Annual Report 2003

Bank Supervision Department

South African Reserve Bank

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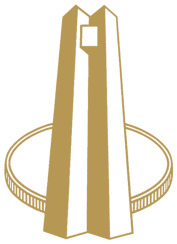

South African Reserve Bank

Mission

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

Business philosophy

Market principles underlie all activities and decisions, and we strive to act with professionalism, integrity, credibility and impartiality at all times. We liaise with each individual bank through a single point of entry – a relationship manager, assisted by a team with diverse competencies. We follow a risk-based management approach, not one of inspection, and our objective is to add value. Consequently, our role is that of a "watchdog", not that of a "bloodhound". We place emphasis on empowering our staff to ensure that all interaction and service delivery is characterised by professionalism, and a high premium is placed 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.

Need for sound corporate governance

The negative consequences of poor corporate governance and the need for high standards of corporate governance continued to receive attention, locally and abroad. It is therefore deemed appropriate to highlight some thoughts on corporate governance and the role of boards and shareholders in that regard.

"If one accepts the argument for principle-based standards, their success depends on three key corporate governance controls. There must be senior management in companies who want to get the right answer. There must be auditors who are independent of management, and aware of their broader public role in support of efficient capital markets and the interests of investors. And there must be an independent-minded audit committee, or the equivalent, to monitor the relationship between management and auditors." In praise of International Accounting Standards. Speech by Howard Davies, former Chairperson of the Financial Services Authority in the United Kingdom, at the NASP Symposium on Global Adoption of International Accounting Standards, Harvard University, 3 February 2003.

"Long before anyone had heard of corporate governance, the common law of this country [the United Kingdom] required directors of all companies to display two things. The first was loyalty which meant avoiding conflicts of interest and acting with integrity in the interests of all the shareholders. The second was skill and care. The courts did not expect all directors to be geniuses or experts but they did expect them to use the knowledge and skills they actually had to the best benefit of the company.

I regard these like a suit of armour. Without them one should not enter battle. They sound obvious, but when we consider loyalty we run into behavioural problem # 1.

In many cultures people have been conditioned from earliest youth to put one's loyalty to one's family or social grouping before all else.

As a director of a bank you can't, and you have to make sure that your staff don't. There can be no compromise. Whatever the ties of blood or friendship or party the normal rules and conditions must apply." Dr Jonathan Charkham, CBE, Former Chief Advisor to the Governor of the Bank of England, at the High Level Working Meeting: Corporate Governance of Banks, hosted by the Corporation of London, and convened by the World Bank's Financial Sector Vice Presidency and the Global Corporate Governance Forum, Guildhall, London, 13 May 2004.

The following remark, highlighting an aspect that is unfortunately not uncommon, may also be worth noting:

"The salary of the chief executive of a large corporation is not a market award for achievement. It is frequently in the nature of a warm personal gesture by the individual to himself." John Kenneth Galbraith, *"Annals of an abiding liberal"*, Houghton Mifflin, 1979.

South African Reserve Bank

Bank Supervision Department

Annual report for the calendar year ended 31 December 2003
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 2003 to 31 December 2003.

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Chapter 1

Registrar's review

The year under review was somewhat less turbulent for the South African financial system and banking sector than the preceding two years. Whereas the latter part of 2001 was characterised by a significant depreciation of the South African currency, and the main feature of 2002 was consolidation in the country's banking sector, following a liquidity crisis among small and mid-sized banks, 2003 was marked by greater stability. This made possible a number of cuts in interest rates as a result of a decline in the inflation rate in South Africa.

2003 was marked by greater stability

The Bank Supervision Department saw a changing of the guard. Mr Christo Wiese, who had been the Registrar of Banks since November 1994, retired at the end of October 2003, and my appointment as Registrar became effective on 1 November 2003.

issues reviewed

Among the issues reviewed in this chapter are a modification of the Department's supervisory approach and the charter developed by the South African financial sector to advance black economic empowerment. Other issues highlighted include the findings of a review of corporate governance in large South African banks and how the case of the failed Saambou Bank Limited was resolved.

Overview of the South African banking system

banks remained well capitalised

During the year under review, South African banks remained well capitalised. Although the average risk-weighted capital-adequacy ratio for the sector decreased marginally to 12,2 per cent at the end of December 2003, compared to 12,6 per cent in 2002, it remained above the statutorily required level of 10 per cent.

total balance sheet increased

Growth in the total balance sheet increased during 2003. By the end of December 2003, the total funds of banks – comprising capital, reserves, deposits and loans – had increased by 25,2 per cent (measured over a period of twelve months), to a level of R1 377,6 billion. During 2003, the four biggest banks represented about 81 per cent of the total banking sector, and the five largest banks constituted 87 per cent of the banking sector. The participation of foreign banks in the local banking industry increased from 6,9 per cent in 2002 to 8,7 per cent of total banking-sector assets by the end of December 2003.

participation of foreign banks increased

Total non-bank deposits had increased by 14,1 per cent (measured over a 12-month period) in December 2003, from 12,5 per cent in December 2002. The composition of non-bank deposits remained largely unchanged during the past year.

return on equity and return on assets increased

Both the return on equity and the return on assets of the total banking sector increased during the year under review. By the end of December 2003, the average return on equity was 10,9 per cent, up from 5,6 per cent in December 2002, whereas the return on assets increased from 0,5 per cent in December 2002 to 0,7 per cent in December 2003. The interest margin decreased to 3,3 per cent in December 2003, from 3,8 per cent in 2002. The efficiency of the banking sector saw some improvement, from 67 per cent in 2002 to 65,8 per cent in 2003.

efficiency saw some improvement

South African banks maintained adequate levels of liquidity during 2003. In December 2003, banks' liquid assets amounted to 114,7 per cent of liquid assets required to be held, compared to a level of 118,1 per cent in December 2002.

adequate levels of liquidity

Total gross overdues of the banking sector decreased by R2,4 billion, to a level of R23,8 billion at the end of December 2003. Provisioning by banks against these non-performing loans was adequate, even when benchmarked against international requirements.

total gross overdues decreased

Modification of supervisory approach

Environmental factors, such as increased financial innovation, increasing competitive pressures and ongoing developments in information and telecommunication technology, may result in rapid and substantial changes in the risk profiles of banks. Since new technologies, product innovation and the size and speed of financial transactions are continually changing the nature of banking, proper management of risks and strong internal controls remain critical to the safety and soundness of banks.

proper management of risks and strong internal controls remain critical

It follows that the supervisory framework has to be tailored to changing banking and financial conditions on an ongoing basis. Changes in the supervisory framework should be aimed at sharpening the focus of the supervisory process on, on the one hand, those business activities that pose the greatest risks to the soundness of individual banks and the banking system as a whole and, on the other hand, the adequacy of banks' management systems to identify, measure, monitor and control their risks. The supervisory process has to be dynamic and forward looking in order to respond to technological advances, product innovation, emerging and new risks, new risk-management systems and techniques, changes in the condition of individual banks and market developments.

supervisory framework has to be tailored on an ongoing basis

The supervisory approach of the Bank Supervision Department has always combined, in some form or another, an offsite and an onsite component. In line with international developments, which require an increasingly risk-focused supervisory approach, the Department recently implemented closer coordination between the offsite and onsite components of its supervisory approach, by housing the offsite and onsite functions in the same division and ensuring that the same team is involved in both facets of supervision. The Department's new supervisory approach comprises risk-focused processes, which will rely on an understanding of a bank or banking group, risk assessments, execution and ongoing refinement of a supervisory plan and targeted reviews, tailored to the risk profile of a particular bank or banking group.

closer coordination between offsite and onsite components

new supervisory approach

Responsibility for each individual bank or banking group has been assigned to a relationship manager, assisted by a team with diverse competencies. Such a relationship team will be the central point of contact for an individual bank or banking group and will also be responsible for developing and implementing the Department's supervisory programme. In order to fulfil the objectives of risk-focused supervision, the relationship team has to remain conversant with a bank's financial condition, management structure, business model, strategic plan and direction and overall operations.

relationship team will be the central point of contact

The Department's supervisory approach includes the following key elements:

key elements

Quantitative analysis

The Department's quantitative analysis of the monthly and quarterly statutory returns

submitted by banking institutions entails analysis by means of time series or graphs and interpretation of the results. The budgets and management accounts of a bank or banking group are considered to be critical, since they enable the supervisory team to form an overall opinion of the financial condition of the particular bank or banking group.

The information that a bank furnishes to the Department in the statutory returns, together with the same information on the total banking sector, is presented in graphic form to enable comparison and discussion of matters arising therefrom.

Qualitative assessments

The qualitative assessments undertaken by the Department include the following:

- Annual discussions with the chief executive officer of a bank or banking group on the strategic direction of the bank or banking group.
- Meetings with the management of a bank or group to ensure appropriate attention to and action on supervisory concerns.
- Focused discussions with the heads of functional, risk and other areas on the strategies applicable to each area.
- Review of internal management and board reports, as well as internal and external audit reports, to supplement the supervisory process.
- Bilateral meetings with a bank's or banking group's external auditors before the year-end audit to discuss issues of significance and concern.

Initial assessment

initial assessment of a bank's major risks

Based on the quantitative and qualitative analyses, an initial assessment is made of a bank's major risks. This assessment is used to revise and update the supervisory plan for the particular bank. If areas requiring more detailed review are identified, targeted reviews of those areas are undertaken.

Targeted reviews

targeted reviews

As part of the Department's functional and risk-focused approach, the supervisory framework endorses the concept of conducting, when appropriate, a series of targeted reviews during a supervisory cycle. Such a review will focus on a single activity, business line, legal entity or identified problem areas of a bank or banking group.

Ad hoc reports might be requested in terms of section 7 of the Banks Act, 1990. Such reports would be compiled by identified specialists or external auditors, as deemed necessary in the light of the Department's evaluation of the corporate governance and specific problems within a bank.

Feedback to the board of directors

trilateral meeting

The Department annually holds a trilateral meeting with a bank's audit committee and external auditors. The purpose of this meeting is to address a particular facet of the bank's business in some depth and to evaluate the bank's risk management in that area.

presentation to a bank's board

A senior member of the Department annually makes a presentation, based on the information submitted to the Department, to a bank's board of directors. This presentation constitutes an opportunity for the Department to share its findings, including those arising from targeted reviews undertaken during the supervisory cycle,

with the board. The presentation also affords a bank's directors and management an opportunity to benchmark their bank against its peers and the South African banking sector as a whole.

The Department intends to continue with an effective programme of regular and meaningful contact with the directors and management of each individual bank or banking group. The Department's objective is to maintain a current understanding of a bank's or banking group's business model, risk profile and risk-management processes, without imposing an undue burden, interfering with legitimate management prerogatives, or compromising the objectivity of the supervisory process.

programme of regular and meaningful contact

Assessment of Financial Sector Black Economic Empowerment Charter

During August 2002, at the National Economic Development and Labour Council's Financial Sector Summit, the financial sector in South Africa committed itself to the development of a charter to enable black economic empowerment. The result of this commitment, the Financial Sector Black Economic Empowerment Charter (referred to below as the Charter), was presented to Government on 17 October 2003.Although the Charter was released amid concerns that it might affect banking profits and dilute shareholdings, the response has largely been positive. This may be attributed mainly to the Charter constituting the outcome of a voluntary initiative by the major institutional players in all material facets of the financial sector, as well as black professionals and black business.

charter to enable black economic empowerment

In general, it is believed that the Charter sets reasonable black economic empowerment (BEE) objectives, albeit ambitious in some quarters, without sacrificing financial soundness or unduly increasing risk in the banking sector. It has to be acknowledged, however, that Government and regulatory authorities have a role to play before industry can effectively pursue the specified targets. Therefore, regulators now have to grapple with some fundamental arrangements that need to underlie implementation of the Charter, as well as consider the role of the Charter in the regulatory framework and assess whether it is capable of satisfying the demands of the relevant stakeholders within the specified time frames.

some fundamental arrangements need to underlie implementation

Overview

The Charter is the outcome of negotiations between 11 entities, mainly industry associations. These are The Banking Council South Africa, the Life Offices' Association of South Africa, the Association of Black Securities and Investment Professionals (representing black business and the Black Business Council), the South African Insurance Association, the Association of Collective Investments, the Investment Management Association of South Africa, the South African Reinsurance Offices' Association, the Institute of Retirement Funds, the JSE Securities Exchange South Africa, the Foreign Bankers Association of South Africa and the Bond Exchange of South Africa.

outcome of negotiations between 11 entities

The aim of the Charter is to address the following key areas:

aim of the Charter

- Increased financial services for the unbanked.
- Agricultural development.
- Low-income housing.

- Small and medium black businesses.
- Black ownership, control and management.
- Skills development.
- Procurement from black-owned businesses.
- Creation and development of BEE companies.

targets apply from 1 January 2004 to 31 December 2014

The Charter applies to the South African operations of the financial sector, and the targets contained therein apply from 1 January 2004 to 31 December 2014. Specific targets have to be attained by 2008. Financial firms bound by the Charter have to produce annual BEE reports, with an audited scorecard. There are no blanket exclusions, and foreign banks are also affected.

Charter Council to oversee implementation

The Charter Council, a body to be established to oversee implementation of the Charter across the financial sector's various subsectors, will undertake a comprehensive mid-term review in 2009. In addition, the Charter Council will issue guidance notes, undertake annual reviews and issue annual reports.

Benefits, costs and risks

anticipated benefits

The anticipated benefits of the Charter are the following:

- The Charter obliges the financial-services industry to bring into being not only products – savings and life products and, ultimately, credit – but also actual physical access to the financial system, within a realistic distance of where the poorest South Africans live.

- The Charter represents a commitment by Government and the financial-services industry to finding a means to provide funding for low-income housing in a sustainable manner and based on sound commercial principles.

- Obligations are placed, both directly and indirectly, on the financial-services industry to employ, train, develop and nurture black staff at every level.

- The Charter obliges the financial-services industry to lend money and skills, experience and infrastructure to developing smaller black start-up companies throughout the economy, as well as to finance black buy-in to corporate South Africa.

could also trigger other changes

The Charter's proposed empowerment-based changes could also trigger other changes, such as:

- Banks could share the increased burden by pooling resources. This could lead to further cooperation or outsourcing in the areas of cheque and credit-card processing.

- The need to provide affordable access to finance could trigger innovation and development of new banking products or delivery channels. Smart-card and cellular-telephone technology, for example, are available, but not used to maximum effect.

- Banks could benefit from other financial institutions paying to use their distribution networks.

Pursuit of most of the above benefits is still under discussion, while Government and business resolve how much money should be raised for low-income housing, small-

scale agriculture, small-enterprise finance and financing of BEE transactions in general. Although the Charter attempts to manage the risks of BEE, firms will have to contend with certain monetary costs, for example:

certain monetary costs

- *Direct costs:* 0,2 per cent of taxed profits for consumer education, 1,5 per cent of payroll for skills development and 0,5 per cent of taxed profits for corporate social investment.

- *Indirect costs:* Increased costs of employment and training and the cost of compliance and auditing.

The Charter attempts to foster BEE, without introducing significant risk into the financial system, by providing for:

Charter provides for

- Risk sharing with Government and development finance institutions, such as the Postbank, Land Bank, Development Bank, etc.

- The principle of sound business practice, guaranteeing banks the right to underwrite risk.

- Transfer of ownership on the basis of a willing buyer and a willing seller.

Charting of BEE performance and role of the Charter Council

scorecard against which achievements can be measured

The Charter contains a scorecard, which provides a basic and objective framework against which transformation and empowerment achievements can be measured. The Charter is based on six pillars, discussed later in this chapter. The scorecard, which will be used to determine a financial institution's final BEE score, is segmented into six similar sections, and a score is allocated to each.

A perfect score would be difficult to achieve. Banks, for example, may find their shareholders want them to maintain a favourable overall score, but may be concerned that their existing shareholders should not suffer undue dilution.

Certain companies may not be able to perform in certain aspects of the scorecard, for the following reasons:

- It is not in the nature of their business to do so.

- A regulatory requirement prevents them from doing so.

- A uniformly applicable global group policy demonstrates that similar initiatives have not been undertaken elsewhere in the group. In such a case, the company would have to make a submission to the Charter Council to explain the uniform applicability or non-applicability of the global policy.

role of Charter Council

The Charter Council will establish adjudication and appeal procedures, oversee the achievement of targets and engage with the BEE Advisory Council, which is to be established in terms of the Broad-based Economic Empowerment Act, 2003 (Act No. 53 of 2003). Each financial institution will report annually to the Charter Council on its progress with implementing the provisions of the Charter. The first BEE report and audited scorecard in respect of the year ending 31 December 2004 are due by 31 March 2005.

The Charter Council will have to develop the capacity to fulfil its huge task and will also have to obtain a mandate from all parties. This is likely to be a difficult process, with potential for conflict between different interest groups.

scorecard is to be applied in tendering for Government business

Although the Charter is voluntary, and companies are not obliged to perform in respect of any of its components, the parties to the Charter have agreed that the scorecard is to be applied in tendering for Government business. The reputational implications of poor scorecard performance, both within the industry and in terms of public perception, are likely to be a strong motivator for companies to attain a good score.

Six pillars of the Charter

empowerment financing and human-resource development are regarded as the most challenging

The six key pillars of the Charter are discussed below. The number of points assigned to each pillar in terms of the scorecard is indicated in parentheses after each heading. Generally, the pillars of empowerment financing and human-resource development are regarded as the most challenging to attain in view of the currently low level of skills in the labour market and the risks that BEE financing poses.

- *Empowerment financing (22 scorecard points)*

BEE financing and targeted investments

The Charter sets a target of R75 billion (3,75 per cent of total designated investments of R2 000 billion) for empowerment financing, to be split between BEE financing and targeted investments. BEE financing may be regarded as funding for black business to acquire equity in other businesses. Targeted investments are widely defined as loan finance or credit extension in markets in which there are backlogs. Such investments would include investment in infrastructure, agricultural development, low-income housing and black small and medium enterprises (SMEs).

Banks will also receive credit for previous empowerment financing. If one assumes that a third of the target of R75 billion is the banking sector's responsibility, the big four banks would need to finance just over R6 billion each.

Separate targets have not been set for BEE financing and targeted investments. The Charter also does not make any reference to the affordability of empowerment financing, that is, how the balance between risk and reward is to be maintained. The parties to the Charter, however, have committed themselves to working in partnership with Government and its development-finance institutions to mobilise resources for empowerment financing.

Guidelines for the evaluation of empowerment transactions, therefore, need to be established.

- *Ownership and control (22 scorecard points)*

minimum shareholding target

The Charter contains a minimum shareholding target of 25 per cent black ownership by 2010. The direct ownership target has been set at 10 per cent, whereas the maximum indirect target has been set at 15 per cent, provided the direct shareholding target has been achieved.

Foreign institutions will have to meet the same targets, but will be permitted to address the targets by activities and investments in other specified areas, as discussed in more detail later in this chapter.

The definition of direct ownership is wide and includes past transactions, such as:

definition of direct ownership is wide and includes past transactions

- Past BEE financing transactions.
- Broad-based ownership, such as pension funds.
- Disposal of assets or parts of a business.
- Direct shareholding at any level within a group.
- Joint ventures or partnerships.

Given a market capitalisation of about R100 billion, R10 billion would be required for the direct ownership target of 10 per cent. Recent BEE transactions and broad-based ownership (defined in the Charter as direct shareholding), such as black-dominated pension funds, however, have significantly reduced the financing burden and the risk of increasing systemic risk in the banking sector. It has been estimated that as much as R5 billion of the banking industry is already in BEE hands, through direct ownership. The Charter sets a target of 30 per cent for BEE representation at the level of director, including a target of 10 per cent black women. These control targets are a prerequisite in any ownership targets.

control targets

As indicated earlier, the Charter mentions that any transfer of ownership should comprise willing buyers and willing sellers. This is an honourable requirement, but not always possible or enforceable. If there are no willing sellers, a company might have to issue new shares to BEE groups in order to meet direct shareholding targets.

- *Human-resource development (20 scorecard points)*

The Charter sets targets for black employment at senior, middle and junior management level. Black senior management currently accounts for only 10 per cent of the total skills available at that level. The Charter obliges financial institutions to spend 1,5 per cent of their payroll cost on skills development for black employees.

targets for black employment

Research has shown that there are wide gaps between the current status and the targeted status at every level of management. At the senior management level, for example, black people were estimated to represent 10 per cent and black women 1,6 per cent in 2002, whereas the 2008 targets are 20 per cent to 25 per cent and 4 per cent, respectively.

there are wide gaps

The currently low levels of black participation in the financial sector will make it extremely challenging to achieve points in the area of human-resource development. It also has to be borne in mind that the financial-services sector is competing with every other sector of the economy for skilled black professionals at all levels.

Almost five years remain until the target date for achievement of the human-resource development objectives, giving institutions the opportunity to design and fund training programmes. It has to be noted, however, that it takes a minimum of four years to develop financial skills academically. Therefore, firms will have to focus proactively on this area, not only to attain the targets set in the timeframes outlined, but also to meet the human-resource skills needed in the medium and longer term.

objective is twofold

- *Access to financial services (18 scorecard points)*

The objective of this pillar of the Charter is twofold:

- To improve the provision of effective access to financial services and products to the lower end of the market, currently classified as living standards measures (LSM) segments 1 to 5 and based largely on the LSMs of the South African Advertising Research Foundation.

- To address the needs of the unbanked market, which currently consists of more than 17 million adults.

accessible finance

A target of 80 per cent of LSMs 1 to 5 has been set for access to transactional and savings products. Targets, however, have not been set for lending or financing, which are addressed in terms of empowerment financing. Accessible finance means that an automated teller machine or branch, providing appropriate and affordable banking services, should be located within 20 kilometres of the target group (LSMs 1 to 5). The Charter recognises that banks incur costs in delivering banking services, but warns banks not to exploit the poor through excessive charges.

An issue to be resolved, either in the implementation phase of the Charter process or by the Charter Council, is whether the LSM ranges prescribed in the Charter agreement are to remain constant over time, or are to be reviewed as the income levels applicable to the LSM ranges are revised upward. The decision in this regard could materially affect the effectiveness of the Charter in broadening access to finance at the lower income levels, which are currently predominantly black in terms of the LSM model.

- *Procurement (15 scorecard points)*

targeted procurement programmes

Financial institutions are expected to provide support to black SMEs to enable them to benefit from targeted procurement programmes. Such support will be in the form of assistance to black SMEs in tendering for financial-sector business and in financial institutions reserving areas of procurement for black SMEs. The Charter requires a minimum of two thirds of total procurement to be spent with BEE-accredited companies as the primary vendors. The remainder may be bought from a non-BEE supplier, which, in turn, has to source its supplies from a BEE company.

Spending on information technology represents approximately one third of the procurement expenses of financial institutions. Achievement of the Charter's procurement targets by the financial-services sector, therefore, depends on the successful implementation of the Information and Communications Technology (ICT) Charter, currently under discussion.

corporate social programmes

- *Corporate social investment (3 scorecard points)*

The Charter requires banks to direct 0,5 per cent of taxed profits to corporate social programmes in the areas of education, training, development programmes, environment, job creation, arts and culture, health and sport. Most banks already invest sizeable sums of money in these areas, but will have to increase their investments to reach the target.

Treatment of foreign banks

A contentious issue in the development of the Charter was the degree to which foreign banks operating in South Africa would be bound to participate in the Charter, particularly in respect of ownership targets. In summary, instead of foreign banks being obliged to sell part of their business to black shareholders, foreign banks will be permitted to invest a larger amount in the financing of empowerment deals. In other words, foreign banks will be able to attain points usually awarded for black ownership by using their considerable balance sheets to finance empowerment deals.

financing of empowerment deals

The commitment of foreign banks to the rectification of socio-economic imbalances can be demonstrated by, amongst others, them being signatories to the Charter in their own right, and not as part of The Banking Council South Africa, and their initiatives in respect of the Responsible Lending Accord. This Accord was an initiative of ten international banks from seven countries, which adopted guidelines for project finance in emerging markets, in the first industry-wide attempt to encourage socially responsible lending.

Responsible Lending Accord

Prerequisites for successful implementation and critical issues

Successful implementation of the Charter is dependent on a number of prerequisites. These include:

prerequisites

- Reforms to regulatory frameworks, such as guidelines or legislation creating new asset classes arising from targeted investments.
- Successful implementation of the ICT Charter.
- Sufficient and appropriate auditing skills to assess scorecard criteria.

Within the broader context of the BEE process, policy-makers have to reflect on some critical issues. These include:

critical issues

- What the available options in terms of financing BEE deals are.
- What the banking sector's role in BEE financing should be.
- Whether there is disparity between how the banking sector sees its role in BEE financing and how the Government views that sector's role.
- Whether it is equitable for the burden of financing all (economy-wide) BEE transactions to be placed on the banking sector, which has to justify its own BEE performance and accommodate financing of its own BEE transactions.

The intention is not to debate these issues in this annual report, but to highlight some of the challenging issues surrounding BEE and the Charter.

Conclusion

The challenge of BEE and broadening access to finance has to be addressed in the context of the overriding regulatory objective of achieving a high degree of economic efficiency and consumer protection in the economy, through securing systemic stability in the financial sector and in the broader economy. Although Government is responsible for establishing the framework within which the banking industry operates, cognisance has to be taken of the implications of the pace of change in the financial sector.

The financial sector has been proactive in responding to the need for change in South Africa. Although one may argue that change at too slow a pace may destabilise the sector, change at too great a pace may pose an even greater threat to financial stability.

optimal balance

It would appear that the Charter has achieved an optimal balance, in that it acknowledges the importance of a stable and growing financial sector and supports principles that will promote and enhance the quality of decision-making.
The Bank Supervision Department is fully committed to the objectives of the Charter. Progress towards and achievement of these objectives could meaningfully contribute to the stability and growth of the financial sector in the long term.

Review of corporate governance in large South African banks

The importance of sound corporate governance in banks can be attributed to the use of depositors' funds to conduct business. It also has to be borne in mind that the failure of a bank is likely to affect not only its own stakeholders, but also the stability of other banks (known as the contagion effect), as illustrated by the demise of certain South African banks discussed in the previous annual report.

Corporate-governance review

corporate-governance practices within the five largest banking groups

In August 2002, Adv J F Myburgh SC, assisted by three members of the Bank Supervision Department, was appointed to investigate the status of compliance with sound corporate-governance practices within the five largest banking groups in South Africa, namely, ABSA Group Limited, FirstRand Bank Holdings Limited, Investec Limited, Nedcor Limited and Standard Bank Group Limited. At the end of April 2003, a general report and executive summary were released to the public.

The Bank Supervision Department has accepted the recommendations made by Adv Myburgh and will review the banking sector's commitment to sound corporate governance on an ongoing basis. The Department is currently consolidating the information flowing from the review to determine whether the banking legislation requires further amendment.

findings

Among Adv Myburgh's findings were that, generally:

- The banks investigated were committed to adherence to and application of high standards of corporate governance.
- Acting on the advice of specialists in corporate governance, the banks on their own initiative reviewed their corporate governance from time to time, to ensure compliance with accepted corporate-governance principles.
- Although, in general, corporate governance in the banks was sound, vigilance was required to ensure continued compliance with the standards of governance evolving in South Africa and internationally.

banks were benchmarked

The banks were benchmarked against, amongst other things, local legislation and industry codes (for example, the first and second reports of the King Committee on Corporate Governance, generally referred to as King I and King II), the Listings Standards Report published on 6 June 2002 by the New York Stock Exchange Corporate Accountability and Listing Standards Committee and the report published in the United Kingdom, on 20 January 2003, by Sir Derek Higgs, who had been appointed in April 2002 by the Secretary of State for Trade and Industry and the Chancellor of the Exchequer to lead an independent review of the role and effectiveness of non-executive directors.

The Myburgh working group followed a process of interviewing all directors and selected executive officers of the five large banks. The three issues of most concern to the interviewees were:

- Focus on form, rather than substance.
- Inhibition of the entrepreneurial spirit.
- Overregulation.

The Bank Supervision Department has noted these concerns and will continue to engage the banking sector in discussions to allow for an approach to corporate governance that gives due consideration to the points of view of all stakeholders.

The salient aspects covered in Adv Myburgh's report can be summarised as follows:

salient aspects covered in report

- *Size and composition of a bank's board*

The effectiveness of the board of a bank is dependent on the interaction between its members, whichever form this may take. The board, therefore, should be large enough to ensure that it has sufficient non-executive members with the skills necessary to serve on the required board committees. The board, however, should not become unwieldy and, thus, ineffective.

A large executive presence on the board is regarded as unnecessary. A large presence of executive directors presupposes a large non-executive presence and, consequently, a large board. Furthermore, a board consisting of a large number of executive directors will suffer from the problems of dominant executive action and assumptions, generally incorrect, being made about the non-executive directors' knowledge. When the board is overly large, discussion becomes difficult, and board processes become protracted.

Adv Myburgh, therefore, recommended that:

recommendations

- The board of a bank should consist of no more than about 16 members.
- A bank's board should not have more than about four executive directors.
- The majority of non-executive directors should be independent directors with immediate effect. For example, if a bank has a board of 10 directors and seven of them are non-executive directors, at least four of the seven should be independent directors with immediate effect.
- Banks should aim for the majority of their directors to be independent directors within not more than five years. With reference to the above example, this means that at least six directors should be independent directors within five years.

- *Induction and training*

Training of directors is of critical importance to allow for a greater understanding of the business and to encourage debate at the various meetings. It would be folly to expect a director who has undergone an induction course to be an expert in all aspects of banking. Ongoing education, therefore, is extremely important and should be initiated not only by the director concerned, but by the company secretary.

training of directors is of critical importance

- *Chairperson and chief executive officer*

The chairperson of a bank is prohibited by law from being an employee of the bank. Adv Myburgh emphasised the need for an independent chairperson in order to ensure the necessary checks and balances.

need for an independent chairperson

A notable argument is the case of a chief executive officer (CEO) moving directly into the chair. In his review report, Sir Derek Higgs lists the problems of such a move as follows:

- Having been responsible for the day-to-day running of the company and with the resulting detailed knowledge of the company, such a chairperson may sometimes find it difficult in practice to make room for a new CEO.

- A chairperson of a company who was formerly the CEO of that company may simply take for granted other directors' inside knowledge and, therefore, fail as an information bridge to non-executive directors.

In his report, Adv Myburgh adds that:

- Since the CEO was instrumental in appointing the management team that is left behind when the CEO becomes the chairperson, the management team remains beholden to the former CEO.

- A chairperson who was formerly the CEO might not view the strategy of the company with the necessary detachment, because the former CEO formulated and was in the process of implementing the strategy as a member of management before being appointed chairperson.

three-year colling-off period

Adv Myburgh, therefore, recommended a three-year cooling-off period, in which the CEO should distance himself/herself from the bank in order to mitigate the concerns listed above.

- *Succession planning*

often acknowledged, but seldom applied

Succession planning for the board, including the chairperson and the chief executive officer, is a principle often acknowledged, but seldom applied.

It should be clear that there is a need for a formal process to discuss and debate succession issues, such as what will happen if Ms Y is involved in an accident tomorrow, or how Mr X, who is a board candidate, will acquire the necessary experience in operations. Such a process will force the board members or selected committee members to consider and apply their minds to such issues and, thereby, provide stability in both the short and the long term.

- *Board committees*

It is essential for board members to understand that the establishment of committees to focus on specific areas does not relieve them of their fiduciary duties and responsibilities.

committee structure

In terms of current banking legislation and King II, a bank must have an audit committee, a remuneration committee, a directors' affairs committee and a risk committee. The committee structure, as legislated and set out in the Banks Act, 1990, is a means of ensuring that the important and current areas in a bank are fully considered and that the necessary time is expended on the core issues facing the particular bank.

Although not legislated, the remuneration committee recommended by King II is responsible for, amongst other issues, ensuring that executive remuneration is sound and not excessive, based on the principles of retention and recruitment. According to King II, it is the function of the remuneration committee to recommend, to the board, fees for the non-executive directors and, once such fees have been confirmed by the board, to put them to the shareholders, for approval, prior to implementation.

Conclusion

Adv Myburgh made specific recommendations to the individual banks in order to enhance their corporate governance. In the main, the banks have implemented these recommendations.

It is important to heed the warning that governance arrangements will not resolve all problems and risks facing a bank. There is a need for constant vigilance to warning signs within a bank. These signs may take the form of, for example, a short-term breakdown in the relationship between two key players, or insignificant time being available at board meetings to discuss strategy, performance, risk and people.

need for constant vigilance

Although implementation of the principles outlined above may be regarded as time consuming or yet another cost centre, the long-term benefits outweigh any short-term inconvenience. It is envisaged that, world-wide, regular review of corporate-governance principles will become the norm, to the ultimate benefit of banks and their stakeholders.

Resolution of Saambou Bank Limited

The previous annual report contained a comprehensive exposition of the events leading to the demise of Saambou Bank Limited (Saambou). Since Saambou was the seventh largest South African bank at the time, its failure attracted much attention from, amongst others, the media and the general public. A brief report on how the Saambou case was resolved may therefore be of interest.

