2,3	9,1	11,9	5,0	-32,7	-14,7	9,9	54,3	7,0	11,0
2001	9,9	17,4	15,3	11,2	7,2	36,3	5,6	96,6	8,8	19,6
2002	-18,8	13,4	10,8	8,3	27,8	19,3	7,4	7,1	21,3	9,1

TABLE 5

FUNDING MATURITY STRUCTURE

	Short-term %	Medium-term %	Long-term %
Quarter			
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	13,3
2001:03	64,3	21,4	14,3
2001:04	64,0	21,6	14,4
2002:01	67,2	19,6	13,2
2002:02	67,8	17,3	14,9
2002:03	67,9	16,9	15,2
2002:04	64,6	20,2	15,2
Month-end for year			
Dec 2000	67,7	20,4	11,9
Dec 2001	66,1	20,4	13,5
Dec 2002	65,9	19,3	14,8
Average 12 months			
2000	68,1	19,9	12,0
2001	65,3	21,0	13,7
2002	66,8	18,5	14,7

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								
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	64 009	25 697	89 706	12 408	77 298	10,3	2,0	4,1
2001:02	65 315	22 962	88 276	10 896	77 380	10,9	1,8	3,8
2001:03	64 291	23 702	87 993	12 815	75 178	10,8	2,2	4,0
2001:04	66 875	26 076	92 952	12 456	80 495	10,7	2,0	4,2
2002:01	68 499	26 743	95 242	13 826	81 415	10,5	2,1	4,1
2002:02	67 429	28 025	95 454	11 970	83 483	10,4	1,9	4,3
2002:03	68 108	30 720	98 828	12 388	86 440	10,6	1,9	4,8
2002:04	69 982	31 778	101 760	15 454	86 306	10,8	2,4	4,9
Average for year								
Dec 2000	56 049	20 292	76 341	9 430	66 911	10,6	1,8	3,8
Dec 2001	65 123	24 609	89 732	12 144	77 588	10,7	2,0	4,0
Dec 2002	68 505	29 316	97 821	13 410	84 411	10,6	2,1	4,5
Percentage annual growth	%	%	%	%	%			
2000	22,2	14,8	20,2	43,6	17,5			
2001	16,2	21,3	17,5	28,8	16,0			
2002	5,2	19,1	9,0	10,4	8,8			

TABLE 7

RISK PROFILE OF ASSETS

	Risk category						Total R million	Risk-weighted assets R million	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			
Average month-end balance for quarter									
2000:01	97 880	16 180	63 504	157 021	401 533	3 663	739 781	540 150	73,0
2000:02	103 010	16 727	64 071	156 916	401 662	4 256	746 643	547 807	73,4
2000:03	115 211	14 868	69 085	158 673	412 923	4 808	775 567	567 663	73,2
2000:04	119 541	13 728	74 195	162 339	429 304	6 220	805 326	604 436	75,1
2001:01	113 586	17 090	53 985	156 846	433 790	-	775 297	524 719	67,7
2001:02	132 612	11 789	60 603	160 823	446 365	-	812 193	540 076	66,5
2001:03	152 012	11 434	68 193	165 066	458 779	-	855 485	556 094	65,0
2001:04	167 113	12 237	73 299	168 908	480 037	-	901 595	580 375	64,4
2002:01	199 861	11 143	75 403	174 497	499 030	-	959 935	602 474	62,8
2002:02	221 504	10 579	73 365	179 249	492 132	-	976 828	597 487	61,2
2002:03	241 326	9 247	65 150	185 047	496 765	-	997 535	603 244	60,5
2002:04	239 319	9 961	65 277	187 832	503 822	-	1 006 211	611 789	60,8
Month-end balance for year									
Dec 2000	126 176	13 700	75 071	162 867	435 004	6 420	819 238	613 072	74,8
Dec 2001	179 735	13 391	72 952	169 680	492 310	-	928 067	593 079	63,9
Dec 2002	231 487	10 099	66 250	190 070	509 710	-	1 007 616	619 005	61,4
Average for 12 months									
2000	108 910	15 376	67 714	158 737	411 356	4 737	766 829	565 017	73,7
2001	141 331	13 138	64 020	162 911	454 743	-	836 142	550 316	65,8
2002	225 503	10 233	69 799	181 656	497 937	-	985 127	603 749	61,3
Percentage annual growth	%	%	%	%	%	%	%	%	
2000	27,9	-8,2	28,3	6,2	9,8	90,8	13,0	16,1	
2001	42,4	-2,3	-2,8	4,2	13,2	-	13,3	-3,3	
2002	28,8	-24,6	-9,2	12,0	3,5	-	8,6	4,4	

