Annual Report 2004

Bank Supervision Department

South African Reserve Bank

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Bank Supervision
Department

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 training of bank directors

Following a number of high-profile corporate failures in recent years, both locally and abroad, increasing emphasis is being placed worldwide on the accountability and responsibilities of boards of directors. Some thoughts on the need for bank directors, particularly non-executive directors, to receive training to enable them to fulfil their duties are therefore deemed appropriate.

"As the future unfolds, outside directors will play an increasingly important role in guiding their banks and serving as unbiased judges of their operational performance. Fulfilling this role will not be easy. Studies of failed banks reveal that many were supervised by directors who received insufficient or untimely information or who were inattentive to the bank's affairs. This impaired their ability to judge bank operations and to identify and correct problems. Thus, if outside directors are to meet the demands placed upon them, they must be more knowledgeable, better informed, and more active in identifying and correcting problems in their banks …

Basic management experience and skills necessary to succeed in other endeavors are equally applicable to banks. Thus, the knowledge and experience you have developed in other walks of life can be effectively used in looking after bank affairs. Add to this a questioning attitude and a willingness to commit time and energy to bank matters and you have many of the attributes of an effective bank director. The only thing that may be missing is a basic knowledge of banking and an awareness of specific matters to consider in overseeing a bank …

As a director, you are responsible for establishing policies and monitoring operations to ensure your bank complies with laws and regulations. To fulfil this responsibility, you must have a basic understanding of the regulatory framework under which your bank operates and be knowledgeable about the rules and regulations to which it must adhere …

In addition to compliance matters, you and other board members must be mindful of your bank's financial condition. This requires that you establish policies to establish your bank's risk limits, to govern its operations, and to safeguard its assets. It also requires you periodically to check bank performance to ensure policies are being followed and are achieving the desired results …

It is an important director responsibility to make sure that the bank's capital cushion remains strong. This requires monitoring the bank's capital position closely, anticipating capital needs, and planning ways to meet those needs." Basics for directors, by Forest E Meyers. 3rd ed. Division of Supervision and Risk Management, Federal Reserve Bank of Kansas City, 2001 (accessible at www.kc.frb.org).

"A board should consider orientation programs for new directors. These programs should explain the operation of the bank and the banking industry, and clearly outline the responsibilities of board members both individually and as a group. Ongoing education programs that describe emerging industry developments, opportunities and risks also are often helpful." The director's book: the role of a national bank director, Office of the Comptroller of the Currency, Washington, DC, 1997, p 3.

South African Reserve Bank

Bank Supervision Department

Annual report for the calendar year ended 31 December 2004
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 2004 to 31 December 2004.

INDEX

Chapter 1

Registrar's review

The banking system in South Africa remained stable during the year under review, and it was pleasing to note that the banking sector's total gross overdues continued the downward trend of the previous year. Some words of caution, however, are sounded in the overview that follows below. Bankers, in particular, are urged to take note of the banking-cycle stages outlined in the overview and to institute appropriate actions. Concentration in the South African banking system is also discussed in the overview.

issues highlighted

Also reviewed in this chapter are the supervisory activities of the Bank Supervision Department during 2004, following implementation of the modifications that the Department made to its supervisory approach. Among the other issues highlighted are a review of the legal framework for global bank insolvency by the World Bank, implementation of South Africa's Financial Sector Charter by banks, the Department's review of corporate governance in South African banks other than the five largest banks and issues relating to the liquidation of Regal Treasury Private Bank Limited, the failure of which was among the reasons for the Department instituting corporate-governance reviews.

Overview of the South African banking system

banking system remained stable

average capital-adequacy ratio increased

During 2004, the South African banking system remained stable, and, in general, banks were sound. Banks benefited from South Africa's economic health, and their financial performance was strong during the year under review. Not only did banks remain well capitalised, but the average capital-adequacy ratio increased from 12,2 per cent in 2003 to 13,5 per cent in 2004.

total funds of banks increased

Growth in the total balance sheet increased during 2004. By the end of December 2004, the total funds of banks – comprising capital, reserves, deposits and loans – had increased by 8,6 per cent (measured over a period of twelve months), to a level of R1 498,1 billion. At the end of 2004, the four largest banks represented about 83,7 per cent of the total banking sector, and the five largest banks constituted 88,5 per cent of the banking sector. At the end of December 2004, small local banks constituted 2,9 per cent of total banking-sector assets, whereas international banks constituted 8,6 per cent of the banking sector.

non-bank deposits increased

Total non-bank deposits increased by 20,5 per cent over the 12-month period ended 31 December 2004 (December 2003: 14 per cent). The composition of non-bank deposits changed somewhat during the year under review, owing to the Minister of Finance removing stamp duties on negotiable certificates of deposit (NCDs) in his 2004 budget speech. NCDs increased from 3 per cent of non-bank deposits at the end of December 2003 to 12,1 per cent at the end of December 2004.

return on equity and on assets increased

interest margin increased

efficiency ratio improved slightly

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 2004, the average return on equity (smoothed) was 14,7 per cent, up from 11,2 per cent in December 2003, whereas the return on assets (smoothed) increased from 0,8 per cent in December 2003 to 1,2 per cent in December 2004. The interest margin increased to 3,5 per cent in December 2004, from 2,7 per cent in December 2003, when the margin was affected mainly by half-year reporting adjustments and the reporting of a decrease in interest income on derivative instruments by some banks. The efficiency ratio of the banking sector improved slightly, from 64,6 per cent in 2003 to 63,9 per cent in 2004.

Throughout 2004, the average daily amount of liquid assets by South African banks exceeded the statutory liquid-asset requirement. In December 2004, banks' liquid assets amounted to 114,2 per cent of the liquid assets required to be held, compared to a level of 115,6 per cent in December 2003.

liquid assets exceeded the requirement statutory

The total gross overdues of the banking sector decreased by R3,4 billion, to a level of R20,4 billion at the end of December 2004. Provisioning by banks against these non-performing loans was adequate.

total gross overdues decreased

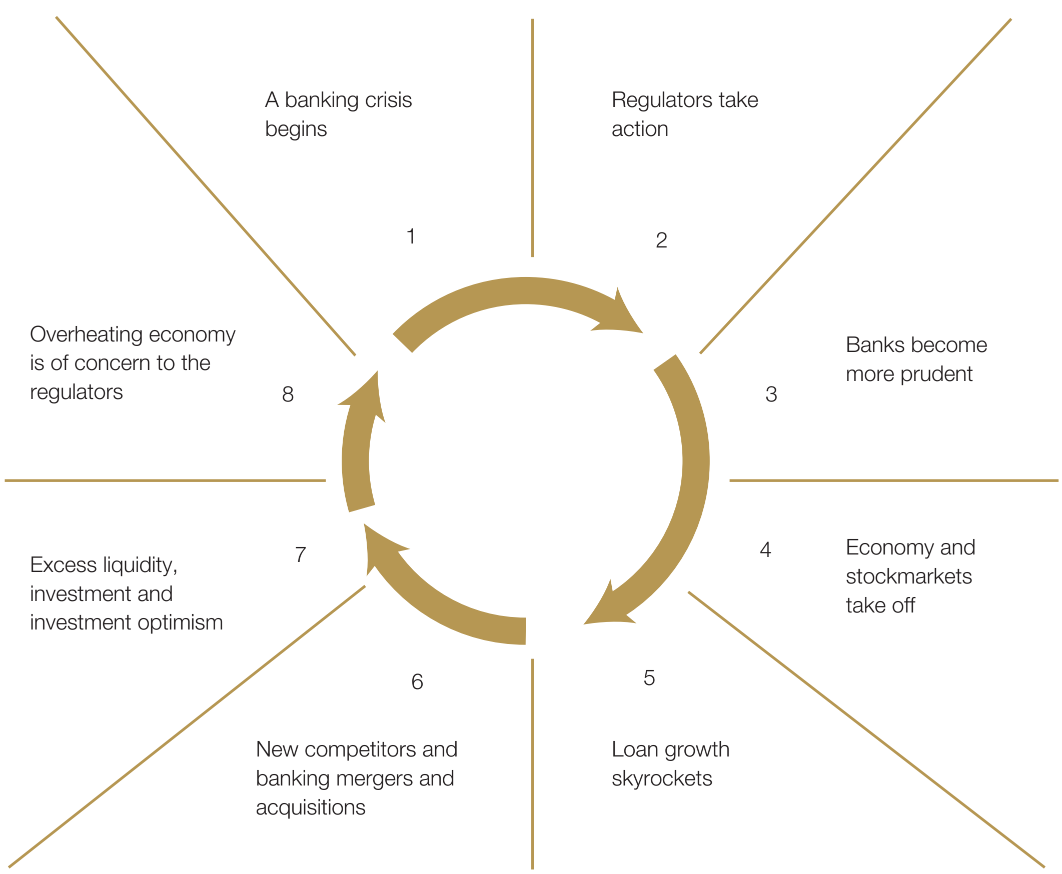
Looking ahead, the general outlook for the South African banking sector is cautiously positive. The main factors underpinning this assessment are expectations of sustainable economic growth and an environment of transparent and disciplined monetary policy, sound profitability, improvements in asset quality and growth in non-interest income.

Stages of banking cycle

A few words of caution, however, need to be sounded, and it is hoped that all boards of directors will objectively assess their banks' position and act appropriately.

As is commonly known and understood, banking and banks progress through various stages of a cycle. It is those banks that proactively plan (during the euphoria of good times) for the hard times of the cycle that survive. The broad eight stages of the cycle can simplistically be depicted as in figure 1 below.

Figure 1: Stages of a banking cycle



country experienced stage 1 from late 1999 to 2002

Working through the various stages of the cycle, one can easily identify the corresponding events in South Africa. The country experienced stage 1, a banking crisis, during the period from late 1999 to 2002. Many regulatory actions were taken and implemented during stage 2, and normality returned to the banking sector.

Stage 3 dawned when the surviving banks were still extremely aware of those events, and many bankers became more prudent. This stage involved, amongst other actions, down- or rightsizing of businesses, curtailment and critical evaluation of cost structures, disposal of previously acquired non-core and non-performing assets and investments, evaluation of the required staff complements, reconstitution of management and board structures and an overhaul of the risk-management practices and structures in place at the time.

fourth stage has been prevalent in recent times

The fourth stage, that of the economy and stockmarkets taking off, has been very prevalent in South Africa in recent times, resulting in all macro-economic indicators moving into positive territory. Similarly, the all-share index touched an all-time high of 12 681 points at the end of December 2004. Increased loan growth, characteristic of stage 5, was at the forefront of banking activity during the year under review, and demand for credit surged to a 13-month high in December 2004/January 2005, whilst consumer spending remained strong.

signs of stages 6 and 7 are beginning to emerge

Signs of stages 6 and 7 - new competitors and excess liquidity and investment optimism - are beginning to emerge. By the end of 2004, interest in acquiring a stake in South African banks had been expressed by some international players. Also, reports, by some banks, of a build-up of excess cash were beginning to surface.

South Africa has progressed to stage 5

It can thus clearly be seen that South Africa has progressed to stage 5 of the cycle's eight stages, whilst signs of stages 6 and 7 are becoming apparent. The vexing question is obviously whether or not the cycle will be completed.

regulator's responsibility to be proactive

Unfortunately, no amount or extent of banking regulation and supervision can ever prevent the occurrence of problems at banks. It is, however, the regulator's responsibility to be proactive by assisting banks to identify which stage of the cycle has been reached and to encourage banks proactively to take appropriate steps and actions in preparation for the leaner periods that may follow.

bankers should be aware that cycles turn

Accordingly, without in any way detracting from the long-term sustainable and sound macro-economic fundamentals that are in place in South Africa, bankers should be aware that cycles do turn. Prudent bankers are those who carefully plot the cycle and, during the good times, put in place suitable measures to ensure that their banks can survive, with a minimum of additional or drastic action, the effects of any downturn that may present itself. I sincerely hope that all chief executives of South African banks are advising their boards of directors appropriately and that the boards, in their turn, are playing an active role in the design of the future path of their banks so as to afford depositors the comfort and safety that they deserve.

It goes without saying that the Bank Supervision Department remains committed to the ongoing development and refinement of sound risk-management and corporate-governance practices, as well as flexible regulatory and supervisory structures, capable of adjusting to a rapidly changing financial environment.

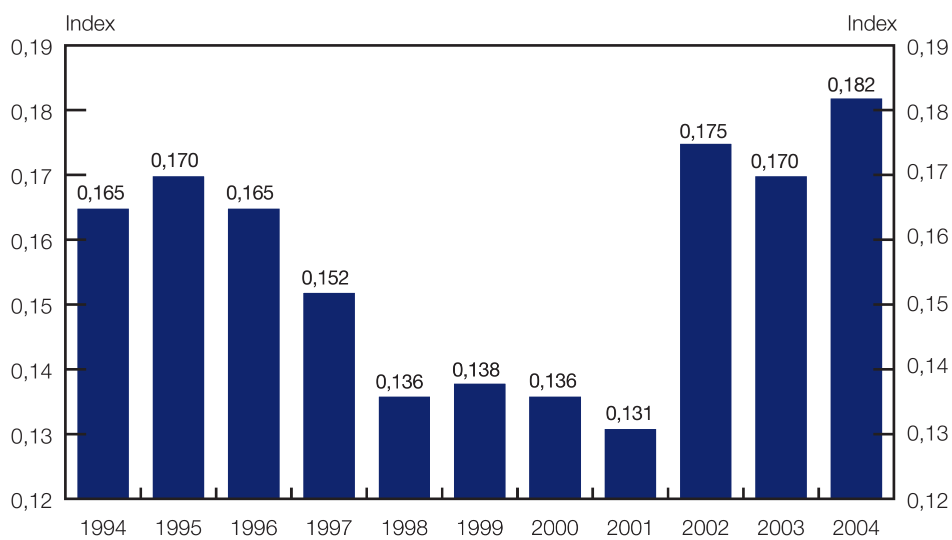
Concentration in the South African banking system

Several indices may be used to measure concentration and competition in a banking system. The most widely used index in the literature is the Herfindahl-Hirschman index, commonly referred to as the H-index and explained in detail in the 2001 annual report.

H-index deteriorated

In South Africa, which had 36 banking institutions at the end of the year under review, the H-index deteriorated from 0,170 in 2003 to 0,182 in 2004, as illustrated in figure 2. Since the number of banks has decreased by only one bank since 2003, the deterioration in the H-index can be attributed mainly to the four largest banking groups constituting a larger proportion of the total banking system. These four banks constituted 83,7 per cent of the banking sector in December 2004, compared to 80,8 per cent in December 2003.

Figure 2: H-index for the South African banking system (1994-2004)



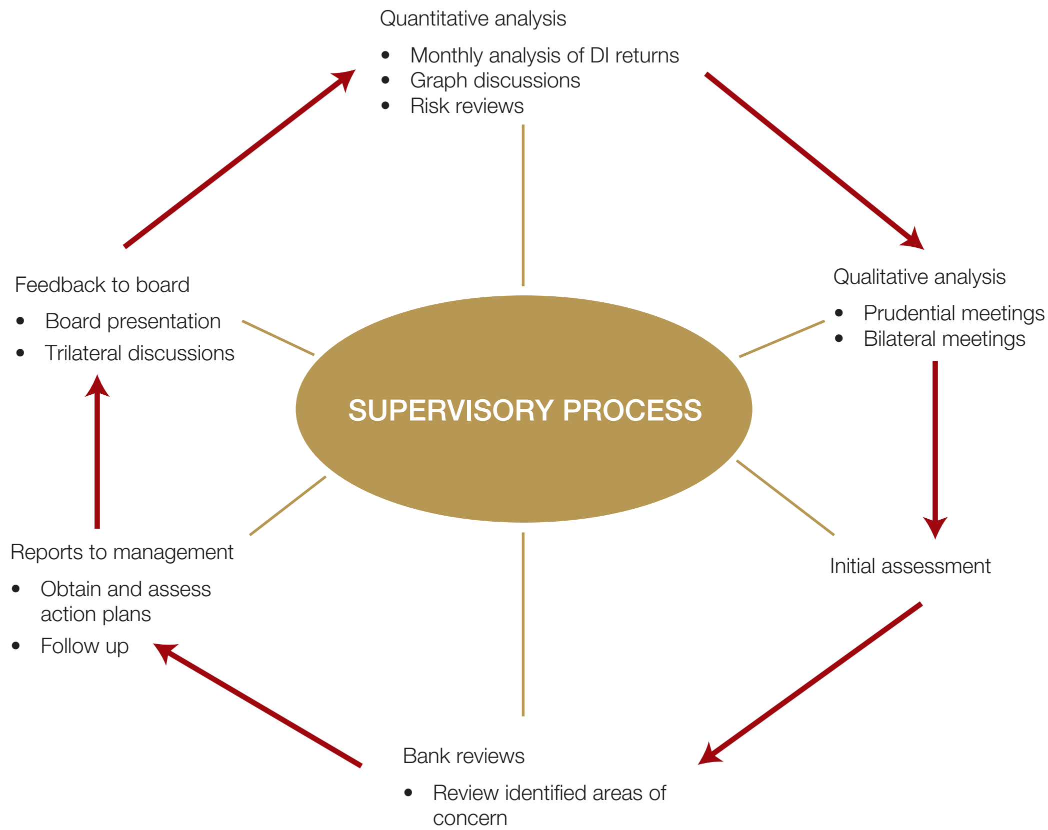
Overview of supervisory activities

modifications to the supervisory approach

During the year under review, the Bank Supervision Department implemented the modifications to the supervisory approach outlined in the previous annual report. The South African banking industry continued to be competitive, and financial innovation kept pace with a magnitude of developments.

As the banking environment and related risks changed, the supervisory framework and processes had to be tailored accordingly, in order to ensure that the Department could effectively monitor the risks of individual banks, banking groups and the banking system as a whole. The modifications to the supervisory framework implemented at the beginning of 2004 included, amongst other things, six steps in the supervisory process, as shown in figure 3.

Figure 3: Six steps in supervisory process



Quantitative analysis

detailed analysis

The Bank Supervision Department's supervisory approach and processes are primarily risk focused. From the perspective of quantitative analysis, all statutory returns and other financial information submitted by banks entail detailed analysis, including time-series analysis, and interpretation of the trends reflected in graphic material prepared from the financial and risk information of banks submitted to the Department. This analysis and the information gathered through prudential meetings, that is, budgets and management-account information, form the basis of further and regular interaction and discussions, at a micro level, with the appropriate risk managers of banks. As a result, the Department is able to risk rate individual banks as high, medium or low risk.

Qualitative analysis

meetings with the various stakeholders

During the year under review, the Department's relationship teams undertook qualitative assessments of each individual bank, by holding, amongst other things, prudential, bilateral and *ad hoc* meetings with the various stakeholders. These qualitative assessments formed an intrinsic part of the Department's supervisory programme for each individual bank and banking group and included structured meetings with the chief executive officer, external and internal auditors, risk managers and other executive officers.

main objective is to gain a thorough understanding

The main objective of the Department's qualitative analysis is to gain a thorough understanding of each individual bank's and banking group's strategic objectives, business plans, governance processes and levels of general risk management and internal controls. The supervisory process is supplemented by a review of each bank's and group's internal management and board reports, as well as internal and external audit reports, with a view to ensuring appropriate attention to and action on supervisory concerns.

Initial assessment

Based on the above-mentioned quantitative and qualitative analyses, the Department makes initial assessments of banks' and banking groups' main risk areas. These assessments, in turn, are used to revise and update the Department's supervisory plans for each individual bank and banking group proactively and on an ongoing basis, whilst also enabling the relationship teams objectively to identify any further supervisory intervention that may be required. In summary, the assessment process ensures ongoing appropriate attention to and action on supervisory concerns and further facilitates regular communication and liaison between the Department and the appropriate representatives of banks and banking groups.

assessments of main risk areas

Bank reviews

Flowing from the above initial assessments, specific bank reviews were undertaken during the 2004 supervisory cycle when deemed appropriate. These reviews were bank specific and focused primarily on the activities and risk areas that posed the greatest risk to the soundness of the particular banks.

specific bank reviews were undertaken when deemed appropriate

The Department implemented close coordination between the review and the relationship teams, in order to ensure that, in the main, the same staff members were involved in all facets of supervising individual banks and banking groups. This approach ensured that the relationship team for a particular bank remained conversant with the bank's financial condition, management structure, business model, overall operations and adequacy of its management systems, in order to identify, measure and monitor the respective risks, as well as to address control of these risks with the bank.

Reviews conducted during the 2004 supervisory cycle focused mainly on assessing the effectiveness of individual banks' risk-management frameworks for their credit and trading activities. The assessments also included evaluations of the asset quality of credit- and trading-counterparty exposures, as well as the application of sound corporate-governance standards during the conduct of such activities. In some instances, however, the Department also requested specific *ad hoc* reports from banks' external auditors. Other reviews related to the monitoring and examination of banks' progress with special projects aimed at addressing specific issues or areas of concern that had been identified as requiring corrective action.

Reports to management

The reviews that the Department undertook during 2004 culminated in discussions on the findings and recommendations arising therefrom with the management of each particular bank. The Department then sent a formal report to the particular bank, and the bank's management was required to furnish the Department with an action plan, with time frames, on the remedial action to be taken within 30 days of receipt of the report.

discussions on findings and recommendations

Significant issues arising from the reviews undertaken were also discussed with the respective banks' board risk committees during the annual trilateral discussions. This included discussion of the board risk committee's monitoring and follow-up procedures with regard to the bank's remedial action plan.

Feedback to board of directors

It is of great importance that all members of a bank's board of directors are fully informed of and conversant with the risk profile of the bank, as reflected in both the management accounts and the statutory risk returns submitted to the Department. In the case of a banking group, it is also important for the directors to have not only a group perspective, but also an understanding of the risks of a bank forming part of the group. In such cases, therefore, the Department includes discussion of information on the consolidated group in meetings with a bank's board of directors.

A bank's board of directors is the most important key player in the supervisory process and accepts ultimate responsibility for the risk profile of a bank. Consequently, it is essential for the Department to hold meetings with a bank's board of directors, in order to obtain, amongst other things, directors' views and perspectives on the relevant risk profiles, risk management and risk appetite of the bank. Such meetings also enable the Department to put forward its views and opinions on the risk profile of a bank, based on the information received from the bank, and to give feedback to the directors on current supervisory issues. The supervisory programme for each individual bank, therefore, required the relevant relationship team and a senior member of the Department to hold at least one meeting with the bank's board of directors during the 2004 supervisory cycle.

at least one meeting with the board of directors

Trilateral discussions

The supervisory programme for each individual bank also requires the relationship team and a senior member of the Department to hold at least one joint meeting with the bank's audit committee and external auditors during each annual supervisory cycle.

purpose of meetings

The purpose of these meetings is to address a particular facet of a bank's business in some depth and to evaluate the bank's risk management in that area. In general, the discussions cover the management letters produced by a bank's external auditors, internal and external audit reports and the statutory functions of a bank's audit committee.

scope was broadened

During the 2004 supervisory cycle, the scope of the trilateral discussions was broadened to include the activities of both the Directors' Affairs Committee and the Board Risk Committee of each bank. Since the objectives of these committees are to assist a bank's board of directors to fulfil its duties and to enhance corporate governance within the bank, the Department deemed it necessary to discuss the issues emanating from the said committees with the committee members.

The above-mentioned two committees are mandatory statutory committees in terms of amendments to the Banks Act, 1990, and have specific responsibilities. Overall, the Department's findings were that these two committees were yet to become fully functional. Therefore, it is incumbent on the chairpersons of boards to ensure that the two committees become fully functional and effective during 2005.

Internal governance arrangements, focus on business plans and alignment to risks, operating structures and management information

During the prudential meetings held with individual banks and banking groups in 2004, the Department's relationship teams placed specific focus, at a micro level, on the internal governance arrangements within a bank and banking group. The Department deemed it appropriate to discuss, identify and highlight possible weaknesses within banks' internal governance arrangements. In view of the potentially negative consequences of poor corporate governance, the objective was to add value.

specific focus on internal governance arrangements

During these meetings, the Department also focused on strategic objectives, business plans, risk-management processes and practices, the alignment thereof with operating structures, systems and the flow of management information. Among the issues addressed were the sustainability of business models, balance-sheet structures, asset diversification, effectiveness of boards of directors and their involvement in setting business and strategic objectives. Other issues of importance that were addressed included the risks and consequences of any potential lack of appropriate governance structures and lack of ongoing risk management, since shortcomings in these areas might result in capital erosion, with far reaching consequences for banks, their depositors and their employees.

issues addressed

The Department emphasised that, in most cases, situations of distress were due primarily to an avoidance of responsibility and accountability throughout organisations and groups as a whole. In practice, a lack of responsibility and accountability was usually more difficult to detect as a result of banks' complex group structures and disparate business units. For example, business units might involve themselves in non-core operating activities and be allowed to drift into different strategic directions, causing them to operate in separate silos. This was likely to create numerous pockets of significant, unmanaged risks, without centralised oversight, which could impact severely on banks' and banking groups' profitability.

responsibility and accountability

The Department's relationship teams also raised and discussed issues relating to whether the allocation of capital was aligned to banks' business activities and whether the returns on the allocated capital were being measured appropriately. It was stressed that another factor that could lead to a distressed environment was non-alignment of reporting entities to operating entities. It was pointed out that a lack of reliable, integrated systems would result in fragmented management reporting, usually necessitating significant manual intervention and leading to manipulation of available information and, ultimately, inappropriate decisions. In such situations, a common factor would appear to be a lack of appropriate board oversight and a lack of compensating controls. These, in turn, were likely to result in problems at all operating levels of banks and banking groups.

In some instances, the Department was uncomfortable with, firstly, some banks' culture of non-compliance and, secondly, the quality of some banks' statutory information. The Department undertook in-depth analyses of all available information and identified certain areas of concern. In particular, credit risk and the lack of adequate and effective information systems were identified as areas requiring swift action.

in-depth analyses of all available information

The above analyses resulted in focused discussions with the management of the relevant banks and culminated in internal reviews and self-assessments by these banks.

action plans implemented by banks

The action plans implemented by the banks concerned included, amongst others, the following:

- *Rationalisation of the group structures of banks and their controlling companies*
  This rationalisation included appropriate management of intragroup exposures.

- *Proactive capital management and appropriate capital allocation*
  The Department insisted on detailed capital plans and projections accompanying new applications for the issue of capital instruments. The objective was, amongst other things, to ensure that capital management would be centralised in banking groups and that awareness of the importance of capital preservation was created throughout banking groups. In particular, capital management underpinned the rationalisation and downsizing of group structures.

- *Alignment of banks' strategies to operating structures*
  The Department prefers all non-banking operations to be ring-fenced from banking activities and appropriate management focus to be allocated accordingly. The operational structures should reflect the scope and degree of sophistication of banks' activities. The Department has found that it is imperative to ensure that accountability and responsibilities are assigned to specific employees at all levels, in order to facilitate improved performance measurement.

- *Production of appropriate management information, aligned to operating structures*
  The Department regards the availability of accurate, integrated and reliable management information as absolutely essential. It was found that poor management-account information was a common weakness, which hampered appropriate decision-making. Once the said problem had been addressed, significant value was unlocked at all levels in banks.

Overall, the Department found that, when required, appropriate and timely action plans and remedial actions were put in place by banks' and banking groups' management. This demonstrated what could be achieved if the supervisor and banks worked in partnership to maintain financial stability in the banking sector.

Interaction with banks' external auditors

information shared

The same focused approach was followed in the Department's interaction with banks' external auditors. In addition to the bilateral meetings held in terms of the directives of regulation 45 of the Regulations relating to Banks, the Department held various *ad hoc* meetings with banks' external auditors. This resulted in information being shared timeously with the external auditors and fostered open and interactive participation, as well proactive cooperation.

various projects undertaken

The above culminated in various projects being undertaken by banks and their external auditors, in order to rectify weaknesses and deficiencies in a proactive and focused manner. Throughout the year under review, the Department was kept up to date on progress made, actions taken and milestones achieved.

Trading activities (market risk)

concentrated within 13 banks

During 2004, trading-book (speculative) exposures were concentrated within 13 banks, that is, five local banks and eight international banks. The Bank Supervision Department visited the major trading banks and reviewed the day-to-day management of their trading activities. The main objective was to obtain updated information on how banking institutions were managing their treasury operations and to gain a better understanding of some industry-specific issues. Among these issues were the different risk measures and methodologies used, specifically the following:

risk measures and methodologies used

- Standardised approach to completion of DI returns.
- Banking-book versus trading-book capital allocation.
- Large-exposure requirement in respect of trading-book capital.
- Regulatory treatment of risk margin.
- Bilateral netting.
- Regulatory arbitrage.

Banks' trading activities within the South African banking sector are reported to the Department in terms of the Regulations relating to Banks and the Regulations relating to Capital-adequacy Requirements ("CAR") for Banks' Trading Activities in Financial Instruments (CAR Regulations), which require the boards of directors of trading banks to approve and allocate capital for trading activities. The CAR Regulations also require capital to be held in respect of position risk, counterparty risk and large exposures.

The Department monitored trading banks' compliance with the minimum capital requirements in respect of the above-mentioned risks on a daily basis and compared each particular bank's figures to those of its peer group and all trading banks on a monthly basis.

Overall, the Department's assessment was that the risk management of South African banks' trading activities was comparable to that of international banks and that South African banks adhered to best practice. Most trading banks in South Africa were using value-at-risk (VAR) methodology internally or were moving towards that methodology. More importantly, however, all assessed banks had sensitivity and stress limits in place, in order to supplement the measurement of VAR exposures.

banks adhered to best practice

It was decided that the CAR Regulations would be reviewed and updated together with the Regulations relating to Banks.

Global bank insolvency – review of legal framework by the World Bank

During April 2002, the Bank Supervision Department was invited to serve as a member of the Core Consultative Group (CCG) of the Global Bank Insolvency Initiative. The initiative is a project developed by the World Bank in partnership with the International Monetary Fund and in close cooperation with the Bank for International Settlements, the Basel Committee on Banking Supervision and regional development banks. The objective of the CCG was to identify the appropriate institutional, legal and regulatory framework for bank insolvency.

Global Bank Insolvency Initiative

A draft report was produced at the first work session of the CCG, held in Washington DC, United States of America, from 27 to 28 June 2002. A subsequent meeting was held in Basel, Switzerland, from 8 to 9 October 2002, to discuss the focus and content of the aforementioned draft report. At a third meeting, held in Mexico City, Mexico, from 28 to 29 January 2003, the draft report was debated and further refined, and a revised version of the report was circulated to the members of the CCG during April 2003. A fourth and final meeting in that regard was held in Washington DC, from 23 to 24 April 2003, in order to finalise the said report. More than 80 countries participated in the

more than 80 countries participated

initiative, mainly by sending representatives to the global and regional seminars that had been arranged. A selected group of 15 countries of regionally systemic importance, including South Africa, participated as members of the CCG.

The report that was produced by the CCG in essence follows on the document entitled “Supervisory guidance on dealing with weak banks”, issued by the Basel Committee on Banking Supervision, in March 2002, the objectives of which were:

– To identify the appropriate legal, institutional and regulatory framework for addressing bank insolvency.
– Progressively to build an international consensus towards the acceptance of the framework.
– To provide guidance for the evaluation of bank-insolvency regimes.
– To provide a basis for policy dialogue between international financial institutions and countries on these issues and to facilitate the provision of technical assistance to countries wishing to improve their national legislative and regulatory frameworks.

worldwide consultation process

The World Bank then undertook a worldwide consultation process on the issues addressed in the CCG’s report. To this end, the Department attended the Regional Seminar on Comparative Experiences in Confronting Banking Sector Problems in the Sub-Saharan Region held in Cape Town, South Africa, from 14 to 15 October 2003.

The main purpose of the pilot country reviews undertaken by the World Bank was to provide additional input relating to the relationship between the concepts and alternatives discussed in the CCG’s report and the actual laws, regulations and experiences in a number of countries around the world. The aim was to enable the World Bank to prepare a revised version of the report, in order to reflect the actual country experiences around the world more clearly and precisely.

Following the above-mentioned consultation process, the World Bank finalised and approved the report, entitled “Global bank insolvency initiative: legal, institutional and regulatory framework to deal with insolvent banks” and dated 7 April 2004.

From 28 September 2004 to 6 October 2004, the World Bank visited the Bank Supervision Department, in order to ascertain the facts relating to the legal, institutional and regulatory bank-insolvency framework in South Africa. The World Bank delegation not only interviewed the Registrar of Banks and senior staff of the South African Reserve Bank, but also held discussions with some market participants, lawyers, auditors and academics.

country-specific report

The World Bank will prepare a country-specific report, which will be sent to the Department, for consideration and comment. A final report will then be prepared and sent to the Department to act as a guide for the refinement of the legal and regulatory framework for dealing with bank insolvency.

Implementation of Financial Sector Charter

When the Financial Sector Charter was signed on 17 October 2003, two key issues had not yet been addressed.

empowerment-financing targets

Firstly, it was anticipated that the empowerment-financing targets for the sector would be agreed by 30 June 2004. Work groups, comprising members from across the financial sector, spent the first half of 2004 doing detailed work to arrive at targets for the five components of targeted investment, namely, black economic empowerment (BEE) transactions, low-income housing, black small and medium enterprises, infrastructure and agricultural development. It is anticipated that the Charter Council will finalise and, then, publicise these targets early in 2005.

constitution of the Charter Council

Secondly, the parties still had to agree on the constitution of the Charter Council, which will give the numerous interpretations necessary for implementation of the Charter. The interested stakeholders, which included the Government and the labour and community representatives of the National Economic Development and Labour Council, negotiated the composition of the Charter Council's board. The 21-member board consists of six representatives of financial institutions, four representatives each of labour, the community and the Government and three representatives of the Association of Black Securities and Investment Professionals. The Charter Council has now been established on that basis and is making good progress towards establishing the structures necessary to oversee implementation of the Charter.

implementation programme

Mzansi account

As part of the Charter implementation programme, South African retail banks joined forces to develop a special savings and transaction product, named Mzansi, to provide access to banking services to low-income communities not previously served by the formal banking system. In essence, the Mzansi account was developed in response to the objective of the Financial Sector Charter to provide people in the LSM (living standards measures) segment of 1 to 5 with affordable and accessible banking. Since the Mzansi account is priced significantly lower than other existing banking offerings, it should promote saving and make transacting easier. The new product was launched by the four major South African banks and the PostBank on 25 October 2004, and, within three months, over 450 000 Mzansi accounts had been opened. This is testimony to the dimension of the problem, on the one hand, and the commitment of banks to give full effect to the aforementioned objective of the Charter and, more particularly, better to serve the needs of South Africa's low-income communities, on the other hand.

strategies to grant housing loans

Banking task groups have also been working on the development of strategies to grant housing loans to large numbers of people in low-income segments and to securitise these loans, so as to enable the rest of the financial sector to participate. Good progress has been made with the development of these strategies, and the task groups are working closely with the relevant Government departments.

implementing provisions of the Charter

Individual banks have also expended much effort on implementing the provisions of the Charter, as evidenced by the following:

– Several banks have concluded empowerment deals, in terms of which black empowerment groups have acquired equity stakes in the banks concerned.
– Significant changes have been made to the racial composition of all levels of banks' management, and training and development programmes focusing on black advancement have been put in place. The Letsema learnership programme was successfully launched in 2004, and banks are employing 1 000 young people for an 18-month learnership programme.
– Banks have also made determined efforts to increase their procurement of goods and services from black empowerment companies.
– The corporate social investment programmes of banks continue to play a very meaningful role in the non-government-organisation and development sectors of the economy.
– Much activity is being seen in the areas of BEE-transaction financing and in the components of targeted investment mentioned earlier.

Review of corporate governance in South African banks

corporate governance remains critical

Sound corporate governance for banks remains critical for several reasons, among them that:

- Globalisation, technological advances and sophisticated financial instruments are constantly increasing the risks within the banking sector.
- Most of the funds used by banks belong to depositors.
- The failure of a bank can impact on the financial system as a whole.

In recent years, this reality was brought home in South Africa by the demise of several banks, key among them being Regal Treasury Private Bank Limited, Saambou Bank Limited and BOE Bank Limited.

The lessons learnt from these and other failures, locally and internationally, resulted in the appointment of Adv John Myburgh SC, together with a team from the Bank Supervision Department, in August 2002 to review the status of corporate governance within South Africa's five largest banks. These banks, being, in alphabetical order, Absa Bank Limited, FirstRand Bank Limited, Investec Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited, at the time accounted for 86 per cent of bank assets in South Africa. The purpose of the review was broadly to evaluate the standard of corporate governance applied in the aforementioned five banks. The basic premise was that sound corporate governance was an essential element of a healthy risk-management process and crucial to any bank. The outcome of the review was presented in a report to the Registrar of Banks during the first quarter of 2003.

generic findings

The following generic findings were made:

- The banks 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.
- In general, the corporate governance of the banks was sound.
- Vigilance was nevertheless required to ensure continued compliance with the standards of governance constantly evolving in South Africa and internationally.

review corporate governance in the other banks

The Bank Supervision Department had always intended to extend the review to the remainder of the banks registered in South Africa. To this end, I, in my capacity as Registrar of Banks, appointed a team of four members of the Bank Supervision Department on 13 July 2004 to review the corporate governance in the other banks, excluding local branches of foreign banks.

purpose of the review

The purpose of the review was to investigate the banks' compliance with corporate-governance best practices, as laid down, for example, in the Banks Act, 1990, the Regulations relating to Banks and the recommendations of the Myburgh Report on the Standard of Corporate Governance in the Five Largest Banks in South Africa and of the second King Committee on Corporate Governance. In particular, the objective was to establish, firstly, the extent to which an adequate and effective process of corporate governance had been established and was being maintained within a controlling company, a bank and its subsidiaries and, secondly, the extent to which the overall effectiveness of the process was monitored by the board of directors.