Curatorship

Saambou was placed under curatorship on 9 February 2002, following a period of sustained and increasing liquidity pressure. In terms of a decision made in conjunction with the Minister of Finance, depositors were given full access to their deposits with effect from 23 May 2002. It is pleasing to note that no depositor suffered any direct financial loss as a result of the imposition of curatorship.

no depositor suffered any direct financial loss

Receivership

On 9 May 2002, FirstRand Bank Limited (FRB) proposed a scheme of arrangement in a formal announcement. Upon sanction of the court on 30 August 2002, the scheme had the following two simultaneous effects:

scheme of arrangement

- Saambou became a wholly owned subsidiary of FRB with effect from 31 August 2002. Saambou retained specified assets, in the form of a mortgage book, and specified liabilities, in the form of deposits. As at 31 December 2002, all outstanding deposits had for all practical purposes been repaid.

- The curatorship was withdrawn, and those assets and liabilities not taken over by FRB fell into the receivership and came under control of the court-appointed receiver. The receiver was tasked with the optimal realisation of the receivership assets and the optimal defrayment of the receivership liabilities.

All material assets of Saambou were realised by means of a public bidding process. A deal forum, consisting of the receiver of Saambou and senior representatives of the South African Reserve Bank, was constituted, and senior members of the National

public bidding process

Treasury were also invited to the forum's meetings. The forum considered the bids and made recommendations to the Minister of Finance, for his decision on the preferred bidder. Once the preferred bidder had been identified, a rigorous process ensued and involved the legal teams of all interested parties drafting an acceptable agreement between the preferred bidder and the receiver.

major assets sold

The major assets sold in this way included the following:

- The Saambou personal-loan book, which was sold to African Bank Limited.
- The Planet Finance book and the Saambou commercial property-finance book, which were sold to Imperial Bank Limited.
- The FinEd book, which was sold to the Commercial Bank of Namibia Limited.
- The Saambou housing-finance book, which was sold to FRB.

Liability of former directors

alleged breaches of the law

The receiver handed information on alleged breaches of the law by certain former directors of Saambou to the Department of Special Operations of the National Prosecuting Authority during the first quarter of 2003. The receiver also completed an investigation into possible delictual claims against certain former directors of Saambou.

Employment equity

The objective of the Bank Supervision Department's employment plan is to accord with the aim of promoting equity through diversity, in line with the 2005 employment equity (EE) plan of the South African Reserve Bank.

main aims of the 2005 EE plan

The main aims of the 2005 EE plan are to promote employment equity in the Reserve Bank and to ensure a representative, competent and motivated workforce. This is achieved by, amongst others, accelerated development and promotion of employees with potential from the designated groups, that is, black people (including coloured and Asian persons), females and disabled persons.

Department attained its employment-equity objectives

Despite the moratorium on recruitment imposed in August 2002, as part of the Reserve Bank's efforts to contain costs, the Bank Supervision Department successfully attained its employment-equity objectives during the year under review. At the end of 2003, 51 per cent of the Department's workforce was black, as defined above, and 51 per cent of the employees were female. The fast tracking of deserving employees, achieved through accelerated development, salary adjustments and promotion, ensured that EE targets cut across all levels of staff, especially at management level.

Issues that will receive particular attention during 2004

Besides fulfilling its normal supervisory and regulatory tasks, the Bank Supervision Department will place particular focus on the following issues, amongst others, during 2004:

focus areas

- Continued regular contact and interaction with the directors and management of each individual bank or banking group, in order to maintain a current understanding of the bank's or group's business model, risk profile and risk-management processes.

- Monitoring of banks' implementation of anti-money-laundering measures.

- Development of a supervisory framework for approaches to credit exposures and operational risk in terms of the new Capital Accord, including interaction with other supervisors.

- 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.

- Ongoing monitoring of the status of banks' corporate governance.

- Ongoing review and continued amendment of the regulatory framework and the supervisory process and procedures to ensure that they remain in line with international and local standards and developments, including the Financial Sector Black Economic Empowerment Charter.

- Further involvement in the establishment of a regulatory framework for second- and third-tier banking institutions aimed at providing broader access to finance.

- Continued combating and investigation of illegal deposit taking by unregistered institutions and persons.

- Monitoring of developments with a deposit-insurance scheme for South Africa, including continued interaction with National Treasury in that regard.

Expression of appreciation

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 gratitude also go to the Governor and Deputy Governors of the South African Reserve Bank - in particular to Ms Gill Marcus, in her capacity as the Department's Deputy Governor - for their continued invaluable cooperation, guidance and support. My staff and I also wish to thank my predecessor, Mr Christo Wiese, for his unfailing energy and enthusiasm during the past nine years – may he enjoy his well-deserved retirement.

As in the past, the Department received cooperation from countless individuals and organisations, locally and abroad. Among them, to name but a few, are 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 other departments of the South African Reserve Bank (in particular, the National Payment System, Financial Markets and Exchange Control Departments), the Basel Committee on Banking Supervision, the East and Southern Africa Banking Supervisors Group and the central bankers and bank supervisors worldwide with whom the Department has ongoing contact.

The ongoing challenges that banking supervision poses in a constantly changing financial environment remained as demanding as ever during the year under review. My sincere thanks, therefore, go to my staff, who continued to display dedication, enthusiasm and professionalism in fulfilling their tasks.

E M Kruger
Registrar of Banks, and General Manager: Bank Supervision Department

Chapter 2

Current issues in banking supervision

As has become customary, some of the most important supervisory and regulatory trends and developments, locally and internationally, during the year under review are addressed in this chapter. The Bank Supervision Department's interaction with the Basel Committee on Banking Supervision, as well as participation in the Committee's activities, remained important. In this regard, developments with the new Basel Capital Accord again represented an important focus area for the Department. Other issues discussed include the impact of changes to accounting standards, banks' implementation of anti-money-laundering measures, the important issue of providing broader access to finance and the Department's participation in regional bank-supervisory activities.

new Basel Capital Accord represented an important focus area

Interaction with the Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision, established by the central-bank governors of the Group-of-ten (G10) countries at the end of 1974, meets four times a year. The Basel Committee does not have any formal supranational supervisory authority, and its conclusions do not, and were never intended to, have legal force. Instead, the Committee formulates broad supervisory standards and guidelines and recommends statements of best practice, in the expectation that individual authorities will take steps to implement them through detailed statutory or other arrangements suited to their own national systems. In this way, the Committee encourages convergence towards common approaches and common standards, without attempting detailed harmonisation of member countries' supervisory techniques.

Committee formulates broad supervisory standards and guidelines and recommends statements of best practice

The Basel Committee's secretariat is provided by the Bank for International Settlements (BIS), in Basel, Switzerland. The Secretariat is responsible for facilitating the operations and activities of the approximately 30 technical working groups and task forces of the Basel Committee. These technical working groups and task forces, which meet regularly, consist mainly of financial supervisors from the G10 countries. In this regard, the Core Principles Liaison Group (CPLG) and the CPLG's Working Group on Capital (CPWG) are exceptions. The CPLG consists of supervisors from both within and outside the G10 countries, as well as representatives of the World Bank and the International Monetary Fund (IMF). The CPWG, which consists solely of selected non-G10 members of the CPLG, meets regularly with the Accord Implementation Group (AIG), also a working group of the Basel Committee. The Bank Supervision Department is represented on both the CPLG and the CPWG.

technical working groups and task forces

Activities during 2002/2003

A meeting of the CPLG held in Basel, on 20 November 2002, was structured into two parts. Firstly, the previous CPWG/AIG meeting was discussed. Secondly, there was a forward-looking discussion on possible work by the CPLG in preparation for a revision of the Basel Core Principles for Effective Banking Supervision. This discussion was based on workshops held at the last International Conference of Banking Supervisors, in South Africa, during September 2002. It was agreed to develop the CPLG's thinking on supervisors' autonomy and, to a lesser extent, on microfinance lending.

At a joint meeting of the CPWG and the AIG, held in Basel, on 19 February 2003, there was a preliminary exchange of views on important topics of concern to both groups. These topics included the scope of implementation of the new Capital Accord (generally known as Basel II), issues relating to pillar 2 (supervisory review process) of Basel II and cross-border supervision. Issues relating to data and validation of internal systems in respect of Basel II were also discussed. At this meeting, it was decided that the CPWG and the AIG should meet twice a year.

The CPWG and the AIG held their next meeting in Basel, on 28 April 2003. In his introductory remarks, the Chairman of the AIG presented the AIG's thinking on the adoption of Basel II in AIG jurisdictions (G10 countries). Supervisors from Canada, China, the Czech Republic, Saudi Arabia, South Africa and the United States of America made presentations on Basel II-related topics. The Bank Supervision Department's presentation dealt with cross-border implementation issues. Also discussed were the four principles established for pillar 2 of Basel II, namely:

four principles established for pillar 2 of Basel II

- Banks should have not only a process for assessing their overall capital adequacy in relation to their risk profile, but a strategy for maintaining their capital levels.

- Supervisors should review and evaluate banks' internal capital-adequacy assessments and strategies, as well as the ability of banks to monitor and ensure their compliance with regulatory capital ratios. Supervisors should take appropriate action if they are not satisfied with the result of this process.

- Supervisors should expect banks to operate above the minimum regulatory capital ratios and should have the ability to require banks to hold capital in excess of the minimum.

- Supervisors should seek to intervene at an early stage to prevent capital from falling below the minimum levels required to support the risk characteristics of a particular bank and should require rapid remedial action if capital is not maintained or restored.

At a meeting held in Basel, on 29 April 2003, the CPLG was updated on progress towards the finalisation of Basel II, the latest discussions relating to International Accounting Standards 32 and 39 and a draft IMF paper on managing systemic banking crises. The Secretariat of the Basel Committee presented the results of the third quantitative impact study undertaken in non-G10 countries, discussed later in this chapter. The CPLG also decided to move forward its ongoing efforts on supervisors' autonomy, legal protection and accountability.

On 27 and 28 August 2003, the CPLG held a meeting in St Petersburg, Russia. The Chairman of the CPLG, who is also the Secretary General of the Basel Committee, presented the current thinking of the Basel Committee's future work and its discussions on capital. The CPLG members were requested to provide input into the Basel Committee's future work. A topic also discussed was how interaction between the Basel Committee members and other supervisors could be improved. Further, the CPLG continued its discussion on issues relating to supervisors' autonomy, accountability and legal protection, in preparation for a revision of the Basel Core Principles. An update was also provided on the joint IMF/World Bank Global Bank Insolvency Initiative, discussed at the end of this chapter.

Based on discussions held at AIG meetings, the Secretariat of the Basel Committee prepared a note on pillar 2 of Basel II. This note was discussed at the joint CPWG/AIG

meeting held in Basel, on 1 December 2003. Discussions centred on the four established principles of pillar 2 listed above. Cross-border issues and national discretion were also discussed.

Interaction with the Financial Stability Institute

The Basel Committee and the BIS jointly created the Financial Stability Institute (FSI) in 1999 to assist supervisors around the world with improving and strengthening their financial systems. Since the establishment of the FSI, the Bank Supervision Department has been an active participant in all FSI initiatives in which it has been requested to participate.

objectives of the FSI

The objectives of the FSI are to:

- Promote sound supervisory standards and practices globally, and support full implementation of these standards in all countries.

- Provide supervisors with the latest information on market products, practices and techniques to help them to adapt to rapid innovations in the financial sector.

- Help supervisors to develop solutions to their multiple challenges by sharing experiences in focused seminars and regional workshops.

- Assist supervisors with employing the practices and tools that will allow them to meet everyday demands and tackle more ambitious goals.

variety of activities

The FSI meets its objectives through a variety of activities, aimed at providing supervisors with the information and support that they need to fulfil their tasks. These activities include the following:

- *Focused seminars:* These seminars, typically held in Basel, provide a venue for senior supervisors to learn about, and exchange views on, important concepts relating to financial-sector supervision and regulation.

- *Regional workshops:* The FSI works closely with 13 regional supervisory groups to offer workshops in locations around the world, as also indicated towards the end of this chapter. These workshops allow a more detailed discussion of the issues unique to a particular region. The FSI determines the topics for each workshop in close consultation with the head of the particular regional group.

- *Special seminars:* Each year, the FSI offers several special seminars to select audiences. The participants are given an opportunity to discuss important topics, assess trends and help to craft strategies to assist the supervisory world. Several of these seminars are listed in the annual programme, and others are added during the course of the year when issues of special concern are identified.

- *FSI Information Programme:* The FSI provides supervisors with relevant information on the latest supervisory developments and on key supervisory issues from both official and market sources. This information is disseminated through the FSI's quarterly newsletter, FSI World, as well as the publication of occasional papers and mass mailings of other material.

The Bank Supervision Department was fortunate in that at least 12 members of its middle and junior management were invited to attend various training interventions of the FSI.

Further developments with the new Capital Accord

The Bank Supervision Department has embraced the principles of the new Capital Accord (Basel II). These principles are intended to align capital-adequacy requirements more closely with the key elements of banking risks and to provide for banks to enhance their risk-measurement and risk-management capabilities. Implementation of Basel II will be one of the Department's high-priority strategic focus areas for the forthcoming number of years.

high-priority strategic focus area

The 2002 annual report focused on some of the important technical aspects on which the Basel Committee on Banking Supervision reached agreement in July 2002. One such issue was the one-year delay in the implementation date of the stndarised and foundation approach, which has now been set at 31 December 2006. Banks wishing to adopt the more advanced approaches will be able to do so only into the end of 2007. The year under review was eventful in that many countries announced their position on the scope of application in their country, following the release of the Basel Committee's third consultative paper, known as CP 3. The Bank Supervision Department also made clear its position on the implementation of Basel II in South Africa, as discussed in more detail below.

International developments

Subsequent to completion of the most comprehensive field test of Basel II, in the form of the third quantitative impact study (QIS 3), in October 2002, the Basel Committee made appropriate modifications to the Basel II proposals and released CP 3 in April 2003. The Basel Committee received more than 200 comments on CP 3 from banks, bank supervisors, various trade associations and academics.

comments on CP 3

The responses indicated that there was broad support for the structure of Basel II, as well as agreement on the need to adopt a more risk-sensitive capital framework. The comments, however, also revealed various important technical issues requiring attention, and the Basel Committee committed to resolve these by no later than mid-2004. The final text of the Accord will thus be available only in the second half of 2004.

Cross-border implementation

One of the issues raised by the industry and addressed by the Basel Committee was that of cross-border implementation of Basel II. In August 2003, the Basel Committee released a publication titled "High-level principles for the cross-border implementation of the new Accord". In its press release, the Basel Committee stated that it recognised that Basel II would require more cooperation and coordination between home-country and host-country supervisors, especially for complex banking groups.

more cooperation and coordination

Closer cooperation between supervisors can assist the implementation efforts of both supervisors and banking groups. There are a variety of supervisory responsibilities under Basel II, including initial approval and validation of the advanced approaches (such as the internal ratings-based (IRB) approach to credit risk) under pillar I, the supervisory review process under pillar II and ongoing assessments to verify that banking groups are applying Basel II properly and that the conditions for advanced approaches are still being met. The degree and nature of cooperation between supervisors may differ across these different supervisory responsibilities.

variety of supervisory responsibilities

The Basel Committee believes that closer practical cooperation between supervisors is

six principles for cross-border implementation

essential for the effective and efficient implementation of Basel II. In this regard, the Basel Committee developed the following six principles for the cross-border implementation of Basel II:

- *Principle 1:* The new Accord will not change the legal responsibility of national supervisors for the regulation of their domestic institutions or the arrangement for consolidated supervision already put in place by the Basel Committee.

- *Principle 2:* The home-country supervisor is responsible for the oversight of the implementation of the new Accord for a banking group on a consolidated basis.

- *Principle 3:* Host-country supervisors, particularly in jurisdictions where banks operate in subsidiary form, have requirements that have to be understood and recognised.

- *Principle 4:* Enhanced and pragmatic cooperation among supervisors with legitimate interests will be required. The home-country supervisor should lead this coordination effort.

- *Principle 5:* Whenever possible, supervisors should avoid performing redundant and uncoordinated approval and validation work, in order to reduce the implementation burden on banks and to conserve supervisory resources.

- *Principle 6:* In implementing the new Accord, supervisors should communicate, as clearly as possible, the respective roles of home-country and host-country supervisors to banking groups with significant cross-border operations in multiple jurisdictions. The home-country supervisor would lead this coordination effort in cooperation with the host-country supervisors.

The Bank Supervision Department endorses the above principles and will apply them in the cross-border implementation of Basel II.

Modifications to Basel II proposals

opportunities to improve

In its press release of 11 October 2003, the Basel Committee listed the following principal areas in which it had identified opportunities to improve the capital framework:

- Changing the overall treatment of expected versus unexpected credit losses.
- Simplifying the treatment of asset securitisation.
- Reviewing the treatment of credit-card commitments and related issues.
- Reviewing the treatment of certain credit-risk mitigation techniques.

During the last quarter of 2003, the Basel Committee, through its various working groups, worked on resolving some of the issues raised by interested stakeholders. In January 2004, the Basel Committee published three detailed technical documents, containing proposals on concrete modifications necessary to implement the proposals made in the above-mentioned press release.

risk-weighting construct for unexpected losses only

The first document, titled "Modification to the capital treatment for expected and unexpected credit losses in the new Basel Accord", deals with the Basel Committee's announcement of its intention to move to a risk-weighting construct for unexpected losses only. The IRB approach produces a statistical measurement of both the unexpected and the expected losses that banks face in relation to their credit-risk exposures. The CP 3 framework incorporated both expected and unexpected loss

components into the IRB capital requirement. After consultation, the Basel Committee now believes that separation of the treatment of unexpected and expected losses within the IRB approach will result in a superior and more consistent framework. Under this modified approach, the measurement of risk-weighted assets would be based solely on the unexpected loss portion of the IRB calculations.

separate treatment of expected loss

The Basel Committee, however, believes that it is critical to put in place a separate treatment of expected loss, in order to ensure strong incentives for banks to make proper provisions against expected losses. Under the separate treatment, banks will compare the IRB measurement of expected losses with the total amount of provisions that they have made, including general and specific provisions. For any individual bank, this comparison will produce either a shortfall if the expected loss amount exceeds the total amount of provisions, or an excess if the total amount of provisions exceeds the expected loss amount. The Basel Committee proposes that the shortfall amounts be deducted from capital. Excess amounts of provisions will be eligible for inclusion in tier 2 capital, subject to a cap.

simplifying the securitisation framework and promoting greater consistency among the available approaches

In the second document, "Changes to the securitisation framework", the Basel Committee specifies changes that address industry concerns relating to the complexity of the securitisation proposal and the operational burden of its implementation. The Basel Committee is simplifying the securitisation framework and promoting greater consistency among the available approaches in the following manner:

- First, the Basel Committee is planning to adopt a treatment for certain low-risk unrated positions that more closely reflect leading banks' current risk-management practices, by introducing an internal assessment approach for banks' exposure to asset-backed commercial paper conduits, based on methodologies that banks in some jurisdictions currently use for internal purposes.

- Secondly, the Basel Committee will make available simpler alternatives to the supervisory formula presented in CP 3 for the treatment of unrated positions, which some respondents considered to be unnecessarily complex and computationally burdensome.

- Thirdly, the Basel Committee is considering ways to add flexibility to the top-down approach (quantifying the risk of a pool of exposures rather than the risk of individual exposures) to calculating capital charges on purchased receivables, in order to facilitate calculation of the capital charge that would have been applied to the underlying exposures had they not been securitised.

- Fourthly, all externally rated positions will be treated under the ratings-based approach, regardless of whether the bank is an originator or an investor and whether the position falls above or below the above-mentioned capital-charge threshold.

- Finally, the lowest set of risk weights under the tables of the ratings-based approach in CP 3 will be applied to senior positions, that is, high-quality exposures, rather than so-called thick positions, that is, the ratio of the nominal size of the tranche of interest to the notional amount of exposures in the pool of assets. Some changes to the risk weights are also proposed.

approach to operational-risk capital allocation

In the third document, relating to the advanced measurement approach (AMA) and titled "Principles for the home-host recognition of AMA operational risk capital", the Basel Committee is pursuing an approach to operational-risk capital allocation that addresses

the concerns about practical impediments to the cross-border implementation of the AMA to operational risk that a number of organisations have expressed in their comments on CP 3. The Basel Committee is pursuing a hybrid approach for AMA banks. In terms of this hybrid approach, a banking group would be permitted, subject to supervisory approval, to use a combination of stand-alone AMA calculations for significant internationally active banking subsidiaries and an allocated portion of the group-wide AMA capital requirement for its other internationally active banking subsidiaries.

hybrid approach

Under the hybrid approach, a significant internationally active banking subsidiary wishing to implement AMA and able to meet the qualifying criteria would have to calculate its AMA capital requirements on a stand-alone basis. In calculating stand-alone AMA capital requirements, a significant internationally active banking subsidiary may incorporate a well-reasoned estimate of diversification benefits of its own operations, but may not consider group-wide diversification benefits. When such a subsidiary is part of a group that wishes to implement an AMA on a group-wide basis, the subsidiary would be permitted to utilise the resources of its parent or other appropriate entities within the group. Such a subsidiary could rely on, for example, data and parameters calculated at the group level, provided that the necessary adjustments have been made to those variables to make them consistent with the subsidiary's operations. Other internationally active subsidiaries determined not to be significant in the context of the overall group would be permitted, subject to supervisory approval, to use an amount that has been allocated to them from the group-wide AMA calculation as their pillar I charge for operational risk.

Third quantitative impact study (QIS 3)

most comprehensive field study

The Basel Committee undertook a most comprehensive field study of Basel II, in the form of QIS 3, from about June 2002. QIS 3 included 365 banks from 43 countries. There were 188 banks from 13 Group-of-ten (G10) countries and 177 banks from 30 other countries. Of the 177 banks from other countries, 111 banks were from 18 non-European Union (EU) and non-G10 countries. Eight South African banks participated in this comprehensive impact study. These eight banks represented approximately 80 per cent of the total South African banking sector (as measured by the size of assets).

steps

The QIS 3 process undertaken by the Bank Supervision Department involved intensive work with the participating banks, including the following steps:

- Banks were given comprehensive guidelines to complete the QIS 3 questionnaire, which was in the form of a very detailed spreadsheet, with embedded formulae.

- Banks were guided through the spreadsheets during a workshop and were given an opportunity to pose questions whenever they required assistance.

- Several months of intensive data collection followed, during which the banks deployed teams to retrieve information, in most cases manually. The spreadsheets were then populated with the data to calculate capital requirements automatically.

- The completed spreadsheets were submitted to the Bank Supervision Department, which analysed the spreadsheets in detail.

- The Department then populated a template, which had been designed to consolidate summarised individual bank data and to perform analysis of the data.

- The data were validated through extensive discussions with each individual bank. Each validation session lasted a full day.

- The final validated data were then consolidated and analysed, and a report on the findings was submitted to the Basel Committee, for analysis.

- Finally, the banks were invited to a presentation at which the findings were discussed.

overall increase in risk-weighted assets for South African banks

Regardless of the approach that was adopted, there was an overall increase in risk-weighted assets for South African banks. The average increase in risk-weighted-assets may be broken down as follows for the different approaches:

- For group 1 banks (assets over euro 3 billion), the increases were 8 per cent for the standardised approach, 15 per cent for the foundation IRB approach and 27 per cent for the advanced IRB approach.

- For group 2 banks (assets less than euro 3 billion), the increases were 6 per cent for the standardised approach, 2 per cent for the foundation IRB approach and 4 per cent for the advanced IRB approach.

These findings were consistent with the experience of non-EU, non-G10 countries, where the capital requirements for all approaches increased by between 9 per cent and 19 per cent on average. In the opinion of the Bank Supervision Department, the increase can be attributed to the following factors, amongst others:

increase can be attributed to the following factors

- QIS 3 was done on a best-effort basis, since banks were not expected to be Basel II compliant.

- The higher capital requirement is reflective of South Africa's emerging market status, as argued by certain critics. The risk-quantification methodology may have factored a higher risk weighting for emerging markets.

- There was a general lack of credit-risk mitigation data. The implications, therefore, are that exposures did not receive a preferential risk weighting if credit-risk mitigation mechanisms were in force for some of the risks inherent in the exposures. A higher risk weighting will therefore result in an additional capital requirement for such exposures.

- Generally, banks were very conservative in their estimates.

- There were significant increases in the risk-weighted asset requirement for the sovereign, bank and equity portfolios, since the current regulatory treatment thereof is not sensitive to risk.

- The operational-risk charge, which is additional to the current regulatory requirements, made the highest contribution to the overall increase in risk-weighted assets.

done on a best-effort basis

Although QIS 3 was an excellent starting point, conclusive reliance cannot be placed on the results, since it was done on a best-effort basis. The Bank Supervision Department, therefore, plans to undertake a further QIS during the latter half of 2004, or early in 2005. All banks will be given an opportunity to participate in the proposed QIS and will reap the same benefits as the initial eight banks that participated in QIS 3.

Scope of application for South African banks

timelines

In Banks Act Circular 14/2003 of 6 November 2003, the Bank Supervision Department stated that, it fully supported Basel II. The Department believes that Basel II is suitable for application in both G10 and non-G10 countries, since it provides a menu of approaches suitable for both sophisticated and the least sophisticated banks. Therefore, Basel II will be implemented within the South African banking sector in accordance with the Basel Committee timelines of 31 December 2006 for implementation of the stndardised and foundation approach and 1 January 2006 for the parallel run, whereby banks will be required to perform parallel calculations in terms of both Basel II and the current capital-adequacy framework. Banks wanting to adopt the more advanced approaches will be able to do so, on a casy-by-case basis, only once minimum requirements have been met, after the end of 2007, as proposed by the Basel Committee.

base requirement

On the common implementation date of 31 December 2006, all South African registered banks will have to be Basel II compliant. The base requirement will be compliance with, at least, the simplified standardised approach to credit risk, the basic indicator approach to operational risk and the requirements of pillars II and III. The current capital-adequacy framework (based on the 1988 Basel Accord) will no longer be available as from the implementation date. An explicit approval process will not be required for the base requirements, but banks will be required to consult with the Bank Supervision Department prior to adopting such approaches. Explicit approval, in the prescribed format, will be required for all other approaches.

developing a supervisory framework

The Bank Supervision Department will direct resources to developing a supervisory framework involving all approaches up to and including the foundation IRB approach to corporate credit exposures, the advanced IRB approach to retail credit exposures and the standardised (and alternate standardised) approaches to operational risk. The advanced IRB approach to corporate credit exposures and the AMA to operational risk, however, will be available to banks only on a case-by-case basis. Although foreign banks will be allowed to adopt the advanced approaches, reliance will be placed on the home supervisor, with whom the Department will work closely.

Principles on which the Bank Supervision Department based its scope of application

scope of application principles

The Bank Supervision Department based its decision on the scope of Basel II application on the following principles:

- The Department will continue to follow a consultative approach, involving stakeholders at every step of the implementation process. The Accord Implementation Forum, discussed in the previous annual report, is an ideal platform to engage with the relevant stakeholders and to negotiate the successful resolution of implementation issues. The Department will also produce a series of consultative papers and guidelines to assist banks in their implementation process.

- The Department will closely follow international developments with the implementation of Basel II and will work closely with the Basel Committee and its working groups, as well as with supervisors in both developed and developing countries, internationally active foreign banks and local banks. Global implementation efforts and the work done by local banks will guide the Department's implementation efforts.

- The Department requested all banks in South Africa to give an indication of the Basel II approach that they were likely to adopt on the implementation date. Most banks indicated their intention to adopt the intermediate approaches, such as the foundation IRB approach to credit risk and the standardised approach to operational risk. Accordingly, the Department will plan its implementation initiatives to cater for the approaches that banks are most likely to adopt.

- The Department will adopt a flexible and phased approach to implementation. Early work will focus on the simpler approaches, followed by the intermediate approaches. Preparation for the advanced approaches may well extend beyond the common implementation date as banks make progress towards the more sophisticated approaches.

- The Department wants to encourage innovation in the risk-management efforts of banks. Accordingly, the Department will work closely with banks that believe that, on the implementation date, they will qualify to use the more advanced approaches in their day-to-day risk-management activities and in the calculation of their regulatory capital requirement. Sophisticated risk-management practices may give such banks a competitive advantage in the market.

Scope of application in other jurisdictions

As indicated earlier in this chapter, a number of countries announced the scope of their application of Basel II after the release of CP 3 in April 2003.

United States of America

In the United States of America, regulators stated that they would apply Basel II to ten core US banks and that a further ten or more banks would voluntarily adopt Basel II, for competitive reasons, at the end of 2006. All US banks operating under Basel II will be required to adopt the most advanced approaches to capital-adequacy calculations. All other US banks will remain on the 1988 Basel Capital Accord.

United Kingdom

The United Kingdom, on the other hand, stated its intention to adopt Basel II more holistically and proposed an approach of no compulsion and no prohibition to the implementation of Basel II within its jurisdiction. In terms of this approach, the Financial Services Authority (FSA) will leave it to firms to decide, taking into account costs and benefits, whether to apply to adopt the advanced approaches. The FSA will therefore make the multiplicity of Basel II approaches to risk quantification and capital calculation available to banks. The FSA believes that the IRB approach to credit risk and the AMA to operational risk apply more widely than simply to the largest, most complex firms. The FSA observed that it may be easier for less complex firms, with fewer portfolios or business lines, to adopt an IRB approach or AMA.

Australia

The Australian Prudential Regulation Authority (APRA) stated that it was confident that the country's financial institutions were well placed for the implementation of Basel II. APRA expects the four largest banks to implement the advanced approach. Like the FSA, APRA will make the multiplicity of approaches available to banks.

Hong Kong and Singapore

As in South Africa, the authorities in Hong Kong and Singapore will adopt a more gradual approach to implementation. They will make the intermediate approaches, such as the foundation IRB approach to credit risk and the standardised approach to operational risk, available to banks upon implementation of Basel II in December 2006. Banks will be allowed to move to the more complex approaches at a later stage, potentially in about 2010.

India

India proclaimed its commitment to implementing the best international practice, but cautioned that some of the issues relevant in the context of emerging markets and developing countries may not yet have been addressed fully by the Basel Committee. The Reserve Bank of India (RBI) believed that the level of preparedness of the banking system and supervisors would vary from country to country. Consequently, the RBI was of the view that it would be desirable to assign greater flexibility to national supervisors to calibrate risk weights on different types of exposure under the standardised approach to credit risk.

The RBI reiterated that the focus of Basel II should be on internationally active banks. Since the main objectives of Basel II are to ensure competitive equality and to provide a reasonable degree of consistency in application, it is necessary for all supervisors, worldwide, to have a common definition of internationally active banks. Therefore, the RBI wants the Basel Committee to define internationally active banks. The RBI is of the view that all banks with cross-border business exceeding 20 per cent or 25 per cent of their total business may be defined as internationally active banks.

China

Finally, the China Banking Regulatory Commission (CBRC) affirmed its strong support for the objectives of Basel II and stated that it believed Basel II to be more about risk management than capital regulations. The CBRC cautioned, however, that Basel II might need to be revised and recalibrated before its underlying principles and its essential provisions could be implemented consistently by more countries outside the G10 fold. The CBRC was of the view that Basel II would be only marginally more risk sensitive than the 1988 Basel Capital Accord, but would increase the overall capital requirement for the entire banking system. Therefore, China would remain on the current regulatory framework, at least for a number of years after the G10-implementation date of 2006. In an effort to improve capital regulations, however, the CBRC has apparently revised the existing capital rules to incorporate pillar II and III principles.

Conclusion

The Basel Committee has made much progress with the design of a sophisticated risk-sensitive capital-adequacy framework. The intention is to improve the level of risk management in banks and, thereby, to improve the safety and soundness of global financial markets. The Basel Committee's efforts over the past five years are bearing fruit. As indicated above, the final Accord will be released during the middle of 2004. Despite a delay in the release of Basel II, banks and supervisors around the world are making significant progress with their implementation initiatives. Supervisors are encouraged by the fact that banks have gained an understanding of the business benefits of adopting Basel II principles. The journey towards Basel II implementation promises to be challenging, yet exciting, and holds the potential of an overall improvement in the stability of financial markets worldwide.

significant progress

Impact of changes to accounting standards

The previous annual report contained a relatively comprehensive exposition of the implications of Accounting Standard AC 133 for banks. The objective of AC 133, which came into effect for companies' year-ends commencing on or after 1 July 2002, is to establish principles for the recognition, measurement and disclosure of information relating to financial instruments in the financial statements of business enterprises, including banks. As envisaged, the impact of AC 133 became evident only in 2003, once companies reported their interim and annual financial statements in terms of AC 133.

impact of AC 133 became evident only in 2003

In terms of AC 133, a bank, for example, has to:

- Recognise a financial asset or financial liability in its balance sheet when the bank becomes a party to the contractual provisions of the instrument. This means that a bank has to recognise all its contractual rights or obligations under derivative instruments as assets or liabilities in its balance sheet.

- Classify financial instruments into predetermined categories, such as instruments held for trading, instruments available for sale, instruments held to maturity, etc.

The selected classification category has a direct impact on the original and subsequent measurement of the financial instruments. For example, instruments held in certain categories may be measured and disclosed at their fair value or market value, whereas instruments held in other categories may be measured and disclosed at the amortised cost.

comprehensive directives

Furthermore, AC 133 contains comprehensive directives on matters such as the following:

- Recognition and measurement of derivative instruments.
- Criteria relating to the derecognition of financial assets or liabilities.
- Impairment of financial assets.
- Hedging.
- Trade-date versus settlement-date accounting in respect of certain financial instruments.