TABLE 8

RISK PROFILE OF OFF-BALANCE-SHEET ITEMS

	Risk category							Risk-weighted off-balance-sheet items R million	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		
Average month-end balance for quarter									
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	41 419	47,0
2000:04	14 845	2 357	2 069	6 525	57 000	14 410	97 205	44 539	45,8
2001:01	20 859	3 461	3 626	5 907	54 462	14 341	102 656	43 289	42,2
2001:02	27 636	4 464	1 926	5 133	50 013	15 614	104 785	42 063	40,1
2001:03	79 638	15 680	2 503	4 511	47 559	18 139	168 031	43 855	26,1
2001:04	390 143	501	2 940	7 091	48 242	17 051	465 968	42 909	9,2
2002:01	846 816	353	3 137	7 194	54 238	13 615	925 352	42 504	4,6
2002:02	1 265 945	481	3 269	6 668	57 838	15 016	1 349 217	45 620	3,4
2002:03	1 167 099	451	2 879	7 331	55 149	16 705	1 249 613	46 056	3,7
2002:04	1 210 526	344	2 003	6 467	57 370	17 265	1 293 975	47 461	3,7
Month-end balance for year									
2000	15 530	2 348	2 812	6 211	61 788	12 780	101 470	45 315	44,7
2001	615 550	278	3 437	8 870	50 194	18 252	696 580	45 481	6,5
2002	1 224 511	234	1 716	6 240	57 346	17 301	1 307 347	47 405	3,6
Average for year									
2000	13 528	2 712	1 299	5 796	47 401	15 039	85 775	40 164	46,8
2001	129 569	6 026	2 749	5 661	50 069	16 286	210 360	43 029	20,5
2002	1 122 596	407	2 822	6 915	56 149	15 650	1 204 540	45 410	3,8
Percentage annual growth	%	%	%	%	%	%	%	%	
2000	40,4	-31,7	298,4	17,0	44,0	-25,4	26,0	13,6	
2001	3863,7	-88,2	22,2	42,8	-18,8	42,8	586,5	0,4	
2002	98,9	-15,6	-50,1	-29,7	14,2	-5,2	87,7	4,2	

TABLE 9(a)

RISK PROFILE OF LOANS AND ADVANCES

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

TABLE 9(b)

RISK PROFILE OF LOANS AND ADVANCES

							Risk-weighted loans and advances R million	Risk-weighted loans and advances as percentage of total loans and advances %
	0% R million	10% R million	20% R million	50% R million	100% R million	Total R million		
Month-end balance for year 2001								
Intragroup bank advances	22 892	0	61	0	0	22 952	12	0,1
Interbank advances	19	2 255	22 042	7	0	24 322	4 637	19,1
Negotiable certificates of deposits	493	0	10 486	0	287	11 267	2 384	21,2
Instalment debtors	24	80	19	0	93 555	93 678	93 567	99,9
Mortgage loans	6	26	32	166 892	83 503	250 459	166 958	66,7
Credit-cards 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	11 759	13 773	12 089	87,8
Overdrafts and loans	4 316	7 029	406	0	209 971	221 722	210 755	95,1
Foreign-currency loans and advances	50 833	535	33 455	0	18 109	102 932	24 854	24,1
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	87 934	10 842	70 136	167 324	437 288	773 523	536 061	69,3
Less: Specific provisions	12	0	0	129	13 741	13 881	13 805	99,5

TABLE 9(c)

RISK PROFILE OF LOANS AND ADVANCES

							Risk-weighted loans and advances	Risk-weighted loans and advances as percentage of total loans and advances
Month-end balance for year 2002	0% R million	10% R million	20% R million	50% R million	100% R million	Total R million	R million	%
Intragroup bank advances	26 860	0	40	0	1 486	28 385	1 494	5,3
Interbank advances	144	0	17 998	0	22	18 164	3 622	19,9
Negotiable certificates of deposits	251	0	9 144	0	89	9 485	1 918	20,2
Instalment debtors	30	175	3	25	106 022	106 255	106 052	99,8
Mortgage loans	0	37	25	185 686	92 248	277 996	185 100	66,6
Credit-cards debtors	0	0	0	0	14 570	14 570	14 570	100,0
Acknowledgements of debt discounted	9 761	875	1 934	0	6 448	19 019	6 922	36,4
Redeemable preference shares	928	0	125	564	14 654	16 270	14 961	92,0
Overdrafts and loans	2 617	7 309	4 021	0	223 327	237 274	224 862	94,8
Foreign-currency loans and advances	82 405	205	28 901	4	9 062	120 577	14 864	12,3
Loans granted under resale agreements	14 414	0	895	0	250	15 560	429	2,8
S A Reserve Bank and Corporation for Public Deposits	3 087	0	0	0	0	3 087	0	0,0
Banks	6 873	0	893	0	13	7 780	192	2,5
Non-banks	4 454	0	2	0	237	4 693	237	5,1
Total loans and advances	137 412	8 601	63 087	186 279	468 177	863 556	574 794	66,6
Less: Specific provisions	0	0	0	35	17 274	17 309	17 292	99,9