The scope of the review was to establish, describe and express an opinion on the adequacy of the following areas:

scope of the review

- Structure, composition, role and functions of the board of directors.
- Role and functions of the risk-management committee, audit committee, remuneration committee, directors' affairs committee, chief executive officer, external auditors.
- Status, role and scope of the risk function, internal audit function, compliance function and company secretariat function.
- Director selection, career path and development.
- Independence of directors.
- Leadership.
- Management-accountability structure.
- Systems of control.
- Decision-making process and decision-making capability of the board.
- Reports from management to the board.
- Board monitoring of management activities reported to the board.
- Disclosure to stakeholders.
- Related-party lending, conflicts of interest and related matters.

The team is expected to conclude the review and present its report during the first half of 2005.

Corporate-governance structures and processes alone, however, cannot prevent situations of distress. As indicated earlier in this chapter, in the overview of the Department's supervisory activities, there is a need for responsibility and accountability in organisations. It is deemed fitting, therefore, to quote the Honourable Justice Neville Owen, the commissioner who presided over the Australian Royal Commission's investigation into the failure of the HIH insurance group:

need for responsibility and accountability in organisations

"I am becoming less and less comfortable with the phrase 'corporate governance' – not because of its content but because it has been so widely used that it may become meaningless. There is a danger it will be recited as a mantra, without regard to its real import. If that happens, the tendency will be for those who have to pay regard to it to develop a 'tick the box' mentality. The attitude might be, 'Yes, we have a state-of-the-art corporate governance model; yes, it is committed to writing; and, yes, the company secretary has checked that each item is in place and has included a statement to that effect in the annual report. Therefore there could be no problem in the corporation.'

Corporate governance – as properly understood – describes the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. Understood in this way, the expression 'corporate governance' embraces not only the models or systems themselves but also the practices by which that exercise and control of authority is in fact effected.

From time to time as I listened to the evidence about specific transactions or decisions, I found myself asking rhetorically: did anyone stand back and ask themselves the simple question – is this right? There is no doubt that regulation is necessary: peace, order and good government could not be achieved without it. But it would be a shame if the prescription of corporate governance models and standards of conduct for corporate officers became the beginning, the middle and the end of the decision-making process. Right and wrong are moral concepts, and morality does not exist in a vacuum. I think *all those who participate in the direction and management of public companies, as well as their professional advisers, need to identify and examine what they regard as the basic moral underpinning of their system of values. They must then apply those tenets in the decision-making process. The education system – particularly at university level – should take seriously the responsibility it has to inculcate in students a sense of ethical method.*

In an ideal world the protagonists would begin the process by asking: is this right? That would be the first question, rather than: how far can the prescriptive dictates be stretched? The end of the process must, of course, be in accord with the prescriptive dictates, but it will have been informed by a consideration of whether it is morally right. In corporate decision making, as elsewhere, we should at least aim for an ideal world."

Liquidation of Regal Treasury Private Bank Limited

Following a liquidity crisis in Regal Treasury Private Bank Limited (Regal Bank), the Minister of Finance placed the bank under curatorship with effect from 26 June 2001. The curator attempted to interest a number of banks in acquiring Regal Bank by way of recapitalisation. None of the banks that the curator approached were interested in acquiring Regal Bank in that way, although one bank was prepared to propose an arrangement in terms of section 311 of the Companies Act, 1973. The proposal, however, failed for a number of reasons.

Registrar applied for the winding-up of Regal Bank

Both the Registrar of Banks and the curator of Regal Bank held the view that there was no reasonable probability that continued curatorship would enable the bank to become a successful concern. Furthermore, it had been established that Regal Bank was unable to pay its debts, as contemplated by section 344(f) of the Companies Act, 1973. The Registrar, therefore, approached the court and applied for the winding-up of Regal Bank on 20 August 2003.

Regal Holdings lodged an application for leave to intervene

On 9 September 2003, Regal Treasury Bank Holdings Limited (Regal Holdings), the registered controlling company of Regal Bank, lodged an application for leave to intervene in the above-mentioned application. Regal Holdings founded its application on various grounds, including:

- Regal Holdings had lodged an application for review with the Board of Review in terms of section 9 of the Banks Act, 1990, and until that application had been heard and a ruling had been made, it was premature for the liquidation proceedings before the court to continue.
- Regal Bank owed Regal Holdings an amount of money in respect of a dividend declared on 25 April 2001 and paid on or about 22 June 2001.
- Regal Holdings was the sole shareholder and major creditor of Regal Bank and was thus entitled to intervene.
- Regal Holdings would be severely prejudiced for an array of reasons should the winding-up application be granted.

The court dealt with Regal Holdings' application for leave to intervene under several headings, as set out below.

Review in terms of section 9(1) of the Banks Act

review of various decisions

On 9 September 2003, Regal Holdings had filed an application in terms of section 9 of the Banks Act for a review of various decisions by the Registrar.

The court found that the only material issue for purposes of the matter at hand was whether the winding-up application should be postponed as a result of Regal Holdings' application for a review in terms of the Banks Act. In that regard, the court found that the Registrar's decision to exercise his powers under section 68(1)(a) of the Banks Act to approach the court for a winding-up order was not a decision as contemplated by section 9(1) of the Banks Act and could therefore not be taken on review. The court also found that the Registrar's decision to approach the court would not have a direct, external legal effect, but that the court's decision to grant the winding-up order would have such an effect.

Regal Holdings' claim against Regal Bank

dividend claim

The court held that in order for Regal Holdings to demonstrate a *prima facie* case in respect of its dividend claim, Regal Holdings was obliged to set out the facts demonstrating that Regal Bank had the requisite authority to declare the dividend. The court referred to section 90(1) of the Companies Act, in terms of which a company is permitted to make payments to shareholders, provided that the company's articles of association authorise it to do so. The articles of association of Regal Bank provided that a dividend could not be declared unless, after declaration of the dividend, Regal Bank would still meet the prudential requirements set out in Chapter VI of the Banks Act. Since Regal Holdings had failed to show, even on a *prima facie* basis, that Regal Bank was entitled to declare and pay the relevant dividend, a claim did not lie against Regal Bank.

Regal Holdings' rights as sole shareholder of Regal Bank

The court raised the question whether Regal Holdings, owing to its position as sole shareholder of Regal Bank, had *locus standi*, that is, the legal right and standing, to intervene in the liquidation proceedings.

The court referred to authority and highlighted that Regal Holdings was obliged to make a *prima facie* case that the proposed intervention was likely to affect the course of events in some material respect. The court found that Regal Holdings had not made such a case.

Further submissions by Regal Holdings

two further submissions

Regal Holdings made two further submissions, namely, that:

- The curator had failed to furnish the relevant financial information to Regal Holdings to which it was entitled as sole shareholder.
- The winding-up application should be postponed, since there was a realistic prospect that a proposal for a transaction in terms of section 311 of the Companies Act could be accepted by the creditors and depositors.

With regard to the first submission, the court found that the Promotion of Access to Information Act, 2000 (PAI Act), and the Promotion of Administrative Justice Act, 2000, did not apply to the information sought by Regal Holdings. Since the information was sought, amongst others, for the purpose of civil proceedings and since the information could have been requested through Rule 35 of the Uniform Rules of Court of the High Court Rules of Court, the PAI Act did not find application in this instance.

With regard to Regal Holdings' second submission, the court had not been presented with sufficient information on the probability of creditors and depositors accepting the proposed transaction in terms of section 311 of the Companies Act. The court found that the scheme could be implemented even after a winding-up order had been granted and that the issue should therefore not further delay such an order.

Liquidation

The court was of the view that the Registrar had made a proper case for the winding-up of Regal Bank, that the Registrar had established, on a balance of probabilities, that Regal Bank was insolvent and that there was little, if any, prospect that continued curatorship would lead to the bank becoming a going concern.

liquidation order was made final

The court, therefore, placed Regal Bank into provisional liquidation, and the order was made final on 10 February 2004.

Human-resource issues

reviewed its organisational structure

During the first quarter of 2004, the Bank Supervision Department reviewed its organisational structure to enable it to perform its task of bank supervisor and regulator more effectively and efficiently. Since the moratorium that had been placed on all recruitment in the South African Reserve Bank in August 2002 was lifted at the end of April 2004, the Department could proceed with filling vacancies in terms of the newly approved structure.

achieved employment-equity objectives

The Department successfully achieved its employment-equity (EE) objectives, in line with the Reserve Bank's 2005 EE plan, during 2004. The main objectives of the 2005 EE plan are to promote employment equity in the Reserve Bank and to ensure a competent and motivated workforce. At the end of 2004, 51 per cent of the Department's workforce was black, as defined (that is, including coloured and Asian persons), and 53 per cent of the employees were female.

human-resource initiatives

The Department identified and implemented the following human-resource initiatives:

– Enhancement of the effectiveness of the recruitment and selection process used in the Department.
– Training and development of staff, which are done on an ongoing basis. Highlights during 2004 were the following three training programmes:
    - Training of analysts – 46 participants.
    - Advanced Diploma in Banking – 19 participants.
    - BOSS (Bank policy, Operations and Strategies Simulation) Management Game – 13 participants.
– Formulation and implementation of a value system for the Department, addressing mutual respect and trust, personal ethics and conduct, work ethics, completed staff work, teamwork, and personal growth and empowerment.

Issues that will receive particular attention during 2005

particular focus on the following issues

In addition to fulfilling its normal supervisory and regulatory tasks, the Bank Supervision Department will place particular focus on the following issues, amongst others, during 2005:

– Continued regular contact and interaction with the directors and management of each individual bank or banking group, in order to maintain and update the

Department's understanding of the bank's or group's business model, risk profile and risk-management processes, with a view to achieving effective and efficient risk-based supervision.

- Further preparatory work towards implementation of the new Capital Accord (Basel II).

- Ongoing review and continued updating of the regulatory framework and the Department's supervisory process and procedures to ensure that they remain in line with international and local standards and developments, including Basel II. This is envisaged to include amendments to the Banks Act, 1990, the Regulations relating to Banks and the Regulations relating to Capital-adequacy Requirements ("CAR") for Banks' Trading Activities in Financial Instruments.

- Further involvement in refinement of the legal and regular framework for bank insolvency.

- Implementation of supervision of banks' compliance with anti-money-laundering legislation.

- Continued participation in the initiatives and activities of international and regional bank-supervisory bodies, such as the Basel Committee on Banking Supervision and the Subcommittee of Bank Supervisors of the Southern African Development Community.

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

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

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

- Participation in consumer-education initiatives.

Expression of thanks

My appreciation goes to the Minister and Deputy Minister of Finance for their valued inputs to requests in terms of statutory requirements. I also wish to express sincere thanks to the Governor and Deputy Governors of the South African Reserve Bank for the invaluable cooperation, guidance and support that they provide to me and my staff. A particular word of thanks goes to former Deputy Governor Gill Marcus, who retired from her position on 30 June 2004, for her tireless dedication and assistance to the Office for Banks during her term of office. Sincere thanks for the seamless continuation thereof also go to Deputy Governor X P Guma.

The Department also continued to receive cooperation from countless individuals and organisations, locally and abroad. These include, to name but a few, the Chief Executive of the Financial Services Board and his staff, the senior executives of banking institutions and their external auditors, The Banking Council South Africa, the auditing profession, the staff of other departments of the South African Reserve Bank (in particular, the National Payment System, Financial Markets, Exchange Control and Legal Services Departments), the Basel Committee on Banking Supervision, and the central bankers and bank supervisors, both in the Southern African region and elsewhere in the world, with whom the Department interacts on an ongoing basis.

Particular thanks also go to my staff for their continued dedication, enthusiasm and professionalism in fulfilling their tasks, in a dynamic and constantly challenging environment.

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

Chapter 2

Current issues in banking supervision

In this chapter, some of the most important supervisory and regulatory trends and developments, locally and internationally, during the year under review are addressed. Because of the importance of the Basel Committee on Banking Supervision in the work of bank supervisors and regulators the world over, the Committee's functions and activities, as well as South Africa's participation therein, are outlined. Preparations for the implementation of the new Capital Accord, commonly known as Basel II, were again an important focus area for the Bank Supervision Department during 2004. Among the other issues discussed are draft legislation aimed at consumer protection and the provision of broader access to finance, the Department's working relationships with other supervisors by way of memoranda of understanding, banks' implementation of anti-money laundering legislation and outsourcing of functions by banks.

most important supervisory and regulatory trends and developments

Importance of the Basel Committee on Banking Supervision

In its dealings with banks, the Bank Supervision Department makes much reference to the Basel Committee on Banking Supervision. It is therefore deemed appropriate to give an overview of the Committee's structure and activities, as well as related initiatives in that regard.

overview of the Committee's structure and activities

Bank for International Settlements

The Bank for International Settlements (BIS) was established in 1931 and has a membership of 55 central banks, including South Africa. The functions of the BIS are to:

functions of the BIS

- Act as a central bank to the central banks of member countries.
- Undertake economic and financial research.
- Participate in global financial markets.
- Promote global financial stability.
- Provide a secretariat to the:
- Basel Committee on Banking Supervision.
- International Association of Insurance Supervisors.
- Financial Stability Forum.

Basel Committee on Banking Supervision

The Basel Committee was established in late 1974 by the central-bank governors of the group-of-ten (G10) countries to provide a voluntary forum for regular cooperation on banking supervisory matters. In recent years, however, the Basel Committee has increasingly developed into a standard-setting body on all aspects of banking supervision. Countries are represented by senior officials responsible for banking supervisory issues in their central bank and also by the authority or authorities with formal responsibility for the prudential supervision of banking business when this is not the central bank. The Basel Committee meets four times a year and reports to a joint committee of central-bank governors and (non-central bank) heads of supervision from the G10 countries.

established in late 1974

has developed into a standard-setting body

13 member countries

The 13 member countries of the Basel Committee (and the institutions representing those countries) are currently the following:

- Belgium (National Bank of Belgium and Banking and Finance and Insurance Commission).
- Canada (Bank of Canada and Office of the Superintendent of Financial Institutions).
- France (Bank of France and General Secretariat of the Banking Commission).
- Germany (Deutsche Bundesbank and Federal Financial Services Agency).
- Italy (Bank of Italy).
- Japan (Bank of Japan and Financial Services Agency).
- Luxembourg (Surveillance Commission for the Financial Sector).
- The Netherlands (Nederlandsche Bank).
- Spain (Bank of Spain).
- Sweden (Sveriges Riksbank and Swedish Financial Supervisory Authority).
- Switzerland (Swiss National Bank and Swiss Federal Banking Commission).
- United Kingdom (Bank of England and Financial Services Authority).
- United States of America (Board of Governors of the Federal Reserve System and Office of the Comptroller of the Currency, as well as Federal Reserve Bank of New York and Federal Deposit Insurance Corporation).

key holders of office

The key holders of office of the Basel Committee are currently the Chairman (Mr Jaime Caruana, Governor of the Bank of Spain), the Vice-Chairman (Mr Nicholas LePan, Superintendent of Financial Institutions, Canada) and the Secretary General (Mr Ryozo Himino), supported by a staff of 14. In this regard, the Bank Supervision Department wishes to thank the Basel Committee for inviting one of its staff members to serve a two-year tour of duty in the Secretariat, indeed a great privilege.

links with supervisors

With a view to strengthening prudential supervisory standards in all major markets, the Basel Committee maintains links with supervisors that do not directly participate in the Committee. These efforts take a number of different forms, including:

- Development and dissemination throughout the world of policy papers on a wide range of supervisory matters.
- Pursuit of supervisory cooperation through support for regional supervisory committees and sponsorship of an international conference every two years.
- Cooperation with the Financial Stability Institute in providing supervisory training, both in Basel and at regional or local level, as also mentioned later in this chapter.

extensive structure of subgroups

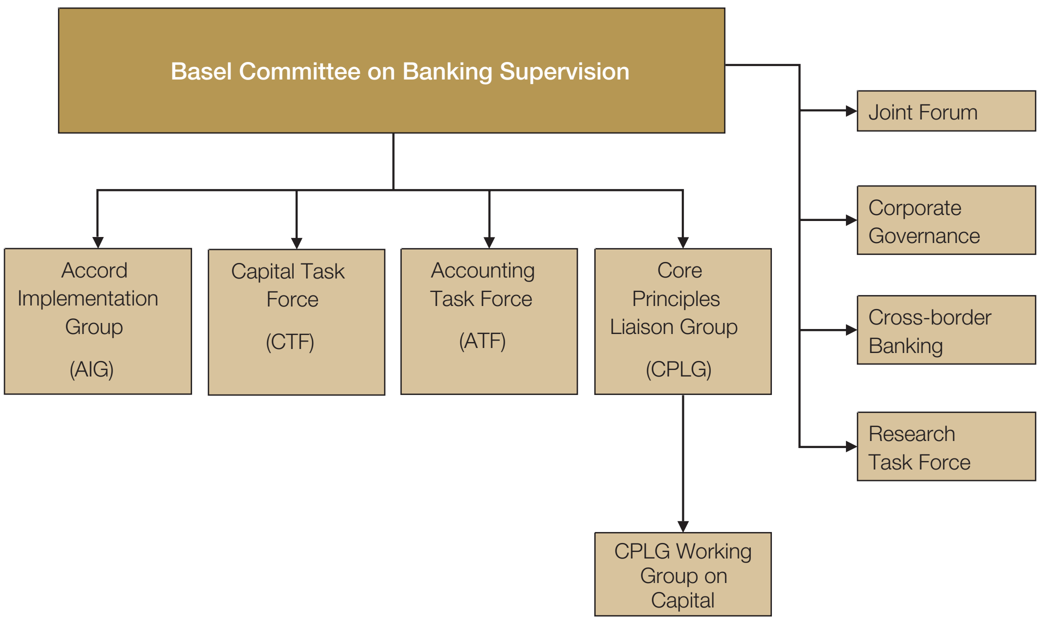
The above-mentioned links with supervisors are achieved by means of an extensive structure, consisting of the following 13 subgroups:

- Accord Implementation Group.
- Accounting Task Force.
- Capital Group.
- Capital Task Force.
- Core Principles Liaison Group (with 16 non-G10 countries).
- Cross-Border Banking Group.
- Electronic Banking Group.
- Joint Forum (with the International Association of Insurance Supervisors and the International Organization of Securities Commissions - IOSCO).
- Joint IOSCO-Basel Committee Working Group on Trading Book Matters.
- Research Task Force.

– Risk Management Group.
– Securitisation Group.
– Transparency Group.

Some of the more important subgroups are depicted in figure 1 below.

Figure 1: Important Basel Committee subgroups



The functions of the subgroups depicted in figure 1 are briefly described below.

functions of the subgroups

Accord Implementation Group (AIG)

The AIG was established specifically to address the implementation challenges of Basel II and is primarily involved in:

implementation challenges of Basel II

– Home/host relationships.
– Issues of national discretion.
– Issues relating to and arising from pillar 2 (supervisory review process) and pillar 3 (market discipline).
– Data and validation.
– Operational risk.
– Meetings with non-G10 supervisors.
– Loss given default (LGD) and stress testing.

Capital Task Force (CTF)

The CTF was responsible for the development of Basel II and is currently involved primarily in the following:

development of Basel II

– With regard to Basel II, modifications to and interpretation of text, monitoring of the development of disclosure requirements under accounting standards, as well as the impact thereof on pillar 3, and LGD and stress testing.
– Joint IOSCO-Basel Committee Working Group on Trading Book Matters.

Accounting Task Force (ATF)

The ATF is primarily involved in:

- General accounting and auditing issues.
- Monitoring of the development of disclosure requirements under accounting standards and the impact thereof on pillar 3 of Basel II.
- Evaluation of International Accounting Standards Board proposals for the disclosure of financial instruments.
- Compliance function in banks.

Core Principles Liaison Group (CPLG)

The CPLG focuses mainly on the following:

Core Principles for Effective Banking Supervision

- A technical working group overseeing the application of the Core Principles for Effective Banking Supervision.
- A forum for Basel Committee liaison with non-G10 countries, the World Bank, the International Monetary Fund and the European Commission.
- Active participation in and contribution to the revision of the Core Principles by the Basel Committee.
- Basel II implementation by way of a subgroup, the CPLG Working Group on Capital.

The CPLG consists of eight committee member countries and 16 strategic non-G10 members, being Argentina, Australia, Brazil, Chile, China, the Czech Republic, Hong Kong, India, Korea, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa and the West African Monetary Union. The European Commission, International Monetary Fund, World Bank and the Financial Stability Institute are also represented on the CPLG.

CPLG Working Group on Capital

The CPLG Working Group on Capital consists of CPLG members, but excludes Basel Committee member countries, and focuses on the implementation of Basel II in non-G10 countries. The Working Group functions under the chairmanship of Mr Charles Freeland, Deputy Secretary General of the Basel Committee, and serves as a useful vehicle for elevating non-G10 issues relating to Basel II implementation to the attention of the Basel Committee. The Working Group also meets with the AIG twice a year.

Work of other groups

Joint Forum

Cross-border Banking Group

Research Task Force

Corporate Governance Working Group

As regards the other working groups depicted in figure 1 above, the Joint Forum, the members of which represent the Basel Committee, the International Association of Insurance Supervisors and IOSCO, focuses on cross-sectoral issues relating to banking, insurance and securities. Anti-money laundering, know-your-client measures and the countering of terrorist financing are the focus of the Cross-border Banking Group. The Research Task Force focuses on research issues relevant to future work of the Basel Committee, and corporate-governance issues are addressed by the Corporate Governance Working Group.

South Africa's participation

South Africa contributes to and participates in the work of the Basel Committee via the Core Principles Liaison Group (CPLG), the CPLG Working Group on Capital, the Accord Implementation Group, the Financial Stability Institute (FSI) and the biennial International Conference of Banking Supervisors.

The Bank Supervision Department has been an active participant in all initiatives of the FSI in which it has been requested to participate since the FSI's establishment in 1999. The Department is represented on both the CPLG and the CPLG Working Group on Capital (CPWG). It is via the CPLG that South Africa can fully interact with the Basel Committee and be part of the Committee's standard-setting activities. In addition, the Department attends joint meetings of the CPWG/AIG Validation Group and interacts with the Working Group on Quantitative Impact Studies.

active participant

It is always heartening for the Department to experience the all inclusive approach adopted by the Basel Committee. The Department is kept up to date on a wide range of supervisory matters by means of Basel Committee policy papers and by attending the International Conference of Banking Supervisors every two years.

Online training initiative of 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.

A major new initiative of the FSI launched in 2004 is FSI Connect, an online Web-based information and learning resource, which has been developed specifically to support financial-sector supervisors. FSI Connect offers courses on important topics, such as credit, market risk, operational risk and capital adequacy (including Basel II). Tutorials on a full range of other banking and supervisory topics will be added on an ongoing basis. The courses are designed for supervisors at all levels of experience and expertise and are regularly updated to reflect latest developments. FSI Connect is available on a subscription basis to all central banks and supervisory authorities, but is not available to individual subscribers.

FSI Connect

The Bank Supervision Department has subscribed to this initiative, in order for all its supervisory staff to be in a position to qualify and equip themselves further for their complex task.

International Conference of Banking Supervisors

The Basel Committee has sponsored the International Conference of Banking Supervisors (ICBS) on a biennial basis since 1979. The ICBS promotes cooperation among national authorities in the supervision of internationally active banking organisations. The basic purpose of the ICBS is to foster cooperation among supervisors worldwide. The next ICBS will be hosted by the Mexican Comisión Nacional Bancaria de Valores in Mexico, in 2006.

basic purpose is to foster cooperation

Some of the important issues addressed at the 2004 ICBS, hosted by the Bank of Spain in Madrid, in September 2004, were the following:

– In his keynote address, Mr Jaime Caruana, Governor of the Bank of Spain and Chairman of the Basel Committee, stressed the need to reinforce the infrastructure for banking and supervision by applying the principles underlying Basel II. He recognised that "adopting Basel II on the same timetable as the member countries of the Basel Committee may not be feasible for all countries". He highlighted, however, that the principles of the three pillars of Basel II were applicable to all banking systems. In that regard, he stated that "the preparations and hard work that we undertake today to prepare for Basel II will, at the same time, strengthen the financial and supervisory infrastructure in our countries more generally, even before we implement Basel II".

– Mr Nicholas LePan, the Canadian Superintendent of Financial Institutions and Vice Chairman of the Basel Committee, opened a panel discussion on practical issues related to the implementation of Basel II. He emphasised the importance of communication between not only supervisors, but also supervisors and banks, in preparing for Basel II. He reported that the Basel Committee's AIG encouraged practical work among supervisors on applying Basel II effectively and efficiently to internationally active banking organisations. In this regard, he said "I believe that enhanced trust and communication is not built solely by talking about it, but by doing".

– Professor Dr Arnold Schilder, Executive Director of De Nederlandsche Bank and Chairman of the Accounting Task Force of the Basel Committee, chaired a second panel on recent accounting developments relevant for effective banking supervision. In working groups, delegates discussed sound practices for loan accounting and accounting issues relevant to capital, as well as recent developments in fair-value accounting and in the relationship between supervisors and auditors.

– Representatives of the banking sector also offered views on capital, accounting and risk management.

Towards implementation of the new Capital Accord

The Bank Supervision Department fully supports the principles underlying and incorporated in the new Capital Accord (Basel II) and the implementation of Basel II in South Africa.

Scope of application

implementation date of 1 January 2008

guidelines

As from the Basel II implementation date of 1 January 2008, South African banks will no longer be able to use the current Capital Accord. The Department envisages that all approaches offered in terms of Basel II will in principle be available to banks in accordance with the following guidelines:

– Banks will be required to consult with the Department on their intended approach prior to adoption thereof.
– In the process of considering which Basel II approach is appropriate, banks will be expected to strive for a match between, on the one hand, the nature and extent of their risk exposures and the level of their international activities and, on the other hand, the level of sophistication of their intended approach. Accordingly, more sophisticated banks will be expected to adopt the more advanced approaches over time, in order to improve the level of sophistication of their risk-management practices.
– The Department is of the opinion that it will be possible for every registered bank in South Africa to migrate to the base approaches of Basel II without major disruption or risk to individual banks or the banking system.
– Banks intending to choose a base approach will not be required to undergo an explicit approval process.
– Banks intending to choose an advanced approach, however, will be required formally to make application. The more advanced approaches will be considered only on the basis of the ability and capacity of the particular banks to adopt and

implement these approaches efficiently provided that the Department has been able to put in place the appropriate skills and to develop processes and systems to supervise these approaches effectively.

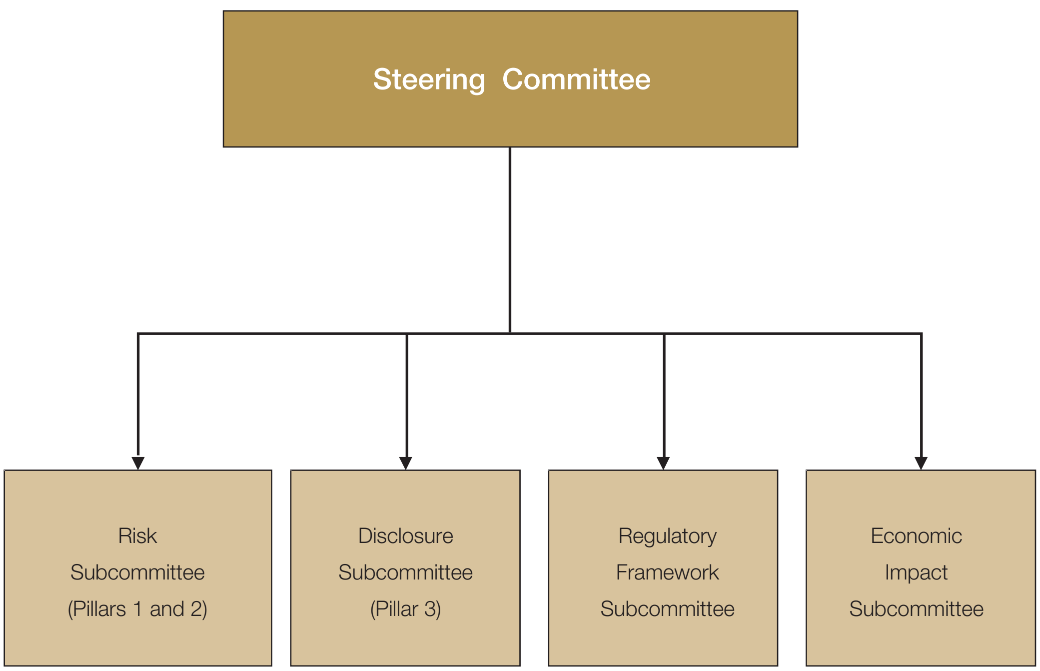
Accord Implementation Forum

During 2003, the Bank Supervision Department established the Accord Implementation Forum (AIF) to drive the Basel II implementation process. The AIF consists of representatives of the National Treasury, the South African Reserve Bank, the South African Institute of Chartered Accountants, The Banking Council South Africa and registered banks.

Having regard for South Africa's diverse banking interests, it was decided to give all local and locally registered international banks the opportunity to participate in the AIF. Each bank has appointed a Basel II coordinator, who has access to a Website, where all minutes and position papers generated by the AIF and information documents are stored. Banks are encouraged to participate in the AIF, and every effort has been made to ensure that no bank is excluded from the process.

As is illustrated in figure 2 below, the AIF consists of a steering committee and four subcommittees.

Figure 2: Structure of Accord Implementation Forum



Steering Committee

The Steering Committee, which is chaired by the Registrar of Banks, is the only decision-making body within the AIF and is responsible for the overall implementation of Basel II. The Committee directs and guides the work of the subcommittees and goal-focused subcommittee task groups. During 2004, the Committee met four times.

only decision-making body within the AIF

The Communications Task Group, which was created recently and which meets on an *ad hoc* basis, is responsible for coordinating the publication of material produced by the AIF.

Risk Subcommittee

responsible for the pillar 1 and pillar 2 dimensions

The Risk Subcommittee is responsible for the pillar 1 and pillar 2 dimensions of Basel II. The Subcommittee focuses on all risk issues and drives the key initiatives around Basel II implementation. During 2004, a number of task groups were created in order to address specialist areas better. In addition to dealing with specialist topics and issues, the following three task groups are involved in the development of the proposed statutory information forms:

- Credit Risk Task Group.
- Market Risk Task Group.
- Operational Risk Task Group.

The Cross-border Implementation and Consolidated Supervision Task Group was created to provide a forum for discussion of these areas. The Task Group monitors international trends and develops proposals appropriate for South Africa.

Disclosure Subcommittee

responsible for the pillar 3 dimension

The Disclosure Subcommittee is responsible for the pillar 3 dimension of Basel II, including the education requirements relating to Basel II. In particular, the Subcommittee is responsible for developing disclosure standards in terms of pillar 3 and actively promoting optimal convergence between accounting standards and the disclosure requirements under pillar 3.

three events are planned

The General Education Task Group was created to address the need to inform and to educate target audiences. The following three events are planned for 2005:

- An introductory information session, targeted at relevant stakeholders, including the media, investment managers, investment analysts and rating agencies.
- A technical workshop, focusing on the impact of Basel II on the banking sector and individual banks.
- An information session to present the report relating to an economic impact study, discussed later in this chapter.

Regulatory Framework Subcommittee

proposed draft regulations

The Regulatory Framework Subcommittee is responsible for amending the South African regulatory structure to provide appropriately for the requirements of Basel II. A first version of the proposed draft regulations will be circulated to the AIF structures, for comment, by the end of May 2005. As discussed in more detail in chapter 3, it is planned to circulate a further version of the proposed draft regulations within the AIF structures later during 2005.

During 2004, a document, containing frequently asked questions, with answers, was developed and is available on most banks' Websites. A layman's guide to Basel II will be developed during 2005.

statutory financial information forms

The Banks Act Statutory Returns Task Group was created to address the development of statutory financial information forms, namely, a balance sheet, an income statement and a statement of changes in equity based on generally accepted accounting principles. The information contained in these returns will constitute the basis to which other statutory financial information submitted to the Bank Supervision Department will be reconciled.

Economic Impact Subcommittee

The Economic Impact Subcommittee is responsible for issues relating to an economic impact study. The first task of the Subcommittee was to determine the areas of concern and to develop a request for proposal for an economic impact study, which was published by the National Treasury.

responsible for issues relating to an economic impact study

After a rigorous, objective and transparent process, the National Treasury decided on the successful bidder. The Economic Impact Study Task Group, consisting of members of the Economic Impact Study Subcommittee and three external members with extensive banking and economic experience, was created to liaise with the successful bidder, with a view to addressing information requests and giving guidance where required, but with strict instructions to avoid influencing the opinion to be contained in the report.

Process followed and main implementation initiatives

A project-management approach is being applied to the implementation of Basel II. To this end, a master plan, consisting of key deliverables, deadlines and allocation of responsibilities, was compiled. The master plan is updated when required by changed circumstances or as unanticipated bottlenecks develop.

project-management approach

Familiarisation

The first step in the process was familiarisation with Basel II. This entailed, amongst others, presentations and workshops within the banking industry. In view of the nature, extent and complexity of Basel II, as well as the fact that much may still be regarded as work in progress, a continuous process of updating and informing will take place. Accordingly, the Disclosure Subcommittee created the General Education Task Group, with the mandate to inform and educate identified target audiences.

presentations and workshops

Gap analysis and readiness assessment

The first major step in the implementation process was to require banks to perform a high-level gap analysis and readiness assessment. This was based on the principle that, in the pursuit of any objective, it is necessary to start by determining the current and the intended status, in order to establish the gap that has to be closed. The process was initiated by the issue of Banks Act Circular 15/2004 of 21 September 2004 to all banks.

Economic impact study

In the light of the potential economic impact of Basel II implementation on South Africa and to inform the decisions on Basel II adoption and implementation in South Africa, the National Treasury deemed it necessary for a scientific, independent economic impact study on the economic considerations and implications relating to the advisability and desirability of Basel II adoption and implementation in South Africa to be undertaken.

The National Treasury followed due process in accordance with the prescriptions relating to the appointment of a preferred bidder to perform the scientific study. In addition, a task group of the Economic Impact Subcommittee undertook independent work on the compilation of the request for proposal and evaluation of the proposals submitted, based on a number of objective criteria. This process resulted in a unanimous recommendation on the preferred bidder to National Treasury, which appointed the successful bidder during December 2004.

Impact studies

objectives

Where necessary, for example, when there is insufficient knowledge about a vital part of a project, it may be prudent to perform impact studies as part of the planning and development phases of the project prior to initiating the implementation phase. The objectives of the impact study initiated in terms of Banks Act Circular 2/2005, issued early in January 2005, but conceived and prepared in 2004, included the following:

– Promoting sound project-management principles and practices in the planning for and implementation of Basel II.
– Obtaining relevant information pertaining to the impact of Basel II on banks in South Africa.
– Assessing the state of banks' preparedness for Basel II implementation.
– Giving guidance.

The Bank Supervision Department wishes to address specific aspects of the following areas of Basel II in the study:

– Pillar I – Capital requirements.
– Pillar II – Capital management.
– Pillar III – Disclosure requirements.

As part of the iterative process of planning for the implementation of Basel II, all banks, branches of foreign banks and mutual banks are required to take part in the impact study and to comply with related requirements. It is envisaged that further impact studies will have to be undertaken to gain a better understanding of or obtain more information on other aspects of Basel II.

Amendment of the South African regulatory framework

need for a more flexible statutory framework

As indicated earlier in this chapter, as well as in chapter 3 of this annual report, the South African regulatory framework has to be amended to provide for the requirements of Basel II. The Bank Supervision Department is responsible for drafting the statutory amendments required in that regard. An important issue that has come to the fore is the need for a more flexible statutory framework to accommodate the expansive, complex and ever developing nature of Basel II.

possible approach

A possible approach to addressing this issue might be a three-layer regulatory framework, as follows:

– The top layer would be acts of Parliament, containing the regulatory framework and matters of an enduring nature. This layer would contain enabling provisions, in terms of which the other two layers would be developed, constituted and framed.
– The second layer would consist, as it currently does, of the regulations promulgated under the Banks Act, 1990, and issued by the Minister of Finance in terms of the powers vested in him by the Banks Act to deal with specified matters, as well as matters requiring updating from time to time.
– The third layer is envisaged to be in the nature of guidance notes issued by the Registrar of Banks in terms of powers vested in him in terms of the Banks Act to deal with specified matters. These guidance notes would deal with detailed matters, subject to fairly frequent changes.