The above-mentioned matters have a material impact on the manner in which banks and banking groups measure and report their transactions in financial instruments to their respective boards of directors and management, as well as the general public.

amendments to some risk returns have become necessary

Because the risk returns that banks and banking groups submit to the Bank Supervision Department are based on the information that is submitted to the boards of directors and management of the institutions, as well as on the information disclosed to the general public, amendments to some risk returns have become necessary. For this purpose, a forum, consisting of representatives of banks, the auditing profession and the Department, was established. The forum meets on a regular basis in order to finalise the required amendments to the regulatory framework.

Review of legislation on accounting profession

In the aftermath of the Enron and Worldcom international debacles and local corporate failures, such as those of Macmed, Leisurenet and the former Regal Treasury Private Bank Limited, amongst others, the Minister of Finance set up a panel to formulate proposals to assist in restoring public confidence in the integrity of financial markets. The Ministerial Panel for the Review of the Draft Accountancy Profession Bill, chaired by Dr Len Konar, was appointed on 5 December 2002.

Panel's terms of reference

The Panel's terms of reference covered matters affecting auditor independence, including consideration of issues such as auditor rotation, determination and approval of audit fees, performance of non-audit work by companies' external auditors and the relationship between auditors and the boards of client companies. Furthermore, the Panel had to consider mechanisms that would be appropriate to determine the liabilities and discipline of, firstly, auditors for incorrect audit opinions and, secondly, the

management of client entities for failure to disclose correct and relevant information about the entities' financial health to auditors. Finally, the Panel had to consider, among other issues, whether accounting standards were appropriate and relevant, as well as advise the Minister on the feasibility and appropriateness of regulating internal audit and audit committees.

Panel's key recommendations

The Panel presented its report to the Minister of Finance on 17 October 2003. Among the Panel's key recommendations were the following:

- The Accountancy Profession Bill should be renamed the Auditors' Act, since it should deal solely with the auditing profession.

- The board of the regulatory body for auditors, especially its disciplinary arm, should be reconstituted, by removing control thereof from auditors to increase the board's independence.

- Audit committees should comprise solely independent non-executive directors, who would have the exclusive power to deal with matters such as the appointment of auditors and the setting of auditors' fees. The Panel suggested that such committees would also have to consider, within the context of their responsibility of continuously assessing and ensuring the independence of the external auditors, the matter of rotation of audit partners and senior staff, whose maximum term should be five years. The Panel further proposed that the transparency of the disciplinary process in respect of auditors be increased to enhance its credibility and that statutory offences for reckless incorrect reporting, as well as mandatory deregistration of auditors found guilty of fraud, be introduced.

- Criminal sanction should be introduced for false and material non-disclosure to auditors of true and relevant information about an entity's financial position by management. Failure, by any of the parties involved in the process of financial-statement preparation, to present information to be included in financial statements fairly should also constitute a statutory offence.

- The establishment of an audit committee should be legally mandatory for listed and public-interest entities. The Panel, however, did not consider the regulation of internal audit to be appropriate.

The Panel's recommendations are being considered by the National Treasury for possible incorporation into future amendments to corporate law. Where applicable, the Panel's recommendations will be taken into consideration in the formulation of future amendments to the Banks Act, 1990, and the Regulations relating to Banks.

Implementation of anti-money-laundering measures by banks

The events of 11 September 2001 accelerated efforts by many countries, including South Africa, to prevent the use of their financial systems for the transmission of illegally obtained funds. The Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001 – the FIC Act), was promulgated on 1 January 2002, and Regulations thereto were gazetted in December 2002 in order to facilitate implementation of the FIC Act. South Africa's admission, in June 2003, to the Financial Action Task Force, established by the Group-of-seven summit in June 1989 to examine measures to combat money laundering, also places an obligation on the South African banking sector.

The FIC Act facilitated the drafting of appropriate anti-money-laundering (AML) measures by regulatory bodies and provided a central point to which institutions would have to report suspicious and/or unusual transactions. The FIC Act provides for the establishment of the Money Laundering Advisory Council (MLAC), the role of which is to advise the Minister of Finance on regulations in terms of the FIC Act.

Supervisory process

In terms of the FIC Regulations, banks are obliged to report any transaction considered to be unusual or suspicious to the FIC. Such reporting became mandatory as from February 2003. An important aspect of the FIC Regulations is the duty to:

reporting became mandatory

- Implement internal controls, policies and procedures.
- Establish identification procedures.
- Keep records for a period of at least five years.
- Recognise suspicious and/or unusual transactions.
- Educate and train relevant employees.
- Appoint an AML compliance officer.

In terms of principle 15 of the Basel Core Principles for Effective Banking Supervision, banking supervisors have to determine that banks operating in their jurisdictions have in place policies, procedures and practices that promote high ethical and professional standards. Furthermore, supervisors have to ensure that such standards prevent banks from being used, intentionally or unintentionally, to promote criminal activities.

In order to fulfil its obligations and to monitor compliance with the FIC Act and other AML provisions, the Bank Supervision Department required each bank to complete a questionnaire, to be signed by the chief executive officer of the particular bank, to enable the Department to do an initial assessment of the status of the AML measures implemented by banks in South Africa. The questionnaire was also intended to form a basis for the on-site reviews undertaken by the Department, from time to time.

initial assessment of the status of the AML measures implemented by banks

Guidelines provided

In order to ensure banks' compliance with the requirements of section 45 of the FIC Act and principle 15 of the Basel Core Principles, Banks Act Circular 13/2002 was issued in December 2002. The circular provided guidelines on the types of measure that banks had to implement in order to prevent them being used to launder the proceeds of crime.

In terms of the above-mentioned circular, each bank had to furnish the Department with a detailed plan, with time frames by which it intended to achieve full implementation of and compliance with the FIC Act and the FIC Regulations. If called for, appropriate supporting evidence had to be submitted.

In order to ensure that the Department and banks had a common understanding of the requirements, a meeting of all AML compliance officers was convened at the South African Reserve Bank's head office, in Pretoria, on 19 February 2003. Participants were informed of the structure and nature of the information that the Department would require in its assessment of banks' compliance with the legislation.

Reporting of suspicious transactions

Section 29 of the FIC Act places a reporting obligation on persons who conduct a business, or who are in charge of or manage a business, or who are employed by a business. If such a person has certain specified knowledge or a suspicion about a

reporting obligation

transaction or receipt of funds, the person has to report, within a prescribed time, the grounds for that knowledge or suspicion, together with prescribed particulars, to the FIC.

Banks have to make detailed reports of all unusual and/or suspicious transactions to the FIC. In addition, banks have to report the number of such reports to the Registrar of Banks. From February 2003 to December 2003, banks reported some 5 464 unusual/suspicious transactions, totalling R2 560 691 000, to the FIC. The figures reported to the Department also indicated that, during that period, 63 535 people in banks had received AML training.

In terms of section 52 of the FIC Act, failure to report a suspicious or unusual transaction to the FIC is an offence. A person found guilty of such an offence is liable to imprisonment for a period not exceeding 15 years, or to a fine not exceeding R10 million.

Illegal deposit-taking

regulate and control illegal deposit-taking

One of the auxiliary functions of the Bank Supervision Department is to regulate and control illegal deposit-taking. The taking of deposits without being registered as a bank, or falling within and complying with one of the exemptions from the Banks Act, 1990, amounts to an offence. The reason is that registered banks have to comply with certain minimum prudential requirements, whereas illegal deposit-takers obviously do not comply therewith and enter into direct competition with registered banks, to the detriment of the banking and financial system and, ultimately, the investors in illegal schemes.

inspections

During 2003, the Bank Supervision Department continued to inspect and close down persons and institutions acting in contravention of the provisions of the Banks Act. Twenty-two new inspections, together with 21 inspections carried over from the previous year, were undertaken. Some members of the Department were also assigned to act as expert witnesses in court proceedings during the year under review.

The Department has found that although some illegal schemes are masterminded by unscrupulous individuals prepared to defraud others of their funds, other schemes start as bona fide microlending businesses. Since money is lent to borrowers at an interest rate of between 25 per cent and 30 per cent, the owners of such microlending businesses tend to believe that an increase in their loan book will increase their income. Microlenders often obtain the capital for their operations from family and friends, who are paid interest of 10 per cent to 15 per cent per month. These interest rates, which are generally higher than those available elsewhere, tend to attract more investors, resulting in more money flowing into the business and more funds being lent out. The resulting increase in the loan book leads to increased risk of default by borrowers. When loans are not serviced, microlenders are no longer able to pay the interest owed to investors.

motivation of the public

The motivation of the public investing in such schemes also deserves mention. Many members of the public invest in illegal schemes because of greed or ignorance. Greedy investors usually wish to make money easily and quickly and do not care how this is achieved, provided they benefit. When they discover that their investment has been lost, they usually report the matter. There are also those that wish to hide their funds from, for example, the tax authorities. Such investors are unlikely to report the loss of their investment. Despite ongoing efforts by the Department and various media to warn the public of the dangers of investing in illegal schemes, they appear to be increasing in number and sophistication.

Particularly at risk are persons who have recently received their retirement benefits. This holds particularly true when such persons are illiterate or semi-illiterate. Employers should therefore inform prospective pensioners of the dangers of illegal schemes and warn them against losing their hard-earned funds to fraudsters. Schools and churches could also play a role in this regard. The Department believes that harsh sentences should be given to the operators of illegal schemes to deter prospective criminals from defrauding others of their funds.

Broader access to finance

In South Africa, there is a need to facilitate and extend access to banking and financial services on a wider basis than is currently possible. The Bank Supervision Department, therefore, is doing research on various models to create easier access to financial services for the under- and unbanked portion of the population.

Narrow and core banks

An initiative to establish narrow and core banks commenced in 2002. During the year under review, draft legislation was developed to facilitate the establishment of narrow and core banks, which fall into the category of second-tier banking. Once the proposed legislation has been approved and implemented, narrow and core banks could create greater access to basic banking services at a lower cost than first-tier bank institutions.

draft legislation was developed

Minor changes to the draft legislation, intended to provide for the regulation and supervision of the activities of certain public companies registered as dedicated banks, were proposed at a meeting of the Standing Committee for the Revision of the Banks Act, 1990, in October 2003. The draft legislation is expected to be made available for comment during 2004.

Community deposit-taking institutions

The concept of community deposit-taking institutions was discussed extensively in the previous annual report. Since community deposit-taking institutions are normally member based, they are managed and controlled by their members. Most of these member-based institutions are able to mobilise the savings of their members, an aspect regarded as important for sustainable economic development in the communities that such institutions serve.

During the year under review, the National Economic Development and Labour Council continued a process of establishing cooperative banks, as an outcome of member-based financial institutions. Draft legislation to establish cooperative banks is expected to be made available for comment during 2004.

draft legislation is expected

Problems in the financial-service cooperative market

In 2002, 33 financial-service cooperatives (FSCs) under the control of FinaSol, one of the previous self-regulatory bodies, were audited. During the year under review, the Bank Supervision Department contracted an auditing firm to do a more in-depth audit of these FSCs. The audit showed that most of the FSCs had been mismanaged and had financial difficulties. Since FSCs are registered as cooperatives and the Department has no legal means of salvaging FSCs in distress, the finalised audit reports were handed to the Registrar of Cooperatives, in order for the FSCs in distress to be dealt with in terms of the legislation on cooperatives.

in-depth audit of FSCs

a joint working committee was established

A joint working committee (JWC), comprising representatives of the National Treasury, the National Department of Agriculture and the Bank Supervision Department, was established during the year under review. The objective of the JWC is to discuss broader issues relating to the FSC market, in order to find a solution to the problems prevailing in that market. The JWC held several meetings and also attended a strategic workshop, organised by the National Department of Agriculture, with the Financial Cooperative of South Africa (FICOSA), in December 2003. FICOSA is aspiring to become a self-regulatory body for FSCs. As reported in the 2002 annual report, the previous self-regulatory bodies, FinaSol and the Financial Services Association (FSA), ceased operations in 2002. The objective of the workshop was to provide the members of FICOSA with a discussion forum, in order to prepare them for the process of registering as a self-regulatory body. The JWC attended the workshop to elucidate various legal, financial and commercial aspects relevant to the establishment of a self-regulatory body.

It should be noted that, in terms of one of the conditions of the notice exempting FSCs from the provisions of the Banks Act, 1990, an FSC has to be a member of a self-regulatory body that has been approved, in writing, by the Registrar of Banks.

Other developments in microfinance

good progress with formalising the micro-lending industry

One of the rules of the Micro Finance Regulatory Council (MFRC), which was established as a regulatory body in 1999, requires microlenders to be registered with the MFRC. Over the years, the MFRC has made good progress with formalising the microlending industry. This is illustrated by the fact that 1 430 entities, representing 7 280 branches, were registered with the MFRC at the end of 2003.

unregistered lenders

A major problem for the MFRC has been the large number of unregistered lenders and the problems associated therewith. In brief, registered lenders have to comply with the rules of the MFRC, whereas unregistered lenders fall outside the ambit of the MFRC's rules.

The situation, however, improved during the year under review, when the High Court handed down a decision against the Southern African Money Lending Affairs Council, A-Z International Finance Brokers (Pty) Limited and the Second-hand Dealers and Pawn Board, following an application brought by the MFRC. In terms of the judgment, schemes implemented or promoted with the intention of avoiding or circumventing registration with the MFRC were declared to be unlawful, and microlenders and pawnbrokers are prohibited from implementing such schemes.

direct inspection powers were created for the MFRC

Furthermore, the Department of Trade and Industry implemented an amendment to the Usury Act, 1968 (Act No. 73 of 1968), whereby direct inspection powers were created for the MFRC. The amendment, which came into effect on 23 April 2003, extended the MFRC's mandate to include unregistered microlenders in the regulation process. A number of inspections have already been undertaken under this mandate, and there has been a fair level of success in obtaining successful prosecutions, even though there appears to be a considerable delay between the completion of investigations and the conclusion of legal prosecutions.

National Loan Register

Microlenders are placing an increasing number of credit records onto the National Loan Register (NLR), and more than 5 million loan records had been registered on the NLR by the end of 2003. The MFRC is placing emphasis on measures to combat reckless lending and has formulated a rule compelling all registered lenders to perform

affordability assessments. It is believed that these measures will play an important role in curbing overindebtedness, while assisting credit grantors with improving their credit quality and decreasing their credit risk.

The Black Micro Finance Association (BMFA) was launched in 2003. The BMFA apparently concentrates primarily on developing the so-called township lenders and on facilitating the integration of the formal and the informal lending sector. Provided the same rules apply to the latter in terms of statutory registration, there should be no resistance from formal lenders.

A conference on current issues in microfinance, attended by over 200 delegates from 21 countries, was held in South Africa, during the year under review. The objective of the conference was to involve African practitioners and policy-makers in the international discussion on microfinance. It is envisaged that this conference will be held in Africa every two years.

other areas that received attention

Other areas that received attention during the year under review and which impacted on the broader evolution of microfinance in South Africa include the following:

- Introduction of a standard loan-disclosure statement by the MFRC, which is based on the so-called truth-in-lending disclosure applied in the United States of America and which should contribute to improved disclosure.

- Considerable progress with a review of the Usury Act and related credit legislation, in order to replace the said legislation with a modern, integrated consumer-credit act. These measures should assist in reducing the fragmentation and segmentation of the consumer-credit and microlending market, by enhancing consumer protection and competition.

market conduct appears to have improved substantially

As a result of ongoing attention to consumer education and awareness, implementation of measures, such as the NLR, to improve lending practices and consistent disciplinary action against lenders found not to comply with rules and regulations, market conduct in the microlending sector appears to have improved substantially.

Problems identified by the Microlenders Association

problems

In general, there is good cooperation between the Microlenders Association (MLA) and the MFRC in resolving complaints against microlenders. The MLA, however, has highlighted problems such as the following, amongst others:

- Inadequate access to the National Payment Systems, a factor that is regarded as hampering development in the microlending industry.

- Registered microlenders bearing the brunt of the MFRC's regulatory actions, whereas unregistered lenders often escape unscathed.

- The fees for registration with the MFRC being exceptionally high, compared to, for example, the registration fees of estate agents.

- Microlenders funding consumer education at three levels, that is, by investing a substantial amount of their own money in consumer education, through MFRC registration fees, which could be reduced if they did not include funding for consumer education, and through normal company tax, which is used to fund the consumer desks of the various provincial governments.

The MLA and responsible microlenders have stated that they are in favour of responsible regulation. They have also expressed their willingness to extend various services to lower income groups, including savings, housing finance and funding for small, medium and micro enterprise. The geographical spread of microlenders, even in the remotest areas and with more outlets than banks, positions them well to extend financial services to lower income groups. The formalised part of the microlending industry is already worth R15 billion, despite having to rely on own funding only. The MLA believes that if the microlending industry could be freed from the restrictions currently imposed on it, such as being limited to granting loans and having to use own funds, effective free-market forces could come into play, with benefits such as competitiveness, lower interest rates and a wider range of products and services, to the benefit of the economy and individuals.

Developments within the savings and credit-cooperative sector

A member of the Bank Supervision Department has been co-opted to the board of the Savings and Credit Cooperative League of South Africa Limited (Saccol). Saccol is the recognised self-regulatory body of all savings and credit cooperatives (saccos) and credit unions in South Africa and provides representative, developmental and regulatory functions to its member owners. Saccol monitors and regulates saccos through a regime of progressive regulatory requirements.

In 2003, 25 saccos, with a combined membership of 12,500 and with a membership subscription, in the form of shares, savings and other deposits, of R20 million and a net loan book of R15,5 million, were affiliated to Saccol. The year under review was challenging for Saccol, in that two saccos were placed under its direct administration and three members were suspended for failing to comply with Saccol's minimum standards.

Bank-supervisory activities at regional level

harmonisation of bank-supervisory philosophies and practices

The Bank Supervision Department continued to participate in the activities of the East and Southern African Supervisors Group (ESAF). ESAF is the forum for bringing together the views of regional bank-supervisory bodies, with the objective of promoting the overall standard of bank supervision in ESAF member countries, in line with best international practice. ESAF, through its Executive Committee, actively promotes the harmonisation of bank-supervisory philosophies and practices in the region. At the Annual General Meeting of ESAF held in Malawi, in June 2003, Malawi was elected to fill the ESAF chair, and the Department was re-elected to perform ESAF's secretariat function for another five-year tem.

projects

During 2003, members of the Department attended two meetings of the ESAF Executive Committee. Projects of the ESAF Executive Committee include:

- Compliance with the Core Principles for Effective Banking Supervision.
- Microfinance research project.
- Financial soundness indicators.
- Report on aggregated financial information.
- Bank supervision harmonisation project.
- ESAF implementation plan and programme for the new Capital Accord.

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

The Bank Supervision Application (BSA) system was developed to provide a generic and integrated bank-supervisory solution, based on the harmonised bank-supervisory requirements of all ESAF member countries and in line with ESAF's best-practice strategy. The 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.

generic and integrated bank-supervisory solution

During 2003, the BSA system was implemented in the Bank of Mozambique. This was seen as a pilot project to enable fine-tuning of the BSA solution before its deployment in other central banks. Minor problems with the implementation in Mozambique were successfully resolved in November 2003. Implementation of the system in the Bank of Zambia is to be completed by April 2004.

implementation

The BSA system will then be deployed in Angola and another country. In order to achieve knowledge transfer, these deployments will be undertaken by ESAF central-bank information and communication technology (ICT) staff, instead of the current third-party solution providers. Deployment of the BSA system in ESAF member countries is expected to be completed in December 2005.

The first line of support for the BSA system will be each central bank's own ICT staff. The second line of support will be sited at the South African Reserve Bank, which will also provide the necessary infrastructure and venue for development of enhancement of the application. If serious problems should arise, use will be made of the third line of support, consisting mainly of technology and service providers.

support

Courses in bank supervision

The ESAF Secretariat is tasked with coordinating regional bank-supervisory training for ESAF member countries. Such regional training is provided mainly by the Financial Stability Institute (FSI), to which reference is made earlier in this chapter.

regional bank-supervisory seminars

During the year under review, the FSI presented two regionally focused seminars. The first seminar, which covered the new Capital Accord (Basel II) and implementation challenges, was held in Cape Town, South Africa, ~~and~~ was attended by 20 participants from ten ESAF countries. The second seminar, which covered risk management, was held in Maputo, Mozambique, and was attended by 41 participants from 12 ESAF countries.

regionally focused seminars

The objectives of the seminars were to:

objectives of seminars

- Provide an overview of the latest developments with Basel II.
- Update participants on current best practices in risk management.
- Provide a forum for the exchange of ideas on common problems and the implementation of best supervisory practices, such as improving corporate governance in banks.
- Provide the FSI with information on the most important needs in the ESAF region.

In addition, a regional banking leadership course, run by the Toronto International Leadership Centre for Financial Sector Supervision (Toronto Centre) and attended by 19 delegates from 13 ESAF countries, was held in Cape Town. The Toronto Centre focuses exclusively on helping financial-sector supervisors to build and hone leadership skills by sharing the real-world experience of current and former supervisory agency executives and other senior government officials in the banking, insurance and securities fields. Originally, the Toronto Centre provided its courses in Toronto, but, in recent years, the Centre has started providing training in various regions, in close co-operation with a local host partner, normally the regional association of regulators.

The Bank Supervision Department also successfully hosted two intermediate courses in banking supervision, in Pretoria. These courses were attended by 45 participants from 11 ESAF member countries, as well as delegates from the Gambia and India.

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 again indicated its willingness to host further courses in bank supervision in 2004.

Global Bank Insolvency Initiative

At the invitation of the World Bank, the Bank Supervision Department successfully hosted a seminar as part of the Global Bank Insolvency Initiative (GBII), namely, the Regional Seminar on Comparative Experiences in Confronting Banking Sector Problems in Sub-Saharan Africa. The seminar, which was held in Cape Town, on 14 and 15 October 2003, was attended by 32 participants from 20 countries.

main objective

The GBII is an international initiative led by the World Bank and the International Monetary Fund, in collaboration with the Financial Stability Forum, the Bank for International Settlements, the Basel Committee on Banking Supervision, the Financial Stability Institute and other international financial institutions. The main objective of the GBII is to reach international consensus on the legal, institutional and regulatory framework that countries should have in order to deal with bank insolvency, including in the context of systemic crises. In order to achieve a high level of international consensus, the initiative is based on a process of broad consultation with bank authorities, practitioners and academics from a large number of countries.

The consultation seminar was aimed at reviewing the experiences of Sub-Saharan African countries in dealing with bank insolvency and drawing best practices to guide countries in strengthening their legal, regulatory and institutional framework for dealing with bank insolvency.

Chapter 3

Trends in South African banks

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 of the comparative figures in respect of 2002 may differ from those reported in the 2002 annual report, because banking institutions subsequently submitted amended returns.

comparative figures may differ from those in 2002 annual report

The reports and graphs that follow are largely affected by the position of the "big four" banks, which constituted 80,9 per cent of the banking sector in December 2003 (74,2 per cent in December 2002). The five largest banks constituted 87 per cent of the banking sector as at the end of December 2003 (80 per cent in December 2002).

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 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 2003, equalled R1 377,6 billion, as opposed to R1 100,8 billion as at 31 December 2002 and R1 050 billion as at 31 December 2001.

type and spread of a bank's business activities

Figure 1: Aggregated balance sheet

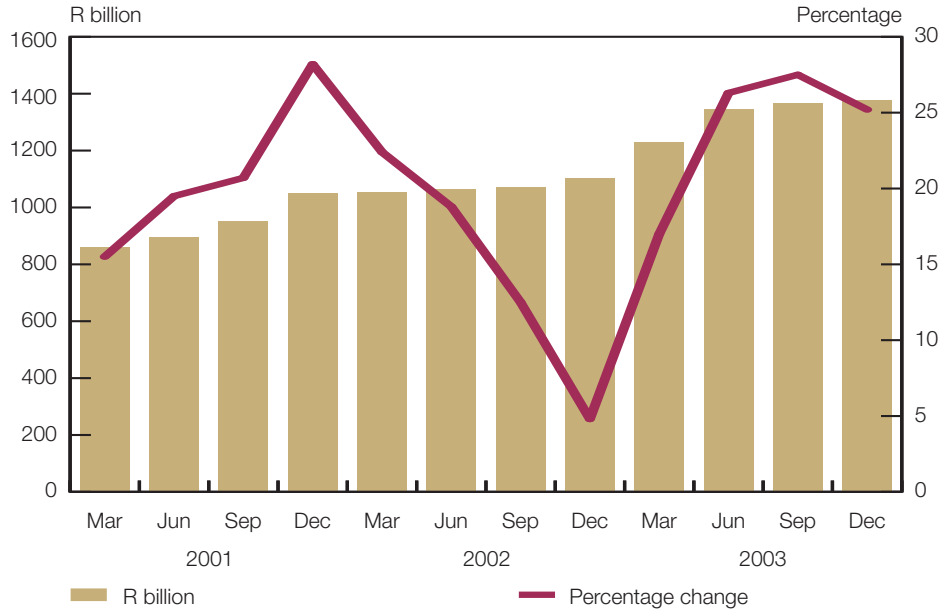


Figure 1 graphically depicts the quarter-end value of, and percentage growth (measured over 12 months) in, the aggregated balance sheet of the banking sector for the period from March 2001 to December 2003. From December 2001, when a growth rate of 28,2 per cent was recorded, growth in the aggregated balance sheet slowed down uninterruptedly until December 2002 (4,8 per cent). By the end of December 2003, however, growth in the aggregated balance sheet had increased to 25,2 per cent. The

growth in aggregated balance sheet increased to 25,2 per cent

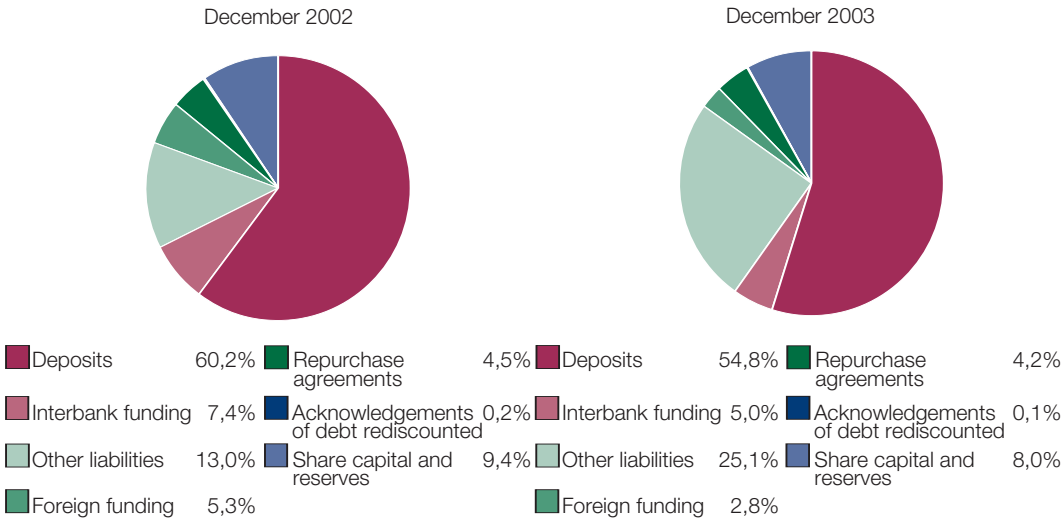
sharp increase in total assets was due to an amendment to the Regulations

sharp increase in total assets during the year under review was due to an amendment to the Regulations relating to Banks whereby banks were required, from 1 January 2003, to report their trading-book positions on the basis of gross values instead of net balances. By the end of January 2003, the net impact on the balance sheet of the total banking sector of the required reporting of gross, instead of net, asset values in respect of derivatives amounted to approximately R118 billion.

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

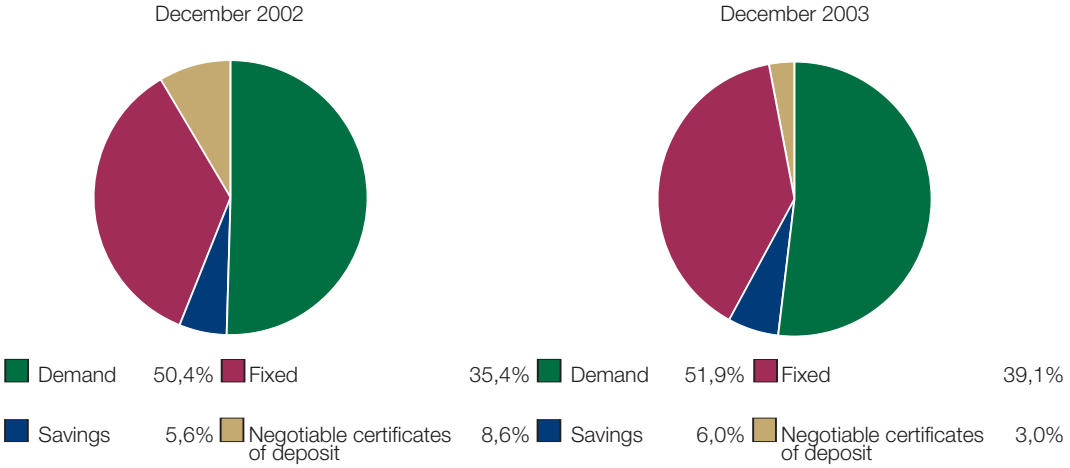
Domestic deposits from the public, in the amount of R755,7 billion, remained the main source of funding for the banking sector and constituted 54,8 per cent of total liabilities in December 2003, compared to 60,2 per cent in December 2002 and 56,1 per cent in December 2001. Foreign funding and interbank funding as a percentage of total liabilities, on the other hand, decreased from 5,3 per cent and 7,4 per cent in December 2002 to 2,8 per cent and 5 per cent in December 2003, respectively. Other liabilities, on the other hand, increased from 13 per cent in December 2002 to 25,1 per cent in December 2003. The sharp increase in other liabilities was due to the previously mentioned amendment to the Regulations relating to Banks. By the end of January 2003, the net impact on the balance sheet of the total banking sector of the newly required reporting of gross, instead of net, liability values in respect of derivatives amounted to approximately R125 billion.

sharp increase in other liabilities was due to an amenment to the Regulations

Composition of non-bank deposits

Figure 3 reflects a year-on-year comparison of the composition of non-bank deposits. Fixed and notice deposits increased by 3,7 percentage points during the year under review. Demand deposits as a percentage of total non-bank deposits increased from 50,4 per cent to 51,9 per cent. Negotiable certificates of deposit as a percentage of non-bank deposits decreased from 8,6 per cent at the end of December 2002 to 3 per cent a year later.