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	Percentage
Quarter						
2000:01	512 705	4 905	517 610	41 462	63 092	12,3
2000:02	509 954	5 815	515 769	41 312	65 252	12,8
2000:03	527 774	6 219	533 993	42 759	67 035	12,7
2000:04	541 738	5 255	546 992	43 814	72 265	13,3
2001:01	616 988	7 755	609 232	49 964	54 226	8,8
2001:02	597 752	8 176	589 576	48 189	52 919	8,9
2001:03	605 179	7 078	598 102	48 906	52 266	8,6
2001:04	644 439	22 358	622 081	72 687	55 808	8,7
2002:01	656 582	23 089	633 493	65 970	56 753	8,6
2002:02	648 393	16 989	631 404	65 139	57 640	8,9
2002:03	641 302	14 703	626 599	64 436	55 831	8,7
2002:04	653 978	17 113	636 865	65 524	65 524	10,0
Average for year						
2000	523 043	5 548	528 591	42 337	66 911	12,8
2001	616 089	11 342	604 748	54 936	53 805	8,7
2002	650 064	17 974	632 090	65 267	58 937	9,1
Percentage annual growth	%	%	%	%	%	
2000	8,5	-11,9	8,2	8,2	17,5	
2001	19,0	325,5	13,7	65,9	-22,8	
2002	1,5	-23,5	2,4	-9,9	17,4	

TABLE 11(a)

COMPOSITION OF INCOME STATEMENT

	Average monthly balance for quarter 2000				Average monthly balance for quarter 2001			
	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	6511	6689	6873	7175	7436	7715	7735	7627
Interest expense	4787	4836	5047	5211	4707	4968	5313	5275
Interest margin	1723	1853	1827	1964	2729	2748	2422	2352
Less: Specific provisions on loans and advances	546	572	412	587	469	773	831	723
Less: General debt provisions	162	17	11	35	84	95	71	225
Other	25	31	38	24	15	4	22	74
Adjusted interest margin	990	1233	1366	1318	2161	1876	1498	1330
Add: Transaction-based fee income	1156	1125	1243	1335	1344	1112	1424	1559
Income from management of funds	2146	2358	2609	2653	3505	2988	2922	2889
Less: Operational expenses	2584	2551	2595	2836	2795	3036	3014	3213
Net income from management of funds	-439	-193	14	-183	710	-48	-93	-324
Add: Investment and trading income	1213	840	1071	856	889	254	906	1253
Less: Specific provisions-investment	3	2	0	0	100	-54	0	14
Add: Knowledge-based fee income	145	187	175	188	183	218	414	273
Net income before tax	916	831	1259	861	1406	14	754	1313
Taxation	274	210	302	248	270	244	294	376
Net income after tax	641	621	958	613	1136	-230	460	937

TABLE 11(b)

COMPOSITION OF INCOME STATEMENT

	Average monthly balance for quarter 2002				Results for 12 months			Average for year		
	March R million	June R million	September R million	December R million	2000 R million	2001 R million	2002 R million	2000 R million	2001 R million	2002 R million
Interest income	7973	8748	10362	11315	81744	91539	115196	6812	7628	9600
Interest expense	5765	6416	8021	8118	59643	60788	84959	4970	5066	7080
Interest margin	2209	2332	2341	3197	22101	30751	30237	1842	2563	2520
Less: Specific provisions on loans and advances	1634	548	445	776	6351	8388	10209	529	699	851
Less: General debt provisions	103	-79	79	80	675	1427	551	56	119	46
Other	-3	5	16	-29	354	347	-31	30	29	-3
Adjusted interest margin	474	1858	1801	2370	14721	20593	19509	1227	1716	1626
Add: Transaction-based fee income	1462	1589	1654	1840	14577	16319	19635	1215	1360	1636
Income from management of funds	1936	3447	3455	4211	29298	36912	39144	2442	3076	3262
Less: Operational expenses	3134	3379	3312	3396	31698	36177	39665	2642	3015	3305
Net income from management of funds	-1198	67	143	815	-2403	735	-521	-200	61	-43
Add: Investment and trading income	-1427	957	905	-515	11940	9905	-239	995	825	-20
Less: Specific provisions-investment	-10	0	4	-5	15	177	-30	1	15	-3
Add: Knowledge-based fee income	215	293	206	283	2085	3263	2991	174	272	249
Net income before tax	-281	883	1174	1196	11601	10459	8917	967	872	743
Taxation	291	251	257	556	3102	3552	4066	259	296	339
Net income after tax	-573	632	917	641	8499	6908	4851	708	576	404