Development of statutory information forms

Access to relevant, reliable, consistent and timely information is a prerequisite for the performance of efficient and effective supervision. To this end, it is necessary to develop statutory information forms that have not only a board of directors' perspective, but cover both accounting and risk-based information and focus on key decision variables.

Responsibility for the development of the statutory information forms was allocated to various AIF task groups, each of which consists of members with specialist knowledge, skills and experience in a particular area, such as accounting, credit risk, market risk and operational risk. Development of the statutory information forms constitutes an iterative process and requires much coordination among the various task groups.

statutory information forms

Quantitative models - survey, approval application and validation

Much work of a technical nature has to be done in the area of surveying, considering applications for and validating quantitative models. The AIF has been very active in improving the level of understanding of the relevant issues and developing proposed guidance on these topics.

work of a technical nature

Home/host supervisors - communication, interaction and coordination

Much work has been done to ensure that the home and host supervisory authorities have clarity on their respective responsibilities, in order to achieve optimal coordination between these authorities.

optimal coordination

Circulars issued to banks

The Bank Supervision Department issued four circulars relating directly to Basel II during 2004, as well as one very early in 2005.

four circulars during 2004

A consultative document relating to Basel II was distributed to banks by means of Banks Act Circular 2/2004 dated 27 February 2004. In the circular, the Bank Supervision Department stated that it believed that it was more prudent to implement Basel II appropriately than to meet strict timelines.

In Banks Act Circular 12/2004 dated 5 July 2004, the Department informed the banking sector that the Basel Committee had issued the Basel II publication, titled International Convergence of Capital Measurement and Capital Standards: a Revised Framework and representing the culmination of more than five years' work by the Basel Committee.

Banks Act Circular 15/2004 of 21 September 2004 envisaged that the implementation of Basel II in South Africa would include, amongst others, four key steps, namely, familiarisation with Basel II and its implications, a gap analysis and readiness assessment, an impact study and generation of an implementation plan. Each of these steps requires ongoing interaction between banks and the Department, especially as regards banks' progress with their implementation efforts.

In Banks Act Circular 20/2004 dated 14 December 2004, banks (including branches of foreign banks and mutual banks) were informed that 1 January 2008 would be the common implementation date for the implementation of Basel II and that the 1988

Capital Accord would no longer be available to any bank as from that date. Banks were also informed that they would be required to perform parallel calculations during 2007 and that two pilot runs were planned for 2006.

two pilot runs planned for 2006

In the light of the common implementation date of 1 January 2008 in South Africa, the impact on all banks during 2007 will be as follows:

impact on banks during 2007

- Banks will continue to submit the required DI returns to the Department, thereby continuing to comply with the 1988 Capital Accord.
- In addition, banks will be required to comply with Basel II by performing parallel calculations.

As discussed earlier in this chapter, an impact study was initiated early in January 2005 by means of Banks Act Circular 2/2005 of 4 January 2005. The study represents a logical next step in the process of implementing Basel II.

Challenges

The Bank Supervision Department remains committed to providing a regulatory environment that will allow South African banks to adopt international best practice. South Africa's financial sector is held in high regard, and the introduction of Basel II in 2008 will enable South African banks to maintain their international standing, to the benefit of the economy.

The size, nature and complexity of this challenge should, however, not be underestimated. Some of the more pertinent dimensions of this challenge are the following:

more pertinent dimensions of this challenge

- The worldwide Basel II skills shortage is amplified in South Africa by the simultaneous implementation of various pieces of legislation impacting on and regulating aspects of the business of banks, such as regulations on money laundering, full harmonisation with international accounting standards and increasing emphasis on onsite supervision, to name but a few.
- Basel II is not merely a revision of the 1988 Capital Accord. It represents a change in the way in which banks are to be regulated and supervised. Consequently, the supervisory process and regulatory framework will require more frequent revisions as the Basel Committee updates Basel II. To ensure that changes can be effected in a timely fashion, the South African regulatory environment will have to be streamlined.
- International developments are being monitored, since a number of areas within Basel II have been conceptualised, but require further guidance.
- Data quality and availability in general and for operational risk in particular are proving a challenge for smaller countries.
- Model approval and validation will require supervisors to have or acquire the necessary skills and resources.
- Cross-border implementation and consolidated supervision will be influenced by reciprocal arrangements to be developed by supervisors.

The groundwork done during 2004 has laid a solid foundation for the successful implementation of Basel II in South Africa. Much work, however, still needs to be done. The workload planned for 2005 is very substantial and will require extreme dedication and effort, and the AIF will need to finalise a number of key issues. The year 2005 will prove to be the most challenging yet in the process of preparing for Basel II.

The Department is particularly grateful for the positive attitude displayed by and the cooperation obtained from the banking sector. A special word of thanks goes to the members of The Banking Council team, who have worked tirelessly on the secretarial, project-management and logistical aspects of the Basel II project.

Consumer credit and broader access to finance

During the year under review, several pieces of draft legislation relating to consumer protection and the provision of broader access to finance were published for comment. This draft legislation is likely to affect not only the banking industry, but also the ongoing regulation and supervision of banks.

draft legislation

Consumer credit and consumer protection

Under existing law, consumer credit is regulated by the Usury Act, the Credit Agreements Act, the Magistrate's Court Act and common law. The National Credit Bill, 2005 (NCB), originally known as the Consumer Credit Bill, 2004, proposes to repeal the Usury Act and the Credit Agreements Act, replacing both with a single National Credit Act. The last-mentioned Act will also give priority to its own procedures for enforcement over those of the Magistrate's Court Act, while leaving the latter unchanged, and will modify common law in several respects.

National Credit Bill

The NCB will apply to all credit agreements within the Republic of South Africa, with the exception of, amongst others, loans to the State or any organ of State, real property mortgages, insurance policies, real property leases and transactions whose principal value exceeds a prescribed threshold, not yet determined.

will apply to all credit agreements

The NCB proposes the establishment of two entities, which, together will provide for effective administration of the NCB:

establishment of two entities

- A national credit regulator, as the primary administrative body to undertake education, research, policy development, registration of credit providers, investigate complaints and ensure enforcement of the NCB.
- A national consumer tribunal to adjudicate a wide variety of applications and to conduct hearings into complaints under the NCB.

The NCB will replace the existing Micro Finance Regulatory Council, which currently regulates microlenders, and will regulate all credit extension. Consequently, loans and advances by banks that fall within the parameters of the NCB will also be subject to the prescriptions and requirements of the NCB, and all banks, as credit providers, will be subject to regulation by the national credit regulator.

will replace the existing Micro Finance Regulatory Council

The objective of the regulation and supervision that the Bank Supervision Department undertakes in terms of the provisions of the Banks Act, 1990, and the Regulations relating to Banks is to promote the safety and soundness of the banking system, the efficiency of the market, financial and economic stability in general and to protect the interests of consumers.

The Department is well aware of the problems and abuses prevalent in the consumer-credit market and agrees with and supports the initiatives of the Department of Trade and Industry to revise the relevant legislation. The Department supports the purpose of the NCB, subscribes to the NCB's stated objectives in general and has provided its comments on the NCB to the Department of Trade and Industry.

Broader access to finance

On 16 November 2004, the National Treasury published the Dedicated Banks Bill, 2004, and the Co-operative Banks Bill, 2004, for comment. These bills are aimed primarily at broadening access to finance for persons not currently served by the formal banking sector.

Second-tier and third-tier banking institutions

Policy research in South Africa identified a need for market deepening beyond banks at the top end and microlenders at the bottom end long ago. In view of the current focus on the expansion of services to small businesses and for housing purposes, a more fully developed financial landscape has become even more critical. Development of a significant second tier of deposit-taking institution to serve the lower end of the market has been an objective for well over a decade, but has proved to be difficult to implement. The Mutual Banks Act, 1993, has also been unable to support this objective fully.

banks

Banks and branches of foreign institutions, registered as such in terms of the Banks Act, comprise the pinnacle of the broad banking industry. Although banks provide a wide variety of financial services to their customers and although the industry as a whole is regarded as sophisticated and well regulated, banks serve only a portion of the population in South Africa.

mutual banks

Mutual banks, registered as such in terms of the Mutual Banks Act, were intended to provide financial services to a greater portion of the population, especially after the disappearance of the erstwhile building societies. The structure of a mutual bank was designed to be less formal and simpler than that of a bank; the principle of mutuality is paramount. There are currently two registered mutual banks operating in the country.

stokvels, credit unions and financial service co-operatives

The lower end of the market is served by stokvels or savings clubs, credit unions and financial service co-operatives, which have been exempted from the provisions of the Banks Act, subject to certain conditions, and which are largely self-regulated. These institutions, although growing in number, provide limited financial services at a micro or community level only.

microlenders

Microlenders, in general, undertake consumption lending and are not authorised to take deposits from the general public. They may, however, be regarded as an important player within the broader financial-services industry in South Africa. Microlenders are regulated by the Micro Finance Regulatory Council, in terms of an exemption notice issued in terms of the Usury Act, 1968.

Dedicated banks

Dedicated Banks Bill

The Dedicated Banks Bill, 2004 (DBB), is the result of a study commissioned during 2002 by the Standing Committee for the Revision of the Banks Act,1990, and undertaken under the leadership of Dr Hans Falkena. The study was based on a working paper, WP01/159, issued by the International Monetary Fund during 2001 and relating to so-called core and narrow banks.

main purpose

two types of dedicated bank

The main purpose of the DBB is to increase competition in the banking sector as regards savings accounts and affordable banking services. To this end, the DBB makes provision for two types of dedicated bank, namely, a savings bank (narrow bank) and a savings and loans bank (core bank).

A savings bank will be permitted to take deposits, but will be required to invest all such deposits in liquid assets, as prescribed, only. A savings and loans bank will be permitted to take deposits and to on-lend a prescribed percentage of such funds to the public, but will be required to invest a prescribed percentage in liquid assets. The ratio, however, has not yet been determined.

Dedicated banks will be required to be public companies and will be regulated and supervised according to the same principles as banks registered in terms of the Banks Act. The prudential requirements applicable to dedicated banks, however, will be set at lower levels than those for banks.

will be regulated and supervised as banks

Co-operative banks

The main purpose of the Co-operative Banks Bill, 2004 (CBB), is to provide banking services to a broader base of the population. Agreements concluded at the Financial Sector Summit of the National Economic Development and Labour Council during 2002 provided for formalisation of the industry and drafting of appropriate legislation. The National Treasury, therefore, took the lead in this regard. Although members of the Bank Supervision Department were involved in the initial stages of the project, the CBB is the product of research and drafting done by or for the National Treasury.

Co-operative Banks Bill

A co-operative bank will be required to register as a co-operative in terms of the provisions of the Co-operatives Act, 1981, and will be permitted to take deposits and provide financial services only to its members, as defined in the co-operative's constitution. Co-operative banks will replace the existing self-regulating financial services co-operatives and credit unions mentioned earlier.

will be required to register as a co-operative

Comments

Both bills have designated the Bank Supervision Department to regulate and supervise dedicated banks and co-operative banks. This will not only place an added responsibility and burden on the Department, but will also require the supervisory processes employed by the Department, especially in respect of co-operative banks, to be altered drastically. In terms of the process, the Department has provided its comments on the two bills to the National Treasury.

Reporting of financial instruments at fair value

During the year under review, there was a further development with the South African Statement of Generally Accepted Accounting Practice (GAAP) AC 133 (Financial instruments: recognition and measurement), previously released by the South African Institute of Chartered Accountants (SAICA) and based on International Accounting Standard IAS 39. In terms of AC 133, all derivatives had to be carried at fair value, and banks had to possess valuation systems capable of performing the necessary valuations. All financial assets that were not carried at fair value through the income statement were subject to the impairment rules of AC 133. The South African statement differed from IAS 39 in that AC 133 allowed the full fair-value option, which was not permitted under IAS 39.

AC 133 was originally issued to become effective for financial periods commencing on or after 1 January 2001. Following submissions by The Banking Council South Africa, however, the Accounting Practices Board (APB) approved a postponement of the implementation of AC 133 at a meeting held in July 2001, in order to allow banks more time to adapt their systems to the new reporting requirements. The statement became effective for financial periods commencing on or after 1 July 2002, but early adaptation was encouraged.

The International Accounting Standards Board (IASB) subsequently embarked on a project to improve the practical implementation of IAS 39. A particularly significant proposed improvement was to permit the use of fair values to measure any financial instrument and for changes in such fair values to be reflected in the income statement.

amendment to AC 133

An amendment to AC 133 allows an entity to designate any financial instrument irrevocably, on initial recognition, as held for trading and measured at fair value. The amended version was approved by the APB as IAS 39 (AC 133). SAICA introduced the dual numbering system, whereby the international name precedes the parenthesised local equivalent, as South African Statements of GAAP, since local statements of GAAP are exact replicas of the international standards.

Exposure Draft ED 177, however, proposed to restrict the use of the fair-value option. Owing to widespread international dissent on the application, ED 177 was amended to contain only some restrictions. Since South African banks had already been applying the full fair-value option, they were well positioned to contribute to the IASB's deliberations and participated in various round-table discussions with the IASB.

IAS 39 (AC 133) has already had a significant effect on the operations, system capabilities and reported results of all divisions of banks.

Bank-supervisory activities at regional level

The Bank Supervision Department continued to participate in the activities of regional bank-supervisory bodies.

At a meeting in April 2003, the Committee of Central Bank Governors (CCBG) of the Southern African Development Community (SADC) passed a resolution to establish a bank-supervisory body in the SADC region. The CCBG informed the East and Southern African Supervisors Group (ESAF) of the decision, which had been made in view of the importance of regional integration in Africa.

The objective of ESAF, in whose activities the Department participated actively since ESAF's establishment in mid-1993, was to bring together the views of regional bank-supervisory bodies, in order to promote and harmonise the overall standard of bank supervision in ESAF member countries, in line with best international practice. A decision formally to dissolve ESAF was tabled at its annual general meeting, in Madrid, Spain, on 21 September 2004. ESAF was formally dissolved on 19 November 2004, and the inaugural meeting for the establishment of the SADC Subcommittee of Bank Supervisors (SSBS) was held on 19 and 20 November 2004.

ESAF was formally dissolved

objectives of the SSBS

The objectives of the SSBS in the SADC region include:

- Promotion and enhancement of bank supervision, through adherence to and promotion of international supervisory standards
- Harmonisation of banking legislation, supervision systems and practices.
- Implementation of the Core Principles for Effective Banking Supervision.
- Anti-money-laundering compliance and combating of terrorist financing.
- Formulation of training programmes in conjunction with regional and international bodies.

Courses in banking supervision

regionally focused seminars

During the year under review, the Financial Stability Institute (FSI) of the Bank for International Settlements presented two regionally focused seminars for ESAF members. The first seminar, which covered the new Capital Accord (Basel II) and corporate governance, was held in Lusaka, Zambia, and was attended by 18 participants from ten ESAF member countries. The second seminar, which covered anti-money-laundering measures and problem-bank resolution, was held in Bagamoya, Tanzania, and was attended by 20 participants from seven ESAF member countries.

The FSI also presented the High Level Meeting on the Practical Application of Basel II for the Africa Region in Pretoria, on 16 and 17 November 2004. The meeting was attended by 23 participants from Africa, including six from the South African Reserve Bank, and was addressed by seven speakers, representing the FSI, the Basel Committee on Banking Supervision, the World Bank, the Financial Services Authority of the United Kingdom and the central bank of the Netherlands.

intermediate course in banking supervision

The Bank Supervision Department again hosted a successful intermediate course in banking supervision, which was attended by 19 participants from 11 ESAF member countries.

seminar on updates and trends

A seminar on updates and trends in banking was held on 18 November 2004 and was attended by 244 delegates from banks, their external auditors and members of the Department. The topics presented by a panel of experts included:

– Anti-money-laundering developments.
– The Continuous Linked Settlement System.
– Proposed second- and third-tier banking legislation.
– Basel II issues.

Memoranda of understanding

establishes a bilateral working relationship

In recent years, supervisors have found a need to formalise and embody working relationships between themselves and other relevant supervisors in a document, commonly referred to as a memorandum of understanding (MOU). In some jurisdictions, an MOU between supervisors is a prerequisite for the sharing of supervisory information. An MOU is not a legal document and does not create any legal rights and obligations in respect of the parties thereto, but merely establishes a bilateral working relationship between them, especially when a bank of one of the countries is conducting business in the other country, and *vice versa*. The purpose of an MOU is to provide a framework for an agreement between supervisors, whilst allowing them sufficient discretion and flexibility to deal with practical aspects when they occur.

In May 2001, the Basel Committee on Banking Supervision issued a paper entitled "Essential elements of a statement of cooperation between banking supervisors", which provided some guidelines on the preferred content of an MOU. The Basel Committee encourages convergence towards the common modality and standard set out in its paper, particularly for countries that are seeking to develop an institutional framework for supervisory cooperation or which are in the process of doing so. The need for supervisory authorities to have a good working relationship with their counterparts in other countries with which they have a cross-border relationship has been advocated by the Basel Committee since the 1975 Concordat.

an MOU cannot override laws

Although communication between supervisors does not necessarily need to be frequent, there has to be a basis of mutual trust and a willingness to share information when justified by the circumstances. National laws, such as laws designed to protect the legitimate interest of bank customers, may limit the transmission of information between supervisory authorities. Therefore, an MOU of mutual cooperation cannot override such laws. In agreeing to an MOU, each supervisor should inform the other of any legislative or administrative restrictions on information exchange, and if both sides so wish, such restrictions should be detailed in the MOU.

essential elements in an MOU

The Basel Committee has identified the following as essential elements to be included in an MOU between two supervisors:

commitment to consolidated supervision and cooperation

– The MOU should demonstrate the commitment of the supervisors to the principles of effective consolidated supervision and cooperation between banking supervisors and to their respective responsibilities, as laid down in the Basel Concordat and the Core Principles for Effective Banking Supervision.

willingness to cooperate

– The supervisors should express their willingness to cooperate with each other on the basis of mutual trust and understanding in the supervision of cross-border establishments within their respective jurisdictions.

sharing of information

– The MOU should recognise that information should be shared between the relevant supervisors in order to facilitate effective consolidated supervision of financial institutions operating across their national borders. Sharing of information should include contact during the authorisation and licensing process, in the supervision of the ongoing activities of such entities and in the handling of problem institutions. Requests for information should generally be made in writing. When there is a need for expedited action, requests might be initiated in any form, but should subsequently be confirmed in writing.

onsite inspections

– The MOU should recognise that cooperation is particularly useful to the supervisors in assisting each other in undertaking onsite inspections of cross-border establishments in the host country. Prior to deciding whether an onsite inspection is necessary, the home supervisor should review any relevant examination or other supervisory report prepared by host supervisors. The home supervisor should notify the host supervisor of plans to examine a cross-border establishment, or to appoint a third party to conduct an examination on its behalf, and should indicate the purposes and scope of the visit. The host supervisor should allow the home supervisor or its delegated agent to conduct onsite inspections.

confidentiality of information

release of information

– The MOU should recognise that mutual trust between supervisory authorities can be achieved only if exchanges of information can flow, with confidence, in both directions. The supervisor receiving the information must provide the assurance that all possible steps will be taken to preserve the confidentiality of the information received. In this regard, employees of supervisory authorities should be bound to treat all information obtained in the course of their duties as confidential. Any confidential information received from the other supervisor should be used exclusively for lawful supervisory purposes. In the event of a supervisor being legally compelled to disclose information that has been provided in accordance with an MOU to a third party, including a third-party supervisory authority, the supervisor should promptly notify the supervisor from whose jurisdiction the information originated and should indicate which information the supervisor is compelled to release and the circumstances surrounding the release of such information. Supervisors should therefore inform their counterparts of circumstances in which they may be subject to legal compulsion to release information.

The Bank Supervision Department has concluded MOUs with the following foreign supervisors:

MOUs with foreign supervisors

– Bundesanstalt für Finanzdienstleistungsaufsicht, Germany.
– Financial Services Authority, United Kingdom, relating to specific issues.
– Financial Supervision Commission, Isle of Man.
- Irish Financial Services Regulatory Authority, Ireland.
- Bank of Namibia, Namibia.
- Bank of Mauritius, Mauritius.

The Department is in the process of finalising MOUs with the following foreign supervisors:

- Financial Services Authority, United Kingdom, relating to general issues.
- Hong Kong Monetary Authority, China.
- Australian Prudential Regulatory Authority, Australia.

As regards local regulators, the Bank Supervision Department has a comprehensive and well-established MOU with the Financial Services Board, which is the regulator of non-bank financial institutions, and recently also concluded an MOU with STRATE (Share Transactions Totally Electronic). The Department has not yet concluded an MOU with the Competition Commission, although the Department does have a well-established working relationship with the Commission.

Implementation of anti-money-laundering legislation

impact of section 21(2) of the Financial Intelligence Centre Act

From February 2004, frequent and regular meetings took place between the Registrar of Banks and the banking industry to explore the impact of section 21(2) of the Financial Intelligence Centre Act, 2001 (FICA), aimed at preventing banks from being used for purposes of money laundering. In terms of section 21(2) of FICA, an accountable institution would not have been permitted to conduct a transaction in the course of an existing business relationship with a client after 30 June 2004 unless the institution had established and verified the identity of the client. These meetings intensified in June 2004, when there was almost daily consultation between all stakeholders.

As from 1 July 2004, accountable institutions would not have been able to enter into new transactions with clients unless the institutions had obtained and verified the required information on the identities of such clients. Accountable institutions that had not yet obtained or verified the required information would have had to freeze the accounts of the clients concerned.

Full compliance with the prohibition of FICA on transacting with unidentified customers presented a unique challenge to the banking industry. It was foreseen that the prohibition would disrupt business relations and transactions between a bank and its clients and between clients of different banks.

intensive consultation

Neither the Financial Intelligence Centre (FIC) nor the Registrar of Banks was in a position to excuse or pardon non-compliance with the legal obligations imposed on accountable institutions by FICA. This impasse resulted in intensive consultation between the FIC, the Registrar and the banking industry. The parties were faced with two possible ways of avoiding a disruption of the business of accountable institutions in terms of the law.

Firstly, Parliament could pass an amendment to the time frame for the coming into force of the relevant provisions of FICA. This option could not be considered, since the parliamentary calendar did not provide for Parliament to resume its activities in time to accommodate the passing of such an amendment.

Secondly, the affected accountable institutions could petition the Minister of Finance for an appropriate exemption under FICA, in order to be allowed more time to continue transacting with existing clients, while verifying the information of affected clients. The process followed in this regard is described below.

Guidance provided by the FIC

FICA empowers the FIC to provide guidance on a number of matters. The FIC, therefore, prepared two guidance notes to assist accountable institutions and supervisory bodies with the practical application of the client-identification requirements of section 21(2) of FICA.

FIC's Guidance Note 1

risk-based approach

Guidance Note 1 advocated a risk-based approach to the establishment and verification of the identities of clients. It pointed out that, in many instances, reference was made in the Regulations to FICA to the fact that accountable institutions would have "to verify certain particulars against information that could be reasonably expected to achieve such verification and could be obtained by reasonably practical means".

Accountable institutions were therefore called upon to exercise their judgement and decide on the appropriate balance between the level of verification and the most practical means to achieve such verification. The balance between the accuracy of the verification required on the one hand and the level of effort invested in the means to achieve such verification on the other had to be commensurate with the nature of the risk involved in a given business relationship or transaction. Each accountable institution, therefore, had to document and use a risk framework. Due regard also had to be given to the practicability of segregating different risk categories.

FIC's Guidance Note 2

most appropriate course of action in petitioning the Minister

Guidance Note 2 recommended the most appropriate course of action to be followed in petitioning the Minister for an appropriately structured exemption on terms that would achieve two objectives simultaneously, namely:

– To avoid a large-scale disruption of business in the banking industry.
– To move the industry to full compliance through a series of targets and objectives acceptable to the Minister of Finance and other stakeholders.

Each institution also had to submit a well-motivated request to the Minster, explaining what it had done to prepare for compliance with section 21(2) of FICA and detailing obstacles to compliance, volumes of unverified information, strategic plans and expected time frames for compliance.

Conditions of exemption from section 21(2) of FICA

On 21 June 2004, the Minister of Finance granted an exemption from the provisions of section 21(2) of FICA in Government Gazette No. 26487, on the following conditions:

– Each bank had to develop a risk-sensitive framework with respect to trusts and partnerships, as well as all clients falling into the category of 20 per cent of the bank's individual clients and the category of 20 per cent of its legal-person clients with the highest average monthly value of transactions during the period from 1 April 2004 to 30 June 2004.
– The verification of all other high-risk clients was to be completed by 31 December 2004.
– Verification of 50 per cent of medium-risk clients was to be completed by 31 May 2005, whereas the remainder was to be completed by 30 September 2005.
– Verification of all clients characterised as low risk had to be completed by 30 September 2006.

Supervisory process

The Bank Supervision Department supervises compliance with the stipulated deadlines by banks and holds regular meetings with the FIC. The Department not only receives quarterly reports on banks' progress towards compliance with FICA, but also meets with banks encountering difficulties and addresses such matters with the FIC.

Department supervises compliance

Combating of illegal deposit-taking

An auxiliary function of the Bank Supervision Department is to combat the establishment and continued operation of illegal deposit-taking schemes. During the year under review, the Department continued to inspect and investigate persons and institutions suspected of taking deposits from the general public in contravention of the provisions of the Banks Act, 1990. In brief, the taking of deposits from the general public by persons neither registered as a bank nor falling within or complying with one of the exemptions provided for in the Banks Act is a criminal offence. The investigation and ultimate prosecution of a person that commits a criminal offence fall within the area of responsibility of the South African Police Services (SAPS) and the prosecuting authorities. The role and function that the Department performs in this regard are clearly set out in the Banks Act. As a creature of statute, the Department is therefore permitted to perform only the duties and functions for which the Banks Act provides.

The Department is afforded certain powers in terms of the provisions of sections 81 to 84 of the Banks Act to "control" the activities of unregistered persons. These "activities", however, are confined to illegal deposit-taking only. The aforementioned provisions provide, amongst others, that the Registrar of Banks may (not must) do the following in that regard:

the Registrar may do the following

– Apply to court for an order prohibiting anticipated or actual schemes involving illegal deposit-taking.
– Obtain information from unregistered persons.
– Inspect the affairs of an unregistered person. It should be noted that inspectors are appointed by the Governor or Deputy Governors of the South African Reserve Bank in terms of the provisions of the South African Reserve Bank Act, 1989.
– Direct the person to repay the money if the Registrar is satisfied that an unregistered person has illegally taken deposits from the general public.
– Appoint a manager to manage and control the repayment of money obtained unlawfully.

rationale for the above-mentioned powers

The rationale for the above-mentioned powers is the following:

- Since banks have to be regulated and supervised for the right to accept deposits from the general public, it would be irresponsible to allow unregistered persons to take deposits from the general public whilst not registered and not subject to intense regulation. In order to prevent unfair competition with registered banks, the Department is therefore empowered to institute action against unregistered persons.
- Besides the fact that the taking of deposits from the general public by an unregistered person is a criminal offence, such schemes are generally operated on a fraudulent basis and are harmful not only to the established and regulated banking system, but also to the economy as a whole. In order, therefore, to prevent the development of a secondary illegal, harmful and fraudulent "banking" system, it is necessary for the Department to have the above-mentioned powers. The funds obtained by means of an illegal deposit-taking scheme are sometimes illegally transferred to accounts in other countries, and evasion of taxation provisions is also commonplace within such schemes. Both of the aforementioned practices could have a negative effect on the South African economy.
- Although the Department is of the view that investors have a duty to take care and are ultimately responsible for their investments, the provisions of the Banks Act do contain elements of consumer protection.

Department can act only when complaints are received

Since the Department does not register, regulate or supervise unregistered persons, it is generally not aware of such illegal deposit-taking schemes unless it is informed thereof by members of the public. In general, therefore, the Department can act only when complaints are received, provided that such complaints contain sufficient details and documentary evidence to justify the Department invoking its powers in terms of the Banks Act.

In many instances, however, illegal deposit-taking schemes are not reported to the Department, but are handled independently - more often than not without the knowledge of the Department - either by the SAPS in terms of a criminal investigation and prosecution or, when a scheme is liquidated, by the liquidator appointed to wind down the scheme. In such cases, the Department merely provides assistance when requested to do so. When a scheme has been liquidated, the provisions of the Insolvency Act take precedence over the provisions of the Banks Act in respect of the repayment process.

inspections

During 2004, seven new inspections, together with 42 inspections carried over from the previous year, were undertaken. These inspections were delegated to nine forensic auditing firms, although one scheme was investigated by members of the Department. Some of the Department's members were also assigned to act as witnesses in court proceedings. The Department also forwarded information to other regulatory bodies to ensure that all possible contraventions that might have been committed by unregistered persons were brought to the attention of the appropriate authorities.

factors such as greed and ignorance

In the opinion of the Department, the continued prevalence of illegal deposit-taking schemes may be ascribed to factors such as greed on the one hand and ignorance on the other. It would appear that there will always be persons, some of them highly sophisticated and wealthy members of society, who are willing to participate in illegal deposit-taking schemes, whilst being well aware of the risks associated with such schemes, in order to obtain the excessive returns offered. Unfortunately, however, the "success" of the initial participants often results in less sophisticated and less wealthy members of society following suit in order to share in the "success" of the initial participants, only to find that their investments have been utilised partly for the benefit of the initial participants and partly for the benefit of the administrators of the scheme. Apart from factors such as greed and ignorance, other contributing factors may include a general perception that the perpetrators of illegal deposit-taking schemes are either not investigated by the SAPS, or not prosecuted in the courts on a regular basis, or perpetrators finding innovative and ingenious ways of convincing members of the public to place their hard-earned money in schemes that are unregistered, unregulated, unsupervised and fraught with risk.

other contributing factors

Outsourcing of functions within banks

The Bank Supervision Department has increasingly received approaches from banks regarding outsourcing arrangements. The proposed outsourcing arrangements cover a variety of functions traditionally performed in-house by banks, such as treasury management, internal audit and compliance, amongst others. The Department recognises that, in general, the outsourcing of certain functions and activities could be beneficial to banks and their customers. The outsourcing of important in-house functions of banks, however, could have direct implications for either banks' risk profile, or the Department's supervisory process. The Department, therefore, issued Banks Act Circular 14/2004 on 20 September 2004 to provide banks with guidelines on outsourcing arrangements.

guidelines on outsourcing arrangements

It is important for the management of banks to take cognisance of the possible implications of outsourcing arrangements and to consider the following factors, amongst others:

Incurring of risk

Important banking functions performed independently of a bank could result in the bank having less control over those activities and, thereby, increase the risks to the bank. The management of a bank should therefore carefully consider this factor before entering into outsourcing arrangements. Outsourcing arrangements could also impair the Bank Supervision Department's ability to exercise its powers under the Banks Act, 1990, especially when the relevant service-level agreements do not specifically cater therefor.

could increase the risks to the bank

Scope of outsourcing arrangements

The Department is concerned only about outsourcing arrangements that could:

- Have a bearing on the risk profile of a bank.
- Affect the systems and controls of a bank.
- Be classified by the management of a bank as being of strategic importance.
- Have implications for the discharge of duties in respect of the Department's supervisory processes.

In the opinion of the Department, functions or activities that are outsourced to institutions forming part of a banking group are unlikely to pose the same risks to banks as outsourcing arrangements with other external suppliers. The management of a bank, however, has to ensure that the same amount of care is taken with all outsourcing arrangements.

The management of a bank should therefore not only analyse the impact of a proposed outsourcing arrangement, but also take into account the above-mentioned factors regarding the scope of the arrangement. Management also has to ensure that the

Department and other parties, such as the banks' external auditors, will have access to required information to enable them to exercise their duties under the Banks Act and other relevant legislation. Furthermore, management should immediately inform the Department of any material problem encountered with outsourcing arrangements after their implementation.

Ongoing monitoring of relationships with suppliers

in accordance with proper internal policies and standards

The Department requires the management of a bank to ensure that all outsourced functions are performed not only adequately, but also in accordance with proper internal policies and standards. The integrity of the bank's systems and controls has to be maintained at all times. In order to ensure that a proposed supplier will be able to guarantee the level of performance required by a bank, the management of the bank has to investigate the soundness and competence of the supplier. A bank's management should also be able to demonstrate the steps taken to verify a supplier's performance levels.

Management should further ensure that proper structures are created at the appropriate organisational levels to ensure the ongoing management and monitoring of the terms of outsourcing arrangements. In this regard, it is essential to ensure that the integrity of the systems and controls of suppliers is maintained, and management constantly has to remain aware of any problem encountered with a supplier. Management should ensure that a particular supplier is not only committed to providing, but is able to provide, the required service at agreed levels, for the duration of an outsourcing arrangement.

Service-level agreements

SLAs have to be comprehensive

Service-level agreements (SLAs) have to be comprehensive and should undergo legal scrutiny before implementation. The management of the bank should ensure that written agreements exist for all outsourced functions and activities.

Management should also consider including, in SLAs, provisions for periodic reviews and appropriate remedies (including early-exit options) should problems arise, as well as for amendments based on a supplier's performance against agreed and specified targets. In addition, management should consider including specifications pertaining to subcontracting by suppliers. In certain cases, management may wish to ensure that, depending on the importance of the outsourced function or activity, suppliers are not permitted to make use of subcontractors.

Contingency planning

contingency plans to ensure business continuity

Outsourcing of any function carries a risk that the supplier may fail, or that the contract may be terminated prematurely. The management of a bank should therefore put in place contingency plans to ensure business continuity and should review such plans regularly.

Issues requiring particular consideration are the availability of alternative suppliers, hand-over procedures to new suppliers and the procedures that have to be in place to ensure minimum disruption to business when an alternative supplier is sought. Since the hand-over process may be time consuming, detailed planning is required.

A bank might also need to reinstate an outsourced function or activity in-house should a supplier fail. Such reinstatement is likely to require a high level of detailed planning and consideration of issues such as resources and system capacity.

Supervisory access to information

It is of critical importance for a bank's management to ensure that SLAs are structured in such a way as to ensure that the bank is at all times able to provide the Bank Supervision Department with the necessary information on the outsourced functions or activities, regardless of whether or not such functions or activities have been outsourced within the group of institutions to which the bank belongs, or to external suppliers.

Consideration should also be given to jurisdictional issues. When a function or activity has been outsourced to a supplier that is located outside the borders of the Republic of South Africa, management should ensure that the information required by the Department to conduct effective supervision is available at all times.

jurisdictional issues

Whenever management becomes aware of any possible restriction on the provision of information relating to an outsourced function, the Department has to be informed. Other jurisdictional issues may include permission to undertake onsite inspections having to be obtained from host regulators, access to information having to be granted by host authorities, such as taxation and law-enforcement agencies, legal claims on assets and secrecy provisions.

Provision of information to other parties

The management of a bank should also ensure that the bank has processes in place to identify and deal with any weakness in a supplier's service that may have an adverse impact on the service provided to the bank. This may include access to the supplier by the bank's internal and external auditors, as well as access by external agencies conducting independent reviews for assessment by management. Management should therefore ensure that there is capacity to address problems that may arise from such investigations and that appropriate actions are taken when required.

capacity to address problems

Outsourcing of internal audit and compliance

The Department does not support the outsourcing of the compliance function, which the Department should be housed within a bank.

compliance function should be housed within a bank

The Department is also concerned about the outsourcing of a bank's internal audit function. Generally, the Department would not support the outsourcing of that function to any service provider, including a bank's external auditors. A bank should have an internal audit function that is independent from the external audit function, in order to guard against the segregation of responsibilities being compromised.

Role of board of directors

The above-mentioned issues do not constitute a complete list of the issues to be considered when the management of a bank decides to outsource a function or activity. In essence, management should be satisfied that all decisions and information flows pertaining to outsourced functions or activities are covered by an overarching internal policy. The policy should address proper structures, controls and systems and other necessary factors to ensure that the standard of the outsourced functions or activities are of a standard similar to internally performed functions or activities. Outsourcing arrangements to which the management of a bank has agreed should also be endorsed by the board of directors.

The Department requires the board risk subcommittee of a bank to participate in decisions on and to sign off all outsourcing arrangements that qualify in terms of the criteria outlined above, in order to ensure that all important factors have been considered before a bank concludes an outsourcing arrangement.

Chapter 3

Developments related to banking legislation

An important 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 legal framework pertaining to banking regulation has to take account of local and international developments in the markets and the regulatory standards applicable thereto. 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 effect the necessary amendments.

As a result of the general election in 2004, the parliamentary programme was somewhat congested, and amendments to the banking legislation could not be tabled in Parliament during the year under review.

amendments could not be tabled

This chapter contains an overview of some of the proposed amendments to the Banks Act planned for 2005, including a high-level plan for the incorporation of requirements relating to the new Capital Accord (Basel II) into the legal framework. Also outlined are revised requirements relating to synthetic securitisation schemes, preference-share investment schemes and auditor rotation.

Proposed amendments to the Banks Act, 1990

Among the proposed amendments to the Banks Act are the following:

proposed amendments

Maintenance of a register of controlling companies

Although the Bank Supervision Department is obliged to keep a register of all registered banks, it is not obliged to keep such a record for registered controlling companies of banks. As a result of the importance of consolidated supervision and proper record-keeping, however, it is regarded as efficacious that a register of registered controlling companies also be kept. To this end, certain sections of the Banks Act have to be amended.