Figure 3: Composition of non-bank deposits

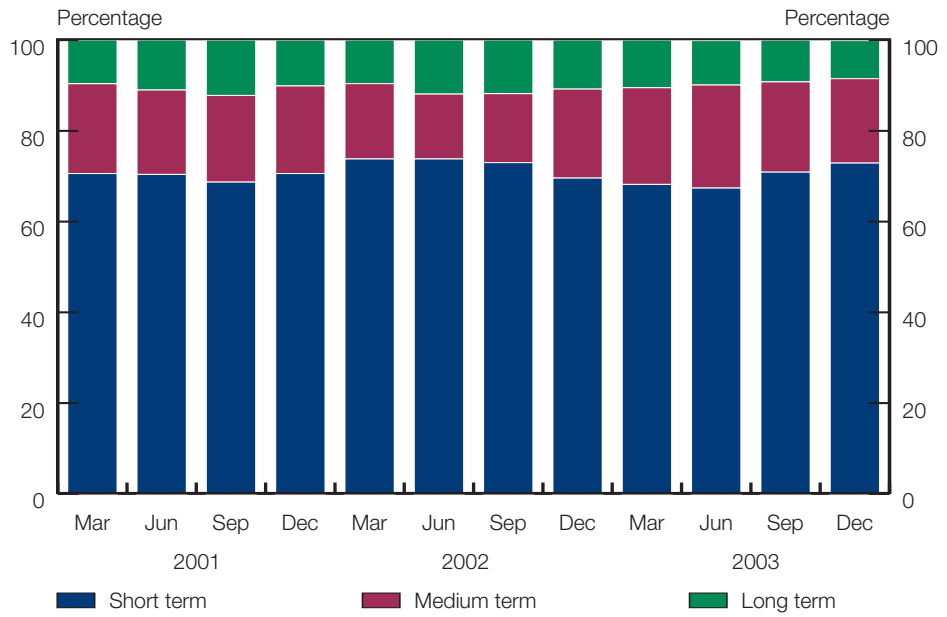


Maturity structure of non-bank deposits

Figure 4 reflects the composition of non-bank deposits (according to maturity) for the period from March 2001 to December 2003. As can clearly be seen from this figure, short-term deposits remained the largest component of total non-bank funding and accounted for 72,9 per cent of total non-bank funding as at 31 December 2003, compared to 69,6 per cent at the end of December 2002 and 70,6 per cent at the end of December 2001. Medium-term deposits accounted for 18,6 per cent as at December 2003, compared to 19,6 per cent and 19,3 per cent at the end of December 2002 and the end of December 2001, respectively. Long-term deposits remained the smallest component of total non-bank funding and accounted for 8,4 per cent of total non-bank funding as at 31 December 2003, compared to 10,8 per cent and 10,1 per cent at the end of December 2002 and the end of December 2001, respectively.

short-term deposits remained the largest component of total non-bank funding

Figure 4: Composition of non-bank funding according to maturity

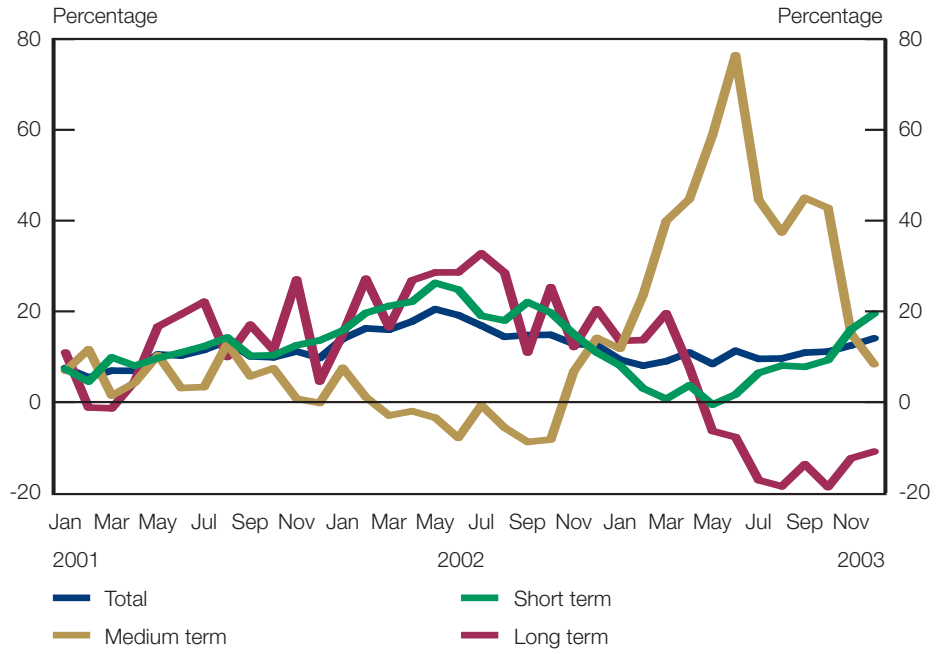


The slight increase in the proportion of total deposits represented by short-term deposits resulted in a slightly higher percentage of the banking sector's assets (consisting of non-bank loans and advances) being financed by short-term funding.

growth in long-term deposits decreased

Long-term deposits not only remained the smallest component of total non-bank funding, but growth therein decreased by 10,9 per cent during the year under review. This is in contrast to increases of nearly 20,4 per cent and 4,5 per cent during 2002 and 2001, respectively. The strong slowdown in the growth of long-term deposits can be attributed to the significant decline in interest rates that resulted from a relaxation in South Africa's monetary policy during 2003 and the South African Reserve Bank reducing its repurchase rate by five percentage points. By the end of 2003, the big five banks held more than 92 per cent of long-term deposits.

Figure 5: Growth in non-bank funding according to maturity (percentage change over 12 months)



growth in medium-term deposits slowed down

Growth in short-term deposits increased from 10,9 per cent in December 2002 to 19,5 per cent in December 2003. For six consecutive months, growth in medium-term deposits was strong (76,4 per cent). From July 2003, however, growth in medium-term deposits slowed down and, by the end of December 2003, had moderated to 8,3 per cent.

other major liabilities

Other major liabilities of the banking sector as at 31 December 2003 included foreign funding of R38,8 billion, which decreased by 33,6 per cent from December 2002. This decrease in foreign funding was due mainly to the appreciation of the South African rand during 2003. Capital and reserves, on the other hand, increased to R110,1 billion (an increase of 6,5 per cent when compared to the December 2002 level of R103,4 billion). Interbank funding decreased to R68,2 billion (a decrease of 16,4 per cent when compared to the December 2002 level of R81,6 billion). Other liabilities, on the other hand, increased significantly, to R346 billion (an increase of 141,9 per cent when compared to the amount of R143,1 billion at the end of December 2002). The sharp increase in other liabilities was due to the amendment to the Regulations relating to Banks mentioned above.

Assets

Figure 6 graphically reflects a year-on-year comparison of the composition of assets as at 31 December 2003 and 31 December 2002. The banking sector's assets increased by R276,9 billion (representing a growth rate of 25,2 per cent) during the year under review, to a total of R1 377,6 billion at the end of December 2003. Factors contributing to this growth were the following:

factors contributing to asset growth

- Monetary assets grew by 8,7 per cent, from R26,5 billion as at 31 December 2002 to R28,8 billion as at 31 December 2003.

- Non-bank advances grew by 9,6 per cent, from R799,8 billion at the end of December 2002 to R876,6 billion a year later.

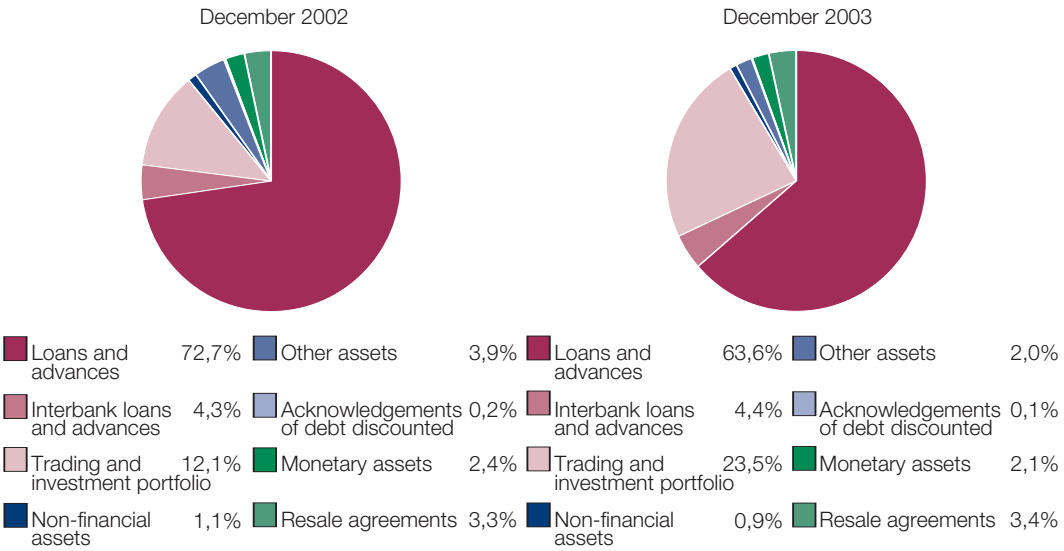
- Loans granted under resale agreements increased from R36,8 billion at the end of December 2002 to R46,8 billion at the end of December 2003, representing a growth rate of 27,1 per cent.

- Non-financial assets decreased by 2 per cent, from R12,5 billion at the end of December 2002 to R12,3 billion at the end of December 2003.

- Other assets decreased by 36,8 per cent, from R42,7 billion at the end of December 2002 to R27 billion at the end of December 2003.

- Trading and investment assets grew by 144 per cent, from R132,9 billion at the end of December 2002 to R324,3 billion as at 31 December 2003. The sharp increase in trading and investment assets was due the amendment to the Regulations relating to Banks mentioned above.

Figure 6: Assets – year-on-year comparison



It is apparent from figure 7 that growth in total loans and advances increased during 2001, but slowed down significantly during 2002. From April 2003, however, growth in total loans and advances recovered and, by the end of the year, had increased by 11,3 per cent (measured over a period of 12 months), compared to 10 per cent at the end of December 2002. At the end of December 2003, loans and advances accounted for about 71,4 per cent of total assets (see figure 8).

growth in total loans and advances increased

Figure 7: Total loans and advances

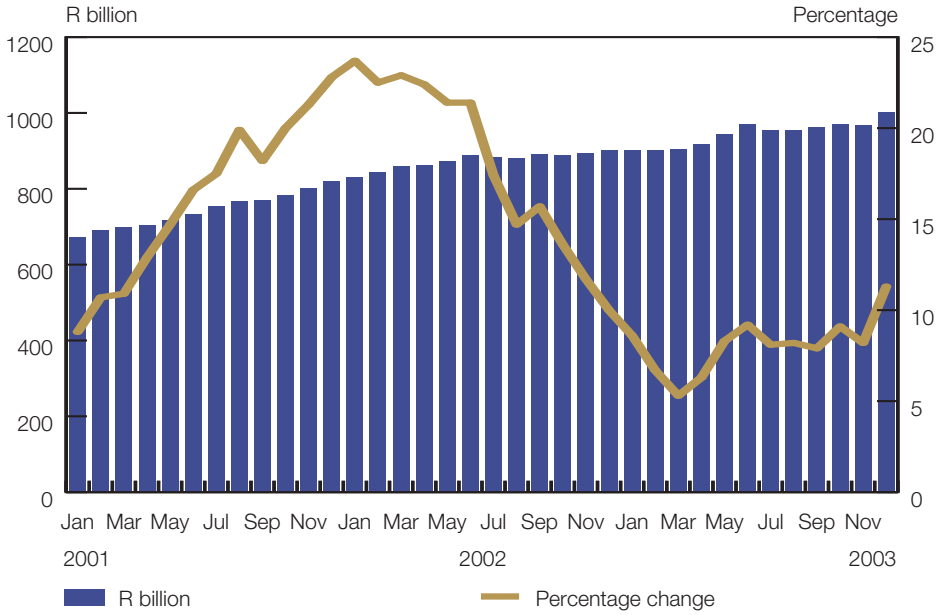
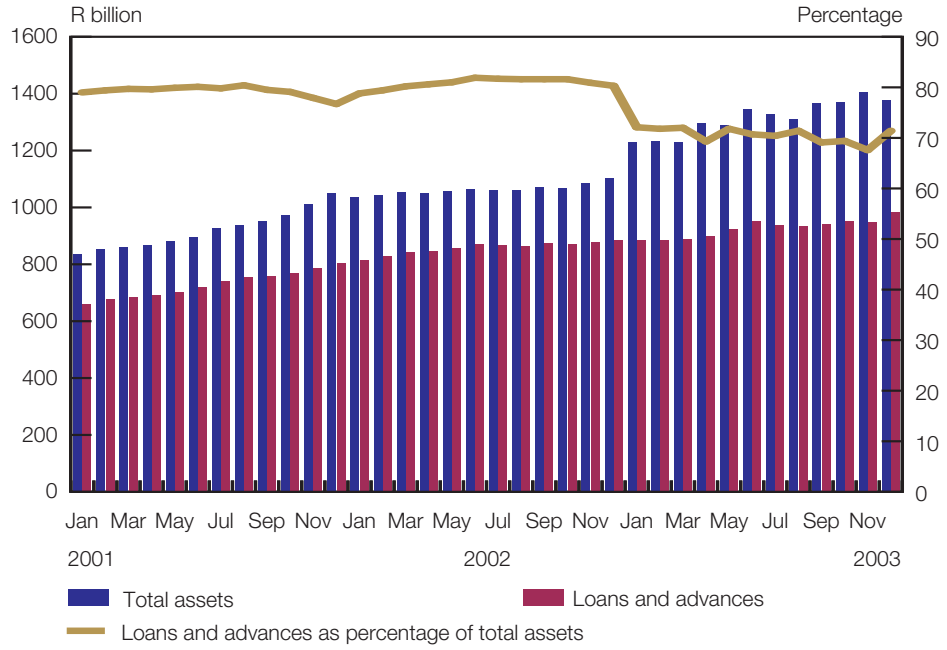


Figure 8: Loans and advances as a percentage of total assets



Loans and advances as a percentage of total assets increased from 76,7 per cent in December 2001 to 80,3 per cent in December 2002, before decreasing throughout 2003 to 67,6 per cent in November 2003. Loans and advances as a percentage of total assets increased somewhat during the last month of 2003, to end the year at 71,4 per cent (see figure 8).

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 2002 and 2003 clearly shows that the composition remained almost unchanged.

non-bank loans and advances represented the main area of focus

As at the end of December 2003, non-bank loans and advances constituted 63,6 per cent (December 2002: 72,7 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 R76,8 billion (2002: R67 billion), representing a growth rate of 9,6 per cent (2002: 9,1 per cent), achieved in respect of non-bank advances during the year under review and measured over a 12 month period can be attributed to the following areas (figure 10):

- Mortgage loans increased by R44,2 billion to a level of R323,4 billion, representing an increase of 15,8 per cent.

- Overdrafts and loans increased by R17,1 billion to a level of R264,8 billion, representing a growth rate of 6,9 per cent.

- Instalment debtors increased by R18,3 billion to a level of R126,2 billion, representing an increase of 17 per cent.

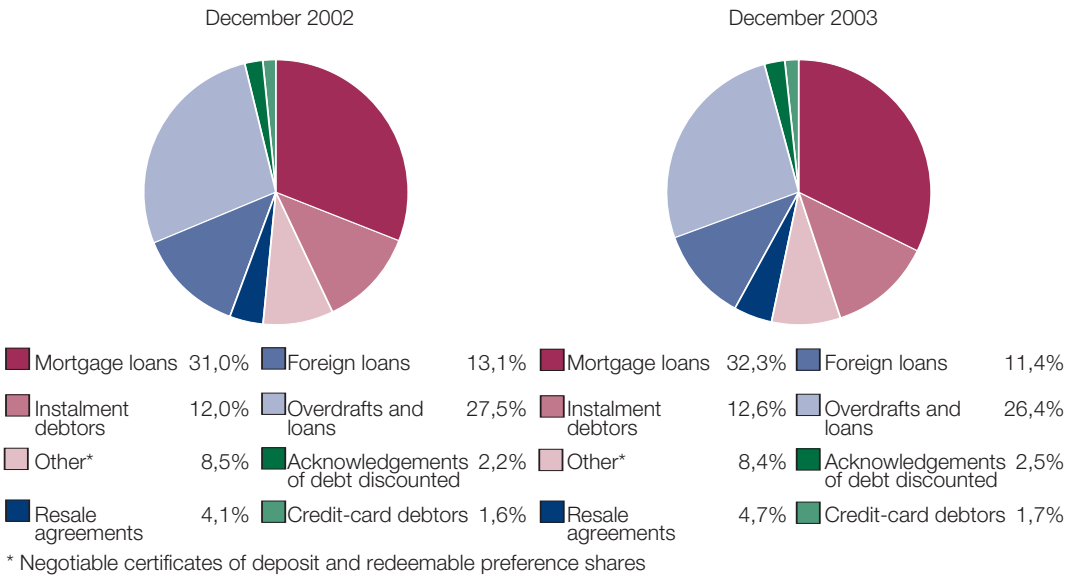
- Foreign-currency loans and advances decreased by R3,3 billion to a level of R114,4 billion, representing a decrease of 2,8 per cent.

- Credit cards increased by R2,3 billion to a level of R17 billion, representing an increase of 15,8 per cent.

- Acknowledgements of debt discounted increased by R5,5 billion to a level of R24,9 billion, representing an increase of 28,4 per cent.

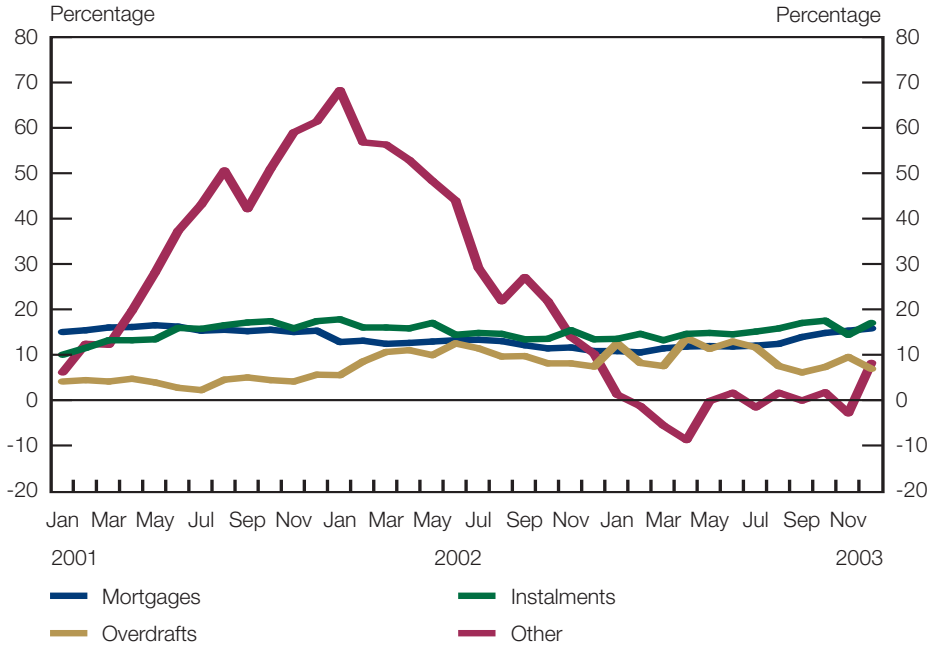
- Redeemable preference shares decreased by R1,6 billion to a level of R15,3 billion, representing a decrease of 9,5 per cent.

Figure 9: Composition of loans and advances



* Negotiable certificates of deposit and redeemable preference shares

Figure 10: Growth in selected loans and advances



3.2 Capital adequacy

adequate capital does not provide a guarantee against failure

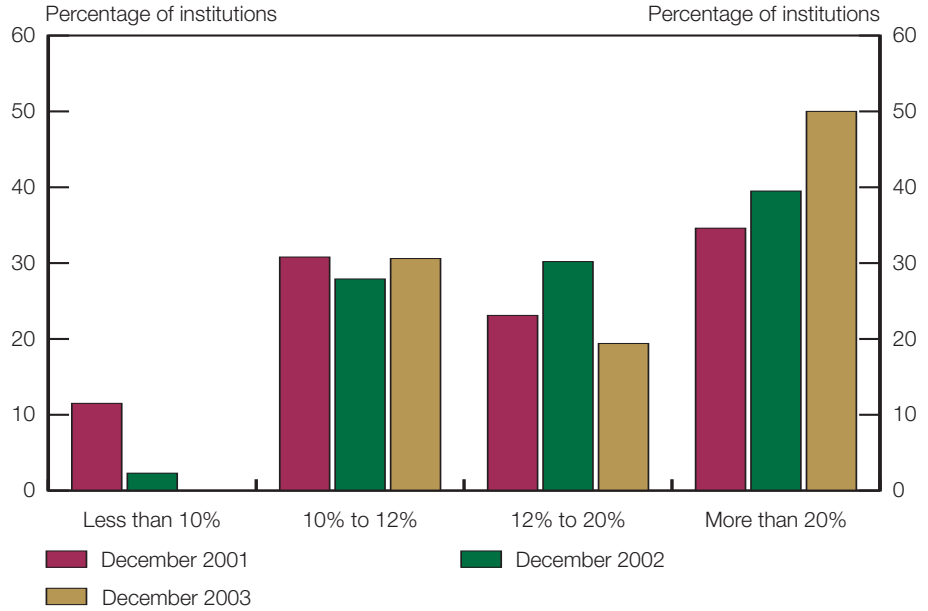
Capital provides a safety net to depositors and other providers of loan finance against losses that a bank might incur. For this reason, it is very important that only banks that are adequately capitalised be authorised to accept deposits from the public. As experience has shown, however, the existence of adequate capital does not provide a guarantee against the failure of a bank that is badly managed.

For the year under review, the average capital and reserves held by the banking sector amounted to R104 billion (R98,3 billion in December 2002), and R93,2 billion (R84,9 billion in December 2002) thereof constituted qualifying capital and reserves for purposes of assessing capital adequacy. The capital-adequacy ratio for the year under review was 12,2 per cent (2002: 12,6 per cent).

all banking institutions met the minimum capital-adequacy ratio

An analysis of the percentage distribution of banks in terms of capital adequacy at the end of December 2003 (see figure 11) reveals that all banking institutions met the minimum capital-adequacy ratio of 10 per cent, whereas 50 per cent of banking institutions (2002: 39,5 per cent) had capital-adequacy ratios that exceeded 20 per cent.

Figure 11: Distribution of banks in terms of capital adequacy



Banking institutions that reported capital-adequacy ratios of above 20 per cent (that is, 50 per cent of institutions) represented only 4,7 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 (30,6 per cent of banking institutions) represented the largest portion of total banking-sector assets, namely, 85,3 per cent.

Figure 12: Banks' capital adequacy in terms of total asset value

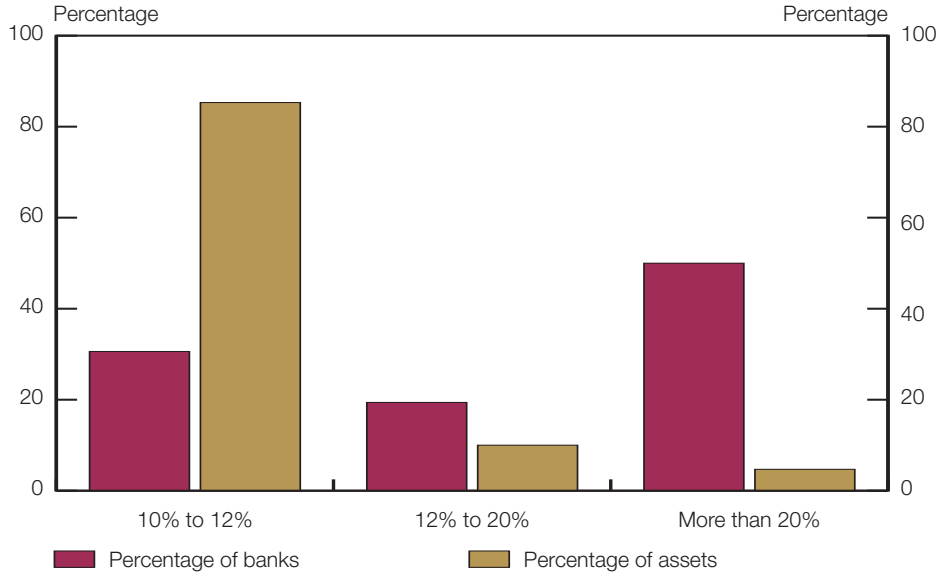
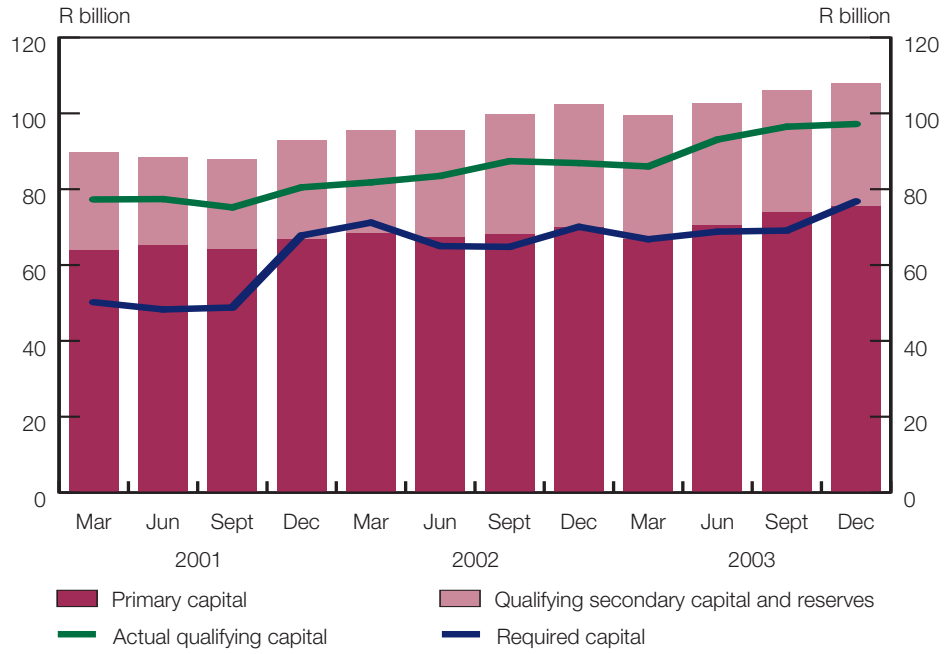


Figure 13 reflects the split, over time, between primary and secondary capital, as well as the rand values of required capital and actual qualifying capital. At the end of December 2003, primary capital and reserves constituted 70,1 per cent (2002: 68,4 per cent) of qualifying capital and reserves before deduction of impairments amounting to R10,6 billion (2002: R15,5 billion). Primary capital and reserves grew by 8,1 per cent

primary capital and reserves grew

(2002: 4,6 per cent) during the year, to R75,6 billion at the end of December 2003. Qualifying secondary capital and reserves, on the other hand, decreased by 0,5 per cent, to R32,2 billion at the end of December 2003. The growth in net qualifying capital and reserves of 11,9 per cent was lower than the growth of 25,2 per cent in the total balance sheet.

Figure 13: Qualifying capital and reserves



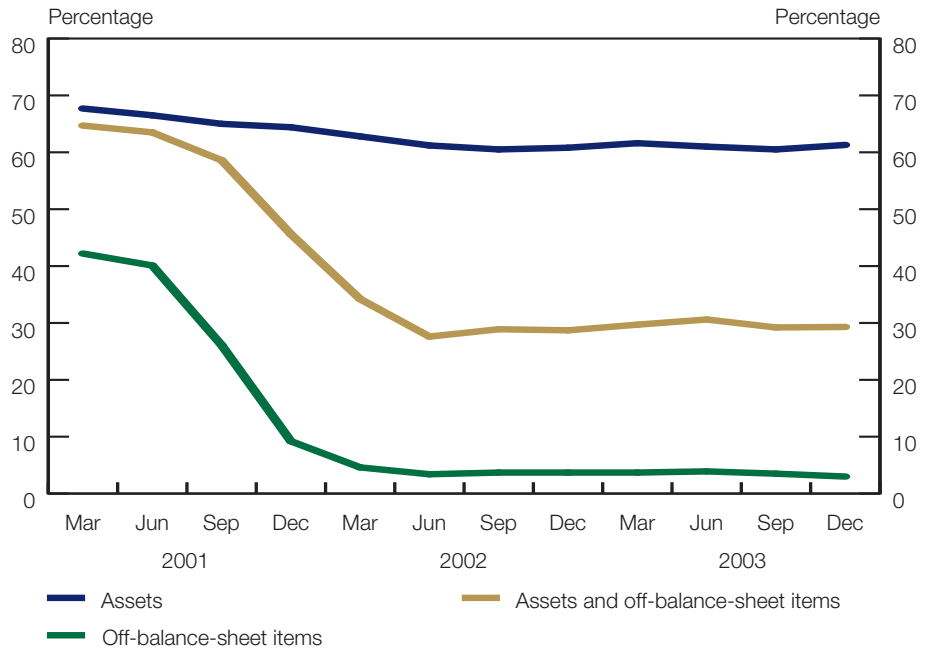
Risk profile of on- and-off-balance-sheet items

marked increase in off-balance-sheet items

For the year ended 31 December 2003, total assets and off-balance-sheet items (see figure 14) grew by 7,6 per cent (2002: 68,2 per cent), whereas total risk-weighted assets and off-balance-sheet items grew by 10,1 per cent (2002: 5,8 per cent). The marked increase in off-balance-sheet items from 2001 was due mainly to amendments to the Regulations relating to Banks. In terms thereof, banks were required to report on central securities-depository participation, which, however, did not affect the average risk weighting of assets.

The composition of off-balance-sheet-items had the effect of decreasing the average combined risk weighting of assets and off-balance-sheet items from 29,9 per cent in 2002 to 29,7 per cent in 2003. Off-balance-sheet items accounted for approximately 54,9 per cent (December 2002: 56,3 per cent) of the combined total of assets and off-balance-sheet items at the end of December 2003. The risk-weighted percentages of assets and off-balance-sheet items and of the combined total of assets and off-balance-sheet items are graphically illustrated in figure 14.

Figure 14: Risk profile of on- and off-balance-sheet items



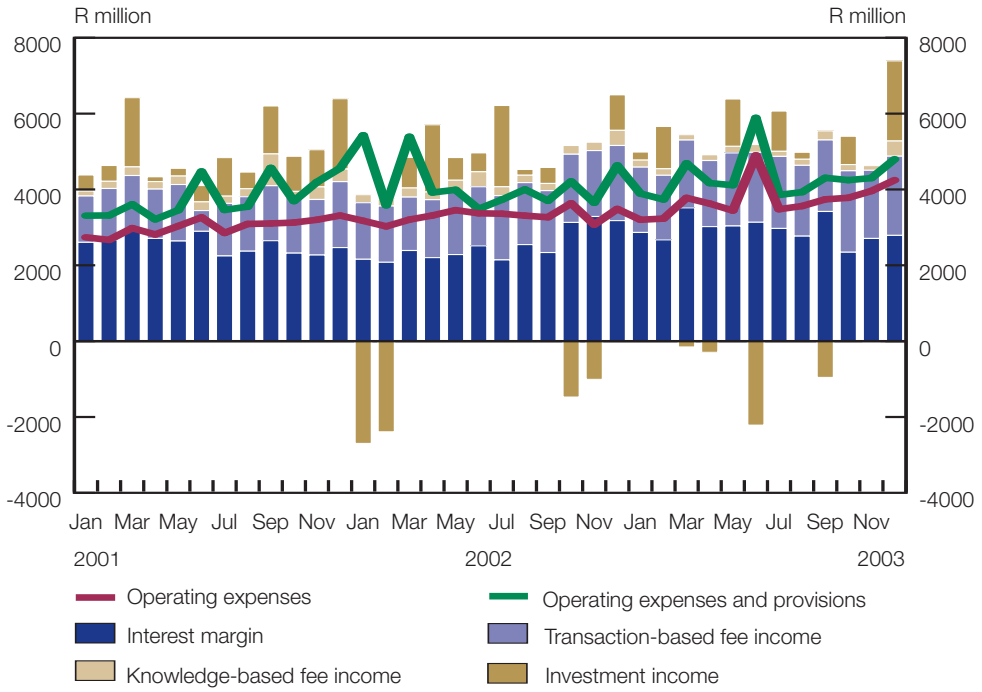
3.3 Profitability

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 2,6 per cent of total assets for the year, as opposed to 2,8 per cent in 2002) and transaction-based fee income (an average 1,8 per cent of total assets for the year). The income derived from the intermediation function (R57,7 billion) was generally sufficient to cover the sum of operating expenses and provisions (R51,9 billion). The generation of additional income from investments in Government stock and Treasury bonds, knowledge-based fee income derived from trading activities and agency type and advisory activities also remained contributors to the continued profitability of banks. Fee income and investment and trading income earned during the year were on average equivalent to 1,8 per cent and 0,2 per cent, respectively, of total assets (as opposed to 2,1 per cent and 0 per cent, respectively, during 2002).

interest margin increased

For the year, interest expense increased by about 8,4 per cent, which was 2,1 percentage points lower than the increase of 10,5 per cent in interest income. The net result thereof was that the interest margin increased by 16,5 per cent, whereas it decreased by 1,7 per cent in 2002. Interest derived from mortgage bonds and overdrafts and loans constituted 33,3 per cent and 28,4 per cent, respectively, of total interest income (as opposed to 32,3 per cent and 30,3 per cent, respectively, during 2002).

The main component of interest expense was interest of 31 per cent paid in respect of demand deposits (2002: 35,2 per cent), whereas interest paid on fixed and notice deposits constituted 32,3 per cent (2002: 27,7 per cent) of the total interest expense for the year.