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				
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	4,6	1,1
2001:02	12,7	8,5	4,2	0,9
2001:03	11,5	8,4	3,1	1,1
2001:04	11,1	7,9	3,3	1,3
2002:01	10,8	7,9	2,9	2,2
2002:02	11,7	8,7	3,0	0,7
2002:03	13,9	10,8	3,1	0,7
2002:04	14,6	10,6	4,0	0,9
Results for the 12 months ended				
December 2000	12,5	8,4	4,1	1,2
December 2001	10,9	7,4	3,5	1,1
December 2002	12,5	9,1	3,4	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								
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	7,3	9,9	6,8	3,1	3,9	2,4	1,2
2001:04	1,4	13,8	9,1	6,3	2,8	3,8	2,2	1,5
2002:01	-0,7	-8,3	9,2	6,6	2,5	3,6	1,9	-1,6
2002:02	0,7	8,9	9,9	7,3	2,6	3,8	2,1	1,1
2002:03	1,0	12,3	11,7	9,1	2,6	3,7	2,1	1,0
2002:04	0,7	8,7	12,5	9,0	3,5	3,8	2,4	-0,6
Results for the 12 months ended								
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
December 2002	0,4	5,4	10,5	7,7	2,8	3,6	2,1	0,0

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											
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	7,1	33,6	34,3	2,2	2,4	1,6	28,1	3,8	0,5	1,7	4,1
2001:02	8,0	13,2	34,0	2,2	1,8	1,6	28,5	3,8	0,8	1,7	4,4
2001:03	3,9	13,0	32,9	2,2	2,0	1,5	31,2	4,6	0,6	2,0	6,5
2001:04	4,5	13,3	31,9	2,3	3,0	1,4	32,3	4,0	0,9	1,7	4,7
2002:01	4,9	13,7	32,6	2,3	2,0	1,5	32,3	3,9	0,8	1,4	4,7
2002:02	5,7	13,8	33,5	2,1	2,2	1,5	30,9	4,1	0,8	1,1	4,3
2002:03	9,9	12,5	32,1	1,9	2,1	2,8	30,0	4,5	0,8	0,8	2,5
2002:04	12,4	12,7	31,4	1,9	2,1	-0,1	28,7	3,8	1,1	1,0	5,2
Results for the 12 months ended											
December 2000	6,8	14,0	35,0	2,3	2,8	1,6	32,5	3,9	1,0	-	-
December 2001	6,0	13,2	33,3	2,2	2,3	1,5	30,1	4,1	0,7	1,8	4,9
December 2002	8,6	13,1	32,3	2,0	2,1	1,4	30,3	4,1	0,9	1,0	4,2

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											
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	30,6	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	3,8	7,8	32,6	2,1	28,4	8,7	1,6	6,1	5,3	-1,2	4,7
2001:04	3,6	8,3	31,7	2,0	27,3	10,0	1,8	7,7	5,1	-2,9	5,5
2002:01	4,4	7,6	34,9	2,2	26,6	7,8	1,7	8,4	4,2	-2,4	4,8
2002:02	3,8	7,5	37,0	2,5	28,5	6,3	2,4	6,5	3,7	-2,9	4,5
2002:03	6,7	9,4	34,1	2,2	26,7	5,5	1,8	9,8	2,7	-3,2	4,2
2002:04	8,5	4,2	35,1	2,6	29,1	6,0	2,4	8,6	2,8	-3,4	4,2
Results for the 12 months ended											
December 2000	3,2	3,7	36,1	2,3	25,7	11,2	2,0	6,5	5,4	-	3,9
December 2001	3,1	7,9	34,4	2,2	29,2	9,2	1,8	2,8	5,6	-1,4	5,0
December 2002	6,1	7,1	35,2	2,4	27,7	6,3	2,1	8,4	3,2	-3,0	4,4