Section 30 of the Banks Act, which deals with the publication of a notice in respect of certain information relating to banks and foreign representative offices in the *Government Gazette*, has to be amended to provide for such publication in respect of the registration, deregistration and change of name of a controlling company.

The certificate of registration in the Regulations relating to Banks will also have to be amended to provide for controlling companies.

Registration of controlling companies

Section 43(1) of the Banks Act provides that a public company that "desires" to exercise control over a bank may apply for registration as a controlling company.

It is proposed that the section be amended to read that a public company that exercises control or that intends to exercise control over a bank has to apply for registration as a controlling company. The objective of this proposal is to ensure that when a company obliged to be registered

exercises control over a bank, it is obliged to be registered as a controlling company and, consequently, will be subject to regulation and supervision in terms of the provisions of the Banks Act.

Investments in controlling companies

Section 50 of the Banks Act provides that a controlling company that invests money in undertakings other than banks or in fixed property not used for the purpose of conducting the business of a bank shall manage such investments in such a way that the amount of the investments does not at any time exceed 40 per cent of the sum of the controlling company's share capital and reserve funds.

accounting standards

The provisions of the Banks Act are to be amended to reflect the accounting standards in this regard. It is proposed that section 50 be amended to provide that the amount of the said investments does not exceed 40 per cent of the share capital and reserve funds of the controlling company calculated on a consolidated basis, as prescribed by regulation. The amendment, therefore, will enable details pertaining to the accounting standards in this regard to be prescribed by regulation.

Subsidiaries, branches, other interests and representative offices of banks and controlling companies

section 52 to be reviewed substantially

Enforcement and interpretation of section 52 of the Banks Act, relating to subsidiaries, branches, other interests and representative offices of banks and controlling companies, have proved to be problematic, owing to the wording of some of the provisions of the section. Although the interpretation that the Bank Supervision Department attached to section 52(1)(c) of the Banks Act by means of Banks Act Circular 8/2004 went a long way towards providing clarity, the Department is of the opinion that the section has to be reviewed substantially.

Compromises, amalgamations, arrangements and affected transactions

Certain difficulties have been encountered with the interpretation and practical application of some of the provisions of section 54 of the Banks Act, relating to compromises, amalgamations, arrangements and affected transactions. Therefore, it is proposed that certain provisions of section 54 be reviewed in consultation with the Minister of Finance and the National Treasury.

Minimum share capital and unimpaired reserve funds

necessary to amend section 70

Since certain innovative capital instruments and funding mechanisms have become available to banks in structuring their capital in recent years, it has become necessary to amend section 70 of the Banks Act, in order to provide for and adequately to regulate the use of such innovative instruments, including hybrid capital instruments, by banks.

It is proposed that section 70 of the Banks Act be amended to enable the structuring of a bank's capital and reserve funds in the following respects:

- Issue of capital instruments.
- Amounts to be deducted therefrom.
- Percentage of qualifying capital after deductions.

The above-mentioned proposed amendments will enable detailed requirements to be prescribed by regulation.

Control of certain activities of unregistered persons

One of the main problems in enforcing sections 81 to 84 of the Banks Act is that after inspectors have been appointed to investigate an alleged illegal deposit-taking scheme, a creditor of such a scheme often successfully applies to the court for liquidation of the scheme. Consequently, the appointed liquidator takes control of the assets of the scheme, and the powers of the inspectors are subordinated to those of the liquidator. This results in the liquidator having to duplicate much of the work that the inspectors have done or to gain access to any report or list of investors that the inspectors might already have compiled. This duplication of work, together with the higher rate of a liquidator's fees, increases the cost of liquidation, which, inevitably, results in payment of a lower dividend to investors in the particular scheme.

main problems in enforcing sections 81 to 84

Furthermore, in a number of cases, the Bank Supervision Department has noted that the operators of such illegal schemes have abused the system by either applying for liquidation of the scheme in their own name or by inducing a "friendly" creditor to do so. This has resulted in the operators indirectly determining who is appointed as the liquidator and in ending the investigation by the appointed inspectors.

It is proposed that a new section be inserted into the Banks Act to deal with matters relating to the liquidation or insolvency of persons operating illegal deposit-taking schemes that are being either investigated by inspectors or managed by fund managers.

proposed that a new section be inserted

The proposed amendment will provide that whilst a person operating an alleged illegal scheme is under either investigation or management and notwithstanding the provisions of any law relating to insolvency, such a person may not be liquidated or sequestrated by any person, unless the court has granted leave to do so and unless application papers have been served on the Department beforehand. In the event of the court granting leave to a person to apply for liquidation of the scheme and in the event of such an application being successful, the Registrar of Banks would then be able to recommend the person(s) to be appointed as liquidator(s).

It is also proposed that a duly appointed fund manager would be required to report to the Department on the solvency of the person or persons operating the illegal scheme, as well as on the solvency of the scheme itself. In the event of the scheme being found to be solvent, the fund manager would be able to repay the investors, as provided for in section 84 of the Banks Act. In the event of the scheme being found to be insolvent, however, the Registrar would be able to apply for the liquidation of the scheme and to recommend the person(s) to be appointed as liquidator(s).

solvency of the scheme

Implementation of Basel II

It is envisaged that further amendments to the Banks Act will be effected to incorporate, amongst others, the principles and requirements set out in Basel II. As reported in chapter 2 of this annual report, the Department established the Accord Implementation Forum (AIF) to manage and co-ordinate the implementation of Basel II within the banking industry and the Department. In order for banks to make adjustments to their risk-management process and reporting systems by the implementation date of 1 January 2008, it is necessary to have the legal and regulatory framework in place well in advance of the aforementioned date.

The high-level plan for the process to amend the legal and regulatory framework so as

high-level plan

to facilitate the implementation of Basel II adequately includes the following:

May 2005
- Completion of draft 1 of the amendments to the Regulations relating to Banks, which will include selected parts of Basel II, hybrid capital instruments and consolidation of previous amendments.

June 2005 to September 2005
- Comment on draft 1 by the banking industry and debate of the issues, as well as refinement of the proposed provisions, by the Regulatory Framework Subcommittee of the AIF.

October 2005 to November 2005
- Completion of draft 2 of the amendments to the Regulations relating to Banks, incorporating the comments received, as well as the proposed information forms to be completed by banks.
- Identification and drafting of the required amendments to the Banks Act.

December 2005 to April 2006
- Comment on draft 2 by the banking industry and debate of the issues, as well as refinement of the proposed provisions, by the Regulatory Framework Subcommittee of the AIF.

May 2006
- Completion of draft 3 (final draft), incorporating the comments received, as well as the principles of International Accounting Standard IAS 39 (Accounting Statement AC 133).

June 2005 to July 2006
- Comment on draft 3 and debate of the issues.

August 2006
- Submission of the final draft of the necessary amendments to Regulations relating to Banks to the Standing Committee for the Revision of the Banks Act, 1990, and the Minister of Finance, for approval.
- Initiation of the parliamentary process, in order to effect the necessary amendments to the Banks Act.
- Promulgation of the amendments to the Banks Act and the Regulations.

June 2006 and September 2006
- Two pilot runs of the revised regulatory and reporting requirements by banks.

2007
- Parallel runs of the current and the revised regulatory and reporting requirements by banks.

Synthetic securitisation schemes

An amended regulatory framework for asset securitisation, referred to as the securitisation notice, was published as Government Notice No. 1375, in *Government Gazette* No. 22948 on 13 December 2001.

In order to distinguish between traditional and synthetic securitisation schemes, however, the above-mentioned securitisation notice had to be amended. An amended regulatory framework, referred to as the new securitisation notice, making provision for both traditional (asset) securitisation schemes and synthetic securitisation schemes, was published as Government Notice No. 681, in *Government Gazette* No. 26415 on 4 June 2004.

new securitisation notice

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 asset-backed securities classes 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

By the end of 2004, the Bank Supervision Department had approved only one so-called synthetic securitisation scheme, since only one application for approval in this regard had been received. The Department, however, is of the opinion that the new securitisation notice creates an environment that will allow for the development of a strong corporate-debt market in the South African capital market.

Preference-share investment schemes

In order to ensure strict adherence to the provisions of the Banks Act and the Regulations thereto, the Department has to prescribe guidelines on the interpretation of the aforementioned provisions from time to time.

The Department issued Banks Act Circular 6/99 on 8 July 1999, in order to alert banks of its stance on preference-share investment schemes. During November 2000, the Department issued Banks Act Circular 10/2000, in order to set out directives, with a view to regularising preference-share investment schemes. During September 2001, the Department issued Banks Act Circular 12/2001, in order to obtain information from banking institutions on the nature and size of the preference-share investment schemes conducted by banking institutions.

The Department received a number of objections from certain banking institutions, as well as a number of legal opinions, following the issue of the above-mentioned circulars. The Department then studied both the objections raised and the legal opinions received and also liaised with the Financial Services Board (FSB), in order to ascertain the nature and extent of similar schemes, if any, being conducted by the insurance industry, as had been alleged by certain banking institutions. During January 2004, the FSB confirmed that, in its view, insurers were not conducting preference-share investment schemes, but were indeed investors in such schemes.

In the opinion of the Department, the preference-share investment schemes contemplated in Banks Act Circular 6/99 by trusts and/or subsidiaries of banks constitute deposit-taking and, therefore, "the business of a bank", as defined in the Banks Act. It was therefore deemed prudent for the Department to apply the above-mentioned stance to all preference-share activities, regardless of whether such activities were facilitated by institutions within the banking sector through trusts, companies or any other form, or by institutions outside the banking sector through trusts, companies or any other form.

constitute deposit-taking

Section 11 of the Banks Act provides that a person shall not conduct "the business of a bank" unless such a person is a public company and is registered in terms of the Banks Act. Therefore, should any entity, whether or not it is a public company that is regulated by any other legislation, conduct "the business of a bank" without that entity being registered as a bank in terms of the Banks Act, such an entity would be in contravention of the Act. The Banks Act, therefore, takes precedence over all other legislation in this regard, since an entity wishing to conduct "the business of a bank" would ultimately have to be registered not only as a public company, but also as a bank in terms of the Banks Act.

the Department issued directives

In the light of the duties imposed on the Department and the legal position outlined above, the Department issued the following directives by means of Banks Act Circular 7/2004:

Banking sector

All existing preference-share investment schemes conducted in South Africa by means of trusts or subsidiaries of banks shall be wound down or liquidated by 31 May 2005, since such schemes are accepting deposits from the general public in contravention of the Banks Act.

All preference-share investment schemes that are created or in operation as from 1 June 2005 and that are conducting "the business of a bank" will be in contravention of the Banks Act, and the Department will act against such structures in accordance with the provisions of the Banks Act.

Non-banking institutions

Since the Department is of the opinion that most preference-share structures constitute "the business of a bank", such structures have to be regulated in terms of the Banks Act. Should entities conduct "the business of a bank" without being registered as a bank in terms of the Banks Act, or should such entities not be in compliance with any exemption notice issued in terms of the Banks Act, the entities would be conducting such business illegally.

When such activities come to the attention of the Department, it will act against the entities conducting such activities in terms of the provisions of the Banks Act.

objectives of the Department

The intention of the Department is neither to outlaw the issue of preference shares by companies, nor to outlaw legal preference-share investment schemes. The objectives of the Department are, firstly, to issue a warning that certain preference-share investment schemes may be operating in contravention of the Banks Act and, secondly, to place a responsibility on those persons operating illegal preference-share investment schemes either to regularise or to wind down such schemes.

Auditor rotation

At a meeting of the Standing Committee for the Revision of the Banks Act, 1990, held on 7 June 2002, it was decided that the Bank Supervision Department should investigate the feasibility of effecting an amendment to section 61 of the Banks Act, in order to incorporate the rotation of auditors of banks. International corporate failures in recent years, such as those of Enron and WorldCom, called for the adoption of an approach of rotation of auditors of banks and controlling companies of banks, in order to enhance the independence of auditors and, thereby, maintain an objective approach to the auditing and disclosure of banks' financial affairs. Several of the more prominent banking and insurance regulators worldwide have in recent years adopted such an approach.

An amendment to section 61 of the Banks Act was effected during August 2003 by the Banks Amendment Act, 2003 (Act No. 19 of 2003). In terms of section 61(1)(b) of the Banks Act, "any person contemplated in paragraph (a) shall be appointed for such period and on such conditions as may be prescribed". In line with the said requirement, the Bank Supervision Department sent a letter to the auditing profession and several other affected parties, explaining the process that the Department envisaged for the rotation of the auditors of banks and controlling companies of banks. Comments received from banks and auditing firms were duly considered, and final implementation details were then formulated. These were distributed to banks as Banks Act Circular 16/2004, issued on 26 October 2004, and are outlined below.

final implementation details were formulated

Application of rotation

Rotation of an auditing firm is not required, but rather rotation of an auditing firm's partners. The rotation of auditing partners applies only to the lead partners and engagement partners conducting the audit of a bank or controlling company of a bank when such a controlling company is registered in the Republic of South Africa.

rotation of an auditing firm's partners

The terms lead partner and engagement partner may broadly be defined as follows:

lead partner and engagement partner defined

Lead partner – The lead partner is the partner who has overall and final responsibility for the audit of a bank or the controlling company of a bank. The lead partner also has responsibility for signing the annual financial statements and presenting the findings of an audit to a bank's audit committee.

Engagement partner - The engagement partner has responsibility for managing and coordinating the auditing work that is being undertaken in respect of a bank or its controlling company. The engagement partner may also have responsibility for auditing one or more of the segments, divisions or subsidiaries of a bank or controlling company. The engagement partner would normally liaise with the lead partner on important matters relating to the latter's area of responsibility.

In certain auditing firms, use is made of a concurring partner to provide another level of objectivity on the auditing work undertaken by the lead and engagement audit partners. Although requests were received to include concurring partners in the rotation process, the Department was of the opinion that the inclusion of concurring partners in the rotation process was unnecessary. The roles and functions of concurring partners in the audits of banks and controlling companies of banks should be managed by auditing firms themselves, in order to ensure that the roles and functions of concurring partners do not encroach on those of the lead or engagement partners.

concurring partner

After rotation, both lead partners and engagement partners may not be involved in the audit of a bank or its controlling company for a specified period. Therefore, after rotation, an engagement partner may not become the lead partner of the same bank or controlling company for a specified period, as set out below.

Time periods applicable

The maximum period for which a partner may be involved as a lead partner or engagement partner is five years. Thereafter, the lead and engagement partners may

maximum period is five years

time-out period

not become the lead or engagement partner of the same bank or its controlling company for a period of three years, the so-called time-out period. Although requests were received to shorten the time-out period to two years, the Department was of the opinion that in order to align the time-out period with current corporate-governance structures, the time-out period should remain three years.

Commencement of rotation

rotation of partners applies retrospectively

The rotation of partners applies retrospectively, starting with the rotation of lead partners after completion of 2004 financial year-end audits until and including 31 December 2004. Lead partners who would have audited a particular bank or its controlling company in that capacity for a period of five years or longer as at completion of the 2004 financial year-end audit shall rotate on completion of the year-end audit until and including 31 December 2004. Lead partners who have audited a particular bank or its controlling company in that capacity for a period of less than five years as at 31 December 2004 shall complete the remaining portion and shall rotate on completion of the five-year period.

In order to ensure continuity, the rotation of engagement partners will commence after completion of the 2005 financial year-end audits until and including 31 December 2005. Engagement partners who would have audited a particular bank or its controlling company in that capacity for a period of five years or longer as at completion of the 2005 financial year-end audit shall rotate on completion of the 2005 financial year-end audit until and including 31 December 2005. Engagement partners who would have audited a particular bank or its controlling company in that capacity for a period of less than five years as at 31 December 2005 shall complete the remaining portion and shall rotate on completion of the five-year period.

interruption of the five-year period not allowed

Although requests were received to allow the five-year period to be interrupted, the Department is of the opinion that, in the interest of stability, interruption of the five-year period should not be allowed. Therefore, should the engagement period of a lead partner or engagement partner for any reason be less than the envisaged period of five years, the time-out rule will apply before such a partner may be reinstated as lead or engagement partner.

Joint auditors

If two auditing firms have been appointed by a bank or controlling company of a bank, rotation of the first lead partner starts after completion of the 2004 financial year-end audit until and including 31 December 2004. The second lead partner may rotate one year thereafter, after completion of the 2005 financial year-end audit until and including 31 December 2005. Rotation of the first engagement partner will take place after completion of the 2005 financial year-end audit until and including 31 December 2005, and the second engagement partner will rotate after completion of the 2006 financial year-end audit until and including 31 December 2006. Such rotational plans should be discussed with the management of the particular bank or controlling company and should be implemented in an orderly fashion, under prior advice to the Registrar of Banks.

Specialist partners

The Department does not require the rotation of so-called specialist partners, that is, partners dealing with issues of a specialised nature, such as taxation issues.

Chapter 4

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 4.1 to 4.7 below. Certain of the comparative figures in respect of 2003 may differ from those reported in the 2003 annual report, because banking institutions subsequently submitted amended returns.

comparative figures may differ from those reported in the 2003 annual report

The reports and graphs that follow are largely affected by the position of the "big four" banks, which constituted 83,7 per cent of the banking sector in December 2004 (80,8 per cent in December 2003). The five largest banks constituted 88,5 per cent of the banking sector as at the end of December 2004 (86,9 per cent in December 2003).

4.1 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 2004, equalled R1 498,1 billion, as opposed to R1 379,8 billion as at 31 December 2003 and R1 100 billion as at 31 December 2002.

type and spread of a bank's business activities

Figure 1: Aggregated balance sheet

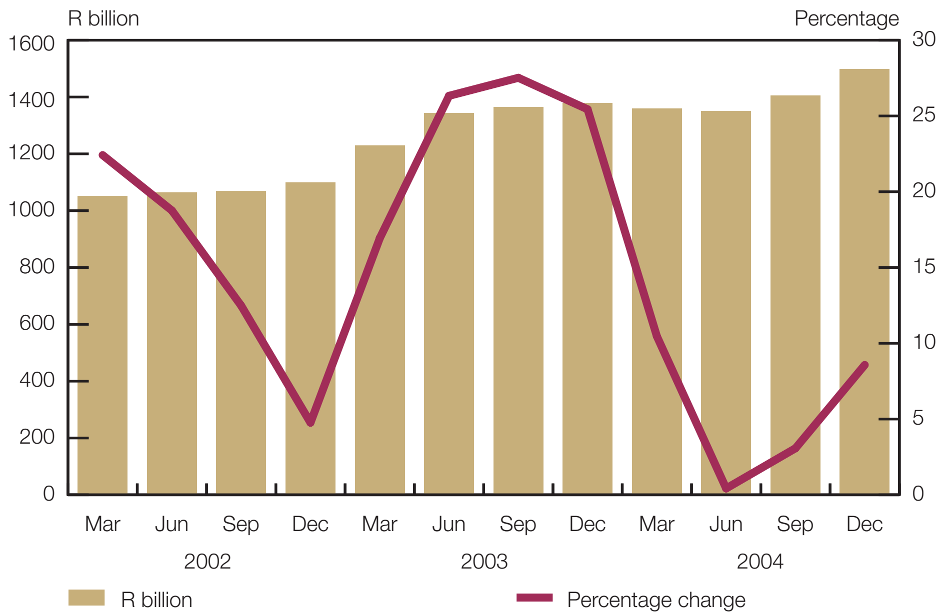


Figure 1 graphically depicts the quarter-end value of, and percentage growth (measured over 12 months) in, the aggregated balance sheet of the banking sector for the period from March 2002 to December 2004. From December 2002, when a growth rate of 4,8 per cent was recorded, growth in the aggregated balance sheet increased uninterruptedly until September 2003 (27,5 per cent), to end the year 2003 at 25,4 per cent.

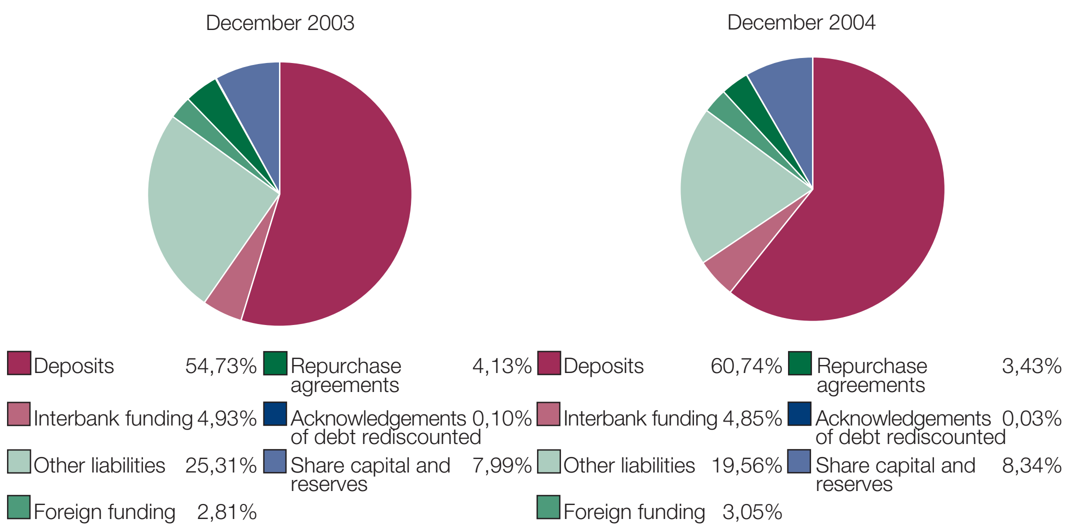
sharp decrease in total assets during the first six months of 2004

The sharp increase in total assets during 2003 was due to an amendment to the Regulations relating to Banks in 2003, whereby banks were required, from 1 January 2003, to report their trading-book positions on the basis of gross values instead of net balances. For six consecutive months in 2004, however, growth in the aggregated balance sheet decreased, to a level of 0,4 per cent in June 2004. The sharp decrease in total assets during the first six months of 2004 was due to, amongst others, the deregistration of two A-2 rated banks and a decrease in the total assets of some foreign branches. By the end of 2004, however, a growth rate of 8,6 per cent had been recorded.

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

decrease in other liabilities

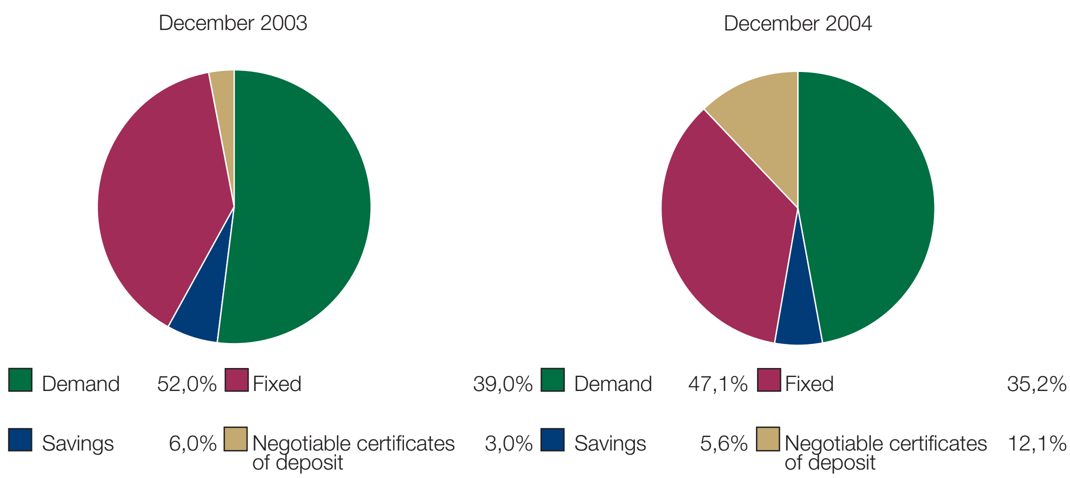
Domestic deposits from the public, in the amount of R910 billion, remained the main source of funding for the banking sector and constituted 60,7 per cent of total liabilities in December 2004, compared to 54,7 per cent in December 2003 and 60,2 per cent in December 2002. Repurchase agreements and other liabilities as a percentage of total liabilities, on the other hand, decreased from 4,1 per cent and 25,3 per cent in December 2003 to 3,4 per cent and 19,6 per cent in December 2004, respectively. The decrease in other liabilities was due mainly to less activity in derivatives. Foreign funding and share capital and reserves, on the other hand, increased from 2,8 per cent and 8 per cent, respectively, in December 2003 to 3,1 per cent and 8,3 per cent, respectively, in December 2004. Interbank funding decreased slightly, from 4,93 per cent in December 2003 to 4,85 per cent in December 2004.

Composition of non-bank deposits

Figure 3 reflects a year-on-year comparison of the composition of non-bank deposits. Fixed and notice deposits decreased by 3,8 percentage points during 2004. Demand deposits as a percentage of total non-bank deposits decreased from 52 per cent to 47,1 per cent. Negotiable certificates of deposit (NCDs) as a percentage of non-bank deposits increased significantly, from 3 per cent at the end of December 2003 to 12,1 per cent at the end of December 2004. The sharp increase in NCDs during 2004 was due to the Minister of Finance removing stamp duties on NCDs in his 2004 budget speech, consequently decreasing the cost of NCDs.

The sharp increase in NCDs

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 2002 to December 2004. As can clearly be seen from figure 4, short-term deposits remained the largest component of total non-bank funding and accounted for 67,4 per cent of total non-bank funding as at 31 December 2004, compared to 73 per cent at the end of December 2003 and 69,6 per cent at the end of December 2002. Medium-term deposits accounted for 22,9 per cent as at 31 December 2004, compared to 18,7 per cent and 19,6 per cent at the end of December 2003 and the end of December 2002, respectively. Long-term deposits remained the smallest component of total non-bank funding and accounted for 9,7 per cent of total non-bank funding as at 31 December 2004, compared to 8,3 per cent and 10,8 per cent at the end of December 2003 and the end of December 2002, respectively.

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

Although long-term deposits remained the smallest component of total non-bank funding, growth in long-term deposits increased markedly from March 2004 (see figure 5). Measured over a 12-month period, growth in long-term deposits had increased by 40,9 per cent by the end of December 2004. This increase in long-term deposits can be attributed to the low interest-rate environment in the South African economy since 2003. The significant decrease in interest rates in 2003 resulted from a relaxation in South Africa's monetary policy during that year. From June 2003, the repurchase rate was reduced by 450 basis points. Currently, the big five banks hold more than 89,6 per cent of long-term deposits.

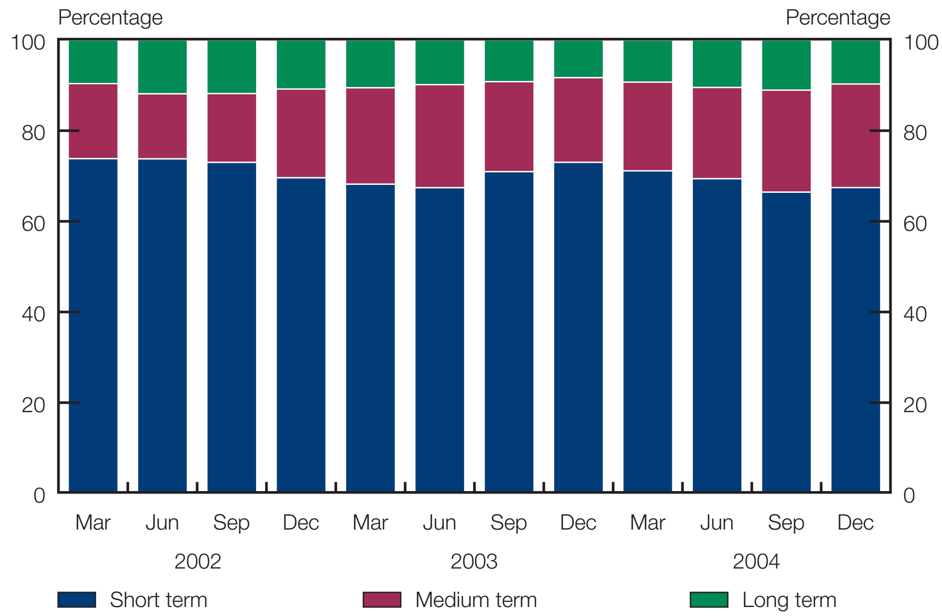
growth in long-term deposits increased

Growth in medium-term deposits, on the other hand, decreased from 10,6 per cent in January 2004 to 0,2 per cent in June 2004. This decrease in medium-term deposits during the first six months of 2004 was due to the deregistration of an A-2 rated bank.

decrease in medium-term deposits

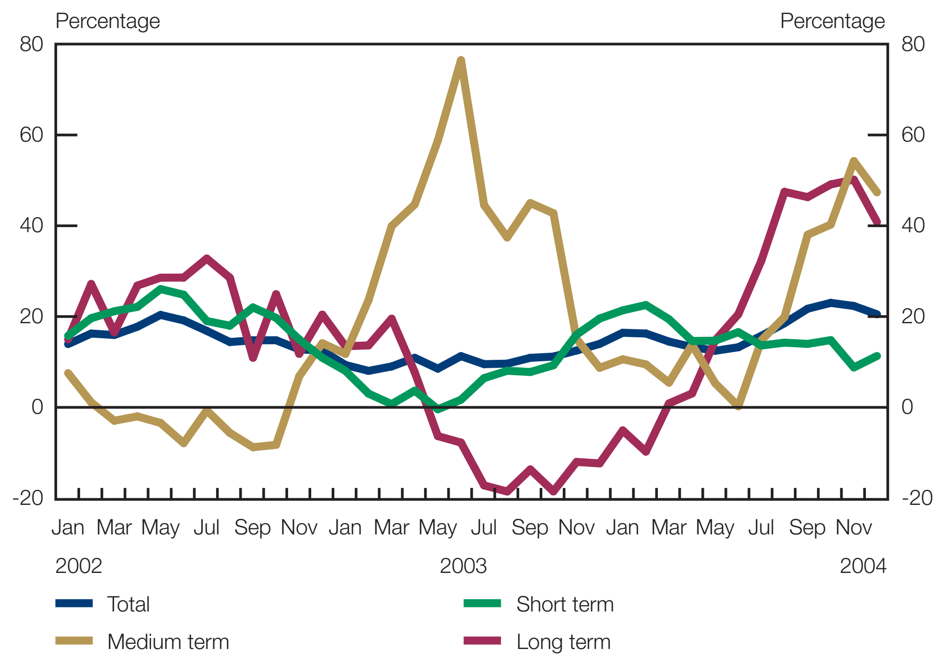
By November 2004, however, growth in medium-term deposits had increased more noticeably to 54,3 per cent, before moderating slightly to 47,4 per cent in December 2004.

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



Growth in short-term deposits fluctuated slightly over the past three years and increased from 10,9 per cent in December 2002, to 19,6 per cent in December 2003 and, by the end of December 2004, had decreased to 11,3 per cent (measured over a period of 12 months).

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



Other major liabilities of the banking sector as at 31 December 2004 included foreign funding of R45,8 billion (which increased by 18 per cent when compared to the December 2003 level of R38,8 billion), capital and reserves of R124,9 billion (which increased by 13,4 per cent when compared to the December 2003 level of R110,2 billion) and interbank funding of R72,7 billion (representing a growth rate of 6,8 per cent when compared to the December 2003 level of R68,1 billion). Other liabilities, on the other hand, decreased to R292,9 billion as at 31 December 2004 (a decrease of 16,1 per cent when compared to the amount of R349,2 billion at the end of December 2003).

other major liabilities

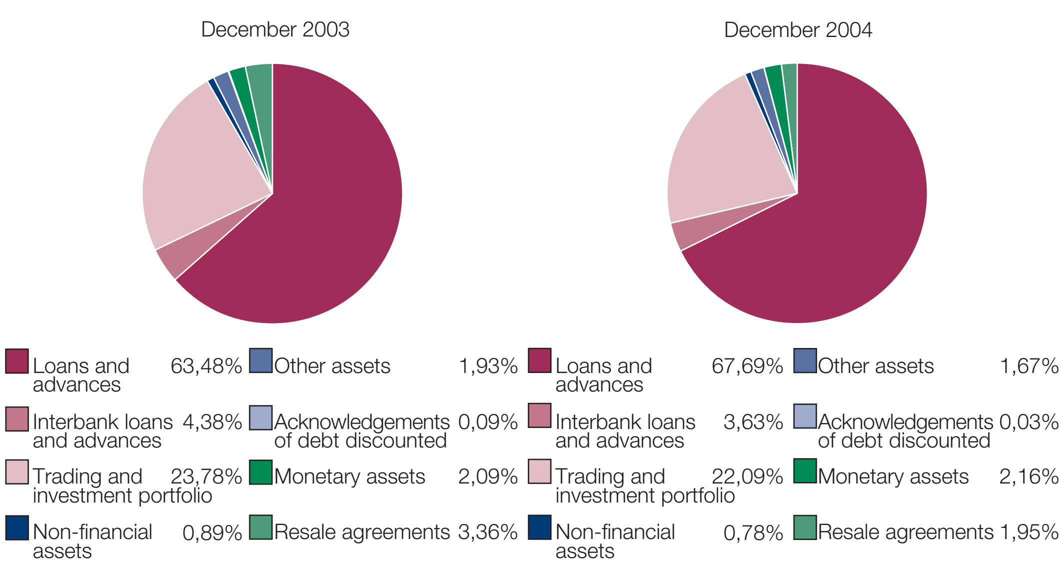
Assets

Figure 6 graphically reflects a year-on-year comparison of the composition of assets as at 31 December 2003 and 31 December 2004. The banking sector's assets increased by R118,3 billion (representing a growth rate of 8,6 per cent) during 2004, to a total of R1 498,1 billion at the end of December 2004. Factors contributing to this growth were the following:

banking sector's assets increased

- Monetary assets grew by 12 per cent, from R28,8 billion as at 31 December 2003 to R32,3 billion as at 31 December 2004.
- Non-bank advances grew by 15,8 per cent, from R876 billion at the end of December 2003 to R1 014,1 billion at the end of December 2004.
- Loans granted under resale agreements decreased by 37,2 per cent, from R46,4 billion at the end of December 2003 to R29,2 billion at the end of December 2004.
- Trading and investment assets grew by 0,9 per cent, from R328,1 billion at the end of December 2003 to R330,9 billion as at 31 December 2004.
- Non-financial assets decreased by 5,1 per cent, from R12,3 billion at the end of December 2003 to R11,6 billion at the end of December 2004.
- Other assets decreased by 5,9 per cent, from R26,7 billion at the end of December 2003 to R25,1 billion at the end of December 2004.

Figure 6: Assets – year-on-year comparison



After a significant slowdown in the growth of total loans and advances during the latter half of 2002 (see figure 7), growth in total loans and advances resumed from April 2003 and, by the end of December 2003, had increased by 11,1 per cent (measured over a period of 12 months). During 2004, growth in total loans and advances fluctuated slightly, from 13,7 per cent in January 2004 to 8,1 per cent in June 2004 and to 11,2 per cent in December 2004. At the end of December 2004, loans and advances accounted for about 73,3 per cent of total assets (see figure 8).