Figure 16: Interest margin

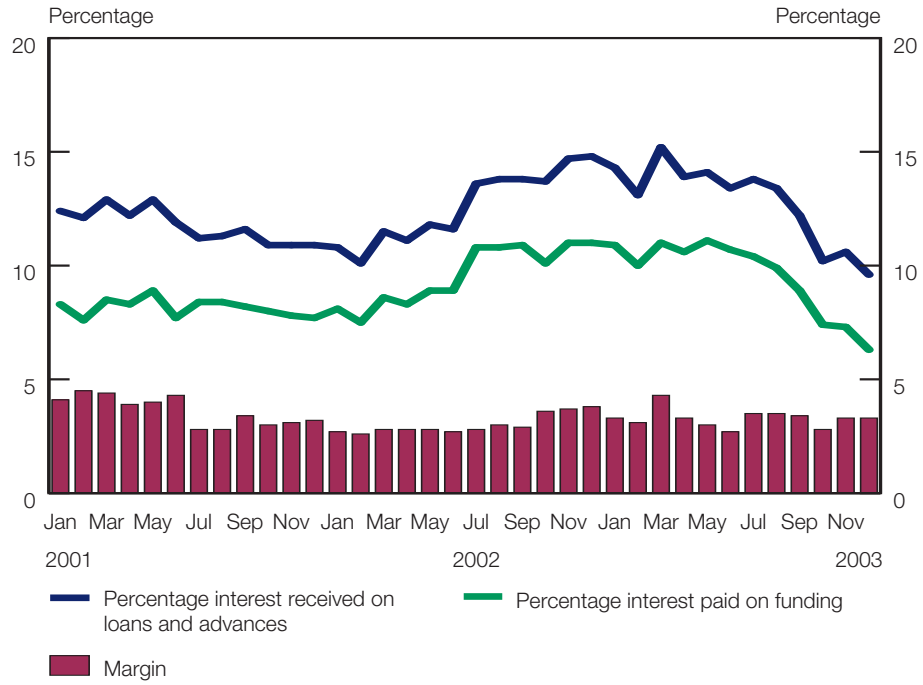
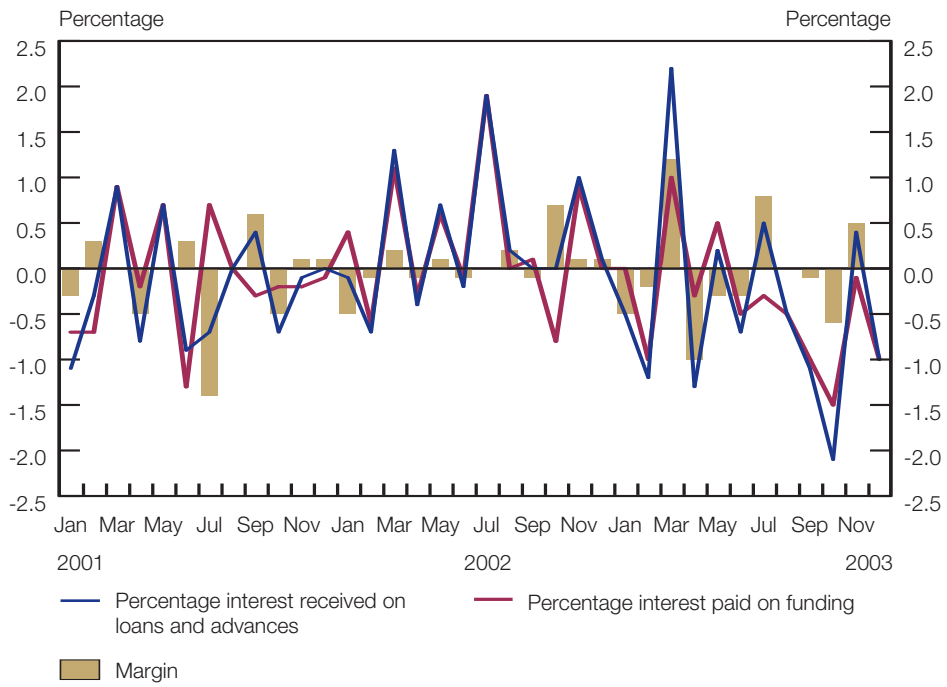


Figure 16 graphically depicts the interest margin of the banking sector for the period from January 2001 to December 2003. The interest margin for the year was on average higher in 2003 than in 2002. By the end of December 2003, the interest margin was 3,3 per cent, compared to 3,8 per cent in 2002 and 3,2 per cent in 2001.

Figure 17 represents the percentage-point change in the components of the interest margin for the past three years. By the end of December 2003, both interest received and interest paid had decreased by 1,0 percentage points, compared to an increase of 0,1 percentage points and 0 percentage points in 2002, respectively. This decrease was due to the relaxation in monetary policy mentioned earlier in this chapter.

both interest received and interest paid decreased

Figure 17: Percentage-point change in interest margin

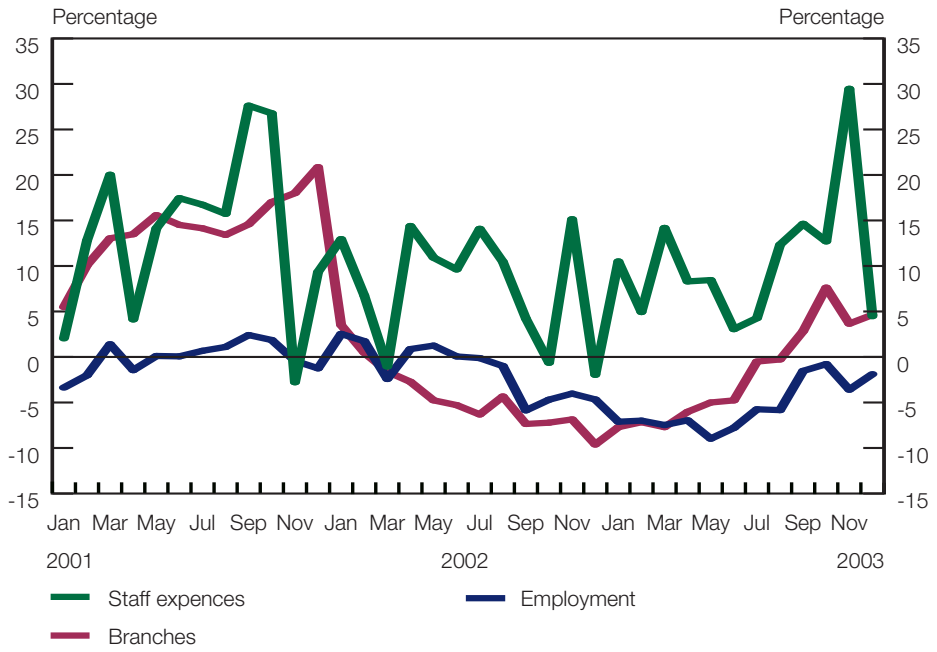


operating expenses increased

The operating expenses of the total banking sector increased by 13,3 per cent in 2003 (9,6 per cent in 2002), mainly as a result of an increase of 10,5 per cent in total staff expenses, which accounted for about 46 per cent (2002: 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 people employed. This is confirmed by figure 18, which graphically depicts the percentage change (measured over a 12-month period) in total staff expenses, the number of people employed and the number of branches for the past three years. During 2003, both employment in the banking sector and the number of branches declined by 5,4 per cent and 1,9 per cent, respectively, as opposed to a decrease of 1,4 per cent and 4,4 per cent, respectively, during 2002. An increase in administrative expenses also contributed to the growth in operating expenses. Compared to the previous year, administrative expenses increased by 16,8 per cent and accounted for 43,3 per cent (42 per cent in 2002) of total operating expenses.

employment and number of branches declined

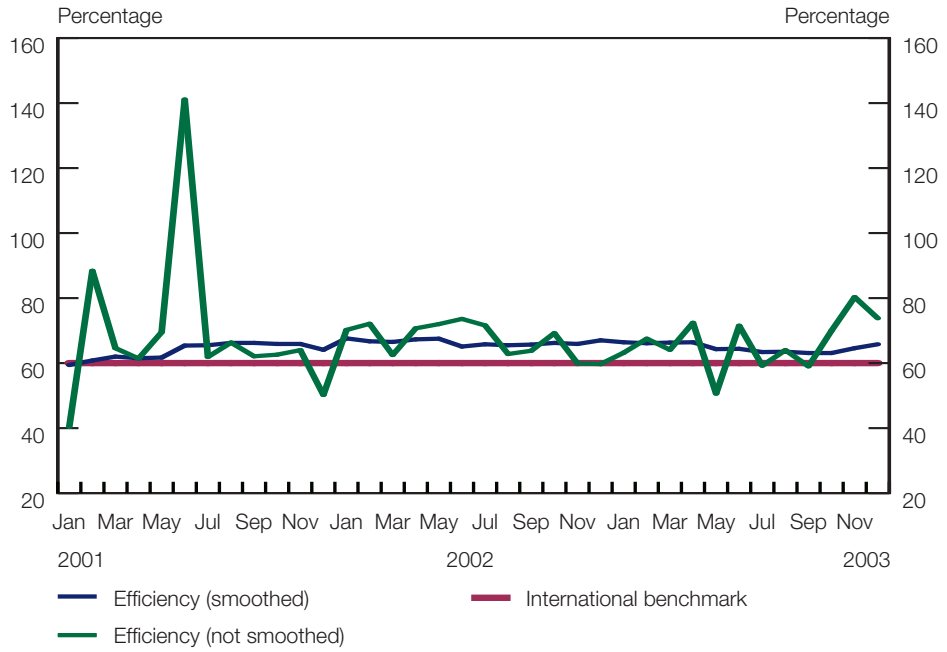
Figure 18: Growth in staff expenses, number of employees and number of branches



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 the implementation of Accounting Standard AC 133 by some banks 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 previous equity accounting (book value or purchase price).

Figure 19: Efficiency of South African banking sector



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. The objective of the delayed implementation was to enable companies to improve their business practices and systems and to 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 2003, efficiency (65,8 per cent) was on average better than in 2002 (67 per cent).

The actual values of, and the percentage growth in, the determinants of efficiency are graphically illustrated in figure 20. Growth of 15,4 per cent in total income offset the increase of 13,3 per cent in operating expenses, resulting in improved efficiency in the banking sector (see figure 19) during the year under review.

improved efficiency

Figure 20: Determinants of efficiency

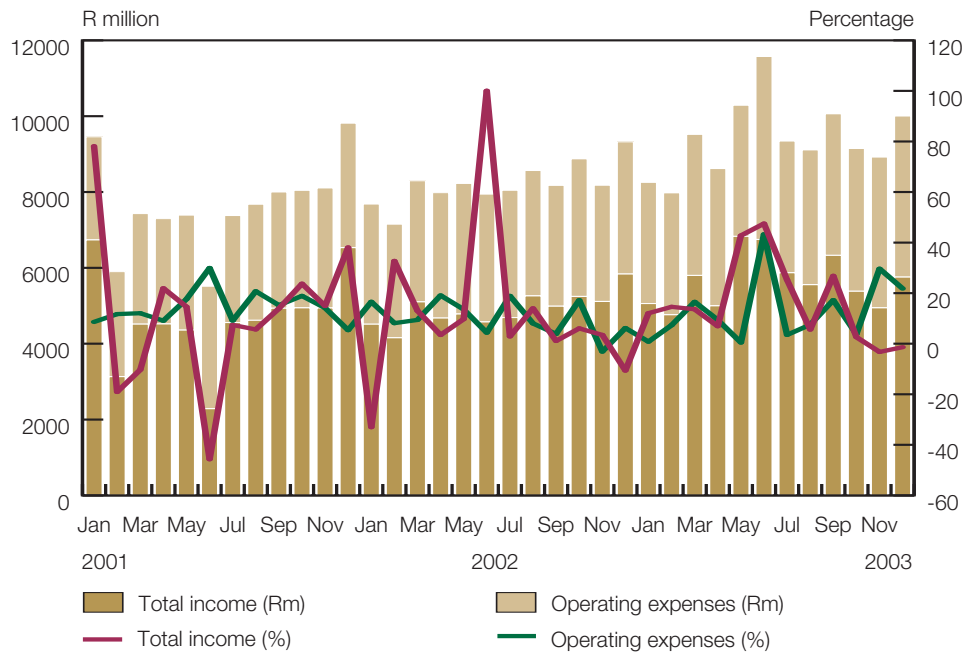


Figure 21: Efficiency of banking institutions according to asset size – December 2003

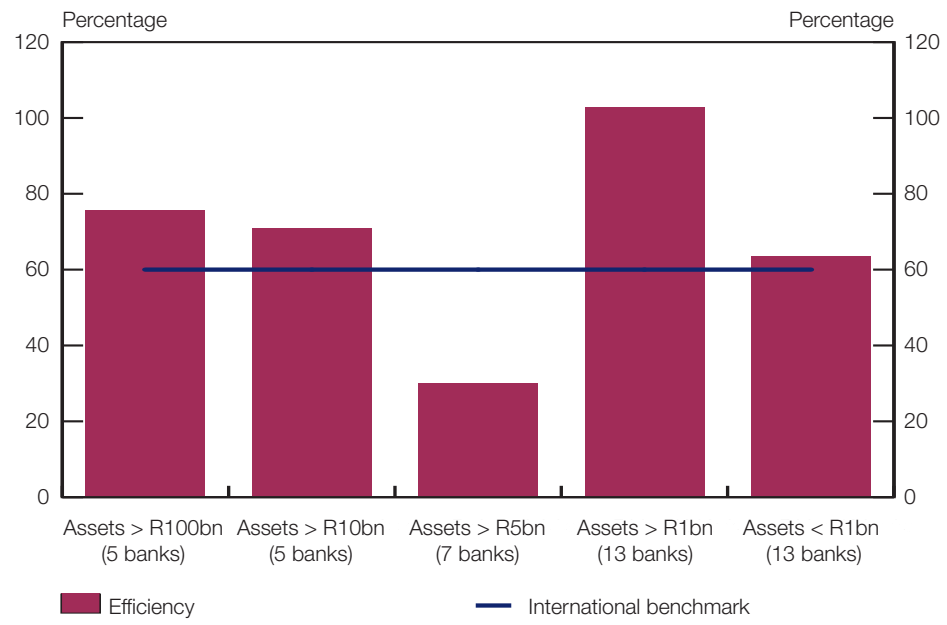
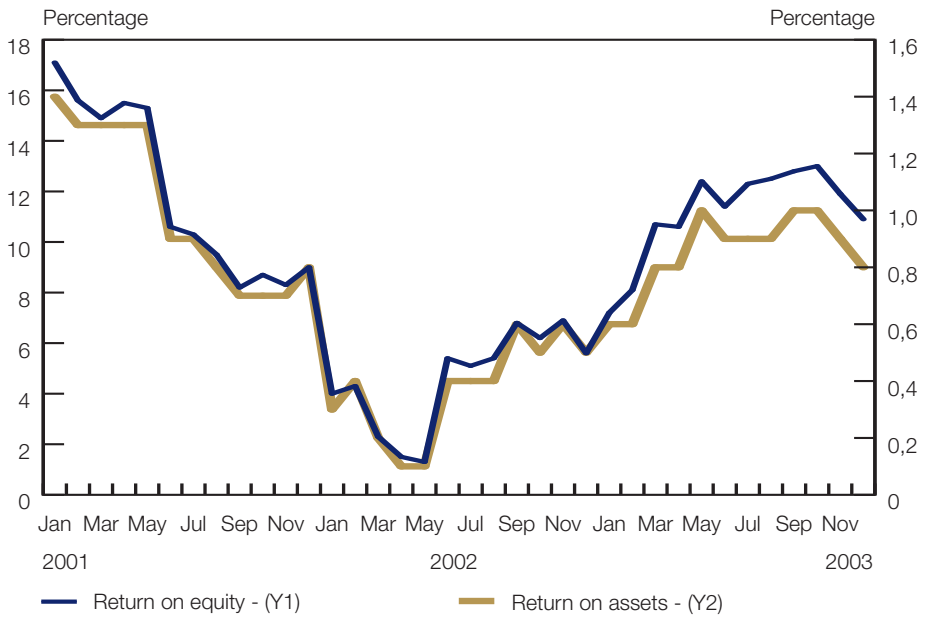


Figure 21 graphically depicts the efficiency of the various categories (according to asset size) of banking institutions for the year ended December 2003. The graph shows that banks with assets of above R5 billion, but below R10 billion, were the most efficient in December 2003 with an efficiency ratio of 30 per cent, followed by banks with assets of above R10 billion, but below R50 billion (71 per cent). The least efficient were banks with asset values of above R1 billion, but below R5 billion, with an effeciency ratio of 102,9 per cent. It should be borne in mind 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 will fluctuate accordingly.

Figure 22: Profitability (12-month smoothed average)

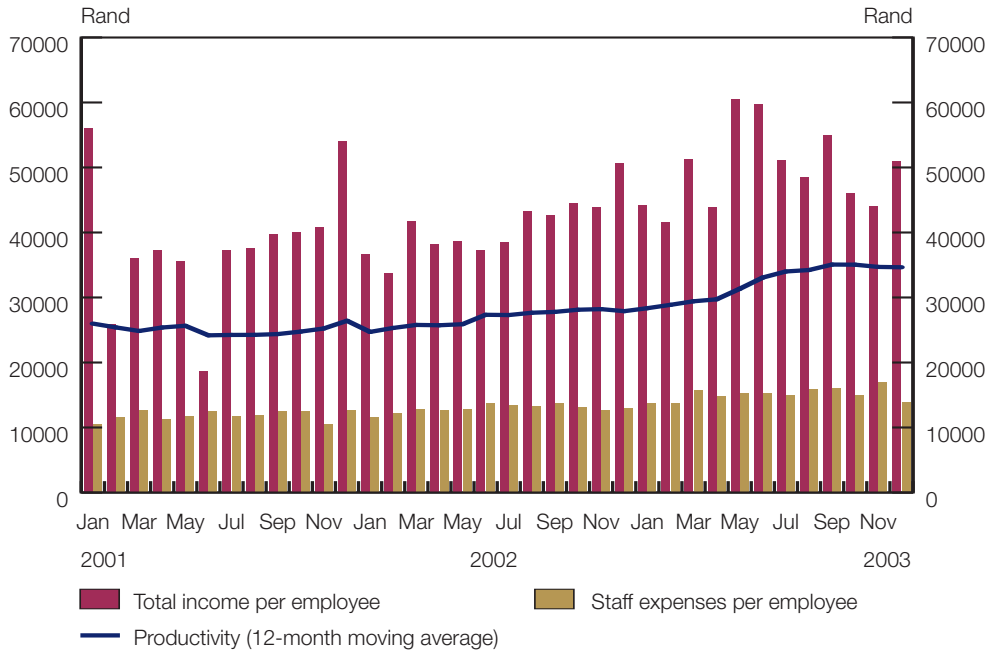


The banking sector achieved a before-tax return of approximately 1,1 per cent of total assets (0,8 per cent in 2002). For 2003, an after-tax return of approximately 0,7 per cent of total assets (0,4 per cent for 2002) was reported, whereas an after-tax return of approximately 10,9 per cent was reported on net qualifying capital and reserves (5,6 per cent for 2002).

The trends (calculated on the basis of a 12-month moving average) in return on equity (ROE) and return on assets (ROA) for the past three years are graphically displayed in figure 22. After a marked deterioration in both the ROA and the ROE during the period from January 2001 until May 2002, both the ROA and the ROE improved noticeably until October 2003. This improvement was due mainly to higher net income after tax resulting from slower growth in operating expenses.

both the ROA and the ROE improved noticeably

Figure 23: Productivity



Productivity can be measured by comparing the expenditure on employees with the amount of income generated. Figure 23 graphically depicts 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 R49 766, as opposed to R40 840 in 2002. The average staff expenses per employee, on the other hand, were R15 118 in 2003 (R12 940 in 2002). 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 R27 900 to R34 648, indicating that the productivity of employees in the banking sector improved during the year under review.

productivity of employees improved

3.4 Liquidity risk

Liquidity risk is the potential risk arising when an entity cannot meet payments when they fall due.

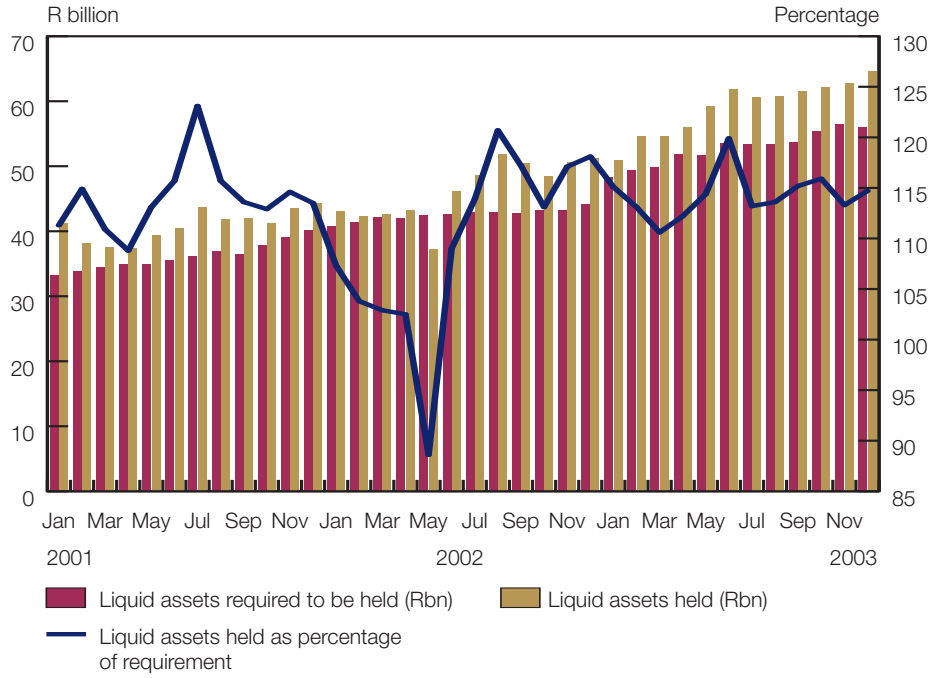
An evaluation of liquidity-risk management involves an assessment of the level of compliance with the statutory liquid-asset requirements, an analysis of the short-term liquidity mismatch in relation to total funding and the trend thereof, an assessment of the sources of liquid funds available for funding such mismatches and a consideration of the volatility of funding sources available.

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.

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

Figure 24: Statutory liquid assets – actual versus required



Approximately 52 per cent (2002: 56,1 per cent) of the average daily amount of liquid assets held during December 2003 consisted of securities issued by virtue of section 66 of the Public Finance Management Act, 1999, whereas 27,8 per cent (2002: 29,5 per cent) consisted of Treasury bills of the Republic of South Africa, and 1,1 per cent (2002: 2,3 per cent) consisted of short-term bills issued by the Land Bank. Cash-management schemes managed on behalf of banks' clients increased by about 17,3 per cent (2002: 7,7 per cent). Set-off increased by 27,6 per cent (measured over 12 months) as at the end of December 2003 and represented approximately 8,7 per cent (2002: 10 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, decreased by 11,9 per cent (2002: 12,2 per cent), or R133,2 billion (2002: R108,3 billion), because of the use of cash-management schemes by banks' clients and the setting off of some asset balances against liabilities.

adjusted liabilities decreased

Volatility of funding

As at 31 December 2003, total wholesale deposits constituted 95,2 per cent (2002: 81,2 per cent) of total wholesale and retail deposits. As can be seen in figure 25, wholesale deposits shorter than three months represented 66,4 per cent of total funding for December 2003. The aggregate amount of the 10 largest depositors of individual banks averaged R147,4 billion (2002: R167,4 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 14,3 per cent (2002: 18 per cent) at the end of December 2003 (see figure 25).

total wholesale deposits constituted 95,2 per cent of deposits

Figure 25: Wholesale deposits shorter than three months and large depositors

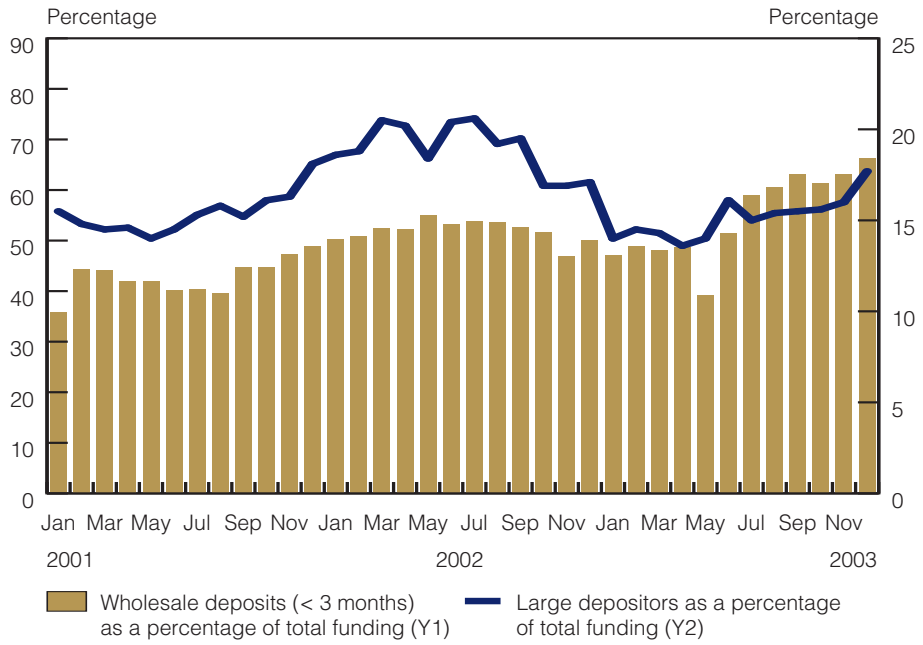
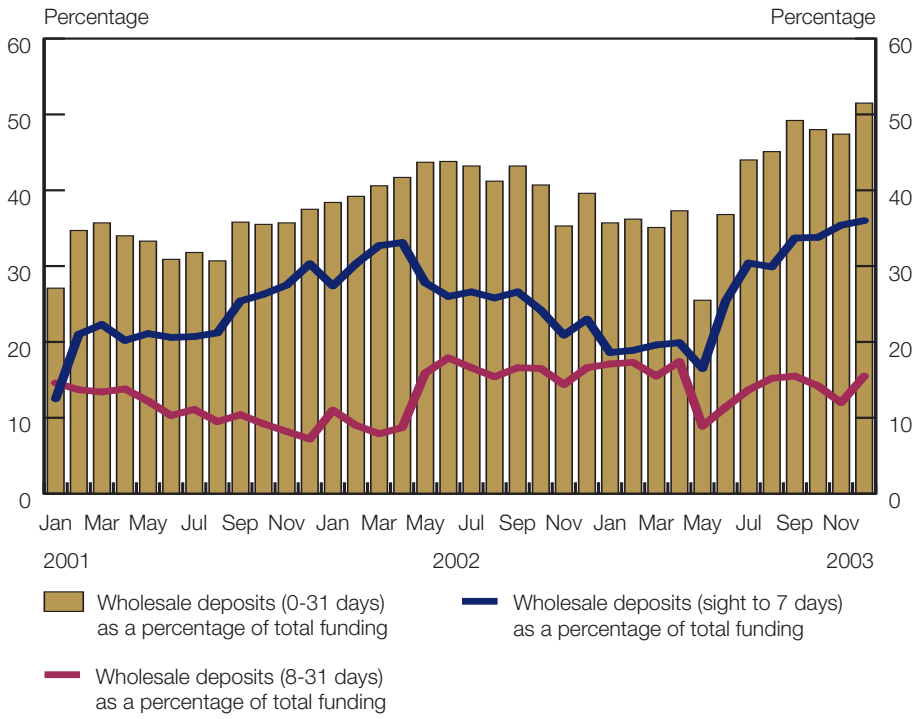


Figure 26: Short-term wholesale deposits



Short-term wholesale deposits (0-31 days) represented 51,5 per cent of total funding in December 2003, as opposed to 39,6 per cent for December 2002 (see figure 26). As at the end of December 2003, wholesale deposits shorter than seven days and wholesale deposits between eight and 31 days represented 36 per cent and 15,5 per cent, respectively, of total funding.

Figure 27: Composition of wholesale deposits according to maturity

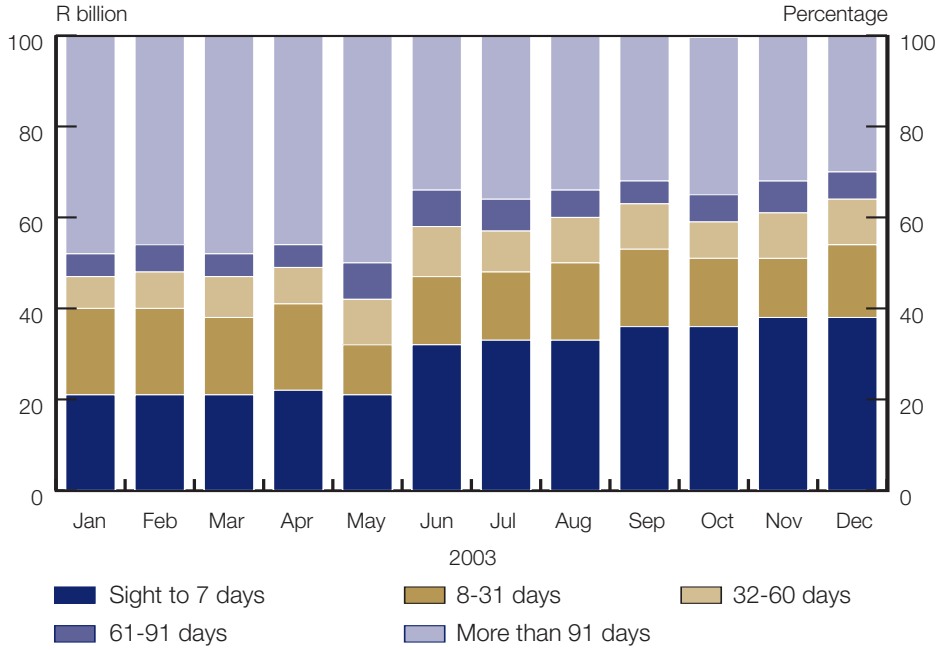


Figure 27 depicts the composition (measured over a period of 12 months) of wholesale deposits according to maturity for the year under review. Wholesale deposits with a maturity shorter than seven days and wholesale deposits with a maturity greater than 91 days constituted the largest portion of wholesale deposits in December 2003, namely, 38 per cent and 30 per cent, respectively. Wholesale deposits with a maturity of 32 to 60 days constituted only a small portion of total wholesale deposits, namely, 10 per cent, followed by deposits with a maturity of eight to 31 days at 16 per cent of total wholesale deposits.

3.5 Market risk

Market risk is the risk that investments will lose money based on the daily fluctuations of the market.

turnover in derivatives fluctuated

Turnover in derivatives fluctuated during the year, from approximately R 609,3 million in January 2003 to R752,3 million in October 2003 and to R507,4 million in December 2003 (see figure 28). Forward contracts decreased from R1 404,5 billion in January 2003 to a level of R1 365,2 billion in December 2003.

Figure 28: Turnover in derivative contracts

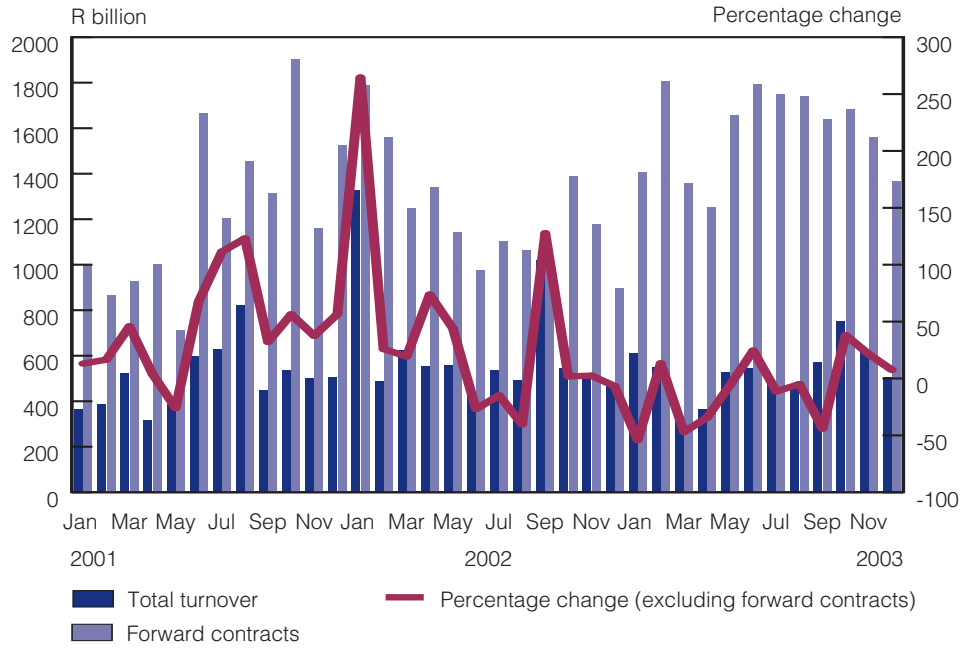


Figure 29: Total unexpired derivative contracts

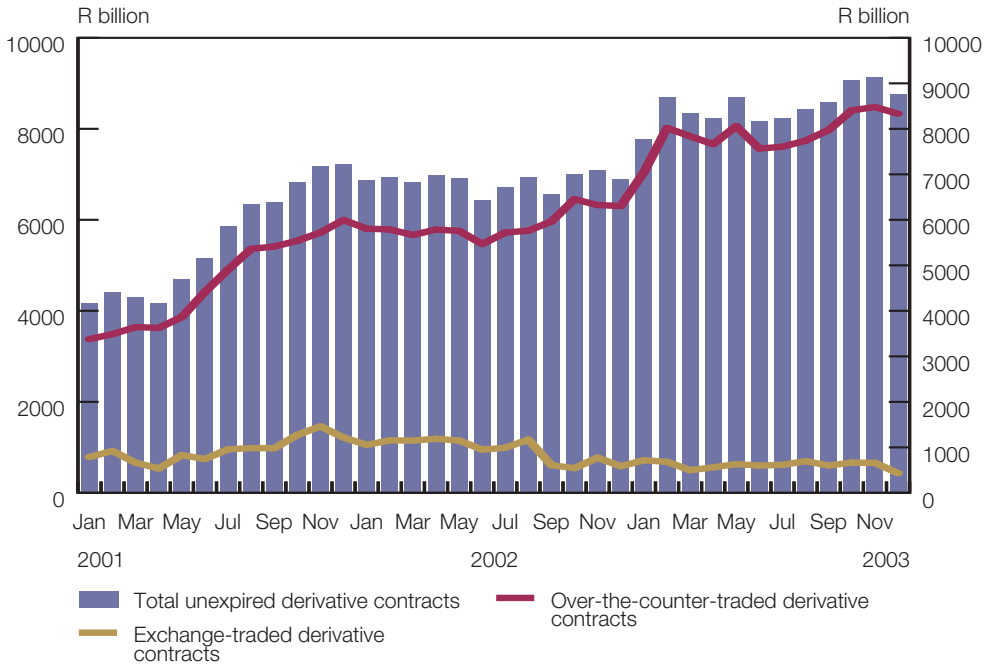


Figure 29 reflects the value of and growth (measured over a period of 12 months) in total unexpired derivative contracts. Unexpired exchange-traded derivative contracts amounted to R433,2 million in December 2003 (R586,5 million in December 2002), or 31,4 per cent of the banking sector's total assets (53,3 per cent in December 2002). Average monthly balances, computed on a quarterly basis, were reported as R631,9 million, R597,3 million, R637,6 million and R585,7 million for the quarters ended March 2003, June 2003, September 2003 and December 2003, respectively.