TABLE 16(a)

CALCULATION OF LIQUID-ASSET REQUIREMENT

	Average month-end balance for quarter 2000				Average month-end balance for quarter 2001			
	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	739 781	746 643	775 567	805 326	835 398	872 360	918 056	975 445
Less: Capital and reserves	64 669	68 371	71 450	75 337	88 360	89 047	87 251	91 909
- average daily amount of funding from head office or branches					7 408	7 918	10 645	15 672
- average daily amount owing by banks branches and mutual banks					62 872	73 680	89 983	87 171
Liabilities as adjusted	675 112	678 272	704 117	729 990	676 757	701 715	730 177	780 695
Liquid-asset requirement	33 756	33 914	35 206	36 500	33 838	35 086	36 509	39 109
Liquid-assets held	38 535	37 128	38 379	39 001	39 042	39 088	42 460	42 989
SARB notes and coins	8	9	70	63	90	95	873	1 841
Gold coin and bullion	0	0	0	0	5	6	5	6
Clearing-account balances	24	26	22	62	1	22	4	5
Treasury bills of the Republic	16 090	13 865	13 809	15 545	16 086	13 867	14 361	12 021
Stock issued - Exchequer Act, 1975	18 792	19 912	21 480	20 280				
Securities issued - Public Finance Management Act, 1999					20 274	22 168	24 247	27 224
Securities of the SARB	881	860	711	941	630	967	1 071	761
Land Bank bills	2 585	2 457	2 288	2 110	1 984	1 964	1 899	1 131
Memorandum items								
Cash-management schemes	38 961	38 490	39 046	38 925	39 883	41 150	41 713	42 679
Set-off	54 138	62 586	65 011	68 204	79 198	83 014	67 867	76 240
Ratios	%	%	%	%	%	%	%	%
Liquid assets held to liquid assets required	114,2	109,5	109,0	106,9	115,4	111,4	116,3	109,9

TABLE 16(b)

CALCULATION OF LIQUID-ASSET REQUIREMENT

	Average month-end balance for quarter 2002				Month-end for year			Percentage annual growth		
	March R million	June R million	September R million	December R million	2000 R million	2001 R million	2002 R million	2000 %	2001 %	2002 %
Liabilities including capital and reserves	1 036 042	1 044 362	1 050 960	1 076 739	819 238	1 006 335	1 093 356	13,0	22,8	8,6
Less: Capital and reserves	92 765	97 167	101 895	101 849	77 538	94 373	101 766	22,6	21,7	7,8
- average daily amount of funding from head office or branches	14 800	9 375	10 088	16 560	-	16 979	16 144	-	-	-4,9
- average daily amount owing by banks branches and mutual banks	98 741	90 603	80 663	86 314	-	92 585	90 624	-	-	-2,1
Liabilities as adjusted	829 737	847 217	858 314	872 015	741 700	802 397	884 822	12,1	8,2	10,3
Liquid-asset requirement	41 487	42 361	42 916	43 601	37 085	40 120	44 241	12,1	8,2	10,3
Liquid-assets held	42 676	42 241	50 299	50 047	38 486	44 339	51 172	-3,9	15,2	15,4
SARB notes and coins	1 970	1 722	2 332	3 685	61	1 969	3 581	-	-	81,8
Gold coin and bullion	11	11	7	6		11	10	-13,5		-6,4
Clearing-account balances	9	11	1	0	27	6	0	3,2	-79,3	-98,7
Treasury bills of the Republic	10 916	13 568	14 959	15 299	16 716	10 962	16 031	-3,3	-34,4	46,2
Stock issued - Exchequer Act, 1975					18 820	-	-	-	-	-
Securities issued - Public Finance Management Act, 1999	26 892	23 179	27 985	25 792	-	29 292	26 440	-	-	-9,7
Securities of the SARB	1 738	2 540	4 090	4 368	844	1 033	4 184	-14,2	22,4	305,0
Land Bank bills	1 139	1 210	926	896	2 018	1 067	927	-24,0	-47,1	-13,1
Memorandum items										
Cash-management schemes	42 716	42 732	42 817	45 625	37 507	45 205	48 697	-14	20,5	7,7
Set-off	78 870	81 238	81 256	67 199	72 489	79 531	59 594	-24	9,7	-25,1
Ratios	%	%	%	%	%	%	%			
Liquid assets held to liquid assets required	102,9	99,7	117,2	114,8	103,8	110,5	115,7			