Figure 7: Total loans and advances

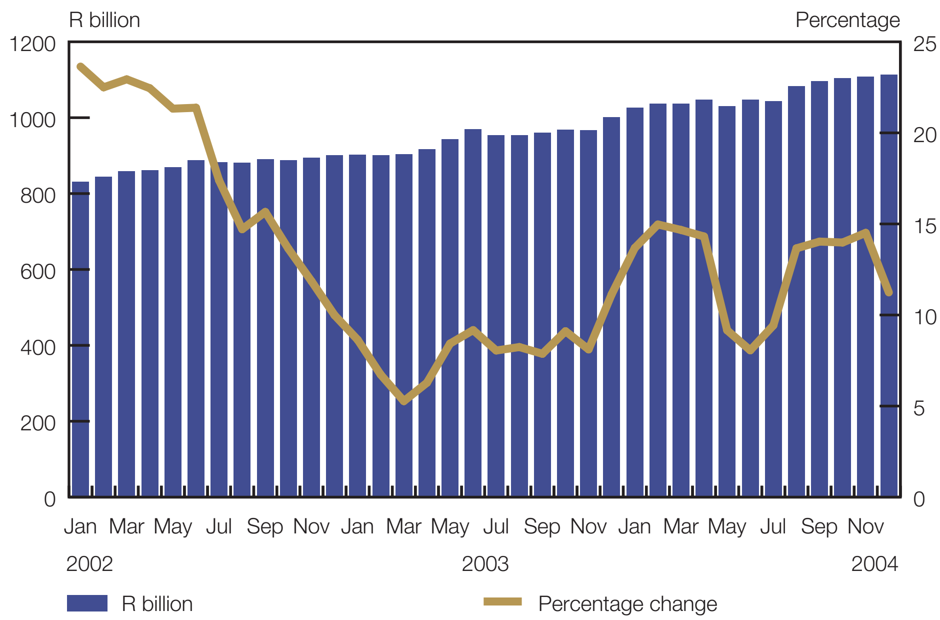
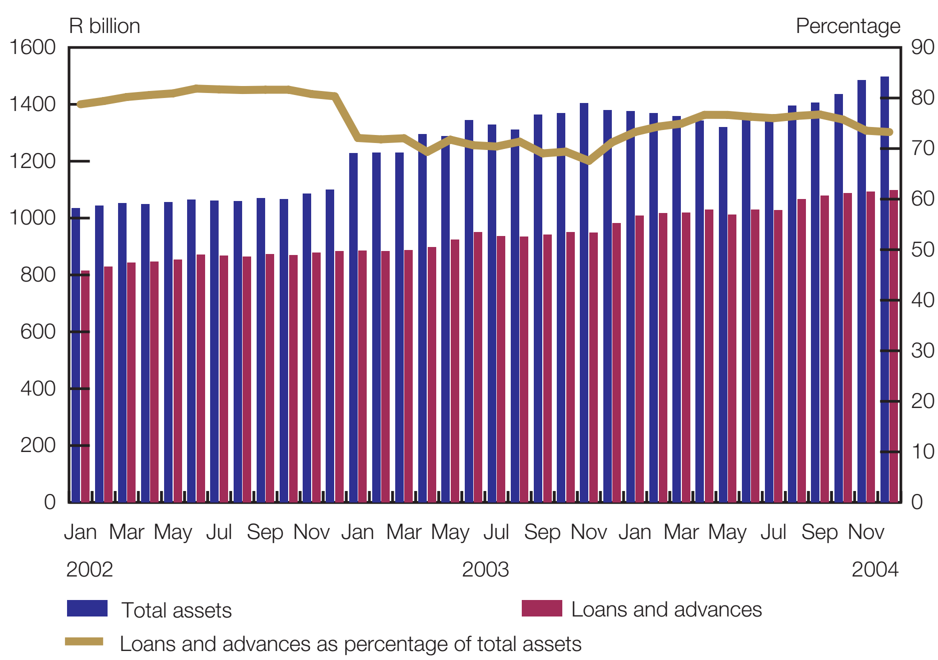


Figure 8: Loans and advances as a percentage of total assets



Loans and advances as a percentage of total assets decreased from 80,3 per cent in December 2002 to 71,2 per cent in December 2003, before increasing throughout 2004 to 73,5 per cent in November 2004. Loans and advances as a percentage of total assets decreased somewhat during the last month of 2004, to end the year at 73,3 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 2003 and 2004 clearly shows that mortgage loans as a percentage of total loans and advances increased notably, from 32,3 per cent in December 2003 to 36,5 per cent in December 2004, whereas overdrafts and loans decreased slightly, from 26,4 per cent in December 2003 to 25 per cent in December 2004.

mortgage loans increased notably

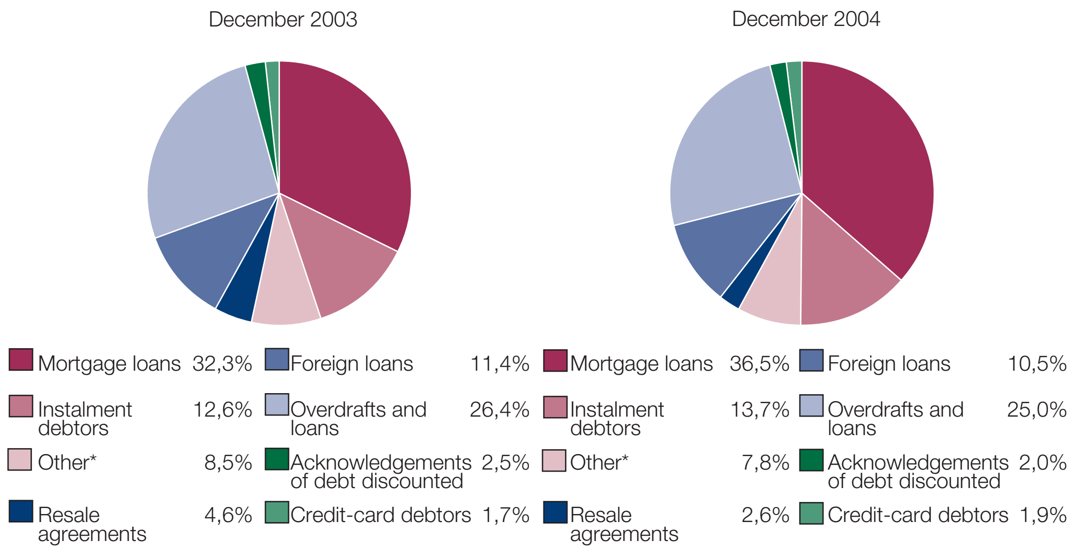
overdrafts and loans decreased slightly

As at the end of December 2004, non-bank loans and advances constituted 67,7 per cent (December 2003: 63,5 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 R138,2 billion (2003: R75,7 billion), representing a growth rate of 15,8 per cent (2003: 9,5 per cent), achieved in respect of non-bank advances during 2004 and can be attributed to the following areas (see also figure 10):

increase in non-bank advances

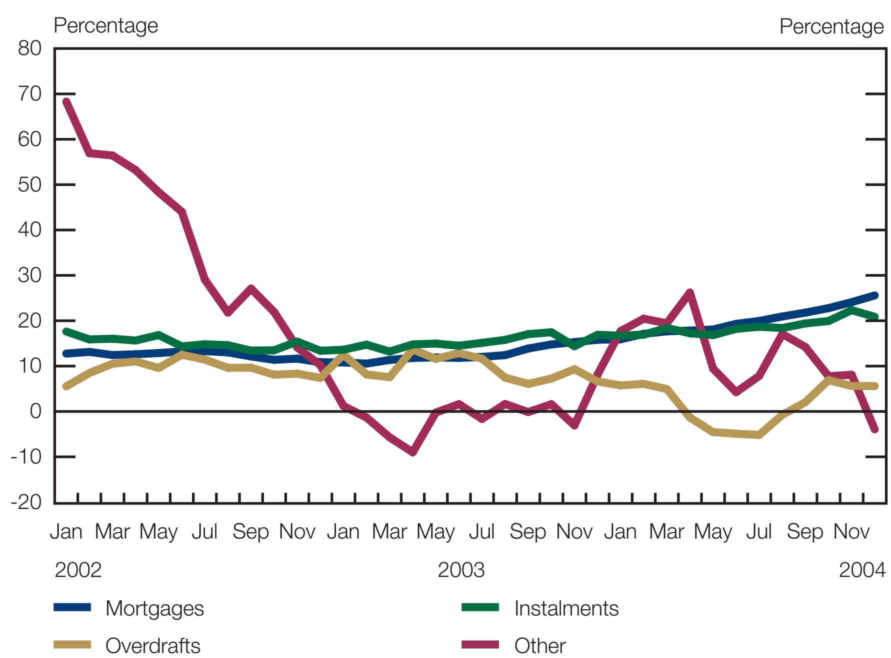
- Mortgage loans increased by R82,7 billion, to a level of R406,2 billion, representing an increase of 25,6 per cent. The sharp increase in mortgages during 2004 was due to, amongst others, the decrease in interest rates from June 2003.
- Overdrafts and loans increased by R14,8 billion, to a level of R278,9 billion, representing a growth rate of 5,6 per cent. It is noticeable, however, from figure 10 that growth in overdrafts and loans was on a declining trend from April 2004, before moderating to 5,6 per cent at the end of December 2004. The decreasing trend in the growth rate of overdrafts and loans was due to lower utilisation of funding from banks by corporates, resulting from a number of corporates funding themselves by the issue of their own paper.
- Instalment debtors increased by R26,3 billion, to a level of R152,4 billion, representing an increase of 20,9 per cent.
- Foreign-currency loans and advances increased by R2,3 billion, to a level of R116,7 billion, representing an increase of 2 per cent.
- Credit cards increased by R4,2 billion, to a level of R21,2 billion, representing an increase of 24,9 per cent. The sharp increase in credit cards was due to, amongst others, the previously mentioned decrease in interest rates from June 2003.
- Acknowledgements of debt discounted decreased by R2,4 billion, to a level of R22,5 billion, representing a decrease of 9,7 per cent.
- Redeemable preference shares increased by R0,3 billion, to a level of R15,7 billion, representing an increase of 2 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



4.2 Capital adequacy

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

For the year under review, the average capital and reserves held by the banking sector amounted to R116,6 billion (R105,6 billion in December 2003), and R107,6 billion (R94,8 billion in December 2003) thereof constituted qualifying capital and reserves for purposes of assessing capital adequacy. The capital-adequacy ratio for the banking sector as at the end of December 2004 was 13,5 per cent (2003: 12,2 per cent).

An analysis of the percentage distribution of banks in terms of capital adequacy at the end of December 2004 (see figure 11) reveals that only 2,9 per cent (2003: 0 per cent) of the total number of banking institutions – in fact, only one bank – did not meet the minimum capital-adequacy ratio of 10 per cent, whereas 45,7 per cent of banking institutions (2003: 50 per cent) had capital-adequacy ratios that exceeded 20 per cent.

only one bank did not meet the minimum capital-adequacy ratio

Figure 11: Distribution of banks in terms of capital adequacy

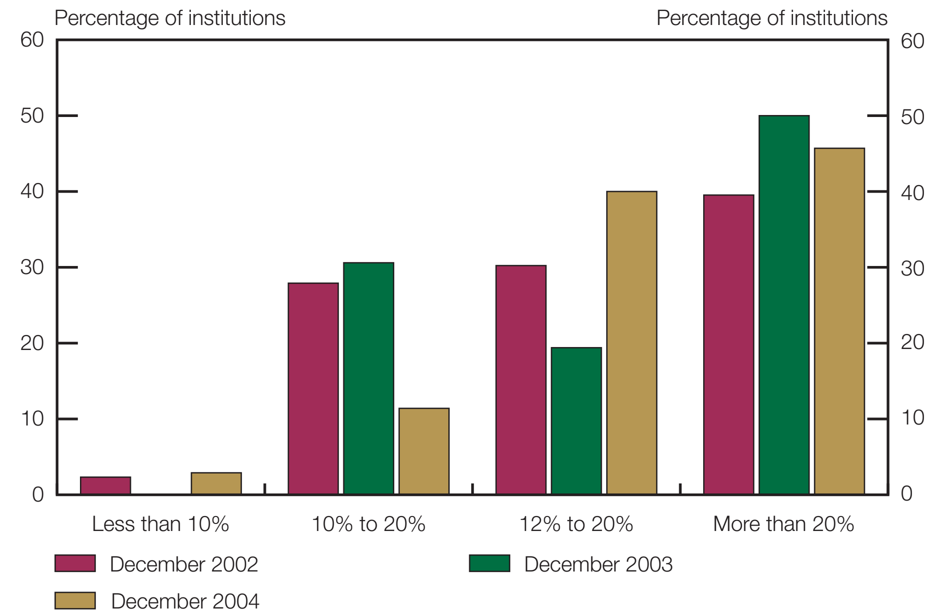
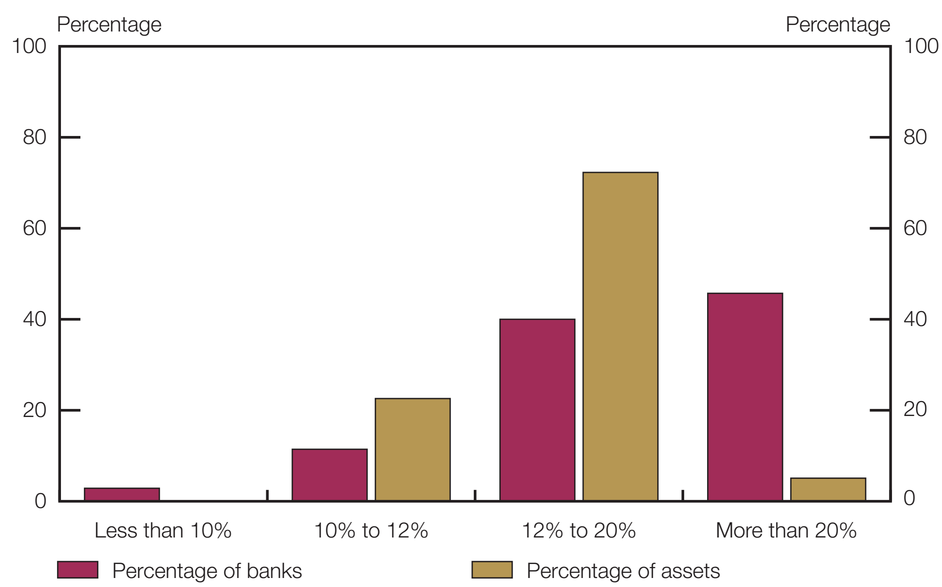


Figure 12: Banks' capital adequacy in terms of total asset value

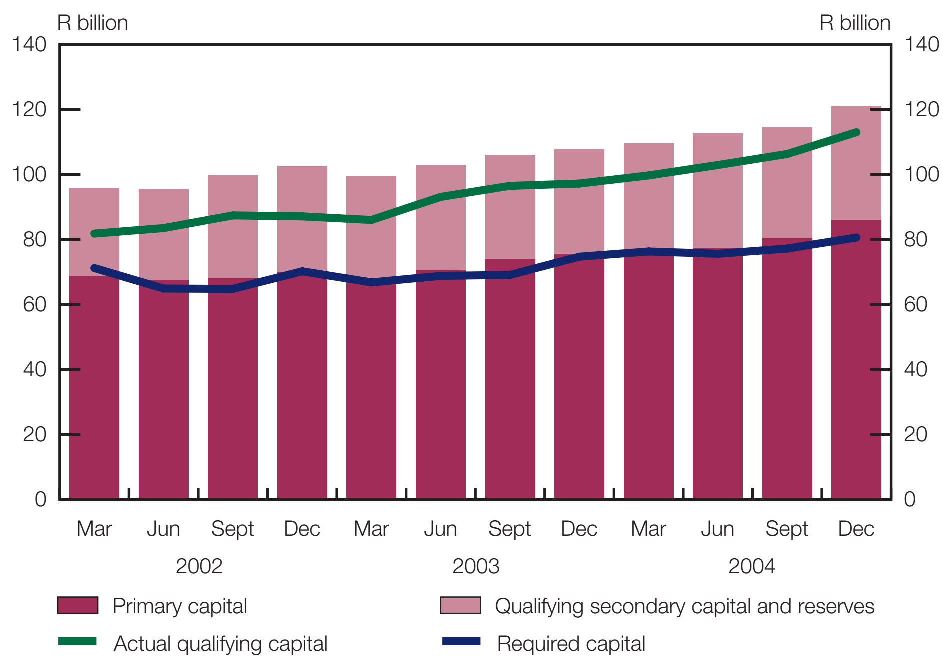


Banking institutions that reported capital-adequacy ratios of above 20 per cent (that is, 45,7 per cent of institutions) represented only 5,1 per cent of total banking-sector assets (see figure 12). Banking institutions with a capital-adequacy ratio of between 12 per cent and 20 per cent (40 per cent of banking institutions) represented the largest portion of total banking-sector assets, namely, 72,3 per cent.

increase in the growth of primary capital and reserves

Figure 13 reflects the rand values of the split, over time, between primary and secondary capital, as well as required capital and actual qualifying capital. At the end of December 2004, primary capital and reserves constituted 71,3 per cent (2003: 67,2 per cent) of qualifying capital and reserves before deduction of impairments amounting to R7,8 billion (2003: R10,1 billion). Primary capital and reserves grew by 23,9 per cent (2003: 2,9 per cent) during 2004, to R90,2 billion at the end of December 2004. The increase in the growth of primary capital and reserves was due to the issue of non-redeemable non-cumulative preference shares and the appropriation of profits by some banks. Secondary capital and reserves increased by 3,4 per cent (2003: 1,4 per cent), to R34,3 billion at the end of December 2004. Banks continued to hold a buffer in excess of the required capital.

Figure 13: Qualifying capital and reserves

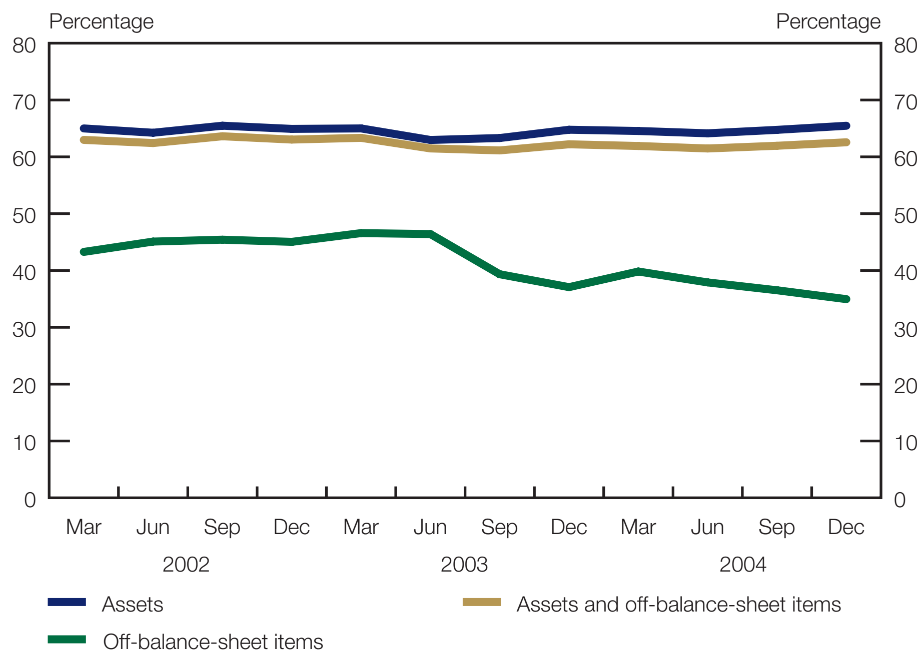


Risk profile of on- and-off-balance-sheet items

marked decrease in central securities depository participation

Figure 14 graphically depicts the risk-weighted percentages of assets and off-balance-sheet items and of the combined total of assets and off-balance-sheet items. The risk weighting of the banking sector's assets increased slightly, from 64,8 per cent at the end of December 2004 to 65,5 per cent at the end of December 2004. The risk weighting of off-balance-sheet items decreased from 37,1 per cent at the end of December 2003 to 35 per cent at the end of December 2004. The decrease in off-balance-sheet items was due to a marked decrease of more than 44 per cent in central securities depository participation, risk weighted at 0 per cent, during 2004. The change in the composition of off-balance-sheet-items had the effect of increasing the combined risk weighting of assets and off-balance-sheet items slightly, from 62,2 per cent in 2003 to 62,6 per cent in 2004.

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



4.3 Profitability

An evaluation of the profitability of banks focuses on 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:

the analyses focus on the following aspects

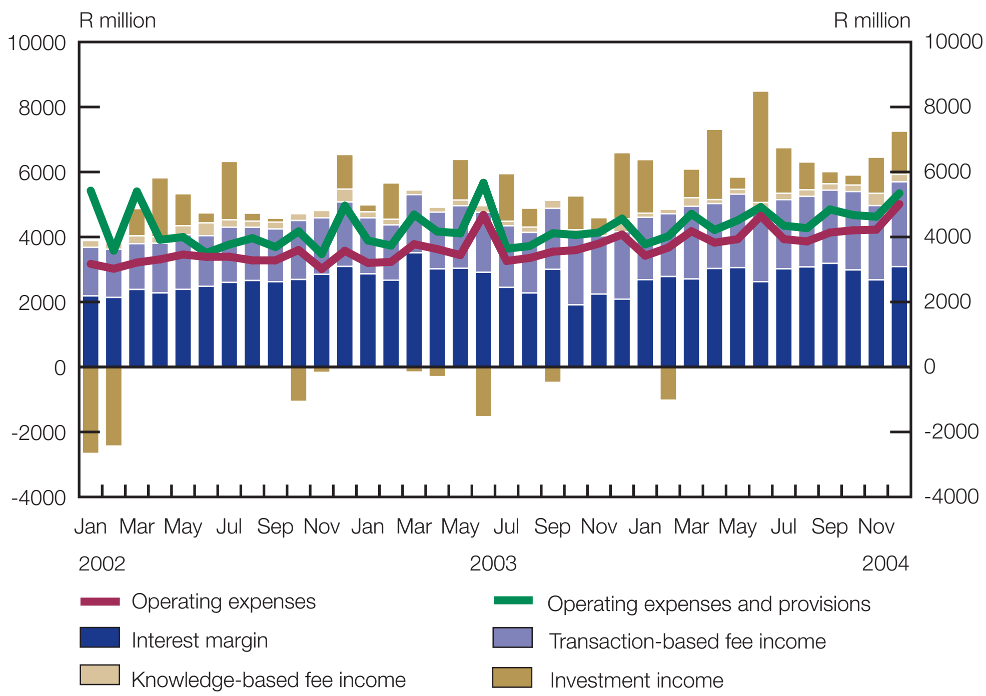
- Quality of earnings (nature of earnings, that is, whether or not recurring, and the risk sensitivity of earnings).
- Sources of income (such as a fair spread of generation/sources of income).
- Nature of income (such as the intermediation function, or trading and advisory activities).
- Integrity of the information.
- Profitability of assets and effectiveness of activities.
- Cost control and cost optimisation.
- Balance between the effort expended on activities and the income generated therefrom.

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 generates interest margin (an average of 2,3 per cent of total assets for 2004) and transaction-based fee income (an average of 1,8 per cent of total assets for 2004). The income derived from the intermediation function (R61,3 billion) during 2004 was generally sufficient to cover the sum of operating expenses and provisions (R54,3 billion). The generation of additional income from investments, including Government stock and Treasury bonds, and from knowledge-based fee income derived from trading and advisory activities also contributed to the continued profitability of banks. Fee income and investment and trading income as a percentage of total assets were equivalent to 1,9 per cent and

0,9 per cent, respectively, during 2004 (as opposed to 1,8 per cent and 0,4 per cent, respectively, during 2003).

Figure 15: Composition of the income statement



interest expense decreased

For the year 2004, interest expense decreased by about 24,1 per cent, which was 8,4 percentage points higher than the decrease of 15,7 per cent in interest income. The net result thereof was that the interest margin increased by 9,2 per cent, whereas it increased by 5,3 per cent in 2003. Interest derived from mortgage bonds and overdrafts and loans constituted 35,4 per cent and 26,5 per cent, respectively, of total interest income during 2004 (as opposed to 33,6 per cent and 28,4 per cent, respectively, during 2003).

The main components of interest expense were interest in respect of demand deposits at 28,1 per cent of the total interest expense (2003: 30,3 per cent) and interest in respect of fixed and notice deposits at 34 per cent of the total interest expense (2003: 32,3 per cent).

interest margin was on average higher

Figure 16 graphically depicts the interest margin of the banking sector for the period from January 2002 to December 2004, whereas figure 17 depicts the percentage-point change in the components of the interest margin for the aforementioned period. The interest margin for the year was on average higher in 2004 than in 2003. By the end of December 2004, the interest margin was 3,5 per cent, compared to 2,7 per cent in 2003 and 4,5 per cent in 2002. The margin at the end of December 2003 was affected mainly by half-year reporting adjustments by some A1-rated banks and the reporting of a decrease in interest income on derivative instruments by some A2-rated banks. An analysis of the relative monthly percentage-point change in the underlying components, as well as in the interest margin (see figure 17), displayed clear cyclical tendencies.

Figure 16: Interest margin

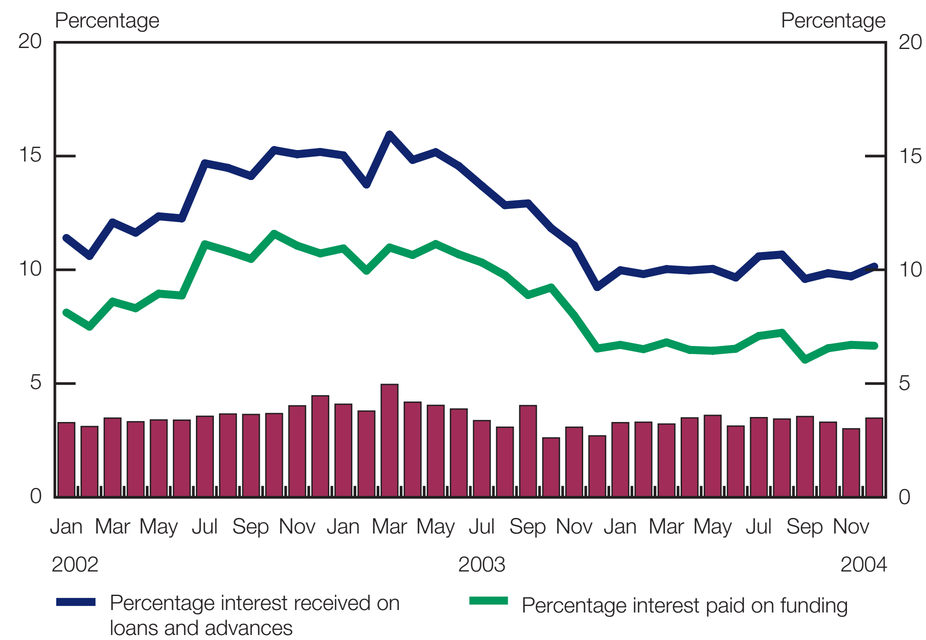
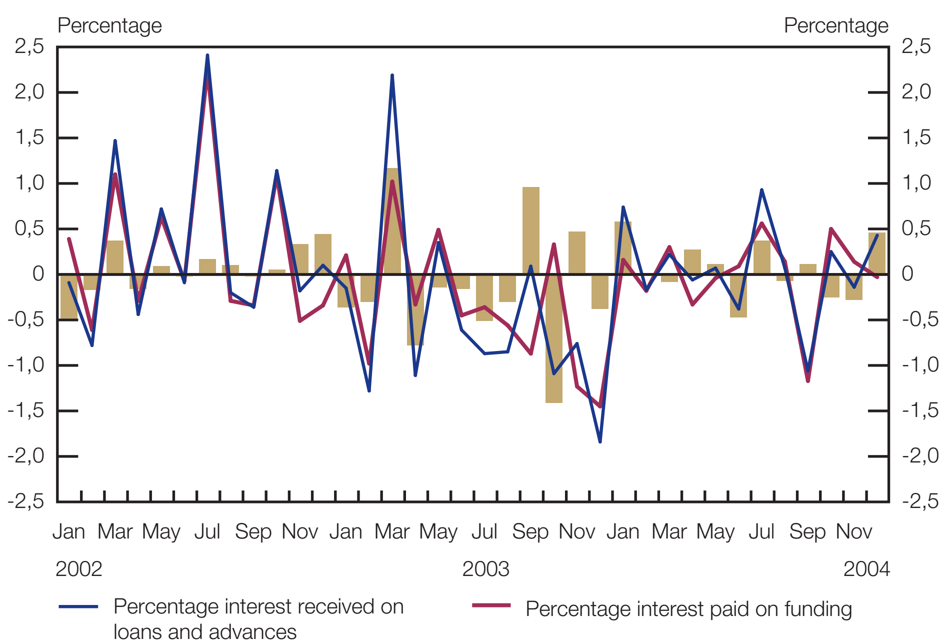


Figure 17: Percentage-point change in interest margin



The operating expenses of the total banking sector increased by 12,5 per cent in 2004 (9,8 per cent in 2003), mainly as a result of an increase of 17,1 per cent in total staff expenses, which accounted for about 55,4 per cent (2003: 52 per cent) of total operating expenses. Figure 18, graphically depicts the percentage change (measured over a 12-month period) in total staff expenses, the number of employees and the number of branches for the past three years. During 2004, both the number of

operating expenses increased

employees and number of branches increased

employees in the banking sector and the number of branches increased, by 1,1 per cent and 12,8 per cent, respectively, as opposed to a decrease of 5,4 per cent and 1,9 per cent, respectively, during 2003. An increase in administrative expenses also contributed to the growth in operating expenses. Compared to the previous year, administrative expenses increased by 9,7 per cent and accounted for 40,6 per cent (41,7 per cent in 2003) of total operating expenses in 2004.

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

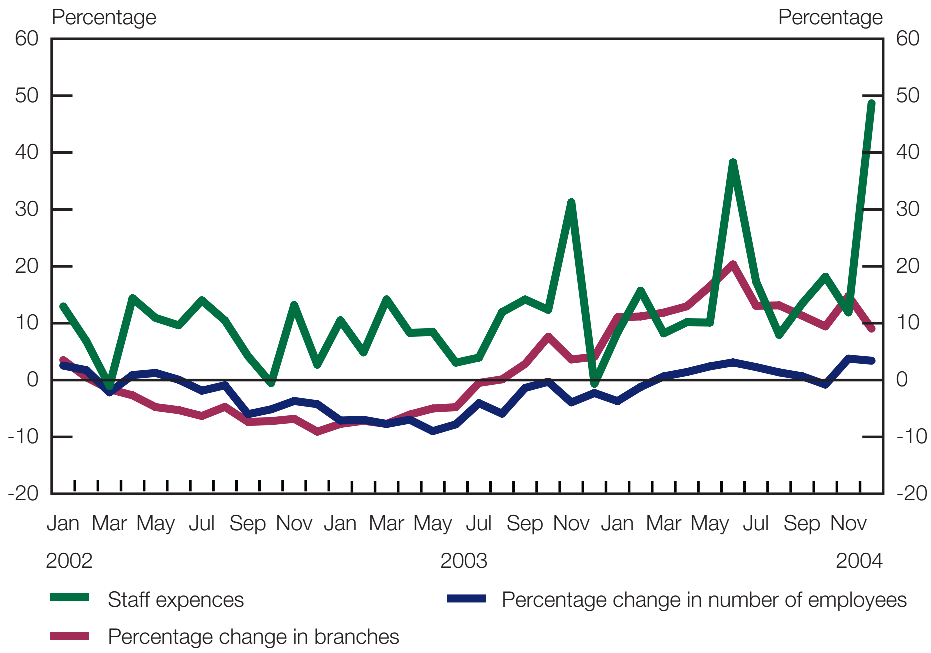
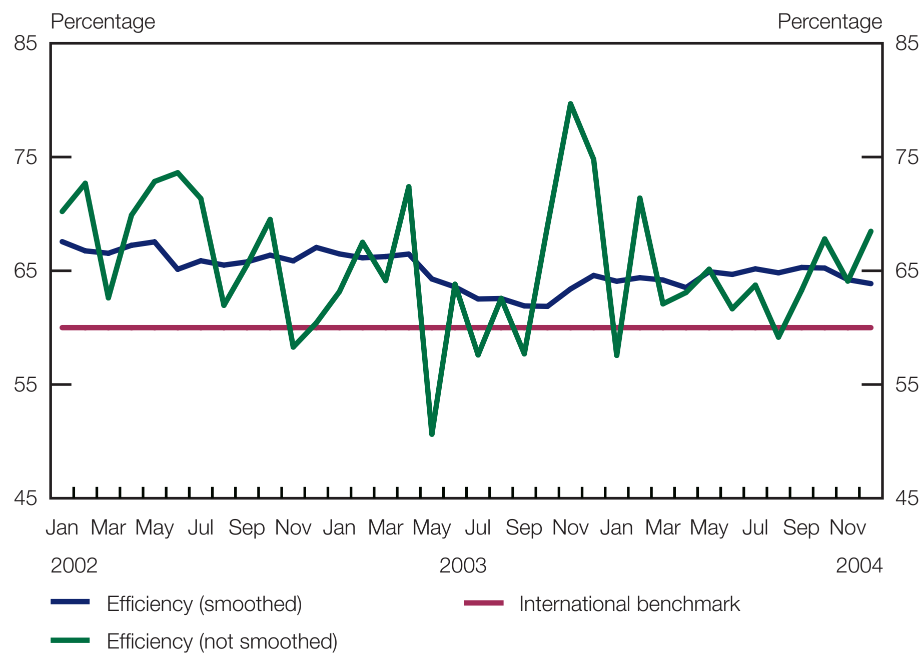


Figure 19: Efficiency ratio of South African banking sector



A widely used indicator of the efficiency of the banking sector is the ratio, expressed as a percentage, of operating expenses to total income. The lower the ratio is, the more efficient a bank is considered to be. Currently, it is considered desirable for the ratio to be 60 per cent, and a ratio of below 50 per cent is considered to indicate a highly efficient institution or sector.

Figure 19 reflects the efficiency ratio of the South African banking sector for the past three years. Smoothed over a 12-month period, the efficiency ratio of the banking sector improved from 64,6 per cent in December 2003 to 63,9 per cent in December 2004. The improvement in the efficiency ratio in December 2004 (compared to December 2003) can be attributed mainly to an increase in total income (from R5,5 billion to R7,3 billion).

the efficiency ratio improved

The actual values of, and the percentage growth (smoothed over a 12-month period) in, the determinants of the efficiency ratio are graphically illustrated in figure 20. Growth of 13,8 per cent in total income offset the increase of 12,5 per cent in operating expenses, resulting in an improved efficiency ratio for the banking sector (see figure 19) during 2004.

Figure 20: Determinants of efficiency ratio

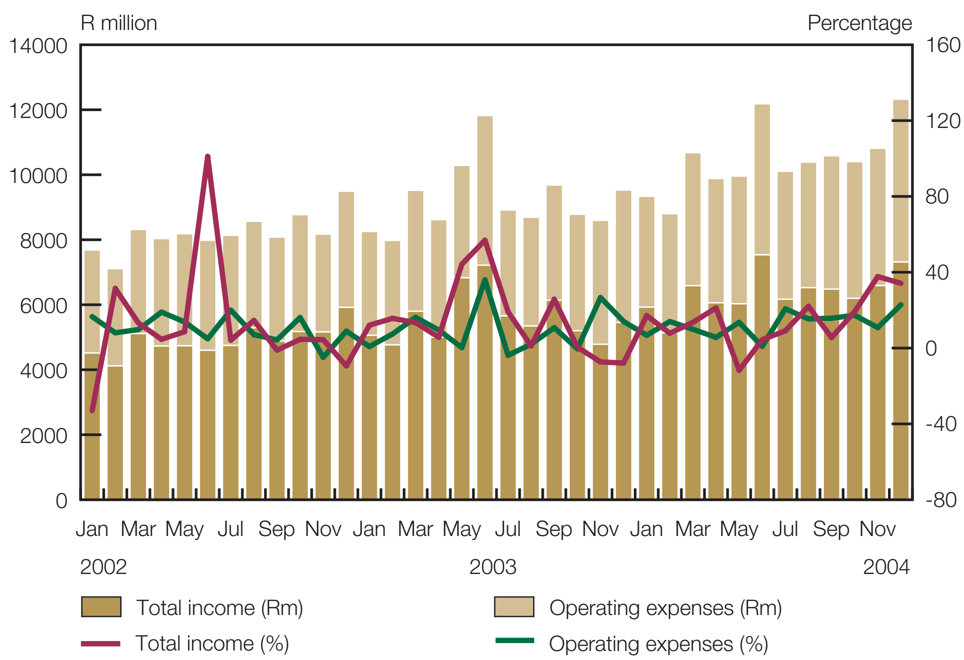


Figure 21 graphically depicts the efficiency ratio of the various categories (according to asset size) of banking institution for the year ended December 2004. The graph shows that, in December 2004, banks with assets of above R5 billion, but below R10 billion, were the most efficient, with an efficiency ratio of 55,2 per cent, followed by banks with assets of below R1 billion (65,9 per cent). The least efficient were banks with asset values of above R1 billion, but below R5 billion. It should be borne in mind, however, that these figures are compiled for one month at a time. Because operating expenses and total-income components can fluctuate drastically from one month to another, the average efficiency ratios of different banks will fluctuate accordingly.