Compared to the previous year, total unexpired derivative contracts increased by 27,2 per cent. As at 31 December 2003, the total value of unexpired derivative contracts was R8,765 billion (December 2002: R6, 891 billion), representing 636,2 per cent of total assets (December 2002: 626,1 per cent). As at 31 December 2003, over-the-counter-traded derivatives accounted for 95,1 per cent (2002: 91,5 per cent) of all unexpired derivative contracts.

3.6 Credit risk

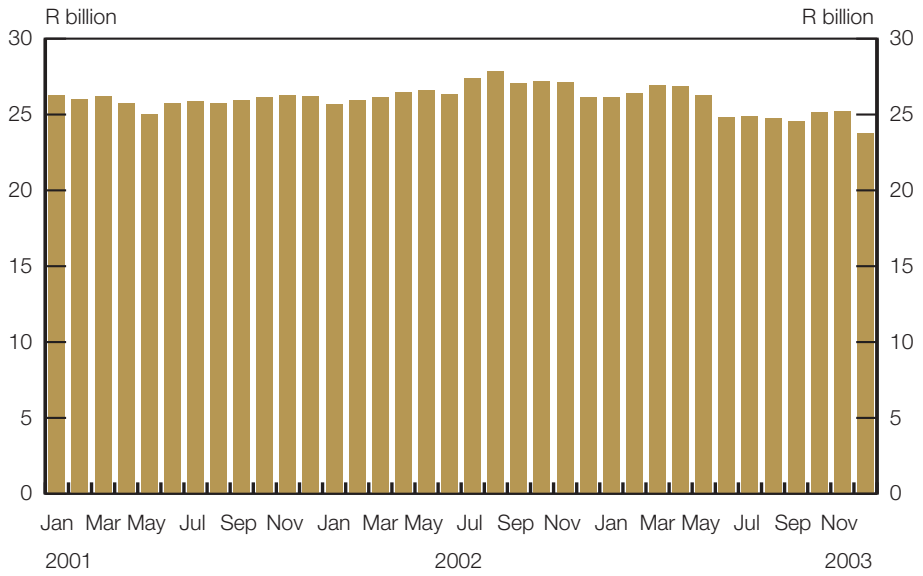
Credit risk is the risk that a counterparty to a financial obligation, such as a loan, will default on repayments linked to the obligation.

Analysis of overdue amounts

Figure 30 graphically depicts the level of total overdues for the banking sector for the period from January 2001 to Decemer 2003. Gross overdues increased from R25,7 billion in January 2002 to R26,1 billion in December 2002. From January 2003 to the end of December 2003, gross overdues decreased to R23,8 billion, representing a net decrease of R2,4 billion.

gross overdues decreased

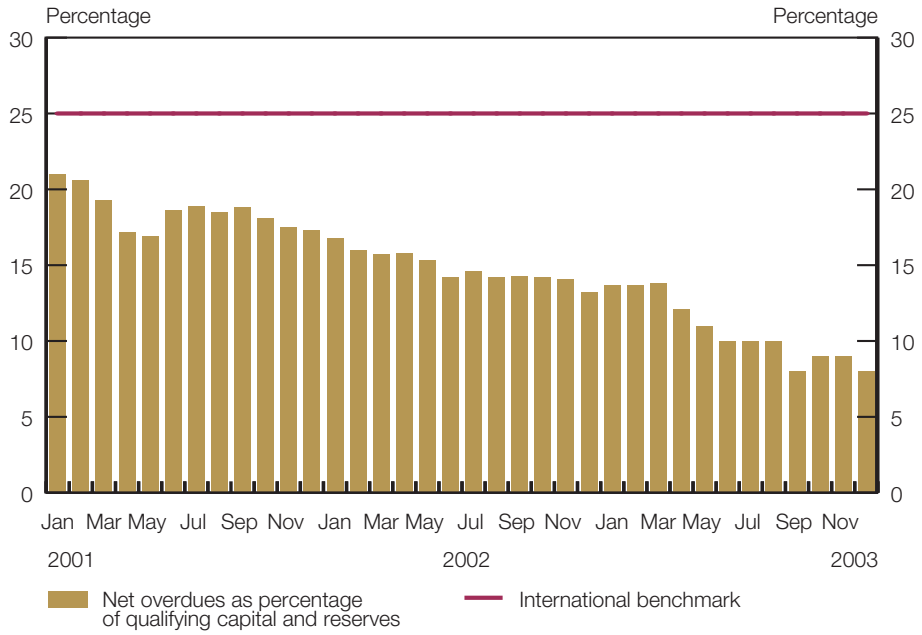
Figure 30: Total banking-sector overdues



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 depicts this ratio for the past three years. It is evident from this figure that net overdues as a percentage of net qualifying capital and reserves decreased uninterruptedly from April 2003. Net overdues as a percentage of net qualifying capital and reserves decreased from 13,2 per cent in December 2002 to 12,1 per cent in April 2003. By the end of December 2003, this ratio had improved to 8,5 per cent, which was well below the international benchmark of 25 per cent.

net overdues decreased 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 3,1 per cent in January 2002 to 2,9 per cent in January 2003. By the end of December 2003, this ratio had improved to 2,4 per cent. From January 2003 to December 2003, 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 3,1 per cent to 2,5 per cent and from 2 per cent to 1,7 per cent, respectively. Other loans and advances overdue (as a percentage of total other loans and advances) decreased from 3 per cent to 2,4 per cent during the year.

Figure 32: Composition of overdues (as a percentage of loans and advances)

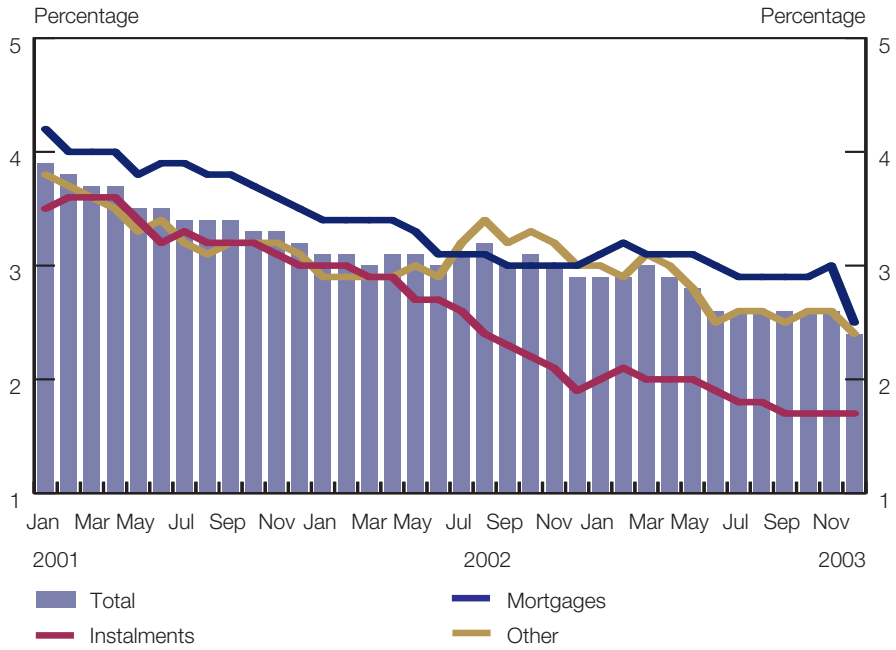


Figure 33 graphically depicts an analysis of overdue accounts for the period from January 2001 to December 2003. The gross amount overdue in respect of other loans and advances decreased from R15,3 billion in January 2003 to R13,4 billion in December 2003. Overdues in respect of other loans and advances still constituted the biggest portion of amounts overdue and, by the end of December 2003, exceeded mortgage accounts overdue by R5,2 billion. Mortgage accounts overdue increased from R8,4 billion in December 2002 to R8,7 billion in January 2003. From January 2003 to December 2003, however, mortgage accounts overdue decreased to R8,2 billion, whereas instalment accounts overdue increased from R2,1 billion to R2,2 billion.

Figure 33: Analysis of overdue accounts

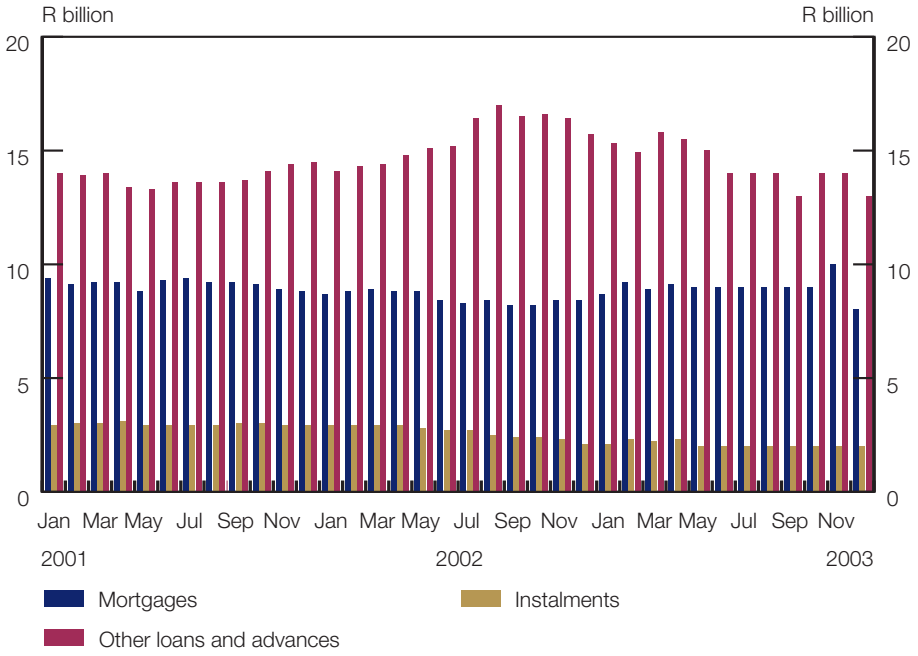
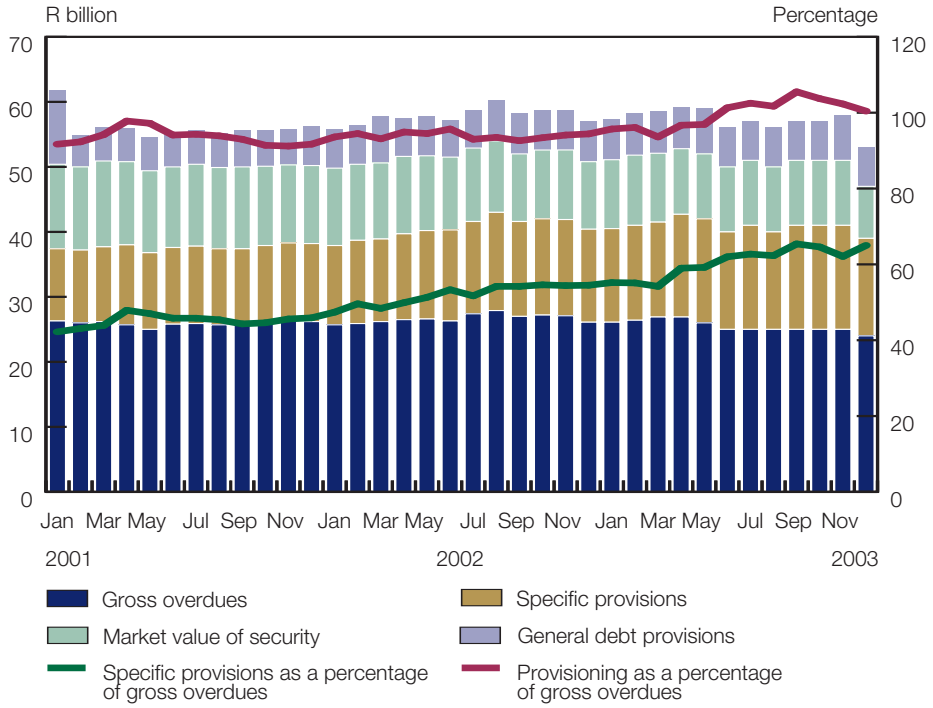


Figure 34: Adequacy of provisions



Provisioning policy for bad and doubtful loans and advances

provisioning by banks remained adequate

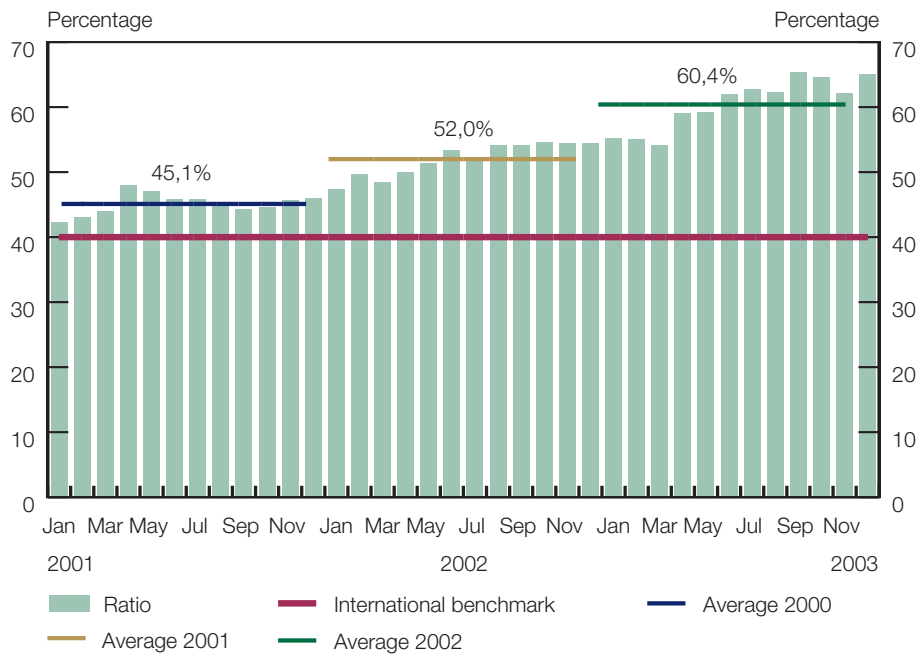
Figure 34 indicates that provisioning by banks remained adequate throughout the year under review. By the end of December 2003, specific provisions covered about 65 per cent (December 2002: 54,5 per cent) of all overdues. At the end of December 2003, provisioning (that is, specific provisions plus security) covered about 100,4 per cent of overdues, compared to 94,4 per cent in December 2002.

specific provisions by loan type

Specific provisions made at the end of December 2003, by loan type and expressed as a percentage of overdue amounts, were as follows:

- Mortgages - 40,7 per cent (26,1 per cent on 31 December 2002).
- Instalment sales - 67,2 per cent (66,5 per cent on 31 December 2002).
- Other loans and advances - 79,5 per cent (68,2 per cent on 31 December 2002).

Figure 35: Specific provisions as percentage of total overdues



conservative stance of South African banks

Figure 35 graphically depicts the relationship of specific provisions to total gross overdues for the past three years. On average, about 60,4 per cent of overdues were covered by specific provisions during 2003 (2002: 52 per cent). Internationally, it is generally accepted that specific provisions 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.

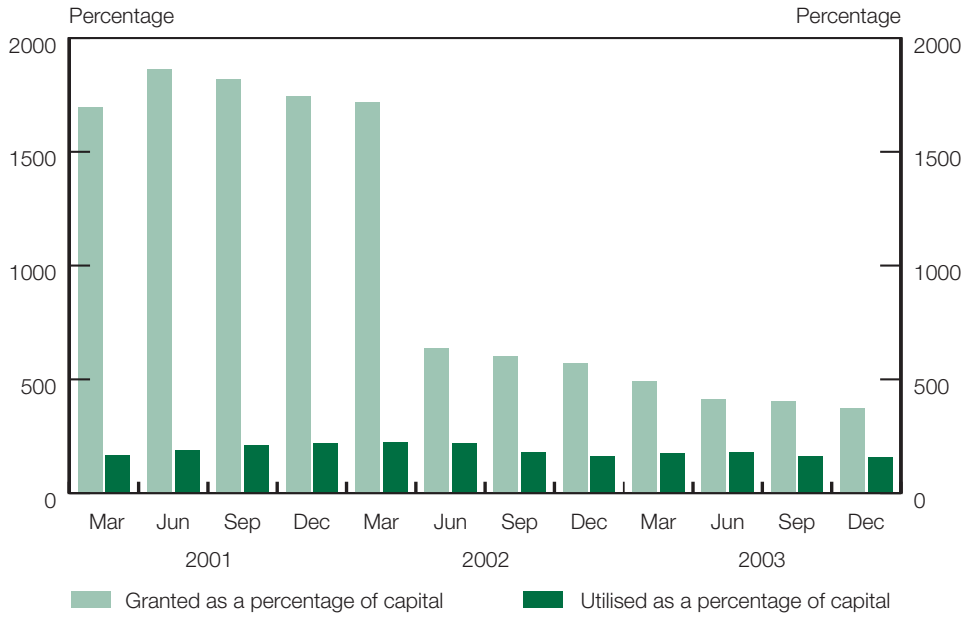
Large exposures

Since 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 2001 to December 2003 is illustrated graphically in figure 36.

Figure 36: Large exposures granted and utilised as a percentage of capital



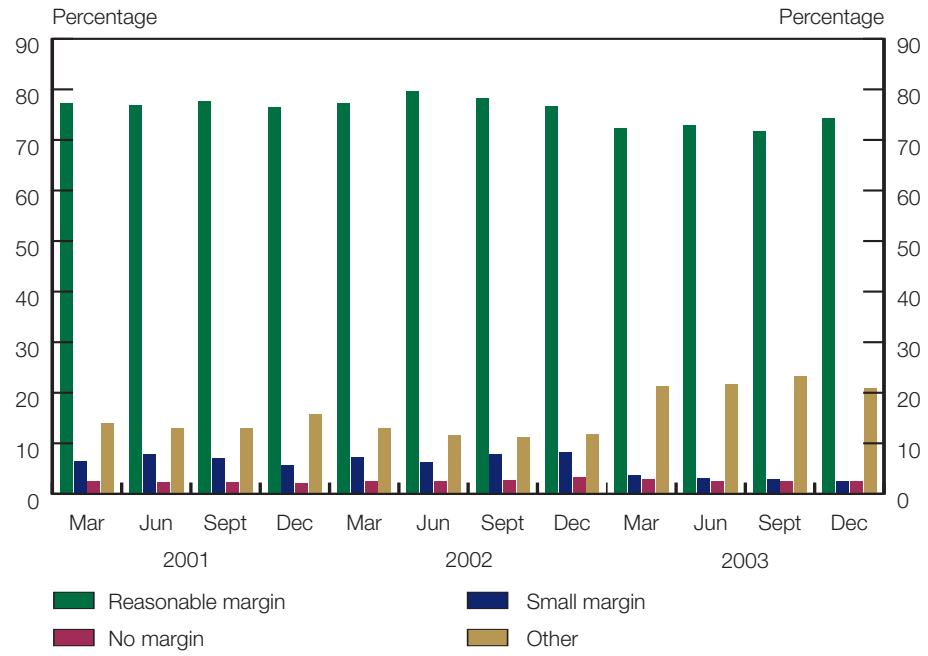
Large exposures granted decreased by R24,6 million, to a level of R489,6 million in January 2003 (representing 571,4 per cent of net qualifying capital and reserves), compared to R514,2 million (570,2 per cent of net qualifying capital and reserves) in December 2002. By the end of December 2003, large exposures granted had decreased to a level of R367,6 million (representing 374,2 per cent of net qualifying capital and reserves). Overdues in respect of large exposures increased from R32,57 million in December 2002 to R48,8 million in January 2003. By the end of December 2003, overdues in respect of large exposures had increased to R95,9 million, and specific provisions covered about 21 per cent of overdues. The remaining overdues were covered by the value of the security held by banks.

overdues in respect of large exposures increased

Quality of assets

By the end of December 2003, about 74,3 per cent of the banking sector's assets (December 2002: 76,7 per cent) earned a reasonable margin, 2,4 per cent (December 2002: 8,2 per cent) earned a small margin, and the remaining 23,3 per cent (December 2002: 15 per cent), including infrastructure, earned no margin (see figure 37).

Figure 37: Asset performance

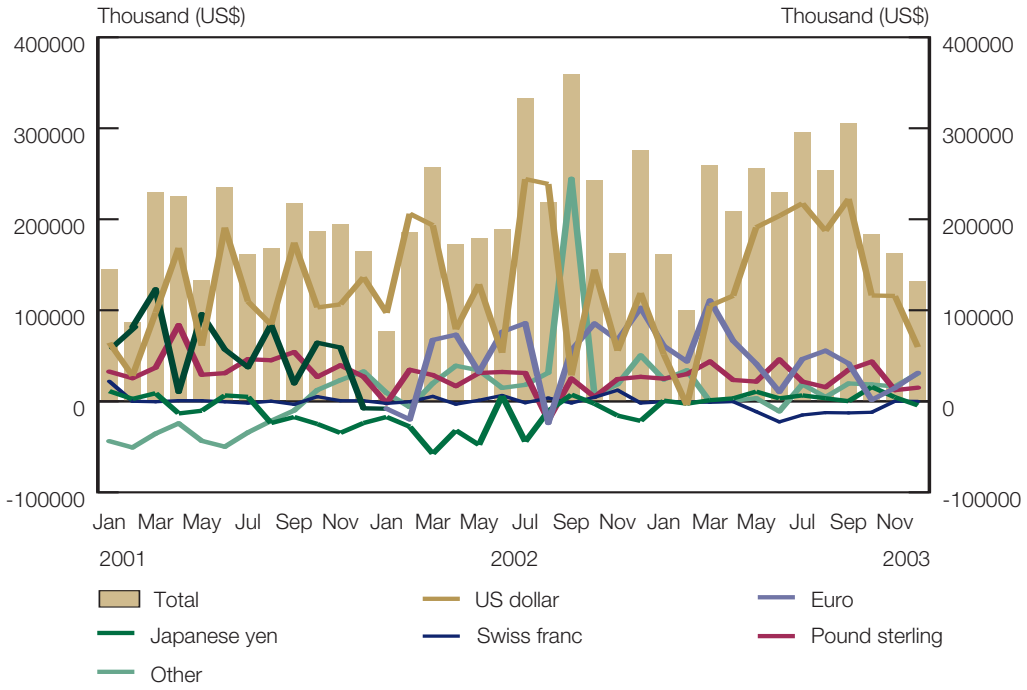


3.7 Currency risk

position remained within the limit

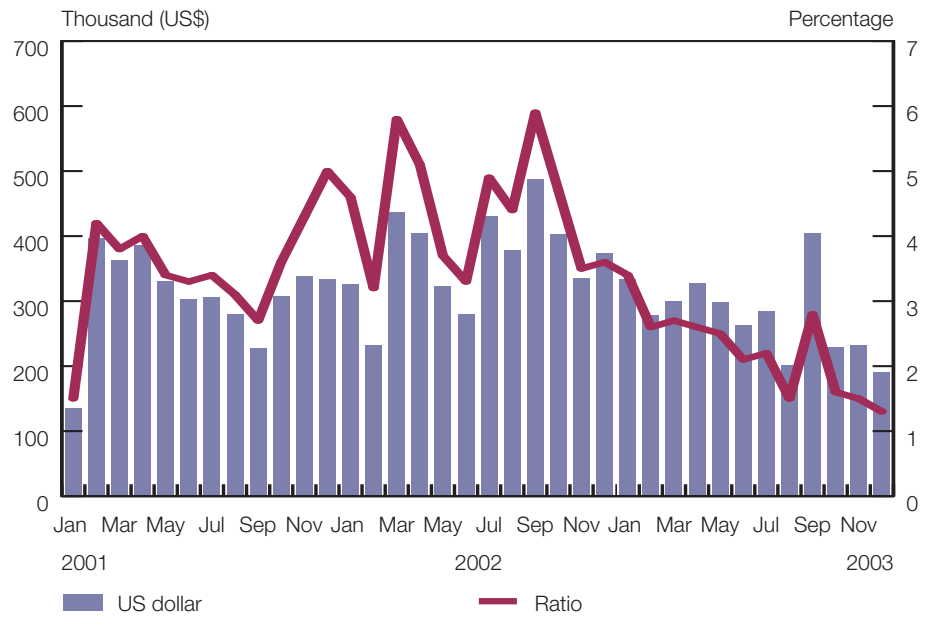
For the year under review, the aggregated net open foreign-currency position after hedging remained within the limit of 10 per cent of net qualifying capital and reserves. The aggregated net effective open foreign-currency position of individual banks, expressed as a percentage of net qualifying capital and reserves, amounted to 0,2 per cent in January 2003 and, by the end of December 2003, the ratio had decreased to 0,1 per cent. The aggregated net effective open foreign-currency position of the total banking sector is depicted in figure 38.

Figure 38: Aggregated effective net open foreign-currency position (all currencies converted to US dollars)



From January 2003 to December 2003, the maximum net open position in foreign currency after hedging decreased from 3,4 per cent to 1,3 per cent and remained safely within the limit of 10 per cent of net qualifying capital and reserves (see figure 39).

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

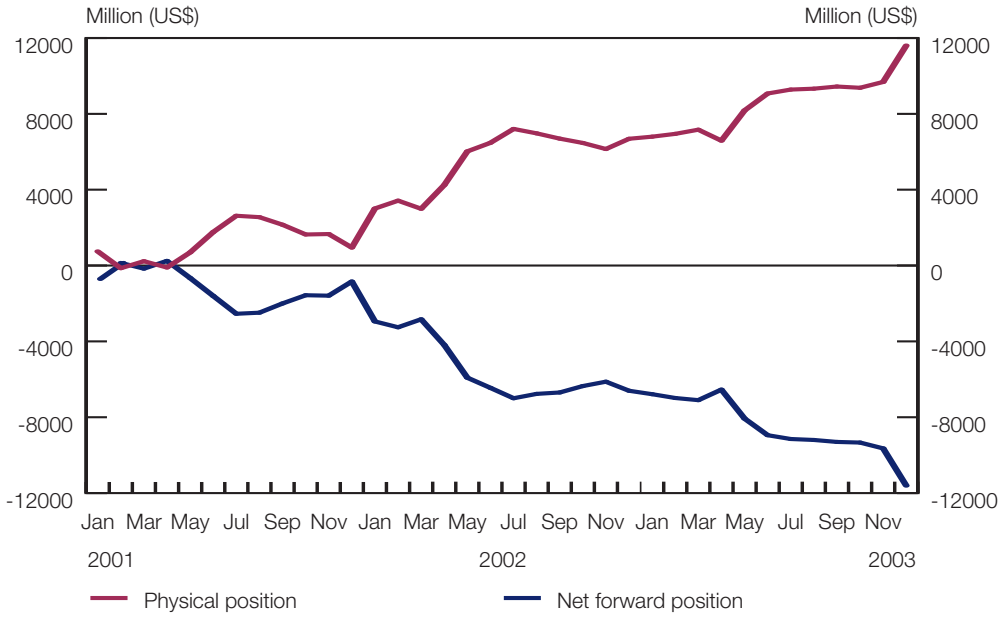
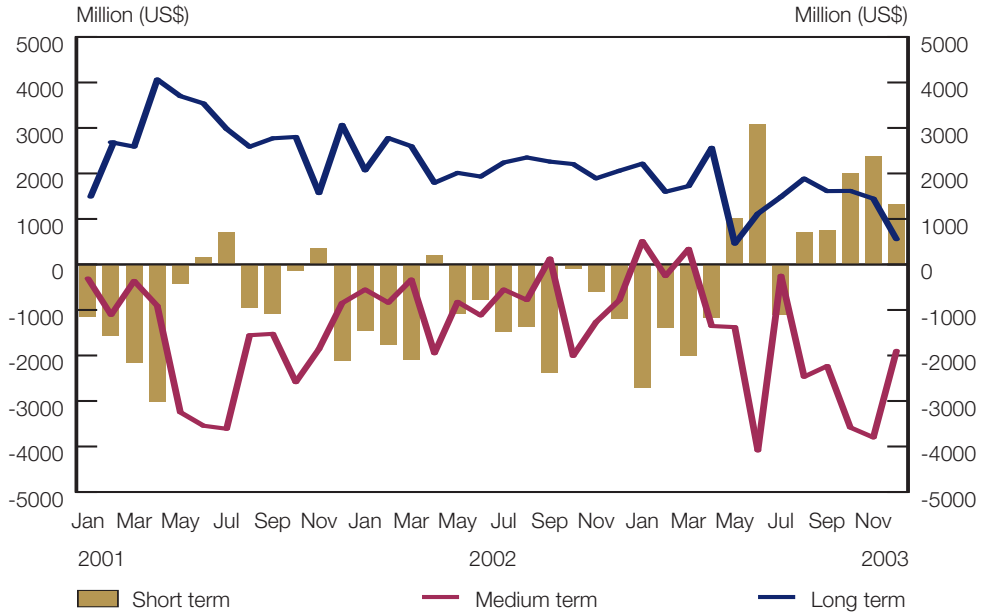


Figure 41: Liquidity-maturity structure (US dollars)



Chapter 4

Developments related to banking legislation

A key responsibility of the Bank Supervision Department is to ensure that the legal framework for the regulation and supervision of banks and banking groups in South Africa remains relevant and current. Consequently, the banking legal framework has to take account of local and international developments in regulation and the markets. The Department, therefore, has to review the banking legislation – that is, the Banks Act, 1990, the Mutual Banks Act, 1993, the Regulations thereto and other pieces of related banking legislation – on an ongoing basis and make necessary amendments.

key responsibility

This chapter contains an overview of amendments to the Banks Act, 1990 (Act No. 94 of 1990), promulgated during the year under review. Also outlined are proposed amendments to the legal framework for asset securitisation so as to distinguish between traditional and synthetic securitisation schemes.

Amendments to the Banks Act, 1990

Although the previous annual report contained a brief outline of proposed amendments to the Banks Act, the amendments that were duly promulgated as Banks Amendment Act, 2003 (Act No. 19 of 2003), on 5 August 2003, are discussed more comprehensively below.

amendments were duly promulgated

Provisions promoting gender sensitivity

Amendments were effected to address gender-insensitive provisions in the Banks Act.

Provisions addressing amended legislation

Certain provisions of the Banks Act were amended to cater for amendments to other legislation, as follows:

to cater for amendments to other legislation

- *Definition of "liquid assets"*

Previously, stocks issued under the Exchequer Act, 1975, qualified as liquid assets for purposes of the Banks Act. Following the repeal of the Exchequer Act, 1975, by the Public Finance Management Act, 1999 (Act No. 1 of 1999), the Banks Amendment Act, 2000, effected the necessary amendment to the Banks Act.

Subsequently, however, it become apparent that securities issued by virtue of section 66 of the Public Finance Management Act encompassed a far wider array of securities than had been the case under the Exchequer Act. Since the Registrar of Banks could not comfortably regard all these securities as liquid assets, the Banks Act was amended to limit such securities to those issued to fund the National Government.

- *Reference to the Inspection of Financial Institutions Act, 1998*

The Inspection of Financial Institutions Act, 1984 (Act No. 38 of 1984), was repealed by the Inspection of Financial Institutions Act, 1998 (Act No. 80 of 1998). The amendment to the Banks Act effects reference to the latter Act and to the relevant sections thereof.