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						
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
2002:01	8 879	2 878	14 413	26 170	12 659	11 693
2002:02	8 364	2 743	15 208	26 315	14 024	11 153
2002:03	8 156	2 399	16 483	27 037	14 647	10 379
2002:04	8 405	2 073	15 655	26 134	14 254	10 411
Average for year						
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
2002	8 451	2 523	15 440	26 414	13 896	10 909
Percentage annual growth	%	%	%	%	%	%
2000	-11,6	-6,9	7,2	-2,4	8,2	-4,1
2001	-	-	-	-	-	-
2002	-4,3	-27,7	7,6	-0,2	18,3	-13,1

Note: In the amended 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					
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	94,2	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	45,9	91,7	3,2	1,5	17,3
2002:01	48,4	93,1	3,7	1,8	16,0
2002:02	53,3	95,7	3,6	1,9	13,6
2002:03	54,2	92,6	3,5	1,9	14,6
2002:04	54,5	94,4	3,2	1,5	13,7
Average for year					
2000	43,7	97,8	4,5	2,0	18,0
2001	45,0	93,3	3,5	1,6	18,5
2002	51,9	93,9	3,5	1,8	14,5

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					
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	1033,0
2000:04	689,984	194 041	29,1	270,8	962,8
2001:01	1 287 057	125 791	18,0	165,7	1 694,9
2001:02	1 396 418	139 732	19,1	186,5	1 864,1
2001:03	1 393 886	160 084	20,8	208,7	1 816,8
2001:04	1 424 052	178 866	21,8	218,8	1 742,3
2002:01	1 474 886	193 166	22,5	225,1	1 718,5
2002:02	551 985	188 501	21,2	217,5	636,9
2002:03	522 116	157 145	17,6	180,8	600,7
2002:04	514 160	147 133	16,3	163,2	570,2
Average for year					
2000	634 253	172 824	26,8	261,4	959,9
2001	1 375 353	151 118	19,9	194,9	1 779,5
2002	765 787	171 486	19,4	196,6	881,6
Percentage annual growth	%	%			
2000	38,3	27,4			
2001	106,4	-7,8			
2002	-63,9	-17,7			

TABLE 20

PROFITABILITY OF ASSETS

	Money R million	Advances			Investments		Infra- structure R million	Total R million
		Reasonable margin R million	Small margin R million	No yield R million	Profitable R million	Not profitable R million		
Quarter								
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	15 702	659 638	54 373	20 903	37 921	11 324	54 222	854 018
2001:02	16 274	688 005	69 850	20 250	34 010	8 517	57 351	894 257
2001:03	18 121	736 120	66 542	22 134	40 855	11 393	52 316	947 480
2001:04	24 014	800 904	60 023	20 901	83 738	4 374	52 789	1 046 744
2002:01	22 407	808 149	76 219	26 311	48 781	7 381	57 747	1 046 996
2002:02	21 811	847 513	67 370	25 968	31 481	14 170	55 241	1 063 552
2002:03	23 606	838 350	83 450	29 412	29 206	13 674	52 330	1 070 028
2002:04	26 537	844 033	90 453	35 900	37 835	7 635	57 329	1 099 722
Average for year								
2000	15 926	632 157	39 591	14 983	25 392	6 549	40 890	775 488
2001	18 528	721 167	62 697	21 047	49 131	8 902	54 169	935 625
2002	23 590	834 511	79 373	29 398	36 342	10 715	55 662	1 070 075
Percentage annual growth	%	%	%	%	%	%	%	%
2000	10,1	14,4	4,5	24,9	38,5	213,8	-10,9	13,3
2001	21,0	20,9	38,8	33,9	197,1	-55,9	34,8	27,9
2002	10,5	5,4	50,7	71,8	-54,8	74,6	8,6	5,1

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							
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	7 183	6 903	280	148 044	148 230	-186	44
2001:02	8 113	7 328	785	152 035	152 743	-708	36
2001:03	9 779	7 335	2 445	171 453	173 867	-2 415	30
2001:04	8 746	7 331	1 416	161 092	162 531	-1 439	40
2002:01	10 282	7 140	3 142	126 386	126 630	-244	39
2002:02	11 870	6 290	5 580	133 101	133 774	-673	39
2002:03	12 809	5 853	6 956	153 357	155 701	-2 344	38
2002:04	12 612	6 181	6 431	142 305	143 637	-1 333	44
Month-end balance for year							
Dec 2000	7 299	7 370	-72	138 337	138 559	-221	36
Dec 2001	8 231	7 284	947	132 255	133 099	-844	42
Dec 2002	12 570	5 884	6 685	96 670	103 275	-6 604	44
Average for year							
2000	7 242	6 619	623	136 971	137 736	-766	26
2001	8 455	7 224	1 131	158 156	159 343	-1 187	38
2002	11 893	6 366	5 527	138 787	139 936	-1 148	40
Percentage annual growth	%	%	%	%	%	%	%
2000	20,3	24,4	-149,3	12,4	12,1	-54,9	557,1
2001	12,8	-1,2	1 424,3	-4,4	-3,9	-281,4	17,8
2002	44,2	-15,7	354,3	-11,7	-11,6	-7,3	9,0