Figure 21: Efficiency ratio of banking institutions according to asset size – December 2004

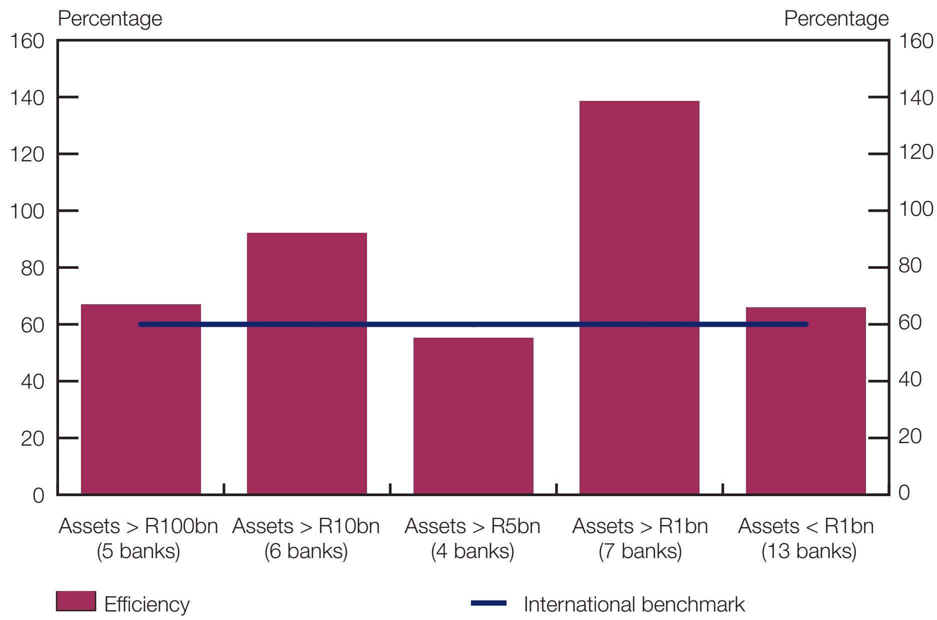
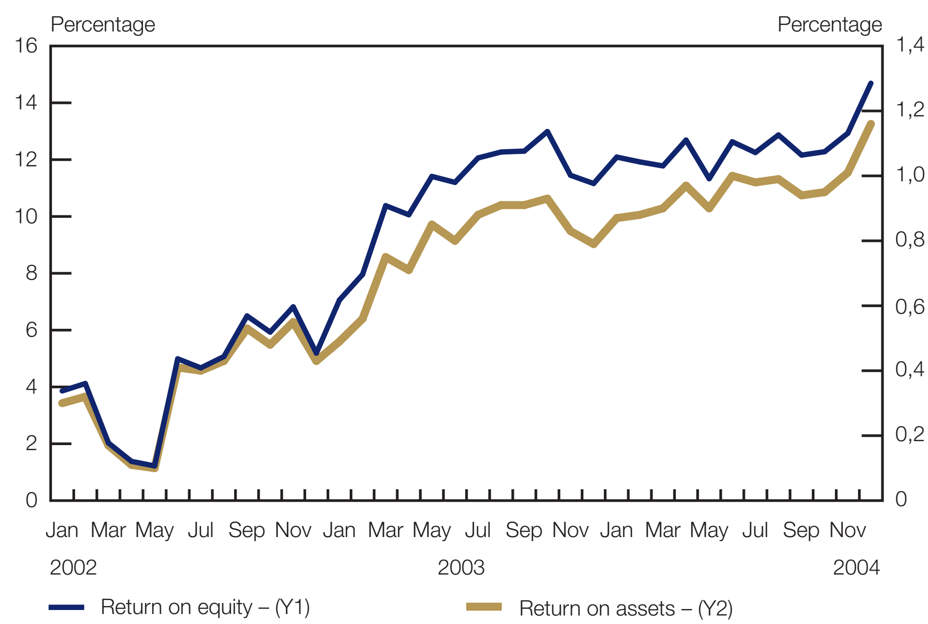


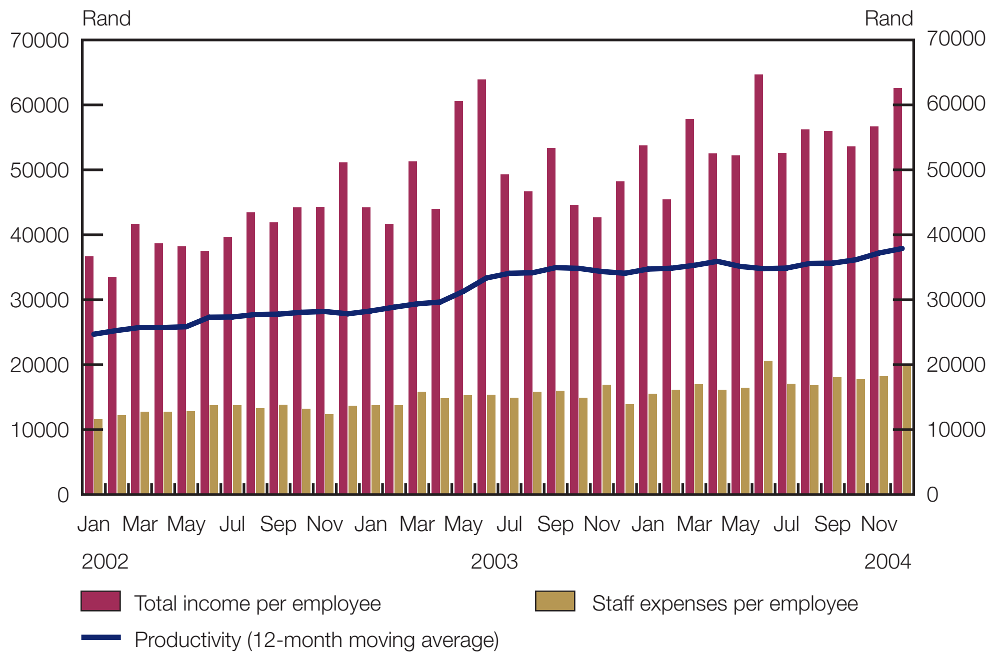
Figure 22: Profitability (12-month smoothed average)



improvement in both the ROE and the ROA continued

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. The banking sector achieved a before-tax return of approximately 1,5 per cent on total assets (1,2 per cent in 2003). For 2004, an after-tax return of approximately 1,2 per cent on total assets (0,8 per cent for 2003) was reported, whereas an after-tax return of approximately 14,7 per cent was reported on net qualifying capital and reserves (11,2 per cent for 2003). The significant improvement in both the ROE and the ROA during 2003 continued gradually during 2004, owing to higher net income after tax being recorded from March 2004.

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 2004, the total income generated per employee was on average R55 362, as opposed to R49 165 in 2003. The average staff expenses per employee, on the other hand, were R17 475 in 2004 (R15 088 in 2003). Also reflected in figure 23 is the average (smoothed over a 12-month period) net income generated per employee. The net income generated per employee was R37 887 in 2004, as opposed to R34 076 in 2003.

4.4 Liquidity risk

Liquidity risk is the potential risk of an entity not being able to meet payments when they fall due, as a result of a duration mismatch between its maturing assets and liabilities.

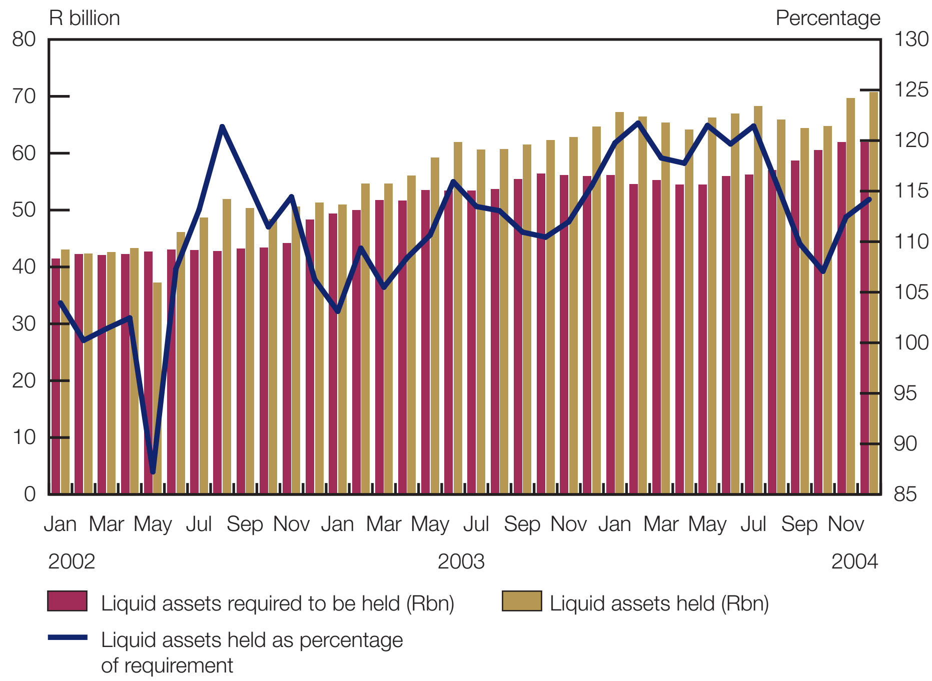
An evaluation of liquidity-risk management involves an analysis of the short-term liquidity mismatch in relation to total funding and the trend thereof, an assessment of the sources of liquid funds available for funding such mismatches and a consideration of the volatility of the funding sources available.

Statutory liquidity

The liquid-asset requirement is calculated on total liabilities less capital and reserves (referred to as adjusted liabilities). The total liabilities are adjusted, owing to the use of cash-management schemes by banks' clients and the setting off of some asset balances against liability balances. Figure 24 shows that the average daily amount of liquid assets held by banks exceeded the statutory liquid-asset requirement throughout 2004. For the month of December 2004, the average daily amount of liquid assets represented 114,2 per cent of the statutory liquid-asset requirement, compared to 115,6 per cent for December 2003.

liquid assets held exceeded the statutory requirement

Figure 24: Statutory liquid assets – actual versus required



Approximately 54,4 per cent (2003: 52 per cent) of the average daily amount of liquid assets held during December 2004 consisted of securities issues by virtue of section 66 of the Public Finance Management Act, 1999, whereas 28,4 per cent (2003: 27,8 per cent) consisted of Treasury bills of the Republic of South Africa, and 1,1 per cent (2003: 1,1 per cent) consisted of short-term bills issued by the Land Bank. Cash-management schemes managed on behalf of banks' clients increased by about 18,1 per cent (2003: 17,3 per cent). Set-off increased by 50,4 per cent (2003: 27,3 per cent), measured over a 12-month period, as at the end of December 2004 and represented approximately 11,2 per cent (2003: 8,7 per cent) of adjusted liabilities.

Volatility of funding

total wholesale deposits constituted 94,8 per cent of deposits

As at 31 December 2004, total wholesale deposits constituted 94,8 per cent (2003: 95,3 per cent) of total wholesale and retail deposits. As can be seen in figure 25, wholesale deposits shorter than three months represented 57,5 per cent of total funding for December 2004.

The aggregate amount of the 10 largest depositors of individual banks averaged R194,3 billion (2003: R147,6 billion) during 2004. Large depositors constituted 17,1 per cent (2003: 14,3 per cent) of the aggregate amount of total funding-related liabilities to the public at the end of December 2004 (see figure 25).

Short-term wholesale deposits (0 to 31 days) represented 43,3 per cent of total funding in December 2004, as opposed to 51,1 per cent for December 2003 (see figure 26). As at the end of December 2004, wholesale deposits shorter than seven days and wholesale deposits between eight and 31 days represented 31,4 per cent and 12 per cent, respectively, of total funding.

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

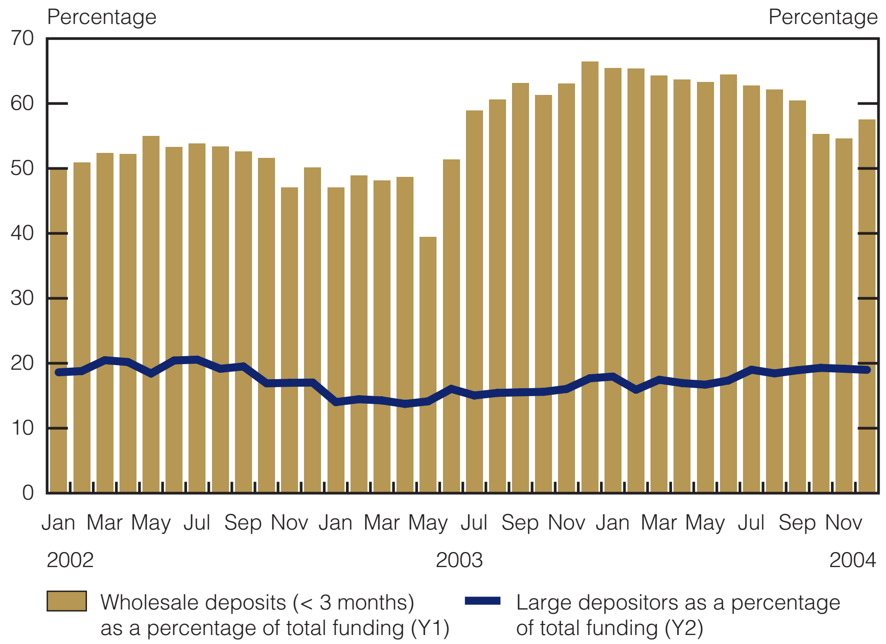


Figure 26: Short-term wholesale deposits

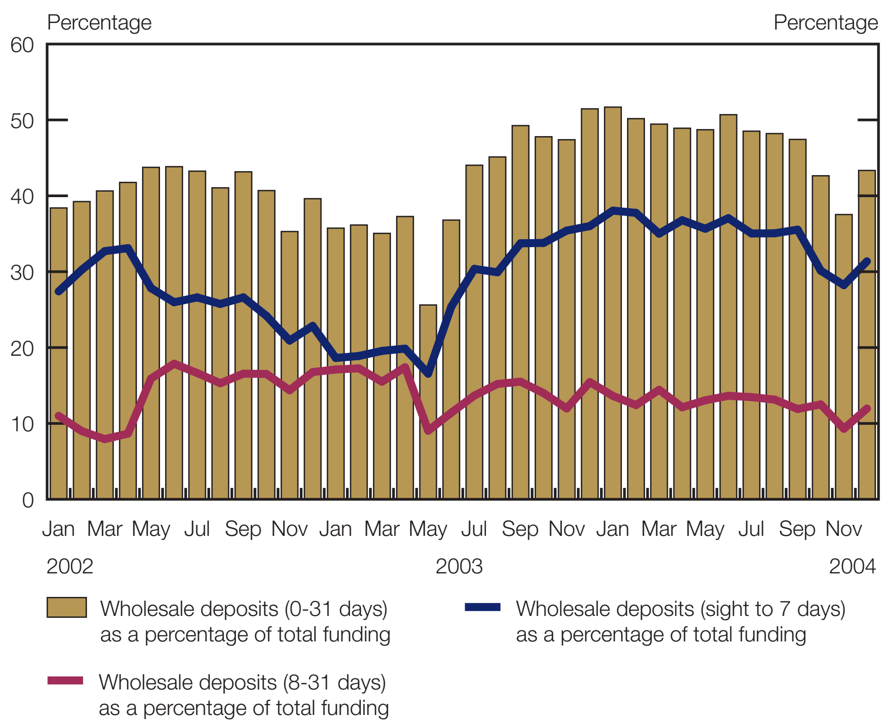
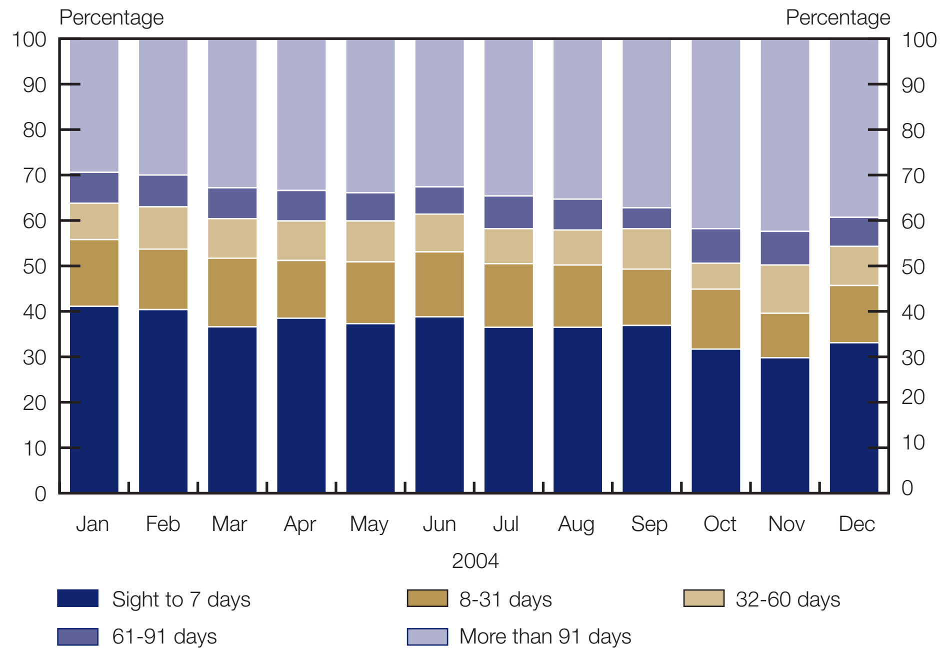


Figure 27 depicts the composition (measured over a 12-month period) of wholesale deposits according to maturity for 2004. Wholesale deposits with a maturity greater than 91 days and wholesale deposits with a maturity shorter than seven days constituted the largest portion of wholesale deposits in December 2004, namely, 39,3 per cent and 33,1 per cent, respectively. Wholesale deposits with a maturity of 32 to 60 days constituted only a small portion of total wholesale deposits, namely 8,6 per cent, followed by deposits with a maturity of eight to 31 days at 12,6 per cent of total wholesale deposits. Wholesale deposits with a maturity of 61 to 91 days constituted the smallest portion of total wholesale deposits, namely, 6,4 per cent.

Figure 27: Composition of wholesale deposits according to maturity



4.5 Market risk

Market risk is the risk that the market price of an asset may change, which may result in a loss to the reporting bank on realisation of that asset.

turnover in derivatives fluctuated

Turnover in derivatives fluctuated during the year, from approximately R577,3 billion in January 2004 to R659,7 billion in October 2004 and to R428,3 billion in December 2004 (see figure 28). Forward contracts decreased from R1 577,2 billion in January 2004 to a level of R1 203,6 billion in December 2004.

total unexpired derivative contracts decreased

Figure 29 reflects the value and growth (measured over a 12-month period) in total unexpired derivative contracts. The total value of unexpired exchange-traded derivatives amounted to R126,8 billion at the end of December 2004 (R433,3 billion at the end of December 2003) or 8,5 per cent of the banking sector's total assets (31,3 per cent at the end of December 2003). Average monthly balances of exchange-traded derivative contracts, computed on a quarterly basis, were reported as R229,1 billion, R193,9 billion, R192,1 billion and R187,5 billion for the quarters ended March 2004, June 2004, September 2004 and December 2004, respectively. Compared to 2003, total unexpired derivative contracts decreased by 12 per cent. As at 31 December 2004, the total value of unexpired derivative contracts was R7 711,8 billion (December 2003: R8 763,9 billion), representing 514,8 per cent of total assets (December 2003: 635,2 per cent). As at 31 December 2004, over-the-counter derivatives accounted for 98,4 per cent (2003: 95,1 per cent) of all unexpired derivative contracts.

Figure 28: Turnover in derivative contracts

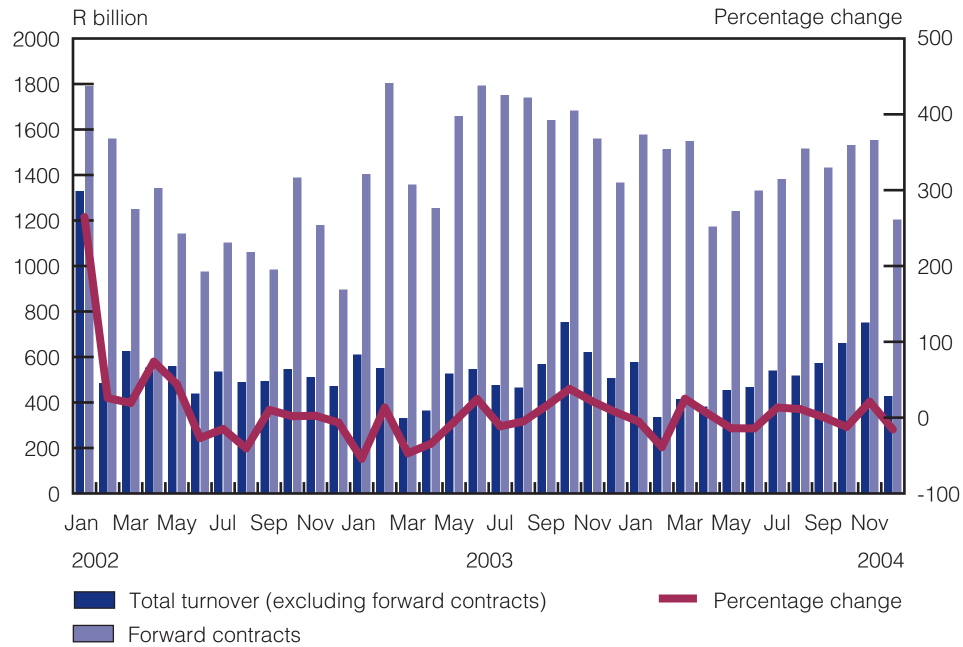
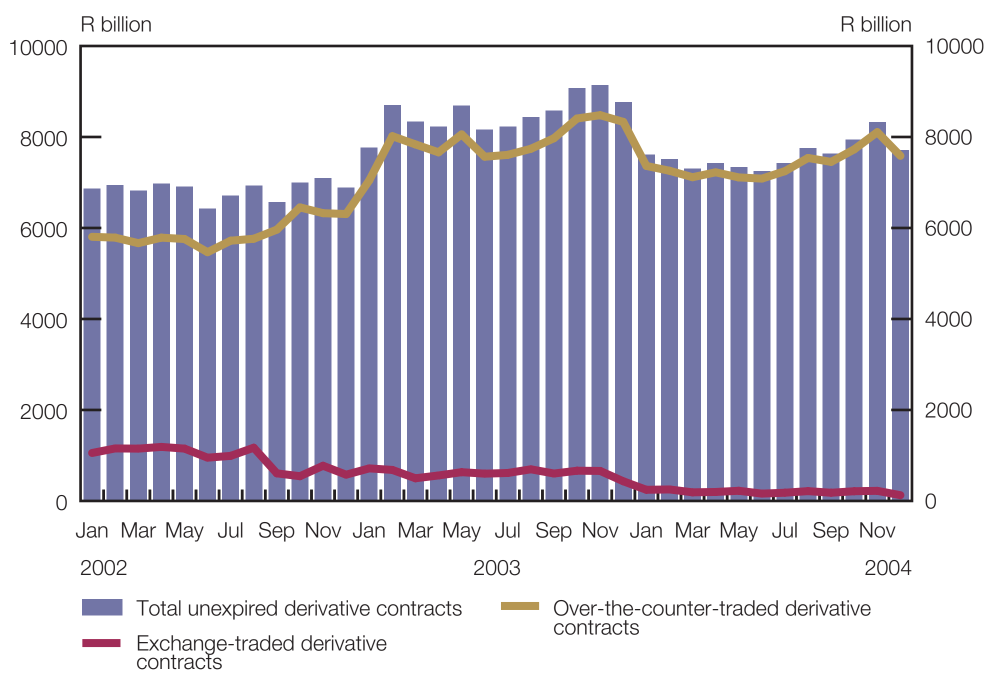


Figure 29: Total unexpired derivative contracts



4.6 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

gross overdues decreased

Figure 30 graphically depicts the level of total overdues for the banking sector for the period from January 2002 to December 2004. Over the past two years, gross overdues decreased markedly. From December 2003 to the end of December 2004, gross overdues decreased from R23,8 billion to R20,4 billion, representing a net decrease of R3,4 billion.

Figure 30: Total banking-sector overdues

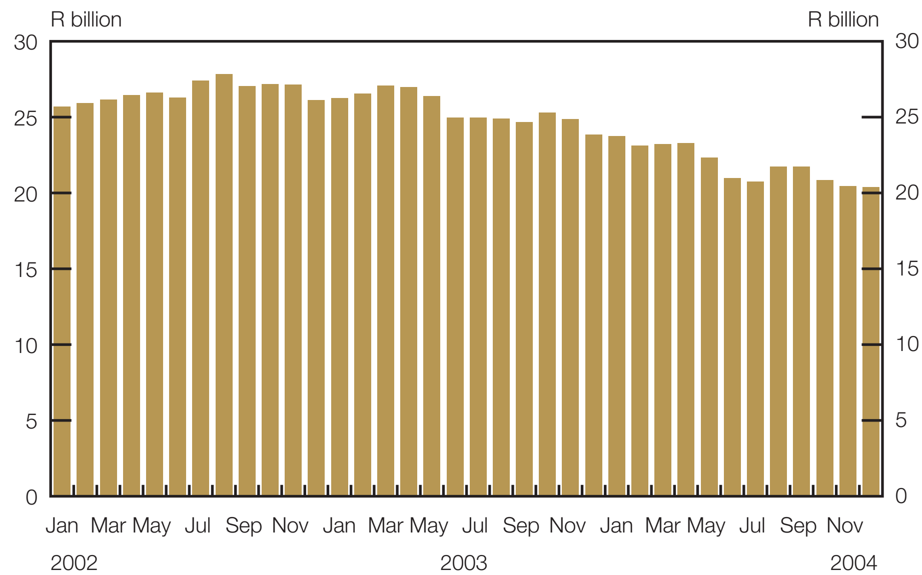
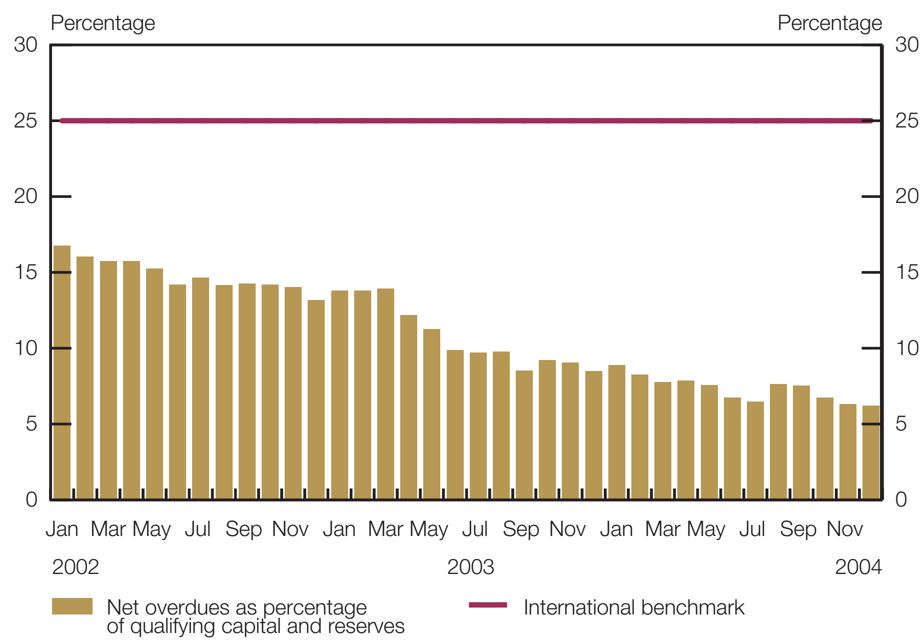


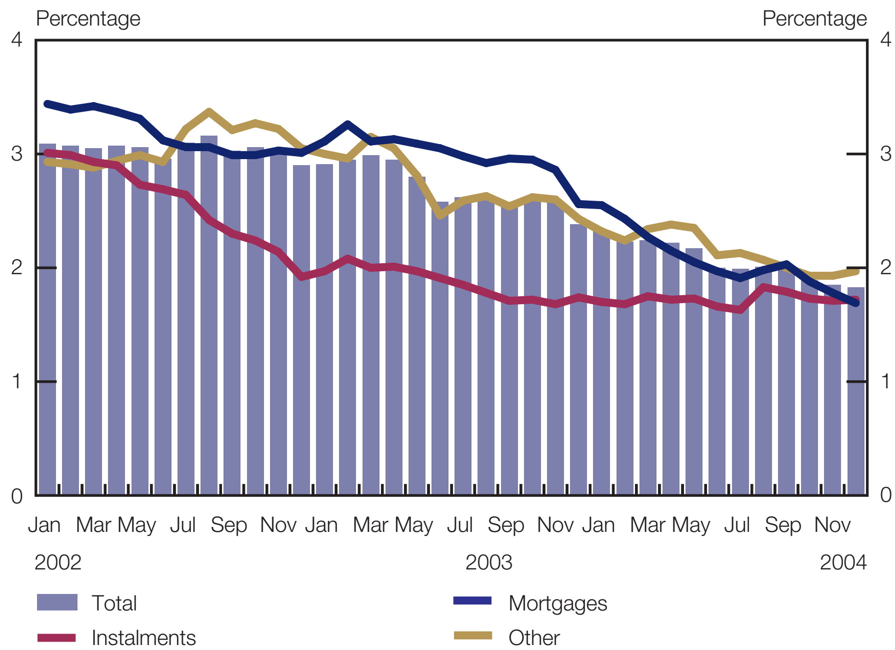
Figure 31: Net overdues as a percentage of net qualifying capital and reserves



The ratio of net overdues (that is, gross overdues less specific provisions) to net qualifying capital and reserves is an indicator of the extent to which credit risk has materialised. 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 from 12,2 per cent in April 2003 to 8,5 per cent in December 2003. By the end of December 2004, this ratio had decreased to 6,2 per cent.

net overdues decreased

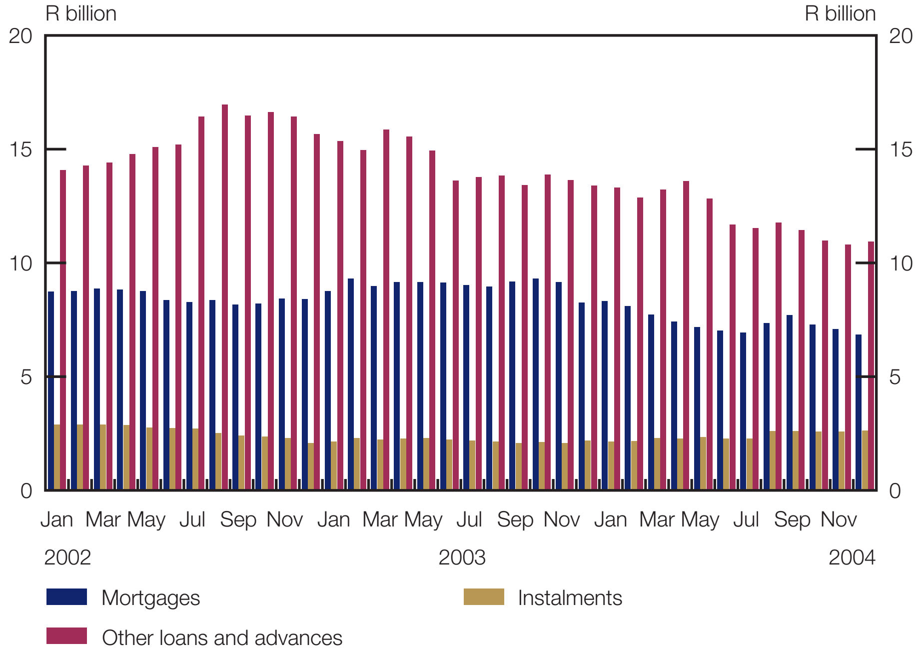
Figure 32: Composition of overdues (as a percentage of loans and advances)



Expressed as a percentage of total loans and advances (see figure 32), gross amounts overdue improved from 2,9 per cent in December 2002 to 2,4 per cent in December 2003. By the end of December 2004, this ratio had improved to 1,8 per cent. From December 2003 to December 2004, mortgage loans overdue (as a percentage of total mortgage loans and advances) and other loans and advances (as a percentage of total other loans and advances) improved from 2,6 per cent to 1,7 per cent and from 2,4 per cent to 2 per cent, respectively. Instalment sales overdue (as a percentage of total instalment sales) improved slightly, from 1,74 per cent in 2003 to 1,72 per cent in 2004.

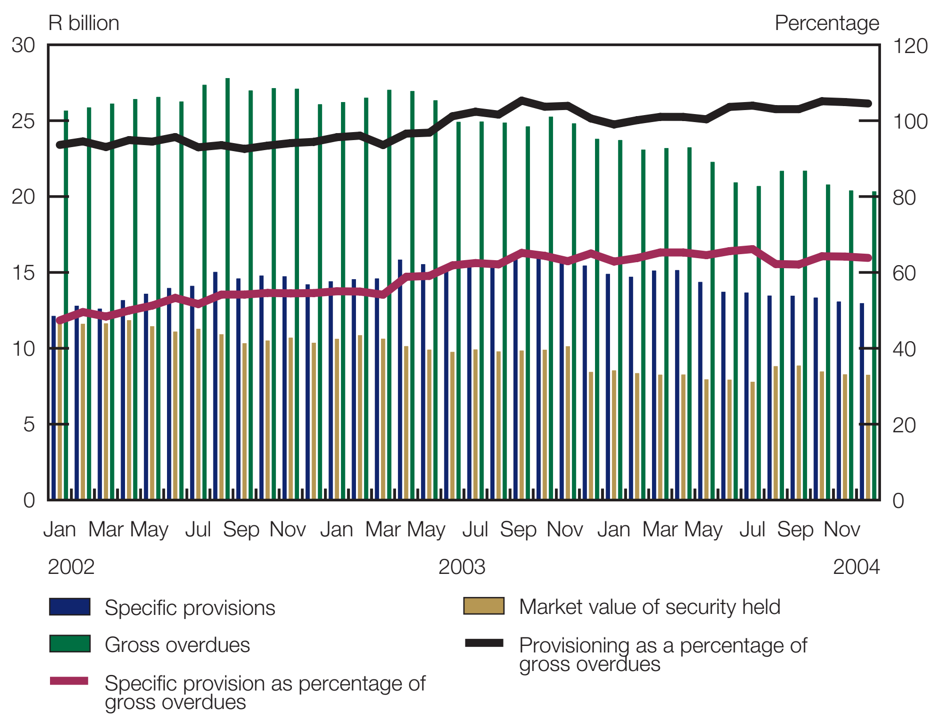
Figure 33 graphically depicts an analysis of overdue accounts for the period from January 2002 to December 2004. The gross overdues in respect of other loans and advances decreased from R13,4 billion in December 2003 to R10,9 billion in December 2004. Overdues in respect of other loans and advances still constituted the biggest portion of amounts overdue and, by the end of December 2004, exceeded mortgage accounts overdue by R4,1 billion. Mortgage accounts overdue decreased from R8,3 billion in December 2003 to R6,9 billion in December 2004, whereas instalment accounts overdue increased from R2,2 billion to R2,6 billion.

Figure 33: Analysis of overdue accounts



Provisioning policy for bad and doubtful loans and advances

Figure 34: Adequacy of provisions



provisions remained adequate

Figure 34 indicates that provisions by banks remained adequate throughout 2004. By the end of December 2004, specific provisions covered about 63,8 per cent (December

2003: 65 per cent) of all overdues. At the end of December 2004, specific provisions and the market value of security held covered about 104,5 per cent of overdues, compared to 100,6 per cent in December 2003.

As at the end of December 2004, specific provisions, by loan type and expressed as a percentage of overdue amounts, were as follows:

– Mortgages - 38 per cent (41 per cent on 31 December 2003).
– Instalment sales - 56 per cent (68 per cent on 31 December 2003).
– Other loans and advances - 82 per cent (80 per cent on 31 December 2003).

Figure 35: Specific provisions as percentage of total overdues

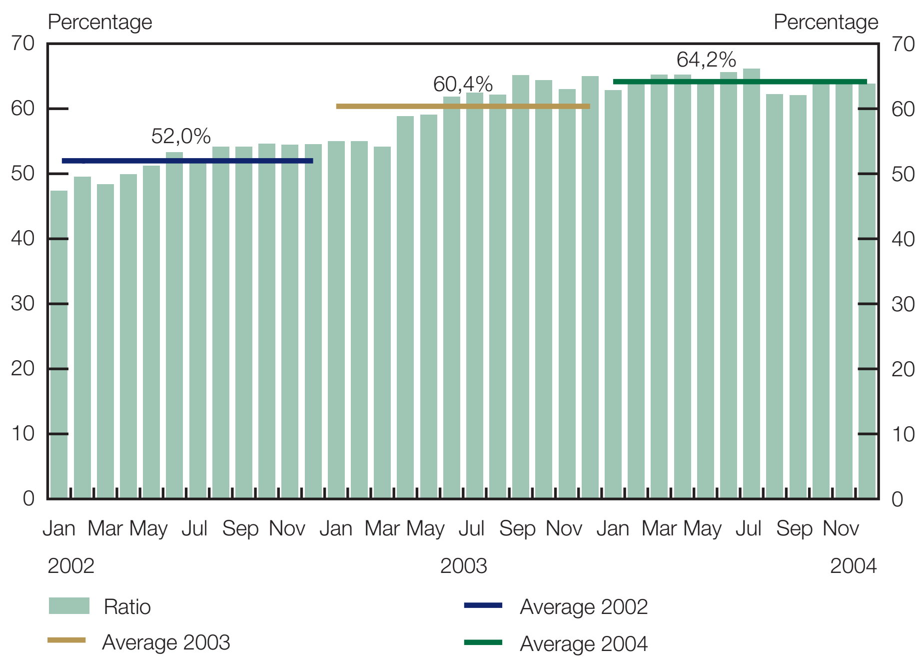


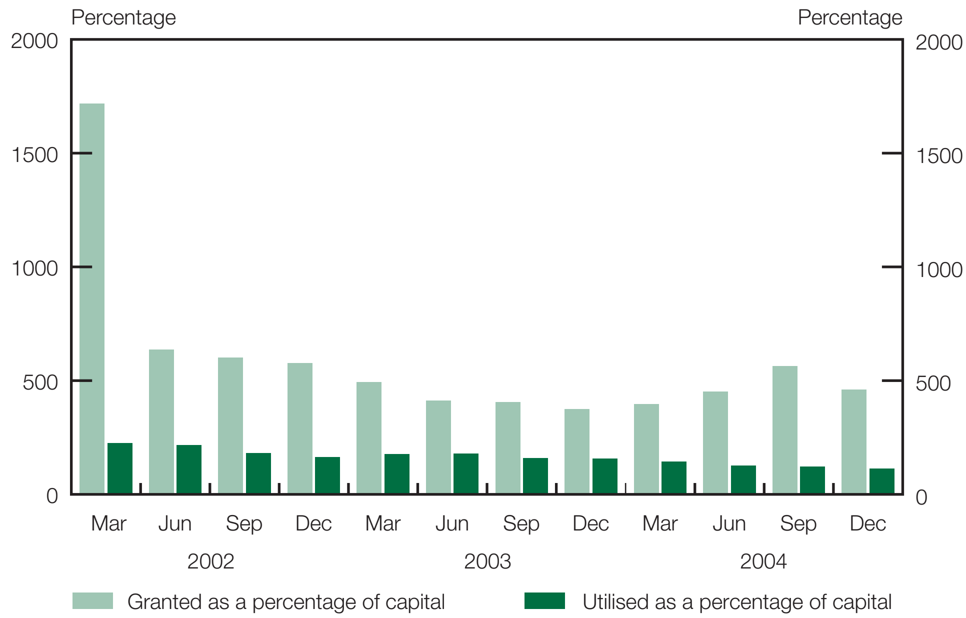
Figure 35 graphically depicts the relationship of specific provisions to total gross overdues for the past three years. On average, about 64,2 per cent of overdues were covered by specific provisions during 2004 (2003: 60,4 per cent).