- *Concurrent jurisdiction of Competition Commission*

Section 37(2)(b) of the Banks Act previously required the Registrar of Banks to consult with the Competition Board (as it was known under the previous Maintenance and Promotion of Competition Act, 1979) before considering an application for the acquisition of more than 15 per cent of the ordinary shares of a bank or bank controlling company. As indicated in the 2000 annual report, an amendment made to the Competition Act, 1998 (Act No. 89 of 1998), effectively affords the Competition Commission concurrent jurisdiction with the Registrar (and the Minister of Finance) in relation to the acquisition of shares in banks and banking mergers. Consequently, the provisions of section 37(2)(b) of the Banks Act had become superfluous. In order to enhance regulatory certainty, an amendment was made to reflect the concurrent jurisdiction of the Competition Commission.

section 37(2)(b) had become superfluous

Provisions clarifying and reflecting existing practices

to clarify certain provisions in line with their practical application

The following amendments were made to clarify certain provisions of the Banks Act in line with their practical application:

- *Insertion of a definition of and reference to Regulations relating to Branches*

Various sets of regulations have been issued in terms of the provisions of the Banks Act to regulate the banking industry effectively and efficiently. In order to avoid confusion, however, it had become necessary to define each set of regulations and, where appropriate, to refer to a specific set of regulations. Amendments were made to clarify the position with regard to the Regulations relating to Branches, that is, the regulations pertaining to branches of foreign banks in South Africa.

it had become necessary to define each set of regulations

- *Insertion of the words "at any time" in relation to when the Registrar may request a person to complete a questionnaire and provision for an offence*

Section 1(1A)(c) of the Banks Act provides that the Registrar of Banks may request any person to complete a questionnaire in order to form an opinion of the qualities of that person. The purpose of this provision is to determine whether a person in the employ of a bank or controlling company may be regarded as fit and proper for the relevant position. The questionnaire, form DI 020, is contained in the Regulations relating to Banks.

Although the Registrar of Banks had always contended that the Registrar could at any time request a person to complete such a questionnaire, some individuals were of the opinion that the Registrar could insist on such a questionnaire only at the time of a person's appointment as a director or executive officer of a bank or bank controlling company. The amendment reflects the existing practice and provides for any refusal or failure to comply with a request to complete such a questionnaire to be an offence.

- *Issuing of circulars by the Registrar to provide information*

Section 6(4) of the Banks Act provides that the Registrar of Banks may issue a circular to furnish banks with guidelines on the application and interpretation of the provisions of the Act. In practice, however, circulars are also used to provide banks with information and advice on various topics. The amendment reflects the existing practice.

circulars are also used to provide banks with information and advice

- *Furnishing of an auditor's report at the expense of the bank, controlling company or subsidiary concerned*

Section 7 of the Banks Act provides that the Registrar may direct a bank, controlling company or subsidiary to furnish the Registrar with an auditor's report. In practice, such a report has always been commissioned at the reasonable expense of the bank, controlling company or subsidiary concerned. In a recent matter, however, this practice was challenged. The amendment reflects the existing practice and clarifies the position in that regard.

auditor's report commissioned at the reasonable expense of the bank, controlling company or subsidiary concerned

- *References to the Regulations relating to Banks*

The Banks Act provides that when a person wishes to apply for authorisation to establish a bank or for registration as a bank or a controlling company in terms of the provisions of sections 12, 16 or 43, respectively, of the Banks Act, such an application has to be made in the prescribed manner and on the prescribed form. The relevant application form, form DI 002, however, is contained in the Regulations relating to Banks. The amendment refers prospective applicants to the Regulations relating to Banks in order to clarify the position and to reduce the number of enquiries in that regard.

- *Revocation of authorisation to establish a bank*

Section 14(1) of the Banks Act provides that the Registrar of Banks may revoke authorisation granted for the establishment of a bank if the Registrar is satisfied that success with the formation of the bank has not been achieved within a period of six months. Section 16(1) of the Banks Act, however, provides that an applicant may apply for registration as a bank at any time within a period of twelve months of the Registrar having granted authorisation to establish a bank.

It thus appeared that section 16(1) of the Banks Act granted an applicant twelve months as from the date of authorisation to form the bank successfully. A revocation of the authorisation after six months, in terms of the provisions of section 14(1) of the Banks Act, could thus be regarded as a premature or an unfair administrative action by the Registrar. To address the apparent anomaly, section 14(1) was amended to provide for a twelve-month period.

to address apparent anomaly

- *Use by a bank of a name that includes the word "bank" for its division, brand or product*

Section 22(1) of the Banks Act provides that a bank may refer to itself only by the name under which it was registered. In practice, however, banks have for business reasons established divisions, brands and products with names that contain the word "bank". In all cases, the Registrar has approved such names subject to certain conditions, which are aimed at preventing confusion in the marketplace and among the general public. The amendment reflects the existing practice and creates legal certainty in that regard.

creates legal certainty

Sections 22(1) and 22(5) of the Banks Act were amended to provide that an institution registered under section 18A to conduct the business of a bank by means of a branch in the Republic of South Africa, as well as an institution that is registered as a representative office of a foreign institution in terms of the provisions of section 34, may also refer to itself by a name including the word "bank".

- *Order prohibiting anticipated or actual contraventions of certain provisions of the Banks Act*

Section 81 of the Banks Act provides that the Registrar of Banks may apply to the High Court for certain legal relief if the Registrar has reason to suspect that any person that is not registered as a bank is likely to contravene certain provisions of the Act. The provision, however, should also refer to branches of foreign institutions authorised in terms of the provisions of section 18A(1) of the Banks Act. The amendment provides legal certainty in that regard.

provides legal certainty

Provisions enabling subordinated legislation

The following amendments to the Banks Act were made to enable certain subordinated legislation:

- *Regulations relating to Representative Offices*

Section 34 of the Banks Act provides for the establishment of a representative office of a foreign bank in the Republic of South Africa. Representative offices are not permitted to do banking business and are not regulated on a regular basis by the Registrar of Banks. It had become evident, however, that the power to issue regulations in respect of representative offices was required in order to regulate such offices effectively, on a regular basis. The amendment enables the Minister of Finance to issue such regulations.

power to issue regulations

- *Compliance function*

The complexity of banking business and the rapidly changing regulatory environment made it necessary to oblige banks to establish a compliance function in order to enhance the risk-management framework of banks.

The compliance function has to be headed by a compliance officer, for whose functions and duties the Regulations relating to Banks provide. The amendment enables the Minister of Finance to issue further regulations pertaining to the compliance officer and creates legal certainty in that regard.

enables further regulations

- *Corporate governance*

Since banks are regarded as special institutions, which fulfil a unique role within a modern economy, the directors and executive officers of a bank are required to exercise a greater degree of care and skill than the directors of other companies. In order to provide for such requirements, it is necessary for the Minister of Finance to issue regulations in that regard, from time to time.

Certain regulations pertaining to corporate governance have already been incorporated into the Regulations relating to Banks. The amendment enables the Minister to issue further regulations relating to corporate governance and creates legal certainty in that regard. Furthermore, a definition of the term “corporate governance” was inserted into section 1(1) of the Banks Act.

enables further regulations

- *Audit committee*

An enabling provision was inserted into section 64 of the Banks Act to provide the

Minister of Finance with the power to prescribe, by regulation, certain further functions of an audit committee.

power to prescribe certain further functions

Provisions dealing with material issues

The following amendments were made with regard to certain material issues:

amendments to certain material issues

- *Definition of "director"*

Since the amendments to section 60 of the Banks Act differentiate between non-executive directors and executive directors as regards the objections that the Registrar of Banks may raise regarding their appointment, it was necessary to define the term "director".

- *Definition of "employee in charge of a risk management function"*

Compliance risk was included as paragraph (j) in the definition of an "employee in charge of a risk management function", in section 1(1) of the Banks Act, in order to include the compliance officer in the definition of "executive officer".

- *Definition of "executive officer"*

The definition of "executive officer" in relation to banks and non-banks was extended to include the company secretary and the compliance officer, since they fulfil a pivotal role in the corporate-governance structures and compliance functions of a company.

- *Investments by controlling companies*

Section 50 of the Banks Act provides for a controlling company to manage its affairs in such a manner that the amount of certain specified investments does not exceed 40 per cent of the controlling company's share capital and reserve funds. As a result of the principle of consolidated supervision of banking groups, it had become necessary to calculate the limit of 40 per cent on the share capital and reserve funds in relation to both the bank and the controlling company on a consolidated basis. The method of calculation of the amount will be prescribed by regulation.

method of calculation will be prescribed

- *Appointment of directors, chief executive officer and executive officers of a bank or controlling company*

Except in so far as the fiduciary duties of directors towards a company depend on statutory provisions expressly limited to directors, such duties also apply to officers of a company who are authorised to act on the company's behalf and, in particular, to those acting in a managerial capacity. In view of the wide powers of modern chief executive officers and managers, as well as the importance of the risk-management function in the business of a bank, the corporate-governance measures developed by common law in respect of directors have to be extended, by statute, to chief executive officers and executive officers of banks.

The amendments to section 60 of the Banks Act codify the generally accepted common-law principles of a fiduciary duty and a duty of care and skill owed to a company.

The previous provisions of the Banks Act neither defined the duty of care and skill nor

amendments impose a duty of care and skill

provided for such a requirement. The amendments to section 60 of the Banks Act not only impose a duty of care and skill on each director, chief executive officer and executive officer of a bank, but also clearly define the dimensions of such a duty. The amendments also clarify the common-law uncertainty relating to the test that is applicable in determining whether the said duty has been discharged. Common-law interpretations seem to favour a subjective test, whereas the definition provided for in the amendment to the Banks Act requires an objective test.

main purpose

The main purpose of the amendments is to provide depositors (by far the largest source of funding of a bank) with the protection that they may reasonably expect against their exploitation through reckless, negligent or fraudulent management of the business of their bank. Accordingly, in order for a bank to be managed adequately and with due regard to the interests of both the bank and the depositors, the amendments introduce a substantive principle to resolve such conflicts. The amendments also provide the Registrar with the power to institute an action, in terms of the provisions of section 424 of the Companies Act, 1973, against any director, chief executive officer or executive officer who was knowingly a party to the conduct of the business of the bank in the manner envisaged in that section.

power to gather information

Section 60(5) of the Banks Act previously provided for prescribed information to be furnished, by means of the prescribed form DI 020, only in respect of the appointment of new directors of banks or controlling companies. The amendments extend the provisions of section 60(5)(a) to the appointment of chief executive officers and executive officers of banks and controlling companies. The new provisions comply with the minimum requirements of the Core Principles for Effective Banking Supervision, issued by the Basel Committee on Banking Supervision and requiring a framework of banking laws that provides bank supervisors with the power to gather information in respect of directors and managers of banks.

Section 60(5)(b) of the Banks Act, read with regulation 41(1) of the Regulations relating to Banks, previously did not specify the purposes for which such information should be obtained. The said section merely provided that the appointment of a director of a bank or a controlling company would have no legal force unless the information was rendered to the Registrar, in the prescribed manner. The only reasonable inference to be drawn from the previous provisions of section 60(5) of the Banks Act, read with both section 60(6) of the Act and regulation 41 of the Regulations relating to Banks, is that the Registrar was not authorised to exercise a qualitative judgement on the qualities of a designated new director of a bank or a controlling company.

In terms of the aforementioned provisions, the Registrar of Banks was evidently concerned merely with establishing whether the particular bank or controlling company had considered the information required by form DI 020 in respect of such a director, in order for the institution to make a qualitative judgement on the qualities of the designated director, before appointment of the particular individual. Accordingly, once a bank or controlling company had considered the relevant information and had furnished the Registrar with a duly completed form DI 020 at least 30 days prior to the individual's appointment as a director, the appointment became effective without the Registrar having the authority to prevent it.

qualitative judgement

The Core Principles, however, require the aforementioned information to be gathered in order to enable bank supervisors to exercise a qualitative judgement on candidates for appointment. Furthermore, the Core Principles require a banking-law framework that provides bank supervisors with proper authorisation to remove or replace serving

managers or directors of banks or to restrict their powers, in order to prevent the appointment of individuals as directors or managers of banks and to disqualify individuals from becoming managers or directors of banks.

The amendment to paragraph (b) of section 60(5) of the Banks Act not only extends the provisions thereof to chief executive officers and executive officers of banks and controlling companies, but also affords the Registrar of Banks the power to object to a proposed appointment of a director, chief executive officer or executive officer. The Registrar, however, is required to provide written reasons for the objection, and the proposed appointee is afforded a reasonable period to respond.

power to object to a proposed appointment

If the Registrar wishes to pursue the matter and persists in objecting to the appointment after receiving representations by the proposed appointee, appointment of the particular individual will have no legal effect in the case of a non-executive director. In the case of an executive director or officer, the appointment will be terminated within 14 working days of the institution receiving the Registrar's notice of objection. Should the Registrar's decision be challenged, however, the matter will be referred to the Arbitration Foundation of South Africa, for arbitration in terms of expedited procedures approved by the Registrar. A distinction is made between, on the one hand, non-executive directors and, on the other, executive directors and officers, because non-executive directors are appointed in terms of an administrative process under the Companies Act, 1973, whereas executive directors and officers are appointed as employees of a company, resulting in the principles of labour law and the law of contract applying.

- *Appointment of more than one auditor and rotation of auditors*

Section 61(1)(a) of the Banks Act provides for the appointment of an auditor of a bank to be approved by the Registrar of Banks. In terms of the amendment, the provisions of this section are extended to the appointment of an auditor by a bank's controlling company, in order to accord with the established principle of consolidated supervision of banks and controlling companies by the Registrar.

Previously, section 61(1)(b) of the Banks Act provided for a bank with total assets in excess of R10 000 000 000 to appoint not less than two auditors, independent of each other. Since this requirement proved to be somewhat rigid, the amendment provides for the amount to be prescribed by regulation.

The aim of the amended section 61(6) is to ensure the independence of a bank's auditor at all times by means of a system of compulsory rotation after a prescribed period and under such conditions as may be prescribed by regulation. The rotation details will be formulated in consultation with the auditing profession and banks before they are prescribed by regulation, the expectation being that this will be done during 2004.

to ensure the independence of a bank's auditor

- *New committees*

Recent banking failures highlighted the need for certain committees to assist a bank's board of directors in the management of the bank. It had therefore become necessary to require the establishment of a risk committee and a directors' affairs committee. Although some banks had already established such committees, it was necessary, in the interest of sound risk management and corporate governance, to make the establishment of such committees mandatory in all banks.

need for certain committees

- *Large exposures*

To clarify the provision relating to large exposures and to bring it in line with the Regulations relating to Banks, a reference to "any private sector non-bank person" was included in section 73(1)(b) of the Banks Act.

- *Restriction on investments in shares*

restriction on investment in shares

Section 76 of the Banks Act was amended to clarify that the restriction on investment in shares relates to investments in shares of any company and not only property companies, as incorrectly interpreted by a sector of the banking industry.

- *Restriction on investments with associates*

Section 77 of the Banks Act places a restriction on investments that banks may make with their associates. Previously, the restriction related to a percentage of a bank's liabilities, excluding its liabilities in respect of capital and reserves. Since the calculation had become outdated, a new calculation was prescribed by the Regulations relating to Banks. The amendment clarifies the position in that regard.

- *Undesirable practices*

activities and practices regarded as undesirable

Section 78 of the Banks Act contains a list of activities and practices that are regarded as undesirable.

Previously, section 78(1)(b) of the Banks Act provided for a bank not to lend money to any person against security of its own shares only. In line with a recommendation made by Adv J F Myburgh SC, in his November 2001 report on the failed Regal Treasury Private Bank Limited, on which the 2001 annual report reported, this prohibition was extended to the shares of a bank's controlling company.

prohibit banks from paying dividends from their share capital without prior written approval

Recent amendments to the Companies Act, 1973, have made it possible for a company to pay dividends from the share capital of the company. Since the capital requirement of a bank forms an essential part of its prudential requirements, section 78(1)(k) was inserted into the Banks Act to prohibit banks from paying dividends from their share capital without the prior written approval of the Registrar of Banks.

- *Recovery of expenses in respect of an inspection or management of unregistered persons*

costs and expenses of an inspection

Sections 81 to 84 of the Banks Act provide for the control of the activities of unregistered persons. Owing to the complexity of certain cases and the length of time required to investigate complaints against unregistered persons doing the business of a bank, auditing firms are usually appointed to undertake such inspections. The costs and expenses of such an inspection are borne by the budget allocated to the Registrar's Office by the South African Reserve Bank.

When a person is found to have contravened the provisions of the Banks Act by illegally taking deposits from the general public, the Registrar may appoint a manager to seize the assets of such a person and to repay such funds as the manager may find to the investors. For the same reasons as stated above, an auditing firm is appointed to perform the tasks of such a manager.

Section 84(6) of the Banks Act previously provided for the Registrar to pay such a manager such remuneration as determined by the Minister of Finance. The section was amended to remove the reference to the Minister, since payment is made from the budget of the South African Reserve Bank, as indicated above. The amendment also provides for the costs and expenses of the inspection of the affairs of an unregistered person to be included in the said section of the Banks Act. Consequently, the Registrar has the legal right to recover the costs and expenses of both the inspection and the fund management from the person subject to the inspection and/or management.

legal right to recover costs and expenses

- *Increased penalties*

Owing to inflationary factors, as well as the extent and severity of some contraventions of the Banks Act, especially those relating to the illegal taking of deposits from the general public, the fines and prison terms for convictions of offences were increased.

fines and prison terms increased

Synthetic securitisation schemes

As reported in the two previous annual reports, an amended framework for asset securitisation was published as Government Notice No. 1375 (referred to as the securitisation notice), in Government Gazette No. 22948 on 13 December 2001.

As indicated in the 2002 annual report, regulations to provide for the regulation and supervision of credit-derivative instruments were published under Government Notices No. R.1464 and No. R.1465, in *Government Gazette* No. 24088 on 22 November 2002. Consequently, it became necessary to amend the above-mentioned securitisation notice in order to distinguish between traditional and synthetic securitisation schemes.

to distinguish between traditional and synthetic securitisation schemes

Following extensive research on the best international regulatory and market practices, the Bank Supervision Department drafted a proposed amended securitisation notice in order to distinguish between traditional and synthetic securitisation schemes and to regulate both.

In terms of the existing securitisation notice, banks may participate in, amongst other things, a securitisation scheme in a primary role, that is, as an originator, a remote originator, a sponsor or a repackager, or in a secondary role, that is, as a servicing agent, a provider of a credit-enhancement facility or a liquidity facility, an underwriter or a purchaser of senior commercial paper.

A traditional securitisation scheme involves the legal and economic transfer of assets to a special-purpose institution issuing asset-backed securities that are claims against a specific asset pool. In such a scheme, different classes of asset-backed security are issued, and each class has a different priority claim on the cash flows originating from the underlying pool of assets. A synthetic securitisation scheme, on the other hand, refers to a structured transaction whereby an institution uses a portfolio 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. The resulting credit exposures have different levels of seniority.

traditional securitisation scheme

synthetic securitisation scheme

Amended securitisation notice

A draft amended securitisation notice was released for comment on 12 March 2003, 19 June 2003 and 28 August 2003, respectively, and each draft was accompanied by an appropriate circular issued in terms of section 6(4) of the Banks Act, 1990. Each

draft amended securitisation notice was released for comment

release of a draft resulted in the Bank Supervision Department receiving comments from banks and other interested parties, resulting in further amendments being made to the proposed notice.

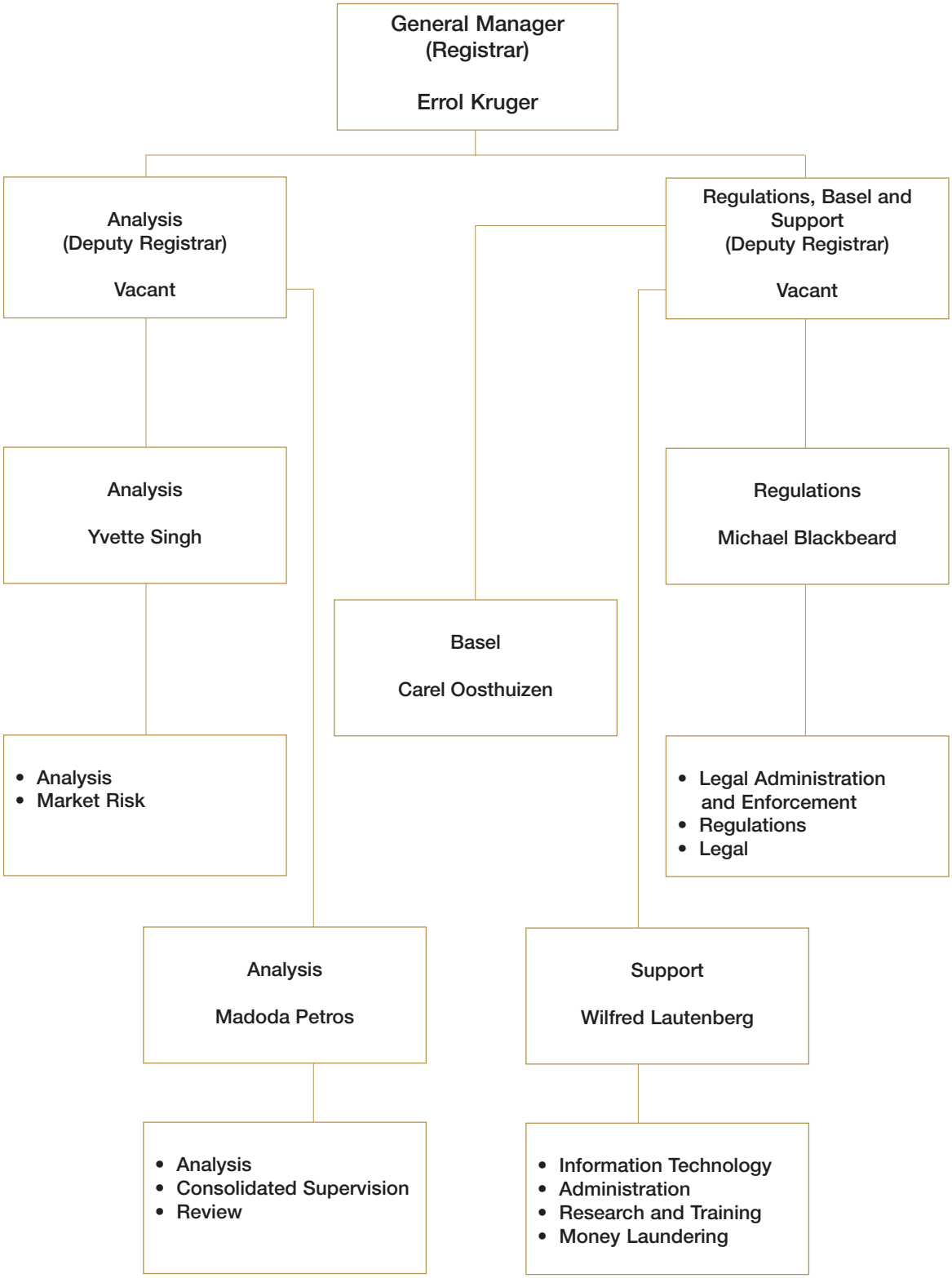
A subsequent draft securitisation notice was approved by the Standing Committee for Revision of the Banks Act, 1990, at a meeting on 3 October 2003, subject to certain further minor amendments being effected. The notice was published as Government Notice No. R. 681, in *Government Gazette* No. 26415 on 4 June 2004.

The Bank Supervision Department is of the opinion that the amended securitisation notice will create an environment that allows for the development of a strong corporate-debt market in the South African capital market.

Appendices

Appendix 1

Organisational structure of the Bank Supervision Department



Appendix 2

Registered banks and mutual banks as at 31 December 2003

Registered banks

Institution		Address	Total assets at 31 December		Percentage annual growth
			2002 R million	2003 R million	
1.	ABSA Bank Limited	P O Box 7735, Johannesburg, 2000	227 685	260 686	14,5
2.	African Bank Limited	Private Bag X170, Halfway House, 1685	6 417	6 033	-6,0
3.	Albaraka Bank Limited	P O Box 4395, Durban, 4000	643	867	35,0
4.	Capitec Bank Limited	P O Box 12451, Die Boord, Stellenbosch, 7613	368	410	11,5
5.	FirstRand Bank Limited	P O Box 786273, Sandton, 2146	212 536	255 533	20,2
6.	Gensec Bank Limited	P O Box 411420, Craighall, 2024	12 678	16 691	31,7
7.	Habib Overseas Bank Limited	P O Box 62369, Marshalltown, 2107	262	290	10,8
8.	HBZ Bank Limited	P O Box 48449, Qualbert, 4078	486	650	33,9
9.	Imperial Bank Limited	P O Box 3567, Edenvale, 1610	9 417	13 003	38,1
10.	Investec Bank Limited	P O Box 785700, Sandton, 2146	63 964	83 837	31,1
11.	Marriott Merchant Bank Limited	P O Box 3211, Durban, 4000	525	688	31,1
12.	Mercantile Bank Limited	P O Box 782699, Sandton, 2146	2 225	2 191	-1,6
13.	MLS Bank Limited	P O Box 87175, Houghton, 2041	4 124	4 075	-1,2
14.	Nedbank Limited	P O Box 1144, Johannesburg, 2000	161 090	280 541	74,2
15.	Peoples Bank Limited	P O Box 1144, Johannesburg, 2000	7 906	13 638	72,5
16.	Rennies Bank Limited	P O Box 185, Johannesburg, 2000	257	317	22,9
17.	Sasfin Bank Limited	P O Box 95104, Grant Park, 2051	566	536	-5,3
18.	TEBA Bank Limited	Private Bag X174, Halfway House, 1685	1 578	1 891	19,9
19.	The South African Bank of Athens Limited	P O Box 7781, Johannesburg, 2000	480	518	7,9
20.	The Standard Bank of South Africa Limited	P O Box 7725, Johannesburg, 2000	215 717	318 306	47,6

Appendix 2

Registered banks and mutual banks as at 31 December 2003 – continued

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
		2002 R million	2003 R million	
1. MEEG Bank Limited	P O Box 332, Umtata, 5100	729	767	5,2

Registered mutual banks

Institution	Type of registration	Address	Total assets as at 31 December		Percentage annual growth
			2002 R million	2003 R million	
1. GBS Mutual Bank	Final	P O Box 114, Grahamstown, 6140	295	351	19,0
2. VBS Mutual Bank	Provisional	P O Box 3618, Louis Trichardt, 0920	178	199	11,8

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 (registration cancelled on 30 January 2004)	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 2003

	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 527, Melrose Arch, 2076
10.	Deutsche Bank AG	Private Bag X9933, Sandton, 2146
11.	HSBC Bank Plc – Johannesburg Branch	Private Bag X951, Houghton, 2041
12.	JPMorgan Chase Bank (Johannesburg Branch)	Private Bag X9936, Sandton, 2146
13.	Société Générale	P O Box 6872, Johannesburg, 2000
14.	Standard Chartered Bank – Johannesburg Branch	P O Box782080, Sandton, 2146
15.	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 2003 to 31 December 2003

Name changes

Previous name	New name	Date of change
1. Rand Merchant Bank Limited	RMB Asset Finance Bank Limited	4 July 2003

Cancellation of registration

Institution	Date of cancellation
1. African Merchant Bank Limited	30 September 2003
2. BOE Bank Limited	21 February 2003
3. Cape of Good Hope Bank Limited	21 February 2003
4. ING Bank N.V. South Africa Branch	7 July 2003
5. Nedcor Investment Bank Limited	21 February 2003
6. PSG Investment Bank Limited	30 May 2003
7. RMB Asset Finance Bank Limited	28 July 2003
8. Securities Investment Bank Limited	18 February 2003
9. Unibank Limited	31 March 2003

Appendix 5

Registered controlling companies as at 31 December 2003

	Institution	Address
1.	ABSA Group Limited	P O Box 7735, Johannesburg, 2000
2.	African Bank Investments Limited	P O Box X170 Halfway House, 1685
3.	Capitec Bank Holdings Limited	P O Box 12451, Die Boord, Stellenbosch, 7613
4.	FirstRand Bank Holdings Limited	P O Box786273, Sandton, 2146
5.	Genbel Securities Limited	P O Box 411420, Craighall, 2006
6.	Investec Limited	P O Box 785700, Sandton, 2146
7.	Marriott Holdings Limited	P O Box 3211, Durban, 4000
8.	Mercantile Lisbon Bank Holdings Limited	P O Box 782699, Sandton, 2146
9.	Nedcor Limited	P O Box 1144, Johannesburg, 2000
10.	NRB Holdings Limited	P O Box 4928, Durban, 4000
11.	Regal Treasury Bank Holdings Limited	P O Box 3215, Rivonia, 2128
12.	Rennies Bank Holdings Limited	P O Box 87274, Houghton, 2041
13.	Saambou Holdings Limited	P O Box 74127, Lynnwood Ridge, 0040
14.	Sasfin Holdings Limited	P O Box 95104, Grant Park, 2051
15.	Standard Bank Group Limited	P O Box 7725, Johannesburg, 2000
16.	TEBA Bank Controlling Company Limited	Private Bag X174, Halfway House, 1685

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 Espirito 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 Leumi Le-Israel BM	P O Box 8373, Johannesburg, 2000
9.	Bank of America, National Association	CEEMA, Bank of America House, 1 Allie Str, London E1 8DE, England
10.	Bank of Cyprus Group	P O Box 652176, Benmore, 2010
11.	BNP Paribas Johannesburg	P O Box 653002, Benmore, 2010
12.	Barclays Private Bank Limited	P O Box 1542, Saxonwold, 2132
13.	Bayerische Hypo- und Vereinsbank AG	P O Box 1483, Parklands, 2121
14.	Belgolaise Bank	P O Box 652065, Benmore, 2010
15.	China Everbright Bank, South African Representative Office	P O Box 78345, Sandton, 2146
16.	Commerzbank AG	P O Box 860, Parklands, 2121
17.	Crédit Industriel et Commercial	302 Portofino, 30 9th Street, Killarney, 2193
18.	Credit Suisse (South Africa) (Pty) Limited	Private Bag X9911, Sandton, 2146
19.	Credit Suisse First Boston (Europe) Limited	Private Bag X9911, Sandton, 2146
20.	Dresdner Bank AG	P O Box 413355, Craighall, 2024
21.	Dresdner Kleinwort Wasserstein Limited	P O Box 413355, Craighall, 2146
22.	Export-Import Bank of India	P O Box 2018, Saxonwold, 2132
23.	First Bank of Nigeria	P O Box 78192, Sandton, 2146
24.	Fortis Bank (Nederland) N.V.	P O Box 652065, Benmore, 2010
25.	Gerrard Private Bank (Isle of Man) Limited	P O Box 787549, Sandton, 2146
26.	Gerrard Private Bank (Jersey) Limited	P O Box 787549, Sandton, 2146
27.	Hellenic Bank Limited	P O Box 783392, Sandton, 2146
28.	ING Bank (Switzerland) Limited	P O Box 65660, Benmore, 2010
29.	Kredietbank SA Luxembourgeoise	P O Box 1163, Stellenbosch, 7599
30.	Laiki Banking Group	Suite #199, Private Bag X9916, Village Walk, Sandton, 2146
31.	Natexis Banques Populaires	P O Box 1414, Morningside, 2057
32.	National Bank of Egypt	P O Box 55402, Northlands, 2116
33.	National Bank of Malawi	P O Box 412723, Craighall, 2024
34.	Royal Bank of Canada Europe Limited	P O Box 784568, Sandton, 2146
35.	Société Générale Representative Office for Southern Africa	P O Box 2805, Saxonwold, 2121
36.	Sumitomo Mitsui Banking Corporation	Private Bag X134, Bryanston, 2021
37.	The Bank of New York, Johannesburg Representative Office	Postnet Suite 100, Private Bag X43, Sunninghill, 2157
38.	The Bank of Tokyo-Mitsubishi, Ltd	P O Box 78519, Sandton, 2146
39.	The Representative Office for Southern and Eastern Africa of the Export-Import Bank of China	5th Floor, FedsureTowers, 13 Fredman Drive, Sandown, 2196

Appendix 6

Foreign banks with approved local representative offices (continued)

Institution		Address
40.	UBS AG	P O Box 652863, Benmore, 2010
41.	Union Bank of Nigeria Plc	P O Box 653125, Benmore, 2010
42.	Vnesheconombank	P O Box 413742, Craighall, 2024
43.	Wachovia Bank, NA	P O Box 3009, Parklands, 2121
44.	WestLB AG	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 2001 and 2002 may differ from those reported in the 2001 and 2002 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								
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	136 088	3 483	91 584	1 010 246
2002:01	94 496	607 977	90 352	24 592	130 067	3 137	92 647	1 043 267
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	1 063 217
2002:04	85 485	654 884	65 829	37 839	135 833	2 176	101 628	1 083 674
2003:01	80 560	661 461	54 746	37 366	293 268	1 972	100 381	1 229 753
2003:02	72 337	706 333	47 214	44 672	332 977	2 394	103 490	1 309 416
2003:03	69 733	716 181	43 599	46 266	351 034	1 893	105 719	1 334 425
2003:04	68 052	737 189	38 446	52 069	376 613	1 574	109 965	1 383 909
Month-end balance for year								
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
Dec 2003	68 239	755 659	38 785	57 377	346 035	1 415	110 120	1 377 630
Average for 12 months								
2001	76 320	551 745	69 692	23 664	105 502	3 328	89 349	919 600
2002	92 101	638 698	74 496	29 395	126 360	2 599	98 014	1 061 664
2003	72 670	705 291	46 001	45 093	338 473	1 958	104 889	1 314 375
Percentage annual growth	%	%	%	%	%	%	%	%
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
2003	-16,4	14,1	-33,6	15,5	141,9	-33,6	6,5	25,2