APPENDIX 8

CIRCULARS SENT TO BANKING INSTITUTIONS DURING 2002

Banks Act Circular 1/2002	Annual withdrawal and retention of circulars
Banks Act Circular 2/2002	Procedure to be followed in respect of applications in terms of the provisions of sections 37, 52 and/or 54 of the Banks Act, 1990 (Act No. 94 of 1990)
Banks Act Circular 3/2002	Proposed amendments to the Regulations relating to Banks and the Regulations relating to Capital-adequacy Requirements ("CAR") for Banks' Trading Activities in Financial Instruments
Banks Act Circular 4/2002	Amended Requirements for Representative Offices of Banks in the United Kingdom after 30 November 2001
Banks Act Circular 5/2002	Implementation of the new Basel Accord
Banks Act Circular 6/2002	Requirements for completion of the statement and declaration of the form DI 020 of the Regulations relating to Banks and the Regulations relating to Mutual Banks, and of the forms RO 003 and RO 004 of the Regulations relating to Representative Offices of Foreign Banking Institutions
Banks Act Circular 7/2002	Warning to act with caution with regard to stationery of representative office of HSBC Equator Bank plc
Banks Act Circular 8/2002	Applications in terms of the provisions of sections 37, 52 and/or 54 of the Banks Act, 1990 (Act No. 94 of 1990)
Banks Act Circular 9/2002	Accounting treatment of operational cost: cost-to-income ratio
Banks Act Circular 10/2002	Disclosure of repurchase and resale agreements and similar transactions
Banks Act Circular 11/2002	Electronic submission of amended DI returns to provide for the regulatory and supervisory treatment of credit risk-mitigation instruments, including credit-derivative instruments, to this Office by banks and branches of foreign banks
Banks Act Circular 12/2002	Warning to act with caution with regard to certain foreign currency notes and travellers cheques
Banks Act Circular 13/2002	Implementation of anti-money-laundering measures

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	Financial service co-operative	(dd)(i)	2003/12/31
2000/12/28	21942	The National Housing Finance Corporation Limited	(dd)(i)	2003/12/31
2001/04/20	22248	Ithala Development Finance Corporation Limited	(dd)(i)	2002/12/31
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 coordinating 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 Exchange Act, 1964	No. 34 of 1964	(D)
4. Financial Services Board Act, 1990	No. 97 of 1990	(B)
5. Participation Bonds Act, 1981	No. 55 of 1981	(B)
6. Financial Institutions (Protection of Funds) Act, 2001	No. 280 of 2001	(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 Road 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.
- (D) Administered by the National Treasury of South Africa.

APPENDIX 11

APPROVAL OF ACQUISITION OR ESTABLISHMENT OF FOREIGN BANK- ING INTERESTS IN TERMS OF SECTION 52 OF THE BANKS ACT, 1990, FROM 1 JANUARY 2002 TO 31 DECEMBER 2002