Large exposures

In terms of the Regulations relating to Banks, large exposures granted that exceed 10 per cent of capital and reserves should not exceed, in total, 800 per cent of capital and reserves, and any single exposure exceeding 25 per cent should be an impairment against the capital of the bank. 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 2002 to December 2004 is illustrated graphically in figure 36. The decrease in large exposures granted from March 2002 to June 2002 was due mainly to a reporting correction by one of the A1-rated banks.

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



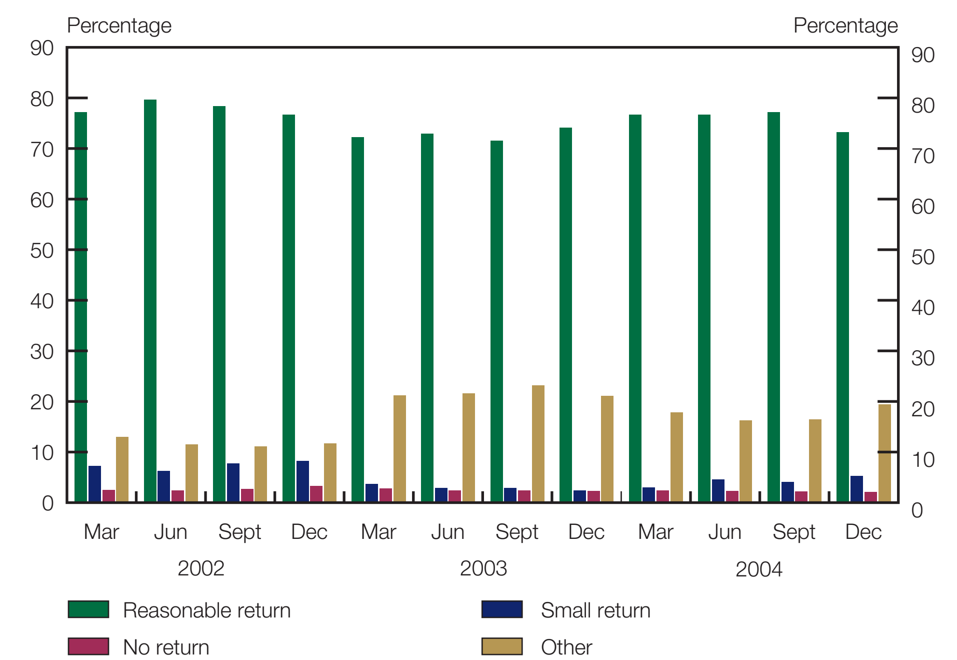
large exposures granted increased

overdues in respect of large exposures decreased

Large exposures granted increased by R67 million, to a level of R485 million in June 2004 (representing 452,7 per cent of net qualifying capital and reserves), compared to R367,7 million (representing 374,6 per cent of net qualifying capital and reserves) in December 2003. By the end of December 2004, large exposures granted had increased to a level of R547 million (representing 461,5 per cent of net qualifying capital and reserves). Overdues in respect of large exposures decreased from R92,8 million in December 2003 to R85,7 million in June 2004. By the end of December 2004, overdues in respect of large exposures had decreased to R37,2 million, and specific provisions covered 10 per cent of overdues. The remaining overdues were covered by the value of the security held by banks.

Quality of assets

Figure 37: Asset performance

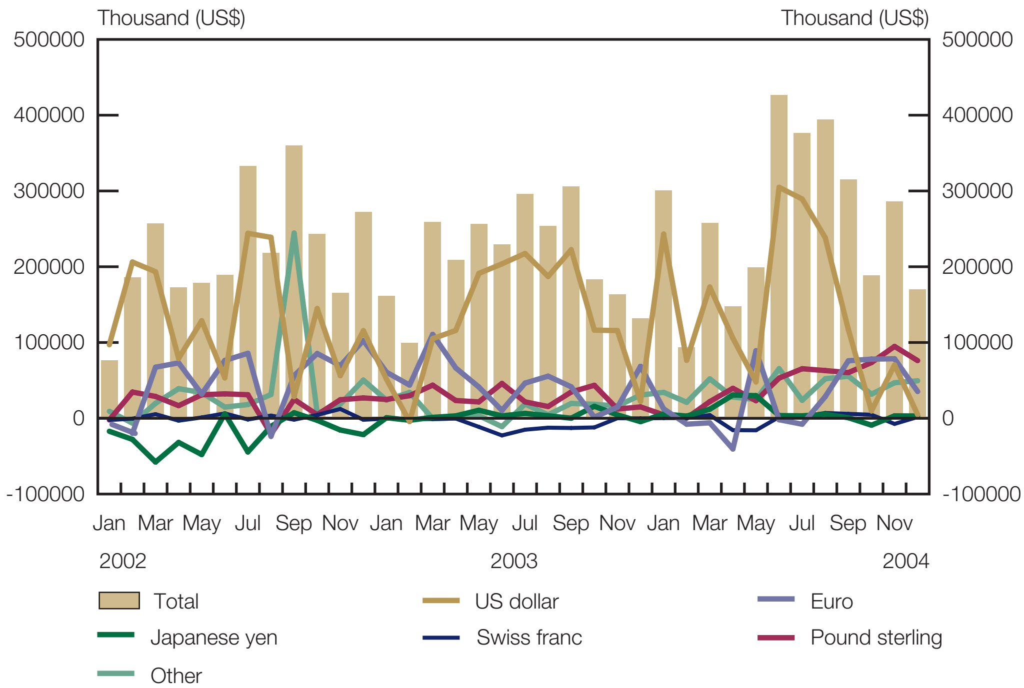


By the end of December 2004, about 73,2 per cent of the banking sector's assets (December 2003: 74,1 per cent) earned a reasonable return, whereas 5,3 per cent (December 2003: 2,4 per cent) earned a small return, and the remaining 21,5 per cent (December 2003: 23,5 per cent), including infrastructure, earned no return (see figure 37).

4.7 Currency risk

In 2004, 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 0,89 per cent in December 2003 and, by the end of December 2004, the ratio had decreased slightly, to 0,86 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 December 2003 to December 2004, the maximum net open position in foreign currency after hedging decreased from 1,3 per cent to 0,9 per cent and remained safely within the limit of 10 per cent of net qualifying capital and reserves (see figure 39).

maximum net open position decreased

Figure 40 graphically depicts the position in foreign-currency instruments for the period from January 2002 to December 2004, whereas figure 41 depicts the liquidity-maturity structure of foreign assets, liabilities and commitments for the aforementioned period. From June 2003, both the physical position and the net forward position in foreign-currency instruments increased noticeably. An analysis of the liquidity-maturity structure of foreign assets, liabilities and commitments indicates that banks maintained a small net open foreign-currency position during the past three years.

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)

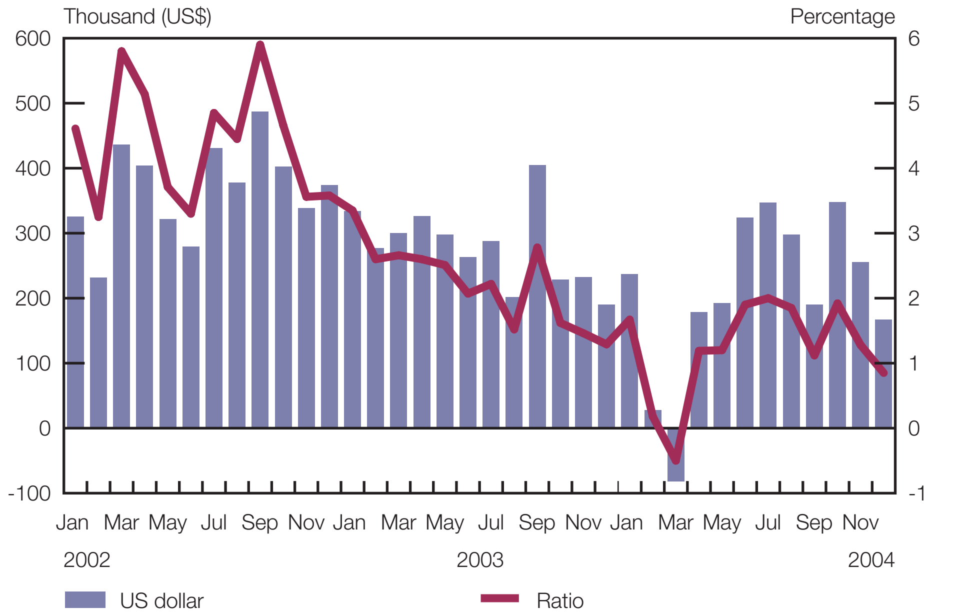


Figure 40: Position in foreign-currency instruments

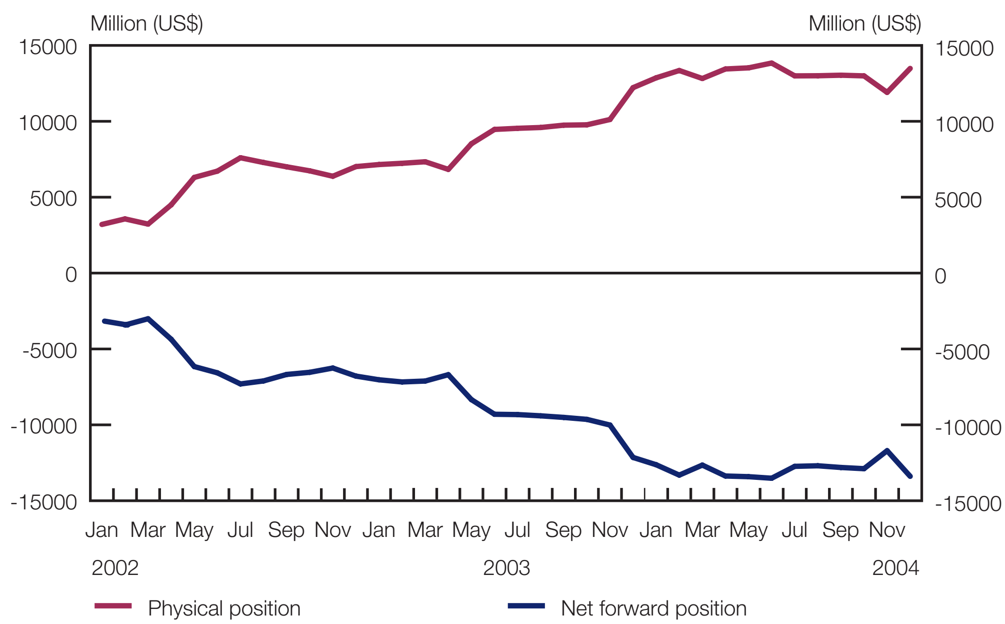
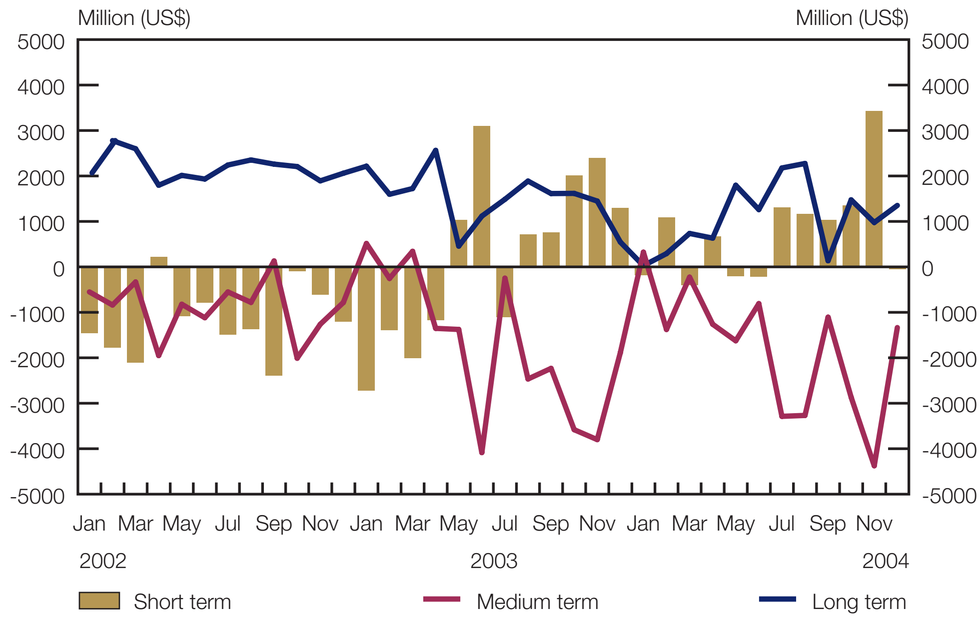


Figure 41: Liquidity-maturity structure (US dollars)



Appendix 1

Organisational structure of the Bank Supervision Department

Appendix 2

Registered banks and mutual banks as at 31 December 2004

Registered banks

Institution	Address	Total assets at 31 December		Percentage annual growth
		2003 R million	2004 R million	
1. ABSA Bank Limited	P O Box 7735, Johannesburg, 2000	260 686	295 803	13,5
2. African Bank Limited	Private Bag X170, Halfway House, 1685	6 095	7 332	20,3
3. Albaraka Bank Limited	P O Box 4395, Durban, 4000	862	983	14,0
4. Capitec Bank Limited	P O Box 12451, Die Boord, Stellenbosch, 7613	410	728	77,5
5. FirstRand Bank Limited	P O Box 786273, Sandton, 2146	255 533	263 262	3,0
6. Habib Overseas Bank Limited	P O Box 62369, Marshalltown, 2107	290	343	18,3
7. HBZ Bank Limited	P O Box 48449, Qualbert, 4078	650	793	22
8. Imperial Bank Limited	P O Box 3567, Edenvale, 1610	13 003	16 912	30,1
9. Investec Bank Limited	P O Box 785700, Sandton, 2146	83 837	72 396	-13,6
10. Marriott Merchant Bank Limited	P O Box 3211, Durban, 4000	688	737	7,1
11. Mercantile Bank Limited	P O Box 782699, Sandton, 2146	2 217	2 734	23,3
12. Nedbank Limited	P O Box 1144, Johannesburg, 2000	280 541	308 955	10,1
13. Peoples Bank Limited	P O Box 1144, Johannesburg, 2000	13 638	12 926	-5,2
14. Rennies Bank Limited	P O Box 185, Johannesburg, 2000	317	335	5,6
15. Sasfin Bank Limited	P O Box 95104, Grant Park, 2051	536	752	40,2
16. TEBA Bank Limited	Private Bag X174, Halfway House, 1685	1 891	2 219	17,3
17. The South African Bank of Athens Limited	P O Box 7781, Johannesburg, 2000	518	618	19,2
18. The Standard Bank of South Africa Limited	P O Box 7725, Johannesburg, 2000	318 306	385 197	21

Appendix 2

Registered banks and mutual banks as at 31 December 2004 (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
		2003 R million	2004 R million	
1. MEEG Bank Limited	P O Box 429, East London, 5200	767	801	4,4

Registered mutual banks

Institution	Type of registration	Address	Total assets as at 31 December		Percentage annual growth
			2003 R million	2004 R million	
1. GBS Mutual Bank	Final	P O Box 114, Grahamstown, 6140	351	421	20,1
2. VBS Mutual Bank	Provisional	P O Box 3618, Louis Trichardt, 0920	199	209	5,4

Bank in final liquidation

Institution	Liquidator	Date of order
1. Islamic Bank Limited	Mr A D Wilkins of Deloitte & Touche	13 January 1998
2. Regal Tresaury Private Bank Limited	Mr T A P du Plessis of D & N Trust and Mr J Pema of Sekela Antrust (Pty) Limited	10 February 2004

Appendix 3

Local bank branches of foreign banks as at 31 December 2004

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 Limited Johannesburg Branch (trading as 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. Calyon (trading as Calyon Corporate and Investment Bank)	Private Bag X10007, Sandton, 2146
7. China Construction Bank Corporation – Johannesburg Branch	Private Bag X10007, Sandton, 2146
8. Citibank N.A.	P O Box 1800, Saxonwold, 2132
9. Commerzbank Aktiengesellschaft	P O Box 860, Parklands, 2121
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 Box 782080, 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 2004 to 31 December 2004

Name changes

	Previous name	New name	Date of change
1.	Bank of China Limited (trading as Bank of China Johannesburg Branch)	Bank of China Limited Johannesburg Branch (trading as Bank of China Johannesburg Branch)	15 December 2004
2.	China Construction Bank – Johannesburg Branch	China Construction Bank Corporation – Johannesburg Branch	15 September 2004
3.	Crédit Agricole Indosuez	Calyon Coroporate and Investment Bank	1 May 2004

Cancellation of registration

	Institution	Date of cancellation
1.	Gensec Bank Limited	21 June 2004
2.	MLS Bank Limited	1 April 2004
3.	New Republic Bank Limited	30 January 2004
4.	Saambou Bank Limited	30 April 2004

Appendix 5

Registered controlling companies as at 31 December 2004

	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 Box 786273, Sandton, 2146
5.	Investec Limited	P O Box 785700, Sandton, 2146
6.	Marriott Holdings Limited	P O Box 3211, Durban, 4000
7.	Mercantile Lisbon Bank Holdings Limited	P O Box 782699, Sandton, 2146
8.	Nedcor Limited	P O Box 1144, Johannesburg, 2000
9.	NRB Holdings Limited	P O Box 4928, Durban, 4000
10.	Rennies Bank Holdings Limited	P O Box 87274, Houghton, 2041
11.	Sasfin Holdings Limited	P O Box 95104, Grant Park, 2051
12.	Standard Bank Group Limited	P O Box 7725, Johannesburg, 2000
13.	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 Espirito Santo e Comercial de Lisboa	P O Box 749, Bruma, 2026
5.	Banco Privado Português, SA	P O Box 78407, Sandton, 2146
6.	Banco Totta & Açores SA	P O Box 309, Bruma, 2026
7.	Bank Leumi Le-Israel BM	Private Bag X41, Saxonwold, 2132
8.	Bank of Cyprus Group	P O Box 652176, Benmore, 2010
9.	BNP Paribas Johannesburg	P O Box 653002, Benmore, 2010
10.	Barclays Private Bank Limited	P O Box 1542, Saxonwold, 2132
11.	Bayerische Hypo- und Vereinsbank AG	P O Box 1483, Parklands, 2121
12.	Belgolaise Bank	P O Box 652065, Benmore, 2010
13.	China Everbright Bank, South African Representative Office	P O Box 78345, Sandton, 2146
14.	Commerzbank AG	P O Box 860, Parklands, 2121
15.	Crédit Industriel et Commercial	302 Portofino, 30 9th Street, Killarney, 2193
16.	Credit Suisse (South Africa) (Pty) Limited	P O Box 458, Green Point, 8051
17.	Credit Suisse First Boston (Europe) Limited	Private Bag X9911, Sandton, 2146
18.	Dresdner Bank AG	P O Box 413355, Craighall, 2024
19.	Dresdner Kleinwort Wasserstein Limited	P O Box 413355, Craighall, 2146
20.	Export-Import Bank of India	P O Box 2018, Saxonwold, 2132
21.	First Bank of Nigeria	P O Box 784796, Sandton, 2146
22.	Fortis Bank (Nederland) N.V.	P O Box 652065, Benmore, 2010
23.	Gerrard Private Bank (Isle of Man) Limited	P O Box 787549, Sandton, 2146
24.	Gerrard Private Bank (Jersey) Limited	P O Box 787549, Sandton, 2146
25.	Hellenic Bank Limited	P O Box 783392, Sandton, 2146
26.	ING Bank (Switzerland) Limited	P O Box 65660, Benmore, 2010
27.	Kredietbank SA Luxembourgeoise	P O Box 1163, Stellenbosch, 7599
28.	Laiki Banking Group	Suite #199, Private Bag X9916, Village Walk, Sandton, 2146
29.	Millenium BCP	P O Box 273, Bruma, 2026
30.	N M Rothschild & Sons (CI) Limited	1st Floor, Kagiso House, 16 Fricker Road, Illovo Boulevard, 2196
31.	Natexis Banques Populaires	P O Box 1414, Morningside, 2057
32.	National Bank of Egypt	P O Box 55402, Nolrthlands, 2116
33.	Royal Bank of Canada Europe Limited	P O Box 784568, Sandton, 2146
34.	Société Générale Representative Office for Southern Africa	P O Box 2805, Saxonwold, 2132
35.	Sumitomo Mitsui Banking Corporation	Private Bag X134, Bryanston, 2021
36.	The Bank of New York, Johannesburg Representative Office	Postnet Suite 100, Private Bag X43, Sunninghill, 2157
37.	The Bank of Tokyo-Mitsubishi, Ltd	P O Box 78519, Sandton, 2146
38.	The Representative office for Southern and Eastern Africa of the Export-Import Bank of China	5th Floor, Fedsure Towers, 13 Fredman Drive, Sandown, 2196
39.	The Royal Bank of Scotland	Park Ridge Office Building, Block D, Ground Floor, 61 Empire Road, Parktown, 2193

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 2002 and 2003 may differ from those reported in the 2002 and 2003 Annual Reports owing to the submission of amended returns by banks after publication of those reports.

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								
2002:01	94 503	607 976	90 353	24 620	130 320	3 136	92 651	1 043 559
2002:02	97 055	640 713	73 191	30 354	115 659	2 708	96 828	1 056 507
2002:03	91 370	650 973	68 614	24 692	124 225	2 375	100 944	1 063 193
2002:04	85 541	654 716	65 832	37 775	136 270	2 176	101 891	1 084 20
2003:01	80 560	661 461	54 746	37 366	293 267	1 972	100 381	1 229 752
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	351 035	1 893	105 720	1 334 426
2003:04	68 000	737 015	38 446	51 949	377 669	1 574	109 988	1 384 640
2004:01	75 299	765 467	44 947	45 696	321 756	1 844	112 894	1 367 904
2004:02	68 613	798 164	43 577	48 130	262 532	945	115 877	1 337 838
2004:03	69 907	849 980	45 120	57 062	244 023	682	117 603	1 384 377
2004:04	70 770	898 657	43 870	54 421	282 612	528	122 215	1 473 073
Month-end balance for year								
Dec 2002	81 784	662 490	58 402	49 470	142 343	2 131	103 360	1 099 979
Dec 2003	68 082	755 135	38 785	57 015	349 203	1 415	110 188	1 379 823
Dec 2004	72 698	909 968	45 757	51 408	292 851	480	124 949	1 498 111
Average for 12 months								
2002	92 117	638 594	74 497	29 360	126 618	2 599	98 079	1 061 865
2003	72 657	705 247	46 001	45 063	338 737	1 958	104 895	1 314 558
2004	71 147	828 067	44 379	51 327	277 731	1 000	117 147	1 390 798
Percentage annual growth	%	%	%	%	%	%	%	%
2002	-6,3	12,5	-38,6	51,4	-5,7	-24,3	12,1	4,8
2003	-16,8	14,0	-33,6	15,3	145,3	-33,6	6,6	25,4
2004	6,8	20,5	18,0	-9,8	-16,1	-66,1	13,4	8,6

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									
2002:01	21 008	53 455	756 586	19 115	133 926	11 470	3 137	44 862	1 043 559
2002:02	21 768	58 181	776 615	22 367	121 584	11 991	2 708	41 293	1 056 507
2002:03	22 144	46 238	802 754	19 038	120 783	12 383	2 375	37 478	1 063 193
2002:04	24 774	46 175	803 021	28 074	124 909	12 357	2 176	42 714	1 084 201
2003:01	22 869	50 086	802 870	32 286	256 087	12 543	1 972	51 038	1 229 752
2003:02	23 332	54 203	835 243	34 781	311 348	12 188	2 394	35 927	1 309 416
2003:03	24 244	55 849	847 578	34 155	325 323	12 363	1 539	33 374	1 334 426
2003:04	26 371	59 729	861 084	39 912	353 192	12 310	1 217	30 825	1 384 640
2004:01	25 143	67 790	907 024	39 934	283 870	12 051	1 769	30 323	1 367 904
2004:02	26 145	64 920	916 223	42 847	242 165	11 685	945	32 909	1 337 838
2004:03	27 664	68 094	945 310	44 323	254 257	11 383	682	32 664	1 384 377
2004:04	30 650	57 756	998 106	36 630	308 267	11 541	530	29 592	1 473 074
Month-end balance for year									
Dec 2002	26 537	47 302	800 290	36 150	132 479	12 521	2 131	42 569	1 099 979
Dec 2003	28 846	60 402	875 965	46 417	328 061	12 271	1 207	26 654	1 379 823
Dec 2004	32 319	54 398	1 014 125	29 158	330 899	11 641	480	25 092	1 498 111
Average for 12 months									
2002	22 423	51 012	784 744	22 149	125 301	12 050	2 599	41 587	1 061 865
2003	24 204	54 967	836 694	35 284	311 488	12 351	1 781	37 791	1 314 558
2004	27 401	64 640	941 666	40 933	272 140	11 665	982	31 372	1 390 798
Percentage annual growth	%	%	%	%	%	%	%	%	%
2002	10,4	-8,2	9,2	75,0	-21,2	5,7	-24,4	11,5	4,8
2003	8,7	27,7	9,5	28,4	147,6	-2,0	-43,4	-37,4	25,4
2004	12,0	-9,9	15,8	-37,2	0,9	-5,1	-60,3	-5,9	8,6

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	SARB and Corp for Public Deposits 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												
2002:01	319 058	34 906	195 500	58 513	607 976	11 350	7 955	5 315	24 620	53 543	36 810	90 353
2002:02	338 154	36 357	214 002	52 199	640 713	13 414	10 025	6 914	30 354	40 760	32 431	73 191
2002:03	336 317	37 573	225 440	51 643	650 973	11 214	7 415	6 063	24 692	41 563	27 051	68 614
2002:04	325 308	37 436	237 178	54 794	654 716	11 634	16 326	9 815	37 775	37 519	28 313	65 832
2003:01	328 751	37 095	248 879	46 735	661 461	11 486	13 745	12 134	37 366	28 098	26 647	54 746
2003:02	328 936	39 803	280 977	56 617	706 333	11 569	20 734	12 368	44 672	22 877	24 336	47 214
2003:03	340 181	42 492	297 239	36 269	716 181	12 085	19 308	14 873	46 266	20 592	23 006	43 599
2003:04	368 865	44 953	298 989	24 208	737 015	13 190	24 577	14 182	51 949	18 713	19 733	38 446
2004:01	391 119	45 377	306 963	22 008	765 467	13 383	23 380	8 932	45 696	25 860	19 087	44 947
2004:02	383 028	46 880	315 041	53 214	798 164	13 676	25 864	8 590	48 130	25 949	17 628	43 577
2004:03	393 411	48 308	321 775	86 486	849 980	13 551	30 132	13 380	57 062	24 965	20 155	45 120
2004:04	415 640	50 552	325 880	106 585	898 657	13 631	26 765	14 025	54 421	21 541	22 329	43 870
Month-end balance for year												
Dec 2002	334 143	37 083	234 672	56 592	662 490	12 032	20 752	16 686	49 470	33 101	25 301	58 402
Dec 2003	392 482	45 573	294 449	22 631	755 135	13 006	27 465	16 545	57 015	21 077	17 708	38 785
Dec 2004	428 740	51 095	320 224	109 909	909 968	13 444	23 889	14 075	51 408	20 612	25 144	45 757
Average for 12 months												
2002	329 709	36 568	218 030	54 288	638 594	11 903	10 430	7 027	29 360	43 346	31 151	74 497
2003	341 683	41 086	281 521	40 957	705 247	12 083	19 591	13 390	45 063	22 570	23 431	46 001
2004	395 800	47 780	317 415	67 073	828 067	13 560	26 535	11 232	51 327	24 579	19 800	44 379
Percentage annual growth	%	%	%	%	%	%	%	%	%	%	%	%
2002	10,1	5,6	25,0	-9,6	12,5	-2,5	77,9	92,2	51,4	-44,3	-29,2	-38,6
2003	17,5	22,9	25,5	-60,0	14,0	8,1	32,3	-0,8	15,3	-36,3	-30,0	-33,6
2004	9,2	12,1	8,8	385,7	20,5	3,4	-13,0	-14,9	-9,8	-2,2	42,0	18,0

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										
2002:01	13 797	96 816	257 159	13 835	15 591	15 912	230 948	128 197	15 668	756 586
2002:02	10 999	100 517	264 684	14 156	19 135	14 399	236 706	132 298	16 278	776 615
2002:03	9 266	103 535	272 226	13 588	21 587	15 114	240 770	143 678	17 010	802 754
2002:04	12 766	106 964	277 267	14 390	20 580	16 322	244 915	127 264	17 447	803 021
2003:01	15 051	110 218	285 208	15 119	18 906	16 574	252 573	106 718	17 498	802 870
2003:02	16 878	115 337	296 033	15 715	22 361	15 638	266 806	105 324	18 849	835 243
2003:03	15 737	120 091	307 008	16 173	19 992	16 168	260 891	110 260	18 742	847 578
2003:04	10 571	124 340	319 678	16 721	23 951	16 278	263 826	104 328	18 612	861 084
2004:01	7 663	129 346	333 431	17 713	29 160	15 408	266 697	125 977	18 370	907 024
2004:02	4 903	135 440	350 523	18 584	25 609	15 219	257 246	126 349	17 649	916 223
2004:03	10 224	142 705	371 183	19 460	22 305	14 517	257 489	124 382	16 957	945 310
2004:04	15 672	150 500	396 923	20 697	21 129	15 258	279 743	114 470	16 285	998 106
Month-end balance for year										
Dec 2002	13 408	107 856	279 282	14 636	19 959	16 881	247 693	117 768	17 193	800 290
Dec 2003	9 205	126 087	323 444	16 950	24 914	15 397	264 069	114 418	18 519	875 965
Dec 2004	16 716	152 406	406 174	21 169	22 499	15 707	278 890	116 692	16 128	1 014 125
Average for 12 months										
2002	11 707	101 958	267 834	13 992	19 223	15 437	238 335	132 859	16 601	784 744
2003	14 559	117 497	301 982	15 932	21 302	16 165	261 024	106 658	18 425	836 694
2004	9 616	139 498	363 015	19 113	24 551	15 100	265 294	122 794	17 315	941 666
Percentage annual growth	%	%	%	%	%	%	%	%	%	%
2002	-18,8	13,4	10,8	8,2	31,5	19,3	7,4	7,1	21,7	9,2
2003	-31,3	16,9	15,8	15,8	24,8	-8,8	6,6	-2,8	7,7	9,5
2004	81,6	20,9	25,6	24,9	-9,7	2,0	5,6	2,0	-12,9	15,8

Table 5

Funding maturity structure

	Short-term %	Medium-term %	Long-term %
Quarter			
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	12,6
2004:01	66,9	20,1	13,0
2004:02	66,1	19,8	14,1
2004:03	64,8	20,7	14,4
2004:04	63,4	22,9	13,6
Month-end for year			
Dec 2002	65,9	19,3	14,8
Dec 2003	68,4	19,5	12,0
Dec 2004	65,7	21,1	13,2
Average for 12 months			
2002	66,8	18,5	14,7
2003	64,2	22,1	13,7
2004	65,3	20,9	13,8

Table 6

Analysis of capital and reserves

	Primary capital R million	Qualifying secondary capital R million	Tertiary qualifying 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 %
Average month-end balance for quarter									
2002:01	68 574	27 129	712	96 415	13 925	82 490	10,5	2,1	4,2
2002:02	67 413	28 075	957	96 445	11 970	84 475	10,6	1,9	4,3
2002:03	68 107	31 661	1 519	101 287	12 387	88 900	10,6	1,9	4,9
2002:04	70 080	32 457	1 481	104 019	15 467	88 552	10,8	2,4	5,0
2003:01	66 771	32 611	1 449	100 831	13 336	87 495	10,0	2,0	4,9
2003:02	70 517	32 354	1 318	104 189	9 783	94 406	10,3	1,4	4,7
2003:03	73 865	32 121	1 634	107 620	9 508	98 112	10,7	1,4	4,7
2003:04	75 459	32 207	2 166	109 833	10 449	99 384	10,6	1,5	4,5
2004:01	75 136	34 367	2 160	111 662	9 847	101 815	10,2	1,3	4,6
2004:02	77 439	35 188	2 110	114 737	9 738	104 999	10,5	1,3	4,7
2004:03	80 265	34 413	2 241	116 918	8 378	108 540	10,7	1,1	4,5
2004:04	86 121	34 885	2 131	123 137	7 962	115 175	11,0	1,0	4,4
Average for 12 months									
2002	68 544	29 830	1 167	99 541	13 437	86 104	10,6	2,1	4,6
2003	71 653	32 323	1 642	105 618	10 769	94 849	10,4	1,6	4,7
2004	79 740	34 713	2 160	116 613	8 981	107 632	10,6	1,2	4,6
Percentage annual growth	%	%	%	%	%	%			
2002	7,1	22	130,4	12,3	29,2	9,9			
2003	2,9	1,4	49,3	3,1	-31,7	8,8			
2004	23,9	3,4	-12,5	16,8	-22,8	20,9			

Table 7

Risk profile of assets

	Risk category									
	0% R million	10% R million	20% R million	50% R million	100% R million	150% R million	Impairments R million	Total R million	Risk-weighted assets R million	Risk-weighted assets as percentage of total average assets %
Average month-end balance for quarter										
2002:01	200 062	11 143	75 474	174 497	498 566	0	3 364	963 105	635 667	66,0
2002:02	221 979	10 579	73 411	179 249	491 858	0	3 703	980 778	634 248	64,6
2002:03	240 902	9 247	65 146	185 047	497 236	0	4 153	1 001 731	645 245	64,4
2002:04	239 516	9 961	65 492	187 832	504 116	0	4 072	1 010 990	652 849	64,6
2003:01	235 719	11 263	65 271	192 272	522 889	0	3 800	1 031 215	671 207	65,1
2003:02	239 928	10 897	82 593	202 440	534 037	0	3 042	1 072 936	683 288	63,7
2003:03	248 156	9 700	84 017	211 404	535 881	1	2 929	1 092 088	688 643	63,0
2003:04	239 161	11 542	89 496	223 285	554 472	0	3 468	1 121 423	719 844	64,2
2004:01	245 981	12 066	100 473	232 806	567 848	1	3 911	1 163 086	744 664	64,1
2004:02	238 262	11 407	100 150	245 753	561 912	16	3 972	1 161 473	745 707	64,2
2004:03	235 518	9 838	99 479	261 961	570 183	6	4 119	1 181 104	763 242	64,6
2004:04	234 496	8 574	97 393	279 203	603 705	0	4 543	1 227 914	809 073	65,9
Month-end balance for year										
Dec 2002	232 077	10 099	66 327	190 070	509 024	0	3 828	1 011 425	656 613	64,9
Dec 2003	235 587	12 697	93 488	226 308	560 603	0	3 994	1 132 676	733 661	64,8
Dec 2004	242 408	8 297	95 379	285 787	609 077	0	4 343	1 245 293	815 311	65,5
Average for 12 months										
2002	225 615	10 233	69 881	181 656	497 944	0	3 823	989 151	642 002	64,9
2003	240 741	10 850	80 344	207 350	536 820	0	3 310	1 079 416	690 746	64,0
2004	238 564	10 471	99 374	254 931	575 912	6	4 136	1 183 395	765 672	64,7
Percentage annual growth	%	%	%	%	%	%	%	%	%	
2002	29,1	-24,6	-9,1	12,0	3,4	-	15,7	8,6	4,9	
2003	1,5	25,7	40,9	19,1	10,1	-	4,3	12,0	11,7	
2004	2,9	-34,7	2,0	26,3	8,6	-	8,8	9,9	11,1	