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									
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	1 010 246
2002:01	21 007	53 452	756 703	18 981	133 853	11 476	3 137	44 657	1 043 267
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	1 063 217
2002:04	24 774	46 117	802 543	28 291	124 684	12 357	2 176	42 732	1 083 674
2003:01	22 868	50 086	802 871	32 286	256 087	12 543	1 972	51 038	1 229 753
2003:02	23 332	54 203	835 216	34 781	311 374	12 188	2 394	35 927	1 309 416
2003:03	24 244	55 849	847 574	34 155	325 325	12 363	1 539	33 374	1 334 425
2003:04	26 371	59 983	861 113	40 033	351 943	12 311	1 217	30 938	1 383 909
Month-end balance for year									
Dec 2001	24 046	51 529	732 811	20 652	168 098	11 851	2 817	38 183	1 049 988
Dec 2002	26 537	47 293	799 787	36 814	132 934	12 523	2 131	42 734	1 100 754
Dec 2003	28 846	60 666	876 551	46 780	324 317	12 271	1 207	26 991	1 377 630
Average for 12 months									
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	1 061 664
2003	24 204	55 031	836 694	35 314	311 182	12 351	1 780	37 819	1 314 375
Percentage annual growth	%	%	%	%	%	%	%	%	%
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
2003	8,7	28,3	9,6	27,1	144,0	-2,0	-43,3	-36,8	25,2

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											
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
2003:01	328 751	37 095	248 879	46 735	661 461	13 745	12 134	25 879	28 098	26 647	54 746
2003:02	328 936	39 803	280 977	56 617	706 333	20 734	12 368	33 102	22 877	24 337	47 214
2003:03	340 181	42 493	297 238	36 269	716 181	19 308	14 873	34 182	20 592	23 006	43 599
2003:04	368 760	44 953	299 233	24 243	737 189	24 682	14 197	38 880	18 713	19 733	38 446
Month-end balance for year											
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
Dec 2003	392 168	45 573	295 182	22 736	755 659	27 780	16 591	44 372	21 077	17 708	38 785
Average for 12 months											
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
2003	341 657	41 086	281 582	40 966	705 291	19 617	13 393	33 011	22 570	23 431	46 001
Percentage annual growth	%	%	%	%	%	%	%	%	%	%	%
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
2003	17,4	22,9	25,8	-59,8	14,1	32,8	-0,7	17,9	-36,3	-30,0	-33,6

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										
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
2003:01	15 051	110 218	285 209	15 119	18 906	16 575	252 573	106 718	17 498	802 871
2003:02	16 878	115 337	296 032	15 716	22 334	15 639	266 806	105 324	18 849	835 216
2003:03	15 737	120 091	307 008	16 173	19 988	16 168	260 891	110 260	18 742	847 574
2003:04	10 530	124 390	319 679	16 722	23 951	16 239	264 055	104 161	18 614	861 113
Month-end balance for year										
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
Dec 2003	9 081	126 237	323 445	16 950	24 914	15 280	264 754	114 414	18 524	876 551
Average for 12 months										
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
2003	14 549	117 509	301 982	15 932	21 295	16 155	261 081	106 616	18 426	836 694
Percentage annual growth	%	%	%	%	%	%	%	%	%	%
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
2003	-32,3	17,0	15,8	15,8	28,4	-9,5	6,9	-2,8	8,1	9,6

Table 5

Funding maturity structure

	Short-term %	Medium-term %	Long-term %
Quarter			
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	15,1
2002:04	64,6	20,2	15,2
2003:01	62,2	22,6	15,2
2003:02	63,5	22,8	13,7
2003:03	64,8	21,8	13,3
2003:04	66,1	21,3	12,7
Month-end for year			
Dec 2001	66,1	20,4	13,5
Dec 2002	65,9	19,3	14,8
Dec 2003	68,4	19,4	12,1
Average 12 months			
2001	65,3	21,0	13,7
2002	66,9	18,5	14,7
2003	64,2	22,1	13,7

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								
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	26 455	93 330	12 456	80 874	10,7	2,0	4,2
2002:01	68 499	27 130	95 629	13 826	81 803	10,5	2,1	4,1
2002:02	67 429	28 075	95 504	11 970	83 533	10,4	1,9	4,3
2002:03	68 108	31 660	99 768	12 388	87 380	10,6	1,9	4,9
2002:04	69 982	32 367	102 349	15 454	86 895	10,8	2,4	5,0
2003:01	66 771	32 598	99 370	13 336	86 034	10,0	2,0	4,9
2003:02	70 517	32 341	102 857	9 783	93 074	10,3	1,4	4,7
2003:03	73 865	32 088	105 953	9 498	96 455	10,7	1,4	4,6
2003:04	75 625	32 198	107 823	10 574	97 250	10,7	1,5	4,5
Average for year								
2001	65 123	24 704	89 826	12 144	77 682	10,7	2,0	4,1
2002	68 505	29 808	98 313	13 410	84 903	10,6	2,1	4,6
2003	71 694	32 306	104 001	10 798	93 203	10,4	1,6	4,7
Percentage annual growth	%	%	%	%	%			
2001	16,2	21,3	17,5	28,8	16,0			
2002	5,2	20,7	9,4	10,4	9,3			
2003	4,7	8,4	5,8	-19,5	9,8			

Table 7

Risk profile of assets

	Risk category					Total	Risk-weighted assets	Risk-weighted assets as percentage of total average assets
	0% R million	10% R million	20% R million	50% R million	100% R million	R million	R million	%
Average month-end balance for quarter								
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
2003:01	235 719	11 263	65 271	192 272	522 889	1 027 415	633 206	61,6
2003:02	239 928	10 897	82 593	202 440	534 037	1 069 894	652 865	61,0
2003:03	248 076	9 700	84 025	211 404	535 853	1 089 059	659 330	60,5
2003:04	239 327	11 483	89 254	223 285	554 072	1 117 420	684 713	61,3
Month-end balance for year								
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
Dec 2003	236 092	12 521	92 723	226 308	559 403	1 127 048	692 354	61,4
Average for 12 months								
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
2003	240 763	10 836	80 286	207 350	536 713	1 075 947	657 529	61,1
Percentage annual growth	%	%	%	%	%	%	%	
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	
2003	2,0	24,0	40,0	19,1	9,7	11,9	11,8	

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									
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
2003:01	1 183 842	489	1 521	6 048	57 264	16 792	1 265 956	46 810	3,7
2003:02	1 136 111	283	1 890	6 035	58 309	17 498	1 220 125	48 062	3,9
2003:03	1 239 829	387	2 332	11 036	56 210	15 191	1 324 984	45 755	3,5
2003:04	1 273 801	1 030	5 580	11 717	55 895	10 330	1 358 353	41 231	3,0
Month-end balance for year									
Dec 2001	615 550	278	3 437	8 870	50 194	18 252	696 580	45 481	6,5
Dec 2002	1 224 511	234	1 716	6 240	57 346	17 301	1 307 347	47 405	3,6
Dec 2003	1 314 456	677	11 682	5 879	57 939	9 777	1 400 411	41 125	2,9
Average for year									
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
2003	1 208 396	547	2 830	8 709	56 920	14 953	1 292 355	45 465	3,5
Percentage annual growth	%	%	%	%	%	%	%	%	
2001	-	-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	
2003	7,3	189,3	580,8	-5,8	1,0	-43,5	7,1	-13,2	

Table 9(a)

Risk profile and loans and advances

	10% R million	20% R million	50% R million	100% R million	1250% R million	Total R million	Risk-weighted loans and advances R million	Risk-weighted loans and advances as percentage of total loans and advances %
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-card 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	69,312
Less: Specific provisions	12	0	0	129	13 741	13 881	13 805	99,5

Table 9(b)

Risk profile of loans and advances

	0% R million	10% R million	20% R million	50% R million	100% R million	Total R million	Risk-weighted loans and advances R million	Risk-weighted loans and advances as percentage of total loans and advances %
Month-end balance for year 2002								
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-card 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 9(c)

Risk profile and loans and advances

	0% R million	10% R million	20% R million	50% R million	100% R million	Total R million	Risk-weighted loans and advances R million	Risk-weighted loans and advances as percentage of total loans and advances %
Month-end balance for year 2003								
Intragroup bank advances	26 277	38	0	0	3 569	29 884	3 573	12,0
Interbank advances	0	0	26 660	0	0	26 660	5 332	20,0
Negotiable certificates of deposits	0	0	3 484	0	2	3 486	699	20,0
Instalment debtors	27	384	131	0	122 027	122 569	122 091	99,6
Mortgage loans	0	0	25	222 255	99 723	322 003	210 855	65,5
Credit-cards debtors	0	0	0	0	16 868	16 868	16 868	100,0
Acknowledgements of debt discounted	12 169	61	7 996	12	5 746	25 984	7 357	28,3
Redeemable preference shares	679	0	325	0	13 982	14 985	14 047	93,7
Overdrafts and loans	4 520	6 285	1 805	0	243 842	256 453	244 832	95,5
Foreign-currency loans and advances	58 613	925	37 696	0	6 528	103 761	14 159	13,6
Loans granted under resale agreements	1 000	2 333	6 371	0	8 154	17 859	9 662	54,1
S A Reserve Bank and Corporation for Public Deposits	259	0	0	0	0	259	0	0,0
Banks	741	0	6 371	0	0	7 113	1 274	17,9
Non-banks	0	2 333	0	0	8 154	10 487	8 388	80,0
Total loans and advances	103 286	10 027	84 493	222 267	520 440	940 512	649 475	69,1
Less: Specific provisions	0	57	0	32	18 423	18 511	18 444	99,6

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						
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	57 061	8,7
2003:01	668 973	17 541	651 432	67 009	56 529	8,5
2003:02	691 279	17 035	674 244	69 191	63 822	9,2
2003:03	690 548	16 066	674 482	69 112	68 070	9,9
2003:04	712 347	17 078	695 269	77 569	63 437	8,9
Average for year						
2001	616 089	11 342	604 748	54 936	53 805	8,7
2002	650 064	17 974	632 090	65 267	56 821	8,7
2003	690 787	16 930	673 857	70 720	62 964	9,1
Percentage annual growth	%	%	%	%	%	
2001	19,0	325,5	13,7	65,9	-22,8	
2002	1,5	-23,5	2,4	-9,9	2,2	
2003	8,9	-0,2	9,2	18,4	11,2	

Table 11(a)

Composition of income statement

	Average monthly balance for quarter 2001				Average monthly balance for quarter 2002			
	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	7 436	7 715	7 735	7 627	7 973	8 748	10 362	11 315
Interest expense	4 707	4 968	5 313	5 275	5 765	6 416	8 021	8 118
Interest margin	2 729	2 748	2 422	2 352	2 209	2 332	2 341	3 197
Less: Specific provisions on loans and advances	469	773	831	723	1 634	548	445	776
Less: General debt provisions	84	95	71	225	103	-79	79	80
Other	15	4	22	74	-3	5	16	-29
Adjusted interest margin	2 161	1 876	1 497	1 329	474	1 858	1 800	2 370
Add: Transaction-based fee income	1 344	1 112	1 424	1 559	1 462	1 589	1 654	1 840
Income from management of funds	3 505	2 988	2 921	2 889	1 936	3 447	3 455	4 211
Less: Operational expenses	2 795	3 036	3 014	3 213	3 134	3 379	3 312	3 396
Net income from management of funds	710	-48	-93	-324	-1 198	68	142	814
Add: Investment and trading income	889	254	906	1 253	-1 427	957	905	-515
Less: Specific provisions - investment	100	-54	0	14	-10	0	4	-5
Add: Knowledge-based fee income	183	218	414	273	215	293	206	283
Net income before tax	1 406	14	754	1 313	-281	883	1 174	1 196
Taxation	270	244	294	376	291	251	257	556
Net income after tax	1 136	-230	460	937	-573	632	917	641

Table 11(b)

Composition of income statement

	Average monthly balance for quarter 2003				Results for 12 months			Average for year		
	March R million	June R million	September R million	December R million	2001 R million	2002 R million	2003 R million	2001 R million	2002 R million	2003 R million
Interest income	11 215	11 744	10 992	8 494	91 539	115 196	127 336	7 628	9 600	10 611
Interest expense	8 198	8 681	7 940	5 881	60 788	84 959	92 100	5 066	7 080	7 675
Interest margin	3 017	3 063	3 053	2 613	30 751	30 237	35 236	2 563	2 520	2 936
Less: Specific provisions on loans and advances	722	770	564	494	8 388	10 209	7 649	699	851	637
Less: General debt provisions	20	26	-66	37	1 427	551	51	119	46	4
Other	12	13	1	7	347	-31	98	29	-3	8
Adjusted interest margin	2 262	2 254	2 554	2 075	20 589	19 509	27 438	1 716	1 626	2 286
Add: Transaction-based fee income	1 738	1 838	1 885	2 011	16 319	19 635	22 417	1 360	1 636	1 868
Income from management of funds	4 000	4 093	4 439	4 086	36 909	39 144	49 854	3 076	3 262	4 155
Less: Operational expenses	3 404	3 989	3 593	3 995	36 177	39 665	44 942	3 015	3 305	3 745
Net income from management of funds	596	103	846	92	731	-521	4 912	61	-43	409
Add: Investment and trading income	393	-420	96	945	9 905	-239	3 039	825	-20	253
Less: Specific provisions - investment	0	9	2	4	177	-30	45	15	-3	4
Add: Knowledge-based fee income	167	177	178	230	3 263	2 991	2 252	272	249	188
Net income before tax	1 169	1 424	1 883	798	10 459	8 917	15 826	872	743	1 319
Taxation	228	516	439	648	3 552	4 066	5 495	296	339	458
Net income after tax	941	908	1 444	151	6 908	4 851	10 332	576	404	861

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				
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
2003:01	14,2	10,5	3,6	0,9
2003:02	14,2	10,9	3,3	0,9
2003:03	13,7	9,9	3,7	0,5
2003:04	10,5	7,2	3,3	0,5
Results for the 12 months ended				
December 2001	10,8	7,3	3,5	1,1
December 2002	12,5	9,1	3,4	1,1
December 2003	12,3	8,9	3,4	0,7

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 %
Avreage month-end balance for quarter								
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
2003:01	0,9	13,0	10,9	8,0	2,9	3,3	1,9	0,4
2003:02	0,8	11,5	10,8	8,0	2,8	3,7	1,8	-0,4
2003:03	1,3	17,7	9,9	7,1	2,7	3,2	1,9	0,1
2003:04	0,1	1,8	7,4	5,1	2,3	3,5	1,9	0,8
Results for the 12 months ended								
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
December 2003	0,7	10,5	9,2	6,7	2,6	3,3	1,8	0,2

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											
2001:01	7,1	1,7	33,6	34,3	2,2	2,4	1,6	28,1	3,8	0,5	4,1
2001:02	8,0	1,7	13,2	34,0	2,2	1,8	1,6	28,5	3,8	0,8	4,4
2001:03	3,9	2,0	13,0	32,9	2,2	2,0	1,5	31,2	4,6	0,6	6,5
2001:04	4,5	1,7	13,3	31,9	2,3	3,0	1,4	32,3	4,0	0,9	4,7
2002:01	4,9	1,4	13,7	32,6	2,3	2,0	1,5	32,3	3,9	0,8	4,7
2002:02	5,7	1,1	13,8	33,5	2,1	2,2	1,5	30,9	4,1	0,8	4,3
2002:03	9,9	0,8	12,5	32,1	1,9	2,1	2,8	30,0	4,5	0,8	2,5
2002:04	12,4	1,0	12,7	31,4	1,9	2,1	-0,1	28,7	3,8	1,1	5,2
2003:01	10,1	1,4	12,9	32,5	2,1	2,0	1,2	29,3	2,4	1,2	4,9
2003:02	8,6	1,6	12,7	33,2	2,1	2,3	1,4	26,9	2,1	1,5	7,7
2003:03	10,9	1,5	12,9	32,3	2,2	2,5	1,3	28,0	1,9	1,9	4,7
2003:04	2,9	1,2	15,4	36,1	2,6	2,9	1,5	29,9	2,0	2,5	2,9
Results for the 12 months ended											
December 2001	6,0	1,8	13,2	33,3	2,2	2,3	1,5	30,1	4,1	0,7	4,9
December 2002	8,6	1,0	13,1	32,3	2,0	2,1	1,4	30,3	4,1	0,9	4,2
December 2003	8,5	1,4	13,4	33,3	2,2	2,4	1,4	28,4	2,1	1,7	5,2

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											
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
2003:01	9,7	6,9	33,3	2,5	29,5	5,2	2,5	8,8	1,1	-3,4	4,0
2003:02	10,2	5,1	29,7	2,5	31,1	6,1	3,5	10,4	0,7	-3,3	4,1
2003:03	9,1	5,2	29,5	2,3	34,2	4,4	3,4	10,4	0,6	-2,9	3,9
2003:04	-1,7	5,3	31,5	2,2	35,7	3,8	3,7	12,7	0,7	0,5	5,6
Results for the 12 months ended											
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
December 2003	7,5	5,6	31,0	2,4	32,3	5,0	3,2	10,4	0,8	-2,5	4,3

Table 16(a)

Calculation of liquid-asset requirement

	Average month-end balance for quarter 2001				Average month-end balance for quarter 2002			
	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	835 398	872 360	918056	975 445	1 036 042	1 044 362	1 050 960	1 076 739
Less: Capital and reserves	88 360	89 047	87251	91 909	92 765	97 167	101 895	101 849
- average daily amount of funding from head office or branches	7 408	7 918	10645	15 672	14 800	9 375	10 088	16 560
- average daily amount owing by banks, branches and mutual banks	62 872	73 680	89983	87 171	98 741	90 603	80 663	86 314
Liabilities as adjusted	676 757	701 715	730177	780 695	829 737	847 217	858 314	872 015
Liquid-asset requirement	33 838	35 086	36509	39 109	41 487	42 361	42 916	43 601
Liquid assets held	39 042	39 088	42460	42 989	42 676	42 241	50 299	50 047
SARB notes and coins	90	95	873	1 841	1 970	1 722	2 332	3 685
Gold coin and bullion	5	6	5	6	11	11	7	6
Clearing-account balances	1	22	4	5	9	11	1	0
Treasury bills of the Republic	16 086	13 867	14361	12 021	10 916	13 568	14 959	15 299
Stock issued - Exchequer Act, 1975								
Securities issued - Public Finance Management Act, 1999	20 274	22 168	24247	27 224	26 892	23 179	27 985	25 792
Securities of the SARB	630	967	1071	761	1 738	2 540	4 090	4 368
Land Bank bills	1 984	1 964	1899	1 131	1 139	1 210	926	896
Memorandum items								
Cash-management schemes	39 883	41 150	41713	42 679	42 716	42 732	42 817	45 625
Set-off	79 198	83 014	67867	76 240	78 870	81 238	81 256	67 199
Ratios	%	%	%	%	%	%	%	%
Liquid assets held to liquid assets required	115,4	111,4	116,3	109,9	102,9	99,7	117,2	114,8

Table 16(b)

Calculation of liquid-asset requirement

	Average month-end balance for quarter 2003				Month-end for year			Percentage annual growth		
	March R million	June R million	September R million	December R million	2001 R million	2002 R million	2003 R million	2001 %	2002 %	2003 %
Liabilities including capital and reserves	1 215 145	1 288 005	1 314 484	1 375 441	1 006 335	1 093 356	1 381 927	22,8	8,6	26,4
Less: Capital and reserves	100 979	104 214	105 900	109 256	94 373	101 766	109 417	21,7	7,8	7,5
- average daily amount of funding from head office or branches	12 307	8 459	6 927	7 508	16 979	16 144	9 087	-	-4,9	-43,7
- average daily amount owing by banks, branches and mutual banks	117 484	128 821	131 511	140 416	92 585	90 624	144 175	-	-2,1	59,1
Liabilities as adjusted	984 375	1 046 511	1 070 147	1 118 365	802 397	884 822	1119 396	8,2	10,3	26,5
Liquid-asset requirement	49 219	52 326	53 507	55 918	40 120	44 241	55 970	8,2	10,3	26,5
Liquid assets held	53 391	59 067	60 926	63 207	44 339	51 172	64 626	15,2	15,4	26,3
SARB notes and coins	4 114	3 960	4 632	5 985	1 969	3 581	6 204	-	81,8	73,3
Gold coin and bullion	8	7	4	5	11	10	6		-6,4	-44,8
Clearing-account balances	2 140	0	0	1	6	0	1	-79,3	-98,7	1591,9
Treasury bills of the Republic	15 212	17 288	15 790	17 382	10 962	16 031	18 082	-34,4	46,2	12,8
Stock issued - Exchequer Act, 1975				-	-		-	-		
Securities issued - Public Finance Management Act, 1999	26 808	26 589	33 255	36 333	29 292	26 440	36 981	-	-9,7	39,9
Securities of the SARB	4 527	10 523	6 589	2 812	1 033	4 184	2 656	22,4	305,0	-36,5
Land Bank bills	583	700	657	689	1 067	927	696	-47,1	-13,1	-24,9
Memorandum items										
Cash-management schemes	47 952	50 269	50 971	54 162	45 205	48 697	57 111	20,5	7,7	17,3
Set-off	59 355	66 214	67 329	74 334	79 531	59 594	76 044	9,7	-25,1	27,6
Ratios	%	%	%	%	%	%	%			
Liquid assets held to liquid assets required	108,5	112,9	113,9	113,0	110,5	115,7	115,5			

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						
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	26 133	14 254	10 411
2003:01	8 887	2 228	15 815	26 930	14 606	10 613
2003:02	9 038	2 223	13 576	24 837	15 409	9 747
2003:03	9 098	2 079	13 362	24 538	16 038	9 839
2003:04	8 190	2 188	13 392	23 769	15 446	8 426
Average for year						
2001	9 115	2 935	13 965	26 014	11 706	12 552
2002	8 451	2 523	15 440	26414	13 896	10 909
2003	8 803	2 180	14 036	25 019	15 375	9 656
Percentage annual growth	%	%	%	%	%	%
2001	-	-	-	-	-	-
2002	-4,3	-27,7	7,6	-0,2	18,3	-13,1
2003	-2,6	5,5	-14,5	-9,0	8,4	-19,1

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					
2001:01	43,9	94,2	3,7	1,6	19,3
2001:02	45,8	94,1	3,5	1,6	18,6
2001:03	44,3	93,0	3,4	1,5	18,8
2001:04	45,9	91,7	3,2	1,5	17,3
2002:01	48,4	93,1	3,0	1,5	15,7
2002:02	53,3	95,7	3,0	1,6	14,2
2002:03	54,2	92,6	3,0	1,6	14,3
2002:04	54,5	94,4	2,9	1,6	13,2
2003:01	54,2	93,6	3,0	1,6	13,8
2003:02	62,0	101,3	2,6	1,6	9,8
2003:03	65,4	105,5	2,6	1,7	8,4
2003:04	65,0	100,4	2,4	1,5	8,5
Average for year					
2001	45,0	93,3	3,5	1,6	18,5
2002	52,6	93,9	3,0	1,6	14,4
2003	61,7	100,2	2,7	1,6	10,1

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					
2001:01	1 287 057	125 791	18,0	165,7	1694,9
2001:02	1 396 418	139 732	19,1	186,5	1864,1
2001:03	1 393 886	160 084	20,8	208,7	1816,8
2001:04	1 424 052	178 866	21,8	218,8	1742,3
2002:01	1 474 886	193 166	22,5	225,1	1718,5
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
2003:01	439 848	157 027	17,4	176	492,9
2003:02	397 579	171 909	17,7	178,5	412,8
2003:03	408 862	161 629	16,8	160,1	405
2003:04	367 618	154 180	15,4	156,9	374,2
Average for year					
2001	1 375 353	151 118	19,9	194,9	1779,5
2002	765 787	171 486	19,4	196,6	881,6
2003	403 477	161 186	16,8	167,9	421,2
Percentage annual growth	%	%			
2001	106,4	-7,8			
2002	-63,9	-17,7			
2003	-28,5	4,8			

Table 20

Profitability of assets

		Advances			Investments			
	Money R million	Reasonable margin R million	Small margin R million	No yield R million	Profitable R million	Not profitable R million	Infra-structure R million	Total R million
Quarter								
2001:01	15 702	659 638	54 373	20 903	37 921	11 324	54 222	854 084
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	76219	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
2003:01	23 820	882 842	44799	33 964	160 677	12 875	62 284	1 221 262
2003:02	23 507	981 702	39 887	32 707	208 474	11 008	48 456	1 345 741
2003:03	26 281	976 183	39 682	32 568	232 941	11 897	44 751	1 364 302
2003:04	28 845	1 024 217	33 054	32 619	207 105	11 310	40 470	1 377 620
Average for year								
2001	18 528	721 167	62 697	21 047	49 131	8 902	54 169	935 641
2002	23 590	834 511	79 373	29 398	36 342	10 715	55 662	1 070 075
2003	25 613	966 236	39 355	32 964	202 299	11 773	48 990	1 327 231
Percentage annual growth	%	%	%	%	%	%	%	%
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
2003	8,7	21,3	-63,5	-9,1	447,4	48,1	-29,4	25,3

Table 21

Open position in foreign currency

	Total foreign-exchange assets USA$ million	Total foreign-exchange liabilities USA$ million	Net spot position USA$ million	Commitments to purchase foreign currency USA$ million	Commitments to sell foreign currency USA$ million	Mismatched forward commitments USA$ million	Foreign branches USA$ million
Average month-end balance for quarter							
2001:01	7 183	6 903	280	148 034	148 233	-199	44
2001:02	8 113	7 328	785	152 026	152 739	-713	36
2001:03	9 779	7 335	2 445	171 444	173 867	-2 423	30
2001:04	8 746	7 331	1 416	161 089	162 532	-1 444	40
2002:01	10 282	7 140	3 142	140 597	143 796	-3 200	39
2002:02	11 870	6 290	5 580	125 180	130 877	-5 697	39
2002:03	12 809	5 853	6 956	112 322	119 351	-7 030	38
2002:04	12 612	6 181	6 431	123 758	130 285	-6 527	44
2003:01	12 716	5 747	6 969	130 505	137 611	-7 106	39
2003:02	13 411	5 464	7 947	152 492	160 604	-8 112	72
2003:03	14 989	5 638	9 351	164 472	173 885	-9 413	72
2003:04	15 039	4 817	10 221	152 259	162 859	-10 599	57
Month-end balance for year							
Dec 2001	8 231	7 284	947	151 073	152 095	-1 022	42
Dec 2002	12 570	5 884	6 685	116 779	123 563	-6 785	44
Dec 2003	16 667	5 064	11 603	141 197	153 344	-12 147	61
Average for year							
2001	8 455	7 224	1 231	158 148	159 343	-1 195	37
2002	11 893	6 366	5 527	125 464	131 077	-5 613	40
2003	14 039	5 417	8 622	149 932	158 740	-8 807	60
Percentage annual growth							
2001	22,9	2,9	-	16,8	17,6	-553,4	25,0
2002	44,2	-15,7	354,2	-23,2	-19,8	-352,0	10,0
2003	19,2	-22,1	58,9	23,0	25,0	-62,4	29,5

Appendix 8

Circulars sent to banking institutions during 2003

Banks Act Circular 1/2003	Annual withdrawal and retention of circulars
Banks Act Circular 2/2003	Ministerial Panel for the review of the Draft Accounting Profession's Bill
Banks Act Circular 3/2003	Positions denominated in foreign currency held by banks
Banks Act Circular 4/2003	Composition of board-appointed committee to approve large exposures
Banks Act Circular 5/2003	Proposed amended legislation: Designation of an activity not falling within the meaning of "the business of a bank" – Securitisation schemes, including traditional securitisation schemes and synthetic securitisation schemes
Banks Act Circular 6/2003	Warning against infiltration of West African organised crime cells into banks in the United States of America and Europe
Banks Act Circular 7/2003	Amendment to the procedure for the electronic sumission of DI returns to this Office by controlling companies, banks, mutual banks, branches of foreign banks and offshore branches of South African banks
Banks Act Circular 8/2003	Issue of certain capital instruments
Banks Act Circular 9/2003	Proposed amendments to legislation: Designation of an activity not falling within the meaning of "the business of a bank" – Securitisation schemes, including traditional securitisation schemes and synthetic securitisation schemes
Banks Act Circular 10/2003	Proposed amendments to legislation: Conditions for the Conducting of the Business of a Bank by a Foreign Institution by means of a Branch in the Republic
Banks Act Circular 11/2003	Risk weighting of the International Finance Corporation
Banks Act Circular 12/2003	Proposed amendments to legislation: Designation of an activity not falling within the meaning of "the business of a bank" – Securitisation schemes, including traditional securitisation schemes and synthetic securitisation schemes, as well as Conditions for the Conducting of the Business of a Bank by a Foreign Institution by means of a Branch in the Republic
Banks Act Circular 13/2003	Section 44 of the Long-term Insurance Act, 1998 (Act No. 52 of 1998)
Banks Act Circular 14/2003	Update on the implementation of the New Basel Capital Accord and request for further information
Banks Act Circular 15/2003	Amendments to form DI 425

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	Subparagrph	Expiry
Date	Number			
2000/12/28	21941	Financial service co-operative	(dd)(i)	2005/12/31
2004/03/19	26143	The National Housing Finance Corporation Limited	(dd)(i)	2005/12/31
2003/04/17	24731	Ithala Development Finance Corporation Limited	(dd)(i)	2005/12/31
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 Registrar of Banks

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 Minister of Finance

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): Exemptions 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

Approval of acquisition or establishment of foreign banking interests in terms of section 52 of the Banks Act, 1990, from 1 January 2003 to 31 December 2003

Name of bank/ controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Country
ABSA Group Limited	2003-04-14	ABSA Life Limited – Jersey Branch	Jersey
FirstRand Bank Holdings Limited	2003-01-14	Austral Refrigeration (Pty) Limited and subsidiaries	Australia
FirstRand Bank Holdings Limited	2003-01-29	LN Metals International Limited (30 per cent)	United Kingdom
FirstRand Bank Holdings Limited	2003-04-22	Ansbacher Wealth (Caribbean) Limited	Cayman Islands
FirstRand Bank Holdings Limited	2003-07-10	Ausenco Limited (16,67 per cent)	Australia
FirstRand Bank Holdings Limited	2003-07-28	Tradestream Limited Utrade Limited	Guernsey
FirstRand Bank Holdings Limited	2003-12-05	Osprey Oil and Gas Limited (15 per cent)	United Kingdom
Genbel Securities Limited	2003-03-07	Axes Holdings Incorporated (100 000 preference shares)	United States of America
Genbel Securities Limited	2003-03-07	Botswana Choice Limited (50 per cent)	Botswana
Investec Limited	2003-10-23	Investec Insurance Services (Pty) Limited	Botswana
Investec Limited	2003-10-28	Investec Assurance Limited (branch office in Guernsey)	Guernsey
Investec Plc*	2003-06-24	Investec Wentworth Private Equity (Pty) Limited IWPE Nominees (Pty) Limited Investec Australia Direct Investments (Pty) Limited	Australia
Investec Plc*	2003-06-25	Investec Nominees (Pty) Limited	Australia
Investec Plc*	2003-06-26	Investec Property General Partner Limited	Guernsey
Investec Plc*	2003-06-26	Investrack Limited (50 per cent)	United Kingdom
Investec Plc*	2003-06-26	Datong Electronics Incorporated	United States of America
Investec Plc*	2003-06-26	Innorate Profits Limited (25 per cent)	Hong Kong
Investec Plc*	2003-06-26	Hero Nominees Limited	Guernsey
Investec Plc*	2003-06-26	Investec Asset Management Solutions Limited Fiscus Fund Administration Services Limited Fiscus Software Limited	Guernsey
Investec Plc*	2003-10-10	Investec Financial Management Limited	Ireland
Investec Plc*	2003-10-13	Enterprise Business Centers Dover Street Limited	United Kingdom
Investec Plc*	2003-12-30	Lombard Corporate Finance (2) Limited	United Kingdom

* Note: Applications in respect of Investec Plc to establish or acquire foreign interests or subsidiaries were noted in terms of the conditions of approval of the Investec dually listed company structure.

Appendix 10

Approval of acquisition or establishment of foreign banking interests in terms of section 52 of the Banks Act, 1990, from 1 January 2003 to 31 December 2003 (continued)

Name of bank/ controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Country
Standard Bank Group Limited	2003-05-14	Stanbic Investment Management Services Limited – Botswana (50 per cent)	Botswana
Standard Bank Group Limited	2003-06-20	Stanbic Investment Management Services (East Africa) Limited – Uganda Branch	Uganda
Standard Bank Group Limited	2003-06-20	Stanbic Insurance Services (Botswana) (Pty) Limited	Botswana
Standard Bank Group Limited	2003-06-20	Stanbic Investment Management Services Limited – Nigeria (50 per cent)	Nigeria
Standard Bank Group Limited	2003-08-07	Standard Resources (China) Limited	Peoples Republic of China
Standard Bank Group Limited	2003-10-30	Triskelion Trust Company Limited and subsidiaries	Isle of Man
Standard Bank Group Limited	2003-12-04	- Osprey Oil and Gas Limited (12,5 per cent) - Sino Gold Limited (10,28 per cent)	United Kingdom Australia
Standard Bank Group Limited	2003-12-17	GCC Energy Fund LP and associated companies (50 per cent)	Cayman Islands and United Arab Emirates
Standard Bank Group Limited	2003-12-24	Banco Standard Totta de Mocambique SARL (to be renamed Standard Bank SARL, Mozambique) (96,0058 per cent)	Mozambique