Name of bank/ controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Country
FirstRand Bank Holdings Limited	2002-02-14	RMB Mauritius Limited (formerly RMB International Mauritius Bank Limited)	Mauritius
FirstRand Bank Holdings Limited	2002-09-18	Marketplace International Company Limited and its various subsidiaries	Various
FirstRand Bank Holdings Limited	2002-10-16	Katrina Holdings Limited	Jersey
FirstRand Bank Holdings Limited	2002-10-16	Ansbacher Property Holdings Limited	Jersey
FirstRand Bank Holdings Limited	2002-10-16	Ansbacher Property Developments Limited	Jersey
FirstRand Bank Holdings Limited	2002-10-16	Ansbacher (Caribbean) Limited	Jersey
FirstRand Bank Holdings Limited	2002-11-11	RMB Resources Capital Management (Pty) Limited	Australia
FirstRand Bank Holdings Limited	2002-11-25	Ansbacher (Channel Islands) Holdings Limited	Guernsey
FirstRand Bank Holdings Limited	2002-12-13	- Polaris Limited - Perseus Limited	Guernsey
Genbel Securities Limited	2002-02-13	- Gensec UK Holdings Limited (formerly Donerrly Limited) - Fieldstone Inc and subsidiaries	United Kingdom United States of America
Genbel Securities Limited	2002-02-18	Hichens, Harrison and Co Plc	United Kingdom
Genbel Securities Limited	2002-03-11	Tasc Administration (Dublin) Limited	Ireland
Genbel Securities Limited	2002-08-01	Donerrly LLC	United States of America
Investec Group Limited	2002-01-24	Investec Property (Grosvenor House) Limited	United Kingdom
Investec Group Limited	2002-02-14	European Capital Company Limited	United Kingdom
Investec Group Limited	2002-03-05	- Investec PMG LLC - Investec PMG Holdings Corporation	United States of America
Investec Group Limited	2002-06-07	Investec Property (Crawley) Limited	United Kingdom
Investec Group Limited	2002-06-07	Investec Property (Aztec West) Limited	United Kingdom
Investec Group Limited	2002-07-17	Investec Fund Managers Botswana (Pty) Limited	Botswana
Investec Group Limited	2002-10-11	Namibian Minerals Corporation (0,58 per cent)	Namibia
Investec Group Limited	2002-12-30	Investec Trust (Mauritius) Limited	Mauritius
Nedcor Limited	2002-03-11	- Nihilent Technologies Incorporated - Nihilent UK	United States of America United Kingdom
Nedcor Limited	2002-03-11	Net 1 Holdings SARL (25 per cent)	Luxembourg
Nedcor Limited	2002-03-12	Fairbairn Trust Company Limited	Guernsey
Nedcor Limited	2002-06-20	- Tando - eProcDevCo/Card - eProcDevCo/Switzerland	Switzerland
Nedcor Limited	2002-10-15	Acturis Limited	United Kingdom

APPENDIX 11

APPROVAL OF ACQUISITION OR ESTABLISHMENT OF FOREIGN BANK- ING INTERESTS IN TERMS OF SECTION 52 OF THE BANKS ACT, 1990, FROM 1 JANUARY 2002 TO 31 DECEMBER 2002 (continued)

Name of bank/ controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Country
PSG Investment Bank Holdings Limited	2002-03-26	PSG Doyle (Pty) Limited (formerly PSG Doyle Capital (Pty) Limited) (65 per cent)	Australia
PSG Investment Bank Holdings Limited	2002-09-19	Newco	Australia
Standard Bank Group Limited	2002-01-28	Uganda Commercial Bank Limited (80 per cent)	Uganda
Standard Bank Group Limited	2002-02-14	Standard Infrastructure Fund Managers (Africa) Limited (formerly Standard Infrastructure Finance Managers (Africa) Limited) (70 per cent)	Mauritius
Standard Bank Group Limited	2002-05-07	Standard Nominees Swaziland Limited (20 per cent)	Swaziland
Standard Bank Group Limited	2002-05-07	Swaziland Automated Electronic Clearing House (Pty) Limited	Swaziland
Standard Bank Group Limited	2002-07-24	Banco Standard de Investimentos Sociedade Anônima	Brazil
Standard Bank Group Limited	2002-05-20	Standard Bank Asia Limited - Isle of Man Branch	Isle of Man
Standard Bank Group Limited	2002-06-03	Zambia Financial Type Clearing Bureau Limited (15 per cent)	Zambia
Standard Bank Group Limited	2002-06-03	Standard Bank Moscow (to be named ZAO Standard Bank)	Russia
Standard Bank Group Limited	2002-08-01	- Standard Bank Properties (Mozambique) Limitada - Property 395 Maputo EDM Limitada	Mozambique
Standard Bank Group Limited	2002-08-01	Standard London (Asia) Sendirian Berhad	Malaysia
Standard Bank Group Limited	2002-09-19	- Standard Nominees (Mauritius) Limited - Standard Nominees (Indian Ocean) Limited	Mauritius
Standard Bank Group Limited	2002-09-19	Standard Bank London Limited – Romania Representative Office	Romania
Standard Bank Group Limited	2002-11-01	CBM Nominees Limited	Malawi
Standard Bank Group Limited	2002-11-07	Standard Bank London Limited – Mexico Representative Office	Mexico
Standard Bank Group Limited	2002-12-13	- Risk and Treasury Holdings Botswana Pty) Limited - Risk and Treasury Services (Pty) Limited - Risk and Treasury Services Corporate Finance (Pty) Limited - Risk and Treasury Services Special Projects (Pty) Limited	Botswana