Table 8

Risk profile of off-balance-sheet items

	Risk category									Risk-weighted off-balance-sheet items	Risk-weighted items as percentage of total average off-balance-sheet items
	0%[1] R million	5% R million	10% R million	20% R million	50% R million	100% R million	150% R million	Impairments R million	Total R million	R million	%
Average month-end balance for quarter											
2002:01	18 842	353	3 137	7 194	54 237	13 615	0	0	994 945	42 504	4,3
2002:02	19 724	481	3 269	6 668	57 838	15 016	0	0	1 338 295	45 620	3,4
2002:03	18 907	450	2 879	7 331	55 149	16 704	0	0	1 249 485	46 055	3,7
2002:04	20 857	344	2 004	6 468	57 402	17 270	0	0	1 285 595	47 482	3,7
2003:01	21 325	489	1 520	6 048	57 264	16 792	0	0	1 240 838	46 810	3,8
2003:02	20 652	283	1 889	6 035	58 309	17 498	0	0	1 220 494	48 062	3,9
2003:03	26 185	387	2 332	11 035	56 210	15 187	0	31	1 325 144	46 061	3,5
2003:04	27 524	1 030	5 580	11 717	55 895	10 330	0	110	1 380 600	42 331	3,1
2004:01	29 953	1 085	12 604	6 560	68 200	14 137	0	165	1 527 308	52 513	3,4
2004:02	35 000	1 154	11 314	8 572	68 051	15 274	0	165	1 572 653	53 852	3,4
2004:03	37 062	302	9 348	9 795	62 280	13 447	0	269	1 711 245	50 186	2,9
2004:04	41 975	159	8 872	10 304	56 954	11 433	0	338	1 971 614	46 249	2,3
Month-end balance for year											
Dec 2002	22 408	234	1 716	6 243	57 432	17 290	0	0	1 299 012	47 438	3,7
Dec 2003	29 280	677	11 682	5 879	57 938	9 778	0	165	1 437 695	42 775	3,0
Dec 2004	44 477	169	8 459	10 387	56 653	10 991	0	373	2 006 816	45 979	2,3
Average for 12 months											
2002	19 583	407	2 822	6 915	56 157	15 651	0	0	1 217 080	45 415	3,8
2003	23 922	547	2 830	8 709	56 920	14 952	0	35	1 291 769	45 816	3,6
2004	35 998	675	10 535	8 808	63 871	13 573	0	234	1 695 705	50 700	3,0
Percentage annual growth	%	%	%	%	%	%	%	%	%	%	
2002	22,2	-15,6	-50,1	-29,6	14,4	-5,3	-	-	70,9	4,3	
2003	30,7	189,3	580,8	-5,8	0,9	-43,4	-	-	10,7	-9,8	
2004	51,9	-75,1	-27,6	76,7	-2,2	12,4	-	126,1	39,6	7,5	

1. 0% risk category = Total off-balance-sheet activities minus central securities depository participation

Table 9(a)

Risk profile of loans and advances

	0% R million	10% R million	20% R million	50% R million	100% R million	150% R million	1000% 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	26 868	0	40	0	1 486	0	210	28 603	3 591	12,6
Interbank advances	144	0	17 998	0	22	0	0	18 164	3 622	19,9
Negotiable certificates of deposits	251	0	9 144	0	89	0	0	9 485	1 918	20,2
Instalment debtors	30	175	3	25	105 953	0	0	106 186	105 983	99,8
Mortgage loans	0	37	25	185 686	92 248	0	0	277 996	185 100	66,6
Credit-card debtors	0	0	0	0	14 570	0	0	14 570	14 570	100
Acknowledgements of debt discounted	10 021	875	1 934	0	6 743	0	0	19 574	7 217	36,9
Redeemable preference shares	928	0	125	564	14 654	0	0	16 270	14 961	92
Overdrafts and loans	3 186	7 309	4 020	0	222 756	0	416	237 686	228 452	96,1
Foreign-currency loans and advances	82 413	205	28 980	4	9 044	0	0	120 646	14 862	12,3
Loans granted under resale agreements	14 414	0	895	0	250	0	0	15 560	429	2,8
S A Reserve Bank and Corporation for Public Deposits	3 087	0	0	0	0	0	0	3 087	0	0
Banks	6 873	0	893	0	13	0	0	7 780	192	2,5
Non-banks	4 454	0	2	0	237	0	0	4 693	237	5,1
Total loans and advances	138 256	8 601	63 164	186 279	467 815	0	626	864 741	580 705	67,2
Less: Specific provisions	0	0	0	35	17 280	0	0	17 315	17 298	99,9

Table 9(b)

Risk profile of loans and advances

	0% R million	10% R million	20% R million	50% R million	100% R million	150% R million	1000% 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	0	0	29 884	3 573	12
Interbank advances	0	0	27 388	0	0	0	0	27 388	5 478	20
Negotiable certificates of deposits	0	0	3 636	0	2	0	0	3 638	729	20
Instalment debtors	27	384	131	0	121 952	0	0	122 495	122 017	99,6
Mortgage loans	0	0	25	222 255	99 723	0	0	322 003	210 855	65,5
Credit-card debtors	0	0	0	0	16 868	0	0	16 868	16 868	100
Acknowledgements of debt discounted	12 169 61	7 996	12	5 746	0	0	25 984	7 357	28,3	
Redeemable preference shares	679	0	325	0	14 446	0	135	15 585	15 862	101,8
Overdrafts and loans	4 006	6 287	1 805	0	244 793	0	1 086	257 978	256 641	99,5
Foreign-currency loans and advances	58 680925	37 596	0	6 496	0	0	103 696	14 107	13,6	
Loans granted under resale agreements	1 0002 333	6 371	0	8 154	0	0	17 859	9 662	54,1	
S A Reserve Bank and Corporation for Public Deposits	259	0	0	0	0	0	0	259	0	0
Banks	741	0	6 371	0	0	0	0	7 113	1 274	17,9
Non-banks	0	2 333	0	0	8 154	0	0	10 487	8 388	80
Total loans and advances	102 838	10 029	85 273	222 267	521 749	0	1 221	943 378	663 150	70,3
Less: Specific provisions	0	57	0	32	18 481	0	0	18 569	18 503	99,6

Table 9(c)

Risk profile of loans and advances

	0% R million	10% R million	20% R million	50% R million	100% R million	150% R million	1000% 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 2004										
Intragroup bank advances	24 223	0	0	0	3 648	0	0	27 872	3 648	13,1
Interbank advances	267	0	27 547	0	0	0	7	27 820	5 580	20,1
Negotiable certificates of deposits	0	0	16 154	0	0	0	0	16 154	3 231	20
Instalment debtors	30	727	130	0	149 006	0	0	149 892	149 104	99,5
Mortgage loans	0	0	71	281 541	121 094	0	0	402 706	261 879	65
Credit-cards debtors	0	0	0	0	21 336	0	0	21 336	21 336	100
Acknowledgements of debt discounted	14 961	145	1 121	10	5 465	0	0	21 702	5 708	26,3
Redeemable preference shares	534	0	325	0	14 522	0	135	15 516	15 938	102,7
Overdrafts and loans	10 684	4 798	1 473	127	252 195	0	1 704	270 982	270 077	99,7
Foreign-currency loans and advances	66 301	144	40 133	32	7 820	0	0	114 431	15 877	13,9
Loans granted under resale agreements	2 562	1 052	3 865	0	1 224	0	0	8 703	2 102	24,2
S A Reserve Bank and Corporation for Public Deposits	2 118	0	0	0	0	0	0	2 118	0	0
Banks	444	0	3 865	0	0	0	0	4 309	773	17,9
Non-banks	0	1 052	0	0	1 224	0	0	2 276	1 329	58,4
Total loans and advances	119 564	6 866	90 819	281 711	576 310	0	1 847	1 077 116	754 481	70
Less: Specific provisions	7	124	0	26	15 996	0	0	16 153	16 022	99,2

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	Net qualifying capital Percentage
Quarter						
2002:01	656 336	23 089	633 246	65 945	56 753	8,6
2002:02	645 263	16 989	628 274	64 826	57 640	8,9
2002:03	641 302	14 703	626 599	64 436	55 831	8,7
2002:04	653 291	17 091	636 200	65 490	57 095	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	690 628	16 066	674 562	69 123	68 055	9,9
2003:04	713 165	16 658	696 508	71 371	63 343	8,9
2004:01	747 955	12 762	735 193	74 861	66 456	8,9
2004:02	734 053	8 125	725 929	73 476	71 435	9,7
2004:03	761 747	8 333	753 414	76 250	73 651	9,7
2004:04	793 519	10 703	782 816	79 431	83 171	10,5
Average for 12 months						
2002	648 164	19 008	629 156	67 762	56 371	8,7
2003	688 158	16 882	671 276	69 864	61 708	9,0
2004	753 420	10 445	742 975	77 422	71 423	9,5
Percentage annual growth	%	%	%	%	%	
2002	1,4	-23,6	2,3	-9,9	2,3	
2003	9,2	-2,5	9,5	9	10,9	
2004	11,3	-35,7	12,4	11,3	31,3	

Table 11(a)

Composition of income statement

	Average monthly balance for quarter 2002				Average monthly balance for quarter 2003			
	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	8 002	8 798	10 637	11 313	11 215	11 672	10 480	8 732
Interest expense	5 765	6 416	8 008	8 435	8 198	8 682	7 904	6 651
Interest margin	2 237	2 382	2 628	2 878	3 017	2 990	2 576	2 081
Less: Specific provisions on loans and advances	1 635	548	443	793	722	770	564	482
Less: General debt provisions	104	-76	77	82	20	26	-65	27
Other	-3	5	11	-8	12	13	1	7
Adjusted interest margin	501	1 906	2 097	2 010	2 262	2 181	2 077	1 564
Add: Transaction-based fee income	1 462	1 589	1 653	1 846	1 738	1 838	1 878	2 004
Income from management of funds	1 963	3 495	3 750	3 856	4 000	4 019	3 954	3 569
Less: Operational expenses	3 137	3 386	3 318	3 397	3 404	3 916	3 388	3 824
Net income from management of funds	-1 173	108	432	460	596	103	567	-255
Add: Investment and trading income	-1 418	1 033	720	-53	393	-191	525	1 168
Less: Specific provisions - investment	-10	0	4	-4	0	9	1	4
Add: Knowledge-based fee income	215	293	210	278	167	177	184	231
Net income before tax	-295	883	1 158	1 174	1 169	1 653	1 884	776
Taxation	291	252	259	558	228	516	440	646
Net income after tax	-586	631	899	617	941	1 137	1 444	130

Table 11(b)

Composition of income statement

	Average monthly balance for quarter 2004				Results for 12 months			Average for year		
	March R million	June R million	September R million	December R million	2002 R million	2003 R million	2004 R million	2002 R million	2003 R million	2004 R million
Interest income	8 558	8 584	9 208	9 147	116 247	126 295	106 490	9 687	10 525	8 874
Interest expense	5 832	5 680	6 113	6 229	85 870	94 306	71 561	7 156	7 859	5 963
Interest margin	2 726	2 904	3 095	2 918	30 376	31 989	34 930	2 531	2 666	2 911
Less: Specific provisions on loans and advances	466	348	609	510	10 257	7 614	5 800	855	635	483
Less: General debt provisions	37	186	-4	-5	558	24	640	47	2	53
Other	-2	-10	-5	6	15	98	-34	1	8	-3
Adjusted interest margin	2 225	2 380	2 496	2 407	19 546	24 252	28 523	1 629	2 021	2 377
Add: Transaction-based fee income	2 028	2 143	2 184	2 435	19 649	22 374	26 367	1 637	1 865	2 197
Income from management of funds	4 253	4 523	4 679	4 841	14 760	18 967	25 728	1 230	1 581	2 144
Less: Operational expenses	3 758	4 136	3 978	4 481	39 712	43 593	49 060	3 309	3 633	4 088
Net income from management of funds	494	387	701	361	-518	3 033	5 830	-43	253	486
Add: Investment and trading income	502	1 990	877	917	844	5 682	12 859	70	474	1 072
Less: Specific provisions - investment	-9	-2	2	3	-28	41	-17	-2	3	-1
Add: Knowledge-based fee income	177	178	199	268	2 987	2 277	2 468	249	190	206
Net income before tax	1 731	2 021	1 916	1 833	8 764	16 448	22 501	730	1 371	1 875
Taxation	354	461	555	327	4 079	5 492	5 091	340	458	424
Net income after tax	1 377	1 560	1 361	1 506	4 685	10 956	17 410	390	913	1 451

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				
2002:01	11,0	8,1	2,9	2,4
2002:02	11,7	8,7	3,0	0,6
2002:03	14,1	10,8	3,3	0,7
2002:04	14,7	11,1	3,6	1,1
2003:01	14,5	10,6	3,8	1,0
2003:02	14,0	10,8	3,2	1,0
2003:03	12,8	9,7	3,1	0,6
2003:04	10,9	7,9	3,0	0,5
2004:01	9,9	6,7	3,2	0,5
2004:02	9,7	6,5	3,2	0,5
2004:03	10,0	6,8	3,2	0,6
2004:04	9,5	6,6	2,9	0,4
Average for the 12 months ended				
December 2002	12,5	9,2	3,3	1,1
December 2003	12,2	9,1	3,1	0,7
December 2004	9,3	6,3	3,0	0,5

Table 13

Profitability ratios

	Net income after tax to total assets %	Net income after tax to owners' equity %	Stated as percentage of total assets: Interest income %	Interest expense %	Interest margin %	Operating expenses %	Fee income %	Investment and trading income %
Average month-end balance for quarter								
2002:01	-0,7	-8,5	9,2	6,6	2,6	3,6	1,9	-1,6
2002:02	0,7	8,9	10,0	7,3	2,7	3,8	2,1	1,2
2002:03	1,0	12,1	12,0	9,0	3,0	3,7	2,1	0,8
2002:04	0,7	8,4	12,5	9,3	3,2	3,8	2,4	-0,1
2003:01	0,9	12,9	10,9	8,0	2,9	3,3	1,9	0,4
2003:02	1,0	14,4	10,7	8,0	2,7	3,6	1,8	-0,2
2003:03	1,3	17,7	9,4	7,1	2,3	3,0	1,9	0,5
2003:04	0,1	1,6	7,6	5,8	1,8	3,3	1,9	1,0
2004:01	1,2	16,3	7,5	5,1	2,4	3,3	1,9	0,4
2004:02	1,4	17,9	7,7	5,1	2,6	3,7	2,1	1,8
2004:03	1,2	15,1	8,0	5,3	2,7	3,4	2,1	0,8
2004:04	1,2	15,7	7,5	5,1	2,4	3,7	2,2	0,7
Average for the 12 months ended								
December 2002	0,4	5,2	10,6	7,8	2,8	3,6	2,1	0,1
December 2003	0,8	11,2	9,2	6,8	2,3	3,2	1,8	0,4
December 2004	1,2	14,7	7,1	4,8	2,3	3,3	1,9	0,9

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											
2002:01	4,9	13,7	32,5	2,3	2,0	1,5	32,2	3,9	0,8	1,4	5,0
2002:02	5,7	13,8	33,3	2,1	2,2	1,5	30,8	4,0	0,8	1,1	4,8
2002:03	11,4	12,2	31,2	1,9	2,1	1,2	30,0	4,4	0,7	0,8	4,1
2002:04	10,9	12,6	32,1	1,9	2,1	1,3	28,1	3,8	1,0	1,0	5,2
2003:01	10,1	12,9	32,5	2,1	2,0	1,2	29,3	2,4	1,2	1,4	4,9
2003:02	8,0	12,8	33,4	2,1	2,3	1,4	27,0	2,2	1,5	1,6	7,7
2003:03	6,1	13,6	33,8	2,3	2,6	1,4	28,6	2,1	3,0	1,6	4,9
2003:04	6,8	15,0	35,1	2,6	2,8	1,5	29,0	2,1	3,6	1,1	0,4
2004:01	8,9	14,4	33,9	2,5	2,8	1,0	27,6	2,5	3,2	0,6	2,5
2004:02	8,1	15,1	35,6	2,6	2,8	1,4	25,8	1,3	3,2	0,4	3,7
2004:03	7,3	14,4	35,0	2,6	2,4	1,2	26,9	2,3	2,7	0,8	4,4
2004:04	5,2	14,8	37,0	2,7	2,1	1,6	25,6	2,6	2,3	1,0	5,1
Average for the 12 months ended											
December 2002	8,6	13,0	32,2	2,0	2,1	1,4	30,1	4,0	0,8	1,0	4,8
December 2003	7,9	13,5	33,6	2,2	2,4	1,4	28,4	2,2	2,2	1,4	4,7
December 2004	7,3	14,7	35,4	2,6	2,5	1,3	26,5	2,2	2,8	0,7	4,0

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											
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	11,3	7,3	34,2	2,3	26,8	5,5	1,8	7,1	2,7	-3,2	4,2
2002:04	9,8	6,5	33,6	2,5	27,9	5,8	2,3	8,3	2,6	-3,3	4,0
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	3,8	5,1	29,7	2,3	35,4	5,2	4,9	12,0	0,6	-2,9	3,9
2003:04	3,9	4,2	28,2	2,0	33,8	3,4	4,9	13,5	0,7	0,4	4,9
2004:01	4,3	4,3	29,9	2,0	33,5	2,6	4,4	13,5	1,0	-1,2	5,7
2004:02	4,0	4,6	29,3	2,2	35,7	5,6	4,4	9,2	1,0	-1,8	5,9
2004:03	3,7	3,9	26,5	2,0	34,7	10,2	4,7	9,1	0,9	-1,0	5,2
2004:04	3,9	4,4	27,0	1,9	32,4	11,0	4,8	8,4	1,2	-0,8	5,8
Average for the 12 months ended											
December 2002	7,8	7,2	34,8	2,4	27,4	6,2	2,1	7,6	3,2	-3,0	4,3
December 2003	7,1	5,4	30,3	2,3	32,3	5,0	3,9	11,1	0,8	-2,5	4,2
December 2004	4,0	4,3	28,1	2,0	34,0	7,5	4,6	10,0	1,0	-1,2	5,6

Table 16(a)

Calculation of liquid-asset requirement

	Average month-end balance for quarter 2002				Average month-end balance for quarter 2003			
	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	1 036 097	1 043 678	1 050 927	1 077 257	1 215 145	1 288 005	1 314 487	1 376 314
Less: Capital and reserves	92 767	97 161	101 891	102 123	100 978	104 214	105 902	109 118
- average daily amount of funding from head office or branches	14 800	9 375	10 088	16 560	12 307	8 459	6 926	7 508
- average daily amount owing by banks, branches and mutual banks	98 746	90 471	80 663	86 183	117 484	128 821	131 511	140 535
Liabilities as adjusted	829 783	846 671	858 286	872 390	984 375	1 046 511	1 070 148	1 119 256
Liquid-asset requirement	41 489	42 334	42 914	43 619	49 219	52 325	53 508	55 963
Liquid assets held	42 676	42 233	50 300	50 109	53 392	59 067	60 926	63 257
SARB notes and coins	1 970	1 714	2 332	3 680	4 114	3 960	4 632	5 985
Gold coin and bullion	11	11	7	6	8	7	4	5
Clearing-account balances	9	11	0	0	2 140	0	0	1
Treasury bills of the Republic	10 916	13 568	14 959	15 303	15 212	17 288	15 790	17 382
Stock issued - Exchequer Act, 1975								
Securities issued - Public Finance Management Act, 1999	26 892	23 179	27 985	25 895	26 808	26 589	33 255	36 383
Securities of the SARB	1 738	2 541	4 090	4 329	4 527	10 523	6 590	2 812
Land Bank bills	1 139	1 210	926	896	583	700	656	689
Memorandum items								
Cash-management schemes	42 716	42 732	42 817	45 625	47 952	50 269	50 971	54 162
Set-off	78 870	81 238	81 256	67 164	59 355	66 214	67 330	74 338
Ratios	%	%	%	%	%	%	%	%
Liquid assets held to liquid assets required	102,9	99,7	117,2	114,9	108,5	112,8	113,9	113

Table 16(b)

Calculation of liquid-asset requirement

	Average month-end balance for quarter 2004				Month-end for year			Percentage annual growth		
	March R million	June R million	September R million	December R million	2002 R million	2003 R million	2004 R million	2002 %	2003 %	2004 %
Liabilities including capital and reserves	1 367 284	1 331 174	1 360 564	1 446 293	1 092 525	1 384 542	1 482 210	8,6	26,7	7,1
Less: Capital and reserves	113 756	115 065	116 141	119 365	101 803	109 004	122 319	7,9	7,1	12,2
- average daily amount of funding from head office or branches	9 896	11 463	8 988	7 889	16 144	9 087	7 713	-4,9	-43,7	-15,1
- average daily amount owing by banks, branches and mutual banks	132 701	109 482	107 814	111 561	90 217	144 531	113 062	-2,6	60,2	-21,8
Liabilities as adjusted	1 110 966	1 095 164	1 127 621	1 207 479	884 360	1 122 068	1 239 116	10,2	26,9	10,4
Liquid-asset requirement	55 548	54 758	56 381	60 374	44 218	56 103	61 956	10,2	26,9	10,4
Liquid assets held	66 323	65 789	66 197	68 378	51 345	64 696	70 688	15,8	26	9,3
SARB notes and coins	6 680	6 488	6 835	7 900	3 581	6 204	7 970	81,8	73,3	28,5
Gold coin and bullion	5	21	7	0	10	6	0	-6,4	-45,1	-96,4
Clearing-account balances	1	2	-2	5	0	1	5	-98,2	1 200,00	300
Treasury bills of the Republic	21 152	19 555	16 841	18 181	16 031	18 082	19 318	46,2	12,8	6,8
Stock issued - Exchequer Act, 1975										
Securities issued - Public Finance Management Act, 1999	35 089	34 615	37 719	37 550	26 749	37 051	37 447	-8,7	38,5	1,1
Securities of the SARB	2 634	4 445	4 193	3 978	4 048	2 656	5 139	291,8	-34,4	93,5
Land Bank bills	762	663	604	764	927	696	808	-13,1	-24,9	16,1
Memorandum items										
Cash-management schemes	56 379	61 118	63 437	65 173	48 697	57 111	67 467	7,7	17,3	18,1
Set-off	79 825	83 548	93 674	109 068	59 489	75 732	113 864	-25,2	27,3	50,4
Ratios	%	%	%	%	%	%	%			
Liquid assets held to liquid assets required	119,4	120,1	117,4	113,2	116,1	115,3	114,1			

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
Average month-end balance for quarter						
2002:01	8 794	2 881	14 259	25 934	12 561	11 748
2002:02	8 649	2 791	15 025	26 465	13 628	11 516
2002:03	8 271	2 543	16 621	27 435	14 631	10 893
2002:04	8 342	2 244	16 235	26 821	14 629	10 573
2003:01	9 017	2 223	15 397	26 636	14 570	10 754
2003:02	9 151	2 265	14 702	26 119	15 640	9 987
2003:03	9 056	2 132	13 675	24 863	15 723	9 905
2003:04	8 909	2 129	13 638	24 676	15 817	9 537
2004:01	8 049	2 209	13 126	23 384	14 958	8 435
2004:02	7 203	2 303	12 697	22 202	14 461	8 098
2004:03	7 332	2 496	11 581	21 409	13 582	8 540
2004:04	7 072	2 590	10 899	20 560	13 177	8 380
Month-end balance for year						
December 2002	8 404	2 072	15 654	26 130	14 257	10 411
December 2003	8 265	2 188	13 396	23 849	15 501	8 485
December 2004	6 848	2 616	10 929	20 393	13 017	8 297
Average for 12 months						
2002	8 514	2 615	15 535	26 664	13 862	11 183
2003	9 034	2 187	14 353	25 573	15 438	10 046
2004	7 414	2 400	12 076	21 889	14 044	8 363
Percentage annual growth	%	%	%	%	%	%
2002	-4,3	-27,7	7,6	-0,2	18,5	-13,1
2003	-1,7	5,6	-14,4	-8,7	8,7	-18,5
2004	-17,1	19,5	-18,4	-14,5	-16,0	-2,2

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					
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	54,6	94,4	2,9	1,6	13,2
2003:01	54,1	93,6	3,0	1,6	13,9
2003:02	61,9	101,1	2,6	1,6	9,9
2003:03	65,1	105,3	2,6	1,7	8,5
2003:04	65,0	100,6	2,4	1,5	8,5
2004:01	65,3	101,0	2,2	1,5	7,8
2004:02	65,6	103,6	2,0	1,3	6,7
2004:03	62,1	103,0	2,0	1,2	7,6
2004:04	63,8	104,5	1,8	1,2	6,2
Average for 12 months					
2002	52,6	93,9	3,0	1,6	14,3
2003	61,3	100,0	2,6	1,6	10,1
2004	64,2	103,0	2,0	1,3	7,0

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 %
Average month-end balance for quarter					
2002:01	1 474 886	193 166	22,5	225,1	1 718,5
2002:02	551 985	188 501	21,2	217,4	636,7
2002:03	522 116	157 145	17,6	180,8	600,7
2002:04	519 410	147 750	16,4	163,8	575,9
2003:01	439 848	157 027	17,4	175,9	492,8
2003:02	397 579	171 909	17,7	178,5	412,8
2003:03	408 862	161 629	16,8	160,1	405,1
2003:04	367 694	154 243	15,4	157,1	374,6
2004:01	413 167	150 000	14,5	144,1	396,9
2004:02	484 959	135 257	12,9	126,3	452,7
2004:03	614 652	134 078	12,2	122,8	562,7
2004:04	547 010	133 824	12,0	112,9	461,5
Average for 12 months					
2002	767 099	171 640	19,4	196,4	877,6
2003	403 496	161 202	16,8	167,6	419,6
2004	514 947	138 290	12,9	126,0	469,2
Percentage annual growth	%	%			
2002	-63,5	-17,4			
2003	-29,2	4,4			
2004	48,8	-13,2			

Table 20

Profitability of assets

	Money	Advances			Investments		Infra-structure	Total
		Reasonable margin	Small margin	No yield	Profitable	Not profitable		
	R million	R million	R million	R million	R million	R million	R million	R million
Average month-end balance for quarter								
2002:01	21 244	803 262	69 256	25 029	54 113	9 936	59 401	1 042 242
2002:02	21 745	834 101	67 066	26 953	32 047	16 200	55 744	1 053 855
2002:03	22 136	835 566	77 729	30 066	30 707	13 299	52 181	1 061 685
2002:04	24 770	838 788	85 089	30 940	32 774	12 438	57 117	1 081 916
2003:01	22 835	879 340	49 474	32 158	154 075	13 854	65 248	1 216 983
2003:02	23 453	942 047	35 578	32 062	205 307	11 639	50 391	1 300 475
2003:03	24 244	969 372	38 931	31 677	210 967	11 824	47 260	1 334 275
2003:04	26 349	991 225	40 672	33 776	233 706	11 758	44 119	1 381 605
2004:01	25 083	1 046 582	37 023	33 522	172 034	11 739	44 105	1 370 089
2004:02	26 125	1 026 329	58 241	31 311	133 113	13 213	45 366	1 333 697
2004:03	27 664	1 070 514	55 779	30 554	141 750	13 400	44 696	1 384 356
2004:04	30 636	1 098 021	67 526	31 757	188 988	14 074	41 679	1 472 682
Month-end balance for year								
Dec-02	26 537	843 387	90 450	35 925	37 890	7 627	57 167	1 098 984
Dec-03	28 845	1 022 663	33 054	32 494	211 344	11 232	40 130	1 379 762
Dec-04	32 277	1 096 382	79 218	31 242	208 095	12 851	37 192	1 497 258
Average for 12 months								
2002	22 474	827 929	74 785	28 247	37 410	12 968	56 111	1 059 925
2003	24 220	945 496	41 164	32 418	201 014	12 269	51 755	1 308 335
2004	27 377	1 060 362	54 642	31 786	158 971	13 107	43 961	1 390 206
Percentage annual growth	%	%	%	%	%	%	%	%
2002	10,5	5,3	50,7	71,9	-54,8	74,4	8,3	5
2003	8,7	21,3	-63,5	-9,6	457,8	47,3	-29,8	25,5
2004	11,9	7,2	139,7	-3,9	-1,5	14,4	-7,3	8,5

Table 21

Open position in foreign currency

	Total foreign-exchange assets USA$ million	Total foreign-exchange liabilities USA$ million	Net spot position USA$ million	Commit-ments to purchase foreign currency USA$ million	Commit-ments to sell foreign currency USA$ million	Mismatched forward commit-ments USA$ million	Foreign branches USA$ million
Average month-end balance for quarter							
2002:01	11 125	7 791	3 334	140 597	143 796	-3 199	39
2002:02	12 848	7 010	5 839	125 180	130 877	-5 697	39
2002:03	13 826	6 532	7 295	112 322	119 351	-7 030	39
2002:04	13 690	6 980	6 711	123 760	130 288	-6 528	44
2003:01	13 808	6 568	7 240	130 506	137 611	-7 106	39
2003:02	14 635	6 364	8 272	152 492	160 604	-8 112	72
2003:03	16 260	6 634	9 626	164 472	173 885	-9 413	73
2003:04	16 711	6 010	10 702	152 259	162 859	-10 600	57
2004:01	19 825	6 815	13 010	135 650	148 514	-12 864	70
2004:02	20 290	6 688	13 603	133 827	147 261	-13 434	89
2004:03	20 206	7 195	13 011	133 731	146 477	-12 746	98
2004:04	20 645	7 850	12 794	143 956	156 617	-12 661	82
Month-end balance for year							
Dec-02	13 739	6 723	7 016	116 775	123 563	-6 788	44
Dec-03	18 363	6 146	12 217	141 197	153 344	-12 147	61
Dec-04	21 960	8 475	13 484	141 855	155 246	-13 392	78
Average for 12 months							
2002	12 872	7 078	5 795	125 465	131 078	-5 614	40
2003	15 354	6 394	8 960	149 932	158 740	-8 808	60
2004	20 242	7 137	13 104	136 791	149 717	-12 926	85
Percentage annual growth	%	%	%	%	%	%	%
2002	52, 3	-14, 7	512, 7	-22, 7	-18, 8	564, 1	3, 5
2003	33, 7	-8, 6	74, 1	20, 9	24, 1	78, 9	40, 4
2004	19, 6	37, 9	10, 4	0, 5	1, 2	10, 2	26, 3

Appendix 8

Circulars sent to banking institutions during 2004

Banks Act Circular 1/2004	Annual withdrawal and retention of circulars
Banks Act Circular 2/2004	First consultative paper on the implementation of the new Basel Capital Accord (Basel II)
Banks Act Circular 3/2004	Amendments to the requirements for the conducting of the business of a representative office of a foreign banking institution operating in South Africa and of a representative office of a South African bank operating abroad
Banks Act Circular 4/2004	General guidance notes with regard to anti-money laundering
Banks Act Circular 5/2004	Trilateral discussions to be held during the 2004 and 2005 calendar years
Banks Act Circular 6/2004	Update on the latest developments pertaining to the new Basel Capital Accord (Basel II)
Banks Act Circular 7/2004	Preference-share investment schemes
Banks Act Circular 8/2004	Applications in terms of section 52(1)(c) of the Banks Act, 1990 (Act No. 94 of 1990)
Banks Act Circular 9/2004	Set-off and netting under regulation 12 and 23 of the Regulations relating to Banks
Banks Act Circular 10/2004	Exemption in terms of the Financial Intelligence Centre Act, 2001
Banks Act Circular 11/2004	Capital-reserve requirements relating to banks as central securities depository participants (“CSDPs”) in Share Transactions Totally Eelectronic (“Strate”)
Banks Act Circular 12/2004	Basel II: International convergence of capital measurement and capital standards - a revised framework
Banks Act Circular 13/2004	Review of the standard of corporate governance in banking institutions
Banks Act Circular 14/2004	Outsourcing of functions within banks
Banks Act Circular 15/2004	New Capital Accord (“Basel II”) – gap analysis and readiness assessment
Banks Act Circular 16/2004	Auditor rotation
Banks Act Circular 17/2004	Enforcement of the 31 October 2004 deadline for client identification and verification in terms of the Financial Intelligence Centre Act, 2001 (“FICA”)
Banks Act Circular 18/2004	Treatment of regulatory capital – risk margin place with licensed exchanges
Banks Act Circular 19/2004	Matters relating to the qualifying capital and reserve funds of banks, including hybrid debt instruments
Banks Act Circular 20/2004	New Capital Accord (“Basel II”) – Implementation timelines and related issues
Banks Act Circular 21/2004	Provisions in terms of regulation 28 of the Regulations relating to Banks and impairments in terms of Accounting Standard AC 133

Appendix 9

Exemptions and exclusions from the application of the Banks Act, 1990

Section 1(cc): Exemptions by the Registrar of Banks

Government Gazette Date	Number	Topic	Expiry
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
2004/06/04	26415	Securitisation schemes	Indefinite

Section 1(dd): Exemptions by the Minister of Finance

Government Gazette Date	Number	Topic	Subparagrph	Expiry
2003/12/22	25881	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 Date	Number	Topic	Expiry
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 Date	Number	Topic	Expiry
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 Date	Number	Topic	Expiry
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 2004 to 31 December 2004

Name of bank/ controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Country
ABSA Group Limited	2004-03-12	Continuous Linked Settlement Group Holdings AG	Switzerland
ABSA Group Limited	2004-09-01	Banco Comercial Angolano Sarl (50 per cent)	Angola
ABSA Group Limited	2004-11-17	Hesse Newman & Co AG (50 per cent plus 1 share)	Germany
FirstRand Bank Holdings Limited	2004-01-19	- Weston-Atlas Partners Fund Limited - Weston-Atlas Advisor Limited (less than 10 per cent)	Cayman Islands Bermuda
FirstRand Bank Holdings Limited	2004-02-13	RMB International Asset Management Limited	Jersey
FirstRand Bank Holdings Limited	2004-03-09	Chariot Resources Limited (7,09 per cent)	Canada
FirstRand Bank Holdings Limited	2004-04-05	First Funding (Pty) Limited	Botswana
FirstRand Bank Holdings Limited	2004-05-21	RMB Structured Trade Finance (London) Limited	United Kingdom
FirstRand Bank Holdings Limited	2004-08-17	First National Bank Representative Office	Angola
FirstRand Bank Holdings Limited	2004-08-18	Decorative Technologies Group Limited and its subsidiairies	Australia
FirstRand Bank Holdings Limited	2004-08-30	Motor One Group (Pty) Limited and its subsidiaries	Australia
FirstRand Bank Holdings Limited	2004-12-08	Vanglobe Holdings (Pty) Limited (49 per cent)	Australia
FirstRand Bank Holdings Limited	2004-12-08	EIW Sentosa Holdings Limited	Australia
FirstRand Bank Holdings Limited	2004-12-20	First National Bank Nominees (Botswana) (Pty) Limited	Botswana
Investec Plc*	2004-01-28	ICECAP Limited (20 per cent)	United Kingdom
Investec Plc*	2004-01-29	Nationale Nederlanden (UK) Limited	United Kingdom
Investec Limited	2004-02-20	- ITM Secretaries Limited - ITM Corporate Service Limited - ITM Nominees Limited	Mauritius
Investec Limited	2004-06-29	The Value Growth PCC Limited	Guernsey
Investec Limited	2004-06-07	Dark Blue Investments Limited	United Kingdom
Investec Limited	2004-07-13	Investec Property Holdings (Guernsey) Limited	Guernsey
Investec Limited	2004-07-13	GFT Directors Limited	Guernsey
Investec Limited	2004-07-13	Finistere Directors Limited	Guernsey
Investec Limited	2004-07-13	Finistere Nominees Limited	Guernsey
Investec Limited	2004-07-13	Finistere UK (Nominees) Limited	Guernsey
Investec Limited	2004-07-13	ING UK Corporate Finance Holdings 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 2004 to 31 December 2004 (continued)

Name of bank/ controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Country
Investec Limited	2004-08-23	Tynagh Energy Limited	Ireland
Investec Limited	2004-08-23	Prosticks International Holdings Limited	Hong Kong
Investec Limited	2004-10-07	Virdis Energy Capital (Pty) Limited	Australia
Investec Limited	2004-11-05	Big Bear Limited	United Kingdom
Investec Limited	2004-12-28	TBIT Nominees Limited	United Kingdom
Nedbank Limited	2004-03-19	Acturis Limited	United Kingdom
Nedbank Limited	2004-07-21	Deep Green Finance Company Limited	Tanzania
Standard Bank Group Limited	2004-03-12	CLS Group Holdings AG (less than 1,5 per cent)	Switzerland
Standard Bank Group Limited	2004-03-31	Investec Bank (Botswana) Limited (subsequently renamed SBBL Limited)	Botswana
Standard Bank Group Limited	2004-04-01	Colombia Representative Office	Colombia
Standard Bank Group Limited	2004-06-22	Jewellery Store DMCC	United Arab Emirates
Standard Bank Group Limited	2004-09-01	Buton Limited, Waygate Limited, Kitterland Limited, Ravensdale Limited and Melcroft Limited (reactivation of nominee companies)	Isle of Man
Standard Bank Group Limited	2004-12-14	Standard Resources Limited	United Kingdom